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 encompasses a scenario of subdued activity growth and softening labor market, with inflation converging to lower levels. The FOMC in the US slowed the pace of hikes raising the Fed funds rate by 25bps to the range of 4.5-4.75% and is approaching the end of the cycle. In China, the abrupt U-turn in the zero-Covid policy resulted in over one billion Covid infections but also significantly hastened the economy’s recovery. High frequency mobility indicators are normalizing and, for 2023, domestic consumption will likely be China’s main driver.

- Economic activity indicators decelerated throughout Q4. Confidence indicators followed a similar path and continued to deteriorate in January. The labor market also continued to lose pace in November and December.

- 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 increased from 5.6% to 6.0% for 2023 after the upward surprise in the January inflation preview, with emphasis on vehicle registration data whose inflation increased 21% in 2023 and price readjustments of gasoline implemented by Petrobras in January. We also incorporated the expected return of federal taxes on fuels and a more adverse scenario for services inflation, due to the more stimulating fiscal policy.

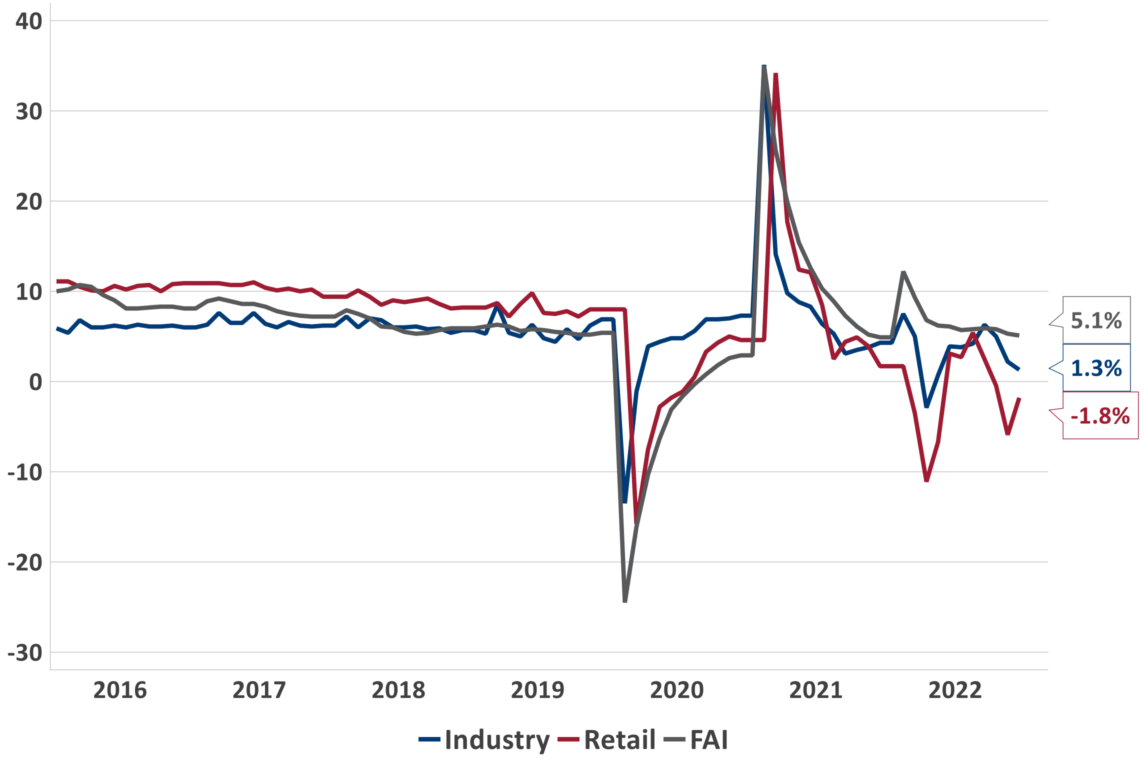
- At the January meeting, Copom decided to keep the Selic rate stable at 13.75%, as expected. Central Bank projections indicate that with Selic rate reaching 12.5% in 2023 and 9.5% in 2024, inflation would rise to 5.6% in 2023 and 3.4% in 2024, above the target for both years. The committee also presented an alternative scenario, where the Selic remains constant (at 13.75%) over the relevant horizon, in which inflation reaches 5.5% in 2023 and 2.8% in 2024. This means that keeping rates higher for longer is consistent with inflation convergence to the target, and we expect that rates remain at 13.75% until the end of the year.

- Short-term fiscal results remain solid, but with clear signs of worsening at the margin in response to federal and state tax cuts. For 2023 we expect a deficit of 1.1%, followed by a deficit of 0.8% of GDP in 2024, assuming that expenses grow in line with the previous year IPCA. For public debt (as a % of GDP), we project 74.7% in 2022, 79.9% in 2023 and 85.1% in 2024.

China: Activity

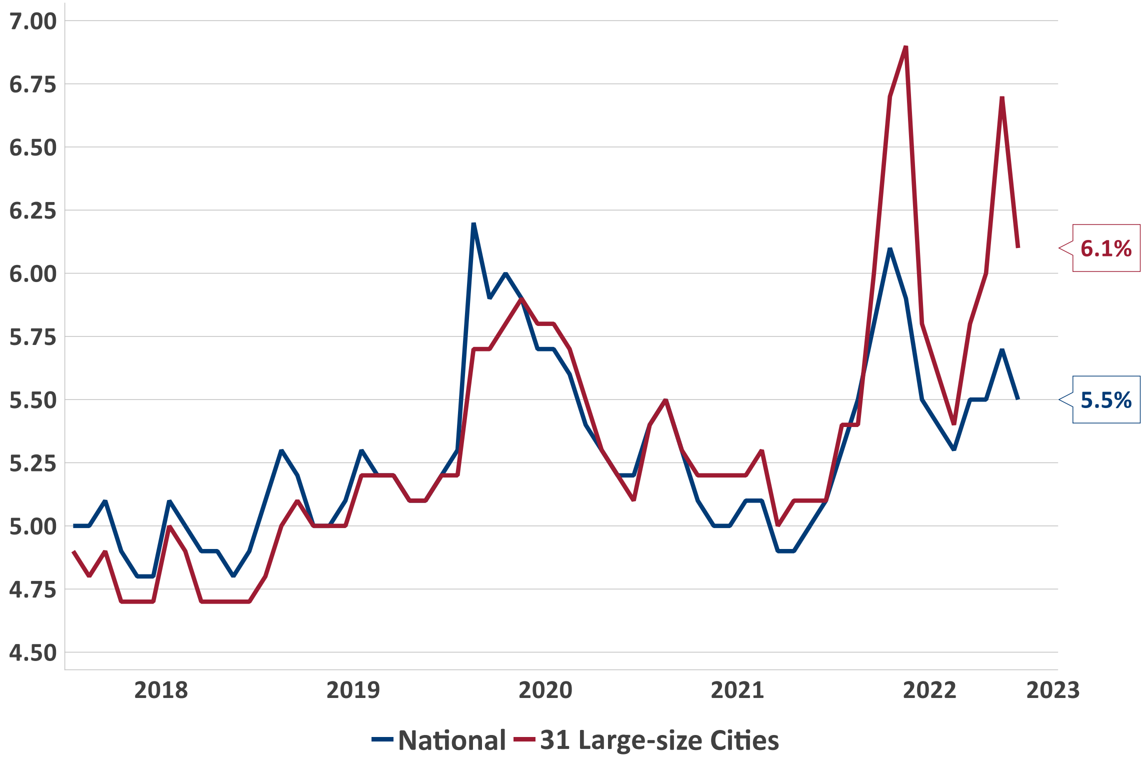
- The faster-than-expected reopening prompted an 'exit wave', spiking Covid cases and taking a heavy toll on recent economic activity by creating temporary labor shortages and supply chain disruptions;
- Anyhow, China's December activity growth showed resiliency, slowing a bit further, but with better-than-expected results:
  - **Industrial production fell** from 2.2% to **1.3%** YoY amid 'exit wave' and weaker external demand;
  - **Retail sales growth rebounded** from -5.9% to **-1.8%** YoY, but Covid-sensitive segments contracted sharply;
  - **FAI declined** from 5.3% to **5.1%** still being affected by low confidence in property market even with policy support;
  - The **national unemployment rate fell** from 5.7% to **5.5%** and the 31-city measure to **6.1%** (from 6.7%).

China: Activity (YoY, %)



Source: BOCOM BBM, Macrobond, NBS

China: Unemployment Rate in Urban Areas

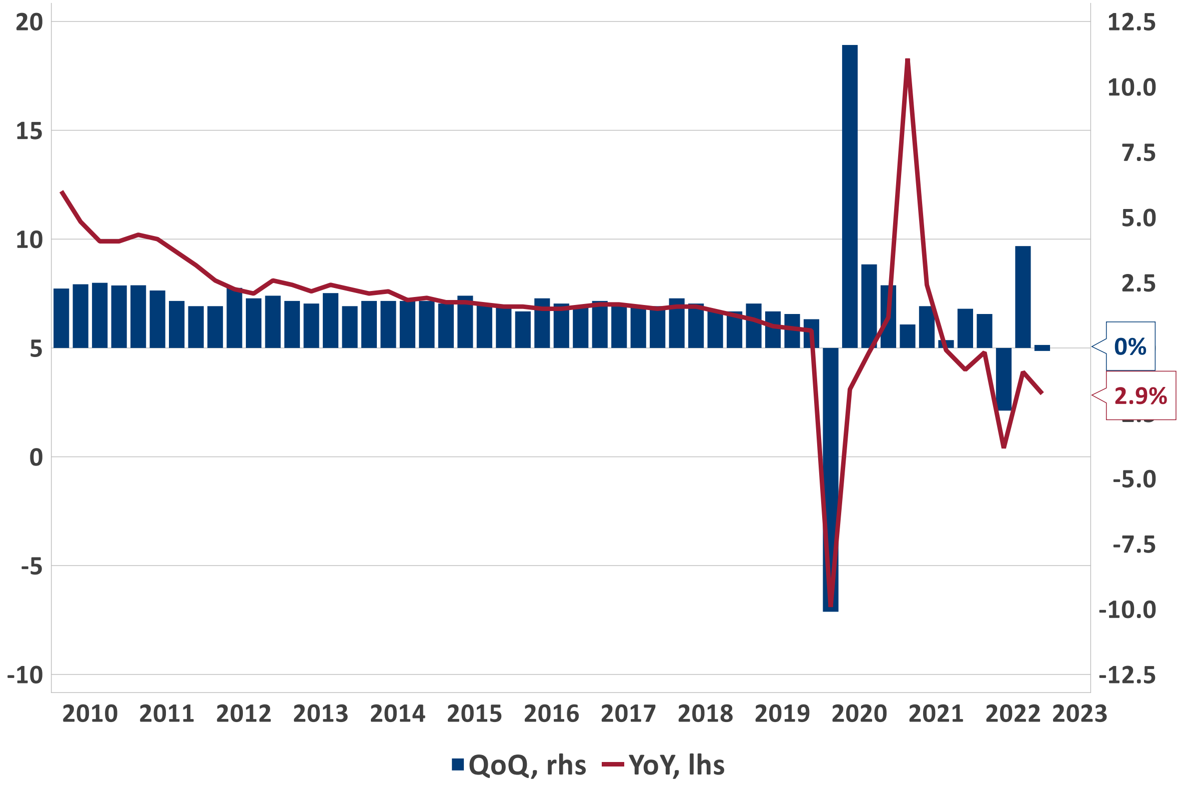


Source: BOCOM BBM, Macrobond, NBS

China: GDP

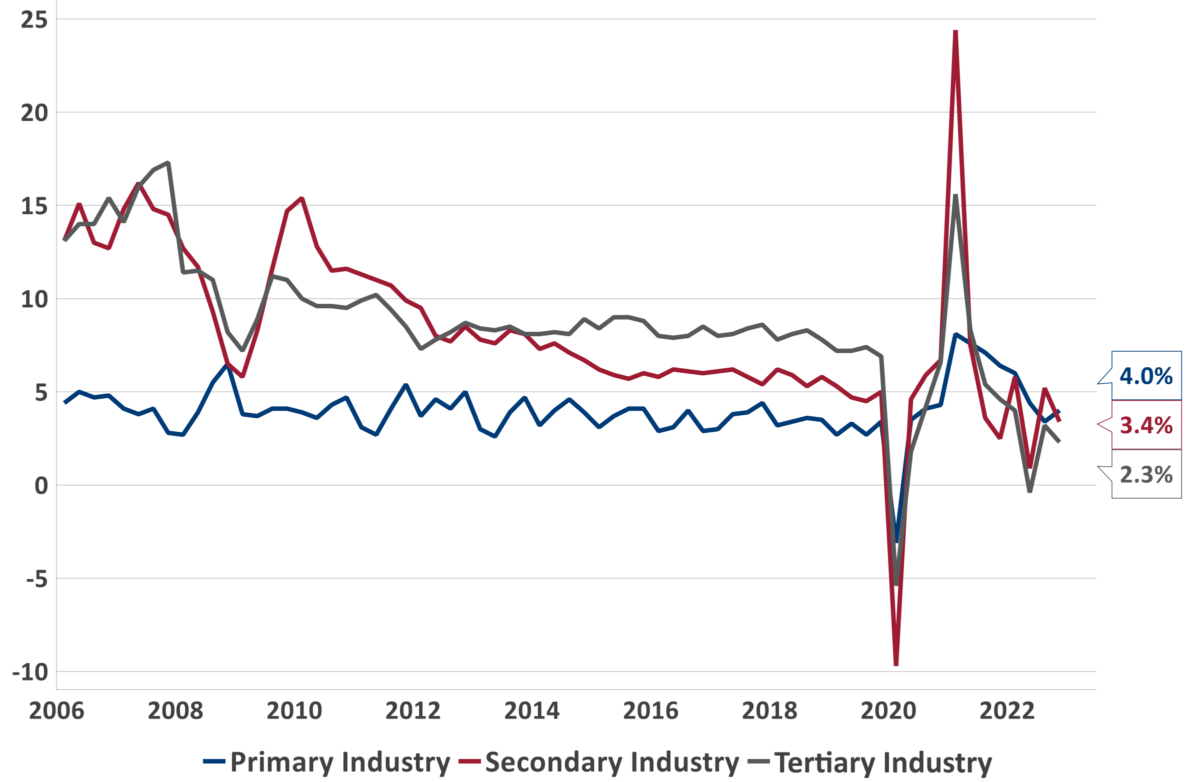
- China's real GDP growth in Q4 slowed from 3.9% to **2.9%** YoY and remained unchanged when compared to Q3 (**0%** QoQ), resulting in a full-year growth for 2022 of **3.0%**;
- Looking at sectorial data, this slowdown in Q4 was driven by both the secondary (manufacturing and construction) and tertiary (mainly services) sectors on the back of Covid restrictions and 'exit wave';
  - Secondary: from 5.2% to 3.4% YoY;
  - Tertiary: from 3.2% to 2.3% YoY.

China: Real GDP Growth



Source: BOCOM BBM, Macrobond, NBS

China: GDP by Industry (YoY, %)



Source: BOCOM BBM, Macrobond, NBS

China: Economic Scenario

PMI:

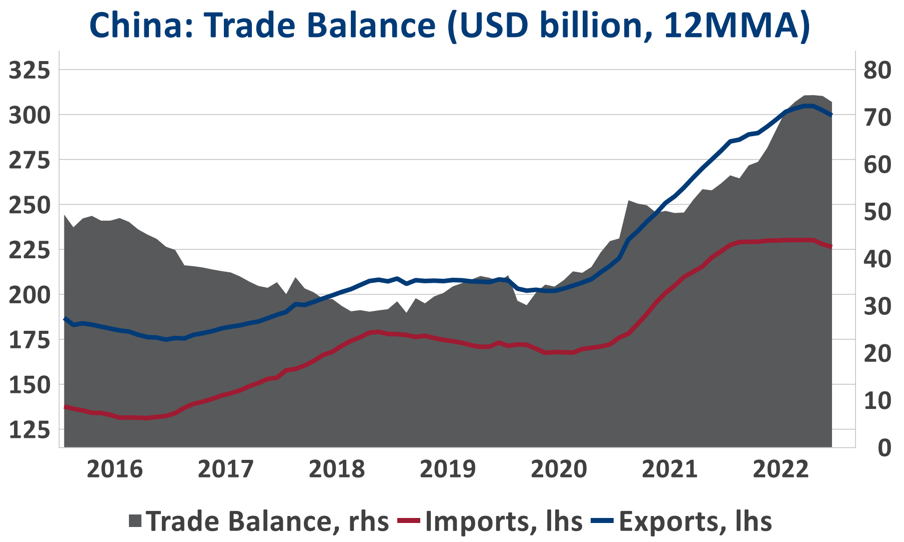
- In January, the NBS manufacturing PMI rebounded sharply from 47 to **50.1** attributable to the weak base in December;

Trade Balance:

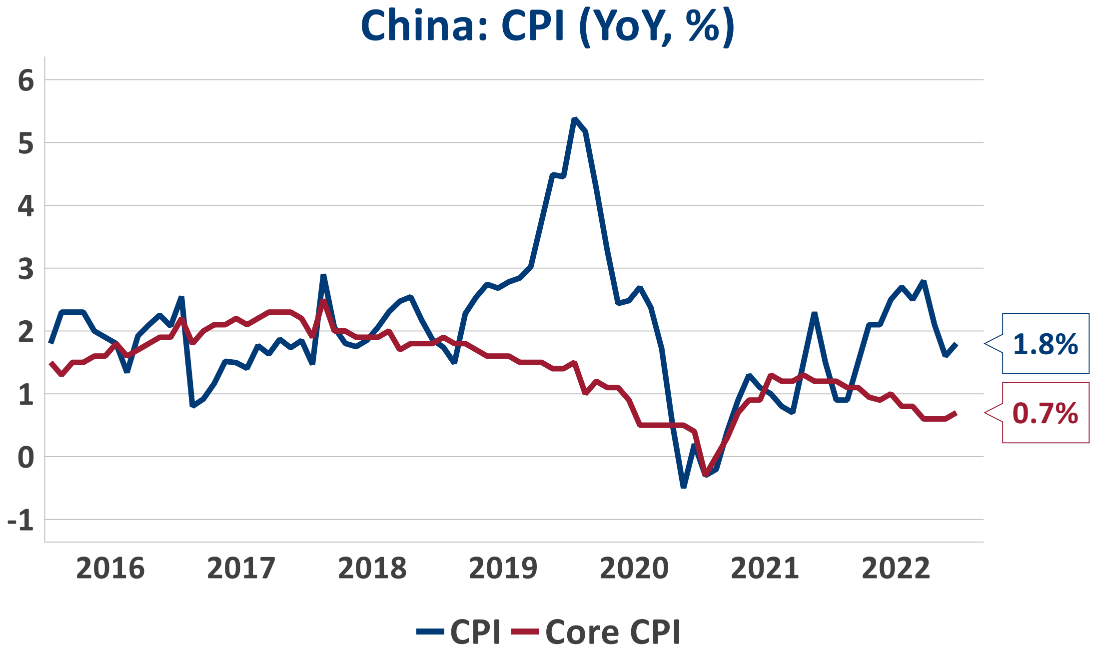
- Exports contracted even further in December reaching **-9.9%** YoY, as external demand weakened, and domestic activity slowed;
- Imports rose a bit to **-7.5%** YoY, reflecting minor improvement in domestic demand;

CPI:

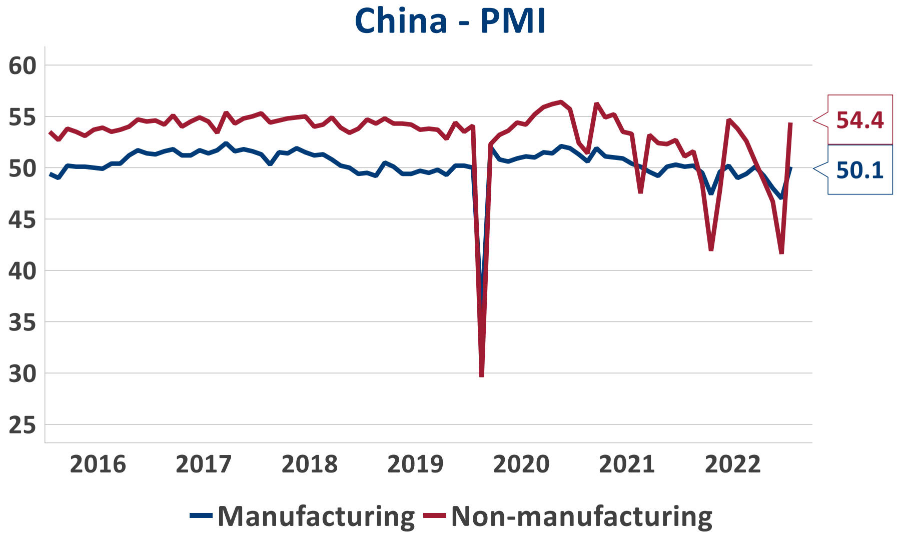
- CPI inflation came aligned with expectations in December: low inflation leaves room for maintaining an accommodative monetary policy, but it is likely that the headline may start to pick up in the coming months due to economic rebound.



Source: BOCOM BBM, Macrobond, CCS



Source: BOCOM BBM, Macrobond, NBS

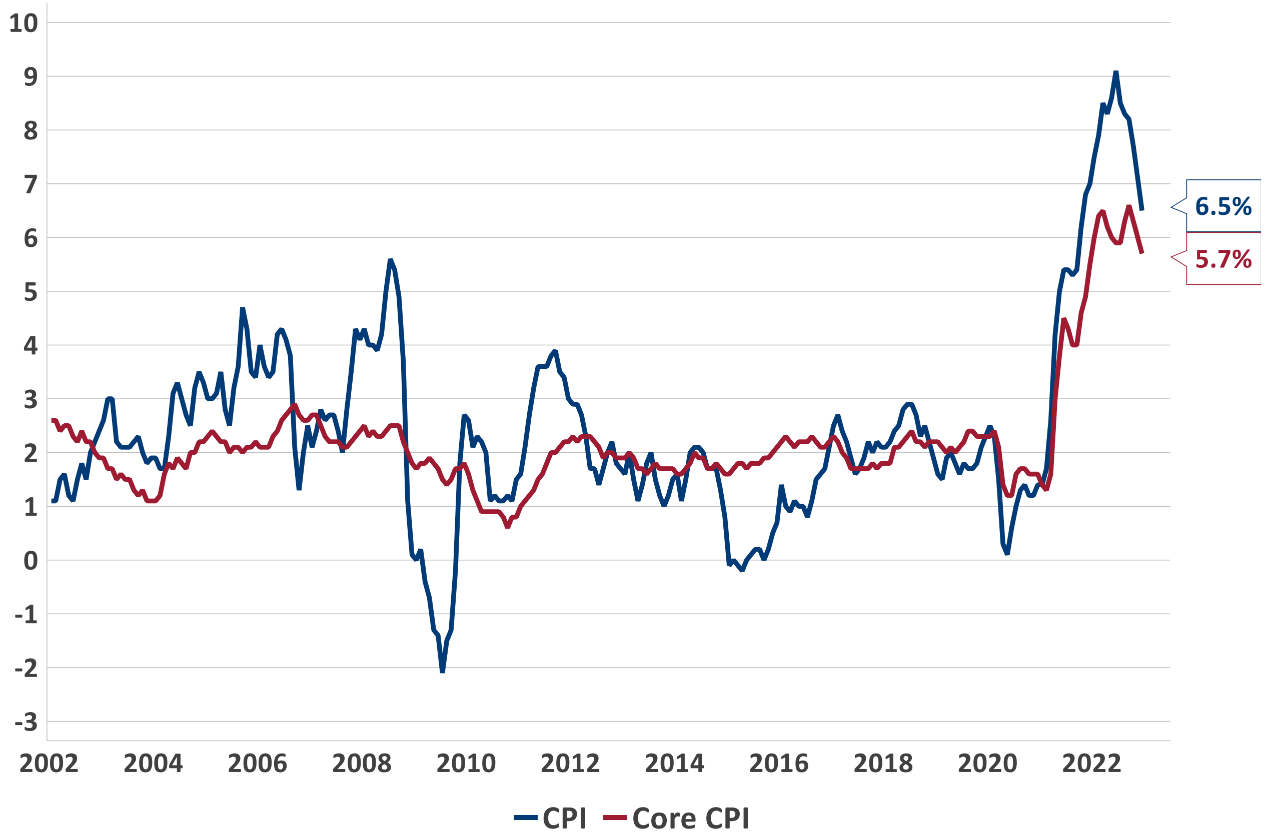


Source: BOCOM BBM, Macrobond, CFLP

USA: Inflation

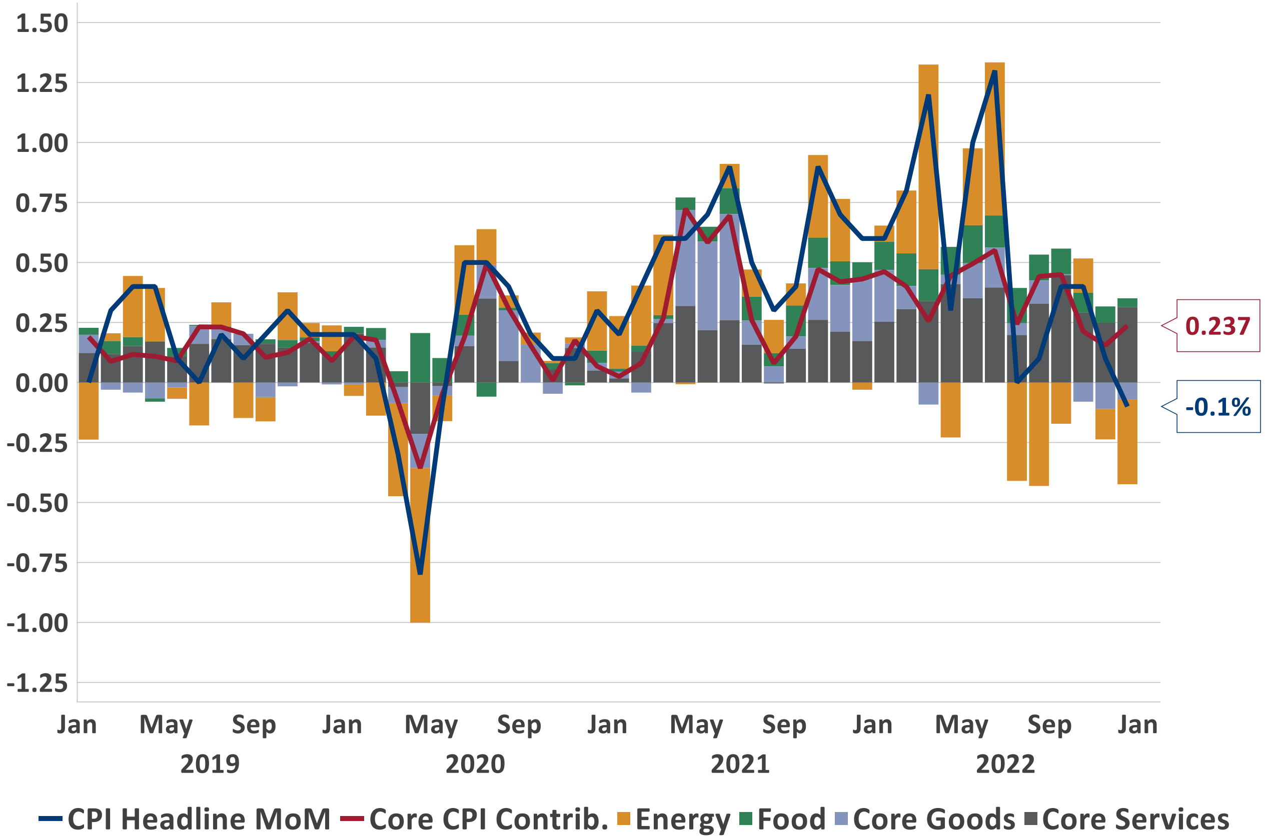
- US CPI inflation came slightly softer than expectations in December going from 7.1% to **6.5%** YoY and a **-0.1%** MoM decline:
  - Food prices, which has pressured the headline throughout 2022, has moderated while energy prices showed a significant monthly decrease (-4.5% MoM) reflecting a tumble in gasoline prices;
- Core CPI increased **0.3%** MoM, reaching **5.7%** YoY (from 6.0%):
  - 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, BLS

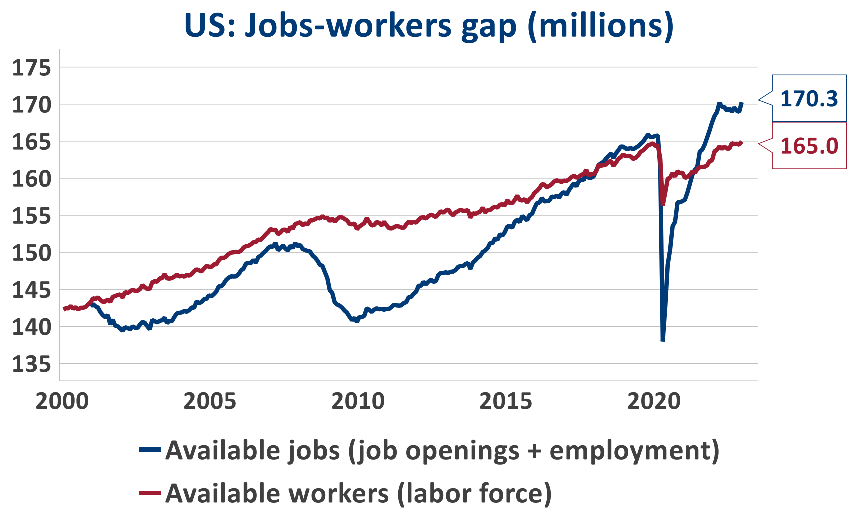
US: CPI MoM Contributions



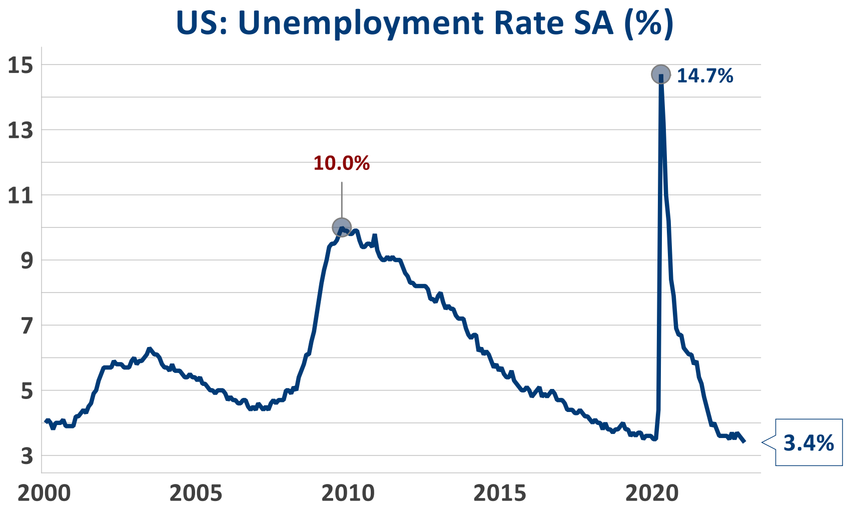
Source: BOCOM BBM, Macrobond, BLS

USA: Labor Market

- The US labor market remained considerably tight in December with labor demand exceeding supply by a fair amount:
  - Jobs-workers gap at around **5.3 million**, revealing that there's **1.9** job openings per unemployed person;
- January's nonfarm payroll came in surprisingly strong with **+517k** jobs created, way above the expectations of +185k;
- The unemployment rate decreased to a historically low level of **3.4%** in January;
- 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;
- Average hourly earnings rose **0.3%** MoM, while the annual rate slowed from 4.7% to **4.4%** YoY.



Source: BOCOM BBM, Macrobond, BLS



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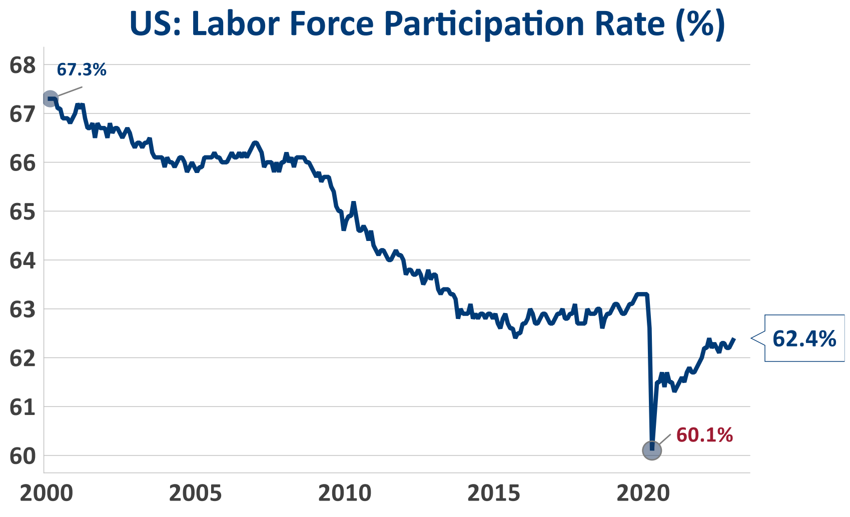

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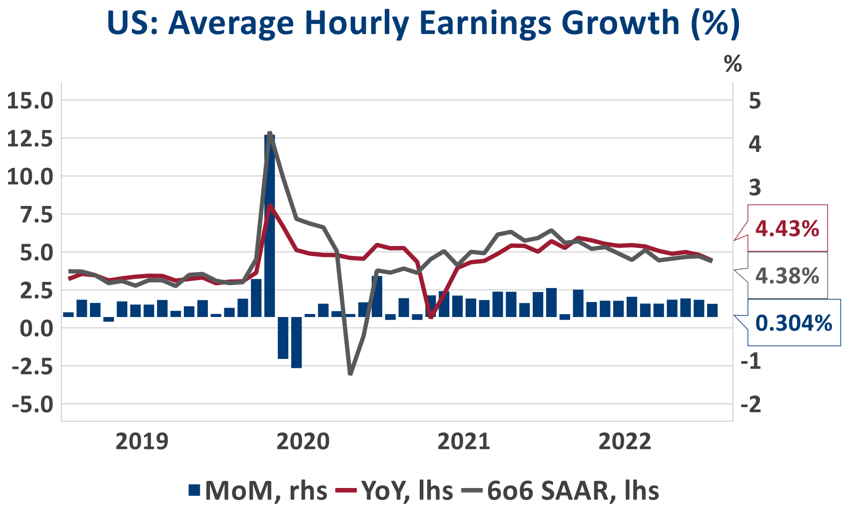
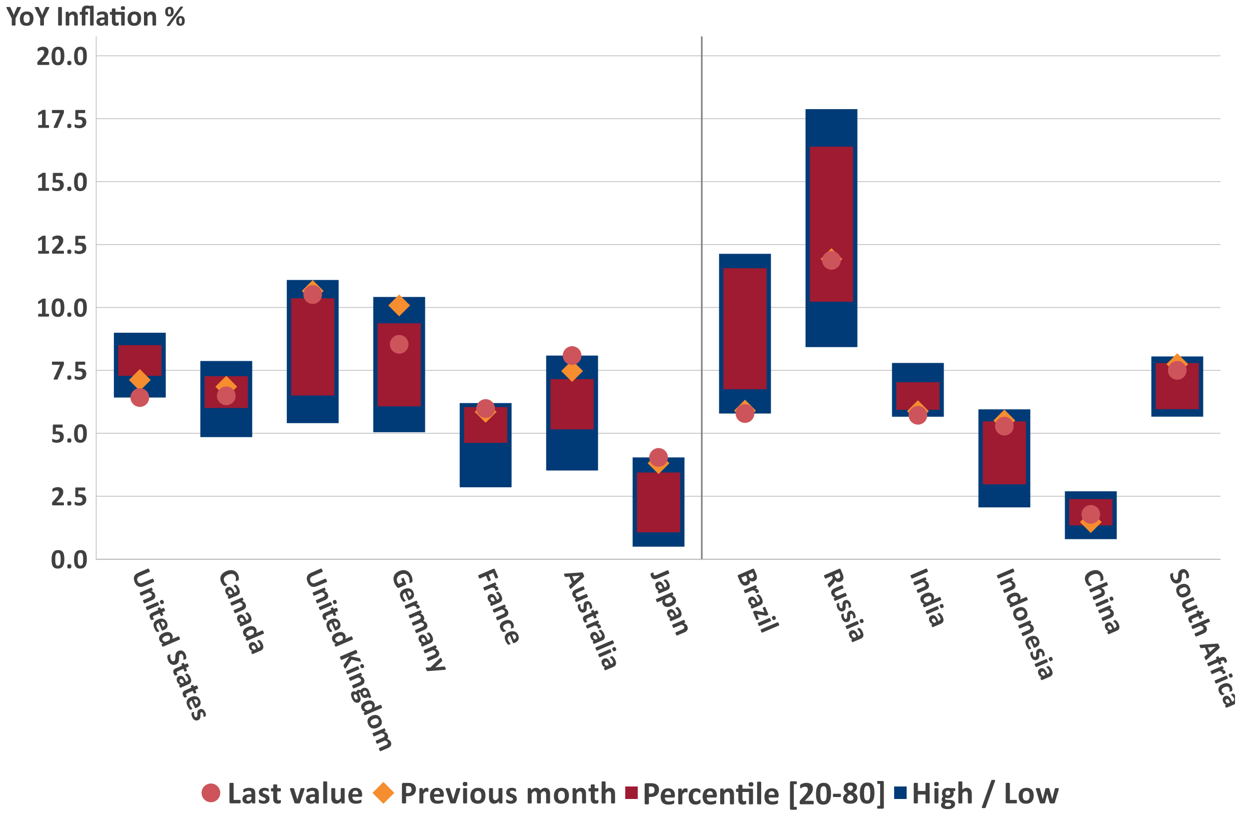


Source: BOCOM BBM, Macrobond

Global: Inflation

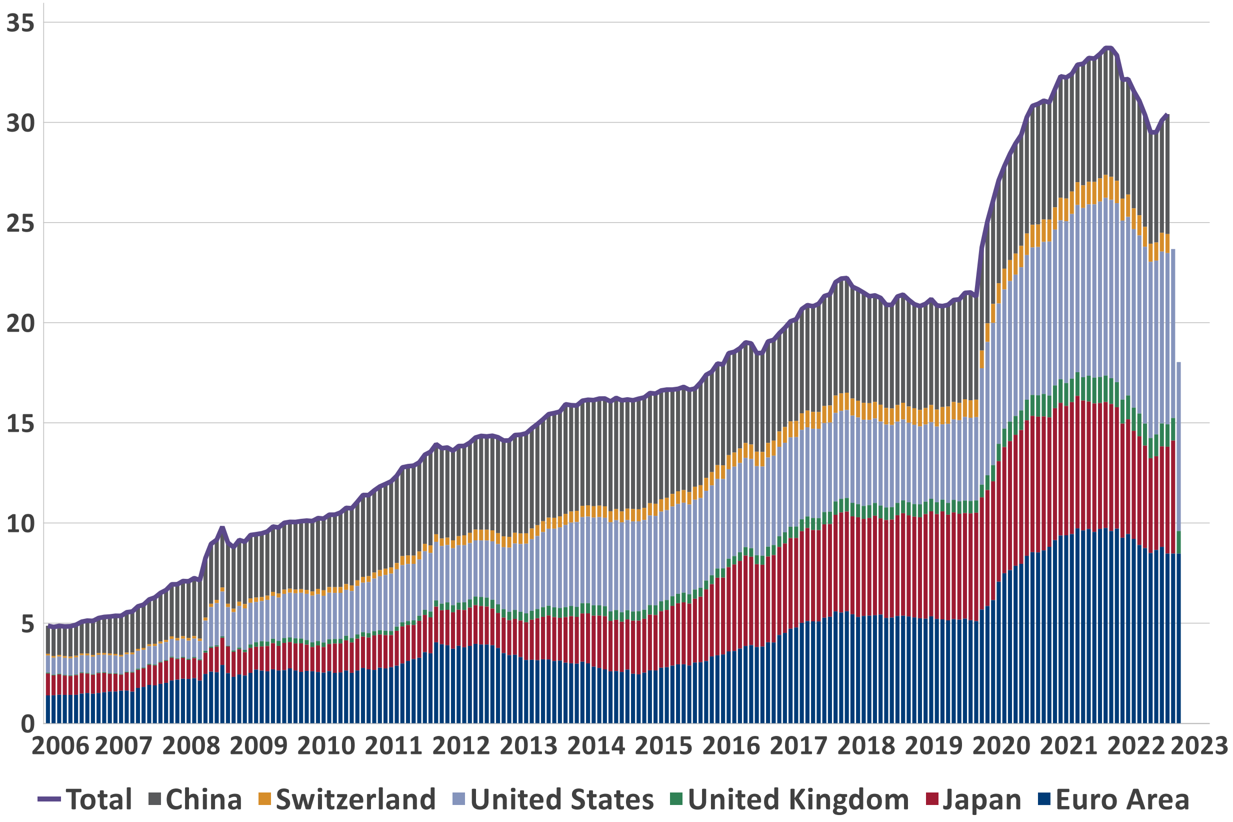
- For the first time in decades, inflation across emerging markets is not significantly higher than it is in developed markets;
- In order to bring inflation convergence back to their respective targets, many central banks are reducing their balance sheets, resulting in a tightening of the monetary policy of several economies.

Inflation range during the past 12 months



Source: BOCOM BBM, Macrobond

Central banks balance sheets (Trillions of USD)

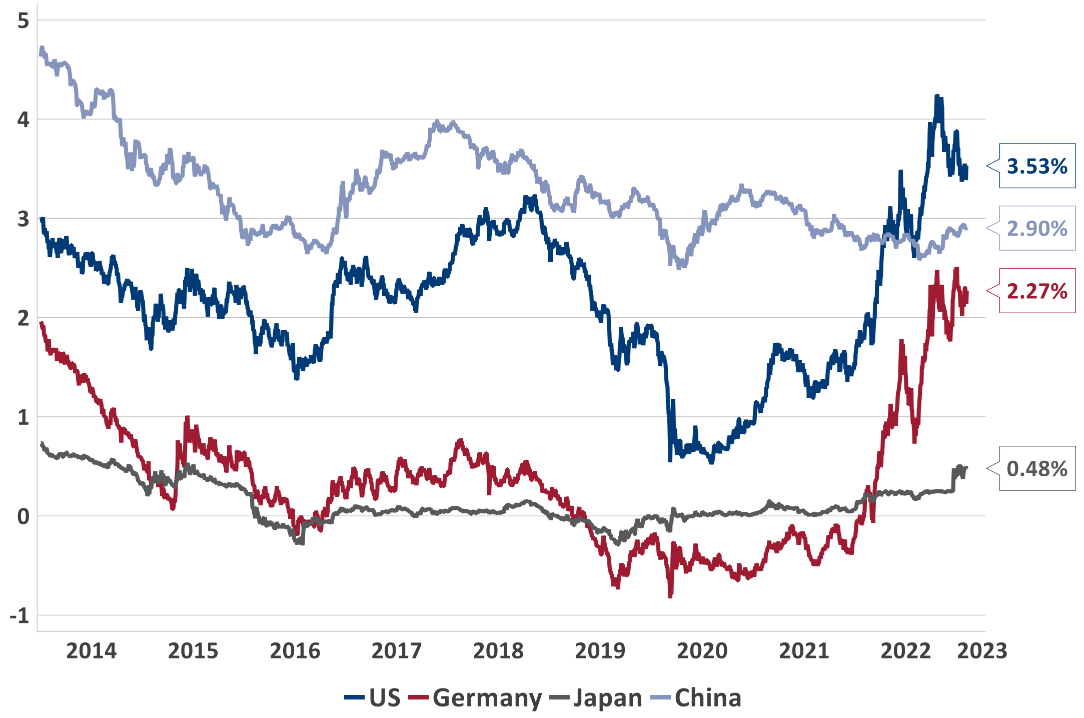


Source: BOCOM BBM, Macrobond

Global: Interest Rates

- Correspondingly, interest rates across several countries are rising, with a few exceptions like China and Japan;
- In February's FOMC meeting, a **25bps** hike was implemented to the Fed funds rate range which is now at **4.5% to 4.75%**;
- The committee's still signaling at least two more 25bps hikes to reach the December's projected terminal rate of **5.125%;**
- The strong result for January's payroll makes the Fed job to contain inflation harder, and there's the possibility of raising the terminal rate even further.

10 Year Interest Rates (%)



Source: BOCOM BBM, Macrobond, BUBA, JBT, CCDC

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	5	28
Australia	3.1	0.25	Hike	12/2022	2	27
Brazil	13.8	0.5	Hike	8/2022	6	30
Canada	4.5	0.25	Hike	1/2023	0	34
Chile	11.3	0.5	Hike	10/2022	4	34
China	3.65	-0.050	Cut	8/2022	108	6
Colombia	12.8	0.75	Hike	1/2023	0	28
Costa Rica	9	0.5	Hike	10/2022	3	32
Czech Republic	7	1.25	Hike	6/2022	8	33
Denmark	2.25	0.35	Hike	2/2023	0	16
Euro Area	3	0.5	Hike	2/2023	0	83
Hungary	13	1.25	Hike	9/2022	4	31
Iceland	6	0.25	Hike	11/2022	3	27
India	6.25	0.35	Hike	12/2022	2	33
Indonesia	5.75	0.25	Hike	1/2023	1	24
Israel	3.75	0.5	Hike	1/2023	1	34
Japan	-0.1	-0.2	Cut	1/2016	192	84
Mexico	10.5	0.5	Hike	12/2022	2	24
New Zealand	4.25	0.75	Hike	11/2022	3	35
Norway	2.75	0.25	Hike	12/2022	2	33
Poland	6.75	0.25	Hike	9/2022	5	32
Russia	7.5	-0.5	Cut	9/2022	11	5
Saudi Arabia	5	0.5	Hike	12/2022	2	35
South Africa	7.25	0.25	Hike	1/2023	0	31
South Korea	3.5	0.25	Hike	1/2023	1	32
Sweden	2.5	0.75	Hike	11/2022	2	84
Switzerland	1	0.5	Hike	12/2022	2	97
Turkey	9	-1.5	Cut	11/2022	23	2
United Kingdom	4	0.5	Hike	2/2023	0	35
United States	4.75	0.25	Hike	2/2023	0	35

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%	5.8%	6.0%	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	44	43	35
Current Account Balance (US$ bn)	-68	-28	-46	-56	-48	-52
Current Account Balance (% of GDP)	-3.6%	-1.9%	-2.8%	-2.9%	-2.4%	-2.5%
Fiscal Policy						
Central Government Primary Balance (% of GDP)	-1.3%	-9.8%	-0.4%	0.6%	-1.1%	-0.8%
Government Gross Debt (% of GDP)	74.3%	86.9%	78.8%	73.5%	79.9%	85.1%

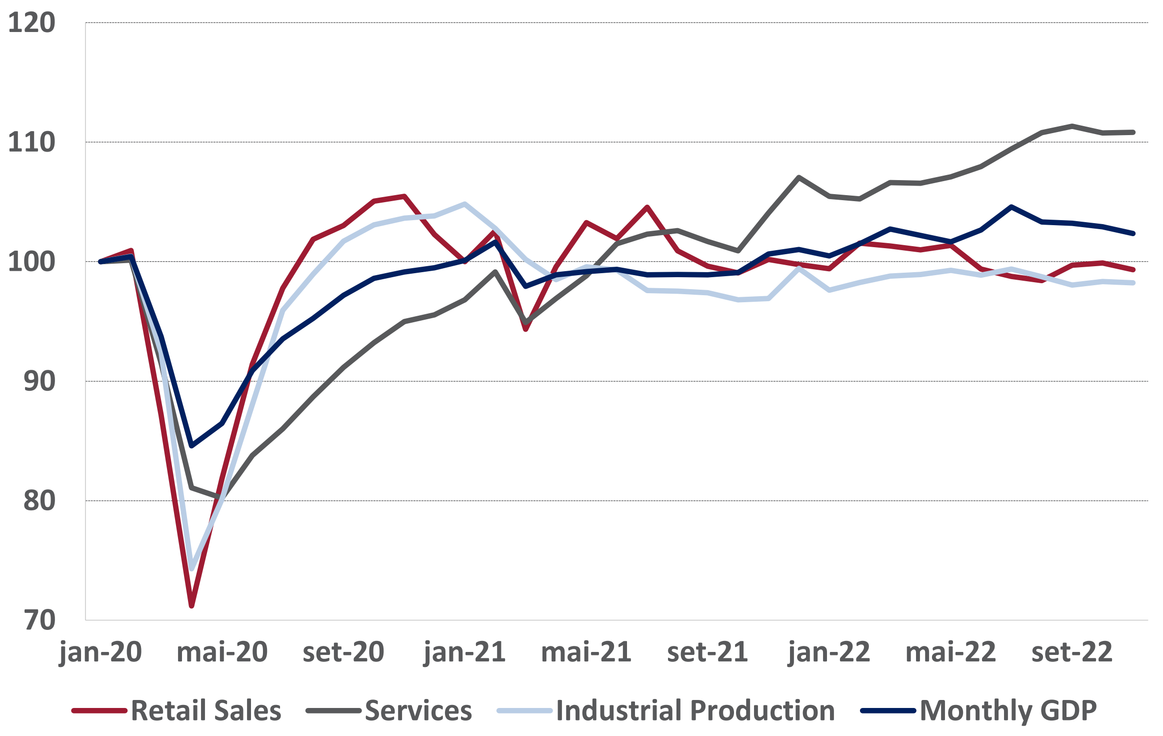
Source: BOCOM BBM

Brazil: Activity

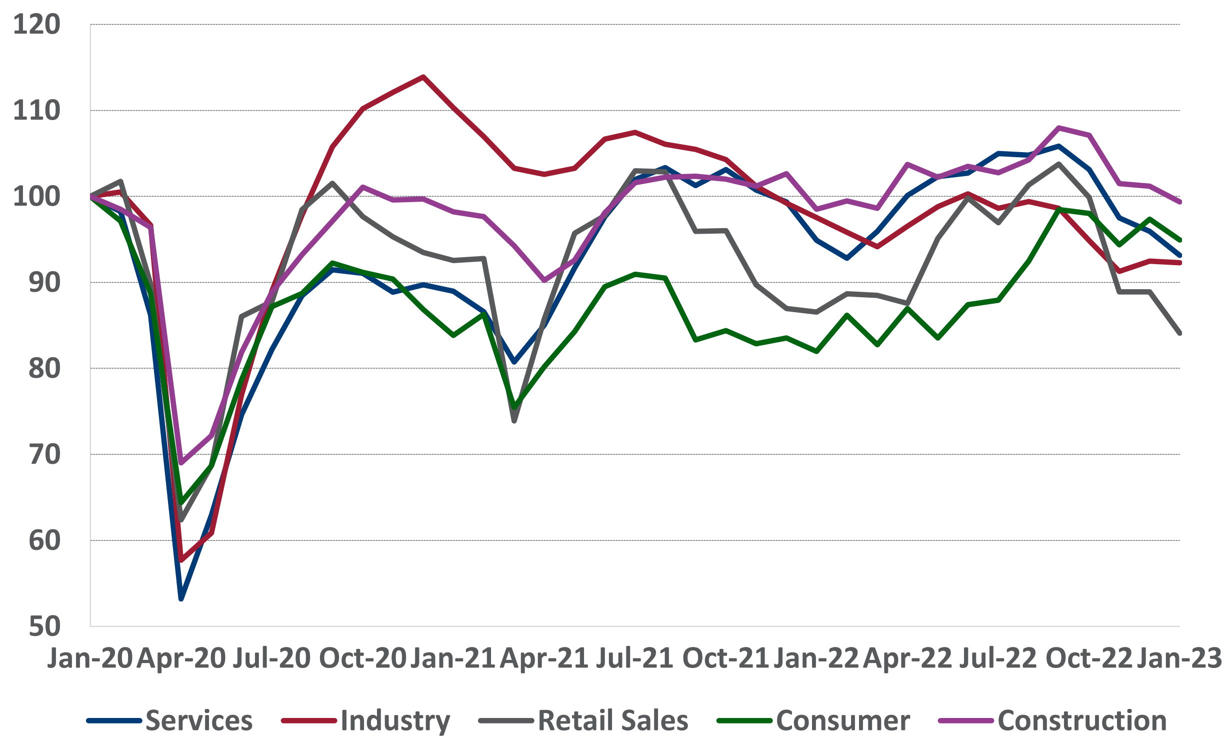
交通銀行 BANK OF COMMUNICATIONS BBM

- Leading economic activity indicators continue to point to a slowdown in Q4;
- In November, the IBC-Br registered a slight decrease and was below market expectations, driven by the Retail sector, which presented a fall of -0.6% MoM;
- Confidence indicators again showed a generalized decline in January. Signal of cooling economic activity.

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



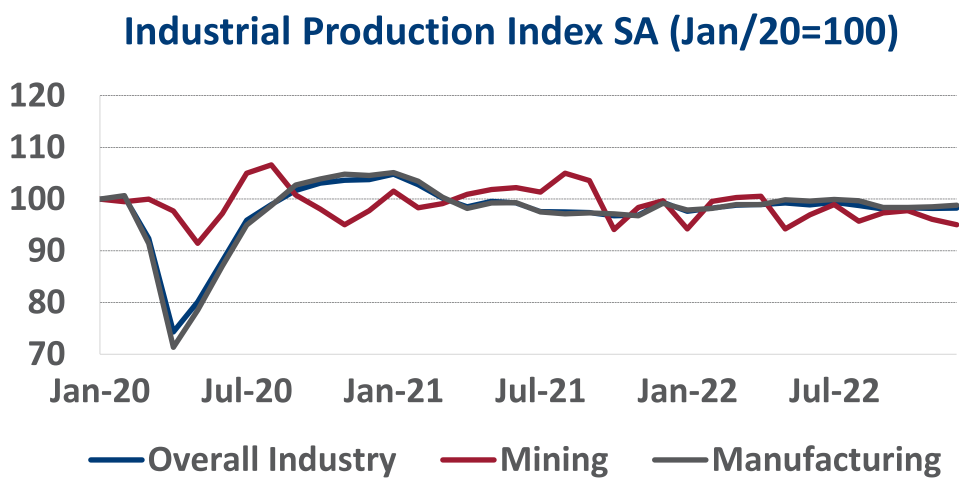
Brazil - Economic Confidence Index (Jan/20 = 100)

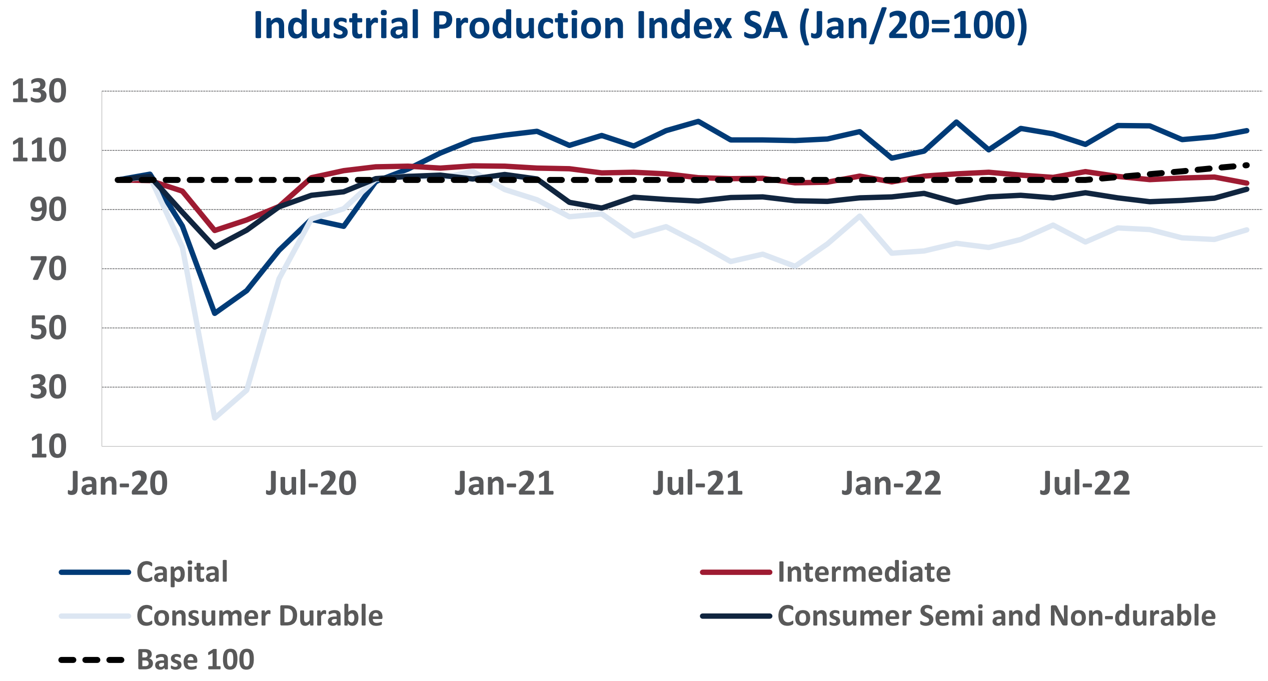


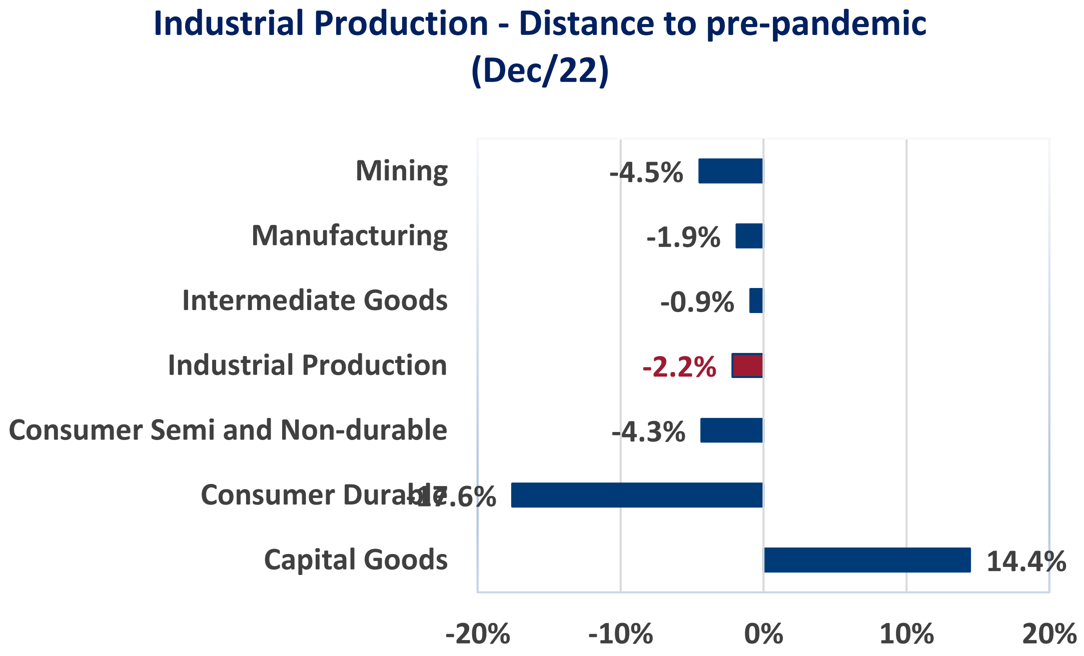
Source: BOCOM BBM, IBGE

Brazil: Industrial Production

- Industrial production remained stable in December, in line with expectations
- The extractive industry fell 1.1% MoM, the second month of decrease. In contrast, there was an expansion of 0.3% MoM for manufacturing.





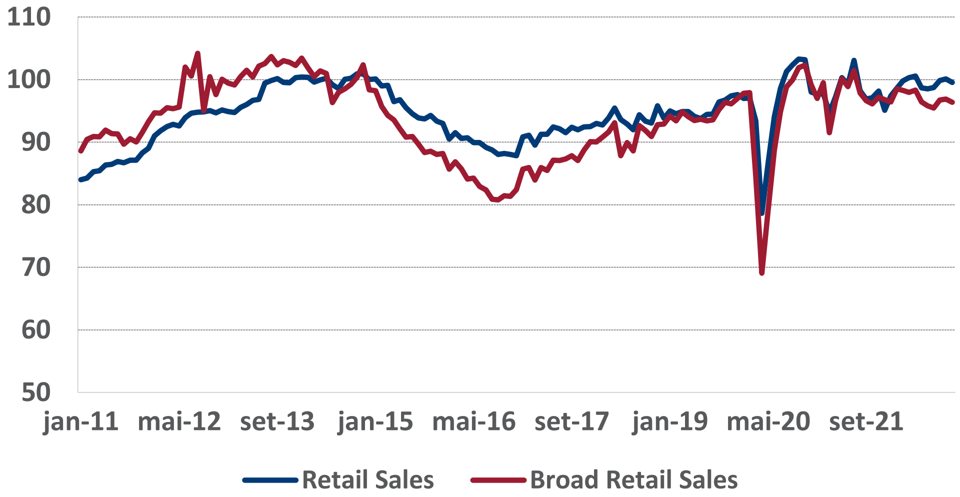


Source: IBGE, BOCOM BBM

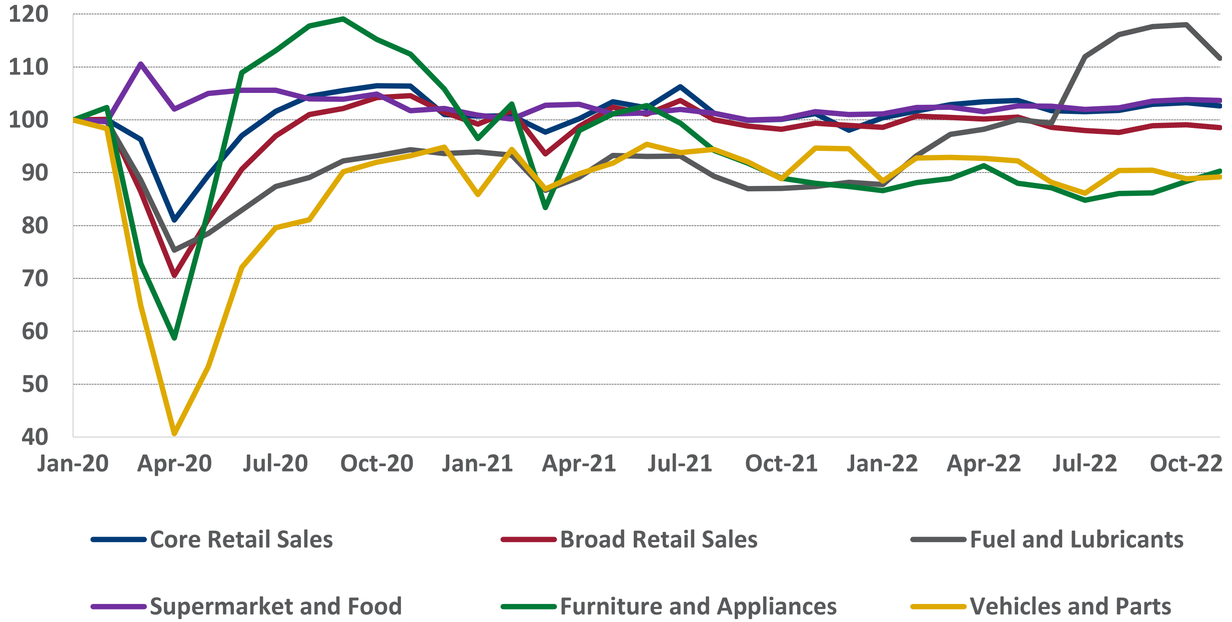
Brazil: Retail Sales

- Core retail sales (excluding autos and construction materials) fell by 0.6% MoM (1.5% YoY) in November, below market expectations of 0.3% MoM (1.9% YoY)
- Broad Retail Sales fell -0.6% MoM (-1.4% YoY), worse than market expectation of 0% MoM (-0.7% YoY);
- Sales of more credit-sensitive items should continue to slow down, but should be smoothed by the expected increase in households' real disposable income.

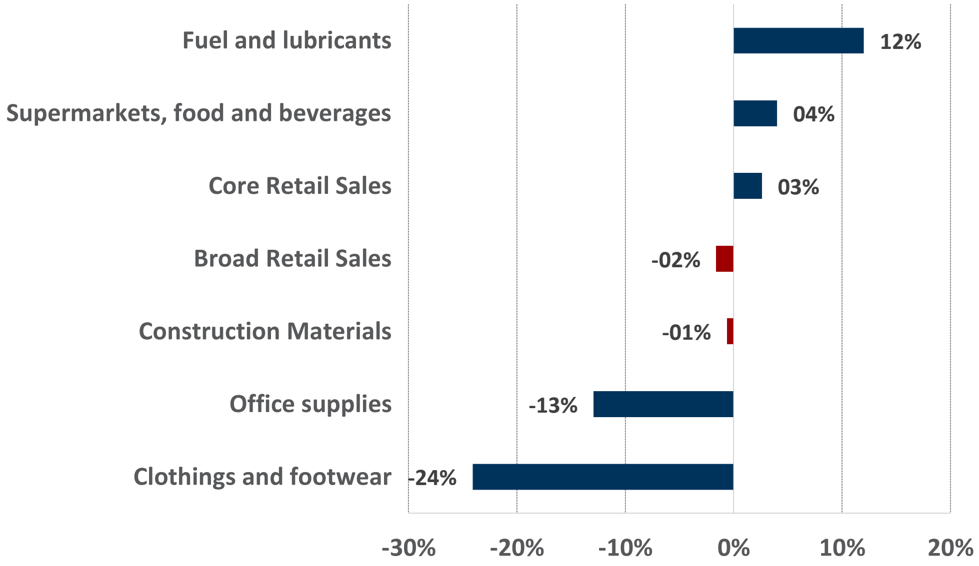
Retail Sales (Level SA)



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



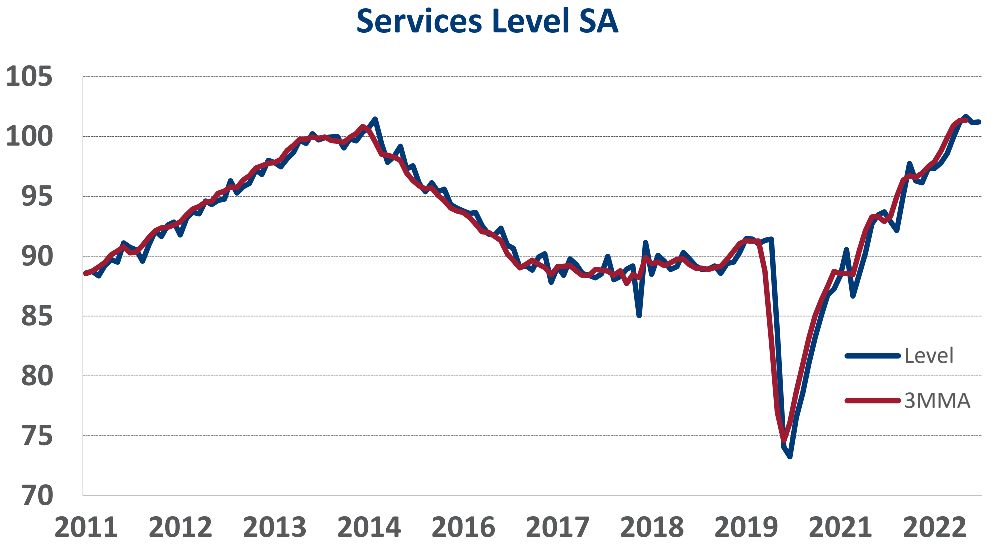
Retail Sales - Distance to pre-pandemic level (Nov/22)

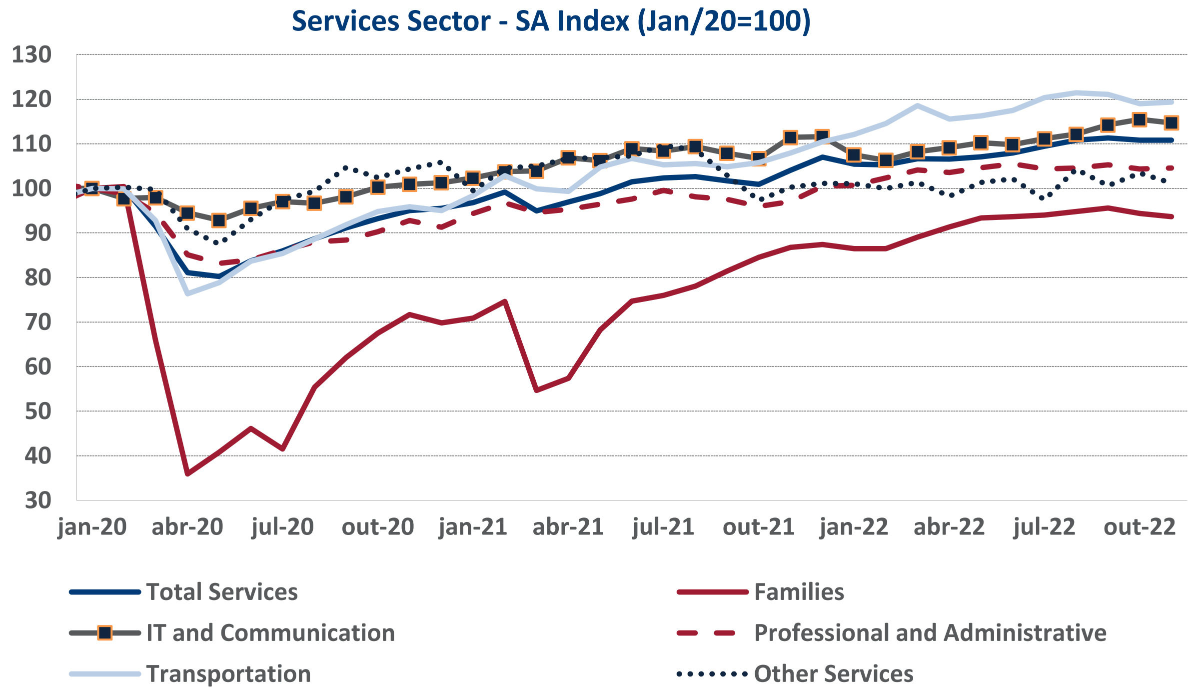


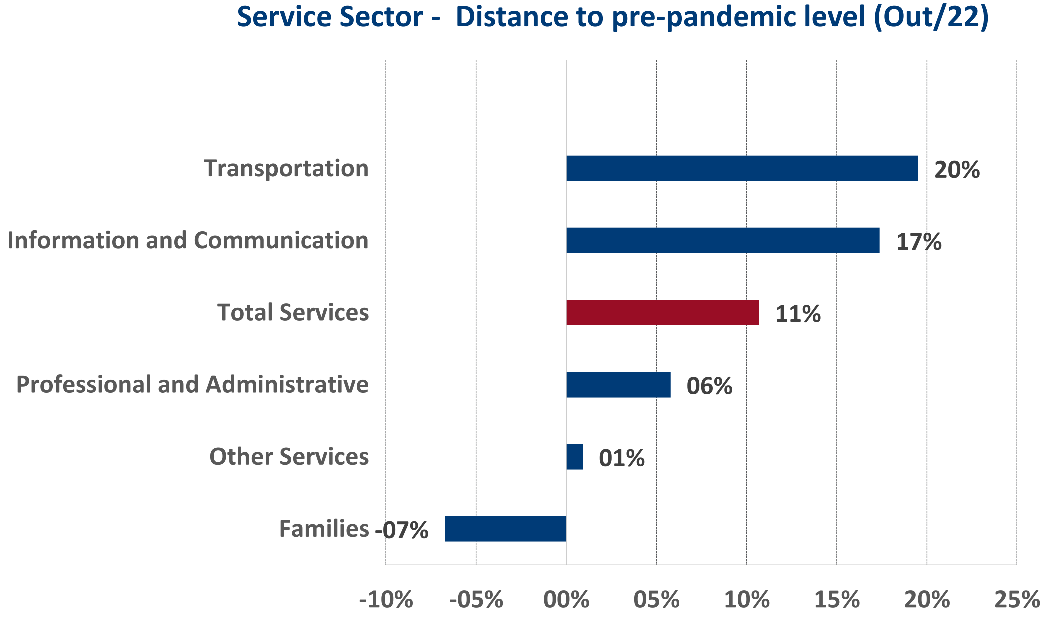
Source: IBGE, BOCOM BBM

Brazil: Services

- The Service sector activity was flat in November from October (0.0% MoM; 6.3% YoY), while the market consensus was 0.2% MoM and 6.4% YoY, a slight negative surprise;
- Only Transportation and Professional & Administrative Services advanced in the month;
- For 2023, tight monetary and financial conditions, high levels of household income commitment, moderation in job creation and the incipient turnaround in credit conditions should generate negative impacts on services activity.





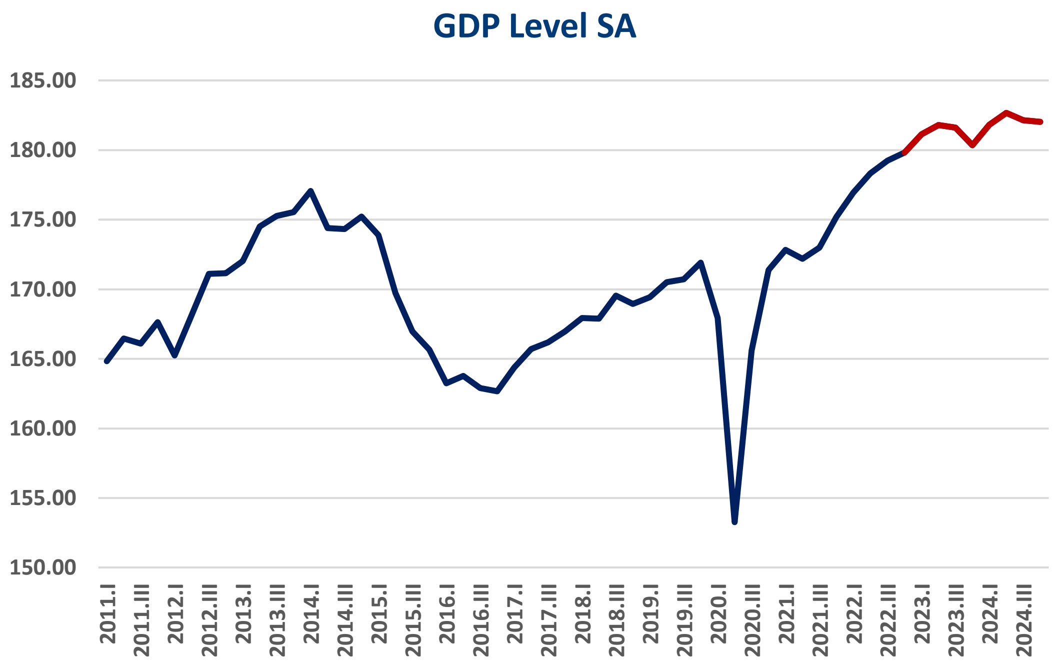


Source: IBGE, BOCOM BBM

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 %)

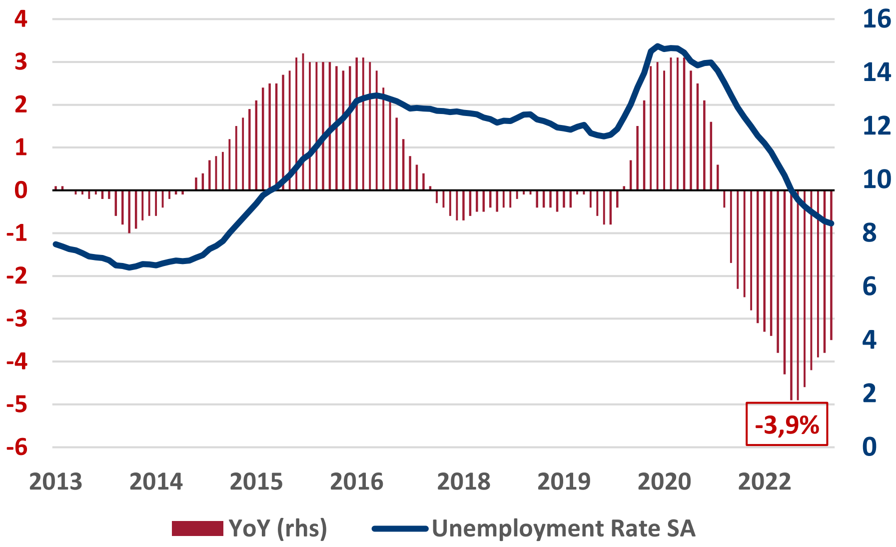
	2022.IV QoQ	2022.IV YoY	2022	Carry Over	2023	2024
GDP	**-0.1%**	**2.1%**	**2.9%**	**0.3%**	**1.5%**	**1.0%**
Agriculture	**0.4%**	**0.0%**	**-1.3%**	**-0.1%**	**8.0%**	**3.1%**
Industry	**0.0%**	**3.0%**	**1.7%**	**0.8%**	**0.3%**	**1.1%**
Mining	1.9%	0.8%	-1.9%	2.0%	1.6%	1.4%
Manufacturing	-1.3%	1.1%	-0.3%	-0.6%	-0.8%	0.6%
Electricity	0.4%	12.0%	10.4%	0.8%	0.6%	2.2%
Civil Construction	1.1%	5.3%	7.4%	1.8%	1.9%	1.6%
Services	**0.3%**	**3.5%**	**4.2%**	**1.0%**	**1.1%**	**0.8%**
Retail Sales	-1.5%	1.0%	0.5%	-0.9%	-0.6%	0.4%
Transports	-0.4%	4.7%	8.2%	0.8%	0.8%	0.3%
Information and Communication	3.1%	6.8%	6.0%	5.3%	3.9%	0.5%
Financial services	0.1%	1.1%	0.1%	0.7%	1.2%	-0.3%
Rents	0.8%	3.1%	2.5%	1.5%	1.5%	0.4%
Other Services	0.4%	8.4%	11.1%	1.9%	1.3%	0.9%
Public Services	0.8%	1.5%	2.0%	0.9%	1.6%	1.9%

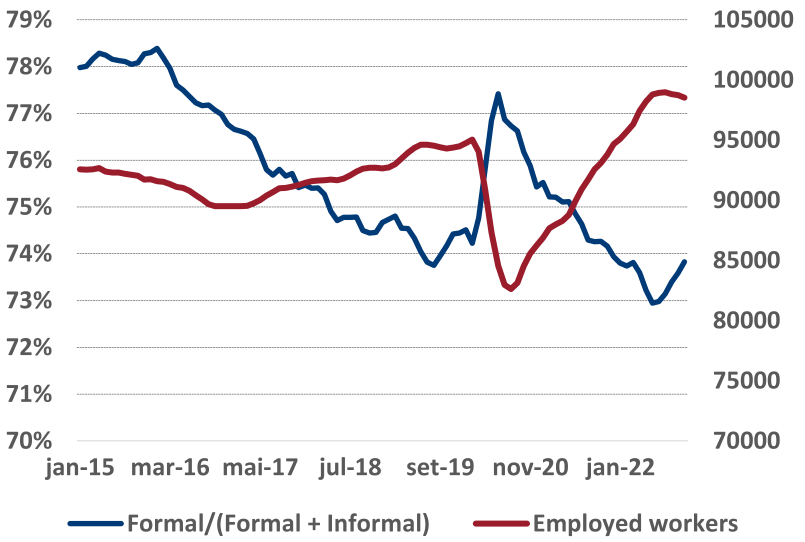


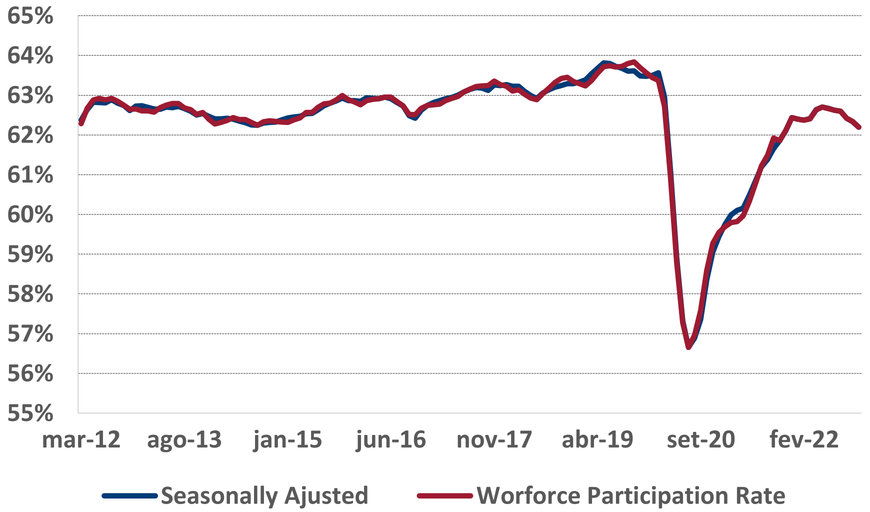
Source: BOCOM BBM, IBGE

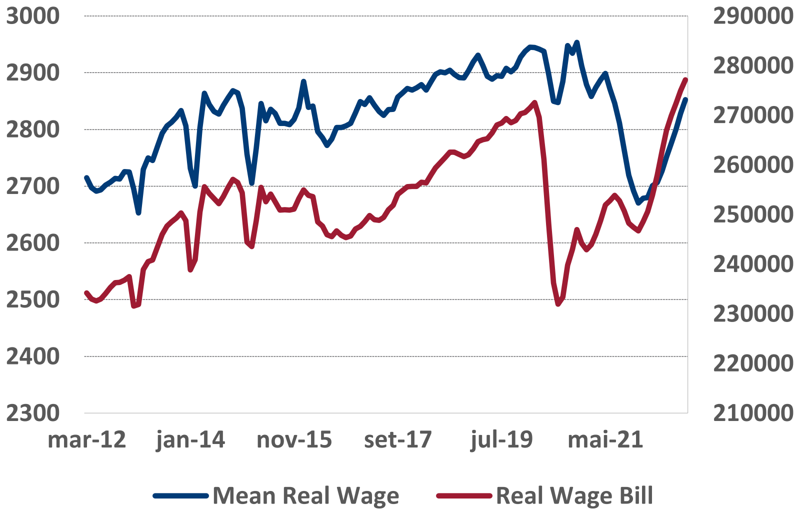
Brazil: PNAD

- In November, the unemployment rate fell from 8.3% to 8.06% (8.45% to 8.36% seasonally adjusted), as expected by the market. Increase in formal jobs (albeit losing strength at the margin), but a drop in informal ones;
- The marginal drop in the unemployment rate is associated with a drop in participation, as it happened in October. In particular, the lower employment of informal workers, by the third month in a roll, suggests an impact of cash transfers on the job offer;
- Real mean wages levels continue to rise across all categories. Overall, it increased by 1% MoM;
- The employed population was stable during November, after 8 months in an upwards trend. This suggest that tight monetary conditions will begin to be more impactful to the labor market during 2023.





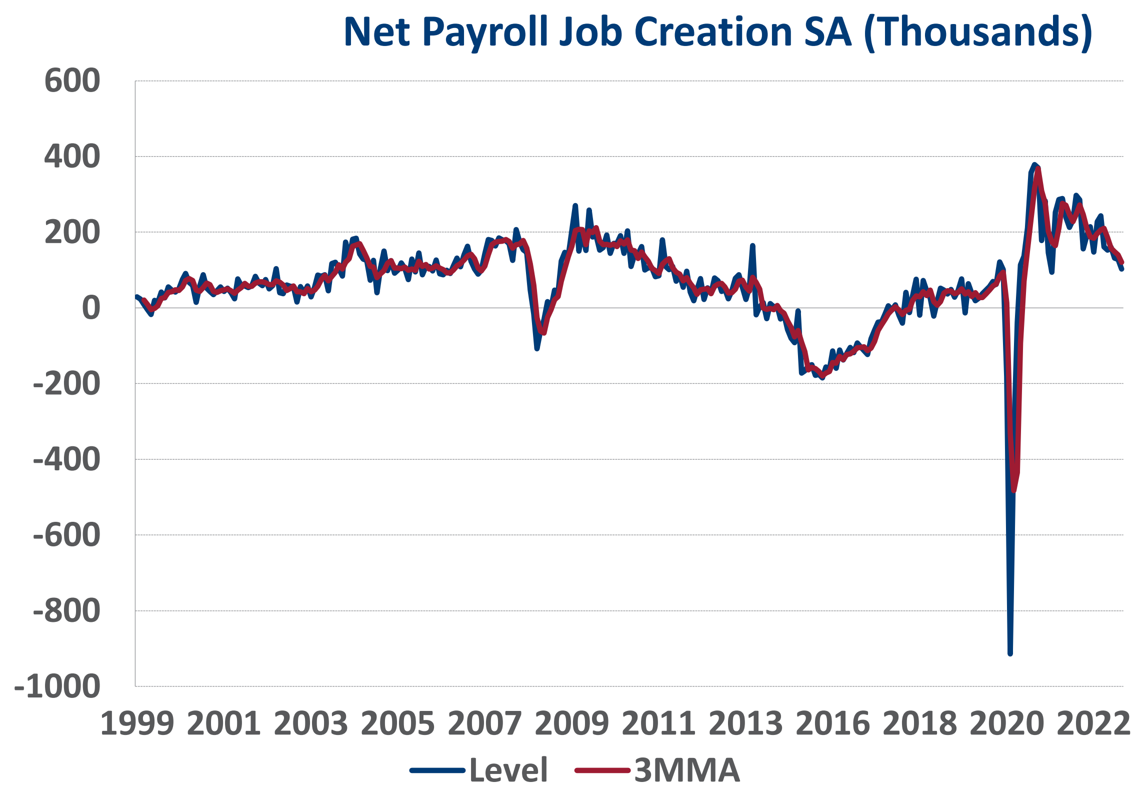


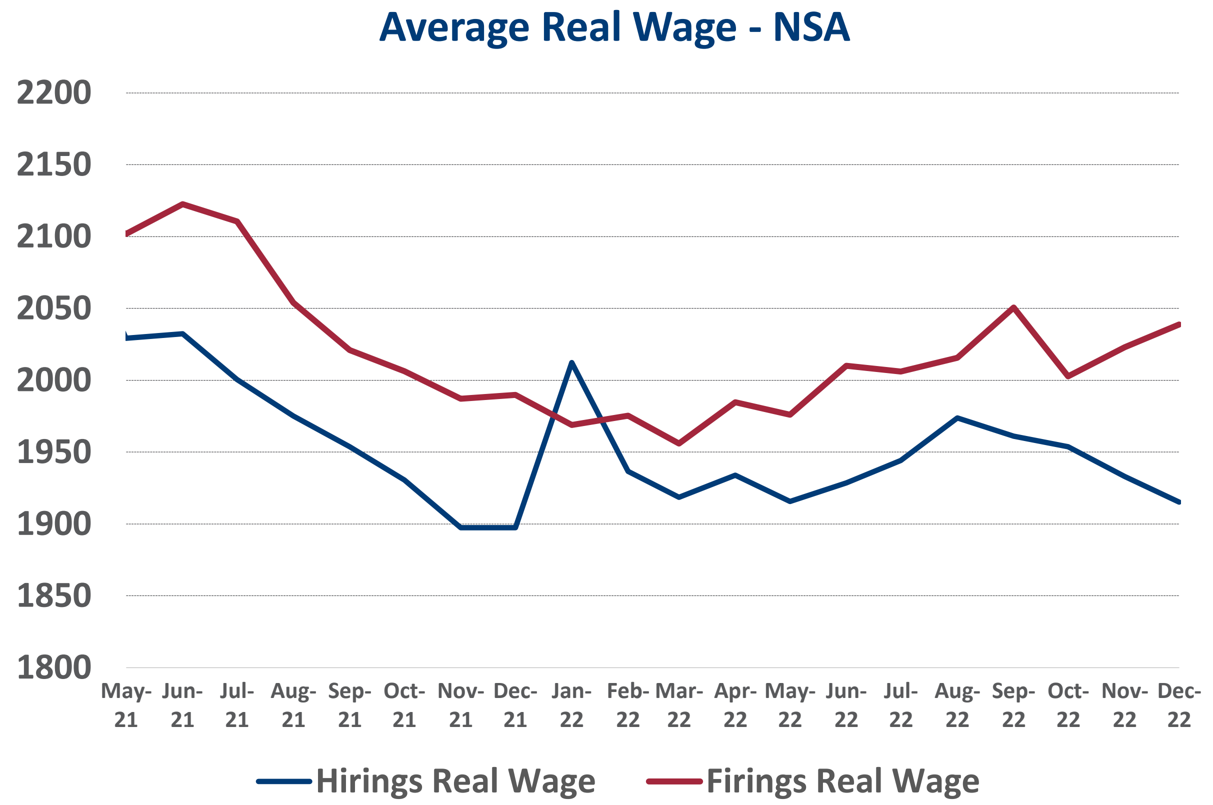


Source: IBGE, Bocom BBM, MTE

Brazil: Formal Labor Market

- Caged recorded a net decrease of 431k formal jobs in December, below the market consensus of -328k;
- Using our seasonal adjustment, 103k formals jobs were created, while in November this number was 128k.
- In 2022, there were 2mn job openings, while in 2021 this number was 2.9mn.

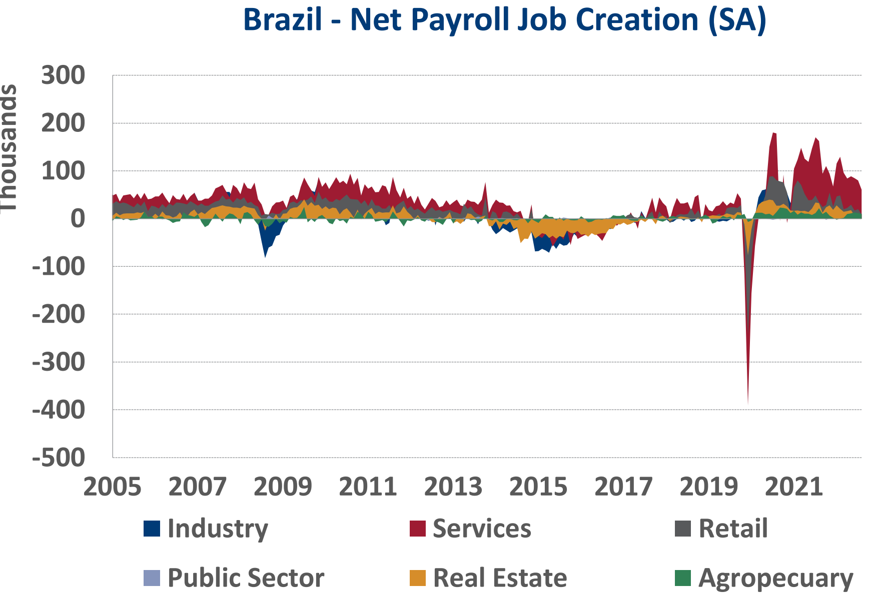




Source: BOCOM BBM, BCB

Brazil: Formal Labor Market

- Regarding the sectors, service activities showed a total net creation of 60k (SA) formal jobs in December from 80k (SA) jobs in November;
- The net creation of jobs in the Retail sector registered 9k (SA) in December from 20k (SA) in November;
- Industry presented a total net creation of 11k s.a formal jobs in December from 5k (SA) jobs in November;
- The trend of deceleration spread across all sectors is clear.

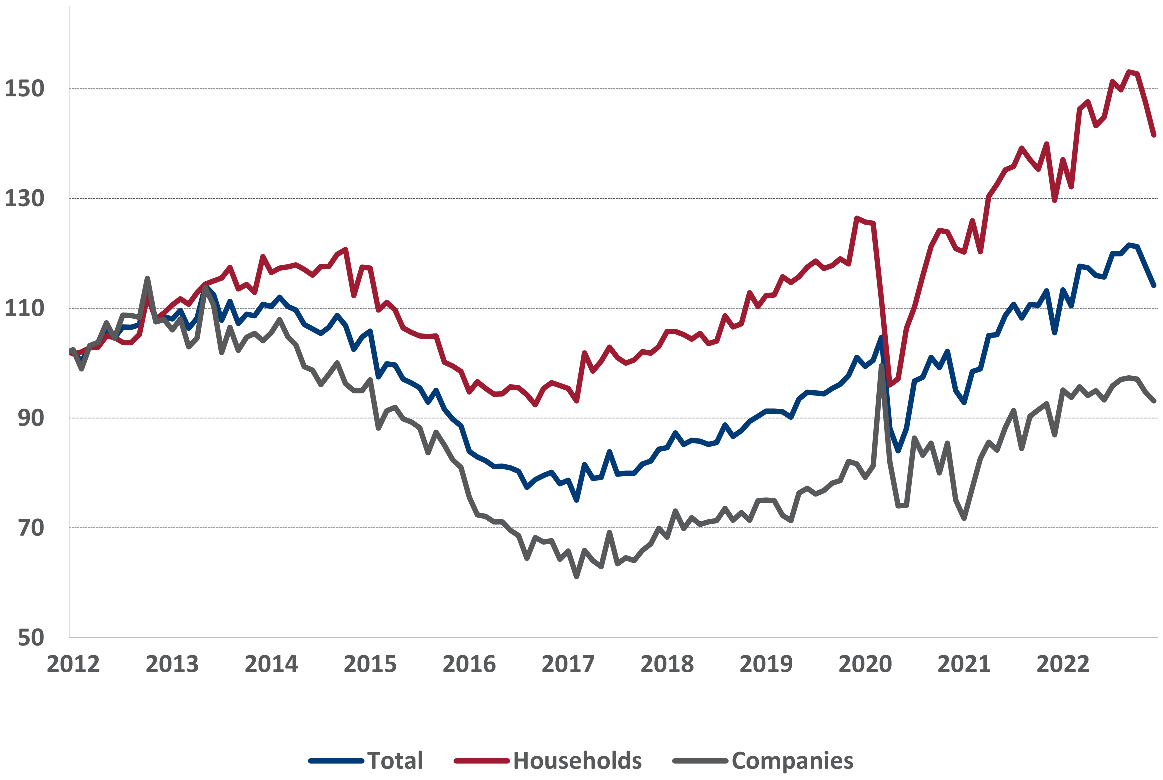


Source: BOCOM BBM, BCB

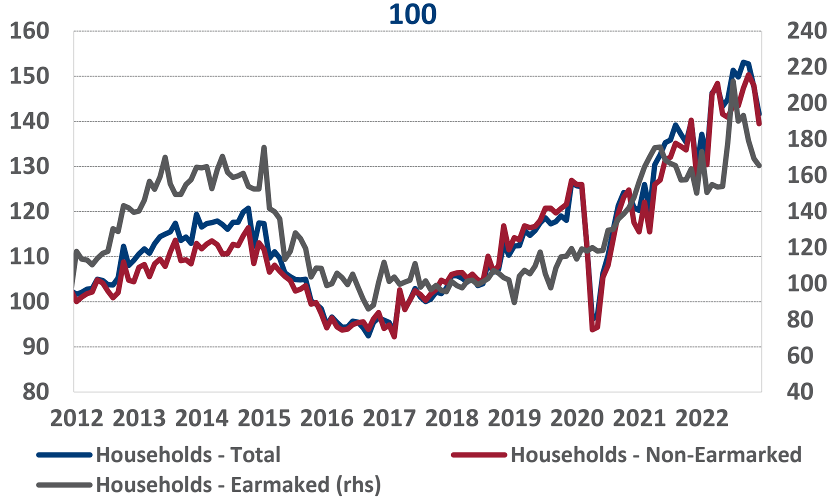
Brazil: Credit Statistics

- Credit concessions slowed down even more in December, driven by the non-earmarked credit segment (mainly for individuals)
- We expect credit conditions to become more demanding in the coming months, given the high level of consumer indebtedness, high interest rates and the slowdown in economic activity.

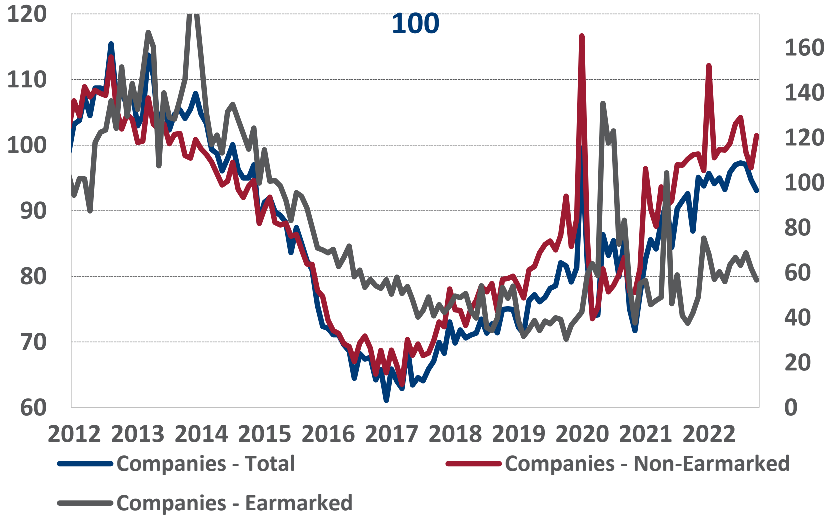
New Credit Operations SA (Real) - mar/11 = 100



Concessions - HouseHolds SA (Real) - Mar/11 = 100



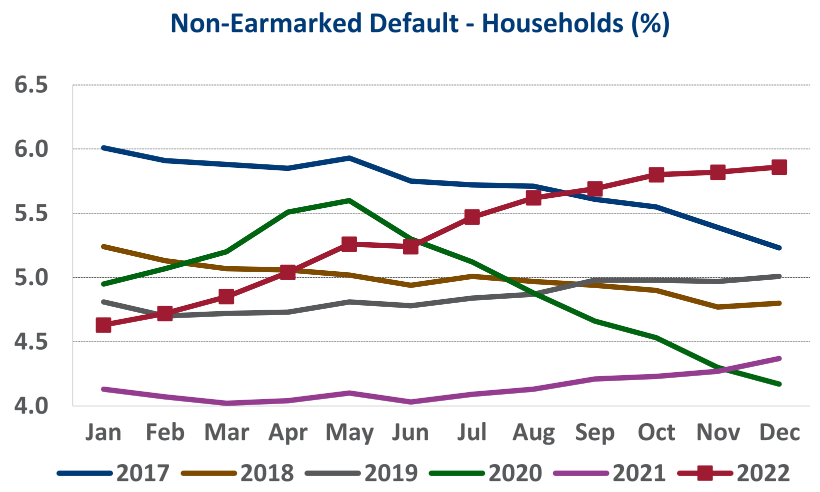
Concessions - Companies SA (Real) - mar/11 = 100

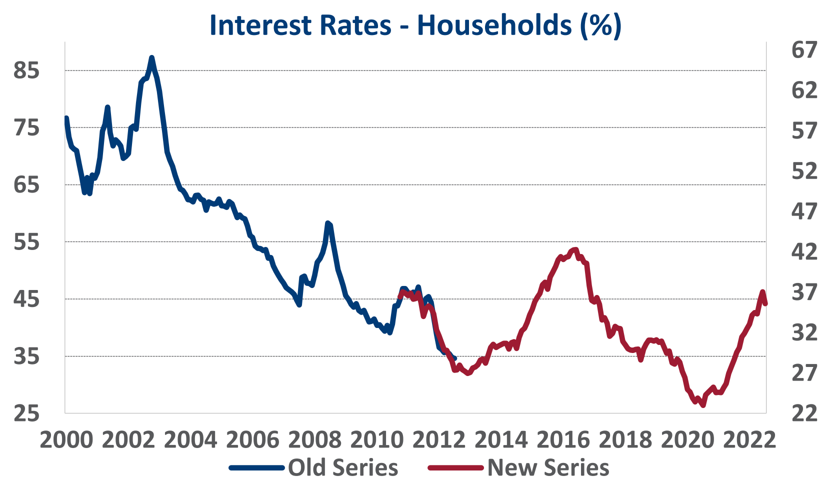


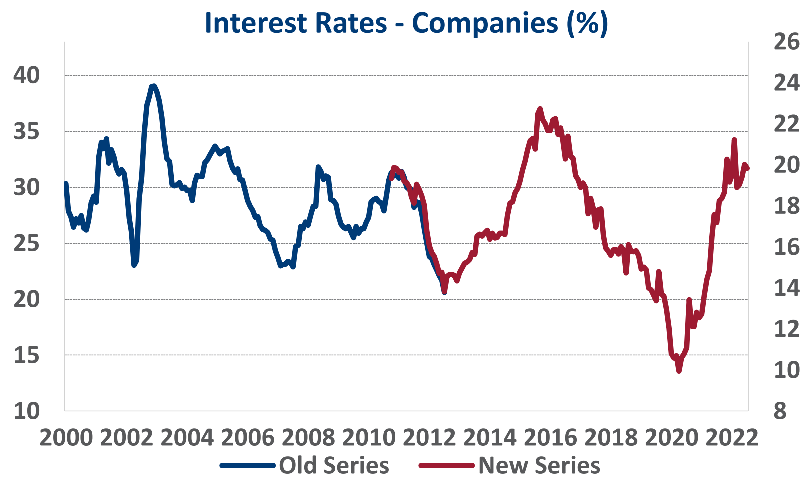
Source: BOCOM BBM, BCB

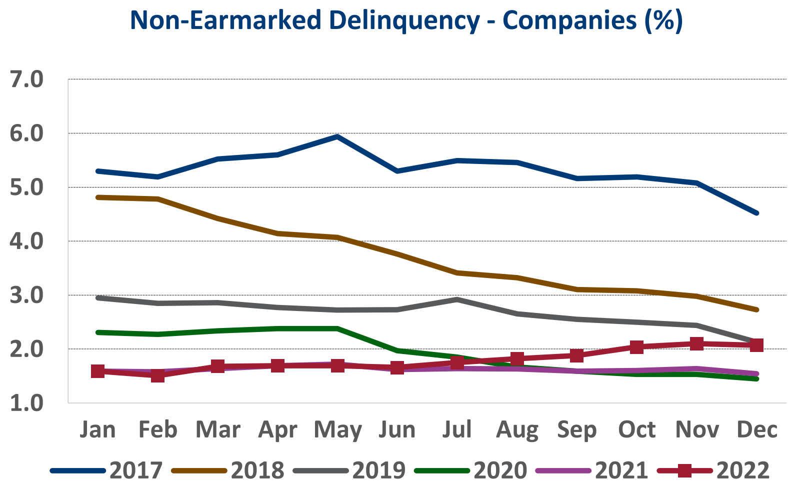
Brazil: Credit Statistics

- Lending rates for individuals stood at 35.6% and rates charged on corporate loans stood at 19.8%
- Defaults by individuals continued to rise at the margin to the highest level since 2017





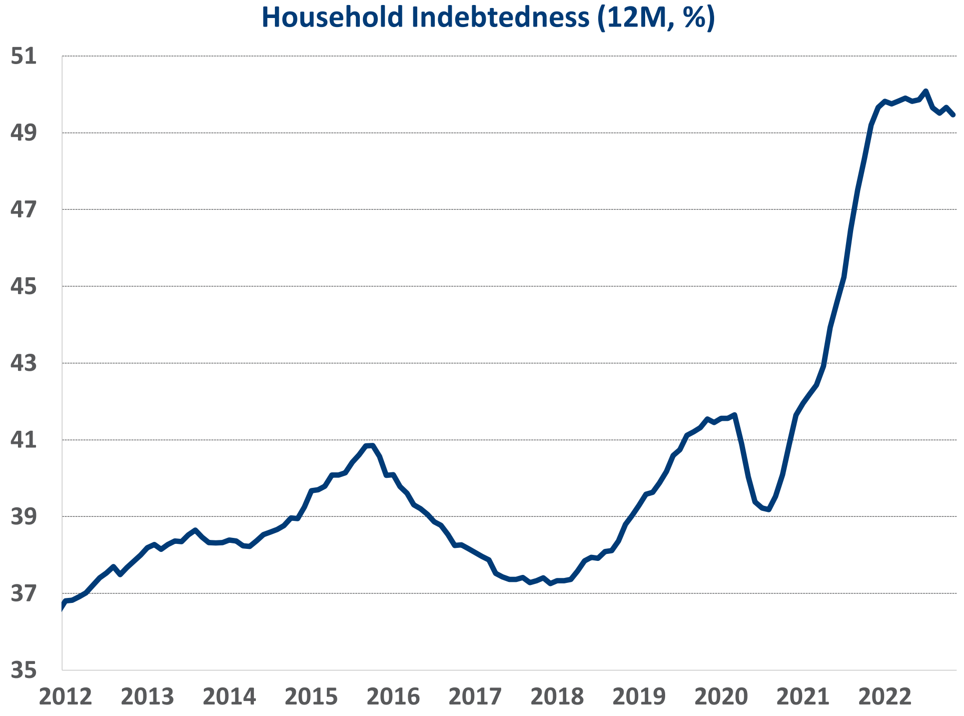


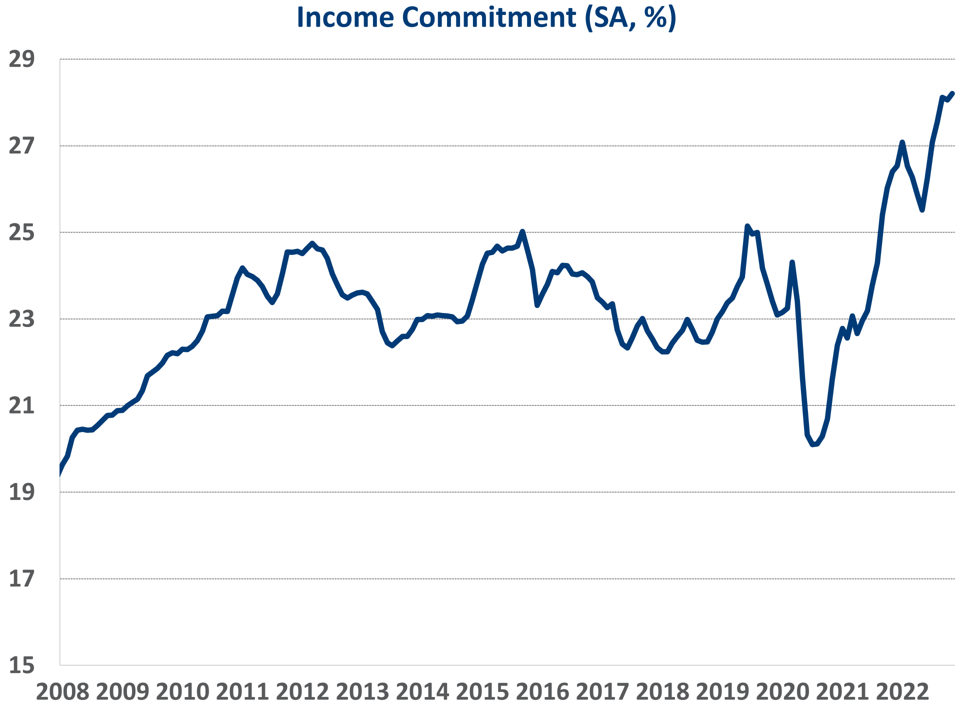


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- The household indebtedness indicator showed a slight drop of 0.2p.p., but debt service to income continued to rise, reaching 28.2%, an increase of 0.1p.p. m/m;
- The commitment of household income increased - the highest level of the historical series;

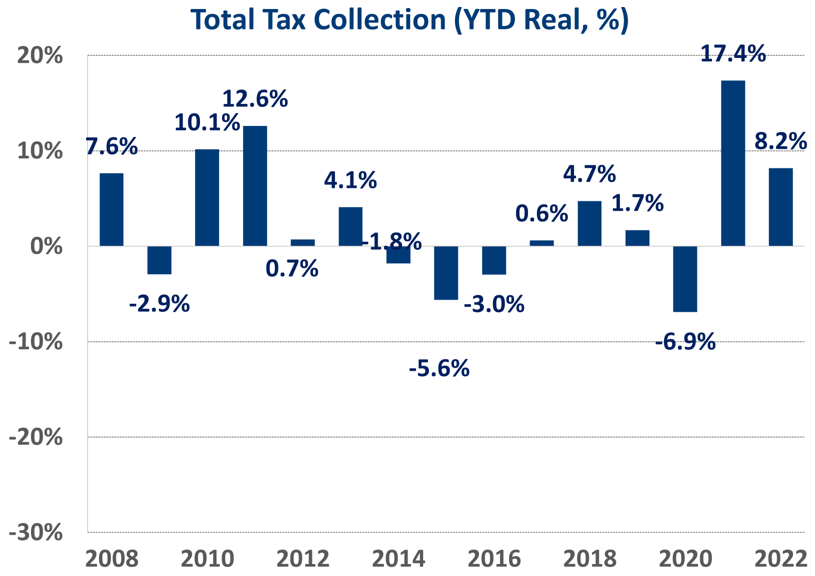


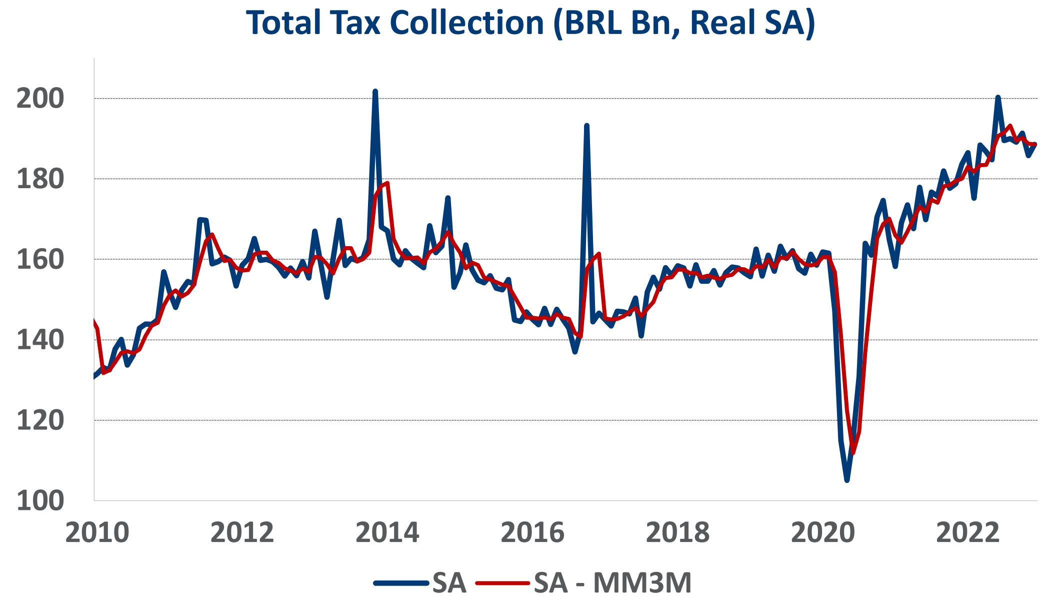


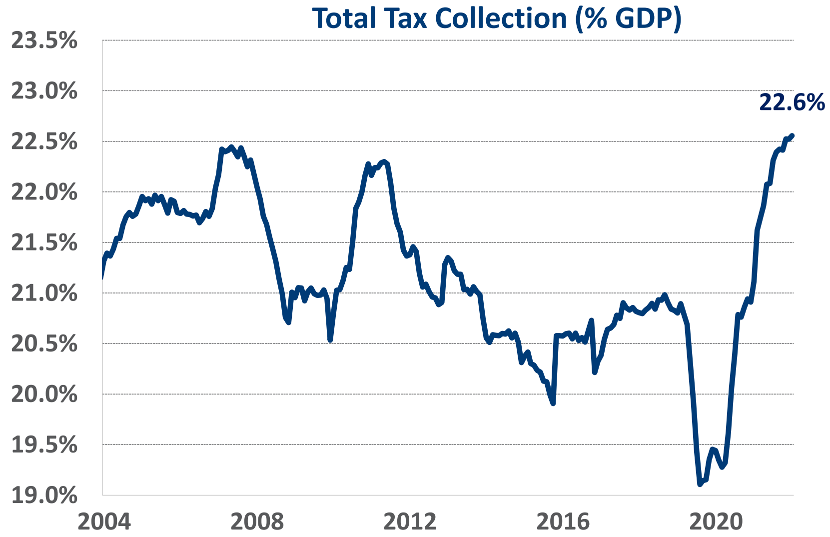
Source: BOCOM BBM, BCB

Brazil: Federal Tax Collections

- Total federal tax collections reached **BRL 210.2 bn in December -** slightly above consensus (BRL 210.0);
  - An **increase of 2.5% YoY** in real terms compared to the same month last year;
- In 2022, total tax collection registered **BRL 2,218 billion**, climbing 8.2% in real terms, the all-time-high;
  - Tax collection increase was **supported by IRPJ and CSLL;**



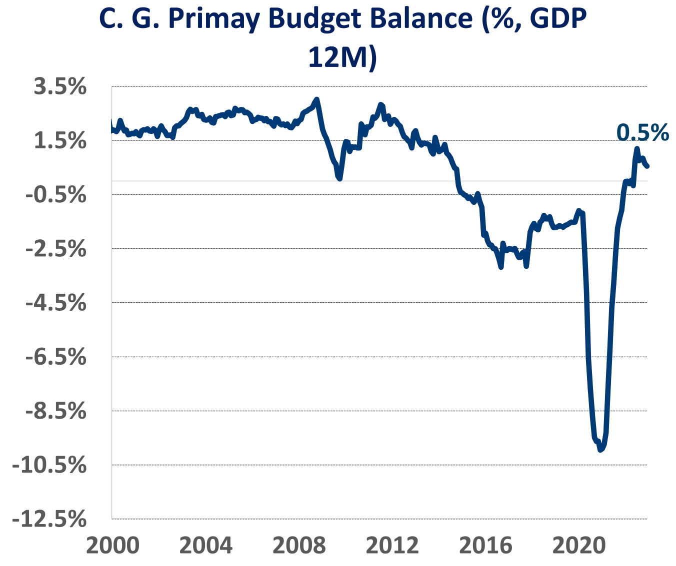


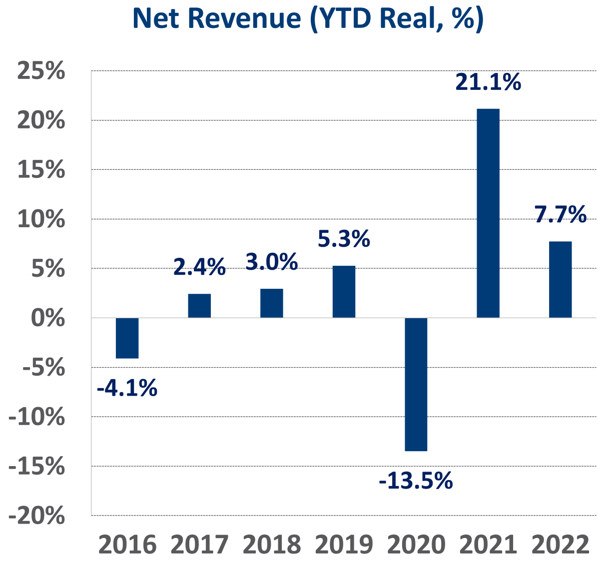


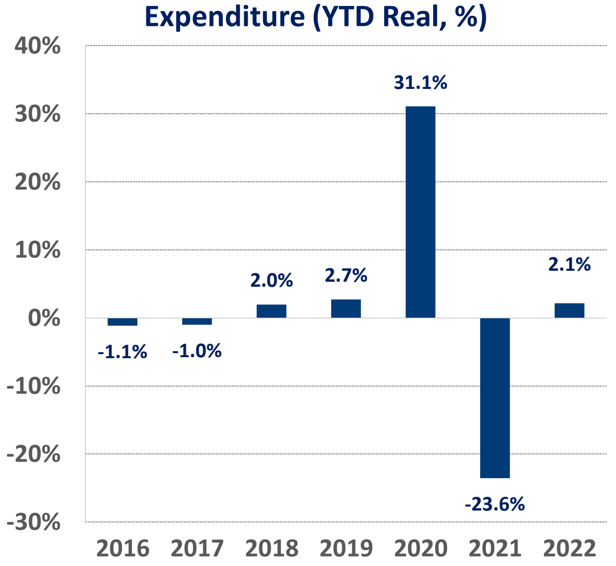
Fonte: BOCOM BBM, RFB

Brazil: Central Government Budget Deficit

- In December, the Brazilian central government registered a primary surplus of BRL 4.42 bn - the accumulated result in 12 months was a surplus of R$ 57.1 bn;
  - The 12-M accumulated primary result contracted to 0.5% of GDP;
- Net revenue fell 2.8% in real terms compared to December 2021. Except for withholding tax on capital income and other revenues administered by RFB, all other tax revenues declined in real terms;
  - As for 2022, net revenue grew 7.7% driven by higher corporate income taxes, concessions, dividends and shares and royalties from oil and gas;
- Total spending fell 0.6% in real terms, mainly due to a much lower execution in discretionary expenditures (-26.2%) to comply with the spending cap;
  - In 2022, total spending grew only 2.1% thanks to higher unemployment benefits, Auxílio Brasil and social security benefits, partially offset by the decrease in personal and charges and extraordinary credits.





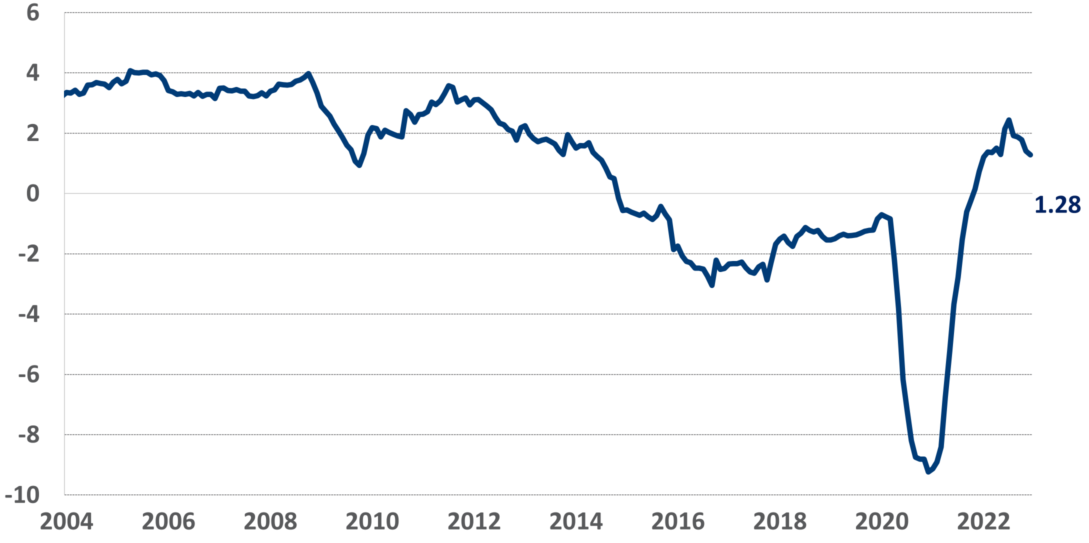


Source: BOCOM BBM, RTN

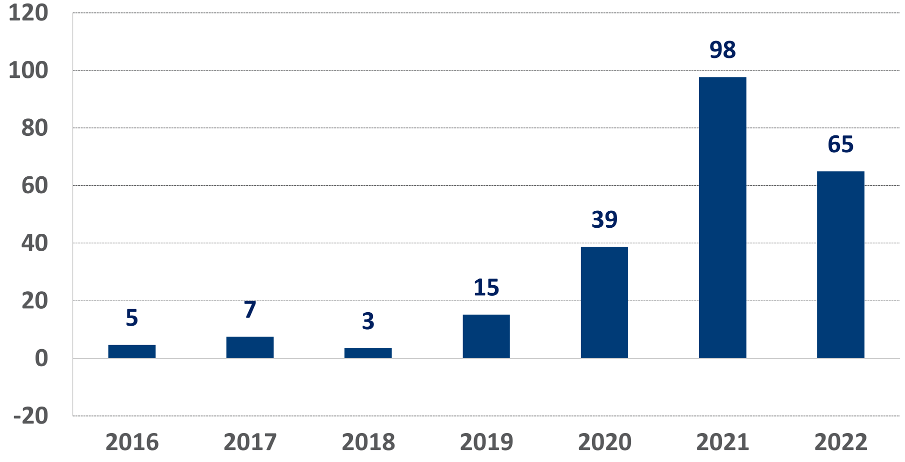
Brazil: Consolidated Public Sector Budget

- **The consolidated public sector reached a primary deficit of BRL 11.8 bn in December, above market consensus (BRL -12.4 bn);**
  - In 2022, the public sector posted a surplus of BRL 126.0 bn (**1.3% of GDP**) - best result since 2013;
- **Central government and SOEs reached a surplus of BRL 6.2 bn and BRL 0.6 bn, respectively, while subnational governments registered a deficit of BRL 18.6 bn;**
  - In 2022, central government, subnationals and SOE had a **surplus of BRL 54.9 bn, BRL 64.9 bn and BRL 6.1 bn**, respectively;

Primary Budget Balance (% GDP 12M)



Primary Suplus: States and Municipalities (BRL Bn, YTD)

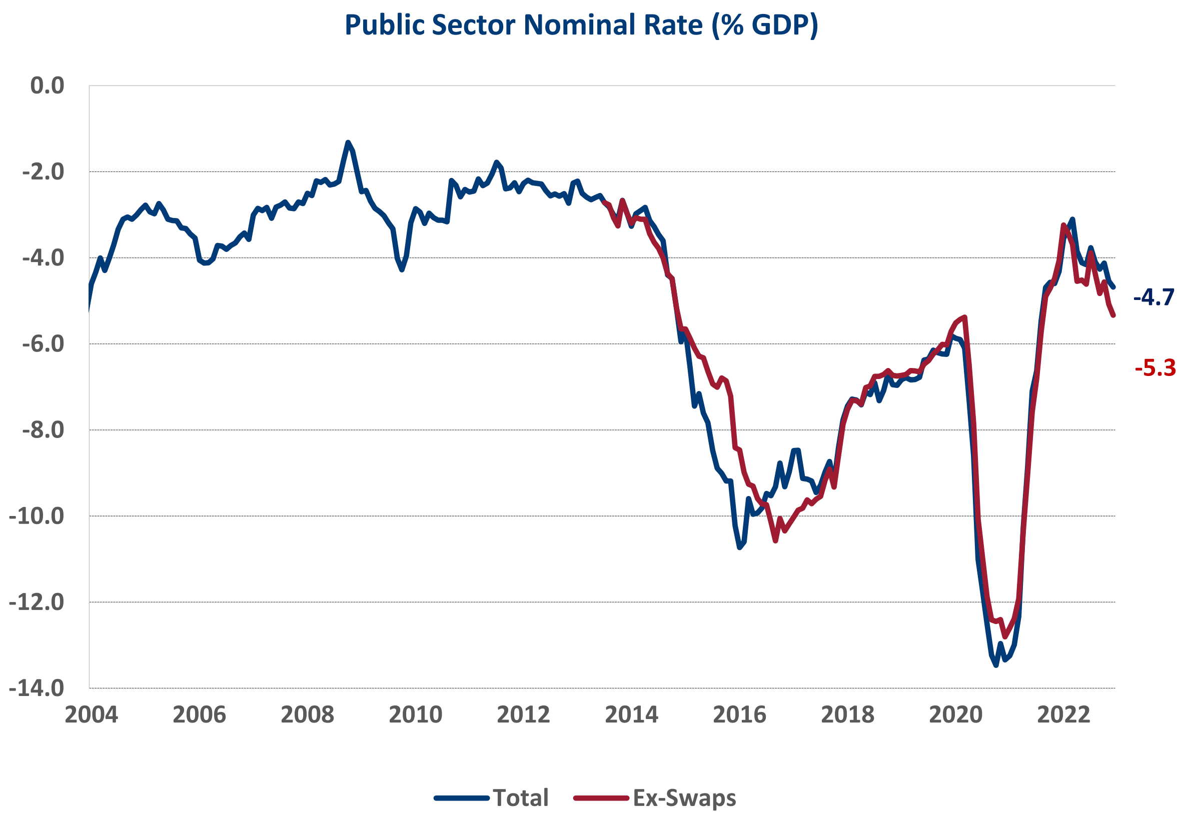


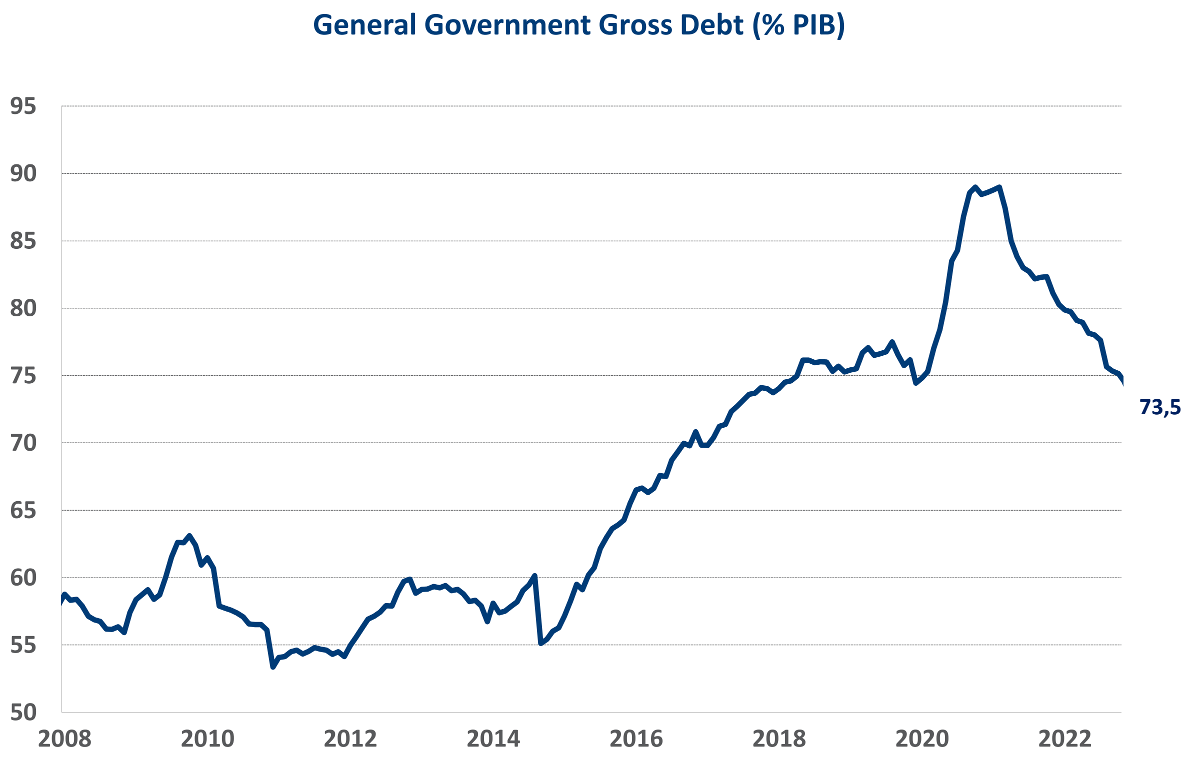
Primary Surplus: States and Municipalities (% GDP 12M)

Source: BOCOM BBM, BCB

Brazil: Consolidated Public Sector Budget

- Nominal interest reached **BRL 59.0 bn** - a deficit of BRL 460.4 bn in 2022;
- General Government Gross Debt, **fell** from 78.3% in 2021 to **73.5%** in 2022;
- Public Sector Net Debt, **rose** from 55.8% to **57.5%** in 2022;





Source: BOCOM BBM, BCB

Brazil: New Fiscal Measures

- Minister of Finance Fernando Haddad announced fiscal adjustment measures aiming to reduce the forecasted BRL 231,55 billion deficit for 2023 while sustaining government spending as desired by President Lula;
- Most of the measures include boosting revenue, such as using the PIS/Pasep resourses, the return of PIS/Cofins rates on financial income and the use of ICMS credits by taxpayers, and the return of PIS/Cofins rates on gasoline and ethanol
- The government presented a possible primary surplus of BRL 11.1 billion (0.1% of GDP) in 2023. However, the minister himself assessed that ‘not necessarily all of them will be approved or take effect in 2023, ‘an increase of ~BRL 90 billion in primary revenues is almost right, taking the primary deficit to something between 0.5% and 1.0% of GDP in 2023’.

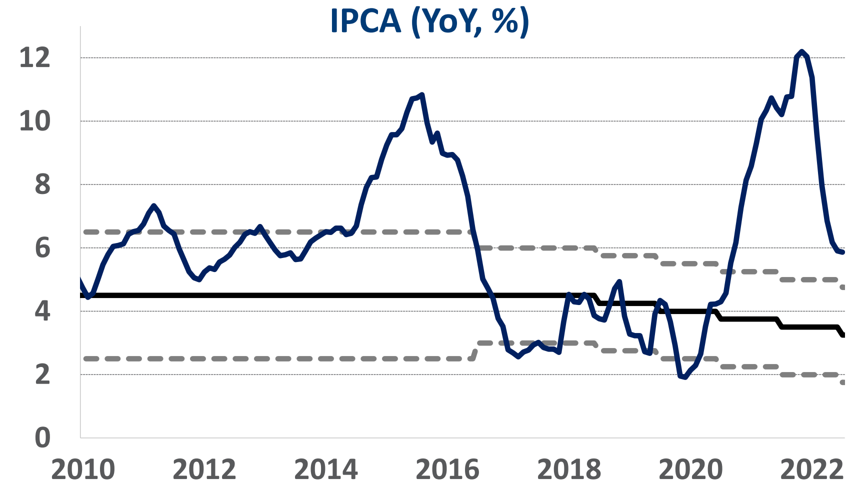
Fiscal balance actions	2023 (R$ bn)	2023 %GDP	2024 (R$ bn)	2024 %GDP
LOA 2023: Central Government Primary Result	**-231,55**	**-2,16%**	**-**	**-**
Revenue reestimation	36,4	0,34%	37,49	0,33%
Permanent Revenue Actions	83,28	0,78%	120,93	1,05%
Use of ICMS credits	30	0,28%	39,82	0,35%
PIS and COFINS on Financial Revenue	4,4	0,04%	6,01	0,05%
PIS and COFINS on Fuels	28,88	0,27%	54,51	0,47%
Permanent effect of the incentive to reduce CARF litigiousness	15	0,14%	15,45	0,13%
Permanent effect of encouraging spontaneous reporting	5	0,05%	5,15	0,04%
Accumulated balance on the Primary Result	**-111,87**	**-1,04%**	**-**	**-**
Extraordinary Revenue Actions	73	0,68%	-	-
Extraordinary incentive to reduce CARF litigiousness	35	0,33%	-	-
Extraordinary incentive to spontaneous reporting	15	0,14%	-	-
Primary revenues with PIS/PASEP assets	23	0,21%	-	-
Accumulated balance on the Primary Result	**-38,87**	**-0,36%**	**-**	**-**
Expense Reduction Actions	50	0,47%	26,56	0,23%
Permanent effect of the Review of Contracts and Programs	25	0,23%	26,56	0,23%
Execution authorization lower than authorized in LOA 2023	25	0,23%		
Central Government Primary Result after Actions	**11,13**	**0,10%**	**-**	**-**

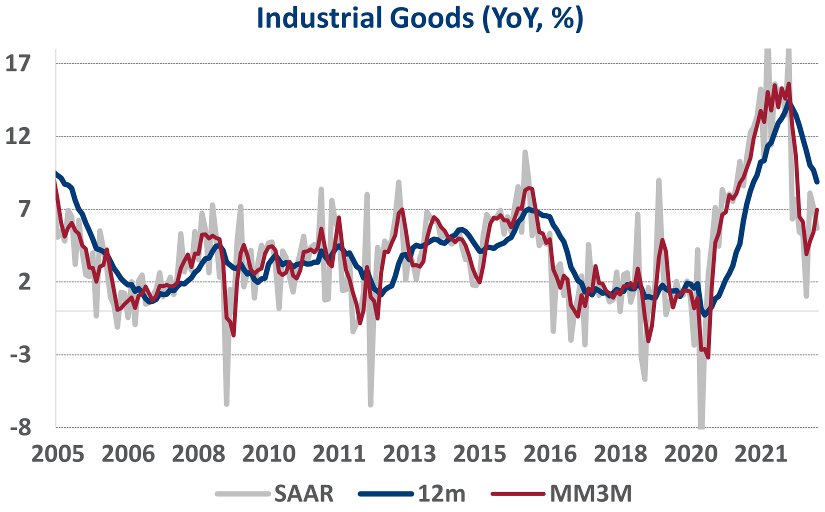
Brazil: Inflation 2022

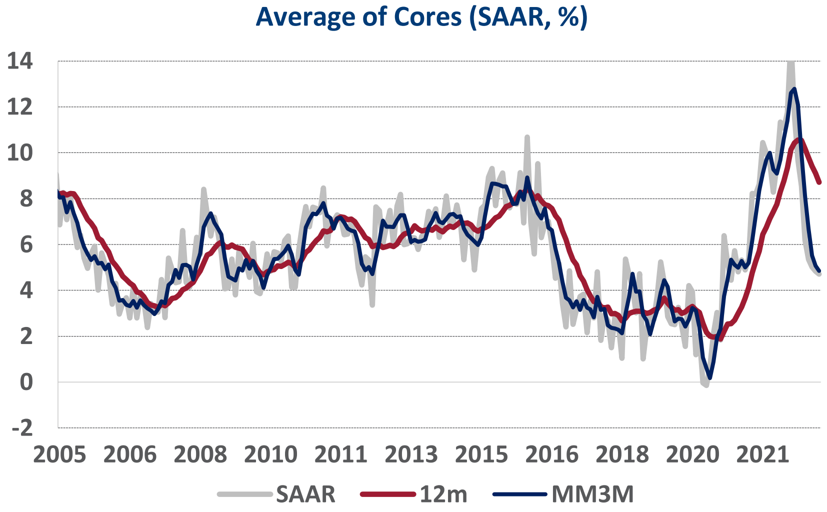
- The January IPCA preview rose 0.55% MoM, slightly above the consensus and our forecast (0.51%)

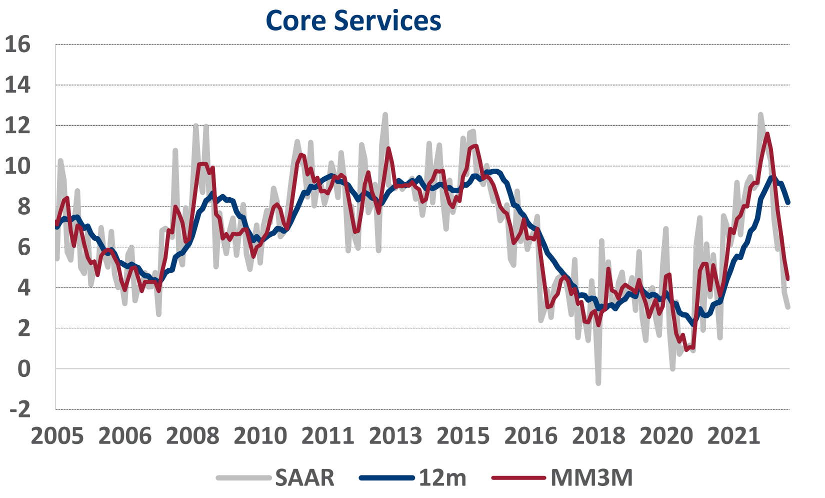
- The biggest upward surprise came from services, concentrated in communication services and airline tickets, explaining +2 bps of surprise in the headline. Monitored also surprised on the upside due to vehicles registration

- The impact of this surprise on the year reached +30 bps, as the methodology implies that the adjustment made in January (21%) is distributed throughout the year (that is, the 1.61% MoM recorded in January will be repeated in the coming months of the year)









Source: BOCOM BBM, IBGE

Brazil: Inflation 2023

- Once again, the inflation decomposition was significantly better than expected, but due to methodological aspects related to vehicle licensing inflation and the gasoline price increase announced by Petrobras, we revised our IPCA forecast of 5.6% to 6.0%

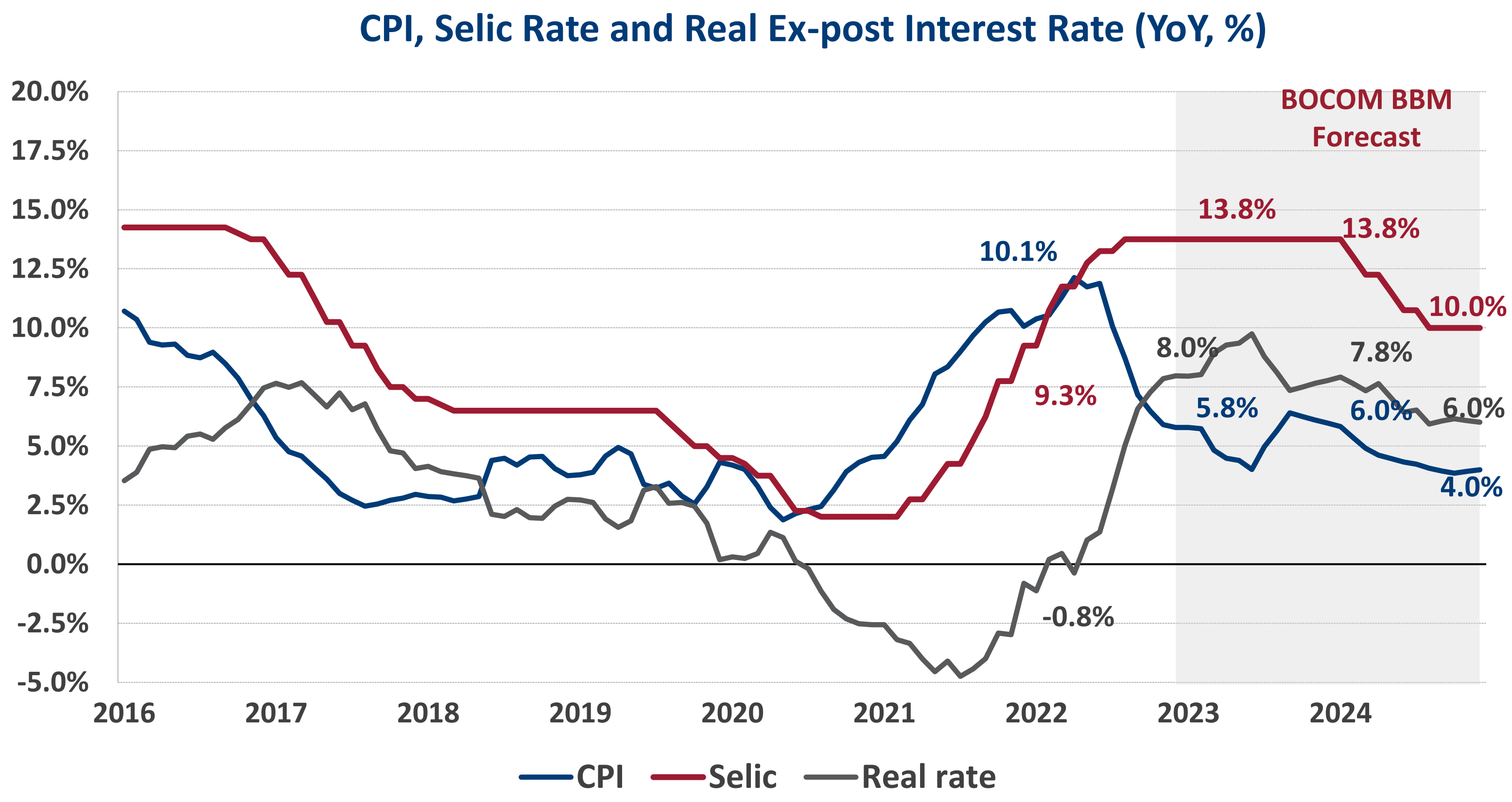
IPCA (%, annual)

	pesos	2019	2020	2021	2022	2023
Regulated	**26.6**	**5.5**	**2.6**	**16.9**	**-3.8**	**10.0**
Industrial goods	**23.6**	**1.7**	**3.2**	**11.9**	**9.5**	**3.7**
Durable goods	10.3	0.0	4.5	12.9	6.1	2.3
Semi-durable goods	5.9	0.6	-0.1	10.2	15.7	3.8
Non-durable goods	7.3	4.4	4.0	11.9	9.5	5.4
Food at home	**15.7**	**7.8**	**18.2**	**8.2**	**13.2**	**3.8**
Services	**34.1**	**3.5**	**1.7**	**4.8**	**7.6**	**5.7**
Food away from home	5.6	3.8	4.8	7.2	7.5	6.4
Related to minimum wage	5.2	2.9	1.5	3.3	6.3	5.9
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.3	5.6
Inertial	15.0	4.3	1.6	4.2	8.8	5.4
IPCA		**4.3**	**4.5**	**10.1**	**5.8**	**6.0**

Fonte: BOCOM BBM, IBGE

Brazil: Monetary Policy

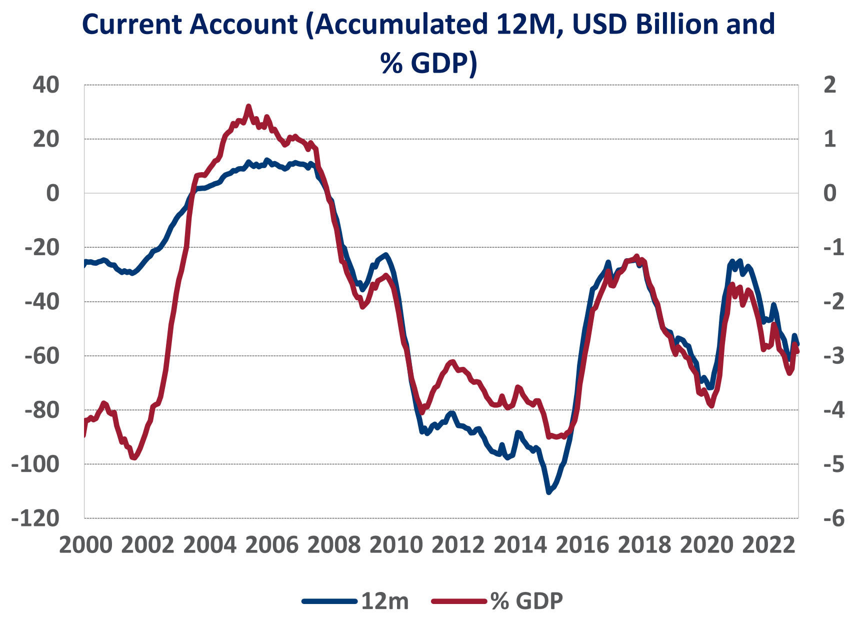
» At the January meeting, Copom decided to keep the Selic rate stable at 13.75%, as expected. Central Bank projections indicate that with Selic rate reaching 12.5% in 2023 and 9.5% in 2024, inflation would rise to 5.6% in 2023 and 3.4% in 2024, above the target for both years. The committee also presented an alternative scenario, where the Selic remains constant (at 13.75%) over the relevant horizon, in which inflation reaches 5.5% in 2023 and 2.8% in 2024. This means that keeping rates higher for longer is consistent with inflation convergence to the target, and we expect that rates remain at 13.75% until the end of the year.

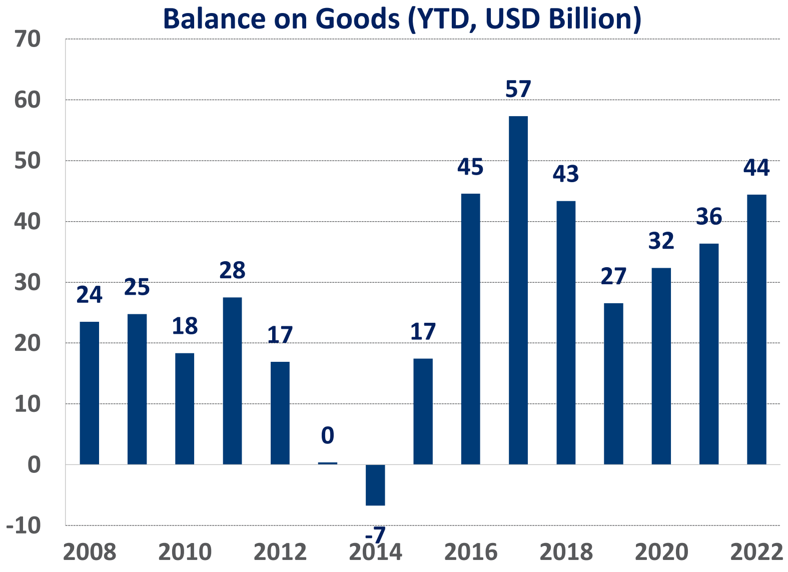


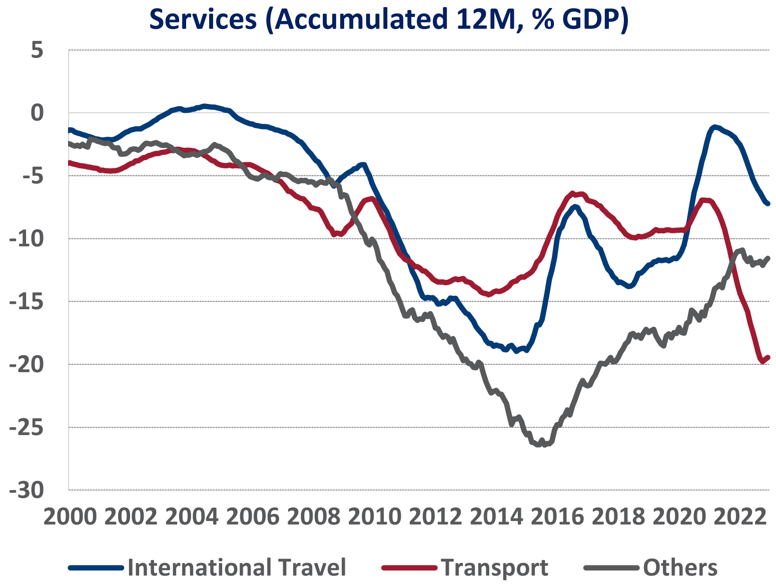
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The current account deficit (CA) totaled US$10.9bn in December, reaching US$55.7bn (2.9% of GDP) in 2022;
- The goods trade balance accumulated surpluses in December, registering a positive balance of US$ 44.4 billion in 2022 - A context of strong acceleration in both exports and imports, driven mainly by price increases;
- The services balance registers a deficit of US$ 40.0 billion in 2022, mainly due to the deficit of US$ 19.4 billion in the Transport Services account;
- While the primary income account adds up to a total deficit of US$ 63.9 billion in 2022;



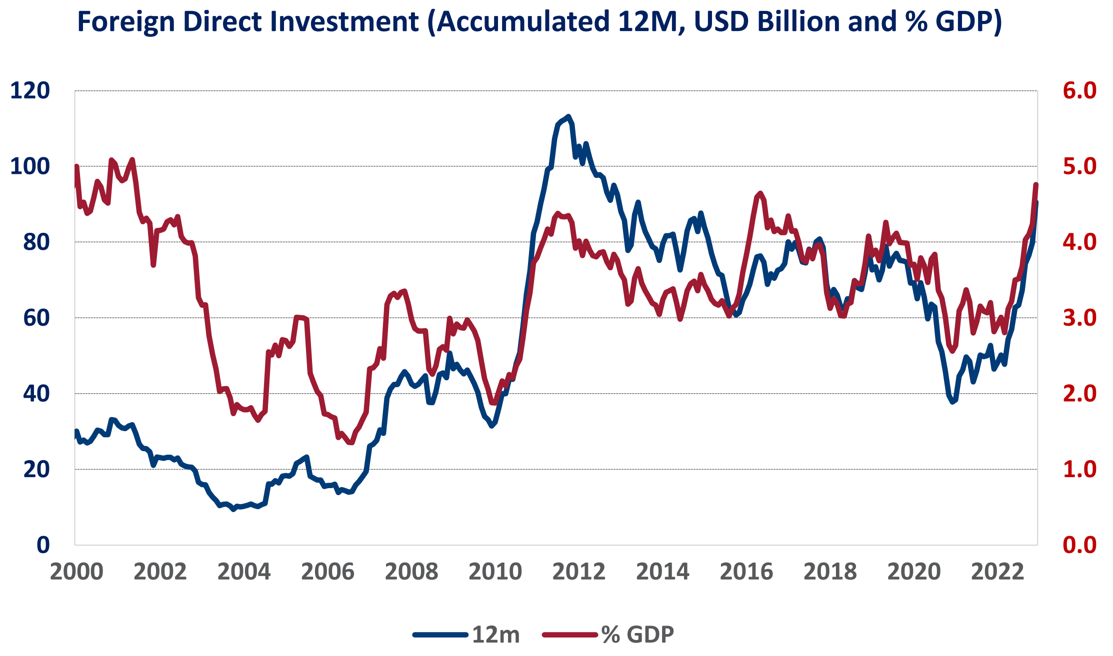


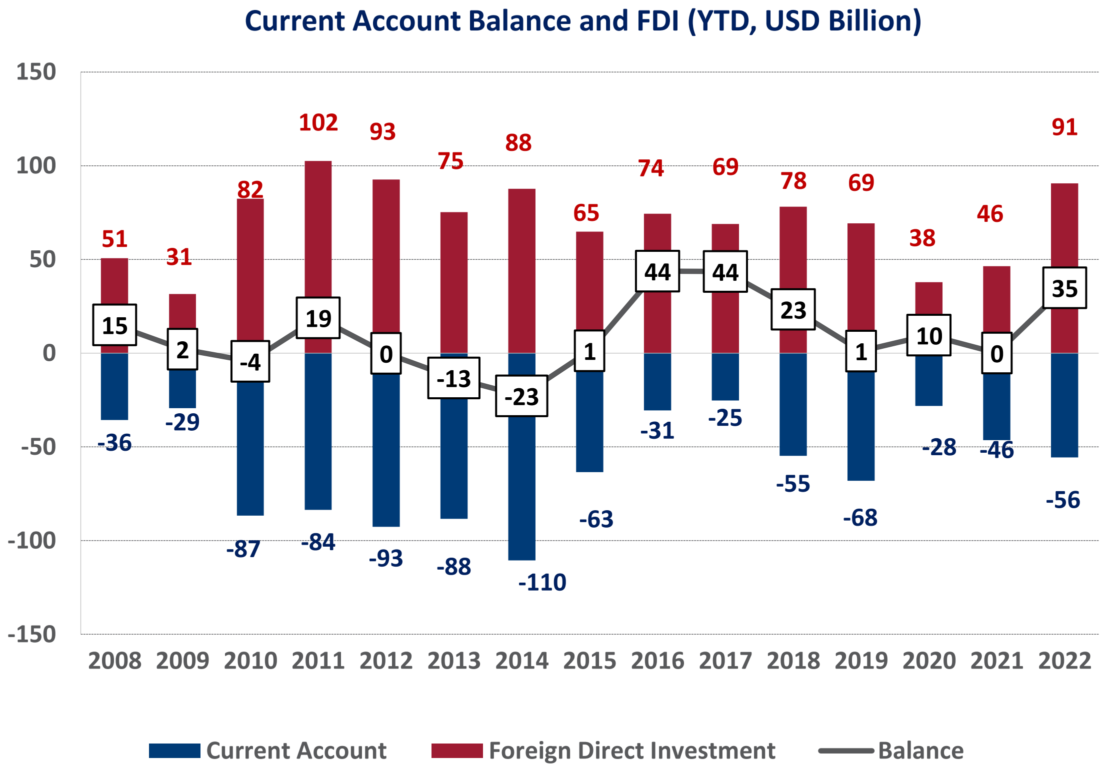


Source : BCB, BOCOM BBM

Brazil: Balance of Payments

- In December, Foreign Direct Investment (FDI) posted a net inflow of US$5.6bn, slightly above market consensus (US$5.5bn) - For 2022, FDI reached US$90.6bn, the best result since 2012;
- The strong FDI inflow was explained by the high commodity prices in the international market, the large Brazilian consumer market, and expectations that the country will continue to grow over the coming years;

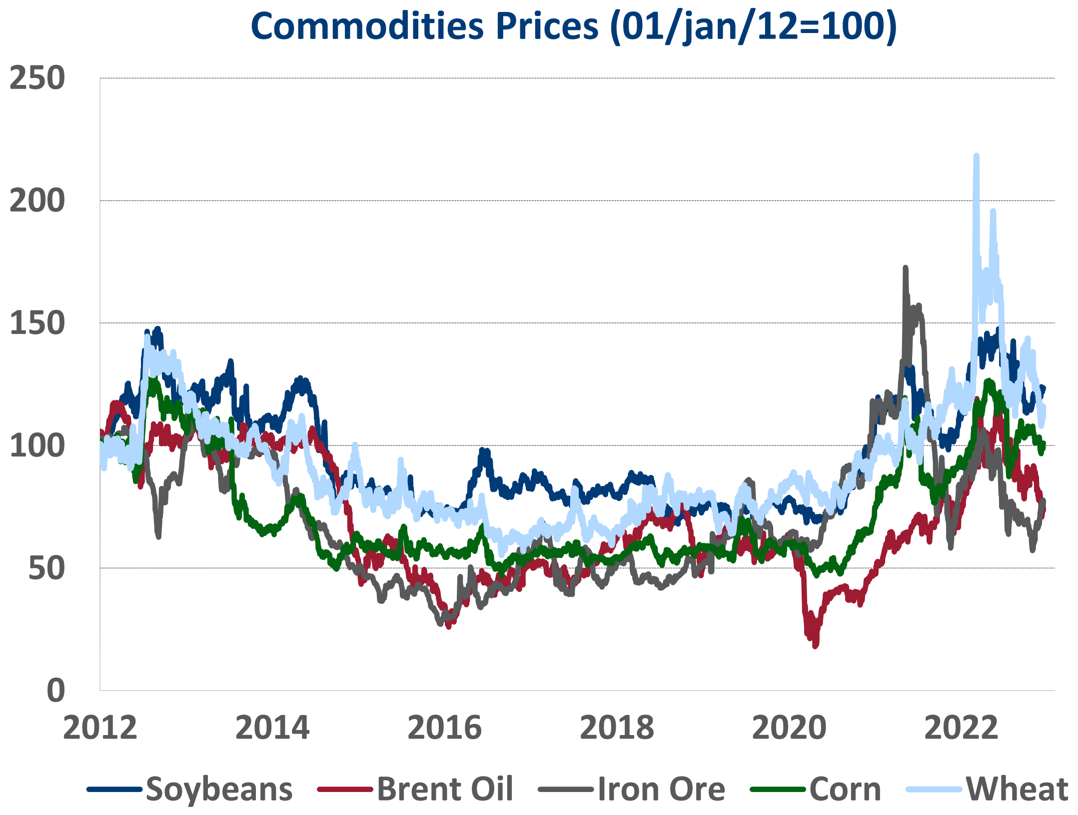


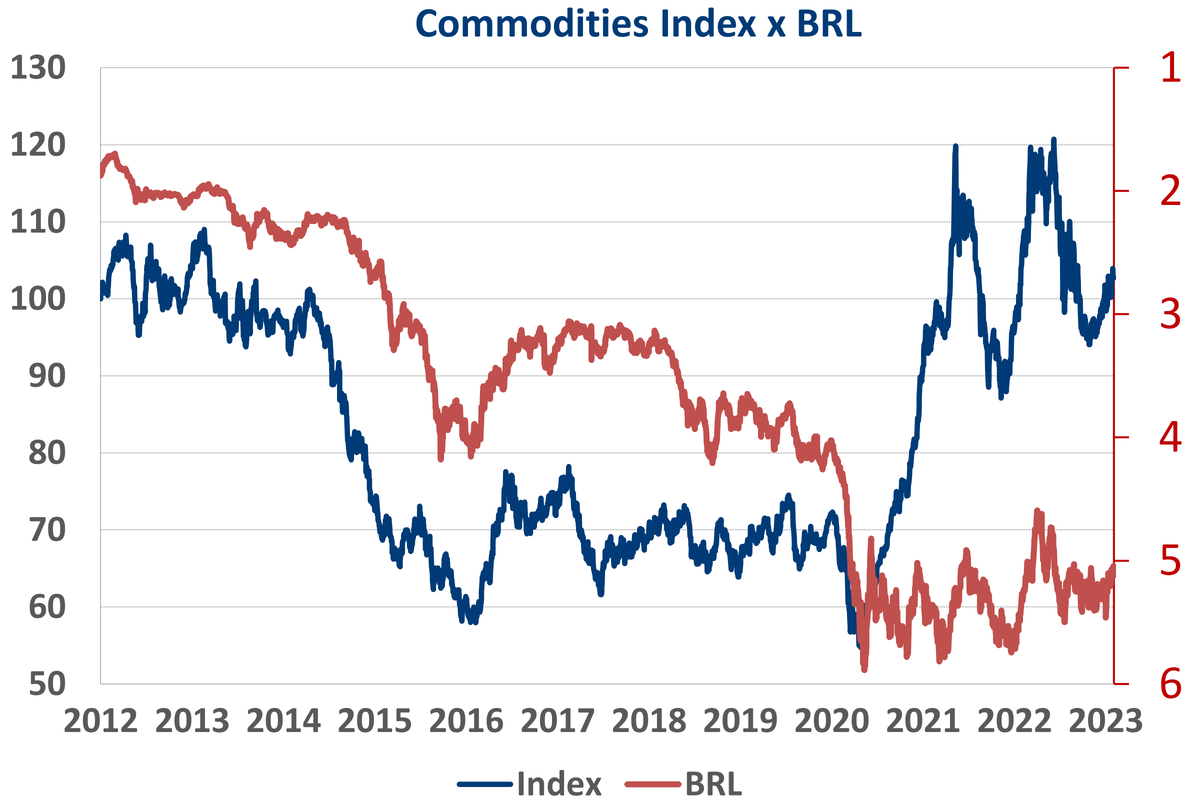


Source: BOCOM BBM, BCB

Brazil: External Sector

- The prices of the main commodities exported by Brazil persist at levels lower than those prevailing throughout the first half of the year
- In January, the real appreciation accompanied the movement of other emerging currencies against the dollar, with the continued devaluation of the dollar and news about the reopening of the Chinese economy, which tends to benefit the currencies of emerging countries and exporters of commodities.



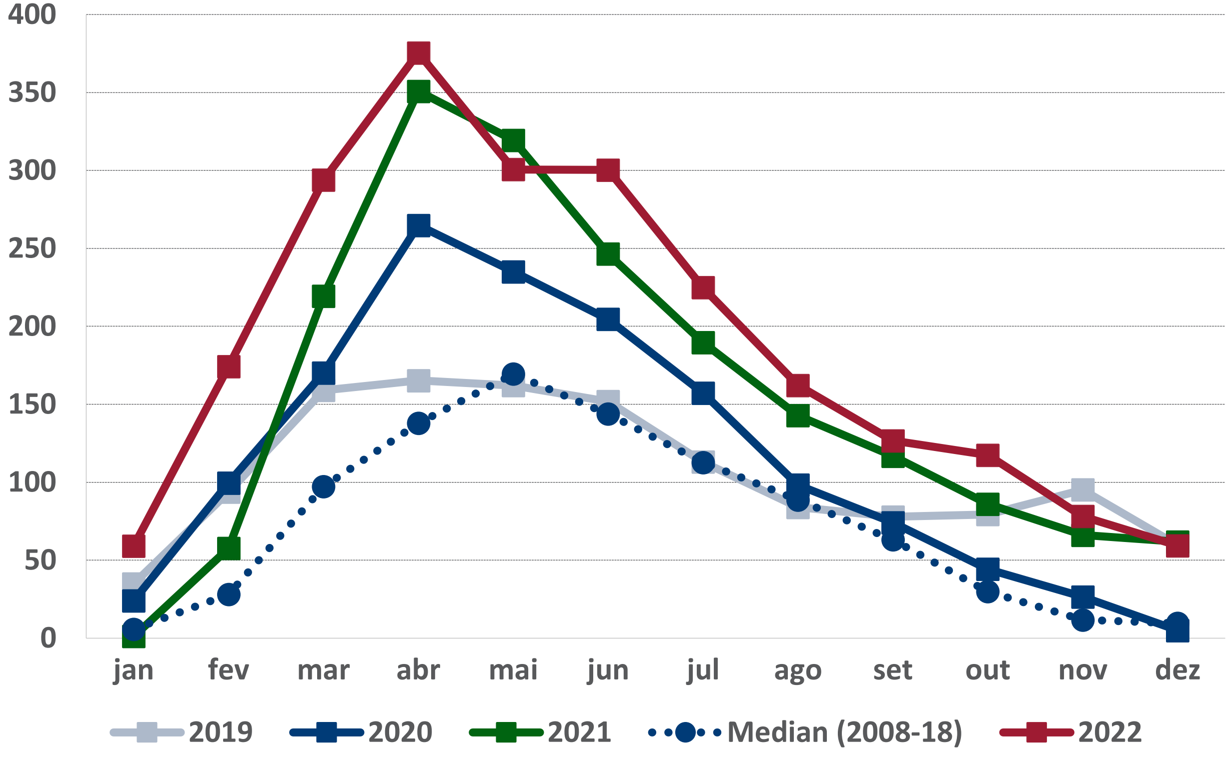


Source: Secex, BBG, BOCOM BBM

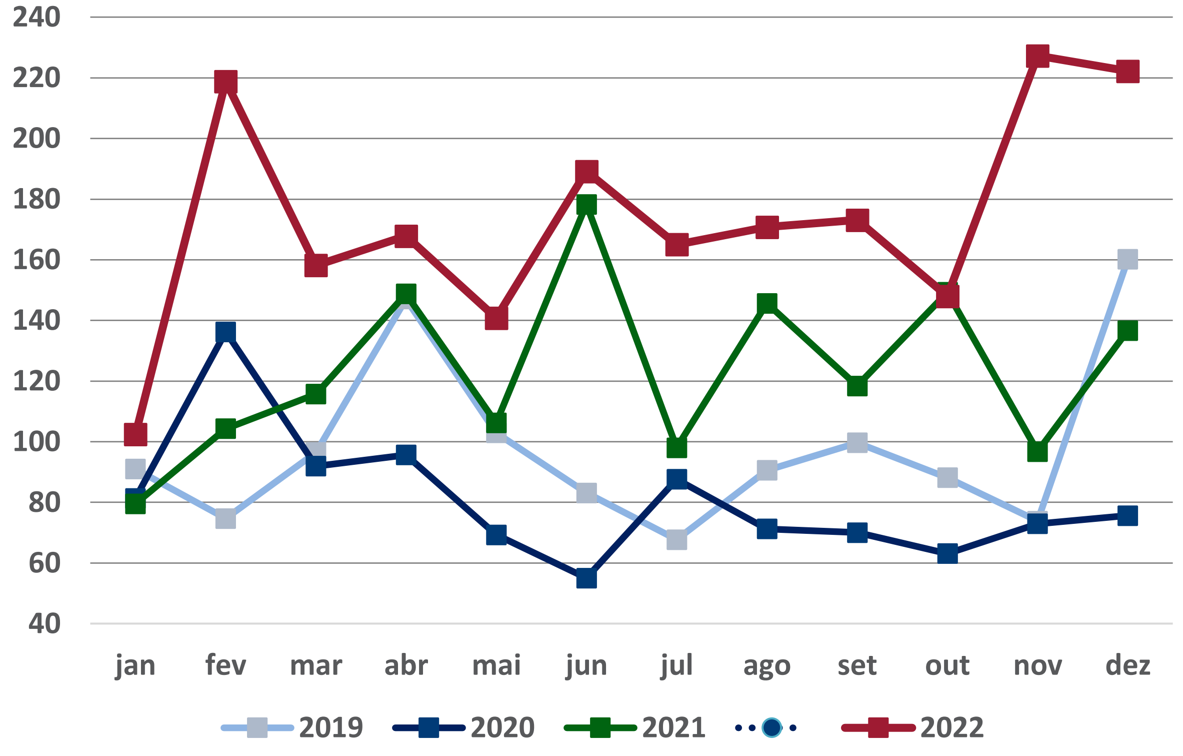
Brazil: External Sector

- 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 expectations of excellent harvests, an increase in oil production and the reopening of the Chinese economy.

Brazil – Soybean Exports (USD Mn Daily Average)



Brazil – Crude Oil Exports (USD Mn Daily Average)



Source: Secex, BOCOMBBM

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