

Trade balance – Modest deficit in July signals a possible rebound in activity

August 27, 2019

www.banorte.com
@analisis_fundam

Juan Carlos Alderete, CFA
Senior Economist, Mexico
juan.alderete.macal@banorte.com

Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

- **Trade balance (July): US\$-1,116.8mn; Banorte: US\$-511.9mn; consensus: US\$-466.0mn (range: US\$-1,919mn to US\$2,930mn); previous: US\$2,561mn**
- **Total exports picked up 1.1% m/m, not enough to compensate for the 4.1% decline of the previous month. This was driven by an advance of the same magnitude in non-oil, led by mining (17.7%). On the other hand, oil exports increased 0.6%**
- **This is the first monthly deficit since January, driven by a rebound in total imports (3.0% m/m), significantly stronger than the -4.9% in June. In particular, we saw higher imports in non-oil intermediate (4.6%) and consumption (2.7%) goods. Capital-goods imports remained weak, advancing only 1.2%**
- **On a year-to-date basis, the trade surplus moderated to US\$2,028 million, still significantly above the US\$7,338 million deficit of the same period of 2018**
- **In our view, the report suggests a possible rebound in activity and relative resiliency in external demand, with manufacturing holding up despite the global deceleration driven by trade tensions**

US\$1,116.8 million deficit in July. This figure was lower than our forecast (US\$-511.9 million) but slightly closer to consensus at US\$-466.0 million. It is important to note that this result came only after a record-high surplus in June at US\$ 2,561 million. Therefore, we view today's report as a partial payback from recent dynamics, with June possibly influenced by the threat of tariffs to all Mexican products by the US. The year-to-date balance moderated to a US\$2,028.5 million surplus, still significantly above the US\$7,338.4 million deficit in the same period of 2018. In the monthly dynamics, exports grew 7.0% yoy and imports 2.0%. Overall, we believe the result is positive as it signals relatively strong external demand, especially as non-oil exports and intermediate goods imports accelerated on an annual and sequential basis. On the other hand, the outlook for investment remains weak, with capital goods imports plunging 16.5% when compared to the same period of 2018. So far this year, exports accumulate a 4.2% yoy advance (from 3.7% in June), while imports have increased just 0.5% (previous: 0.2%) on weaker domestic demand.

Taking a look at exports, the oil sector fell 14.1%, slightly stronger than our -16.6% and the previous month at -20.4%. Crude-oil stood at -17.6%, while other oil exports were up 21.9%. The former was driven by the 11.6% fall in the price of the Mexican oil mix –average of 58.61 US\$/bbl– while Pemex reported exports' volumes down 6.7%. Non-oil exports accelerated to 8.6%, highest since October 2018. All categories were positive, with manufacturing at +7.9%, led by the auto sector (12.6%), which was even higher than AMIA figures (+9.5%); the non-auto sector increased 5.4%.

Document for distribution among public

Imports performed better, up 2.0% yoy from the -7.8% observed in June, which was a very weak print. This was driven by the non-oil sector (+4.7%), with oil-related goods plunging 16.8%. In the first case, the strongest advance was in consumption goods (9.2%), albeit with intermediate goods also positive at 7.3% in our view reinforcing the positive signal in manufacturing exports as this category is closely related to the sector. On the other hand, capital goods remain weak, down 16.5%, adding four months in contraction. In the latter, oil-related consumption contracted 18.7%, influenced by US gasoline prices which were higher sequentially but below the level in the same month of 2018.

Trade Balance in July

% yoy, nsa

	Jul-19	Jul-18	Jan-Jul'19	Jan-Jul'18
Total exports	7.0	1.2	4.2	11.5
Oil	-14.1	-20.4	-10.1	43.3
Crude oil	-17.6	-19.0	-9.1	53.0
Others	21.9	-28.5	-16.7	1.9
Non-oil	8.6	2.8	5.2	9.7
Agricultural	30.7	4.9	6.9	8.1
Mining	6.7	-7.3	-6.3	26.9
Manufacturing	7.9	2.9	5.4	9.5
Vehicle and autoparts	12.6	4.4	7.1	12.9
Others	5.4	2.0	4.4	7.7
Total imports	2.0	-7.8	0.5	12.4
Consumption goods	-0.7	-7.1	-2.2	14.3
Oil	-18.7	-9.7	-6.8	40.7
Non-oil	9.2	-5.7	-0.1	5.3
Intermediate goods	5.0	-6.2	2.0	11.8
Oil	-15.7	-23.5	-5.8	37.8
Non-oil	7.3	-4.2	2.8	9.6
Capital goods	-16.5	-21.2	-7.5	15.0

Source: INEGI

With seasonally-adjusted figures, performance was stronger in the non-oil sector, including manufacturing. Specifically, non-oil exports were up 1.1% after falling 3.4% m/m in June. Agricultural and mining advanced at a double-digit pace, although their share remains relatively modest. Therefore, we highlight the 3.4% advance in the auto sector, compensating for the -0.9% observed in June and the highest since September 2018. Regarding imports, in our view the most positive was intermediate goods, advancing 4.6%. We also see as favorable the 2.7% in consumption goods, particularly after two consecutive months with a muted performance. In our view, this could signal a better performance in domestic consumption as retail sales in June were weak. In contrast, capital goods stayed weak, advancing 1.2% but only after plunging 11.3% in the previous month, so it remains hovering near three year lows.

In the oil-sector, results were mixed. Crude-oil exports were slightly better, with the total dragged by others (-2.0%). Imports plunged, both in consumption- (-12.0%) and intermediate-goods (-2.1%). We see the former as positive as volumes look to be stabilizing, although we can't discard that imports may be declining on lower demand due to more modest economic activity.

Trade Balance in July

% m/m sa

	Jul-19	Jun-19	May-19
Total exports	1.1	-4.1	4.2
Oil	0.6	-14.1	5.1
Crude oil	1.0	-14.1	7.3
Others	-2.0	-13.9	-7.9
Non-oil	1.1	-3.4	4.2
Agricultural	13.1	3.0	-1.1
Mining	17.7	-21.0	31.2
Manufacturing	0.4	-3.4	4.0
Vehicle and autoparts	3.4	-0.9	1.7
Others	-1.4	-4.7	5.3
Total imports	3.0	-4.9	2.0
Consumption goods	-1.9	-1.1	-0.9
Oil	-12.0	-4.0	2.3
Non-oil	2.7	0.2	-2.4
Intermediate goods	4.0	-4.8	2.6
Oil	-2.1	-13.9	5.8
Non-oil	4.6	-3.9	2.3
Capital goods	1.2	-11.3	0.8

Source: INEGI

The report suggests a potential rebound in activity. First, we see the relatively better performance of non-oil consumption goods imports as a tentative sign of a pickup in domestic demand, which has been decelerating. Second and as mentioned above, we also see as positive that non-oil exports and imports related to manufacturing gathered steam, particularly considering heightened trade tensions. Apart from the recent threat by the US administration to impose tariffs on all Mexican exports, problems with China scaled as the latter country responded to recent announcements of the Trump administration. As we have previously observed, we believe the impact of these on global uncertainty and activity will likely be more negative than the potential benefit for Mexico of more privileged access to the US market as observed in a higher market share for our country.

On the other hand, US industrial production held up relatively well in key sectors, such as autos (+0.9% m/m sa in June). Nevertheless, we warn about reading this in an overtly optimistic fashion, as the context remains challenging. In this respect, the US PMI manufacturing stood at 49.9pts in August, a new low and in contraction for the first time since at least late 2016. According to the ISM, business imports reached at 47.0pts in July, also a new minimum in three years. Overall, difficulties for industry will likely remain in coming months, although we are less concerned than when we first saw June data.

Regarding capital goods imports, the report does not support the possibility of a better performance going forward. In this context, it remains key to evaluate the dynamics as the environment is characterized by low business confidence, particularly the “adequate moment to invest” component, with the index in all sectors at new year-to-date lows. We maintain our view that these could improve gradually and by the end of the year as the government increases investment outlays and the outlook for the private sector gets better.

Disclaimer

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

Analyst Certification.

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldivar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Luis Leopoldo López Salinas, Jorge Antonio Izquierdo Lobato and Leslie Thalia Orozco Vélez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

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
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Luis Leopoldo López Salinas	Analyst, Global Economist	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
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
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research – Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials / Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts / Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
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	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Manager, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

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 Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454