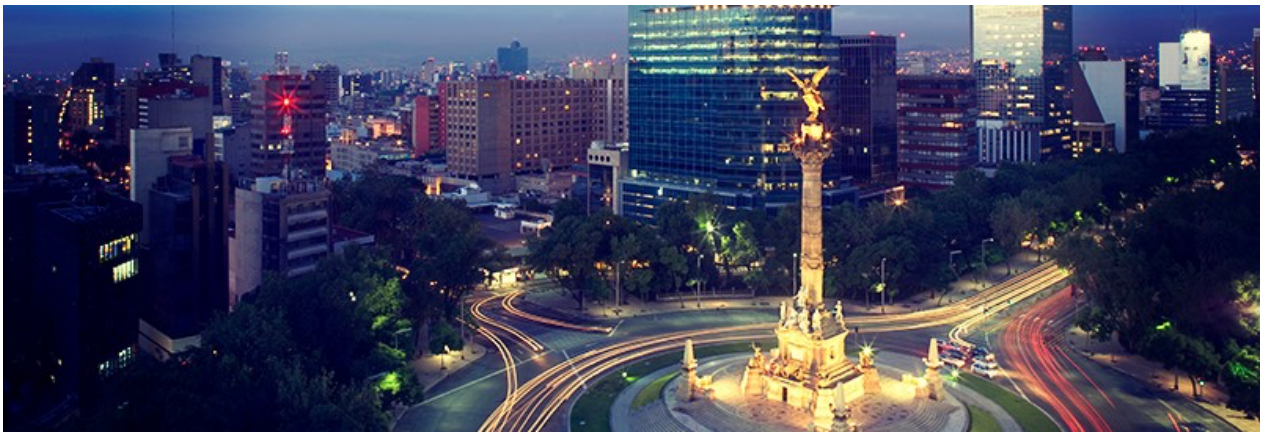


Monthly Report on Mexican Politics, the Economy, Energy, and U.S.-Mexico Relations

October 2026*

Executive Summary

The USMCA review lost momentum in September. The fourth U.S.-Mexico negotiating round, scheduled to take place in Washington, was pushed to an undetermined date in October after it collided with Chinese President Xi Jinping's state visit to the United States. Mexico nonetheless kept the channels open through a virtual meeting between President Sheinbaum and Commerce Secretary Lutnick, a leaders-level call with President Trump, and a series of concrete gestures, including new steel and aluminum trade monitors and a proposal to gradually replace Asian inputs with North American content. Washington, for its part, made clear that tighter rules of origin designed to keep Chinese inputs out of the region will sit at the center of any deal.

The security relationship produced louder headlines than substantive developments. President Trump used his UN General Assembly address to describe Mexico as the "epicenter" of cartel violence, but President Sheinbaum deliberately exercised restraint, and

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

both governments continued to emphasize cooperation. The U.S. Treasury nonetheless closed the month with sweeping sanctions against Sinaloa Cartel networks and allegedly complicit officials in Baja California.

Domestically, Sheinbaum's 2027 budget offered no new taxes but relies heavily on tighter enforcement, a customs overhaul, and more restrictive deductions, while the Senate approved legislation to amend the Foreign Investment Law and establish a national security review mechanism for foreign investment. The bill now heads to the Chamber of Deputies for consideration. Separately, a major customs system failure at the border and a U.S. interest rate increase were reminders of how exposed cross-border operations remain to events outside their control. The Fed's rate hike and expectations of further U.S. monetary tightening also contributed to pressure on the peso, which fell roughly 6% against the dollar over the month, its steepest monthly decline since June 2024.

USMCA Talks Advance on Two Tracks, but the Fourth Round Is Delayed

September opened with a burst of activity. Economy Minister Marcelo Ebrard met Commerce Secretary Howard Lutnick on September 2 on the margins of a G20 innovation ministerial in Chapel Hill, North Carolina, to press for relief on the Section 232 tariffs that still apply to Mexican autos, steel, aluminum, and their derivatives. Lutnick was then scheduled to meet President Sheinbaum at the National Palace on September 9, but weather and aircraft problems forced the meeting to take place by video instead. Ebrard called the conversation cordial and useful but offered no specifics.

The more consequential exchange came on September 16, when Sheinbaum spoke by phone with President Trump. Sheinbaum later said that the possibility of an agreement was "advancing well" and that some understandings had been reached, but she declined to share details until a final deal is in hand. Her core ask remains modest by design: a reduction in the U.S. tariffs now in place on steel, aluminum, and vehicles.

On September 21, Sheinbaum described Mexico's approach as operating on two tracks: one focused on the tariffs currently in force and another on the formal USMCA review. She also disclosed that the list of U.S. concerns, which Ebrard had previously said had been reduced from 54 items to 14, has since expanded to nearly 90 issues, in part because new topics such as digital-platform regulation were added. U.S. Trade Representative Jamieson Greer praised Mexico as "pragmatic" the same day, but he stressed that Washington is drafting rules of origin with Mexico to ensure that goods traded between the two countries do not contain Chinese inputs, explicitly identifying Mexico as a potential transshipment point.

The fourth bilateral negotiating round, which Ebrard had said would be decisive, was then postponed. Undersecretary for Foreign Trade Luis Rosendo Gutiérrez confirmed on September 23 that the round was pushed back because of President Xi's visit, and no new date has been announced beyond a general reference to October. Meanwhile, the tariffs that brought Mexico to the table remain unchanged, and Mexico's auto exports continue to soften, falling 2.2% year over year in August.

Monarch Analysis

The two-track approach is Mexico's best hope for a near-term win. A limited tariff understanding on metals and autos could be announced as an interim arrangement, consistent with Greer's stated goal of reaching partial deals with both partners by year-end while deferring structural issues to 2027. The expansion of the U.S. list to roughly 90 items, however, signals that Washington continues to use the review to extract concessions well beyond trade. We continue to expect little substantive progress on the review itself before the November 3 U.S. midterm elections, and we believe that tighter rules of origin aimed at limiting Chinese content will be the price Mexico pays for any tariff relief.

Implications for U.S. Manufacturers

Companies exporting autos, auto parts, steel, aluminum, or their derivatives from Mexico should assume that current Section 232 costs will persist at least through year-end and

budget accordingly. Any relief is likely to come with stricter origin and traceability requirements, so firms should begin documenting the origin of metals and key components now, rather than waiting for final rules.

Mexico Proposes a Gradual Shift to North American Inputs

On September 23, Undersecretary Gutiérrez stated that Mexico is working with the United States and Canada on a gradual plan to substitute certain inputs currently imported from Asia and other regions with products manufactured in North America. The objective is to raise regional value added in Mexican exports, potentially to 20%, 30%, or even 40% in selected industries, with electronics singled out as an example of a sector where domestic content remains low.

Importantly, the government is not proposing the immediate substitution of all non-North American inputs. The strategy would instead identify components and supplies that could feasibly be produced within the region and develop a transition plan in coordination with industry. Gutiérrez also indicated that trade protection measures could be considered to support the development of new regional supply chains. The initiative is framed within Plan México and the USMCA negotiations, and it is an industrial policy objective rather than a new obligation under the agreement.

The proposal was accompanied by concrete steps. On September 18, the Economy Ministry launched a new Aluminum Trade Monitor and upgraded its Steel Trade Monitor to track where metals are smelted and cast, with the explicit aim of preventing the triangulation of Asian metals into the U.S. market. Greer cited the aluminum system in his September 21 remarks as evidence that Mexico is responding to U.S. concerns.

Monarch Analysis

Mexico is trying to turn a U.S. demand into an opportunity to advance its own industrial agenda. By offering a gradual, sector-by-sector substitution plan, the government hopes to

satisfy Washington's concerns about Chinese content while avoiding abrupt rules of origin that would disrupt existing production. OECD Trade in Value Added data illustrate where the pressure could fall: Chinese value added represents roughly 19% of Mexico's electronics exports and 11% of its electrical equipment exports, compared with about 8.5% for motor vehicles. The greatest adjustment costs are likely to fall on supplier industries rather than final assembly.

Implications for U.S. Manufacturers

Although the details remain undefined and any shift would likely be gradual, manufacturers with operations in Mexico that rely on globally sourced components should begin evaluating scenarios now: which components could realistically be regionalized, at what cost, over what timeframe, and how tighter origin requirements would affect the relative competitiveness of Asian inputs.

Security Rhetoric Rises, but Cooperation Holds

In his September 22 address to the UN General Assembly, President Trump described Mexico as the "epicenter" of cartel violence, called it unacceptable for the United States to share a border with territory controlled by cartels, and urged Mexico to regain control of its territory. He also acknowledged a "very good relationship" with the Mexican government and credited it with making significant progress against the cartels.

President Sheinbaum adopted a notably measured response the following day. She explicitly referenced U.S. drug consumption and arms production but framed them as arguments she could raise and would refrain from pursuing in order to preserve the constructive relationship with President Trump. She instead emphasized Trump's acknowledgment of Mexico's efforts, continued bilateral cooperation, and her view that Mexico is being used as a talking point in U.S. midterm campaigns.

Washington also increased financial pressure. On September 29, the Treasury Department's Office of Foreign Assets Control sanctioned 21 individuals and 25 companies linked to the Sinaloa Cartel's "Mayiza" faction, including its current leader, Ismael Zambada Sicairos, a.k.a. "Mayito Flaco," and several political operators in Baja California, among them the former husband of Governor Marina del Pilar Ávila and a former Mexicali public security director. Two energy companies were among the designated entities. Mexico's Financial Intelligence Unit (UIF) froze the accounts of those designated, signaling continued bilateral coordination even as the action draws attention to alleged cartel influence in state governments.

Monarch Analysis

For companies with significant operations in Mexico, the immediate signal is continuity rather than escalation. Mexico is focused on preventing security disagreements from spilling over into trade, and with trade tensions with Canada already high, Washington has an incentive to avoid simultaneous escalation with both USMCA partners. Still, increasingly forceful U.S. rhetoric around cartels and territorial control remains worth monitoring for its potential implications for cross-border operations and trade policy.

Implications for U.S. Manufacturers

Operations in Mexico should not expect immediate changes in day-to-day security cooperation, but companies should review crisis protocols for border disruptions, which could follow a sharp escalation in U.S. rhetoric or unilateral action. The September 29 designations, which included two energy companies, are also a reminder to screen suppliers, distributors, and logistics providers against U.S. sanctions lists and Mexico's list of blocked persons.

A Shifting North American and Global Trade Landscape

The U.S.-Canada dispute continued to deepen. Canada's dollar-for-dollar counter-tariffs on roughly C$27.6 billion of U.S. goods, covering more than 700 products at rates ranging from 15% to 50%, took effect on September 8. Washington's response, import bans on selected Canadian products under Section 338 of the Tariff Act of 1930, took effect on September 29. President Trump said on September 28 that he expects Canada to seek a deal within weeks, while Ottawa insists it will not sign an agreement that is bad for Canada. Meanwhile, Canada has sought closer ties with the European Union (EU). On September 16, European Commission President Ursula von der Leyen invited Canada to become the EU's first "associate member," an invitation welcomed by Prime Minister Mark Carney. President Trump responded that he could treat such a step as a "hostile act" and threatened to impose "very heavy" tariffs on Europe.

The largest development came from Washington itself. During Xi Jinping's September 23–25 state visit, the United States and China agreed to reduce tariffs on about $30 billion of non-sensitive goods in each direction and extend their trade truce by two months past its November 10 expiration date.

Monarch Analysis

Mexico is positioning itself as the more cooperative partner relative to Canada, which may earn it goodwill but could also leave it with less negotiating leverage. The U.S.-China thaw creates an awkward dynamic: Washington is easing selected tariffs with Beijing while demanding that Mexico purge Chinese content from its supply chains. We do not expect this to soften U.S. demands on rules of origin, but it does suggest that the ultimate shape of North American trade rules will depend partly on the trajectory of U.S.-China relations, a variable Mexico does not control.

Implications for U.S. Manufacturers

Manufacturers that import Chinese inputs into Mexico face pressure from two directions: Mexico's January tariffs on imports from countries with which it does not have free trade agreements already raise their costs, and U.S. rules of origin may soon limit their use in USMCA-qualifying goods. Companies with operations in both Mexico and Canada should also review exposure to Canadian counter-tariffs on U.S.-origin steel, electronics, plastics, and equipment that move through regional supply chains.

Customs System Failures Disrupt Border Trade

Mexico's customs systems suffered repeated failures throughout September. Following an earlier outage on September 7–8, a nationwide failure on September 14 prevented the generation of the DODA (*Documento de Operación para Despacho Aduanero*) document required for every cargo unit crossing the border, with intermittent problems continuing through September 15. Truck lines stretched 20 to 40 kilometers in Nuevo Laredo, which handles close to half of U.S.-Mexico land trade, and congestion spread to Reynosa and Matamoros as shipments were rerouted. Exporters estimated that up to $7 billion in trade was affected. A separate power outage at the customs facility serving the Laredo World Trade Bridge interrupted operations again later in the month.

Monarch Analysis

The disruptions were temporary, but their frequency points to structural fragility in the digital infrastructure on which Mexico's increasingly strict customs controls depend. With a new Customs Law reform included in the 2027 budget package, companies should expect more digital compliance requirements to be layered onto systems that are not yet reliable. We recommend that cross-border operators review contingency documentation procedures, maintain buffer inventories for critical components during peak periods, and diversify crossing points where feasible.

The 2027 Budget: No New Taxes, but Tighter Enforcement

Finance Minister Édgar Amador delivered the 2027 Economic Package to Congress on September 8. The government lowered its 2027 growth forecast to a range of 1.5% to 2.5%, down from 1.9% to 2.9% in April, and projects the overall fiscal deficit at 3.9% of GDP. The package does not create new taxes or raise existing rates, but it seeks to increase revenue through tighter income tax rules, limits on deductions, stronger enforcement against fake invoicing, and greater digital traceability of transactions.

Among the measures most relevant for business are an extension of income tax and VAT withholding on digital platforms to legal entities, a new fuel excise tax regime tied to inventory shortfalls identified through volumetric controls, and three accompanying initiatives: a reform of the Customs Law, a new General Law on Land Registries, and legislation on digital and electronic payments. The lower chamber must approve the revenue law by October 20 and the Senate by October 31.

Monarch Analysis

The package confirms a strategy of buying time before the 2027 midterm elections: no politically costly tax increases, a modest fiscal adjustment, and heavier reliance on enforcement. For multinational companies, the practical implication is a more demanding compliance environment rather than higher rates, with greater scrutiny of deductions, customs operations, and fuel supply chains. Given Morena's congressional majorities, we expect the package to be approved largely as proposed.

Implications for U.S. Manufacturers

U.S. manufacturers should prepare for stricter review of deductions and intercompany transactions, new withholding obligations for payments made through digital platforms, and a Customs Law reform that will add documentation and digital compliance requirements for

imports under temporary import programs. Tax and trade compliance teams should review the final texts in October, before the rules take effect on January 1, 2027.

Legislative Outlook: September–December 2026

Of the roughly 30 initiatives on Congress's fall agenda, we have identified 12 as particularly relevant to U.S. manufacturers operating in Mexico, including the 2027 Economic Package, environmental regulation, foreign investment screening, industrial property, supply-chain issues, artificial intelligence regulation, anticorruption, and migration.

The most closely watched initiative is the proposed national security review of foreign investment, which the Senate approved on September 30 by a vote of 65–30 and sent to the Chamber of Deputies. The bill would add the Defense, Navy, and Public Security ministries and the Digital Transformation and Telecommunications Agency (ATDT) as voting members of the National Foreign Investment Commission (*Comisión Nacional de Inversiones Extranjeras*, or CNIE), with the Attorney General's Office, the intelligence agency (CNI), the tax authority (SAT), and the financial intelligence unit (UIF) participating without a vote. Acquisitions of more than 49% of a company operating in covered sectors that also exceed an asset threshold, to be set by the CNIE within 180 calendar days of the bill's effective date, would require prior approval. Covered sectors would include strategic infrastructure, critical and dual-use technologies, essential inputs and food security, access to sensitive information, and other sectors designated by the government. The CNIE would have 45 business days to rule, down from the 60 originally proposed, although the clock could be suspended if the commission requests additional information, and failure to meet the deadline would not constitute approval. The CNIE could approve, condition, or block transactions; order divestment; and expand the list of covered sectors without requiring new legislation.

Monarch Analysis

The foreign investment screening mechanism responds directly to U.S. pressure to limit Chinese investment in North American supply chains, and we expect the measure to clear Congress during this session. The principal risk for investors lies in the details left to regulation: the asset threshold, the review criteria, and the discretion granted to security agencies. Companies planning acquisitions in energy, transportation, telecommunications, semiconductors, data centers, or related sectors should factor additional review time into transaction schedules.

Implications for U.S. Manufacturers

Beyond acquisitions, companies should monitor the industrial property reform for changes to trademark and anti-counterfeiting enforcement and track the AI, supply-chain, and environmental initiatives that could introduce new reporting obligations for manufacturing plants. Early engagement with legislators and business chambers remains possible as the bills move through committee review.

A Fed Rate Hike, a 6% Peso Slide, and Record Exports

The U.S. Federal Reserve raised its policy rate by 25 basis points on September 16, to a range of 3.75% to 4.00%, its first increase since July 2023. Banco de México held its rate at 6.50% on September 24 for the third consecutive meeting, unanimously. The decision narrowed the interest-rate differential to about 250 basis points, its narrowest level in recent years, while Banxico softened its forward guidance and no longer explicitly characterized the current rate as appropriate to maintain. Headline inflation rose to 3.42% in the first half of September, while core inflation eased to 3.79%.

The narrower differential contributed to pressure on the peso. After reaching about 16.86 per dollar on September 4, its strongest level in roughly two years, the currency weakened and closed the month near 18.08. On a month-over-month basis, the peso depreciated about

6.4% in September, its steepest monthly decline since June 2024. Analysts linked the move to shifting expectations for U.S. monetary policy, a narrower Mexico-U.S. rate differential and the unwinding of carry-trade positions, alongside broader global and trade-related uncertainty.

Trade data released on September 28 showed Mexican exports reaching a record $78.0 billion in August, up 40.4% year over year, led by a 122.3% surge in electrical and electronic equipment. Non-oil exports to the United States rose 45.2%, while automotive exports declined 2.2%. Mexico posted a trade surplus of $605 million in August and $9.9 billion for January–August.

Monarch Analysis

Export strength, driven by electronics and data-center equipment, is cushioning the impact of U.S. tariffs, but it also widens the bilateral surplus that President Trump has made central to his trade agenda. The Mexican peso's September sell-off illustrates how a narrower interest-rate differential can contribute to currency weakness. Even after the decline, the peso remains overvalued relative to its estimated real equilibrium exchange rate, and further depreciation is still expected, particularly if the Fed tightens again or USMCA uncertainty persists.

Implications for U.S. Manufacturers

A weaker peso lowers the dollar cost of Mexican payroll and peso-denominated local inputs, but reduces the dollar value of peso-denominated receivables and raises the peso cost of imported components and dollar-denominated obligations. Companies should revisit their FX hedging policies and budget assumptions for the fourth quarter and 2027.

Mexico Advances Its New Energy Framework as U.S. Fuel Risks Emerge

The Ministry of Energy (SENER) published the Hydrocarbons Sector Development Plan (PLADESHi), which establishes a 15-year planning framework covering the entire hydrocarbons value chain. The plan reinforces the government's focus on domestic production and energy security, including targets of 1.8 million barrels per day of liquid hydrocarbons and 5 billion cubic feet per day of natural gas. It also confirms the continued strategic role of natural gas and the growing relevance of mixed development structures involving Pemex and private participants.

In the power sector, SENER continued to refine the implementation schedule for priority generation, interconnection, and energy storage projects. Decisions under the Second Call for Applications are expected in early November, while the registration window for strategic energy storage projects remains open through October 30. The United States and Canada, meanwhile, continue to object to rules requiring the state utility to supply at least 54% of power dispatched to the grid, an issue that remains unresolved in the USMCA review.

Migration of Self-Supply and Cogeneration Projects

On September 8, SENER amended the guidelines governing the voluntary and expedited migration of self-supply and cogeneration projects into the framework established under the Electricity Sector Law, and later extended the migration process to January 2027. The amendment marks another step in the government's transition away from legacy electricity structures and toward the regulatory model introduced under the new legislation.

Potential U.S. Diesel Export Ban

President Trump has publicly backed the possibility of restricting U.S. diesel exports as his administration considers measures to address record domestic diesel prices. On September 27, Trump said he was considering a ban "very seriously," though the administration is also weighing alternatives such as voluntary export limits and a suspension

of the federal diesel excise tax. As of October 2, no decision had been announced, and several cabinet members have reportedly argued against a ban.

Implications for U.S. Manufacturers

Many manufacturing plants in Mexico still rely on legacy self-supply or cogeneration arrangements for competitively priced power. Companies with these assets should review their contractual, permitting, and supply structures on a project-by-project basis, since migration may affect long-term power supply arrangements, asset economics, and future investment decisions. Separately, given Mexico's significant reliance on U.S. diesel imports, any export restriction could affect fuel availability, freight and logistics costs, and backup generation at industrial sites.

What We Are Watching and Recommendations

USMCA and tariffs: Watch for the rescheduled fourth bilateral negotiating round and any developments regarding U.S. tariffs on steel, aluminum, and autos, including the possibility of an interim tariff arrangement after the November 3 midterms. Companies should model scenarios in which tariff relief is accompanied by stricter rules of origin.

Regional content: Map bills of materials against potential North American content requirements, prioritizing electronic and electrical components, where non-North American content is highest, and begin discussions with regional suppliers now.

Investment screening and compliance: Factor the proposed CNIE national security review regime into acquisition timelines and prepare for increased tax, customs, and fuel-supply enforcement under the 2027 budget.

Border operations: Maintain contingency procedures and buffer inventories to absorb further customs system outages, particularly at Nuevo Laredo.

Energy supply: Review any legacy self-supply or cogeneration arrangements ahead of the January 2027 migration deadline and assess exposure in logistics and backup-generation operations to a possible U.S. diesel export restriction.

Security and rhetoric: Expect U.S. campaign rhetoric on cartels to intensify through November. We do not anticipate a breakdown in bilateral cooperation, but we will continue to monitor for any spillover into trade policy.

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