Macro scenario - Mexico

July 14, 2025

Take a walk on the hawkish side

- President Trump announced a 30% tariff (up from 25%) on all Mexican goods entering the US apart from sectoral tariffs to be implemented on Aug 1. The reasons cited were border security and the flow of fentanyl, leaving the door open for Mexico to continue cooperating on the matter. We assume that USMCA-compliant goods remain exempt from tariffs, which significantly reduces the impact of the announcement, although keeping volatility and risks on the table for Mexico.
- Activity data continues to show some resilience. We maintain our forecast of modest growth of 0.2% this year and 1.0% in 2026. Recent historical revisions and better-than-anticipated performance in some sectors continue to support a slight expansion in the margin.
- Given recent inflation dynamics and some short-term upward surprises, we revised our CPI forecast up to 4.1% for this year and 3.7% for next year, from 3.9% and 3.6%, respectively. While appreciation of the USDMXN this year should aid inflation dynamics, acceleration in core goods and in the persistent component of service prices could hinder smooth disinflation next year.
- We updated our FX forecast to MXN 19.0/USD for year-end (from MXN 20.0/USD) and MXN 19.5/USD for next year (from MXN 20.5/USD), supported by a weaker global dollar. The global dollar weakness is beneficial, but tariff threats, doubts about the continuity of the USMCA free trade deal, and domestic risks limit more favorable scenarios for the local currency.
- Banxico is taking a walk on the hawkish side. The board delivered a 50-bp cut, followed by forward guidance indicating future adjustments (plural) ahead. Given recent inflation dynamics and lower interest rate differentials with the US, we believe Banxico will opt for a more cautious pace going forward, with two 25-bp cuts in August and September, leading to a terminal rate of 7.5% by the end of 2025. Banxico may cut further, conditional on inflation dynamics and the Fed. We expect only one 25-bp cut by the Fed this year, in December.

Yet another threat

President Trump announced a 30% tariff (up from 25%) on all Mexican goods entering the US apart from sectoral tariffs to be implemented on Aug 1. The reasons cited were border security and the flow of fentanyl, leaving the door open for Mexico to continue cooperating on the matter. We assume that USMCA-compliant goods remain exempt from tariffs, which significantly reduces the impact of the announcement, although keeping volatility and risks on the table for Mexico. We believe that Mexican authorities will continue to Interact constructively with their US counterparts. With the US currently managing several trade negotiations simultaneously, we expect formal discussions on the USMCA to take place during the first half of next year. In any case, local content laws should be the focus of all negotiations.

President Sheinbaum's approval remains high, reaching 76% in June[1]. Polls in Mexico show that the USMCA renegotiation is a priority, but the latest threat of 35% tariffs on Canadian goods also indicates a tough negotiation within the Noth American treaty.

By the end of June, the US Treasury Department imposed sanctions on three Mexican banks accused of laundering money for cartels, including blocking money transfers to the US. These measures are straining the bilateral relationship between Mexico and the US.

[1] According to the El Financiero most recent poll (published on June 30).

Weaker USD, stronger USDMXN (but risks are high)

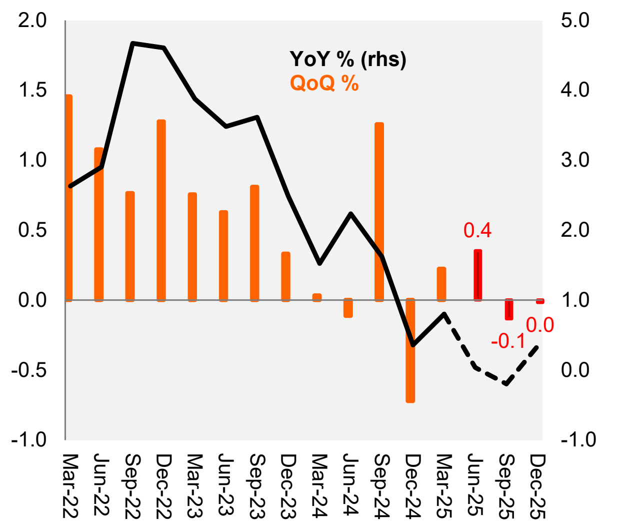
We updated our FX forecast to MXN 19.0/USD for year-end (from MXN 20.0/USD) and MXN 19.5/USD for next year (from MXN 20.5/USD). Our international scenario now considers an even weaker global dollar at the margin, which will continue to support the peso throughout the year.

The global dollar weakness is beneficial, but tariff threats, doubts about the continuity of the USMCA free trade deal, and domestic risks limit more favorable scenarios for the local currency.

Slowly but surely

Activity data at the margin surprised to the upside, mainly driven by the services sector (April's IGAE at 0.5% MoM, compared with INEGI's nowcast at -0.3% MoM, and Bloomberg consensus at 0.1% MoM). The Mexican economy has been resilient, so far, to multiple external shocks and ongoing fiscal consolidation. The resilience is supported by some positive fundamentals, such as strong household balance sheets, increasing real wages, and elevated consumer confidence. In the external sector, exports have also increased despite shifts in trade policy in the US. **We maintain our forecast of modest growth of 0.2% this year and 1.0% in 2026.** Recent historical revisions and better-than-anticipated performance in some sectors continue to support slight growth in the margin.

GDP close to zero this year



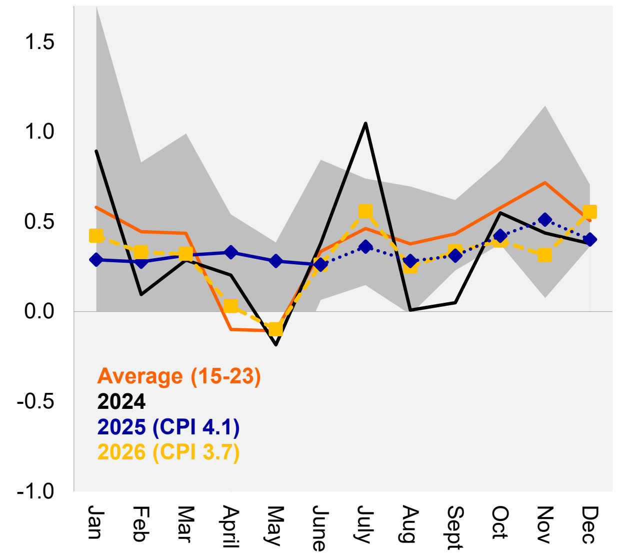
Source: INEGI, Itaú

Inflation keeps doing its thing

Given recent inflation dynamics and some short-term upward surprises, we are revising our CPI forecast up to 4.1% for this year and 3.7% for next year, from 3.9% and 3.6%, respectively. In our view, as mentioned in previous reports, the disinflationary trend has already concluded, and inflation is behaving in line with its fundamentals. These include the USDMXN pass-through (lagged from last year's depreciation), normalization of goods inflation from previously low levels, sticky service inflation, a slowdown in economic activity amid a somewhat resilient job market, and inflation expectations anchored around 4%, the upper bound of the tolerance range of Banxico's inflation target 3% (+/-1%).

Besides the upward revision, we maintain a cautious stance. Appreciation of the USDMXN this year should aid inflation dynamics moving forward, but secondary/spillover effects from the current acceleration in core goods, and the more persistent component of service prices, could hinder smoother disinflation next year.

We now expect CPI to reach 4.1% this year and 3.7% next year



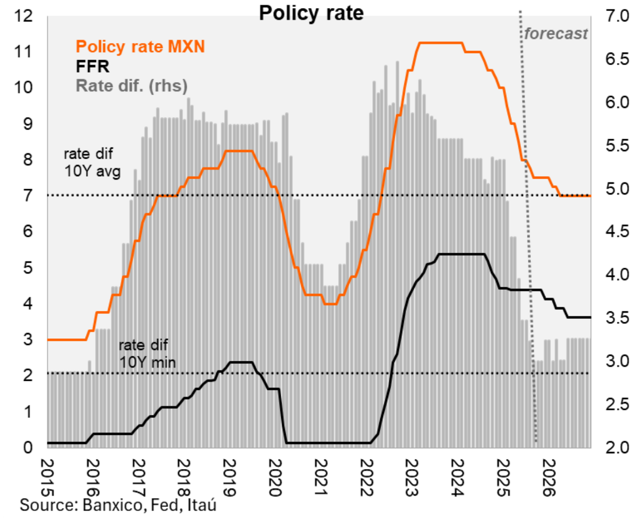
Source: INEGI, Itaú

Banxico is taking a walk on the hawkish side

Banxico cut the policy rate by 50 bps in June for the fourth consecutive meeting to 8.0%, this time in a split decision (4-1, with a dissenting vote by board member Jonathan Heath for a hold). Additionally, the forward guidance stated that "the board will assess further adjustments to the reference rate", removing the previous indication of another adjustment of the same magnitude but using the plural this time to signal another cut beyond the next meeting. Following the decision, the one-year real ex-ante rate fell to 4.26%, still well above Banxico's real neutral estimate of 2.7%.

Given recent inflation dynamics and narrower interest rate differentials with the US, we believe Banxico will opt for a more cautious pace going forward, with two 25-bp cuts in August and September, leading to a terminal rate of 7.5% by the end of 2025. Banxico may cut further, although this will depend on inflation dynamics, the Fed's actions, and the currency's performance. Our international scenario considers only one 25-bp cut by the Fed this year, in December.

A restrictive monetary policy approach will prevail



Source: Banxico, Fred, Itaú

Andrés Pérez M.
Julia Passabom
Mariana Ramirez

Mexico | Forecast

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	-8.4	6.0	3.7	3.4	1.4	**0.2**	0.2	**1.0**	1.0
Nominal GDP - USD bn	1,121	1,316	1,467	1,798	1,857	**1,935**	1,935	**2,023**	2,023
Population (millions)	127.7	129.0	130.1	131.2	132.3	**133.4**	133.4	**134.4**	134.4
Per Capita GDP - USD	8,844	10,218	11,241	13,688	14,033	**14,514**	14,514	**15,050**	15,050
Unemployment Rate - year avg	4.4	4.1	3.3	2.8	2.7	**2.9**	2.9	**2.8**	2.8
Inflation									
CPI - %	3.2	7.4	7.8	4.7	4.2	**4.1**	3.9	**3.7**	3.6
Interest Rate									
Monetary Policy Rate - eop - %	4.25	5.50	10.50	11.25	10.00	**7.50**	7.50	**7.00**	7.00
Balance of Payments									
MXN / USD - eop	19.9	20.5	19.5	17.0	20.8	**19.0**	20.0	**19.5**	20.5
Trade Balance - USD bn	34.2	-10.8	-26.9	-5.5	8.2	**-10.0**	-10.0	**-10.0**	-10.0
Current Account - % GDP	2.4	-0.3	-1.2	-0.3	-0.3	**-0.6**	-0.6	**-0.6**	-0.6
Foreign Direct Investment - % GDP	2.5	2.5	2.5	2.0	2.0	**2.0**	2.0	**2.0**	2.0
International Reserves - USD bn	195.7	202.4	199.1	212.8	229.0	**230.1**	230.1	**230.6**	230.6
Public Finances									
Nominal Balance - % GDP	-2.8	-2.8	-3.2	-3.3	-5.7	**-4.0**	-4.0	**-3.5**	-3.5
Primary Balance - % GDP	0.1	-0.3	-0.4	-0.1	-1.5	**0.6**	0.6	**0.5**	0.5
Net Public Debt - % GDP	49.9	48.9	47.6	46.8	51.4	**52.3**	52.3	**52.3**	52.3

Source: IMF, Bloomberg, INEGI, Banxico, Haver and Itaú

Macro Research – Itaú
Mario Mesquita – Chief Economist

To access our reports and forecast visit our website:
https://www.itau.com.br/itaubba-pt/macroeconomic-analysis

Relevant Information

1. This report has been prepared and released by the Macro Research Department of Itaú Unibanco S.A. ("Itaú Unibanco"). This report is not a product of the Equity Research Department of Itaú Unibanco or Itaú Corretora de Valores S.A. and shall not be construed as a research report ("relatório de análise") for the purposes of Article 1 of the CVM Instruction NR. 20, dated 2021.

2. The exclusive purpose of this report is to provide macroeconomics information and it does not constitute and shall not be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial product, or to participate in any particular trading strategy in any jurisdiction. The information herein is believed to be reliable as of the date on which this report was released and it has been obtained from public sources believed to be reliable. However, Itaú Unibanco does not make any explicit or implied representation or warranty as to the completeness, reliability or accuracy of such information, nor does this report intend to be a complete statement or summary of the markets or developments referred to herein. Itaú Unibanco has no obligation whatsoever to update, modify or amend this report and inform the reader accordingly.

3. The opinions contained herein reflect exclusively the personal views of the analyst responsible for this report and were prepared independently and autonomously, including in relation to Itaú Unibanco, Itaú Corretora de Valores S.A. and any other companies within their economic group.

4. This report may not be reproduced or redistributed to any other person, in whole or in part, for any purpose, without the prior written consent of Itaú Unibanco. Additional information on the financial products mentioned in this report may be available upon request. Itaú Unibanco and/or any other company within its economic group is not and shall not be liable for any investment decisions (or otherwise) based on the information provided herein.

Additional Note: This material does not take into consideration the objectives, financial situation or specific needs of any particular client. Clients must obtain financial, tax, legal, accounting, economic, credit and market advice on an individual basis, based on their personal characteristics and objectives, prior to making any decision based on the information contained herein. By accessing the material, you represent and confirm that you understand the risks related to the financial instruments described in this material and the laws in your jurisdiction relating to the provision and sale of financial service products. You acknowledge that this material contains proprietary information and you agree to keep this information confidential for your exclusive use.

For inquiries, suggestions, complaints, criticisms and compliments, talk to Itaú's CSCC: 0800 728 0728. Or contact us through our portal https://www.itau.com.br/atenda-itau/para-voce/. If you are not satisfied with the proposed solution, please contact the Itaú Corporate Ombudsman: 0800 570 0011 (on weekdays from 9 AM to 6 PM) or our PO Box 67.600, São Paulo-SP, Zip Code 03162-971. Hearing impaired, every day, 24h, 0800 722 1722.