Santander Macroeconomic Research

BRAZIL MACRO

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DATA ANALYSIS – EXTERNAL SECTOR

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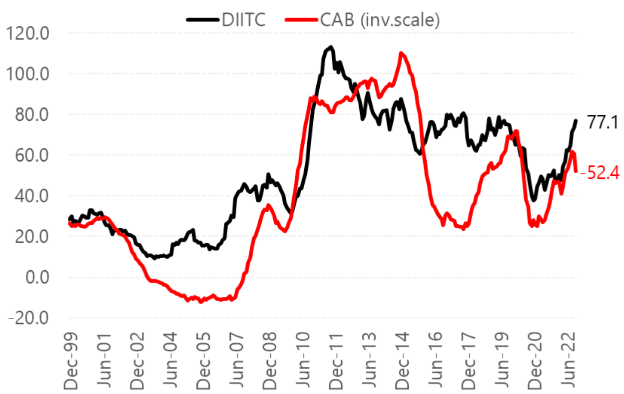
EASING FEARS

- **The Brazilian Central Bank (BCB) released November balance-of-payment (BoP) data, which revealed a monthly current account deficit of USD0.1 billion, a figure better than the market median estimate and our projection (USD2.2 billion and USD1.7 billion deficits, respectively). The outcome was also better than the one registered a year ago (-USD8.5 billion), which led the 12-month current account deficit to recede to USD52.4 billion as compared with -USD60.8 billion in the previous release. As a result, we calculate the 3MMA-saar gauge improved to -USD57.4 billion from -USD84.6 billion in October.**
- **Preliminary figures provided by the Foreign Trade Secretariat indicated that the trade balance would contribute for a smaller current account deficit than a year ago and that indication was confirmed. However, contrary to our estimates, services and primary income accounts also fared better vs. November 2021. Particularly, we saw milder remittances of profits and dividends, which underpins our assessment that there was an anticipation in these payments on the heels of uncertainty in the domestic political front.**
- **In addition to the positive surprise regarding the current account balance, we also saw a sizeable volume of direct investments in the country (DIITC) during the period. There was a USD8.3 billion net inflow in November (our estimate was USD8.0 billion), which led the DIITC to amass USD77.1 billion in 12-month terms (the highest level since mid-2019). That is, Brazil continues to be in a comfortable situation as far as external financing is concerned.**
- **We also highlight that foreign portfolio investments in the domestic market registered constructive results for the second month in a row, with inflows on both fixed income segment and equity market, totaling USD3.5 billion. Conversely, we saw a pause in the unwinding of Brazilian portfolio investments abroad, due to the USD0.6 billion outflow, which we believe reflects some caution and uncertainty on the domestic political front.**
- **All in all, despite the initial shock with the reviewed historical data in the previous release, we think that the November BoP data reinforces our assessment that the current account deficit runs at manageable levels and the financial account bears favorable prospects. Hence, we think the constructive view of the Brazilian external position is likely to continue offering partial insulation against international jitters.**

The release of the (delayed) figures for Brazilian balance-of-payments data for November showed an important improvement in the current account deficit in 12-month terms, to USD52.4 billion. The bulk of the enhancement in the current account deficit is associated with the trade surplus registered this year as compared with a deficit a year ago (+USD5.1 billion vs. -USD2.3 billion, respectively). Besides, we also witnessed smaller remittances of profits and dividends, which reinforces our perception that there was an anticipation in these payments ahead of the presidential election last October given potential changes in the taxation over dividends from 2023 onwards. Finally, services account also fared better than in November 2021, with all its components registering small improvements. Consequently, we saw the actual monthly figure (-USD0.1 billion) topping our estimate (-USD1.7 billion). Given our expectation for commodity prices to remain at historically favorable levels and the external demand for Brazilian products to be robust, we expect sizeable trade surpluses in the coming years, which should contribute positively for the performance of the current account balance. On top of that, we also believe there will be even smaller remittances of profits and dividends as the lagged effects of prior interest rate hikes start to take a toll on economic activity in the coming months. That is, we continue to see favorable prospects for the Brazilian current account balance.

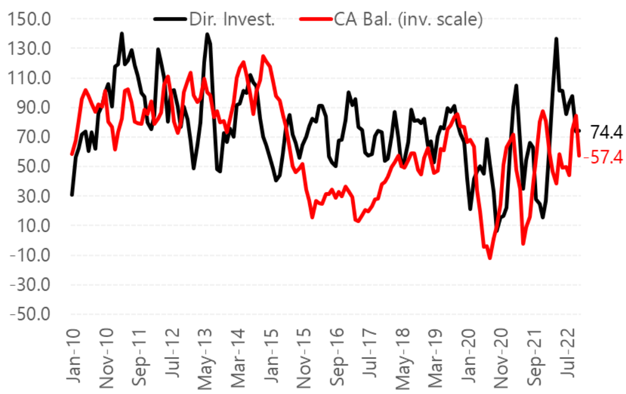
The improvement in the current account dynamics was also pointed out by the behavior of the 3MMA-saar gauge, which receded to USD57.4 billion (3.0% of GDP) from USD84.6 billion (4.5% of GDP) in the previous release. This level is close to our forecast of USD53.4 billion for FY2022.

Figure 1. Current Account Balance vs. Direct Investment in the Country (USD billion, 12m)



Sources: Brazilian Central Bank, Santander.

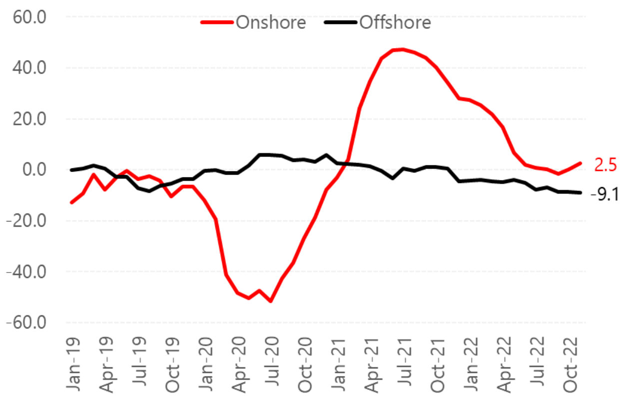
Figure 2. Current Account Balance vs. Direct Investment in the Country (USD billion, 3MMA-saar)



Sources: Brazilian Central Bank, Santander.

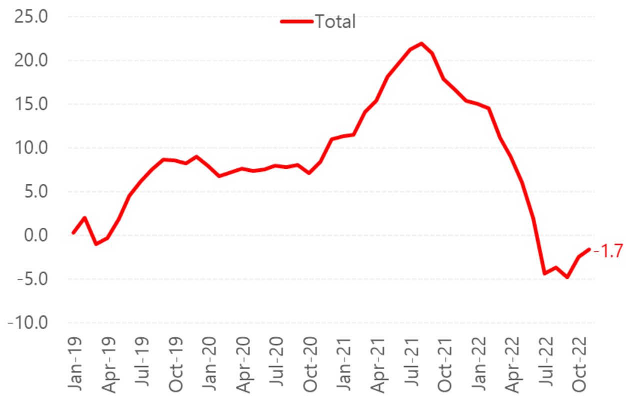
In addition to the improvement seen in November, we think it is also important to notice that direct investments in the country have continued to flow fairly freely. Given the USD8.3 billion recorded in November, the amount amassed in 12-month terms reached USD77.1 billion (3.9% of GDP), which is the highest level observed since mid-2019. If we look at the 3MMA-saar gauge, the picture is comfortable as well, as it points to a somewhat higher level than the one shown by the current account deficit on the same terms. In sum, the Brazilian economy continues to be in a comfortable situation regarding its external source of funding, which we expect to keep the Brazilian balance of payments off the radar of market concerns.

Figure 3. Net Foreign Portfolio Investments (USD billion, 12-month)



Sources: Brazilian Central Bank, Santander.

Figure 4. Brazilian Portfolio Investments Abroad (USD billion, 12-month)



Sources: Brazilian Central Bank, Santander.

Although the funding of the current account deficit is an undemanding task, in our view, and the backdrop for the Brazilian balance of payments does not cause significant worries, we also highlight that the volume of foreign portfolio investments in the domestic market was positive in November (the second month in a row), with net inflows on both fixed income and equity market. As a result, we saw a reversal in the declining trend in 12-month terms. According to preliminary figures for December provided by the BCB, these dynamics should persist this month – especially in the equity market. In our view, this is a sign of foreigners' eagerness to take advantage of depressed prices of Brazilian financial assets, which have been hit by uncertainties regarding the future of economic policy from 2023 onward. In turn, we saw a pause in the repatriation of money to the country as Brazilian portfolio investments abroad tallied USD0.6 billion in the period, which also led the 12-month volume to move up. We think the foreign inflows indicate there is appetite for Brazilian financial assets at the current levels, but the Brazilian outflows signals there are concerns to be solved in the domestic front in order to lure investors in a more sustainable fashion.

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