MACRO BRAZIL

April 25, 2023

DATA ANALYSIS – BALANCE OF PAYMENTS

ON TRACK FOR A SMALLER GAP

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- **Today, the Brazilian Central Bank (BCB) released March balance-of-payments (BoP) data which revealed a monthly current account surplus of USD0.3 billion, a figure worse than the market median estimate and our projection (surpluses of USD2.1 billion and USD1.0 billion, respectively). Despite being short of our estimate, the March figure was better than the one registered a year ago (-USD3.0 billion), which led the 12-month current account deficit to recede to USD52.3 billion compared with -USD57.0 billion in December's release. That is, the current account balance remained on its way to show an improvement this year, a backdrop that was reinforced by its 3MMA-saar gauge that moved up to -USD24.2 billion from -USD62.4 billion in the end of last year.**
- **Remittances of profits and dividends followed their seasonal pattern and advanced in the period vs. the previous month, but they fell short of our estimate, thus reinforcing our perception they should lose steam ahead on the heels of the economic slowdown we expect to see. Despite this positive surprise, interest payments surprised negatively, as payments topped the schedule previously provided by the BCB. Trade balance, and the services and the secondary income accounts recorded marginally weaker outcomes completed the roster of reasons for the discrepancy to our projection.**
- **Regarding the components of the financial account, we saw the volume of direct investments in the country reaching USD7.7 billion last month, a reading lower than what we anticipated (USD10.0 billion) based upon preliminary figures provided by the BCB. Nonetheless, the figure was better than a year ago (USD6.9 billion), which led the 12-month rolling volume to climb to USD89.7 billion last month vs. USD88.9 billion in the previous reading. In other words, the country continued to comfortably meet its external financing needs.**
- **In addition to smaller-than expected direct investment inflows, we witnessed foreigners selling a sizeable amount of assets in the domestic market (USD2.0 billion) in March, thus marking the end of a five-month streak of positive figures. Sales were focused on the equity market (USD3.3 billion), as we still saw foreigners buying fixed-income assets (USD1.7 billion), which reinforces the importance of the interest rate differential to portfolio flows, in our view.**
- **All in all, we think that the March BoP data reinforces our assessment that the current account deficit is running at manageable levels and that the financial account has a favorable outlook. Hence, we think a constructive view of the Brazilian external position is likely to continue offering partial insulation from international jitters.**

The release of the figures for Brazilian balance-of-payments data for March showed a current account surplus lower than our estimate, as the actual number stood at +USD0.3 billion and we were anticipating a +USD1.0 billion outcome (market median estimate was +USD2.1 billion). Despite falling short of our expectation, the reading was better than the one seen a year ago (-USD3.0 billion), which led the current account gap to recede to USD52.3 billion in 12-month terms (or -2.7% of GDP). This time, we saw smaller remittances of profits and dividends than we had calculated based upon their seasonal pattern and preliminary figures provided by the BCB in the middle of last month. In our view, the surprise reinforces our assessment that remittances are likely to lose steam this year due to the economic slowdown that we expect to materialize owing to the currently contractionary monetary conditions.

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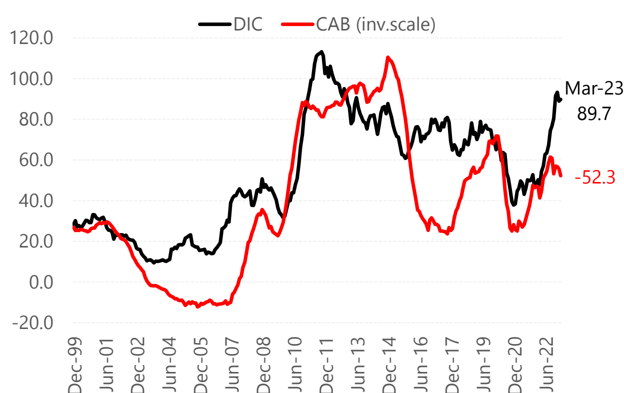
In contrast with the lower remittances, we witnessed larger interest payments than indicated by preliminary figures provided by the BCB in the middle of last month, as well as by the monetary authority's monthly schedule presented for 2023. Now, the latter envisages a larger amount of interest outlays to be paid this year (USD25.9 billion from USD24.4 billion in the previous release), which may partially offset of smaller remittances of profits and dividends to the current account balance in 2023. Trade balance, and the services and secondary income accounts registered marginally weaker outcomes completed the list of reasons for the divergence to our projection in March.

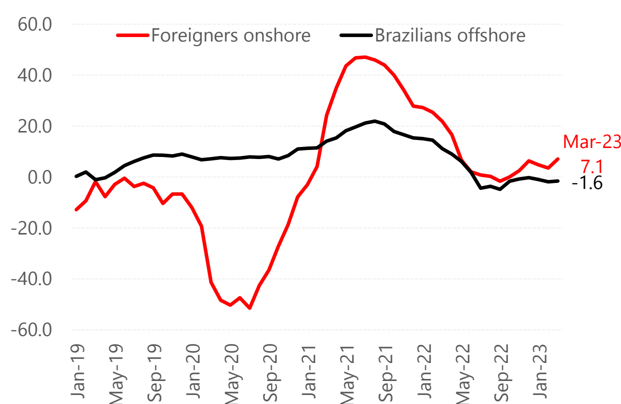
Regardless of the slightly lower-than-expected surplus in March, we think the expected economic slowdown we mentioned before is likely to weigh on domestic income growth and curb imports ahead, in our opinion. Moreover, given our expectations that commodity prices will remain at historically favorable levels and that external demand for Brazilian products will be robust, we expect sizeable trade surpluses in the coming years, which will likely contribute positively to the current account balance. In other words, we continue to see favorable prospects for the Brazilian current account balance.

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



Sources: Brazilian Central Bank, Santander.

Figure 2. Portfolio Investments – Selected Items (USD billion, 12m)



Sources: Brazilian Central Bank, Santander.

In addition to the constructive backdrop for the current account balance, it is also important to note that direct investments in the country have continued to flow fairly freely. Although the USD7.7 billion recorded last month fell short of what we calculated (USD10.0 billion) based upon preliminary figures provided by the BCB, the amount amassed in 12-month terms climbed to USD89.7 billion (4.6% of GDP), thus remaining at a level that comfortably finances the current account gap.

It is true that the volume of foreign portfolio investments in the domestic market was negative in March, thus interrupting a five-month streak of positive readings, which could be seen as a yellow light on the financial side. However, it is important to notice that the bulk of the sales of Brazilian financial assets was concentrated in the equity market (USD3.3 billion), while foreigners continued to purchase fixed-income instruments (USD1.7 billion). Hence, although we consider that prospects for the economic slowdown may hinder purchases in the Brazilian equity market, we also see the likely upholding of a significant interest rate differential still luring investors to the country.

All in all, in our view, data indicates the Brazilian economy continues to be in a comfortable situation regarding its external source of funding, which we expect will keep the Brazilian balance of payments off the radar of market concerns.

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