



Energy Client Monthly Report

July 2025



The past month saw continued U.S.-Mexico cooperation, though it was again punctuated by persistent points of bilateral conflict, including U.S. Treasury Department sanctions against three small but significant Mexican financial institutions on a “reasonable suspicion” of money laundering. The sanctions order also explicitly stated that it could be applied to additional Mexican financial institutions if circumstances warrant. This made clear, once again, that the United States is willing to use its economic power to coerce Mexico to partner with the United States—on security, migration, and trade—on U.S. terms. Beyond North America, developments in Iran and Brazil offered bilateral policy lessons, while the U.S.-Vietnam tariff agreement delivered both a lesson and an opportunity for Mexico.

In Mexico, a special congressional session fast-tracked a package of 16 laws that further concentrate political authority in the presidency and the military. Although many of these laws aim to strengthen the government’s capacity to fight crime, they do so at the cost of increasing the militarization of Mexican politics. Several laws also lack clarity and, in the context of the recent judicial reform, provide insufficient guarantees of due process. The business community is thus concerned about the costs of adhering to the new laws and their potential liability, while much of the attentive public worries about censorship and possible government surveillance of the opposition. The actual impact of these new laws on



investment and democracy, however, will depend heavily on how President Sheinbaum—ever vigilant of Mexico’s attractiveness to investors—applies the laws’ provisions.

Heightened U.S. Pressure on Mexico

Over the past month, there were four key positive developments in U.S.-Mexico relations, including Deputy Secretary of State (and former U.S. Ambassador to Mexico) Christopher Landau’s June 11 meeting with President Sheinbaum in Mexico City. Ensuing comments from both Landau and Sheinbaum painted the two-hour exchange as positive, cooperative, and productive. Two weeks later, Bloomberg reported that the two sides were close to reaching an agreement to eliminate the 50% global tariff on U.S. steel imports from Mexico, up to a cap that would cover nearly 90% of Mexican steel exports. On July 4, President Trump signed the One Big Beautiful Bill Act with a dramatically reduced tax on remittances, down from an initially proposed five percent to just one percent and applied only to cash transfers—representing just one percent of total remittances. And the two sides began discussions to reach a global agreement covering security, migration, and trade policies. Outside of these developments, however, it was a tough month for Mexico’s relations with the United States.

Expectations for an initial meeting between Presidents Trump and Sheinbaum on June 17 on the sidelines of the G7 summit in Alberta, Canada, were dashed when Trump left a day early to return to Washington to deal with the Middle East crisis. A phone call—even one initiated by Trump, in which he agreed to Sheinbaum’s proposal to negotiate a global agreement—could not replace a face-to-face meeting. Furthermore, Secretary of State Rubio’s promised visit to Mexico is still not on the agenda.

More troubling, just prior to the Los Angeles protests against migrant raids by Immigration and Customs Enforcement (ICE) officers, Sheinbaum called on Mexicans to rally against the proposed tax on remittances. Quickly taken out of context, U.S. conservative activists accused the Mexican president of encouraging Mexicans to mobilize against U.S. federal authorities (ICE). U.S. Homeland Security Secretary Kristi Noem echoed this view when, in front of President Trump, she said Sheinbaum had promoted “violent protests” against U.S. government officials. At the same time, the ensuing arrest and deportation of Mexican citizens sent a clear message that irregular migration to the United States is no longer a viable option for most Mexicans (at least for now). This eliminates a politically important



economic safety valve for Mexico, which has lost nearly 140,000 formal sector jobs in the second quarter of 2025.

On the same day as Secretary Noem’s comments, Reuters reported that during his meeting with President Sheinbaum, Christopher Landau gave her a list of corrupt Morena politicians whom the U.S. would like her to arrest and, if applicable, extradite. Landau and Sheinbaum both strongly denied the report, which was likely an intentional leak from within the U.S. government designed to corner more cautious members of the Trump team and to pressure Mexico to augment its security cooperation.

In her June 25 Senate testimony, U.S. Attorney General Pam Bondi turned up the heat. She included Mexico in a list of foreign adversaries—alongside Iran, Russia and China—from whom the U.S. needs to protect itself. Later that day, the U.S. Treasury dropped a bombshell. It issued sanctions against three Mexican financial institutions due to a “reasonable suspicion” of money laundering for fentanyl traffickers. The Treasury’s action prohibited CIBanco, Intercam Banco, and Vector Casa de Bolsa—without appeal—from accessing the U.S. financial system. This was a death sentence for all three given their reliance on operations tied to U.S. financial institutions. In response, the Mexican financial regulator immediately took over these soon-to-be insolvent institutions and temporarily transferred their core operations to a state-owned development bank.

Although the three institutions account for just two percent of assets in the Mexican financial system, the Treasury’s action threatened the stability of the entire Mexican financial system. In its statement, the Treasury explicitly left open the possibility of imposing future sanctions on additional Mexican financial institutions. Moreover, by taking this action, the United States left aside more traditional, behind-the-scenes policy alternatives to enhance cooperation against money laundering, even though Mexico had already increased its cooperation—including a new anti-money laundering law (discussed below). Together, these U.S. leaks, statements, and actions point to policy objectives that extend well beyond combating money laundering.

One possibility is that the U.S. will use its economic leverage to force Mexico to accept unilateral U.S. drone strikes against fentanyl labs or to potentially force Sheinbaum to investigate and arrest ruling party politicians whom the U.S. believes are corrupt and tied to organized crime. Capitulating to either demand would be politically costly for President Sheinbaum. Yielding on the second, however, could undermine the administration’s stability,



making it a red line for Mexico and ultimately counterproductive for the United States. Given the previous steel and auto tariffs, a more likely U.S. objective is to exert as much pressure as possible on Mexico ahead of the upcoming USMCA renegotiation to force acceptance of new trade rules that benefit the United States, regardless of their impact on Mexico.

Iran, Brazil, and Vietnam

Four international developments beyond North America offered lessons for the bilateral partners, and one created a potential opportunity for Mexico. The U.S. decision to bomb Iranian nuclear facilities was an important reminder of President Trump's aversion to risk. He delayed U.S. action until the probable cost was low—Israel had already eliminated Iran's air defenses, and Iran had previously shown a clear reluctance to directly attack the United States. This risk aversion may also reduce Trump's willingness to adopt policies that could threaten Mexico's economic or political stability. President Sheinbaum's decision not to attend the BRICS summit in Brazil, despite a personal invitation from Brazilian President Lula da Silva, demonstrates her desire to avoid actions that might anger the Trump administration. This is particularly relevant given Trump's ensuing threat to impose a 50% tariff on Brazil for political reasons—due to legal actions against former President Jair Bolsonaro which Trump paints as an “insidious” attack on free elections and free speech rights. Finally, the U.S.-Vietnam tariff agreement presents both obstacles and opportunities for Mexico. The 40% tariff on goods suspected of being transshipped from China signals the need for Mexico to crack down on such transshipment through its territory to the United States. At the same time, the 20% baseline tariff on all Vietnamese exports to the U.S. creates an opportunity for Mexico to position itself as a nearshoring alternative for foreign companies operating in China.

Further Centralizing Authority in the Executive

A special summer session of the Mexican Congress fast-tracked the approval of 16 bills, six of which relate to security policy and most of which further centralize power in the Mexican executive. The new National Guard law establishes this institution as a third branch of the armed forces (alongside the Army and Navy), affirming its military character for the long term. It also deepens the militarization of Mexican politics by allowing members of the National Guard to run for elective office, or otherwise serve in appointed government positions, while on temporary leave from the Guard. This reverses a 100-year-old rule



prohibiting military officials from running for elective office unless they retire from military service.

A new intelligence law gives the government access to personal biometric data, the anti-money laundering law allows the government to access private business and personal information, and the new telecommunications law creates a national registry of mobile devices that the government can use to track them. The opposition and media fear the government will use these powers to censor and spy on them. President Sheinbaum argues this fear is misplaced, as the government will still have to obtain a warrant before exercising any of these new authorities. But since there are legitimate doubts about the independence of the newly reformed judiciary, Sheinbaum's protestations have not reassured either the opposition or the media. Our take is that Sheinbaum will use these new powers aggressively to fight crime but otherwise will use them sparingly and cautiously to avoid deterring private investment.

Congress also approved a new competition law that replaces the pre-existing competition commission with a new, semi-autonomous National Anti-Monopoly Commission housed within the Economy Ministry. The government's aim is twofold: to honor the USMCA's provision requiring each member country to have an effective competition authority while ensuring that authority no longer accuses Mexico's state-owned energy companies of anti-competitive behavior. It remains to be seen how independent the commission's operations will be.

Three additional developments reinforced concerns about the return of an authoritarian presidency in Mexico. First, President Sheinbaum announced that she will create an "Audience Ombudsman" to investigate and reprimand journalists she believes are lying to the public, which unsurprisingly sparked cries of potential censorship. Second, the tax dispute between the government and Ricardo Salinas Pliego—the billionaire owner of Electrica household appliance stores, Azteca Bank, and Azteca Television—escalated into a public spat between him and the president. This led to sharp personal attacks, including claims of business corruption and presidential lies—an extraordinary development in a country where private sector leaders and the president rarely publicly attack one another. Salinas Pliego's mounting criticism of the government and the constantly increasing amount of taxes owed—now \$4.1 billion dollars—further the notion that the government is trying to



silence an opposition voice and make an example of Salinas Pliego to send a message to the rest of the business community to toe the line.

Third, at the top of the legislative agenda this fall is President Sheinbaum's proposal for another electoral reform. This one is designed to further weaken the National Electoral Institute's ability to oversee elections and reduce opposition parties' capacity to operate by sharply cutting their government funding. It also revises the way proportional representation seats in Congress are filled. Instead of using a separate ballot where voters select a party and seats are filled from a party-defined list of candidates (usually party leaders), the new rules would fill these seats with the losing legislative candidates in traditional districts (based on majority vote) who receive the highest number of votes. Sheinbaum argues this method is more democratic because it ensures that the most popular opposition candidates win legislative seats. But it is also designed to weaken the opposition in Congress by making it harder for experienced party leaders to win these seats.

Mexican Economy

Reinforced tax collection efforts again produced increased tax revenues, rising 8.9% in the January-May period, although total revenue grew by only 3.7% due to low oil prices. Budget balancing efforts led to a 9.3% drop in discretionary spending, including a 29% plunge in infrastructure investment (since social programs cannot be cut). This fed into a 12.5% reduction in gross fixed investment in April, reinforcing Mexico's current economic stagnation.

Energy Sector: Regulatory Uncertainty and Institutional Dynamics

The Mexican electricity sector remains in a state of anticipation as it awaits the publication of the regulatory laws stemming from the Electricity Sector Law (LESE), which was published last March. Despite various promises that these regulations would be released in May or, at the latest, in June, sources at SENER have informed us that internal discussions are likely to continue for at least another month before the regulations are made public. (Portions of the draft were presented during the first week of June to the companies with the highest participation in electricity generation.)

Monarch has obtained access to the draft regulation, which we have already shared with you, and we are currently analyzing it to identify potential areas of opportunity and influence



in collaboration with you. According to our sources, key definitions—particularly the precise scope and impact of “binding planning” and its implications for the market—are still pending. Some critical elements, however, have already been clarified.

To overcome the legal uncertainty caused by the judicial reform, SENER has decided that contracts with the CFE will be governed by international regulations, allowing access to international arbitration mechanisms. On the other hand, any agreement between private parties and the CFE will be required to include SUTERM (the utility’s labor union), which will increase the cost of partnering with the state-owned utility.

In addition to the mixed-generation investment structures already envisioned in the LESE—which require CFE to retain at least a 54% stake—alternative mechanisms are being designed to allow private investors to retain operational control of such partnerships. New models are also being developed to facilitate private participation in the financing and construction of transmission and distribution infrastructure, without including operational responsibilities, as the LESE grants CFE a legal monopoly in these areas.

On the political front, there is notable dysfunction between the leadership of SENER and CFE. Tensions between the Electricity Subsecretariat and CFE are high, reportedly nearing a breakdown in relations. Additionally, internal accounts describe a leadership consumed by back-to-back meetings on a wide range of topics, leaving little time for substantive desk work—leading to the delays we are currently witnessing.

This lack of coordination is evident in critical areas such as the Electricity Sector Development Program, which is expected to be published by May next year. Likewise, the replacement of Dr. Ricardo Mota as head of CENACE has yet to take place, although internal sources confirm that his authority and actions have been significantly constrained. Meanwhile, the Subsecretariat for Energy Planning and Transition has emerged as the most influential voice within SENER and is reportedly the most trusted by both Secretary González and President Sheinbaum.



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The Monarch Global Strategies Team

Michael C. Camuñez

President & CEO
mcamunez@monarch-global.com
Los Angeles

James R. Jones

Chairman
jjones@monarch-global.com
Washington, D.C.

Luis Ricardo Rodríguez

Managing Partner
lrodriguez@monarch-global.com
Monterrey

Geoffrey G. Jones

CFO & SVP Development
gjones@monarch-global.com
Washington, D.C.

Pamela K. Starr

Senior Advisor
pstarr@monarch-global.com
Los Angeles

Juan Pablo López Rojas

Senior Analyst
jplopez@monarch-global.com
Washington, D.C.

Pedro Niembro

Senior Director
pniembro@monarch-global.com
Mexico City

Juan Casillas

Senior Advisor
jcasillas@monarch-global.com
Mexico City

Gerardo de la Peña

Senior Advisor
gdelapena@monarch-global.com
Mexico City

Begoña Sánchez

Director
bsanchez@monarch-global.com
Monterrey

Patricio M. Martínez

Associate
pmartinez@monarch-global.com
Monterrey

Gabriel Cavazos

Senior Advisor
gcavazos@monarch-global.com
Monterrey / Mexico City