

**FINANCIAL CONDITIONS INDICATOR**
**FINANCIAL CONDITIONS REMAINED STABLE AT HIGHLY RESTRICTIVE LEVELS IN MARCH**

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- **Our financial conditions indicator (FCI) for March remained close to stable after tightening in February, with the index remaining critically restrictive (positive values = a restrictive stance).** After recording the tightest level since 2009 in October 2022 (+1.57 points), the index (always presented on a scaled basis) has expanded 0.01 point, to 1.14 points this month (from 1.13 points in January).
- **Zooming in on the details, the composition remains mixed.** Foreign factors (+0.02 p.p.) contributed positively to the index, as domestic factors (-0.01 p.p.) had a negative contribution. Capital markets were the lowlights, with substantial contributions to March's tightening (+0.09 p.p.). Moreover, commodities (+0.03 p.p.), risk (+0.03 p.p.) and currencies (+0.01 p.p.) contributed to tightening the conditions. Conversely, oil prices (-0.08 p.p.), domestic rates (-0.05 p.p.) and foreign rates (-0.02 p.p.) have helped to ease financial conditions. When we exclude oil prices from the analysis, we see a 0.09 p.p. expansion of the FCI (ex-oil), to 1.38 p.p. (vs. 1.29 p.p. in February). 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-June 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 1Q23 GDP tracking stands at +0.5% QoQ-sa, implying 0.8% growth for full-year 2023.** 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, especially in 1Q23, reflecting an all-time high forecast for the grain harvest.

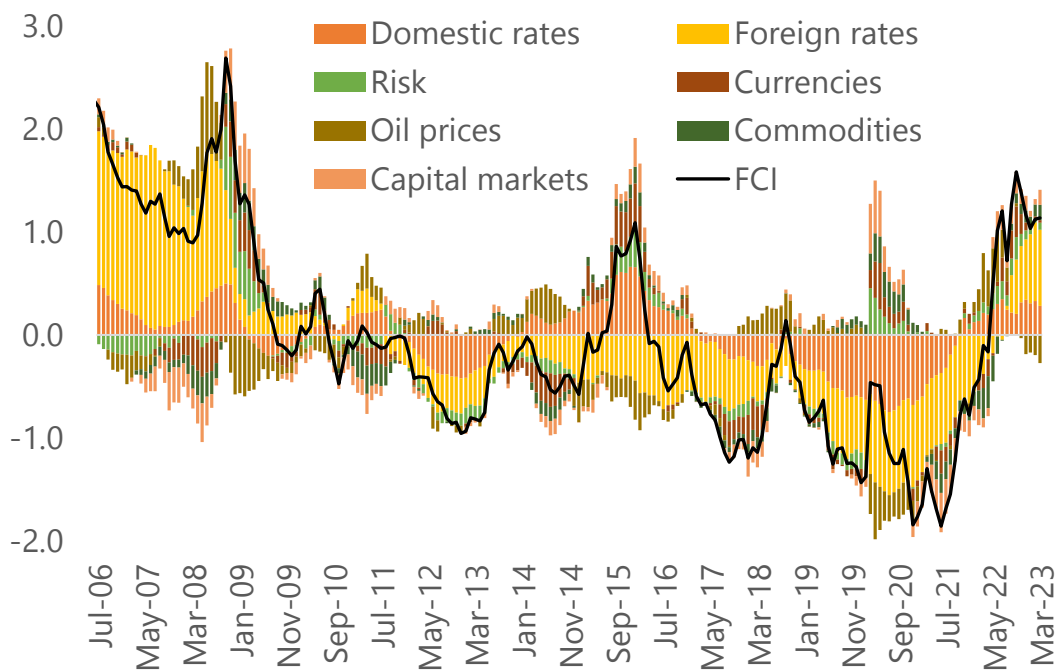
**Figure 1 – Santander's FCI Breakdown**

Financial Conditions Indicator							
	Weights	Headline			Change		
		Jan-23	Feb-23	Mar-23	Feb-23	Mar-23	
<b>FCI</b>	<b>100%</b>	<b>1.04</b>	<b>1.13</b>	<b>1.14</b>	↑	<b>0.09</b>	<b>0.01</b>
Domestic rates	34%	0.31	0.33	0.28	↓	0.02	-0.05
Foreign rates	33%	0.67	0.77	0.74	↓	0.09	-0.02
Risk	18%	0.06	0.04	0.07	↑	-0.02	0.03
Currencies	20%	0.00	0.01	0.02	↑	0.02	0.01
Oil prices	23%	-0.17	-0.20	-0.27	↓	-0.03	-0.08
Commodities	-13%	0.11	0.12	0.15	↑	0.01	0.03
Capital markets	-15%	0.06	0.05	0.15	↑	0.00	0.09
<b>FCI (ex Oil)</b>	-	<b>1.17</b>	<b>1.29</b>	<b>1.38</b>	↑	<b>0.12</b>	<b>0.09</b>
<b>Domestic Factors</b>	-	<b>0.18</b>	<b>0.19</b>	<b>0.17</b>	↓	<b>0.01</b>	<b>-0.01</b>
<b>Foreign Factors</b>	-	<b>0.86</b>	<b>0.94</b>	<b>0.96</b>	↑	<b>0.08</b>	<b>0.02</b>

Sources: Bloomberg, BCB, Santander.

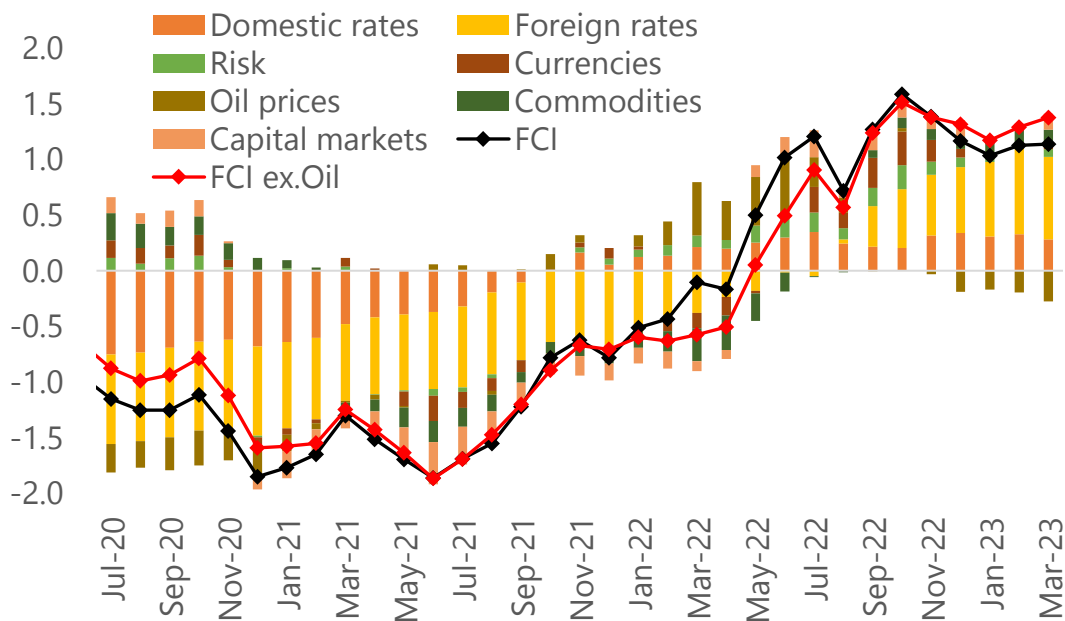


**Figure 2 – Santander's FCI Proxy (from 2006 to 2023)**



Sources: Bloomberg, BCB, FGV, Santander.

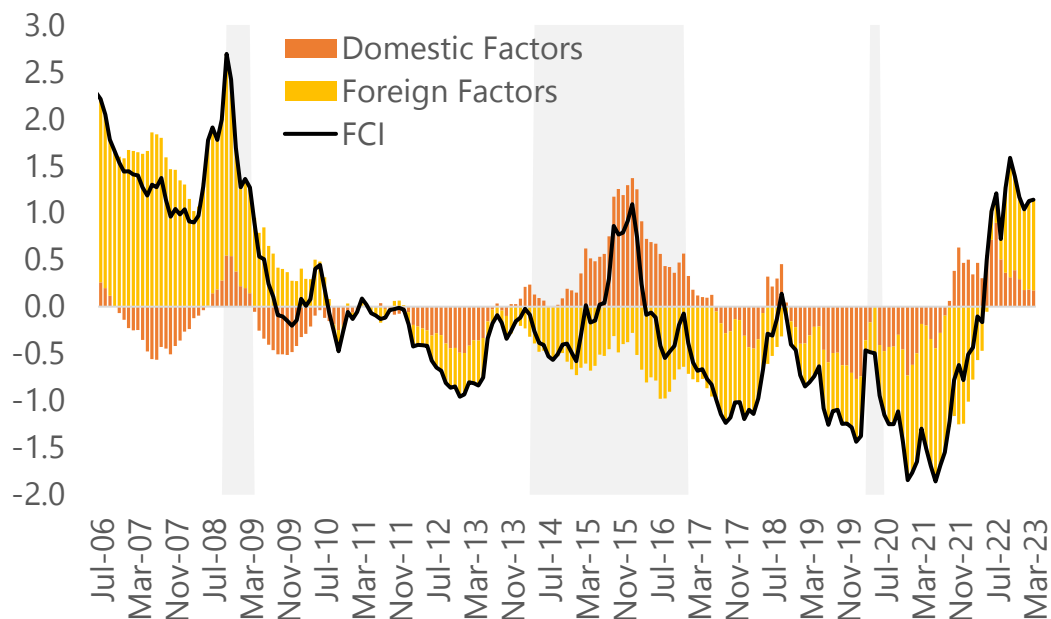
**Figure 3 – Santander's FCI Proxy (from 2020 to 2023)**



Sources: Bloomberg, BCB, FGV, Santander.

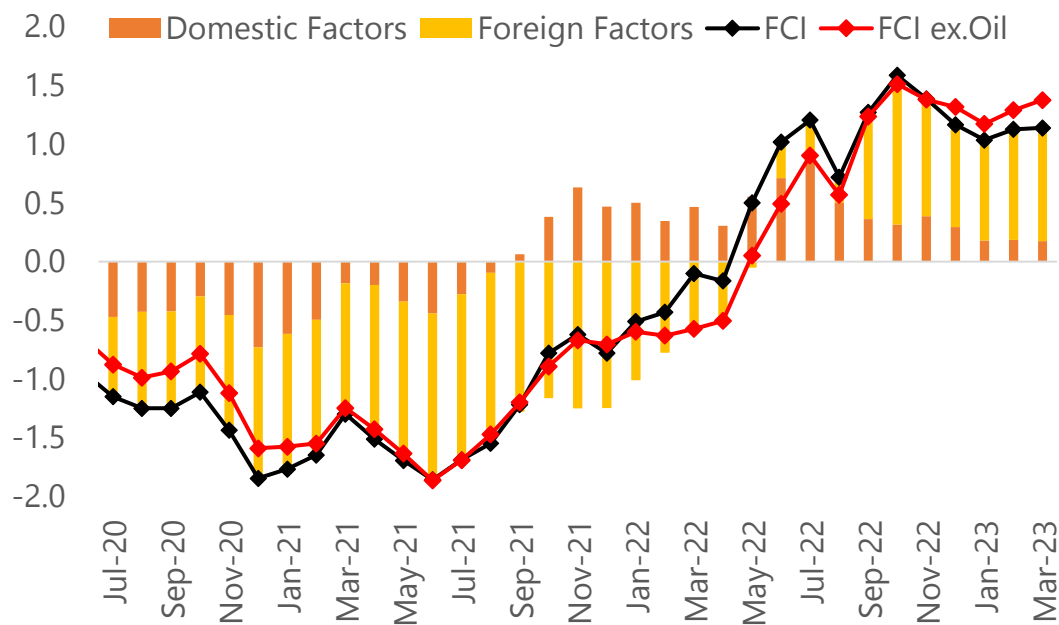


Figure 4 – Santander’s FCI Proxy Breakdown (from 2006 to 2023)



Sources: Bloomberg, BCB, FGV, Santander.

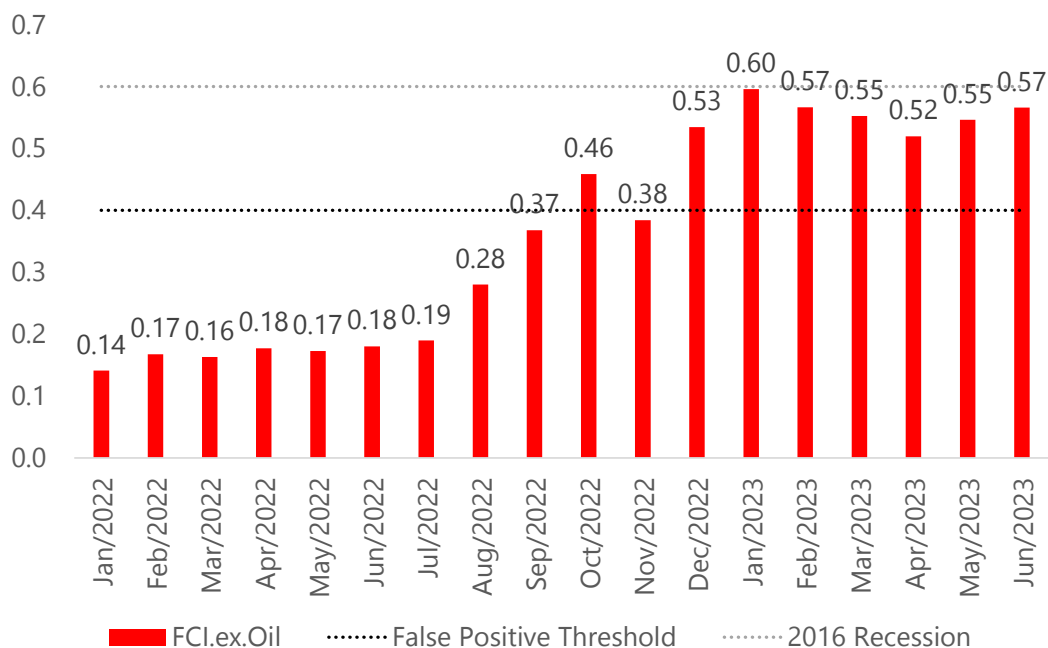
Figure 5 – Santander’s FCI Proxy Breakdown (from 2020 to 2023)



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: “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: “As Expected, Activity Data Point to a Weak 4Q22”** – February 28, 2023 – Available on: <https://bit.ly/Std-SAI-dec22>

**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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