MACRO OUTLOOK

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Macro Outlook

- The gradual slowdown in the economic activity of the main developed economies points to a monetary policy that should remain restrictive for a longer period of time. In its last meeting, the FOMC decided to keep rates at the range of 5.25-5.50%. However, their latest projections still points to one additional hike this year and a “higher for longer” posture in 2024 and 2025;

- As for China, August data showed some improvements in economic activity, possibly suggesting that faltering momentum is bottoming out. This comes along with announcements of several easing measures on property, monetary and fiscal policies that should sustain growth;

- In Brazil, economic activity remains resilient, but with mixed results among sectors. The services sector showed positive results, growing 0.5% MoM, while industrial production and broad retail sales decreased 0.6% MoM and 0.3%, respectively, both below market expectations. These results, combined with the IBC-Br’s modest increase of 0.44%, does not change the outlook for 2023, which remains in favor of a moderate deceleration throughout the year;

- Regarding monetary policy, The Brazilian Central Bank decided to cut Selic rates by 50 bps in its last meeting in a unanimous decision, reaching 12.75% per year. Copom projections indicate that rates reaching 11.75% by 2023, 9% by 2024 and 8.5% in 2025 would bring inflation to 5% in 2023, 3.5% in 2024 and 3.1% in 2025. Inflation projections have slightly increased due to a lower trajectory of Selic in Focus, and to a less favorable exchange rate and oil price scenario. Copom foresees cuts of the same magnitude (50 bps) in the next meetings and believes this is the appropriate pace for bringing inflation back to target in the relevant horizon;

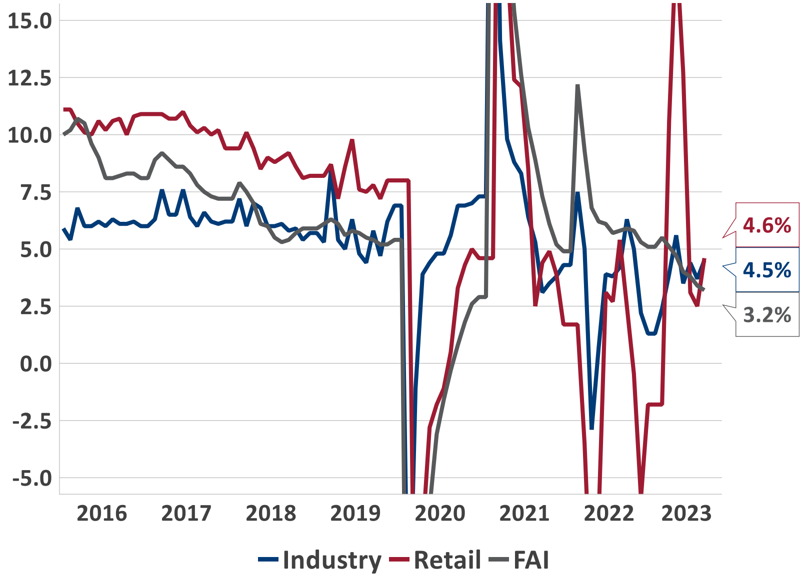
- In the inflation scenario, our projection for the year 2023 decreased from 4.8% to 4.5%, due to lower numbers for industrial goods and food at home. For 2024, we maintain our forecast at 3.6%;

- In the fiscal scenario, the consolidated public sector recorded a primary deficit of BRL 22.8 bn in August. The Central government had a deficit of BRL 26.2 bn, while the subnational governments and state-owned enterprises posted a surplus of BRL 2.5 bn and BRL 0.9 bn, respectively. The General Government Gross Debt surged from 74.0% to 74.4% of GDP in August. Interest settlements (increase of 0.7 pp. of GDP) and nominal GDP growth (reduction of 0.4 pp) were the main drivers of this change.

China: Activity

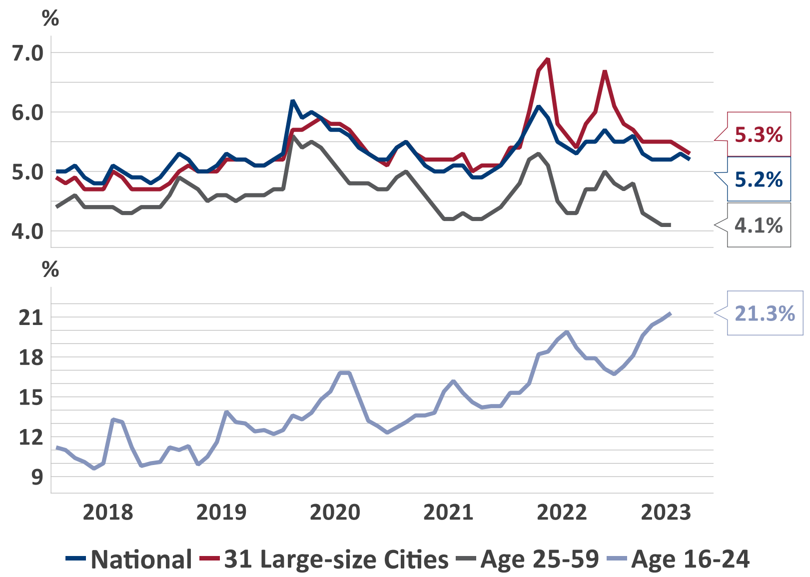
- Aug. economic activity has broadly improved and beat market expectations, possibly suggesting that the faltering growth momentum is bottoming out:
- **Retail sales increased** from 2.5% to **4.6%** YoY (exp. 3%), with strength mainly driven by goods retail (1% to 3.7% YoY): rebound in automobiles sales (1.1% YoY) and rising sales in clothing (4.5% YoY), furniture (4.8% YoY) and cellphones (8.5% YoY);
- **Industrial prod. rose** from 3.7% to **4.5%** YoY (exp 3.9%), reflecting the improvements in both exports and retail sales. Highlights were faster growth in the value-added of electronics, computers & cellphones (5.8% YoY), chemicals (14.8% YoY) and automobiles (9.9% YoY). This was the strongest expansion in industrial output since April, following recent support measures from Beijing to bolster economic recovery;
- **FAI** fell from 3.4% to **3.2% YTD** (exp. 3.3%) due to higher growth in the manufacturing investment being offset by slower property and infrastructure;
- The **national unemployment rate fell** from 5.3% to **5.2%** and the **31-large city** from 5.5% to **5.3%.**

China: Activity (YoY, %)



Source: BOCOM BBM, Macrobond, NBS

China: Unemployment Rate in Urban Areas



Source: BOCOM BBM, Macrobond, NBS

China: Activity (% YoY)

	8/2023	7/2023	8/2022
Industrial Production	4.50	3.70	4.20
Mining	2.30	1.30	5.30
Manufacturing	5.40	3.90	3.10
Utilities	0.20	4.10	13.60
Fixed Asset Investment (YTD YoY)	3.20	3.40	5.80
Manufacturing	5.90	5.70	10.00
Real Estate	-8.80	-8.50	-7.40
Infrastructure	6.40	6.80	8.30
Retail Sales	4.62	2.48	5.42
Catering Services	12.40	15.80	8.40
Consumer Goods	3.70	1.00	5.10
Clothing	4.50	2.30	5.10
Automobiles	1.10	-1.50	15.90
Furniture	4.80	0.10	-8.10
Cellphones	8.50	3.00	-4.60
Home Appliances	-2.90	-5.50	3.40
Construction	-11.40	-11.20	-9.10

Source: BOCOM BBM, Macrobond

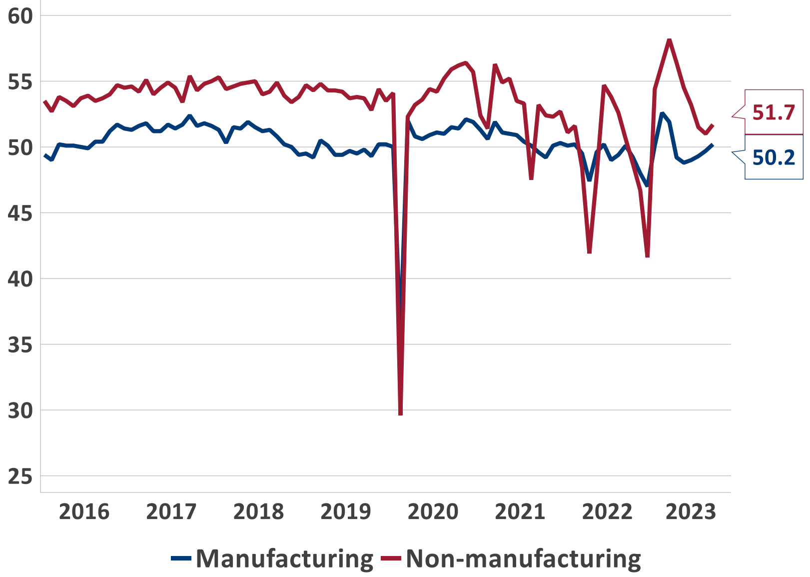
China: Economic Scenario

- In September, China's **PMI** showed that the manufacturing sector reached expansionary territory (above 50), adding to the already strong non-manufacturing sector;
  - The NBS manufacturing PMI rose from 49.7 to **50.2** (exp. 50.1) due to domestic demand picking up as the new orders component improved;
  - The non-manufacturing sector continued expansionary, rising from 51 to **51.7** as both the services and construction sectors performed better;

- **Exports surprised to the upside** by contracting less than expected and moving from -14.5% to **-8.8% YoY** (exp. -9.2%): most products improved, although continued to show YoY contraction due to weaker external demand. Nonetheless, automobiles and green energy exports remained strong;
- **Imports** remained in **contraction**, going from -12.4% to **-7.3% YoY** (exp. -9,0%), mostly due to falling commodity prices, but with solid growth in real terms;

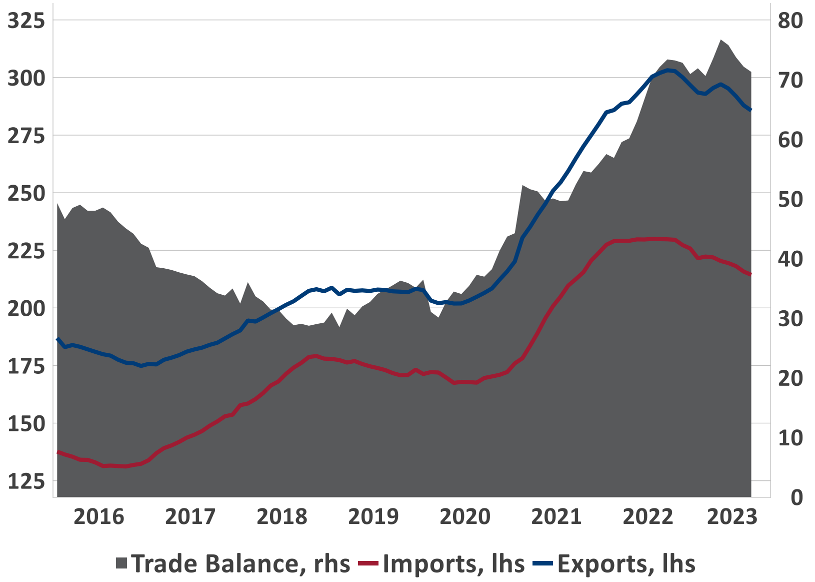
- **CPI** inflation rose by **0.3%** MoM (exp. 0.3%) moving from -0.3% to **0.1%** YoY (exp. 0.2%), primarily due to softer goods and fuels prices deflation;
  - Goods deflation YoY persisted, driven by the annual fall in food (mainly pork) and fuel costs, and the services prices rebound was much softer than anticipated and experienced in other countries post-Covid reopening;

China: PMI



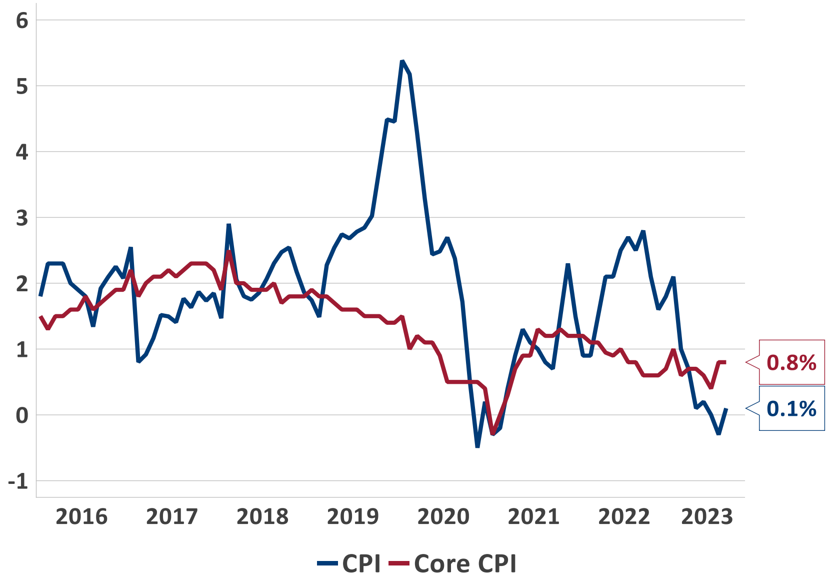
Source: BOCOM BBM, Macrobond, CFLP

China: Trade Balance (USD billion, 12MMA)



Source: BOCOM BBM, Macrobond, CCS

China: CPI (YoY, %)



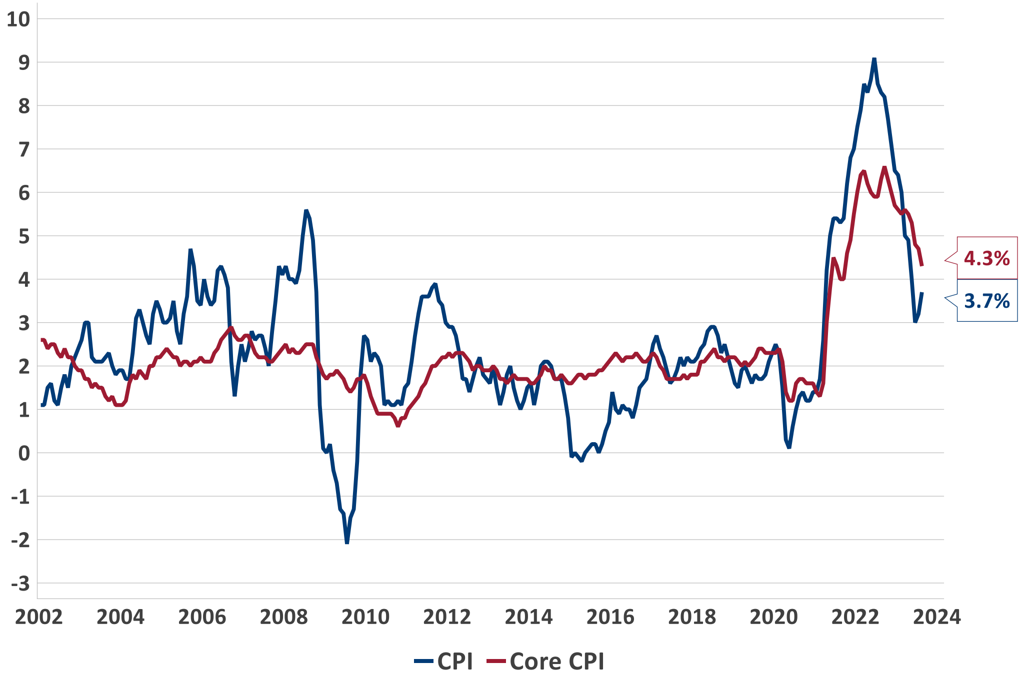
Source: BOCOM BBM, Macrobond, NBS

USA: Inflation

- August **headline CPI** in the US was slightly above expectations (**0.63% MoM** vs exp. 0.6%) mainly due to some volatile components, thus accelerating the annual rate from 3.2% to **3.7% YoY**:
  - Energy prices rose sharply (5.6% MoM) backed by a monthly rise in retail gasoline and diesel prices, although still -3.6% YoY;
  - Food prices maintained the pace of 0.2% MoM, below the fast pace of late 2022 and early 2023 (avg. 0.6%);

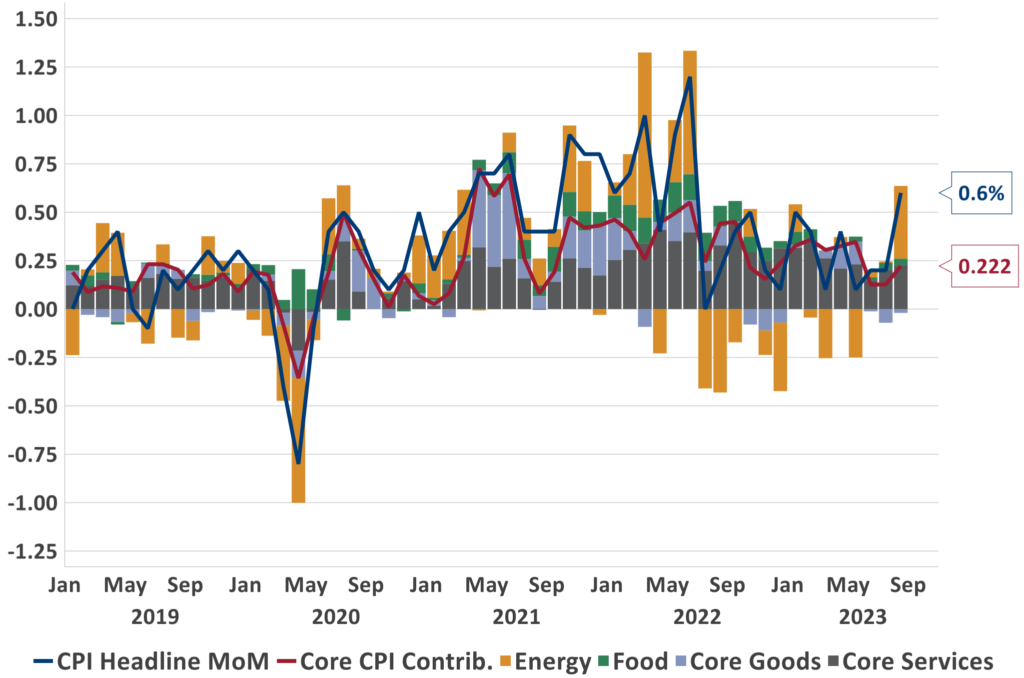
- **Core CPI** was also above expectations (**0.28% MoM** vs exp 0.2%), however with a slowdown in the annual rate to **4.35% YoY** (from 4.70%) :
  - **Core services (0.39% MoM) pressured the headline** due to an increase in airline fares prices, a volatile component. Nevertheless, the impact was offset by the continued slowdown in the OER and some negative prints for other components, such as lodging away from home;
  - **Core goods showed a monthly deflation (-0.1% MoM)** mainly linked to the drop in used cars & trucks, although other components showed a slightly worse composition**.**

US: CPI (YoY, %)



Source: BOCOM BBM, Macrobond, BLS

US: CPI MoM Contributions



Source: BOCOM BBM, Macrobond, BLS

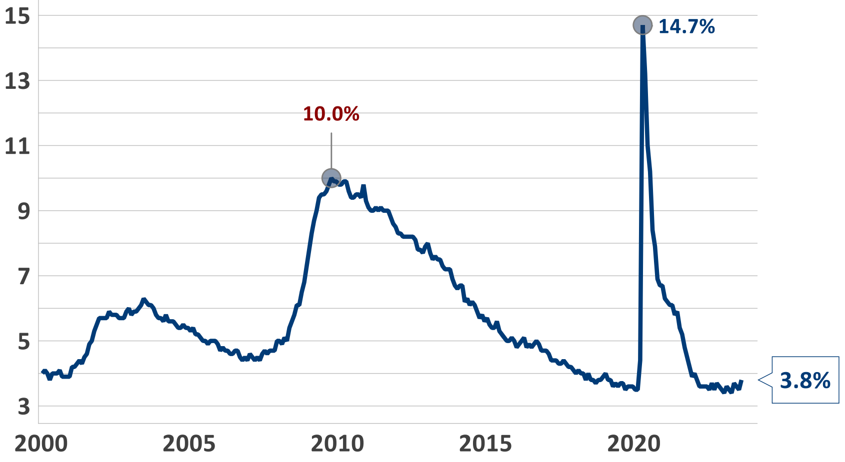
USA: Labor Market

- The US labor market showed a strong headline in August posting the creation of **187 thousand** jobs in the nonfarm payroll, although the household survey signaled an increase of the unemployment rate from 3.5% to **3.8%**;

- The jobs-workers gap broadened from 3.1M to **3.3M**, but didn't alter the recent trend of labor supply and demand gradually coming into better balance;
  - The job openings per unemployed person ratio moved down from 1.53 to **1.51;**

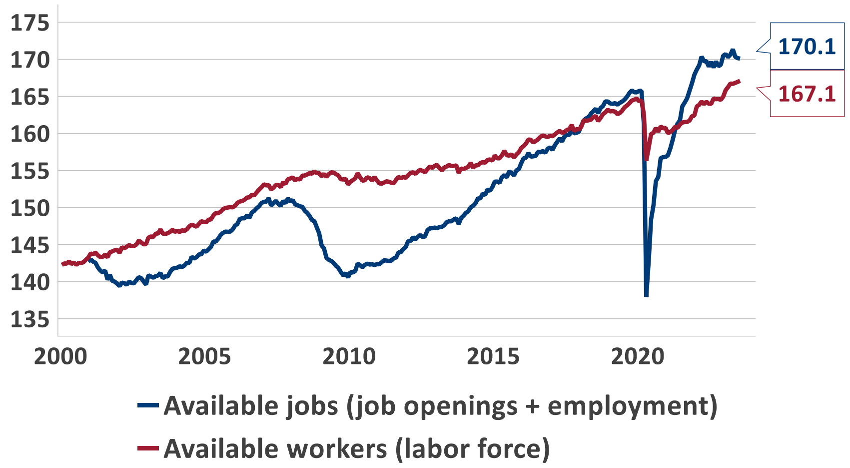
- August data showed average hourly earnings growth slowed from the rapid pace they posted in prior months, making the annual rate fall a bit from 4.4% to **4.3%** YoY;
  - This is important due to the positive correlation between wage inflation and inflation in services excluding housing & energy, which remains persistently high and is the main pressure in core inflation.

US: Unemployment Rate SA (%)



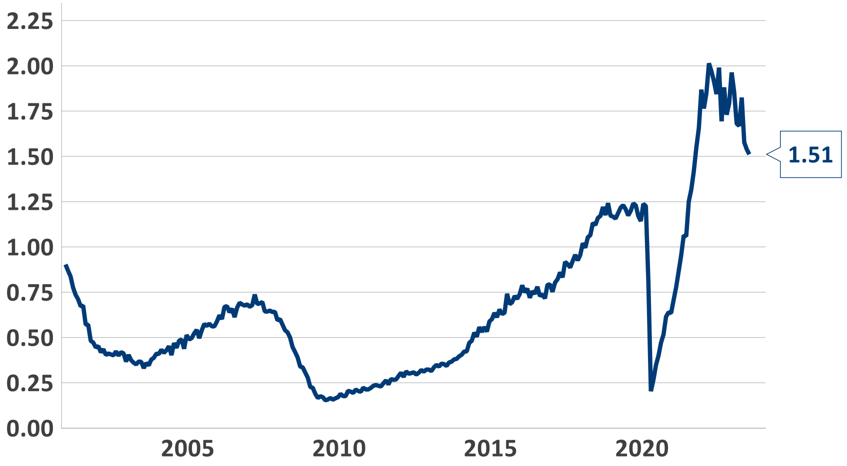
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



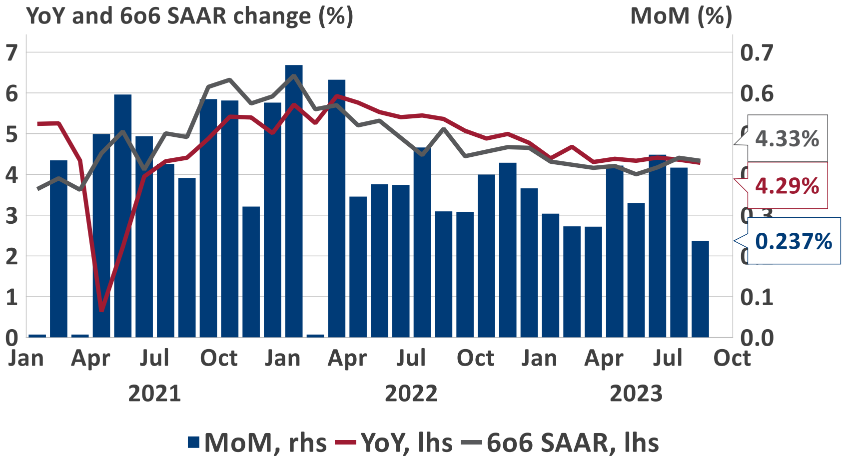
Source: BOCOM BBM, Macrobond, BLS

US: Job Openings/Unemployed Ratio



Source: BOCOM BBM, Macrobond

US: Average Hourly Earnings Growth (%)

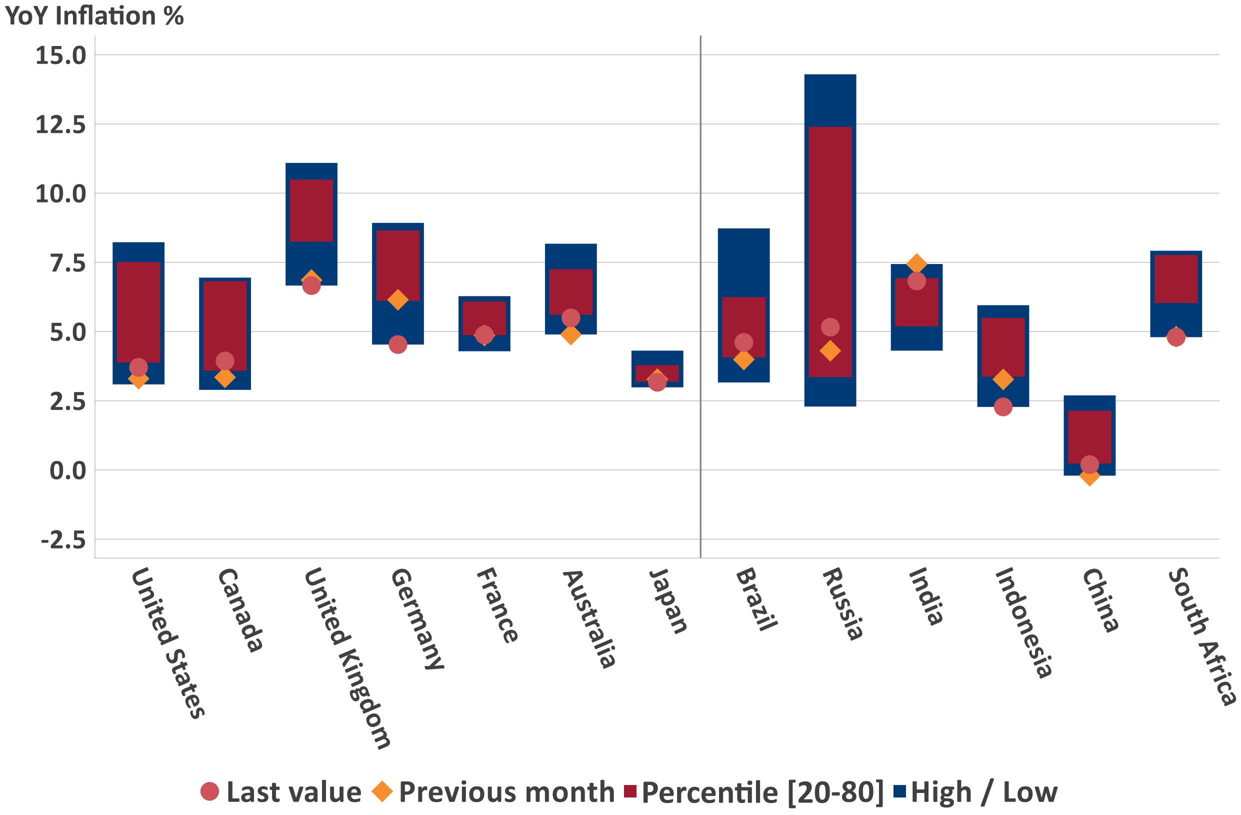


Source: BOCOM BBM, Macrobond

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;
  - 6 OECD nations are showing a technical recession in 2023 (2 quarters of negative growth): Germany, Netherlands, Ireland, Poland, Latvia & New Zealand.

Inflation range during the past 12 months

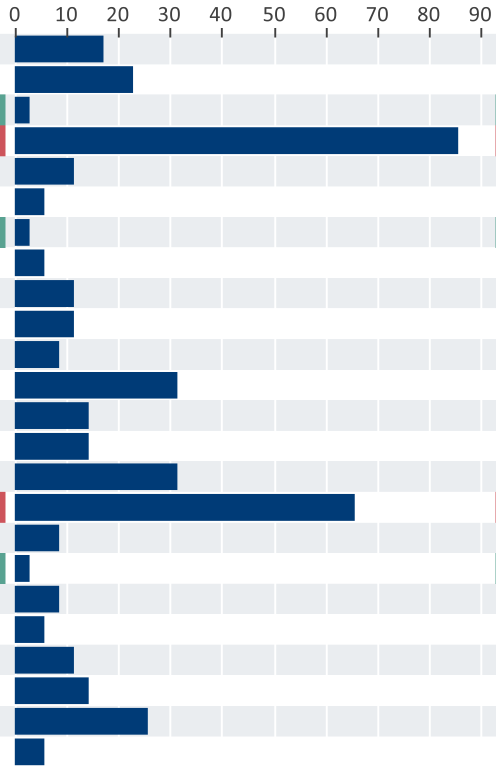


Source: BOCOM BBM, Macrobond

Recession Tracker

Number of countries in recession per year

Sample universe across 35 OECD nations



	Share (%)	#
2023	17.1	6
2022	22.9	8
2021	2.9	1
2020	85.7	30
2019	11.4	4
2018	5.7	2
2017	2.9	1
2016	5.7	2
2015	11.4	4
2014	11.4	4
2013	8.6	3
2012	31.4	11
2011	14.3	5
2010	14.3	5
2009	31.4	11
2008	65.7	23
2007	8.6	3
2006	2.9	1
2005	8.6	3
2004	5.7	2
2003	11.4	4
2002	14.3	5
2001	25.7	9
2000	5.7	2

Source: BOCOM BBM, Macrobond, National Sources

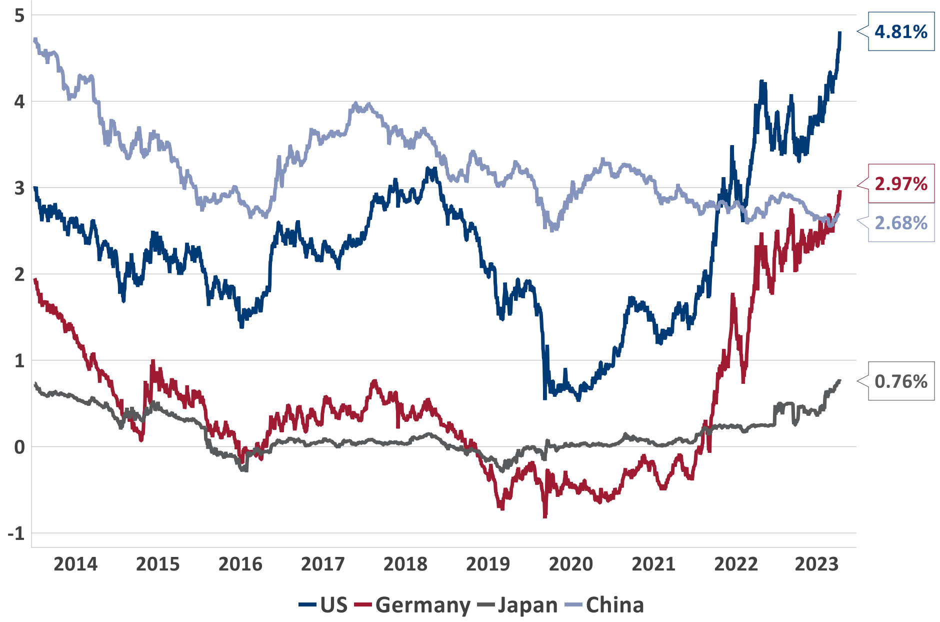
Global: Interest Rates

- Monetary policy tightening cycle seems to be approaching its peak in several countries, and some have already started easing such as Chile and Brazil;

- The FOMC opted to pause in their September meeting, maintaining the perception that it's actually a downshift to the pace of hikes rather than a protracted pause, in line with their "data-dependent" approach;

- Both Powell's press conference and the SEP showed a hawkish tone, signaling the possibility of one additional hike this year (supported by 12 out of 19 FOMC members), and a "higher for longer" posture for 2024 and 2025 in face of a high uncertainty environment and resilient activity.

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	118.00	21.00	Hike	8/2023	2	36
Australia	4.10	0.25	Hike	6/2023	4	35
Brazil	12.75	-0.50	Cut	9/2023	14	0
Canada	5.00	0.25	Hike	7/2023	3	42
Chile	9.50	-0.75	Cut	9/2023	12	1
China	3.45	-0.10	Cut	8/2023	116	2
Colombia	13.25	0.25	Hike	5/2023	5	36
Costa Rica	6.50	-0.50	Cut	7/2023	11	2
Czech Republic	7.00	1.25	Hike	6/2022	15	41
Denmark	3.75	0.25	Hike	9/2023	1	24
Euro Area	4.50	0.25	Hike	9/2023	1	91
Hungary	13.00	1.25	Hike	9/2022	12	38
Iceland	9.25	0.50	Hike	8/2023	1	35
India	6.50	0.25	Hike	2/2023	8	40
Indonesia	5.75	0.25	Hike	1/2023	9	32
Israel	4.75	0.25	Hike	5/2023	4	42
Japan	-0.10	-0.20	Cut	1/2016	199	92
Mexico	11.25	0.25	Hike	3/2023	6	32
New Zealand	5.50	0.25	Hike	5/2023	4	43
Norway	4.25	0.25	Hike	9/2023	0	41
Poland	5.75	-0.25	Cut	10/2023	13	0
Russia	13.00	1.00	Hike	9/2023	1	13
Saudi Arabia	6.00	0.25	Hike	7/2023	2	43
South Africa	8.25	0.50	Hike	5/2023	4	38
South Korea	3.50	0.25	Hike	1/2023	9	40
Sweden	4.00	0.25	Hike	9/2023	0	92
Switzerland	1.75	0.25	Hike	6/2023	3	105
Turkey	30.00	5.00	Hike	9/2023	0	7
United Kingdom	5.25	0.25	Hike	8/2023	2	43
United States	5.50	0.25	Hike	7/2023	2	43

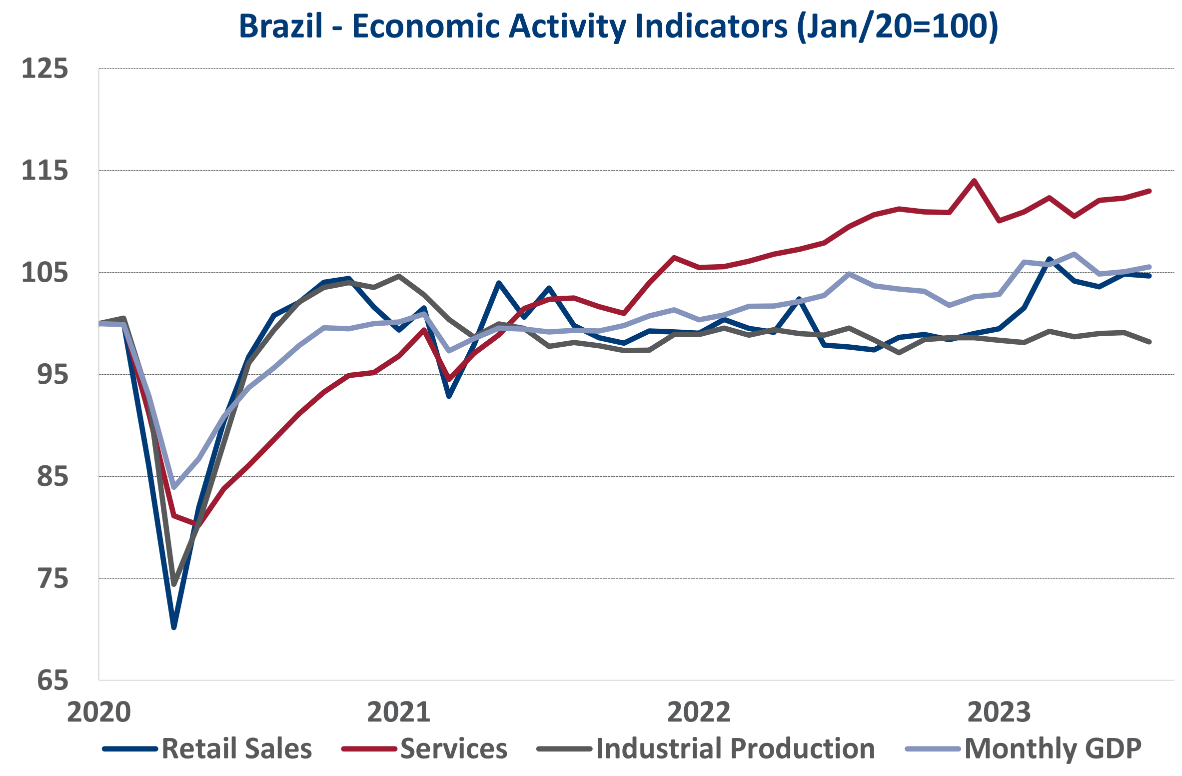
Brazil: Forecasts

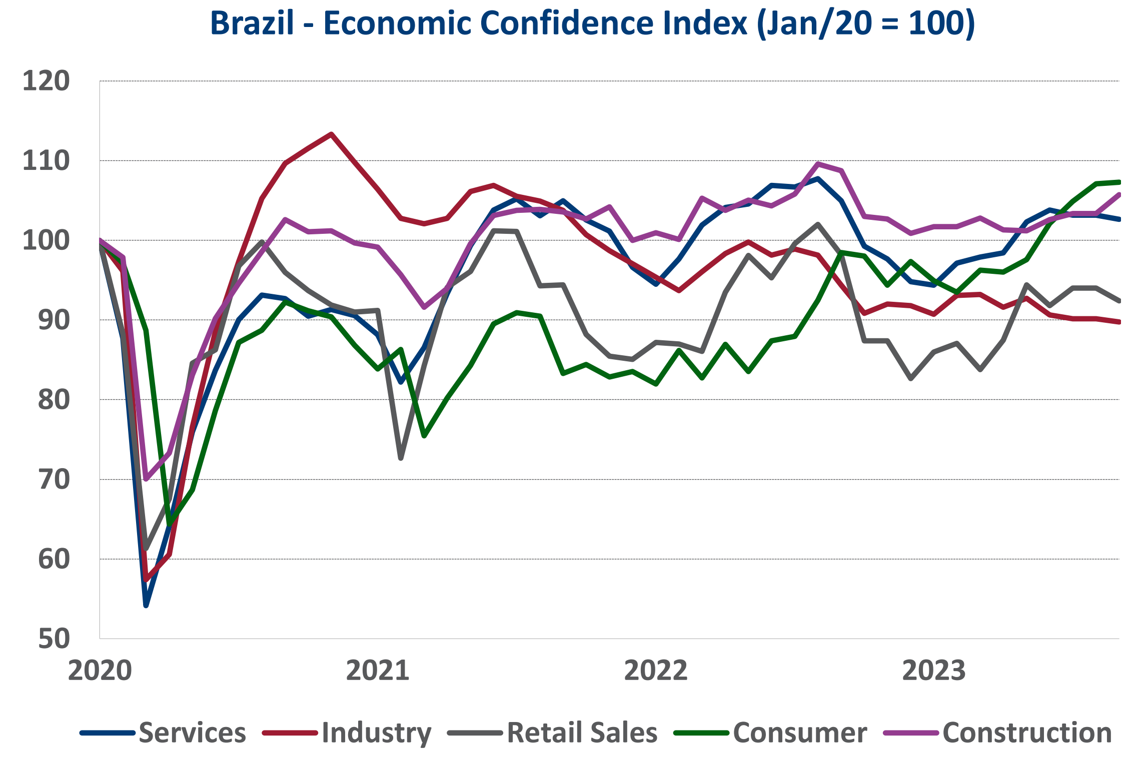
ECONOMIC FORECASTS	2019	2020	2021	2022	2023F	2024F
GDP Growth (%)	1.2%	-3.3%	5.0%	2.9%	2.9%	1.4%
Inflation (%)	4.3%	4.5%	10.1%	5.8%	4.5%	3.6%
Unemployment Rate (eoy ,%)	11.1%	14.2%	11.1%	7.9%	8.5%	9.0%
Policy Rate (eoy, %)	4.5%	2.0%	9.3%	13.75%	11.75%	9.5%
External Accounts						
Trade Balance (US$ bn)	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%	-1.0%	-0.9%
Government Gross Debt (% of GDP)	74.3%	86.9%	78.8%	72.9%	75.6%	79.0%

Source: BOCOM BBM

Brazil: Activity

- The monthly indicators of economic activity posted mixed signs in July. On the monthly comparison, industrial production and broad retail sales fell 0.6% and 0.3%, respectively. Meanwhile, services sector showed an 0.5% increase. In turn, IBC-Br presented a positive result of 0.4% MoM;
- In September, confidence indicators also brought different signs among sectors: consumer and construction confidence posted a growth, while the industry, services and retail sales confidence decreased.

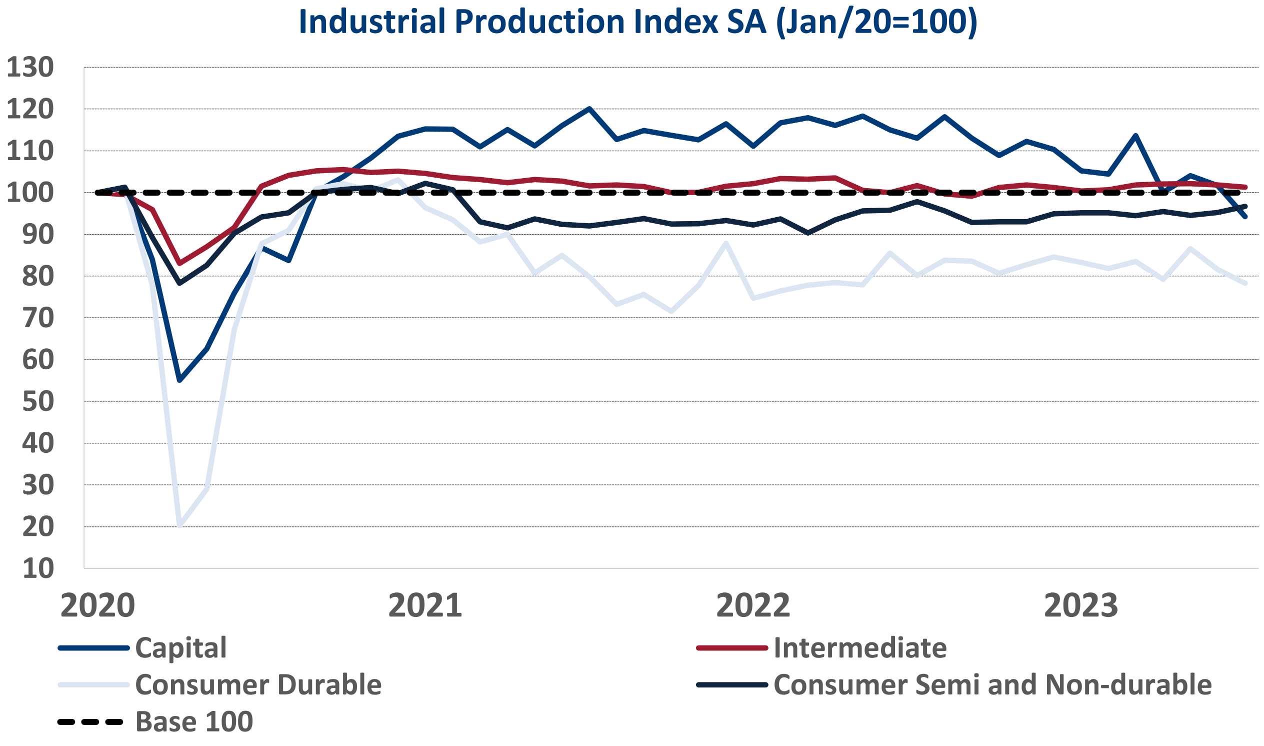


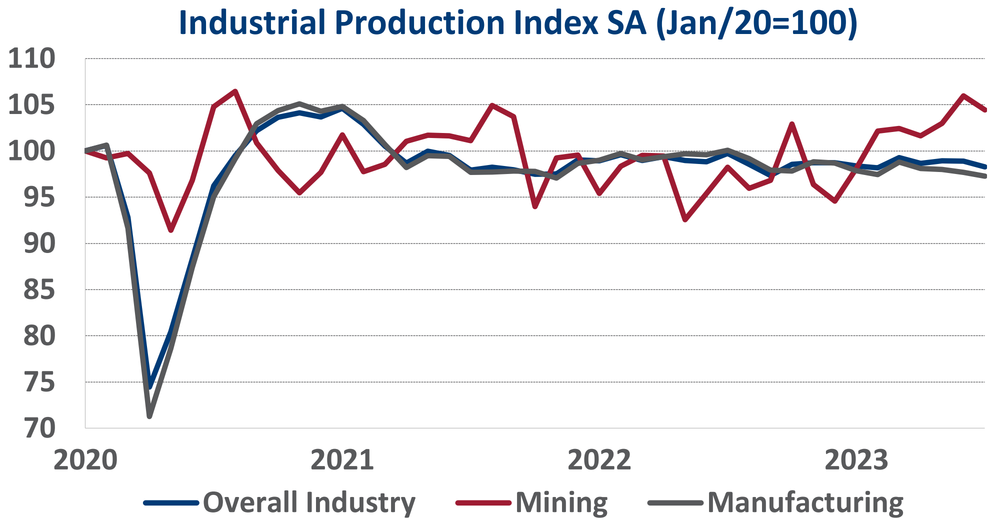


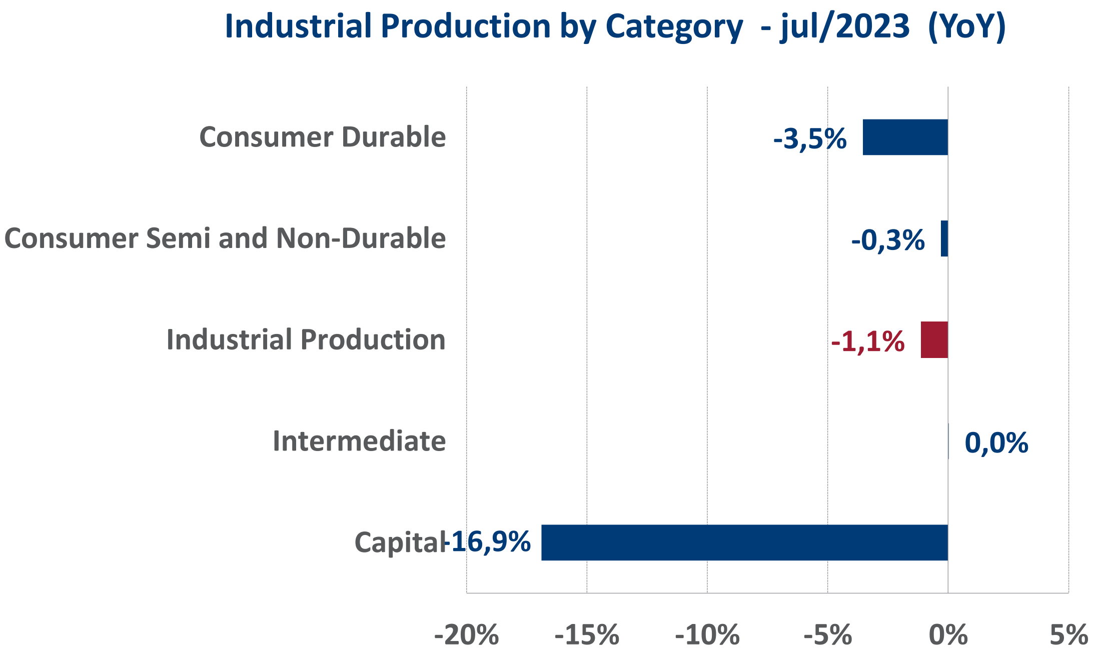
Source: BOCOM BBM, FGV

Brazil: Industrial Production

- Industrial production decreased by -0.6% MoM in July (-1.1% YoY), below market expectations (-0.3% MoM and -0.5% YoY);
- In the breakdown, 15 out of the 25 activities and 3 out of the 4 economic categories decreased on the monthly comparison, especially the ones related to interest rates;
- We call attention to the production of capital goods that fell 7.4% MoM, -5.7% QoQ in the moving quarter ended July and around 17.0% compared to Dec-22;
- Industrial production performance continues to be negatively impacted by tight monetary conditions and elevated household indebtedness.



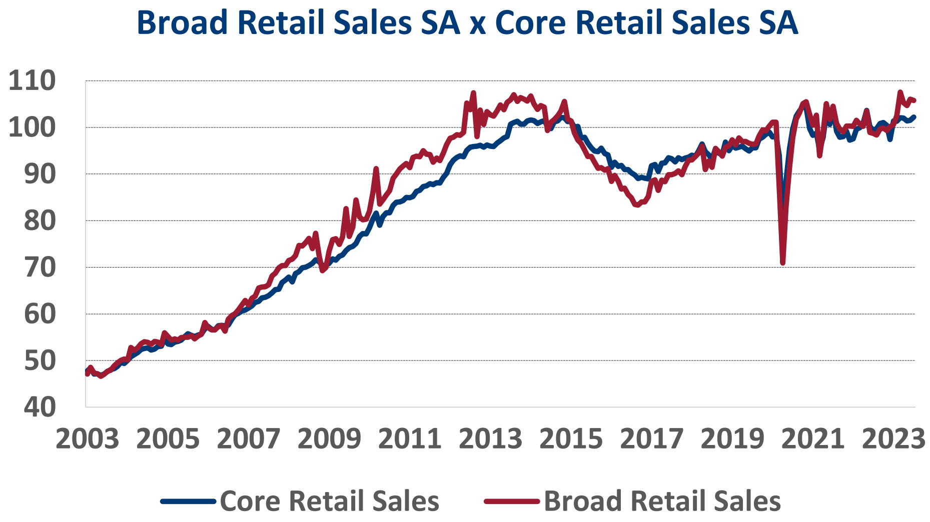


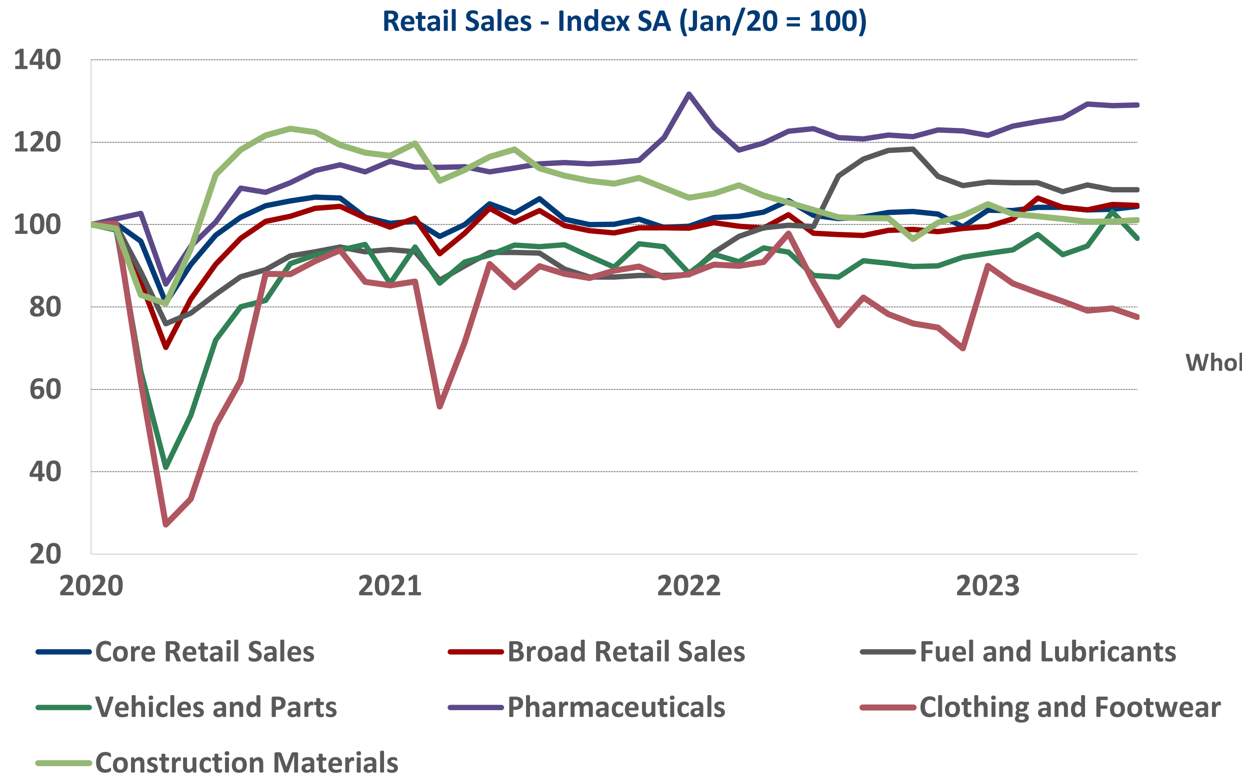


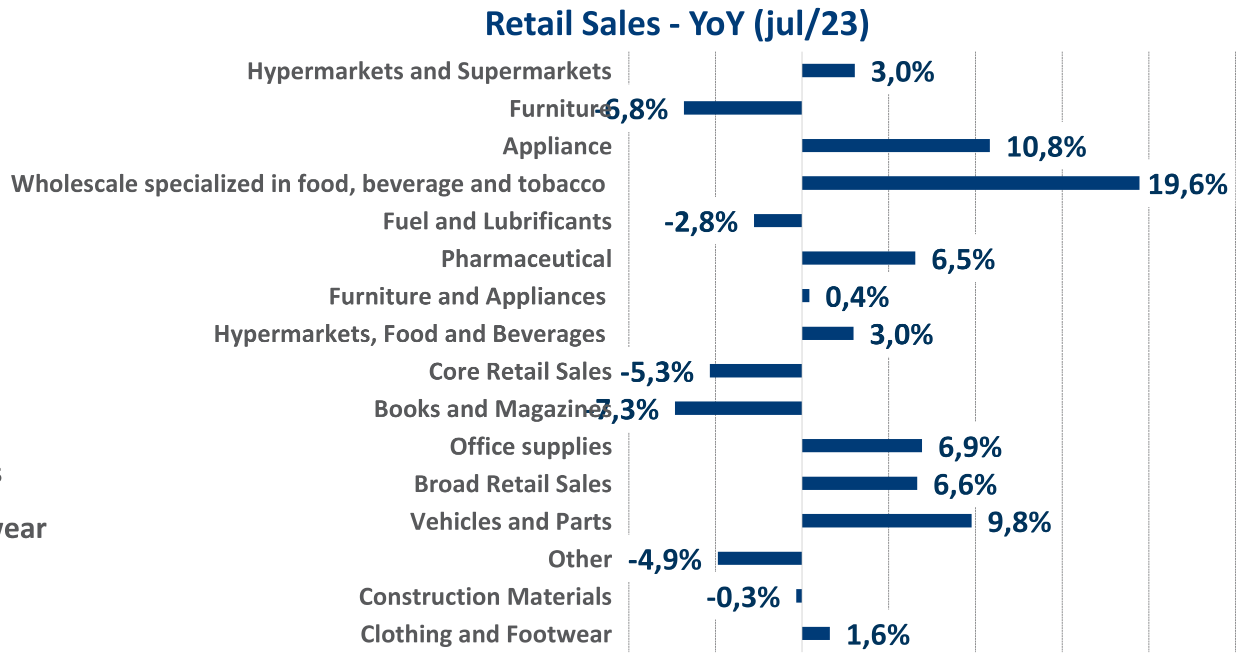
Source: IBGE, BOCOM BBM

Brazil: Retail Sales

- Broad retail sales receded 0.3% MoM in July (+6.6% YoY);
- The performance is explained by the significant drop of 'Vehicles and Parts' (-6.2% MoM), as it captured the effects of the end of subsidies to car sales;
- On the other hand, core retail sales showed a 0.7% MoM growth, reflecting great results in 'Office Supplies' (+11.7%) and 'Other articles of domestic use' (+8.4%);
- The carryover for 3Q23 stands at 0.4% for broad retail sales and 0.6% for core retail sales.



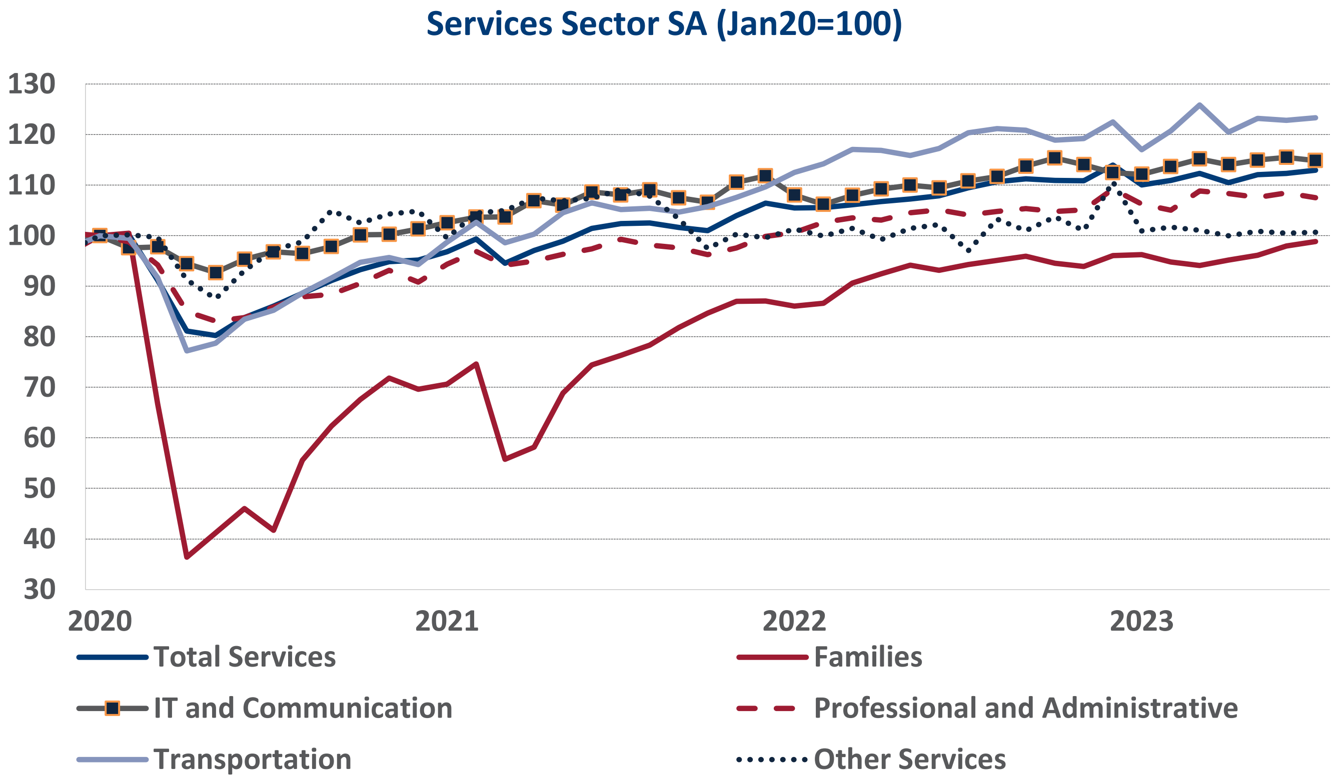


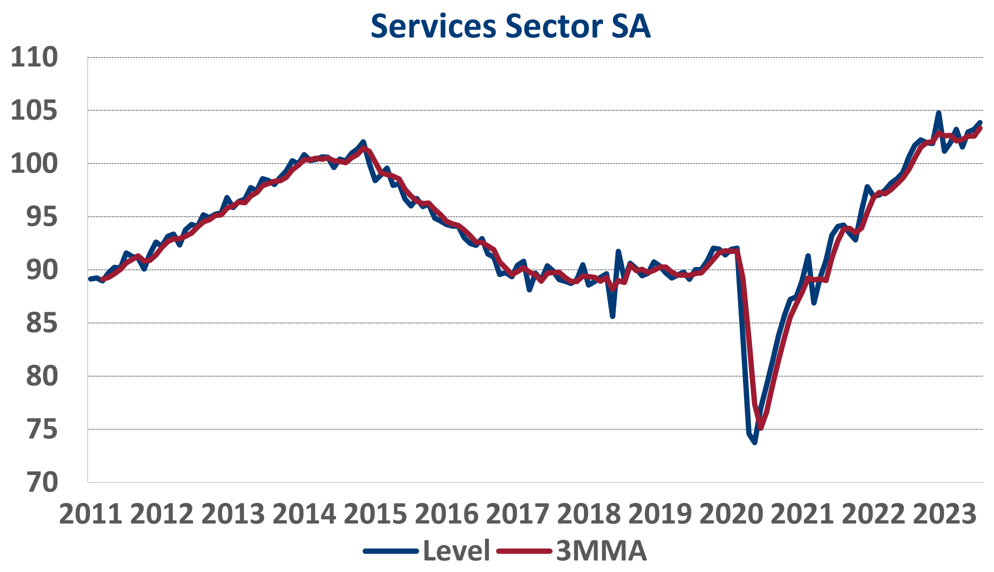


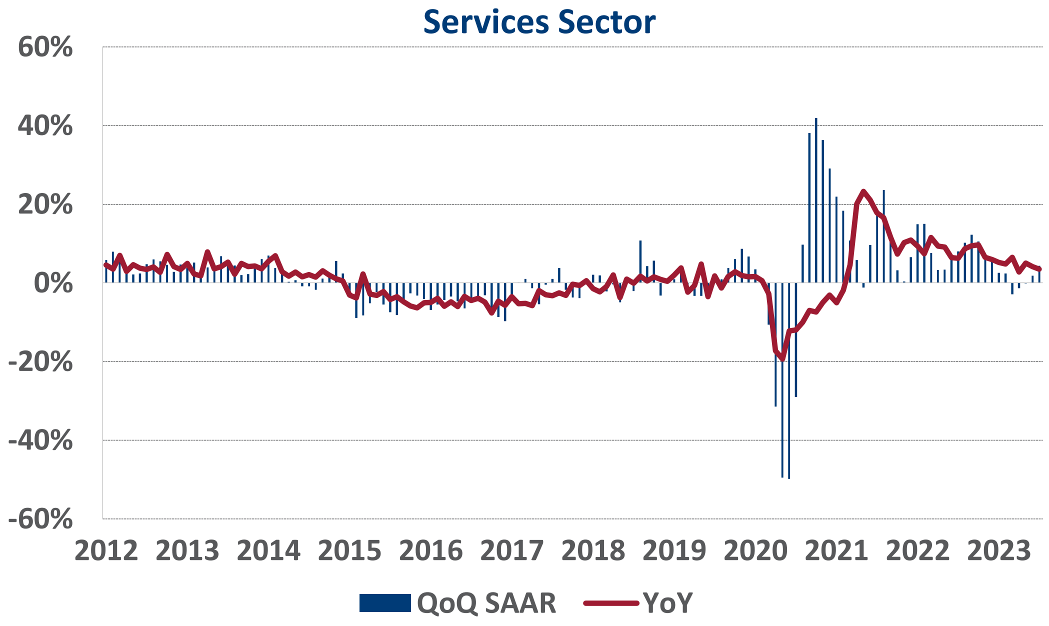
Source: IBGE, BOCOM BBM

Brazil: Services

- Services sector revenue expanded by 0.5% MoM (3.5% YoY) in July, in line with market expectations;
- The main drivers to this performance were 'Services Provided to Families', owing to a still resilient labor market and easing of short-term inflation, and 'Transportation', due to a still strong performance of commodity-linked sectors;
- Despite its consistent growth, we expect the sector to continue to cool down on the following months.







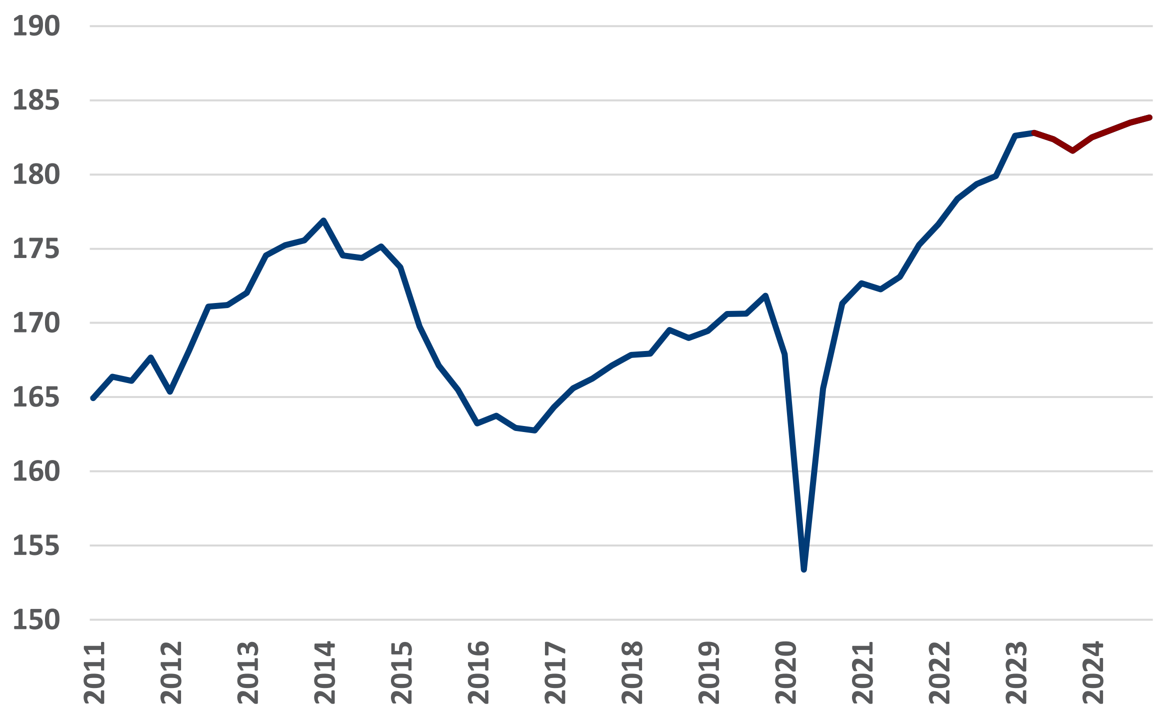
Source: IBGE, BOCOM BBM

Brazil: Economic Activity

- After July data, we maintained our forecast for Q3 at 0% QoQ and 2.9% in 2023
- Only the composition has changed, with lower numbers for industry and higher for services
- For 2024, we project a growth of 1.4%.

	2023.III QoQ	2023.III YoY	2023 Forecast	2024 Forecast
GDP	0.0%	2.2%	2.9%	1.4%
Agriculture	**-5.0%**	**9.1%**	**14.3%**	**1.8%**
Industry	**0.3%**	**0.9%**	**1.4%**	**1.3%**
Mining	1.2%	7.4%	7.4%	3.9%
Manufacturing	-0.8%	-2.4%	-1.5%	-0.3%
Electricity	0.4%	4.0%	4.8%	4.1%
Civil Construction	0.5%	-0.6%	0.4%	1.2%
Services	**0.5%**	**1.8%**	**2.1%**	**1.4%**
Retail	-0.2%	-0.7%	0.2%	0.3%
Transports	0.8%	3.1%	3.6%	2.9%
Information and Communication	2.0%	2.5%	3.4%	1.9%
Financial Services	0.8%	5.1%	5.1%	3.3%
Rents	0.7%	2.3%	2.6%	2.0%
Other Services	1.4%	2.3%	2.4%	0.6%
Public Administration	0.7%	1.3%	1.3%	1.7%

GDP Level SA

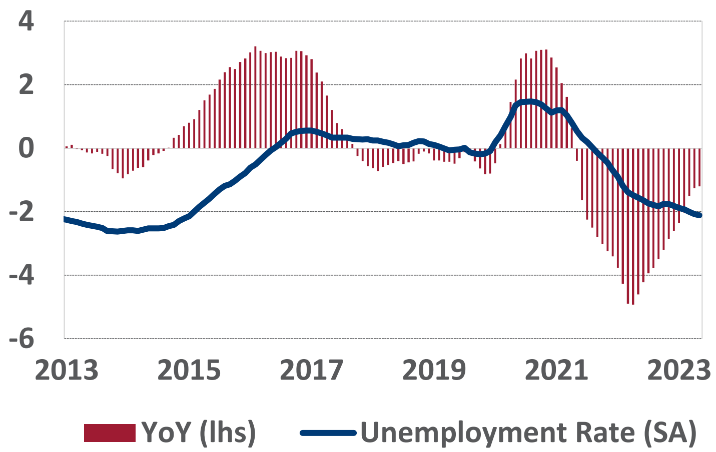


Source: BOCOM BBM, IBGE

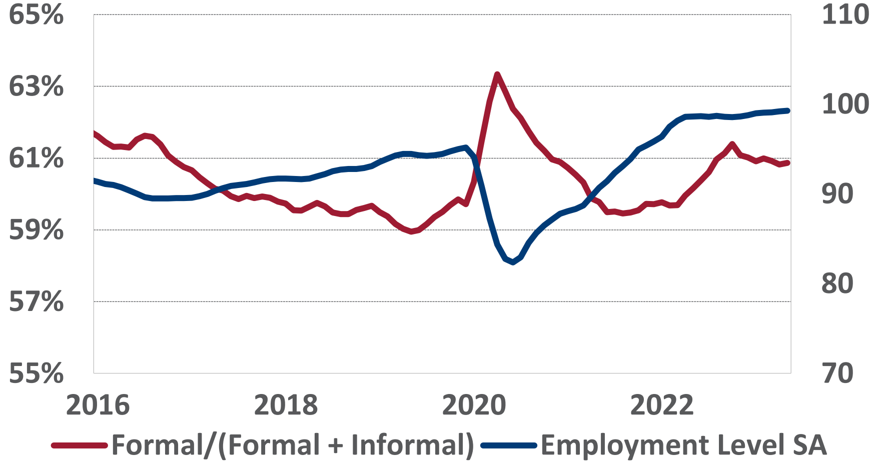
Brazil: PNAD

- Seasonally adjusted, unemployment rate declined to 7.8% in the moving quarter ended August, the lowest level since early 2015;
- Employment remained practically stable in the month (+0,03% MoM);
- The performance of unemployment rate is influenced by the significant low level of the labor force participation rate (61.7%), which remains below pre pandemic records;
- Although modestly, average real wage also increased (+0.2% MoM), after remaining stable in July;
- In the same line, the real wage bill, showed a growth of 0.3% MoM.

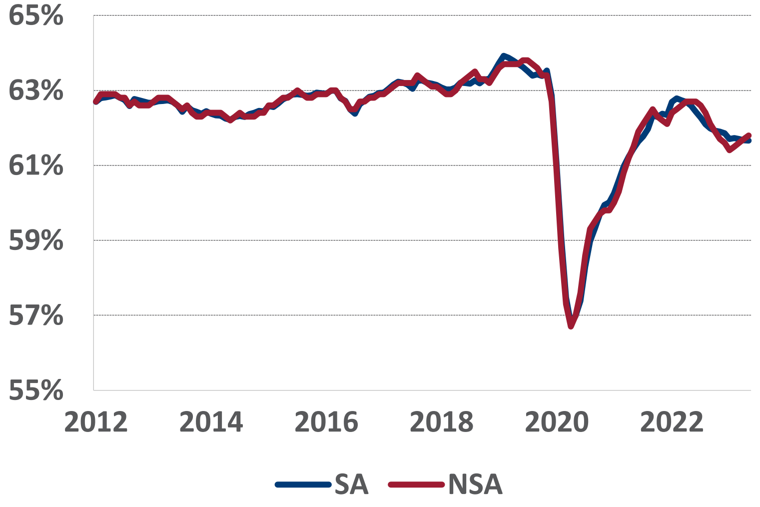
Brazil - Unemployment Rate



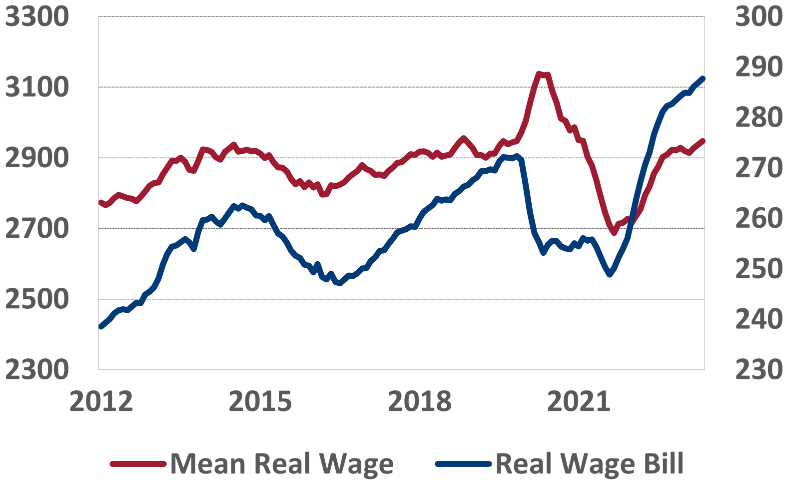
Brazil - Employment Level SA



Brazil - Workforce Participation



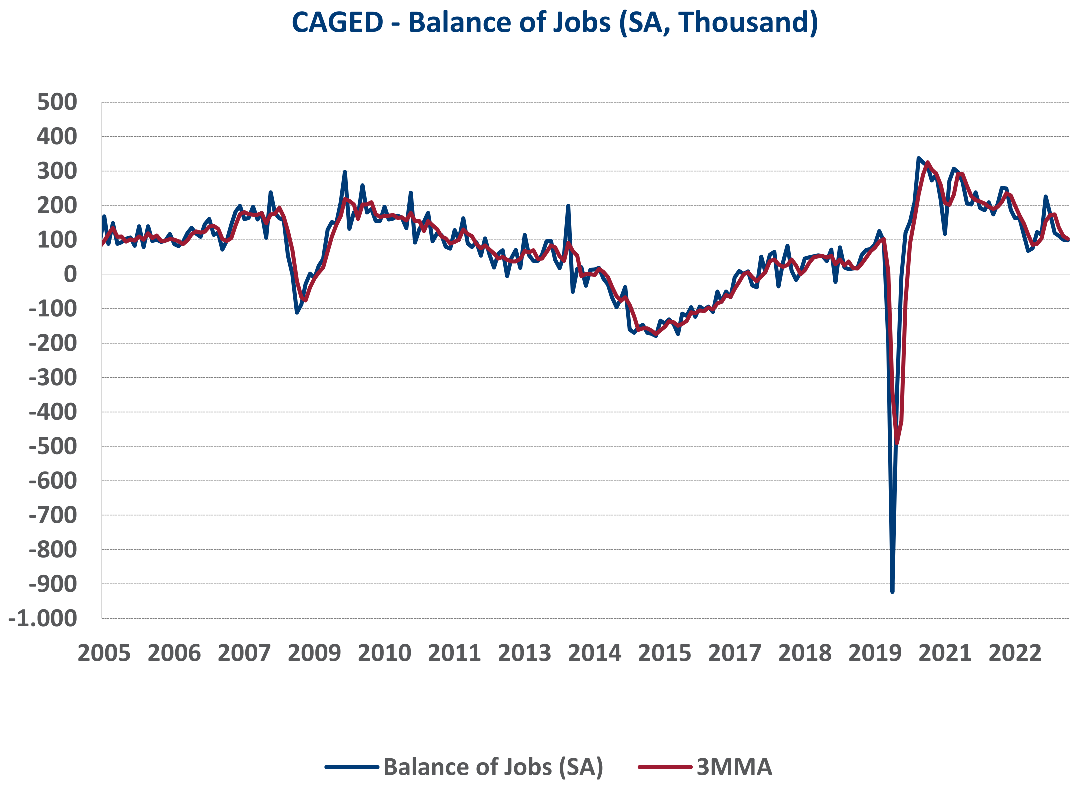
Brazil - Mean Real Wage and Real Wage Bill

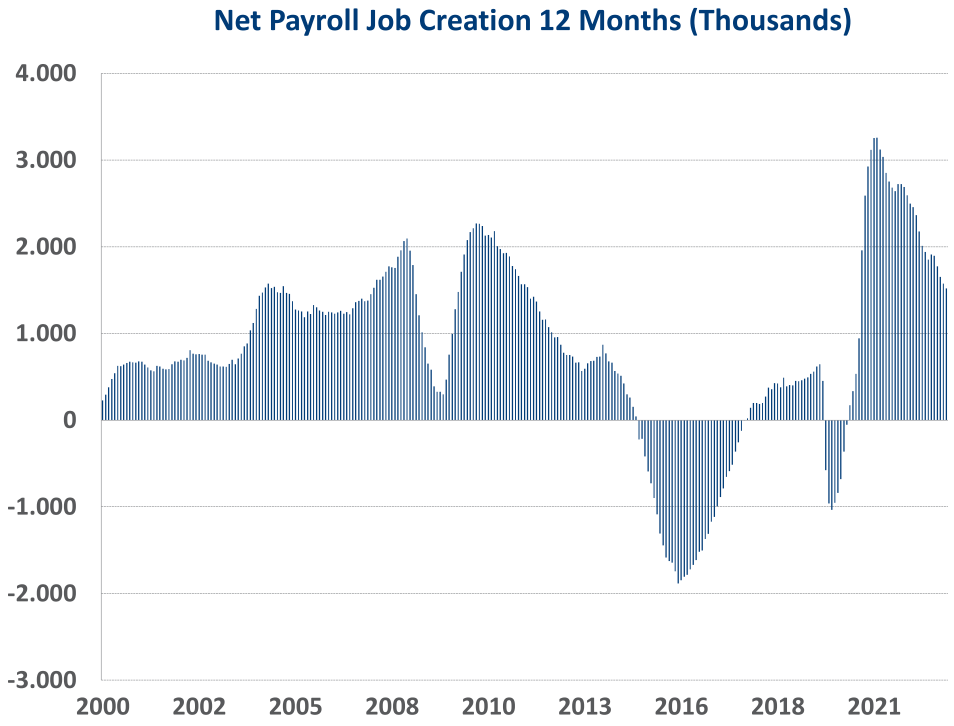


Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

- In August, Caged registered a net creation of 220.8k formal jobs, above the consensus (173k);
- Seasonally adjusted, we estimated a net creation of 98.8k;
- The better-than-expected result reinforces the scenario of resilient domestic activity, although losing steam at the margin.



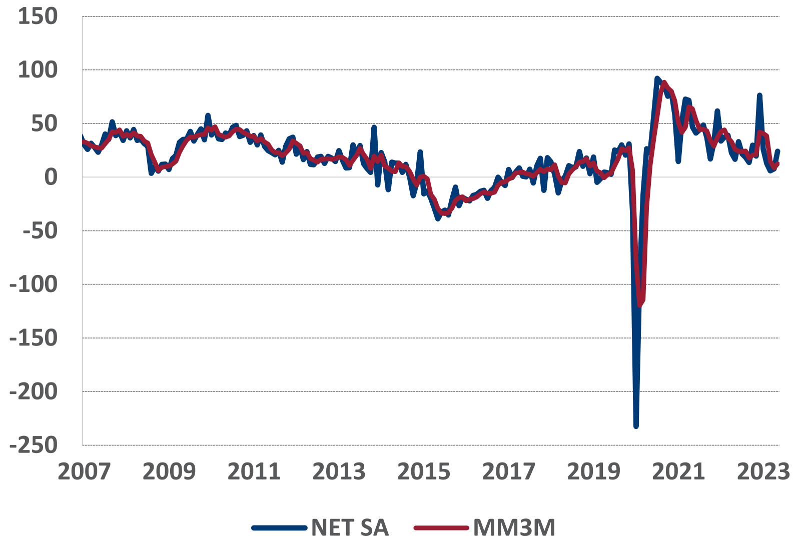


Source: BOCOM BBM, MTE

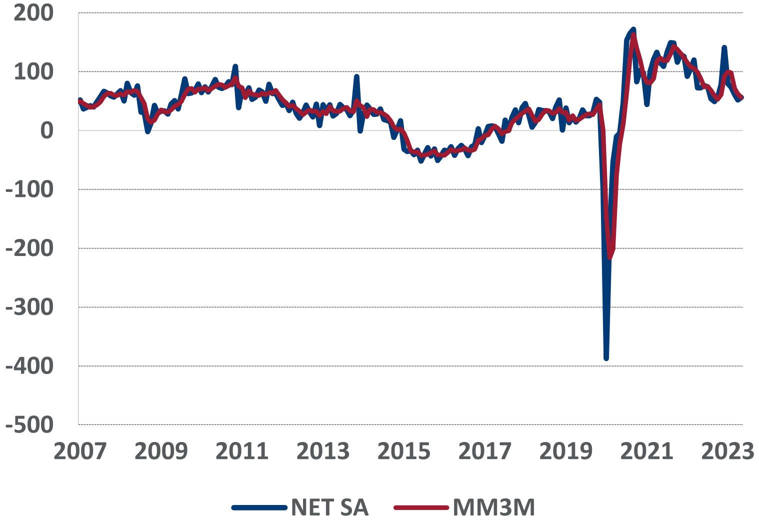
Brazil: Formal Labor Market

- In the breakdown, three out of four categories made positives contributions;
- Services sector created around 55.9 thousand jobs in August, remaining the sector with the largest job creation;
- Retail sales, in turn, recorded a net creation of 24.2 thousand jobs, from 7.5 thousand in July;
- As for construction, it increase to 12.1 thousand from 9.8 thousand;
- On the other hand, industry recorded a slight drop of 0.9 thousand on the month.

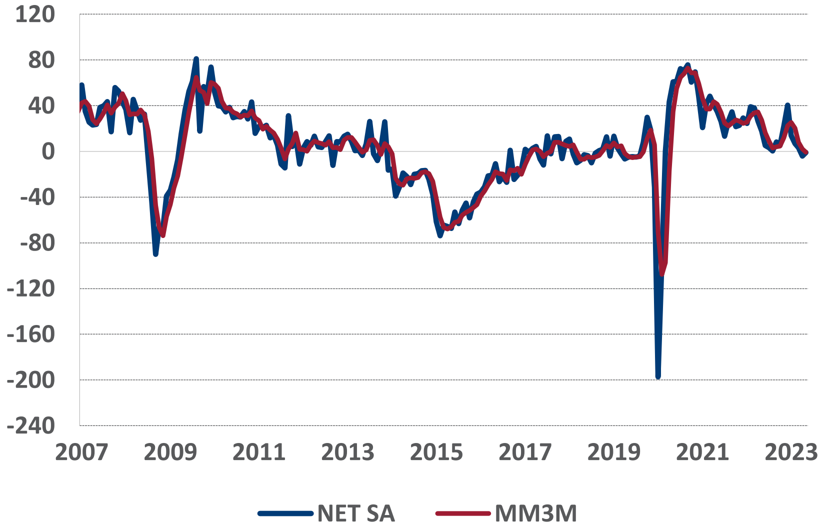
Brazil - Retail Net Payroll Job Creation (SA)



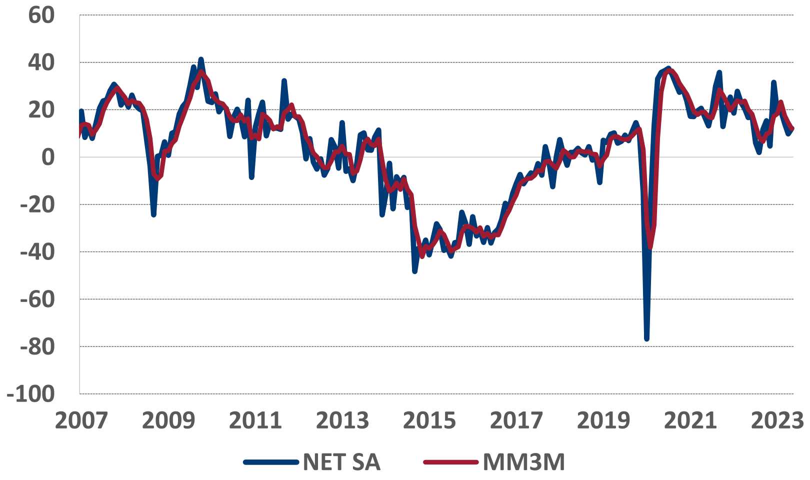
Brazil - Services Net Payroll Job Creation (SA)



Brazil - Industry Net Payroll Job Creation (SA)



Brazil - Construction Net Payroll Job Creation (SA)

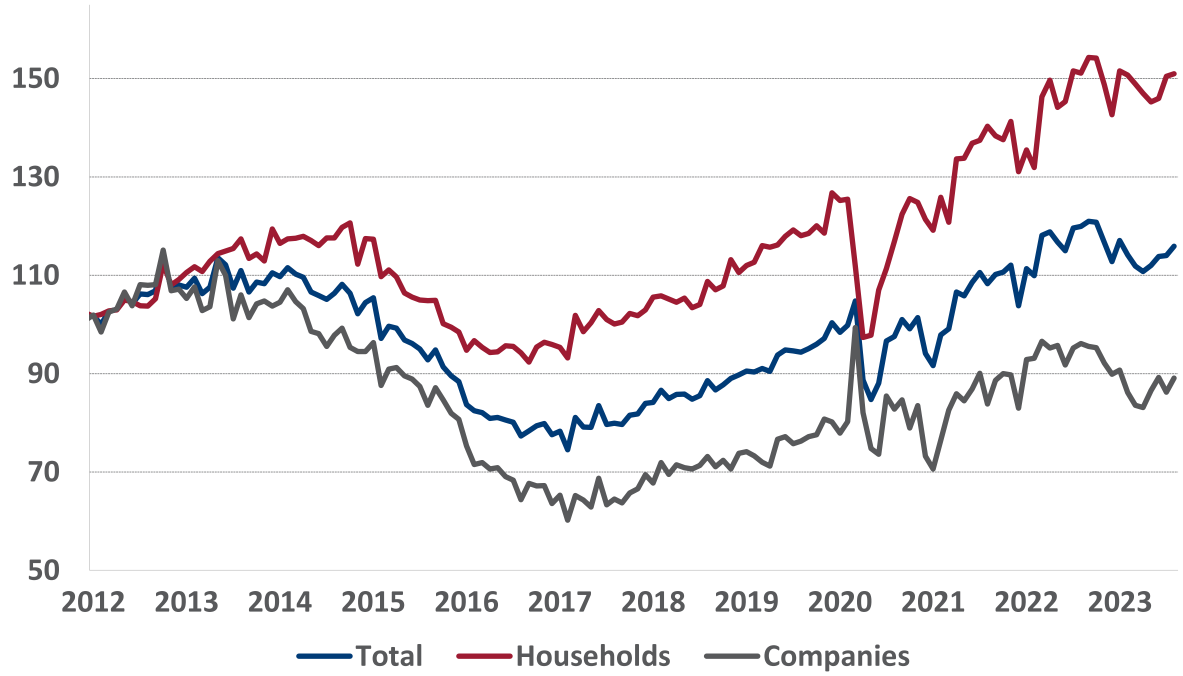


Source: BOCOM BBM, MTE

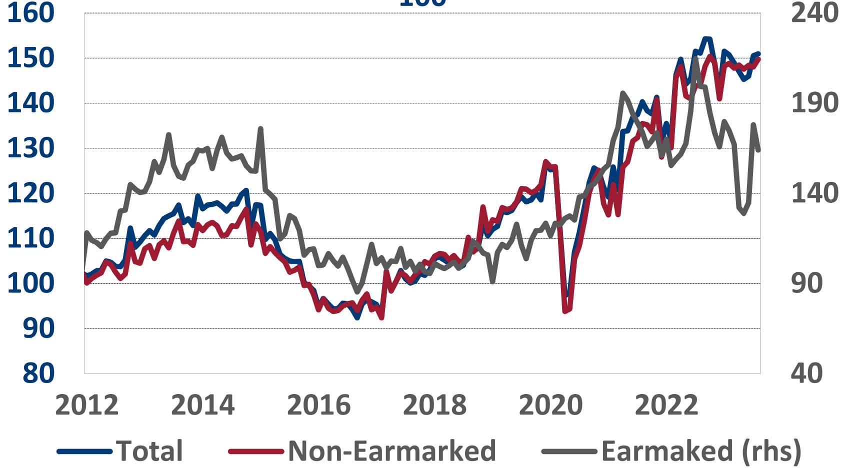
Brazil: Credit Statistics

- In August, total credit concessions increased 1.6% MoM in real terms;
- Non-earmarked credit concessions showed a 1.1% MoM growth to households and a 3.1% one to companies;
- Earmarked credit, on the other hand, decreased 7.8% to households and 1.7% to companies.

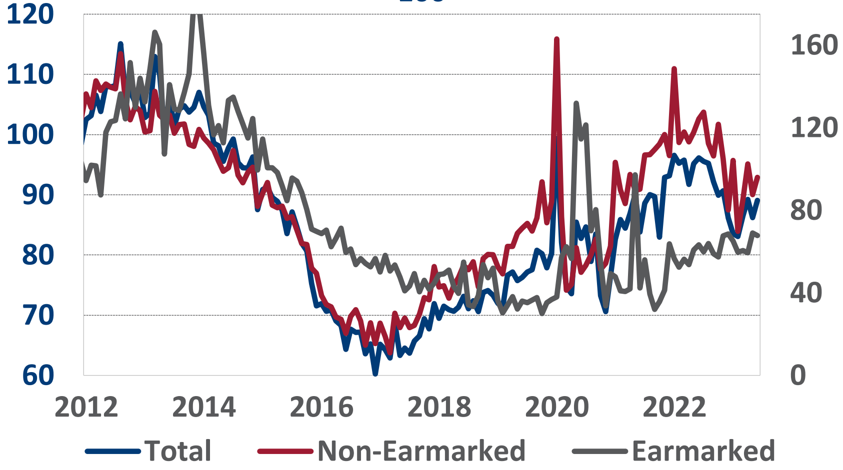
New Credit Operations SA (Real) - mar/11 = 100



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



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



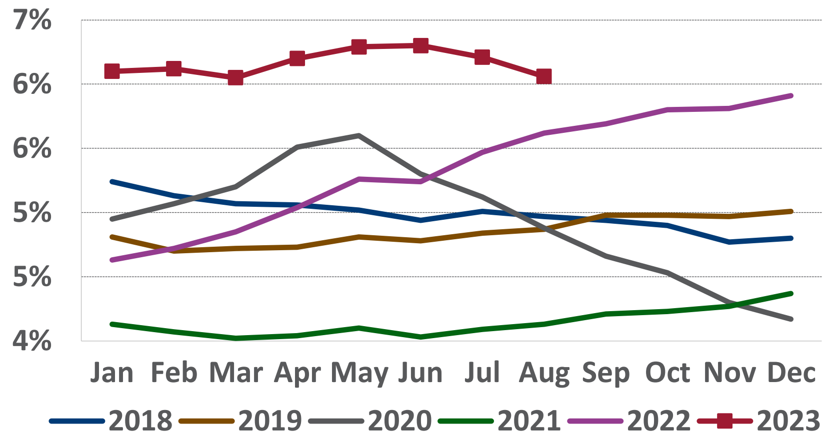
Source: BOCOM BBM, BCB

Brazil: Credit Statistics

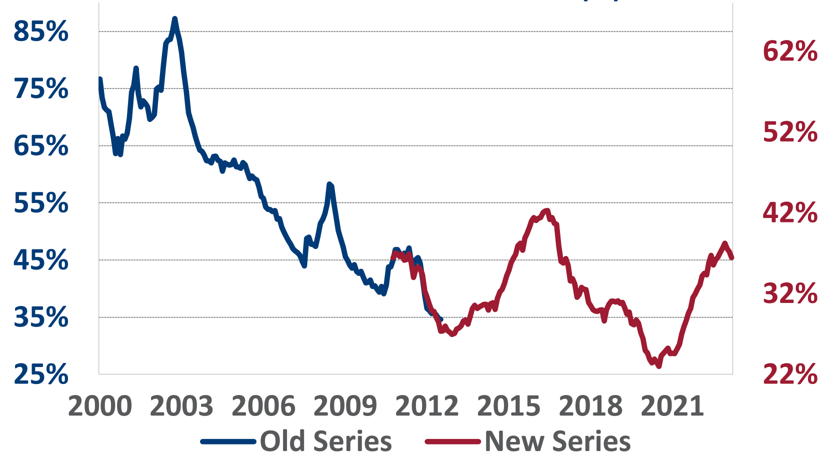
- Lending rates to individuals and to corporates showed a modest decrease in August. The former reached 36.5% and the latter 19.3%;

- Due to the "Desenrola Program", non-earmarked default fell 0.1 p.p. to households. To companies, it increased 0.1 p.p.

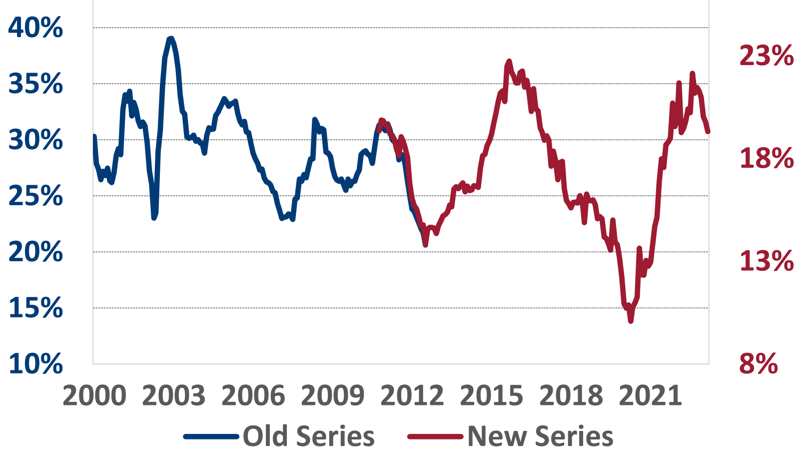
Non-Earmarked Default - Households (%)



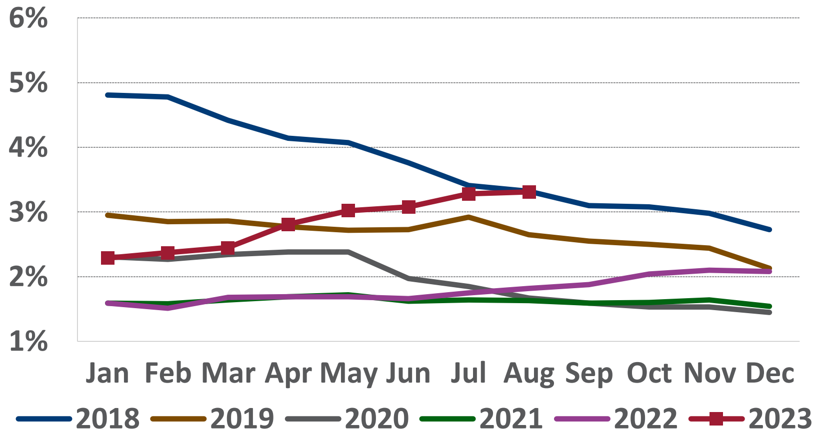
Interest Rates - Households (%)



Interest Rates - Companies (%)



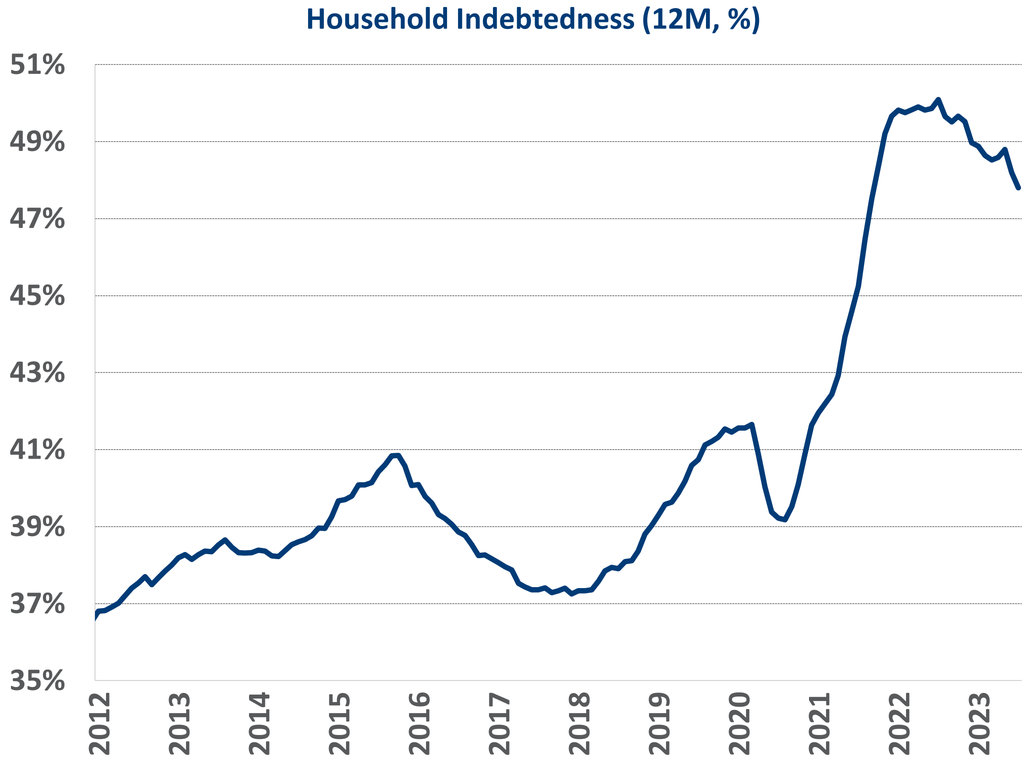
Non-Earmarked Delinquency - Companies (%)

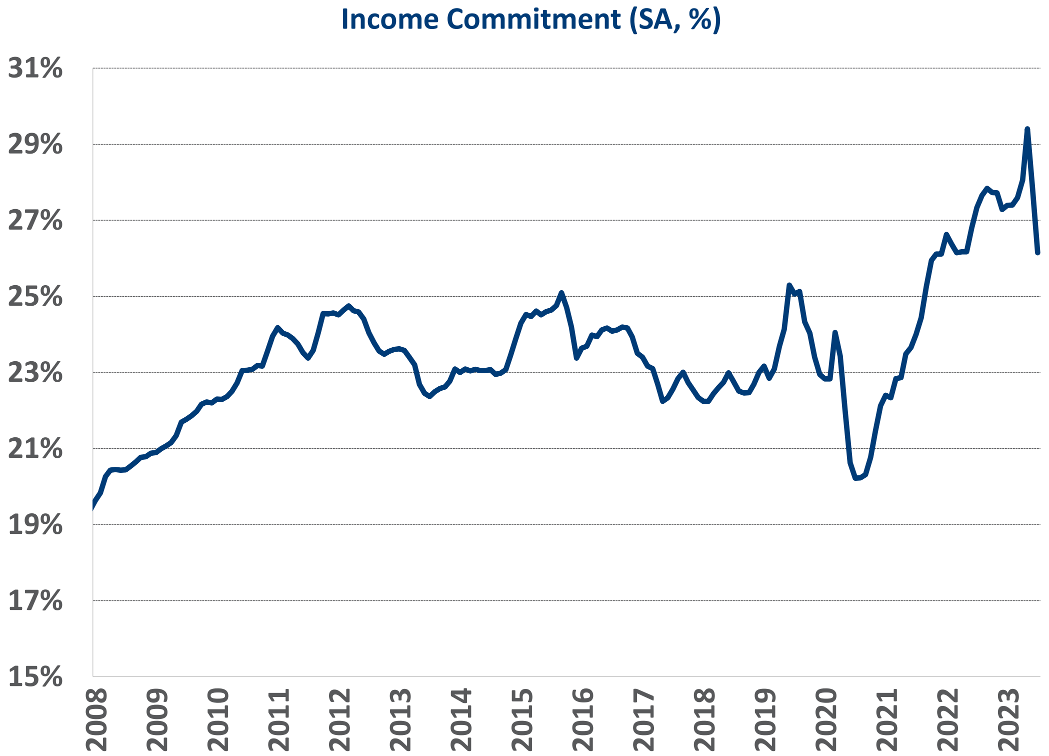


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- In July, household indebtedness fell to 47.8, the second consecutive fall;
- In the same line, the income commitment fell sharply to 26.15%, after reaching the highest level of historical series in May;
- Decreases in both indicators is explained by the "Desenrola Program", which began in July.

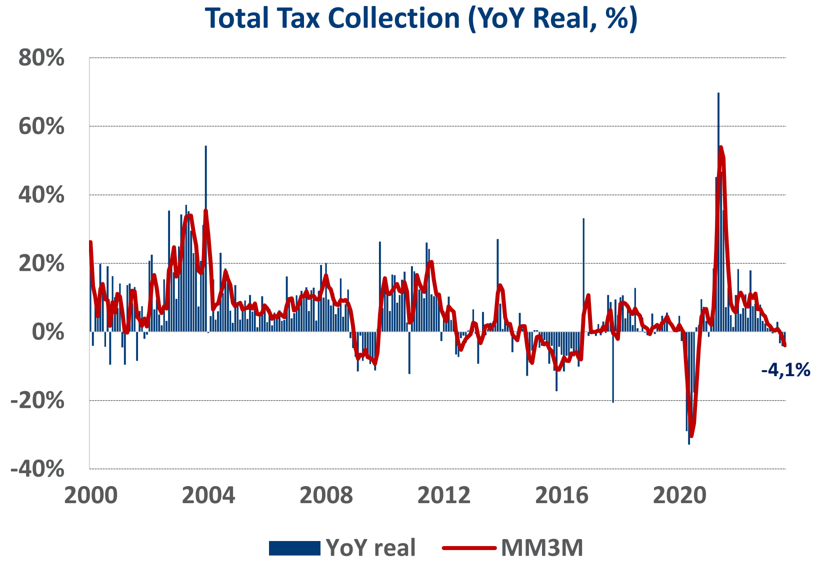


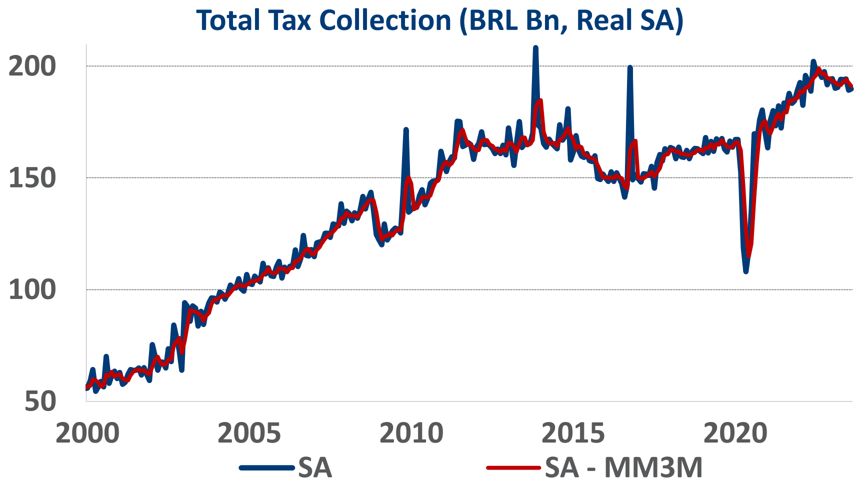


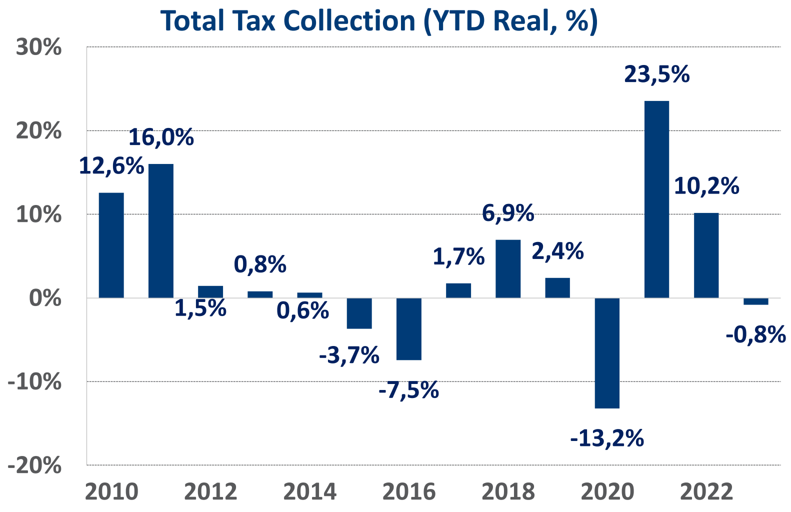
Source: BOCOM BBM, BCB

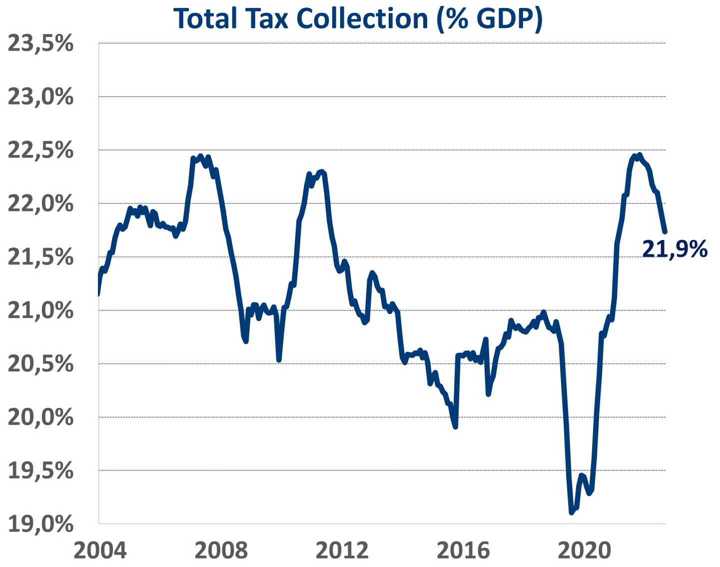
Brazil: Federal Tax Collections

- Total federal tax collection reached BRL 172.8 billion in August (in line with consensus), representing a drop of 4.2% in real terms when compared to the same month in 2022;
- Year-to-date, tax collection fell 0.8% YoY in real terms;
- The performance was influenced by the drop in the average commodities price and the recent slowdown in economic activity which affected corporate taxes (IRPJ/CSLL), Import tax and IPI;
- It was also partially offset by an increase in PIS/Cofins, driven by the return of taxes on gasoline;
  - This category is still increasing below expectations, since the exclusion of ICMS credits from its tax base could generate a gain of around BRL 4.6 billion/month, which is yet to be observed.





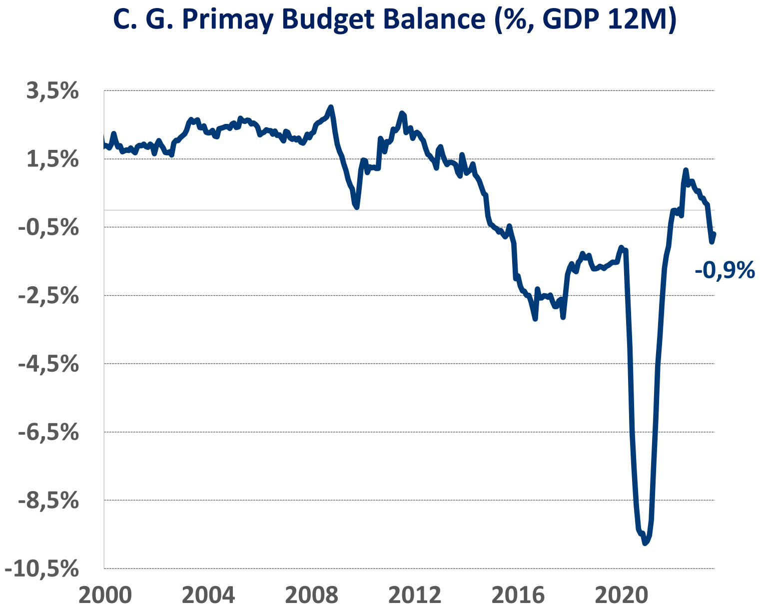


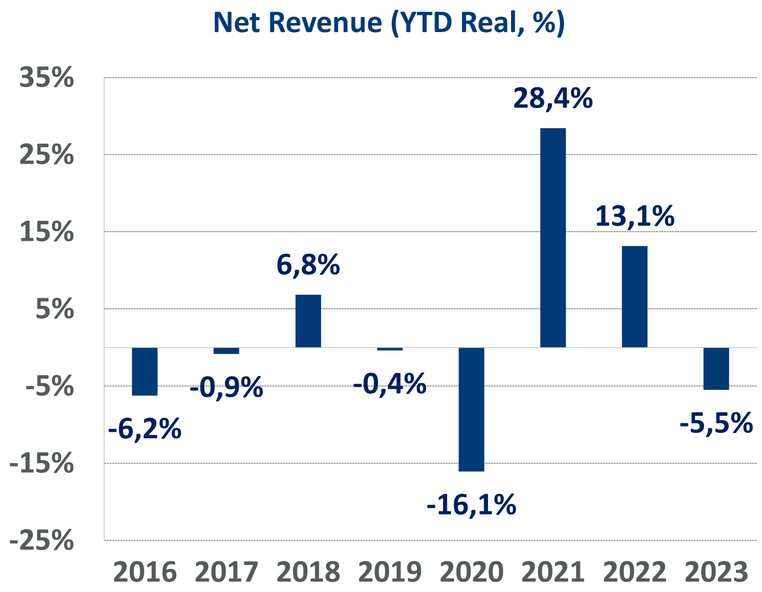


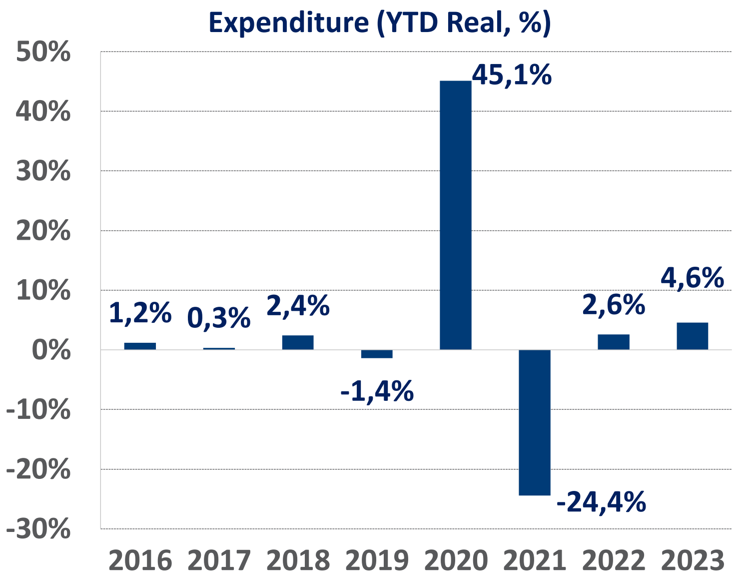
Fonte: BOCOM BBM, RFB

Brazil: Central Government Primary Result

- Central government's primary balance posted a deficit of BRL 26.3 bn in August, in line with market expectations (BRL -26.1 billion);
- In the 12-month, it accumulated a deficit of BRL 70.9 billion (0.7% of GDP);
- The net revenue fell 7.1% in real terms compared to the same month last year. Pushed by a drop of 18.8% in corporate tax on profits (IRPJ/CSLL), tax revenues showed a 6.0% fall. Non-tax revenues also dropped (-37.2%), owing to decreases in the flow of concessions (-31.3%), dividends (-66.3%) and natural resources exploitation (-26.2%);
- Total spending dropped 18.5% YoY in real terms. The main drivers were a fall in pensions and retirees' benefits (10.5%) and in unemployment insurance and wage bonus (-13.3%), influenced by a change in the disbursements' calendar and extraordinary credits (-95.4%).







Source: BOCOM BBM, RTN

Brazil: Consolidated Public Sector Budget

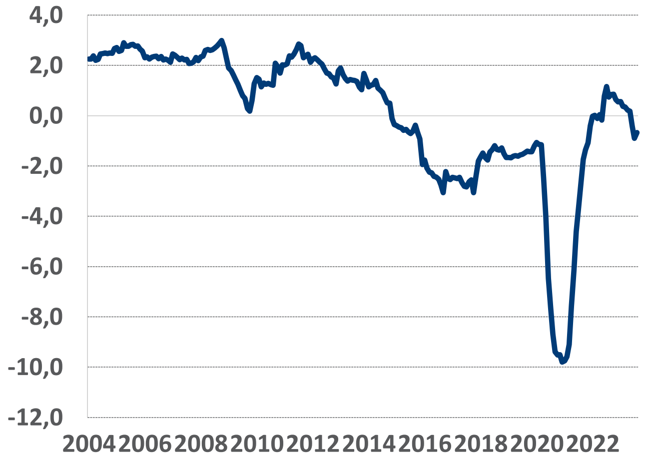
- The consolidated public sector recorded a primary deficit of BRL 22.8 billion in August, above market consensus (-BRL 26.2 billion) and the result of -BRL 30.3 billion in August 2022. Subnational governments and state-owned companies posted a surplus of BRL 2.5 billion and BRL 0.9 billion, respectively, offset by a deficit of BRL 26.2 billion on the Central Government result;

- Gross General Government Debt surged to 74.4% in August from 74.1% of GPD in July, as it was positively impacted by 'Interest settlements' (+0.7 pp.) and partially offset by nominal GDP growth (-0.4 pp.).

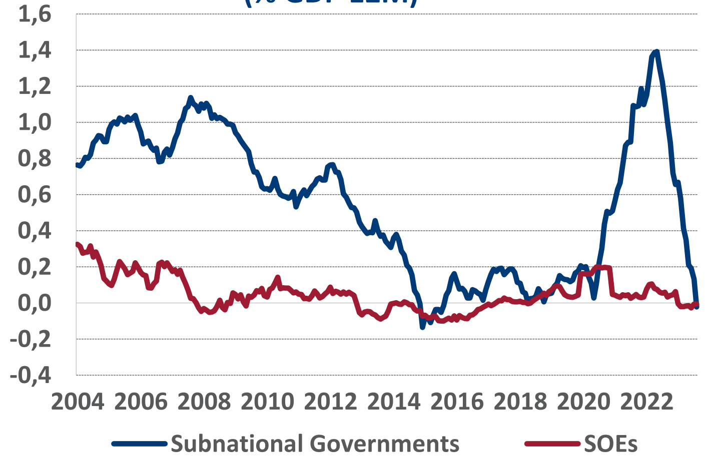
Gross General Government Debt (% GDP)

Primary Budget Balance (% GDP 12M)

Primary Surplus: Central Government (% GDP 12M)



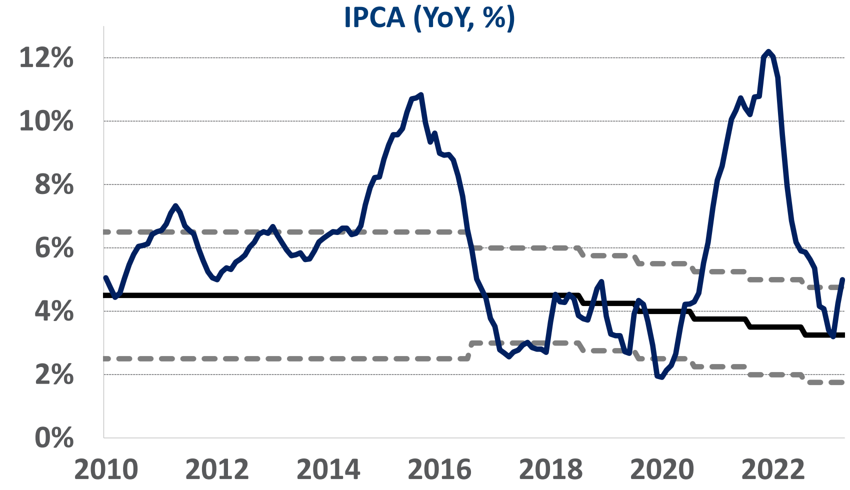
Primary Surplus: Subnational governments and SOEs (% GDP 12M)

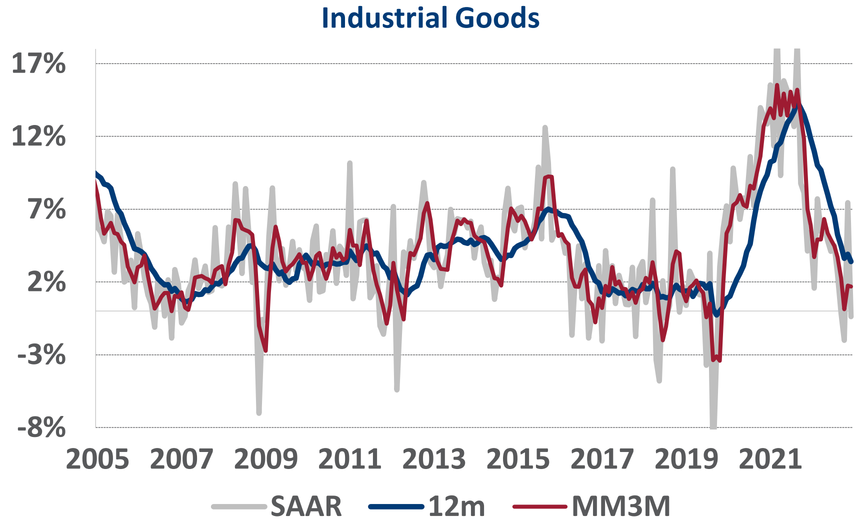


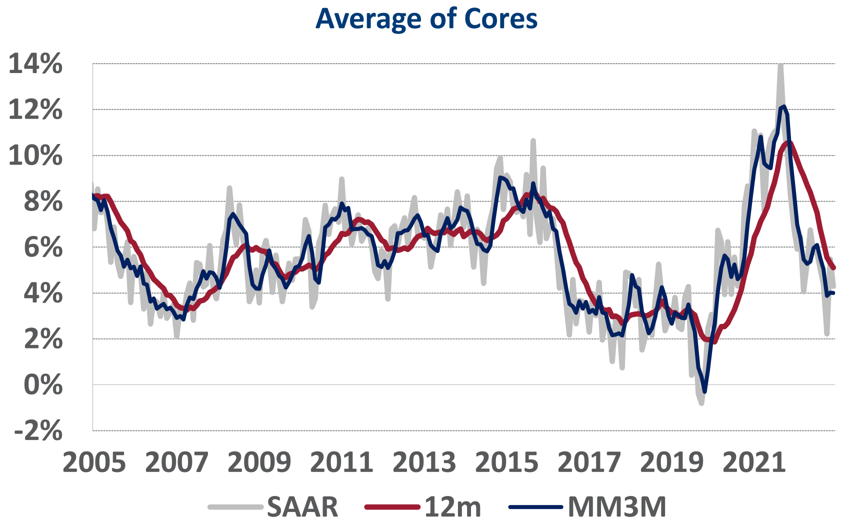
Source: BOCOM BBM, BCB

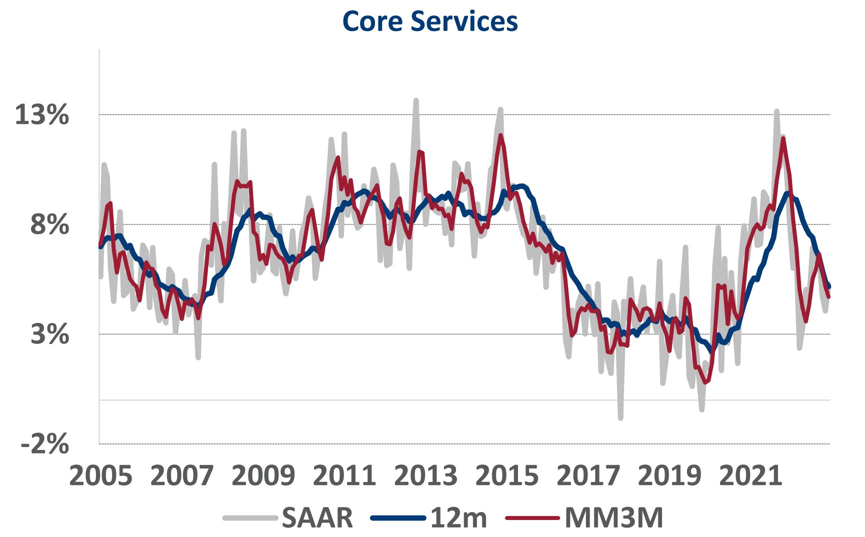
Brazil: Inflation 2023

- The September IPCA preview advanced 0.35% MoM (from 0.28% in August), below market consensus (0.37% MoM);
- The variation in 12 months rose to 5.0% in September, compared to 4.24% in August;
- The acceleration was driven by volatile items like fuels and airfare alongside minor acceleration in core services;
- The average of core inflation slowed down to 0.27% in September and the 3-month moving average of seasonally adjusted annualized data was relatively stable at 4%;
- Underlying services advanced 0.34% MoM, above expectations, but services diffusion fell sharply.





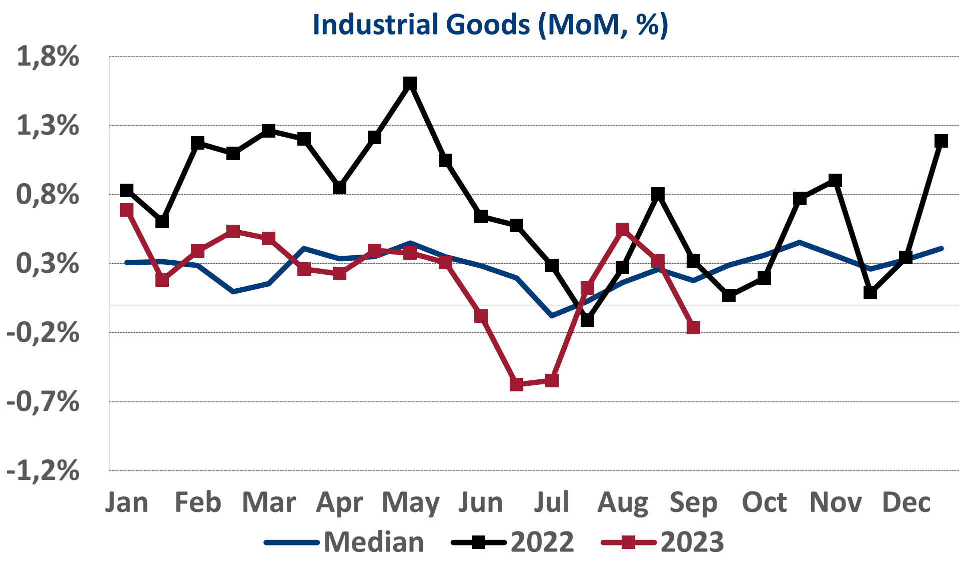


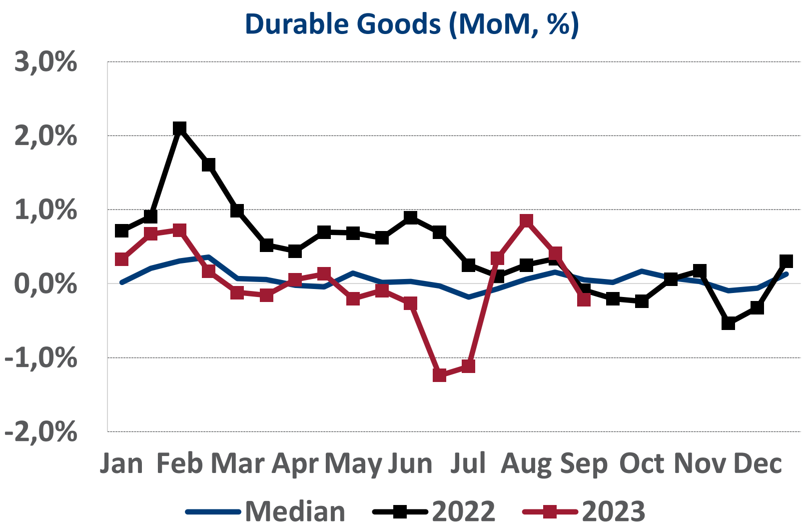


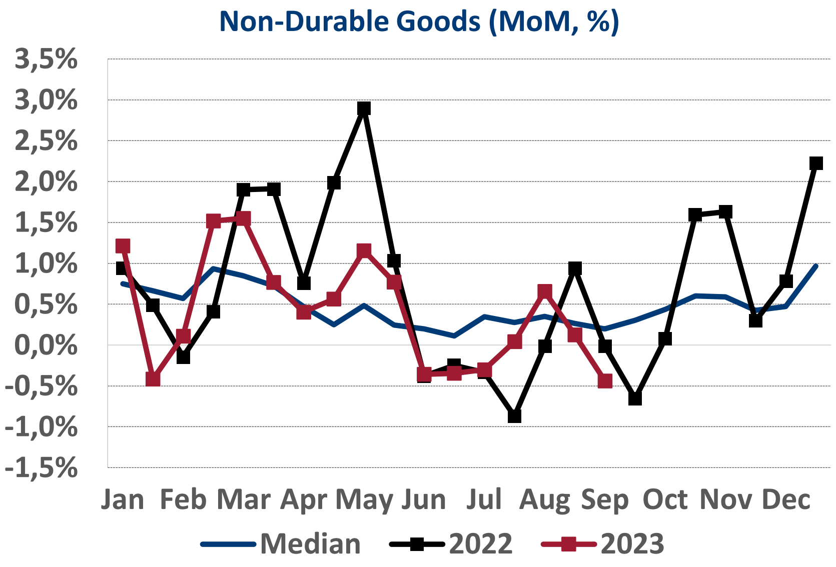
Source: BOCOM BBM, IBGE

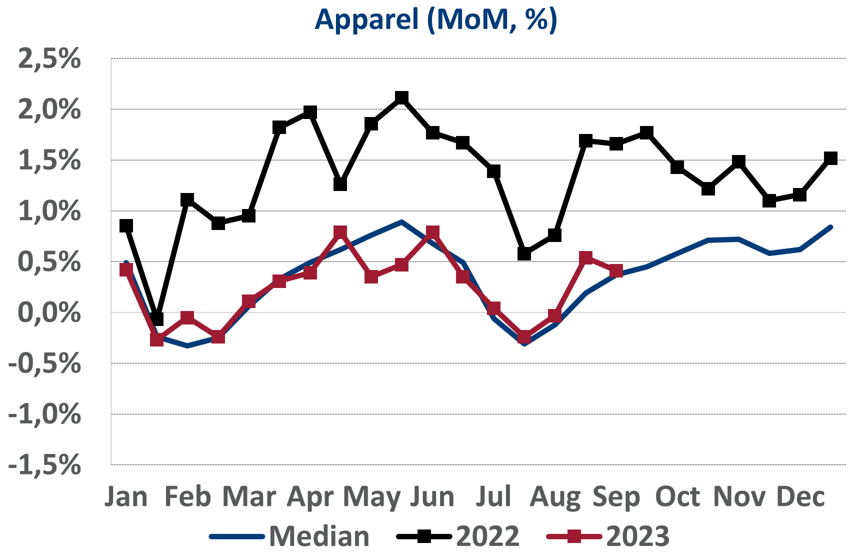
Brazil: Inflation 2023

- The price of industrial goods fell 0.16% MoM, below expectations;
- Downward surprises among the main categories;





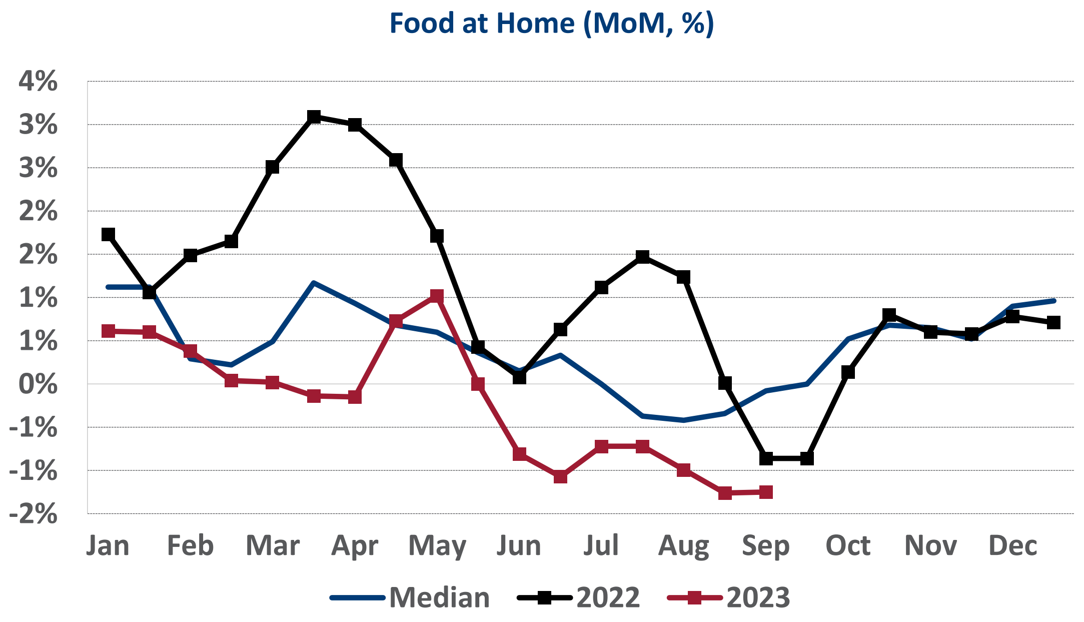


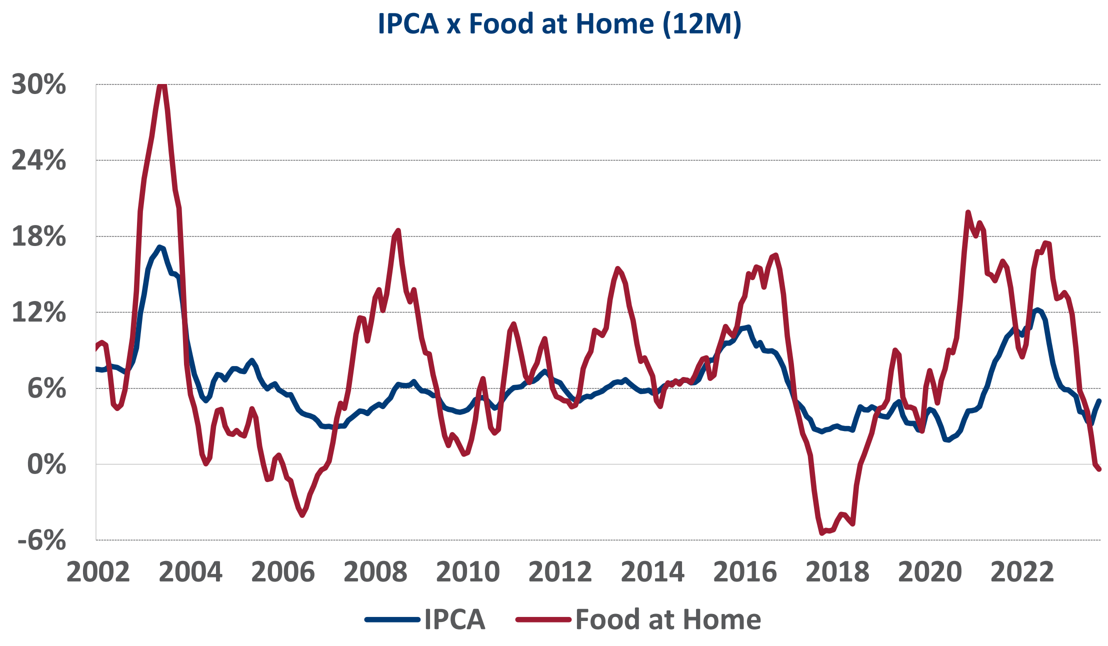


Source: BOCOM BBM, IBGE

Brazil: Inflation 2023

- ‘Food at home’ registered a deflation of 1.25% MoM, continuing its downward trend;
- The outlook for the category in 2023 remains favorable, in line with deflations in wholesale princes, especially ‘meat’.





Source: BOCOM BBM, IBGE

Brazil: Inflation

- Our projection for the year 2023 decreased from 4.8% to 4.5%, due to lower numbers for industrial goods and food at home;
- For 2024, we maintain our forecast at 3.6%.

IPCA (%, annual)

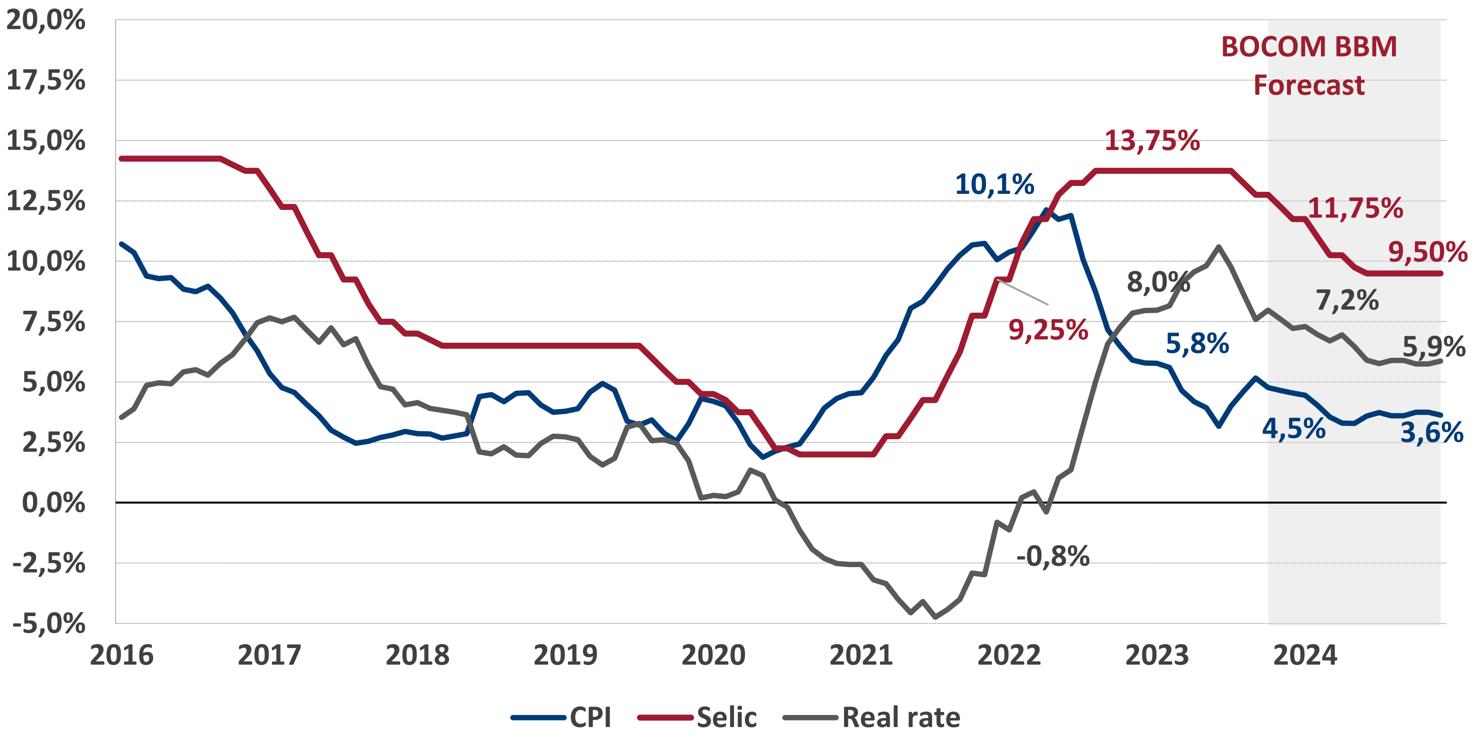
	Weight	2019	2020	2021	2022	2023	2024
Regulated	**26.6**	**5.5**	**2.6**	**16.9**	**-3.8**	**9.9**	**4.0**
Industrial goods	**23.6**	**1.7**	**3.2**	**11.9**	**9.5**	**1.8**	**2.2**
Durable goods	10.3	0.0	4.5	12.9	6.1	0.1	-
Semi-durable goods	5.9	0.6	-0.1	10.2	15.7	3.2	-
Non-durable goods	7.3	4.4	4.0	11.9	9.5	2.9	-
Food at home	**15.7**	**7.8**	**18.2**	**8.2**	**13.2**	**-1.8**	**2.8**
Services	**34.1**	**3.5**	**1.7**	**4.8**	**7.6**	**5.4**	**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	4.8	5.9
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.3	6.6	4.8
Inertial	15.0	4.3	1.6	4.2	8.8	5.0	4.3
IPCA		**4.3**	**4.5**	**10.1**	**5.8**	**4.5**	**3.6**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

- The Brazilian Central Bank decided to cut Selic rates by 50 bps in its last meeting in a unanimous decision, reaching 12.75% per year. Copom projections indicate that rates reaching 11.75% by 2023, 9% by 2024 and 8.5% in 2025 would bring inflation to 5% in 2023, 3.5% in 2024 and 3.1% in 2025. Inflation projections have slightly increased due to a lower trajectory of Selic in Focus, and to a less favorable exchange rate and oil price scenario;
- Copom foresees cuts of the same magnitude (50 bps) in the next meetings, and believes this is the appropriate pace for bringing inflation back to target in the relevant horizon.

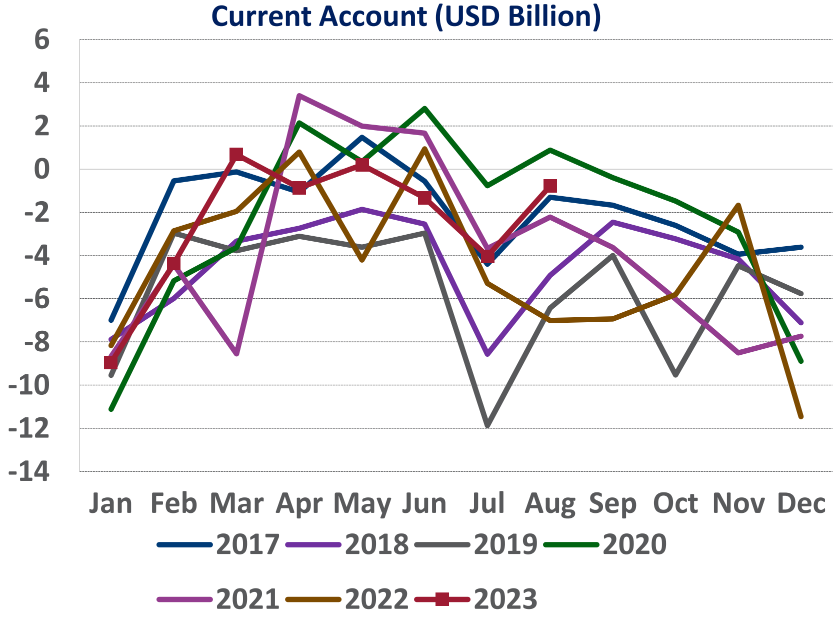
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

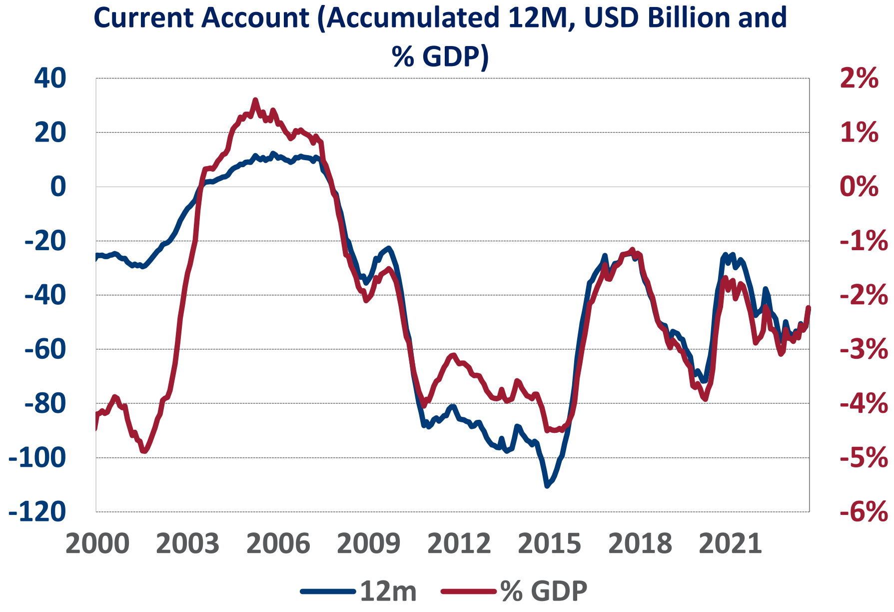


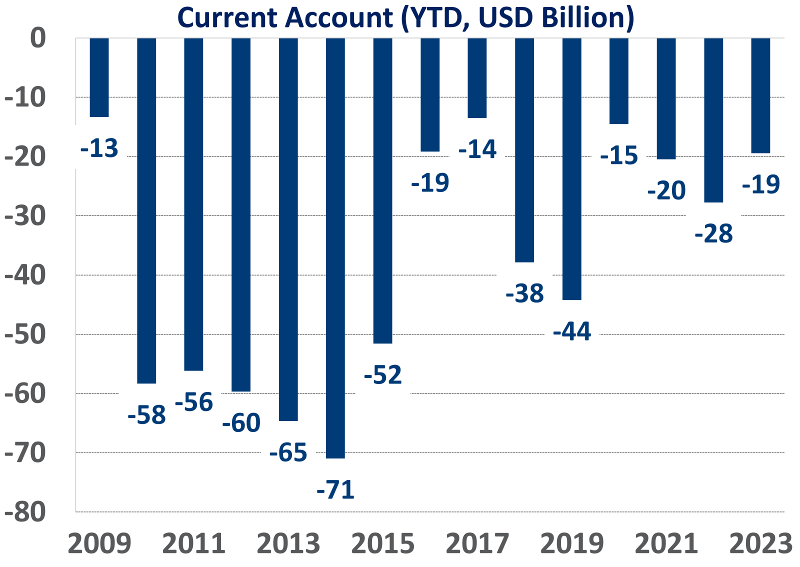
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The Brazilian current account posted a deficit of USD 0.78 billion in August, a positive surprise (Consensus: USD -1.75 billion);
- It came above the deficit of USD 7.0 billion recorded in August 2022;
- The current account balance stood at USD -45.3 billion in the 12-month rolling sum up to August (-2.21% of GDP).





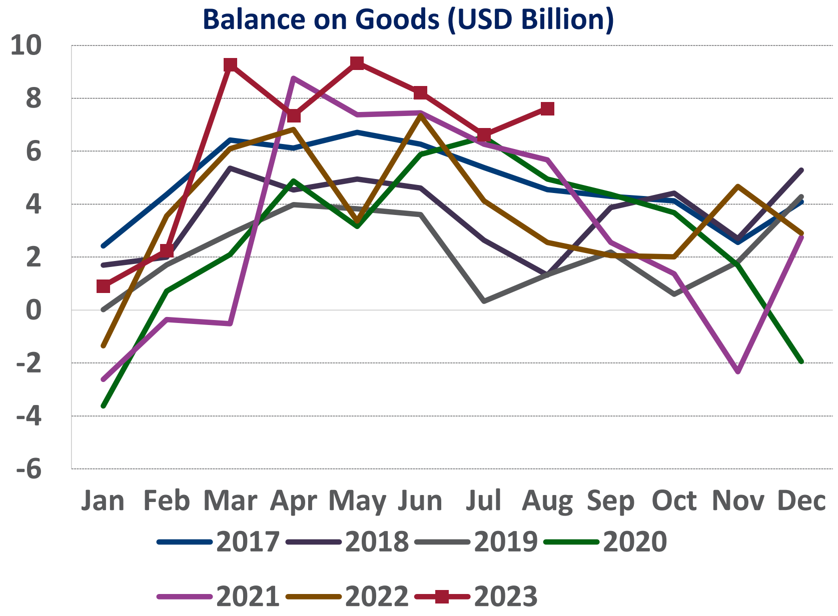


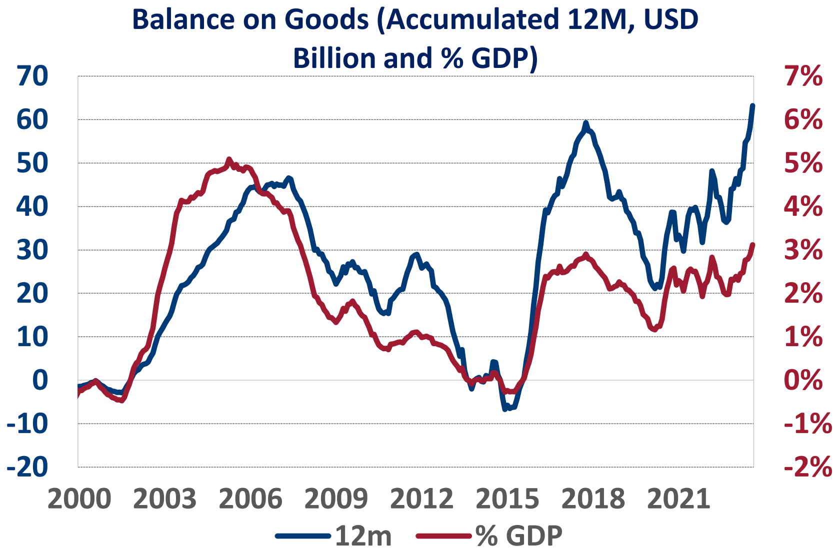
Source: BOCOM BBM, BCB

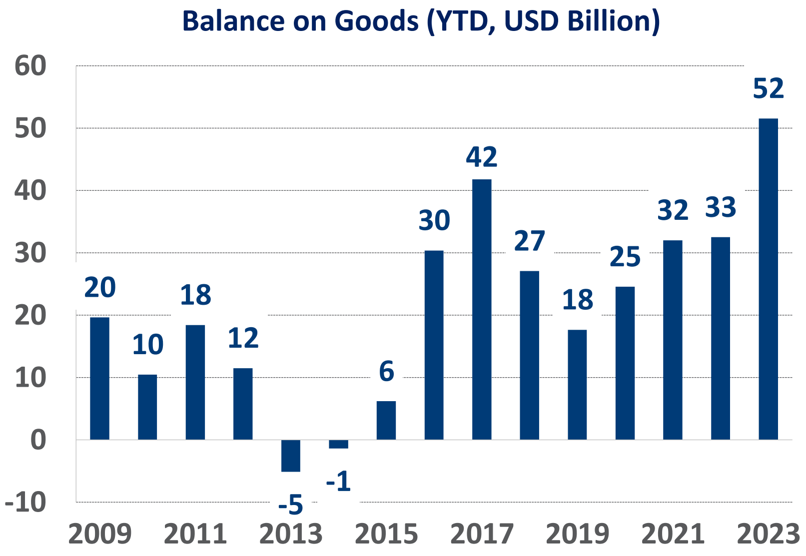
Brazil: Balance of Payments

- The merchandise trade balance posted a surplus of USD 7.6 billion in August, well above the amount of USD 2.6 billion in the same month of 2022. It totaled USD 63.2 billion in the 12-month rolling sum up to August;

- 'Imports' result (-16.8% to USD 23.8 billion) continues to reflect the deceleration in the domestic economy, while the exports remain virtually flat (+0.8% to USD 31.4 billion).





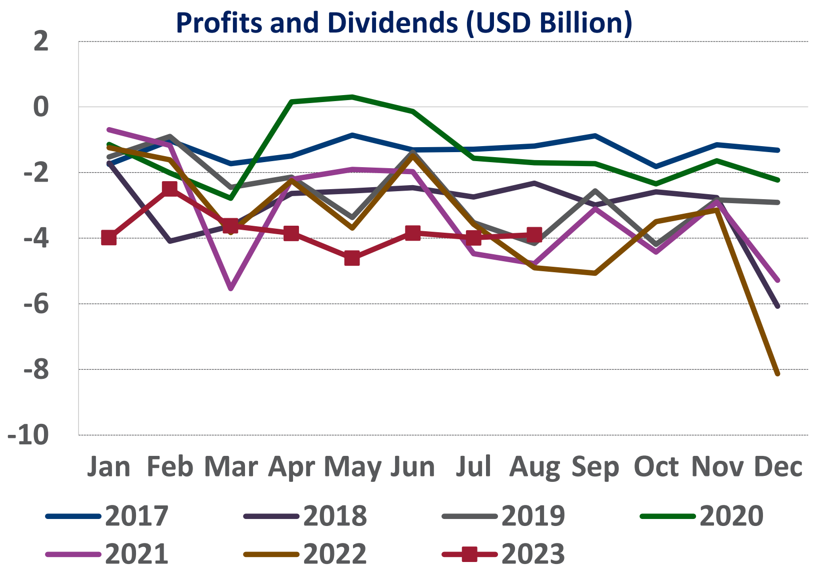


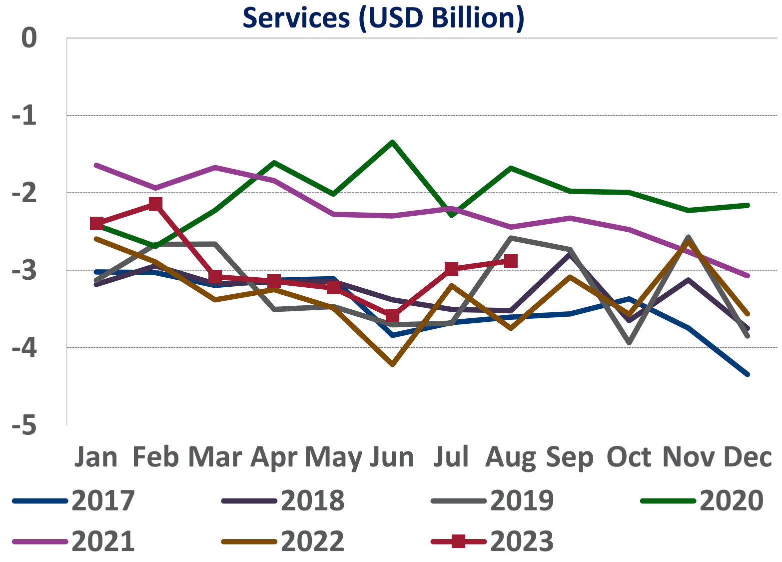
Source: BOCOM BBM, BCB

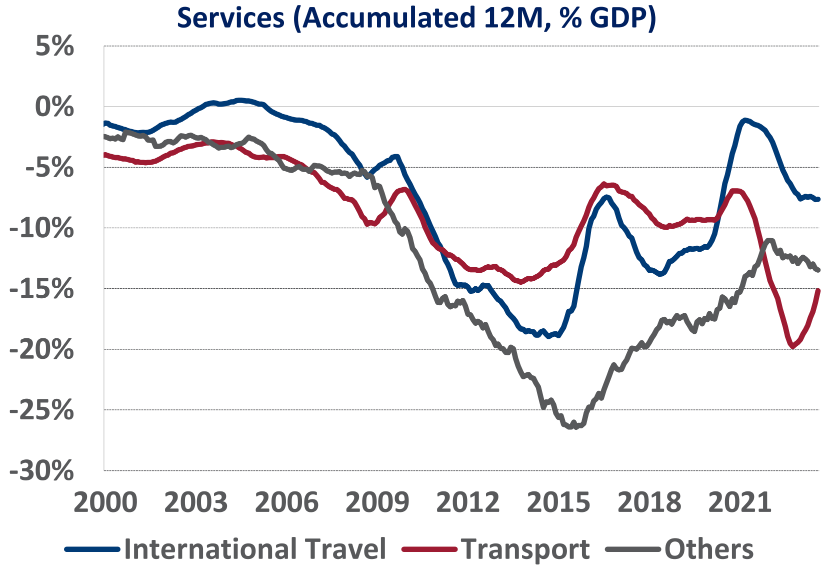
Brazil: Balance of Payments

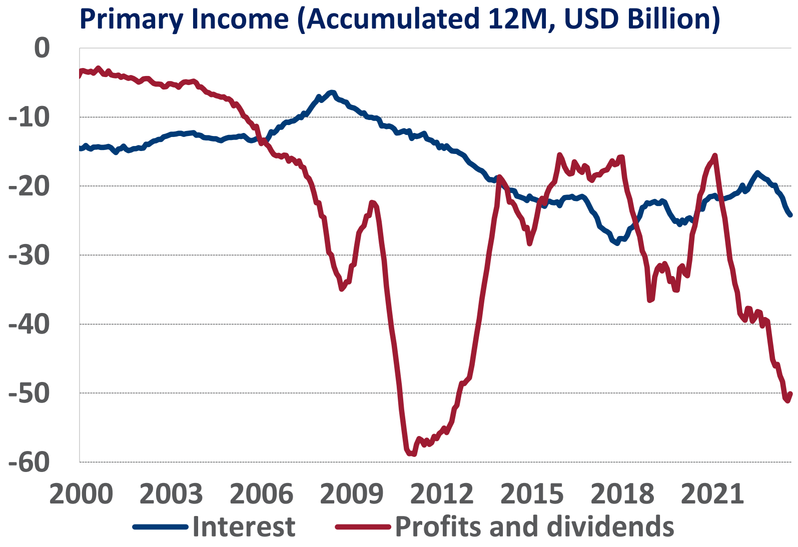
- The deficit in the Primary Income account amounted to USD 5.6 billion in August 2023 from USD 6.1 billion in August 2022, owing to lower net expenditures on profits and dividends;

- In turn, the deficit in the Services account contracted on a yearly basis (USD -2.9 billion), as a result of lower expenses with freight.









Source: BOCOM BBM, BCB

Brazil: Balance of Payments

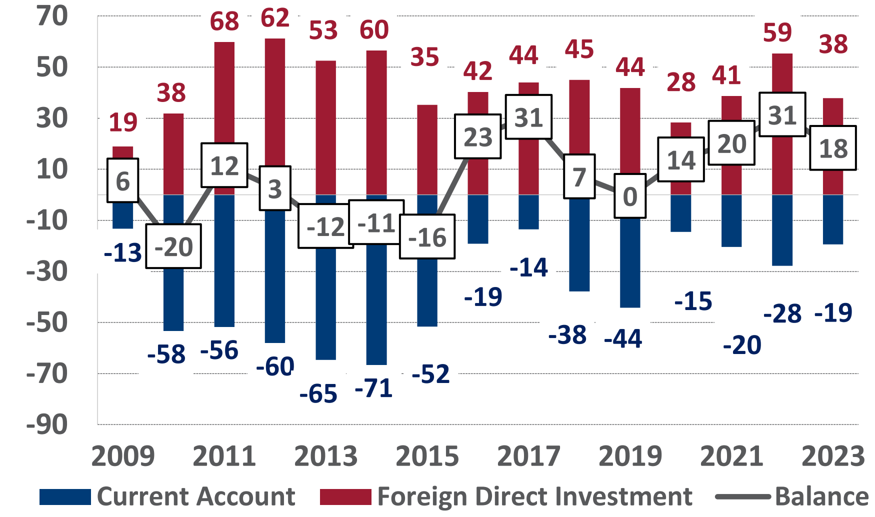
交通銀行 BANK OF COMMUNICATIONS BBM

- Inflows in FDI (Foreign Direct Investment) once again came below expectations, amounting to USD 4.3 billion in August. One year ago, a strong result of USD 10.0 billion was recorded;

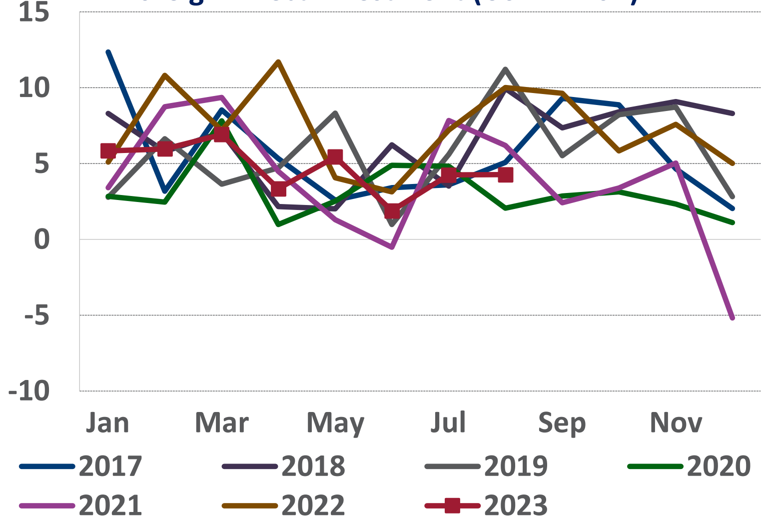
- The FDI totaled USD 65.9 billion based on the 12-month rolling sum up to August (3.21% of GDP), down from USD 71.7 billion up to July (3.53% of GDP) and almost the same as the result seen in August 2022 of USD 64.9 billion (3.21% of GDP);

- Despite the lower-than-expected result, which is a consequence of the economic slowdown and lower profits on corporate (in Brazil and abroad), it does not change the scenario of solid Brazilian external accounts.

Current Account Balance and FDI (YTD, USD Billion)

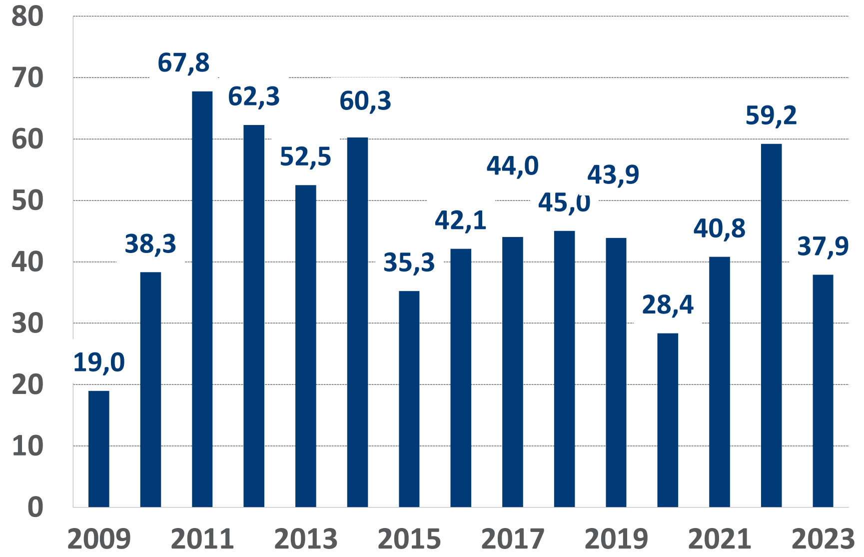


Foreign Direct Investment (USD Billion)



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

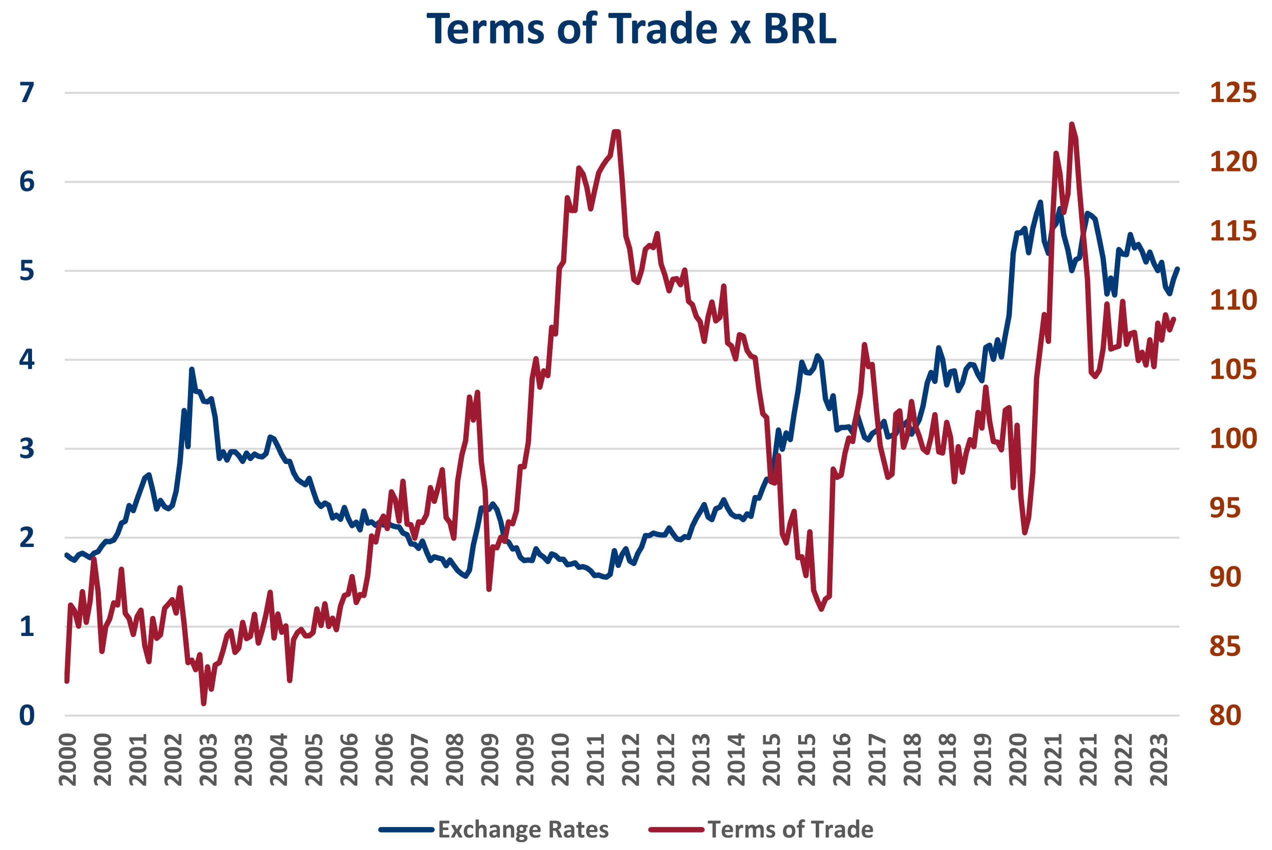
Foreign Direct Investment (YTD, USD Billion)

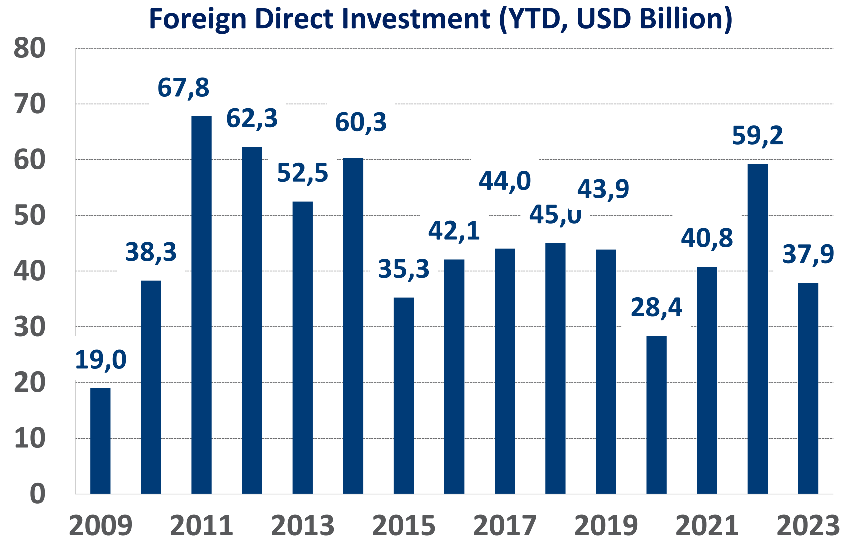


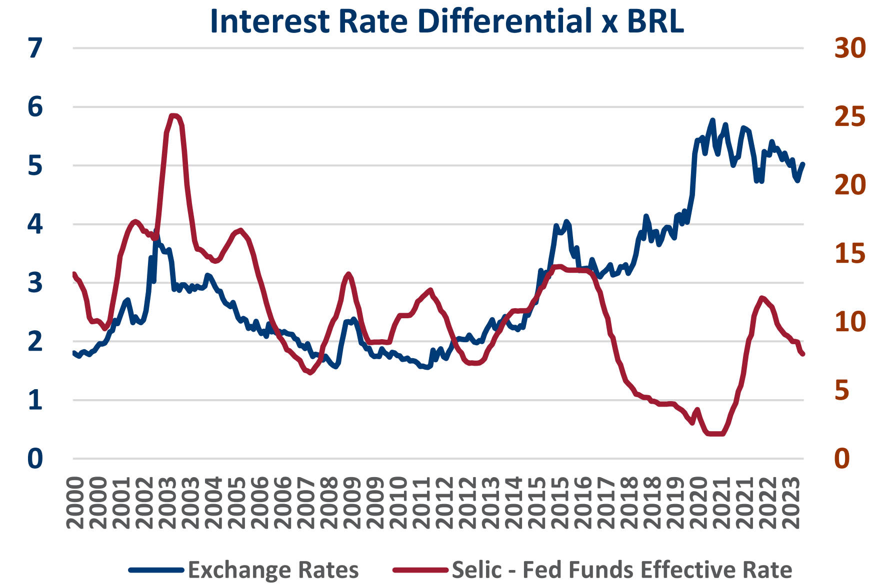
Source: BOCOM BBM, BCB

Brazil: External Sector

- The reduction in the interest rate differential and the reduction in the level of foreign direct investment entering the country, alongside the recent fiscal uncertainties, pressured the Brazilian currency throughout the month of September.





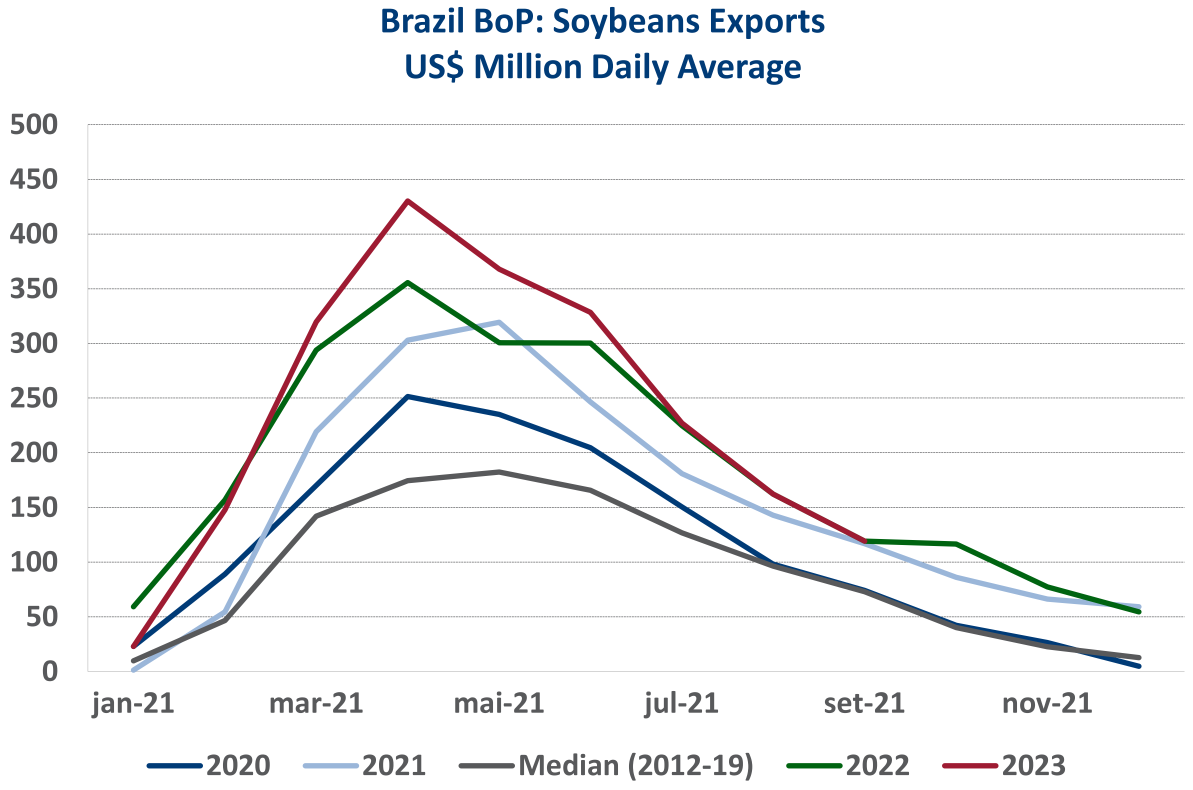


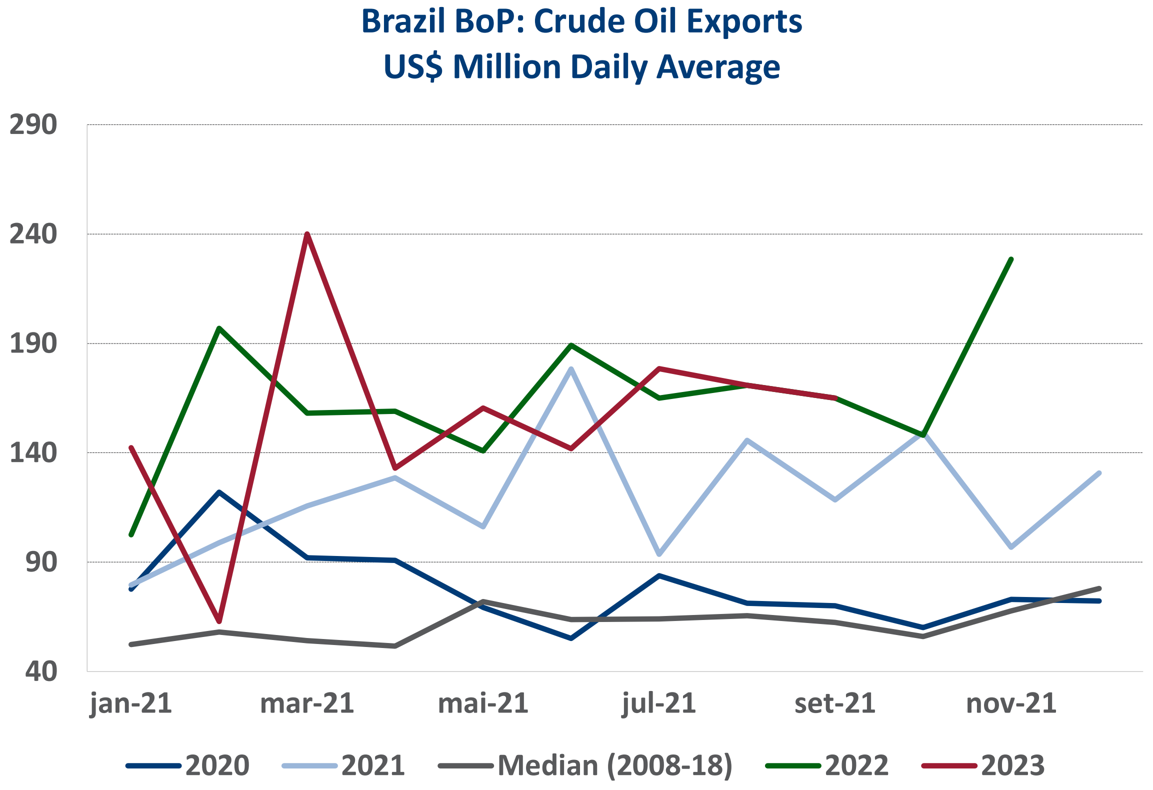
Source: BOCOM BBM, Bloomberg, Funcex, BCB

Brazil: External Sector

BANK OF COMMUNICATIONS BBM

- In August, the trade balance recorded the highest surplus for the month in the entire historical series;
- This result was driven by an increase in the value of agricultural exports, especially soybeans, corn and coffee, and a decline in both prices and quantities of imported products.





Source: Secex, BOCOMBBM

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