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Brazilian Real: post-election fiscal uncertainty weighing further on the currency

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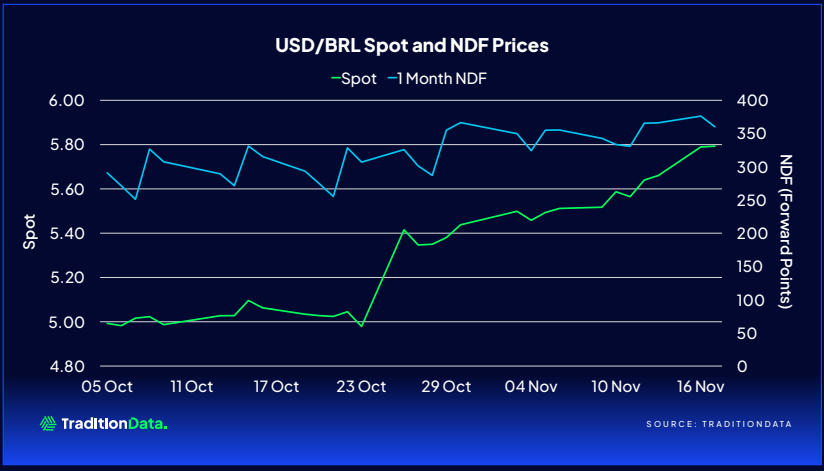
In the run-up to Brazil's presidential election, voted for and announced on October 25, 2026, uncertainty over the outcome was reflected in elevated US Dollar vs Real FX option volatilities. One month ATM (at-the-money) implied volatility rose to 25.00%, while one month 25 delta risk reversals widened to 9.875% in favour of dollar calls, indicating a much greater market premium for BRL downside protection than for upside exposure.

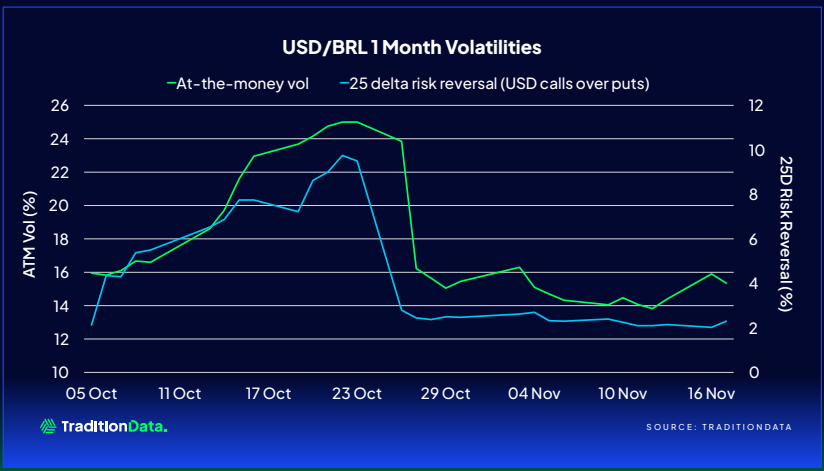
FX spot jumped from 4.979 on the Friday before the election (October 23) to 5.4598 on the Monday (October 26) in response to Lula's surprise re-election. As the immediate uncertainty surrounding the election result subsided, implied volatility subsequently declined towards pre-election levels, with both ATMs and risk reversals retracing, with 1 month ATM reaching 15.45% and 1 month 25 delta risk reversals 2.475% (favouring calls) by the end of the week.

Developments since the election

In the weeks following the election the Real has continued a gradual decline:

- As of November 18, USD/BRL spot is trading above 5.80, over 7% higher than the Monday post-election. Notably, on 16 Nov alone the Real lost slightly over 2% in value against the US Dollar. It has not been this weak since April 2025
- Similarly, USD/BRL 1 month NDF (non-deliverable forward) rates have moved from 311.5 forward points to 368.8 close on November 17
- ATM volatility and risk reversals in contrast have remained relatively stable, despite the movement in spot and NDFs, with 1 month ATM still at 15.35% and 25 delta risk reversals still at 2.30%





Renewed pressure on the Real

Although broader US Dollar strength has contributed to the move, developments in Brazil have also been significant.

Key domestic factors contributing to investor uncertainty

- Fiscal policy: The government's proposed fiscal adjustment package has attracted scrutiny from investors, with questions surrounding the extent of its contribution to stabilising public finances. The package is estimated to generate savings of approximately BRL 45–56 billion in 2027.
- Monetary policy: On November 4, 2026, the BCB's (Banco Central do Brasil) Monetary Policy Committee (Copom) maintained the Selic policy rate at 13.75%. However, the committee did highlight elevated inflation expectations, increased uncertainty and a more pronounced moderation in domestic economic activity.
- Political and fiscal uncertainty: Investors are also awaiting announcements regarding the next Finance Minister and other senior economic appointments.

These developments are being monitored against a backdrop of slowing domestic economic activity and concerns over the trajectory of public finances.

Market outlook

The recent depreciation of the Real has occurred without a significant increase in implied FX volatility. Market attention is now focused on the final form of the fiscal adjustment package, the government's forthcoming economic appointments and the direction of monetary policy. These developments will be important in shaping investor assessments of Brazil's fiscal outlook and the Real's performance.



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November 23 update

Since the time of writing, Brazil's upper house agreed the fiscal package, although it has yet to pass in the lower house. Also the BCB intervened in the FX markets, with USD 1 billion of spot auctions with repurchase agreements on November 18 and an outright sale of the same size on November 19. Weighing against this support for the Real, Lula has said he is not in a rush to name his Finance Minister and economic data published included GDP shrinking 0.2% in Q3 compared to Q2[1], the first contraction in 20 quarters.

FX instruments have continued their post-election trend. The USD/BRL spot rate reached as high as 5.9532 on November 19. By end of day November 20, FX spot had retraced a little to 5.9407 and the 1 month NDF had tracked up to 417 forward points, volatilities were still mostly unchanged at 15.875% ATM and 2.125% USD calls over puts for the 1 month 25 delta risk reversals.

Why case studies like this matter

Case studies like these illustrate how events impact FX spot, NDF and options.

For market participants, having access to live OTC market data can be critical to understanding these moves as they happen - rather than after the fact.

All FX spot, NDF and FX volatility data referenced in this analysis is sourced from TraditionData, covering data from the Tradition and TFS Volbroker businesses.

To see how live wholesale OTC data can help you stay ahead of fast-moving FX markets, get in touch with our team.

[1]Source: FPV IBRE's GDP Monitor

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