Santander
Macroeconomic Research

MACRO BRAZIL

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DATA ANALYSIS – SPOT FX FLOWS

LOSING STEAM

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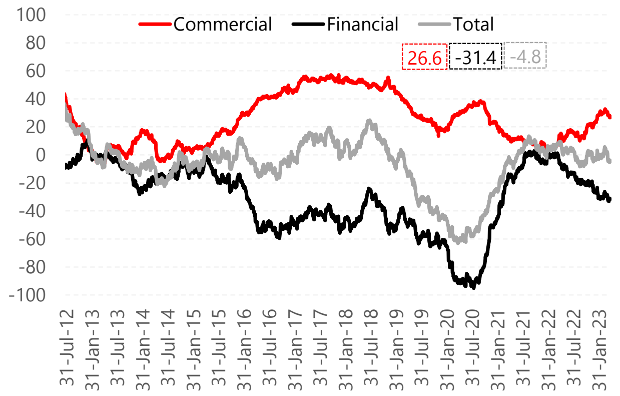
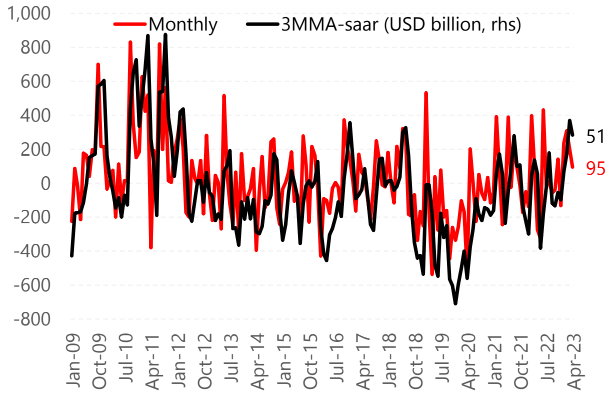
- **The Brazilian spot FX market registered net inflows of USD0.8 billion in April 2023, stemming from net inflows in the commercial segment (USD6.0 billion) and net outflows in the financial segment (USD5.2 billion). These figures compare with net inflows of USD6.9 billion a year ago, when the commercial segment registered net inflows of USD10.6 billion, which were accompanied by net outflows of USD3.7 billion in the financial segment.**
- **The spot FX market reached net inflows of USD13.5 billion in year-to-date terms, a level below the USD15.4 billion net inflows observed a year ago. Unlike in the first four months of 2022—when the commercial and the financial segments registered positive balances—this year only the commercial segment managed to record net inflows (USD18.6 billion vs USD14.1 billion in 2022), while the financial segment showed a negative outcome (net outflows of USD5.1 billion in 2023 vs. net inflows of USD1.3 billion last year).**
- **In seasonally adjusted terms, we saw daily average export incomes running at USD1.4 billion, while daily average import payments ran at USD1.1 billion, thus leading the commercial segment to improve vis-à-vis the previous reading. In turn, although daily average financial income stayed at USD2.3 billion, there was an increase in daily average financial expenditures to USD2.6 billion from USD2.4 billion in March, which has kept the financial segment in the negative camp for the second month in a row.**
- **The segments' short-term trends (depicted by their 3MMA-saar gauges) pointed toward additional improvement in the commercial segment and the consolidation of a downward route for the financial segment, which may indicate a larger repatriation of money to the country by exporters and a more cautious approach by foreigners, stemming from lingering uncertainties around the country's economic policy directives.**
- **Regarding the gap between the shipped trade balance and its financial settlements, today's release pushed it up to USD38.6 billion in 12-month terms from USD34.6 billion in March and compared to the peak of USD59.7 billion observed in March 2022. Thus, in our view, although exporters have apparently started to repatriate more money lately, they also remain as cautious as foreigners with the country's economic situation.**
- **All in all, April 2023 figures continued to hint at encouraging prospects for net spot FX flows, but with some signals of accommodation at the margin, which lead us to continue expecting the BRL to have limited room for strengthening as the year unfolds.**

Figure 1. Spot FX Flows
(USD billion, 12M)



Sources: Brazilian Central Bank, Santander.

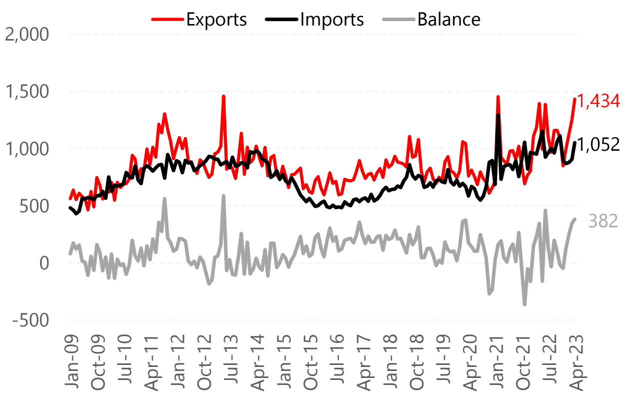
Figure 2. Net Spot FX Flows
(USD million, daily avg, sa)



Sources: Brazilian Central Bank, Santander.

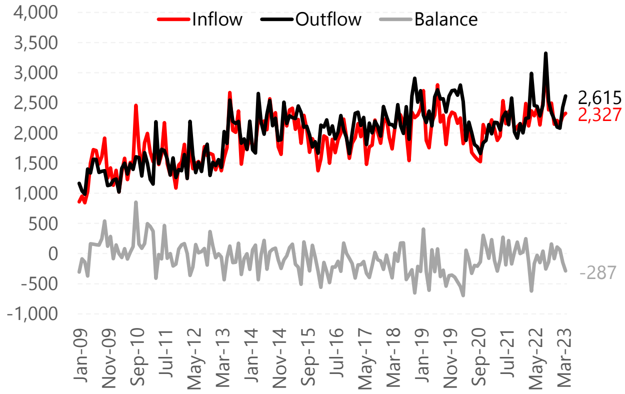
The Brazilian spot FX market recorded net inflows of USD0.8 billion in April 2023, with the commercial segment registering a positive figure in the period (USD6.0 billion), which was partially offset by a negative print in the financial segment (USD5.2 billion). Looking at the recent data for seasonally adjusted daily average flows of the different components of the spot FX market, all grew last month, with anticipation of export revenue, and financial expenditures outpacing anticipation of import payments and financial income deals. The outcomes led to a marginal improvement in the trend of the commercial segment and to the consolidation of a downward route for the financial segment. These patterns were reinforced by their 3MMA-saar gauges.

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



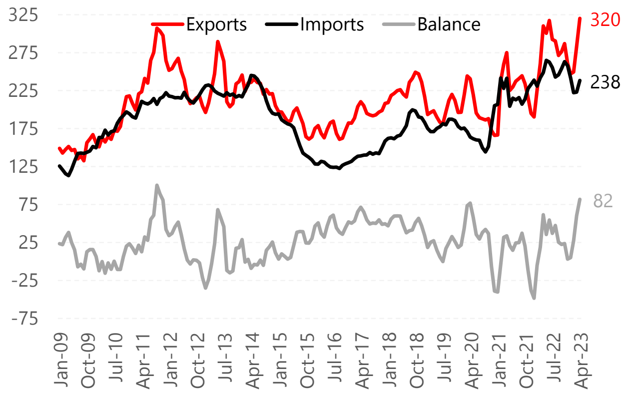
Sources: Brazilian Central Bank, Santander.

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



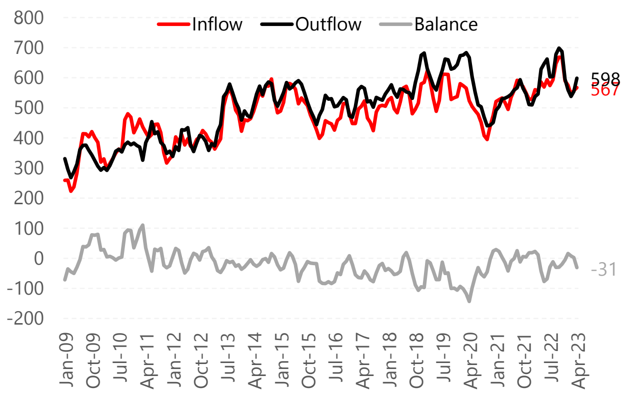
Sources: Brazilian Central Bank, Santander.

Figure 5. Spot FX Flows – Commercial Segment
(USD billion, 3MMA-saar)



Sources: Brazilian Central Bank, Santander.

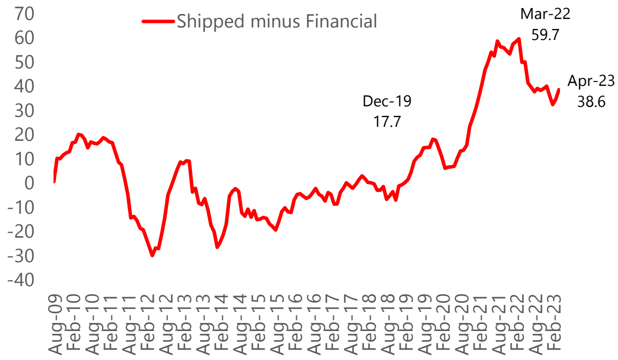
Figure 6. Spot FX Flows – Financial Segment
(USD billion, 3MMA-saar)



Sources: Brazilian Central Bank, Santander.

In our view, this could imply that the prospect of continued high interest rates in Brazil is luring exporters to the domestic fixed income market. Nonetheless, the gap between the shipped trade balance and its financial settlements widened for the second month in a row (to USD38.6 billion from USD34.6 billion in March and USD32.5 billion in February), as the shipped trade balance has been accumulating at a faster pace than its financial settlements. Therefore, we believe that, although repatriating more money than they had been doing lately, exporters are keeping a foot on foreign ground. In our opinion, this behavior reflects skepticism toward the lack of coordination between monetary and fiscal policy directives, despite the partial revelation of the new fiscal framework that the incumbent administration intends to introduce in the next few years. The same sentiment that is leading foreign investors to stay put for now reinforces our view that there is limited room for the BRL to show durable strengthening anytime soon.

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



Sources: Brazilian Central Bank, SECINT, Santander.

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