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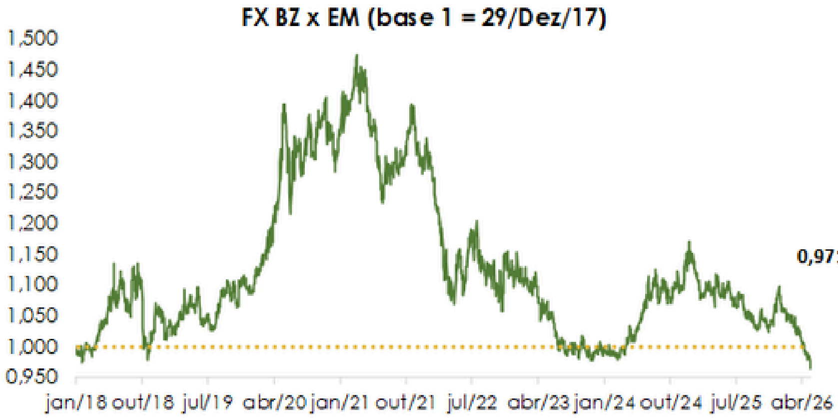
What is driving the appreciation of the Brazilian real?

The currency's behavior has been noteworthy, as it has decoupled from the movement of the U.S. dollar (DXY), as well as from other emerging market and commodity-currencies. Since the beginning of the year, the BRL had already been outperforming, but this relative strength intensified following the outbreak of the war.

The Brazilian real is currently among the best-performing currencies in 2026 (around 10% appreciation), despite the country's unresolved fiscal challenges — its main macroeconomic vulnerability — and the presence of an important political risk event ahead (major elections), which typically increases volatility.

Graphic 1: FX Brazil x Emergent Markets



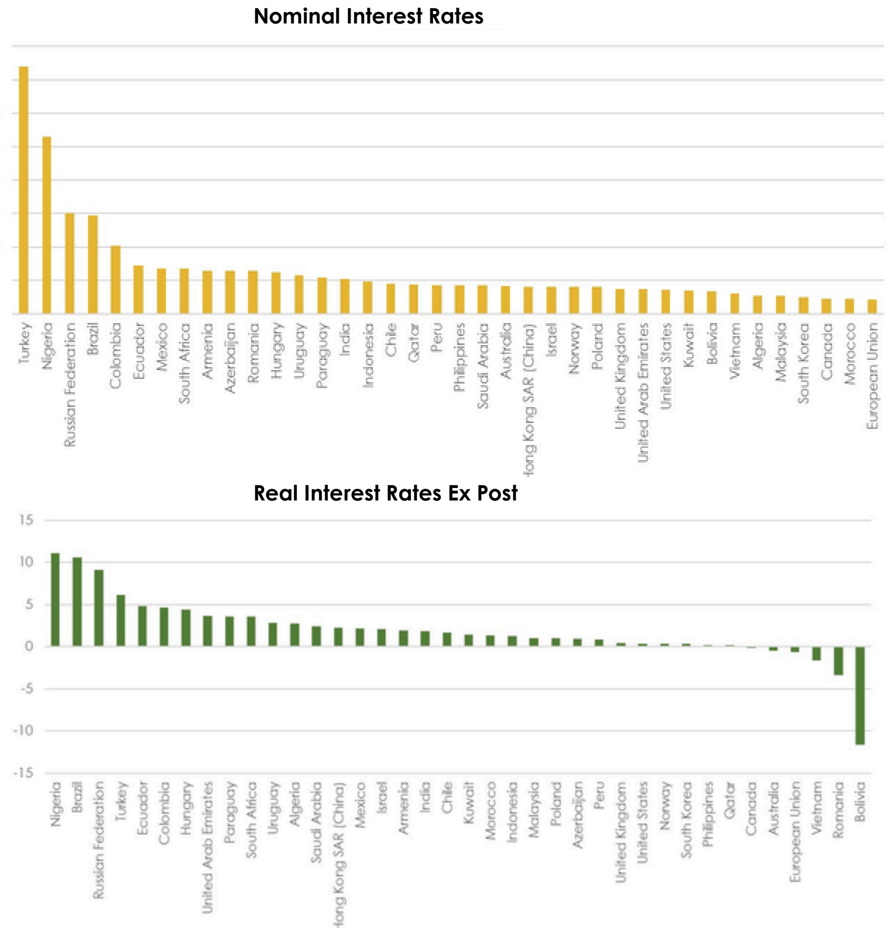
	Var				Vol			
	7d	30d	90d	YTD	7d	30d	60d	90d
Brazil	**-1,4%**	**-4,8%**	**-6,1%**	**-10,6%**	**0,3%**	**0,5%**	**0,6%**	**0,7%**
Australia	-1,8%	-4,6%	-4,2%	-7,6%	1,0%	0,6%	0,8%	0,7%
New Zealand	-2,2%	-4,5%	0,7%	-2,9%	0,8%	0,6%	0,7%	0,7%
South Africa	-2,9%	-3,2%	0,8%	-1,8%	1,0%	0,7%	1,0%	1,1%
Canada	0,1%	-2,0%	-0,1%	-0,5%	0,2%	0,2%	0,3%	0,2%
Peru	-1,4%	1,0%	3,2%	3,1%	0,4%	0,5%	0,5%	0,6%
Chile	-1,0%	-2,4%	3,1%	-2,0%	0,8%	0,7%	0,9%	0,9%
Colombia	2,3%	1,1%	0,4%	-1,3%	0,9%	0,7%	0,6%	0,6%
Turkey	0,4%	1,4%	3,9%	5,3%	0,1%	0,1%	0,1%	0,1%
Russia	0,46%	-4,45%	-1,7%	-3,8%	0,4%	0,7%	1,1%	0,9%
Mexico	-1,7%	-3,1%	-0,7%	-4,3%	0,3%	0,4%	0,7%	0,7%
India	-0,5%	2,0%	4,8%	5,4%	0,3%	0,3%	0,4%	0,4%
Indonesia	0,1%	1,4%	2,8%	4,0%	0,3%	0,3%	0,2%	0,2%

Source: CEIC

As usual, no single factor explains this performance. Rather, it reflects a combination of elements. High interest rate differentials, strong terms-of-trade gains, a diversified energy matrix, and relative distance from geopolitical conflicts — within a global context of portfolio diversification — have made the Brazilian currency particularly attractive.

First, Brazil continues to offer one of the highest interest rates globally, both in nominal and real terms. Throughout 2025, while most countries were either cutting or holding rates steady, Brazil raised rates and maintained them at highly restrictive levels (15%). Although the Central Bank has initiated an easing cycle, it has emphasized that this is merely a calibration process, with rates expected to remain in restrictive territory during this year. In other words, there is no near-term convergence toward neutral rates, ensuring a sustained interest rate differential.

Graphic 2: Global Nominal and Real (ex-post) Interest Rates in %



Source: CEIC

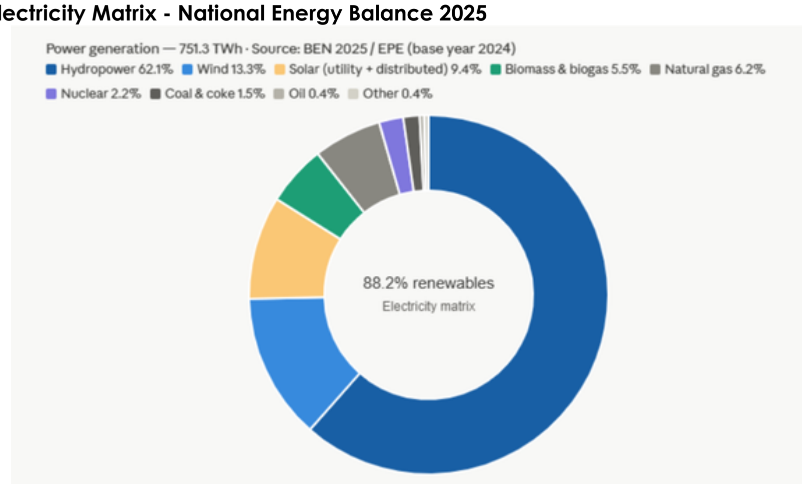
Second, Brazil has benefited from significant terms-of-trade gains, driven primarily by higher oil prices, as well as rising agricultural commodity prices. To better understand this dynamic, it is important to examine the economic implications of the war in Iran.

The conflict represents a major economic shock, transmitted through the energy market, particularly oil. From a macroeconomic perspective, it is a supply shock, characterized by rising inflation and slowing economic activity. Such shocks increase production costs globally, compress margins, reduce purchasing power, and push prices higher across supply chains.

However, the impact is not uniform across countries. It depends on each economy's position in the global oil market, with a clear distinction between net importers and net exporters.

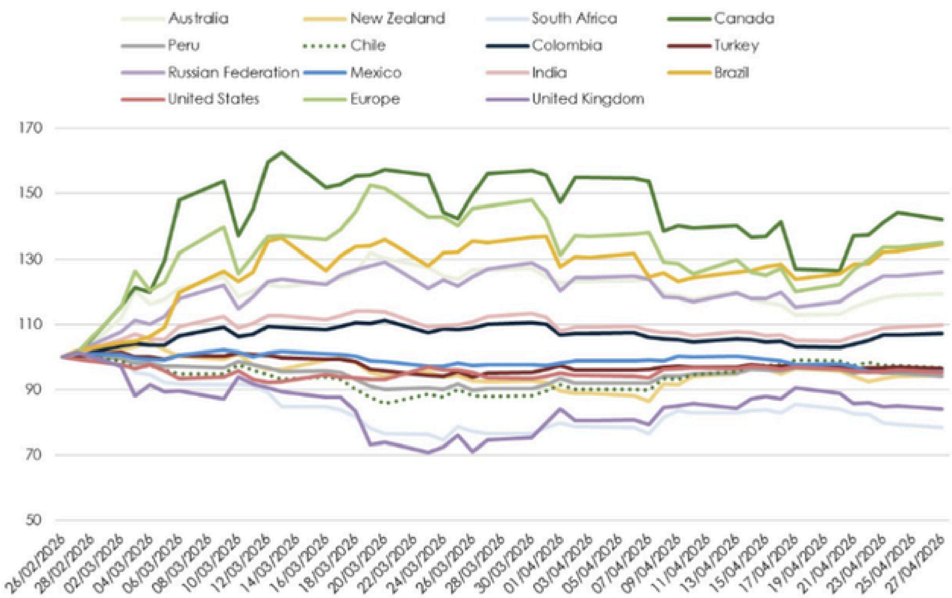
Brazil stands out relatively favorably in this scenario. The country combines a significant position as a net oil exporter with a diversified energy matrix, in which renewable sources play a substantial role. Data from the National Energy Balance 2025 (base year 2024), published by the Ministry of Mines and Energy and Energy Research Office (EPE), show that nearly 90% of Brazil's electricity matrix is composed of renewable generation, with wind and solar together accounting for 24% of the total.

Graphic 3: Brazilian Electricity Matrix - National Energy Balance 2025



Source: Ministry of Mines and Energy - Brazil

Graphic 4: Terms of Trade - Brazil vs Peers



Source: CEIC

Looking at the broader energy matrix — which includes all energy consumed in the country (electricity, transportation, industry, among others) — the share of renewables reached 50% in 2024, a historic milestone driven by the expansion of biomass, wind, and solar sources. Notably, Brazil's renewable share is nearly four times higher than the global average of 14.2% and significantly above that observed in OECD countries (13%).

This implies that Brazil has a greater capacity to absorb the global supply shock. In general terms, Brazil's GDP would be expected to decline less than that of net oil-importing countries, while inflationary pressures should also be comparatively more contained.

Improved terms of trade translate directly into a stronger trade balance and higher dollar inflows into the Brazilian economy. Not surprisingly, there is a strong correlation between terms of trade and exchange rates in in commodity-exporting economies. In this context, appreciation pressures on the exchange rate have emerged, making the Brazilian real relatively more resilient compared to other emerging market currencies.

In this context, Brazil's trade surplus is expected to approach USD 80 billion in 2026, contributing to a meaningful reduction in the Brazilian external deficit from nearly 3% of GDP in 2025 to around 2.3% in 2026. In conjunction with sustained foreign direct investment (FDI) inflows (3.3% of GDP) and a sizable stock of international reserves, all of this contributes to the robustness of Brazilian external position.

Finally, it is also important to reflect on the ongoing portfolio diversification away from U.S. assets. This is a structural trend that has been developing for several years, but the geopolitical noise generated by the current U.S. administration may be accelerating the process, even though the rise of Artificial Intelligence — particularly in equity markets — has worked in the opposite direction by continuing to attract capital toward U.S. assets. IMF data show that the U.S. dollar's share of global foreign exchange reserves declined from 71% in 2001 to around 57% in 2025. Over the last decade alone, from 2015 to 2025, this share fell from 66% to below 57%, representing an erosion of nearly 9 percentage points. Gold also benefited from this movement: for three consecutive years, central banks purchased roughly double the average of the previous decade — with emerging economies leading the diversification trend away from the dollar, according to BIS data.

In 2026, as geopolitical tensions associated with Washington intensified — involving Venezuela, Greenland, Iran, and potentially Cuba — this diversification movement increasingly extended to emerging markets as well. After several years of declining relative participation of emerging market assets in global portfolios, 2026 has shown renewed foreign investor appetite for this asset class, both in Balance of Payments data and broader capital flow indicators.

The outbreak of the war partially interrupted this movement, leading to a temporary increase in risk-off sentiment, particularly during March. However, I would highlight two important points. First, I expect a gradual return of risk-on sentiment following the ceasefire and the reopening of the Strait of Hormuz, although significant uncertainty and geopolitical noise still remain surrounding the issue. Second, because the Iran-related risk-off environment has simultaneously pushed oil prices higher, it has also improved Brazil's terms of trade, as discussed above, thereby contributing to the Brazilian real's relative outperformance in the aftermath of the conflict.

In summary, although the global shock stemming from the war represents a significant challenge for the world economy, Brazil benefits from structural factors that act as important buffers and are supporting the appreciation of the Brazilian real in 2026. The combination of favorable terms of trade, a diversified energy matrix, and a high interest rate differential has contributed to the Brazilian economy's relative resilience, even if it does not fully eliminate the adverse effects on inflation and economic activity.

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