



BRAZIL MACRO

August 6, 2021

MACRO COMPASS

NO RELIEF ON THE INFLATION FRONT

Ana Paula Vescovi* and
 Brazil Macroeconomics Team
 anavescovi@santander.com.br
 +5511 3553 8567

- The BRL was the worst performer among major currencies in the rolling week ended on August 5, when it weakened to USD/BRL5.25 from USD/BRL5.08 a week ago (a 3.3% loss). The performance took place amid hawkish statements from FOMC members and renewed uncertainties about the prospects for fiscal policy in Brazil. The hawkish COPOM statement and the heightened fiscal concerns weighed on the Brazilian yield curve, prompting a bear steepening pattern this week.
- Health conditions continue to gradually improve in Brazil. Our proxy for a nationwide average of ICU occupancy has tumbled further to 54%, the lowest level since January. The vaccination rate continues to hold up at around 1.3-1.4 million/day on average, reaffirming a positive outlook for the reopening of the economy.
- The public sector registered a hefty primary deficit (BRL65.5 billion) in June, on the heels of higher expenditures. Pandemic relief ("extra-cap") expenses totaled BRL19.4 billion in July. On the political front, the House approved a motion of urgency to vote the income tax changes and the privatization bill of *Correios*. Finally, the 2022 estimate of judicial claims (so-called "*Precatórios*") soared, leading to a heated debate on a new framework to deal with these expenses.
- Given the lower-than-expected July 2021 trade surplus and the rising trend seen in the financial FX settlements of trade deals, we saw the gap between the balance of shipped goods ("physical trade balance") and the financial settlements ("financial trade balance") decline for the first time since March.
- The COPOM hiked the Selic rate by 100 bps to 5.25%, in line with expectations. In the statement, the BCB signaled that it now deems appropriate a Selic rate level above neutral (6.5%); the committee also hinted at another move of 100 bps (to 6.25%) for September. The BCB is responding to the deterioration in the inflation conditions and outlook, with a view to rein in inflation expectations. Given the policy signals and our inflation scenario, we upgraded our terminal rate expectation to 7.50% (from 7.00% previously).
- Industrial production was flat in June, with the headline index ending 2Q21 with a 2.5% QoQ-sa contraction. This figure reinforces our view of the industrial sector as a short-term drag on activity, mainly reflecting the widespread shortage of inputs. Our proprietary index for services to families rose in July, amid an economic reopening. The last batch of activity data for June will be released in the coming week. We expect the broad retail sales to retreat 2.0% MoM-sa (Wednesday, August 11) and the services real revenue to gain 0.2% MoM-sa (Thursday, August 12). Moreover, we expect the broad economy index IBC-Br to grow 0.6% MoM-sa (Friday, August 13).
- We expect July's IPCA (due on Tuesday, August 10) to rise 0.95% MoM, or 9.0% YoY. This should be another sour IPCA reading, with a deterioration of both level and composition. The negative highlight should be services inflation, with its core gauge accelerating to 6.3% 3MMA-saar. The EX3 IPCA core trend is to accelerate to a hefty 8.0% (mid-target for IPCA in 2022 is 3.5%).

Most of the information in this report is up to the end of Thursday, August 5, 2021.

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

U.S. investors' inquiries should be directed to Santander Investment Securities Inc. at (212) 583-4629 / (212) 350-3918.

* Employed by a non-US affiliate of Santander Investment Securities, Inc. and is not registered/qualified as a research analyst under FINRA rules.

**Figure 1. Brazil Macro Agenda for the Week of August 09-13, 2021**

Indicators / Events	Source	Reference	Date	Santander Estimate	Prior
IGP-DI Inflation (% MoM)	FGV	Jul/21	Mon, 09-Aug	--	0.11
IGP-DI Inflation (% YoY)	FGV	Jul/21	Mon, 09-Aug	--	34.53
COPOM minutes	BCB	--	Tue, 10-Aug	--	--
IPCA Inflation (% MoM)	IBGE	Jul/21	Tue, 10-Aug	0.95	0.53
IPCA Inflation (% YoY)	IBGE	Jul/21	Tue, 10-Aug	8.98	8.35
Core Retail Sales (% MoM)	IBGE	Jun/21	Wed, 11-Aug	0.7	1.4
Core Retail Sales (% YoY)	IBGE	Jun/21	Wed, 11-Aug	8.9	16.0
Broad Retail Sales (% MoM)	IBGE	Jun/21	Wed, 11-Aug	-2.0	3.8
Broad Retail Sales (% YoY)	IBGE	Jun/21	Wed, 11-Aug	11.6	26.2
Services Volume (% MoM)	IBGE	Jun/21	Thu, 12-Aug	0.2	
Services Volume (% YoY)	IBGE	Jun/21	Thu, 12-Aug	17.5	23.0
IBC-Br Activity Index (% MoM)	BCB	Jun/21	Fri, 13-Aug	0.6	-0.4
IBC-Br Activity Index (% YoY)	BCB	Jun/21	Fri, 13-Aug	8.7	14.2

Source: Santander.

For details on Santander's economic forecasts for Brazil, please refer to our last scenario review¹.

¹ Santander Brazil - Macroeconomic Scenario: "Improvement in The Short Term, Caution for The Medium Term" – Jul 01, 2021- Available on: <http://bit.ly/Std-scenrev-070121>



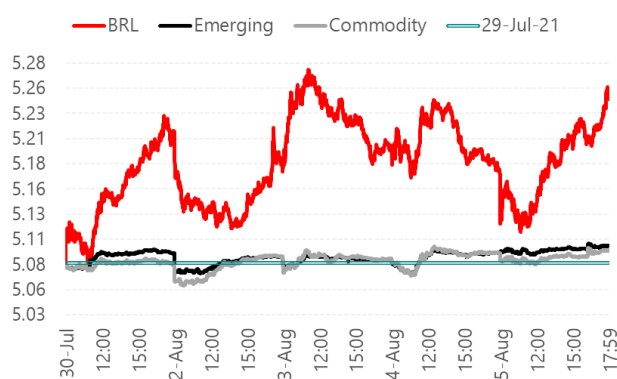
LOCAL MARKETS—FX

As a reminder of (what we see as) the limited room for the BRL to strengthen in the absence of concrete advances in macro/fiscal reforms, the Brazilian currency registered the worst performance among major currencies in the rolling week ended on August 5. The USD/BRL pair weakened to 5.25 from 5.08 a week ago (a 3.3% loss) on the heels of renewed uncertainties regarding the prospects for fiscal policy, following proposals that may lead to an increase in the already high level of mandatory expenditures. Additionally, we think that hawkish remarks by influential members of the FOMC in the last days were taken by markets as a sign of an earlier than expected start to the removal of monetary stimulus. In our view, these factors weighed on the performance of the BRL in the period and surmounted the positive influence that the interest rate hike in Brazil would theoretically exert over the currency (details on the Monetary Policy section).

LOCAL MARKETS—Rates

The nominal yield curve saw another significant upshift, with a bear-steepening pattern. Since last Thursday (July 29), the front end of the curve (Jan-23 DI future) rose sharply by 65 bps to 8.21%, while the back end of the curve (Jan-27 future) rose 74 bps to 9.46%. As a result, the curve's steepness in this segment rose 9 bps to 125 bps. The rise of the short-end yield was driven by the COPOM's hawkish decision (+100 bps) and statement. The options market has priced in an implied probability of 70% of a 100-bps hike for the next COPOM meeting in September, in line with our forecast (see more on the Monetary Policy section). At the long end, the domestic yield rose considerably, reflecting uncertainties regarding the path of the fiscal policy and the consolidation process.

Figure 2.A. – USD/BRL Intraday Trends

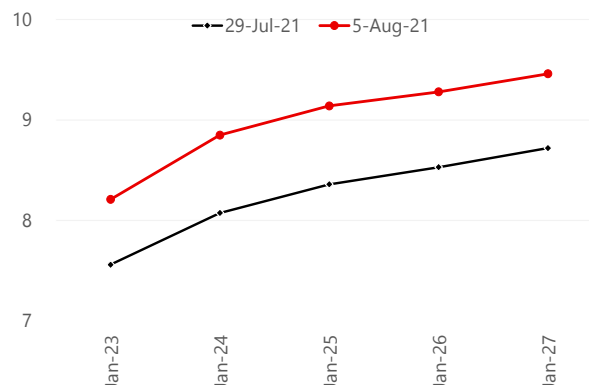


Sources: Bloomberg, Santander.

Note1: As of the close Thursday, August 5, 2021.

Note2: For other currencies, we use USDBRL values as a base-index

Figure 2.B. – Brazilian Domestic Yield Curve (% p.a.)



Sources: Bloomberg, Santander.

Note: As of the close Thursday, August 5, 2021.



COVID-19 MONITORING

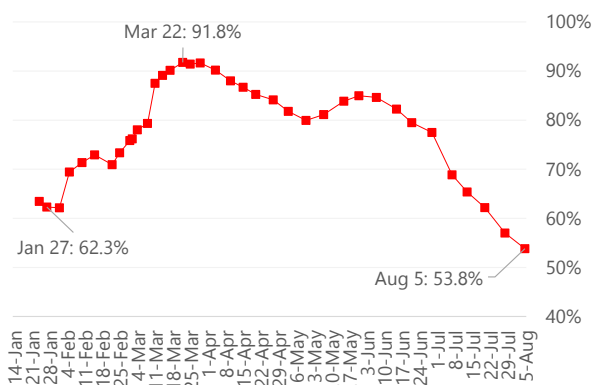
Brazil's vaccination pace remains around 1.3-1.4 million/day on average. We expect the daily average pace of vaccinations to stand at 1.5 million doses in 2H21, as vaccine inventories remain high (40 million doses) and deliveries are expected to remain above the levels of vaccine administration. As the delta variant spreads, countries around the world have been planning booster shots. In Brazil, the Health Ministry announced it will study a third dose for those fully vaccinated with the Sinovac vaccine. All four currently available vaccines in the country (Sinovac, AstraZeneca, Pfizer and Janssen) will be tested.

Health conditions continue to improve gradually. Our proxy for a nationwide average ICU occupancy rate² continues to decline, reaching close to 54%, the lowest level in our series (begun in January). That number compares to a previous peak of 92% (late March). Data from Brazil's Health Ministry showed 32k new daily cases (7-day moving average) as of Wednesday (August 4), down 29% from last week, while daily casualties (7-day moving average) stood at 918, down 15% in the same period.

Despite a slight retreat of late, urban mobility maintained a fast recovery in 3Q21. July's data so far indicates a retreat last week, with our lockdown index now moving to 7.0 points (as of July 31, 2021) from 4.4 points (as of July 25, 2021). This move stems from decreases in all the main categories but with Workplaces still running above the pre-pandemic levels. Despite the drop, mobility is still running at low levels, especially if we exclude the 2020 Christmas period (December 22 to 24), meaning a fast convergence to a "normalcy" in coming months (as vaccination advances).

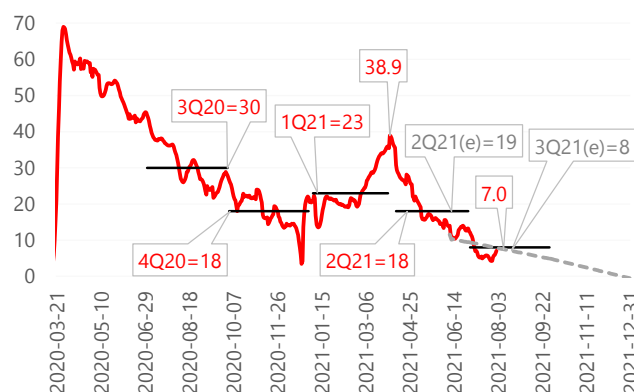
Our daily activity index started 3Q21 at a slower pace. The index—based on daily data on energy consumption, car sales, and mobility—has been improving since the start of 2Q21, showing an upward trend in recent months. On a monthly basis adjusted for seasonality, the index expanded by 5.6%, 3.0% and 4.2% in April, May and June, respectively. For July, considering the daily average up to the 31st, the index points to a drop of 0.8%-sa, placing about it ~4.5% below the mark of February 2021.

Figure 3.A. – Nationwide Average ICU Occupancy Proxy (%)



Sources: @coronavirusbra1, Santander.

Figure 3.B. – Lockdown Index*, Mobility Forecasts (Feb/20=0, 7-day average)



Sources: Google, Santander.

* This index is built as an average of selected segments from Google Mobility Report with inverted scales. Data are available until July 31, 2021.

² The nationwide average proxy is a weighted average (by state population) of state ICU occupancy rates. Hence, it does not reflect the actual national occupancy rate = Total beds occupied in Brazil / Total beds available in Brazil.



FISCAL POLICY AND POLITICS

According to Brazilian Central Bank (BCB) data published on July 30, the public sector registered a hefty primary deficit (BRL65.5 billion) in June, on the heels of higher expenditures. In year-to-date terms, after five months showing a primary surplus, the strong primary deficit in June led the 1H21 result to a deficit of BRL5.2 billion (0.13% of GDP), similar to 2019 levels. For the Central Government, on expenditure side the main highlights were: (i) an anticipation of year-end bonuses for pensioners (~BRL35 billion); (ii) payment of judicial claims (~BRL16 billion); and (iii) extraordinary budget related to the pandemic (BRL12.6 billion). Revenues continued to recover due to the price effects (higher inflation and terms of trade). Regional governments continue to surprise positively, with their aggregate primary budget results reaching an all-time high in real terms. Debt indicators posted mixed results. Gross debt reached 84.0% of GDP in June, a drop of 0.6 pp from the May reading—affected by the increase in nominal GDP (-1.5pp of impact). Meanwhile, net debt was 60.9% of GDP, 1.1 p.p. higher on the same basis of comparison. For the coming months, we continue to expect a sequence of primary deficits, albeit at lower levels compared to June. [See details in the link³](#). We calculate that pandemic relief expenses that were exempted from compliance with the constitutional spending cap (so-called “extra-cap” spending) totaled BRL19.4 billion in July, most of which was spending on the emergency aid totaling BRL8.5 billion. According to the government, 1.1 million in benefits were canceled or blocked since June, reducing in BRL0.5 billion the monthly disbursement. Health expenses totaled BRL11.4 billion in the year up to July, the monthly values are decreasing with the improvement in the numbers of the pandemic and the advance in the vaccination process. As expected, the reintroduction of the *Pronampe* program (credit support for SMEs) in 2021 added BRL5 billion to the “extra-cap” expenditures in July. For the time being, the total of “extra-cap” expenses budgeted for 2021 (including 2020 leftovers and 2021 stimulus) is BRL127.5 billion. Our estimates consider the execution of extra-cap spending close to BRL115 billion (~1.3% of GDP).

On the political front, the lower house approved a motion of urgency to the income tax reform, and the 2022 estimate of judicial claims (so-called “*Precatórios*”) soared. The income tax reform (PL 2337/21) rapporteur, Celso Sabino, presented a new draft bill (with a probably more neutral revenue effect—with large “one-off” revenues for 2022), the Lower House approved a procedural vote to bill be ready to vote on the house floor in coming days. In our view, further discussion ought to take place before the matter is ready to be voted. The government is also planning to propose a constitutional amendment (PEC, in Portuguese acronym) to defer the execution of judicial claims (*precatórios*) to be paid in 9 years. This follows official estimates pointing to a jump in this spending line to ~BRL 90 billion for 2022, beating by and large the government’s initial expectation (~BRL 55 billion). In our view, pushing back the settlement of judicial claims could be seen as a hedge against a potentially narrowing of the spending cap margin for 2022 (currently estimated at ~BRL22 billion), as inflation expectations for year-end keep rising. Finally, the Lower House passed the privatization bill of the state’s postal services firm (ECT) and the bill now goes to the Senate.

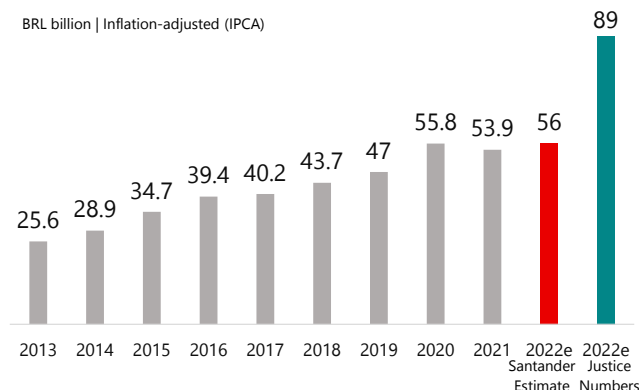
Figure 4.A. – 2021 “Extra-Cap” Spending Tracker

BRL Billion - Accumulated	May-21	Jun-21	Jul-21	Total Budgeted	Executed
Emergency Aid (MP 1.037 and 1.056/2021)	18.6	27.4	35.8	64.9	55.2%
Health expenditures	9.1	9.7	11.4	16.2	70.7%
BEm - Employment Program (MP 935/220 and MP 1.044/2021)	2.1	4.0	6.4	11.7	54.6%
Turism Infrastructure (MP 963/2020)	0.4	0.4	0.4	1.9	22.9%
Vaccine Acquisition (MP 994, 1,004 and 1,015/2020)	6.4	8.0	9.6	27.8	34.7%
Pronampe (credit support for SMEs) (MP 1,053/2021)	0.0	0.0	5.0	5.0	100.0%
Accumulated Total	36.6	49.4	68.7	127.5	53.9%

Updated in 08/05/2021

Sources: National Treasury, Santander.

Figure 4.B. – Judicial Claims Budget (“*Precatórios*”)



Sources: Minister of Economy, National Treasury, Santander.

³ Santander Brazil Fiscal Policy - “Primary Deficit Back to 2019 Levels” – July 30, 2021 - Available on: <https://bit.ly/Std-fiscal-073021>



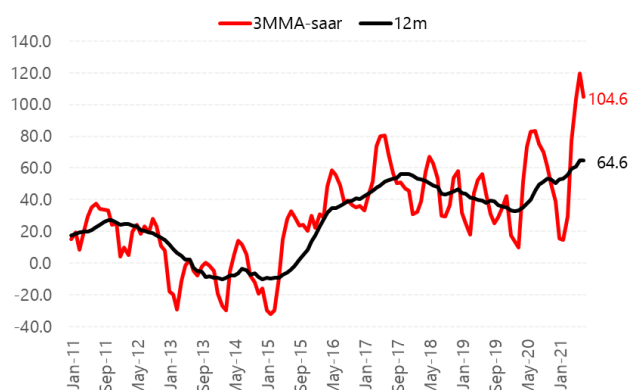
EXTERNAL SECTOR

In our view, both “physical” and “financial” trade balances recorded in July 2021 suggested some possible BRL support from the standpoint of commercial FX inflows. Paradoxically, however, we think that net outflows in the financial segment underpin a limited upside for the BRL, amid lingering economic uncertainties.

The July 2021 trade surplus of US\$7.4 billion fell short of our forecast of US\$9.0 billion, but its historical trend bolsters our sanguine view for increasing trade surpluses later this year. We note, on a 12-month basis through July, the total surplus is US\$64.6 billion vs. the surplus of US\$50.4 billion in the 12-month period ending December 2020. Further, when we annualize the daily average figures of the last three months (3MMA-saar), this gauge suggests an annual surplus of US\$104.6 billion, which is compatible with our forecast of US\$77.8 billion for 2021 as a whole. Hence, we continue to expect the trade balance figures to support our forecast and the market expectation for a strong Brazilian external position. [See details in the link⁴](#)

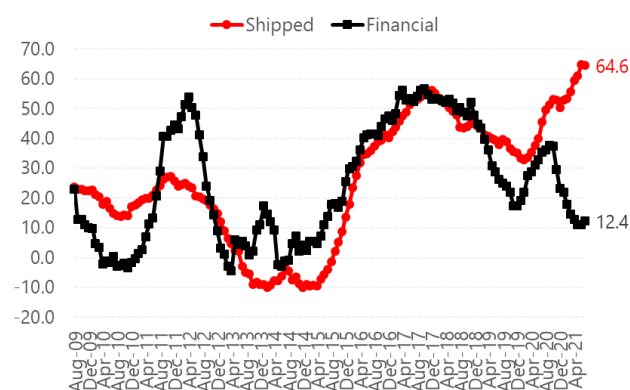
The Brazilian spot FX market recorded net inflows of US\$0.8 billion in July 2021, with US\$2.7 billion of net inflows in the commercial segment more than compensating for US\$1.9 billion of net outflows in the financial segment. In seasonally adjusted terms, the daily average for July 2021 indicated net inflows of US\$165 million in the commercial segment and net outflows of US\$189 million in the financial segment, which pointed to the beginning of a rising trend for the former and a seesaw pattern for the latter. We think this dynamic of the Brazilian spot FX flows reinforces our assessment of the BRL’s limited room to register a perennial and substantial strengthening in light of skepticism regarding the path of Brazilian government debt over the medium term. On the other hand, the narrowing observed in the gap between the physical and financial trade balances suggests to us that there is some sort of insulation against substantial weakening of the BRL in the short term as well. [See details in the link⁵](#)

**Figure 5.A. – Trade balance
(USD billion)**



Sources: SECINT, Santander.

**Figure 5.B. –Shipped goods vs. Financial settlements
(USD billion, 12m)**



Sources: Brazilian Central Bank, SECINT, Santander.

⁴ Santander Brazil – External Sector: “Lower Than Expected July Trade Surplus, But Not a Concern Given Forecast Increases Ahead” – August 2, 2021- Available on: <https://bit.ly/Std-extsec-020821>

⁵ Santander Brazil – External Sector: “Here a Little, There a Little” – August 4, 2021- Available on: <https://bit.ly/Std-extsec-040821>



MONETARY POLICY

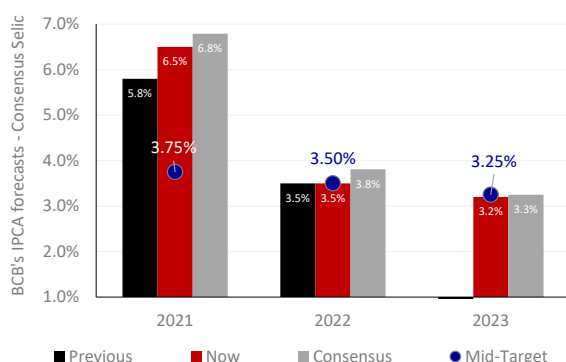
The COPOM hiked the Selic rate by 100 bps to 5.25%, in line with expectations. The tone of the statement shows the central bank is responding to the deterioration in the inflation conditions and outlook, with a view to rein in inflation expectations. But the authority is doing it in a balanced way.

Policy-wise, the BCB has signaled that it now deems appropriate a tightening cycle to take the Selic rate to a level above the neutral, meaning another adjustment to its flight plan (which previously pointed to a neutral Selic rate at the end of the cycle). For the short term, the committee hinted at another potential move to once again raise the Selic by 100 bps (to 6.25%).

The COPOM's decision to abandon the previous signal of a neutral Selic is in line with the BCB's own (IPCA) inflation projections. According to the models, with the FX rate starting at 5.15 (and moving along with PPP afterwards), a path of Selic rate hikes to 7.00% for YE2021 and stable throughout 2022⁶ would produce a disinflation of the IPCA exactly to the mid-target of 3.5% for the main policy horizon of 2022. This forecast was stable from the last meeting, but now incorporating a tighter policy stance (to offset the deterioration in the outlook). For 2021, the BCB simulates a hefty IPCA inflation reading of 6.5% (previously: 5.8%), going well above the upper target of 5.25%. With market analysts projecting a number close to 6.8% for this year's IPCA inflation (and our own tracking running around 7.3%), it is possible that part of the estimate gap of the BCB vis-à-vis most analysts reflects the electricity hypothesis used in the official simulations, with a tariff flag at the "Red 1" level for the end of each year. That is probably a strategy of the BCB to avoid the "contagion" of inflation simulations with (base-)effects generated by volatile items, where monetary policy is only expected to intervene to curb the second-round effects⁷.

We continue to look for another hike of 100 bps (to 6.25%) in September and a subsequent move of 75 bps in October. What we now incorporate to our baseline scenario is a final move of 50 bps in December, with our terminal rate expectation upgraded to 7.50% (from 7.00% previously). We expect the Selic rate to remain at this level throughout 2022, with an expected reduction towards (our hypothesis of) the neutral level of 7.00% only in 2023. That's the horizon when we finally expect IPCA inflation to converge to the mid-target (3.25%), declining from a likely reading of around 4% (our expectation for the IPCA next year). [See details in the link⁸](#). Next Tuesday (August 10), the BCB publishes the COPOM minutes, which could bring more light to the BCB's scenario assessment and policy guidance.

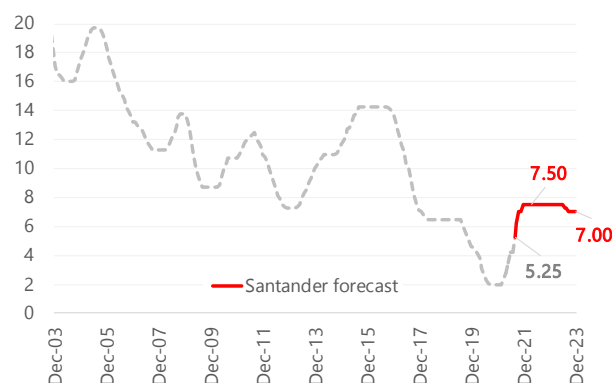
Figure 6.A. – BCB's Inflation Simulations



Sources: Brazilian Central Bank, Santander.

Note: BCB simulations assume Selic rate from Focus survey and USD/BRL starting at 5.15 and evolving with purchase power parity.

Figure 6.B. – The Selic Rate Path (% p.a.)



Sources: Brazilian Central Bank, Santander.

Note: This path shows monthly averages.

⁶ According to the Focus survey, the trajectory of the Selic rate projected by analysts includes another 100 bps move in September.

⁷ Among the BCB's assumptions, the "energy flag is assumed to be neutral, remaining at "red level 1" in December each year." In our view, the rising hydrological risk in Brazil indicate a high probability of a "red level 2" tariff flag for electricity costs, which would prompt roughly a 0.5 p.p. upward impact for the 2021 headline CPI estimate, and probably a downward effect for the relevant horizon of 2022 (base effects).

⁸ **Santander Brazil Monetary Policy - "Stepping Up the Pace and the Plan"** – August 5, 2021 – Available on: <https://bit.ly/Std-COPOM-aug21>



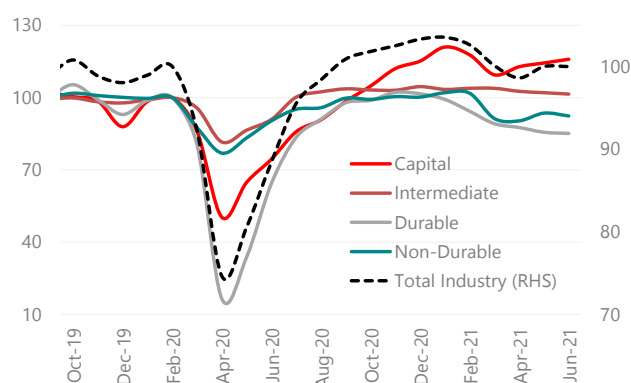
ECONOMIC ACTIVITY

For industry, stability at the margin and contraction in 2Q21. Industrial production was stable in June (0% MoM-sa), below the market consensus (0.3%) and slightly above our estimate (-0.2%). Despite the stability at the margin, June's figure stems both from a decrease in manufacturing (-0.5%) and in mining (-0.7%), and the headline index still stands at the pre-pandemic mark (February 2020). In quarterly terms, June's result implies a solid contraction of 2.5% QoQ-sa in 2Q21 (-0.4% in 1Q21), with the manufacturing sector (the most important in GDP Industry) retreating 3.8%. These figures reinforce our view of the industrial sector as a short-term drag on activity, mainly reflecting the cost increases and the widespread shortage of inputs. Indeed, it's worth saying that this drag occurs despite the low inventory levels and the gain of steam in external and domestic demand. Looking at the breakdown, capital goods stood out by climbing 1.4%; on the other hand, intermediate goods dropped for the third month in a row (down by 0.6%), while consumer goods retreated 0.9%. The recorded diffusion index was down to 44% (from 60% in May), spotlighting a widespread retreat among the sectors. [See details in the link⁹.](#)

Services to families keep improving at the start of 3Q21. Our proprietary index (IGet Services) confirmed the expectations of a sequential growth (as had been anticipated in the preliminary figures): the headline index climbed 12.5% MoM-sa (11.8% in the preview) and now stands at the highest reading since the pre-crisis mark (down by 14.7% since February 2020). We kept our tracking for the services to families' component of IBGE's monthly report on services for June and July at 6.4% MoM-sa (66.5% YoY) and 1.9% MoM-sa (71.7% YoY), respectively. [See details in the link¹⁰.](#)

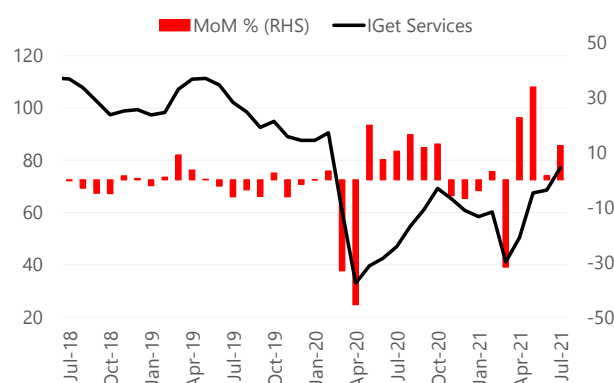
The last batch of economic activity data for June will be released next week. We expect the broad retail sales (on Wednesday, August 11) and the services real revenue (on Thursday, August 12) to retreat 2.0% MoM-sa and to climb 0.2% MoM-sa, respectively. Moreover, we expect the BCB's monthly GDP proxy, the IBC-Br (on Friday, August 13), to grow 0.6% MoM-sa, which would imply a quarterly decline in 2Q21 (-0.1% QoQ-sa), in line with our current projection of GDP stability (0% QoQ-sa). [For details on Santander's activity outlook, please refer to our last chartbook¹¹.](#)

Figure 7.A. – Industrial Production Breakdown (sa, Feb-20=100)



Sources: IBGE, Santander.

Figure 7.B. – IGet Services (sa, Jan-16=100)



Sources: Santander.

⁹ Santander Brazil Economic Activity - “Stability at the Margin, Contraction in the Quarter” – August 03, 2021 - Available on: <https://bit.ly/Std-Econact-030821>

¹⁰ Santander Brazil Economic Activity - “Serviços Começam o Trimestre com Crescimento” – August 04, 2021 - Available (in Portuguese) on: <https://bit.ly/Std-IGETser-jul21>

¹¹ Santander Brazil Economic Activity - “Chartbook – Better Outlook Due to Mobility and Commodities” – July 6, 2021 - Available on: <https://bit.ly/Std-chart-econact-jul21>



INFLATION

We expect July's IPCA (due on Tuesday, August 10) to rise 0.95% MoM, meaning an acceleration in annual terms to +9.0% YoY (from +8.3% YoY in June). This means, once again, a fresh new multi-year high, with the trend denoted by the seasonally adjusted quarterly annualized moving average accelerating to 10.6% 3MMA-saar.

Comparing to July's IPCA-15 (+0.72% MoM), this reading should accelerate in monthly terms, mainly driven by a rise of 1.68% MoM in regulated prices, because of the effect of the increase in Red 2 flag costs in electricity. Food prices should also accelerate to 0.77% MoM, meaning a high seasonal change (the average for July is around -0.10% MoM), enough to generate an acceleration to 10.0% 3MMA-saar. On the other hand, industrial goods might decelerate just a bit, from 0.69% MoM in July's IPCA-15 to 0.61% in July's IPCA. Although being a deceleration in monthly terms, this is a high seasonal change as the average for the month is closer to 0.05% MoM. As a result, the trend should continue almost stable at 12.1% 3MMA-saar, showing that price pressures at the industrial sector continue apace.

The main highlight should be in services prices, with a gain of 0.69% MoM. This is basically a stable rate compared to July's IPCA-15 (0.71% MoM), but high in historical terms as the average for July is around 0.45%. This result should be the highlight because services were the only group with inflation still hovering at low levels recently, but now the trend might accelerate 5.1% 3MMA-saar. In particular, core services inflation should accelerate to 6.3% 3MMA-saar (from 4.2% in June), evidencing that even excluding more volatile prices, the services inflation trend is picking up. The dynamic of services inflation is of particular interest for the BCB as it tends to be more inertial and as the risk with the economy reopening is that the sector's prices accelerate further.

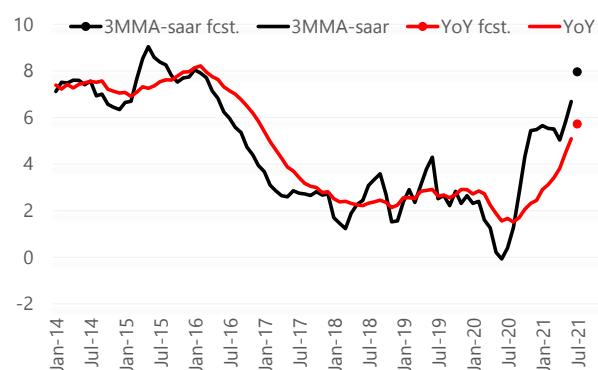
Finally, in terms of broad underlying inflation measures, the EX3 core should rise around +0.65% MoM, as per our projection, meaning an acceleration to 8.0% 3MMA-saar. This is the tenth month of the EX3 core running above the BCB's target in 3MMA-saar terms (headline CPI target is 3.75% for 2021 and 3.50% for 2022)—signaling a risky spread of primary shocks to general prices. All in all, we project this should be another unfavorable IPCA reading, with a deterioration of both inflation's level and composition.

Figure 8.A. – July's IPCA Forecast Details (%)

	MoM		YoY	
	Jul-21	Contrb.	Jun-21	Jul-21
IPCA	0.95	0.95	8.3	9.0
Administered	1.68	0.45	13.0	13.5
Free	0.68	0.50	6.8	7.4
Food-at-home	0.77	0.12	15.3	16.0
Industrial goods	0.61	0.14	8.8	9.2
Services	0.69	0.24	2.2	3.1
EX3 Core	0.62	0.62	5.1	5.7

Sources: IBGE, BCB, Santander.

Figure 8.B. – Core Inflation Forecast (IPCA EX3, %)



Sources: IBGE, BCB, Santander.



CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Orenge*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Lucas Maynard*	Economist – Economic Activity	lucas.maynard.da.silva@santander.com.br	5511-3553-7495
Felipe Kotinda*	Economist – Credit	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327

Global 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
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500

Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina	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
Mariana Cahen Margulies*	Head, Brazil	mmargulies@santander.com.br	5511 3553 1684

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: Ana Paula Vescovi*.

*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.

© 2021 by Santander Investment Securities Inc. All Rights Reserved.

