THE LOWEST JOBLESS RATE SINCE DECEMBER 2015

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- In the rolling week ended on June 23, the USD/BRL pair returned to the 5.20 level seen in mid-February—closing at 5.22 (implying a 3.5% loss in the period)—amid fears of a global economic slowdown, falling commodity prices, and increasing uncertainties regarding the local economic policy outlook. The BRL stood amongst the worst-performers in a basket with the more liquid currencies in the globe, once again reflecting its high-beta pattern. Nominal rates rallied strongly (tumbling 30-40 bps) and bull-flattened in recent days, reflecting mainly the rally in global yields amid global recession fears.

- Commodity prices sold off again across the board in the period between June 15 and June 23, driven by fears of a global activity slowdown. The Bloomberg Commodity Index in BRL terms decreased 3.2% in the period, with the BRL's weakening contributing for a shallower decline. In USD terms, the index tumbled 6.6%.

- Federal tax collection was again positive in May, particularly thanks to taxes based on labor-income and proceeds from the oil sector. The Executive Branch and Congress are seeking to alter the constitutional amendment proposal (PEC 16/22)—aimed at curbing fuel prices—to include a temporary monthly aid to truckers, an increase in monthly payments of *Auxílio Brasil* (welfare program), and LPG (cooking gas) subsidies for low-income households. The Ministry of Economy seeks to limit the amount of additional spending above the constitutional cap to BRL50 billion, but the timing and impact of the measures are uncertain as parliamentary negotiations evolve. If the bill is approved, this would be the third year running with the approval of legislation allowing "extra-cap" expenses. The coming week is packed with fiscal policy publications: we look for a consolidated primary deficit of ~BRL24 billion in May, with the report due out on June 30 (Thursday).

- On a couple of occasions—the release of the Copom minutes (on Tuesday, June 21) and a press conference (on Thursday, June 23)—the Brazilian Central Bank (BCB) provided important information about its flight plan. In our view, the authority is going for a smoothing rate strategy, avoiding a steeper peak for this cycle but suggesting the possibility of higher rates for longer, in order to foster IPCA convergence "around the target" (certainly below 4%, according to BCB officials) for the relevant horizon (2023). In a separate event, the CMN (Portuguese acronym for the National Monetary Council) set the mid-point inflation target at 3.0% for 2025 (with tolerance band of 1.5 p.p. either way) – same as in 2024. We welcome this decision but believe that, despite the notable efforts by the BCB, achieving low inflation for the long term will largely hinge on fiscal policy contributions as well.

- June's IPCA-15 registered a 0.69% MoM change, in line with our call (0.70%) and the consensus expectation (0.67%). With this result, the trend remained at the highly uncomfortable level of 15% 3MMA-saar. In year-over-year terms, the IPCA decelerated to 12.0% from 12.2%, reinforcing our view that May likely has been the peak of IPCA inflation. Yet the still ugly composition (read: mounting evidence of widespread price pressures) possibly means a slow disinflation process ahead. The debates on tax cuts make the outlook even more uncertain adding downside risks for 2022 and upside risks for 2023.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE "IMPORTANT DISCLOSURES" SECTION OF THIS REPORT.
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- Our proprietary indexes (IGet family) point to a weak performance for the tertiary sector in June (with retreats in both retail sales and services to families). But these results cap what is still poised to be a strong quarter. Our tracking for GDP growth in 2Q22 still stands at 0.4% QoQ-sa.
- A few activity releases are slated for the coming week. The batch of labor market data for May is due out on Thursday (June 30). Regarding the PNAD household survey, we estimate a 0.5 p.p. decrease to 9.6% in our seasonally adjusted unemployment rate series. This will be the lowest jobless rate since late 2015. As for the CAGED payrolls data, our seasonally adjusted estimate stands at +153k (April: +132k). In the coming days, FGV will release the last batch of economic confidence data for June: the industrial index is due out on Tuesday (June 28), while the tertiary sector data are due out on Wednesday (June 29).
- We project June's trade balance (due out next Friday, July 1) to show a USD10.4 billion surplus, the same as a year ago—which will keep the 12-month rolling surplus at USD60.0 if our forecast is confirmed. We calculate this result is consistent with an annualized (seasonally adjusted) surplus trend at USD100 billion, which reinforces our expectation of a new record trade surplus in 2022: we project USD70.3 billion for this year (2021: USD61.4 billion). In our view, the external sector data continue to signal that the Brazilian economy remains in a solid position on that front.

Most of the information in this report is up to the end of Thursday, June 23, 2022.

Figure 1. Brazil Macro Agenda for the Week of June 27 to July 01, 2022

Indicators / Events	Source	Reference	Date	Santander Estimate	Prior
Construction Confidence (index)	FGV	Jun/22	Mon, 27-Jun	-	96.3
Industrial Confidence (index)	FGV	Jun/22	Tue, 28-Jun	-	99.7
Federal Debt Report (BRL trillion)	STN	Apr/22	Tue, 28-Jun	-	5.6
Services Confidence (Index)	FGV	Jun/22	Wed, 29-Jun	-	98.3
Retail Confidence (index)	FGV	Jun/22	Wed, 29-Jun	-	93.3
IGP-M Inflation (% MoM)	FGV	Jun/22	Wed, 29-Jun	0.75	0.52
IGP-M Inflation (% YoY)	FGV	Jun/22	Wed, 29-Jun	10.9	10.7
Central Gov. Prim. Balance (BRL billion)	STN	May/22	Wed, 29-Jun	-30.8	28.6
Primary Budget Balance (BRL billion)	BCB	May/22	Thu, 30-Jun	-23.9	39.0
Net Debt (% GDP)	BCB	May/22	Thu, 30-Jun	58.4	57.8
Quarterly Inflation Report	BCB	2Q22	Thu, 30-Jun	--	--
National Unemployment Rate (%, nsa)	**IBGE**	**May/22**	**Thu, 30-Jun**	**9.9**	**10.5**
National Unemployment Rate (%, sa)	**IBGE**	**May/22**	**Thu, 30-Jun**	**9.6**	**10.1**
Formal Job Creation (thousands)	**CAGED**	**May/22**	**Thu, 30-Jun**	**175**	**195**
Formal Job Creation (thousands, sa)	**CAGED**	**May/22**	**Thu, 30-Jun**	**153**	**132**
Trade Balance (USD billion)	SECINT	Jun/22	Fri, 01-Jul	10.4	4.95
Vehicle Sales (thousands)	Fenabrave	Jun/22	Fri, 01-Jul	-	187
Bank Lending Report	BCB	Mar/22	n.a.*	-	471.1

* Owing to a strike of federal workers, these data releases have been postponed with no specific publication date scheduled for now.

Sources: Bloomberg, IBGE, Santander.

For details on Santander's economic forecasts for Brazil, please refer to our last Scenario Review[1].

[1] **Santander Brazil – Scenario Review: *"A Bittersweet Scenario"* –** June 02, 2022- Available on: https://bit.ly/Std-scenreview-jun22

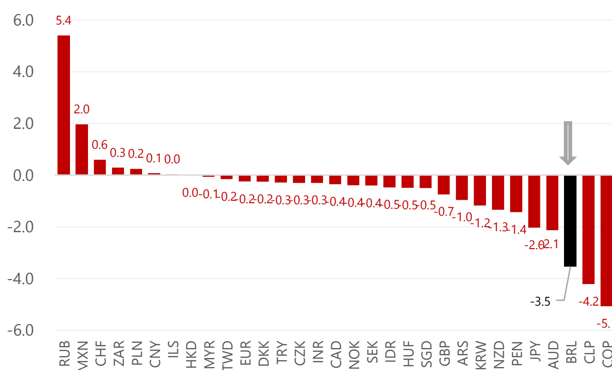
LOCAL MARKETS—FX

In the rolling week ended on June 23, the USD/BRL pair returned to the 5.20 level seen in mid-February—closing at 5.22 to be more precise (implying a 3.5% loss in the period)—amid fears of a global economic slowdown, falling commodity prices, and increasing uncertainties regarding the local economic policy outlook. The BRL stood amongst the worst-performers in a basket with the more liquid currencies in the globe, once again reflecting its high-beta pattern. The release of PMI indices for the Eurozone and the U.S. showing weaker than expected readings underpinned downbeat prospects for the performance of the world economy ahead, which contributed to commodity prices declining for another week. In addition to these adverse international circumstances, proposals in Brazil for more fiscal stimulus increased the uncertainty regarding the economic policy outlook and, in our view, have also contributed to the BRL's weakening. As we do not expect these factors and uncertainties to be reversed anytime soon, we continue to see limited room for a significant strengthening of the BRL and project the USD/BRL pair to end 2022 at 5.15.

LOCAL MARKETS—Rates

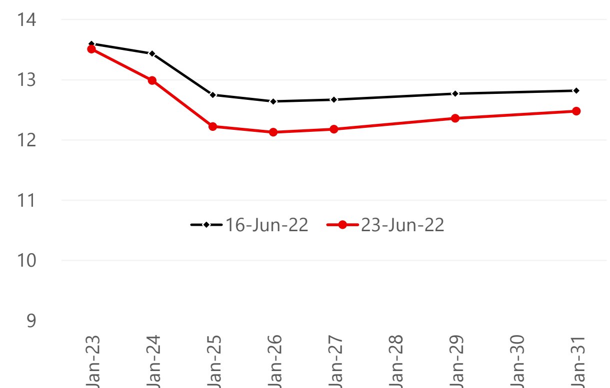
Nominal rates rallied strongly and bull-flattened in recent days, reflecting mainly the rally in global yields amid global recession fears. Since last Wednesday (June 15), the front end of the curve (Jan-24 DI future) fell 45 bps, to 12.99%, while the back end of the curve (Jan-27 DI future) dropped 49 bps, to 12.18%. The curve's steepness in this segment fell 5 bps, increasing the inversion to -81 bps. At the front end, the main driver was the Copom minutes, which hinted at a smoothing rate strategy. Our own call is for a final 25-bp hike in August, with the Selic ending the cycle at 13.50%, though we see an upward bias in our call for the terminal rate this year (see details in the "Monetary Policy" section). Another source of downward pressure in the yield curve is commodities prices in BRL terms, particularly the price of oil, reducing the probability of more price hikes in the short term. At the long end, the rally of longer US Treasury yields (10-year ~-27 bps since last Wednesday) helped to push domestic yields lower. We continue to believe that the BCB is close to the end of the hiking cycle and that IPCA has peaked in annual terms; we expect the combination of these events to cause the local yield to steepen, a trend that we think will be further enhanced by the global monetary policy tightening under way.

Figure 2. Comparative FX Performances for the Week



Sources: Bloomberg, Santander.
Note: As of the close on Thursday, June 23, 2022.

Figure 3. Brazilian Domestic Yield Curve (% p.a.)



Sources: Bloomberg, Santander.
Note: As of the close on Thursday, June 23, 2022.

COMMODITIES

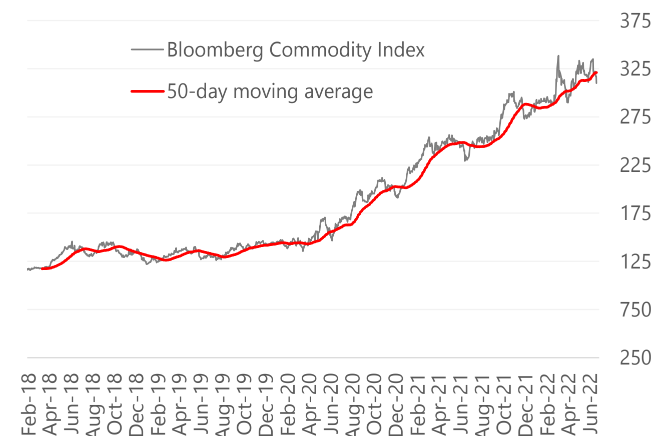
Commodity prices sold off across the board for another week in the period between June 15 and June 23, owing to fears of a global activity slowdown. The Bloomberg Commodity Index in BRL terms decreased 3.2% in the period, with the BRL's weakening once more preventing a steeper decline. In USD terms, the index fell 6.6%, with the Agriculture Subindex down 7.5%, the Energy Subindex plunging 9.1%, and the Industrial Metals Subindex dropping 6.9%.

Brent oil prices fell to US$112 on recession fears. Oil prices fell 6% in the week as the market reassessed the risks of a recession that could dent fuel demand. While we still see output shortages in the oil market, as global inventories are low and producers (ranging from OPEC+ members to independent U.S. shale companies) struggle with the underinvestment of recent years, a global backdrop of rising interest rates could push the economy into recession as central banks attempt to curb inflation. Another factor contributing to the fall in the Brent oil price may have been recent data on Russian oil exports to Asia, as June exports from the Black Sea jumped to their highest level since May 2019. According to Gazprom, at the start of 2022, 60% of Russian crude was being exported to Europe, but now about 50% is going to Asia (at discount prices).

Germany elevates its gas emergency alert following cuts in Russian supplies. Europe's biggest economy elevated the risk level in its national gas emergency plan to the second-highest stage, effectively meaning that it will reactivate coal-fired power plants and tighten monitoring of the market. By increasing electricity generation from coal thermal plants (note: 15% of Germany's electricity is generated from natural gas), Germany could build inventories for the coming winter season when demand is critically high for heating homes. The German economy is highly dependent on natural gas, which is more difficult to replace than Russian coal and oil, both expected to be phased out by the end of 2022.

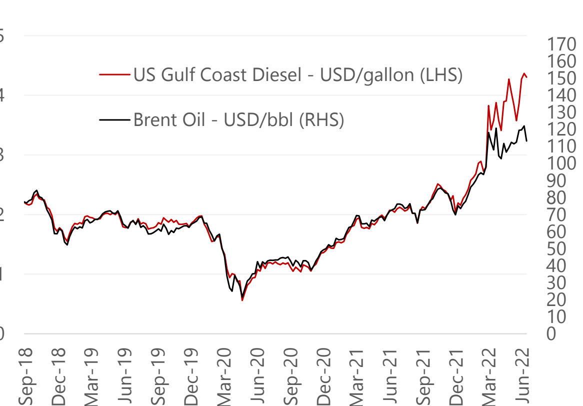
Base metals continue to trend down as well, on demand concerns. With expectations of a more aggressive stance from the Federal Reserve and a potential headwind for global demand as recession fears mount, the selloff in base metals was once again broad based: for the week, iron ore fell about 5%, with copper -10%, aluminum -1%, zinc -2%, nickel -5%, and tin -16%. Pledges from China's officials to achieve economic goals for the year provided some support, but markets still see the Asian nation struggling with COVID-19 infections, likely leading to renewed restrictions that would reverse the reopening process.

Figure 4. Bloomberg Commodity Index in BRL



Sources: Bloomberg, Santander.

Figure 5. Price Gap: Crude Oil and Refined Products



Sources: Bloomberg, Santander.

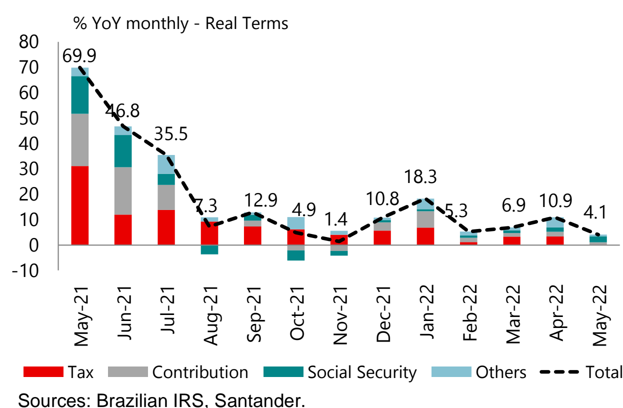
FISCAL POLICY AND LEGISLATION

Federal tax collection was positive in May, particularly thanks to taxes based on labor-income and oil-led proceeds. On June 23, the Brazilian internal revenue service published data for May, and the result (BRL165.3 billion) was close to our forecast (BRL165.4 billion). Revenue rose 4.1% YoY in real terms, reaching the highest level for the month. The year-to-date reading (9.7% YoY growth) also means the strongest level since 1995. The highlight of the month was the increase in revenue related to the labor market. In May, we observed a rise of 9.4% YoY in social security revenue, due to the increase in the real wage bill. Year to date, tax collection on workers' earnings has increased by 7.3% YoY, and social security revenue is up 5.7% YoY. In the coming months, while we continue to expect positive results for federal tax collection, we expect an activity slowdown, especially in 2H22 and beyond, which could prompt a softening in government revenue. The various new tax breaks under discussion could reduce our forecast (we already include a total of BRL65 billion). Our projection for tax collection is currently at 2% YoY in real terms for 2022, with new tax breaks on fuel, if enacted, imparting downside risks.

The federal administration and Congress are seeking to alter the constitutional amendment proposal (PEC 16/22)—aimed at curbing fuel prices—to include temporary monthly aid to truckers, an increase in monthly payments of *Auxílio Brasil* (welfare program), and LPG subsidies for low-income households. For a third year running, the government is proposing a constitutional amendment to increase fiscal stimulus outside the constitutional spending cap limit (for which we currently see no fiscal margin for additional outlays). The current debate is whether to remove the compensation proposed for states to reduce the VAT tax (ICMS) below the 17-18% cap on essential goods that was levied in the law PLP18 approved by Congress. The total amount for the compensation was limited to BRL29.6 billion. The most recent discussion is whether to add aid to truckers (about 750-800k professionals), adding a cost of BRL4 billion. In addition, the government seeks to double the current cooking gas voucher (BRL2 billion per year) and to introduce a temporary supplement to *Auxílio Brasil* of BRL200 per month. Currently, the *Auxílio Brasil* program budget is BRL89 billion, reaching ~18 million families with a monthly benefit slightly above BRL400. Around 3 million families are in the queue to join the program. Considering this supplement, the proposal is to reach the benefit amount of BRL600 that was introduced in the Emergency Aid during first months the pandemic (back then, it reached almost 39 million families). The government's economic team is proposing to limit the entire fiscal impact to BRL50 billion, but the timing and size of the impact are still unclear, as parliamentary negotiations are still under way. In our view, these discussions imply downward risks to our BRL35 billion primary surplus forecast for the public sector in 2022. See details in the link[2].

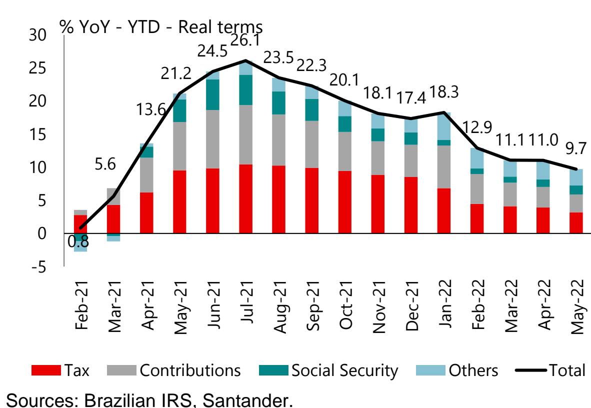
The coming week is packed with fiscal policy publications. On June 28 (Tuesday), the National Treasury will publish the Monthly Debt Report for May, which probably will include the data from April that was not published due to the federal workers' strike. On June 29 (Wednesday), the fiscal authority publishes the central government primary result: we expect a deficit of BRL30.8 billion in May. On June 30 (Thursday), the BCB will unveil the consolidated public sector's fiscal balance for May; we forecast a primary deficit of BRL23.9 billion. **For details on Santander's fiscal policy outlook, please refer to our last chartbook[3].**

Figure 6. Federal Tax Collection – Monthly Terms



Sources: Brazilian IRS, Santander.

Figure 7. Federal Tax Collection – YTD Terms



Sources: Brazilian IRS, Santander.

[2] **Santander Brazil – Special Report: "*Measures to Curb the Rise in Prices*"** – June 09, 2022 – Available on: https://bit.ly/Std-special-060922
[3] **Santander Fiscal Policy: *"Chartbook - New Push from Price Shocks"* –** June 13, 2022 – Available on: https://bit.ly/Std-chart-fiscal-jun22

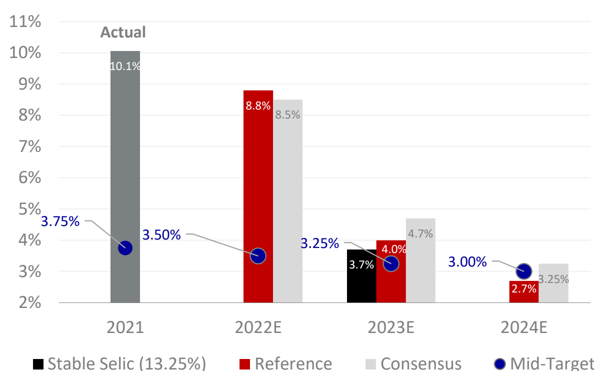
MONETARY POLICY

On a couple of occasions—release of the Copom minutes (on Tuesday, June 21) and a press conference[4] (on Thursday, June 23)—the Brazilian Central Bank (BCB) provided important information about its flight plan.

The BCB's strategy includes: (i) a terminal Selic rate above the level of 13.25% used in the reference scenario; and (ii) "the maintenance of the interest rate in significantly contractionary territory for a longer period than that used in the reference scenario." The idea is that the monetary authority recognizes the need for a more contractionary policy stance than the Selic path used in the IPCA forecast for the reference scenario. The numbers illustrate the BCB's rationale: in the reference scenario[5], the BCB estimates IPCA 2023 at 4.0%, assuming the Selic rate at 13.25% for YE2022 and at 10.00% for YE2023. In its press conference, the BCB showed that a simulation assuming the Selic rate remains stable at 13.25% for the relevant period would lead to an IPCA inflation estimate at 3.7% for 2023. Based on our own calculations, these numbers could mean the BCB probably believes that a terminal rate of 13.75% for this cycle "could do the job" (for inflation convergence in the relevant horizon) for now. Our conclusion also follows the BCB's wording (seen in both in the communiqué and the minutes) of inflation convergence "around the target." Yet BCB officials claim that this language only reflects the unusually high uncertainty in the scenario and outlook, not necessarily meaning that the BCB is aiming at a higher CPI for next year. Indeed, BCB officials highlighted that their intention is to take expected IPCA inflation below 4% for 2023. The authority also sought to clarify that the transparency about explicitly revealing its strategy (i.e., higher rates for longer) should not be confused with the adoption of fully fledged forward guidance. Therefore, the BCB appears to be trying to buy itself some flexibility to adapt or change its strategy in case major shocks materially change the outlook again, in an environment of "higher than usual" uncertainty (as the BCB puts it). We continue to see the BCB more inclined to follow the "smoothing policy rate strategy" ahead, meaning avoiding a steeper peak for interest rates in this cycle but keeping rates at a much higher level for much longer. Naturally, this planned strategy may be under scrutiny in the coming weeks and could eventually be reconsidered (or recalibrated) depending on the size of future additional deviations in key variables, mainly inflation expectations for 2023. All in all, we believe the information provided this week reinforces the likelihood of a terminal Selic rate of 13.75% (i.e., a 50-bp move in August) and bolsters our perception of substantial upside risks for analysts' Selic forecasts for YE2023. Naturally, we see upside risks for our call for interest rates at 13.50% for YE2022 and 10.50% for YE2023. We believe this bias is even larger for our medium-term outlook. See details in the link[6].

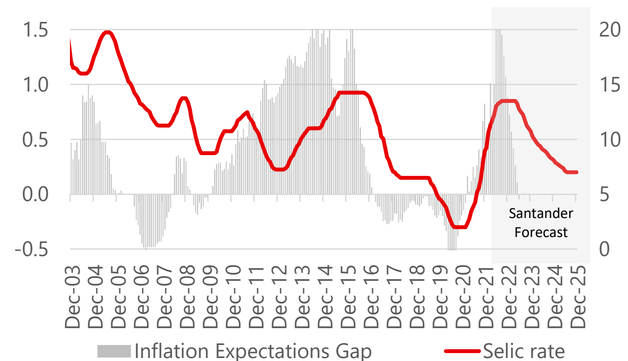
In a separate event, the CMN (in Portuguese acronym for the National Monetary Council) announced the (IPCA) inflation targets for 2025. The council set the target at 3.0% for 2025, keeping it at the same level as in 2024, with the same tolerance band of 1.5 p.p. either way. We welcome the maintenance of Brazil's inflation target at the level of some LatAm peers (Chile, Mexico, Colombia). While a low (but feasible) target is a necessary condition for a low-inflation environment, that condition alone is not enough, and we continue to believe that the contribution from fiscal policy will be key to achieving the targets for the long run.

Figure 8. BCB's Inflation Forecast (% annual)



Sources: Brazilian Central Bank, Santander.

Figure 9. Selic Rate (%), Expectations Gap (12m)



Sources : Brazilian Central Bank, Santander.

[4] On Thursday (June 23), BCB Governor Roberto Campos Neto and Economic Policy Director Diogo Guillen gave a press conference. This quarterly event usually follows the publication of the Inflation Report, which this time was postponed until Thursday (June 30), due to the strike of BCB workers.
[5] This scenario assumes FX rate starting at USD/BRL 4.90 (and moving along with PPP afterward), oil price "ending the year [2022] at USD110/barrel, and then start increasing 2% per year in January 2023", and Selic rate at 13.25% for YE2022, 10.00% for YE2023.
[6] **Santander Brazil: "*Copom Minutes: Going for the Smoothing Strategy?*"** – June 22, 2022 – Available on: https://bit.ly/Std-COPOM-min-jun22

INFLATION

June's IPCA-15 registered a 0.69% MoM change, in line with our call (0.70%) and the consensus expectation (0.67%). With this result, the trend remained basically stable, at the highly uncomfortable level of 15% 3MMA-saar. In year-over-year terms, the IPCA decelerated to 12.0% from 12.2%, which reinforces our view that May was likely to have been the peak of IPCA inflation, but the still ugly composition (read: widespread price pressures) possibly means a slow disinflation process ahead.

As per our forecasts, surprises to the downside came in food (-8 bps) and regulated prices (-5 bps), while services (+13 bps) was higher than our forecast, and industrial goods were in line with it.

In trend terms, industrial goods decelerated to 14.7% from 17.2% 3MMA-saar; its core gauge also fell, to 15.6% from 18.5% 3MMA-saar. Looking at the individual items, however, the composition of industrial goods was not so encouraging: while perfumes (an extremally volatile item) surprised to the downside, new cars (an extremely cyclical item) surprised to the upside.

In services, the trend kept accelerating, reaching 13.6% 3mma-saar (previous: 10.8%) -- its core also accelerated, reaching 11.6% 3mma-saar (previous: 10.2%). Part of the upward surprise is not so relevant, as it came from airline tickets, an extremely volatile item; but there were also upward surprises in other more worrisome (sticky/inertial) items: rents, car insurance, car repair.

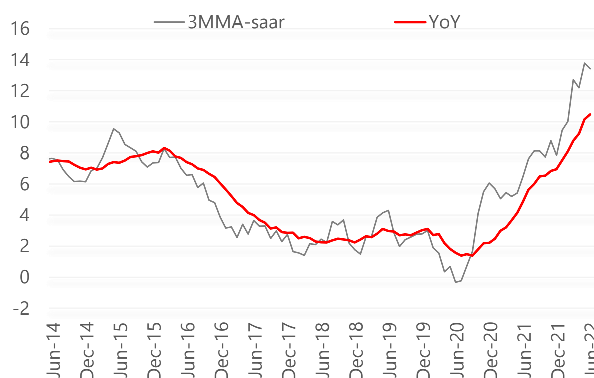
In qualitative terms the reading remained quite unfavorable, although some core measures that weigh more industrial goods had seen a very small relief. In any case, the average of the main core gauges accelerated a bit to 13.2% 3mma-saar (from 12.8%). The diffusion index saw some relief, reaching 73.6% s.a. (previously 76.9%) – that is still a very high reading. All in all, we believe the report reinforces our view that inflation has peaked in YoY terms, but underlying metrics remain quite unfavorable, suggesting upward risks. Tax cut measures are a major downward risk for the short term (2022) and an upside risk for the medium term (2023), making the inflation outlook even more uncertain.

Figure 10. June's IPCA-15 Details (%)

	MoM			YoY	
	Jun-22	Santander	Dev.	May-22	Jun-22
IPCA-15	0.69	0.70	-0.01	11.7	12.0
Administered	0.86	1.04	-0.05	12.1	12.2
Free	0.63	0.57	0.04	11.6	12.0
Food-at-home	0.08	0.61	-0.08	16.3	16.7
Industrial goods	0.65	0.66	0.00	14.0	14.0
Services	0.86	0.49	0.13	8.0	8.8
EX3 Core	0.89	0.86	0.01	10.2	10.5

Sources: IBGE, Santander.

Figure 11. Core Inflation – IPCA-15 EX3 (%)



Sources: IBGE, Santander.

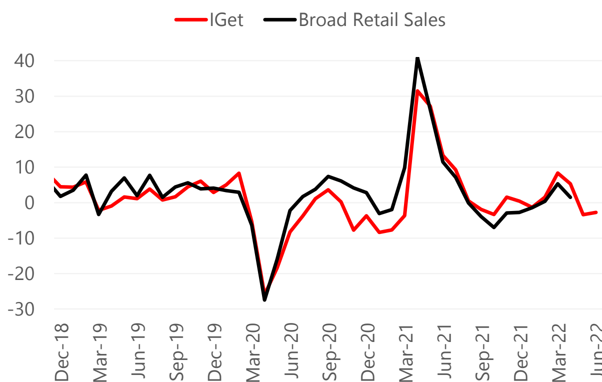
ECONOMIC ACTIVITY

Our proprietary data point to a weak print for the tertiary sector in June. According to our preliminary data for the first half of June, both retail sales and services to families shrank in the month, though we still see positive quarterly figures. Based on our proprietary indexes (IGet Family), our tracking points to a 1.4% retreat for broad retail sales and a 0.6% decline for services to families. If these forecasts are on the mark, broad retail sales would end 2Q22 with +1.5% QoQ-sa growth, while services to families would end 2Q22 with +2.9% QoQ-sa growth; both figures support a continued strengthening of household spending in the period. Our tracking for GDP growth in 2Q22 still stands at 0.4% QoQ-sa, meaning a solid 1H22. Yet we continue to foresee a loss of steam in the economy in 2H22, as the impact of a tighter monetary policy starts to be felt. See details in the link[7].

Labor market data for May is due out next week. On Thursday (June 30), the PNAD household survey comes out: we estimate an unemployment rate of 9.9% nsa, meaning a 0.5 p.p. decline to 9.6% in our seasonally adjusted series, the lowest level since December 2015. Also on Thursday, the Ministry of Labor will release the CAGED payrolls data. Our estimate is +175k (nsa), meaning a print of +153k (April: +132k), according to our preliminary seasonal adjustment.

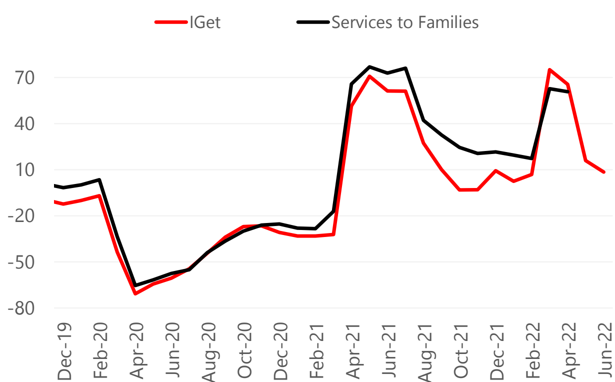
Moreover, FGV will release the last batch of economic confidence data for June: the industrial index is due out on Tuesday (June 28), while the tertiary sector data are due out on Wednesday (June 29). **For details on Santander's economic outlook, please refer to our last chartbook[8].**

Figure 12. IGet x Broad Retail Sales (nsa, YoY%)



Sources: IBGE, Santander.

Figure 13. IGet x Services to Families (nsa, YoY%)



Sources: IBGE, Santander.

[7] **Santander Brazil Economic Activity: "*IGet: Serviços enfraquecem em junho*"** – June 20, 2022 – Available (in Portuguese) on: https://bit.ly/Std-IGETser-p-jun22
Santander Brazil Economic Activity: "*IGet: Varejo enfraquece em junho*" – June 23, 2022 – Available (in Portuguese) on: https://bit.ly/Std-IGET-p-jun22

[8] **Santander Brazil Economic Activity: "*Chartbook – Upward Revisions in 2022, Concerns Regarding 2023 Intensify*" –** June 14, 2022 – Available on: https://bit.ly/Std-chart-econact-jun22
Santander Brazil Special Report: "*A Model to Forecast Probability of Recession in Brazil*" – June 08, 2022 – Available on: https://bit.ly/Std-special-060822

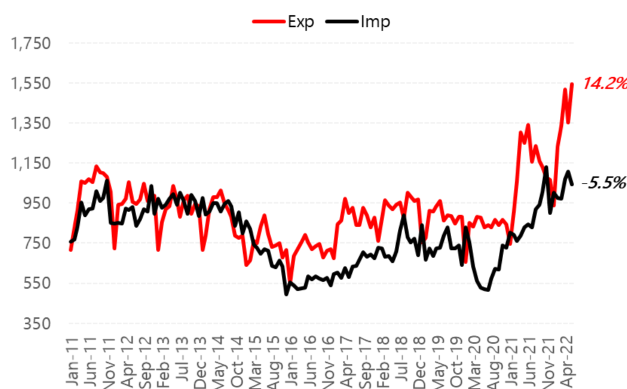
EXTERNAL SECTOR

We project June's trade balance (due out next Friday, July 1) to show a USD10.4 billion surplus, the same as a year ago—which will keep the surplus at USD60.0 billion on a 12-month basis, if our forecast is confirmed. We calculate this result is consistent with an annualized (seasonally adjusted) surplus of a hefty USD100.2 billion, which reinforces our expectation of a new record trade surplus in 2022: we project USD70.3 billion for this year (2021: USD61.4 billion).

Preliminary figures provided by the Foreign Trade Secretariat through the third week of this month reinforce our perception that the recent strength of import outlays was associated with the normalization of a backlog of delayed operations related to the strike in some areas of public services. According to our calculations, daily average imports, adjusted for their seasonal pattern, should post a 5.5% MoM decline, thus ending a two-month streak of monthly increases. On the other hand, we expect exports to expand 14.2% MoM sa on the heels of favorable prices and higher volumes of important items such as animal proteins, oil, and iron ore.

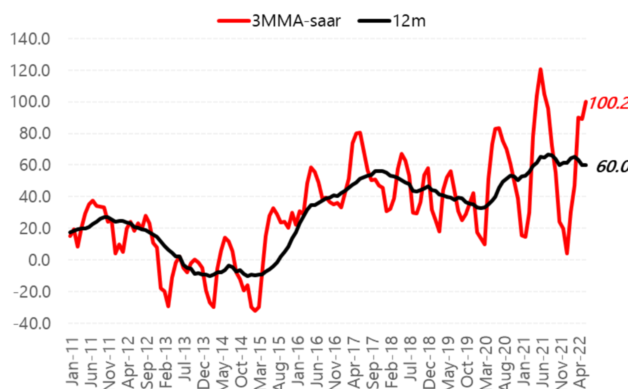
In sum, we believe our expectation that a constructive backdrop for exports will continue, stemming from favorable prices and strong demand for commodities in tandem with an accommodation of imports derived from the deceleration of the Brazilian economy, will be reinforced by June's trade balance data to be released on Friday (July 1).

Figure 14. Trade Components (USD million/working day, sa)



Sources: SECINT, Santander.

Figure 15. Trade Balance (USD billion)



Sources: SECINT, Santander.

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