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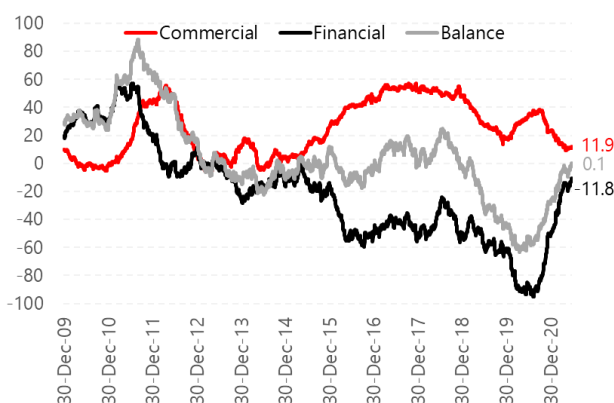
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POSITIVE RESULTS, SOME NEGATIVE SIGNS

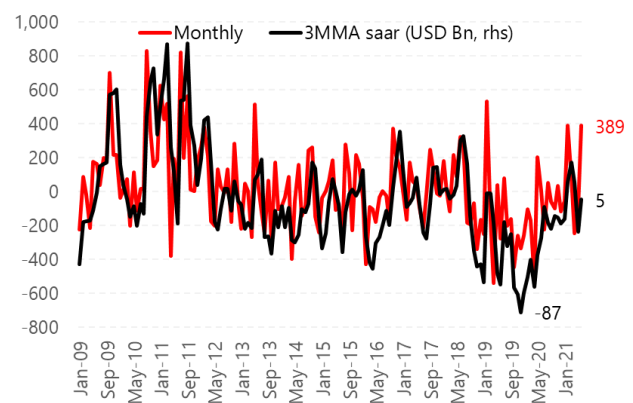
- **The Brazilian spot FX market recorded net inflows of US\$1.7 billion for the 26th week of the year (June 28 to July 2), with the commercial and financial segments recording net inflows of US\$2.1 billion and net outflows of US\$0.5 billion, respectively.** Cumulatively, the Brazilian spot FX market has experienced net inflows of US\$15.2 billion on a year-to-date basis and net inflows of US\$0.1 billion on a 12M-to-date basis.
- **In seasonally adjusted terms, the daily average data for July 2021 indicates a potential outflow in the spot FX market during the period (net daily outflows of US\$260 million this month versus net inflows of US\$389 million in June 2021).** The biggest contribution to this was the financial segment (US\$829 million average daily outflows), as the commercial segment pointed toward a positive result in the period (US\$569 million average daily inflows).
- **Regarding the gap between the balance of shipped goods (“physical trade balance”) and their financial settlements (“financial trade balance”), we saw it climb to US\$55.0 billion at the end of June 2021 from US\$51.1 billion on May 31 (on a 12M-to-date basis).** Nonetheless, we think the downward trend shown by the balance of financial settlements seems to have reached its nadir. Thus, we believe the gap should start to narrow from here onwards.
- **All in all, Brazilian spot FX flows zigzagged in 2Q21 in seasonally adjusted terms, thus leading the 3MMA-saar gage to stall during the period, notwithstanding the favorable performance of the BRL in recent weeks.** We believe this fact 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.

**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.

The Brazilian spot FX market recorded net inflows of US\$1.7 billion between June 28 and July 2, 2021, and of US\$4.4 billion for June 2021. Despite this sizeable inflow, inaugural figures for July 2021 indicate the possibility of a negative result this month, based on a negative financial segment performance in the first two days of the month.

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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 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 BRL.

Regarding the financial segment, we think it is important to note the improvement in volume of inflows lately, while outflows have stalled. We believe this stems from the improvement observed in markets’ perception of Brazilian fiscal risks, which helped the currency to strengthen in recent weeks. However, the performance of the BRL so far in July 2021 shows how quickly this perception can change, 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.)

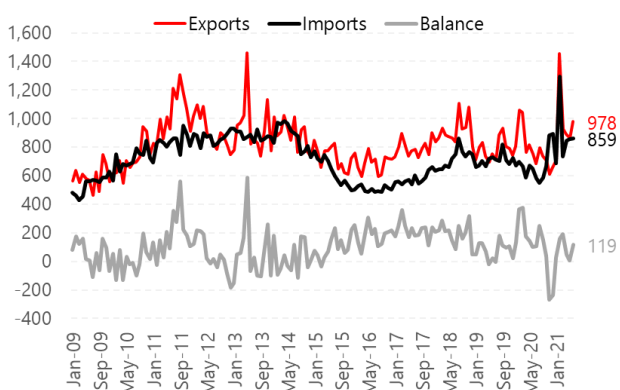
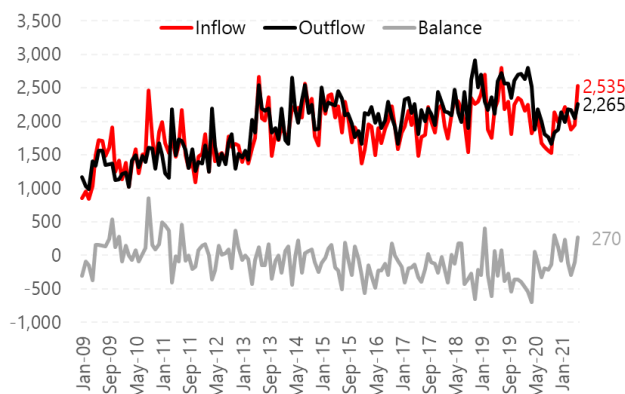


Figure 4: Spot FX Flows – Financial Segment
(USD million, daily avg, s.a.)

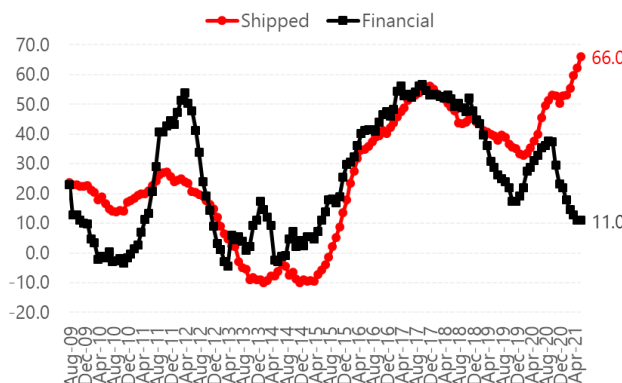


Sources: Brazilian Central Bank, Santander.

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As for the gap we have observed between the balance of “shipped goods” and their financial settlements, this figure reached a new historical peak in June 2021 (US\$55.0 billion on a 12M-to-date basis), contrasting with a US\$7.0 billion divergence a year ago. However, we think we may start to see it narrowing from now on, as the downward trend shown by the net inflows on the commercial segment seems to have bottomed out. 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-to-date)



Sources: Brazilian Central Bank, SECINT, Santander.



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