Brazil Macroeconomics Research

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Santander Macro External Sector

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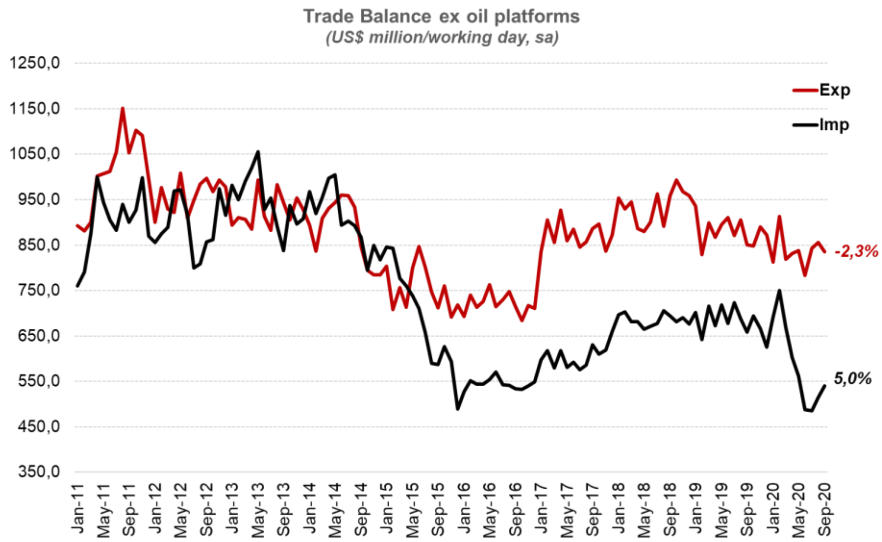
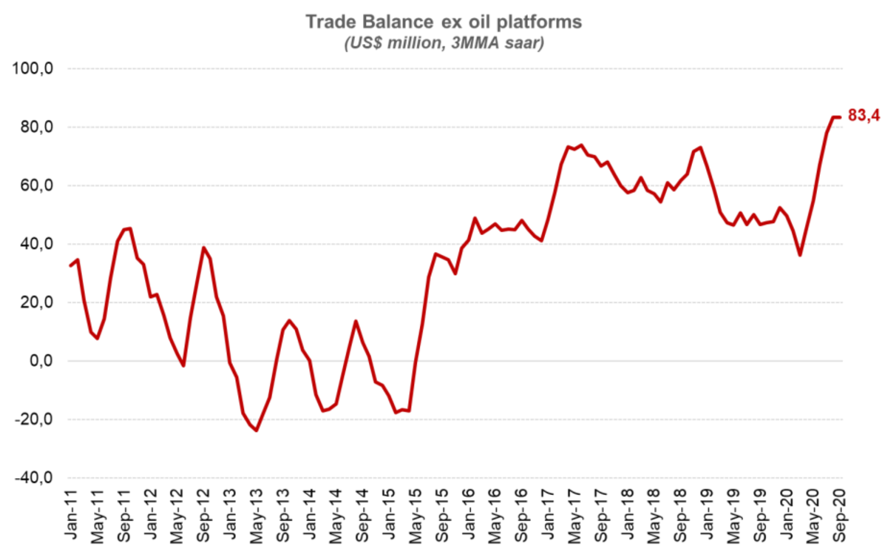
Trade Balance September 2020



Source: SECEX, Santander.

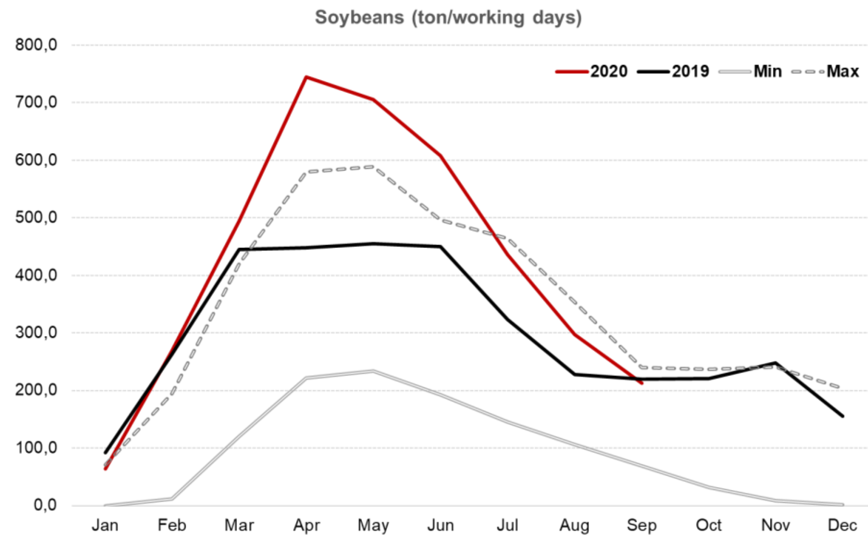
The Brazilian trade balance registered a USD6.2 billion surplus in September 2020, which was below our estimate (USD7.1 billion), on the heels of USD18.5 billion in exports and USD12.3 billion in imports (our estimates were USD19.4 billion and USD12.3 billion, respectively). Based on that, the trade balance surplus reached USD42.4 billion in September from USD36.3 billion in the previous reading in year-to-date terms, while it increased to USD54.5 billion in 12-month-to-date terms from USD52.1 billion in the previous reading and USD48.0 billion in December 2019.

The outcome reinforced our perception that exports were less hard hit than imports in the early stages of the pandemic. Nonetheless, the latter have started showing signs of recovery lately. According to our calculations, when we factor out deals related to oil platforms—which are not really either exports or imports, but rather accounting operations derived from tax issues—and adjust for the number of working days in the month, the exports daily average receded 2.3% MoM in seasonally adjusted (s.a.) terms (or -1.8% YoY) in September. As for the imports daily average, after having broken a six-month streak of contractions in the last reading, it registered an expansion of 5.0% MoM s.a. in the period, which followed a 6.2% MoM s.a. increase in August. Despite this positive signal, it is important to note that the imports daily average was 17.9% lower than a year ago, which in our view indicates the protracted recovery the Brazilian economy is likely to experience in the coming months. In any case, by annualizing the exports and imports daily average of the last three months, we come to an indication of a USD83.4 billion annual trade surplus, which is far higher than our updated forecast for 2020 (USD59.7 billion). However, it is important to bear in mind that we assume that the economic recovery will continue in 4Q20, which should support the revival of imports during that period. Incidentally, based on September's figures, the upward trend registered by this annualized trade balance metric since March 2020 seems to us to have peaked, thus underpinning our expectation of a lower annualized result at the end of the year.



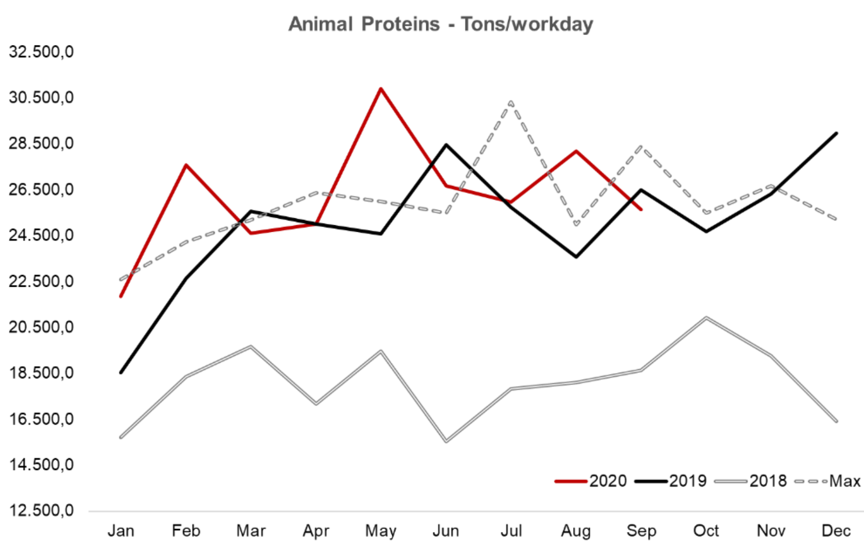
Source: SECEX, Santander.

In our view, part of the resilience displayed by exports has to do with the sound performance by external sales of soybeans so far. On the heels of 29.8% growth in the volume of soybeans exports in year-to-date terms (y-t-d), combined with a small decline in their average price (-1.4% y-t-d), the Brazilian producers witnessed a 27.4% y-t-d increase in their revenue in USD terms. Taking into account the IBGE's estimate for the soybean crop in 2020 (c. 121.0 million tons, according to the latest version of the so-called Municipal Agriculture Production Survey, released in early September), approximately 66% of the total harvest projected for the year has already been sent abroad so far, which is the highest level ever seen for that measure. How much higher can that go? The total volume sold abroad reached nearly 79.5 million tons, which is approximately 96% of the total expected by MB Agro (a local consultancy firm specialized in agricultural themes) to be sold this year (around 83.0 million tons). If that expectation proves right, then we should see some 3.5 million tons being sold in the coming months, which would mean the percentage of this year's crop sent abroad would reach nearly 70%. On the other hand, it would also mean that exports are likely to lose a lot of steam ahead, thus underpinning our expectation of a shrinkage in the annualized trade surplus from the level indicated at the moment.



Source: SECEX, Santander.

Another group of items that registered a favorable performance last month was animal proteins (beef, pork, and chicken), whose revenues have grown 9.3% y-t-d in the wake of both volume and price increases (+7.3% and +2.2%, respectively, in y-t-d terms). The performance came in the wake of the African swine fever that hit Chinese pig herds last year, thus boosting purchases of animal proteins in other regions, including Brazil. After a boom in May 2020, the volume of animal protein exports registered a decline in YoY terms in June 2020 and remained relatively stable in July 2020, but it increased again in August, thus reversing the previous number that indicated a smaller supply shortage in China. Therefore, it looks as if these sales have found a support, which in our view should lead the annual volume of exports in 2020 to exceed that registered in 2019, as well as to continue to deliver good results in the coming months. In our view, that's a positive indicator for the continuation of a favorable environment for both animal proteins and soybeans in the coming years, as the latter is usually used for feeding animals. Hence, albeit lower than the USD83.4 billion surplus indicated by the current 3MMA saar, we think the trade balance is likely to reach a sizeable surplus in the near future.



Source: SECEX, Santander.

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