Santander
Macroeconomic Research

BRAZIL MACRO

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DATA ANALYSIS – EXTERNAL SECTOR

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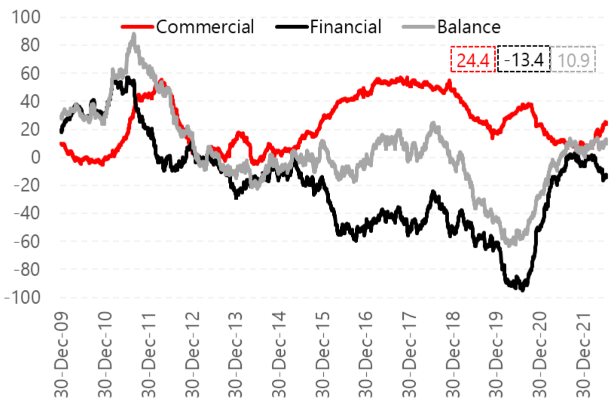
COMING HOME

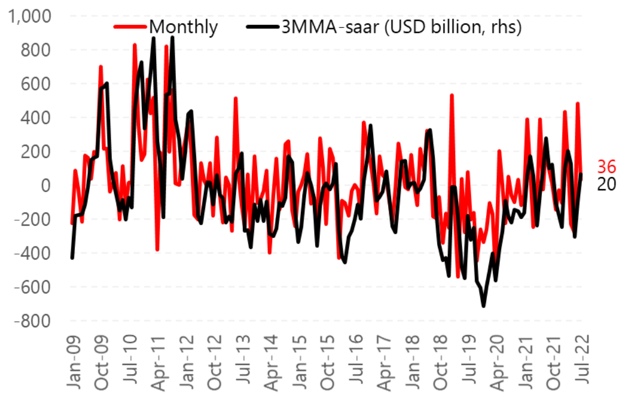
- **The Brazilian spot FX market recorded net inflows of US$1.8 billion in July 2022, with the positive outcome registered by the commercial segment more than offsetting the negative result seen in the financial segment. While the former recorded net inflows of US$3.0 billion, the latter registered net outflows of US$1.1 billion during the month.**
- **July was the fifth month in a row in which the commercial segment headed north and the financial segment went south, but with commercial inflows outweighing financial outflows, which led to a positive balance in YTD terms. The same pattern was observed in 12-month terms, with net inflows of US$24.4 billion in the commercial segment counterbalancing net outflows of US$13.4 billion in the financial segment.**
- **In seasonally adjusted terms, both segments worsened last month, but the commercial segment continued to outpace the financial segment. The former recorded daily average inflows of US$185 million, while the latter printed daily average outflows of US$149 million. However, we think it is important to note the maintenance of a high positive level in the commercial segment in July 2022, which may point to a stronger appetite for exporters to repatriate their money. The gap between the shipped and financial trade balances continued to shrink and reached US$32.4 billion, the lowest level since January 2021.**
- **All in all, we think this improving trend in the commercial flows—in tandem with a higher level of interest rate—should provide some insulation against an extreme weakening of the BRL in the coming months. However, we continue to believe that a lasting strengthening of the BRL will hinge on overcoming uncertainties related to political and fiscal issues on the domestic front.**

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



Sources: Brazilian Central Bank, Santander.

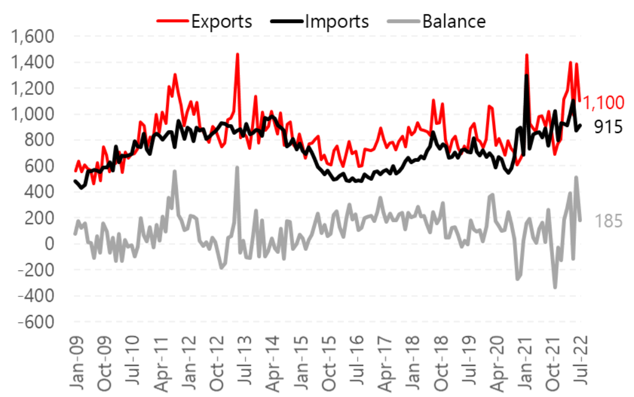
Figure 2. Net Spot FX Flows
(USD million, daily avg, sa)



Sources: Brazilian Central Bank, Santander.

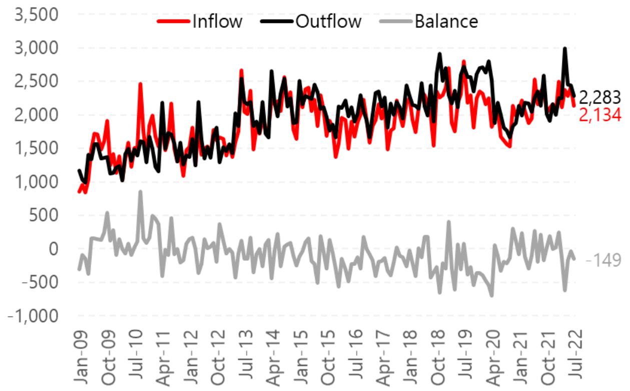
The Brazilian spot FX market recorded net inflows of US$1.8 billion in July 2022, with the US$3.0 billion net inflows in the commercial segment accompanied by financial segment's net outflows of US$1.1 billion. Taking a look at the recent data for seasonally adjusted daily average flows of the different components of the spot FX market, we note that anticipation of both import payments and export proceeds have seesawed lately, but that for the latter has been at a higher level than the former, thus leading to an improvement in the commercial segment's recent performance. Regarding the financial segment, although we witnessed outflows receding from the peak observed in April 2022, the volume of inflows have also lost steam lately, which resulted in a five-month streak of negative prints.

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



Sources: Brazilian Central Bank, Santander.

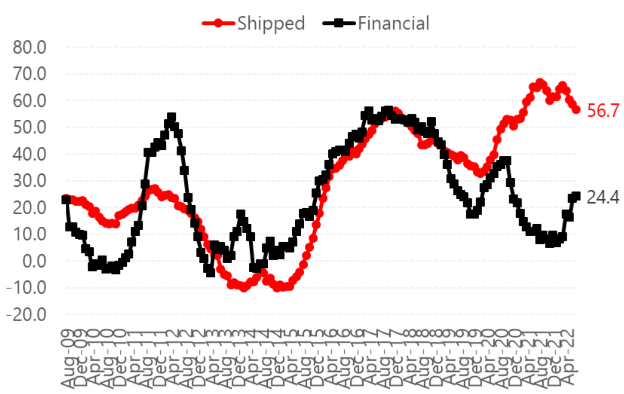
Figure 4. Spot FX Flows – Financial Segment (USD million, daily avg, sa)



Sources: Brazilian Central Bank, Santander.

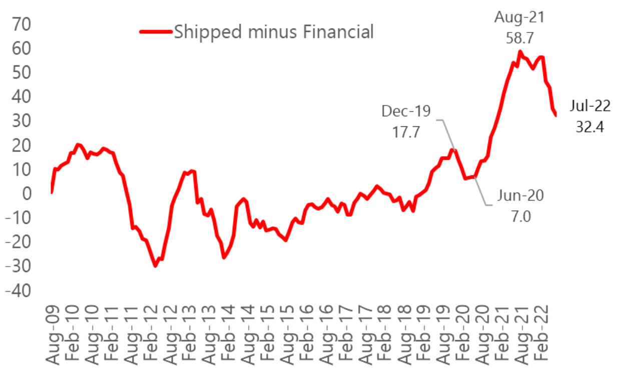
In our view, the improvement observed in the commercial segment may be an indication that prospects for the maintenance of a high interest level in Brazil have lured exporters to the domestic fixed income market and led to a shrinkage in the gap between the shipped trade balance and their financial settlements–the US$32.4 billion gap in July is the lowest level observed since January 2021 (US$31.0 billion). This backdrop seems to provide some insulation against episodes of extreme weakening of the BRL in the coming months. However, we think it is also important to note that these prospects have not led financial flows to increase as uncertainties persist on the domestic front and turbulences arise on the international front. Hence, even though the improvement observed in the commercial segment give us more confidence on the limited room for the USD/BRL weakening, negative readings on the financial segment warn us about the limitation 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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