

Balance of payments in 1Q17 – Capital account resents a difficult external backdrop

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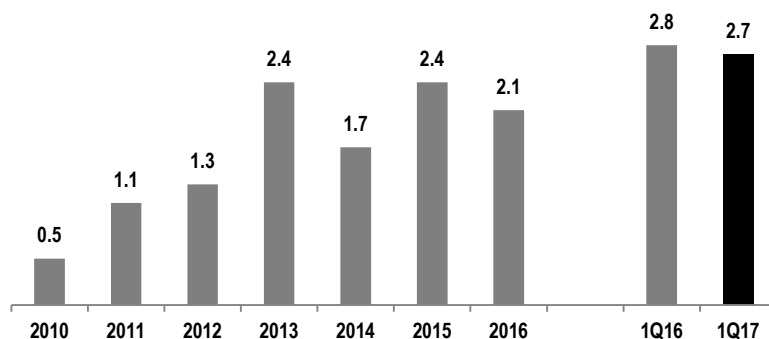
Delia Paredes
Executive Director of Economic Analysis
delia.paredes@banorte.com

- **Banxico just released balance of payments figures for 1Q17 under a new methodology**
- **Current account balance (1Q17): -US\$6.9bn (Banorte-Ixe: -US\$3.5bn; consensus: -US\$6.5bn; previous: -US\$2.4bn)**
- **Trade balance amounted to -US\$2.7bn, while services balance was -US\$2.2bn**
- **Meanwhile, remittances amounted to US\$6.6bn in the period in question, as already reported**
- **Net FDI flows amounted to US\$6.8bn in 1Q17**
- **Finally, there were net portfolio outflows for US\$8.9bn in 1Q17**

Banxico just released balance of payments figures for 1Q17 under a new methodology. According to the central bank, this new methodology is in compliance with the sixth edition of IMF’s balance of payment manual. The changes in the measurement are aimed at the implementation of international recommendations and standards, which allows the international comparability of statistics, as well as providing users with a higher level of information disaggregation.

According to Banxico, the current account deficit amounted to US\$6.9bn in 1Q17. This number is equivalent to 2.7% of GDP, and it was explained by a US\$2.7bn trade deficit in addition to the shortfalls observed in the services (-US\$1.7bn) and the income accounts (-US\$8.97bn). Meanwhile, remittances amounted to US\$6.6bn as it was already reported, 7% yoy above same period last year.

Current account deficit
% of GDP

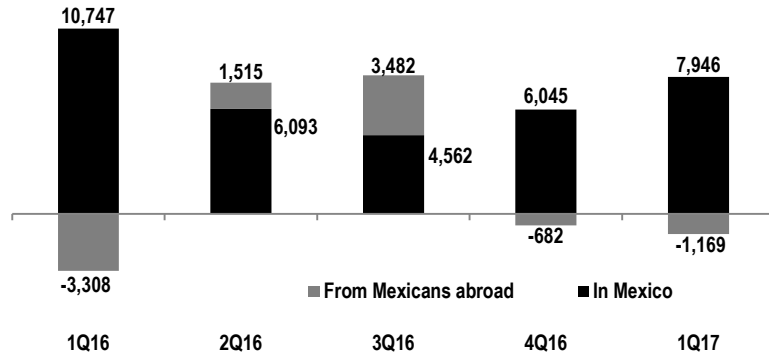


Source: Banxico

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The financial account showed a US\$1.8bn surplus. This was mainly explained by net inflows of US\$7.9bn in direct investment along with a net inflow of portfolio investments amounting to US\$8.8bn, while other investments subtracted US\$13.8bn. FDI flows to Mexico amounted to US\$7.9bn in the first quarter of the year, while investments of Mexican companies abroad totaled US\$1.2bn in the same period. It is worth noting that FDI flows into Mexico were mainly explained by Delta’s acquisition of part of the stocks of Aeromexico (~US\$620mn).

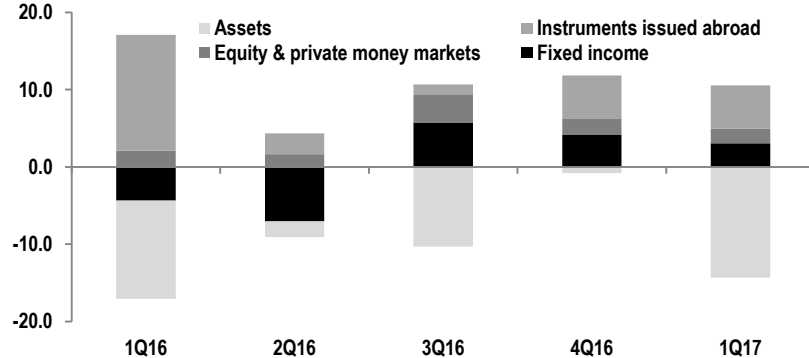
FDI flows
US\$mn



Source: Banxico

Total portfolio investment amounted to US\$8.8bn in 1Q17, US\$5.5 million less than in the same quarter last year. Flows to government bond markets amounted to US\$3bn in 1Q17, while US\$1.9bn went to equity markets and private money markets. Investments in instruments issued abroad totaled US\$5.6bn (US\$4.9bn in public instruments and another US\$703mn in private instruments). Finally, assets totaled US\$1.7bn in the period in question.

Portfolio investments
US\$bn



Source: Banxico

In our view, Mexico's external accounts in 1Q17 reflect uncertainty in the economic outlook. Even though current account deficit remained around 2.7% of GDP, in terms of flows, money markets continued to resent an adverse backdrop in global financial markets. In addition, uncertainty surrounding Mexico's economic outlook, resulted in lower levels of FDI. Nevertheless, the central bank accumulated international reserves for 679 million.

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GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Francisco José Flores Serrano	Economist, National	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Juan Carlos Alderete Macal, CFA	FX Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Víctor Hugo Cortes Castro	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates / Financials/ Mining / Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research Analyst – Airlines / Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454