Santander
Macroeconomic Research

MACRO BRAZIL

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DATA ANALYSIS – TRADE BALANCE

NOW COMES THE SLOPE!

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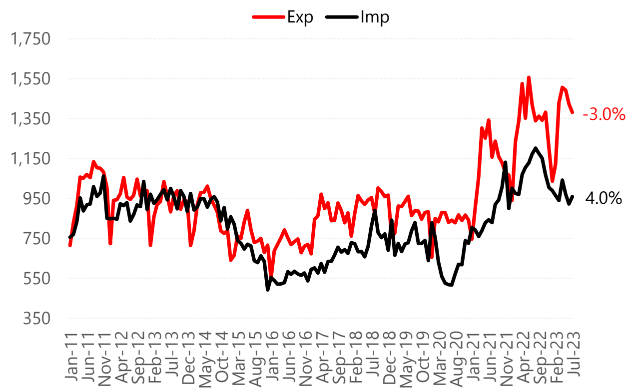
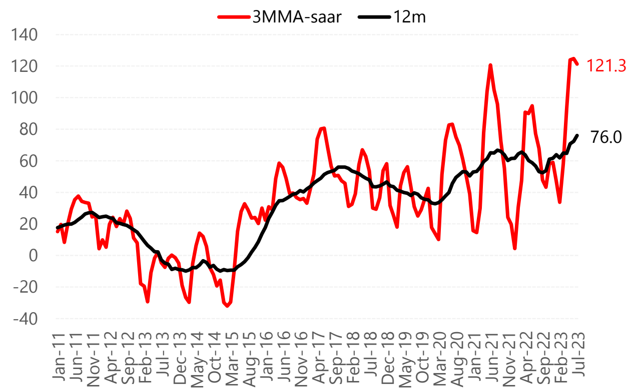
- **The trade balance registered a USD9.0 billion surplus in July 2023, a beat to both our estimate of a USD8.1 billion positive reading and the market median estimate of USD8.0 billion. Moreover, the outcome exceeded the USD5.4 billion surplus observed in the same month a year ago, causing the foreign trade surplus in 12-month terms to turn into a historical peak of USD76.0 billion.**
- **The new record for the trade balance stemmed from the combination of larger-than-expected export revenue and marginally smaller-than-anticipated import outlays, as we expected the former to reach USD28.2 billion and the latter to total USD20.2 billion, but the actual readings were USD29.1 billion and USD20.0 billion, respectively.**
- **In seasonally adjusted terms, the daily average of exports receded in July 2023 (-3.0% MoM), while the daily average import outlays followed the opposite pattern (+4.0% MoM). Although it remained at fairly high levels, the daily average of exports registered a third drop in a row, thus suggesting some loss of steam for the coming months. In turn, the expansion of daily average of imports interrupted a two-month streak of declines and, in our opinion, it suggested the indicator has bottomed out. As a result, the 3MMA-saar gauge declined to USD121.3 billion from USD124.8 billion in June 2023, underpinning our view that trade balance should deliver more modest outcomes (eventually monthly deficits) 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, 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 should continue to do so ahead, thus hindering an increasing trend to materialize.**
- **All in all, we believe there are upside risks for our forecast of a USD53.7 billion surplus for 2023, which supports our already constructive view on the Brazilian external position.**

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



Sources: SECINT, Santander.

Figure 2 – Trade Balance (USD billion)



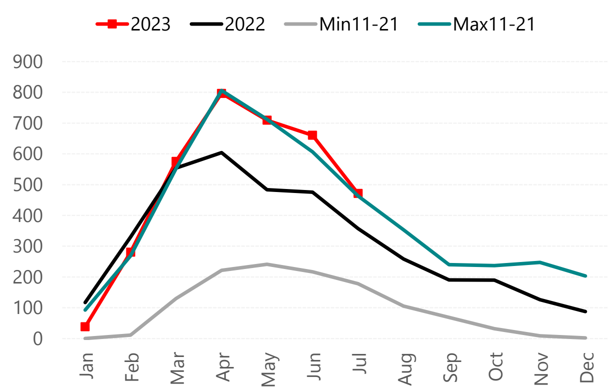
Sources: SECINT, Santander.

The trade balance registered a USD9.0 billion surplus in July 2023, stemming from an acceleration in export revenue in the last days of the month and a marginal slowdown in import outlays in the same period. While the former tallied USD29.1 billion last month, total import outlays amounted to USD20.0 billion in July. If export revenue managed to overcome our estimate (USD28.2 billion), import outlays fell short of our calculations (USD20.2 billion). The July trade surplus was higher than the reading of a year ago (USD5.4 billion), bringing the 12-month surplus to its new historical peak of USD76.0 billion in these terms.

When we consider seasonally adjusted data, daily average exports declined (-3.0% MoM), while daily average imports followed the other way round (+4.0% MoM). As a result, we saw the average of the last three months' annualized surplus (3MMA-saar) receding to USD121.3 billion from USD124.8 billion in June 2023, higher than our full-year forecast of USD53.7 billion for 2023.

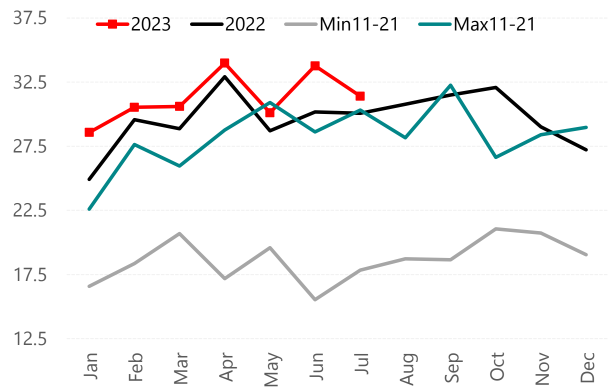
Looking at specific items in both exports and imports, we believe there are signals suggesting that trade surpluses are likely to be more modest in the coming months. From an export standpoint, we see volumes of certain key items such as soybeans and animal proteins above the readings for the last ten years. However, although corn exports have gained momentum, they were not yet able to deliver better outcomes than a year ago. Moreover, the sales volume of soybeans is bound to show a seasonal decline in 2H23 and the slow recovery in China may also hinder much better performances ahead. 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 should then grant some imports some support. Yet, the economic slowdown stemming from the lagged effects of prior interest rate hikes in Brazil should weigh on imports expansion. Thus, although less buoyant than it has been so far, we think the Brazilian trade balance should likely continue to convey a positive message as far as the Brazilian external position is concerned.

Figure 3 –Exports of Soybeans (kilotons/day)



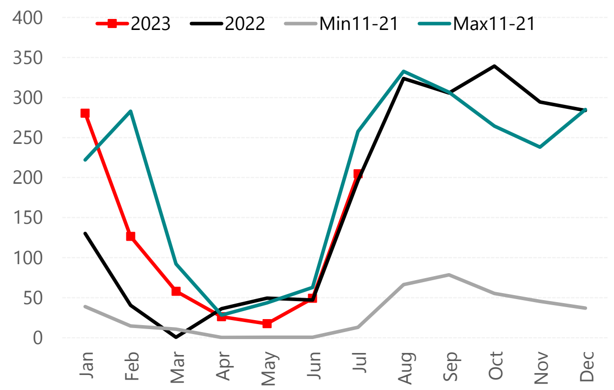
Sources: SECINT, Santander.

Figure 4 – Exports of Animal Proteins (kilotons/day)



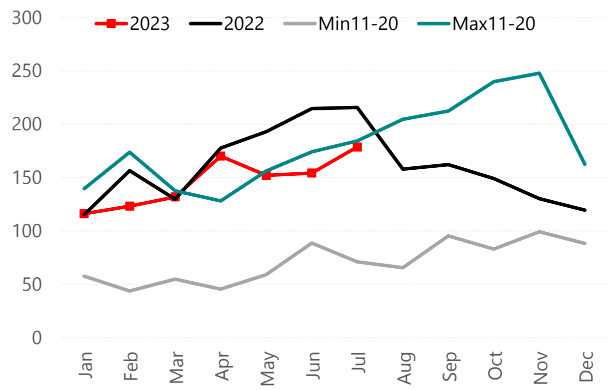
Sources: SECINT, Santander

Figure 5 – Exports of Corn (kilotons/day)



Sources: SECINT, Santander.

Figure 6 – Imports of Fertilizers (kilotons/day)



Sources: SECINT, Santander

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