BRAZIL MACRO

January 4, 2023

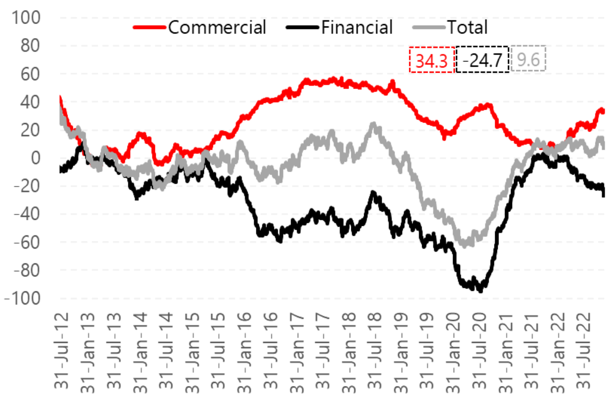
DATA ANALYSIS – EXTERNAL SECTOR

WAITING FOR ANSWERS

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

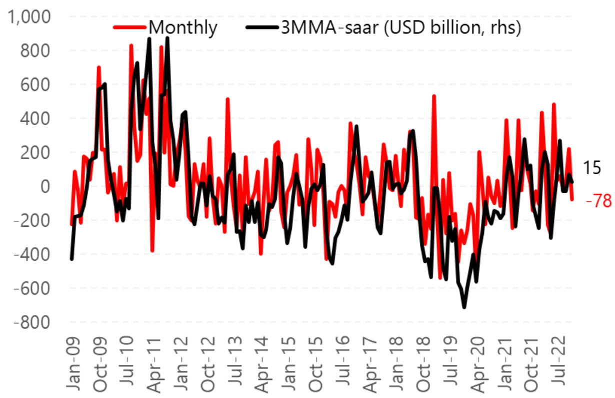
- **The Brazilian spot FX market registered net outflows of USD12.5 billion in December 2022, stemming from negative figures in both the commercial and financial segments (net outflows of USD0.5 billion and USD12.0 billion, respectively). Despite the negative performance last month, the country managed to register net inflows of USD9.6 billion for full year 2022—the largest amount since 2012 (USD16.7 billion)—as net inflows of USD34.3 billion in the commercial segment more than offset net outflows of USD24.7 billion in the financial segment, a replay of the mix recorded in 2021.**
- **However, the annual positive result masked a change in the seasonally adjusted trend for the segments at the margin: the commercial segment has lost steam since 2Q22, while the financial segment has strengthened. We consider this is a curious development, especially given that (i) the Brazilian trade balance reached a record surplus last year, which should have led exporters to repatriate export revenue into the country, and (ii) electoral uncertainty increased between 3Q22 and 4Q22, which should have curbed foreign investors' interest in putting money into Brazil. Regardless of this oddity, the upshot is that spot FX flows continued to point toward a positive balance, when we consider the aggregate trajectory of their 3MMA-saar gauges.**
- **The commercial segment's loss of steam has also translated into a deceleration in the shrinkage of the gap between the shipped trade balance and its financial settlements in 12-month terms. According to our calculations, after declining to USD27.2 billion in October 2022 from USD55.7 billion in March 2022, the gap ended 2022 at USD28.0 billion.**
- **Will exporters cause the gap between the shipped trade balance and its financial settlements to resume shrinking? Will foreign investors continue to put money into the country? We believe the answers to these questions will require a clear picture of the economic measures that the newly-sworn-in administration could announce in the coming weeks.**

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



Sources: Brazilian Central Bank, Santander.

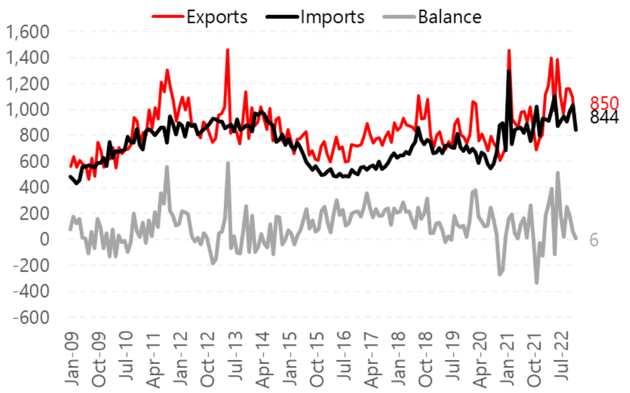
Figure 2. Net Spot FX Flows
(USD million, daily avg, sa)



Sources: Brazilian Central Bank, Santander.

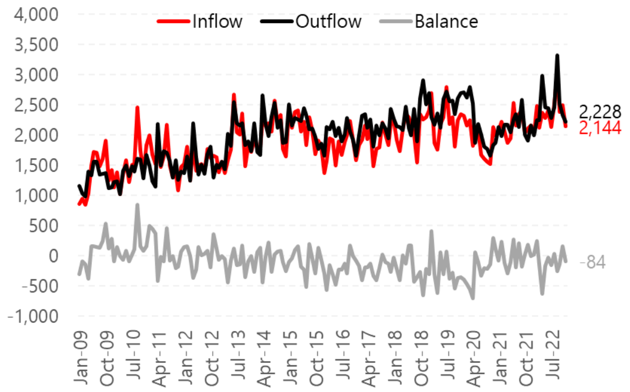
The Brazilian spot FX market recorded net outflows of USD12.5 billion in December 2022, with both the commercial and financial segments registering negative figures in the period (USD0.5 billion and USD12.0 billion, respectively). Hence, for full year 2022, the country registered net inflows of USD9.6 billion, which was the largest volume since 2012, when the Brazilian spot FX market reported net inflows of USD16.7 billion. Looking at the recent data for seasonally adjusted daily average flows of the different components of the spot FX market, all of them receded last month, but the commercial segment managed to eke out a still positive result, while the financial segment swung back into negative territory after a two-month streak of net inflows. Despite the divergent figures in December, they indicate to us 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.

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



Sources: Brazilian Central Bank, Santander.

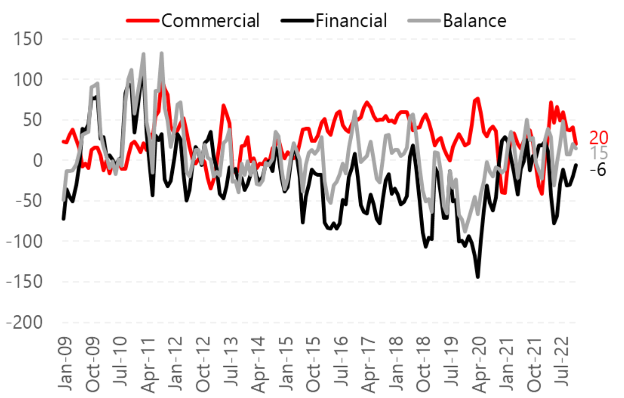
Figure 4. Spot FX Flows – Financial Segment (USD million, daily avg, sa)



Sources: Brazilian Central Bank, Santander.

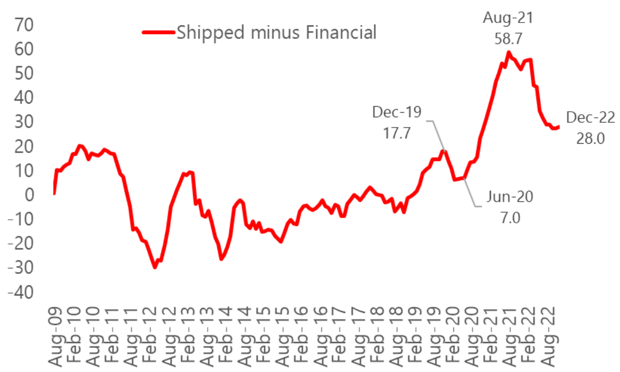
In our view, this dichotomy could indicate on the one hand that the prospect of continued high interest rates in Brazil has stopped luring exporters to the domestic fixed income market and kept the gap between the shipped trade balance and its financial settlements at its recent lows—the gap ended 2022 at USD28.0 billion, barely changed compared with the USD27.5 billion reported in November. On the other hand, it could also indicate that foreign investors have become more confident in 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, will exporters cause the gap between the shipped trade balance and its financial settlements to resume shrinking? Will foreign investors continue to put money into the country? We believe the answers to these questions will require a clear picture of the economic measures that the newly-sworn-in administration could announce in the coming weeks. 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. Spot FX Flows (USD billion, 3MMA-saar)



Sources: Brazilian Central Bank, Santander.

Figure 6. 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
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