

Holdings of Government Securities

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Foreign demand for short-term local debt grows

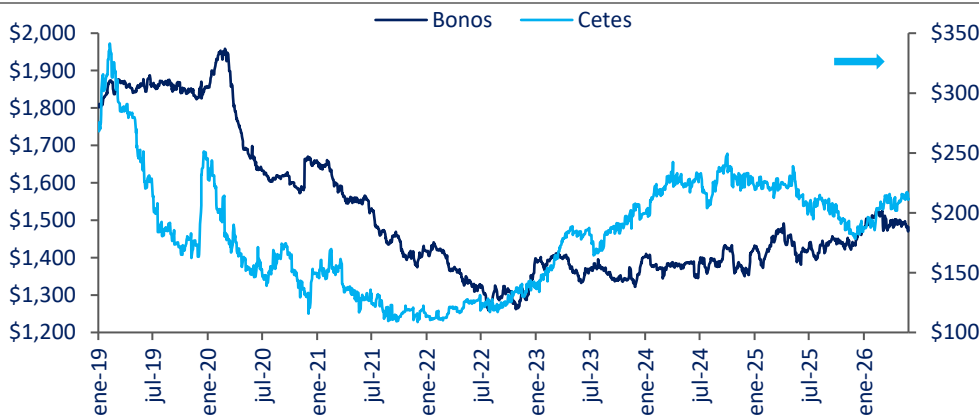
Banxico's data regarding the holding of government securities in the hands of residents abroad, corresponding to the end of May, showed a total of \$1,776.37 billion pesos (mmp). This amount represented 11.4% of the total outstanding securities, given that those in the hands of national residents totaled \$13,746.53 billion pesos in the same period.

Regarding local tenure, in its annual comparison it presented an increase of 13.9%. Within the total, the instruments with the highest participation were siefores (34.1%), investment companies (20.1%) and the banking sector (8.9%), which averaged an annual growth of 12.6% at the end of May.

On the other hand, government securities acquired by residents abroad presented an increase of \$7,330.77 million pesos in annual terms, which implied a growth of 0.4%. Within this figure, the holding of M Bonds was \$1,481.89 billion pesos and that of CETES was \$211.67 billion pesos, while the remaining 16.6% corresponds to other government instruments. In the month, the dynamics of foreign holdings were marked by [Banxico's latest monetary policy decision](#), where it cut the benchmark interest rate by 25 bps and suggested the end of its cycle of declines. This caused an upward adjustment in swap rates and reflected that the market began to discount greater inflationary pressures and possible increases towards the end of the year.

The data at the end of May confirm that, despite the marginal annual growth, there was a notable recomposition of external flows towards assets of shorter duration. While caution in the face of Banxico's new bias and global volatility reduced appetite for the long leg of the curve (causing a 1.2% monthly contraction in M Bonds), the rebound in high-rate expectations boosted demand for CETES (monthly increase of 1.4%), which consolidated the attractiveness of short-term yields.

Holding of government securities by foreign residents (mdp)



Source: Own elaboration with information from Bloomberg

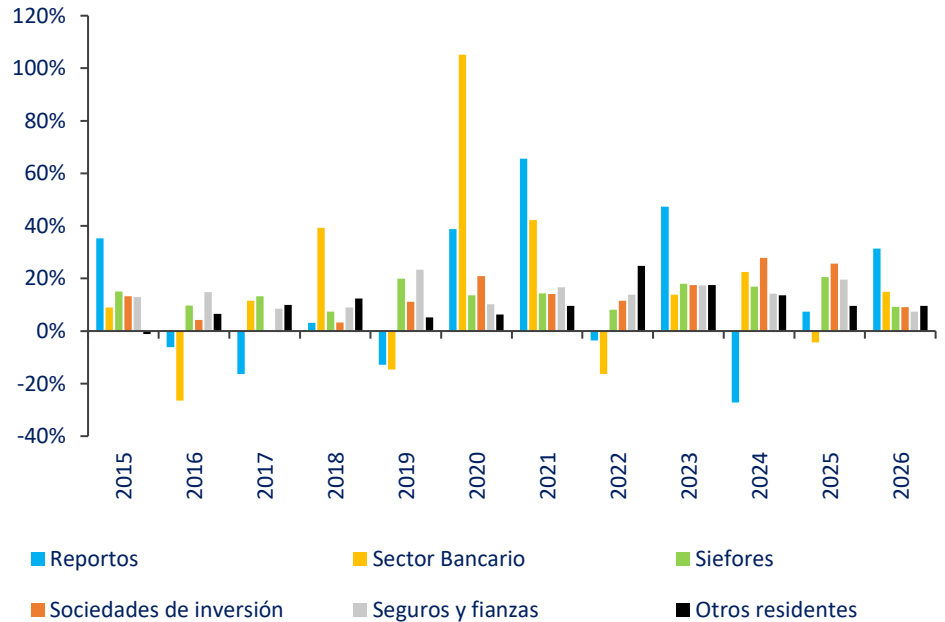
What to expect?

The current market dynamics reflect a latent stance of international caution in the face of geopolitical uncertainty and the attractiveness of safe-haven assets, where the dollar, measured through the DXY Index, rebounded from a low of almost ten weeks and closed the month with an appreciation of 0.9%. This supports that, in the medium term, the rate differential between Mexico and the US will remain the main support for the demand for foreign capital.

Going forward, the holding of local government securities by foreign investors will depend on the stability of this differential against the Fed, given that Banxico's benchmark interest rate is located at 6.50%, where its cycle of cuts has concluded. In addition, the widening of the spread between the one-year swap rate and the current interest rate, which peaked at +43 bps on May 19, confirms expectations of increases by the end of 2026. With this, the Governing Board's commitment to the stability of monetary policy could boost the attractiveness of *carry trade* strategies with pesos, consistent with the rebound in the holding of CETES.

In this regard, we believe that a possible recovery in economic activity in the second half of the year would act as an additional support for local debt instruments, provided that the development of geopolitical tensions allows the normalization of flows to emerging markets.

Annual Change in Resident Tenure in May



Source: Prepared by the authors with information from Banco de México

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