Santander Macroeconomic Research

BRAZIL MACRO

February 1, 2022

DATA ANALYSIS – EXTERNAL SECTOR

EQUAL BUT DIFFERENT

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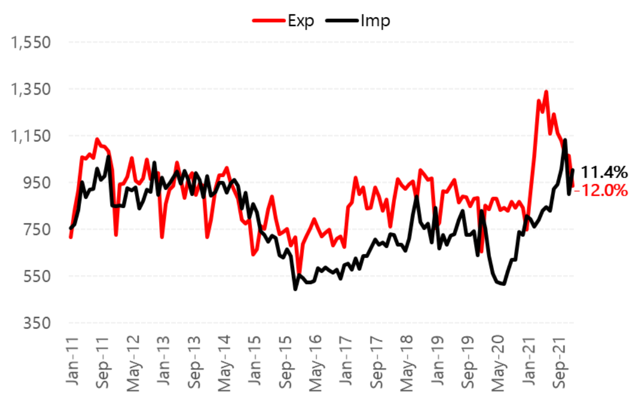
- **Trade balance registered a US$0.2 billion monthly deficit in January 2022, which contrasted with our estimate (a US$1.8 billion surplus) as exports revenue fell short of our estimates (US$19.7 billion vs. US$20.9 billion) and imports exceeded what we expected (US$19.8 billion vs. US$19.1 billion). Consequently, the trade surplus remained at US$61.0 billion on a 12-month basis.**

- **Although both exports revenue and imports outlays registered a similar increase (US$4.7 billion) in YoY terms, when we take monthly figures in seasonally adjusted terms, the daily average of exports declined substantially as compared with December 2021 figures (-12.0% MoM), while the daily average of imports registered an almost perfectly reverse performance and increased strongly (11.4% MoM).**

- **The 3MMA-saar of the trade balance indicates an annual surplus of US$2.8 billion as of now, which is far below our projection of US$76.4 billion for 2022, also below the official forecast of US$79.4 billion provided by the Foreign Trade Secretariat. This is due to the hefty increase observed in imports in previous months, in turn due to problems in domestic supply chains and some deceleration in exports due to sanitation sanctions.**

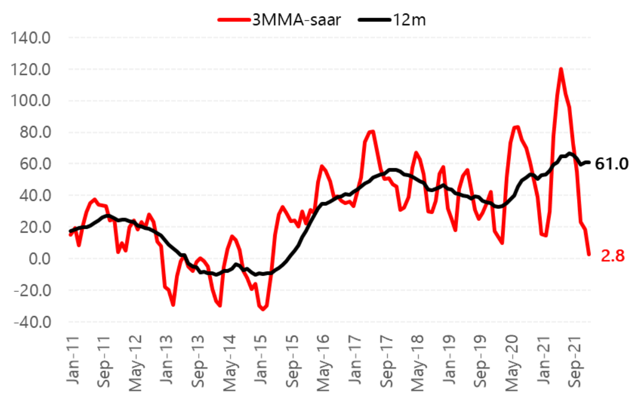
- **Thus, given the weakness of the BRL and the slow growth of the Brazilian economy that we expect to materialize in the coming months, in tandem with the maintenance of a strong demand for commodities from abroad and the normalization of supply chains, we expect exports to gain steam and imports to lose momentum during 2022.**

Figure 1 – Trade Balance
(US$ million/working day, sa)



Sources: SECINT, Santander.

Figure 2 – Trade Balance
(US$ billion, 3MMA-saar)



Sources: SECINT, Santander.

The January 2022 trade balance repeated the performance observed a year ago and registered a US$0.2 billion deficit as both exports revenue and imports outlays registered equivalent increases (US$ 4.7 billion) over their amounts recorded in January 2021. From the exports revenue standpoint, the positive highlights were sales of soybeans and oil, which accounted for nearly 50% of the increase observed in YoY terms, with both prices and volumes showing positive variations versus January 2021. On the other hand, iron ore stood out as the negative feature, as both price and volume showed negative variations in the same terms. In our opinion, the performance of soybeans and oil sales reinforces our expectation that the demand for commodities will remain robust. As for the iron ore contraction, we believe it had to do with adverse climatic conditions that led mining companies to slow down their production, and thus, we think it should prove to be a temporary setback. Regarding imports outlays, the items that showed the biggest expansion in absolute terms were oil (both crude and refined) and natural gas, which also accounted for nearly 50% of the increase in YoY terms. These items were also boosted by adverse climatic conditions that are impairing the functioning of hydropower plants and leading the country to resort to thermal power plants in order to generate electricity. Given the slowdown we expect for the Brazilian economy—which should reduce the demand for energy—and the normalization of the water level in reservoirs stemming from a relatively generous rainy season this year, we expect these items to lose steam ahead.

If the absolute changes were similar, when we consider seasonally adjusted data, the picture changes dramatically. After remaining nearly stable in December 2021, daily average exports contracted strongly last month (-12.0%). With respect to imports, the 11.4% MoM sa increase in the daily average partially offset the 20.5% drop observed in December, thus reminding us that that the problems in the domestic supply chain have not been completely solved yet—although they are dwindling.

The average of the last-three-month annualized surplus (3MMA-saar) of US$2.8 billion is far lower than our forecast of a US$76.4 billion surplus for 2022 as a whole. However, as mentioned before, there are transitory forces influencing both exports revenue and imports outlays that we believe they will cease and thus improve the 3MMA-saar reading soon—such as the resolution of the bottlenecks in the domestic supply chains and the normalization of mining producers. In addition to that, we also expect the weakness of the BRL, the gradual expansion of the Brazilian economy and the maintenance of a robust demand for commodities to lead the country to register another sizeable surplus this year.

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