BRAZIL MACRO

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DATA ANALYSIS – EXTERNAL SECTOR

STEADY AS IT GOES

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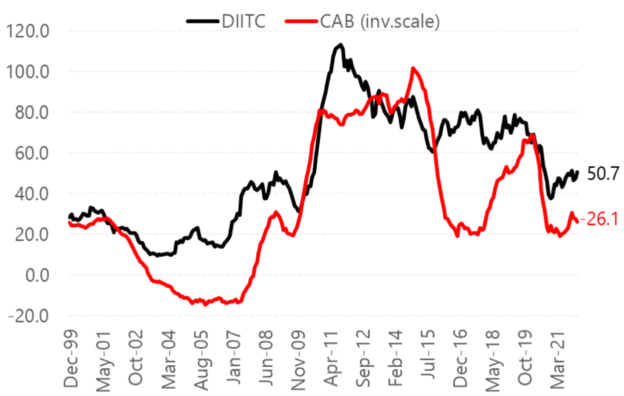
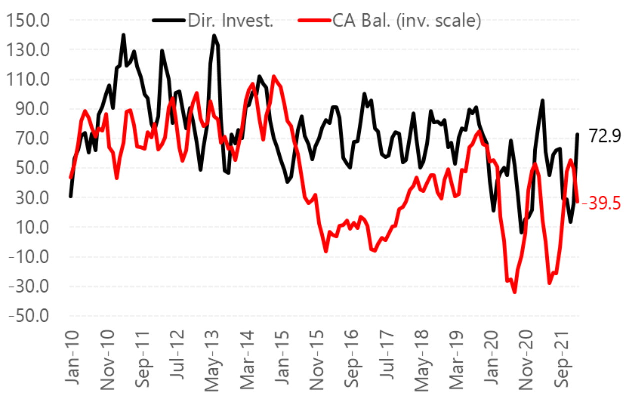
- **The US$2.4 billion current account deficit registered in February 2022 exceeded our estimate (-US$1.6 billion) due to larger-than-anticipated interest payments and remittances of profits, while the trade surplus and the services account deficit were in line with our calculations. On a 12-month basis, the deficit receded to US$26.1 billion (1.6% of GDP) from US$27.9 billion in 2021 (1.7% of GDP).**
- **Although the deficit was higher than expected, it was a number far better than the average deficit seen in the last decade (US$4.5 billion deficit), especially due to the solid trade surplus in the period (US$3.5 billion vs. an average of US$0.8 billion in the last decade). Given our expectation that the trade surplus in 2022 will surpass the record level observed in 2021 (US$73.5 billion vs. US$61.7 billion, respectively), we think the current account deficit will continue to shrink in the coming months and end 2022 at US$21.6 billion (1.2% of GDP).**
- **In tandem with the low deficit in the current account balance, February balance-of-payments data showed that direct investments in the country (DIITC) exceeded our expectation as well (US$11.8 billion vs. US$11.2 billion, respectively), totaling US$50.7 billion on a 12-month basis. That is, Brazil continues to have a quite comfortable source of external funding.**
- **In addition to the healthier contribution from DIITC, in February the country also received portfolio investments of US$1.8 billion, which reinforces the soundness of the Brazilian external position. However, we highlight that the bulk of transactions were in the equity market (US$5.0 billion inflow), while fixed income deals took a hit (US$3.0 billion outflow). We believe the extension of the monetary tightening cycle may change that profile.**
- **All in all, data on February's balance of payments reinforced our expectation that BoP will remain off the markets' list of concerns.**

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 (US$ billion, 3MMA-saar)



Sources: Brazilian Central Bank, Santander.

Data on the Brazilian balance of payments in February showed that the current account balance registered a US$2.4 billion deficit in the period, thus exceeding our estimate (-US$1.6 billion) and the market's median forecast (-US$1.4 billion). Taking a look at its components, we found that the divergence stemmed from larger-than-anticipated interest payments and remittances of profits and dividends, which inflated the deficit in the primary income account (-US$4.4 billion). On the other hand, the trade balance (+US$3.5 billion) and services account (-US$1.8 billion) were in line with our expectations. As we expect the economy to lose steam in the coming months, we believe the negative surprises for remittances of profits and dividends will tend to become less frequent.

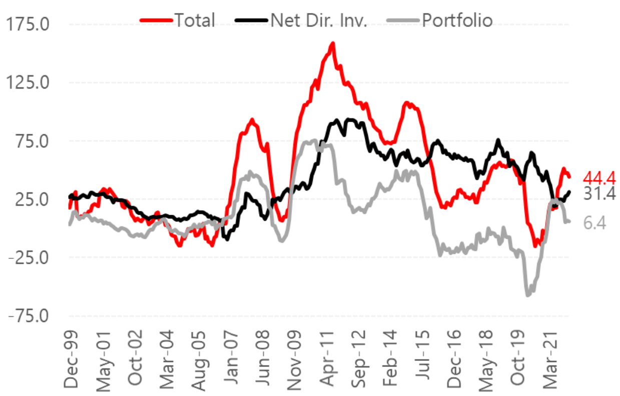
Although the deficit was higher than expected, it was a number far better than the average deficit seen in the last decade (US$4.5 billion deficit), especially due to the solid trade surplus in the period (US$3.5 billion vs. the average of US$0.8 billion in the last decade). Given that we expect the trade surplus in 2022 to surpass the record level observed in 2021 (US$73.5 billion vs. US$61.7 billion, respectively), we think the current account deficit will continue to shrink in the coming months and end 2022 at US$21.6 billion (1.2% of GDP). Incidentally, that is the signal also provided by the 3MMA-saar gauge, which implies a declining trend for the current account deficit.

In addition to the low deficit in the current account balance (both in absolute terms and as a % of GDP), data also revealed the country hosted a sizeable amount of direct investments (DIITC) in February (US$11.8 billion), which surpassed our estimate (US$11.2 billion) as well as the market's median forecast (US$10.0 billion). This is a noteworthy feat, as it points out to a fairly comfortable situation for Brazil to find external financing, since the volume of DIITC is roughly twice as high as Brazil's current account gap (DIITC totaled US$50.7 billion on a 12-month basis). What's more, the 3MMA-saar gauge indicates the volume of DIITC should grow in the coming months, which underpins our confidence in our forecast of US$68.3 billion for 2022.

This backdrop would already be enough to give investors a sanguine view of the Brazilian external position, in our view. However, rounding out this sound fundamental picture, we also learned that foreigners acquired a significant amount of financial assets in the local market in February 2022. According to the data, foreign portfolio investments totaled US$1.8 billion in the period, although the breakdown indicated that the equity market (+US$5.0 billion) was preferred to fixed income transactions (-US$2.0 billion). Since we expect the Brazilian Central Bank to extend the ongoing tightening cycle, we think this configuration may change in the coming months. That is, foreign money will continue to pour into the country, in our view, but the profile for equities vs. fixed income could change.

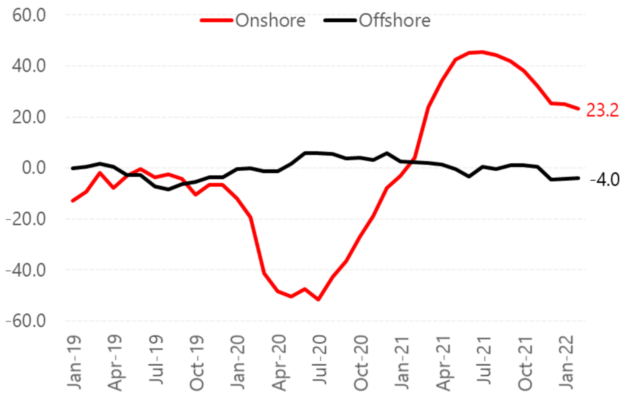
All in all, we think that markets' constructive view concerning the Brazilian balance of payments is unlikely to change soon, thus serving as insulation against eventual jitters on the international front. Therefore, unlike in the 1980s and 1990s, the Brazilian balance of payments is not be a concern for investors, in our view.

Figure 3 – Financial Account – Selected Items (USD billion, 12m)



Sources: Brazilian Central Bank, Santander.

Figure 4 – Net Foreign Portfolio Investments (USD billion, 12m)



Sources: Brazilian Central Bank, Santander

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