

AND THE SHIP SAILS ON

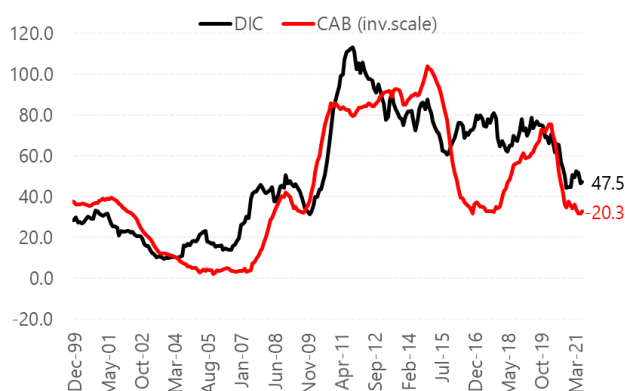
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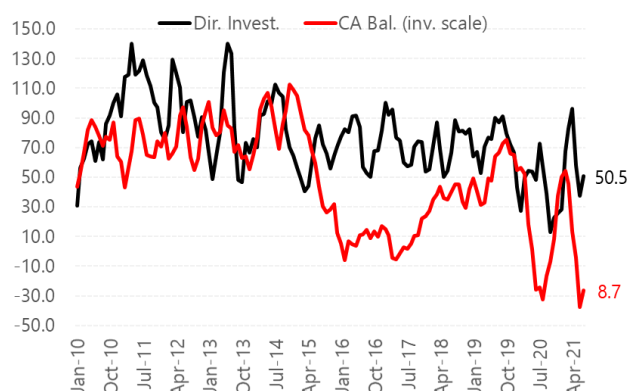
- The July 2021 current account balance registered a stronger deficit than what we estimated for the period (US\$1.6 billion vs. US\$0.3 billion, respectively) on the heels of higher interest payments and larger remittance of profits and dividends than we anticipated. Despite the negative surprise, it is important to bear in mind that there is a seasonal concentration of these payments in July, which does not alter our constructive assessment of the extension of the adjustment in the current account deficit in the coming months.
- Incidentally, if we annualize the average of the last three seasonally adjusted readings (3MMA-saar), we obtain an indication of an US\$8.7 billion annual surplus, which is far above the US\$20.3 billion deficit registered on a 12-month basis. Therefore, we believe there is room for improvement in the latter gauge in the short term.
- Notably, we also witnessed a positive surprise regarding the volume of direct investments in the country (DIC), which tallied US\$6.1 billion in July 2021 and surpassed our estimate of US\$5.6 billion. On a 12-month basis, the volume of DIC reached US\$47.5 billion, and its 3MMA-saar figure suggests an annual inflow of US\$50.5 billion. That is a reasonably comfortable level, in our view, which indicates that the country will be able to find the resources to fund its external financing needs.
- Besides the steadier funding flows provided by DIC, it has been encouraging to see that net inflows of portfolio investments continued in July. Last month, foreigners acquired US\$1.2 billion of Brazilian financial assets in the domestic market, and US\$2.1 billion of Brazilian financial assets traded offshore. That is an important offset to the continual flow of Brazilian investors' purchases of financial assets abroad occurring since January 2020 (that figure has reached US\$19.7 billion on a 12-month basis).
- All in all, we do not expect July 2021 balance of payments data to alter markets' constructive assessment about the soundness of the Brazilian external position.

Figure 1. Current Account Balance vs. Direct Investments in the Country (USD billion, 12m)



Sources: Brazilian Central Bank, Santander.

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



Sources: Brazilian Central Bank, Santander.

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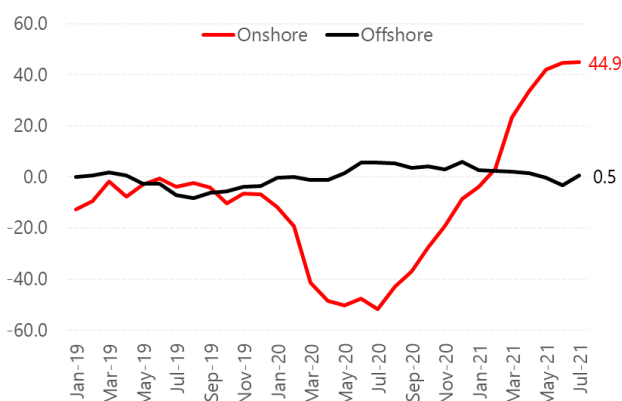


According to July 2021 balance of payments data released by the Brazilian Central Bank (BCB), the trade balance and the services account results were in line with our expectation, but the deficit in the primary income account exceeded the imbalance we had expected. The discrepancy stemmed from higher interest payments and larger remittances of profits and dividends, which led the current account balance to register a US\$1.6 billion deficit last month, which was larger than the US\$0.3 billion deficit we had calculated for the period. Consequently, on a 12-month basis, the current account deficit climbed to US\$20.3 billion in July 2021 from US\$19.4 billion in June 2021.

Although this number is frustrating at first sight, it is important to bear in mind that there is a seasonal concentration of interest payments and remittances of profits and dividends in July. Therefore, these figures should be assessed with a pinch of salt and, in our opinion, do not indicate a change in the constructive view for the prospects of the adjustment in the current account deficit in the coming months. This perception is reinforced when we consider the indication provided by the 3MMA-saar gauge, which points to an annual surplus of US\$8.7 billion based upon data available through last month. This is a level higher than the one showed by the 12-month indicator and above our forecast of US\$0.3 billion deficit for 2021 as a whole. Therefore, we believe there is room for the current account balance to confirm this sanguine trajectory in the coming months.

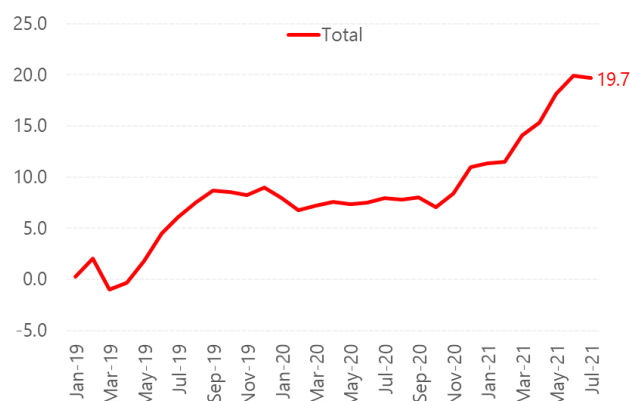
As an offset to the negative surprise delivered by the current account balance, the volume of direct investments in the country in July 2021 exceeded the level suggested by the preliminary figures provided by the BCB. The volume of DIC reached US\$6.1 billion last month and surpassed our estimate of US\$5.6 billion (the market median estimate was US\$4.7 billion), thus leading to net inflows of US\$47.5 billion on a 12-month basis—a level significantly above the current account deficit in the same terms. More important, its 3MMA-saar also indicates there is room for an improvement ahead: to US\$50.5 billion, in our view. In sum, we believe this steady funding source will be more than enough to create the conditions for the country to meet its external financing needs for some time.

Figure 3. Foreigners' purchases of Brazilian financial assets (USD billion, 12m)



Sources: Brazilian Central Bank, Santander.

Figure 4. Brazilian acquisitions of international financial assets (USD billion, 12m)



Sources: Brazilian Central Bank, Santander.

However, it has not been just DIC that has provided resources for the Brazilian economy to fund itself. When we take a look at portfolio investments, we can also identify another substantial source of funds, as foreigners' purchases of Brazilian financial assets have registered the sixth positive monthly reading this year (the only exception was in March 2021), with the acquisition of Brazilian equities, funds and bonds on both the domestic and international markets. On a 12-month basis, foreigners' purchases of Brazilian financial assets reached US\$45.4 billion, with the bulk of this volume related to operations in the domestic market. These operations have been able to offset a continual flow of Brazilian purchases of international financial assets that have already tallied US\$19.7 billion on a 12-month basis through July 2021. These operations translate into an outflow of greenbacks from the country and potential pressure on the BRL, but the inflow from foreign portfolio investments has helped to ease such pressure.

All in all, we believe July 2021 balance of payments data are not likely to change markets' constructive assessment about the soundness of the Brazilian external position, which continues to partially insulate the country against uncertainties seen on other fronts, especially the prospects for fiscal policy.



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