

Cool-headed diplomacy

CIO View: USDMXN

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- We expect the US and Mexico to avoid a prolonged trade war. Near-term volatility cannot be ruled out.
- Banxico will likely cut the policy rate by another 50bps in March. The board believes there is room for further interest rate cuts, which would reduce the carry over time.
- We keep our quarter-end USDMXN forecasts at 20.7 for 2Q25, 20.2 for 3Q25, and 20.0 for 4Q25 and 1Q26.

Key drivers

Global conditions: Optimism about the new US administration's economic agenda is fading as tariffs take priority over pro-growth measures like deregulation and tax cuts. Fed rate cuts later in the year appear likely, potentially weighing on the USD if growth expectations weaken further.

Growth: Mexico's economy slowed sharply in 2024, with GDP growth falling to 1.5% from 3.3% in 2023. Uncertainty remains high, and we expect nearly 0% growth in 2025, even before factoring in tariffs. Trade tensions, shifting migration policies, diplomatic strains with the US, weak investment, fiscal pressures, and legal uncertainty from the judicial reform all pose significant headwinds.

Inflation and monetary policy: Inflation remains within Banxico's target range, with headline inflation rising to 3.77% y/y in February and core inflation steady at 3.65% y/y. Weak economic growth and a highly restrictive monetary policy support another 50bps rate cut in March.

Tariffs: Mexico has taken a "cool-headed" approach to US protectionist measures, prioritizing dialogue over immediate retaliation. US Commerce Secretary Howard Lutnick praised this stance, highlighting Mexico's decision not to impose countermeasures and emphasizing that cooperative countries would be treated differently. Despite tariffs on steel and aluminum, the Mexican peso has strengthened, reflecting investor confidence that any tariffs would be short-lived due to their economic impact on the US. However, this suggests the peso is pricing in little risk premium. If reciprocal tariffs emerge in April despite Mexico's conciliatory approach, the peso could come under pressure.

New Finance Minister: Mexico has a new finance minister after Rogelio Ramírez de la O resigned for personal reasons. Former deputy finance minister, Edgar Amador, will replace him, while Ramírez de la O will serve as Sheinbaum's economic advisor for international affairs. Markets have welcomed Amador's appointment, citing his experience.

CIO Forecast- USDMXN



Sideways long term trend

14 Mar 25	19.9	PPP*:	NA
Jun 25	20.7	TEEER*:	NA
Sep 25	20.2		
Dec 25	20.0		
Mar 26	20.0		

Refinitiv, Macrobond, UBS calculation. *Purchasing Power Parity (PPP) is not a forecast per se, but a long-term equilibrium value for an exchange rate, calculated by UBS. TEEER refers to the 'trend-extrapolated equilibrium exchange rate', which is a three-year projection of the PPP.

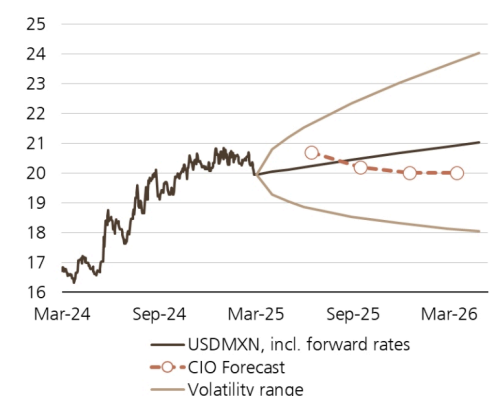
Fundamental influence

	Curr	CB target	CPI F	10Y	GDP F
		rate (1)		Yield (1)	
2025 USD		3.8	2.6	4.3	2
2026 USD		3.3	2.4	4.4	1.8
2025 MXN		7.5	3.5	8.6	
2026 MXN		7.5	3.5	8.8	1.4

F=Forecast, (1) Year end, CB = Central Bank
Source: UBS

USDMXN

Exchange rate (incl. forward rates), CIO forecasts, and volatility range



Source: Bloomberg, UBS, as of 18 March 2025

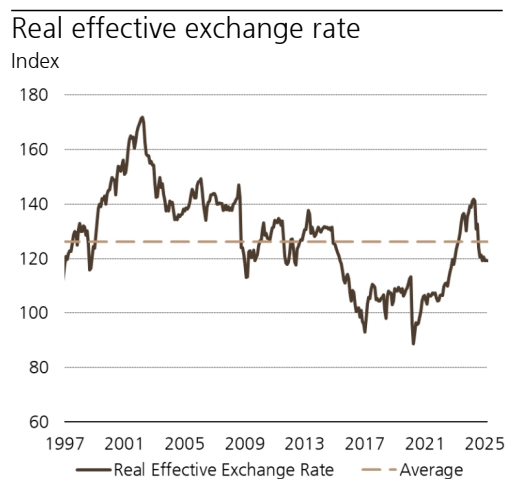
Risks to our view

A significant slowdown in the US economy would pose challenges to the peso, as would USMCA trade disputes. Conversely, healthy risk sentiment and a search for carry could boost the peso, as would positive signals to investors by the US president.

Factors to watch

Domestic: Fiscal and monetary policy missteps, institutional erosion, growth-inflation dynamics, USMCA trade disputes

Global: Risk sentiment, growth outlook, monetary policy, US politics



Source: Bloomberg, UBS, as of 18 March 2025

Appendix

Risk information

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