

FINANCIAL CONDITIONS INDICATOR
FINANCIAL CONDITIONS REMAIN CRITICALLY RESTRICTIVE

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- **Our financial conditions indicator (FCI) for November has experienced some relief but remains historically restrictive (positive values = a restrictive stance).** After September's strong rebound, and considering available data as of November 30, the index (always presented on a scaled basis) shrank 0.20 p.p., reaching 1.33 points (from 1.53 in October).
- **Zooming in on the details, we see mixed signals.** On the one hand, both external and domestic rates-related subcomponents continue to tighten: foreign rates slightly increased their contribution (+0.02 p.p.) to the headline result, while domestic rates stood out and strongly increased their contribution (+0.12 p.p.), amid rising concerns of domestic fiscal consolidation. Commodity prices also showed a slightly tightened (+0.01 p.p.) contribution. Conversely, risks (-0.10 p.p.), currencies (-0.12 p.p.), oil prices (-0.08 p.p.) and capital markets (-0.06 p.p.) strongly helped ease financial conditions. When we exclude oil prices from the analysis, we still see 0.12 p.p. shrinkage of FCI (ex. oil), to 1.47 p.p. (from 1.59 p.p. in October).
- **Our FCI remains seriously restrictive, owing both to domestic and external headwinds, and the outlook remains discouraging from YE2022 and onwards.** In our view, the (lagged) contractionary effects on domestic activity started to kick in throughout 3Q22, hitting mainly goods-related sectors (e.g., manufacturing and retail sales) and the employed population, and the available coincident indicators for 4Q22 already point to a continued loss of steam for cyclical activities. We anticipate that these shaky financial conditions will continue to compromise cyclical activities in the short and medium term.

Figure 1 – Santander's FCI Breakdown

Financial Conditions Indicator							
	Weights	Headline				Change	
		Sep-22	Oct-22	Nov-22		Oct-22	Nov-22
FCI	100%	1.22	1.53	1.33	↓	0.31	-0.20
Domestic rates	34%	0.22	0.21	0.33	↑	-0.01	0.12
Foreign rates	33%	0.39	0.56	0.57	↑	0.17	0.02
Risk	18%	0.16	0.22	0.12	↓	0.05	-0.10
Currencies	20%	0.18	0.20	0.08	↓	0.02	-0.12
Oil prices	23%	-0.13	-0.11	-0.18	↓	0.02	-0.08
Commodities	-13%	0.15	0.18	0.19	↑	0.03	0.01
Capital markets	-15%	0.25	0.27	0.22	↓	0.03	-0.06
FCI (ex Oil)	-	1.31	1.59	1.47	↓	0.28	-0.12

Sources: Bloomberg, BCB, Santander.

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

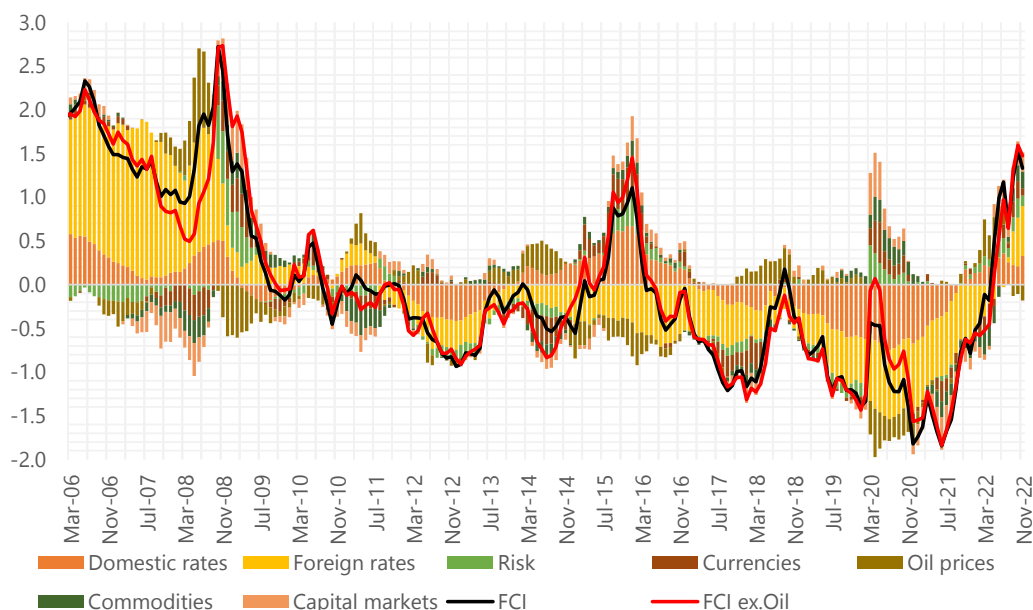
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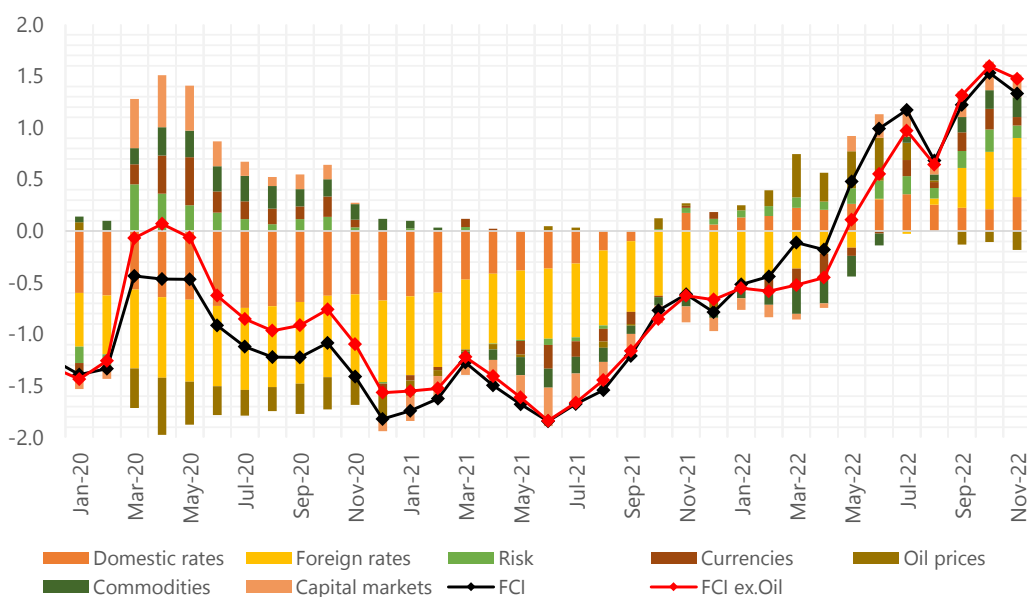
For details on Santander’s economic activity outlook, please refer to our last reports¹.

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: “Chartbook: A Better Outlook for 2023” – October 21, 2022 – Available on: <https://bit.ly/Std-chart-econact-oct22>

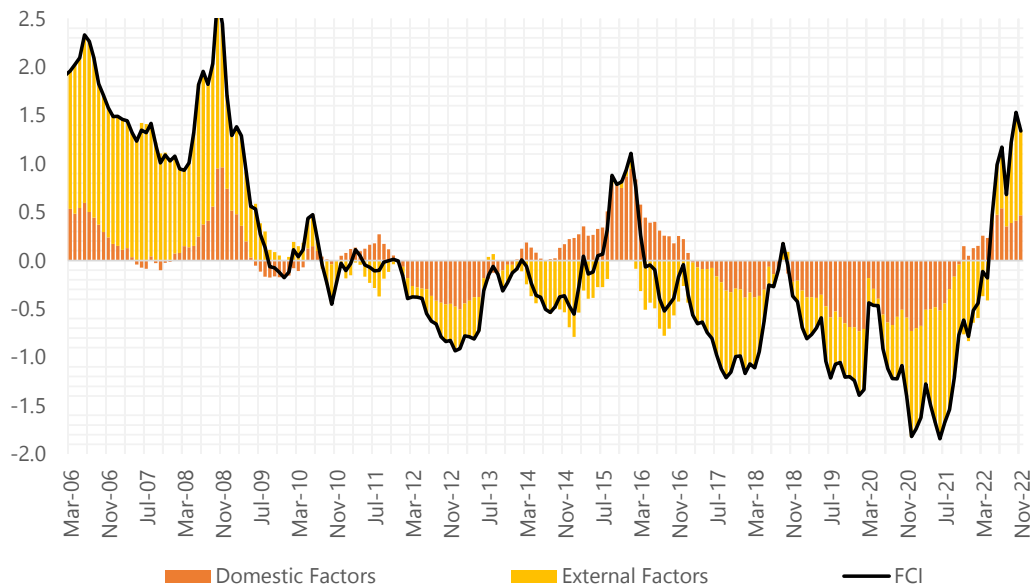
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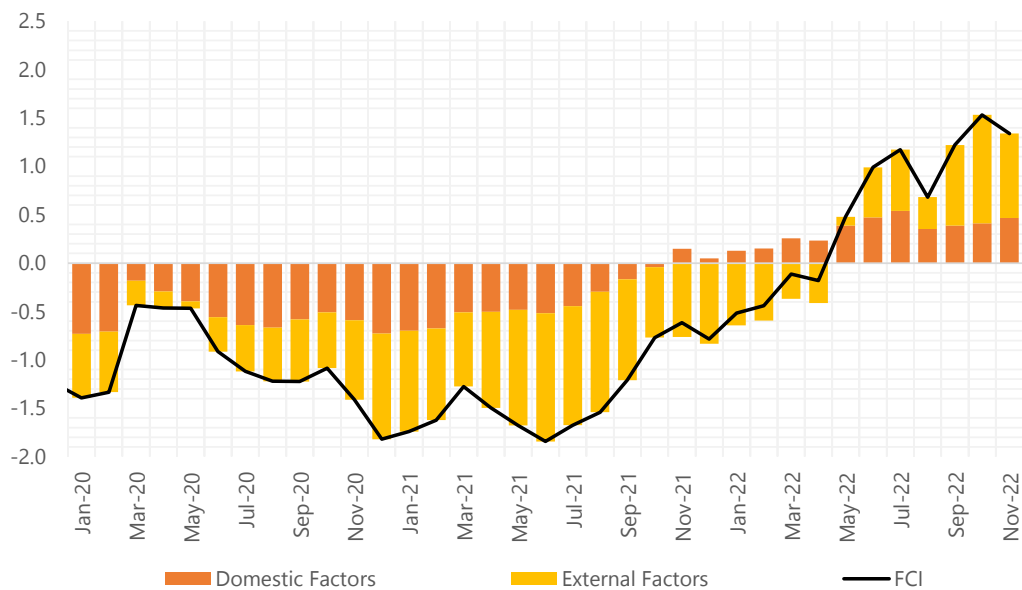


Figure 4 – Santander’s FCI Proxy Breakdown (from 2006 to 2022)



Sources: Bloomberg, BCB, Santander.

Figure 5 – Santander’s FCI Proxy Breakdown (from 2020 to 2022)



Sources: Bloomberg, BCB, Santander.



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