

## EXTERNAL CONFIDENCE, DOMESTIC MISTRUST

**Jankiel Santos\***

jankiel.santos@santander.com.br

+5511 3012-5726

- The USD3.8 billion surplus registered by the current account balance in May 2021 fell short of our estimate (USD4.6 billion) on the heels of higher-than-expected import outlays and equipment rental payments. Nonetheless, this shortfall did not lead to any changes in the current account balance improving trend since 1Q20.
- The volume of direct investments in the country (DIC) was also below our expectation (USD1.2 billion vs. USD2.5 billion, respectively), implying a downward bias to our 2021 forecast (currently at USD64.7 billion).
- However, external financing needs continued to be easily met, as foreigners' acquisitions of domestic financial assets registered another sizeable net inflow last month (USD6.0 billion), with fixed-income bonds accounting for half of the operations (a response to the monetary tightening cycle launched in March 2021, in our view).
- Conversely, Brazilians have also continued to send their money abroad, with acquisitions of foreign financial assets reaching USD2.9 billion—the highest figure since September 2017 and indicating, in our view, persistent doubts about economic policy in the country, especially on the fiscal front.
- All in all, we continue see the Brazilian balance of payments soundly situated, insulating the country from the uncertainties stemming from the fiscal front. Nonetheless, we also continue to call attention to continued outflow from domestic investors.

The USD3.8 billion surplus registered by the Brazilian current account balance in May 2021 fell short of our estimate (USD4.6 billion) but was in line with the market median forecast (USD3.8 billion), on the heels of more imports than indicated by Foreign Trade Secretariat data and larger equipment rental payments than suggested in the Brazilian Central Bank's (BCB) schedule. Despite being smaller than expected, the outcome did not alter the current account balance's improving trend of late, which we expect to continue in the coming months. On a 12-month-to-date basis, the current account deficit reached USD8.4 billion in May 2021, compared with an imbalance of USD65.2 billion a year ago and better than the USD24.1 billion deficit observed in December 2020. Moreover, the annualized average of the last three months in seasonally adjusted terms (3MMA-saar) also points to the continuation of an improving trend (USD0.9 billion deficit from USD15.9 billion in April 2021). Hence, we maintain our view that the Brazilian external position is likely to remain off of sources of concerns.

In addition to favorable signs for the current account balance, we also saw continued improvement in key resources that fund Brazil's external financing needs. Although lower than our estimate (USD1.2 billion versus USD2.5 billion), lower DIC was offset by a sizeable volume of foreigners' acquisitions of domestic financial assets (USD6.0 billion), leading to 12-month-to-date total of USD41.8 billion and showing that Brazilian external financing needs continued to be easily met with different types of funding sources, thus indicating not only greater international investor confidence in Brazil's economic outlook but also a tighter monetary policy than previously seen.

---

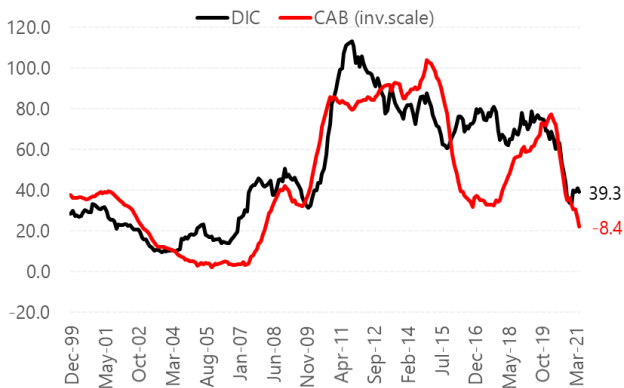
**IMPORTANT DISCLOSURES/CERTIFICATIONS ARE ATTACHED.**

U.S. investors' inquiries should be directed to Santander Investment Securities Inc. at (212) 583-4629 / (212) 350-3918.

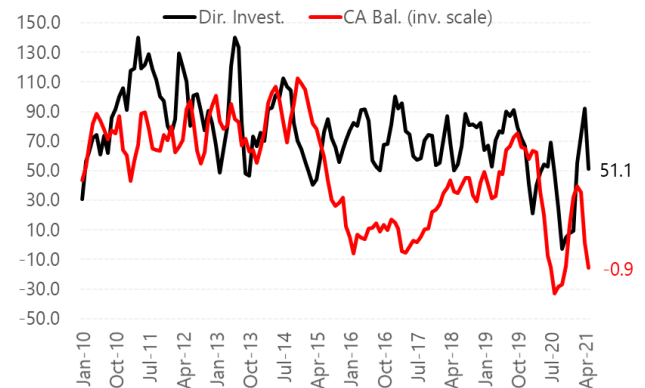
\* Employed by a non-US affiliate of Santander Investment Securities, Inc. and is not registered/qualified as a research analyst under FINRA rules.



**Figure 1: Current Account Balance (USD billion, 12M-to-date)**



**Figure 2: Current Account Balance vs Direct Investments in the Country (USD billion, 3MMA-saar)**

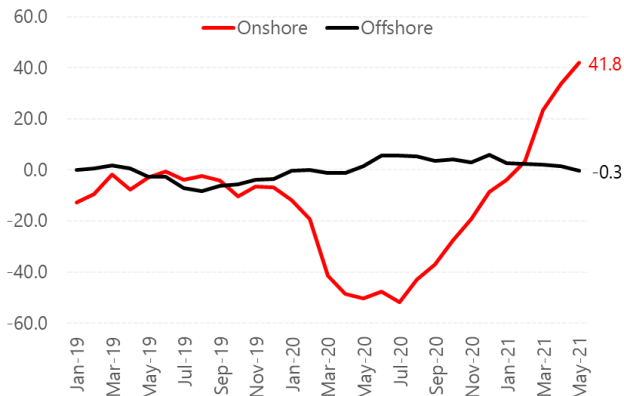


Sources: Brazilian Central Bank, Santander

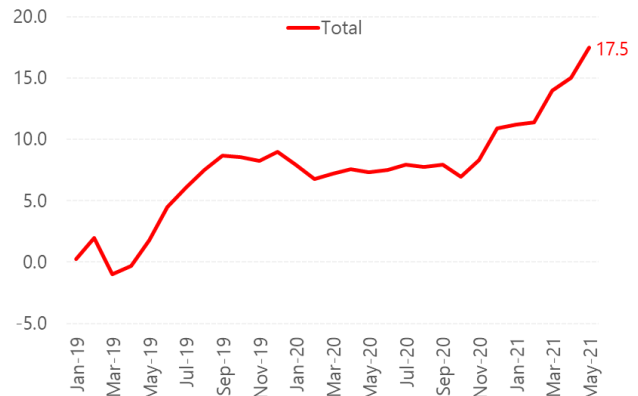
Sources: Brazilian Central Bank, Santander.

In direct contrast to positive foreign inflow, Brazilian’s steadily increasing acquisition of foreign financial assets has continued to call our attention recently, with May’s USD2.9 billion reading marking the seventeenth consecutive month of increased purchases abroad. We believe this rising number can be attributed to the widening gap between the surpluses in the shipped trade balance and their financial settlement, though we emphasize that this is just one component, as the gap is currently close to USD50.0 billion. Nonetheless, we believe it signals that a portion of that money may never return, even with the prospects for higher interest rates on the horizon.

**Figure 3: Foreigners’ Acquisitions of Brazilian Financial Assets (USD billion, 12M-to-date)**



**Figure 4: Brazilian Portfolio Investments Offshore (USD billion, 12M-to-date)**



Sources: Brazilian Central Bank, Santander.

Sources: Brazilian Central Bank, Santander.

All in all, we believe that the dynamics of the Brazilian balance of payments remain fairly constructive, with the current account balance on an improving trend and with plenty of funding sources for an eventual deficit. However, the fact that Brazilian citizens are seeking financial assets abroad notwithstanding the prospect for higher yields on the domestic front is a yellow light that we will need continuous and close monitoring.



## CONTACTS / IMPORTANT DISCLOSURES

### Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Lucas Maynard*	Economist – Economic Activity	lucas.maynard.da.silva@santander.com.br	5511-3553-7495
Felipe Kotinda*	Economist – Credit	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327

### Global Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Juan Cerruti *	Senior Economist – Argentina	jcerruti@santander.com.ar	54 11 4341 1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500

### Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Oreng*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778

### Equity Research

Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Claudia Benavente*	Head, Chile	claudia.benavente@santander.cl	562-2336-3361
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Mariana Cahen Margulies*	Head, Brazil	mmargulies@santander.com.br	5511-3553-1684

### Electronic

Bloomberg  
Reuters

SIEQ <GO>  
Pages SISEMA through SISEMZ

This report has been prepared by Santander Investment Securities Inc. ("SIS"; SIS is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. "Santander"), on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This document must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. ("Santander Investment Bolsa"), and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. SIS, Santander London and Santander Investment Bolsa are members of Grupo Santander.

**ANALYST CERTIFICATION:** The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: Jankiel Santos\*. \*Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2242 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

The information contained herein has been compiled from sources believed to be reliable, but, although all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading, we make no representation that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included herein constitute our judgment as at the date of this report and are subject to change without notice.

Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with SIS, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States.

© 2021 by Santander Investment Securities Inc. All Rights Reserved.

