



MACRO OUTLOOK

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- » It's notorious how inflation has become a global major concern, as central banks around the world moved towards an aggressive tightening of their monetary policies. It's likely that activity will continue to slow down, even though the US GDP printed a stronger than expected growth in Q3, after two negative readings in a row. Concerning China, we're still seeing the zero covid policy affecting the economy, although it's probable that it will be eased soon. Nonetheless, we still see weakness in economic data due to lower mobility and the worrisome situation in Chinese housing market;
- » On October 30th, Lula won the presidential election with 50.9% of the votes, the most competitive presidential election in our history. Congress has become less fragmented, more polarized and with a more center-right ideological bias, which should limit the advancement of certain policies, such as a broad expansion of permanent expenditures. Lula's challenge will be to reconcile the response to social demands without giving up fiscal responsibility.
- » Leading indicators of economic activity continue to show signs of deceleration at the margin. In August, the service sector still showed resilience, but retail sales and industry continued to show a downward trend. The labor market remains strong, with the unemployment rate decreasing to 8.7% (NSA) in September;
- » Our growth forecast for 2022 is at 2.8%. The projection considers the effect of the statistical carry-over of some activities, the recovery of the labor market and the expansion of Auxílio Brasil, which increase of households disposable income and, consequently, their consumption;
- » Our inflation forecast is at 5.5% for 2022. The tax reduction and the drop in international oil prices contributed strongly to the reduction of inflation. Food at home also began to show strong relief. Inflation for industrial goods has been surprising to the downside in the short term, benefiting from the relief in global supply bottlenecks. Services, on the other hand, should remain under pressure for some time. In 2023, our projection is 4.7%, with the maintenance of federal taxes exemptions on fuels and lower inertia after successive revisions of the IPCA from 2022 downwards;
- » Our forecast for the Selic rate is 13.75% at the end of 2022, and 11.25% at the end of 2023, reflecting the Central Bank's plan to keep the monetary policy rate in contractionary territory for longer;
- » Fiscal results have continuously improved with the increase in revenue and the decrease in the debt/GDP ratio. The result of local governments (states and municipalities) continues to contribute positively to this result. However, the future of the fiscal framework remains highly uncertain;

China: Economic Scenario

» Activity:

- » September's good numbers comes from a favorable low base effect of last year and continued policy support: softened momentum reflecting covid uncertainties and weak expectations about future income and employment;

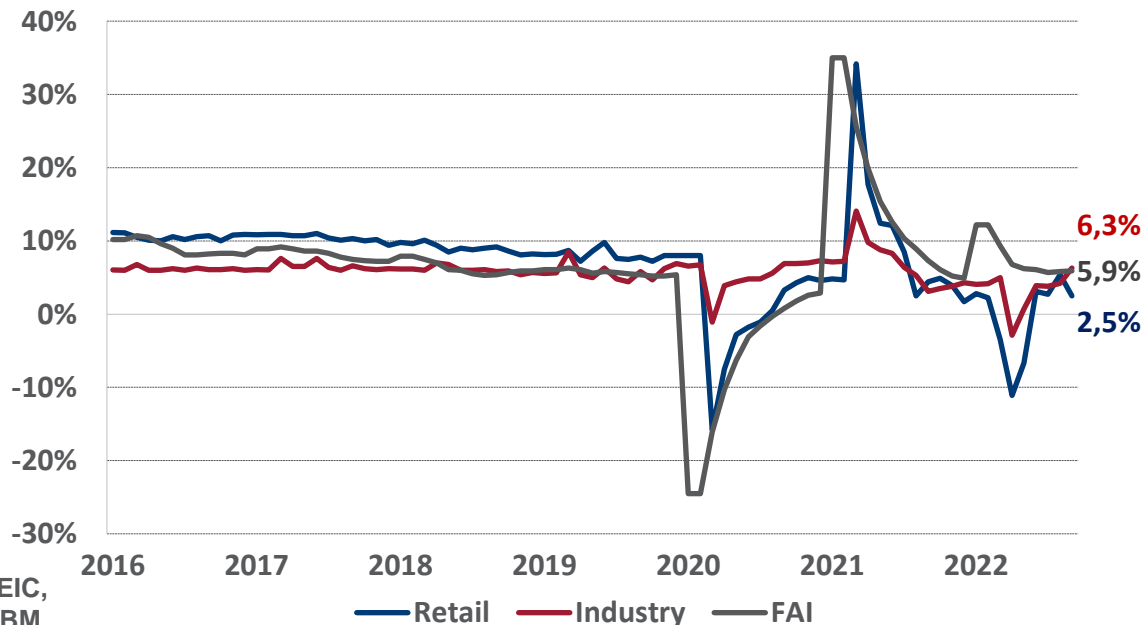
» Real Estate:

- » China's central government offered a rare tax incentive for residential purchases, ramping up support for the country's embattled real estate sector.

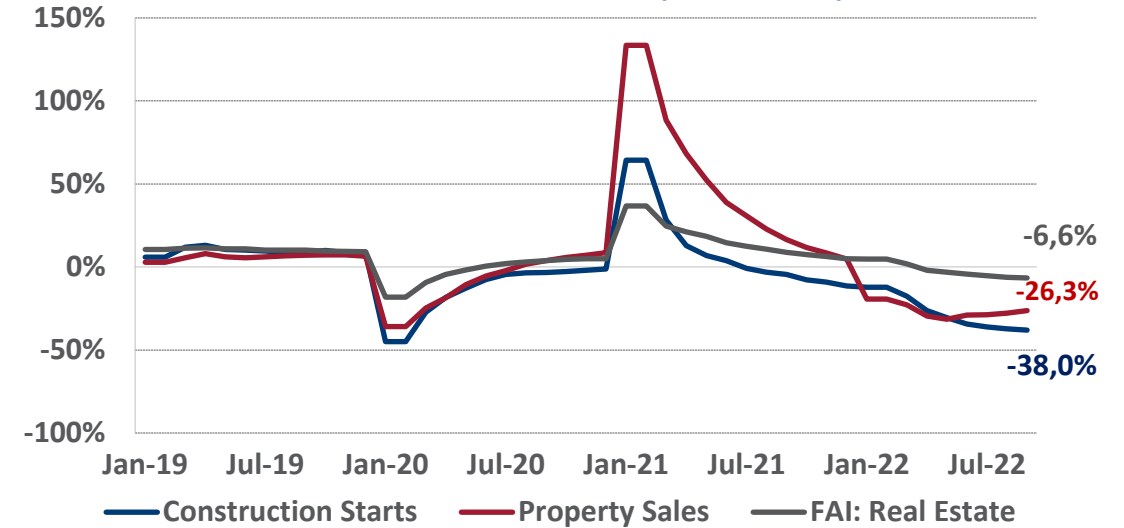
» Trade Balance:

- » In September, exports decreased from 7.0% to 5.6% YoY, in line with a weaker demand from developed markets due to tighter financial conditions and ongoing European energy crisis;

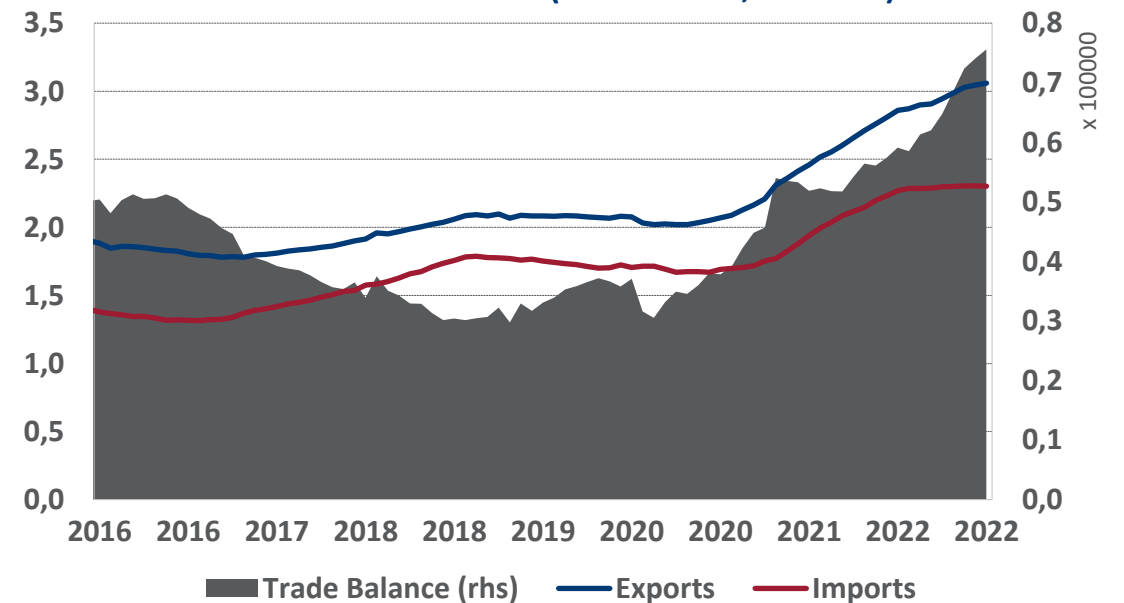
China: Activity (YoY, %)



China: Real Estate Sector (YTD YoY, %)



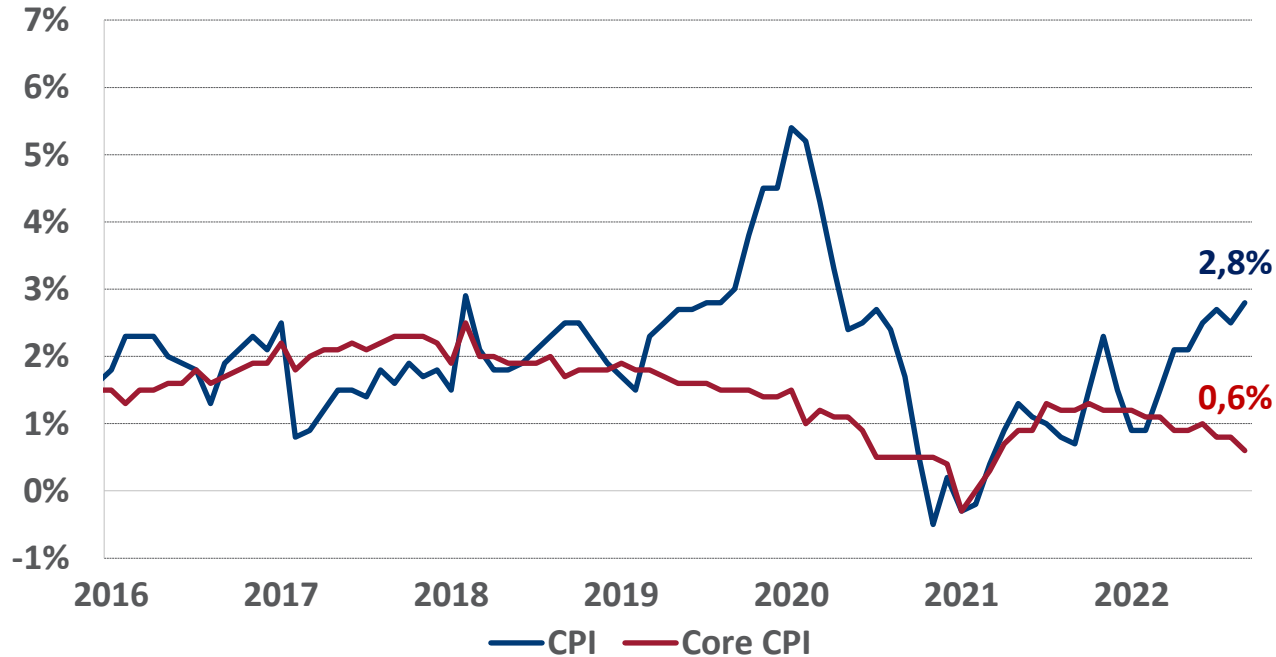
China: Trade Balance (USD Trillion, 12MMA)



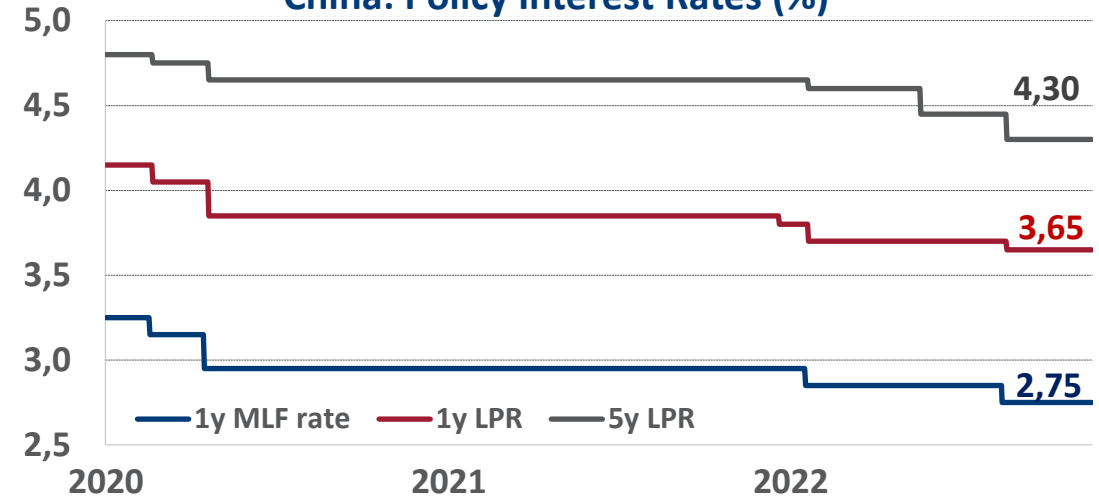
China: Economic Scenario

- » PMI:
 - » In October, the NBS manufacturing PMI decreased to 49.2 from 50.1 – shrank in all levels of industries;
- » Policy Interest Rates:
 - » PBOC kept 1Y MLF, 1Y and 5Y Loan prime rate stable;
- » CPI:
 - » CPI inflation came in line with expectations in September: lockdowns continued to impact spending habits, while soft commodity prices kept producer's inflation in check;

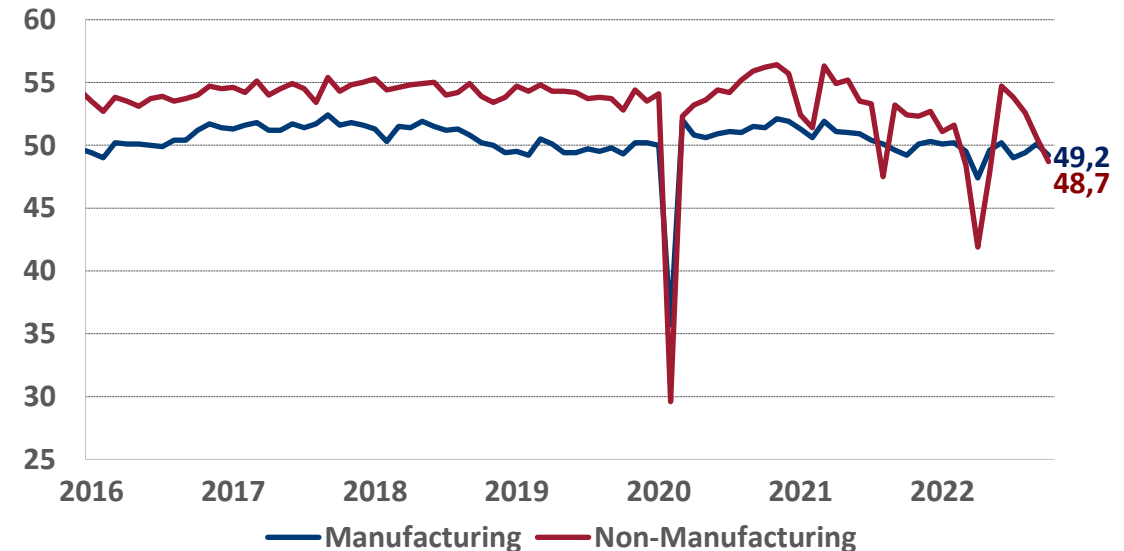
China: CPI (YoY, %)



China: Policy Interest Rates (%)



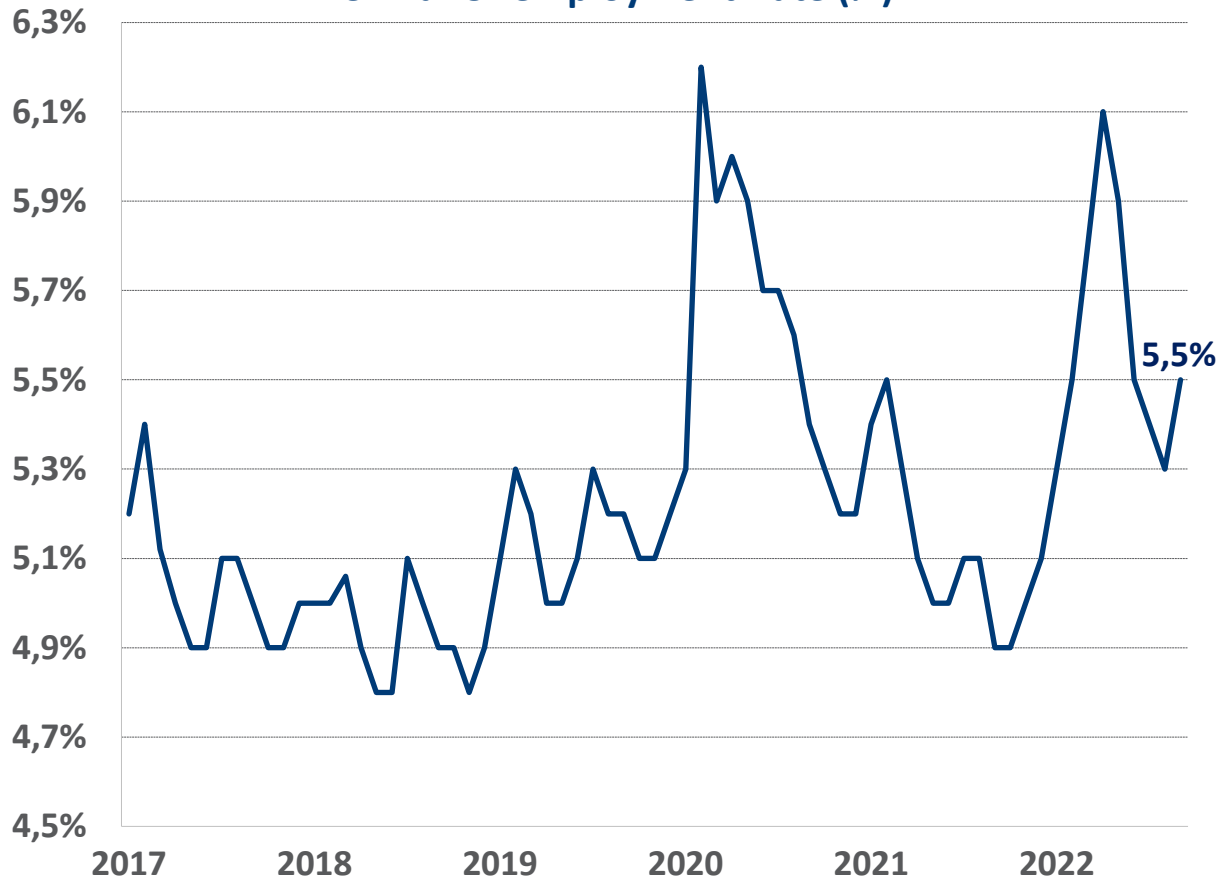
China - PMI



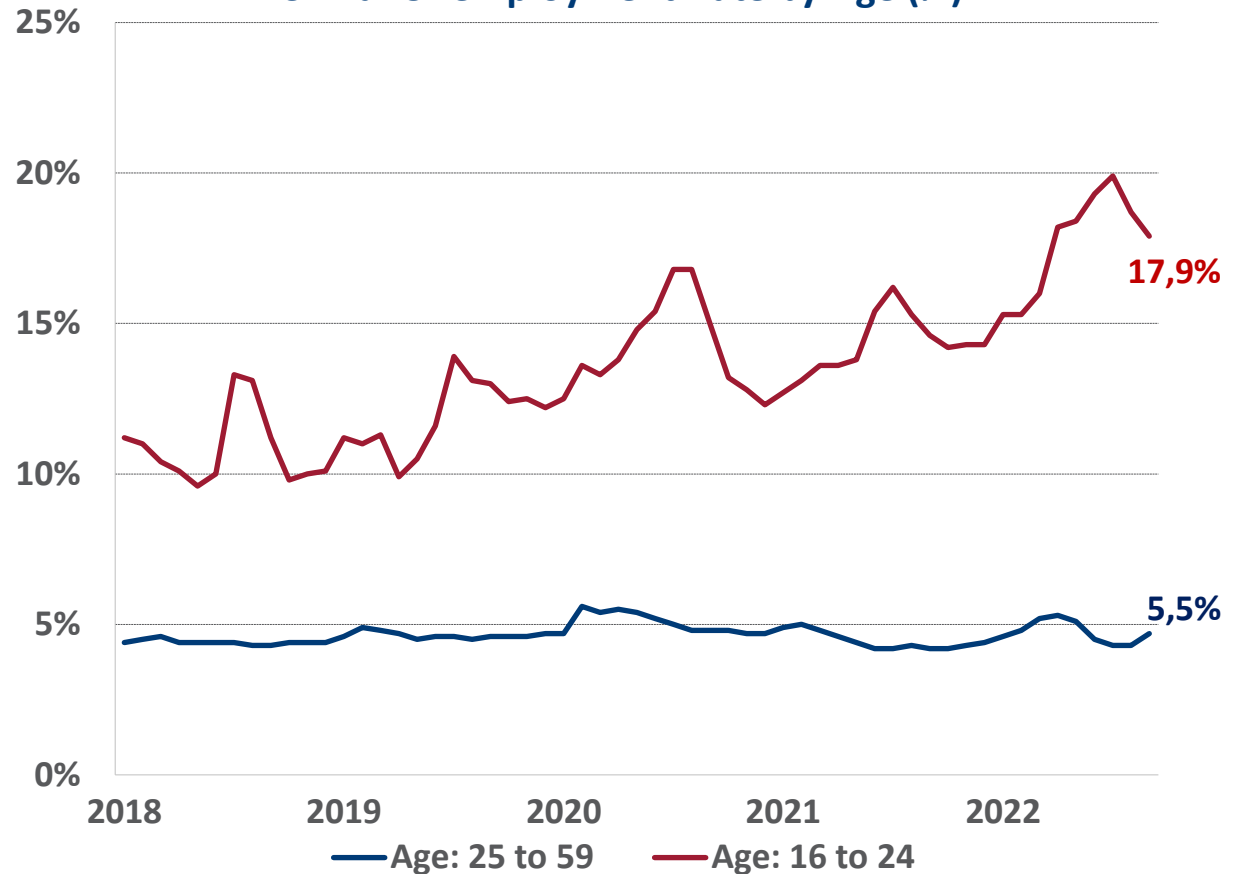
China: Unemployment

- » China has seen some recovery in labor market, but the unemployment rate slid back to 5.5% in September, which is still above pre pandemics;
- » Youth unemployment rate (16 to 24 years) reached a record high in July and then started to decrease slowly reaching 17.9% in September (2nd decrease in a row).

China: Unemployment Rate (%)



China: Unemployment Rate by Age (%)



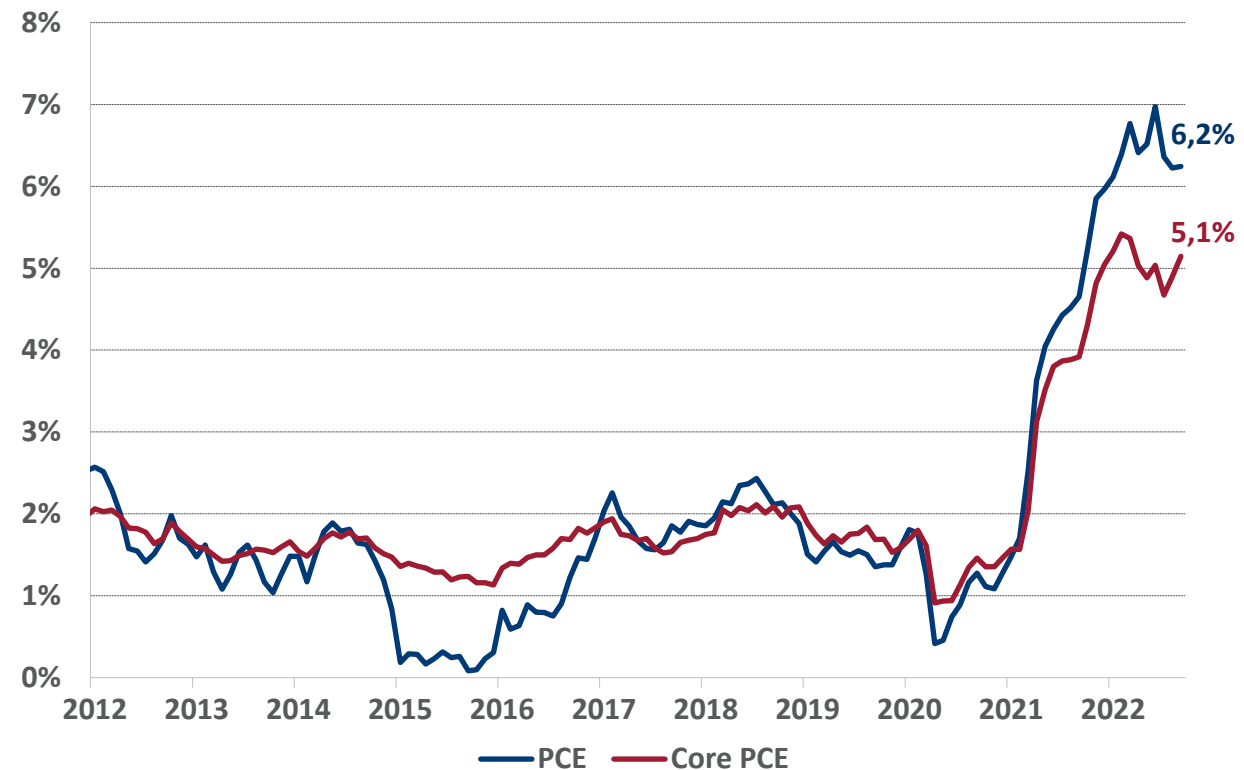
USA: Inflation

- » Inflation in the US remained stable at **8.2%** YoY. Gasoline and other fuels are helping to bring the headline down;
- » Core CPI, on the other hand increased **0.6%** MoM, reaching **6.7%** YoY, with core services being the most concerning category;
- » Core PCE has risen to **5.1%**.

US: CPI SA (YoY, %)



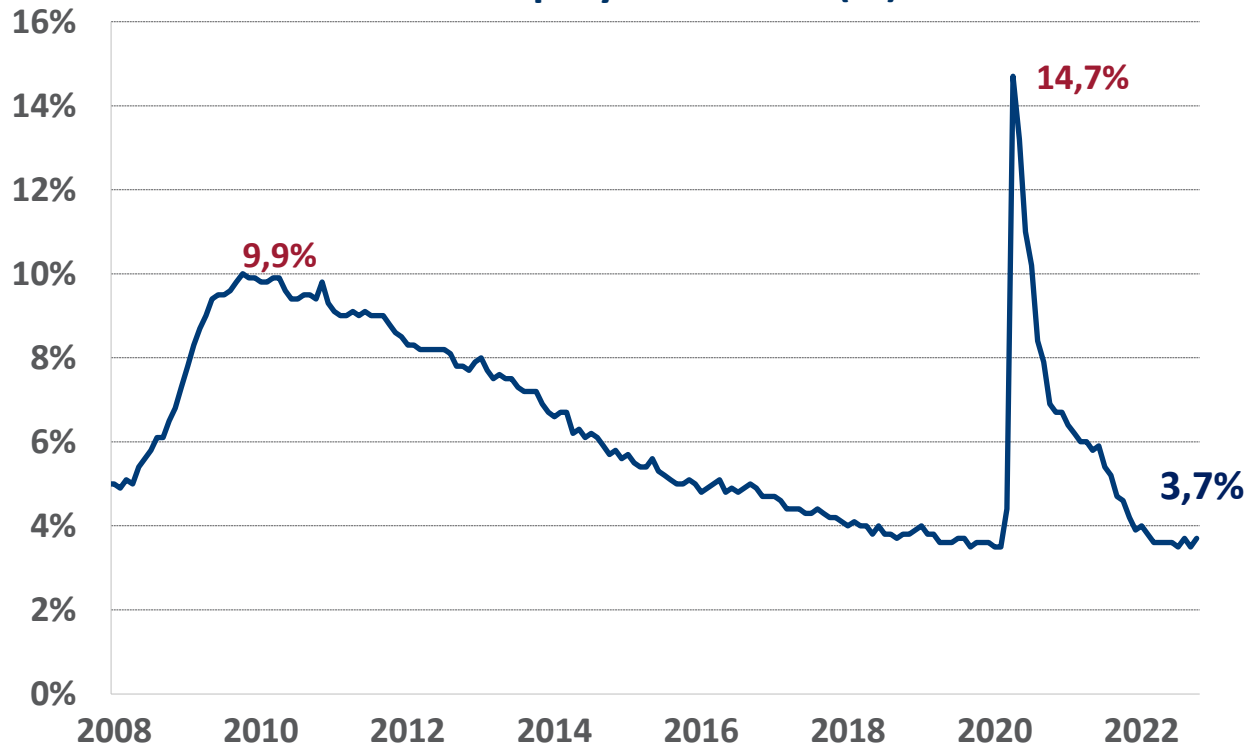
US: PCE SA (YoY, %)



USA: Labor Market

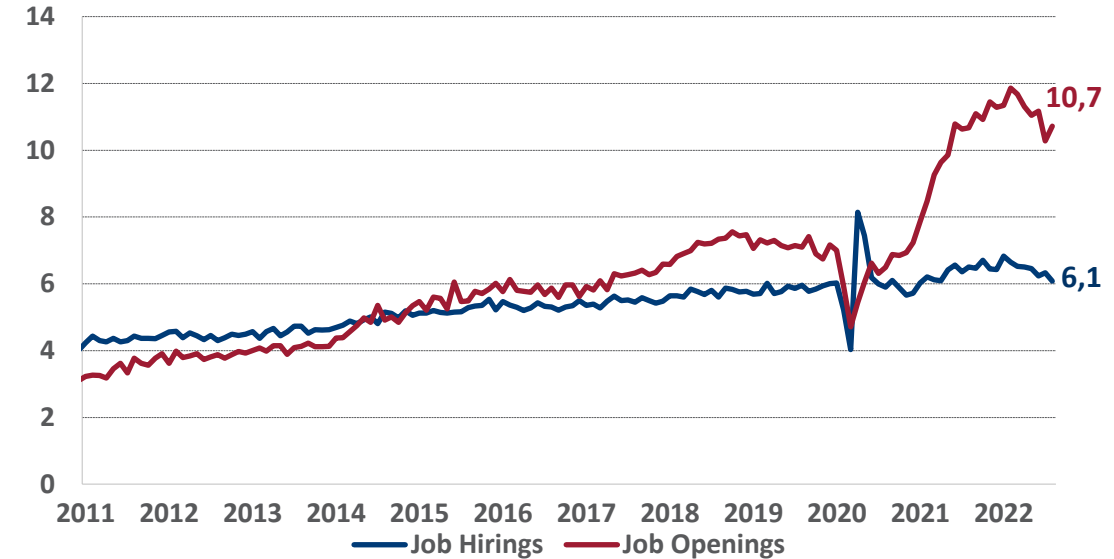
- » In October, **261k** jobs were created;
- » However, the unemployment rate increased from 3.5% to **3.7%**, due to a decrease of 328k in households' employment;
- » The labor force participation rate declined from 62.3% to **62.2%**;
- » In September, the number of job openings surprised to the upside reaching the figure of **10.717k** from 10.280k (4.3% MoM);
 - » The median of market expectations was of 10M.

US: Unemployment Rate (%)

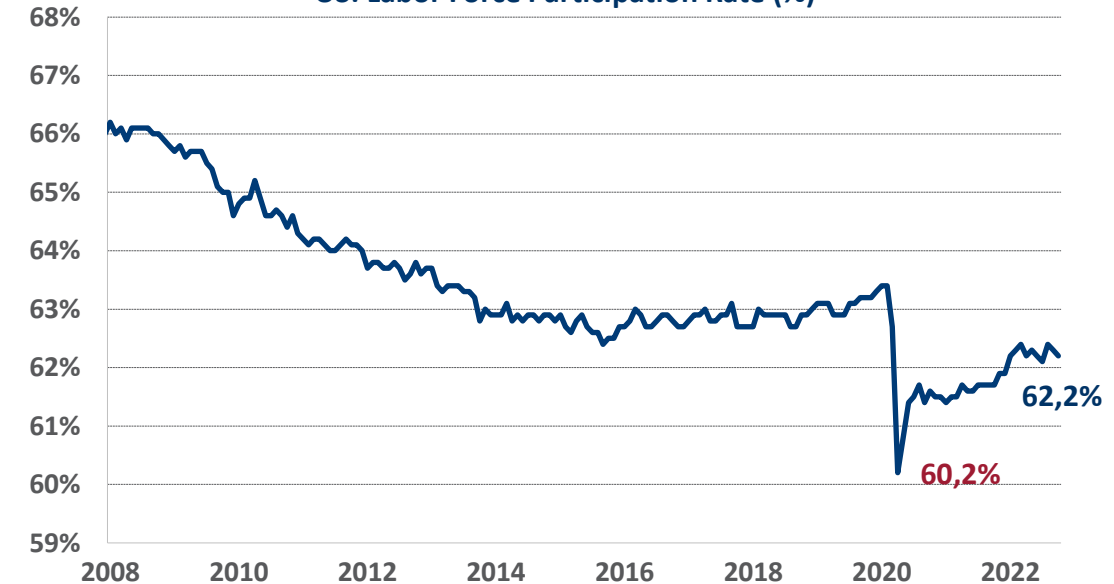


Source: BOCOM BBM, FED, BLS

US: Job Openings and Hirings (Million)



US: Labor Force Participation Rate (%)



Global: Interest Rates

- » Long-term interest rates of some major developed countries have increased considerably to help deliver inflation convergence to its target. In the recent weeks, we saw the decision of both the FOMC and the European Central Bank to raise their respective interest rates by 75bps.
- » On the other hand, in both cases, there was also a dovish signal, suggesting that the pace of hikes might slow down from now on;

10 Year Interest Rates

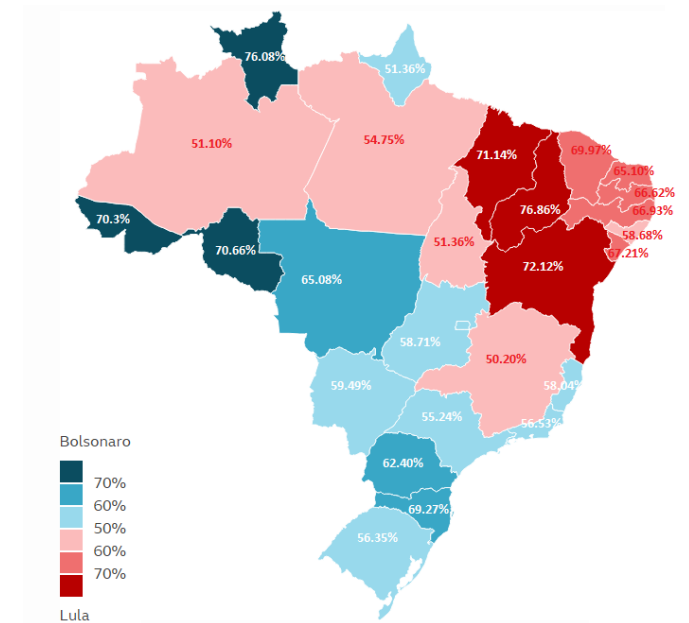


Brazil: Forecasts

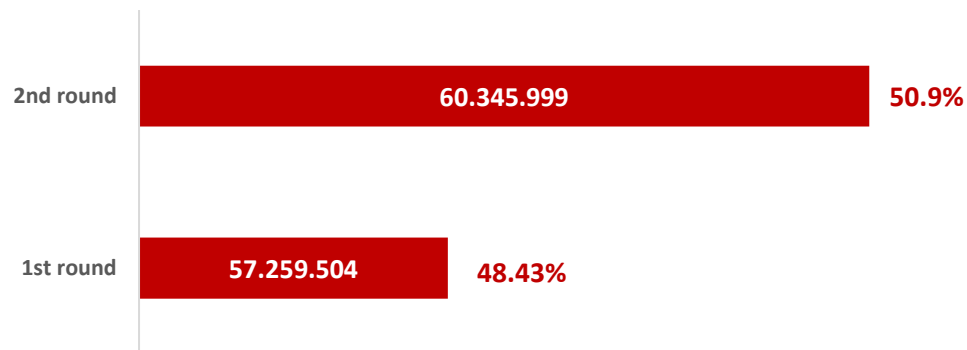
ECONOMIC FORECASTS	2019	2020	2021	2022F	2023F
GDP Growth (%)	1,1%	-3,9%	4,6%	2,8%	1,0%
Inflation (%)	4,3%	4,5%	10,1%	5,5%	4,7%
Unemployment Rate (eoy ,%)	11,7%	13,9%	11,1%	8,2%	8,5%
Policy Rate (eoy, %)	4,5%	2,0%	9,3%	13,75%	11,25%
External Accounts					
Trade Balance (US\$ bn)	48	32	36	44	50
Current Account Balance (US\$ bn)	-65	-24	-28	-41	-40
Current Account Balance (% of GDP)	-2,8%	-0,9%	-1,8%	-2,2%	-2,0%
Fiscal Policy					
Central Government Primary Balance (% of GDP)	-1,2%	-10,0%	-0,4%	0,7%	-0,8%
Government Gross Debt (% of GDP)	74,3%	88,8%	80,3%	77,5%	81,5%

Brazil: Presidential Elections

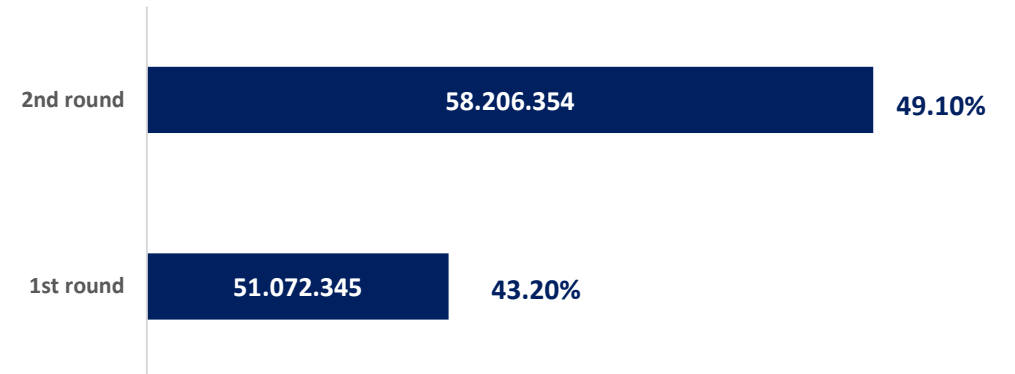
- » The smallest vote difference in history: Lula was elected with 50.9% of the votes (60.3 million votes, a difference of only 2 million in relation to Bolsonaro)
- » This is the first time that a president in Brazil has been elected for a third term and it is also the first time that a president running for re-election has been defeated.
- » Important points:
- » Abstention level was lower in the 2nd round than in the 1st, which is very uncommon in Brazil (from 20.94% to 20.59%)
- » Bolsonaro increased his votes by 7 million in the 2nd round, but it was not enough to defeat Lula, who won another 3 million votes
- » Maintaining the tradition that Minas Gerais reflects the national result
- » The PT's keep its strength in the northeast. Highlight for BA, PI and MA, where Lula won more than 70% of the votes



Lula



Bolsonaro



Brazil: State elections

- » 2 governors were elected in the 2nd round
- » High reelection rate: of the 20 governors running for reelection, 18 were reelected
- » Main highlights:
- » Tarcísio Freitas (Republicanos), former minister of infrastructure of Bolsonaro's government, was elected in São Paulo with a comfortable score compared to Haddad (PT)
- » PSDB lost São Paulo, the richest state in the Federation, but elected 3 governors, in Rio Grande do Sul, Pernambuco and Mato Grosso do Sul
- » The PT preserved its strength in the Northeast



Brazil: Congress Composition

- » The congress became less fragmented, but more polarized and on balance leaning right-of-center
- » PL (Bolsonaro's party) will be the largest party in the House (99 seats), and in the Senate (14 seats)
- » This congress composition is a challenge for Lula's administration, the centrist parties can set some policy limits, limiting tax increases, large expansion of permanent spendings and major reforms
- » Lula will have to reach out to center and center-right parties to form a governing coalition
- » Leftist and center-left parties sum up only 27% of the House seats, which is far from a simple majority to approve laws and even more from the 3/5 (308 deputies and 49 senators) to approve constitutional amendments

Brazil: Lula's government proposals

» Labor Market:

- minimum wage: readjustments above inflation
- reform: new labor legislation

» Welfare: "Bolsa família" of R\$600 plus R\$150 per child up to 6 years old

» Robust Safety Net: "Brasil sem fome" + "Minha casa, minha vida"

» Health: "Mais saúde Brasil" + "Farmácia popular"

» Education: access to higher education, **strengthening ENEM, PROUNI and FIES**, implementing "Bolsa Permanência"

» Private and Public investment but: public banks, specially BNDES, and companies prone to tech innovation, like Petrobras, have an important role in this new cycle

» Reindustrialization: digital transition to industry innovation

» "Empreende Brasil": access to credit for micro and small companies, with new lines of credit and resumption of the BNDES credit card

» "Desenrola Brasil": debt renegotiation for families receiving up to 3 minimum wages

» Tax: zero income tax up to 5 thousand reais

CARTA
PARA O
BRASIL
DO
AMANHÃ



Brazil: Fiscal impact of Lula's proposals

- » Lula's challenge will be to reconcile the response to social demands without giving up fiscal responsibility
- » It will be impossible to accommodate the spending pressures within the spending ceiling
- » According to today's news, Lula's team is discussing a waiver of BRL 200 bn in 2023 budget

Program	Expense(+) or Revenue Loss (-)	PLOA
Auxílio Brasil - additional BRL 200	52 bn	NO
Auxílio Brasil - add. BRL 150 child < 6yo	18 bn	NO
PIS/COFINS exemption on fuels*	-53 bn	YES
IRPF**	-100 bn	NO
Minimum Wage, Real 1-2%	5/10 bn	NO
Public Servent's Wage Readjustment***	2/3 bn per pp increase	14.2 bn (4-5% increase)
Debt negotiation program	7 bn	NO
Farmácia Popular	1.2 bn	NO
End of SUS Queue	10 bn	NO
Public Investments (PAC)****	50 bn	NO
Total	About 300 bn	

* **PIS/COFINS** is in PLOA, but needs Congress approval through Projeto de Lei (PL), since exemption is up to Dec/22

** **IRPF**: goes through MP, but needs to go through up until the beginning of the tax filling season

*** **Public servant's wage readjustment**: accumulated inflation over 2019-2022 is around 27%

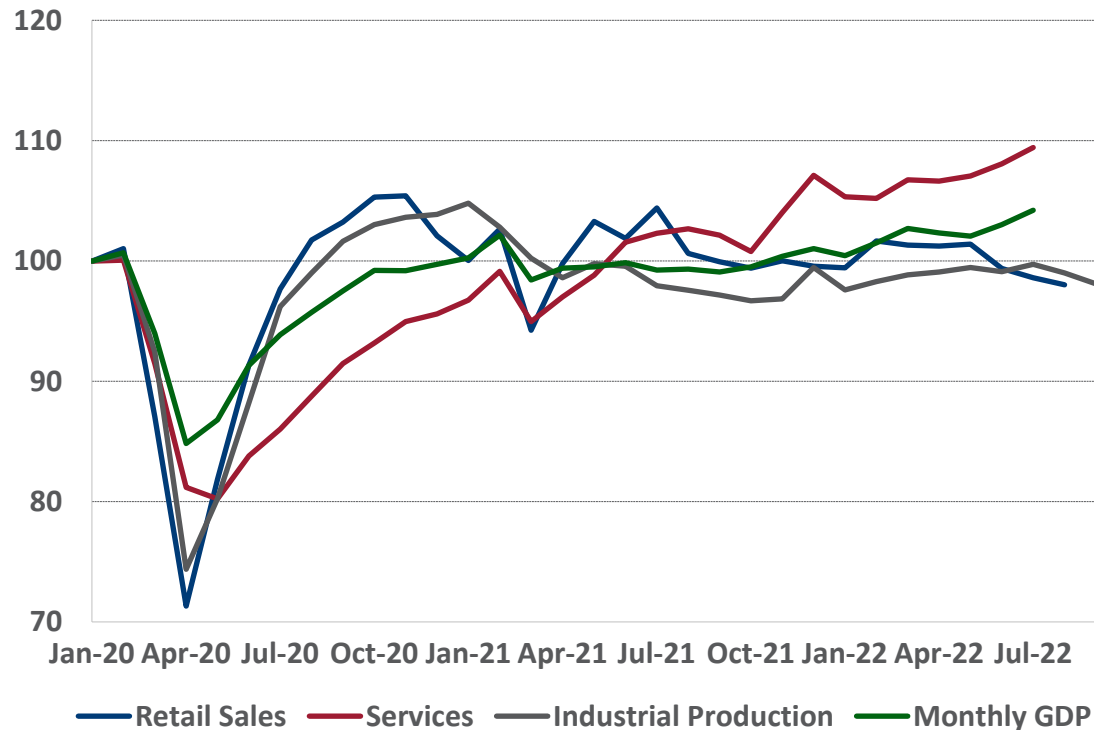
**** **PAC**: Average historical value

- » We expect Lula to pursue higher taxes and spendings and SOEs should be key engines of growth and investment
- » It can lead to higher consumption growth, high inflation and larger fiscal deficits
- » **Economic Team**
- » Lula showed signs that he intends to have a team that contemplates **different profiles** based on the **division of the Ministry of Economy** into three parts: **Finance, Planning, Industry and Commerce**.
- » Three different profiles: a political profile of Lula's confidence with a PT developmentalist DNA, an integrant from the political center and a more orthodox technical economist (Henrique Meirelles could be an option)

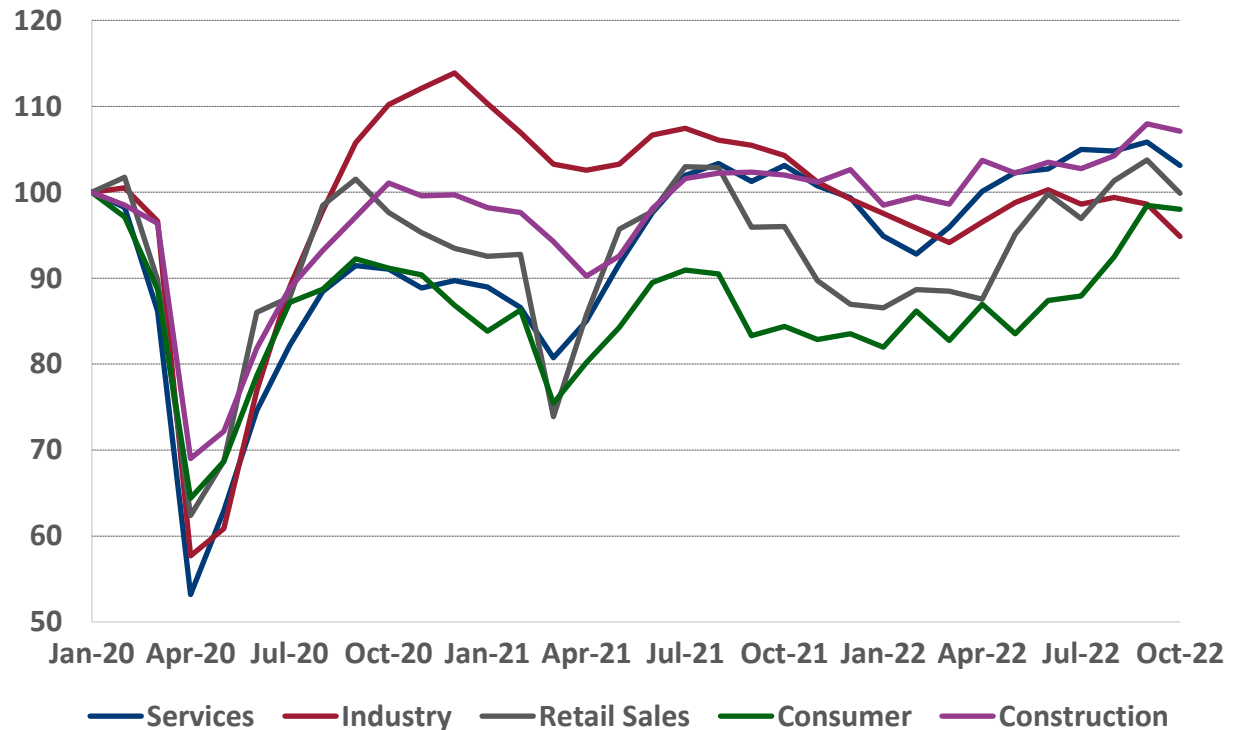
Brazil: Activity

- » Leading indicators of economic activity continue to show signs of slowing at the margin:
- » In August, the service sector remained resilient, but retail and manufacturing continued to weaken. In September, the industrial sector showed another drop;
- » Confidence indicators registered a general decline in October. Highlight for consumer confidence, which fell in October after successive increases and the industry survey that deepened the decline, reflecting the restrictive monetary policy and the perception of lower demand for goods.

Brazil - Economic Activity Indicators (Jan/20=100)



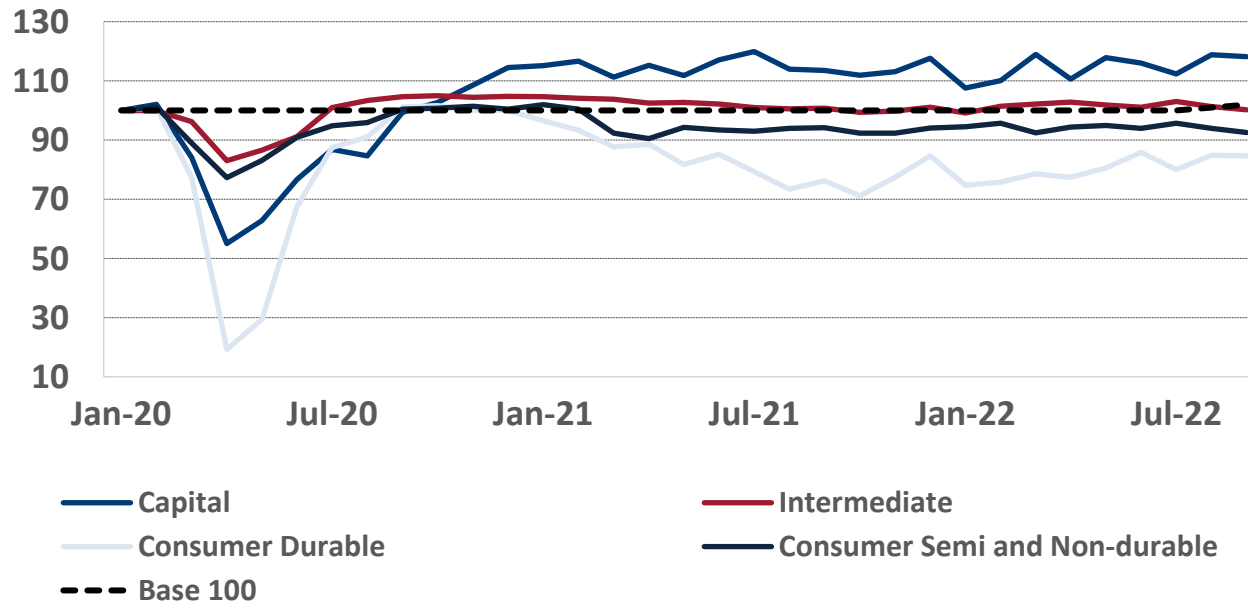
Brazil - Economic Confidence Index (Jan/20 = 100)



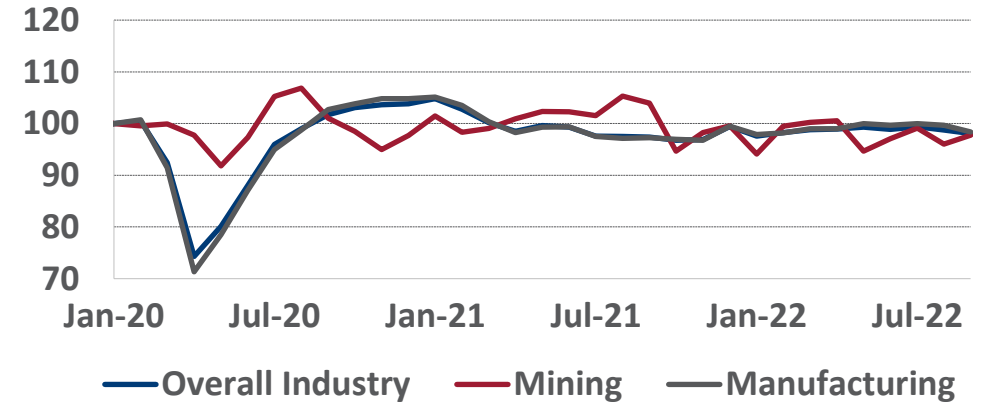
Brazil: Industrial Production

- » Industrial production fell 0.7% MoM in September, the second consecutive decline (-0.3% QoQ)
- » All categories fell in September, as did 21 of the 26 industrial activities
- » Statistical carry-over for the Q3 is -0.7% QoQ, in line with consumption of goods losing pace at the margin
- » The sector faces difficulties in view of the prospect of high interest rates for a long time and the intensification of consumption of services, to the detriment of consumption of goods.

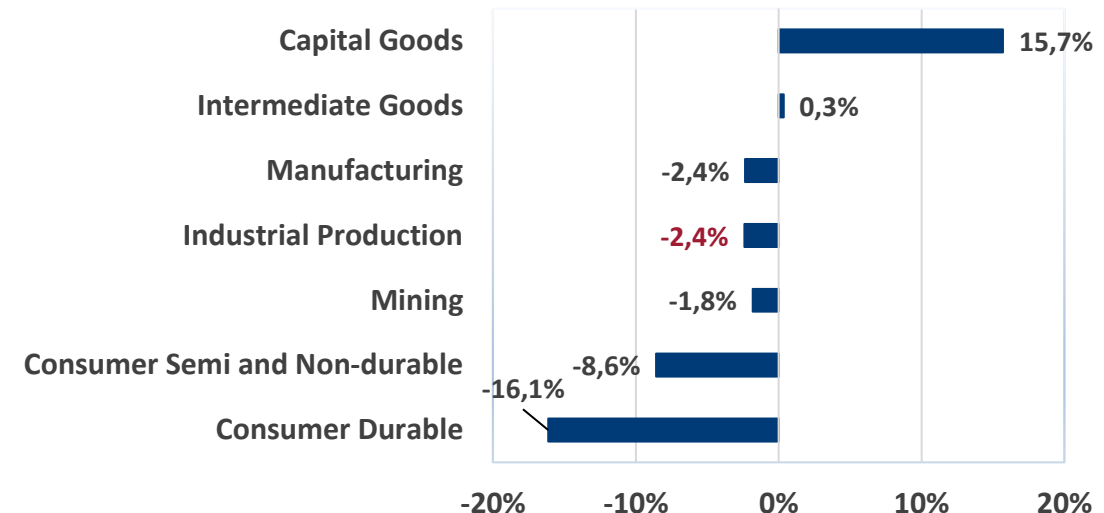
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)

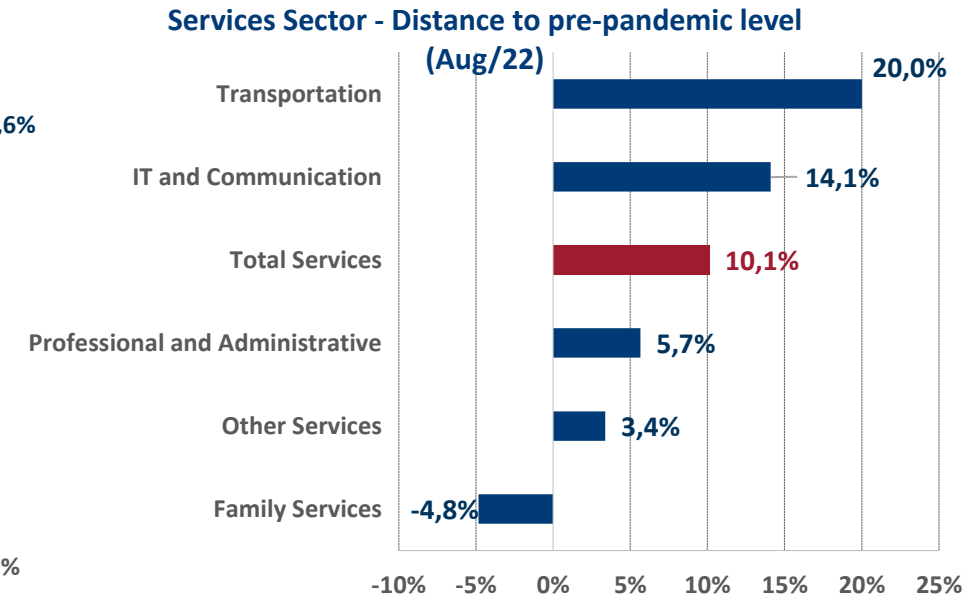
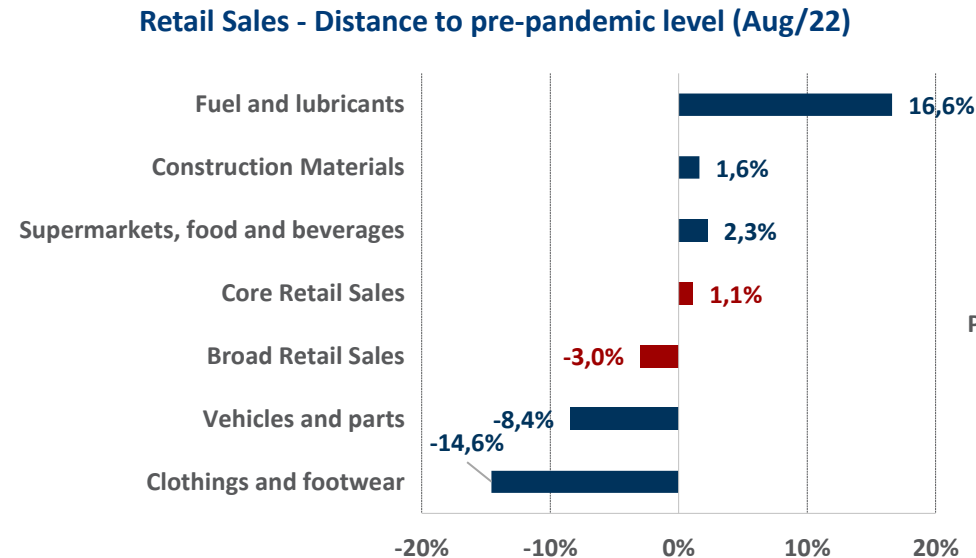
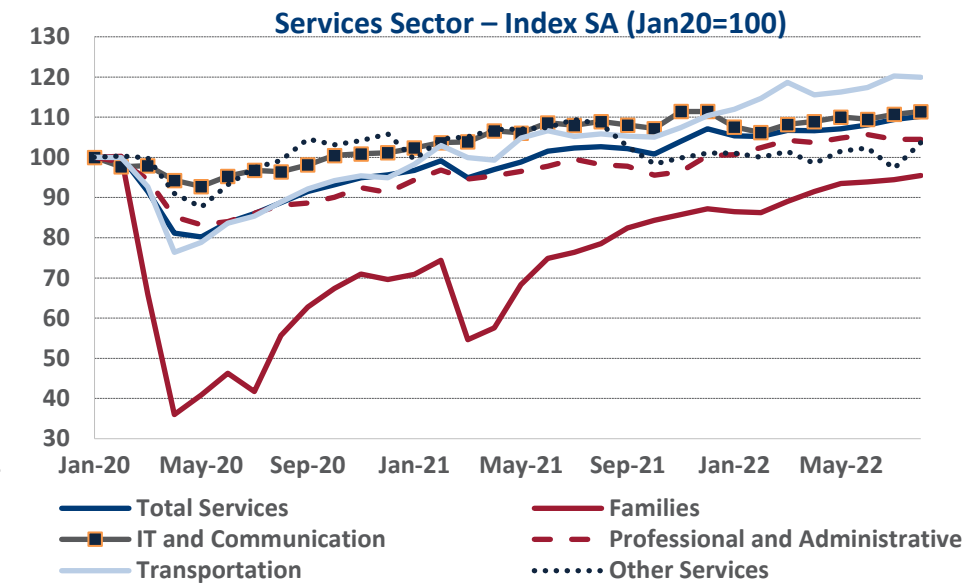
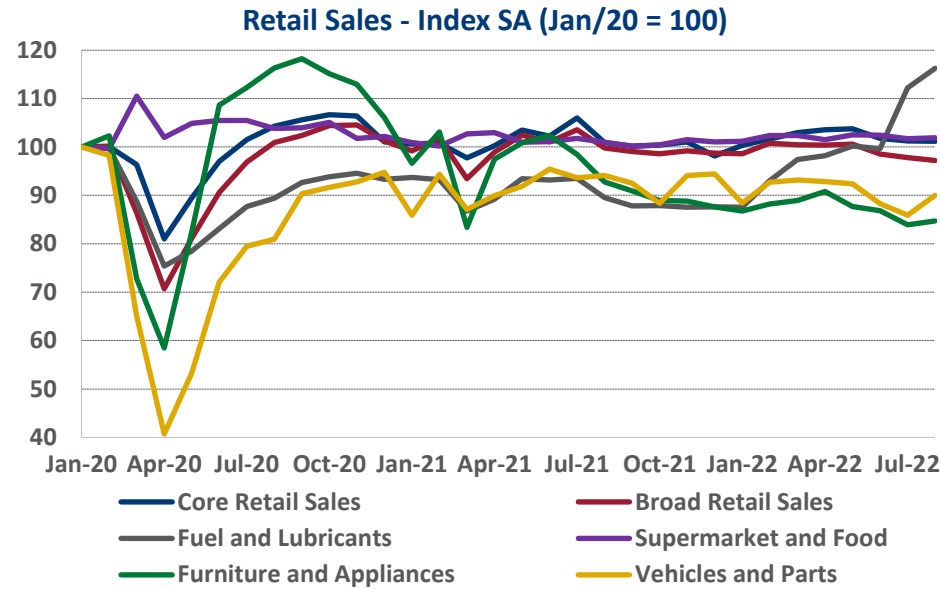


Industrial Production - Distance to pre-pandemic (Sep/22)



Brazil: Retail Sales and Services Sector

- » In August, broad retail trade fell by -0.6% MoM, driven by office equipment, household and personal items, construction materials and pharmaceuticals;
- » The service sector grew 0.7% MoM, surprising expectations
- » ...with this result, the index reached its highest level since November 2014
- » The service sector is 10.1% above the pre-pandemic level, while the expanded retail trade is 3% below.



Brazil: GDP 2022 and 2023

- » We expect a negative contribution from agriculture and livestock GDP in 2022, due to some crop failures and downward revisions in production prospects for the year
- » In the industrial sector, we project a 1% QoQ increase in Q3, mainly driven by electricity and construction:
- » We are seeing an improvement in production chain bottlenecks;
- » On the other hand, the trend is for a deceleration, given the perspective of a slowdown in internal and external demand.
- » We expect the services sector to continue to grow in Q3, given the heated labor market and increase in government cash transfers, but the trend is for a slowdown in subsequent quarters
- » For 2023, we expect growth of 1%, driven by the agricultural sector, given the prospect of an excellent grain harvest. In industry and services, however, the trend is for a deceleration.

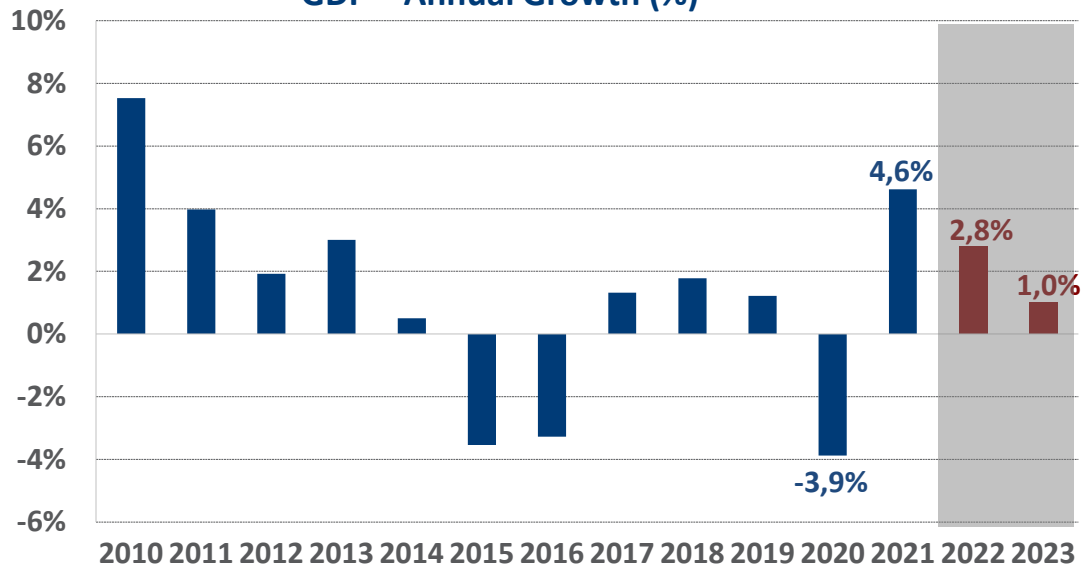
	2022.III (QoQ)	2022.III (YoY)	2022
GDP	0,6%	3,7%	2,8%
Agriculture	0,9%	6,5%	-1,4%
Industry	1,0%	3,0%	1,7%
Mining	-1,7%	-4,8%	-3,3%
Manufacturing	0,5%	2,1%	0,4%
Utilities	3,2%	16,6%	11,6%
Civil Construction	1,2%	7,5%	7,8%
Services	1,1%	4,5%	4,0%
Retail Trade	0,4%	2,3%	1,4%
Transports	1,6%	10,9%	10,0%
Information Services	1,8%	4,7%	3,7%
Financial services	0,4%	2,1%	1,1%
Rents	0,0%	0,4%	0,5%
Other Services	2,1%	11,3%	11,1%
Public Administration	1,0%	1,5%	1,6%

	2022	2023
GDP	2,8%	1,0%
Agriculture	-1,4%	8,0%
Industry	1,7%	0,8%
Services	4,0%	0,6%

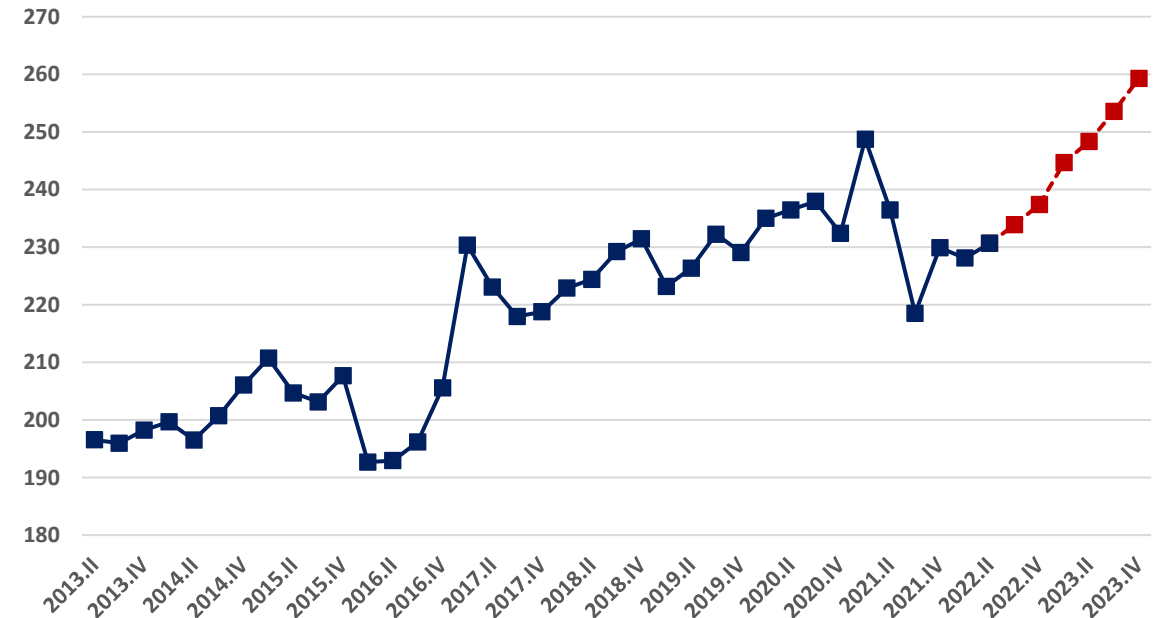
Brazil: GDP 2022 and 2023

- » We forecast a **GDP growth of 2.8% in 2022**: positive contributions from industry and services;
- » The negative impact of the contractionary monetary policy should be seen in the second half of 2022, but the current high carry-over effect should soften the deceleration;
- » **Our 2023 GDP growth forecast has risen to 1.0%:**
- » A better scenario for 2022 raised the carry-over effect for 2023 to 0.6%;
- » Warming up of the agricultural sector.

GDP – Annual Growth (%)



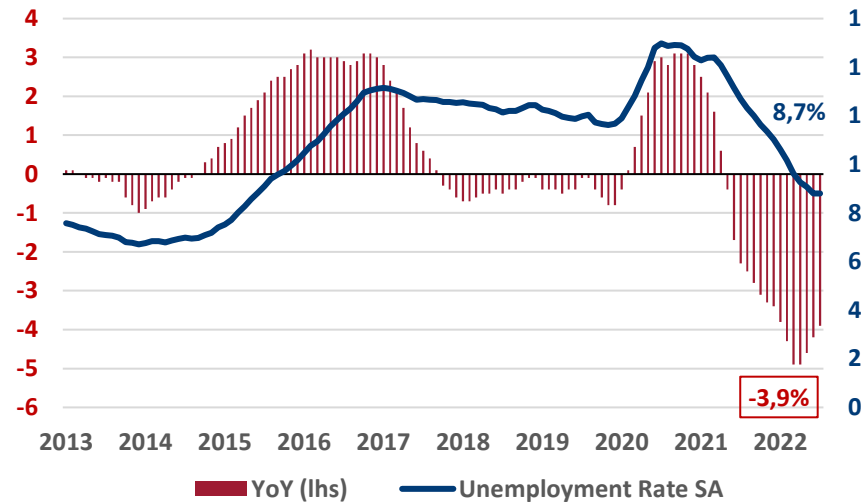
Agriculture GDP



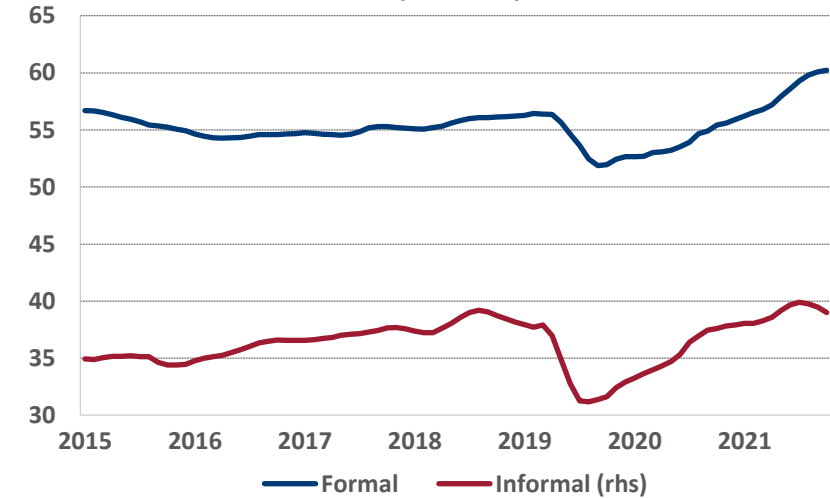
Brazil: Labor Market

- » The labor market continued to improve in September:
- » The unemployment rate fell from 8.8% to 8.6% (8.9% to 8.7% without seasonal adjustment) with an increase in formal jobs (although losing strength at the margin), but a fall in informal jobs;
- » Wage levels are advancing rapidly due to the increase in the employed population and the recent increase in the average real wage, which, however, remains at very low levels compared to the pre-pandemic period.

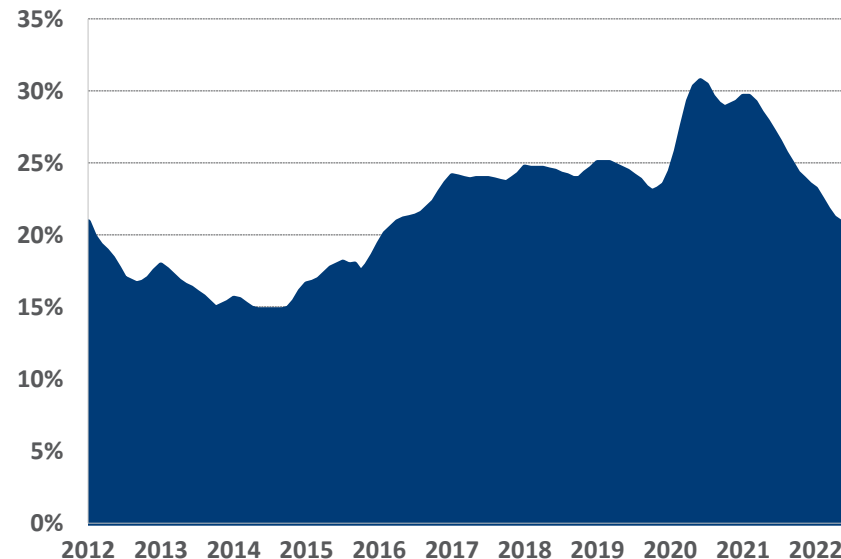
Brazil - Unemployment Rate



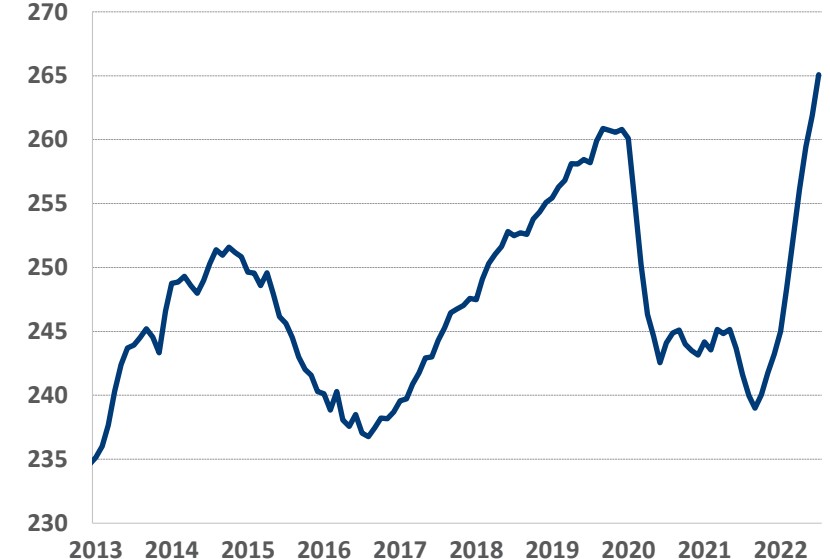
Brazil - Formal and Informal Employment SA (Millions)



Brazil - Underutilization of Labor Force



Brazil - Real Wage Bill SA (R\$ Billion)

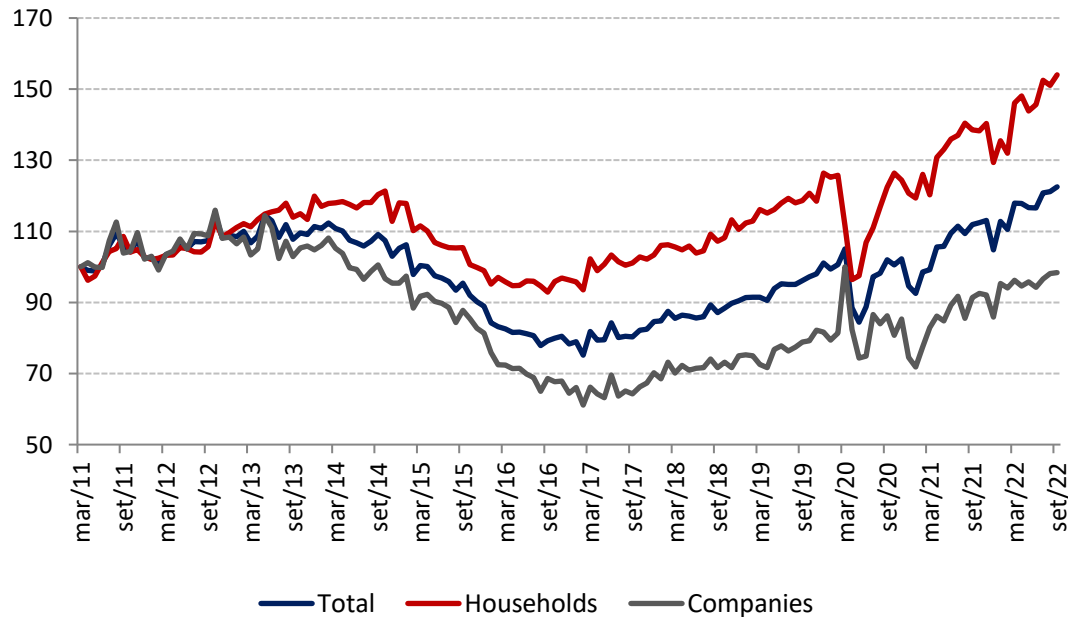


Credit Statistics

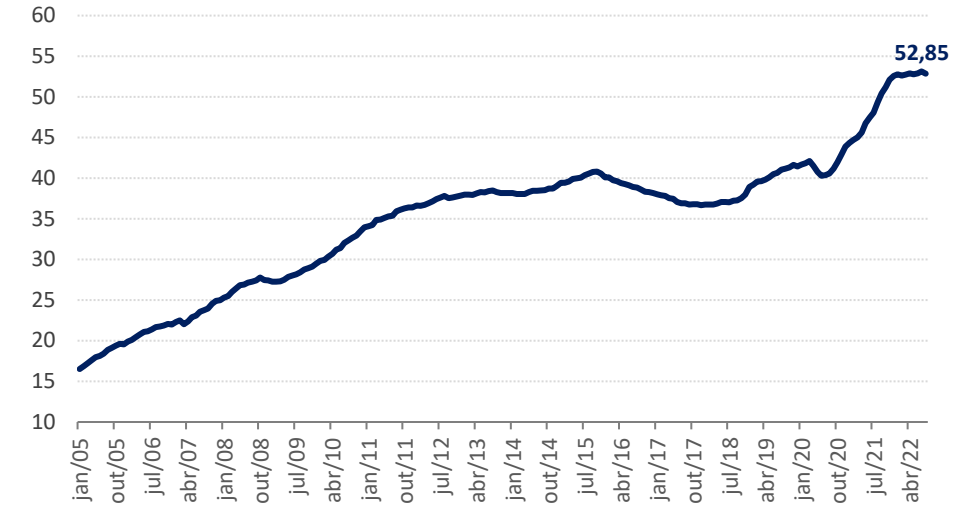
- » In September, the total credit concessions increased 1.2% MoM in real terms, driven by a growth of 2% MoM of credit concessions to households and 0.2% MoM to companies
- » The delinquency rate remains low (2.85%) but continue increasing at the margin
- » The household indebttness continue very high, at 52.9% (vs 41.8% in Feb/20), which may limit the expansion of household consumption in 2023

Credit Concessions

SA (real) - mar/11 = 100



Household debt, % of annual income

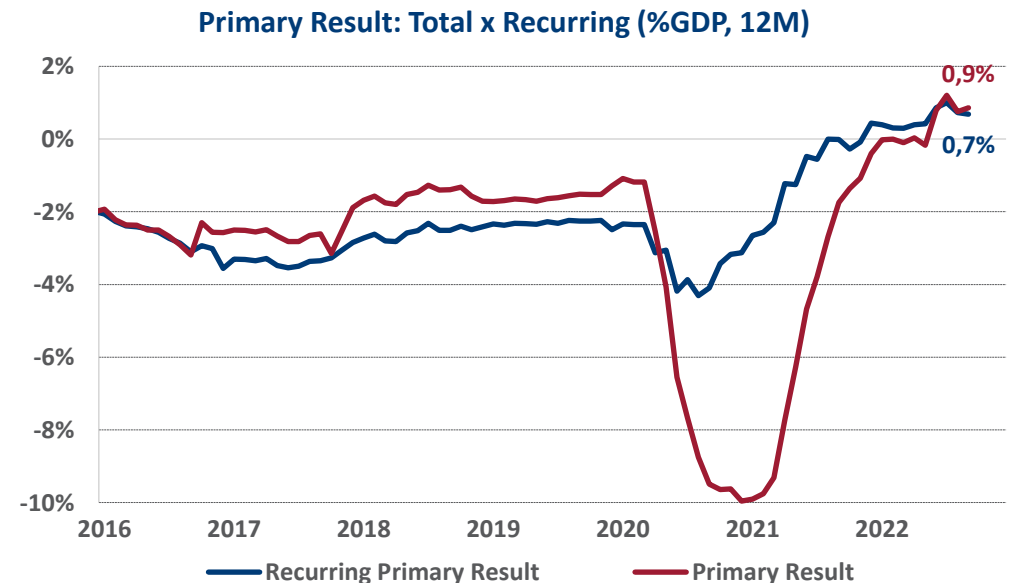
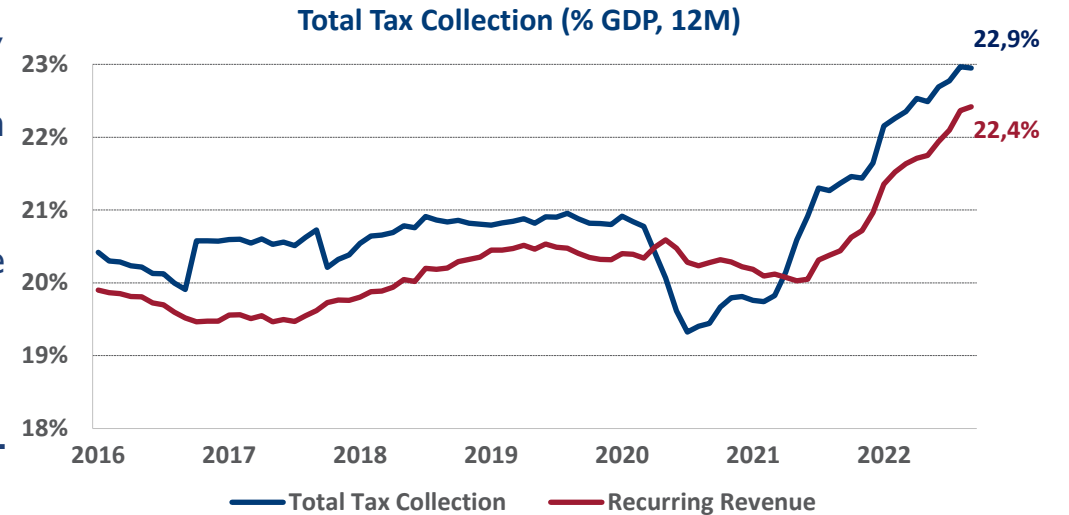
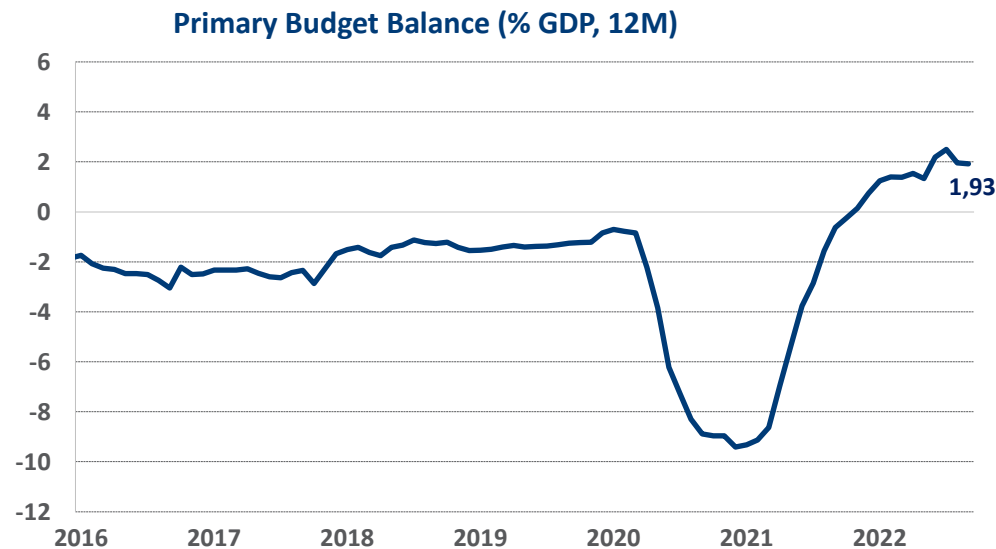


Delinquency rate % 90 days past due loans



Brazil: Fiscal Results

- » Fiscal readings have been improving with **higher commodity prices, inflation and GDP**;
- » **Federal revenue** growth remains **strong**, it reached BRL 166.3 bn in September;
 - » It reached 8.2% YoY and 10.2% YTD in real terms;
- » The **Central Government** reached a **surplus** of BRL 11 billion, in line with market expectations;
 - » Compared to 2021, there was a real increase of 6.4% in revenues and a 1.1% reduction in total expenditure;
- » The **consolidated public sector** registered a primary **surplus of BRL 10.7 bn**;
 - » Driven by local governments due to rising inflation and buoyant revenue from taxes on rising gasoline and electricity prices.

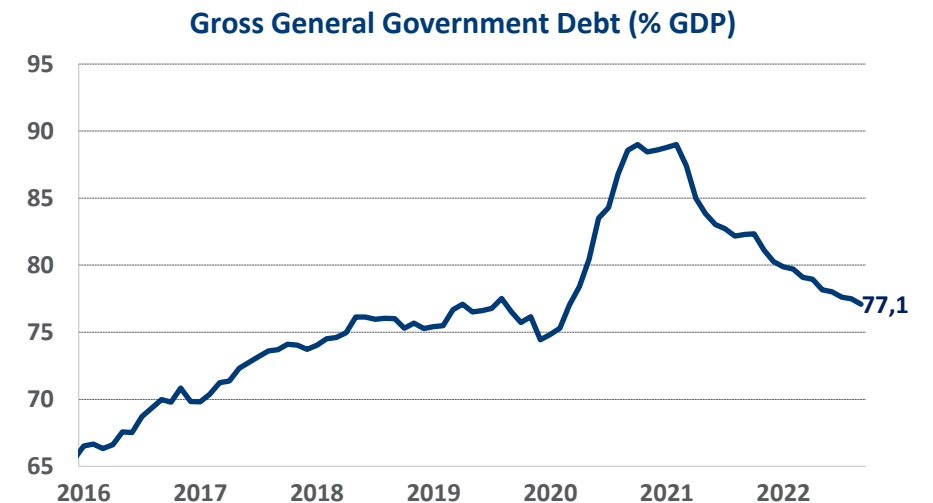
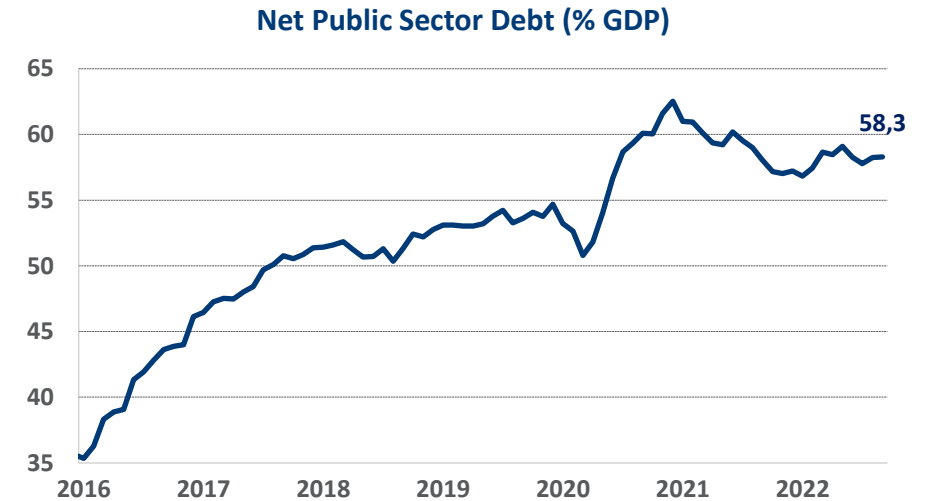
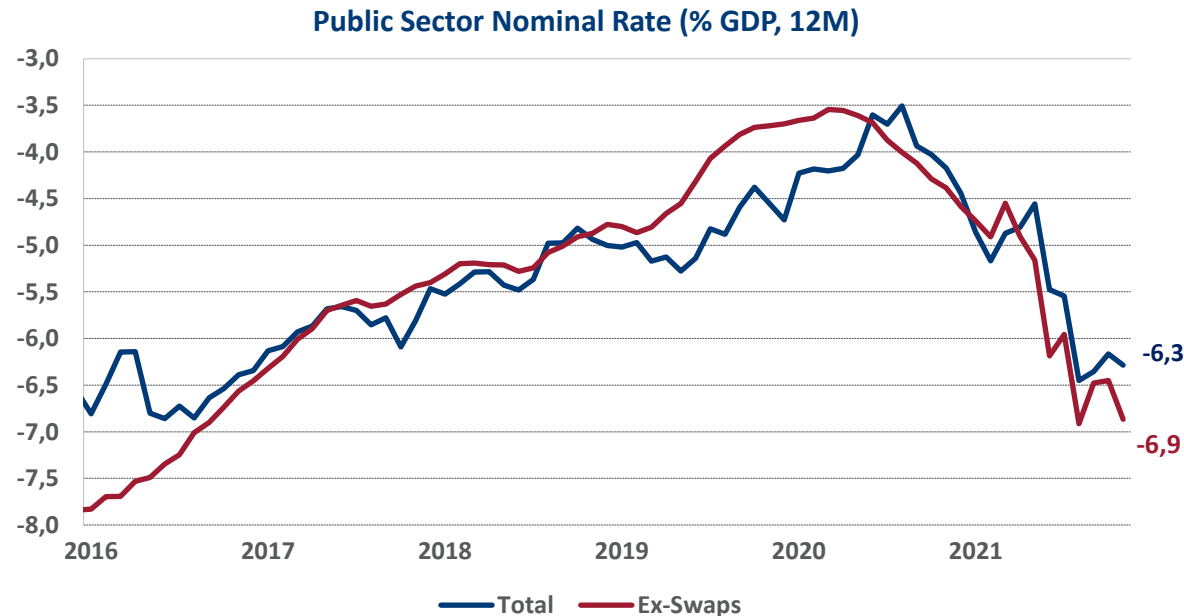


Brazil: Fiscal Results

» Nominal Interest:

- » The interest account in September was R\$71.4 billion;
- » In the accumulated 12 months, nominal interest totals R\$592 billion (6.29% of GDP);

- » **Gross Debt vs. Net Debt:**
- » Gross debt fell in September to 77.1% of GDP, while net debt grew 0.1% of GDP;



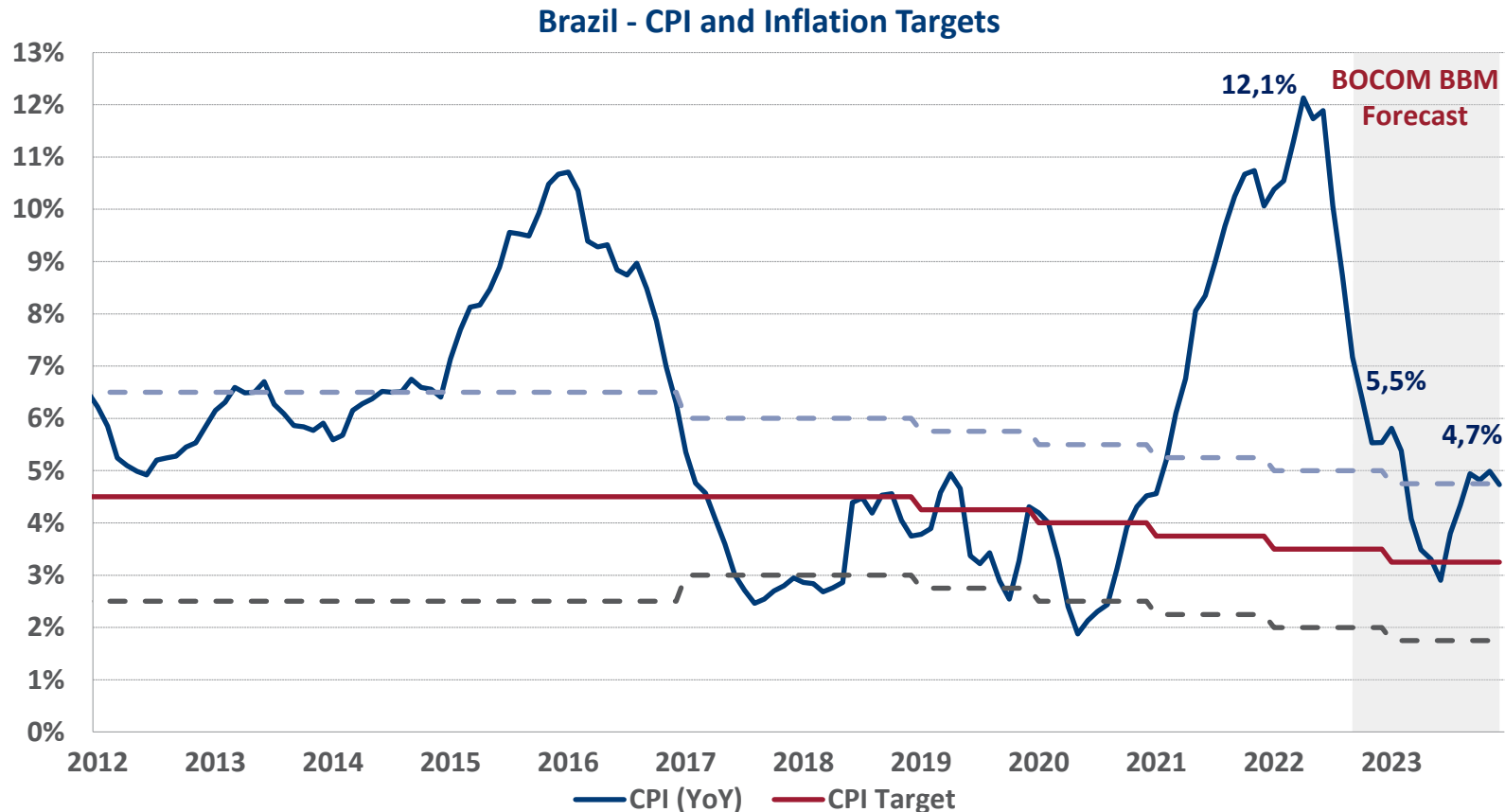
Brazil: Inflation

- » In 2022, federal and state tax cuts on fuel, electricity and telecommunications and the drop of oil prices in the international market contributed strongly to the slowdown in inflation expectations, which reached 10% a few months ago. The strong deflation of monitored items is the main explanation for the reduction of expectations to 5.5%. In addition, food at home, which was under great pressure in the first half of the year, began to show strong relief. Industrial goods inflation has also been surprising to the downside in the short term, given the easing of global supply bottlenecks. Services, on the other hand, should remain under pressure for some time, given the increase in demand both for the normalization of mobility and for the increase in household disposable income, due to the heated labor market and increase in government transfers;
- » For 2023, more resilient economic activity and labor market should keep services inflation at a higher level, causing inflation to stay above target. However, industrial goods and food should experience less inflationary pressures due to the base effect and accommodation in commodity prices. The lower inertia arising from 2022, after successive downward revisions, is also a factor that helps to moderate expectations for 2023.

Baseline Scenario (YoY)						
	IPCA	Regulated	Non-regulated	Services	Food at home	Industrial Goods
20 Q4	4,5%	2,6%	5,2%	1,7%	18,2%	3,2%
21 Q1	6,1%	7,0%	5,8%	1,6%	17,6%	5,5%
21 Q2	8,3%	13,0%	6,7%	2,2%	15,3%	8,7%
21 Q3	10,2%	15,7%	8,3%	4,4%	14,7%	10,6%
21 Q4	10,1%	16,9%	7,7%	4,8%	8,2%	11,9%
22 Q1	11,3%	14,9%	10,0%	6,3%	13,7%	13,4%
22 Q2	11,9%	11,7%	11,9%	8,7%	16,7%	13,6%
22 Q3	7,2%	-1,7%	10,4%	8,5%	13,3%	11,4%
22 Q4	5,5%	-5,4%	9,5%	8,3%	12,6%	9,3%
23 Q1	4,1%	-5,2%	7,4%	8,0%	7,7%	6,4%
23 Q2	2,9%	-4,1%	5,3%	6,2%	4,8%	4,3%
23 Q3	4,9%	4,9%	4,9%	5,6%	4,4%	4,0%
23 Q4	4,7%	5,6%	4,5%	5,0%	4,7%	3,2%

Brazil: Inflation

- » Our 5.5% forecast for 2022 takes into account the impact of PIS/Cofins tax credits on electricity readjustments, federal and state tax cuts and the green flag for electricity;
- » In 2023, the forecast is 4.7%, above the target. On the one hand, we see the deterioration of expectations, the persistence of services inflation and less idleness in the economy due to the strength of the labor market. On the other hand, we see less inertia from 2022, the maintenance of federal tax exemptions on fuel and better-behaved industrial inflation;



»» The main risks in the scenario for inflation are:

Upside risks:

1. The government's fiscal policy may continue to boost demand and lessen the effect of contractionary monetary policy;
2. The discussion about the new fiscal rule that will replace the spending cap tends to bring volatility to the markets and put pressure on the exchange rate;
3. In 2023, labor market resilience could put pressure on services inflation and make the disinflation process even more difficult;
4. Warmer and drier weather in the northern hemisphere could harm next year's crops, increasing demand for Brazilian food. In addition, the high cost of natural gas in Europe could put pressure on fertilizer prices.

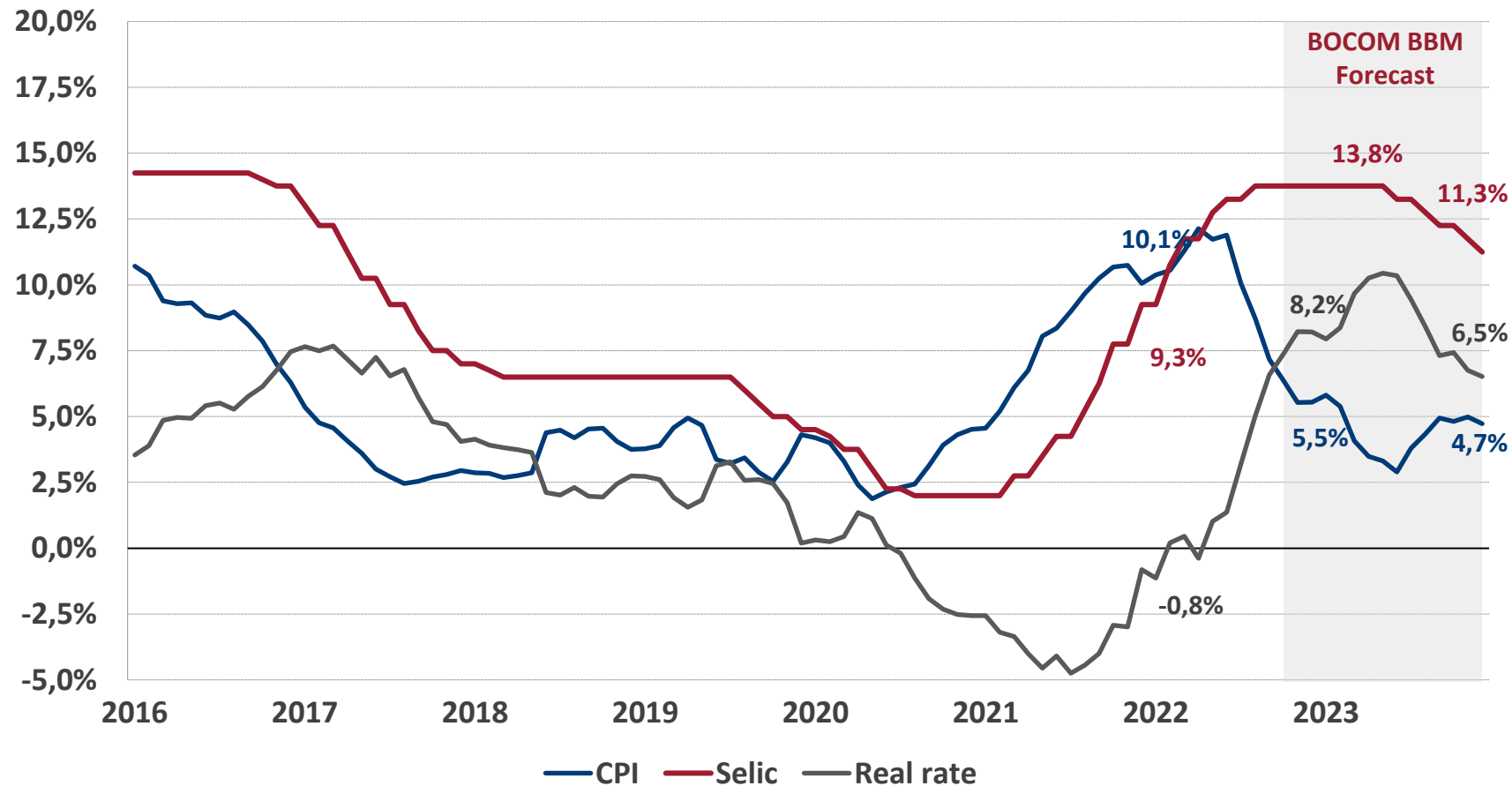
Downside Risks:

1. Commodity price declines may continue for a long time, impacting gasoline, diesel, industrial goods and food prices;
2. Lower inflation in 2022 could significantly reduce inertia for 2023;
3. The strong improvement in the global supply bottlenecks can further reduce industrial goods inflation;
4. Monetary policy may have become more powerful after the structural reforms implemented since Temer government, impacting prices in the next year more than expected.

Brazil: Interest rates

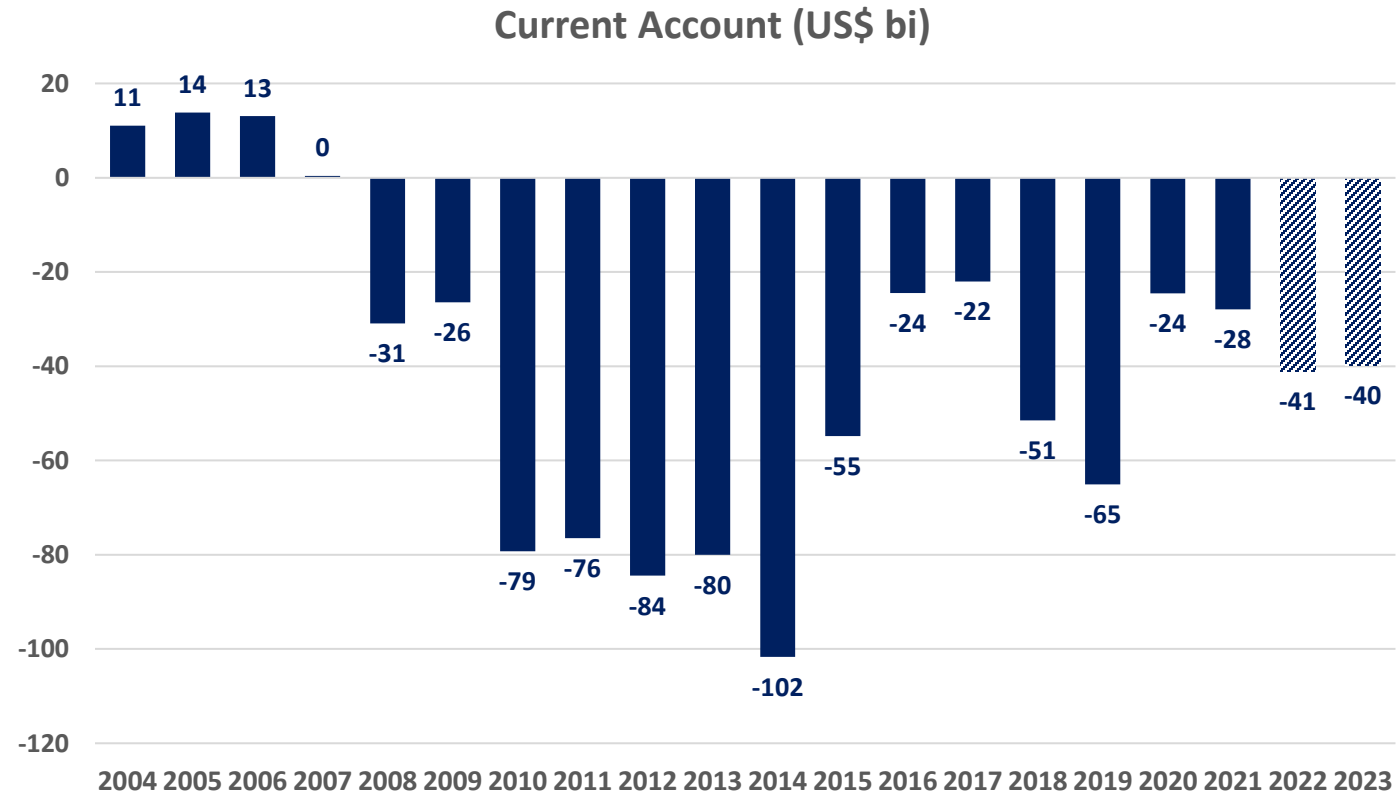
- » Copom ended the hiking cycle at the September meeting, keeping Selic at 13.75%. However, the committee reinforced the vigilance message by saying that monetary policy can further adjust should inflation prove more persistent than expected. However, given the rapid process of disinflation in force, we understand that new hikes are unlikely to occur. We project that Selic cuts will start in mid-2023, ending the year at 11.25%.

Brazil - CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)



Brazil: Balance of Payments

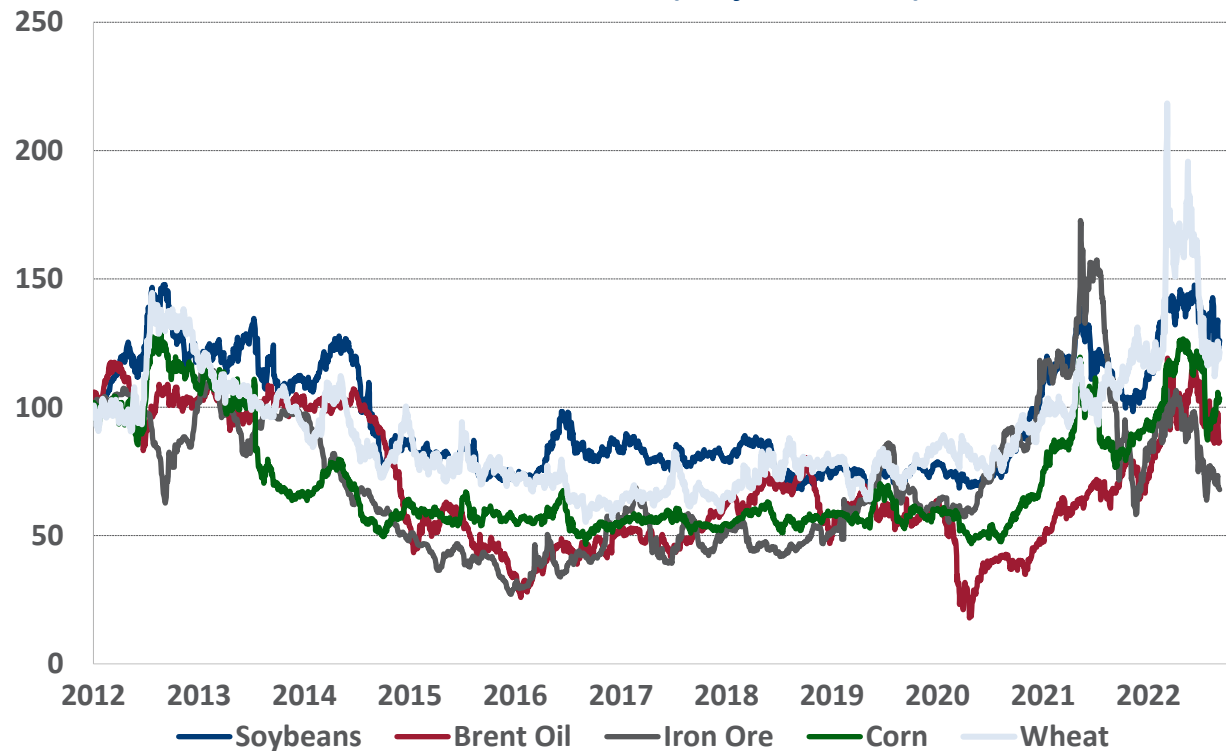
- » For 2022, we expect a deficit of US\$ 41 billion in the current account. The strong surplus in the trade balance was more than offset by significant remittances of profits and dividends abroad and a higher deficit in the services balance, due to the return of mobility and stronger domestic demand;
- » Our forecast for 2023 is -US\$40 billion. Although we expect the exported quantities to continue increasing, the fall in commodity prices should have a negative impact on the value of exports. In addition, we expect a reduction in the remittance of profits and dividends abroad, which was driven this year by record dividend distributions by state-owned companies.



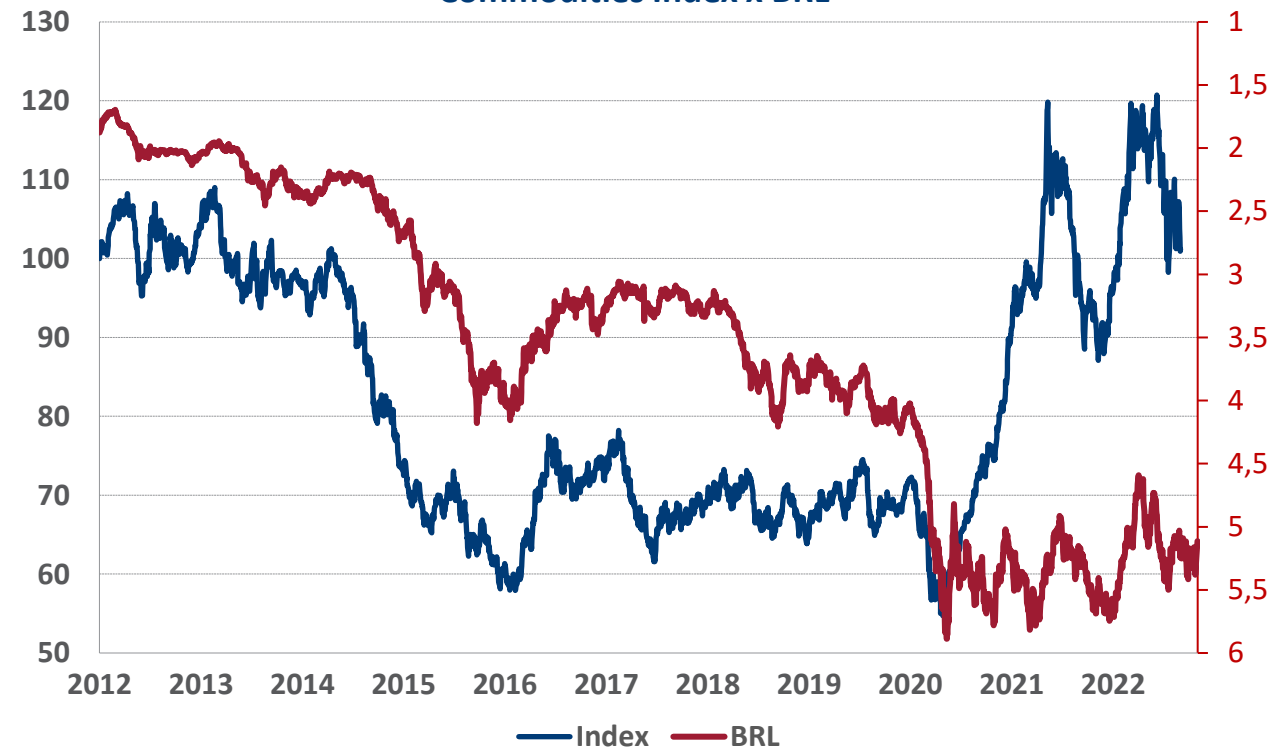
Brazil: External Sector

- » We are seeing a drop in the main commodities prices exported by Brazil, which together with uncertainty about global growth and fiscal risks in Brazil limit stronger appreciation of the exchange rate further.

Commodities Prices (01/jan/12=100)



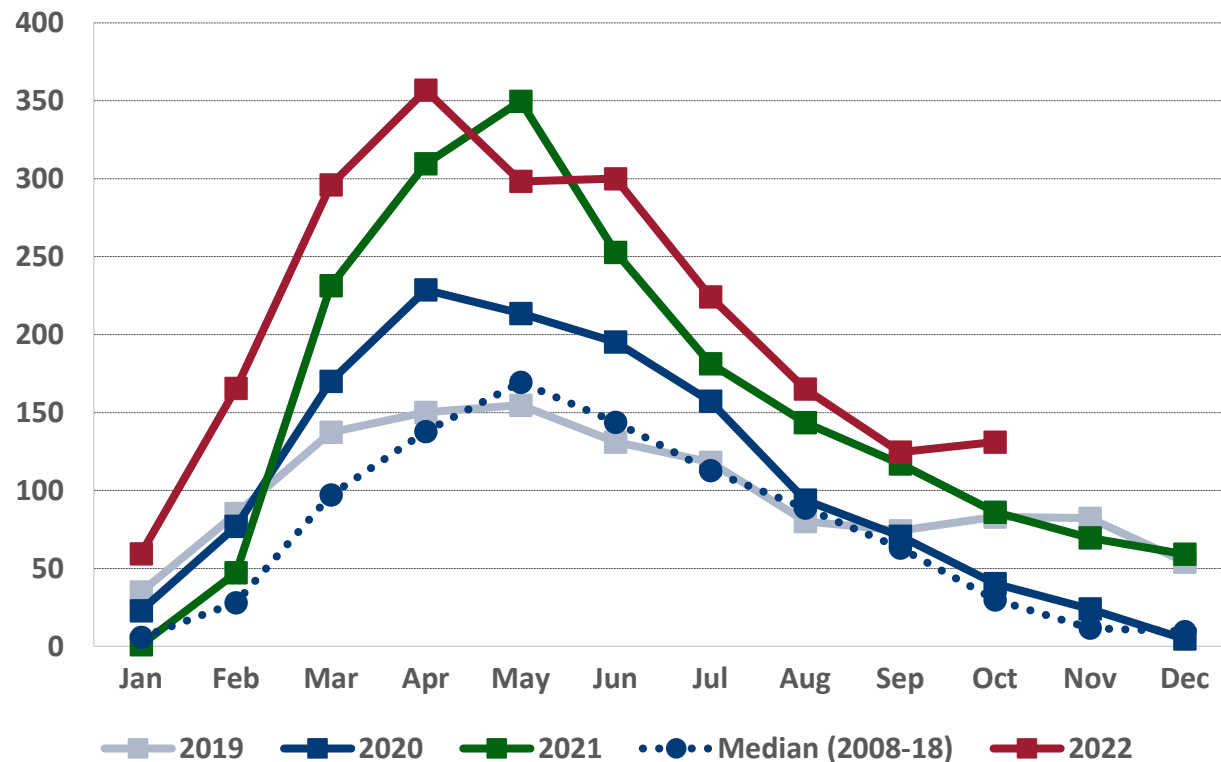
Commodities Index x BRL



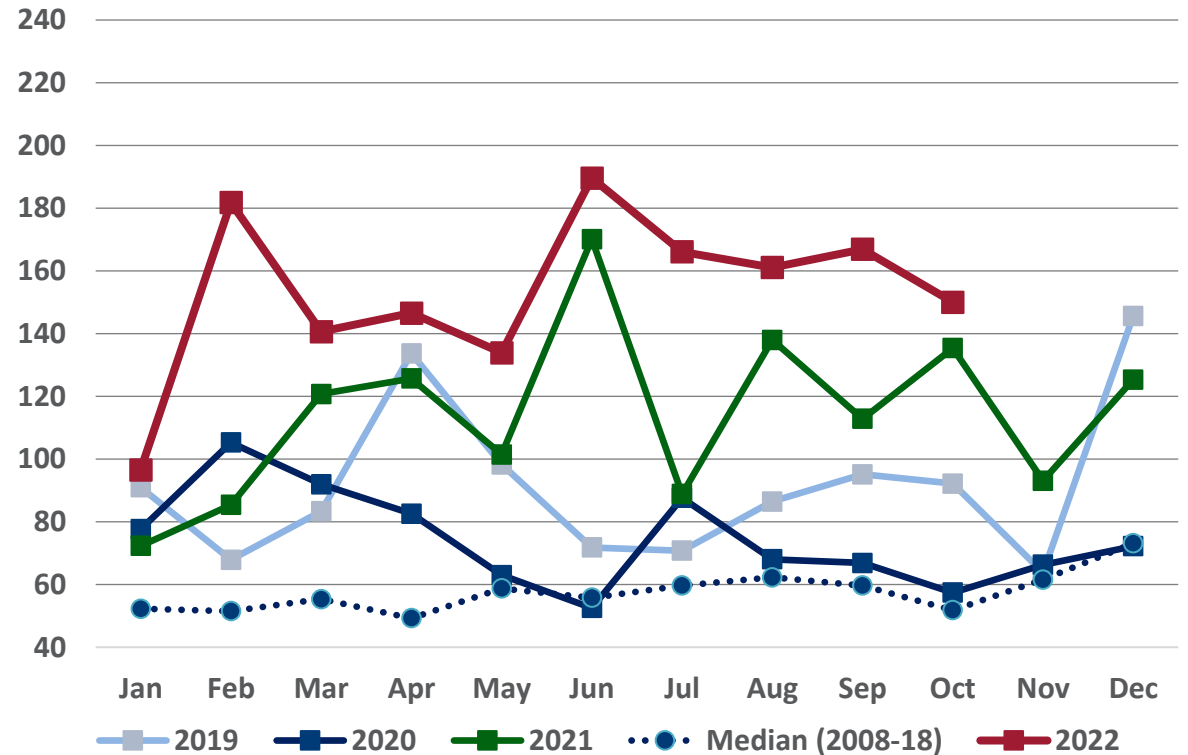
Brazil: External Sector

- » The trade balance remains strong, favored by high global demand and still high prices, despite the recent drop. The prospective scenario remains very favorable, given the expectation of excellent harvests and an increase in oil production next year.

Brazil - Soybeans Exports (US\$ Million Daily Average)



Brazil - Crude Oil Exports (US\$ Million Daily Average)



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