

FOURTH EASING IN A ROW FOR FINANCIAL CONDITIONS IN JULY

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- **Our financial conditions indicator (FCI) for July showed additional easing, with the fourth drop in a row. Still, the index remains in restrictive territory (positive values = restrictive position).** After recording the tightest level since 2009 in October 2022 (+1.57 points), the index (always presented on a scaled basis) has eased by 0.04 points, to 0.64 points in July (from 0.68 points in June).
- **Zooming in on the details, the breakdown indicates that domestic factors remained at stimulative levels.** Foreign factors had a positive contribution (+0.05 p.p.), while domestic factors contributed negatively to the index (-0.09 p.p.). Most of the components pointed to easing conditions. Currencies (-0.06 p.p.), capital markets (-0.06 p.p.) and domestic rates (-0.04 p.p.) were the highlights of the easing conditions. Commodities (-0.02 p.p.) and risk (-0.01 p.p.) also contributed negatively to the index (i.e., contributed to easing). Conversely, foreign rates (+0.09 p.p.) and oil prices (+0.06 p.p.) helped to tighten financial conditions. When we exclude oil prices from the analysis, we see a 0.10 p.p. reduction in the FCI (ex-oil), to 0.83 p.p. (vs. 0.93 p.p. in June). At the margin, we see domestic factors contributing more to the easing of the FCI, while foreign factors remain at restrictive levels.
- **The July's FCI update slightly reduces the predicted recession probability for October, but that probability remains above the false-positive threshold.** In December-June, our recession tracker (based on a three-month lagged FCI) reached virtually the same levels seen during the worst periods of Brazil's 2014-16 recession, posing continued challenges to cyclical domestic activity this year.
- **We forecast 1.9% growth for full year 2023.** We continue to see signs of deceleration for broad activity ahead, as more cyclical segments indicate a continued slowing trend owing to the still highly restrictive financial conditions. In addition, we expect the positive impact of the record summer crops to be limited to 1Q23 and the beginning of 2Q23.

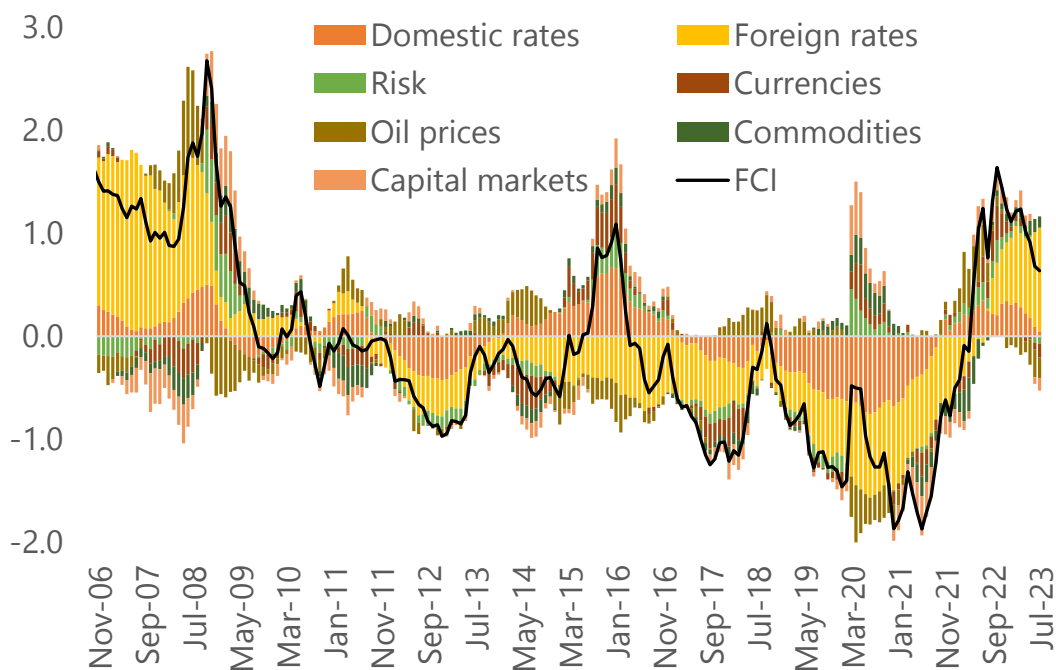


Figure 1 – Santander's FCI Breakdown

Financial Conditions Indicator							
	Weights	Headline			Change		
		May-23	Jun-23	Jul-23	Jun-23	Jul-23	
FCI	100%	0.92	0.68	0.64	↓	-0.24	-0.04
Domestic rates	34%	0.18	0.09	0.05	↓	-0.09	-0.04
Foreign rates	33%	0.79	0.92	1.01	↑	0.13	0.09
Risk	18%	0.01	-0.06	-0.07	↓	-0.07	-0.01
Currencies	20%	-0.03	-0.07	-0.13	↓	-0.04	-0.06
Oil prices	23%	-0.24	-0.27	-0.20	↑	-0.02	0.06
Commodities	-13%	0.14	0.13	0.11	↓	-0.02	-0.02
Capital markets	-15%	0.07	-0.06	-0.12	↓	-0.13	-0.06
FCI (ex Oil)	-	1.13	0.93	0.83	↓	-0.20	-0.10
Domestic Factors	-	-0.01	-0.27	-0.36	↓	-0.25	-0.09
Foreign Factors	-	0.93	0.95	0.99	↑	0.02	0.05

Sources: Bloomberg, BCB, Santander.

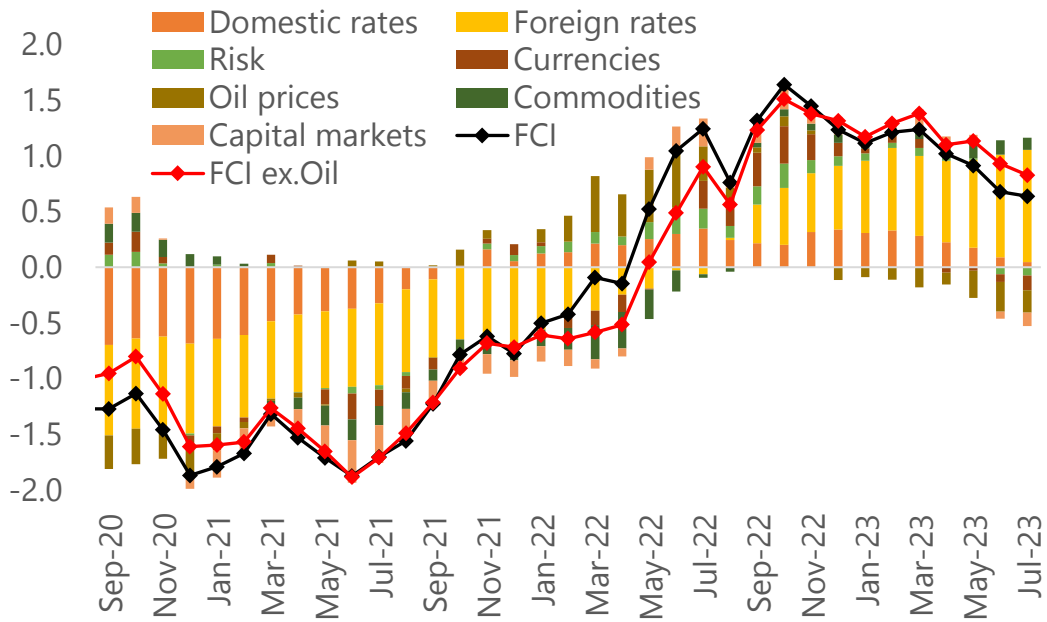
Figure 2 – Santander's FCI Proxy (from 2006 to 2023)



Sources: Bloomberg, BCB, FGV, Santander.

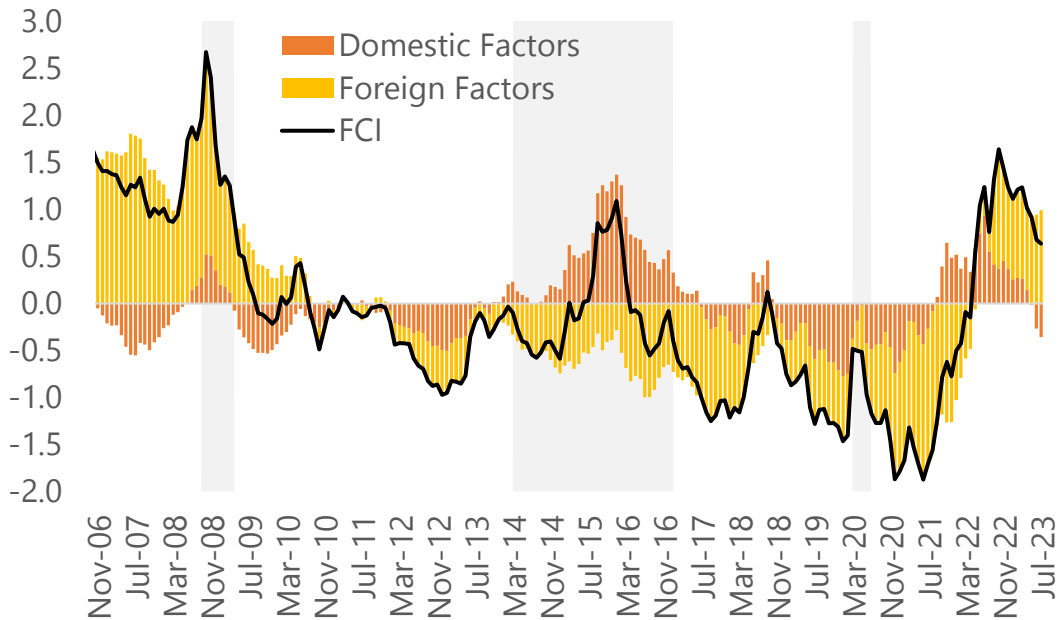


Figure 3 – Santander’s FCI Proxy (from 2020 to 2023)



Sources: Bloomberg, BCB, FGV, Santander.

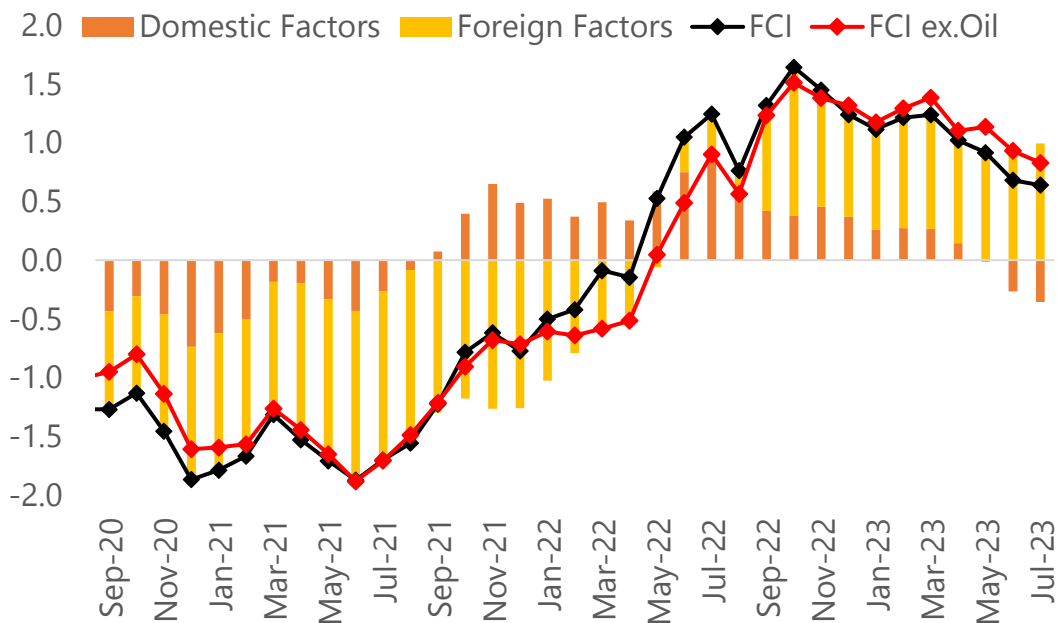
Figure 4 – Santander’s FCI Proxy Breakdown (from 2006 to 2023)



Sources: Bloomberg, BCB, FGV, Santander.

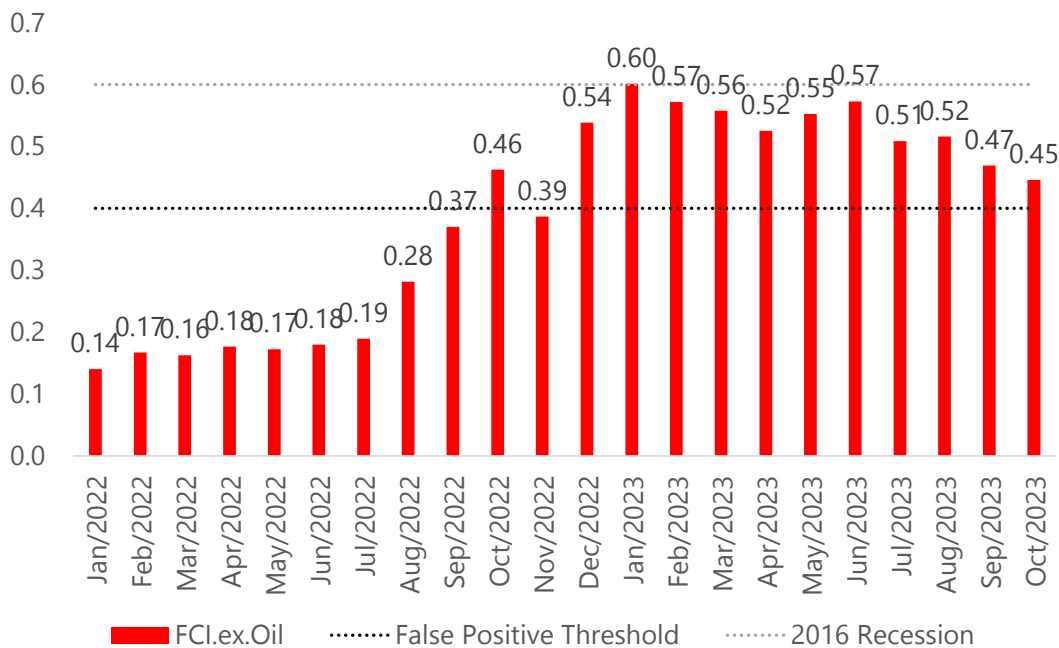


Figure 5 – Santander’s FCI Proxy Breakdown (from 2020 to 2023)



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: “Upgrading Our 2023 GDP Growth Forecast”** – June 22, 2023 – Available on: <https://tinyurl.com/Std-chart-econact-jun23>

Santander Brazil Economic Activity: “SAI Shows a Contraction in Activity in May as a Result of Deceleration in Agriculture” – July 19, 2023 – Available on: <https://tinyurl.com/Std-SAI-may23>



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