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**Flash Note:**
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# Is there an opportunity after the recent turmoil in the BRL? Some bullet points

- **What's behind the BRL's shift**: The combination of the political turmoil in Latam countries, the lack of positive news flow regarding reforms and some bad figures in the external balance exerted downward pressure on the BRL, which remains well above the 4.00 mark against the USD.
- External figures were bad but **the general picture remains strong and favorable**: Though October current account deficit posted the second worst print for the month since 1995 (c. USD 7.9 billion), with the deficit accumulated in 12 months widening to 3% of GDP (from -2.3% in September), the general external picture remains strong as the trailing twelve-month FDI remains highly positive and represented 4.4% of GDP, meaning that FDI still covers comfortably the external CA deficit.
- **Other domestic factors also explained the sell-off in the BRL.**
    - Historic low levels of domestic interest rates are incentivizing outflows of 1) companies to prepay their external debt, and 2) Portfolio investments (specially fixed income ones).
    - Demand for dollars from locals could also be explained by the political noise after Lula release, but specially due to the recent words of Minister Guedes suggesting that people should get used to a low BRL, which fueled speculation about a policy of voluntary devaluations.
    - Another bearish factor was the disappointing oil auction when the US and European major oil companies showed no interest to bid for oil fields in the country.
- **What the Brazil's Central Back did to stabilize the rout?** Against this backdrop, the BCB announced a series of spot auctions in order to provide the adequate liquidity to the spot market, but reinforced the intention of only intervening in case of market malfunctioning or high volatility.
- **An overreaction of Fx investors?** It is worth mentioning that other asset prices used to define a fair value for the currency haven't changed much since the BRL high of 3.72 (per USD) in mid-July. In a period where the Brazilian currency depreciated c. 13%, the Brazilian 5-year CDS tightened almost 5bp, which suggests that there could have been an overreaction in the market regarding BRL.

- **All in all**: 1) A balanced external situation, 2) positive net financing capacity, 3) a real effective exchange rate pointing that the BRL is cheap in historical terms (see the chart 1), and 4) a huge capacity of the Central Bank to make use of its huge reserves to stabilize the BRL (see chart 2) , make me think that the Brazilian currency could represents a good BUY opportunity at current levels (specially against the EUR). Of course, it is always recommended to implement such a strategy in a phased manner as it is impossible to hit the minimum point in these disorderly falls