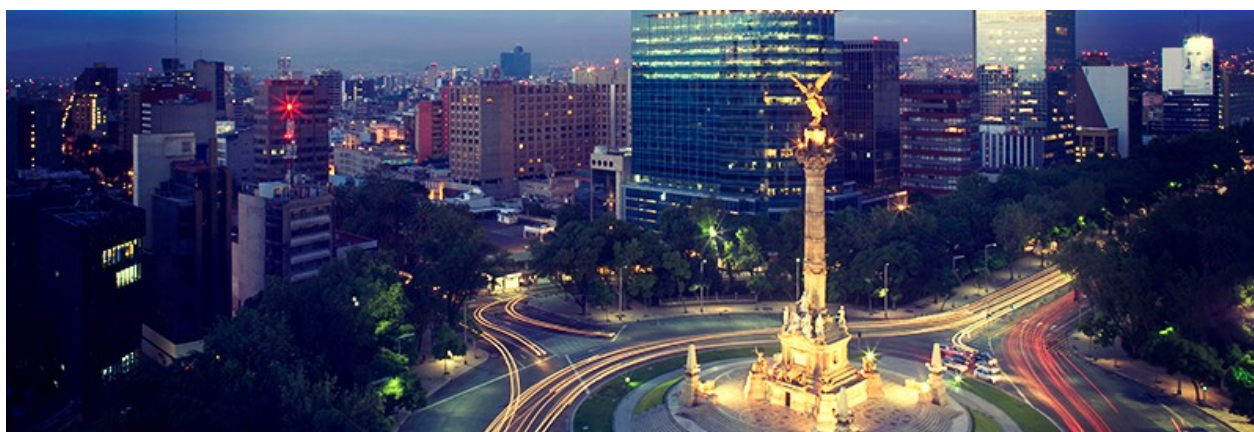




Monthly Report on Mexican Politics, the Economy, Energy, and U.S.-Mexico Relations

September 2026*

Executive Summary

The USMCA review encountered new hurdles with the collapse of U.S.-Canada trade talks, a new report pointing to Mexico as a key source of the transshipment of Chinese goods into the U.S. market, and a readjustment of the Mexican negotiation strategy. Simultaneously, the United States pressured Mexico in new ways to augment its already extensive security cooperation even as Sheinbaum, at the behest of the United States, introduced legislation that would create a CIFIUS-like security review for foreign investment in Mexico.

Fiscally cornered by the political need to sustain social spending without raising taxes and by market demands to lower the fiscal deficit, Sheinbaum retained her current fiscal strategy in the 2027 budget. Her budget proposal limits government investment spending and promises to further efforts to increase tax collection, while committing to a small reduction in the fiscal deficit. This will neither promote growth nor satisfy markets but should buy time to get through the all-important 2027 midterm elections.

* Monarch's monthly political report provides a retrospective on developments over the prior 30 days. This edition covers developments from August through early September 2026.

In politics, Sheinbaum finally sent a clear message to her political allies that she is in charge. She forced the Sinaloa governor to step down for a second time after he attempted to return without her authorization and followed this up by ensuring that the state's gubernatorial candidate in the June election is allied with her, not him. Her annual State of the Union address, for the first time, also put her personal stamp on her presidency. Yet she also continues to prioritize party unity in advance of the 2027 midterm elections, including continuing to back powerful politicians with questionable reputations.

The energy sector offered incremental good news for private investors. The scientific committee convened by Sheinbaum to assess unconventional gas development recommended continuing to evaluate viability in the Burgos and Sabinas-Burro-Picachos basins while recommending an outright prohibition in the Tampico-Misantla basin. Pemex separately signaled its interest in expanding private-sector participation in the petroleum sector through mixed contracts paired with new risk-sharing financing schemes. In electricity, the private sector anticipates a coming boom in domestic and foreign investment, crediting closer coordination with the Energy Ministry, faster project approvals, clearer rules for private and mixed investment, and the government's commitment to invest in transmission and distribution.

Major New Hurdles for the USMCA Review

U.S. demands collided with Canadian nationalism to cause the collapse of U.S.-Canada trade talks in August and the mutual imposition of additional tariffs on bilateral trade. The U.S. demands seemed to threaten 1) the Canadian auto industry by refusing to include medium- and heavy-duty trucks in a proposed reduction in auto tariffs; 2) Canadian identity by pressing Ottawa to loosen its French-language labeling requirements; and 3) Canadian sovereignty by trying to limit Canadian trade agreements with third countries. The Canadians further concluded that last-minute changes in the U.S. position demonstrated internal disarray and a lack of seriousness that undermined the entire USMCA review process.

There is a chance that these events could generate a greater U.S. willingness to compromise with Mexico, its less confrontational neighbor, as an object lesson for Canada. U.S. Commerce Secretary Howard Lutnick's virtual meeting with Economy Minister Marcelo Ebrard and President Sheinbaum on September 9 supports this scenario. More likely, however, they are a sign that coming to a deal with the United States in the near term—even a limited, interim agreement—is doubtful. Specifically, the last-minute intervention by Lutnick and Trump's Senior Counselor for Trade and Manufacturing, Peter Navarro, that scuttled the deal to reduce U.S. national security tariffs on Canadian auto, steel, and aluminum exports is apt to further constrain USTR Greer's ability to reduce these levies in future negotiations, a core Mexican demand.

Echoing the U.S. effort to influence Canadian trade accords, the United States raised concerns about Mexico's new free trade agreement with the European Union. At issue is Mexico's agreement to limit the use of cheese names to the European regions from which they originate, a decision that could harm U.S. cheese producers.

Another signal that a U.S.-Mexico trade accord remains unlikely came in mid-August, when the White House issued a new report titled "[The Great Transshipment Scam](#)" highlighting Chinese transshipment through third countries into the U.S. market. It pointed to Mexico as one of the top hubs for this activity. Mexico responded by noting that its imports from China fell 26% during the first half of 2026 due to new tariffs imposed on January 1. Nevertheless, the message was clear: Mexico needs to do much more.

Meanwhile, 168 Republican members of the House of Representatives sent a letter to USTR Greer indicating that they will make no effort to press the administration on USMCA. The letter did call for the continuation of the USMCA but expressed its signatories' full support for the administration's priorities of ensuring market access and rationalizing tariff structures while eliminating actions harming U.S. industries and unfair trade policies. The Republican Congress won't pressure the administration to compromise to speed things up.

Trump followed this up with more disparaging comments about trade with Canada and Mexico. In addition to a series of social media posts denigrating the two countries, he said he would end all U.S. trade with countries with whom the U.S. has a trade deficit unless the Fed lowered interest rates. He went on to say that Mexico has nothing the U.S. needs, other than maybe tamales and tomatoes. In this context, it does not help that Mexico's trade surplus with the United States reached a record high for the first seven months of 2026.

Unlike Canada, Mexico continues to negotiate with the United States, with the fourth round of talks scheduled to take place during the first half of September, albeit still without precise dates. Mexico continues to make proposals, most recently that no new tariffs be imposed while the review is underway. However, this has become more an effort to keep talking and limit the U.S. penchant for moving the goal posts until after the midterm elections than a real effort to reach a compromise.

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These circumstances make clear that the USMCA review is unlikely to make any real progress, even on second-tier issues, until after the November 3 U.S. midterm elections. Not only is the U.S.-Canada side of the equation frozen, but Mexican negotiators have also concluded that serious movement on the U.S. side is unlikely for now. U.S.-Mexico negotiations are in a holding pattern, with the parties continuing to talk but without any expectation of meaningful progress.

Mexico Proposes National Security Review Regime for Foreign Investment

President Sheinbaum sent legislation to Congress in late August to revise Mexico's foreign investment law to incorporate a national security review. The legislation expands the mandate of the National Commission on Foreign Investment (*Comisión Nacional de Inversiones Extranjeras*, or CNIE) to review foreign investments not only for their economic impact but also for threats to national security, not unlike the U.S. CFIUS process.

A Commission ruling will be required for all foreign investments that exceed 49 percent ownership of a firm and meet an asset threshold in a covered sector. These sectors extend from energy, transportation, communications, mining, defense and aerospace activities to data centers, robotics, semiconductors, cybersecurity, and biotechnology. A full list can be found in the presidential decree published [here](#).

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This legislation responds to a U.S. request that Mexico create a CFIUS-like process to mitigate the amount of Chinese investment in the Mexican economy and in North American supply chains. We expect it to be approved quickly, even though key details remain unclear, including the size of investments subject to review, the criteria for conducting the review, and the degree of discretion in the review. It is also unclear whether foreign firms with current investments in the identified sectors would be required to reauthorize their investments.

Struggling to Strike a Fiscal Balance

In her September 1 annual State of the Union address (the *Informe de Gobierno*), which was well attended by business leaders unlike the addresses held under her predecessor, President Sheinbaum again promised a gradual reduction of Mexico's fiscal deficit. The challenge, however, is to do this while protecting public investment in infrastructure and spending on social programs, especially in an economy that is barely growing (albeit with receding inflation). In the search for increased revenue, Finance Minister Édgar Amado discussed options with business leaders, whose sharp opposition to the first proposal reportedly sent him back to the drawing board.

The Sheinbaum administration has also been responsive to foreign investors' complaints about aggressive tax collection against large taxpayers, including modifications to the tax code and the operations of the tax authority last spring. Nevertheless, the National Foreign Trade Council, which represents some 300 U.S. multinational companies, sent a letter to

members of the U.S. Senate Finance Committee this summer (leaked in August) complaining about what they describe as “unprecedented” tax enforcement practices by Mexico’s Tax Administration Service (SAT).

Sent to Congress on September 8, the proposed budget for 2027 calls for reducing the fiscal deficit from 4.1 percent of GDP in 2026 to 3.9 percent in 2027, without raising core tax rates. It does this by again limiting government investment, reinforcing tax collection by broadening the tax base, and incorporating measures to fight tax evasion, including a reduction in deductions. This also includes a plan to improve monitoring of IEPS fuel-tax collection to curb evasion and smuggling.

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Sheinbaum is fiscally cornered by the political need to cover the rising costs of pensions and social programs, avoid raising taxes before the 2027 midterm elections, and respond to market demands for a lower fiscal deficit. She thus retained her established fiscal strategy of limiting government investment and improving tax collection. Since this will do little to promote growth and is unlikely to reduce financial market pressure, however, it seems to be a strategy for buying time that is likely to be followed by a more aggressive fiscal strategy after the election.

The U.S. Increases Pressure for Broader Security Cooperation

In late August, the U.S. Northern Command (USNORTHCOM) tweeted its gratitude for Mexico’s rapid response to a cartel bomb threat in the northern city of Mexicali that caused the U.S. to issue an alert to its citizens living in the city. USNORTHCOM lauded Mexico’s “whole-of-government commitment to countering cartels [which] is reducing illicit traffic at the southern border.” And a few days later, USNORTHCOM shot down three cartel drones along the border, saying only that the strikes were taken in coordination with its partners there.

Earlier in the month, at a security summit in Buenos Aires, the Administrator of the U.S. Drug Enforcement Administration (DEA), Terry Cole, praised Mexico's Secretary of Security and Citizen Protection, Omar García Harfuch. He gushed that García Harfuch is a "trusted partner" and "good friend of the United States," thanking him personally for "[his] leadership, [his] friendship and [his] alliance." While superficially good news, singling him out for such praise reportedly displeased his military partners in the security cabinet and reinforced mistrust of him among Mexico's nationalist left, an important component of President Sheinbaum's political coalition.

The first meeting between U.S. Secretary of State Marco Rubio and Mexico's new foreign minister, Roberto Velasco, was also a mixed good-news/bad-news event. The meeting itself was good news since the two had not met before. It ended, however, without a joint statement, with the two sides instead offering competing narratives about their exchange. The Mexican readout from the meeting emphasized the need to address arms trafficking and protect the human rights of Mexicans in their dealings with U.S. immigration enforcement officers. For its part, the United States pointed to the continuing need for "decisive action" by Mexico against fentanyl and migration.

Reinforcing the bad news story, in early August Trump retweeted a March article by conservative commentator Bill O'Reilly in which he stated: "Mexico is not a friend to the United States. Its government has been corrupt for decades, and that has led to a rise in murder and international drug trafficking."

The United States also canceled the visa of the son of former Mexican President Andrés Manuel López Obrador (AMLO), one of the leaders of the most radical and nationalist faction of the Fourth Transformation movement. Andrés Manuel López Beltrán — known as Andy — made the cancellation public in a furious letter addressed to President Trump, calling for the resignations of Marco Rubio and Deputy Secretary of State Christopher Landau for undue interference in Mexican internal affairs. The real audience for this nationalist screed, however, was President Sheinbaum, as he sought to pressure her to protect him from the

United States and, equally importantly, to reduce Mexican security cooperation with its northern neighbor, which he and his allies believe has gone too far.

In this context, Sheinbaum supported Andy, arguing that there is no evidence of illegal activities on his part, and she pushed back against the U.S. for interfering in Mexican politics. She again argued that the U.S. has political motivations for depriving Mexican politicians of their visas and contended that its over-the-top support for García Harfuch was designed not to laud her government but to divide it and her movement. But she also pushed back against her nationalist allies. In her September 1 *informe*, President Sheinbaum insisted that friendship with the United States does not equate with her renouncing the principles of the Fourth Transformation.

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The United States used its well-established dual messaging about Mexico to increase its pressure for expanded security cooperation. By publicly lauding García Harfuch, the U.S. undermined his standing within the cabinet and reinforced mistrust of him among Fourth Transformation radicals, demonstrating that the United States can cause political problems for Sheinbaum if she does not cooperate. By not issuing a joint communiqué following the Rubio-Velasco meeting, it reinforced the message that Mexico was still not doing enough. And President Trump put his personal stamp on it by retweeting Bill O'Reilly.

Sheinbaum Asserts Her Authority While Preserving Political Unity

It was not just U.S. actions that highlighted the divisions within President Sheinbaum's Fourth Transformation movement. Beyond Andy López Beltrán's letter, Rubén Rocha Moya, who had been governor of Sinaloa before taking a leave of absence, directly challenged Sheinbaum's authority. After being indicted by the U.S. Department of Justice on April 29 for drug trafficking, Rocha Moya took a leave of absence two days later. Yet on August 21, he

suddenly announced that he was returning to the governorship without informing the President.

Sheinbaum hit back hard. She issued a sharp rebuke on social media and arranged statements from the Interior Ministry and the Attorney General's Office noting that investigations into his alleged involvement with organized crime remained ongoing. The Morena party issued its own statement opposing the decision. Sheinbaum also oversaw his censure by his fellow Morena governors, even those, like him, close to AMLO. The combined message was clear—he was mistaken in thinking Sheinbaum would not block his move, and there would be political costs if he remained. He requested a new leave of absence the next day, giving the President a clear victory in this direct challenge to her political authority.

A second political victory soon followed. Morena selected Sheinbaum's preferred candidate to be the new leader of the Senate, defeating the choice of party powerbroker, former presidential candidate and AMLO's interior minister, Adán Augusto López.

In a reflection of this new assertiveness, in her State of the Union address, Sheinbaum focused on her successes, unlike last year, when she emphasized continuity with AMLO. Indeed, she barely mentioned his name, sending a signal that she is in charge.

Her *informe* also began and ended with an unmistakable message for her fellow Fourth Transformation politicians, emphasizing the need for humility, simplicity, and staying close to the Mexican people; a high hurdle for many of them. Indeed, one of her closest legislative allies, Alfonso Ramírez Cuéllar, promised to introduce legislation in September that will create two new special prosecutors, one focused on fuel smuggling (a priority for Sheinbaum) and one focused more broadly on anti-corruption. The legislation is supposed to include eliminating federal and state legislators' immunity from prosecution so they can be tried on corruption charges. If true, this would be a very important change, but it will also be a heavy lift politically.

Yet Sheinbaum also continues to emphasize party unity, both in her *informe* and in her continued protection of allied politicians with questionable reputations. She still cannot match AMLO's influence in the party, nor that of powerbrokers he recruited to Morena, and she needs a united party going into the midterm elections next June.

Regarding those elections, the selection of Morena's gubernatorial candidates has begun. Sheinbaum was able to impose her preferred candidate in Sinaloa, the price of Rocha Moya's rebellion. Candidate selections in another four states were negotiated fairly easily. The next dozen, however, will be a challenge. Sheinbaum will promote her preferred candidates, but she must do so while balancing the demands of local bastions of power in Morena and those of her Green and Labor party allies. We expect she will have some key wins, but she will also have to cede ground in a number of states in the interest of unity.

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These political developments point to a President Sheinbaum who is willing and able to exercise her authority when directly challenged, is motivated to put her stamp on her administration two years into her presidency, and is seeking to modify the moral compass of her Morena party. At the same time, however, she remains limited in her freedom of action by two core factors. First, AMLO's continuing influence over the party and the broader Fourth Transformation movement he created. Second, her personal and political loyalty to the man who brought the Mexican left to power and enabled it to implement what she sees as positive change for most Mexicans.

Good News in the Supreme Court

The Mexican Congress determined last month that, due to insufficient time to change the constitution, the Supreme Court will determine how its next president will be selected. Currently, the constitution contains two conflicting articles. Article 94 says the Court president serves just two years and that the presidency rotates among the justices according

to the number of votes they received in the June 2025 judicial election. Article 97 says the president serves four years and is selected by a majority vote of the justices. In the first case, the Court's most radical (and least prepared) justice, Lenia Batres, would become its president next year. Animus toward her by several of her fellow justices, however, will prevent this. Hugo Aguilar Ortiz is therefore expected to remain Court president for three more years, and the Court will select his successor by a majority vote.

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This is good news for judicial independence and business interests. Batres is the least prepared justice for the job, most prone to politicize court decisions, and is the most anti-business. Concern that she could lead the Court was undermining business confidence in Mexico's already weak rule of law. This decision does not suddenly create a well-prepared, independent Supreme Court, but it mitigates some of the damage done by the popular election of the justices.

Advances in the Energy Sector

In early August, the scientific committee convened by President Sheinbaum to assess unconventional gas development recommended continuing viability evaluation in two basins — Burgos and Sabinas-Burro-Picachos, spanning the states of Coahuila, Nuevo León, and Tamaulipas — while recommending an outright prohibition in the Tampico-Misantla basin, which Sheinbaum said she would decree. Sheinbaum stressed that no extraction has been authorized. Next steps depend on exploratory wells confirming the availability of sufficient deep saline groundwater that is hydraulically disconnected from aquifers used for drinking water and agriculture, alongside water-recycling requirements and prior consultation with affected communities.

About a month later, at a September 2 forum on energy infrastructure investment co-organized by the Business Coordinating Council (CCE), Pemex CEO Juan Carlos Carpio

Fragoso noted the firm's interest in expanding private-sector participation in the petroleum sector. This participation will still be based on mixed contracts, but with what he calls innovative financing schemes to share risks, costs, and benefits, while maintaining state control. The director general of the Mexican Association of Hydrocarbon Companies (AMEXHI) expressed openness to these proposals while noting that what matters is how they are implemented.

Regarding the electricity sector, at the same event, CCE President José Medina Mora anticipated a coming boom in foreign and domestic investment in electricity. He said this was due to constant communication between the private sector and the Energy Ministry, a reduction in bureaucratic hurdles allowing for the rapid approval of projects, the creation of clear rules for private and mixed investment, and the government's commitment to invest in transmission and distribution.

A separate report addressing CFE's 2026–2030 Development Program, the new Hydrocarbons Sector Development Plan, private consolidation in the electricity sector, Pemex's memorandum of understanding with Woodside Energy, and other energy issues from August and early September is available on request.

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