交通銀行 BANK OF COMMUNICATIONS BBM

MACRO OUTLOOK

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Macro Outlook

BANK OF COMMUNICATIONS BBM

- Incoming data from developed economies continues to point to a resilient activity, heated labor markets and persist inflation, all of which should require further monetary policy tightening. But last month also witnessed the biggest bank fail in the US since the 2008 financial crisis. Financial stability concerns led the FOMC to maintain the median terminal rate projection for the Fed funds at 5.125%, suggesting the possibility of one additional 25bps hike in its next meeting in May.

- As for China, recent data confirmed that macroeconomic activity is on its recovery path, showing broad improvements in various sectors after the U-turn in the zero-Covid policy. Govenment policies targeted to boosting households and businesses confidence levels is key to stimulate the resumption of domestic consumption.

- We maintained our GDP projection of 1.5% for 2023. The projection of a record harvest this year should help move the economy. The policies so far announced and the ones under study by the current government should also boost demand in the short term, such as the increase in welfare transfers and possible para-fiscal stimulus.

- Our inflation forecast increased from 5.9% to 6.2%, mainly due to the decision of National Council for Finance Policy (Confaz) that set the ICMS rate at BRL 1.22 per liter for gasoline and anhydrous ethanol fuel. This rate will be valid from July 1, impacting our forecast by 25bps. For 2024, we maintain our projection of 4%.

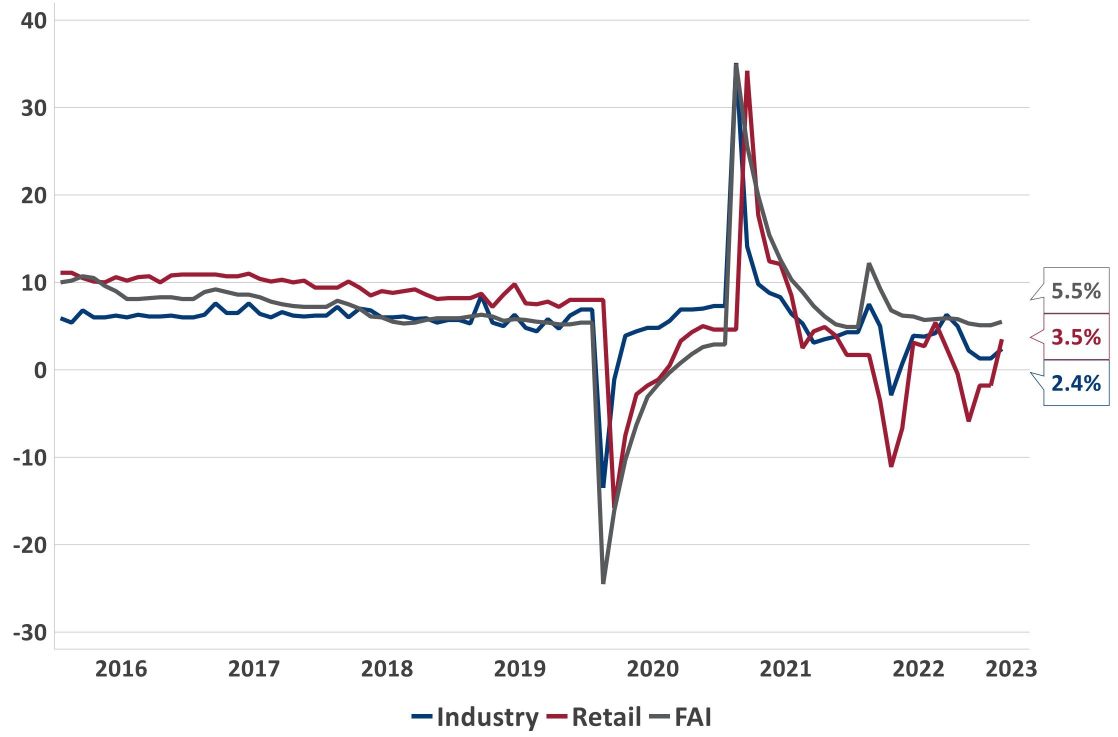
- We expect that Selic remains at 13.75% by the end of the year, even though there are risks tilted to a more significant slowdown in domestic credit concession, which could lead to cuts in 2023. At the March meeting, the Copom reinforced that the 2024 target is reached with Selic stable over the relevant horizon, echoing the worsening of the model's projections and of inflation expectations.

- The short-term fiscal results got worse over the last month, despite the growth of federal tax collection, registering a deficit for both the Central Government and the Public Sector. Considering the information about the new fiscal framework, we forecast the debt to GDP should increase to 76.8% in 2023 and 81.6% in 2024.

China: Activity

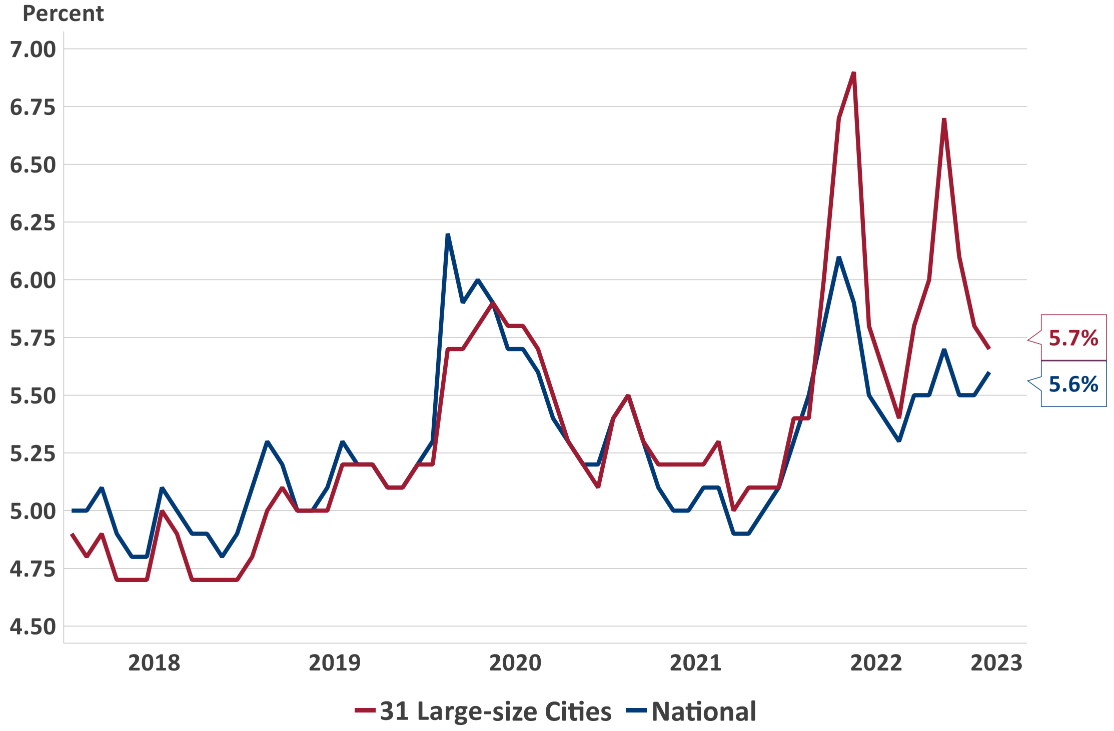
- China's Jan-Feb activity growth rebounded strongly, matching market expectations in retail sales, surpassing them in FAI, yet hovering a bit below in industrial production:
  - **Industrial production rose** from 1.3% to **2.4%** (exp 2.6%) YoY backed by the frontloading of reopening impulses and fiscal support;
  - **Retail sales** growth went from -1.8% to **3.5%** YoY, led by the recovery in Covid-sensitive segments, such as restaurants (9.2% YoY);
  - **FAI rose** from 5.1% to **5.5% YTD** (exp. 4.4%), reflecting an increase in 'other investments' (mostly services and agriculture) and infrastructure, but still being affected by low confidence in property market, despite showing an improvement when compared to the previous month;
  - The **national unemployment rate rose** from 5.5% to **5.6%**, reaching **5.7%** (from 6.1%) among the 31 large-sized cities.

China: Activity (YoY, %)



Source: BOCOM BBM, Macrobond, NBS

China: Unemployment Rate in Urban Areas



Source: BOCOM BBM, Macrobond

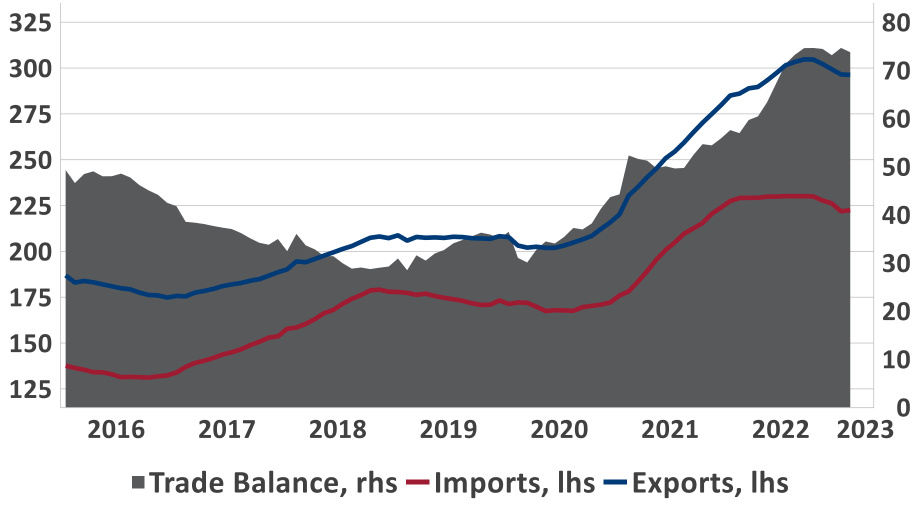
China: Economic Scenario

- In March, China's **PMI** came in broadly stronger than expectations pointing to improvements in services and construction sectors, and a resilient manufacturing sector;
  - The NBS manufacturing PMI fell from 52.6 to **51.9** due to renewed headwinds to external demand amid turmoil in the global banking system;

- **Exports** surprised to the upside moving from -9.9% to **-6.8%** YoY with highlights for Motor Vehicles and Cellphones;
- **Imports** contracted further from -7.5% to **-10.2%**, way below Bloomberg consensus of -5.5%;

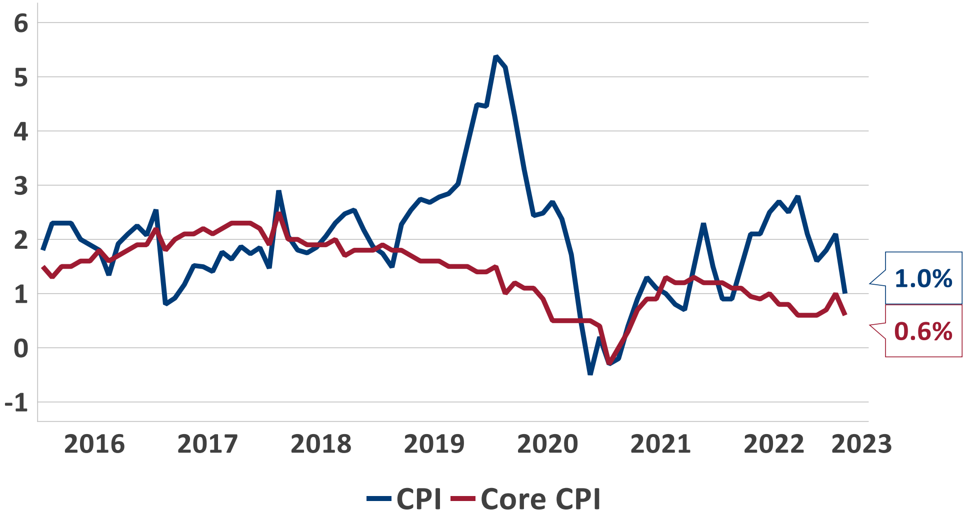
- **CPI** inflation came in largely below expectations in February, tumbling from 2.1% to **1.0%** YoY (exp. 1.9%), reflecting mainly a broad-based decline in food prices after the Lunar New Year (from 6.2% to 2.6% YoY).

China: Trade Balance (USD billion, 12MMA)



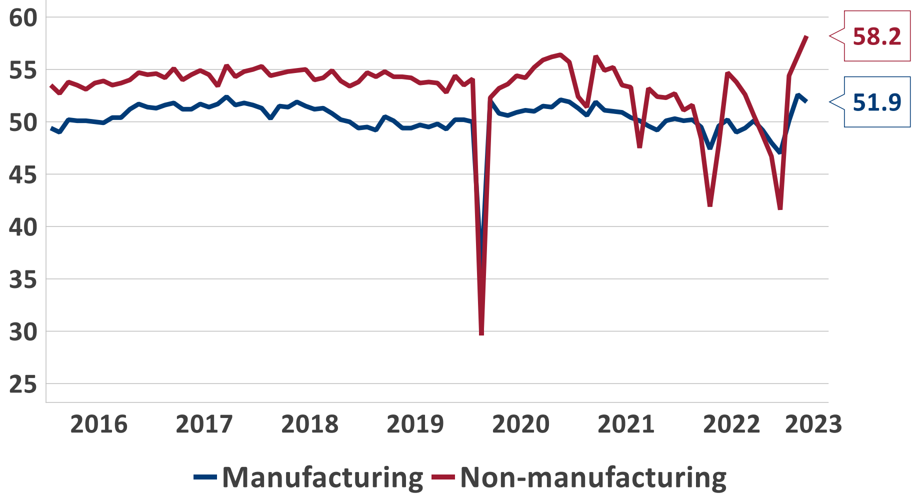
Source: BOCOM BBM, Macrobond, CCS

China: CPI (YoY, %)



Source: BOCOM BBM, Macrobond, NBS

China - PMI

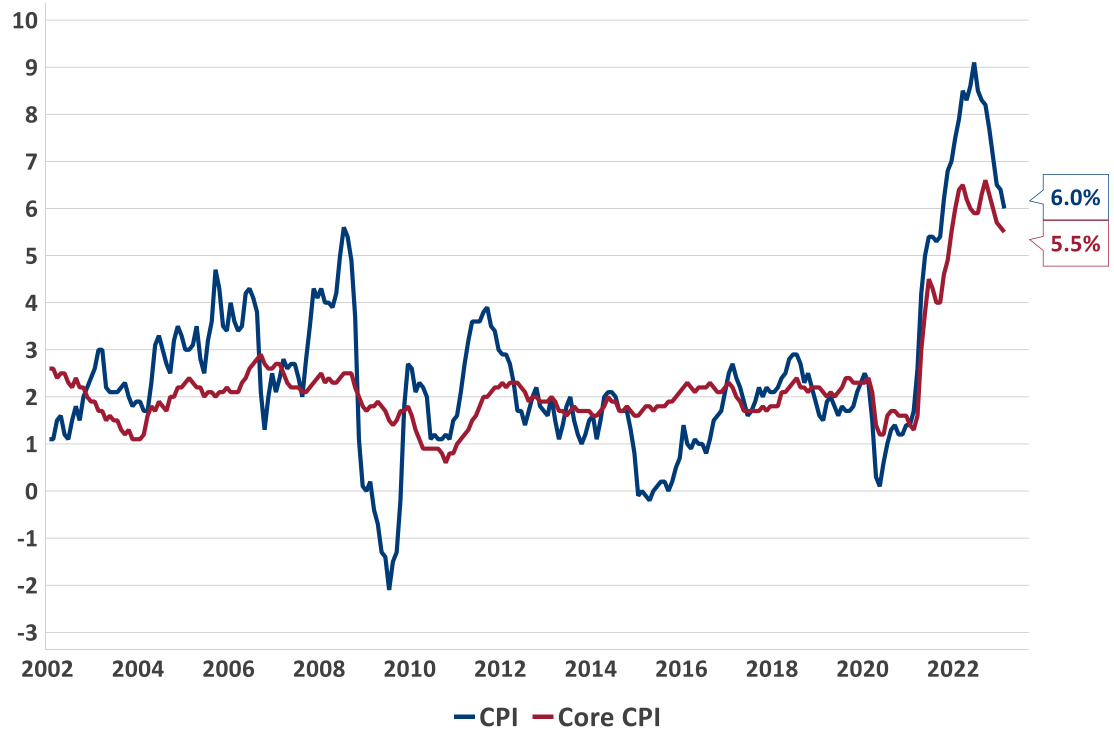


Source: BOCOM BBM, Macrobond, CFLP

USA: Inflation

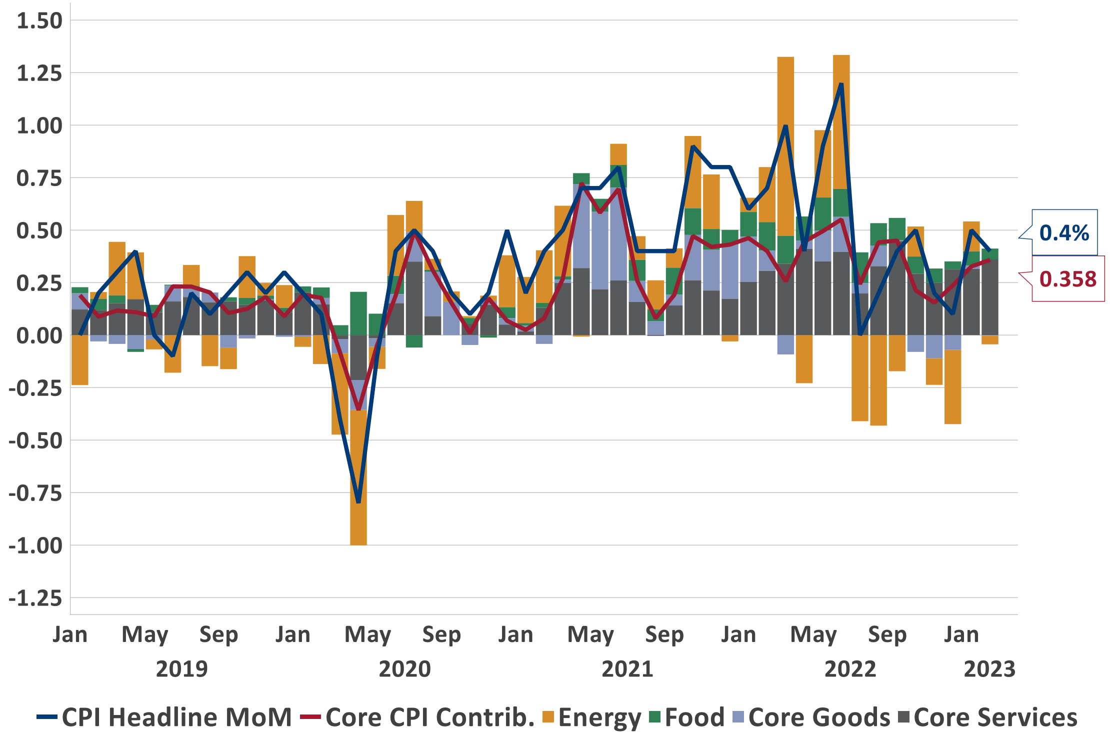
- US CPI inflation came in strong again in February, but aligned with expectations moving from 6.4% to **6.0%** YoY and increasing by **0.4%** MoM:
  - Gasoline and diesel prices slowed in February, lowering energy inflation, while food prices remained moderated, easing the headline;
- Core CPI increased **0.45%** MoM, reaching **5.5%** YoY (from 5.6%):
  - Core goods tumbled into deflation again and remains subdued;
  - Core services is still being pressured by shelter inflation and unbalances in the labor market that leads to high wage growth which prompts stickiness in components of core services ex-housing.

US: CPI (YoY, %)



Source: BOCOM BBM, Macrobond, BLS

US: CPI MoM Contributions



Source: BOCOM BBM, Macrobond, BLS

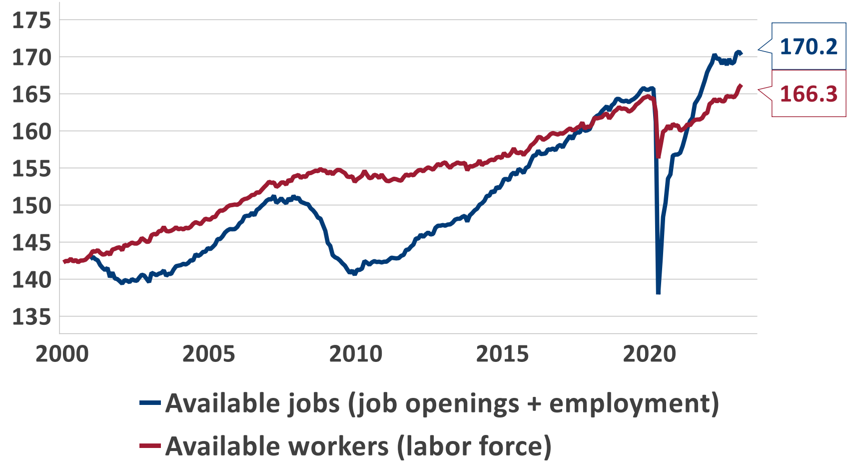
USA: Labor Market

- The US labor market remains very strong in February showing an unemployment rate of **3.6%** (up from 3.4% in Jan.);
- With this report, the jobs-workers gap fell from 4.9M to **4.0M**, signaling that labor supply and demand remains persistently unbalanced, although narrowing the gap;
  - The job openings per unemployed person ratio fell from 1.9 to **1.67;**
- Even with higher labor demand than supply, nominal wages has started to slowly decelerate, but it remains considerably elevated;
  - This is important due to the positive correlation between wage inflation and inflation in services excluding housing & energy, which remains persistently high.

US: Unemployment Rate SA (%)

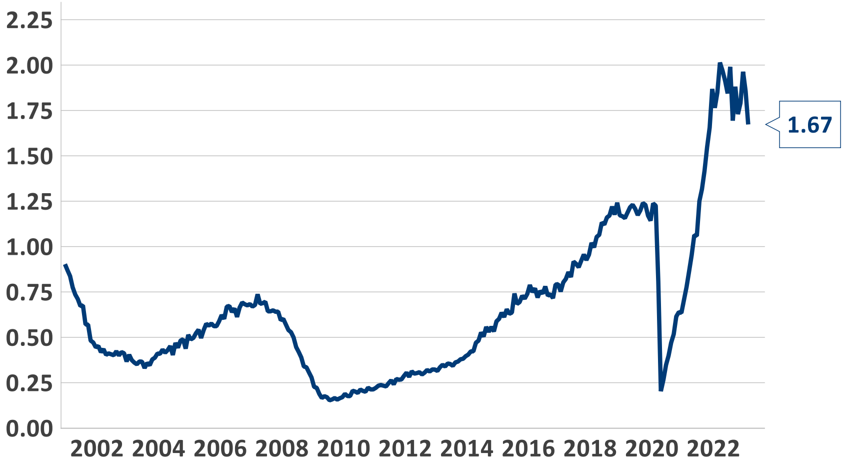
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



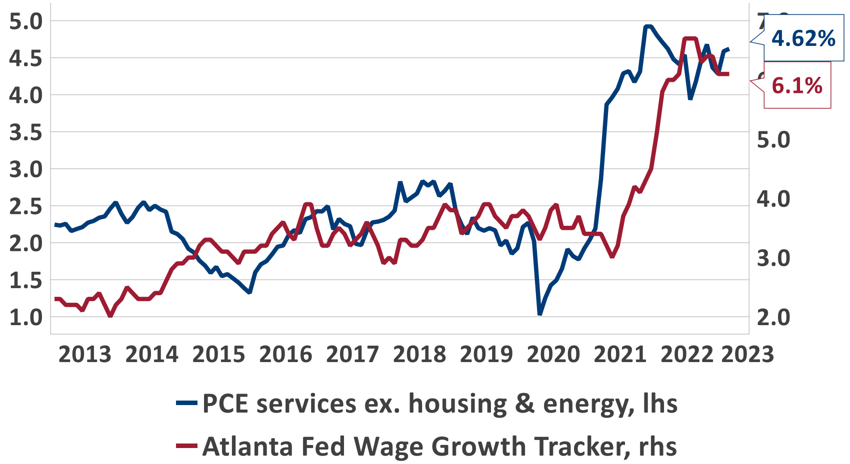
Source: BOCOM BBM, Macrobond, BLS

US: Job Openings/Unemployed Ratio



Source: BOCOM BBM, Macrobond

US: PCE Core Services ex-housing vs Wages (YoY, %)

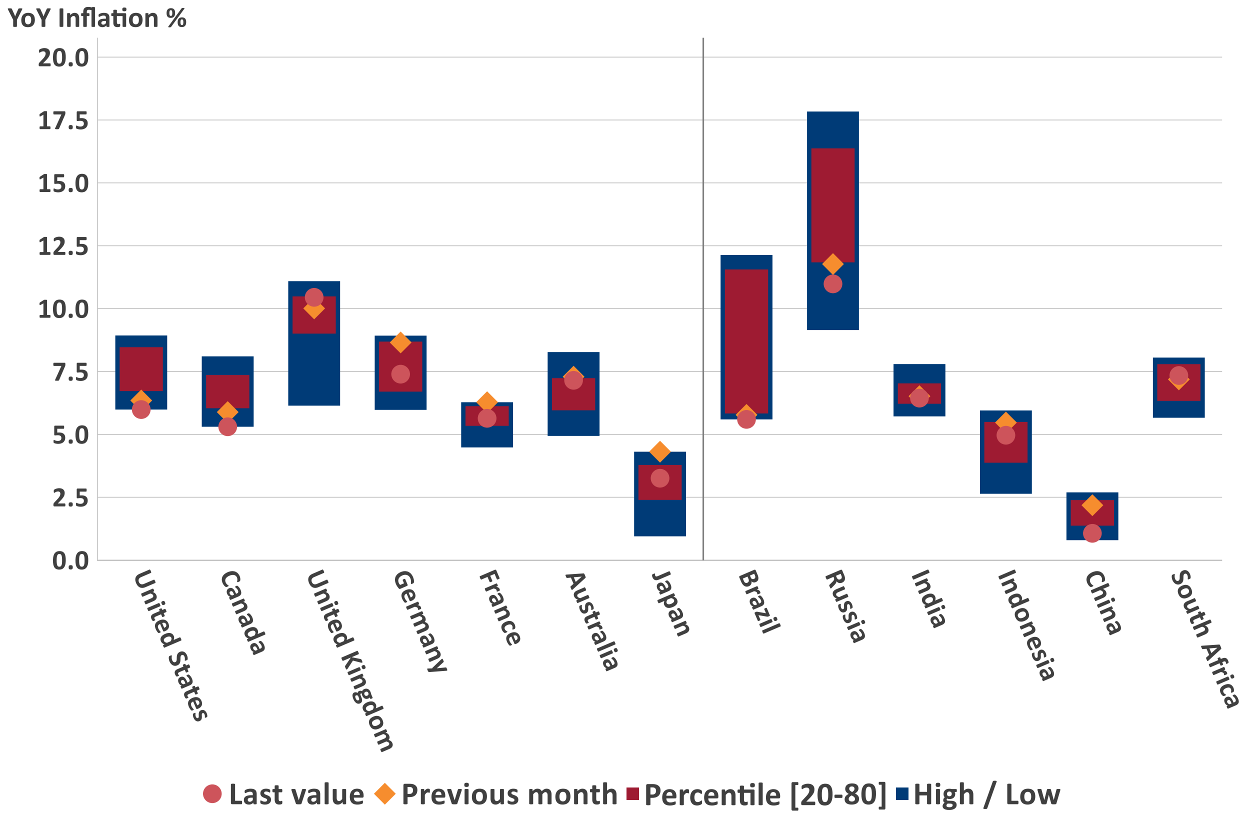


Source: BOCOM BBM, Macrobond, BEA

Global: Inflation

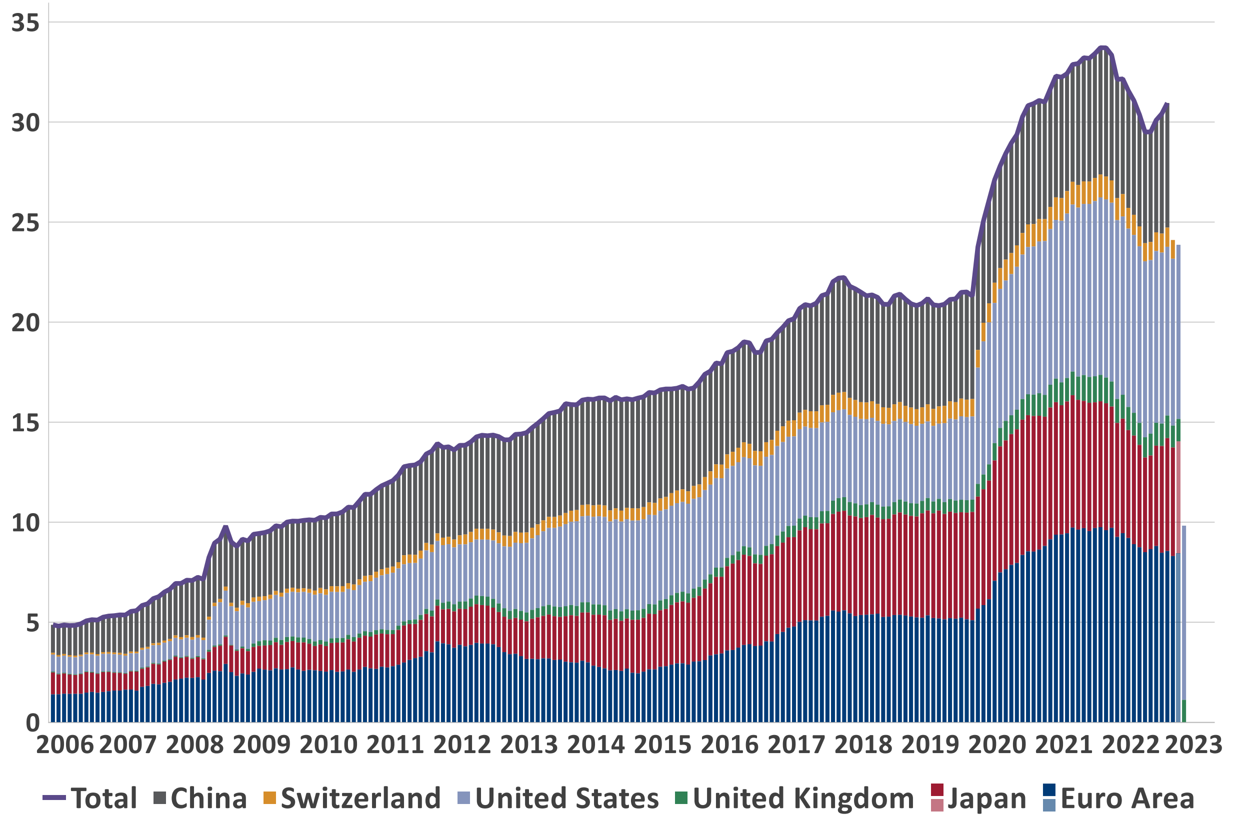
- For the first time in decades, inflation across emerging markets is not significantly higher than it is in developed markets;
- In order to bring inflation back to their respective targets, many central banks are reducing their balance sheets, resulting in a tightening of the monetary policy of several economies;
- However, the recent stress in financial markets and the intense withdrawals of banks deposits led to a higher demand for liquidity support loans, expanding the balance sheet of some central banks, such as the Federal Reserve.

Inflation range during the past 12 months



Source: BOCOM BBM, Macrobond

Central banks balance sheets (Trillions of USD)

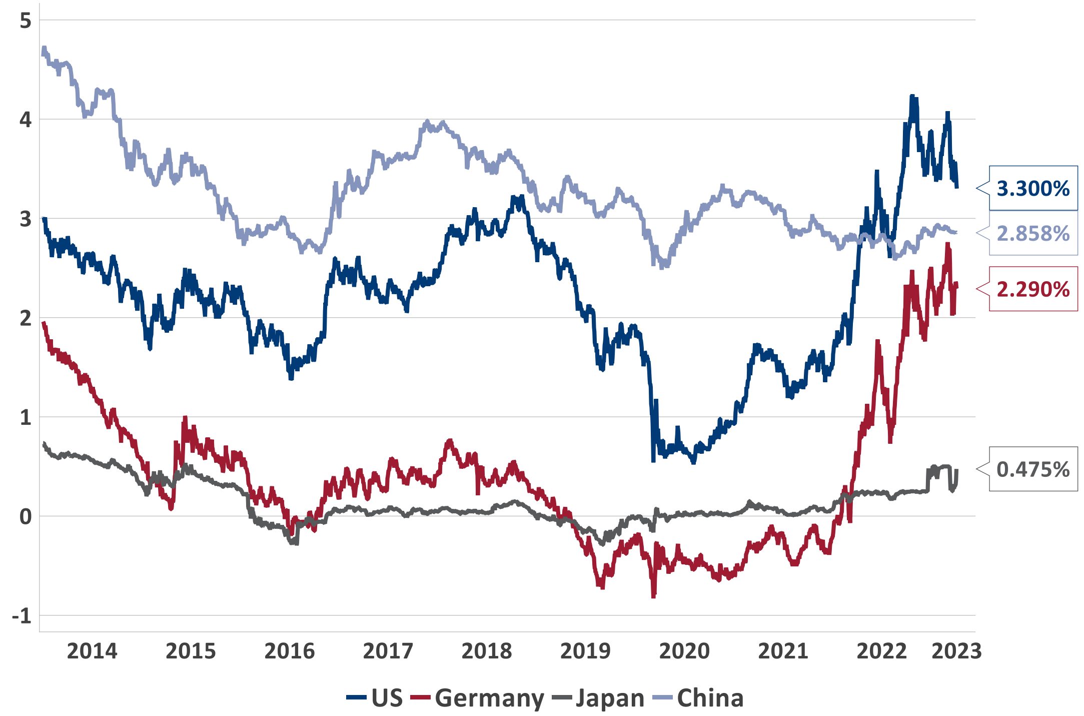


Source: BOCOM BBM, Macrobond

Global: Interest Rates

- Correspondingly, interest rates across several countries are rising, with a few exceptions, such as in China and Japan;
- Stress in the global banking system and a tightening of financial conditions prompted a broad decline to markets terminal Fed funds rate projections;
- In early March, the implied Fed funds rate was priced just shy above 5.5%, while by the end of the month it fell to around 5%, consistent with the new Fed forecast of a 5.125% terminal rate;

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	78.00	3.00	Hike	3/2023	1	29
Australia	3.60	0.25	Hike	3/2023	1	29
Brazil	13.75	0.50	Hike	8/2022	8	32
Canada	4.50	0.25	Hike	1/2023	2	36
Chile	11.25	0.50	Hike	10/2022	6	36
China	3.65	-0.05	Cut	8/2022	110	7
Colombia	13.00	0.25	Hike	3/2023	0	30
Costa Rica	8.50	-0.50	Cut	3/2023	5	1
Czech Republic	7.00	1.25	Hike	6/2022	9	35
Denmark	2.75	0.50	Hike	3/2023	1	18
Euro Area	3.50	0.50	Hike	3/2023	0	85
Hungary	13.00	1.25	Hike	9/2022	6	32
Iceland	7.50	1.00	Hike	3/2023	0	28
India	6.50	0.25	Hike	2/2023	2	34
Indonesia	5.75	0.25	Hike	1/2023	2	25
Israel	4.25	0.50	Hike	2/2023	1	36
Japan	-0.10	-0.20	Cut	1/2016	193	86
Mexico	11.25	0.25	Hike	3/2023	0	26
New Zealand	4.75	0.50	Hike	2/2023	1	37
Norway	3.00	0.25	Hike	3/2023	0	35
Poland	6.75	0.25	Hike	9/2022	7	34
Russia	7.50	-0.50	Cut	9/2022	13	6
Saudi Arabia	5.00	0.50	Hike	12/2022	4	37
South Africa	7.75	0.50	Hike	3/2023	0	32
South Korea	3.50	0.25	Hike	1/2023	3	34
Sweden	3.00	0.50	Hike	2/2023	2	85
Switzerland	1.50	0.50	Hike	3/2023	0	99
Turkey	8.50	-0.50	Cut	2/2023	24	1
United Kingdom	4.25	0.25	Hike	3/2023	0	36
United States	5.00	0.25	Hike	3/2023	0	37

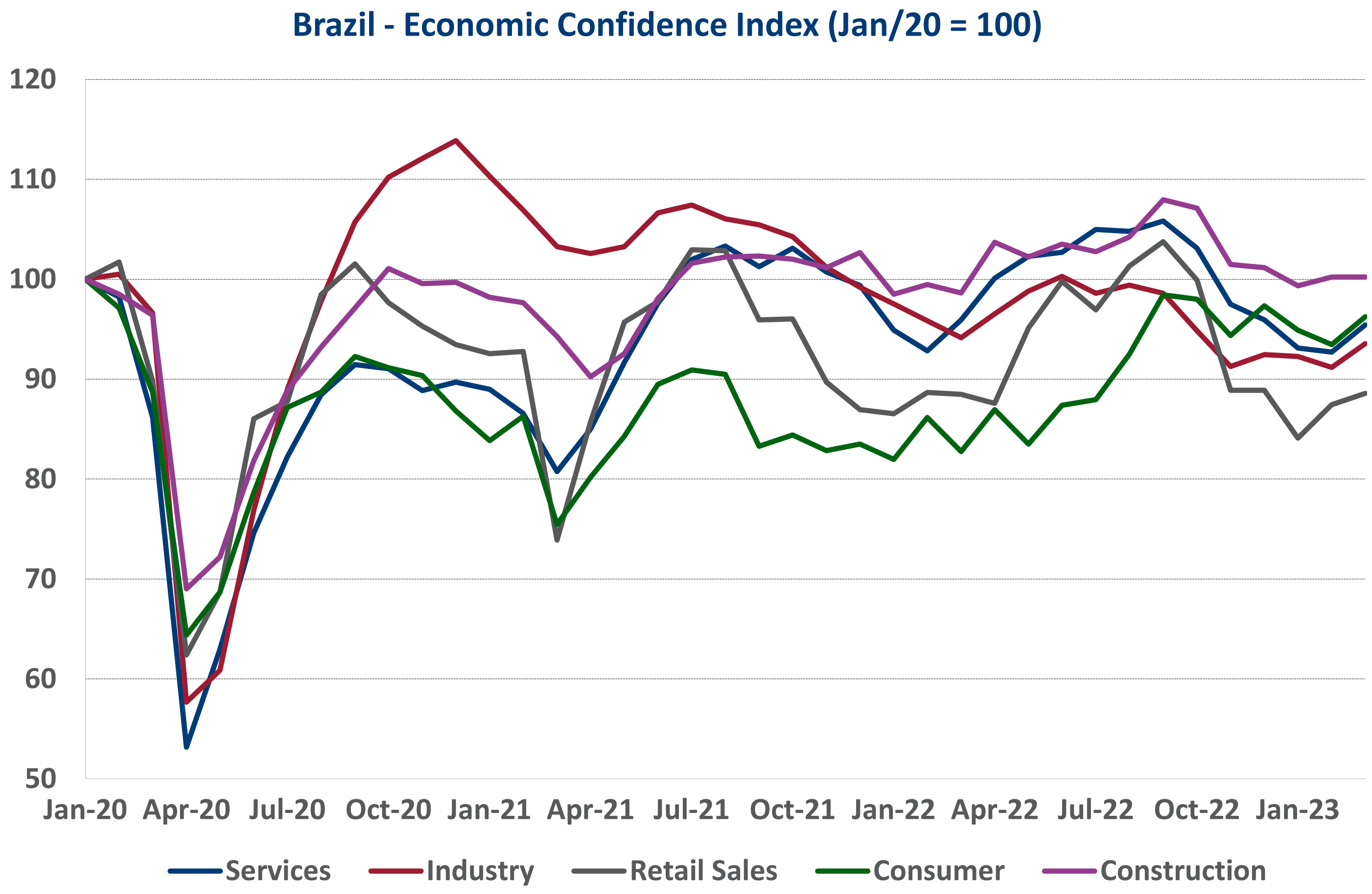
Brazil: Forecasts

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%	6.2%	4.0%
Unemployment Rate (eoy ,%)	11.1%	14.2%	11.1%	7.9%	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%	-1.2%
Government Gross Debt (% of GDP)	74.3%	86.9%	78.8%	72.9%	76.8%	81.6%

Source: BOCOM BBM

Brazil: Activity

» Most confidence indicators outcome favorable in March, indicating more optimistic prospects on short term;



Source: BOCOM BBM, FGV

Brazil: IGet – Retail

» IGet is a Santander indicator based on spending on credit and debit cards by its customer base
» Broad IGet points to a drop of 1,9% MoM after good results in January and February
» Restricted IGet increased 1.1% MoM, reflecting the third positive result after a weak sequence

IGet		Feb/2023		Mar/23		% Pré-crisis	
	Weights %	% m/m	% a/a	% m/m	% a/a	fev/20	média-19
Restricted IGet	**73.0**	**2.5**	**-1.4**	**1.1**	**0.7**	**-4.4%**	**-4.5%**
Fuels	9.3	1.6	17.1	-3.2	9.8	0.6%	-0.8%
Supermarkets	34.2	2.7	-6.0	0.0	-1.4	-8.0%	-7.3%
Clothing	6.9	1.7	-6.0	-5.4	-10.4	-11.1%	-25.0%
Furniture and Appliances	8.3	-0.9	-8.3	-3.6	-6.8	-24.5%	-15.5%
Pharmaceuticals	5.7	13.2	7.7	-0.9	12.2	12.5%	28.5%
Others	8.7	2.2	-1.0	0.5	2.8	-14.5%	-3.9%
Automotive Parts and Pieces	27.0	0.7	-16.3	-0.7	-17.2	-24.2%	-21.6%
Broad IGet	**100**	**2.9**	**-5.8**	**-1.9**	**-4.7**	**-12.8%**	**-10.8%**

Source: BOCOM BBM, Santander

Brazil: IGet – Services

» On the other hand, IGet suggests negative numbers for services in February and March, after a very strong January;
» In general, short-term activity data shows resilience in the first quarter of the year

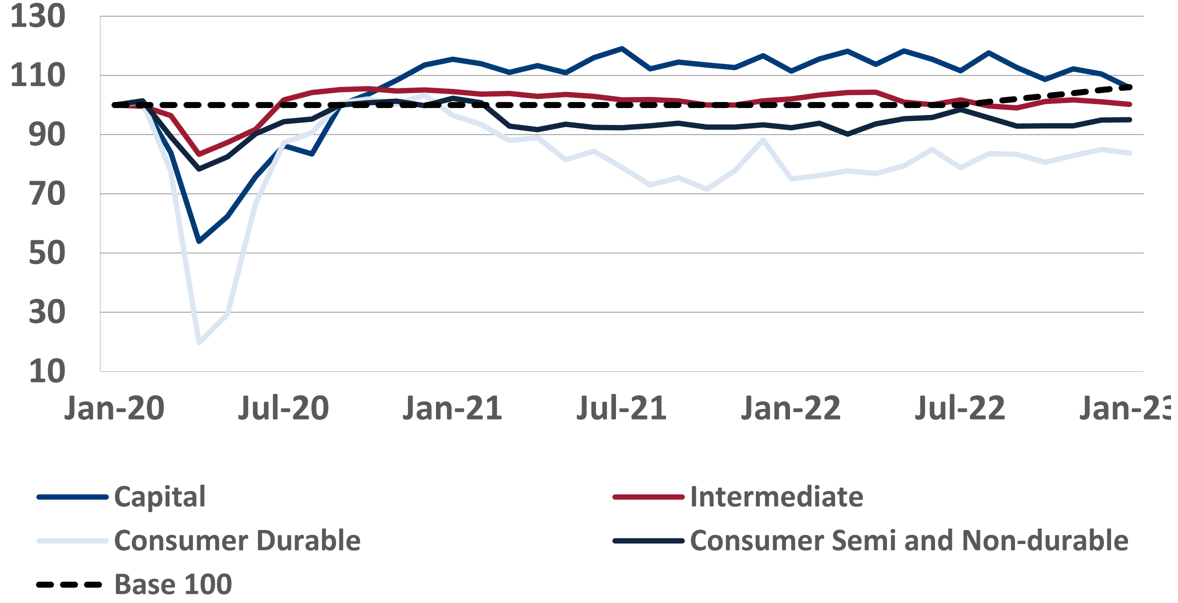
IGet		Feb/2023		Mar/23		% Pré-crisis	
	Weights %	% m/m	% a/a	% m/m	% a/a	fev/20	média-19
Services to Families	**100%**	**-0.3**	**5.9**	**-1.3**	**0.7**	**-3.3%**	**-8.4%**
Accommodation and Food	84%	1.2	2.8	-0.8	-1.6	-6.0%	-11.3%
Other Services to Families	16%	-15.4	19.6	-2.4	10.5	6.6%	4.4%

Source: BOCOM BBM, Santander

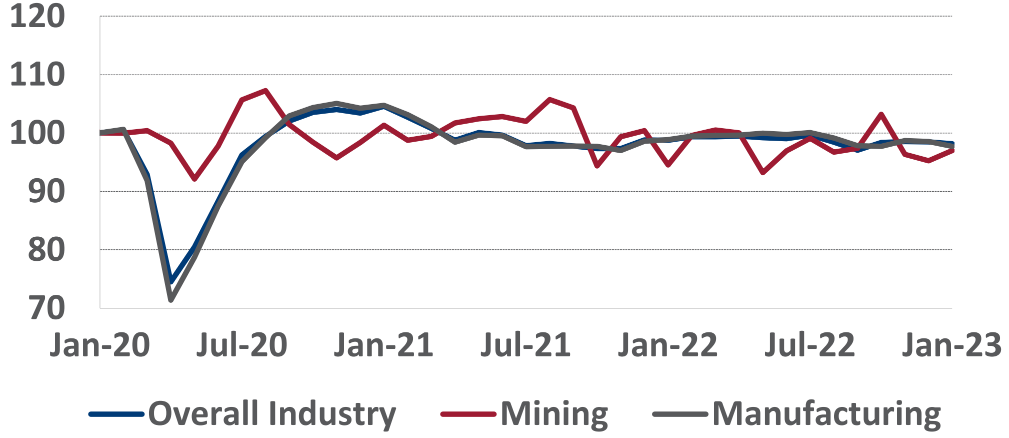
Brazil: Industrial Production

- Industrial production fell 0.3% MoM compared to December, in line with market expectations;
- The negative highlight was concentrated in capital goods, recording -4.2% MoM. In contrast, there was an expansion of 0.1% MoM for semi and non-durable goods;
- The sector remains far from recovering the losses of the recent past.

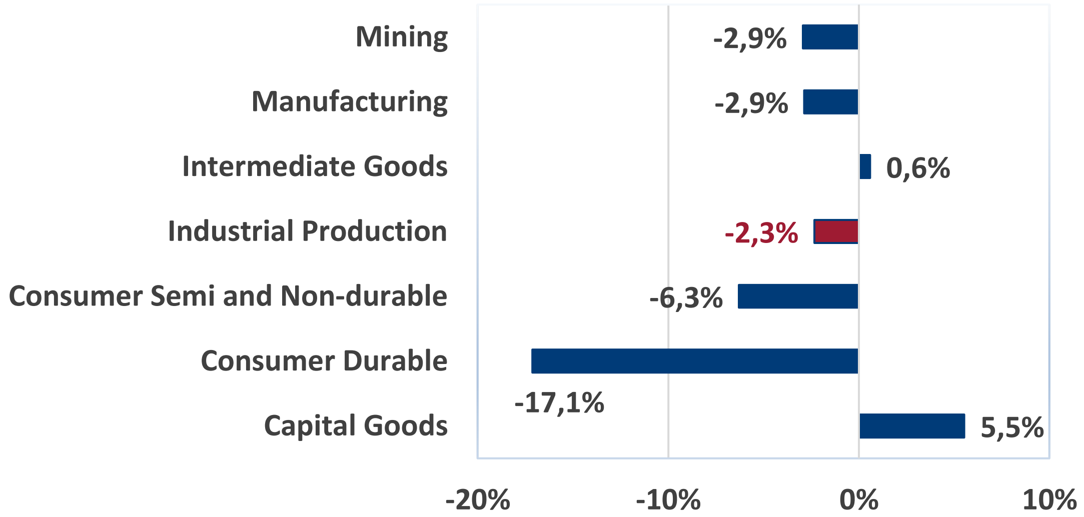
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



Industrial Production - Distance to pre-pandemic (Jan/23)

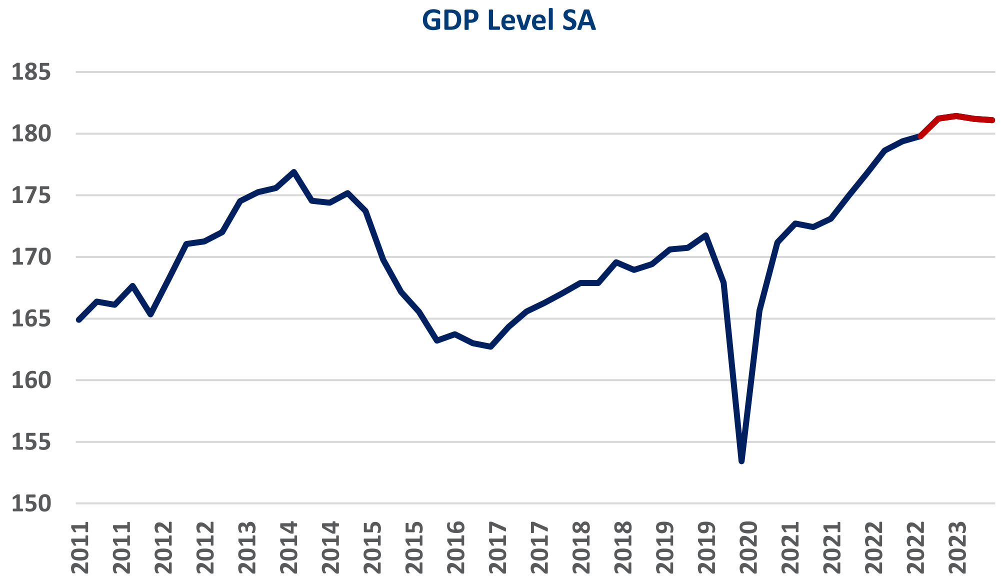


Source: IBGE, BOCOM BBM

Brazil: Economic Activity

- We maintain our 1.5% forecast for 2023 GDP;
- The forecast of a record harvest this year should help boost the economy as a whole;
- Finally, the policies announced and under study by the government tend to stimulate the demand in the short term, as is the case with the higher income transfers and the possible implementation quasi-fiscal policies.

	Carry-over	2023 Forecast
GDP	0.2%	1.5%
Agriculture	**-0.2%**	**8.0%**
Industry	**0.5%**	**0.2%**
Mining	2.4%	2.0%
Manufacturing	-0.7%	-0.9%
Electricity	0.2%	0.5%
Civil Construction	0.3%	1.5%
Services	**0.9%**	**1.2%**
Retail	-0.1%	-0.9%
Transports	1.2%	1.6%
Information and Communication	4.2%	3.3%
Financial Services	1.4%	1.9%
Rents	1.5%	1.6%
Other Services	2.1%	1.8%
Public Administration	-0.1%	1.3%



Source: BOCOM BBM, IBGE

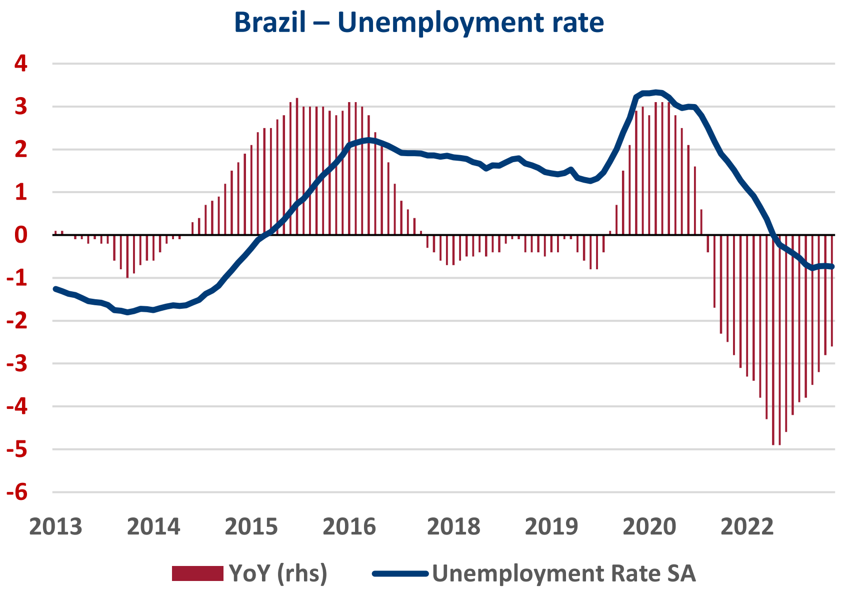
Brazil: PNAD

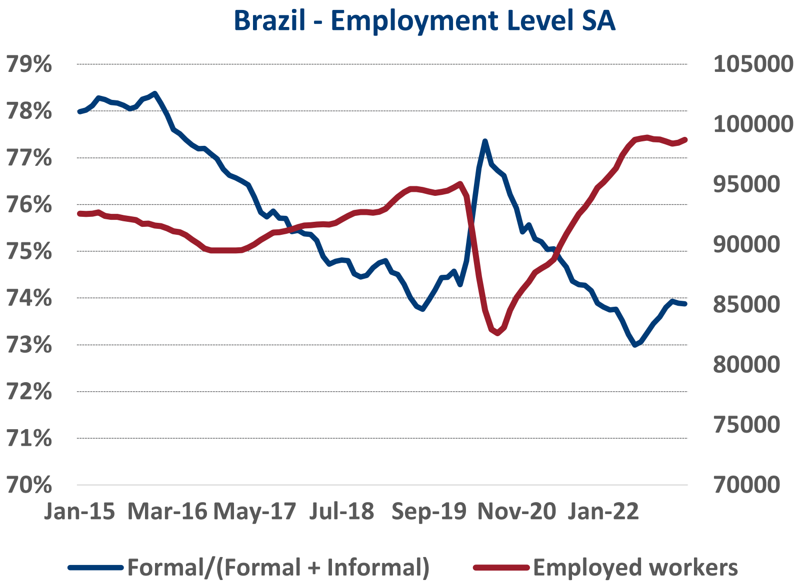
- In the latest PNAD data, the unemployment rate reached 8.6% NSA in February (and 8.4% SA, relatively flat at the margin). The result shows a decrease of 2.6 pp. compared to the same period of the previous year (11.2%);

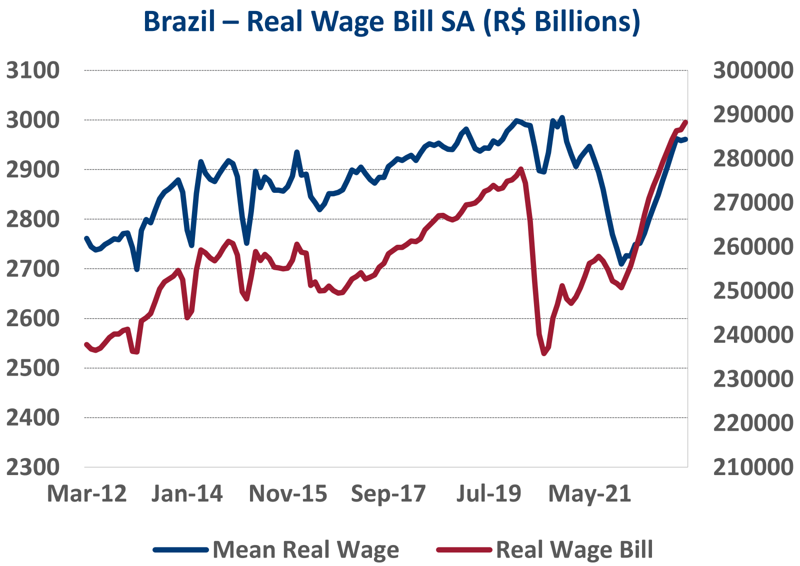
- The labor force decreased -0.1% modestly monthly, while the participation rate rose subtly to 61.9% from 61.8%, still running below the pre-pandemic level around 63.5%;

- The sum of informal job categories posted in February the sixth contraction in a row (-0.5% MoM), while the sum of formal jobs stayed virtually flat in February from January, after two negative readings in a row;

- In our forecast, it's difficult to imagine a significant rise in labor supply in coming months, in view of higher government cash-transfers.







Source: IBGE, Bocom BBM, MTE

Brazil: Formal Labor Market

- Caged recorded a net creation of 241.8k formal jobs in February, above the market expectations of 170k;
- The number of jobs created was 31.6% lower than in the same month of 2022;
- Despite the better-than-expected result for the month, the balance of formal job creation was 110k lower that observed in the same month of the previous year, signaling Brazilian formal labor market continues to cool down gradually.

Net Payroll Job Creation SA (Thousands)

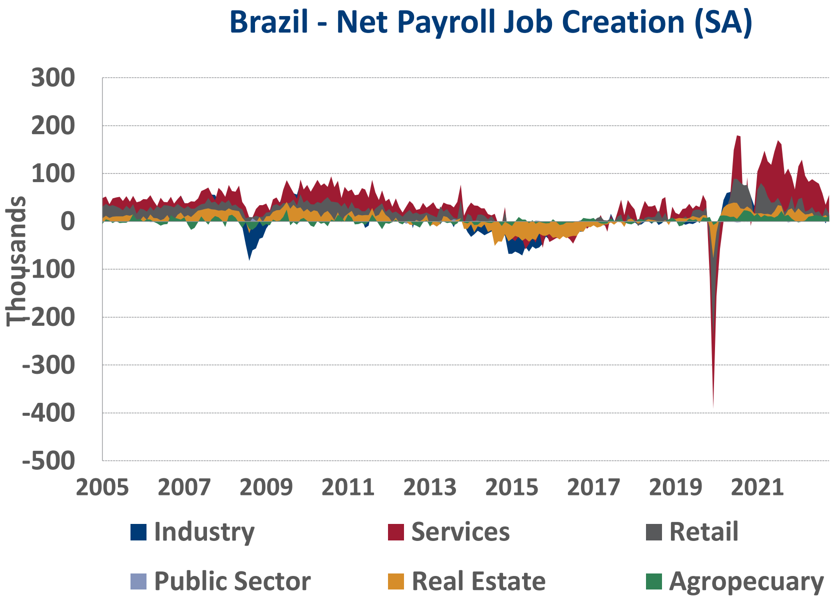
CAGED - Balance of Jobs (Accum. 12M, Million)

Source: BOCOM BBM, BCB

Brazil: Formal Labor Market

- The largest volume of jobs generated was in the services sector;

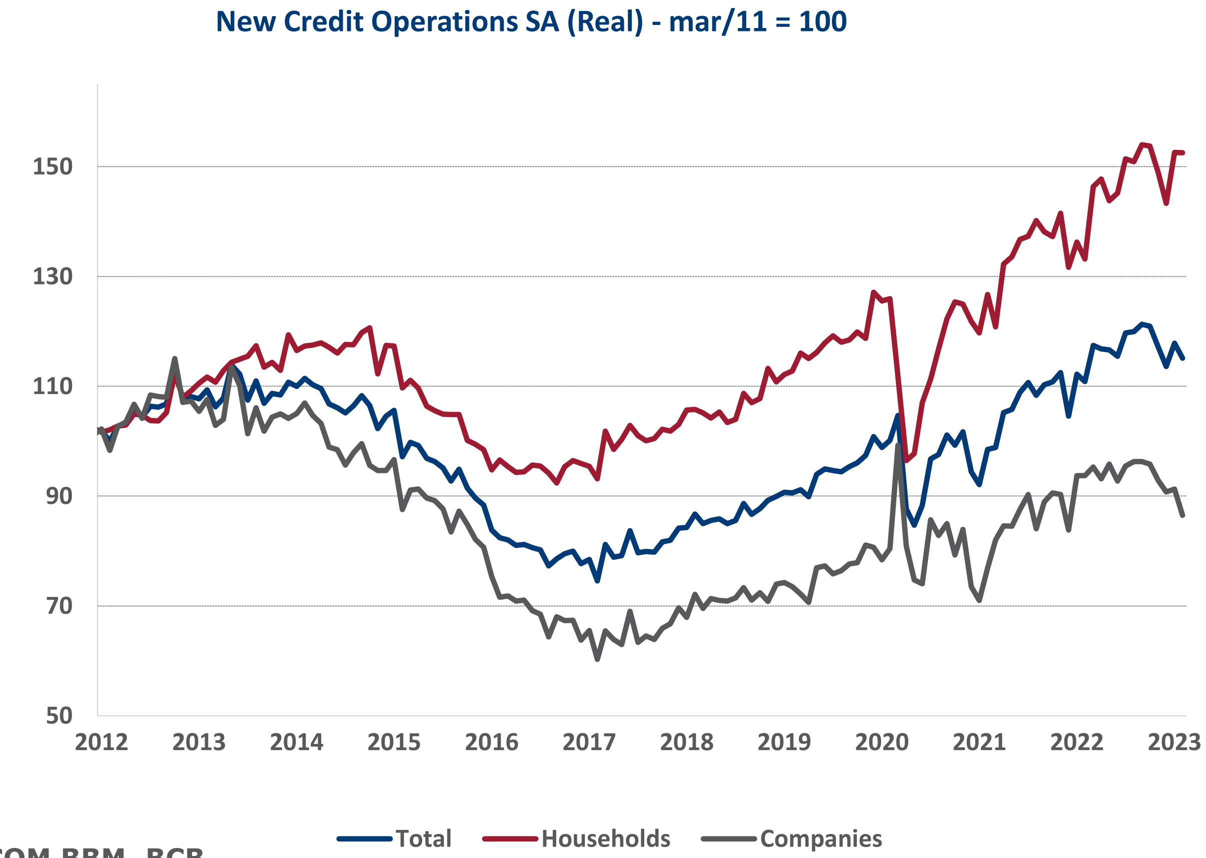
- Four sectors of the economy had a net opening of formal jobs in February: Services, Agriculture, Manufacturing Industry and Construction.

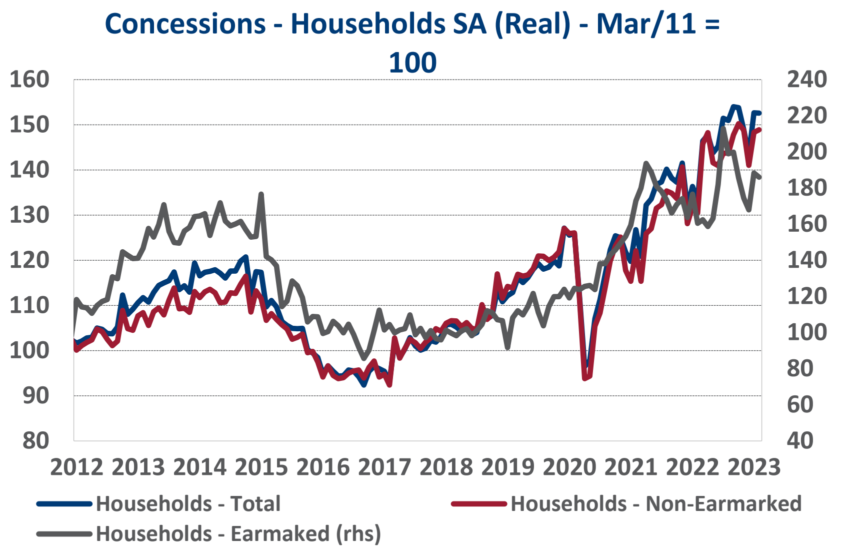


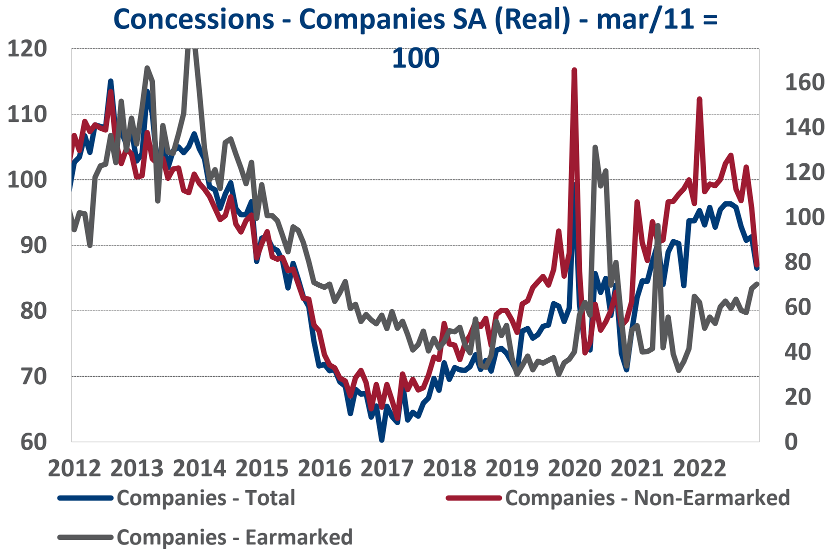
Source: BOCOM BBM, MTE

Brazil: Credit Statistics

- In February, total credit concessions fell 2.3% MoM in real terms;
- Credit concessions to households remained stable and to companies contracted by 5.2% MoM (driven by the non-earmarked credit that shrank by 9.1% in real terms;



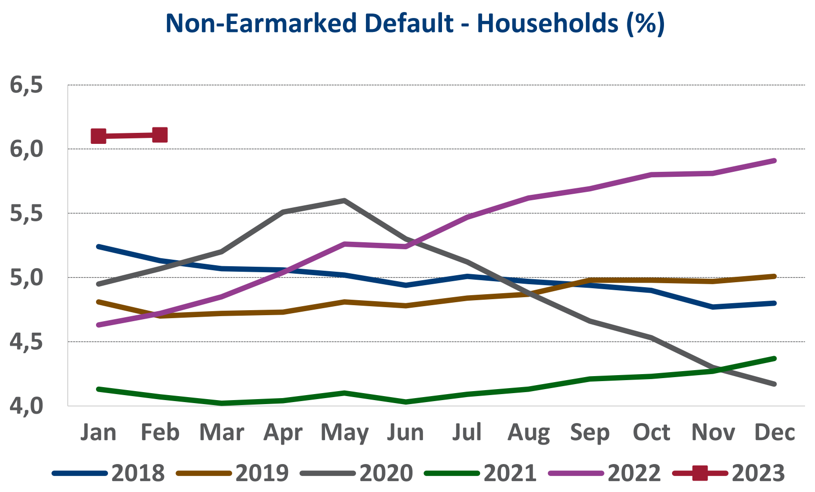


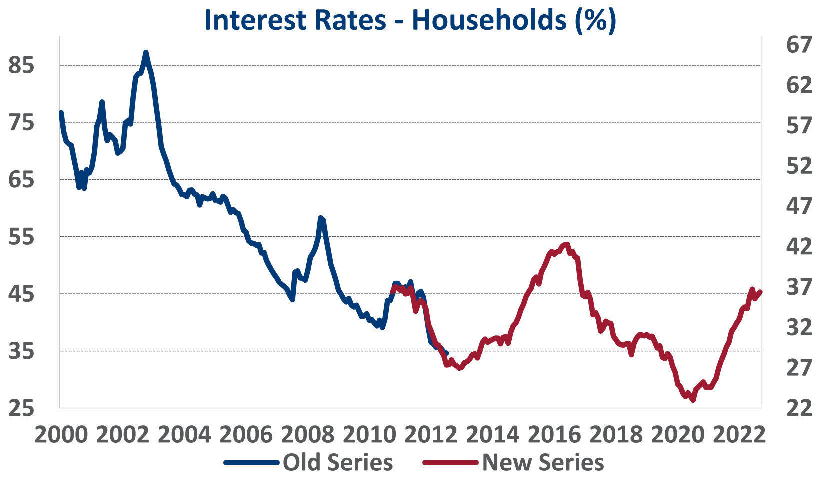


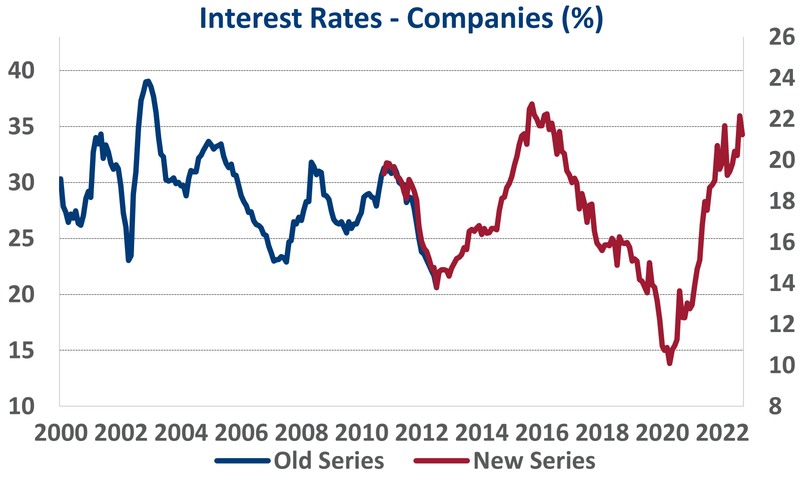
Source: BOCOM BBM, BCB

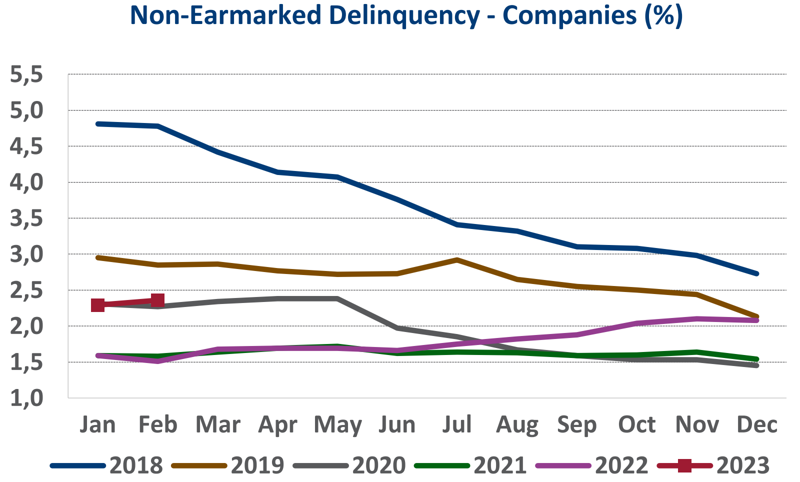
Brazil: Credit Statistics

- In February, lending rates to individuals rose further by 40 bps to 36.4%, while lending rates to corporates fell 100 bps to 21.2%, after a sharp rise in January;
- Non-earmarked default continue to move up, reaching 6.11% to households, the highest level since 2016, and 2.36% to companies;





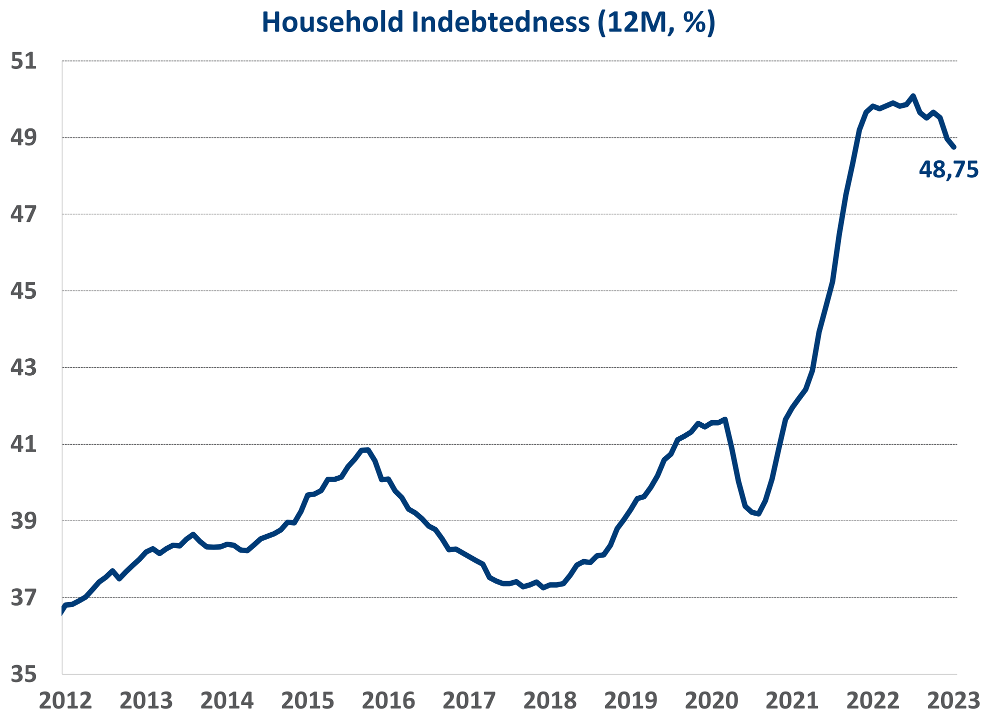


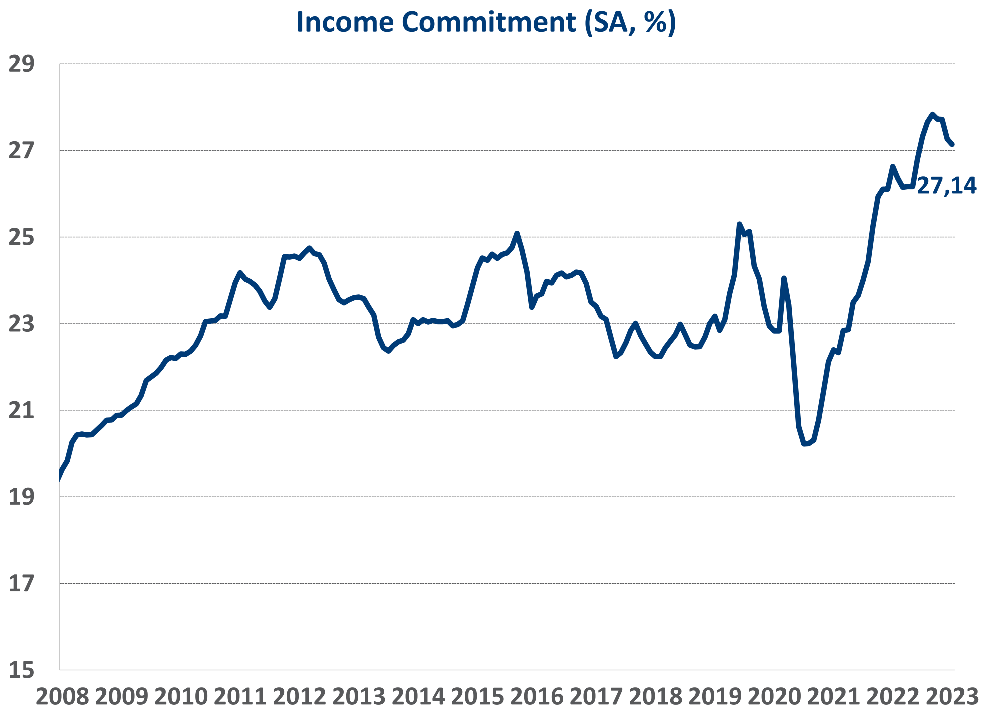


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- The household indebtedness indicator fell to 48.8%, but remain at historically high levels;
- The income commitment reached 27.1%, also close to the highest level;





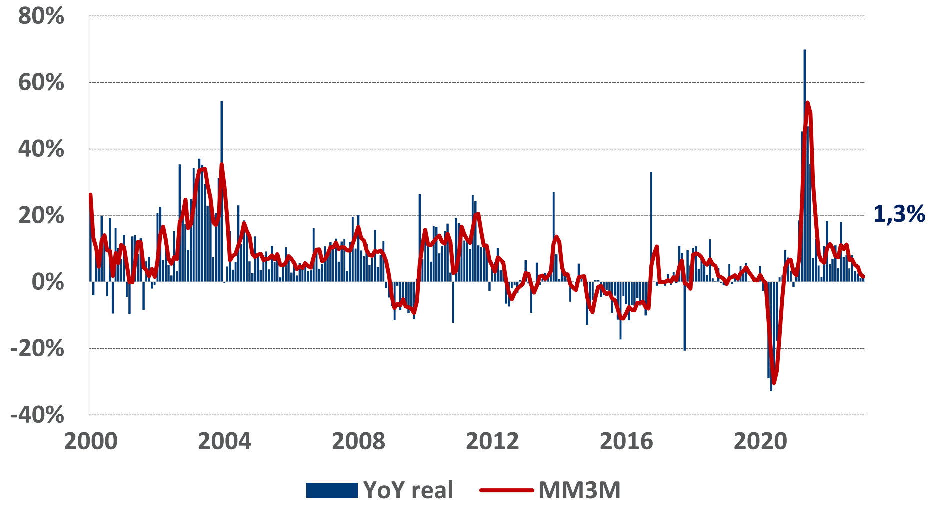
Source: BOCOM BBM, BCB

Brazil: Federal Tax Collections

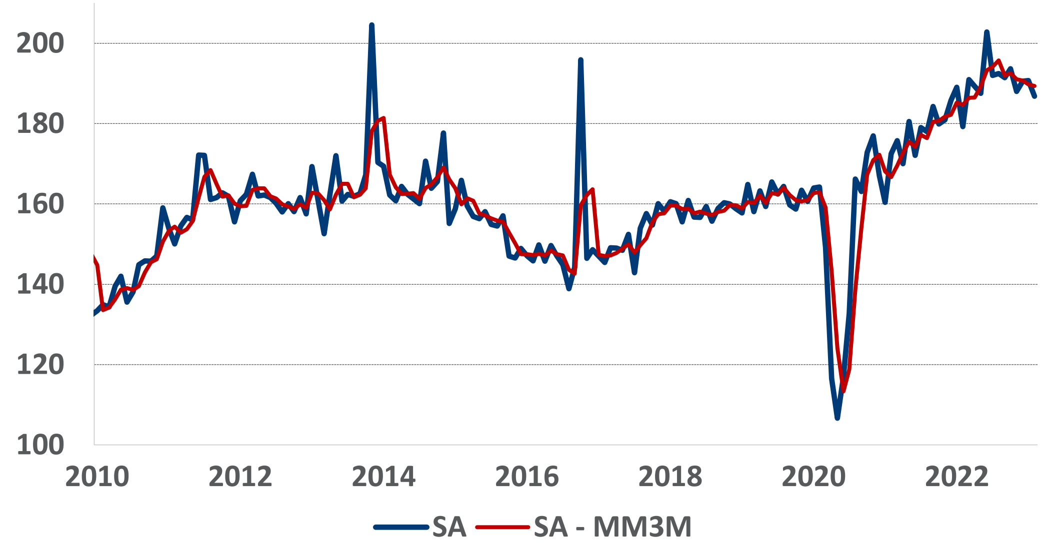
- Total federal tax collections registered BRL 159.0 bn in February, rising 1.3% YoY in real terms;
- the 12-month accumulated tax collection growth continued to show deceleration, falling from 6.4% last month to 6.1%;
- The highlights of the month were the IRPJ and CSLL, growing 15.1% and 13.3% in real terms, respectively;

  Another highlight was the social security revenue, which already presents a positive trajectory in recent months, with growth of 6.3%.

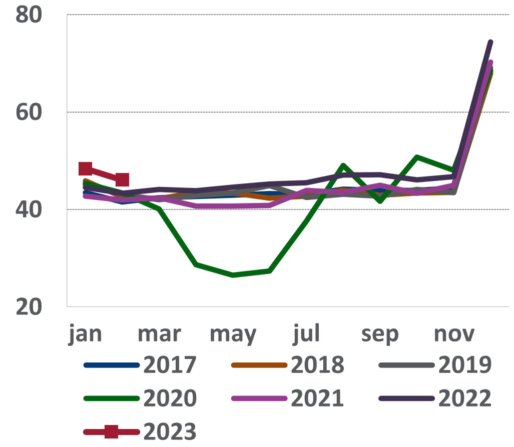
Total Tax Collection (YoY Real, %)



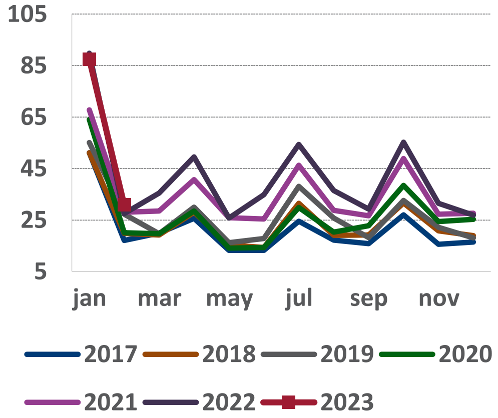
Total Tax Collection (BRL Bn, Real SA)



Social Security (BRL Bn, Real)



IRPJ/CSLL (BRL Bn, Real)



Fonte: BOCOM BBM, RFB

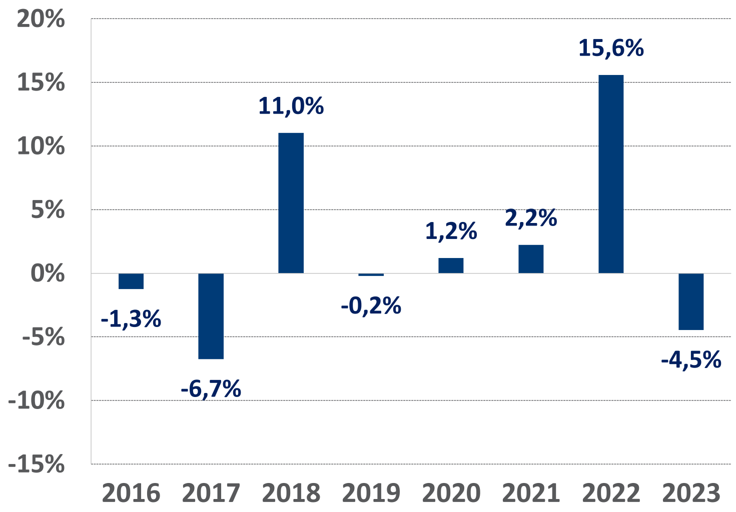
Brazil: Central Government Primary Result

- In February, the Brazilian central government registered a primary deficit of BRL 41.0 bn - The 12-M accumulated primary result is BRL 54.5 bn;

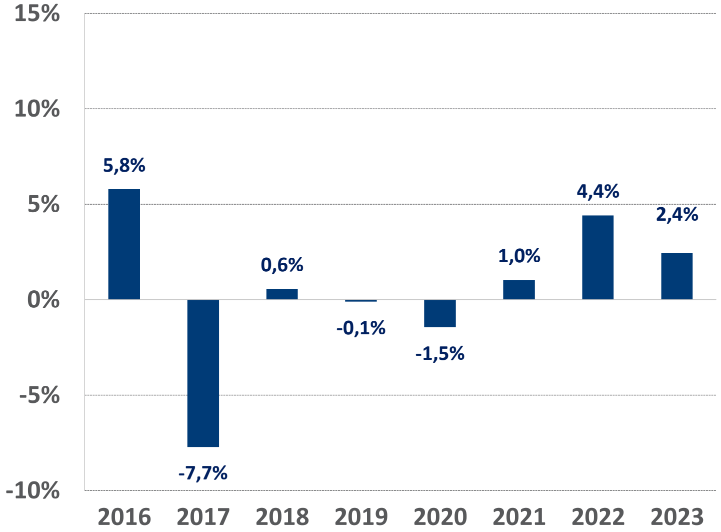
  The 12-M accumulated primary result decreased to 0.4% of GDP;
- In real terms, **net revenue** reduced around BRL 20.8 billion (-19.8%) compared to February 2022;
- **Highlights of the month:** i) reduction of Concessions (BRL – 11.8 billion), ii) decrease in Dividends (BRL -3.7 billion);
- Total **expenses** decreased by BRL 1.3 billion (-0.9%) in real terms, compared to February 2022;
- **Main factors:** i) reduction of the Unemployment Allowance and Insurance, due to the payment schedule of the benefits concentrated in the first three months of the year, ii) reduction of the Extraordinary Credits - lower expenses related to the fight against COVID-19.

C. G. Primay Budget Balance (%, GDP 12M)

Net Revenue (YTD Real, %)



Expenditure (YTD Real, %)

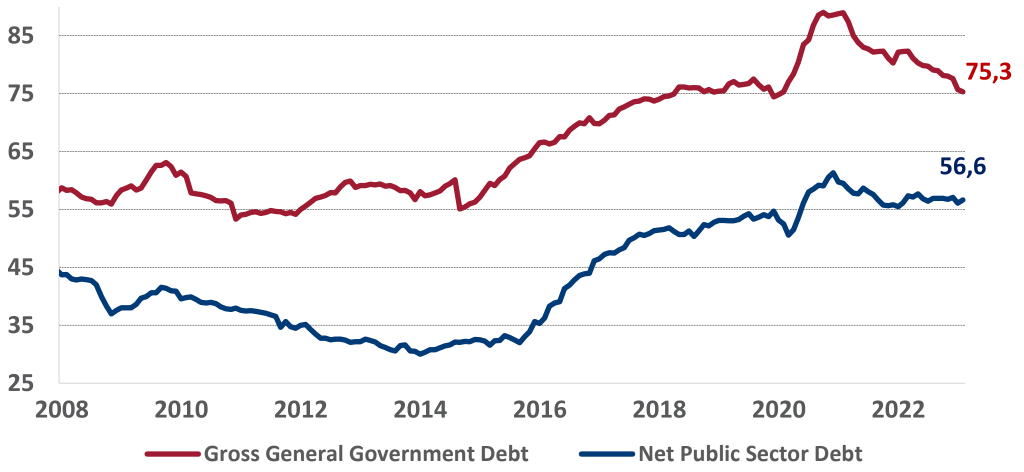


Source: BOCOM BBM, RTN

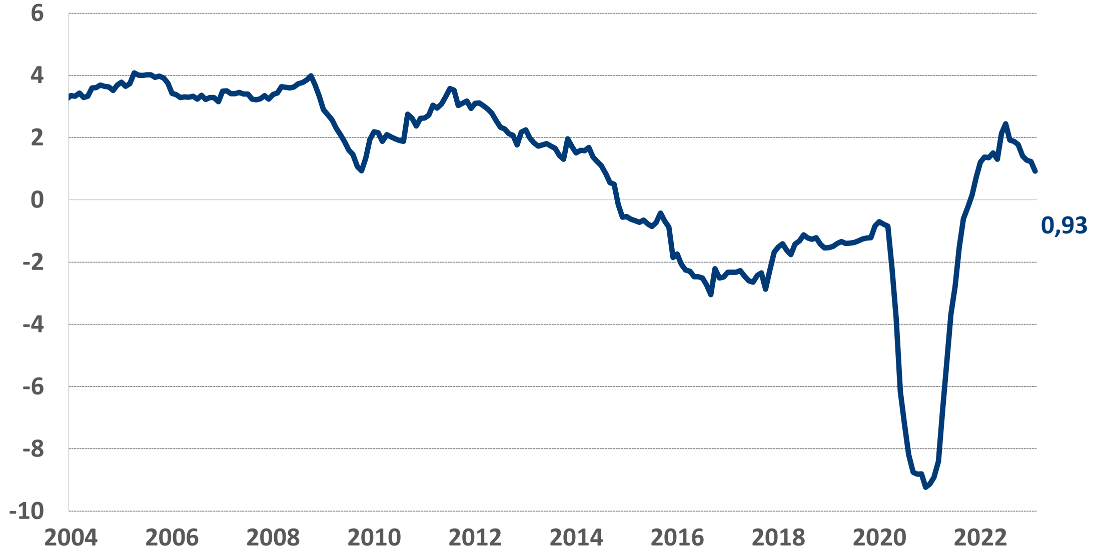
Brazil: Consolidated Public Sector Budget

- The consolidated public sector registered a primary deficit of BRL 26.5 bn in February - the worst result for the month in the historical record, since 2002;
  - In 12 months, the public sector accumulates a surplus of BRL 93,2 bn (0,9% of GDP);
- Central government had a deficit of 39.2 bn in February;
  - While Subnational governments and SOEs achieved a surplus of BRL 11.8 bn and BRL 0.9 bn, respectively;
- General Government Gross Debt rose from 72.5% in January to 73.0% this February and Public Sector Net Debt also rose, from 56.1% to 56.6%;

Fiscal Debts (% GDP)



Primary Budget Balance (% GDP 12M)



Primary Surplus: Central Government (% GDP 12M)

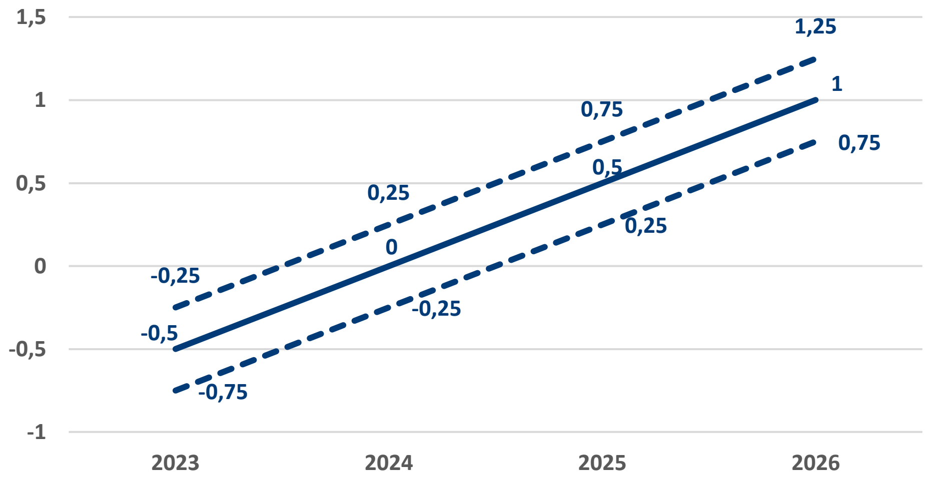
Primary Surplus: Subnational governments and SOEs (% GDP 12M)

Source: BOCOM BBM, BCB

Brazil: New Fiscal Framework

- Despite the still good short-term results, the prospects for debt sustainability were subject to the presentation of a new fiscal framework that will replace the spending cap from 2024. On March 30, the government presented the general lines of the new framework at a press conference. The complementary law text with the operational details for the rule, however, has not yet been made public
- The new rule is based on two main axes: (i) path for the primary balance along the next years (0% for 2024, 0.5% for 2025 and 1% for 2026, with a band of 0.25% up and down); (ii) the increase in primary spending is limited by a fraction (70% in the base case) of the primary revenues growth of the previous year
- In the case of a primary result below the band lower bound, the expenditure growth for the following year is limited to 50% of revenue growth
- In order to avoid high procyclicality of the rule, it was stipulated that expenditures would rise at least 0.6% in real terms, but also limited to 2.5% in real terms
  - However, if the primary result is above the band upper bound, the government can use the surplus for investments

Target for Primary Balance



Source: BOCOM BBM, Ministry of Finance

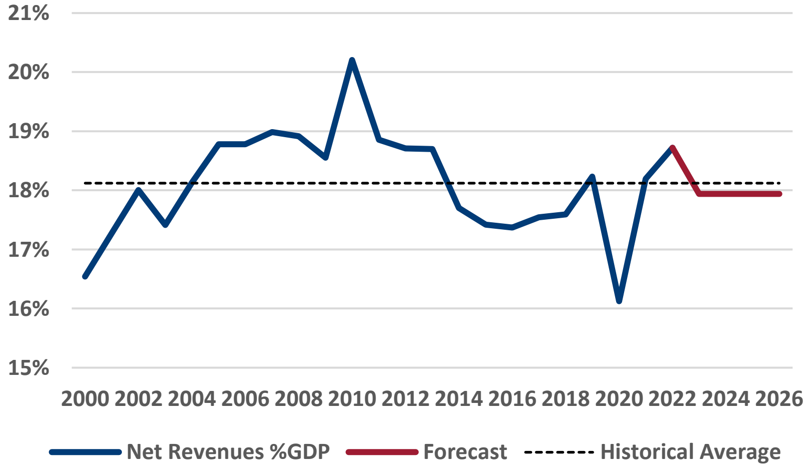
Brazil: Scenario for the New Fiscal Framework

- Considering our baseline scenario for the macroeconomic variables and our forecasts for the net revenues growth, under the new fiscal framework the Debt to GDP ratio should advance up to 86% in 2026
- The Debt to GDP ratio only stabilizes throughout this presidential term with extra revenues (assuming the government does not use part of the extraordinary collection for investments)

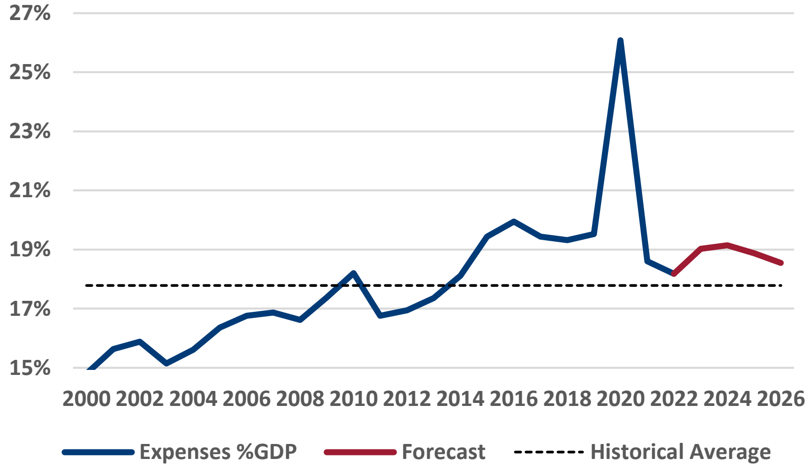
	Baseline Scenario		
	Inflation	Real GDP	Real Interest Rate
2023	6.2%	1.5%	6.0%
2024	4.0%	1.0%	6.0%
2025	3.0%	2.0%	4.0%
2026	3.0%	2.0%	4.0%

	Net Revenues (12M Growth in July)	Real Expenses Growth	Primary Target (Lower Bound)	Primary Result
2023	-4.0%			-1.1%
2024	1.0%	0.6%	-0.3%	-1.2%
2025	2.5%	0.6%	0.3%	-0.9%
2026	3.0%	1.2%	0.8%	-0.6%

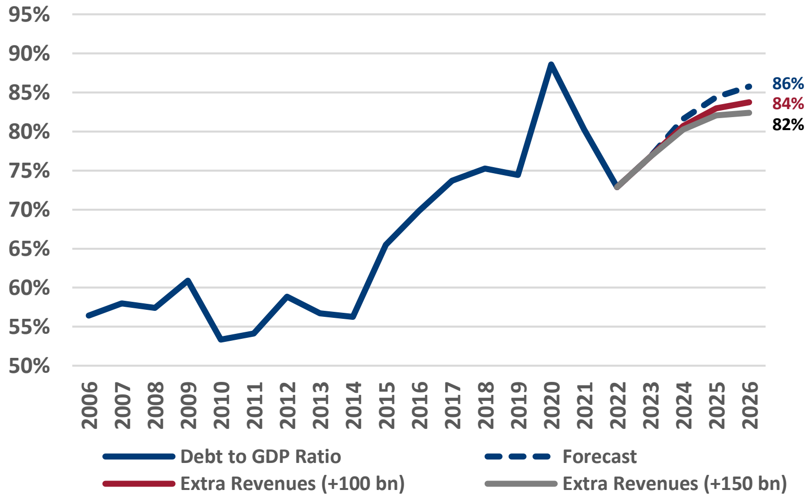
Net Revenues %GDP



Expenses %GDP



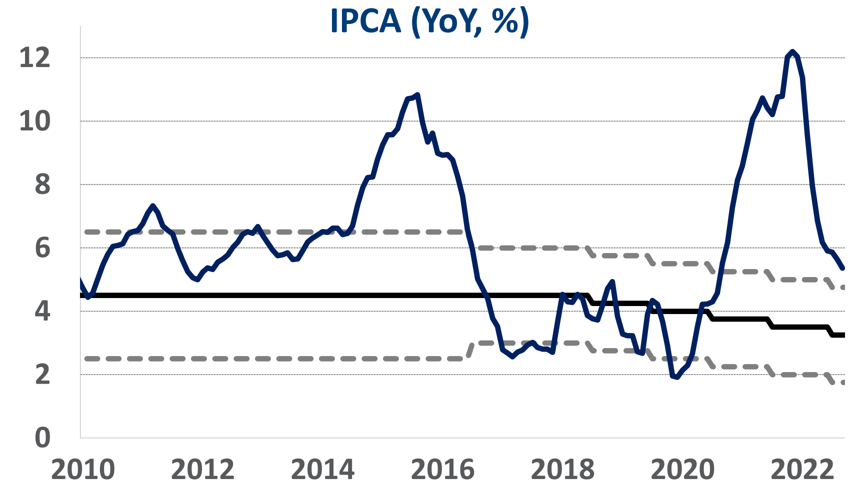
Debt to GDP ratio

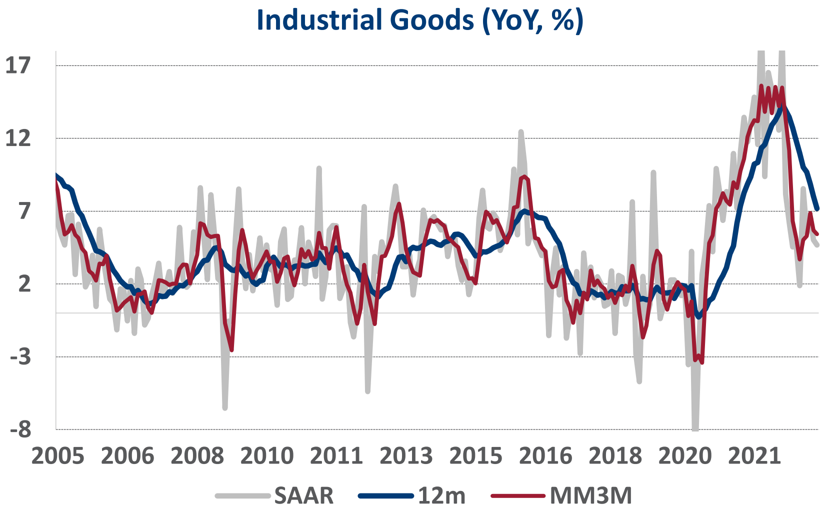


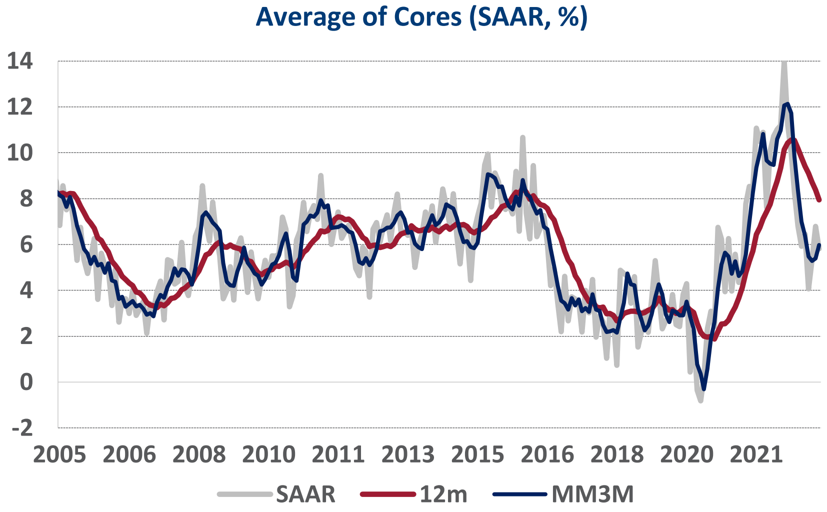
Source: BOCOM BBM, BCB, National Treasury

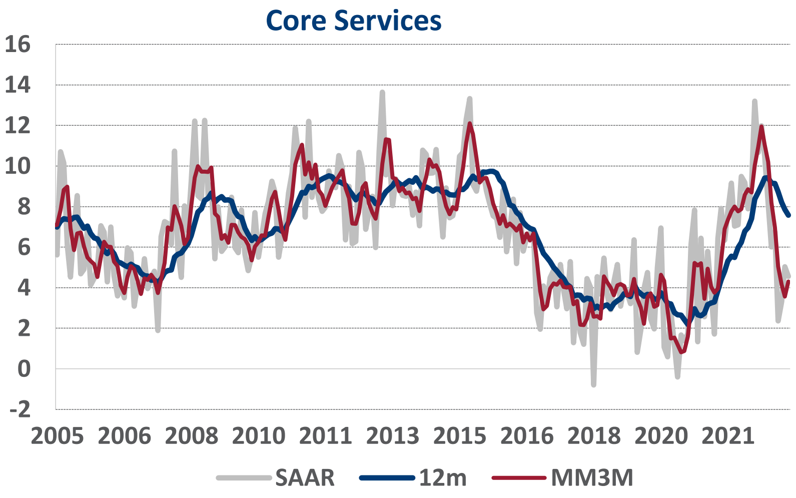
Brazil: Inflation 2023

- The March IPCA preview rose 0.69% MoM, in line with expectations;
- The variation in 12 months retreated to 5.36% in March, compared to 5.63% in February;
- The main upward deviations from our forecast came from: gasoline and electricity, which reflected the partial reintroduction of federal taxes (PIS/Cofins) and the return of ICMS on transmission and distribution of electricity;
- On the other hand, the main downward surprises came from durable goods, food at home and some services more related to inertia and the minimum wage;
- Therefore, the composition was good, with underlying cores and services slowing down at the margin.





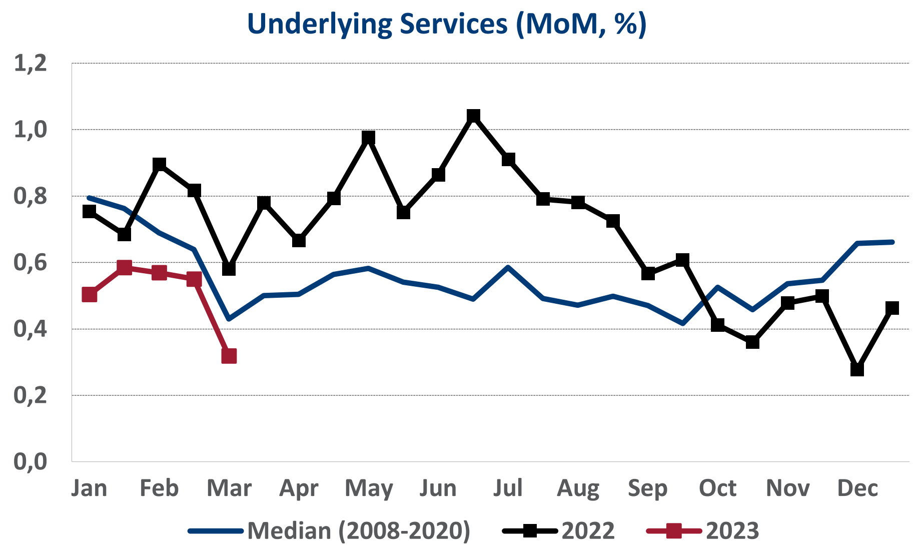


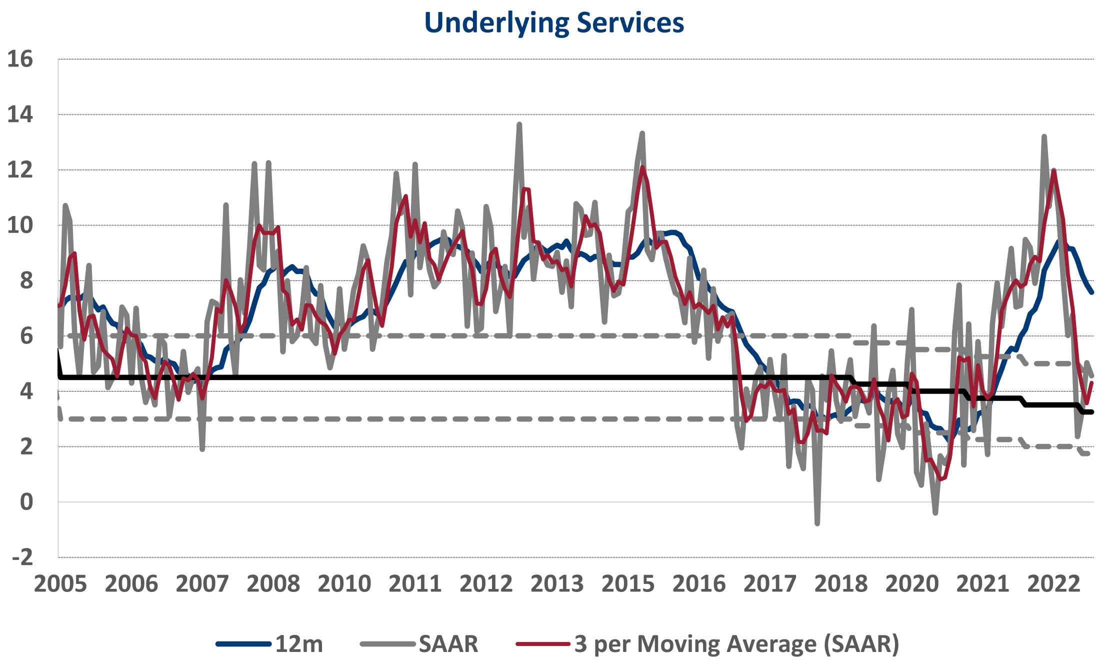


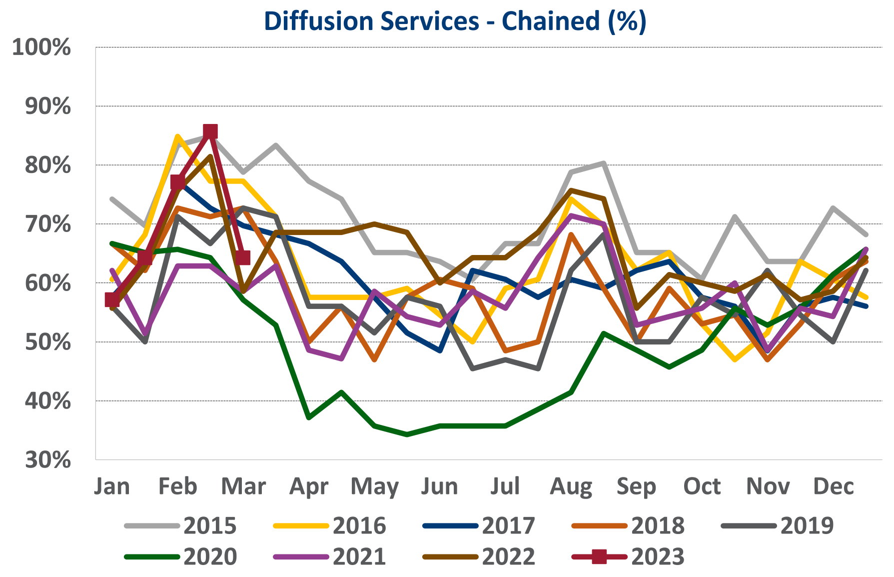
Source: BOCOM BBM, IBGE

Brazil: Inflation 2023

- The measure of 'underlying services' – more sensitive to economic policy – advanced 0.32% MoM in March, also significantly below our forecast of 0.46%;
- Another good news is that the services diffusion slowed sharply from 86% in February (same level as in 2015, year in which the IPCA surpassed 10%), to 64% in the March preview.



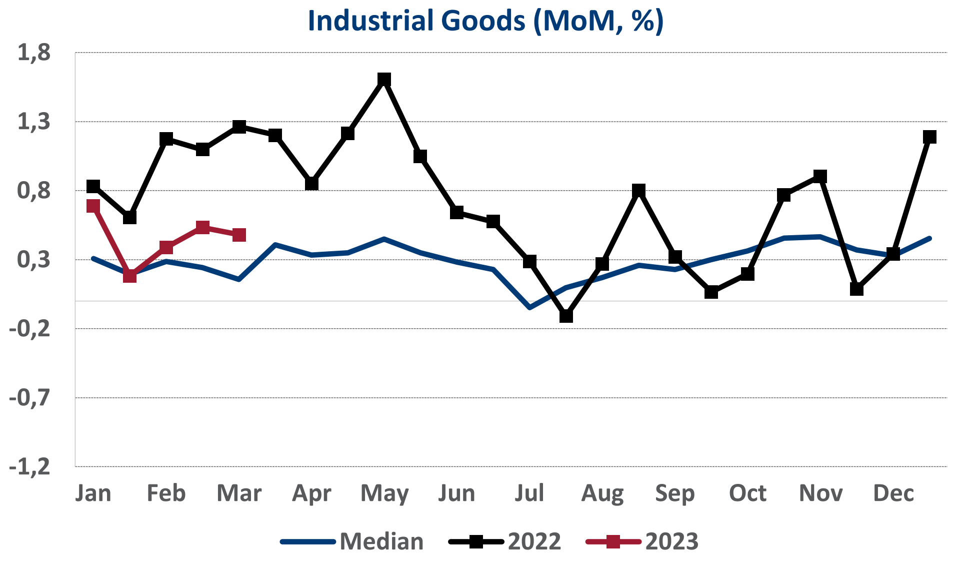


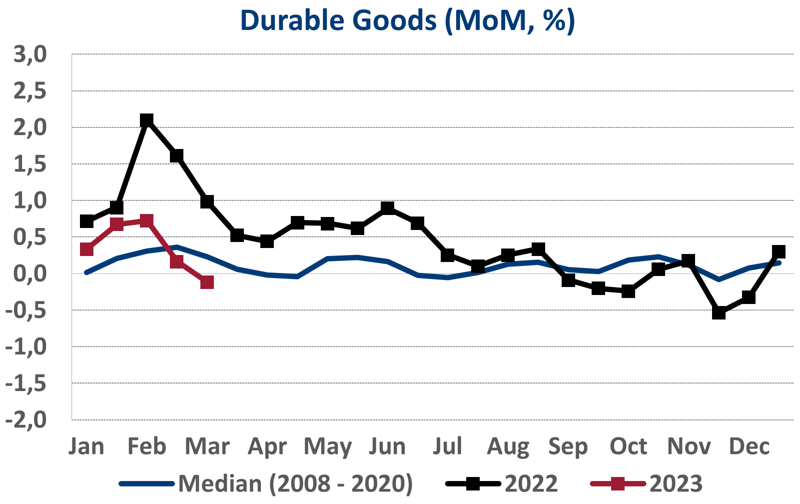


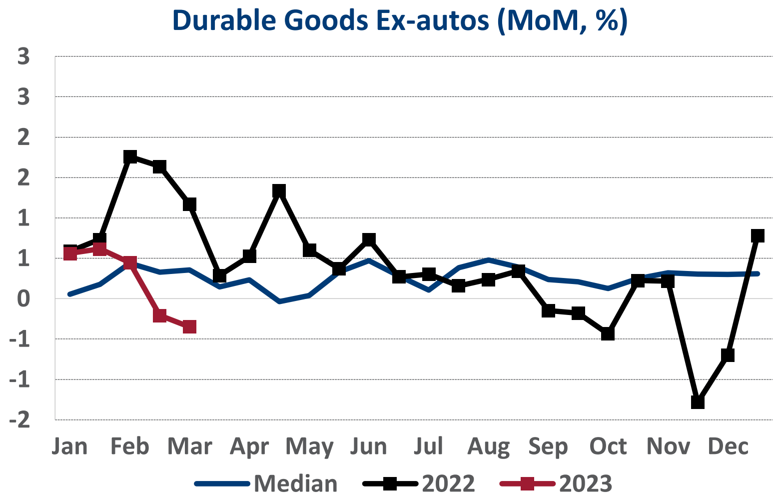
Source: BOCOM BBM, IBGE

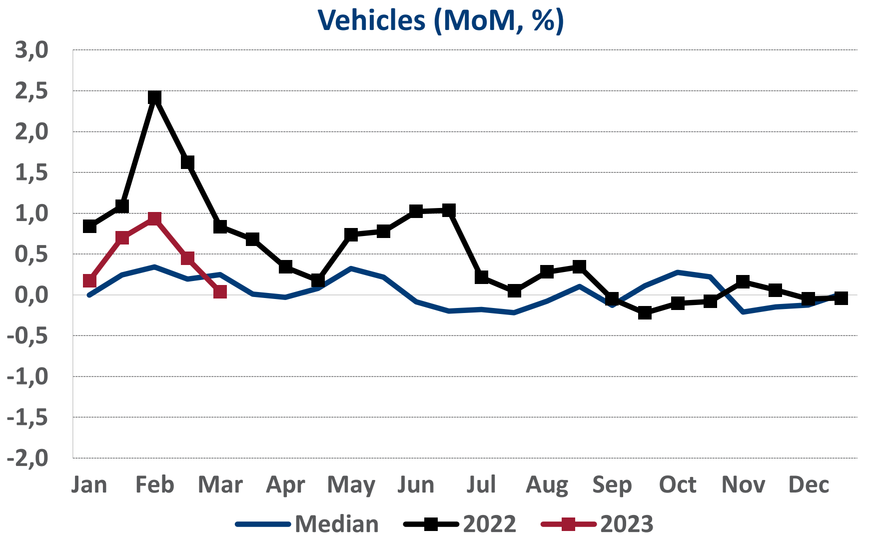
Brazil: Inflation 2023

- Industrial goods posted a 0.48% MoM inflation, in line with our forecast, but with durable goods and apparel surprising to the downside and offset by high personal care volatility;
- The process of normalization of global production chains has produced benign effects on domestic inflation of industrial goods.









Source: BOCOM BBM, IBGE

Brazil: Inflation

- Our forecast for the year was updated from 5.9% to 6.2%
  - It was mainly explained by the decision of National Council for Finance Policy (Confaz) that set the ICMS rate at BRL 1.22 per liter for gasoline and anhydrous ethanol fuel. This rate will be valid from July 1, impacting our forecast by 25bps.

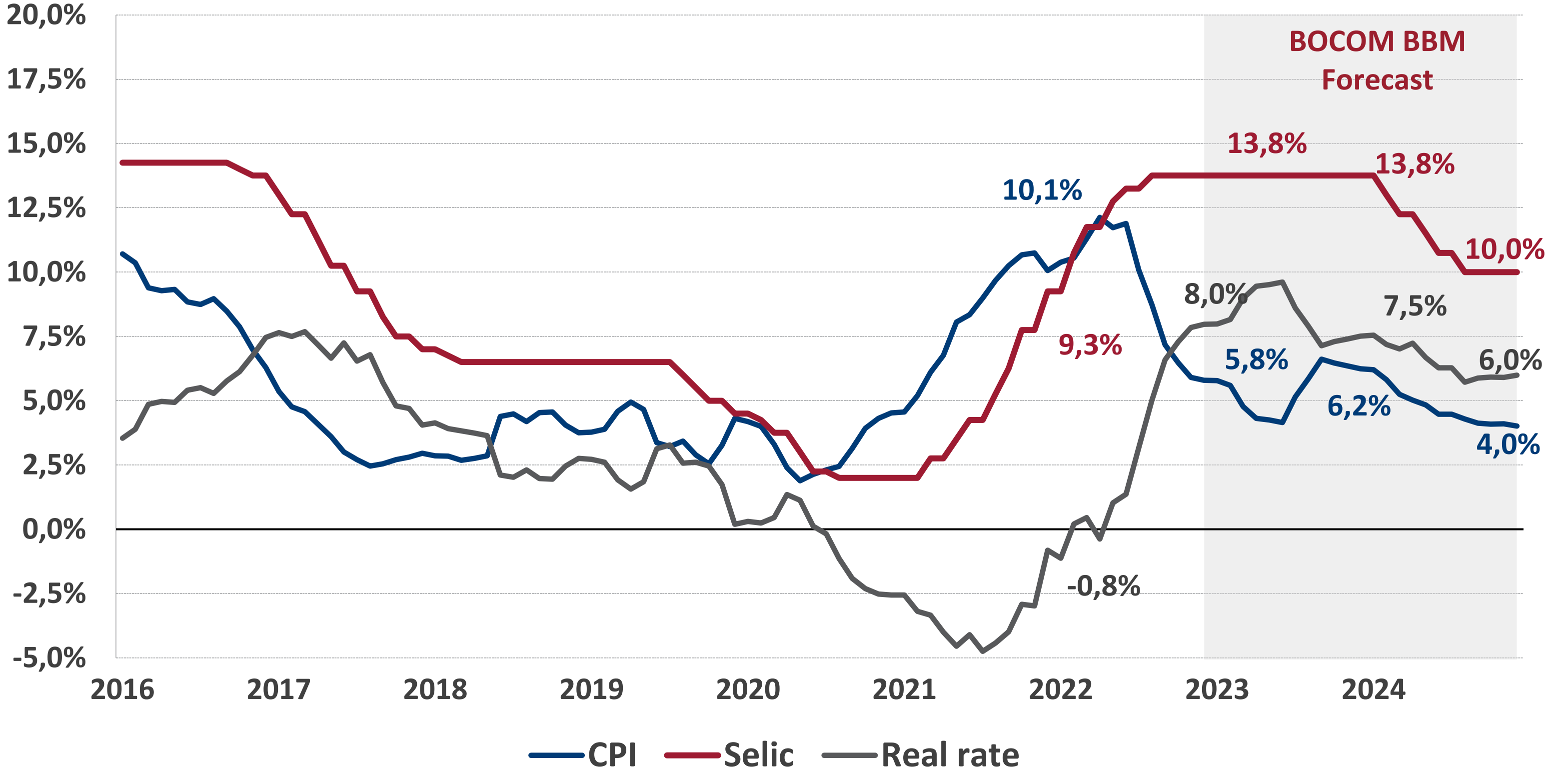
IPCA (%, annual)

	Weight	2019	2020	2021	2022	2023	2024
Regulated	**26.6**	**5.5**	**2.6**	**16.9**	**-3.8**	**11.4**	**4.0**
Industrial goods	**23.6**	**1.7**	**3.2**	**11.9**	**9.5**	**3.1**	**3.2**
Durable goods	10.3	0.0	4.5	12.9	6.1	2.0	-
Semi-durable goods	5.9	0.6	-0.1	10.2	15.7	3.3	-
Non-durable goods	7.3	4.4	4.0	11.9	9.5	4.4	-
Food at home	**15.7**	**7.8**	**18.2**	**8.2**	**13.2**	**3.3**	**3.0**
Services	**34.1**	**3.5**	**1.7**	**4.8**	**7.6**	**6.1**	**5.0**
Food away from home	5.6	3.8	4.8	7.2	7.5	7.4	5.3
Related to minimum wage	5.2	2.9	1.5	3.3	6.3	6.8	6.5
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.3	6.2	5.4
Inertial	15.0	4.3	1.6	4.2	8.8	5.3	5.4
IPCA		**4.3**	**4.5**	**10.1**	**5.8**	**6.2**	**4.0**

Brazil: Monetary Policy

- At the March meeting, the Copom reinforced the hawkish tone of the previous statement, reinforcing that the 2024 target can only be achieved with the Selic stable over the relevant horizon, given the worsening model forecasts and expectations. Adverse conditions in the global financial system were included in the balance of risks, but it was insufficient to make it asymmetrical, that is, the BC sees risks factors in both directions and with the same weight;
- In view of the very tough statement and minutes, we maintain our expectation for the Selic rate at 13.75% at the end of the year, even though there is a non-negligible risk that a more significant slowdown in the domestic credit concessions could lead to an anticipation of the cuts.

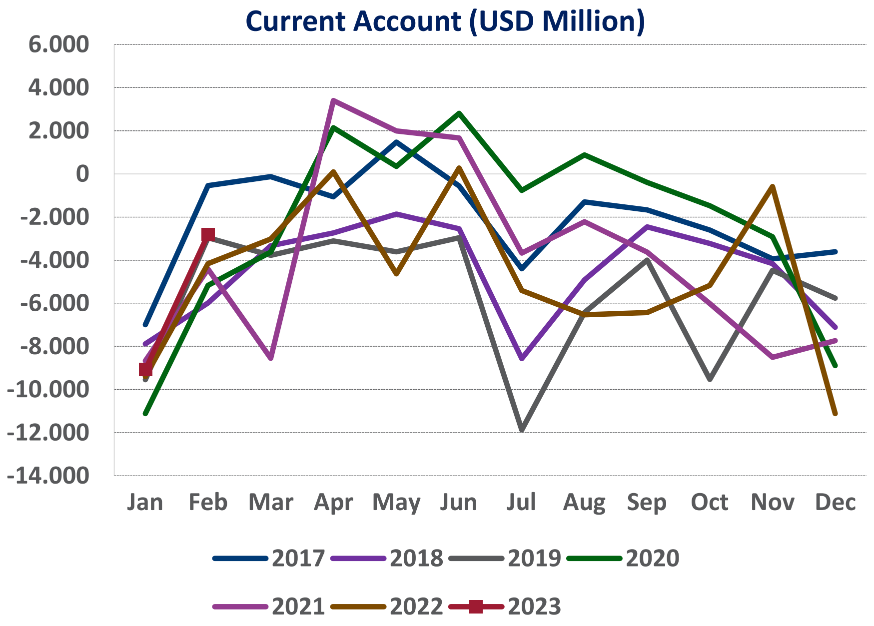
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

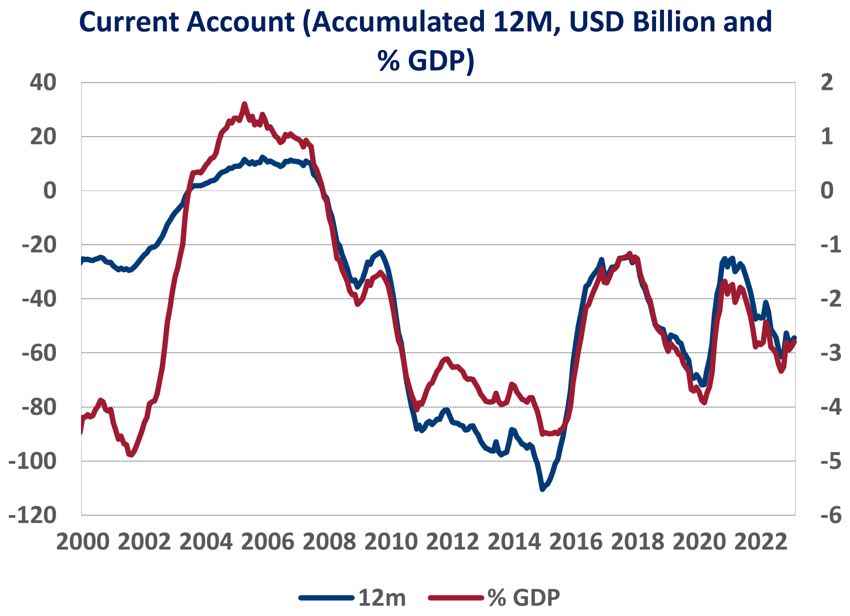


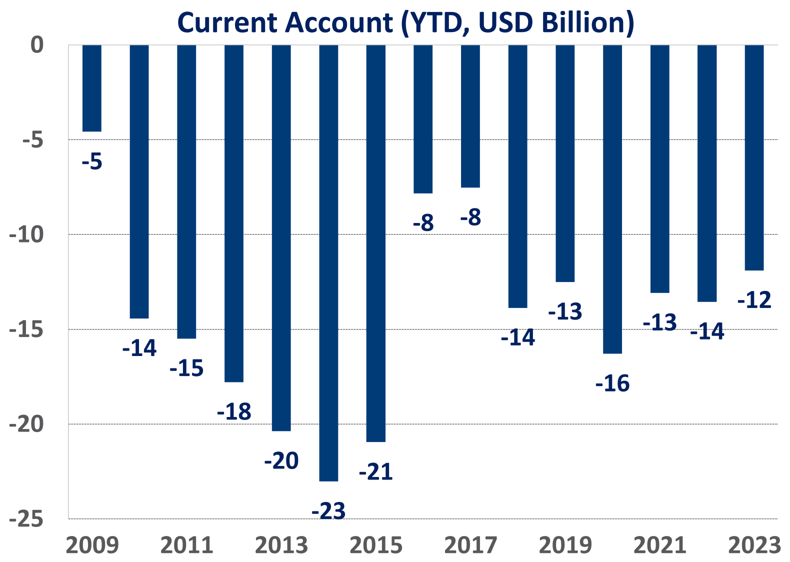
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- Brazilian current account recorded a deficit of USD 2.8 billion in February 2023, below expectations of USD 5.0 billion;
- Therefore, the current account balance reached USD -54.4 billion in the 12-month rolling sum up to February 2023 (-2.78% of GDP).



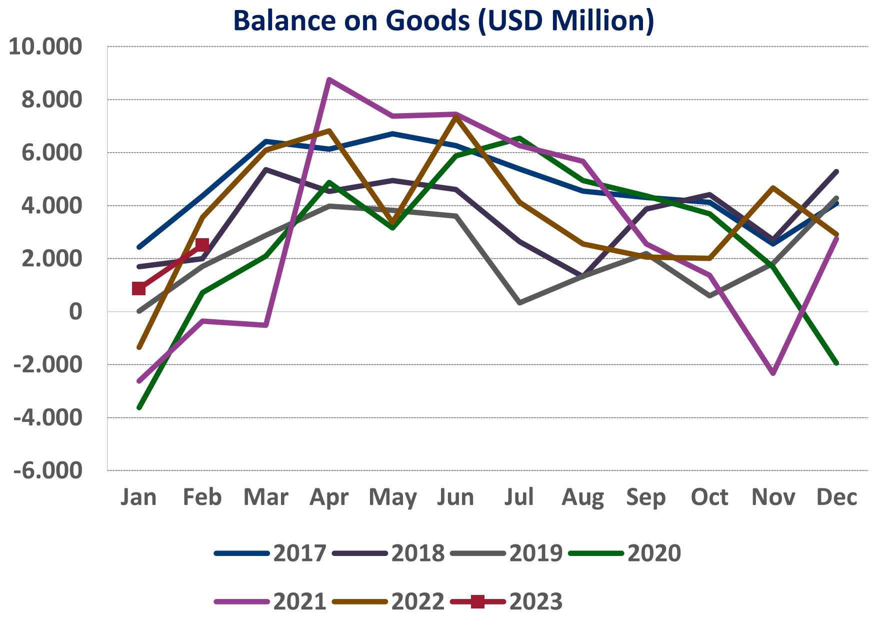


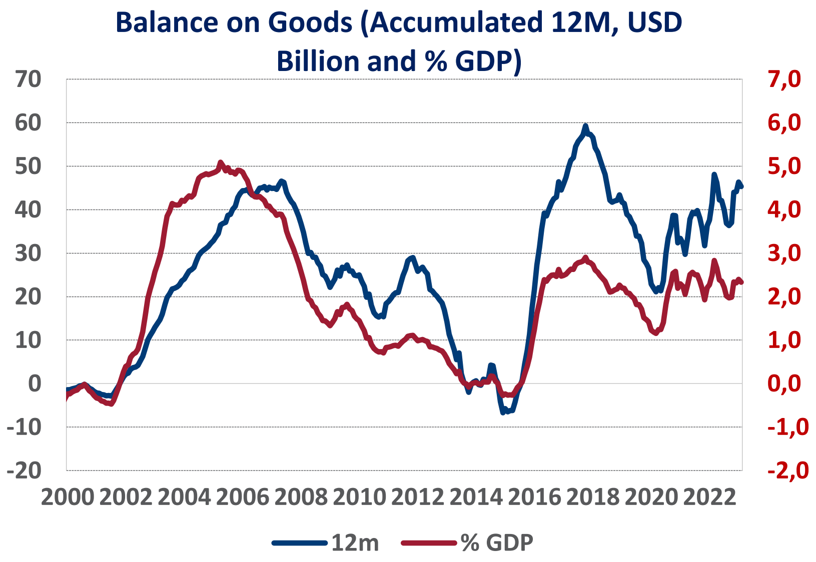


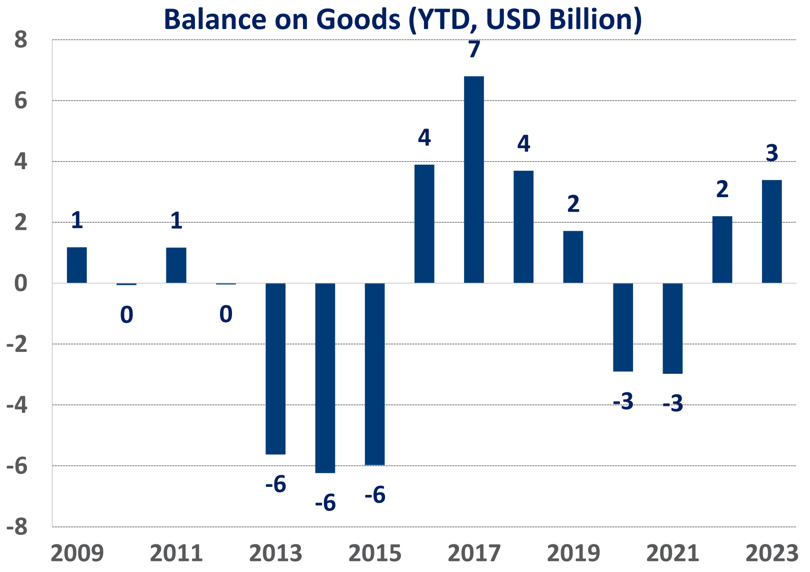
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- The Merchandise Trade Balance registered a surplus of USD 2.5 billion in February and USD 45.3 billion in 12-months;
- The value of goods exports fell by 9.0% YoY to USD 21.6 billion while the value of goods imports decreased 5.4% YoY to USD 19.1 billion;
- It remains on an upward path due to still high commodity prices (despite recent correction).



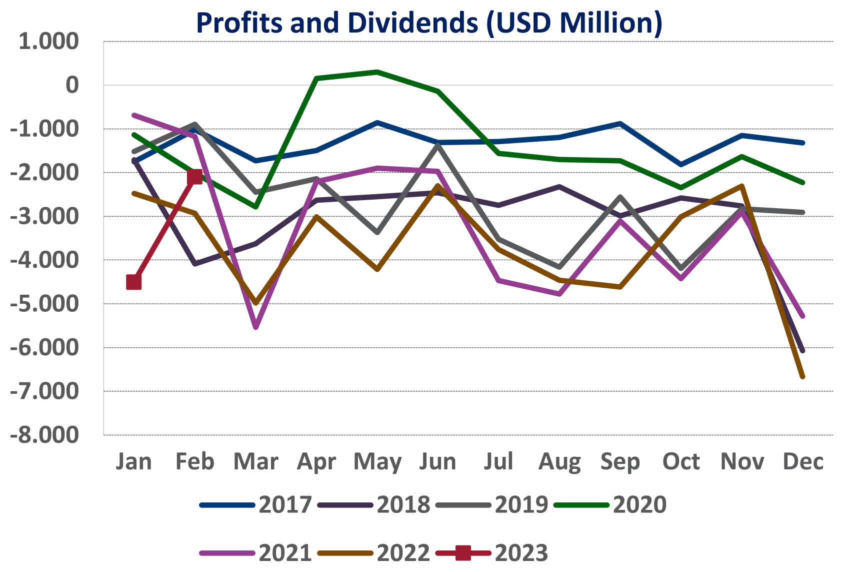


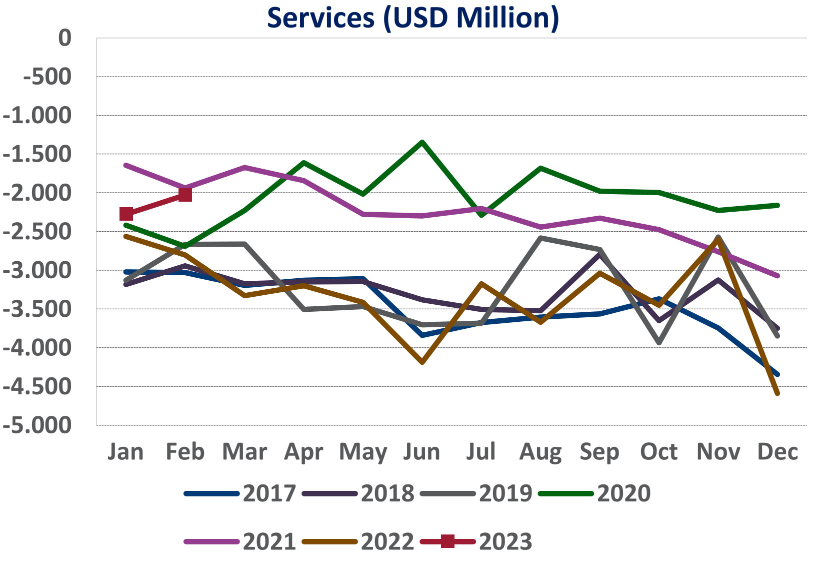


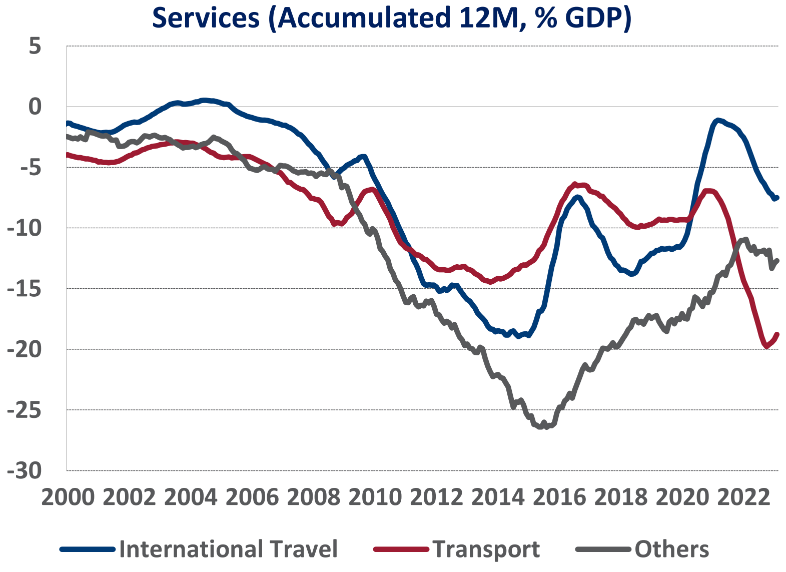
Source: BOCOM BBM, BCB

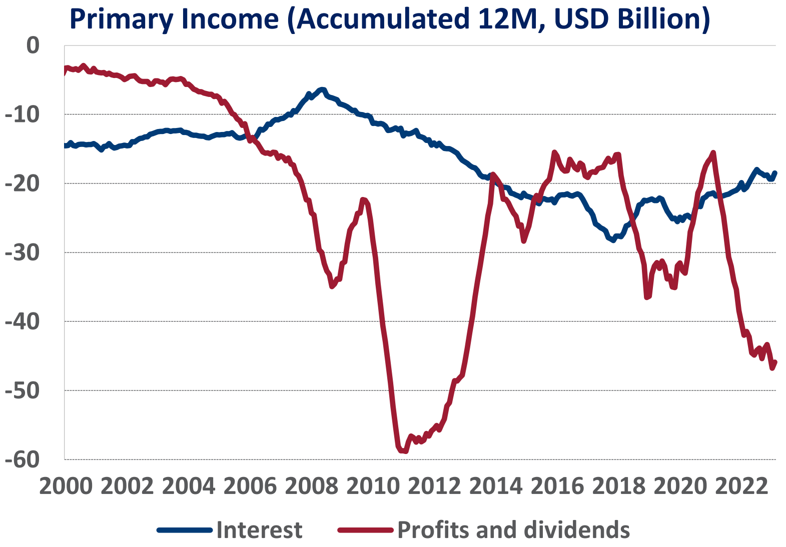
Brazil: Balance of Payments

- On the one hand, the Primary Income account posted a deficit of USD 3.4 billion, lower than the USD 5.2 billion deficit seen in February 2022;
- Net expenditures on profits and dividends dropped to - USD 2.1 billion;
- Services account deficit totaled USD 2.0 billion, better than last year, mostly influenced by lower net expenses in the Transport account.





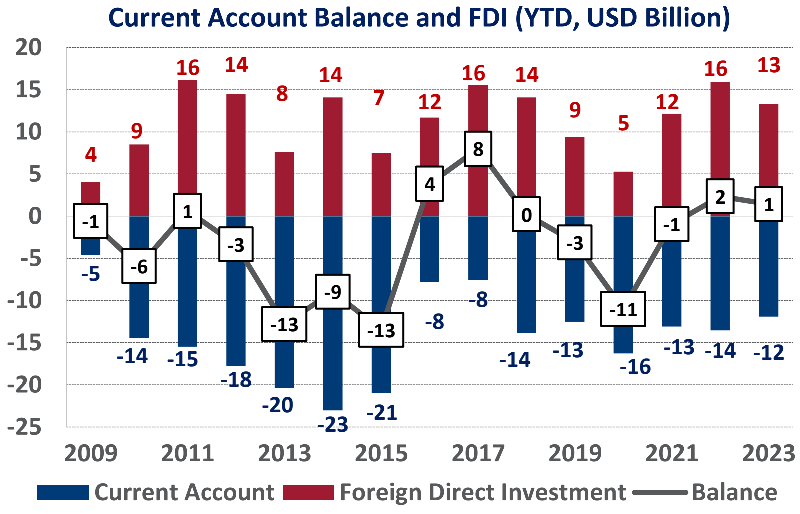


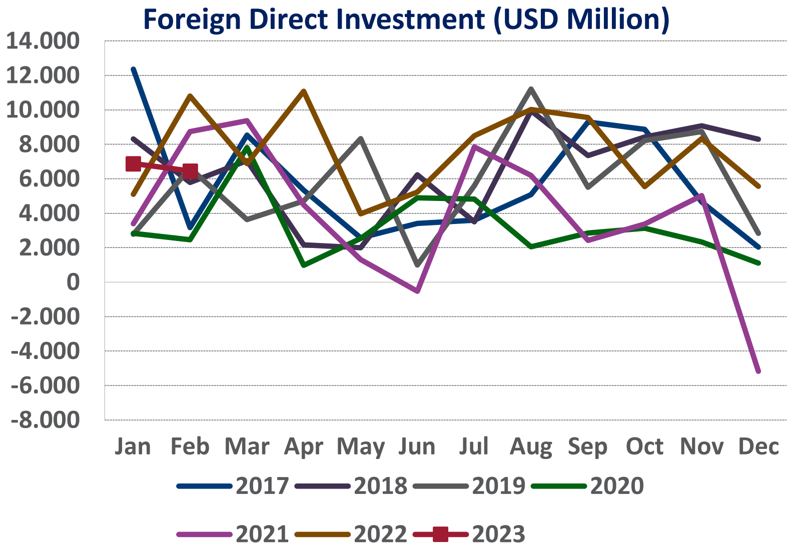


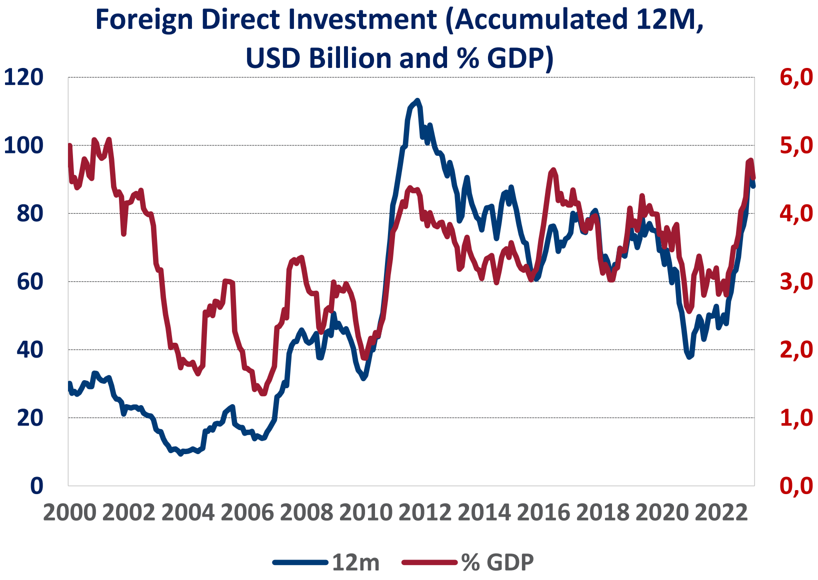
Source: BOCOM BBM, BCB

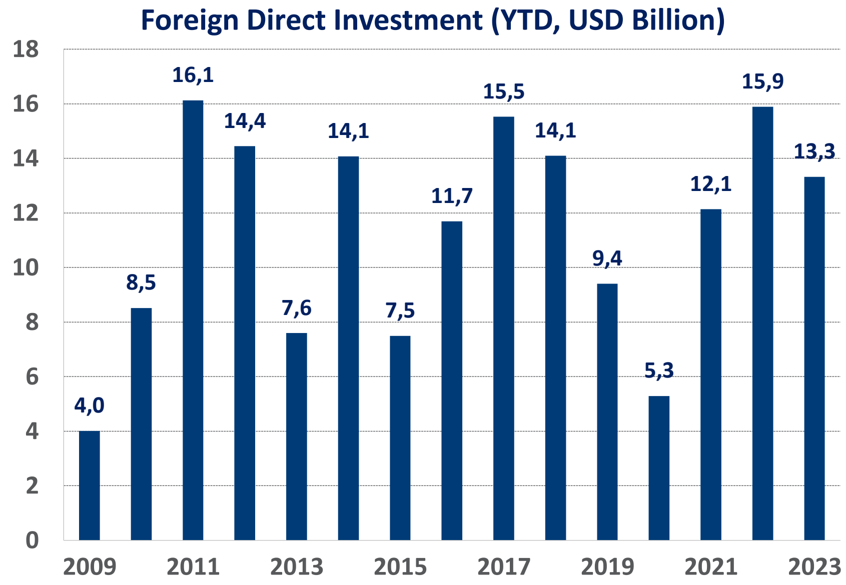
Brazil: Balance of Payments

- Net inflows in FDI (Foreign Direct Investment) totaled USD 6.5 billion in February 2023 (below estimates of USD 10.0 billion), reaching USD 88.0 billion in 12-months (4.49% of GDP), significantly above the 3.0% of GDP on a year earlier;
- According to preliminary estimates of the Central Bank, net inflows in FDI amounted to USD 9.0 billion up to March 22.









Source: BOCOM BBM, BCB

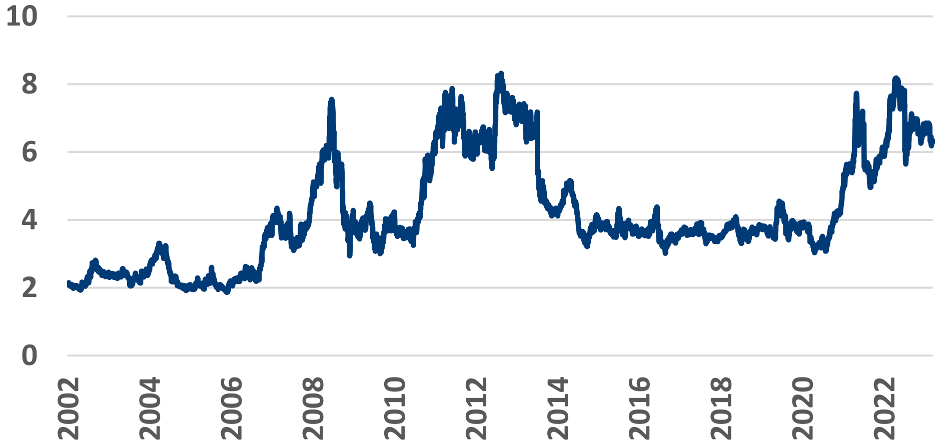
Brazil: External Sector

- The prices of the main commodities exported by Brazil persist at levels lower than those prevailing over the first half of the year (or in 2022), but still historically high.

Crude Oil

Iron Ore

Corn

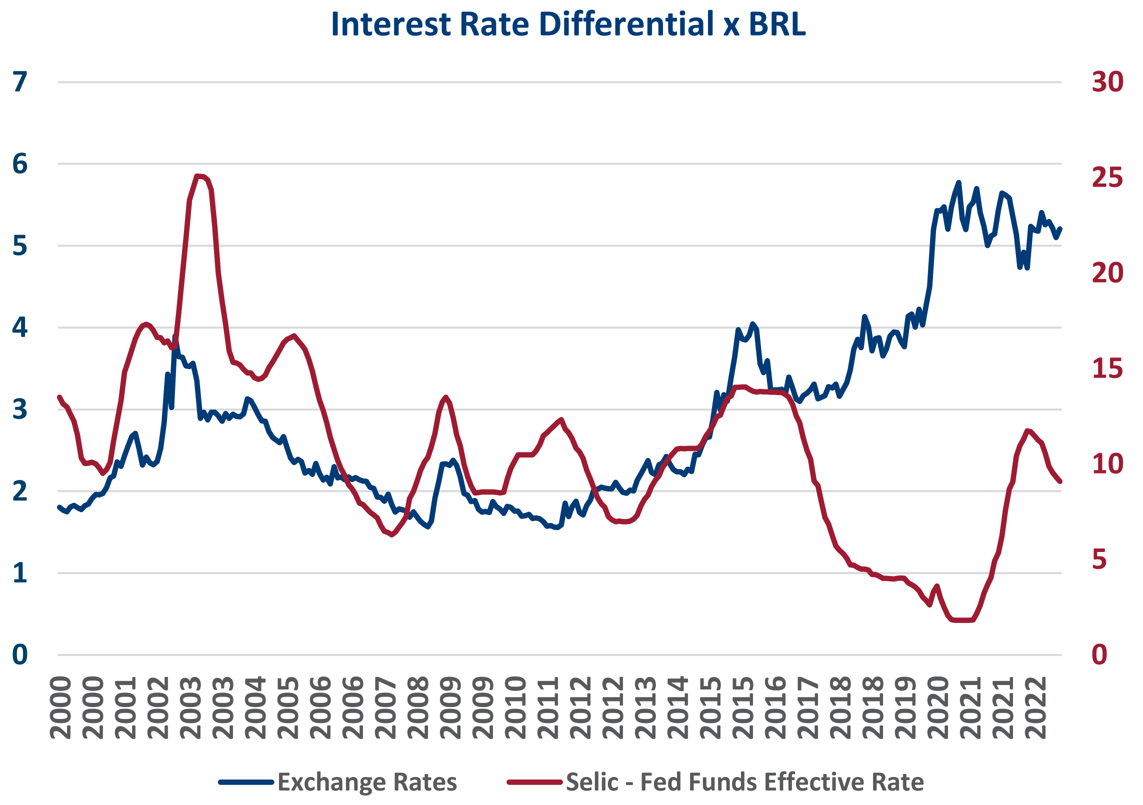


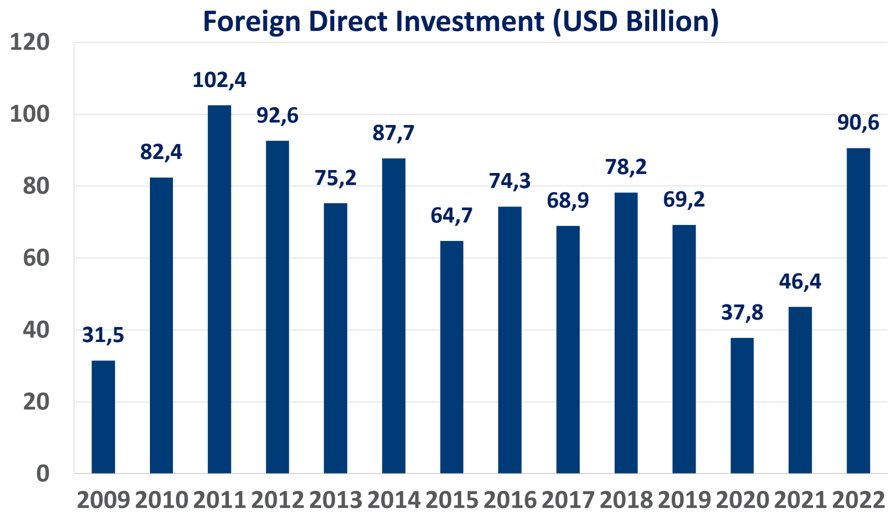
Soybeans

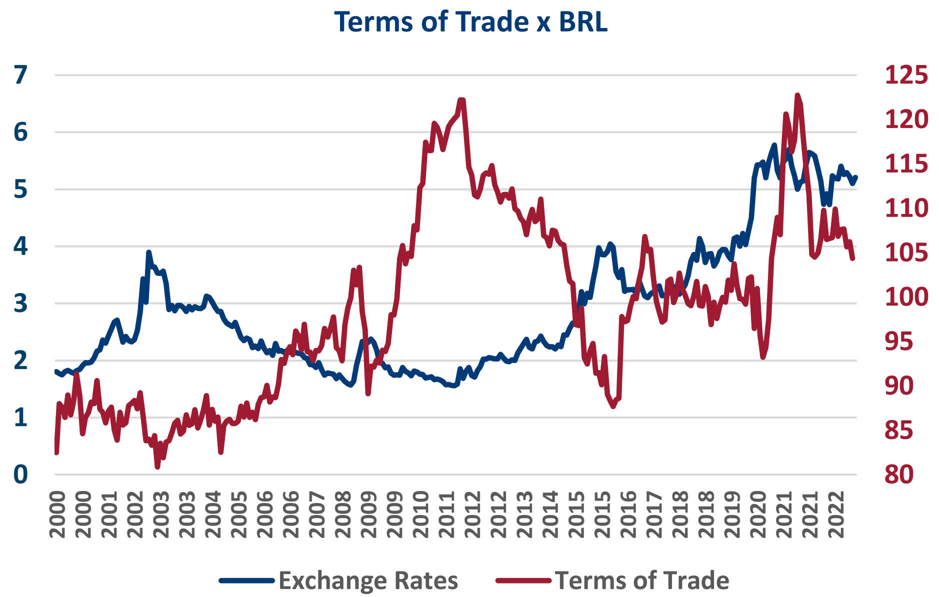
Source: BOCOM BBM, Bloomberg

Brazil: External Sector

- The decrease in interest rate differential and the slowdown in terms of trade should pressure the exchange rates upwards;
- But high level of FDI could contain further depreciation.



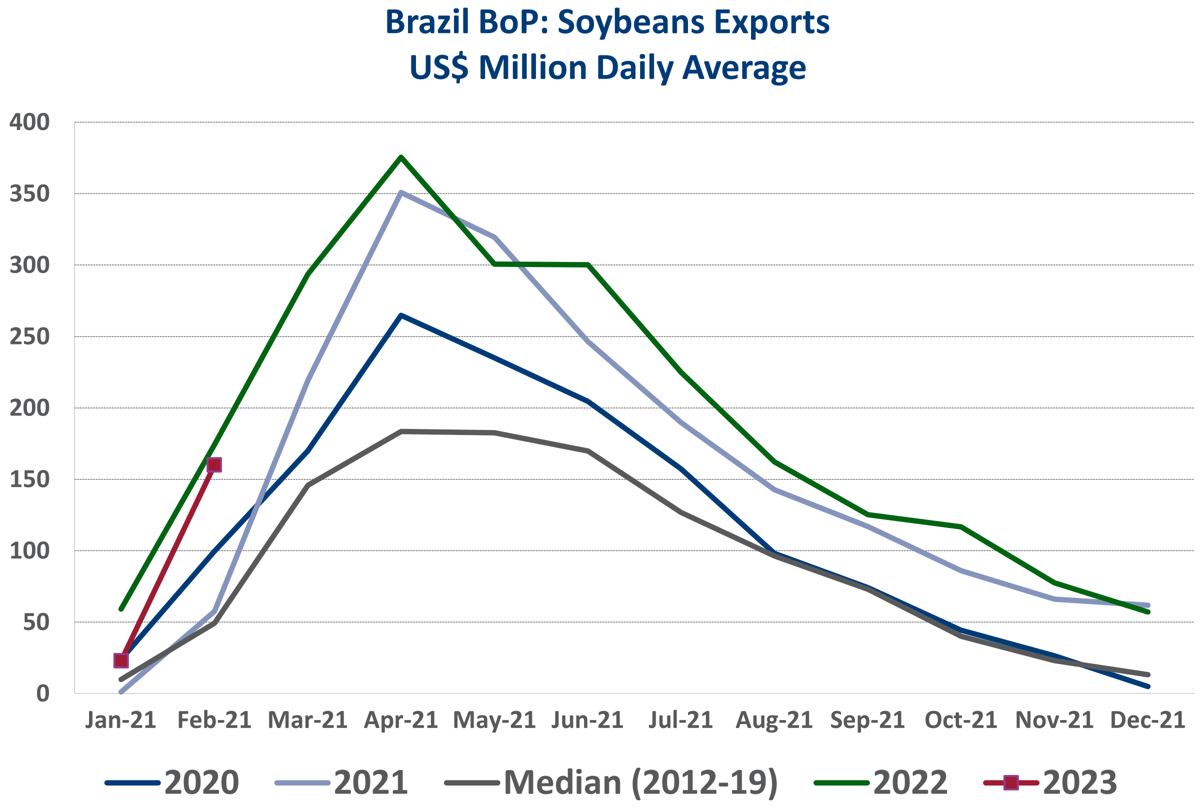


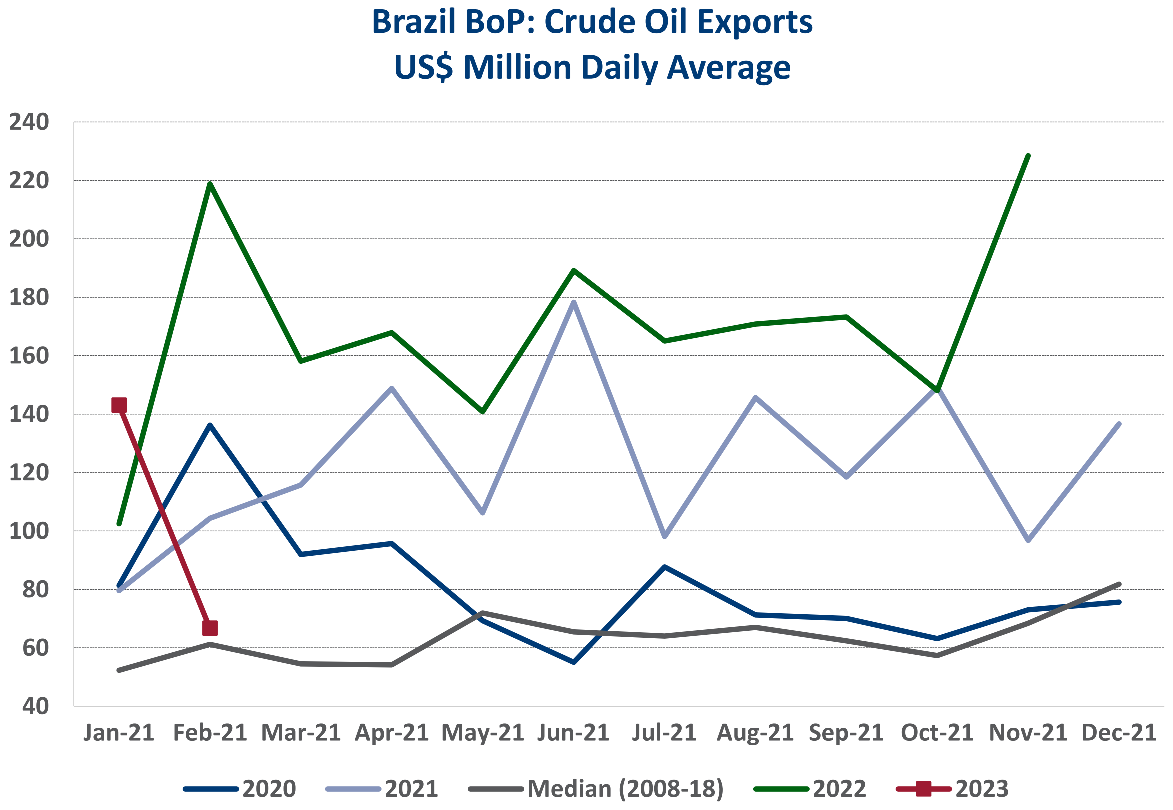


Source: BOCOM BBM, Bloomberg, Funcex, BCB

Brazil: External Sector

- The trade balance remains strong prospective, given expectations of excellent harvests and an increase in oil production for this year.





Source: Secex, BOCOMBBM

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