

High Implied Volatility for USD/MXN

October 30th, 2026

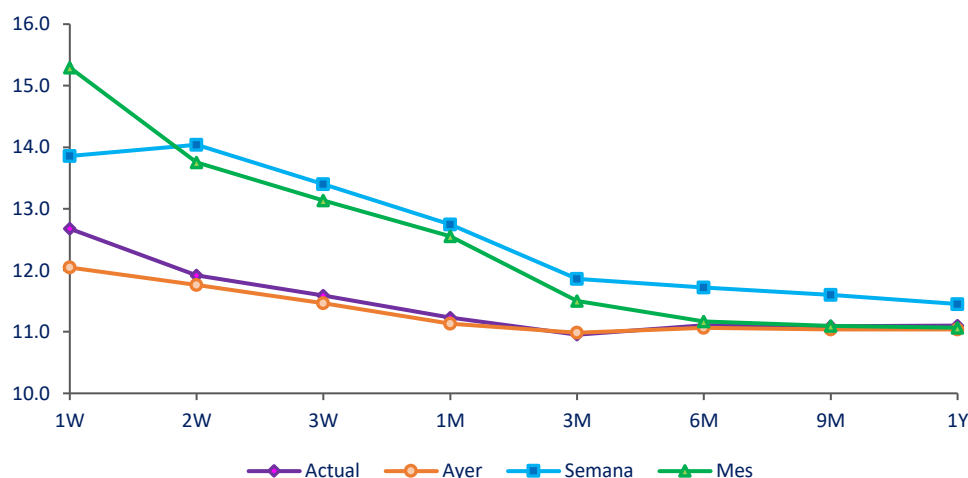
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- In October, the USD/MXN implied volatility curve remained inverted, as the one-week node outperformed long-term values, on the expectation of bullish continuity for the dollar.
- On the geopolitical front, limited progress in diplomatic negotiations and Trump's continued threats to escalate attacks in the Middle East keep a high risk premium on markets.
- Going forward, the outcome of the midterm elections in the US will be fundamental to determine the behavior of USD/MXN, although any downward correction will be limited by global risk appetite.

In October, the implied volatility metrics of the USD/MXN exchange rate registered significant increases, as investors' purchase of dollar options increased. In the month, the exchange rate parity accumulated an increase of approximately 4.2%, while the implied volatility curves remained inverted (short-term nodes above long-term nodes), reflecting a greater expectation of fluctuations for the parity on the immediate horizon. This corresponds to the following factors: i) the persistence of the geopolitical risk premium, ii) the closure of positions related to assets of emerging economies, and iii) the reconfiguration of monetary policy expectations for Banxico and the Fed.

On the geopolitical front, progress in diplomatic negotiations to reach a resolution and restore maritime transit through the Strait of Hormuz remains limited, as Tehran has mentioned that it will not accept US proposals until Iranian requests are met. While the effort of Qatar and Pakistan as mediators is still in process, President Trump is maintaining his threats to intensify attacks in the region after the midterm elections next Tuesday, November 3rd.

USD/MXN implied volatility curves (1-week to 1-year nodes)

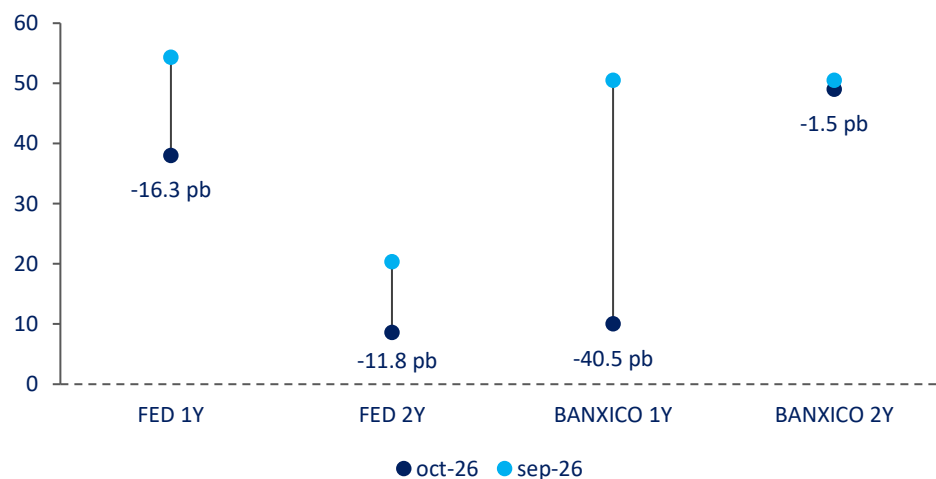


Source: Own elaboration with Bloomberg data.

Thus, the price of energy commodities continues to be pressured upwards, as Brent trades near its high in just over four years, \$117.4 dollars per barrel (dpb), while its moving average for the month rose to \$107.0 dpb, compared to \$97.2 dpb in the previous month. For its part, the WTI benchmark registers a monthly increase of 18.3%, averaging \$95.5 dpb (from the average of \$89.3 in September). This reinforces the expectation that the balance of risks for global inflation continues to be skewed upwards, a view that was confirmed by preliminary data from some Eurozone countries in October, where in Germany, the reduction of the gasoline tax helped to contain pressures in the world's largest economy.

On the other hand, investor concerns related to the technology sector and AI-related assets generated episodes of risk aversion in Asian markets. Given this, to reduce their general exposure to emerging markets, some managers sold Mexican pesos, because given its high liquidity, the currency operated as a *hedge proxy*, allowing portfolios to be adjusted quickly and efficiently without the need to directly liquidate the less liquid underlying assets. In this way, the behavior of the peso against the dollar in the last three weeks is partially supported, as the correlation between the two currencies has been negative.

1-year and 2-year swap spreads* for Banxico and the Fed



Source: Own elaboration with Bloomberg data.

* Differential between the current interest rate and the 1-year and 2-year swap.

Finally, after the [Federal Reserve's monetary policy decision](#) on October 28th, investors continued to adjust their forecasts on the direction of monetary policy in the US. The members of the FOMC decided, by a majority vote (10 to 2), to keep the target range of the federal funds rate between 3.75% and 4.00% unchanged, in line with the market consensus. Later, the comments of Kevin Warsh, chairman of the Fed, at the press conference stood out.

Warsh reiterated that ensuring the convergence of PCE inflation towards the 2% target remains the FOMC's main priority, so they will continue to evaluate the behavior of inflation, its determinants, and economic conditions in general to achieve this objective. He also mentioned that he considers it appropriate to maintain a schedule of eight annual FOMC meetings, but advanced that in 2027 one of these meetings will be dedicated exclusively to the discussion of strategic aspects of monetary policy, without contemplating a decision on the federal funds rate or a monetary policy statement. By 2028, it is expected that two of the eight meetings will be dedicated to strategy analysis, and the other six for monetary policy adjustments.

With this, expectations of interest rate increases towards October 2027 were moderated, as the differential between the current rate and the one-year swap was reduced to +38.2 bps, from +54.3 a month ago, confirming the forecast of an additional increase (currently fully discounted for January 2027), but less margin for a second increase towards the second half of the year. For its part, for Mexico, the expectation of stability in the benchmark interest rate (6.50%) is maintained, given the reading of the [latest minutes](#) of the Banxico Governing Board.

What to expect?

When comparing the levels of implied volatility of the USD/MXN, the moderation of investor demand for very short-term options stands out, although the slope of the curve continues to be inverted, in the face of geopolitical uncertainty and waiting for the [US midterm elections](#) next week. In this sense, the expectation of a divided Congress, with a probability of 91% for the House of Representatives to have a Democratic majority, and 61% for the Senate to also be led by this party, would imply a legislative blockade for Donald Trump's trade agenda, which could generate conditions of weakness for the dollar.

Considering the above and based on the current levels of the exchange rate and the implied volatility in one week, with a confidence interval of 68%, market participants anticipate a fluctuation range for USD/MXN between \$19.13 and \$18.47. While waiting to confirm the election result, we identify support at \$18.73, \$18.60 and \$18.41; on the other hand, resistances are located at \$18.92, \$19.10 and \$19.21.

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