



Energy Client Monthly Report

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The challenges facing President Sheinbaum continued to pile up in May, leading some analysts to question her long-term ability to maintain stability in Mexico. On the domestic front, the June 1 election results should be deeply concerning for her—both the outcome of the nationwide judicial races and Morena’s losses in municipal elections in the states of Durango and Veracruz. Simultaneously, Sheinbaum was unable to quell highly disruptive protests led by a supposedly allied teachers’ union; two close associates of the Morena governor of Mexico City were murdered in broad daylight; and Congress failed to approve key legislative priorities backed by Sheinbaum. Economic data, meanwhile, continues to point toward growing weakness in the economy. And although U.S. relations still exhibit cooperation on security matters, new economic problems and myriad irritants continue to disrupt the bilateral relationship. The next few months are apt to be telling regarding Claudia Sheinbaum’s ability to move Mexico forward under very difficult circumstances. In energy news, the Mexican grid operated below the critical reserve margin threshold of 6%, even dropping below 3% in mid-May; the new CNE has officially begun operations under SENER’s purview; and rumors of leadership changes at CENACE persist.

A Disconcerting Judicial Election



Any way you look at it, the June 1 election of 2,700 justices, magistrates, and judges was problematic. It failed to legitimize the government’s judicial reform, laid bare weaknesses in the Morena machine, sharply undermined the rule of law in Mexico, and likely violated the USMCA.

The central purpose of the election was not to select judges, but to legitimize the pre-selection of personalities close to the federal government and governors in the 19 states that held judicial elections. Sheinbaum had hoped that a large turnout would create a veneer of legitimacy for the results, not unlike the role of elections in Mexico’s authoritarian governments of the 20th century. Instead, just 13% of eligible voters went to the polls and nearly 23% of them nullified their ballots. Indeed, there were more nullified ballots than the sum of the votes cast for the top three Supreme Court candidates. The low turnout partly reflects the opposition’s decision to boycott the election, but it was also due to a failure to mobilize voters in several Morena-governed states. Whether this was intentional or a result of gubernatorial incapacity, it showcased weaknesses in the Morena electoral machine that were not evident under AMLO.

The victors for federal judicial posts are all Morena supporters. This includes the nine new members of the Supreme Court, two additions to the electoral tribunal, and the members of a new disciplinary tribunal, which has the authority to investigate any judge for misdeeds—as defined by the tribunal—and to punish them without any opportunity for appeal. In addition, the incoming president of the Supreme Court, Hugo Aguilar, is an indigenous rights lawyer from Oaxaca who is both completely loyal to the Fourth Transformation and close to President Sheinbaum. On matters of importance to the president, judicial discipline will therefore replace judicial autonomy, eliminating the last check on executive authority in Mexico—an outcome that likely violates the USMCA’s requirement for an independent judiciary.

Even when President Sheinbaum does not express a preference, rulings are still apt to be less business-friendly than in the past. Soon-to-be Chief Justice Aguilar has stated the Court historically served the interests of the economic elite and should now focus on serving the common people, the “pueblo.” To demonstrate his break with elitism, he announced he will not wear the customary judicial robe. This realignment of the Court’s focus and rulings is strongly supported by at least three of the other eight justices who will take office September 1, 2025.



Equally important is the extraordinarily limited judicial experience of the victors and their apparent ties to powerbrokers (including federal and state-level politicians, businesspersons, and probably organized crime). This combination will undermine both the quality, at least in the near term, and the fairness of the rulings reached by the new judges and magistrates. Since the June vote elected only half of Mexico's circuit court, appeals court, and state court judges and magistrates, legal effectiveness and fairness is also apt to depend on which court is assigned to rule on a given complaint. The result will be significant uncertainty surrounding the rule of law for firms and citizens facing legal challenges.

Sheinbaum's Other Domestic Challenges

The June 1 vote included municipal elections in Durango and Veracruz, where Morena suffered unanticipated losses. In Durango, a state that Sheinbaum won in the 2024 presidential election, Morena aimed to defeat the local political machine of the opposition governor and take control of the capital city and other key municipalities. Despite an all-out effort led by AMLO's son, Andrés López Beltrán, who designed the strategy and campaigned in every municipality, Morena lost. The opposition PRI retained the capital and won most municipalities. In Veracruz, Morena lost its majority control of the state's cities and towns in an election marred by violence and the active involvement of organized crime.

Violence also spread to Mexico City, where two close associates of the Morena governor were gunned down in broad daylight by trained assassins. Nothing of this nature has occurred in Mexico City since the 2020 assassination attempt on Sheinbaum's then head of municipal security, now Secretary of Security and Citizen Protection, Omar García Harfuch. The perpetrators and their motives remain unknown, leading to a great deal of speculation. Regardless of the reason, the incident unnerved the Mexico City government, raising concerns about security in the city and sending shockwaves through the federal government.

At the same time, a strike launched in mid-May by a radical teachers' union (CNTE) stretched into early June before taking a pause. The teachers are demanding an expensive reform of their pension system, seeking to replace the current defined contribution, private plan with a government-run, defined benefit program. Although Sheinbaum promised to enact this change when campaigning for president, the government does not have the fiscal resources to implement it. Despite a concerted negotiation effort, including a significant financial offer



of a 10% pay raise and 800 million pesos in teacher support, the union refused to compromise. Instead, they intensified pressure on the government by occupying Mexico City's central square, the Zócalo, blocking access to the airport, disrupting traffic for weeks, and vandalizing public property. Although the union finally agreed to return to classrooms, it did so with a promise to continue the fight. Given that the CNTE never challenged AMLO in this way, this development raises further questions about the post-AMLO unity of the Morena coalition.

Meanwhile in Congress, leaders once again postponed a vote on Sheinbaum's telecommunications and security reforms. Unable to approve them during the regular session that ended in April, they had promised to approve them in a special session beginning June 6. Instead, congressional leaders announced the special session would be delayed until late June, without specifying a start date. They apparently need more time to find a way to approve these presidential priorities without setting off protests over concerns about potential censorship and government access to citizens' biometric data.

Finally, economic data continue to point to a stagnating economy. Foreign investment dropped by 21% in the first quarter, despite a significant increase in new investment, while government investment fell by 22% over the same period. In addition, remittances declined by 12% in April, the largest drop in a decade, which is apt to further weaken consumer spending, particularly in southern Mexico where remittances are concentrated. (And as described below, further headwinds to remittances may be coming.) Together, these figures are reminders of the challenges facing Sheinbaum's governing strategy. Without investment and economic growth, there will not be higher tax revenues to cut the deficit and finance increased spending on the social programs that underpin support for the president and the Fourth Transformation.

The Mexican Electricity Sector Remains Under Severe Stress

As has become typical during hotter weather, Mexico's power grid began operating below the minimum reserve margin of 6% in May. Rolling blackouts have become a daily nuisance throughout the country, especially on the Yucatán Peninsula. At the same time, CENACE issued warnings for industrial activities to be prepared "to voluntarily yield" some capacity to help alleviate the situation. The heavy rains across much of Mexico in the final days of May, however, may help reduce the problem somewhat.



At the same time, CENACE is experiencing significant internal turmoil. Rumors of leadership changes intensified during a visit to its corporate offices by Undersecretary of Electricity José Antonio Rojas, who remarked that he expected the current team to extend a collaborative welcome to the new director and other key appointees as of June 1. Although the Legal Counsel, Information Technology, and Social Communications offices have already been replaced, Dr. Ricardo Mota, the current corporate director, remains at the helm of the agency. Dr. Mota might just be able to hold on to his position at least until the challenging summer months pass, even though Undersecretary Rojas's antipathy toward him is well known.

The new National Energy Commission (CNE) was officially established on May 21. Among its first actions, the governing body of the CNE approved a ten-working-day window starting June 6 for all regulated entities to confirm their interest in continuing to pursue their pending process requests. That said, some of them will have to wait until the regulations stemming from the Secondary Laws come into force. The organizational chart in [Appendix 1](#) illustrates the CNE's new operating structure.

Irritants Continue to Impede Bilateral Cooperation

A joint raid by ICE, Homeland Security, and Mexican security forces on three drug labs demonstrated the depth of bilateral security cooperation, despite Mexico's irritation over ICE claims of having led the operation—something the Mexican government absolutely will not permit. At the same time, positive rhetoric about security cooperation continued to dominate Trump administration statements, including a White House acknowledgement—for the first time—that fentanyl seizures and potency have fallen sharply. Although this trend began in 2023, the administration credited Trump-era policies and, more importantly, pointed to the close collaboration of Mexico as a parallel driver of these positive results.

Regular bilateral communication persisted throughout the month, including another presidential phone call, Economy Minister Ebrard's frequent visits to Washington, D.C., and a visit by Mexican Senators to talk with their U.S. counterparts. On June 10-11, Deputy Secretary of State and former U.S. Ambassador to Mexico Chris Landau visited Mexico to lay the groundwork for an upcoming visit by Secretary of State Marco Rubio. Despite these positive developments, persistent irritants—both large and small, new and ongoing—continued to accompany the bilateral relationship.



Most significant was the increase in the U.S. tariffs on imported steel and aluminum from 25% to 50%, effective June 4, with no exemptions. As the third-largest exporter of steel to the United States, Mexico will be hit hard. True to form, Sheinbaum responded by buying time—sending Ebrard back to Washington to argue that the tariffs are unsustainable and lack legal foundation—and postponing a response until the week of June 9. Should Sheinbaum accept Prime Minister Mark Carney’s invitation to attend the G7 summit in Alberta, Canada, June 15-17, it would afford her an opportunity to discuss this and other matters with Trump face to face. The embarrassment Trump suffered from Wall Street’s “TACO” trade (Trump Always Chickens Out in reference to tariffs), however, militates against a rollback of this tariff, despite his penchant for negotiating deals. Ultimately, the outcome depends on the decision of one man.

Also highly significant is a provision in the budget bill recently passed by the U.S. House of Representatives that would impose a 3.5% tax on remittances. Most economists conclude that this measure would have a limited impact on Mexican remittances and an even smaller effect on the national economy. That said, its impact would be significant for poor families who rely on these funds, prompting President Sheinbaum to call on Mexicans in the United States to try to influence the Senate vote through letter-writing and social media posts, and to threaten a mobilization to oppose this tax.

Smaller irritants, both persisting and new, also affected bilateral relations. The ban on Mexican cattle exports to the U.S. remained in place, although both sides are cooperating to eradicate the infestation that caused it. There has also been no progress in reducing the 21% tax on Mexican tomato exports, which is set to take effect in July. Adding to the list of bilateral challenges, new U.S. regulations require all truckers driving on U.S. roads to speak fluent English, even though most Mexican drivers hauling their loads across the border do not speak English. Moreover, the State Department paused its review of foreign student visa applications while it establishes new procedures for reviewing applicants’ social media, making it less likely that Mexican students accepted to U.S. institutions will be able to begin their studies in the fall.

Three additional developments threatened to increase bilateral tensions and compound Sheinbaum’s political challenges. First, U.S. Secretary of State Rubio announced visa restrictions on several Central American government officials as punishment for accepting Cuban doctors to help provide health care, arguing they are being “exploited” and their work



is “forced labor.” Since the Mexican government currently hosts dozens of Cuban doctors working in rural clinics, there is concern that this policy could be expanded to include Mexico, potentially straining relations further.

In mid-May, Sheinbaum was broadsided by the announcement that 17 family members of former Sinaloa Cartel leader Ovidio Guzmán López, currently in U.S. custody, had crossed into the United States and surrendered to authorities. Likely part of a plea agreement between the drug lord and U.S. authorities, the operation was kept secret from Mexico and raised concerns that Guzmán identified corrupt politicians and businessmen as part of this agreement. On the heels of this development came a tweet from the Morena governor of Baja California stating that the United States had revoked her and her husband’s visas. Although the reasoning was not made public, it is assumed this has to do with corruption (which the governor denies). These two developments could indicate that the United States is increasing pressure on President Sheinbaum to go after prominent politicians associated with criminal organizations, even though her political ability to do so is limited at best.

Finally, the treatment of Mexican citizens targeted by ICE raids in Los Angeles beginning on June 6 has elicited a strong response from the Mexican government in defense of the human rights of its affected citizens, albeit balanced with a criticism of vandalism and violence. These developments pose a dilemma for President Sheinbaum, who values her good working relationship with President Trump but whose responsibility to stand up for Mexicans living and working in Los Angeles—arguably the world’s second-largest Mexican city—could put her on a collision course with the U.S. president.

Appendix 1





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