



LOSING STEAM

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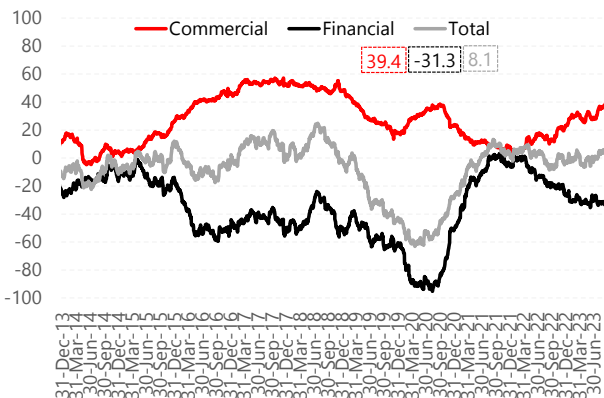
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- The Brazilian spot FX market registered net outflows of USD1.7 billion in September 2023, stemming from net inflows in the commercial segment (USD3.4 billion) and net outflows in the financial segment (USD5.0 billion). These figures compare with net outflows of USD5.1 billion a year ago, when the commercial segment registered net inflows of USD0.8 billion, accompanied by net outflows of USD5.8 billion in the financial segment.
- The spot FX market registered net inflows of USD20.6 billion in YTD terms, exceeding the USD8.9 billion net inflows observed a year ago. The commercial segment registered net inflows of USD42.9 billion YTD and the financial segment registered net outflows of USD22.2 billion YTD, similar to the pattern seen in 2022 (net inflows of USD25.2 billion vs. net outflows of USD16.3 billion last year).
- In seasonally adjusted terms, we saw daily average export incomes in September running at USD1.2 billion, while daily average import payments were USD1.0 billion, leading to a weaker commercial segment vs. August. In turn, daily average financial income reached USD2.5 billion and daily average financial expenditures totaled USD2.7 billion, both leading the financial segment to remain in the negative territory for the seventh month in a row.
- The segments' short-term trends (depicted by their 3MMA-saar gauges) point to an extension in the downward trend of the commercial segment and an interruption in the upward trend of 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 the recent macroeconomic jitters abroad.
- Regarding the gap between the shipped trade balance and its financial settlements, it reached USD46.0 billion in the 12-months ended September 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 money, implying that they continue to remain as cautious as foreigners about recent developments on both the domestic and international fronts.
- All in all, September data continued to show signs of accommodation in the spot FX flows seen in August, which underpins our view that the BRL has limited room for strengthening as the year unfolds. A move that has been reinforced by recent developments abroad as well.

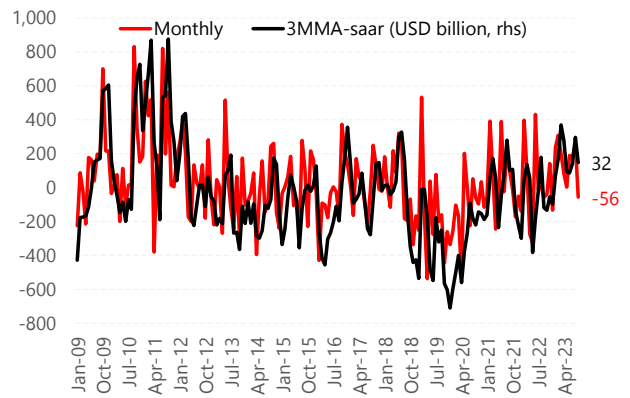


Figure 1. Spot FX Flows (USD billion, 12M)



Sources: Brazilian Central Bank, Santander.

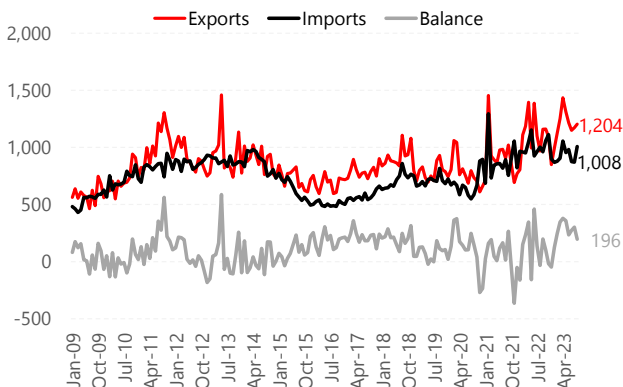
Figure 2. Net Spot FX Flows (USD million, daily avg, sa)



Sources: Brazilian Central Bank, Santander.

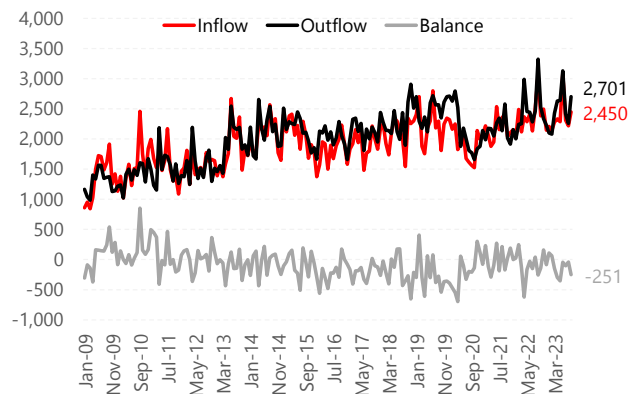
The Brazilian spot FX market recorded net outflows of USD1.7 billion in August 2023, with the commercial segment registering a positive figure in the period (USD3.4 billion). This was not enough to offset the negative print in the financial segment (USD5.0 billion). Looking at the recent data for seasonally adjusted daily average flows of the different components of the spot FX market, all increased last month, with financial expenditures outpacing financial income deals and export incomes continuing to exceed import payments. The 3MMA-saar gauges now point to a consolidation in the downward trend of the commercial segment and a pause in the recent upward trend of the financial segment.

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



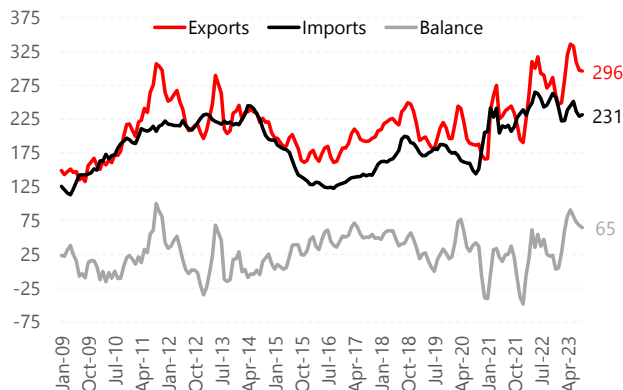
Sources: Brazilian Central Bank, Santander.

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



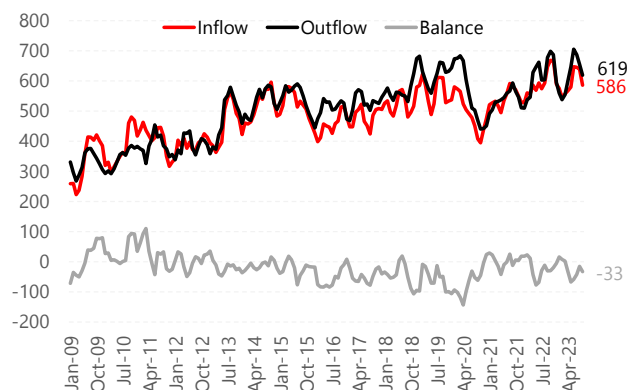
Sources: Brazilian Central Bank, Santander.

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)



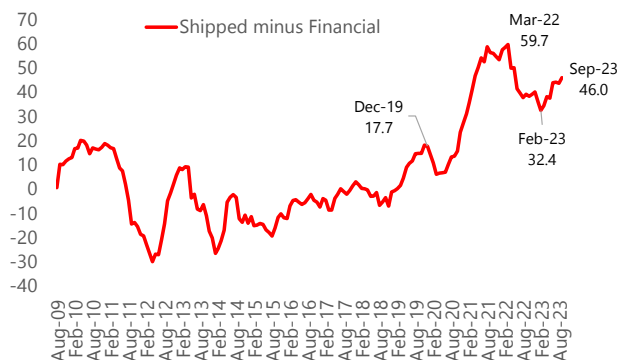
Sources: Brazilian Central Bank, Santander.

In our view, the net inflows observed in the commercial segment could imply that the prospect of a gradual 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 widened between August and September 2023 (from USD43.7 billion to USD46 billion, respectively), a level far 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 maintaining some presence on foreign ground. In our opinion, this behavior reflects skepticism towards (i) the implementation of the newly approved Brazilian fiscal framework and (ii) 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 macroeconomic conditions abroad – notwithstanding the constructive backdrop of the Brazilian balance of payments.

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



Sources: Brazilian Central Bank, SECINT, Santander.



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