

FINANCIAL CONDITIONS INDICATOR – SEPTEMBER

FINANCIAL CONDITIONS WORSEN IN MID-SEPTEMBER

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- **After showing slight relief in the previous month, our financial conditions indicator (FCI) for September has significantly deteriorated (positive values = a restrictive stance) to date.** Considering available data as of September 14, the index (always presented on a scaled basis) reached 1.06 points (from 0.75 in August), after reaching 1.25 points in July (the tightest reading since 2009).
- **Zooming in on the details, we see widespread deterioration.** In terms of change of contribution to the headline result, foreign rates (+0.22 p.p.), commodities (+0.08 p.p.) and capital markets (+0.06 p.p.) stood out, contributing to tight financial conditions. Conversely, only domestic rates (-0.03 p.p.) and oil prices (-0.11 p.p.) contributed to ease financial conditions.
- **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.

Figure 1 – Santander’s FCI Breakdown

Financial Conditions Indicator							
	Weights	Headline				Change	
		Jul-22	Aug-22	Sep-22		Aug-22	Sep-22
FCI	100%	1.25	0.75	1.06	↑	-0.49	0.30
Domestic Rates	34%	0.36	0.26	0.23	↓	-0.10	-0.03
Foreign rates	33%	-0.02	0.07	0.28	↑	0.09	0.22
Risk	18%	0.18	0.11	0.12	↑	-0.07	0.01
Currencies	20%	0.13	0.03	0.09	↑	-0.10	0.06
Oil prices	23%	0.13	-0.02	-0.13	↓	-0.15	-0.11
Commodities	-13%	0.10	0.11	0.19	↑	0.00	0.08
Capital markets	-15%	0.36	0.21	0.27	↑	-0.15	0.06

Sources: Bloomberg, BCB, Santander.

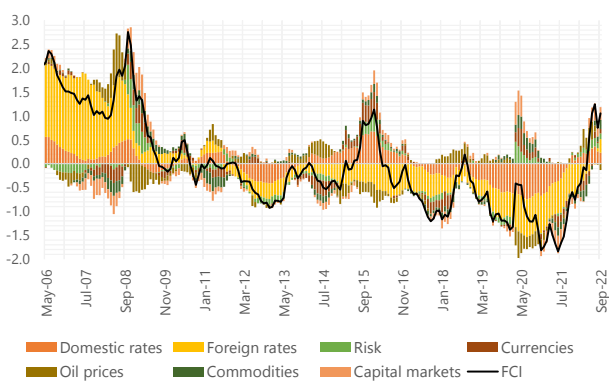
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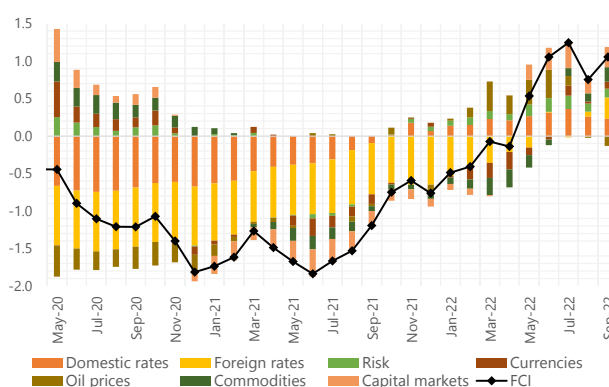


Figure 2.A – Santander’s FCI Proxy (from 2006 to 2022)



Sources: Bloomberg, BCB, Santander

Figure 2.B – 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: “Resilience Factors for GDP Growth: What Has Changed Since January” – June 30, 2022 – Available on: <https://bit.ly/Std-special-GDP-062922>

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



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