

FINANCIAL CONDITIONS INDICATOR
**FINANCIAL CONDITIONS REMAIN RESTRICTIVE,
DESPITE RELIEF AT THE MARGIN**

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- **Our financial conditions indicator (FCI) for January continued to show some relief but remains critically restrictive (positive values = a restrictive stance).** After recording in October 2022 the tightest level since 2009 (+1.56 points), and considering available data as of January 16, the index (always presented on a scaled basis) shrank 0.04 p.p. to 1.08 points (from 1.13 in December).
- **Zooming in on the details, we see mixed signals.** On the one hand, exclusively external subcomponents continue to tighten: foreign interest rates (+0.10 p.p.) and commodities prices (+0.01 p.p.) increased their contribution for the sixth month in a row. Conversely, currencies (-0.05 p.p.), capital markets (-0.04 p.p.), domestic interest rates (-0.03 p.p.), oil prices (-0.02 p.p.), and risks (-0.01 p.p.) helped ease financial conditions. When we exclude oil prices from the analysis, we still see 0.02 p.p. shrinkage of FCI (ex-oil) to 1.34 p.p. (vs. 1.36 p.p. in December).
- **Fiscal conditions remain seriously restrictive, owing to both domestic and external headwinds.** Moreover, given our expectations for domestic and foreign interest rates and global growth, we see financial conditions remaining in contractionary territory throughout 2023, creating challenges for domestic activity (mostly in cyclical activities) this year. In the short term, our 4Q22 GDP growth tracking stands at -0.2% QoQ-sa, and we forecast GDP growth of 3.0% in 2022 and 0.8% in 2023. We project a slowdown in domestic demand and in 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	
		Nov-22	Dec-22	Jan-23		Dec-22	Jan-23
FCI	100%	1.35	1.13	1.08	↓	-0.23	-0.04
Domestic rates	34%	0.32	0.34	0.31	↓	0.02	-0.03
Foreign rates	33%	0.56	0.61	0.71	↑	0.05	0.10
Risk	18%	0.12	0.09	0.08	↓	-0.03	-0.01
Currencies	20%	0.14	0.02	-0.03	↓	-0.12	-0.05
Oil prices	23%	-0.11	-0.27	-0.29	↓	-0.16	-0.02
Commodities	-13%	0.14	0.17	0.18	↑	0.02	0.01
Capital markets	-15%	0.17	0.18	0.13	↓	0.00	-0.04
FCI (ex Oil)	-	1.42	1.36	1.34	↓	-0.06	-0.02

Sources: Bloomberg, BCB, Santander.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE “IMPORTANT DISCLOSURES” SECTION OF THIS REPORT.

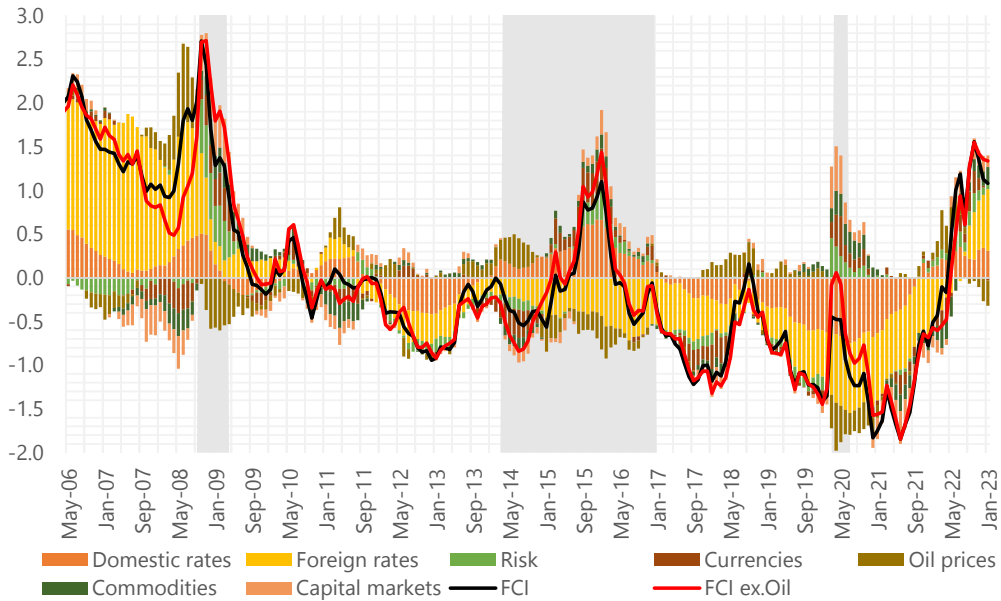
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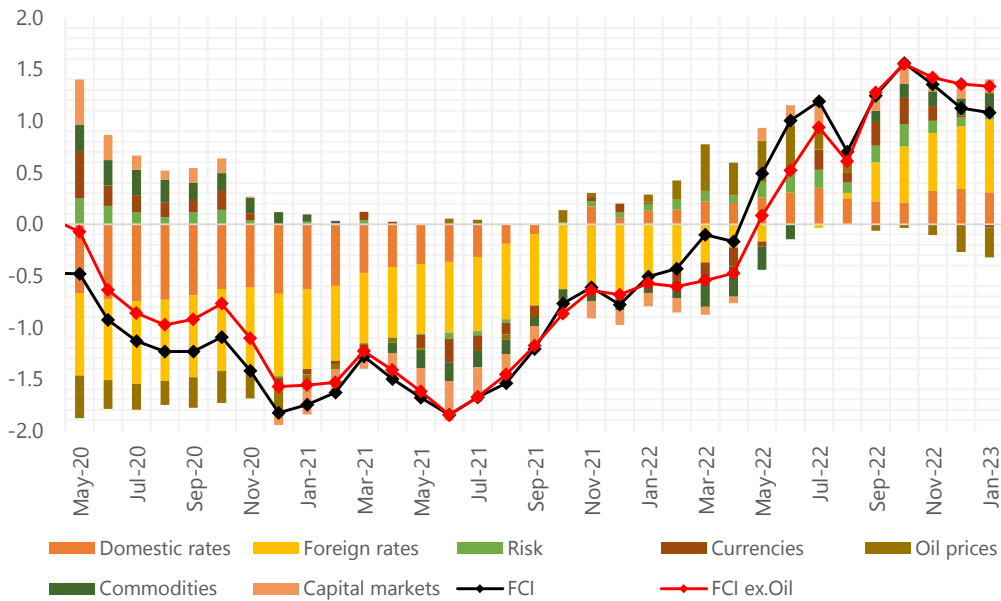
For details on Santander’s economic activity outlook, please refer to our last reports¹.

Figure 2 – Santander’s FCI Proxy (from 2006 to 2022)



Sources: Bloomberg, BCB, Santander.

Figure 3 – Santander’s FCI Proxy (from 2020 to 2022)



Sources: Bloomberg, BCB, Santander.

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: “Santander’s Monthly Activity Indicator Entered Restrictive Territory in October” – January 03, 2023 – Available on: <https://bit.ly/Std-special-010323>

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



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