

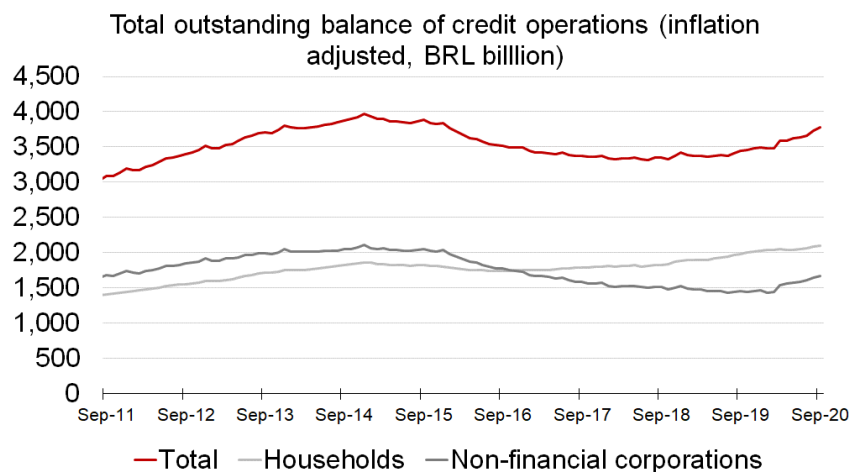
Brazil Macro: Credit

Felipe Kotinda*
felipe.kotinda@santander.com.br
(+55 11) 3553 8071

Strong Household Credit in September

- Brazil Central Bank (BCB) data reveals that credit to households has been recovering, with non-earmarked new loans practically back to pre-crisis levels. Favorable financial conditions (declining interest rates and spreads) should support economic activity, in our view. In the earmarked segment, real estate financing continues to grow.
- As for corporates¹, the volume of new loans remains significant in the non-earmarked (working capital) and earmarked segments, with emergency credit programs, reflecting firms' needs to meet short-term obligations. Total corporate financing increased 31% YoY, with banking credit growth more than offsetting the decrease in capital markets.
- Default rates are worth monitoring: for households, specifically loan payment deferrals and a pending end to the emergency aid; for corporate, we note that eventual setbacks in the reopening process could put additional pressure on company liquidity and cash flows.

Total outstanding loans in the National Financial System (SFN) posted inflation adjusted growth of 1.3% MoM in September (BRL3.8 trillion), with 0.8% MoM for households and 1.9% MoM for non-financial corporations. In the annual comparison, total portfolio growth (inflation adjusted) accelerated from 9.5% to 9.7%, driven by loans to corporations, which accelerated from 14% to 14.7%, and by loans to households, from 6.2% to 5.9%.



Source: Central Bank of Brazil.

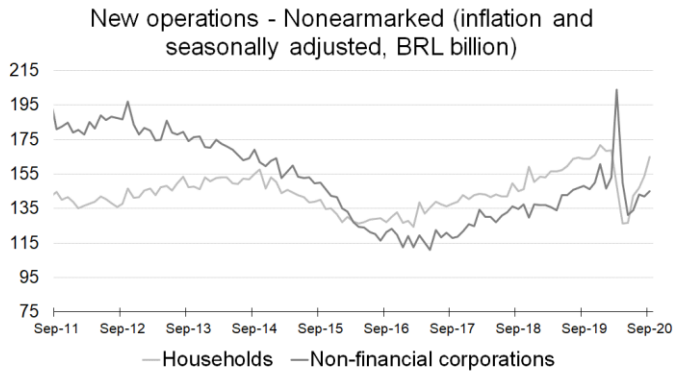
In the non-earmarked segment, loans to households have been recovering since April. This portfolio's growth was 5.4% YoY (inflation adjusted) in September. As for corporations, growth in the balance of non-earmarked remains high (22.6% YoY), with an emphasis on working capital (48.1% YoY, inflation adjusted). In the earmarked segment, growth for households reflects real estate financing, while the increase for companies is due to disbursements from the National Support Program for Micro and Small Enterprises (*Pronampe*).

¹ Non-financial corporations.

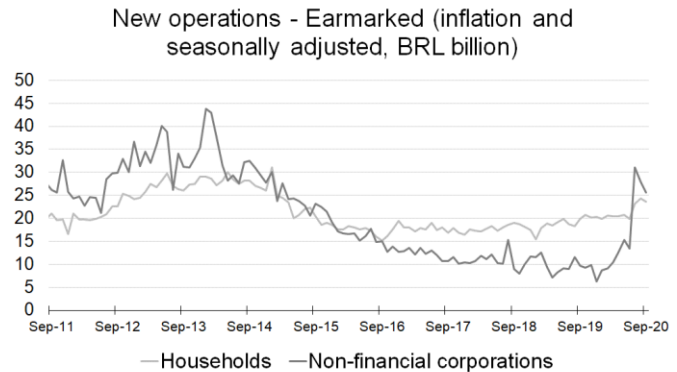
IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE "IMPORTANT DISCLOSURES" SECTION OF THIS REPORT.

U.S. investors' inquiries should be directed to Santander Investment at (212) 350-0707.

* Employed by a non-US affiliate of Santander Investment Securities Inc. and is not registered/qualified as a research analyst under FINRA rules, is not an associated person of the member firm, and therefore may not be subject to FINRA Rules 2241 and 2242 and incorporated NYSE Rule 472 restrictions.

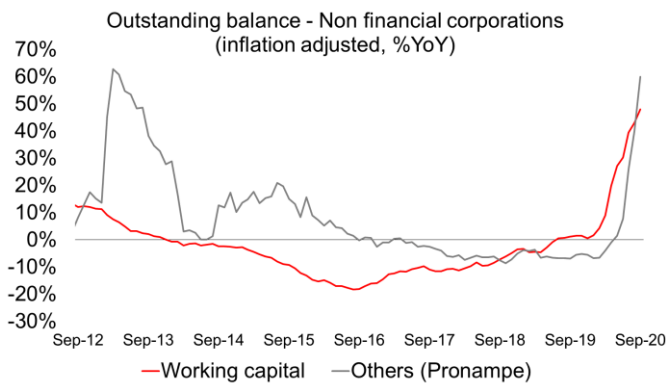


Source: Central Bank of Brazil.

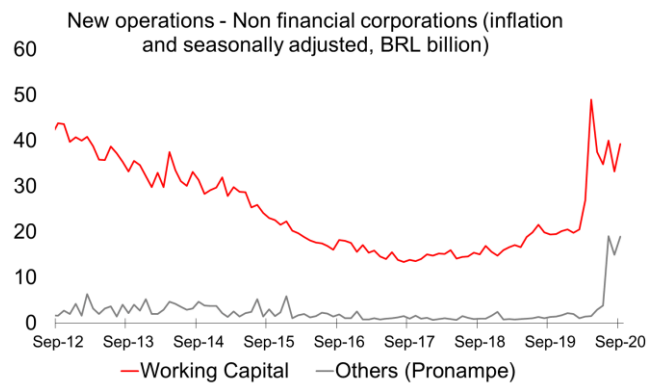


Source: Central Bank of Brazil.

New loans with inflation and seasonal adjustment (BCB methodology) advanced 3.4% in the month compared to August, with expansion driven by households. For households, growth in the non-earmarked segment was 7.2% MoM (s.a.) — the fifth consecutive gain, with **September's volume already 98% of February's reading** (pre-pandemic), meaning nearly a full recovery from the pandemic. Highlights include credit card (5.5% MoM, s.a.) and vehicle purchase (7.2% MoM, s.a.). In the earmarked segment, real estate financing remains high (40.2% YoY). For companies, there was an increase of 2.1% MoM, s.a., in the non-earmarked. For the accumulated result for the year (January to September), new loans for working capital are 86.6% above the same period of last year. In the earmarked segment, *Pronampe* disbursements remained strong in September (see charts below),



Source: Central Bank of Brazil.

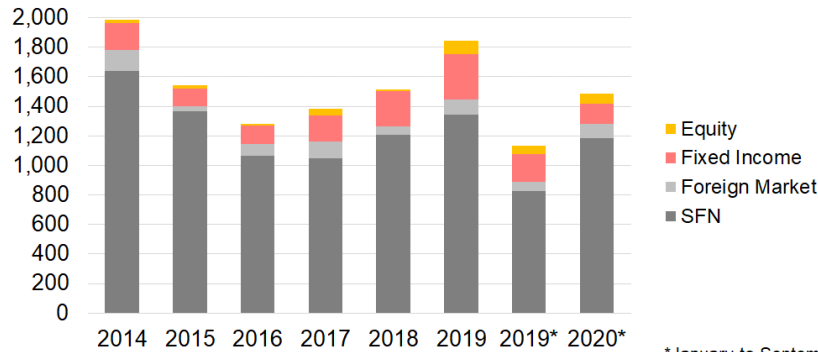


Source: Central Bank of Brazil.

Considering total corporate financing (new loans in the SFN, debt and equity issues in the capital markets) between January and September 2020, compared to the same period in 2019, issuances in the capital markets were 16.3% lower, while SFN concessions were 42.6% higher. In total, corporate financing has accelerated (+31% compared to year-ago period), with **growth in banking credit more than offsetting the decrease in capital markets**. Importantly, it is possible that Brazilian companies might be more willing to hoard cash (to protect against hypothetical liquidity constraints) than to boost investment.



Total corporate financing (inflation adjusted, BRL billion)



SFN - exclude *conta garantida*, *cheque especial* (overdraft) and credit card.
 Foreign Market - bonus, MTNs and securities.
 Fixed Income - Debentures, commercial papers, LFs, CRAs, CRIs e FIDCs.
 Equity - IPO and follow-on.

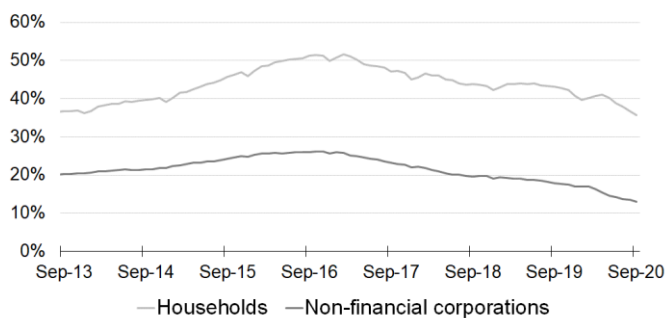
*January to September.

Source: Central Bank of Brazil and Anbima.

Lastly, and reflecting the expansionary monetary policy stance and limited delinquency, the Credit Cost Indicator (ICC), interest rates and default rates for both households and non-financial corporations all continue to trend downward. The Credit Cost Indicator (ICC) of non-earmarked loans for households decreased 1 p.p. in September compared to August, reaching 35.7% p.a., and 0.5 p.p. to 13% p.a. for corporations. The average interest rate for non-earmarked new loans was 38% p.a. (compared to 39% p.a. in August) for households and 11.4% p.a. for corporations (compared to 12.4% p.a. in August). The spread on new non-earmarked loans was 32.9% (-1.3 p.p. from August) and 7.5% (-1.1 p.p. from August), for households and corporations, respectively.

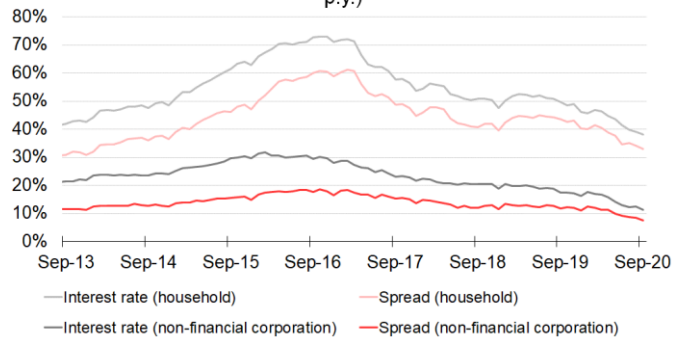
The seasonally adjusted default rate (% of 90-day past due loans) dropped another 0.2 p.p. in the month for households, standing at 3.1%. For corporations, there was a reduction of 0.2 p.p., to 1.6%. In both cases, it is the lowest value observed in the historical series started in March 2011. We see **default rates as worth monitoring**: for households, loan payment deferrals and a pending end to the emergency aid; for corporate, eventual setbacks in the reopening process could put additional pressure on companies' liquidity and cash flows.

Credit Cost Indicator (ICC) - Non-earmarked (% p.y.)



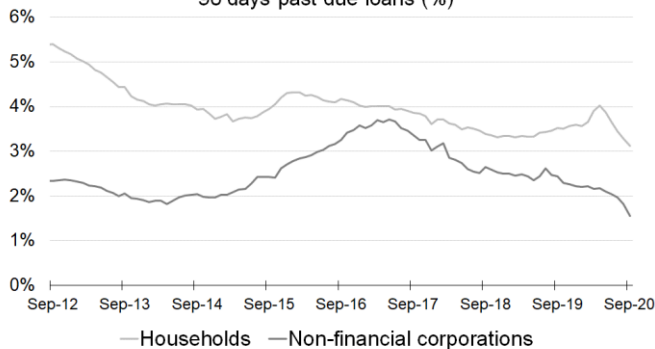
Source: Central Bank of Brazil.

Average interest rate and spread - Non-earmarked (% p.y.)



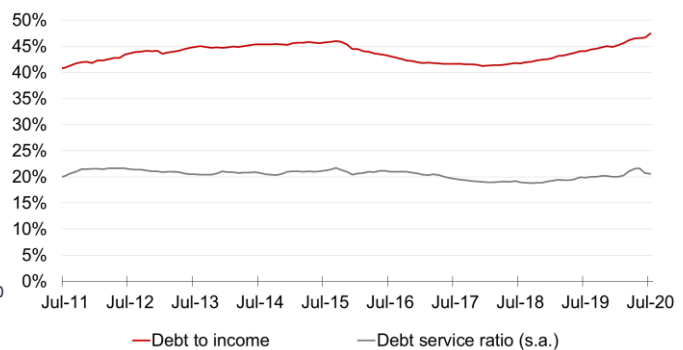
Source: Central Bank of Brazil.

90 days past due loans (%)



Source: Central Bank of Brazil.

Household debt to income and debt service ratio (%)



Source: Central Bank of Brazil.

**Table 1. Indicators**

Outstanding inf. adj. (YoY)	Nonearmarked			Earmarked			Total		
	<i>Jul-20</i>	<i>Aug-20</i>	<i>Sep-20</i>	<i>Jul-20</i>	<i>Aug-20</i>	<i>Sep-20</i>	<i>Jul-20</i>	<i>Aug-20</i>	<i>Sep-20</i>
Households	5.7%	5.7%	5.4%	6.4%	6.8%	6.6%	6.0%	6.2%	5.9%
Non-financial corporations	23.4%	23.9%	22.6%	-2.4%	0.1%	3.3%	12.5%	14.0%	14.7%
Total	13.4%	13.7%	13.0%	2.8%	4.1%	5.3%	8.8%	9.5%	9.7%

New operations inf. adj. (MoM s.a.)	Nonearmarked			Earmarked			Total		
	<i>Jul-20</i>	<i>Aug-20</i>	<i>Sep-20</i>	<i>Jul-20</i>	<i>Aug-20</i>	<i>Sep-20</i>	<i>Jul-20</i>	<i>Aug-20</i>	<i>Sep-20</i>
Households	3.2%	4.7%	7.2%	15.6%	5.3%	-2.9%	5.5%	4.3%	6.7%
Non-financial corporations	7.0%	-0.8%	2.1%	140.1%	-9.9%	-8.4%	12.9%	-1.9%	2.5%
Total	3.7%	2.3%	4.0%	56.5%	-2.8%	-0.1%	10.4%	1.7%	3.4%

Interest rate	Nonearmarked			Earmarked			Total		
	<i>Jul-20</i>	<i>Aug-20</i>	<i>Sep-20</i>	<i>Jul-20</i>	<i>Aug-20</i>	<i>Sep-20</i>	<i>Jul-20</i>	<i>Aug-20</i>	<i>Sep-20</i>
Households	39.9%	39.0%	38.0%	7.1%	7.1%	7.0%	24.8%	24.0%	23.5%
Non-financial corporations	12.4%	12.4%	11.4%	7.1%	7.4%	6.7%	10.7%	10.8%	9.9%
Total	27.3%	26.7%	25.7%	7.1%	7.2%	6.9%	19.2%	18.7%	18.1%

	<i>Jul-20</i>	<i>Aug-20</i>	<i>Sep-20</i>
Total Outstanding / GDP	51.0%	51.9%	52.8%
Total Outstanding under public control	46.8%	46.4%	46.1%

Source: Brazil Central Bank.



CONTACTS / IMPORTANT DISCLOSURES

Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Juan Cerruti *	Senior Economist – Argentina	jcerruti@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

Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina& FX	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Orenge*	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
Claudia Benavente*	Head, Chile	claudia.benavente@santander.cl	562-2336-3361
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Daniel Gewehr*	Head, Brazil	dhgewehr@santander.com.br	5511-3012-5787

Electronic

Bloomberg
Reuters

SIEQ <GO>
Pages SISEMA through SISEMZ

This report has been prepared by Santander Investment Securities Inc. ("SIS"; SIS is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. "Santander"), on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This document must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. ("Santander Investment Bolsa"), and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. SIS, Santander London and Santander Investment Bolsa are members of Grupo Santander.

ANALYST CERTIFICATION: The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: Felipe Kotinda*.

*Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2242 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

The information contained herein has been compiled from sources believed to be reliable, but, although all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading, we make no representation that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included herein constitute our judgment as at the date of this report and are subject to change without notice.

Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with SIS, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States.

© 2020 by Santander Investment Securities Inc. All Rights Reserved.

