Santander
Macroeconomic Research

BRAZIL MACRO

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DATA ANALYSIS – EXTERNAL SECTOR

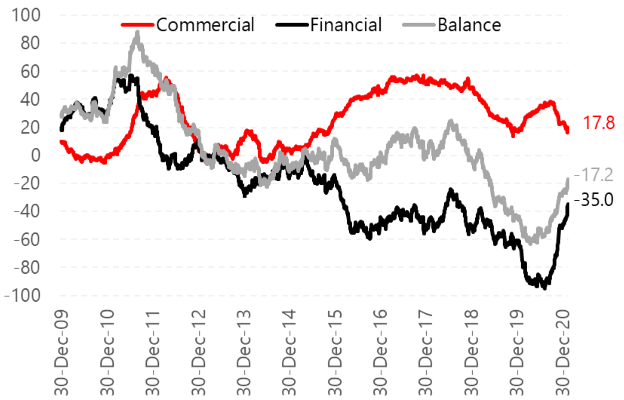
IT'S BEEN SOME TIME

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

- **The Brazilian spot FX market recorded net inflows of USD0.4 billion in the last week of February 2021, leading the entire month to register net inflows of USD4.4 billion. It is the first time since early 2019 that the Brazilian spot FX market has registered a two-month streak of net inflows.**
- Both commercial and financial segments saw net inflows last month—with the former segment ending a sequence of four monthly outflows—which translated into improvements in their seasonally adjusted figures, implying a favorable outlook for the coming months, in our view.
- Nonetheless, on February 25 and 26 the Brazilian Central Bank (BCB) carried out interventions in the spot FX market that amounted to USD3.1 billion, and it continued to intervene this week—which, once again, seems us to indicate that the pressure on the FX rate has to do with elements other than external sector fundamentals.

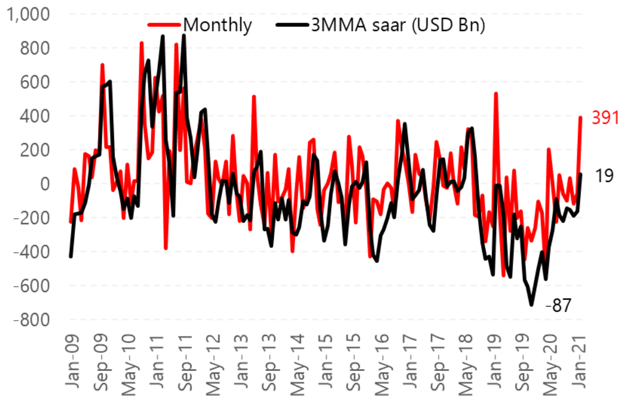
The Brazilian spot FX market recorded net inflows of USD4.4 billion in February 2021, as the commercial segment—which refers to trade-related flows—posted net inflows of USD1.3 billion in the period, while the financial segment recorded inflows of USD3.0 billion. Adjusting data for the number of trading days, we find that the average net balance for the commercial segment (positive USD75 million) ran lower than the year-ago level (positive USD273 million), with financial average flows flowing in the opposite direction (positive USD167 million vs. negative USD518 million in February 2020).

Figure 1 – Spot FX flows
(USD billion, 12M-to-date)



Sources: Brazilian Central Bank, Santander

Figure 2 – Net Spot FX flows
(USD million, daily avg, sa)

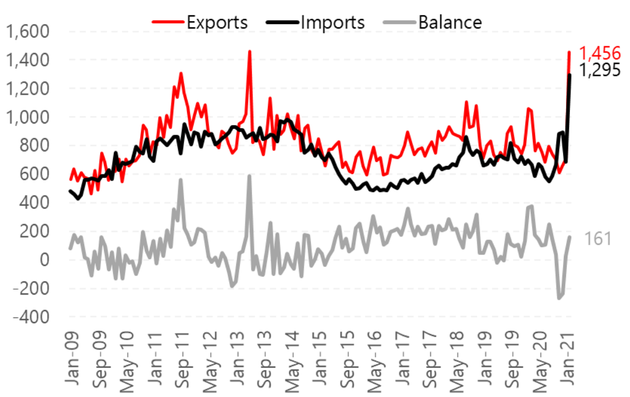


Sources: Brazilian Central Bank, Santander.

Taking a look at the behavior of the daily average flows of the different components of the spot FX market in seasonally adjusted terms, the anticipation of export proceeds continued to outpace the anticipation of import payments by a small margin; however, since we think the outlook for this year's trade balance is quite favorable—commodity prices remain high; external demand has positively surprised us lately, among other factors—we believe that trade flows should become more positive in the coming months, thus helping to eventually curb pressure on the FX market. Regarding the financial segment, the positive outcome seen last month underpinned our perception that the segment should remain roughly in balance in the coming months in the absence of negative surprises on the domestic fiscal front.

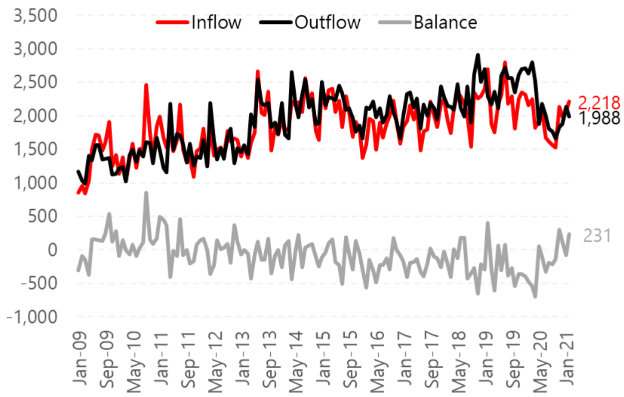
Adding to this more constructive view, we note the annualized balance of three-month moving averages in the commercial and financial segments, which indicated annual inflows of USD18.7 billion in February 2021, compared to outflows of USD87.4 billion in December 2019, which marked the historical low of the available time series. Therefore, at least for now, spot FX flows do not suggest critical pressure on the BRL, in our view. Yet this highlights the fact that the BCB needed to intervene heavily in the spot FX market last week, when it provided USD3.1 billion to market participants in order to soften the weakening of the USD/BRL, which climbed to 5.60 from 5.39. The move reinforces our perception that other factors are weighing on the BRL's dynamics.

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



Sources: Brazilian Central Bank, Santander.

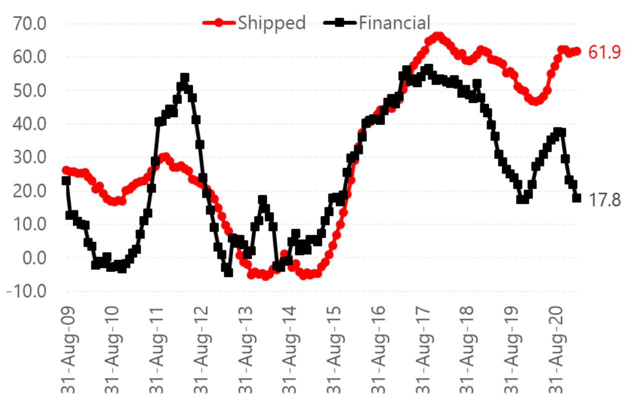
Figure 4 – Spot FX Flows – Financial Segment (USD million, daily avg, s.a.)



Sources: Brazilian Central Bank, Santander.

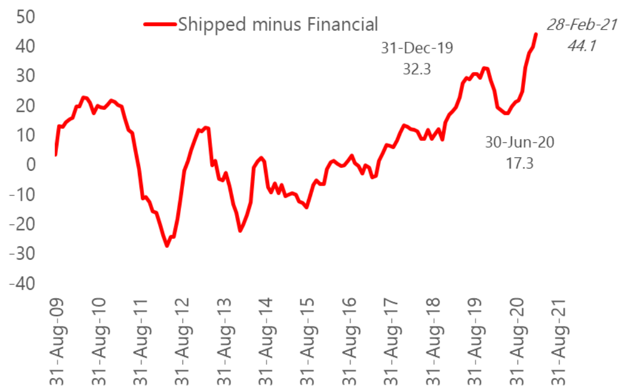
Regarding the gap between the balance of "shipped goods" and their financial settlements, although the Brazilian trade surplus has remained relatively high in 12M-to-date terms, trade-related inflows have not registered a similar performance in the same period, which led the gap to widen to a new historical level. As we think monetary policy normalization is quite likely to begin two weeks from now, taking that together with the relatively weak level of the currency vis-à-vis its fundamentals, exporters may feel more tempted to repatriate some of their money in the near future, in our view.

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



Sources: Brazilian Central Bank, SECINT, Santander.
*Excluding oil platforms deals.

Figure 6 – Gap Shipped* vs Financial (USD billion, 12M-to-date)



Sources: Brazilian Central Bank, SECINT, Santander.
*****Excluding oil platforms deals.

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.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
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
Daniel Gewehr*	Head, Brazil	dhgewehr@santander.com.br	5511-3012-5787

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