MACRO BRAZIL

September 1, 2023

DATA ANALYSIS – TRADE BALANCE

SUBSTANTIAL (THOUGH NOT FULL) INSULATION

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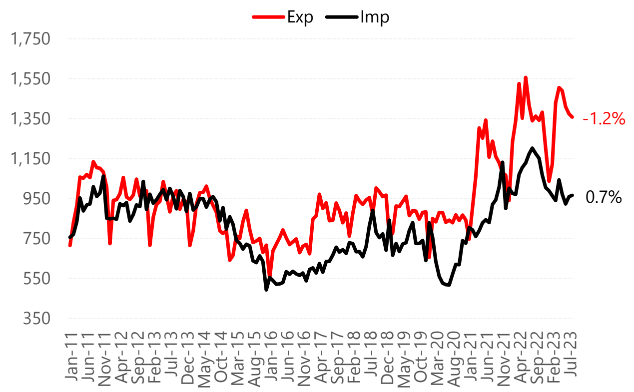
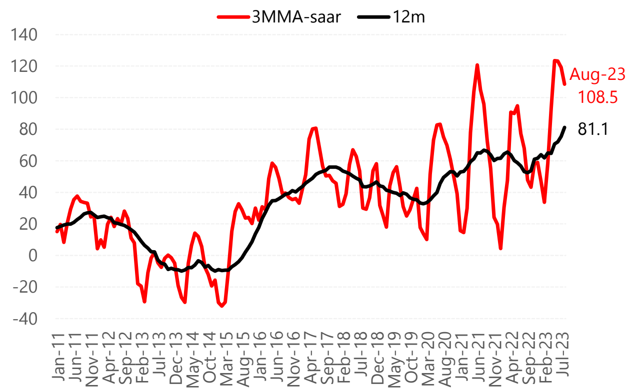
- **The trade balance registered a USD9.8 billion surplus in August 2023, which fell short of both our estimate of a USD10.6 billion positive reading and the market median estimate of USD10.0 billion. However, the number exceeded the USD4.1 billion surplus observed in the same month a year ago, causing the foreign trade surplus in 12-month terms to turn into a historical peak of USD81.1 billion.**
- **Despite the new record in 12-month terms, both export revenue and import outlays slowed in the last two weeks of August, as we expected the former to reach USD32.4 billion and the latter to total USD21.8 billion, but the actual readings were USD31.2 billion and USD21.4 billion, respectively.**
- **In seasonally adjusted terms, the daily average of exports receded in August 2023 (-1.2% MoM), while the daily average import outlays followed the opposite pattern (+0.7% MoM). Although it remained at fairly high levels, the daily average of exports registered the fourth drop in a row, thus suggesting some loss of steam in the coming months. Meanwhile, the daily average of imports marked a two-month streak of increases, which, in our opinion, reinforces the perception that the indicator has bottomed out. As a result, the 3MMA-saar gauge declined to USD108.5 billion from USD119.2 billion in June 2023, underpinning our view that the trade balance is likely to deliver more modest results ahead and close the year below the current record level, as per the 12-month trailing gauge.**
- **However, assessing the performance of some typical products on the exports list, we continued to see some encouraging information, which indicates, in our view, that export revenue is unlikely to collapse. On the other hand, we believe the behavior of import outlays buttresses our perception that the lagged effects of the monetary tightening cycle are weighing on their expansion and will continue to do so, thus preventing a growth trend from materializing.**
- **In sum, we think the data supports our already constructive view on the Brazilian external position and could give the BRL substantial insulation against jitters on the international front. Let's see what happens on the domestic side.**

Figure 1 – Trade Balance
(USD million/working day, sa)



Sources: SECINT, Santander.

Figure 2 – Trade Balance
(USD billion)



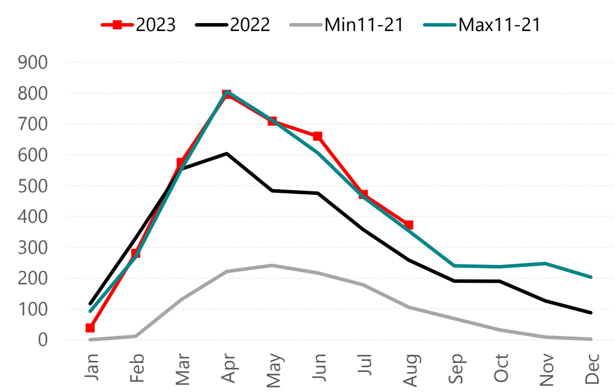
Sources: SECINT, Santander.

The trade balance registered a USD9.8 billion surplus in August 2023, stemming from a deceleration in both export revenue and import outlays in the last two weeks of the period. While the former tallied USD31.2 billion last month, total import outlays amounted to USD21.4 billion in August. Export revenue fell short of our estimate (USD32.4 billion), as did import outlays (we estimated USD21.8 billion). The August trade surplus was higher than the reading of a year ago (USD4.1 billion), bringing the 12-month surplus to its new historical peak of USD81.1 billion in these terms.

When we consider seasonally adjusted data, daily average exports declined (-1.2% MoM), whereas daily average imports went in the opposite direction (+0.7% MoM). As a result, we saw the average of the last three months' annualized surplus (3MMA-saar) receding to USD108.5 billion from USD119.2 billion in July 2023, higher than our full year forecast of USD53.7 billion for 2023.

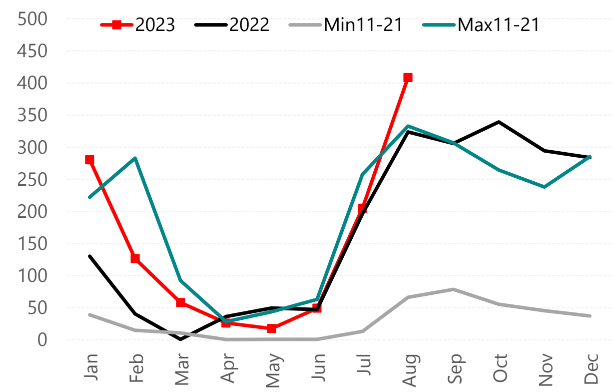
Looking at specific items in both exports and imports, we believe there are signals suggesting that trade surpluses are likely to be more modest in the coming months, although a significant decline seems unlikely. From an export standpoint, we see volumes of certain key items such as soybeans and corn above the readings for the last ten years. While the former is losing steam, the latter is showing a rapid increase. Conversely, we think Brazilian importers took advantage of the price drop observed in some strategic products to increase their purchases — especially those inputs related to the buoyant Brazilian agribusiness activities — and the stronger BRL could also lead to some opportunistic purchases as well, which would give certain imports some support. However, the economic slowdown stemming from the lagged effects of prior interest rate hikes in Brazil has weighed on imports lately — especially those related to manufactured goods. Thus, we think the Brazilian trade balance will likely continue to convey a positive message as far as the Brazilian external position is concerned.

Figure 3 –Exports of Soybeans (kilotons/day)



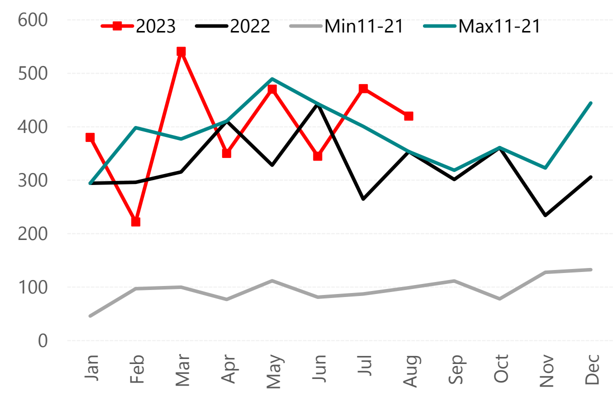
Sources: SECINT, Santander.

Figure 4 – Exports of Corn (kilotons/day)



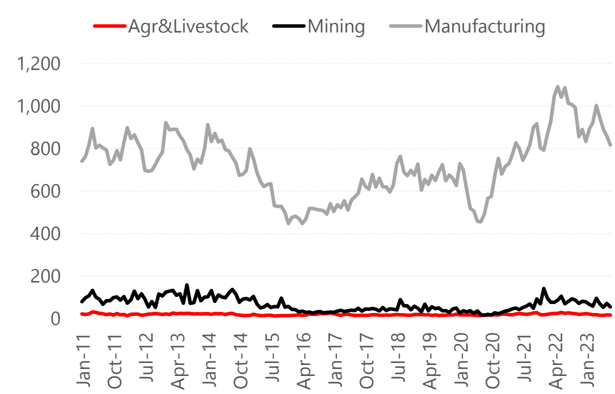
Sources: SECINT, Santander

Figure 5 – Exports of Oil (kilotons/day)



Sources: SECINT, Santander.

Figure 6 – Imports by industry (USD million/day,sa)



Sources: SECINT, Santander

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