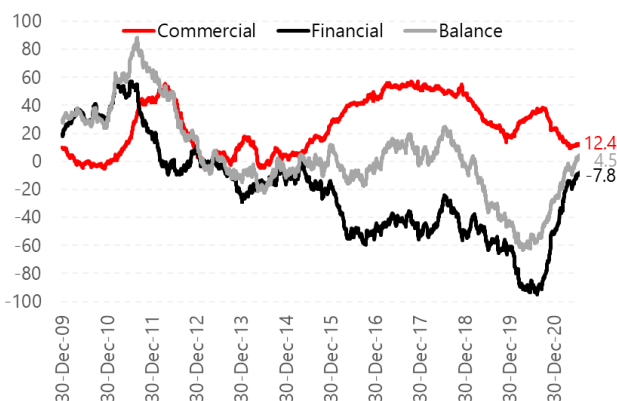


**HERE A LITTLE, THERE A LITTLE**

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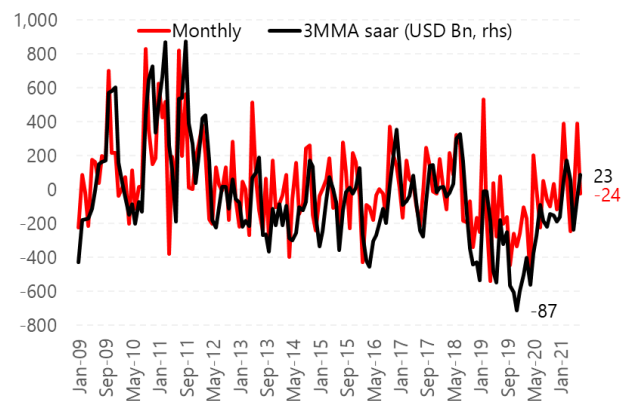
- **The Brazilian spot FX market recorded net inflows of US\$0.8 billion in July 2021, with US\$2.7 billion of net inflows in the commercial segment more than compensating for US\$1.9 billion of net outflows in the financial segment.** Cumulatively, the Brazilian spot FX market has experienced net inflows of US\$16.2 billion on a year-to-date basis and net inflows of US\$4.5 billion on a 12-month basis.
- **In seasonally adjusted terms, the daily average for July 2021 indicates a similar pattern to the non-seasonally adjusted raw data (daily net inflows of US\$165 million in the commercial segment and daily net outflows of US\$189 million in the financial segment.)** Consequently, adjusting for the seasonal pattern, Brazilian spot FX flows in July continued to zigzag just as it did in 2Q21, resulting in the 3MMA-saar gage to remain close to zero.
- **The gap between the balance of shipped goods (“physical trade balance”) and the financial settlements (“financial trade balance”) declined to US\$52.3 billion at the end of July 2021 from US\$53.8 billion on June 30 (on a 12M-to-date basis).** This has been the first decline in this gap since Mar 2020, as the balance of financial settlements showed some recovery and it seems us to have entered into an upward trend. Thus, we believe the gap should continue to narrow from here onwards.
- **All in all, we think the recent seesaw pattern of the Brazilian spot FX flows reinforces our assessment of the BRL’s limited room to register a perennial and substantial strengthening in light of skepticism regarding the path of Brazilian government debt over the medium term. On the other hand, we believe the (potential) shrinkage of the trade between the physical and financial trade balances should work as an insulation against extreme weakening moves in the short term.**

**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.

The Brazilian spot FX market recorded net inflows of US\$0.8 billion in July 2021, with the US\$2.7 billion net inflows in the commercial segment more than compensating for the US\$1.9 billion of net outflows in the financial segment. Taking a look at the recent data for seasonally adjusted daily average flows of the different components of the spot FX market,

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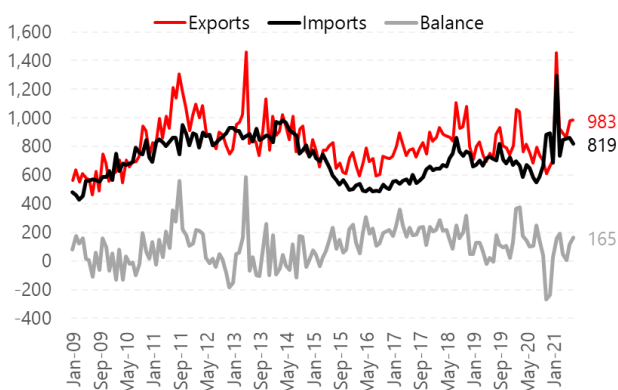
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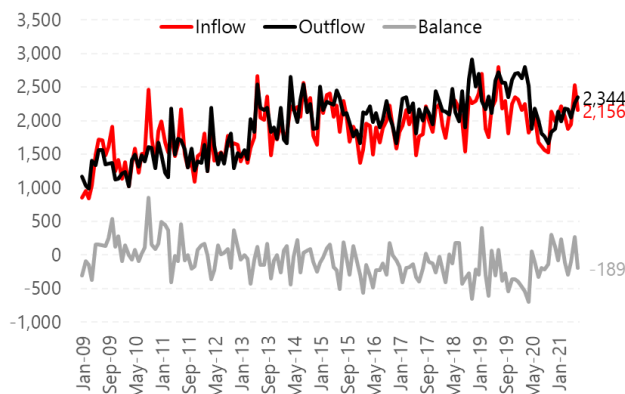
we note the anticipation of import payments has lost steam, while the anticipation of export proceeds has recovered somewhat. That is a combination that fits our assessment of the Brazilian economic outlook, as the backdrop for exports this year continues to be quite favorable—commodity prices remain high and external demand has positively surprised us lately, among other factors—while prospects for imports remain challenging, especially on the heels of activity indices that suggest a gradual recovery and a still-weak and volatile BRL.

Regarding the financial segment, we think it is important to note that the recent improvement in volume of inflows was thwarted last month, while outflows have gained some momentum. We believe this stems from the resurgence of uncertainties regarding Brazilian fiscal risks. After having breached the threshold of USD/BRL5.00 in June 2021, the BRL registered a fairly volatile performance in July 2021, which reinforces our view that there is limited room for continued strengthening of the currency in the absence of concrete progress of the reformist agenda in the country.

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



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

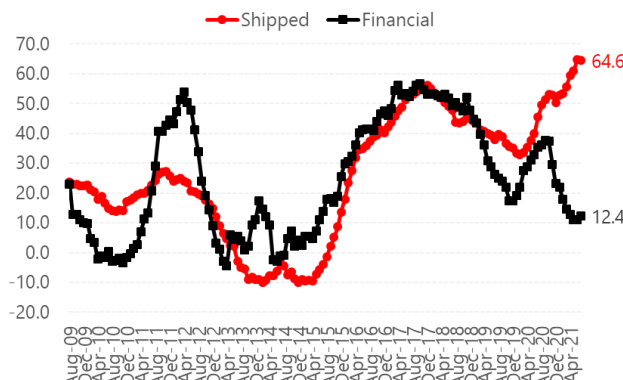


Sources: Brazilian Central Bank, Santander.

Sources: Brazilian Central Bank, Santander.

As for the gap we have observed between the balance of “shipped goods” and their financial settlements, this figure receded to US\$52.3 billion in July 2021 (on a 12M-to-date basis) from its historical peak in June 2021 (US\$53.8 billion) – the first decline since March 2020. However, we think we may continue to see it narrowing from now on, as the net inflows on the commercial segment seems to have entered into an upward trend. Thus, we think our previous view (that exporters would be more tempted to repatriate some of their money as the monetary policy normalization went on) is proving to be right. However, given the worsening we are observing in the financial segment, the narrowing may help to curb strong pressures on the BRL at critical moments, but it should not lead to a substantial strengthening of the currency anytime soon.

**Figure 5: Trade balance, Shipped vs Financial**  
(USD billion, 12m)



Sources: Brazilian Central Bank, SECINT, Santander.



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