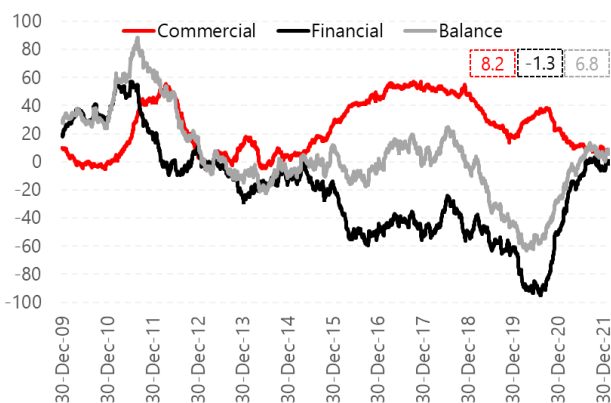


GOOD FOR NOW

Jankiel Santos*
jankiel.santos@santander.com.br
+5511 3012-5726

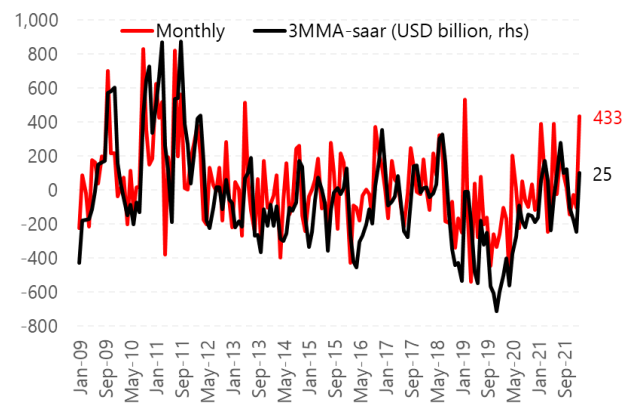
- The Brazilian spot FX market recorded net inflows of US\$6.3 billion in February 2022, with both the commercial and financial segments having a relatively equal contribution to the positive outcome. The former registered net inflows of US\$3.0 billion and the latter recorded net inflows of US\$3.3 billion during the month.
- Curiously, February’s result is similar to the amount that the Brazilian spot FX market witnessed on a 12M basis (net inflows of US\$6.8 billion), which reinforces the idea that the recent global asset reallocation wave responded to a big chunk of the BRL strengthening. In year-to-date terms, this assumption gets clearer, with the US\$1.1 billion net outflows in the commercial segment being more than compensated by the US\$9.0 billion net inflows in the financial segment.
- In seasonally adjusted terms, both segments improved last month, but the financial segment continued to outpace the commercial segment. The latter recorded daily average inflows of US\$186 million, while the former printed daily average inflows of US\$247 million. However, we think it is important to note the strong recovery seen in the commercial segment in February 2022, which may hint at a stronger appetite for exporters to repatriate their money.
- The gap between the shipped and financial trade balances is still hovering around US\$50.0 billion and indicates that the commercial segment may improve further ahead. Although the Brazilian Central Bank (BCB) has already stated that part of this money was used to settle external obligations—i.e., the potential amount to be repatriated is smaller than US\$50.0 billion—we believe it will reinforce the BRL strengthening trend if the repatriation materializes.
- All in all, the short-term outlook for the BRL remains positive in spite of geopolitical jitters around the globe. However, we continue to believe that a lasting strengthening of the BRL will hinge on overcoming uncertainties related to political and fiscal issues on the domestic front.

Figure 1. Spot FX Flows (USD billion, 12M)



Sources: Brazilian Central Bank, Santander.

Figure 2. Net Spot FX Flows (USD million, daily avg, sa)



Sources: Brazilian Central Bank, Santander.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE “IMPORTANT DISCLOSURES” SECTION OF THIS REPORT.

U.S. investors’ inquiries should be directed to Santander Investment Securities Inc. at (212) 583-4629 / (212) 350-3918.

* Employed by a non-US affiliate of Santander Investment Securities, Inc. and is not registered/qualified as a research analyst under FINRA rules.



The Brazilian spot FX market recorded net inflows of US\$6.3 billion in February 2022, with the US\$3.0 billion net inflows in the commercial segment accompanied by financial segment’s net inflows of US\$3.3 billion. Taking a look at the recent data for seasonally adjusted daily average flows of the different components of the spot FX market, we note that the anticipation of import payments stalled last month, while the anticipation of export proceeds recovered sharply, which led to an improvement in the commercial segment’s recent performance. Regarding the financial segment, we witnessed an expansion in the volume of inflows in February 2022 in seasonally adjusted terms, which outpaced the volume of outflows in the same terms.

Figure 3. Spot FX Flows – Commercial Segment (USD million, daily avg, sa)

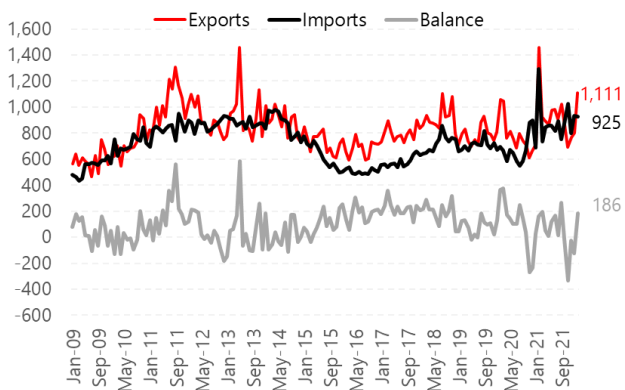
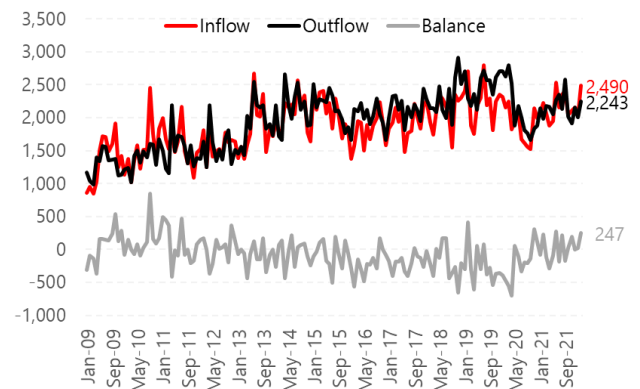


Figure 4. Spot FX Flows – Financial Segment (USD million, daily avg, sa)

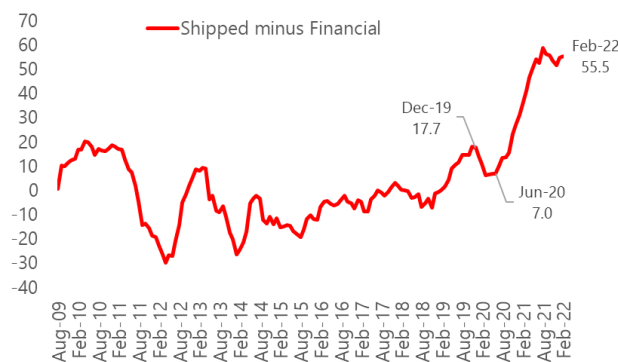


Sources: Brazilian Central Bank, Santander.

Sources: Brazilian Central Bank, Santander.

In our view, the improvement observed in both segments may be an indication that prospects for a more protracted monetary tightening cycle in Brazil has finally started luring exporters to the domestic fixed income market and that the recent global asset reallocation wave has benefitted financial transactions. However, we think it is also important to note these prospects have not prevented financial outflows to increase recently in seasonally adjusted terms and have not led yet to a shrinkage in the gap between the shipped trade balance and their financial settlements—which remains hovering around US\$50.0 billion. In our view, it is likely a reminder that uncertainties persist on the domestic front may also either drive investors out or keep exporters afraid of repatriating their money into the country—although the trade balance results continue to surprise on the positive side. Hence, even though we believe the BRL strengthening should remain in the short term, despite fluctuations wrought by geopolitical issues abroad, we also think that uncertainties on the domestic front should continue to prevent the move to become a long-lasting trend.

Figure 5. Trade Balance Shipped vs Financial (USD billion, 12M-to-date)



Sources: Brazilian Central Bank, SECINT, Santander.



CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Lucas Maynard*	Economist – Economic Activity	lucas.maynard.da.silva@santander.com.br	5511-3553-7495
Felipe Kotinda*	Economist – Credit	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327

Global 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.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
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500

Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Oreng*	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
Mariana Cahen Margulies*	Head, Brazil	mmargulies@santander.com.br	5511 3553 1684

Electronic

Bloomberg
Reuters

SIEQ <GO>
Pages SISEMA through SISEMZ

This report has been prepared by Santander Investment Securities Inc. ("SIS"; SIS is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. "Santander"), on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This document must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. ("Santander Investment Bolsa"), and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. SIS, Santander London and Santander Investment Bolsa are members of Grupo Santander.

ANALYST CERTIFICATION: The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: Jankiel Santos*.

*Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2242 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

The information contained herein has been compiled from sources believed to be reliable, but, although all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading, we make no representation that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included herein constitute our judgment as at the date of this report and are subject to change without notice.

Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with SIS, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States.

© 2022 by Santander Investment Securities Inc. All Rights Reserved.

