External Stability Monitor

August 26, 2020

www.banorte.com
@analisis_fundam

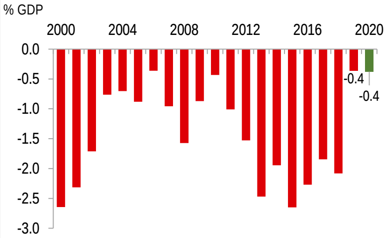
Delia Paredes Mier
Executive Director of Economic Studies
delia.paredesl@banorte.com

Document for the general public

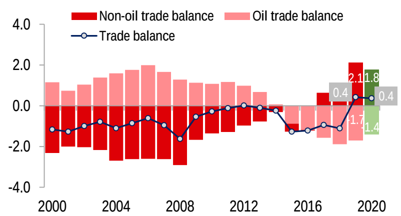
- **In an open economy, the flow of both goods and capital takes special relevance.**
- **Market volatility could eventually translate into capital outflows that can be detrimental to economic stability, especially since they could force costly and disruptive adjustments to the real economy.**
- **The Mexican economy has enjoyed several years of stability in the external sector, explained by several factors:**
  1) **A flexible exchange rate regime, which allows the adjustment of the current account deficit;**
  2) **A non-oil trade balance with a cyclical behavior, so that if exports slow down, so do imports of intermediate goods, with the deficit remaining under control;**
  3) **An increasing flow of remittances and a significant growth in the tourism sector, which translates into a surplus balance of tourist services in the current account;**
  4) **More than enough foreign investment flows to finance the current account deficit; and**
  5) **Portfolio investments on the back of the country's appeal in terms of economic prospects and interest rate levels, among others**
- **Nevertheless, in the past few years, portfolio flows have ebbed away on the back of U.S. Fed's (brief) tightening cycle, along with uncertainty generated as a result of both global and domestic factors.**

Year to date

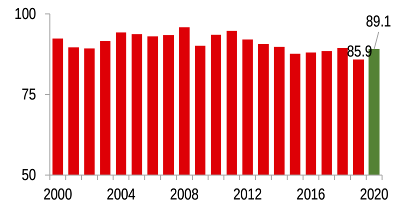
Current account
% GDP



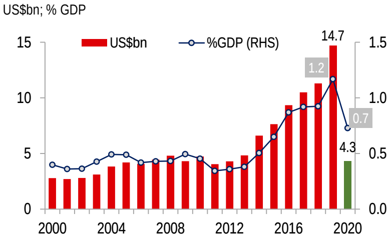
Trade balance
% GDP



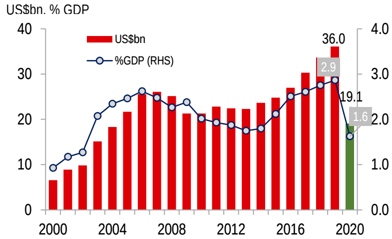
Imports of intermediate goods
% manufacturing exports



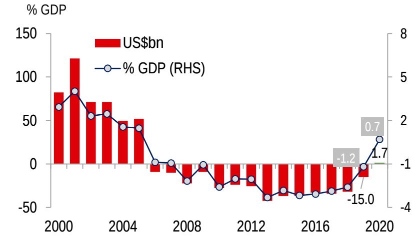
Balance of tourism
US$bn; % GDP



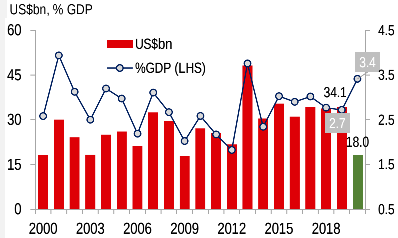
Remittances
US$bn. % GDP



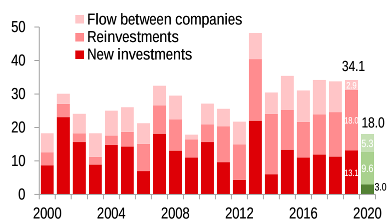
Financial accounts
% GDP



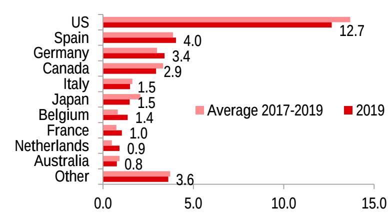
Foreign direct investment (FDI)
US$bn, % GDP



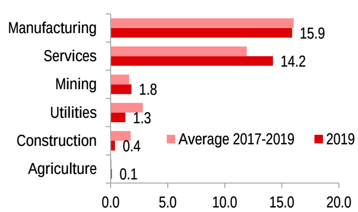
Foreign direct investment (FDI) by type of investment
US$bn



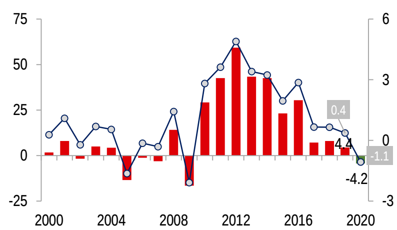
Foreign direct investment (FDI) by country in 2019
US$bn



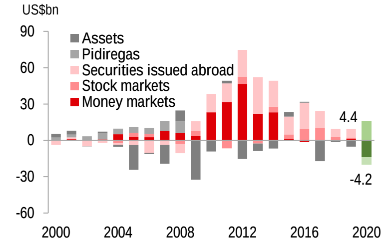
Foreign direct investment (FDI) by sector in 2019
US$bn



Portfolio investment
US$bn, % GDP



Portfolio investment by type of market
US$bn



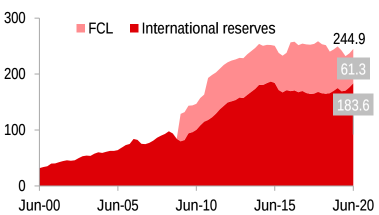
Fuente: Banorte con cifras de Banxico e INEGI

Solid external fundamentals

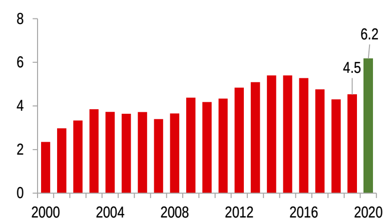
- **International reserves, coupled with the *Flexible Credit Line* granted by the IMF, underpin the country's external position, which remains relatively strong.**
- **In this context, in the event of a sudden stop in the capital account, international reserves would serve to finance around 6.2 months of imports in 1H20, while representing 39.3% of the money supply. In terms of possible negative portfolio investment flows, reserves represent 61.5% of net external debt and foreign holdings of government securities.**
- **Nevertheless, we highlight that gasoline consumption in the country comes mostly from imports, which becomes especially sensitive in terms of the finances of Pemex, which is the main importer, as well as the government, which controls the prices, especially in periods in which there is volatility in the exchange rate and in energy prices.**
- **In terms of the real exchange rate, according to Banxico's data as of June 2020, the exchange rate is above the average observed in the last 5 years, which would suggests that the nominal exchange rate will need to appreciate in order to converge to its long-term trend.**
- **Moreover, the terms of trade (export prices over import prices) deteriorated significantly in the last quarter as a result of the sharp reduction in oil prices.**

■ Year to date

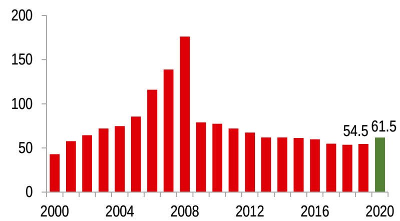
International reserves and IMF flexible credit line
US$bn



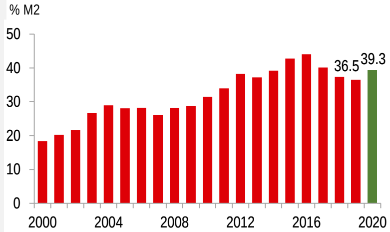
International reserves/imports
months



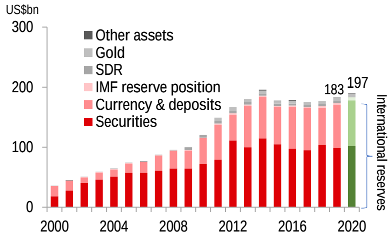
International reserves/foreign holdings of external and domestic debt
% net external debt + foreign holdings of government securities



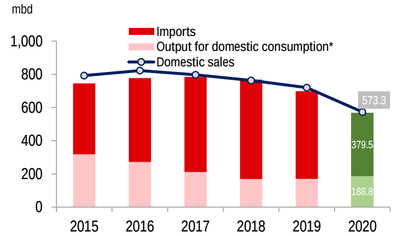
International reserves/M2
% M2



Composition of reserve assets
US$bn

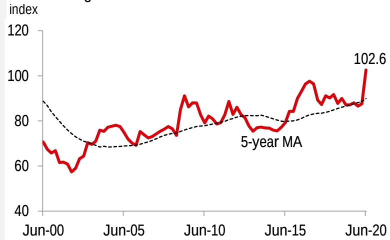


Output, imports and domestic consumption of gasolines
mbd

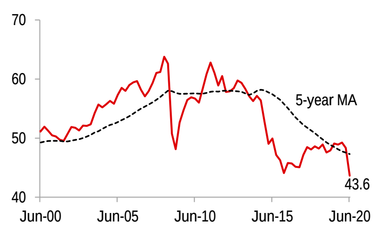


*Domestic consumption output: Total output excluding exports

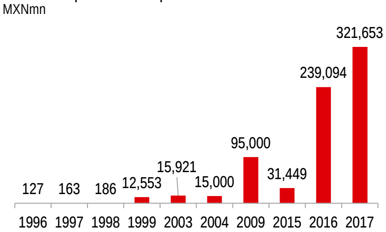
Real exchange rate
index



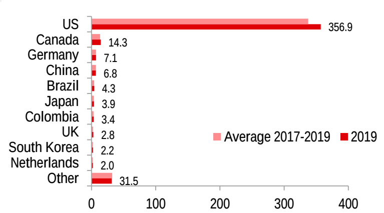
Terms of trade
index



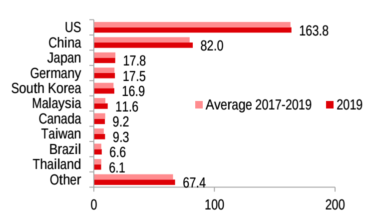
Banxico's operational surplus
MXNmn



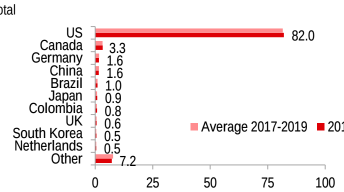
Top 10 exports by country
US$bn



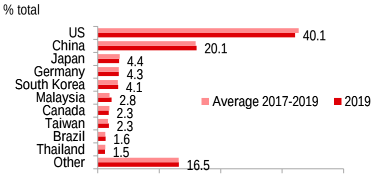
Top 10 imports by country
US$bn



Top 10 exports by country
% total



Top 10 imports by country
% total



Relevant dates for the external sector

Event	Date
Renewal of swap line with the U.S. Fed	Sep 20
IMF/World Bank Annual Meetings	12-18 oct 20
World Economic Outlook	13-Oct-20
Meeting of APEC ministers	8-9 nov 20
G20 summit	21-21 nov 20
OECD Economic Outlook	1-Dec-20
60th Anniversary of OECD convention	14-Dec-20
IMF/World Bank Spring Meetings	April 13-19, 20
Renewal of *Flexible Credit Line* with IMF	1-Nov-21

Fuente: Banorte con cifras de Banxico e INEGI

Making sense of external accounts…

- **Banxico reports balance of payments figures according to the guidelines included in the sixth edition of the *IMF Balance of Payments and International Investment Position Manual***
- **The current account (-0.4% of GDP in 2019) shows flows between residents and nonresidents and it is composed by:**
  1) **The trade balance (0.4% of GDP);**
  2) **The balance of services (-0.7% of GDP);**
  3) **Net primary income (-2.9% of GDP), which includes the balance of tourism; and**
  4) **Net secondary income (2.8% of GDP), where we highlight the flow of remittances**
- **The trade balance registers the flow exports and imports of goods. In Mexico it is important to make the distinction between the trade balance of oil (-1.7% of GDP) and non-oil goods (2.1% of GDP).**
- **In the balance of services (-0.7% of GDP), we highlight the balance of the tourism sector (US$17.4bn or 1.2% of GDP in 2019), which represent the third largest inflow to the country, after remittances (US$36bn) and FDI (US$33.7bn).**
- **Net primary income (-2.9% of GDP) shows the flow of payments to the differents factors of production, as it is the case of wages, dividends, interest payments among others.**
- **Net secondary income (2.8% of GDP) is the flow between residents and non-residentes of transfers. In Mexico, the balance of this account is positive given the large flow of remittances sent by Mexican workers abroad. (2.9% of GDP).**
- **The capital account (0.004% of GDP in 2019) shows credit and debit entries for nonproduced nonfinancial assets and capital transfers between residents and nonresidents.**
- **The financial account (1.4% of GDP) shows net acquisition and disposal of financial assets and liabilitiess. Within this account we highlight:**
  1) **Direct investments, which are those made by non-residents in the country with long-term benefits;**
  2) **Portfolio investments that include investments in financial assets;**
  3) **Other investments, credit and deposits in other countries;**
  4) **Financial derivatives; and**
  5) **Reserves, which include all domestic holdings in a foreign currency**
- **According to the IMF, the balance in the financial account (-1.2% of GDP) equals the sum of the current account balance (-0.4% of GDP), the capital account (-0.004% of GDP), as well as errors and omissions (-0.8% of GDP).**
- **Reserve assets are those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing).**
- **As a result, we believe that the following measures are relevant to gauge to the solidity of international reserves:**
  1) **International reserves in months of imports (4.5 months on average in 2019);**
  2) **International reserves as a percentage of money supply (36.5% of M2 in 2019); and**
  3) **International reserves as a percentage of external debt and foreign holdings of government securities (54.5% in 2019)**

Source: Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual

Certification of Analysts.

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, 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.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research and Financial Market Strategy			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Economic Research			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Juan Barbier Arizmendi	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746
Corporate Debt			
Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Economic Studies			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
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
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
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
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454