MACRO BRAZIL

September 6, 2023

DATA ANALYSIS – SPOT FX FLOWS

WAITING FOR BETTER NEWS

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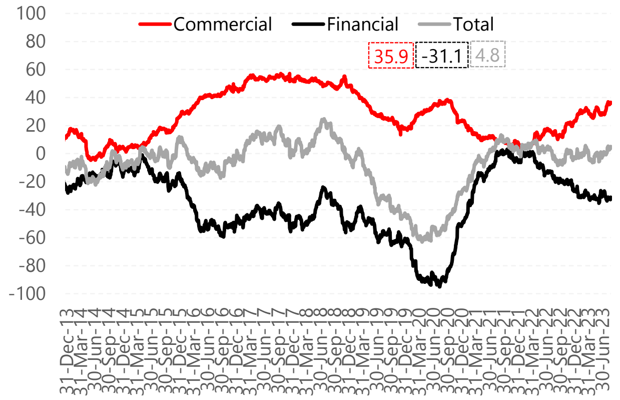
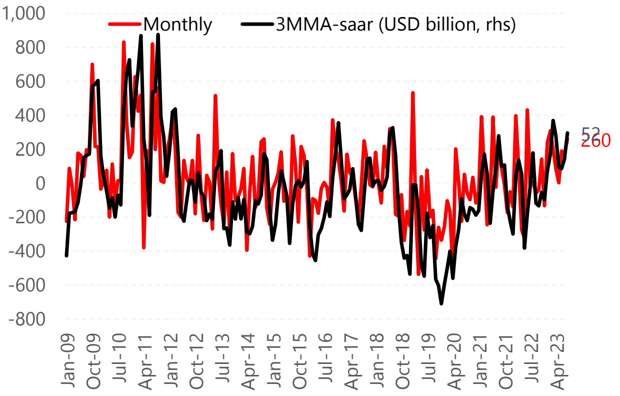
- **The Brazilian spot FX market registered net inflows of USD4.8 billion in August 2023, as a result of net inflows in the commercial segment (USD5.8 billion) and net outflows in the financial segment (USD1.0 billion). These figures compare with net outflows of USD0.9 billion a year ago, when the commercial segment registered net outflows of USD0.1 billion, accompanied by net outflows of USD0.8 billion in the financial segment.**
- **Year-to-date, the spot FX market registered net inflows of USD21.8 billion (factoring out the data for September 1, 2023), exceeding the USD14.0 billion net inflows observed a year ago. The commercial segment registered net inflows of USD40.0 billion YTD and the financial segment registered net outflows of USD18.2 billion YTD, repeating the pattern seen in 2022 (net inflows of USD24.5 billion and net outflows of USD10.5 billion, respectively).**
- **In seasonally adjusted terms, we saw daily average export incomes in August running at USD1.2 billion, while daily average import payments were USD0.9 billion, leading the commercial segment to improve vs. July. In turn, daily average financial income reached USD2.2 billion and daily average financial expenditures totaled USD2.3 billion, which led the financial segment to remain in the negative territory for the sixth month in a row.**
- **Short-term trends (3MMA-saar gauges) point to an extension in the declining trend of the commercial segment and smaller outflows in the financial segment at the margin. This could indicate a marginally less repatriation of money by exporters and an even more cautious approach by foreigners, stemming from continuing uncertainties on the domestic fiscal front and recent jitters abroad.**
- **Regarding the gap between the shipped trade balance and its financial settlements, it reached USD44.6 billion in 12-months ended in August compared to the peak of USD59.7 billion in March 2022 and the trough of USD32.4 billion seen in February 2023. Thus, in our view, exporters are refraining from repatriating their money, which signals they continue to be as cautious as foreigners about recent developments on both the domestic and international fronts.**
- **All in all, although August 2023 figures showed net spot FX inflows, we believe there are some signs of accommodation at the margin, which lead us to continue to believe that the BRL has limited room for strengthening as the year unfolds.**

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



Sources: Brazilian Central Bank, Santander.

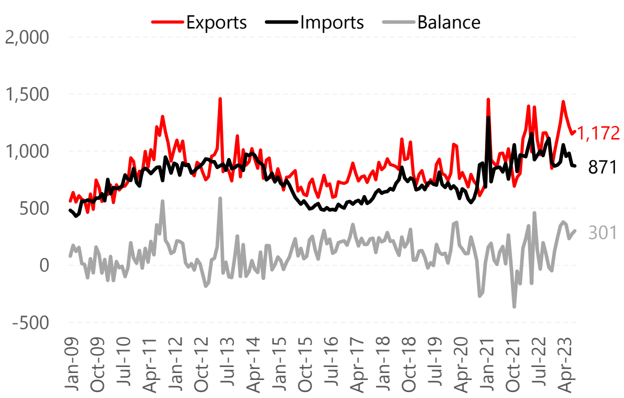
Figure 2. Net Spot FX Flows (USD million, daily avg, sa)



Sources: Brazilian Central Bank, Santander.

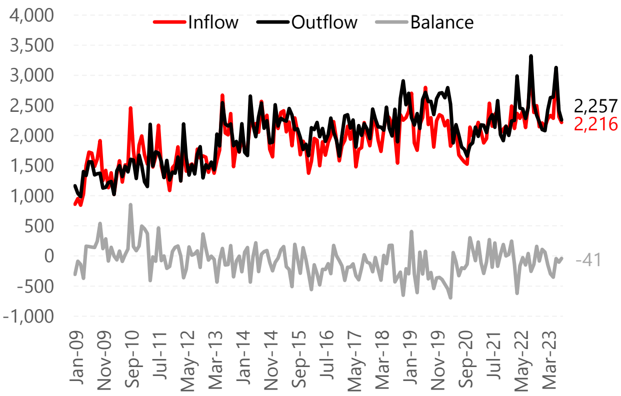
The Brazilian spot FX market recorded net inflows of USD4.8 billion in Aug 2023, with the commercial segment registering a positive figure in the period (USD5.8 billion), which more than offset the negative print in the financial segment (USD1.0 billion). Looking at the recent data for seasonally adjusted daily average flows of the different components of the spot FX market, all but export incomes declined last month, with financial expenditures outpacing financial income deals. 3MMA-saar gauges now indicate a consolidation of a downward trend for the commercial segment and a pause in the recent downward trend of the financial segment.

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



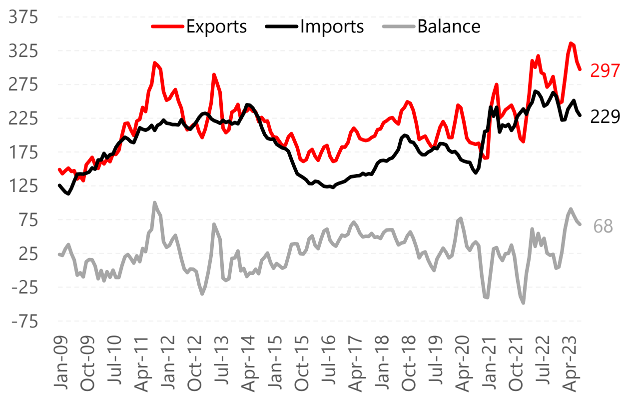
Sources: Brazilian Central Bank, Santander.

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



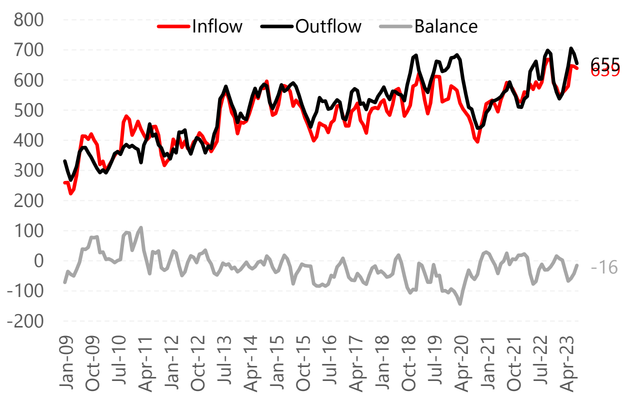
Sources: Brazilian Central Bank, Santander.

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



Sources: Brazilian Central Bank, Santander.

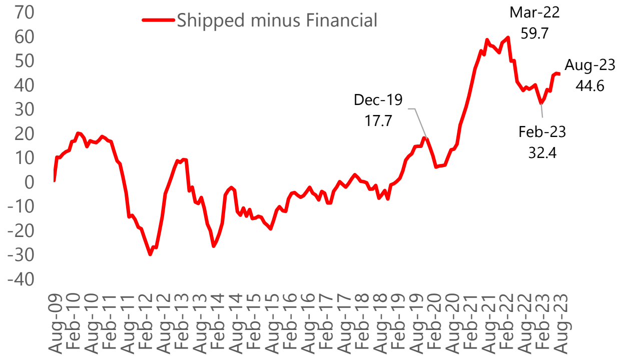
Figure 6. Spot FX Flows – Financial Segment (USD billion, 3MMA-saar)



Sources: Brazilian Central Bank, Santander.

In our view, this could imply that the prospect of a protracted monetary easing cycle in Brazil is luring exporters to the domestic fixed income market. Nonetheless, the gap between the shipped trade balance and its financial settlements remained nearly unchained between July and August 2023 (from USD44.8 billion to USD44.6 billion, respectively) and above the trough of USD32.5 billion seen in February. This may indicate some loss of appetite for repatriation lately, in our opinion. Therefore, we believe that exporters are still keeping a foot on foreign ground. In our opinion, this behavior reflects skepticism toward the implementation of the newly approved Brazilian fiscal framework and to the uncertain financial climate in advanced economies. 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 strengthen in the absence of constructive news on the domestic front and less jittery conditions abroad.

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



Sources: Brazilian Central Bank, SECINT, Santander.

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