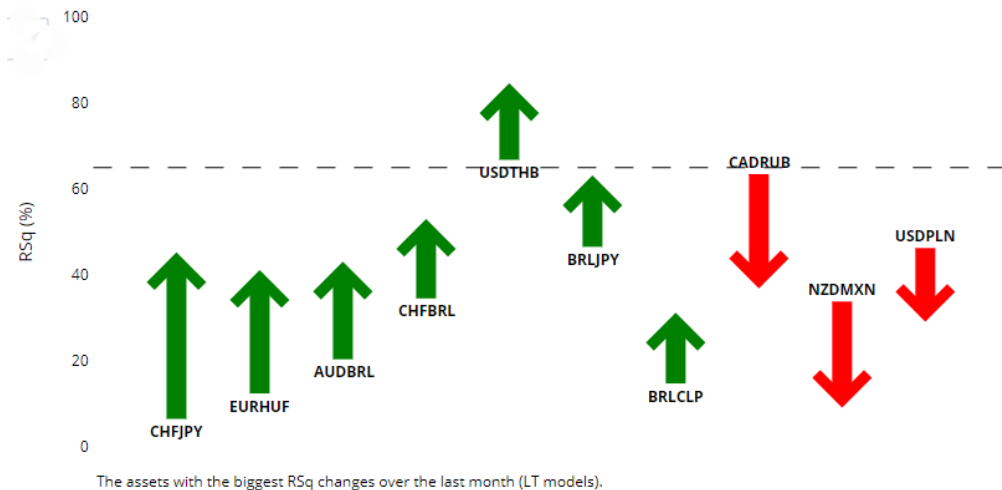




## Brazilian Real A new regime

- Macro model confidence is rising for the Brazilian Real. The chart below shows the 10 biggest changes in macro model confidence across all FX models over the last month. Four of them include the BRL; all four show R-Squared rising. **Macro is re-asserting itself as a key driver of the Real.**



- None have yet to cross the 65% threshold denoting a new macro regime &, as such, their valuation signals come with a health warning. However, **the valuation picture is consistent – the BRL looks rich to model.**
- Looking at the crosses with the biggest jumps in model confidence a clear pattern emerges. [AUDBRL](#), [CHFBRL](#), [BRLJPY](#), [BRLCLP](#) have some differences but share the fact that risk aversion is the single biggest driver. Even versus the Chilean Peso, the current pattern shows the Real as the high beta asset that needs VIX & other measures of risk aversion to stay low.
- Combining valuations with the key driver of this new regime, suggest **the Real could be an efficient vehicle for any risk off scare.**
- Indeed, RETINA™ has triggered a bearish momentum signal on BRLCLP. The recent uptrend looks overbought & is showing signs of rolling over.

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