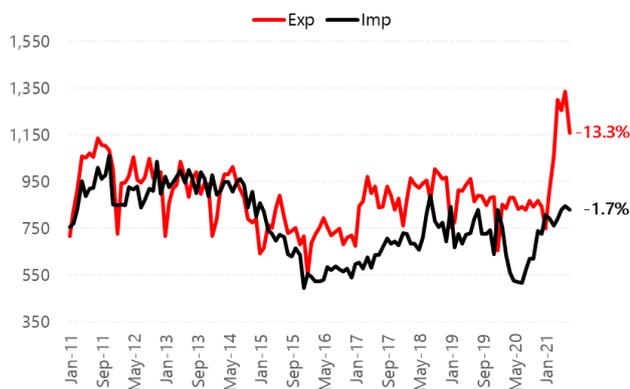


LOWER THAN EXPECTED JULY TRADE SURPLUS, BUT NOT A CONCERN GIVEN FORECAST INCREASES AHEAD

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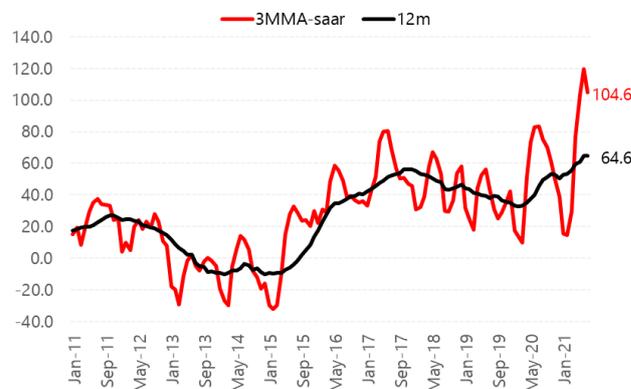
- The July 2021 trade surplus of US\$7.4 billion fell short of our forecast of US\$9.0 billion due to lower export proceeds and higher import outlays. Export proceeds were US\$25.5 billion vs. our estimate of US\$26.5 billion and import outlays US\$18.1 billion vs. our US\$17.5 billion.
- Despite the lower-than-expected July surplus, the historical trend bolsters our sanguine view for increasing trade surpluses later this year. We note, on a 12-month basis through July, the total surplus is US\$64.6 billion vs. the surpluses of US\$45.6 billion in the year ago 12-month period and US\$50.4 billion in the 12-month period ending December 2020.
- Further, when we annualize the daily average figures of the last three months (3MMA-saar), the picture is the same, which suggests an annual surplus of US\$104.6 billion, which is compatible with our forecast of US\$77.8 billion for 2021 as a whole.
- All in all, we continue to expect the trade balance figures to support our forecast and the market expectation for a strong Brazilian external position.

Figure 1 – Trade Balance (US\$ million/working day, s.a.)



Sources: SECINT, Santander.

Figure 2 – Trade Balance (US\$ billion, 3MMA saar)



Sources: SECINT, Santander.

- The July 2021 trade surplus of US\$7.4 billion fell short of our forecast of US\$9.0 billion due to lower export proceeds and higher import outlays. Export proceeds were US\$25.5 billion vs. our estimate of US\$26.5 billion and import outlays US\$18.1 billion vs. our US\$17.5 billion. After increasing 6.5% on a MoM seasonally adjusted basis in June 2021, daily average exports decreased 13.3% last month, receding from the notably high level exports had sustained for the last three months. Despite the decrease, exports remain at a high level by historical standards. With respect to imports, the 1.7% MoM sa decline in the daily average underpins our view that the economic recovery should follow a gradual path vs. the higher end of consensus that forecast GDP growth of 6% or more this year.

Through June, the trade surplus was US\$64.6 billion on a 12-month basis, which is well below the average of the last three months annualized surplus (3MMA-saar) of US\$104.6 billion for 2021. This level is far above

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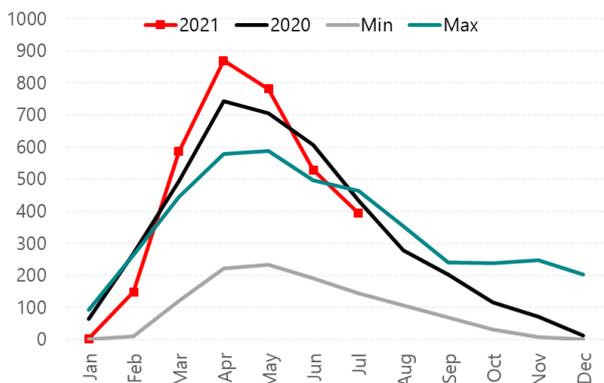
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our forecast of a US\$77.8 billion surplus for this year as a whole. The difference between the level indicated by the 3MMA-saar gauge and our forecast stems from the unfavorable seasonal pattern of Brazilian exports in the second half of any given year, combined with better-than-expected dynamics for GDP growth that should boost imports in the months ahead.

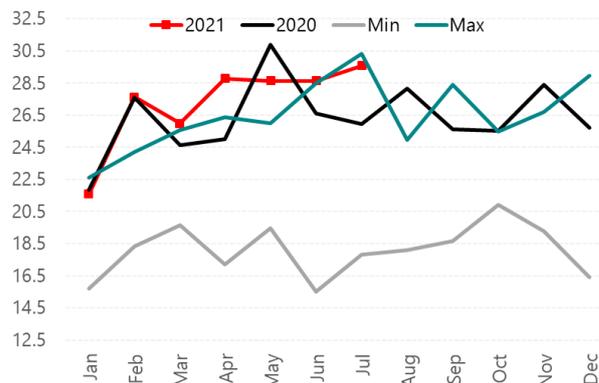
For example, exports of soybeans, an item that played an important role in the trade surplus of 2020, indicate the bulk of their contribution already has occurred in 1H21 (soybeans alone accounted for 13.7% of total export revenue last year). However, this does not mean that export proceeds are likely to collapse, as revenue has remained steady for another important group of products in the export roster (namely, animal proteins). In sum, though lower than the very high level indicated by the 3MMA-saar, we do not believe the trade balance will become a source of concern given our expectation for higher levels in the months ahead.

Figure 3 – Soybean Exports (kilo-tonnes/working day)



Sources: SECINT, Santander.

Figure 4 – Animal Proteins Exports (kilo-tonnes/working day)



Sources: IBGE, SECINT, Santander.



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