Santander
Corporate & Investment Banking

Macroeconomics Research

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Brazil Macro: External Sector

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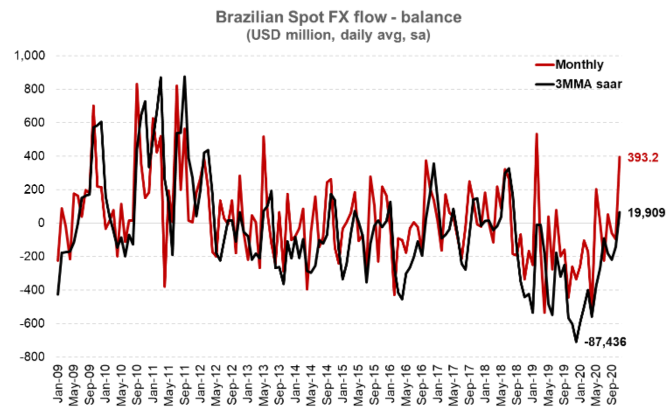
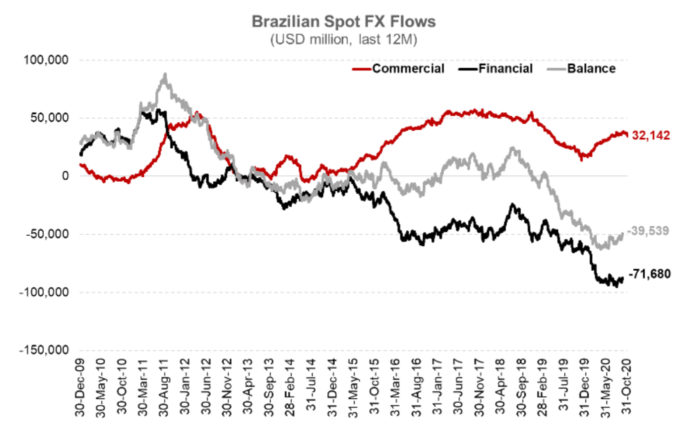
Weekly Spot FX Flows: November 9-13



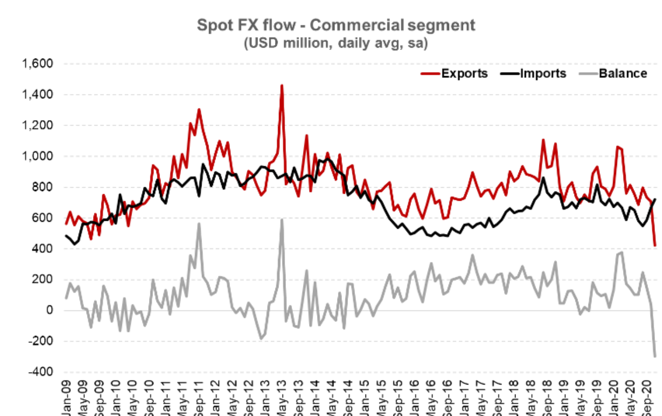
Source: BCB, Santander.

The Brazilian spot FX market recorded a USD3.5 billion net inflow between November 9 and 13. The commercial segment—which refers to trade-related flows—posted a net exit of USD1.4 billion in the period, whereas the financial segment recorded a net inflow of USD4.9 billion. In the first fortnight of November 2020 (adjusting figures for the number of trading days), we saw the average net balance of the commercial segment (*negative* USD314 million) running lower than the level observed a year ago (*positive* USD81 million), with financial average flows following the opposite pattern (*positive* USD685 million versus *negative* USD365 million in November 2019). Based on that, the Brazilian spot FX flow has registered a total net inflow of USD3.3 billion so far this month, which meant a net outflow of USD16.7 billion in year-to-date terms at the end of last week.

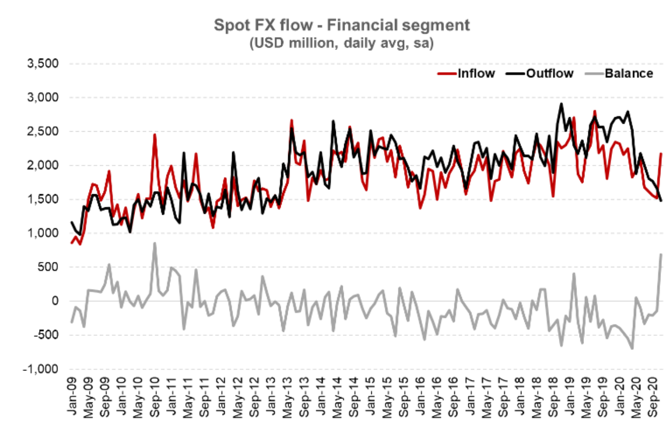
The breakdown of this result shows that the two segments that compose the spot FX flow have amassed *positive* USD29.9 billion (commercial) and *negative* USD46.6 billion (financial), respectively, since the beginning of the year. These figures contrast with those observed a year ago, when the balance of FX flows in the commercial segment was *positive* USD15.3 billion year to date on November 13, 2019, whereas for the financial segment the balance of FX flows was *negative* USD37.2 billion in the same terms (total net outflow of USD21.9 billion year to date on November 13, 2019). In the last 12 months ended last Friday, total spot FX flows registered an exit of USD39.5 billion based on the heels of a net inflow of USD32.1 billion in the commercial segment and net departure of USD71.7 billion in the financial one.



Source: BCB, Santander.



Source: BCB, Santander.



Source: BCB, Santander.

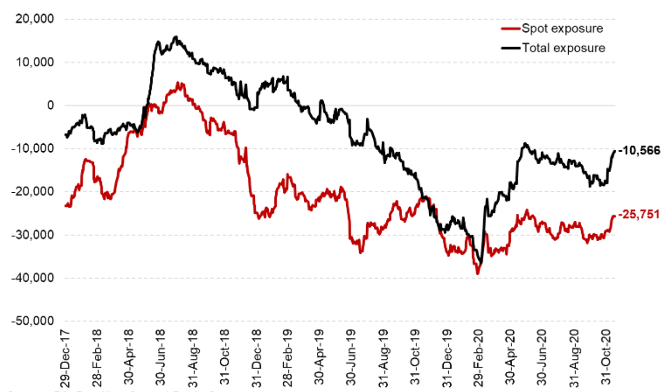
Taking a look at the behavior of the daily average flows of the different components of the spot FX market in seasonally adjusted terms, the anticipation of import payments outpaced the anticipation of export proceeds, which reinforces our view that the bulk of the good results observed in the sales performance of Brazilian products abroad have already been anticipated, while the ongoing economic recovery is now causing outlays for foreign products to increase. However, since we think the prospects for the trade balance for the next year remain positive, we believe that trade flows should become more balanced in the coming months, thus helping to partially curb pressures on the FX market.

Regarding the financial segment, while the extension of the declining trend in outflows seems to us to indicate that most of the exodus of money from the Brazilian market may have already happened, the reversal in the downward trend observed in the financial flows supports our call for the strengthening of the BRL in the coming months. After all, the remaining uncertainties on the domestic front should prevent the materialization of strong financial inflows at this time, in our view. All in all, these data suggest to us more balanced results for the financial segment than those observed in 1H20.

Considering the annualized balance of three-month moving averages in the commercial and financial segments, we come to an indication of an annual inflow of USD19.9 billion in November 2020, compared to an exit of USD87.4 billion in December 2019. That is the first time we have seen such an indication of a net inflow in the spot FX market since August 2018.

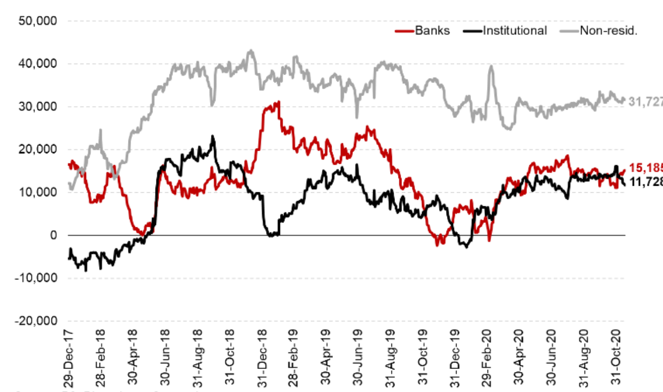
Based on these data, we calculate the banks' net spot FX exposure was USD25.8 billion short on November 13, which, combined with banks' estimated FX derivatives long exposure of USD15.2 billion as of yesterday, led them to open today's session with a total FX short exposure of USD10.6 billion, according to our calculations. That compares with FX derivatives long exposure of USD31.7 billion held by non-residential investors and FX derivatives long exposure of USD11.7 billion held by domestic institutional investors on November 17. (Please refer to the charts below for our assessment of how these exposures have evolved lately.)

Banks' FX exposure - US$ million



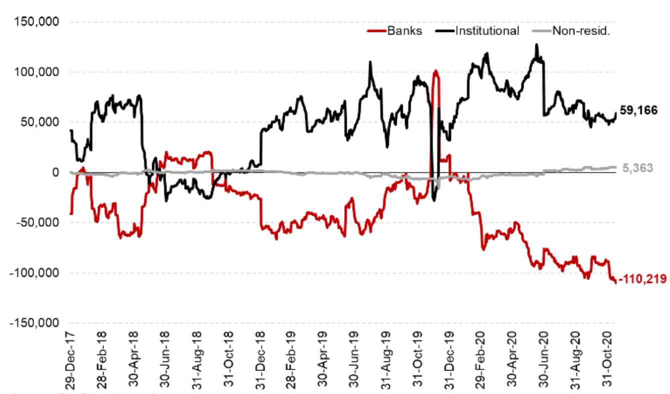
Source: B3, Brazilian Central Bank, Santander.

FX Derivatives open interests - US$ million



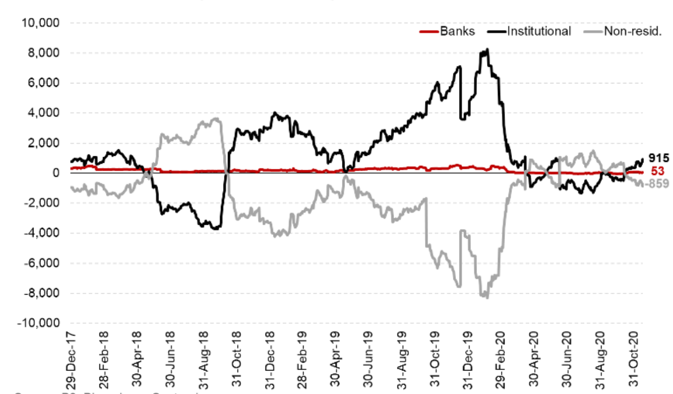
Source: B3, Bloomberg, Santander.

Local interest rate derivatives open interests - US$ million



Source: B3, Bloomberg, Santander.

Ibovespa future index open interests - US$ million



Source: B3, Bloomberg, Santander.

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