

## IT TAKES TWO TO TANGO

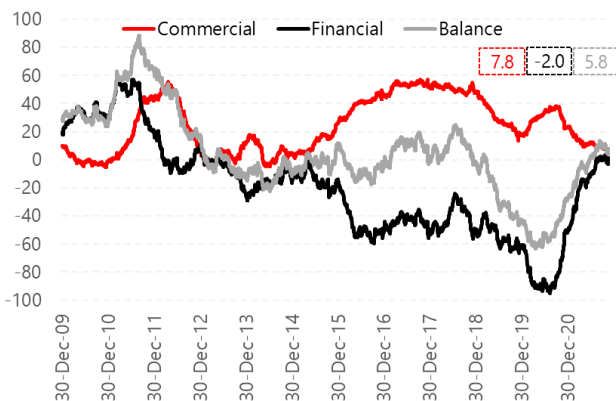
Jankiel Santos\*

jankiel.santos@santander.com.br

+5511 3012-5726

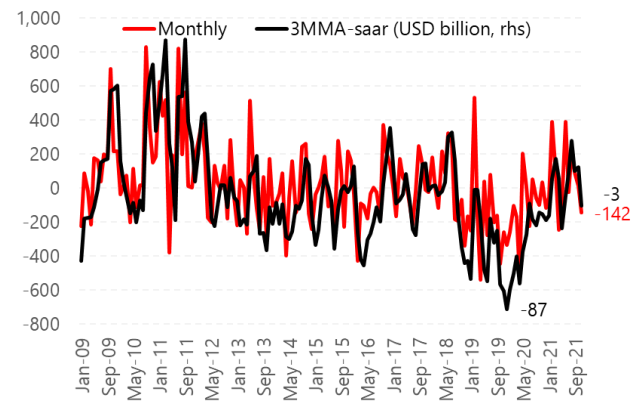
- **The Brazilian spot FX market recorded net outflows of US\$3.4 billion in November 2021, with US\$7.2 billion of net inflows in the commercial segment having surpassed the financial segment’s net inflows of US\$3.8 billion.** Cumulatively, the Brazilian spot FX market has experienced net inflows of US\$14.3 billion on a year-to-date basis and net inflows of US\$5.8 billion on a 12-month basis through December 3. **On the heels of these figures, we believe that 4Q21 is likely to put an end to the three-quarter streak of net inflows registered between 1Q21 and 3Q21.**
- **In seasonally adjusted terms, we witnessed daily net outflows of US\$331 million in the commercial segment and daily net inflows of US\$192 million in the financial segment last month.** Consequently, adjusting for the seasonal pattern, Brazilian spot FX flows maintained the downward trend that started in September, with its 3MMA-saar following a similar pattern.
- **All in all, despite the financial segment’s resilience, the commercial segment has weighed on the performance of Brazilian spot FX flows, thus reinforcing our assessment of the BRL’s limited room to register a continued and substantial strengthening** in light of uncertainties on the Brazilian political and fiscal policy fronts.

**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\$3.4 billion in December 2021, as the US\$7.2 billion net outflows in the commercial segment surpassed by far the financial segment’s net inflows of US\$3.8 billion. Taking a look at the recent data for seasonally adjusted daily average flows of the different components of the spot FX market, we note that the anticipation of import payments has outpaced the anticipation of export proceeds, thus leading the commercial segment to have registered the largest outflow in these terms since 2009—when daily data became available. This combination contrasts with our expectation for sound results in the Brazilian foreign trade, especially as the backdrop for exports continues to be constructive—commodity prices and external demand continue to hover at high levels—and prospects for imports remain challenging, especially on the heels of activity indices that suggest an only gradual recovery

**IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE “IMPORTANT DISCLOSURES” SECTION OF THIS REPORT.**

U.S. investors’ inquiries should be directed to Santander Investment Securities Inc. at (212) 583-4629 / (212) 350-3918.

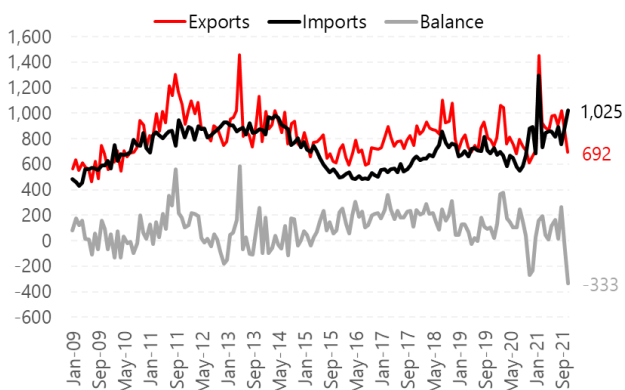
\* Employed by a non-US affiliate of Santander Investment Securities, Inc. and is not registered/qualified as a research analyst under FINRA rules.



and a still-weak and volatile BRL. Nonetheless, we think it may indicate the resistance of Brazilian exporters to repatriate their profits while uncertainty on the political and fiscal policy fronts remains high.

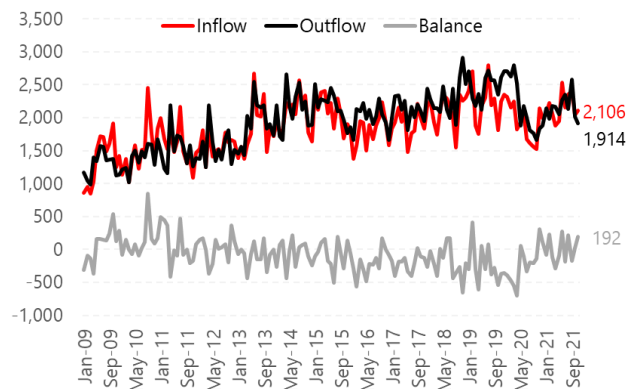
In our view, the same factors could have contributed to keeping financial inflows relatively stable in November 2021, with investors hesitant to repatriate their money amid these uncertainties. Nonetheless, recent interest rate hikes carried out by the Brazilian Central lately and the prospects for an even higher level of the Selic target rate in the coming months seems us to have helped curb financial inflows recently.

**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.

Despite the positive balance observed in the financial segment last month, we think the lack of resolution regarding Brazilian fiscal and political risks will keep market participants wary of Brazilian economic prospects and limit the room for a continued strengthening of the BRL as pointed out by the declining trend of the commercial segment’s balance (regardless of the robust Brazilian trade performance). As the old saying goes: it takes two to tango.



## CONTACTS / IMPORTANT DISCLOSURES

### Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	<a href="mailto:anavescovi@santander.com.br">anavescovi@santander.com.br</a>	5511-3553-8567
Mauricio Oreng*	Head of Macro Research	<a href="mailto:mauricio.oreng@santander.com.br">mauricio.oreng@santander.com.br</a>	5511-3553-5404
Jankiel Santos*	Economist – External Sector	<a href="mailto:jankiel.santos@santander.com.br">jankiel.santos@santander.com.br</a>	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	<a href="mailto:italo.franca@santander.com.br">italo.franca@santander.com.br</a>	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	<a href="mailto:daniel.karp@santander.com.br">daniel.karp@santander.com.br</a>	5511-3553-9828
Tomas Urani*	Economist – Global Economics	<a href="mailto:tomas.urani@santander.com.br">tomas.urani@santander.com.br</a>	5511-3553-9520
Lucas Maynard*	Economist – Economic Activity	<a href="mailto:lucas.maynard.da.silva@santander.com.br">lucas.maynard.da.silva@santander.com.br</a>	5511-3553-7495
Felipe Kotinda*	Economist – Credit	<a href="mailto:felipe.kotinda@santander.com.br">felipe.kotinda@santander.com.br</a>	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	<a href="mailto:gabriel.couto@santander.com.br">gabriel.couto@santander.com.br</a>	5511-3553-8487
Gilmar Lima*	Economist – Modeling	<a href="mailto:gilmar.lima@santander.com.br">gilmar.lima@santander.com.br</a>	5511-3553-6327

### Global Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	<a href="mailto:maciej.reluga@santander.pl">maciej.reluga@santander.pl</a>	48-22-534-1888
Juan Cerruti *	Senior Economist – Argentina	<a href="mailto:jcerruti@santander.com.ar">jcerruti@santander.com.ar</a>	54 11 4341 1272
Ana Paula Vescovi*	Economist – Brazil	<a href="mailto:anavescovi@santander.com.br">anavescovi@santander.com.br</a>	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	<a href="mailto:jcabrera@santander.cl">jcabrera@santander.cl</a>	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	<a href="mailto:gjaboumrad@santander.com.mx">gjaboumrad@santander.com.mx</a>	5255-5257-8170
Piotr Bielski*	Economist – Poland	<a href="mailto:piotr.bielski@santander.pl">piotr.bielski@santander.pl</a>	48-22-534-1888
Mike Moran	Head of Macro Research, US	<a href="mailto:mike.moran@santander.us">mike.moran@santander.us</a>	212-350-3500

### Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina	<a href="mailto:jarranz@santanderrio.com.ar">jarranz@santanderrio.com.ar</a>	5411-4341-1065
Mauricio Oreng*	Senior Economist/Strategist – Brazil	<a href="mailto:mauricio.oreng@santander.com.br">mauricio.oreng@santander.com.br</a>	5511-3553-5404
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	<a href="mailto:jcabrera@santander.cl">jcabrera@santander.cl</a>	562-2320-3778

### Equity Research

Miguel Machado*	Head Equity Research Americas	<a href="mailto:mmachado@santander.com.mx">mmachado@santander.com.mx</a>	5255 5269 2228
Alan Alanis*	Head, Mexico	<a href="mailto:aalanis@santander.com.mx">aalanis@santander.com.mx</a>	5552-5269-2103
Andres Soto	Head, Andean	<a href="mailto:asoto@santander.us">asoto@santander.us</a>	212-407-0976
Claudia Benavente*	Head, Chile	<a href="mailto:claudia.benavente@santander.cl">claudia.benavente@santander.cl</a>	562-2336-3361
Walter Chiarvesio*	Head, Argentina	<a href="mailto:wchiarvesio@santanderrio.com.ar">wchiarvesio@santanderrio.com.ar</a>	5411-4341-1564
Mariana Cahen Margulies*	Head, Brazil	<a href="mailto:mmargulies@santander.com.br">mmargulies@santander.com.br</a>	5511 3553 1684

### 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.

