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MACROECONOMIC ANALYSIS

Lower production from local refineries contributed to widening the trade deficit in October

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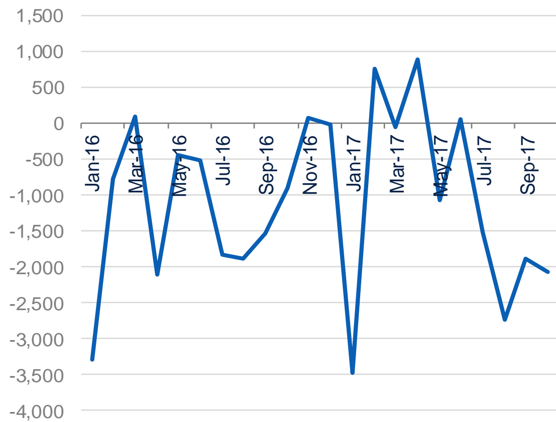
- **The trade balance posted a USD 2.1 billion deficit in October, a much higher number than the consensus expectation of USD 0.9 billion**
- **This trade deficit is mostly explained by the oil trade deficit, which amounted to USD 1.8 billion**
- **Despite the increase in total oil-related exports by 16.5% YoY in October, the oil trade deficit widened as total oil-related imports jumped by 40.1% YoY in the same month**
- **Both consumption and intermediate oil-related imported goods showed an annual increase of 40% YoY in October**
- **Even though disaggregated data for the components of the oil trade balance have not been issued yet, we believe that such significant hike in yearly imports occurred as the local production of gasoline, diesel and some petrochemical products most likely kept falling in October**
- **Lower production from local refineries in this last quarter is explained both by earthquake effects (that resulted in the closure of the Salina Cruz refinery since September) and major maintenance activities like those taking place in Ciudad Madero's refinery**
- **Although we realize these are transitory factors, looking ahead we expect the oil trade deficit to continue widening as the recently allowed retail competition in the gasoline and diesel markets will probably make imports of such goods crowd out their local production**

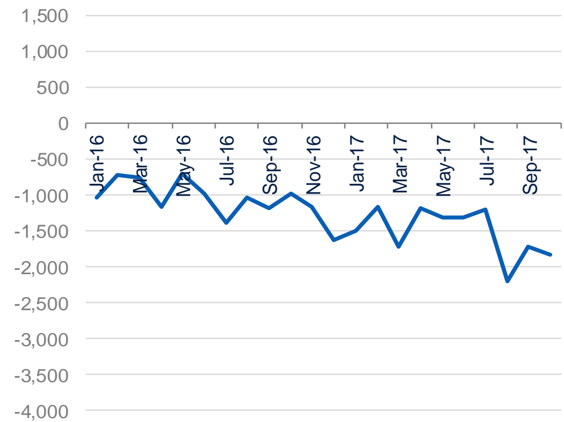
The trade balance figure for October was released two days ago. It showed a higher-than-expected deficit of USD 2.1 billion vs. a consensus estimate of USD 0.9 billion. Such estimate coincides with the actual deficit for the trade balance seen in October 2016 (Figure 1). The trade deficit is largely explained by the widening oil trade deficit component, which amounted to USD 1.8 billion or 89% of the overall trade deficit. In spite of the positive performance of oil-related exports (mostly crude oil) in October with a 16.5% YoY vs. 1.1% YoY in September, the oil trade deficit widened to USD 1.83 billion from USD 1.72 billion in September. The corresponding figure for October 2016 was USD 0.98 billion (Figure 2).

Figure 1. Trade balance (millions of USD)



Source: BBVA Research based on INEGI data

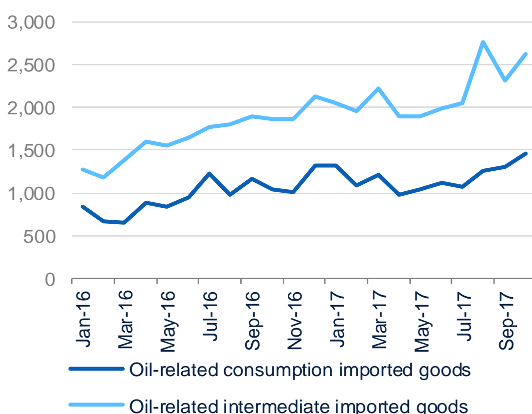
Figure 2. Oil trade balance (millions of USD)



Source: BBVA Research based on INEGI data

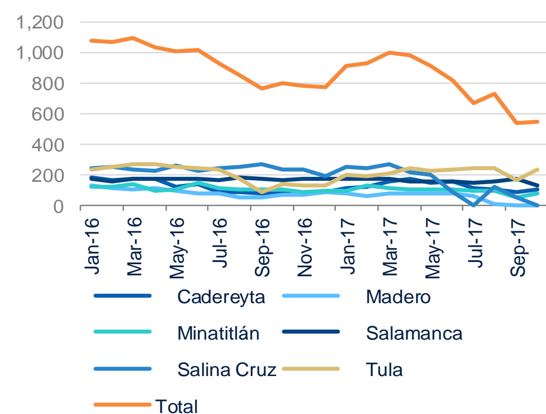
The widening of the oil trade deficit in October is explained by consumption and intermediate oil-related imported goods, which had an annual jump of 40% YoY (Figure 3). Although no disaggregated data for the components of the oil trade balance are available yet, it is very likely that lower output from local refineries are contributing to widening such deficit. The effects from September's earthquakes on the Salina Cruz refinery (with the highest amount of crude oil processed at the beginning of the year) and the turnaround activities taking place in Ciudad Madero's refinery are probably the main underlying factors behind October's relatively low crude oil processing in local refineries (Figure 4).

Figure 3. Consumption and intermediate oil-related imported goods (millions of USD)



Source: BBVA Research based on Banxico data

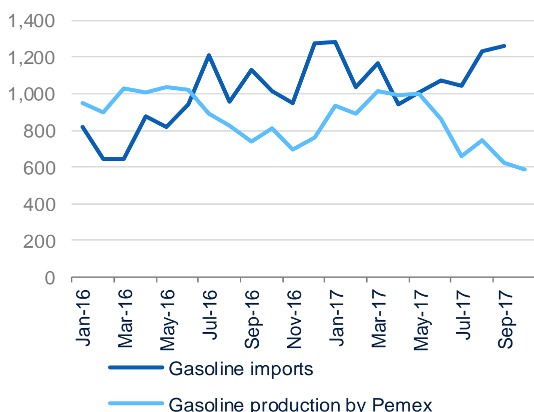
Figure 4. Crude oil processing in local refineries (thousands of barrels per day)



Source: BBVA Research based on SIE data

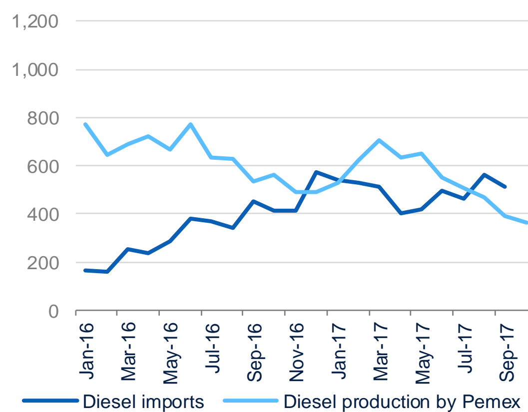
Lower output from local refineries can be seen in products such as gasoline and diesel, with both showing a negative trend since March. Not surprisingly, both gasoline and diesel imports have been increasing in recent months (Figure 5 and Figure 6). We expect imports of both products to have increased in October as the local production figures suggest. It is very likely that intermediate goods like natural gas and petrochemical products derived from crude oil local refining also took a hit in October from the circumstances aforementioned. Otherwise, oil-related intermediate imported goods hardly would have increased in October to USD 2.6 billion from USD 2.3 billion in September.

Figure 5. Gasoline production and imports (millions of USD)



Source: BBVA Research based on SIE and US EIA data

Figure 6. Diesel production and imports (millions of USD)



Source: BBVA Research based on SIE and US EIA data

Although we realize that the factors influencing the performance of local refineries in the fourth quarter are transitory, looking ahead we expect the oil trade deficit to continue widening, although at a slower pace, as higher local demand for oil-related consumption and intermediate goods will more likely be met by imports rather than local refineries output. The recently liberalized domestic market for gasoline and diesel, by allowing retail competition, is also a key factor to understanding possible crowding out effects of imports on the local production of such goods.

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