MACRO BRAZIL

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DATA ANALYSIS – SPOT FX FLOWS

THE DICHOTOMY PERSISTED

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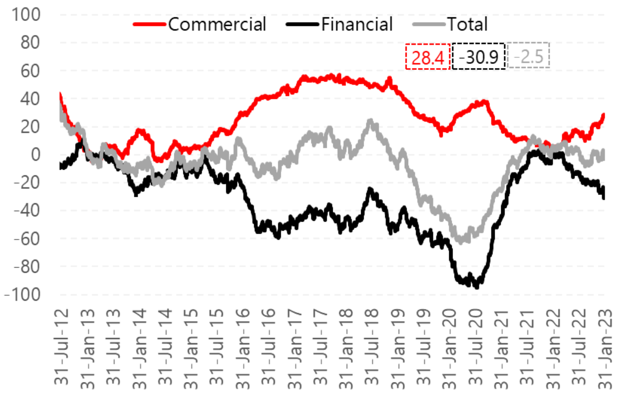
- **The Brazilian spot FX market registered net inflows of USD4.2 billion in January 2023, stemming from net inflows in both the commercial and financial segments (USD1.8 billion and USD2.4 billion, respectively). These figures compare with net inflows of USD0.8 billion a year ago, when the commercial segment registered net outflows of USD4.8 billion, which were compensated by net inflows of USD5.6 billion in the financial segment. Adding up the figures of the three first days of February, the spot FX market reached net outflows of USD2.5 billion in 12-month terms, as the commercial segment amassed USD28.4 billion net inflows and the financial segment recorded USD30.9 billion net outflows, respectively, in the same terms.**
- **This data has already incorporated the recent revision carried out by the Brazilian Central Bank in the time series of the commercial segment balance, the past results of which were underestimating the volume of import payments. The adjustment meant the spot FX market registered net outflows of USD3.2 billion in 2022, instead of net inflows of USD9.6 billion as previously informed.**
- **In seasonally adjusted terms, we saw daily average export incomes running at USD1.0 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, daily average financial incomes stood at USD2.2 billion and daily average financial expenditures reached USD2.1 billion, which led the financial segment to also advance as compared with December 2022.**
- **Nonetheless, the segments' short-term trends (depicted by their 3MMA-saar gauges) did not change dramatically from their recent trajectories: a descendant path for the commercial segment and an ascendant route for the financial segment, thus reinforcing the divergence between the local view (exporters refraining from repatriating money) and the foreign perception (foreigners bringing money to the country).**
- **Regarding the gap between the shipped trade balance and its financial settlements, today's release brought it to USD36.4 billion in 12-month terms as compared to the peak of USD59.6 billion observed in March 2022, thus reinforcing the relatively steady behavior of late. However, given the maintenance of sizeable surplus in the shipped trade balance and the marginal descendant trend of financial settlements, we will not be surprised if the gap increases again.**

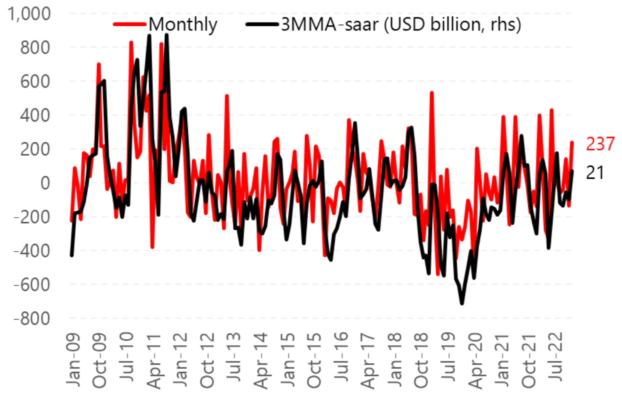
All in all, January 2023 figures continued to show better prospects for the financial segment rather than for the commercial segment lately. Unfortunately, we believe the recent friction in the domestic political front may weigh on financial inflows ahead, which lead us to expect the BRL to weaken as the year unfolds.

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



Sources: Brazilian Central Bank, Santander.

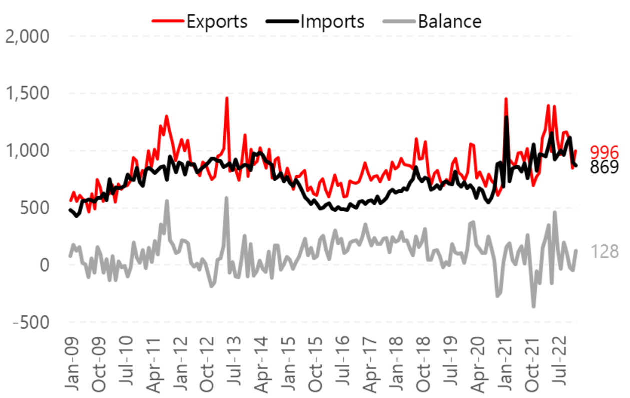
Figure 2. Net Spot FX Flows
(USD million, daily avg, sa)



Sources: Brazilian Central Bank, Santander.

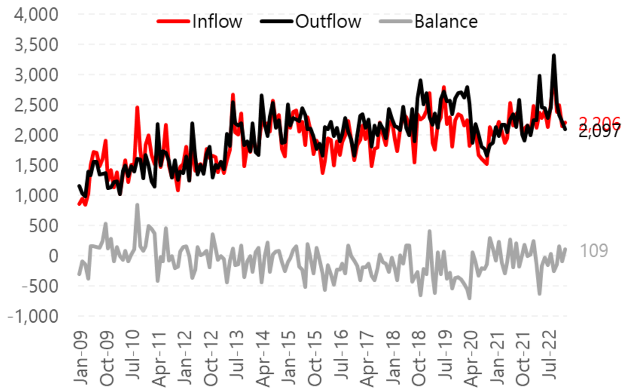
The Brazilian spot FX market recorded net inflows of USD4.2 billion in January 2023, with both the commercial and financial segments registering positive figures in the period (USD1.8 billion and USD2.4 billion, respectively). Looking at the recent data for seasonally adjusted daily average flows of the different components of the spot FX market, all of them improved last month, thus reinforcing the seesaw pattern they have followed recently. Nonetheless, despite the marginal enhancement in January 2023, the data indicates that the 3MMA-saar gauges of the commercial and financial segments' daily averages continued to imply a declining trajectory for the former and the opposite trend for the latter. That is, it looks like the divergent perceptions about the domestic environment continued to prevail.

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



Sources: Brazilian Central Bank, Santander.

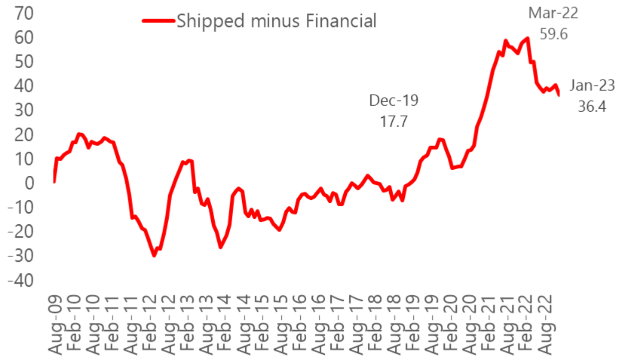
Figure 4. Spot FX Flows – Financial Segment
(USD million, daily avg, sa)



Sources: Brazilian Central Bank, Santander.

In our view, this dichotomy could indicate on the one hand that the prospect of continued high interest rates in Brazil has stopped luring exporters to the domestic fixed income market and kept the gap between the shipped trade balance and its financial settlements at its recent lows (USD36.4 billion last month compared with the USD59.6 billion peak seen in March 2022). On the other hand, it could also indicate that foreign investors have become more confident on the prospects for the Brazilian economy in the near future. In our view, this backdrop could provide some insulation against episodes of extreme BRL weakening in the coming months. Nonetheless, we believe the recent friction in the domestic political ambience may damage this confidence soon, as it raises uncertainties about the economic measures that the newly-sworn-in administration will pursue. Hence, as uncertainties on the domestic front and turbulence on the international front persist, we still see 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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