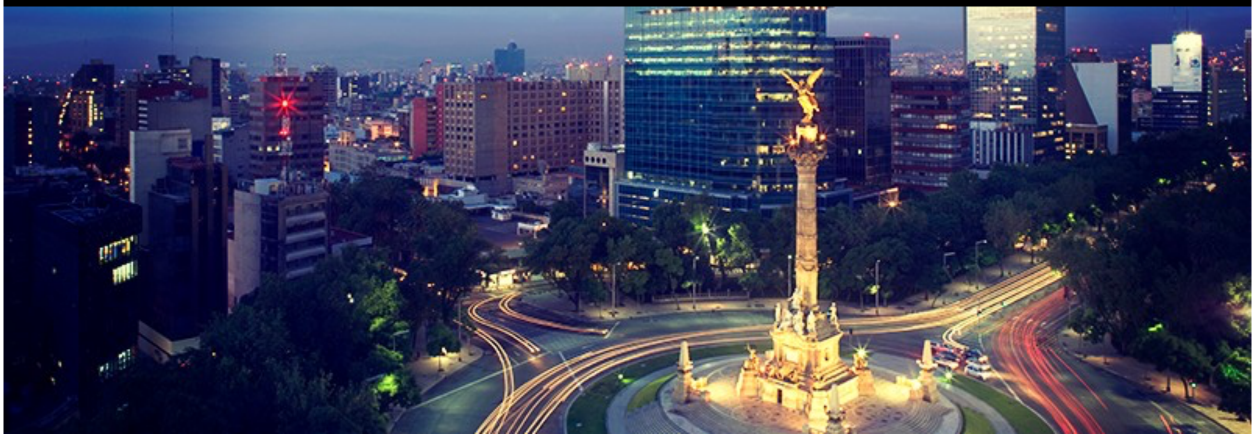

# Monthly Report on Mexican Politics, the Economy, Energy, and U.S.-Mexico Relations

**January 2026**

## Executive Summary

The U.S. intervention in Venezuela obliterated the rules-based order in the Western Hemisphere that long constrained the United States in its relations with Mexico. Nevertheless, we believe unilateral U.S. military action in Mexico continues to be a low-likelihood scenario, due to Sheinbaum's deft diplomatic skill and the high costs such action would entail for the United States. A more likely outcome is a further deepening of close bilateral cooperation, albeit persistently punctuated by tension over trade, drugs, water, and now Mexican assistance to Cuba. Mexico's new tariff schedule, which took effect on January 1, should help mitigate U.S.-Mexico trade conflict over China even as it raises the costs of production for firms operating in Mexico and risks Chinese retaliation.

The 25% IEEPA tariffs on non-USMCA-compliant Mexican exports to the United States could soon be declared unconstitutional, encouraging the Trump administration to rely more on bellicose rhetoric to keep the pressure on Mexico to cooperate on migration and security matters.

In Mexican domestic politics, continued attacks on "conservatives" to promote Morena unity have been coupled with tangible policy responses to real citizen concerns about extortion, highway robbery, and limited access to healthcare. These actions promise to reinforce President Sheinbaum's still-high approval rating (69%), but they will not eliminate the risk of renewed protests from teachers and farmers in early 2026. Finally, the economic outlook for 2026 is slightly better than that of this past year, with surprisingly low December inflation, a strong peso, and still anemic but improved growth expectations.

## U.S. Intervention in Venezuela Injects Uncertainty into U.S.-Mexico Relations

The January 3 U.S. intervention to arrest former president Nicolás Maduro and his wife on drug trafficking charges dominated headlines during the first week of the year. President Sheinbaum's repeated calls for a negotiated solution, including a mid-December offer to be a point of contact between Maduro and Trump, went unanswered in Washington as planning for military action advanced. Following the successful operation, President Trump noted that he still needed to "do something about Mexico" where, he insisted, cartels run the country. On January 8, he added: "We are going to start now hitting land, with regard to the cartels."

These developments raised concern in Mexico that the U.S. would soon unilaterally deploy its military to Mexico to deal with drug trafficking. Although this scenario cannot be dismissed, it is far from the most likely outcome. Yet its absence will not forestall continued bilateral conflict during 2026, even in conjunction with deep Mexican cooperation with the Trump administration, for four main reasons.

First, Sheinbaum seems to have successfully threaded the rhetorical needle between Morena pressure to condemn the U.S. action and the need to prevent an increase in bilateral tension. This task was made more difficult by former President Andrés Manuel López Obrador (AMLO)'s decision to break his political silence and strongly oppose the U.S. action, followed by a loud echo on the social media accounts of Morena radicals. At the same time, an *El Financiero* poll published on January 6 shows that a majority of Mexicans (57%) view the U.S. intervention in Venezuela as unjustified, compared with 39% who say it is justified.

Sheinbaum's carefully crafted January 5 statement expressed her deeply felt opposition to U.S. intervention, and specifically to its violation of the United Nations Charter and the principles of non-intervention, peaceful resolution of disputes, and respect for national sovereignty. It is worth noting, however, that these principles—enshrined in the Mexican Constitution since 1983—are apt to be much less effective at constraining the behavior of a superpower opposed to the old rules-based international system.

Sheinbaum's statement did not, however, condemn the United States (this was done in a less visible foreign ministry communiqué) and reiterated her willingness to cooperate extensively with the United States in the battle against organized crime, as long as Mexican sovereignty is respected. Indeed, the Venezuelan operation and Trump's December 15 executive order declaring fentanyl a weapon of mass destruction have already led to Mexican efforts to increase its cooperation with the United States on drugs in 2026.

To reinforce the effectiveness of this "thread the needle" strategy, Mexican government officials spoke off the record to the U.S. media in mid-January. Illuminating details of policy deliberations about how to respond to President Trump, these clearly authorized leaks emphasized for a U.S. audience Sheinbaum's limited room for maneuver due to pressure from the nationalist left.

Second, Sheinbaum redoubled Mexican efforts to deepen effective communication with the United States about Mexican drug-fighting efforts. After Trump's statement about potential U.S. land incursions into Mexico, Sheinbaum ordered her foreign minister to talk with U.S. Secretary of State Marco Rubio and had Mexican Security Minister Omar García Harfuch speak about the close and consistent collaboration between the two countries' security institutions. After a pointed 72-hour delay, Secretary Rubio spoke with Foreign Minister Juan Ramón de la Fuente. The State Department readout from the meeting noted "the need for stronger cooperation to dismantle Mexico's violent narco-terrorist networks and stop the trafficking of fentanyl and weapons [and for] tangible results to protect our homeland and hemisphere." The capstone to this communication push was Sheinbaum's January 12 call with Trump, which she reported as amicable and resulting in an apparent agreement to maintain an emphasis on security cooperation through a coming January 22-23 meeting of the bilateral group overseeing the implementation of security agreements.

Third, arresting Maduro has thus far turned out to be the kind of low-cost success Trump likes. There is no scenario, however, in which a unilateral U.S. military action in Mexico will be low-cost. Due to the nationalist pressures noted above, and the deep nationalism of the Mexican military and of President Sheinbaum herself, Mexico would inevitably condemn the action and find a way to strike back, most likely by dramatically curtailing security cooperation. This should continue to give Washington pause. In fact, the nationalist rumblings within Morena should help the Sheinbaum team explain this "reality" to their U.S. counterparts. Mexico should also benefit from the continued U.S. perception of extensive bilateral security cooperation, making unilateral U.S. intervention seem less important. The readout from the December 11 meeting of the bilateral Security Implementation Group, for example, notes bilateral progress, including an agreement "to deepen and streamline collaboration on extraditions, asset forfeiture, and fuel-theft investigations" and a plan to reconvene this month.

Fourth, it is unlikely that the ease of capturing Maduro will be matched by an easy establishment of a stable, legitimate government willing to cooperate with the United States and capable of governing Venezuela. Should the acting president display her pragmatism and cooperate with the Trump administration, it is unclear that the interior and defense ministers will accept this outcome. The presence of multiple competing power centers in Venezuela should keep the U.S. preoccupied for most of 2026, making a new U.S. operation less likely. And should the U.S. undertake a new operation, Greenland and Cuba will be in Trump's crosshairs long before Mexico.

Where the United States and Mexico could clash sharply in 2026 is over Cuba. Overturning a weak Cuban regime is a long-term desire of Secretary of State Rubio and is supported at least rhetorically by President Trump. U.S. control over Venezuelan oil exports means shipments to Cuba will cease. Mexico, however, sends more oil to Cuban than Venezuela did, making it likely that the U.S. will pressure Mexico to end this subsidy. For historical, ideological, and political reasons, President Sheinbaum will find it extremely difficult to comply, potentially producing a new point of bilateral tension in the run-up to the USMCA review.

Finally, the Venezuelan operation is unlikely to have a significant impact on the price of Mexican crude, and thus on Pemex's bottom line, as some have stated. The obstacles to reviving Venezuelan production are economic, institutional, and political, none of which are easy to resolve. Economically, the petroleum sector needs billions of dollars in investment, but the state oil company, PDVSA, is bankrupt. Private investment will be needed, but firms will be hesitant to invest without a legitimate rule of law. Even if political stability prevails in

Venezuela, it will be difficult for the country's new leaders, the same politicians who previously broke contracts with foreign oil companies, to provide these assurances.

## Mexico's New Tariff Law

Taking effect on January 1, the reform to Mexico's General Import and Export Duty Law (LIGIE) was suddenly fast-tracked through Congress in early December. This reflected the need to move forward with legislation favored by the United States to level the USMCA playing field in advance of the coming review. As noted in our December 12 Monarch News report, Mexico's new tariff schedule affects 16 sectors, including auto parts, textiles, plastics, steel, iron, aluminum, glass, cosmetics, and apparel. Although heavy lobbying from the private sector secured some relief on the size of the tariffs and resulted in the substitution of 123 tariff lines from the original proposed legislation, the enacted LIGIE reform preserved its overall scope of 1,463 tariff lines. Among the countries hardest hit by the new tariffs, South Korea and India have expressed interest in negotiating trade agreements with Mexico to mitigate the impact on their auto and auto parts exports to Mexico. China did not follow suit, but it also took a notably more diplomatic tone than in the past. Instead of threatening Mexico with retaliation, China called on Mexico to "correct" its "unilateral protectionism" and said it would follow the decision closely to determine its impact on Chinese exports.

## IEEPA Tariffs Await a Defining Supreme Court Decision

The U.S. Supreme Court is scheduled to hand down decisions on Wednesday morning, January 14. This could include a ruling on the constitutionality of the IEEPA tariffs that are the foundation for the "Liberation Day" tariffs and U.S. tariffs on non-USMCA-compliant Mexican exports due to "insufficient" Mexican cooperation with the United States on migration and security matters. As we noted in our December Political Report, while this will reduce President Trump's freedom of action on tariffs, the administration has already identified alternative tools to help retain the tariff wall it has created. Nevertheless, a ruling of unconstitutionality will terminate the 25% migration/security tariffs on Mexico, likely leading to an increased U.S. reliance on threats of military action to coerce Mexico to continue its close policy cooperation. A negative ruling would also trigger firm efforts to recuperate tariffs paid under what was deemed to be an illegal framework.

## Bilateral Water Issues

Following a Trump threat to impose a 5% tariff on Mexico if it did not immediately repay its entire water debt to the United States (something Mexico lacks both the infrastructure and the water to do), bilateral water talks reached an agreement. Mexico will send 249 million cubic meters of water to Texas before the end of January, although Mexican farmers are asking for another delay and Texas farmers seem unlikely to be satisfied, likely continuing to demand more water than Mexico is willing or able to provide. We suspect this issue will persist in 2026 as Texas farmers try to integrate it into the USMCA review.

## Mexican Politics

President Sheinbaum continued her attacks on "conservatives" broadly and on Ricardo Salinas Pliego specifically, giving him until the end of January to pay his back taxes. She also expanded her attacks to include María Amparo Casar, the head of Mexicanos Contra la Corrupción y la Impunidad, one of AMLO's favorite targets because of her ties to the political opposition and her organization's disclosure of corruption in Morena governments. She is being accused, again, of stealing from Pemex by illegally receiving a pension for her deceased husband that the government says she does not deserve.

These largely symbolic acts, however, were accompanied with tangible policies to reduce high-impact crimes, specifically extortion, political corruption, and cargo theft, and to improve access to healthcare for most Mexicans.

A mid-December meeting of Sheinbaum's security council ended its past policy of coordinating mostly with Morena governors to fight local crime and corruption. It will henceforth work closely with local politicians, including opposition mayors, to reduce crime and extortion. The security council also noted that the government will take full advantage of the new federal anti-extortion law to fight extortion regardless of where it occurs, even if no victim files a formal accusation, and to pressure state governments to pass similar legislation.

The government also arrested a Durango state union leader, along with five union accomplices, on charges of extortion and leading a local criminal organization. Indeed, Durango business organizations had previously complained about extortion of their members by this union. The CATEM union is led nationally by Pedro Haces, the deputy Morena leader in the Senate, whose close alliance with Morena's powerful Senate leader, Ricardo Monreal, makes him politically untouchable. Nevertheless, with this action Sheinbaum sent a clear message that she is serious about reducing extortion in Mexico. Further, while she may not be able to take down Morena powerbrokers, she can and will undermine the foundation of their political power if it involves crime and extortion.

Sheinbaum also responded to the November trucker protests over a lack of security on Mexican highways. In mid-December, Security Secretary Omar García Harfuch announced the dismantling of an organized crime group dedicated to cargo theft on federal roads in the States of Mexico and Hidalgo.

Finally, on healthcare, where Morena policies have been particularly wanting, newly approved legislation will make the IMSS and ISSSTE healthcare systems—historically only available to workers with formal-sector jobs—available to all Mexicans. This will make healthcare available to all Mexicans for the first time under Morena. Unfortunately, this did not come with any increase in the healthcare budget, so it is unclear how these institutions will deal with the increased demand for their services.

Elsewhere in domestic policy, although the changes to the water law we reported on last month seem to have satisfied small and medium-sized farmers' concerns about their water rights, farmers continue to complain about low support prices for their production. These disgruntled farmers plan to reestablish highway blockades early in 2026 if their concerns are not met. Unfortunately, the government seems to lack the fiscal resources to respond to this demand, making renewed blockades a real possibility in the days and weeks ahead.

## The Economy

The Bank of Mexico cut its reference rate by a quarter point, to 7%, at its December meeting, but it also signaled a pause in its loosening cycle to watch its impact on inflation. On this front, inflation surprised on the low side in December, finishing 2025 at 3.7% (its target rate is 3%), as growth is expected to pick up to just 1.3% this year (according to the Citi Mexico Expectations Survey), suggesting the possibility of further rate reductions in 2026 if inflation remains controlled. Mexico's strong peso also persisted, ending the year at 18 per dollar, sustained by the carry trade driven by the continuing interest rate differential with the U.S., the weak U.S. dollar, and Mexico's trade surplus. Indeed, although auto exports were down in 2025 due to U.S. tariffs in the sector, exports overall expanded during the year. Finally, in her early 2026 speech to Mexican diplomats, Sheinbaum called on her ambassadors and consuls to promote foreign investment in Mexico—something her predecessor neglected to do.

## Energy

The Ministry of Energy published on December 29 the 2025–2030 Energy Sector Program (PROSENER 2025–2030), which seeks to strengthen energy self-sufficiency, sovereignty, and security through binding energy planning, as well as advance sustainable development to guarantee equitable access to energy for the population, particularly in lagging regions. The PROSENER enshrines the opportunities we reported in our October 15, 2025, Client Alert.

The Program aims to promote strategic renewable energy projects, foster energy efficiency, and encourage technological innovation to mitigate environmental impact and reduce dependence on fossil fuels, prioritizing historically marginalized regions and sectors. It seeks to guarantee energy justice for the population, ensuring equitable access to affordable energy, the fair distribution of the benefits of energy projects, and participatory community management.

The 2025–2030 expansion plan for the National Electric System foresees the installation of 28,004 MW of electricity generation capacity. Of this total, the State will contribute 17,009 MW; 2,963 MW as part of the previous administration's CFE strengthening plan expected to come online between 2025 and 2027, and 14,046 MW from the Binding Program for the Installation and Retirement of Power Plants (PVIRCE), aiming to reach a 38% share of renewable energy by 2030.

CFE plans to increase investment in new renewable electricity generation plants, mainly through wind and solar investments, which implies greater participation of clean energy and a substantial contribution to the low-carbon energy transition. In this regard, CFE will add 2,850 MW of wind capacity, 5,393 MW of photovoltaic solar capacity, and 150 MW of solar thermal capacity.

CFE also plans to install 2,216 MW in battery energy storage systems during the 2025–2030 period to support intermittent wind and photovoltaic solar plants. This confirms CFE's strategic role in energy planning and transition, ensuring reliability, security, and continuity of electricity supply for the entire population.

In addition to installed electricity generation capacity, the proposal includes continuing the expansion of the National Transmission Grid (RNT) and the General Distribution Networks (RGD), initiated in the previous administration, with the aim of strengthening the reliability and security of the National Electric System, as well as contributing to energy justice in the country.

During this administration, the plan is to complete 59 projects for the expansion and modernization of the RNT, which, together with the 21 projects already completed, will represent an initial portfolio of 80 projects to address various needs of the Expansion Plan, in addition to promoting a second portfolio of 65 projects to be developed starting this year.

Additionally, the expansion and modernization of the General Distribution Networks proposed for this administration include 97 new substations, the expansion of 95 existing substations, modernization of 6,875 distribution networks, and 42,221 electrification projects in different localities across the country's 32 federal entities, through the installation of conventional distribution networks and individual solar modules (CFE, 2025).

Pemex announced on January 7, through a Form 6-K filing with the U.S. Securities and Exchange Commission (SEC), that it has established a modified agreement to pay approximately MXN$29.24 billion (around USD$1.5 billion) of its 2025 debt to suppliers and contractors over a period of up to eight years, through quarterly payments of capital and interest.

That said, this amount represents only about 5.6% of the total debt owed to suppliers, which stood at MXN$517 billion (close to US$29 billion) at the end of the third quarter of 2025. This limited scope has led to concerns among suppliers and analysts regarding the company's overall financial liquidity and its ability to cover all outstanding obligations.

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