Economic Research

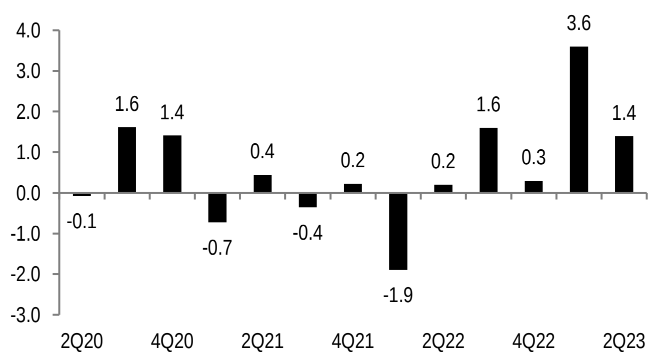
Mexico

Current account – Short-term effects shape the surplus in 2Q23

- **Current account (2Q23): US$6.2 billion (1.4% of GDP); Banorte: US$4.3bn; consensus: US$3.4bn (range: -US$4.2bn to US$4.3bn); previous: -US$14.3bn**
- **We highlight modest deficits in both goods and services (-US$5.8 billion) and primary income (-US$4.1 billion), and a larger surplus (US$16.2 billion) in secondary income**
- **The capital account had a US$10.7 million deficit**
- **The financial account showed net lending (*i.e.* outflows) of US$6.9 billion. These concentrated in portfolio investment and financial derivatives, although partly offset by inflows in FDI**
- **The performance in the quarter was largely determined by circumstantial factors, such as oil prices, the appreciation of the MXN, additional monetary tightening in some countries, and the spread between local and foreign rates**
- **We expect a deficit in the current account in 3Q23, paying attention to energy prices and the performance of the US economy which could have a relevant impact on trade balance figures. In addition, and despite MXN strength, we believe that remittances will continue remain as a key driver for the balance**

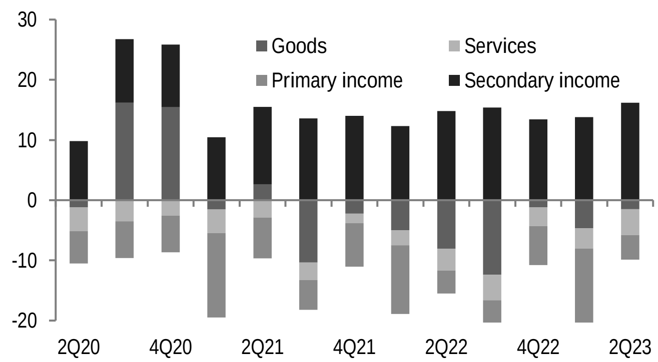
Current account surplus in 2Q23, with circumstantial factors in play. The balance resulted in +US$6.2 million (1.4% of GDP). Among the several factors that influenced the figure, we highlight: (1) Lower oil prices; (2) the strength of the Mexican peso (averaging 17.72 USD/MXN); (3) less fears about a recession in the US, with a solid job market but somewhat weak manufacturing production; (4) a slowdown in activity in other relevant regions (*e.g.* China and Eurozone); (5) a moderation in disruptions on international trade; and (6) prevailing tightness in monetary policies across the globe.

Current account
% of GDP



Source: Banxico

Current account composition (sum of balances)
US$ billion



Source: Banxico

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More modest deficits in the trade balance and primary income, with remittances still strong. Both 'goods and services' and 'primary income' posted deficits once again, with secondary income maintaining its usual surplus. However, the magnitude of the total flows is relevant. Goods and services had a negative balance of US$5.8 billion, with goods resulting at -US$1.5 billion, noting: (1) A relevant contraction in oil imports vs. the previous quarter –partly driven by lower prices; and (2) higher non-oil imports, supported by the strength of the Mexican peso. On the other hand, services posted a deficit of US$4.3 billion. Inside, outflows related to transportation services (-US$5.4 billion) were higher than inflows from travel (US$5.1 billion). Lastly, this account closed its deficit thanks to 'technology' (-US$1.2 billion), 'intellectual property' (-US$725 million) and 'insurance and pensions' (-US$804 million), among others.

Primary income moderated its balance vs. the previous quarter with US$4.1 billion deficit, in line with expectations, noting a more favorable seasonality. The main drivers were outflows in 'interests' (-US$4.2 billion) and 'profits and dividends' (-US$753 million). Once again, the flows are large and the proportion of these accounts relative to the general balance has increased, which we attribute to a high interest rate environment. The surplus in secondary income was higher than in the previous quarter, coming in at US$16.2 billion. Remittances from the US were favored by the seasonality from Mother's Day, bolstered by strength in the labor market. Finally, the capital account had US$10.7 million deficit.

Balance of payments
US$ billion

	2Q23	1Q23	2Q22	1Q22	Jan-Jun'23	Jan-Jun'22
Current account	6.2	-14.3	-0.7	-8.1	-8.1	-8.8
Balance on goods and services	-5.8	-8.1	-11.7	-8.0	-13.9	-19.7
Balance on goods	-1.5	-4.7	-8.1	-4.9	-6.2	-13.1
Balance on services	-4.3	-3.3	-3.6	-3.1	-7.6	-6.7
Balance on primary income	-4.1	-20.0	-3.8	-12.5	-24.1	-16.3
Balance on secondary income	16.2	13.8	14.9	12.4	30.0	27.2
Capital account	-0.1	1.0	0.0	0.0	0.9	0.0
Financial account	6.9	-12.3	-0.1	-7.6	-5.4	-7.7
Financial account excluding reserve assets	2.6	-16.9	3.3	-11.5	-14.3	-8.2

Source: Banxico

Fewer FDI inflows, with relevant outflows in portfolio investment. The financial account resulted in a net lending (*i.e.* outflows) of US$6.9 billion. As a context for these results, it is worth noting: (1) Inflows via productive investment continued in the period, due to the nearshoring effect; and (2) fewer fears of a potential US recession, with inflation still moderating.

By accounts, direct investment continues as the main receiver of flows, with +US$3.1 billion. Relevant outflows were seen in both portfolio investment at US$3.8 billion and 'financial derivatives' at US$2.9 billion. On the contrary 'other investments' remained as a net borrower (*i.e.* inflows) with US$1.0 billion. Finally, errors and omissions closed the balance of payments at +US$639 million.

Financial account
US$ billion

	2Q23	1Q23	2Q22	1Q22	Jan-Jun'23	Jan-Jun'22
Financial account	6.9	-12.3	-0.1	-7.6	-5.4	-7.7
Direct investment	-3.1	-19.4	-2.1	-15.4	-22.5	-17.4
Portfolio investment	3.8	-1.5	5.1	2.7	2.3	7.8
Financial derivatives	2.9	2.2	3.3	-0.4	5.1	2.9
Other investment	-1.0	3.5	-3.0	1.5	2.5	-1.4
Reserve assets	4.3	2.9	-3.5	3.9	7.2	0.5

Source: Banxico

We anticipate a deficit in the current account in 3Q23, with larger moves in the trade balance and primary income. We believe activity in the US will continue to provide dynamism to the trade balance, with higher flows of goods. However, the strength of the MXN could deepen the primary income deficit via the net flow of trips, on top of pushing additional imported goods. Other factors which could influence flows include: (1) Expectations of additional monetary tightening in the US and in the Eurozone, contrasting with easing cycles in China and other EMs –especially due to their impact on capital flows; and (2) the performance of commodities–particularly oil given weakness in Chinese demand and production restrictions by Saudi Arabia and other OPEC+ countries. In the domestic front, we anticipate that consumption will continue to drive demand. In this sense, we expect non-oil imports to continue their positive trend. Finally, we must note that remittances tend to moderate slightly in the third quarter, which could also influence the final result.

Regarding the financial account, we expect interest rate differentials to be key drivers for performance. In this context, 'portfolio investment', 'financial derivatives' and 'other investments' could be benefited by the start of easing in some peers (*e.g.* Chile and Brazil), although not ruling out an impact from the compression in the spread with the US. However, we remain cautious on potential episodes that could trigger risk aversion episode and/or uncertainty in financial markets. Regarding direct investment, the final balance will continue to be driven by the arrival of productive investment, boosted by the nearshoring effect.

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Juan Carlos Mercado Garduño, Daniel Sebastián Sosa Aguilar, Jazmin Daniela Cuautencos Mora and Andrea Muñoz Sánchez, 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.

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