交通銀行 BANK OF COMMUNICATIONS BBM

MACRO OUTLOOK

Cecilia Machado
Chief Economist

July 2023

Macro Outlook

- Incoming data from developed economies continues to point to a resilient activity, to a heated labor market and to 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 effect such tightening has on the US economy remains uncertain. All in all, the FOMC raised it's median projection for 2023 terminal Fed funds rate to 5.6% (from 5.1%), reinforcing more tightening, but GDP and labor market projections point to a soft-landing scenario;

- As for China, recent data confirmed that economic activity continues its recovery path, showing challenges in property-related sectors, but strength in others. Government policies targeted to boosting households and businesses confidence levels were already implemented, but more is needed to stimulate the resumption of domestic consumption. Furthermore, there were some improvements in the US and China communication since the visit of US' secretary of state, Anthony Blinken, but both nations remains under a cautious posture towards each other;

- In Brazil, economic activity has gradually slowed down, in line with our forecasts. GDP in Q2 should show a significant deceleration in relation to Q1, but at a still positive level (0.3% QoQ). For 2023, we have maintained our projection of 2% for the GDP growth;

- Our scenario for Selic rates now includes more cuts, reaching 11.75% at the end of the year and 9% in 2024. Copom minutes corroborate this view as the Committee's predominant assessment was that as the ongoing disinflationary process continues, it should be possible to initiate a parsimonious process of monetary policy easing. The National Monetary Council's decision to maintain the inflation target and its bands, changing only the way the target assessment will be checked (adopting a continuous time frame from 2025 onwards instead of the year-end, should also promote further reductions in inflation expectations for longer horizons;

- Regarding inflation, our projection for the year 2023 dropped to 4.7%, due to gasoline price cuts and better prospects for industrial and food inflation. For 2024, the projection fell from 4% to 3.6% considering the lower inertia coming from 2023, a scenario for a more appreciated exchange rate and lower commodity prices;

- Short-term fiscal results follow the expected trajectory. The consolidated public sector posted a primary deficit of BRL 50.2 bn in May, with the Central government, subnational governments, and state-owned enterprises had a deficit of 43.2 bn, 6.8 bn, and 0,2 bn, respectively. The General Government Gross Debt reached 73.6% of GDP in May from 72.9% in April, due to interest settlements (0.7 pp), net issuance (0.3 pp), and nominal GDP growth (-0.4 pp).

China: Activity

- May economic activity was broadly below expectations on YoY terms, but showed stability or improvements on a monthly basis:

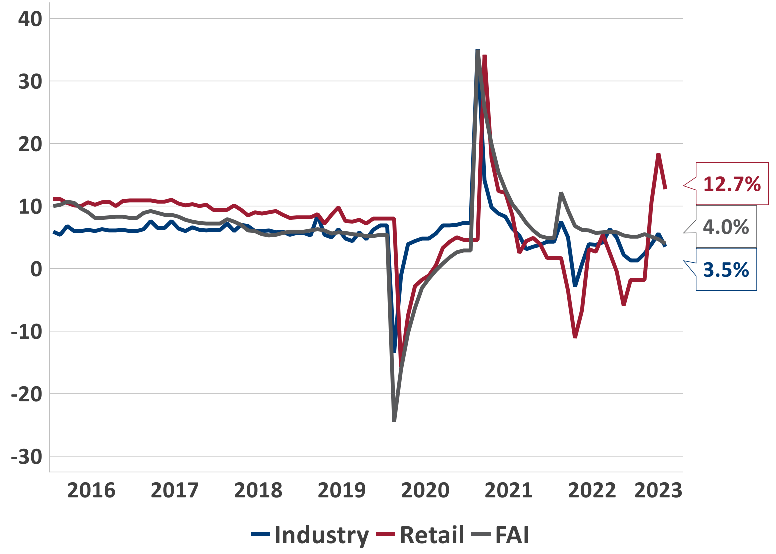
- **Industrial production decreased** from 5.6% to **3.5%** YoY (exp 3.6%), with weakness on property-related activities such as cement (-0.4% YoY) and steel (-7.3% YoY) production – on a sequential basis, the industrial value-added rose 0.6% MoM (vs -0.34% in April);

- **Retail sales decreased** sharply from 18.4% to **12.7%** YoY (exp 13.6%), with 2% MoM SA increase; most property-related components slowed down, such as home appliances and building materials, but automobiles sales stood out with a 28% YoY growth capitalized on a low base;

- **FAI declined** from 4.7% to **4.0% YTD YoY** (exp. 4.4%), reflecting a slowdown in 'other investments' category (mostly services and agriculture-related sectors) but with an increase in infrastructure spending;

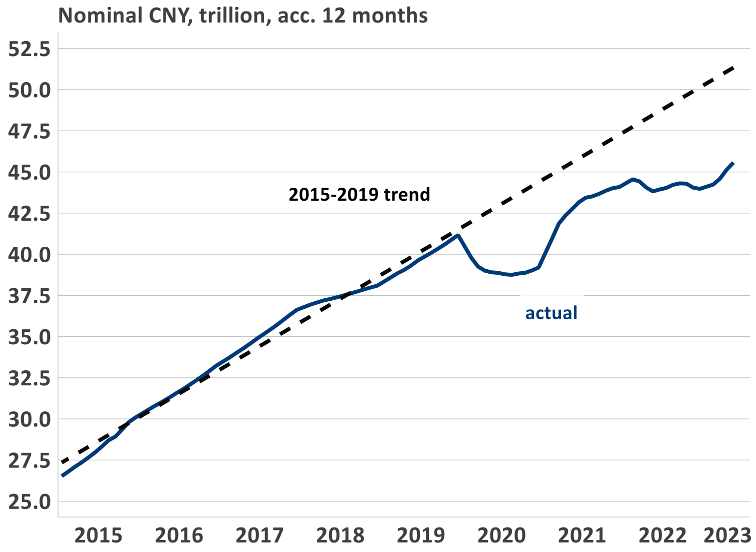
- The **national and 31-city unemployment rates remained stable at 5.2%** and **5.5%**, respectively, however the unemployment among young people (age 16-24) rose further to 20.8% (from 20.4%), reflecting the consequences of college expansion, skill mismatch and demographic changes.

China: Activity (YoY, %)



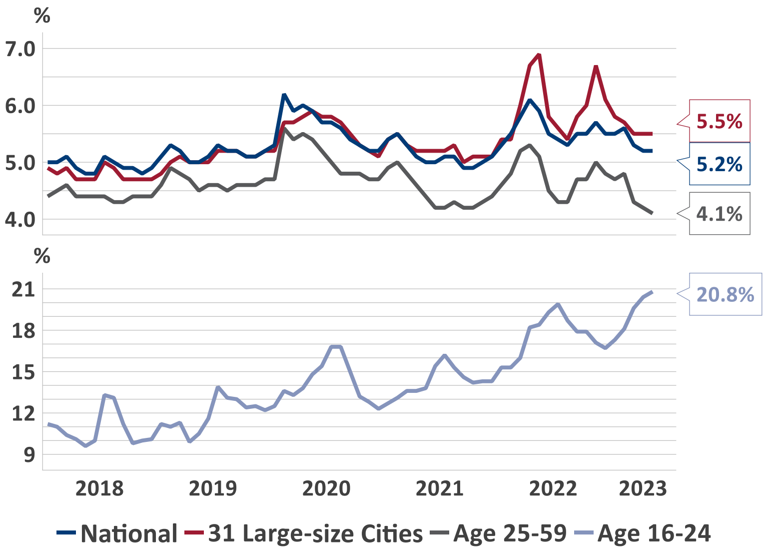
Source: BOCOM BBM, Macrobond, NBS

China: Retail Sales



Source: BOCOM BBM, Macrobond, NBS

China: Unemployment Rate in Urban Areas



Source: BOCOM BBM, Macrobond, NBS

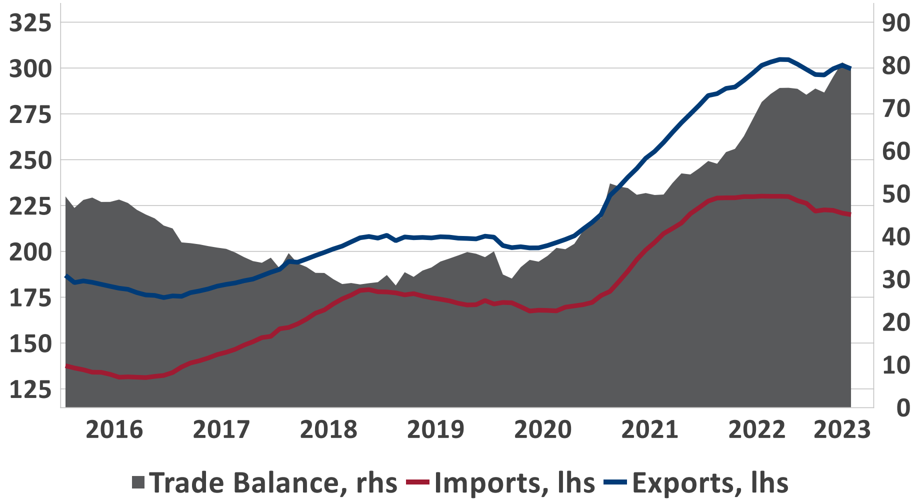
China: Economic Scenario

- In June, China's **PMI** came in aligned with expectations but continued to show an ongoing divergence in recovery between the manufacturing and service sectors;
  - The NBS manufacturing PMI rose from 48.8 to **49.0** (exp. 49) 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 54.5 to **53.2**;

- **Exports** fell more than expected, from 8.5% to **-7.5% YoY** (exp. -1.5%), representing a general slowdown due to weaker external demand;
- **Imports** remained negative, but rose from -7.9% to **-4.5% YoY**, with most commodities recording a positive YoY import volume growth in the month, reflecting a relative steady demand picture.

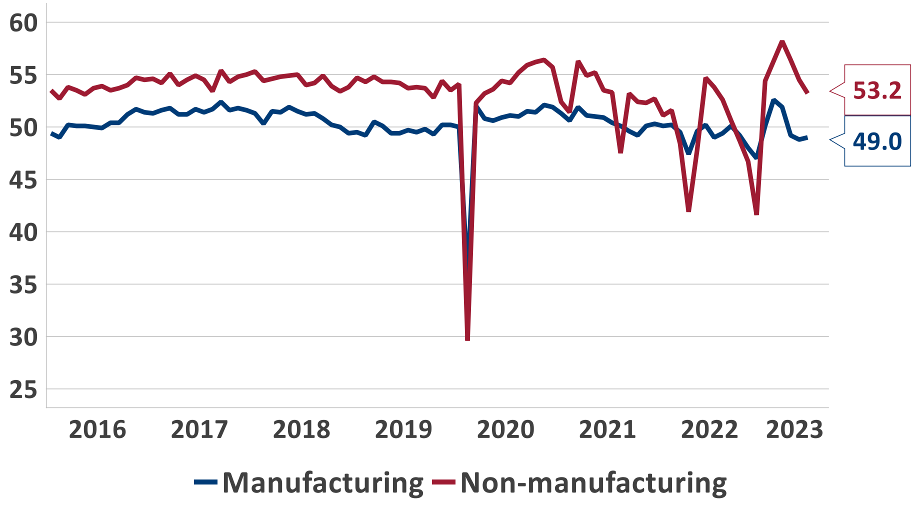
- **CPI** inflation fell **-0.2%** MoM (exp. - 0.1%) moving from 0.1% to **0.2%** YoY (exp. 0.3%), led by falling transportation and shelter costs, and a pick-up in food inflation:
  - Overall disinflation pressure continues to build up reflecting that the recovery momentum seen in some areas of the economy still needs to broaden out.

China: Trade Balance (USD billion, 12MMA)



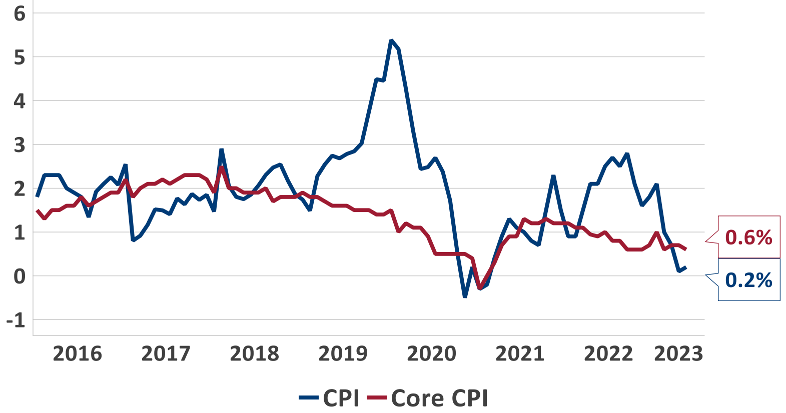
Source: BOCOM BBM, Macrobond, CCS

China - PMI



Source: BOCOM BBM, Macrobond, CFLP

China: CPI (YoY, %)



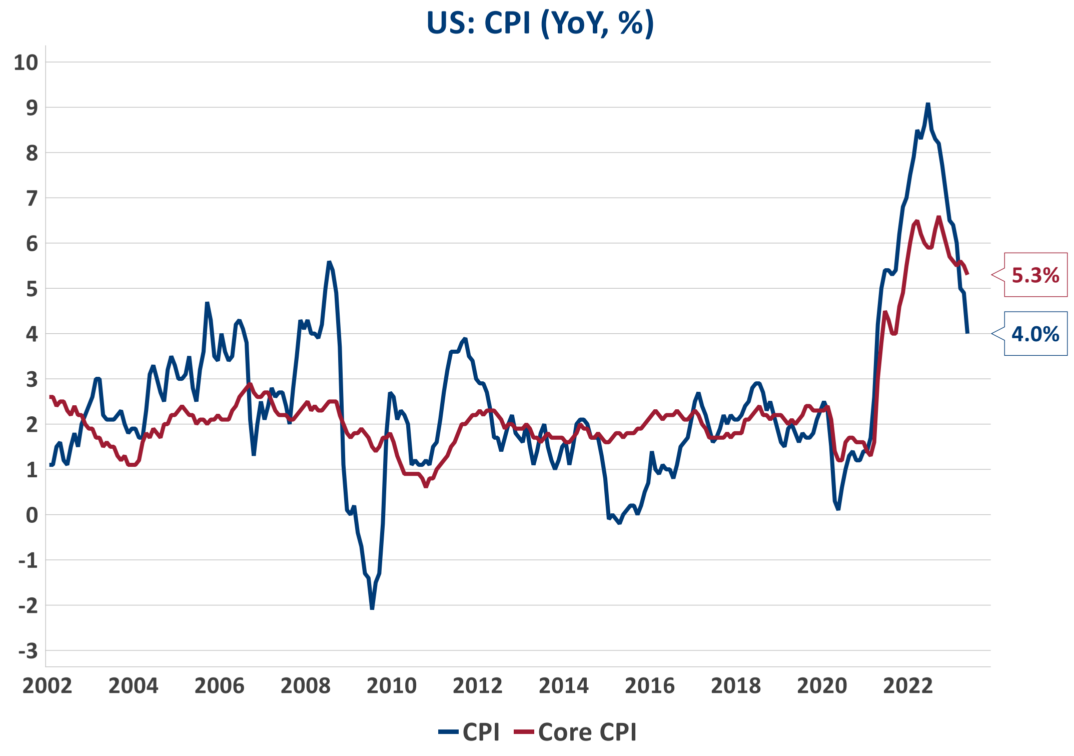
Source: BOCOM BBM, Macrobond, NBS

USA: Inflation

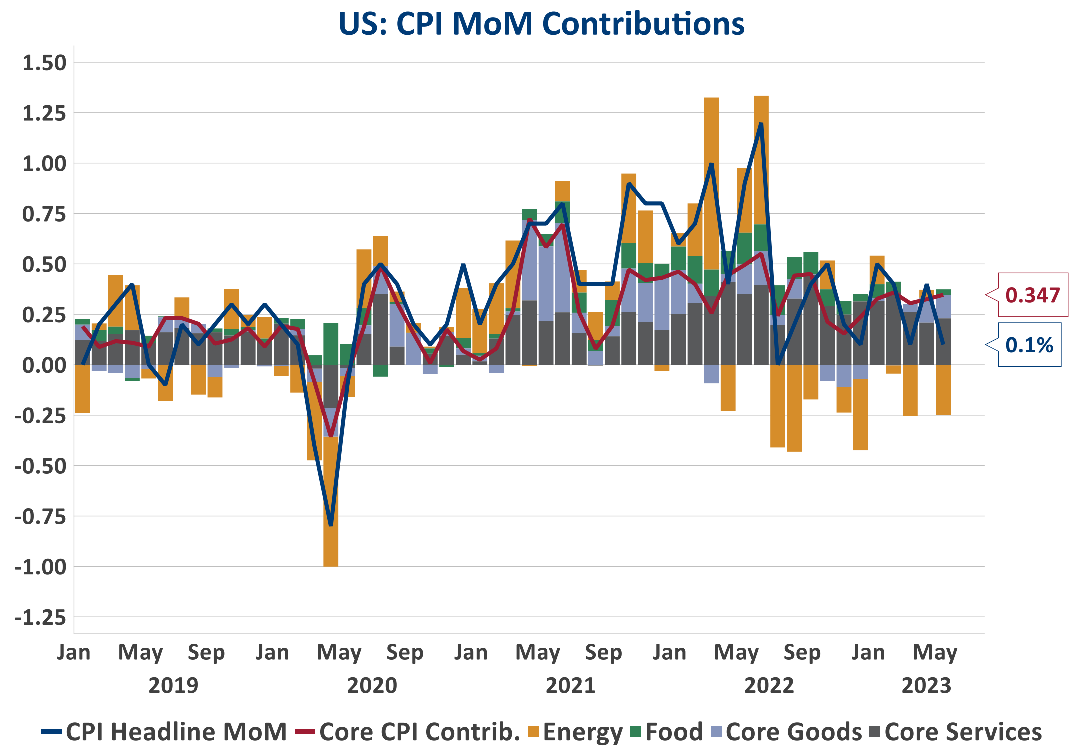
交通銀行 BANK OF COMMUNICATIONS BBM

- May headline CPI arrived aligned with expectations, moving from 4.9% to **4.0%** YoY and increasing by **0.12%** MoM (exp. 0.15%)
  - Energy prices fell again (-3.6% MoM) backed by lower gasoline and diesel prices;
  - Food prices picked up a bit their pace, although they remain considerably slower than their strong increases last year;

- Core CPI increased **0.44%** MoM, reaching **5.3%** YoY (from 5.5%):
  - We're still seeing pressure on the headline coming from **core services** (0.4% MoM), although OER and rent of primary residence continued to slow down;
  - **Core goods** inched up and pressured the headline more firmly due to the 2nd consecutive strong increase in used cars & trucks, although other components remained well behaved;



Source: BOCOM BBM, Macrobond, BLS



Source: BOCOM BBM, Macrobond, BLS

USA: Labor Market

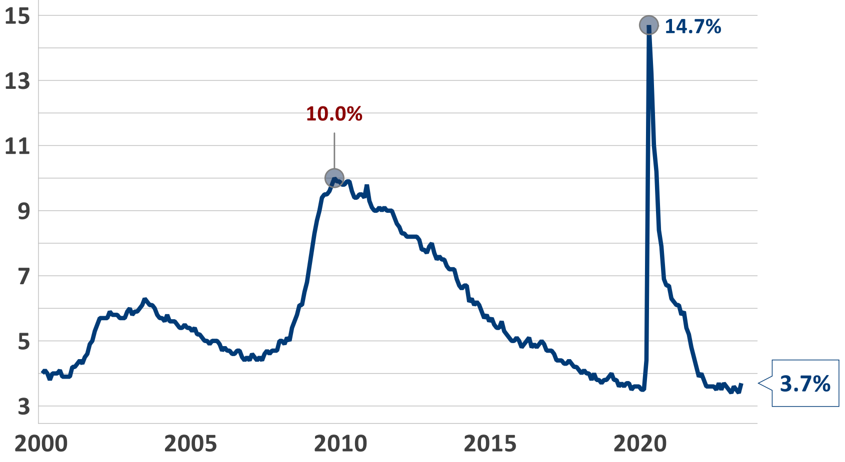
BANK OF COMMUNICATIONS BBM

- 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 increased 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;**

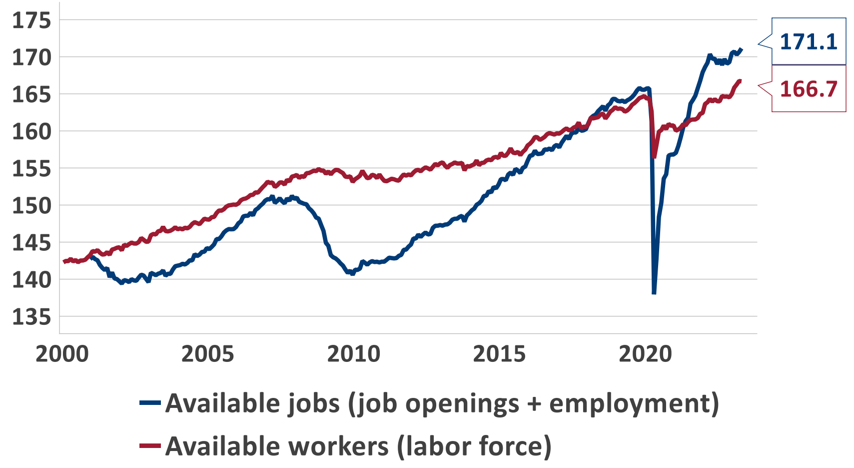
- In May, wages slowed a bit from the rapid pace they posted in April, although it remains elevated when compared to the figures on the beginning of the year
  - This is important due to the positive correlation between wage inflation and inflation in services excluding housing & energy, which remains persistently high and the main pressure in core inflation.

US: Unemployment Rate SA (%)



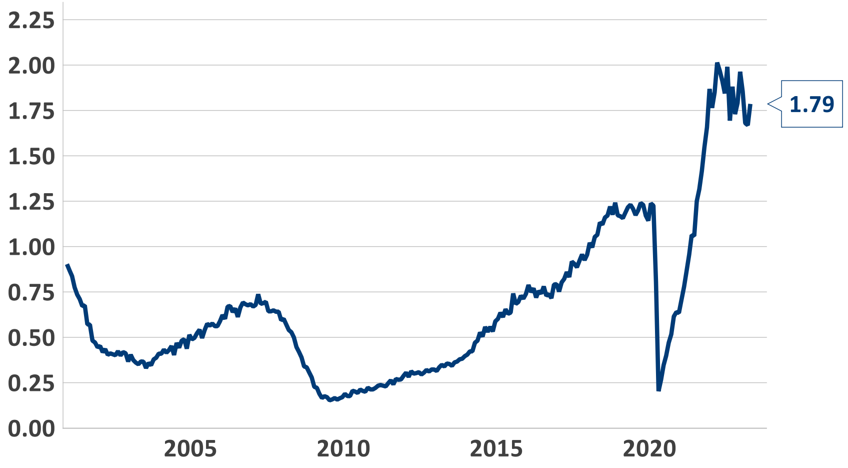
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



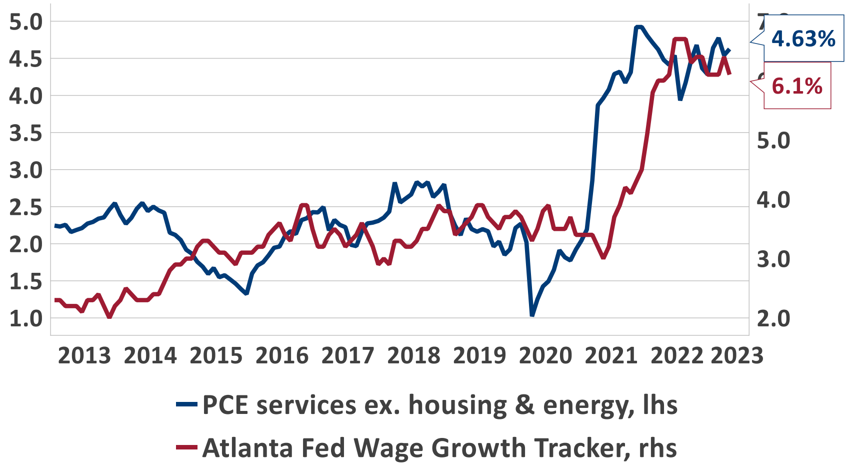
Source: BOCOM BBM, Macrobond, BLS

US: Job Openings/Unemployed Ratio



Source: BOCOM BBM, Macrobond

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

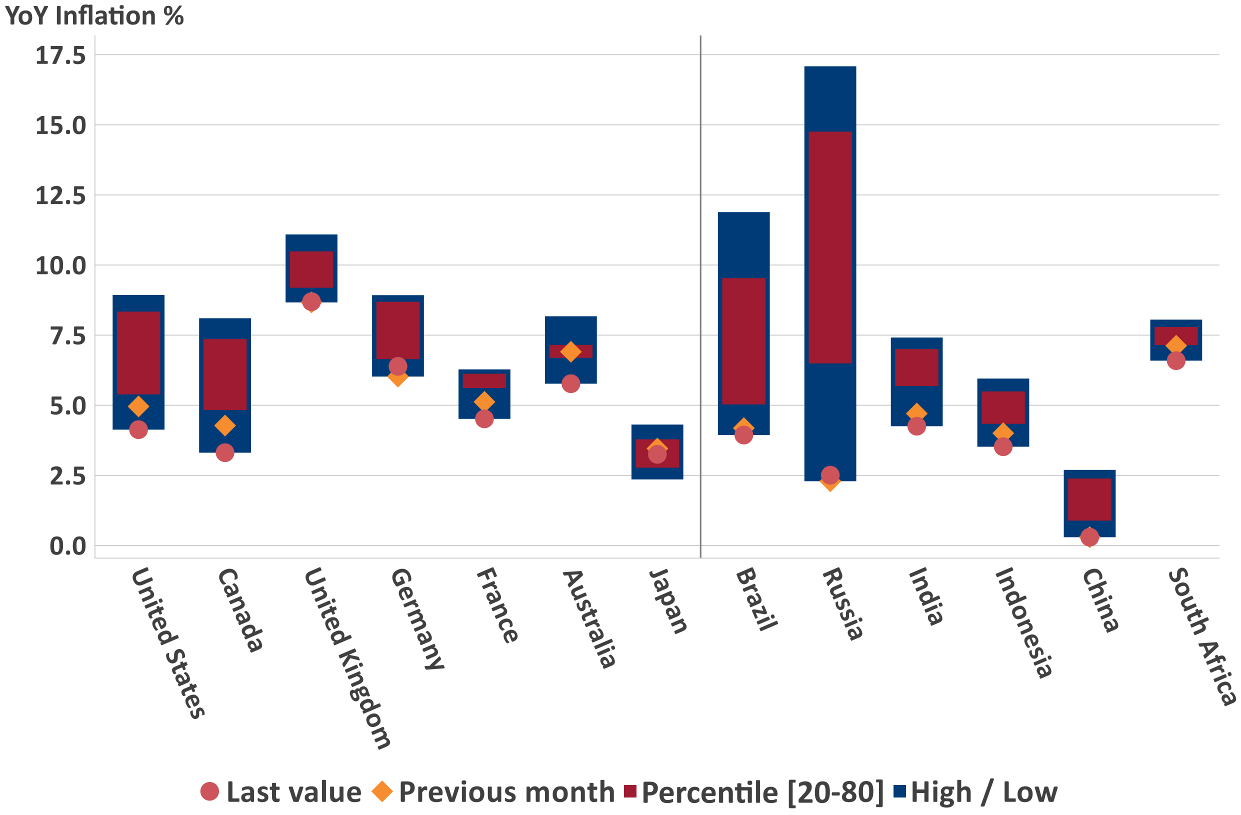


Source: BOCOM BBM, Macrobond, BEA

Global: Inflation & Activity

- For the first time in decades, inflation across emerging markets is not significantly higher than it is in developed markets;
- In order to bring inflation convergence back to their respective targets, many central banks tightened sharply their monetary policy over the past year resulting in a slowdown to economic activity across several countries, although some showed remarkable resiliency;
  - 3 OECD nations are showing a technical recession in 2023 (2 quarters of negative growth): Germany, Ireland & New Zealand.

Inflation range during the past 12 months



Source: BOCOM BBM, Macrobond

Recession Tracker

Number of countries in recession per year

Sample universe across 35 OECD nations

	Share (%)	#
2023	8.6	3
2022	20.0	7
2021	5.7	2
2020	85.7	30
2019	5.7	2
2018	5.7	2
2017	2.9	1
2016	2.9	1
2015	11.4	4
2014	11.4	4
2013	8.6	3
2012	28.6	10
2011	17.1	6
2010	14.3	5
2009	34.3	12
2008	65.7	23
2007	8.6	3
2006	2.9	1
2005	8.6	3
2004	5.7	2
2003	14.3	5
2002	17.1	6
2001	25.7	9
2000	5.7	2

Source: BOCOM BBM, Macrobond, National Sources

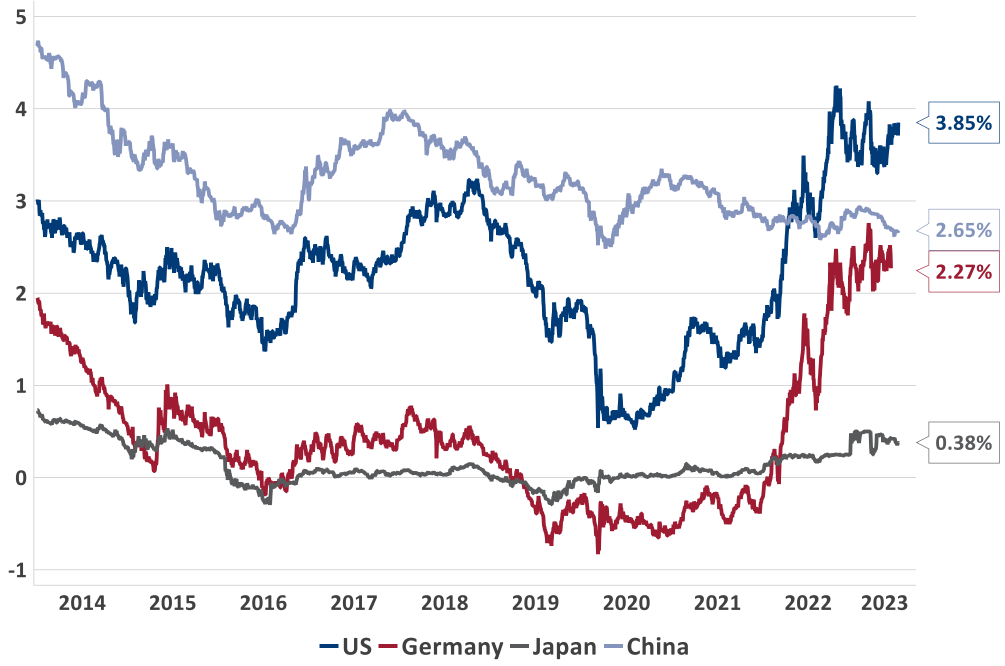
Global: Interest Rates

- Interest rates across several countries continue to rise, with a few exceptions, such as in China and Japan;

- The FOMC decided to pause the interest rate hiking cycle in its last meeting, however their summary of economic projections showed more hikes are on the way;

- 12 out of the 18 FOMC members project two additional 25bps hikes to the Fed funds rate, reaching 5.50-5.75% by the end of the cycle, above the terminal rate priced in by markets (around 5.40%);

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	97.00	6.00	Hike	5/2023	2	32
Australia	4.10	0.25	Hike	6/2023	1	32
Brazil	13.75	0.50	Hike	8/2022	11	35
Canada	4.75	0.25	Hike	6/2023	1	39
Chile	11.25	0.50	Hike	10/2022	9	39
China	3.55	-0.10	Cut	6/2023	112	0
Colombia	13.25	0.25	Hike	5/2023	2	33
Costa Rica	7.00	-0.50	Cut	6/2023	8	1
Czech Republic	7.00	1.25	Hike	6/2022	12	38
Denmark	3.25	0.25	Hike	6/2023	0	21
Euro Area	4.00	0.25	Hike	6/2023	0	87
Hungary	13.00	1.25	Hike	9/2022	9	35
Iceland	8.75	1.25	Hike	5/2023	1	31
India	6.50	0.25	Hike	2/2023	5	37
Indonesia	5.75	0.25	Hike	1/2023	5	28
Israel	4.75	0.25	Hike	5/2023	1	39
Japan	-0.10	-0.20	Cut	1/2016	196	89
Mexico	11.25	0.25	Hike	3/2023	3	29
New Zealand	5.50	0.25	Hike	5/2023	1	39
Norway	3.75	0.50	Hike	6/2023	0	38
Poland	6.75	0.25	Hike	9/2022	10	37
Russia	7.50	-0.50	Cut	9/2022	16	9
Saudi Arabia	5.75	0.25	Hike	5/2023	2	39
South Africa	8.25	0.50	Hike	5/2023	1	35
South Korea	3.50	0.25	Hike	1/2023	6	37
Sweden	3.50	0.50	Hike	5/2023	2	88
Switzerland	1.75	0.25	Hike	6/2023	0	101
Turkey	15.00	6.50	Hike	6/2023	0	4
United Kingdom	5.00	0.50	Hike	6/2023	0	39
United States	5.25	0.25	Hike	5/2023	2	39

Brazil: Forecasts

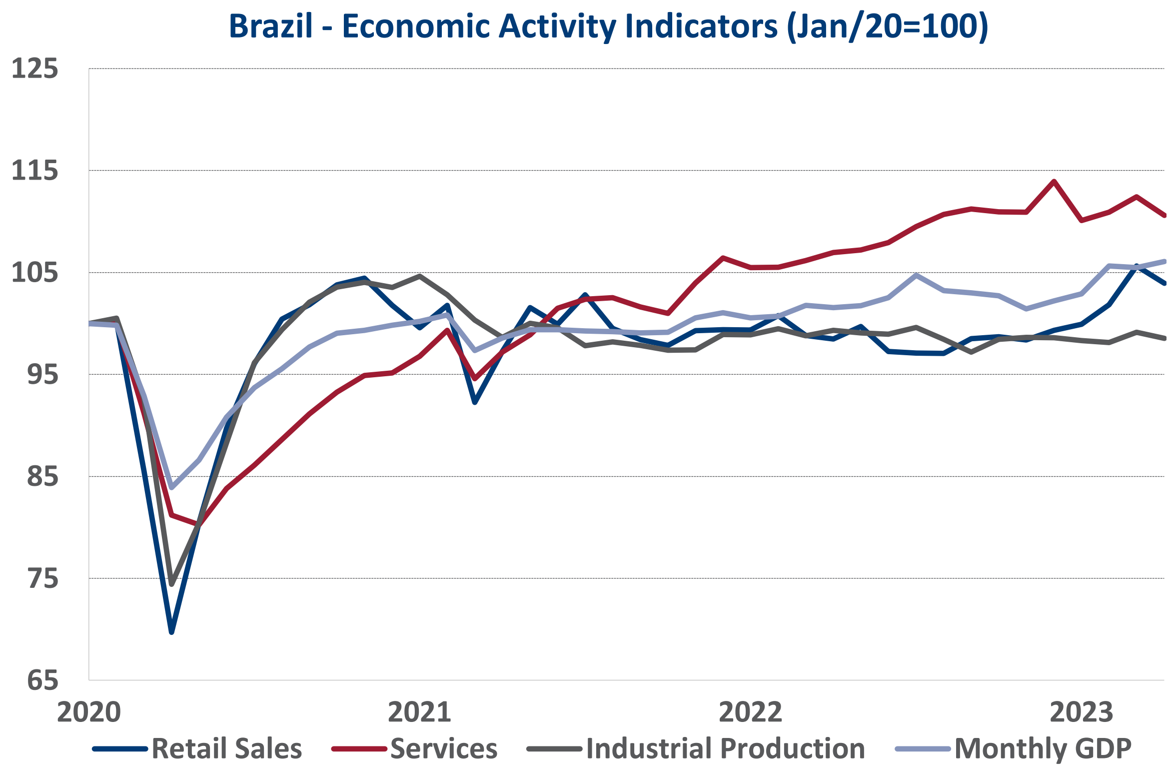
ECONOMIC FORECASTS	2019	2020	2021	2022F	2023F	2024F
GDP Growth (%)	1.2%	-3.3%	5.0%	2.9%	2.0%	1.0%
Inflation (%)	4.3%	4.5%	10.1%	5.8%	4.7%	3.6%
Unemployment Rate (eoy ,%)	11.1%	14.2%	11.1%	7.9%	8.8%	9.3%
Policy Rate (eoy, %)	4.5%	2.0%	9.3%	13.75%	11.75%	9.0%
External Accounts						
Trade Balance (US$ bn)	27	32	36	44	60	42
Current Account Balance (US$ bn)	-68	-28	-46	-56	-39	-50
Current Account Balance (% of GDP)	-3.6%	-1.9%	-2.8%	-2.9%	-1.8%	-2.3%
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%

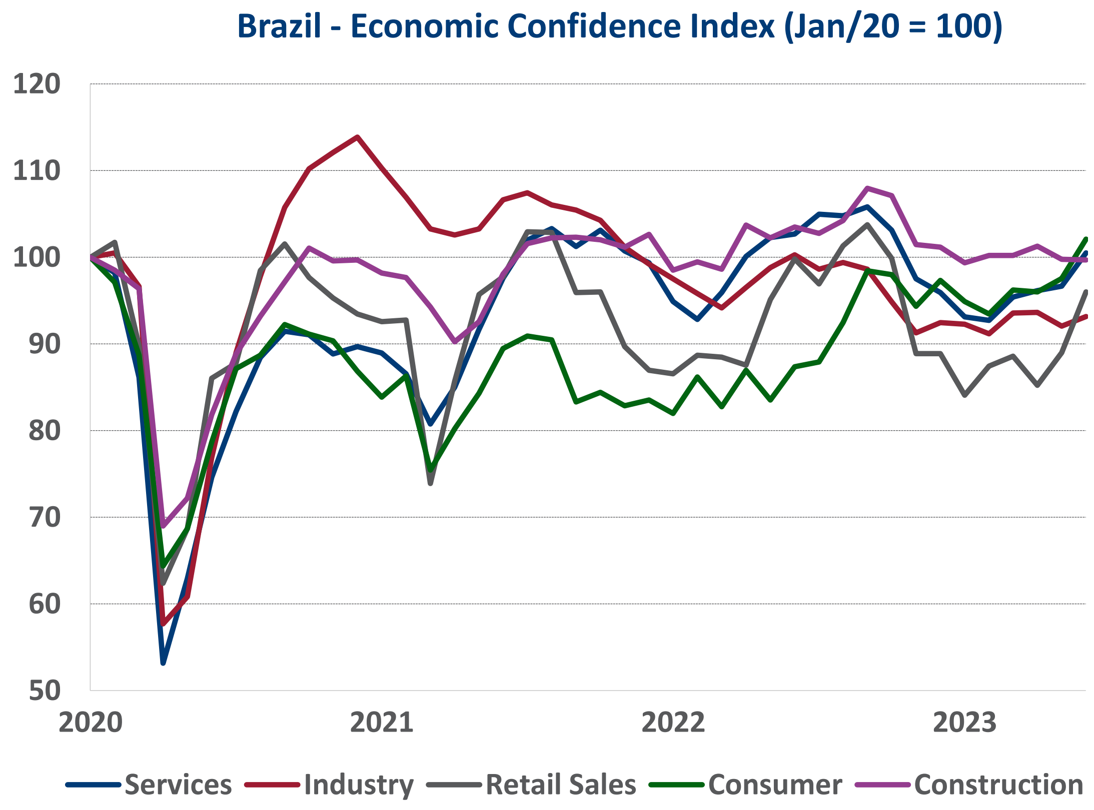
Source: BOCOM BBM

Brazil: Activity

» The three major activity sectors presented worse results than the median of market expectations in April. Retail sales declined -1.6% MoM, services sector dropped -1.6% MoM, while Industrial Production fell -0.6% MoM;

» By the other hand, confidence indicators showed great signs of recovery in June, with highs in all sectors except for construction, which remained stable.



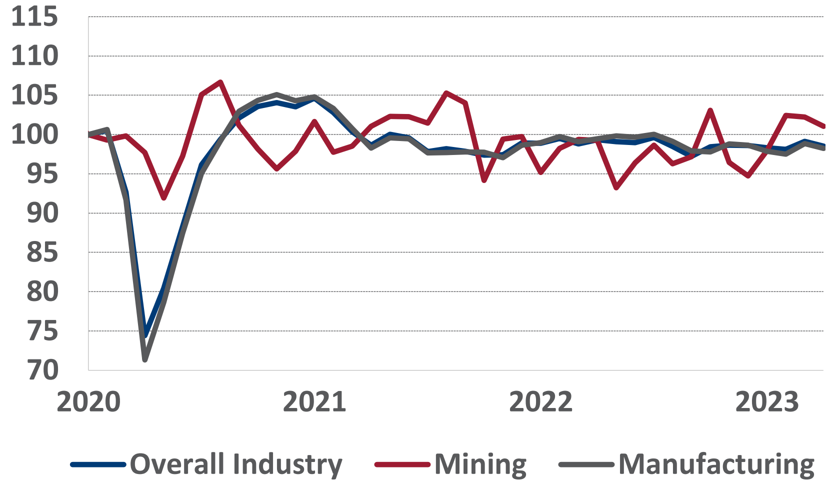


Source: BOCOM BBM, FGV

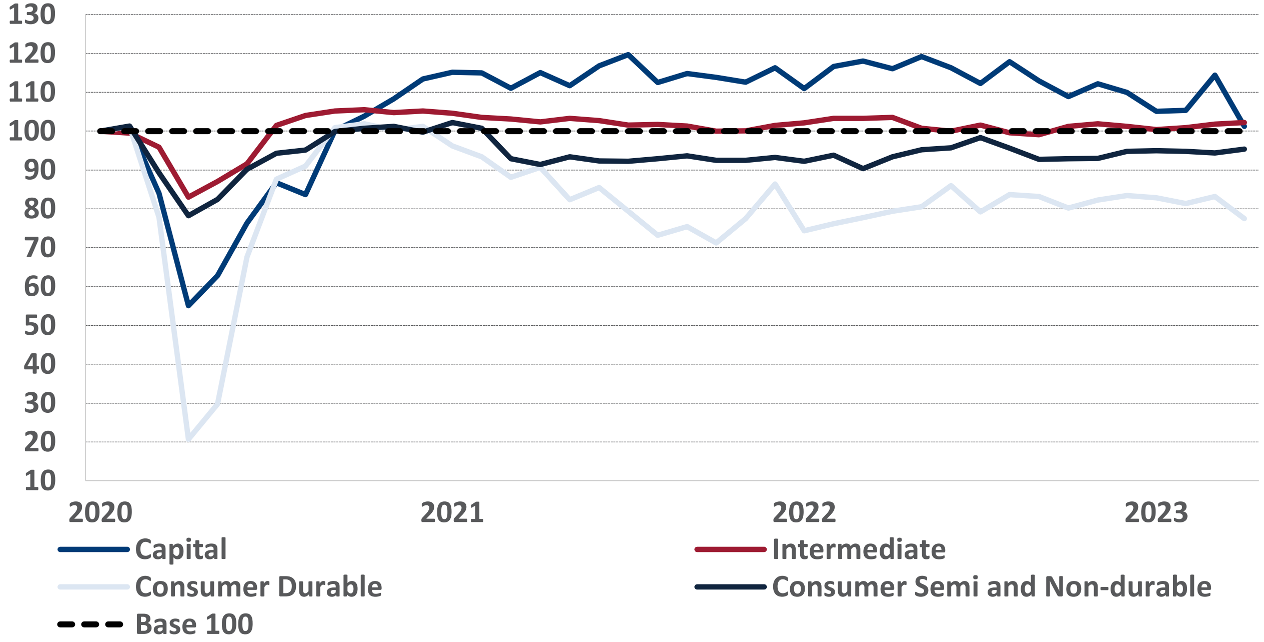
Brazil: Industrial Production

- The industrial production fell -0.6% in April, representing the fourth decline in the last five monthly readings;
- The production of capital goods tumbled 11.5% MoM, while durable consumer goods plummeted 6.9%. This results from tighter monetary and credit conditions, and high household indebtedness;
- The category of non-durable consumer goods is still growing supported by the increase in household disposable income by virtue of resilient labor market and higher government cash transfers.

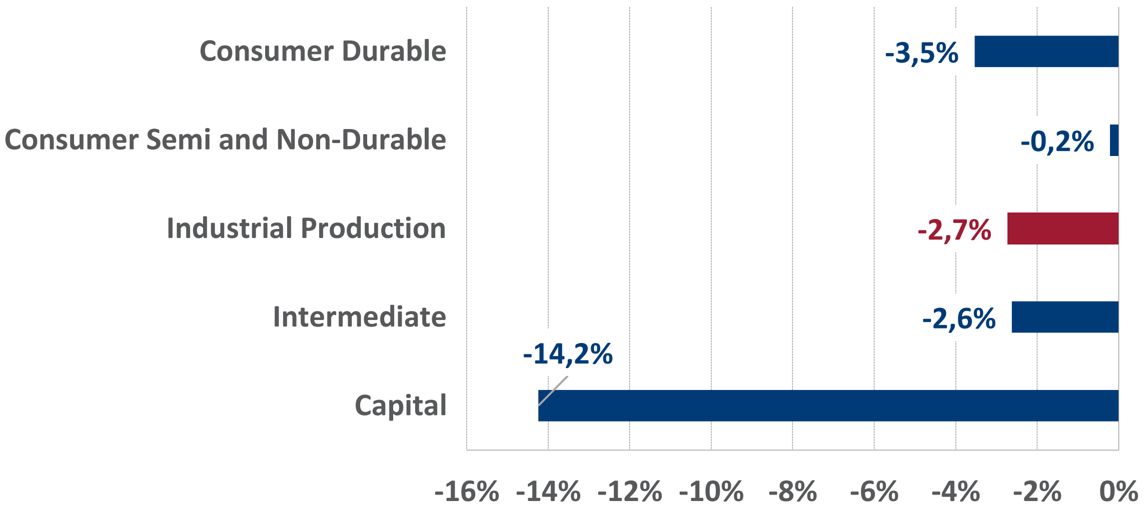
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



Industrial Production by Category - abr/2023 (YoY)

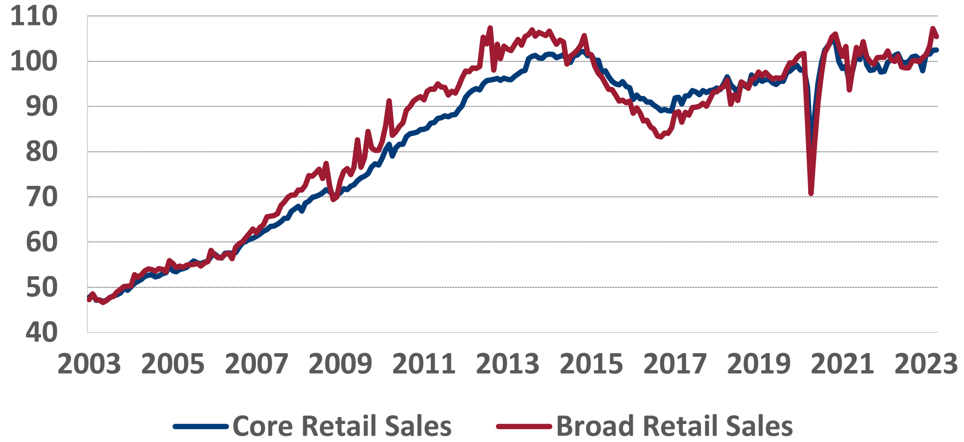


Source: IBGE, BOCOM BBM

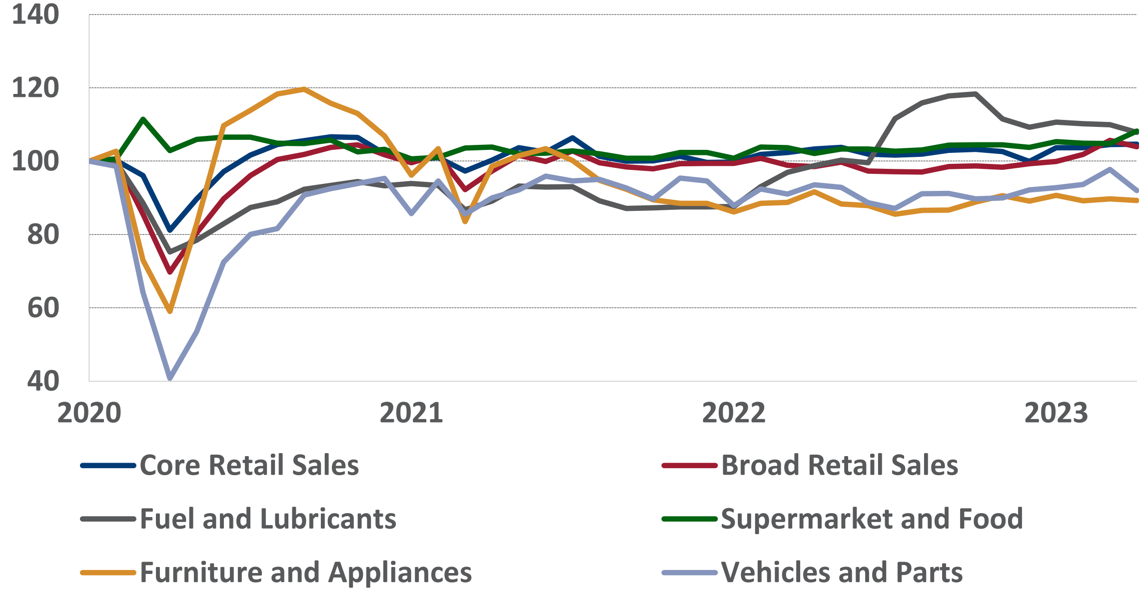
Brazil: Retail Sales

- The broad retail sales declined -1.6% MoM (3.1% YoY) in April, ending a streak of four consecutive increases. In turn, the core index increased 0.1% MoM (0.5% YoY), below the market expectation (0.3% MoM);
- Seven of the ten segments decreased at the margin and the new sector, 'Wholesale Specialized in Foods,' was the highlight (14.5% YoY) for the second month in a row;
- ‘Vehicles and Parts’ (-5.9% MoM) interrupted an encouraging sequence of five straight gains and the ‘Construction Materials’ showed the third consecutive decline monthly (-0.8% MoM; -0.5% QoQ);
- The strong increase in ‘Hypermarkets, Food and Beverages’ (3.2% MoM), reflects the improvement in personal income and a relief in food-at-home inflation.

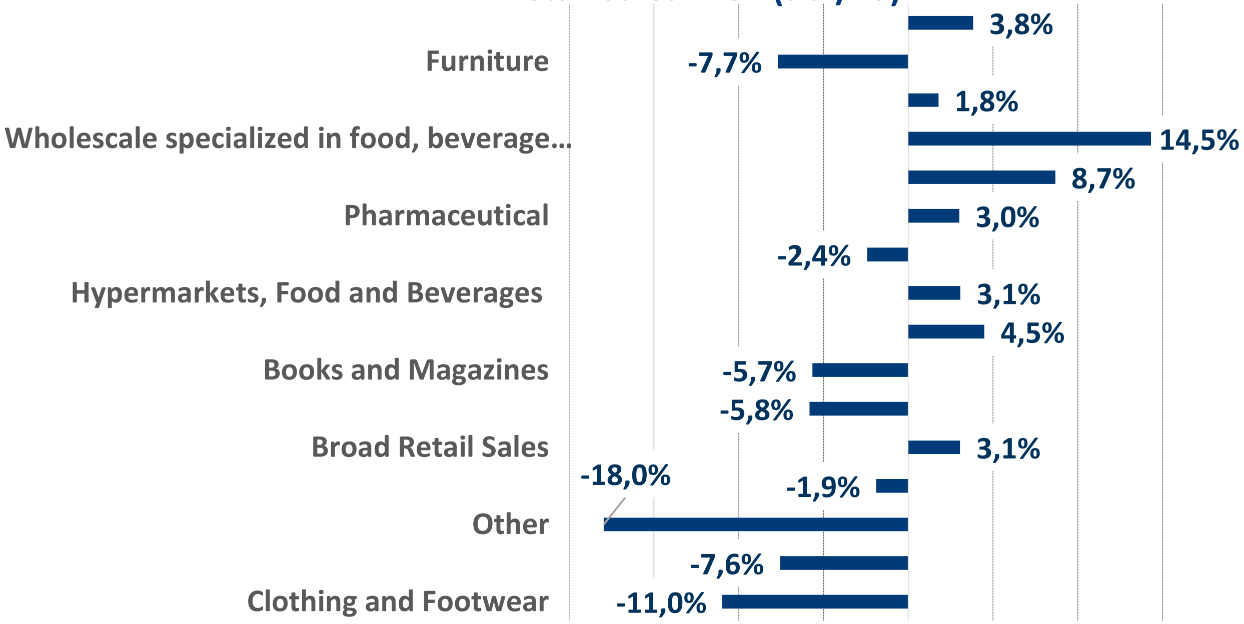
Broad Retail Sales SA x Core Retail Sales SA



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



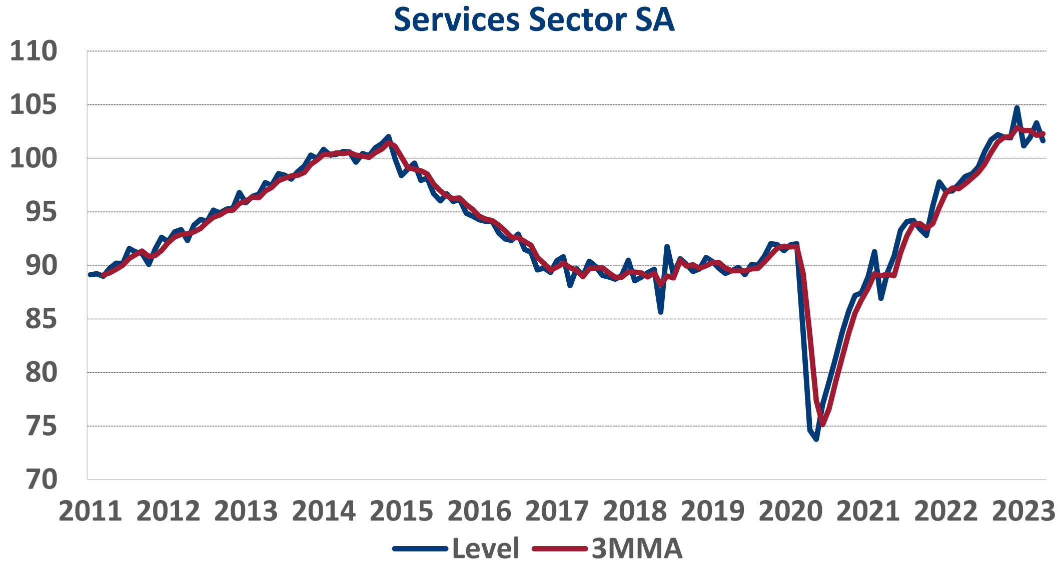
Retail Sales - YoY (abr/23)

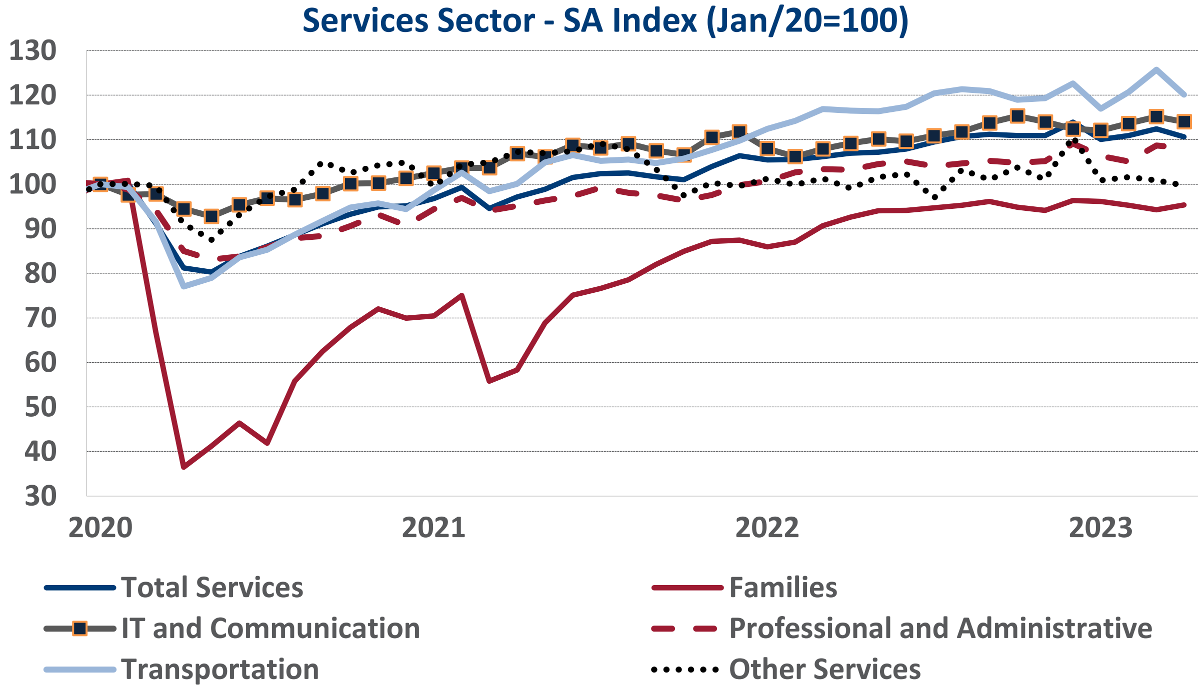


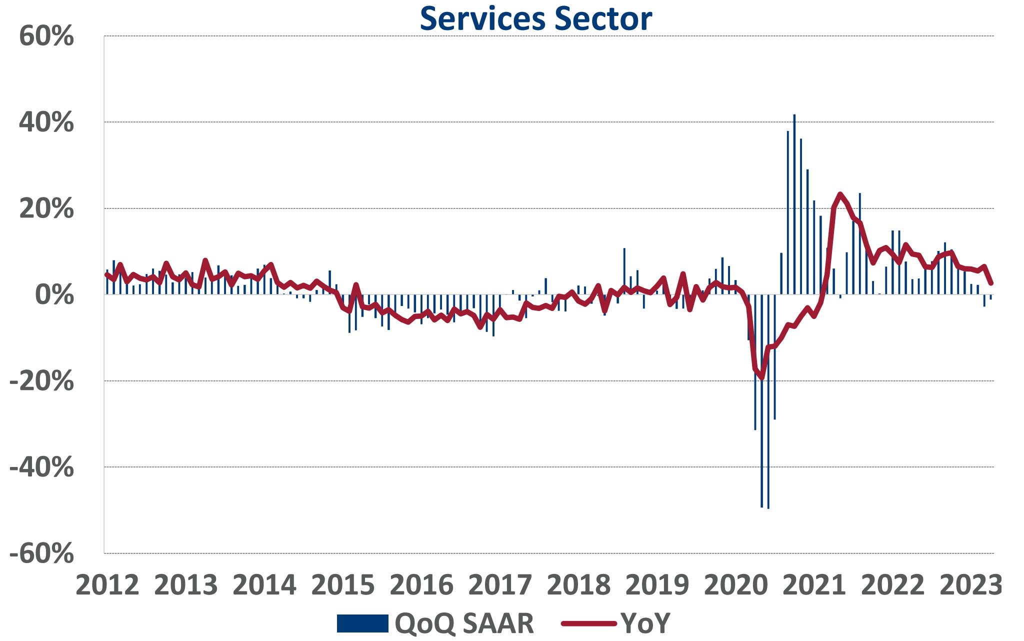
Source: IBGE, BOCOM BBM

Brazil: Services

- The services sector dropped -1.6% MoM, below expectations (0.1% MoM) and offsetting March´s increase;
- Four out of the five aggregate service categories decreased in April;
- ‘Services to Families’ posted the only positive contribution in April after three straight declines (1.2% MoM), while Transportation dropped -4.4% MoM.





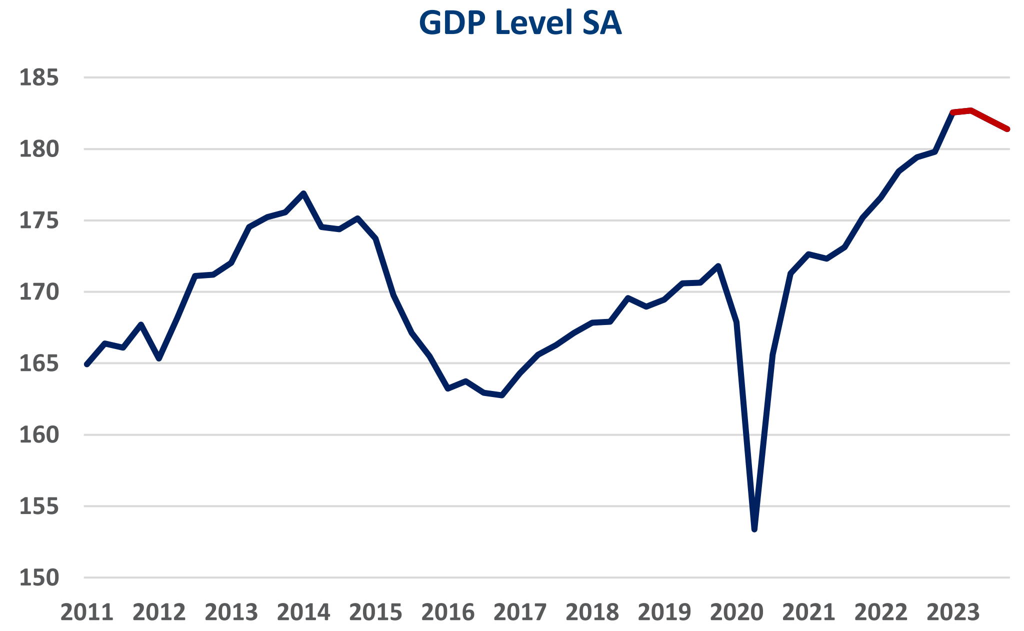


Source: IBGE, BOCOM BBM

Brazil: Economic Activity

- We maintain our GDP forecast for 2023 at 2.0%. Data already released for Q2 point to a significant deceleration in relation to Q1, at a still positive level, supported by categories such as mining, transport, financial services, information and communication and public services;
- We forecast an increase of 0.3% QoQ in Q2, followed by -0.2% and -0.4% in Q3 and Q4, respectively, reflecting the sharp tightening of credit conditions in the economy.

	Q2 QoQ	Q2 YoY	2023
GDP	**0.3%**	**2.5%**	**2.0%**
Agriculture	**-2.0%**	**14.0%**	**12.0%**
Industry	**0.3%**	**0.7%**	**0.9%**
Mining	1.7%	8.5%	6.9%
Manufacturing	-0.5%	-2.9%	-2.1%
Electricity	1.1%	5.6%	5.1%
Civil Construction	-0.5%	-1.3%	-0.4%
Services	**0.3%**	**1.8%**	**1.4%**
Retail	0.1%	-0.1%	0.1%
Transports	1.5%	4.3%	5.2%
Information and Communication	1.1%	4.3%	3.3%
Financial Services	1.0%	5.5%	3.2%
Rents	0.1%	2.0%	1.3%
Other Services	-0.3%	0.8%	0.6%
Public Administration	0.5%	1.8%	1.5%



Source: BOCOM BBM, IBGE

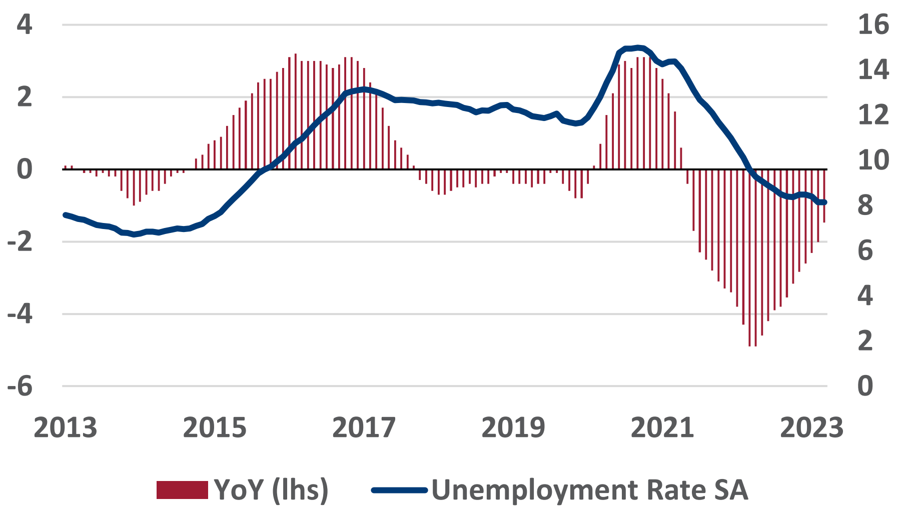
Brazil: PNAD

- The unemployment rate NSA reached 8.3% in May, in line with market expectations. Seasonally adjusted, the unemployment rate dropped from 8.25% in April to 8.19% in May;

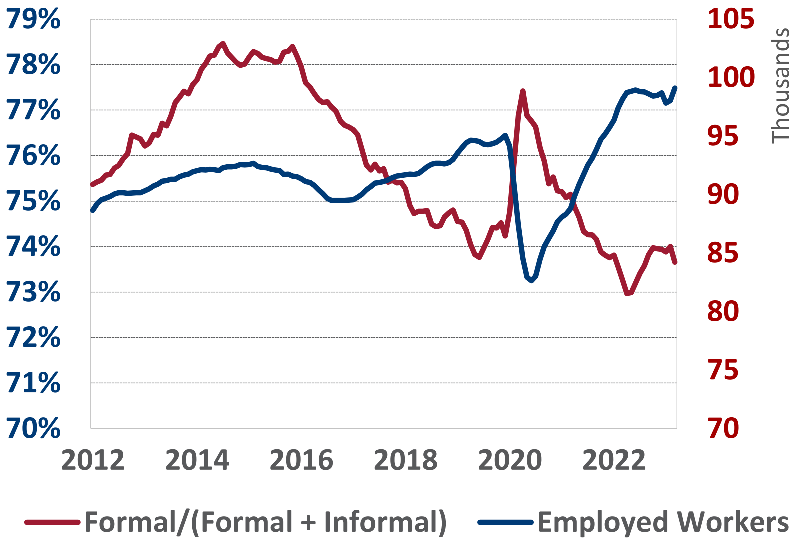
- The employed population grew by 0.1% MoM (the fourth consecutive positive variation), demonstrating that the sector remains resilient;

- Real labor earnings appear to be losing steam. The real labor earnings retreated by 0.2% MoM. The real aggregate labor income, on the other hand, grew 9.5% in 12 months and is around 3.5% above the pre-pandemic level.

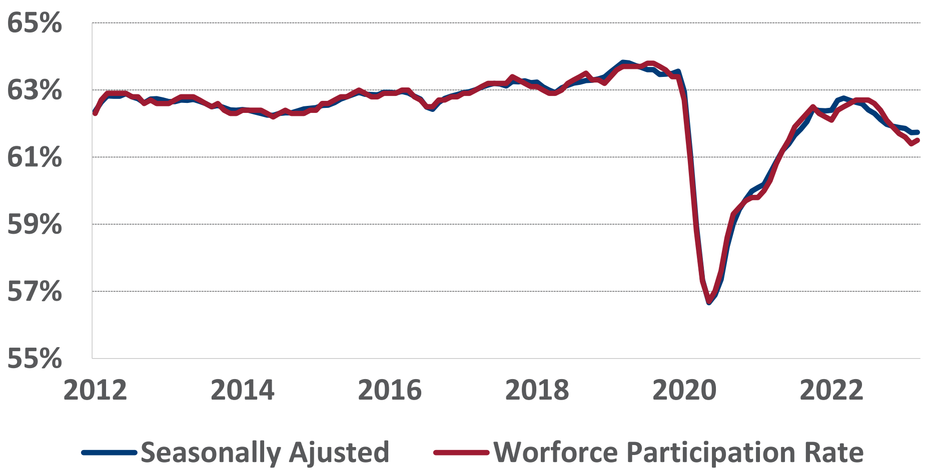
Brazil - Unemployment Rate



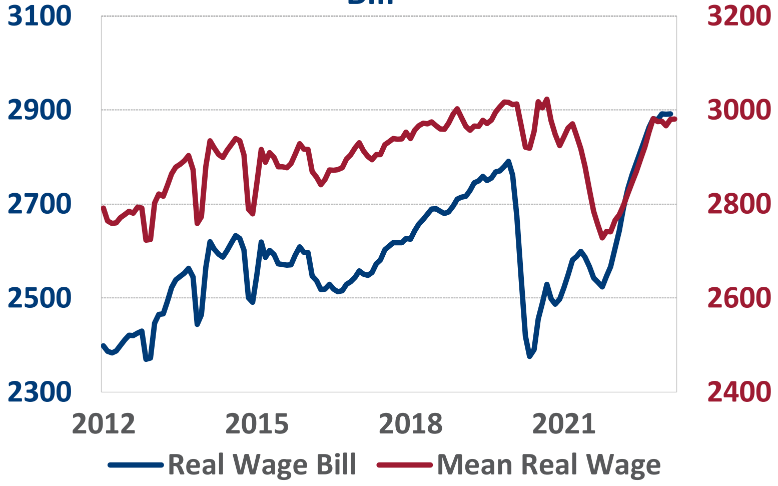
Brazil - Employment Level SA



Brazil - Workforce Participation



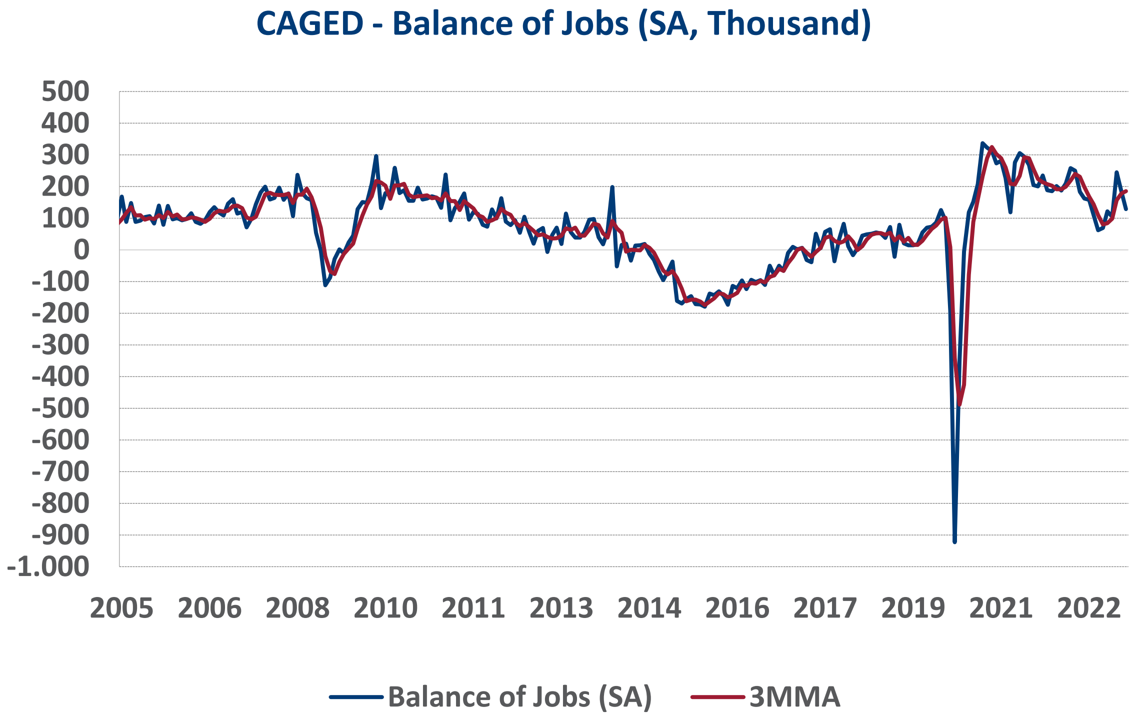
Brazil – Mean Real Wage and Real Wage Bill

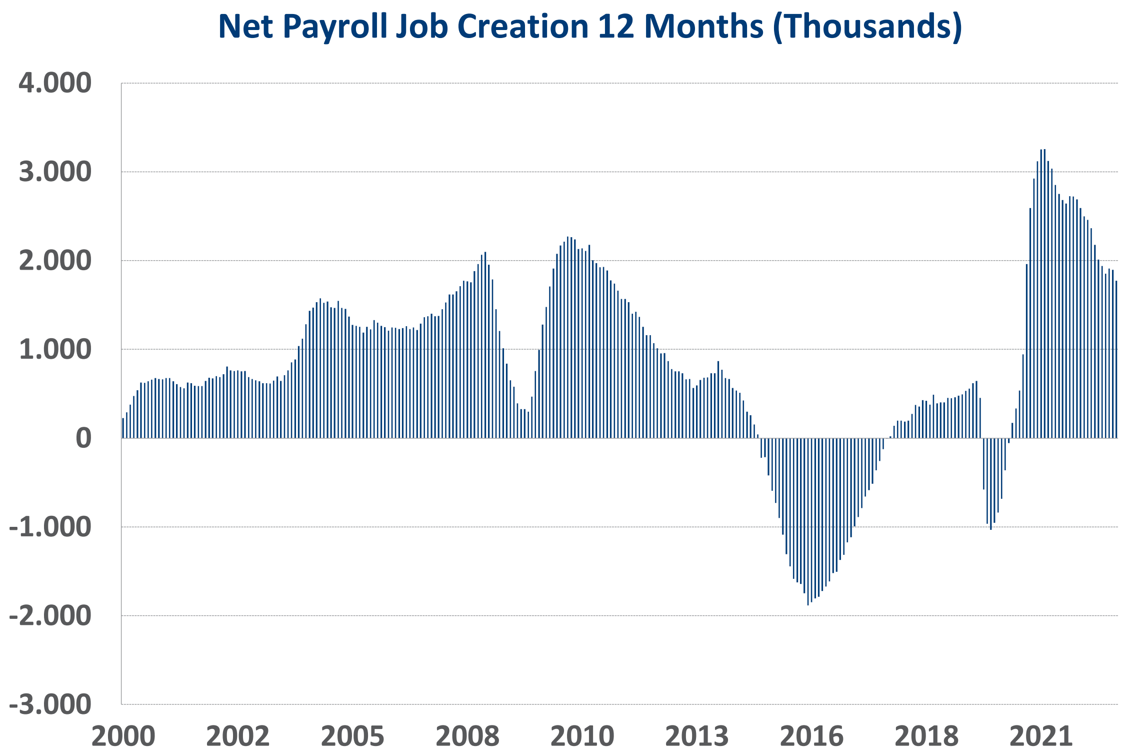


Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

- In May, Caged registered a net creation of 155.3k formal jobs, below market expectations (190.5k);
- The lower-than-expected result in May partly reflects the strong positive surprise in previous months;
- Overall, we see a gradual deceleration in formal employment throughout 2023.

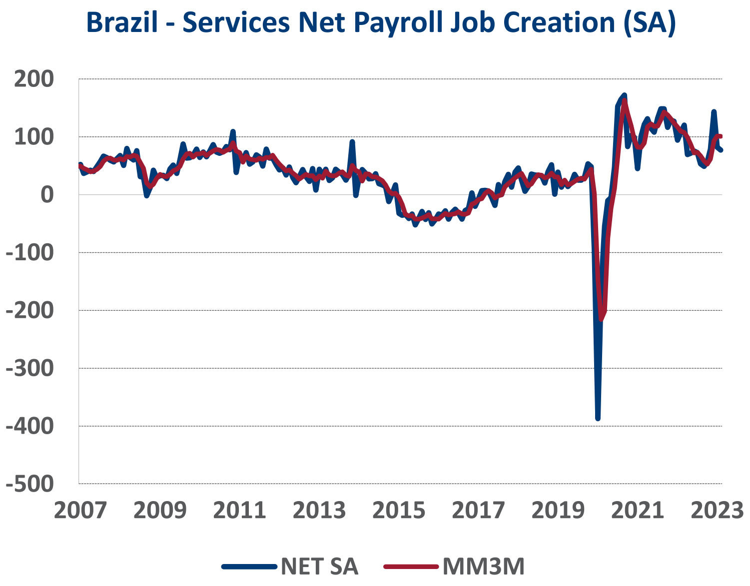




Source: BOCOM BBM, MTE

Brazil: Formal Labor Market

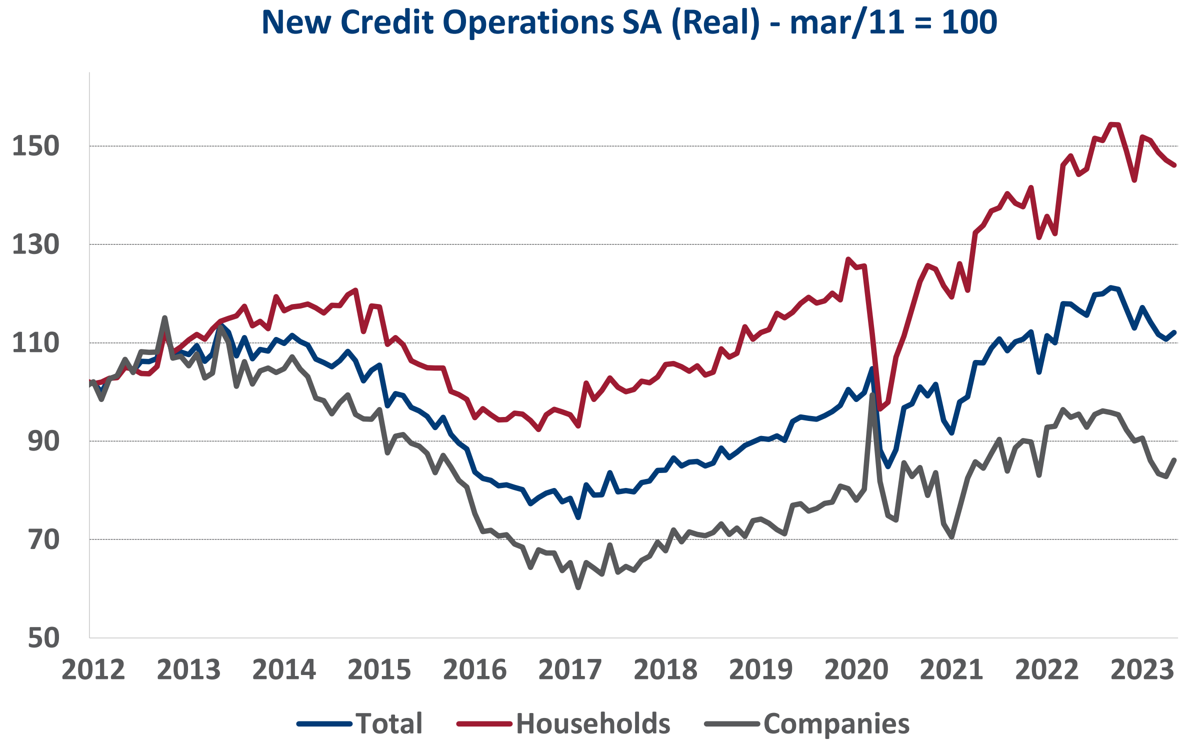
- The largest volume of jobs generated was in the service sector, driven mainly by administrative and complementary activities. On the other hand, there was a significant slowdown in industry and retail.

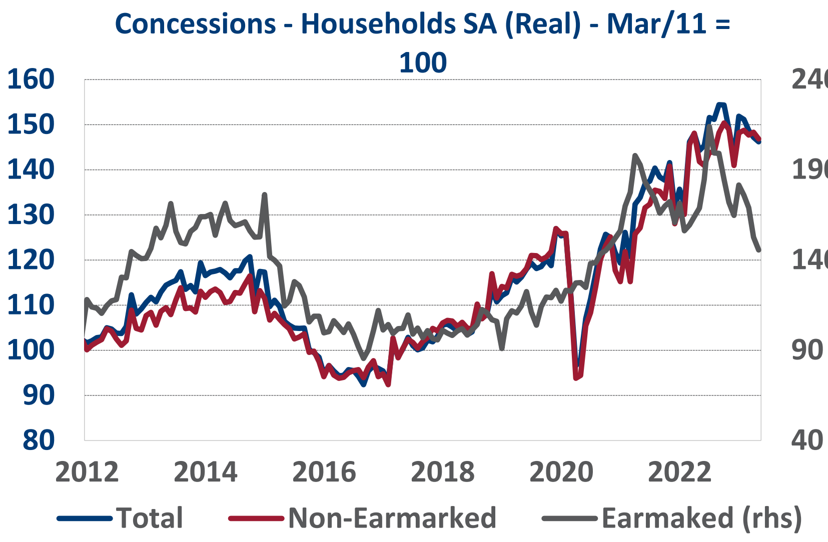


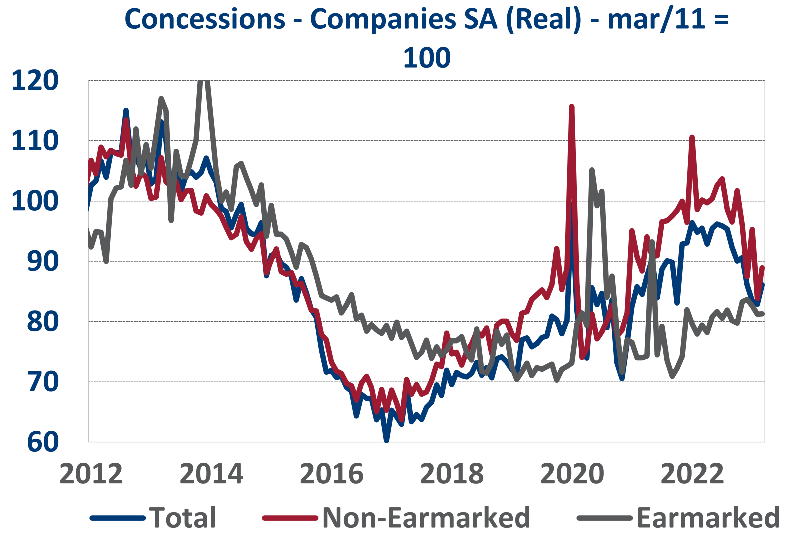
Source: BOCOM BBM, MTE

Brazil: Credit Statistics

- In May, total credit concessions grew 1.3% MoM in real terms;
- Non-earmarked credit concessions to households fell 1% MoM, but to companies grew 6.1% MoM, recovering part of the losses in the previous month;
- The earmarked credit has been falling, mainly due to household's segment. In the company's segment, the driver has been the non-earmarked credit.



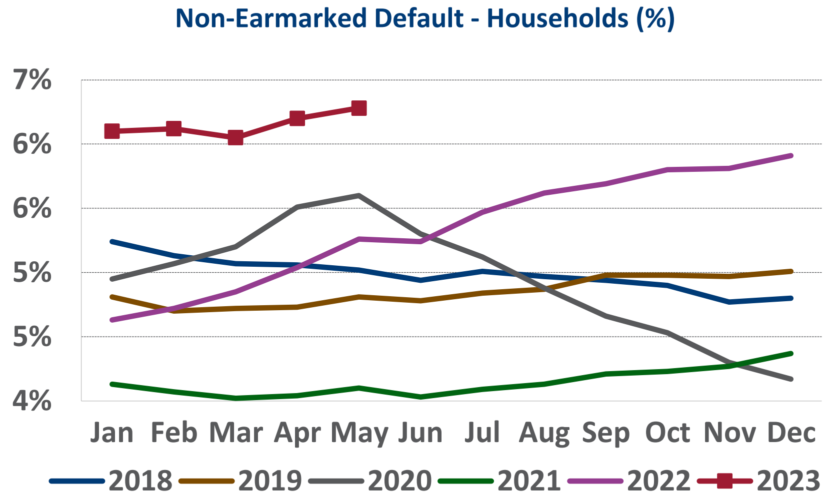


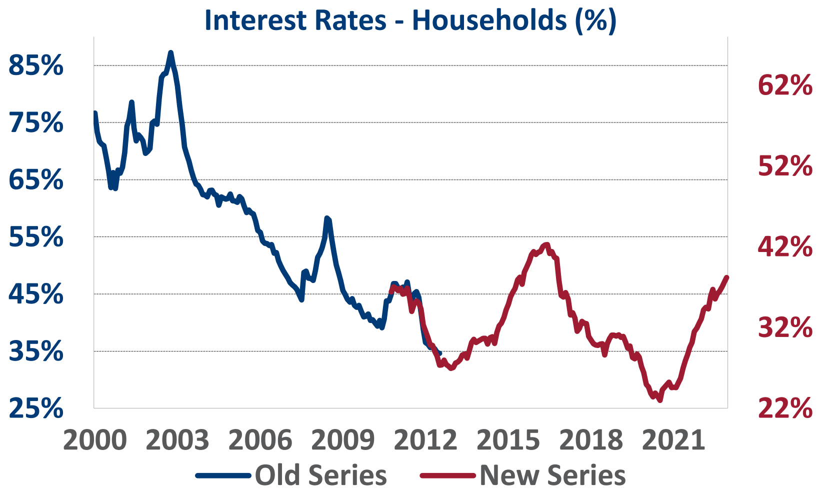


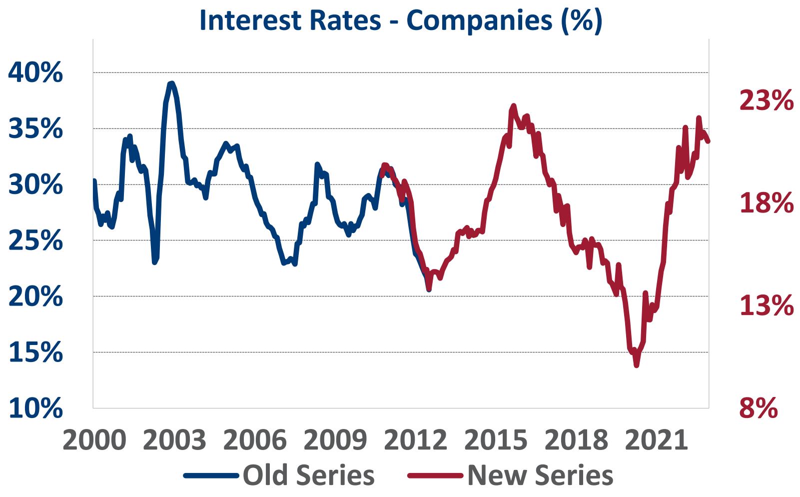
Source: BOCOM BBM, BCB

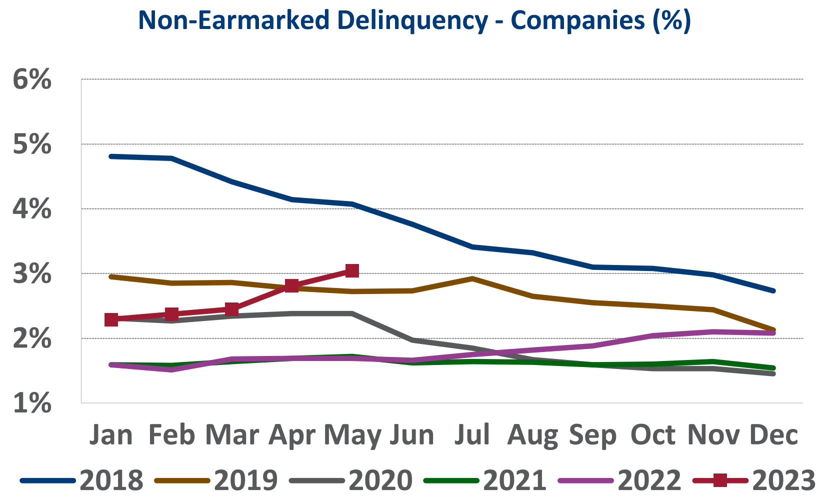
Brazil: Credit Statistics

- In May, lending rates to individuals reached 38.2% and to corporates 21%;
- Non-earmarked default continue to move up, reaching 6.3% to households, the highest level since 2016, and 3.04% to companies.





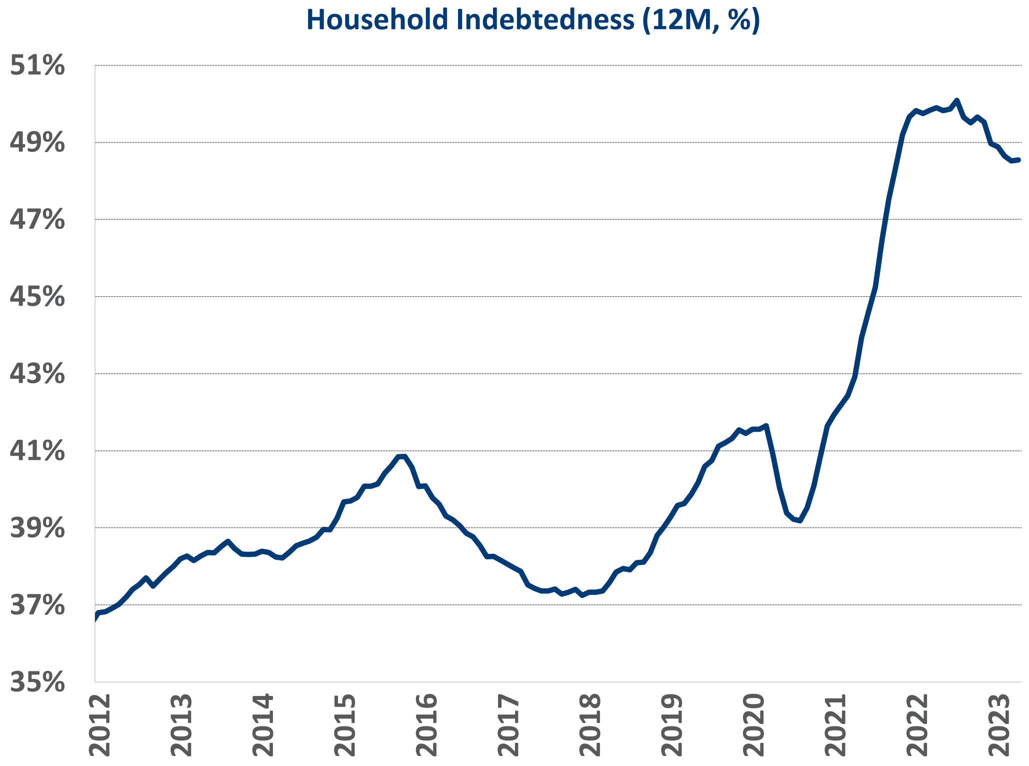


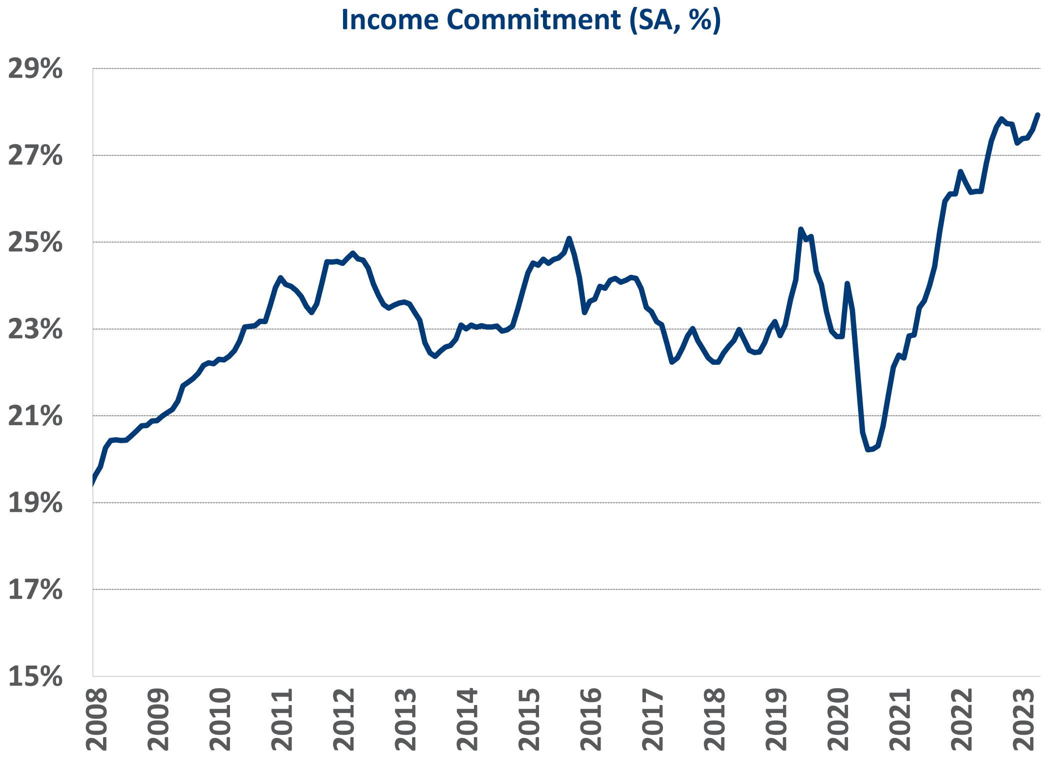


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- The household indebtedness indicator remained flat at 48.5%;
- The income commitment increased to 27.9%, the highest level of the historical series.

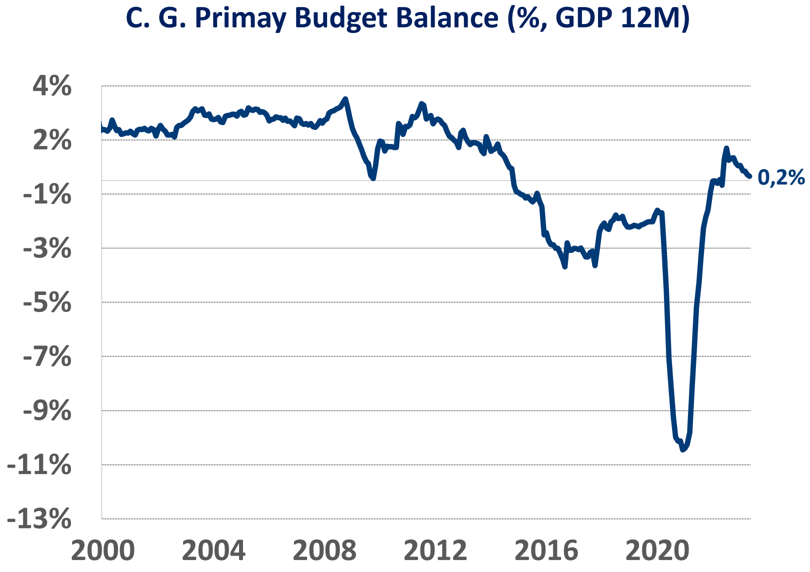


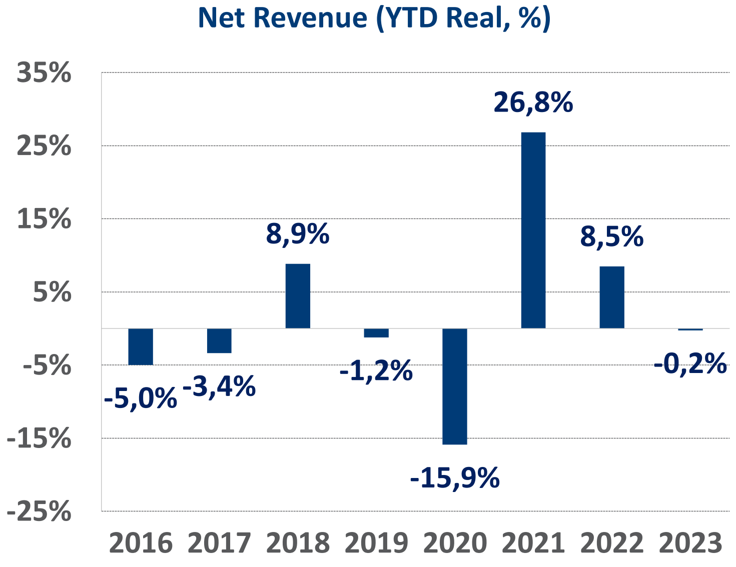


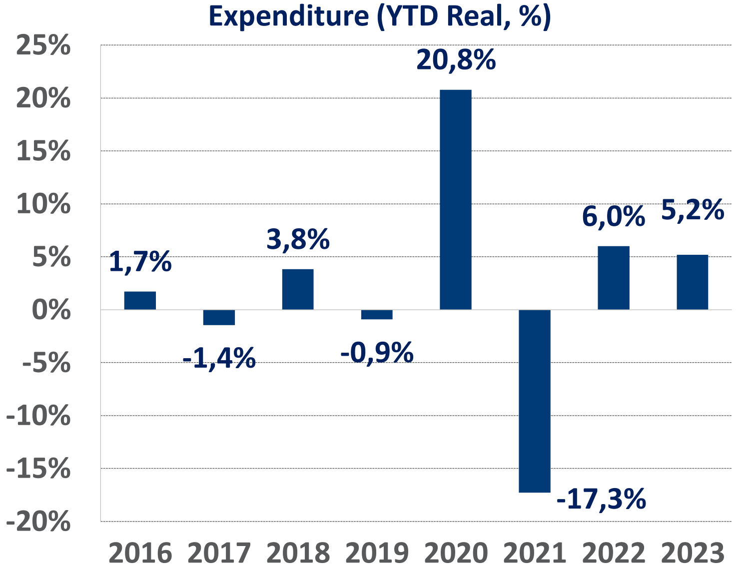
Source: BOCOM BBM, BCB

Brazil: Central Government Primary Result

- Central government's primary balance posted a deficit of BRL 45.0 bn in May, slightly above the consensus (BRL -46.6 billion);
- Year-to-date, the primary balance has a surplus of BRL 2.2 billion, and in the 12-month accumulated a surplus of BRL 16.5 billion (0.2% of GDP);
- Net revenue jumped 14.3% in real terms compared to May 2022, with growth on withholding income tax on capital (25.9%), social security revenues (9.3%) and non-tax revenues (4.9%), were the last result is due to an influx of dividends (24.9%) from BNDES and Petrobras;
- Total spending surged 13.3% in real terms. The main drivers were the rise in unemployment insurance and wage bonus (146.6%), explained by a change in the disbursements' calendar, in the Bolsa Família program (82.8%) and in discretionary expenditures (17.4%).





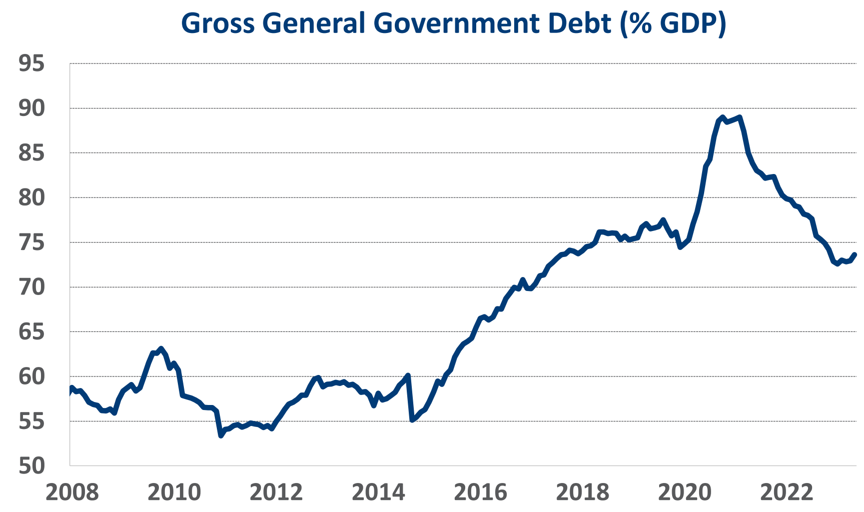


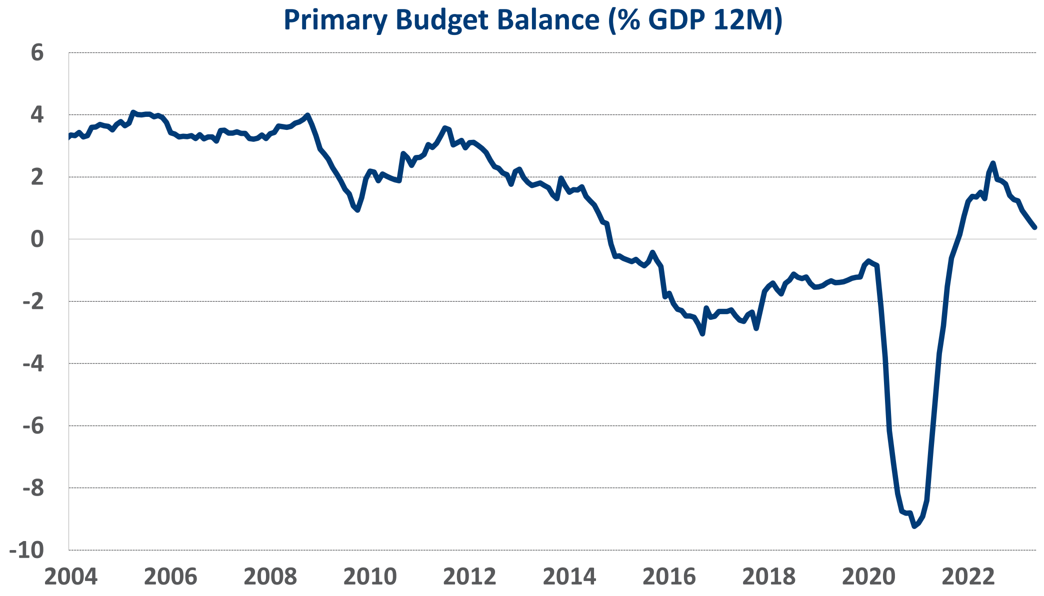
Source: BOCOM BBM, RTN

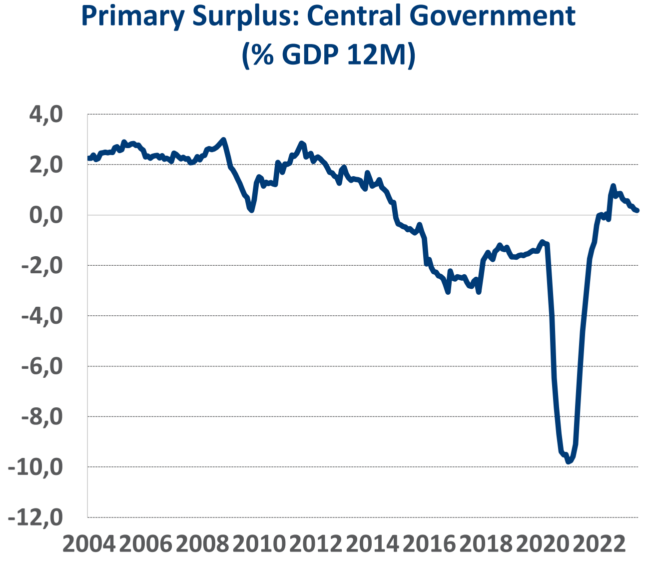
Brazil: Consolidated Public Sector Budget

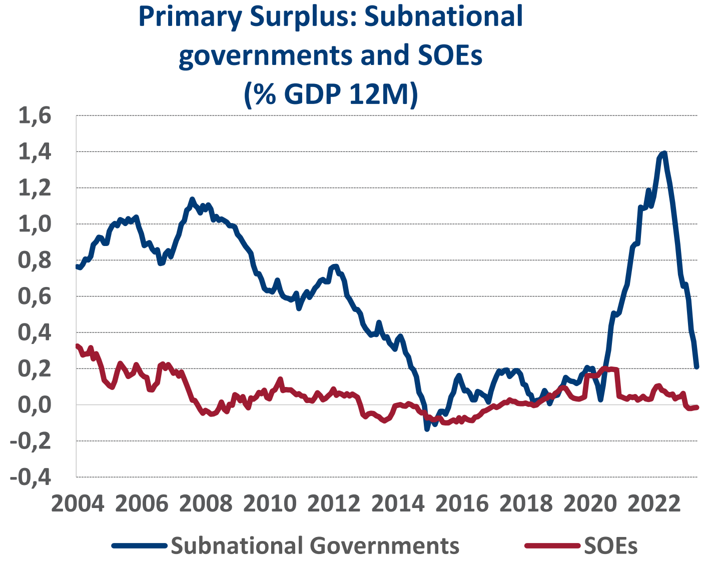
- The consolidated public sector posted a primary deficit of BRL 50.2 bn in May, above market consensus (BRL 45.5 bn); in 12 months, the public sector accumulates a surplus of BRL 39.0 bn, or 0.4% of GDP; the breakdown shows that the central government, subnational governments, and state-owned enterprises had a deficit of 43.2 bn, 6.8 bn, and 0.2 bn, respectively.

- The General Government Gross Debt reached 73.6% of GDP in May from 72.9% in April, due to interest settlements (0.7 pp), net issuance (0.3 pp), and nominal GDP growth (-0.4 pp).









Source: BOCOM BBM, BCB

Brazil: New Fiscal Framework, Senate Version

- The Senate approved the project for the new fiscal framework, but the text will have to go back to the Lower House so that the deputies can analyze the amendments made by the senators;

- Main changes in the Senate: **exclusion of the FCDF, of the Fundeb and of expenses with science, technology and innovation from the new spending rule**

- Constitutional Fund of the Federal District (FCDC): previously adjusted (annually) by the variation of in net current revenue
- The Lower House text included the fund in the rule, with correction equal to the expense limit. The impact of changing the FCDF calculation is not significant (R$ 9.5 bn accumulated up to 2032)

- The Fund for the Maintenance and Development of Basic Education and the Valuation of Education Professionals (Fundeb) comprises 20% of a set of state and municipal revenues and is complemented with an additional amount 17% of Fundeb, growing by 2 pp. per year until it reaches 23% in 2026.
- This complementation was included in the Lower House's proposal, which naturally leads to a limitation on the other expenses of about R$ 9.3 bn in 2032.

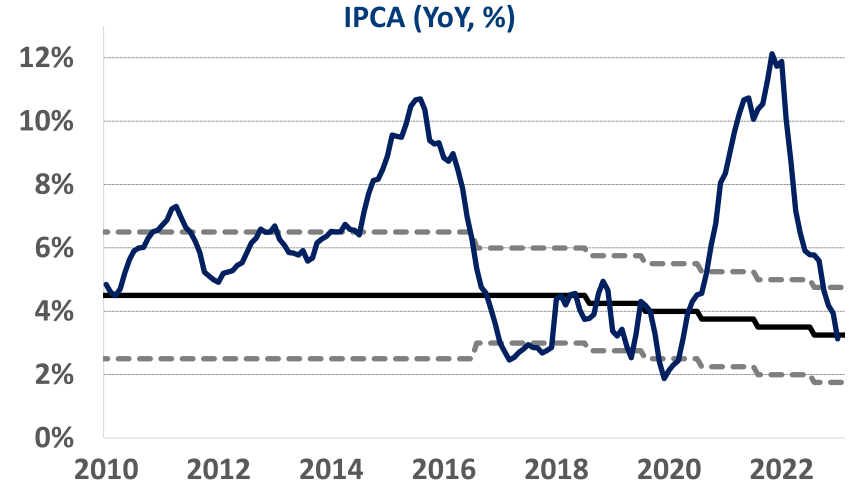
- The exemption of Science and Technology (S&T) expenses from the limit is not significant, since it only amounts to BRL 10 bn and would reduce the calculation basis of the expenditure limit by the same amount in 2024. The risk is that this expense will grow without any restriction.

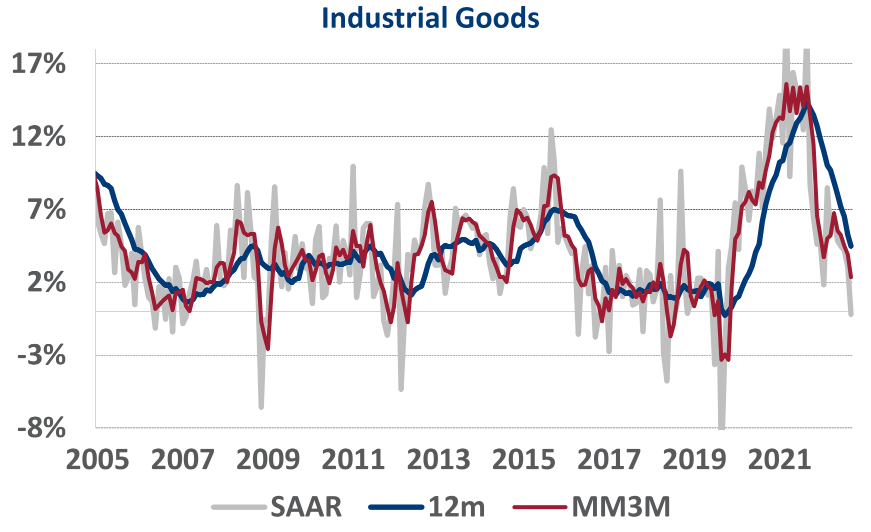
- However, it is very unlikely to go through the Lower House

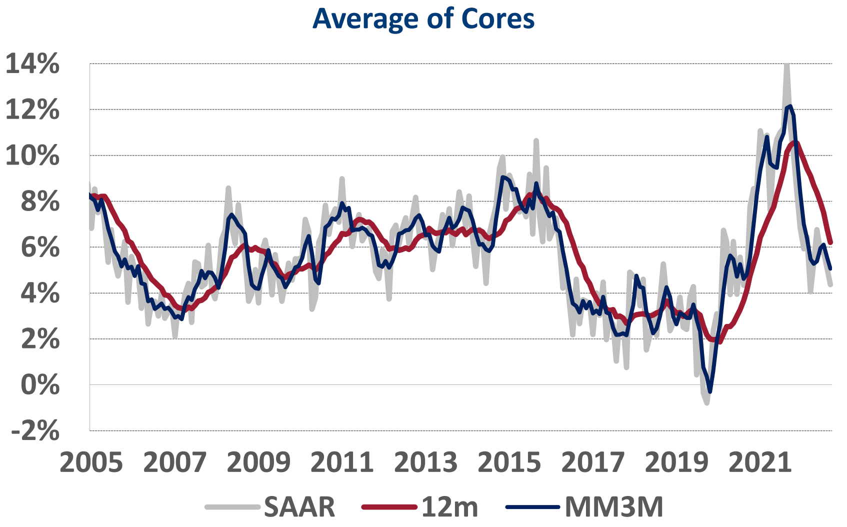
Source: BOCOM BBM

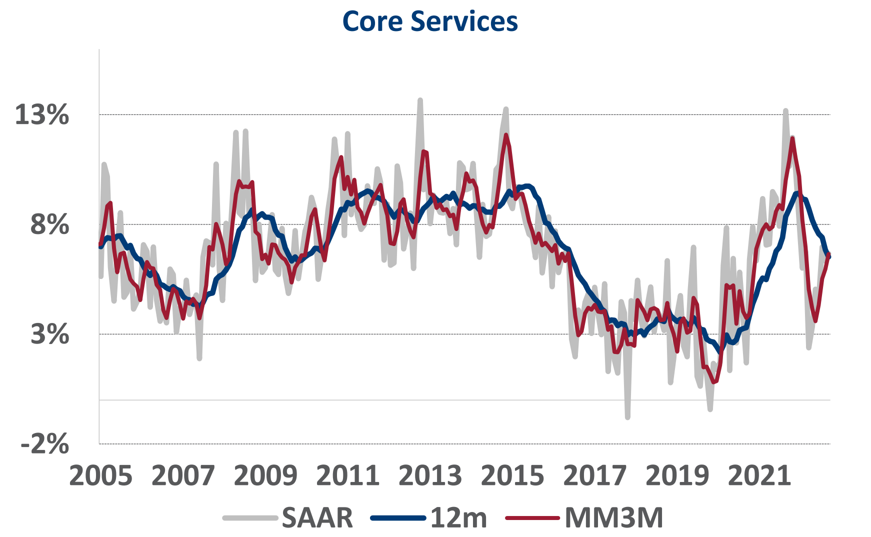
Brazil: Inflation 2023

- The June IPCA preview increased 0.04% MoM, slightly above consensus (0.02%) and our expectation (0.0%);
- The variation in 12 months retreated to 3.40% in June, compared to 4.07% in May;
- The main upward deviations to our forecast came from: condominium and new cars (government-led discounts on car apparently will take longer to kick in)
- The average of core inflation retreated to 0.34% in June and the 3-month moving average of the seasonally adjusted annualized data retreated from 5.6% in May to 5.1% in June, a significant relief;
- Underlying services advanced 0.56% MoM, above expectations, reflecting the surprises from 'rents' and 'condominium' subitems. The Services Diffusion continued decelerating reaching 54%, after peaking at nearly 90% in February.





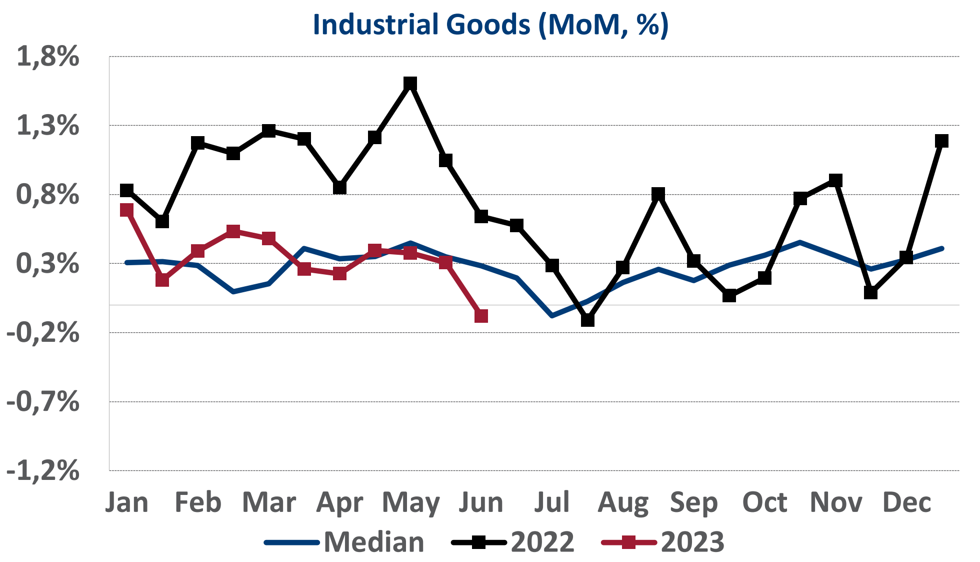


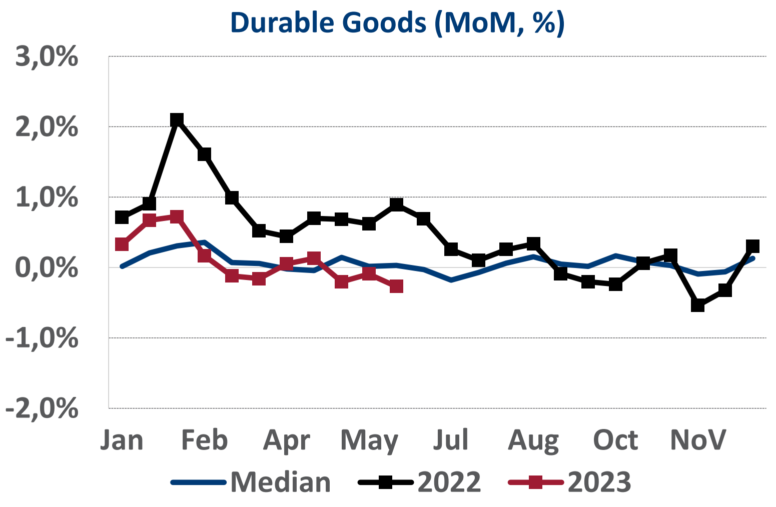


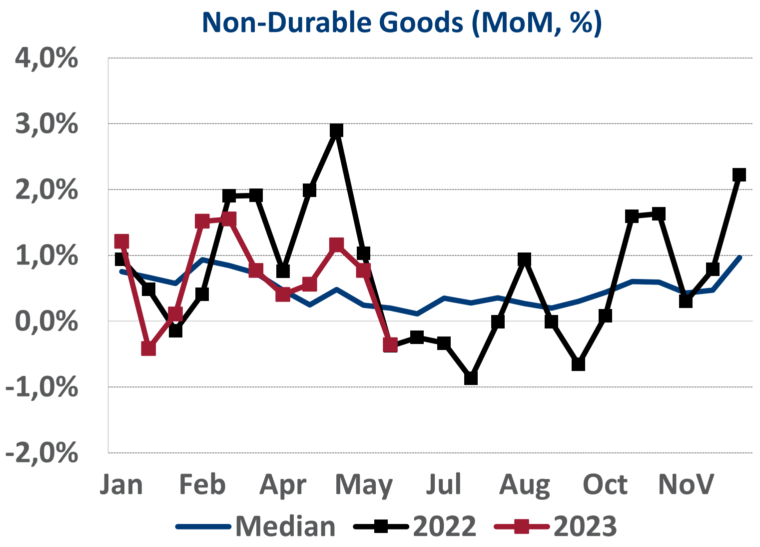
Source: BOCOM BBM, IBGE

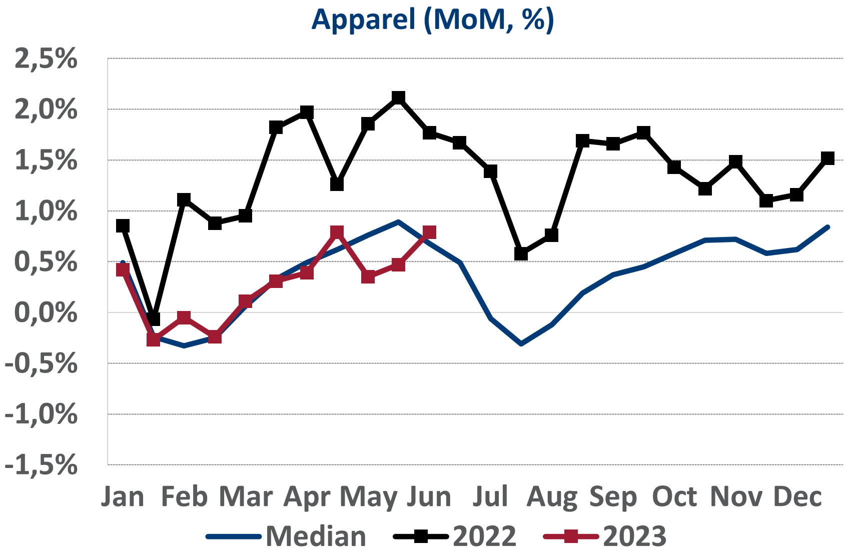
Brazil: Inflation 2023

- Industrial goods decelerated to -0.08% in June, above expectations mainly due to lower-than-expected deceleration on new vehicle prices;
- The high-frequency surveys indicate that the drop in vehicle prices will be larger in the final June IPCA reading.





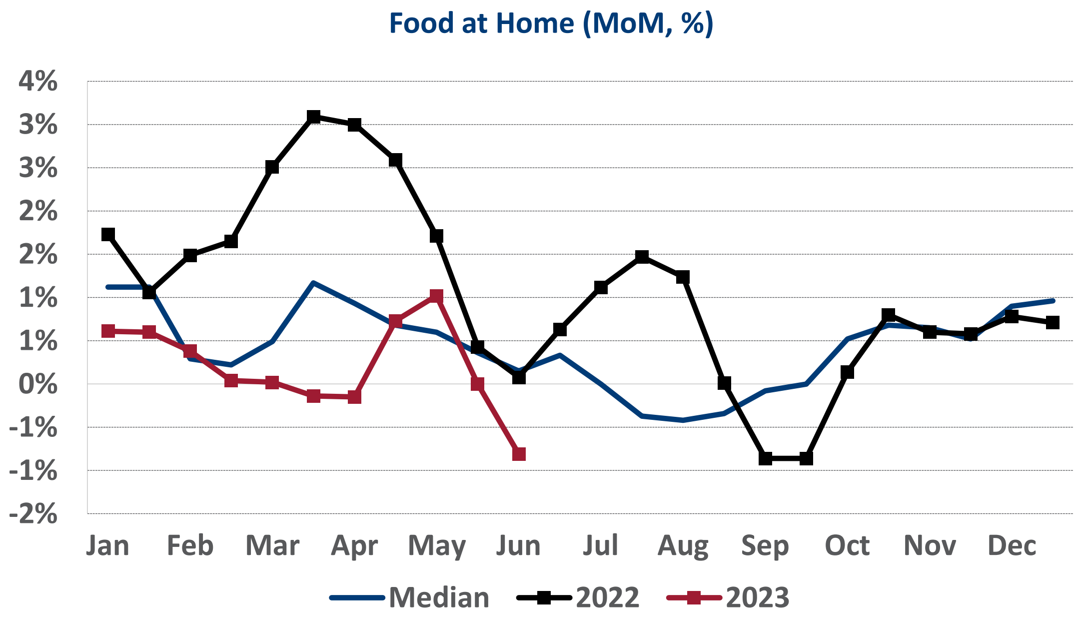


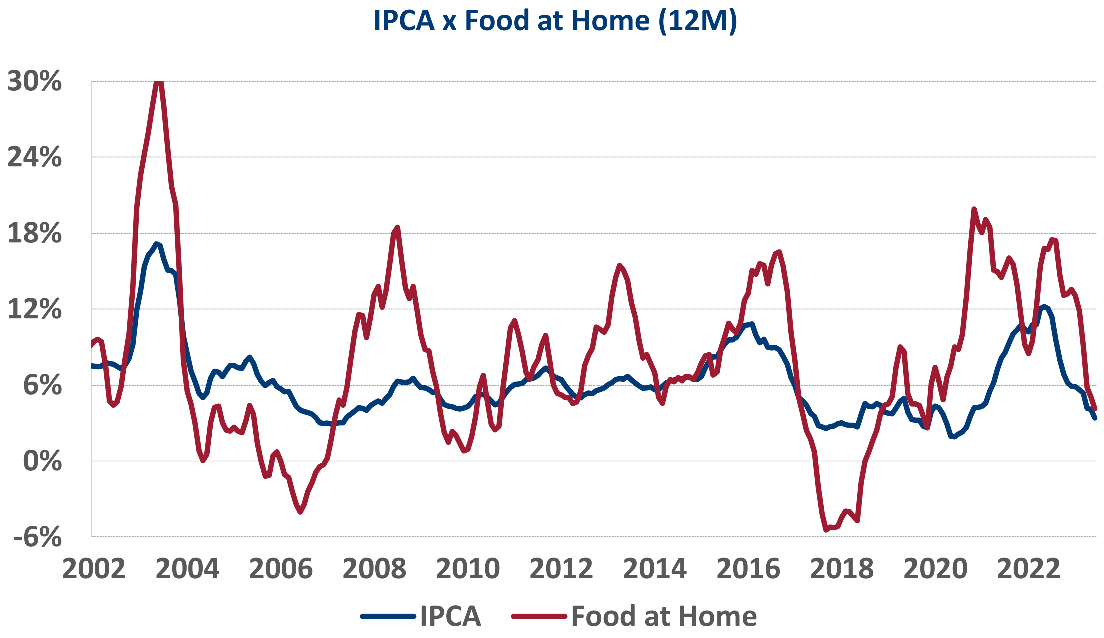


Source: BOCOM BBM, IBGE

Brazil: Inflation 2023

- Food at home fell -0.81% in June preview, reaching 4.1% in 12 months (last year it was close to 17% YoY);
- The category benefited from deflations in milk, oils, fish, meat, cereals, fruits, and vegetables.





Source: BOCOM BBM, IBGE

Brazil: Inflation

交通銀行 BANK OF COMMUNICATIONS BBM

- Our projection for the year 2023 dropped to 4.7%, after gasoline price cuts and better prospects for industrial and food inflation;
- For 2024, the projection fell from 4% to 3.6% considering the lower inertia coming from 2023, a scenario of a more appreciated exchange rate and lower commodity prices. The National Monetary Council's decision to maintain the inflation target and its bands, changing only the system of tracking a calendar year to adopt a continuous time frame from 2025, should also promote a new round of reduction in inflation expectations for longer horizons.

IPCA (%, annual)

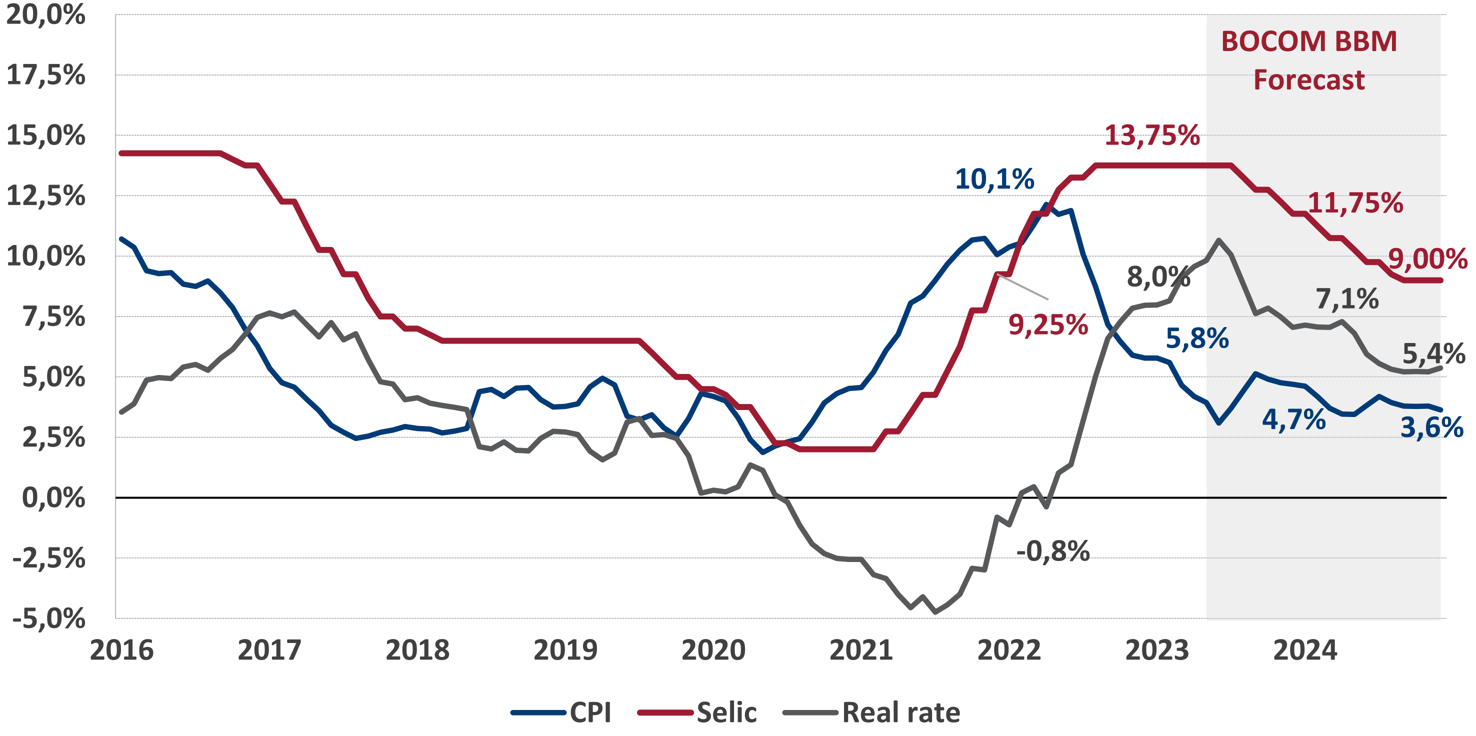
	Weight	2019	2020	2021	2022	2023	2024
Regulated	**26.6**	**5.5**	**2.6**	**16.9**	**-3.8**	**8.6**	**4.0**
Industrial goods	**23.6**	**1.7**	**3.2**	**11.9**	**9.5**	**2.2**	**2.2**
Durable goods	10.3	0.0	4.5	12.9	6.1	0.2	-
Semi-durable goods	5.9	0.6	-0.1	10.2	15.7	3.2	-
Non-durable goods	7.3	4.4	4.0	11.9	9.5	4.0	-
Food at home	**15.7**	**7.8**	**18.2**	**8.2**	**13.2**	**-0.1**	**2.8**
Services	**34.1**	**3.5**	**1.7**	**4.8**	**7.6**	**5.8**	**4.7**
Food away from home	5.6	3.8	4.8	7.2	7.5	5.4	4.5
Related to minimum wage	5.2	2.9	1.5	3.3	6.3	4.5	5.9
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.3	7.6	4.8
Inertial	15.0	4.3	1.6	4.2	8.8	5.4	4.3
IPCA		**4.3**	**4.5**	**10.1**	**5.8**	**4.7**	**3.6**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

» At the June meeting, the Copom gave important signals in the direction of a less restrictive monetary policy. Inflation projections for 2023 and 2024 dropped significantly (from 5.8% to 5.0% in 2023 and from 3.6% to 3.4% in 2024) even in the face of a lower Selic Focus (12.25% vs 12.5% and 9.5% vs 10%) and the alternative scenario in which there are no rate cuts is no longer discussed. In addition, the minutes informed that the Committee's predominant assessment was that the continuation of the ongoing disinflationary process would allow for the initiation of a parsimonious inflection process at the next meeting, in line with our scenario of rate cuts in August.

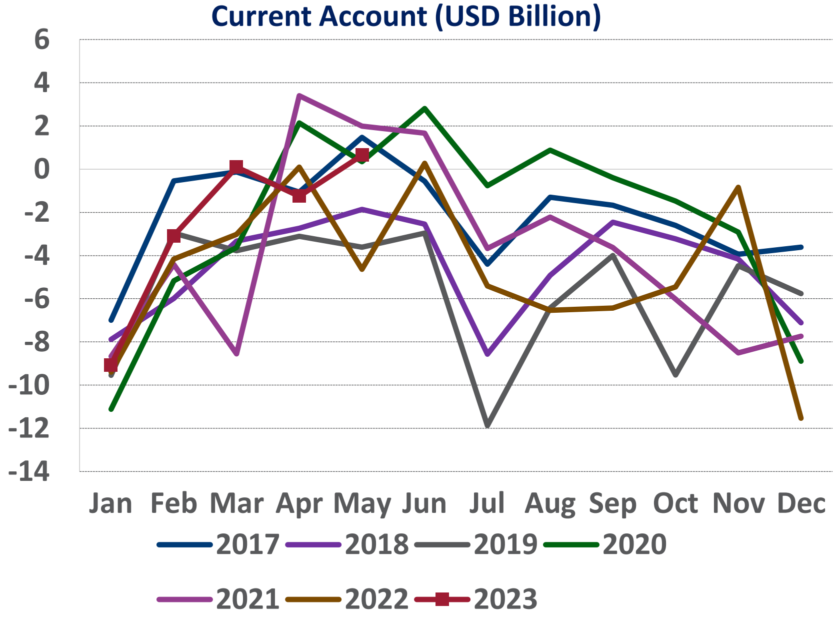
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

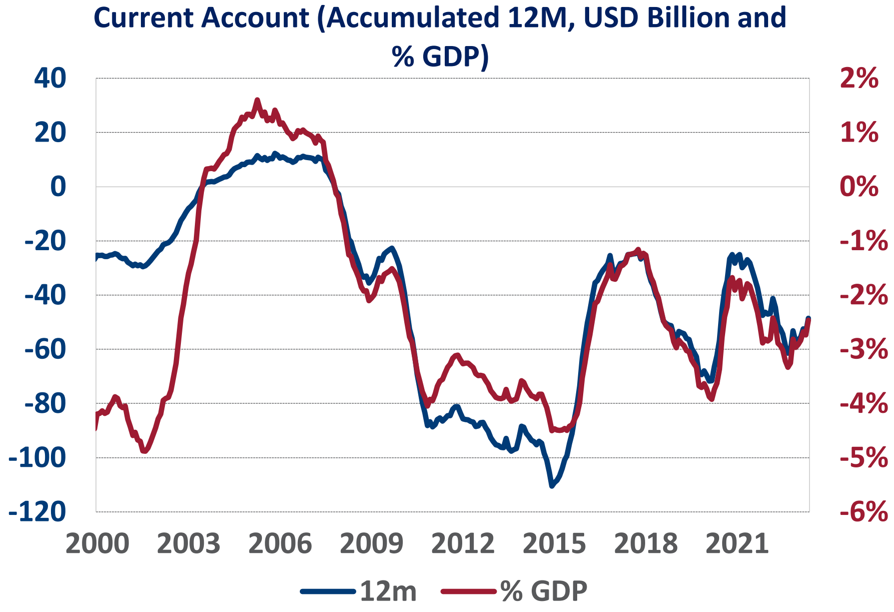


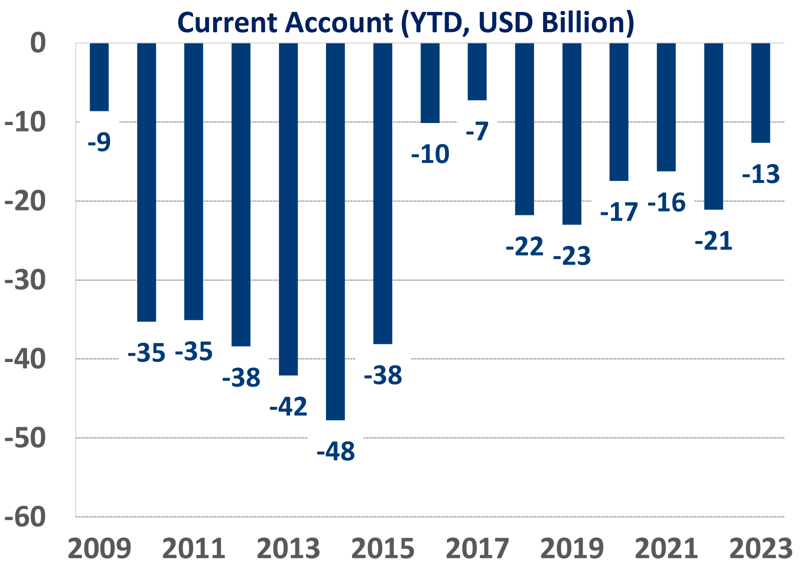
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The Brazilian current account posted a lower-than-expected surplus of USD 0.65 bn in May (Consensus: USD 1.65 bn);
- The current account balance was US$ -48.5 billion in the accumulated 12 months through May (-2.45% of GDP).





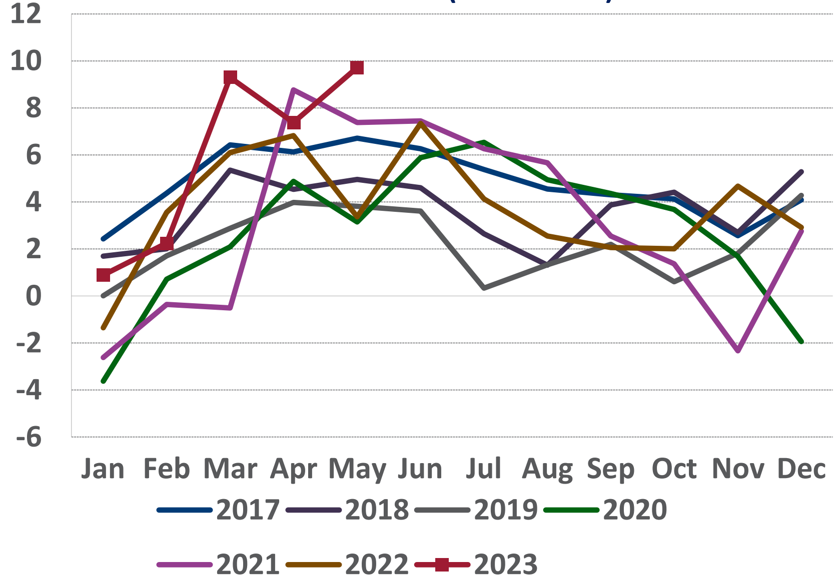


Source: BOCOM BBM, BCB

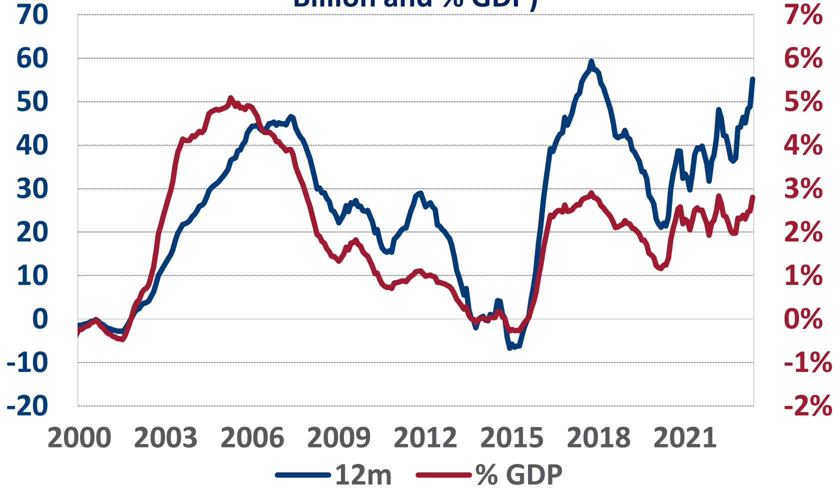
Brazil: Balance of Payments

- The trade balance remains at high levels (a surplus of US$ 9.7 billion in May and US$ 55.2 billion in the accumulated 12 months);
- Exports surged 11.2% YoY ,the highest mark in the historical data series, whereas imports tumbled 11.2% YoY;
- External demand for primary goods remains firm, and the recent decline in export prices has not been enough to reverse the upward trajectory of Brazilian foreign sales.

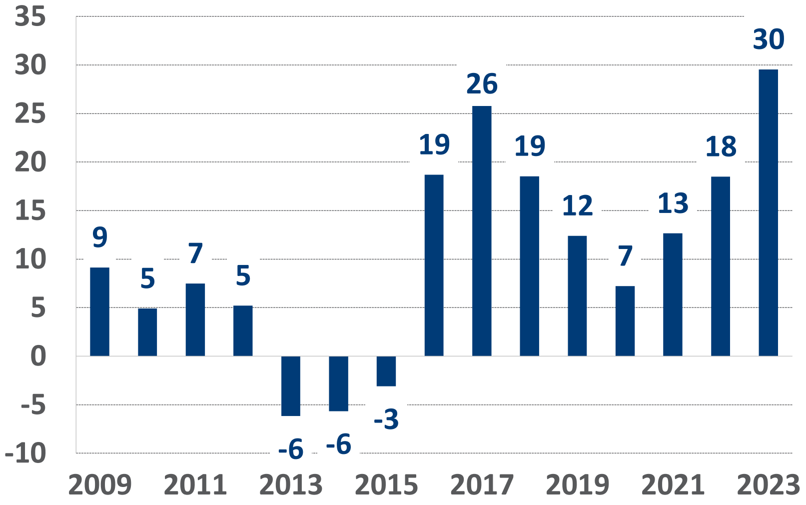
Balance on Goods (USD Billion)



Balance on Goods (Accumulated 12M, USD Billion and % GDP)



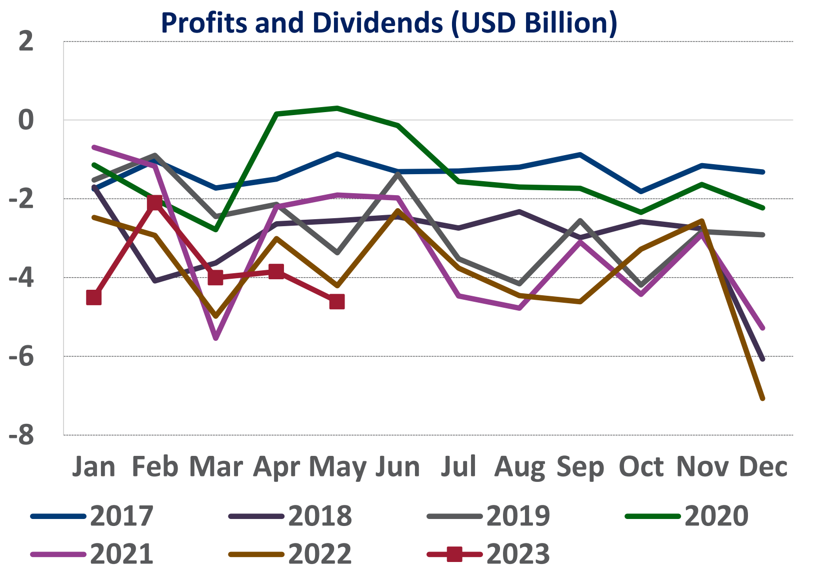
Balance on Goods (YTD, USD Billion)

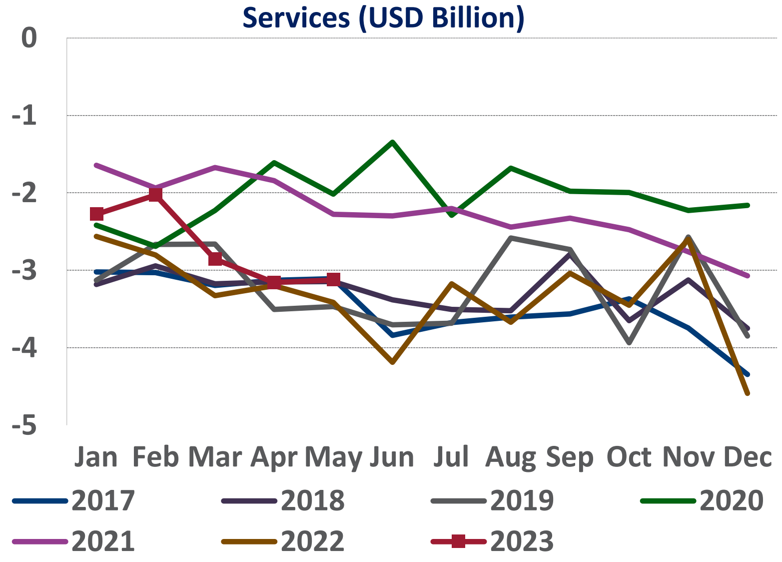


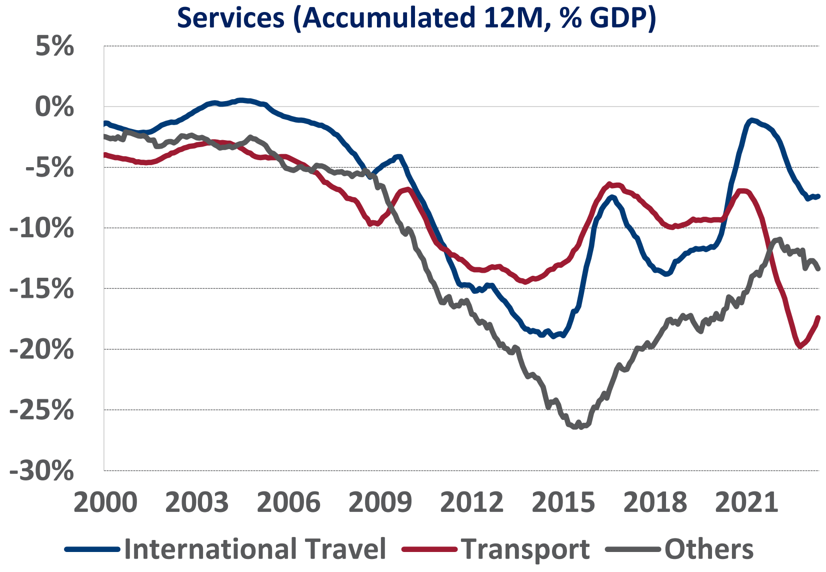
Source: BOCOM BBM, BCB

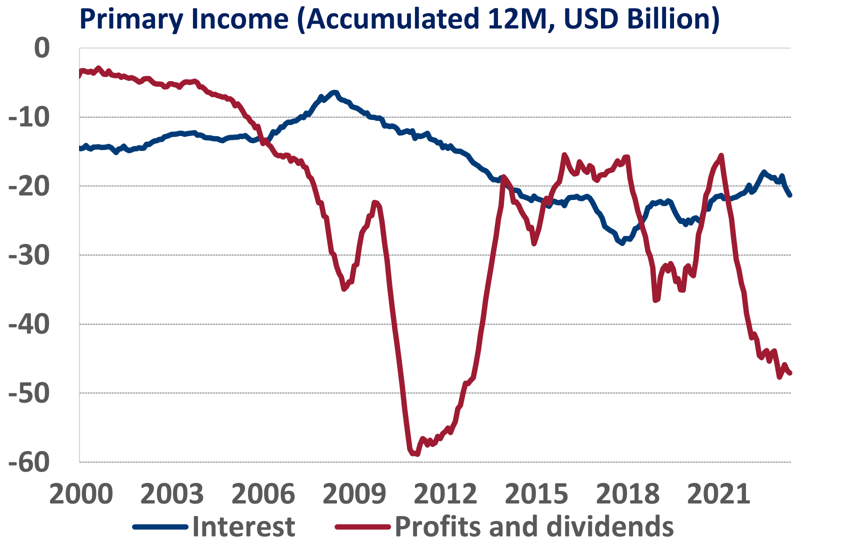
Brazil: Balance of Payments

- The larger deficit in the Primary Income account widened to USD -6.0 billion in May 2023 from USD -4.9 billion in May 2022, mostly due to higher net expenses with profits and dividends;
- The deficit in the Services account dropped on a yearly basis (USD -3.1 billion from USD -3.4 billion), owing to lower expenses with freight and international travel.









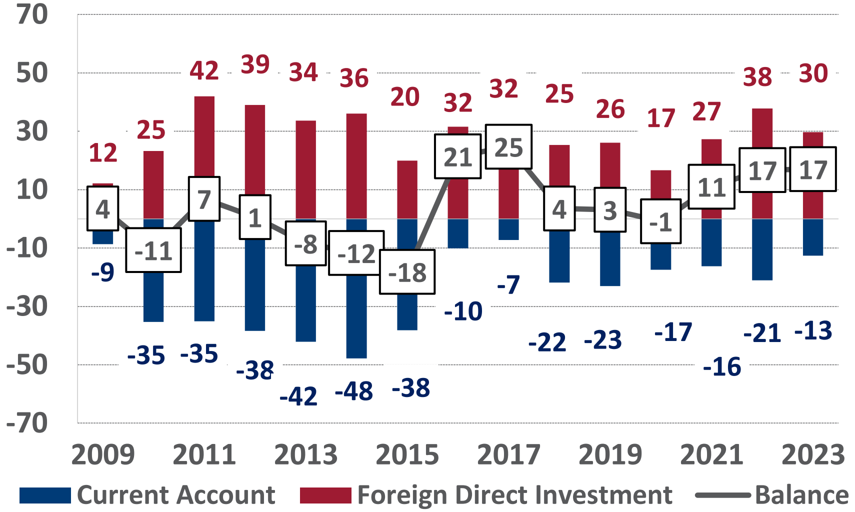
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

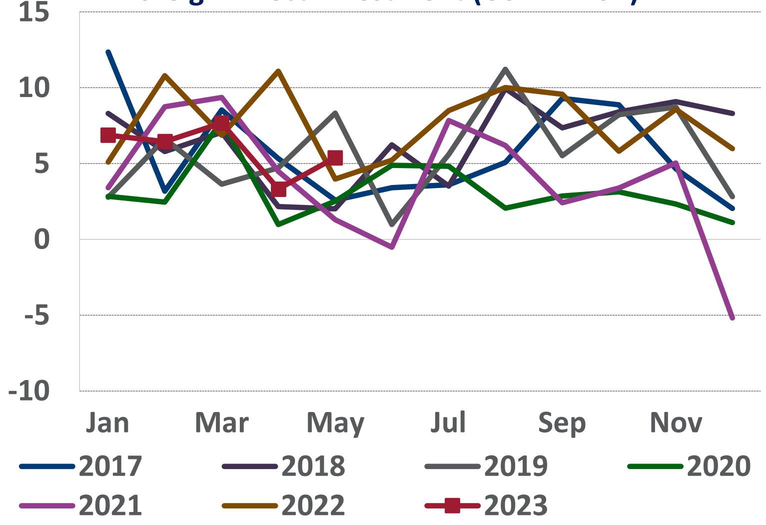
- Net inflows in FDI (Foreign Direct Investment) amounted to USD 5.4 billion in May, below expectations (USD 6.8 billion) but above the amount of USD 4.0 billion recorded one year earlier;

- FDI totaled USD 83.4 billion based on the 12-month rolling sum up to May (4.21% of GDP), up from USD 82.0 billion up to April (4.16% of GDP) and USD 57.0 billion (3.22% of GDP) registered in the same month of 2022.

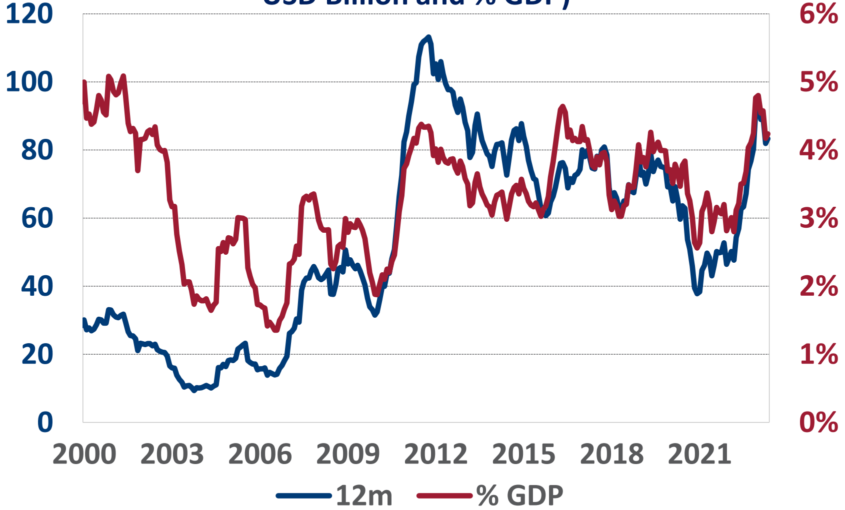
Current Account Balance and FDI (YTD, USD Billion)



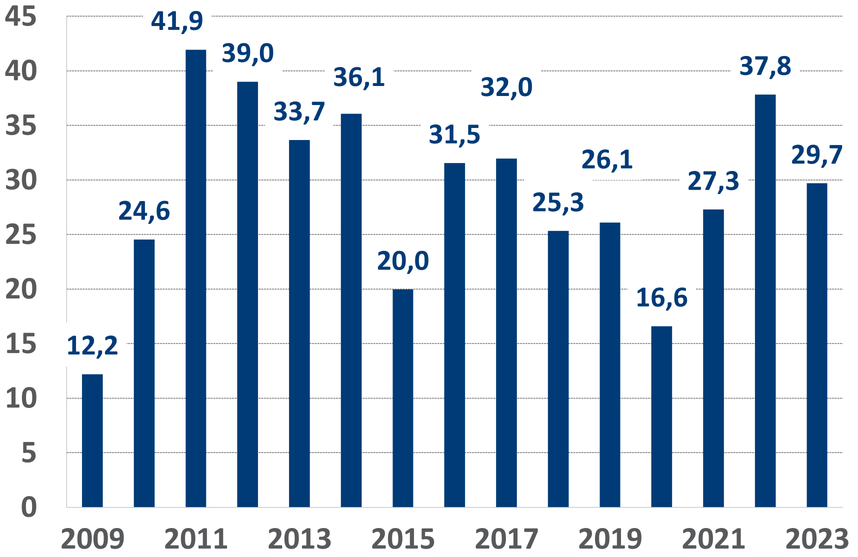
Foreign Direct Investment (USD Billion)



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



Foreign Direct Investment (YTD, USD Billion)



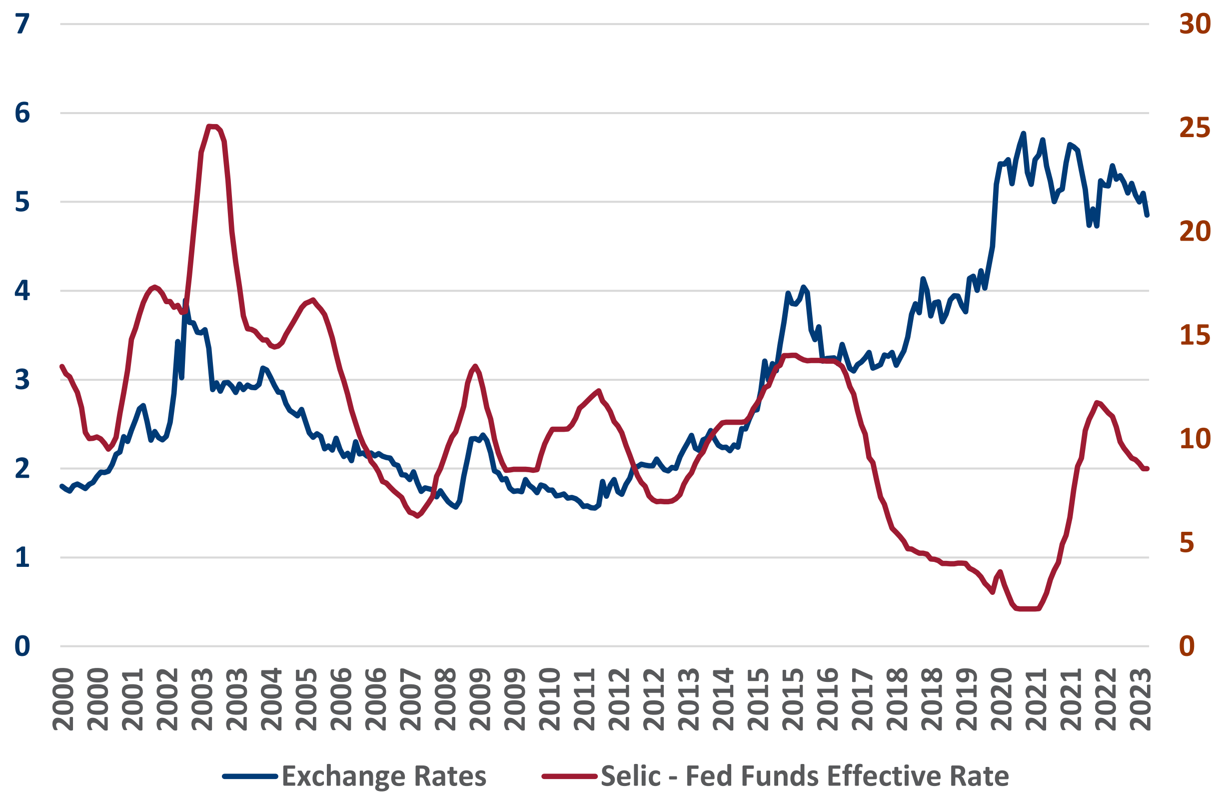
Source: BOCOM BBM, BCB

Brazil: External Sector

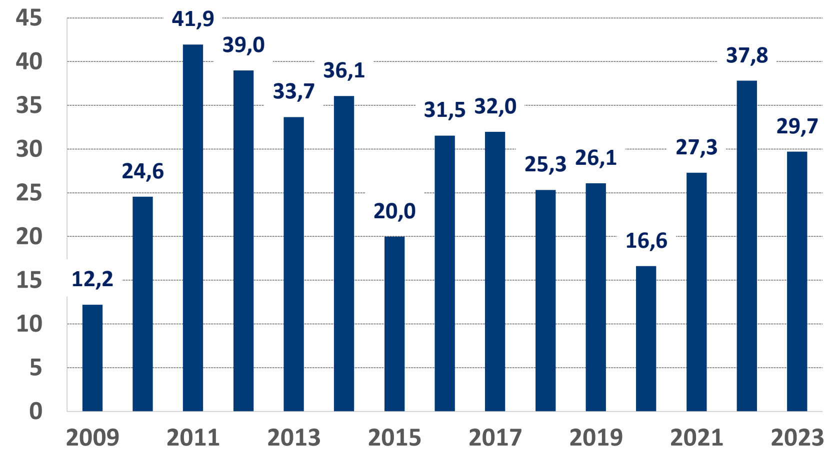
交通銀行 BANK OF COMMUNICATIONS BBM

» Despite the decline in the interest rate spread and in the terms of trade, the high level of foreign direct investment entering the economy should help to strengthen the currency.

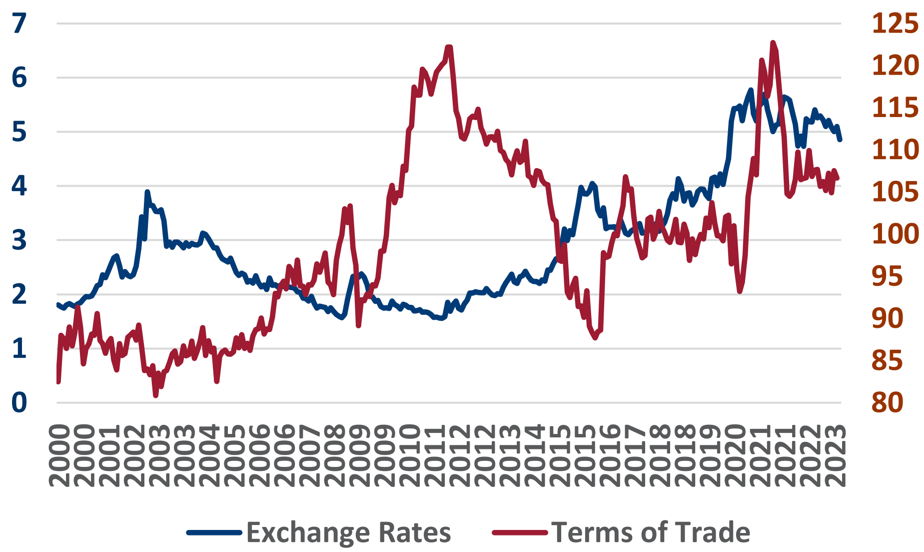
Interest Rate Differential x BRL



Foreign Direct Investment (YTD, USD Billion)



Terms of Trade x BRL

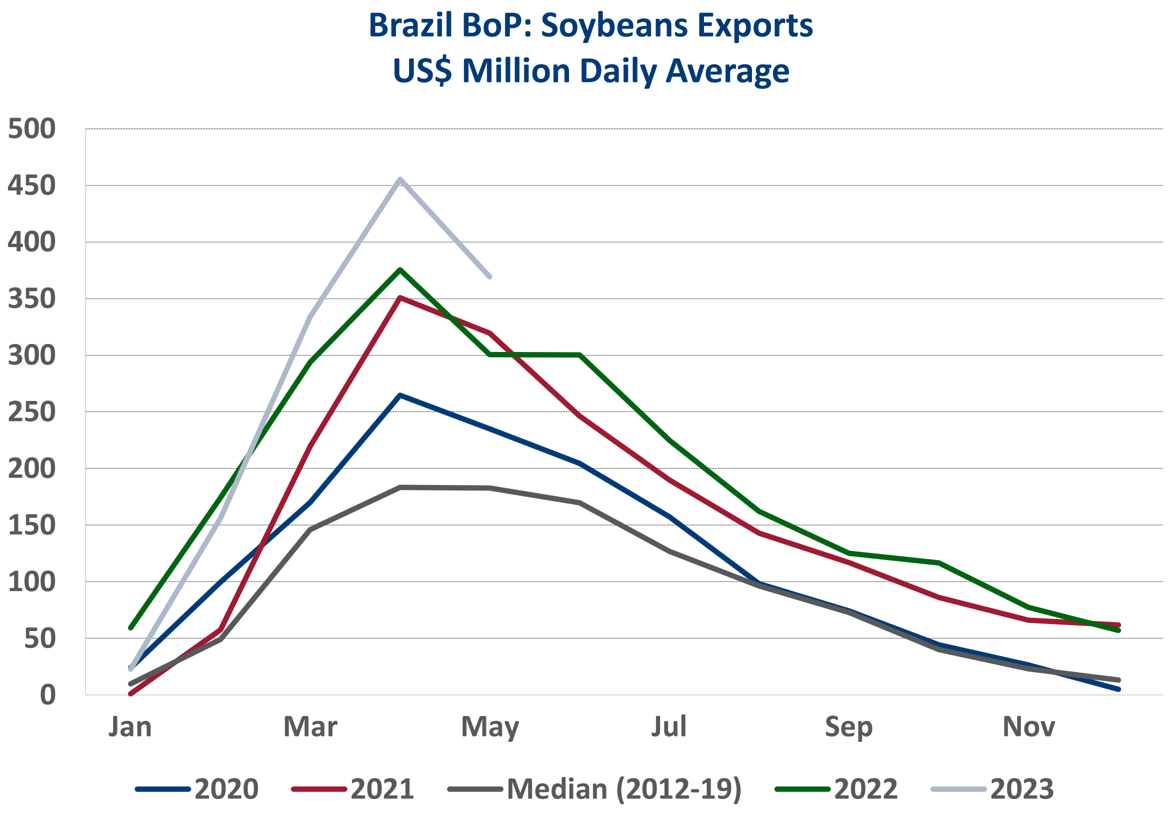


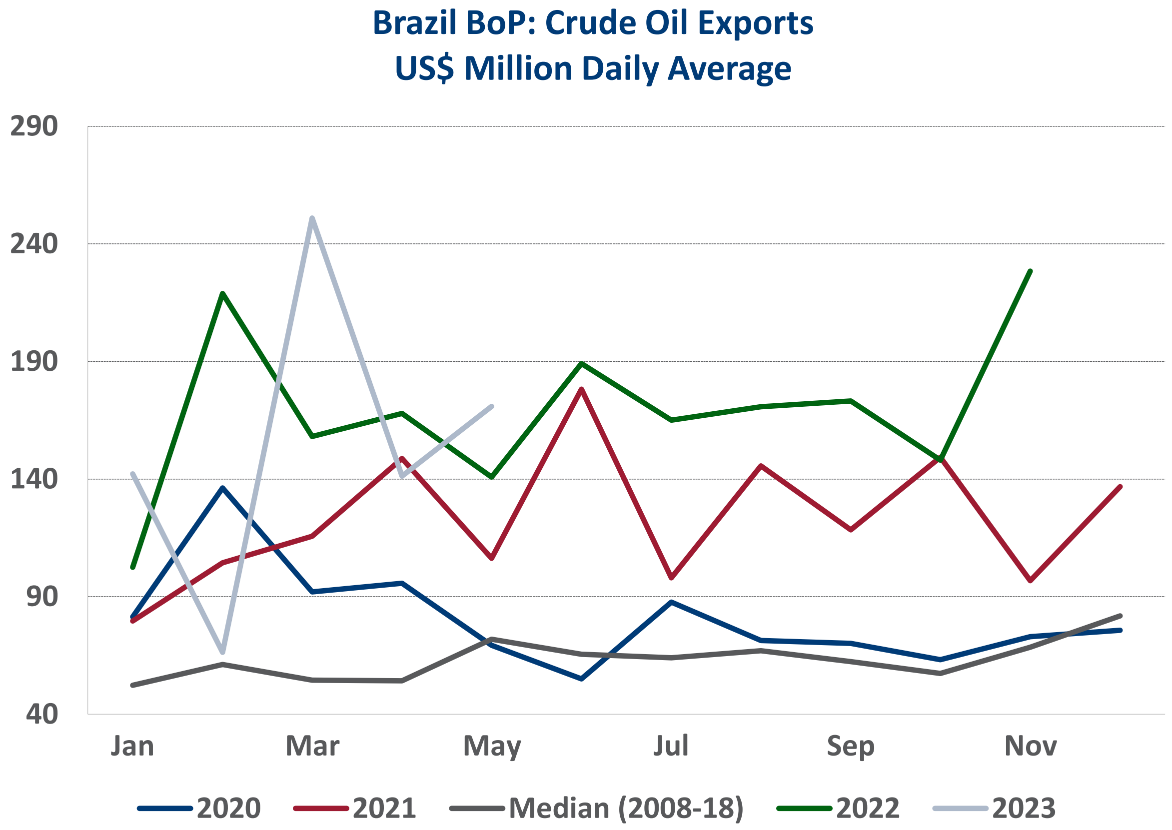
Source: BOCOM BBM, Bloomberg, Funcex, BCB

Brazil: External Sector

BANK OF COMMUNICATIONS BBM

» The trade balance remains strong, with high levels of soybean and oil exports.





Source: Secex, BOCOMBBM

ADDRESSES

Rio de Janeiro, RJ
Avenida Barão de Tefé, 34 – 20th and 21st floors
Zip Code 20220-460
Tel.: +55 (21) 2514-8448
Fax: +55 (21) 2514-8293

Salvador, BA
Rua Miguel Calmon, 398 – 2nd floor
Zip Code 40015-010
Tel.: +55 (71) 3326-4721 +55 (71) 3326-5583
Fax: +55 (71) 3254-2703

São Paulo, SP
Av. Brigadeiro Faria Lima, 3311 – 15th floor
Zip Code 04538-133
Tel.: +55 (11) 3704-0667 +55 (11) 4064-4867
Fax: +55 (11) 3704-0502

Nassau, Bahamas
Shirley House | Shirley House Street, 50, 2nd floor
P.O. N-7507
Tel.: (1) (242) 356-6584
Fax: (1) (242) 356-6015