

FINANCIAL CONDITIONS INDICATOR
FOREIGN AND DOMESTIC HEADWINDS CONTINUE TO TIGHTEN FINANCIAL CONDITIONS

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- **Our financial conditions indicator (FCI) for February showed the first tightening after three months of continued easing, with the FCI remaining critically restrictive (positive values = a restrictive stance).** After recording in October 2022 the tightest level since 2009 (+1.57 points), the index (always presented on a scaled basis) has expanded 0.03 p.p., to 1.04 points this month (from 1.01 points in January), considering available data as of February 22.
- **Zooming in on the details, the composition remains mixed.** On the one hand, foreign (+0.07 p.p.) and domestic (+0.02 p.p.) interest rates were the lowlights, with substantial contributions to February's tightening. Moreover, commodities (+0.01 p.p.) and currencies (+0.00 p.p.) showed virtual stability at the margin. Conversely, risk (-0.03 p.p.), oil prices (-0.03 p.p.) and capital markets (-0.02 p.p.) continue to help easing financial conditions. When we exclude oil prices from the analysis, we see a 0.06 p.p. expansion of the FCI (ex-oil), to 1.26 p.p. (vs. 1.20 p.p. in January). At the margin, we see domestic factors contributing relatively less to the tightening of the FCI than in recent periods, while foreign factors have contributed the most. Additionally, in December-May our recession tracker (based on a three-month lagged FCI) virtually reached the same levels seen during the worst moments of the 2014-16 Brazilian recession, posing continued challenges to cyclical domestic activity this year (mostly in 1H23) following a weak 4Q22.
- **Our 4Q22 GDP tracking stands at -0.2% QoQ-sa, implying 2.9% growth for full-year 2022.** For 2023, we forecast 0.8% growth. We project slowdowns in domestic demand and cyclical supply components, stemming mainly from the expected global recession and the effects of a tight BCB policy, but we also expect strong growth for non-cyclical farm output, reflecting an all-time high forecast for the grain harvest.

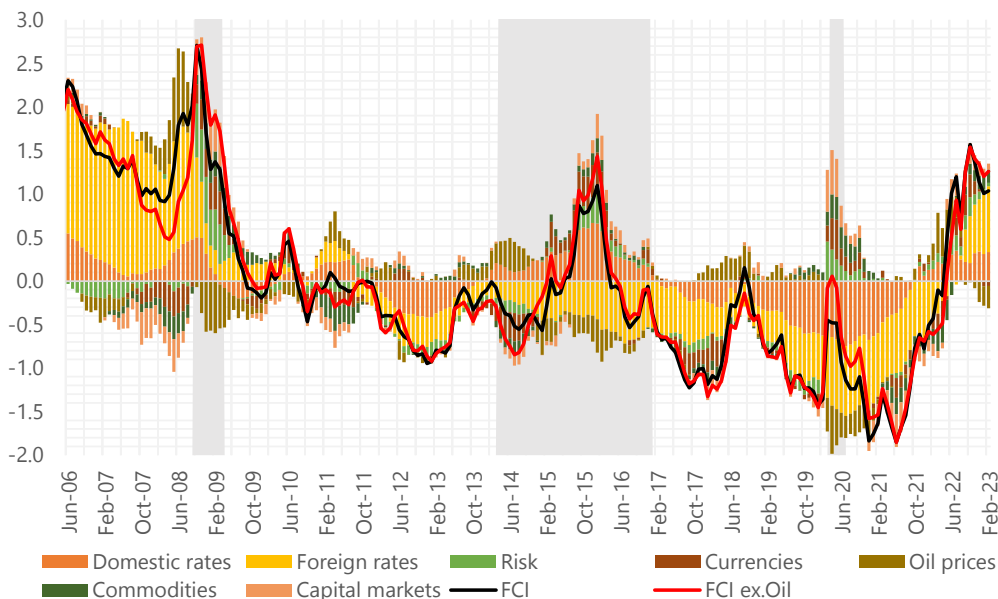
Figure 1 – Santander's FCI Breakdown

Financial Conditions Indicator							
	Weights	Headline			Change		
		Dec-22	Jan-23	Feb-23	Jan-23	Feb-23	
FCI	100%	1.14	1.01	1.04	↑	-0.13	0.03
Domestic rates	34%	0.34	0.31	0.33	↑	-0.03	0.02
Foreign rates	33%	0.60	0.68	0.76	↑	0.08	0.07
Risk	18%	0.09	0.06	0.04	↓	-0.02	-0.03
Currencies	20%	0.03	-0.06	-0.06	↑	-0.09	0.00
Oil prices	23%	-0.24	-0.23	-0.25	↓	0.02	-0.03
Commodities	-13%	0.15	0.14	0.15	↑	0.00	0.01
Capital markets	-15%	0.17	0.09	0.07	↓	-0.09	-0.02
FCI (ex Oil)	-	1.34	1.20	1.26	↑	-0.14	0.06
Domestic Factors	-	0.27	0.16	0.16	↑	-0.12	0.01
Foreign Factors	-	0.86	0.85	0.87	↑	-0.02	0.02

Sources: Bloomberg, BCB, Santander.

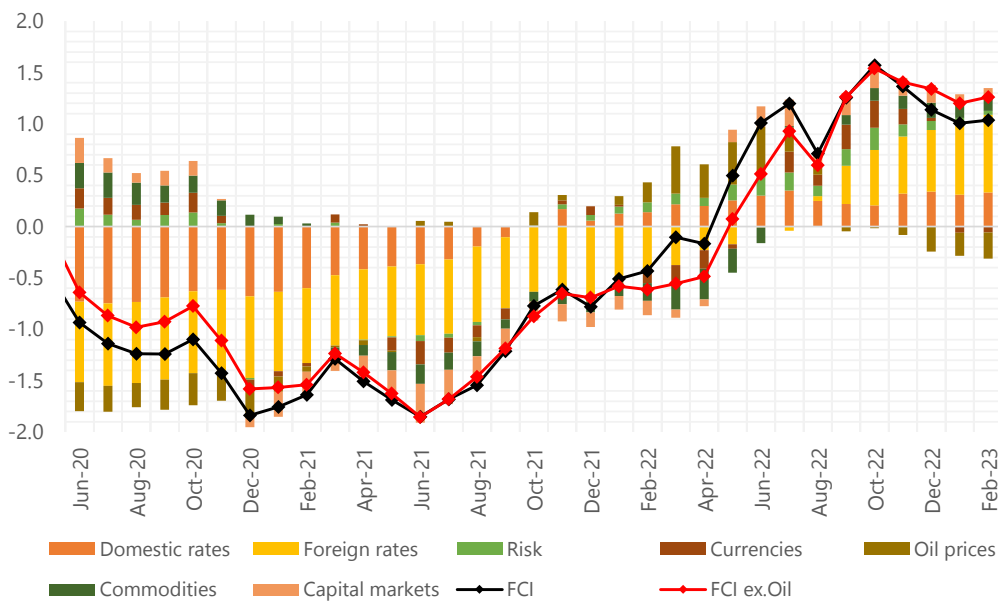


Figure 2 – Santander's FCI Proxy (from 2006 to 2023)



Sources: Bloomberg, BCB, FGV, Santander.

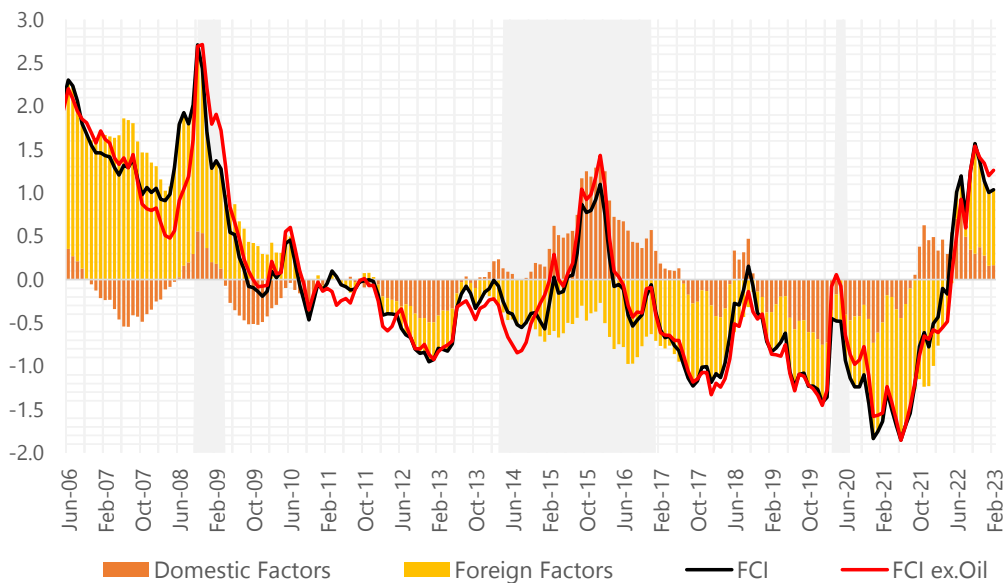
Figure 3 – Santander's FCI Proxy (from 2020 to 2023)



Sources: Bloomberg, BCB, FGV, Santander.

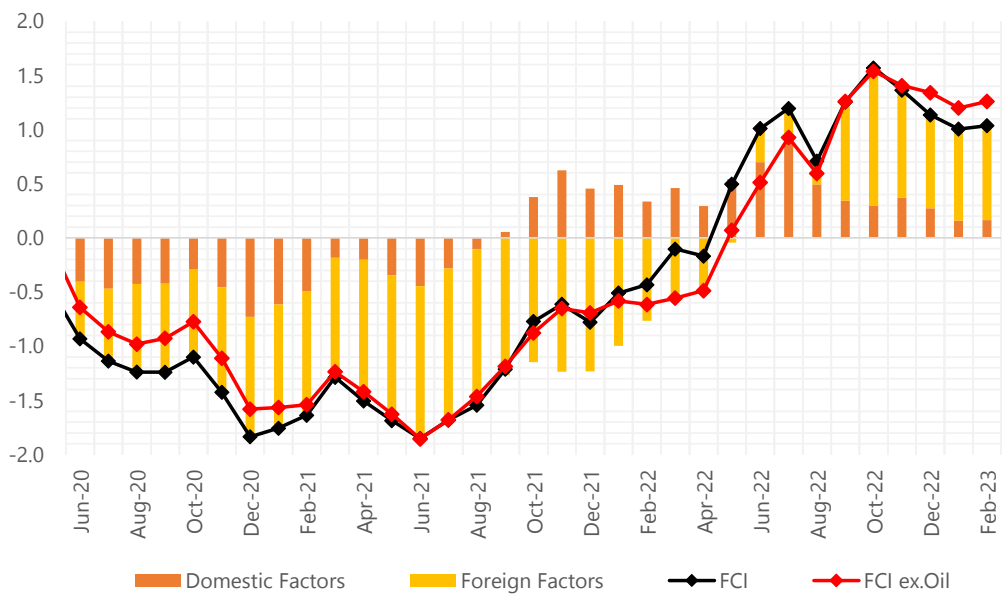


Figure 4 – Santander’s FCI Proxy Breakdown (from 2006 to 2023)



Sources: Bloomberg, BCB, FGV, Santander.

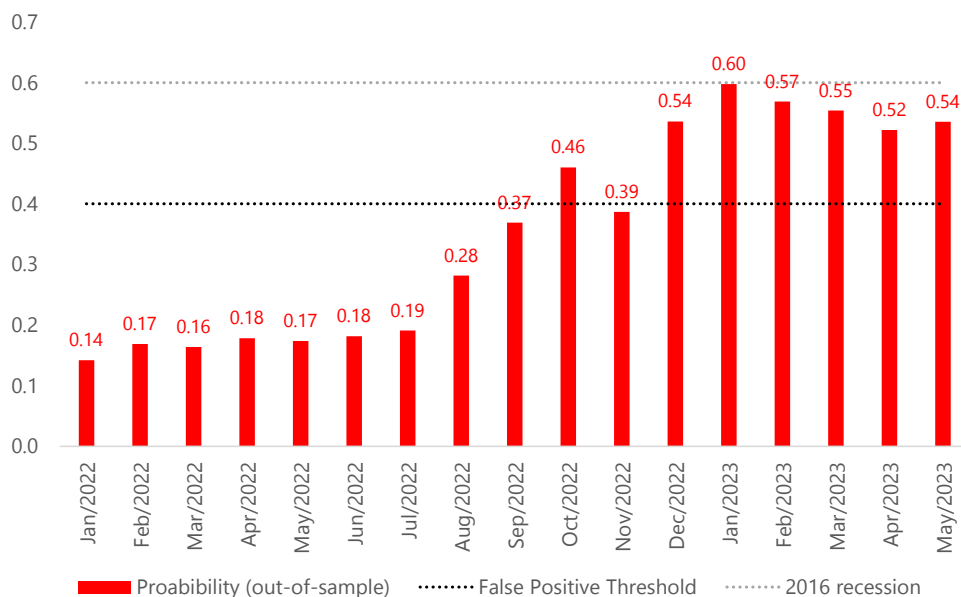
Figure 5 – Santander’s FCI Proxy Breakdown (from 2020 to 2023)



Sources: Bloomberg, BCB, FGV, Santander.



Figure 6 – Recession Probability Tracker Based on FCI (2022 to 2023)



Sources: Bloomberg, BCB, FGV, Santander.

For details on Santander's economic activity outlook, please refer to our last reports¹.

¹ **Santander Brazil Economic Activity: "Financial Conditions Remain Critically Restrictive"** – November 30, 2022 – Available on: <https://bit.ly/Std-FCI-nov22>

Santander Brazil Special Report: "Forecasting Probability of Recession in Brazil with Financial Conditions" – January 04, 2023 – Available on: <https://bit.ly/Std-special-010423>

Santander Brazil Economic Activity: "Broad Activity Remains in Negative Territory" – January 19, 2023 – Available on: <https://bit.ly/Std-SAI-nov22>

Santander Brazil Special Report: "A Breakdown of Brazilian Financial Conditions" – January 19, 2023 – Available on: <https://bit.ly/Std-special-011923>



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