



Macro Trade Pitch:
Long BRL / Short JPY

Emma Hong and Eric Tao

Capital
Markets
Club



Thesis

Through going long BRL/JPY, the trade seeks to capture **yield differentials** between Brazil's consistently-high interest rates and Japan's loose monetary policy, positioning to capitalize on **positive carry** between the two and BRL appreciation as risk appetite strengthens.

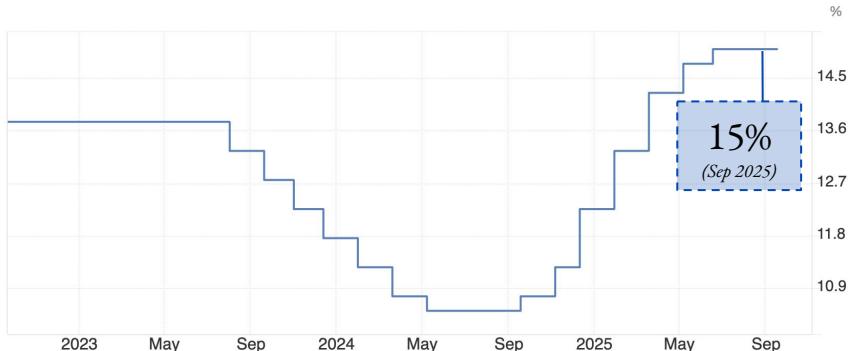
Monetary Policy

Brazilian Policy

- SELIC rate eased as inflation cooled, then cautiously **raised**
- BCB focus on **anchoring inflation expectations**, driving growth
- Fiscal reforms and commodity exports bolster BRL **resilience**
- BCB likely to continue **cautious rate cuts** into 2025 if inflation remains controlled

SELIC at 15% (Sep 2025) is among the world's highest yields

Brazil SELIC Rate Cuts/Hikes

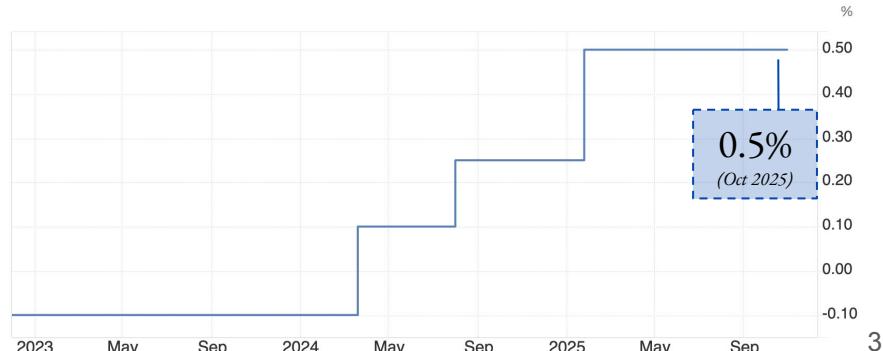


Japanese Policy

- Ended negative rate policy in 2024; now **around 0.5%**
- Continues **Yield Curve Control**, capping 10-year yields near 1%
- BOJ remains **dovish**, prioritizing wage growth and stable recovery
- **Weak yen supports exports** but fuels import inflation and volatility

Policy rate 0.5% (Oct 2025) shows Japan's policy is very loose

BOJ Rate Cuts/Hikes



Drivers and Risks

BRL / JPY Exchange Rate Chart (Jul 2023 – Nov 2025)



Key Drivers for Trade

- Wide yield differential between SELIC and BOJ rates support BRL/JPY carry trade
- Brazil's inflation outlook improves as BCB takes action
- Japan continues ultra-loose monetary stance and persistent yen weakness sustain favorable funding conditions
- Global risk appetite driving emerging market currency growth

Risks

- Brazil's heavy commodity dependence heightens exposure to price swings and demand shocks, pressuring growth and BRL stability
- A stronger USD or global risk-off sentiment could unwind emerging markets carry trades and weaken the BRL

Mitigants to Risks

- **Ample FX reserves and credible BCB policy** enable Brazil to absorb external shocks and limit volatility during periods of USD strength
- **Gradual, transparent rate-cut trajectory** reinforces investor confidence and reduces risk of abrupt BRL repricing or market dislocation
- **BOJ's ongoing accommodative stance** lowers likelihood of sharp yen appreciation or sudden carry-trade unwinds, even amid trade or tariff pressures
- **Diversified export composition and stronger fiscal discipline** enhance Brazil's resilience to commodity-price swings and capital-flow volatility

Thank You For Listening!