Trade balance – New historical surplus in July, with the recovery slowing down

- **Trade balance (July): US$5,798.7 million; Banorte: US$1,631.3mn; consensus: US$429mn (range: -US$2,400 to +US$2,477mn); previous: +US$5,546.7mn**
- **The balance reached a new historical surplus for a second month in a row, with exports (-8.9% y/y) still exhibiting a much stronger performance relative to imports (-26.1%), in our view driven by stimulus measures that have supported external demand, particularly in the US**
- **Moreover, total trade volumes (exports plus imports) kept recovering in absolute terms, standing at -17.6% y/y. Despite the still low print in annual terms we see this as positive, signaling a gradual uptick as supply chains are reestablished**
- **With seasonally adjusted figures, exports increased 9.8% m/m, with oil-related goods relatively dampened at 1.5%. On the other hand, non-oil came in at 10.2%, still led by manufacturing at +11.9%**
- **Imports grew 3.2% m/m after advancing 22.9% in June. By components, oil was at 26.3% while non-oil reached 1.6%. Specifically, we highlight that intermediate goods in the latter were barely up 1.2% despite strength in manufacturing, driving the wide surplus**
- **In our view, trade dynamics will strengthen further as aggregate demand in the US remains supported, even with risks from the evolution of COVID-19 and stalled negotiations of new fiscal stimulus in that country**
- **Nevertheless, the muted performance in imports reinforces that the expected recovery in domestic GDP for the second half of the year will likely be very gradual**

US$5,798.7 million surplus in July. This was significantly above consensus at +US$429.0 million and also to our US$1,631.3 million forecast. In this respect, the balance reached a new historical surplus for a second month in a row. We believe this was mainly driven by stimulus measures that have supported external demand, particularly in the US –our country's main trading partner–. In this respect, we also note that, as in June, exports (-8.9% y/y) keep exhibiting a stronger performance relative to imports (-26.1%), as shown in Chart 1. On a year-to-date basis, exports have declined 17.9% while imports have plunged 20.5% (see Table 1). Moreover, total trade volumes (exports plus imports) extended their recovery in absolute terms, standing at -17.6% y/y. Despite the still low print in annual terms we see this as positive, signaling a gradual uptick as supply chains are reestablished. With this result, the trade balance accumulates a US$11,921 million surplus in the last twelve months, reestablishing the upward trend that started to be more noticeable in early 2019 and that had a recent correction (Chart 2). Within exports, we highlight that manufacturing remained relatively resilient at -7.2%. On imports, all categories continued showing double-digit declines, which helps explain the unusually high surplus in the period.

August 27, 2020

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Monthly figures moderate after June's strong rebound. Specifically, and on the positive side, exports grew 9.8% m/m after the 75.7% of the previous month, which was driven by the economic reopening and designation of new sectors as essential. On the other hand, imports grew by only 3.2% (see Table 2). The oil sector limited performance in the former (1.5%) but was better in the latter (26.3%). This was observed in a context of higher crude-oil and gasoline prices in the US. Within exports, we highlight that restrictions for our country in the OPEC+ cut agreement stopped to be binding this period but production reached new lows since 1979. Regarding purchases, we believe these are still somewhat distorted by the force majeure clauses invoked by Pemex due to the pandemic, although they may have been supported by higher domestic mobility.

In non-oil, manufacturing shipments remain quite strong, growing 11.9% m/m after the strong rebound of 83.7% in the previous month. Looking at the details, autos stayed as the main outperformer (39.0%), extending gains despite the effects from lower demand of durable goods and distancing measures in place that are negative for limit the utilization of factory capacity. On the other hand, 'others' slowed to only 0.4%. Agriculture reversed somewhat after June's gains, at -16.9%, while mining was up 8.1%. In contrast, imports were much more modest, at 1.6%. We highlight that intermediate goods were low (1.2%) judging by the performance of manufacturing exports, driving the wide surplus and suggesting an important inventory drawdown. In contrast, consumption (3.9%) and capital goods (2.7%) were relatively positive.

A differentiated trade recovery will likely continue in coming months. In our view, the report reaffirms other signals that external demand will be the main driver of Mexico's recovery, with stronger dynamism in exports relative to imports. The first would mainly be boosted by unprecedented stimulus in various countries –mostly developed, but also emerging– to counter the economic effects of the pandemic. To the latter, we add that US-China tensions remain high, without ruling out that they keep exacerbating ahead of the November 3rd election. Meanwhile, there is more relative certainty about regional trade after the formal start of USMCA. In this context, some press reports affirm that relevant electronics manufacturers with operations in China, such as *Foxconn* and *Pegatron* (which are key providers for global brands such as *Apple*, *Nintendo*, *Sony*, among others) are evaluating new investments in our country. This is not only because of the trade agreement, but also on changes to global supply chains due to new risks, such as those clearly shown by COVID-19.

Although we continue anticipating a recovery led by manufacturing, we warn that the backdrop remains very challenging. Production capacity is limited by the need to maintain sanitary and distancing measures in factories, despite indeed improving gradually. In this sense, INEGI has informed that plant utilization as of June in manufacturing stood at 66.2% from 45.4% in May. In autos –which have shown an important rebound– it stood at 64.2%. Nonetheless, companies such as *Toyota Mexico* and *Fiat Chrysler* have said that current production is around 80% and 95% of levels before the pandemic, respectively.

This would also be affected by lower demand for durable and non-essential goods, with lower consumer confidence and high uncertainty affecting spending plans and providing an incentive to save. In this backdrop, ratings-agency *S&P Global Ratings* estimates that the industry will fully recover at least until 2022.

To the latter, we must add: (1) The risk of new spikes in COVID-19 cases globally, especially in the US and Mexico; and (2) the *impasse* in US Congress negotiations about new fiscal stimulus, which could represent a new blow to consumers' purchasing power in that country. Is in this context in which, despite the recent rebound, we expect manufacturing production and exports –which have led the increase– to keep declining in the annual comparison and to show a more modest advance in sequential terms during the second half of the year.

In the oil sector, the environment is also complicated. Pemex keeps showing less crude oil production –with at total of 1,595kbpd in June, lowest since 1979 and contracting 4.5% y/y– despite the expiration of restrictions due to the OPEC+ agreement. The company's financial situation is still difficult and global demand for hydrocarbons–including gasolines– is limited by low economic growth. In this backdrop, we will heed the possible presentation of a new infrastructure plan of the government and the private sector, which could be published soon –after several months of delays– and could contain details about investment plans as soon as 2021, including in the energy sector. Nevertheless, a short-term recovery in production that allows for higher crude-oil export volumes looks highly unlikely, without ruling out an extension of the downward trend (not even accounting for risks from hurricanes in the Gulf of Mexico). The most likely scenario is that the oil balance maintains a high deficit and that it widens more.

Lastly, weakness in imports –both in non-oil consumption and capital goods– reinforces our expectations of a modest performance of domestic demand. In this context, we maintain our view that GDP will recover very gradually in 2H20. Specifically, today's report is consistent with our forecast that exports could stand around -2.5% y/y in 3Q20, while imports would lag close to -11.6%, with some risks tilted to a more modest performance considering today's report.

Table 1: Trade balance
% y/y nsa

	Jul20	Jul-19	Jan-Jul'20	Jan-Jul'19
Total exports	-8.9	6.5	-17.9	4.1
Oil	-36.5	-15.1	-41.1	-10.6
Crude oil	-38.6	-18.7	-43.9	-9.6
Others	-22.1	21.9	-21.8	-16.7
Non-oil	-7.2	8.1	-16.4	5.2
Agricultural	-12.9	17.6	5.0	6.7
Mining	3.7	6.7	5.5	-6.3
Manufacturing	-7.2	7.9	-17.8	5.4
Vehicle and auto-parts	-7.2	12.6	-30.6	7.1
Others	-7.2	5.4	-10.6	4.4
Total imports	-26.1	2.0	-20.5	0.5
Consumption goods	-39.3	-0.7	-28.2	-2.2
Oil	-49.9	-18.7	-38.6	-6.8
Non-oil	-35.0	9.2	-23.7	-0.1
Intermediate goods	-25.0	5.0	-19.3	2.0
Oil	-41.0	-15.7	-36.0	-5.8
Non-oil	-23.6	7.3	-17.7	2.8
Capital goods	-15.9	-16.5	-19.7	-7.5

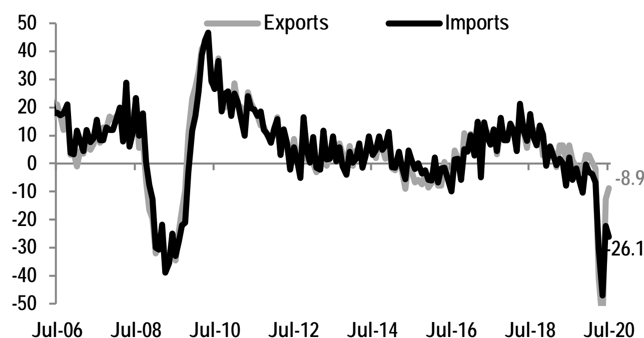
Source: INEGI

Table 2: Trade balance
% m/m, % 3m/3m sa

	% m/m			% 3m/3m	
	Jul-20	Jun-20	May-20	May-Jul'20	Abr-Jun'20
Total exports	**9.8**	**75.7**	**-21.6**	**-13.6**	**-36.2**
Oil	1.5	49.0	16.2	-2.7	-42.5
Crude oil	-4.5	71.9	25.8	-0.2	-45.9
Others	48.3	-27.2	-7.3	-14.0	-21.9
Non-oil	10.2	77.1	-22.9	-14.0	-35.9
Agricultural	-16.9	21.8	-6.2	-0.2	-0.2
Mining	8.1	23.7	-21.8	-9.9	-13.4
Manufacturing	11.9	83.7	-24.2	-14.8	-37.9
Vehicle and auto-parts	39.0	527.3	-48.0	-18.6	-66.5
Others	0.4	41.4	-20.7	-13.1	-22.0
Total imports	**3.2**	**22.9**	**-18.8**	**-21.5**	**-29.5**
Consumption goods	13.0	7.0	-11.7	-31.1	-43.6
Oil	59.3	18.8	-33.2	-52.8	-68.0
Non-oil	3.9	4.9	-6.5	-23.1	-33.2
Intermediate goods	2.0	27.9	-21.2	-21.1	-28.6
Oil	14.9	12.7	-24.9	-28.6	-36.6
Non-oil	1.2	29.0	-21.0	-20.6	-27.9
Capital goods	2.7	5.3	-7.2	-11.3	-16.3

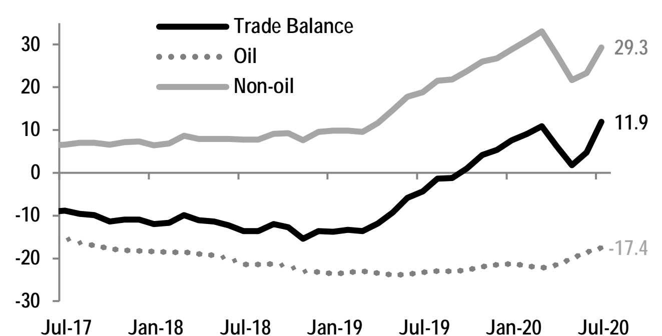
Source: INEGI

Chart 1: Exports and imports
% y/y nsa



Source: INEGI

Chart 2: Trade balance
US$ million, 12 month rolling sum



Source: INEGI

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