

**BRAZIL MACRO**

October 22, 2021

MACRO COMPASS

CHANGES IN THE FISCAL FRAMEWORK TO TRIGGER A BOLDER MOVE BY THE COPOM

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

- On Wednesday (October 27), the BCB announces its monetary policy decision. In our view, the news regarding the latest fiscal policy decisions have tilted the balance of risks even further to the upside. We now change our forecast and consider as the most likely scenario a 150-bp hike in the Selic rate to 7.75%. We anticipate a hawkish tone in the statement, probably accompanied by sign of another move of 150bps in December. We now look for a double-digit terminal Selic rate for the cycle (10.5%), to be reached in 1Q22. Amid increased uncertainty about economic policy, we continue to see risks skewed to the upside.
- The USD/BRL pair closed the rolling week ended October 21 at 5.66, a 2.6% decrease, standing as the second worst performer in a basket with 31 of the most liquid currencies in the world. In our opinion, the performance had chiefly to do with the latest fiscal policy decisions. Mostly for the same reason, the nominal yield curve also sold off for the period.
- The government announced a new welfare program with the monthly stipend upped to BRL 400 for 17 million families. The PEC of *Precatórios* (a constitutional amendment) will likely create the legal vehicle for the new welfare program. The new legislation could further weaken the role of the constitutional spending cap as a fiscal anchor. The coming week is packed with fiscal policy releases for September.
- The current account balance registered a US\$1.7 billion deficit in September 2021, exceeding our estimate (-US\$1.0 billion) due to slightly larger remittances of profits and dividends and interest payments. The volume of direct investments in the country tallied US\$4.5 billion last month, below our estimate (US\$5.4 billion). All in all, the figures do not change our view that the Brazilian external position remains solid.
- Another batch of labor market data is due to be released next week. On Tuesday (October 26), the Ministry of Labor will release the September CAGED net formal job creation data, for which we expect a deceleration to +242k in seasonally adjusted terms (August: +273k). On Wednesday (October 27), IBGE will release the August PNAD household survey: we expect the seasonally adjusted unemployment rate to drop to 13.1% (July: 13.5%). Throughout the week, FGV will release economic confidence data for October.
- We expect October IPCA-15 (due Tuesday, October 26) to rise 1.00% MoM, or 10.1% YoY. We project this reading to be the peak of IPCA-15 in year-on-year terms and we also anticipate some relief in some underlying measures. Yet we continue to see this as another sour CPI report. All in all, we remain very cautious about the inflation outlook, especially for next year, amid rising domestic risks.

Most of the information in this report is up to the end of Thursday, October 21, 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.

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**Figure 1. Brazil Macro Agenda for the Week of October 25-29, 2021**

Indicators / Events	Source	Reference	Date	Santander Estimate	Prior
Consumer Confidence (index)	FGV	Oct/21	Mon, 25-Oct	--	75.3
Total Outstanding Loans (% YoY)	BCB	Sep/21	Mon, 25-Oct	--	--
Federal Debt Report (BRL trillion)	STN	Sep/21	Tue, 26-Oct	--	5.48
Construction Confidence (index)	FGV	Oct/21	Tue, 26-Oct	--	96.4
IPCA-15 Inflation (% MoM)	IBGE	Oct/21	Tue, 26-Oct	1.00	1.14
IPCA-15 Inflation (% YoY)	IBGE	Oct/21	Tue, 26-Oct	10.11	10.05
Formal Job Creation (thousands, nsa)	CAGED	Sep/21	Tue, 26-Oct	370.0	372.3
Formal Job Creation (thousands, sa)	CAGED	Sep/21	Tue, 26-Oct	242.0	273.0
Industrial Confidence (index)	FGV	Oct/21	Wed, 27-Oct	--	106.4
National Unemployment Rate (% nsa)	IBGE	Aug/21	Wed, 27-Oct	13.3	13.7
National Unemployment Rate (% sa)	IBGE	Aug/21	Wed, 27-Oct	13.1	13.5
Copom Meeting - Selic Rate (%)	BCB	--	Wed, 27-Oct	7.75	6.25
Central Gov. Prim. Balance (BRL billion)	STN	Sep/21	Wed, 27-Oct	-6.8	-9.9
IGP-M Inflation (% MoM)	FGV	Oct/21	Thu, 28-Oct	--	-0.64
IGP-M Inflation (% YoY)	FGV	Oct/21	Thu, 28-Oct	--	24.86
Services Confidence (Index)	FGV	Oct/21	Thu, 28-Oct	--	97.3
Retail Confidence (index)	FGV	Oct/21	Thu, 28-Oct	--	94.1
Aggregated Business Confidence	FGV	Oct/21	Fri, 29-Oct	--	99.3
Primary Budget Balance (BRL billion)	BCB	Sep/21	Fri, 29-Oct	-1.9	16.7
Net Debt (% GDP)	BCB	Sep/21	Fri, 29-Oct	58.7	59.30
Federal Tax Collection (BRL billion)	RFB	Sep/21	20 to 25-Oct	147.5	146.5

Source: Santander.

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

¹ **Santander Brazil - Macroeconomic Scenario: "Signs of Normality in Public Health, Evidence of Risks in Fiscal Policy"** – October 21, 2021 - Available on: <https://bit.ly/Std-scenreview-oct21>



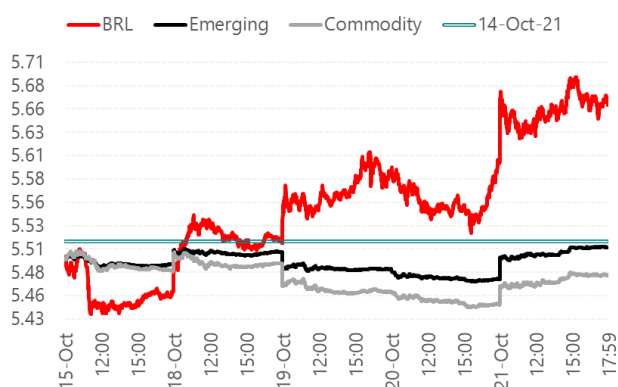
LOCAL MARKETS—FX

The USD/BRL pair closed the rolling week ended October 21 at 5.66, a 2.6% loss, standing as the second worst performer in a basket with 31 of the most liquid currencies in the world. In our opinion, the underperformance had chiefly to do with the recent fiscal policy decisions, despite some moderate BCB support. Chinese activity figures released earlier this week frustrated market participants, but we think the international news cycle played a minor role in the poor performance registered by the USD/BRL pair in the last days. In an expanded basket of major currencies, the USD/TRY cross was the only one underperforming the USD/BRL cross, on the heels of a larger cut in Turkey's policy interest rate than markets anticipated. The signs of a greater than expected policy stimulus in 2022, whose space is to be made possible by changes in the constitutional spending cap, generated fears about the fate of Brazil's fiscal framework (see details in the Fiscal Policy section). That hit the BRL and led the BCB to sell FX swaps once again (US\$1.0 billion) in the period. The intervention had little impact and the Brazilian monetary authority decided to tender US\$0.5 billion in the spot market, which also proved to be insufficient to ease worries with the potential changes on the fiscal front. In our view, unless we witness some reversal of these uncertainties, the room for a strengthening of the BRL will be nearly nonexistent.

LOCAL MARKETS—Rates

The nominal yield curve saw a massive sell-off on both ends this week. Since last Thursday (October 14), the front end of the curve (Jan-23 DI future) rose 134 bps to 10.48%, while the back end of the curve (Jan-27 future) rose 134 bps to 11.80%. As a result, the curve's steepness in this segment stood still at 132 bps.. At the front end, the rise of the domestic idiosyncratic risk (and a possibly bolder action by the BCB, see details in the Monetary Policy section) was, in our view, the main reason for the short yields to rise. But the international news flow, pointing to global inflationary pressures (such as the global energy shortage pushing commodity prices up), might have also contributed to the movement. At the back end, the main driver was also the rise of the domestic idiosyncratic risk, with the perception of uncertainty about the fiscal consolidation process deteriorating further and reinforcing the process of risk-premium building at this segment. The rise of longer U.S. Treasury yields probably also contributed to the movement at this segment of the domestic curve, in our view.

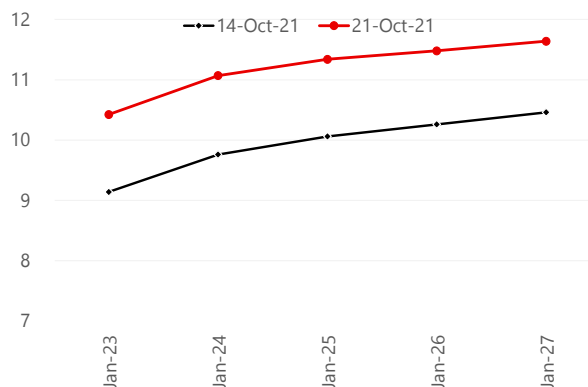
Figure 2.A. – USD/BRL Intraday Trends



Sources: Bloomberg, Santander.

Note1: As of the close Thursday, October 21, 2021.

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



Sources: Bloomberg, Santander.

Note: As of the close Thursday, October 21, 2021.



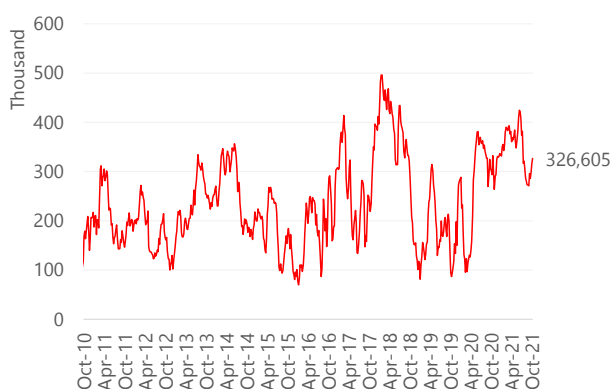
COMMODITIES

EIA² reports an unexpected drop in U.S. crude stockpiles. The EIA reported on Wednesday (October 20) that U.S. crude inventories declined by 431k barrels for the week ended October 15, against market expectations for a 1,283k barrels increase. U.S. gasoline inventories also dropped 5,368k barrels, pushing them to the lowest since November 2019.

CFTC³ reports a third straight weekly increase in speculative long positions in WTI crude oil. Money managers raised their net long WTI crude futures and options positions in the week to October 12, the CFTC reported on Friday (October 15). The positions in futures and options rose by 10,498 contracts to 326,605. During that period, WTI crude futures climbed 2.6% on the back of growing concerns about a global energy crisis.

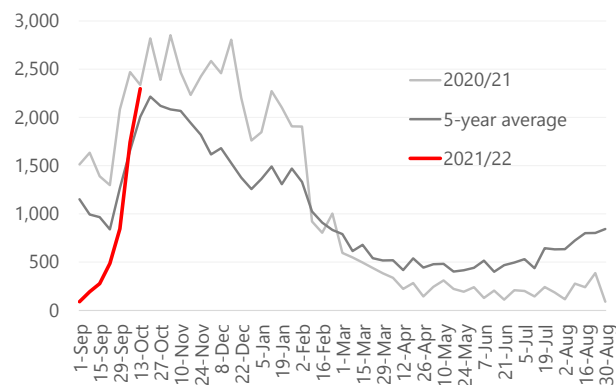
Soybean prices soared after U.S. export inspections report point to the higher number this year. On Monday (October 18), the report shows soybean inspections were up 2.3 million tonnes last week, bringing the cumulative marketing year to date to 5.8 million tonnes. On top of that, export sales report on Thursday (October 21) shows that exporters sold last week the biggest volume of U.S. soybeans since September 2020, as China boosted purchases in the Gulf of Mexico (an area that is still recovering from Hurricane Ida damages). While the jump in both indicators is a bullish sign, the market still needs to see more demand evidence as accumulated inspections are down 51% when compared to last year.

Figure 3.A. – CFTC NYMEX Crude Oil Managed Money Net Total (Number of contracts)



Sources: COT, Santander.

Figure 3.B. – U.S. Soybeans Weekly Export Inspections (1000 metric tons)



Sources: USDA, Santander.

² Energy Information Administration.

³ U.S. Commodity Futures Trading Commission.



FISCAL POLICY AND LEGISLATION

The government announced its intention to increase the new welfare program monthly benefit to a minimum of BRL 400 for 17 million families. The revamped welfare program named *Auxílio Brasil* will be effective from November onward in replacement of the Emergency Aid stipend, scheduled to end this month. The permanent benefit will amount to BRL235 per month (readjusted by inflation since 2018) and will be probably paid to 17 million families, compared to 14.7 million included in the *Bolsa Família* program. In addition, there will be an additional temporary benefit (for two years at most) to complement the benefit, resulting in a BRL400 monthly stipend. The source of funding for the program is still unclear, especially for 2022. In order to reach the value of BRL400 benefit per month, totaling the BRL82 billion budget (BRL35 billion budgeted for *Bolsa Família*, adding a new expenditure of BRL47 billion) for the new welfare program. In order to achieve this goal, the government could approve the constitutional amendment (PEC *Precatórios*) to “solve” the court-ordered debt conundrum by limiting this expenditure to BRL40 billion for 2022 (out of BRL89 billion) to open a fiscal margin of BRL50 billion, removing this value from the spending cap limit. In addition, the new version of the PEC *Precatórios*, approved on October 21 in the Lower House Special Commission, included a change the index used to readjust the spending cap rule since 2016 (changing the year-on-year IPCA inflation window from June to December). This would boost the fiscal margin within the constitutional cap, creating a margin of ~BRL51 billion. In this scenario, by changing the rule and limiting the court-ordered debt payments, the fiscal margin will be BRL101 billion in this scenario. Thus, the government can accommodate the demand for new expenditures without “breaching” the rule. The new expenditures considered are: (i) the new welfare program expansion (BRL47 billion); (ii) higher mandatory outlays due to higher inflation (BRL25 billion); (iii) BRL 400 benefit to 750k trucker drivers to compensate diesel prices (BRL4 billion); (iv) BRL25 billion to accommodate other budget discussions expenditures. Considering this new scenario, we believe the spending cap will lose even further capacity to add to the fiscal consolidation process. All of these changes should continue under PEC *Precatórios* debate that could be voted on the Lower House floor next week. In our view, the final number will emerge during this legislation approval and a challenging debate related to the 2022 budget, which may be approved this year. Regarding our forecasts, the primary deficit for 2022 of 1.3% of GDP, would rise by 0.2-0.4 pp. For the gross debt, we see greater upside risk to our forecast (which already projects an upward trajectory for the medium term), following a consequent deterioration in financial conditions. The decision for even more expenses and the change in the fiscal framework imply an even riskier path to a long-term debt stabilization, given the necessity for further structural reforms and more robust fiscal anchor. Following the formalization of the aforementioned changes in the fiscal framework, a few officials of the Ministry of Economy rendered their resignation, including Budget Secretary Bruno Funchal and Treasury Secretary Jefferson Bittencourt.

The coming week is packed with fiscal policy publications. On October 26 (Tuesday), the National Treasury will publish the Monthly Debt Report. On October 27 (Wednesday), the National Treasury publishes the central government primary result: we expect a primary deficit of BRL6.8 billion. On October 29 (Friday), the BCB unveils the consolidated public sector’s fiscal balance: we forecast a primary deficit of BRL1.9 billion.

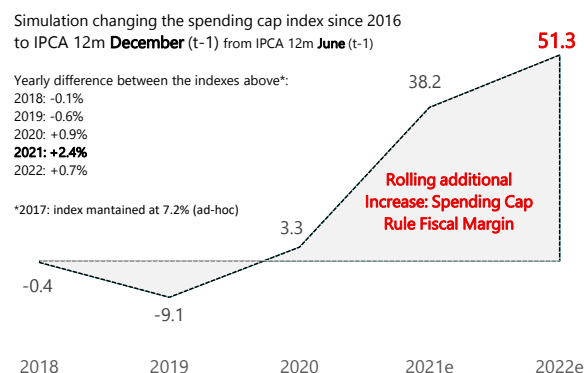
Figure 4.A. – Fiscal Margin and Budget Simulations

2022 Budget: Spending Cap Margin - BRL bn						
Court-ordered debts Budget ("Precatórios")						
BRL bn	40	50	75	89	90	
Year-end Inflation (INPC Dec-21)	6.5%	54	44	19	5	4
7.0%	49	39	14	0	-1	
7.5%	44	34	9	-5	-6	
8.0%	40	30	5	-9	-10	
9.5%	25	15	-10	-24	-25	
10.0%	22	12	-14	-28	-29	
Additional Budget for Auxílio Brasil- BRL bn						
Monthly Average Benefit (BRL/month)						
	250	270	300	350	400	
Families (millions)	17	16	20	26	36	47
	16	13	17	23	32	42

Bolsa Família's current budget (2021): BRL35 billion/year | Total: 14.6 million families

Sources: Federal Revenue of Brazil, Santander.

Figure 4.B. – Simulation Spending Cap index



Sources: National Treasury, Santander.



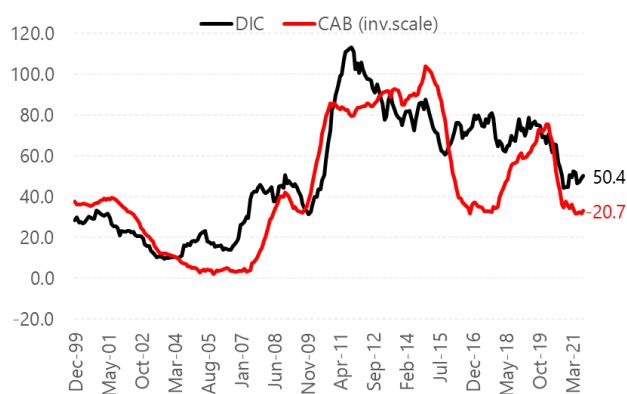
BALANCE OF PAYMENTS

The current account balance registered a US\$1.7 billion deficit in September 2021, which exceeded of our estimate (US\$1.0 billion deficit) due to slightly larger remittances of profits and interest payments. The volume of direct investments in the country tallied US\$4.5 billion last month and missed what we expected (US\$5.4 billion) for the period. All in all, we think the figures does not change our view that the Brazilian external position should remain a no-problem area.

The Brazilian current account deficit of US\$1.7 billion seen last month stemmed from a US\$2.5 billion trade surplus combined with deficits of US\$1.4 billion in the services account and US\$3.1 billion in the primary income account (a net inflow of US\$0.3 billion in the secondary income account completed the list of contributors). The final outcome topped our estimate of US\$1.0 billion deficit in the period as the remittances of profits and dividends and interest payments surpassed a bit what we expected and translated into a US\$20.7 billion deficit on a 12-month basis (-1.3% of GDP). However, the reading does not undermine our confidence on the extension of a downward trend through the end of this year, as well as on our forecast of a US\$0.5 billion annual deficit for 2021.

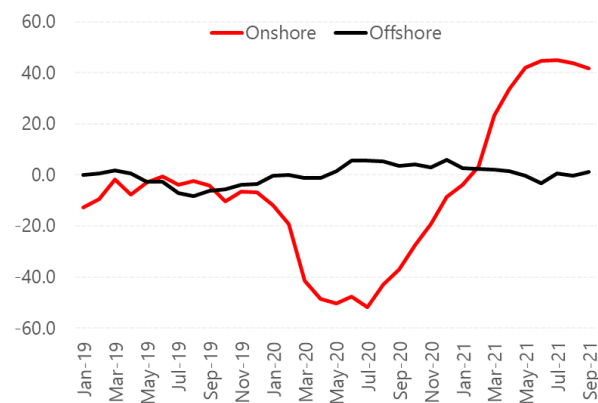
Regarding the financial account, last month the volume of direct investments in the country reached US\$4.5 billion versus our expectation of a net inflow of US\$5.4 billion and contrasted with preliminary figures provided by the BCB in mid-September. On a 12-month basis, direct investments in the country climbed to US\$50.4 billion, thus reinforcing our expectation of a net annual inflow of US\$59.2 billion in 2021. On top of direct investments in the country, foreign portfolio investments in the domestic market registered a net outflow of US\$0.9 billion in September 2021, thus thwarting the streak of positive readings started on April 2021. On a 12-month basis, foreign purchases of financial assets in the domestic market reached US\$41.6 billion. On the other hand, Brazilian portfolio investments abroad tallied US\$0.1 billion last month, which translated into a net outflow of US\$20.3 billion on a 12-month basis. On the back of these readings, prospects for funding sources to the current account deficit continue to hint at a comfortable situation, in our opinion.

Figure 5.A. – Current Account Balance vs. Direct Investment (USD billion, 12m)



Sources: Brazilian Central Bank, Santander.

Figure 5.B. – Net Foreign Portfolio Investments (USD billion, 12m)



Sources: Brazilian Central Bank, Santander.



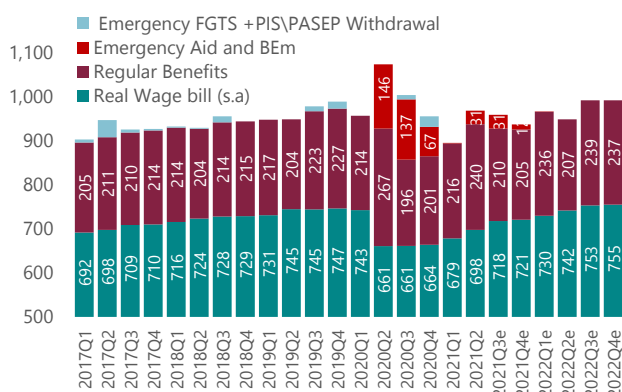
ECONOMIC ACTIVITY

We have updated our estimates for the “expanded” real wage bill for Brazil, a measure that encompasses workers’ salaries, pension contributions, and federal transfers. Since we last reviewed our real wage bill estimates, the labor market has improved considerably, driven by greater urban mobility on the heels of the vaccination campaign and the perception that there will be no further restrictive public health measures. As the direct fiscal stimulus for formal employment (BEm) ended in August, we evaluate that it will be important to follow the performance of the formal labor market without the fiscal stimulus (although its partial effect should still be present until the end of the year). Considering that, we expect some softening ahead in the recovery in formal employment as measured by CAGED. We estimate that in 2020 the “expanded” real wage bill showed 3.7% full year growth (from +2.2% in our last revision made in April), considering the massive fiscal stimulus during 2020 (above 8% of GDP, with BRL293 billion in the emergency aid program). In a counterfactual simulation (without fiscal transfers), we calculate a 7.9% drop in the real wage bill for 2020, so that the benefits more than offset the estimated cyclical drop caused by the pandemic in 2020 (+11.6 positive impulse). For 2021, we estimate a drop of 5.7%, even considering the welfare program’s transfers of ~BRL90 billion during the year. For 2021, in the same counterfactual simulation, growth is 3.3%.

We also calculated the real wage bill for 2022 and simulated the possible impact of the fiscal transfers, inflation, and the Selic rate. Considering the scenario as a whole, we observe a possible increase of real growth between 2.9% and 4.1% compared to 2021. In our baseline scenario, considering the welfare program budget of BRL61 billion, the real wage bill is projected to increase by 3.4%. In our view, the elasticity of the fiscal transfers to the real wage bill is as follows: for every BRL10 billion of fiscal transfers, the real wage bill grows by 0.2% in the year. For the Selic rate, we estimate that each 100-bp increase in the Selic implies a 0.4 p.p. negative impact on employment growth. For the IPCA, we estimate that each 100-bp increase in inflation reduces the real wage bill by around 0.6 p.p. We consider that the scenarios for the “expanded” real wage bill are compatible with a 1.1% expansion of household consumption in 2022. We acknowledge that there will be a shift in the demand composition from goods to services, and there is a risk that a reduction in the consumption of goods may have a considerable impact on broad economic activity. However, in our view, the recovery in the consumption of services should overcome these negative effects. [See details in the link⁴.](#)

For the next week, another batch of labor market data is due to be released. On Tuesday (October 26), the Ministry of Labor will release the September CAGED net formal job creation data, for which we expect a +370k result. According to our preliminary seasonal adjustment, this would represent a deceleration to +242k (+273k in August). On Wednesday (October 27), IBGE will release the August PNAD household survey. We expect the unemployment rate to stand at 13.3%, which indicates a drop to 13.1% in seasonally adjusted terms (13.5% in July). Moreover, the FGV will release the economic confidence data for October. Consumer confidence is due out on Monday (October 25), while industrial confidence is due out on Wednesday (October 27). Moreover, the tertiary sector confidence is due out on Thursday (October 28), while the aggregated business confidence is due out on Friday (October 29).

Figure 6.A. – “Expanded” Real Wage Bill (BRL billion)



Sources: National Treasury, IBGE, Ministry of Economy, and Santander.

Figure 6.B. – Inflation and the Real Wage Bill

	2020	2021(E)	2022(E) - IPCA Simulation		
			3.50%	4.70%	5.50%
Real Wage Bill (No Fiscal Stimulus)	-7.9%	+3.3%	+6.3%	+5.4%	+5.0%
Real Wage Bill (Fiscal Stimulus + Auxílio Brasil BRL35bn)			+3.5%	+2.7%	+2.2%
Real Wage Bill (Fiscal Stimulus + Auxílio Brasil BRL61bn)	+3.7%	-5.7%	+4.1%	+3.4%	+2.9%

Sources: National Treasury, IBGE, Ministry of Economy, and Santander.



INFLATION

We expect October's IPCA-15 (due on Tuesday, October 26) to rise +1.00% MoM, which would mean a stable rate of +10.1% YoY compared to September and probably the peak of IPCA-15 in YoY terms. In trend terms—three-months moving average seasonally adjusted and annualized—IPCA-15 should still accelerate, from +12.7% 3MMA-saar in September to +13.3% in October.

Worth noticing, the probable peak of IPCA-15 in YoY terms—very close to the +10.7% high of December, 2015—should be driven mostly by a base-effect: the very high monthly readings from 4Q20 will start to leave the 12-months sample, giving space for lower readings from now on.

The cooling down at the margin (MoM), on the other hand, should not be a major one, as we expect the 3MMA-saar measure to reach +5% in December and then remain relatively stable at this high level until at least mid-2022. As a result, although we welcome the peak of IPCA-15 YoY inflation, we are still cautious about the inflation outlook, as we see inertia as a risk for the pace of deceleration after the peaking—and more recently the rising domestic risks might also impact the inflation dynamics.

Compared to the September's IPCA-15 (+1.14% MoM), October data should decelerate slightly, mainly driven by free prices (+0.85% MoM vs. +1.01% in September). Food-at-home should see a small deceleration in monthly terms to +1.15% MoM (vs. +1.51% MoM last month), but with the trend remaining at the high level of +22.0% 3MMA-saar. Services should also decelerate, to +0.66% MoM (from +0.74% last month), but with the trend also remaining stable at the high level of +8.1% 3MMA-saar. Still in free prices, industrial goods should rise +0.95% MoM a bit less than the +1.11% MoM from September, with the trend at the high level of +11.5% 3MMA-saar.

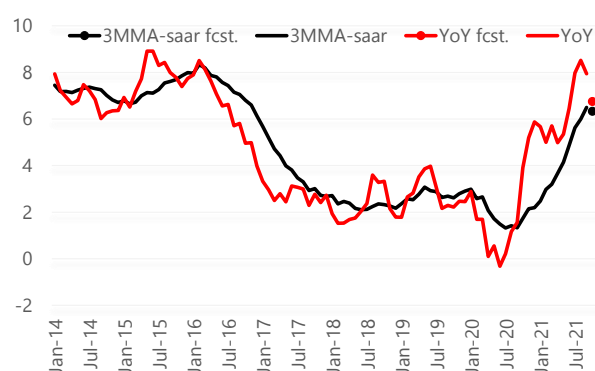
The bright side is that the core gauges of both industrial goods and services will probably decelerate in a more relevant manner: core industrial goods going from +9.6% to +7.9% 3MMA-saar and core services going from +7.0% to +6.3% 3MMA-saar. Finally, in terms of broad underlying inflation measures, we estimate the EX3 core will rise around +0.49% MoM, which would represent a relevant deceleration, but to a still hefty level of +6.8% 3MMA-saar (from +7.9%). This will be the thirteenth month the EX3 core has run above the BCB's mid-target in 3MMA-saar terms (headline CPI target is 3.75% for 2021 and 3.50% for 2022). Despite some relief at the margin in underlying measures, we remain cautious with the inflation outlook.

Figure 7.A. – IPCA-15: Forecast Details (%)

	MoM		YoY	
	Oct-21	Contrib. Sep-21	Oct-21	Oct-21
IPCA-15	1.00	1.00	10.1	10.1
Administered	1.39	0.37	14.8	16.1
Free	0.85	0.62	8.4	8.1
Food-at-home	1.15	0.17	15.5	13.5
Industrial goods	0.95	0.22	10.3	10.4
Services	0.66	0.23	4.5	4.5
EX3 Core	0.49	0.18	6.5	6.3

Sources: Brazilian Central Bank, Santander.

Figure 7.B. – Core Inflation Forecast (EX3 %)



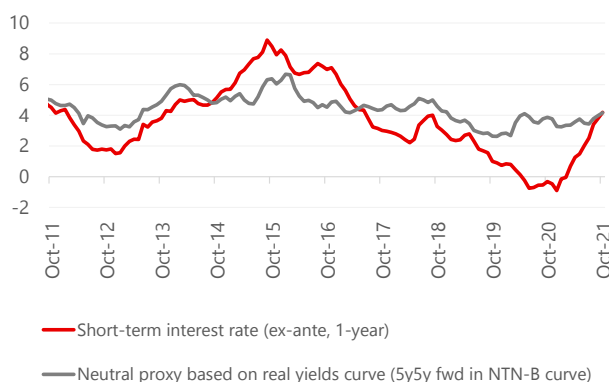
Sources: Brazilian Central Bank, Santander.



MONETARY POLICY

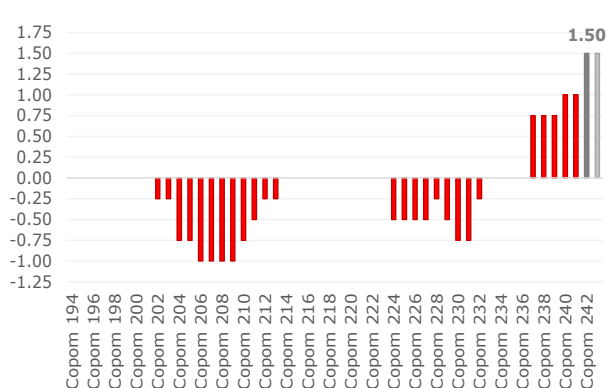
On Wednesday (October 27), the BCB announces its monetary policy decision. In our view, the news regarding the latest fiscal policy initiatives, implying changes in the framework, have likely tilted the balance of risks even further to the upside. Thus, we are now revising our forecast, considering as the most likely scenario a 150-bp hike in the Selic rate to 7.75%. We previously had penciled in a move of 100bps. We anticipate a hawkish tone in the statement, probably accompanied by sign of a similar move in December. We now look for a double-digit terminal Selic rate for the cycle (10.5%; previously 9.0%), to be reached in 1Q22. Amid increased uncertainty about economic policy, we continue to see risks skewed to the upside as per this call. In the last Copom meeting⁵, the BCB hiked the Selic rate by 100 bps (to 6.25%) and signaled the same pace for the subsequent meeting, with this speed seen as “the most appropriate to guarantee inflation convergence to the target at the relevant horizon and, simultaneously, allow the Committee to obtain more information regarding the state of the economy and the persistence of shocks.” In the minutes⁶, the BCB reiterated that the level of terminal rate dominates the speed of hikes when it comes to achieving the center target in 2022. The BCB claimed that “simulations with interest rate hikes that assume different terminal rates suggest that the current pace of adjustment is sufficient to reach a significantly restrictive level and to ensure the convergence of inflation to the target in 2022, even considering the asymmetry of the balance of risks.” In recent speeches (as of mid-October), BCB officials clarified that there is no commitment to this pace of hikes, yet the final policy message continued to indicate moves of 100bps as part of the flight plan. But that has changed. Since the last meeting, inflation conditions continued to deteriorate, as supply constraints remain at work, and as (what likely started off as) a cost push inflation has already produced a marked deterioration in underlying (or cyclical, demand-led) inflation gauges. Spillovers continue to impact expectations (since the last meeting, the median 2022 IPCA forecast increased by 8bps to 4.18%; mid-target: 3.50%). The spreading of inflation pressures is particularly visible now in (core) services, where the pass through is supported by the recovery in urban mobility and reopening in economic activities. In the absence of deflationary shocks in variables where the BCB has little or no control (e.g., FX rate, commodities), we have the impression that a large interest rate shock would be necessary to bring inflation back to mid-target in such a relatively short time span (especially given the current IPCA level, which likely peaked at 10.2% YoY in September). Since the BCB already saw fiscal discussions imparting upside risks for the inflation path—entailing the need for a tighter policy stance than in the baseline scenario—it seems like the recent fiscal policy developments will raise even further the concerns (see details in the Fiscal Policy section). In addition to the worse balance of risks, our preliminary calculations point to a possible increase in the BCB’s 2022 IPCA projection to nearly 4.0% (up ~0.3 pp). Even if 2023 estimates remain stable at the mid-target (3.25%), the risk of “fiscal spillovers” for this (increasingly important) horizon certainly strengthens the case for a bolder policy reaction.

Figure 8.A. – Implicit Monetary Stimulus (% p.a.)



Sources: Anbima, Bloomberg, Brazilian Central Bank, Santander.

Figure 8.B. – Copom Moves (Selic Changes, % p.a.)



Sources: Brazilian Central Bank, Santander.

⁵ Santander Brazil Monetary Policy - “Scanning the Scene as It Moves at Cruise Speed” – September 23, 2021 - Available on: <https://bit.ly/Std-COPOM-sep21>

⁶ Santander Brazil Monetary Policy - “Going Farther, Not Necessarily Faster” – September 28, 2021 – Available on: <https://bit.ly/Std-Copom-min-set21>



CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	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 Vasquez*	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 – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Fabiana Moreira*	Economist – Credit	fabiana.de.oliveira@santander.com.br	5511-3553-6120
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 Oreng*	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

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