Macroeconomics Research

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Brazil Macro: External Sector

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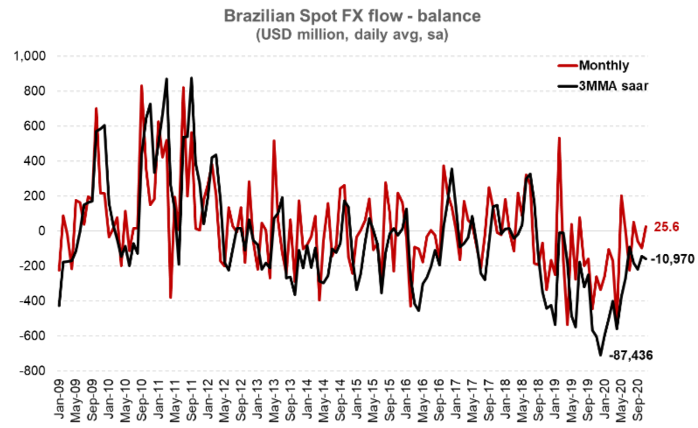
Weekly Spot FX Flows: November 23-27

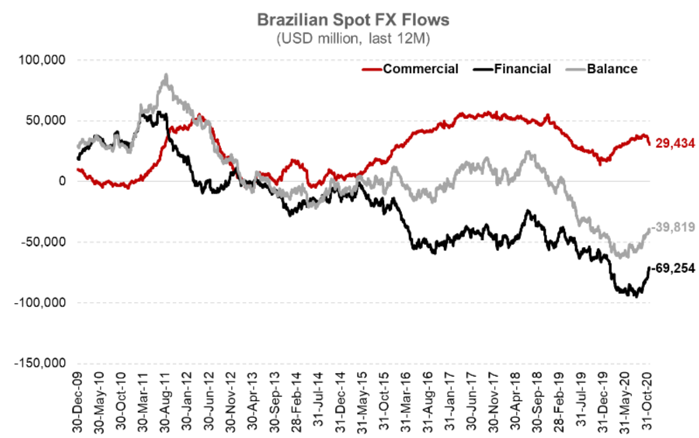


Source: BCB, Santander.

The Brazilian spot FX market recorded a USD0.9 billion net outflow between November 23 and 27. The commercial segment—which refers to trade-related flows—posted a net exit of USD1.2 billion in the period, whereas the financial segment recorded a net inflow of USD0.3 billion. With just one piece of information left for completing the whole month (figures for November 30 will be released only on December 10), available data adjusted for the number of trading days show us the average net balance of the commercial segment (*negative* USD300 million) running lower than the level observed a year ago (*positive* USD81 million), with financial average flows following the opposite pattern (*positive* USD315 million vs. *negative* USD365 million in November 2019).

Based on that, the Brazilian spot FX flow has registered a total net inflow of USD0.3 billion so far this month, which meant a net outflow of USD19.7 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* USD27.1 billion (commercial) and *negative* USD46.8 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* USD15.1 billion year to date on November 27, 2019, whereas for the financial segment the balance of FX flows was *negative* USD39.8 billion in the same terms (total net outflow of USD24.7 billion year to date on November 27, 2019).

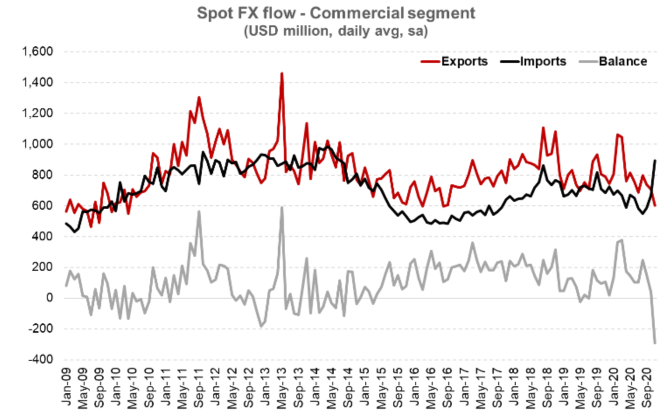


Source: BCB, Santander.

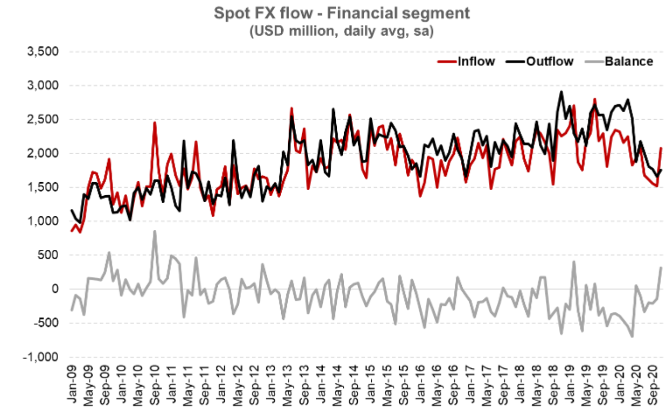
In the last 12 months ended last Friday, total spot FX flows registered an exit of USD39.8 billion based on a net inflow of USD29.4 billion in the commercial segment and net departure of USD69.3 billion in the financial one.

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 outlook for the trade balance for the next year remains 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 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. All in all, these data suggest to us more balanced results for the financial segment than those observed in 1H20. For instance, considering the annualized balance of three-month moving averages in the commercial and financial segments, we come to an indication of an annual outflow of USD11.0 billion in November 2020, compared to an exit of USD87.4 billion in December 2019.

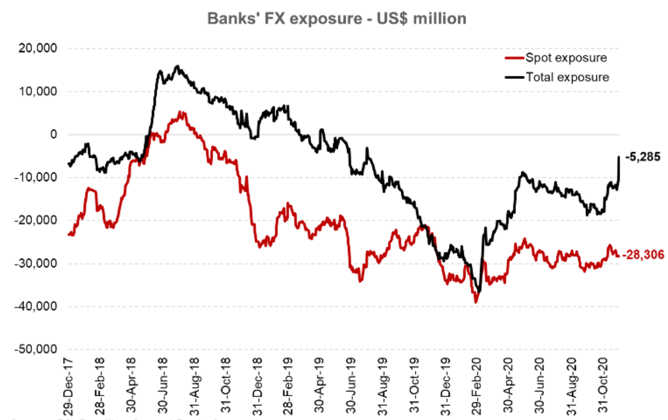


Source: BCB, Santander.

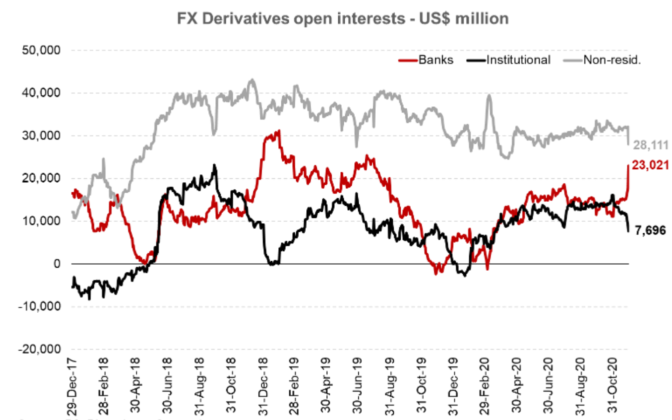


Source: BCB, Santander.

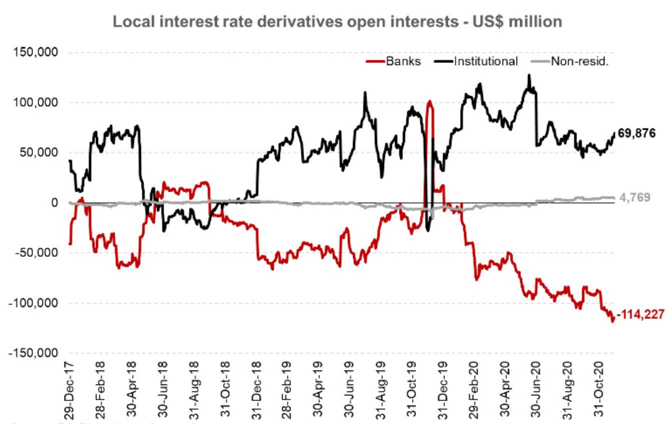
Based on these data, we calculate the banks' net spot FX exposure was USD28.3 billion short on November 27, which, combined with banks' estimated FX derivatives long exposure of USD23.0 billion as of yesterday, led them to open today's session with a total FX short exposure of USD5.3 billion, according to our calculations. That compares with FX derivatives long exposure of USD28.1 billion held by non-residential investors and FX derivatives long exposure of USD7.7 billion held by domestic institutional investors on December 1. Because of the roll-over of open interests in FX derivatives, market participants are accustomed to witnessing some distortion in their exposures, but not as large as the one observed this time. This may be linked to the so-called "over hedge" theme, so we think it is an issue to keep an eye on in the coming days. (Please refer to the charts below for our assessment of how these exposures have evolved lately.)



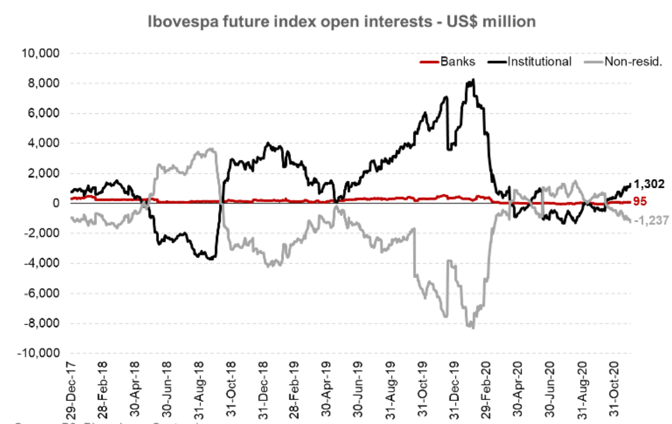
Source: B3, Brazilian Central Bank, Santander.



Source: B3, Bloomberg, Santander.



Source: B3, Bloomberg, Santander.



Source: B3, Bloomberg, Santander.

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