

A (TINY) YELLOW LIGHT

Jankiel Santos*

jankiel.santos@santander.com.br

+5511 3012-5726

- Although smaller than our estimate (USD6.5 billion), **the USD5.7 billion surplus registered by the Brazilian current account in April 2021 continued to hint at a positive result for the year as a whole, as the deficit on a 12M-to-date basis receded to USD12.4 billion last month from USD17.9 billion in the previous reading and reached nearly half of the USD24.1 billion imbalance of 2020. We estimate the current account balance to register a USD4.9 billion surplus in 2021.**
- Regarding the financial account, **while the volume of direct investments in the country (DIC) also fell short of our estimate (USD3.5 billion versus USD4.9 billion, respectively) in April 2021, the volume of foreign purchases of Brazilian financial assets on the domestic market returned to the positive camp (USD2.8 billion) last month, after having registered an outflow in the previous release.**
- **However, the (steady and increasing) volume of Brazilian acquisitions of foreign financial assets is an aspect that has called our attention,** as it was the sixteenth month in a row that we witnessed domestic investors sending money abroad.
- All in all, we continue see the sturdiness of the Brazilian balance of payments as an insulating factor against uncertainties stemming from the fiscal front, but the outflow of domestic investors lit a (tiny) yellow light.

The USD5.7 billion surplus registered by the Brazilian current account balance in April 2021 fell short of our estimate (USD6.5 billion) as well as of the market median forecast (USD6.1 billion) on the heels of larger imports than indicated by data of the Foreign Trade Secretariat and bigger interest payments than suggested by the schedule provided by the Brazilian Central Bank. Despite being smaller than expected, the outcome did not alter the improving trend that the current account balance has shown of late and that we expect to continue in the coming months. On a 12-month-to-date basis, the current account deficit reached USD12.4 billion in April 2021, which is nearly half of the level observed in December 2020 (USD24.1 billion) and also below the USD17.9 imbalance seen in the previous reading. What's more, the annualized average of the last three months in seasonally adjusted terms (3MMA-saar) has also pointed to the continuation of an improving trend (USD14.5 billion deficit from USD46.5 billion in March 2021). Hence, we keep our view that the Brazilian economy is likely to register a current account surplus in 2021—we forecast a USD4.9 billion surplus for this year as a whole.

In addition to the current account balance's favorable signs, we also saw continued improvement in key resources that fund Brazil's external financing needs. Although lower than our estimate (USD3.5 billion versus USD4.9 billion), the volume of direct investments in the country (DIC) continued to follow a rising trend on both a 12M-to-date basis as well as on a 3MMA-saar one. In the former metric, DIC totaled USD41.2 billion while the latter indicated a fairly high volume of USD92.0 billion, thus buttressing the perception that the Brazilian current account balance faces rather comfortable sources to fund an eventual deficit.

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)

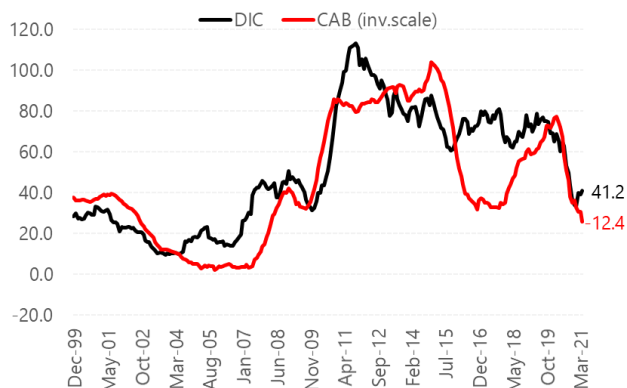
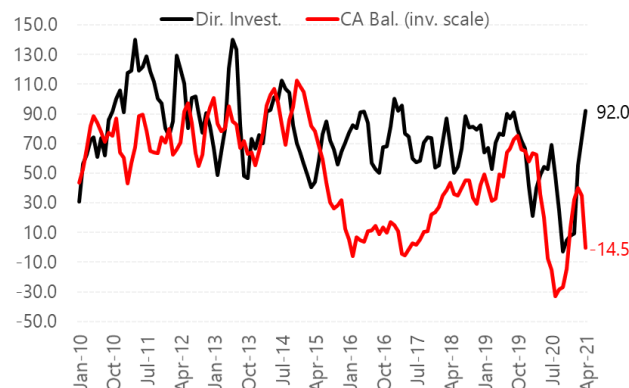


Figure 2: Current Account Balance vs Direct Investments in the Country (USD billion, 3MMA-saar)



Sources: Brazilian Central Bank, Santander

Sources: Brazilian Central Bank, Santander.

On top of the steady flow of direct investments in the country, another piece of good news regarding the financial account was the return of the net flows of foreigners’ acquisitions of Brazilian financial assets in the domestic market to the positive camp after a negative in the March 2021. Foreign investors acquired USD2.8 billion in the domestic market, thus more than offsetting the USD1.3 billion sale of Brazilian financial assets abroad. In our view, the outcome reinforces our perception that the solution of the stalemate related to the federal budget for 2021 could be a trigger for the return of foreigners to the domestic market. Incidentally, preliminary data provided by the Brazilian Central Bank indicate that we should see another sound volume of foreigners’ acquisitions in May 2021.

In the opposite direction, one thing has called our attention recently—that is the steady upward trend registered by the volume of Brazilian acquisitions of foreign financial assets, with the USD2.3 billion reading of April 2021 being the sixteenth month in a row of purchases abroad. We think the figure can be related to the widening gap observed between the surpluses in the shipped trade balance and its financial settlement, but just a part of it, as the gap is currently close to USD50.0 billion. However, we believe it signs that part of that money may not return even with the prospects for a higher interest rate level on the horizon.

Figure 3: Foreigners’ acquisitions of Brazilian financial assets (USD billion, 12M-to-date)

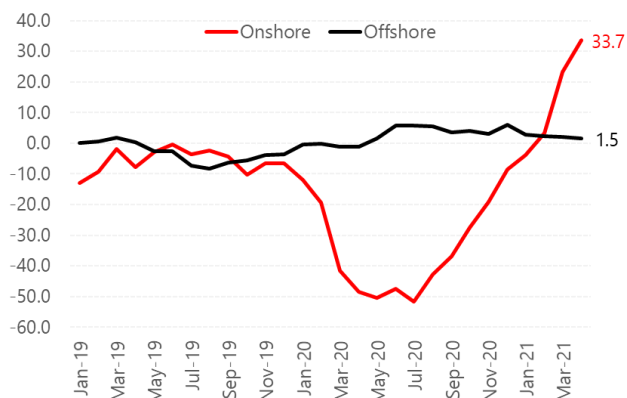
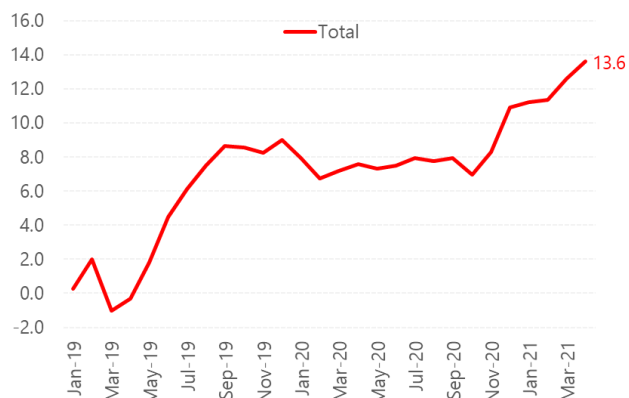


Figure 4: Brazilian Portfolio Investments Offshore (USD billion, 12M-to-date)



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 its way for registering a surplus in 2021 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 to follow more closely from now on.



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
Henrique Navarro*	Head, Brazil	havieira@santander.com.br	5511-3012-5657

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.

