

MORE OF THE SAME

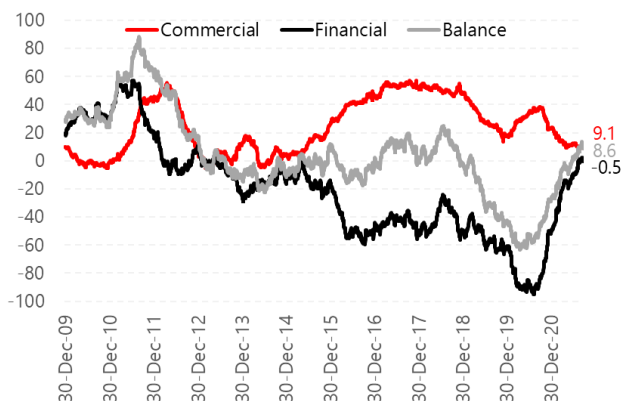
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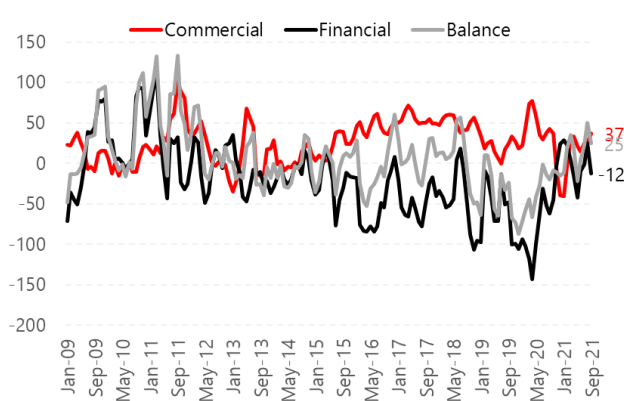
- The Brazilian spot FX market recorded net outflows of US\$1.2 billion in September 2021, with US\$2.8 billion of net inflows in the commercial segment and US\$4.0 billion of net outflows in the financial segment. Cumulatively, the Brazilian spot FX market has experienced net inflows of US\$17.7 billion on a year-to-date basis and net inflows of US\$8.6 billion on a 12-month basis through October 1. On the heels of these figures, the country has registered a 3-quarter streak of net inflows for the first time since 2Q17.
- In seasonally adjusted terms, we witnessed daily net inflows of US\$266 million in the commercial segment and daily net outflows of US\$172 million in the financial segment last month. Consequently, adjusting for the seasonal pattern, Brazilian spot FX flows in 3Q21 continued to zigzag just as they did in 2Q21, causing the 3MMA-saar gauge to remain close to zero.
- The gap between the balance of shipped goods (“physical trade balance”) and the financial settlements (“financial trade balance”) contracted to US\$56.3 billion at the end of September 2021 from US\$58.8 billion on August 31 (on a 12M-to-date basis). The move stemmed from a decline in the physical trade balance combined with an expansion in the balance of financial settlements.
- All in all, we think the recent seesaw pattern of Brazilian spot FX flows reinforces our assessment of the BRL’s limited room to register a continued and substantial strengthening in light of skepticism regarding the path of Brazilian government debt over the medium 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 outflows of US\$1.2 billion in September 2021, as the US\$2.8 billion net inflows in the commercial segment did not counterbalance the US\$4.0 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, we note the anticipation of export proceeds has improved somewhat, while the anticipation of import payments has lost some steam. That is a combination that fits our assessment of the Brazilian economic outlook, as the backdrop for exports this year continues to be constructive—commodity prices and external demand continue to

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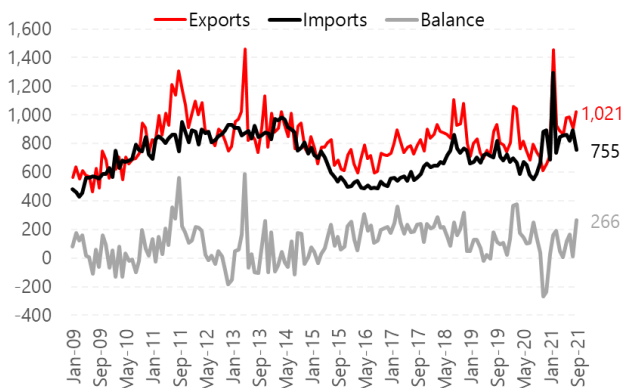
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hover at high levels—while prospects for imports remain challenging, especially on the heels of activity indices that suggest an only-gradual recovery and a still-weak and volatile BRL.

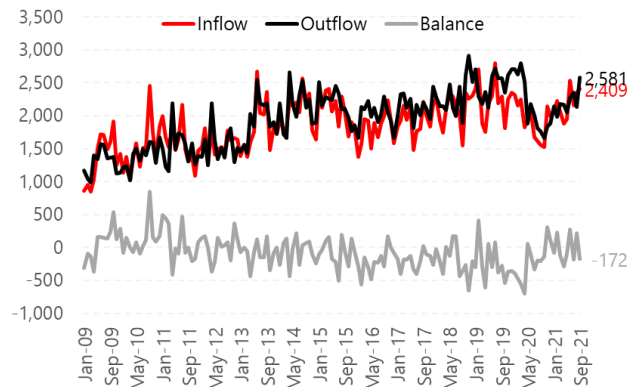
Regarding the financial segment, we think the resurgence of uncertainties regarding Brazilian fiscal risks might have weighed on its dynamics. Incidentally, the currency registered a fairly poor performance in September 2021, which reinforces our view that the absence of concrete progress in the agenda for fiscal reform in the country will keep market participants wary of Brazilian economic prospects and limit the room for a continued strengthening of the BRL.

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



Sources: Brazilian Central Bank, Santander.

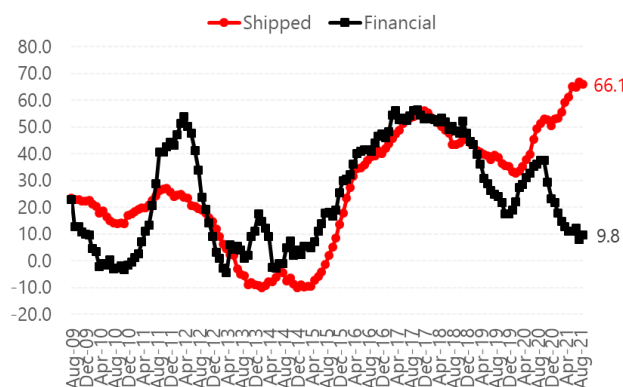
**Figure 4. Spot FX Flows – Financial Segment
(USD million, daily avg, sa)**



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\$56.3 billion in September 2021 from US\$58.8 billion in the previous reading (on a 12M-to-date basis), with the bulk of the move stemming from an expansion in its latter component. We think this gap could narrow further based on our expectation of more interest rate hikes ahead, which could help to soothe pressures on the BRL at critical moments, but we do not expect it to 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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