BANK OF COMMUNICATIONS BBM

MACRO OUTLOOK

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Macro Outlook

- Incoming data from developed economies continues to point to a resilient activity, heated labor markets and persistent inflation, all of which should require a longer period of tight monetary policy. But last month also witnessed another big bank fail in the US, the 2nd biggest since the 2008 financial crisis. Anyhow, the FOMC hiked the Fed funds by another 25bps in May, reaching the range of 5.0% to 5.25%, which is widely expected to be the terminal rate of this hiking cycle.

- As for China, recent data confirmed that macroeconomic activity continues 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. On the other hand, the escalating of US-China tensions poses a risk.

- In Brazil, despite the positive results of high-frequency indicators at the beginning of the year, we revised our forecast for the second half of the year downwards, in line with the worsening of credit conditions (both in the banking sector and in the capital markets) and greater tightening on financial conditions;

- We updated our scenario for the Selic rate this year, now contemplating cuts from the 2nd semester, ending the year at 12.5%. In the second semester, after the processing of the new fiscal framework in Congress and the definition of inflation targets by the CMN, in view of a more significant deceleration in economic activity, there will be room for the beginning of monetary policy easing;

- Our forecast for inflation is at 6.1% for 2023 and 4% for 2024. For this year, the relief in some categories such as industrial goods and food has been offset by more resilient cores and services, keeping our forecast relatively stable. For 2024, the Selic cuts now contemplated in our scenario in the 2nd half push our forecast upwards, but are offset by the more appreciated exchange rate scenario and slowing economic activity;

- Short-term fiscal results continue to gradually deteriorate, with federal revenues slowing. March data pointed to a deficit for both the Central Government and the Consolidated Public Sector. Considering the text of the Complementary Law that instituted the new fiscal rule, we now project that the gross debt (as a % of GDP) will increase to 76.8% in 2023 and 81.9% in 2024.

China: Activity

- March activity growth continued strong, with emphasis on retail sales which is reflecting a firm recovery in domestic demand;

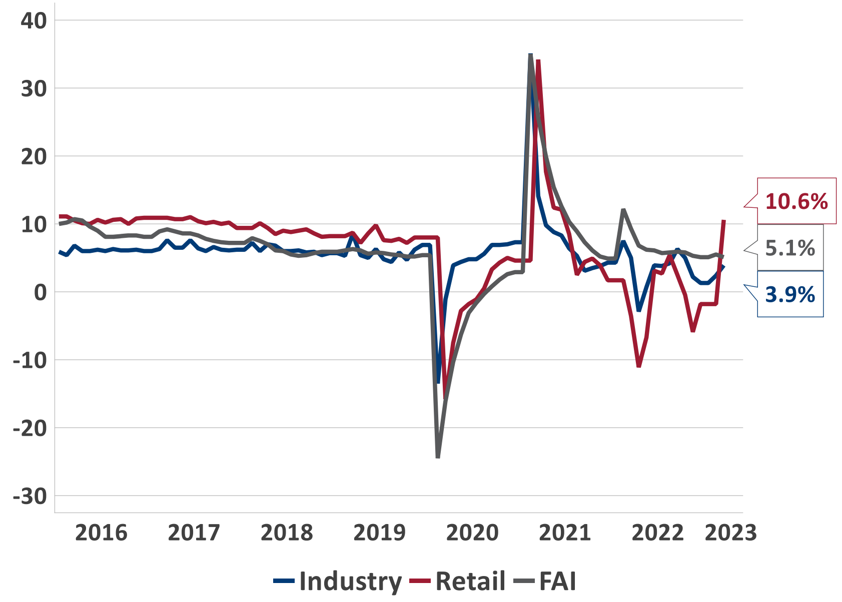
- **Industrial prod. increased** from 2.4% to **3.9%** YoY (exp 4.0%) backed by a low base and strength in autos production (-16.7% to +11.2% YoY);

- **Retail sales rose** sharply from 3.5% to **10.6%** YoY (exp 7.4%), reflecting a low base and the continuity of recovery in Covid-sensitive segments, such as restaurants (from 9.2% to 26.3% YoY), hinting that consumption recovery is shifting from goods to services amid the rapid reopening;

- **FAI declined** from 5.5% to **5.1% YTD** (exp. 5.7%), reflecting a broad slowdown in all components, specially 'other investments' (mostly services and agriculture) which fell from 8.2% to 3.6% YoY;

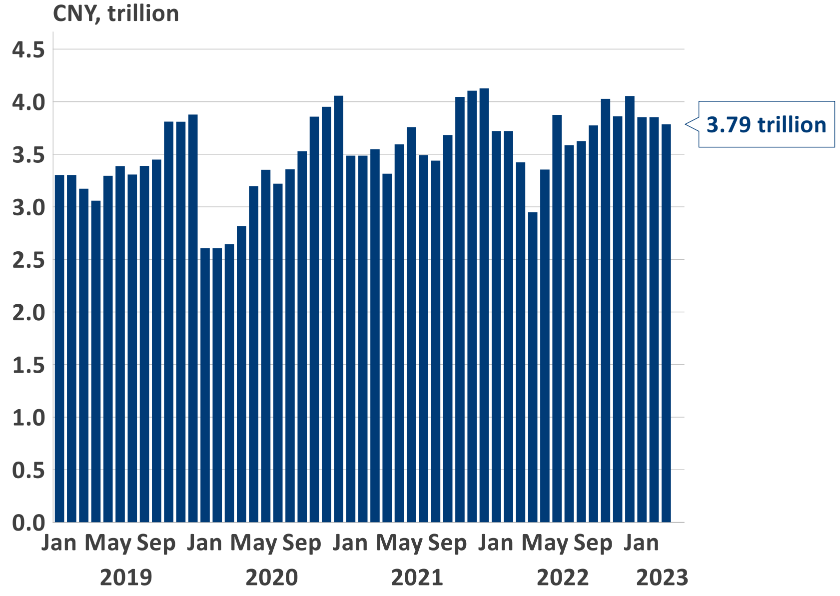
- The **national unemployment rate fell** from 5.6% to **5.3%** and the 31-city reached **5.5%** (from 5.8%), however the unemployment among young people (age 16-24) rose further to 19.6% (from 17.7%), reflecting still-elevated job market pressure for this group.

China: Activity (YoY, %)



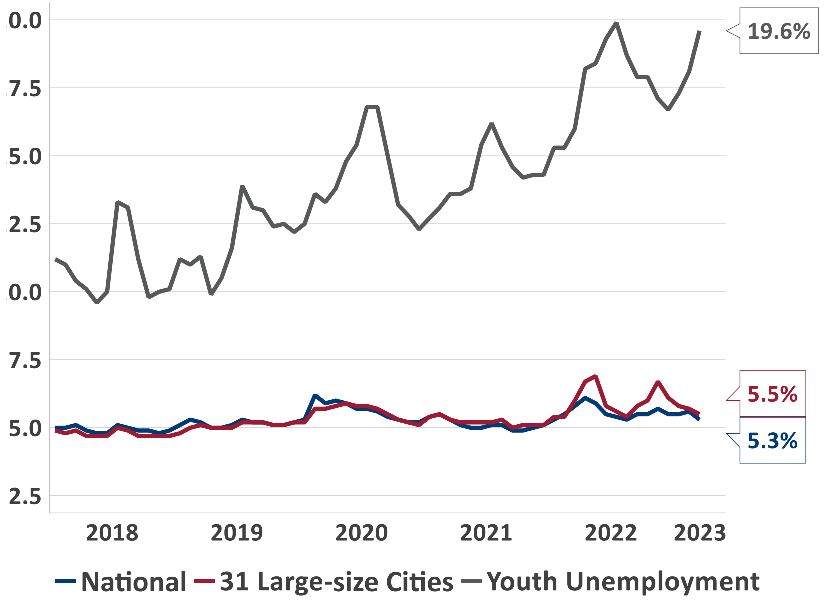
Source: BOCOM BBM, Macrobond, NBS

China: Nominal Retail Sales



Source: BOCOM BBM, Macrobond, NBS

China: Unemployment Rate in Urban Areas



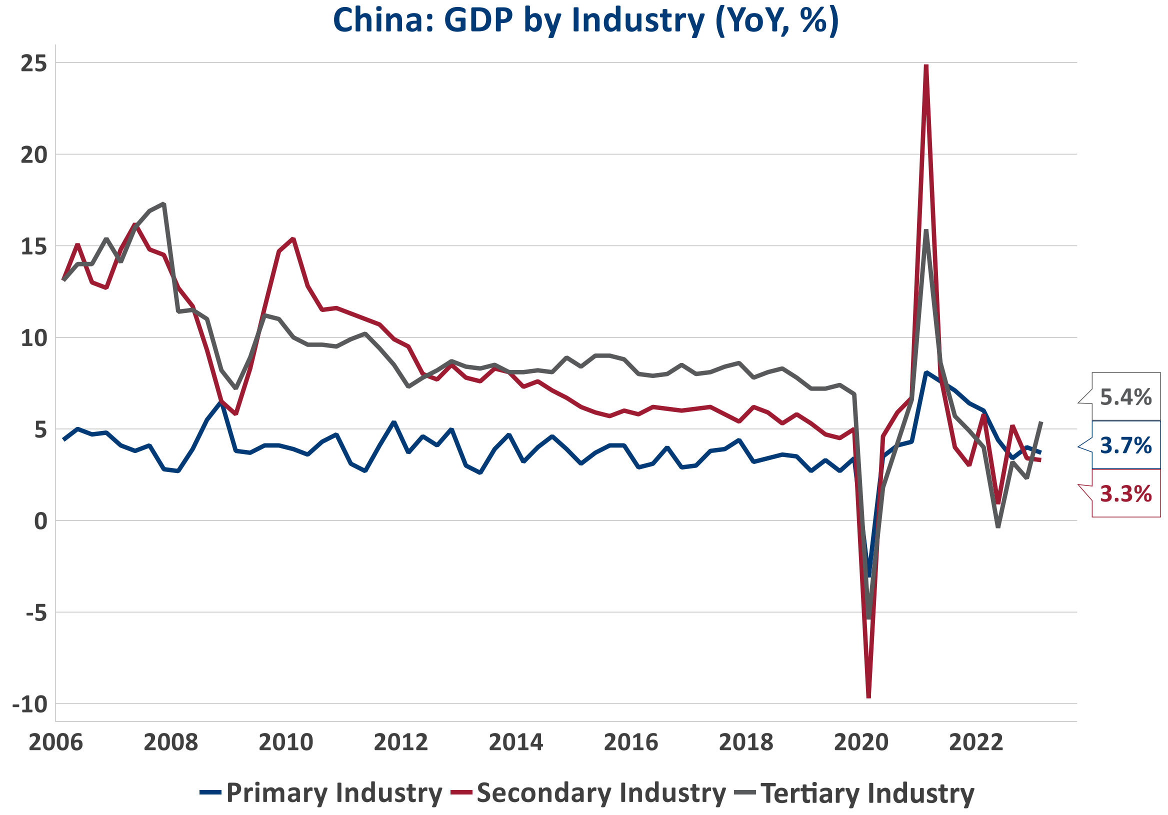
Source: BOCOM BBM, Macrobond, NBS

China: GDP 2023 Q1

- China's 2023 Q1 real GDP surpassed market expectations growing **2.2%** QoQ from an upwardly revised pace of 0.6% QoQ (previously 0%), thus moving the annual rate from 2.9% to **4.5%** YoY (exp. 4.0%), thanks to the reopening impulse and accommodative macro policies;

- Looking at sectorial data, the acceleration was led by the tertiary sector (from 2.3% to **5.4%** YoY) while growth in primary and secondary sectors moderated to **3.7%** and **3.3%** YoY, respectively from 4.0% and 3.4% in 2022 Q4.

Source: BOCOM BBM, Macrobond, NBS



Source: BOCOM BBM, Macrobond, NBS

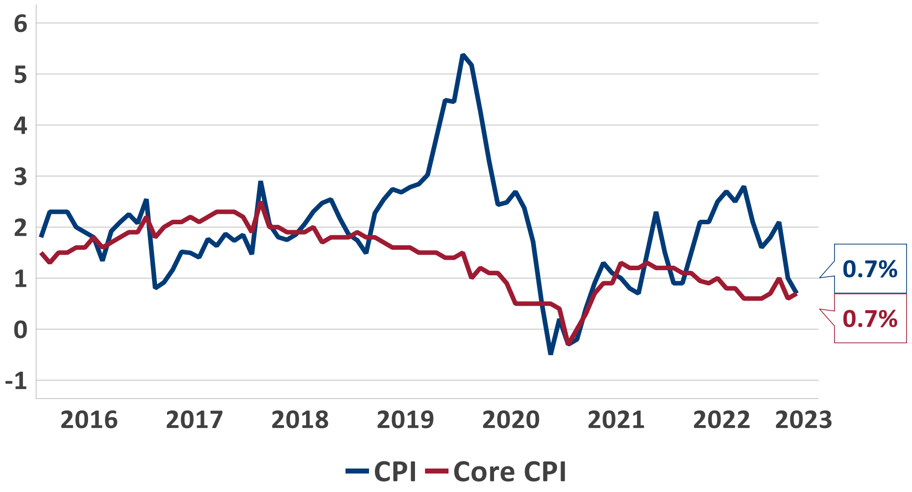
China: Economic Scenario

- In April, China's **PMI** showed divergence in recovery between the manufacturing and service sectors;
  - The NBS manufacturing PMI fell from 51.9 to **49.2** due to uncertain external demand outlook and some setback in domestic demand;
  - The non-manufacturing sector continued expansionary moving from 58.2 to **56.4**;

- **Exports** surprised to the upside soaring from -6.8% to **14.8% YoY**, the first increase in six months due to last year's low base and growing demand from emerging markets (ASEAN, Brazil, Russia and India);
- **Imports** remained negative, but jumped from -10.2% to **-1.4% YoY**, also hinting that domestic demand is firmly recovering;

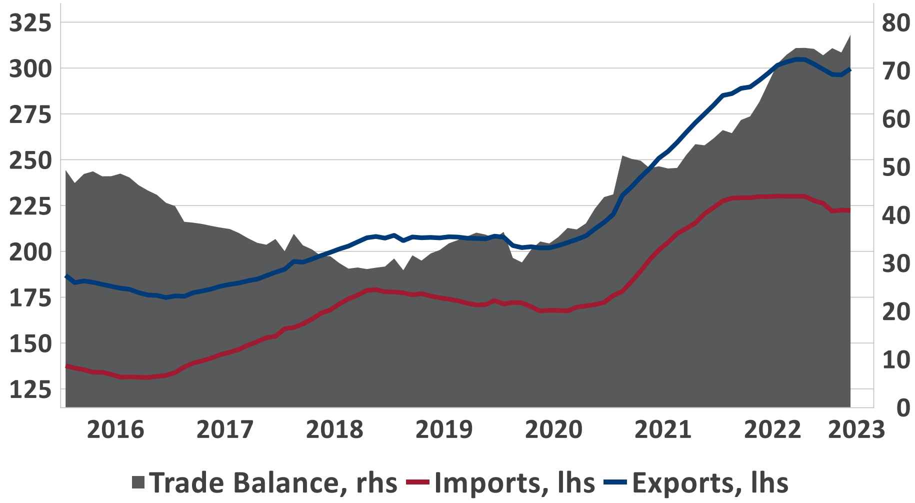
- **CPI** inflation fell **-0.3%** MoM (exp. 0%) moving from 1.0% to **0.7%** YoY (exp. 1.0%), led by a decline in food prices, however it's expected that the continuous normalization of economic activities will eventually lead to demand-pressure on prices;

China: CPI (YoY, %)



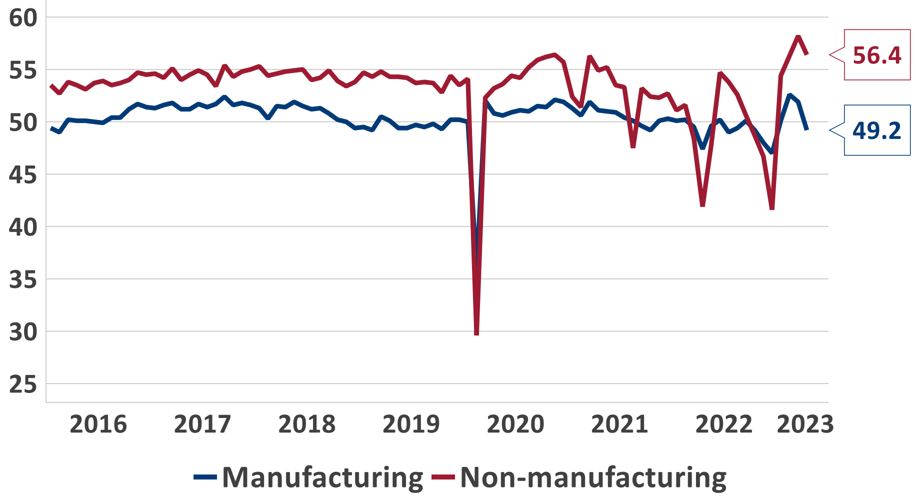
Source: BOCOM BBM, Macrobond, NBS

China: Trade Balance (USD billion, 12MMA)



Source: BOCOM BBM, Macrobond, CCS

China - PMI

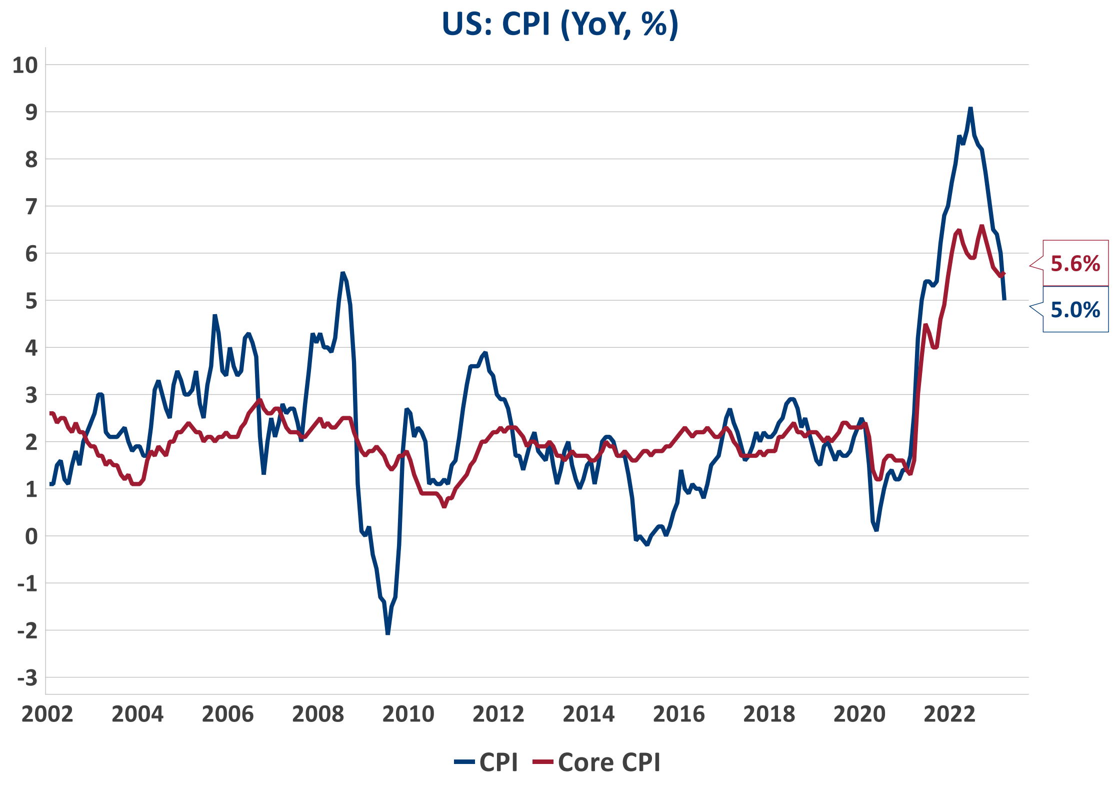


Source: BOCOM BBM, Macrobond, CFLP

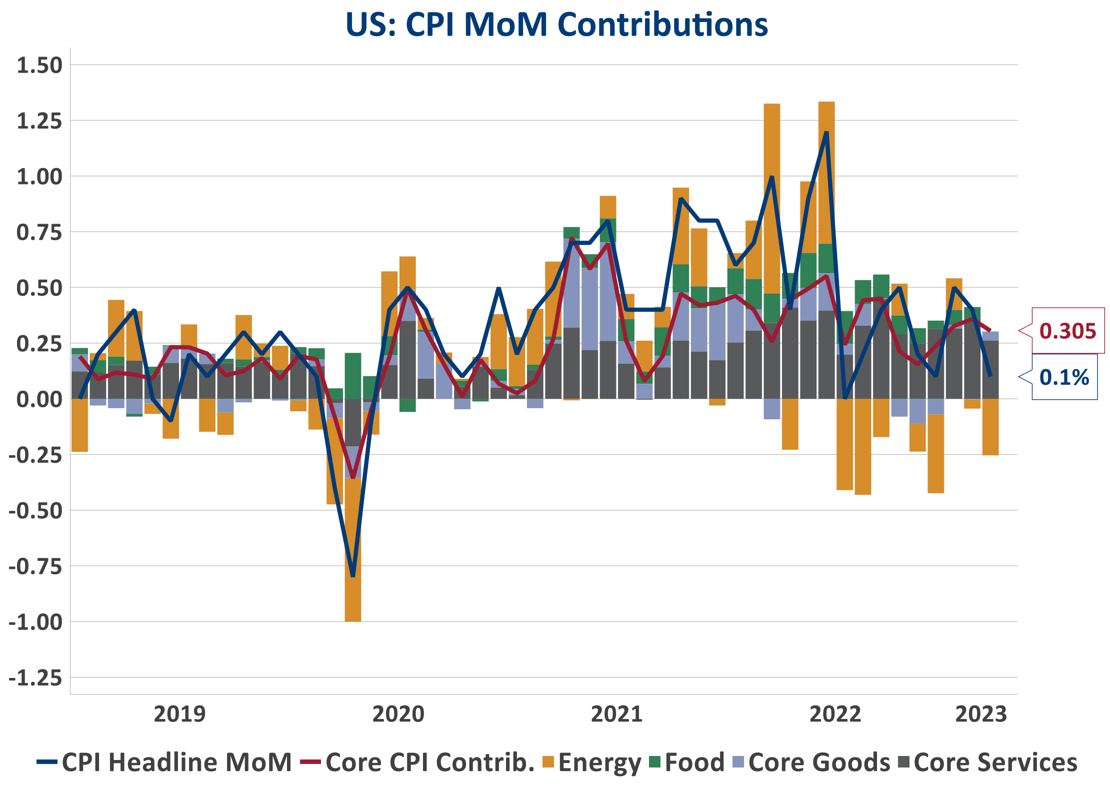
USA: Inflation

- US CPI inflation **arrived better than expected** in March, moving from 6.0% to **5.0%** YoY and increasing by **0.1%** MoM:
  - Slower headline pace due to continued moderation in food and a sharp drop in energy prices;

- Core CPI increased **0.38%** MoM, reaching **5.6%** YoY (from 5.5%):
  - **Core goods** inched up due to softer negative contribution from used cars & trucks deflation and minor pressures on other components;
  - **Core services** still sticky, but eased a bit due to medical care services drop and the awaited OER and rent slowdown;



Source: BOCOM BBM, Macrobond, BLS



Source: BOCOM BBM, Macrobond, BLS

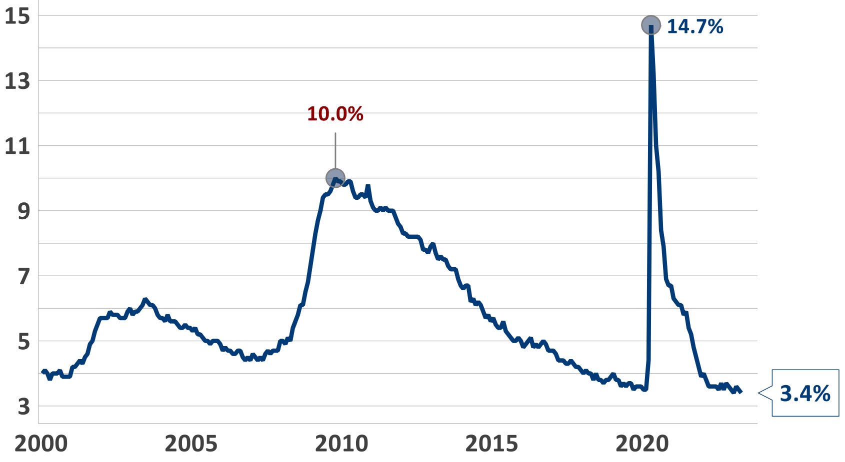
USA: Labor Market

- The US labor market showed a strong headline in April, with unemployment rate falling again to a historically low level of **3.4%** (down from 3.5% in Mar.), although significant revisions to previous months nonfarm payroll weakens overall employment in Q1;

- With this report, the jobs-workers gap fell from 4.0M to **3.75M**, signaling that labor supply and demand remains persistently unbalanced, although narrowing the gap;
  - The job openings per unemployed person ratio remained stable from 1.67 to **1.64;**

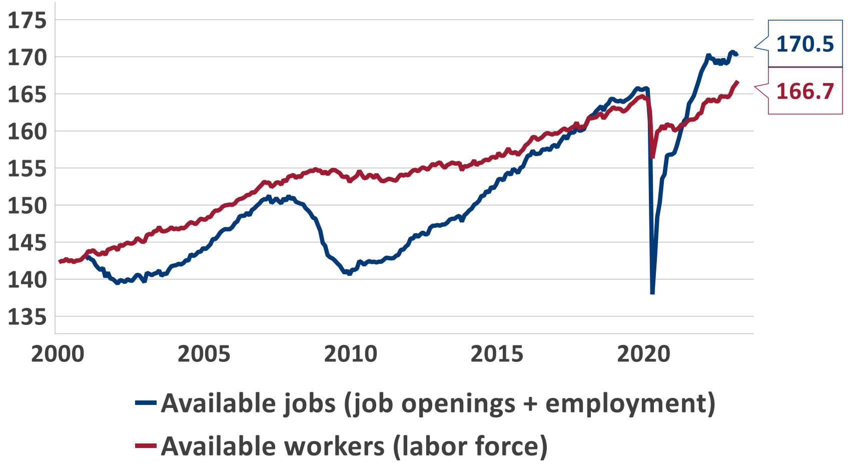
- Wages sharply accelerated their monthly pace of growth in April, reverting the slowdown trend of previous months, and highlighting resiliency in the labor market;
  - This is important due to the positive correlation between wage inflation and inflation in services excluding housing & energy, which remains persistently high.

US: Unemployment Rate SA (%)



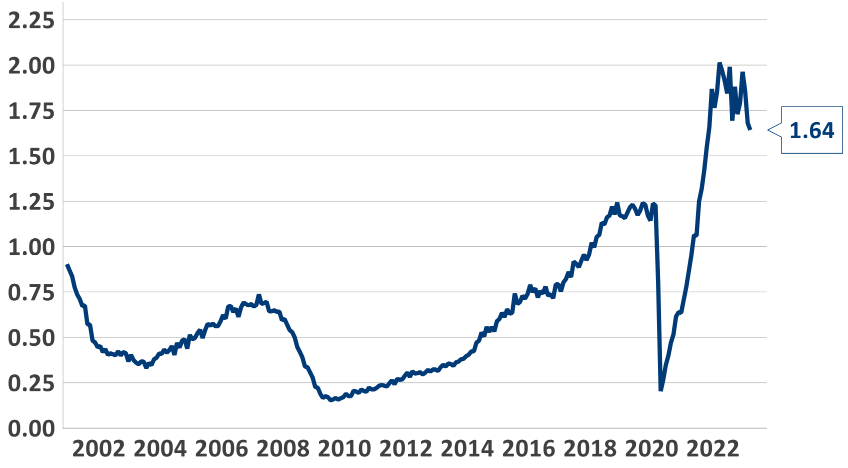
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



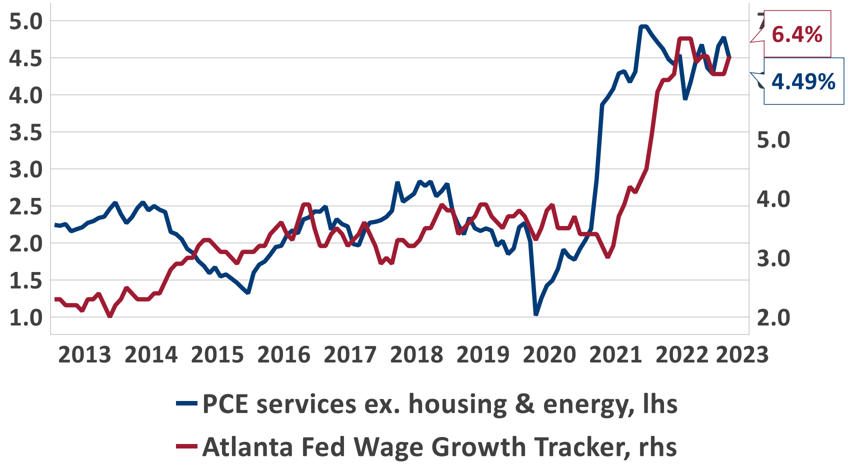
Source: BOCOM BBM, Macrobond, BLS

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

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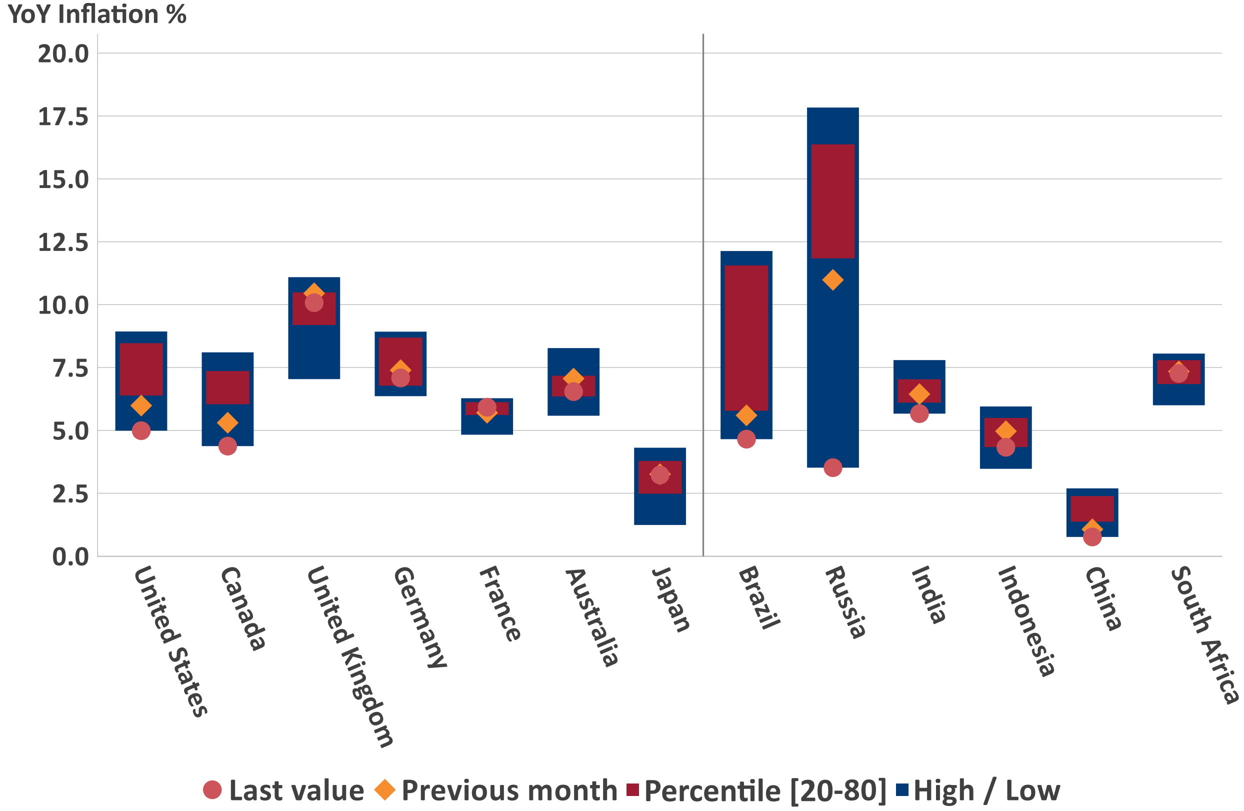
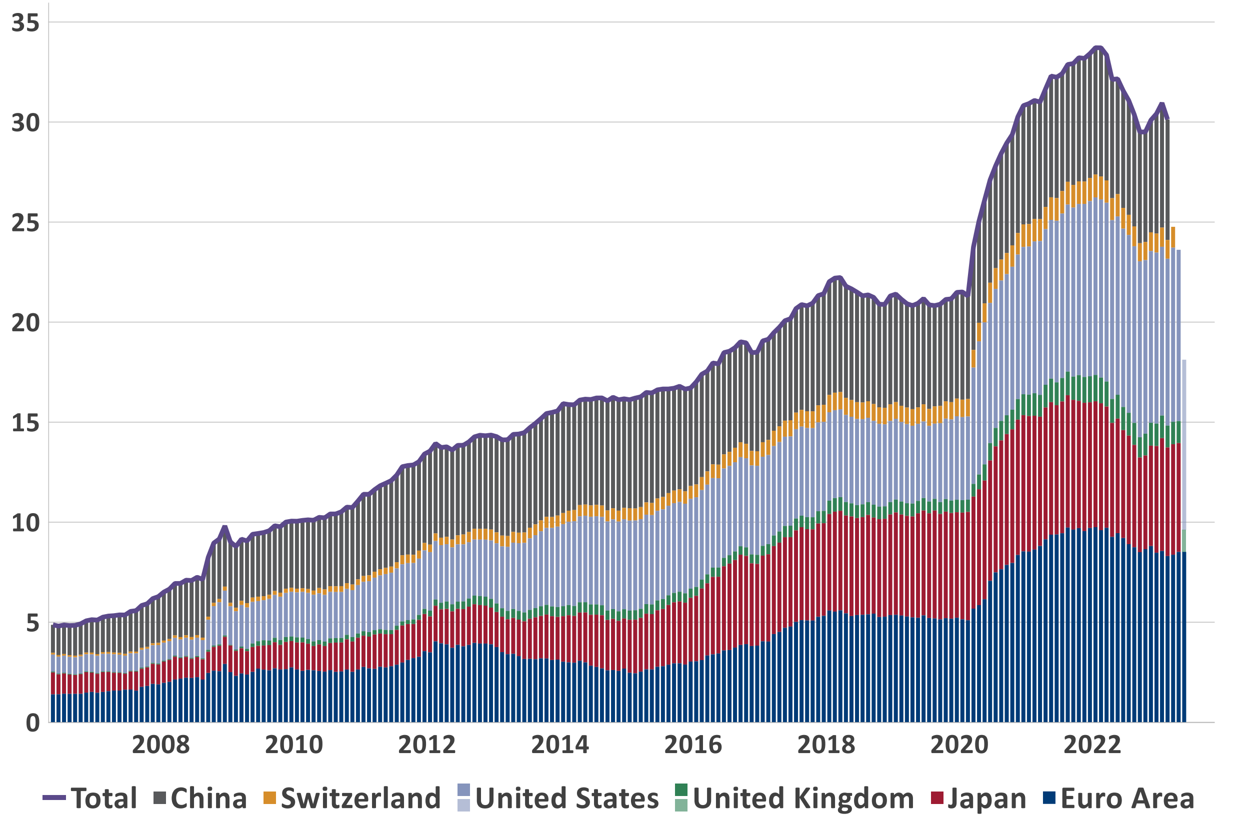
- For the first time in decades, inflation across emerging markets is not significantly higher than it is in developed markets;
- In order to bring inflation back to their respective targets, many central banks are reducing their balance sheets, resulting in a tightening of the monetary policy of several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

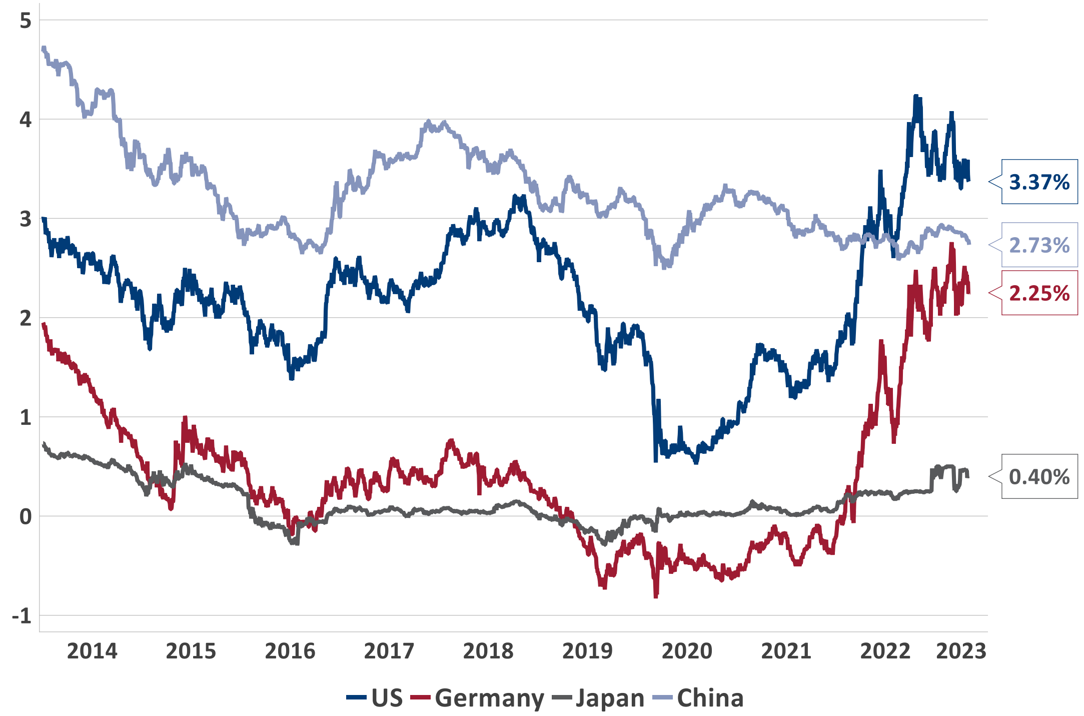


Source: BOCOM BBM, Macrobond

Global: Interest Rates

- Correspondingly, interest rates across several countries continue to rise, with a few exceptions, such as in China and Japan;
- In their May meeting, the FOMC decided to hike the Fed funds rate by 25bps, reaching the range of 5.0% to 5.25%, which was forecasted to be the median terminal rate of 2023 in their last set of projections;
- J. Powell also signaled that the monetary policy tightening may enter a pause, but left the door open for the possibility of more hikes in case of persistently strong inflation, activity and labor market data.

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	91.00	10.00	Hike	4/2023	0	30
Australia	3.85	0.25	Hike	5/2023	0	30
Brazil	13.75	0.50	Hike	8/2022	9	33
Canada	4.50	0.25	Hike	1/2023	3	37
Chile	11.25	0.50	Hike	10/2022	7	37
China	3.65	-0.05	Cut	8/2022	111	8
Colombia	13.25	0.25	Hike	5/2023	0	31
Costa Rica	7.50	-1.00	Cut	4/2023	6	0
Czech Republic	7.00	1.25	Hike	6/2022	10	36
Denmark	3.00	0.25	Hike	5/2023	0	19
Euro Area	3.50	0.50	Hike	3/2023	1	86
Hungary	13.00	1.25	Hike	9/2022	7	33
Iceland	7.50	1.00	Hike	3/2023	1	30
India	6.50	0.25	Hike	2/2023	3	35
Indonesia	5.75	0.25	Hike	1/2023	4	27
Israel	4.50	0.25	Hike	4/2023	1	37
Japan	-0.10	-0.20	Cut	1/2016	194	87
Mexico	11.25	0.25	Hike	3/2023	1	27
New Zealand	5.25	0.50	Hike	4/2023	1	38
Norway	3.25	0.25	Hike	5/2023	0	36
Poland	6.75	0.25	Hike	9/2022	8	35
Russia	7.50	-0.50	Cut	9/2022	14	8
Saudi Arabia	5.00	0.50	Hike	12/2022	5	38
South Africa	7.75	0.50	Hike	3/2023	1	33
South Korea	3.50	0.25	Hike	1/2023	4	35
Sweden	3.50	0.50	Hike	5/2023	0	87
Switzerland	1.50	0.50	Hike	3/2023	1	100
Turkey	8.50	-0.50	Cut	2/2023	26	2
United Kingdom	4.25	0.25	Hike	3/2023	1	38
United States	5.25	0.25	Hike	5/2023	0	38

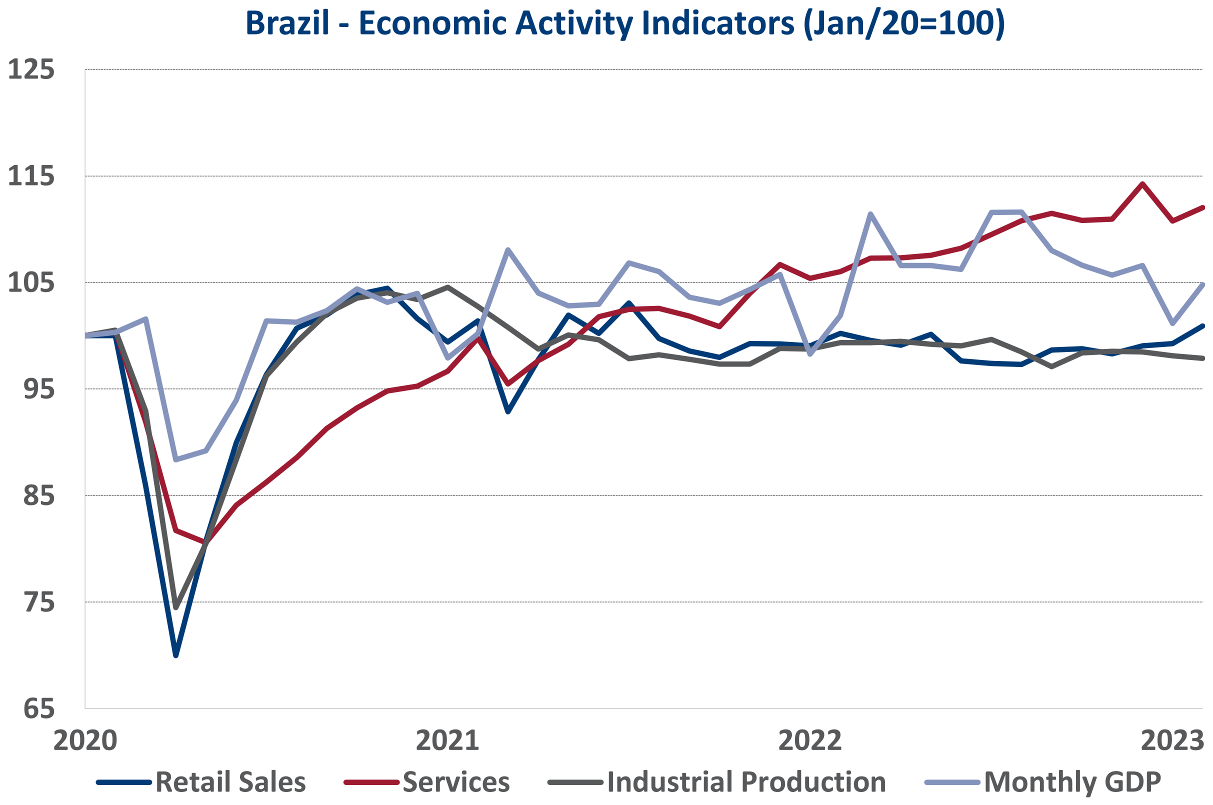
Brazil: Forecasts

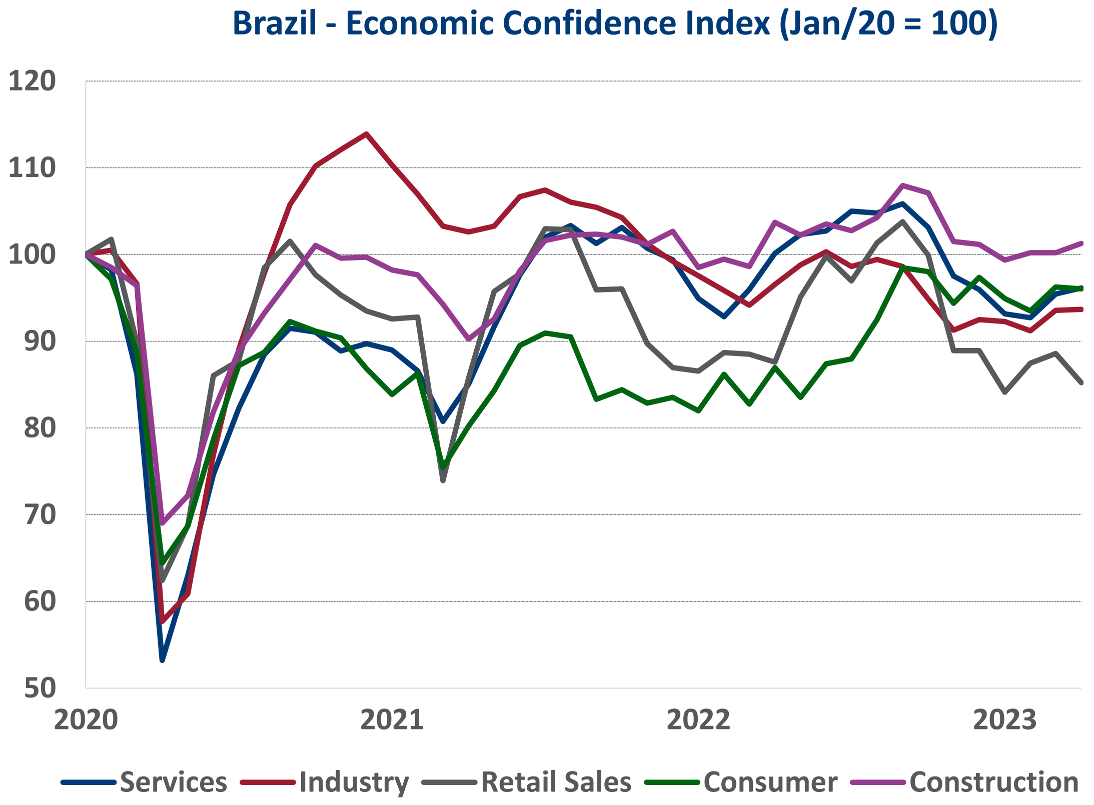
ECONOMIC FORECASTS	2019	2020	2021	2022	2023F	2024F
GDP Growth (%)	1.2%	-3.3%	5.0%	2.9%	1.3%	1.0%
Inflation (%)	4.3%	4.5%	10.1%	5.8%	6.1%	4.0%
Unemployment Rate (eoy ,%)	11.1%	14.2%	11.1%	7.9%	8.8%	9.3%
Policy Rate (eoy, %)	4.5%	2.0%	9.3%	13.75%	12.50%	10.0%
External Accounts						
Trade Balance (US$ bn)	27	32	36	44	50	40
Current Account Balance (US$ bn)	-68	-28	-46	-56	-45	-50
Current Account Balance (% of GDP)	-3.6%	-1.9%	-2.8%	-2.9%	-2.2%	-2.4%
Fiscal Policy						
Central Government Primary Balance (% of GDP)	-1.3%	-9.8%	-0.4%	0.6%	-1.1%	-1.5%
Government Gross Debt (% of GDP)	74.3%	86.9%	78.8%	72.9%	76.8%	81.9%

Source: BOCOM BBM

Brazil: Activity

- Economic activity indicators in February showed mostly positive signs. Retail Trade grew by 1.7% MoM and the Services sector surprised by advancing by 1.1% MoM. On the other hand, Industrial Production decreased by 0.2% MoM;
- Confidence indicators pointed to mixed signals in April. Services and Civil Construction advanced at the margin, there was relative stability in Consumer and Industry confidence and a more significant drop in Retail confidence



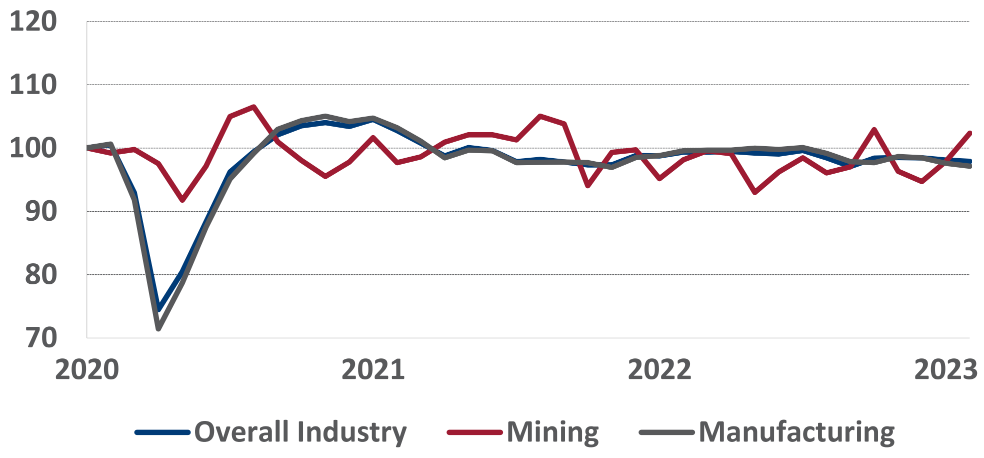


Source: BOCOM BBM, FGV

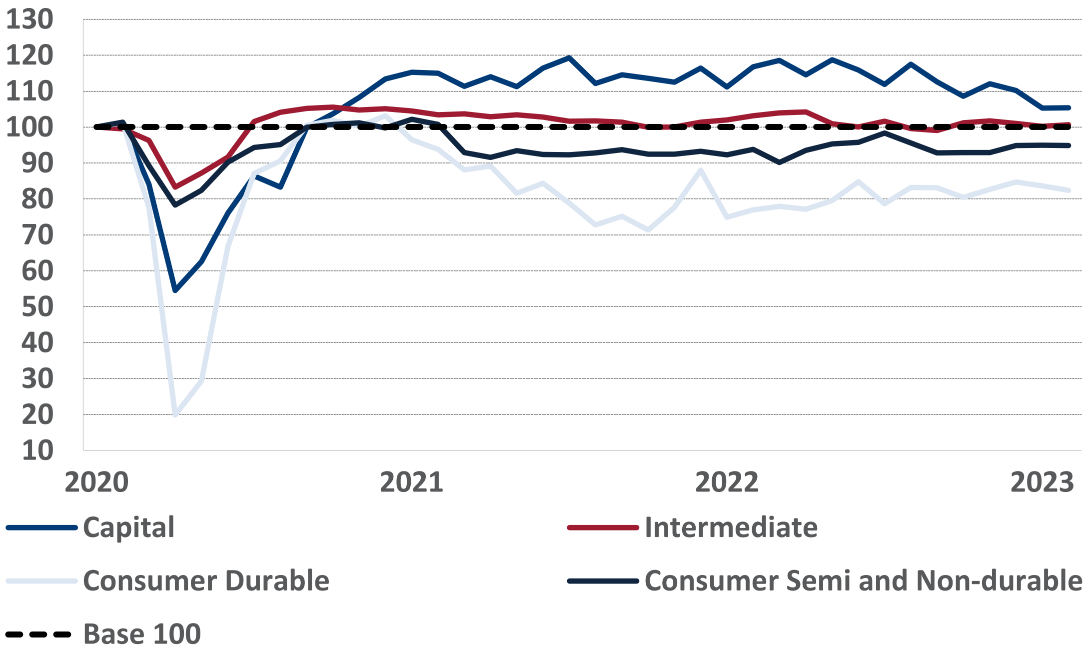
Brazil: Industrial Production

- Industrial production contracted 0.2% MoM in February, in line with market expectations, and accumulated a retreat of 0.5% in the first two months of the year;
- The positive highlight was concentrated in mining segment which increased at the margin, 4.6% MoM;
- Tighter monetary conditions and the slowdown in domestic demand probably will result in a moderate downward trend for industrial production throughout the year.

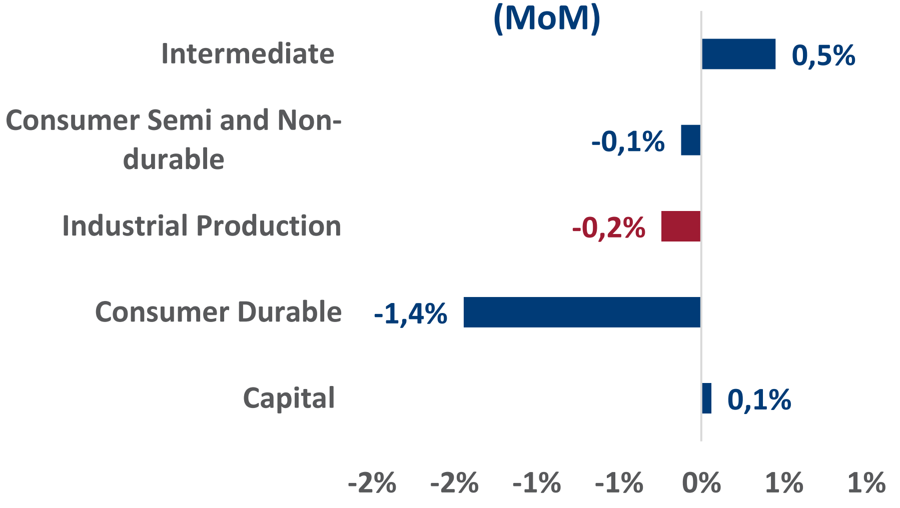
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



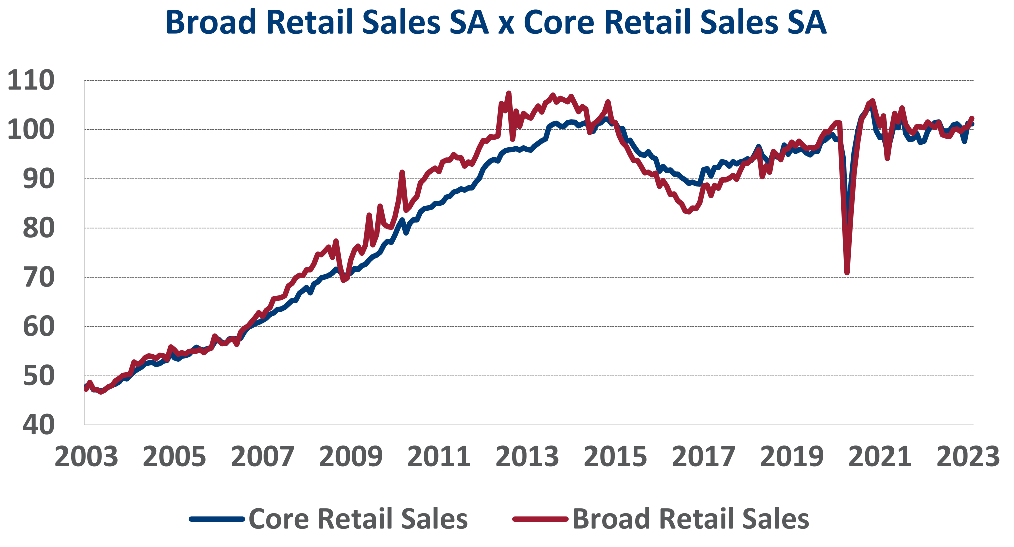
Industrial Production by Category - Feb/2022 (MoM)

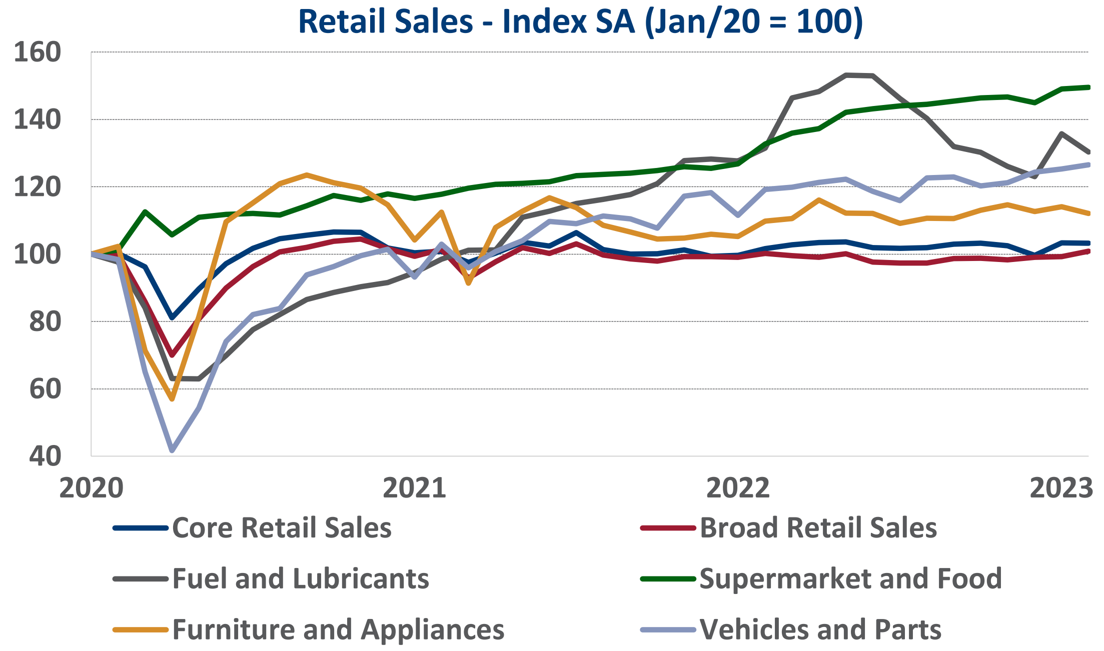


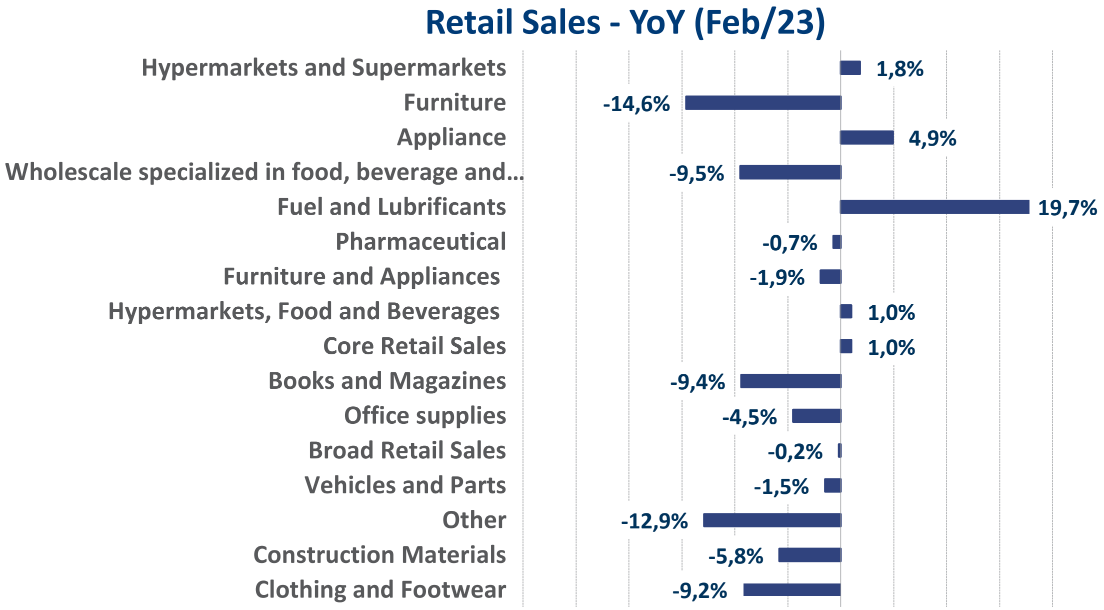
Source: IBGE, BOCOM BBM

Brazil: Retail Sales

- The retail sector grew well above estimates in January and February, accumulating an increase of 1.4% in the first two months of 2023 compared to the last two months of 2022;
- Sales of durable goods continue to be affected by more restrictive credit conditions and high household debt;
- On the other hand, the increase in government income transfers tends to sustain domestic consumption, mainly of non-durable goods.



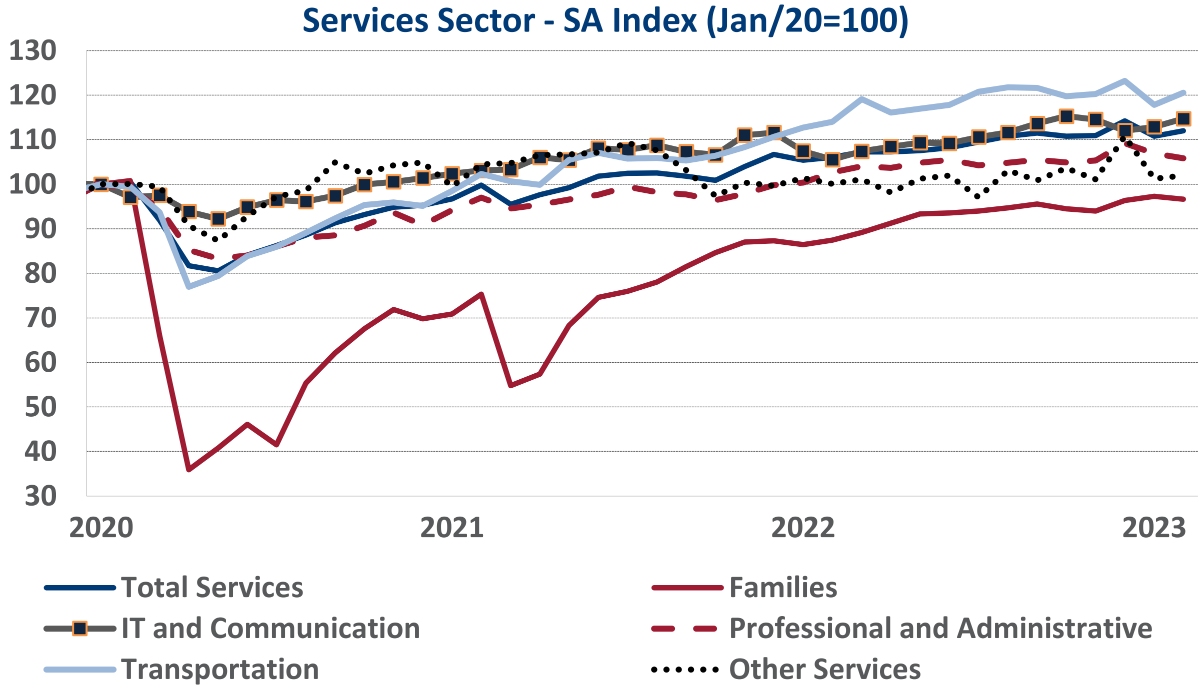


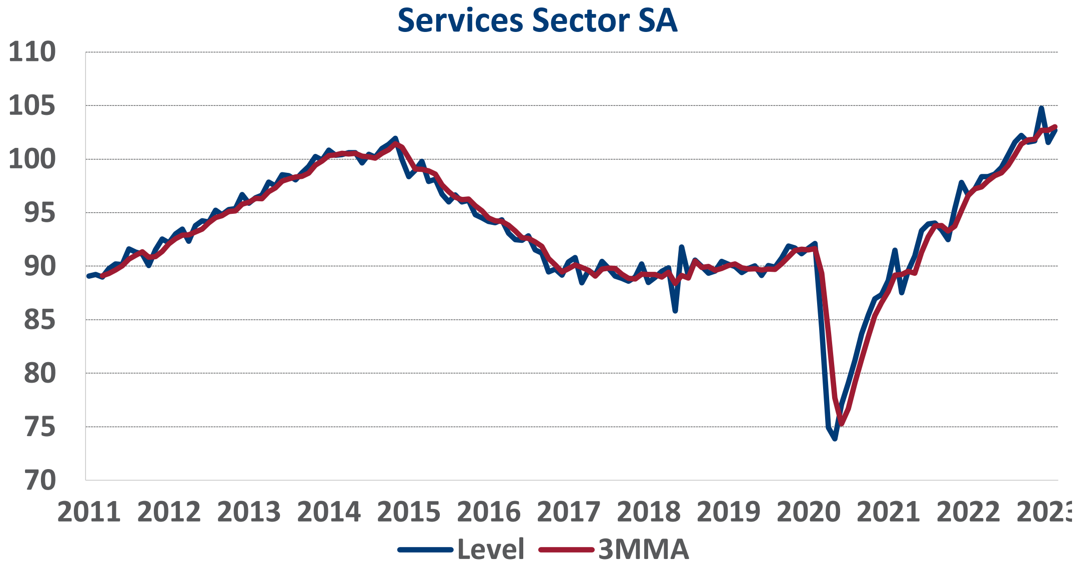


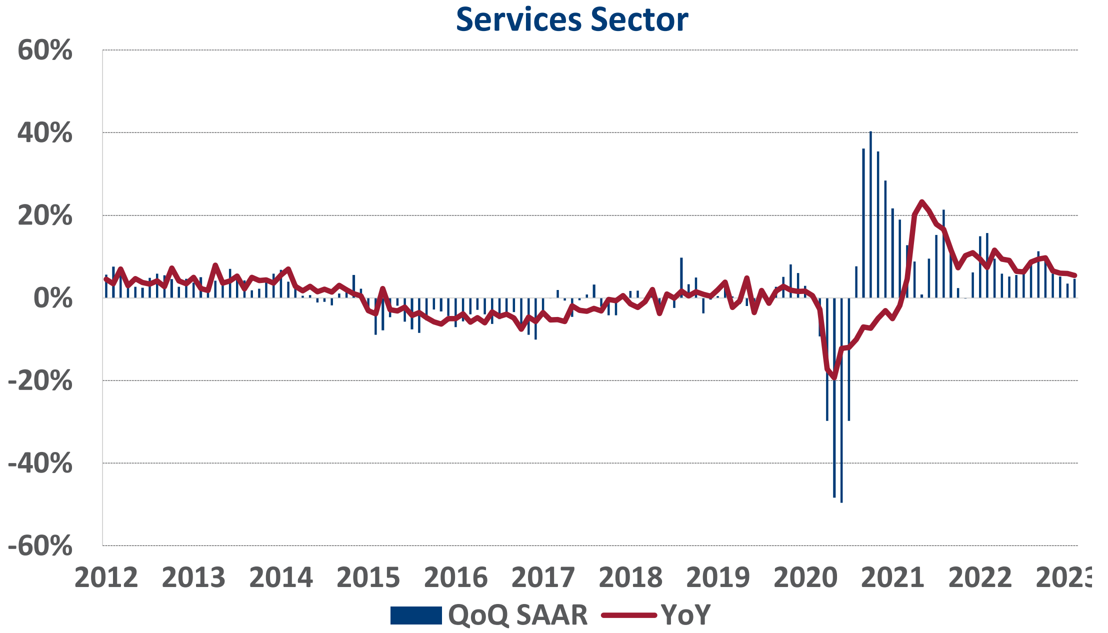
Source: IBGE, BOCOM BBM

Brazil: Services

- The Services sector registered a growth of 1.1% MoM in February (above the consensus of 0.5% MoM) and a fall of -3.1% MoM in January;
- Results for the first two months were positively influenced by services provided to families, information and communication services, while professional services, transportation and other services contributed negatively.







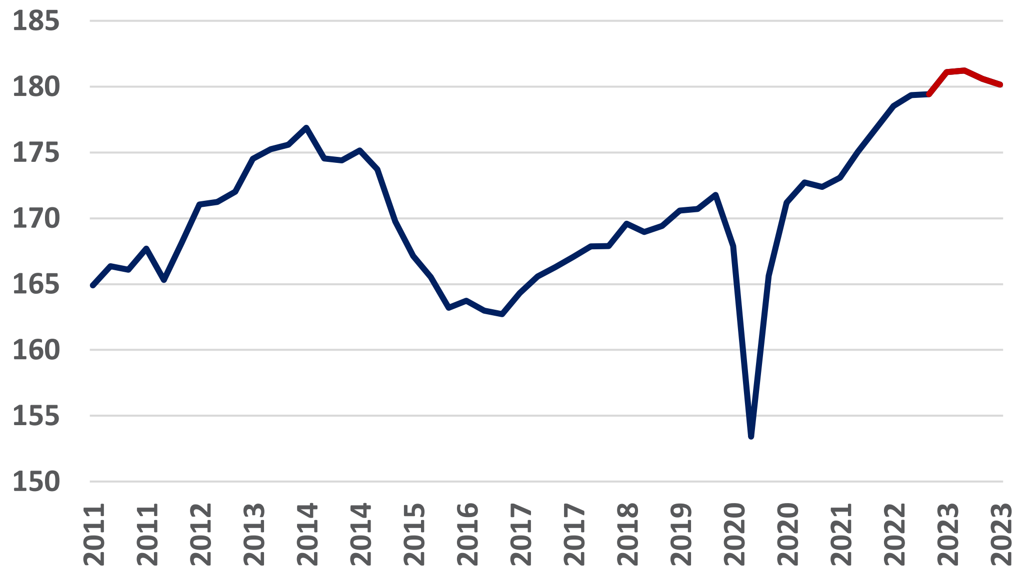
Source: IBGE, BOCOM BBM

Brazil: Economic Activity

- Despite the positive results at the beginning of the year, we have revised our forecast for the second half of the year downwards, in line with the worsening of credit conditions (both in the banking sector and in the capital markets) and a greater tightening of financial conditions;
- As a consequence of the record harvest and the service sector resilience, Q1 GDP should be strong (1.2% QoQ and 3.0% YoY), slowing from Q2 to 0.3% QoQ and entering into a technical recession in the 2nd semester (two consecutive quarters of fall), with decreases of -0.3% and -0.2% in Q3 and Q4, respectively;
- In face of a more accentuated deceleration in the 2nd semester, we revised the 2023 GDP from 1.5% to 1.3%.

	Carry-over	2023 New Forecast
GDP	0.2%	1.3%
Agriculture	**-0.2%**	**8.0%**
Industry	**0.5%**	**-0.2%**
Mining	2.4%	2.4%
Manufacturing	-0.7%	-1.6%
Electricity	0.2%	0.3%
Civil Construction	0.3%	1.0%
Services	**0.9%**	**1.0%**
Retail	-0.1%	-1.0%
Transports	1.2%	0.9%
Information and Communication	4.2%	3.0%
Financial Services	1.4%	1.4%
Rents	1.5%	1.3%
Other Services	2.1%	2.0%
Public Administration	-0.1%	1.1%

GDP Level SA

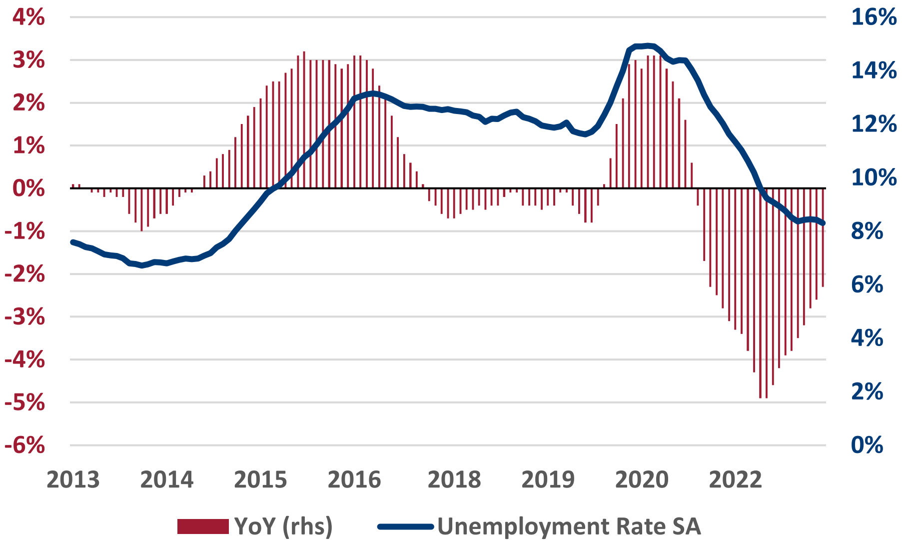


Source: BOCOM BBM, IBGE

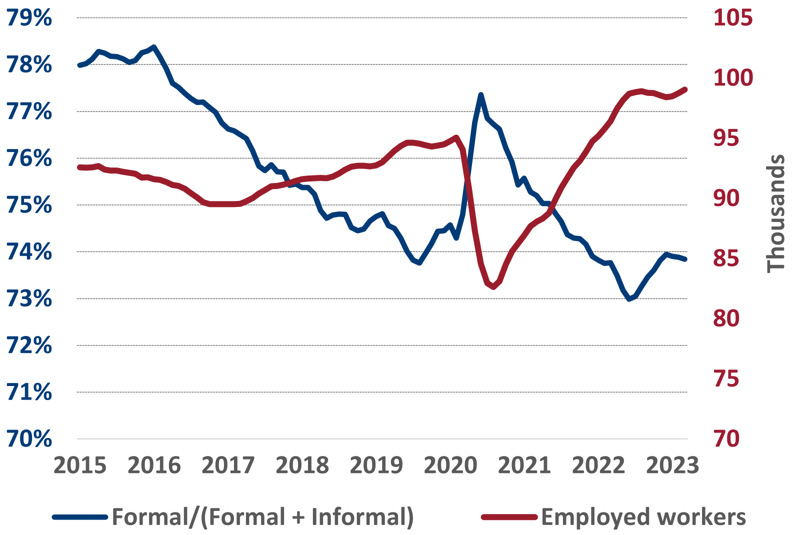
Brazil: PNAD

- The unemployment rate NSA reached 8.8% in March, below expectations. Seasonally adjusted, the unemployment rate dropped from 8.41% in February to 8.32% in March;
- The total employed population increased by 0.3% MoM (the third consecutive positive variation), reaching 99 million;
- The PEA advanced modestly (0.08% MoM), keeping the participation rate around 1.5 pp below pre-pandemic levels, at 61.9%.

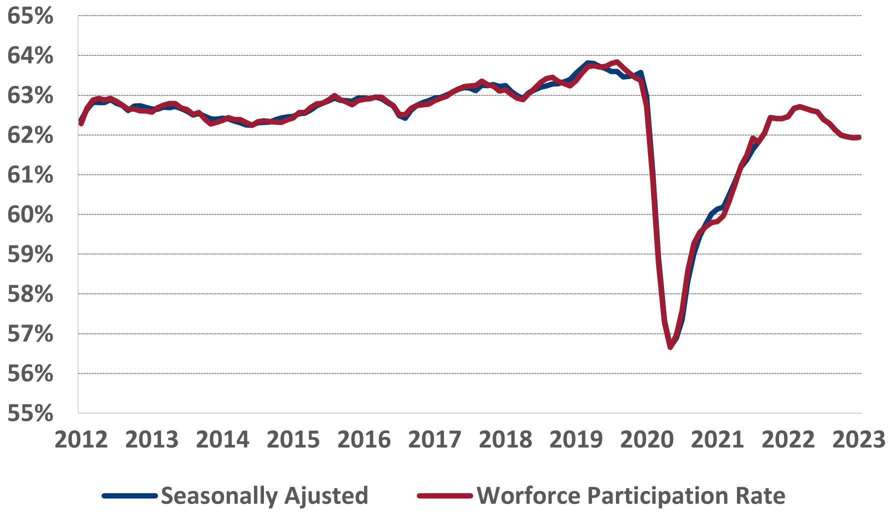
Brazil – Unemployment rate



Brazil - Employment Level SA



Brazil - Workforce Participation

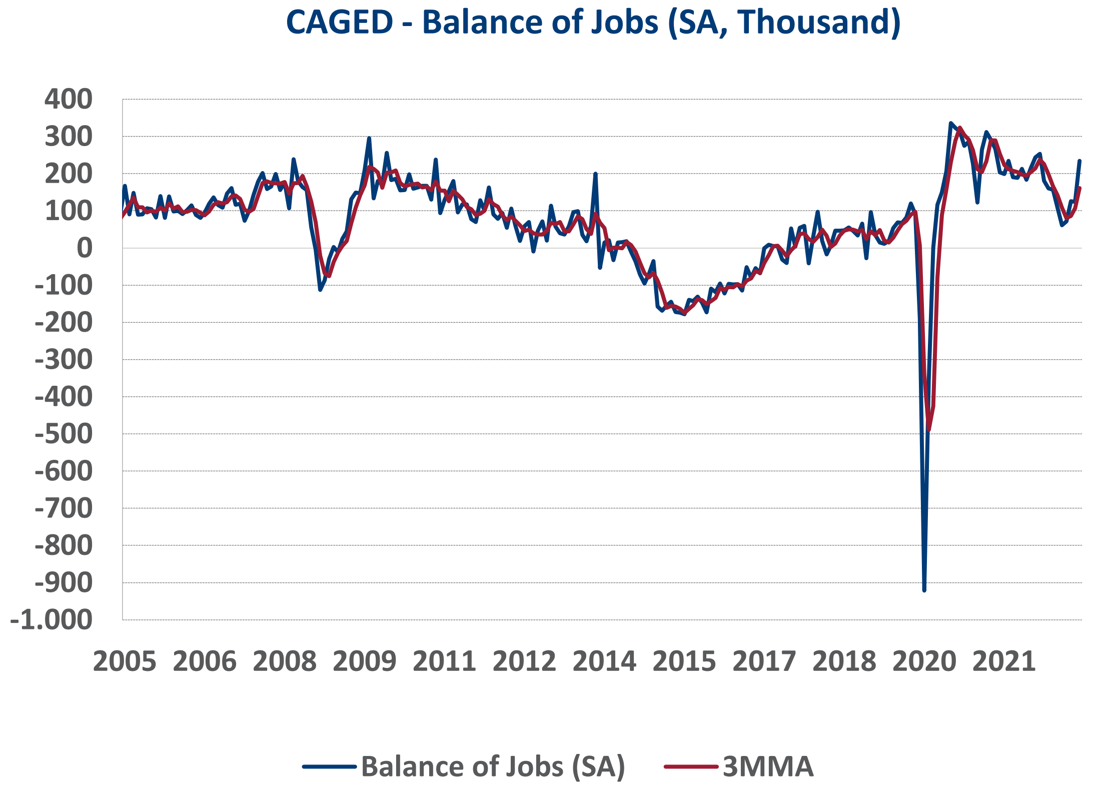


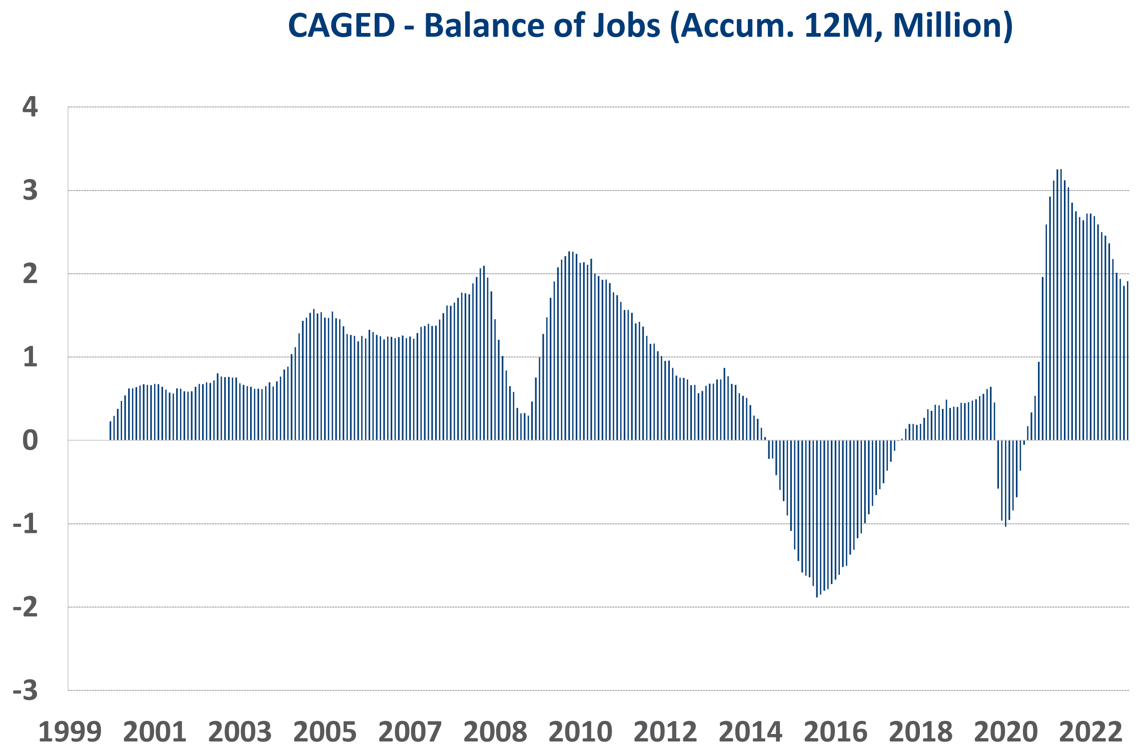
Brazil – Mean Real Wage and Real Wage Bill

Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

- The recovery shown in PNAD was also observed in Caged, but in a much greater magnitude;
- Caged recorded a net creation of 195k formal jobs in March, well above market expectations of 90k;
- The result signals the resilience of the labor market even in the face of a more adverse macroeconomic scenario.

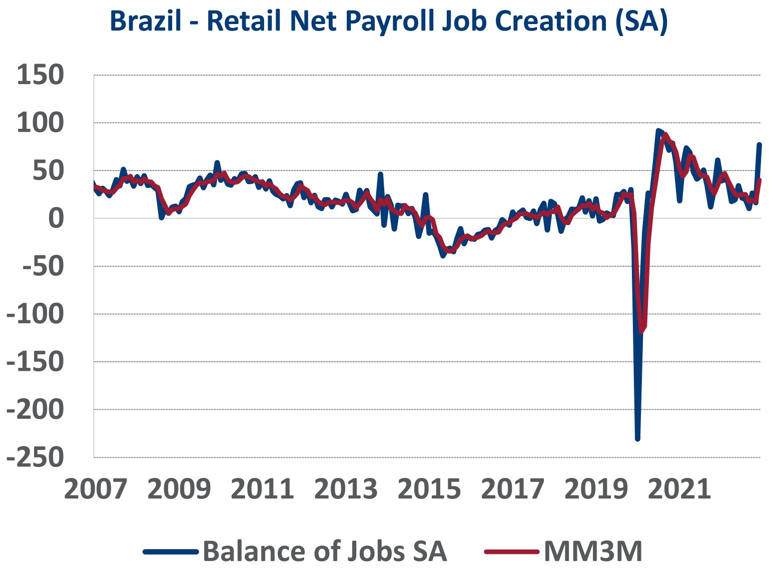


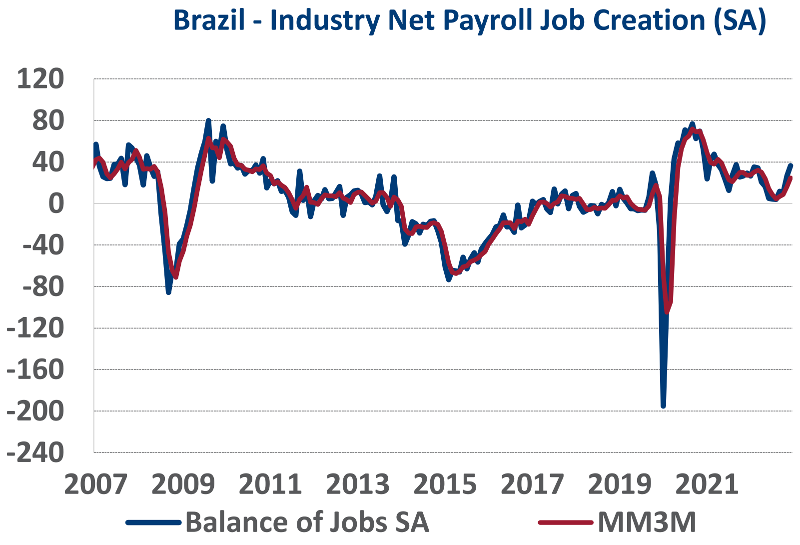


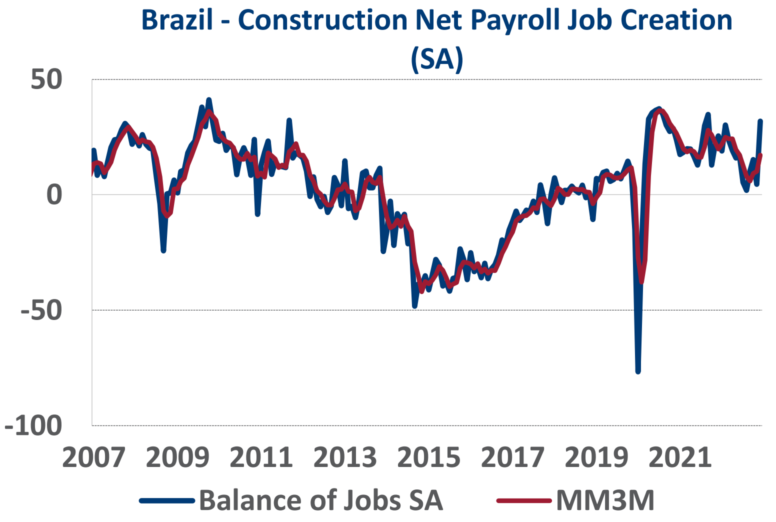
Source: BOCOM BBM, MTE

Brazil: Formal Labor Market

- The largest volume of jobs generated was in the services sector;
- Data showed that job openings occurred in four of the five sectors of the economy in March.





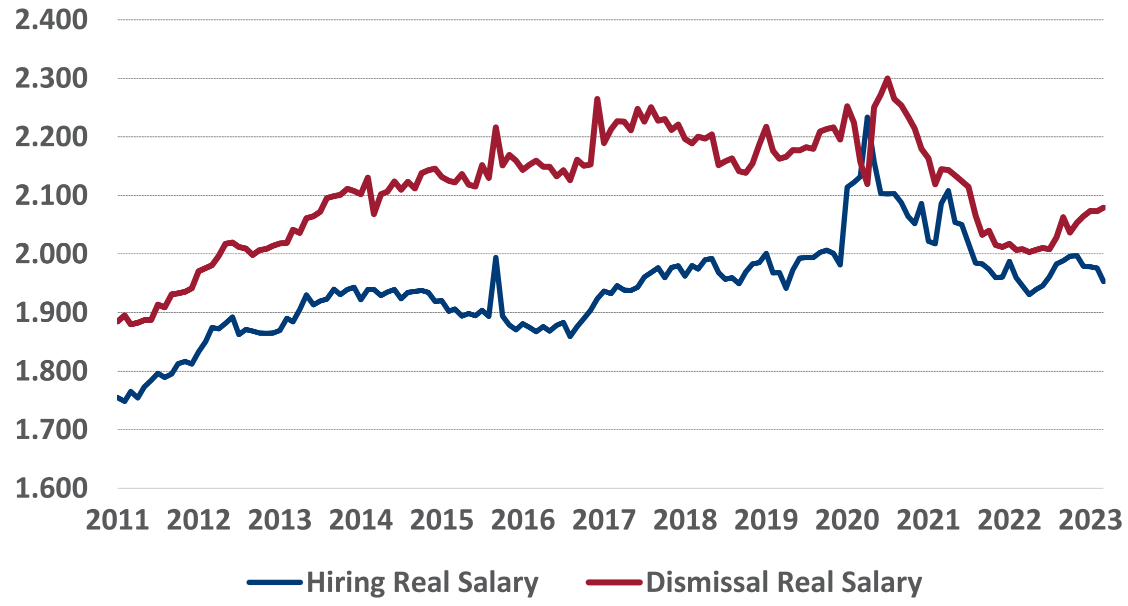


Source: BOCOM BBM, MTE

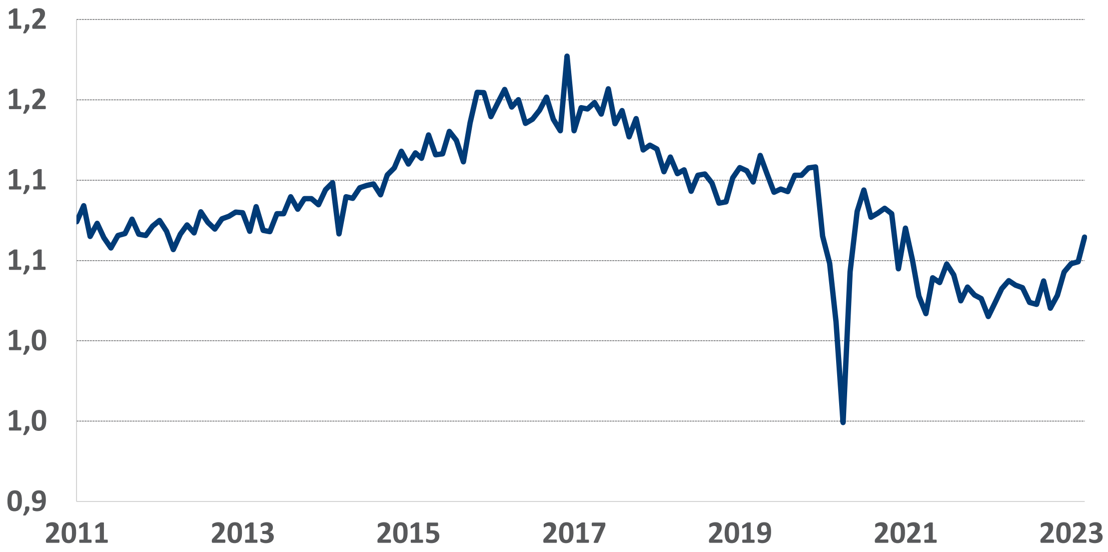
Brazil: Formal Labor Market

» By the other hand, the ratio between dismissal and admission wages started to increase, indicating a job market less tight than the headline suggests.

Average Real Salary (SA)



Dismissal/Hiring Salary (SA)

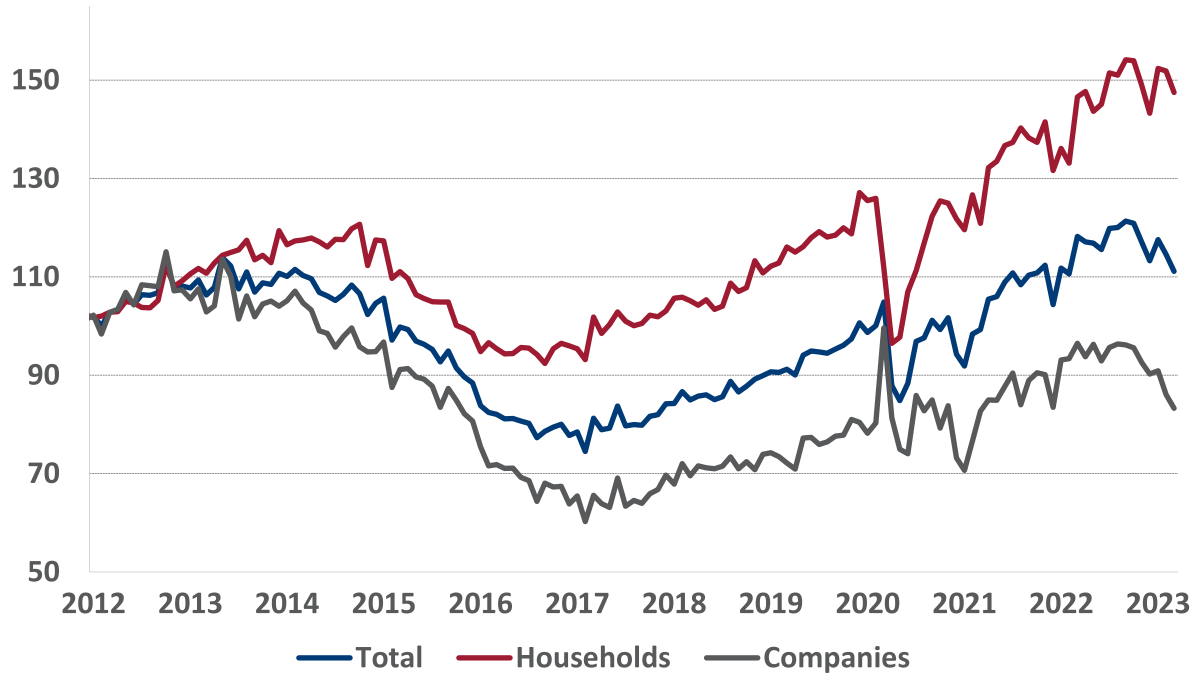


Source: BOCOM BBM, MTE

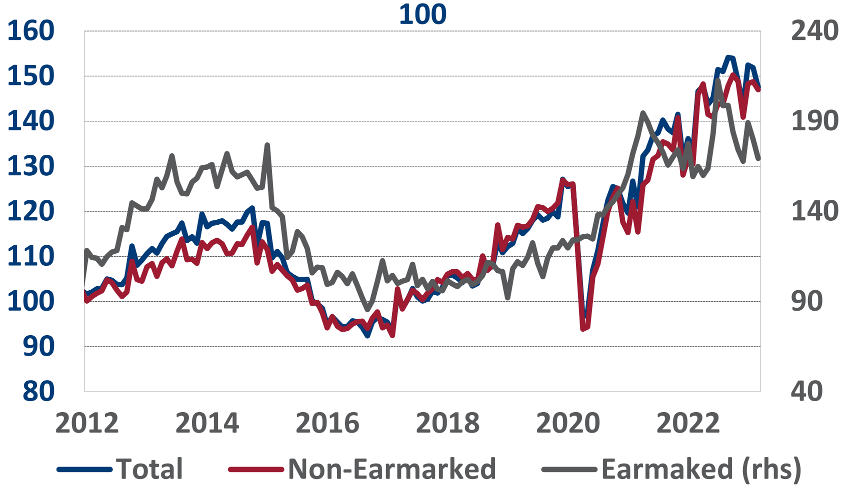
Brazil: Credit Statistics

- In March, total credit concessions fell 3.0% MoM in real terms;
- Credit concessions to households fell 2.9% MoM and to companies contracted by 3.2% MoM;
- Overall, the new credit operations has slowed down due to companies' segment.

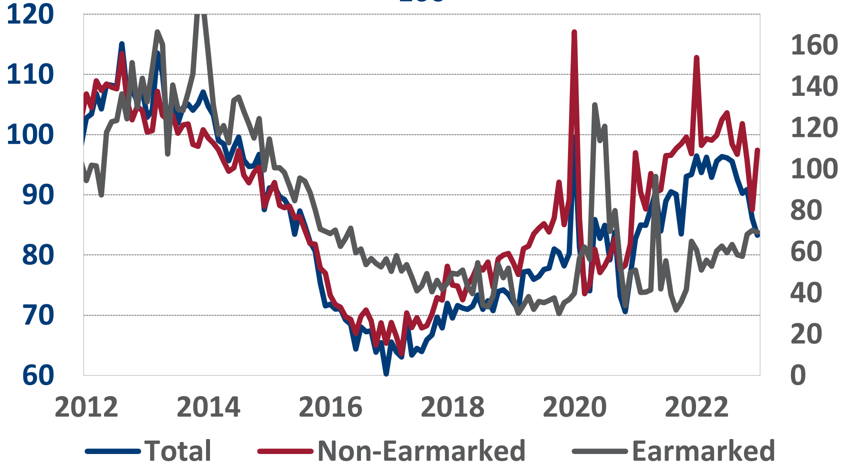
New Credit Operations SA (Real) - mar/11 = 100



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



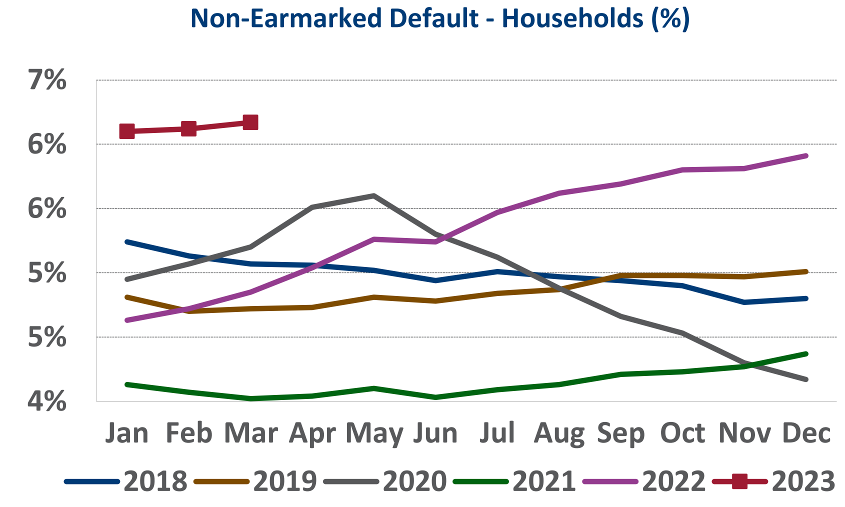
Concessions - Companies SA (Real) - mar/11 = 100

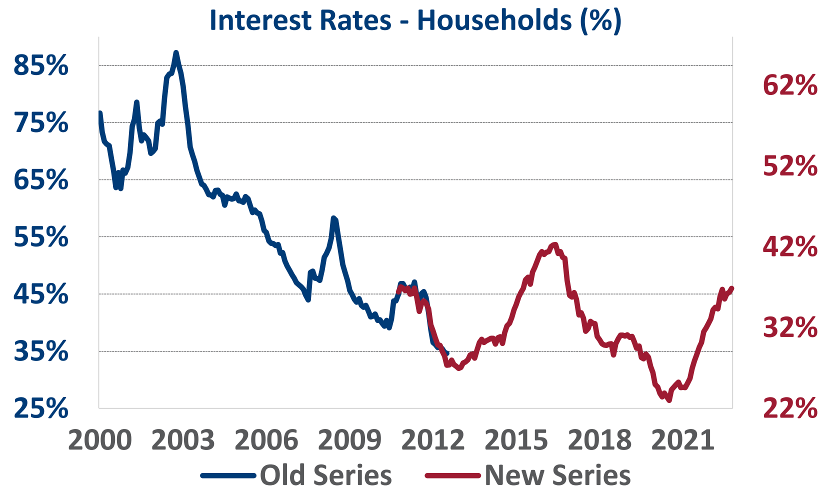


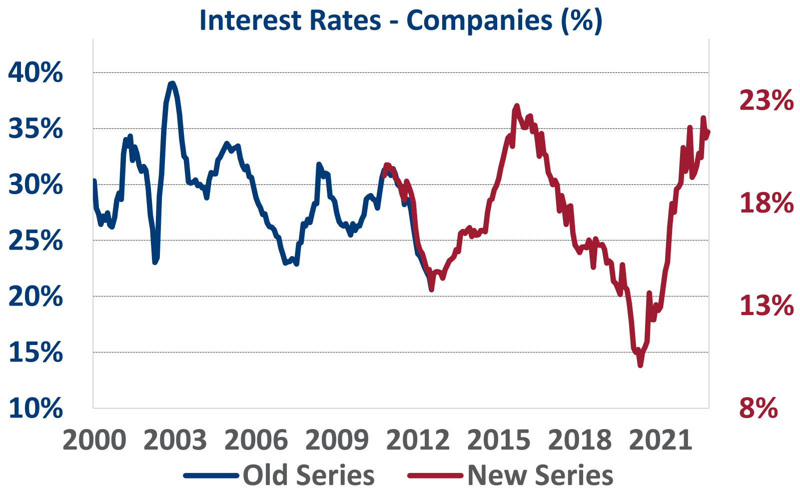
Source: BOCOM BBM, BCB

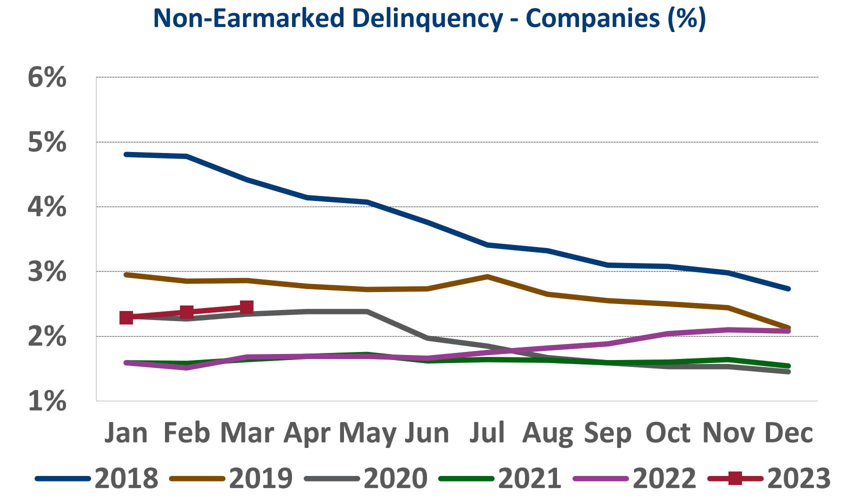
Brazil: Credit Statistics

- In March, lending rates to individuals rose further by 50 bps to 36.9%, while lending rates to corporates rose 30 bps to 21.5%;
- Non-earmarked default continue to move up, reaching 6.17% to households, the highest level since 2016, and 2.45% to companies.





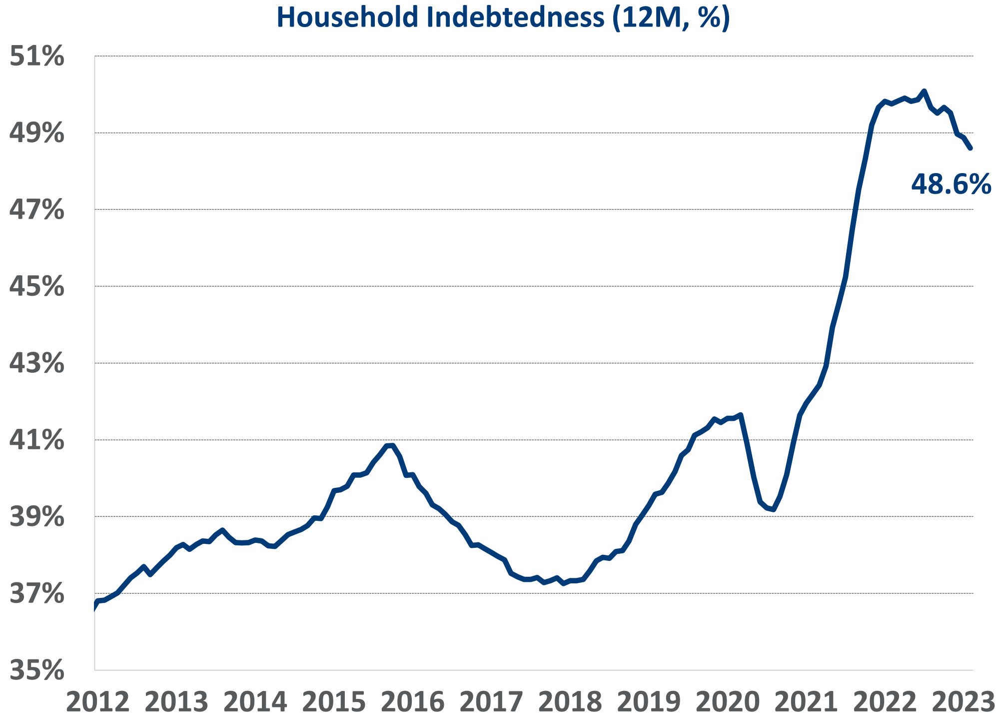


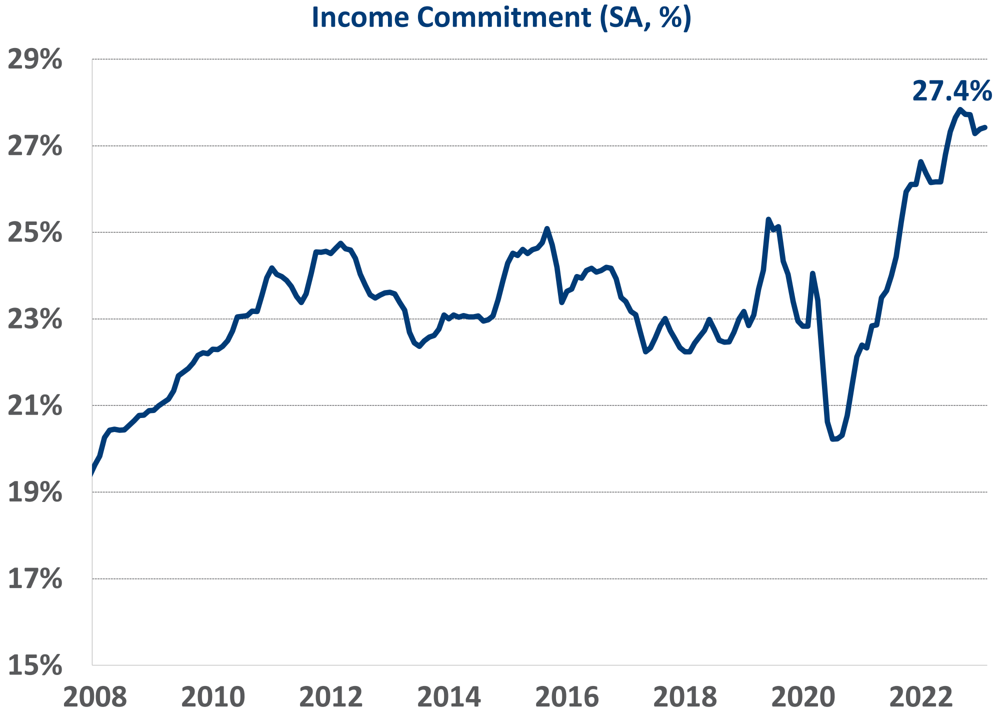


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- The household indebtedness indicator fell to 48.6%, but remain at historically high levels;
- The income commitment increased to 27.4%, also close to the highest level.



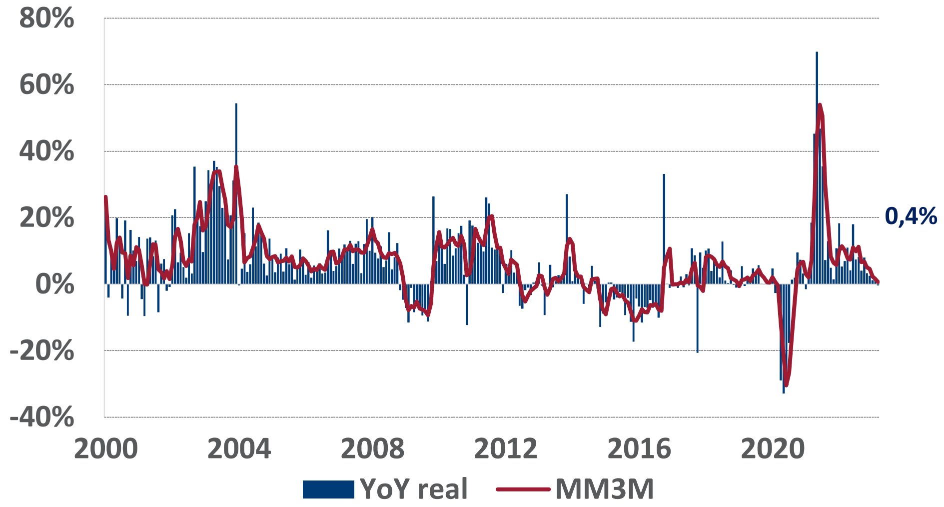


Source: BOCOM BBM, BCB

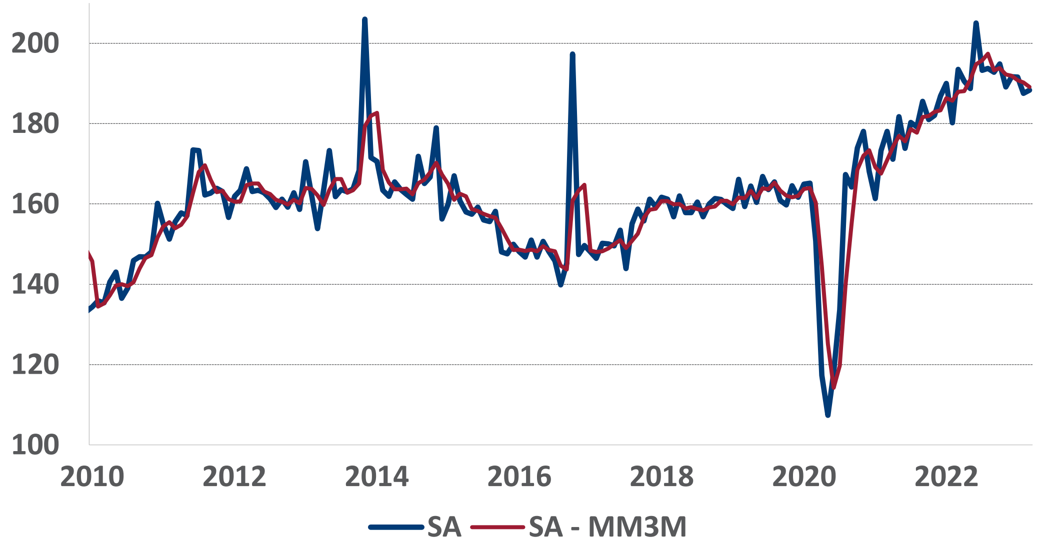
Brazil: Federal Tax Collections

- In March, Federal Tax Collection reached BRL 171.1 bn, slightly below market consensus (BRL 172.0 bn);
- The result represents a fall of 0.4% YoY in real terms, and a year-to-date growth of 0.7%;
- Overall, the downward trend continues. Part of the drop is related to PIS/Cofins exemptions, but also to the drop in commodity prices and the gradual slowdown in economic activity.

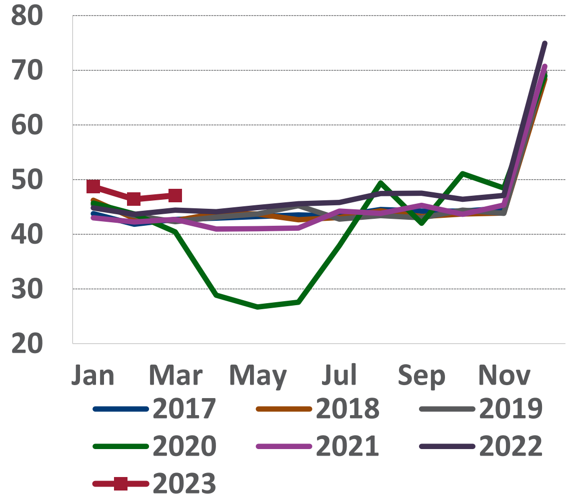
Total Tax Collection (YoY Real, %)



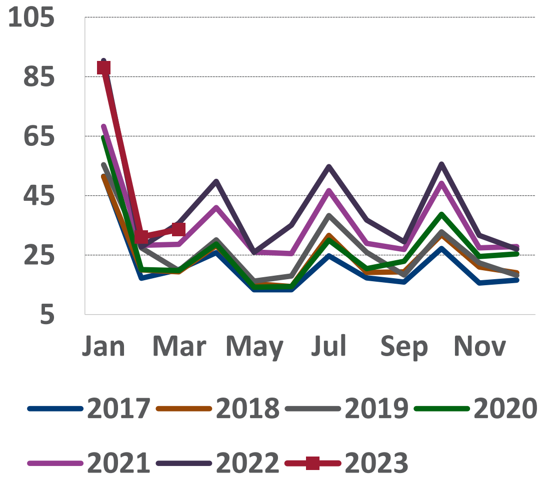
Total Tax Collection (BRL Bn, Real SA)



Social Security (BRL Bn, Real)



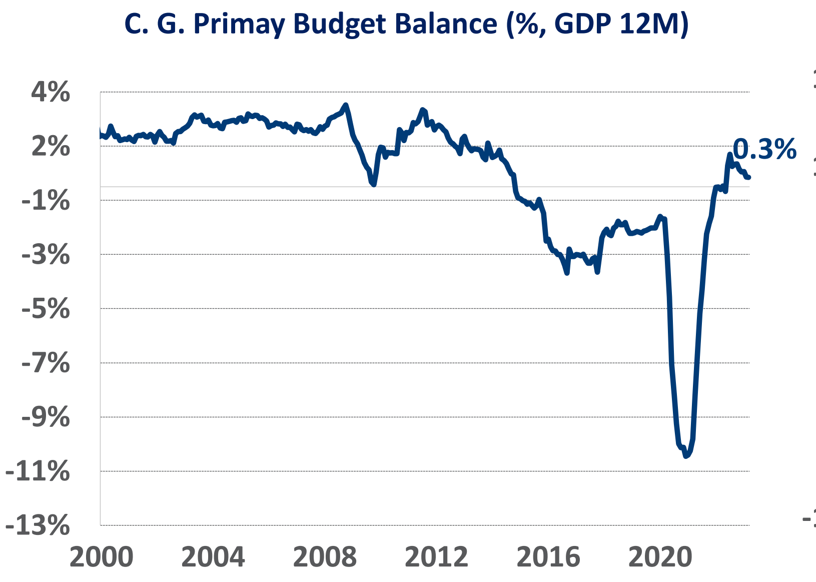
IRPJ/CSLL (BRL Bn, Real)

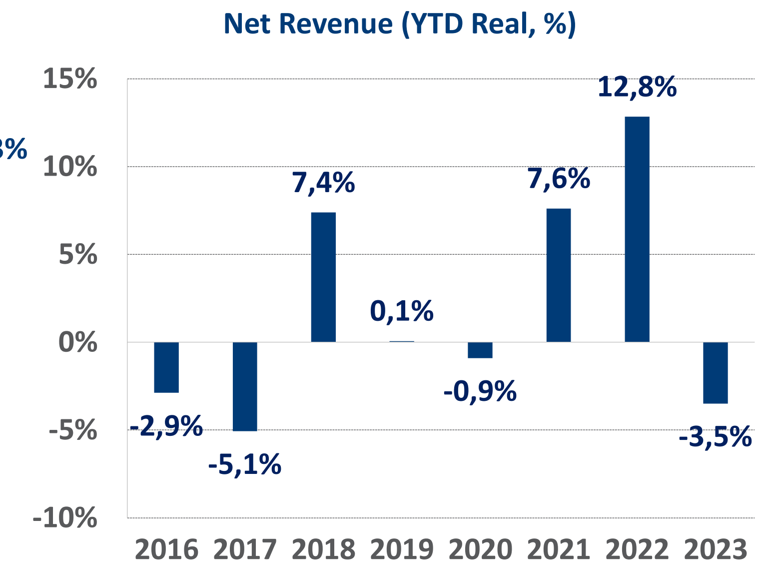


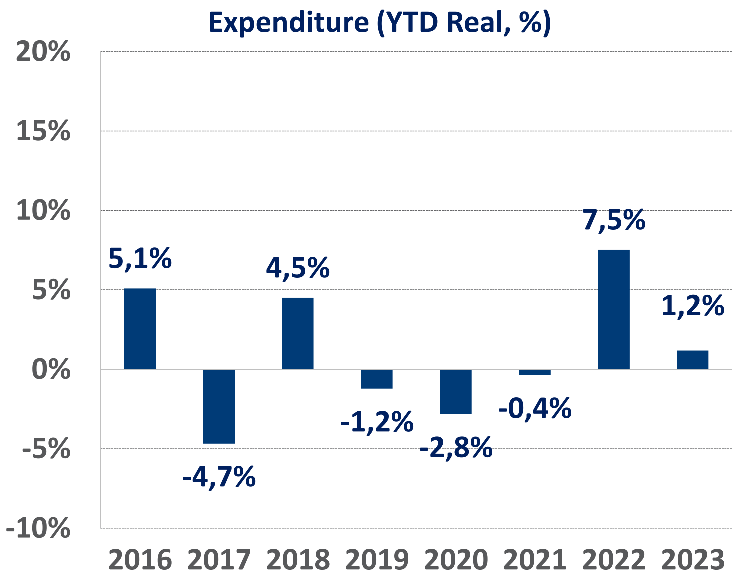
Source: BOCOM BBM, RFB

Brazil: Central Government Primary Result

- In March, the Brazilian central government presented a primary deficit of BRL 7.1 billion - The 12-M accumulated primary result is BRL 31.4 bn;
- The 12-M accumulated primary result decreased to 0.3% of GDP;
- In real terms, net revenue reduced around 1.2% of GDP compared to March 2022;
- Highlights of the month: Reduction in managed revenues (-R$ 7.1 billion), with highlights for IPI, PIS/PASEP and CSLL.
- Total expenses decreased 0.9% of GDP, compared to March 2022;
- Main factors: reduction in the payment of salary allowance and unemployment insurance and the reduction in Extraordinary Credits.



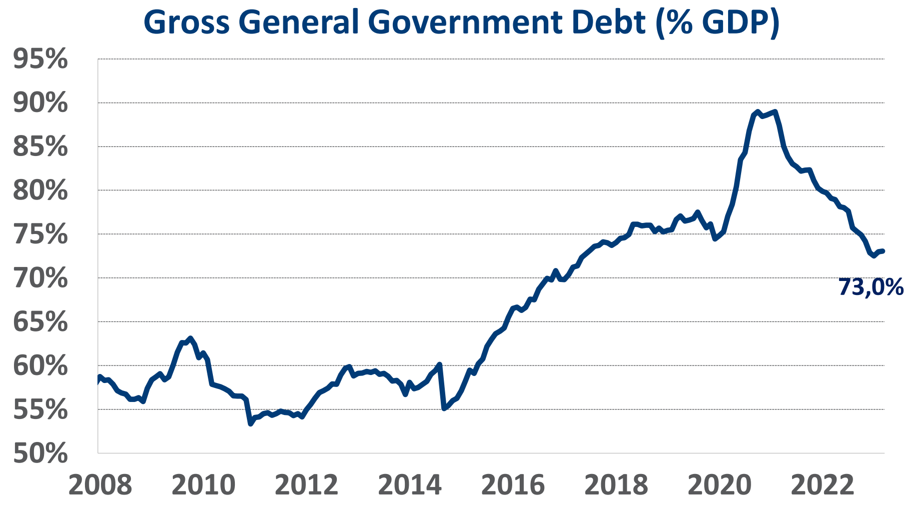


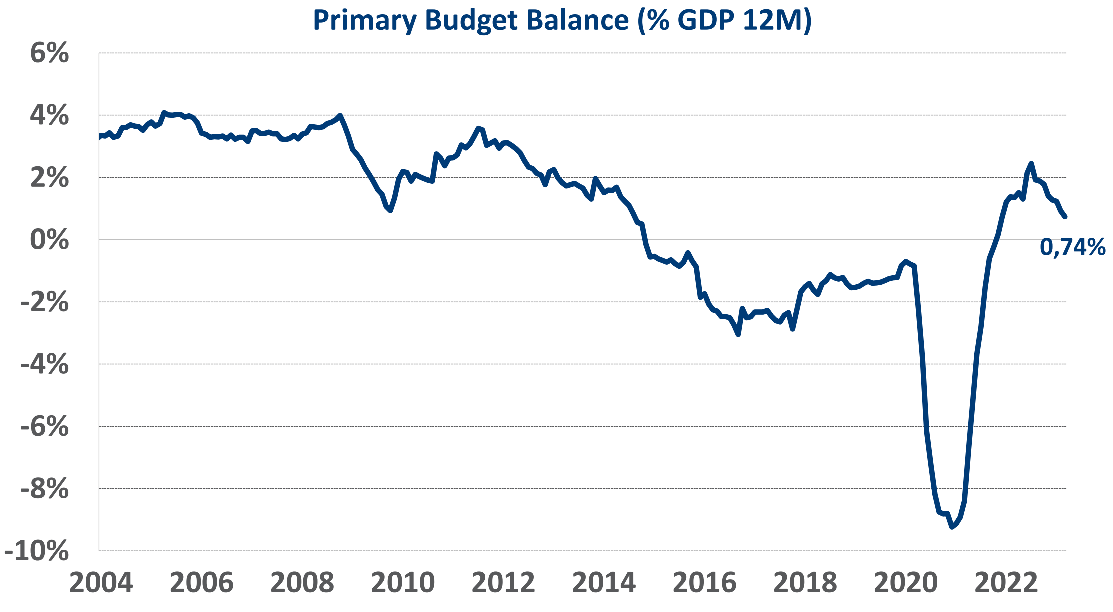


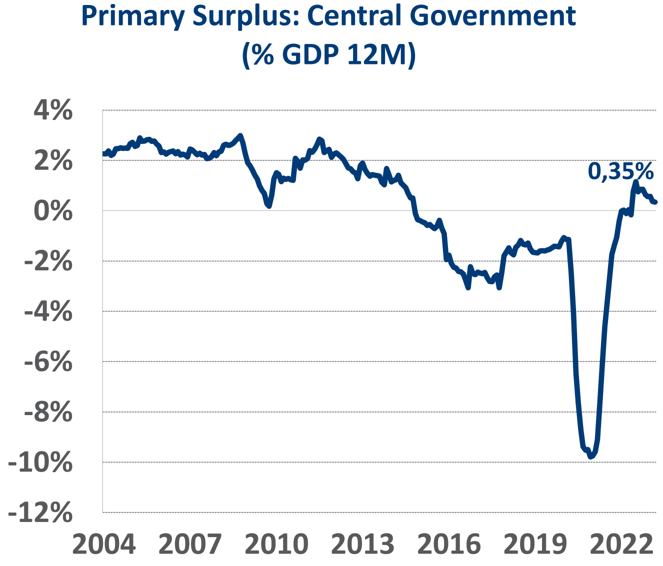
Source: BOCOM BBM, RTN

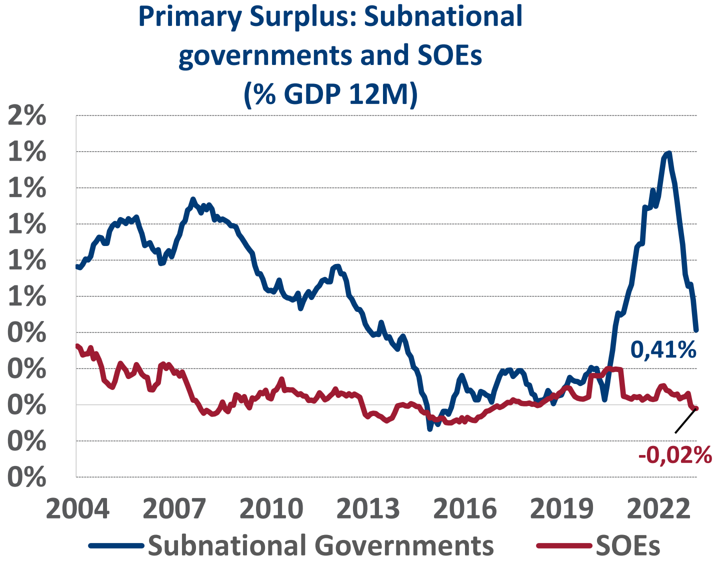
Brazil: Consolidated Public Sector Budget

- The consolidated public sector registered a primary deficit of BRL 14.2 bn in March - the worst result for the month since 2020;
- In 12 months, it accumulates a surplus of BRL 74.8 bn (0.7% of GDP);
- Subnational governments had a deficit of BRL 4.6 bn and SOEs achieved a surplus of BRL 0.2 bn;
- General Government Gross Debt reached 73.0% in March, virtually unchanged from last month, while Public Sector Net Debt also rose, from 56.6% to 57.2%.









Source: BOCOM BBM, BCB

Brazil: New Fiscal Framework

- On April 18, the government published the complementary law that establishes the new fiscal framework, modifying the understanding of some issues

1. **Flexibility of primary targets:** The LDO will fix the primary target only for the following year, for other years will be only projections that can be changed
2. **Disrespecting the primary target ceases to characterize a violation of the Fiscal Responsibility Law**
3. **It is no longer mandatory to reserve resources for keep the primary result on target**
4. **The penalty for non-compliance with the target** (reduction from 70% to 50% the fraction of revenue real growth that determines the limit for expenses), **only is valid for the following year**, not permanently reducing the base of calculation for other years
5. **The revenues that determines the limit for expenses exclude revenues from concessions, dividends, natural resources exploitation and transfers**
6. The limit for the real expenses growth, for the purpose of fixing the band of growth (0.6% to 2.5%), **will use six months of IPCA forecast (overestimation of the index will increase the band of real growth)**
7. **Method for calculating the variation in real revenue needs to be clarified:** deflate the nominal revenues accumulated in 12 months generates a result distinct from deflate month to month
8. **All parameters can be changed by the next governments**

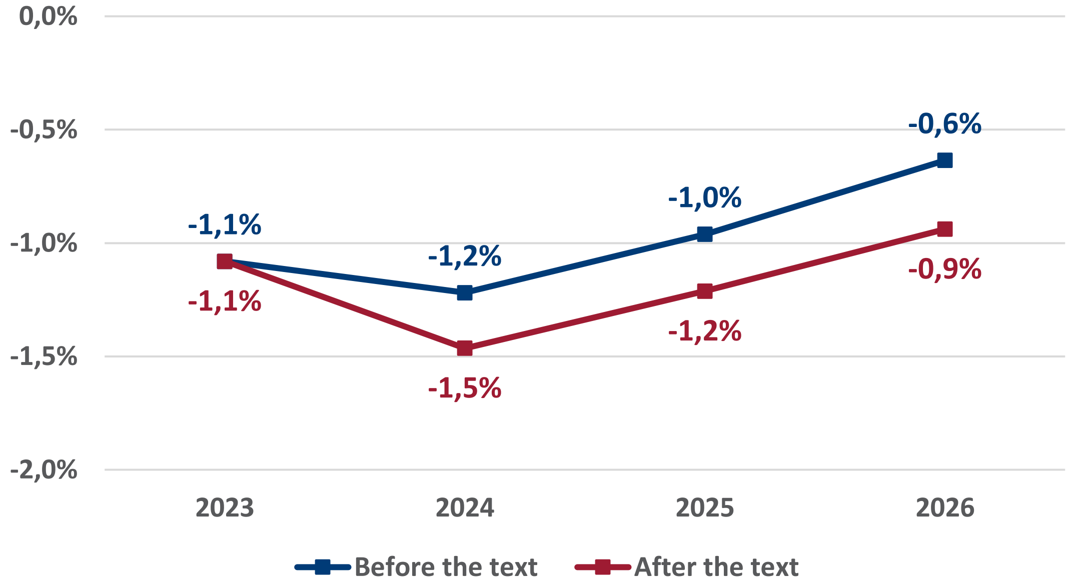
Source: BOCOM BBM

Brazil: New Fiscal Framework

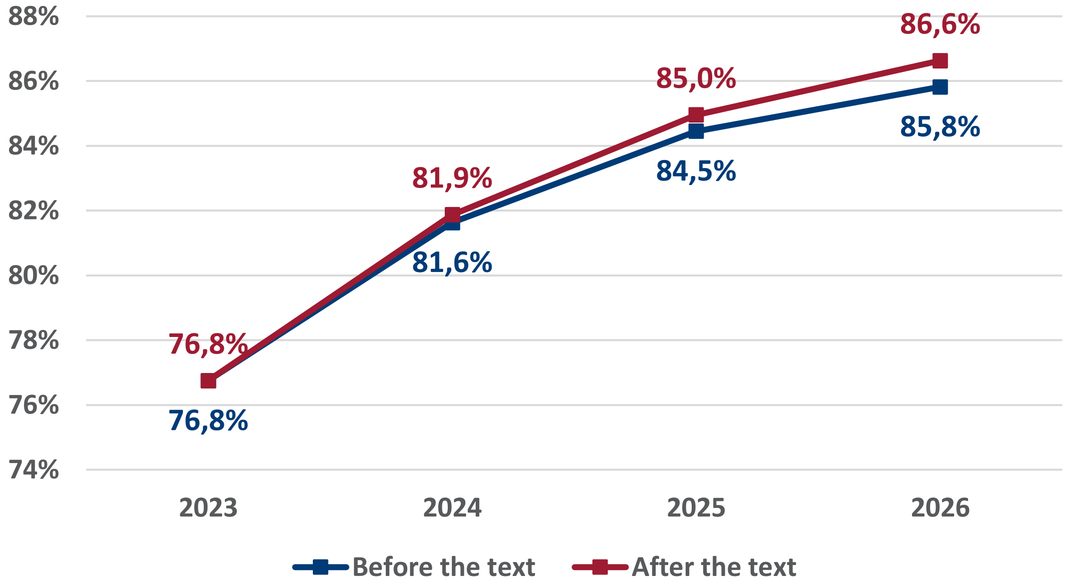
- **Items 4 and 5 of the previous slide impacted negatively our fiscal scenario**
- In order to build the scenario, we assume that the primary targets for 2025 and 2026 will be maintained

Baseline Scenario								
	Inflation	Real GDP	Real Interest Rate	Real Recurring Revenues	Primary Result %GDP	Primary Target %GDP (Lower Bound)	Percentage of Revenues	Real Expenses
2023	6.1%	1.5%	5.9%	2.7%	-1.1%			
2024	4.0%	1.0%	6.0%	1.4%	-1.5%	-0.25%	70%	1.9%
2025	3.0%	2.0%	4.0%	2.5%	-1.2%	0.25%	50%	0.7%
2026	3.0%	2.0%	4.0%	3.0%	-0.9%	0.75%	50%	1.2%

Forecast: Central Government Primary Result



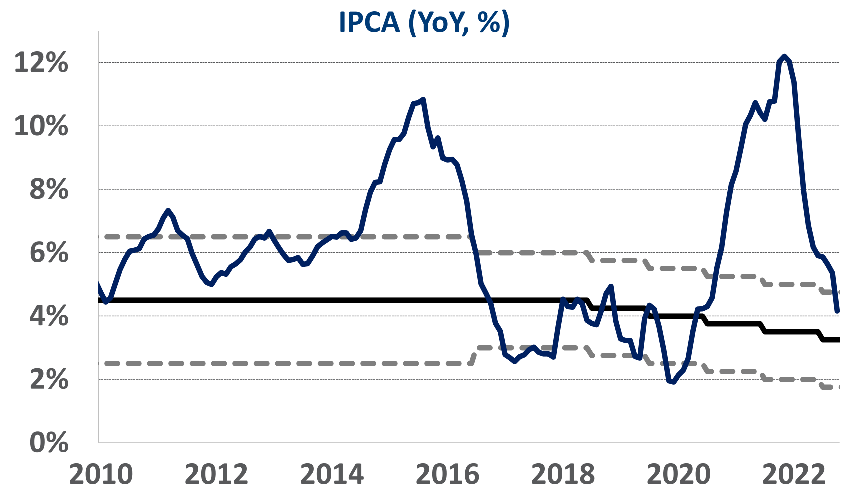
Forecast: Gross Debt %GDP

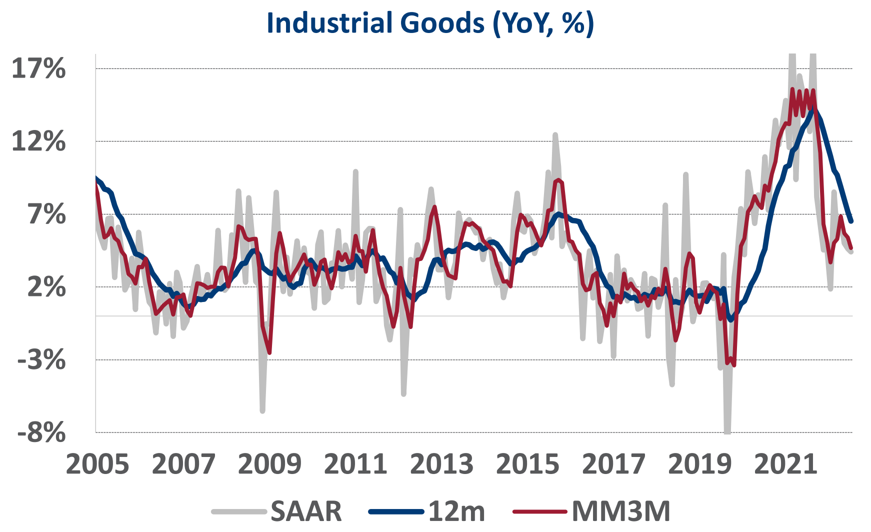


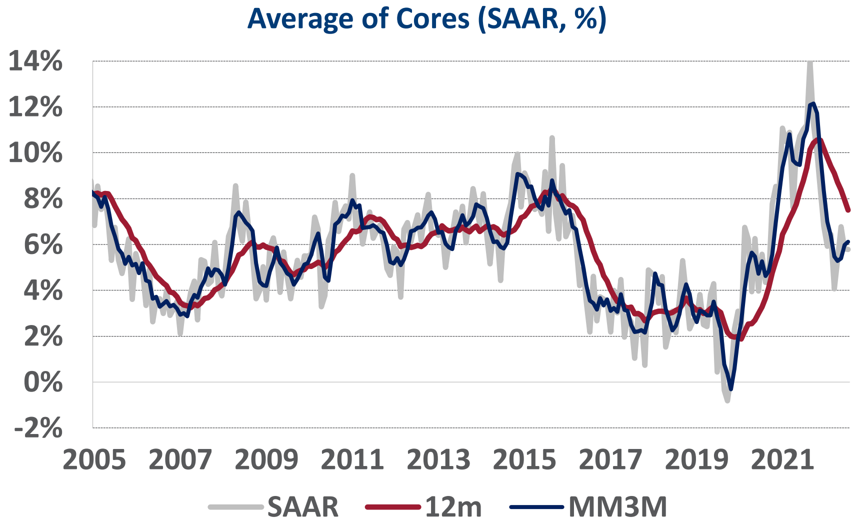
Source: BOCOM BBM

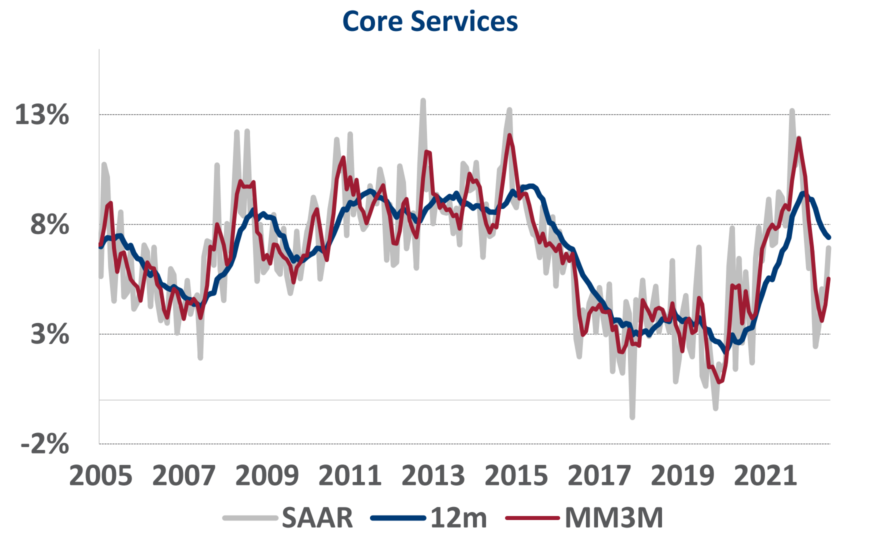
Brazil: Inflation 2023

- The April IPCA preview rose 0.57% MoM, below the consensus 0.60% and our forecast 0.64%;
- The variation in 12 months retreated to 4.16% in April, compared to 5.36% in March. The lowest reading since October 2020;
- The main downward deviations from our forecast came from: gasoline and electricity;
- On the other hand, the main upward surprises came from personal hygiene, some foodstuffs and inertial services;
- The average of core inflation was relatively stable at 0.45% in April, but underlying services accelerated, returning the relief observed in March.





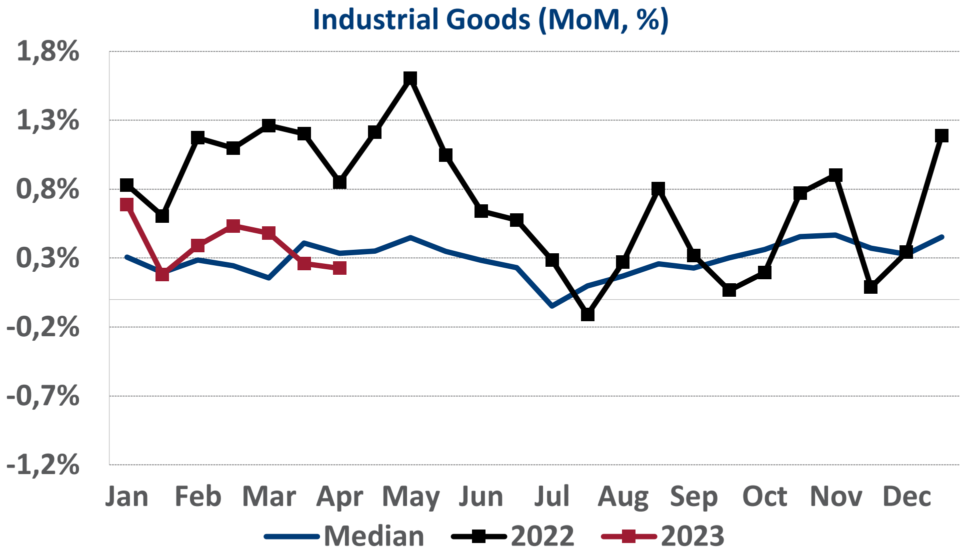


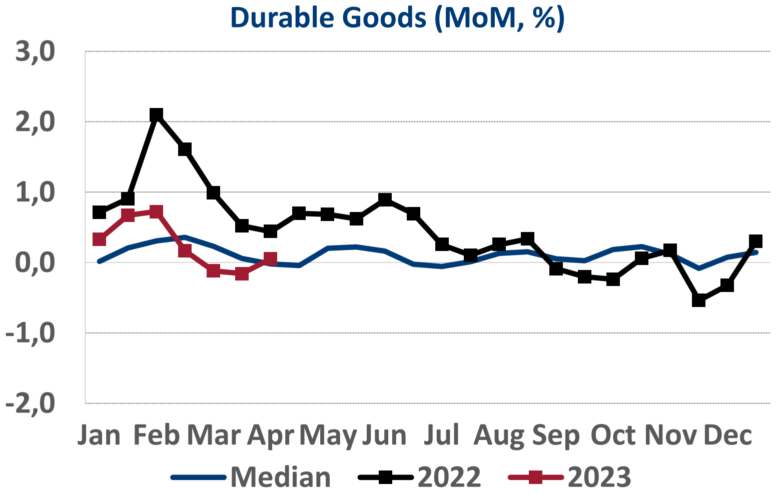


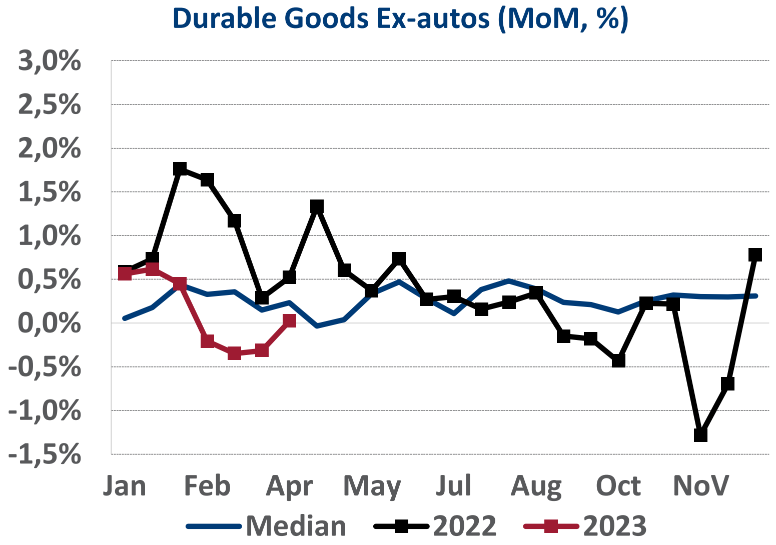
Source: BOCOM BBM, IBGE

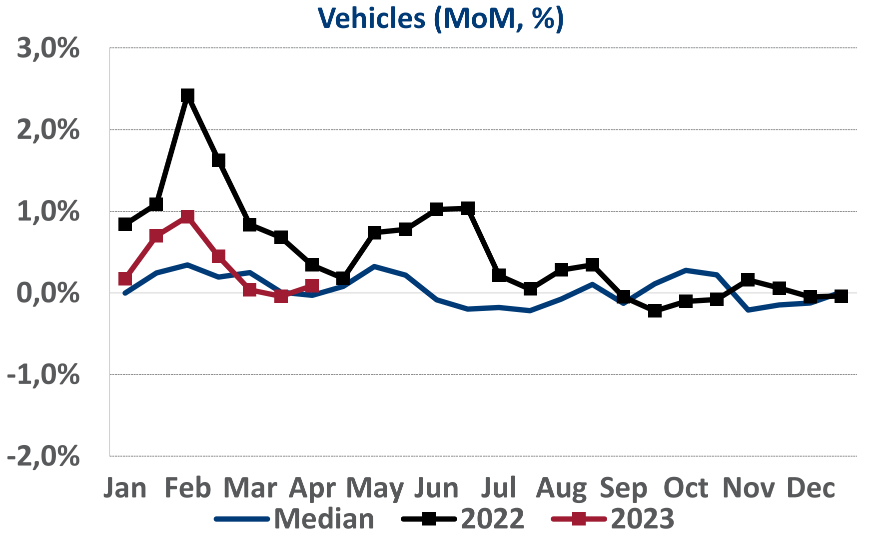
Brazil: Inflation 2023

- Industrial goods decelerated to 0.23% MoM, due to semi-durable and non-durable goods;
- Industrial inflation remains well behaved and on a downward trend.





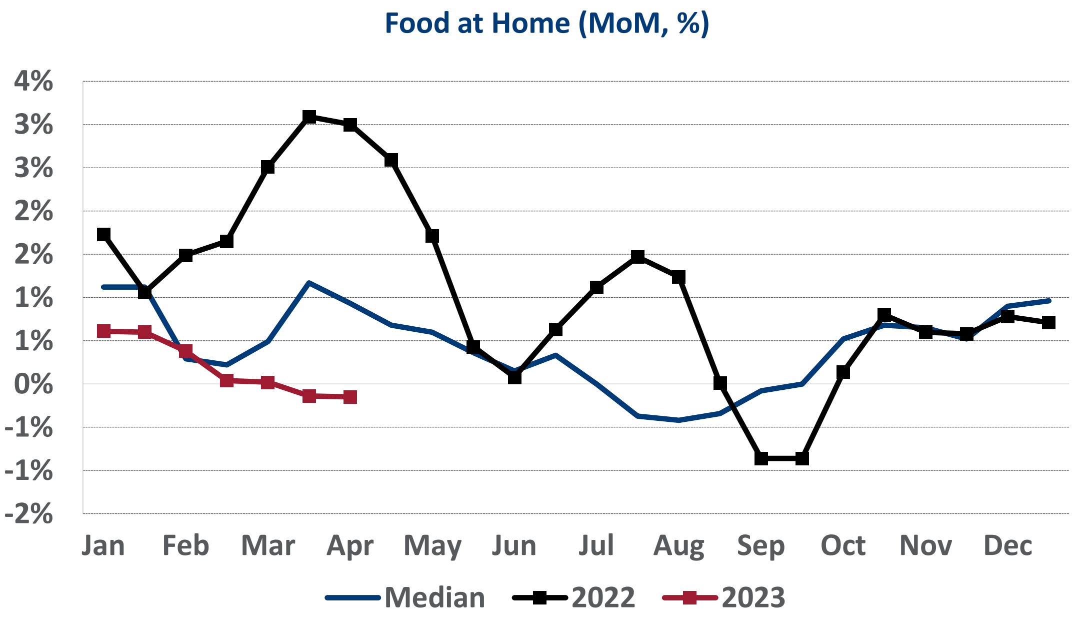


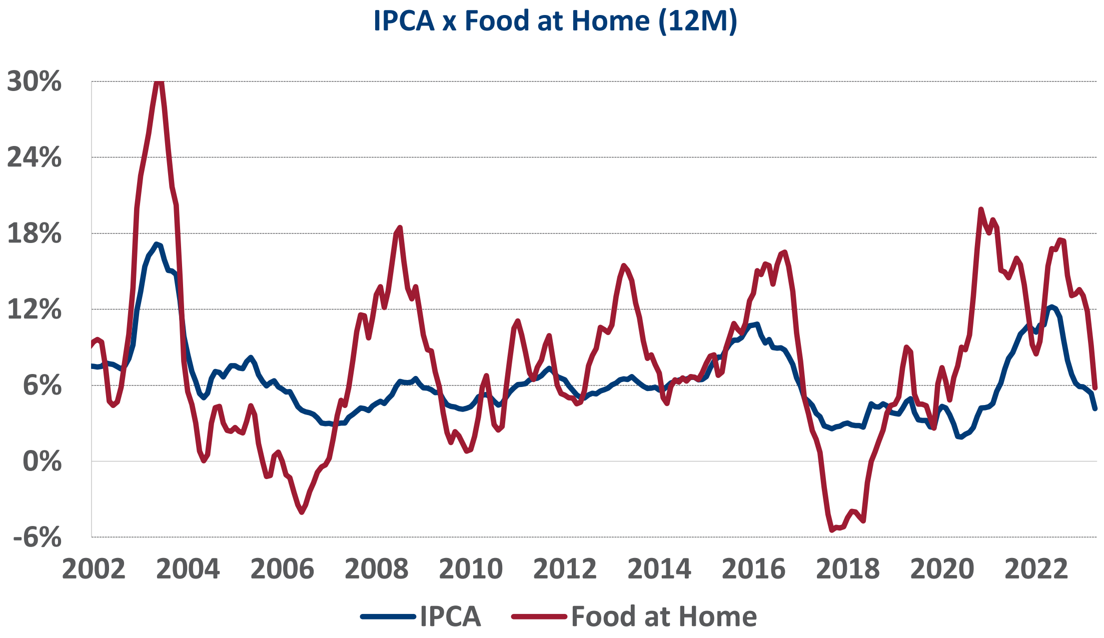


Source: BOCOM BBM, IBGE

Brazil: Inflation 2023

- Food at home has also pushed the IPCA down, registering a deflation of 0.15% MoM in the April preview;
- In 12 months, food inflation dropped from 17.4% in August 2022 to 5.8% in April of this year.





Source: BOCOM BBM, IBGE

Brazil: Inflation

- Our projection for the year is 6.1% for 2023 and 4% for 2024;
- For 2023, the relief in some categories such as industrial goods and food has been offset by more resilient cores and services, keeping our forecast relatively stable;
- For 2024, the Selic cuts now contemplated in our scenario for the 2nd half of the year push our forecast upwards, but are offset by a more appreciated exchange rate scenario and a slowdown in economic activity.

IPCA (%, annual)

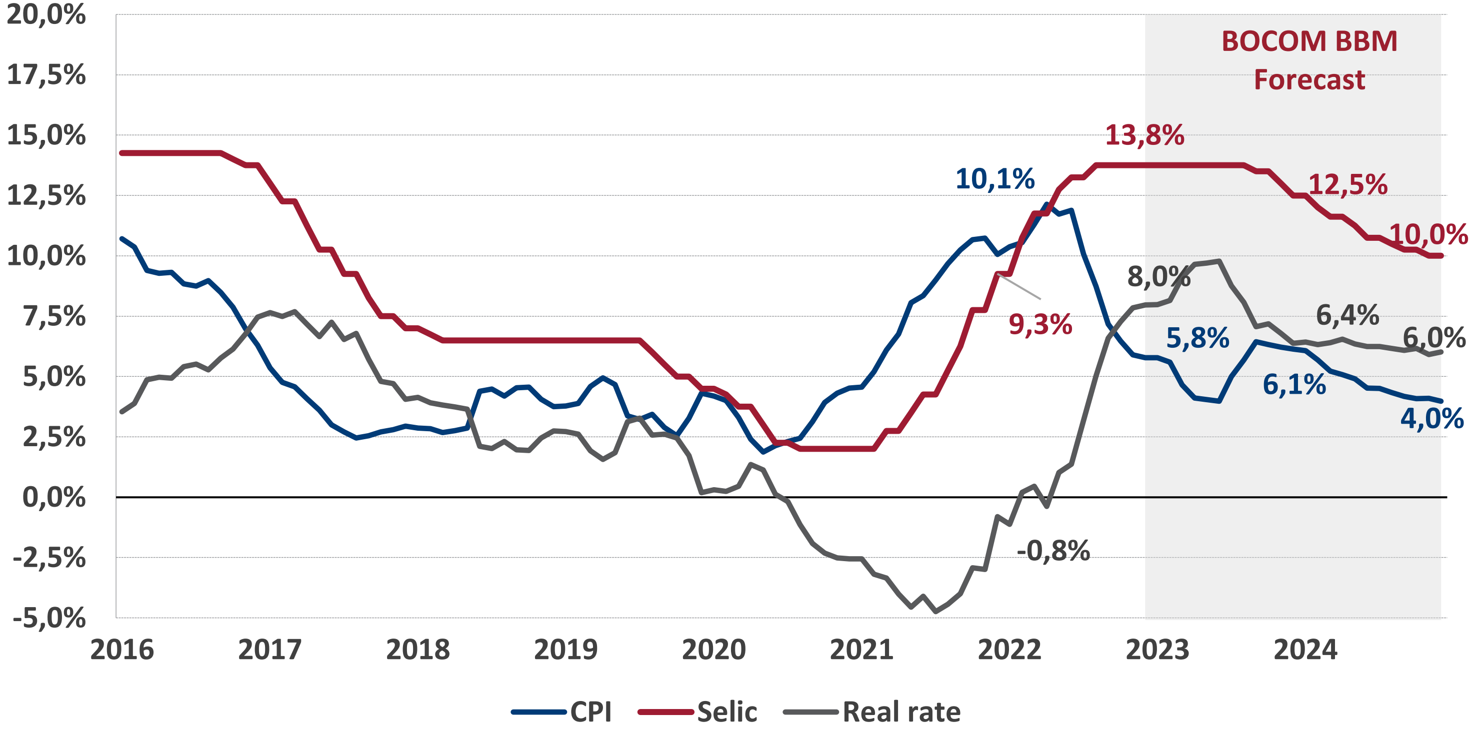
	Weight	2019	2020	2021	2022	2023	2024
Regulated	**26.6**	**5.5**	**2.6**	**16.9**	**-3.8**	**11.0**	**4.3**
Industrial goods	**23.6**	**1.7**	**3.2**	**11.9**	**9.5**	**3.1**	**2.6**
Durable goods	10.3	0.0	4.5	12.9	6.1	2.0	-
Semi-durable goods	5.9	0.6	-0.1	10.2	15.7	3.3	-
Non-durable goods	7.3	4.4	4.0	11.9	9.5	4.4	-
Food at home	**15.7**	**7.8**	**18.2**	**8.2**	**13.2**	**3.1**	**2.8**
Services	**34.1**	**3.5**	**1.7**	**4.8**	**7.6**	**6.2**	**5.3**
Food away from home	5.6	3.8	4.8	7.2	7.5	6.7	4.5
Related to minimum wage	5.2	2.9	1.5	3.3	6.3	6.1	5.8
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.3	7.3	4.8
Inertial	15.0	4.3	1.6	4.2	8.8	5.4	5.6
IPCA		**4.3**	**4.5**	**10.1**	**5.8**	**6.1**	**4.0**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

- At the May meeting, the Copom gave some signs towards a less restrictive monetary policy in the near future. Inflation projections for 2023 and 2024 in the reference scenario did not change even with a less restrictive Selic Focus (12.5% vs 12.75%) and in the alternative scenario in which there are no interest rate cuts, the projection for 2024 dropped from 3.0% to 2.9% (slightly below target). In addition, the Copom minimized the possibility of Selic increases in the next meetings, softening the harshest sentence of the previous statement;
- In the second semester, after the processing of the new fiscal framework in Congress and the definition of inflation targets by the CMN, in view of a more significant deceleration in economic activity, there will be room for the beginning of monetary policy easing.

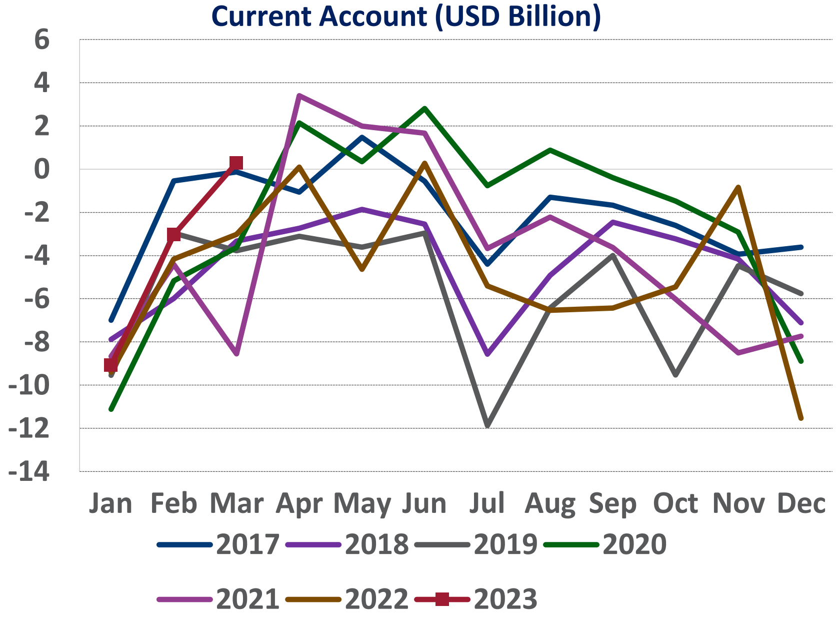
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

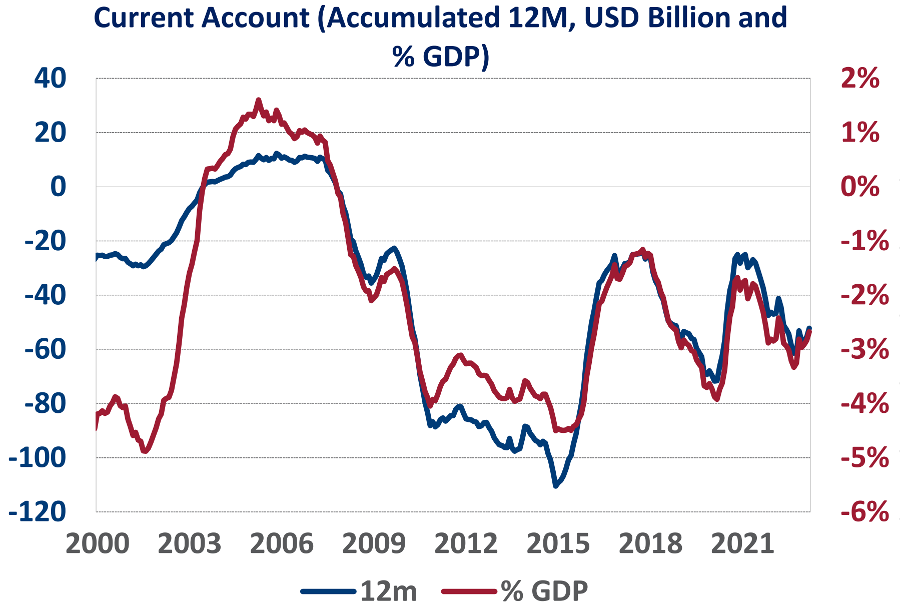


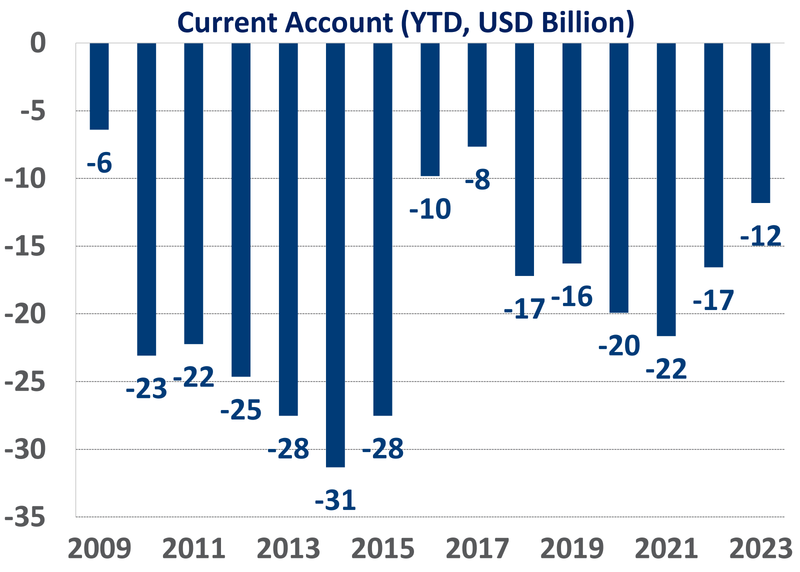
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The Brazilian current account posted a surplus of USD 286 million in March, below the consensus of USD 2.1 billion, but much better than the result recorded for the same month of 2022 (USD -3.0 billion);
- The current account balance stood at USD -52.3 billion in the 12-month rolling sum up to March (-2.66% of GDP).



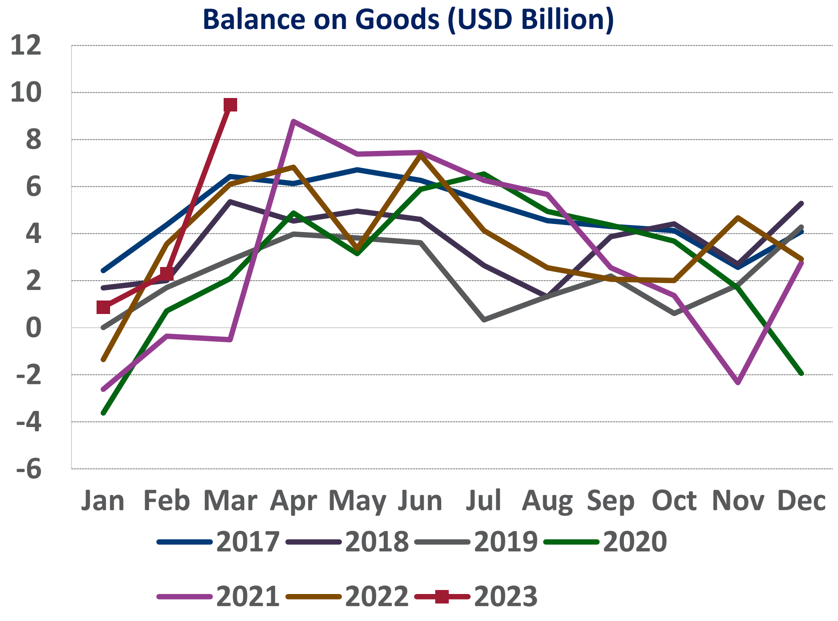


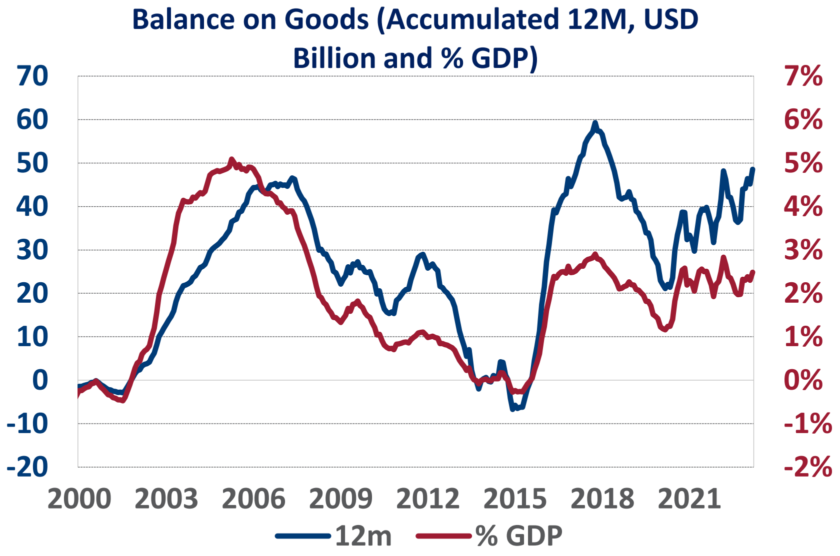


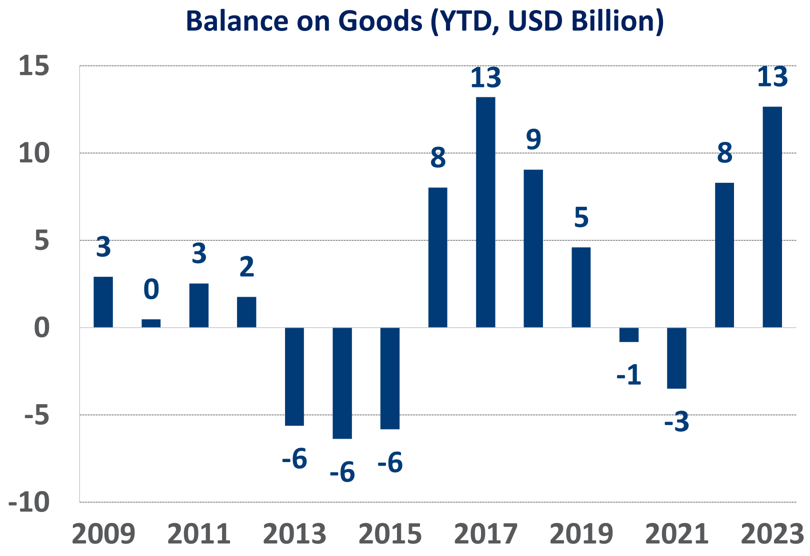
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- The Merchandise Trade Balance was positive by USD 9.5 billion in March, the highest monthly surplus in the historical data series (from USD 6.1 billion in 2022);
- The value of goods exports jumped 12.1% YoY (USD 33.3 billion), driven by soybean sales;
- The value of goods imports advanced only 0.9% YoY in March (USD 23.8 billion);
- The trade balance is expected to remain high, driven by a record grain harvest, and better prospects for China's growth.



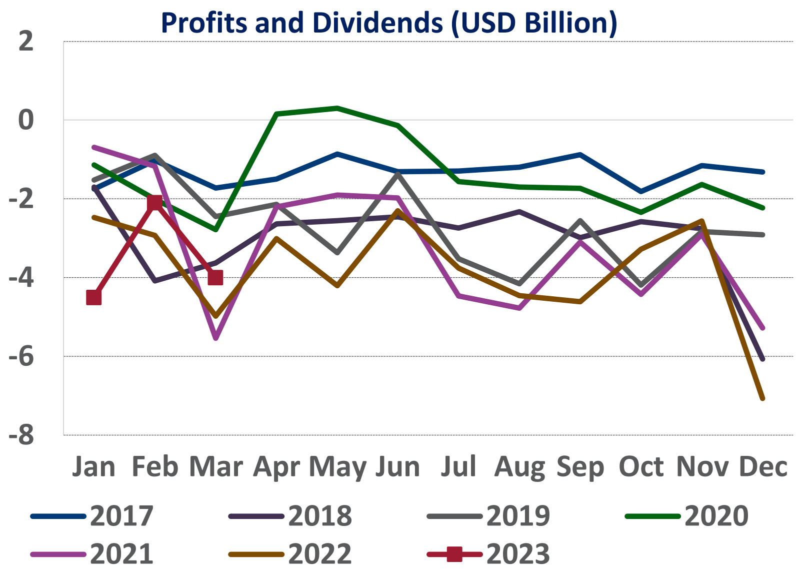


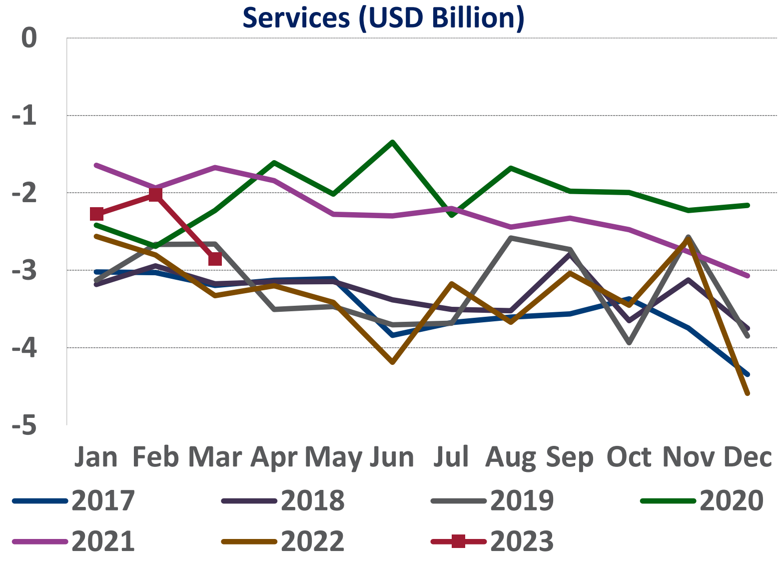


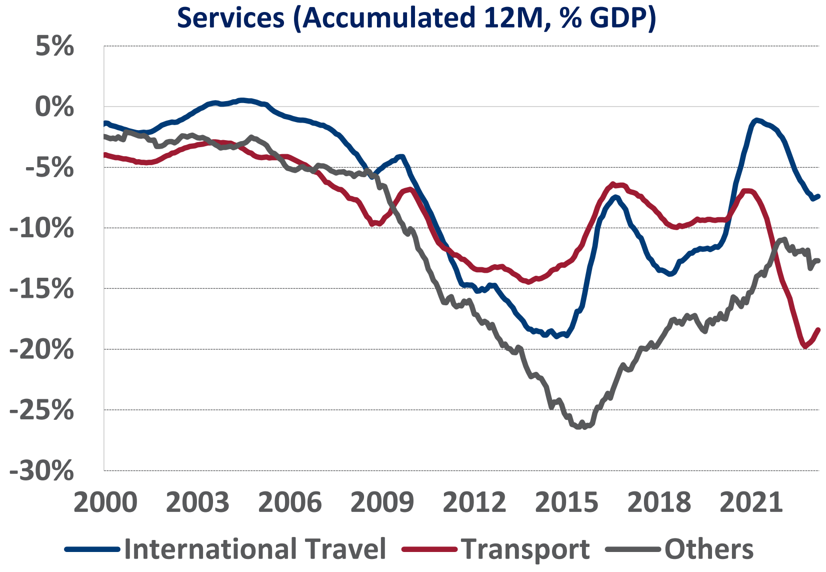
Source: BOCOM BBM, BCB

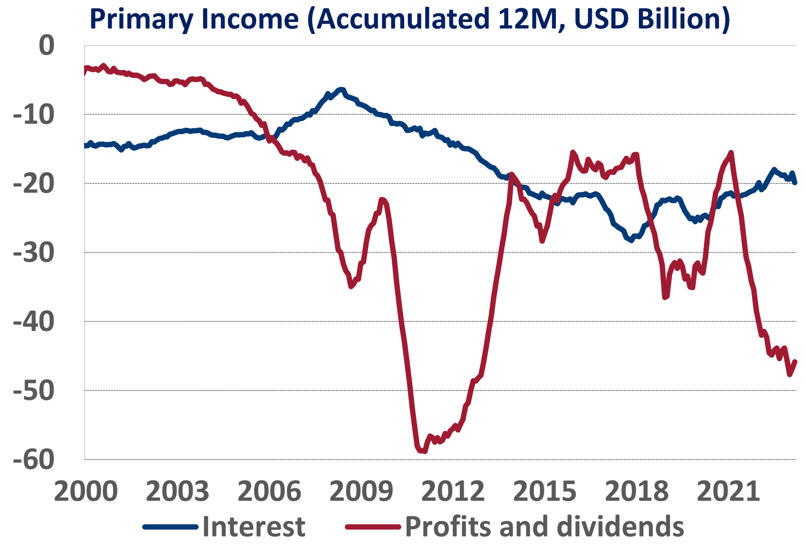
Brazil: Balance of Payments

- The deficit in the services account totaled US$ 2.0 billion, better than last year, mainly influenced by lower net expenditures in the transportation account;
- On the one hand, the Primary Income account posted a deficit of USD 6.4 billion, higher than the USD 6.0 billion deficit seen in March 2022;
- Net expenditures on profits and dividends dropped to an outflow of USD 4 billion;
- The Services account showed a deficit of USD 2.9 billion in March, below the deficit of USD 3.3 billion recorded for the same month of last year (in line with the slowdown in domestic activity).







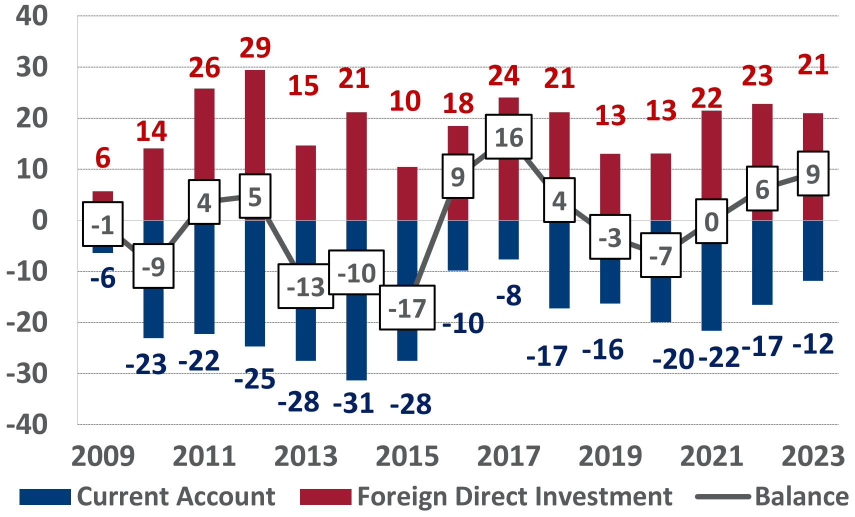


Source: BOCOM BBM, BCB

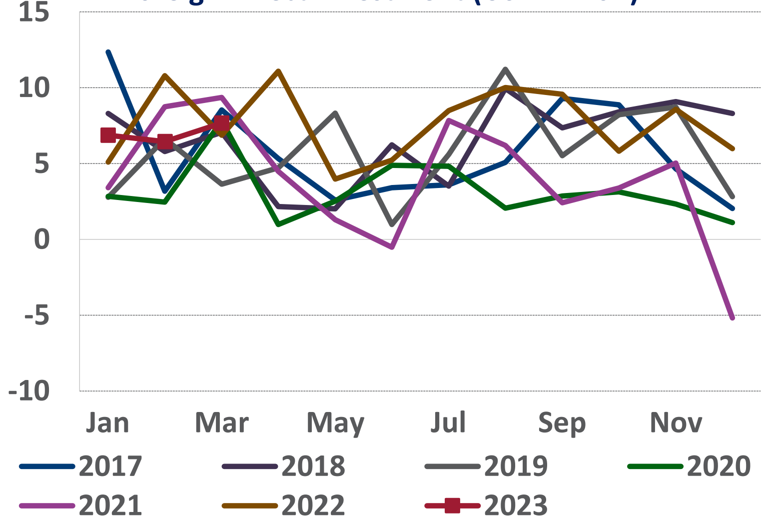
Brazil: Balance of Payments

- Net inflows in FDI (Foreign Direct Investment) totaled USD 7.7 billion in March, also below expectations (of USD 9.9 billion) but above the amount of USD 6.9 billion observed one year ago;
- FDI reached USD 89.7 billion in 12-months up to March (4.57% of GDP), remaining robust and allowing a healthy financing of the current account deficit.

Current Account Balance and FDI (YTD, USD Billion)

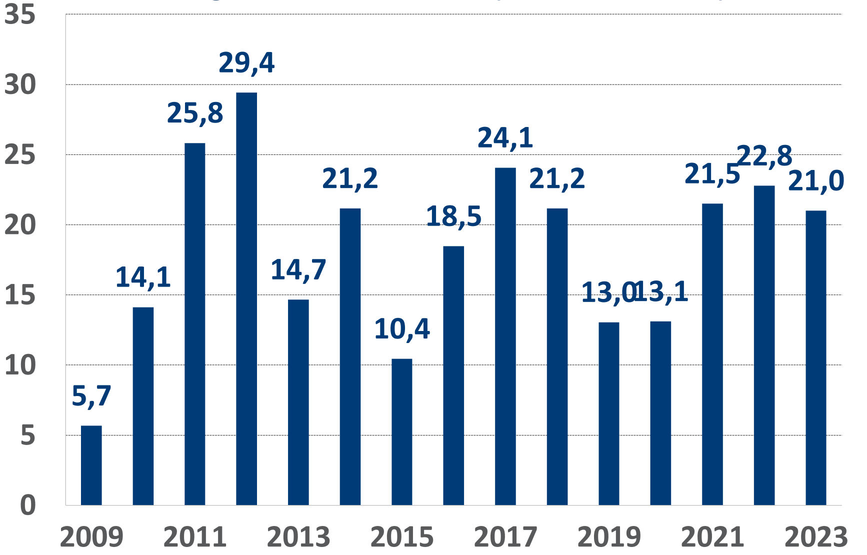


Foreign Direct Investment (USD Billion)



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

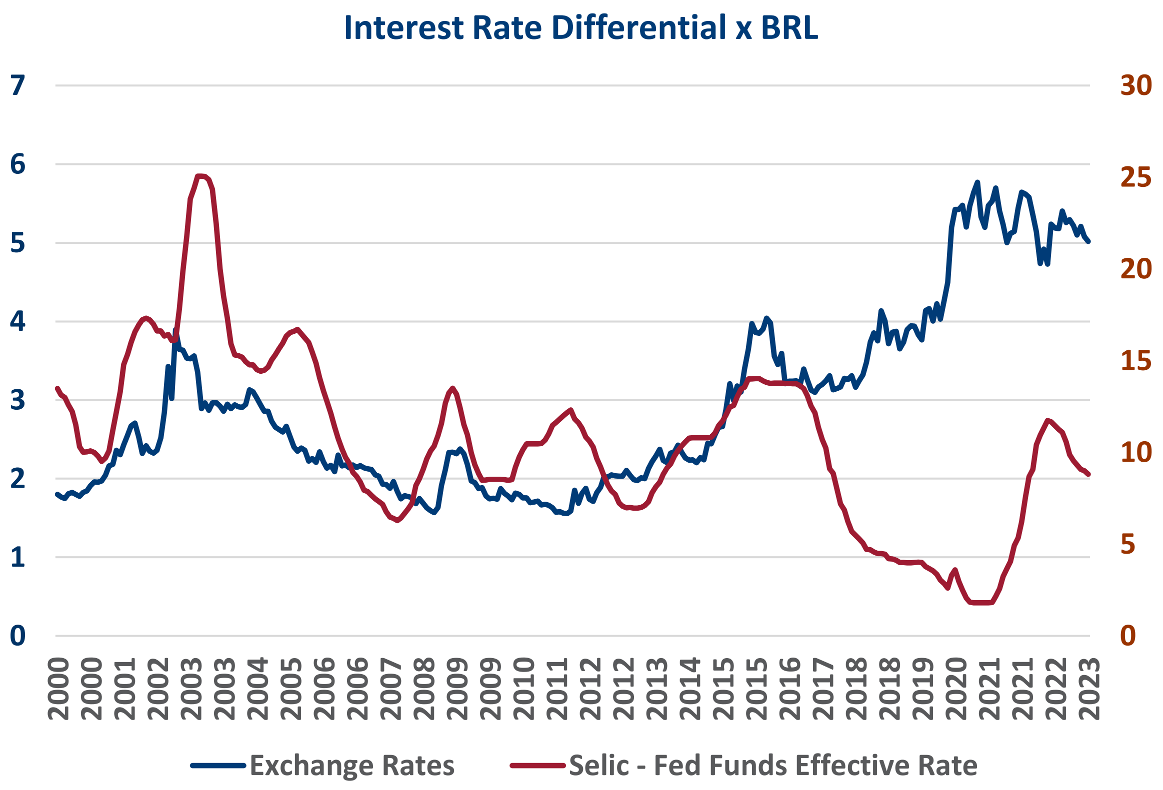
Foreign Direct Investment (YTD, USD Billion)

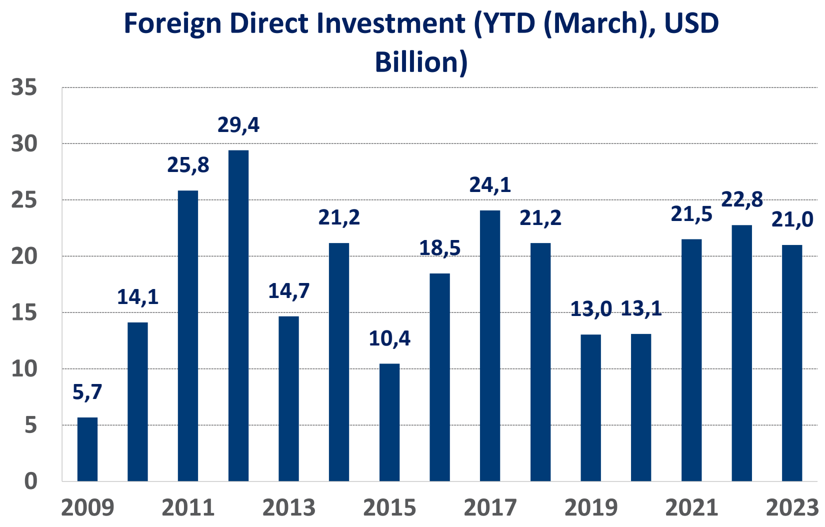


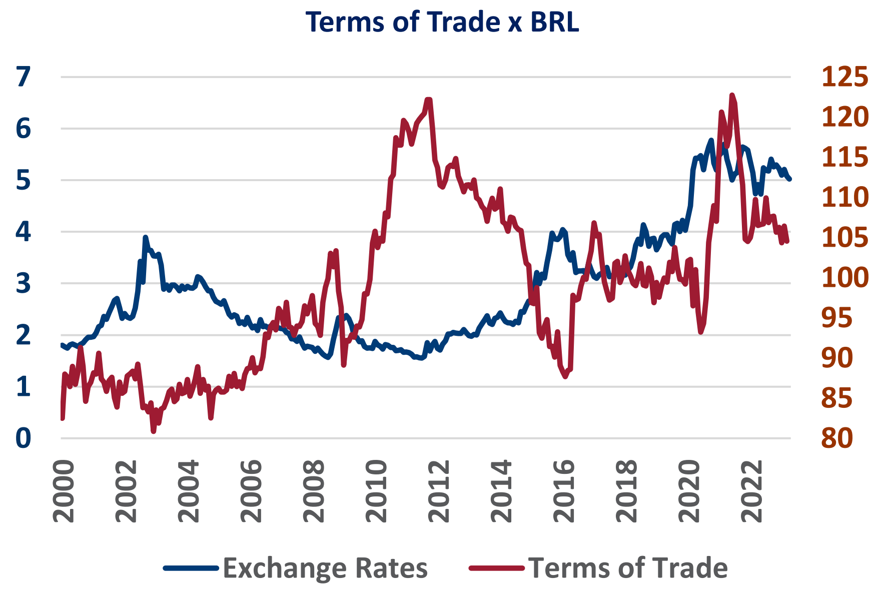
Source: BOCOM BBM, BCB

Brazil: External Sector

- The decrease in interest rate differential and the slowdown in terms of trade should pressure the exchange rates upwards;
- But the high level of foreign direct investment entering the economy could help stem devaluations.







Source: BOCOM BBM, Bloomberg, Funcex, BCB

Brazil: External Sector

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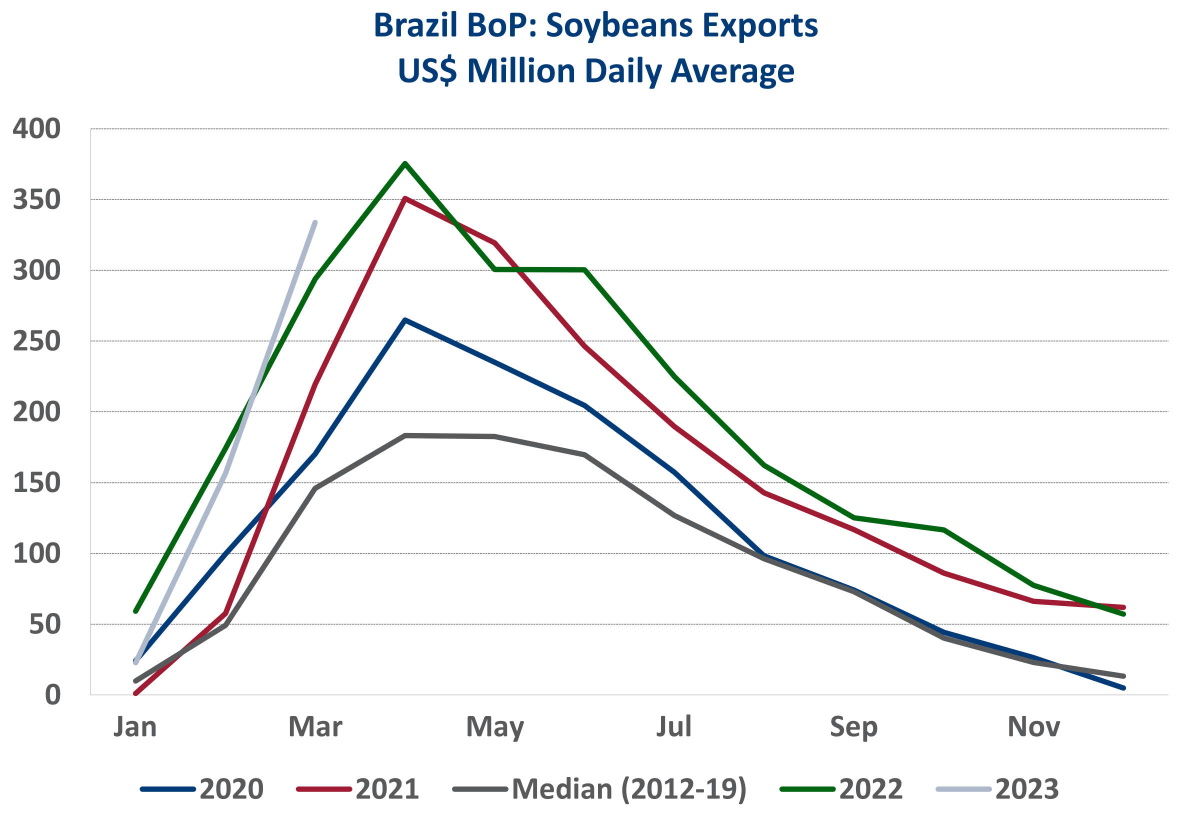
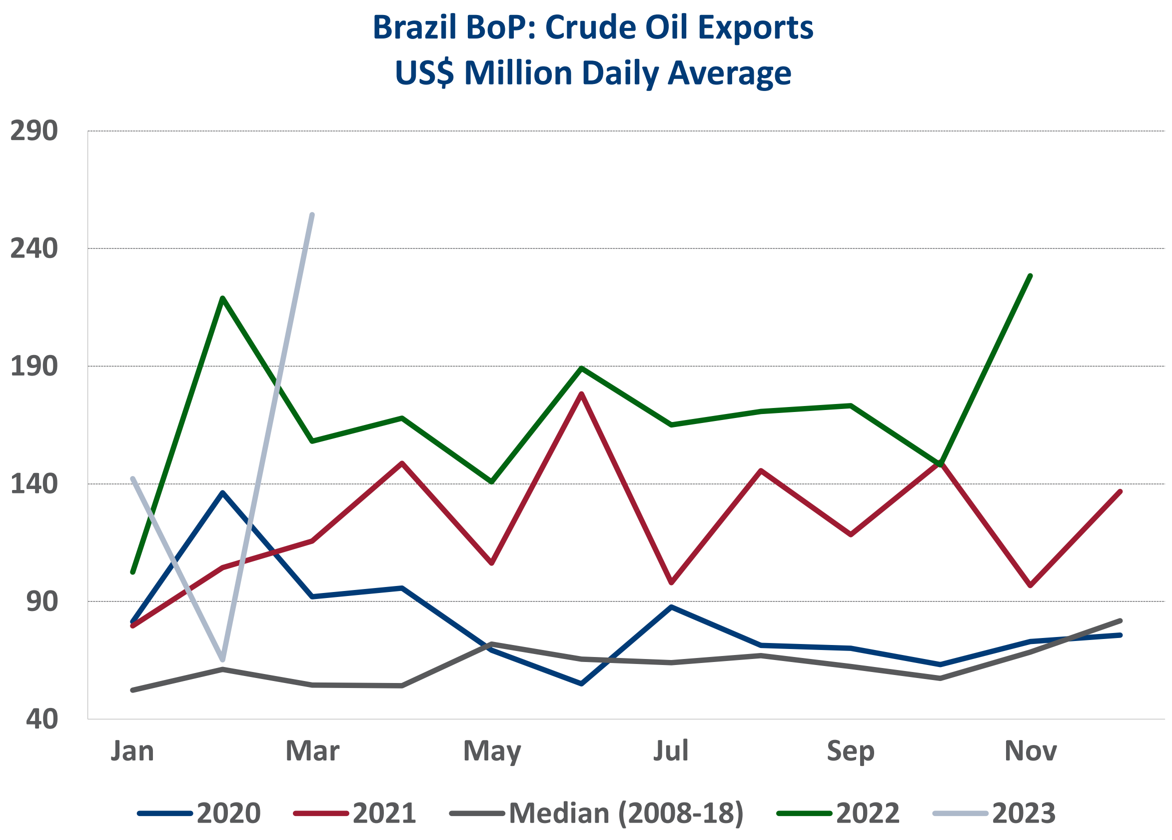
» Benefited by the increase in oil, corn, and soybean exports, the trade balance registered the largest surplus in history for the month of March, with a 37.7% increase compared to March 2022.





Source: Secex, BOCOMBBM

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