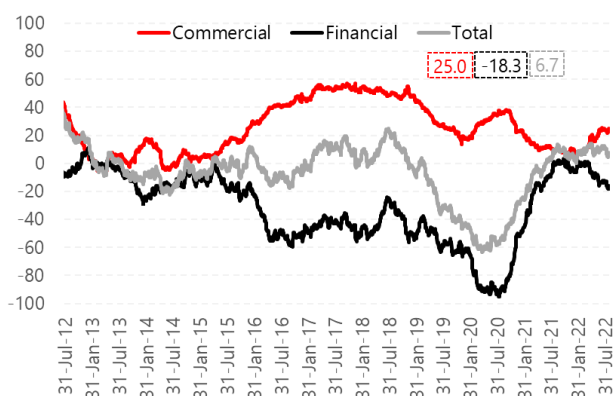


## A BALANCED BACKDROP

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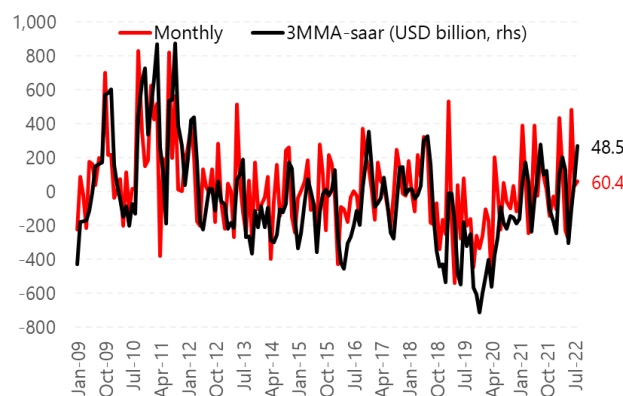
- The Brazilian spot FX market recorded net inflows of US\$0.2 billion in August 2022, with the commercial segment recording net inflows of US\$1.0 billion and the financial segment seeing net outflows of US\$0.8 billion in the period. Last month's outcome marked a three-month streak of positive figures that began in June 2022, thus pushing YTD net inflows to US\$21.2 billion (or US\$7.4 billion in the 12-month period leading to the end of August).
- In seasonally adjusted terms, both segments improved last month, but the financial segment outpaced the commercial segment. The former recorded daily average inflows of US\$42 million, while the latter printed daily average inflows of US\$19 million. We highlight the maintenance of a seesaw pattern in the commercial segment in August 2022, but on a positive note, this pattern may indicate a stronger appetite for exporters to repatriate their money. In addition, financial flows have also maintained their (recent) upward trend, thus also indicating stronger interest in Brazilian financial assets in the domestic market. As for the gap between shipped and financial trade balances, it continued to narrow, reaching US\$29.2 billion, the tightest gap since January 2021.
- All in all, spot FX flows continue to point to some support for the BRL to avoid strong weakening. On the other hand, however, we think that hostile economic conditions abroad and lingering uncertainties on the domestic front could limit room for a strengthening BRL.

**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 US\$0.2 billion in August 2022, with the commercial segment's US\$1.0 billion in net inflows accompanied by financial segment's net outflows of US\$0.8 billion. Looking at the recent data for seasonally adjusted daily average flows of the different components of the spot FX market, though we note that anticipation of both import payments and export proceeds has seesawed lately, for the latter this anticipation has been higher level than for the former, thus leading to improvement in the commercial segment's recent performance. Regarding the financial segment, although outflows increased last month, the volume of inflows improved more, thereby ending a five-month streak of negative prints.

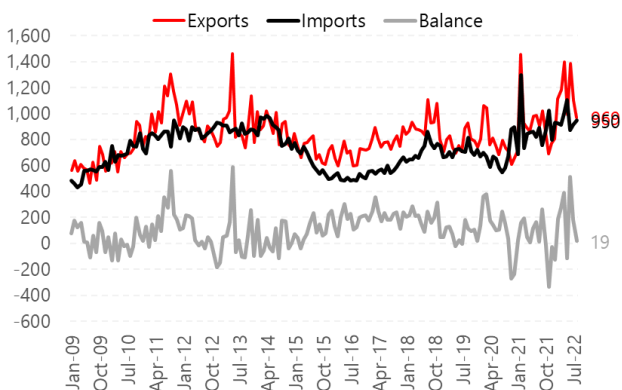
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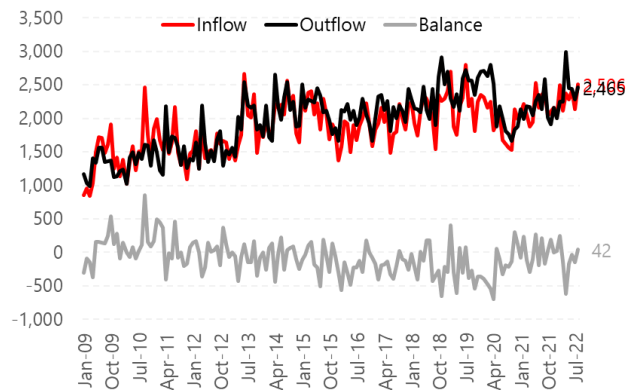


**Figure 3. Spot FX Flows – Commercial Segment (USD million, daily avg, sa)**



Sources: Brazilian Central Bank, Santander.

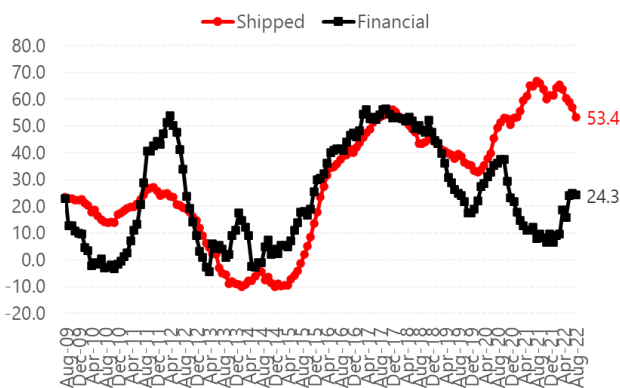
**Figure 4. Spot FX Flows – Financial Segment (USD million, daily avg, sa)**



Sources: Brazilian Central Bank, Santander.

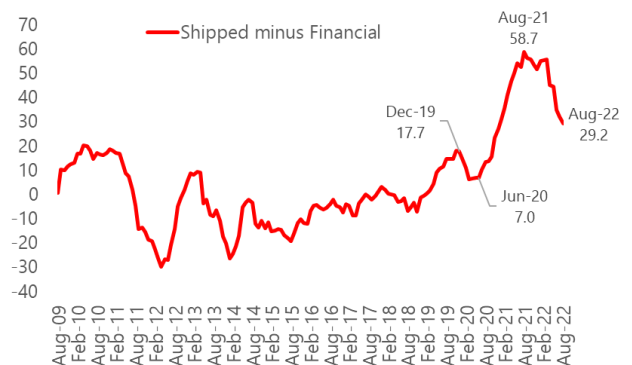
In our view, the commercial segment’s continued positive results could indicate that the prospect for the maintenance of high interests in Brazil has lured exporters to the domestic fixed income market and led to a narrowing of the gap between the shipped trade balance and their financial settlements—the US\$29.2 billion gap in August is the narrowest since January 2021 (US\$31.0 billion). This backdrop seems to provide some insulation against episodes of extreme BRL weakening in the coming months. We also note that these prospects have led financial flows to improve lately, thus giving us more confidence in the limited room for USD/BRL weakening. However, as uncertainties persist on the domestic front and turbulence arises on the international front, we also see a limited path for the BRL to follow a long-lasting strengthening trend.

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



Sources: Brazilian Central Bank, SECINT, Santander.

**Figure 6. Trade Balance Shipped vs Financial (USD billion, 12M-to-date)**



Sources: Brazilian Central Bank, SECINT, Santander.



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