A Week Packed With Macro Releases

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- With no signs of the Russia-Ukraine conflict easing, commodity prices continue to rise in USD terms. In Brazil, BRL appreciation helped cushion the movement this time around: the Bloomberg Commodity Aggregate Index in BRL receded -0.5% in the rolling week ended March 24. In USD terms, the Index advanced 3.9% for the same period.
- In the rolling week ended on March 24, the USD/BRL cross breached the 4.80 level in intraday terms for the first time since March 2020. It closed the period at 4.83, thus strengthening 4.4% against the USD in the period, and standing as the top performers in the basket with the 31 most liquid currencies in the world. In our view, the commodity rally and surprisingly strong global risk sentiment may have once again pared what we view as upward FX rate contributions from this week's monetary policy developments (both in Brazil, with less contractionary signals by the Brazilian Central Bank (BCB), and in the U.S., with hawkish wording from the Fed). While the hawkish tone carried out by some FOMC members prompted U.S. Treasury yields to shift higher, the local yield curve saw significant bull flattening, following clearer signs that the BCB plans to end the cycle after a final hike in May.
- This week, the BCB reaffirmed more than once the flight plan to deliver a final 100-bp hike in May meeting, ending the cycle at 12.75%, a level the Copom sees consistent with IPCA inflation around the mid-target (3.25%) for 2023. We pencil in a hike of 100 bps in May (to 12.75%) and a last move of 50 bps (to 13.25%) in June. Despite the BCB's flight plan, which seems quite clear, our expectation for this last move in June is in line with our view that inflation expectations for 2023 may continue to rise a bit before eventually stabilizing.
- March's IPCA-15 registered a 0.95% MoM change, above our call (0.83%) and consensus expectation (0.85%). In annual terms, the IPCA accelerated to 10.79% YoY from 10.76%, reinforcing our call that the peak will not be clear until May. The composition remains worrisome, as the core inflation average has trended at 10.7% 3MMA-saar in the last three months. All in all, the numbers suggest that the disinflation process will undergo significant difficulties ahead.
- The Ministry of Economy published a revision of official fiscal forecasts for 2022, showing a new reduction in the estimate for the primary fiscal deficit (to BRL66.9 billion from BRL76.2 billion, previously), led by expectations of higher oil-related revenue. The coming week is packed with fiscal policy data for February.
- According to our proprietary data (IGet), in March the tertiary sector seems to have continued the rebound from January's weak figures (impacted by the Omicron outbreak). Our coincident index (a proxy) for services to families rose 12.7% MoM-sa, while our coincident index (proxy) for broad retail sales expanded 1.8% MoM-sa. On Friday (April 1) industrial production for February is due: we estimate monthly growth of 0.8% MoM-sa.
- In the coming week, the February batch of labor market data is due to be released. On Tuesday (March 29), the Ministry of Labor will release the CAGED formal job creation data, and our estimate is at +102k, according to our preliminary seasonal adjustment (January: +137k). On Thursday (March 31), the PNAD household

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survey is due: we estimate a 0.1 p.p. decrease in the unemployment rate to 11.4% in our seasonally adjusted series.

- We expect February balance of payments data (due on Monday, March 28) and March trade balance figures (due on Friday, April 1) to reinforce further the constructive markets' view about the Brazilian external position. According to our calculations, the current account balance is to register a USD1.6 billion deficit (meaning -USD25.4 billion on a 12-month basis, down from -USD27.9 billion), while the latter should record a USD8.9 billion surplus (+USD66.0 billion on a 12-month basis, up from +USD61.0 billion).

Most of the information in this report is up to the end of Thursday, March 24, 2022.

Figure 1. Brazil Macro Agenda for the Week of March 28 to April 01, 2022

Indicators / Events	Source	Reference	Date	Santander Estimate	Prior
Current Account Balance (USD billion)	BCB	Feb/22	Mon, 28-Mar	-1.6	-8.1
Foreign Direct Investment (USD billion)	BCB	Feb/22	Mon, 28-Mar	11.2	4.7
Construction Confidence (index)	FGV	Mar/22	Mon, 28-Mar	--	93.7
Industrial Confidence (index)	FGV	Mar/22	Tue, 29-Mar	--	96.7
Federal Debt Report (BRL trillion)	STN	Feb/22	Tue, 29-Mar	--	5.6
Formal Job Creation (thousands)	**CAGED**	**Feb/22**	**Tue, 29-Mar**	**180.0**	**155.1**
Formal Job Creation (thousands, sa)	**CAGED**	**Feb/22**	**Tue, 29-Mar**	**102.0**	**137.0**
Central Gov. Prim. Balance (BRL billion)	STN	Feb/22	Wed, 30-Mar	-12.6	76.5
IGP-M Inflation (% MoM)	FGV	Mar/22	Wed, 30-Mar	1.46	1.83
IGP-M Inflation (% YoY)	FGV	Mar/22	Wed, 30-Mar	14.45	16.12
Services Confidence (Index)	FGV	Mar/22	Wed, 30-Mar	--	89.2
Retail Confidence (index)	FGV	Mar/22	Wed, 30-Mar	--	87
Total Outstanding Loans	BCB	Feb/22	Wed, 30-Mar	--	467.1
Net Debt (% GDP)	BCB	Feb/22	Thu, 31-Mar	57.4	56.6
Primary Budget Balance (BRL billion)	BCB	Feb/22	Thu, 31-Mar	-8.6	101.8
National Unemployment Rate (%, nsa)	**IBGE**	**Feb/22**	**Thu, 31-Mar**	**11.3**	**11.2**
National Unemployment Rate (%, sa)	**IBGE**	**Feb/22**	**Thu, 31-Mar**	**11.4**	**11.5**
Industrial Production (% MoM)	**IBGE**	**Feb/22**	**Fri, 01-Apr**	**0.8**	**-2.4**
Industrial Production (% YoY)	**IBGE**	**Feb/22**	**Fri, 01-Apr**	**-4.3**	**-7.2**
Trade Balance Monthly (USD billion)	SECINT	Mar/22	Fri, 01-Apr	8.9	4.0
Federal Tax Collection (BRL billion)	RFB	Feb/22	28 to 01-Apr	149.5	235.3
Vehicle Sales (thousands)	Fenabrave	Mar/22	01 to 05-Apr	--	129.2

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: *"Higher Inflation and Selic Forecasts, Despite the Stronger BRL"* –** February 24, 2022- Available on: https://bit.ly/Std-scenreview-feb22

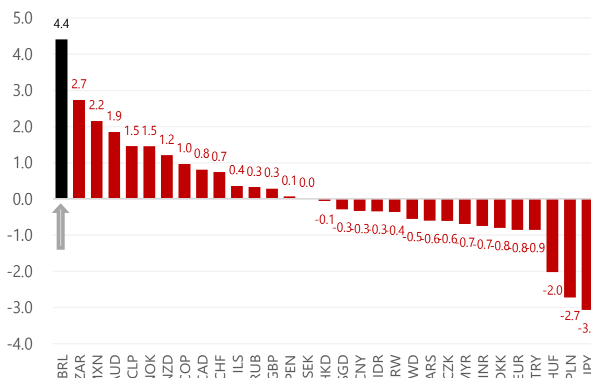
LOCAL MARKETS—FX

In the rolling week ended on March 24, the USD/BRL cross breached the 4.80 level in intraday terms for the first time since March 2020. It closed the period at 4.83, thus strengthening 4.4% against the USD in the period, and standing as the top performers in the basket with the 31 most liquid currencies in the world. This robust performance could have been even better, as the USD/BRL pair reached the 4.76 level in intraday terms on Thursday. The BRL managed to deliver an approximately 20-cent strengthening vis-à-vis the greenback compared with a week ago, notwithstanding pretty hawkish messages conveyed by FOMC members. Chairman Jerome Powell was crystal clear about the high probability that the U.S. monetary authority should speed up the pace of the monetary tightening cycle in the coming meeting, which fostered an upward shift in U.S. Treasury yields–a backdrop that is usually unfavorable for the BRL. In addition to that, on the domestic front, the BCB's wording seen in the Copom minutes and 1Q22 Inflation Report suggested that the ongoing tightening cycle could end in May, which means that the terminal Selic could be lower than what analysts are currently expecting (more details in the Monetary Policy section). At first, we would have expected both elements (in the field of monetary policy) to have also weighed on the BRL performance. However, commodity prices' continued rally and a surprisingly constructive global risk sentiment (in times of war and geopolitical risks), combined with technical issues in the local markets (i.e., a probable shift of global asset allocation away from certain countries directly affected by the conflict in Eastern Europe and to commodity producing countries like Brazil), allowed the BRL to overcome those potential hurdles and strengthen.

LOCAL MARKETS—Rates

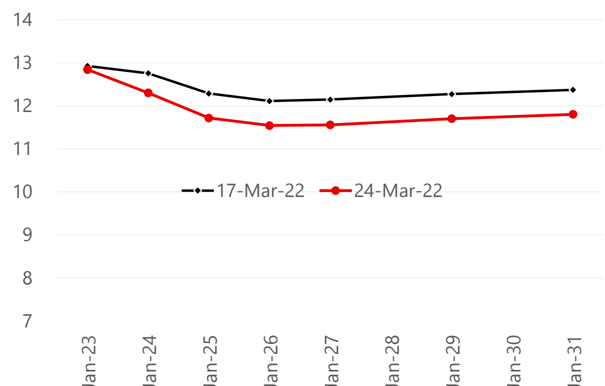
The local yield curve saw major relief, with a bull-flattening movement in the 2s/5s segment. Since last Thursday (March 17), the front end of the curve (Jan-24 DI future) fell 46 bps, to 12.30%, while the back end of the curve (Jan-27 DI future) fell 59 bps, to 11.56%. The curve's steepness in this segment fell 14 bps further, increasing the inversion to -75 bps. At the front-end, the Copom minutes and 1Q22 Inflation Report reinforced the BCB's willingness to stop the hiking cycle after a last hike of 100 bps for the next meeting in May (conditional on the scenario), which would leave the terminal Selic rate at 12.75%. Our baseline scenario still encompasses a final 50 bps hike, which leaves our forecast for terminal Selic at 13.25% (see details in the "Monetary Policy" section). At the long end, the rally occurred despite global upward pressure on rates and signs of further fiscal stimulus (e.g., another round of tax breaks on manufactures). We maintain our view that as the BCB is starting to signal that the hiking cycle is close to an end and as the IPCA should be close to the peak in year-over-year terms, the curve soon could see a steepening, as domestic challenges remain in place and global interest rates continue to move higher.

Figure 2. Weekly Comparative FX Performance



Sources: Bloomberg, Santander.
Note 1: As of the close on Thursday, March 24, 2022.

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



Sources: Bloomberg, Santander.
Note: As of the close Thursday, March 24, 2022.

COMMODITIES

With no signs of the Russia-Ukraine conflict easing, commodity prices continue to rise in USD terms. In Brazil, BRL appreciation helped cushion the movement this time around. The Bloomberg Commodity Aggregate Index in BRL receded 0.5% in the rolling week ended March 24. In USD terms, the Index advanced 3.9%, with the Agriculture Subindex rising 1.1%, the Energy Subindex increasing 10.3%, and the Industrial Metals Subindex falling 0.3%. In our view, the ongoing geopolitical shock adds to already tight markets for key commodities: low inventories for most raw materials, coupled with idiosyncratic factors (adverse weather, underinvestment, and high cost of production) have been feeding the commodity rally early in 2022.

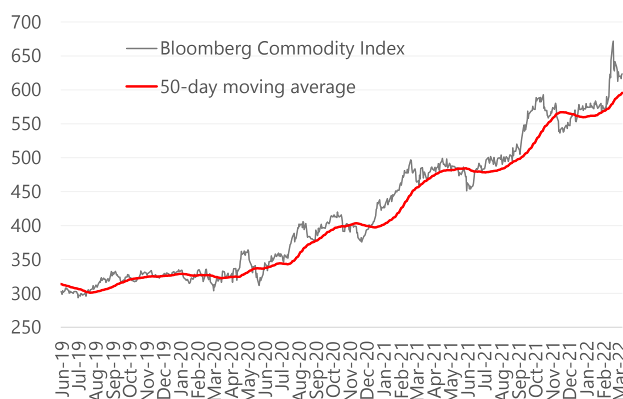
Oil inches close to USD120/barrel as the U.S. may step up sanctions against Russia. The U.S. and E.U. have gathered to discuss a deal aimed at reducing the region's dependence on Russian energy (mainly gas and oil). While the U.S. and U.K have already banned oil imports from Russia, some E.U. members are reluctant to follow along, with Germany pointing out that supply shortages would have a severe impact on its population. Still on the energy front, Russia demanded that European customers would have pay for its natural gas in rubles rather in euros or dollars, sending gas prices up 30% and further aggravating Europe's energy crunch.

Grain prices continue to hover near all-time highs. Concerns over a potential drop in Ukraine corn production have been supporting the market. A specialized Ukrainian thinktank said that the country's corn sowing area could fall about 29% this marketing year, while the sunflower sowing area could rise 48% in the same period. Next week, the market will be closely monitoring the sowing outlook for the Northern Hemisphere, as USDA data on planting and quarterly stockpiles are due March 31.

EIA[2] reported a decrease in U.S. crude stockpiles. On Thursday (March 23), the EIA reported that U.S. crude inventories decreased by 2,508k barrels for the week ending March 18, below the market expectation of a 337k barrel decrease. Considering the last five years, inventories are below the minimum level observed for this time of the year (total inventory was 413 million barrels as of March 18).

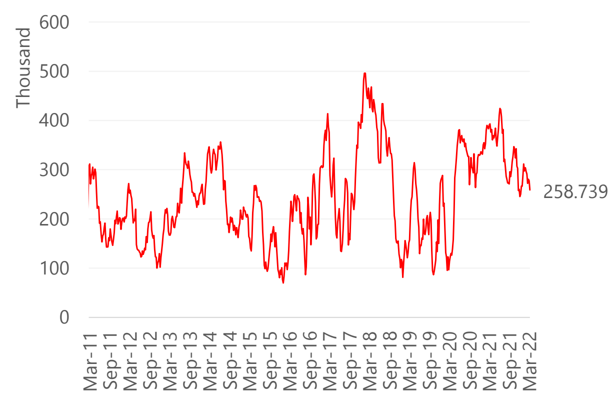
CFTC[3] reported a decline in speculative long positions in WTI crude oil. Money managers reduced their net long WTI crude futures and options positions in the week ended March 15, the CFTC reported last Friday (March 18). The positions in futures and options decreased by 18,795 contracts, to 258,739.

Figure 4. Bloomberg Commodity Index in BRL



Sources: Bloomberg, Santander.

Figure 5. CFTC NYMEX Crude Oil Managed Money Net Total (Number of contracts)



Sources: COT, Santander.

[2] Energy Information Administration.
[3] U.S. Commodity Futures Trading Commission.

MONETARY POLICY

This week, the BCB reaffirmed more than once the flight plan to deliver a final 100-bp hike in May meeting, ending the cycle at 12.75%, a level the Copom sees consistent with IPCA inflation around the mid-target (3.25%) for 2023.

On Tuesday (March 22) the BCB published the minutes of its March 15-16 policy meeting, when the authority once again hiked interest rates, but this time by 100 bps, to 11.75%. Overall, the Copom message was not very different from the statement, except for what we perceived as a greater emphasis on the flight plan to deliver a final rate hike of 100bps in the next meeting (May 3-4), ending the cycle at 12.75%.

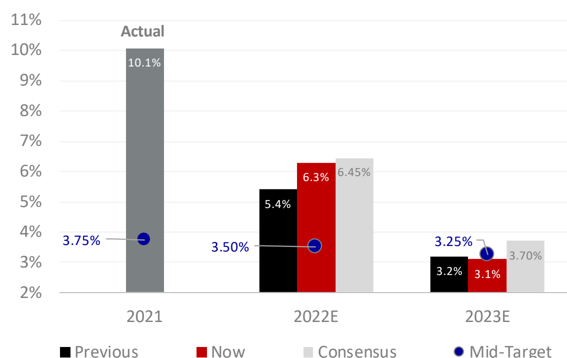
The plan seems to follow the BCB's view, based on its model simulations, that IPCA inflation would converge to the mid-target in 2023 with this monetary policy dosage, even considering the upwardly skewed balance of risks (whose bias seems to have diminished, in the BCB's assessment). Such results seem to have been influenced by an even higher Selic path throughout 2023. Yet the BCB recognizes the high degree of uncertainties and does not close door on the possibility of further adjustment, and an even tighter policy stance if conditions worsen. See details in the link[4].

The BCB also published on Thursday (March 24) its 1Q22 inflation report today, with further information on the authority's economic analyses, simulations, forecasts, and policy discussions. On economic activity, the authority continues to forecast 2022 GDP at +1.0%, compared to the consensus of +0.5%. The stability in this estimate may reflect a balance between a higher carry-over (from 4Q21) and a tighter monetary policy (and Selic expectations). The BCB sees the economy running 2.3% below its potential in 4Q22 — a gap about 0.2 pp wider than estimated in the 4Q21 inflation report. The BCB notes that this forecast is based on an even tighter monetary policy stance (both realized and expected).

The report also shows that actual IPCA inflation stood a full 0.8 pp above the BCB's forecast for the period between November and February. With the BCB's inflation estimates for the policy horizon (mainly 2023) already known, what is new here is the monthly and quarterly path for these numbers. What strikes our attention is that, in Scenario A (previously known as "alternative", assuming oil prices at USD100/bbl at YE2022), the BCB estimates inflation at 2.1% QoQ for the period between March and May (Santander: 1.5%). This implies to us that the bar is high for another short-term upside surprise in headline IPCA, even though (depending on the size) a surprise could have little bearing on the BCB's policy, since 2022 will be out of the policy horizon from now on. In terms of policy signals, BCB's governor mentioned at the press conference that a rate hike in June "is not the most likely outcome".

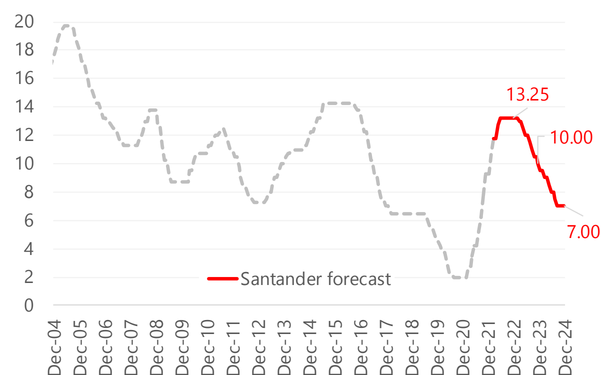
We pencil in a hike of 100 bps in May (to 12.75%) and a last move of 50 bps (to 13.25%) in June. Despite the BCB's flight plan, which seems quite clear, our expectation for this last move in June is in line with our view that inflation expectations for 2023 may continue to rise a bit, before eventually stabilizing. See details in the link[5].

Figure 6. BCB's Inflation Simulation – Alternative Scenario (% annual)



Sources: Brazilian Central Bank, Santander.

Figure 7. The Path for the Selic Policy Rate (monthly average, % p.a.)



Sources: Brazilian Central Bank, Santander.

[4] **Santander Brazil Monetary Policy: *"A Plan Amid the Uncertainty"* –** March 16, 2022 – Available on: https://bit.ly/Std-COPOM-mar22
[5] **Santander Brazil Monetary Policy: *"A Plan Amid the Uncertainty"* –** March 16, 2022 – Available on: https://bit.ly/Std-COPOM-mar22

INFLATION

March's IPCA-15 registered a 0.95% MoM change, above our call (0.83%) and the consensus expectation (0.85%). In year-over-year terms, the IPCA accelerated to 10.79% from 10.76%, reinforcing our call that the peak for IPCA 12-month will not be clear until May 2022. As for the trend at the margin, it remained basically stable at 10.1% 3MMA-saar, suggesting that the disinflation process will be a sticky, difficult, and risky one.

The main upside surprise was in industrial goods (+11 bps to the headline error). More specifically, the surprise was driven by perfumes, a highly volatile item. Food-at-home also contributed to the upside (+7 bps), As for services, a downside surprise (-10 bps) owing a great part to airline tickets, also a highly volatile item, though there were also some surprises in education and rent, stickier items.

Broad qualitative measures worsened even more at the margin. The average of the main core measures accelerated from 9.9% to 10.7% 3MMA-saar. Moreover, the diffusion index continued to rebound, now at 8.7% (seasonally adjusted), compatible with YoY inflation running at around 10.7% a few months from now.

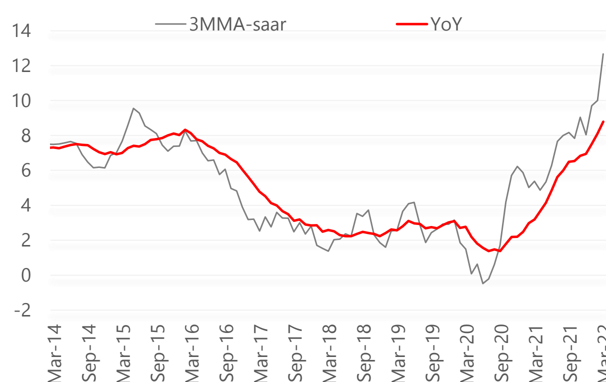
All in all, this reading reinforces our concerns about the inflation outlook. We still forecast that a clear peak should come around May 2022, but the level and composition of inflation are likely to remain sources of concern, keeping the balance of risks tilted to the upside for our year-end tracking (now running at 7.1%).

Figure 8. March's IPCA-15 Details (% annual)

	MoM			YoY	
	Mar-22	Santander	Dev.	Feb-22	Mar-22
IPCA-15	0.95	0.83	0.12	10.8	10.8
Administered	0.64	0.48	0.04	16.4	13.5
Free	1.06	0.96	0.07	8.8	9.9
Food-at-home	2.51	2.05	0.07	9.5	11.1
Industrial goods	1.27	0.81	0.11	13.0	13.1
Services	0.30	0.59	-0.10	6.0	7.3
EX3 Core	1.12	0.77	0.13	8.1	8.5

Sources: IBGE, Santander.

Figure 9. Core Inflation EX3 (%annual)



Sources: IBGE, Santander.

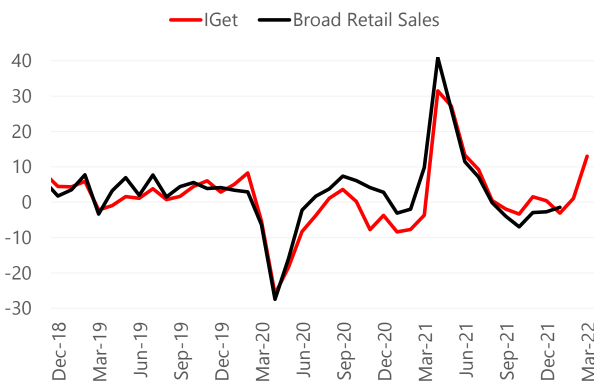
ECONOMIC ACTIVITY

The tertiary sector continued to rebound in March. According to the preview of our proprietary indicators (IGet) for March, the tertiary sector seems to have continued the rebound from January's weak figures, that reflected the rising Covid19 number of cases amid the Omicron variant outbreak. Indeed, services to families dropped 1.4% MoM-sa in the month[6], breaking a streak of nine consecutive gains, while broad retail sales[7] retreated 0.3% MoM-sa, after two gains in a row. In the wake of the reduction in contamination and the increase in mobility from February until mid-March, our coincident index for services to families rose 12.7% MoM-sa this month, while our coincident index for broad retail sales expanded 1.8% MoM-sa. See details in the link[8].

In the coming week, the February batch of labor market data is due to be released. On Tuesday (March 29), the Ministry of Labor will release the CAGED formal job creation data, and our estimate is at 180k nsa. This forecast is equivalent to +102k sa, according to our preliminary seasonal adjustment (January: +137k). On Thursday (March 31), the PNAD household survey is due: we estimate the unemployment rate at 11.3%, meaning a 0.1 p.p. decrease to 11.4% in our seasonally adjusted series. Moreover, on Friday (April 1) industrial production for February is due: we estimate monthly growth of 0.8% MoM-sa. Lastly, the FGV will release economic confidence data for March, with the industry's survey due out on Tuesday (March 29) and the tertiary sector's survey due out on Wednesday (March 30).

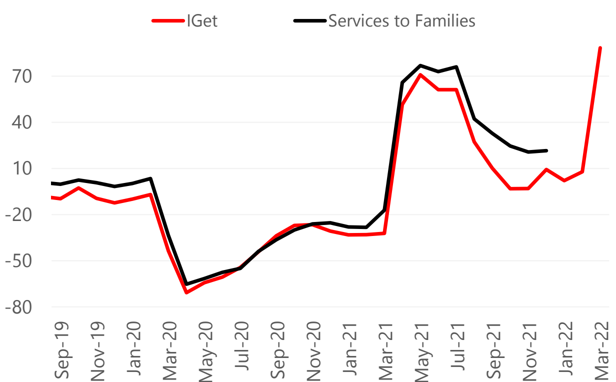
For details on Santander's activity outlook, please refer to our last chartbook[9].

Figure 10. IGet and Retail Sales (nsa, YoY%)



Sources: IBGE, Santander.

Figure 11. IGet and Services to Families (nsa, YoY%)



Sources: IBGE, Santander.

[6] **Santander Brazil Economic Activity: "*Mixed Services Output Figures*" –** March 16, 2022 – Available on: https://bit.ly/Std-econact-031622
[7] **Santander Brazil Activity: *"Better Headline but With Still Weak Composition"* –** March 10, 2022 – Available on: https://bit.ly/Std-econact-031022
[8] **Santander Brazil Economic Activity: "*IGet Serviços (Prévia): Serviços continua em recuperação*" –** March 21, 2022 – Available (in Portuguese) on: https://bit.ly/Std-IGETser-p-mar22
Santander Brazil Economic Activity: "*IGet (Prévia): Sinais mistos no varejo em março*" – March 23, 2022 – Available (in Portuguese) on: https://bit.ly/Std-IGET-p-mar22
[9] **Santander Brazil Economic Activity: *"Positive Surprises Reinforce Resilience Outlook for 2022"* –** March 14, 2022 – Available on: https://bit.ly/Std-chart-econact-mar22

FISCAL POLICY AND LEGISLATION

On March 22, the Ministry of Economy published its first bimonthly budget review for 2022. Official forecasts showed an improvement in the fiscal outlook for this year, mainly due to higher revenue forecasts (+BRL87 billion, compared to 2022 Budget approved in December 2021). This rise in revenue mostly relates to oil-related proceeds, which accounts for more than 45% of the total revenue change. Average oil prices (Brent type) considered for year rose from to USD103 per barrel, from USD77 per barrel. The official GDP forecast was reduced to 1.5% (from 2.1%). On the expenditure side, the total amount rose BRL32.7 billion (totaling BRL1,752 billion or 18.4% of GDP), mainly impacted by an increase in extraordinary expenditures (BRL23.8 billion), related to Covid-19 expenses, which we believe is not going to be fully used due to an improvement in the pandemic indicators. In addition, the government froze BRL1.7 billion (mainly discretionary) in expenses in order to comply with the constitutional spending cap limit. The margin to comply to the fiscal rule dropped to BRL1.3 billion (from BRL6.3 billion), showing a tight fiscal margin.

Hence, the forecast for the central government's primary deficit dropped to BRL66.9 billion (0.7% of GDP), from BRL79.2 billion (0.8% of GDP) in 2022 Budget (LOA). We believe the government should not face difficulties in meeting this year's primary target (BRL170.4 billion or 1.7% of GDP). Our latest tracking points to a central government deficit of ~BRL52 billion for 2022 (0.5% of GDP). We see risks for both sides of the primary result: while on the one hand it could be better with higher revenue driven by the commodity boom. On the other hand, there is uncertainty about the final outcome of the fiscal stimulus via tax breaks (currently at ~BRL30 billion for the federal government), and the effects of the expected economic slowdown on revenue in 2H22. In addition, some other one-off quasi-fiscal measures could affect the primary result. There is a BRL103 billion difference between the official estimate and the target. The agreement between São Paulo City Hall and federal government ended the dispute over *Campo de Marte* region (including an airport). This measure should add a BRL24 billion negative impact on the primary deficit result, owing to the extinction of the municipality debts with the federal government. That will be accounted for in the primary balance statistics. Another factor that may affect the primary result: the agreements for the payment of judicial clams, made by debt cancellation, which could reach BRL35 billion (we already include BRL20 billion in our scenario). In light of this, the theoretical primary target margin (target minus the official deficit estimate and the sum of off-budget elements) for new stimulus (if necessary) to comply to the fiscal rule will be around BRL45 billion in 2022.

On March 24, we published a special report to explore the oil global balance and the impact in the fiscal accounts. See details in the link.[10]

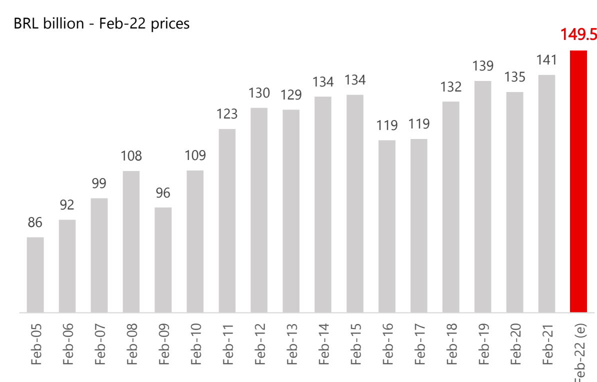
The coming week is packed with fiscal policy publications for February. During the week the Brazilian Revenue Service should publish the federal tax collection, we expect a BRL149.5 billion, implying +5.9% YoY real growth. On March 29, the Treasury will publish the Monthly Debt Report. On March 30, the fiscal authority is expected to publish the central government primary deficit: we expect a deficit of BRL12.6 billion. On March 31, the BCB will publish the public sector's fiscal balance. We anticipate a deficit of BRL8.6 billion.

Figure 12. 2022 Bi-Monthly Budget Review

BRL billion	2022		
	Budget (LOA)	Budget Review Mar-22	Santander Estimate
Total Revenue	**2,030.5**	**2,118.0**	2,102
Revenues Collected by the Brazilian IRS	1,288.9	1,285.6	1,288
Net Social Security Revenues	499.4	527.3	504
Revenues Not Collected by the Brazilian IRS	242.3	305.1	310
Transfers by Revenue Sharing	386.4	431.9	393
Net Revenue	**1,644.1**	**1,686.1**	1,708
Total Expenditure	**1,720.3**	**1,753.0**	**1,761.0**
Social Security Benefits	777.7	778.1	780.5
Payroll - Public Servants	336.1	338.6	341.9
Other Mandatory Expenses	252.5	282.0	274.1
Mandatory Expenses with Cash Control	223.2	223.1	239.5
Discretionary Expenses	130.8	131.3	125.0
Central Government's Primary Balance	-76.2	-66.9	-52.6
% GDP	-0.8%	-0.7%	-0.6%

Sources: Ministry of Economy, Santander.

Figure 13. Federal Tax Collection



Sources: Brazilian IRS, Santander.

[10] **Santander Brazil – Commodities and Fiscal Policy: *"Oil Global Outlook and Impacts on Fiscal Scenario"* –** March 24, 2022- Available on: https://bit.ly/Std-special-032422

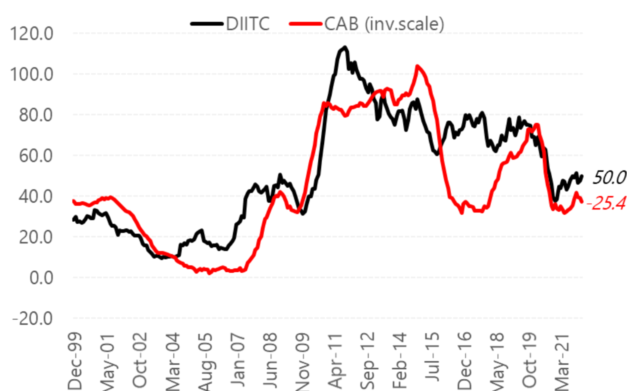
BALANCE OF PAYMENTS

We expect February balance of payments data (due on Monday, March 28) and March trade balance figures (due on Friday, April 1) to reinforce further the constructive markets' view about the Brazilian external position. According to our calculations, the former should unveil that the current account balance registered a USD1.6 billion deficit last month (or -USD25.4 billion from -USD27.9 billion on a 12-month basis), while the latter should record a USD8.9 billion surplus this month (or +USD66.0 billion from +USD61.0 billion on a 12-month basis).

We estimate that the actual current account deficit in February (-USD1.6 billion) should prove to be better than the preliminary estimate provided by the BCB last month (-USD2.6 billion) on the heels of the positive surprise shown by the trade balance in the last days of the previous month, while services account and primary income account should continue to register deficits below their historical norms. If our estimate proves right, the deficit will recede to USD25.4 billion from USD27.9 billion at the end of 2021 on a 12-month basis, thus underpinning our view that the current account balance should improve in 2022 (we forecast an annual deficit of USD22.7 billion for this year). In addition to a declining current account deficit, we also expect February 2022 figures to unveil significant inflows of direct investments in the country (USD11.2 billion) and portfolio investments as well (especially in the domestic equity market), which indicates the country should not face problems to find external funding sources.

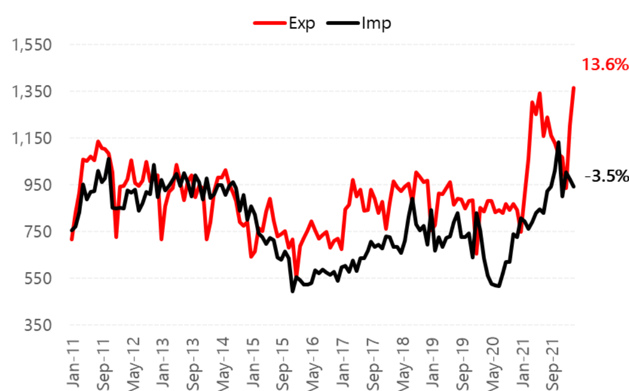
We believe that March current account balance should also register a relatively good performance once again helped by the trade balance, which we project to register an USD8.9 billion surplus this month. The sound result should stem from a robust performance of exports in tandem with some accommodation of imports. We project the daily average of export proceeds to show a 13.6% MoM-sa increase on the heels of higher volumes and prices of commodities, while we expect the daily average of import outlays to unveil a 3.5% MoM-sa decline following the slowdown in the Brazilian economy. If our calculation proves right, the trade surplus will reach USD66.0 billion on a 12-month basis, thus nearing the historical high observed in August 2021 and underpinning our expectation for a USD66.8 billion trade surplus for 2022 as a whole.

Figure 14. Current Account Balance vs. Direct Investment in the Country (USD billion, 12m)



Sources: Brazilian Central Bank, Santander.

Figure 15. Exports vs. Imports - (USD million/working day, sa)



Sources: SECINT, Santander.

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