交通銀行 BANK OF COMMUNICATIONS BBM

MACRO OUTLOOK

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Macro Outlook

- 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, the zero covid policy continues to affect the economy, however the Central government is releasing measures giving more flexibility to Covid restrictions. Nonetheless, there remains weakness in economic data due to lower mobility, worrisome situation in Chinese housing market, and a slowdown in exports growth due to weaker external demand;

- Economic activity has shown clearer signs of deceleration throughout the fourth quarter. Confidence indicators began to decelerate in October and intensified their fall in November. In the labor market it was also possible to observe a loss of strength in formal job creation from CAGED and also in PNAD data, in which the unemployment rate retreated driven by the participation rate fall in October;

- Q3 GDP registered a lower than expected increase due to the revision in the national accounts series from 2020 onwards, increasing the basis for comparison of the previous year and also of the current year's Q2. We maintain our 2022 forecast at 2.9%, after revising the Q4 GDP forecast from +0.1% QoQ to -0.1% QoQ. For 2023, we forecast a growth of 1.2%, with agribusiness boost and another record harvest, according to Conab projections, added to the expansion of social policies, income transfers and public investments in infrastructure;

- Our inflation forecast is at 5.8% for 2022. Despite the still high level of IPCA and core inflation, there was a significant improvement in their composition. The tax cut implemented this year (its direct and indirect effects), together with the contractionary monetary policy, played a fundamental role in these results. In 2023, our projection is at 5.0%, but there are several upward risks related to the possible return of federal and state taxes, in addition to the potential impact of expenses increase on the convergence of inflation;

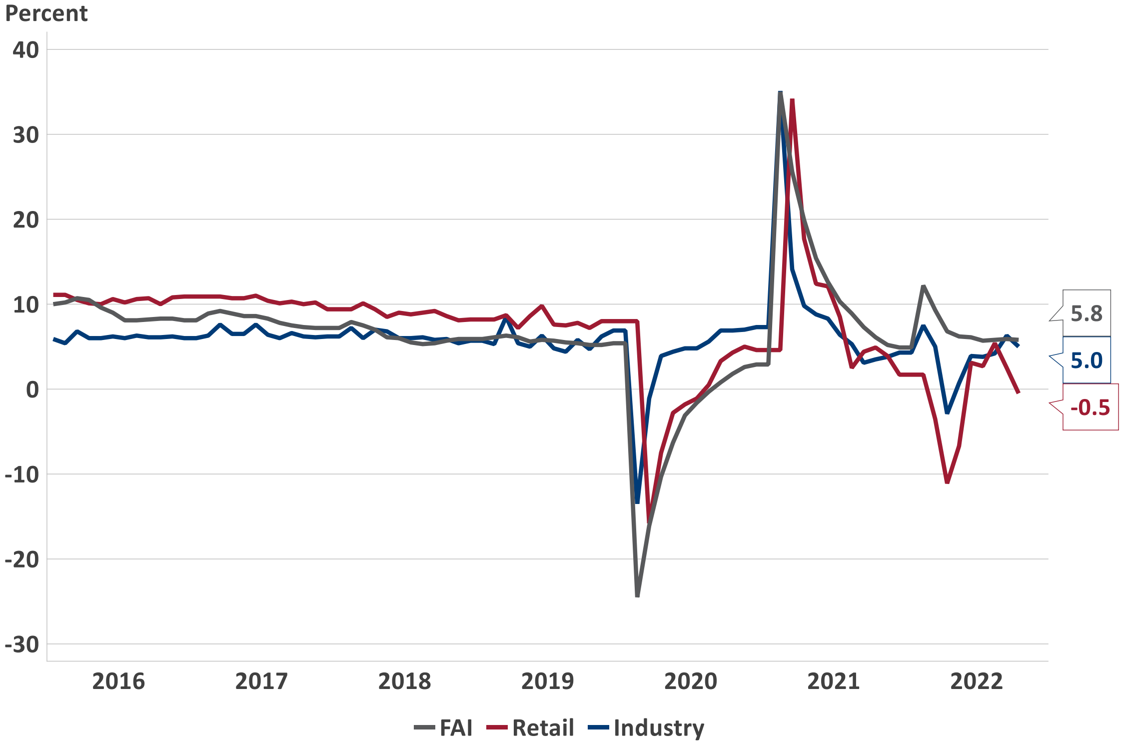
- The Copom meets in December and we project Selic stability at 13.75%. For 2023, we project 11.25%, but there are several risks on the horizon. The vigilance message has been reinforced by the committee, which should not hesitate to resume the upward cycle if inflation proves to be more persistent than expected. The risks associated with the fiscal rules credibility loss is also a factor that should weigh in the committee's assessment and impact its Selic conduction strategy, depending on the next government's choices;

- The short-term fiscal results remain solid, with the help of federal revenue excellent readings, driven mainly by the mineral extractive sector, in addition to the record distribution of dividends by state-owned companies that inflated revenues throughout 2022. For 2023, uncertainties remain regarding the size of the fiscal waiver under negotiation with congress and the future of the country’s fiscal rules.

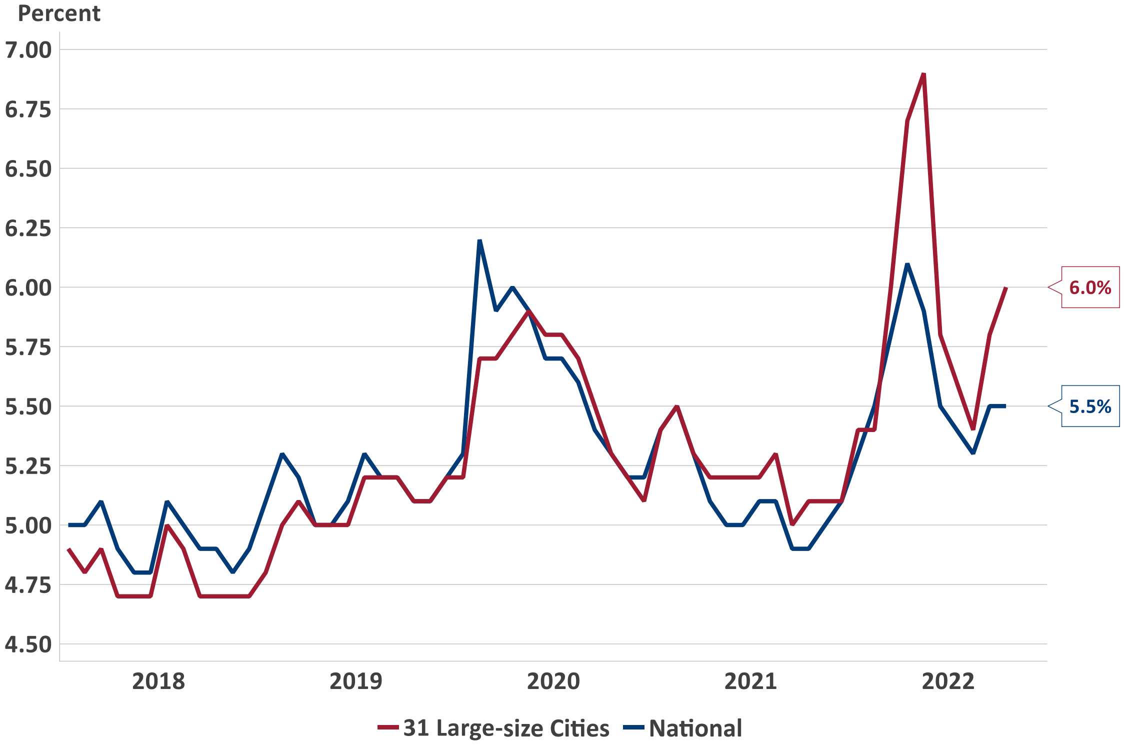
China: Activity

- October Chinese activity growth broadly slowed and performed worse than market expectations:
  - Weak start to Q4 as worrisome Covid situation, prolonged property downturn and slower export growth offsets continued policy stimulus;
  - **Industrial production** fell from 6.3% to **5%** YoY amid increased supply chain disruptions and weaker external demand;
  - **Retail sales** growth dropped significantly from 2.5% to **-0.5%** YoY with Covid-sensitive segments falling sharply;
  - **Fixed Asset Investment** declined from 6.5% to **5%** YoY, still affected by Covid restrictions and real estate weakness;
  - The **national unemployment rate** remained stable at **5.5%** but ticked up in the 31-city measure to **6%** (from 5.8%).

China: Activity (YoY, %)



China: Unemployment Rate in Urban Areas

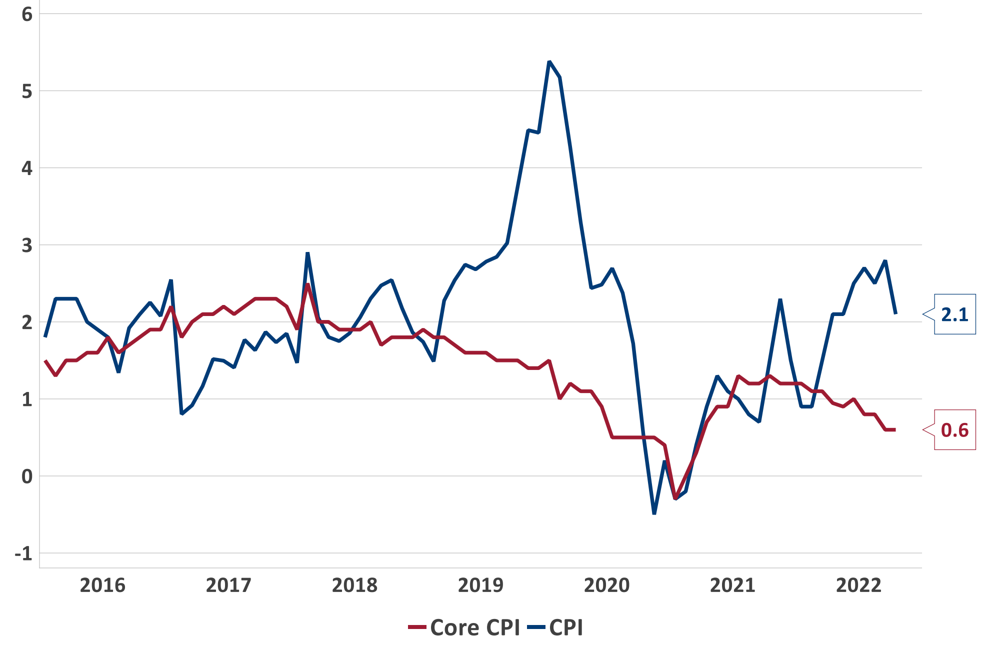


Source: Macrobond, BOCOM BBM

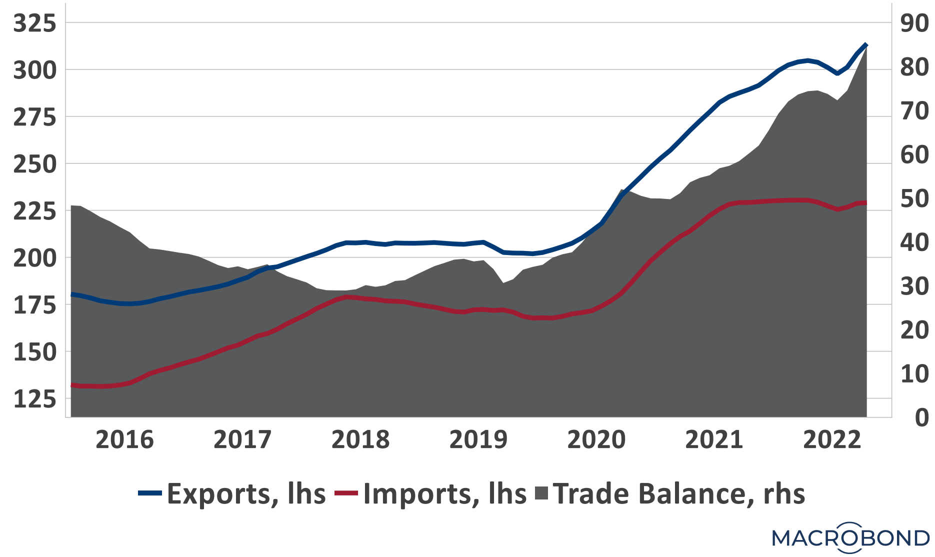
China: Economic Scenario

- **PMI**:
  - In November, the NBS manufacturing PMI decreased to **48** from 49.2– shrank in all levels of industries;
- **Trade Balance**:
  - Exports contracted significantly in October reaching **-0.3%** YoY (much lower than expectations of 4.5%), as external demand weakened;
  - Imports declined by **-0.7%** YoY, reflecting weakness in domestic demand;
- **CPI**:
  - CPI inflation came better than expected in October: moderated across goods and services categories, highlighting the toll tight Covid curbs have taken on demand and the dwindled expectations regarding future income;

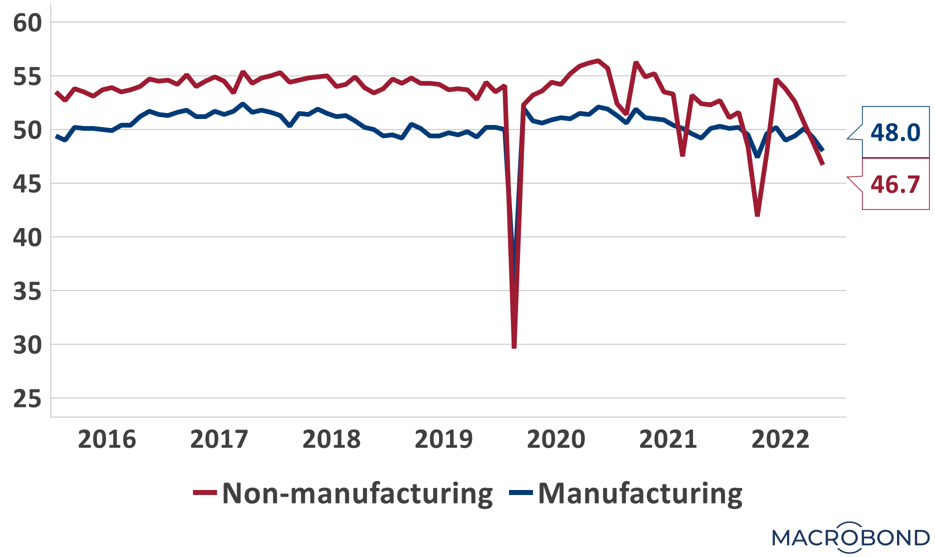
China: CPI (YoY, %)



China: Trade Balance (USD billion, 12MMA)



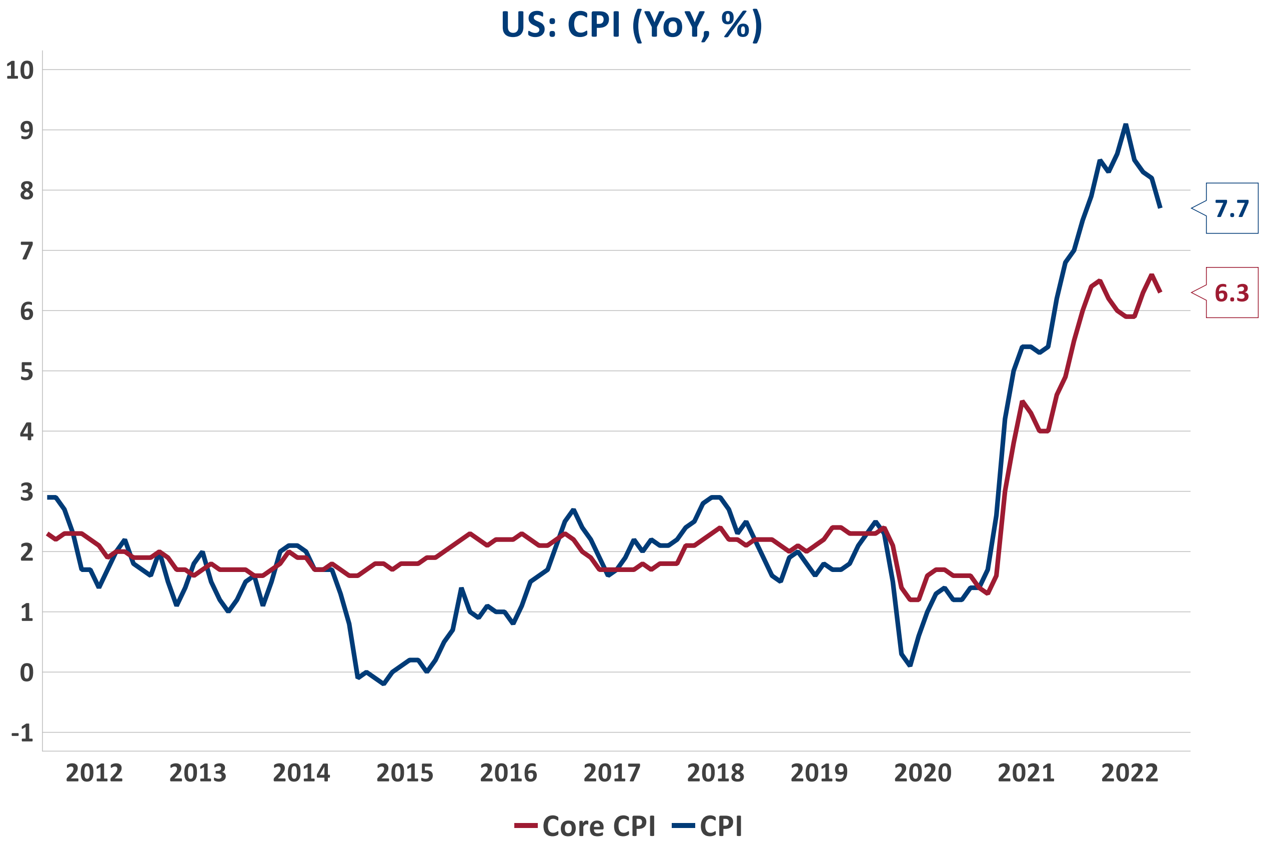
China - PMI

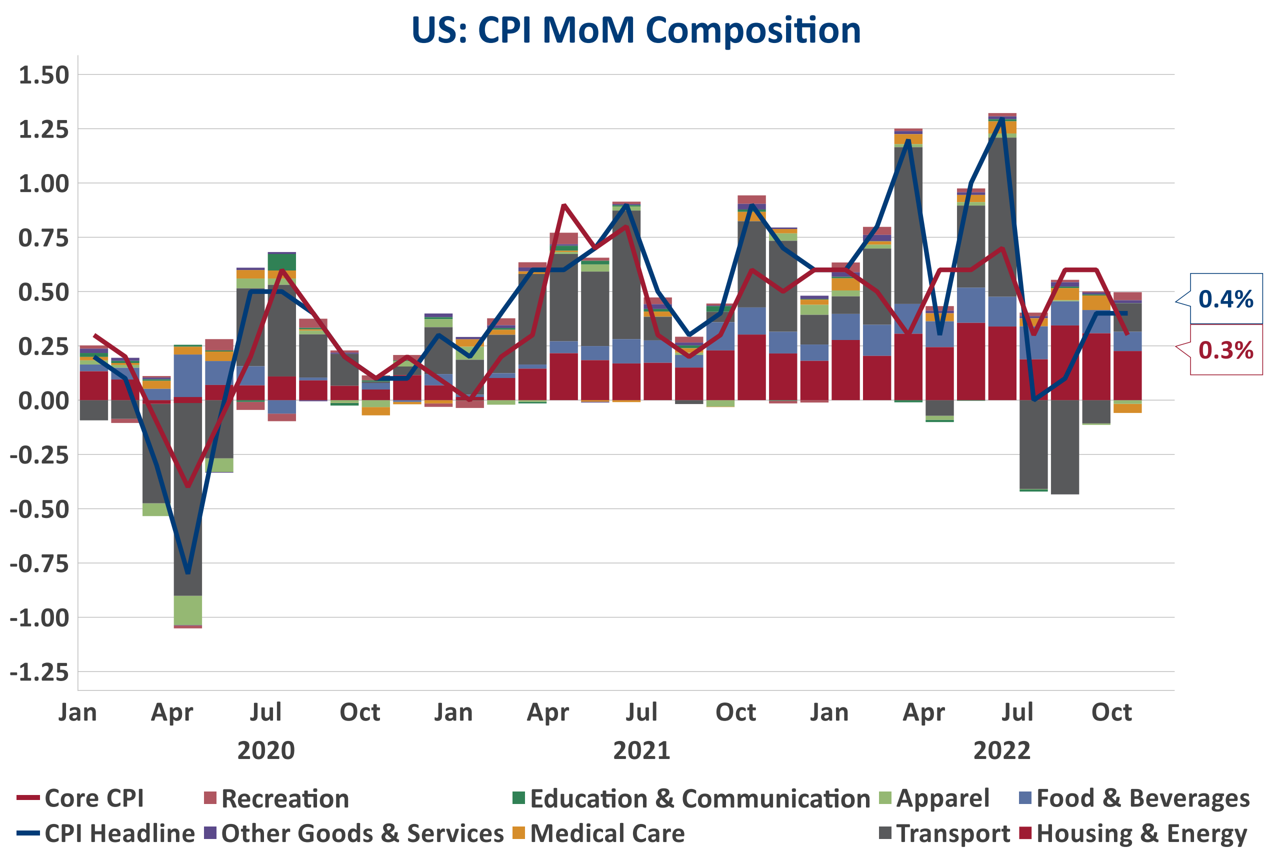


Source: Macrobond, BOCOM BBM

USA: Inflation

- US CPI inflation surprised to the upside in October going from 8.2% to **7.7%** YoY and a **0.4%** MoM increase:
  - Food prices has been pressuring the headline throughout the whole year, while energy showed some relief in recent months, but increased again in the latest reading;
- Core CPI increased **0.3%** MoM, reaching **6.3%** YoY (from 6.6%):
  - Core goods helped bring the headline down, while core services are still being pressured by shelter inflation;

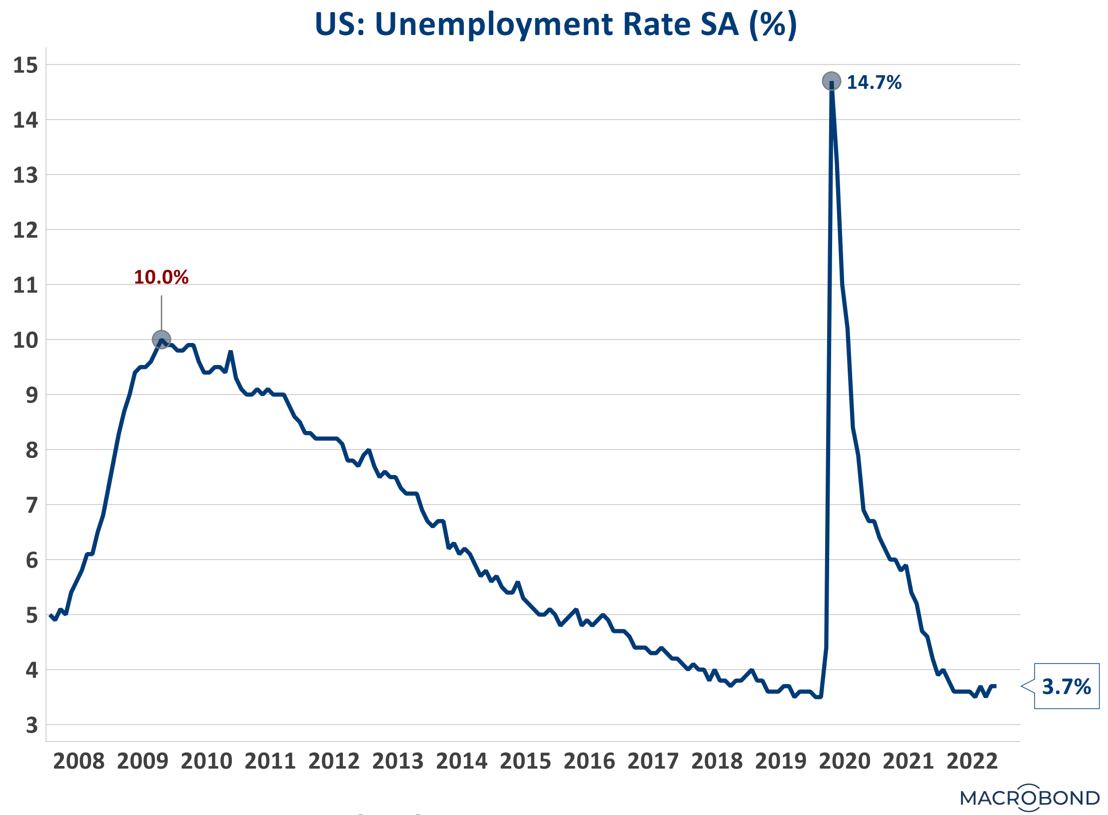


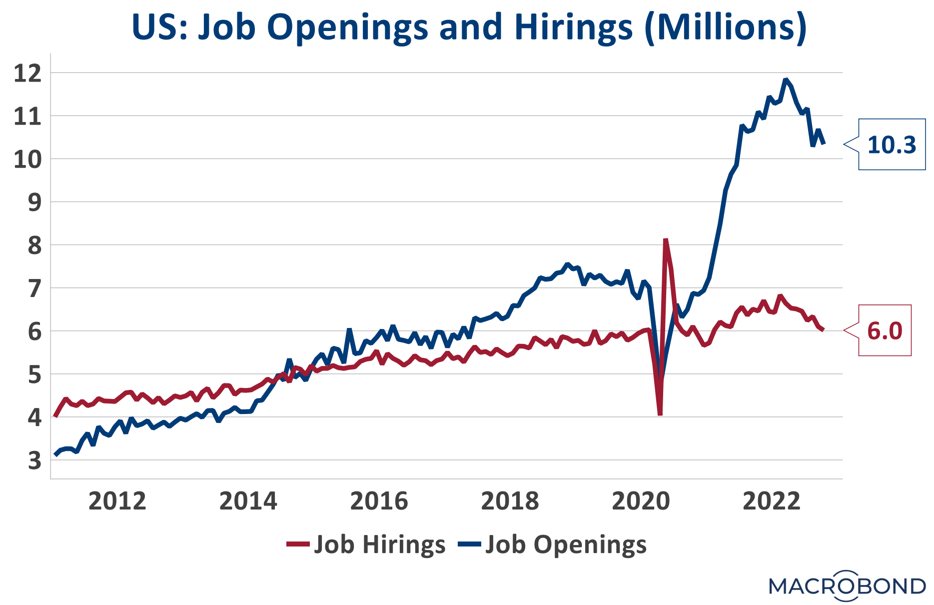


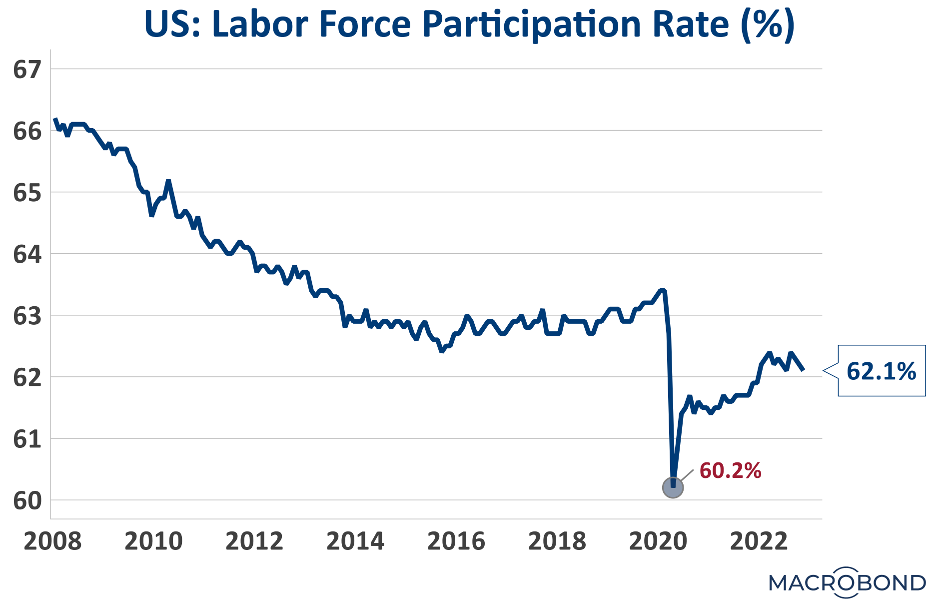
Source: BOCOM BBM, BLS, Macrobond

USA: Labor Market

- In November, **263k** jobs were created;
- However, the unemployed rate remained stable at **3.7%** due to a decrease in the Households Survey employed population of **-138k**;
- The labor force participation rate declined from 62.2% to **62.1%**;
- In September, the number of job openings came in line with market consensus reaching the figure of **10.334M** from 10.687M (-3.3% MoM);







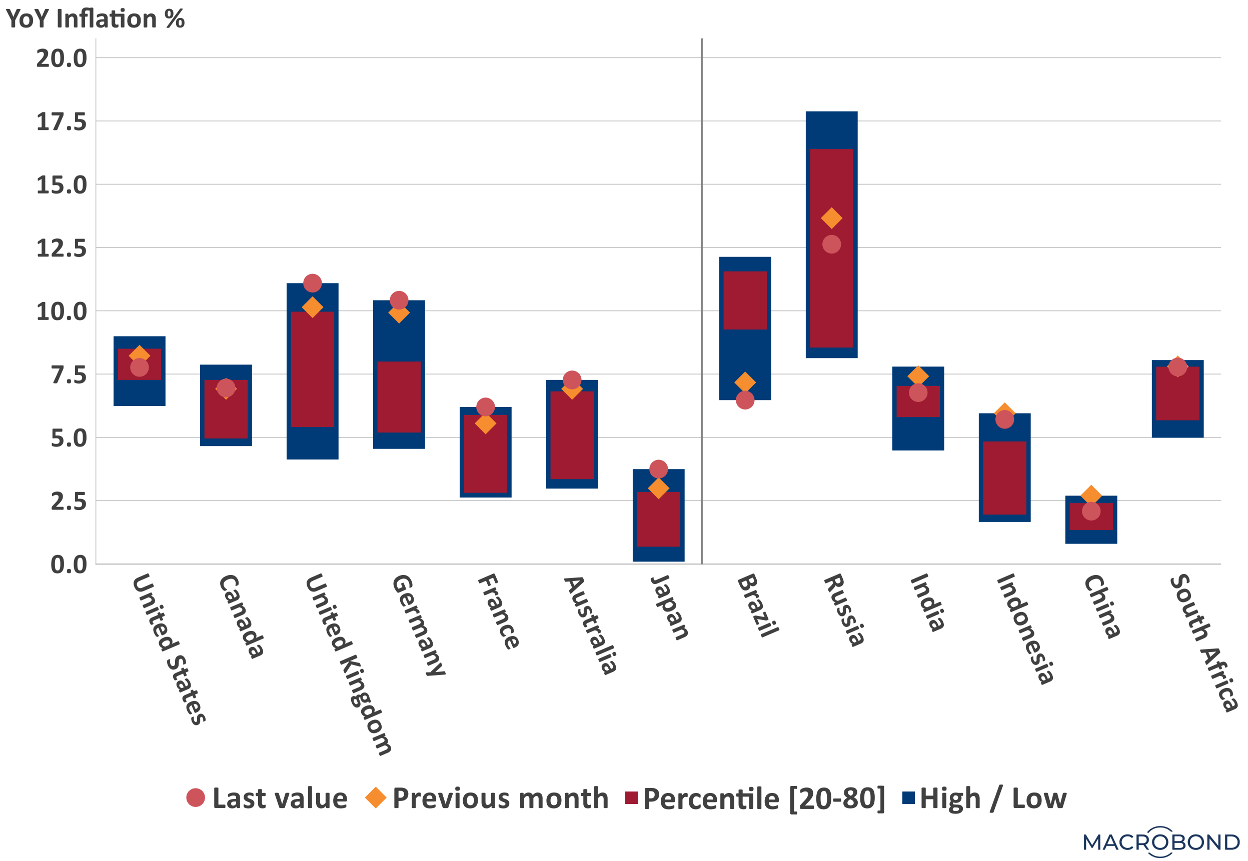
Source: BOCOM BBM, FED, BLS, Macrobond

Global: Inflation

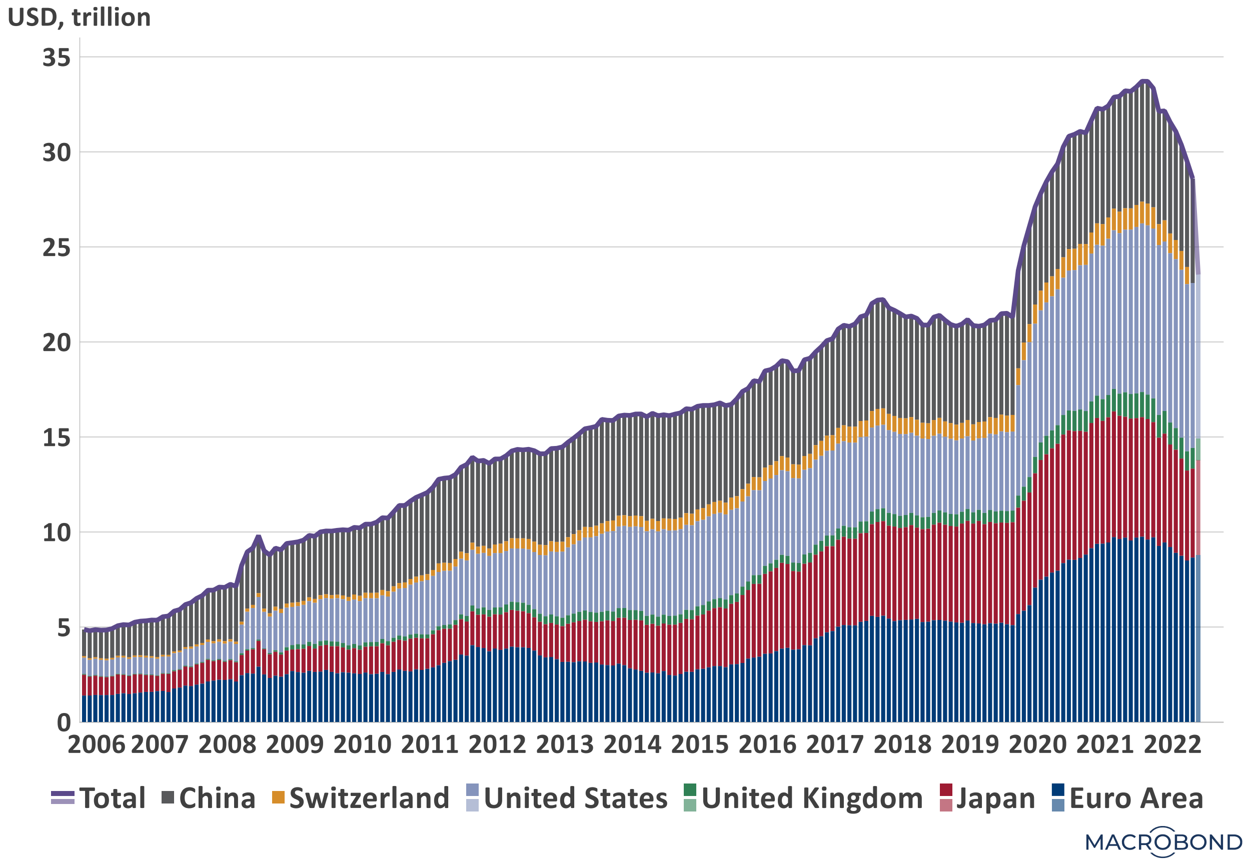
» For the first time in decades, inflation across emerging markets is not significantly higher than it is in developed markets;

» In order to bring inflation convergence back to their respective targets, many central banks are reducing their balance sheets, resulting in a tightening of the monetary policy of several economies.

Inflation range during the past 12 months



Central banks balance sheets

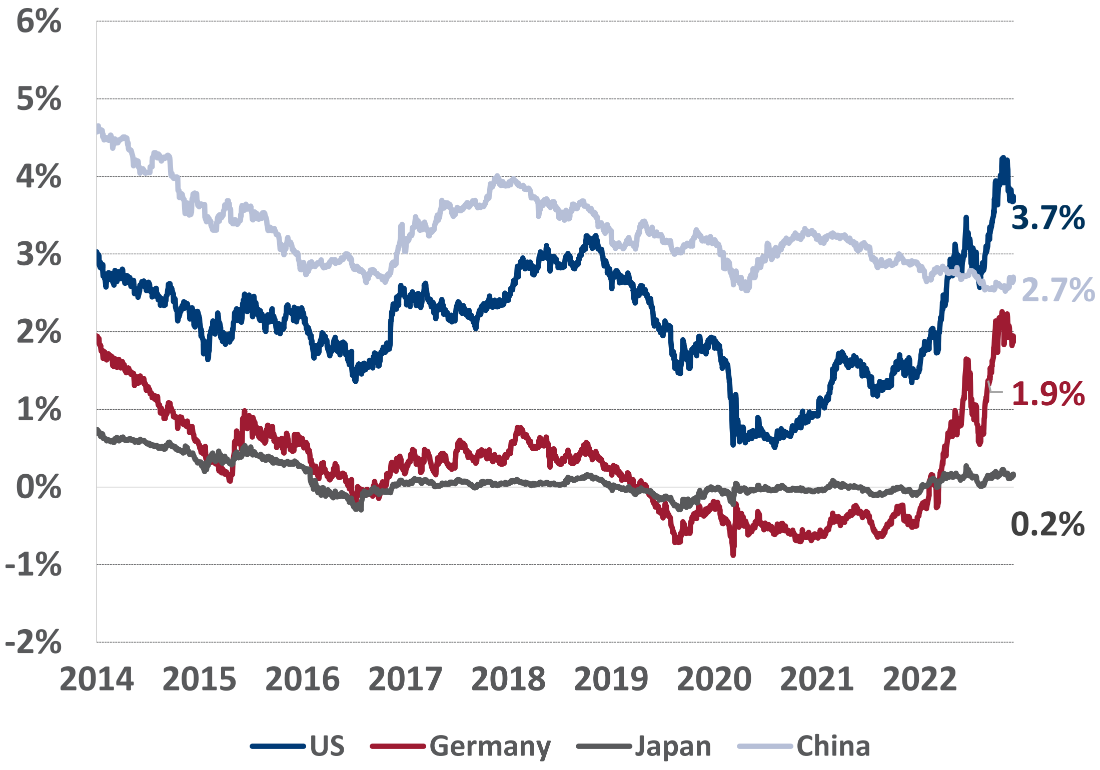


Source: Bloomberg, BOCOM BBM

Global: Interest Rates

- Correspondingly, interest rates across several countries are rising, with a few exceptions like China and Japan;
- However, it's worth noting the dovish nod some central banks are signaling for a slowdown in the pace of hikes:
  - That's what is expected for both the ECB and the Fed.

10 Year Interest Rates



Central bank tracker: G20 & OECD Countries

	Key rate	Last decision		Last Move	Months since last hike	Months since last cut
Argentina	75	5.5	Hike	9/2022	3	25
Australia	2.85	0.25	Hike	11/2022	1	25
Brazil	13.8	0.5	Hike	8/2022	4	28
Canada	3.75	0.5	Hike	10/2022	1	32
Chile	11.3	0.5	Hike	10/2022	2	32
China	3.65	-0.050	Cut	8/2022	106	3
Colombia	11	1	Hike	10/2022	1	26
Costa Rica	9	0.5	Hike	10/2022	1	29
Czech Republic	7	1.25	Hike	6/2022	5	31
Denmark	1.4	0.6	Hike	10/2022	1	14
Euro Area	2	0.75	Hike	11/2022	1	81
Hungary	13	1.25	Hike	9/2022	2	28
Iceland	6	0.25	Hike	11/2022	0	24
India	5.9	0.5	Hike	9/2022	2	30
Indonesia	5.25	0.5	Hike	11/2022	1	21
Israel	3.25	0.5	Hike	11/2022	0	32
Japan	-0.1	-0.2	Cut	1/2016	189	82
Mexico	10	0.75	Hike	11/2022	1	22
New Zealand	4.25	0.75	Hike	11/2022	0	33
Norway	2.5	0.25	Hike	11/2022	1	31
Poland	6.75	0.25	Hike	9/2022	3	30
Russia	7.5	-0.5	Cut	9/2022	9	2
Saudi Arabia	3.75	0.75	Hike	9/2022	2	33
South Africa	7	0.75	Hike	11/2022	0	28
South Korea	3.25	0.25	Hike	11/2022	0	30
Sweden	2.5	0.75	Hike	11/2022	0	81
Switzerland	0.5	0.75	Hike	9/2022	2	95
Turkey	9	-1.5	Cut	11/2022	20	0
United Kingdom	3	0.75	Hike	11/2022	1	32
United States	4	0.75	Hike	11/2022	1	33

Source: Bloomberg, BOCOM BBM

MACROBOND

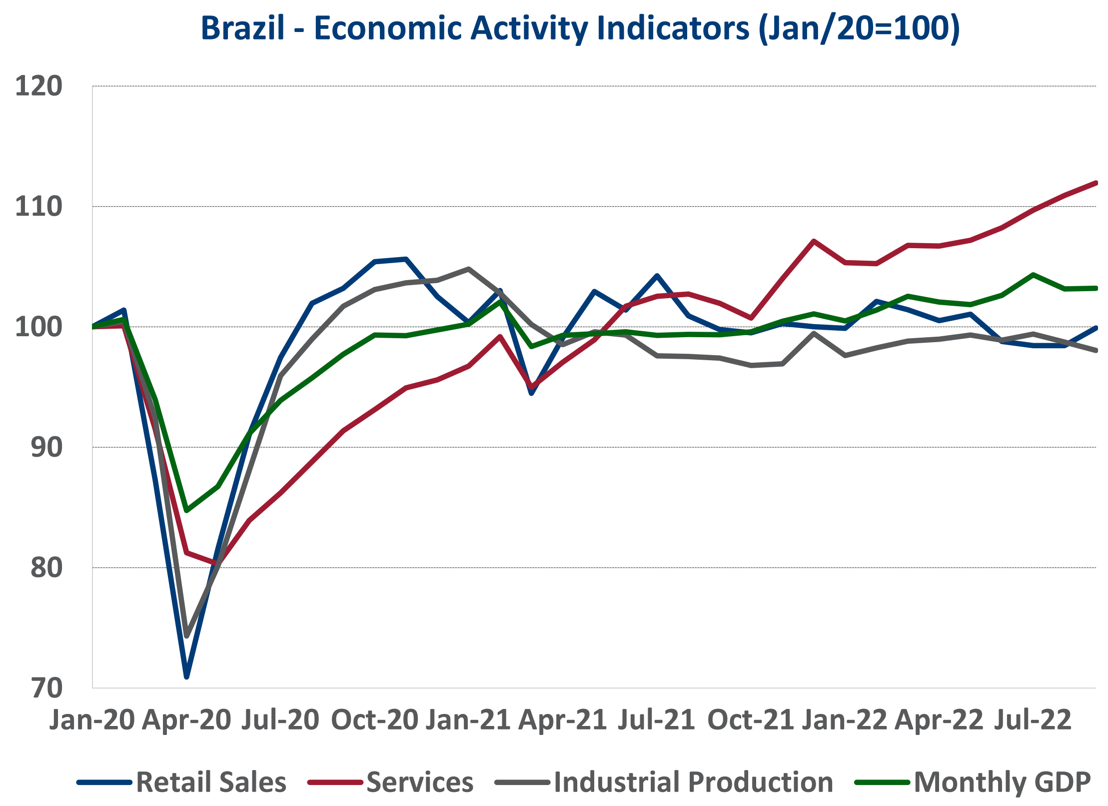
Brazil: Forecasts

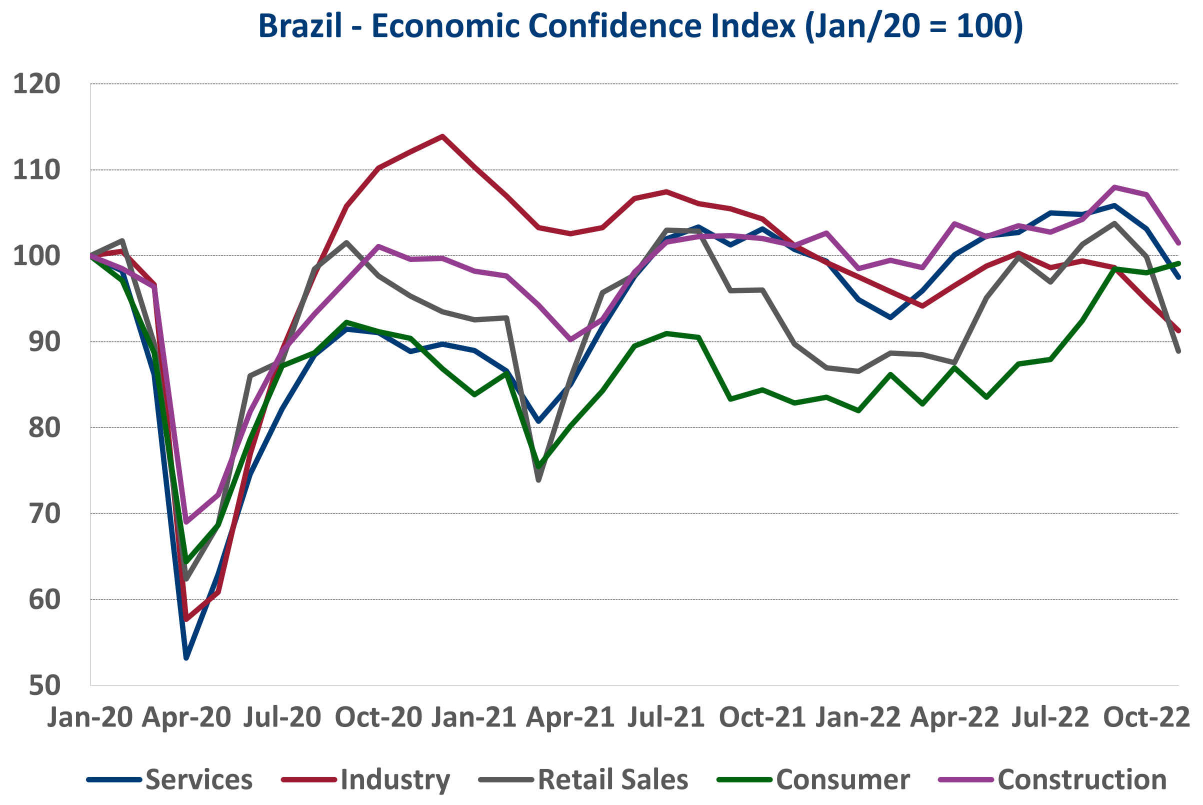
ECONOMIC FORECASTS	2019	2020	2021	2022F	2023F
GDP Growth (%)	1.1%	-3.9%	4.6%	2.9%	1.2%
Inflation (%)	4.3%	4.5%	10.1%	5.8%	5.0%
Unemployment Rate (eoy ,%)	11.7%	13.9%	11.1%	8.2%	8.5%
Policy Rate (eoy, %)	4.5%	2.0%	9.3%	13.75%	11.25%
External Accounts					
Trade Balance (US$ bn)	48	32	36	41	43
Current Account Balance (US$ bn)	-65	-24	-28	-59	-48
Current Account Balance (% of GDP)	-2.8%	-0.9%	-1.8%	-3.2%	-2.4%
Fiscal Policy					
Central Government Primary Balance (% of GDP)	-1.2%	-10.0%	-0.4%	0.7%	-0.7%
Government Gross Debt (% of GDP)	74.3%	88.8%	80.3%	74.7%	77.4%

Source: BOCOM BBM

Brazil: Activity

- Leading indicators of economic activity show signs of deceleration in Q4
- In September, services supported economic activity with another excellent result, retail sales surprised on the upside, driven by the consumption of goods that are more sensitive to income, responding to the payment of government income transfers. Industry, in turn, retreated in September and recorded a slight recovery in October;
- Confidence indicators showed a general decline in October, intensifying in November. Signal of cooling in economic activity.





Source: BOCOM BBM, IBGE

Brazil: Retail Sales

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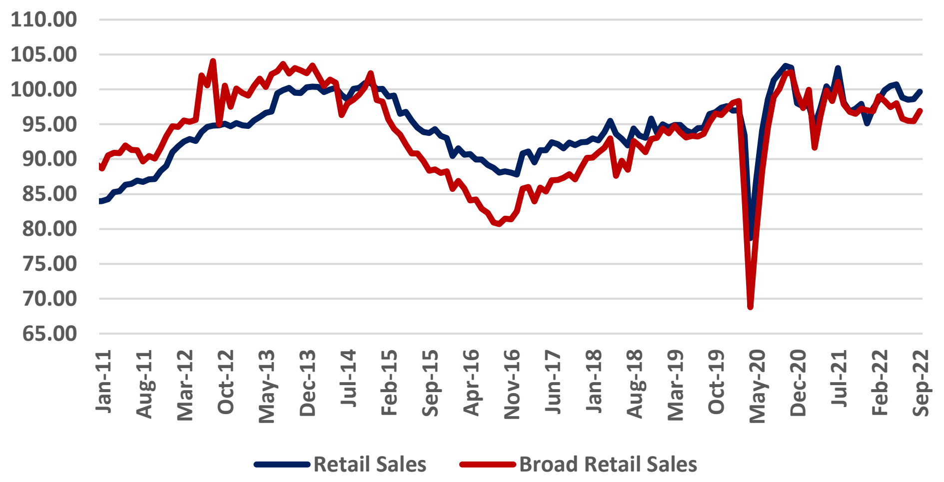
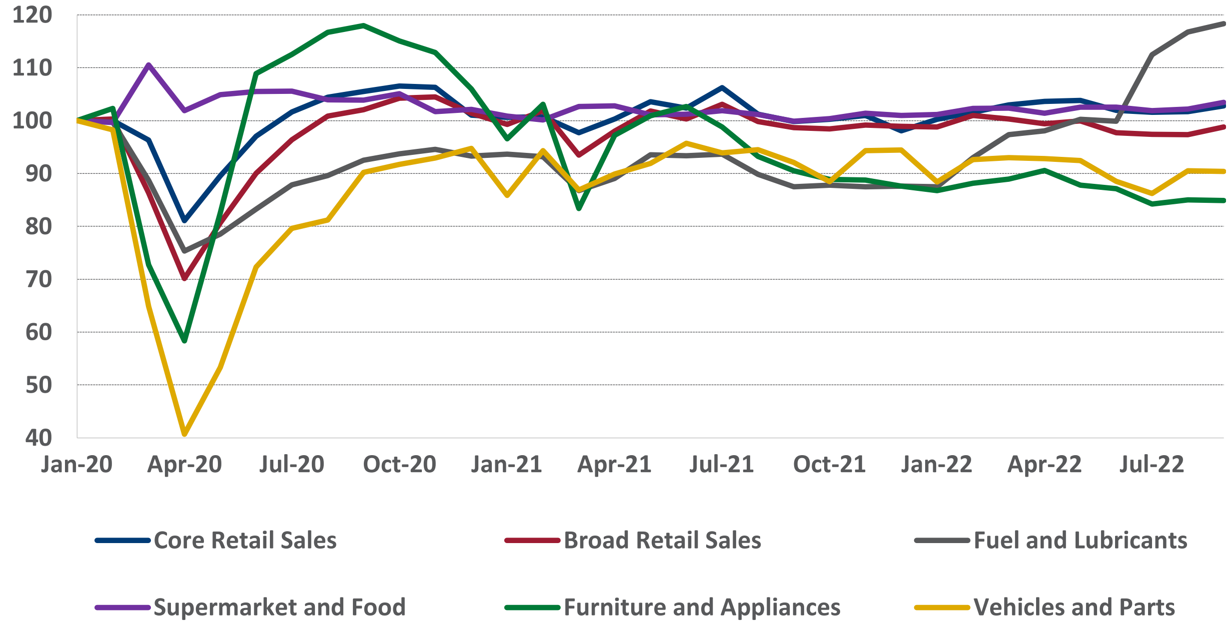
- Retail sales (excluding autos and construction materials) grew by 1.1% MoM (3.2% YoY) in September, well above market expectations of 0.3% MoM (1.8% YoY)
- Broad retail sales advanced 1.5% MoM (1% YoY), also well above the market consensus of 0.7% MoM (0.3% YoY), after 3 months of decline
- This reading was driven by a strong job market and fiscal stimulus, since the result is explained by the consumption of goods that are more sensitive to income: Supermarkets, Clothing, Fuels…
- The most credit-sensitive goods continue to slow down: Vehicles, Furniture and Household Appliances…

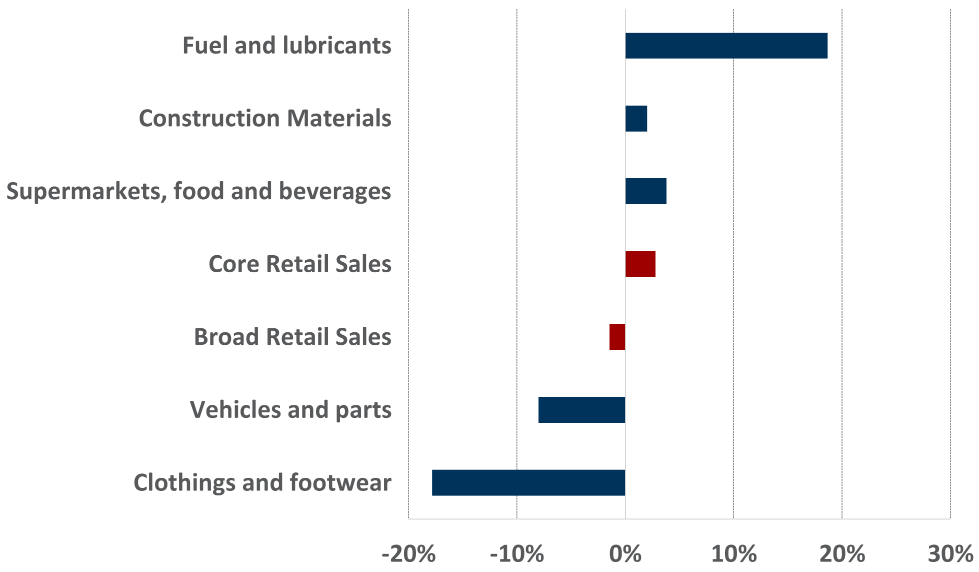
Retail Sales (Level SA)



Retail Sales - Index SA (Jan/20 = 100)



Retail Sales - Distance to pre-pandemic level (Sep/22)

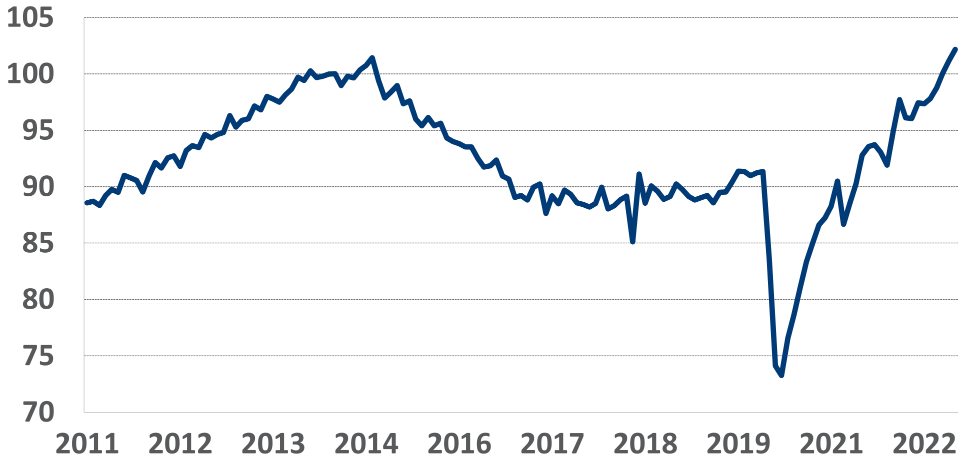


Source: IBGE, BOCOM BBM

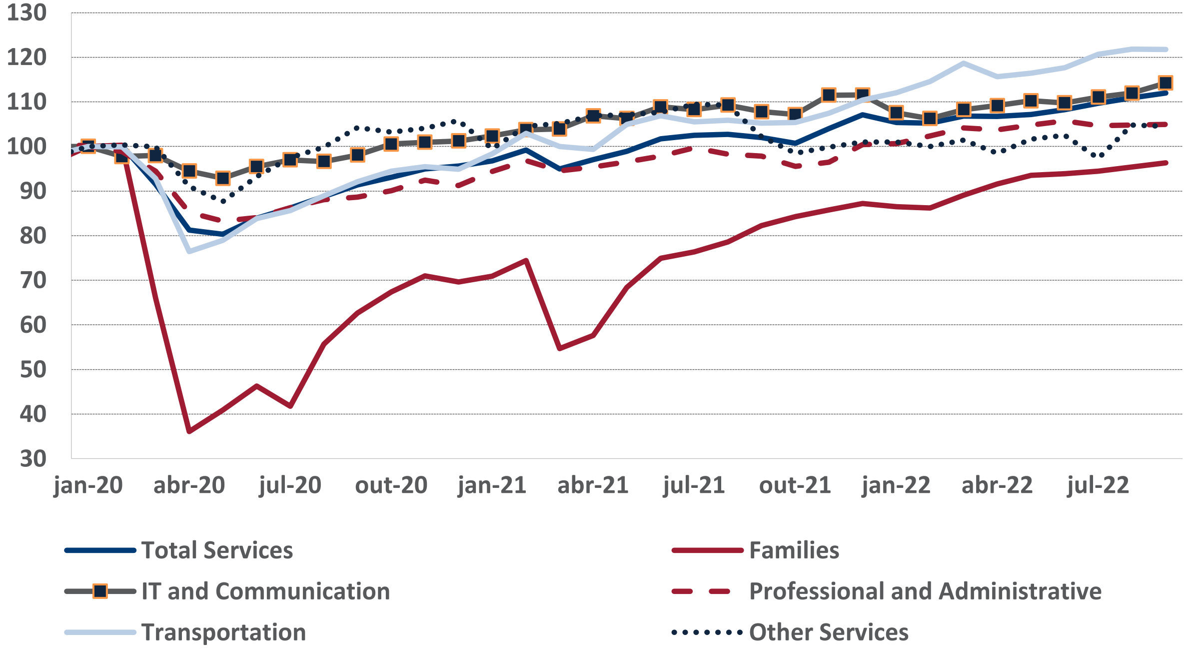
Brazil: Services

- In September, the service sector grew by 0.9% MoM, surprising expectations
- With this result, the index reached its highest level since November 2014. It is the fifth consecutive monthly increase.
- The services sector is 11.8% above the pre-pandemic level and has been the main driver of GDP growth

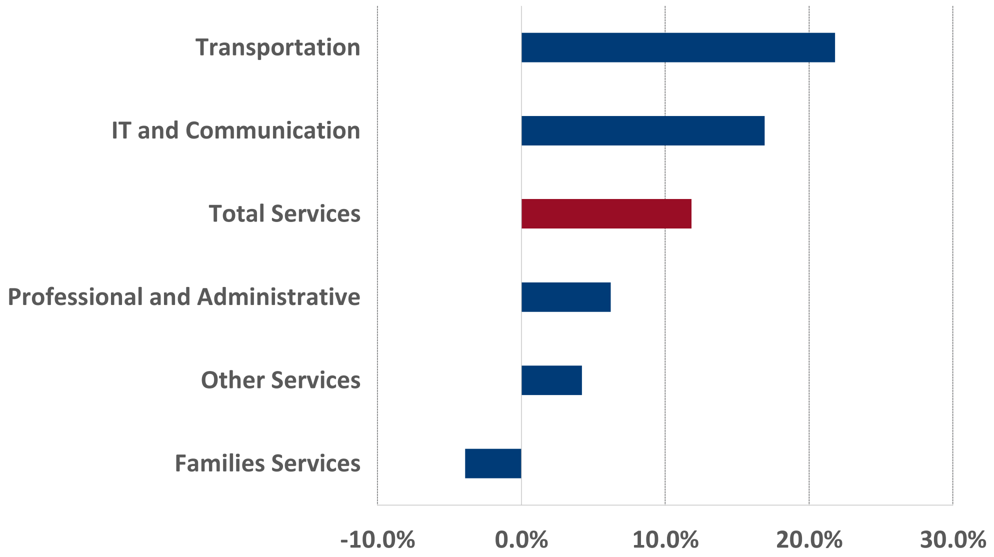
Services Level SA



Services Sector - SA Index (Jan/20=100)



Service Sector - Distance to pre-pandemic level (Sep/22)



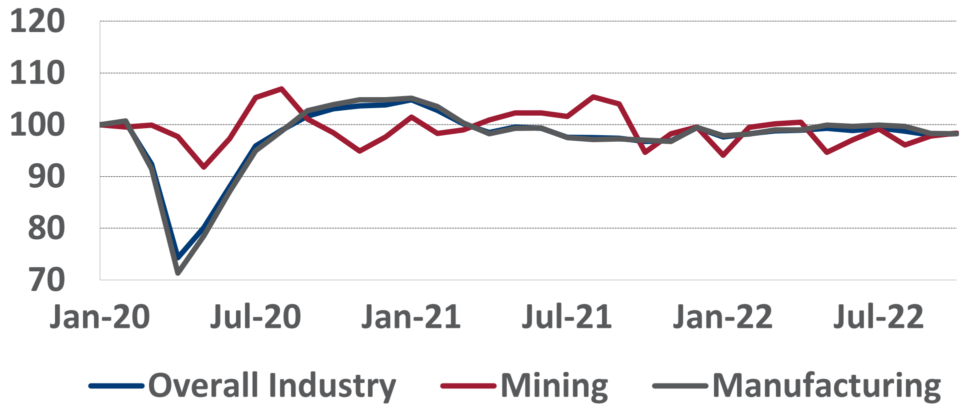
Source: IBGE, BOCOM BBM

Brazil: Industrial Production

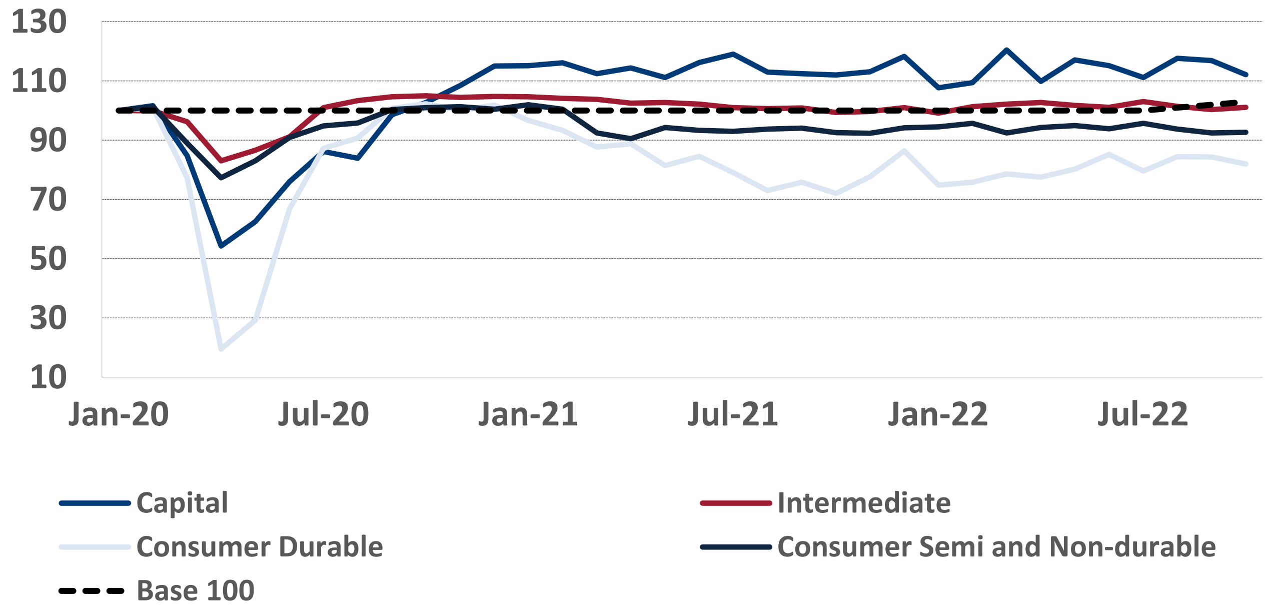
- Industrial production grew by 0.3% MoM in October, in line with expectations, after two consecutive declines

- The production of capital goods and durable consumer goods retreated in October, in line with the scenario of high interest rates and household income commitment at record levels

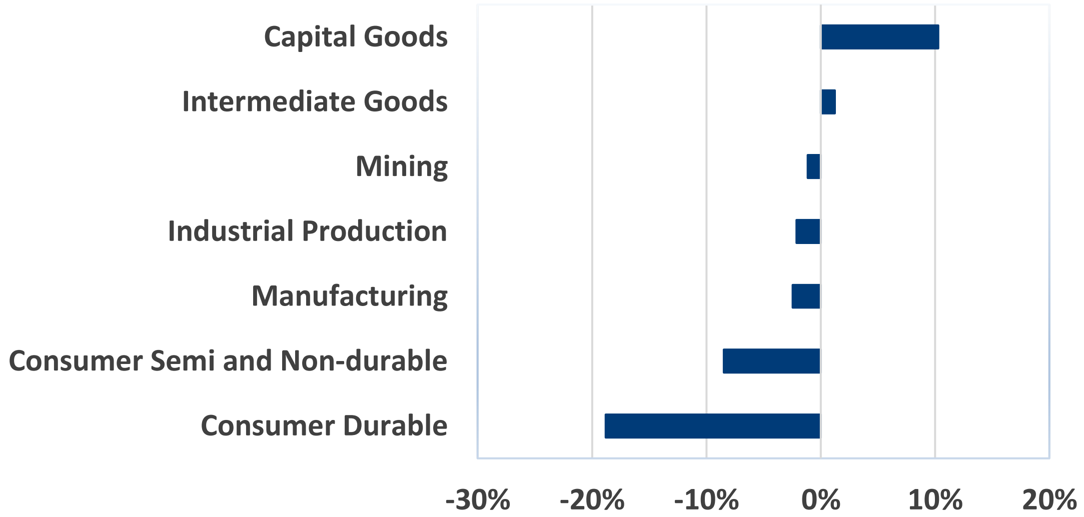
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



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

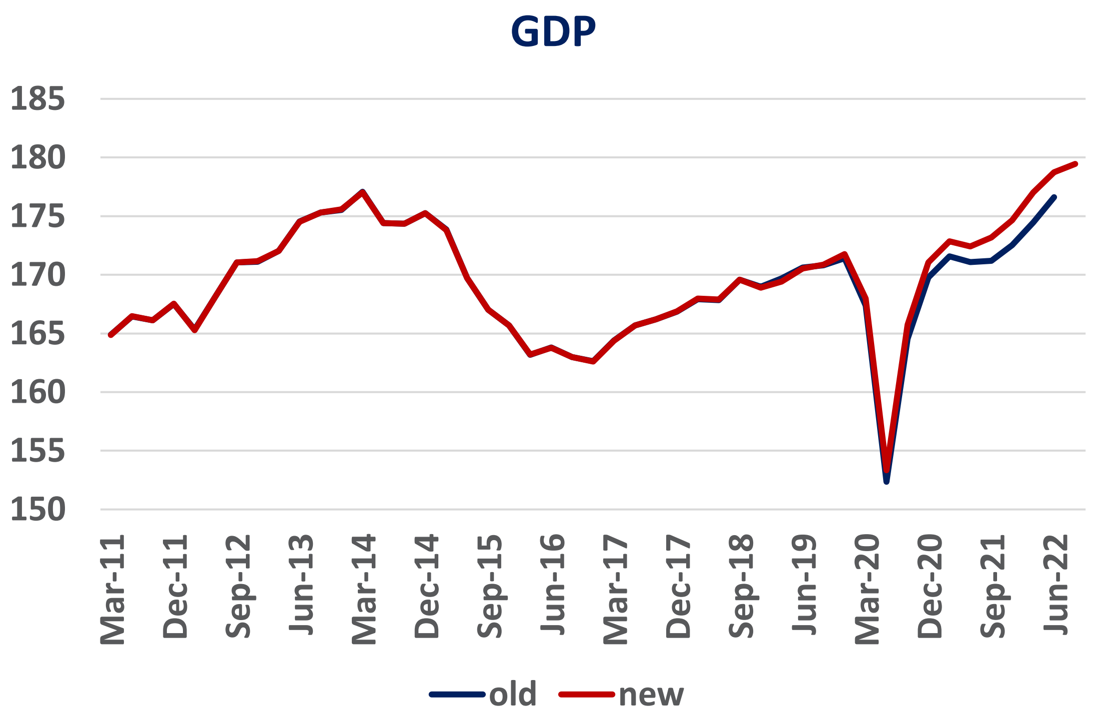


Source: IBGE, BOCOM BBM

Brazil: GDP Q3

- In Q3, Brazil's GDP advanced 3.6% YoY (0.4% QoQ), below our expectation of 3.9 YoY (0.7% QoQ)
- The downward surprise was fully explained by the revision of the historical series made by the IBGE: 2021Q3 was revised upwards, from 4% to 4.4% YoY, that is, the basis of comparison increased
- There was also an upward revision to growth in the first half of 2022 (2.4% vs. 1.7% in Q1 and 3.7% vs. 3.2% in Q2)
- Despite Q3 lower than expected at the margin, the level of activity was 0.9% higher than our forecast
- GDP is now 4.5% above pre-pandemic level

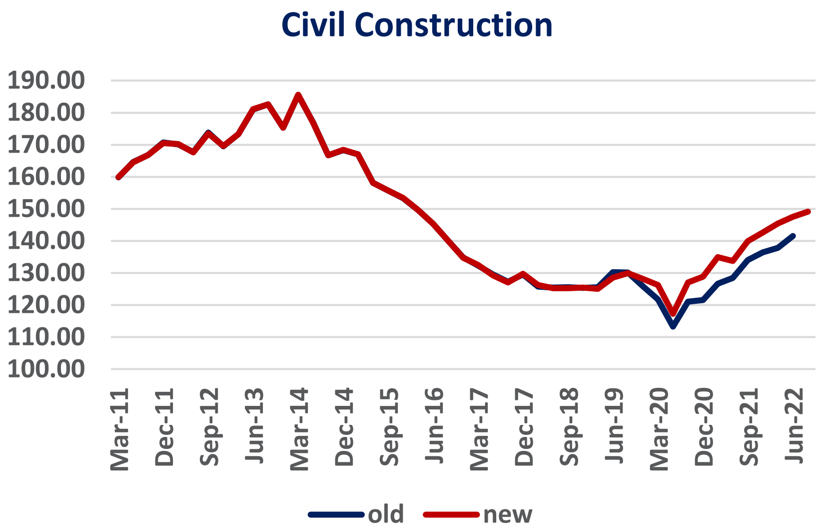
					Forecast		Official	
	2020 old	2020 new	2021 old	2021 new	2022.III (QoQ)	2022.III (YoY)	2022.III (QoQ)	2022.III (YoY)
GDP	-3.9%	-3.3%	4.6%	5.0%	0.7%	3.9%	0.4%	3.6%
Agriculture	**3.8%**	**4.2%**	**-0.2%**	**0.3%**	**1.5%**	**7.3%**	**-0.9%**	**3.2%**
Industry	**-3.4%**	**-3.0%**	**4.5%**	**4.8%**	**0.6%**	**2.3%**	**0.8%**	**2.8%**
Mining	1.3%	0.9%	3.0%	2.9%	-2.7%	-6.0%	-0.1%	-2.6%
Manufacturing	-4.4%	-4.7%	4.5%	4.5%	0.3%	1.8%	0.1%	1.7%
Utilities	-0.3%	-1.0%	-0.1%	1.0%	1.5%	15.1%	0.6%	11.2%
Civil Construction	-6.3%	-2.1%	9.7%	10.0%	1.3%	7.6%	1.1%	6.6%
Services	**-4.3%**	**-3.7%**	**4.7%**	**5.2%**	**1.4%**	**4.9%**	**1.1%**	**4.5%**
Retail Trade	-3.1%	-1.5%	5.5%	5.0%	0.4%	2.2%	-0.1%	2.0%
Transports	-8.4%	-12.7%	11.4%	12.9%	1.4%	10.5%	1.0%	8.8%
Information Services	0.8%	2.1%	12.3%	12.6%	1.9%	4.8%	3.6%	6.9%
Financial services	4.5%	3.3%	0.7%	0.0%	-0.1%	1.2%	1.5%	1.7%
Rents	2.6%	1.7%	2.2%	2.1%	0.0%	0.4%	1.4%	3.2%
Other Services	-12.3%	-9.3%	7.6%	9.1%	2.4%	11.7%	1.4%	9.8%
Public Administration	-4.5%	-4.5%	1.5%	2.3%	2.8%	3.4%	1.1%	1.5%

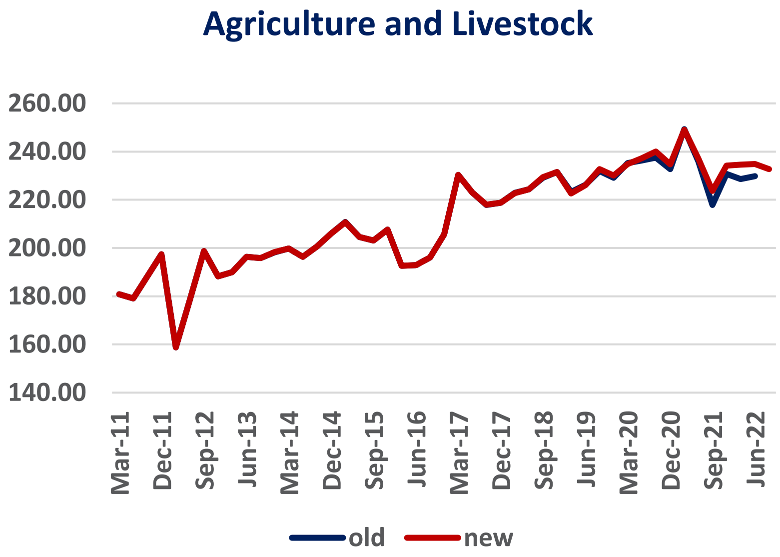


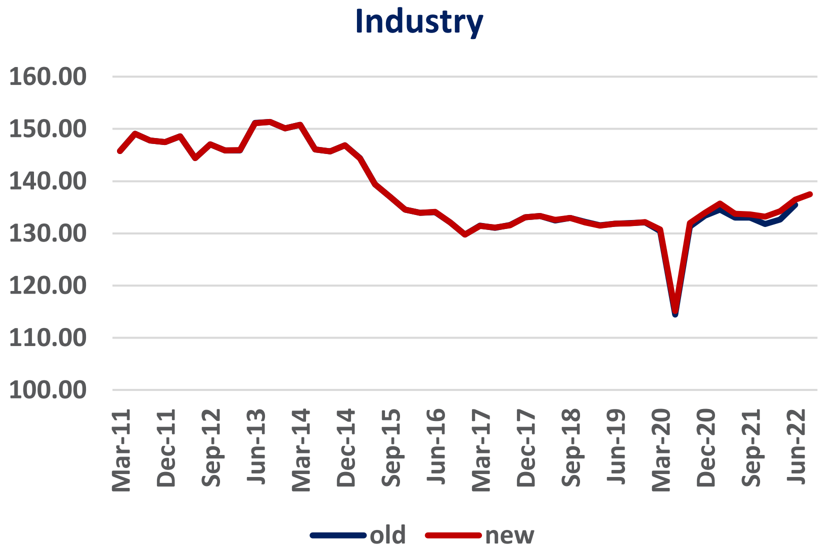
Source: BOCOM BBM, IBGE

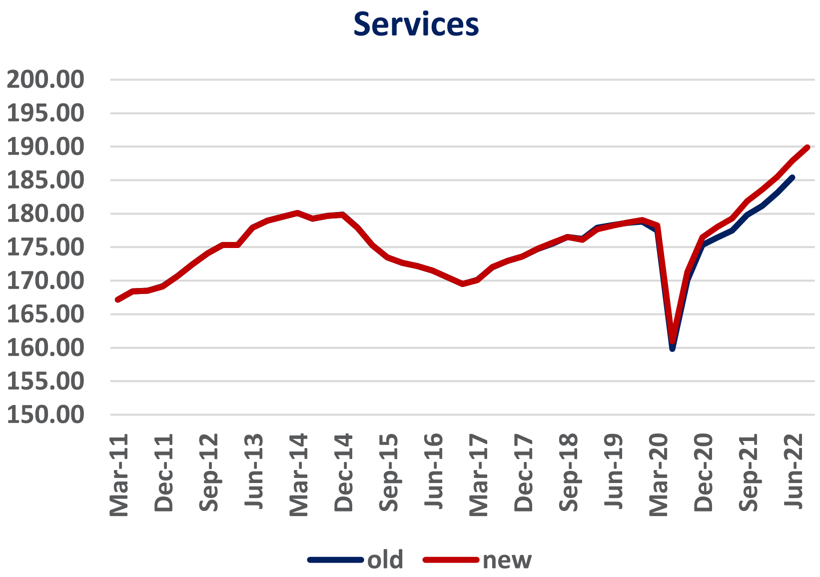
Brazil: GDP Q3

- In general, most activities advanced in Q3 compared to Q2, with emphasis on the services sector
- Activity in the sector was revised upwards mainly due to transports, Public Administration Services (APU) and other services
- In industry, the highlight was the upward revision of civil construction





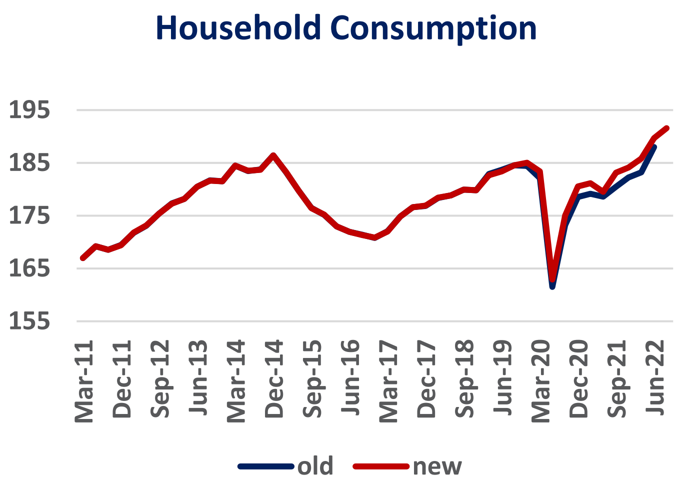


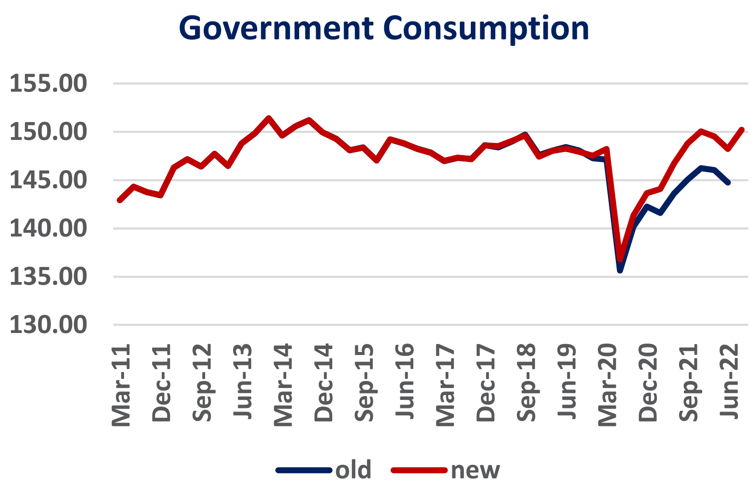


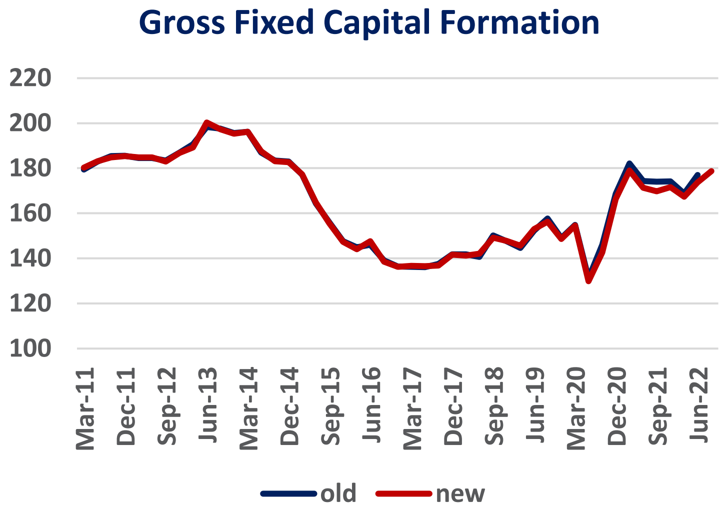
Source: BOCOM BBM, IBGE

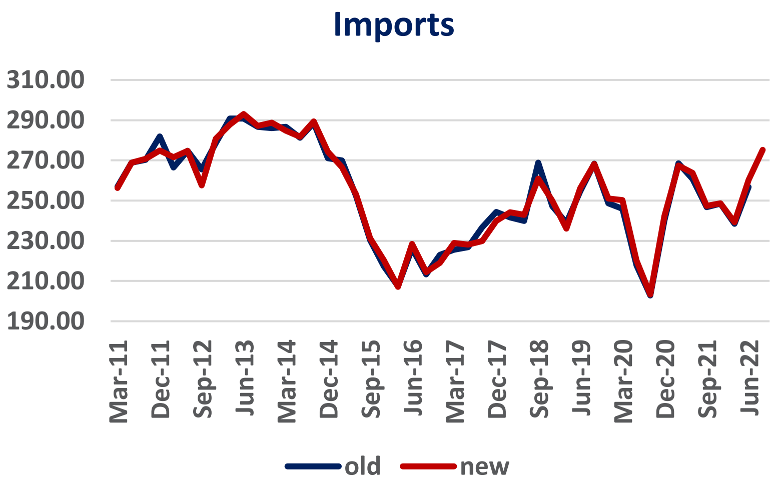
Brazil: GDP Q3

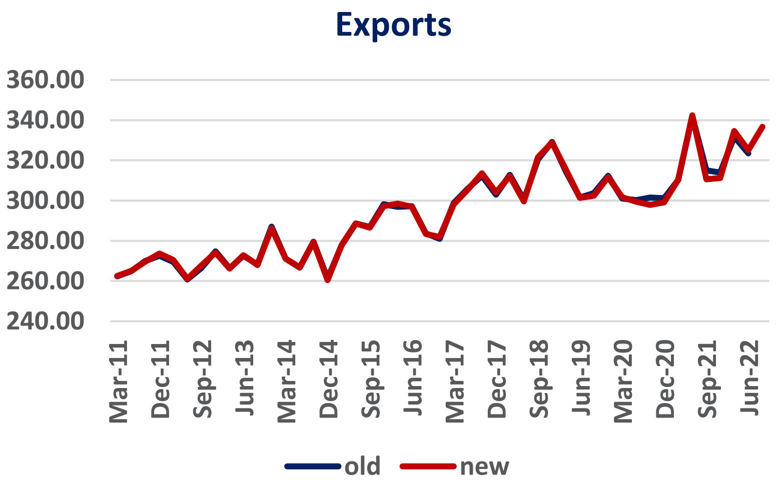
- On the demand side, household consumption grew 1.0% QoQ, government consumption 1.3% QoQ and gross fixed capital formation grew 2.8% QoQ (a positive surprise)
- The external sector recorded a small negative contribution to total GDP, as imports grew more than exports











Source: BOCOM BBM, IBGE

Brazil: GDP 2022 and 2023

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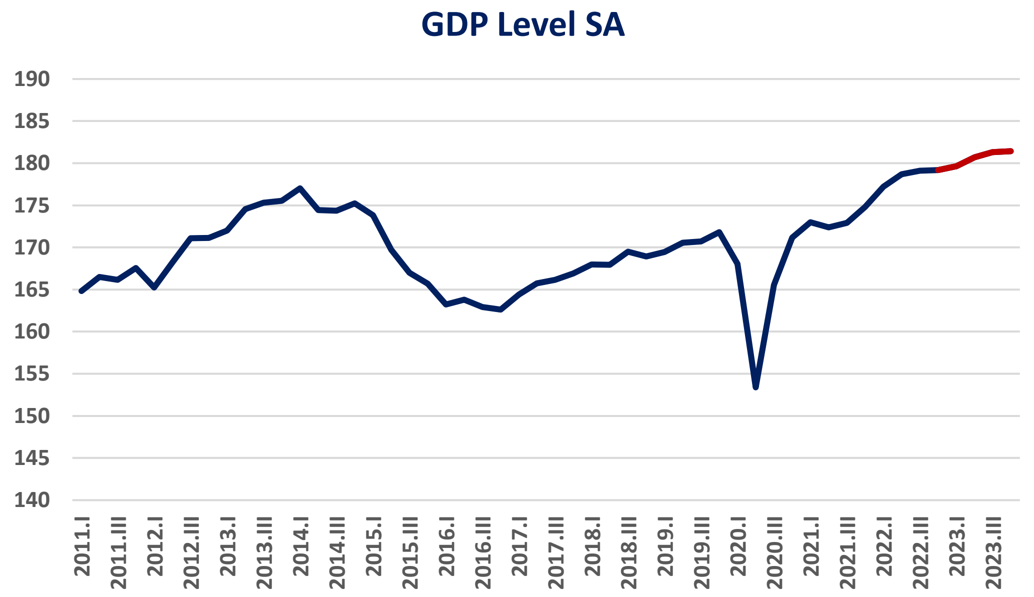
- Despite the upward revision of GDP in the first semester, we maintained our growth forecast for 2022 at 2.9%
- Leading indicators show a significant cooling of activity in October, intensifying in November. Therefore, we revised our Q3 forecast from +0.1% MoM to -0.1% MoM
- Emphasis on the strong contribution of services in 2022 and the poor performance of agriculture, which suffered from crop failures throughout the year
- For 2023, Conab projects growth of 15.5% in the grain harvest. Therefore, agribusiness will be an important engine of growth, which, together with the expansion of social income transfer policies and public investments in infrastructure, explain the projection of 1.2% GDP growth

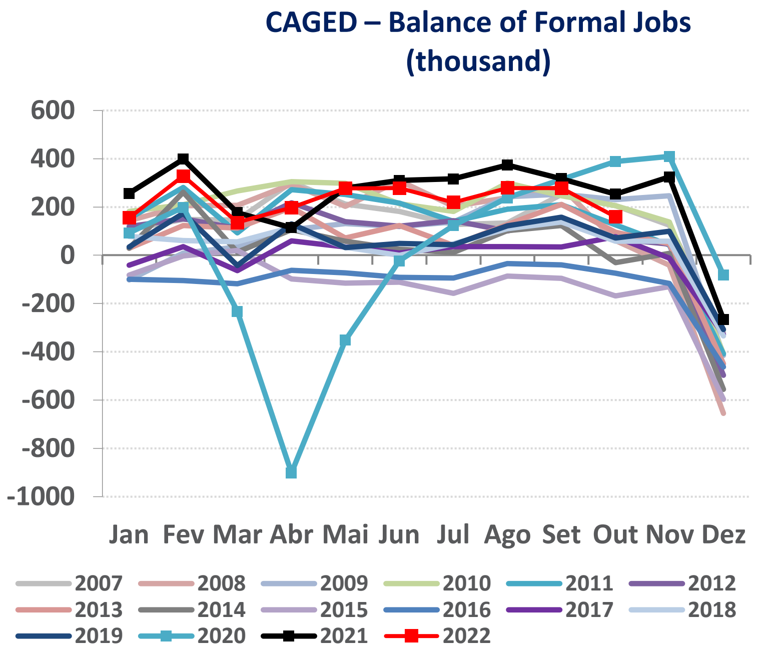
	2022.IV QoQ	2022.IV YoY	2022	2023
GDP	-0.1%	2.1%	2.9%	1.2%
Agriculture	0.4%	0.0%	-1.3%	8.0%
Industry	-0.4%	2.6%	1.6%	0.5%
Services	0.3%	3.6%	4.2%	0.7%

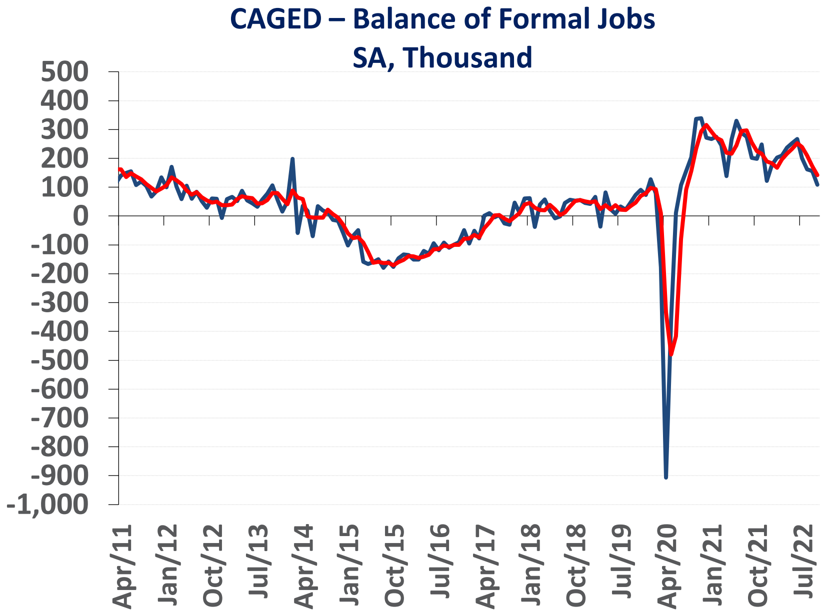


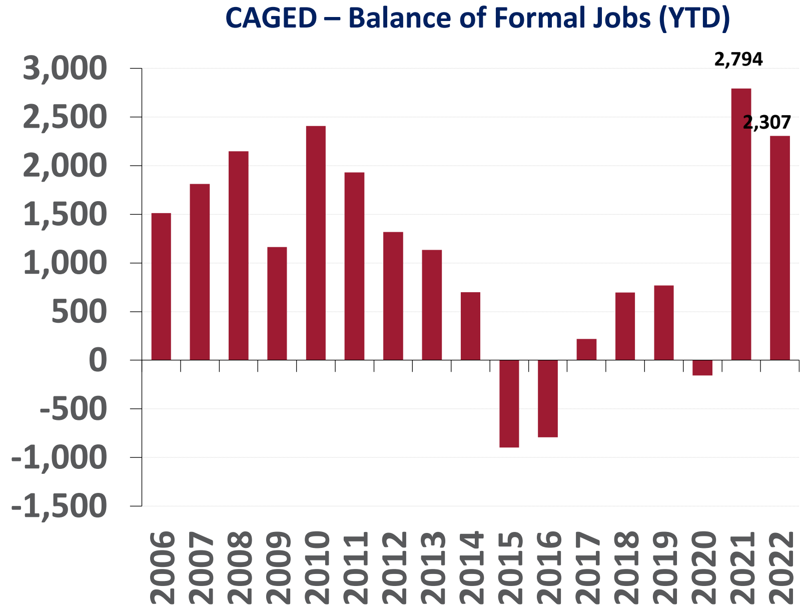
Source: BOCOM BBM, IBGE

Brasil: Mercado de Trabalho

- CAGED registered a total balance of 159.4 thousand formal jobs in October, well below market expectation that projected 238 thousand
- The accumulated in the year is 2.3 million from January to October. In the seasonally adjusted series, the balance dropped from 156 thousand in September to 109 thousand in October
- October data point to a loss of pace in the labor market







Source: BOCOM BBM, MTE

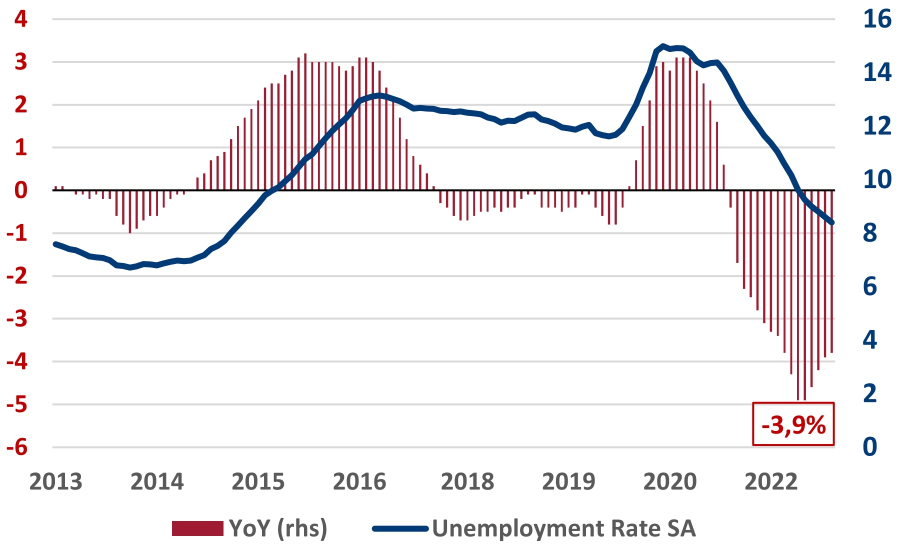
Brazil: Labor Market

- In October, the unemployment rate fell from 8.7% to 8.3% (8.6% to 8.4% seasonally adjusted), below the market expectation. Increase in formal jobs (albeit losing strength at the margin), but a drop in informal ones;

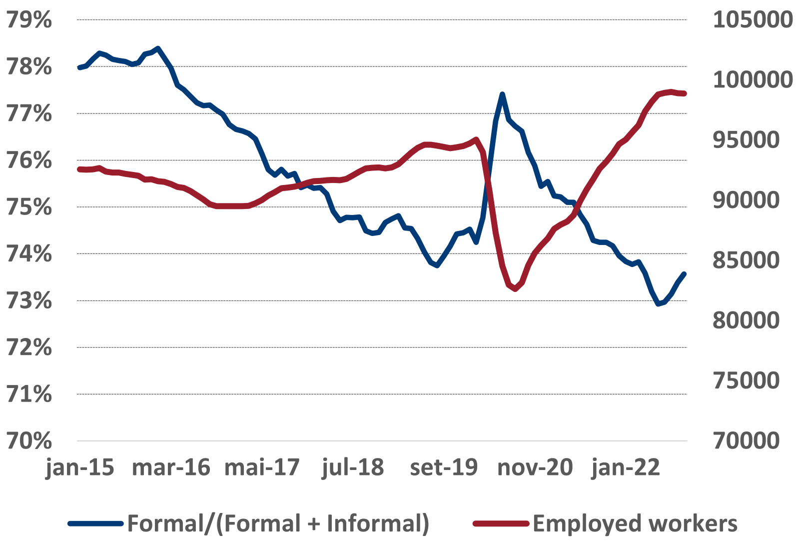
- A marginal drop in the unemployment rate is associated with a drop in participation. In particular, the lower employment of informal workers suggests an impact of cash transfers on the job offer;

- Real wage bill levels continued to rise: the fall in the Employed Population was offset by the increase in real earnings due to disinflation and the composition of the workforce. Wages, however, have yet to reach pre-pandemic levels.

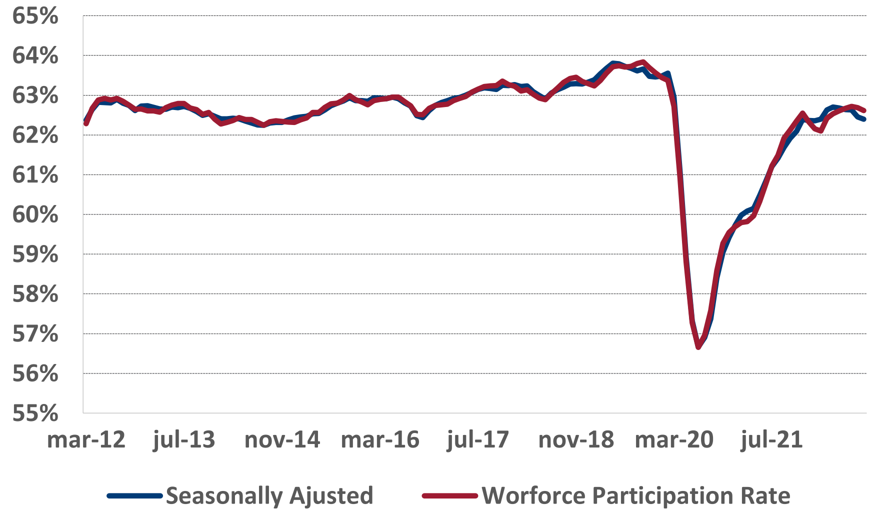
Brazil – Unemployment rate



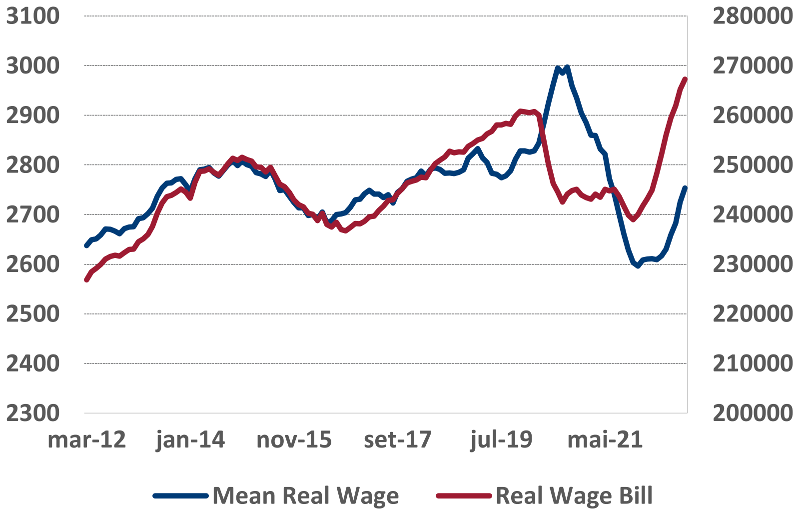
Brazil - Employment Level SA



Brazil -Workforce Participation



Brazil – Real Wage Bill SA (R$ Billions)

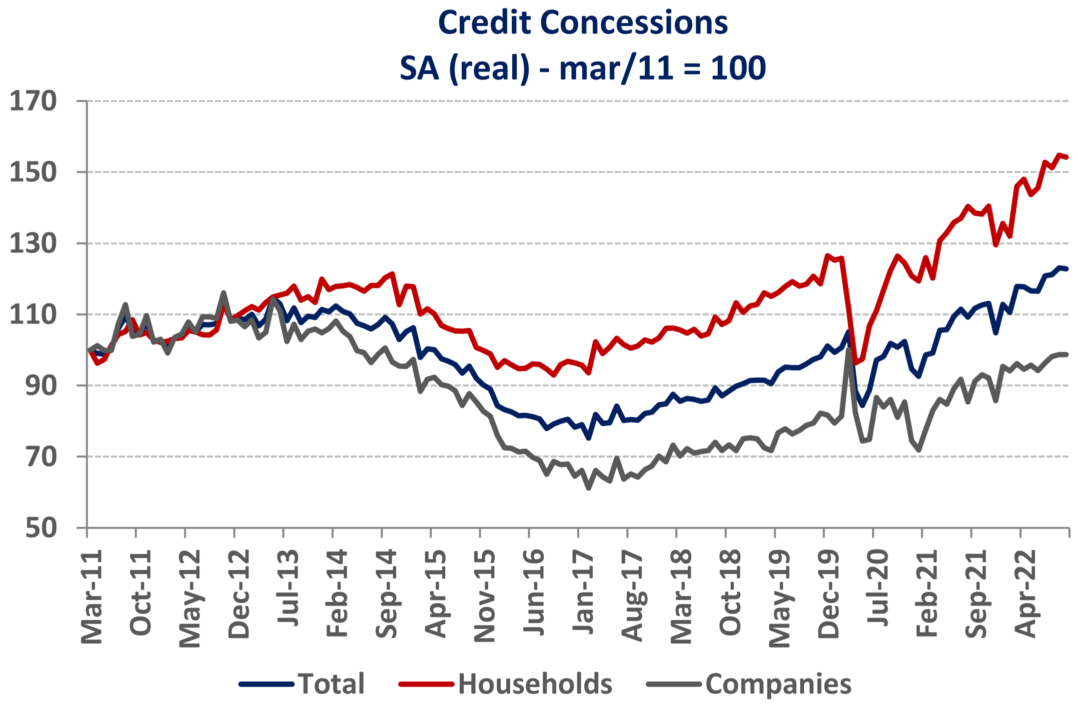


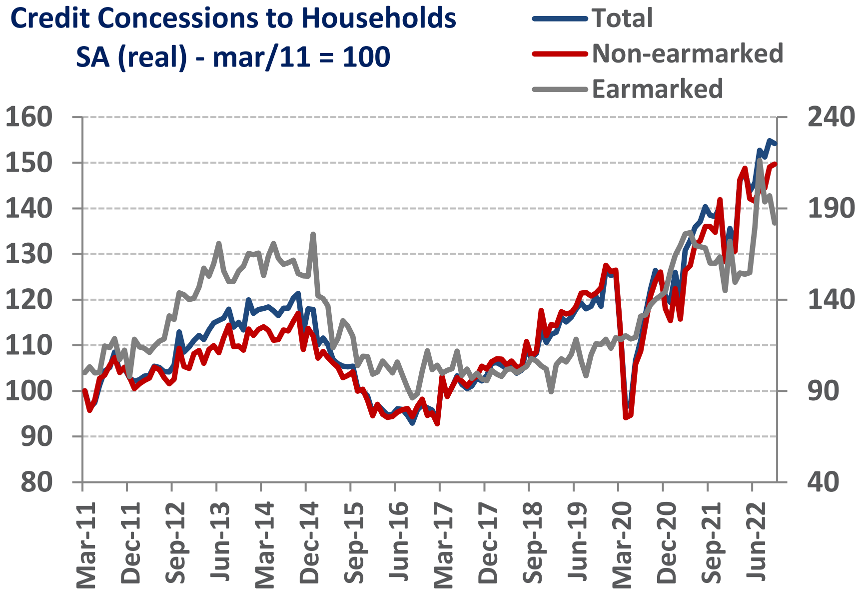
Source: IBGE, Bocom BBM, MTE

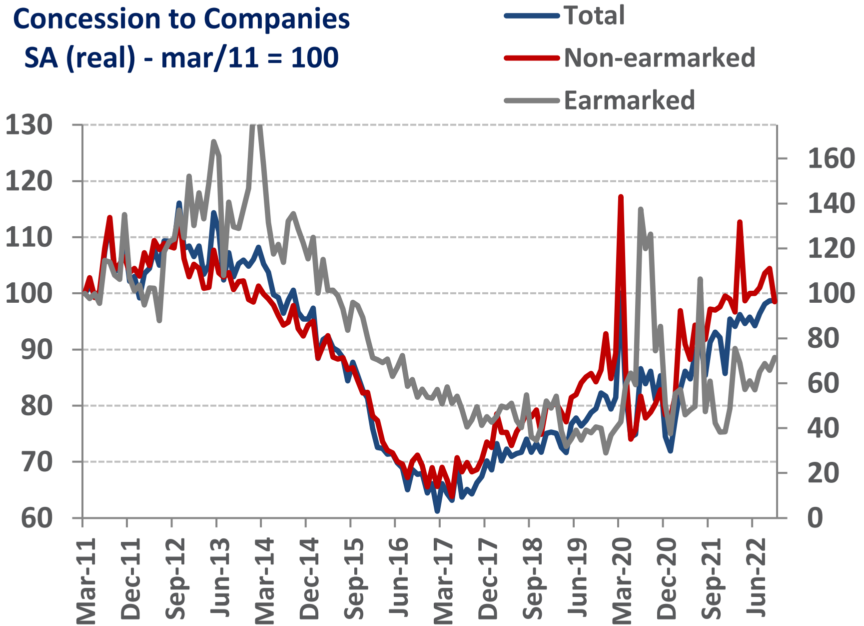
Brazil: Credit Statistics

交通銀行 BANK OF COMMUNICATIONS BBM

- In October, total credit concessions grew by 1.2% MoM. Concessions to households grew by 0.6% MoM and to companies by 0.2% MoM.
- In real terms, concessions fell -0.2% MoM, driven by concessions to households which fell -0.4% MoM
- Highlights: -5.7% decline in non-earmarked credit granted to companies and -7.5% in earmarked credit to households







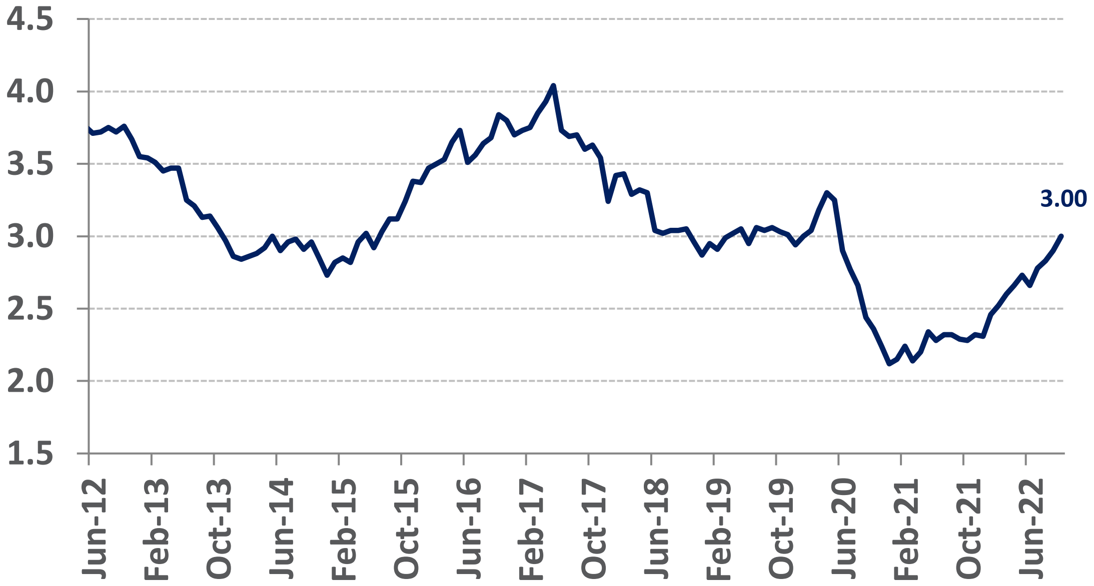
Source: BOCOM BBM, BCB

Brazil: Credit Statistics

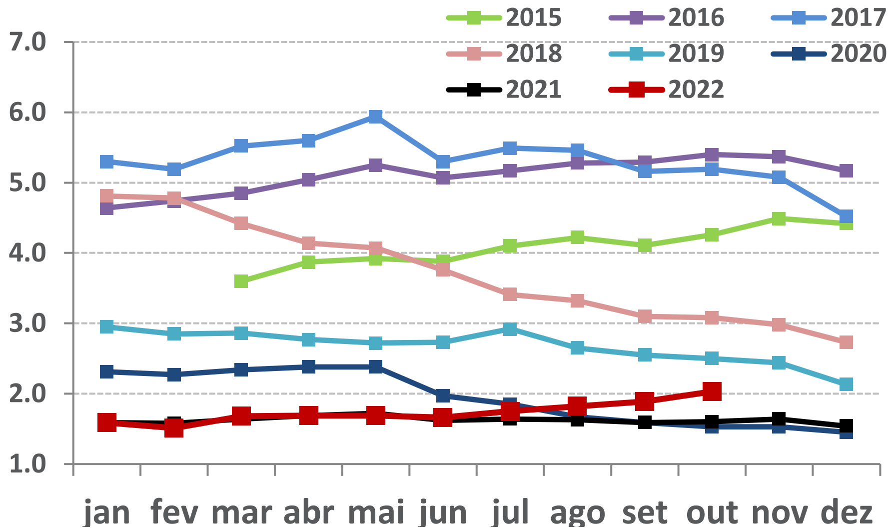
- Default rates are growing fast at the margin, especially in non-earmarked credit to individuals, which reached 5.91%, a level close to that of 2016

- On the other hand, the default rate of companies remains low

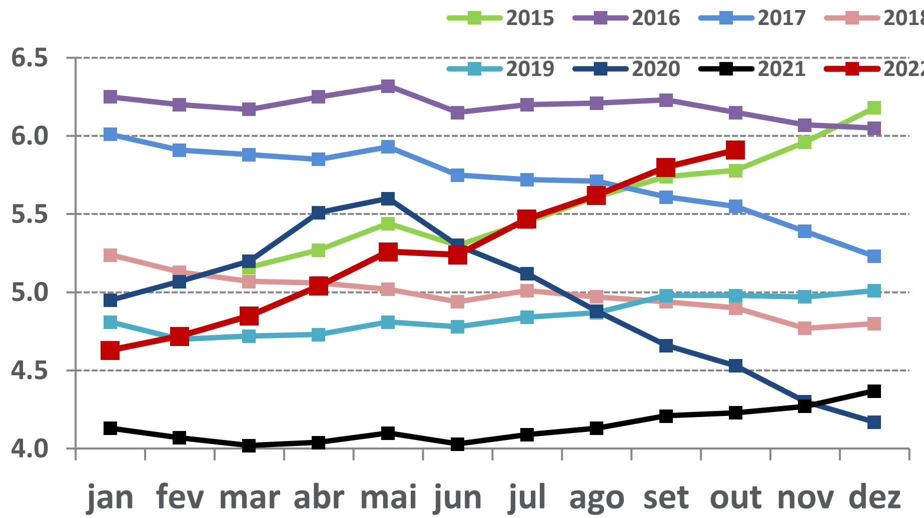
Default Rate
Delays of more than 90 days (%)



Default Rate (Companies, Non-earmarked)



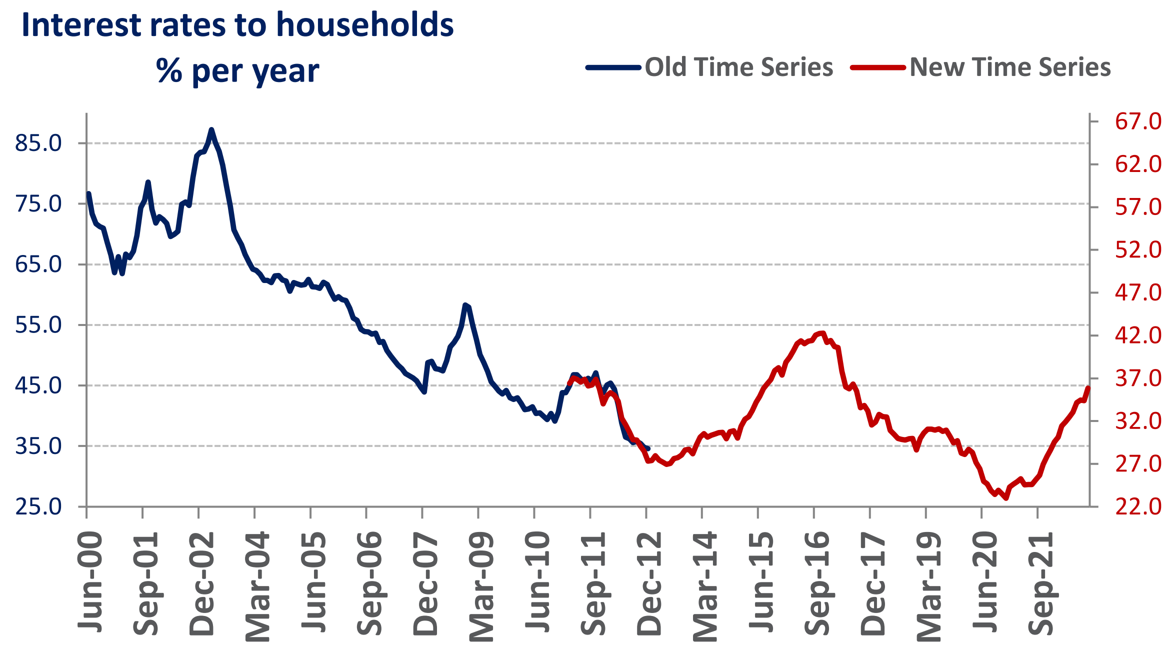
Default Rate (Households, Non-earmarked)

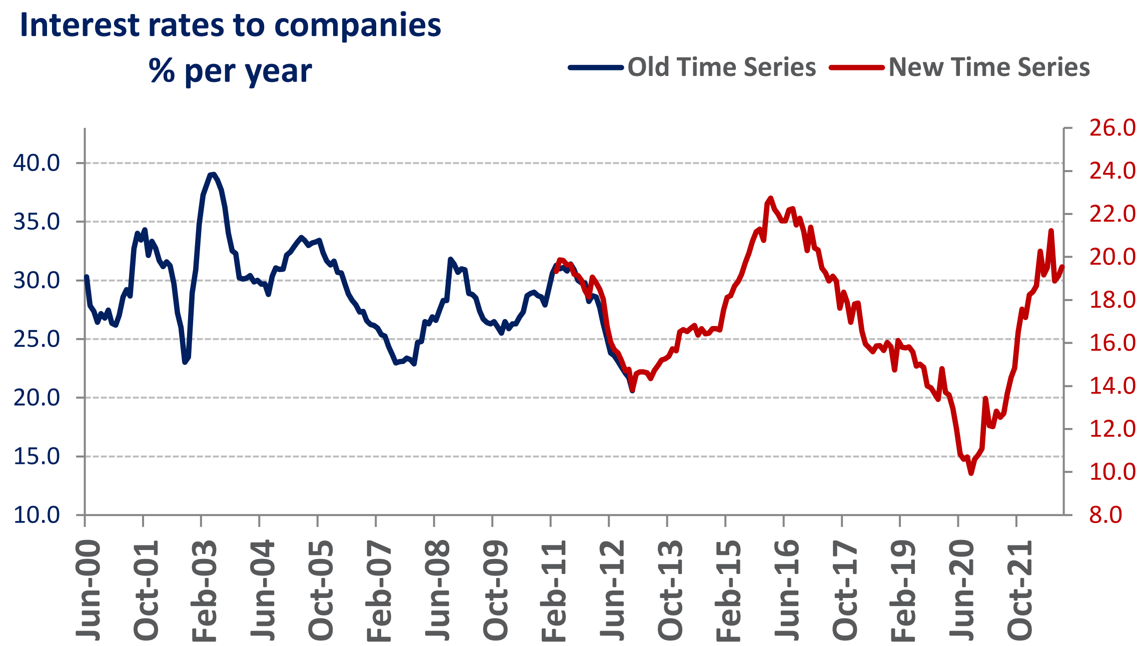


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

» Interest rates for households and companies continue to rise



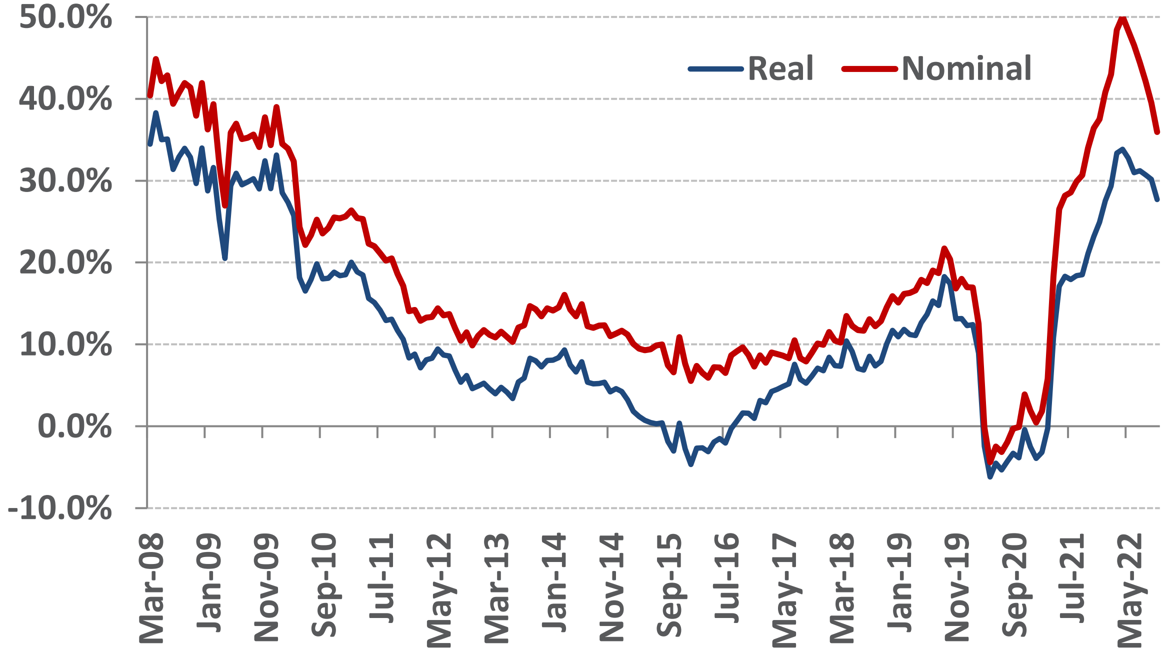


Source: BOCOM BBM, BCB

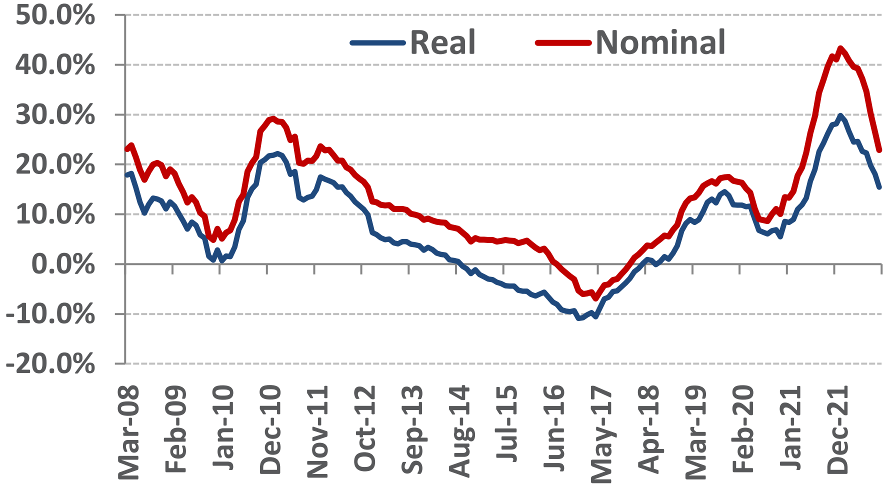
Brazil: Credit Statistics

- The quality of credit to households continues to deteriorate, migrating to emergency lines, with high interest rates, such as credit cards, non-payroll loans and overdraft facilities

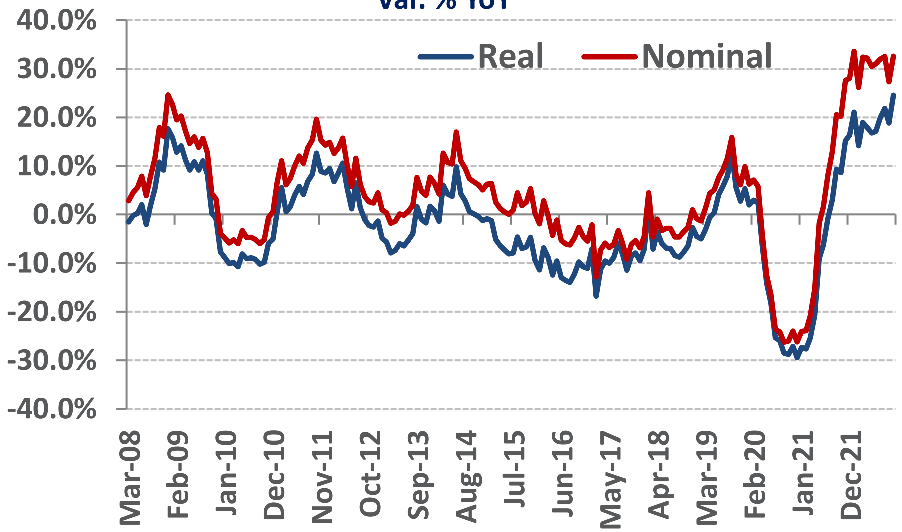
Credit Card to Households (Stock)
Var. % YoY



Non-Payroll Loan to Households (Stock)
Var. % YoY



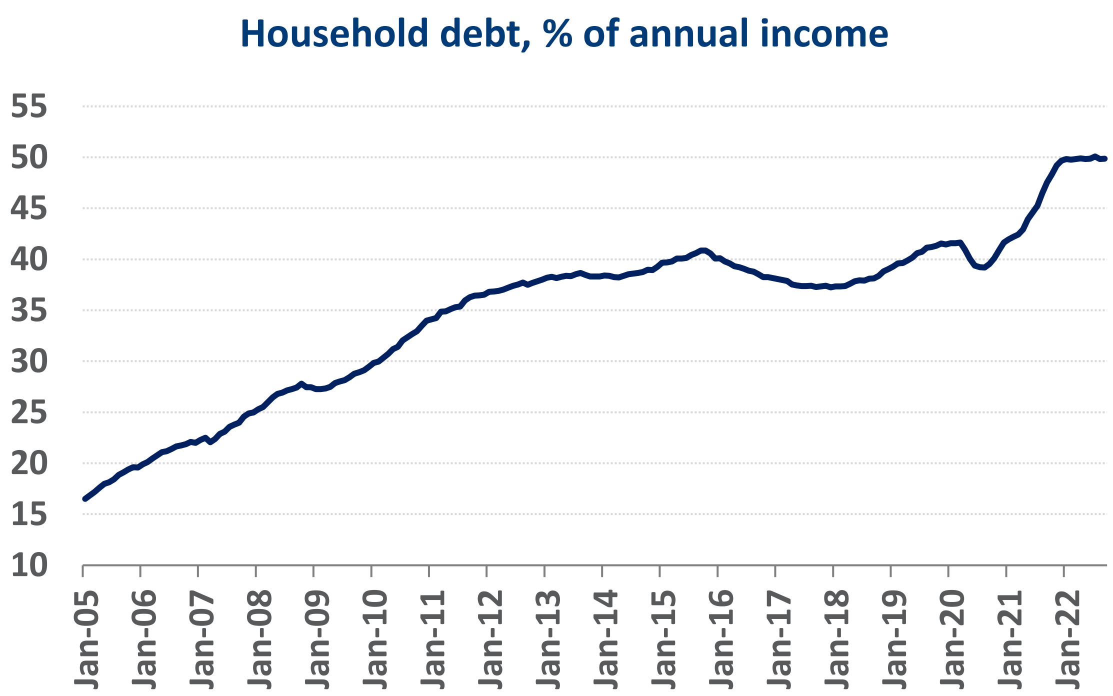
Overdraft to Households (Stock)
Var. % YoY

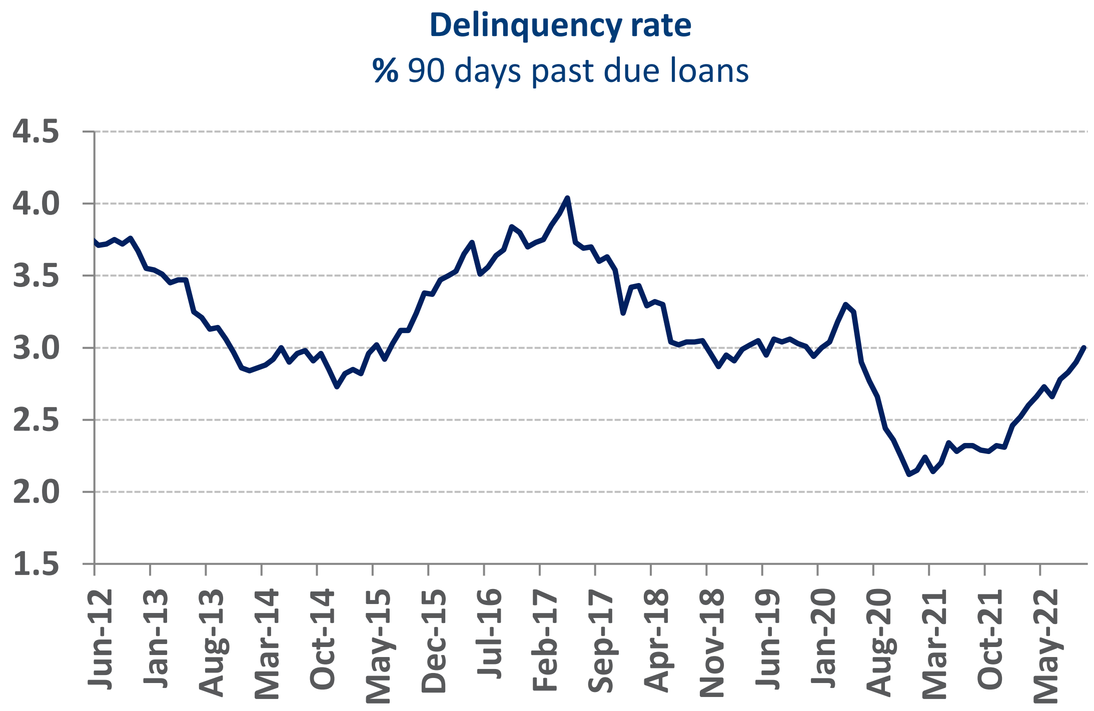


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

» High level of indebtedness and household income commitment should limit consumption growth in the coming months



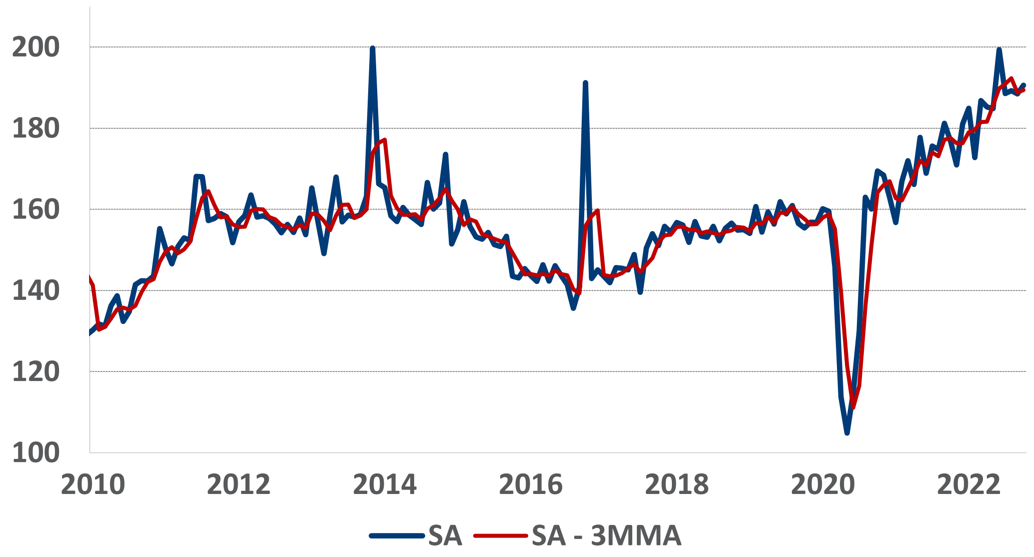


Source: BOCOM BBM, BCB

Brazil: Federal Tax Collections

- Short-term fiscal data continue on a solid trajectory. Federal collection reached BRL 205.5 billion, up 8% in real terms compared to October 2021, and above market expectations (BRL 203.0 billion), marking another historical record for the month since 1995
- The accumulated result from January to October reached BRL 1.936 billion, up 9.4% in real terms
- The highlight of the month was once again income linked to profits, which grew 13% MoM in real terms, and social security revenue, growing 6.3% MoM
- The high levels of commodity prices and the resumption of economic activity are the main drivers of revenue this year

Federal Tax Collections (BRL billion, Real SA)

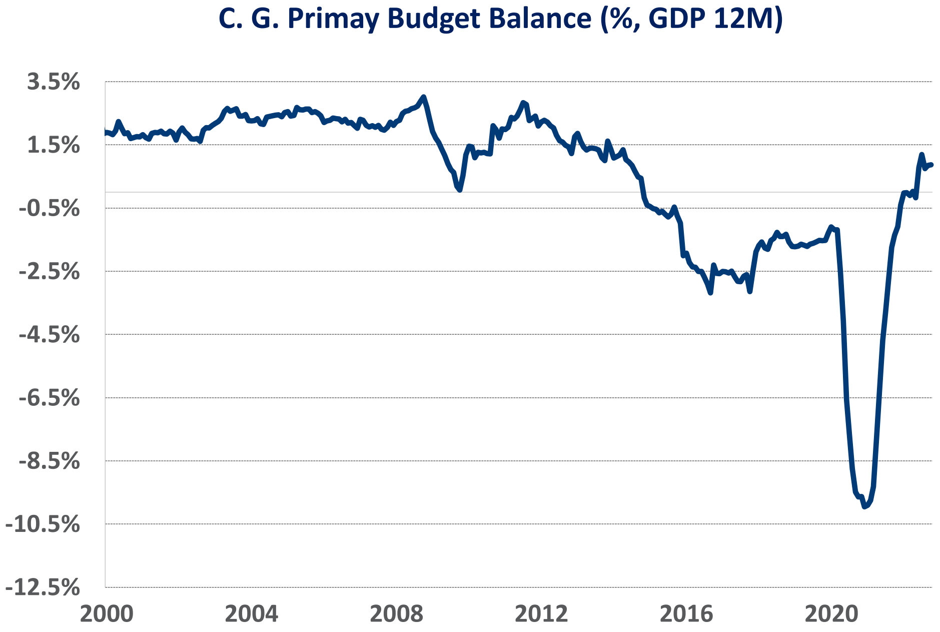


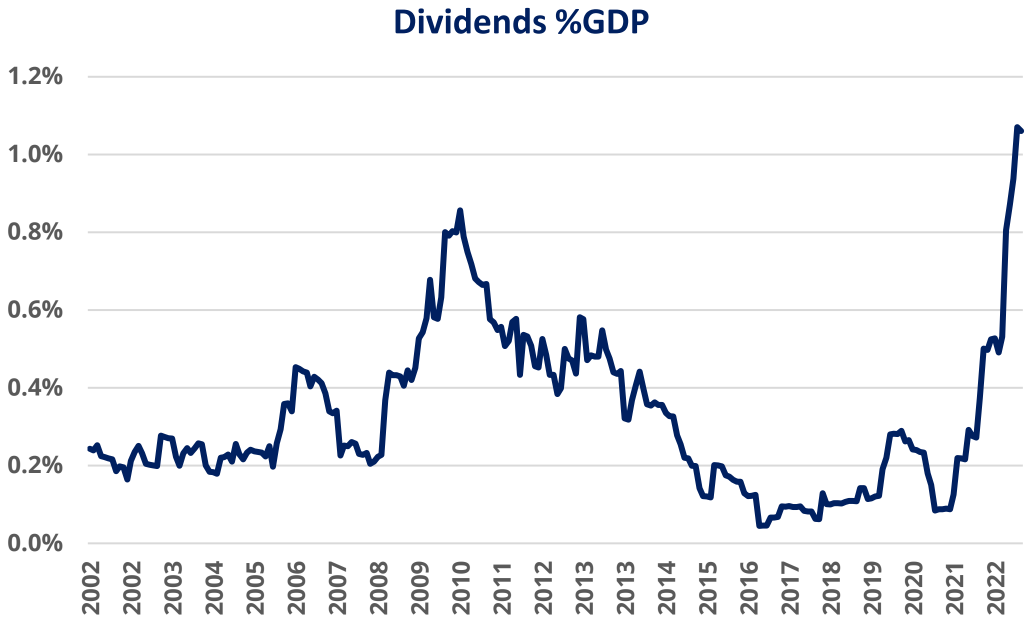
Federal Tax Collections (% GDP)

Source: BOCOM BBM, Receita Federal

Brazil: Central Government Budget Deficit

- Central government's primary balance reached a surplus of BRL 30.8 billion in October, above market consensus (BRL R$ 29.0 billion)
- Year-to-date, it registered a surplus of BRL 64.4 billion and, in 12 months, accumulated a surplus of BRL 85.7 bn (1.0% of GDP)
- October reading was the best since 2016 and the third best in recorded series
- The strong tax collection boosted by dividends from SOEs was more than enough to offset the additional expenditures from Auxilio-Brasil and other benefits

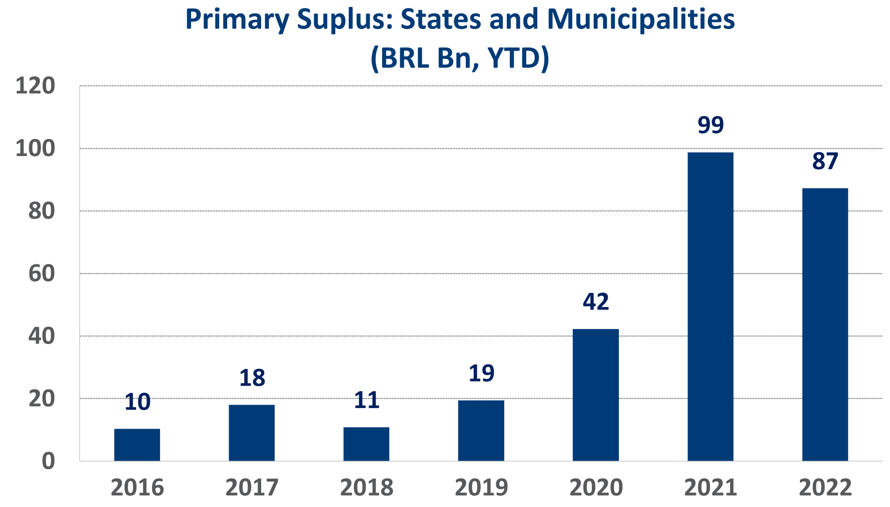


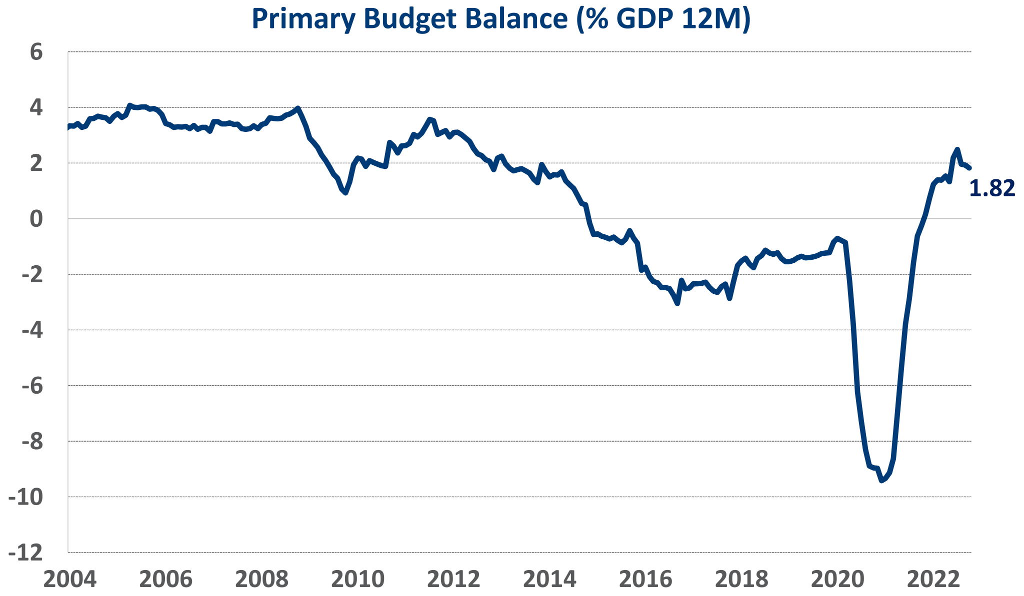


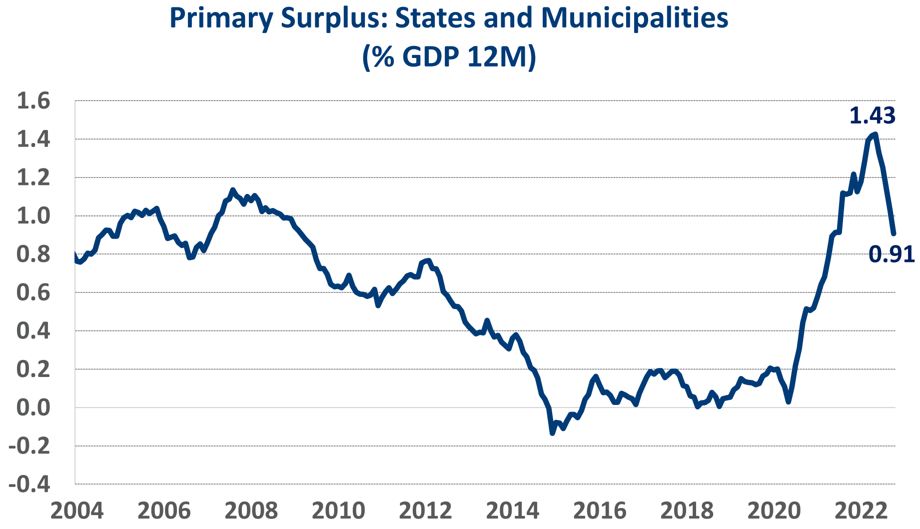
Source: BOCOM BBM, Tesouro Nacional

Brazil: Consolidated Public Sector Budget Deficit

- The consolidated public sector registered a primary surplus of BRL 27.1 bn in October, in line with market consensus. In 12 months it reached 1.8% of GDP
- States and municipalities reached a deficit of BRL 3.9 bn in the wake of the tax cuts of ICMS on fuels and electricity
- The General Government Gross Debt fell to 76.8% of GDP in October, mainly due to nominal GDP growth



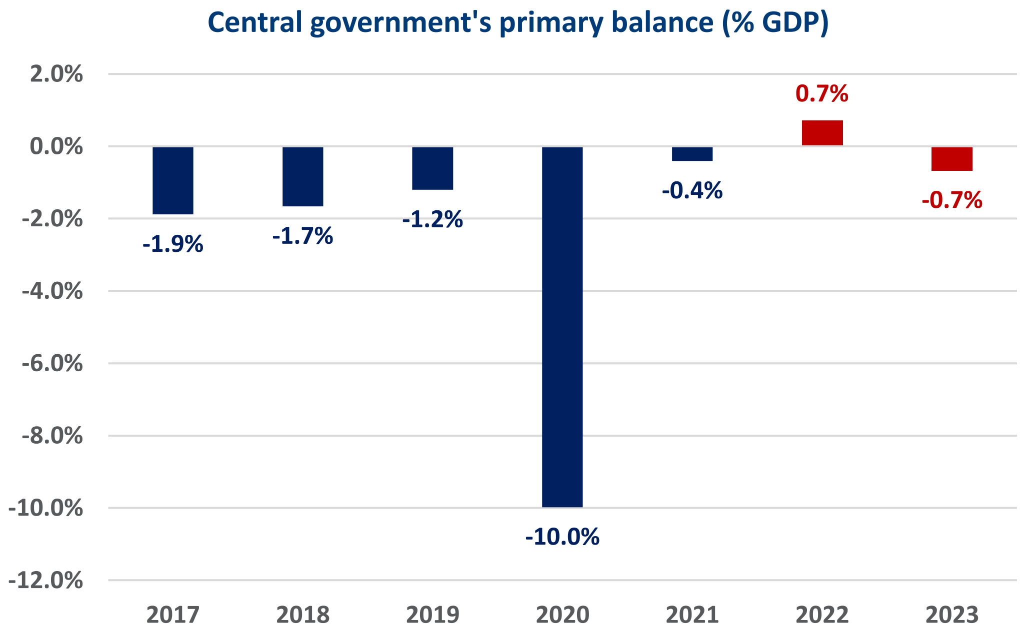


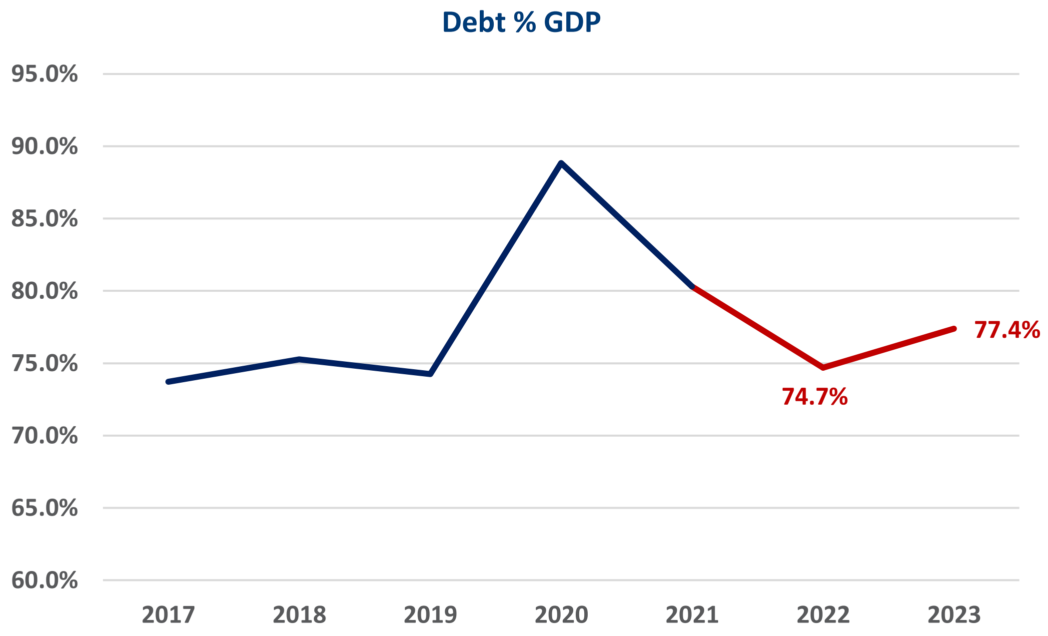


Source: BOCOM BBM, Tesouro Nacional, BCB

Brazil: Fiscal Forecasts

- We project a surplus for the central government of 0.7% of GDP this year and a deficit of 0.7% in 2023, considering BRL 70 billion in extra-ceiling spending
- For the public debt, we project 74.7% in 2022 and 77.4% in 2023, both revised downwards given the positive surprises in federal revenues and the upward revision of nominal GDP implemented by the IBGE in the Q3 GDP release





Source: BOCOM BBM, Tesouro Nacional, BCB

Brazil: Inflation 2022

- Despite the still high level of the IPCA and core inflation, the improvement in IPCA composition over the last few months is undeniable

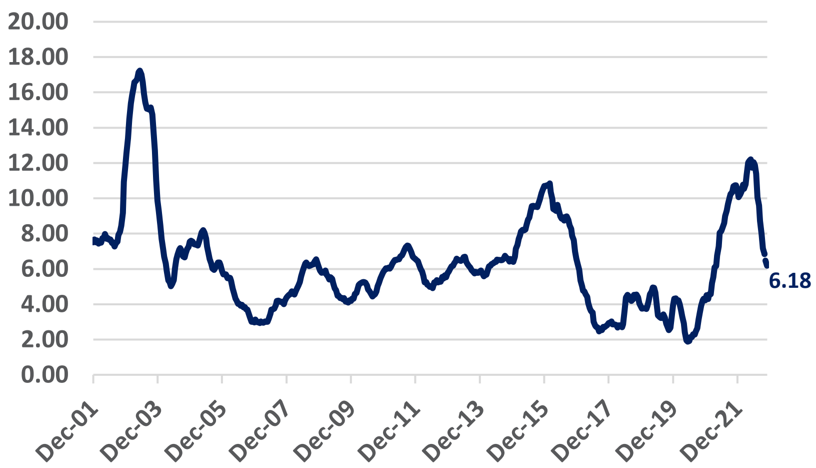
- There was a significant deceleration in services, industrial goods and core inflation

- The tax cut implemented this year (its direct and indirect effects), together with the contractionary monetary policy, played a fundamental role in these results

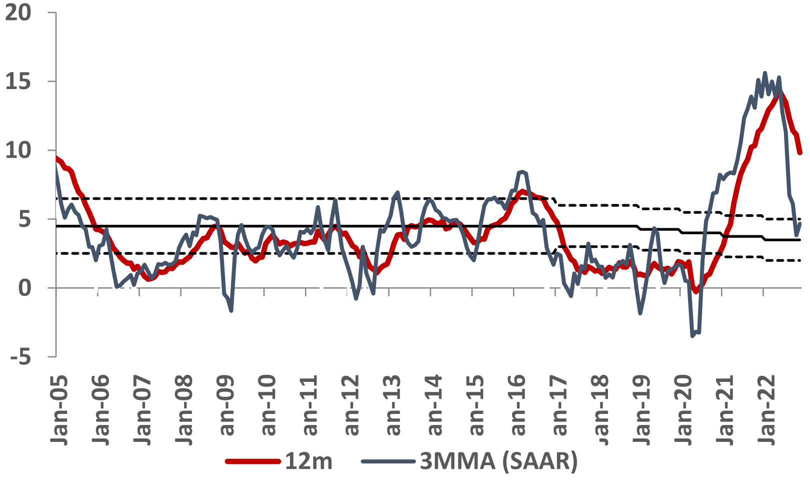
- The projection for 2022 stands at 5.8%

- The big question is whether this process of improvement in the composition and IPCA fall will continue throughout 2023...

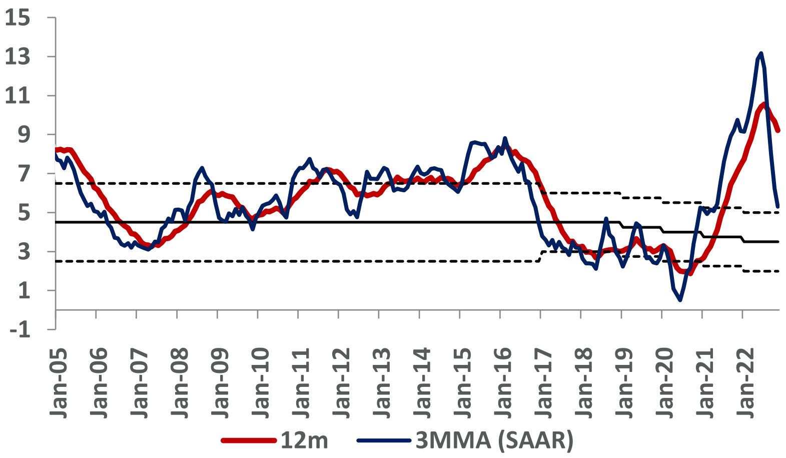
IPCA YoY %



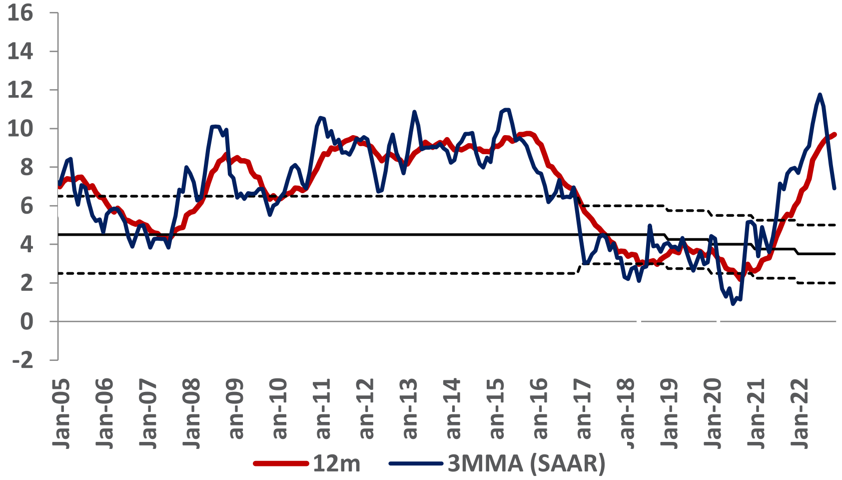
Industrial Goods



Average of Cores



Core Services



Source: BOCOM BBM, IBGE

Brazil: Inflation 2023

- Our forecast for the 2023 IPCA is at 5%, but we only partially incorporate some risks:
- The states have defended the reinclusion of the TUST/TUSD in the ICMS calculation base. If they win, the impact on the IPCA would be +35 bps
- The states have also defended the exclusion of gasoline from the category of essential goods, which means that the states could charge a higher ICMS percentage than the current 17%, a potential impact of +70 bps on the IPCA
- The new government signals that it will not maintain the exemption from federal fuel taxes, potential impact of +50 bps on the IPCA
- The size of the fiscal waiver being negotiated with Congress

IPCA (%, annual)

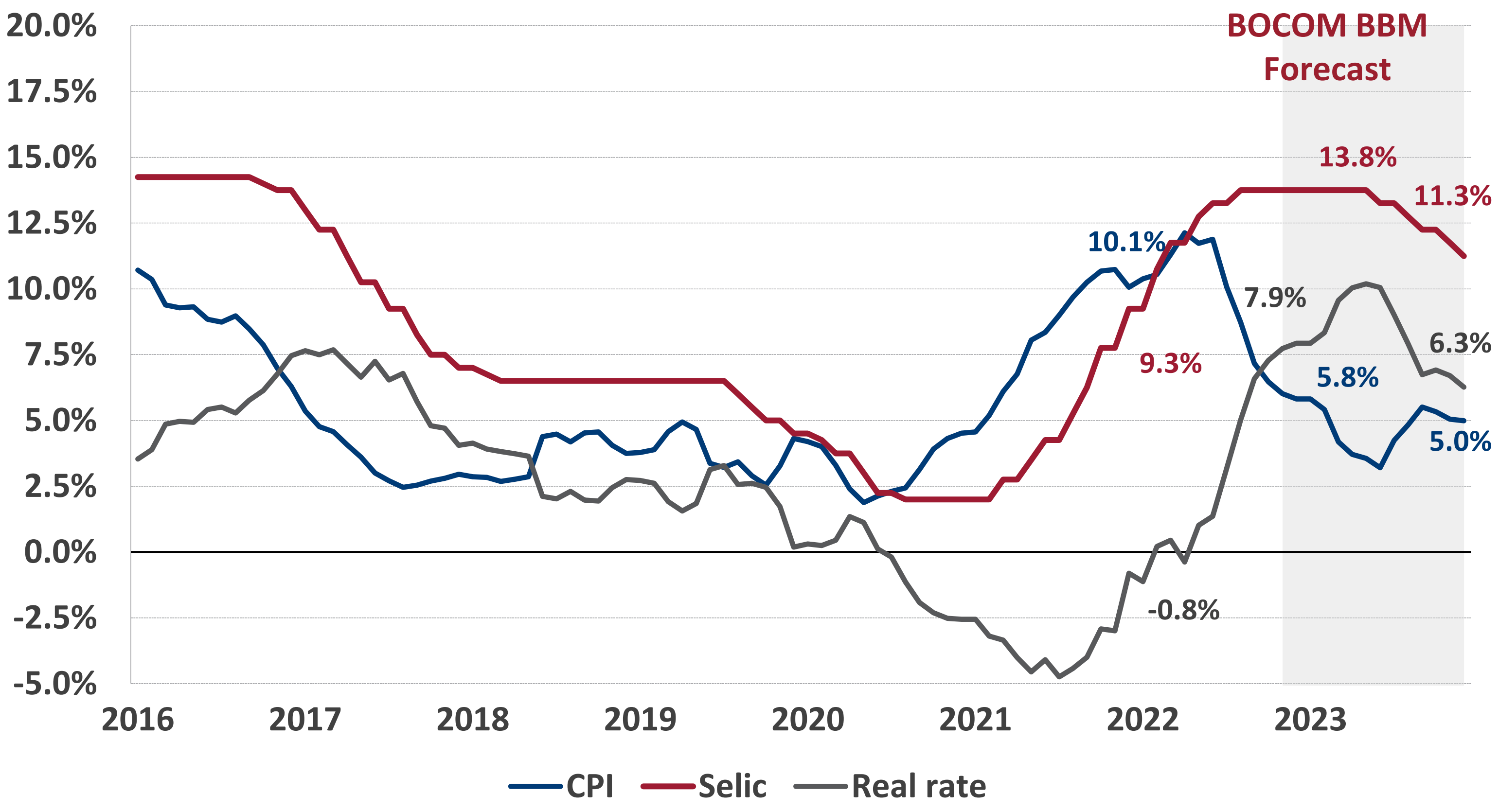
	weights	2019	2020	2021	2022	2023
Regulated	**26.6**	**5.5**	**2.6**	**16.9**	**-3.4**	**6.9**
Industrial goods	**23.6**	**1.7**	**3.2**	**11.9**	**9.3**	**3.6**
Durable goods	10.3	0.0	4.5	12.9	6.9	2.4
Semi-durable goods	5.9	0.6	-0.1	10.2	15.3	4.2
Non-durable goods	7.3	4.4	4.0	11.9	7.8	4.6
Food at home	**15.7**	**7.8**	**18.2**	**8.2**	**12.8**	**3.9**
Services	**34.1**	**3.5**	**1.7**	**4.8**	**7.7**	**5.0**
Food away from home	5.6	3.8	4.8	7.2	7.6	4.9
Related to minimum wage	5.2	2.9	1.5	3.3	6.2	5.4
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.4	4.6
Inertial	15.0	4.3	1.6	4.2	9.0	5.1
IPCA		**4.3**	**4.5**	**10.1**	**5.8**	**5.0**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

» On December 7, the Copom will meet for another monetary policy decision. The expectation is that Selic rate will remain at 13.75%. The committee should continue to reinforce the vigilance message, stating that they may resume the upward cycle if inflation proves to be more persistent than expected. It is also possible that the committee discusses the importance of fiscal consolidation for inflation convergence to the targets and potential consequences of fiscal rules credibility loss on its strategy for conducting the Selic

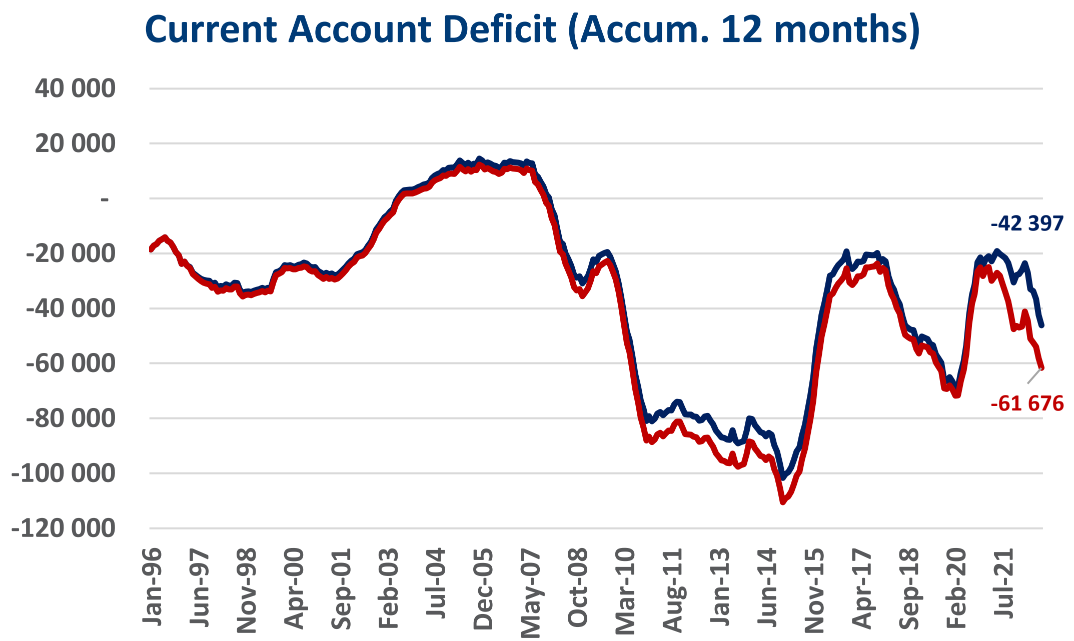
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

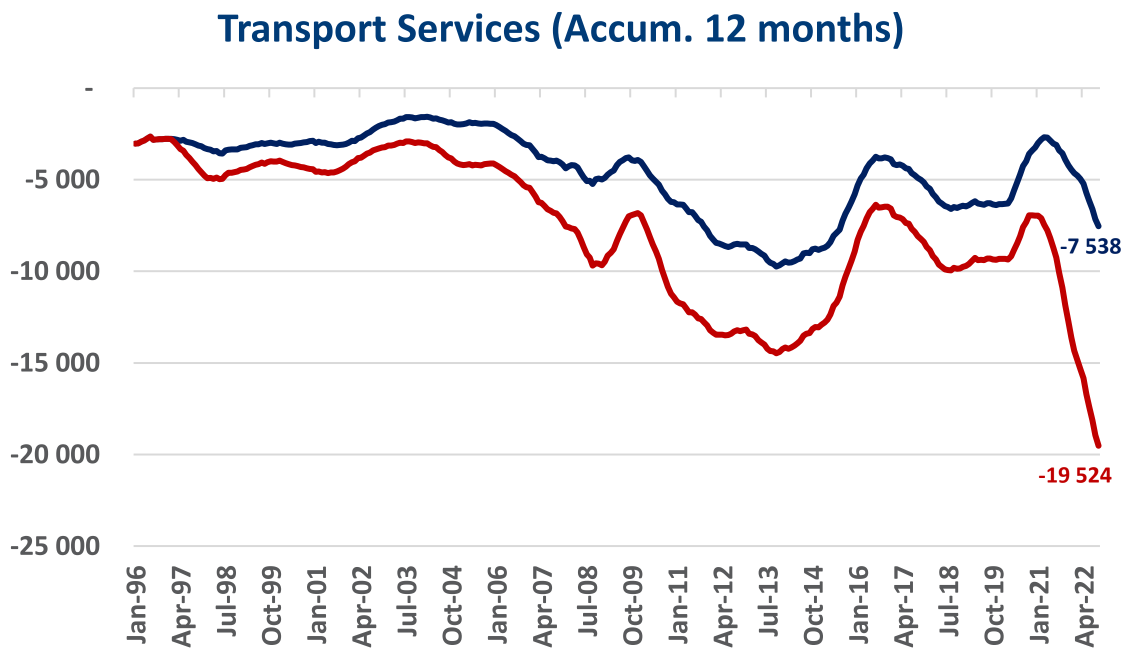


Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- We revised our forecast for the Current Account Balance this year from a deficit of BRL -41 billion to BRL -59 billion in 2023 from BRL -40 billion to BRL -48 billion
- The update was motivated by the extraordinary review made by BCB in the Balance of Payme historical series of the Balance of Payments, due to the change in the methodology for calculating Freight in the Transport account
- As a result, the current account deficit from January to September was revised by US$9.8 billion and in 2021 the impact was US$9.2 billion
- The disparity in the impacts of the revision in the 1997-2020 and 2021-2022 periods is basically due to the increase in fuel prices and the increase in freight costs, captured with greater precision by the new data source

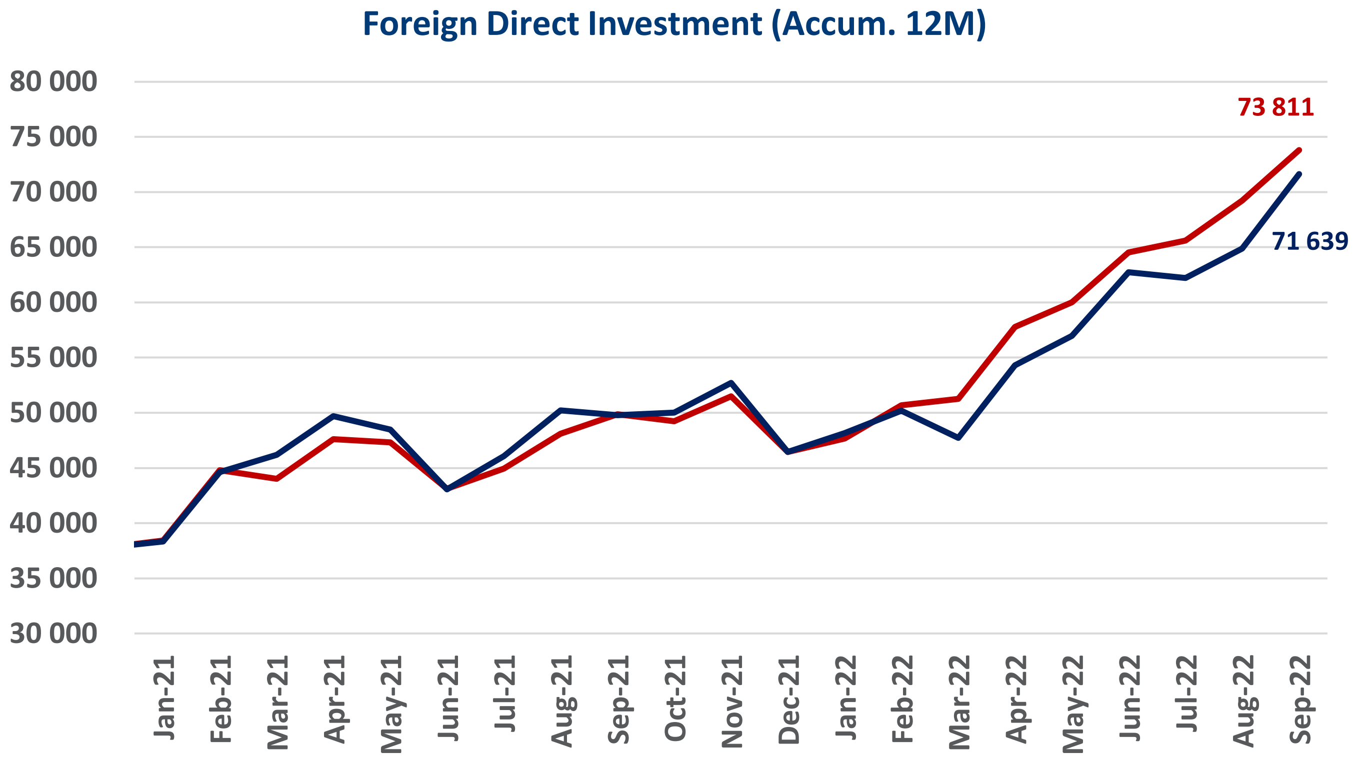




Source : BCB, BOCOM BBM

Brazil: Balance of Payments

- With the annual review implemented by the BCB, Foreign Direct Investment in 2022 was revised downwards by US$2.2 billion (from US$70.7 billion to US$68.4 billion)
- Due to retroactive information regarding the amortization of intercompany operations through the export of goods

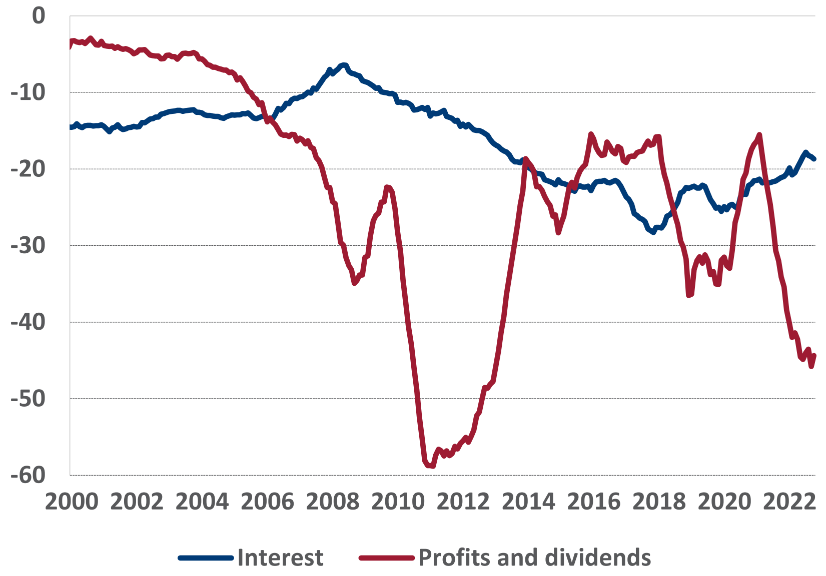


Source: BOCOM BBM, BCB

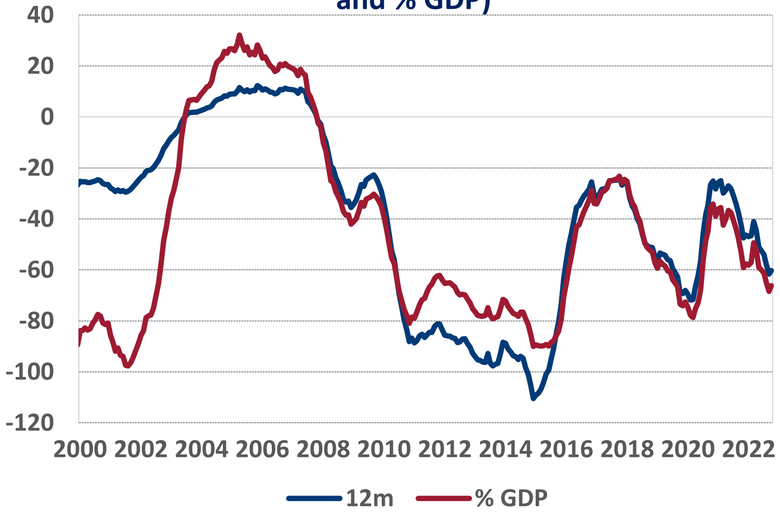
Brazil: Balance of Payments

- In October, the current account reached a deficit of US$4.6 billion, accumulating a deficit of US$44 billion in the year and US$60.3 billion in 12 months (-3.31% of GDP)
- The trade balance of goods continued to accumulate surpluses in October, registering a positive balance of US$ 37.5 billion in 12 months
- The good performance of the trade balance was partially offset by broader deficits in the services and primary income accounts
- The services balance registers a deficit of US$ 38.6 billion in 12 months, mainly due to the deficit of US$ 19.8 billion in the Transport Services account
- While the primary income account adds up to a total deficit of US$ 63.0 billion in 12 months

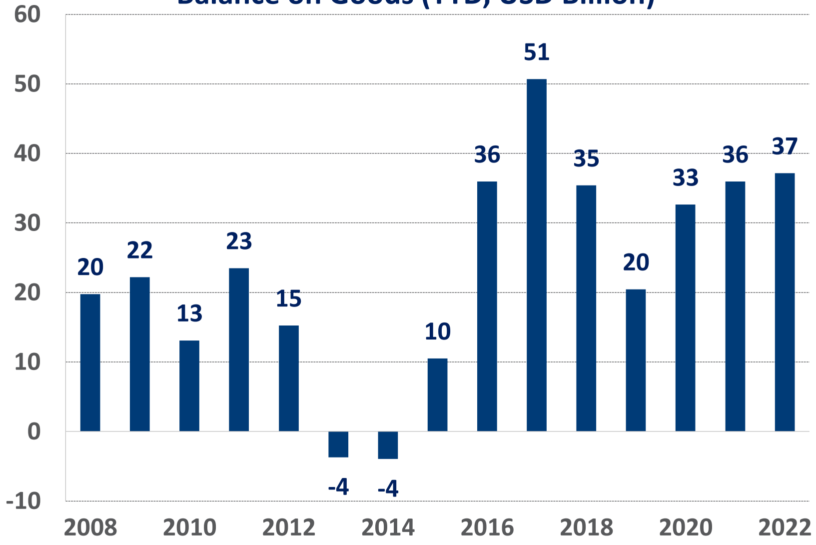
Primary Income (Accumulated 12M, USD Billion)



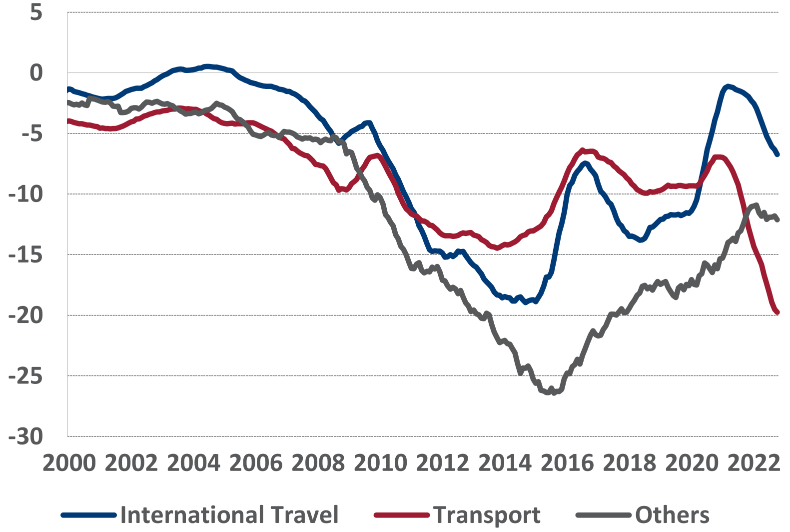
Current Account (Accumulated 12M, USD Billion and % GDP)



Balance on Goods (YTD, USD Billion)



Services (Accumulated 12M, % GDP)

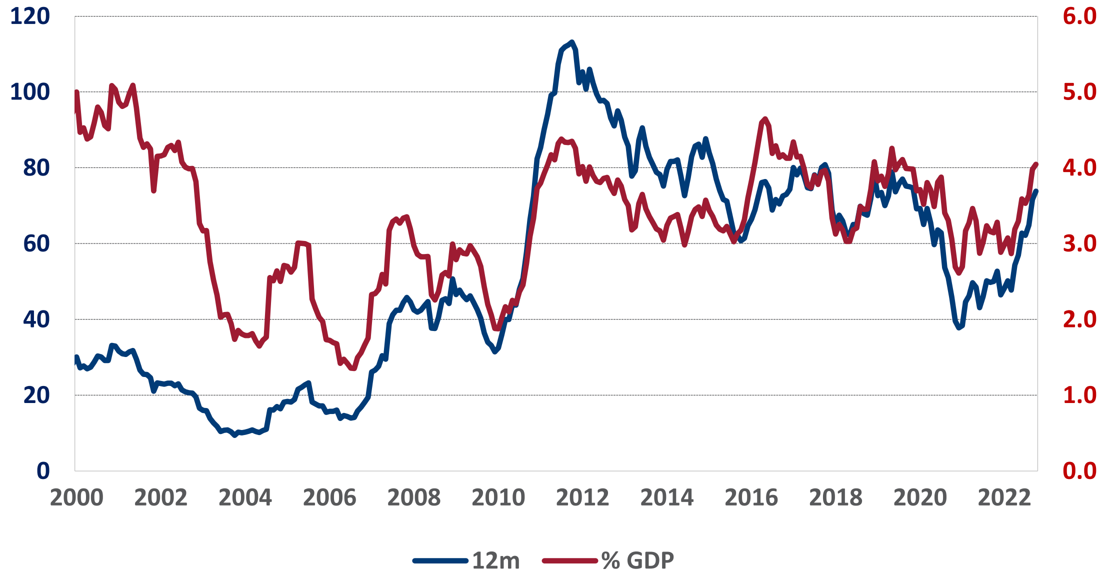


Source: BOCOM BBM, BCB

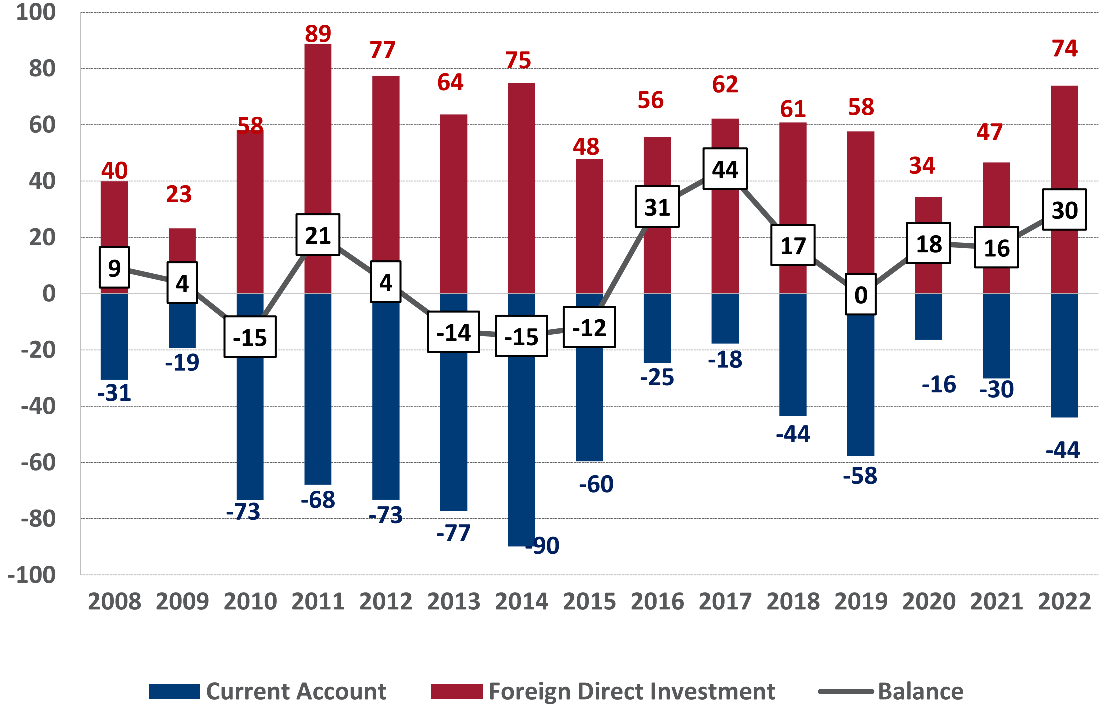
Brazil: Balance of Payments

- Foreign Direct Investment (FDI) continues to grow solidly, adding up to a net inflow of US$73.8 billion (4.05% of GDP), while the current account deficit continues to widen (especially after the methodological revision in the freight account)
- Although the revisions do not change Brazil's low external vulnerability, the scenario is less favorable than previous data indicated. We now have a significant current account deficit and, if FDI declines in the coming years, it could hurt Brazil's ability to finance that deficit

Foreign Direct Investment (Accumulated 12M, USD Billion and % GDP)



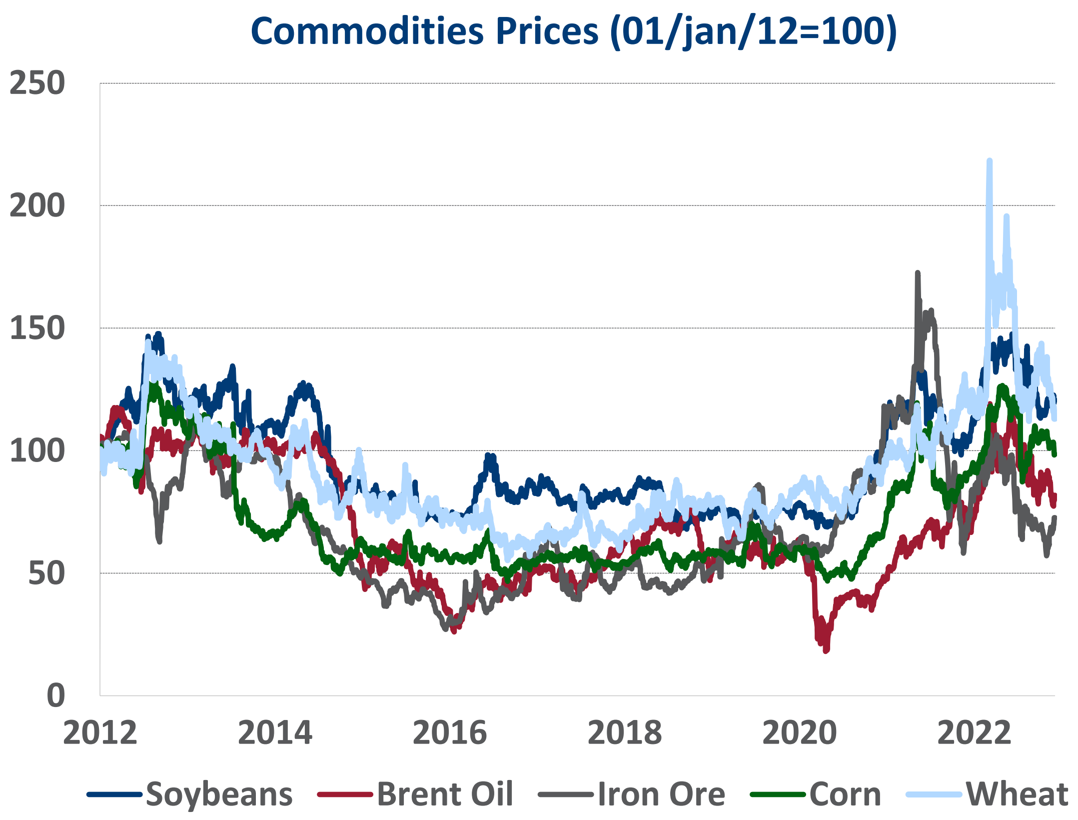
Current Account Balance and FDI (YTD, USD Billion)

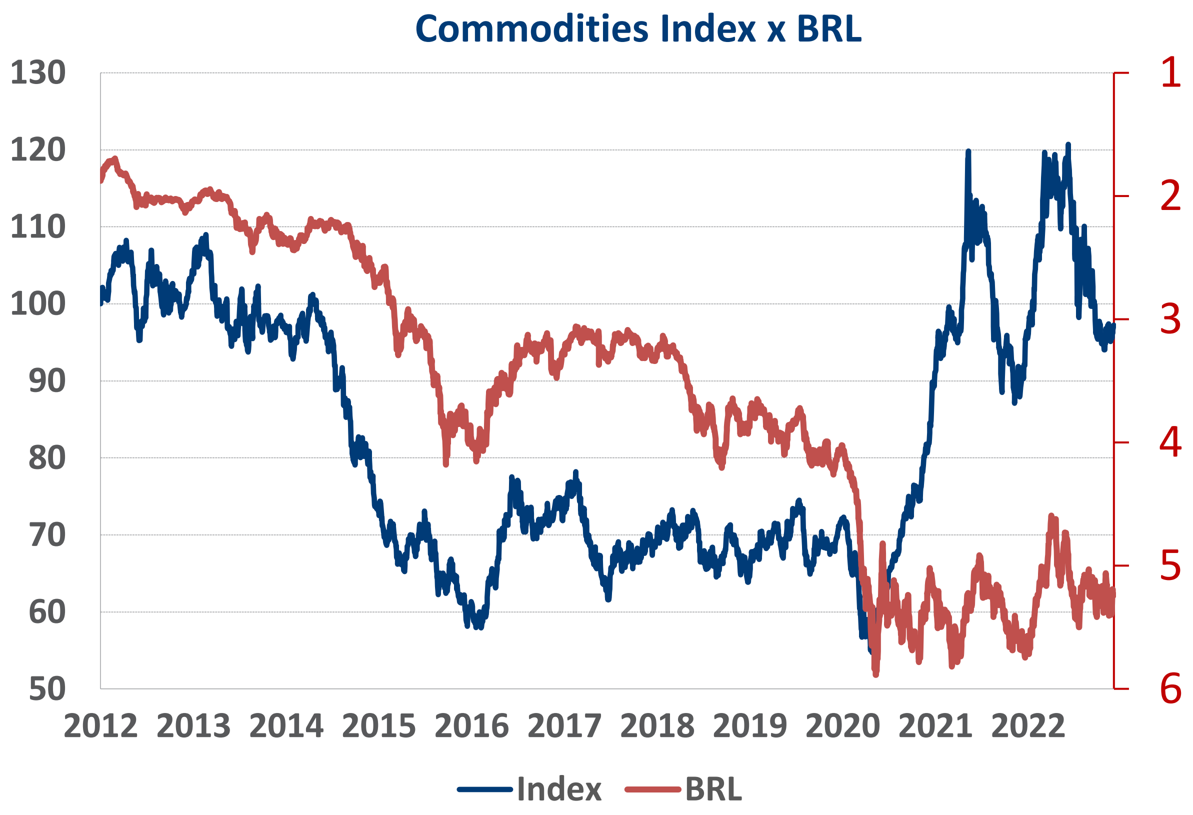


Source: BOCOM BBM, BCB

Brazil: External Sector

» Recently there has been a drop the main commodities prices exported by Brazil, which together with uncertainty about global growth and fiscal risks in Brazil, limit a stronger appreciation of the exchange rate ahead.

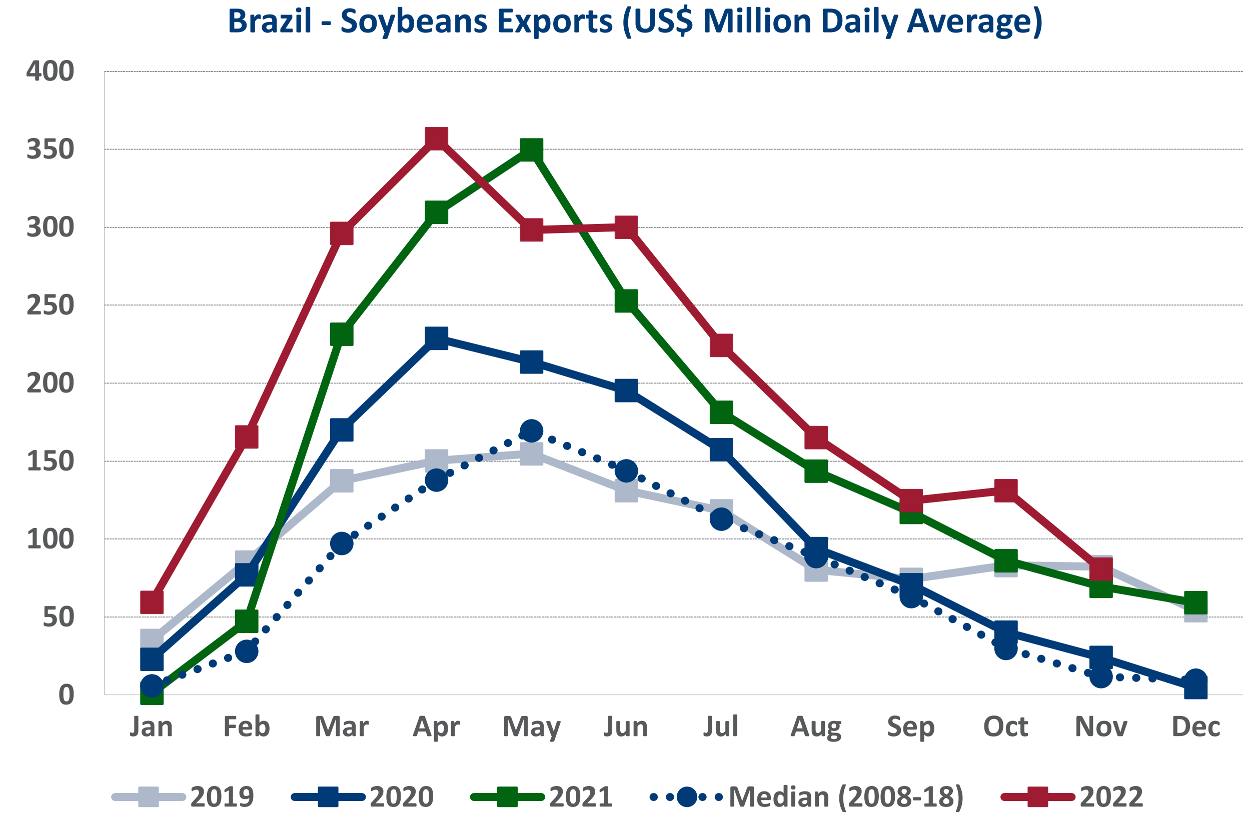


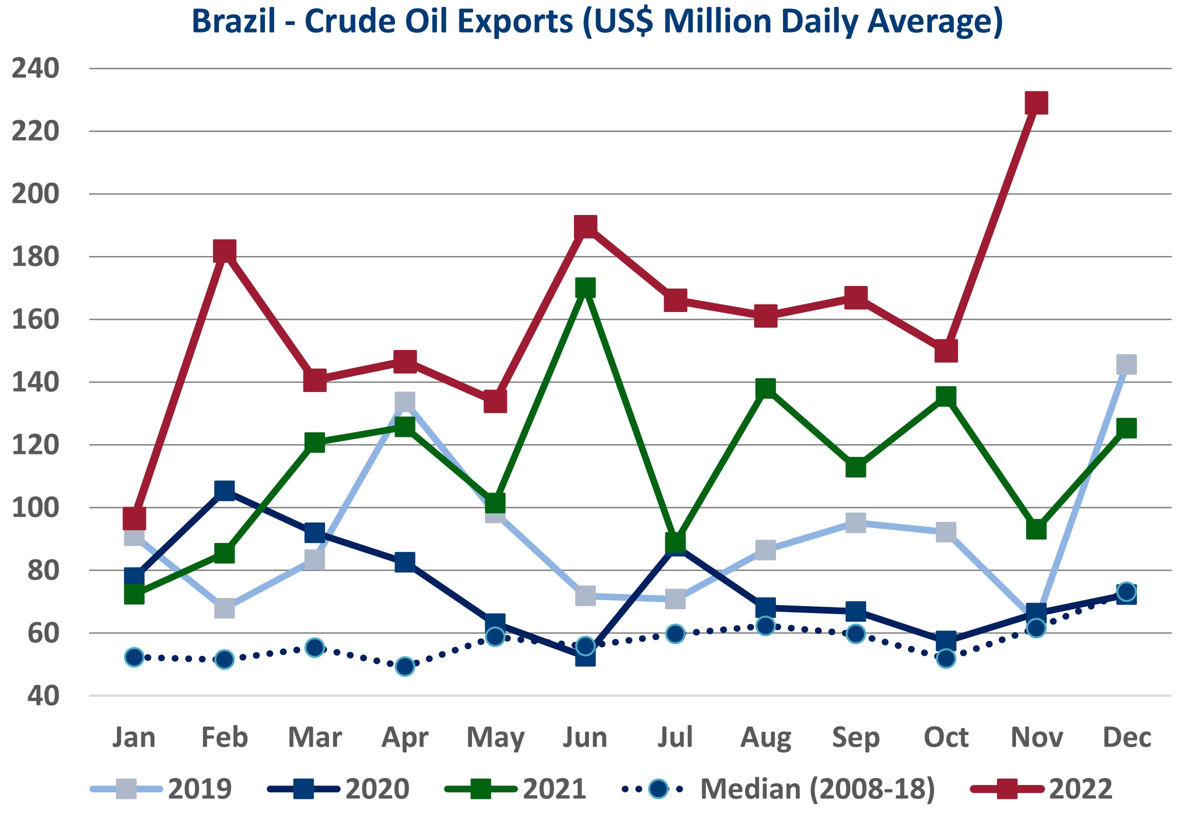


Source: Secex, BBG, BOCOM BBM

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.





Source: Secex, BOCOMBBM

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