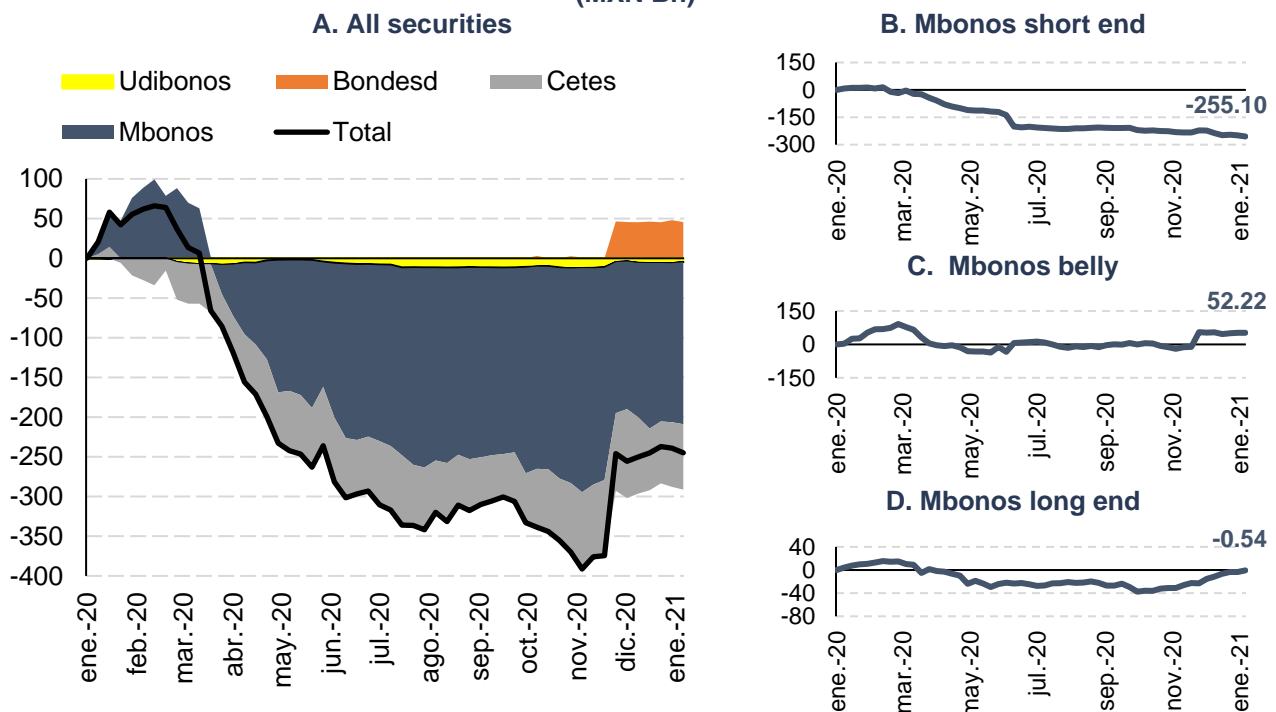


2020's bond sell out from foreigners' accounts: shorting the short end?

The risk aversion episode triggered by the outbreak of COVID-19 prompted significant outflows of government debt securities from foreigners' accounts since mid-February 2020. Although these stabilized from July to September, a new risk off episode in October resumed outflows. It wasn't until December 2020 when we saw some re-stabilization. All in all, outflows have amounted MXN -244.89 billion as of January 7th 2021. Figure 1A shows that this unprecedented drop of debt holdings by foreigners were mainly concentrated in Mbonos (MXN -203.42 billion) and Cetes (MXN -82.39 billion), each of which entailed reductions of more than 10 percentage points in total shares (from 56.8% to 47.5% in Mbonos, and from 21.08% to 9.7% in Cetes). With respect to Mbonos, figures 1B show that the outflows in Mbonos were largely on the short end of the curve (up to 2 years). In fact, recent inflows on the belly (3 to 10 years) are entirely responsible for the slight recovery in Mbonos holdings at the end of November (Figure 1C), while the long end segment (above 10 years) in Figure 1D has recently returned to its pre-pandemic levels.

Figure 1. Accumulated weekly flows of government debt securities from foreigners' accounts (MXN Bn)



Source: Finamex Economic Research with data from Banco de México.

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