DATA ANALYSIS – SPOT FX FLOWS

COMMERCIAL SURGE VS. FINANCIAL RETREAT

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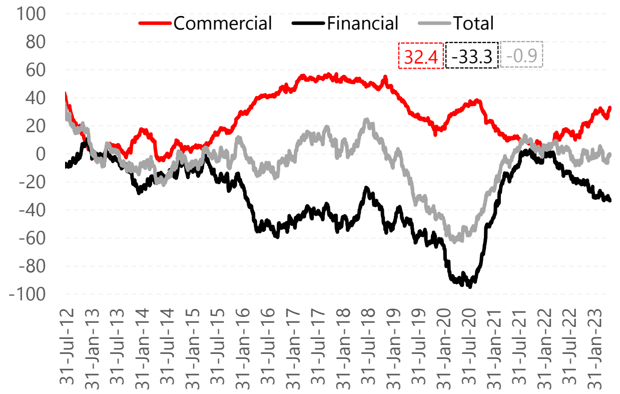
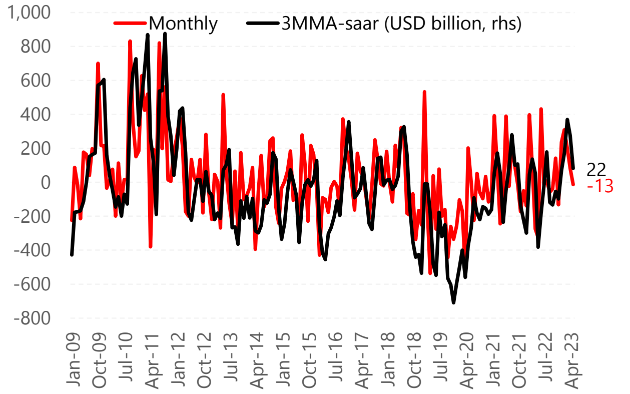
- **The Brazilian spot FX market registered net outflows of USD1.5 billion in May 2023, stemming from net inflows in the commercial segment (USD6.6 billion) and net outflows in the financial segment (USD8.1 billion). These figures compare with net outflows of USD6.7 billion a year ago, when the commercial segment registered net outflows of USD0.6 billion, accompanied by net outflows of USD6.1 billion in the financial segment.**
- **The spot FX market reached net inflows of USD11.8 billion in year-to-date terms (factoring out the data for the first two days of June 2023), exceeding the USD8.6 billion net inflows observed a year ago. As in the first five months of 2022 — when the commercial segment registered a positive balance and the financial segment saw outflows — the commercial segment managed to record net inflows (USD25.2 billion vs. USD13.5 billion in 2022), while the financial segment showed a negative figure (net outflows of USD13.4 billion in 2023 vs. net outflows of USD4.9 billion last year).**
- **In seasonally adjusted terms, we saw daily average export incomes running at USD1.3 billion, while daily average import payments were USD1.0 billion, leading the commercial segment to remain nearly unchanged vis-à-vis the previous reading. In turn, while daily average financial income stayed at USD2.3 billion, daily average financial expenditures also remained unchanged at USD2.6 billion, which kept the financial segment in negative territory for the third month in a row.**
- **The segments' short-term trends (depicted by their 3MMA-saar gauges) point to a pause in the ascendant trend of the commercial segment and the consolidation of a downward route for the financial segment, which could indicate a marginally smaller repatriation of money to the country by exporters and an even more cautious approach by foreigners, stemming from continuing uncertainties around the direction of the country's economic policy.**
- **Regarding the gap between the shipped trade balance and its financial settlements, in yesterday's release it was USD38.3 billion in 12-month terms 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 continue to be as cautious as foreigners about the country's economic situation.**
- **All in all, May 2023 figures continued to hint at favorable prospects for net spot FX flows, but with some signs of accommodation at the margin, which lead us to continue to expect 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.

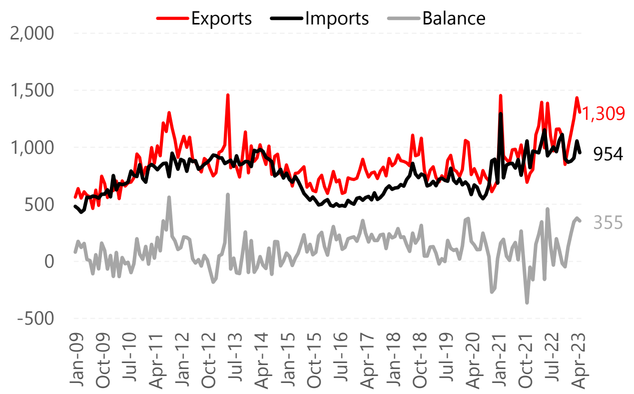
Figure 2. Net Spot FX Flows (USD million, daily avg, sa)



Sources: Brazilian Central Bank, Santander.

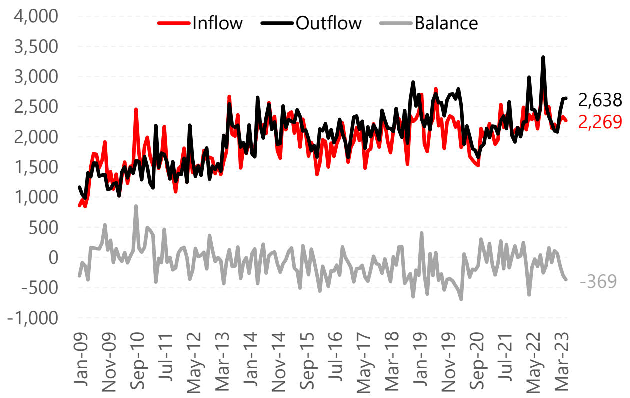
The Brazilian spot FX market recorded net outflows of USD1.5 billion in May 2023, with the commercial segment registering a positive figure in the period (USD6.6 billion), which was more than offset by a negative print in the financial segment (USD8.1 billion). Looking at the recent data for seasonally adjusted daily average flows of the different components of the spot FX market, all but financial outflows receded last month, with anticipation of export revenue outpacing import payments, and financial expenditures outpacing financial income deals. These numbers point to a pause in the recent upward trend of the commercial segment and the consolidation of a downward route for the financial segment. These patterns were underlined by their 3MMA-saar gauges.

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



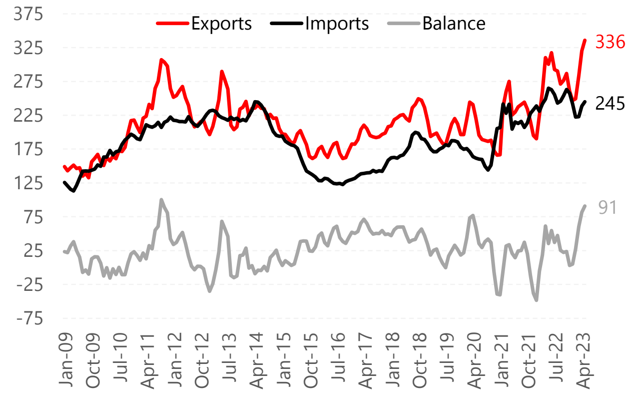
Sources: Brazilian Central Bank, Santander.

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



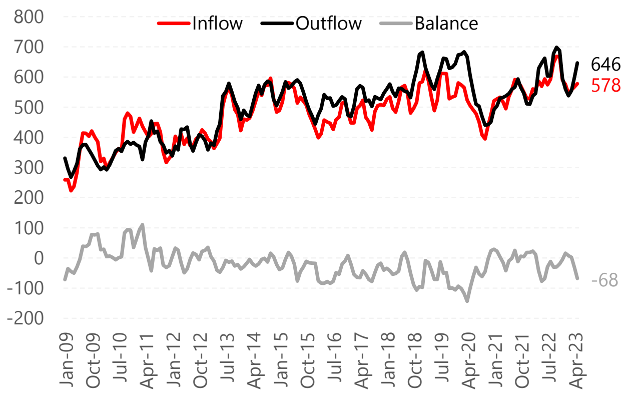
Sources: Brazilian Central Bank, Santander.

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



Sources: Brazilian Central Bank, Santander.

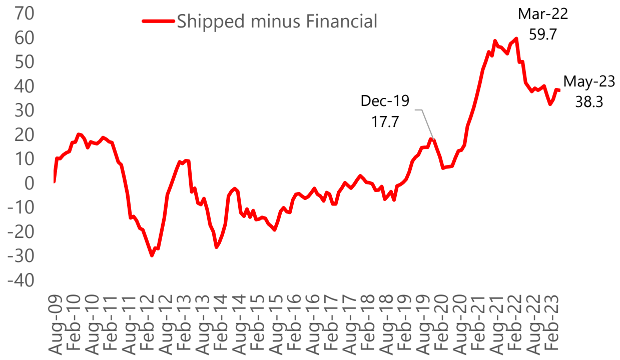
Figure 6. Spot FX Flows – Financial Segment (USD billion, 3MMA-saar)



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 remained unchanged for the second month in a row (at USD38.3 billion vs. USD34.6 billion in March and USD32.5 billion in February), which could indicate some loss of appetite for repatriation lately, in our view. Therefore, we believe that exporters are keeping a foot on foreign ground. In our opinion, this behavior reflects skepticism regarding the lack of coordination between monetary and fiscal policy, despite the approval of the new fiscal framework in the Brazilian Lower House two weeks ago. The same sentiment that is leading foreign investors to stay put for now reinforces supports our view that there is limited room for the BRL to show durable strengthening in the absence of a new round of constructive news on the domestic front and less jittery conditions abroad.

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



Sources: Brazilian Central Bank, SECINT, Santander.

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