

## Current account – Surplus in 3Q23 driven by remittances, along with a modest trade deficit

- Current account (3Q23): US\$2.6 billion (0.6% of GDP); Banorte: US\$3.4bn; consensus: US\$2.8bn (range: US\$1.5bn to US\$7.9bn); previous: US\$6.2bn
- There were deficits in both goods and services trade (-US\$9.3 billion), as well as in primary income (-US\$4.8 billion). However, secondary income posted a US\$16.7 billion surplus.
- Moreover, the capital account had a US\$43.7 million deficit
- The financial account showed net lending (i.e. outflows) of US\$4.3 billion. We highlight relevant outflows in portfolio investments, while 'other investments' had relevant inflows. Direct investment showed net outflows
- Dynamism in trade, a strong MXN, high interest rates globally, and remittances' growth were some of the main drivers behind flows during the period
- We expect trade to remain resilient for 4Q23 –possibly resulting in a modest surplus. However, and as usual for the last quarter, other lines within primary income and remittances (within secondary income) will be the main determinants of flows

**Current account surplus for a second quarter in a row.** The balance came in at +US\$2.6 billion (0.6% of GDP). Flows were influenced by: (1) A better-than-expected performance in US activity –although still limited by a change in consumption patterns, skewed towards services; (2) an upward trend in oil prices; (3) the relative strength of the Mexican peso (averaging 17.98 USD/MXN vs 20.23 per dollar in the same period of the previous year); (4) a more notable divergence in global monetary actions, with some EMs starting with cuts, while the tone from central banks in advanced economies was still more hawkish; and (5) relevant moves in long-term interest rates, introducing more volatility in financial assets.

**Surplus once again explained by remittances' strength.** As expected, 'goods and services' and 'primary income' were in deficit, with the surplus in secondary income more than enough to compensate for them. Detailing the magnitude of flows, the first showed a US\$9.3 billion deficit, considerably lower than in 3Q22. Goods alone came in at -US\$3.7 billion, noting: (1) A smaller deficit in the oil sector relative to the previous year; and (2) a surplus on non-oil items –explained by the auto sector recovery and despite an acceleration in imports. These moves were justified by lower oil prices relative to 3Q22, as well as Mexican peso strength. On the other hand, services registered a US\$5.6 billion deficit. Inside, net outflows related to transportation (-US\$5.8 billion) were higher than net inflows from international travelers (US\$3.9 billion). Lastly, this account closed its deficit given negative balances in 'financial services' (-US\$952 million) and 'insurance and pensions' (-US\$415 million), among others.

### Balance of payments

US\$ billion

	3Q23	2Q23	3Q22	2Q22	Jan-Sep'23	Jan-Sep'22
<b>Current account</b>	<b>2.6</b>	<b>3.5</b>	<b>-6.4</b>	<b>-1.9</b>	<b>-13.9</b>	<b>-20.6</b>
Balance on goods and services	-9.3	-6.5	-16.9	-11.5	-24.9	-37.5
Balance on goods	-3.7	-1.5	-12.9	-8.1	-10.1	-25.8
Balance on services	-4.2	-5.0	-4.0	-3.5	-14.7	-11.7
Balance on primary income	-4.8	-6.2	-4.9	-5.2	-35.7	-25.8
Balance on secondary income	16.8	16.2	15.4	14.9	46.7	42.7
<b>Capital account</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.0</b>
<b>Financial account</b>	<b>4.3</b>	<b>3.9</b>	<b>-7.0</b>	<b>-0.4</b>	<b>-8.9</b>	<b>-19.1</b>
Financial account excluding reserve assets	4.4	-0.4	-7.7	3.0	-16.0	20.3

Source: Banxico



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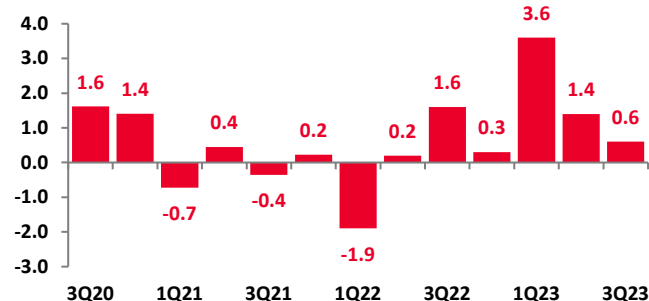
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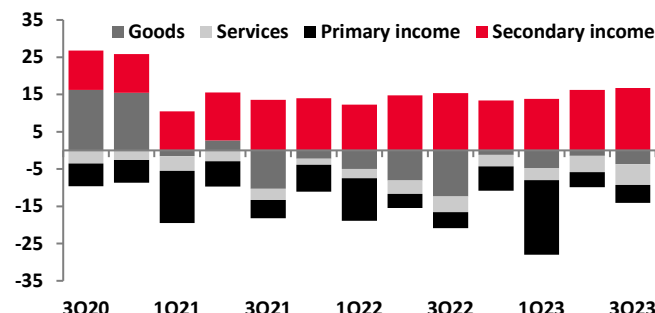
**Primary income posted a -US\$4.8 billion but was more than compensated by remittances' inflows.** The main drivers were outflows due to 'interest' (-US\$5.4 billion) and 'profits and dividends' (-US\$173 million). Consistent with recent quarters, high interest rates could be impacting these flows. Lastly, the main engine was secondary income, posting a US\$16.7 billion surplus. Inflows from remittances remain strong, with US dynamism –along with its labor market– supporting despite a somewhat challenging seasonality. Finally, the capital account posted a US\$43.7 million deficit.

**Current account**  
% of GDP



Source: Banxico

**Current account composition (sum of balances)**  
US\$ billion



Source: Banxico

**Outflows in portfolio and direct investments.** The financial account resulted in net lending (i.e. outflows) of US\$4.3 billion, characterized by: (1) Higher direct investment by locals in the rest of the world (US\$3.7 billion) relative to investments received from abroad (US\$1.9 billion); and (2) less fears about a potential US recession, with inflation still moderating. Portfolio investment posted a net outflow of US\$7.5 billion, with 'direct investment' providing another US\$1.8 billion in outgoing flows. On the contrary, 'other investments' totaled net inflows of US\$5.4 billion. Finally, 'errors and omissions' closed the balance of payments with +US1.7 billion.

**Financial account**  
US\$ billion

	3Q23	2Q23	3Q22	2Q22	Jan-Sep'23	Jan-Sep'22
<b>Financial account</b>	<b>2.6</b>	<b>3.5</b>	<b>-6.4</b>	<b>-1.9</b>	<b>-8.9</b>	<b>-19.1</b>
Direct investment	1.8	-5.3	-2.1	-3.4	-27.9	-23.6
Portfolio investment	7.5	4.1	0.3	5.2	9.8	8.8
Financial derivatives	0.5	3.0	-0.2	2.5	5.5	2.0
Other investment	-5.4	-2.1	-5.7	-1.3	-3.4	-7.4
Reserve assets	-0.1	4.3	0.7	-3.5	7.0	1.2

Source: Banxico

**Seasonal patterns and other drivers will likely result in a current account surplus in 4Q23.** Considering timely data for 4Q23 –economic activity, energy price dynamics, interest rate levels– on top of usual seasonal biases, we believe that the current account will post a surplus in the last quarter of 2023.

We expect some trends already observed in recent quarters to continue. In this regard, it is worth highlighting: (1) Some MXN volatility, although consolidating once again lower since mid-November; (2) a possible uptick in energy prices; albeit with some doubts ahead of the OPEC+ meeting which will be held later in the week; (3) strong fundamentals for consumption locally; (4) signs of auto sector strength despite the strike in the US through September and October; (5) further divergence on monetary policy cycles, with tipping points for stopping or easing across some economies now in sight.



The financial account will continue to be influenced by both interest rate differentials and the risk aversion caused by current geopolitical factors (e.g. wars in the Middle East and Ukraine) along other factors which have resulted in increased market volatility. In this context, the 'portfolio investments', 'financial derivatives', and 'other investments' accounts could benefit from accommodative cycles by some peers (e.g. Chile and Brazil). Finally, direct investment will likely continue to be driven by nearshoring trends.

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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 Thalia 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, Paula Lozoya Valadez, Daniel Sebastián Sosa Aguilar, Jazmin Daniela Cautencos 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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