Santander Macroeconomic Research

MACRO BRAZIL

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DATA ANALYSIS – TRADE BALANCE

PUSHING THE BAR HIGHER

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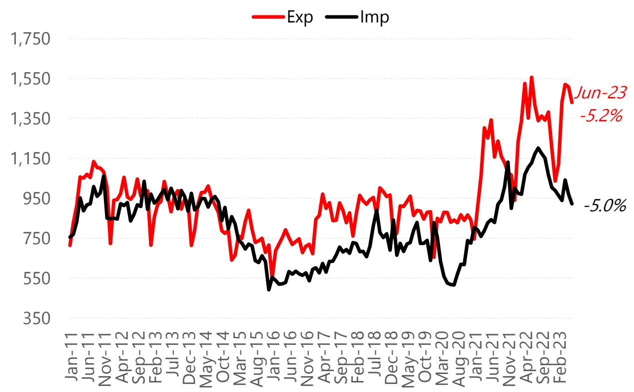
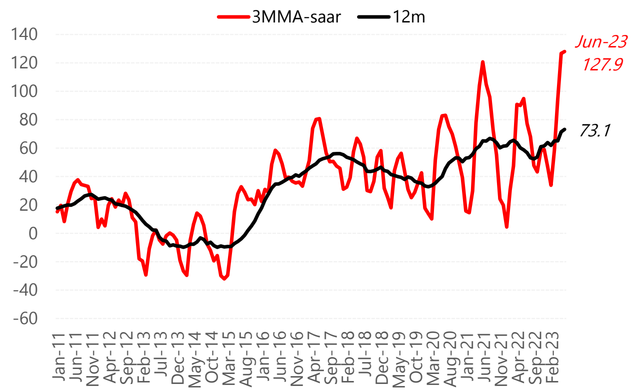
- **The trade balance registered a USD10.6 billion surplus in June 2023, in line with our estimate of a USD10.8 billion positive reading and above the market median estimate of USD9.5 billion. Moreover, the outcome topped the USD8.9 billion surplus observed in the same month a year ago, causing the foreign trade surplus in 12-month terms to turn into a historical peak of USD73.1 billion.**
- **Despite the new record for the trade balance, both export revenue and import outlays fell short of our expectations. We anticipated USD31.0 billion for the former and USD20.2 billion for the latter, but the actual readings were USD30.1 billion and USD19.5 billion, respectively.**
- **In seasonally adjusted terms, the daily average of exports receded (-5.2% MoM) in June 2023, with the daily average import outlays also declining in a similar pattern (-5.0% MoM). Although it was the second drop in a row for both, the daily average of exports remained at fairly high levels, while the daily average of imports reinforced the downward trend which started in August 2022. As a result, the 3MMA-saar gauge climbed to USD127.9 billion from USD126.6 billion in May 2023, underpinning our view that trade balance should continue to deliver sizeable surpluses ahead.**
- **In fact, assessing the performance of some typical products on the exports list, we continued to see some encouraging information, as the sales volumes of some items are hovering around their recent peaks and others have significant potential to deliver sound performances in the coming months. Therefore, in our view, export revenue is likely to remain in good shape. On the other hand, we believe the MoM-sa decrease in 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.**
- **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)



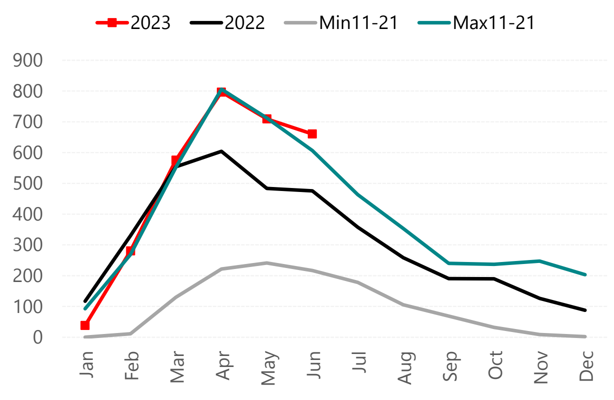
Sources: SECINT, Santander.

The trade balance registered a USD10.6 billion surplus in June 2023, stemming from an acceleration in export revenue in the last days of the month and a slowdown in import outlays in the same period. While the former tallied USD30.1 billion last month, total import outlays amounted to USD19.5 billion in May. Nonetheless, both export revenue and import outlays fell short of our estimates of USD31.0 billion and USD20.2 billion. The June trade surplus was higher than the reading of a year ago (USD8.9 billion), bringing the 12-month surplus to its new historical peak of USD73.1 in these terms.

When we consider seasonally adjusted data, daily average exports declined (-5.2% MoM) and were accompanied by a similar drop in daily average imports (5.0% MoM). As a result, we saw the average of the last three months' annualized surplus (3MMA-saar) climbing to USD127.9 billion from USD126.6 billion in May 2023, higher than our full-year forecast of USD53.7 billion for 2023.

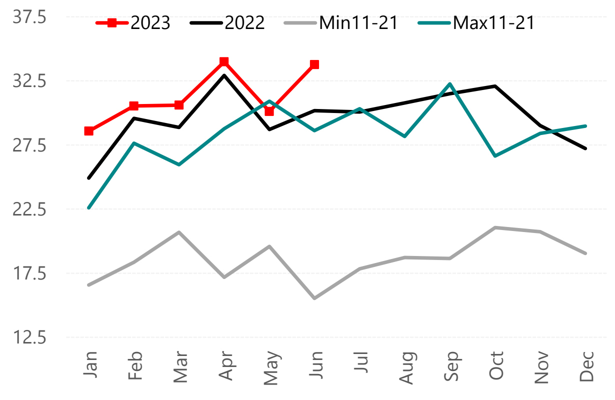
Looking at specific items in both exports and imports, we believe there are still signals suggesting that trade surpluses are likely to remain sizeable. From an export standpoint, we see volumes of certain key items such as soybeans and animal proteins above the readings for the last ten years. As we expected, the Agriculture Ministry's temporary suspension of beef exports in March did not prevent the sales volume of animal proteins from remaining robust. Moreover, while the sales volume of soybeans is bound to show a seasonal decline in 2H23, we expect corn exports to ramp up in the same period. Hence, revenue should likewise remain high, in our view. 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—but such opportunistic approach seems to have been completed. In addition, we expect the economic slowdown stemming from the lagged effects of prior interest rate hikes in Brazil to weigh on their expansion. Thus, we think the Brazilian trade balance should continue to deliver good-sized surpluses ahead.

Figure 3 –Exports of Soybeans (kilotons/day)



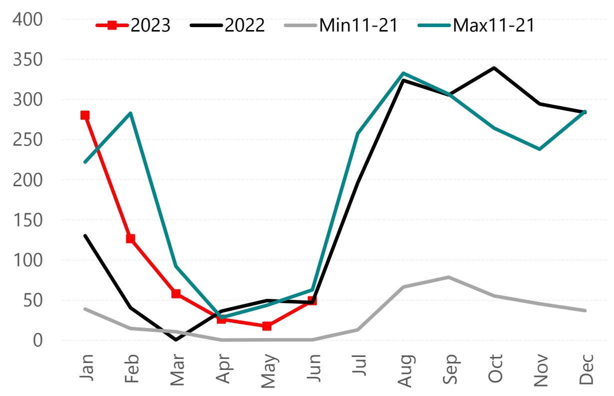
Sources: SECINT, Santander.

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



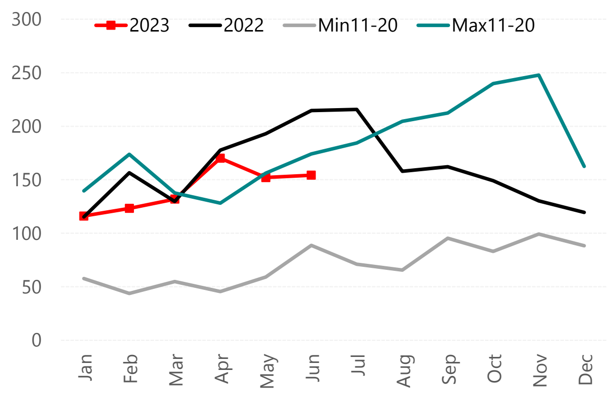
Sources: SECINT, Santander

Figure 5 – Exports of Corn (kilotons/day)



Sources: SECINT, Santander.

Figure 6 – Imports of Fertilizers (kilotons/day)



Sources: SECINT, Santander

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