MACRO BRAZIL

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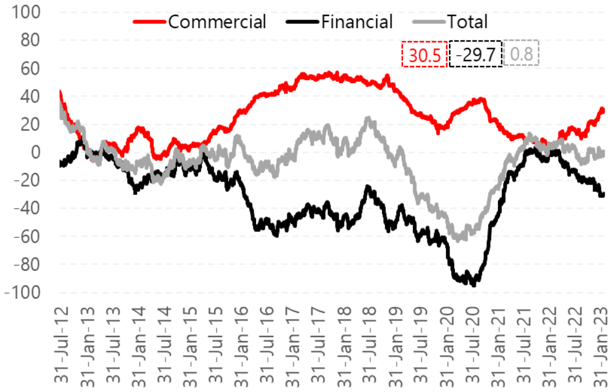
DATA ANALYSIS – SPOT FX FLOWS

A GOOD KICK-OFF

Jankiel Santos*
jankiel.santos@santander.com.br
+5511 3012-5726

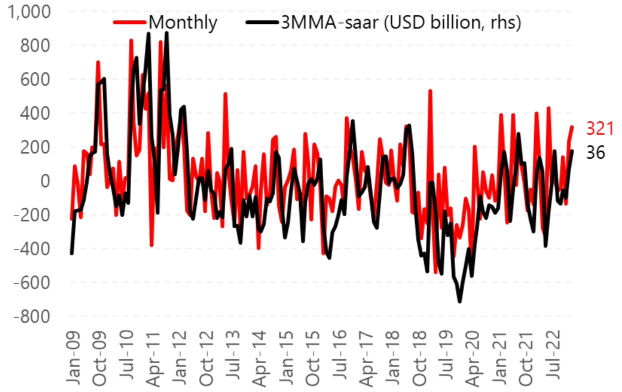
- **The Brazilian spot FX market registered net inflows of USD5.0 billion in February 2023, stemming from net inflows in both the commercial and financial segments (USD3.8 billion and USD1.2 billion, respectively). These figures compare with net inflows of USD5.7 billion a year ago, when the commercial segment registered net inflows of USD2.4 billion, which were accompanied by net inflows of USD3.3 billion in the financial segment.**
- **Adding up the figures for the three first days of March, the spot FX market reached net inflows of USD10.0 billion in year-to-date terms, as the commercial segment amassed net inflows of USD6.5 billion, and the financial segment recorded net inflows of USD3.5 billion, respectively, in the same terms. It is a better kick-off than the net inflows of USD6.9 billion observed in 2022 in the same terms, which relied mainly on the financial segment (USD8.8 billion) as the commercial segment registered outflows of USD1.9 billion in that period.**
- **In seasonally adjusted terms, we saw daily average export incomes running at USD1.1 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 income stood at USD2.1 billion and daily average financial expenditures reached the same level, which led the financial segment to recede marginally as compared with January 2023.**
- **The segments' short-term trends (depicted by their 3MMA-saar gauges) changed slightly from their recent trajectories: a pause in the descendant path for the commercial segment and a halt in the ascendant route for the financial segment, which may indicate a narrower divergence between the local view (exporters stopping to refrain from repatriating money) and the foreign perception (foreigners continuing to bring money to the country). If these trends do not ease in the coming weeks, we believe this could translate into a more constructive backdrop for the BRL in the short term.**
- **Regarding the gap between the shipped trade balance and its financial settlements, today's release brought it to USD32.9 billion in 12-month terms compared to the peak of USD59.7 billion observed in March 2022, thus breaking the relatively steady behavior of late and reinforcing the positive prospects for the BRL.**
- **All in all, February 2023 figures showed better prospects for commercial segment and the continuation of a favorable backdrop for the financial segment. However, we believe that uncertainties regarding the coordination of the fiscal and monetary policies will weigh on FX flows ahead, 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.

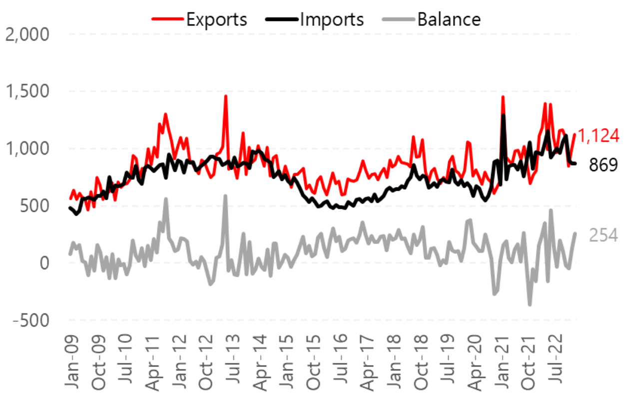
Figure 2. Net Spot FX Flows (USD million, daily avg, sa)



Sources: Brazilian Central Bank, Santander.

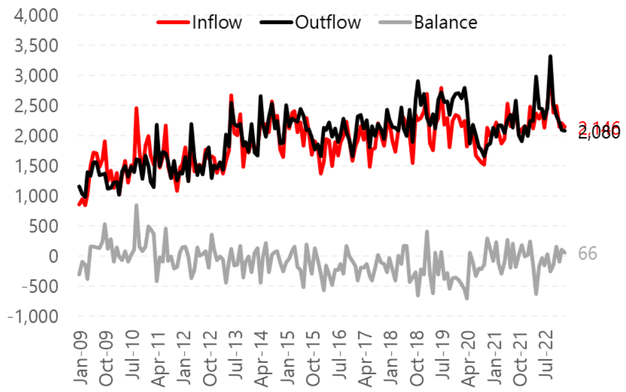
The Brazilian spot FX market recorded net inflows of USD5.0 billion in February 2023, with both the commercial and financial segments registering positive figures in the period (USD3.8 billion and USD1.2 billion, respectively). Looking at the recent data for seasonally adjusted daily average flows of the different components of the spot FX market, just the anticipation of export revenue improved last month, while anticipation of import payments remained unchanged and financial deals receded (both inflows and outflows, although the latter did it in a milder fashion than the former). The outcomes reinforced the seesaw pattern they have followed recently. Nonetheless, the 3MMA-saar gauges of the commercial and financial segments' daily averages indicated a halt in their recent trajectories, thus indicating a smaller divergence in the perceptions about the domestic environment.

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



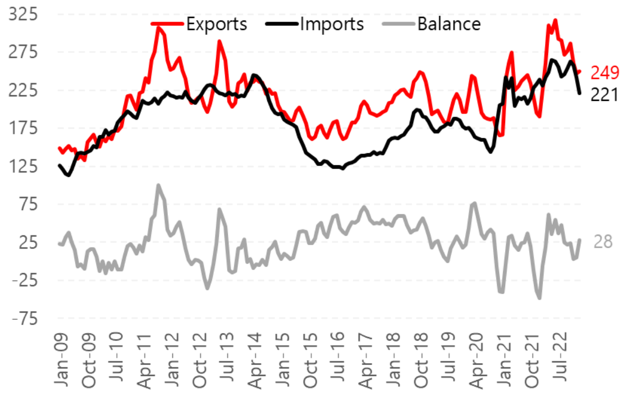
Sources: Brazilian Central Bank, Santander.

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



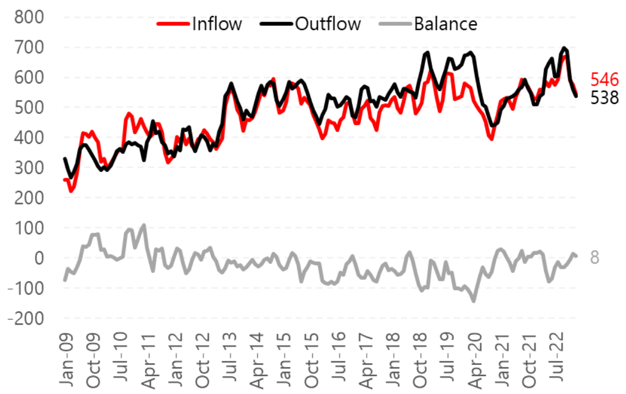
Sources: Brazilian Central Bank, Santander.

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



Sources: Brazilian Central Bank, Santander.

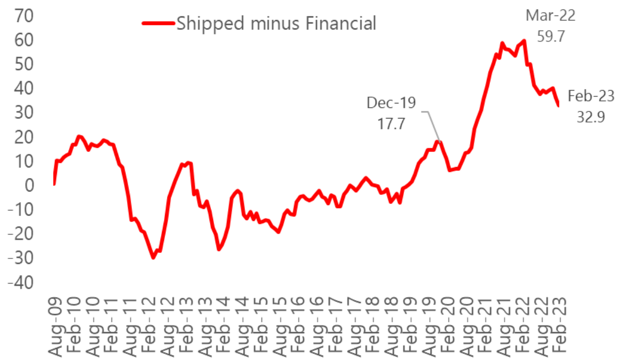
Figure 6. Spot FX Flows – Financial Segment (USD billion, 3MMA-saar)



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 led the gap between the shipped trade balance and its financial settlements to fall compared with previous readings (USD32.9 billion last month compared with the USD38.6 billion average seen between August 2022 and January 2023). In addition, it could also indicate that foreign investors remain 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 that uncertainties regarding the coordination of fiscal and monetary policies may damage this confidence soon. This backdrop combined with the persistence of turbulence on the international front maintain our view that there is a 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.

CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research			
Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Lucas Maynard*	Economist – Economic Activity	lucas.maynard.da.silva@santander.com.br	5511-3553-7495
Felipe Kotinda*	Economist – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Fabiana Moreira*	Economist – Credit	fabiana.de.oliveira@santander.com.br	5511-3553-6120
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327
Global Macro Research			
Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Rodrigo Park *	Economist – Argentina	rpark@santander.com.ar	54-11-4341-1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500
Fixed Income Research			
Juan Arranz*	Chief Rates & FX Strategist – Argentina	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Oreng*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778
Equity Research			
Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Mariana Cahen Margulies*	Head, Brazil	mmargulies@santander.com.br	5511-3553-1684
Electronic			
Bloomberg		SIEQ <GO>	
Reuters		Pages SISEMA through SISEMZ	

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