

EUR/MXN Hits 22-Month Low

June 12th, 2026

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The strength of the Mexican peso and the risk of stagflation in the Eurozone stand out

Today, the EUR/MXN exchange rate showed an increase in its volatility, reaching a low not recorded since July 26th, 2024, at the \$19.86 mark in the interbank market, and extending its weekly decline by 1.4%. The day's movement corresponds to three factors: i) the restrictive bias of the European Central Bank (ECB) overshadowed by fears of stagflation, ii) global optimism about a possible agreement in the Middle East, and iii) the resilience of the Mexican peso supported by global risk appetite.

Yesterday, the [ECB raised its three interest rates](#) by 25 bps, bringing the deposit facility rate to 2.25%. This measure implied the first increase in almost three years and seeks to anticipate an inflationary rebound caused by the increase in energy prices and the disruption of global supply chains. Even though the market (in the OIS swap curve) anticipates a further increase until the September meeting, the euro remains under selling pressure. This is since ECB members revised upwards their inflation forecasts (3.0% for 2026 and 2.3% for 2027) while cutting annual GDP growth projections (0.8% in 2026 and 1.2% in 2027), which raised investors' fears about a possible stagflation scenario in the Eurozone.

On the other hand, optimism in global markets was strongly influenced by statements by President Donald Trump, who suggested the possibility of signing a peace agreement between the US and Iran over the weekend. This raised expectations of a reopening of the Strait of Hormuz, and moderated downside risks to supply chains and crude oil prices. In tune, the US dollar gave ground against its major counterparts and increased global risk appetite, which has partially mitigated the effects of the ECB's hawkish tone.

EUR/MXN spot: daily candle chart (2 years)



Source: Prepared by the authors with Refinitiv.

In contrast to the mostly negative bias observed this morning in the G10 basket of currencies, the Mexican peso stands out for its strength and is currently positioned in 10th place among the emerging currencies with the highest gains against the dollar, bringing the USD/MXN parity, which reached a minimum since May 14th at \$17.17 units. The favorable *carry trade*, given the expectations of monetary policy in Mexico and the US, as well as international optimism boosted institutional flows towards assets with greater risk exposure, which has accelerated the retreat of the EUR/MXN parity towards the 98-week low at \$19.86 *spot*.

What to expect?

Considering the above factors, we estimate that the EUR/MXN parity will continue with a bearish bias in the near term, conditioned by the progress of negotiations in the Middle East in the coming days. While the ECB maintains a firm tone in arguing that falling energy prices will not ease its concerns about core inflation, the bloc's low economic dynamism limits the European currency's sustained recovery in the near term.

From a technical perspective, the price returned below the downtrend line formed since April 2025, delimited at the psychological floor of \$20.00 units. At par, the two-week RSI (33.1 points) remains below its moving average; the MACD made a bearish crossover with its signal line, in negative territory, while its histogram threads three sessions with decreases, and the DMI shows a -DI much higher than +DI, with an ADX that resumes a positive slope, but trades at 13.7 points, which suggests that there is still weakness in the current trend. Currently, the price found support in the lower Keltner channel, bounded by two ATRs from the 20d EMA, and the %B confirms the breakout of the lower Bollinger Band. With this data, we determine that the technical evidence reinforces the expectation of a progressive bearish directional move, which will find support at \$19.83, \$19.75 and \$19.68 in the coming weeks. On the other hand, a bullish correction will seek to validate the resistances of \$19.99, \$20.05, and \$20.18.

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