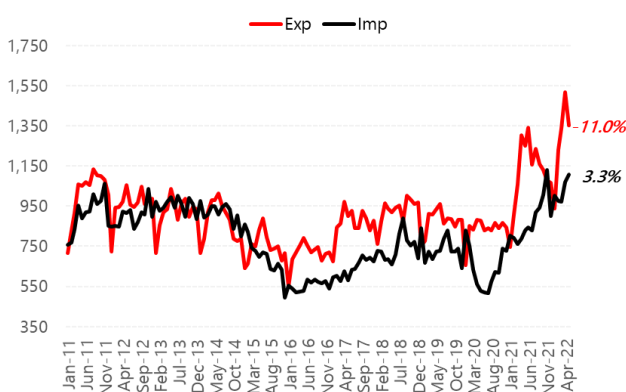


A STABLE BACKDROP

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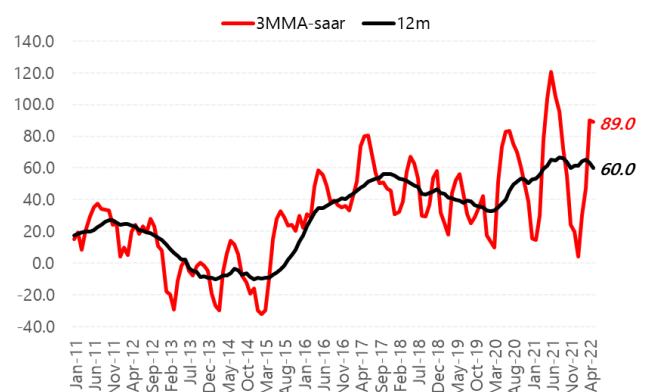
- The US\$4.9 billion trade surplus seen in May 2022 exceeded our estimate (+US\$3.8 billion) as well as the market median estimate (+US\$4.5 billion), but it was well below the US\$8.5 billion surplus seen a year ago. The outcome stemmed from higher-than-anticipated exports revenue (US\$29.6 billion vs. US\$28.4 billion) and imports outlays in line with our expectation (US\$24.7 billion vs. US\$24.6 billion), which translated into a US\$60.0 billion surplus on a 12-month basis vs. our expectation of a US\$70.3 billion trade surplus in 2022.
- Adjusting figures by seasonal factors and the number of business days, exports revenue contracted 11.0% MoM, thus reversing part of the strong growth observed in April 2022 (+15.0% MoM). In their turn, imports outlays increased 3.3% MoM, the second expansion in a row, thus leading the 3MMA-saar gauge to imply a US\$89.0 billion surplus in annualized terms—higher than our forecast for this year.
- In our view, the increase in imports outlays in the last month may still be associated with some reduction in the backlog of operations that were affected by strikes in certain areas of public service, as imports outlays lost steam in the last weeks of May, while exports revenue strengthened—a backdrop that implies eventual larger monthly surpluses in the coming readings.
- All in all, we believe data related to May’s trade balance should contribute to markets’ continuing to have a constructive view about the soundness of the Brazilian external position.

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



Sources: SECINT, Santander.

Figure 2 – Trade Balance
(USD billion)



Sources: SECINT, Santander.

In our view, the higher-than-anticipated trade surplus seen in May 2022 continued to indicate the path for a new record trade surplus to be registered in 2022 (we forecast a US\$70.3 billion surplus vs. US\$61.4 billion in 2021). We believe the performance could have been better, as part of the strength shown by imports—especially in the first weeks of May—stemmed from normalization of operations that were delayed by strikes in certain areas of public service. In our opinion, this temporary setback contributed to the weaker outcome than a year ago (+US\$8.5 billion surplus in May 2021), but its impact is likely to fade in the coming months.

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

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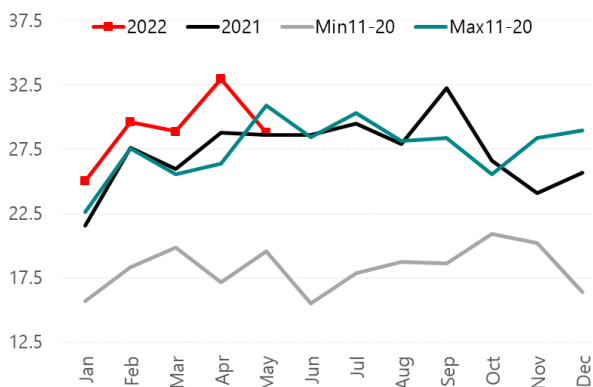
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From an exports revenue standpoint, the volume of sales of animal proteins continued to run at high levels last month, although below the historical peak observed in the last decade. On the other hand, the volume of iron ore exports receded, once again coming in below the level seen last year, thus remaining far from the peak of the last decade. The volume of soybean exports has followed a similar pattern, as it has continued to lose steam, but we think the behavior appears to be a result of anticipated shipments that occurred in previous months. Hence, we believe the pattern of soybean shipments may show a more front-loaded curve than in previous years, but with a final result still favorable for the sale of the harvest abroad. From an import perspective, we highlight that the volume of fertilizers bought offshore registered another hefty increase last month, which more than offset the decline observed in March 2022, thus reducing fears of a shortage of the product stemming from the Russia-Ukraine conflict. This is a backdrop that bodes well for the productivity of the Brazilian grain harvest in 2023.

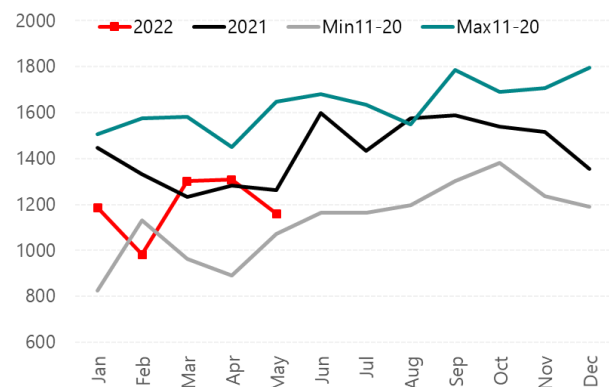
When we consider seasonally adjusted data, daily average exports reversed part of the significant increase seen in April 2022 (-11.0% vs. +15.0%, respectively), while daily average imports (+3.3% MoM sa) advanced for the second month in a row, given the reduction in the backlog of operations that were delayed by strikes. In our view, the former may indicate noises in the seasonal adjustment, especially as the demand for commodities remains robust and should continue to benefit the Brazilian trade balance in the short term. On the other hand, the latter does not change our assessment that the Brazilian economy is decelerating, which should result in a decline in purchases abroad. What's more, there is no indication that this slowdown is likely to be reversed in the medium term, especially as the country could face a lagged impact from the ongoing monetary tightening cycle that is bound to be extended (as indicated by the Brazilian Central Bank in the last Copom meeting held on May 4). Hence, it was not a surprise that the average of the last-three-month annualized surplus (3MMA-saar) of US\$89.0 billion continues to indicate a robust result for this year as a whole. In sum, we believe trade figures should contribute to keeping the current account balance at low levels and keep the Brazilian external position off the list of market participants' concerns for quite a while longer.

Figure 3 – Export of Animal Proteins (kilotons/day)



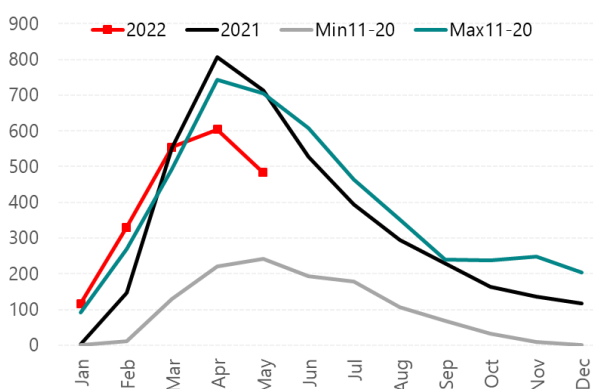
Sources: SECINT, Santander.

Figure 4 – Export of Iron Ore (kilotons/day)



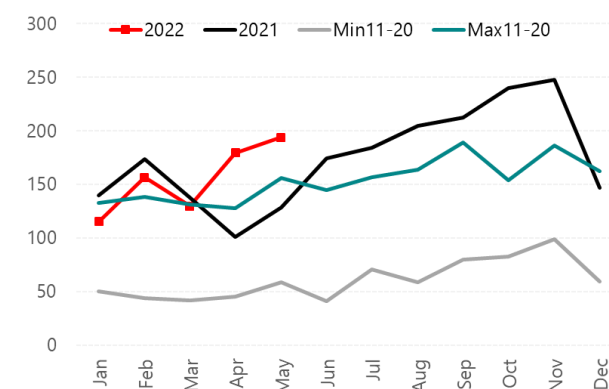
Sources: SECINT, Santander.

Figure 5 – Export of Soybeans (kilotons/day)



Sources: SECINT, Santander.

Figure 6 – Import of Fertilizers (kilotons/day)



Sources: SECINT, Santander.



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