BRAZIL MACRO

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DATA ANALYSIS – EXTERNAL SECTOR

SHORT OF OUR FORECAST YET STILL THE PEAK

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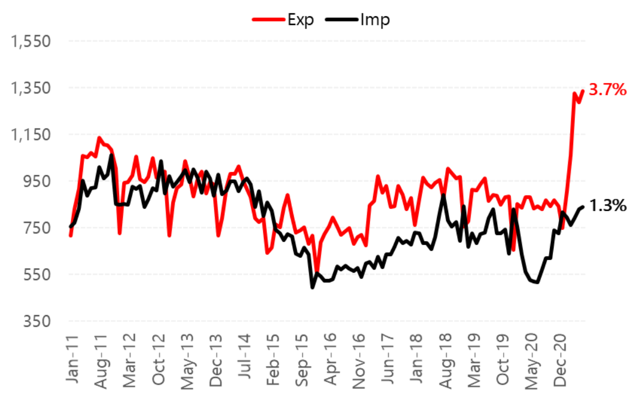
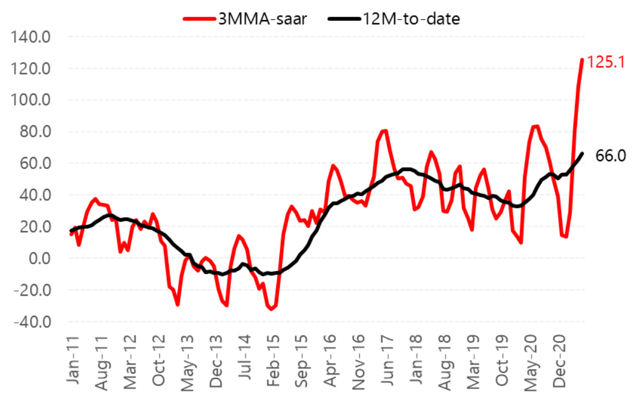
- The US$10.4 billion surplus registered by the trade balance in June 2021 fell short of our forecast for the period (US$11.6 billion), with export proceeds of US$28.1 billion and import outlays of US$17.7 billion, respectively, compared with the US$29.6 billion and US$18.0 billion we expected. Nonetheless, the reading is the largest monthly trade surplus the country has ever registered.
- The outcome translated into a US$66.0 billion surplus on a 12M-to-date basis versus surpluses of US$39.9 billion a year ago and US$50.4 billion in December 2020, which bolsters our sanguine view of the likely performance of the trade balance this year.
- When we annualize the daily average figures of the last three months (3MMA-saar), the picture is the same, as this gauge suggests an annual surplus of US$125.1 billion, which is compatible with our forecast of US$77.8 billion for 2021 as a whole.
- Finally, regarding the gap between the balance of shipped goods and their financial settlements, we estimate it at US$54.4 billion as of June 25—the last available date for the Brazilian spot FX flows figures—versus US$51.1 billion at the end of May 2021 (and US$7.0 billion a year ago).
- All in all, despite sound results in the balance of shipped goods—which we expect to last for the next few years and give Brazil a solid external position—it seems us that exporters are still resisting repatriating their profits into the country. The question is: Will the (expected) faster normalization of monetary policy be enough to encourage them?

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



Sources: SECINT, Santander.

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



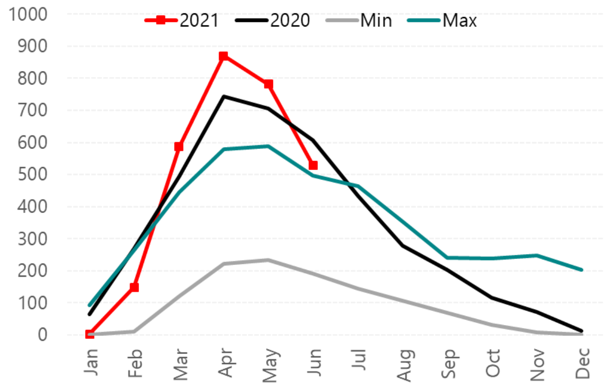
Sources: SECINT, Santander.

The Brazilian trade balance registered a US$10.4 billion surplus in June 2021, which was smaller than our estimate of US$11.6 billion, as exports fell short of our expectation (US$28.1 billion vs. US$29.6 billion) and imports were relatively in line with our estimate (US$17.7 billion vs. US$18.0 billion). After declining 2.8% on a MoM seasonally adjusted basis in May 2020, daily average exports increased 3.7% last month, thus remaining at a notably high level by historical standards. With respect to imports, the 1.3% MoM sa expansion in the daily average underpins our view that the economic recovery should follow a gradual path as opposed to the most enthusiastic assessment by some market economists that GDP growth may reach 6% or more this year.

Given the above trends, we are not surprised that the trade surplus on a 12-month-to-date basis has continued to increase since early 2020, and we have seen no indication that this trend is about to change soon. Thus, taking into account that the median consensus estimate for the trade surplus in 2021 is currently at US$68.8 billion, we believe expectations should rise in the coming weeks—especially as the average of the last three months points to a robust annualized surplus (3MMMA-saar) of US$125.1 billion for 2021. This level is far above our forecast of a US$77.8 billion surplus for this year as a whole, and 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.

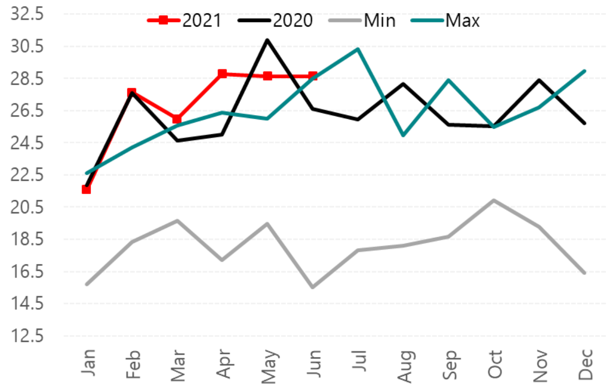
For example, exports of soybeans, an item that played an important role in the trade surplus of 2020, indicated that they might have delivered the bulk of their contribution in 1H21. (Soybeans alone accounted for 13.7% of total export revenue last year.) However, this does not mean that export proceeds 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.

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



Sources: SECINT, Santander.

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



Sources: IBGE, SECINT, Santander.

Despite our constructive view of trade balance dynamics, one item continued to attract our attention, which is the gap between the balance of shipped goods and their financial transactions. Taking into account figures until June 25—the latest available data for the Brazilian spot FX flows—we can see that the rising trend that began in June 2020 has been extended, with this gap having reached US$54.4 billion compared with US$7.0 billion a year ago. We believe that part of this hoarded money is likely to be repatriated on the heels of the (expected) faster normalization of monetary policy in Brazil, but hitherto the interest rate hikes have not lured exporters to do so. In our view, this is additional evidence that economic agents (even domestic ones) continue to be skeptical about the short-term improvement observed in the Brazilian economic outlook.

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