

FINANCIAL CONDITIONS INDICATOR
FINANCIAL CONDITIONS CONTINUE TO WORSE IN OCTOBER

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- **Our financial conditions indicator (FCI) for October has significantly deteriorated (positive values = a restrictive stance) to date.** After a short respite in August and a strong rebound in September, and considering available data as of October 19, the index (always presented on a scaled basis) reached 1.52 points (from 1.19 in September), marking the tightest reading since December 2008.
- **Zooming in on the details, we see widespread deterioration.** In terms of change of contribution to the headline result, foreign rates (+0.17 p.p.) stood out, with risk (+0.07 p.p.), commodities (+0.04 p.p.) and capital markets (+0.03 p.p.) also contributing positively. Only domestic rates (-0.02 p.p.) helped ease financial conditions. When we exclude oil prices from the analysis, financial conditions are even tighter: the FCI (ex. oil) reached 1.61 points (from 1.31 points in September), the tightest stance since March 2009.
- **Despite Brazil’s strong monetary policy tightening, domestic financial conditions remained loose until mid-1H22, owing mainly to external tailwinds.** However, since May, we have seen domestic financial conditions contract, now facing both domestic and external headwinds. In contrast to the encouraging activity performance seen in 1H22, we expect the lagged contractionary effects of the recent tightening to kick in 2H22, likely from the final quarter of the year and onward.

Figure 1 – Santander’s FCI Breakdown

Financial Conditions Indicator							
	Weights	Headline				Change	
		Aug-22	Sep-22	Oct-22		Sep-22	Oct-22
FCI	100%	0.65	1.19	1.52	↑	0.54	0.33
Domestic rates	34%	0.26	0.23	0.21	↓	-0.03	-0.02
Foreign rates	33%	0.06	0.39	0.56	↑	0.33	0.17
Risk	18%	0.10	0.16	0.24	↑	0.06	0.07
Currencies	20%	-0.01	0.11	0.13	↑	0.12	0.02
Oil prices	23%	0.00	-0.15	-0.14	↑	-0.15	0.02
Commodities	-13%	0.08	0.17	0.21	↑	0.09	0.04
Capital markets	-15%	0.16	0.28	0.31	↑	0.12	0.03
FCI (ex Oil)	-	0.64	1.31	1.61	↑	0.67	0.30

Sources: Bloomberg, BCB, Santander.

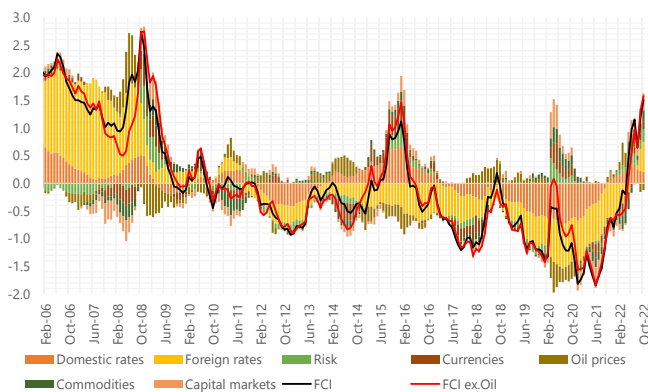
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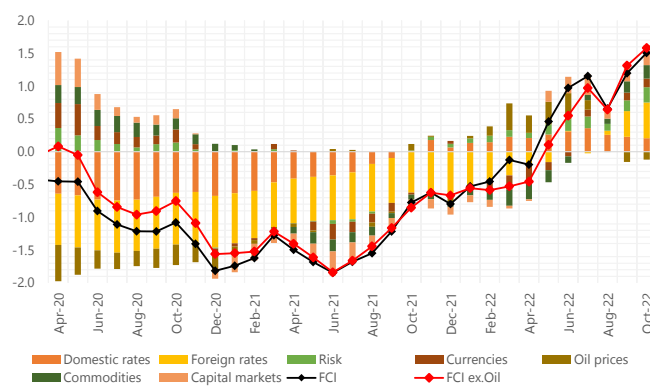


Figure 2 – Santander’s FCI Proxy (from 2006 to 2022)



Sources: Bloomberg, BCB, Santander

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



Sources: Bloomberg, BCB, Santander

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

¹ **Santander Brazil Special Report: “Nowcasting Brazilian GDP with LASSO”** – May 16, 2022 – Available on: <https://bit.ly/Std-special-051622>

Santander Brazil Special Report: “A Model to Forecast Probability of Recession in Brazil” – June 08, 2022 – Available on: <https://bit.ly/Std-special-060822>

Santander Brazil Special Report: “Tightest Financial Conditions since 2009” – August 11, 2022 – Available on: <https://bit.ly/Std-special-081122>

Santander Brazil Economic Activity: “Financial Conditions Worsen in Mid-September” – September 14, 2022 – Available on: <https://bit.ly/Std-FCI-sep22>



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