MACRO OUTLOOK

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Macro Outlook

- Part of the main developed economies are facing a more pronounced slowdown of economic activity, such as in Europe, while others are proving more resilient, like the US. Moreover, some core components of inflation are improving, but in a very gradual pace. Altogether this should require monetary policy to remain restrictive for a long period of time, consistent with the "higher for longer" message. Accordingly, both the ECB and the Fed decided to pause recently, reinforcing their 'data-dependent' approach but maintaining a hawkish language by signaling further tightening could be possible.

- As for China, Q3 data showed growth has largely stabilized and the economy likely passed its worst point this year thanks to policy support. GDP grew 5.2% YTD YoY (Q1-Q3), and is on track to beat the annual growth target of "around 5%", as Q4 will benefit from a lower base and additional policy support. On the other hand, although US and China made efforts to stabilize their relationship, export and foreign investment controls were tightened.

- In Brazil, economic activity is showing more clear signals of deterioration. In August, the services sector and retail sales fell by 0.9% MoM and 1.3% MoM, respectively. In turn, industrial production showed an expansion at the margin (+0.4% MoM). Accordingly, the monthly proxy for Brazil's GDP (IBC-Br) seems to summarize the slowdown in economic activity, showing a contraction of 0.77% MoM. Consequently, we have revised downwards our GDP forecast, which now stands at -0.1% QoQ (2.0% YoY) in 3Q and 2.8% for the year.

- Regarding monetary police, the Brazilian Central Bank delivered the much-expected 50-bp cut in the Selic rate in its November meeting, reaching 12.25% per year. Most of the statement was unchanged, including a guidance for similar cuts in coming meetings, but inflation forecasts inched higher. the board emphasized a challenging external environment that demands "caution", while concerns about the fiscal target persisted. Overall, the decision is consistent with our baseline scenario that the Copom will keep cutting the Selic rate by 50 bps in the coming meetings, reaching 11.75% this year and 9.5% in 2024.

- In the inflation scenario, we revised the forecast for 2023 from 4.5% to 4.4% and for 2024 from 3.6% to 3.8%. The 2023 revision was driven by downward surprises in October inflation preview print and the latest readings of price surveys. For 2024, the upward revision reflects the state fuel tax hike in 2024, which will add 15 bps to the February 2024 IPCA index;

- In the fiscal scenario, the federal tax collection dropped 0.3% YoY in real terms in September. The negative performance was driven by falls in corporate taxes IRPJ/CSLL, Import Tax and Industrialized Products Tax. It was partially offset by an increase in PIS/Cofins, driven by the return of taxes on gasoline and ethanol, and in 'Other Revenues', due to gains related to litigation reduction program. However, the Central government's primary balance posted a surplus of BRL 11.5 bn due to non-recurrent revenue related to the appropriation of PIS/Pasep fund (BRL 26 bn). In the absence of this non-recurrent event, we would have the fifth consecutive deficit this year, a clear sign of the public account's deterioration.

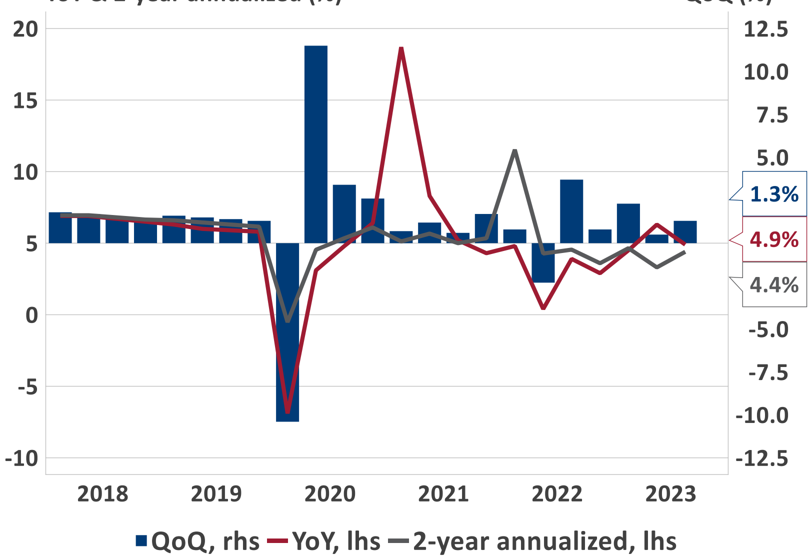
China: GDP 2023 Q3

- **China's Q3 GDP showed a positive outlook** as the two main drags, housing and exports, appear to have passed their worst points, and domestic consumption has continued its rebound;

- Real GDP growth narrowed from 6.3% to **4.9% YoY**, above expectations of 4.4%
  - The QoQ growth rate accelerated to **1.3% QoQ** (was 0.5% in Q2), above the expected 1.0%;
  - YTD YoY growth was 5.2% and, with a very low base in Q4, China is on track to reach the upper end of this year's growth target of "around 5%".

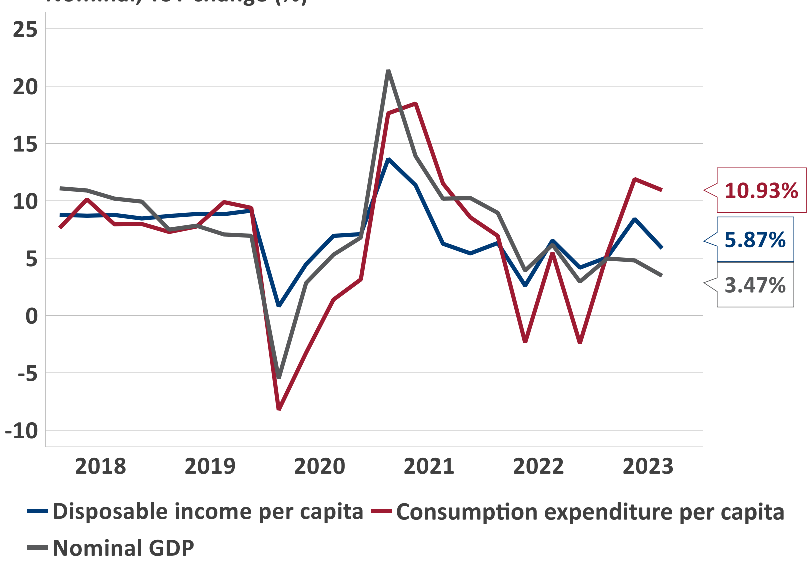
- Furthermore, household consumption grew 10.9% YoY nominally, much faster than nominal GDP growth (3.5%) and disposable income (5.9%), resulting in a rise in consumption share of GDP and signaling a better household propensity to consume.

China: Real GDP Growth (Quarterly)



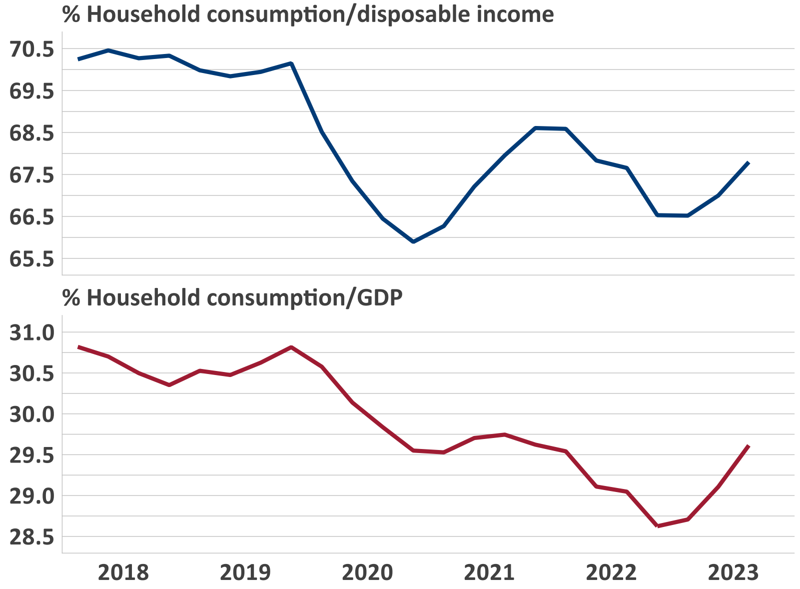
Source: BOCOM BBM, Macrobond, NBS

China: Consumption Expenditure & Disposable Income



Source: BOCOM BBM, Macrobond, NBS

China: Consumption as a Share of GDP and Income (12MMA)

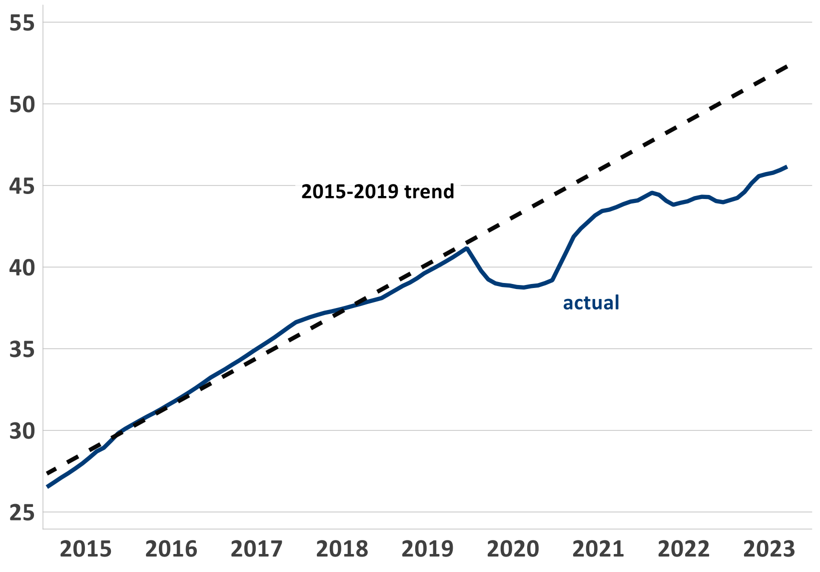


Source: BOCOM BBM, Macrobond, NBS

China: Activity

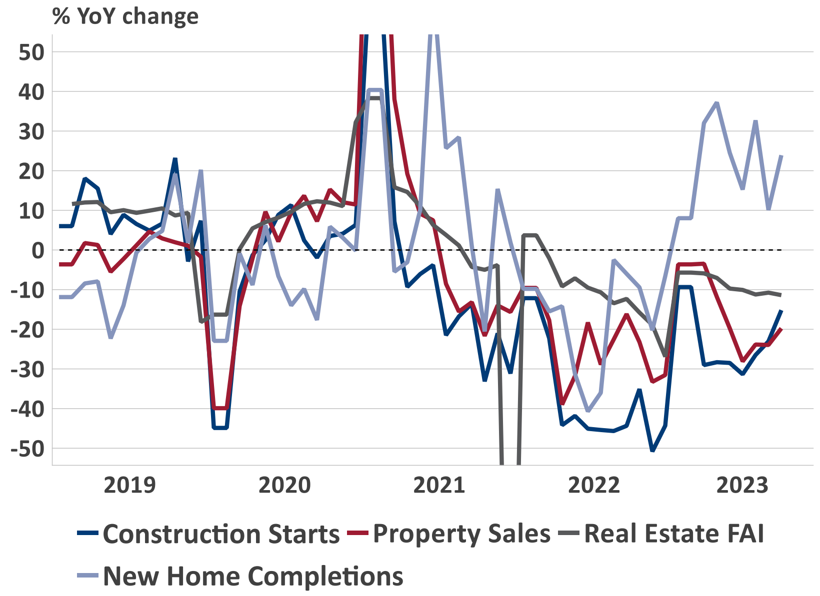
- Sep. economic activity has broadly improved and beat market expectations, possibly suggesting that the growth momentum is picking up:
- **Retail sales increased** from 4.6% to **5.5%** YoY (exp. 4.9%), with strength mainly driven by covid-sensitive segments, such as restaurants (13.8% YoY), and goods retail (4.6% YoY): strong automobiles sales (2.8% YoY) and clothing sales (9.9% YoY) offsetting weakness in housing-related products;
- **Industrial prod. was stable at 4.5%** YoY (exp 4.3%), amid policy easing that helped bolster economic activity rebound; Sectors related to renewables remained very robust (e.g. solar batteries +65% YoY) and this month utilities output rose sharply as electricity consumption increased;
- **FAI** fell from 3.2% to **3.1% YTD** (exp. 3.2%) due to higher growth in the manufacturing investment being offset by slower property and infrastructure;
- The **housing market** is still in rough shape, but it is somewhat better off than in previous months with slower YoY contractions in property indicators, suggesting that easing policies in the real estate sector were able to prevent a bigger downturn.

China: Retail Sales



Source: BOCOM BBM, Macrobond, NBS

China: Property Indicators



Source: BOCOM BBM, Macrobond, NBS, Macrobond

China: Activity (% YoY)

	9/2023	8/2023	9/2022
Industrial Production	4.50	4.50	6.30
Mining	1.50	2.30	7.20
Manufacturing	5.00	5.40	6.40
Utilities	3.50	0.20	2.90
Fixed Asset Investment (YTD YoY)	3.10	3.20	5.90
Manufacturing	6.20	5.90	10.10
Real Estate	-9.10	-8.80	-8.00
Infrastructure	6.20	6.40	8.60
Retail Sales	5.51	4.62	2.48
Catering Services	13.80	12.40	-1.70
Consumer Goods	4.60	3.70	3.00
Clothing	9.90	4.50	-0.50
Automobiles	2.80	1.10	14.20
Furniture	0.50	4.80	-7.30
Cellphones	0.40	8.50	5.80
Home Appliances	-2.30	-2.90	-6.10
Construction	-8.20	-11.40	-8.10

Source: BOCOM BBM, Macrobond

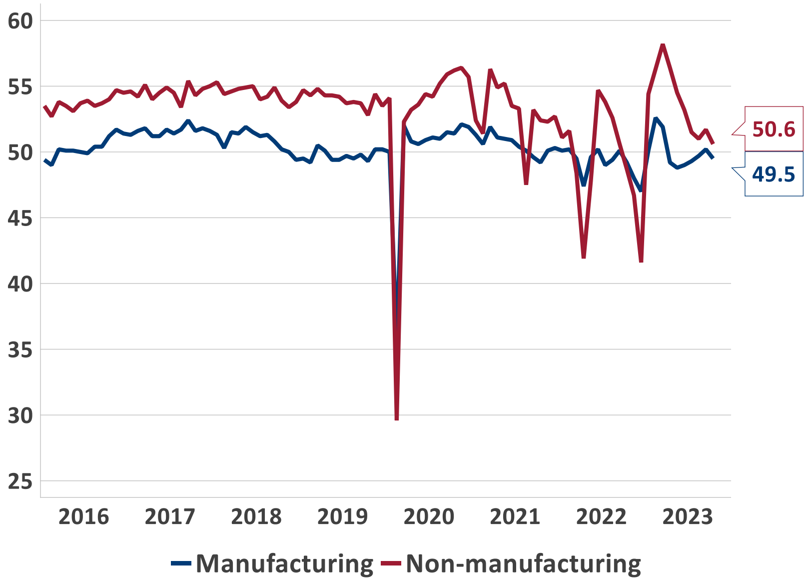
China: Economic Scenario

- In October, China's **PMI** showed that the manufacturing sector fell back in to contraction, while the non-manufacturing slowed its pace of expansion;
  - The NBS manufacturing PMI fell from 50.2 to **49.5** (exp. 50.2) due to external demand cooling up, decreasing the new export orders category;
  - The non-manufacturing sector continued expansionary, but fell from 51.7 to **50.6** as both the services and construction sectors slowed;

- **Exports surprised to the upside** by contracting less than expected and moving from -8.8% to **-6.2% YoY** (exp. -7.6%). In volume terms, exports were up 7.9% YoY, suggesting the decline in value was entirely attributable to lower prices;
- **Imports remained in contraction**, going from -7.3% to **-6.2% YoY** (exp. -6.0%), mostly due to falling commodity prices, but with solid growth in real terms: recently the drag from negative price effect narrowed on most commodities as their import prices YoY contraction is narrowing;

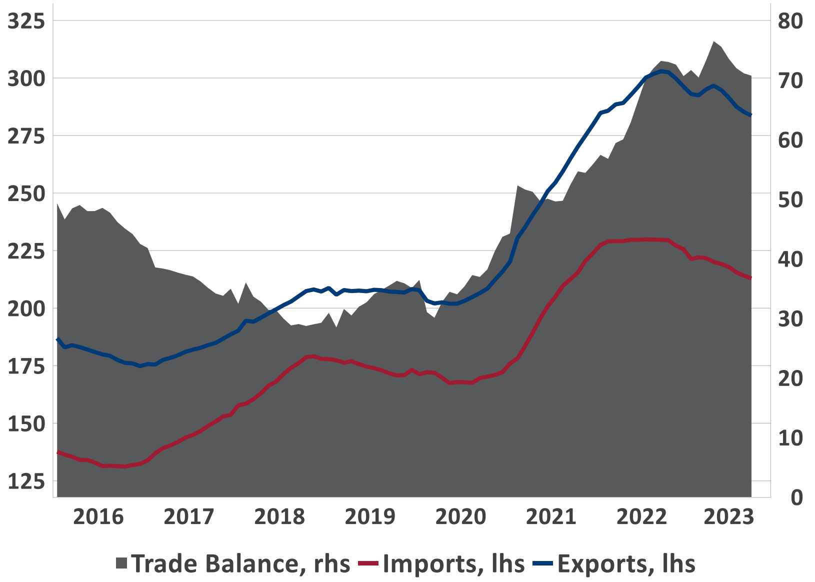
- **CPI** inflation rose by **0.2%** MoM, but fell from 0.1% to **0%** YoY (exp. 0.2%), as food deflation widened on a high base, offsetting higher fuel prices;
  - Goods YoY deflation widened, while services inflation was stable, continuing to reflect how the services sector has been a driving force for the recovery so far: this divergence between sectors is likely due to the ongoing rotation towards more services consumption after Covid reopening.

China: PMI



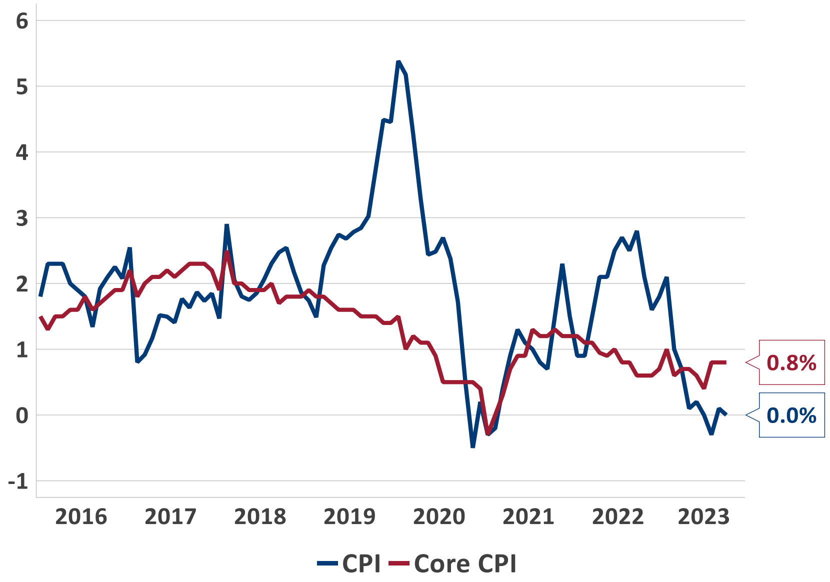
Source: BOCOM BBM, Macrobond, CFLP

China: Trade Balance (USD billion, 12MMA)



Source: BOCOM BBM, Macrobond, CCS

China: CPI (YoY, %)



Source: BOCOM BBM, Macrobond, NBS

USA: GDP 2023 Q3

- US economic activity remains resilient and real GDP growth is running above its pre-pandemic trend: Q3 growth at **4.9%** QoQ SAAR (above exp. 4.5%);

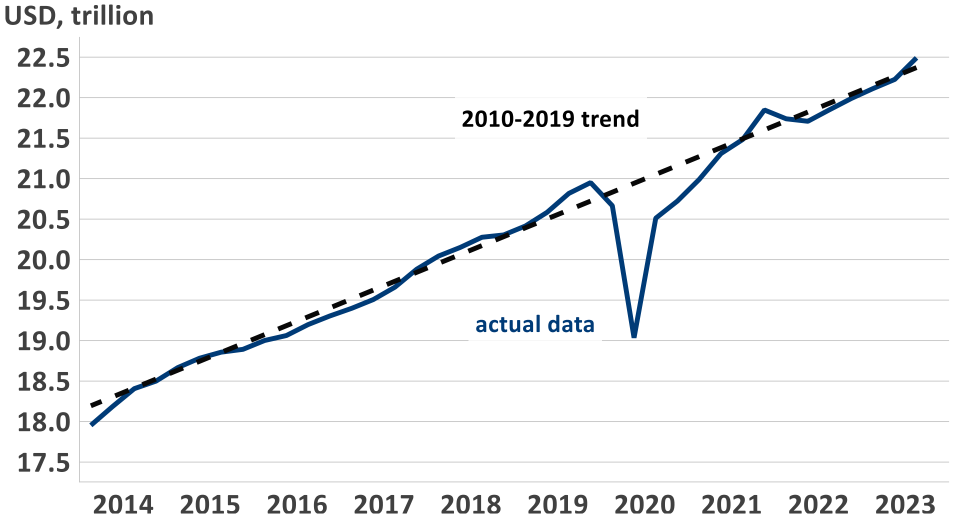
- The **main driver for growth has been household consumption** which remained robust rising 4.0% QoQ SAAR:
  - However Q3 composition was fairly mixed with a large contribution coming from inventories, a noisy component, which should weigh on the following quarters pace due to inventory decumulation.

US: GDP Growth (QoQ SAAR)

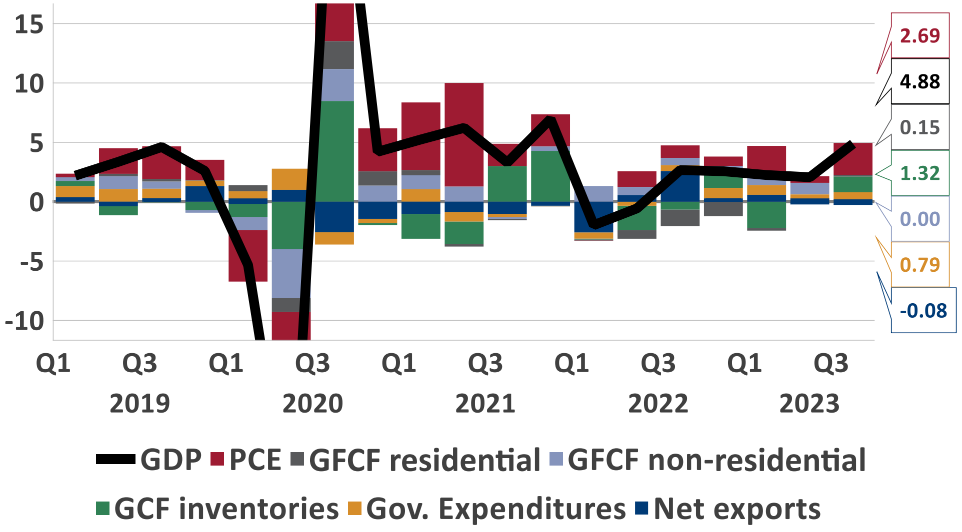
US GDP Growth (QoQ SAAR, %)	Weights (%)	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022
Real GDP	100.00	**4.88**	2.06	2.24	2.57	2.66	-0.56
Personal Consumption Expenditures	67.82	**3.99**	0.80	3.78	1.17	1.55	1.99
Goods	22.55	4.80	0.47	5.09	-0.04	-0.73	-0.33
Durable goods	8.00	7.64	-0.33	13.97	-0.99	0.93	-0.92
Non-durable goods	14.56	3.26	0.92	0.49	0.48	-1.63	0.00
Services	45.27	3.58	0.97	3.13	1.80	2.77	3.24
Business fixed investment	13.46	**-0.08**	7.45	5.74	1.75	4.73	5.30
Structures	3.01	1.56	16.15	30.31	6.46	-1.27	-0.47
Equipment	5.01	-3.82	7.73	-4.12	-4.96	5.56	4.94
Intellectual Property Products	5.44	2.59	2.68	3.79	6.09	7.06	8.65
Residential Fixed Investment	3.90	**3.89**	-2.19	-5.35	-24.95	-26.44	-14.09
Inventory contrib (pp)	0.38	**1.32**	0.00	-2.22	1.61	-0.66	-2.05
Net Exports contrib (pp)	-2.84	**-0.08**	0.04	0.58	0.26	2.58	0.56
Exports	10.99	6.24	-9.28	6.83	-3.49	16.16	10.59
Imports	13.83	5.67	-7.59	1.27	-4.27	-4.77	4.08
Government Expenditures	17.28	**4.60**	3.34	4.82	5.32	2.87	-1.92
Federal	6.48	6.16	1.11	5.17	9.77	1.24	-3.89
State & Local	10.80	3.68	4.69	4.61	2.81	3.81	-0.76
Nominal GDP		8.55	3.77	6.28	6.52	7.24	8.49
GDP price index		3.50	1.68	3.95	3.86	4.46	9.11
PCE price index		**2.92**	2.49	4.17	4.16	4.70	7.21
Core PCE		**2.43**	3.66	4.96	4.71	4.99	4.72

Source: BOCOM BBM, Macrobond, BEA

US: Real GDP vs Pre-pandemic Trend SA



US: Contribution to GDP-growth (QoQ SAAR, %)



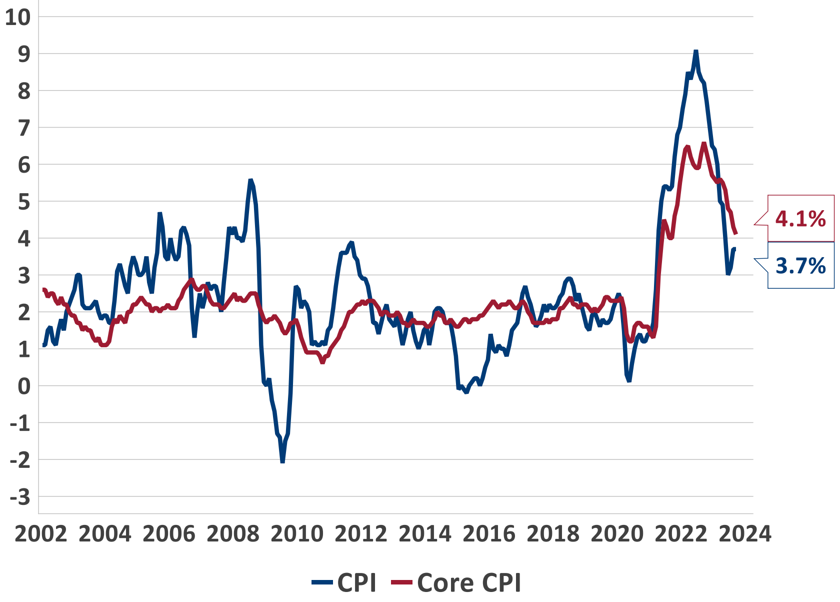
Source: BOCOM BBM, Macrobond, BEA

USA: Inflation

- Sep. **headline CPI rose 0.4% MoM (above the exp. 0.3%)** and remained roughly stable YoY (**3.67% to 3.7% YoY**), driven by volatile items such as motor fuel prices;
  - **Energy** decelerated from last month (from 5.6% to 1.5% MoM) but continued to strongly pressure the headline;
  - **Food:** remained moderated with a slower monthly pace than it was back in end-2022 (0.2% MoM in Sep. vs average of 0.6% previously);

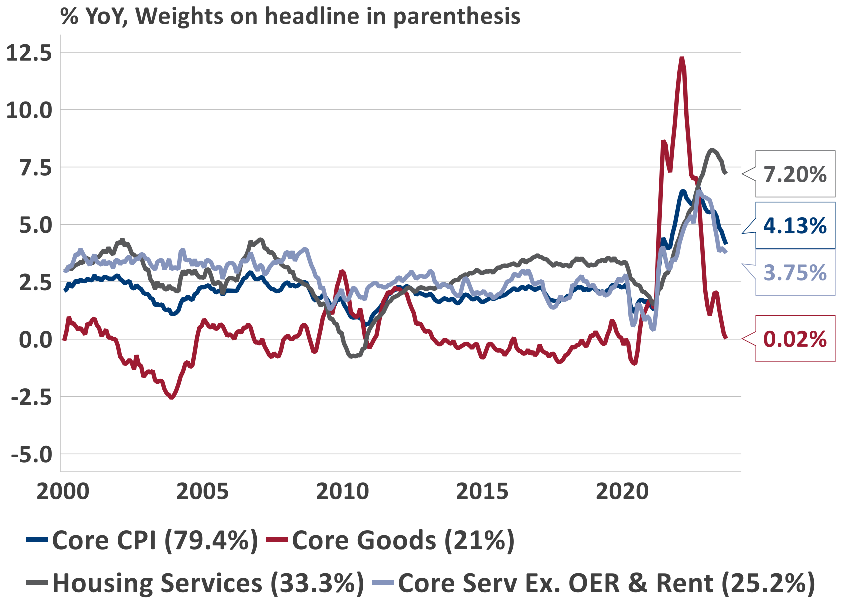
- **Core CPI** advanced **0.32% MoM** (exp. 0.3%), the highest in 4 months, but the YoY continued to fall (from 4.3% to **4.1%** YoY);
  - **Core goods**: fell from 0.23% to 0.02% YoY, mostly due to a sharp fall in used cars & trucks and the overall benign composition;
  - **Housing services**: continued to fall (from 7.3% to 7.2% YoY), even though OER accelerated its monthly pace;
  - **Core Serv. Ex-Housing**: strong monthly pace due to a rise in travel-related services, but fell annually from 3.9% to 3.75% YoY on a high base.

US: CPI (YoY, %)



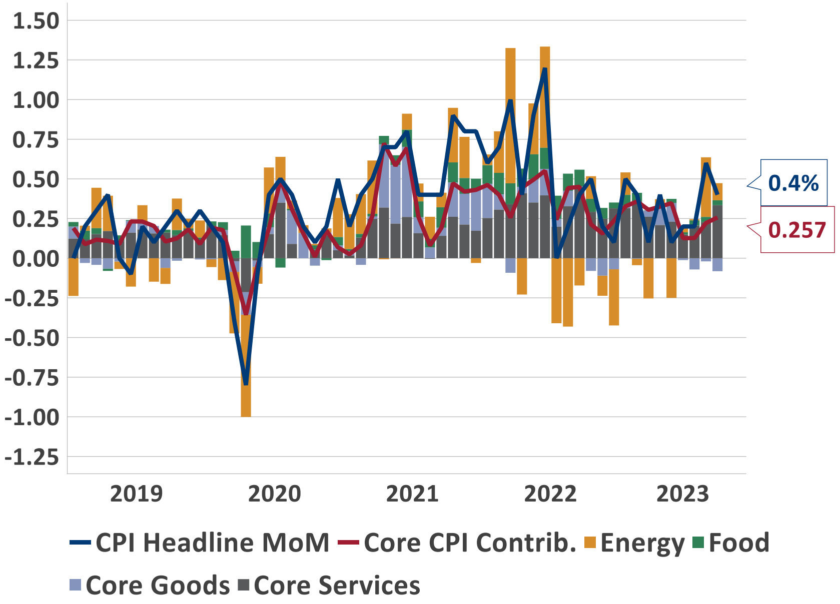
Source: BOCOM BBM, Macrobond, BLS

US: Core CPI Main Components (%)



Source: BOCOM BBM, Macrobond, BLS

US: CPI MoM Contributions



Source: BOCOM BBM, Macrobond, BLS

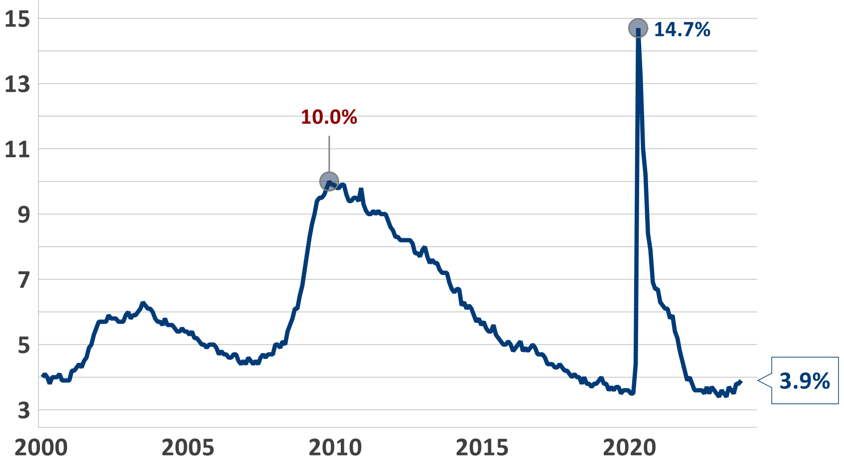
USA: Labor Market

- After 2 strong readings in September and August, the US labor market decelerated posting a net creation of **150k** jobs (below the exp. 180k) in the Oct. nonfarm payroll, while the household survey showed the unemployment rate rising from 3.8% to **3.9%** (highest level since Jan-22);

- The jobs-workers gap rose from 3.1M to **3.2M** as labor demand fell, but labor supply also slowed due to a -200k fall in the labor force in October;
    - The job openings per unemployed person ratio was stable at **1.5**;

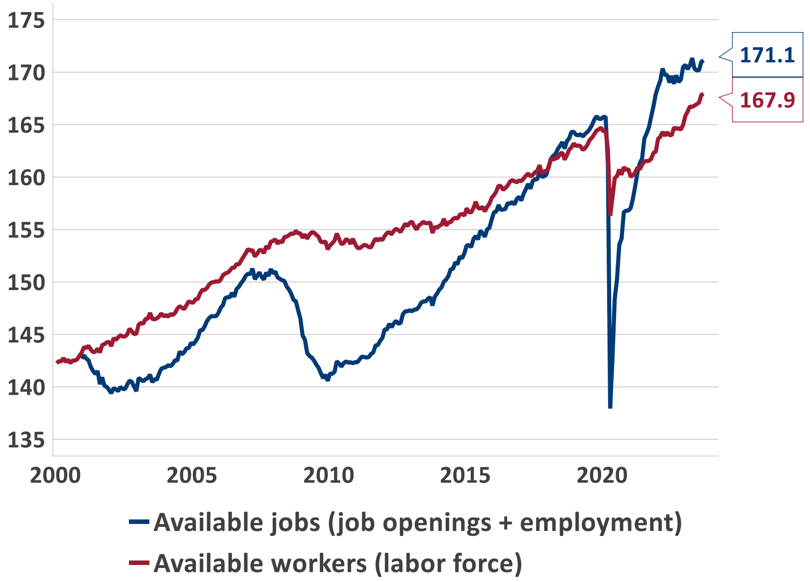
- October average hourly earnings showed slower monthly growth when compared with the rapid pace they posted in prior months, making the annual rate fall from 4.3% to **4.1%** YoY;
    - This is important due to the positive correlation between wage inflation and inflation in core services ex. housing, which remains persistently high and is the main concern in core inflation.

US: Unemployment Rate SA (%)



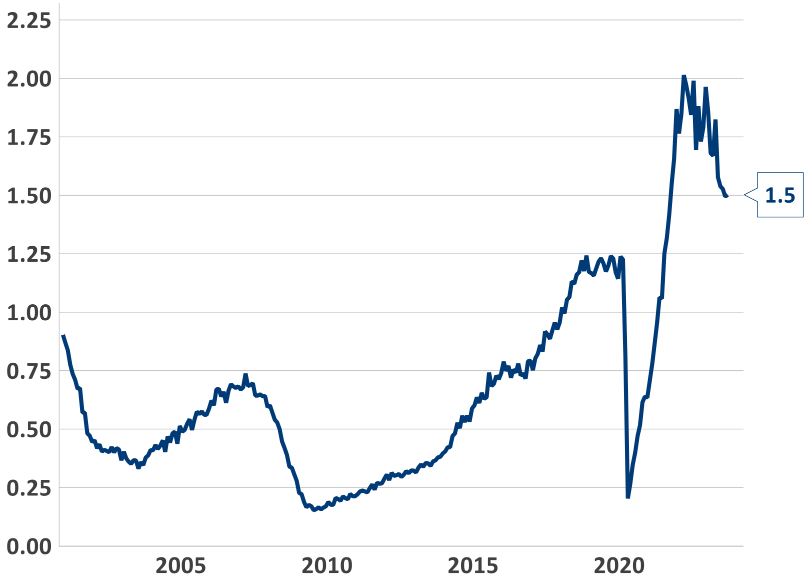
Source: BOCOM BBM. Macrobond. BLS

US: Jobs-workers gap (millions)



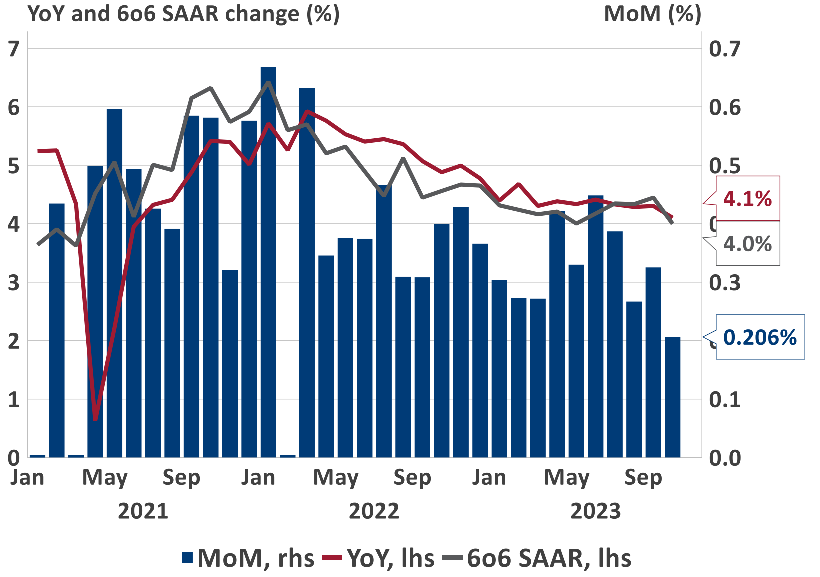
Source: BOCOM BBM, Macrobond, BLS

US: Job Openings/Unemployed Ratio



Source: BOCOM BBM, Macrobond

US: Average Hourly Earnings Growth (%)



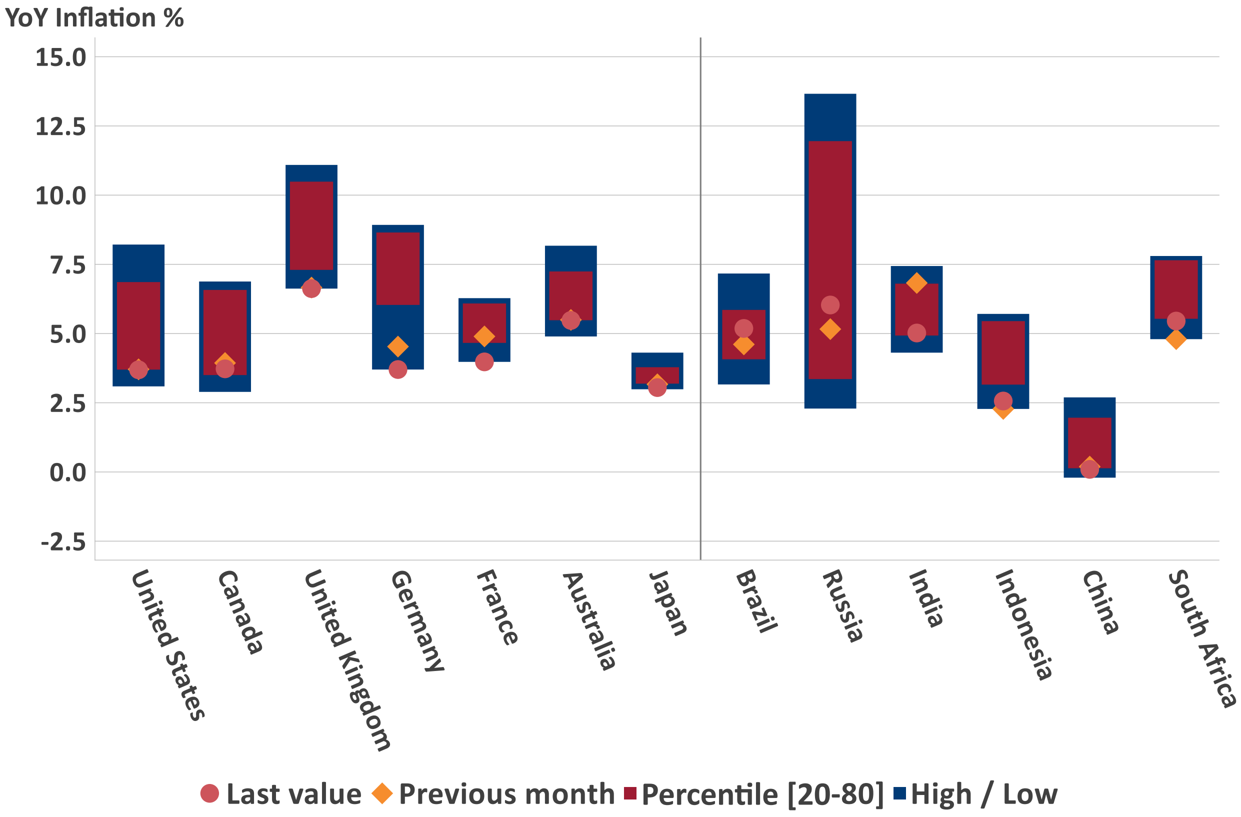
Source: BOCOM BBM, Macrobond

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

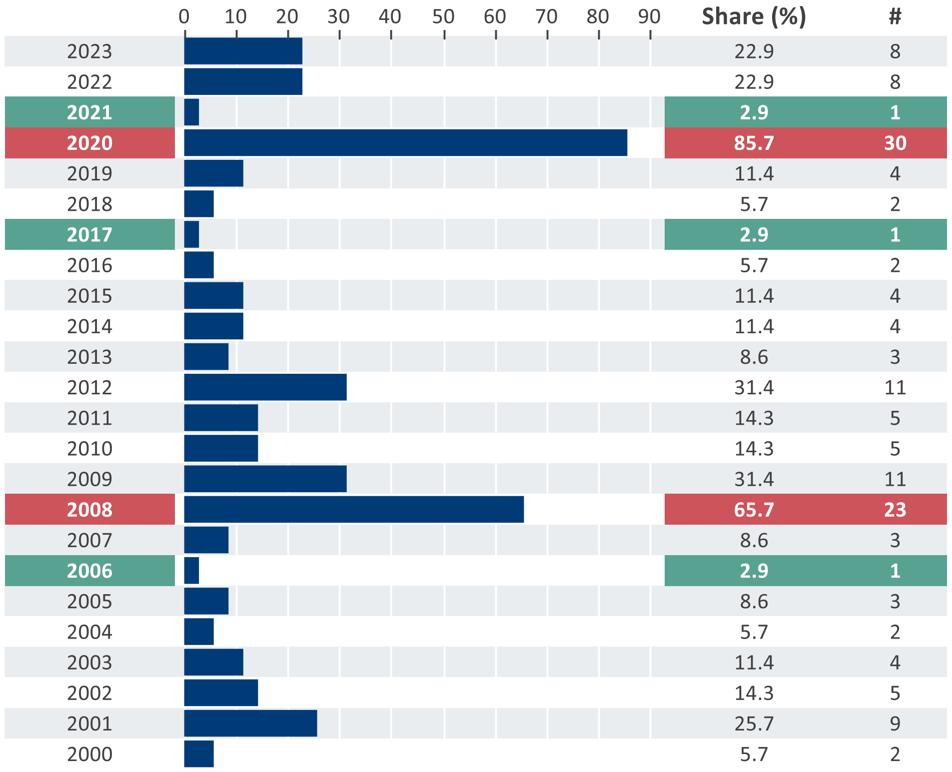
Inflation range during the past 12 months



Source: BOCOM BBM, Macrobond

Recession Tracker

Number of countries in recession per year
Sample universe across 35 OECD nations



Source: BOCOM BBM, Macrobond, National Sources

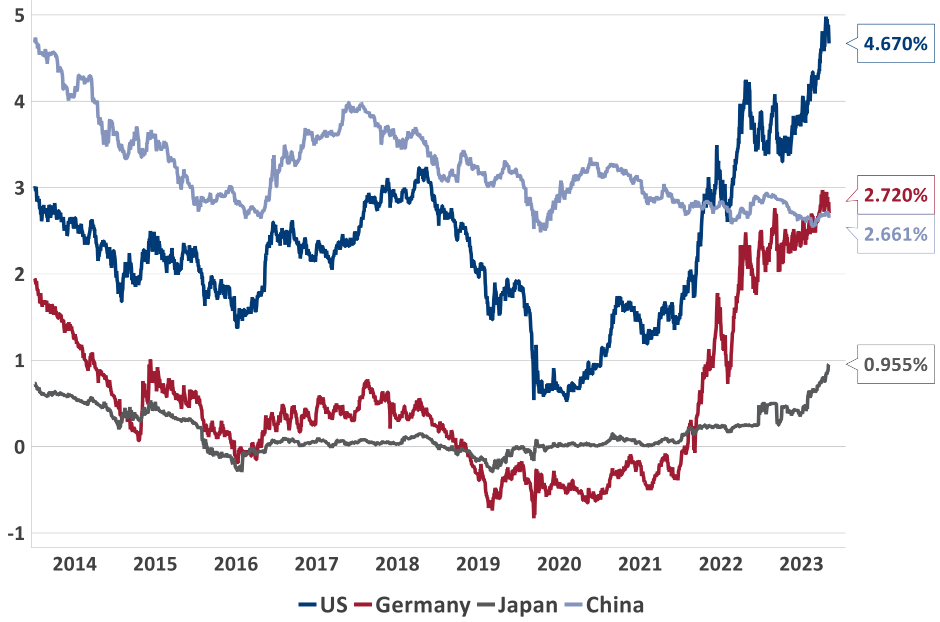
Global: Interest Rates

- 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 November meeting in face of recent tightening of financial conditions but still left the door open for further hikes, although it's widely expected that cycle has already ended;

- Nonetheless, Powell maintained a hawkish language during the press conference, reinforcing the "higher for longer" message by saying *"the committee is not thinking about rate cuts right now at all"*.

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	133.00	15.00	Hike	10/2023	1	36
Australia	4.10	0.25	Hike	6/2023	5	36
Brazil	12.25	-0.50	Cut	11/2023	15	0
Canada	5.00	0.25	Hike	7/2023	4	43
Chile	9.00	-0.50	Cut	10/2023	13	0
China	3.45	-0.10	Cut	8/2023	117	2
Colombia	13.25	0.25	Hike	5/2023	6	37
Costa Rica	6.25	-0.25	Cut	10/2023	12	0
Czech Republic	7.00	1.25	Hike	6/2022	16	42
Denmark	3.75	0.25	Hike	9/2023	2	25
Euro Area	4.50	0.25	Hike	9/2023	1	92
Hungary	12.25	-0.75	Cut	10/2023	13	0
Iceland	9.25	0.50	Hike	8/2023	2	36
India	6.50	0.25	Hike	2/2023	9	41
Indonesia	6.00	0.25	Hike	10/2023	1	32
Israel	4.75	0.25	Hike	5/2023	5	43
Japan	-0.10	-0.20	Cut	1/2016	200	93
Mexico	11.25	0.25	Hike	3/2023	7	33
New Zealand	5.50	0.25	Hike	5/2023	5	44
Norway	4.25	0.25	Hike	9/2023	1	42
Poland	5.75	-0.25	Cut	10/2023	14	1
Russia	15.00	2.00	Hike	10/2023	0	14
Saudi Arabia	6.00	0.25	Hike	7/2023	3	44
South Africa	8.25	0.50	Hike	5/2023	5	39
South Korea	3.50	0.25	Hike	1/2023	10	41
Sweden	4.00	0.25	Hike	9/2023	1	93
Switzerland	1.75	0.25	Hike	6/2023	4	106
Turkey	35.00	5.00	Hike	10/2023	0	8
United Kingdom	5.25	0.25	Hike	8/2023	3	44
United States	5.50	0.25	Hike	7/2023	3	44

Brazil: Forecasts

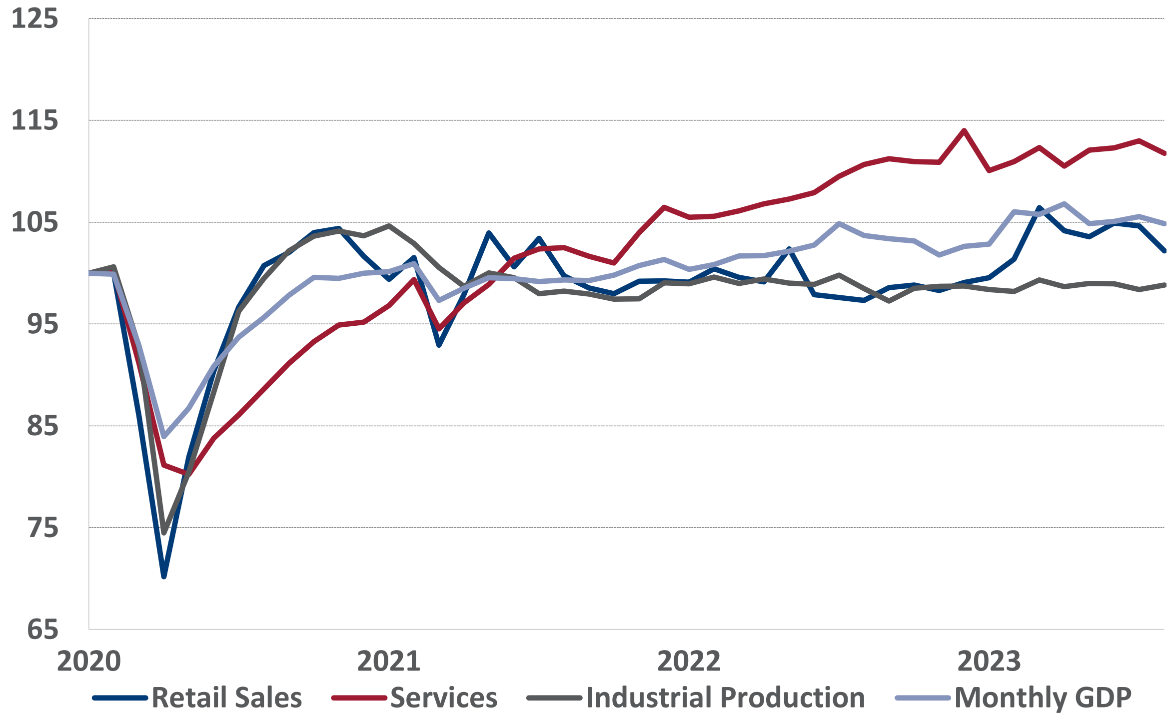
ECONOMIC FORECASTS	2019	2020	2021	2022	2023F	2024F
GDP Growth (%)	1.2%	-3.3%	5.0%	2.9%	2.8%	1.5%
Inflation (%)	4.3%	4.5%	10.1%	5.8%	4.4%	3.8%
Unemployment Rate (eoy ,%)	11.1%	14.2%	11.1%	7.9%	8.5%	9.0%
Policy Rate (eoy, %)	4.5%	2.0%	9.3%	13.75%	11.75%	9.5%
External Accounts						
Trade Balance (US$ bn)	27	32	36	44	69	57
Current Account Balance (US$ bn)	-68	-28	-46	-56	-35	-37
Current Account Balance (% of GDP)	-3.6%	-1.9%	-2.8%	-2.9%	-1.6%	-1.7%
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

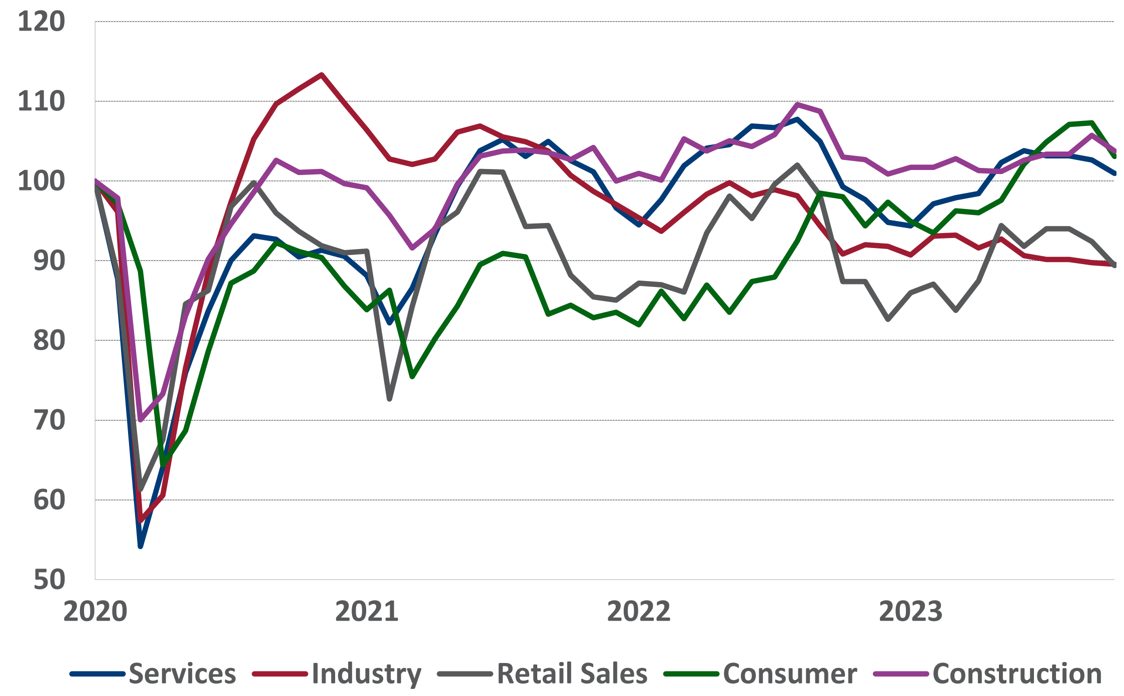
Brazil: Activity

- Monthly indicators of economic activity showed mostly negative signs in August, with only one of them showing marginal expansion. While the services sector and retail sales fell by 0.9% MoM and 1.3% MoM, respectively, industrial production increased by 0.4% MoM;
- The monthly proxy for Brazil's GDP (IBC-Br) seems to summarize the slowdown in economic activity, showing a contraction of 0.77% MoM;
- Looking forward, confidence indicators pointed a widespread decline among all economic sectors in October.

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



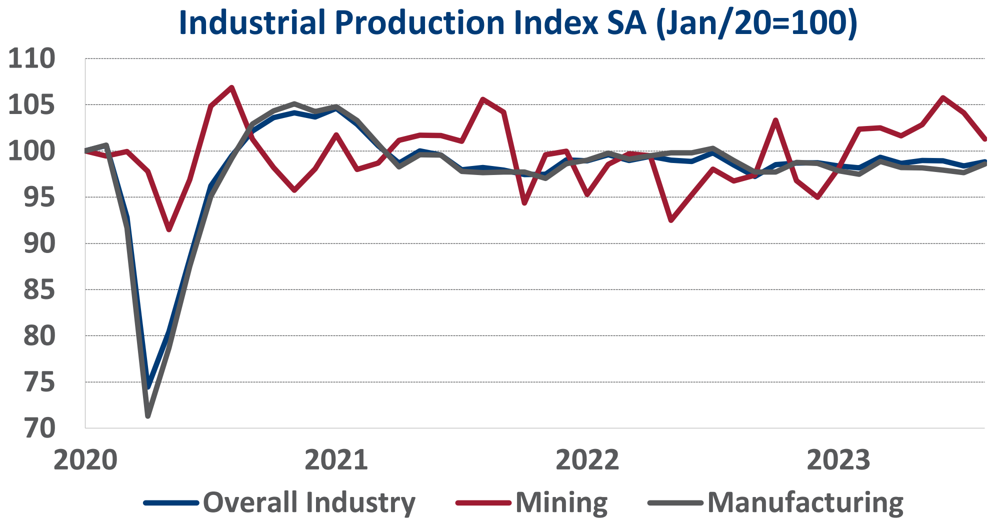
Brazil - Economic Confidence Index (Jan/20 = 100)

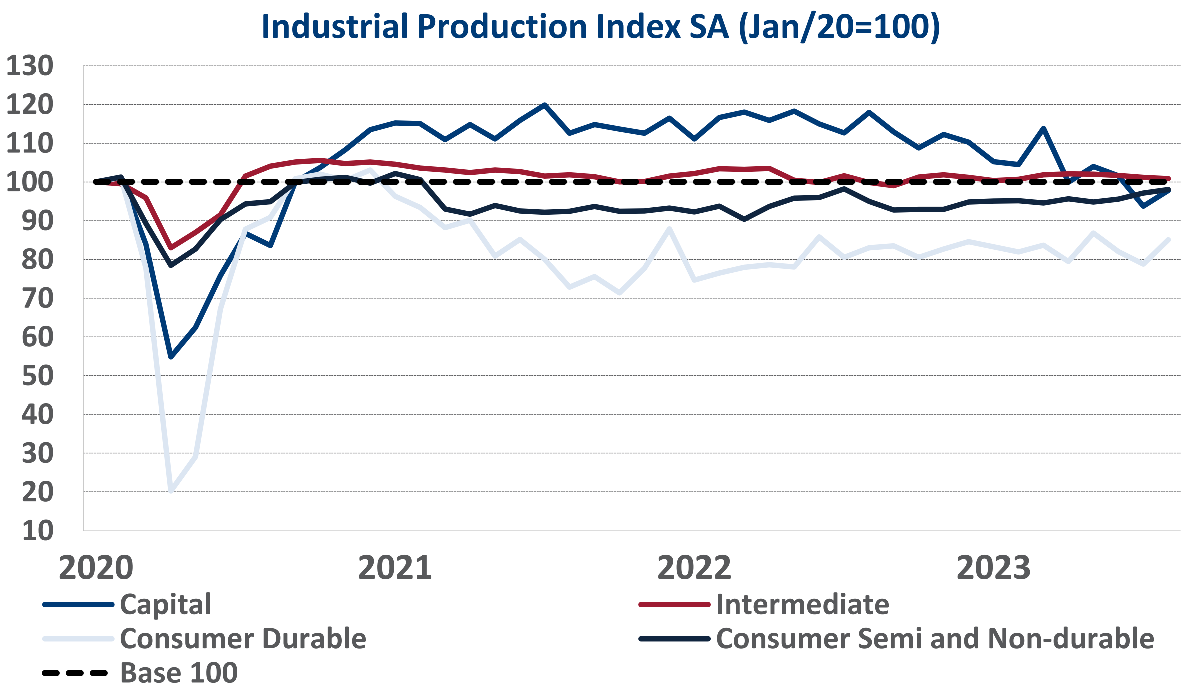


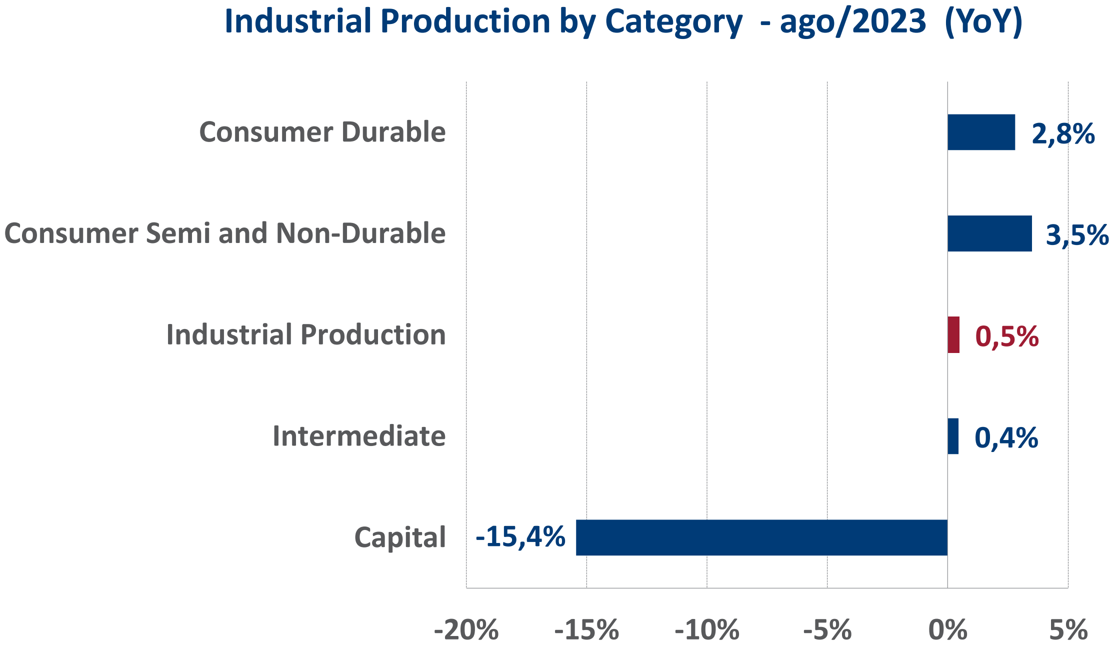
Source: BOCOM BBM, FGV

Brazil: Industrial Production

- In August, industrial production increased 0.4% MoM (0.5% YoY), slightly below market expectations (0.5% MoM and 1% YoY);
- In the breakdown, three out of four economic categories presented a growth:
  - Production of capital goods increased 4.3% MoM, despite being in a downward trend since 2022 and tumbling 15.4% when compared to August 2022;
  - Durables goods and Semi and Non-Durable goods, in turn, posted an expansion of 8.0% MoM and 1.0% MoM, respectively;
  - On the negative side, intermediate goods fell 0.3% MoM, the fourth contraction in a row;
- Even with an increase at the margin, the sector appears to be stagnating due to restrictive monetary conditions and high household indebtedness.





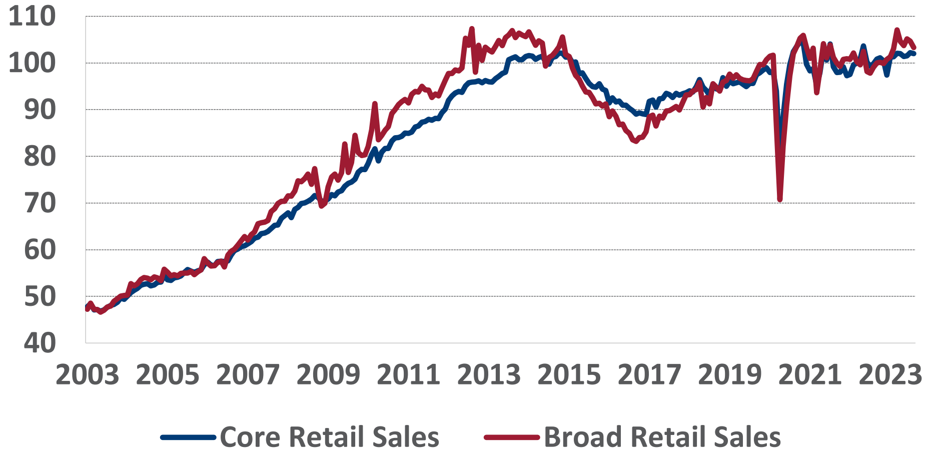


Source: IBGE, BOCOM BBM

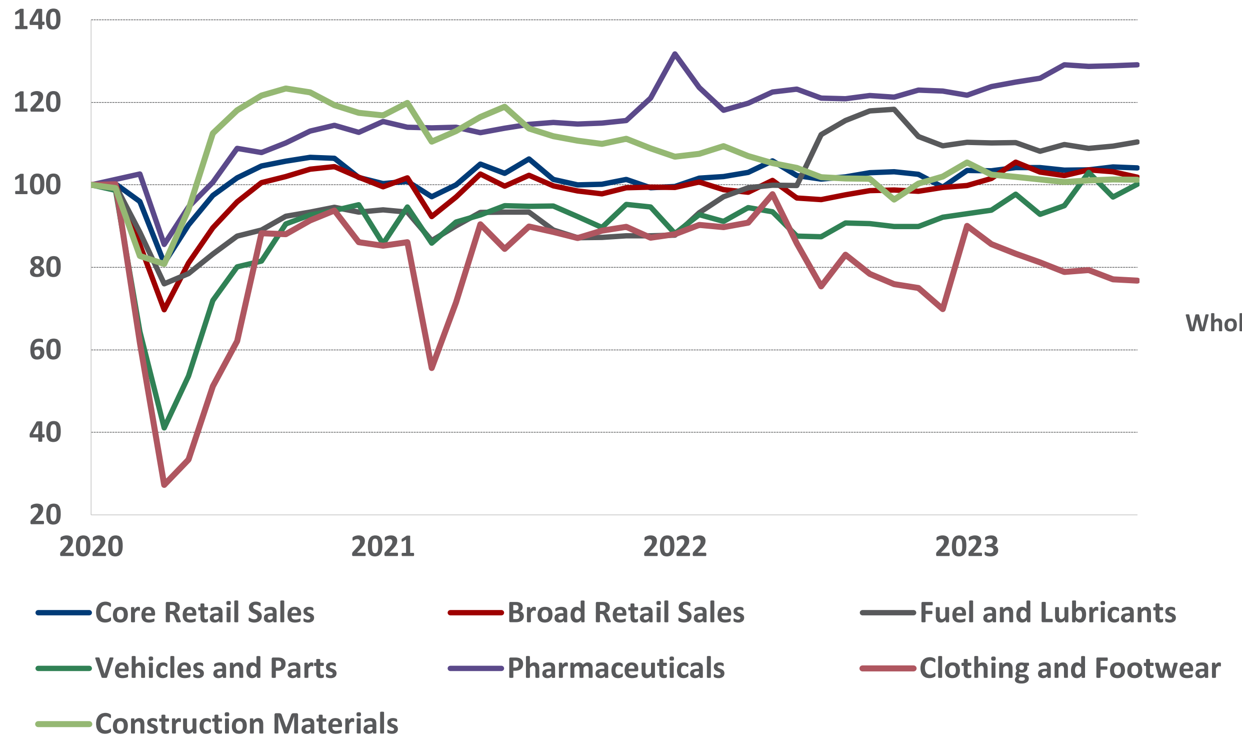
Brazil: Retail Sales

- Broad retail sales tumbled 1.3% MoM (3.6% YoY) in August, a downward surprise (Consensus: -0.7% MoM and 4.7% YoY);
- The core retail sales also showed a contraction (-0.2% MoM), with four out of its eight activities decreasing at the margin;
- Retail sales result has been negatively impacted by lower expenditures on goods by the families, owing to tight credit conditions and high household indebtedness.

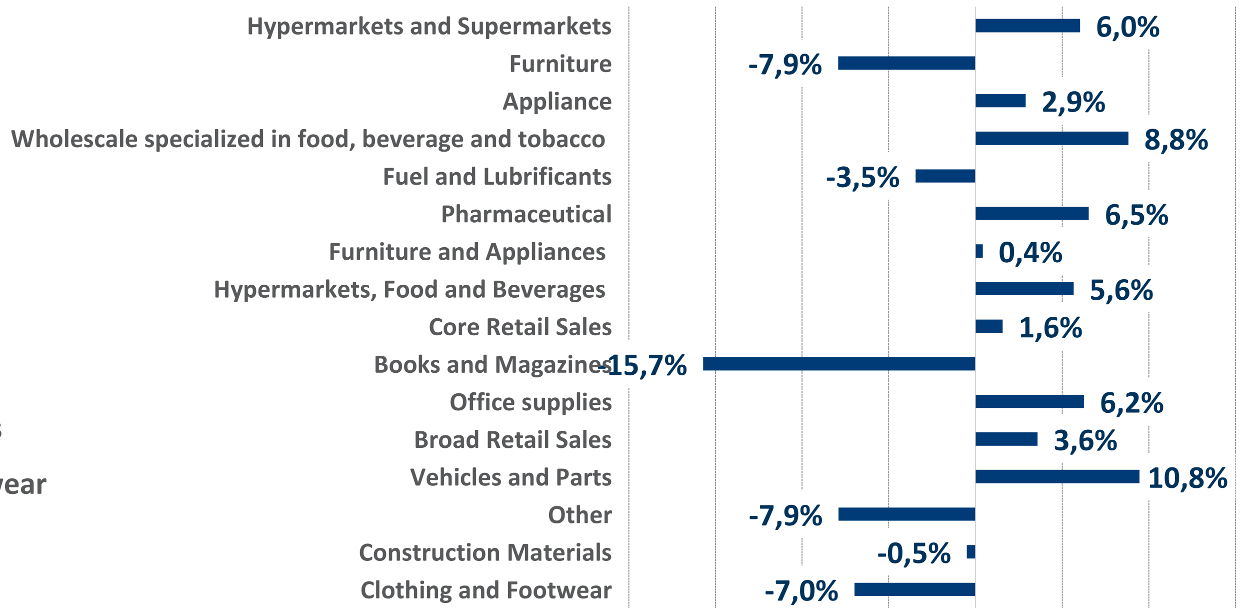
Broad Retail Sales SA x Core Retail Sales SA



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



Retail Sales - YoY (ago/23)

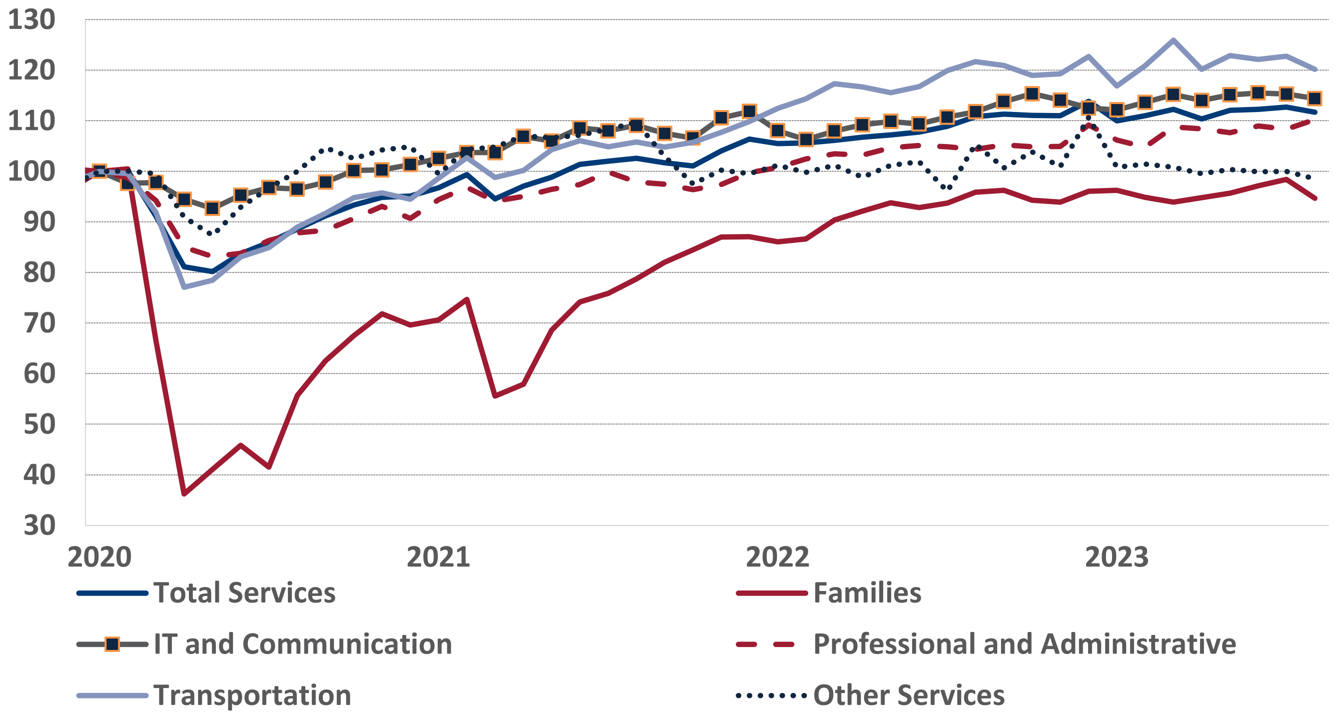


Source: IBGE, BOCOM BBM

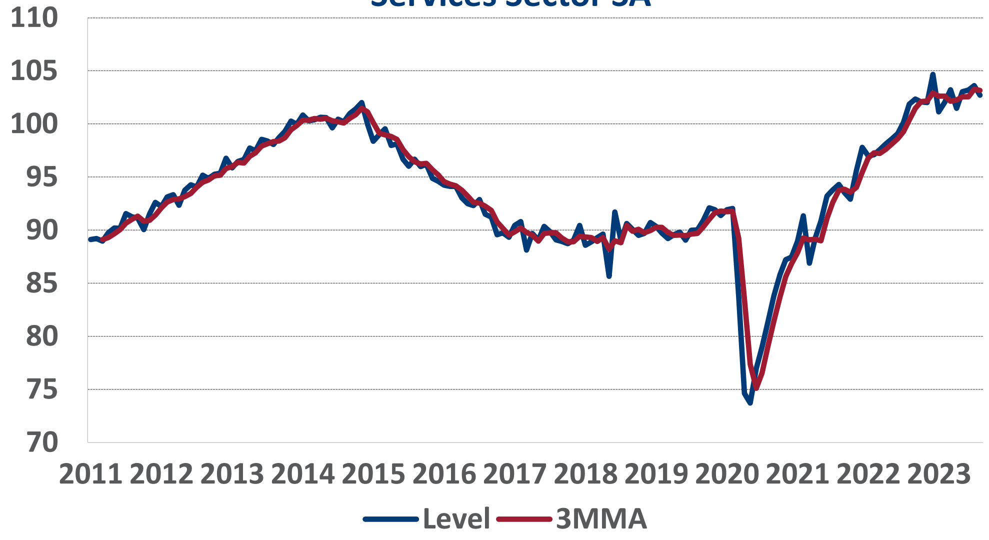
Brazil: Services

- In August, service sector's activity contracted by 0.9% MoM (+0.9% YoY), well below market expectations (+0.4% MoM; +2.8% YoY);
- The statistical carry-over for the 3Q23 now stands at +0.4% QoQ/sa;
- Four out of the five major service categories decreased at the margin;
- The main negative surprise was 'Services to families', which tumbled 3.8% MoM fully offsetting the previous four positive releases;
- August's result seems to be a clear sign of the economic slowdown expected ahead.

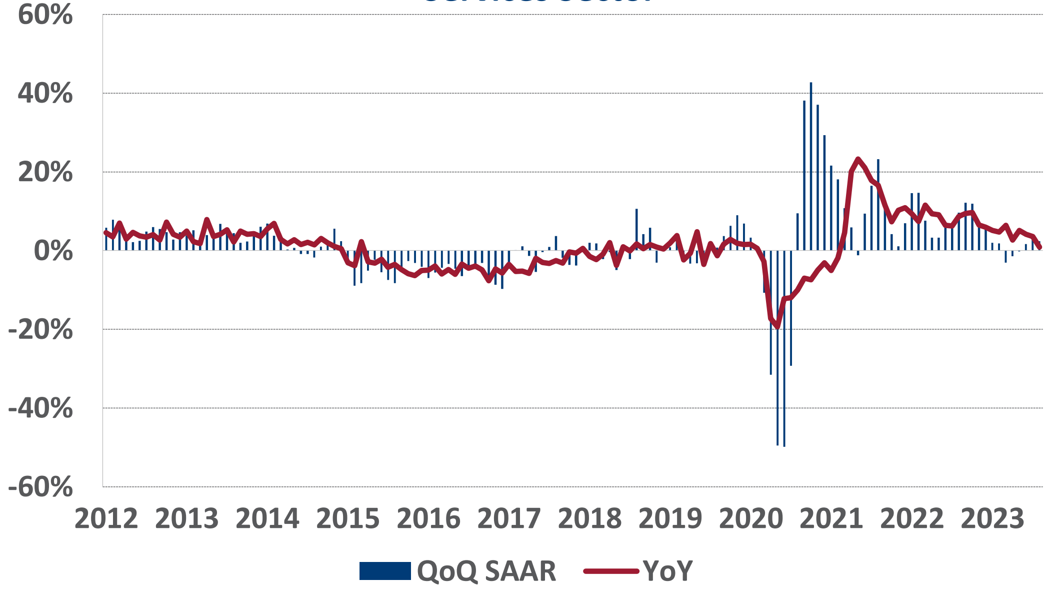
Services Sector SA (Jan20=100)



Services Sector SA



Services Sector

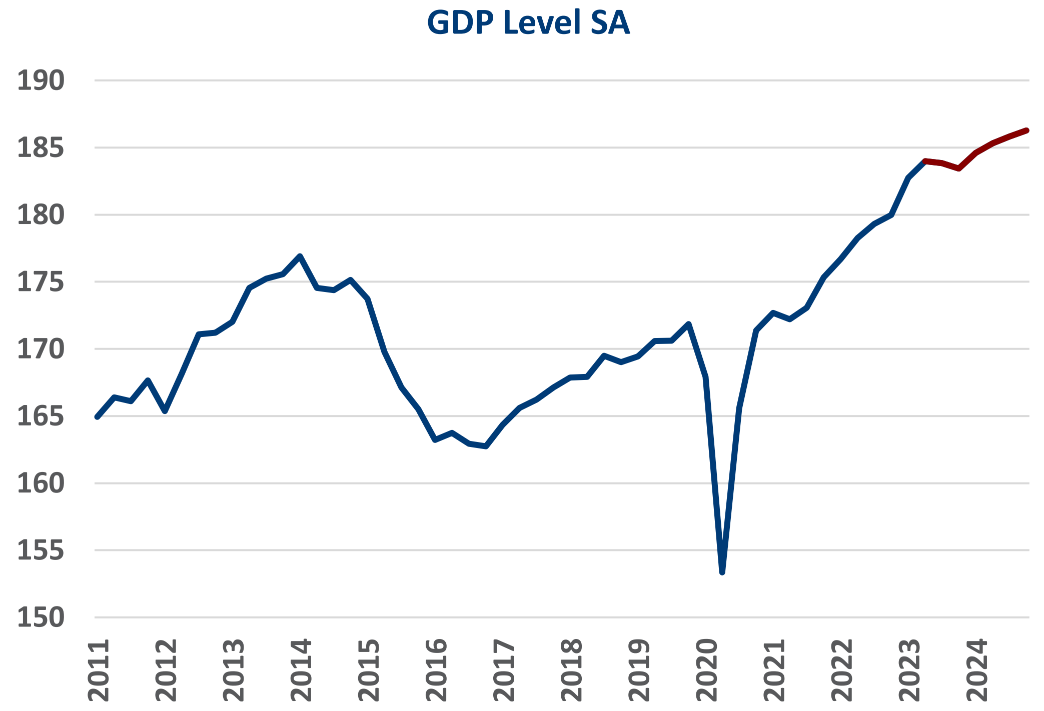


Source: IBGE, BOCOM BBM

Brazil: Economic Activity

- After negative results in the services sector, we revised our forecast for the Q3 GDP from 0% QoQ (2.2% YoY) to -0.1% QoQ (2.0% YoY). Consequently, 2023 GDP decreased from 2.9% to 2.8%;
  - Technical recession scenario returns… (-0.2% QoQ in Q4)

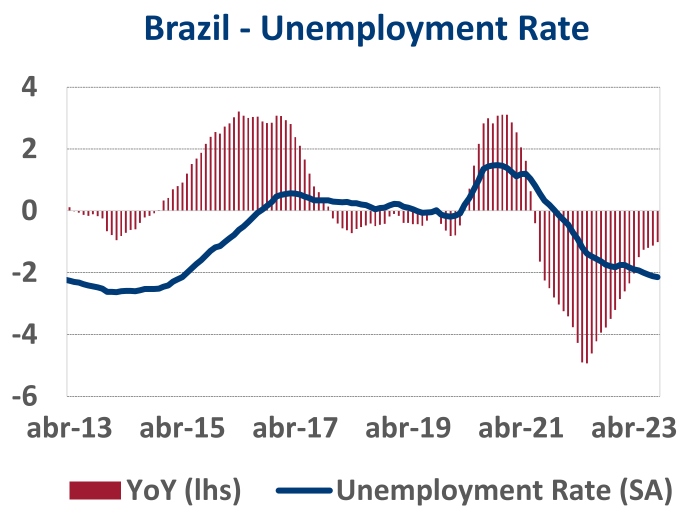
Forecasts				
	2023.III QoQ	2023.III YoY	2023	2024
GDP	-0.1%	2.0%	2.8%	1.5%
Agriculture	**-5.0%**	**9.1%**	**14.3%**	**1.5%**
Industry	**0.3%**	**1.0%**	**1.4%**	**1.5%**
Mining	0.3%	6.2%	7.0%	3.0%
Manufacturing	-0.1%	-1.6%	-1.2%	0.4%
Electricity	0.3%	3.1%	4.4%	4.1%
Civil Construction	0.4%	-0.6%	0.4%	1.0%
Services	**0.4%**	**1.5%**	**2.0%**	**1.6%**
Retail	0.0%	-0.4%	0.3%	0.9%
Transports	-0.1%	1.8%	3.1%	2.9%
Information and Communication	1.4%	1.7%	3.1%	2.1%
Financial Services	0.8%	5.1%	5.1%	2.4%
Rents	0.8%	2.4%	2.6%	2.1%
Other Services	0.8%	1.6%	2.1%	1.3%
Public Administration	0.5%	1.1%	1.2%	1.7%

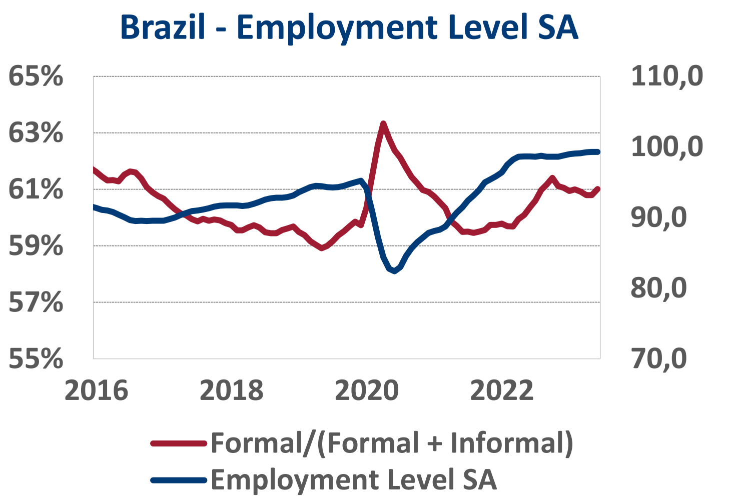


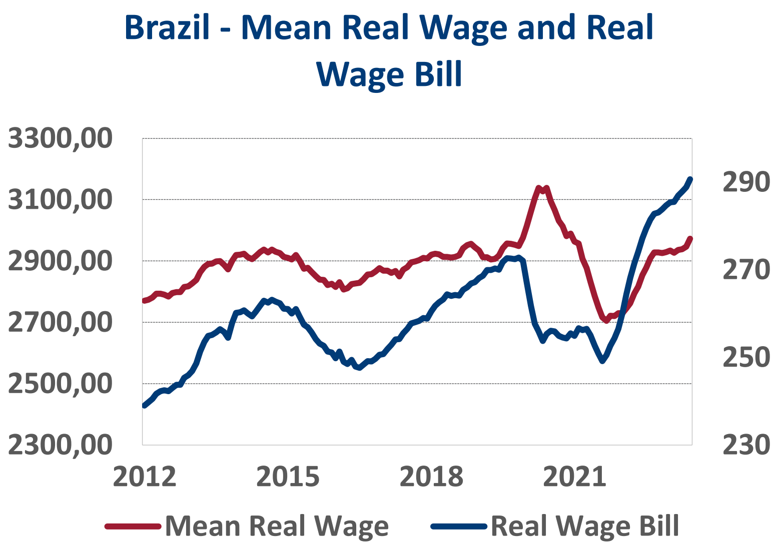
Source: BOCOM BBM, IBGE

Brazil: PNAD

- The unemployment rate fell to 7.7% in September, from 7.8% in August;
- The decrease was due to a decline in the participation rate (-0.2p.p. to 61.8%), offsetting the decline in employment (-0.1% MoM);
- Both formal and informal employment contracted at the margin;
- By the other hand, the real wages surprised, accelerating the pace from 0.3% MoM in August to 0.9% MoM in September;
- The real aggregate labor income bill moved up 0.6% MoM, driven by the increase in wages, despite lower employment figures.



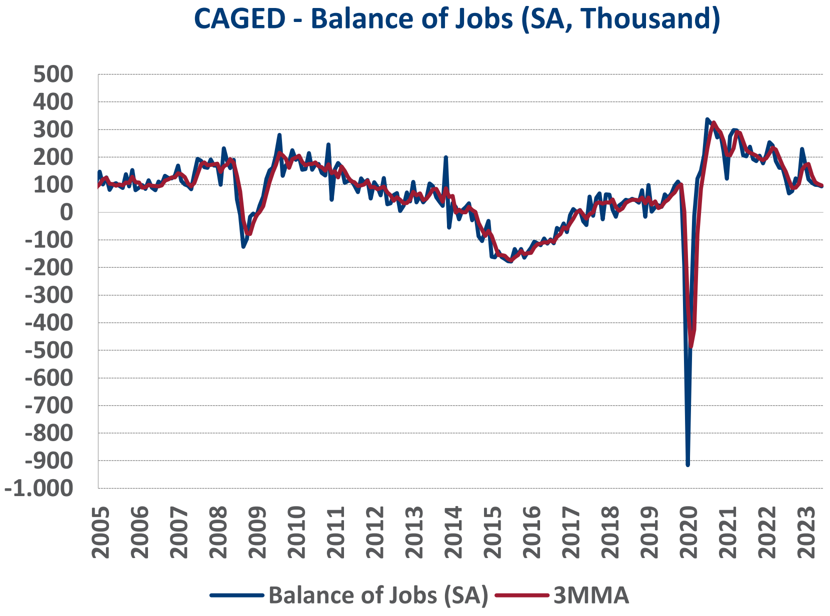


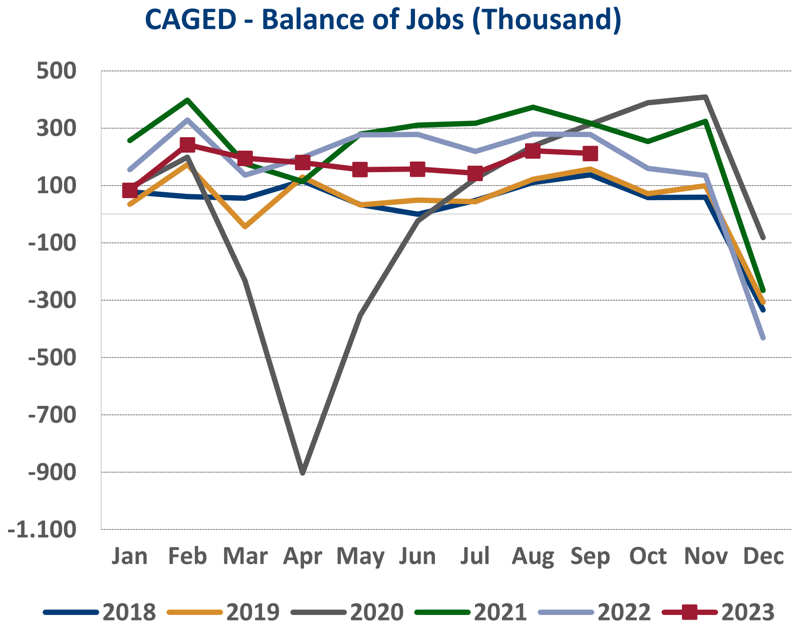


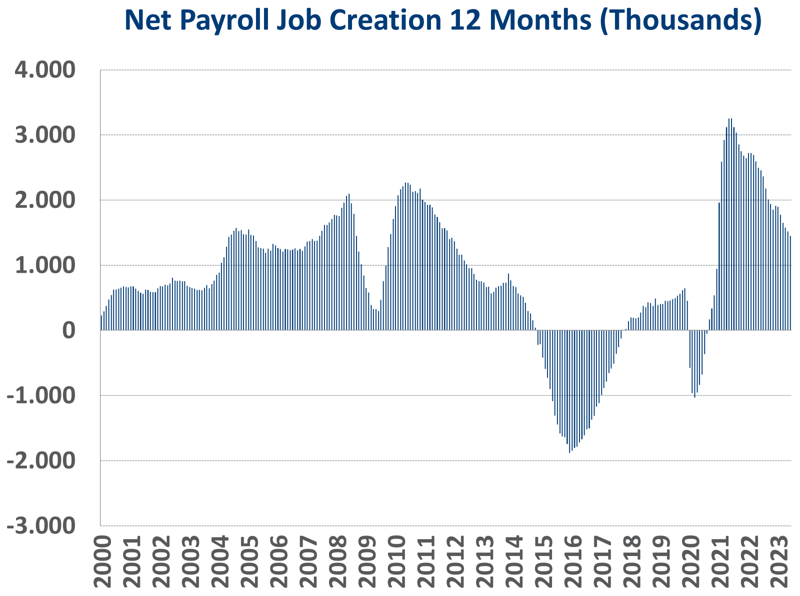
Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

- Caged registered a net creation of 211.8k formal jobs in September, above the market expectations (206k);
- Seasonally adjusted, we estimated a net creation of 94k jobs;
- Although losing steam at the margin, September result suggest a resilience in the labor market.





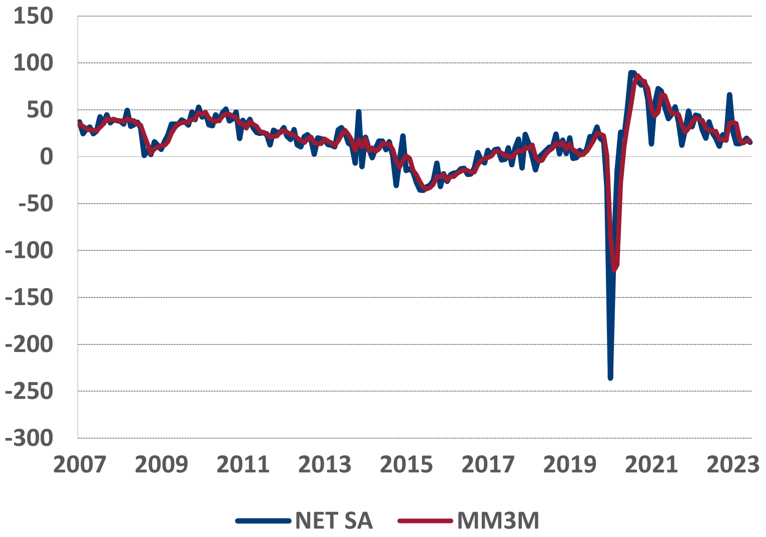


Source: BOCOM BBM, MTE

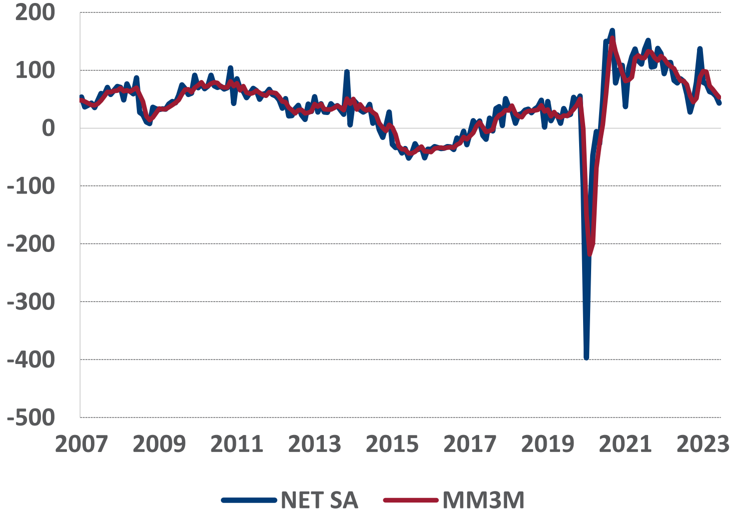
Brazil: Formal Labor Market

- The breakdown shows that three out of four sectors expanded at the margin:
- About 43.4k of jobs were created in services, the sector with the largest job creation;
- Retail sales created about 15.3k jobs, beyond the 19.8k recorded in August;
- Construction registered a net creation of 9.4k from 13.1k on the previous month;
- On the other hand, industry was the only in which there were more dismissals than hires;
- The outlook remains positive, despite a clear slowdown over the last months.

Brazil - Retail Net Payroll Job Creation (SA)

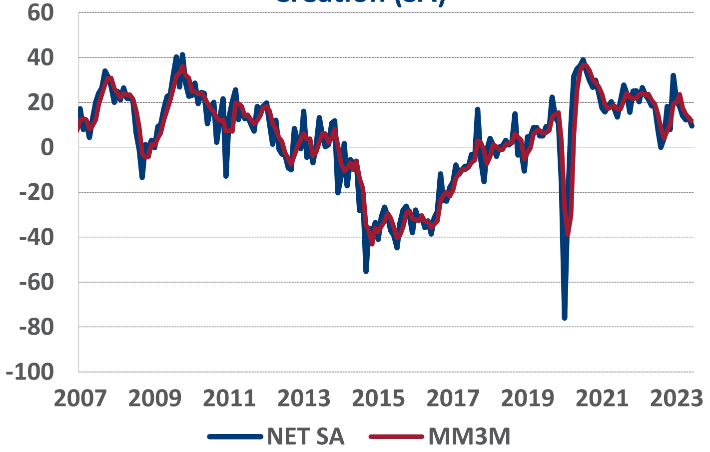


Brazil - Services Net Payroll Job Creation (SA)



Brazil - Industry Net Payroll Job Creation (SA)

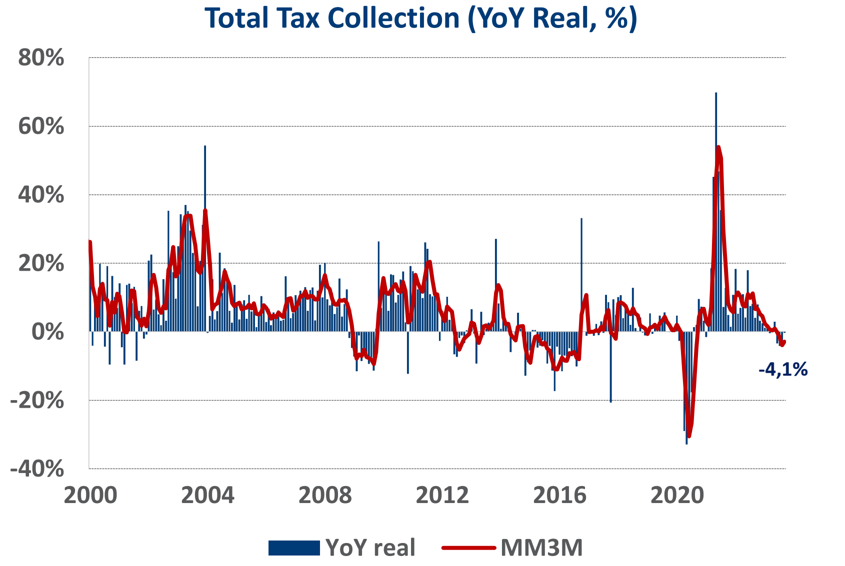
Brazil - Construction Net Payroll Job Creation (SA)

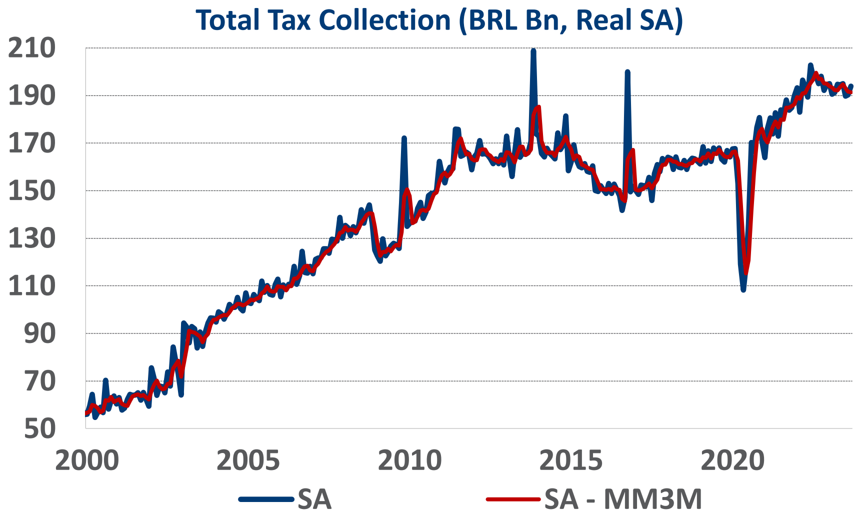


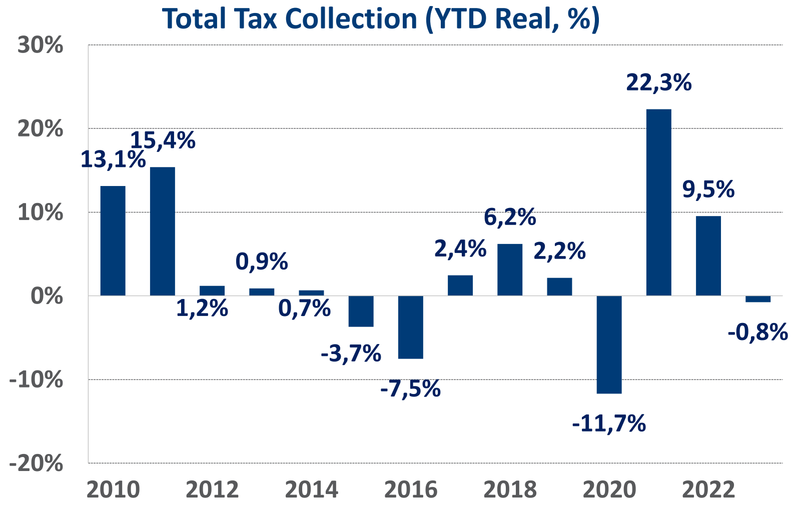
Source: BOCOM BBM, MTE

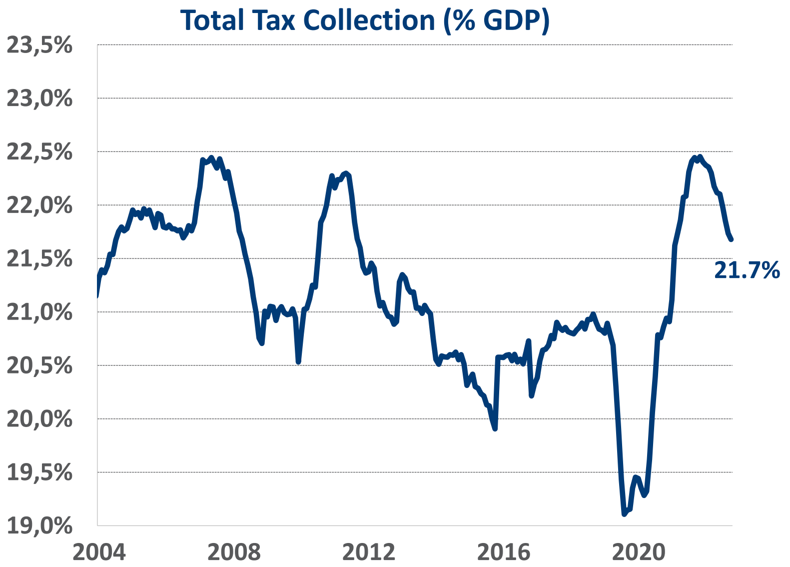
Brazil: Federal Tax Collections

- Total federal tax collection reached BRL 174.3 billion in September (in line with consensus), representing a drop of 0.3% in real terms when compared to the same month in 2022;
- The performance was driven by falls in corporate taxes IRPJ/CSLL, Import Tax and Industrialized Products Tax;
- It was also partially offset by an increase in PIS/Cofins, driven by the return of taxes on gasoline and ethanol, and increase in 'Other Revenues', due to gains related to litigation reduction program;
- Overall, the slowdown in tax revenues reflects the fall in commodity prices and the economic deceleration expected for the second semester of 2023.





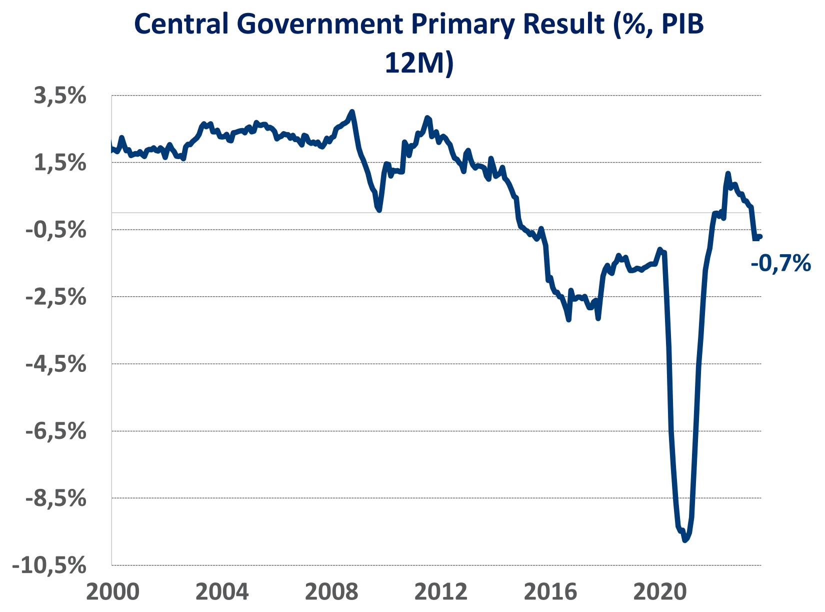


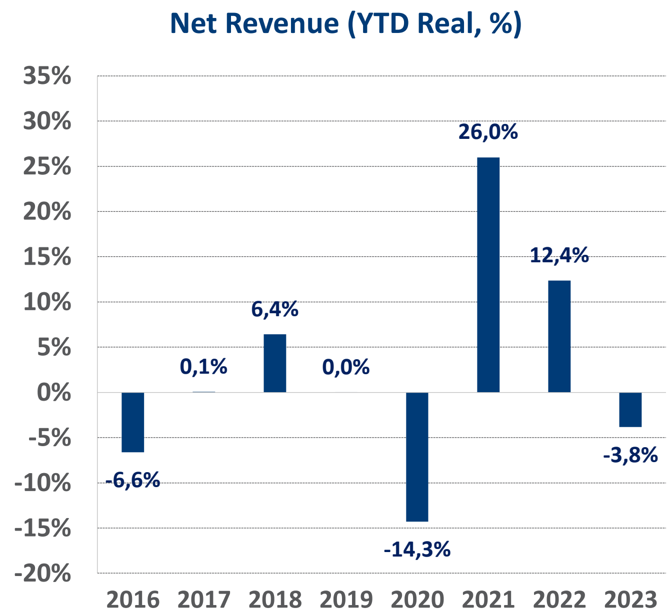


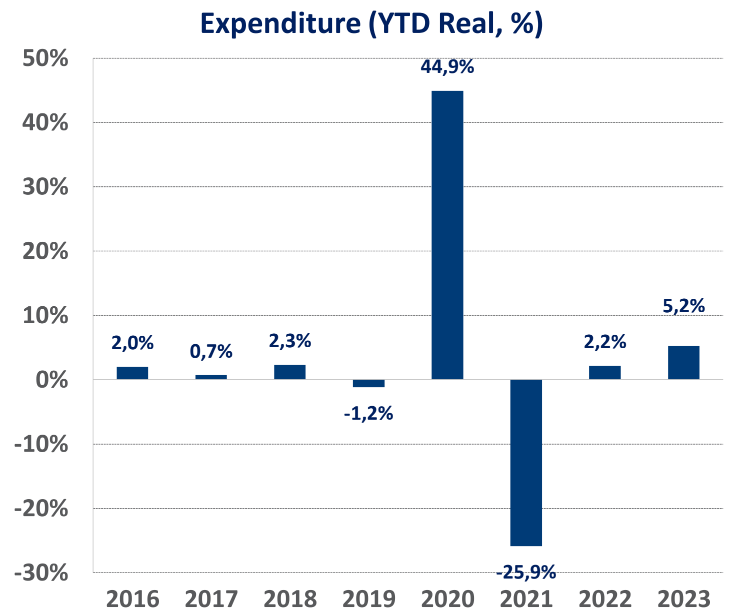
Fonte: BOCOM BBM, RFB

Brazil: Central Government Primary Result

- The central government's primary result recorded a surplus of BRL 11.5 billion in September;
- In the 12-month accumulated, it presents a deficit of BRL 71.4 billion (0.7% of GDP);
- The result is mainly explained by the increase of 10.7% YoY in net revenue in real terms;
    - Non-tax revenues grew around 40.3% YoY, driven by a non-recurring revenue related to the appropriation of the PIS/Pasep fund (+ BRL 26 billion);
    - On the other hand, concessions (-81.2%), dividends (-71.8%) and the exploration of natural resources (-14.4%) fell on a yearly basis;
- In turn, total expenses increased 11.5% YoY in real terms. The main drivers were increases in pension and retirement benefits (7.1%), assistance for the elderly and disabled (13.2%) and the Bolsa Família social assistance program (91.2%).



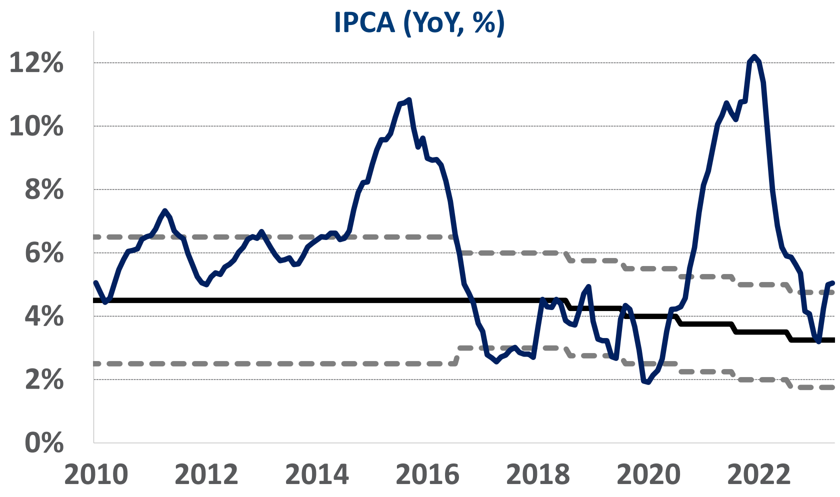


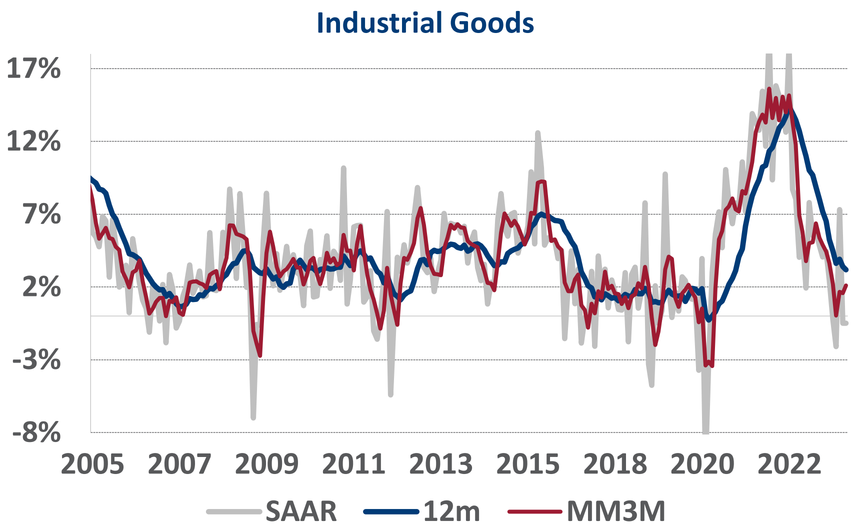


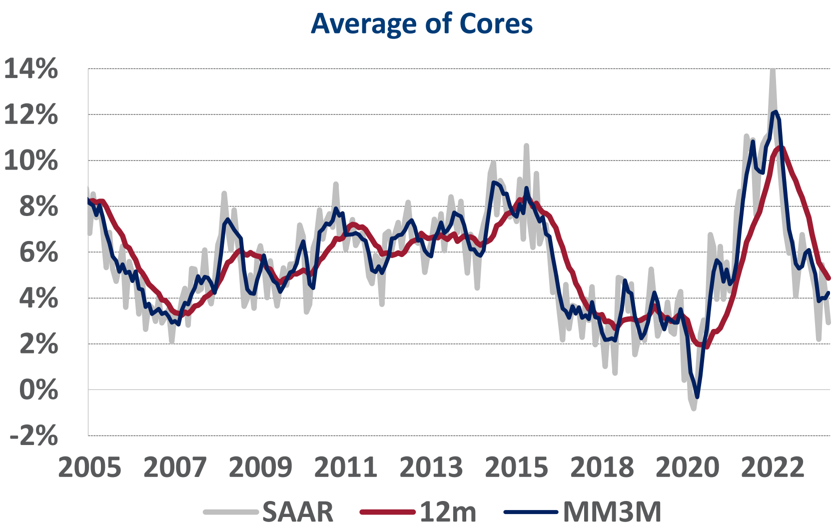
Fonte: BOCOM BBM, RTN

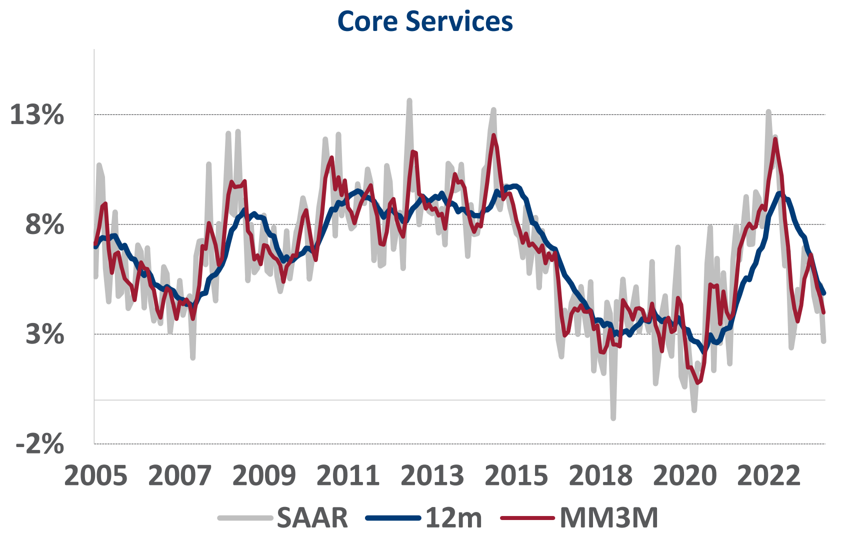
Brazil: Inflation 2023

- The IPCA-15 advanced 0.21% MoM in October, slightly above market consensus (0.20% MoM);
- The 12-month variation increased to 5.05% in October from 5.00% in September;
- The higher-than-expected print was mainly due to an upward surprise in airfares, partly offset by lower-than-expected figures for core services and industrial goods;
- The average of core measures expanded 0.23% MoM, below projections;
- ‘Underling Services’, closely monitored by the Central Bank, which advanced only 0.14% MoM, well below expectations, mainly due to vehicle-related services, personal and tourism-related services;
- The breakdown reinforces benign services price dynamics.





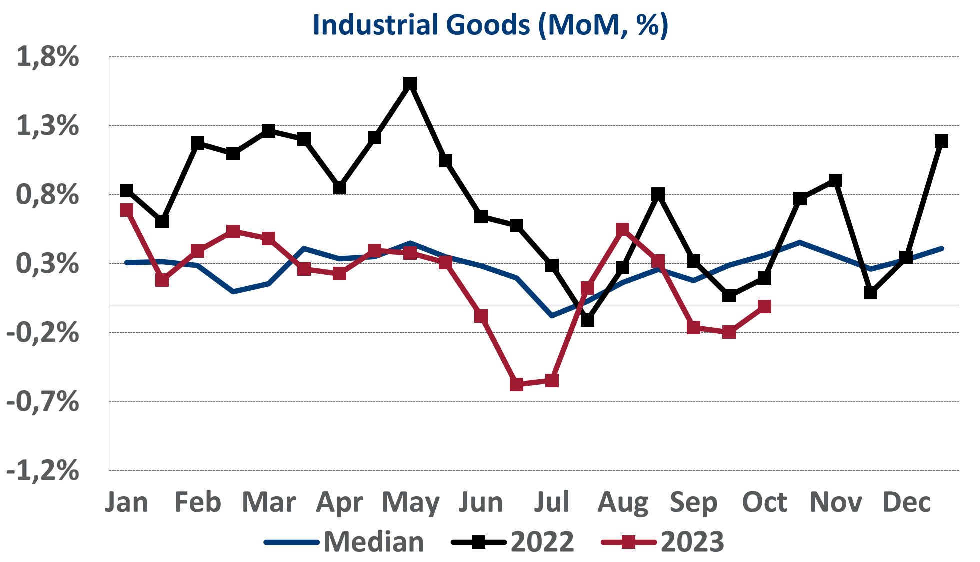


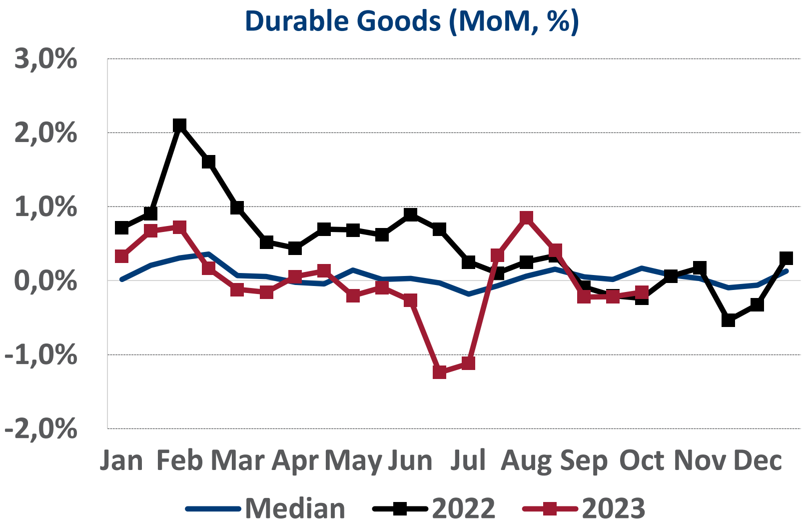


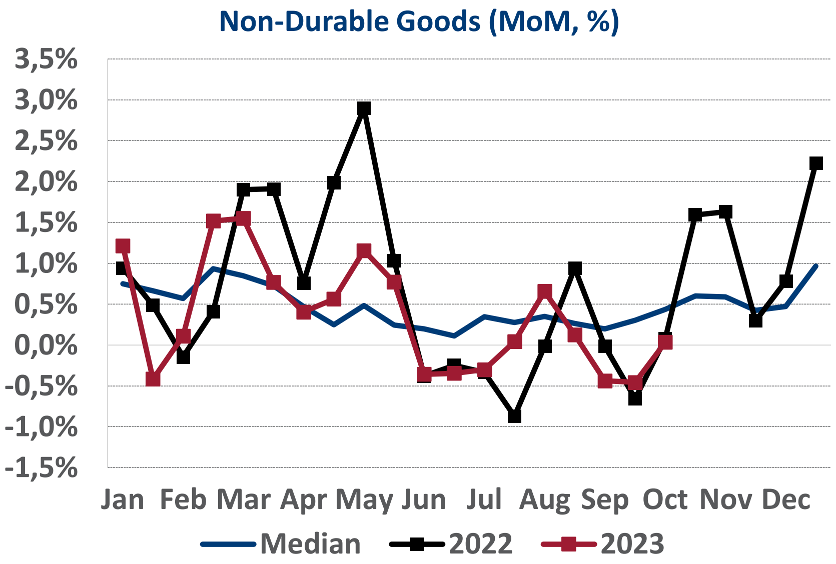
Source: BOCOM BBM, IBGE

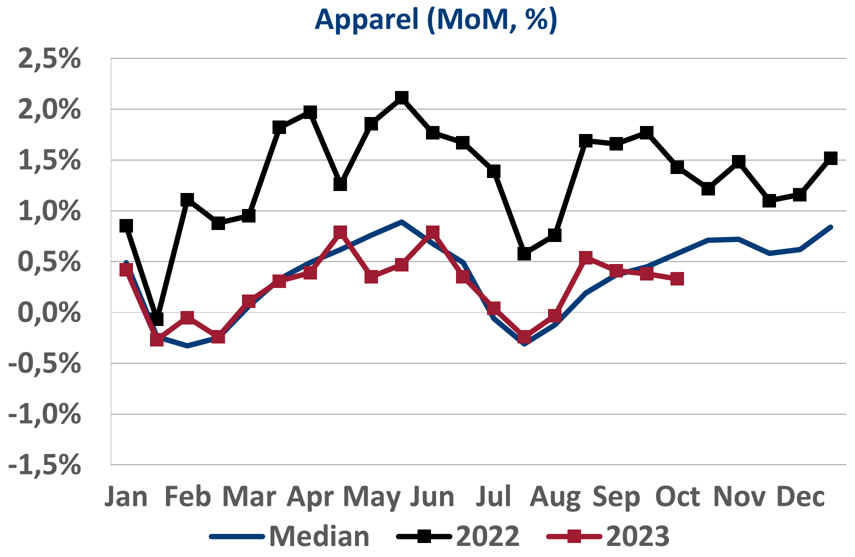
Brazil: Inflation 2023

- Industrial goods reached a deflation of 0.01% MoM;
- The breakdown was also better than expected, with (volatile) non-durables coming in a tad higher, but more than offset by (more cyclical) durables;





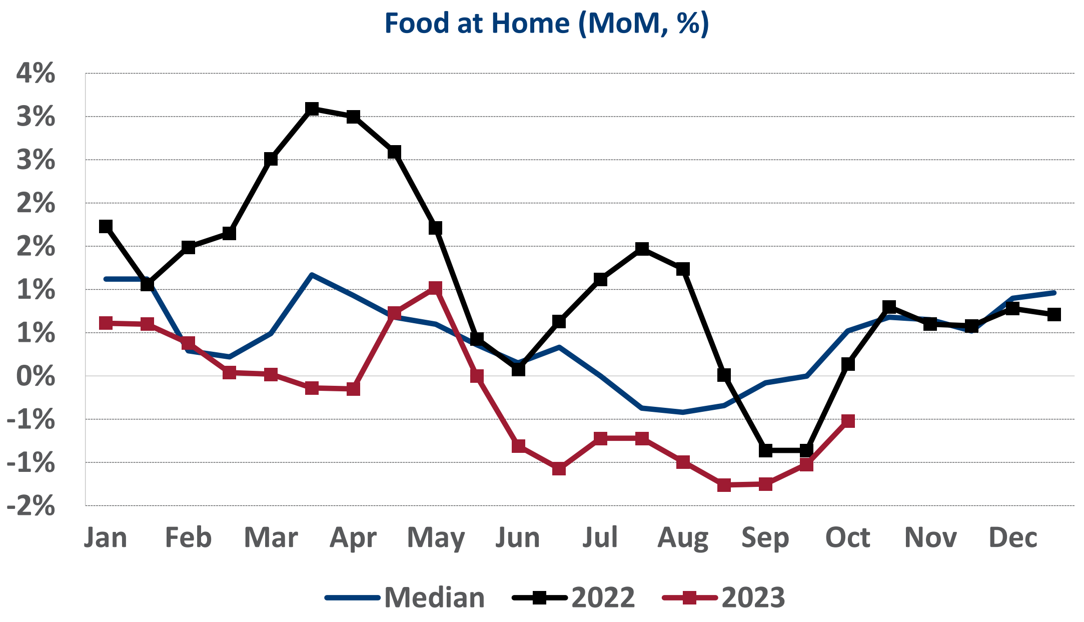


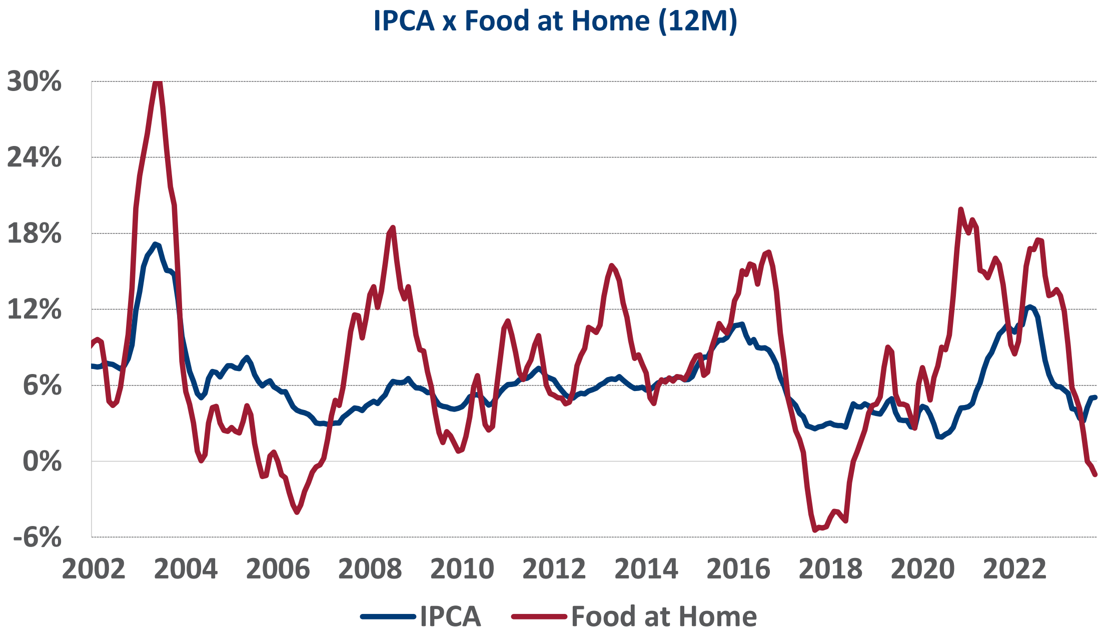


Source: BOCOM BBM, IBGE

Brazil: Inflation 2023

- ‘Food at home’ continued registering deflations, this time of 0.52% MoM;





Source: BOCOM BBM, IBGE

Brazil: Inflation

- We revised the forecast for 2023 from 4.5% to 4.4% and for 2024 from 3.6% to 3.8%;
- The 2023 revision was driven by downward surprises in October preview print and the latest readings of price surveys;
- For 2024, the upward revision reflects the state fuel tax hike in 2024, which will add 15bps to the February 2024 IPCA index.

IPCA (%, annual)

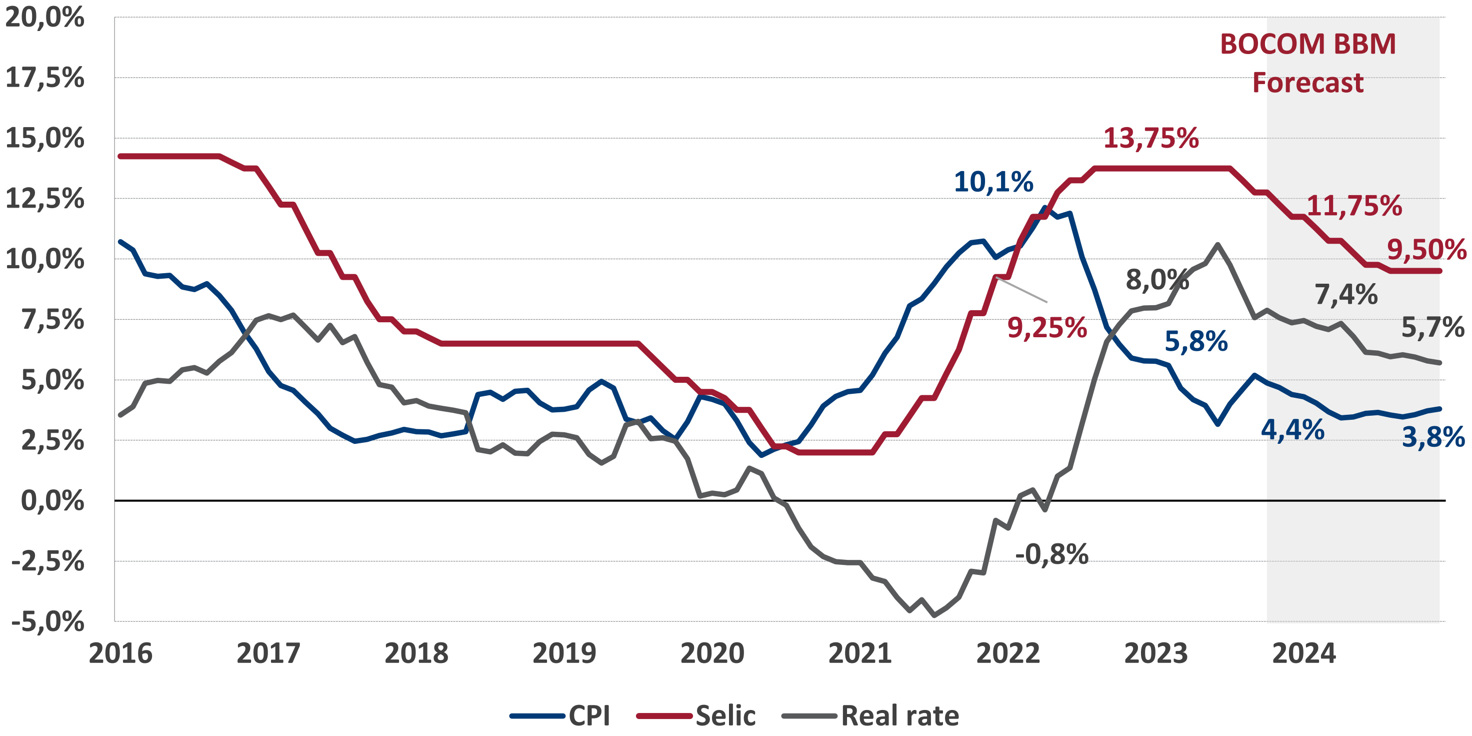
	Weight	2019	2020	2021	2022	2023	2024
Regulated	**26.6**	**5.5**	**2.6**	**16.9**	**-3.8**	**9.4**	**4.7**
Industrial goods	**23.6**	**1.7**	**3.2**	**11.9**	**9.5**	**1.5**	**2.2**
Durable goods	10.3	0.0	4.5	12.9	6.1	-0.1	1.1
Semi-durable goods	5.9	0.6	-0.1	10.2	15.7	3.0	3.0
Non-durable goods	7.3	4.4	4.0	11.9	9.5	2.4	3.1
Food at home	**15.7**	**7.8**	**18.2**	**8.2**	**13.2**	**-1.6**	**3.0**
Services	**34.1**	**3.5**	**1.7**	**4.8**	**7.6**	**5.5**	**4.4**
Food away from home	5.6	3.8	4.8	7.2	7.5	4.9	3.7
Related to minimum wage	5.2	2.9	1.5	3.3	6.3	5.0	5.1
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.3	7.4	4.4
Inertial	15.0	4.3	1.6	4.2	8.8	5.0	4.4
IPCA		**4.3**	**4.5**	**10.1**	**5.8**	**4.4**	**3.8**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

» The Brazilian Central Bank delivered the much-expected 50-bp cut in the Selic rate in its November meeting, reaching 12.25% per year. Most of the statement was unchanged, including a guidance for similar cuts in coming meetings, but inflation forecasts inched higher. the board emphasized a challenging external environment that demands "caution", while concerns about the fiscal target persisted. Overall, the decision is consistent with our baseline scenario that the Copom will keep cutting the Selic rate by 50 bps in the coming meetings, reaching 11.75% this year and 9.5% in 2024.

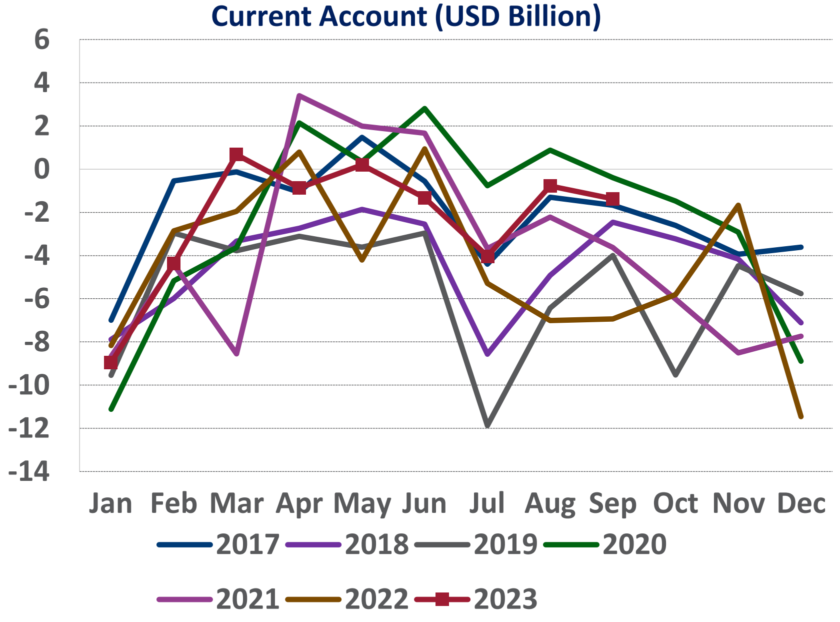
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

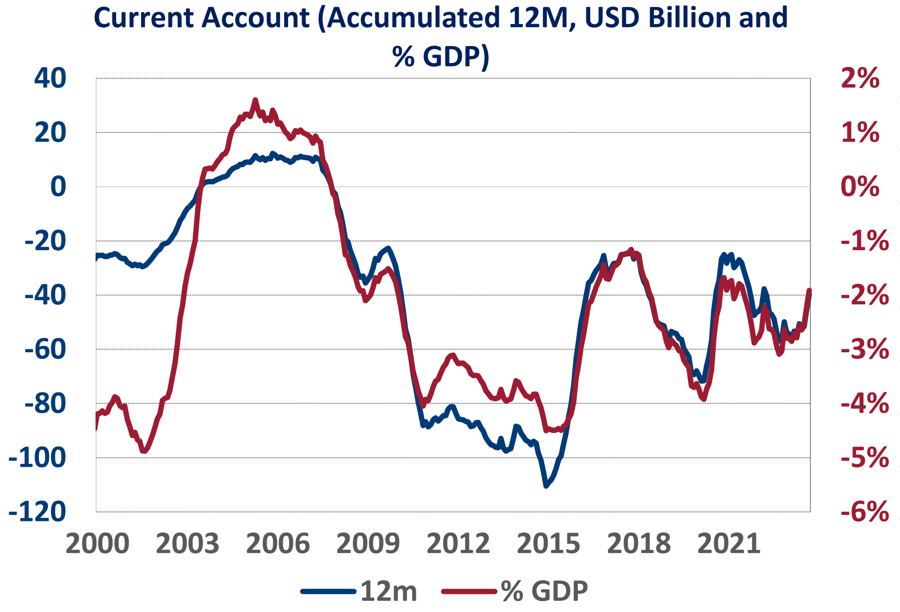


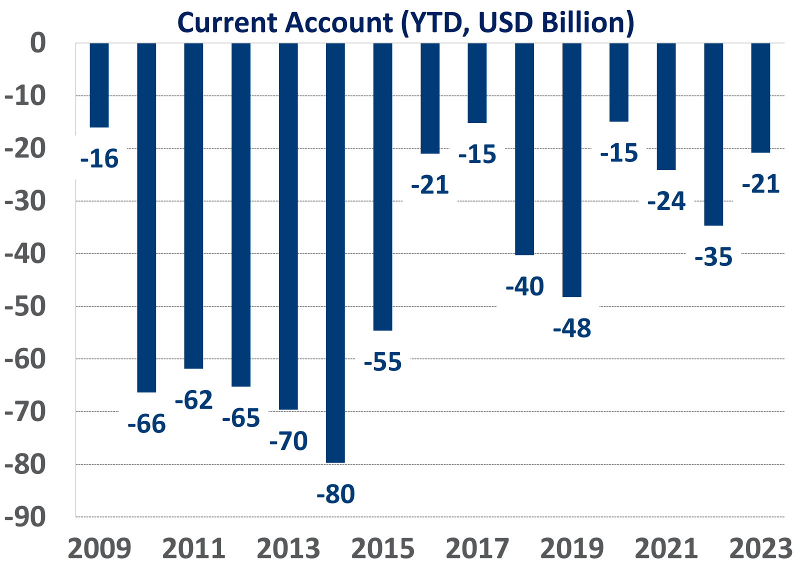
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The Brazilian current account posted a deficit of USD 1.4 billion in September, in line with consensus;
- It came above the deficit of USD 6.9 billion recorded in September 2022;
- The current account balance stood at USD -39.8 billion in the 12-month rolling sum up to September (-1.92% of GDP).





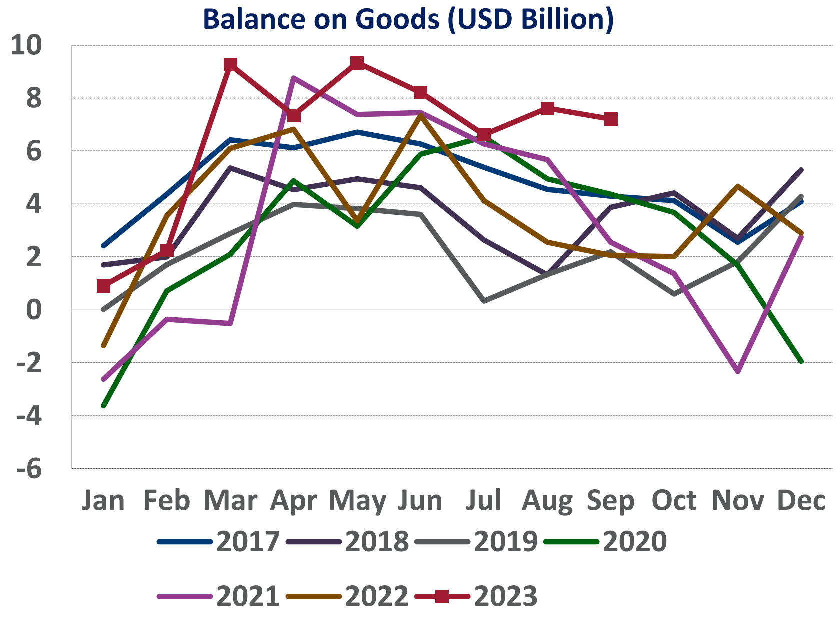


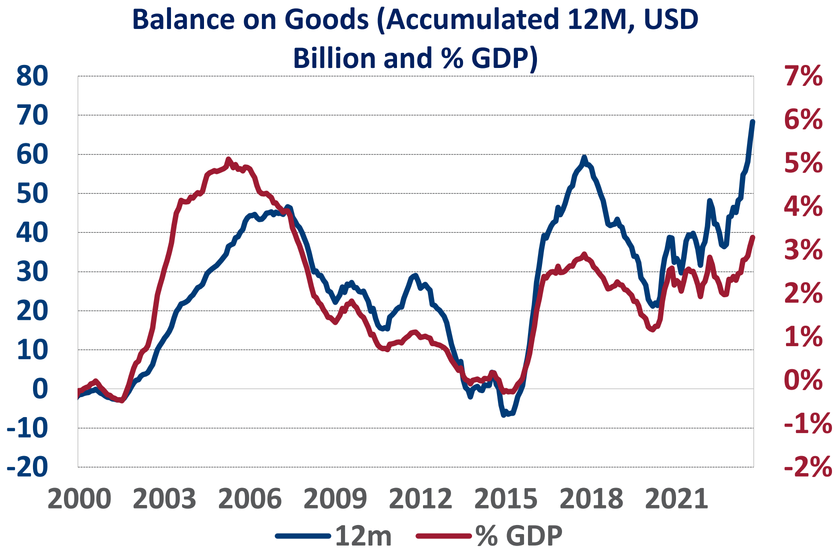
Source: BOCOM BBM, BCB

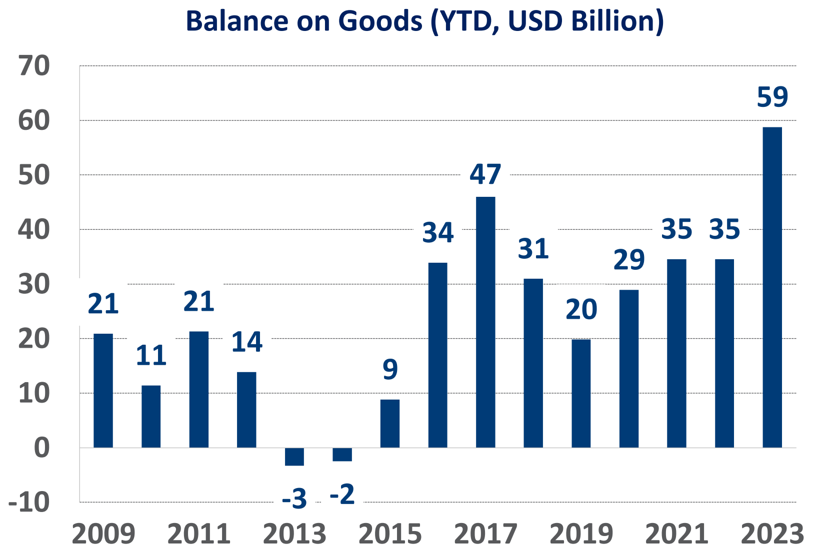
Brazil: Balance of Payments

- The merchandise trade balance posted a surplus of USD 7.2 billion in September, considerably above the USD 2.1 billion recorded for the same month of 2022;

- The trade balance reached USD 68.3 billion in the 12-month rolling sum up to September;





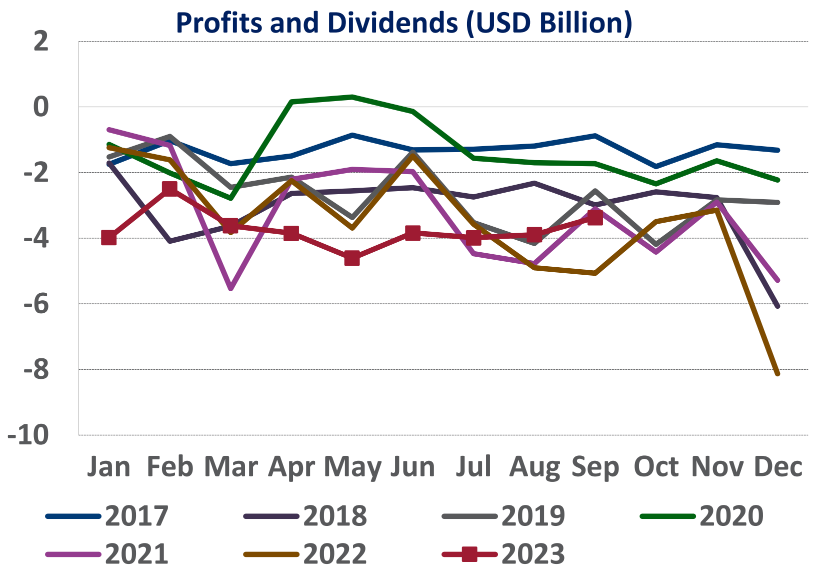


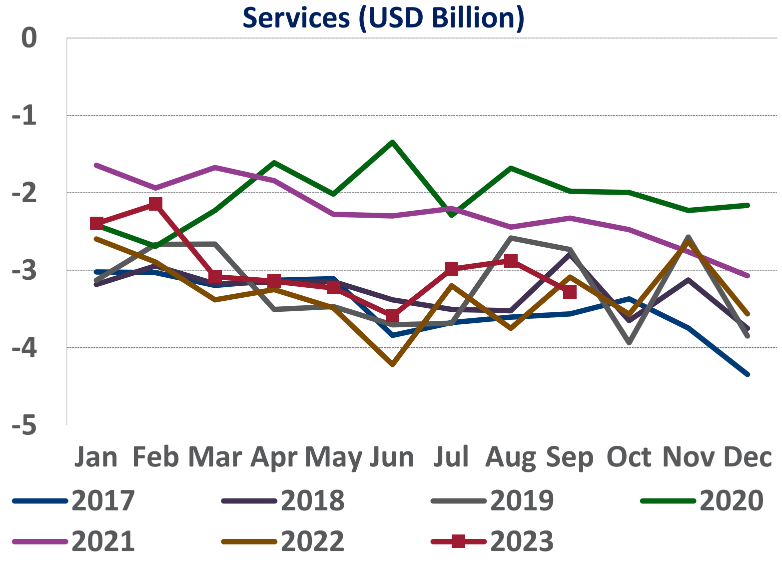
Source: BOCOM BBM, BCB

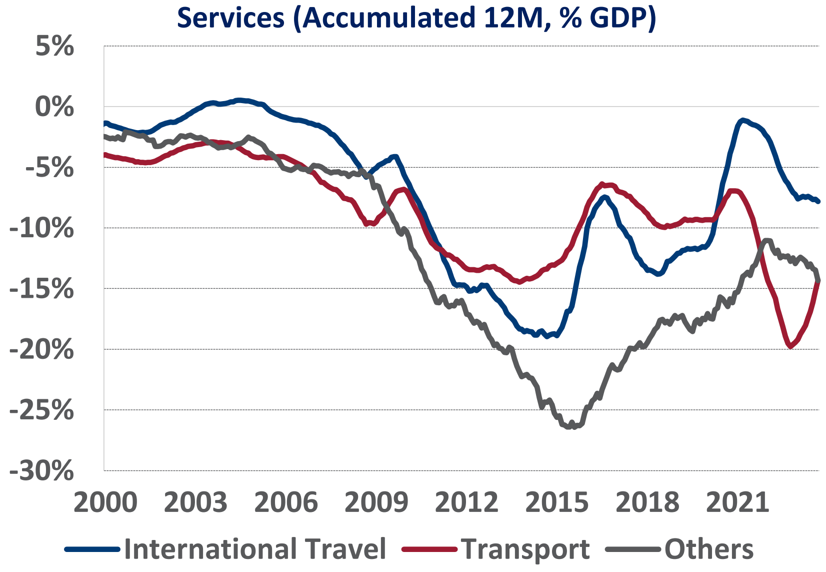
Brazil: Balance of Payments

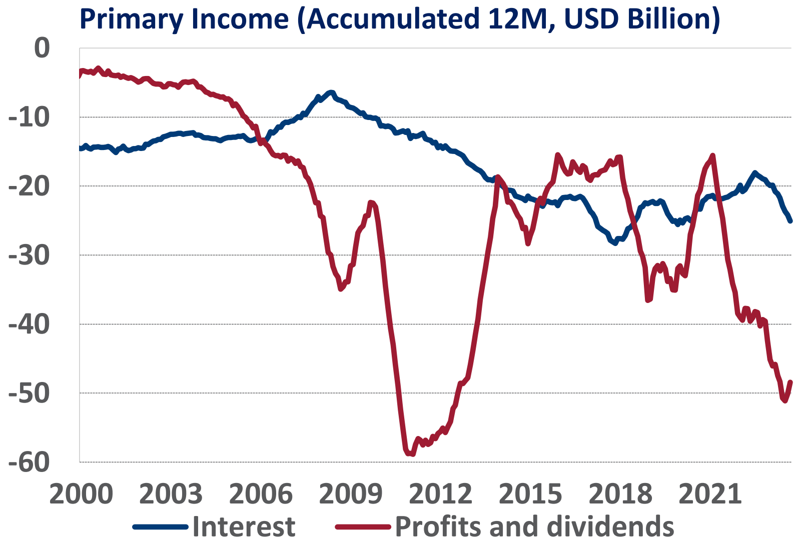
- The deficit in the Primary Income account narrowed to USD 5.5 billion in September 2023 from USD 6.3 billion in September 2022, in face of lower net expenditures on profits and dividends;

- In turn, the deficit in the Services reached USD 3.3 billion, since higher net expenses on international travel and equipment rental more than offset lower expenses on freight.





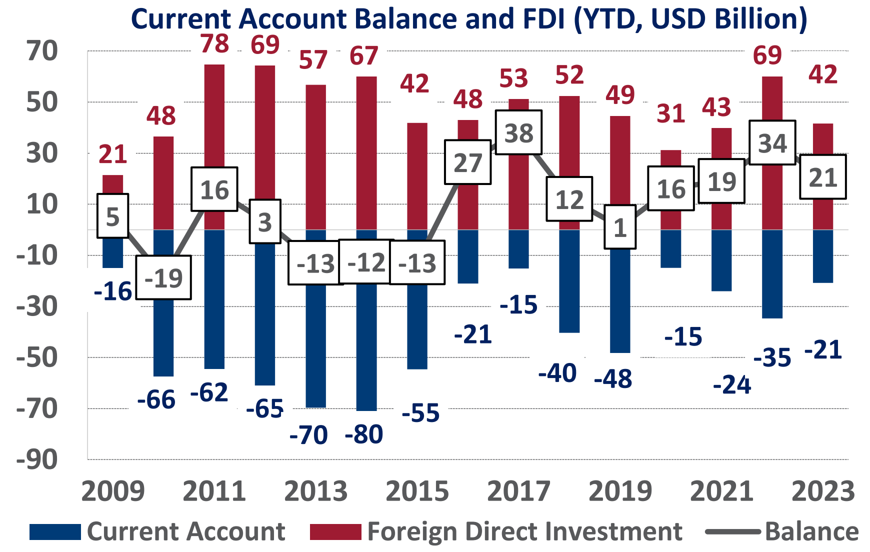


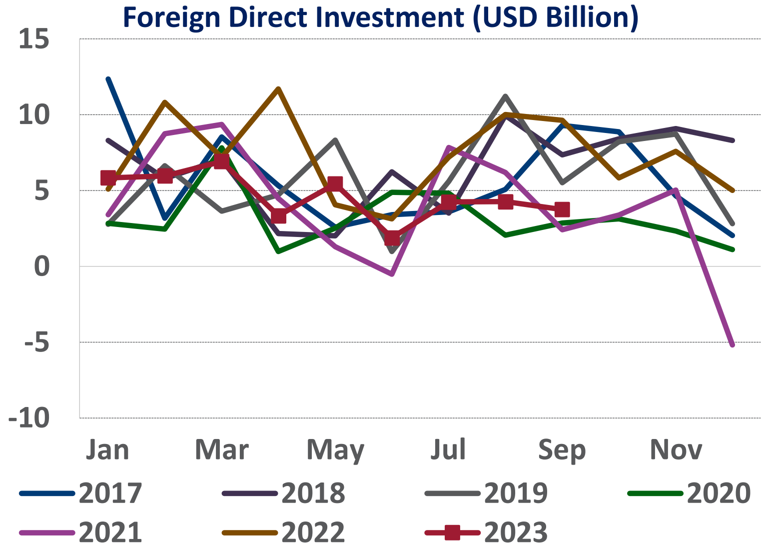


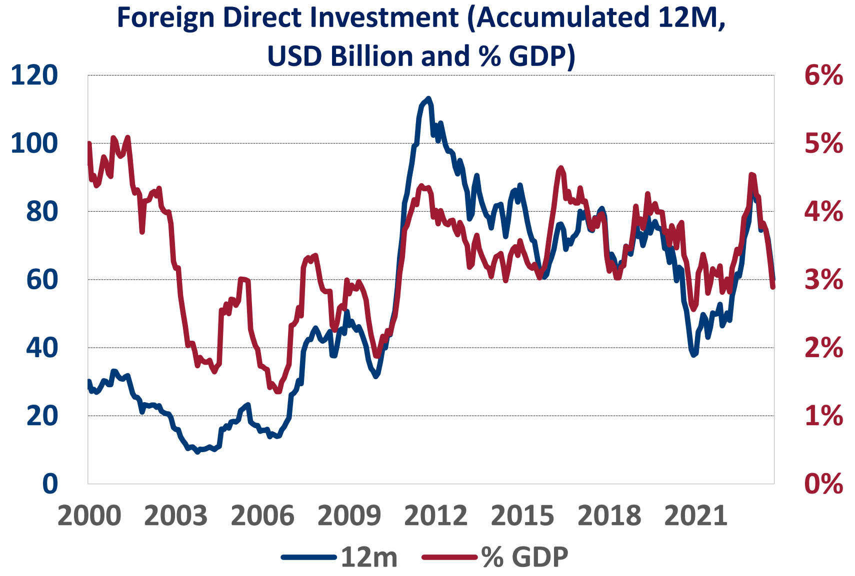
Source: BOCOM BBM, BCB

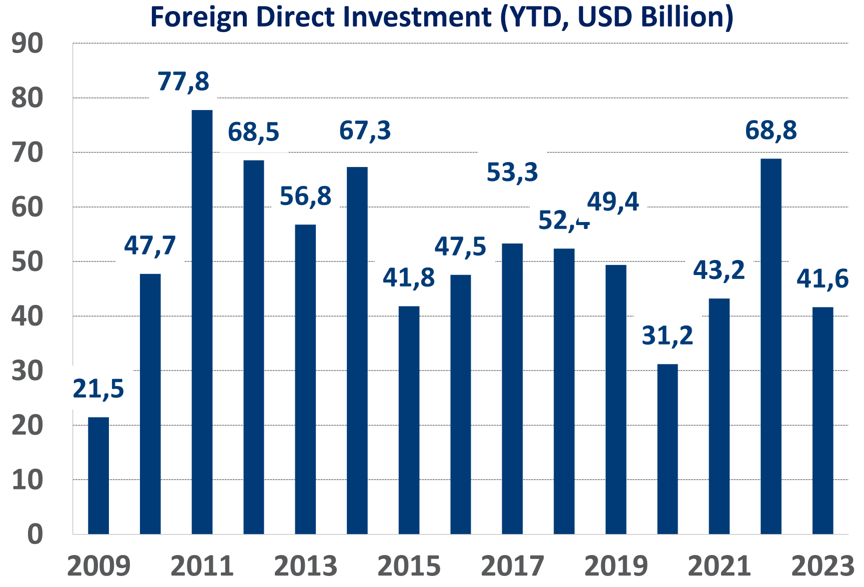
Brazil: Balance of Payments

- Inflows in FDI (Foreign Direct Investment) once again came below expectations, amounting to USD 3.8 billion in September. One year ago, a strong result of USD 9.6 billion was recorded;
- The FDI totaled USD 60 billion based on the 12-month rolling sum up to September (2.89% of GDP), down from USD 65.9 billion up to August (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.





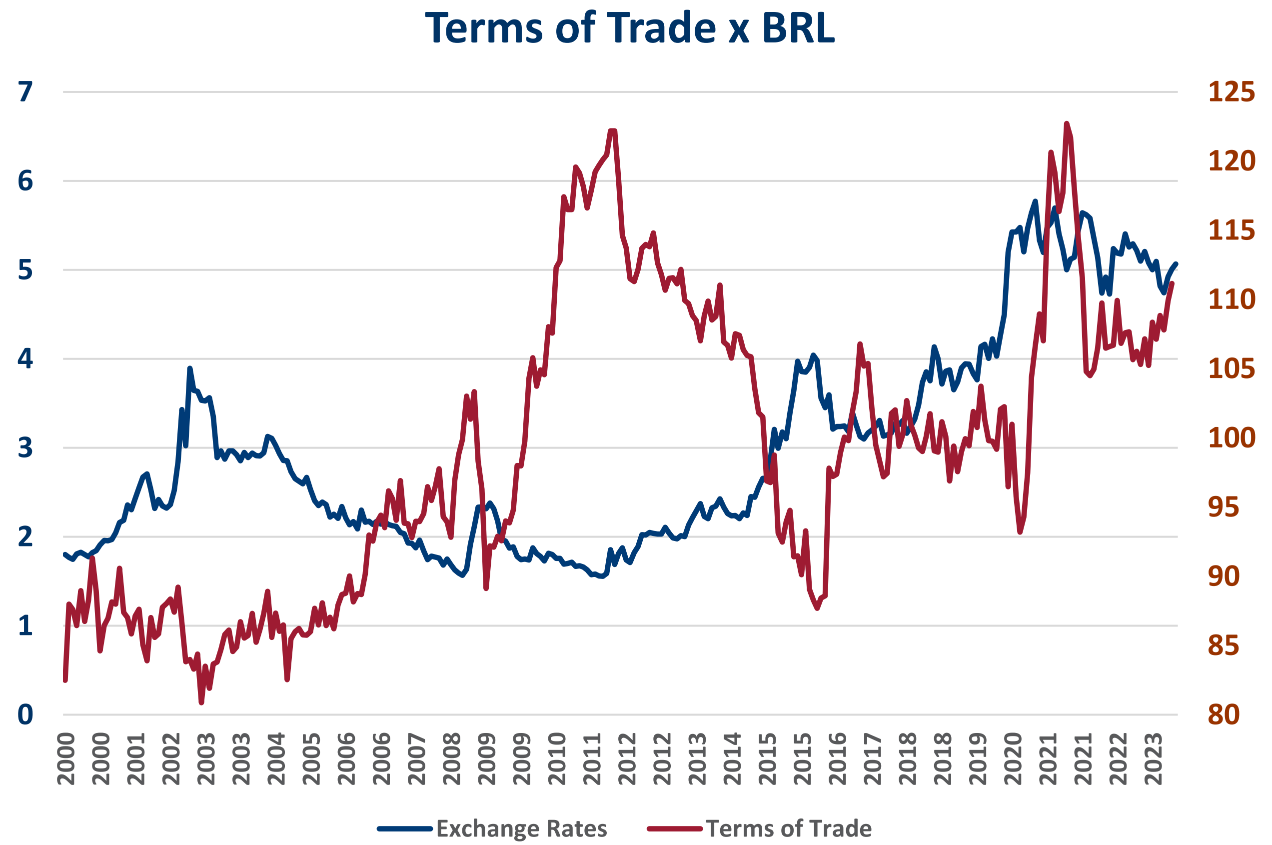


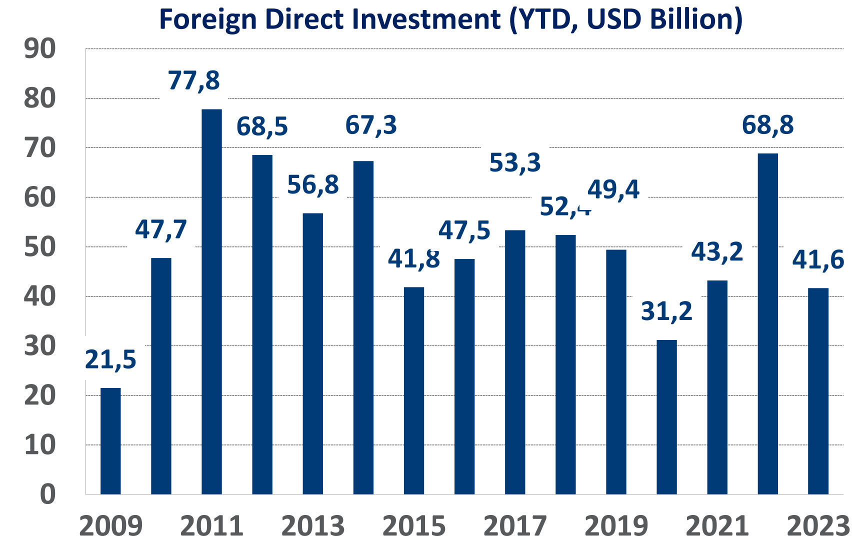


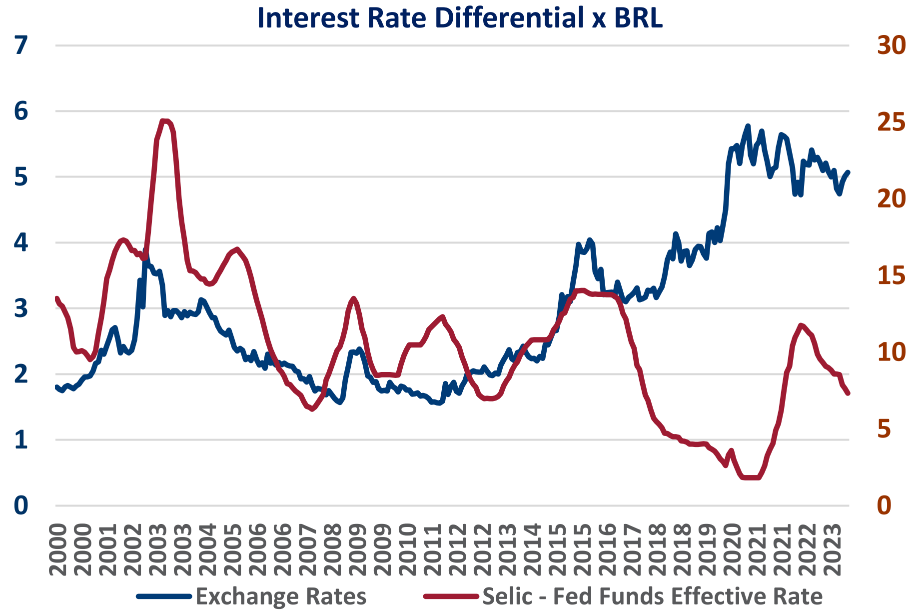
Source: BOCOM BBM, BCB

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, have been pressuring the Brazilian currency.



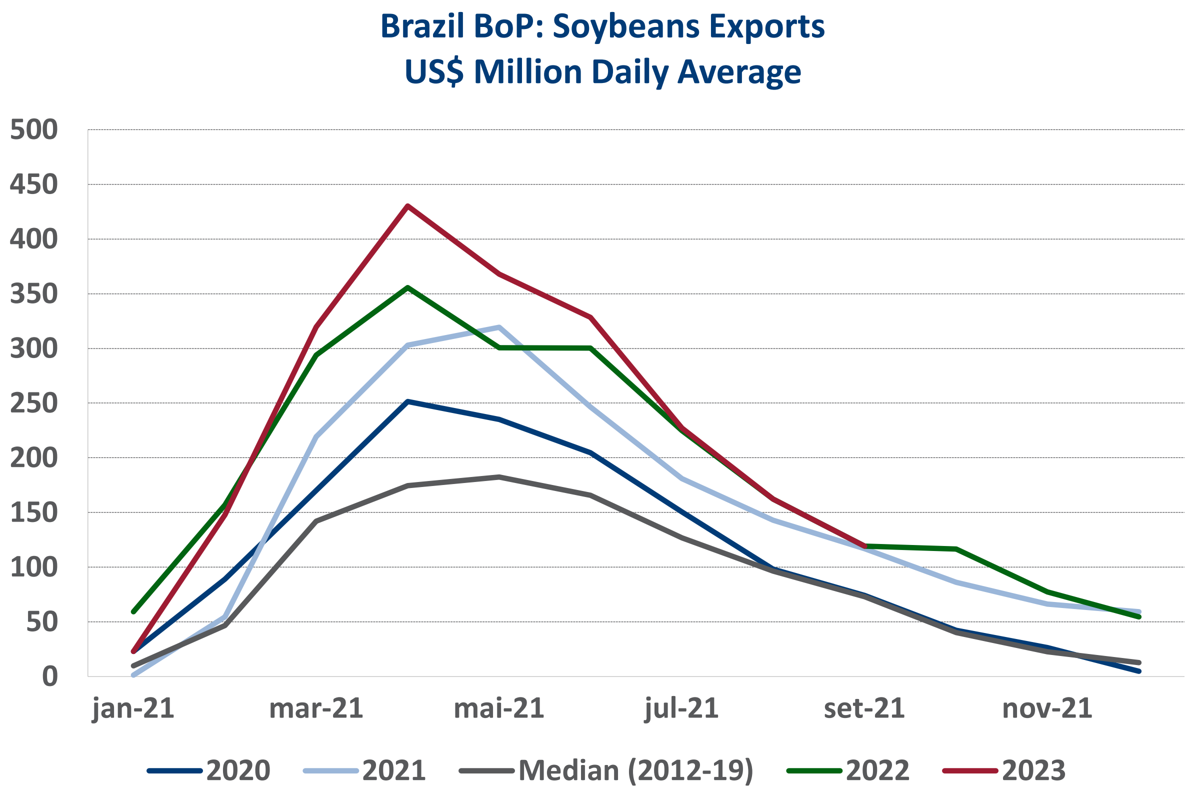


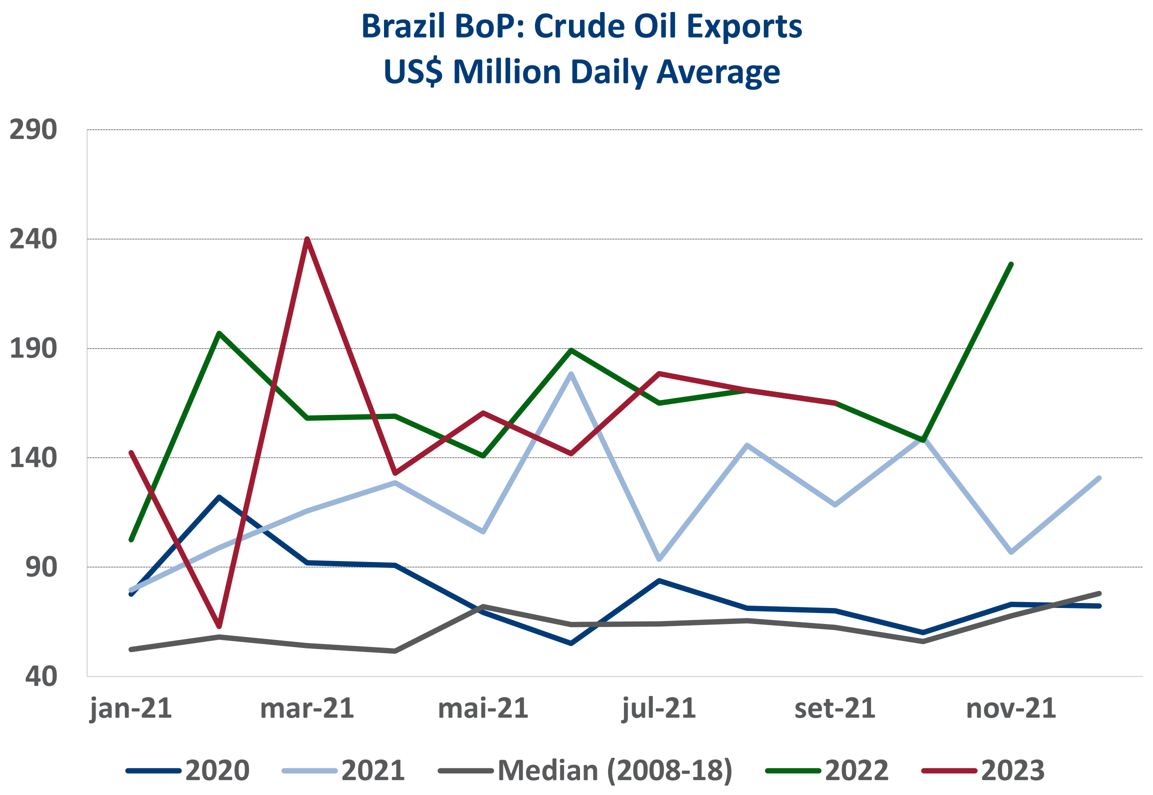


Source: BOCOM BBM, Bloomberg, Funcex, BCB

Brazil: External Sector

- In September, the trade balance presented a surplus of US$ 8.9 billion (153.1% YoY), a record for the month in the historical series;
- YTD through September, the trade surplus reached US$ 71 bn, already surpassing last year's record surplus (US$62bn).





Source: Secex, BOCOMBBM

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