交通銀行 BANK OF COMMUNICATIONS BBM

MACRO OUTLOOK

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Macro Outlook

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- Some developed economies are facing a more pronounced slowdown of economic activity, such as Europe, while others are proving more resilient, like the US. Core inflation continues to improve, and recent data showed a better composition among its main drivers. In their last meeting of 2023, Powell announced that the FOMC began discussing when to start monetary policy easing. Their updated forecasts now considers 75bps of cuts in 2024, reaching 4.6% by year-end (today's rate is at 5.4%). The market project 150bps of cuts, in an easing cycle that begins already in March.

- As for China, Q4 data continued to expand on a yearly basis, but slowed a bit on a 2-year annualized perspective that adjusts for the weaker base effects from 2022. Nonetheless, economic activity composition remained heterogenous with sectors related to real estate still struggling, while components related to green energy, renewables, technology and automobiles continued to thrive amid policy support for high quality development;

- In Brazil, after a positive surprise in Q3 GDP, monthly economic activity data continued to show a decelerating trend. In October, both the services sector (-0.6% MoM) and broad retail sales (-0.4% MoM) contracted, while industrial production grew modestly (+0.1% MoM), preserving a weak breakdown. After October's data, we revised our GDP projection for Q4 from 0% QoQ to -0.1% QoQ, but the projection for 2023 remained at 2.9%. For 2024, we maintained our projection of 1.3%, but we see risks. On the one hand, the labor market resilience and the disinflation process could significantly boost household's disposable income, on the other, we see risks of lower agricultural production in face of adverse weather, which could also generate negative spillover effects in other sectors;

- Concerning monetary policy, the Brazilian Central Bank cut Selic rates by 50 bps in its December meeting reaching 11.75% per year. Aside from the small improvement in inflation projections for 2024 (down to 3.5% from 3.6%), the committee has acknowledged two notable improvements in the economic scenario. First, international conditions are less adverse than before, and the inflation dynamics in several economies show signs of easing. Second, inflation trajectory in Brazil has evolved as expected and underlying inflation is reaching levels close to the target. Despite a more favorable scenario, the BCB kept the forward guidance and foresees rates cuts of 50 bps in the next meetings, in line with our baseline scenario;

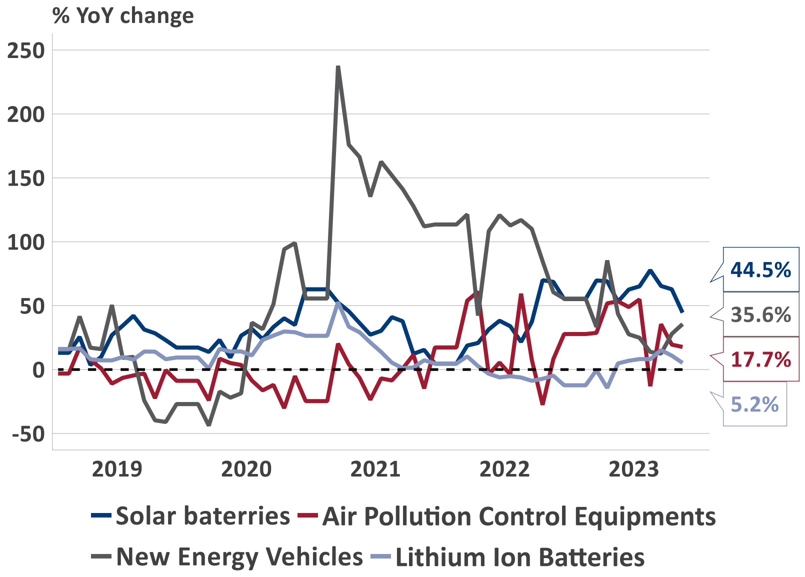
- In the inflation scenario, we increased our projection for 2023 from 4.4% to 4.6% due to the upward surprise in airfares in December's IPCA-15. Despite the surprise, the main inflation metrics remain well behaved and the benign view regarding the disinflationary process in the short term persists. For 2024, we maintained our projection at 4%;

- In the fiscal scenario, the federal tax collection contracted 0.4% YoY in real terms in November. On the positive side, measures to increase revenues, as the reversal of tax cuts on gasoline and ethanol and the exclusion of ICMS credits from PIS/Cofins tax base, brought a strong recovery in PIS/Cofins revenues and contributions related to labor market continued to show resilience. On the negative side, the slowdown in corporate income taxes (IRPJ and CSLL) continues, reflecting lower commodity prices and a deceleration in economic activity. For 2024, this weakness must be offset by the implementation of government measures.

China: Activity

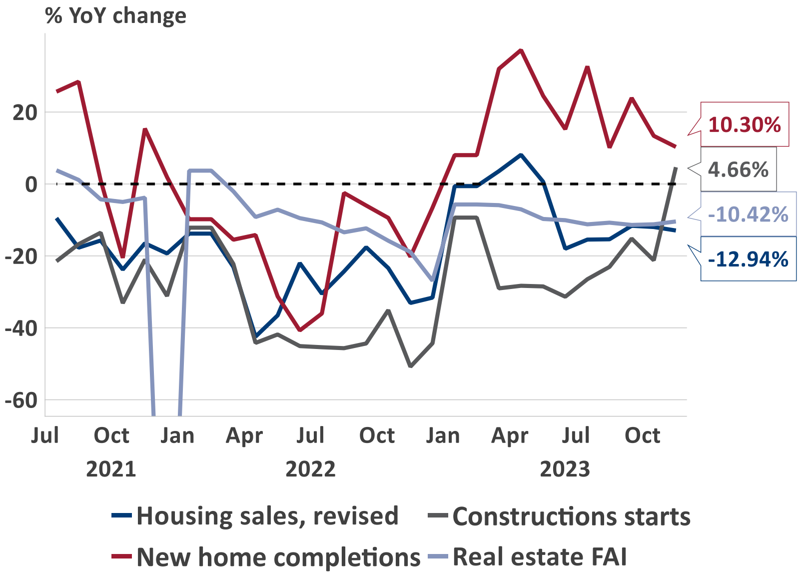
- November economic activity broadly improved in YoY terms due to a low base from 2022 Q4, but were below market expectations in some indicators;
- **Retail sales increased** from 7.6% to **10.1%** YoY (exp. 12.5%), with strength mainly driven by covid-sensitive segments on a low base (such as restaurants with +25.8% YoY), and goods (8.0% YoY): automobile (14.7% YoY) and clothing sales offset weaker housing-related products;
- **Industrial prod. rose** from 4.6% to **6.6%** YoY (exp 5.7%), reflecting strong growth in the manufacturing sector with automobiles (+23.6% YoY), smartphones (+25.1% YoY) and renewables related products as the main drivers;
- **FAI** remained stable at **2.9% YTD** (exp. 3.0%), reflecting the growth in manufacturing and infrastructure investment being offset by slower property;
- Although housing indicators are somewhat better off than what it was in Q2, the **housing market remains in rough shape** showing mixed results in November. This suggests that easing policies in the sector may have not created 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)

	11/2023	10/2023	11/2022
Industrial Production	6.6	4.6	2.2
Mining	3.9	2.9	5.9
Manufacturing	6.7	5.1	2.0
Utilities	9.9	1.5	-1.5
Fixed Asset Investment (YTD YoY)	2.9	2.9	5.3
Manufacturing	6.3	6.2	9.3
Real Estate	-9.4	-9.3	-9.8
Infrastructure	5.8	5.9	8.9
Retail Sales	10.1	7.6	-5.9
Catering Services	25.8	17.1	-8.4
Consumer Goods	8.0	6.5	-5.6
Clothing	22.0	7.5	-15.6
Automobiles	14.7	11.4	-4.2
Furniture	2.2	1.7	-4.0
Cellphones	16.8	14.6	-17.6
Home Appliances	2.7	9.6	-17.3
Construction	-10.4	-4.8	-10.0

Source: BOCOM BBM, Macrobond

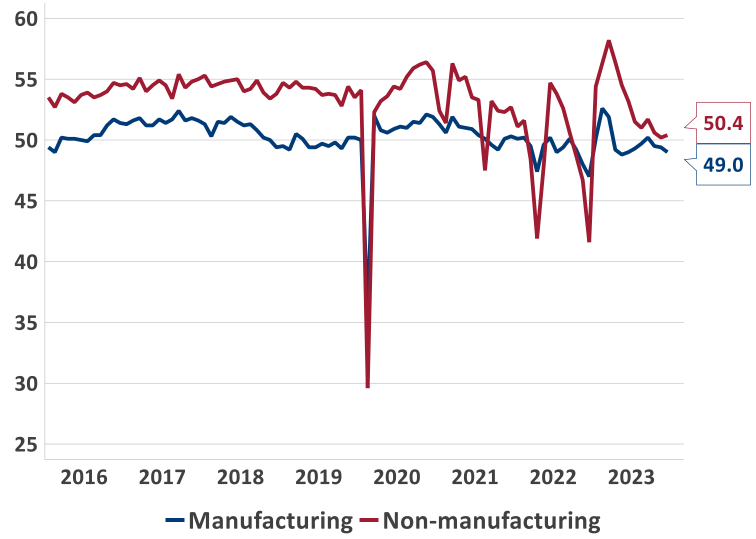
China: Economic Scenario

- In December, China's **PMI** showed a split in growth momentum, with the manufacturing sector remaining in contraction, while the non-manufacturing edged up its pace of expansion;
  - The NBS manufacturing PMI fell from 49.4 to **49.0** (exp. 49.5) due to external demand cooling up, decreasing the new export orders category;
  - The non-manufacturing sector continued expansionary, rising from 50.2 to **50.4** as the services sector slowed but construction surprisingly picked up amid policy support;

- **November exports surprised to the upside** boosted by a low base and expanding from -6.4% to +0.5**% YoY** (exp. -1.1%): automobiles (+19.6% YoY) and cellphones (+54.6% YoY) were the main drivers. In volume terms, growth remained robust, rising from 7.4% to 12.0% YoY;
- **Imports weakened to way below consensus**, going from +3.0% to **-0.6% YoY** (exp. +3.9%): reflects a fall in several commodities imports volume, such as oil (-9.2% YoY) and copper ore (1.3% YoY), as well as the drag from negative price effect on some commodities.

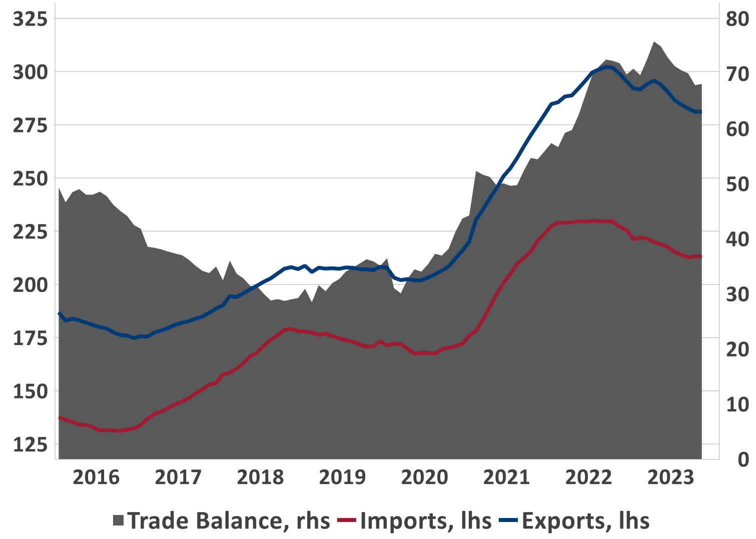
- **CPI** inflation fell by **-0.5%** MoM and from -0.2% to **-0.5%** YoY (exp. -0.2%), as food deflation widened mainly due to pork prices (-30.1% YoY) and domestic energy prices delved into negative territory (-2.9% YoY);
  - Goods YoY deflation widened, while services inflation slightly declined, continuing to reflect the divergence between these sectors recovery;

China: PMI



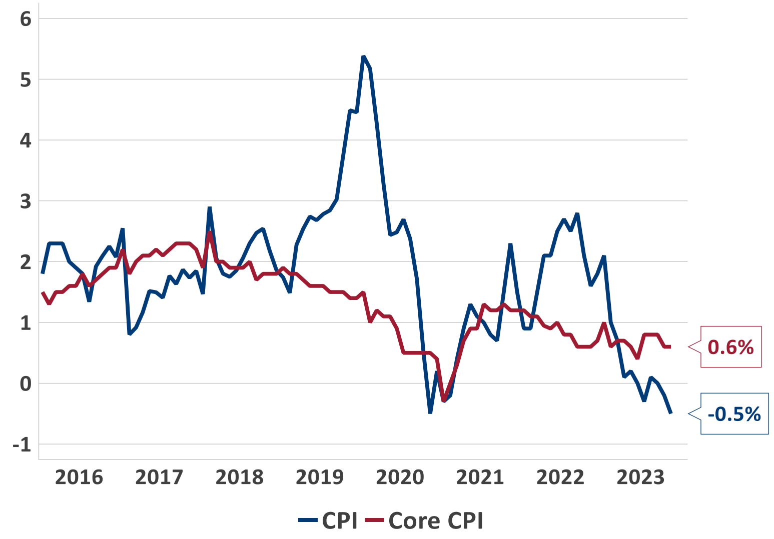
Source: BOCOM BBM, Macrobond, CFLP

China: Trade Balance (USD billion, 12MMA)



Source: BOCOM BBM, Macrobond, CCS

China: CPI (YoY, %)



Source: BOCOM BBM, Macrobond, NBS

USA: Inflation

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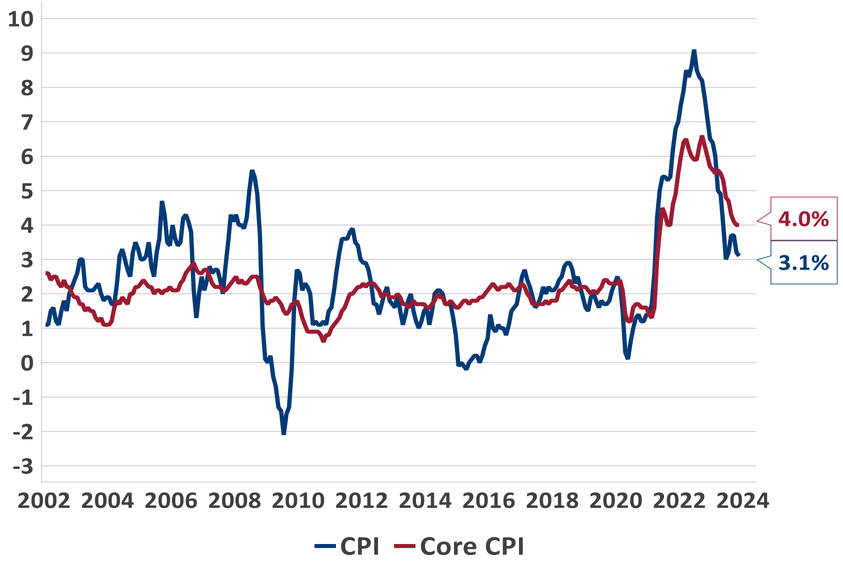
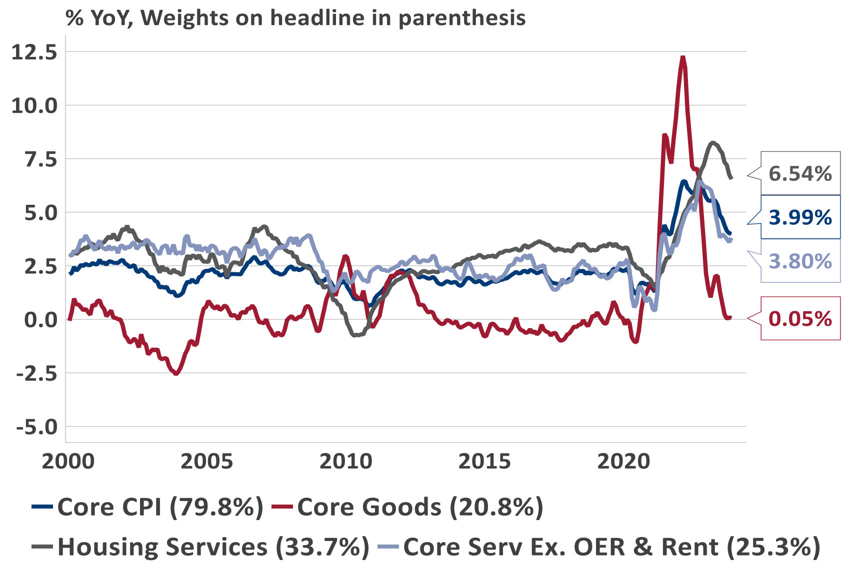
- **Nov. headline CPI rose 0.1% MoM** (above the exp. 0.0%), but the YoY rate fell from 3.2% to **3.1% YoY :**
  - **Energy**: fell 2,25% MoM as gasoline prices dropped 6%;
  - **Food:** showed a moderate increase of 0.22% MoM, although it remains well below their average pace of end 2022 and early 2023 (was 0.6%);

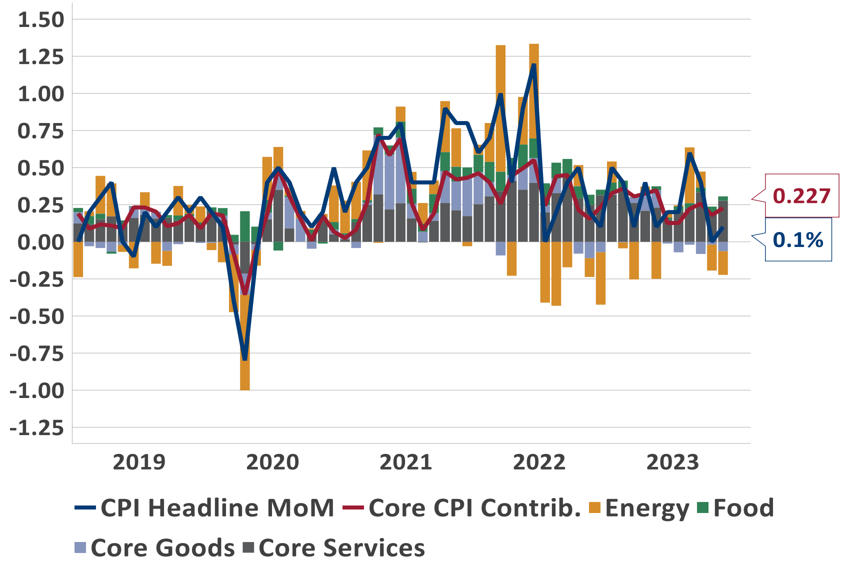
- **Core CPI** rose **0.3% MoM,** in line with the expectations, and the annual rate was unchanged at **4.0% YoY:**
  - **Core goods:** mostly subdued due to the post-pandemic easing of supply chains bottlenecks, as well as import prices moving sideways;
  - **Housing services**: a lagged component in the CPI which began slowing down in April, and should continue slowing over the following months as the growth of new tenants rent fell substantially since last year;
  - **Core Serv. Ex-Housing**: began falling more pronouncedly in Feb. this year, and should continue slowing as the labor market rebalances further and wage inflation slows: continued fall in travel-related services in the past couple of months helped with this disinflation.



Source: BOCOM BBM, Macrobond, BLS



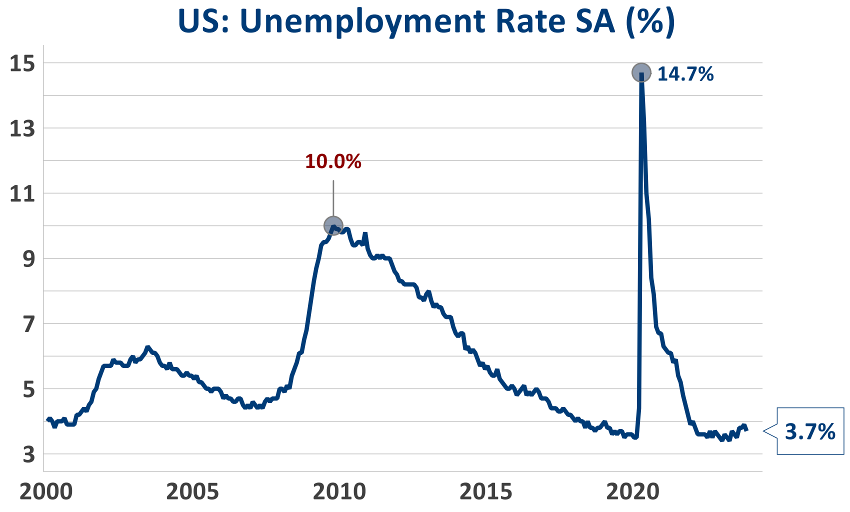
Source: BOCOM BBM, Macrobond, BLS



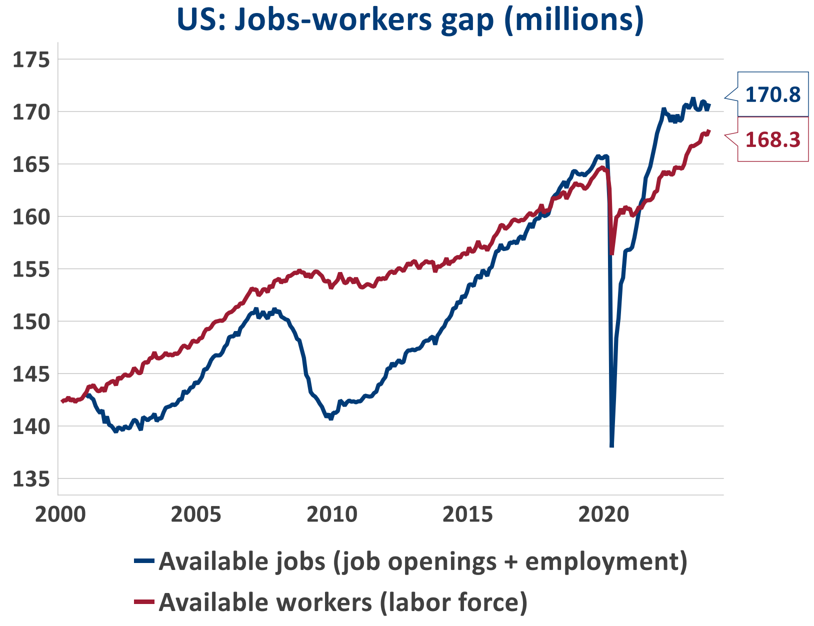
Source: BOCOM BBM, Macrobond, BLS

USA: Labor Market

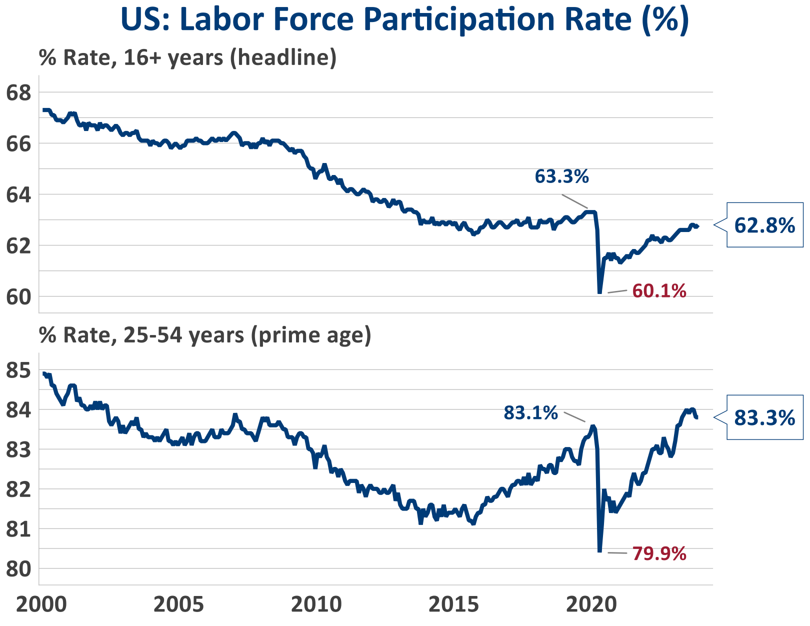
- **Labor market is gradually decelerating**, but in Nov., total nonfarm payroll surprised to the upside by creating 199k jobs, above exp. of 180k and the unrevised Oct. figure of 150k.
- On the other hand, the unemployment rate surprised downward by falling from 3.9% to **3.7%**;
- Nonetheless, in Nov., the jobs-workers gap rose a little from 2.3M to **2.5M** as demand rose reflecting rising employment, partially offset by a fall in job openings, while labor supply grew reflecting a +532k rise in the labor force
- November avg. hourly earnings **accelerated its monthly pace to 0.353% MoM**, above expectations of 0.3%, however the September pace was downwardly revised (from 0.33% to 0.26% MoM), helping to alleviate this reading;
  - The annual rate continued to gradually fall (from 4.04% to 3.96% YoY);



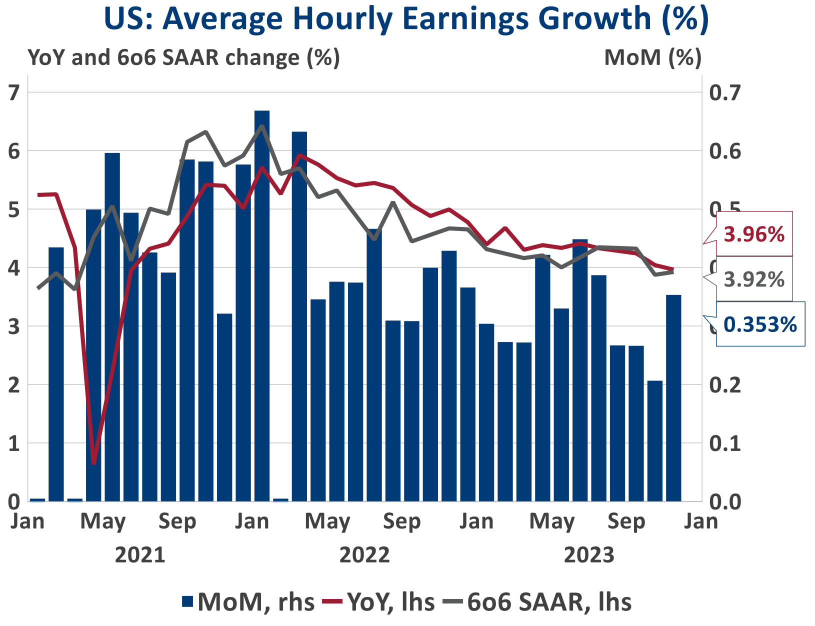
Source: BOCOM BBM, Macrobond, BLS



Source: BOCOM BBM, Macrobond, BLS



Source: BOCOM BBM, Macrobond



Source: BOCOM BBM, Macrobond

US: Monetary Policy

- Recent improvements in inflation and a strong and above-trend growth in 2023 Q3 GDP prompted FOMC members to revise up their GDP forecasts this year and down their inflation forecasts in most horizons;

- Moreover, Chair Powell announced that the FOMC began discussing when to start easing policy – a significant dovish nod;

- The updated Fed Dots plot showed a broad downward movement across all horizons and the 2024 median dot now implies 75bps of cuts throughout the year (was 50bps in the prior Dots);

- This still diverges with the implied policy rate priced in by markets which points to 150bps of cuts in 2024, forecasted to begin in March;

Fed Projections Table

dez-23 Variable	2023 Median	2024 Median	2025 Median	2026 Median	Long Run Median
Change in real GDP	2.60%	1.40%	1.80%	1.90%	1.80%
September projection	*2.10%*	*1.50%*	*1.80%*	*1.80%*	*1.80%*
Unemployment rate	3.80%	4.10%	4.10%	4.10%	4.10%
September projection	*3.80%*	*4.10%*	*4.10%*	*4.00%*	*4.00%*
PCE inflation	2.80%	2.40%	2.10%	2.00%	2.00%
September projection	*3.30%*	*2.50%*	*2.20%*	*2.00%*	*2.00%*
Core PCE inflation	3.20%	2.40%	2.20%	2.00%	
September projection	*3.70%*	*2.60%*	*2.30%*	*2.00%*	

Source: BOCOM BBM, Fed

Fed Dots (Dec-23)

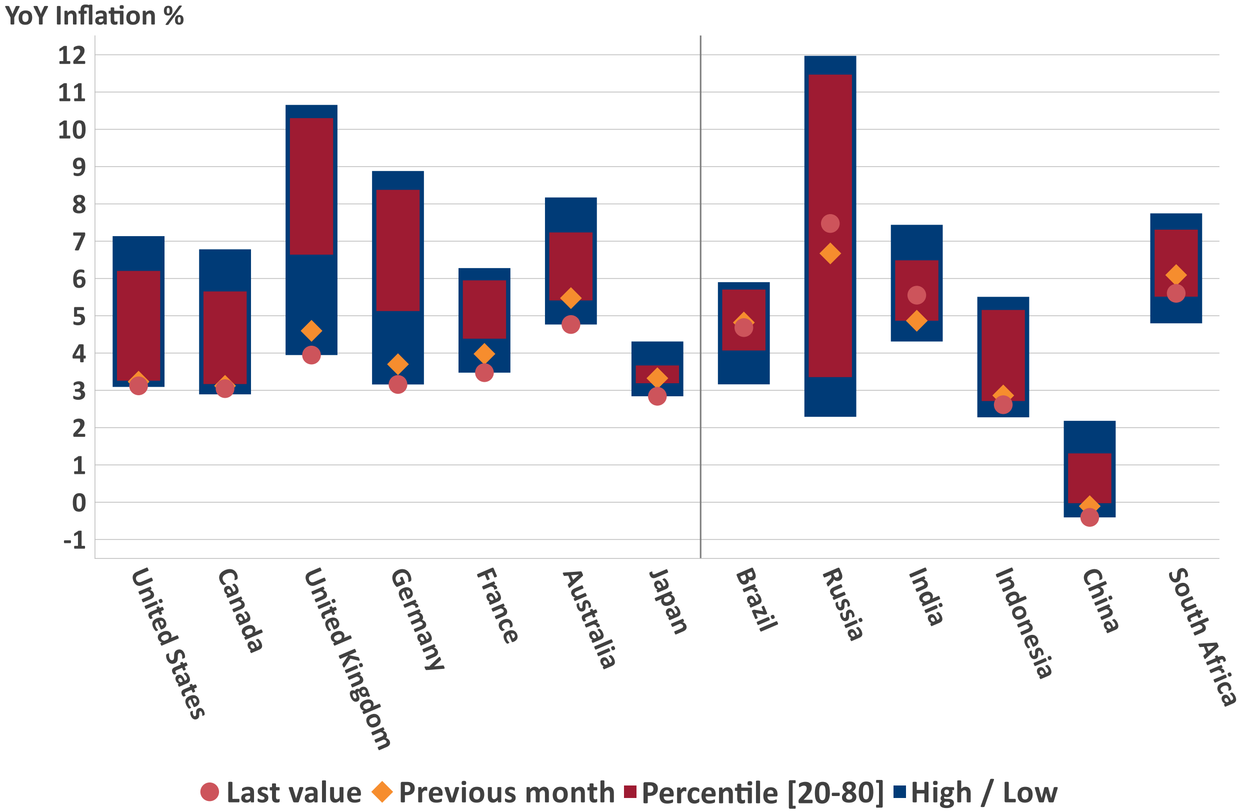
SEP (12/23)	2023		2024		2025		2026		Longer Term	
Tgt Range	Sep-23	Dec-23	Sep-23	Dec-23	Sep-23	Dec-23	Sep-23	Dec-23	Sep-23	Dec-23
6.00-6.25			1							
5.75-6.00										
5.50-5.75	12		1		1					
5.25-5.50	7	19	4	2	1	1				
5.00-5.25			4	1	1					
4.75-5.00			4	5	1		2	1		
4.50-4.75			3	6	1		1			
4.25-4.50			2	4		1				
4.00-4.25					3	1	2			
3.75-4.00				1	2	4	1			
3.50-3.75					3	3		1	2	1
3.25-3.50					3	5		1	1	2
3.00-3.25					1	2	2	4	1	
2.75-3.00					1	1	2	4	1	2
2.50-2.75					1		5	4	2	2
2.25-2.50						1	4	4	11	11
2.00-2.25										
1.75-2.00										
1.50-1.75										
1.25-1.50										
1.00-1.25										
0.75-1.00										
0.50-0.75										
0.25-0.50										
0.00-0.25										
MEDIAN	5.6	**5.4**	5.1	**4.6**	3.9	**3.6**	2.9	**2.9**	2.5	**2.5**
Participants	19	**19**	19	**19**	19	**19**	19	**19**	18	**18**

* If a member's forecast has their decimal case ending in either 0, .25 or .5, it's being considered as the upper end of the range (e.g. a forecast of 2.5, goes into the range of 2.25-2.50). Medians are highlighted in yellow.

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.

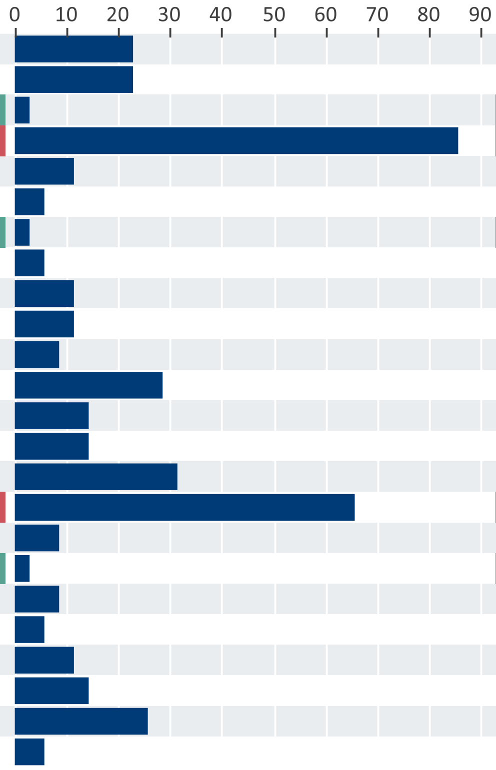
Inflation range during the past 12 months



Source: BOCOM BBM, Macrobond

Recession Tracker

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



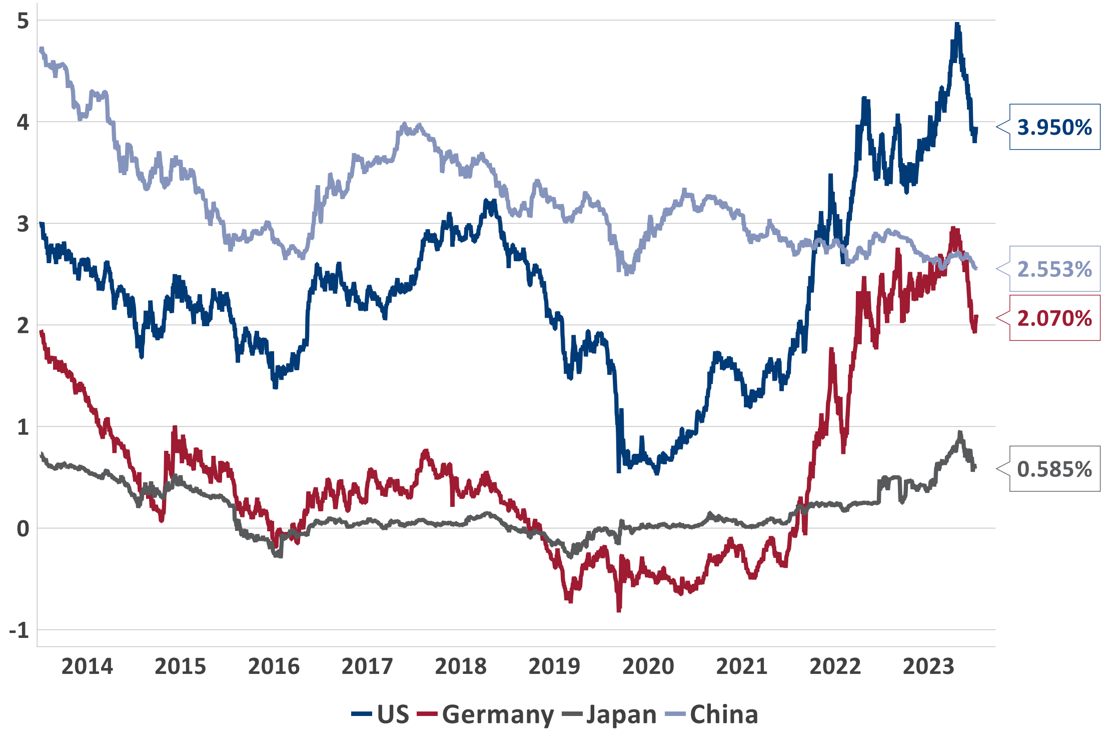
	Share (%)	#
2023	22.9	8
2022	22.9	8
2021	2.9	1
2020	85.7	30
2019	11.4	4
2018	5.7	2
2017	2.9	1
2016	5.7	2
2015	11.4	4
2014	11.4	4
2013	8.6	3
2012	28.6	10
2011	14.3	5
2010	14.3	5
2009	31.4	11
2008	65.7	23
2007	8.6	3
2006	2.9	1
2005	8.6	3
2004	5.7	2
2003	11.4	4
2002	14.3	5
2001	25.7	9
2000	5.7	2

Source: BOCOM BBM, Macrobond, National Sources

Global: Interest Rates

- Most countries that experienced an unwanted inflationary process seems to have already reached its peak in their monetary policy tightening cycle;
- The next big question that starts to get more attention is: “When should Central Banks begin easing policy?”
- In some countries, such as Brazil and Chile, the easing process has already started.

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	100.00	-33.00	Cut	12/2023	3	1
Australia	4.35	0.25	Hike	11/2023	2	38
Brazil	11.75	-0.50	Cut	12/2023	17	1
Canada	5.00	0.25	Hike	7/2023	6	45
Chile	8.25	-0.75	Cut	12/2023	15	1
China	3.45	-0.10	Cut	8/2023	119	5
Colombia	13.00	-0.25	Cut	12/2023	8	1
Costa Rica	6.00	-0.25	Cut	12/2023	14	0
Czech Republic	6.75	-0.25	Cut	12/2023	18	0
Denmark	3.75	0.25	Hike	9/2023	4	27
Euro Area	4.50	0.25	Hike	9/2023	4	94
Hungary	10.75	-0.75	Cut	12/2023	15	1
Iceland	9.25	0.50	Hike	8/2023	4	38
India	6.50	0.25	Hike	2/2023	11	43
Indonesia	6.00	0.25	Hike	10/2023	3	35
Israel	4.50	-0.25	Cut	1/2024	7	0
Japan	-0.10	-0.20	Cut	1/2016	202	95
Mexico	11.25	0.25	Hike	3/2023	9	35
New Zealand	5.50	0.25	Hike	5/2023	7	46
Norway	4.50	0.25	Hike	12/2023	1	44
Poland	5.75	-0.25	Cut	10/2023	16	3
Russia	16.00	1.00	Hike	12/2023	1	16
Saudi Arabia	6.00	0.25	Hike	7/2023	5	46
South Africa	8.25	0.50	Hike	5/2023	7	41
South Korea	3.50	0.25	Hike	1/2023	12	43
Sweden	4.00	0.25	Hike	9/2023	3	95
Switzerland	1.75	0.25	Hike	6/2023	6	108
Turkey	42.50	2.50	Hike	12/2023	0	10
United Kingdom	5.25	0.25	Hike	8/2023	5	46
United States	5.50	0.25	Hike	7/2023	5	46

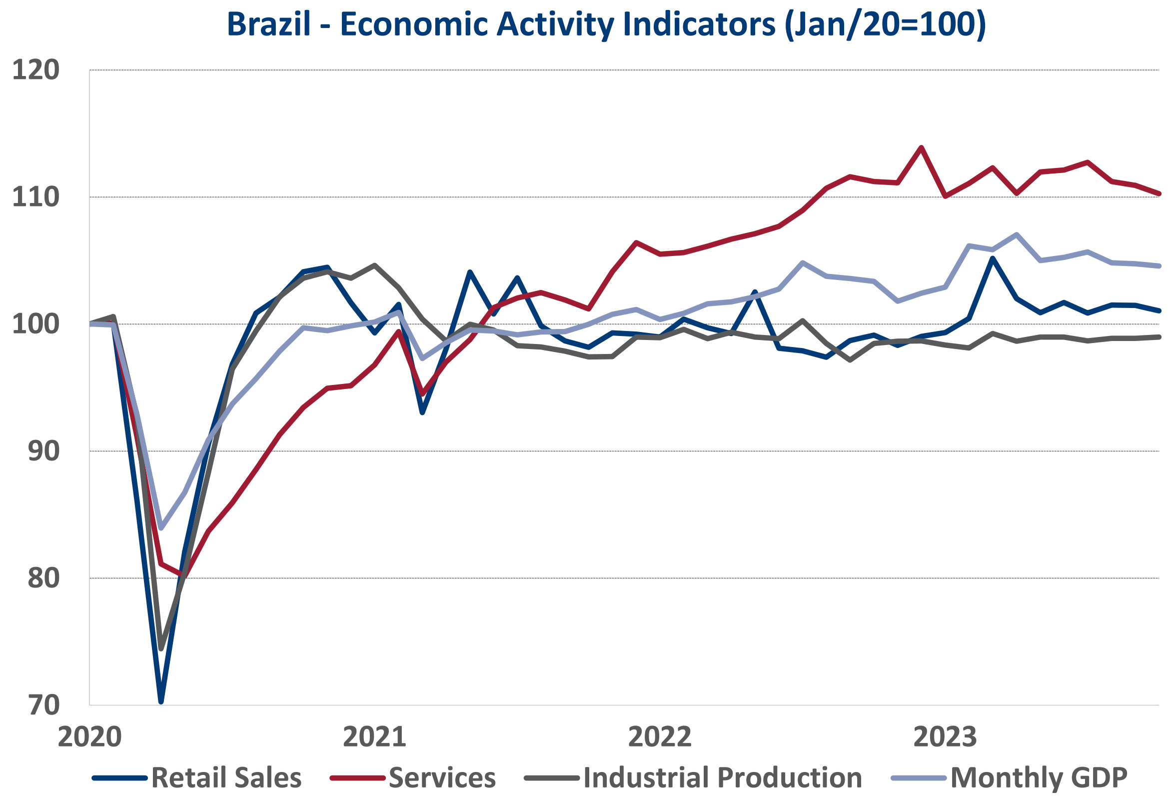
Brazil: Forecasts

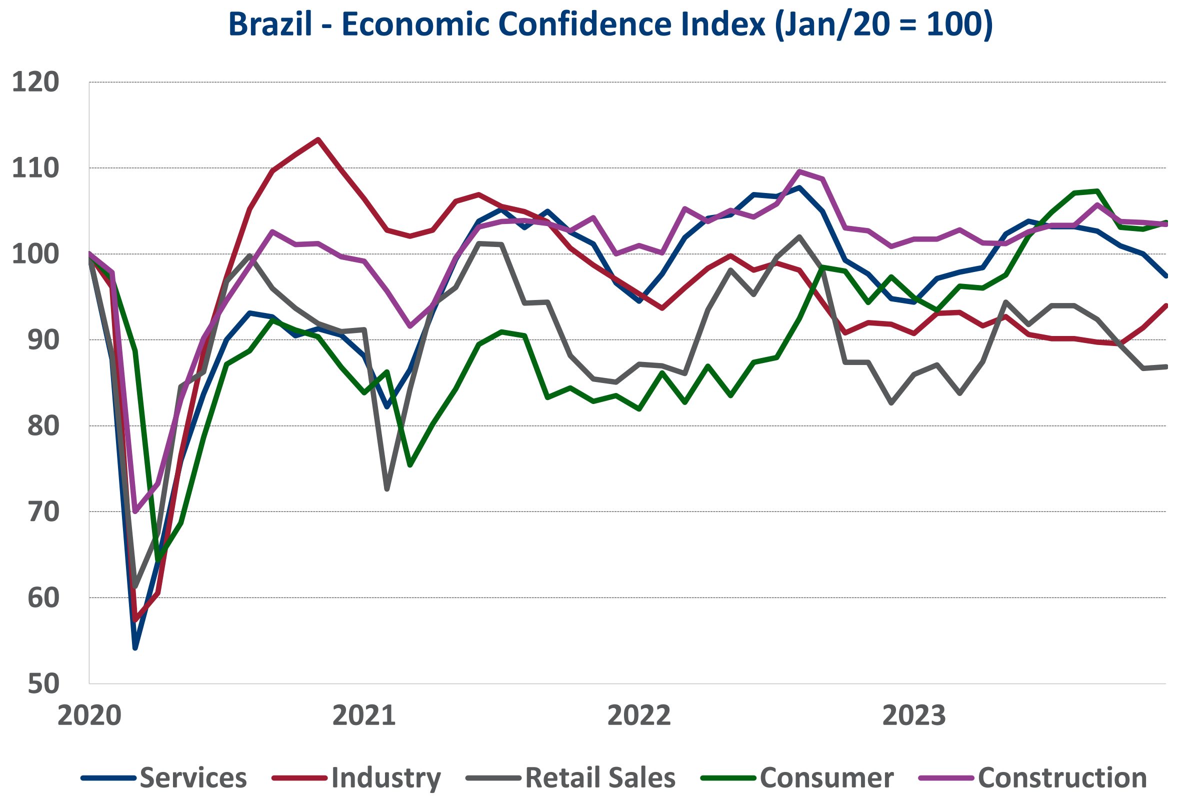
ECONOMIC FORECASTS	2020	2021	2022	2023F	2024F	2025F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	1.3%	2.0%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	4.0%	4.0%
Unemployment Rate (eoy ,%)	14.2%	11.1%	7.9%	7.8%	8.4%	8.5%
Policy Rate (eoy, %)	2.0%	9.3%	13.75%	11.75%	9.50%	8.75%
External Accounts						
Trade Balance MDIC (US$ bn)	50	61	62	95	87	78
Trade Balance (US$ bn)	32	36	44	77	67	58
Current Account Balance (US$ bn)	-28	-46	-54	-32	-34	-43
Current Account Balance (% of GDP)	-1.9%	-2.8%	-2.8%	-1.5%	-1.5%	-1.8%
Fiscal Policy						
Central Government Primary Balance (% of GDP)	-9.8%	-0.4%	0.5%	-2.1%	-0.8%	-0.8%
Government Gross Debt (% of GDP)	86.9%	77.3%	71.7%	75.5%	78.7%	80.6%

Source: BOCOM BBM

Brazil: Activity

- » All monthly indicators of economic activity showed sluggish marginal performance in October. While services volume (-0.6% MoM) and broad retail sales (-0.4% MoM) contracted, industrial production increased modestly (+0.1% MoM), although preserving a weak breakdown;
- » The Central Bank's monthly proxy for Brazil's GDP (IBC-BR) seems to summarize the negative outlook for the month, showing a fall of 0.06% MoM;
- » Looking forward, services and construction confidence contracted in December, while industry, retail sales and consumer confidence expanded.



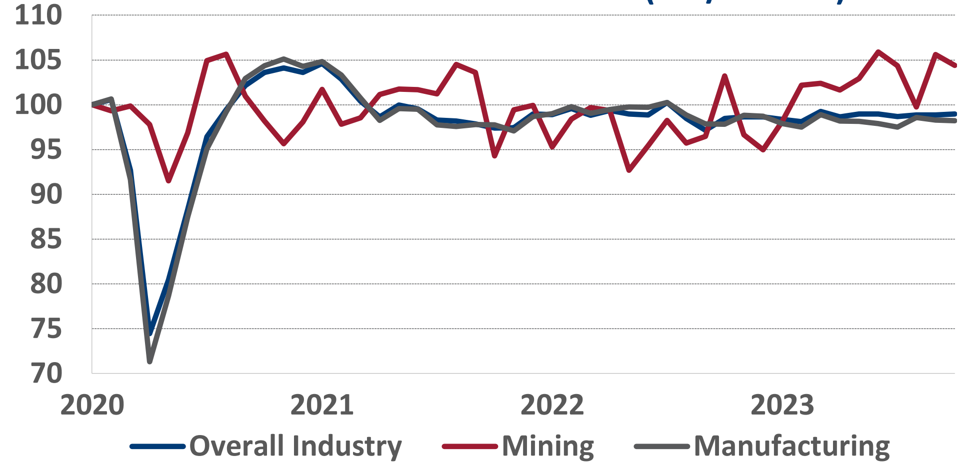


Source: BOCOM BBM, FGV

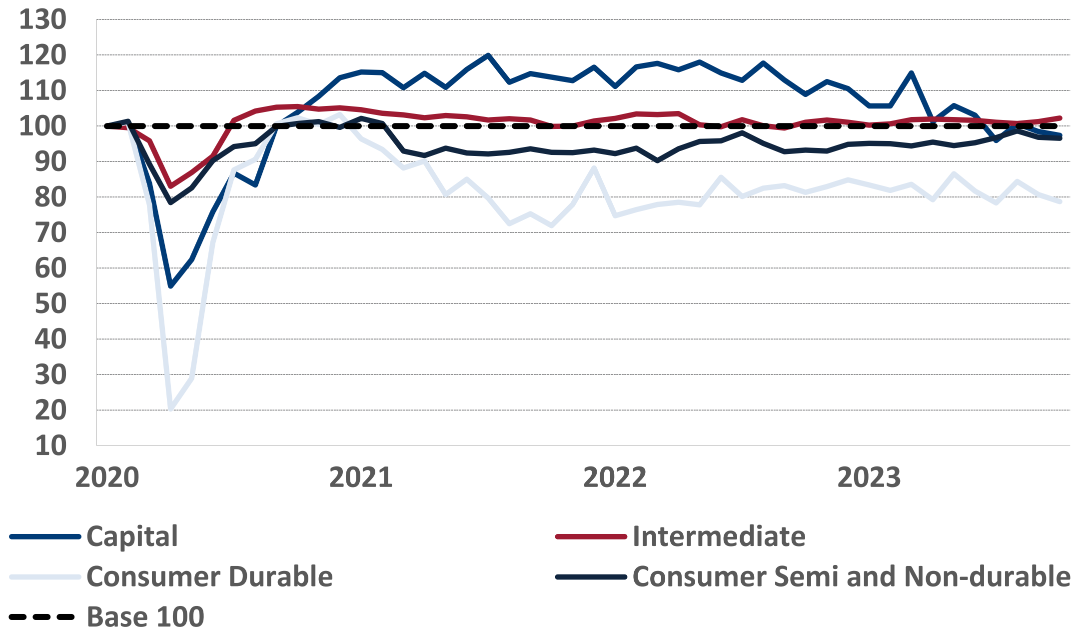
Brazil: Industrial Production

- Industrial production advanced by 0.1% MoM in October (+1.2% YoY), below the consensus of 0.4% (+2.0% YoY);
- Three out of four main categories decreased at the margin;
- The positive headline was due to an expansion in 'intermediate goods' (+0.9% MoM), the second high in a row for this category;
- On the negative side, we highlight ‘Capital goods’, which fell 2.8% QoQ in the moving quarter to October and 12% since the end of 2022;
- Despite the marginal expansion, the sector remains stagnating in line with the slowdown in domestic activity in the short term.

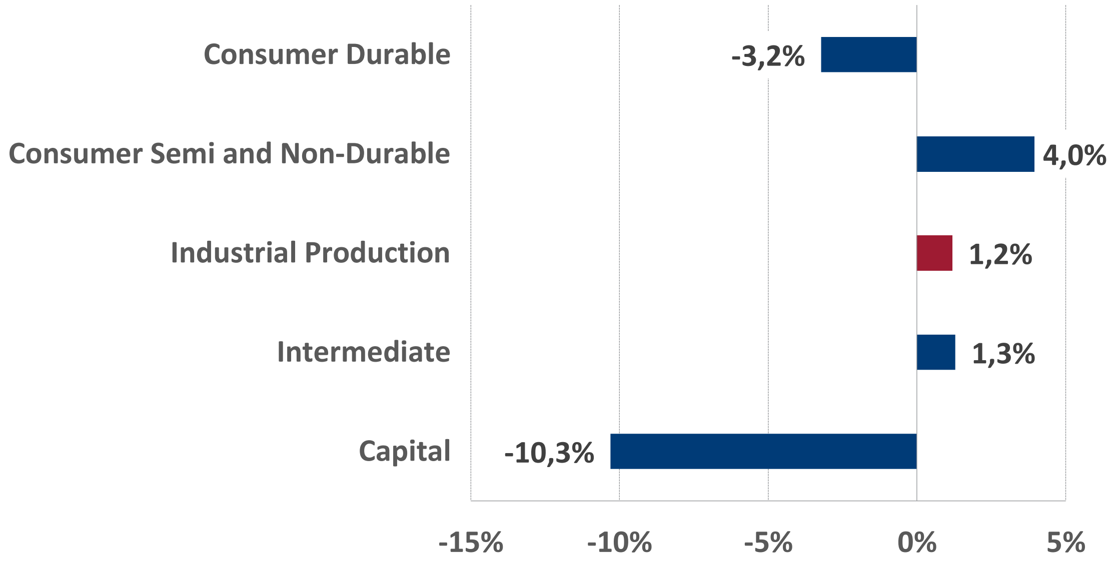
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



Industrial Production by Category - 10/2023 (YoY)

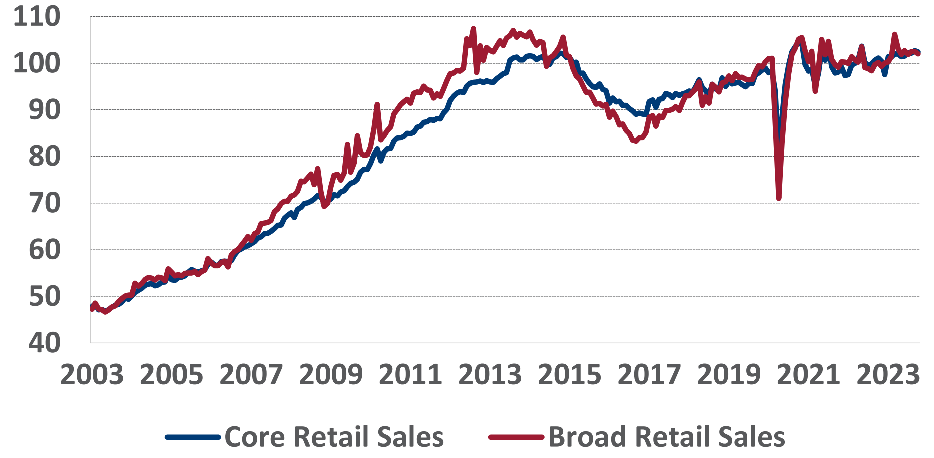


Source: IBGE, BOCOM BBM

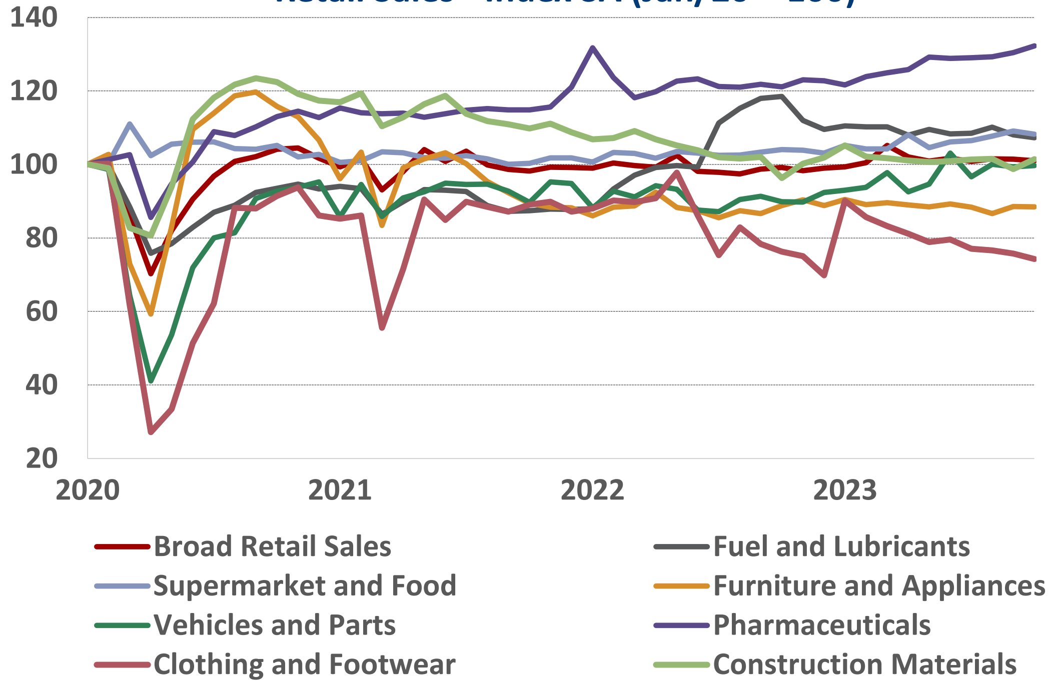
Brazil: Retail Sales

- Broad retail sales decreased 0.4% MoM in October (+2.5% YoY), significantly above expectations of +0.3% MoM (+3.5% YoY);
- Falls were spread among the categories;
- With October's result, the statistical carryover effect for 4Q tumbled to -0.2% QoQ from +0.7% QoQ;
- In the same line, core retail sales contracted 0.3% MoM;
- Retail sales performance continues to be hampered by lower domestic demand.

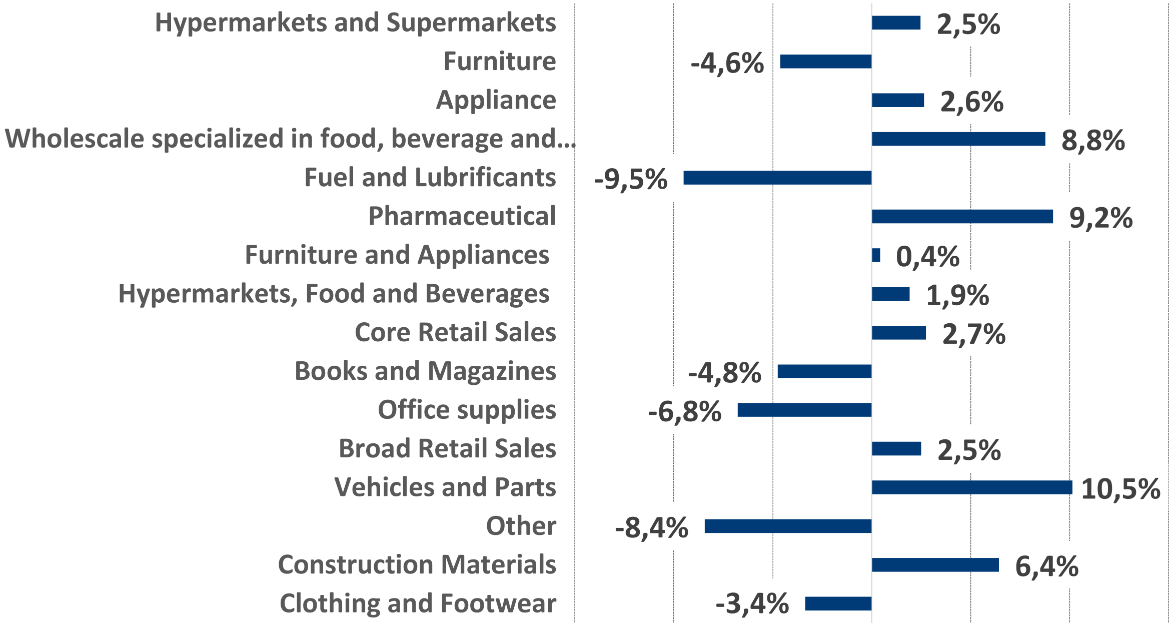
Broad Retail Sales SA x Core Retail Sales SA



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



Retail Sales - YoY (Oct/23)



Source: IBGE, BOCOM BBM

Brazil: Services

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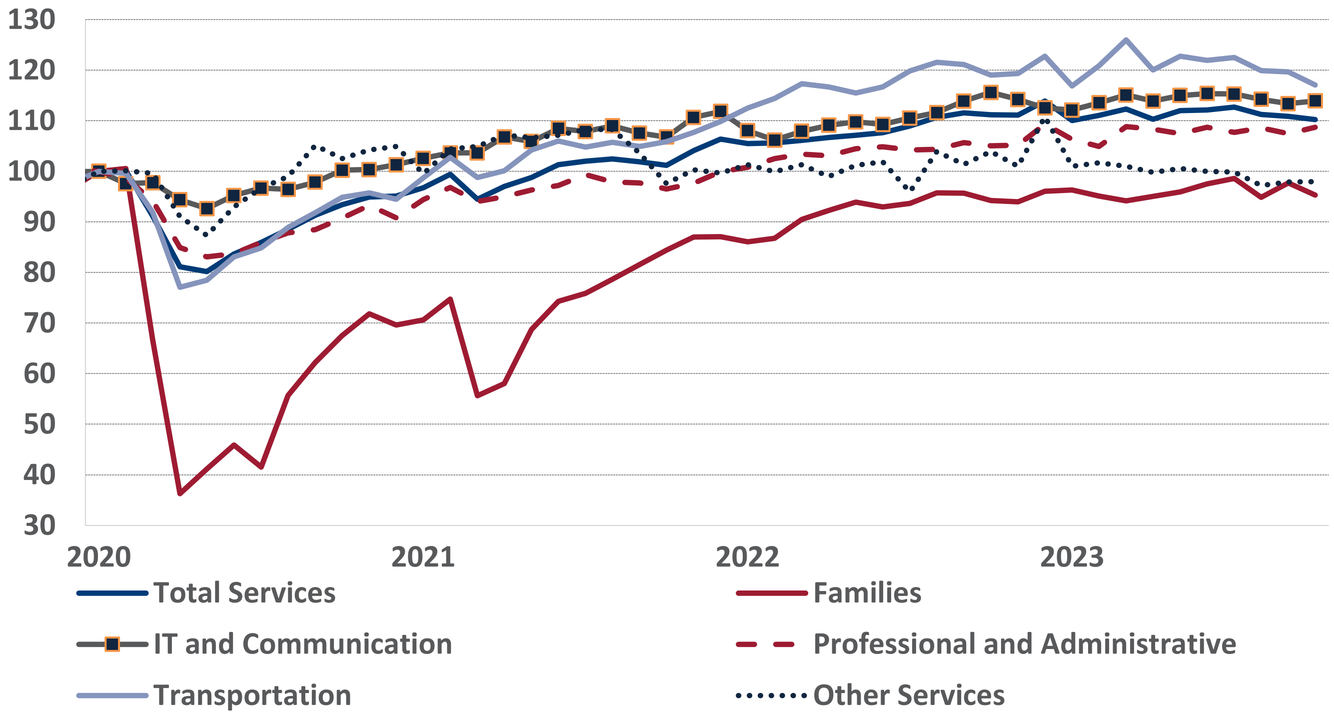
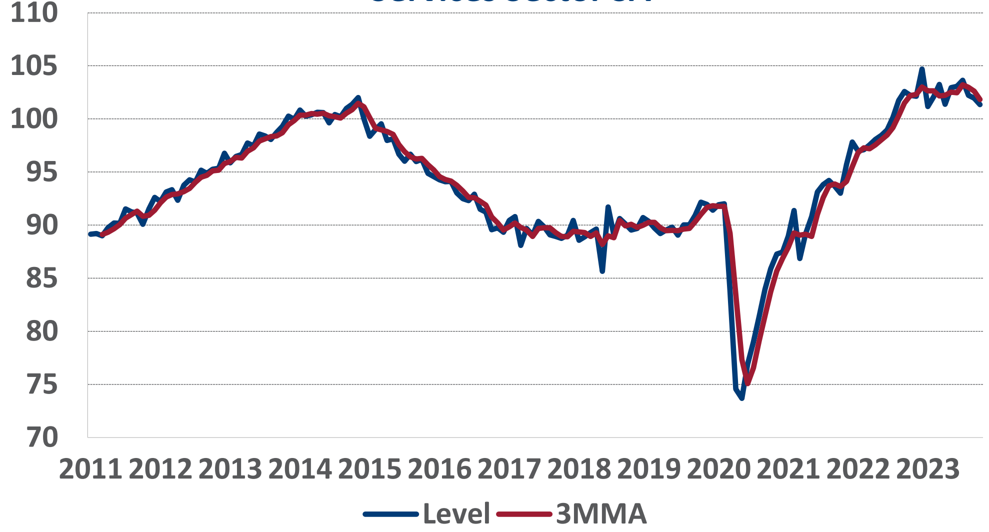
- In October, the services sector contracted for the third time in a row (-0.6% MoM), significantly below market expectations (-0.1% MoM);
- The indicator dropped 1.3% QoQ in the moving quarter up to October, from a 0.2% QoQ gain in 3Q;
- The contraction reflected mostly falls in 'Services provided to families' (-2.1% MoM) and 'Transportation' (-2.0% MoM);
- Looking ahead, we expect the services sector to pursue on the downward trajectory observed so far.

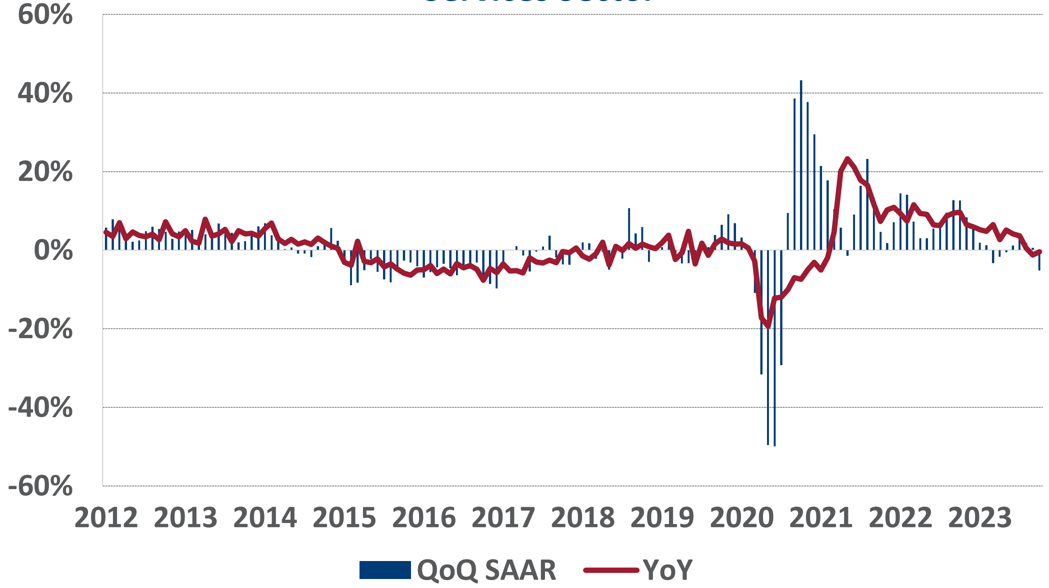
Services Sector SA (Jan20=100)



Services Sector SA



Services Sector



Source: IBGE, BOCOM BBM

Brazil: Economic Activity

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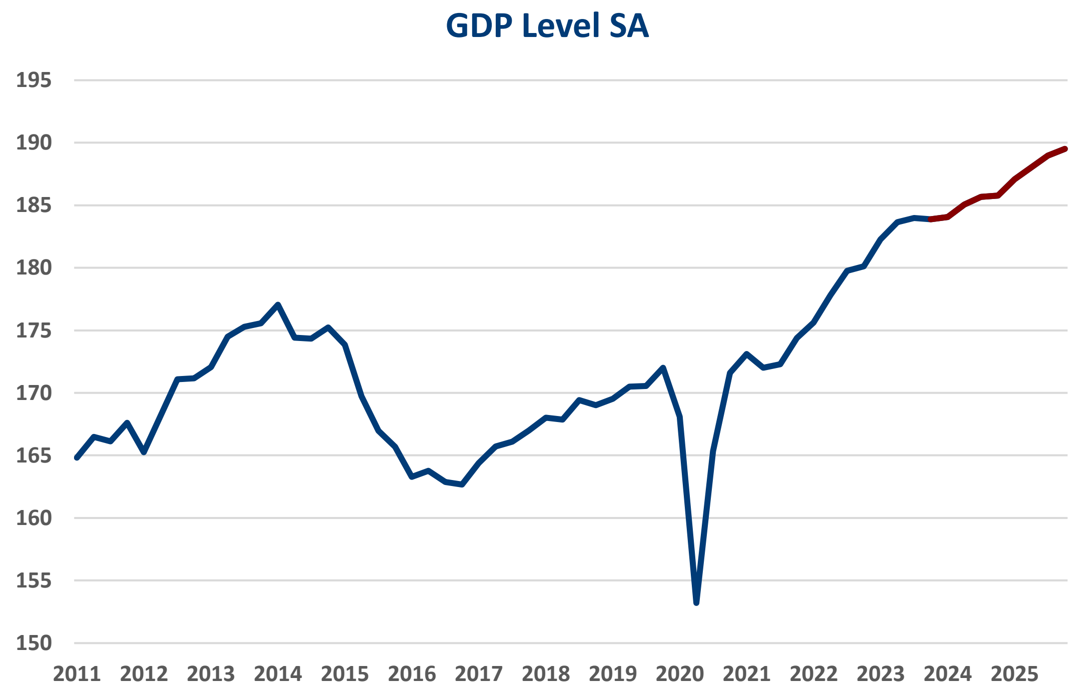
- After October's data, we revised our GDP projection for Q4 from 0% QoQ to -0.1% QoQ
- The projection for 2023 remained at 2.9%
- For 2024, we continue with our projection of 1.3%
- **Upside risks:** the labor market resilience and the disinflation process could significantly boost household's disposable income
- **Downside risks:** lower agricultural production in face of adverse weather, which could also generate negative spillover effects in other sectors

Forecasts

	2023.IV QoQ	2023.IV YoY	2023	2024	2025
GDP	**-0.1%**	**1.9%**	**2.9%**	**1.3%**	**2.0%**
Agriculture	**-0.9%**	**7.9%**	**16.4%**	**0.0%**	**4.9%**
Industry	**-0.1%**	**0.9%**	**1.1%**	**1.4%**	**2.7%**
Mining	1.2%	6.0%	7.4%	4.8%	7.6%
Manufacturing	-0.6%	-1.1%	-1.5%	0.1%	1.3%
Utilities	0.7%	5.4%	5.7%	4.4%	3.2%
Civil Construction	1.5%	-1.3%	-1.0%	-0.1%	1.2%
Services	**0.1%**	**1.7%**	**2.3%**	**1.5%**	**1.4%**
Retail	-1.0%	-0.2%	0.6%	0.4%	1.4%
Transports	0.2%	1.2%	2.9%	1.4%	1.9%
Information and Communication	0.5%	0.5%	2.9%	1.9%	2.9%
Financial Services	1.3%	6.6%	6.9%	4.2%	1.1%
Rents	0.6%	3.3%	3.1%	2.6%	1.9%
Other Services	-0.1%	0.6%	2.3%	0.7%	1.2%
Public Administration	0.0%	1.7%	1.1%	1.3%	1.1%



Source: BOCOM BBM, IBGE

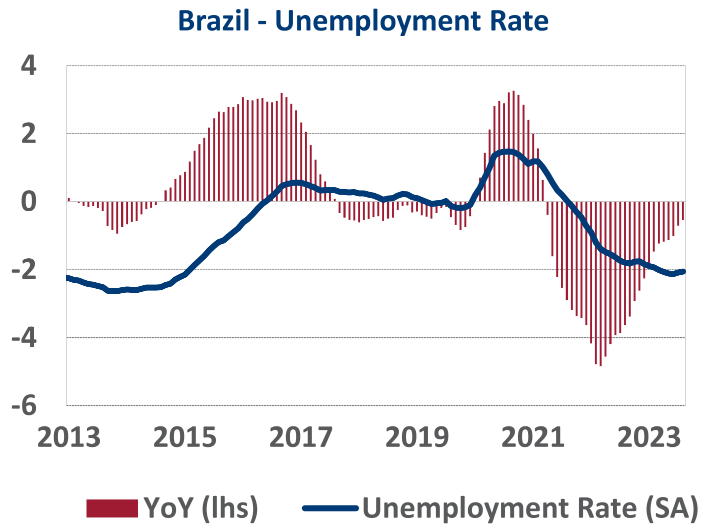
Brazil: PNAD

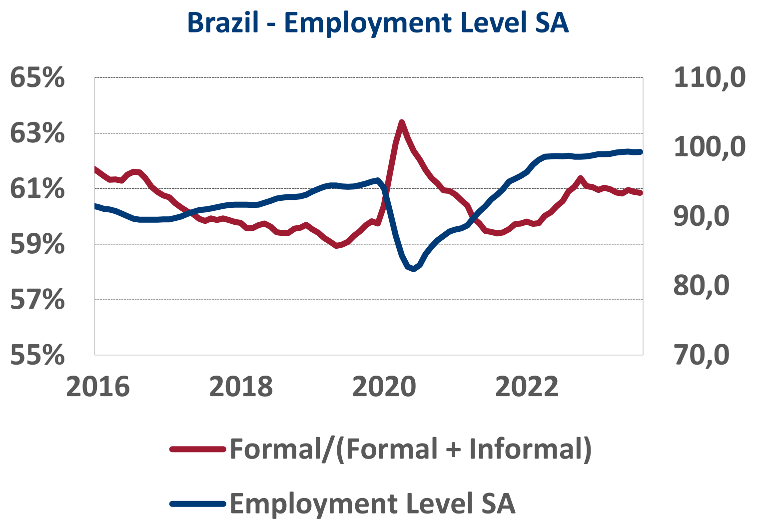
- Unemployment rate edge up to 7.9% in November from 7.8% in October, the highest level since June;

- Total employment increased 0.1% MoM whereas labor force showed an expansion of 0.2% MoM. In turn, the labor force participation expanded to 61.8%, still below the pre-pandemic record (63.5%);

- Real labor earnings surged about 0.9% MoM, remaining in a positive path;

- In the same way, the real aggregate labor income increased 0.8% MoM.

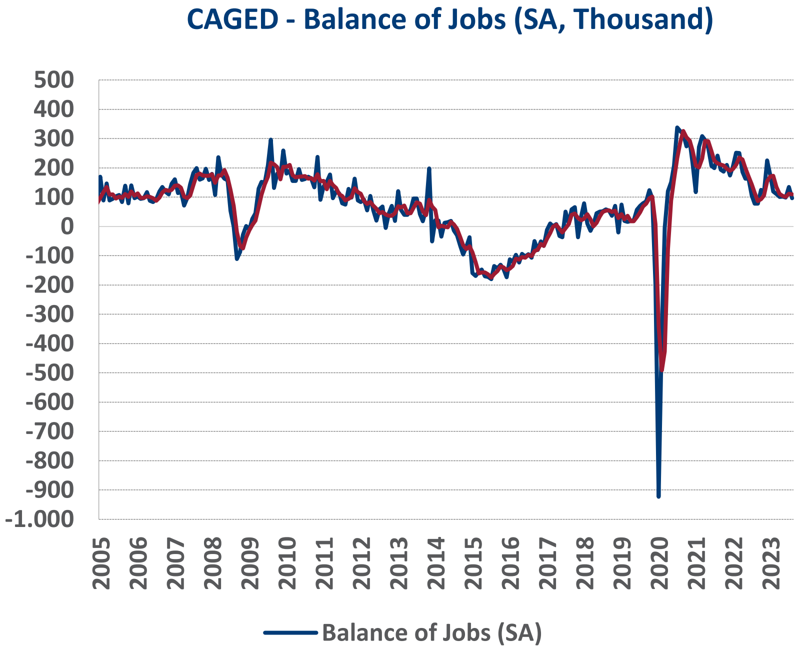


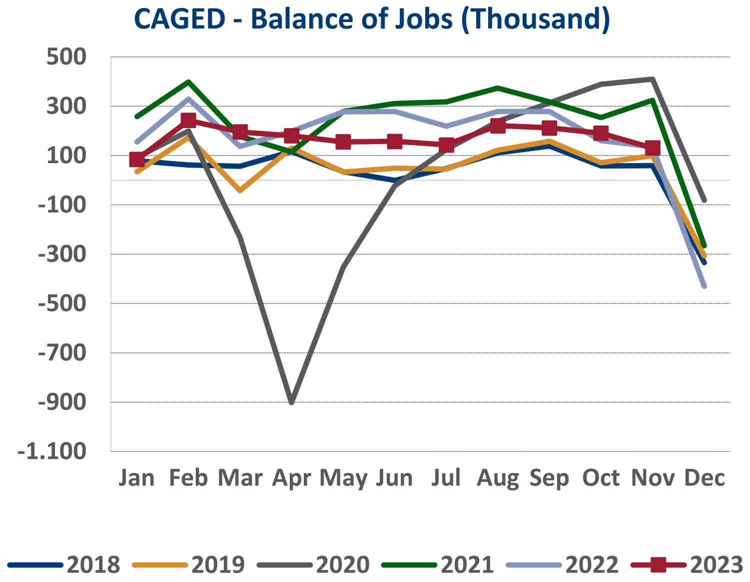


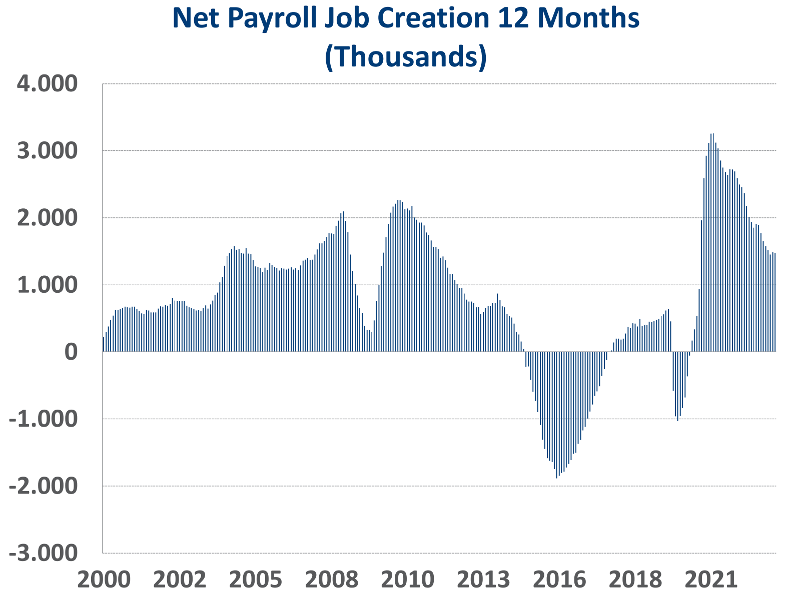
Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

- Caged registered a net creation of 130.1k formal jobs in November, significantly bellow market expectations (158.2k);
- Seasonally adjusted, we estimate a net creation of 95.9k jobs (from 134k on the previous month);
- Overall, it showed that the outlook for the labor market remains positive, albeit with signs of moderation.



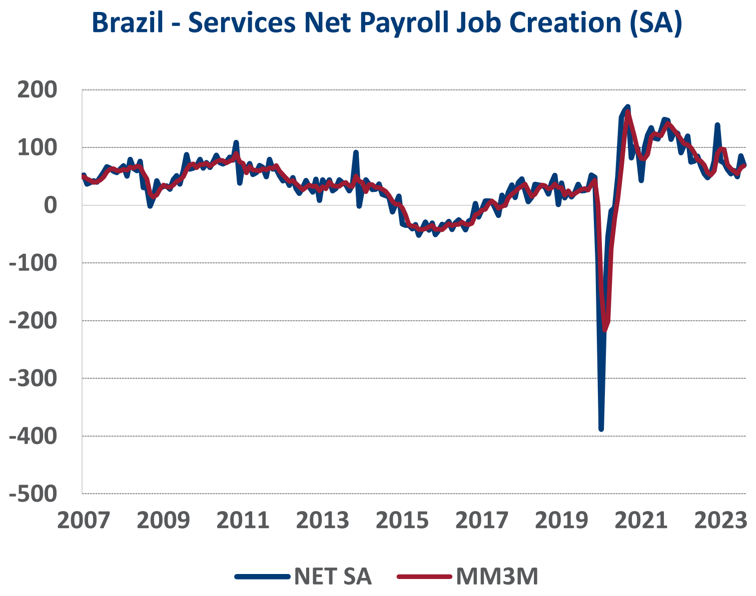




Source: BOCOM BBM, MTE

Brazil: Formal Labor Market

- The breakdown shows that all sectors expanded at the margin, even though with a milder pace comparing to October;
- Services sector, the one with the largest net job creations, 69k, below the 86k recorded last month;
- Retail sales created about 0.5k, 21k less than last month and responsible for much of the difference on the monthly comparison;
- In turn, Construction registered a net of 6k, -8.3k in relation to October;
- The only expansion on the monthly comparison was observed in Industry, with a net of 16k jobs created (+7k MoM).

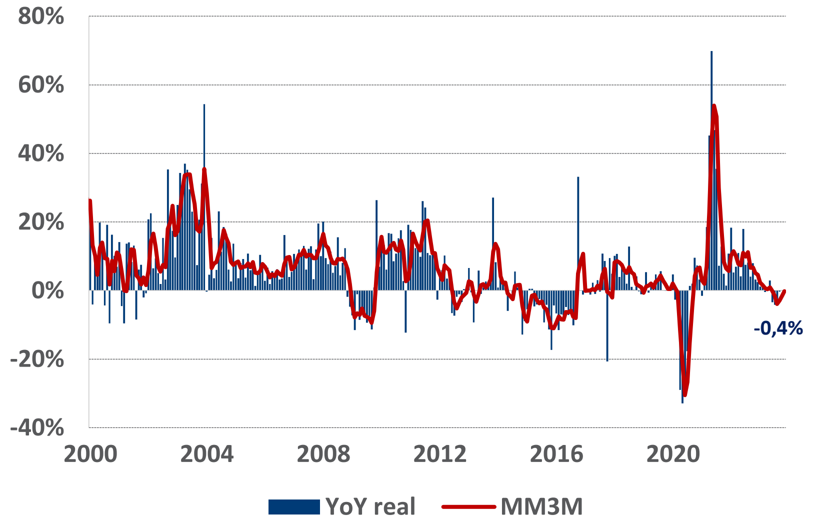


Source: BOCOM BBM, MTE

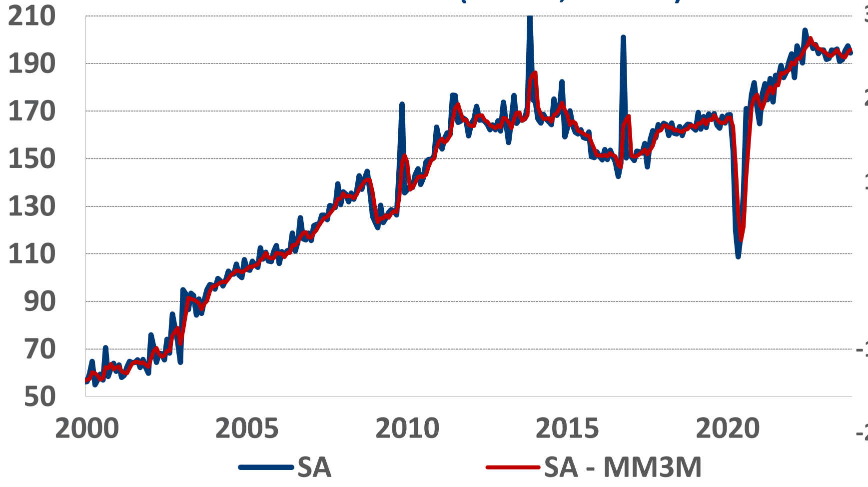
Brazil: Federal Tax Collections

- In November, total federal tax collections reached BRL 179.4 bn in real terms, representing a drop of 0.4% when compared to the same month in 2022;
- The main drivers were lower numbers of corporate taxes (-14.0% YoY), import taxes (-17.4% YoY) and withholding income taxes on labor (-8.7% YoY);
- On the other hand, it was partially offset by expansions in withholding income tax on foreign residents' (72.3% YoY) and PIS/Cofins (6.2% YoY);
- Overall, tax revenues remain decelerating due to the cool down in domestic activity.

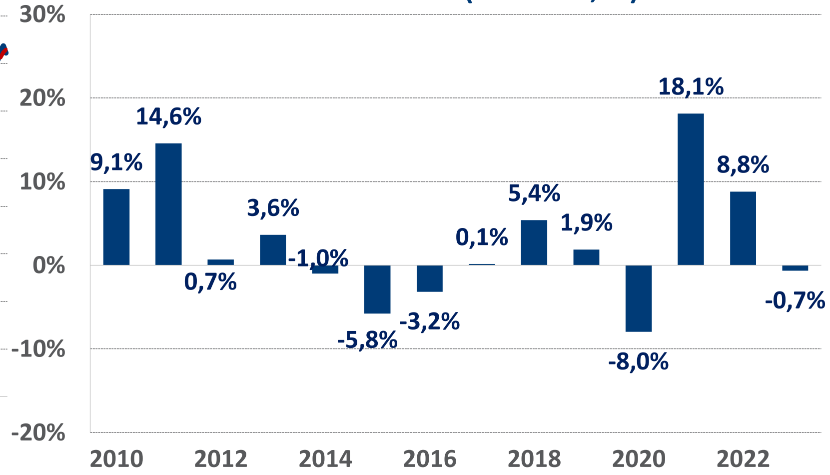
Total Tax Collection (YoY Real, %)



Total Tax Collection (BRL Bn, Real SA)



Total Tax Collection (YTD Real, %)

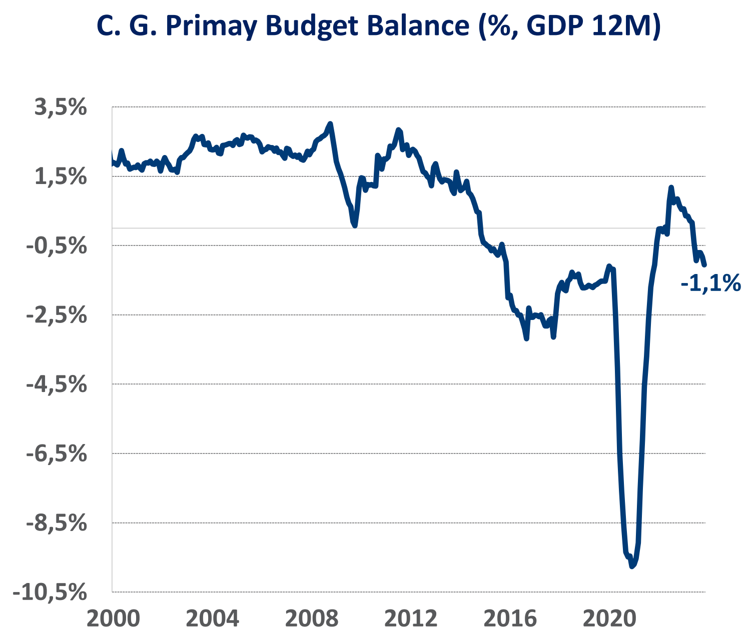


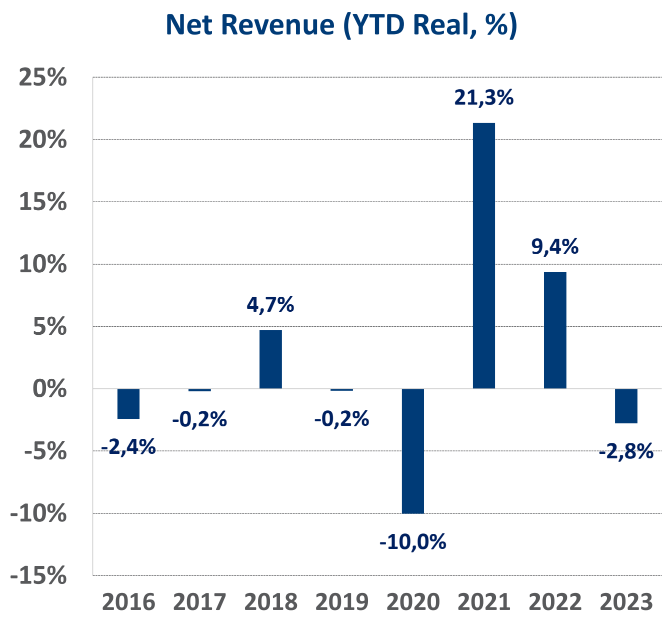
Total Tax Collection (% GDP)

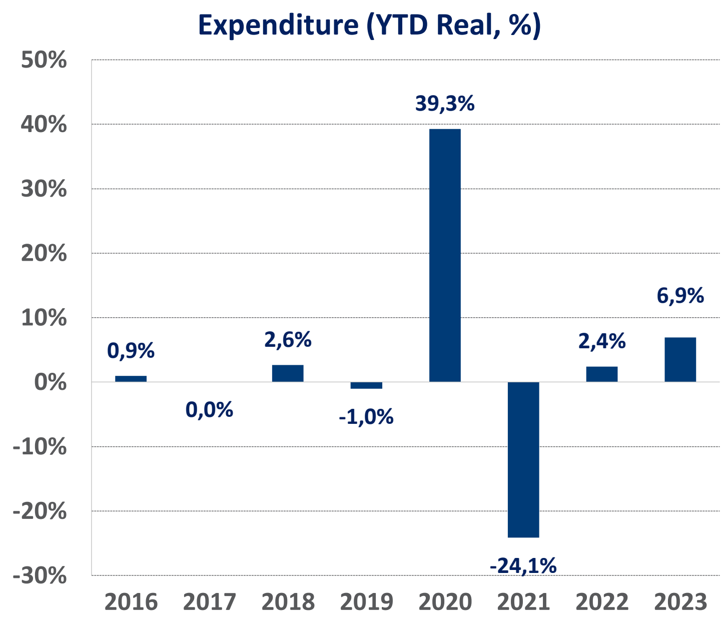
Fonte: BOCOM BBM, RFB

Brazil: Central Government Primary Result

- The central government's primary balance posted a deficit of BRL 39.4 bn in November. The result is the worst for the month since 2016;
- The 12-M accumulated primary deficit reached BRL 109.7 billion (1.1% of GDP);
- Net revenue reached R$42.8 billion (4.2% YoY), driven by non-tax revenues (+12.7% YoY), whose increase was due to the greater flow of dividends and shares;
- Total spending, in turn, was around BRL 176.3 bn, increasing 20.0% YoY in real terms;
  - The main drivers were increases in transfers to states and municipalities, pensions and retirees' benefits, elderly and disable assistance and the Bolsa Familia social welfare program.





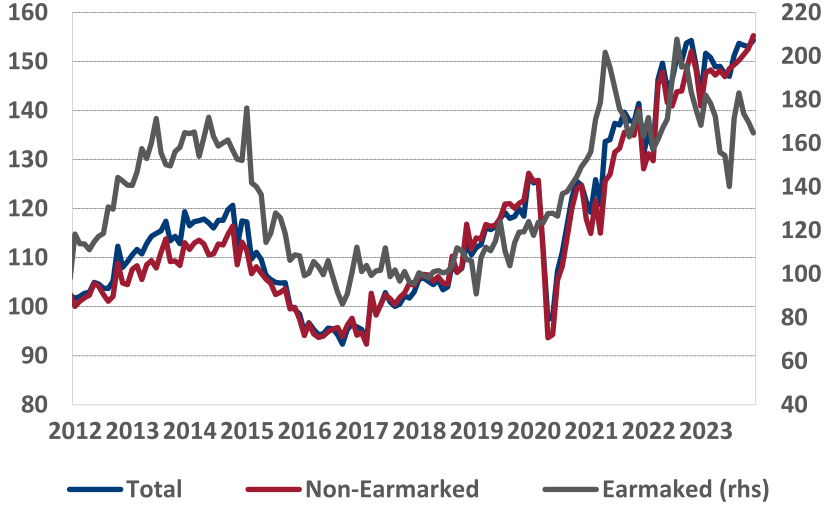


Fonte: BOCOM BBM, RTN

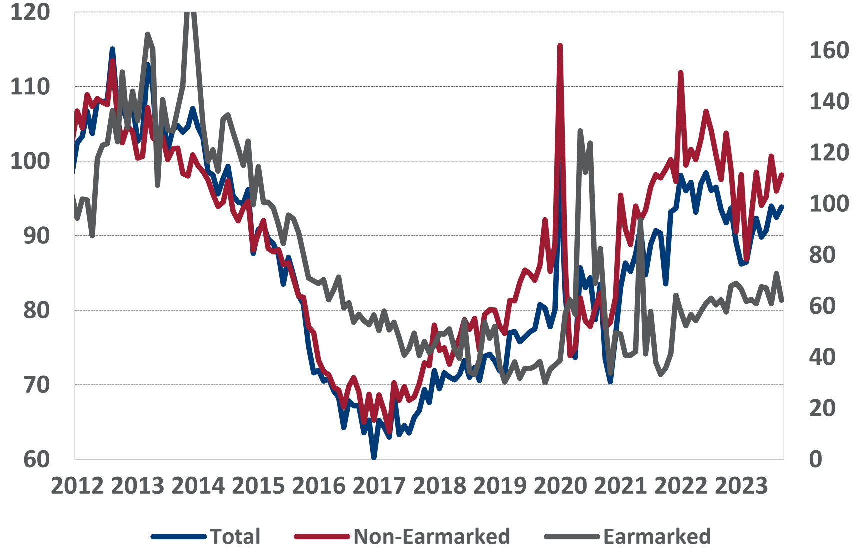
Brazil: Credit Statistics

- In November, total credit concessions expanded by 1.1% MoM in real terms;
- Non-earmarked credit concessions increased both to households (1.7% MoM) and companies (2.3% MoM);
- On the other hand, earmarked credit concessions tumbled 14.4% MoM to companies and 2.9% MoM to individuals.

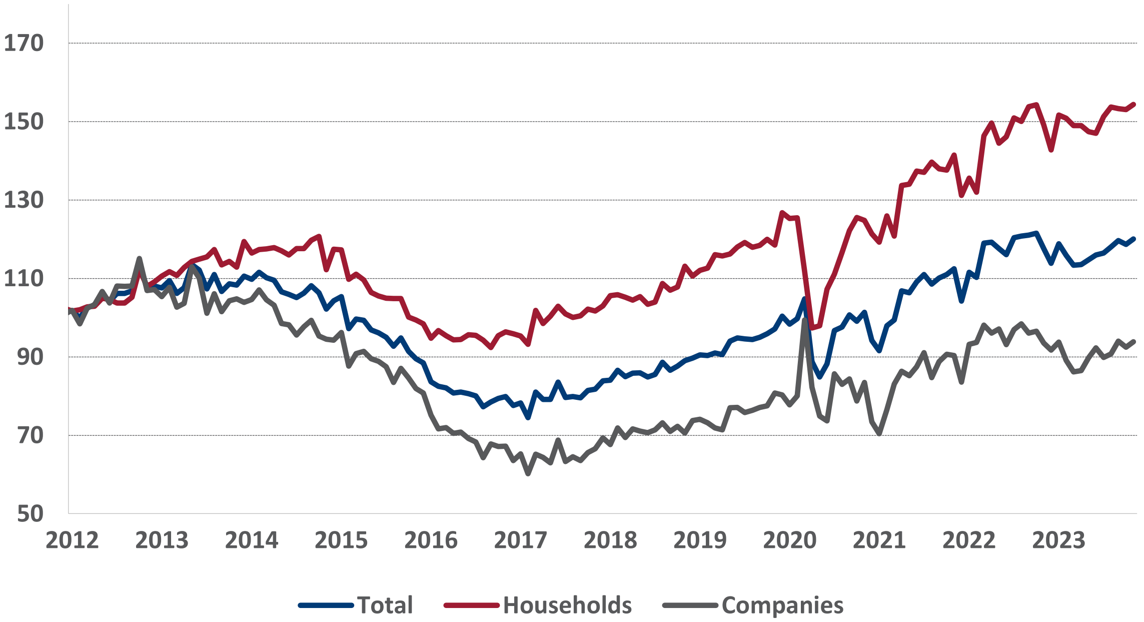
Concessions - Households SA (Real) - Mar/11 = 100



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



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



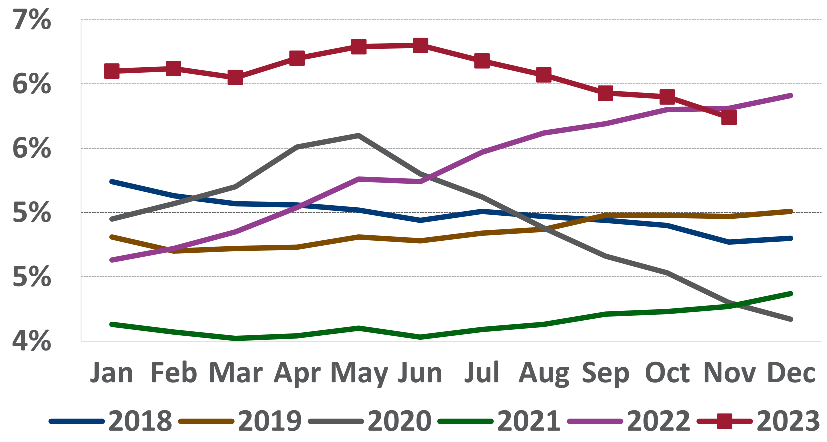
Source: BOCOM BBM, BCB

Brazil: Credit Statistics

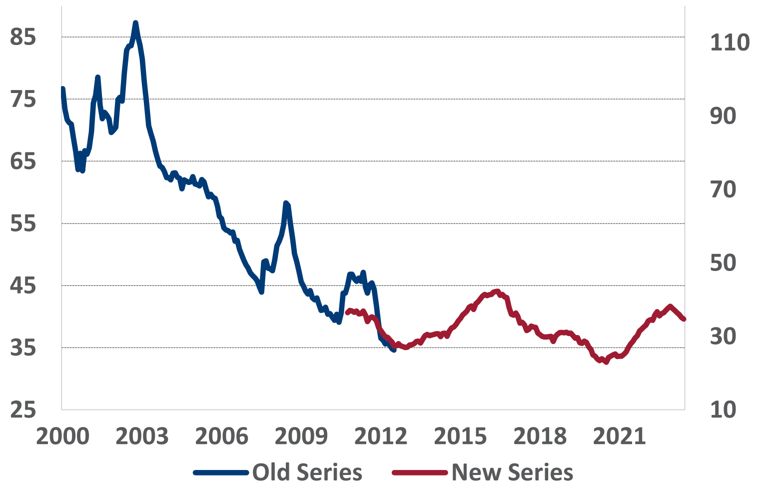
- Lending rates decreased both to individuals and corporates, standing at 34.7% and 19.1%, respectively (previously 35.2% and 19.7%);

- In the same line, non-earmarked default decreased to 5.7% to individuals, but kept increasing to companies, standing around 3.6%.

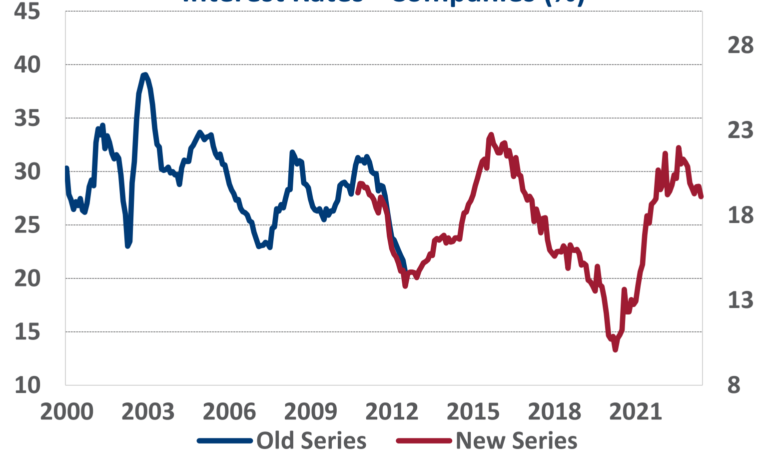
Non-Earmarked Default - Households (%)



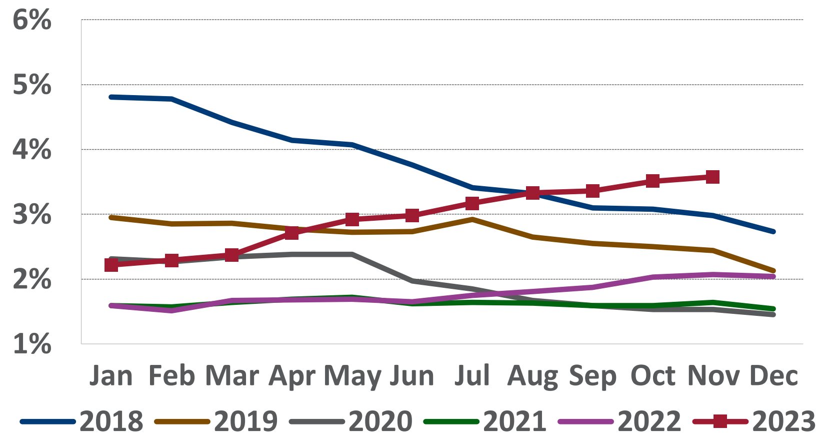
Interest Rates - Households (%)



Interest Rates - Companies (%)



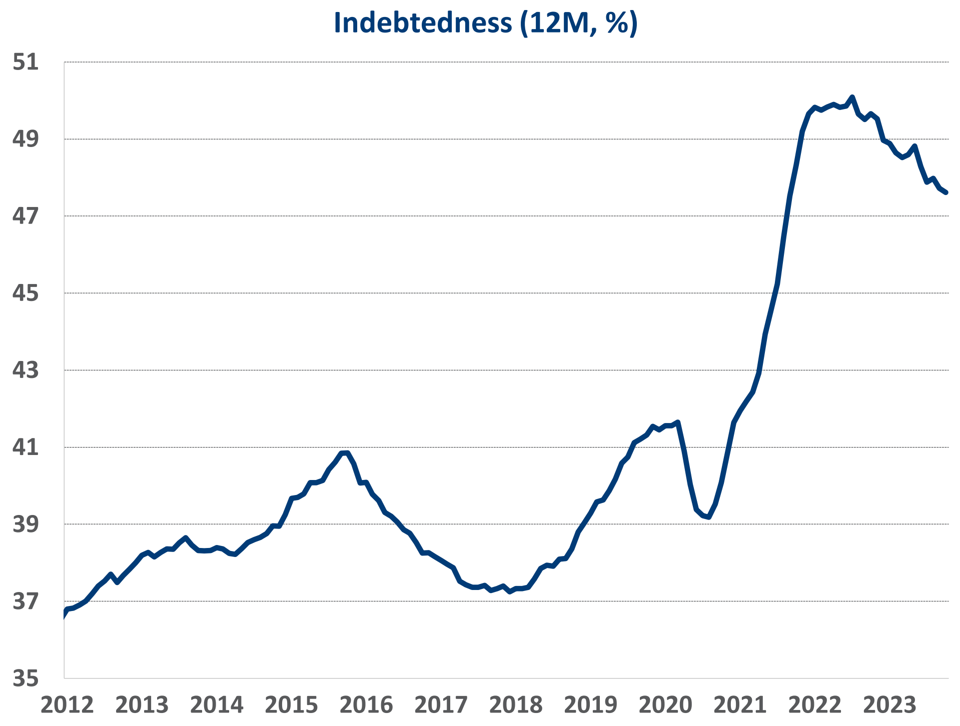
Non-Earmarked Delinquency - Companies (%)

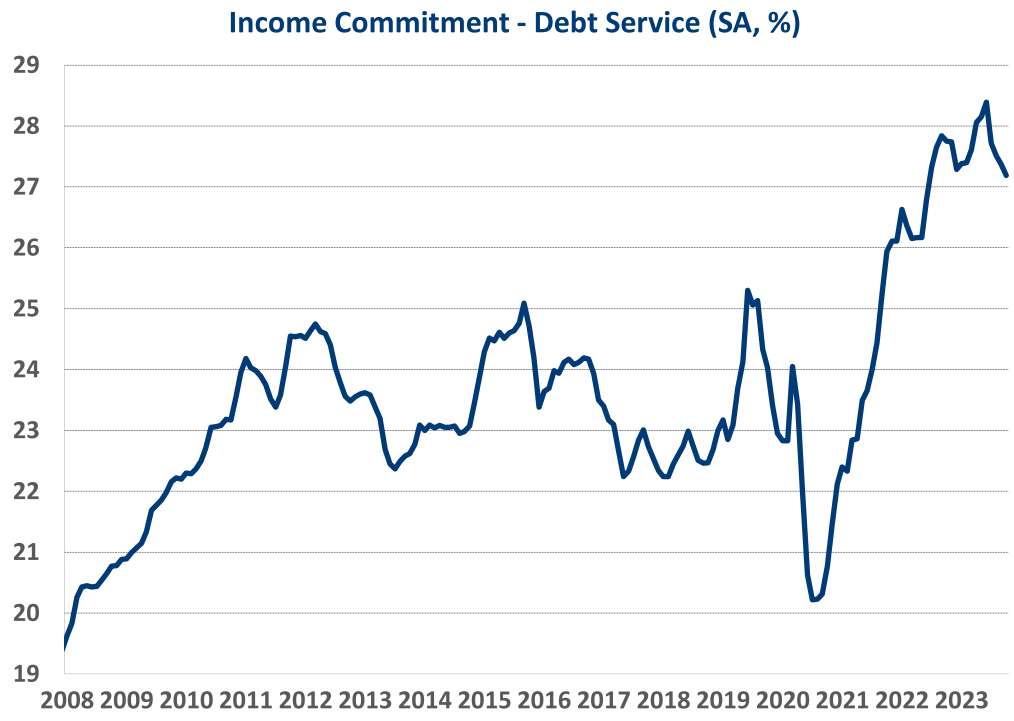


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- Household indebtedness continued its downward trajectory, standing around 47.6%, the lowest level since September 2021;
- Accordingly, income commitment to debt service decreased to 27.2%;
- Better results for both indicators are being observed due to the 'Desenrola' program made by the government since mid-2023, targeting mainly low-income families.

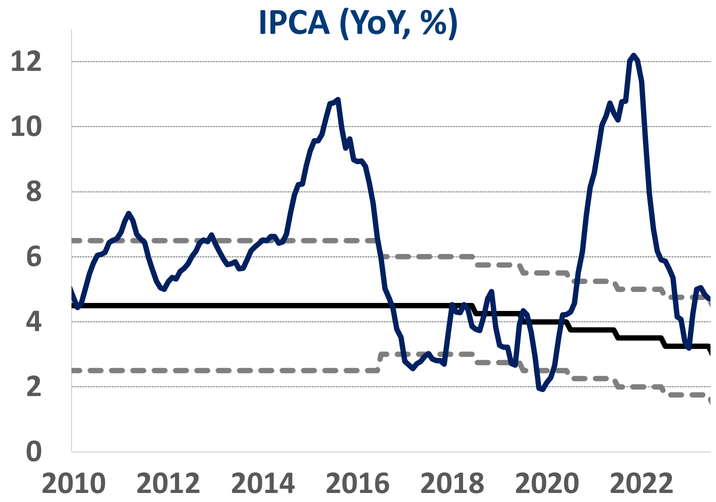


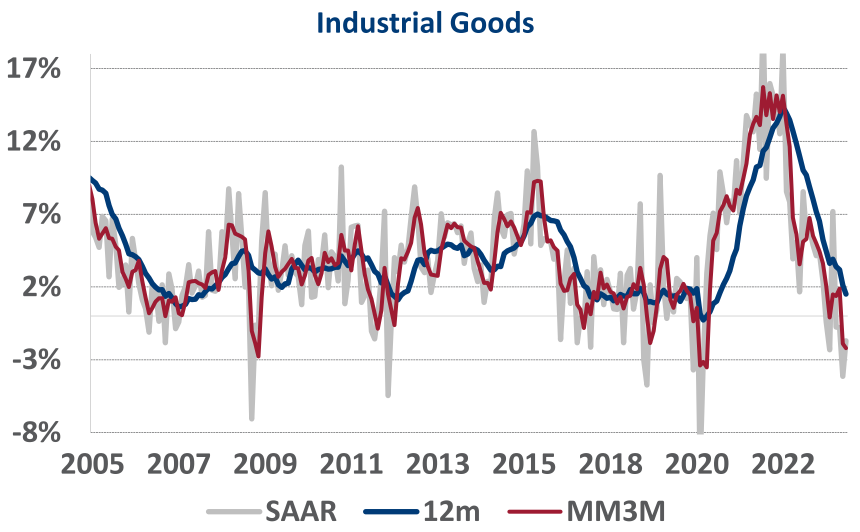


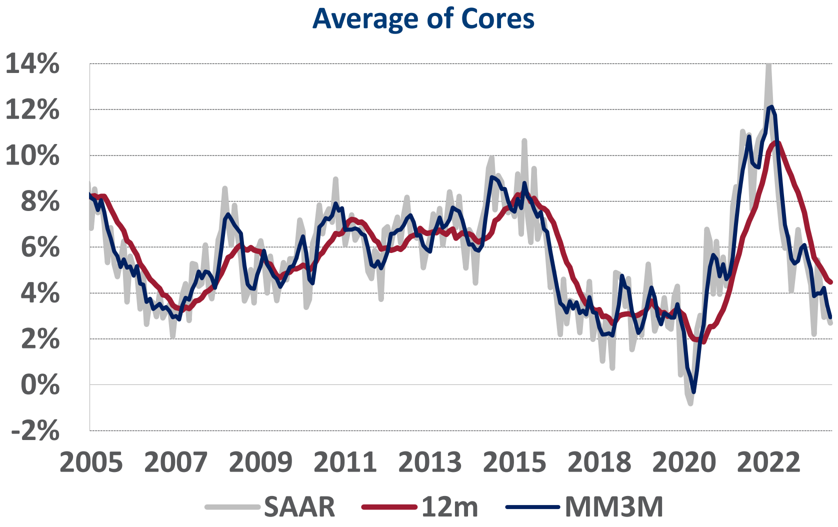
Source: BOCOM BBM, BCB

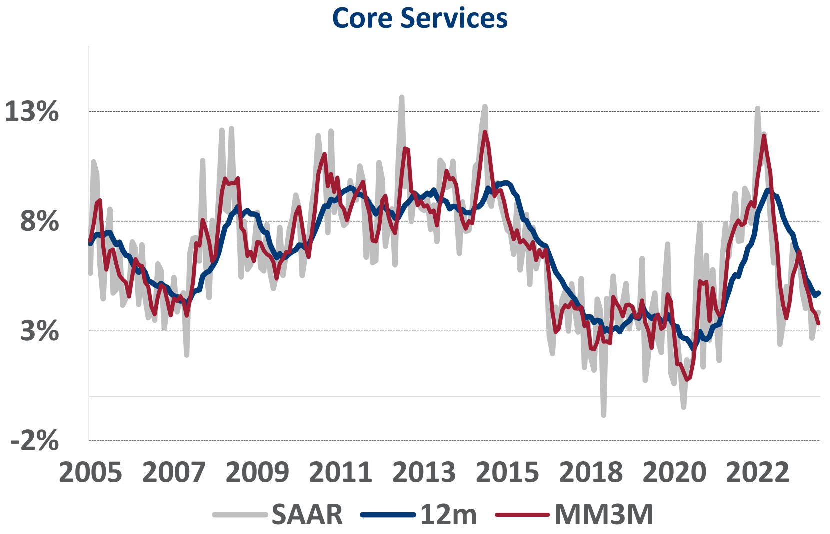
Brazil: Inflation 2023

- The IPCA-15 advanced 0.40% MoM in December, much above market consensus (0.25% MoM);
- The 12-month variation increased from 4.84% in October to 4.72% in November;
- The higher-than-expected print was mainly due to an upward surprise in airfares;
- Nonetheless, the main metrics did not change the view about the benign short-term disinflation process in Brazil;
- The average of core measures expanded 0.28% MoM, slightly above projections;
- ‘Underling Services’, closely monitored by the Central Bank, rose by 0.39% MoM, also slightly above the expected due to ‘food away from home’ print, a less inertial category.





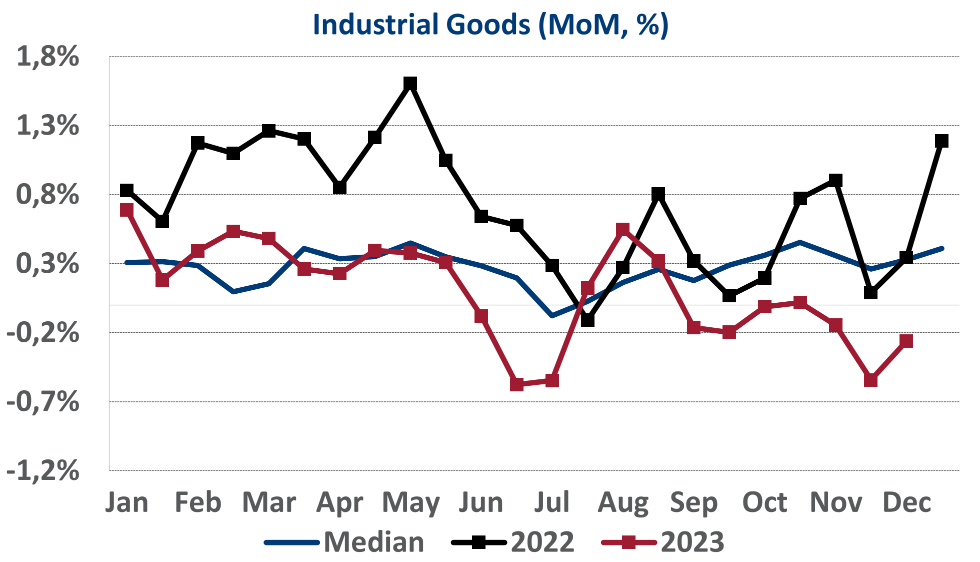


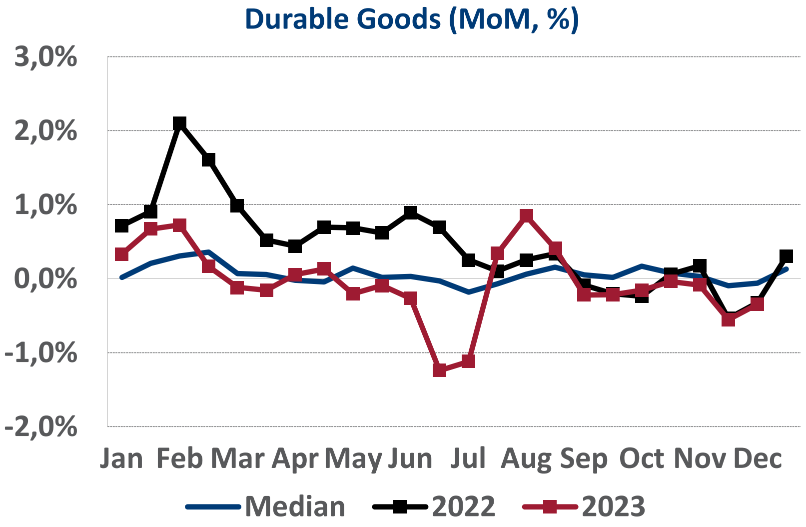


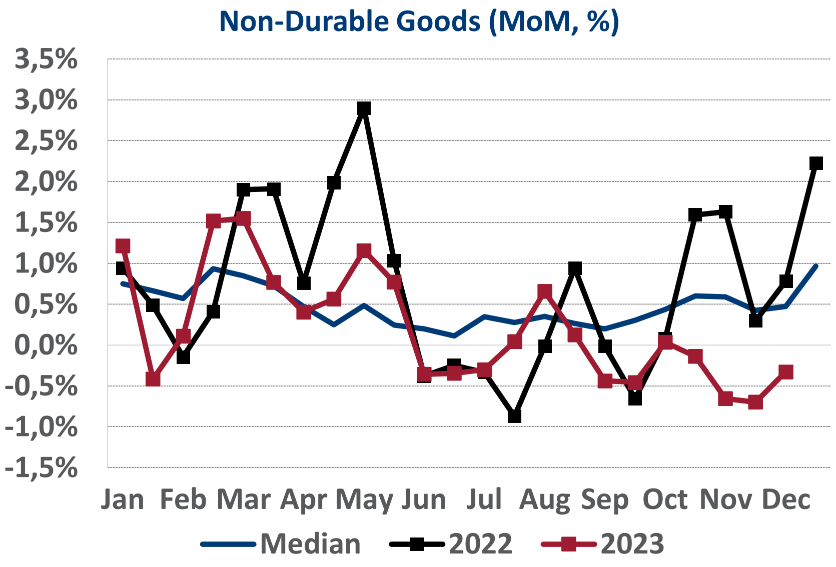
Source: BOCOM BBM, IBGE

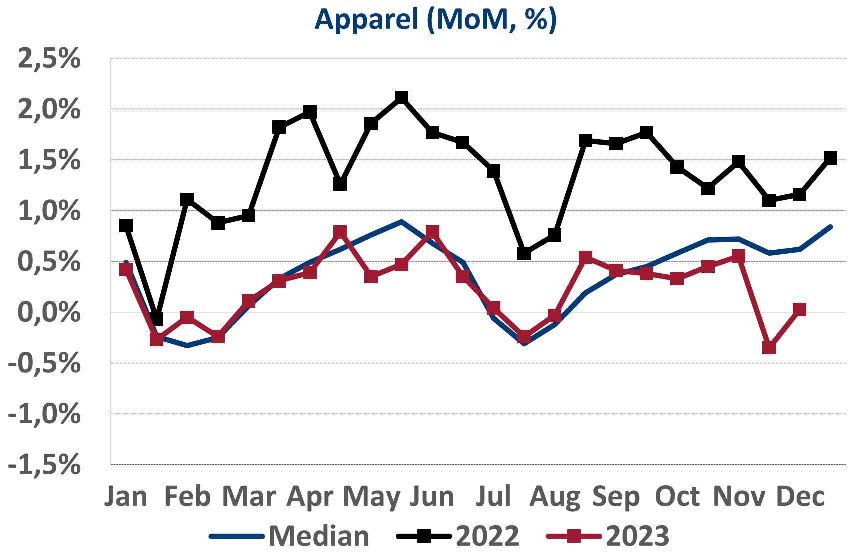
Brazil: Inflation 2023

- Industrial goods reached a deflation of 0.26% MoM, below expectations;
- A deflation was seen in both 'Durable' and 'Non-Durable' goods, but the highlights were lower number for new and used vehicles.





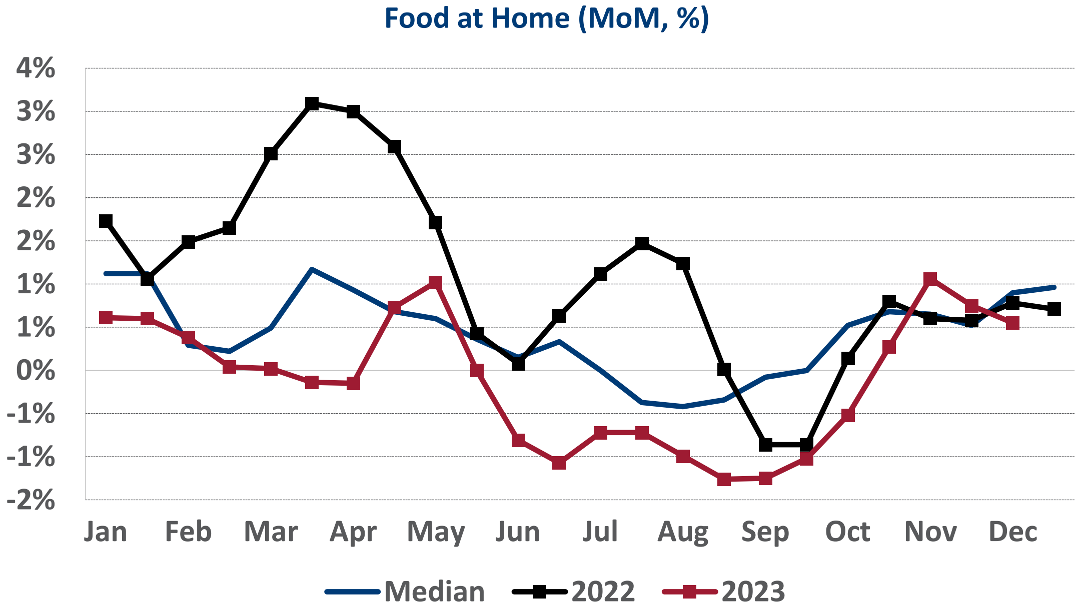


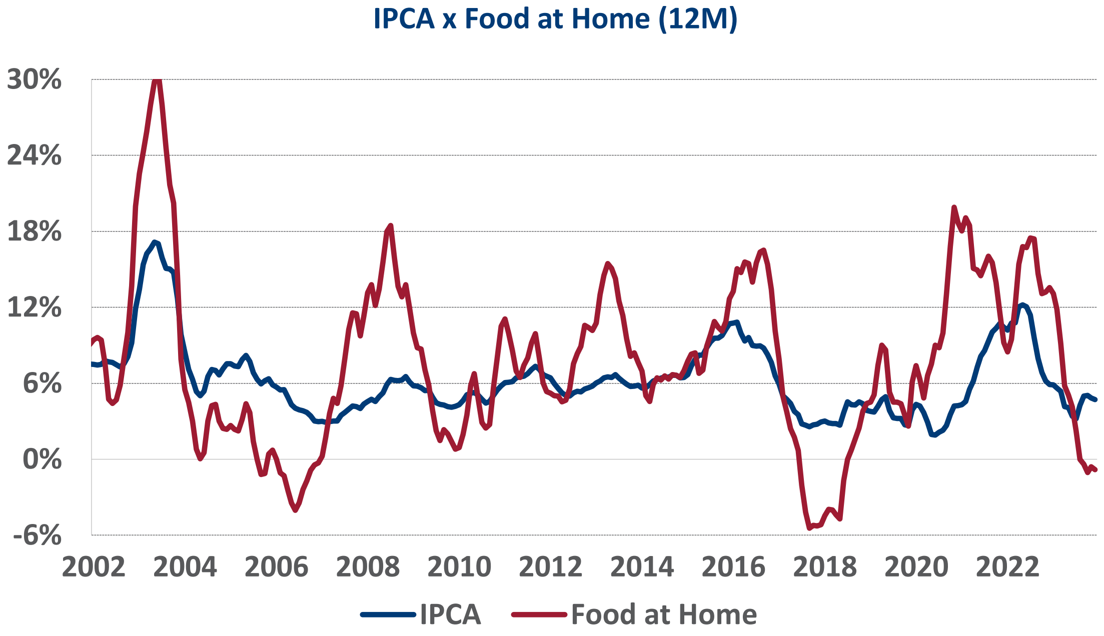


Source: BOCOM BBM, IBGE

Brazil: Inflation 2023

- ‘Food at home’ decelerated to 0.55% MoM, below market forecasts;
- Highlights for downward surprises in fresh food and in the ‘poultry and eggs’ category;





Source: BOCOM BBM, IBGE

Brazil: Inflation

- Given the upward surprise in December's IPCA-15 explained by airfares, we revised the IPCA 2023 from 4.4% to 4.6%, as this item is repeated in the December IPCA release;
- For 2024 and 2025, we maintained our projection at 4%.

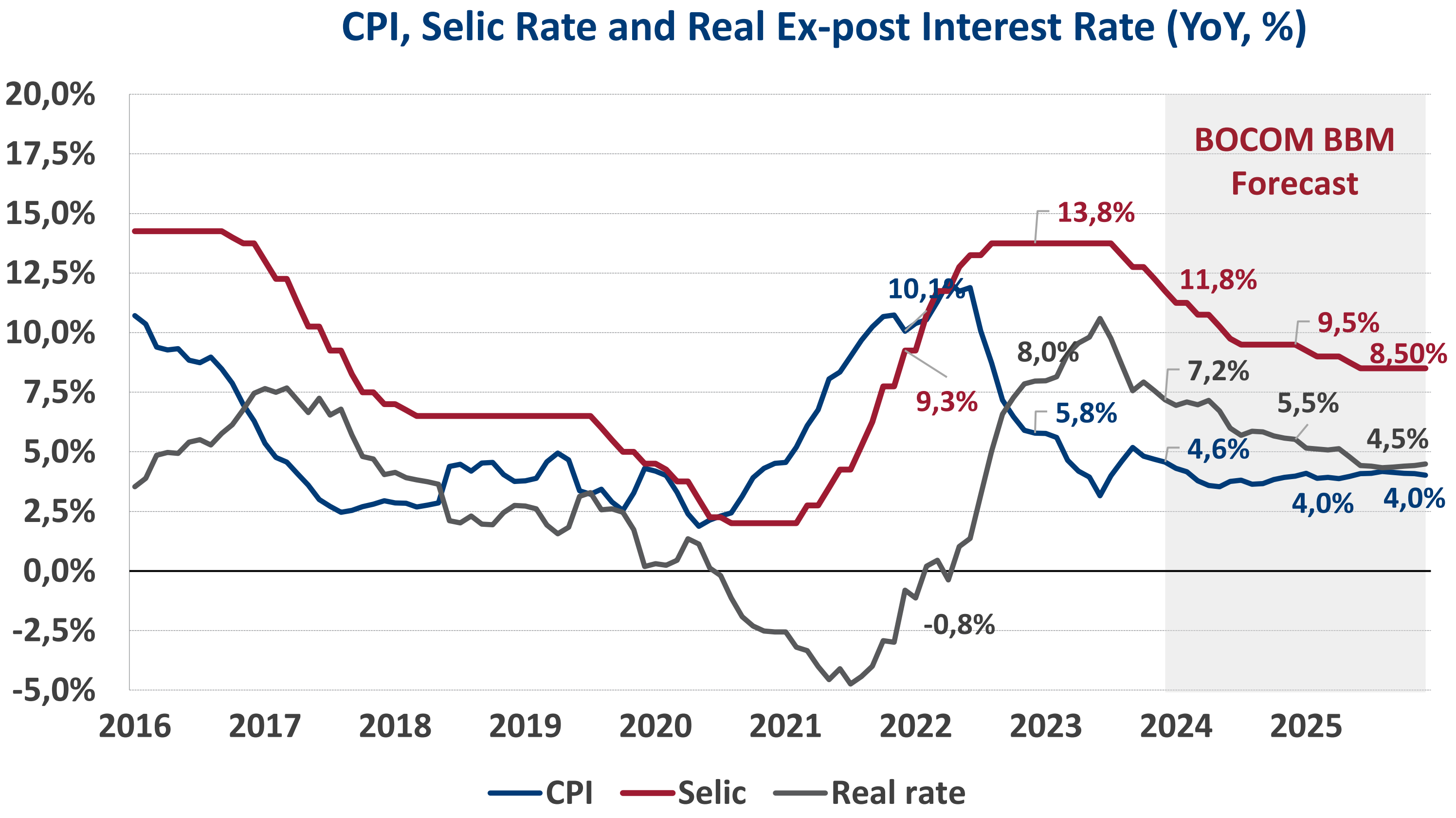
IPCA (%, annual)

	Weight	2019	2020	2021	2022	2023	2024	2025
Regulated	**26.6**	**5.5**	**2.6**	**16.9**	**-3.8**	**9.3**	**4.6**	**3.9**
Industrial goods	**23.6**	**1.7**	**3.2**	**11.9**	**9.5**	**0.9**	**2.1**	**2.9**
Durable goods	10.3	0.0	4.5	12.9	6.1	-0.7	1.0	-
Semi-durable goods	5.9	0.6	-0.1	10.2	15.7	2.6	3.0	-
Non-durable goods	7.3	4.4	4.0	11.9	9.5	1.6	2.9	-
Food at home	**15.7**	**7.8**	**18.2**	**8.2**	**13.2**	**-0.9**	**3.8**	**4.0**
Services	**34.1**	**3.5**	**1.7**	**4.8**	**7.6**	**6.2**	**4.7**	**4.9**
Food away from home	5.6	3.8	4.8	7.2	7.5	5.5	3.7	4.8
Related to minimum wage	5.2	2.9	1.5	3.3	6.3	5.0	5.0	6.0
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.3	9.6	4.4	5.3
Inertial	15.0	4.3	1.6	4.2	8.8	5.1	5.1	4.3
IPCA		**4.3**	**4.5**	**10.1**	**5.8**	**4.6**	**4.0**	**4.0**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

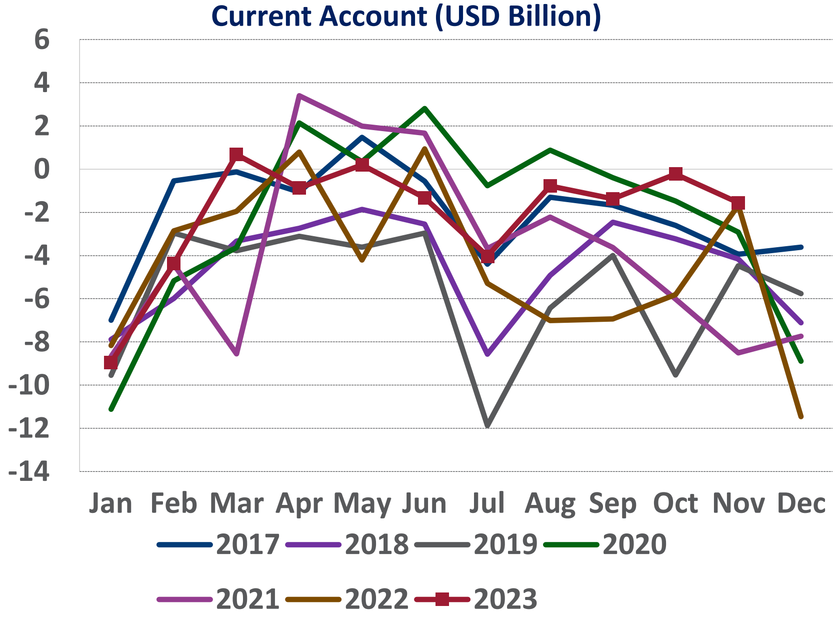
- The Brazilian Central Bank cut Selic rates by 50 bps in its December meeting reaching 11.75% per year. Aside from the small improvement in inflation projections for 2024 (down to 3.5% from 3.6%), the committee has acknowledged two notable improvements in the economic scenario. First, international conditions are less adverse than before, and the inflation dynamics in several economies show signs of easing. Second, inflation trajectory in Brazil has evolved as expected and underlying inflation is reaching levels close to the target;
- Despite a more favorable scenario, the BCB kept the forward guidance and foresees rates cuts of 50 bps in the next meetings, in line with our baseline scenario;

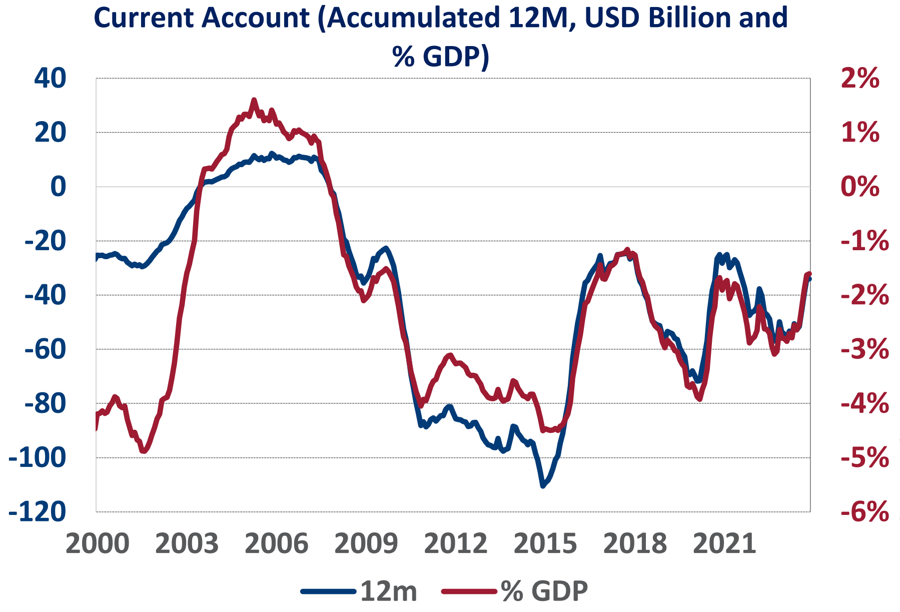


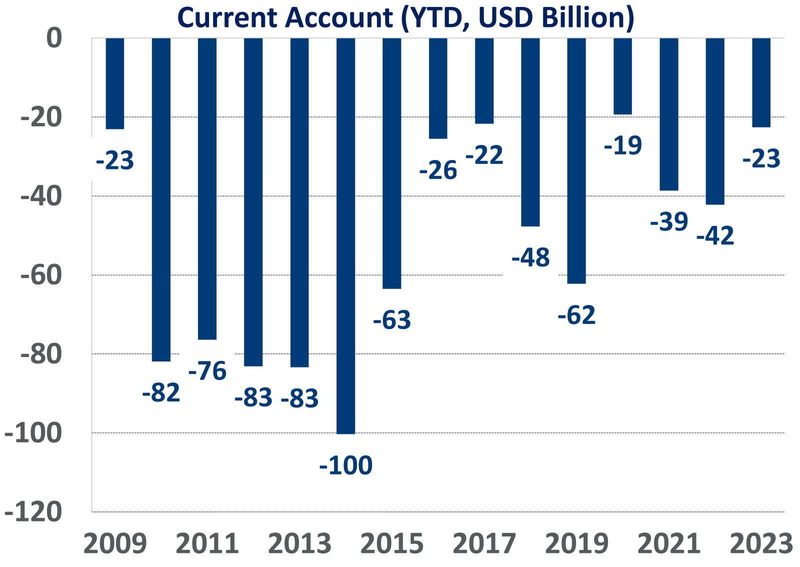
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The Brazilian current account showed a deficit of USD 1.6 billion in November, below market forecasts (USD -0.5 billion);
- The current account balance stood at USD -33.7 billion in the 12-month rolling sum up to November (-1.56% of GDP), from USD -49.9 billion up to the same month of 2022 (-2.59% of GDP).







Source: BOCOM BBM, BCB

Brazil: Balance of Payments

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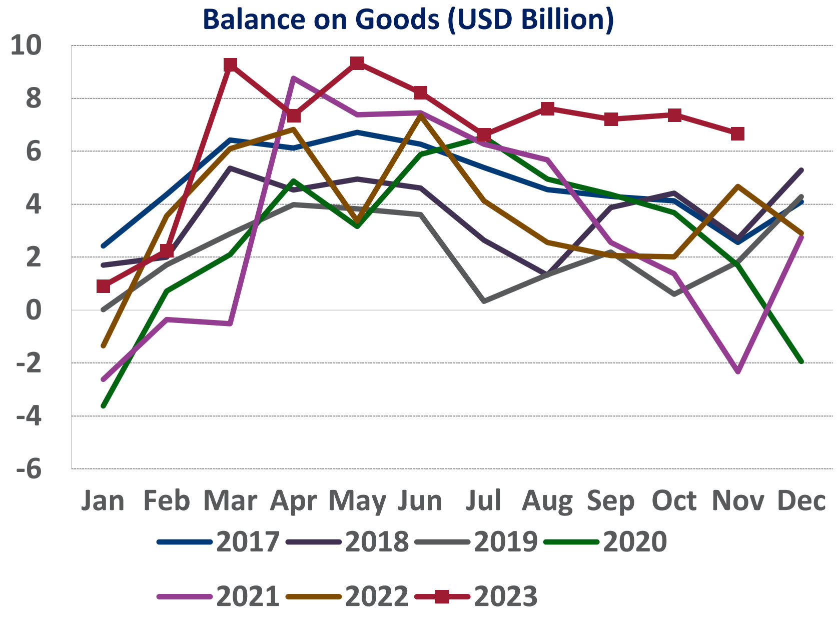
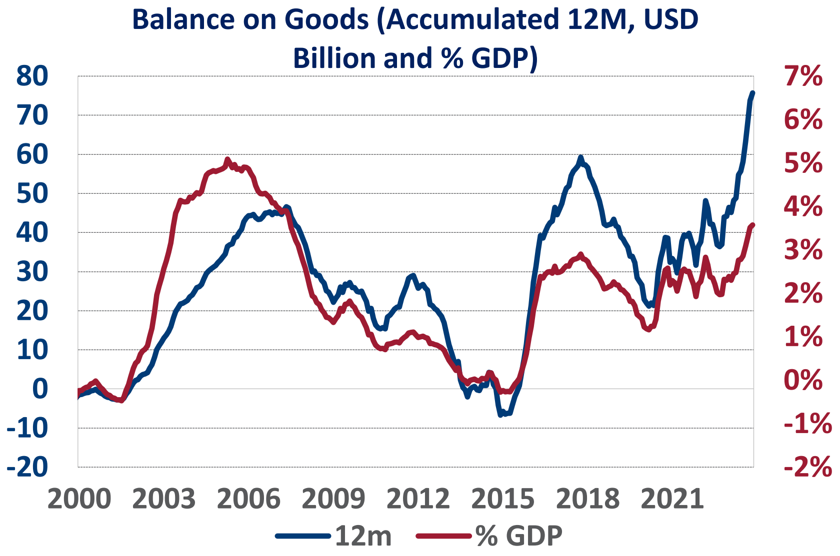
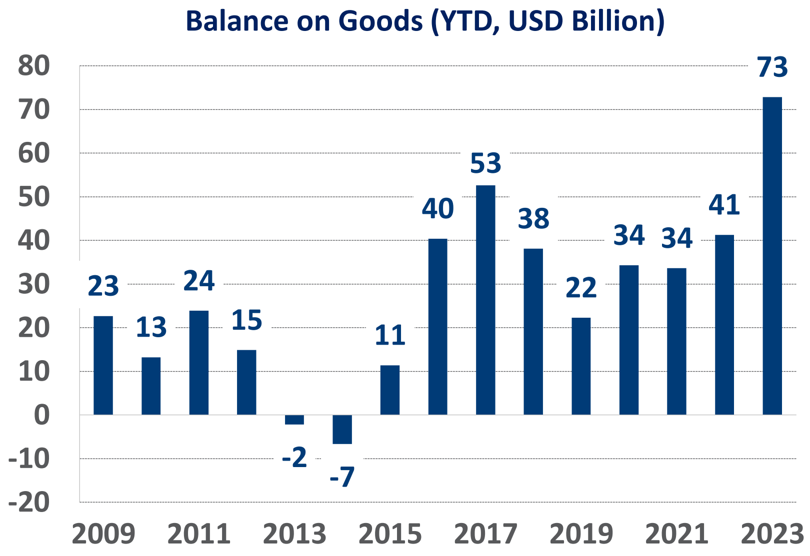
- The merchandise trade balance showed a surplus of USD 6.7 billion in November, above the USD 4.7 billion verified in the same month of 2022;
- Imports fell -9.6% YoY (to USD 21.4 billion) while Exports stood virtually flat (-1.0% to USD 28.1 billion);
- The trade balance totaled USD 76.1 billion in the 12-month rolling sum up to November, much above the USD 44.0 billion for the same period of 2022;
- The increase in export volumes alongside with lower global inflation have led the Brazilian trade balance to all-time highs.



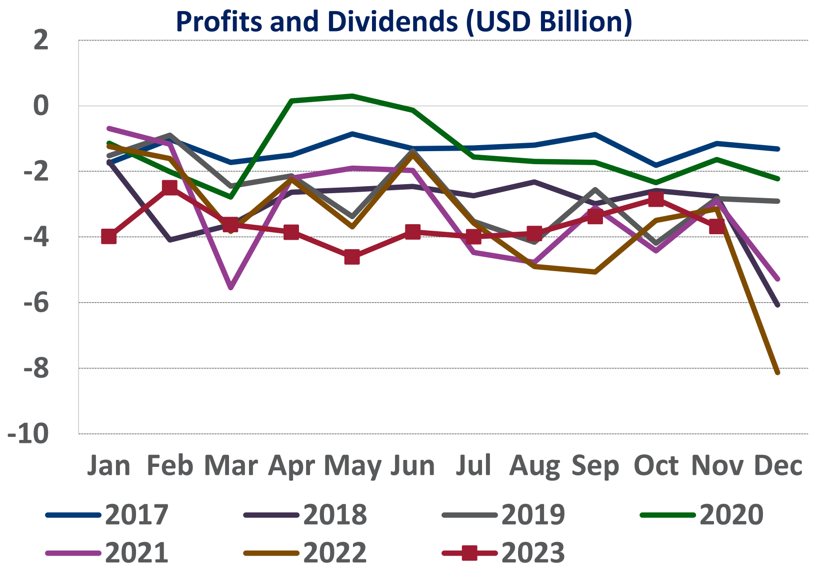


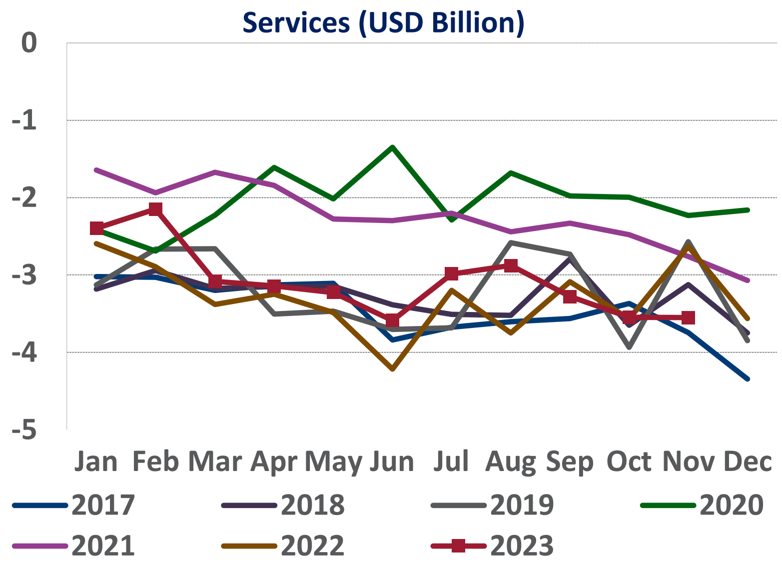


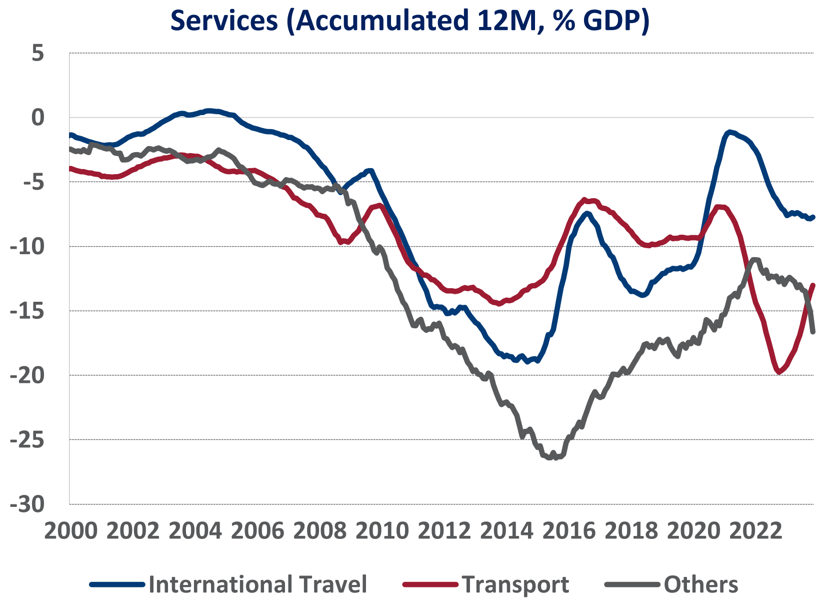
Source: BOCOM BBM, BCB

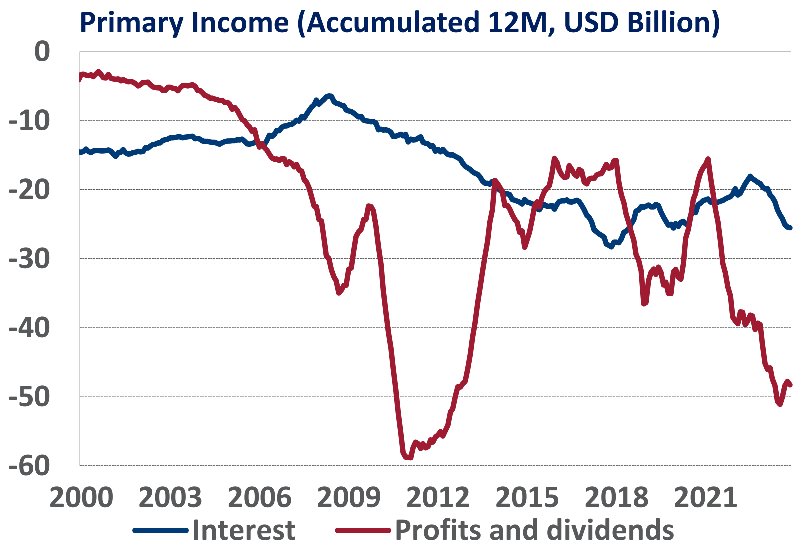
Brazil: Balance of Payments

- The deficit in the Services account reached USD 3.6 billion in November;
- We highlight the higher expenses with equipment rental and telecom/information services;
- The deficit in the Primary Income account reached USD 4.7 billion, due to higher net expenditures on profits and dividends.





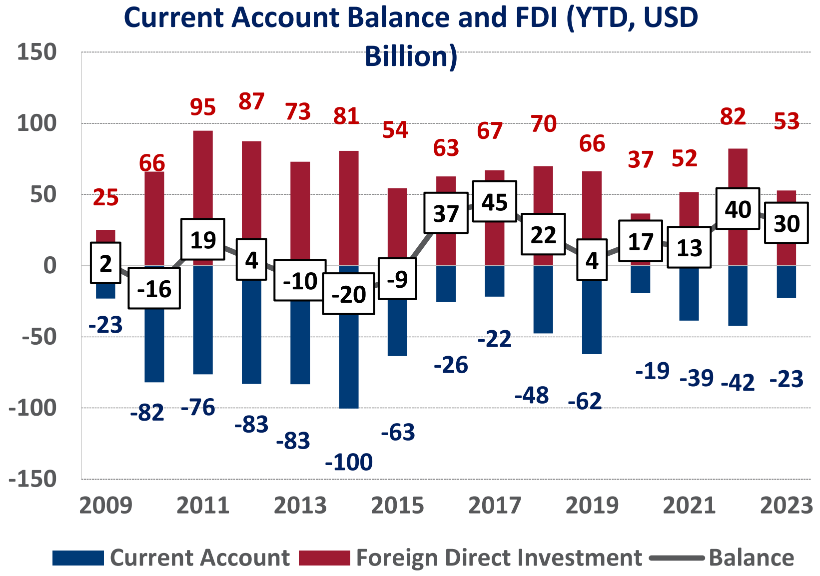


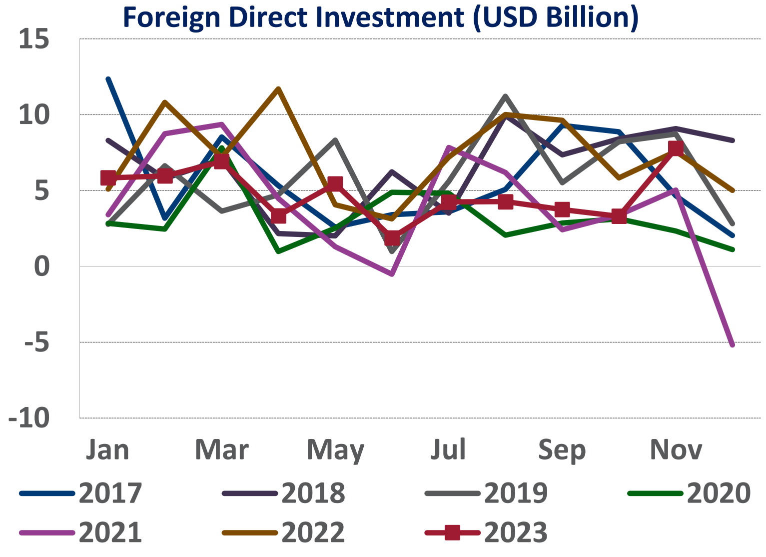


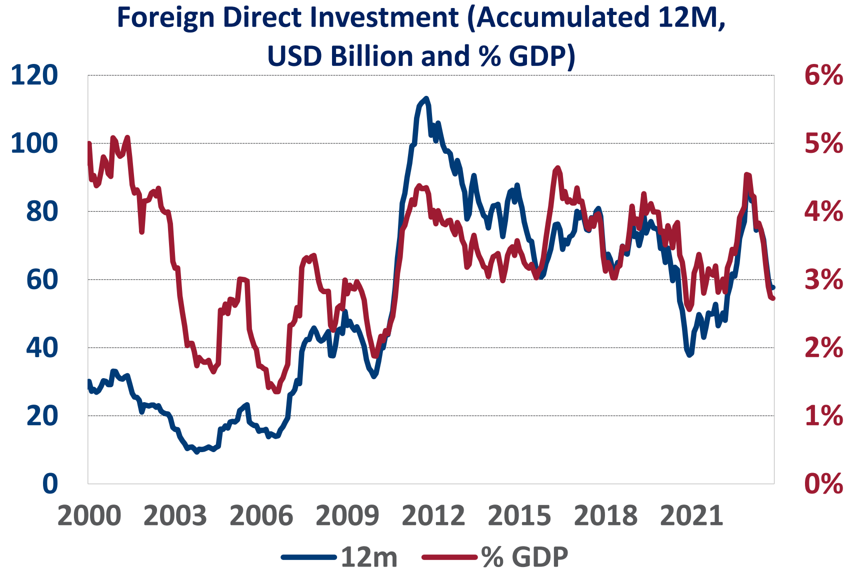
Source: BOCOM BBM, BCB

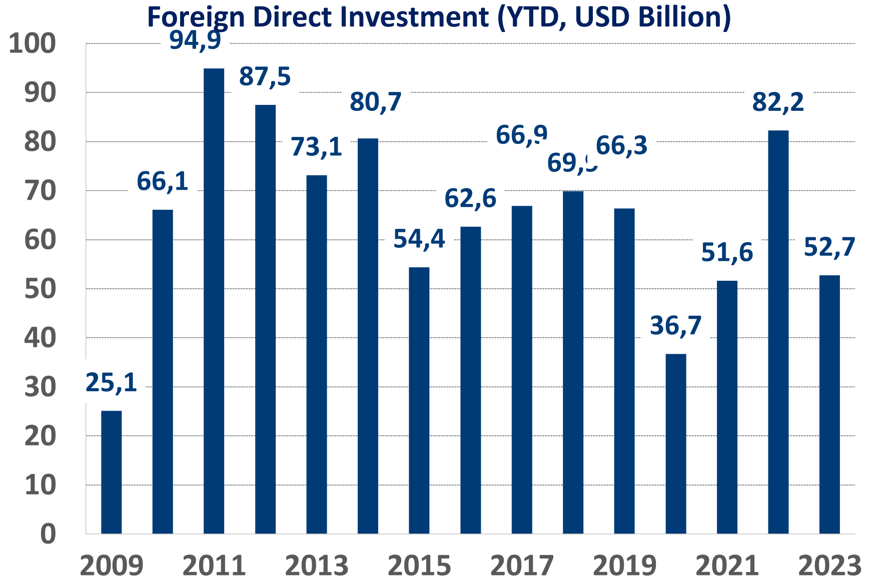
Brazil: Balance of Payments

- Net inflows in FDI (USD 7.8 billion) came in considerably above expectations (USD 4.0 billion), interrupting a long sequence of surprises to the downside;
- The FDI totaled USD 57.7 billion based on the 12-month rolling sum through November (2.68% of GDP);
- Brazilian balance of payments remains solid. The record trade surplus has been driving the current account deficit to low level when compared to the historical pattern.









Source: BOCOM BBM, BCB

Brazil: External Sector

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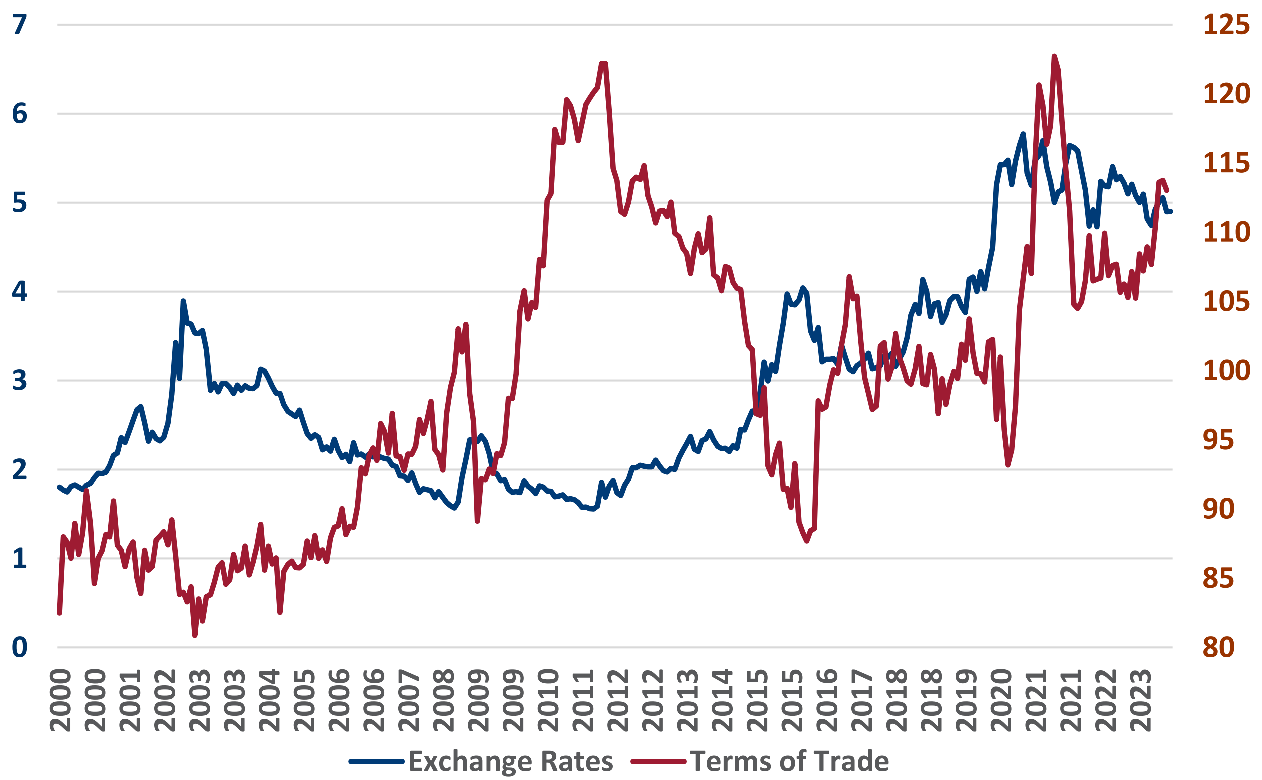
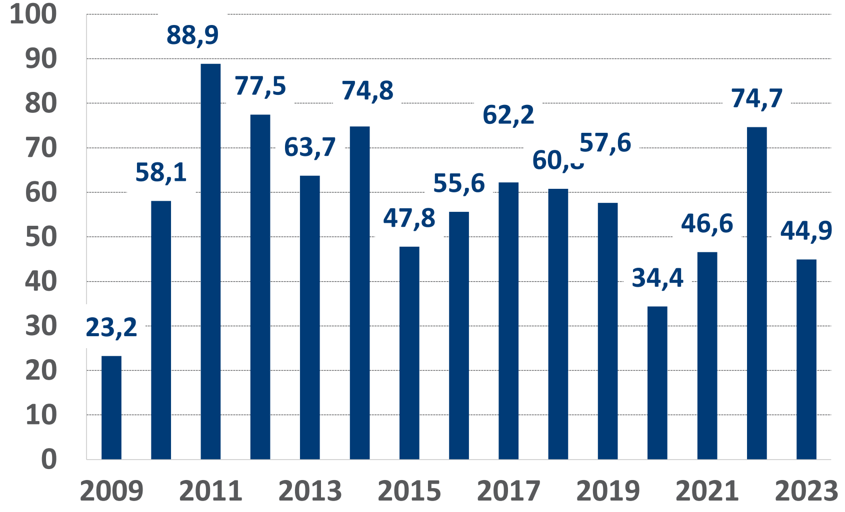
- Despite the reduction in the interest rate differential and in the level of foreign direct investment entering the country, the more dovish signaling from Fed contributed to dollars weakening.

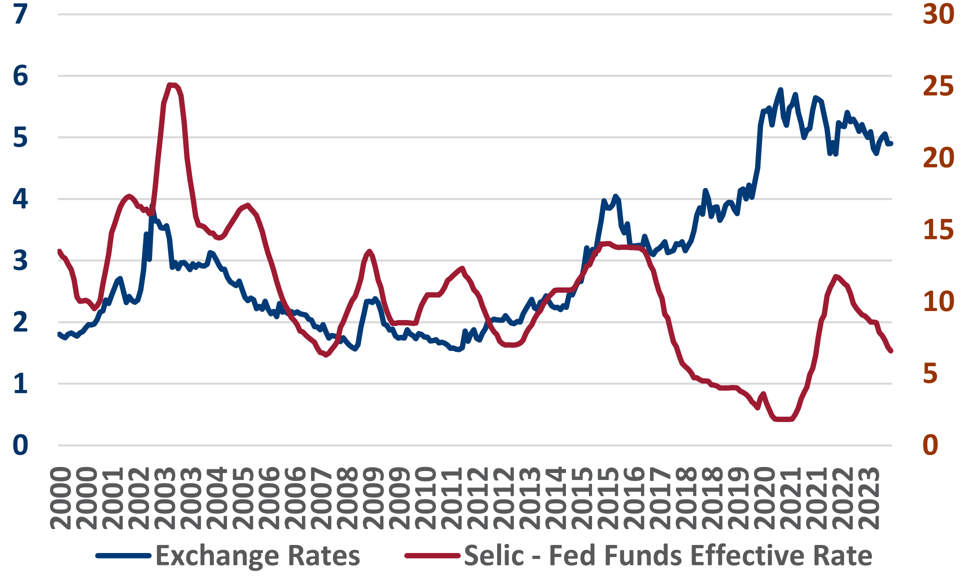
Terms of Trade x BRL



Foreign Direct Investment (YTD, USD Billion)



Interest Rate Differential x BRL

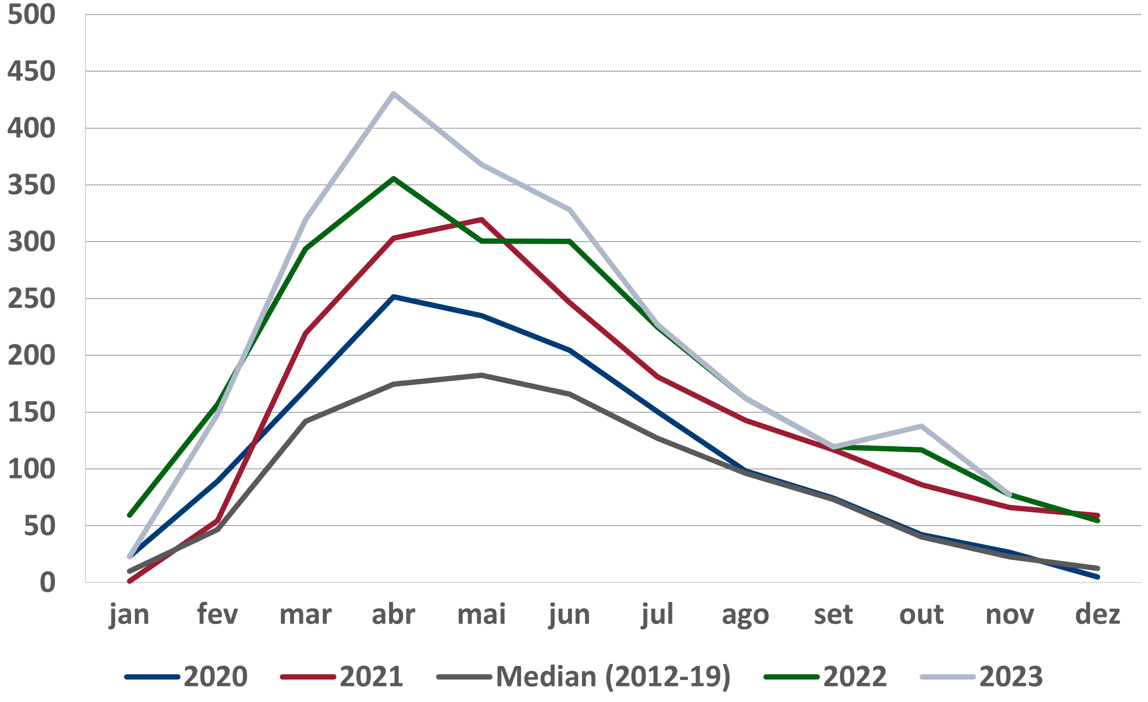


Source: BOCOM BBM, Bloomberg, Funcex, BCB

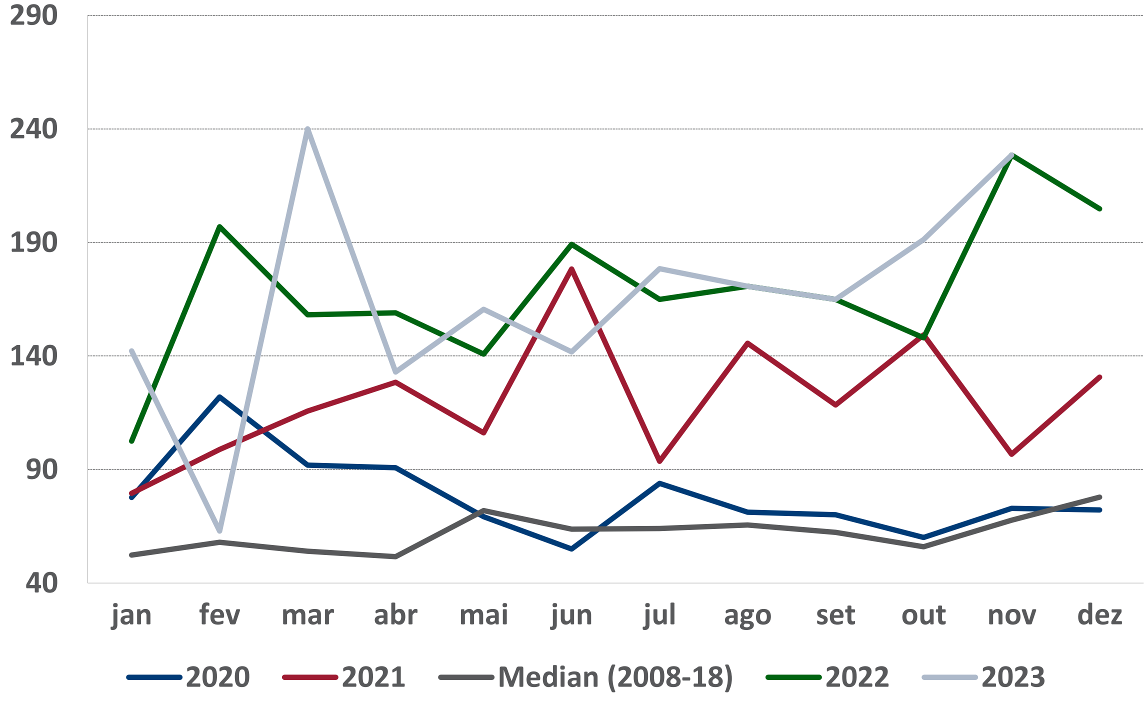
Brazil: External Sector

- In November, the trade balance presented a surplus of US$ 8.8 billion (41.5% YoY);
- Both the value of the surplus and exports in November were the highest for the period;
- Year to date, the trade surplus reached US$ 89.2 bn, a historical record;
- The main drivers of the exceptional trade balance performance in 2023 were increases in soybean and crude oil exports and an overall decline in imports.

Brazil BoP: Soybeans Exports
US$ Million Daily Average



Brazil BoP: Crude Oil Exports
US$ Million Daily Average



Source: Secex, BOCOMBBM

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