Santander Macroeconomic Research

MACRO BRAZIL

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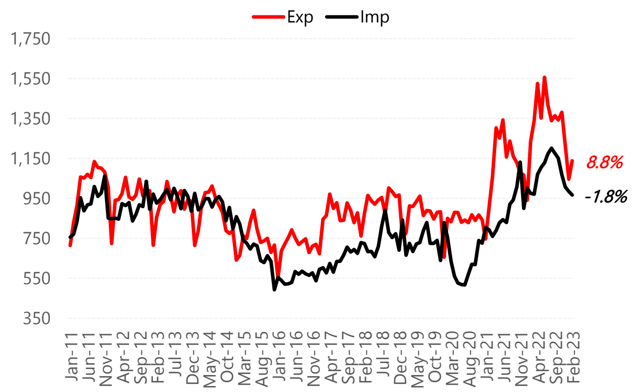
DATA ANALYSIS – TRADE BALANCE

POST-CARNIVAL REVELRY

Jankiel Santos*
jankiel.santos@santander.com.br
+5511 3012-5726

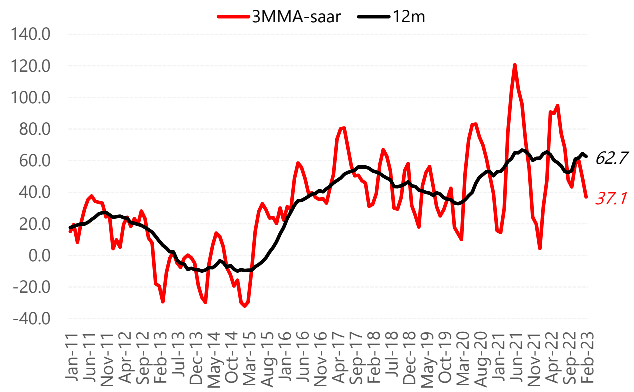
- **The trade balance registered a USD2.8 billion surplus in February 2023, which was above our estimate of a USD1.7 billion positive reading (the market median estimate was USD2.5 billion). The divergence from our estimate stemmed mainly from a stronger acceleration in export revenue than in import outlays in the last days of February. We anticipated USD18.5 billion for the former and USD16.8 billion for the latter, but the actual readings were USD20.6 billion and USD17.7 billion, respectively.**
- **Despite the positive performance in the post-Carnival days, February's figure came in below the USD4.6 billion surplus observed in the same month a year ago, causing the foreign trade surplus in 12-month terms to decline to USD62.4 billion from USD64.2 billion in January's release.**
- **In seasonally adjusted terms, daily average export revenue increased 8.8% MoM in February 2023, thus marking the end of a two-month streak of double-digit negative prints. At the same time, daily average import outlays receded in the period (1.8% MoM), thus marking an entire half year of consecutive declines. The 3MMA-saar gauge receded to USD36.2 billion from USD48.2 billion in January 2023, so we remain cautious regarding our forecast of a USD53.7 billion surplus for 2023.**
- **However, assessing the performance of some typical products on the exports list, we continued to see some encouraging information, as the sales volumes of some items are running above their recent peaks and others have significant potential to deliver sound performances in the coming months. Therefore, in our view, the recovery in export revenue is likely to be long-lived. On the other hand, the dynamics of import outlays reinforce our perception that the lagged effects of the monetary tightening cycle have started to weigh on the Brazilian economy.**
- **All in all, we see the conditions for the Brazilian trade balance to continue to register a sizeable surplus on the heels of a weak currency and a decelerating economy.**

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



Sources: SECINT, Santander.

Figure 2 – Trade Balance
(USD billion)



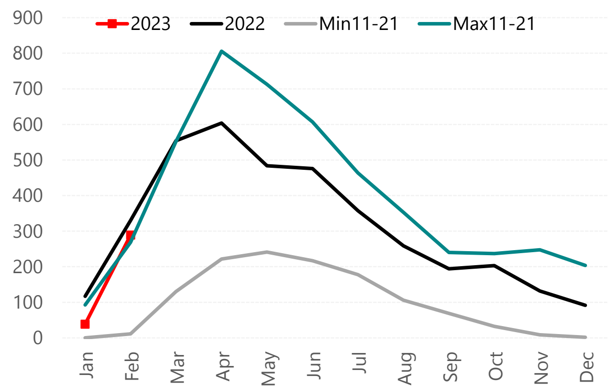
Sources: SECINT, Santander.

The trade balance registered a USD2.8 billion surplus in February 2023, stemming from a stronger acceleration in export revenue than the increase registered by import outlays in the last days of the month. Total import outlays amounted to USD17.7 billion in February, topping our estimate of USD16.8 billion. Likewise, total export revenue amounted to USD20.6 billion, thus also exceeding what we expected (USD18.5 billion), though by a larger margin. Nonetheless, the February trade surplus came in below the reading of a year ago (USD4.6 billion), leading to a 12-month surplus of USD62.4 billion vs. USD64.2 billion in January's release.

When we consider seasonally adjusted data, daily average exports increased 8.8% MoM, thus ending a two-month streak of double-digit negative prints. Conversely, daily average imports continued receding in February (-1.8% MoM sa), thus marking a sixth-month streak of contractions. As a result, we saw the average of the last-three-month annualized surplus (3MMA-saar) receding to USD36.5 billion from USD48.2 billion in January 2023, which is below our full year forecast of USD53.7 billion for 2023.

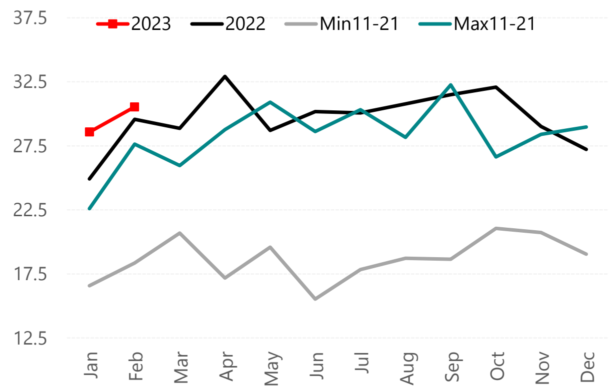
Looking at specific items in both exports and imports, we believe there are still signals suggesting that trade surpluses are likely to remain sizeable. From an export standpoint, we see volumes of certain key items such as soybeans and animal proteins above the readings for the last ten years, with minimal prospects of a slowdown in the coming months. Not even the Agriculture Ministry's decision to temporarily suspend beef exports due to one case of mad cow disease in the state of Pará (despite no complaints from purchasing nations) prevented the volume of animal proteins from exceeding last year's figure, which indicates the potential for other animal proteins to replace beef, thereby supporting volumes. Moreover, for products such as iron ore, sales volumes have yet to increase on the heels of the Chinese economic reopening. As most commodity prices are higher than a year ago, revenue should likewise remain high, in our view. Conversely, we see a deceleration in imports of strategic products, whose prices have risen substantially recently. Therefore, after setting a record performance in 2022, we think the Brazilian trade balance will continue to deliver good-sized surpluses over the medium term.

Figure 3 –Exports of Soybeans (kilotons/day)



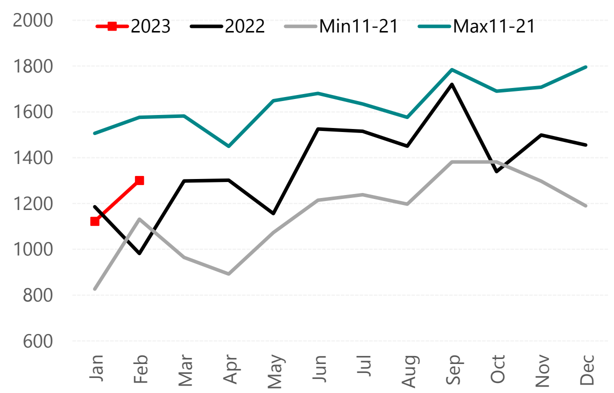
Sources: SECINT, Santander.

Figure 4 – Exports of Animal Proteins (kilotons/day)



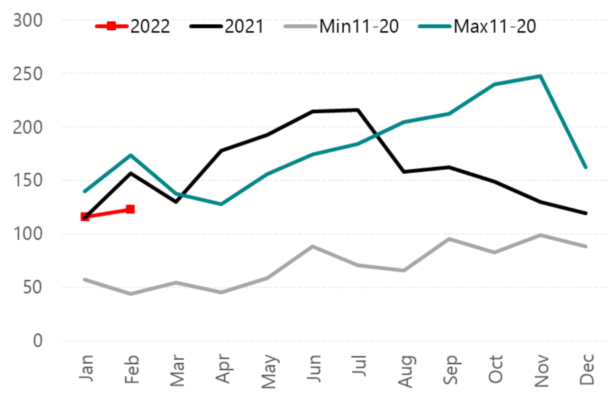
Sources: SECINT, Santander

Figure 5 – Exports of Iron Ore (kilotons/day)



Sources: SECINT, Santander.

Figure 6 – Imports of Fertilizers (kilotons/day)



Sources: SECINT, Santander

CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research			
Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Lucas Maynard*	Economist – Economic Activity	lucas.maynard.da.silva@santander.com.br	5511-3553-7495
Felipe Kotinda*	Economist – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Fabiana Moreira*	Economist – Credit	fabiana.de.oliveira@santander.com.br	5511-3553-6120
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327
Global Macro Research			
Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Rodrigo Park *	Economist – Argentina	rpark@santander.com.ar	54-11-4341-1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500
Fixed Income Research			
Juan Arranz*	Chief Rates & FX Strategist – Argentina	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Oreng*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778
Equity Research			
Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Mariana Cahen Margulies*	Head, Brazil	mmargulies@santander.com.br	5511-3553-1684
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