

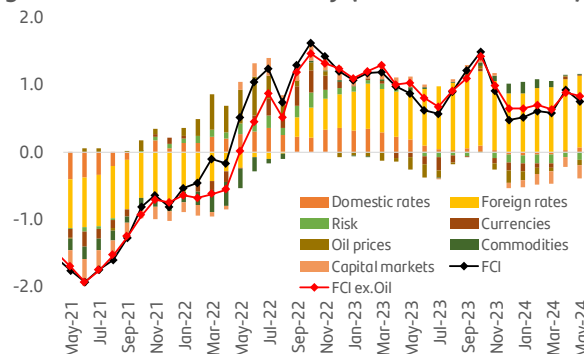
Marginal Relief in May, Still Higher than 1Q24

Gabriel Couto* and Henrique Danyi* ✉

Bottom-line: May was marked by financial conditions marginally looser than April, but still higher than 1Q24 levels. Both domestic and external factors contributed to this relief. As the external rates scenario shows no palpable improvement, the spotlight for our Financial Conditions Indicator (FCI) remains on international factors. On the other hand, Santander’s Monetary Conditions Indicator (SMCI) tightened again in May.

Our FCI came in slightly looser in May, after April’s significant tightening. The index fell 0.16 points, due to both local and external conditions, but remained higher than 1Q24 levels, well in restrictive territory (positive values). In May, both domestic (+0.03 points) and foreign (+0.02) rates tightened, but the relief seen in oil prices (-0.10), risk (-0.05), capital markets (-0.05), and currencies (-0.01) weighed heavier on the result. Commodities remained stable in the month.

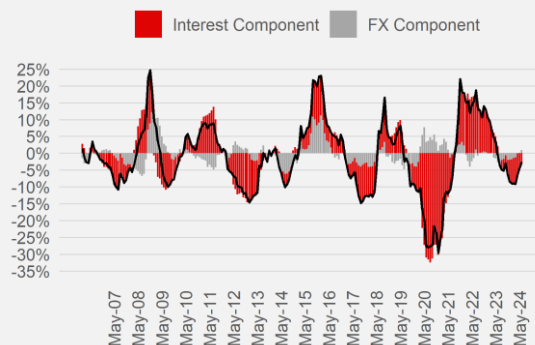
Figure 1. Santander’s FCI Proxy (from 2021 to 2024)



Sources: Bloomberg, BCB, FGV, Santander.

The SMCI for May tightened again for the third month in a row. The index remains at expansionary levels, but both drivers of the SMCI have tightened in the last three months. The exchange rate component is already at contractionary levels, and the tightening in the interest component was once again substantial.

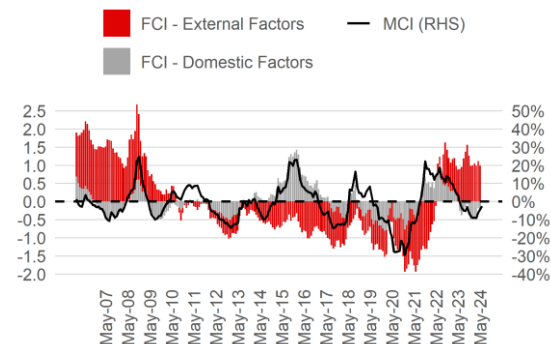
Figure 2. SMCI Decomposition



Sources: IBGE, Santander.

In our view, as the external rates scenario shows no palpable improvement, the FCI’s spotlight remains on international factors. The main driver for the FCI’s contractionary stance continues to be its external component, in particular its foreign rates component. Thus, we continue to believe that a stimulative stance for financial conditions remains contingent on the external rates scenario, especially on the Fed’s rate policy and the timing of the start of an easing cycle in the U.S.

Figure 3. SMCI and FCI Proxy Breakdown



Sources: Bloomberg, BCB, FGV, Santander.

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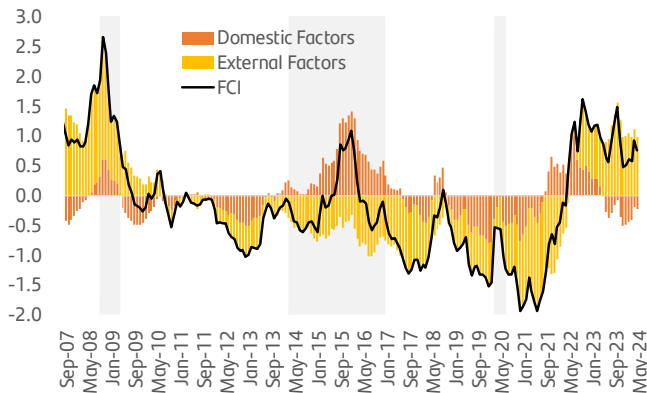
Figure 4 – Santander’s FCI and MCI Breakdown

Financial Conditions Indicator							
	Weights	Headline			Change		
		Mar-24	Apr-24	May-24	Apr-24	May-24	
FCI	100%	0.59	0.92	0.76	↓	0.34	-0.16
Domestic Factors	-	-0.40	-0.19	-0.22	↓	0.21	-0.03
Foreign Factors	-	0.99	1.12	0.98	↓	0.13	-0.13
Domestic rates	34%	-0.04	0.03	0.06	↑	0.07	0.03
Foreign rates	33%	0.97	1.05	1.07	↑	0.08	0.02
Risk	18%	-0.13	-0.08	-0.12	↓	0.05	-0.05
Currencies	20%	-0.07	0.04	0.02	↓	0.11	-0.01
Oil prices	23%	-0.04	0.02	-0.07	↓	0.07	-0.10
Commodities	-13%	0.09	0.00	0.00	→	-0.09	0.00
Capital markets	-15%	-0.18	-0.14	-0.20	↓	0.04	-0.05
FCI (ex Oil)	-	0.63	0.89	0.83	↓	0.26	-0.06

Santander Monetary Conditions Indicator							
	Weights	Headline			Change		
		Mar-24	Apr-24	May-24	Apr-24	May-24	
SMCI	100%	-9.99	-6.85	-5.14	↑	3.14	1.71
Domestic rates	65%	-13.72	-10.45	-7.93	↑	3.27	2.52
FX Rate	35%	-2.94	-0.05	0.13	↑	2.89	0.19

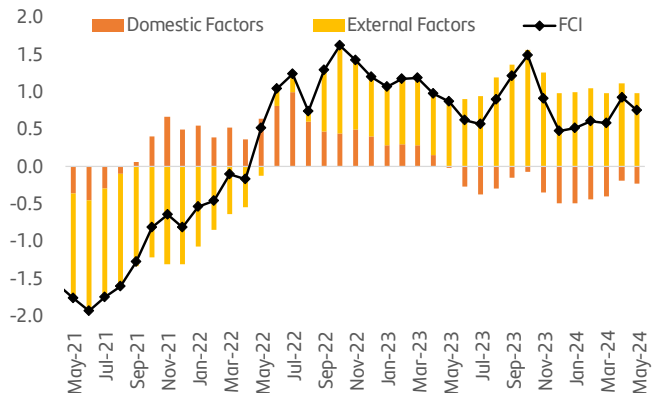
Sources: Bloomberg, BCB, Santander.

Figure 5 – FCI Proxy Breakdown (from 2007 to 2024)



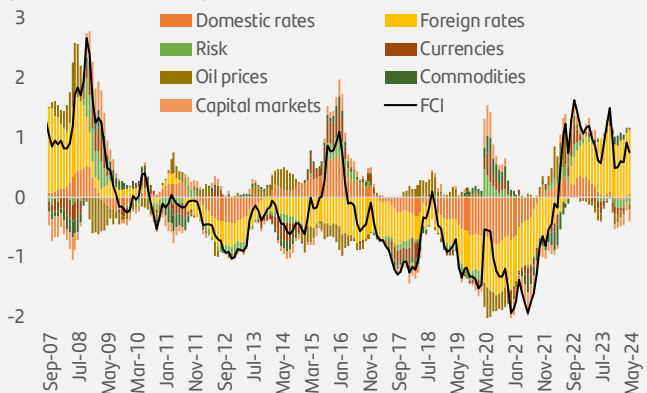
Sources: Bloomberg, BCB, FGV, Santander.

Figure 6 – FCI Proxy Breakdown (from 2021 to 2024)



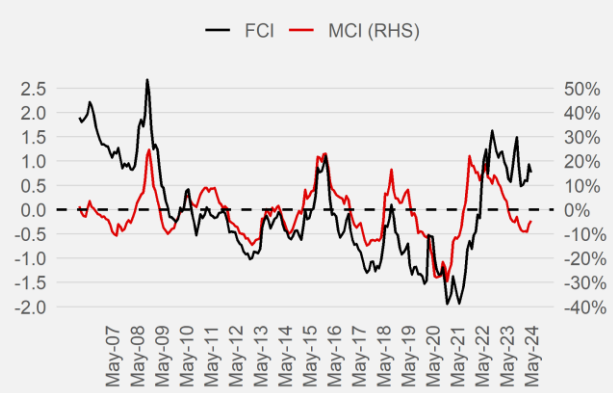
Sources: Bloomberg, BCB, FGV, Santander.

Figure 7 – FCI Proxy Breakdown (from 2007 to 2024)



Sources: Bloomberg, BCB, FGV, Santander.

Figure 8 – SMCI x FCI



Sources: Bloomberg, BCB, FGV, Santander.

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