BRAZIL MACRO

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DATA ANALYSIS – EXTERNAL SECTOR

A YAWNING GAP

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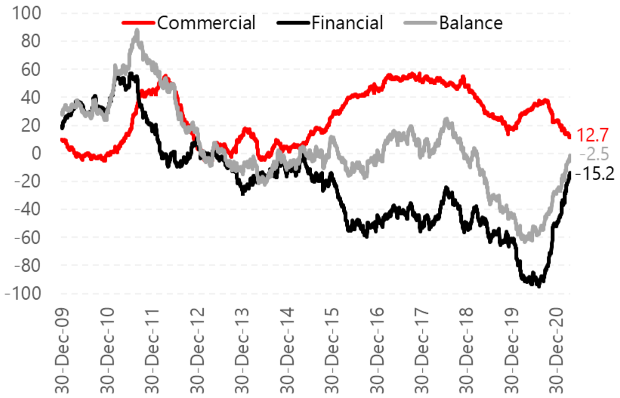
- **The Brazilian spot FX market recorded net inflows of US$4.0 billion in April 2021, leading to net inflows of US$12.7 billion in the first four months of the year. It is the first time since mid-2018 that the Brazilian spot FX market has registered a four-month streak of net inflows.**
- This time, 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.**

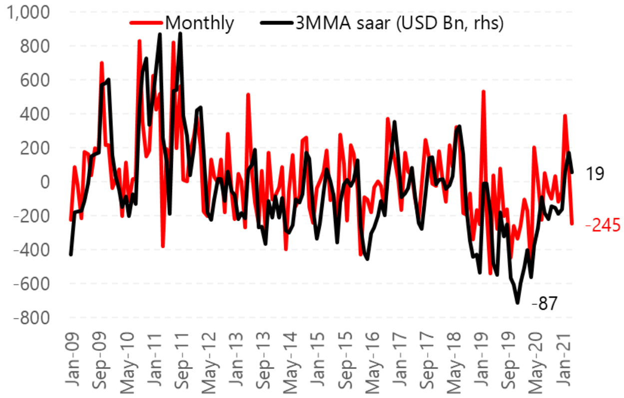
The Brazilian spot FX market recorded net inflows of US$4.0 billion in April 2021, as the commercial segment—which refers to trade-related flows—posted net inflows of US$3.5 billion in the period, while the financial segment recorded inflows of US$0.5 billion. Adjusting the data for the number of trading 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)



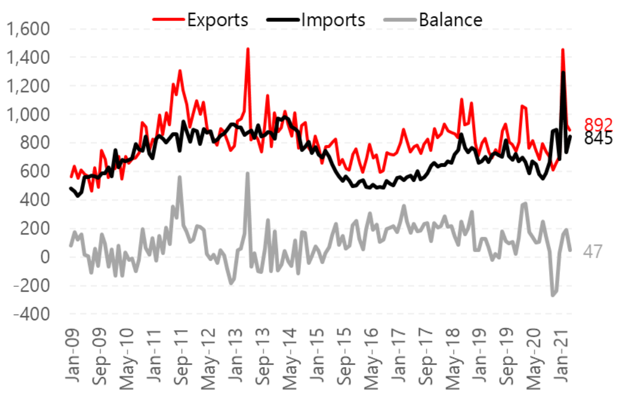
Sources: Brazilian Central Bank, Santander.

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

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

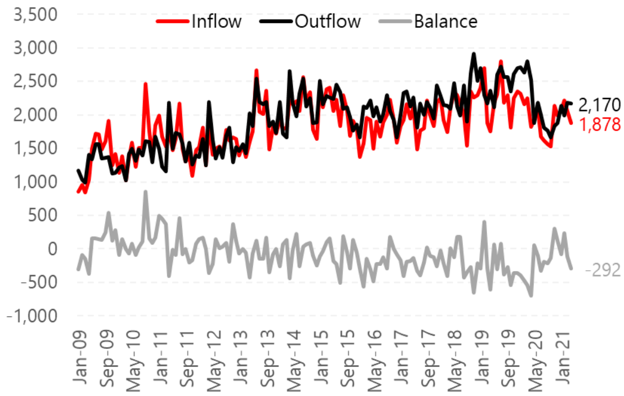
Additional data supports our constructive view: the annualized balance of three-month moving averages in the commercial and financial segments indicated annual inflows of US$18.8 billion in April 2021 compared to outflows of USD87.4 billion in December 2019, which marked the historical low of the available 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.

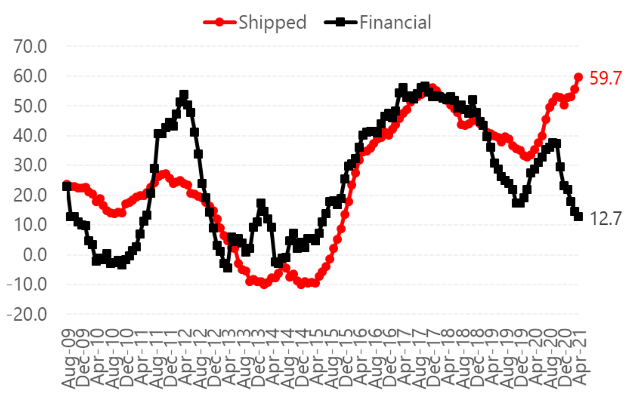
Figure 4: Spot FX Flows – Financial Segment (USD million, daily avg, s.a.)



Sources: Brazilian Central Bank, Santander.

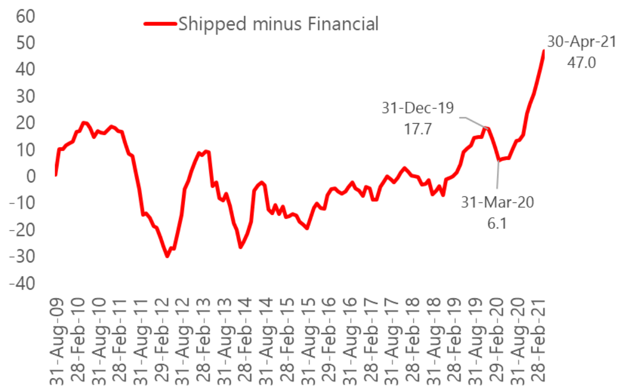
At last, although the Brazilian trade surplus has remained relatively high on a 12-month-to-date basis, trade-related inflows have not registered a similar performance, which has led the gap between the balance of "shipped goods' and their financial settlements to widen to a new historical level. Exporters 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.

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