

Brazil Macro Compass

Trying to Envision the End

Ana Paula Vescovi* and
Brazil Macroeconomics Team
anavescovi@santander.com.br
+5511 3553 8567

- While financial markets continue to embrace a hopeful stance amid a gradual reopening (or plans for reopening) of economies spread across the globe, the hard data continue to illustrate the economic deterioration and challenges generated by the pandemic. That certainly applies to Brazil.
- The Brazilian FX rate has continued to strengthen (from very weak levels) this week, despite a visible loss of steam on Friday. While constructive developments in the realm of fiscal policy helped generate some relief from a local perspective, we see global risk-on led by the reopening of major economies as the key factor behind the recent rally in Brazilian assets.
- Nominal yields kept rallying (and flattening) this week, on the heels of an (apparently) improving risk appetite abroad and more signs of fiscal alignment between the federal government and Congress. Amid improved financial conditions, the curve is now pricing in a higher probability (around 40%) of another cut of 75 bps in the Selic rate for the next Copom meeting. That is our forecast, so that we see a little downside risk for the front end of the curve.
- April's fiscal accounts showed a substantial impact from the COVID-19 crisis on the government coffers, despite the lower-than-expected primary deficit registered in the month. We reiterate our forecast that the 2020 public sector primary fiscal balance will amount to nearly 12% of GDP, which incorporates a longer-lasting deferral of tax payments and an extension of some spending measures aimed at fighting the pandemic.
- The IPCA-15 inflation preview for May registered a -0.59% MoM (1.96% YoY) change, in line with our estimate (-0.55%) but below the market's median expectation (-0.47%). The annualized (and seasonally adjusted) three-month moving average of all main core measures stands at a muted 0.31%, much lower than this year's mid-target (4.00%). The release reaffirms our expectation of a strong disinflationary scenario generated by COVID-19 effects on the output gap.
- Record net destruction of formal jobs and a brisk rise in the unemployment rate – despite a significant “cushioning” from a tumbling participation rate – confirmed our expectation of substantial deterioration in the Brazilian labor market in April.
- April's balance of payments data underpinned our view that the current account annual deficit observed in 2019 is likely to shrink substantially in 2020.
- The BCB released April bank credit data this week, illustrating the impact of the pandemic on the economy. While the headline growth in the total balance was roughly stable at +9.6% YoY, supported mainly by working capital loans for firms, new lending fell at a double-digit pace, mirroring a sizable contraction in domestic demand.

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U.S. investors' inquiries should be directed to Santander Investment at (212) 350-0707.

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Local Markets—FX: For the second week in a row, the Brazilian currency continued to recede from its historical peak (USD/BRL5.97 in intraday terms) seen on May 14, and it is about to end the week some 8.7% stronger than on that date (at the time of this writing, the pair was hovering around USD/BRL5.45). The release of leading indicators hinting at a better performance of economic activity in May than in April brought some hope that the economic impact of COVID-19 may be gradually fading. By the same token, announcements of some relaxation in social distancing rules in Brazil and other parts of the world have also underpinned the perception that the journey to the “new normal” (whatever that might turn out to be) has already begun. At the same time, the presidential veto of the possibility of wage increases in the public sector until 2021 also, in our view, added to hopes that a much-needed fiscal consolidation will follow the COVID crisis. As a result, we saw the Brazilian FX rate strengthening to USD/BRL5.27 on Wednesday (an 11.7% appreciation from its peak), which placed the BRL as the best performer of the week until then. However, an elevation in the level of (Sino-American) geopolitical tensions in the last two days helped reduce the willingness of market participants to take riskier positions, including buying the BRL. All in all, the Brazilian currency is about to end the month relatively stable compared with the end of April (USD/BRL5.48), but we believe the intra-month performance should serve as a reminder to market participants that BRL volatility is likely to remain high for a while.

Local Markets—Rates: Nominal yields kept rallying this week, on the heels of an (apparently) improving risk appetite abroad and more signs of fiscal alignment between the federal government and Congress. At the time of this writing, the front end (Jan-21 DI future) was down 19 bps compared to last Friday, with the yield at 2.31%. The back end (Jan-25 DI future) was down 44 bps for the week, with the yield at 6.00%. As a result of this bull flattening, the (Jan-25 vs. Jan-21) steepness was down to 370 bps, from 395 bps at the end of last week and 415 bps on May 15. The curve is pricing in a higher probability (around 40%) of another cut of 75 bps in the Selic rate at the next Copom meeting (June 18-19), with the predominant (asset-based) market view still more inclined to a 50-point move. We stand in the 75-point camp (in line with of analysts’ consensus), so that we see a little downside risk for the front end of the curve. As for the belly and back end, despite the continued respite from the National Treasury’s approach to limit supply of duration to the market (see our comment below), we still set a high bar for fiscal and macroeconomic reforms to mend the debt outlook, so that we see limited room for a major erosion of premia.

Fiscal Accounts: As published by the National Treasury Secretariat (STN, acronym in Portuguese), the central government’s primary deficit amounted to BRL92.9 billion in April 2020, a better result than both our expectation (-BRL118.5 billion) and market consensus (-BRL112.5 billion). The main reason behind the significant difference between the actual result and forecasts was the much sharper-than-expected decline in government expenditures not related to the emergency provisions to combat the COVID-19 crisis (-4.2% YoY in real terms), particularly the case for deferred judicial payments.

Despite that, April fiscal accounts showed a substantial impact from the COVID-19 crisis. It is important to bear in mind that the central government recorded a primary fiscal surplus of BRL6.5 billion in April 2019, while for full year 2019, the primary fiscal balance was -BRL95.1 billion (-1.3% of GDP). According to our preliminary estimates, in May the central government’s primary deficit will amount to ~BRL140 billion.

The central government’s primary revenue plunged 31.9% YoY in April (in real terms), owing chiefly to the dismal performance of federal tax collection, as previously unveiled by the Brazilian Internal Revenue Service (Receita Federal do Brasil, in Portuguese). We highlight the impact from temporary measures of tax exemption and deferral of tax payments (total package of ~BRL35 billion in April), which were announced by the federal government in order to mitigate the daunting economic hit from the pandemic. Excluding these measures, we estimate that total primary revenue would have declined by 8.2% YoY in April (or -BRL12.2 billion), on the heels of weaker economic activity.

In addition to plummeting tax collection, we note the impact from the massive expansion in primary spending aimed at combating the pandemic. Regarding the emergency outlays registered in April (totaling ~BRL60 billion), we highlight the payments for (i) emergency aid for informal workers, self-employed, micro-entrepreneurs, and low-income workers – a.k.a. “coronavoucher” (~BRL36 billion), and (ii) an emergency credit line for small and medium-sized companies to finance payroll – upfront funding from the National Treasury (BRL17 billion).

In our updated baseline scenario, we estimate that the direct impact of lower GDP growth on tax collection (our current forecast is -6.4%), combined with longer-lasting temporary tax exemptions (and extended deferral of tax payments), could imply primary revenue losses of around BRL210 billion in 2020, compared to the pre-pandemic outlook. On the expenditure side, we believe that some lifelines for workers, households, and companies to fight the COVID-19 outbreak will likely be extended beyond the next few months, as the health crisis has proved to be more acute than previously anticipated – the wide set of primary fiscal spending measures is expected to add up to BRL470 billion (6.5% of GDP). Accordingly, we see the 2020 central government primary fiscal deficit totaling ~BRL785 billion (11.3% of GDP). (For details, please see our May 18 report, “The Shock Is Even Worse and Stimuli Much Bigger”).



Furthermore, earlier today (May 29) the Brazilian Central Bank released the consolidated public sector's fiscal balance for April 2020. The monthly primary fiscal deficit of BRL94.3 billion came in roughly in line with our expectation (-BRL96.8 billion) and market consensus (-BRL96.6 billion), with the following breakdown: -BRL92.2 billion for the federal government; -BRL1.9 billion for states and municipalities; and -BRL0.2 billion for state-owned companies. As outlined in our baseline scenario, the 2020 public sector primary deficit is expected to reach BRL810 billion (11.7% of GDP), whereas the 2020 public sector nominal deficit (which includes nominal interest payments) should amount to BRL1.13 trillion (16.3% of GDP). Thus, we see the gross public debt-to-GDP ratio climbing by ~18pp from 2019 to 2020 (from 75.8% to 94.2%), while the net public debt-to-GDP ratio is expected to increase ~10pp in the same period (from 55.7% to 65.5%).

Public Debt Management: This week, Brazilian National Treasury released its Monthly Debt Report for April 2020. According to the publication, the adverse financing conditions in the domestic market for public securities in March and April, as well as investors' preference for less risky financial assets, led the National Treasury in the recent period to favor issuances of fixed-rate securities with shorter maturity and floating-rate securities. Moreover, federal public debt net redemption came to BRL82.7 billion in April, on the heels of more challenging economic and financial conditions. In year-to-date terms, net redemptions amounted to BRL243.1 billion. It is also worth noting that foreign investors continued to reduce their positions in the Brazilian public securities market (from 9.82% in March to 9.36% in April), leading to a net outflow of BRL24.3 billion in the period. On the brighter side, the federal public debt's average financing cost remained at historically low levels. The average cost of new issuances reached 6.1% (in 12 months), the lowest value in the historical data series, while the outstanding average cost fell to 9.36% in April from 9.53% in March, in nominal terms.

Despite the restrictive financing conditions, preliminary data for May show that public securities issuances have been gradually increasing, which is important for keeping the National Treasury's "liquidity cushion" at comfortable levels. This reserve ensures management flexibility in the event of adverse conditions and excessive volatility in the public securities market; that is, the "liquidity cushion" is a management tool that serves to mitigate the rollover risk in stress scenarios. We calculate that the National Treasury's "liquidity cushion" is currently close to BRL500 billion (6.8% of GDP).

Regarding this matter, the Monthly Debt Report also outlines the possible use of the Central Bank's (BCB) financial results in 1H20 (mostly due to a much higher value of foreign exchange reserves in BRL) to pay off debt maturities in coming months.

The BCB's financial result (profit or loss) is determined semiannually on an accrual basis. Until mid-2019, the BCB's FX positive results – arising from operations with foreign exchange reserves and foreign exchange derivatives carried out in the domestic market – were a liability to be settled through a transfer to the National Treasury. Before mid-2019, the amount transferred was considered revenue for the exclusive use of paying federal securities debt. However, Law 13.820/2019 – enacted in May 2019 – reformed the institutional framework regulating financial transactions between the National Treasury and the BCB. The new law significantly reduces the amount of National Treasury securities issued for BCB recapitalization purposes. At the same time, we believe the BCB's FX financial results (so-called "Result Reserve") should offset gains and losses over time, preventing transfers from the BCB to the National Treasury (this new framework has been valid since the second half of 2019).

However, Law 13.820/2019 has a legal provision allowing the use of existing resources in the BCB's "Result Reserve" to pay off public debt when restrictions on liquidity conditions significantly affect debt refinancing. This (likely) transfer of resources is subject to approval by the National Monetary Council (CMN, acronym in Portuguese), which may take place in August or September, in our view. We believe the total amount to be transferred from the BCB to the National Treasury should be between BRL500 billion and BRL600 billion (it depends on the magnitude of the increase in foreign exchange reserves – in BRL – at the end of 1H20).

Last but not least, it is important to bear in mind that, despite providing significant "cash relief" for the National Treasury with regard to public debt management, the likely transfer of BCB's financial result would have a neutral impact from a fiscal standpoint, since the additional injection of liquidity into the financial system is offset by repo operations, which also make up the government's debt gauges.

Real Activity: Data for 1Q20 GDP, released on Friday by the IBGE, confirm our and market expectations of a substantial hit on economic activity due to the COVID-19 crisis. The 1.5% QoQ decline after seasonal adjustment (s.a.) in the first quarter (-0.3% YoY) was in line with our estimate of a fall of 1.6% QoQ s.a. In our view, today's negative figure is just an appetizer for 2Q20, when we expect Brazil's economic activity to hit bottom owing to the COVID-19 crisis (-13.5% QoQ s.a., according to our estimates). Bear in mind that the social distancing measures in the country were largely adopted only from the second half of March and that economic activity indicators until February pointed to good growth – compatible with 1.7% YoY growth in 1Q20. However, the either full or partial shutdown of most areas of the economy



at the end of March was enough to affect economic growth. Hence, a sharp marginal decline was observed for most categories of GDP. Even though the good 2020 harvest boosted agriculture & livestock figures, so that industry has performed better than expected, it was not enough to avoid a significant hit on the Brazilian economy.

Among the components of GDP on the supply side, agriculture & livestock grew 0.6% QoQ in 1Q20, somewhat below our estimate. The 6.7% increase in IBGE's estimate of soybean production, the main crop for the sector in the 1Q, explains the positive result in the period. Furthermore, we believe that livestock, which has benefited from the increase in exports, should also have contributed to the result in the period.

As for the industry, the COVID-19 impact, although considerable, has been less intense than we estimated. The 1.5% QoQ decline s.a. is largely explained by a fall in March industrial production. Record oil production was not enough to avoid a decrease in mining production. Furthermore, construction reversed last year's positive trend by registering a 2.4% QoQ s.a. drop, the second consecutive sharp decline. In our view, this sector would have been extremely important to economic growth this year before the COVID-19 crisis, as it has the potential to generate jobs and boost consumption. Therefore, the loss of momentum in the building industry has destroyed a potential vector of growth for the next several years.

The manufacturing industry, the main component of the category, was a less negative surprise. Still, it fell 1.4% QoQ s.a., as indicated by the coincident indicators – especially March's. In addition, the GDP for electricity, gas, water, sewage, and urban cleaning (Utilities) also showed a negative result, although considerably better than expected.

Finally, the service sector, which represents more than 60% of Brazilian GDP, generated the biggest negative contribution to 1Q20 GDP, with a drop of 1.6% QoQ s.a., in line with our forecast. "Real Estate Services" posted a positive figure, but the sharp declines in the categories of "Retail" and especially "Other Services" (which have fallen more steeply than expected), which not only took the greatest hit from social distancing measures, but also are the most sensitive to employment and consequently income, reinforced the perception that the COVID-19 crisis will hit the Brazilian economy quite hard in 2Q20.

From the perspective of demand, government consumption and investments grew 0.2% QoQ s.a. and 3.1% QoQ s.a., respectively. The fiscal stimuli and the strong positive trend in investments in the first two months of 2020 account for the positive result. Nevertheless, the notable 2.0% QoQ s.a. decline in household consumption was enough for a negative figure for domestic absorption (-0.8% QoQ s.a.). On the external front, exports have been somewhat sustained by record commodities exports, having fallen only 0.9% QoQ s.a.. On the other hand, imports had solid growth (2.8% QoQ s.a.), driven by the strong investment rate. Therefore, in 1Q20 there was a substantial negative external contribution of 0.5% QoQ. However, we expect a reversal of this dynamic in the next quarter, as investments should fall drastically, with a consequent sharp decline in imports, while exports should continue to be somewhat sustained by commodities.

Recent information tells us that the impact of the pandemic on the Brazilian economy is much greater than analysts had anticipated early on. Given the persistence of new cases and deaths, we believe that the social distancing measures will likely stay in place longer than (initially) expected and that the daily cost in terms of economic activity spurred by the lockdown may be steeper than previously thought. Moreover, in our view, the sectors theoretically less vulnerable to the COVID-19 crisis (e.g., agriculture) have provided enough of a buffer to avoid a greater impact.

In our scenario, we assume that the virus transmission rate will fall in the near future, allowing the social distancing policies to be eased in mid-June in most regions. We also assume that the economy could gradually return to being fully operational by September. We still believe that the policies adopted during the crisis will be able to preserve many jobs and companies, and that Brazil will see a productivity recovery and a fiscally responsible reformist agenda in the post-crisis period. Hence, despite an expected contraction for the economy in the aggregate of 2020-2021, the positive statistical effect on economic growth will be significant for 2021, in our view. With reforms expected in our baseline scenario, we expect growth fundamentals to improve gradually over time. Our current forecast for 2020 GDP is a decline of 6.4% and a pickup to 4.4% in 2021.

Labor Market: After four months with no release of formal jobs data due to changes in reporting systems, the Economy Ministry's CAGED establishment survey was published, providing data from January to April. The Brazilian economy destroyed 850,640 seasonally adjusted (s.a.) net formal jobs in the first four months of 2020; in contrast, in the same period of 2019, 175,359 s.a. net formal jobs were created. As expected, the dynamic of the labor market until February was quite positive, with 223,317 s.a. net job creation (95,257 s.a. in the same period of 2019). However, the outlook drastically changed in March with the adoption of social distancing measures in the attempt to deal with the COVID-19 crisis. In March and April 1,073,958 s.a. net formal jobs were destroyed (versus 80,102 s.a. net formal jobs created in the same period in 2019), suggesting an extremely negative outlook for the 2020 labor market. It could have been worse:



according to the Economy Ministry, over 8.1 million jobs were preserved by the Labor and Income Maintenance Emergency Program adopted during the COVID-19 crisis. The government calculation considered jobs that were kept because of a more flexible labor market regulation for the pandemic, including: (i) employees with workload reduction, (ii) temporary layoffs, and (iii) intermittent workers who received emergency financial aid).

IBGE's National Household Sample Survey (PNAD) also came out this week, showing that the unemployment rate stood at 12.6% (of the economically active population) in the three months to April, 1.4 p.p. higher YoY. As expected due to the COVID-19 crisis, the April household survey data has reversed the positive labor market trend observed previously. The seasonally adjusted series showed some increase in the unemployment rate, which reached the 12.0% mark, according to our calculations, compared to 11.5% recorded in March. Moreover, the unemployment rate remains high, and we expect it to grow significantly in the coming months due to the effects of the pandemic.

Although headline joblessness was lower than our and consensus estimates, the details paint a much worse picture. First, employment recorded the deepest decline of the series by registering 3.4% YoY drop. The economically active population (PEA) drop of 3.3% YoY has cushioned the impact on the unemployment rate, as the labor market participation rate reached an all-time low of 59.0%, meaning 3 million workers have left the labor force. In a simple contra-factual exercise, if the PEA had remained stable, the unemployment rate would have reached an all-time high of 16.3% (15.6% s.a.). Second, the formal jobs rate reached 58.5% of the employed population, the highest level since November 2016, compared to 57.6% in the previous quarter, but formal employment dropped 1.7% MoM. Therefore, the increase in formalization recorded in April reflects an even steeper 5.4% MoM decline in informal workers. Last but not at least, the rate of under-utilization of the labor force in April was 25.6% (highest series level) compared to 24.4% in March, confirming our expectation that the composition of the labor market worsened.

In terms of wages, although the survey shows real income (adjusted for inflation) grew 2.5% YoY, boosted by the low inflation in the month, the real wage bill (also adjusted for inflation) fell at a clip of 0.8% YoY.

Credit Markets: This week, the BCB released April bank lending data, reflecting the initial impact of the pandemic.

Total credit concessions decreased about 16.5% MoM, in real terms and with seasonal adjustment. The free-market credit segment was the main contributor to this performance (-18.5% MoM, -22% in April for new corporate loans and -13.1% MoM for new household loans). On the other hand, earmarked credit grants increased by 4.1% in the month comparison, in real terms and with seasonal adjustment (+14% to firms and +0.7% to individuals).

The annual growth of the total credit balance remained at 9.6% in April. As expected, the data showed higher demand from the corporate sector, mainly for working capital, which increased to 9.5% YoY in April from 7.0% YoY in March. The total balance for individuals fell from 11.7% to 9.7%.

The main reasons for the high growth observed in concessions to companies continue to be the measures announced by public banks and the BCB to help small and medium-sized enterprises, the companies' need for cash flow, and the depreciation of the BRL. The household segment lost traction due to the lower use of credit cards, probably denoting greater consumer caution.

Additionally, based upon April data, we were able to observe a greater participation of public credit compared to the backdrop observed in March 2020 (46.8% vs. 46.6%). Furthermore, the earmarked sector showed the first positive annual variation since September 2016: from -0.9% in March to +0.3% in April, already reflecting our projection of a stronger share of earmarked credit in economic activity at this period of coronavirus influence. Default rates continue to rise, but at a slow pace: total defaults in the credit system went from 3.2% in March to 3.3% in April.

Reinforcing our view, we do not expect a change in the pattern of new lending similar to that which took place in mid-2013, with public credit greater than private. We expect the data to reflect the measures to contain the coronavirus impact on the Brazilian economy, with accommodation by the end of 2020 and a return to a growth trajectory, led by private institutions, in 2021.

Inflation: The IPCA-15's mid-month preview for Brazil's official inflation index registered a -0.59% MoM change (1.96% YoY), in line with our estimate (-0.55%), but below the market's median expectation (-0.47%).

Compared to our forecast, the group of food and beverages was a downside surprise, up only 0.60% MoM, whereas we expected 1.34%. On the other hand, the transportation group was an upside surprise (driven by ethanol and new cars), -3.15% MoM against our expectation of a -3.59% change. Services prices continued to decelerate, reaching +2.61% YoY from +3.12% previously. Industrial goods also continued their downward trend, falling from +0.30% YoY to -0.08% YoY, which helped bring core measures to lower levels.



The average of all seven core measures fell 0.07% MoM, with the annualized (and seasonally adjusted) three-month moving average reaching a muted 0.31% (mid-target for 2020: 4.00%). In particular, the trend of the EX3 core – a measure highly correlated with GDP gap – is hovering around 0.20%. Also, diffusion stood at 49.2% on a seasonally adjusted basis.

Looking forward, we believe May's IPCA will still be negative, at -0.45%, while June should be slightly positive (0.08%) and July a bit higher (0.39%). For 2020, our forecast is 1.4%. The enormous negative impact of COVID-19 on economic activity poses downside risks for this number, although we believe volatile prices such as gasoline and food could be upside risks. In any case, we think core measures should stay much lower than the mid-target, even for 2021 (when the mid-target drops to 3.75%).

Balance of Payments: The current account balance registered a USD3.8 billion monthly surplus in April (above our USD3.2 billion estimate), which brought the deficit in 12-month-to-date terms to USD44.4 billion (or 2.6% of GDP) from USD50.1 billion (or 2.9% of GDP) in the previous reading. The outcome is compatible with our forecast for a USD20.2 billion FY deficit in 2020 (1.6% of GDP), thus underpinning our expectation for an improvement of the current account balance in 2020 on the heels of the economic deceleration stemming from the COVID-19 pandemic.

Regarding the components of the current account balance, we learned the trade balance posted a USD6.4 billion surplus in April 2020, while the services account registered a USD1.2 billion shortage, and the primary income account recorded a USD1.6 billion negative imbalance. A more thorough look at the dynamics of the last two items reinforces why one should expect a substantial improvement in the current account balance this year, as both net tourism outlays and the remittance of profits and dividends have registered a balanced result in the period. Since 2016, when the Brazilian economy started to recover from its previous crisis, the monthly average of net tourism outlays had been USD1.0 billion, while the remittance of profits & dividends had hovered around USD2.1 billion per month in the same period. That gives an idea of the contractionary dynamics we think these lines should follow this year. We project the deficit in tourism to reach as high as USD3.4 billion in 2020 from USD11.7 billion in 2019, while the remittance of profits & dividends should dwindle to USD11.6 billion this year from USD31.1 billion last year.

While services and primary income accounts are likely to contribute to a substantial reduction in the current account deficit, we currently expect the trade balance to offset part of that improvement, as we project it to be smaller in 2020 than in 2019 (USD35.2 billion, down from USD48.0 billion). The reason for the decline is related to the impact on exports of the slowdown in international trade flows, which should become more visible in the coming months, in our opinion. However, we think current figures have challenged that assessment, especially as exports of animal proteins and grains have managed to offset the decline observed in other goods and kept export proceeds at high levels. We have doubts as to whether this backdrop reflects an anticipation of future exports or if it is really a level shift, while gauges continue to suggest a significant contraction in international trade flows. Consequently, we recognize there is the potential for an even greater reduction of the current account deficit than we forecast at this moment.

The swift adjustment in the current account balance this year (if confirmed) will reduce Brazilian external financing needs and, hence, we see it bringing some relief to the BRL. However, the decline observed in the net FDI inflows in April (USD0.2 billion compared with an average monthly inflow of USD6.5 billion since 2010) raised some concerns among market participants. The FDI net inflows declined to USD73.2 billion from USD78.1 billion in the previous reading in 12-month-to-date terms, which is still more than enough to finance the current account deficit. Nonetheless, given the maintenance of net outflows in portfolio investments, the decline observed in April supported the view (which we concur with) that the balance of payments should be negative this year as it was in 2019, thus leading to a further reduction in the level of international reserves. For now, FX reserves are still hovering at comfortable levels (~USD340 billion currently).

Next Week:

Economic Activity: The first April activity indicators will be published on Wednesday (bottom of economic activity due to Covid-19 crisis, in our view); we expect the Monthly Industry Survey to present negative figures with a -35.3% MoM sa drop (-43.0% YoY).

Trade Balance: On Monday, June 1, the May trade balance report comes out, which we expect to show a USD4.8 billion surplus on the heels of USD18.3 billion in exports and USD13.5 billion in imports. As for the latter, it is important to note that it will include the import of a USD2.7 billion oil platform, which is an accounting adjustment derived from tax issues. That is, the monthly surplus should have been higher than we are currently projecting it to be. Stripping out this influence and considering both (ex oil platforms) exports and imports adjusted by working days, we expect data to show an interesting result, as imports are likely to have declined 5.1% in year-to-date terms, while exports should have



declined less (2.7%) in the same terms. If confirmed, that will be the first time that exports will have outperformed imports in year-to-date terms in 2020, which may be an indication, in our view, that imports will be more affected by the domestic deceleration and the weaker currency than exports will be affected by the contraction of international trade flows. Hence, it should reinforce market participants' expectations for an even stronger improvement in the current account balance, as previously mentioned in the balance-of-payments section.

MACRO AGENDA

Indicator	Date	Estimate	Prior
Trade Balance May/20 (USD billion)	01-Jun	4.8	6.7
- Exports May/20 (USD billion)	01-Jun	18.3	18.3
- Imports May/20 (USD billion)	01-Jun	13.5	11.6
Industrial Production Apr/20 ($\Delta\%$ MoM sa)	03-Jun	-35.3	-9.1
Industrial Production Apr/20 ($\Delta\%$ YoY)	03-Jun	-43.0	-3.8
Vehicles Sales FENABRAVE May/20 (units/month)	01/03-Jun	-	55,732
Vehicles Production ANFAVEA May/20 (units/month)	04/06-Jun	-	1,847

Sources: ANFAVEA, Bloomberg, FENABRAVE, IBGE, SECEX.

Recent Publications (Available on Our Website)

- *FX Compass – BRL: Despite a little help from our friends* (May 21, 2020)
- *The Shock Is Even Worse and Stimuli Much Bigger* (May 18, 2020)
- *FX Compass – BRL: Post COVID-19 Concerns* (April 23, 2020)
- *Fiscal Policy During the COVID-19 Crisis: New Challenges, More Risks and the Same Long-Term Goals* (April 22, 2020)
- *COVID-19: The Dominance of Uncertainty - Updating Brazil Forecasts* (April 06, 2020)



CONTACTS / IMPORTANT DISCLOSURES

Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Juan Cerruti *	Senior Economist – Argentina	jcerruti@santander.com.ar	54 11 4341 1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888
Marcela Bensi3n*	Economist – Uruguay	mbension@santander.com.uy	598-1747-6805

Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina & FX	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Orenge*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778

Equity Research

Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Claudia Benavente*	Head, Chile	claudia.benavente@santander.cl	562-2336-3361
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Daniel Gewehr*	Head, Brazil	dhgewehr@santander.com.br	5511-3012-5787

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