

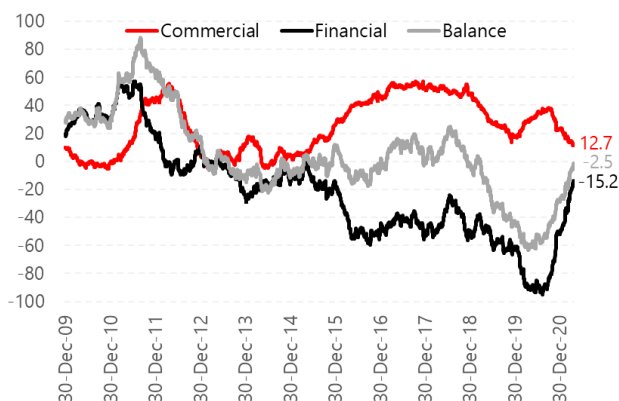
A YAWNING GAP

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

- The Brazilian spot FX market recorded net inflows of US\$4.0 billion in April 2021, leading to net inflows of US\$12.7 billion in the first four months of the year. It is the first time since mid-2018 that the Brazilian spot FX market has registered a four-month streak of net inflows.
- This time, both the commercial and financial segments experienced net inflows last month (US\$3.5 billion and US\$0.5 billion, respectively). In our view, the results continue to point to an improvement in the prospects for total spot flows this year, although to a lesser degree than in previous months.
- Although robust, the performance of the commercial segment was not enough to narrow the gap between the results of the “physical” trade balance (i.e., goods shipped in and out of the country) and its financial settlements in April 2021. Now, we estimate this divergence to have reached US\$47.0 billion, which has become its new historical high.

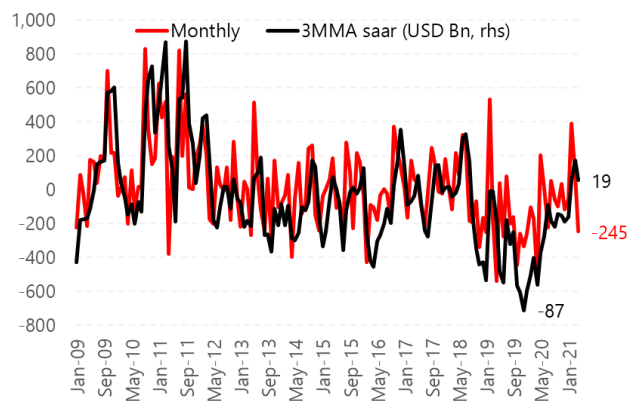
The Brazilian spot FX market recorded net inflows of US\$4.0 billion in April 2021, as the commercial segment—which refers to trade-related flows—posted net inflows of US\$3.5 billion in the period, while the financial segment recorded inflows of US\$0.5 billion. Adjusting the data for the number of trading days, we find that the average net balance for the commercial segment was a positive US\$175 million, which was below the year-ago level of US\$272 million; financial average flows moved in the opposite direction (positive US\$200 million vs. negative US\$70 million in April 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 seasonally adjusted daily average flows of the different components of the spot FX market during April, the anticipation of export proceeds continued to outpace the anticipation of import payments, but by a larger margin than in previous months. The outlook for the trade balance this year is quite favorable—commodity prices remain high and external demand has positively surprised us lately, among other factors. As a result, we believe trade flows should become even more positive in the coming months, thus helping to eventually curb pressure on the FX market. Regarding the financial segment, the data from

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE ATTACHED.

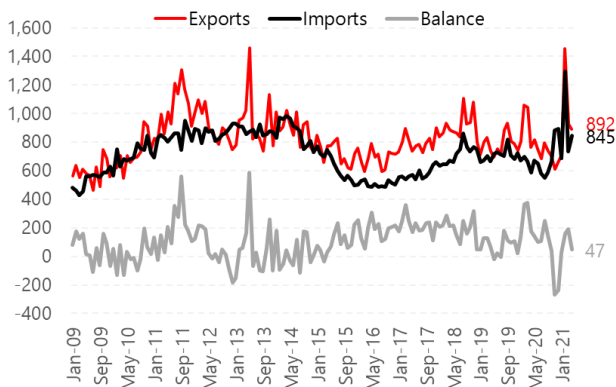
U.S. investors' inquiries should be directed to Santander Investment Securities Inc. at (212) 583-4629 / (212) 350-3918.
* Employed by a non-US affiliate of Santander Investment Securities, Inc. and is not registered/qualified as a research analyst under FINRA rules.



April supported our expectation that the segment should face a lower volume of inflows in the absence of progress on the domestic fiscal front.

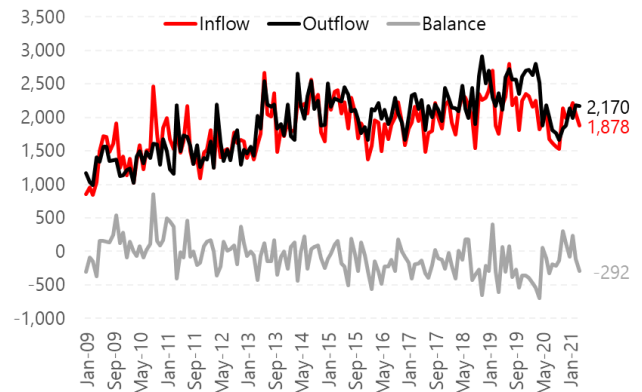
Additional data supports our constructive view: the annualized balance of three-month moving averages in the commercial and financial segments indicated annual inflows of US\$18.8 billion in April 2021 compared to outflows of USD87.4 billion in December 2019, which marked the historical low of the available time series. Therefore, spot FX flows currently do not suggest critical pressure on the BRL, in our view.

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



Sources: Brazilian Central Bank, Santander.

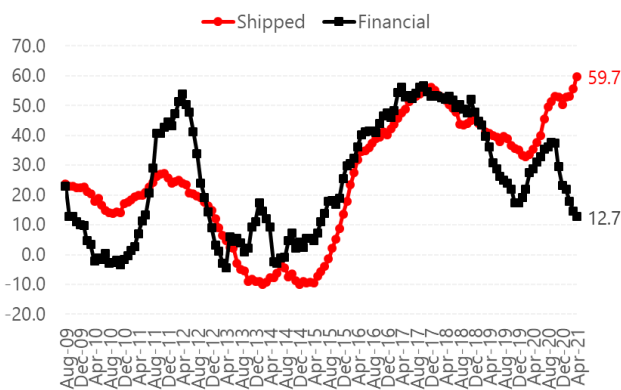
Figure 4: Spot FX Flows – Financial Segment (USD million, daily avg, s.a.)



Sources: Brazilian Central Bank, Santander.

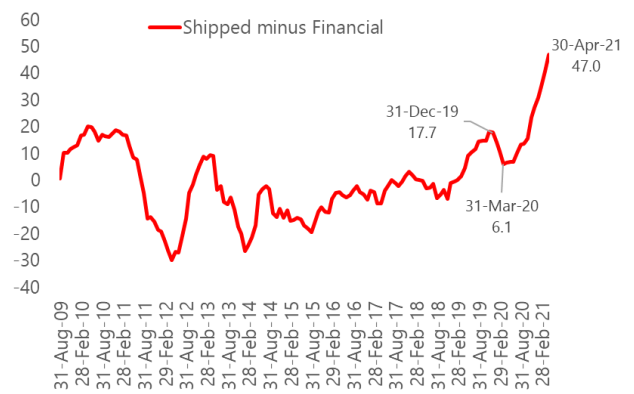
At last, although the Brazilian trade surplus has remained relatively high on a 12-month-to-date basis, trade-related inflows have not registered a similar performance, which has led the gap between the balance of “shipped goods” and their financial settlements to widen to a new historical level. Exporters may feel more tempted to repatriate some of their money in the near future, in our view, because of the relatively weak level of the currency vis-à-vis fundamentals, and in particular, as the common view is that monetary policy normalization is quite likely to continue in the coming months.

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



Sources: Brazilian Central Bank, SECINT, Santander.

Figure 6: Gap 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 França*	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
Henrique Navarro*	Head, Brazil	havieira@santander.com.br	5511-3012-5657

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.

© 2021 by Santander Investment Securities Inc. All Rights Reserved.

