Balance of payments – Lower energy prices and volatility affect external accounts in 3Q15

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- **Current account balance (3Q15): -US$8.9bn; Banorte-Ixe: -US$8.1bn; consensus: -US$8.1bn; previous: -US$7.6bn**
- **Trade balance amounted to -US$9.9bn, while the income balance posted a US$5.6bn deficit**
- **FDI flows amounted to US$15.1bn year to date (US$9.6bn in Jan-Sep'14)**
- **Finally, net portfolio investments totaled US$933 million in 3Q15 affected by volatility in international markets**

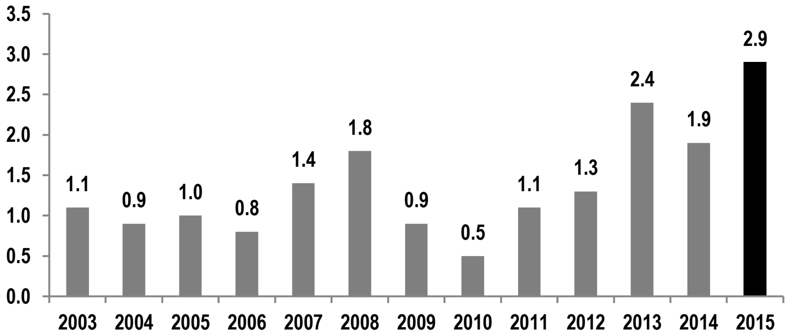
According to Banxico, the current account deficit amounted to US$8.9bn in 3Q15. This number is equivalent to 2.9% of GDP, and was explained by a US$9.9bn trade deficit, in addition to the shortfall observed in the income account (-US$5.4bn). Moreover, remittances amounted to US$6.4bn, qhich implies a 11.4% yoy expansion. Year-to-date, remittances amount to US$18.3bn, 7.2% yoy higher than in Jan-Sep,'14.

Current account
US$mn

	Sep-15	Jun-15	Jan-Sep,'15	Jan-Sep,'14
Current account	-8,856	-7,561	-24,741	-18,896
Good and services balance	-9,852	-3,975	-17,969	-11,186
Goods	-6,456	-1,823	-10,448	-1,777
Merchandise	-6,469	-1,852	-10,521	-2,019
Exports	96,094	98,134	284,631	293,749
Imports	102,562	99,985	295,153	295,768
Procured in ports by carriers	13	29	73	242
Services	-3,396	-2,153	-7,521	-9,409
Primary balance	-5,404	-9,806	-25,028	-24,744
Net transfers	6,401	6,220	18,256	17,034
Oil balance	-3,686	-1,422	-6,948	2,663
Non-oil balance	-2,783	-430	-3,573	-4,682

Source: Banxico

Current account
% GDP



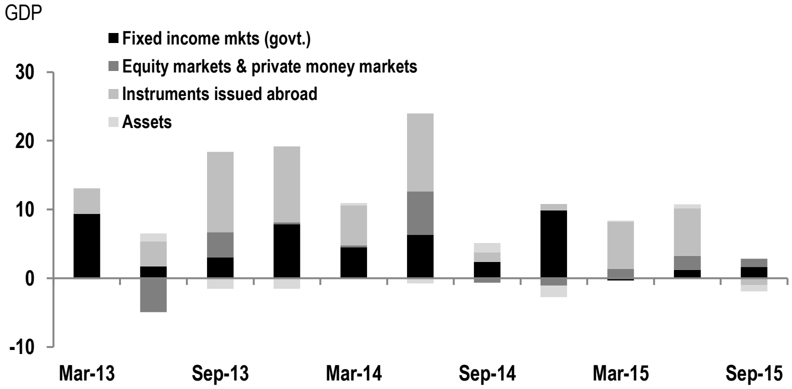
Source: Banxico

Significant fall in oil exports. According to Banxico, exports fell 5% driven by the 44.9% yoy drop in oil exports and the 0.2% reduction in non-oil. In the first case, the reduction was explained by the decline in oil prices and a marginal increase in export volumes. Moreover, the fall in non-oil exports was explained by a 2% yoy hike in auto exports and an 1.3% reduction in the non-auto exports.

The financial account showed a US$8.3bn surplus. This was mainly explained by net US$7.6bn FDI inflows along with a net portfolio inflow investments of US$933mn, while other investments added US$266mn. FDI flows to Mexico amounted US$7.1bn in the third quarter of the year, while investments of Mexican companies abroad fell by US$483mn in the same period.

Portfolio investment resented the volatility in global financial markets. Total portfolio investment amounted to US$933mn in 3Q15, US$3.5 billion less than in 3Q14. Flows to government bond markets amounted to US$2bn (vs. US$2.9bn in 3Q14), while US$240mn were taken from the equity and private money markets.

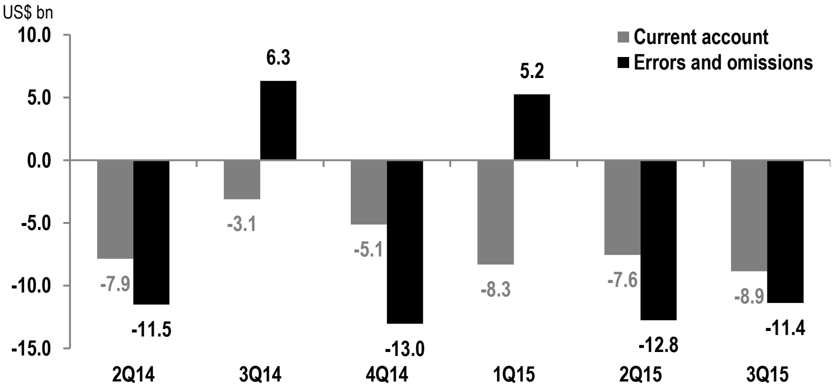
Current account
% GDP



Source: Banxico

Errors and omissions are higher than the current account deficit. Within Banxico's report, the *errors and omissions* entry posted a significant spike. We highlight that in 5 of the last 6 *Balance of Payments* reports (BoP) the *errors and omissions* entry has been considerably higher than the current account balance (refer to chart below). Recall that within the *Balance of Payments* reports the *errors and omissions* entry is labeled as a balancing item or statistical discrepancy. That item is intended as an offset to the overstatement or understatement of the recorded components (OECD). Given that for some time this balancing item has been significantly higher than the overall current account balance, Banxico could improve the overall measurement of Mexico's BoP.

Current account balance vs. errors and omissions



Source: Banorte-Ixe; Banxico

In our view, Mexico's external accounts resented an unfavorable global backdrop in 3Q15. Current account deficit has deteriorated as a result of lower levels of oil export, but that have been offset by the dynamism of the car industry, which has translated in higher manufacturing exports. In terms of flows, money markets are resenting the volatility of global financial markets, international reserves decreased US$3.5bn during the period in question, while foreign direct investment continues flowing amid the recovery of economic activity and the implementation of structural reforms.

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