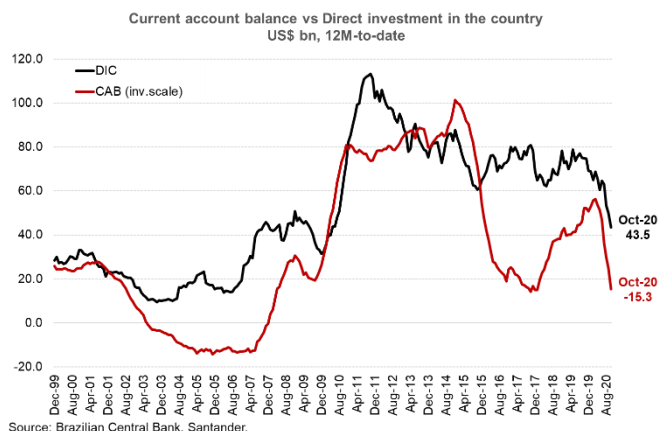


Brazil Macro: External Sector

Balance of Payments: October 2020

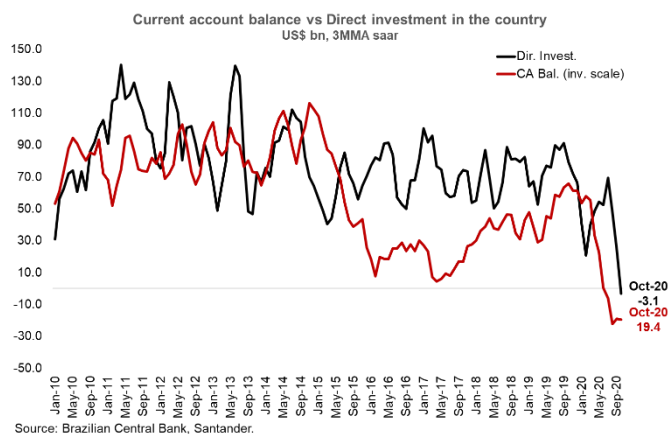
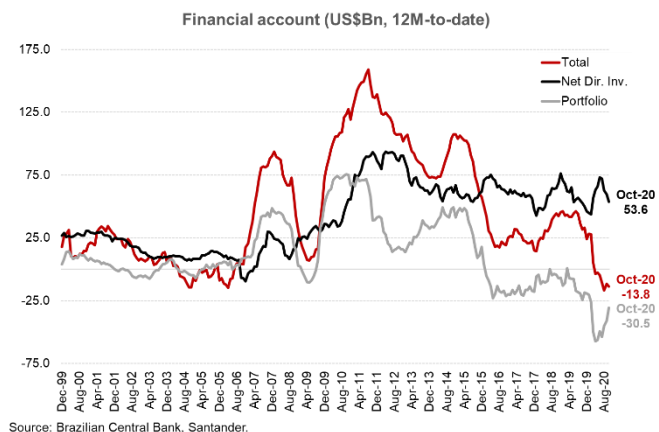
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The release of Brazilian balance of payments data for October 2020 revealed that both the current balance (CAB) and the net inflow of direct investments in the country (IDP, in the Portuguese acronym) exceeded our estimates by a narrow margin. We expected the CAB to have registered USD1.3 billion and the IDP to have tallied USD1.5 billion, but the actual figures were USD1.5 billion and USD1.8 billion, respectively. In 12-month-to-date terms, the data reinforced our view that the situation continues to be “comfortable” with respect to Brazilian external financing needs, as the IDP continued to exceed the deficit in the CAB. Nonetheless, we call our readers’ attention to the fact that this “comfortable” situation has come on the heels of a swift improvement in the CAB in tandem with a declining trend in the volume of IDP.



Incidentally, the three-month moving-averages of seasonally adjusted figures for both indicators suggest to us that the CAB is running at a pace compatible with an annualized surplus near USD20.0 billion, while the IDP annualized gauge is in line with a net outflow around USD3.0 billion. In our view, that is a combination nowhere near favorable to an emerging economy, and it reinforces the need to implement changes in Brazil’s economic structure in order to lure investors back to the country.

As we expect the economy to remain on a gradual recovery trend in the coming years and anticipate the resumption of debate about a reformist agenda in Congress, we think Brazil is likely to witness some reversal in this recent trend further down the road.



On the bright side, while the IDP has failed to gain momentum lately, foreign flows related to portfolio deals registered sizeable volume last month. According to the Brazilian Central Bank (BCB), foreigners acquired USD5.5 billion of Brazilian financial assets in October 2020, with equities and fixed income bonds accounting for nearly 50% each. That is the fifth month in a row with a net inflow, and preliminary data for November 2020 provided by the BCB indicate that we are likely to witness a sixth monthly positive result (until November 20, foreigners had purchased USD6.1 billion, according to the BCB). Hence, after the steep decline since early this year, the financial account seems to have leveled off lately and looks poised to show some improvement in the margin, in our view. We believe this should help keep the Brazilian balance of payments off market participants’ radar for now.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE “IMPORTANT DISCLOSURES” SECTION OF THIS REPORT.

U.S. investors' inquiries should be directed to Santander Investment at (212) 350-0707.

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In addition to the usual pieces of information related to the balance of payments, market participants follow changes in the balance of Brazilian international assets, as such data could help them assess whether or not financial institutions have repatriated part of their equities in offshore branches, which would indicate less of a need to purchase USD derivatives at the end of this year—the so-called “over hedge” theme.

Based on data released by the BCB, the Brazilian corporate sector and households increased their participation in the capital of foreign companies by USD0.8 billion, thus signaling that there was, apparently, no repatriation of capital. This impression is reinforced by the breakdown of financial spot FX flows—also provided by the BCB—that showed an outflow of USD2.2 billion in operations related to capital acquisitions/sales in October 2020. Unfortunately, although the Brazilian monetary authority releases weekly updates about spot FX flows, this breakdown by nature of operation is known only on a monthly basis, which makes it harder to discern what is happening in the current month. However, we have noted a larger volume of financial inflows than the seasonal pattern would indicate, which leads us to think that some capital repatriation may have occurred lately. A more precise picture, though, will be available only on December 18, when the balance of payments data for November is due to be released.



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