

Banxico minutes – Hawkish tone highlighting possible demand-side pressures

- **Current account balance (2Q16): -US\$7.9bn (Banorte-Ixe: -US\$5.6bn; consensus: -US\$7bn; previous: -US\$7.6bn)**
- **Trade balance amounted to -US\$3.1bn, while services balance was -US\$1.8bn**
- **Meanwhile, remittances amounted to US\$7bn in the period in question, as already reported**
- **FDI flows amounted to US\$14.4bn year to date (US\$5.4bn in 2Q16)**
- **Finally, net portfolio investments have totaled US\$7.4bn year to date, with a US\$4.8bn outflow in 2Q16**

According to Banxico, the current account deficit amounted to US\$7.9bn in 2Q16. This number is equivalent to 3% of GDP, and it was explained by a US\$3.1bn trade deficit in addition to the shortfalls observed in the services (-US\$1.8bn) and the income accounts (-US\$9.9bn). Meanwhile, remittances amounted to US\$7bn as it was already reported, 9.4% yoy above same period last year. Year-to-date, remittances amounted to US\$13.2bn, 8.9% yoy higher than in Jan-Jun, '15.

The poor performance of exports in 2Q16 is explained by the contraction in both oil and non-oil exports. This was a result of a fall in the average price of Mexican crude oil (from 52.9dpb in 2T15 to 36.5dpb), as well as lower export platform, which went from 1.066mdbd, in the second quarter of last year to 1.129mdbp in 2Q16. Meanwhile, imports decreased 3.2% as a result of reductions in imports of consumer goods (-7%); in intermediate goods (-2.3%); and capital goods (-4.4%).

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Current account in 2Q16

US\$bn

| | Jun-16 | Mar-16 | Jan-Jun,'16 | Jan-Jun,'15 |
|--------------------------|------------------|------------------|--------------------|--------------------|
| Current account | -7,852.2 | -7,597.3 | -15,449.5 | -17,256.3 |
| Revenues | 107,848.6 | 100,130.3 | 207,978.9 | 217,684.9 |
| Exports | 93,774.4 | 85,226.3 | 179,000.7 | 188,676.8 |
| Services (non-factorial) | 5,854.6 | 6,311.5 | 12,166.1 | 12,516.3 |
| Tourism | 4,805.3 | 5,258.1 | 10,063.4 | 9,319.8 |
| Transport | 328.8 | 366.9 | 695.7 | 754.1 |
| Other | 720.5 | 686.5 | 1,407.0 | 2,442.4 |
| Primary income | 1,160.6 | 2,287.9 | 3,448.5 | 4,188.0 |
| Interest | 636.5 | 663.4 | 1,299.9 | 1,175.6 |
| Other | 524.1 | 1,624.5 | 2,148.6 | 3,012.4 |
| Transfers | 7,058.9 | 6,304.6 | 13,363.6 | 12,303.9 |
| Remittances | 6,952.2 | 6,204.2 | 13,156.4 | 12,076.9 |
| Other | 106.7 | 100.4 | 207.1 | 227.0 |
| Spending | 115,700.7 | 107,727.6 | 223,428.4 | 234,941.2 |
| Imports | 96,883.0 | 89,197.9 | 186,080.9 | 192,770.2 |
| Services (non-factor) | 5,749.7 | 5,474.3 | 14,980.1 | 16,500.6 |
| Freights & insurance | 2,603.6 | 2,349.1 | 4,952.8 | 4,936.2 |
| Tourism | 2,391.7 | 2,289.3 | 4,681.0 | 4,751.3 |
| Transportation | 754.3 | 835.9 | 1,590.3 | 1,757.3 |
| Services (factor) | 1,868.1 | 1,888.0 | 3,756.1 | 5,055.7 |
| Comissions | 29.7 | 53.6 | 83.3 | 167.0 |
| Other | 1,838.4 | 1,834.4 | 3,672.8 | 4,888.7 |
| Primary spending | 11,025.2 | 10,977.4 | 22,002.6 | 25,222.2 |
| Remitted earnings | 1,292.9 | 1,166.4 | 2,459.4 | 3,418.7 |
| Reinvested earnings | 2,028.8 | 4,234.1 | 6,262.8 | 8,895.6 |
| Interests | 7,703.5 | 5,576.9 | 13,280.4 | 12,908.0 |
| Public | 4,459.0 | 2,425.1 | 6,884.1 | 6,731.0 |
| Private | 3,244.5 | 3,151.9 | 6,396.3 | 6,176.9 |
| Transfers | 174.8 | 190.0 | 364.8 | 448.3 |
| Trade balance | -3,108.6 | -7,597.3 | -15,449.5 | -17,256.3 |
| Services balance | -1,763.2 | -1,050.8 | -6,570.1 | -9,040.0 |
| Primary balance | -9,864.6 | -8,689.5 | -18,554.1 | -21,034.2 |
| Net transfers | 6,884.1 | 6,114.6 | 12,998.8 | 11,855.6 |

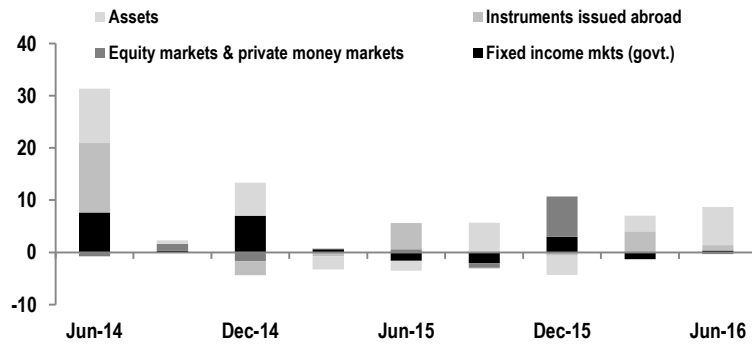
Source: Banxico

The financial account showed a US\$6.2bn surplus. This was mainly explained by net inflows of US\$5.7bn in direct investment along with a net outflow of portfolio investments amounting to US\$4.8bn, while other investments added US\$5.3bn. FDI flows to Mexico amounted to US\$5.4bn in the second quarter of the year, while investments of Mexican companies abroad totaled US\$331mn in the same period.

Outflows in portfolio investment amounted to US\$4.8bn in 2Q16 vs. the US\$10.6bn inflow observed in same period last year. There was a US\$7bn outflow from government bond markets (vs. +US\$1.2bn in 2Q16) while +US\$1.7bn went into equity markets and private money markets. Investments in instruments issued abroad totaled US\$0.9bn (US\$1.6bn in public instruments minus US\$0.6 from private instruments). Finally, assets totaled US\$330.3mn in the period in question.

Quarterly portfolio investment flows

US\$bn



Source: Banorte Ixe with data from Banxico

In our opinion, the deterioration in the balance of payments reflects an adverse external environment. A more hawkish Fed, coupled with concerns over China and other geopolitical risks have caused a significant reduction in risk appetite levels, which we see reflected in the portfolio investments. In addition, the slowdown in the US economy affects the rate of expansion of exports, particularly in the car industry. To this we must add the reduction observed both in the export platform and the price of oil.

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