



MACRO OUTLOOK

Cecilia Machado
Chief Economist

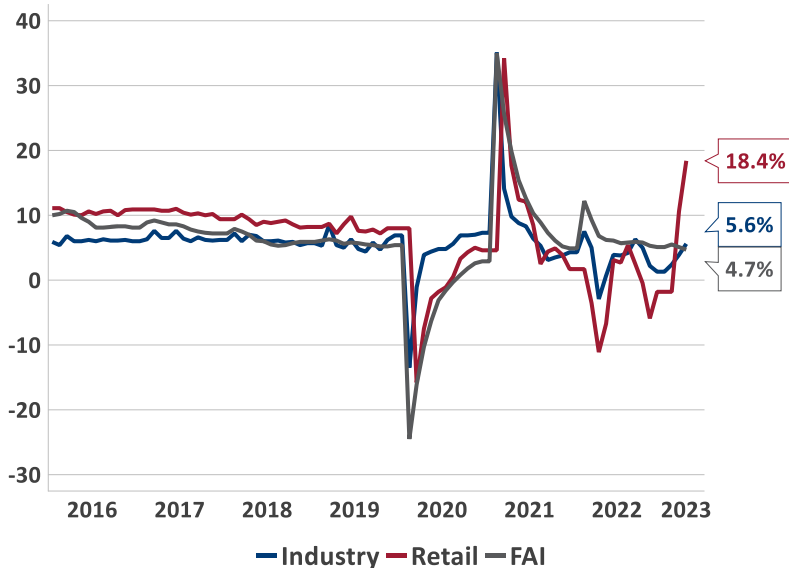
June 2023

- » 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. Although recent banking stress events leads to tighter credit standards, the magnitude of the effect such tightening has on the US economy is uncertain. All in all, there's an increasing risk of additional rate hikes, yet the FOMC may still opt to pause in June, assess incoming data and make decisions about the extent of additional policy firming.
- » As for China, recent data confirmed that macroeconomic activity continues its recovery path, showing broad improvements in various sectors, although with a smaller breath. Government 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, economic activity shows signs of resilience after Q1 GDP surprised all expectations by growing 1.9% QoQ (+4% YoY), driven by the record grain harvest. The Agricultural sector expanded an impressive 21.6% QoQ (18.8% YoY). There were also positive surprises in services, which increased by 0.6% QoQ (2.9% YoY), with emphasis on Transport and Financial Services. Industry, by the other hand, fell -0.1% QoQ, in line with tight financial conditions. We revised our forecast from 1.5% to 2.0% in 2023;
- » Our scenario for the Selic in the year is maintained, 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 inflation projection for 2023 dropped to 5.2%, after price cuts for gasoline, diesel and GLP by Petrobras and better prospects for industrial, food and core inflation. For 2024, we maintain our projection at 4%, waiting for the definition of the inflation target by the CMN at the end of June;
- » Short-term fiscal results remain in line with expectations. The consolidated public sector registered a primary surplus of BRL 20.3 billion in April, with the central government recording a surplus of BRL 16.9 billion, subnational governments a surplus of BRL 4.0 billion and state-owned companies reaching a deficit of BRL 0.6 billion. Even so, the General Government Gross Debt reached 73.2% in April, against 73.0% in March, due to interest payments (0.6 pp) and nominal GDP growth (-0.4 pp).

China: Activity

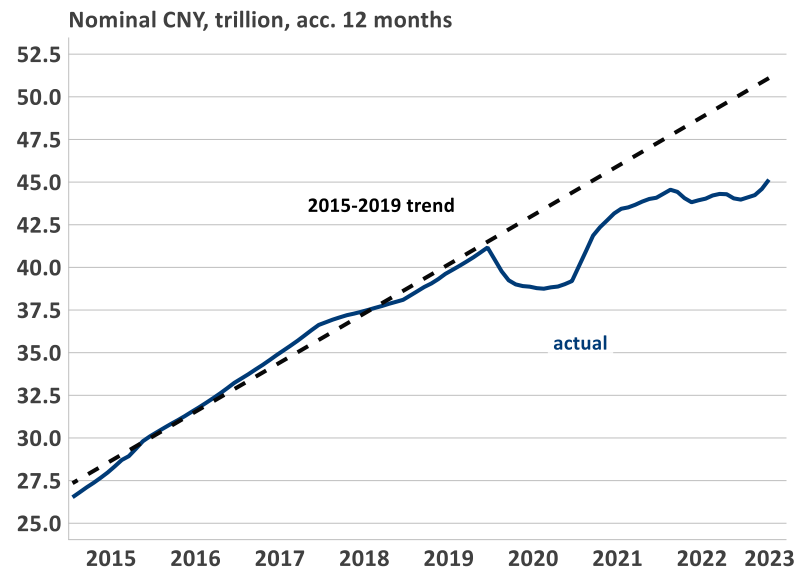
- » A low base helped YoY growth, but April economic activity shows slower momentum on monthly basis and was broadly below (high) expectations:
- » **Industrial production increased** from 3.9% to **5.6%** YoY (exp 10.9%), with strength in autos prod. and renewable energy, however, on a sequential basis, industrial value added fell -0.5% MoM hinting that recovery is skewed to services;
- » **Retail sales rose** sharply from 10.6% to **18.4%** YoY (exp 21.0%), the third straight month of growth and the strongest pace since March 2021 as sales grew further for most sectors, reinforcing the view that consumption recovery is shifting from goods to services amid rapid reopening;
- » **FAI declined** from 5.1% to **4.7%** YTD YoY (exp. 5.5%), reflecting a broad slowdown in all components, specially in real estate investment, which fell by -6.2% YTD YoY;
- » The **national unemployment rate fell** from 5.3% to **5.2%** and the 31-city remained at **5.5%**, but the unemployment among young people (age 16-24) rose further to 20.4% (from 19.6%), reflecting the consequences of college expansion, skill mismatch and demographic changes.

China: Activity (YoY, %)



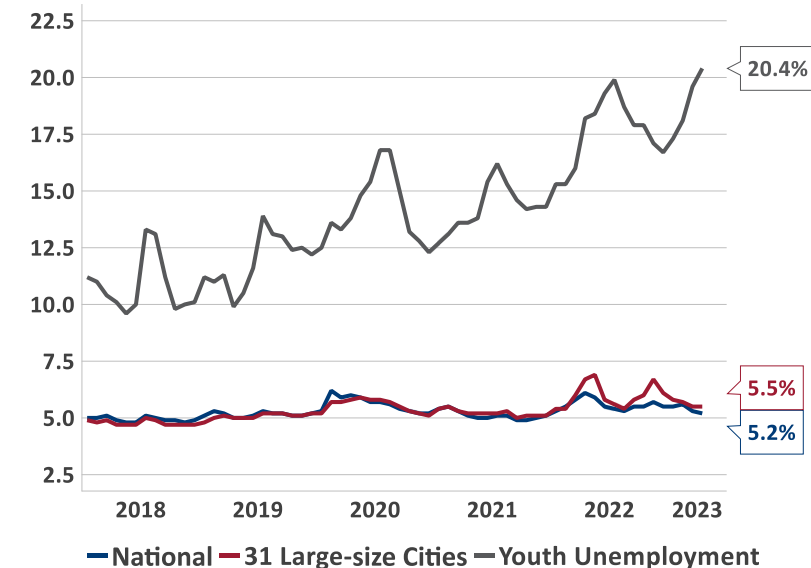
Source: BOCOM BBM, Macrobond, NBS

China: Retail Sales



Source: BOCOM BBM, Macrobond, NBS

China: Unemployment Rate in Urban Areas



Source: BOCOM BBM, Macrobond, NBS

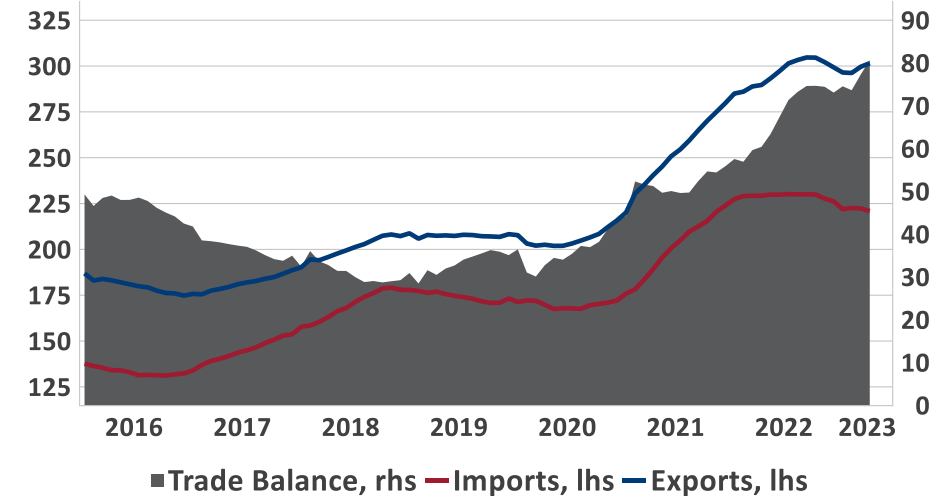
China: Economic Scenario

- » In May, China's **PMI** broadly missed expectations and showed an ongoing divergence in recovery between the manufacturing and service sectors;
 - » The NBS manufacturing PMI fell from 49.2 to **48.8** (exp. 49.4) due to sluggish external demand and some setback in domestic demand;
 - » The non-manufacturing sector continued expansionary but in the softest pace since January, moving from 56.4 to **54.5**;
- » **Exports** fell from 14.8% to **8.5% YoY** (exp. 8.0%), representing a general slowdown due to weaker external demand;
- » **Imports** remained negative, falling from -1.4% to **-7.9% YoY**, amid slower pick up in domestic demand and lower commodity prices;
- » **CPI** inflation fell **-0.1% MoM** (exp. 0%) moving from 0.7% to **0.1% YoY** (exp. 0.4%), led by a decline in food prices, transport and housing;
 - » Overall disinflation pressure continues to build up reflecting that the recovery momentum seen in some areas of the economy still needs to broaden out.



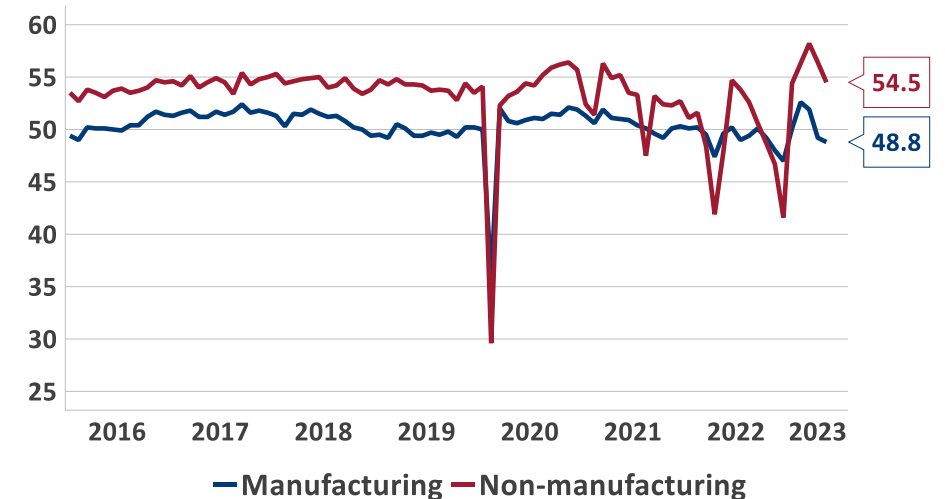
Source: BOCOM BBM, Macrobond, NBS

China: Trade Balance (USD billion, 12MMA)



Source: BOCOM BBM, Macrobond, CCS

China - PMI

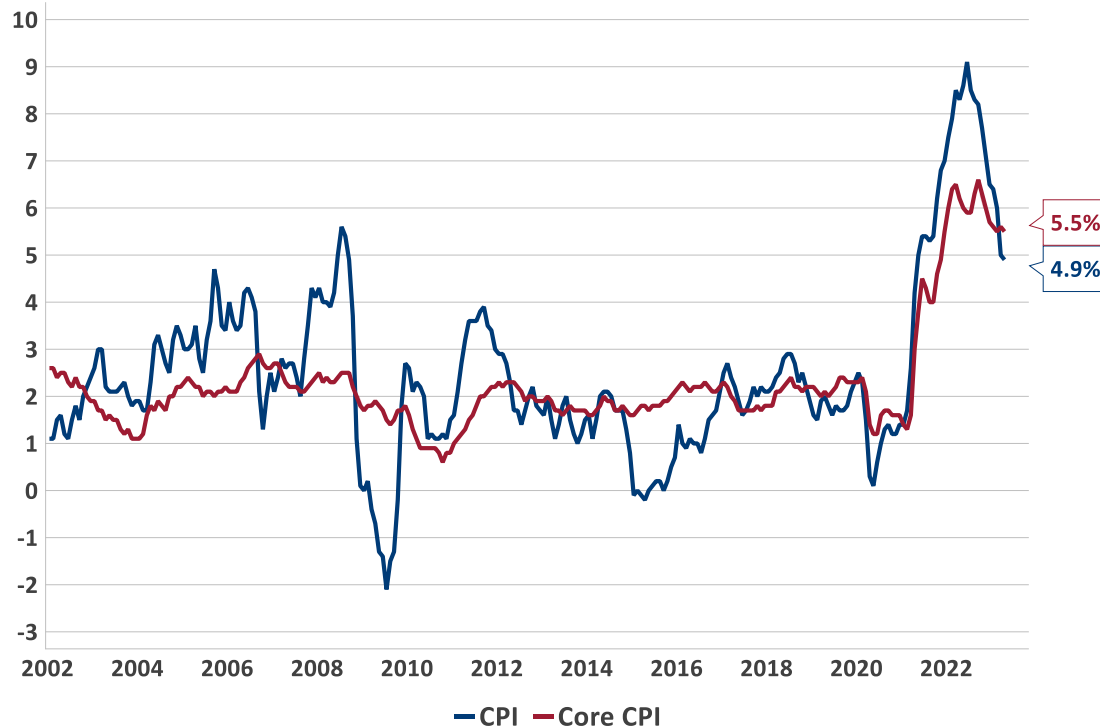


Source: BOCOM BBM, Macrobond, CFLP

USA: Inflation

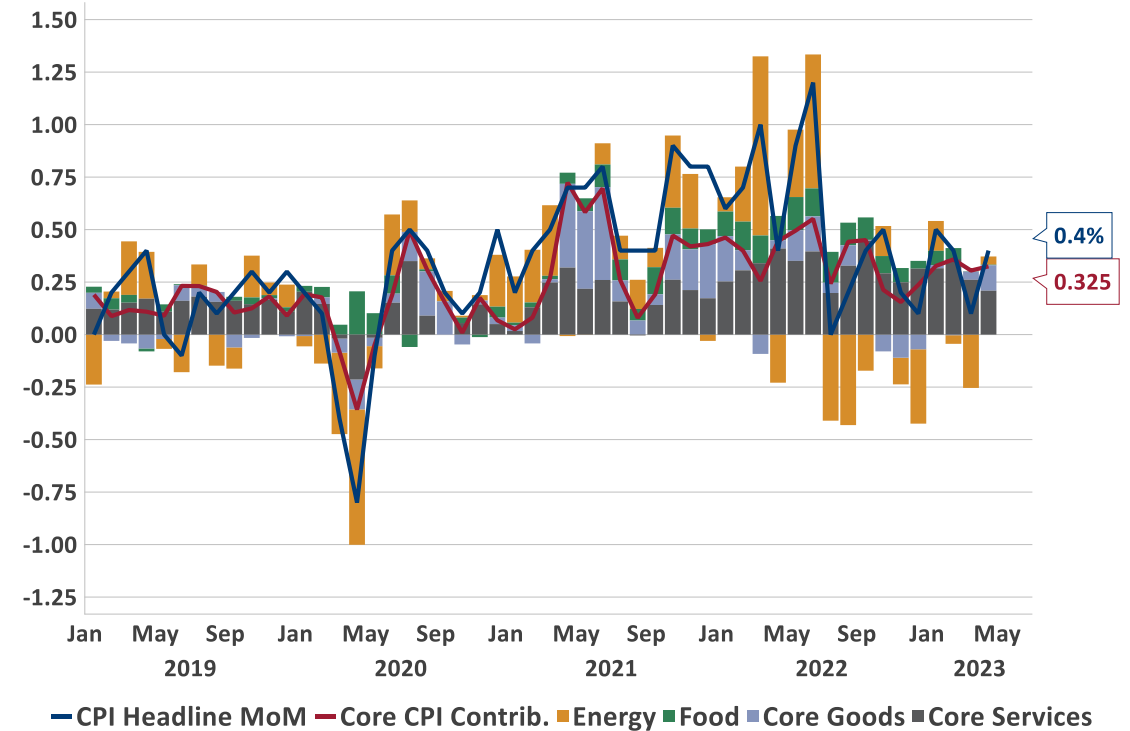
- » US CPI inflation **arrived in line with expectations** in April, moving from 5.0% to **4.9%** YoY and increasing by **0.37%** MoM:
 - » Slower headline pace reflected a continued moderation in food prices being somewhat offset by a pickup in retail gasoline prices;
- » Core CPI increased **0.41%** MoM, reaching **5.5%** YoY (from 5.6%):
 - » **Core goods** inched up due to stronger used cars & trucks prices, although roughly every other component remained well behaved;
 - » **Core services** still sticky, but eased a bit due to medical care and transportation services drop, and the continued OER/rent slowdown;

US: CPI (YoY, %)



Source: BOCOM BBM, Macrobond, BLS

US: CPI MoM Contributions

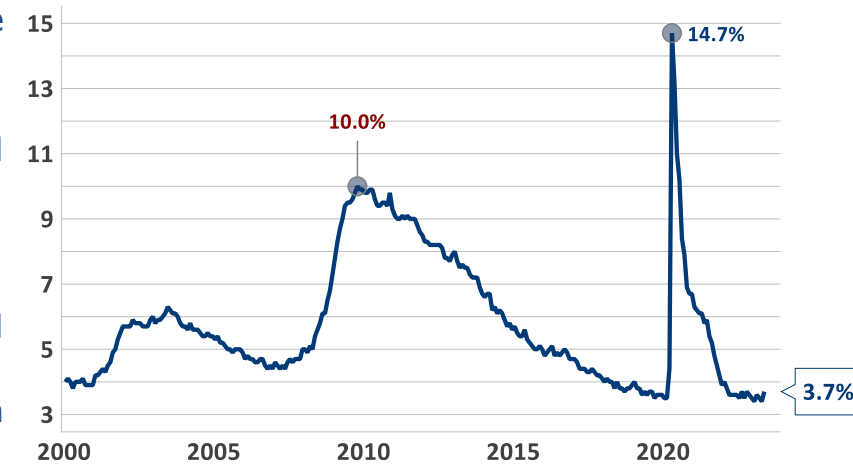


Source: BOCOM BBM, Macrobond, BLS

USA: Labor Market

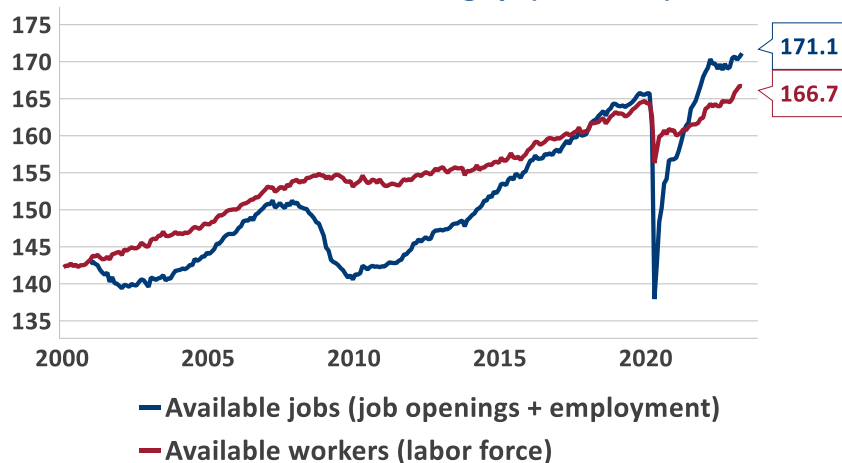
- » The US labor market showed a strong headline in May posting the creation of **339 thousand** jobs in the nonfarm payroll, although the household survey signaled an increase of the unemployment rate from 3.4% to **3.7%**;
- » With this report, the jobs-workers gap fell from 3.9M to **4.45M**, signaling that labor supply and demand remains persistently unbalanced;
 - » The job openings per unemployed person ratio moved up from 1.67 to **1.79**;
- » In May, wages slowed a bit from the rapid pace they posted in April, although it remains elevated when compared to the figures on the beginning of the year
 - » 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 (%)



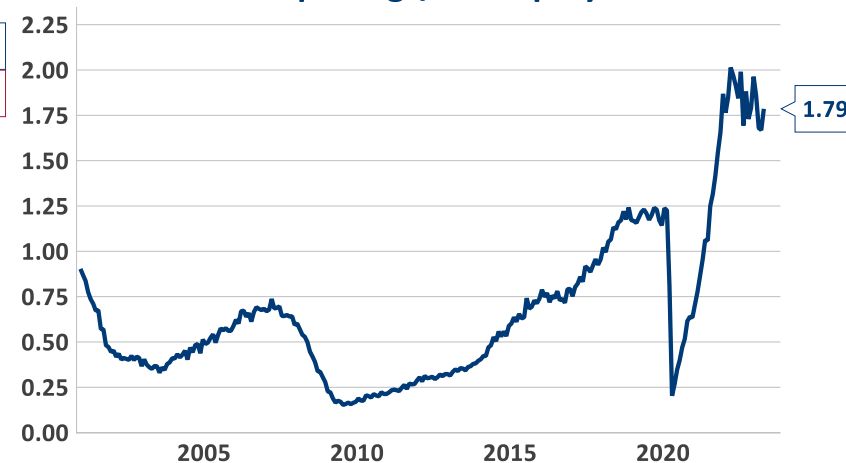
Source: BOCOM BBM, Macrobond, BLS

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, %)

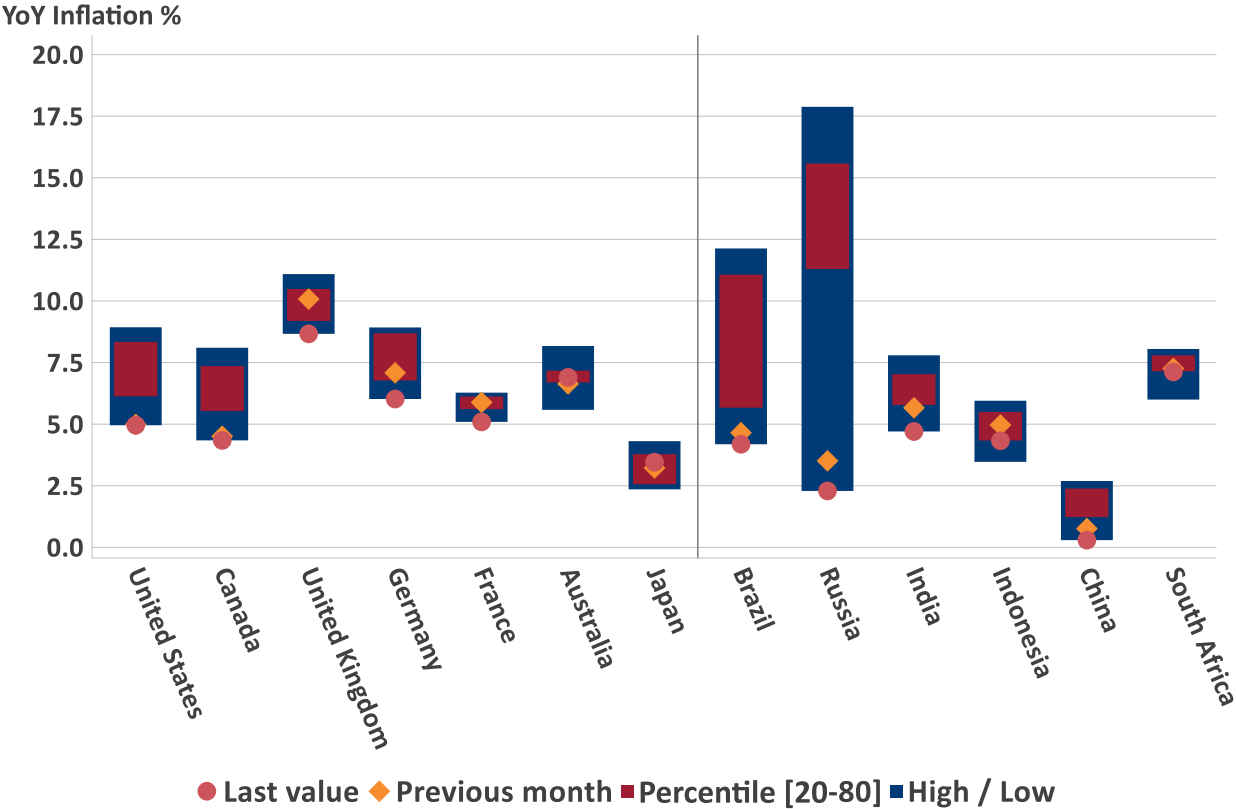


Source: BOCOM BBM, Macrobond, BEA

Global: Inflation

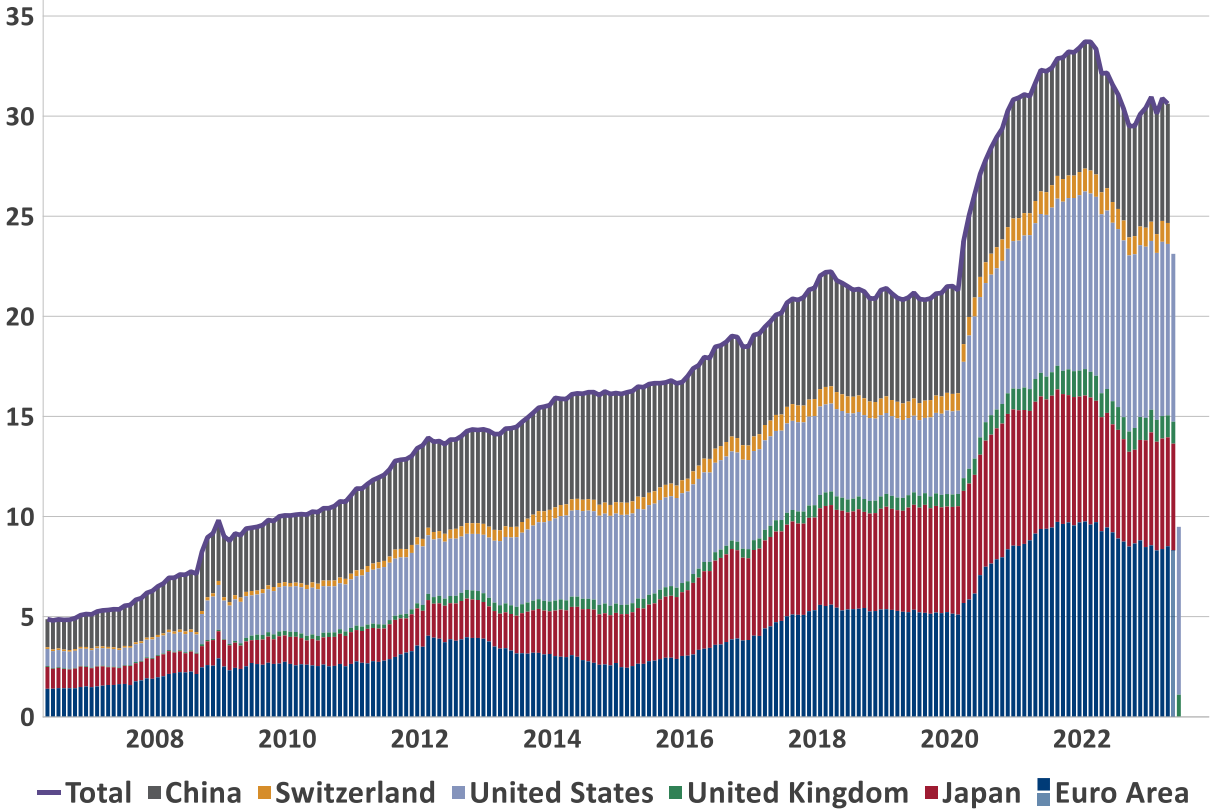
- » For the first time in decades, inflation across emerging markets is not significantly higher than it is in developed markets;
- » In order to bring inflation back to their respective targets, many central banks are reducing their balance sheets, resulting in a tightening of the monetary policy of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

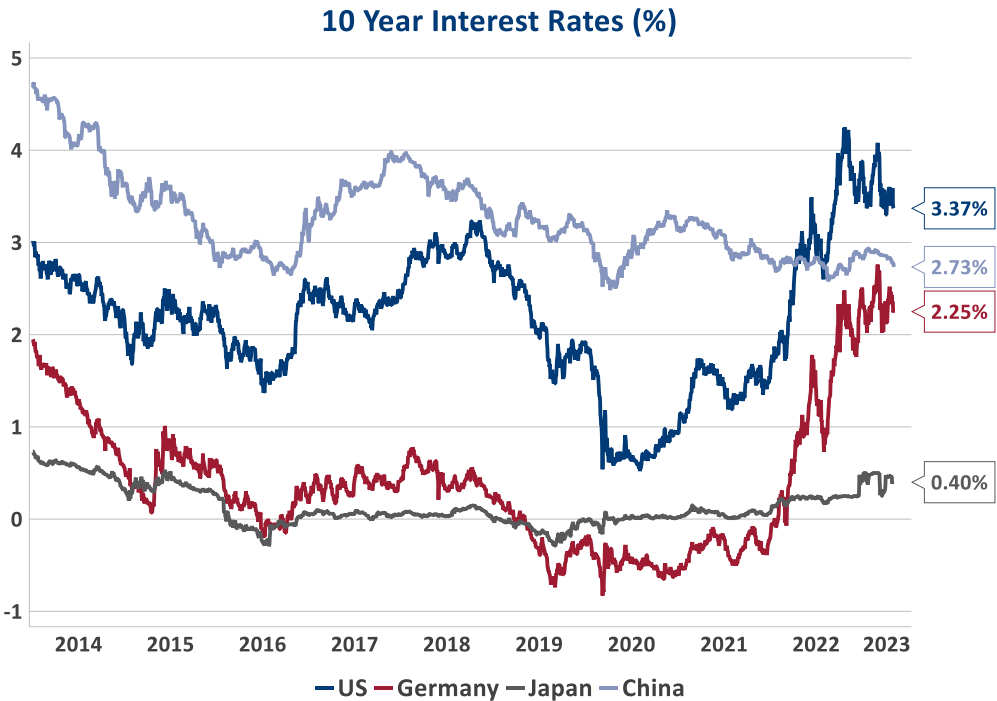
Central banks balance sheets (Trillions of USD)



Source: BOCOM BBM, Macrobond

Global: Interest Rates

- Correspondingly, interest rates across several countries continue to rise, with a few exceptions, such as in China and Japan;
- Since incoming activity data remains resilient and inflation persistent, there has been an increasing risk of additional rate hikes;
- Nonetheless, the FOMC might consider to pause in June, in order to assess the lagged effects of tighter monetary policy on the economy, and then make decisions about the extent of additional policy firming;
 - Markets have been pricing the possibility of one additional hike in either June or July (more likely).



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	97.00	6.00	Hike	5/2023	1	31
Australia	3.85	0.25	Hike	5/2023	1	31
Brazil	13.75	0.50	Hike	8/2022	10	34
Canada	4.50	0.25	Hike	1/2023	4	38
Chile	11.25	0.50	Hike	10/2022	8	38
China	3.65	-0.05	Cut	8/2022	112	9
Colombia	13.25	0.25	Hike	5/2023	1	32
Costa Rica	7.50	-1.00	Cut	4/2023	7	1
Czech Republic	7.00	1.25	Hike	6/2022	11	37
Denmark	3.00	0.25	Hike	5/2023	1	20
Euro Area	3.75	0.25	Hike	5/2023	1	87
Hungary	13.00	1.25	Hike	9/2022	8	34
Iceland	8.75	1.25	Hike	5/2023	0	30
India	6.50	0.25	Hike	2/2023	4	36
Indonesia	5.75	0.25	Hike	1/2023	4	27
Israel	4.75	0.25	Hike	5/2023	0	38
Japan	-0.10	-0.20	Cut	1/2016	195	88
Mexico	11.25	0.25	Hike	3/2023	2	28
New Zealand	5.50	0.25	Hike	5/2023	0	39
Norway	3.25	0.25	Hike	5/2023	1	37
Poland	6.75	0.25	Hike	9/2022	9	36
Russia	7.50	-0.50	Cut	9/2022	15	8
Saudi Arabia	5.75	0.25	Hike	5/2023	1	39
South Africa	8.25	0.50	Hike	5/2023	0	34
South Korea	3.50	0.25	Hike	1/2023	5	36
Sweden	3.50	0.50	Hike	5/2023	1	87
Switzerland	1.50	0.50	Hike	3/2023	2	101
Turkey	8.50	-0.50	Cut	2/2023	26	3
United Kingdom	4.50	0.25	Hike	5/2023	1	38
United States	5.25	0.25	Hike	5/2023	1	39

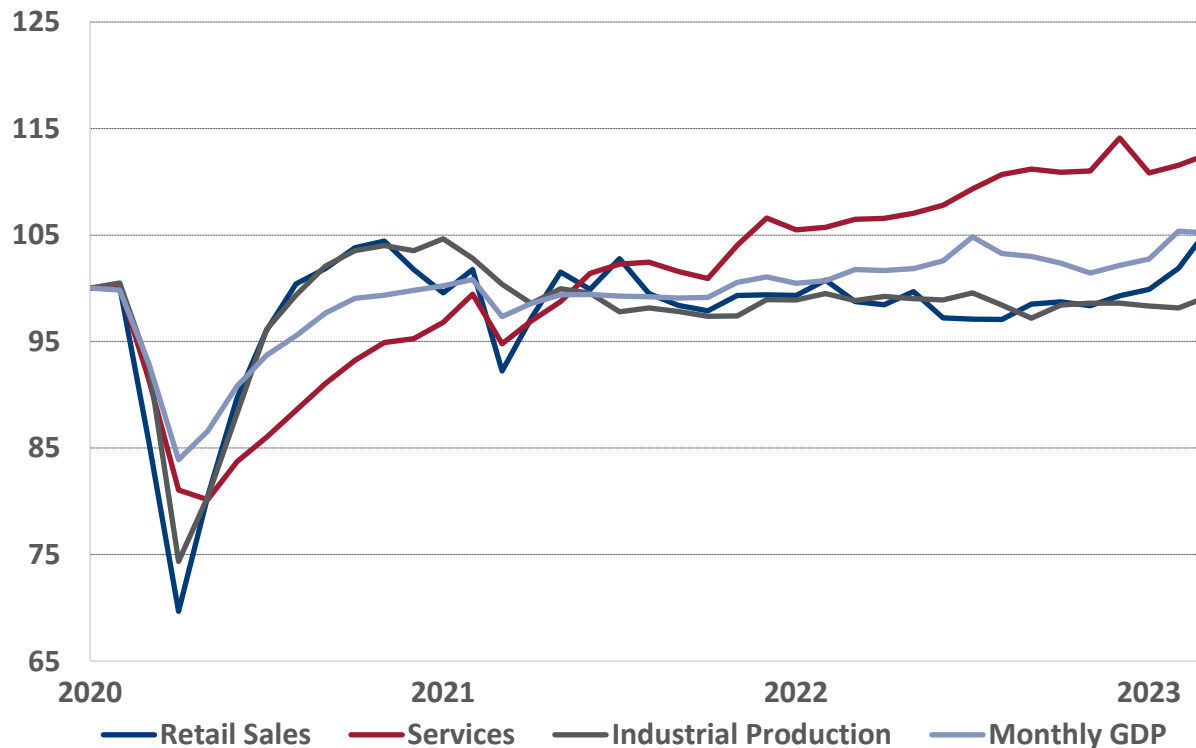
Brazil: Forecasts

ECONOMIC FORECASTS	2019	2020	2021	2022F	2023F	2024F
GDP Growth (%)	1.2%	-3.3%	5.0%	2.9%	2.0%	1.0%
Inflation (%)	4.3%	4.5%	10.1%	5.8%	5.2%	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%	-1.2%
Government Gross Debt (% of GDP)	74.3%	86.9%	78.8%	72.9%	76.6%	81.4%

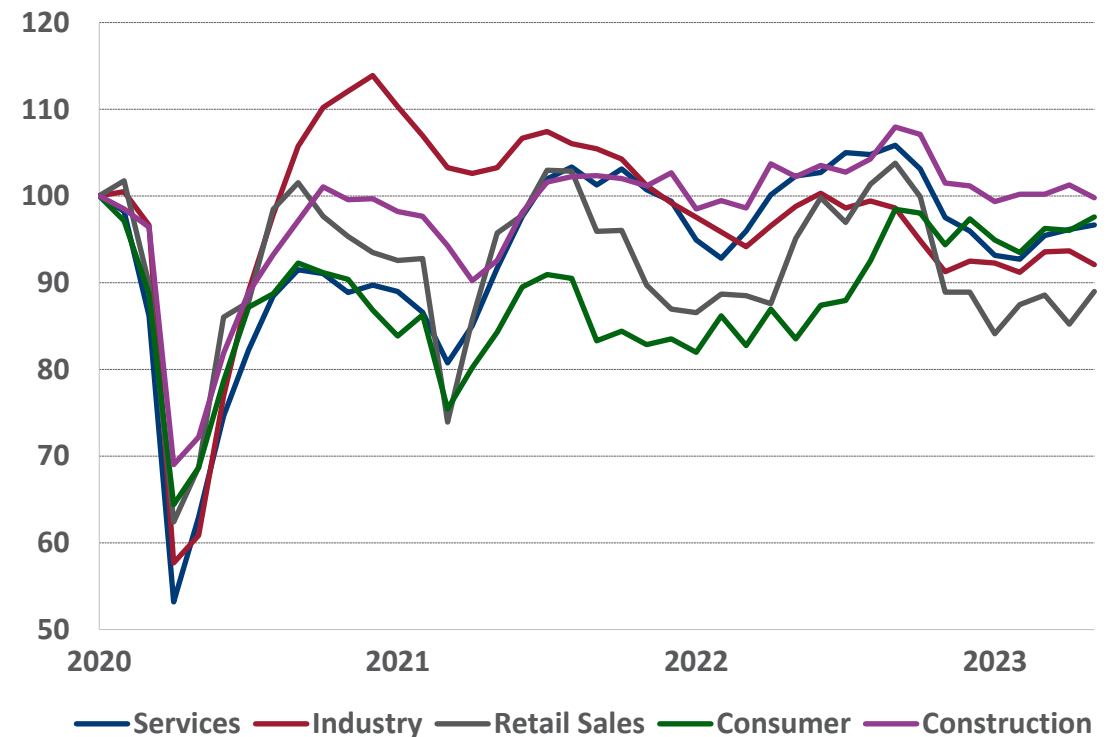
Brazil: Activity

- » Economic activity indicators showed good signs in March. Retail sales grew by 3.6% MoM, the services sector increased by 0.9% MoM, while Industrial Production increased by 1.1% MoM;
- » Confidence indicators point to mixed signals for May, with rises in the services, retail sales and consumer confidence, while industry and civil construction recorded slight declines.

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

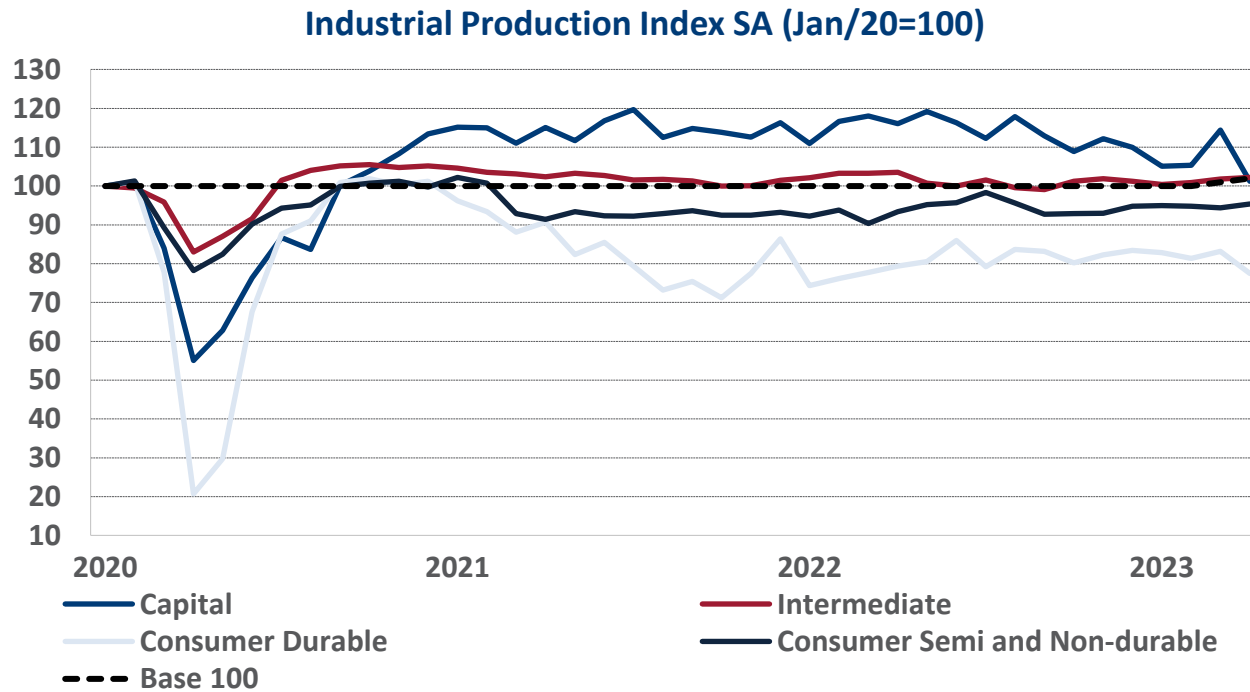


Brazil - Economic Confidence Index (Jan/20 = 100)

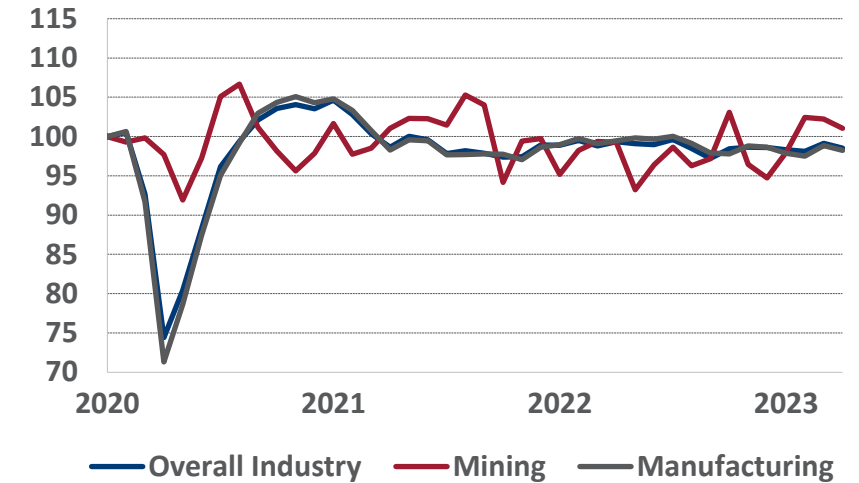


Brazil: Industrial Production

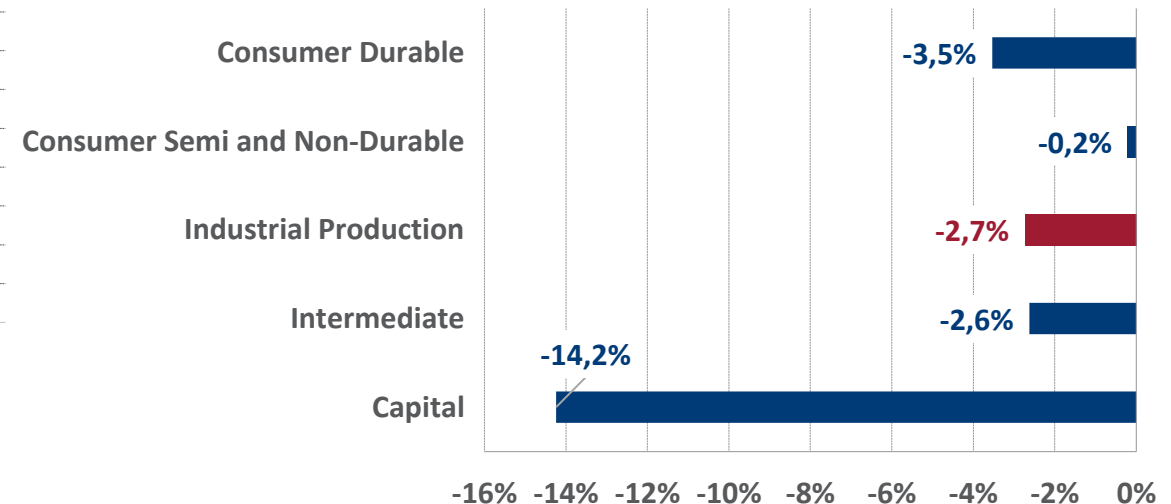
- » Industrial production recovered in March, growing 1.1% MoM (0.9% YoY), but fell -0.6% MoM (-2.7% YoY) in April, driven by the production of capital goods and durable goods;
- » The sector remained stable in the first quarter, with manufacturing contracting 0.3% QoQ and mining industry expanding 3.0% QoQ. In April, by the other hand, mining decreased -1.1% MoM and the manufacturing -0.6% MoM;
- » The normalization of the global supply chain is offset by the tight financial conditions that are expected to continue to weigh on the industry.



Industrial Production Index SA (Jan/20=100)



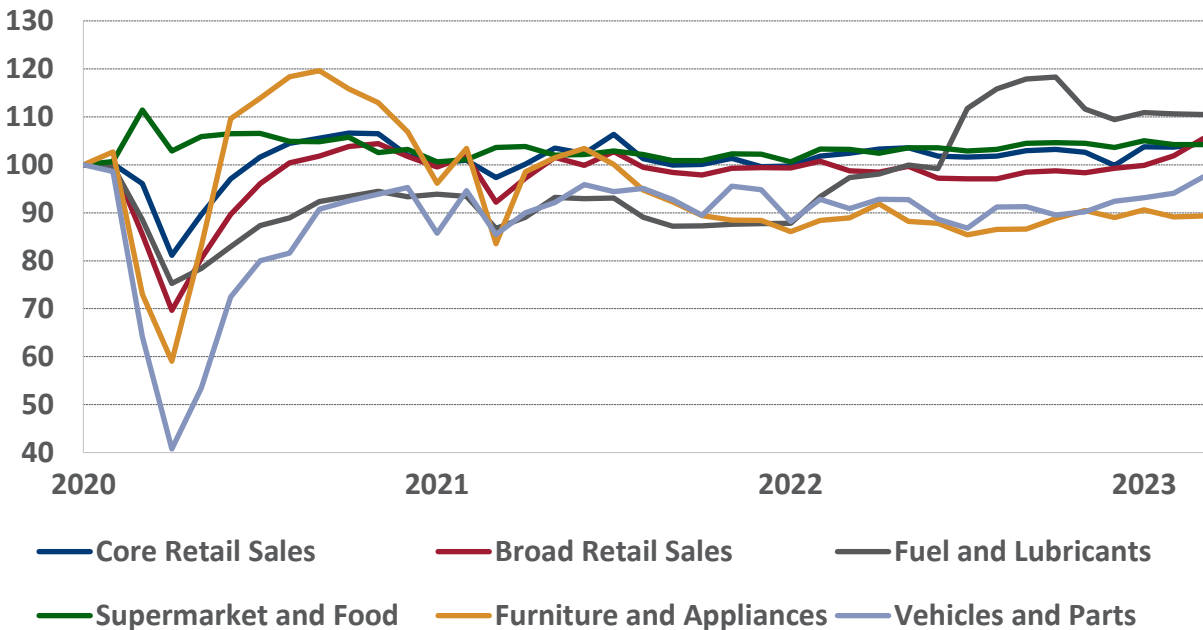
Industrial Production by Category - abr/2023 (YoY)



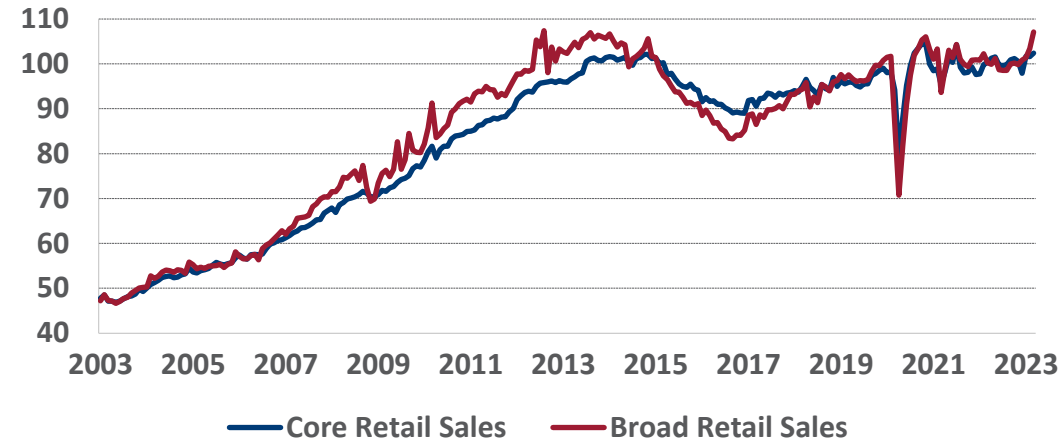
Brazil: Retail Sales

- » The broad retail sales grew 3.6% MoM (8.8% YoY), the fourth consecutive month of increase in the sector and significantly above market expectations (-0.2% MoM and 2.3% YoY).
- » The core retail sales (that excludes vehicles and construction materials) advanced 0.8% MoM (3.2% YoY), also above market expectations (-0.2% MoM and 1.2% YoY).
- » In the first quarter the broad retail sector grew 3.7% QoQ and the core retail sales 2.0% QoQ.
- » The recovery of nominal wages, combined with the improvement in government cash transfers and inflation reduction explain the continued growth of goods consumption in the short term.

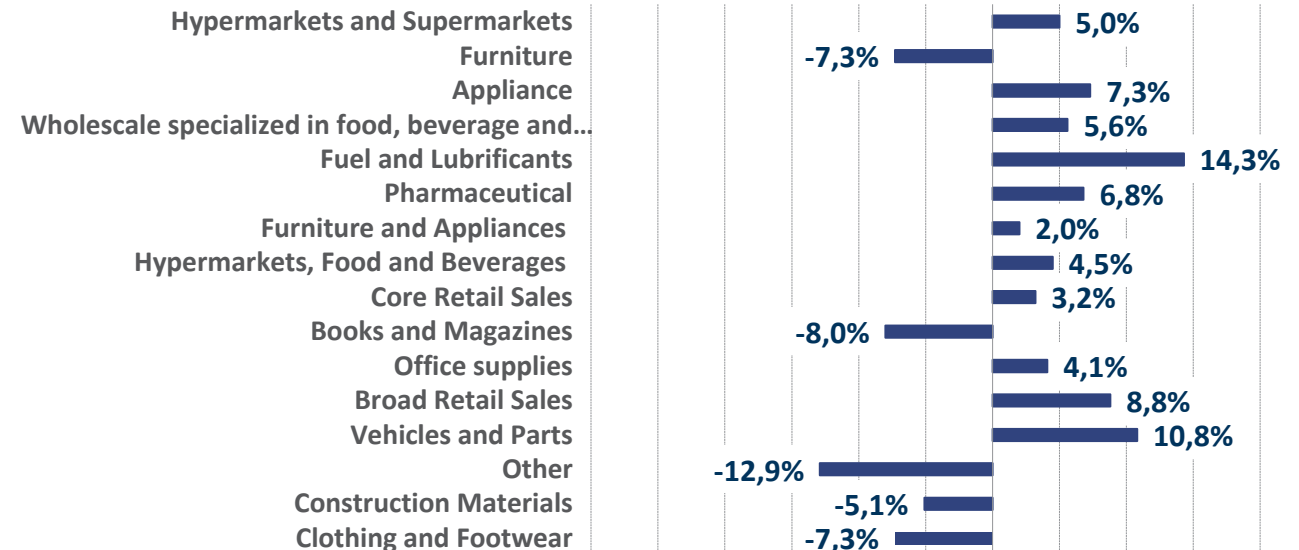
Retail Sales - Index SA (Jan/20 = 100)



Broad Retail Sales SA x Core Retail Sales SA

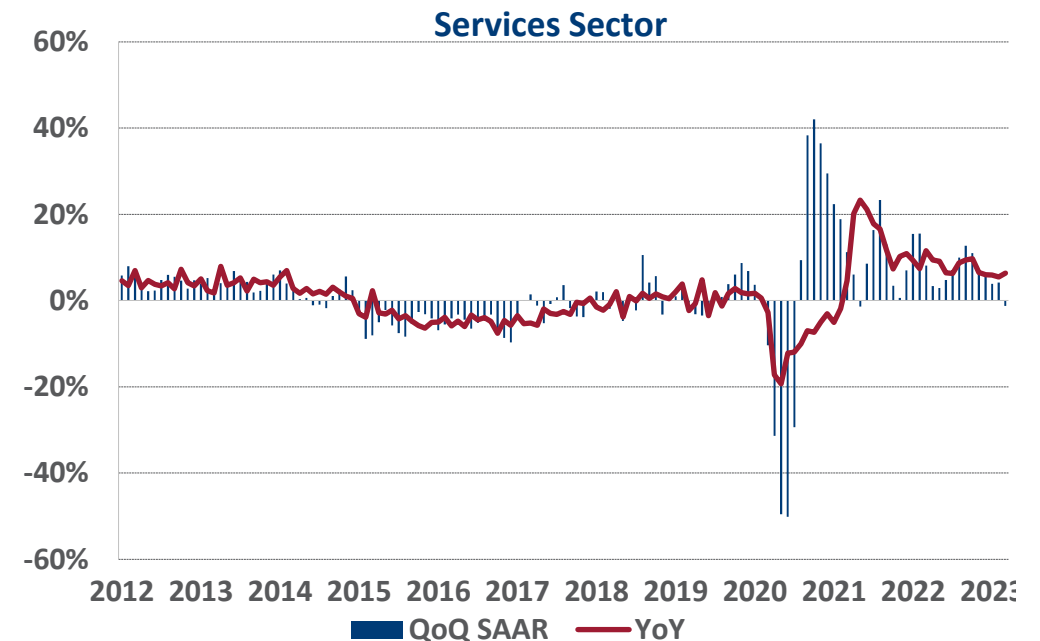
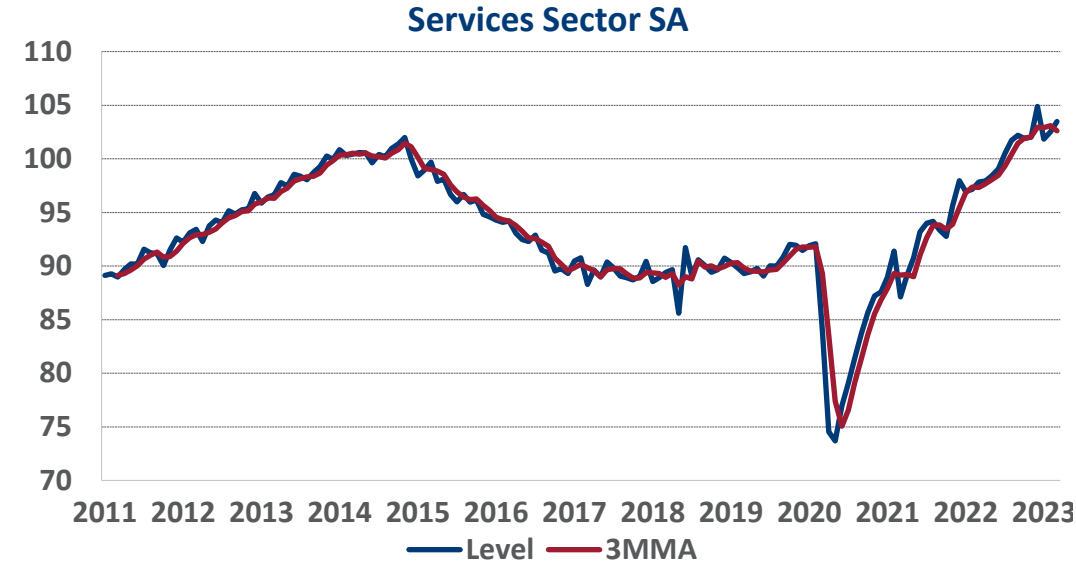
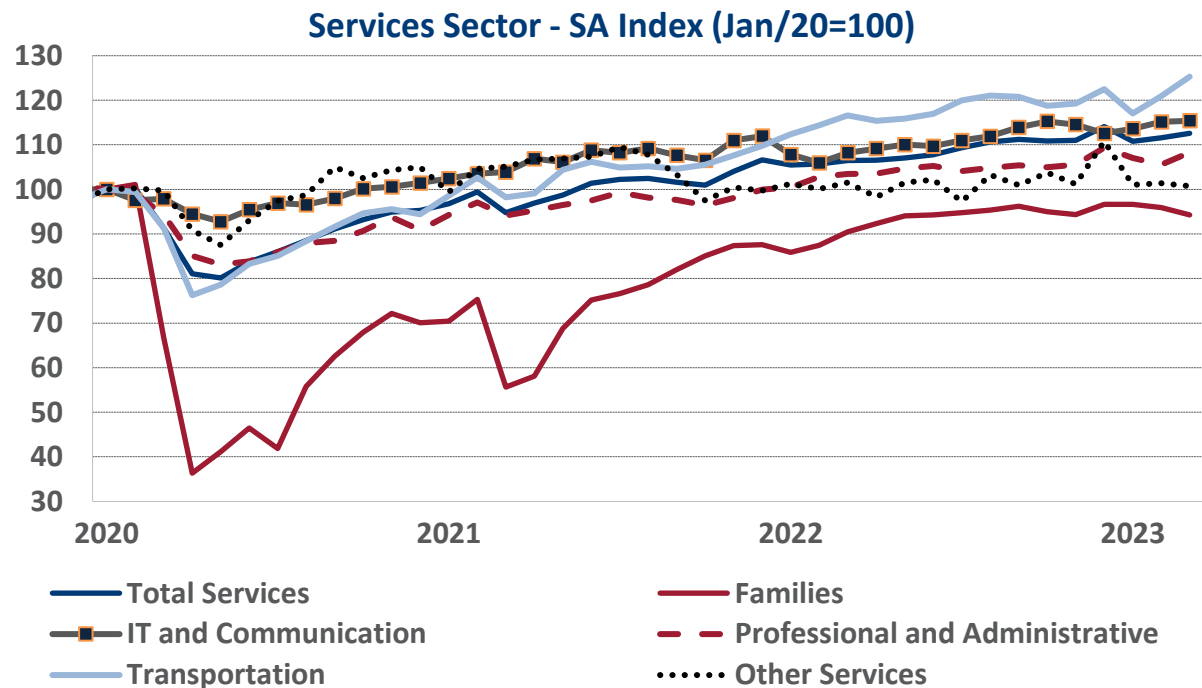


Retail Sales - YoY (Mar/23)



Brazil: Services

- » The services sector advanced 0.9% MoM (6.3% YoY), above market expectations (0.5% MoM and 5.1% YoY);
- » Transport services (3.6% MoM) stand out, leveraged by the increase in online sales and agribusiness activity;
- » Despite the positive surprise in March, the services sector declined 0.3% QoQ in the first quarter, in line with the dissipation of the 'post-Covid' boost.

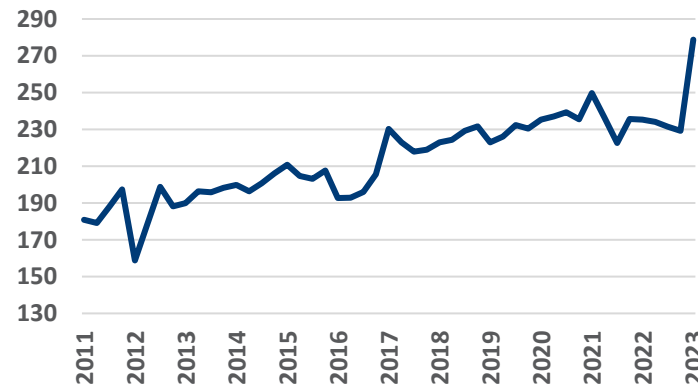


Brazil: Economic Activity

- » Q1 GDP surprised expectations by growing 1.9% QoQ (+4% YoY), driven by the record grain harvest. The Agricultural sector expanded an impressive 21.6% QoQ (18.8% YoY). There were also positive surprises in services, which increased by 0.6% QoQ (2.9% YoY), the highlight being the Transport sector, which grew by 1.2% QoQ, given the great demand for logistics services in a year of record harvest. Industry, in turn, fell -0.1% QoQ.

	1T QoQ	1T YoY	Carrego
GDP	1.9%	4.0%	2.4%
Agriculture	21.6%	18.8%	19.9%
Industry	-0.1%	1.9%	0.3%
Mining	2.3%	7.7%	4.8%
Manufacturing	-0.6%	-0.9%	-1.5%
Electricity	1.7%	6.4%	4.0%
Civil Construction	-0.8%	1.5%	-0.5%
Services	0.6%	2.9%	1.5%
Retail	0.3%	1.6%	0.3%
Transports	1.2%	5.1%	2.5%
Information and Communication	-1.4%	6.8%	1.9%
Financial Services	1.2%	4.6%	3.2%
Rents	0.3%	2.8%	1.6%
Other Services	-0.5%	4.3%	1.3%
Public Administration	0.5%	0.4%	0.5%

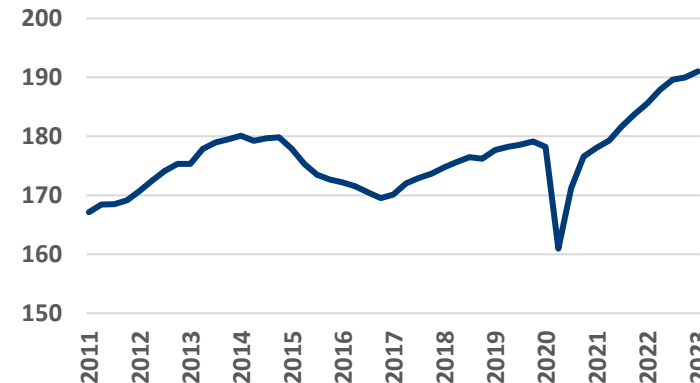
Agriculture (Level SA)



Industry (Level SA)



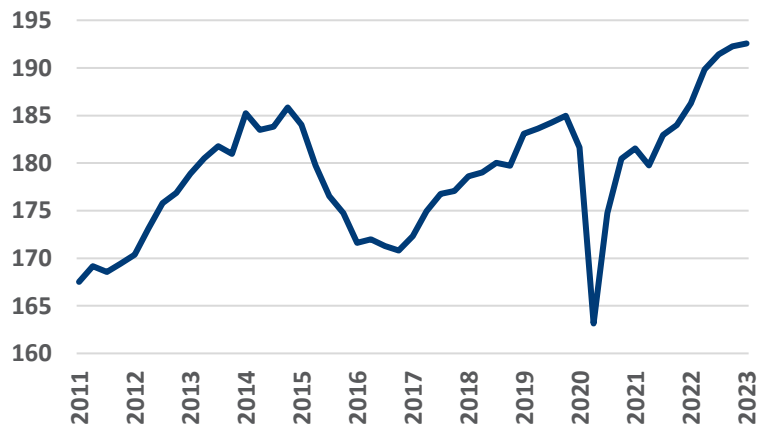
Services (Level SA)



Brazil: Economic Activity

- » From the demand side, Household Consumption grew by 0.2% QoQ, while Gross Fixed Capital Formation retreated -3.4% QoQ, as tight financial conditions weigh on investment demand. Government Consumption grew by 0.3% QoQ;
- » The external sector contributed positively, with imports decreasing -7.1% QoQ and more than offsetting the modest drop of -0.4% QoQ in exports.

Household Consumption (Level SA)



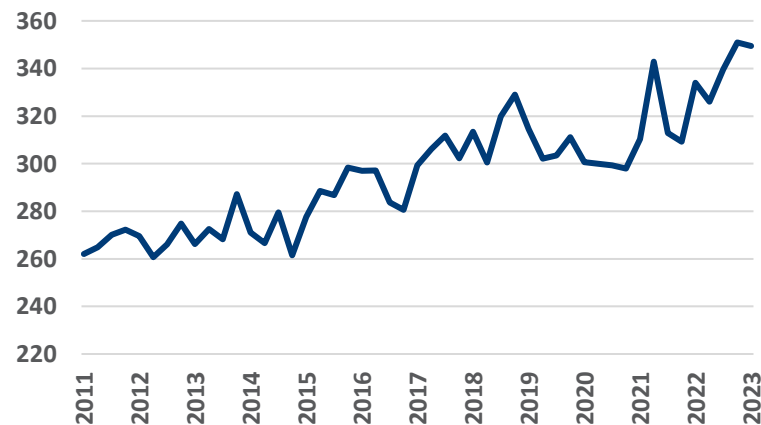
Government Consumption (Level SA)



Gross Fixed Capital Formation (Level SA)



Exports (Level SA)



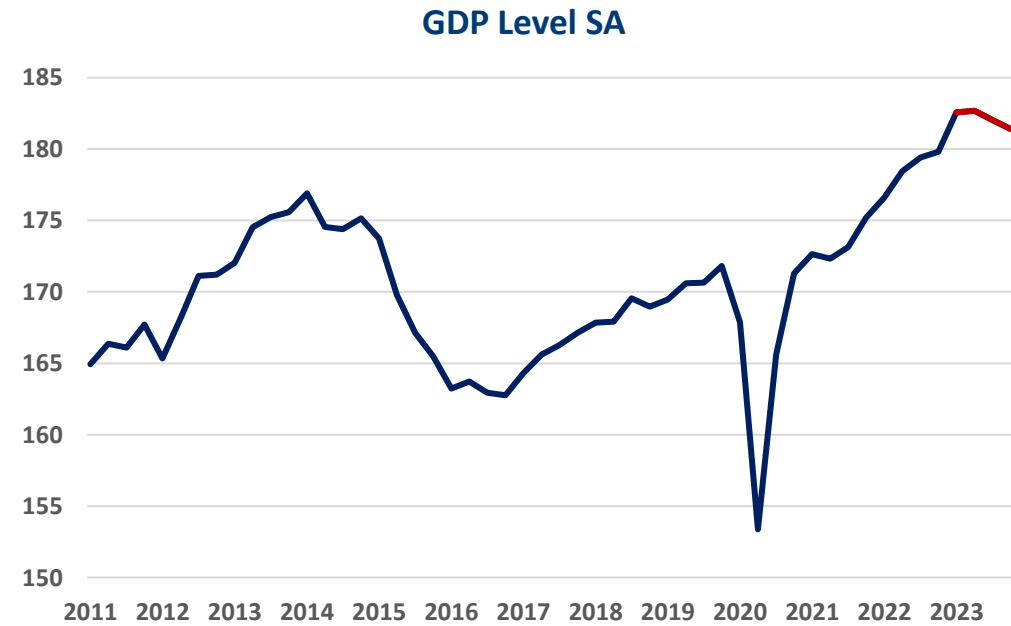
Imports (Level SA)



Brazil: Economic Activity

- » With the surprising result of Q1 GDP, the carryover for the year rose to 2.4%. In view of this, our forecast went from 1.5% to 2.0% in 2023%;
- » Our projection considers 12% growth in agriculture and livestock, with positive spillovers in services, which grow 1.5%, with a high contribution from transport. The manufacturing and construction industry, in turn, are penalized by the tight financial conditions, but the total industry should grow 0.9% thanks to the contribution of the extractive industry and electricity;
- » We forecast an increase of 0.3% QoQ in Q2, followed by declines of -0.2% and -0.4% in Q3 and Q4, respectively, reflecting the sharp tightening of credit conditions in the economy.

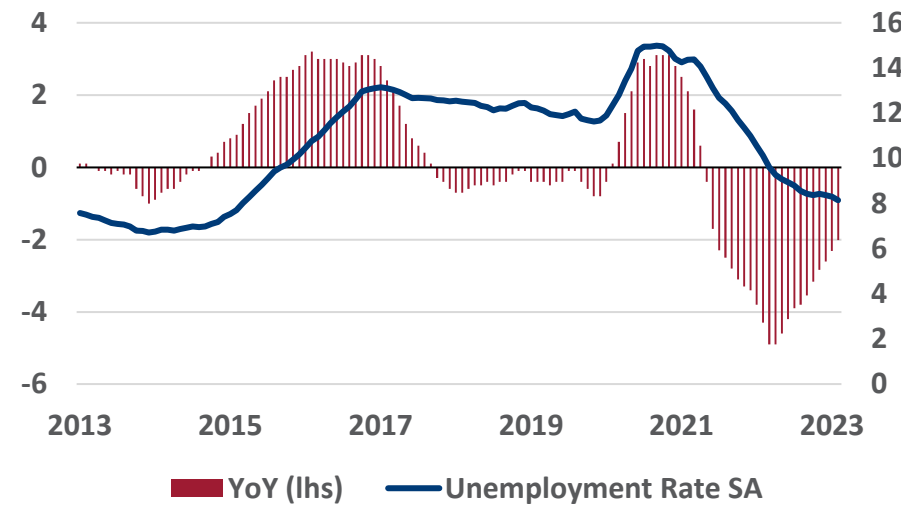
	Q1 (QoQ)	Q1 (YoY)	Carryover	2023
GDP	1.9%	4.0%	2.4%	2.0%
Agriculture	21.6%	18.8%	19.9%	12.0%
Industry	-0.1%	1.9%	0.3%	0.9%
Mining	2.3%	7.7%	4.8%	6.9%
Manufacturing	-0.6%	-0.9%	-1.5%	-2.1%
Electricity	1.7%	6.4%	4.0%	5.1%
Civil Construction	-0.8%	1.5%	-0.5%	-0.4%
Services	0.6%	2.9%	1.5%	1.4%
Retail	0.3%	1.6%	0.3%	0.1%
Transports	1.2%	5.1%	2.5%	5.2%
Information and Communication	-1.4%	6.8%	1.9%	3.3%
Financial Services	1.2%	4.6%	3.2%	3.2%
Rents	0.3%	2.8%	1.6%	1.3%
Other Services	-0.5%	4.3%	1.3%	0.6%
Public Administration	0.5%	0.4%	0.5%	1.5%



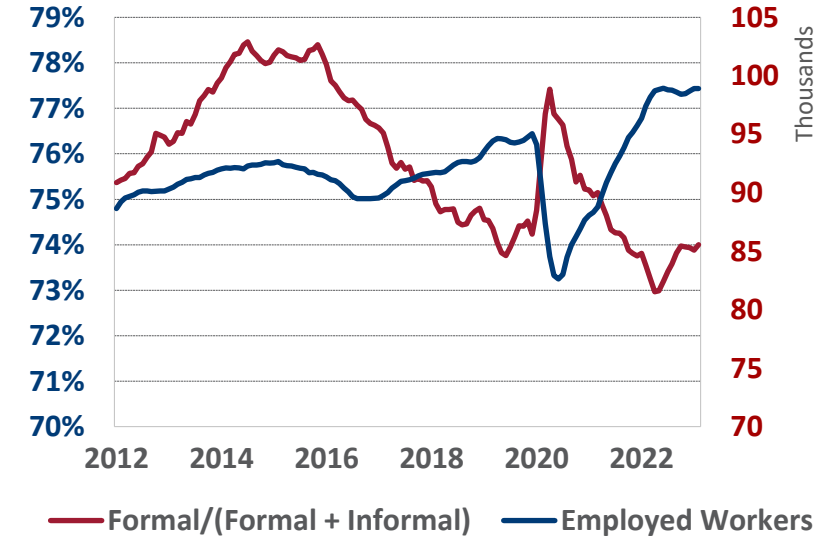
Brazil: PNAD

- » The unemployment rate NSA reached 8.5% in April, better than market expectations (8.8%). Seasonally adjusted, the unemployment rate dropped from 8.27% in March to 8.14% in April;
- » The formal employed population grew 0.3% MoM (the fourth consecutive positive variation), demonstrating that the sector remains resilient;
- » The labor participation rate continued declining, and it is now 1.7 pp below pre-pandemic levels;
- » The real labor earnings seems to have peaked, but the minimum wage increase in May could give new boost;
- » The aggregate real income bill – it combines the real average labor income with employed population – expanded in April, driven by the employment advance.

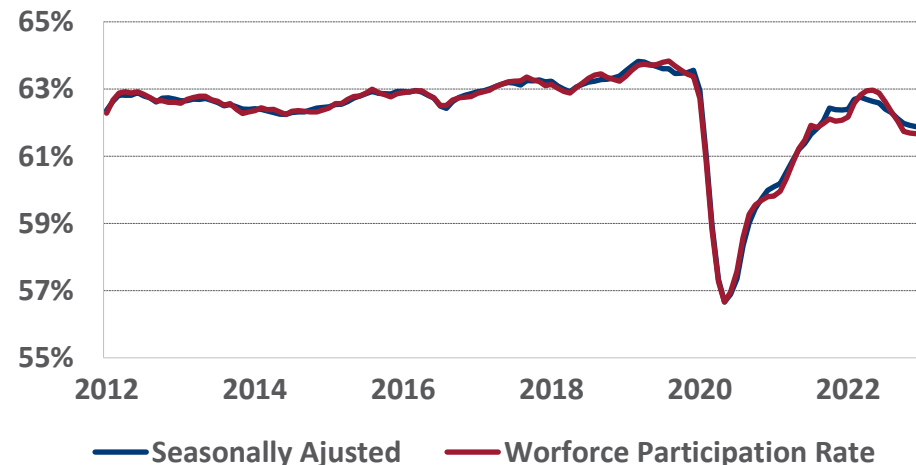
Brazil - Unemployment Rate



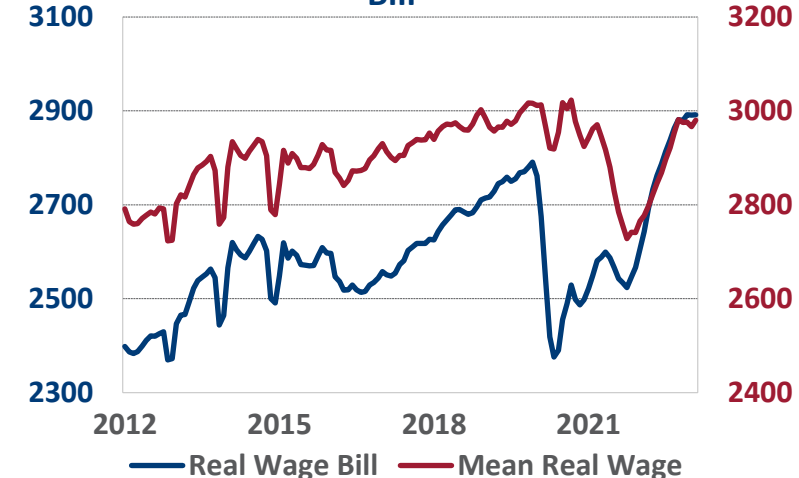
Brazil - Employment Level SA



Brazil - Workforce Participation



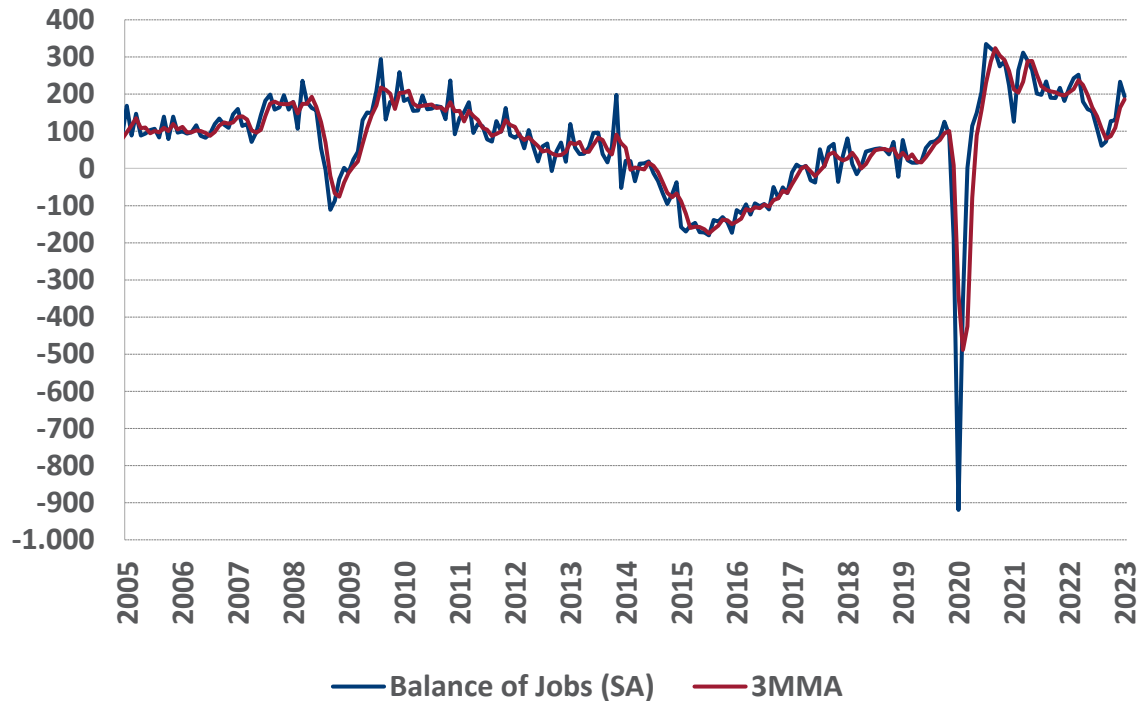
Brazil – Mean Real Wage and Real Wage Bill



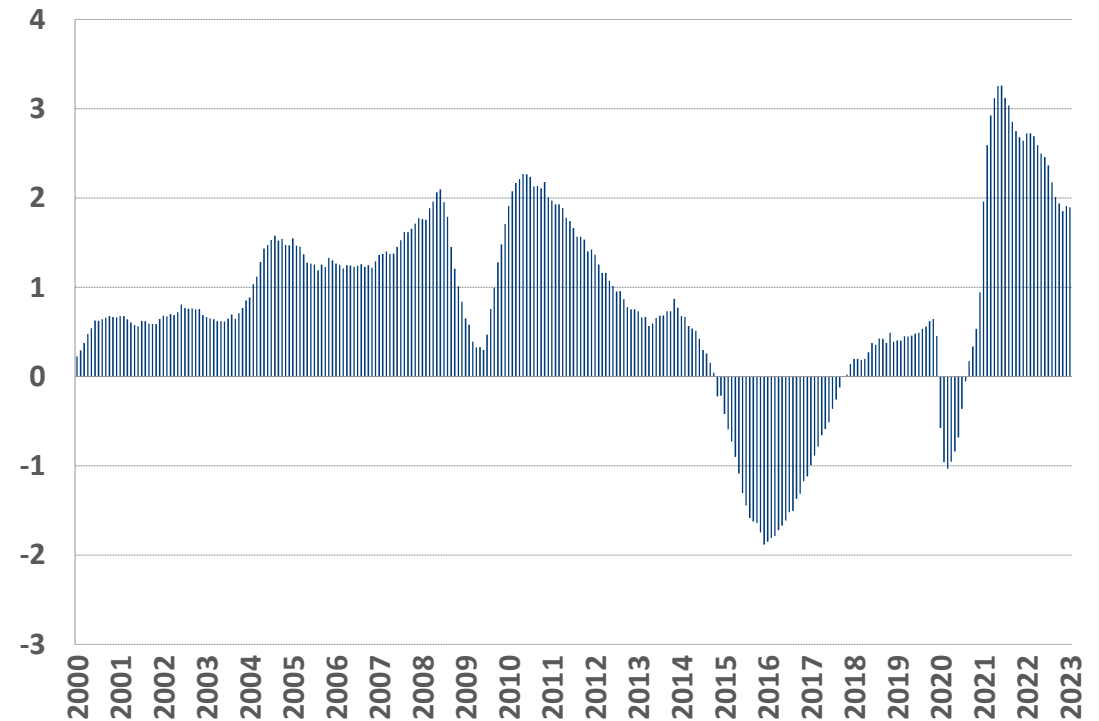
Brazil: Formal Labor Market

- » Caged's formal employment data recorded a net creation of 180k formal jobs in April, slightly below market expectations of 187k;
- » Net job creation totaled 520k from January to April 2023, not far from the total of 620k seen a year earlier, which reinforces the scenario that formal employment will show a milder deceleration than initially thought.

CAGED - Balance of Jobs (SA, Thousand)



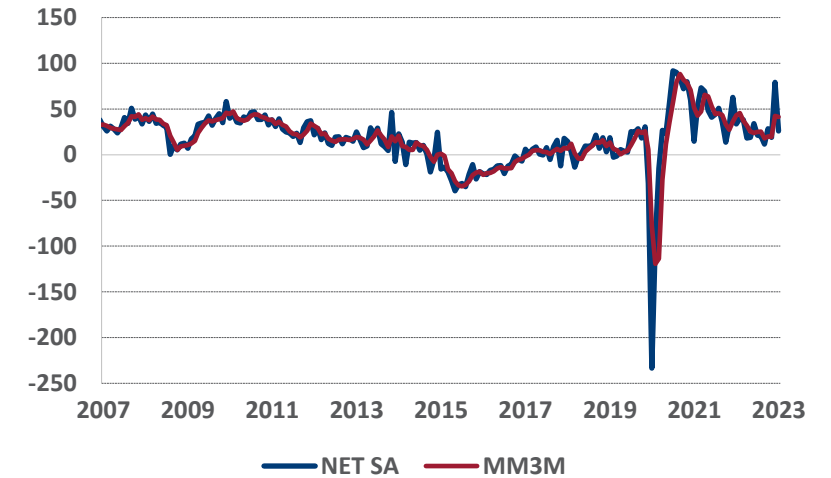
Net Payroll Job Creation 12 Months (Millions)



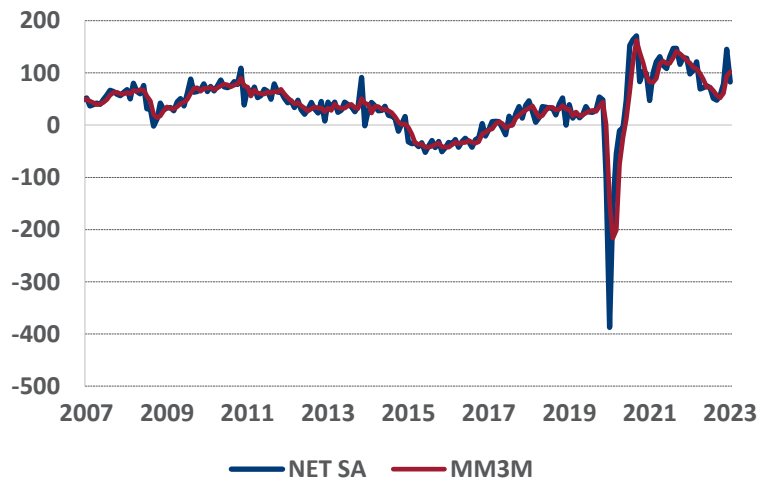
Brazil: Formal Labor Market

- » The largest volume of jobs creation was concentrated in the services sector, representing a net addition of 65k jobs, mostly driven by administrative activities & complementary services (23k) and transportation & storage services (17k).
- » The other sectors also lost strength in the monthly comparison, although remaining in positive territory.

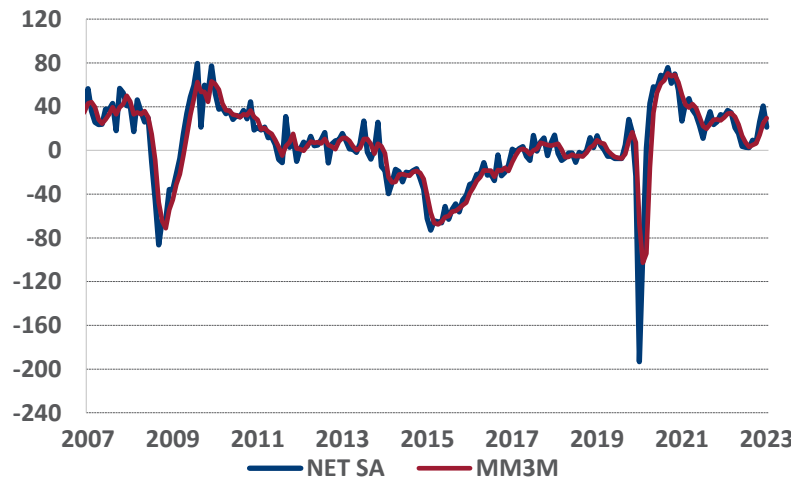
Brazil - Retail Net Payroll Job Creation (SA)



Brazil - Services Net Payroll Job Creation (SA)



Brazil - Industry Net Payroll Job Creation (SA)



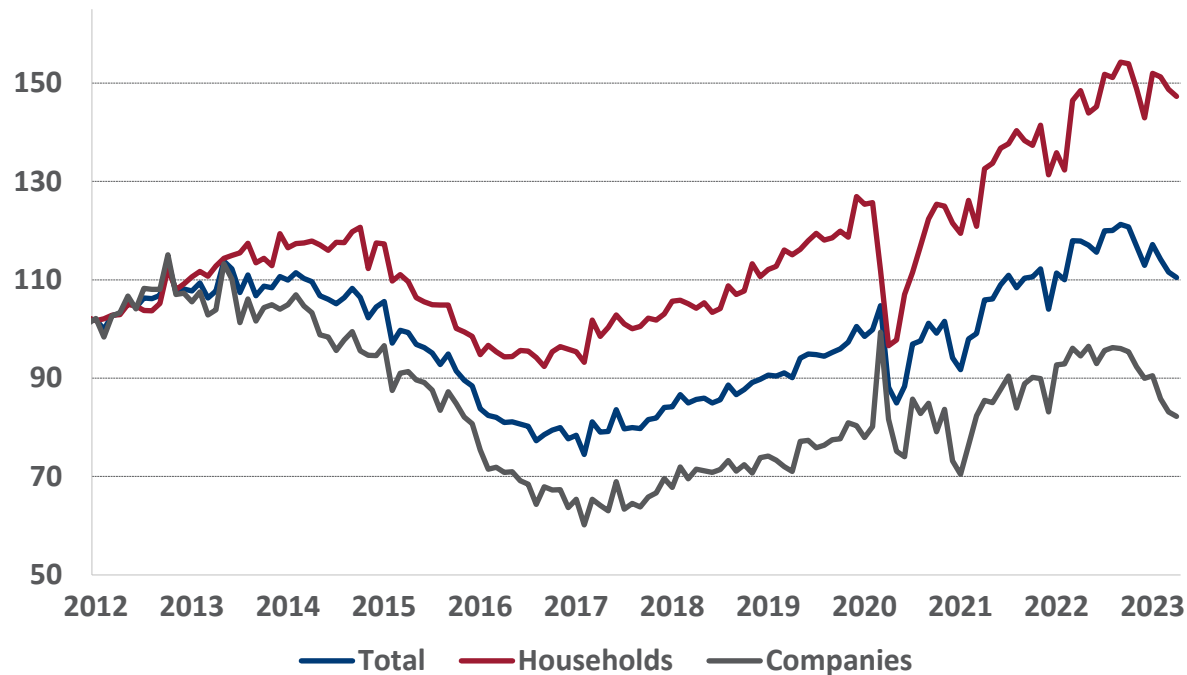
Brazil - Construction Net Payroll Job Creation (SA)



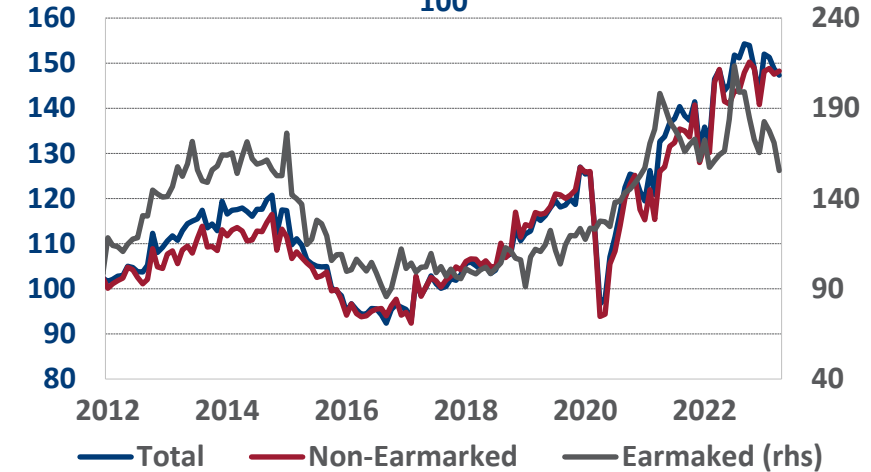
Brazil: Credit Statistics

- » In April, total credit concessions fell 1.0% MoM in real terms;
- » Non-earmarked credit concessions to households increased 0.5% MoM, but to companies contracted by -14.8% MoM;
- » Overall, the new credit operations has been decreasing due to companies' segment;

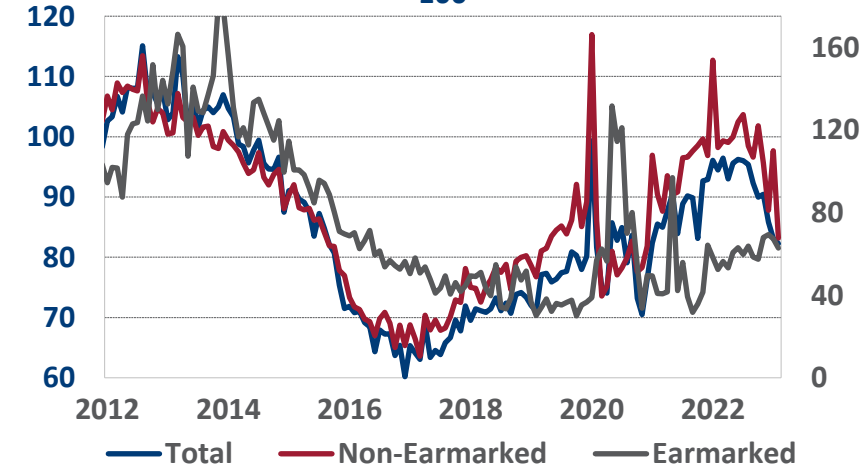
New Credit Operations SA (Real) - mar/11 = 100



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



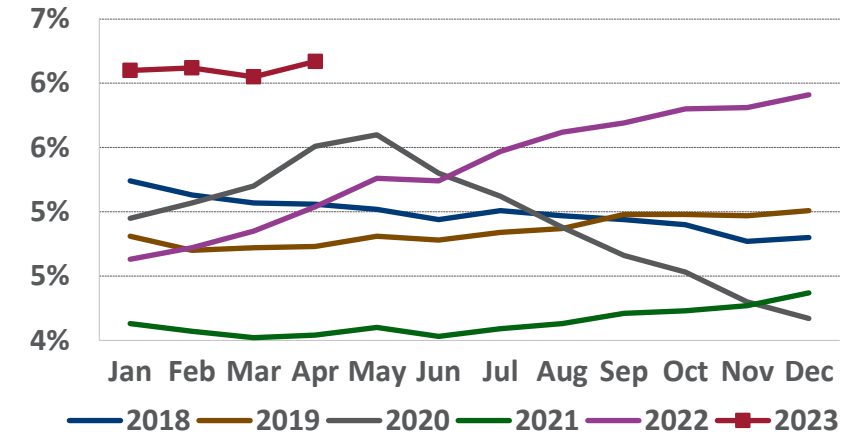
Concessions - Companies SA (Real) - mar/11 = 100



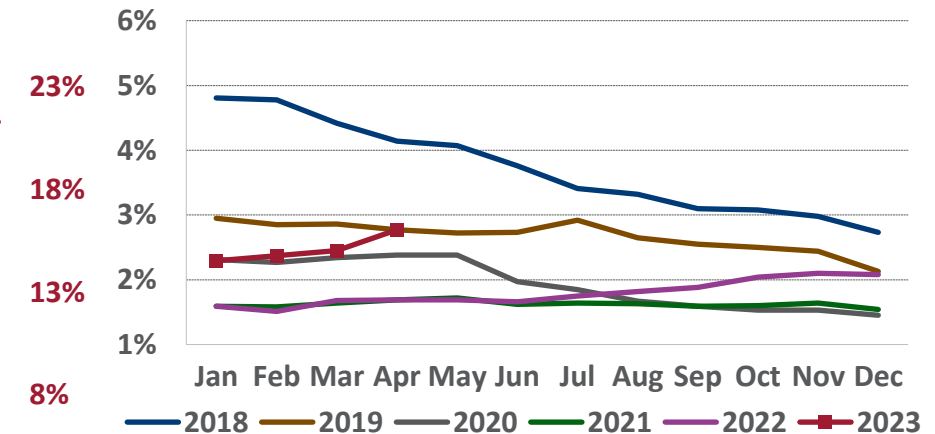
Brazil: Credit Statistics

- » In April, total credit concessions fell -1.0% MoM in real terms;
- » Credit concessions with non-earmarked resources to households increased by 0.5% MoM, but to companies contracted -14.8% MoM;
- » In general, new credit operations have been decreasing mainly due to the corporate segment.

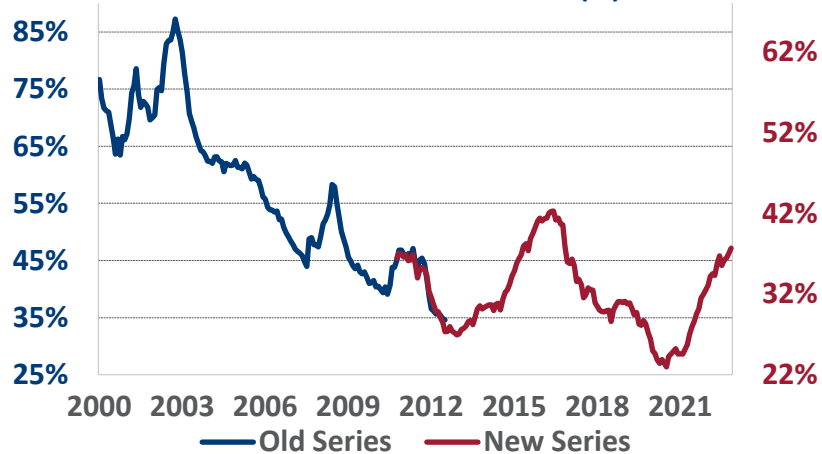
Non-Earmarked Default - Households (%)



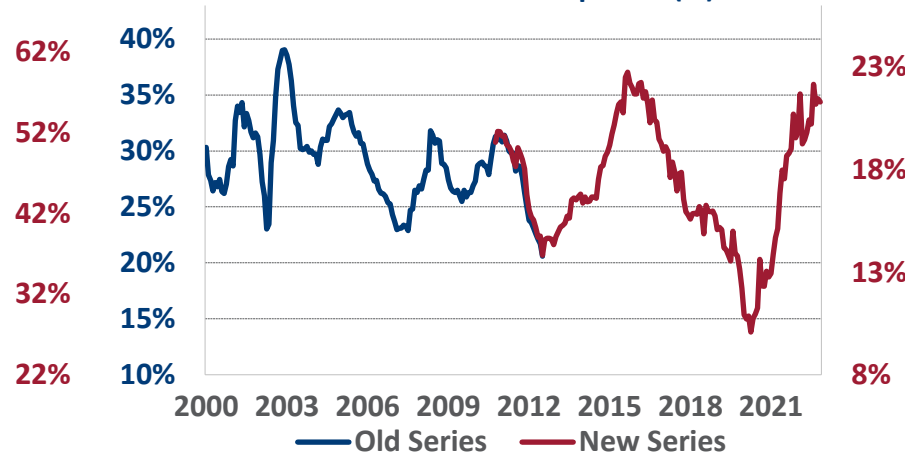
Non-Earmarked Delinquency - Companies (%)



Interest Rates - Households (%)



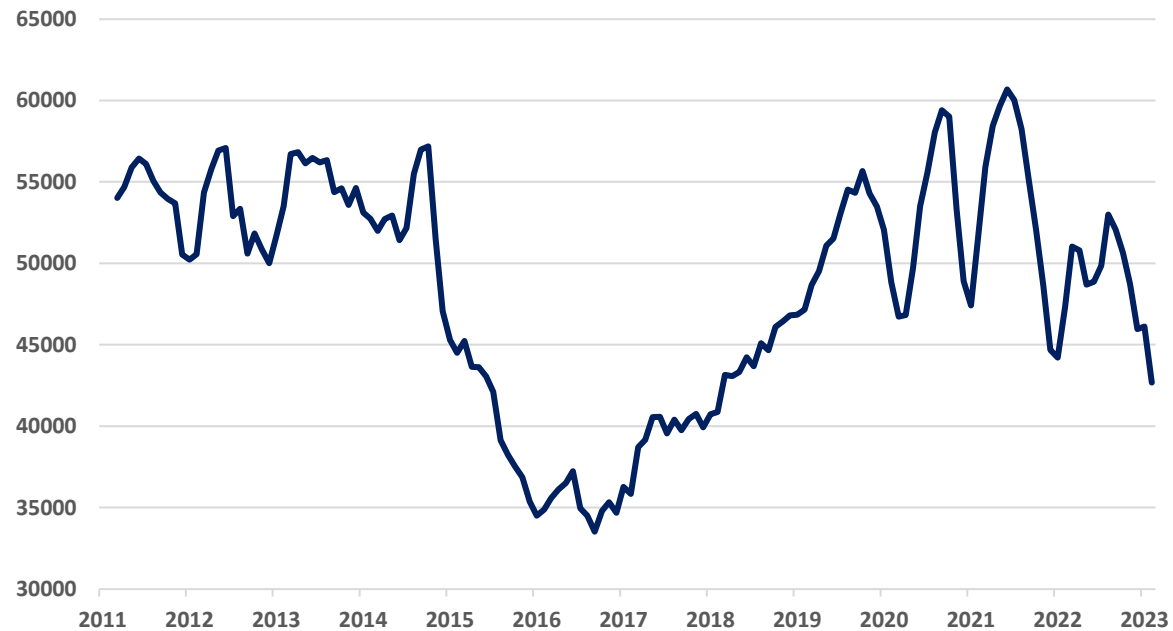
Interest Rates - Companies (%)



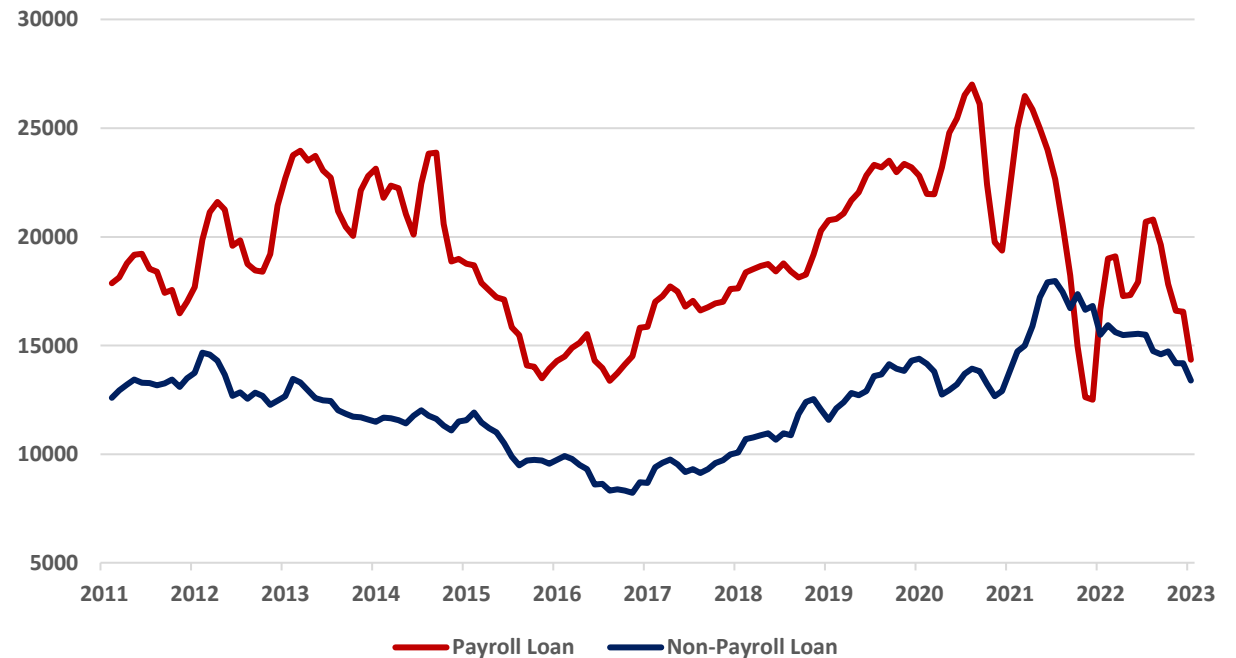
Brazil: Credit Statistics

- » Non-earmarked credit concessions for households have been supported by credit card and overdraft;
- » Payroll and Non-payroll Loans have been continuously slowing down.

Non-earmarked Credit Concessions to Households Ex-Credit Card and Overdraft (3MMA, Real Terms, BRL Million)



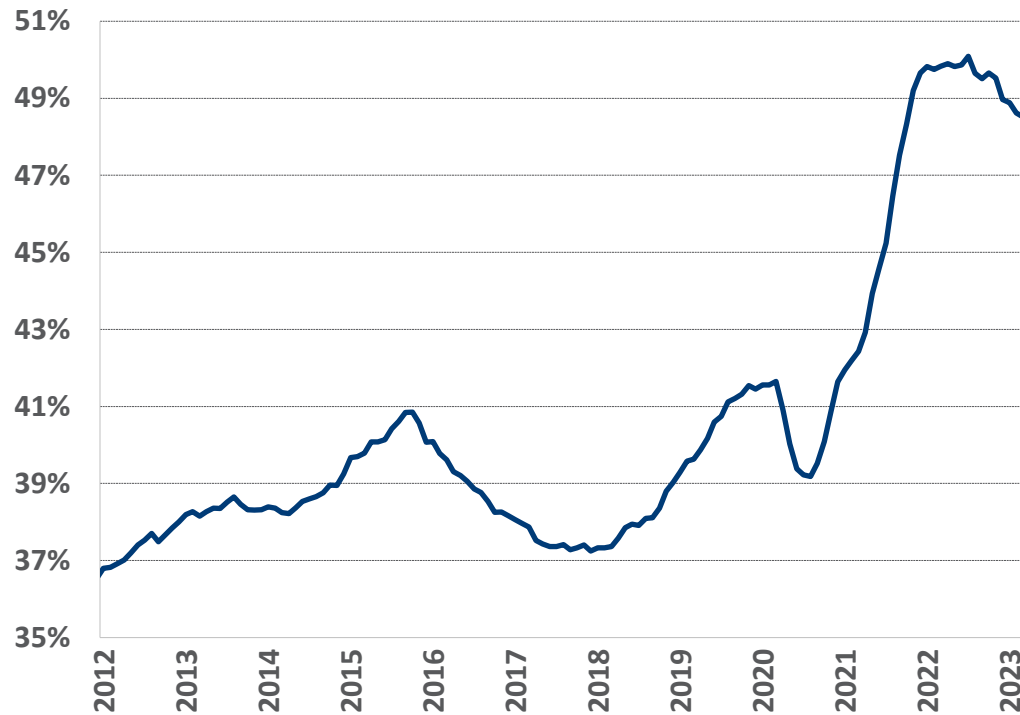
Personal Credit (3 Month Moving Average, Real Terms, BRL Million)



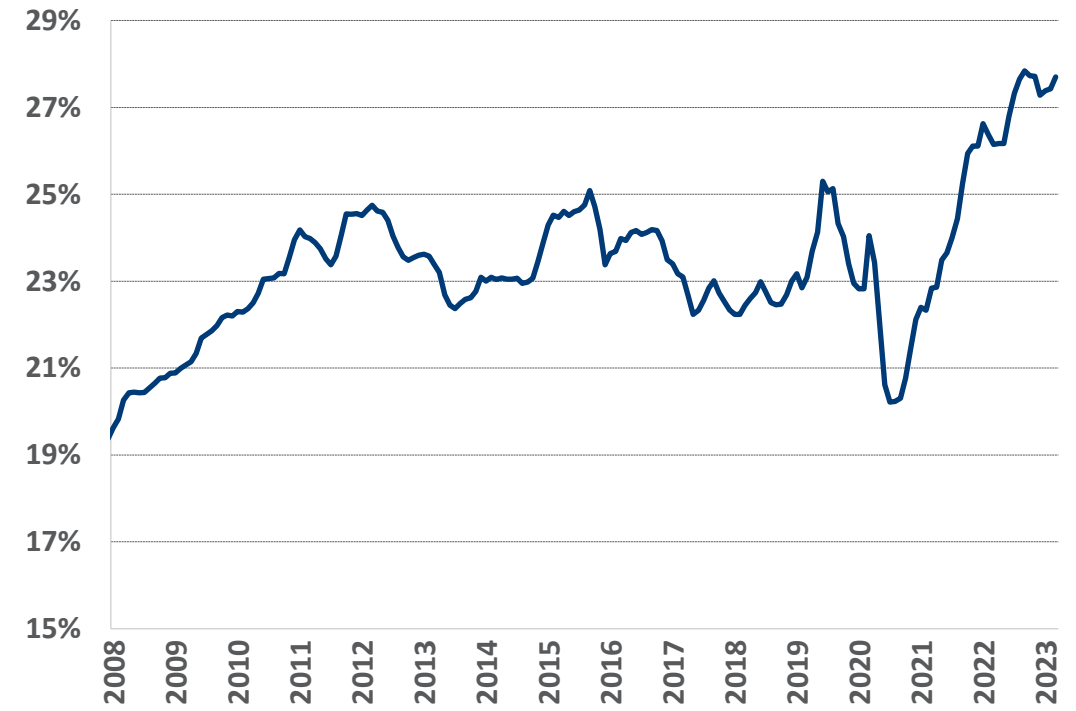
Brazil: Credit Statistics

- » The household indebtedness indicator dropped to 48.5%;
- » Income commitment increased to 27.7%, close to the highest level in the series.

Household Indebtedness (12M, %)



Income Commitment (SA, %)



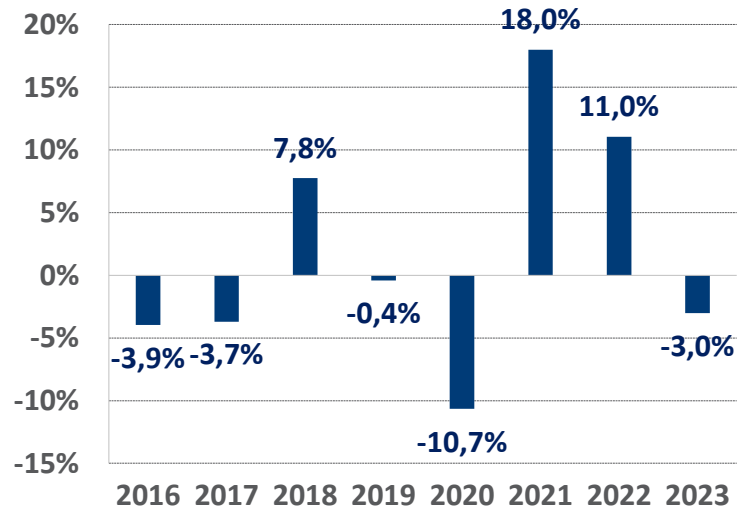
Brazil: Central Government Primary Result

- » In April, the Brazilian central government posted a primary surplus of R\$15.6 billion, in line with market expectations.
- » The primary result accumulated in 12 months retreated to 0.2% of GDP;
- » Net income fell 1.8% in real terms compared to April 2022, mainly due to smaller influx of natural resources exploitation revenues (-38.5%) which, in turn, reflects lower oil prices this year;
- » Total spending jumped 8.1% in real terms. The main drivers were the rise in unemployment insurance and wage bonus (change in the disbursements' calendar), the Bolsa Família program and discretionary expenditures;

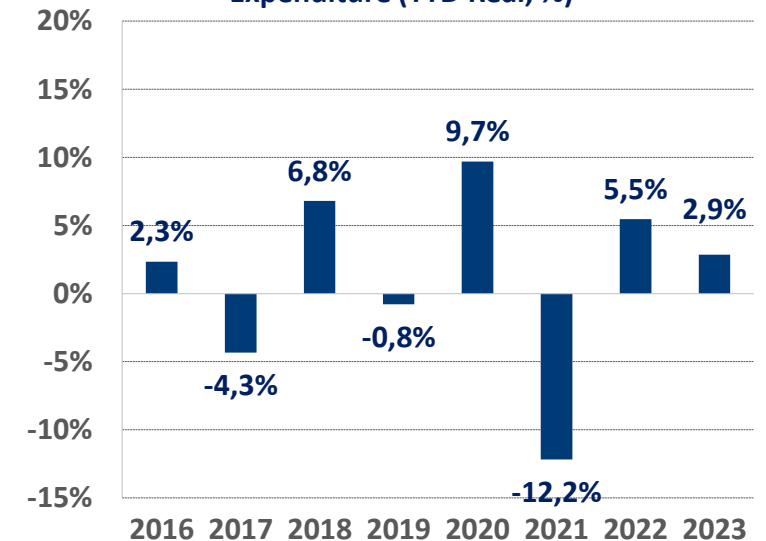
C. G. Primay Budget Balance (% , GDP 12M)



Net Revenue (YTD Real, %)



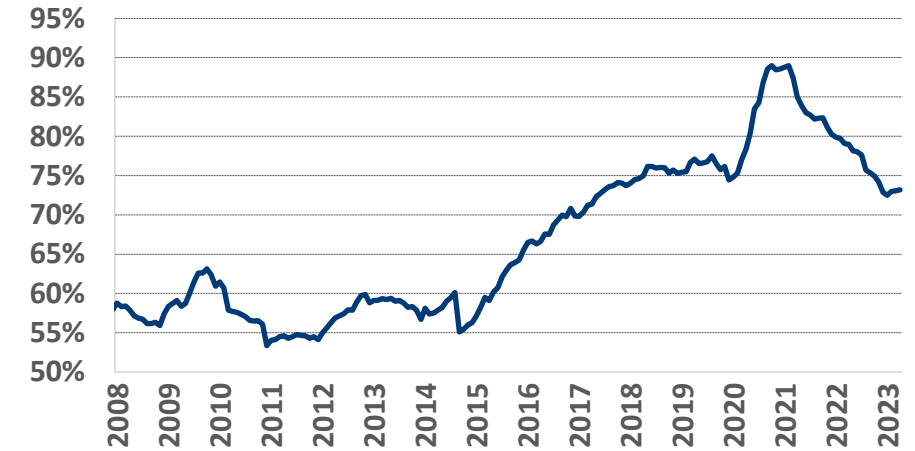
Expenditure (YTD Real, %)



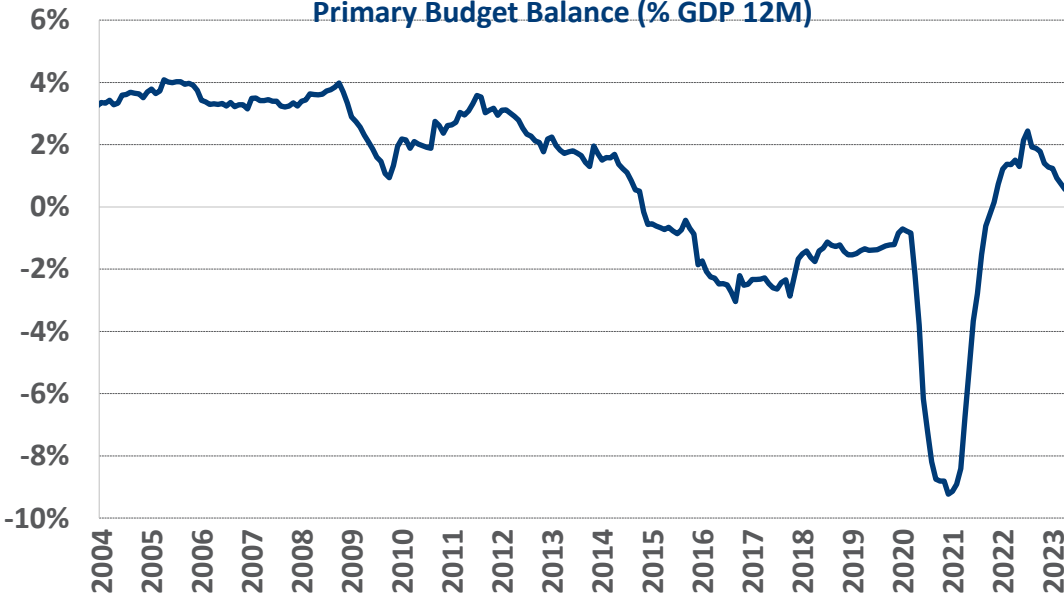
Brazil: Consolidated Public Sector Budget

- » The consolidated public sector registered a primary surplus of BRL 20.3 bn in April, above market consensus (BRL 16.3 bn);
- » Central government had a surplus 16.9 bn in April;
- » While Subnational governments had a surplus of 4.0 bn and SOEs achieved a deficit of BRL 0.6 bn;
- » General Government Gross Debt reached 73.2% in April, from 73.0% in March, due to interest settlements (0.6 pp) and nominal GDP growth (-0.4 pp).

Gross General Government Debt (% GDP)



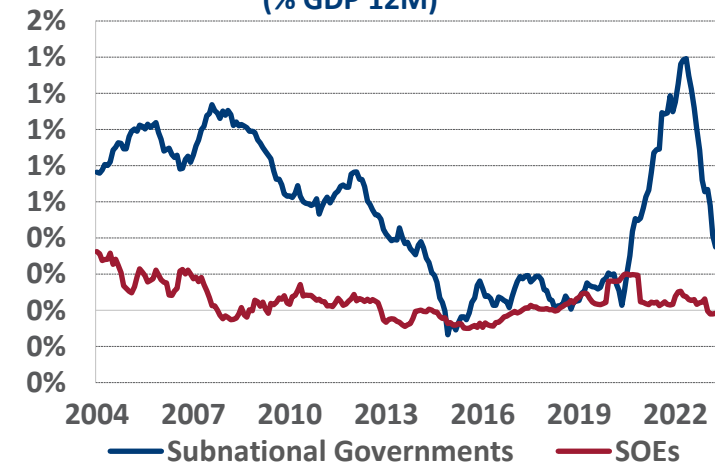
Primary Budget Balance (% GDP 12M)



Primary Surplus: Central Government (% GDP 12M)



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

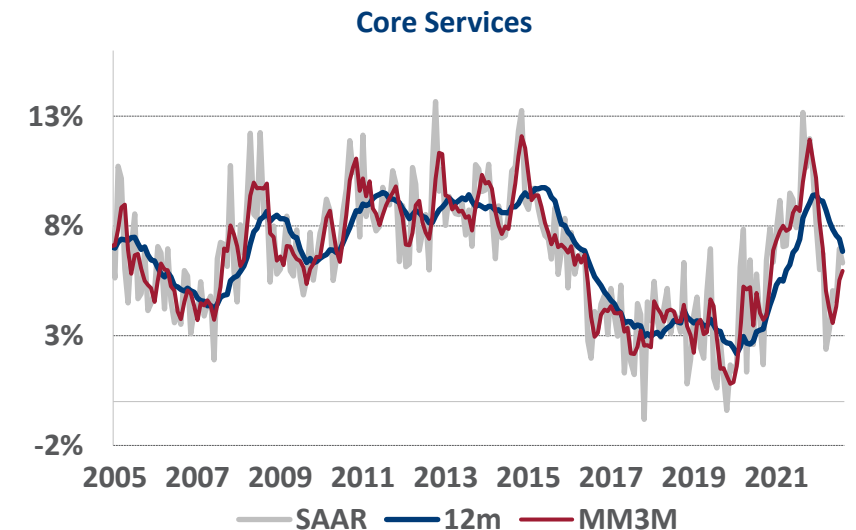
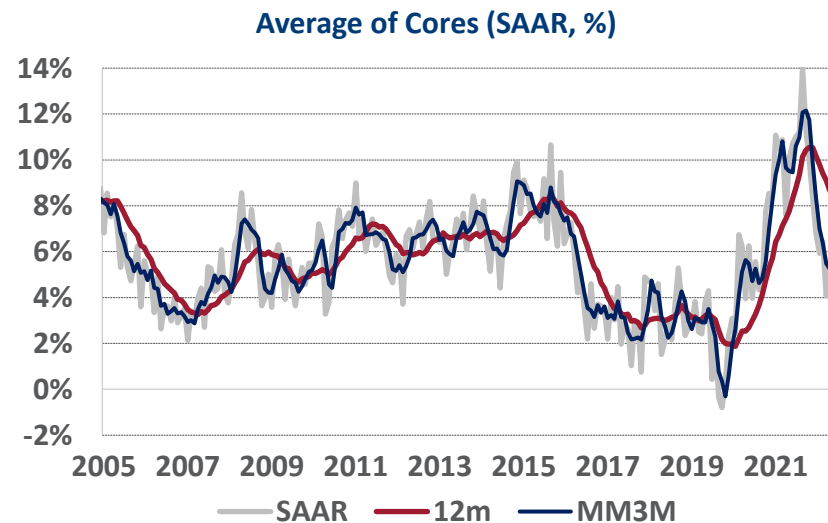
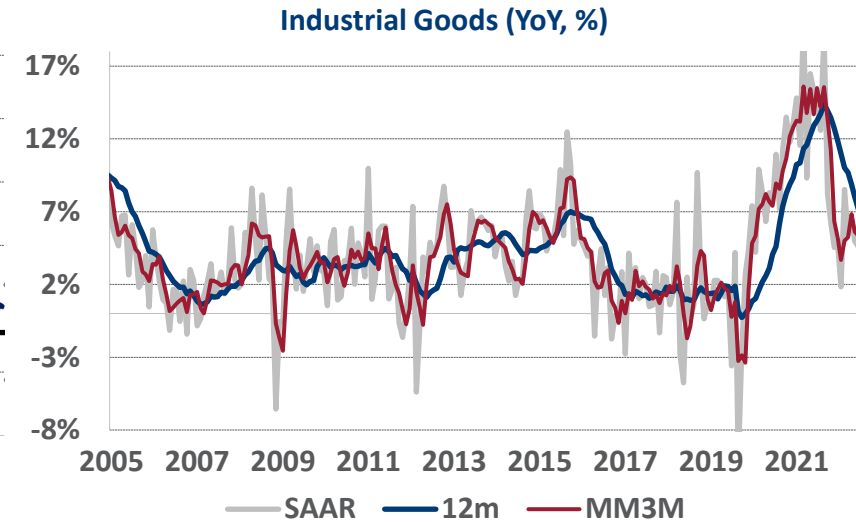
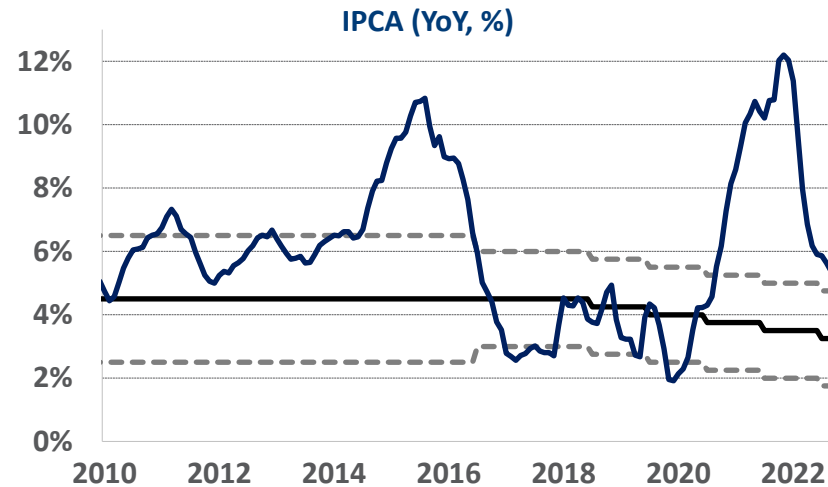


» A new version of the new fiscal framework law was approved in the Lower House and is now under discussion in the Senate. The new version brought some modifications:

1. The **list of exceptions became smaller**: nurses minimum wage, any liquidity injection in SOEs, FUNDEB are inside framework
2. Revenues used to determine the expenditures real growth will disregard two extraordinary sources – unclaimed PIS/Pasep funds and fiscal renegotiation programs (Refis and others) (but expenses may be supplemented if real revenue growth in 2024 exceeds the projection made in May)
3. **Triggers (do not include 'Bolsa Família' and real earnings of the minimum wage)**, but there is possibility of changes in the target and suspension by complementary law, if it is demonstrated that there are measures being adopted that lead to the reappointment of the goals
 1. First year of non-compliance: forbids the creation new positions, career structure, assistance/bonuses for civil servants, mandatory expenses above inflation (ex m.w.), tax benefits and subsidies
 2. Second year of non-compliance: all triggers present in the 'spending cap', including nominal readjustment for civil servants (ex m.w.)
4. **Mandatory contingencies** limited to "the regular functioning of the public machine (75% of the total discretionary)"
5. **50% punishment becomes permanent in the limit calculation basis**, but with a longer delay, it can only be applied in 2026 (LOA 26, made in 25, which uses the 24 primary balance)
6. The **12 months IPCA of June will be used to set the spending limit (not a forecast)**, but if December is higher there is supplementation in 2024 (permanently for 2024-25 given the projected mismatch of 2 pts between IPCA Jun and Dec 23 and temporary for other years)
7. Art 3 paragraph 7 can give an interpretation that the limit can be expanded if it does not harm the primary target
8. Investment bonus if primary better than the target: Limited to 0.25% GDP and 70% of the primary surplus without affecting the calculation basis and only in case of surplus
9. Decriminalization of non-compliance if (i) contingency up to a minimum for the regular functioning of the public machine and (ii) activating triggers (which can be avoided by the President)

Brazil: Inflation 2023

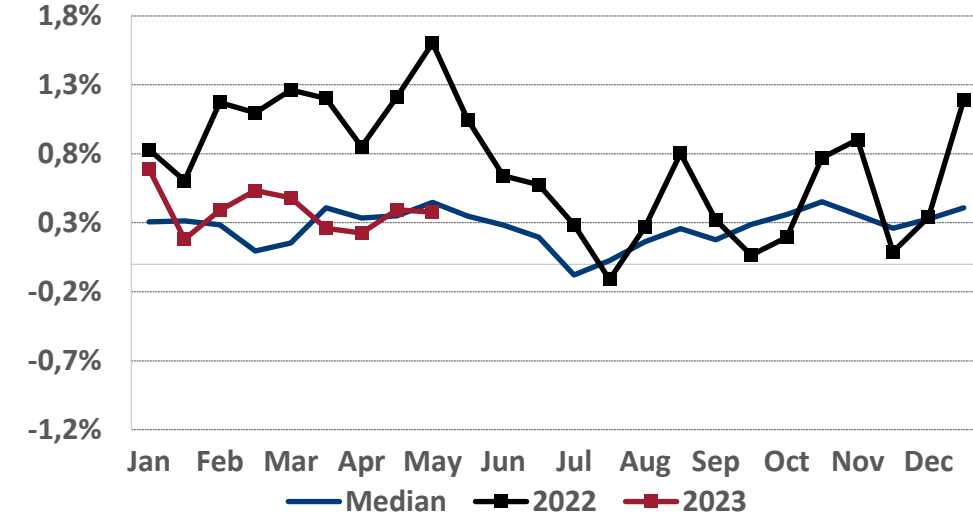
- » The May IPCA preview increased 0.51% MoM, below the consensus of 0.64% and our forecast 0.63%;
- » The variation in 12 months retreated to 4.07% in May, compared to 4.16% in April;
- » The main downward deviations from our forecast came from: airfare, durable goods and clothing;
- » The average of core inflation retreated to 0.42% in April and the 3-month moving average of the seasonally adjusted annualized data retreated from 6.1% in April to 5.6% in May, a significant relief;
- » Underlying services advanced 0.45% MoM, below expectations. Diffusion of services also fell to 56%, after peaking at nearly 90% in February.



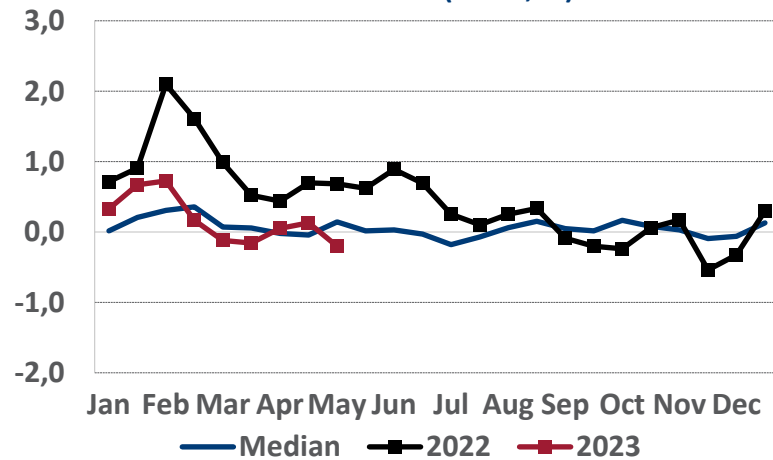
Brazil: Inflation 2023

- » Industrial goods decelerated to 0.38% MoM, bringing widespread relief;
- » We highlight the deflation in durable goods and the slowdown in apparel;
- » Industrial inflation remains well behaved and on a downward trend.

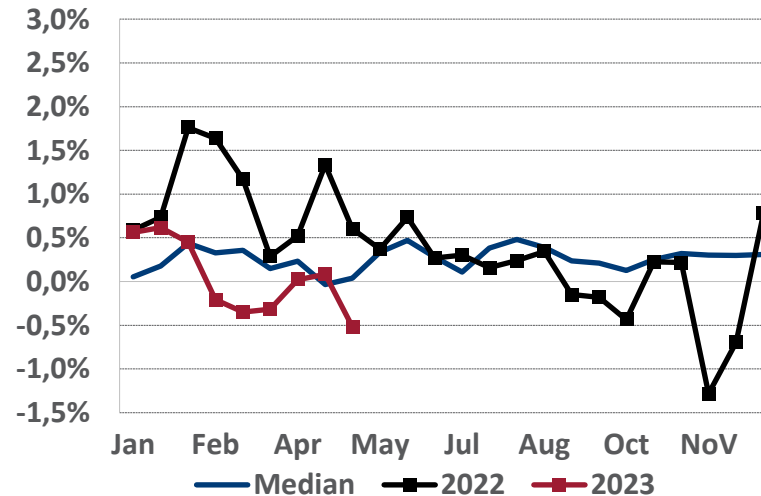
Industrial Goods (MoM, %)



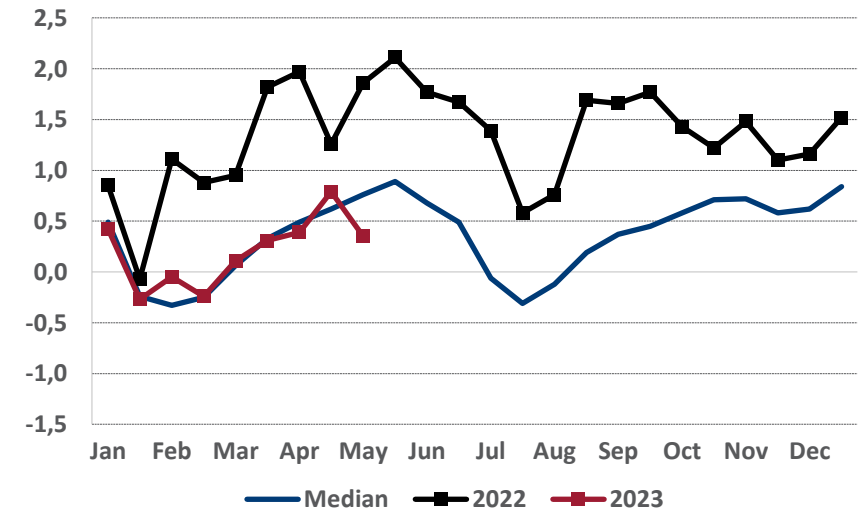
Durable Goods (MoM, %)



Durable Goods Ex-autos (MoM, %)

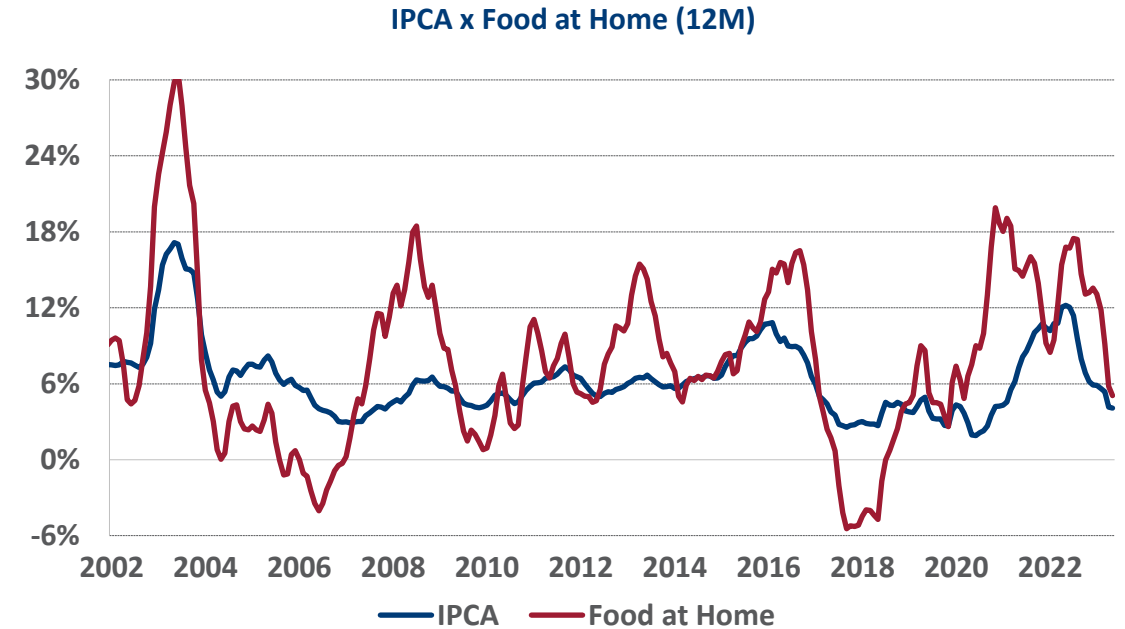
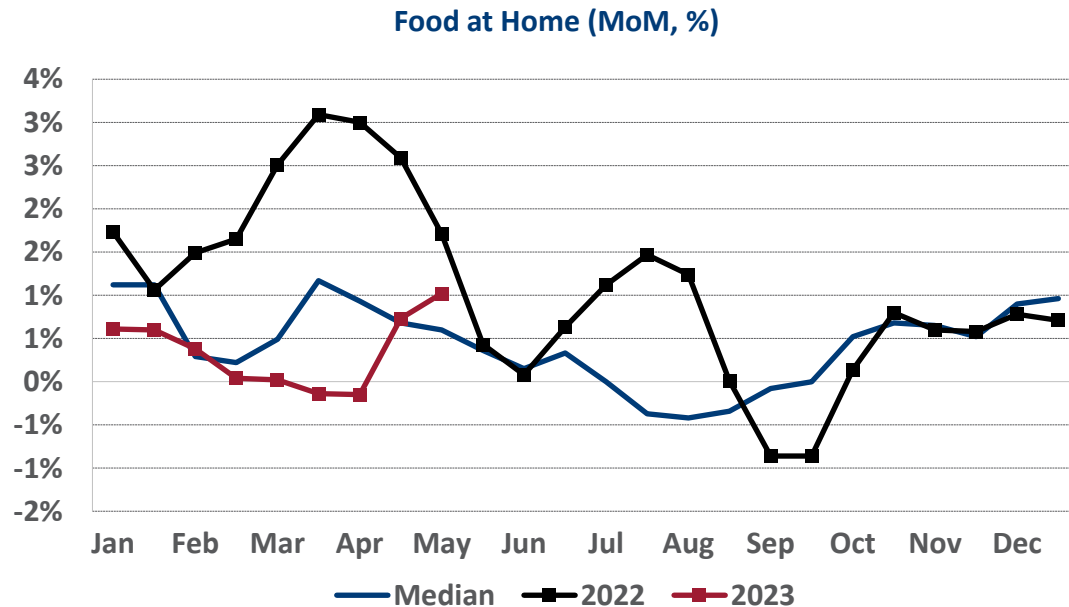


Apparel (MoM, %)



Brazil: Inflation 2023

- » Food at home accelerated in the latest releases, reaching 1.02% in May. However, wholesale prices continue to drop sharply, which should benefit this category in the coming months;
- » In 12 months, food inflation dropped from 17.4% in August 2022 to 5.1% in May this year.



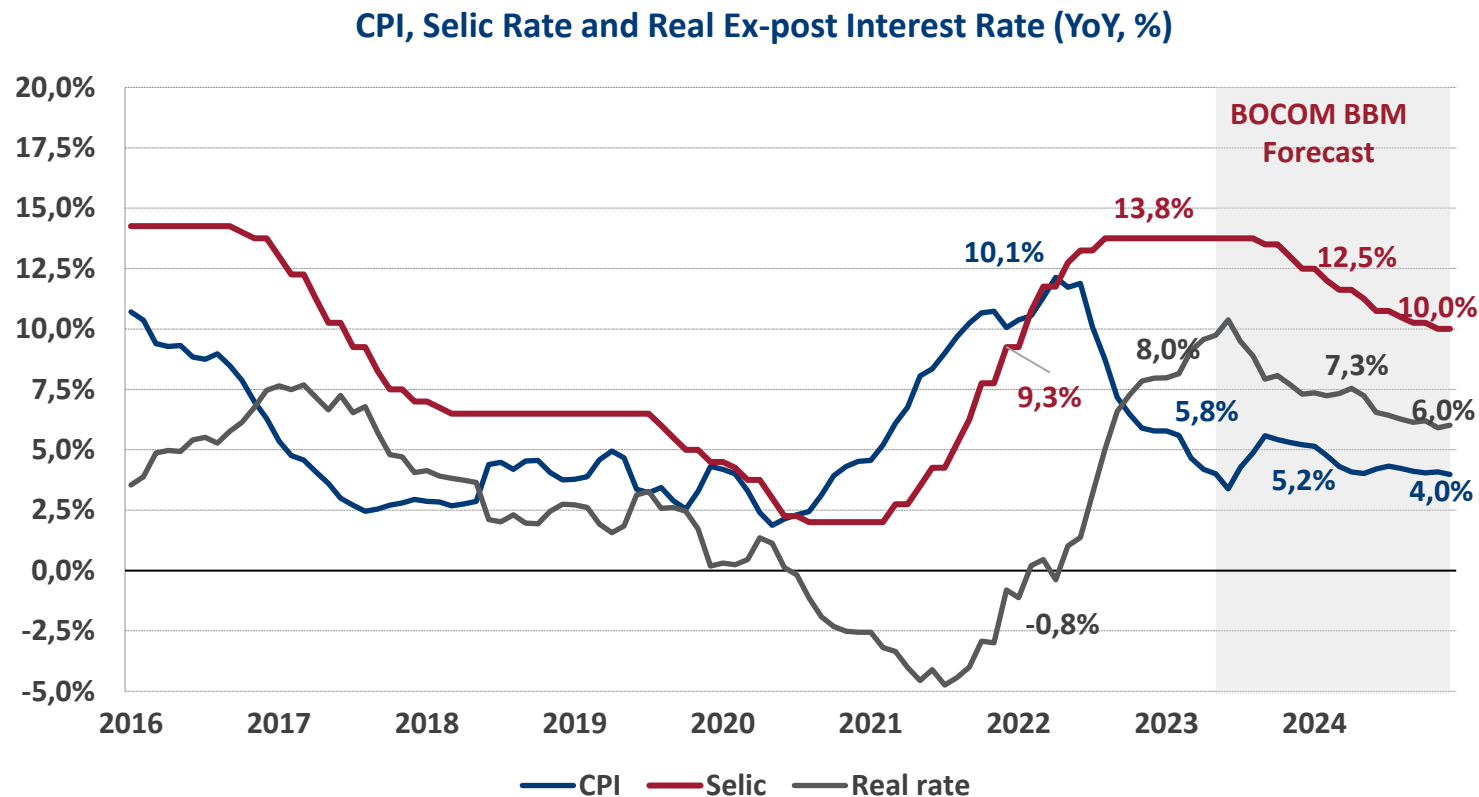
Brazil: Inflation

- » Our projection for 2023 dropped to 5.2%, after price cuts for gasoline, diesel and GLP by Petrobras and better prospects for industrial, food and core inflation;
- » For 2024, we maintain our forecast at 4%, waiting for the definition of the inflation target by the CMN at the end of June.

IPCA (% annual)							
	Weight	2019	2020	2021	2022	2023	2024
Regulated	26.6	5.5	2.6	16.9	-3.8	8.9	4.3
Industrial goods	23.6	1.7	3.2	11.9	9.5	2.7	2.6
Durable goods	10.3	0.0	4.5	12.9	6.1	1.5	-
Semi-durable goods	5.9	0.6	-0.1	10.2	15.7	2.9	-
Non-durable goods	7.3	4.4	4.0	11.9	9.5	4.2	-
Food at home	15.7	7.8	18.2	8.2	13.2	1.9	2.8
Services	34.1	3.5	1.7	4.8	7.6	5.7	5.3
Food away from home	5.6	3.8	4.8	7.2	7.5	6.2	4.5
Related to minimum wage	5.2	2.9	1.5	3.3	6.3	5.4	5.8
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.3	6.1	4.8
Inertial	15.0	4.3	1.6	4.2	8.8	5.3	5.6
IPCA		4.3	4.5	10.1	5.8	5.2	4.0

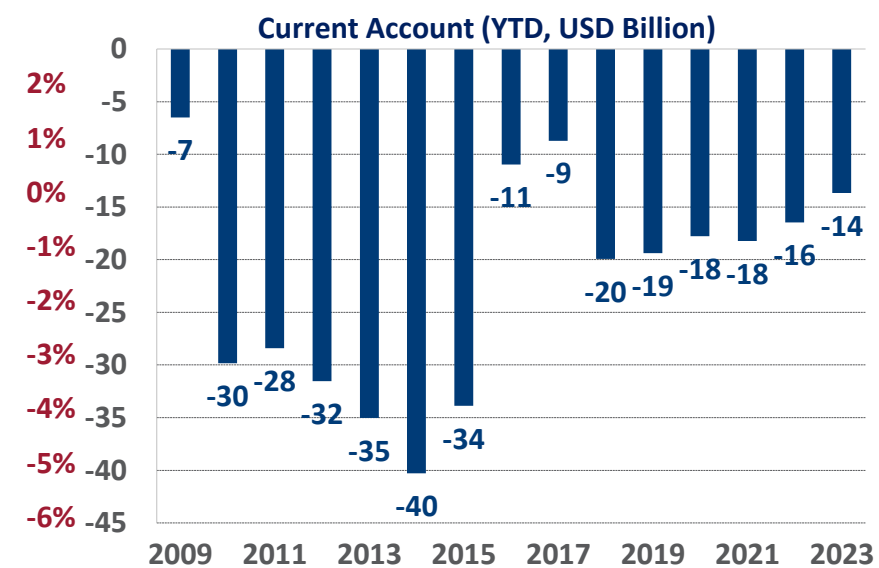
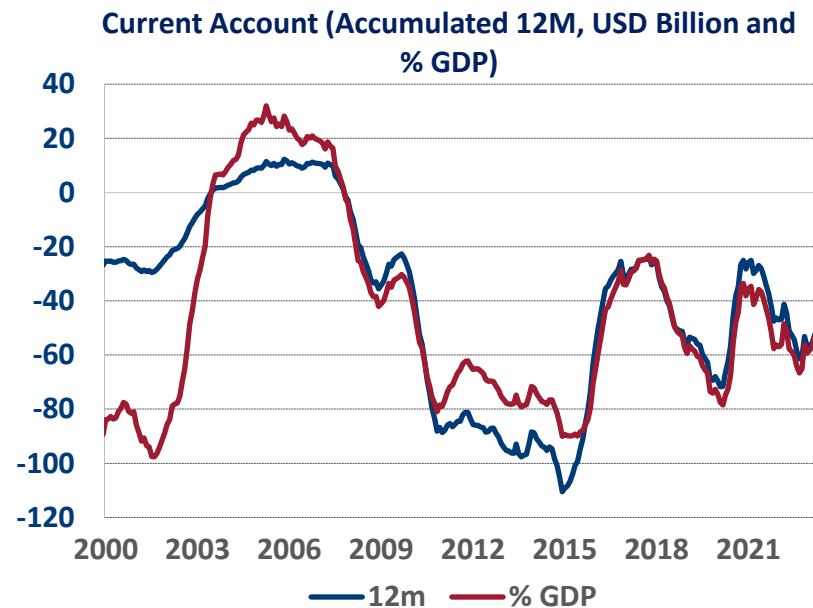
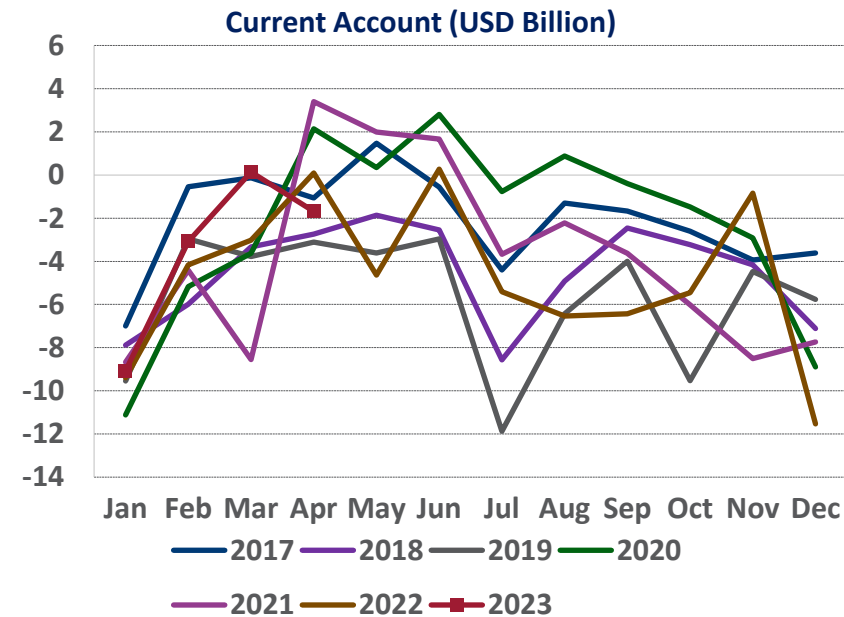
Brazil: Monetary Policy

- » 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.



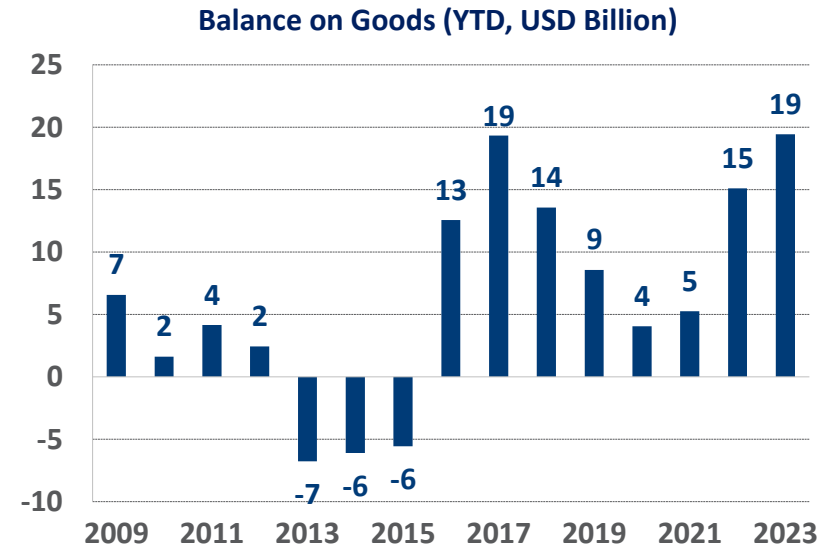
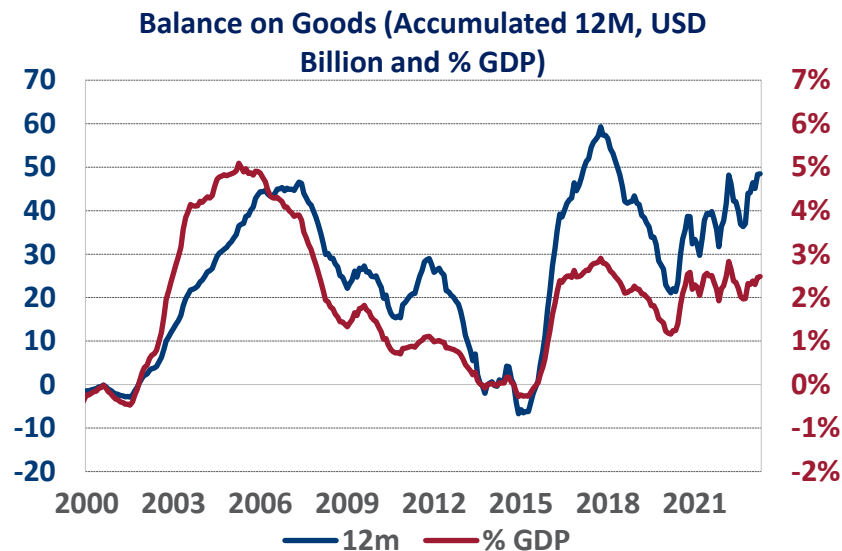
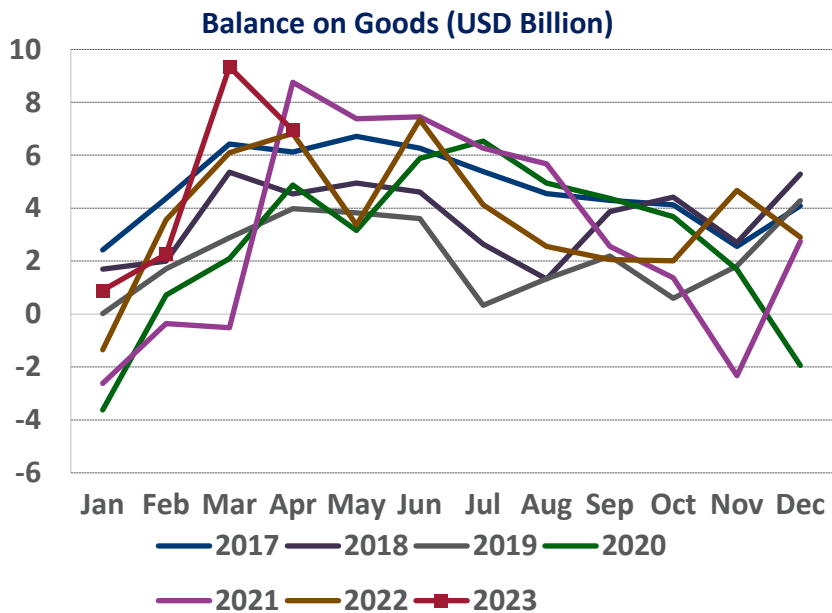
Brazil: Balance of Payments

- » The Brazilian current account posted a larger-than-expected deficit in April, US\$ -1.7 billion (Consensus: US\$ -0.2 billion);
- » The current account balance was US\$ -54.2 billion in the accumulated 12 months through April (-2.76% of GDP).



Brazil: Balance of Payments

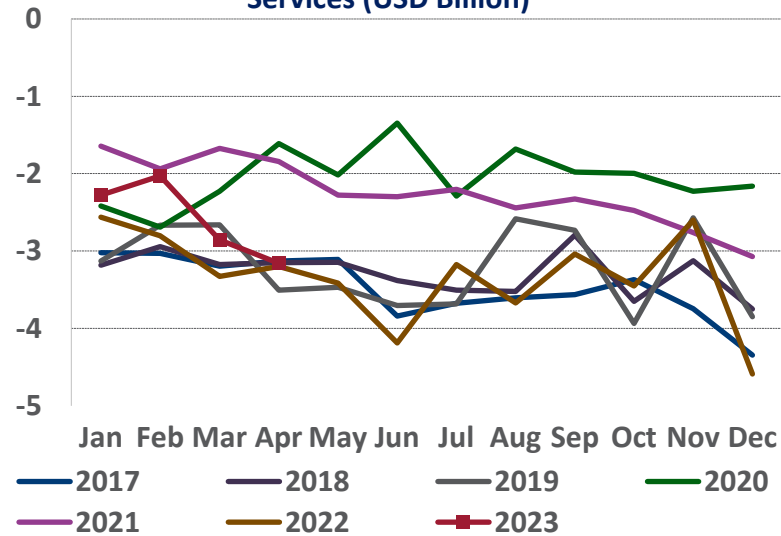
- » The trade balance remains at high levels (a surplus of US\$ 6.9 billion in April and US\$ 48.5 billion in the accumulated 12 months);
- » Exports show strong growth, driven by grain exports at the beginning of the year, while imports have been slowing down.



Brazil: Balance of Payments

- » The larger deficit in the primary income account (USD -5.4 billion in April 2023 versus USD -3.8 billion in April 2022) largely explains this negative surprise in the Current Account, mainly due to remittances of Profits and Dividends abroad;
- » The services account remained virtually flat on a yearly basis (USD -3.2 billion), as lower freight expenses were offset by higher outlays with equipment rental and international travel.

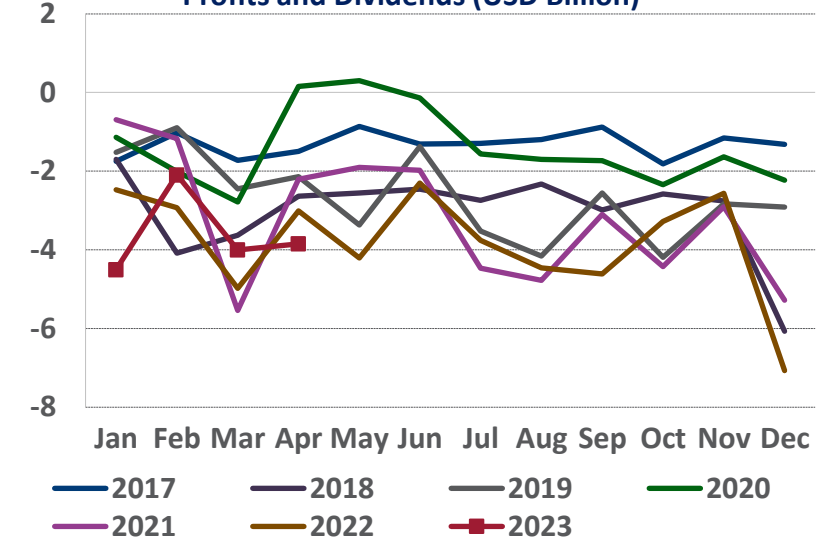
Services (USD Billion)



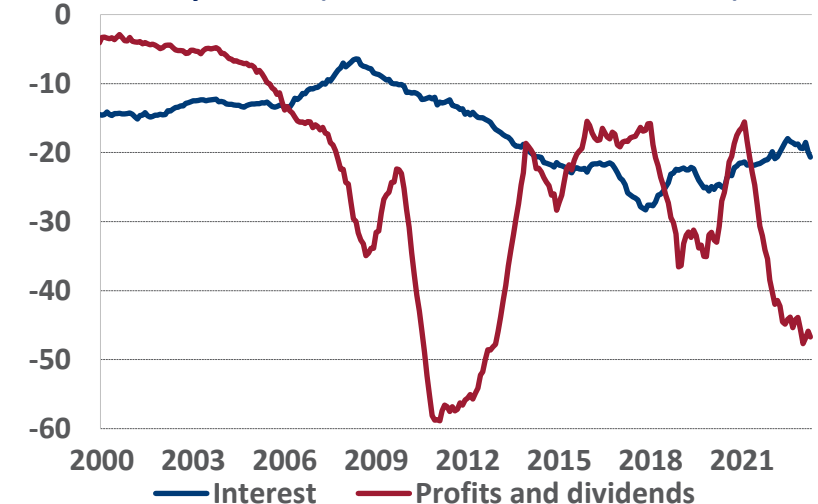
Services (Accumulated 12M, % GDP)



Profits and Dividends (USD Billion)



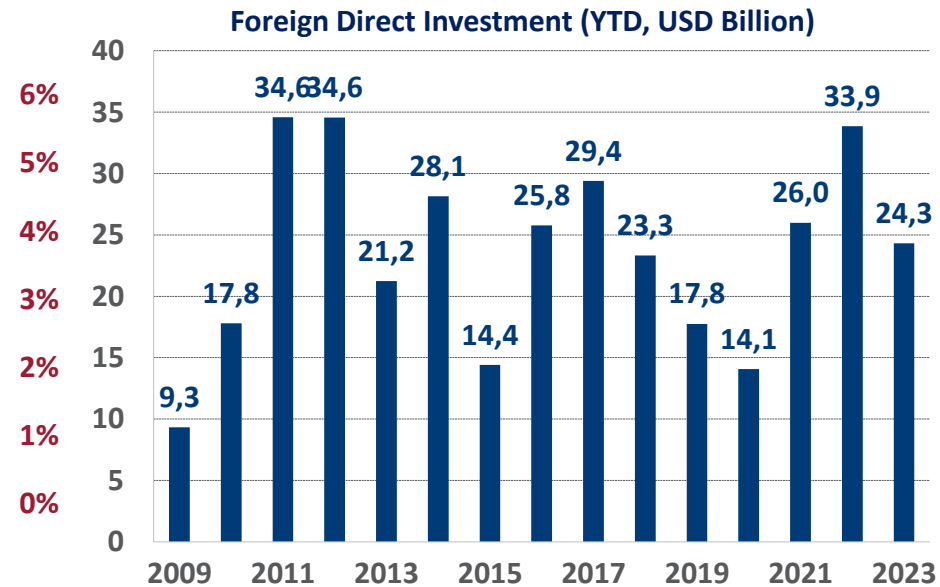
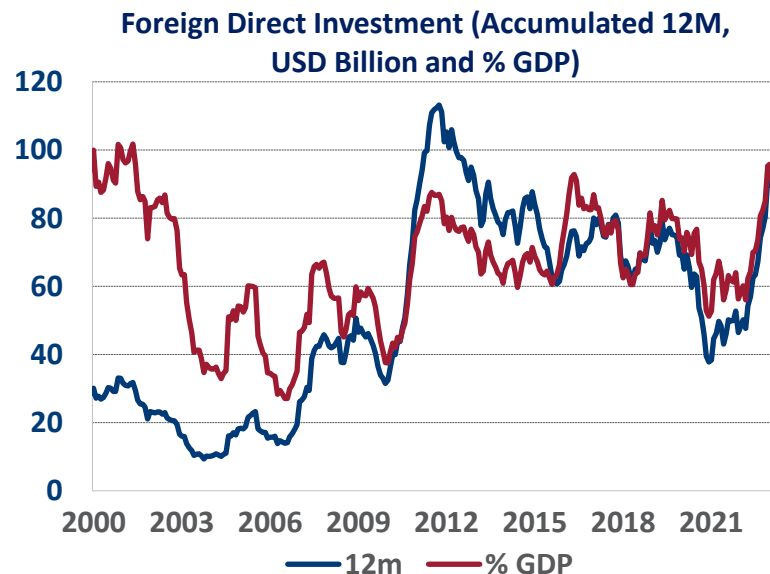
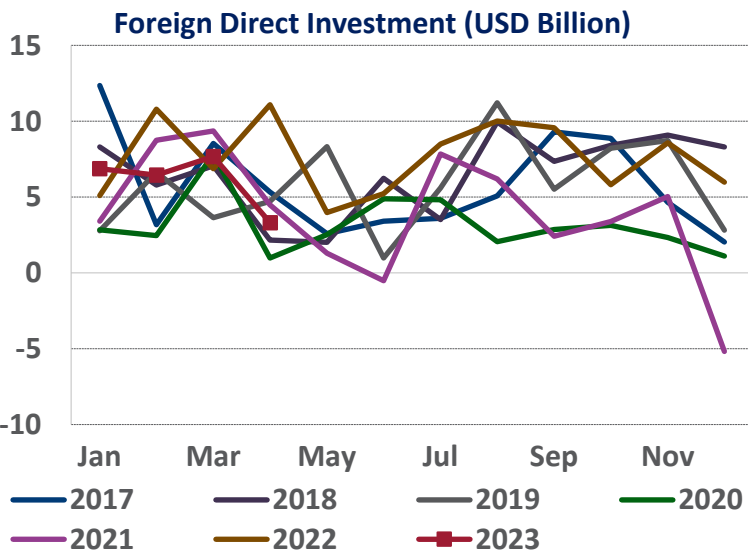
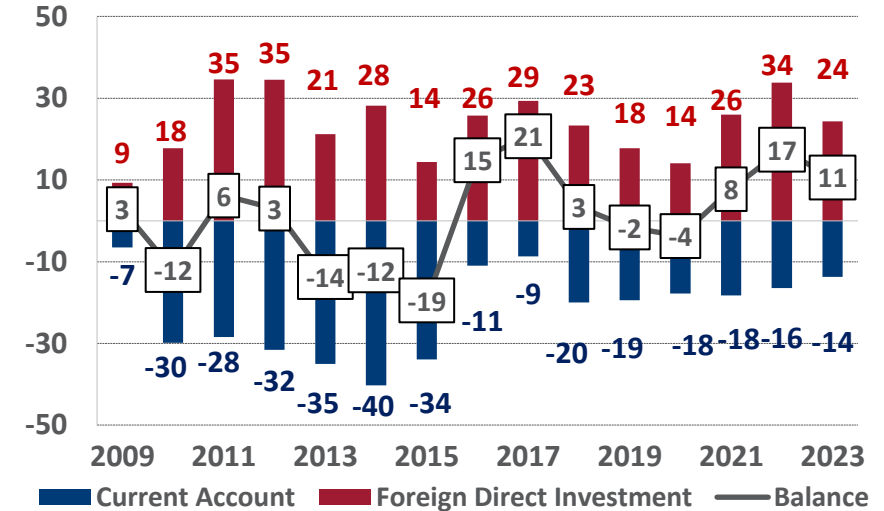
Primary Income (Accumulated 12M, USD Billion)



Brazil: Balance of Payments

- » Net inflows in FDI (Foreign Direct Investment) totaled USD 3.3 billion in April, below estimates of USD 4.6 billion, reaching USD 82.0 billion based on the 12-month rolling sum up to April (4.17% of GDP), down from USD 89.7 billion up to March (4.57% of GDP) but considerably above the amount of USD 54.3 billion (3.12% of GDP) seen in the same month of 2022
- » In the year, FDI exceeded the Current Account deficit by US\$ 11 billion, guaranteeing good conditions for the country's external accounts.

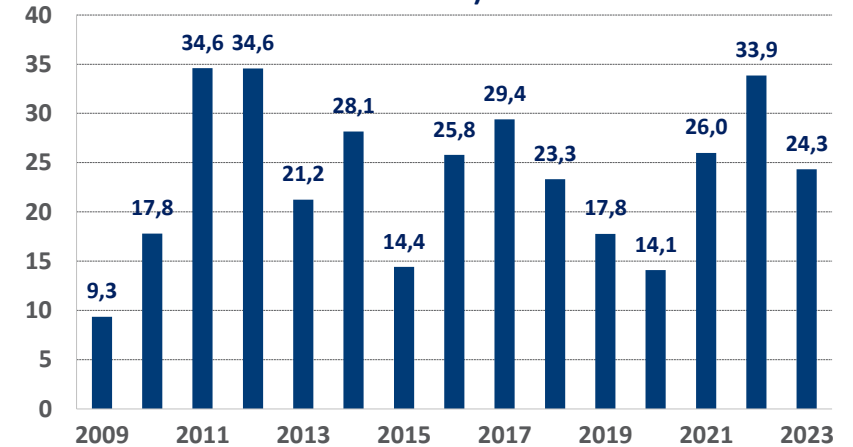
Current Account Balance and FDI (YTD, USD Billion)



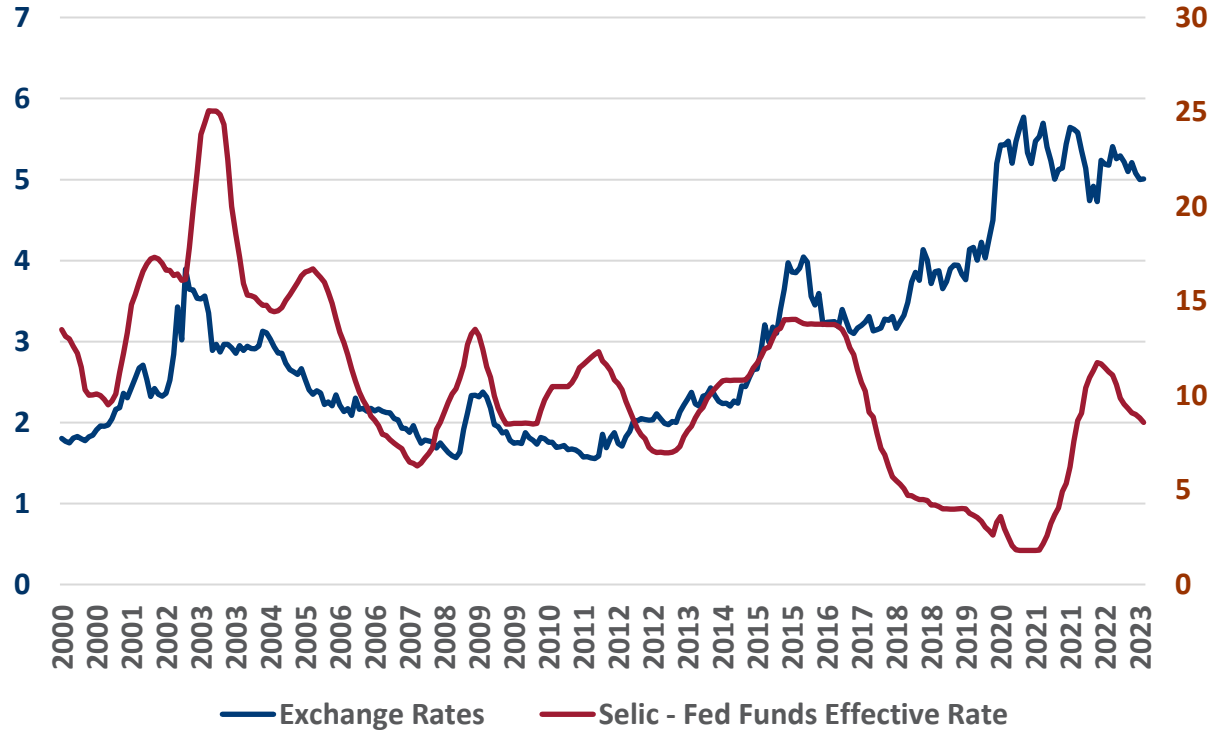
Brazil: External Sector

- » 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.

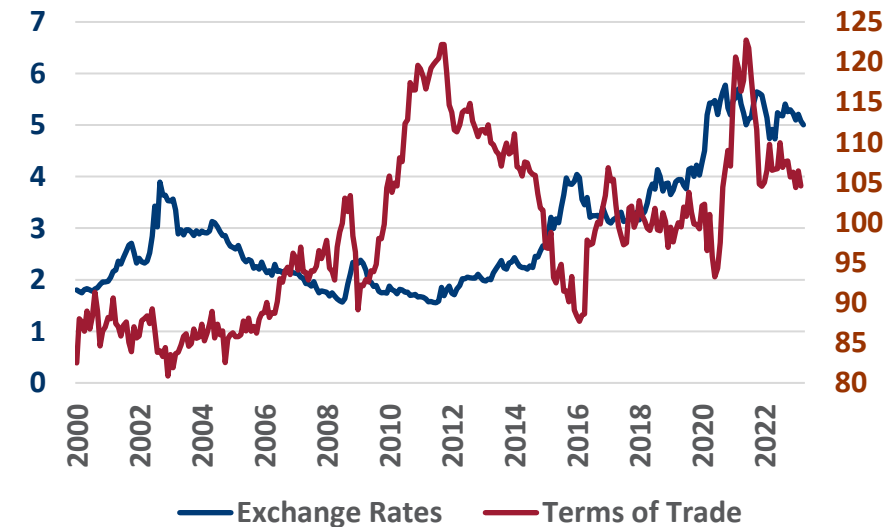
Foreign Direct Investment (YTD (March), USD Billion)



Interest Rate Differential x BRL



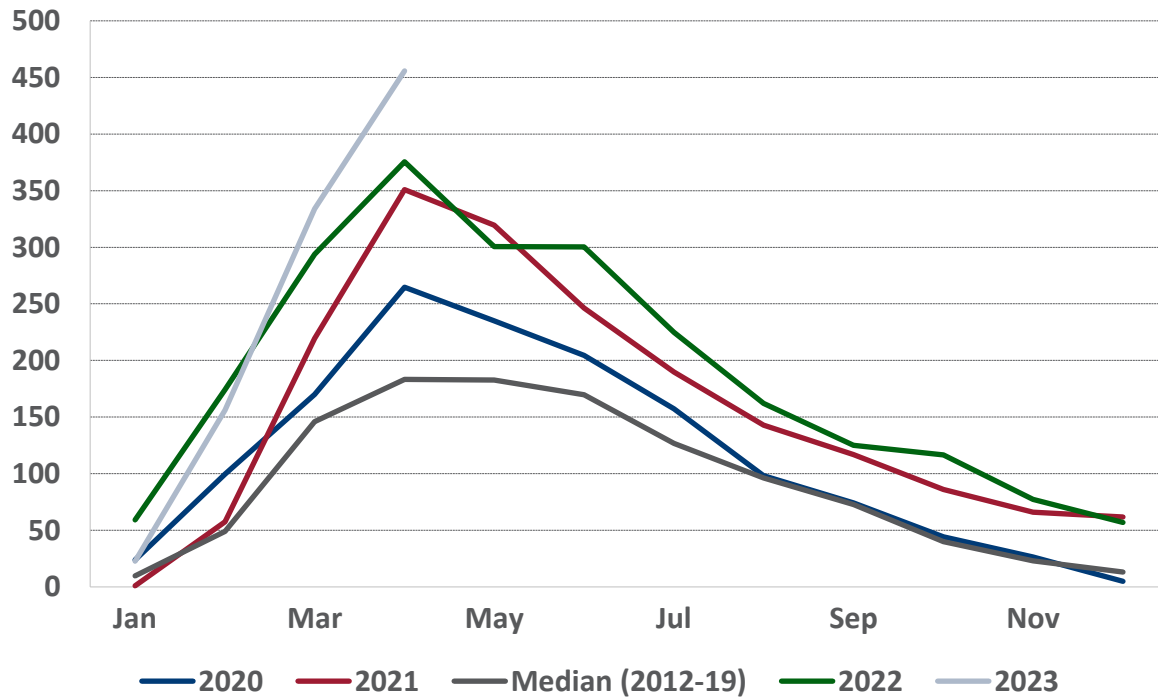
Terms of Trade x BRL



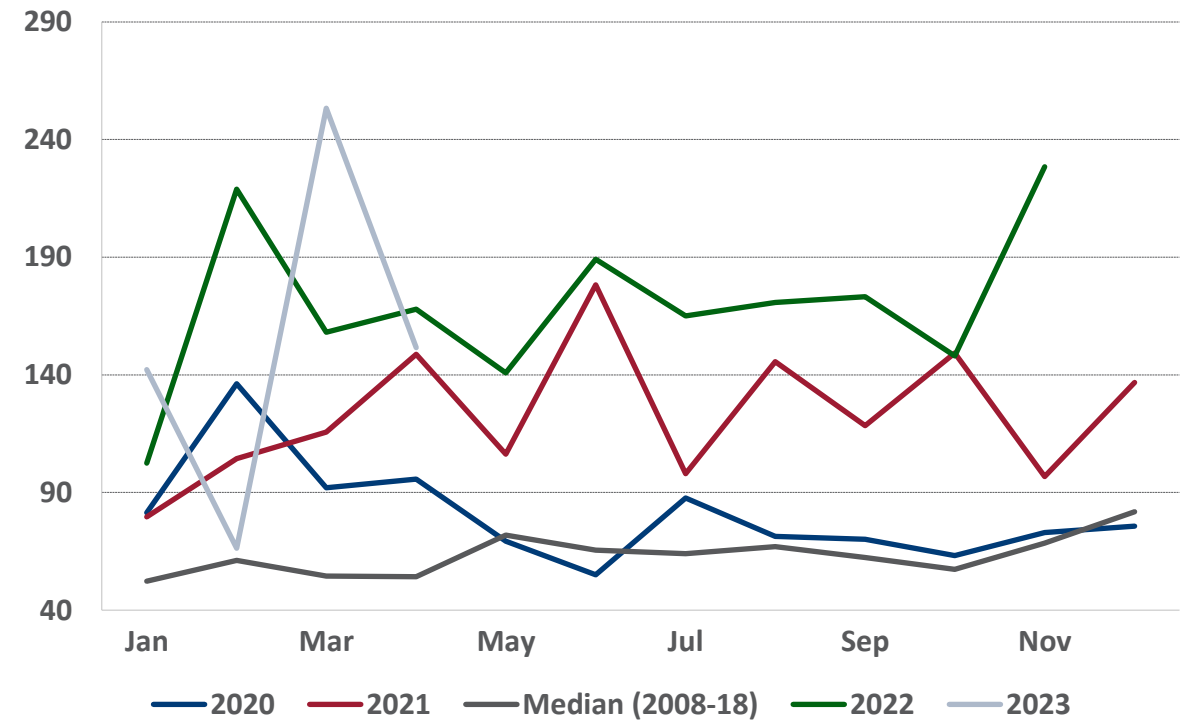
Brazil: External Sector

» The trade balance remains strong, favored by grain exports in a year of record harvest.

Brazil BoP: Soybeans Exports
US\$ Million Daily Average



Brazil BoP: Crude Oil Exports
US\$ Million Daily Average



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