交通銀行 BANK OF COMMUNICATIONS BBM

MACRO OUTLOOK

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Macro Outlook

交通銀行 BANK OF COMMUNICATIONS BBM

- 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, and recent data showed a better composition. Altogether this should require monetary policy to remain restrictive for a long period of time, consistent with the “higher for longer” message. However, implied policy rate priced in by markets suggests cuts could begin as early as 2024 Q2. This view diverges from the latest Fed dots, which implied only one cut next year, likely in Q4.

- As for China, the first set of data for Q4 surprised to the upside on a yearly basis, but slowed a bit on a 2-year annualized perspective that adjusts for the volatile base effects from last year. Nonetheless, economic activity composition remained heterogenous with sectors related to real estate still struggling, while components related to green energy and renewables continue to thrive amid policy support for high quality development.

- In Brazil, monthly economic activity data continued to show a decelerating trend. In September, the services sector recorded a contraction of 0.3% MoM, while the retail sector and industrial production increased by 0.2% MoM and 0.1% MoM, respectively. The monthly proxy for Brazil's GDP (IBC-Br) brought a negative outlook for 3Q23, showing a drop of 0.1% MoM. However, Q3 GDP grew 0.1% QoQ (2.0% YoY), above market expectations of -0.3% QoQ (1.8% YoY). Furthermore, the revision of the annual GDP series brought relevant changes to the quarterly series from 2021 onwards, increasing GDP growth in the first half of 2023. The positive surprise in the third quarter, along with the positive revision in the first half of 2023, should lead to positive updates to market forecasts for GDP this year. Our projection was revised from 2.8% to 2.9%;

- Regarding monetary policy, the Central Bank of Brazil cut the Selic rate by 50 bps at its November meeting, reaching 12.25% per year. Most of the statement remained unchanged, including guidance for cuts of the same magnitude at future meetings, but inflation forecasts rose. According to recent speeches by COPOM members, the committee should maintain the rate of cuts at 50 bps in the next meetings, in line with our baseline scenario;

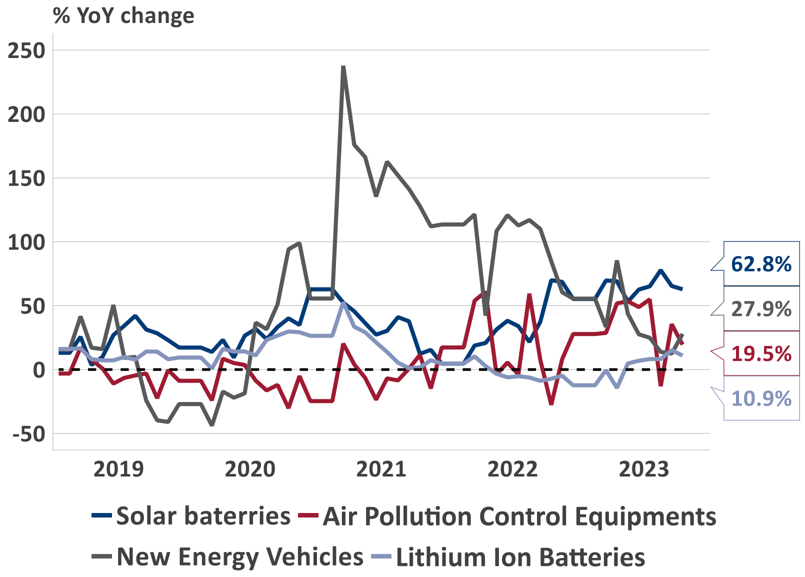
- In the inflation scenario, we keep our forecast for 2023 at 4.4%. For 2024 we increased our forecast from 3.8% to 4.0%, in face of risks regarding climate concerns that should impact food at home inflation and tax increases that might pressure consumer prices next year. For 2025, we forecast 4% due to risks in the horizon such as new flexibilizations in the fiscal framework, changes in Copom board, and the new mininum wage adjustment rule (INPC accumulated in 12 months until November + variation in economic growth from two years ago -> 7.7% in 2024)

- In the fiscal scenario, the federal tax collection advanced only 0.1% YoY in real terms in October. October’s outcome was mainly driven by PIS/Cofins, which rose by 8.2% YoY in real terms, on the back of the reversal of tax cuts on gasoline and ethanol. On the negative side, we highlight the interannual falls in Corporate income taxes (-7.1% YoY), Import tax (15.5%) and Industrialized Products Tax (9.4%). Overall, tax revenues remains decelerating due to the cool down in domestic activity expected for the second semester of 2023.

China: Activity

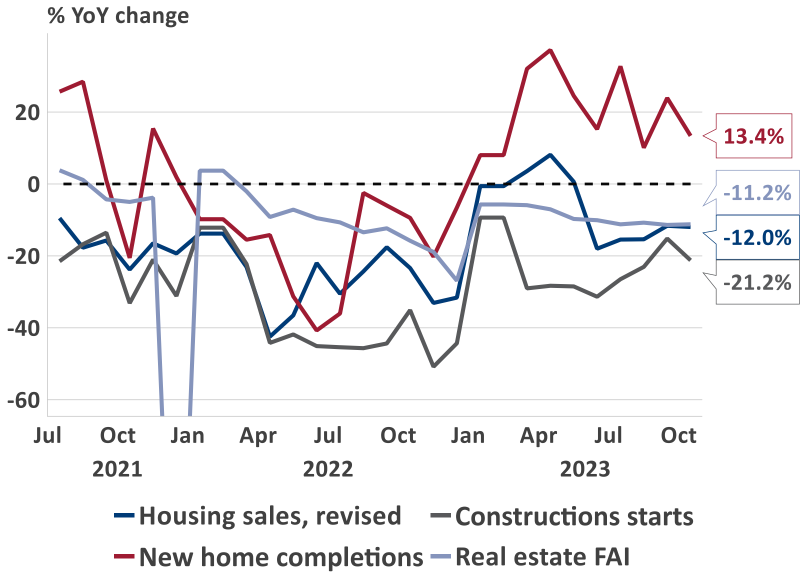
- October economic activity surprised to the upside, but largely due to a low base from last year:
- **Retail sales increased** from 5.5% to **7.6%** YoY (exp. 7%), with strength mainly driven by covid-sensitive segments on a low base, such as restaurants (17.1% YoY), and goods retail (6.5% YoY): strong automobile (11.4% YoY) and electronic product sales on continued policy support;
- **Industrial prod. rose** from 4.5% to **4.6%** YoY (exp 4.5%), reflecting a divergence between sectors related to renawables, which are thriving, and sectors related to real estate, such as cement production (-4% YoY) and plain glass (-1% YoY) which are falling on a yearly basis.
- **FAI** fell from 3.1% to **2.9% YTD** (exp. 3.1%), reflecting the growth in manufacturing and infrastructure investment being offset by slower property;
- The **housing market** is still in rough shape and property indicators slowed a bit in October, although they're still somewhat better off than what it was in Q2. This suggests that easing policies in the sector may have not created a any boom, but at least were able to prevent a bigger downturn.

China: Renewables Related Products Output Growth



Source: BOCOM BBM, Macrobond, NBS

China: Property Indicators (YoY)



Source: BOCOM BBM, NBS, Macrobond

China: Activity (% YoY)

	10/2023	9/2023	10/2022
Industrial Production	4.6	4.5	5.0
Mining	2.9	1.5	4.0
Manufacturing	5.1	5.0	5.2
Utilities	1.5	3.5	4.0
Fixed Asset Investment (YTD YoY)	2.9	3.1	5.8
Manufacturing	6.2	6.2	9.7
Real Estate	-9.3	-9.1	-8.8
Infrastructure	5.9	6.2	8.7
Retail Sales	7.6	5.5	-0.5
Catering Services	17.1	13.8	-8.1
Consumer Goods	6.5	4.6	0.5
Clothing	7.5	9.9	-7.5
Automobiles	11.4	2.8	3.9
Furniture	1.7	0.5	-6.6
Cellphones	14.6	0.4	-8.9
Home Appliances	9.6	-2.3	-14.1
Construction	-4.8	-8.2	-8.7

Source: BOCOM BBM, Macrobond

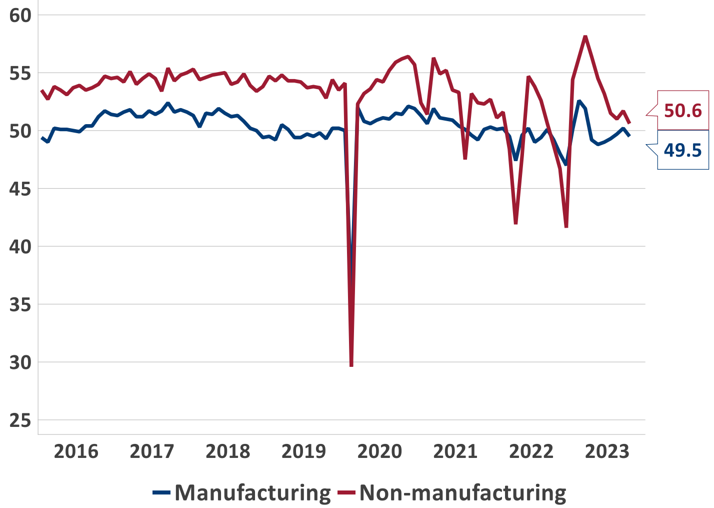
China: Economic Scenario

- In November, China's **PMI** edged down slightly, with the the manufacturing sector remaining in contraction, while the non-manufacturing slowed its pace of expansion;
  - The NBS manufacturing PMI fell from 49.5 to **49.4** (exp. 49.7) due to external demand cooling up, decreasing the new export orders category;
  - The non-manufacturing sector continued expansionary, but fell from 50.6 to **50.2** as the services sector slowed but construction surprisingly picked up amid policy support;

- **Exports surprised to the downside** by contracting more than expected and moving from -6.2% to **-6.4% YoY** (exp. -3.5%). In volume terms, exports were up 7.4% YoY, suggesting the decline in value was entirely attributable to lower prices;
- **Imports largely improved and beat expectations**, going from -6.2% to **+3.0% YoY** (exp. -5.0%), with solid growth in real terms and recently with the drag from negative price effect narrowing on most commodities as their import prices YoY contraction is softening;

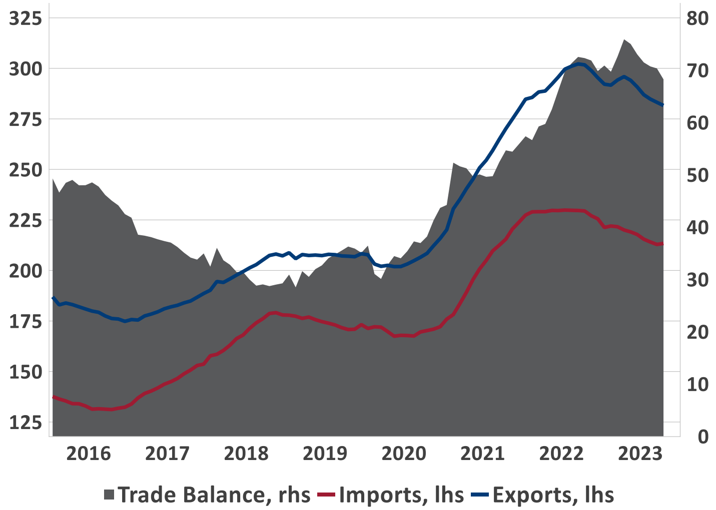
- **CPI** inflation fell by **-0.1%** MoM and from 0% to **-0.2%** YoY (exp. -0.1%), as food deflation widened due to a high base, partially offset by higher domestic energy prices;
  - Goods YoY deflation widened, while services inflation was stable, continuing to reflect how the services sector has 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



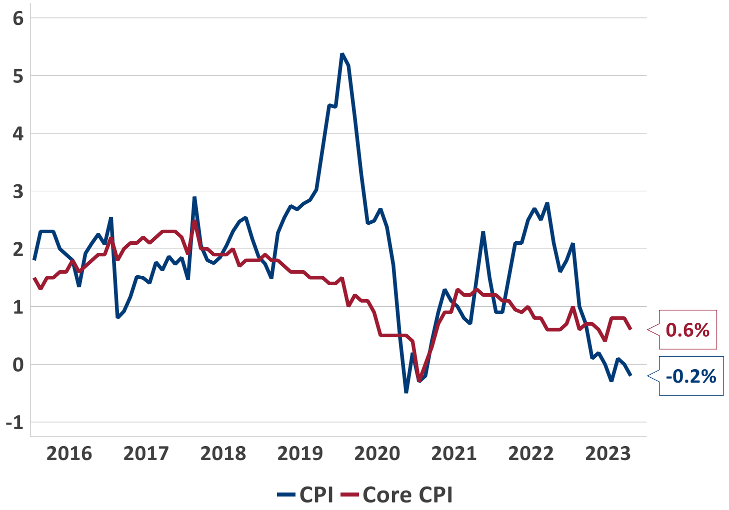
Source: BOCOM BBM, Macrobond, CFLP

China: Trade Balance (USD billion, 12MMA)



Source: BOCOM BBM, Macrobond, CCS

China: CPI (YoY, %)

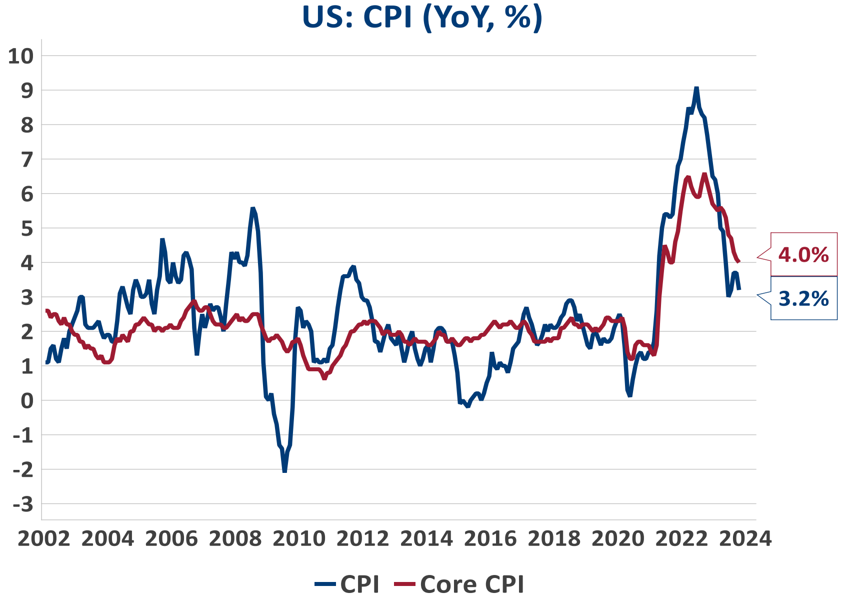


Source: BOCOM BBM, Macrobond, NBS

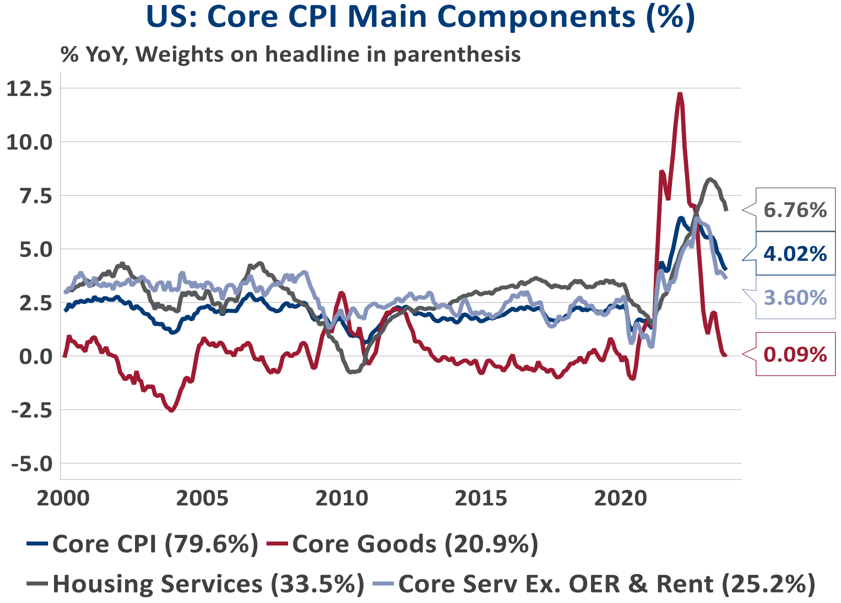
USA: Inflation

- The October CPI in the USA was unchanged, below expectations (**0.05% MoM** vs. exp. 0.1%), causing the annual rate to fall (3.7% to **3.24% YoY**):
  - **Energy:** decreased 2,5% (last data was 1.5% MoM), following the decline in motor fuel prices declined (-4.9%);
  - **Food:** accelerated to 0,3% MoM, still a moderate pace and below that observed at the end of 2022 and beginning of 2023.

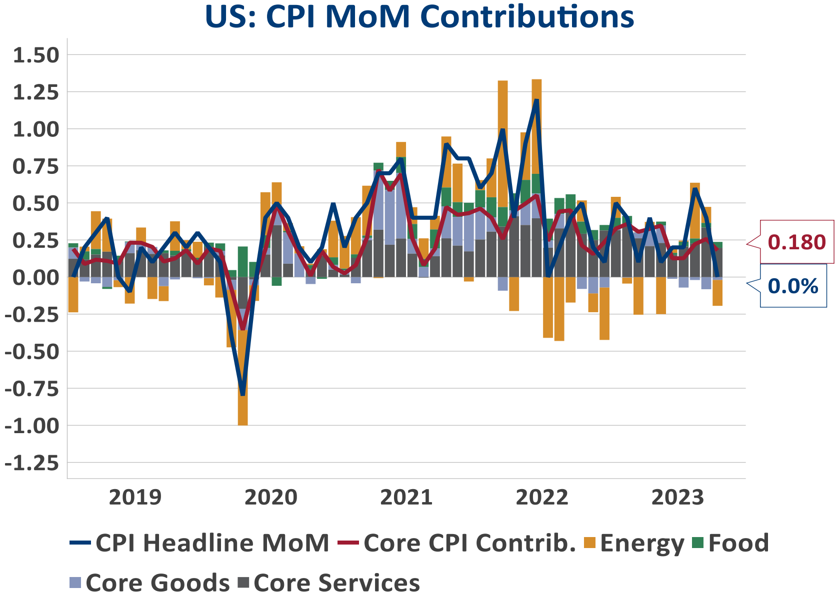
- **Core CPI** was also below expectations (**0.23% MoM** vs exp. 0.30), making the annual rate fall to **4.03% YoY** (from 4.15%):
  - **Core goods**: remained unchanged; showing a benign composition and a sharp drop in used vehicle prices
  - **Housing services**: slowed down to 0.41% MoM after the jump in September (0.56% MoM), and continues to moderate compared to the beginning of the year;
  - **Core Serv. Ex-Housing**: slowed significantly to 0.22% MoM (compared to 0.61% in Sep.), due to the drop in prices for services related to travel, such as accommodation and airline tickets



Source: BOCOM BBM, Macrobond, BLS



Source: BOCOM BBM, Macrobond, BLS



Source: BOCOM BBM, Macrobond, BLS

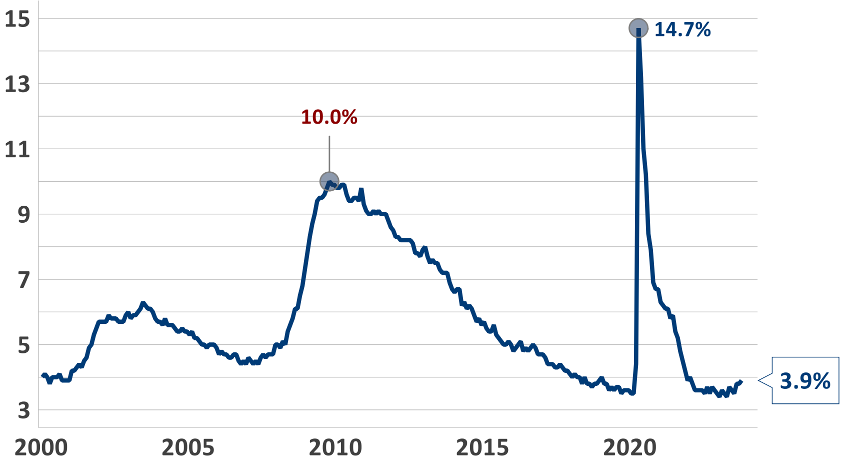
USA: Labor Market

- 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**;

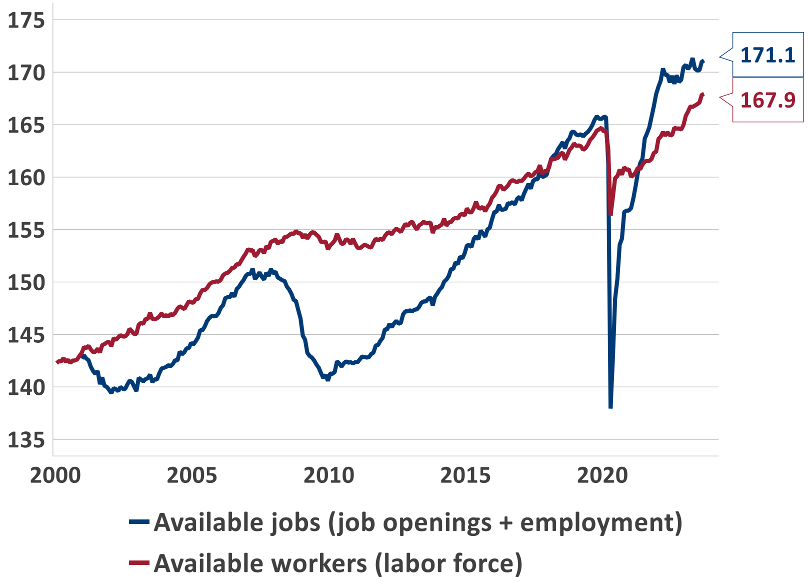
- October average hourly earnings showed slower monthly growth when compared with the rapid pace they posted in prior months, making the annual rate fall from 4.3% to **4.1%** YoY;
  - This is important due to the positive correlation between wage inflation and inflation in core services ex. housing,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

US: Unemployment Rate SA (%)



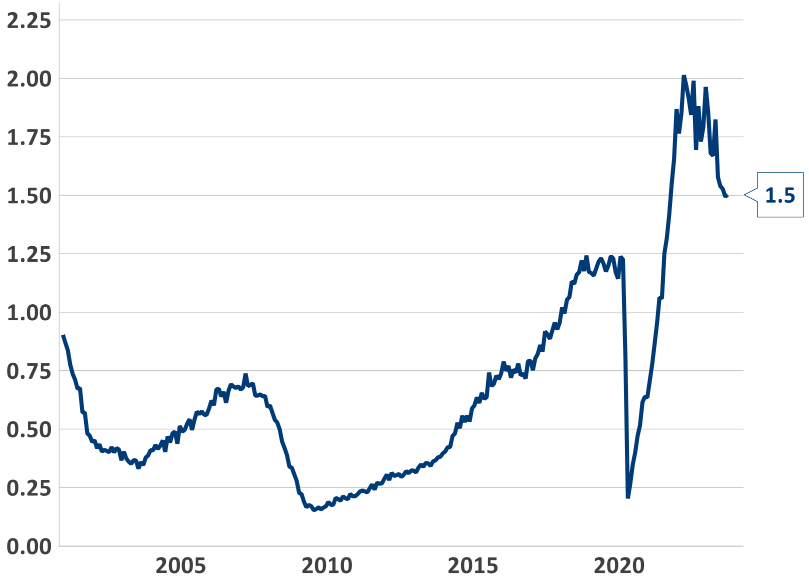
Source: BOCOM BBM. Macrobond. BLS

US: Jobs-workers gap (millions)



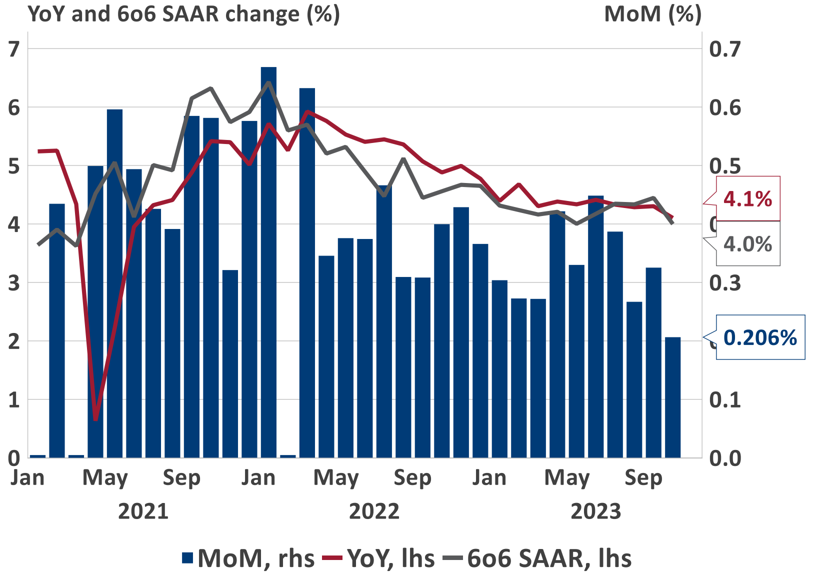
Source: BOCOM BBM, Macrobond, BLS

US: Job Openings/Unemployed Ratio



Source: BOCOM BBM, Macrobond

US: Average Hourly Earnings Growth (%)



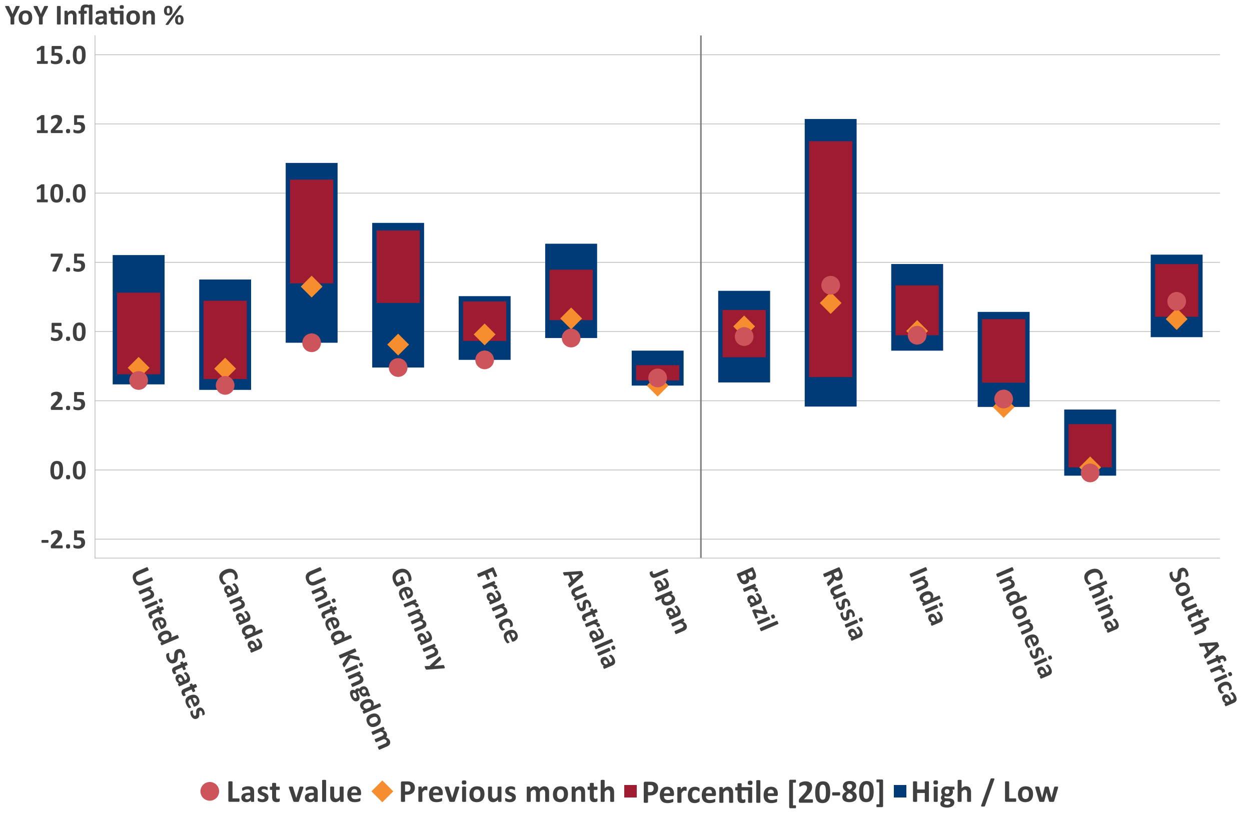
Source: BOCOM BBM, Macrobond

Global: Inflation & Activity

» Progress in inflation numbers are being seen across emerging and developed markets;

» 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.

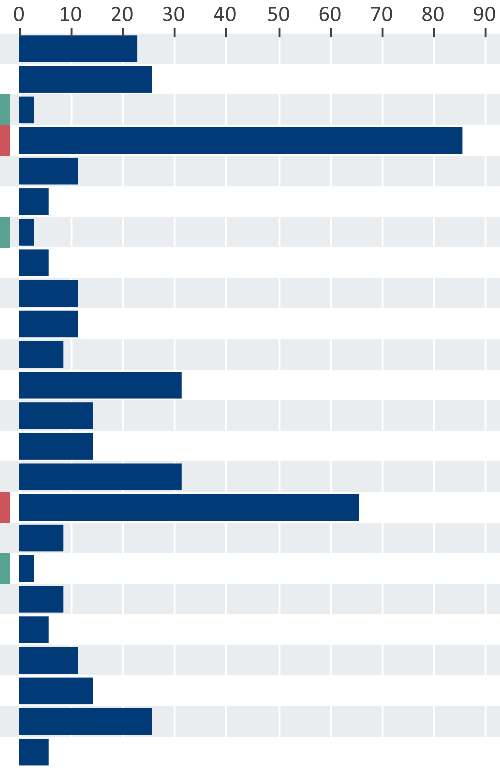
Inflation range during the past 12 months



Source: BOCOM BBM, Macrobond

Recession Tracker

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



	Share (%)	#
2023	22.9	8
2022	25.7	9
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

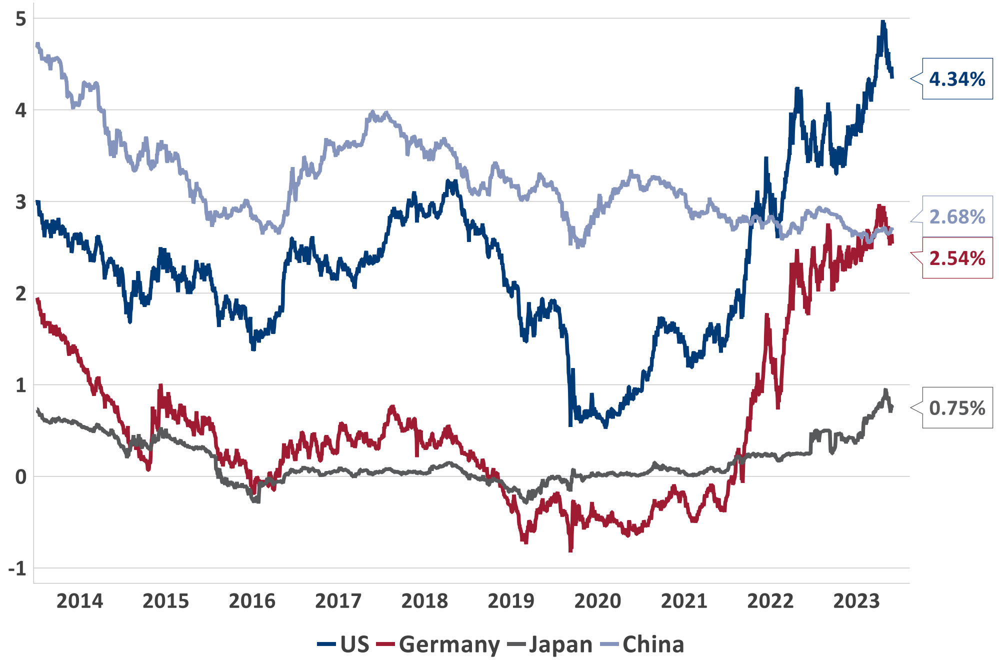
Global: Interest Rates

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

- Recent improvements in inflation and a slower, but still resilient, economic activity prompted some FOMC members to tone down their hawkish speeches, which in turn reinforced the market view for cuts around 2024 Q2.

- Nonetheless, this view diverges with the latest Fed Dots which implied only one cut in 2024, likely in Q4. Moreover, in a recent speech, Chair Powell tried to brush off rate cuts speculation, reinforcing a careful and 'data-dependent' trajectory for the monetary policy ahead.

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	2	37
Australia	4.35	0.25	Hike	11/2023	1	37
Brazil	12.25	-0.50	Cut	11/2023	16	1
Canada	5.00	0.25	Hike	7/2023	5	44
Chile	9.00	-0.50	Cut	10/2023	14	1
China	3.45	-0.10	Cut	8/2023	118	3
Colombia	13.25	0.25	Hike	5/2023	7	38
Costa Rica	6.25	-0.25	Cut	10/2023	13	1
Czech Republic	7.00	1.25	Hike	6/2022	17	43
Denmark	3.75	0.25	Hike	9/2023	3	26
Euro Area	4.50	0.25	Hike	9/2023	2	93
Hungary	11.50	-0.75	Cut	11/2023	14	0
Iceland	9.25	0.50	Hike	8/2023	3	36
India	6.50	0.25	Hike	2/2023	10	42
Indonesia	6.00	0.25	Hike	10/2023	1	33
Israel	4.75	0.25	Hike	5/2023	6	44
Japan	-0.10	-0.20	Cut	1/2016	201	94
Mexico	11.25	0.25	Hike	3/2023	8	34
New Zealand	5.50	0.25	Hike	5/2023	6	45
Norway	4.25	0.25	Hike	9/2023	2	43
Poland	5.75	-0.25	Cut	10/2023	15	2
Russia	15.00	2.00	Hike	10/2023	1	14
Saudi Arabia	6.00	0.25	Hike	7/2023	4	45
South Africa	8.25	0.50	Hike	5/2023	6	40
South Korea	3.50	0.25	Hike	1/2023	11	42
Sweden	4.00	0.25	Hike	9/2023	2	93
Switzerland	1.75	0.25	Hike	6/2023	5	107
Turkey	40.00	5.00	Hike	11/2023	0	9
United Kingdom	5.25	0.25	Hike	8/2023	4	44
United States	5.50	0.25	Hike	7/2023	4	45

Brazil: Forecasts

ECONOMIC FORECASTS	2019	2020	2021	2022	2023F	2024F	2025F
GDP Growth (%)	1.2%	-3.3%	4.8%	3.0%	2.9%	1.3%	2.0%
Inflation (%)	4.3%	4.5%	10.1%	5.8%	4.4%	4.0%	4.0%
Unemployment Rate (eoy ,%)	11.1%	14.2%	11.1%	7.9%	7.8%	8.4%	8.5%
Policy Rate (eoy, %)	4.5%	2.0%	9.3%	13.75%	11.75%	9.50%	8.75%
External Accounts							
Trade Balance MDIC (US$ bn)	35	50	61	62	95	87	78
Trade Balance (US$ bn)	27	32	36	44	77	67	58
Current Account Balance (US$ bn)	-68	-28	-46	-54	-32	-34	-43
Current Account Balance (% of GDP)	-3.6%	-1.9%	-2.8%	-2.8%	-1.5%	-1.5%	-1.8%
Fiscal Policy							
Central Government Primary Balance (% of GDP)	-1.3%	-9.8%	-0.4%	0.5%	-1.2%	-1.0%	-0.9%
Government Gross Debt (% of GDP)	74.3%	86.9%	77.3%	71.7%	74.8%	78.4%	80.1%

Source: BOCOM BBM

Brazil: Activity

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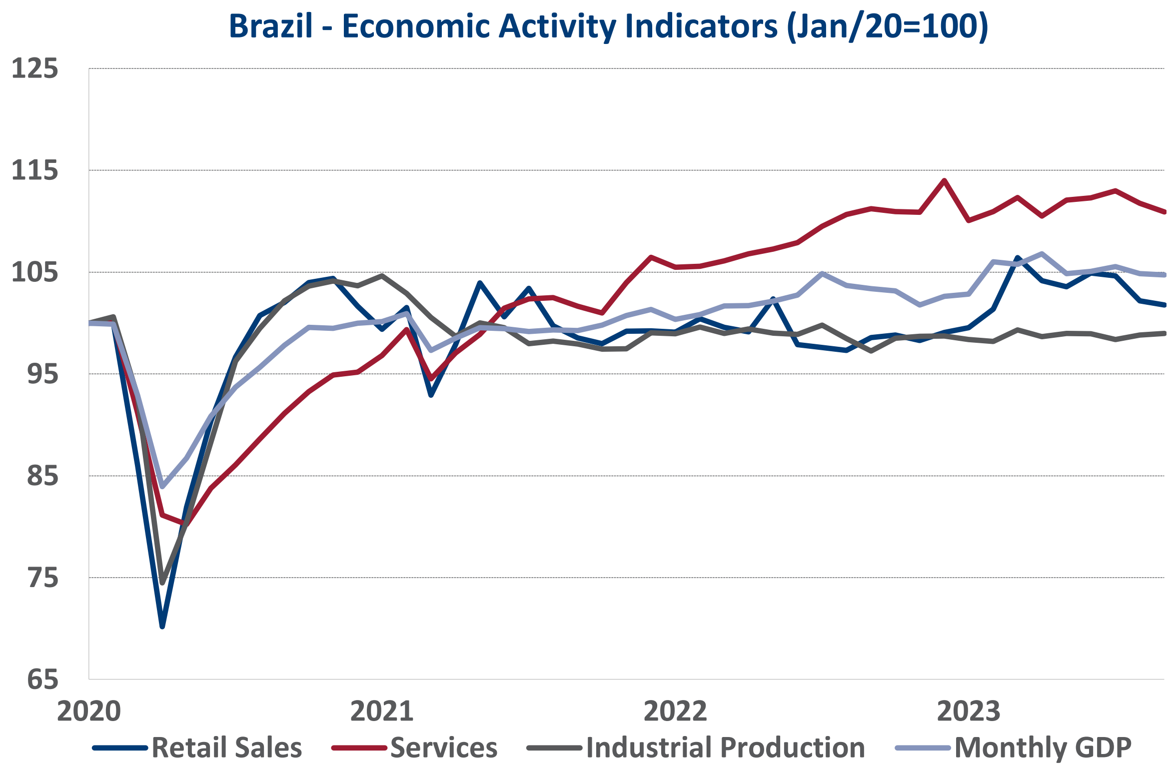
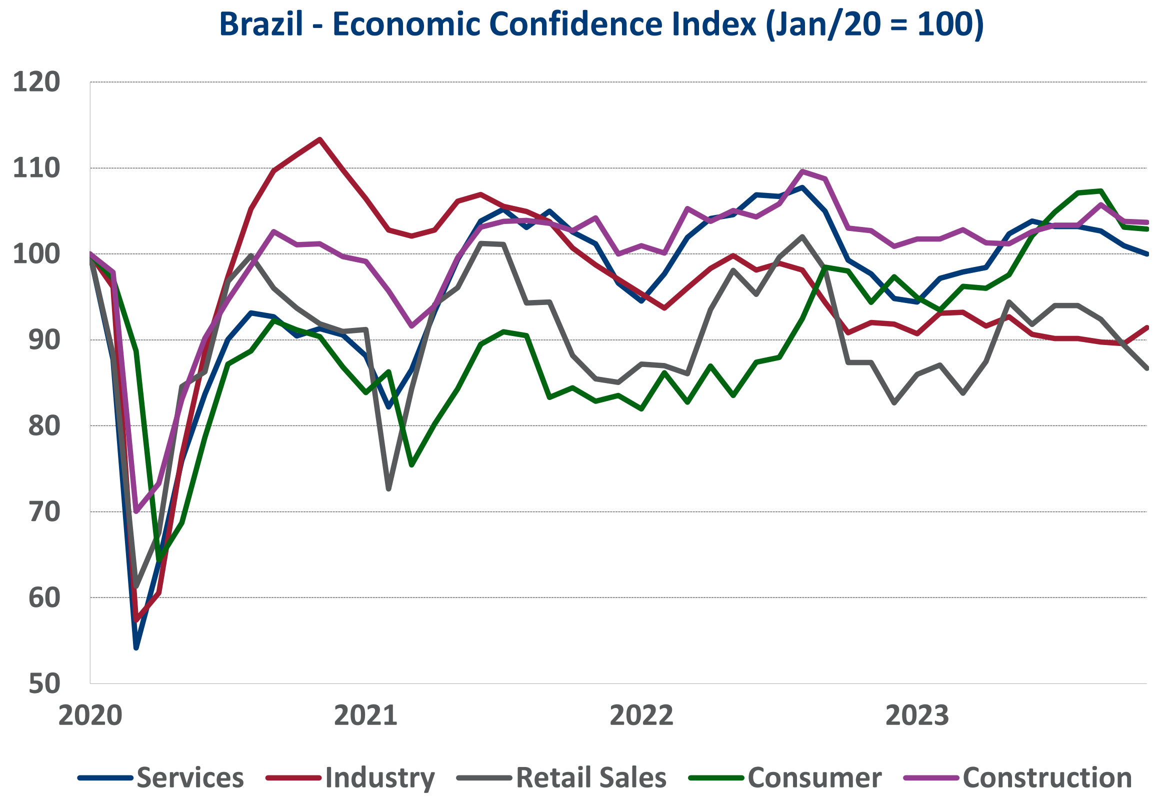
- The main indicators of economic activity posted mixed signs in September. While services contracted 0.3% MoM, retail sales and industrial production increased 0.2% MoM and 0.1% MoM, respectively;
- The monthly proxy for Brazil's GDP (IBC-Br), however, reinforced the negative outlook for 3Q23, showing a 0.1% MoM decrease;
- Looking forward, most confidence indicators continued to show declines in November.

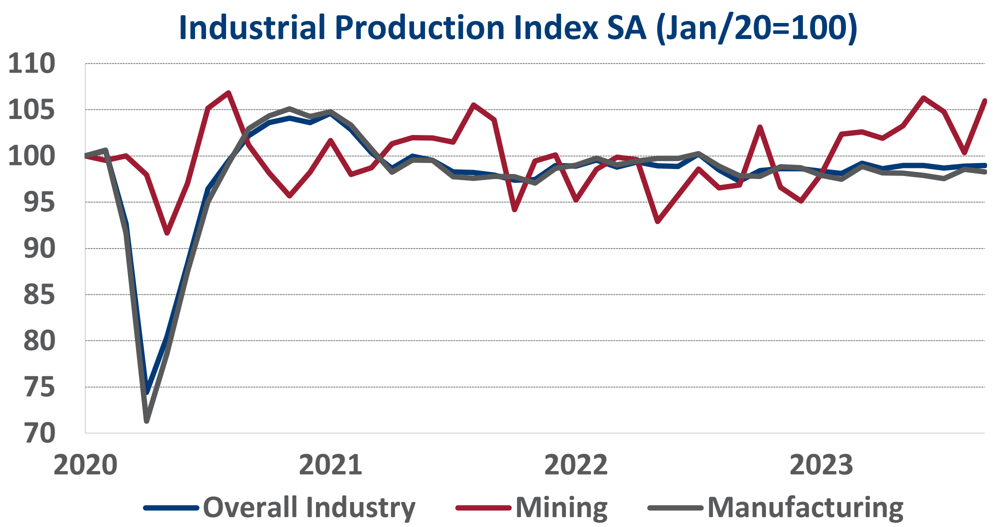


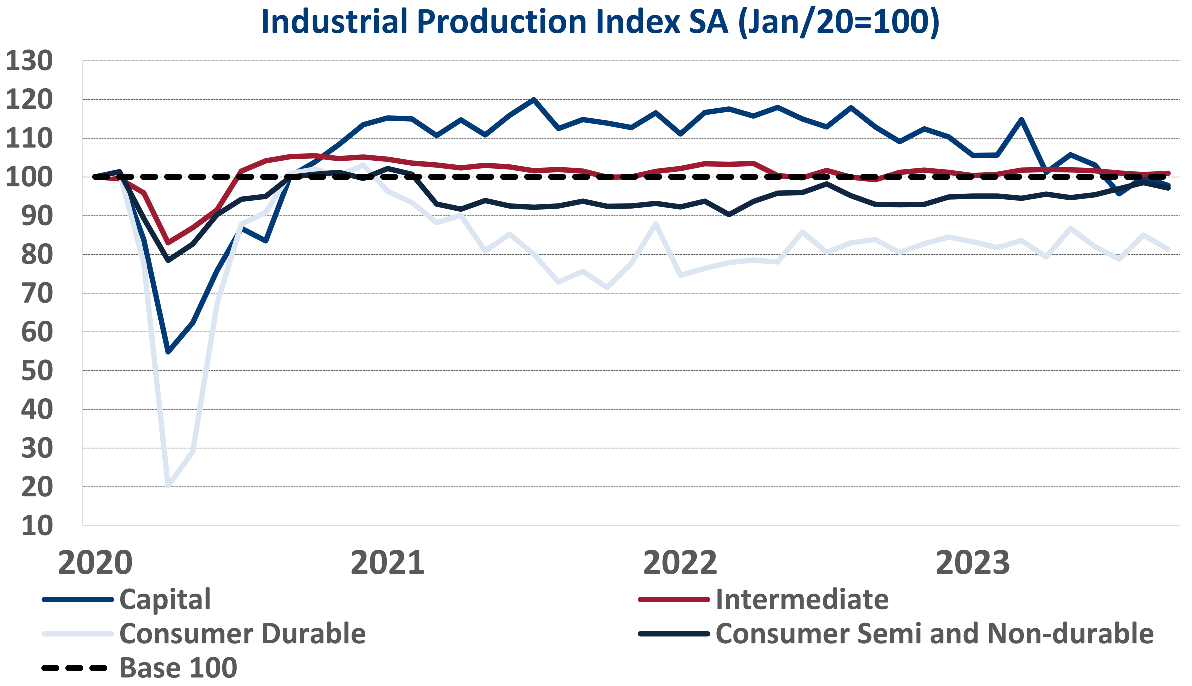


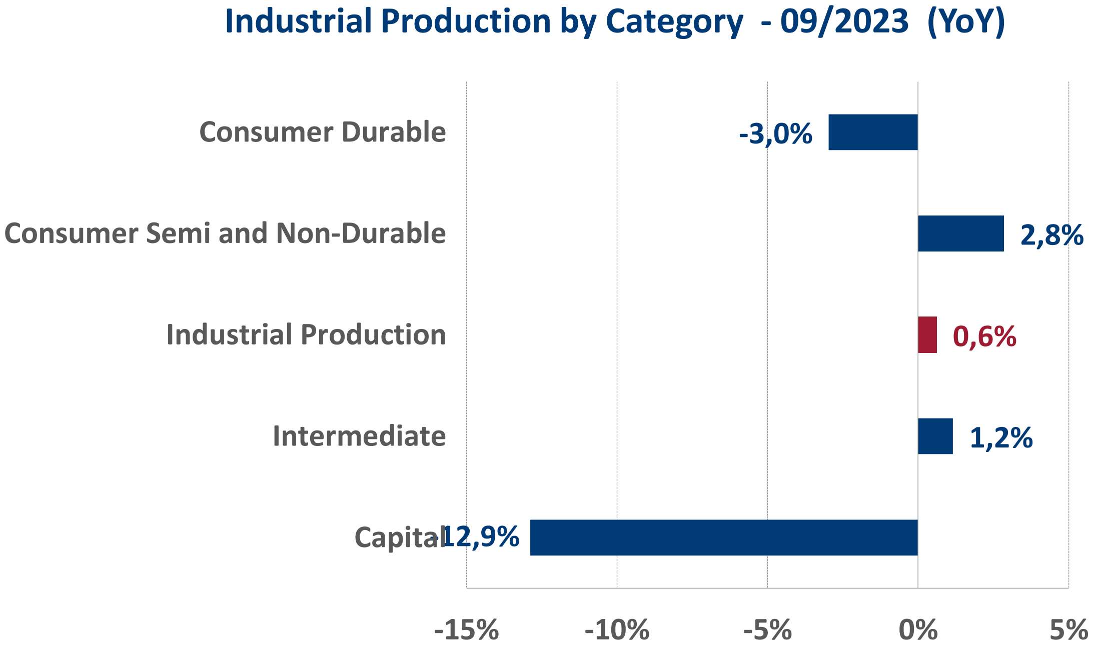
Source: BOCOM BBM, FGV

Brazil: Industrial Production

- Industrial production advanced by 0.1% MoM in September (+0.6% YoY), in line with the consensus. In 3Q23, it remained flat, same as the last six quarters;
- The positive record at the margin was mainly due to the 'Mining Industry' (+5.6% MoM), a sector less sensitive to economic cycles. Manufacturing, on the other hand, decreased 0.3%;
- In the major categories, only 'intermediate goods' increased (+0.3% MoM). The largest drop came from 'durable goods' (-4.3% MoM), followed by 'capital goods' production (-2.2% MoM);
- All in all , the result shows that the sector remains stagnating due to restrictive monetary conditions and high household indebtedness.





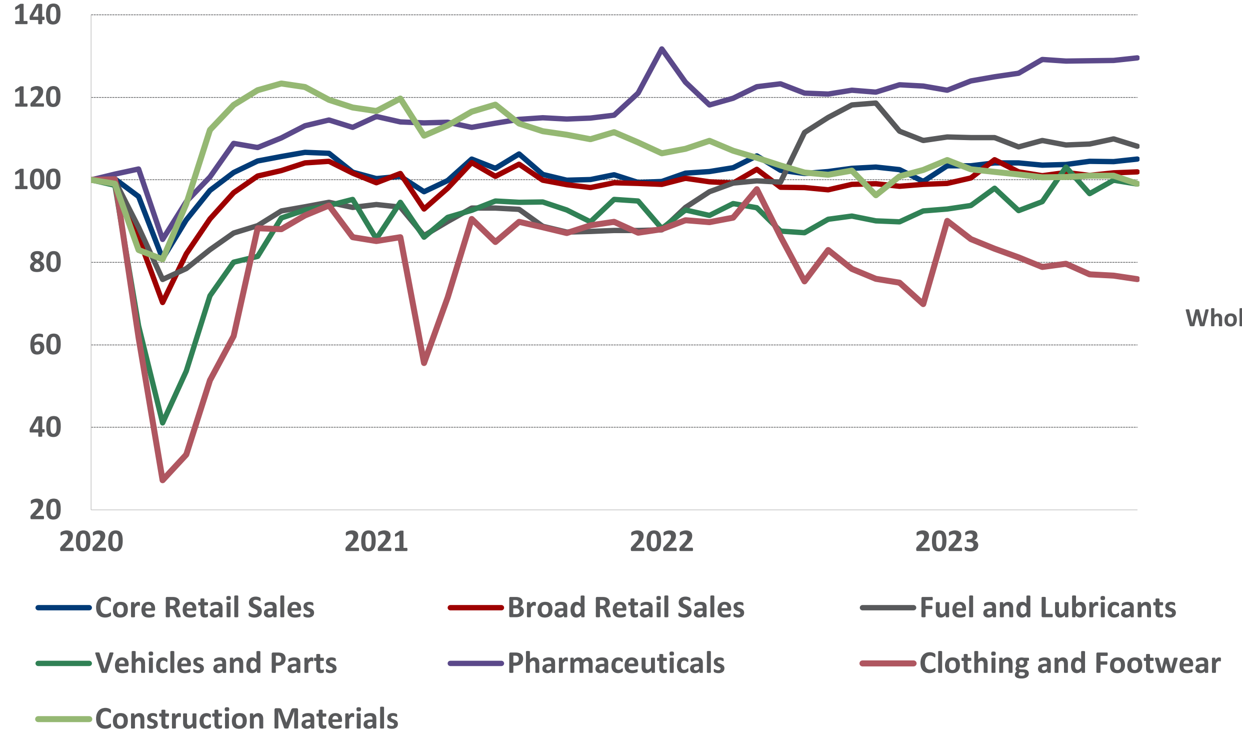


Source: IBGE, BOCOM BBM

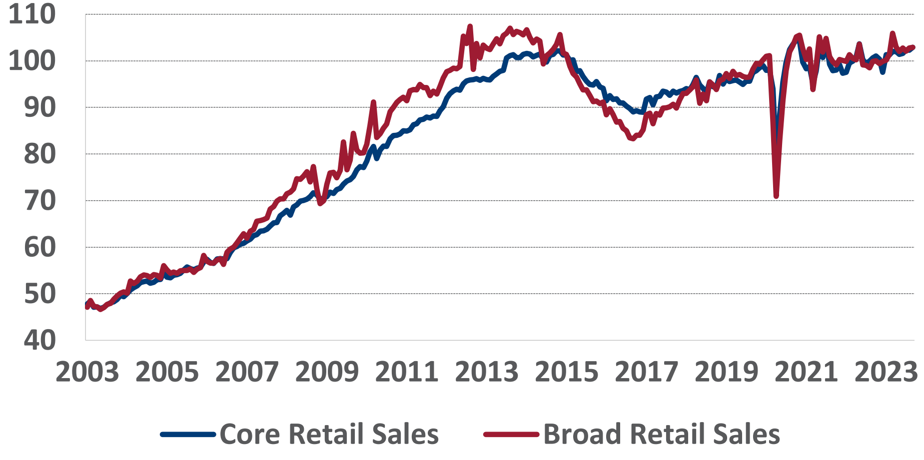
Brazil: Retail Sales

- Broad retail sales increased 0.2% MoM (3.0% YoY) in September, slightly above expectations (Consensus: 0% MoM and 2.7% YoY). The indicator was flat in 3Q;
- There were relevant revisions in 'Wholesale specialized in food, beverage and tobacco products' performance, which made the YTD up to September be revised from 4.1% to 2.4%;
- Core retail sales, in turn, grew 0.7% MoM in September, due to good performances in food-linked sectors.

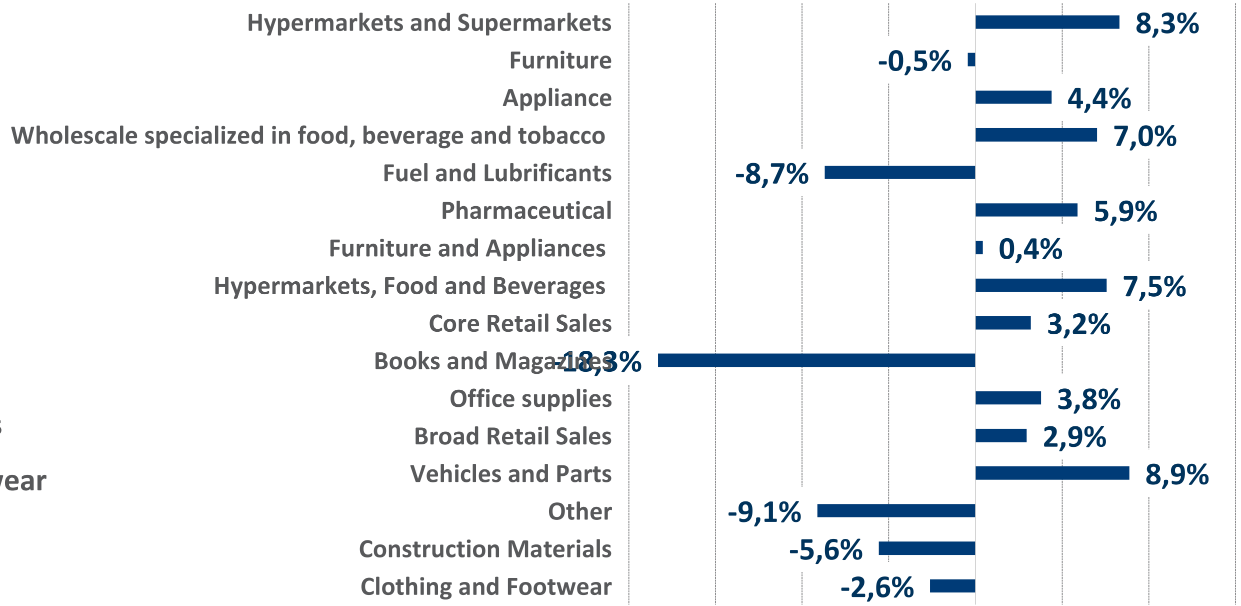
Retail Sales - Index SA (Jan/20 = 100)



Broad Retail Sales SA x Core Retail Sales SA



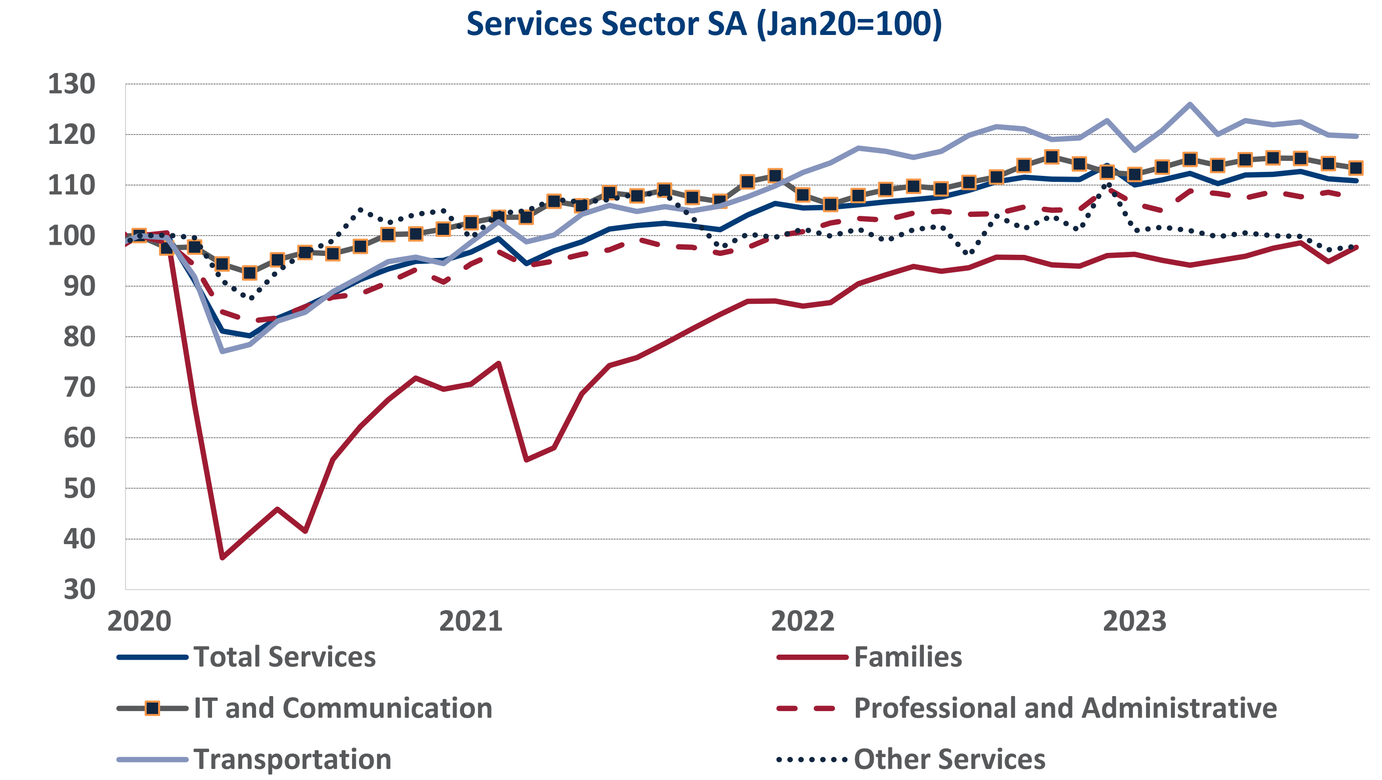
Retail Sales - YoY (set/23)

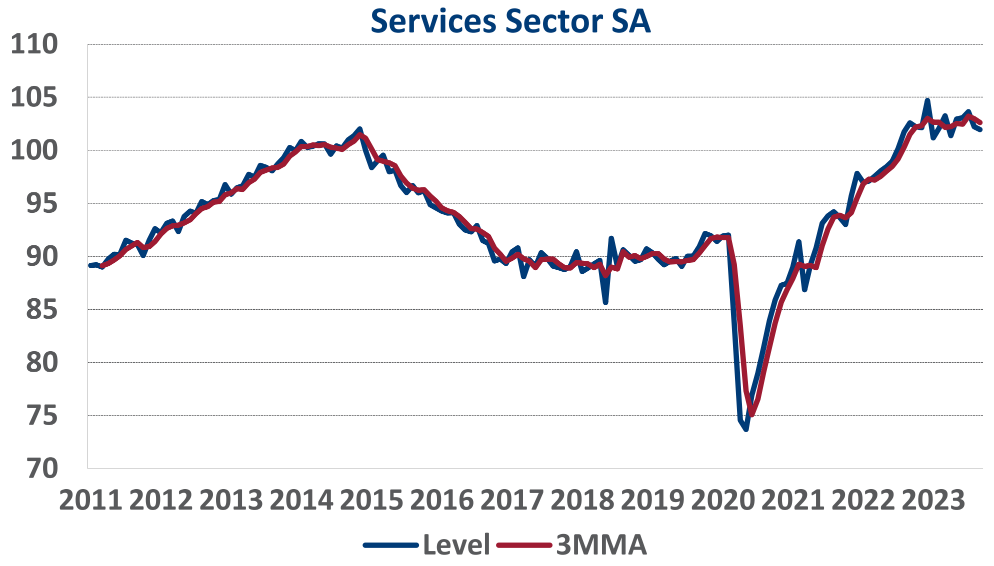


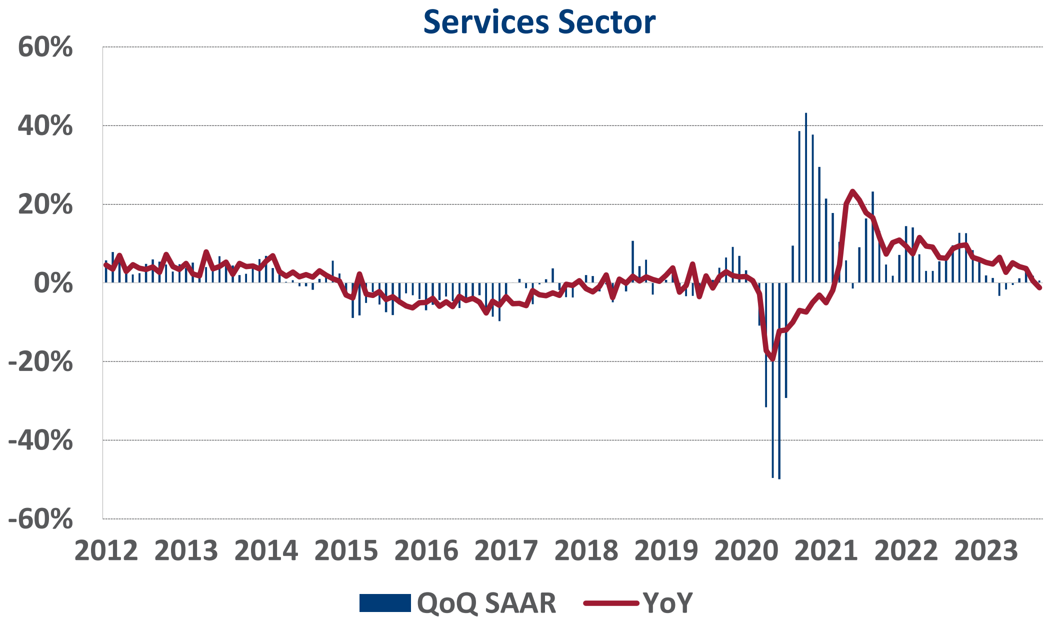
Source: IBGE, BOCOM BBM

Brazil: Services

- In September, services sector revenue contracted 0.3% MoM, significantly below market expectations (+0.4% MoM);
- The indicator expanded only 0.1% in 3Q23, considerably below the 1.0% QoQ expansion seen on the previous four quarters;
- The contraction reflected mostly falls in technical-professional services (-1.1% MoM) and ‘Transportation’ (-0.2% MoM);
- The statistical carry-over effect for 3Q now stands at -0.6% QoQ.



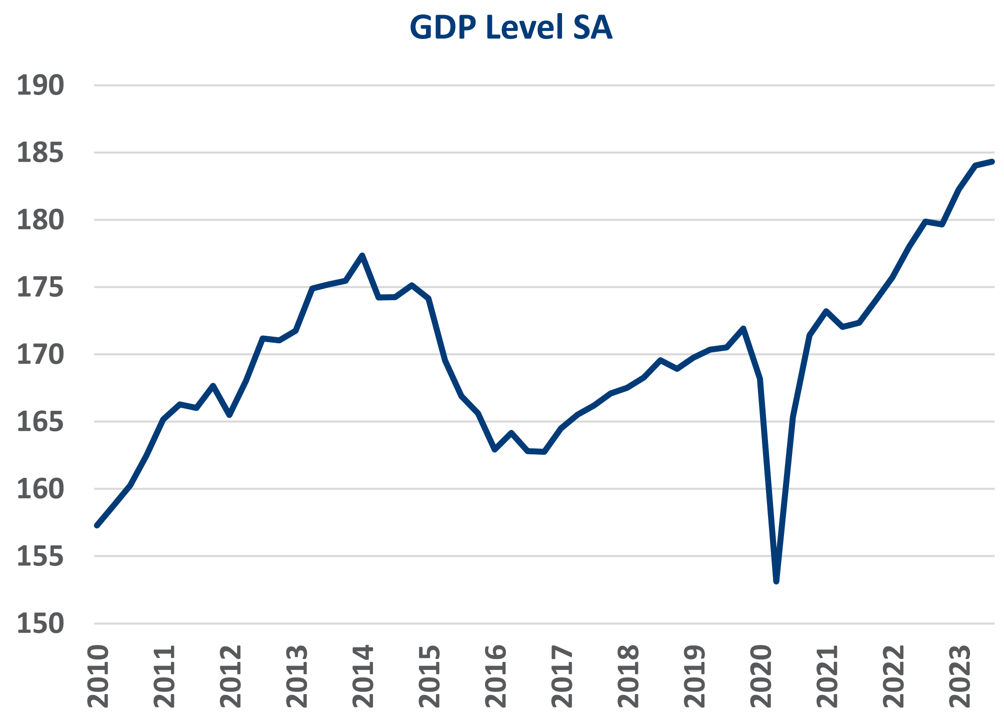


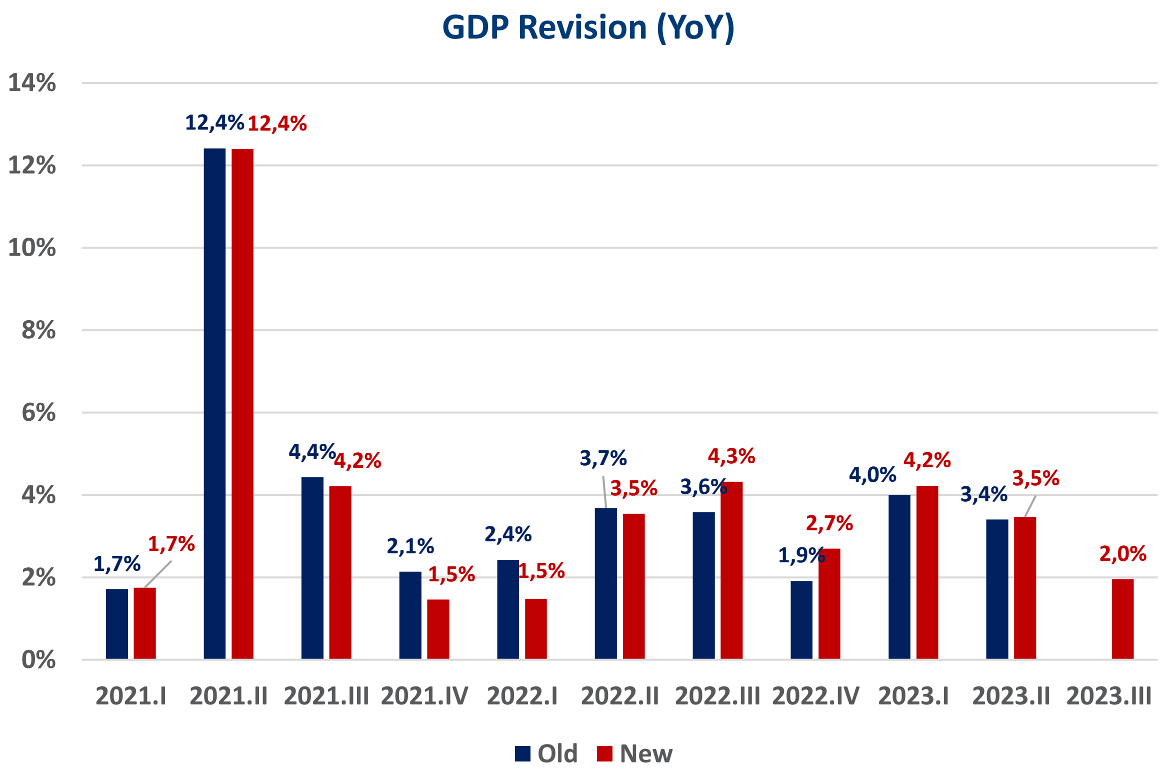


Source: IBGE, BOCOM BBM

Brazil: Q3 GDP

- Brazil's GDP grew 0.1% QoQ (2.0% YoY) in 3Q, above market expectations of -0.3% QoQ (1.8% YoY), leading to an accumulated growth of 3.1% in the 12-month rolling sum;
- Of high importance, the revision of the annual GDP data series brought relevant changes for the quarterly GDP series from 2021 onwards, increasing the GDP growth in the first half of 2023;
- The positive surprise in Q3 along with the upside revision in 2023H1, must lead to positive updates of GDP market forecasts this year.





Source: BOCOM BBM, IBGE

Brazil: Q3 GDP

- The GDP result in Q3 also came in above our forecasts mainly due to the Services activity;
- Six out of the seven services components grew on a quarterly basis, highlighting the sector resilience;
- By the other hand, Industry and Agriculture ended up been lower than expected;
- On the demand side, Domestic Absorption cooled down in 3Q, with poor figures in investments, owing to the shrinkage in consumption of capital goods and civil construction.

	Official	Forecast	Official	Forecast	
	Q3 QoQ	Q3 QoQ	Q3 YoY	Q3 YoY	Carryover
GDP	**0.1%**	**-0.2%**	**2.0%**	**1.8%**	**3.0%**
Agriculture	**-3.3%**	**-5.0%**	**8.8%**	**9.1%**	**15.2%**
Industry	**0.6%**	**0.5%**	**1.0%**	**1.3%**	**1.2%**
Mining	0.1%	0.7%	7.2%	6.8%	7.1%
Manufacturing	0.1%	0.0%	-1.5%	-1.4%	-1.3%
Utilities	3.6%	0.0%	7.3%	2.7%	5.5%
Civil Construction	-3.8%	1.0%	-4.5%	0.2%	-1.5%
Services	**0.6%**	**0.2%**	**1.8%**	**1.3%**	**2.5%**
Retail	0.3%	-0.1%	0.7%	-0.5%	1.1%
Transports	-0.9%	-0.7%	1.6%	1.0%	2.9%
Information and Communication	1.0%	0.1%	1.6%	0.0%	2.9%
Financial Services	1.3%	0.6%	7.0%	4.8%	6.5%
Rents	1.3%	0.8%	3.6%	2.4%	2.9%
Other Services	0.5%	0.8%	1.1%	1.5%	2.5%
Public Administration	0.4%	0.3%	0.4%	0.8%	1.1%
Demand Side					
Household Consumption	1.1%		3.3%		3.3%
Government Consumption	0.5%		0.8%		1.4%
Gross Capital Formation	-2.5%		-6.8%		-3.3%
Exports	3.0%		10.0%		9.0%
Imports	-2.1%		-6.1%		-1.3%

Source: BOCOM BBM, IBGE

Brazil: Q3 GDP - Industry – Level SA

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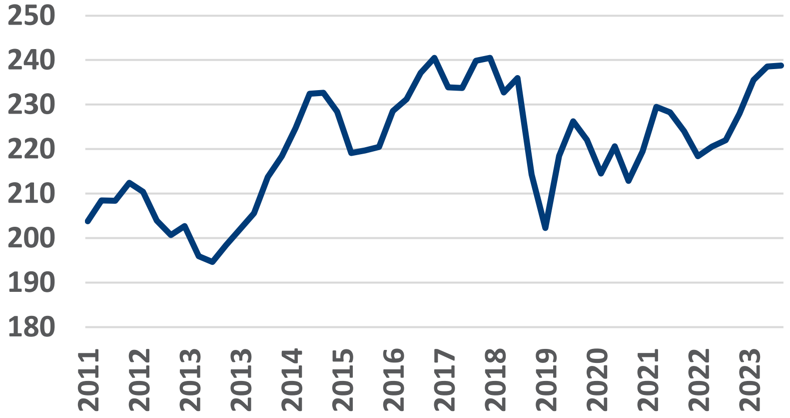
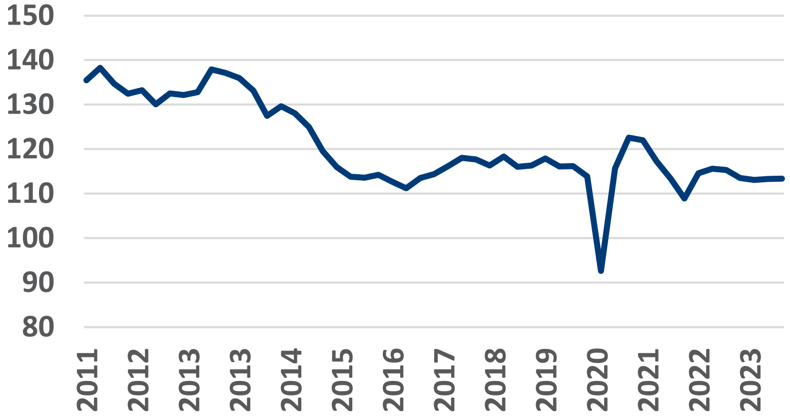
» Total Industry GDP rose by 0.6% QoQ in 3Q, the second positive reading in a row

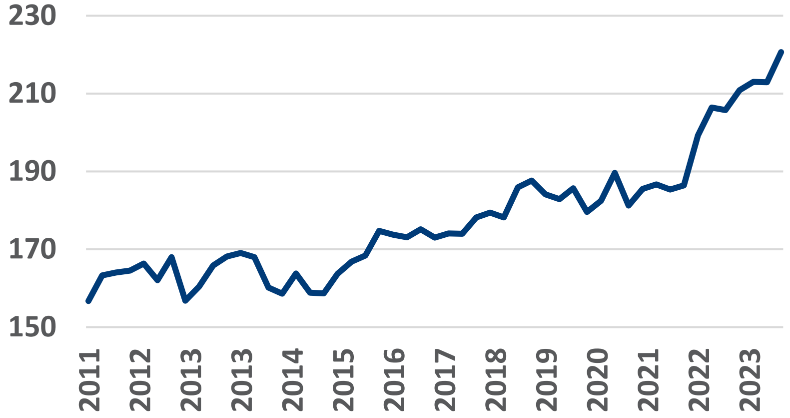
Mining Industry



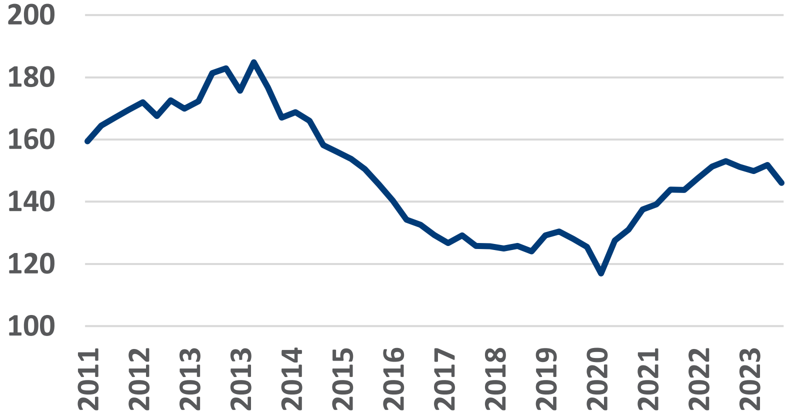
Manufacturing



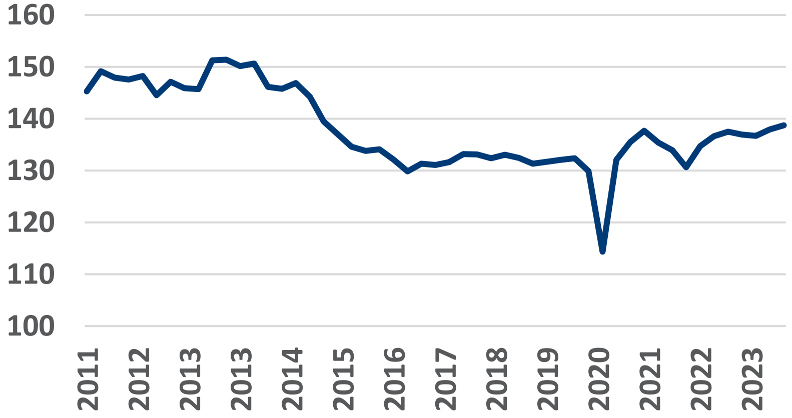
Utilities



Civil Construction



Total Industry

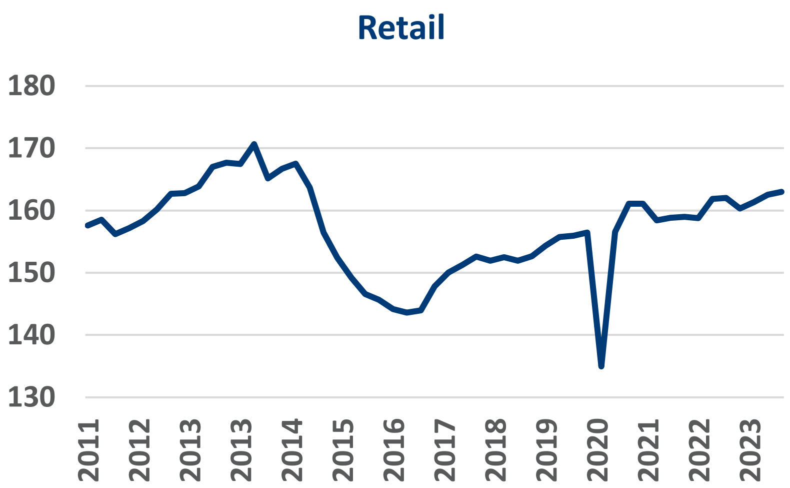


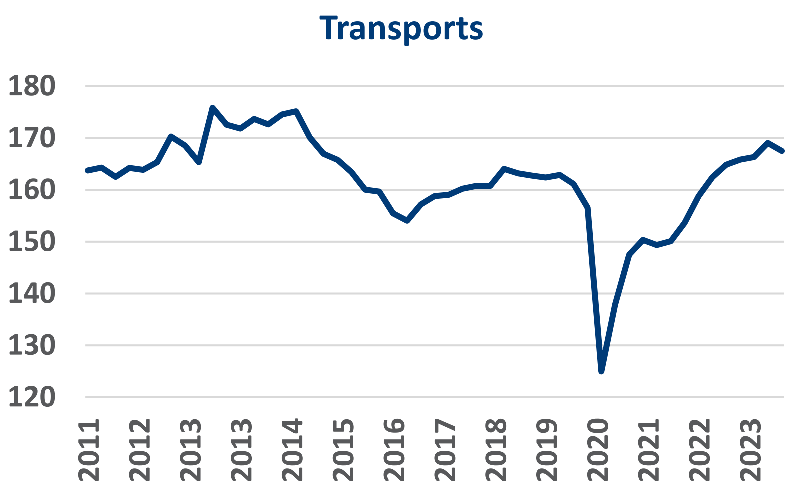
Source: BOCOM BBM, IBGE

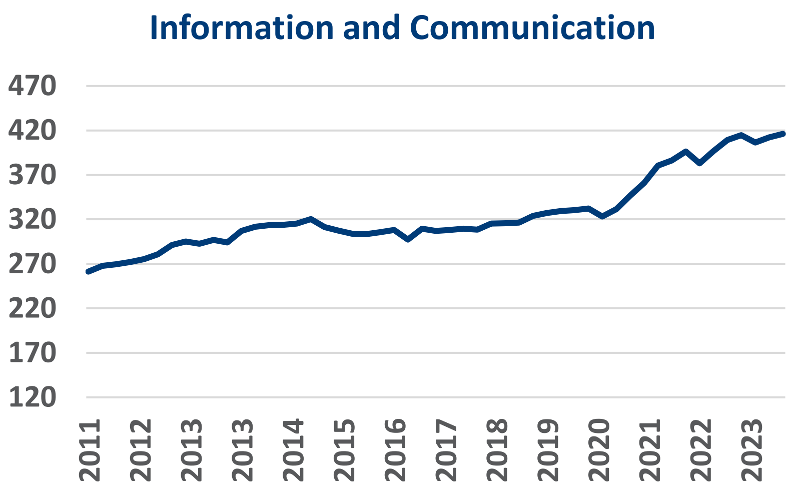
Brazil: Q3 GDP - Services – Level SA

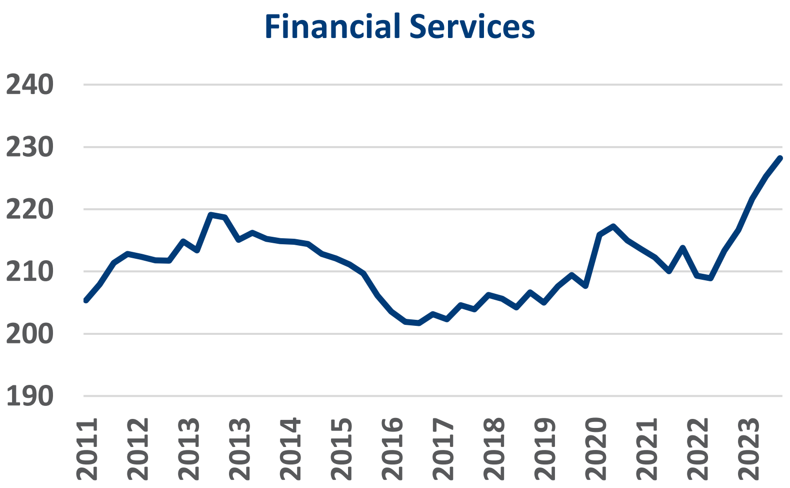
交通銀行 BANK OF COMMUNICATIONS BBM

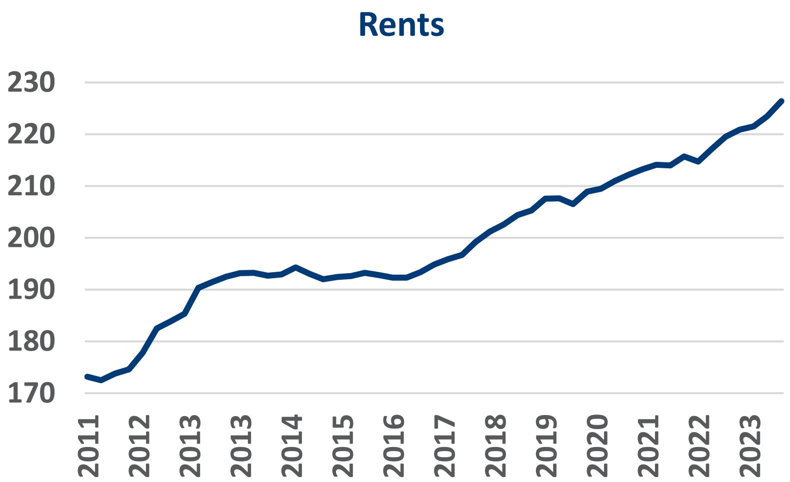
- Services GDP rose by 0.6% QoQ in 3Q, above our projection





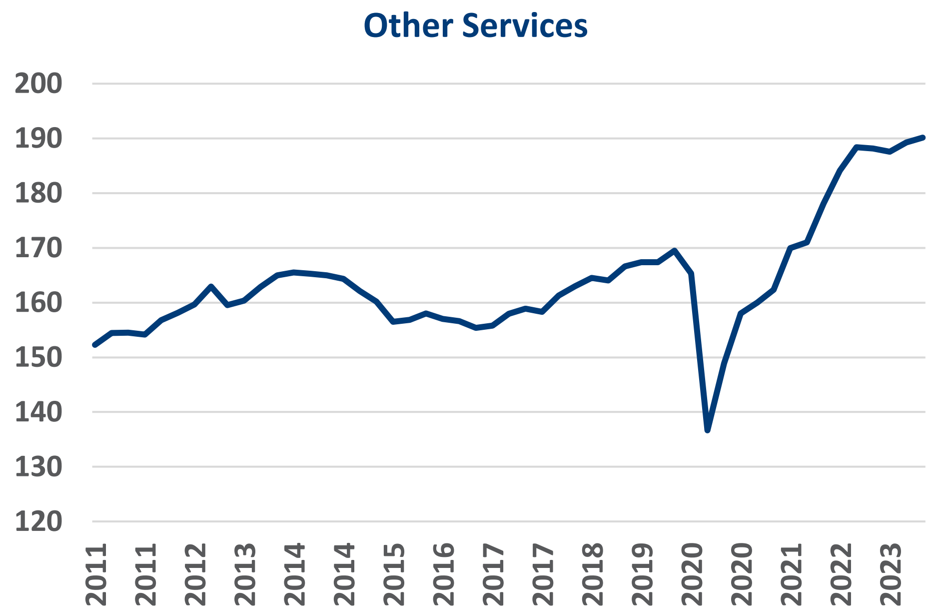


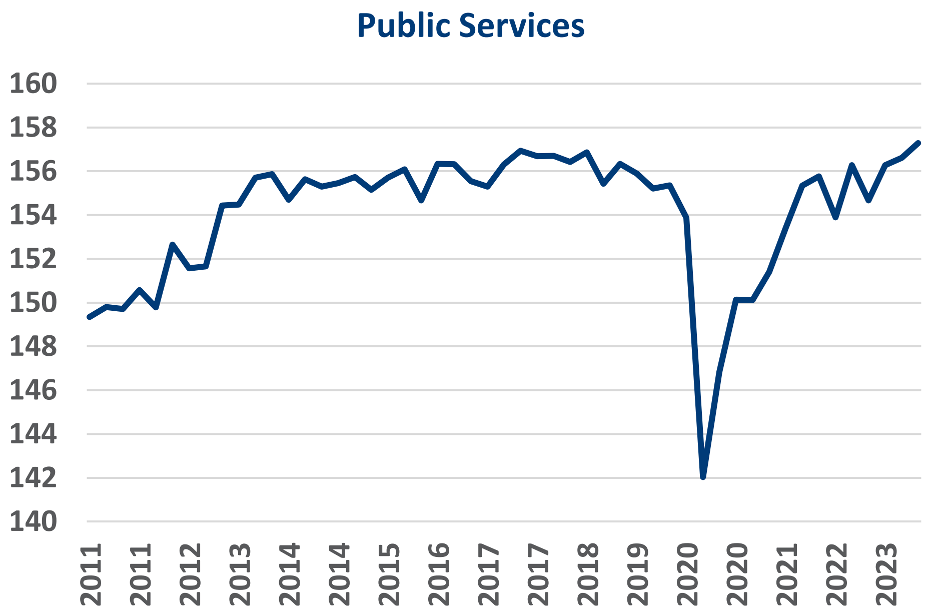




Source: BOCOM BBM, IBGE

Brazil: Q3 GDP – Services – Level SA

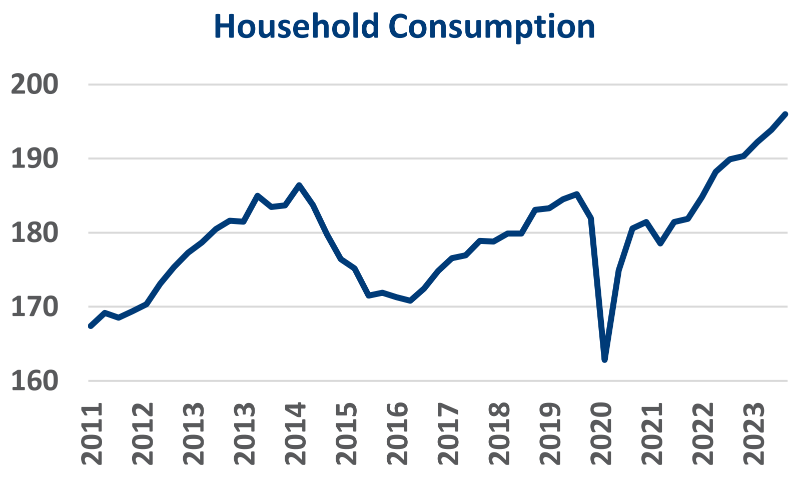


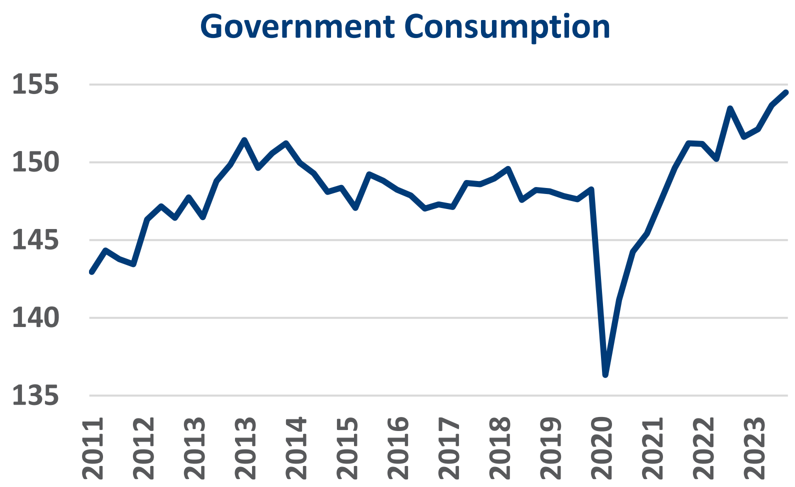


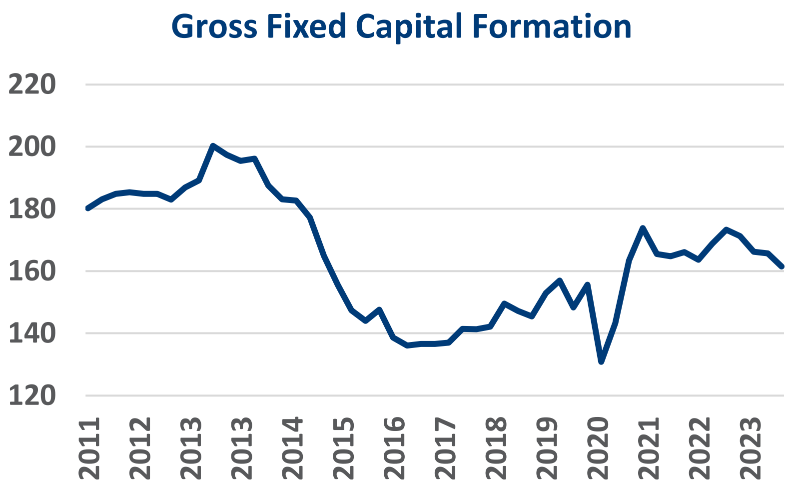
Source: BOCOM BBM, IBGE

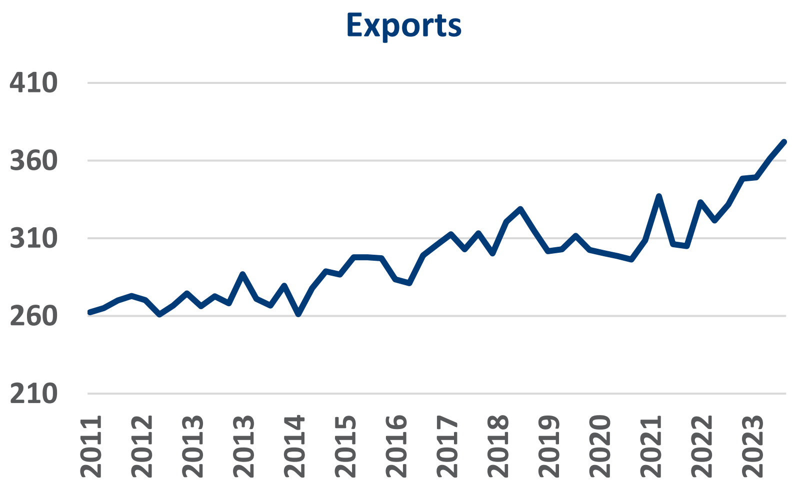
Brazil: Q3 GDP – Demand Side

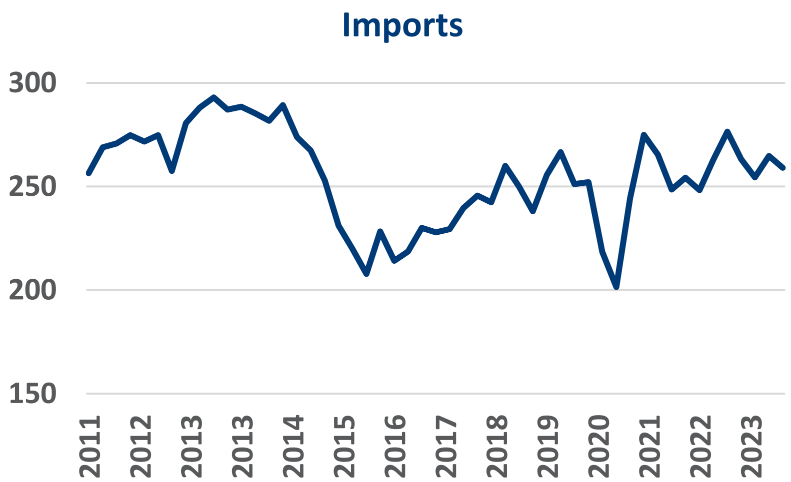
- On the demand side, once again Household Consumption surprised to the upside, while the Gross Fixed Capital Formation continues to decline











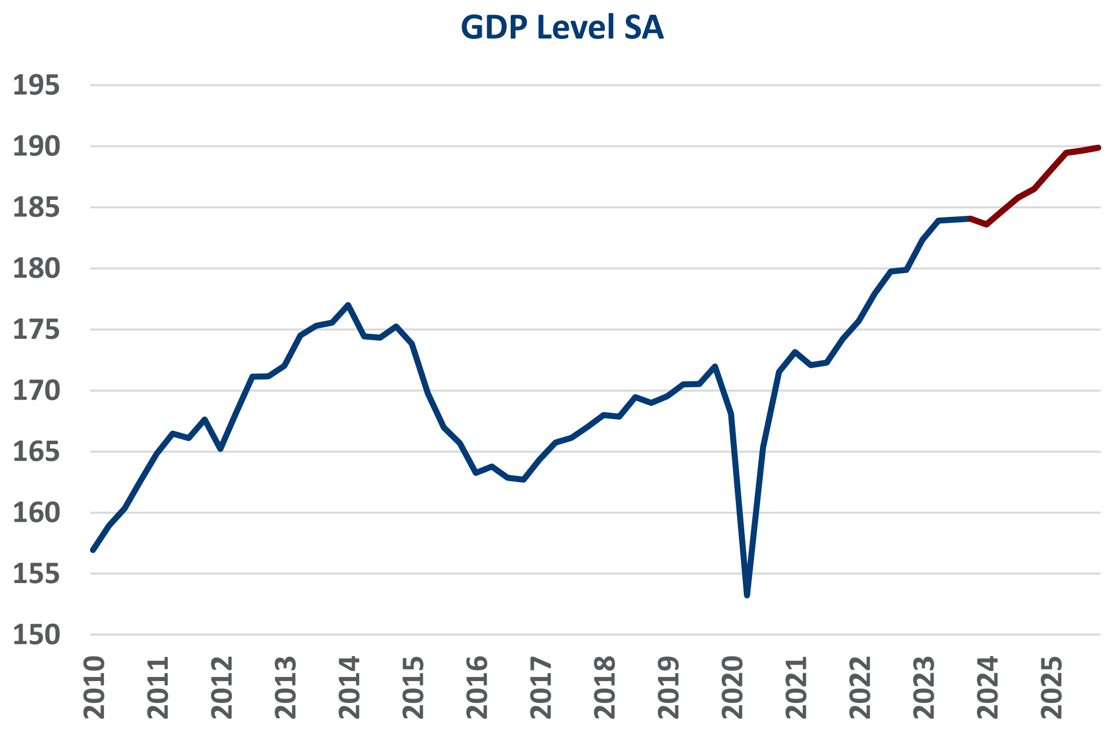
Source: BOCOM BBM, IBGE

Brazil: Economic Activity

- Since the GDP surprised positively in Q3 and the results in the first half of the year were revised upwards, our forecast behaved in the same way (from 2.8% to 2.9%);
- We now forecast 0% QoQ (2.2% YoY) in Q4, moving away from the technical recession scenario;
- For 2024, we revised our projection from 1.5% to 1.3% given a less favorable scenario for the agriculture sector;
- In 2025, growth is expected to accelerate to 2.0%, stimulated by ongoing monetary easing.

Forecasts

	2023.IV QoQ	2023.IV YoY	2023	2024	2025
GDP	**0.0%**	**2.2%**	**2.9%**	**1.3%**	**2.0%**
Agriculture	**-0.9%**	**7.9%**	**16.4%**	**-0.1%**	**2.9%**
Industry	**-0.1%**	**1.0%**	**1.1%**	**1.2%**	**1.9%**
Mining	0.1%	4.6%	7.1%	3.8%	3.2%
Manufacturing	0.0%	-0.2%	-1.2%	0.1%	1.3%
Utilities	0.8%	5.4%	5.7%	4.4%	3.2%
Civil Construction	0.6%	-2.4%	-1.3%	-0.6%	1.4%
Services	**0.3%**	**2.0%**	**2.4%**	**1.5%**	**2.0%**
Retail	-0.1%	1.1%	1.0%	0.4%	1.6%
Transports	1.1%	2.5%	3.3%	0.7%	1.9%
Information and Communication	0.8%	0.8%	3.0%	1.9%	3.5%
Financial Services	0.9%	5.9%	6.7%	3.3%	0.3%
Rents	0.7%	3.5%	3.2%	2.7%	1.9%
Other Services	0.1%	0.9%	2.4%	0.9%	3.3%
Public Administration	-0.2%	1.4%	1.0%	1.5%	1.5%

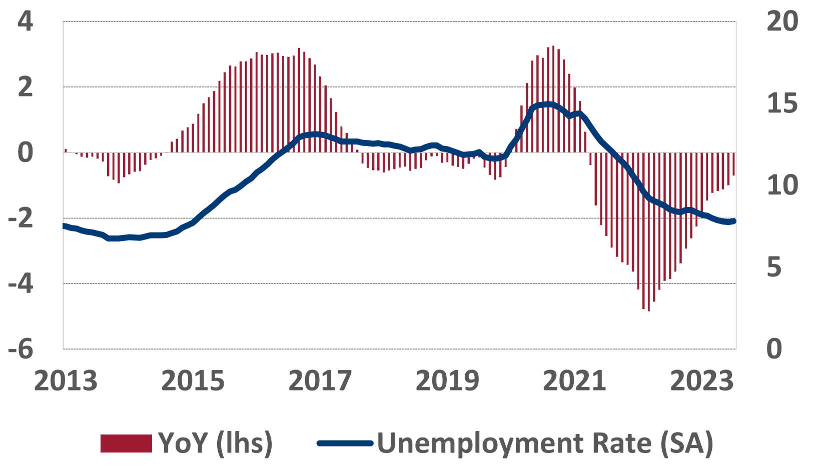


Source: BOCOM BBM, IBGE

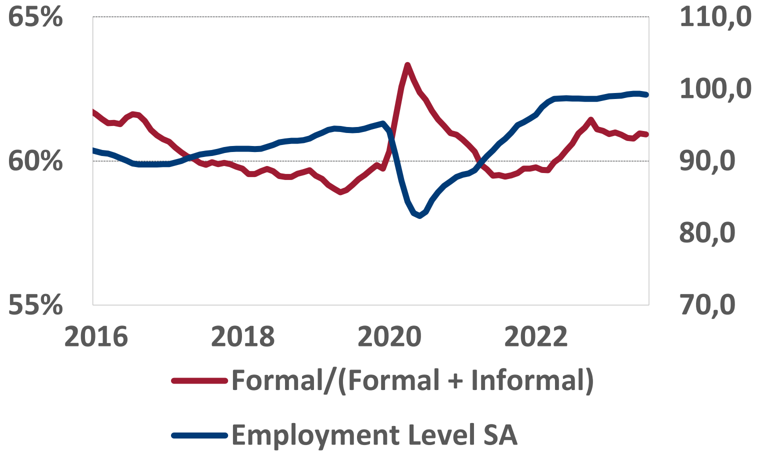
Brazil: PNAD

- Unemployment rate edge up to 7.8% in October from 7.7% in September, the highest level in three months;
- Total employment population remained stable, meanwhile labor force increased 0.2% MoM. In turn, the labor force participation showed a slight expansion to 61.63%;
- Real labor earnings, on the other hand, expanded 0.5% remaining in a positive path;
- Accordingly, the real aggregate labor income surged about 0.6% MoM.

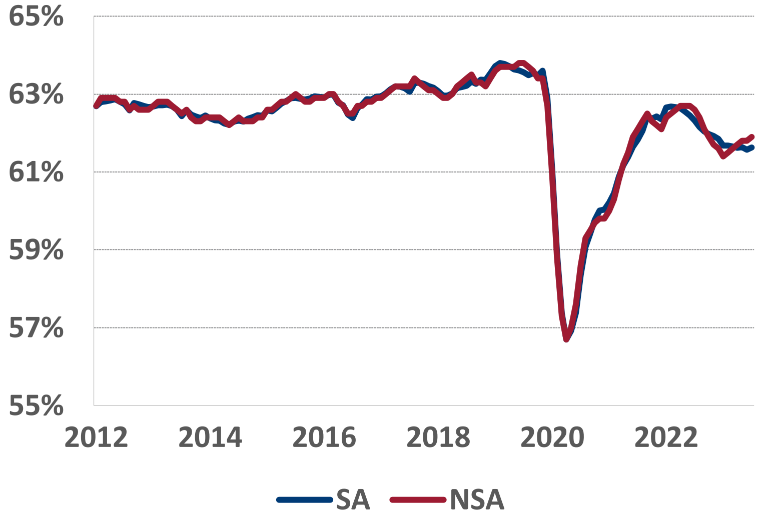
Brazil - Unemployment Rate



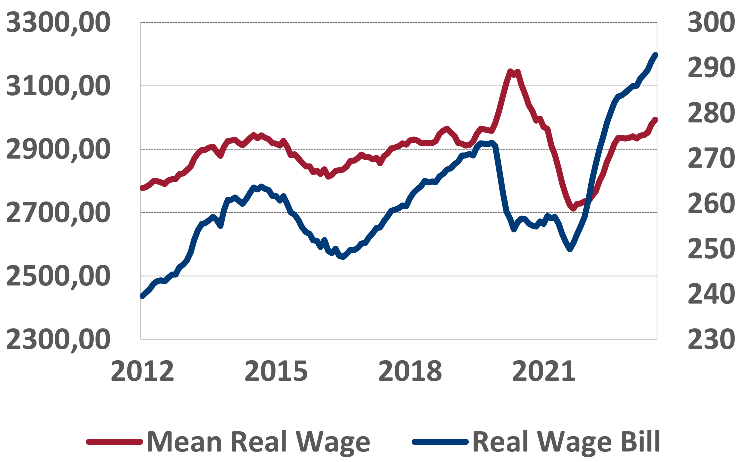
Brazil - Employment Level SA



Brazil - Workforce Participation



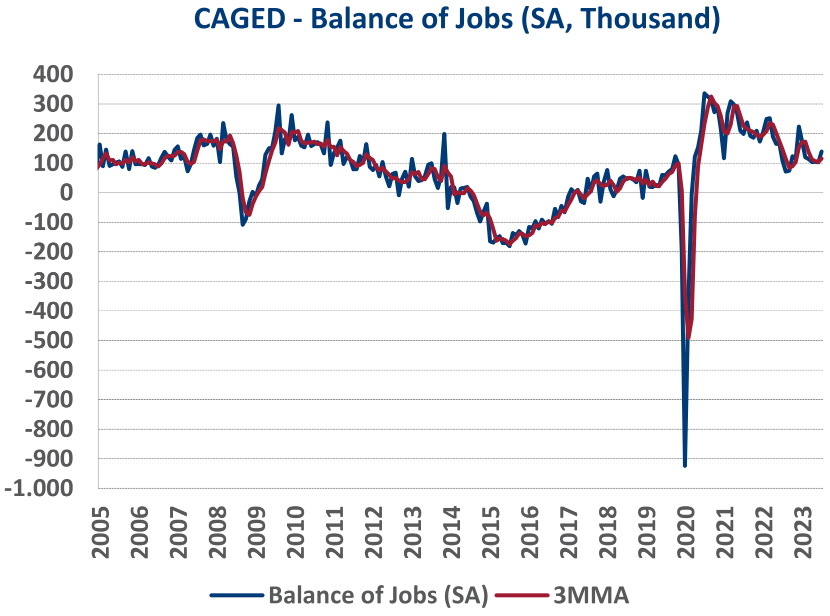
Brazil - Mean Real Wage and Real Wage Bill

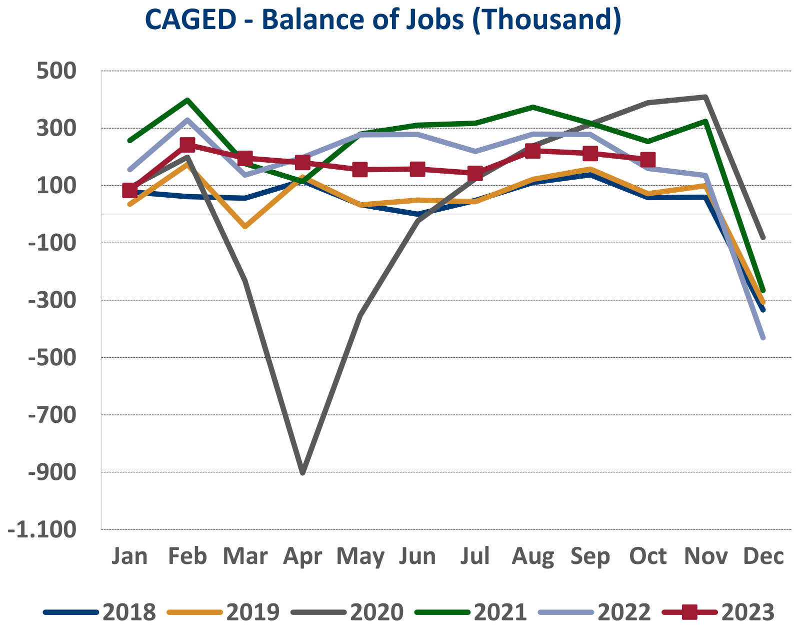


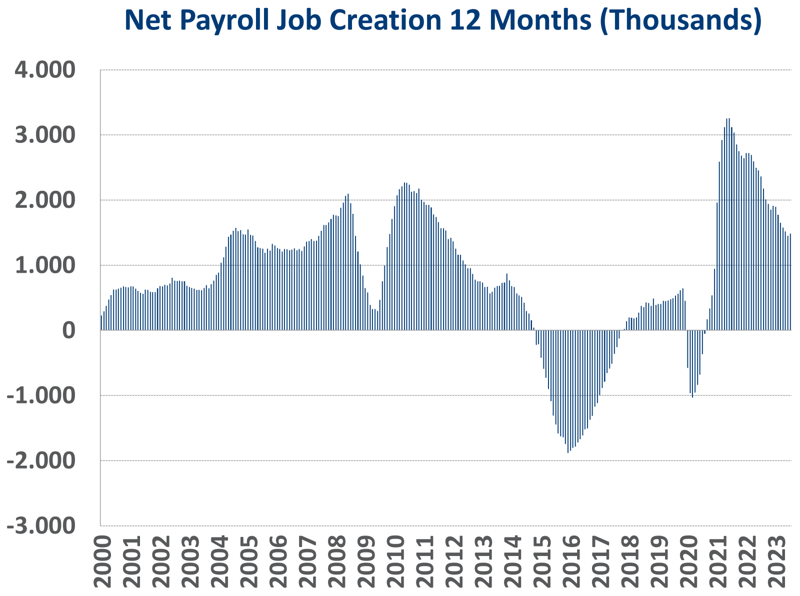
Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

- Caged registered a net creation of 190.4k formal jobs in October, well above market expectations (135k);
- Seasonally adjusted, we estimate a net creation of 138.7k jobs (94k in September);
- With a very benign print, October's record showed the first acceleration after five months of slowdown.





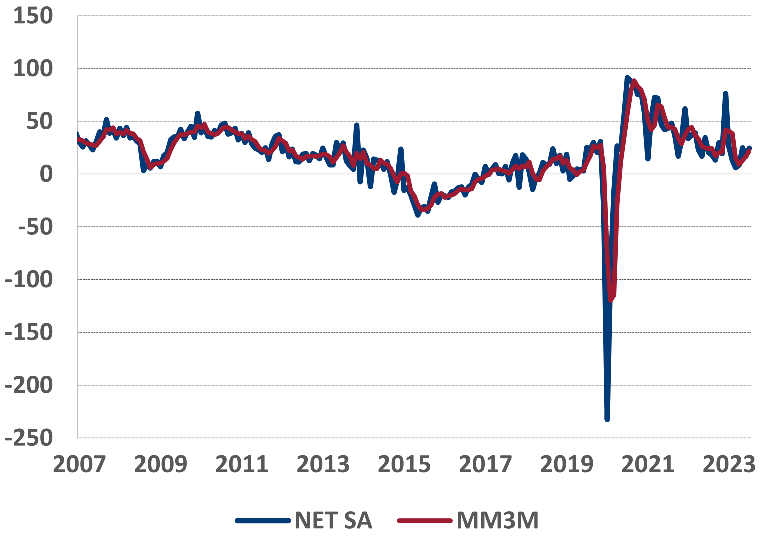


Source: BOCOM BBM, MTE

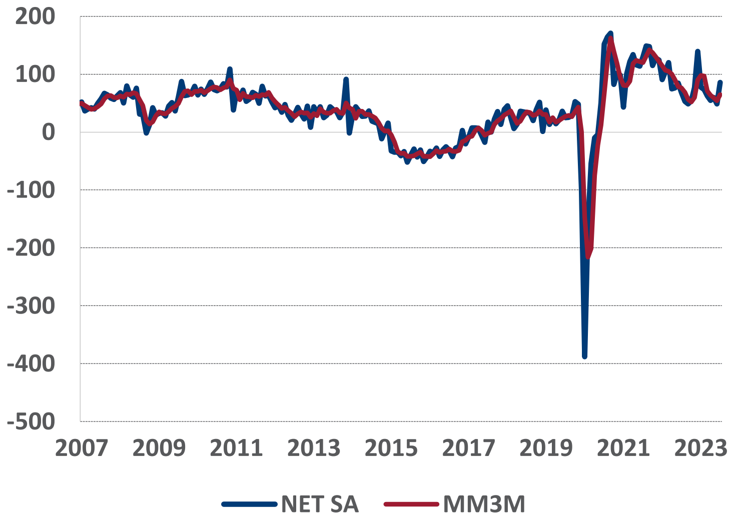
Brazil: Formal Labor Market

- The breakdown shows that all economic sectors expanded at the margin;
- Once again with the largest job creations, Services sector showed a net creation of 86k jobs, significantly above the 49k registered in September;
- Retail sales created about 24k, 7.7k more than last month;
- In turn, Construction registered a net of 16k, also above the previous result of 10k;
- As for Industry, there were more hires than dismissals (+6k jobs created), the opposite of September's record (-4k);
- The better-than-expected result shows that the formal labor market remains resilient even in a scenario of economic slowdown.

Brazil - Retail Net Payroll Job Creation (SA)

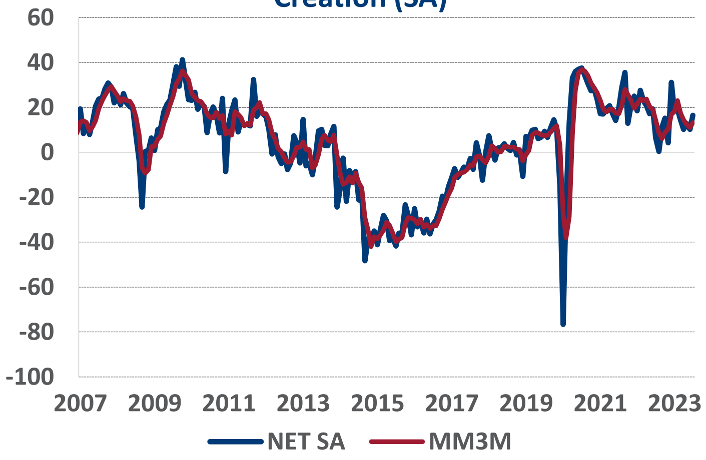


Brazil - Services Net Payroll Job Creation (SA)



Brazil - Industry Net Payroll Job Creation (SA)

Brazil - Construction Net Payroll Job Creation (SA)

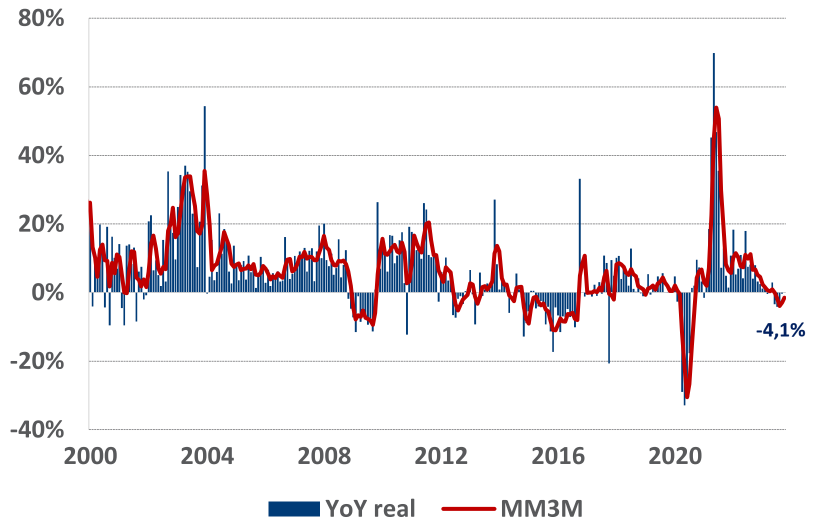


Source: BOCOM BBM, MTE

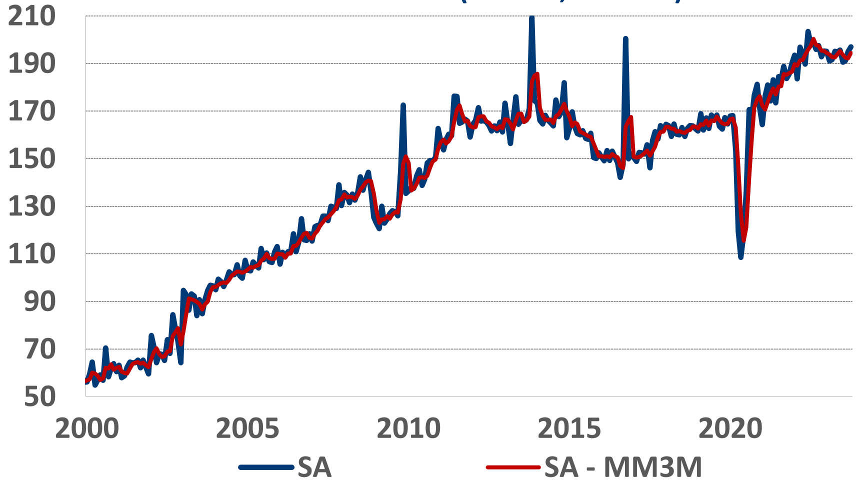
Brazil: Federal Tax Collections

- Total federal tax collections registered BRL 215.6 bn in October, above market consensus (BRL 212.3 bn), representing an increase of 0.1% in real terms when compared to the same month in 2022;
- October's outcome was mainly driven by PIS/Cofins, which rose by 8.2% YoY in real terms, on the back of the reversal of tax cuts on gasoline and ethanol;
- On the negative side, we highlight the interannual falls in Corporate income taxes (-7.1% YoY), Import tax (15.5%) and Industrialized Products Tax (9.4%);
- Overall, tax revenues remains decelerating due to the cool down in domestic activity.

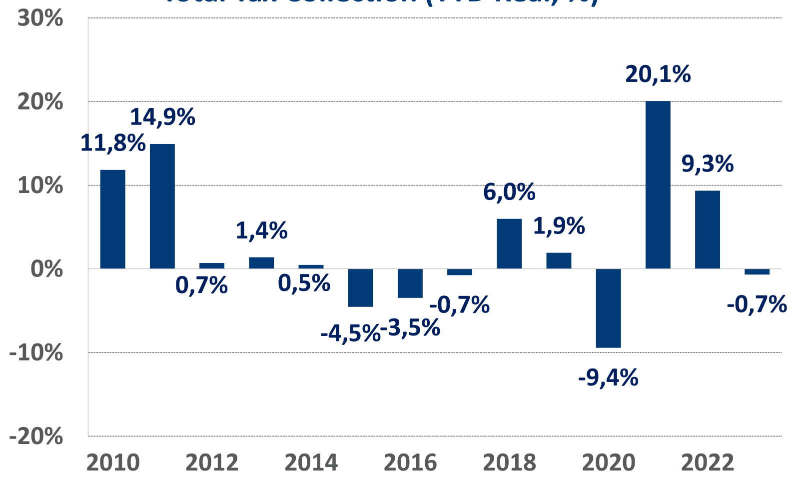
Total Tax Collection (YoY Real, %)



Total Tax Collection (BRL Bn, Real SA)



Total Tax Collection (YTD Real, %)



Total Tax Collection (% GDP)

Fonte: BOCOM BBM, RFB

Brazil: Central Government Primary Result

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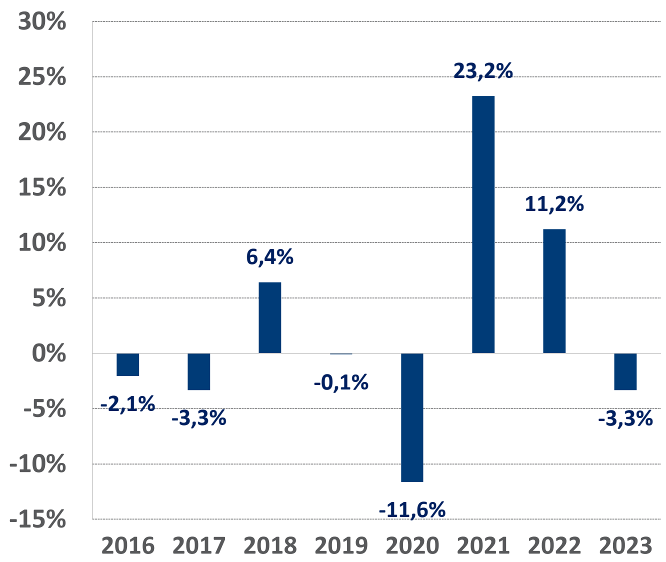
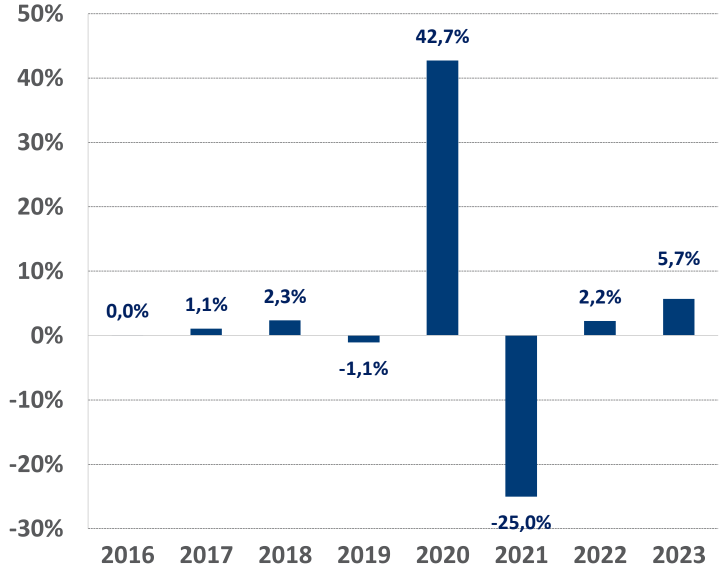
- The central government's primary balance posted a surplus of BRL 18.3 bn in October;
- The 12-M accumulated primary deficit reached 0.83% of GDP;
- Net revenue came at BRL 212 bn in real terms (-0.3% YoY), owing to better results seen in 'Revenue Administered by RFB' (+0.5%);
- In turn, total spending was around BRL 162 bn, increasing 10.1% YoY in real terms;
  - In the breakdown, discretionary expenditures expanded 76.2% YoY and was the main driver along with social securities (+3.6% YoY), mainly due to increases in pension and retirees' benefits, elderly and disable assistance and Bolsa Familia welfare program.

Central Government Primary Result (%, PIB 12M)

Net Revenue (YTD Real, %)



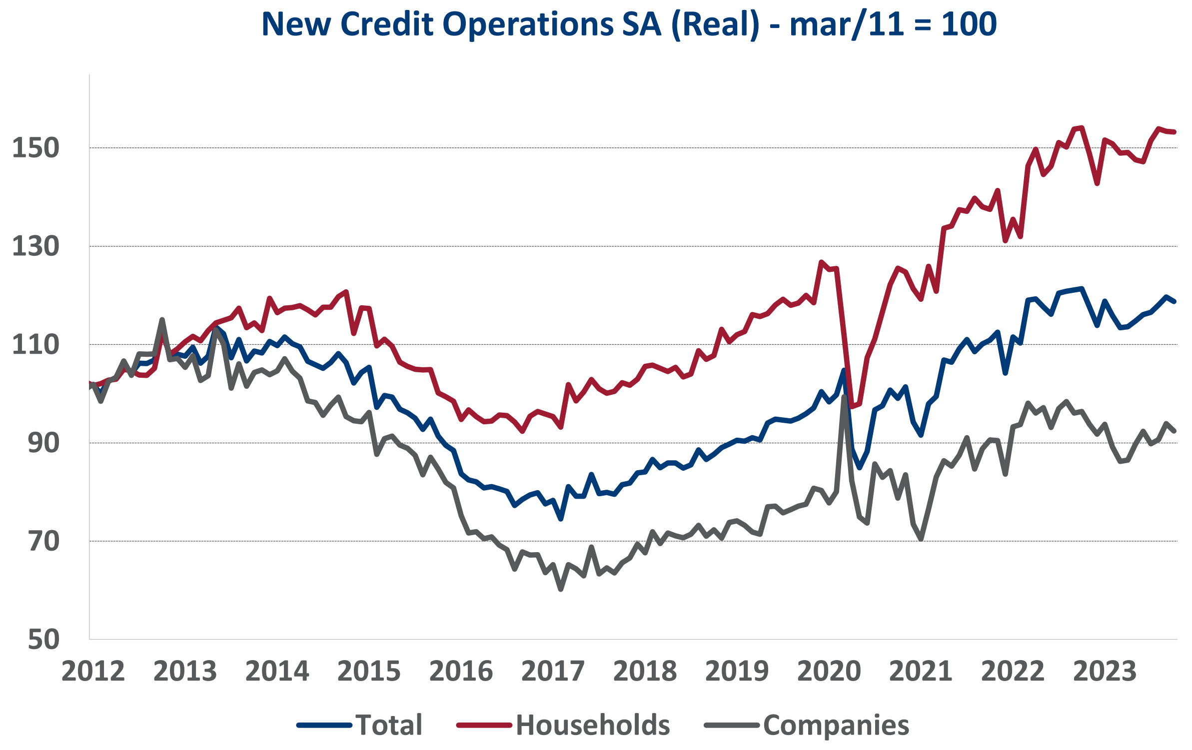
Expenditure (YTD Real, %)

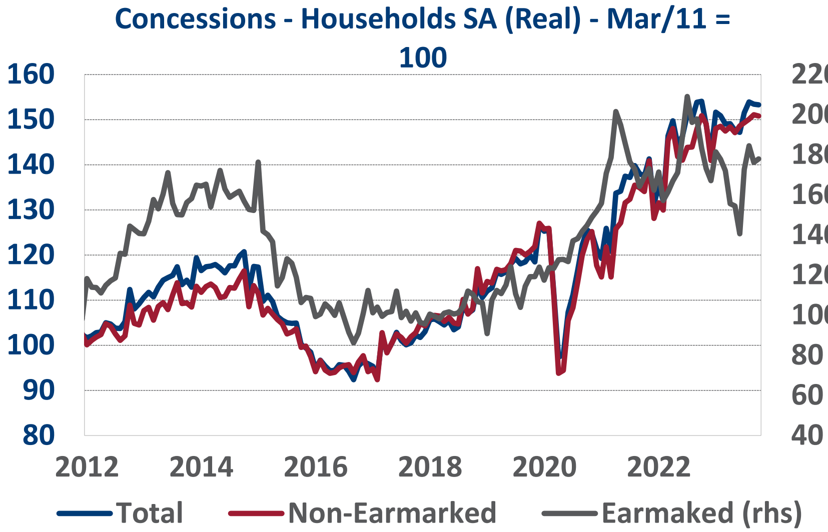


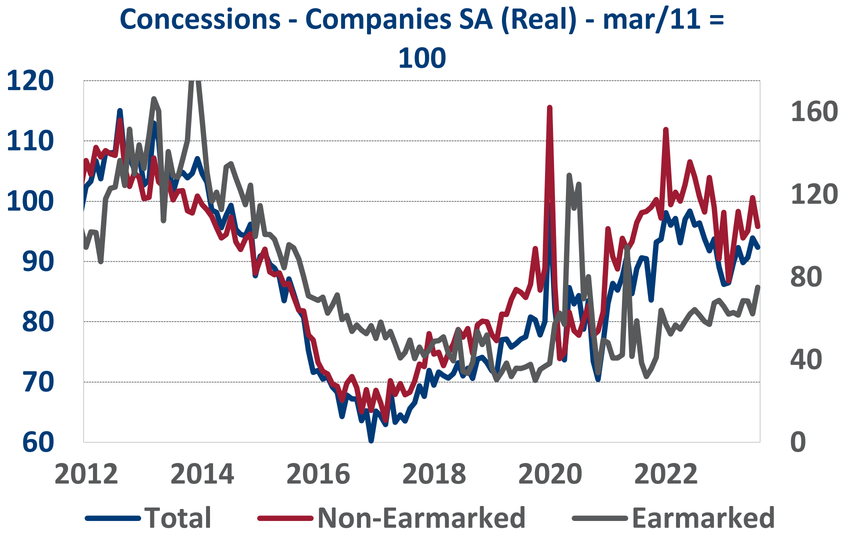
Fonte: BOCOM BBM, RTN

Brazil: Credit Statistics

- In October, total credit concessions contracted by 0.3% MoM in real terms;
- Non-earmarked credit concessions decreased both to households (-0.2% MoM) and companies (-4.8% MoM);
- Earmarked credit concessions, on the other hand, advanced 20.7% to companies and 1.0% to individuals.





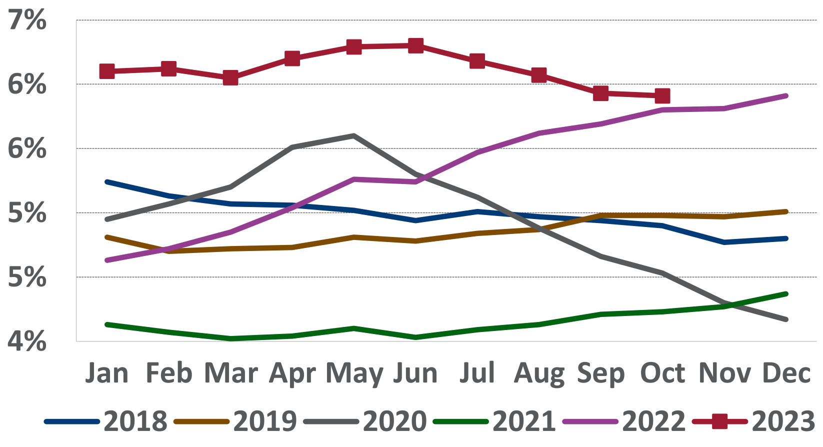


Source: BOCOM BBM, BCB

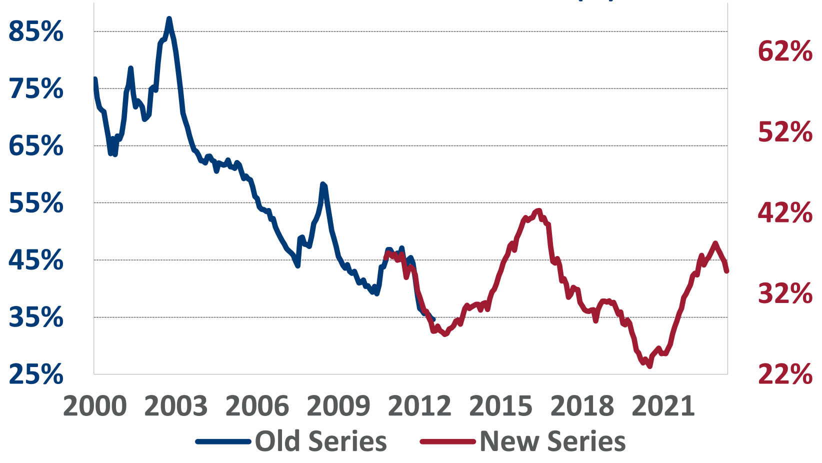
Brazil: Credit Statistics

- Lending rates to individuals continued its downward trajectory falling to 34.8% (previously around 36%). To corporates, the lending rates were stable at 19.7%;
- Non-earmarked default fell modestly to 5.91% to households (from 5.93% in September), but for companies it increased to 3.5% (from 3.4% in September).

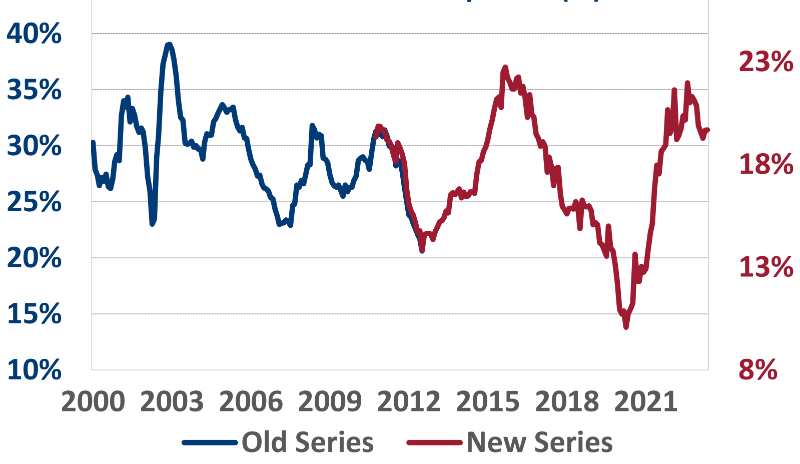
Non-Earmarked Default - Households (%)



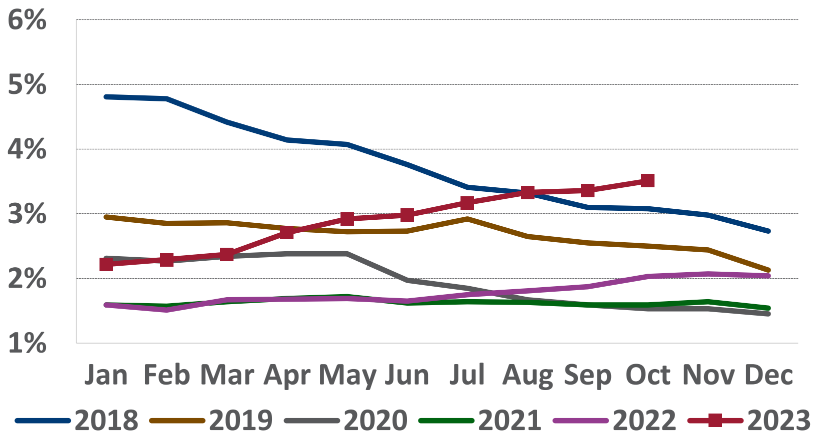
Interest Rates - Households (%)



Interest Rates - Companies (%)



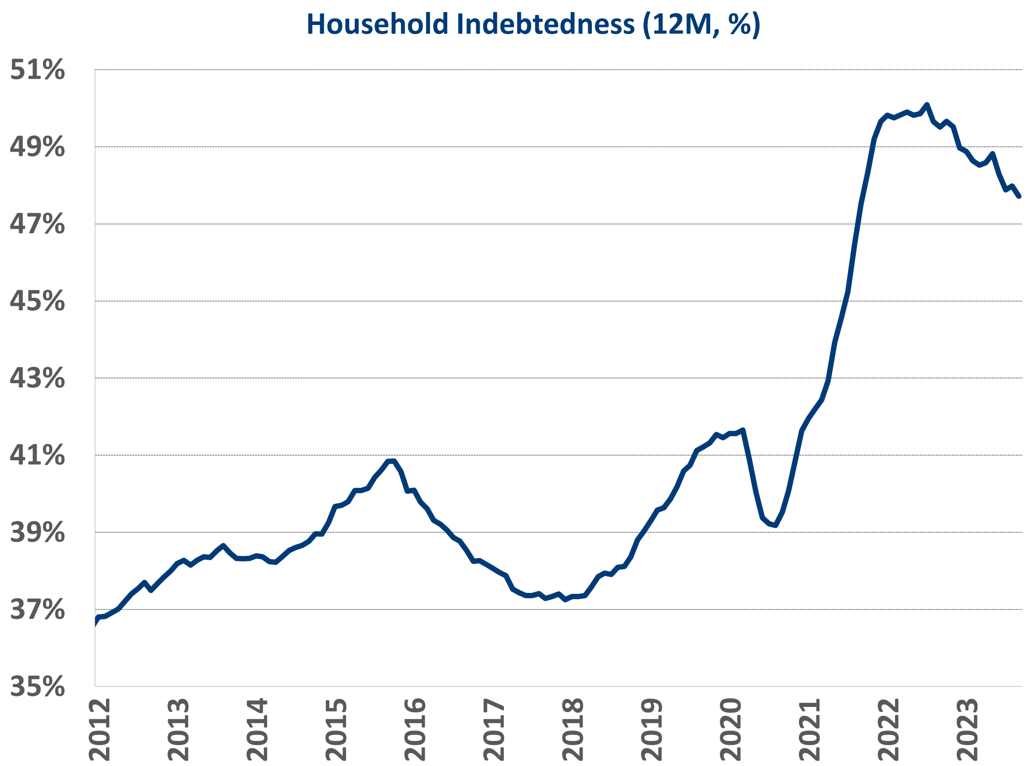
Non-Earmarked Delinquency - Companies (%)

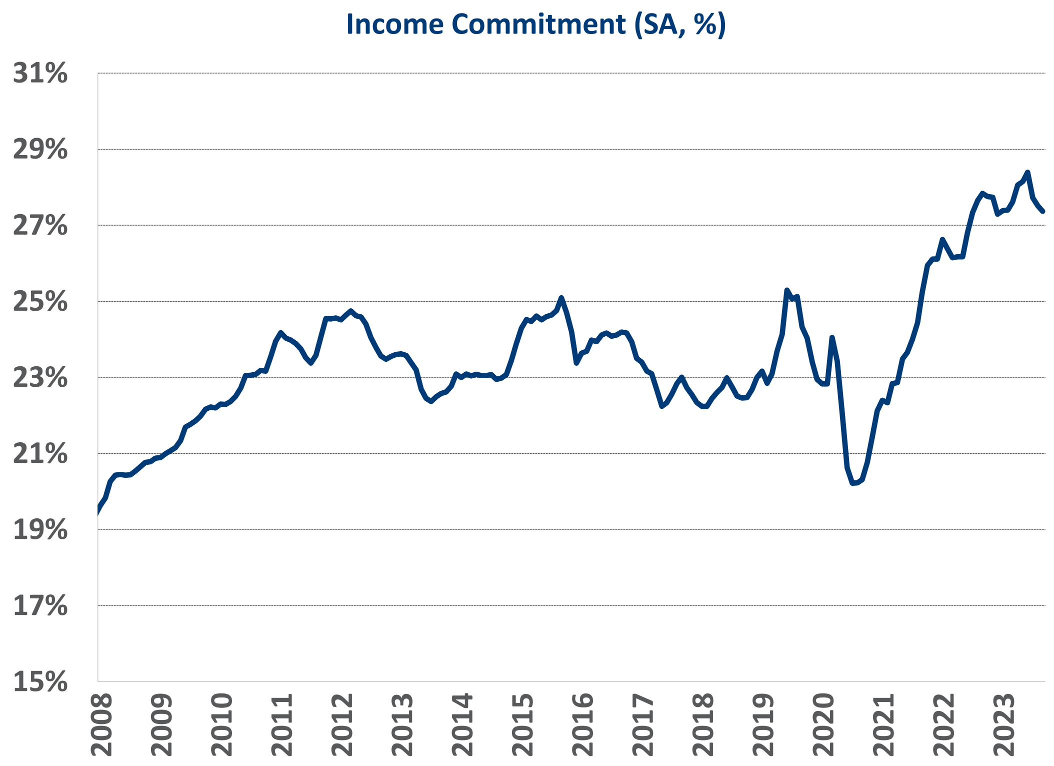


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- Household indebtedness continued to fall in September, standing around 47.7, the lowest level since September 2021;
- The income commitment to debt service, in turn, fell to 27.4;
- Lower indebtedness and income commitment presented in September data came because of the ‘Desenrola’ program proposed by the government, which has begun to reach the lowest income brackets.

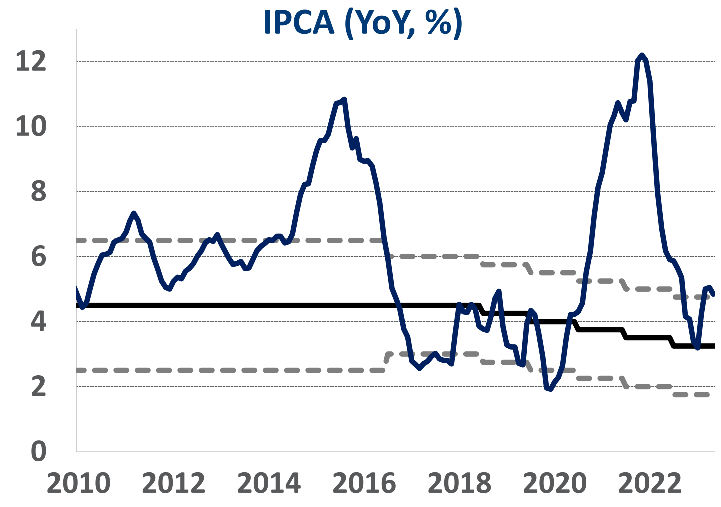


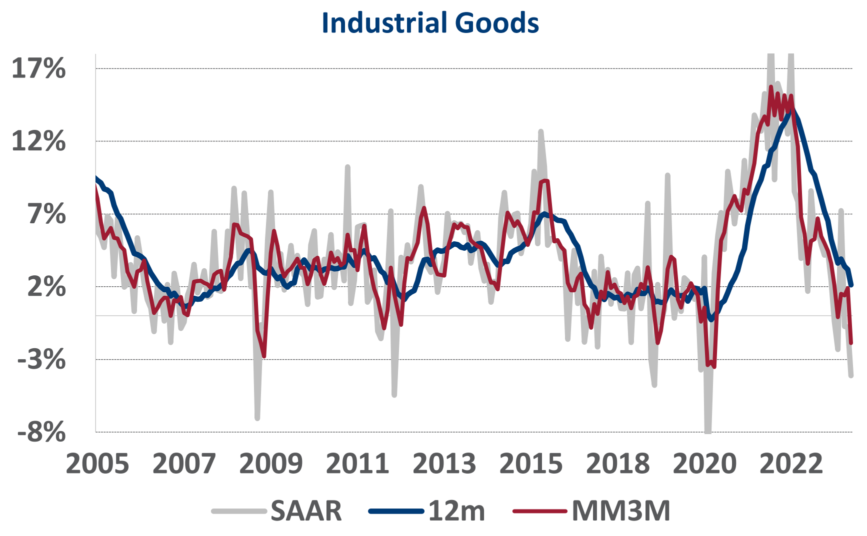


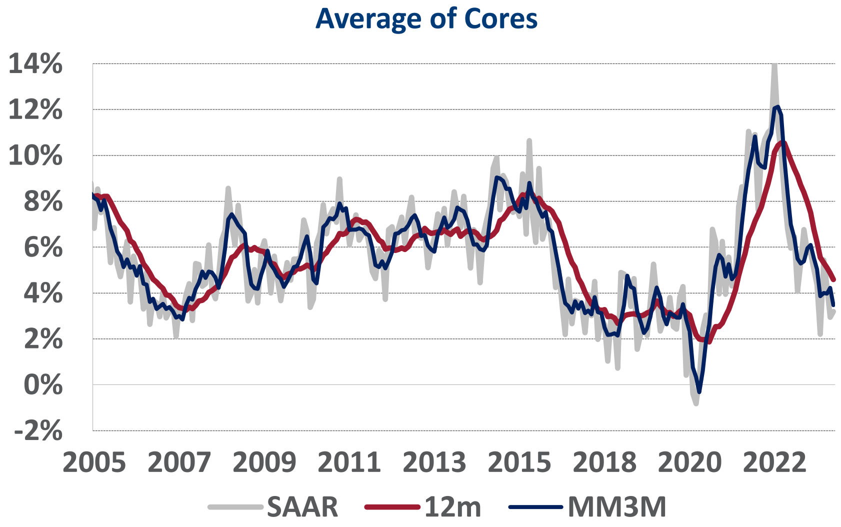
Source: BOCOM BBM, BCB

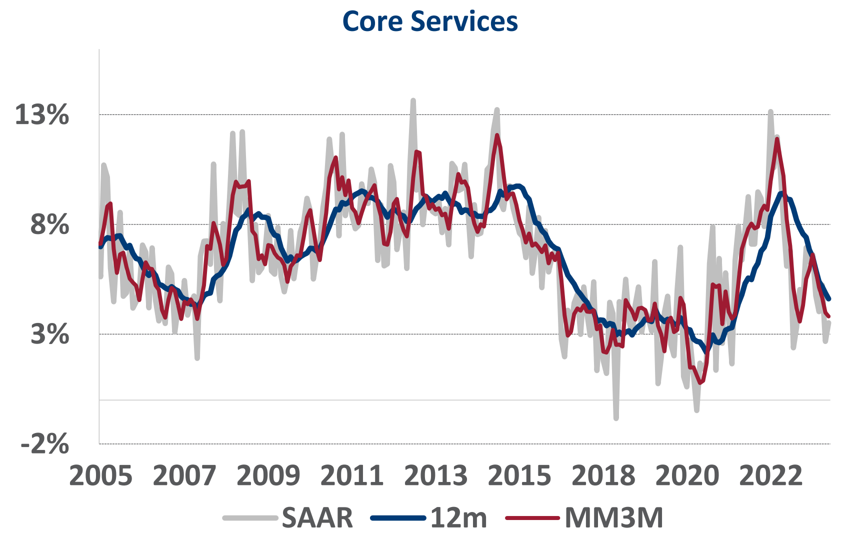
Brazil: Inflation 2023

- The IPCA-15 advanced 0.33% MoM in November, slightly above market consensus (0.30% MoM);
- The 12-month variation increased from 5.05% in September to 4.84% in October;
- The higher-than-expected print was mainly due to a big upward surprise in airfares, partly offset by lower-than-expected figures for core services and industrial goods;
- The average of core measures expanded 0.27% MoM, below projections;
- 'Underling Services', closely monitored by the Central Bank, presented a surprisingly benign result of 0.21% MoM, while the market expected 0.3%;
- The breakdown reinforces benign services price dynamics.





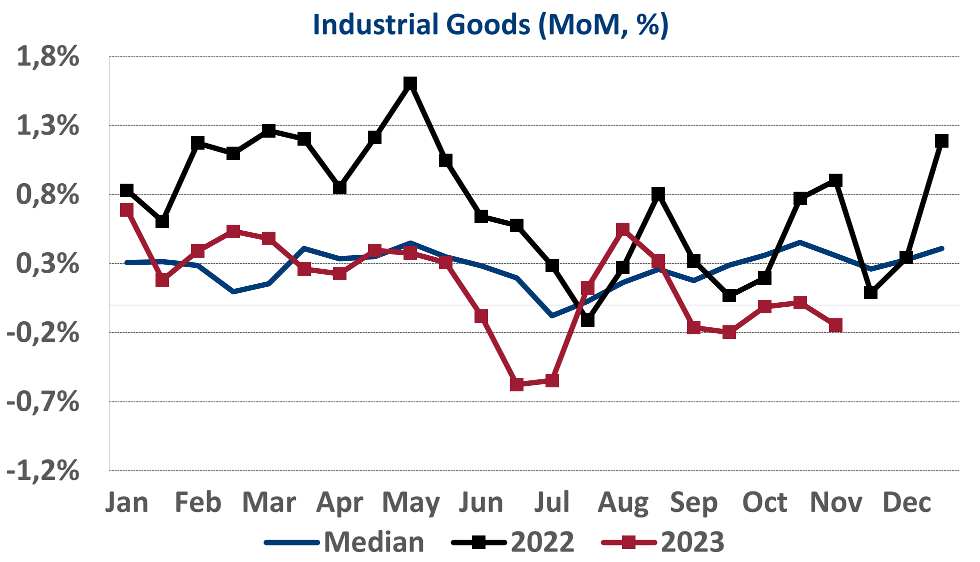


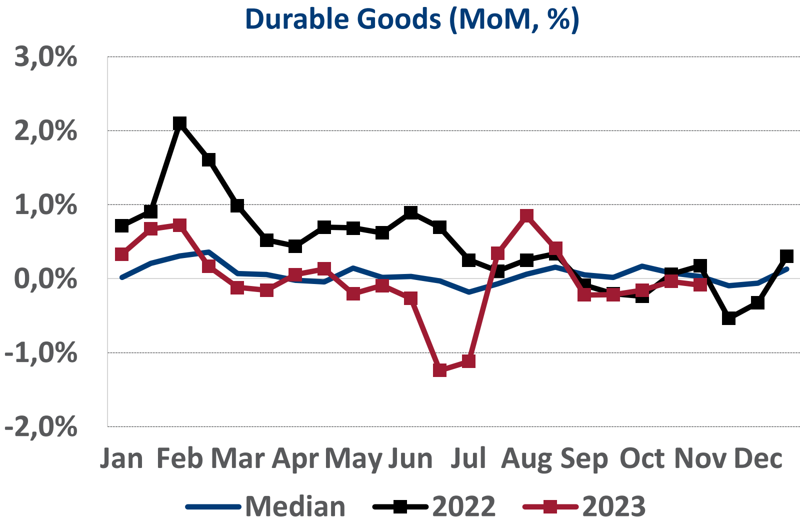


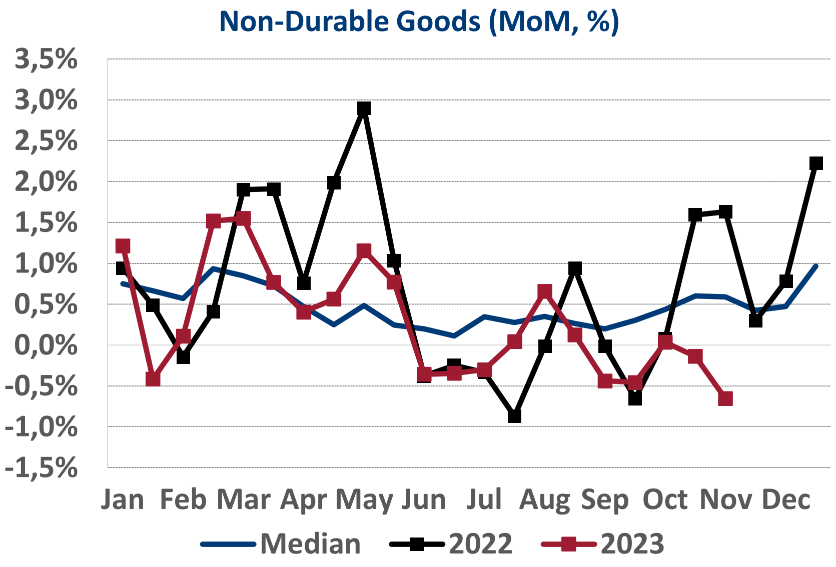
Source: BOCOM BBM, IBGE

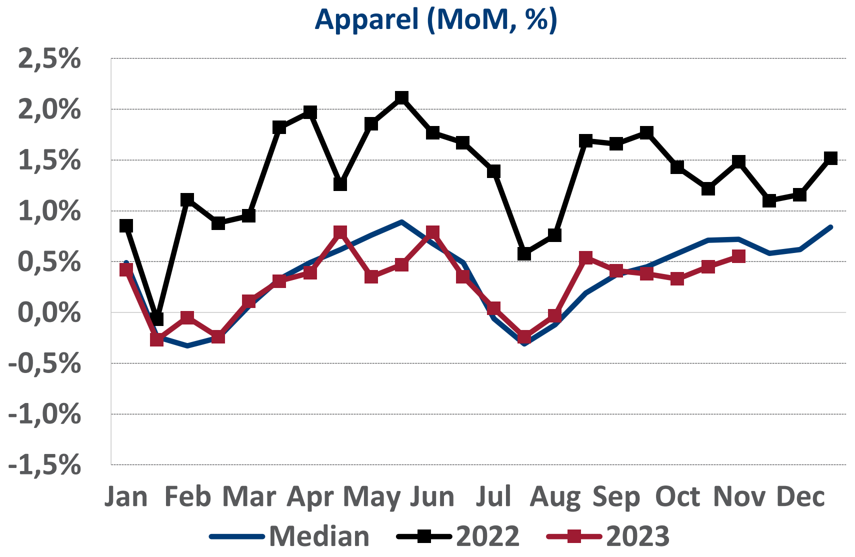
Brazil: Inflation 2023

- Industrial goods reached a deflation of 0.1% MoM;
- A deflation was seen in both 'Durable' and 'Non-Durable' goods, with a significant drop of 'Personal Hygiene';
- A possible anticipation of Black Friday prices may have contributed to a deceleration in industrial prices.





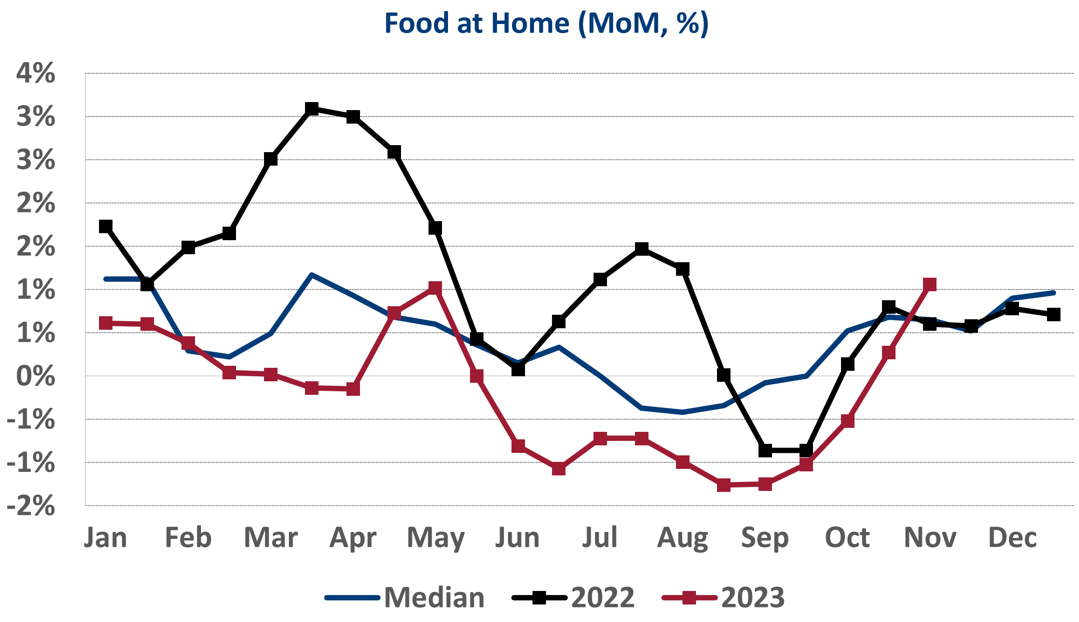


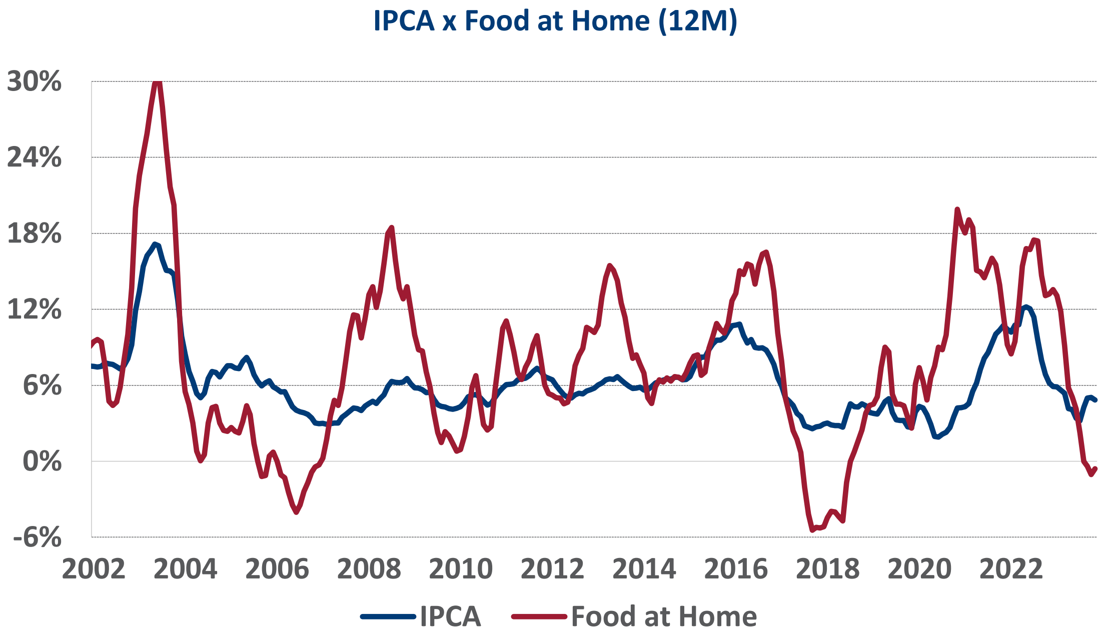


Source: BOCOM BBM, IBGE

Brazil: Inflation 2023

- 'Food at home' continued accelerating (+1.1%);
- Expansions in food prices should be seen as consequences of seasonal factors and extreme climate change with the arrival of a strong El Niño.





Source: BOCOM BBM, IBGE

Brazil: Inflation

- We keep our forecast for 2023 at 4.4%
- For 2024 we increased our forecast from 3.8% to 4.0%, in face of risks regarding climate concerns that should impact food at home inflation and tax increases that might pressure consumer prices next year

IPCA (%, annual)

	Weight	2019	2020	2021	2022	2023	2024	2025
Regulated	**26.6**	**5.5**	**2.6**	**16.9**	**-3.8**	**9.0**	**5.0**	**3.9**
Industrial goods	**23.6**	**1.7**	**3.2**	**11.9**	**9.5**	**0.9**	**2.2**	**2.9**
Durable goods	10.3	0.0	4.5	12.9	6.1	-0.3	1.1	-
Semi-durable goods	5.9	0.6	-0.1	10.2	15.7	2.8	3.0	-
Non-durable goods	7.3	4.4	4.0	11.9	9.5	1.0	3.1	-
Food at home	**15.7**	**7.8**	**18.2**	**8.2**	**13.2**	**-0.4**	**3.6**	**4.0**
Services	**34.1**	**3.5**	**1.7**	**4.8**	**7.6**	**5.7**	**4.4**	**4.9**
Food away from home	5.6	3.8	4.8	7.2	7.5	4.9	3.7	4.8
Related to minimum wage	5.2	2.9	1.5	3.3	6.3	4.8	5.1	6.0
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.3	8.1	4.4	5.3
Inertial	15.0	4.3	1.6	4.2	8.8	5.1	4.4	4.3
IPCA		**4.3**	**4.5**	**10.1**	**5.8**	**4.4**	**4.0**	**4.0**

- **Other medium term risks**

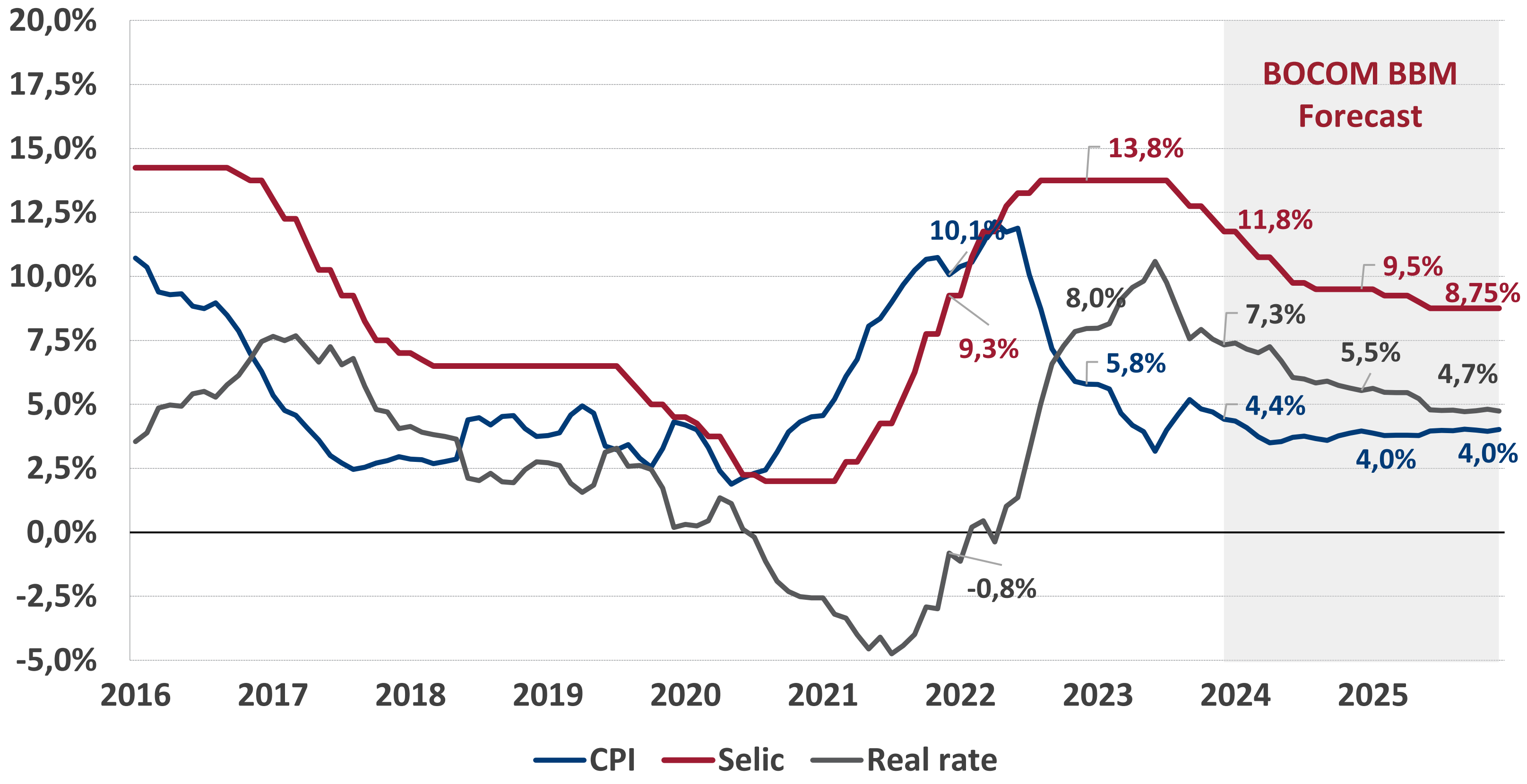
1. New flexibilizations in the fiscal framework must impact inflation expectations
2. Changes in Copom board bring concerns
3. New mininum wage adjustment rule (INPC accumulated in 12 months until November + variation in economic growth from two years ago -> 7.7% in 2024)

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

» The Central Bank of Brazil cut the Selic rate by 50 bps at its November meeting, reaching 12.25% per year. Most of the statement remained unchanged, including guidance for cuts of the same magnitude at future meetings, but inflation forecasts rose. According to recent speeches by COPOM members, the committee should maintain the rate of cuts at 50 bps in the next meetings, in line with our baseline scenario;

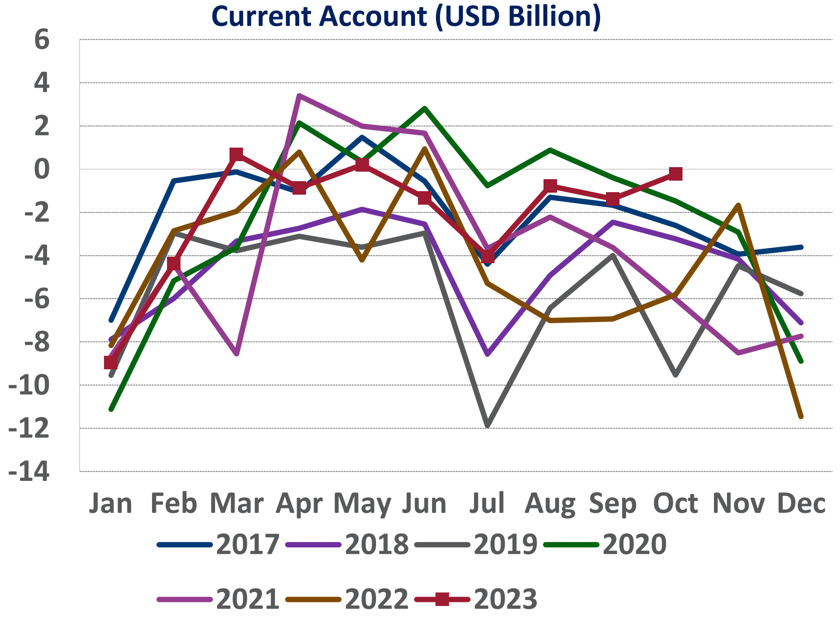
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

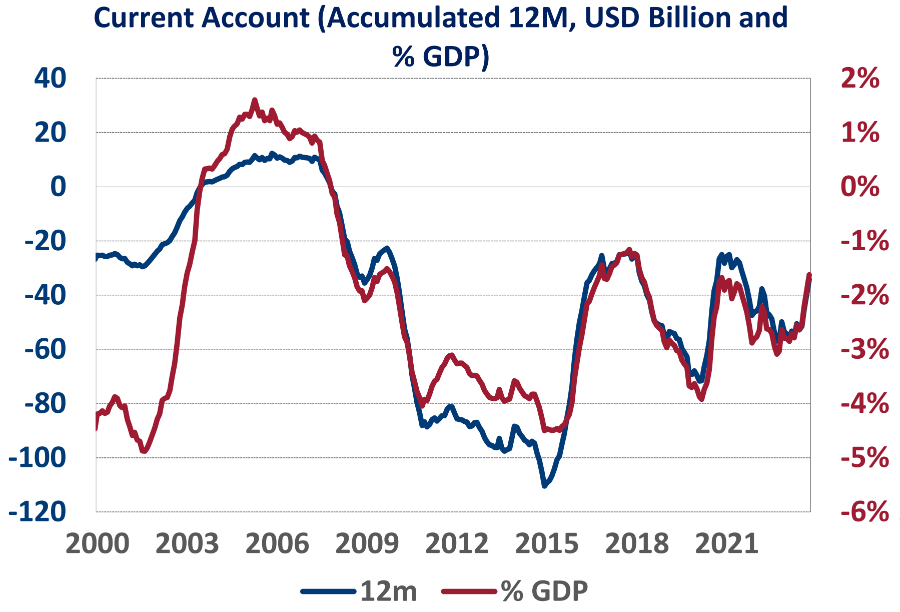


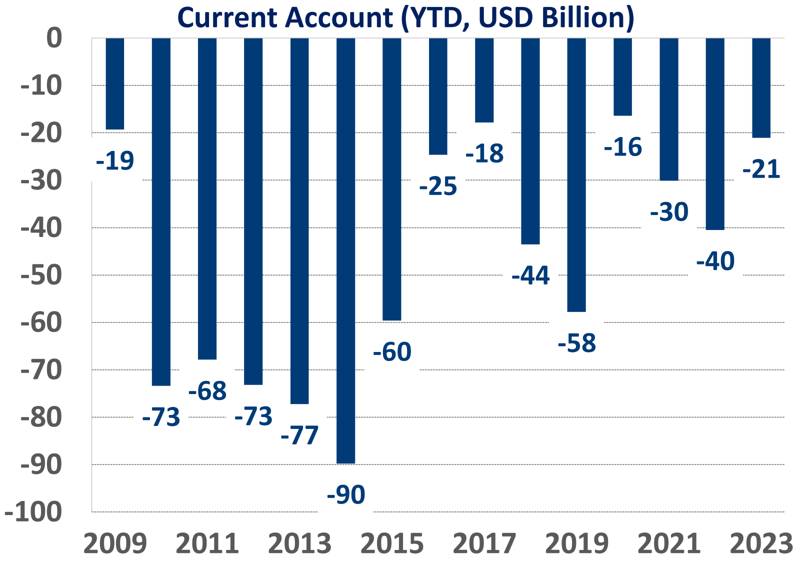
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The Brazilian current account showed a modest deficit of USD 0.2 billion in October, a positive surprise (Consensus: USD -0.8 billion);
- The current account balance stood at USD -34.0 billion in the 12-month rolling sum up to October (-1.62% of GDP) significantly better than the USD -56.7 billion up to the same month of 2022 (-3.04% of GDP).







Source: BOCOM BBM, BCB

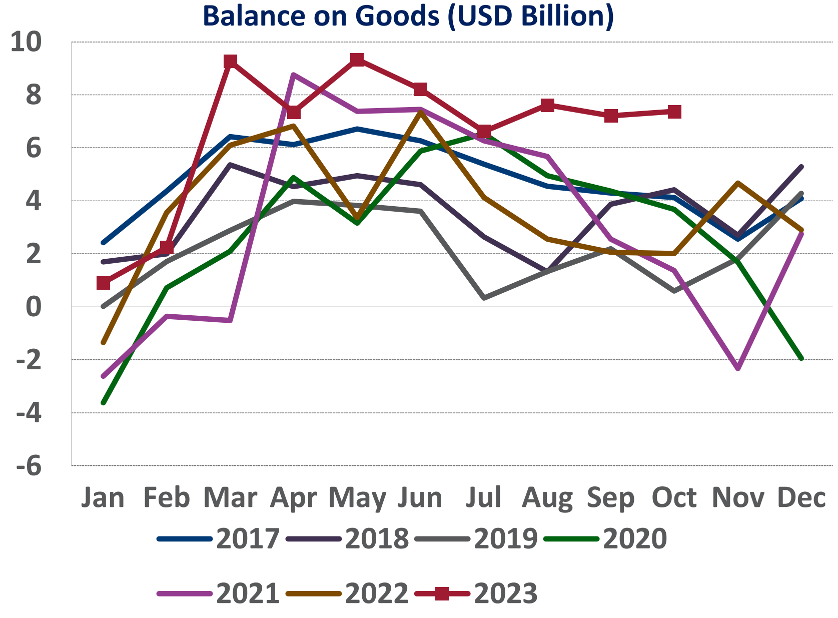
Brazil: Balance of Payments

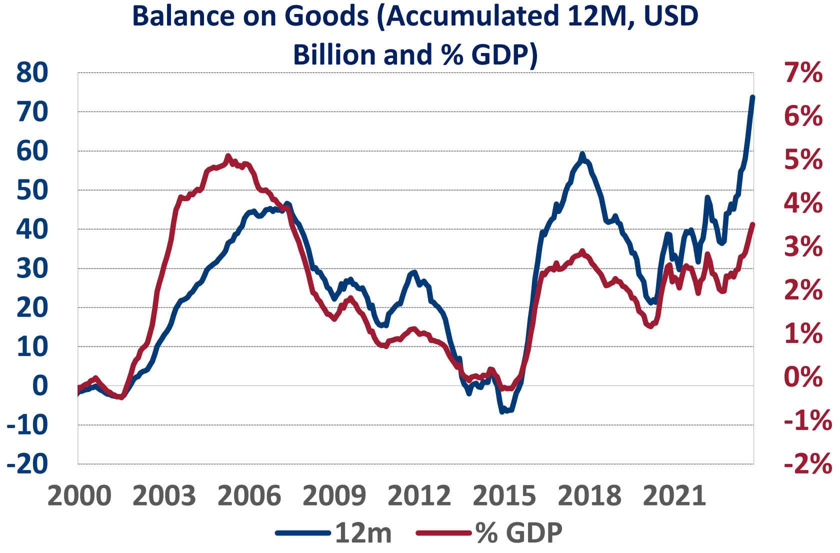
交通銀行 BANK OF COMMUNICATIONS BBM

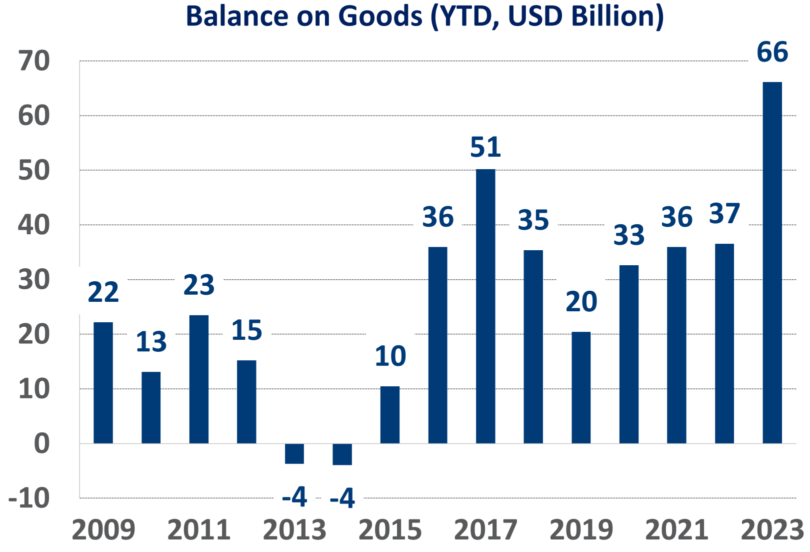
- The merchandise trade balance presented a surplus of USD 7.4 billion in October, well above the amount of USD 2.0 billion registered in the same month of 2022;

- Once again, the strong year-on-year expansion resulted from the tumble in Imports (-12.7% to USD 22.3 billion) and the increase in Exports (7.6% to USD 29.7 billion);

- The trade balance totaled USD 73.9 billion in the 12-month rolling sum up to October.







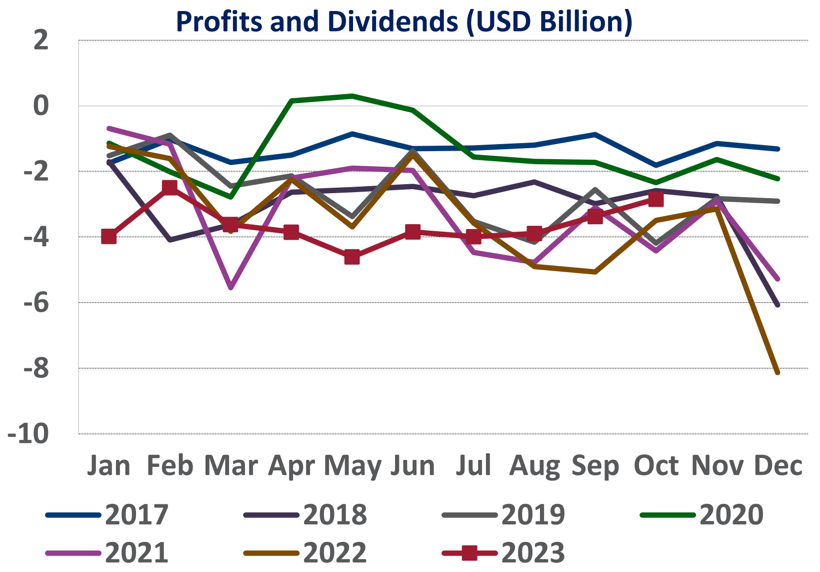
Source: BOCOM BBM, BCB

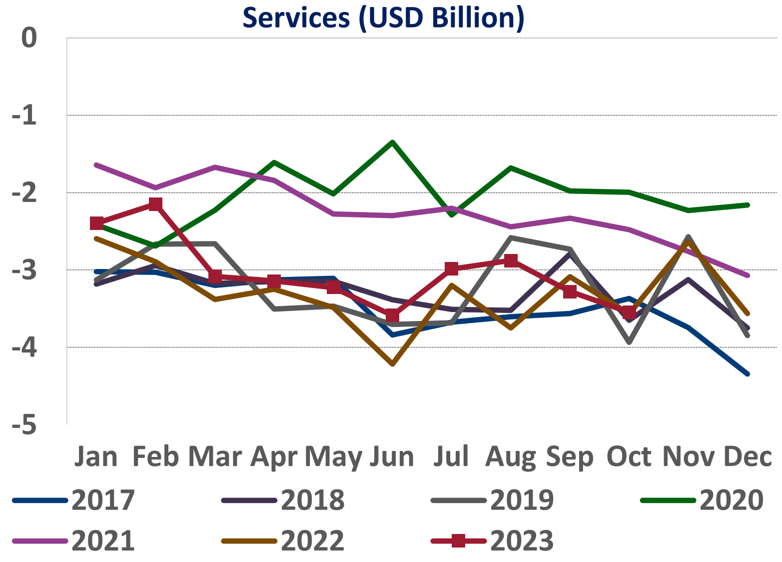
Brazil: Balance of Payments

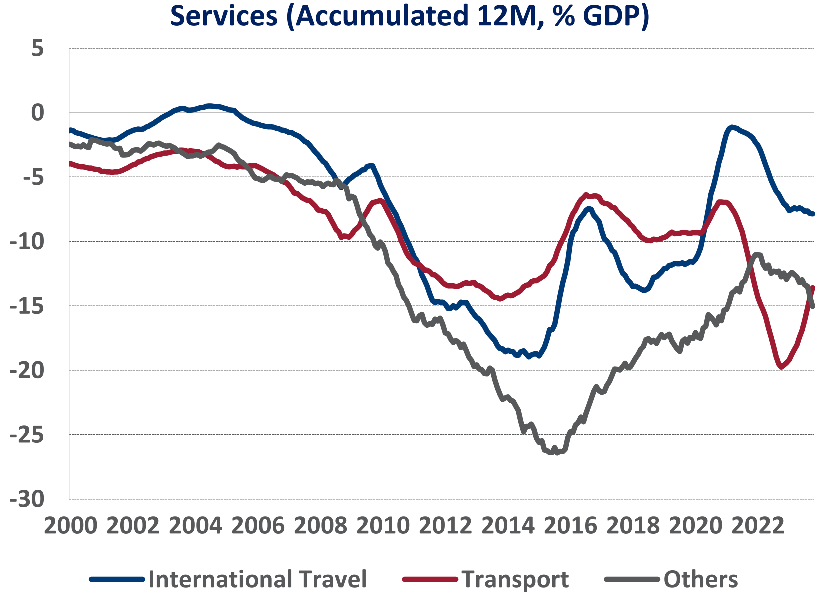
交通銀行 BANK OF COMMUNICATIONS BBM

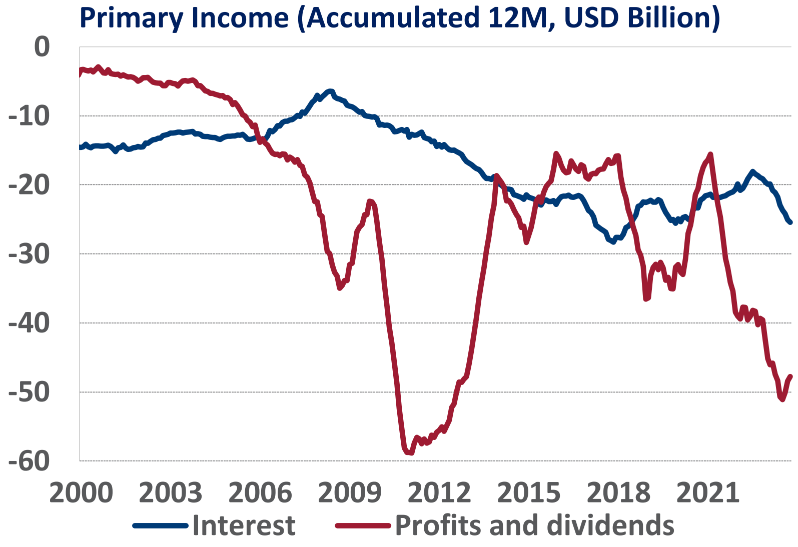
- The deficit in the Services account was virtually flat on a yearly basis, amounting to USD 3.5 billion, as higher net expenses on international travel offset lower outlays on freight;

- The deficit in the Primary Income account narrowed to USD 4.2 billion in October 2023 from USD 4.6 billion in October 2022, in the wake of lower net expenditures on profits and dividends.





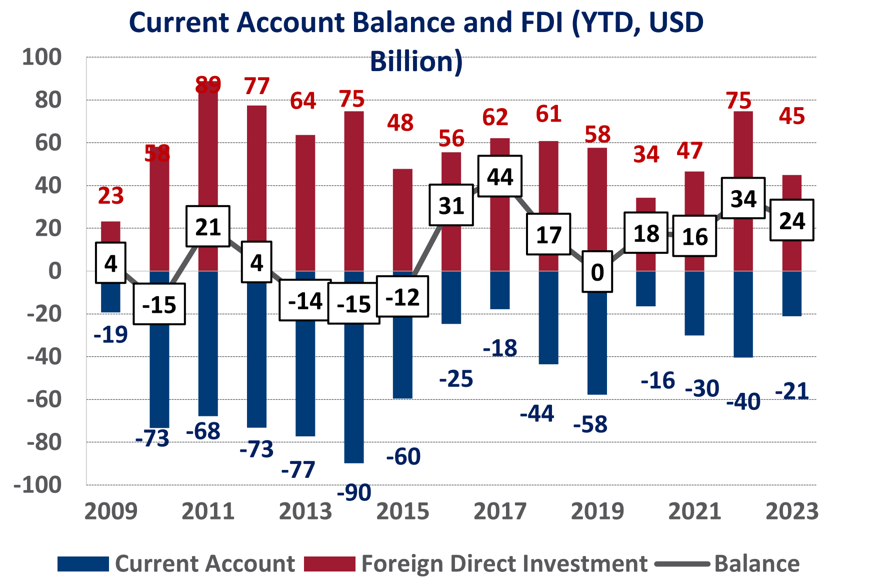


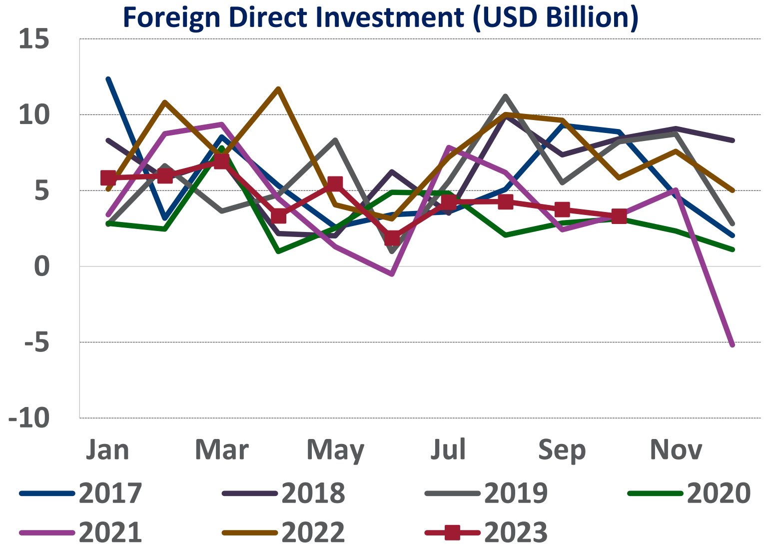


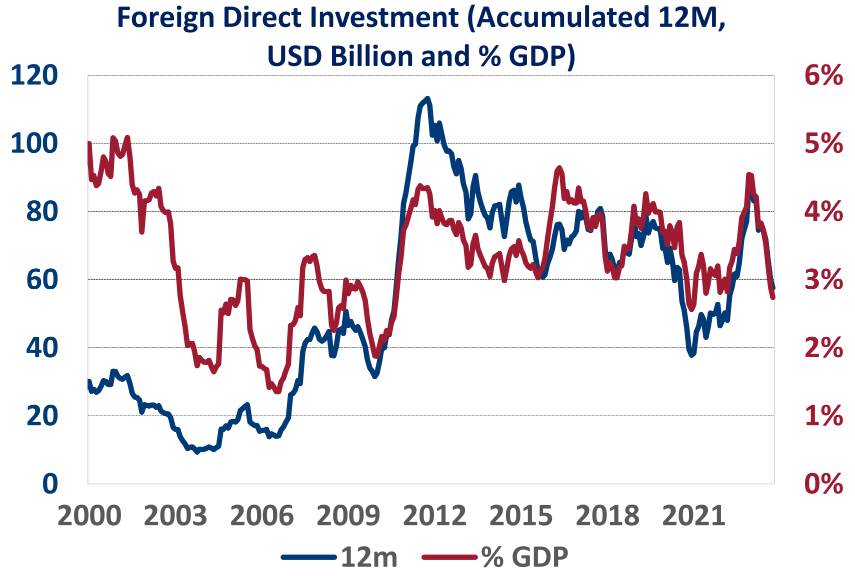
Source: BOCOM BBM, BCB

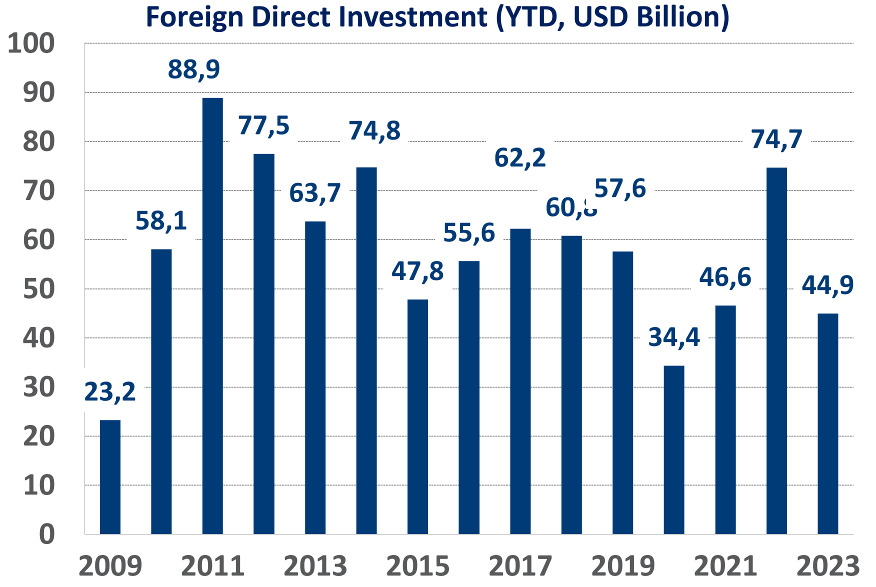
Brazil: Balance of Payments

- Net inflows in FDI came in below market expectation (actual: USD 3.3 billion; Street: 4.3 billion) and much lower than the amount of USD 5.8 billion seen one year ago
- The FDI totaled USD 57.5 billion based on the 12-month rolling sum through October (2.74% of GDP)
- The decline in FDI has been reflecting the weakening of economic activity and lower corporate profitability, both in Brazil and abroad
- Brazilian balance of payments remains solid, despite the recent worsening in FDI







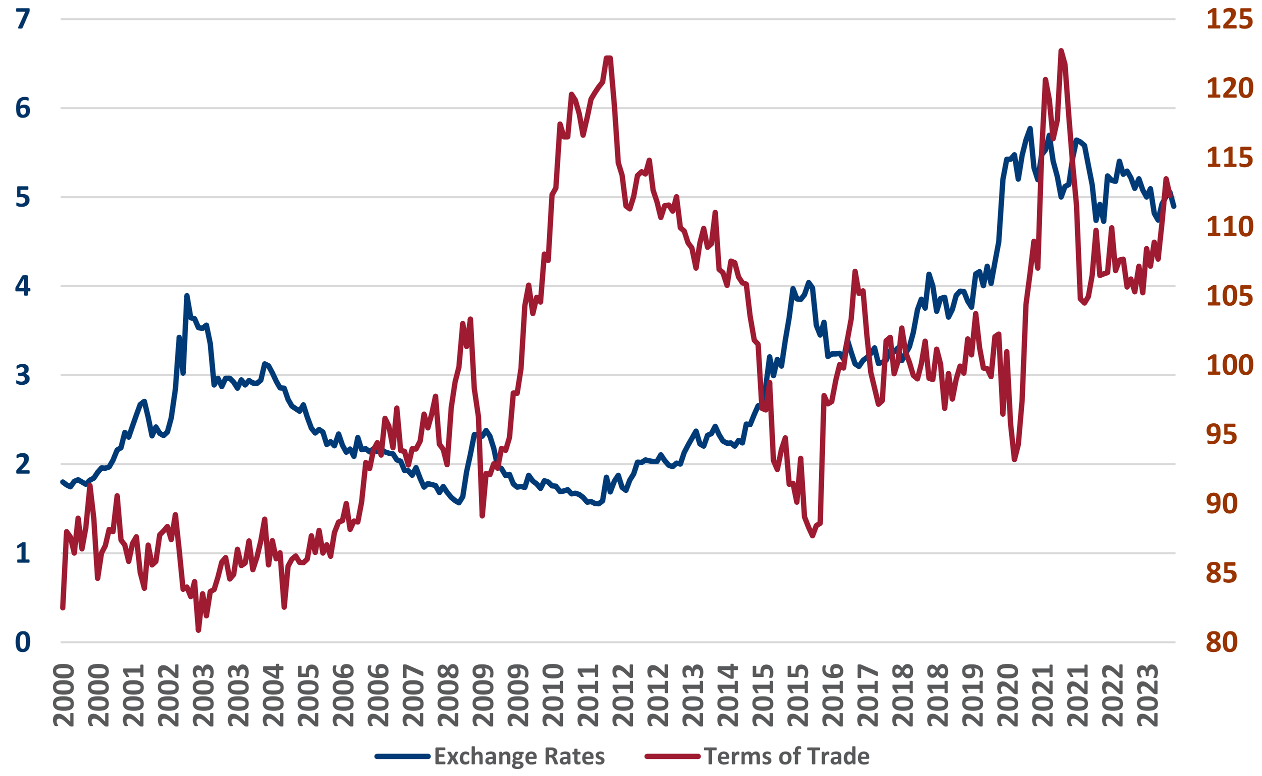


Source: BOCOM BBM, BCB

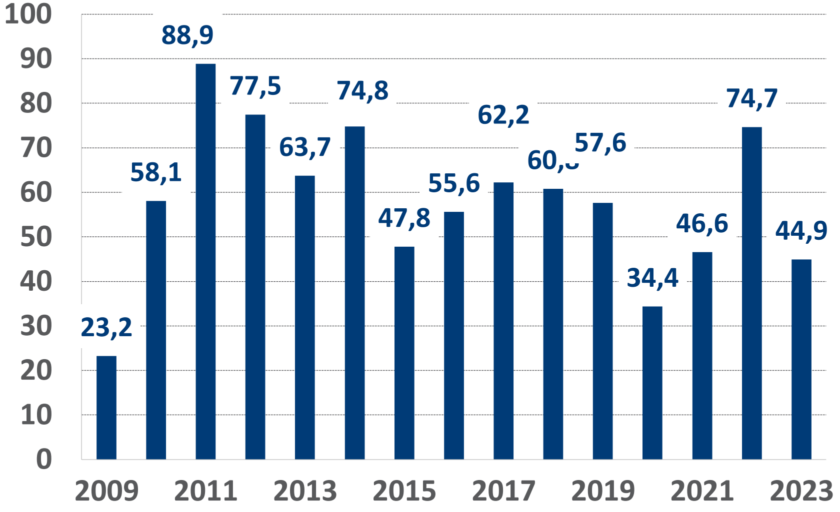
Brazil: External Sector

» Despite the reduction in the interest rate differential and in the level of foreign direct investment entering the country, the downward surprises in consumer and producer inflation in the USA brought a perception of a more structural reduction in international inflationary pressures, strengthening the real against the dollar.

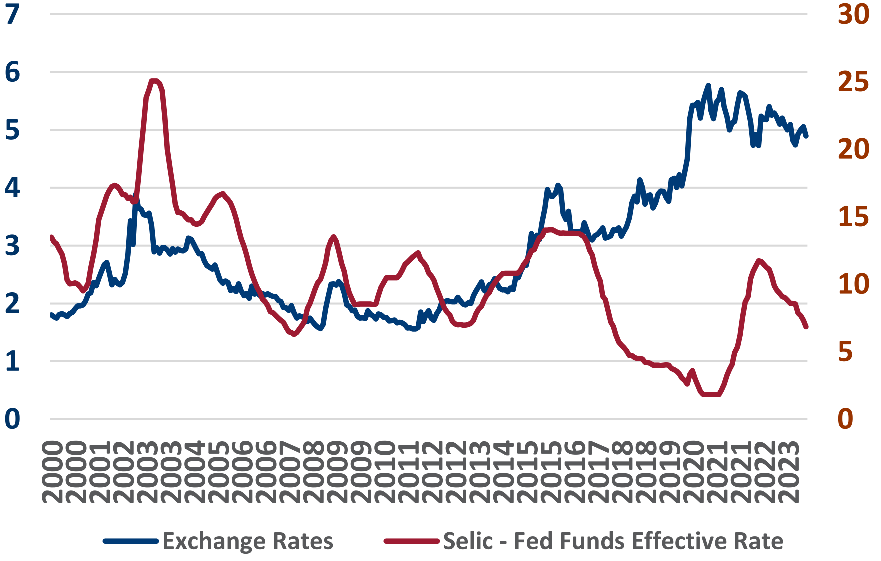
Terms of Trade x BRL



Foreign Direct Investment (YTD, USD Billion)



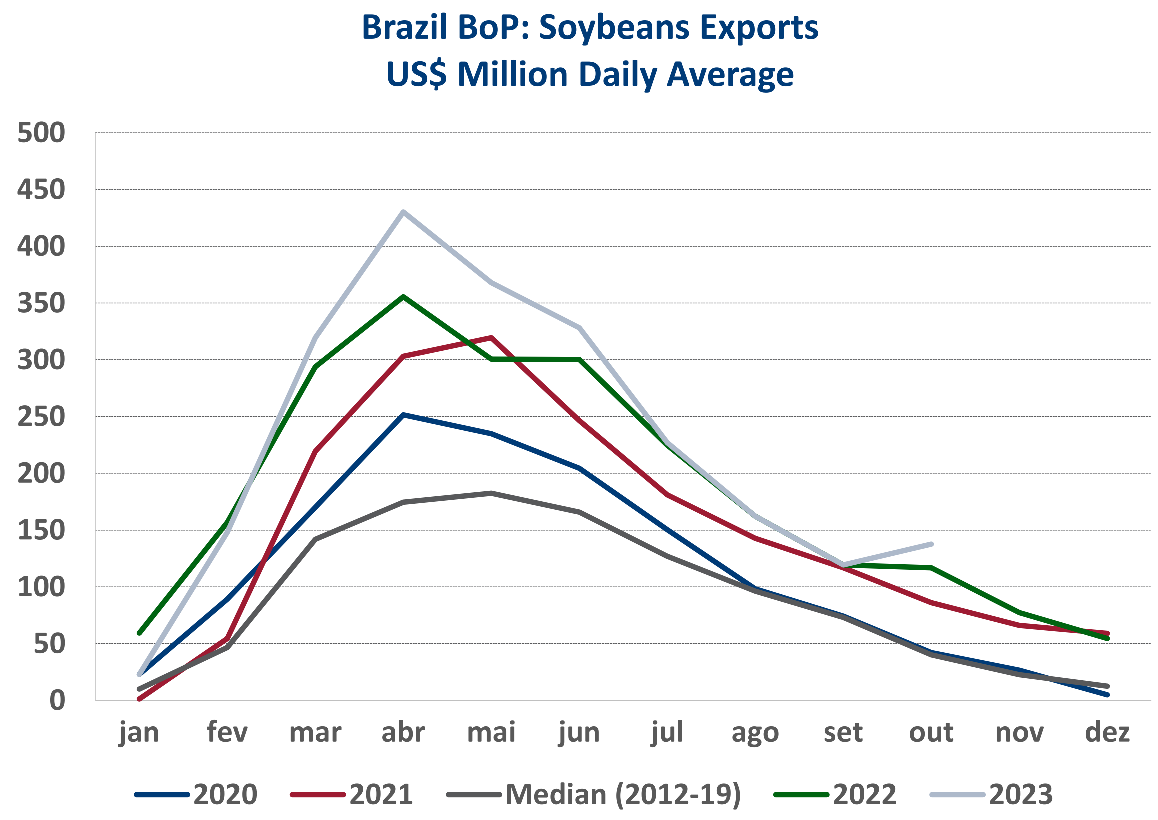
Interest Rate Differential x BRL

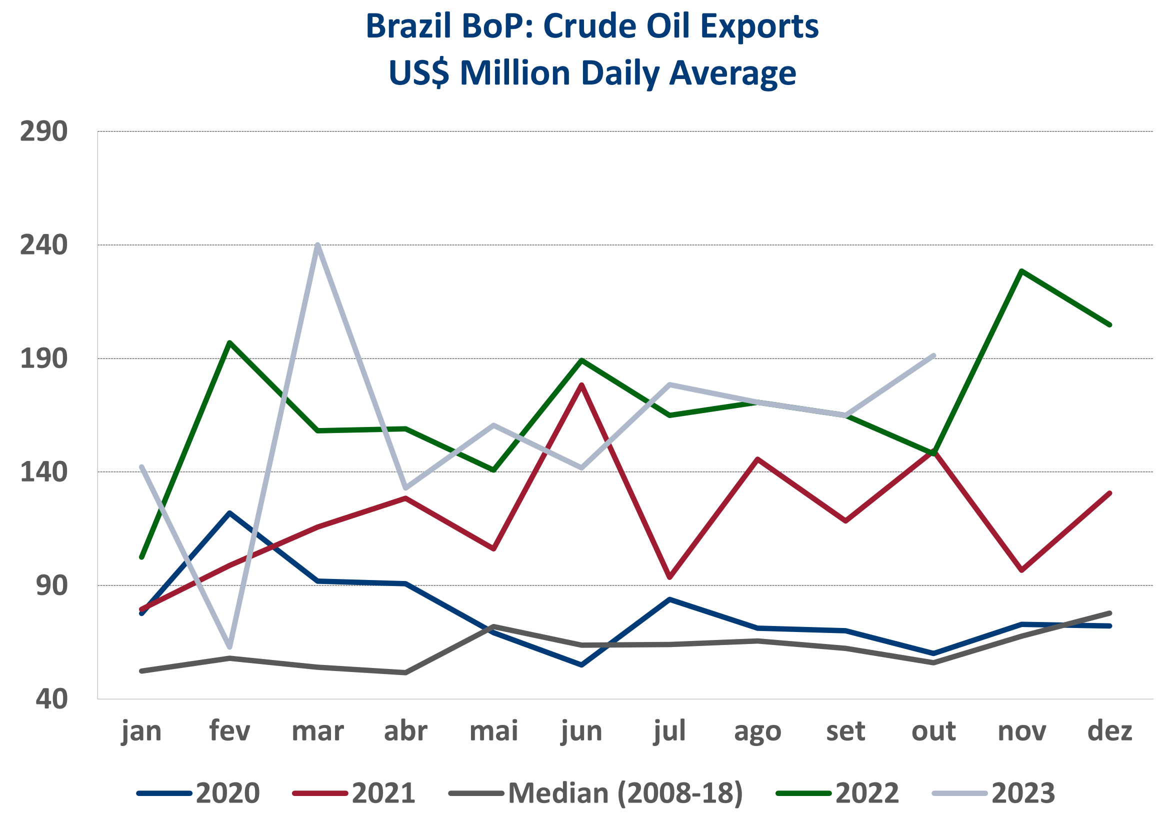


Source: BOCOM BBM, Bloomberg, Funcex, BCB

Brazil: External Sector

- In October, the trade balance presented a surplus of US$ 8.6 billion (140.1% YoY);
- Year to date, the trade surplus reached US$ 80.2 bn, a historical record for the first ten months of the year;
- This very good print of 2023 trade balance was manly driven by quantum increases in soybean and crude oil exports and a general drop in imports.





Source: Secex, BOCOMBBM

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