MACRO BRAZIL

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DATA ANALYSIS – SPOT FX FLOWS

IT COULD'VE BEEN BETTER

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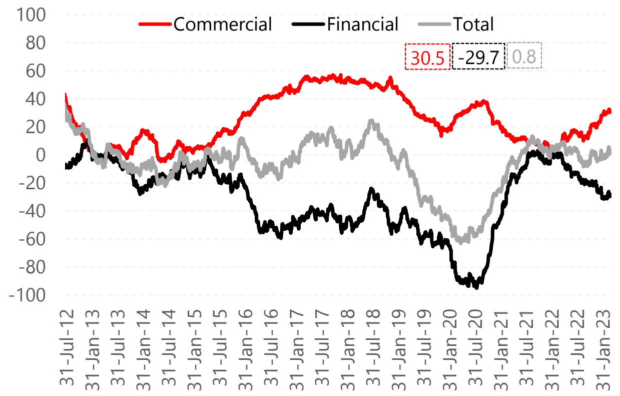
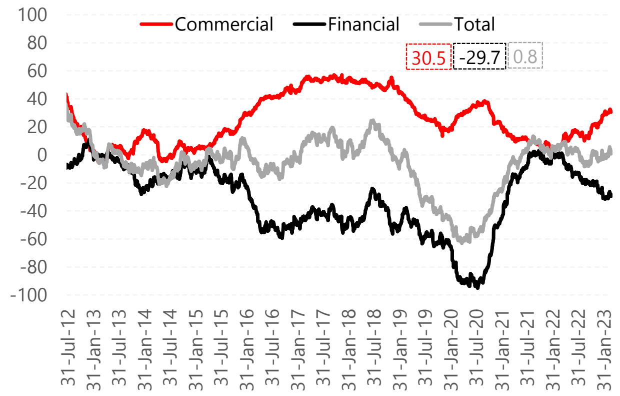
- **The Brazilian spot FX market registered net inflows of USD3.6 billion in March 2023, stemming from net inflows in the commercial (USD7.0 billion) and net outflows in the financial segments (USD3.5 billion). These figures compare with net outflows of USD2.0 billion a year ago, when the commercial segment registered net inflows of USD6.0 billion, which were accompanied by net outflows of USD4.0 billion in the financial segment.**
- **The spot FX market reached net inflows of USD12.5 billion in year-to-date terms, a level above the USD8.5 billion net inflows observed a year ago and the best 1Q result since 2012—when we saw net inflows of USD18.7 billion. Unlike in 1Q12 and 1Q22—when the commercial and the financial segments provided nearly even contributions to those outcomes—the commercial segment accounted for the totality of this year's result as the financial segment recorded a balanced output (in fact, there were net inflows of USD12 million in the same terms).**
- **In seasonally adjusted terms, we saw daily average export incomes running at USD1.2 billion, while daily average import payments ran at USD0.9 billion, thus leading the commercial segment to improve vis-à-vis the previous reading. In turn, although daily average financial income climbed to at USD2.3 billion from USD2.1 billion in the previous reading, daily average financial expenditures outpaced the former and reached USD2.4 billion from USD2.1 billion in February, which led the financial segment to return to the negative camp after two months on the positive side.**
- **The segments' short-term trends (depicted by their 3MMA-saar gauges) pointed towards an improvement in the commercial segment and a halt in the ascendant route for the financial segment, which may indicate a larger repatriation of money to the country by exporters and a more cautious approach by the 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 USD35.7 billion in 12-month terms from USD32.7 billion in February 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 cautious with the country's economic situation like foreigners do.**
- **All in all, March 2023 figures showed better prospects for commercial segment—which could have been even better—and a stall in the financial segment. We believe that uncertainties regarding the coordination of the fiscal and monetary policies continued to weigh on FX flows, which lead us to continue expecting the BRL to weaken as the year unfolds.**

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



Sources: Brazilian Central Bank, Santander.

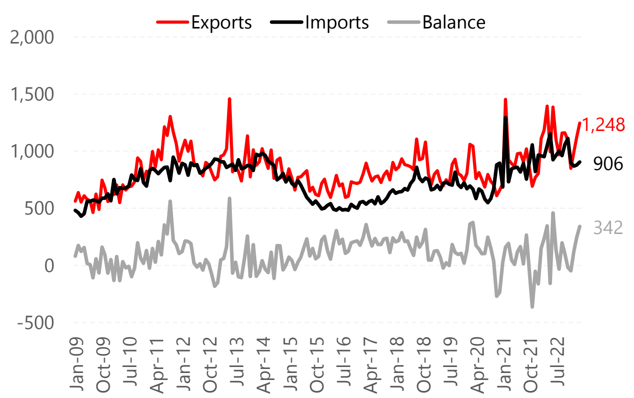
Figure 2. Net Spot FX Flows
(USD million, daily avg, sa)



Sources: Brazilian Central Bank, Santander.

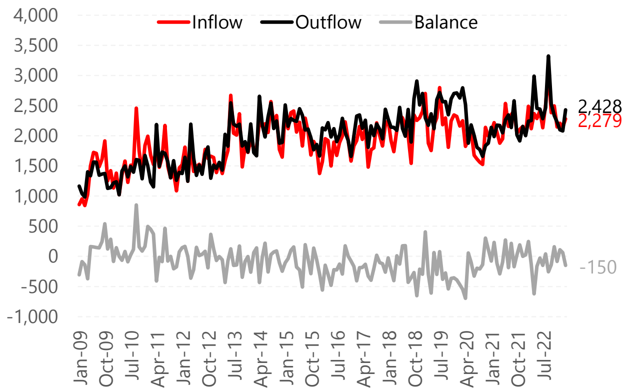
The Brazilian spot FX market recorded net inflows of USD3.6 billion in March 2023, with the commercial segment registering a positive figure in the period (USD7.0 billion), which was partially offset by a negative print in the financial segment (USD3.5 billion). Looking at the recent data for seasonally adjusted daily average flows of the different components of the spot FX market, just the anticipation of import payments failed to grow last month, while anticipation of export revenue and financial deals increased–though latter's outflows outpaced its inflows. The outcomes led to an improvement in the trend of the commercial segment and reinforced the seesaw pattern that the financial segment has followed recently. This backdrop was reinforced by their 3MMA-saar gauges, which indicated an extension in the upward trend of net inflows in the commercial segment and a stall in the financial one.

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



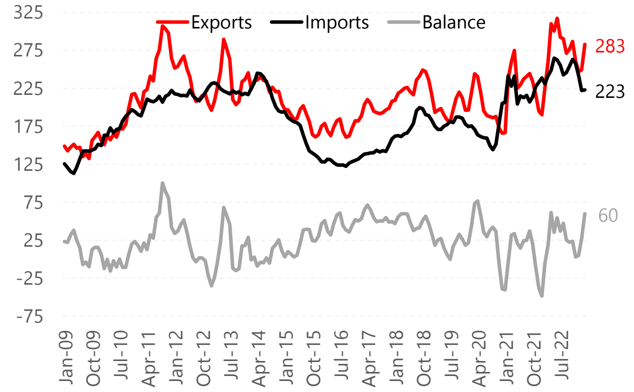
Sources: Brazilian Central Bank, Santander.

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



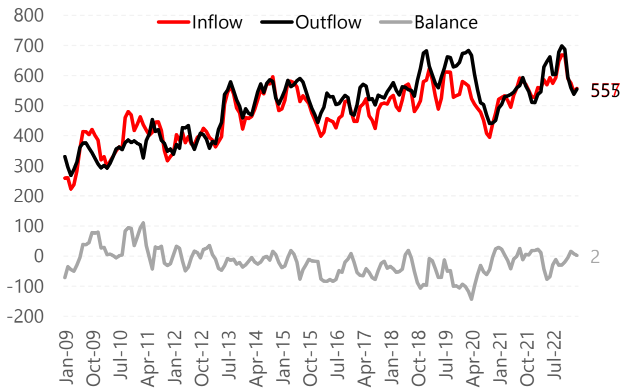
Sources: Brazilian Central Bank, Santander.

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



Sources: Brazilian Central Bank, Santander.

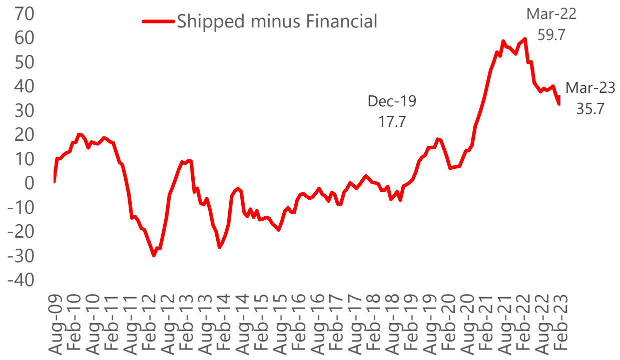
Figure 6. Spot FX Flows – Financial Segment
(USD billion, 3MMA-saar)



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, which would have led the gap between the shipped trade balance and its financial settlements to narrow compared with previous readings. Nonetheless, we observed a widening in this gap to USD35.7 billion from USD32.9 billion last month, 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 in foreign ground. In our opinion, the behavior reflects skepticism regarding 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 for the next years. The same sentiment that is leading foreign investors to stay put for now, reiterates 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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