交通銀行 BANK OF COMMUNICATIONS BBM

MACRO OUTLOOK

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Macro Outlook

- Preceded by a year marked by global geopolitical uncertainty and interest rates hikes, the outlook for 2023 seems to compose a global scenario of slowing activity growth and rising unemployment, with inflation converging to lower levels. Correspondingly, the FOMC in the US raised the Fed funds rate by 50bps to the range of 4.25-4.5%, and reviewed their baseline scenario raising the projected terminal rate to 5.1% in 2023. In China, important changes in the Zero Covid Policy prompts more flexibility. This means that efforts for the economy reopening has already begun. And, although it's going to be challenging in the short-term, it will pave the way for improvements in domestic demand, market confidence levels and consumption recovery.

- Economic activity indicators continue to show deceleration throughout Q4. Confidence indicators started to decelerate in October, intensified their decline in November and showed mixed signals in December. The labor market also began to slow down in October in both PNAD and CAGED data. The latter followed a pronounced deceleration in November.

- Our expectation for Q4 GDP remains at -0.1% QoQ, ending 2022 at 2.9%. As for 2023, we expect an increase of 1.5%, thanks to the important contribution of the agricultural sector, given the expectation of a 15% growth in the grain harvest. In addition, we expect a continuous recovery of real wages (which are currently well below the pre-pandemic level), also boosted by the new government's policy of increasing the minimum wage. Finally, we also consider the high statistical load that some activities have, such as Civil Construction, Information and Communication Services and Other Services.

- Our inflation forecast is at 5.6% for 2022 after better-than-expected short-term data, both in level and 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 5.6%, incorporating the expected return of federal taxes on fuel and a more adverse scenario for service inflation, due to the more stimulating fiscal policy

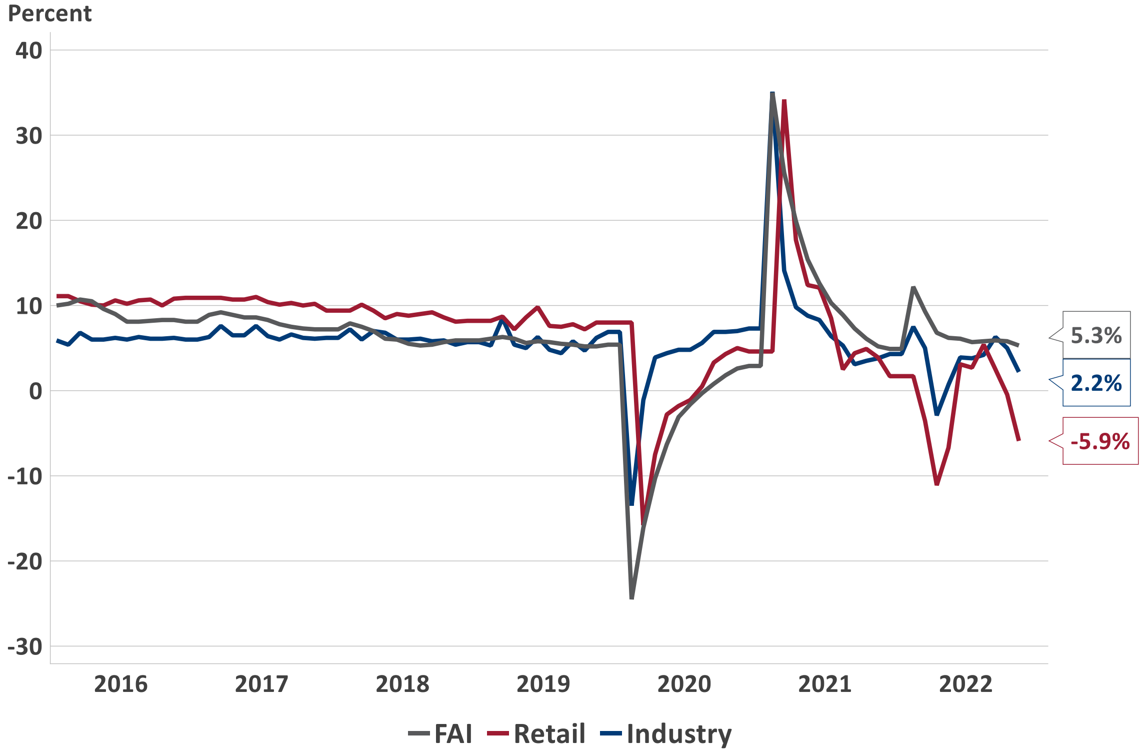
- At the December meeting, the Copom decided to maintain the Selic rate at 13.75%, as widely expected, but remains vigilant. The Copom emphasized its concern with the fiscal outlook and its effects on asset prices and inflation expectations, with possible impacts on prospective inflation dynamics. The authority also highlighted that changes in quasi-fiscal policies or the reversal of structural reforms could reduce the power of monetary policy. In our view, this type of policy increases the chances of maintaining the Selic at the current level for longer, postponing the cuts that the market priced in before the elections.

- Short-term fiscal results continue to be solid, with the help of excellent readings in federal revenues, mainly driven by the mineral extractive sector, in addition to the record distribution of dividends by state-owned companies that inflated revenues throughout 2022. For 2023, we expect a deficit of 1.1%, considering BRL 170 billion in extra-ceiling spending (BRL 145 billion increase in the spending ceiling + approximately BRL 23 billion in public investment spending due to “extraordinary collection”, approved in the “PEC of Transition"), followed by a deficit of 0.8% of GDP in 2024, assuming that expenses grow in accordance with the IPCA of the previous year. For public debt %GDP, we project 74.7% in 2022, 79.9% in 2023 and 85.1% in 2024.

China: Activity

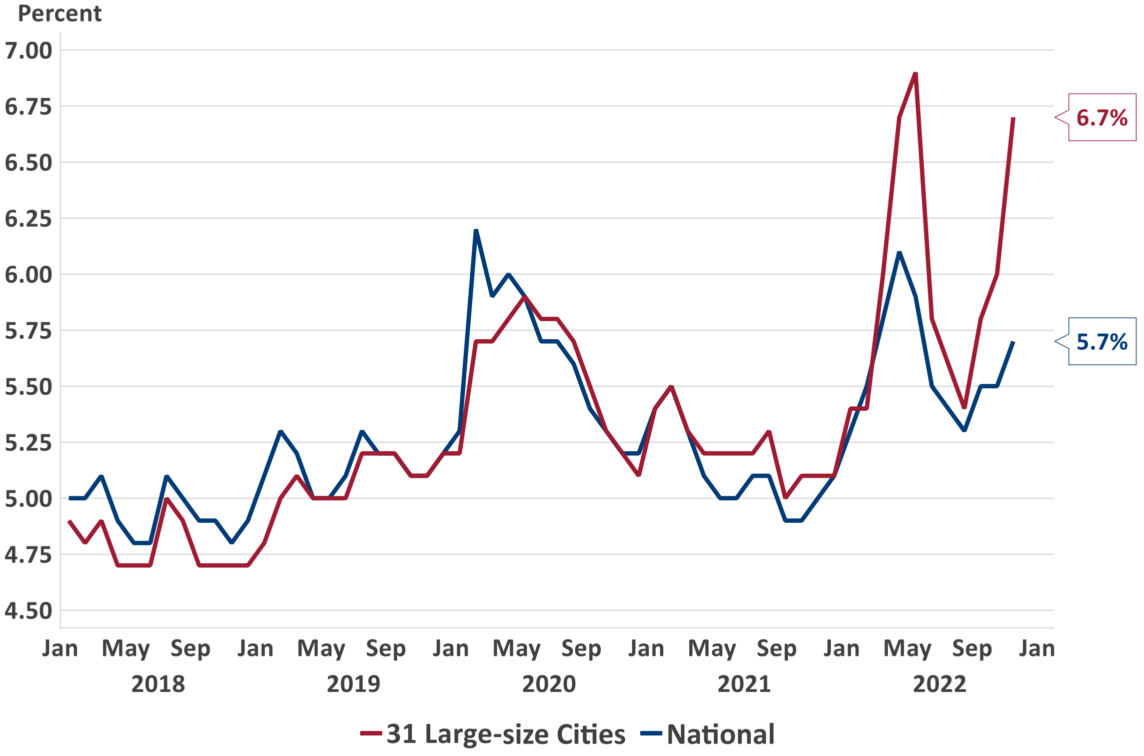
- Chinese activity growth for November broadly slowed and performed worse than market expectations: Covid restrictions, prolonged property downturn and slower export growth offsets the impact of continued policy stimulus;
  - **Industrial production** fell from 5% to **2.2%** YoY amid increased supply chain disruptions due to Covid and weaker external demand;
  - **Retail sales** growth dropped significantly from -0.5% to **-5.9%** YoY reflecting weaker domestic demand;
  - **FAI** declined from 5.8% to **5.3%** still being affected by Covid restrictions and property market weakness;
  - The **national unemployment rate** rose from 5.5% to **5.7%** and the 31-city measure to **6.7%** (from 6%).

China: Activity (YoY, %)



Source: BOCOM BBM, Macrobond

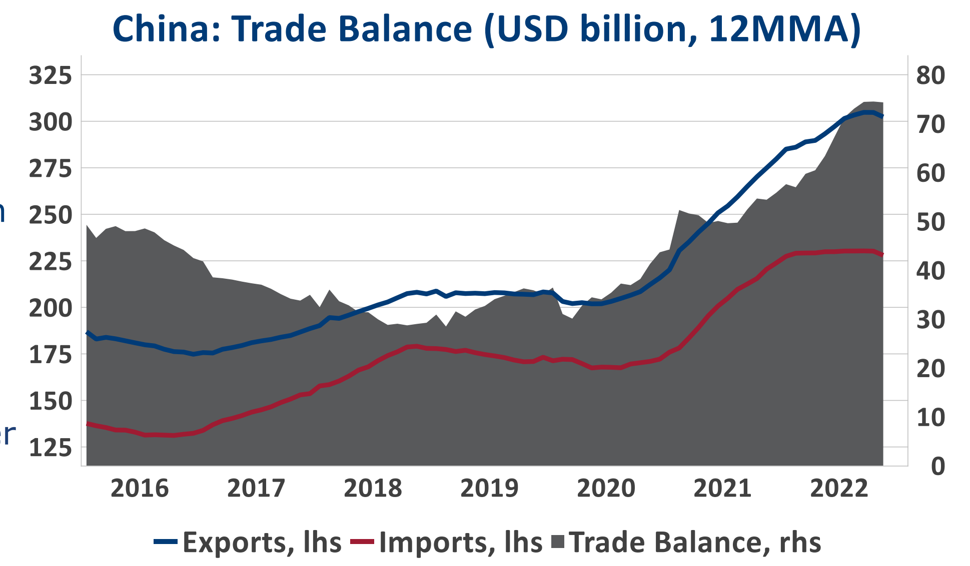
China: Unemployment Rate in Urban Areas



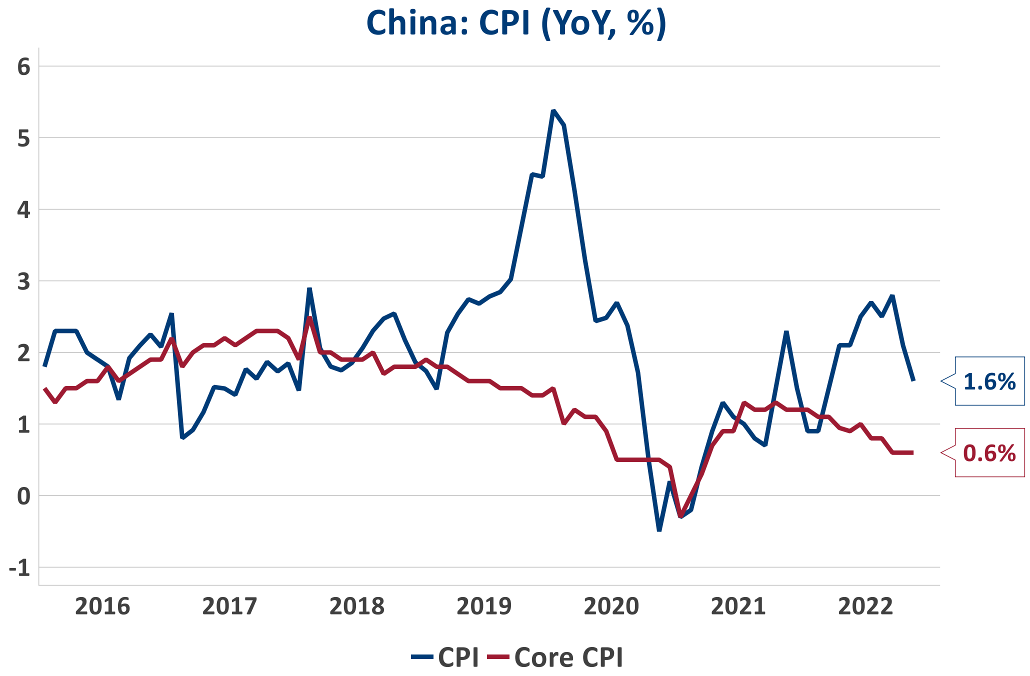
Source: BOCOM BBM, Macrobond

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 **-8.7%** YoY (much lower than expectations of -3.6%), as external demand weakened, and activity slowed;
  - Imports declined by **-10.6%** YoY, reflecting weakness in domestic demand;
- **CPI**:
  - CPI inflation came aligned with expectations in November: Covid restrictions continued to impact spending habits and disrupting production resulting in weaker market and households' confidence levels and slowing economic momentum;



Source: BOCOM BBM, Macrobond



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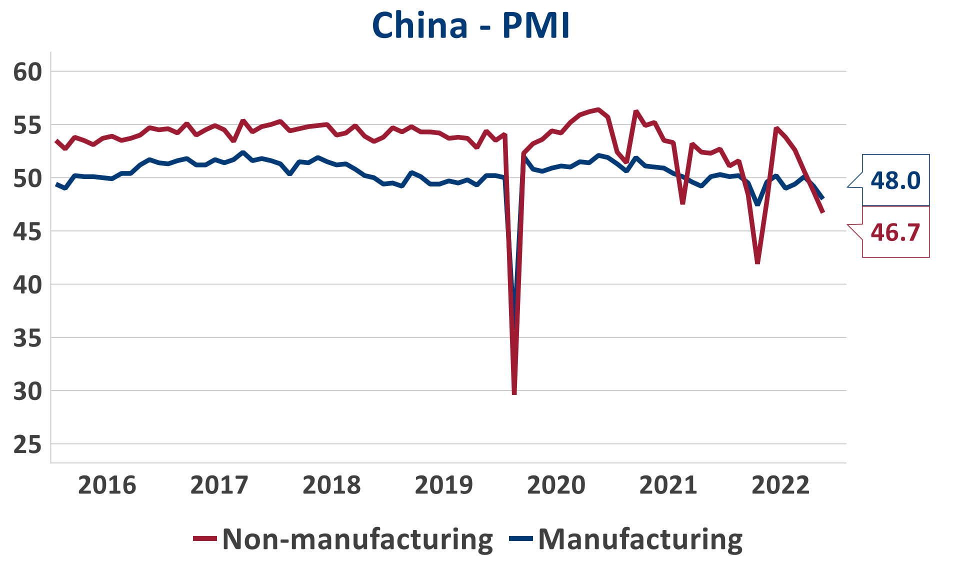

Source: BOCOM BBM, Macrobond

USA: Inflation

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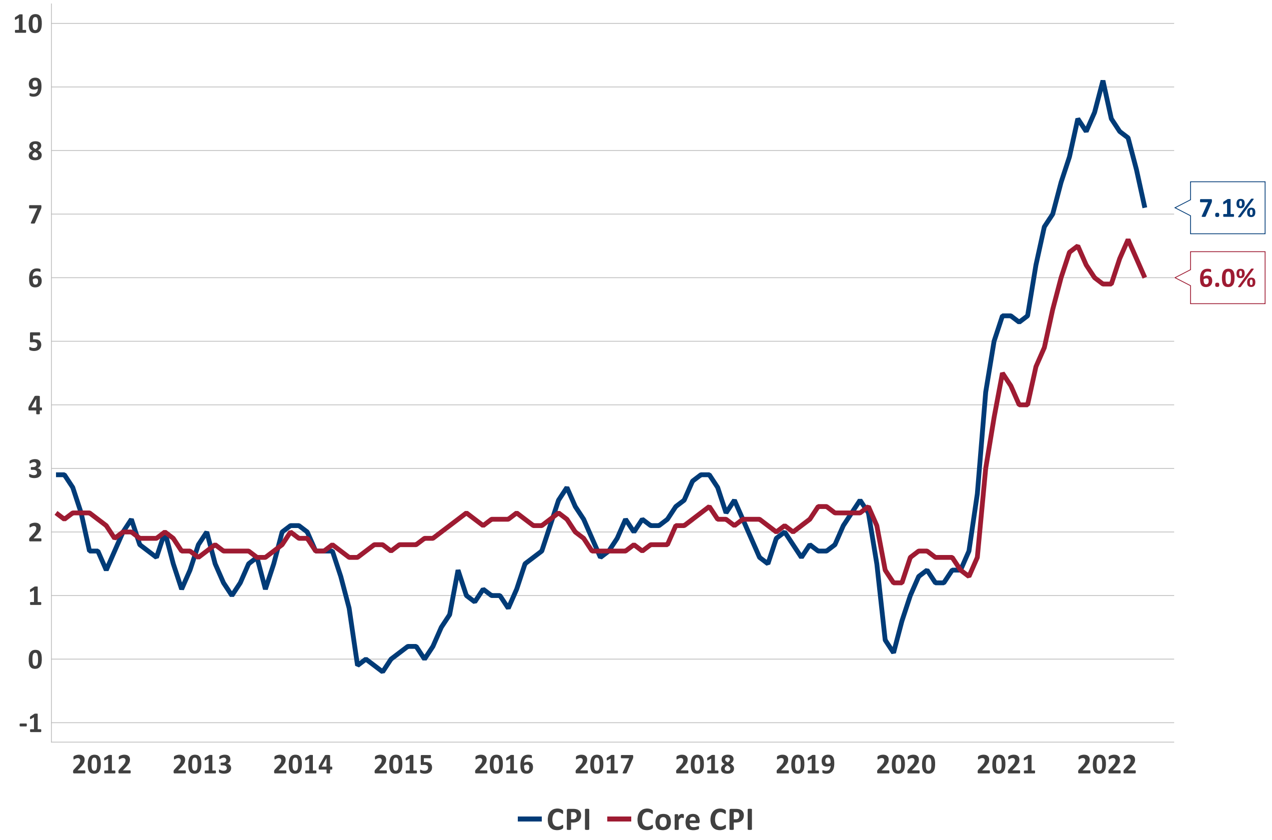
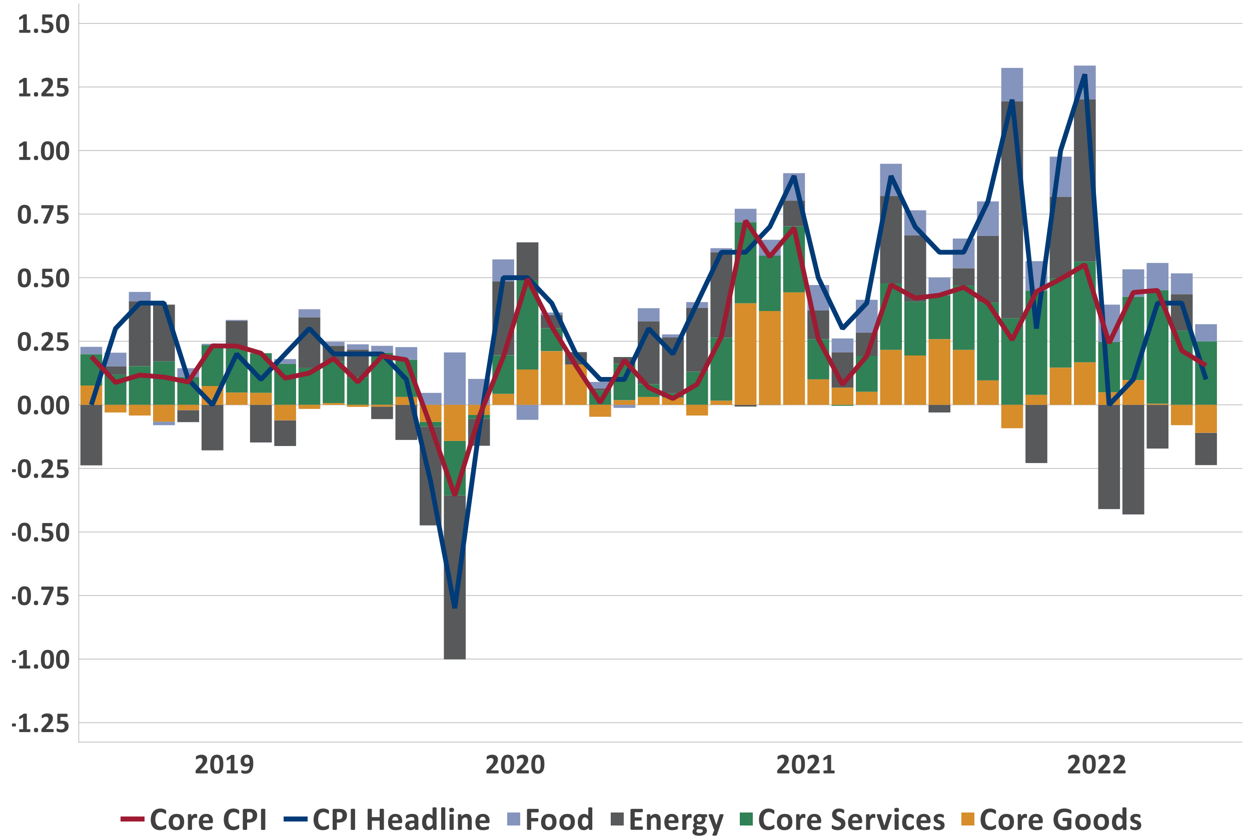
- US CPI inflation came better than expected in November going from 7.7% to **7.1%** YoY and a **0.1%** MoM increase:
  - Food prices, which has pressured the headline throughout the whole year, has moderated while energy prices has been showing relief in this second semester;
- Core CPI increased **0.2%** MoM, reaching **6.0%** YoY (from 6.3%):
  - Core goods inflation improved significantly this year due to healing supply chains, while core services is still being pressured by shelter inflation and labor market unbalances that results in wage inflation;

US: CPI (YoY, %)



Source: BOCOM BBM, Macrobond

US: CPI MoM Composition

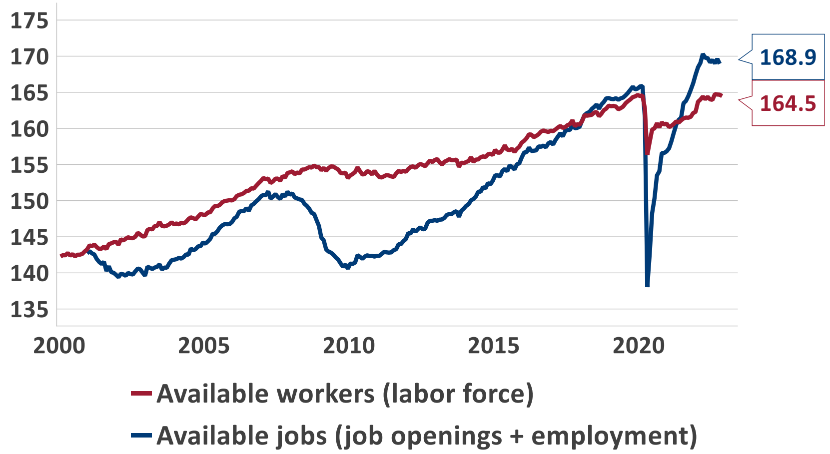


Source: BOCOM BBM, Macrobond

USA: Labor Market

- The US labor market remained considerably tight in November with labor demand exceeding supply by a fair amount:
  - Jobs-workers gap at around **4.3 million**, meaning there's 1.7 job openings per unemployed person;
- The unemployment rate remained stable at **3.7%** in November;
- One concern for labor supply is the downward trend in the labor force participation rate that has been happening since the 2000 and worsened during the pandemic:
  - This trend is even stronger among people without bachelor's degree.

US: Jobs-workers gap (millions)

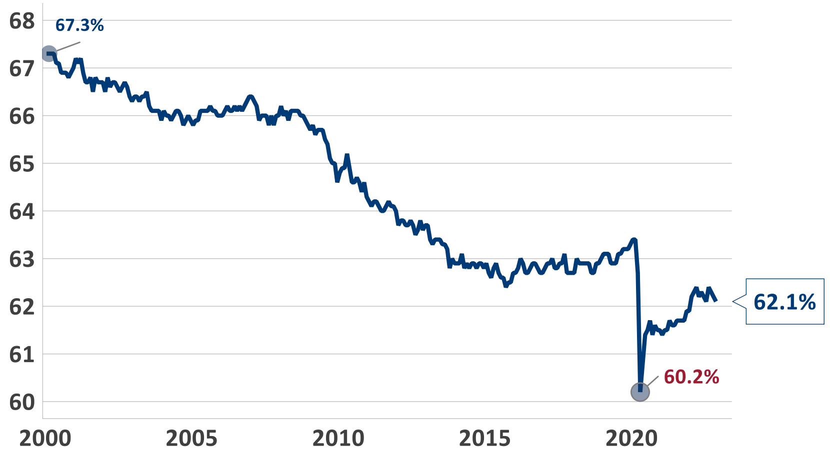


Source: BOCOM BBM, Macrobond

US: Unemployment Rate SA (%)

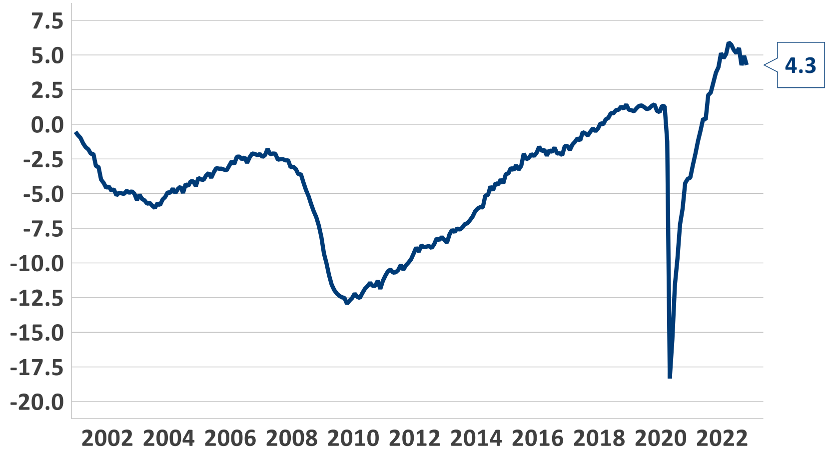
Source: BOCOM BBM, Macrobond

US: Labor Force Participation Rate (%)



Source: BOCOM BBM, Macrobond

US: Jobs-workers Gap (millions)



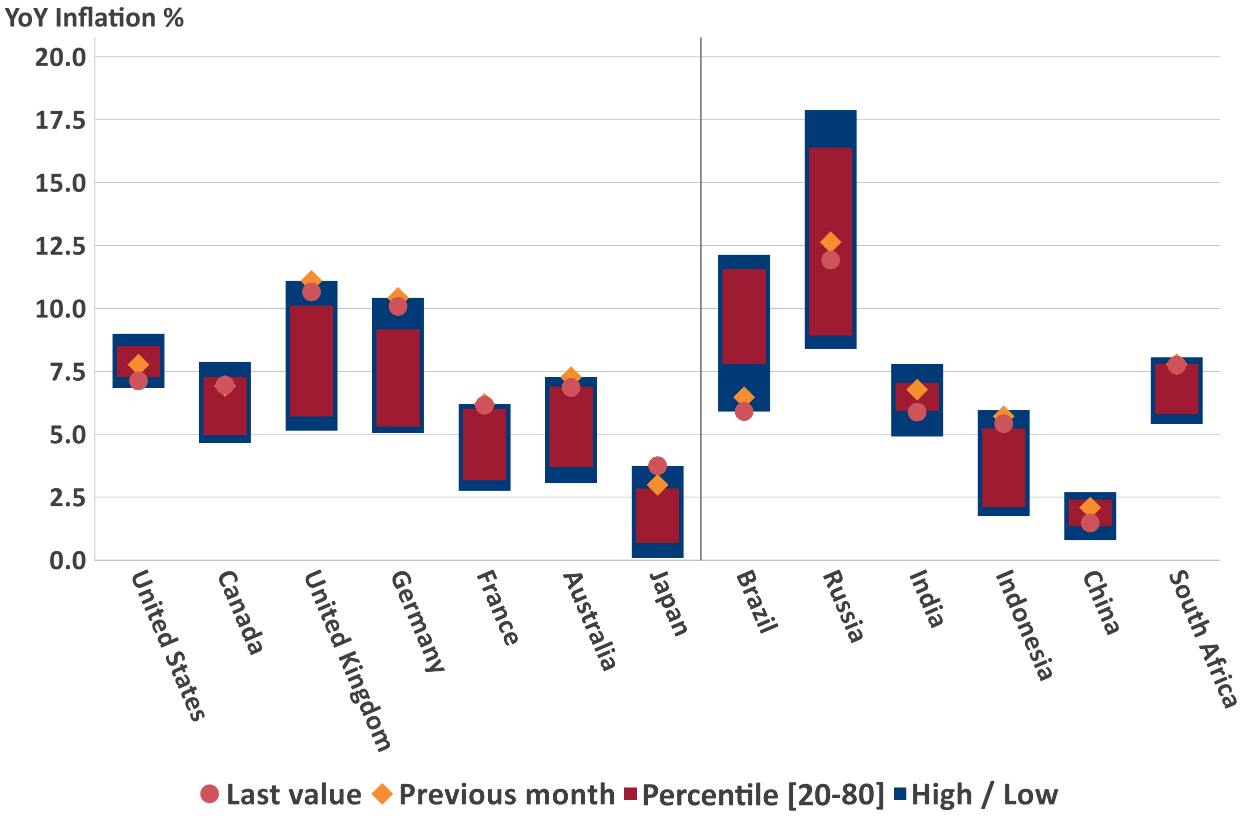
Source: BOCOM BBM, Macrobond

Global: Inflation

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

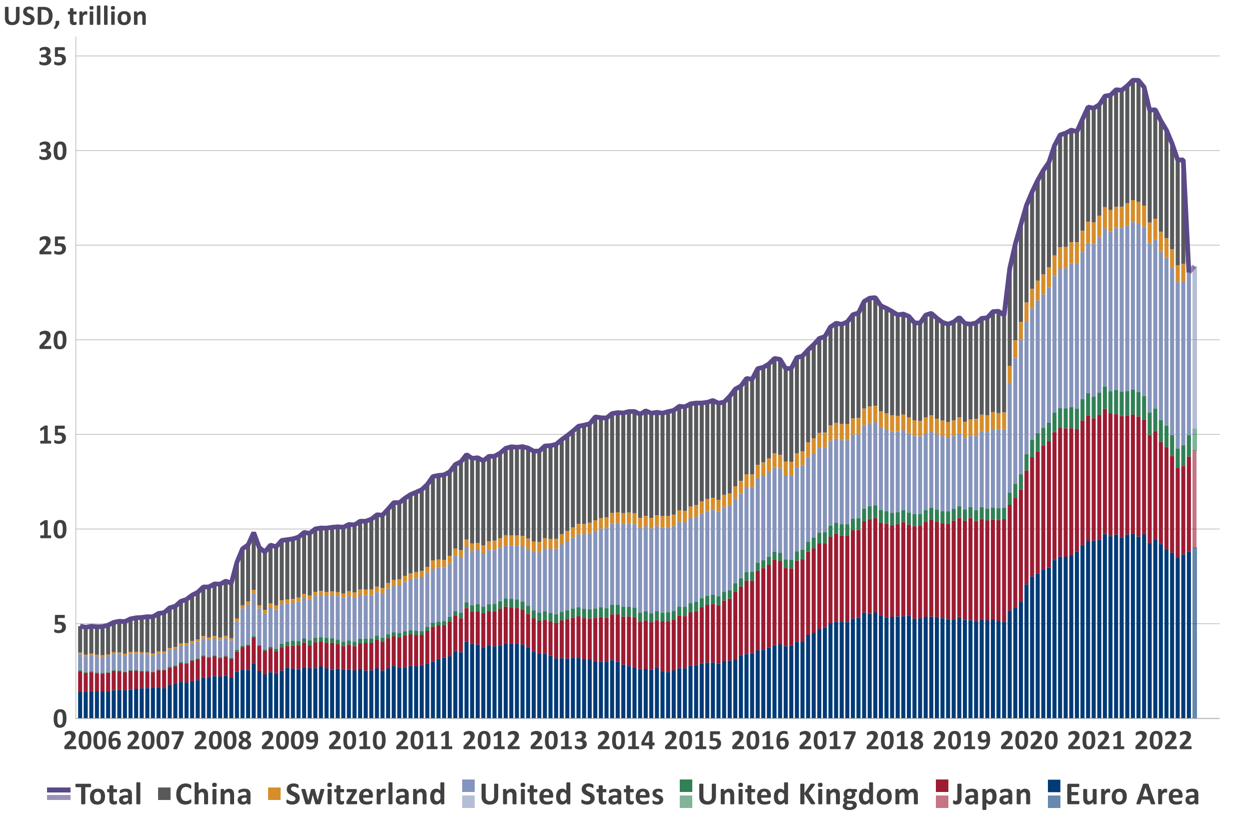
» In order to bring inflation convergence back to their respective targets, many central banks are reducing their balance sheets, resulting in a tightening of the monetary policy of several economies.

Inflation range during the past 12 months



Source: BOCOM BBM, Macrobond

Central banks balance sheets

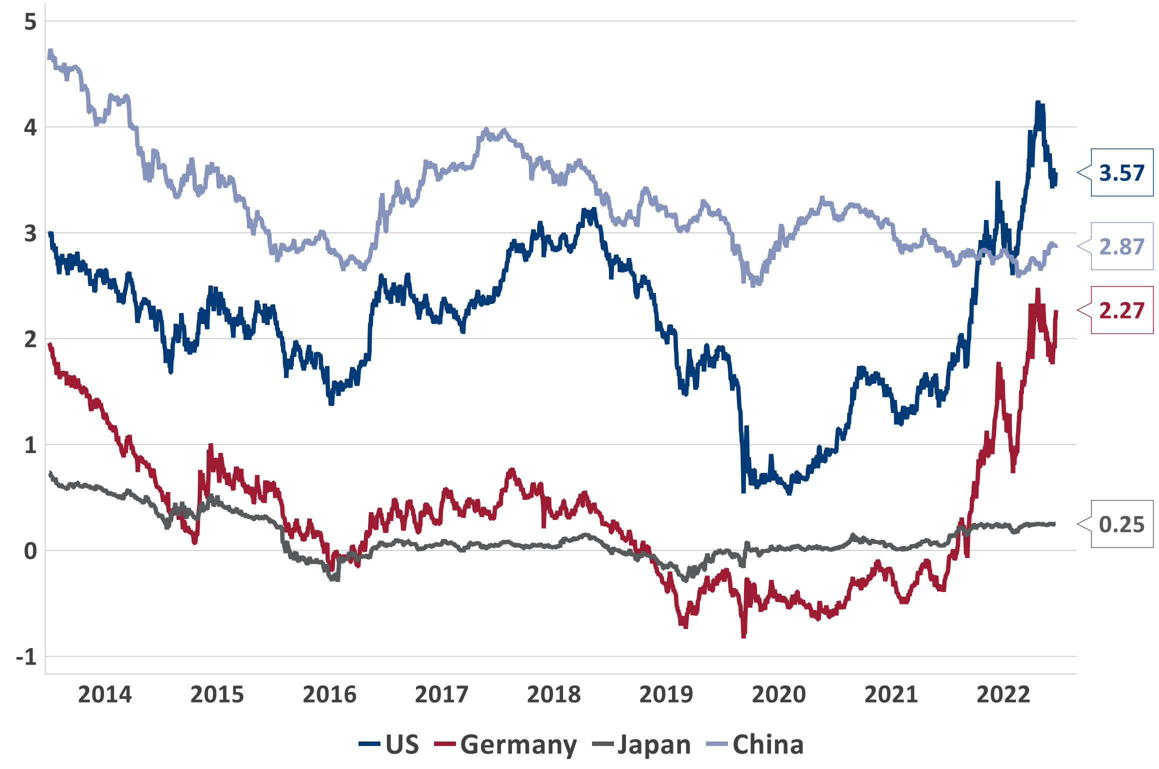


Source: BOCOM BBM, Macrobond

Global: Interest Rates

- Correspondingly, interest rates across several countries are rising, with a few exceptions like China and Japan;
- In December's FOMC meeting, a 50bps hike was implemented to the Fed funds rate range, signaling a slowdown in the pace of monetary policy tightening, but also showing a more hawkish tone than the market expected by increasing the median forecast of the terminal rate in 2023 to 5.1% (from 4.6% in September).

10 Year Interest Rates (%)



Source: BOCOM BBM, Macrobond

Central bank tracker: G20 & OECD Countries

	Key rate	Last decision		Last Move	Months since last hike	Months since last cut
Argentina	75.00	5.50	Hike	9/2022	3	26
Australia	3.10	0.25	Hike	12/2022	0	26
Brazil	13.75	0.50	Hike	8/2022	5	29
Canada	4.25	0.50	Hike	12/2022	0	33
Chile	11.25	0.50	Hike	10/2022	2	33
China	3.65	-0.05	Cut	8/2022	106	4
Colombia	12.00	1.00	Hike	12/2022	0	27
Costa Rica	9.00	0.50	Hike	10/2022	2	30
Czech Republic	7.00	1.25	Hike	6/2022	6	31
Denmark	1.90	0.50	Hike	12/2022	0	15
Euro Area	2.50	0.50	Hike	12/2022	0	81
Hungary	13.00	1.25	Hike	9/2022	3	29
Iceland	6.00	0.25	Hike	11/2022	1	25
India	6.25	0.35	Hike	12/2022	0	31
Indonesia	5.25	0.50	Hike	11/2022	1	22
Israel	3.25	0.50	Hike	11/2022	1	32
Japan	-0.10	-0.20	Cut	1/2016	190	83
Mexico	10.50	0.50	Hike	12/2022	0	22
New Zealand	4.25	0.75	Hike	11/2022	1	33
Norway	2.75	0.25	Hike	12/2022	0	31
Poland	6.75	0.25	Hike	9/2022	3	31
Russia	7.50	-0.50	Cut	9/2022	10	3
Saudi Arabia	4.50	0.75	Hike	11/2022	2	33
South Africa	7.00	0.75	Hike	11/2022	1	29
South Korea	3.25	0.25	Hike	11/2022	1	31
Sweden	2.50	0.75	Hike	11/2022	1	82
Switzerland	1.00	0.50	Hike	12/2022	0	95
Turkey	9.00	-1.50	Cut	11/2022	21	1
United Kingdom	3.50	0.50	Hike	12/2022	0	33
United States	4.50	0.50	Hike	12/2022	0	33

Brazil: Forecasts

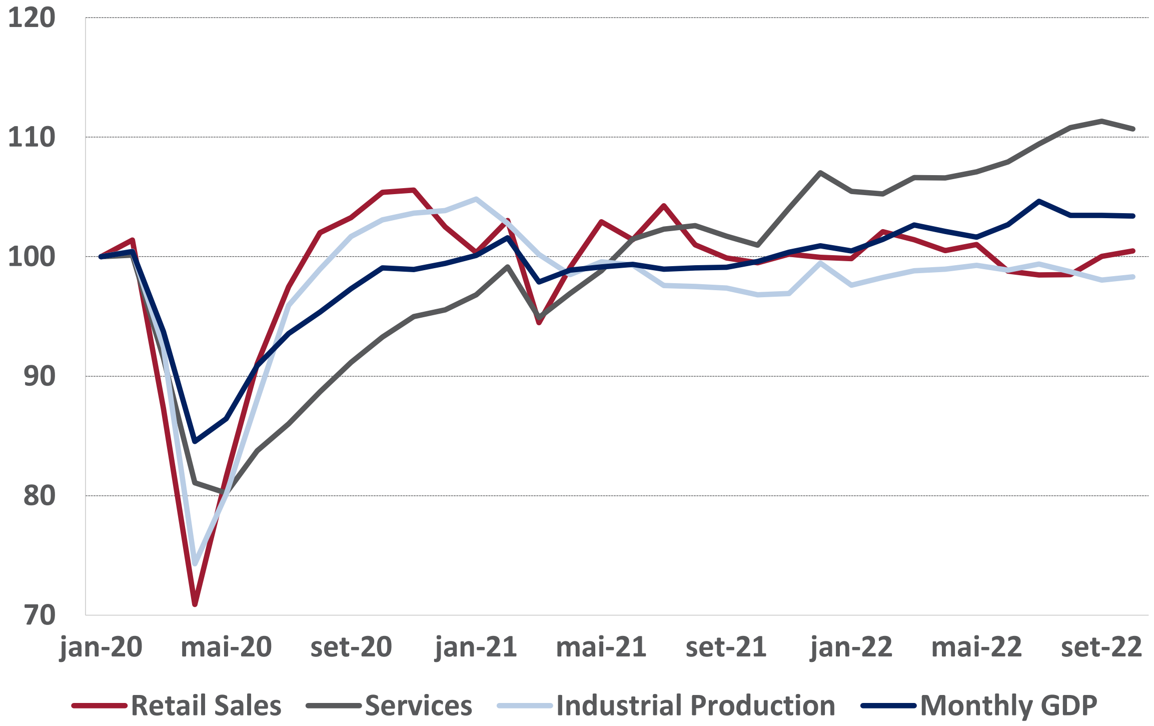
ECONOMIC FORECASTS	2019	2020	2021	2022F	2023F	2024F
GDP Growth (%)	1.2%	-3.3%	5.0%	2.9%	1.5%	1.0%
Inflation (%)	4.3%	4.5%	10.1%	5.6%	5.6%	4.0%
Unemployment Rate (eoy ,%)	11.1%	14.2%	11.1%	8.2%	8.5%	9.0%
Policy Rate (eoy, %)	4.5%	2.0%	9.3%	13.75%	13.75%	10.0%
External Accounts						
Trade Balance (US$ bn)	27	32	36	46	43	35
Current Account Balance (US$ bn)	-68	-28	-46	-52	-48	-52
Current Account Balance (% of GDP)	-3.6%	-1.9%	-2.8%	-2.7%	-2.4%	-2.5%
Fiscal Policy						
Central Government Primary Balance (% of GDP)	-1.3%	-9.8%	-0.4%	0.7%	-1.1%	-0.8%
Government Gross Debt (% of GDP)	74.3%	86.9%	78.8%	74.4%	79.9%	85.1%

Source: BOCOM BBM

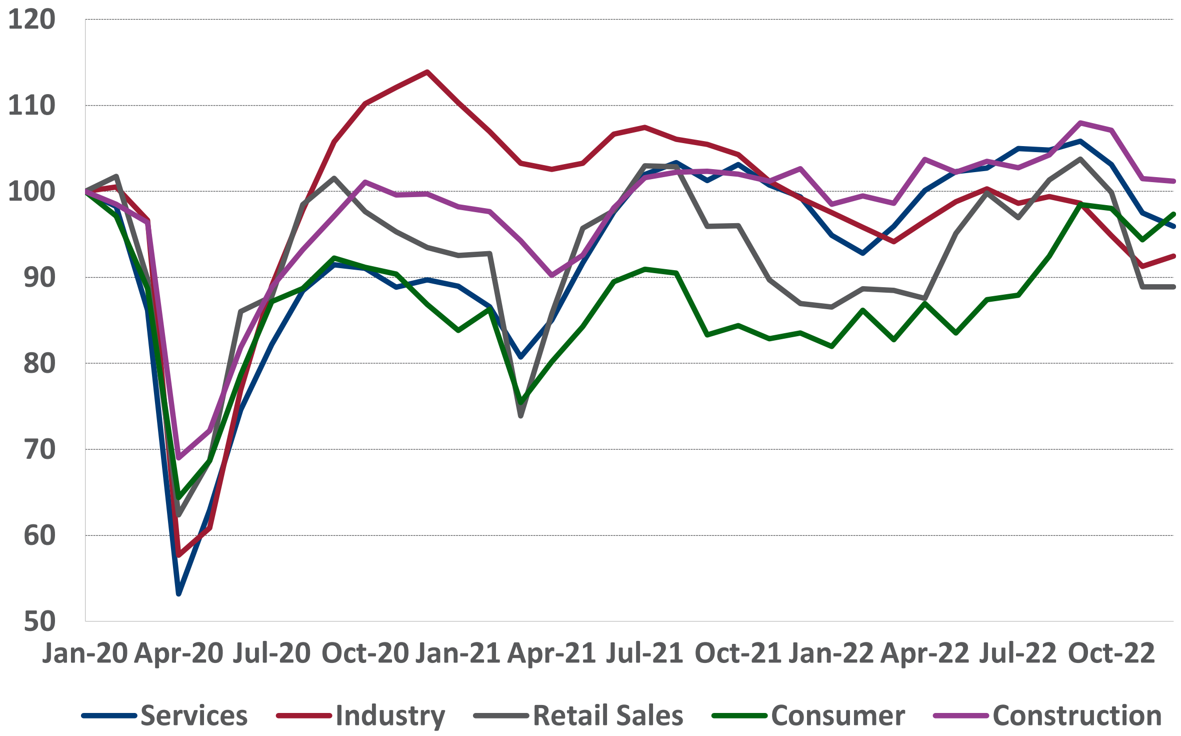
Brazil: Activity

- Leading economic activity indicators continue to point to a slowdown in Q4
- In October, the IBC-Br registered a slight decrease and was below market expectations, driven by the Services sector, which recorded the first decrease after 5 consecutive months of increases. Industry and retail sales, on the other hand, still registered positive results in October
- Confidence indicators showed a generalized decline in October and intensified the decline in November. Signal of cooling economic activity. In December, however, consumer confidence returned part of the November loss, the industry confidence increased by 1.2 point, the construction and retail confidence remained relatively stable, and the services continued falling

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



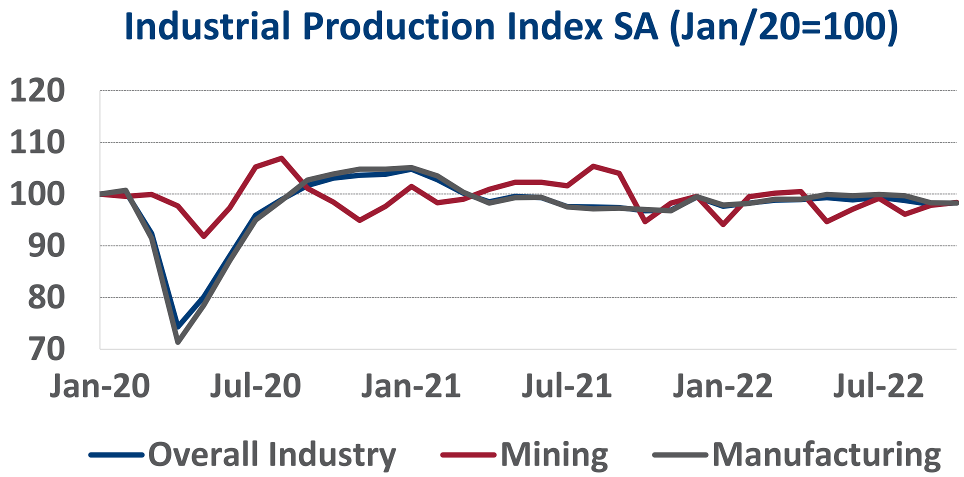
Brazil - Economic Confidence Index (Jan/20 = 100)

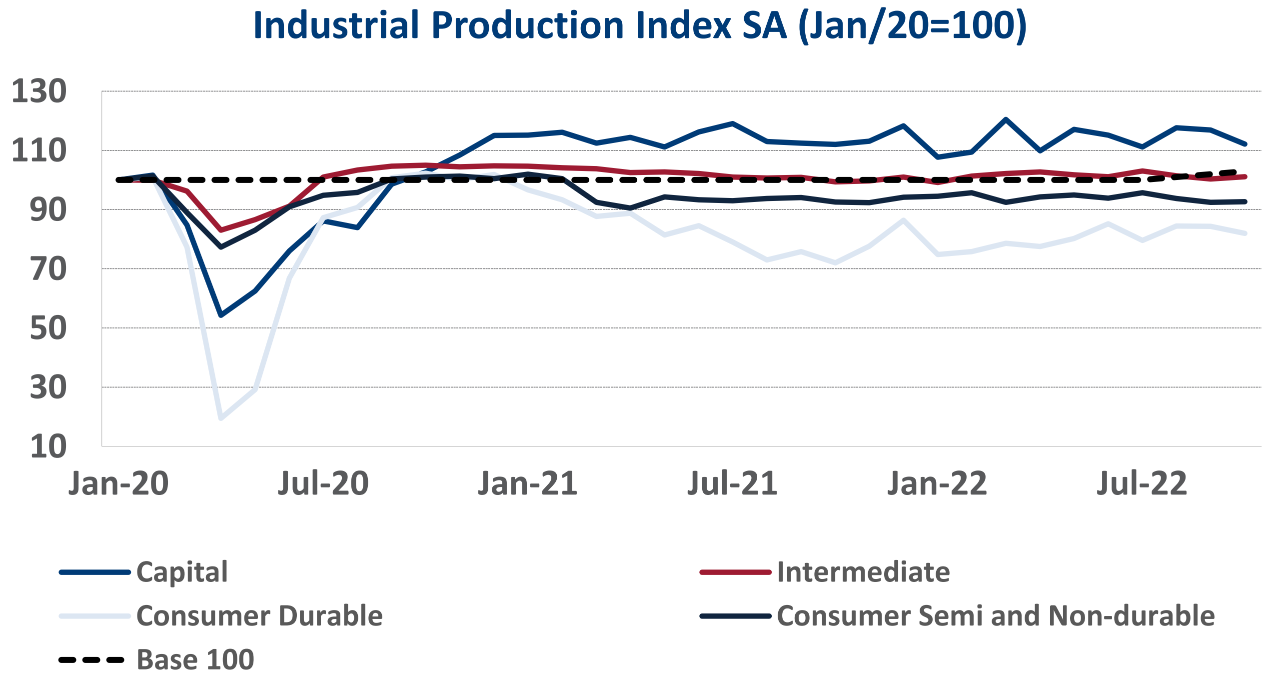


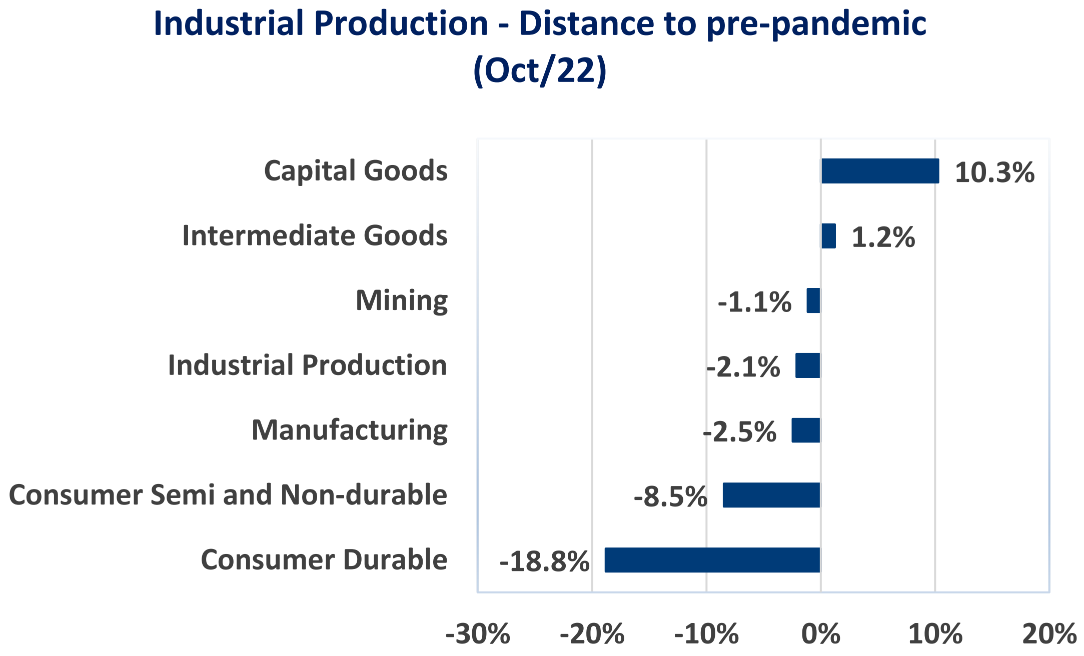
Source: BOCOM BBM, IBGE

Brazil: Industrial Production

- Industrial production grew by 0.3% MoM in October, in line with expectations, after two consecutive declines;
- The biggest negative surprise was the sharp drop in capital goods production (-4.1% MoM) and durable consumer goods (-2.7% MoM), sectors more sensitive to financial conditions and the credit market





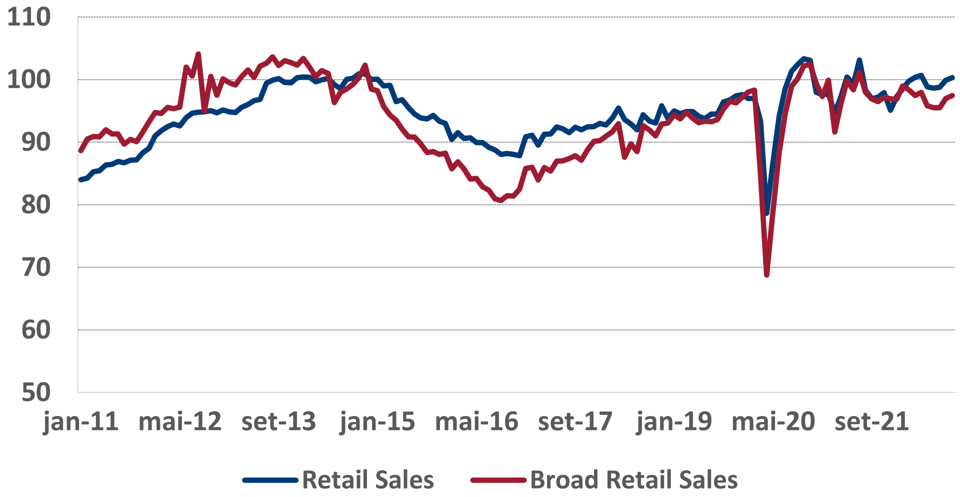


Source: IBGE, BOCOM BBM

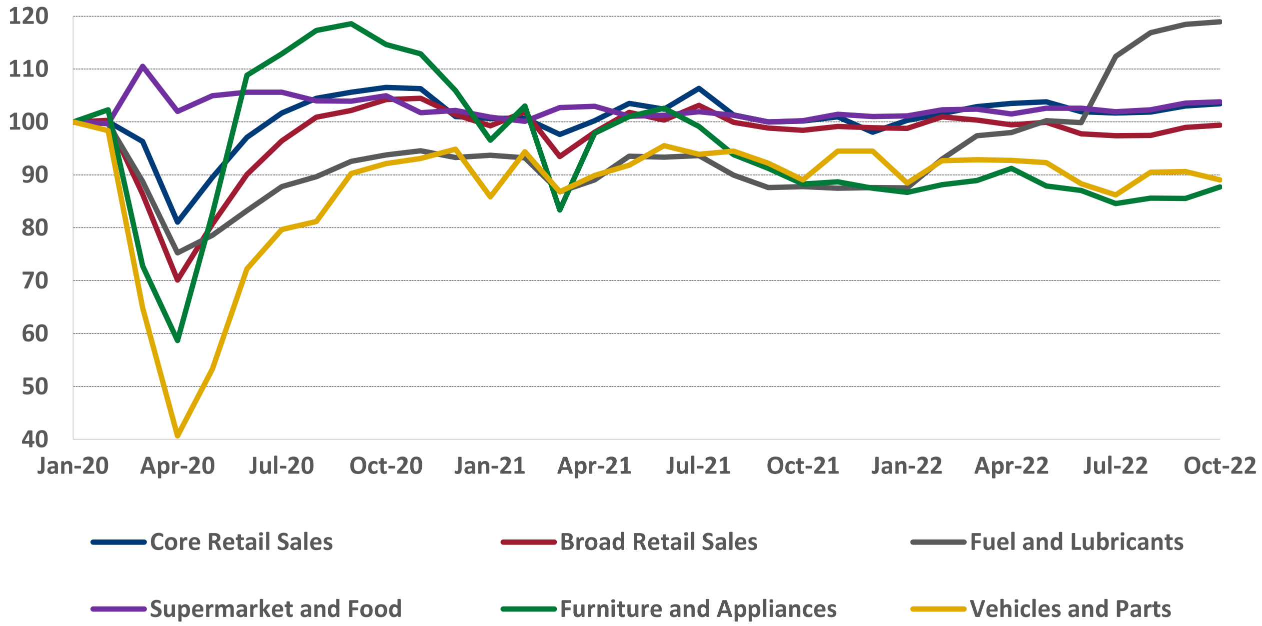
Brazil: Retail Sales

- Core retail sales (excluding autos and construction materials) grew by 0.4% MoM (2.7% YoY) in October, above market expectations
- Broad retail sales advanced 0.5% MoM (0.3% YoY), in line with consensus
- The scenario for October was slightly better, in line with the wage gains observed recently, the inflation deceleration, the fiscal stimulus and the growth of payroll loans in October, after the launch of loans linked to the Auxílio Brasil

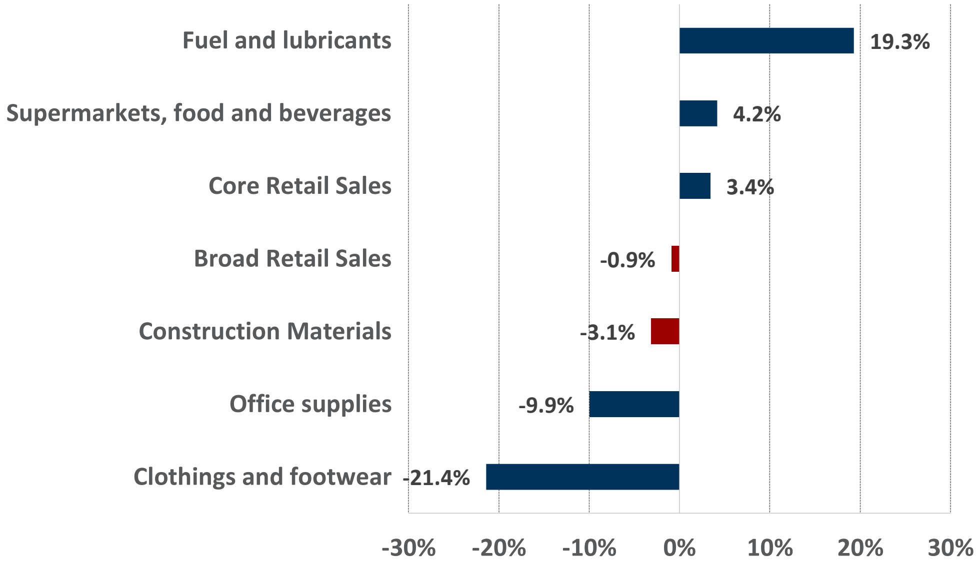
Retail Sales (Level SA)



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



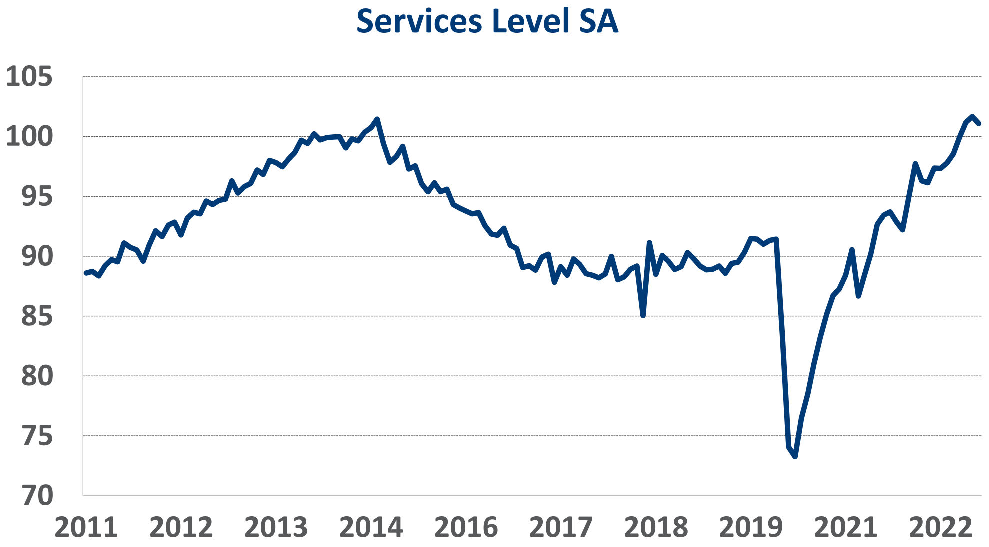
Retail Sales - Distance to pre-pandemic level (Out/22)

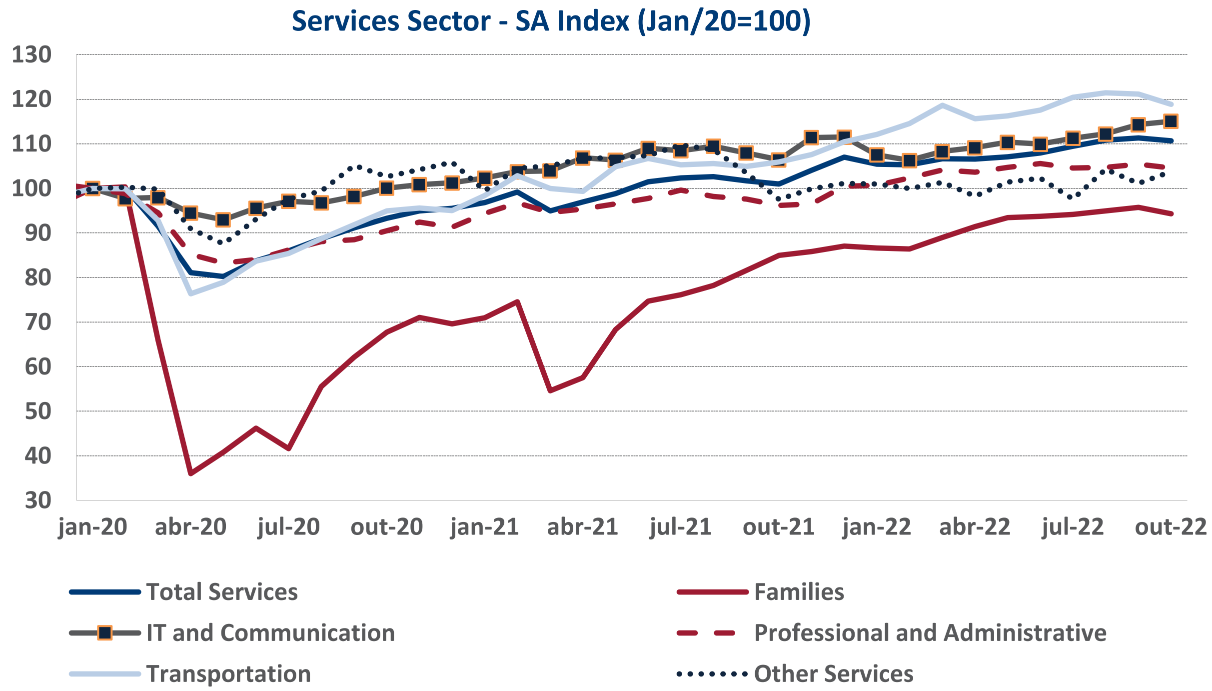


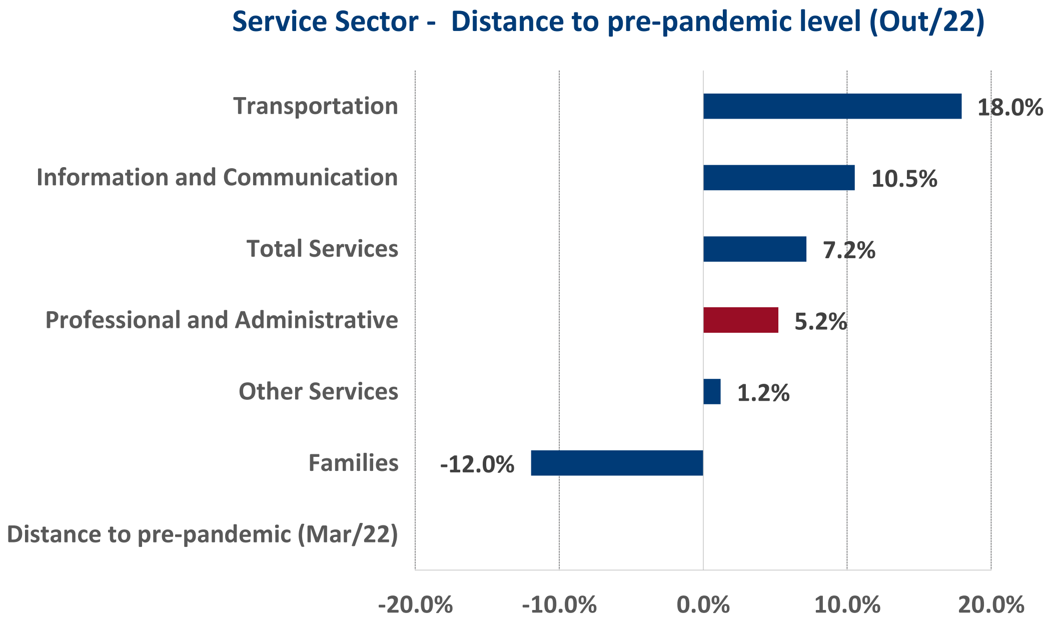
Source: IBGE, BOCOM BBM

Brazil: Services

- The services sector fell -0.6% MoM (9.5% YoY) in October, below market expectations of -0.2% MoM (10.5% YoY)
- It was the first drop after five consecutive monthly increases
- The statistical carry-over for Q4 is just 0.1% QoQ
- Three of the five groups retreated in October: services provided to households reduced by 1.5% MoM, ending a streak of seven consecutive gains despite still being below pre-pandemic levels
- This result was another important evidence of a slowdown in domestic activity.





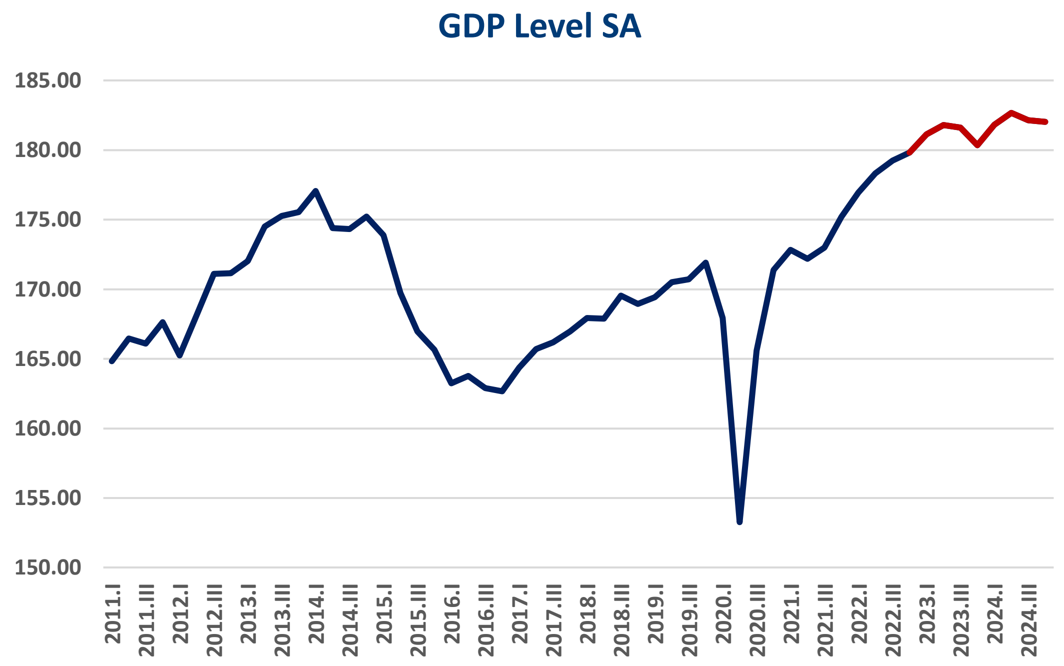


Source: IBGE, BOCOM BBM

Brazil: GDP Q4

- In view of the ongoing slowdown in the leading indicators of economic activity at the end of the year, we project a decline of -0.1% QoQ (+2.1% YoY) of GDP in Q4, ending 2022 with an increase of 2.9%;
- For 2023, we have updated our forecast to 1.5%, taking into account the expansion of social and infrastructure spending that was approved in the Transition PEC, the record grain harvest (in line with Conab projections) and real wage recomposition that is currently well below pre-pandemic levels, also boosted by the new government's policy of increasing the minimum wage. In addition, it considers the high statistical carry over that some activities have, such as Civil Construction, Information and Communication Services and Other Services;
- However, the tightening of financial conditions in view of the deterioration of the fiscal perspectives and the very restrictive monetary policy throughout 2023 should negatively impact the dynamism of domestic activity in the next year and in 2024 (for which we project growth of 1 %)

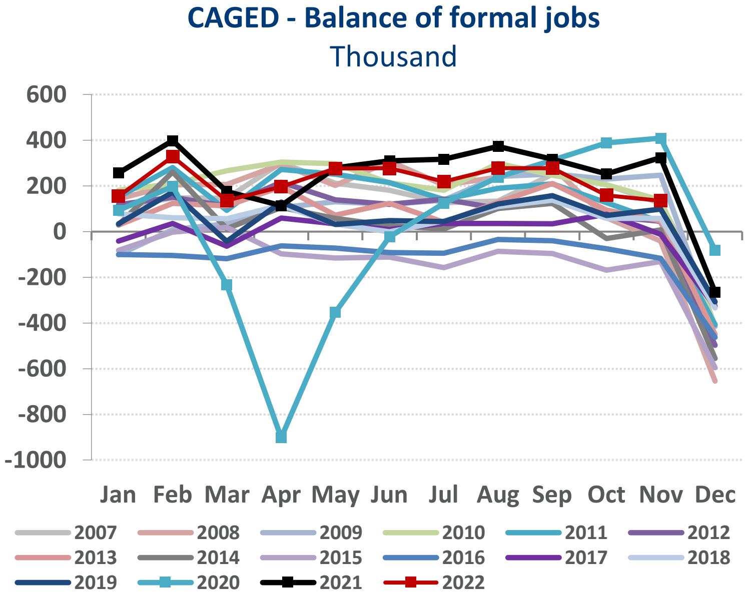
	2022.IV QoQ	2022.IV YoY	2022	Carry Over	2023	2024
GDP	-0.1%	2.1%	2.9%	0.3%	1.5%	1.0%
Agriculture	**0.2%**	**-0.5%**	**-1.4%**	**-0.3%**	**8.0%**	**3.1%**
Industry	**-0.5%**	**2.5%**	**1.6%**	**0.4%**	**0.2%**	**1.2%**
Mining	0.3%	-1.5%	-2.4%	0.6%	1.0%	1.7%
Manufacturing	-1.1%	1.4%	-0.2%	-0.4%	-0.8%	0.6%
Electricity	-0.2%	11.0%	10.2%	0.3%	0.4%	2.3%
Civil Construction	1.2%	5.5%	7.5%	1.9%	2.1%	1.7%
Services	**0.3%**	**3.6%**	**4.2%**	**1.1%**	**1.1%**	**0.8%**
Retail Sales	-1.2%	1.6%	0.7%	-0.5%	-0.5%	0.4%
Transports	-0.2%	4.9%	8.3%	0.9%	0.9%	0.4%
Information and Communication	3.6%	7.5%	6.2%	5.7%	4.3%	0.5%
Financial services	0.0%	1.0%	0.1%	0.7%	1.2%	-0.4%
Rents	0.8%	3.1%	2.5%	1.5%	1.5%	0.4%
Other Services	0.3%	8.2%	11.0%	1.7%	1.4%	0.9%
Public Services	0.8%	1.5%	2.0%	0.9%	1.6%	1.9%

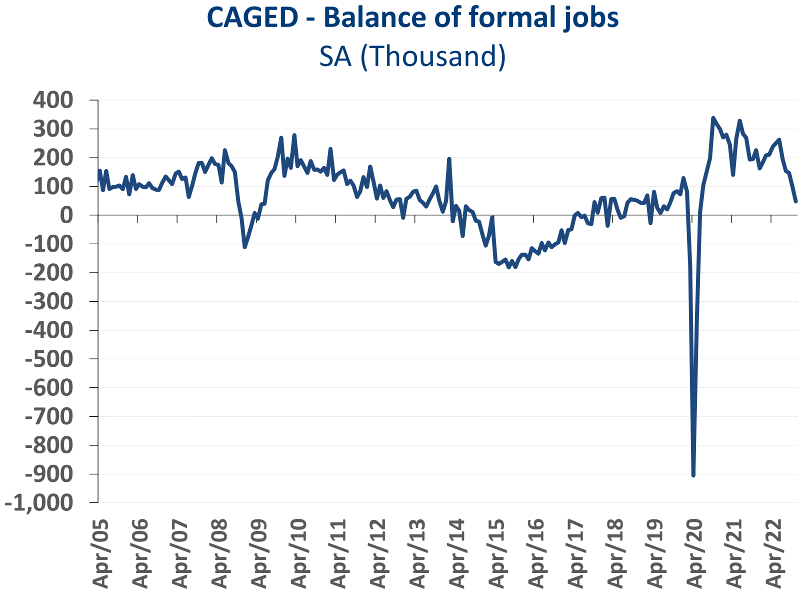


Source: BOCOM BBM, IBGE

Brazil: Formal Labor Market

- Caged recorded a net creation of 135.5k formal jobs in November, below the market consensus of 148k
- Using our seasonal adjustment, the balance of jobs slowed sharply to 48k in November from 97k in October
- We estimate that total job hirings decreased 1.4% MoM in November, the third monthly contraction in a row, and it was spread across sectors



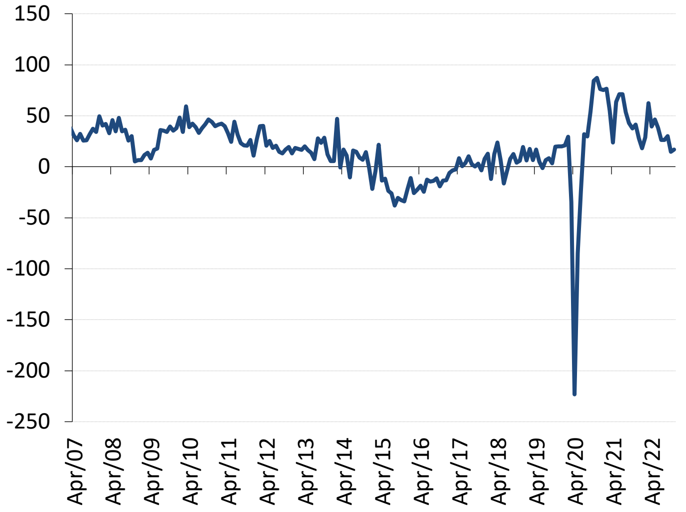


Source: BOCOM BBM, BCB

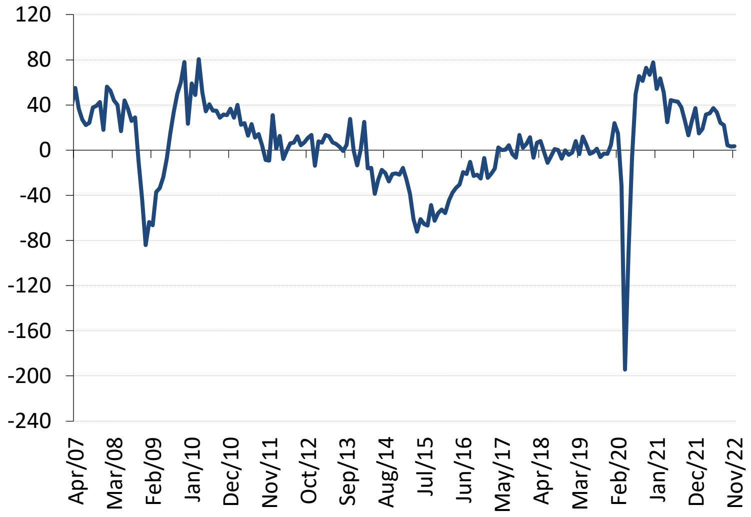
Brazil: Formal Labor Market

- Regarding the sectors, service activities showed a total net creation of 59k formal jobs in November from 67k jobs in October
- The net creation of jobs in the Retail sector registered 17k in November from 15k in October
- Civil Construction registered a balance of only 3k jobs and the Industry posted a net creation of 4k jobs (seasonally adjusted)

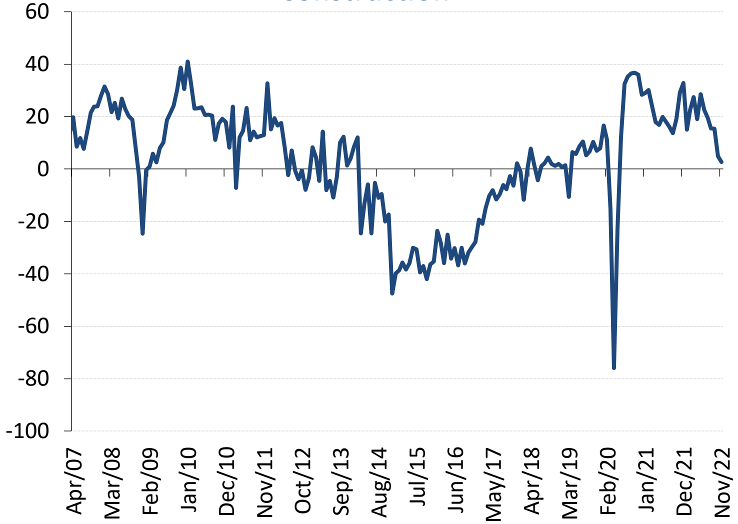
CAGED – Balance of formal jobs, Retail



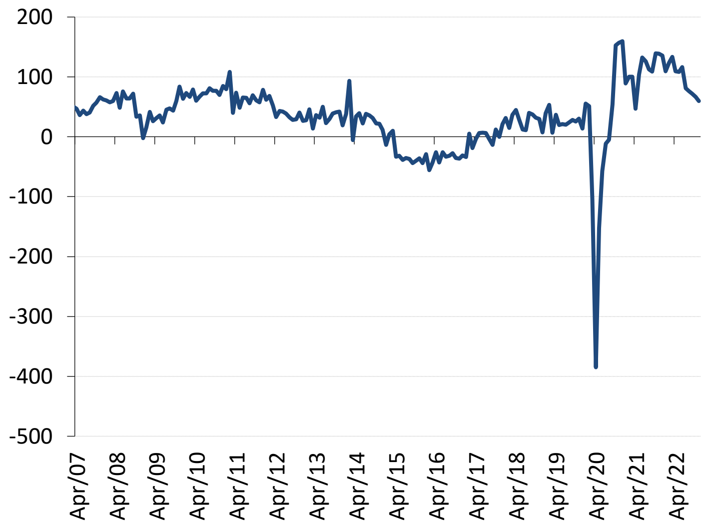
CAGED – Balance of formal jobs, Industry



CAGED – Balance of formal jobs, Civil Construction



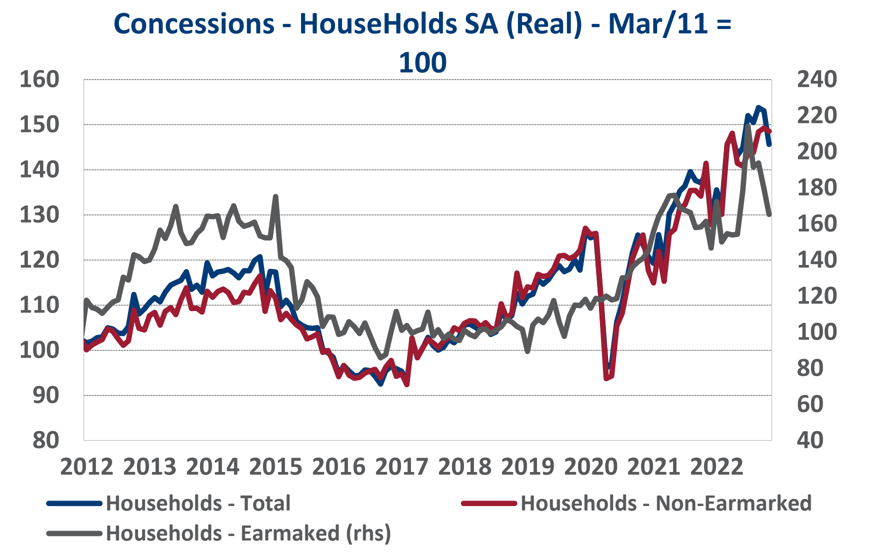
CAGED – Balance of formal jobs, Services

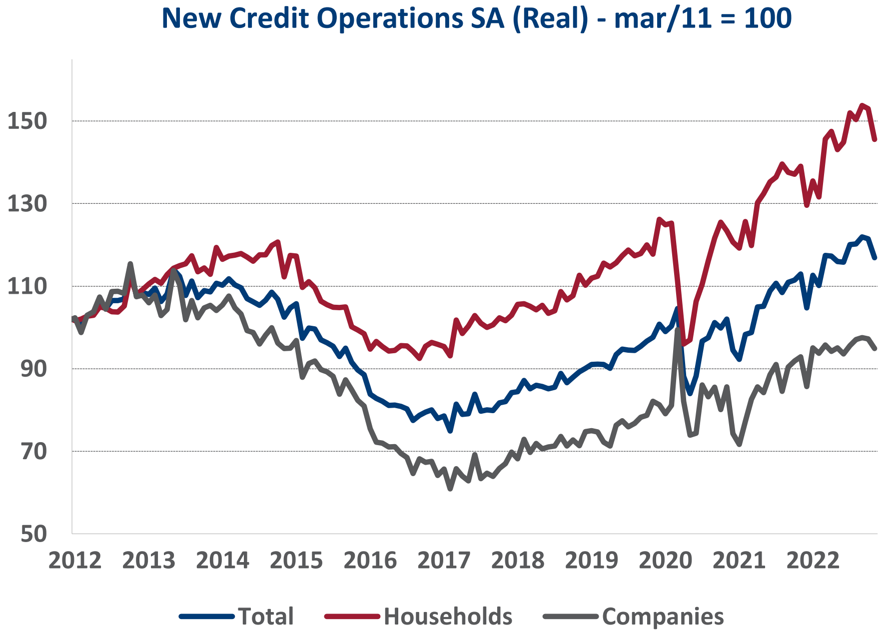


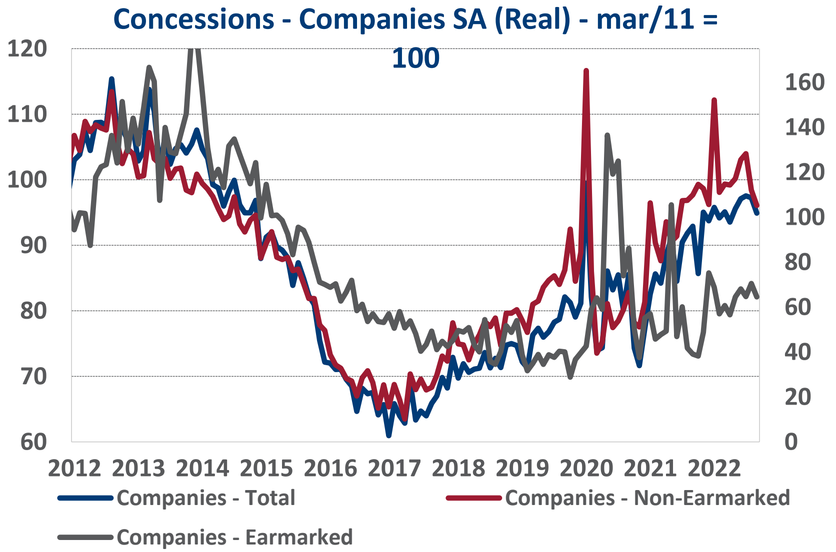
Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- In November, total credit concessions contracted by 3.8% MoM in real terms, despite the moderation of inflation
- Credit concessions to households shrank -4.9% MoM and to companies fell by -2.4% MoM
- The tight monetary policy starts to impact new credit operations
- We expect the credit conditions to become more exigent over the next months given the high level of consumer indebtedness, high interest rates, and deceleration of economic activity





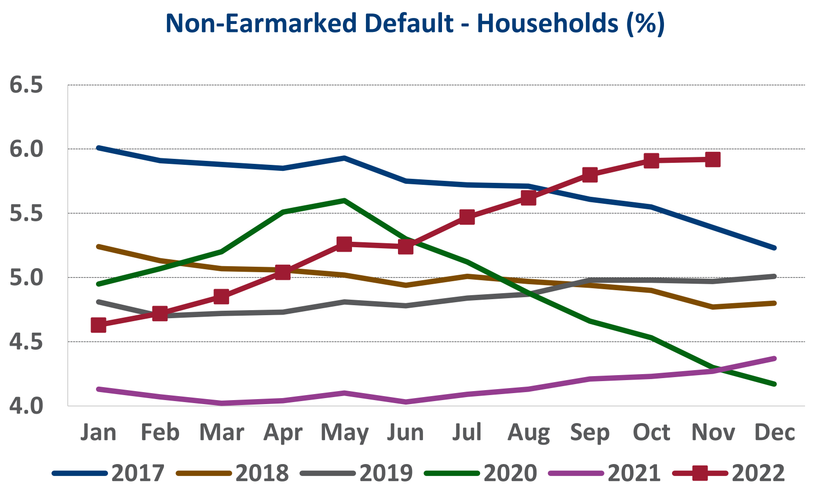


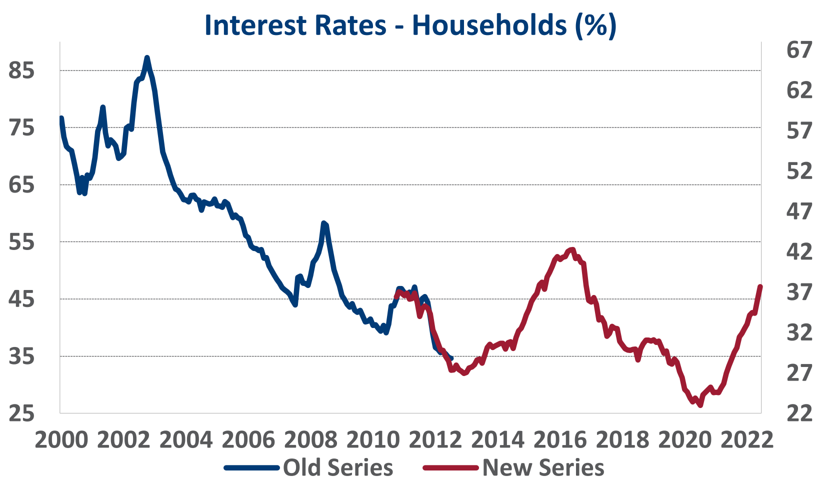
Source: BOCOM BBM, BCB

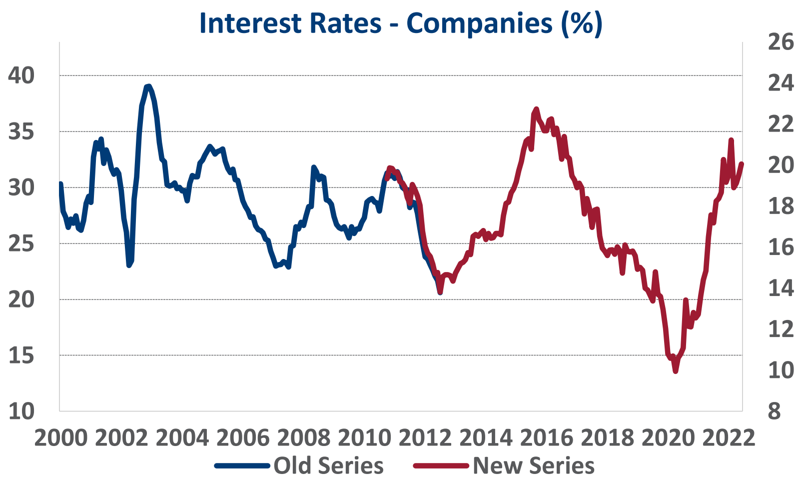
Brazil: Credit Statistics

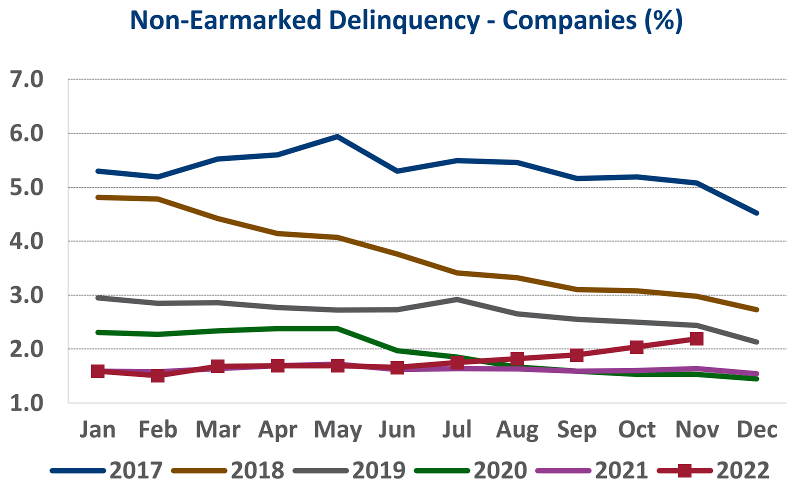
BANK OF COMMUNICATIONS BBM

- In November, lending rates to individuals rose further by 150 bps to 37.7%, while lending rates to corporates rose 53 bps to 20%
- Non-performing loans on freely allocated credit continue to gradually move up, reaching 5.92% to households, the highest level since 2017, and 2.19% to companies





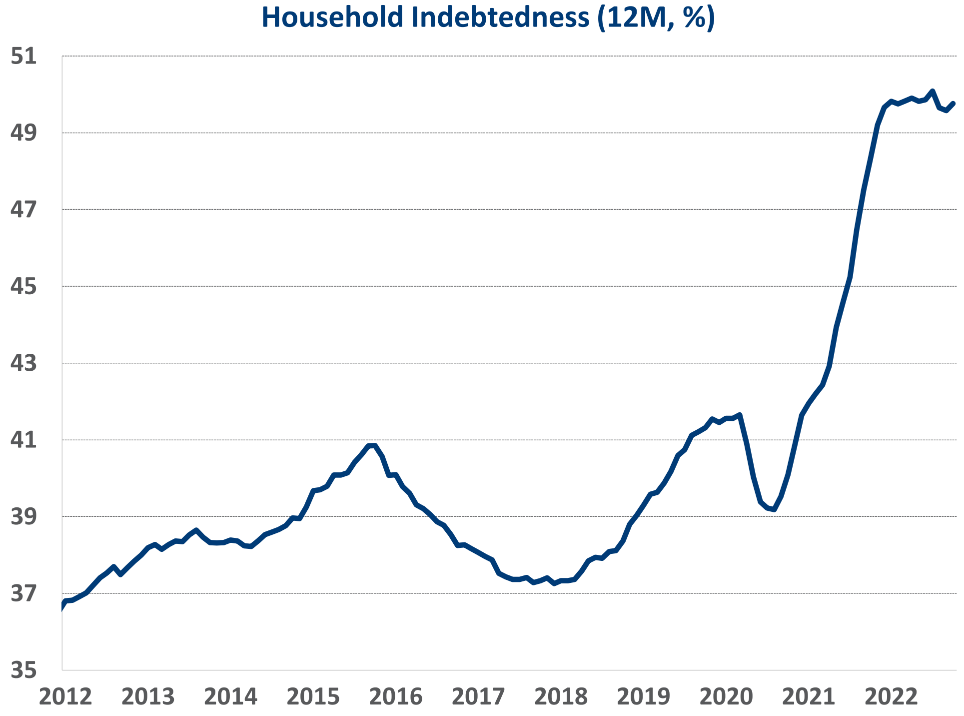


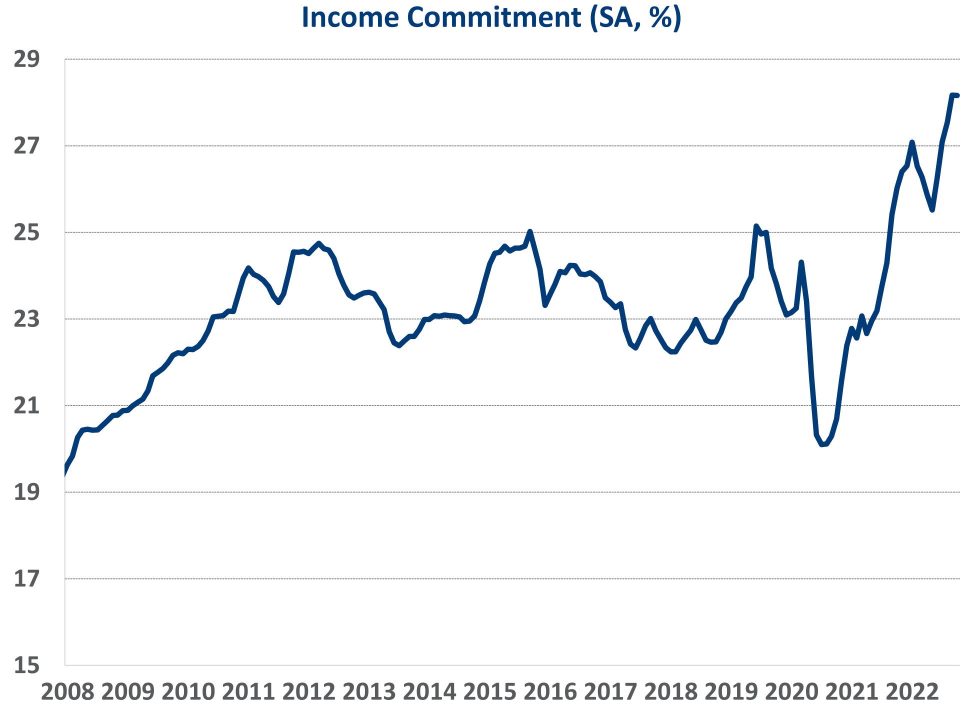


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- After two consecutive monthly declines, the household indebtedness indicator grew again, with an increase of 0.2p.p. to 49.8%, remaining at a very high level
- The commitment of household income remained stable at the highest level of the historical series



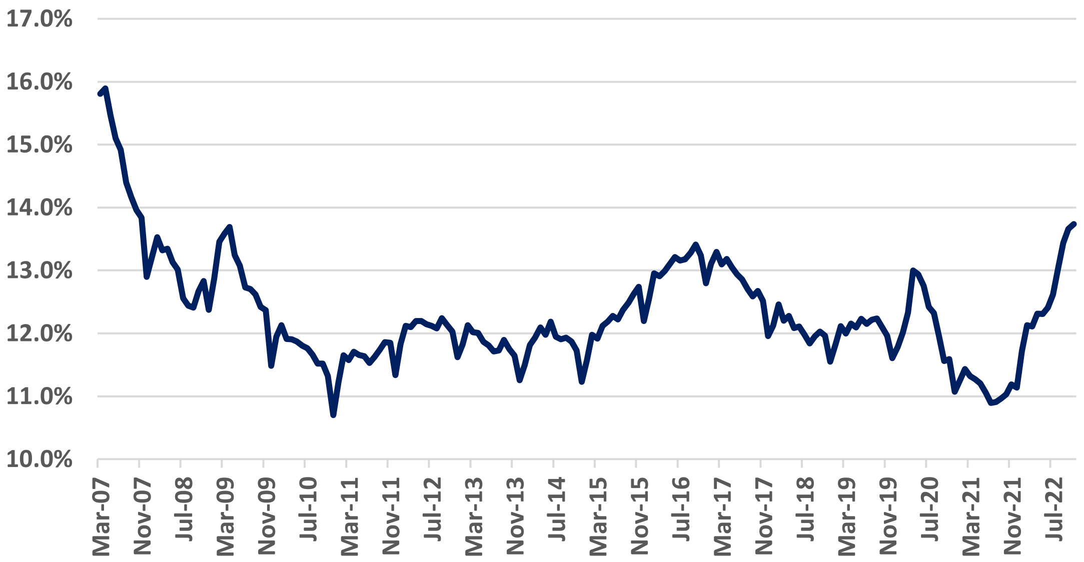


Source: BOCOM BBM, BCB

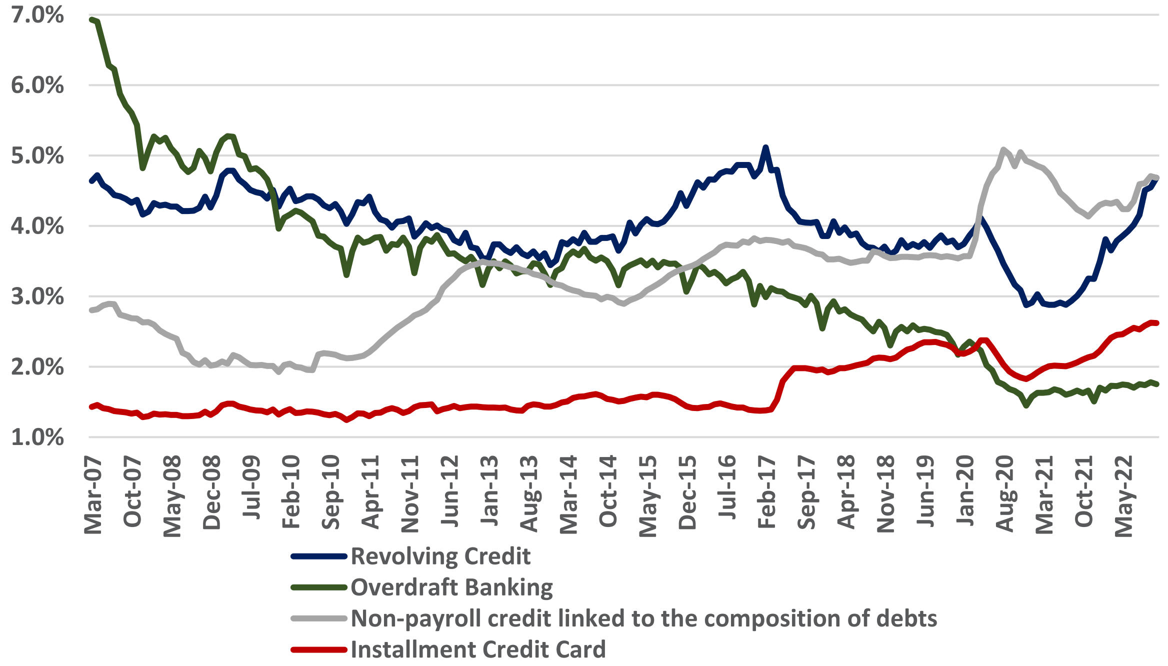
Brazil: Credit Statistics

- In general, recent data show a significant slowdown in credit concessions, an increase in interest rates and in default rates of non-earmarked credit operations for individuals
- The level of household indebtedness and income commitment remains at record levels
- The high cost of credit to individuals and the composition of debt cause a certain concern
  - Almost 14% of the credit for individuals comes from revolving credit (offered to the consumer when he does not make the full payment of the card bill by the due date) and credit linked to debt composition (loan operations associated with the composition of debts won involving different modalities), the highest level since 2007

Percentage of credit for individuals that comes from revolving credit and credit linked to debt composition



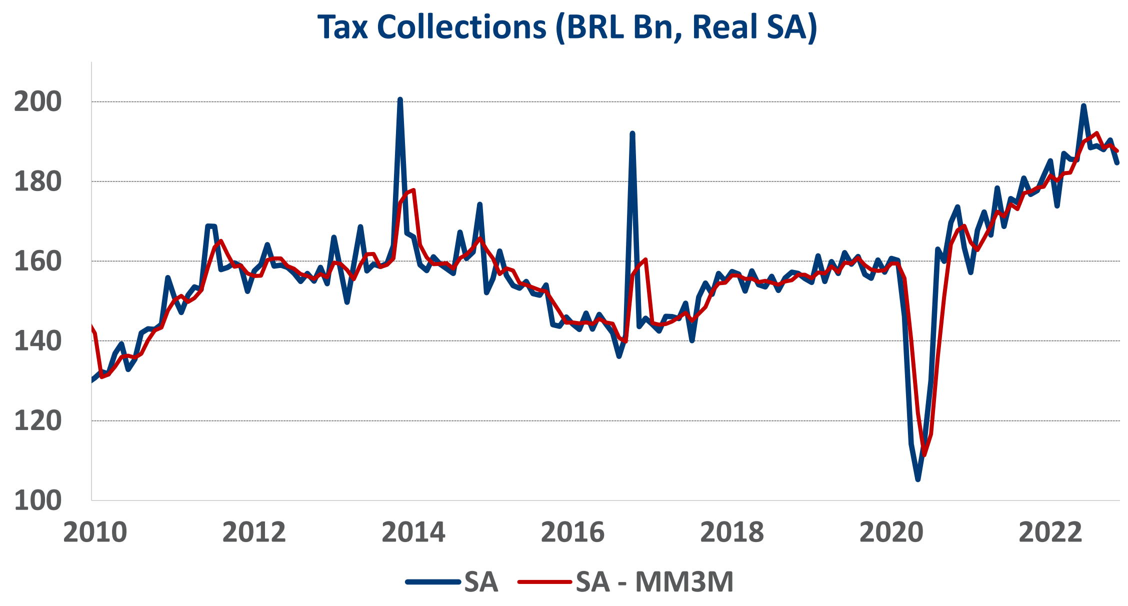
Percentage of credit balance for individuals with low quality and high relative cost types

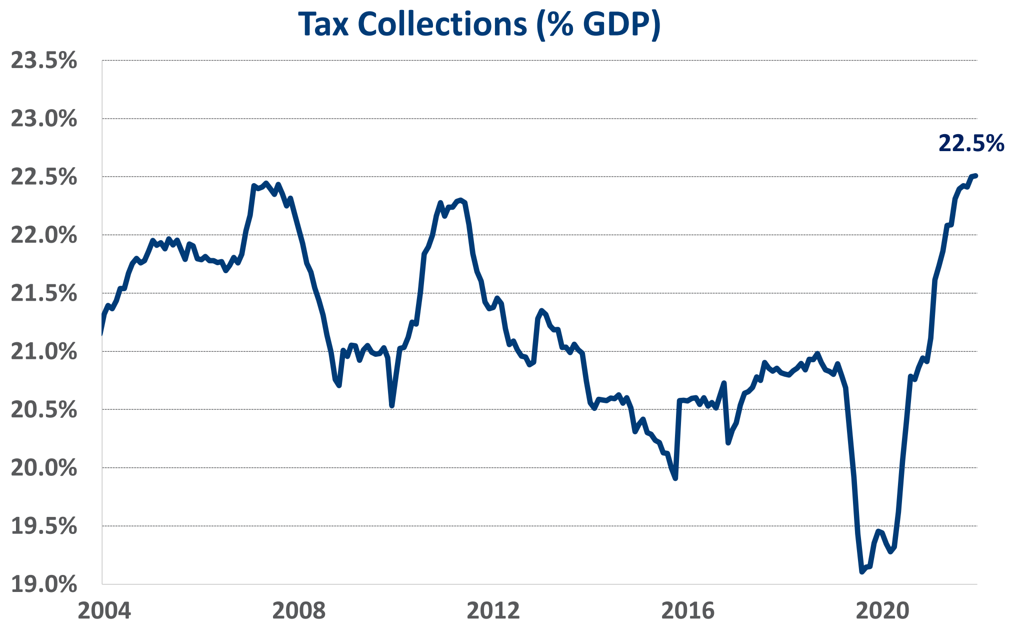


Source: BOCOM BBM, BCB

Brasil: Federal Tax Collections

- Short-term fiscal data continue on a solid trajectory. Federal collection reached BRL 172 billion in November, up 3.3% in real terms compared to November 2021, and slightly above market expectations (BRL 171 billion), marking the best result since 2014
- The accumulated result from January to November registered an increase of 8.8% in real terms, reaching the historical maximum
- The highlight of the month was once again earnings linked to earnings, which grew by 15.2% MoM in real terms
- The high levels of commodity prices and the resumption of economic activity are the main drivers of revenue this year, but moderation in prices and economic slowdown in 2023 should impose some moderation

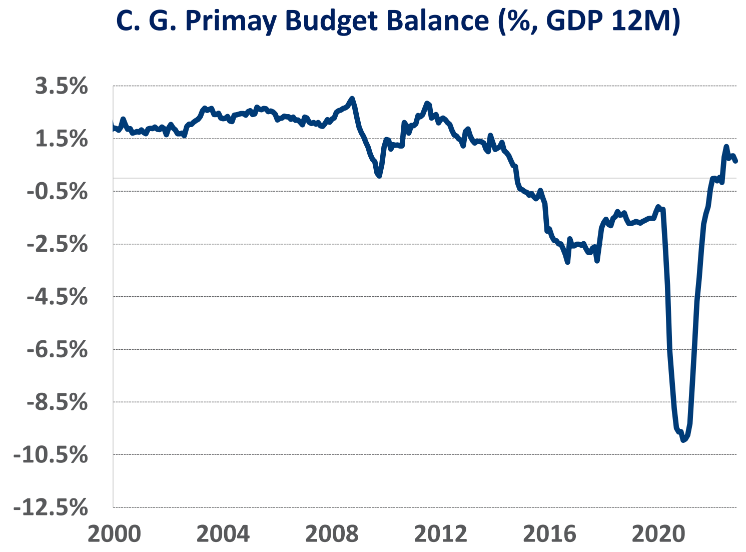


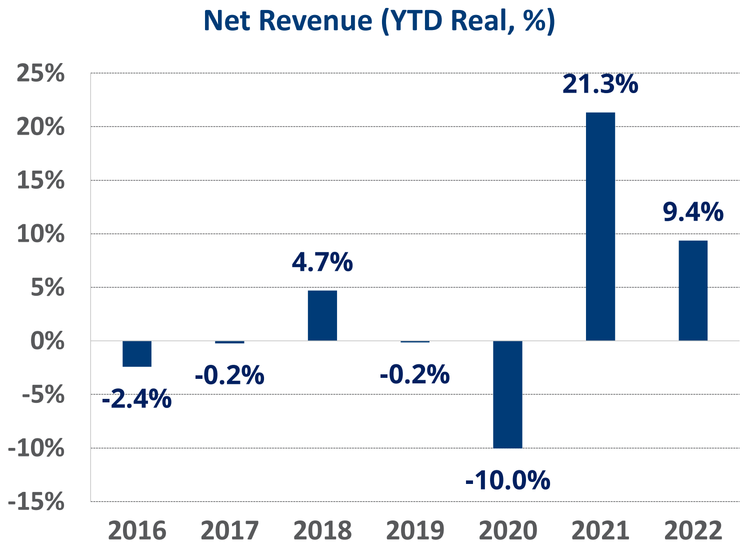


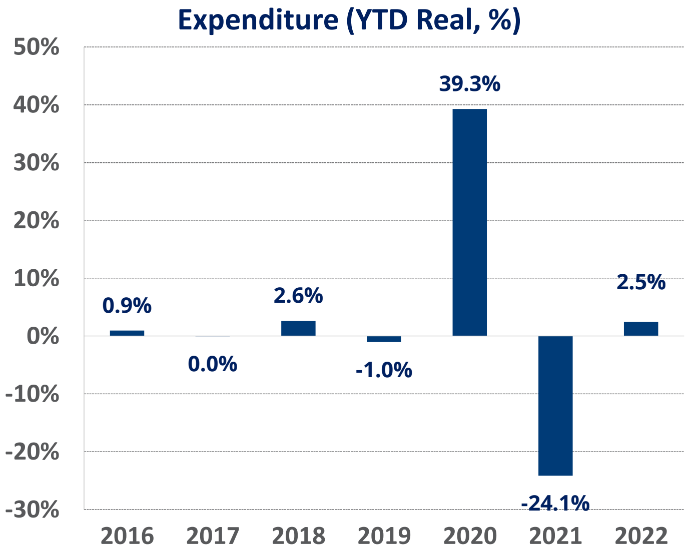
Fonte: BOCOM BBM, Receita Federal

Brazil: Central Government Budget Deficit

- Central government's primary balance registered a deficit of BRL 14.7 billion in November, above market consensus (BRL -13.8 billion)
- Year-to-date, central government registered a surplus of BRL 49.3 billion and, in 12 months, accumulated a surplus of BRL 63.1 bn
- Net revenue fell 9.4% in real terms compared to November 2021, due to tax cuts effects on industrial production tax (-42.1%) and PIS/Cofins (-22.7%). Dividends also fell 88.3% basically due to the high base of comparison last year coming from BNDES dividends
- Total spending grew 4.6% YoY in real terms, reflecting the increase of social security retiree and pension benefits, Auxílio Brasil and extraordinary credits, in order to pay cash transfers to poor families, truck and taxi drivers and subnational governments



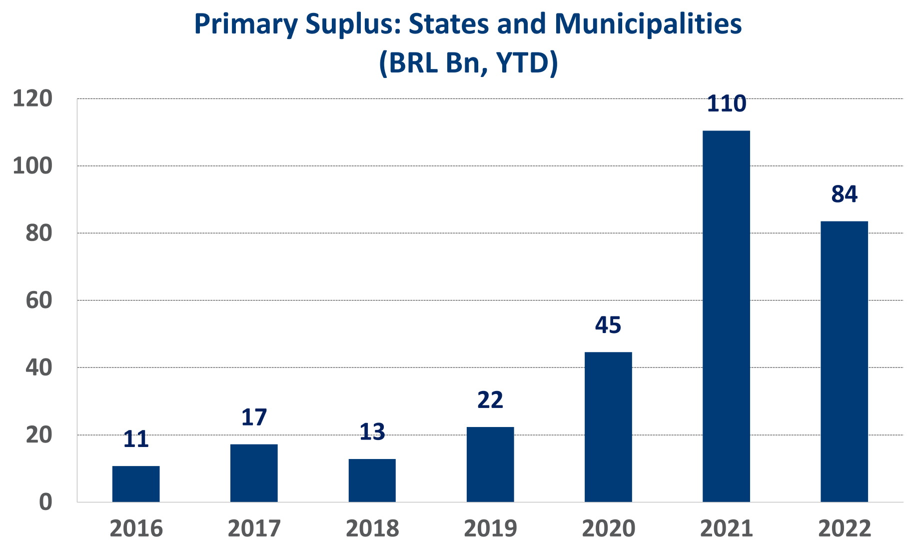


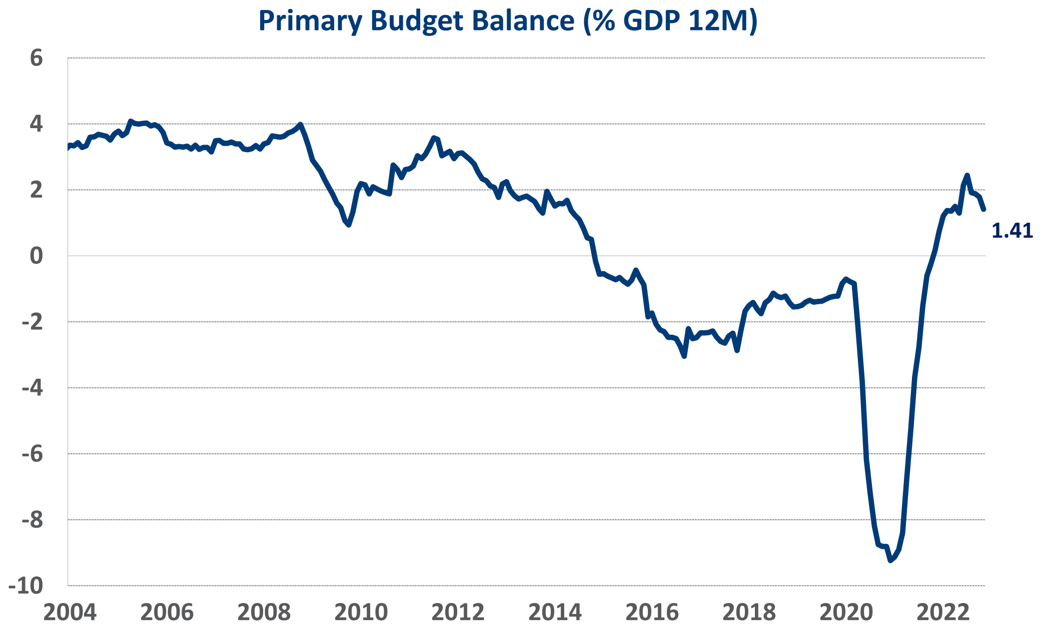


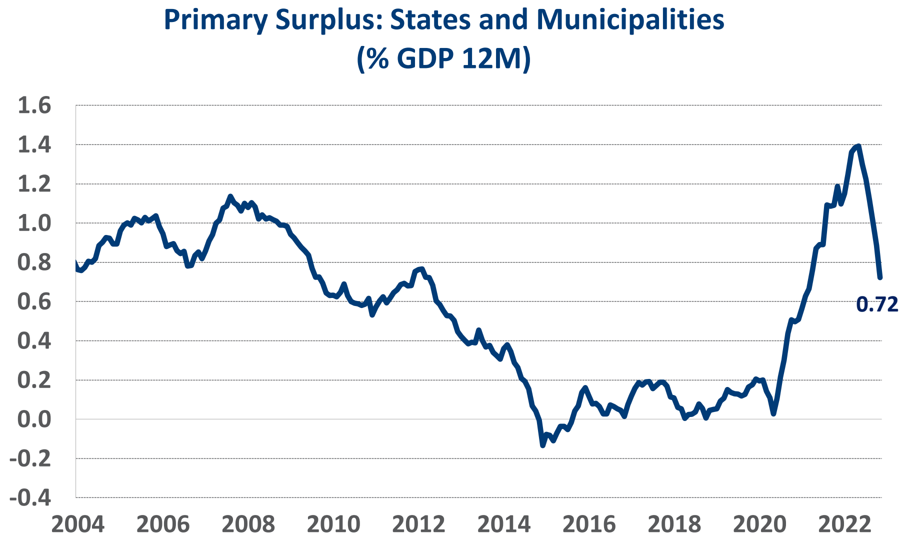
Source: BOCOM BBM, Tesouro Nacional

Brazil: Consolidated Public Sector Budget Deficit

- The consolidated public sector registered a primary deficit of BRL 20.1 bn in November, higher than market consensus of - BRL 16.5 bn. In 12 months it reached 1.41% of GDP
- States and municipalities reached a deficit of BRL 3.7 bn in the wake of the tax cuts of ICMS on fuels and electricity
- The General Government Gross Debt fell to 74.5% of GDP in November, mainly due net issuances (-0.8 pp of GDP) and GDP growth (-0.5 pp), that more than offset the effect of nominal interest rate (0.7 pp)







Source: BOCOM BBM, Tesouro Nacional, BCB

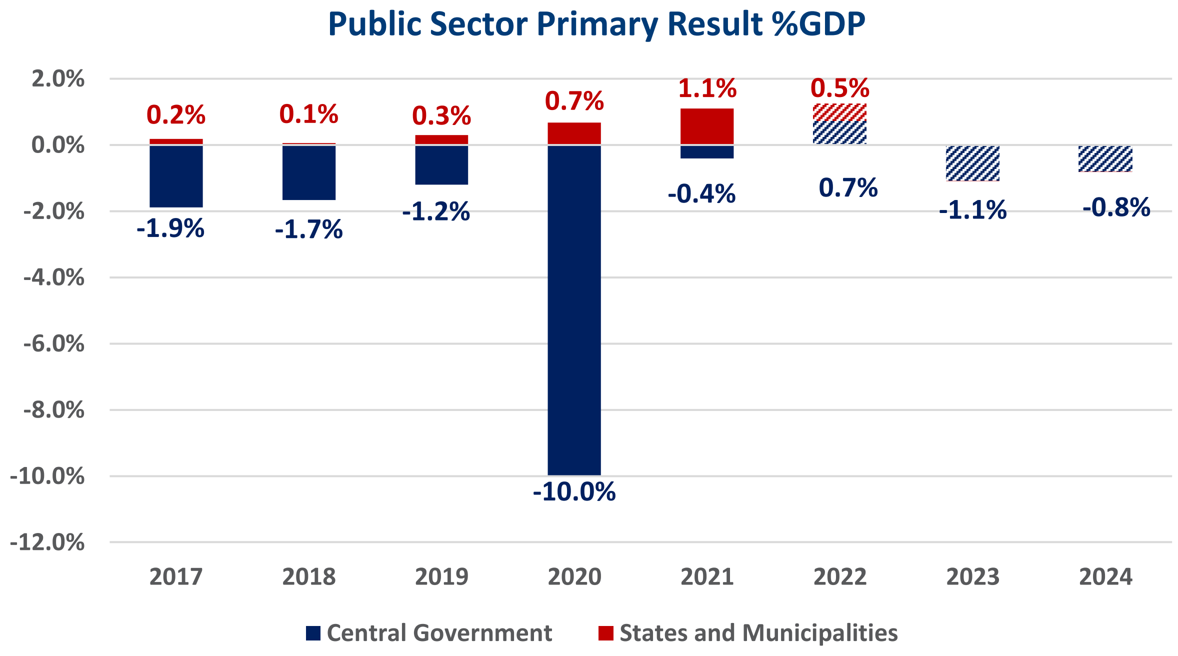
Brazil: Transition PEC (EC 126/2022)

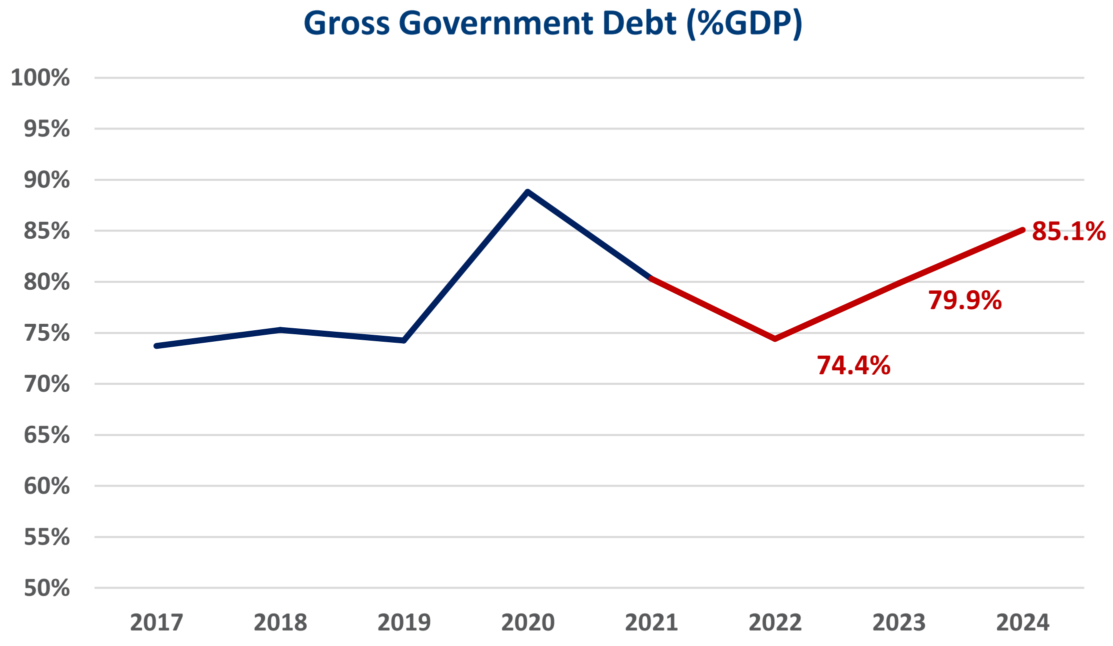
- Adds to the spending ceiling limit BRL 145 billion in the 2023 fiscal year
- BRL 23 billion of investments made outside the cap, financed with resources abandoned in the PIS/Pasep accounts (BRL 24.1 billion in Sep/22), generating zero impact on the primary result
- Forwarding of a new tax regime until August 31, 2023
- BRL 19.4 billion for RP9 in 2023 in the PLOA 2023 was divided between parliamentarians and the Union, after the STF decision. Allocates BRL 9.85 billion from RP9 to present “RP2” amendments (discretionary expenses not related to amendments)
- Increases from 1.2% to 2% of net current revenue for individual amendments
- Increase in primary spending for a year of around R$168 billion

Fonte: BOCOM BBM

Brazil: Fiscal Forecasts

- We project a surplus for the central government of 0.7% of GDP this year, a deficit of 1.1% in 2023, considering BRL 170 billion in extra-ceiling spending (BRL 145 billion in increase in the spending ceiling + about BRL $23 billion in public investment spending as a result of "extraordinary collection", approved in the "Transition PEC"), followed by a deficit of 0.8% of GDP in 2024, assuming that expenditures grow in line with the year's IPCA previous
- For public debt %GDP, we project 74.4% in 2022, 79.9% in 2023 and 85.1% in 2024.

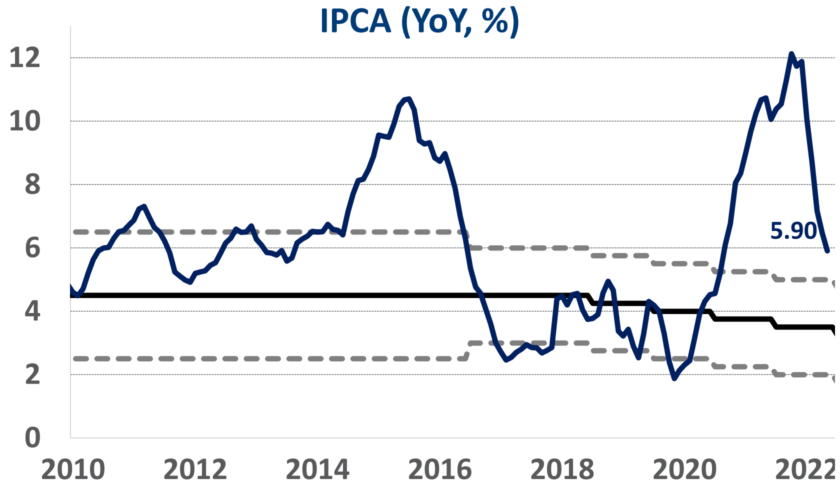


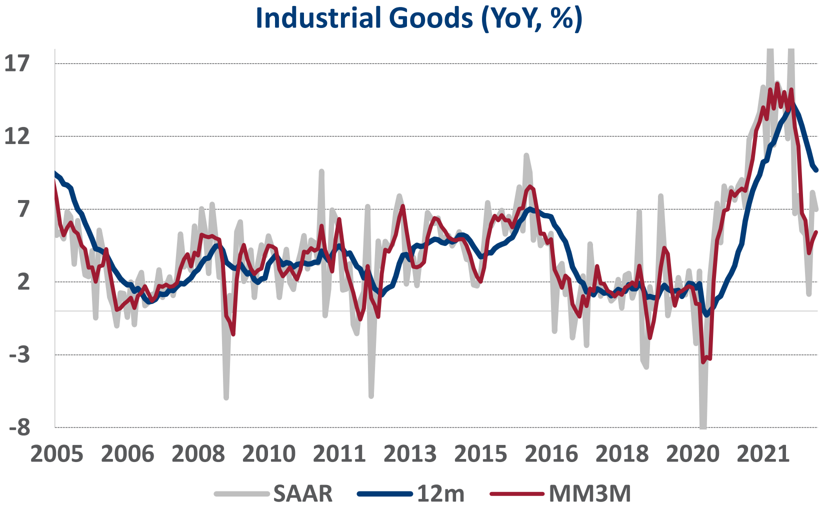


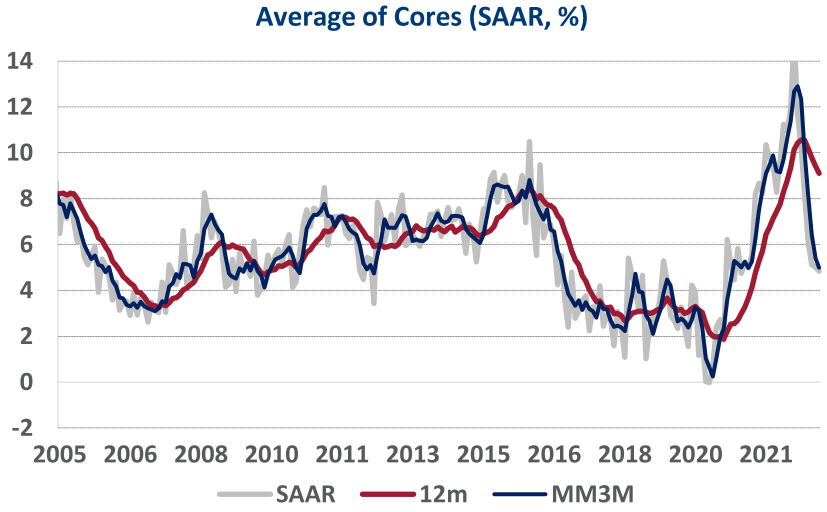
Fonte: BOCOM BBM, Tesouro Nacional, BCB

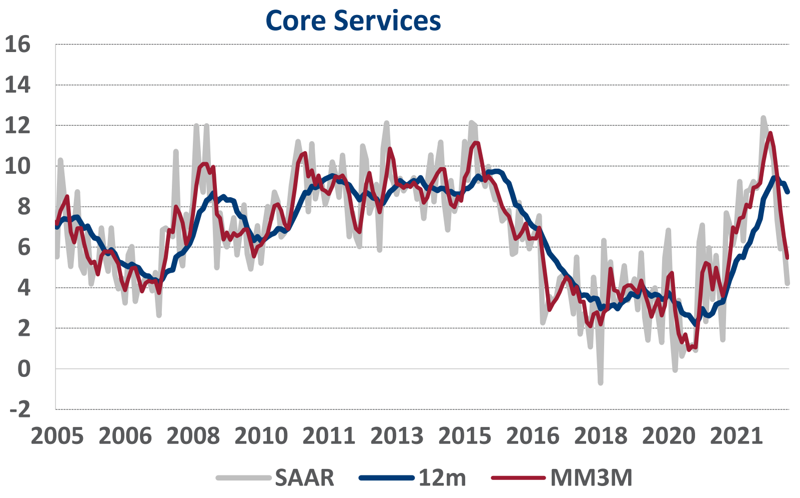
Brazil: Inflation 2022

- Throughout the second half of the year, there was a significant deceleration in inflation, both due to the tax cuts implemented by the Bolsonaro government and the lagged effects of monetary policy.
- There was a significant deceleration in services, industrial goods and core inflation
- The projection for 2022 stands at 5.6%
- For 2023 we now project 5.6%, incorporating the expected return of federal taxes on fuel and a more adverse scenario for service inflation, due to the more stimulating fiscal policy









Source: BOCOM BBM, IBGE

Brazil: Inflation 2023

- We increased by 60 p.p. our forecast for 2023, but there are still risks in the scenario:

- Return of ICMS rates to levels prior to PLP 194/2022
- End of calculation of PMPF (weighted average price to final consumer) of fuels based on the last 60 months
- Parafiscal policies or reversal of structural reforms approved in recent years, which may reduce the monetary policy power
- The discussion about the new fiscal rule that will replace the spending cap may cause turbulence in the markets and generate a more intense exchange rate depreciation than expected.

IPCA (%, annual)

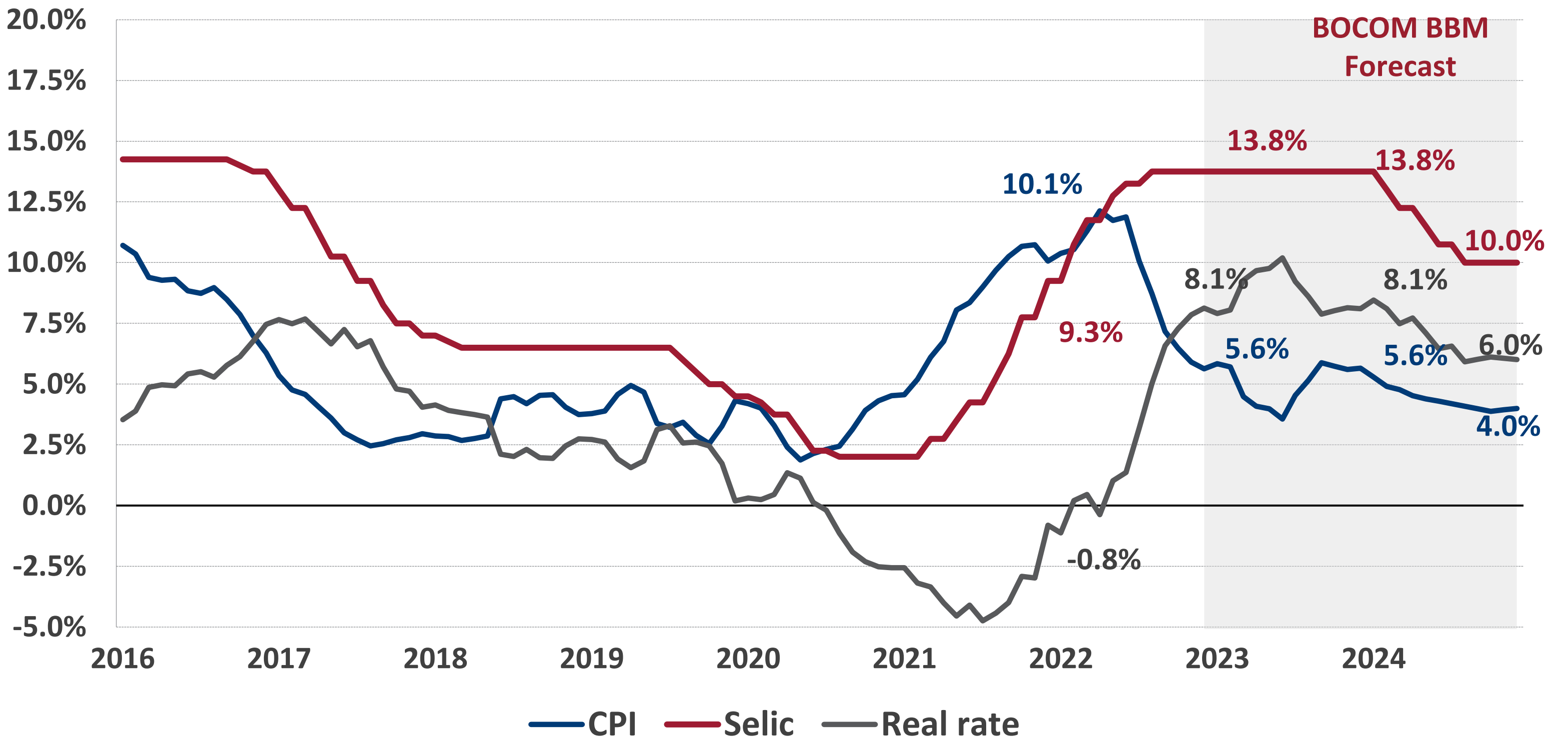
	pesos	2019	2020	2021	2022	2023
Regulated	**26.6**	**5.5**	**2.6**	**16.9**	**-3.7**	**8.9**
Industrial goods	**23.6**	**1.7**	**3.2**	**11.9**	**8.9**	**3.6**
Durable goods	10.3	0.0	4.5	12.9	5.9	2.5
Semi-durable goods	5.9	0.6	-0.1	10.2	15.4	4.2
Non-durable goods	7.3	4.4	4.0	11.9	8.1	4.9
Food at home	**15.7**	**7.8**	**18.2**	**8.2**	**13.1**	**4.0**
Services	**34.1**	**3.5**	**1.7**	**4.8**	**7.5**	**5.4**
Food away from home	5.6	3.8	4.8	7.2	7.7	4.8
Related to minimum wage	5.2	2.9	1.5	3.3	6.2	5.9
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.0	5.5
Inertial	15.0	4.3	1.6	4.2	8.7	5.4
IPCA		**4.3**	**4.5**	**10.1**	**5.6**	**5.6**

Fonte: BOCOM BBM, IBGE

Brazil: Monetary Policy

- At the December meeting, the Copom decided to maintain the Selic rate at 13.75%, as widely expected. The committee reinforced the vigilance message, stating that it could resume the upward cycle if inflation proves to be more persistent than expected. The Copom emphasized its concern with the fiscal outlook and its effects on asset prices and inflation expectations, with possible impacts on prospective inflation dynamics
- The authority also highlighted that changes in parafiscal policies or the reversal of structural reforms could reduce the monetary policy power. In our view, this type of policy increases the chances of maintaining the Selic at the current level for longer, postponing the cuts that the market priced in before the elections.

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

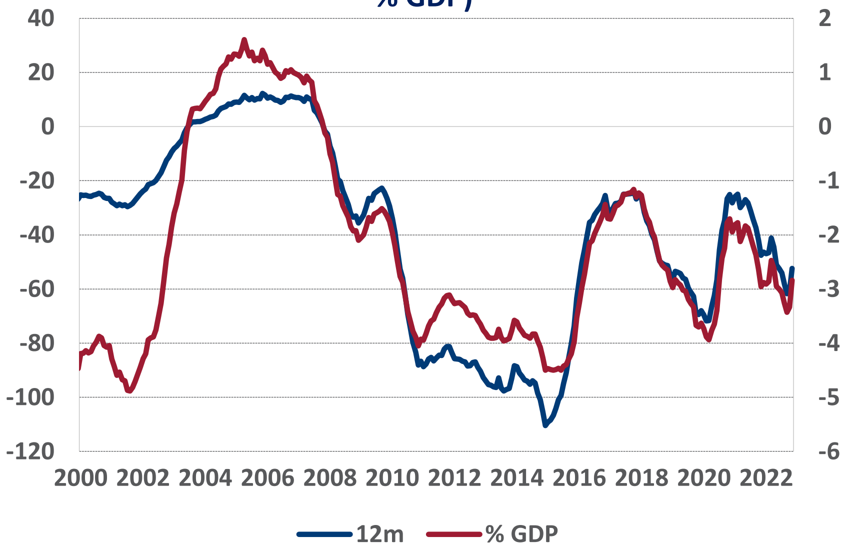


Source: BCB, BOCOM BBM, IBGE

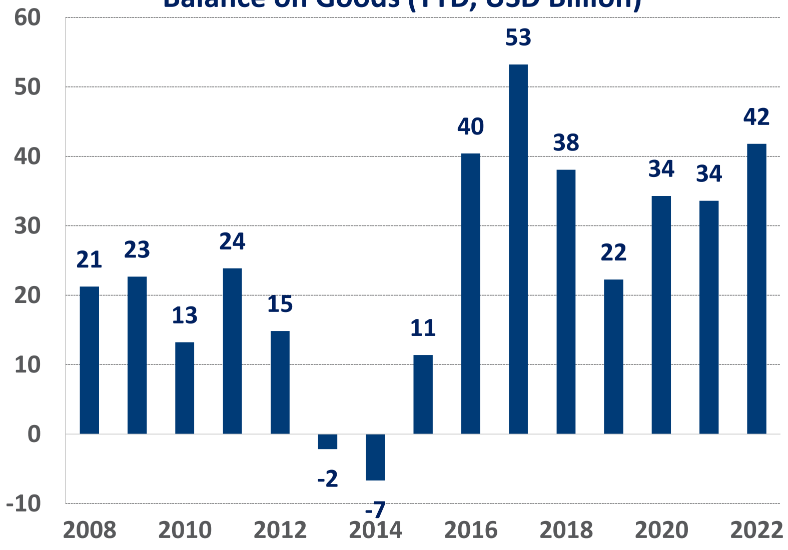
Brazil: Balance of Payments

- In November, the current account reached a deficit of US$60 million, better than the market expectation of a deficit of US$2.1 billion, accumulating a deficit of US$52.4 billion in 12 months (-2.78% of GDP)
- The goods trade balance continued to accumulate surpluses in November, registering a positive balance of US$ 44.5 billion in 12 months
- The good performance of the trade balance partially offset broader deficits in the services and primary income accounts
- The services balance registers a deficit of US$ 38.4 billion in 12 months, mainly due to the deficit of US$ 19.6 billion in the Transport Services account
- While the primary income account adds up to a total deficit of US$ 62.3 billion in 12 months

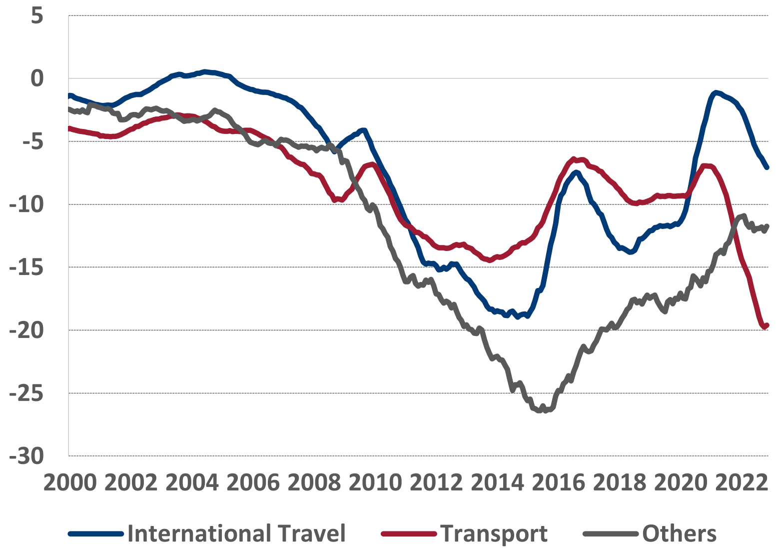
Current Account (Accumulated 12M, USD Billion and % GDP)



Balance on Goods (YTD, USD Billion)



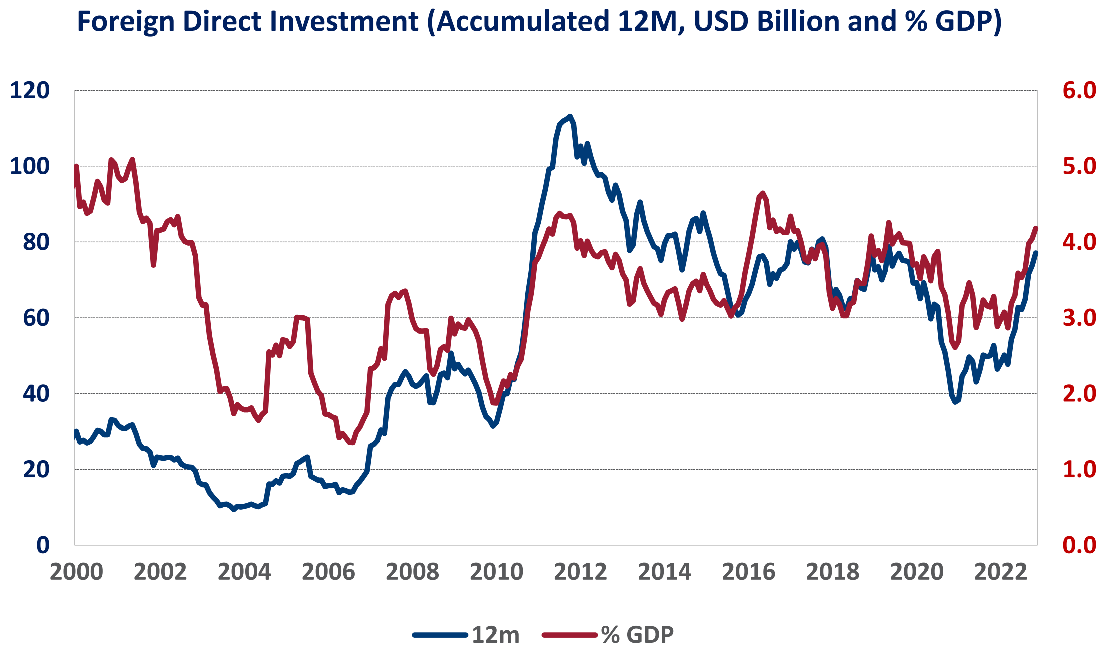
Services (Accumulated 12M, % GDP)

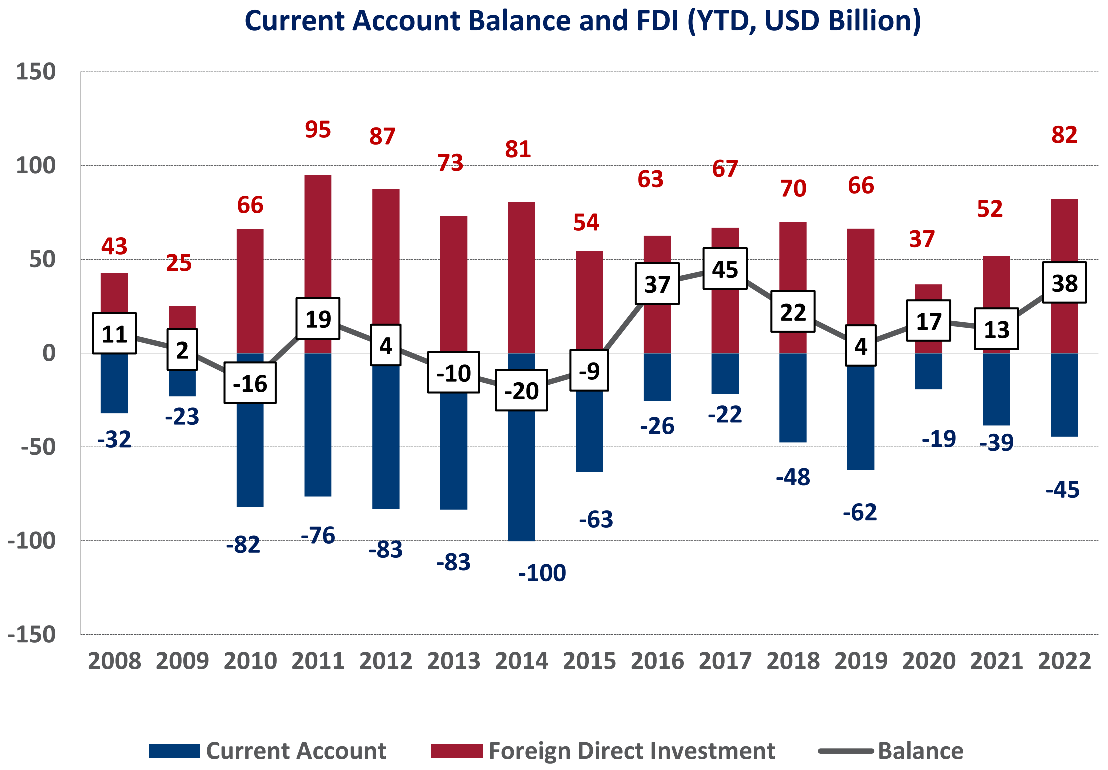


Source : BCB, BOCOM BBM

Brazil: Balance of Payments

- Foreign Direct Investment (FDI) continues to grow solidly, adding up to a net inflow of US$77.1 billion in 12 months (4.18% of GDP), while the current account deficit continues to widen, but with a better result than the expected in November
- The favorable dynamics of Brazil's external accounts persist, with current account deficits comfortably financed by foreign direct investment

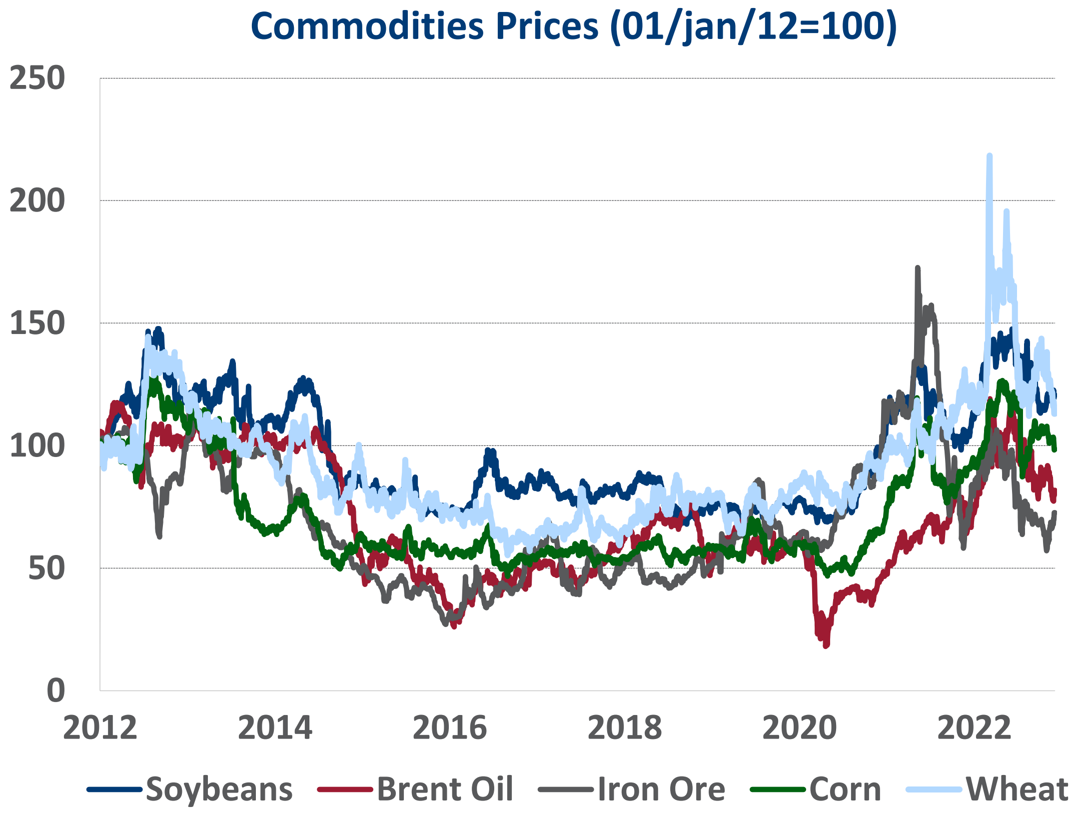


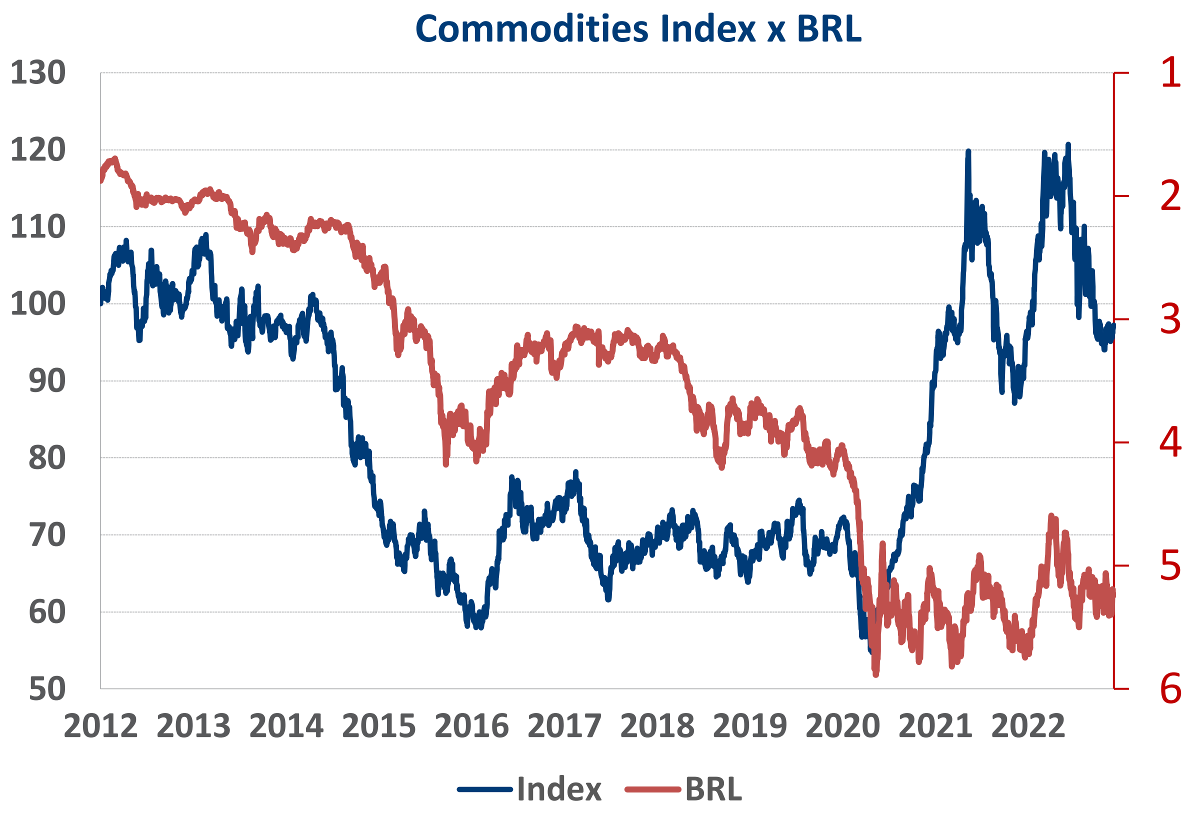


Source: BOCOM BBM, BCB

Brazil: External Sector

» The prices of the main commodities exported by Brazil persist at lower levels than those prevailing over the first half of the year, which, together with uncertainty about global growth and fiscal risks in Brazil, limit a stronger appreciation of the exchange rate to front



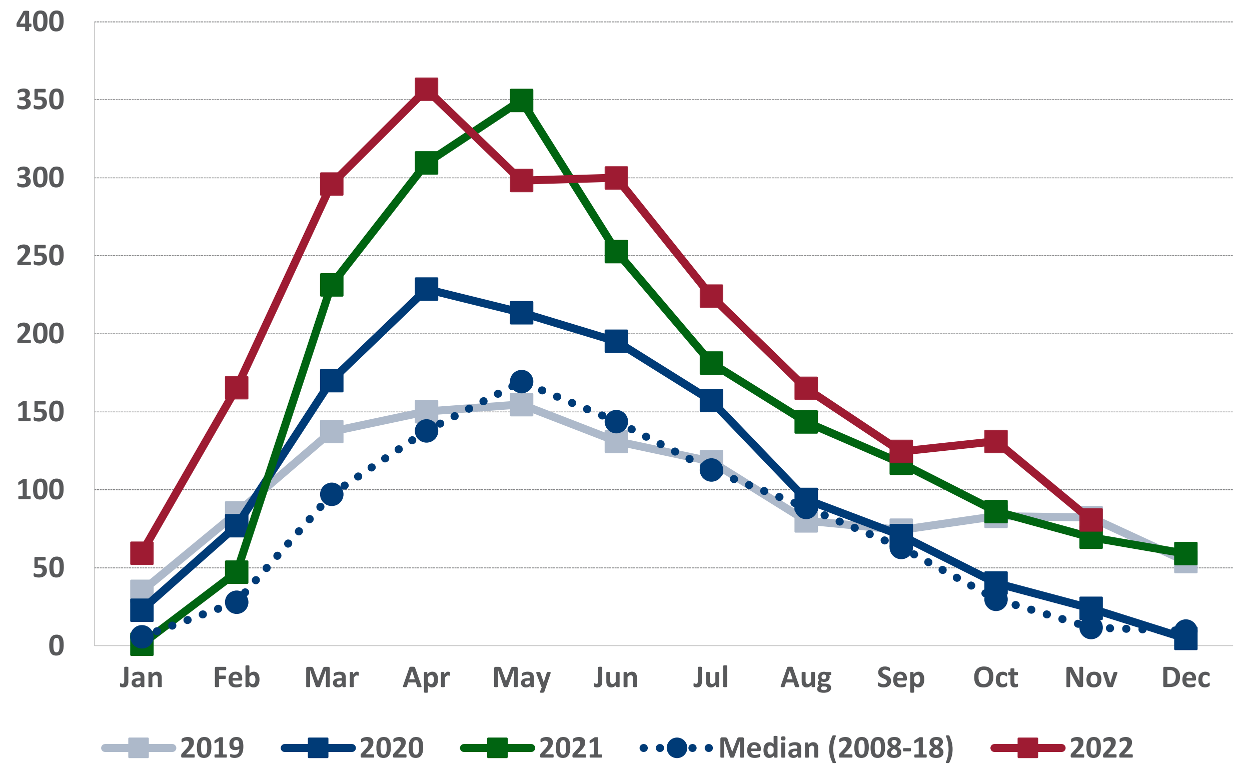


Source: Secex, BBG, BOCOM BBM

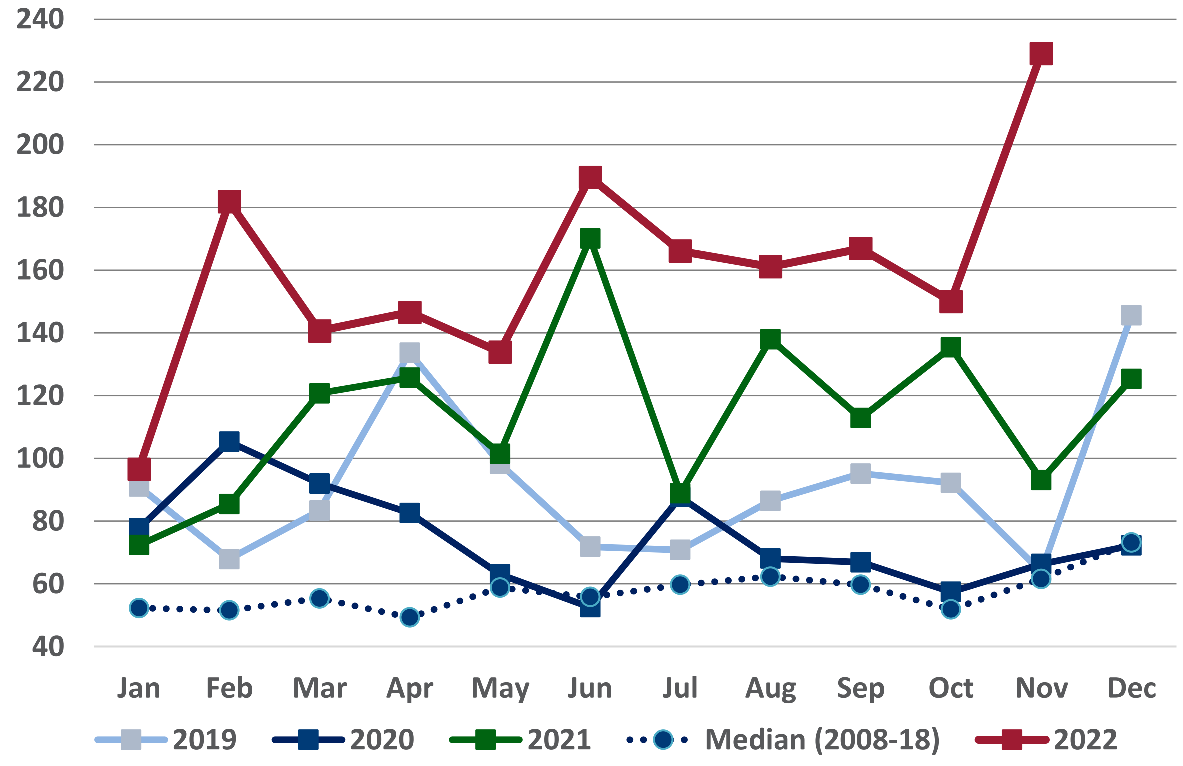
Brazil: External Sector

- The trade balance remains strong, favored by high global demand and still high prices, despite the recent drop. The prospective scenario remains quite 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)



Source: Secex, BOCOMBBM

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