



## FINANCIAL CONDITIONS AT THE LEAST RESTRICTIVE LEVEL SINCE MAY 2022, BUT STILL TIGHT

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- **Our financial conditions indicator (FCI) for June showed additional easing, with the third 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 0.24 points, to 0.62 points in June (from 0.86 points in May).
- **Zooming in on the details, the breakdown indicates that domestic factors went to stimulative levels.** Foreign factors had a contribution close to zero (+0.02 p.p.), while domestic factors contributed negatively to the index (-0.26 p.p.). Most of the components pointed to easing conditions. Capital markets (-0.13 p.p.), domestic rates (-0.09 p.p.), and risk (-0.07 p.p.) were the highlights of the easing conditions. Currencies (-0.04 p.p.), oil prices (-0.02 p.p.), and commodities (-0.01 p.p.) also contributed negatively to the index (i.e., contributed to easing). Conversely, foreign rates (+0.13 p.p.) was the only component that helped to tighten financial conditions. When we exclude oil prices from the analysis, we see a 0.21 p.p. reduction in the FCI (ex-oil), to 0.90 p.p. (vs. 1.11 p.p. in May). At the margin, we see domestic factors contributing more to the easing of the FCI, while foreign factors remain at restrictive levels.
- **The June's FCI update reduces the predicted recession probability for September, 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 (mostly in 1H23) following a weak 4Q22.
- **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.

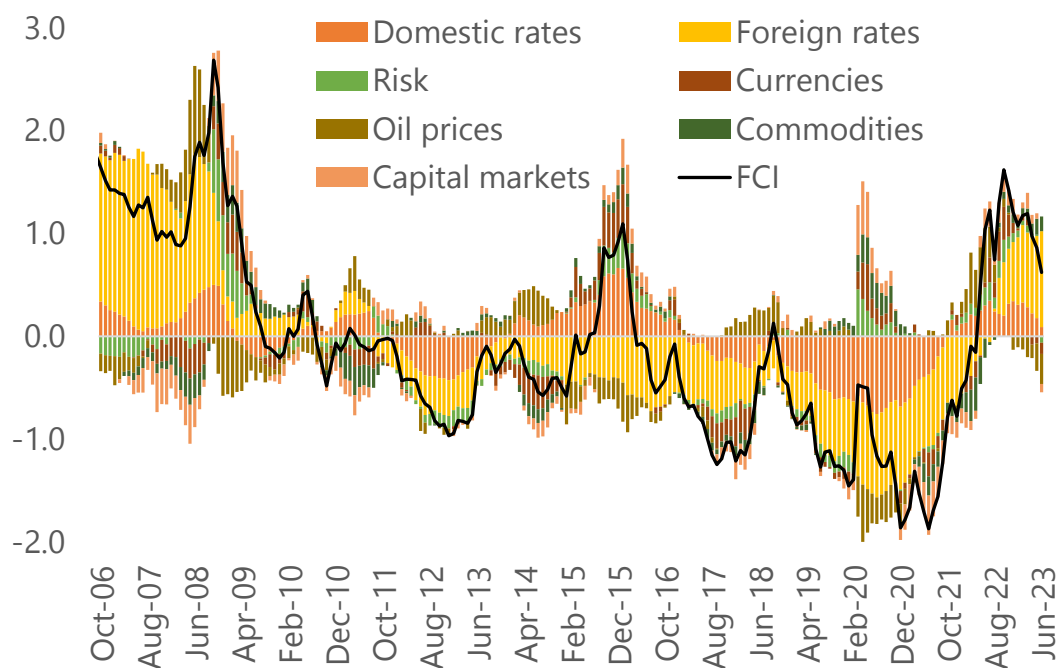


Figure 1 – Santander's FCI Breakdown

Financial Conditions Indicator							
	Weights	Headline			Change		
		Apr-23	May-23	Jun-23	May-23	Jun-23	
<b>FCI</b>	<b>100%</b>	<b>0.97</b>	<b>0.86</b>	<b>0.62</b>	↓	<b>-0.11</b>	<b>-0.24</b>
Domestic rates	34%	0.22	0.18	0.09	↓	-0.05	-0.09
Foreign rates	33%	0.74	0.80	0.93	↑	0.06	0.13
Risk	18%	0.02	0.01	-0.06	↓	-0.01	-0.07
Currencies	20%	-0.08	-0.07	-0.11	↓	0.01	-0.04
Oil prices	23%	-0.13	-0.27	-0.29	↓	-0.14	-0.02
Commodities	-13%	0.11	0.16	0.14	↓	0.04	-0.01
Capital markets	-15%	0.08	0.05	-0.08	↓	-0.03	-0.13
<b>FCI (ex Oil)</b>	-	<b>1.08</b>	<b>1.11</b>	<b>0.90</b>	↓	<b>0.03</b>	<b>-0.21</b>
<b>Domestic Factors</b>	-	<b>0.11</b>	<b>-0.05</b>	<b>-0.31</b>	↓	<b>-0.16</b>	<b>-0.26</b>
<b>Foreign Factors</b>	-	<b>0.87</b>	<b>0.92</b>	<b>0.93</b>	↑	<b>0.05</b>	<b>0.02</b>

Sources: Bloomberg, BCB, Santander.

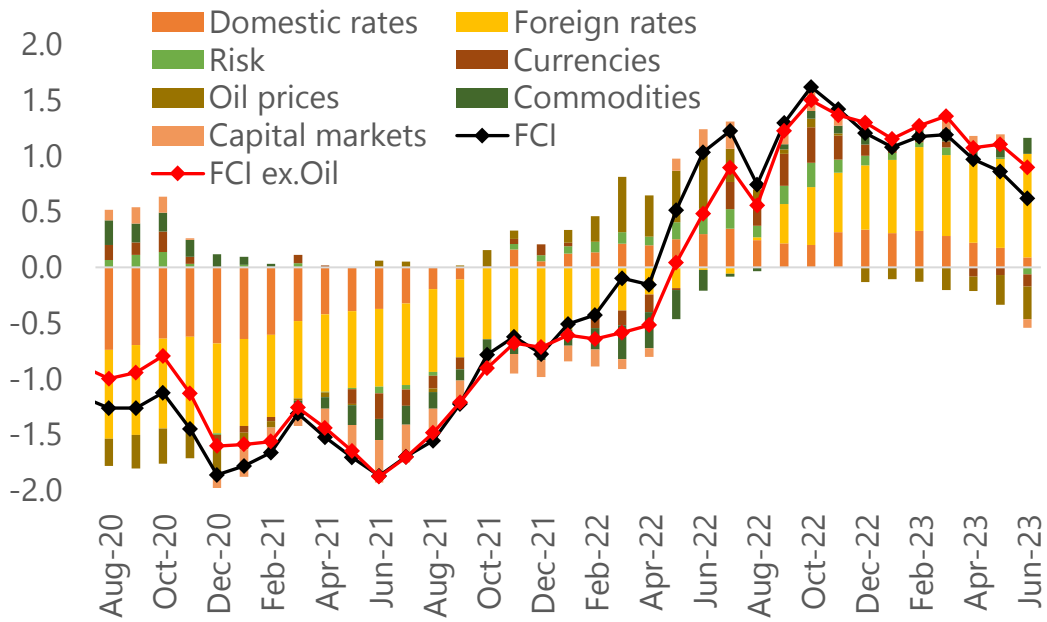
Figure 2 – Santander's FCI Proxy (from 2006 to 2023)



Sources: Bloomberg, BCB, FGV, Santander.

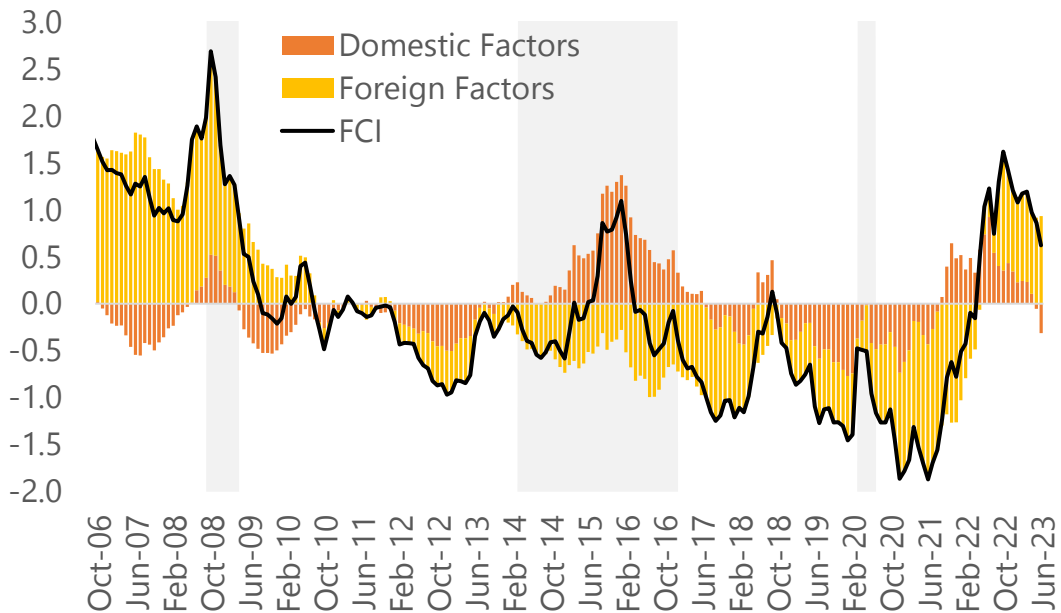


**Figure 3 – Santander’s FCI Proxy (from 2020 to 2023)**



Sources: Bloomberg, BCB, FGV, Santander.

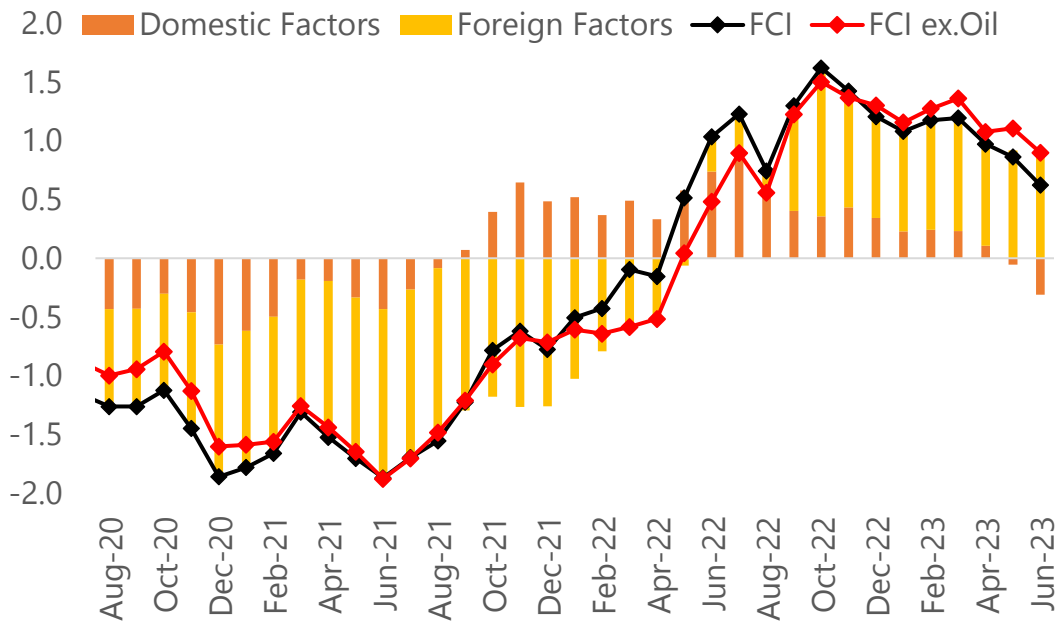
**Figure 4 – Santander’s FCI Proxy Breakdown (from 2006 to 2023)**



Sources: Bloomberg, BCB, FGV, Santander.

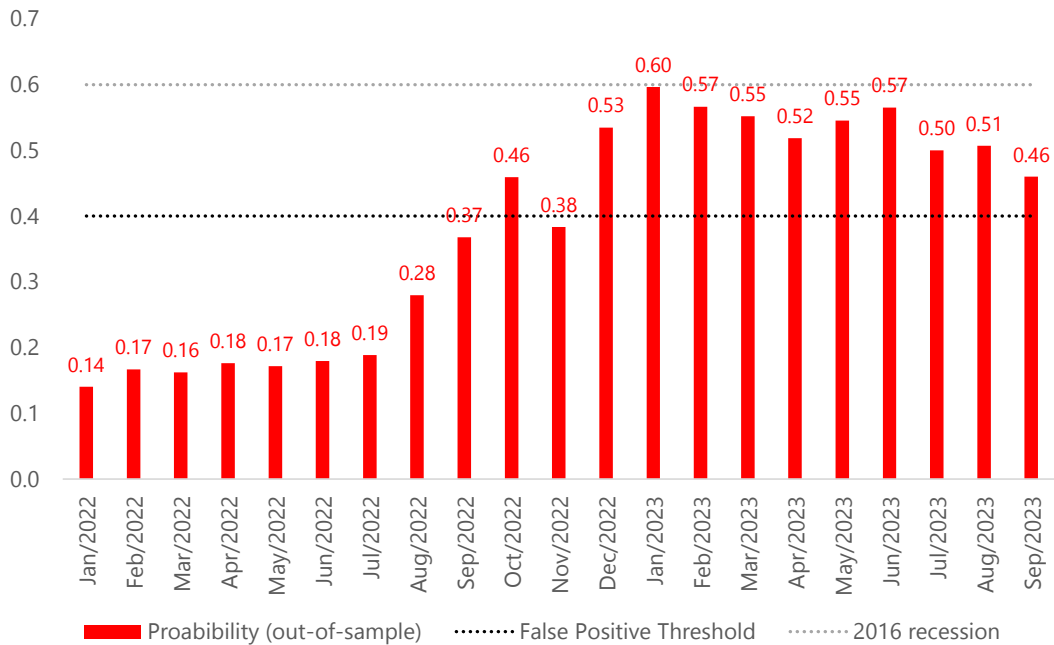


Figure 5 – Santander’s FCI Proxy Breakdown (from 2020 to 2023)



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 reports<sup>1</sup>.

<sup>1</sup> Santander Brazil Economic Activity: “Upgrading Our 2023 GDP Growth Forecast” – June 22, 2023 – Available on: <https://tinyurl.com/Std-chart-econact-jun23>



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