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MACRO OUTLOOK

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Macro Outlook

- 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 the latest FOMC meeting, policy rate was kept unchanged, and Powell tried to push away market expectations for an early cut already in Q1. This is consistent with the message from their December projections that pointed to 75bps of cuts in 2024, reaching 4.6% by year-end. The market adjusted its pricing and now sees 100-125bps of cuts, in an easing cycle that could begin in May.

- As for China, 2023 GDP showed an annual growth of 5.2%, above the Chinese government growth target for the year of 'around 5%'. However, data also points to a lackluster recovery of domestic demand, seen in the three consecutive reading of the GDP deflator. Nonetheless, economic activity composition remained heterogenous with sectors related to real estate still struggling, while components related to green energy, renewables, technology and automobiles continue to thrive amid policy support for high quality development;

- In Brazil, all monthly indicators of economic activity increased marginally in November, although still modestly. Data from the tertiary sector indicated an expansion of 1.3% MoM in retail sales and 0.4% MoM in services, while industrial production increased by 0.5% MoM in November and 1.1% MoM in December. Following the November data, we revised our GDP forecast for Q4 from -0.1% QoQ to +0.1% QoQ, increasing the forecast for 2023 from 2.9% to 3.0%. For 2024, we updated our forecast from 1.3% to 1.6%, due to greater dynamism in the job and credit market, but we continue to see risks in both directions. On the one hand, the resilience of the labor market and the disinflation process can boost household disposable income more significantly, on the other, we see risks of lower agricultural production following adverse weather shocks, which could generate negative spillovers to other sectors;

- Regarding monetary policy, the Brazilian Central Bank decided to cut the Selic rate by 50 basis points at its January meeting, reaching 11.25% per year, as widely expected and in line with the guidance given. Forecasts for 2024 and 2025 remained stable compared to the December meeting, at 3.5% and 3.2%, respectively. The communication remained practically unchanged, emphasizing that the Committee members unanimously foresee new cuts of the same magnitude in the next meetings, which means cuts of 50 basis points at least in the next two meetings, in line with our base scenario;

- In the inflation scenario, we reduced our projection for 2024 from 4% to 3.8% due to the downside surprise in the 'vehicle licensing and plates' category seen in January's IPCA-15. Risks remain in both directions: on the one hand, adverse weather puts pressure on food inflation; underlying services inflation brought upward surprises in December and January; pressures from international freight costs threaten to drive up prices of industrial goods. On the other hand, a decision by the Supreme Court on the incidence of ICMS on electricity transmission and distribution tariffs has the potential to reduce the 2024 IPCA by around 40 bps;

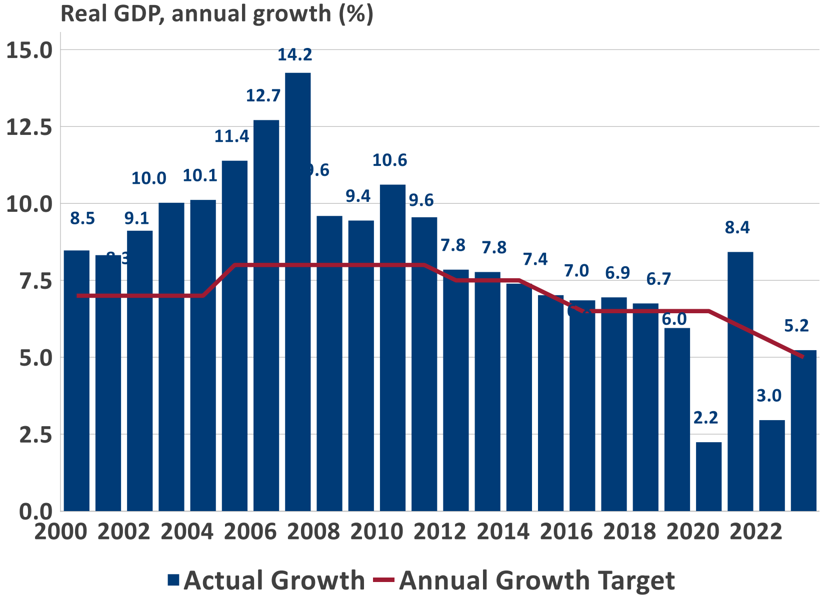
- In the fiscal scenario, total federal tax collection reached R$231.2 billion in December, an increase of 5.1% in real terms when compared to December 2022. In 2023, tax collection totaled R$2,318.1 billion (-0.1% YoY), a decline explained by lower commodity prices and weaker economic activity. For 2024, the implementation of new measures such as the taxation of exclusive funds, offshore investments and the change in ICMS subsidies, among others, should have a positive effect on tax collection.

China: GDP 2023 Q4

- Real GDP showed **5.2%** annual growth, **meeting the Chinese government growth target of “around 5%”** in 2023, but the ongoing trajectory remains concerning:
  - In nominal terms, GDP growth in 2023 was 4.6%, putting the annual GDP deflator at -0.5%. Q4 value was -1.4% YoY, the third consecutive quarter with a negative GDP deflator, the longest streak since 1999, which signals still **weakened domestic demand**;
  - Paired with real GDP growing faster than nominal GDP, the detachment between demand and production corroborates concerns of **overcapacity** in the latter;

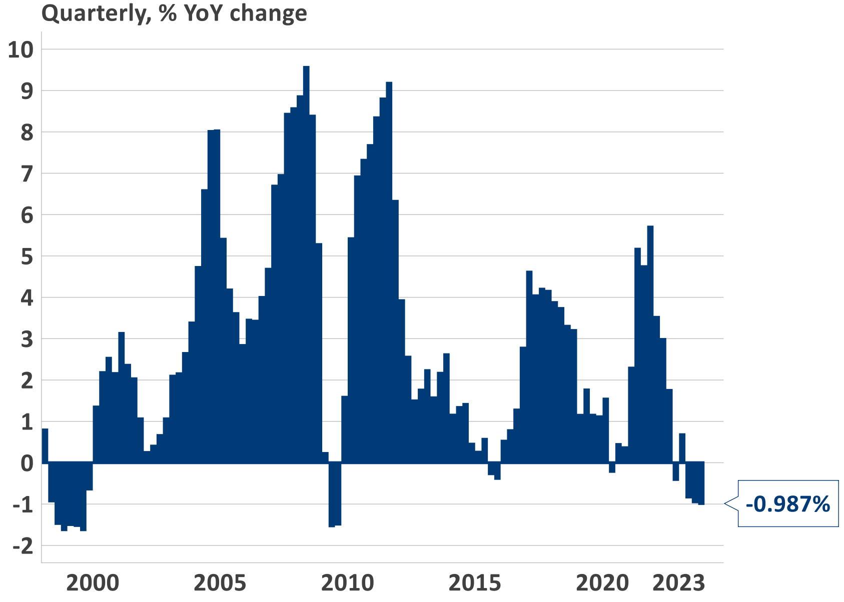
- **China’s Q4 GDP was in line with expectations**, rising 5.2% YoY (exp. 5.3%) and 1% QoQ SA, but the two main drags of 2023 are expected to persist throughout 2024;
  - Property still struggles to find a bottom, as construction starts, new home sales and prices are expected to continue dropping this year;
  - Exports were robust in volume terms, but the drag from falling export prices corroborates with concerns of overcapacity in production.

China: Real GDP (Actual Growth vs Target)



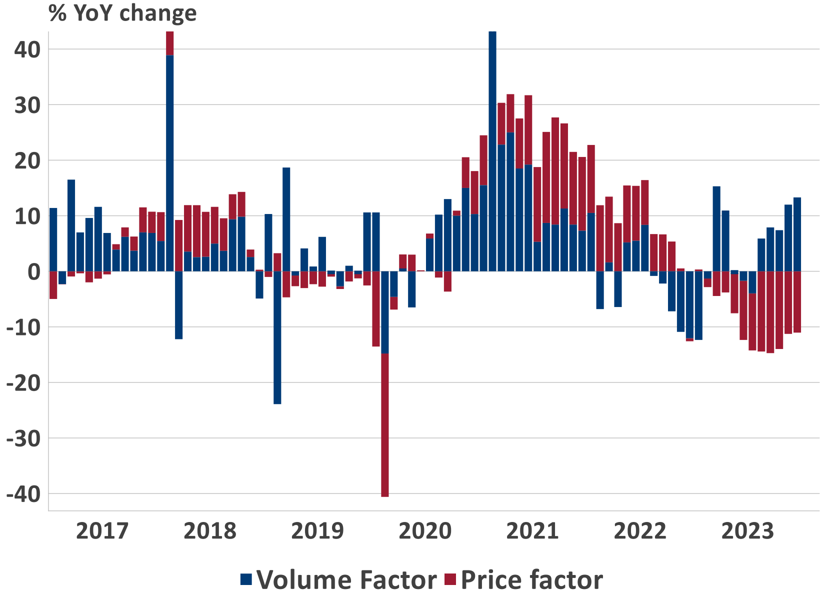
Source: BOCOM BBM, Macrobond, NBS, NDRC

China: GDP Deflator (% YoY, Quarterly)



Source: BOCOM BBM, Macrobond, NBS

China: Exports (Price x Volume)



Source: BOCOM BBM, Macrobond, GAC

China: Activity

- December economic activity showed mixed results in YoY terms:

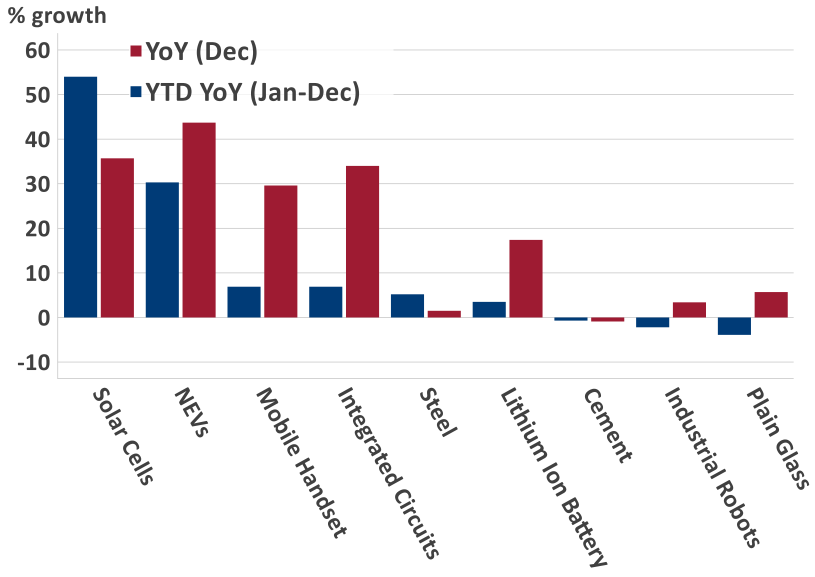
- **Retail sales slowed** from 10.1% to **7.4%** YoY (exp. 8.0%), however with strength in covid-sensitive segments on a low base (such as restaurants with +20.9% YoY), but slowing goods demand (4.8% YoY): cellphones, automobiles and clothing continues to offset weaker housing-related sectors;

- **Industrial prod. rose** from 6.6% to **6.8%** YoY (exp 6.6%), with heterogenous composition as sectors related to renewables and high-tech products, such as new energy vehicles (43.7%) and solar cells (35.7%), continued to thrive and components related to real estate continued to struggle;

- **FAI** rose from 2.9% to **3.0% YTD** (exp. 2.9%), reflecting the growth in manufacturing and infrastructure investment being offset by slower property;

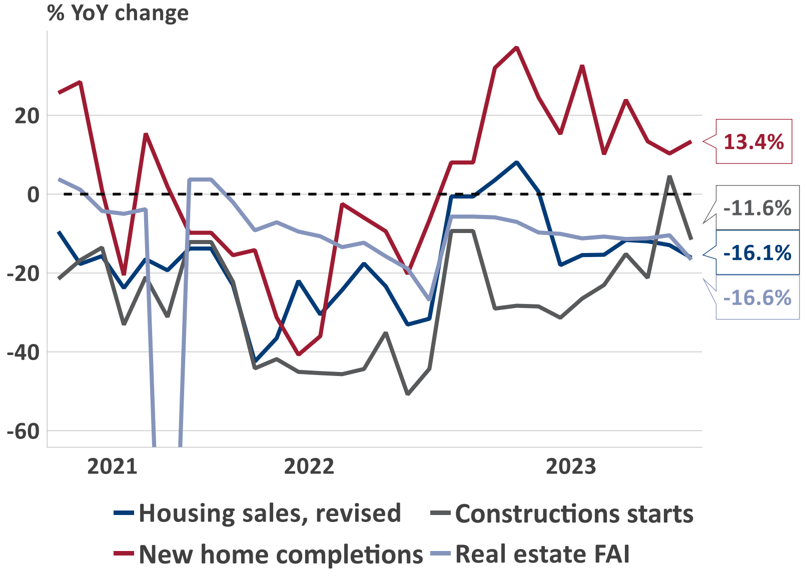
- Housing indicators were somewhat stable compared to Q3, but the **housing market remains passing through a correction** with new home sales down by -16% YoY → suggests that easing policies in the sector may have not created any boom, but at least were able to prevent a bigger downturn.

China: Industrial Production by Product (Dec/2023)



Source: BOCOM BBM, Macrobond, NBS

China: Property Indicators (YoY)



Source: BOCOM BBM, NBS, Macrobond

China: Activity (% YoY)

	12/2023	11/2023	12/2022
Industrial Production	6.80	6.6	1.3
Mining	4.70	3.9	4.9
Manufacturing	7.10	6.7	0.2
Utilities	7.30	9.9	7.0
Fixed Asset Investment (YTD YoY)	3.00	2.9	5.1
Manufacturing	6.50	6.3	9.1
Real Estate	-9.60	-9.4	-10.0
Infrastructure	5.90	5.8	9.4
Retail Sales	7.42	10.1	-1.8
Catering Services	30.00	25.8	-14.1
Consumer Goods	4.80	8.0	-0.1
Clothing	26.00	22.0	-12.5
Automobiles	4.00	14.7	4.6
Furniture	2.30	2.2	-5.8
Cellphones	11.00	16.8	-4.5
Home Appliances	-0.10	2.7	-13.1
Construction	-7.50	-10.4	-8.9

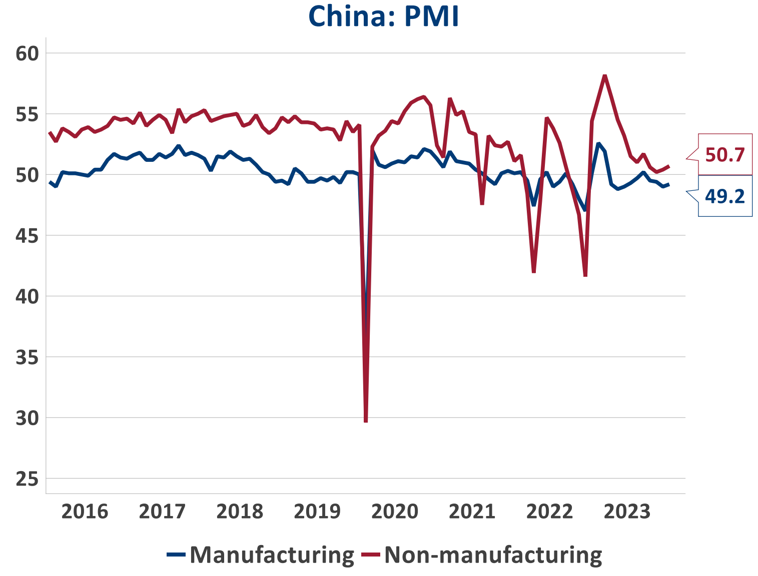
Source: BOCOM BBM, Macrobond

China: Economic Scenario

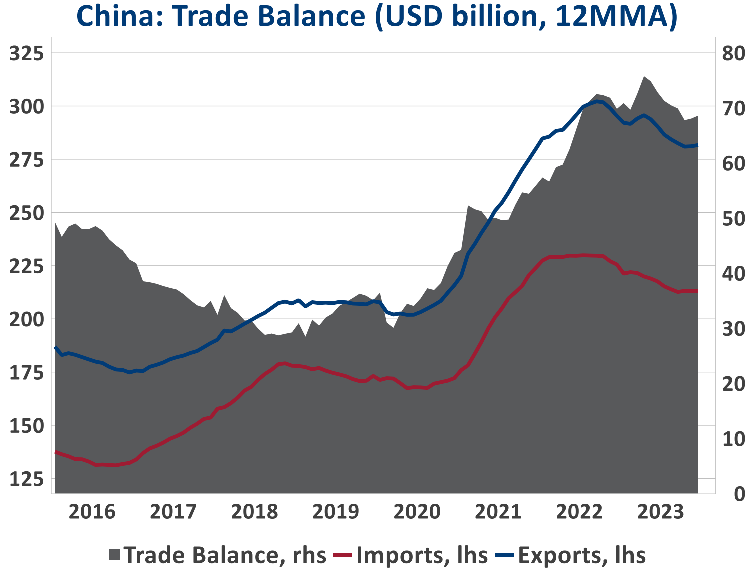
- In January, China's **PMI** continued to show divergence between services and manufacturing sector, with the latter improving, but remaining in contraction, while the former edged up its pace of expansion;
  - The NBS manufacturing PMI rose from 49.0 to **49.2** (exp. 49.2), remaining contractionary due to external demand cooling up;
  - The non-manufacturing sector continued expansionary, rising from 50.4 to **50.7** as both the services and construction PMIs were expanding;

- **December exports surprised to the upside** boosted by a low base and expanding from +0.5% to **+2.3% YoY** (exp. 1.7%): automobiles (+27.6% YoY) was the main drivers. In volume terms, growth remained robust, rising from 12.0% to 17.9% YoY;
- **Imports returned to a mild expansion**, going from -0.6% to **0.2% YoY** (exp. 0.3%): reflects an improvement in commodities imports volume, such as crude oil turning positive again (0.6% YoY) and copper ore (18.0% YoY), and a smaller drag from negative price effect as prices rises.

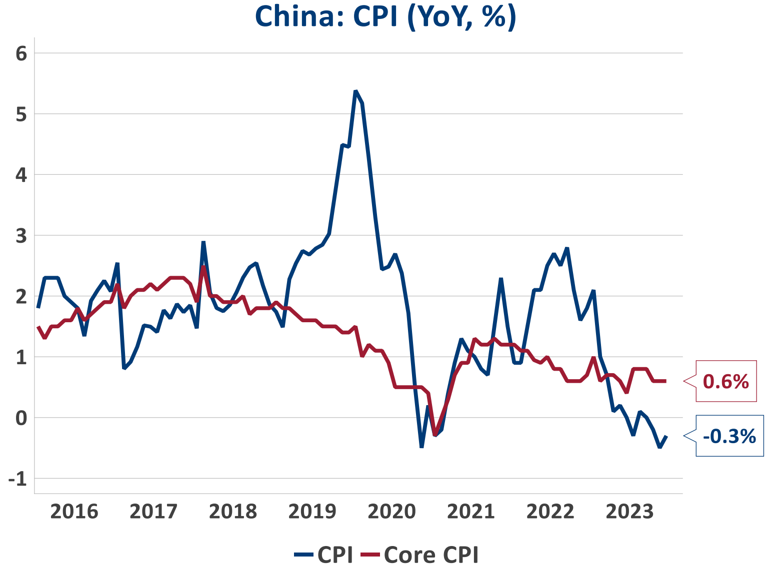
- **CPI** inflation rose by **0.1%** MoM and from -0.5% to **-0.3%** YoY (exp. -0.4%), as food deflation softened, and domestic energy prices' fall moderated;
  - Goods YoY deflation narrowed, while services inflation remained stable, reflect the continued divergence between these sectors' recovery;



Source: BOCOM BBM, Macrobond, CFLP



Source: BOCOM BBM, Macrobond, CCS



Source: BOCOM BBM, Macrobond, NBS

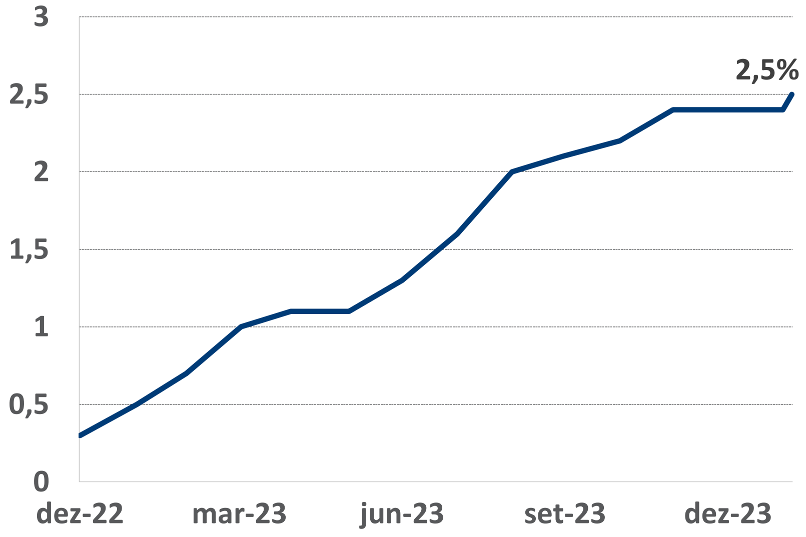
US: 2023 GDP

- **The US economy showed remarkable resiliency throughout 2023**, surpassing all expectations: early 2023 Bloomberg expectations were forecasting only 0.5% annual growth last year, a sharp contrast with the actual annual growth of 2.5%;

- The main driver of growth was **strong personal consumption expenditure** (2.2% real annual growth), which continued to show above-trend growth; it reflects a recovery in the consumption of services and a continued strength in goods spending;

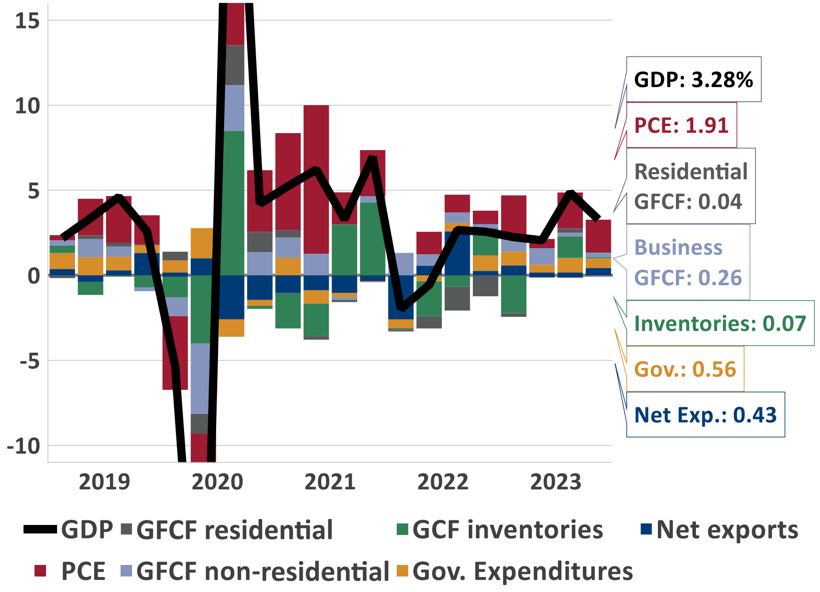
- However, there are some headwinds ahead such as a cooling labor market, slowing income growth, depleting excess savings, and the lagged impact of tighter financial conditions → **expectations for a slowdown in 2024.**

US: Bloomberg Consensus Expectation for 2023 GDP Growth



Source: BOCOM BBM, Bloomberg

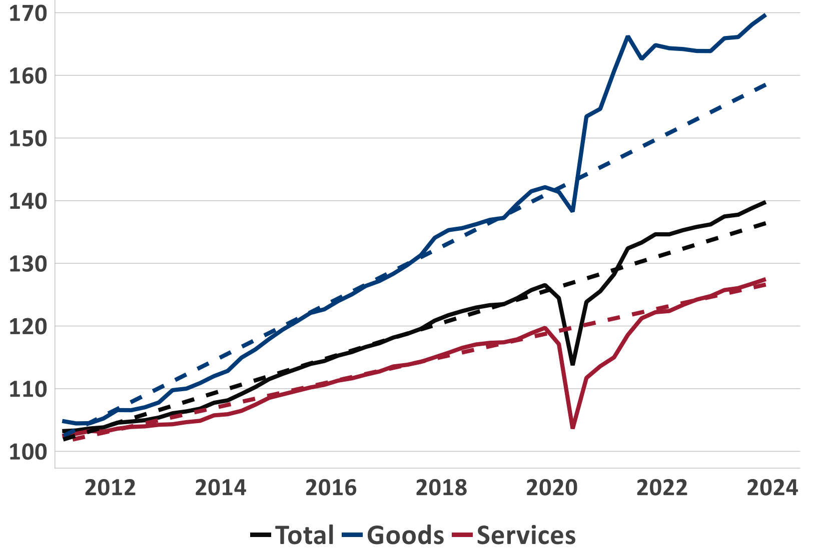
US: Contribution to GDP-growth (QoQ SAAR, %)



Source: BOCOM BBM, Macrobond, BEA

US: Real Personal Consumption Expenditures SA

Index, Q4-2009 = 100, Pre-pandemic (Q1 2010 to Q4 2019) trends shown as dotted line



Source: BOCOM BBM, Macrobond, BEA

USA: Labor Market

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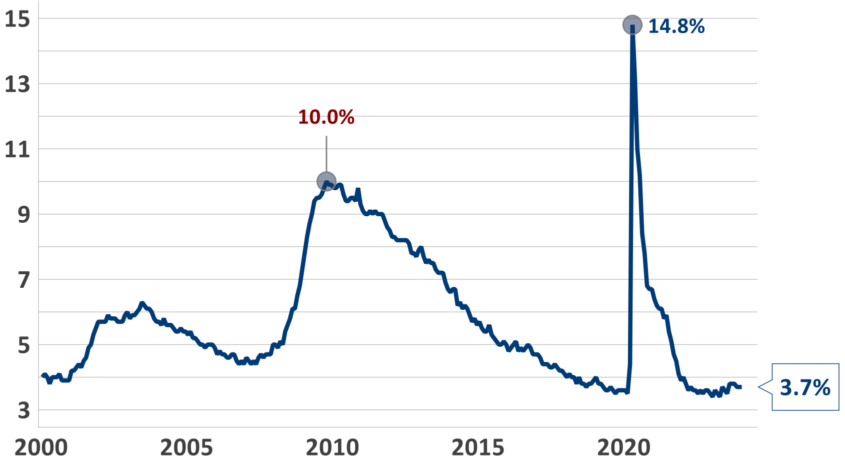
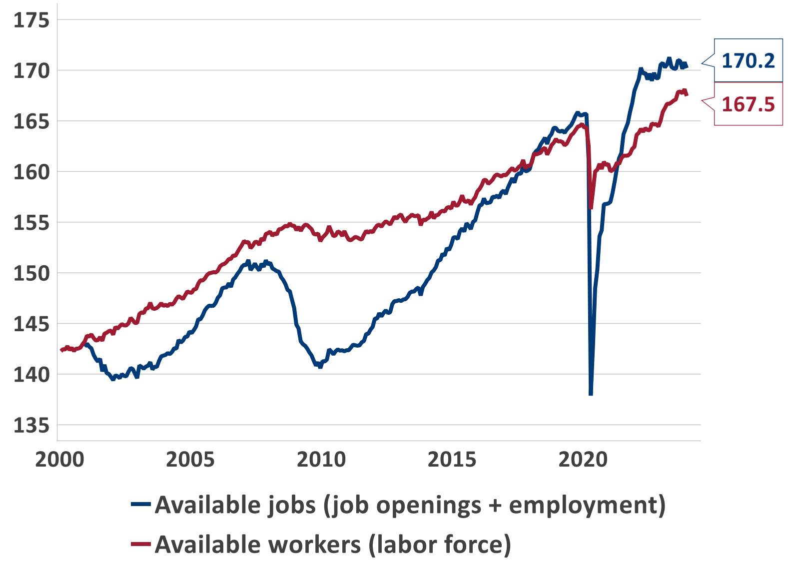
- **Labor market is gradually decelerating**, but January data showed a big turnaround, with nonfarm payroll surprising to the upside by creating 353k jobs (exp. 180k), a much faster pace than previous months;
- The unemployment rate surprised downward by being stable at **3.7%** (exp. 3.8%);
- The jobs-workers gap increased from 2.7M to **2.8M** as demand rose reflecting rising employment and job openings, while labor supply ceased to improve reflecting a 175k fall in the labor force
- January avg. hourly earnings **accelerated its monthly pace to 0.55% MoM**, above expectations of 0.3%, but it was boosted by a fall in avg. weekly hours worked from 34.3 to 34.1;
  - The annual rate edged higher from 4.3% to 4.45% YoY, way above what would be consistent with the FOMC 2% inflation target;

US: Unemployment Rate SA (%)



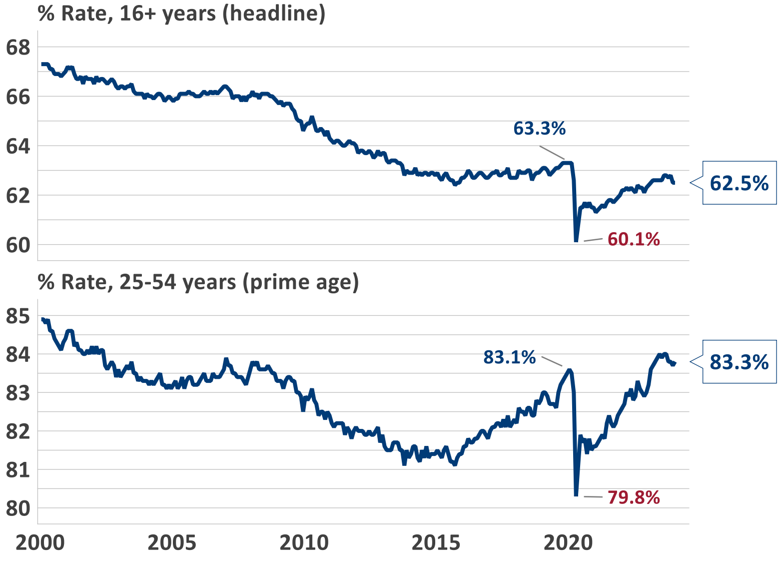
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



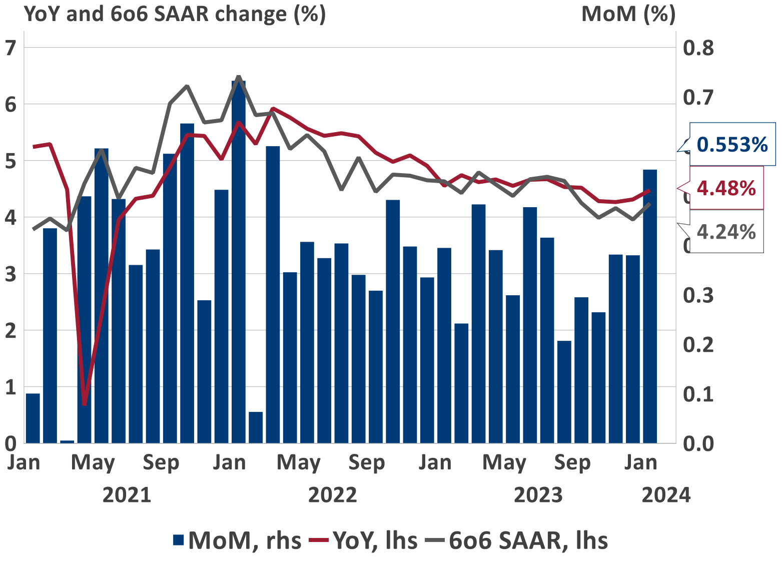
Source: BOCOM BBM, Macrobond, BLS

US: Labor Force Participation Rate (%)



Source: BOCOM BBM, Macrobond

US: Average Hourly Earnings Growth (%)



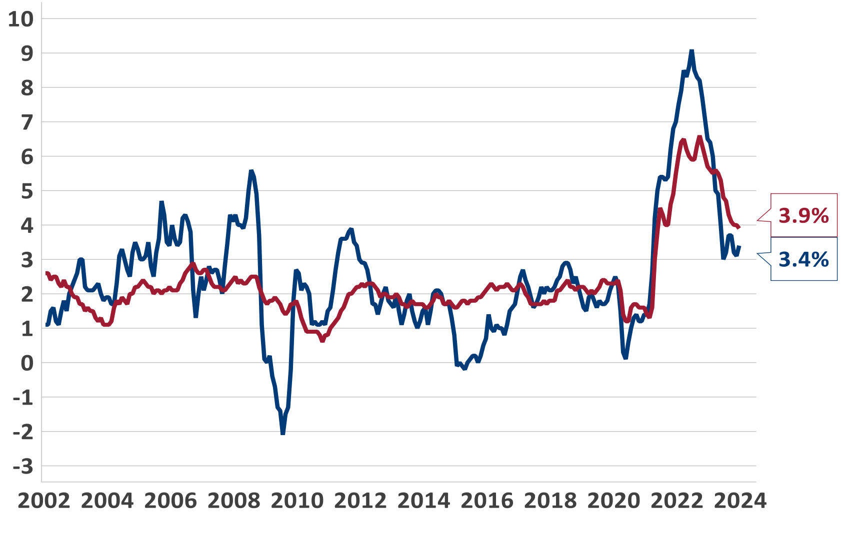
Source: BOCOM BBM, Macrobond

USA: Inflation

- Dec. headline CPI rose **0.3% MoM** (above the exp. 0.2%), leading the YoY rate rise from 3.1% to **3.4% YoY :**
  - **Energy**: rose 0.4% MoM, reflecting a monthly increase in electricity and gasoline prices;
  - **Food:** showed a moderate increase of 0.2% MoM, although it remains well below their average pace of end 2022 and early 2023 (was 0.6%);

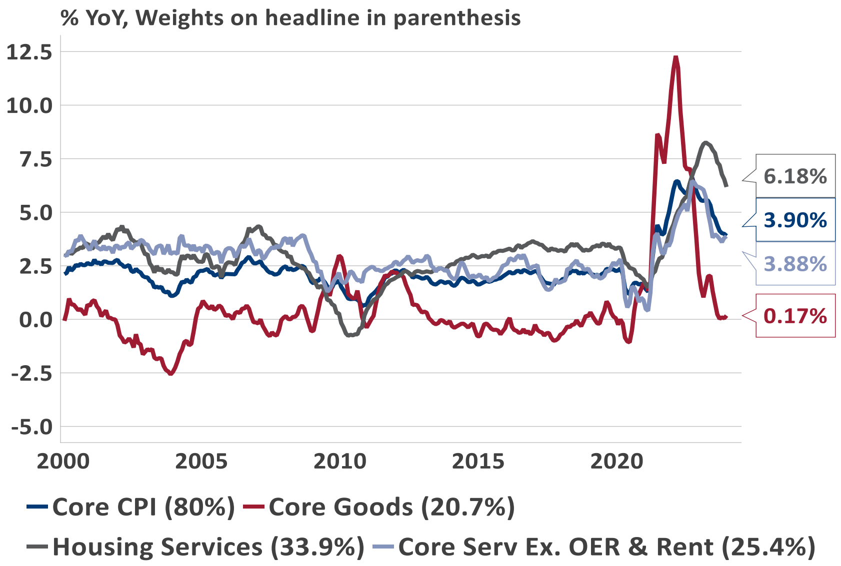
- **Core CPI** rose **0.3% MoM,** in line with the expectations, and the annual rate fell from 4.0% to **3.9% YoY:**
  - **Core goods (0,0% MoM) :** mostly subdued following the post-pandemic easing of supply chains bottlenecks and sideway moves in import price;
  - **Housing services (0,4% MoM)**: a 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 (0,4% MoM)**: began falling more pronouncedly in Feb-2023, and should continue slowing as the labor market rebalances further and wage inflation slows.

US: CPI (YoY, %)



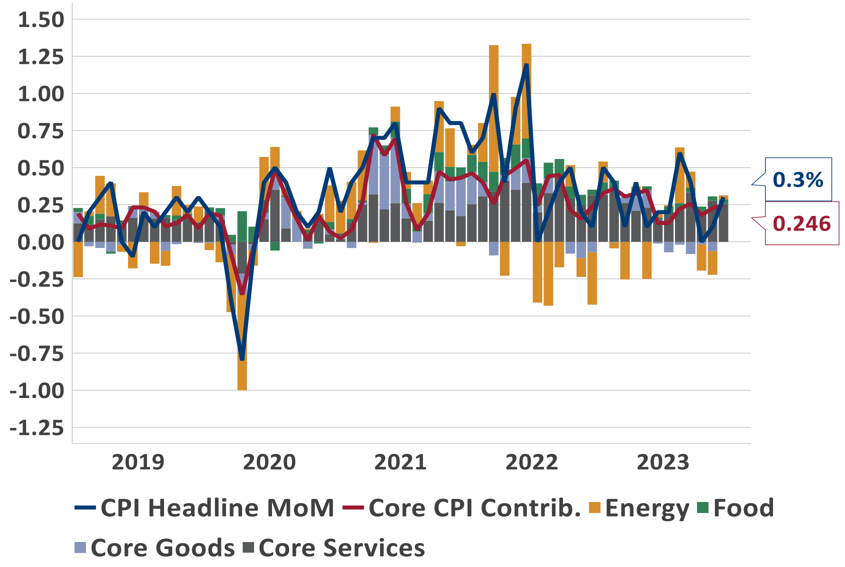
Source: BOCOM BBM, Macrobond, BLS

US: Core CPI Main Components (%)



Source: BOCOM BBM, Macrobond, BLS

US: CPI MoM Contributions

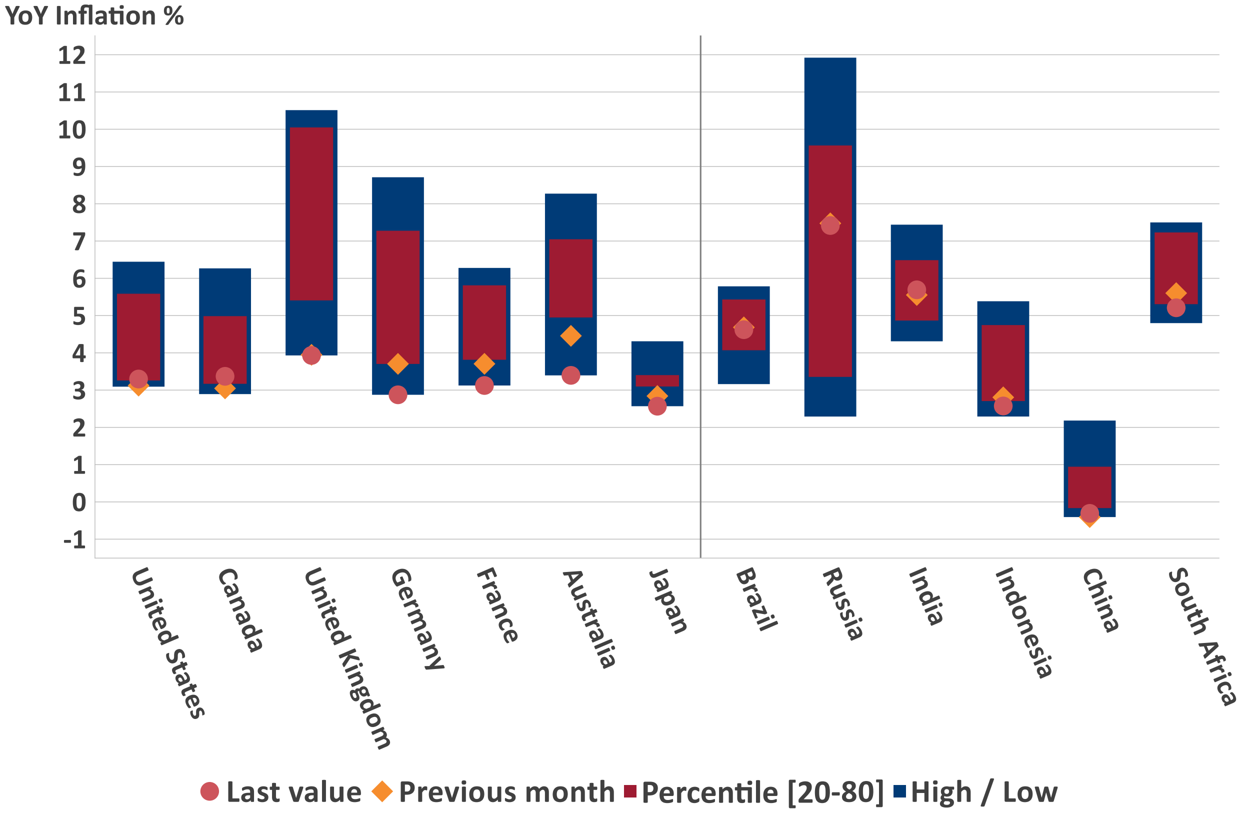


Source: BOCOM BBM, Macrobond, BLS

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.

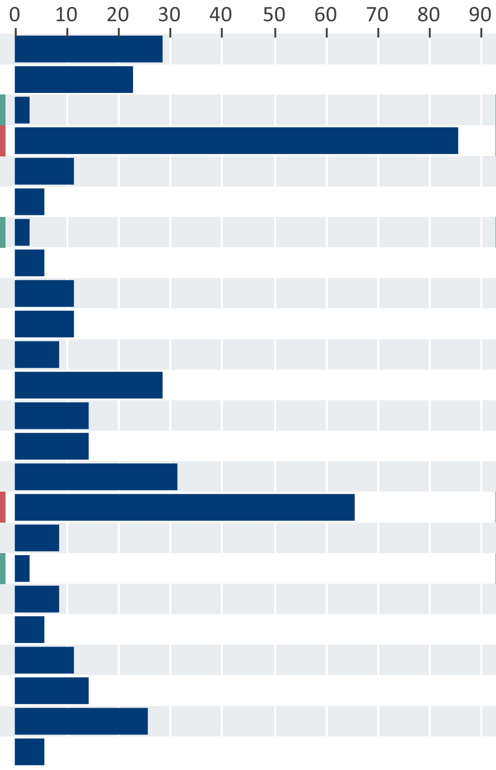
Inflation range during the past 12 months



Source: BOCOM BBM, Macrobond

Recession Tracker

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



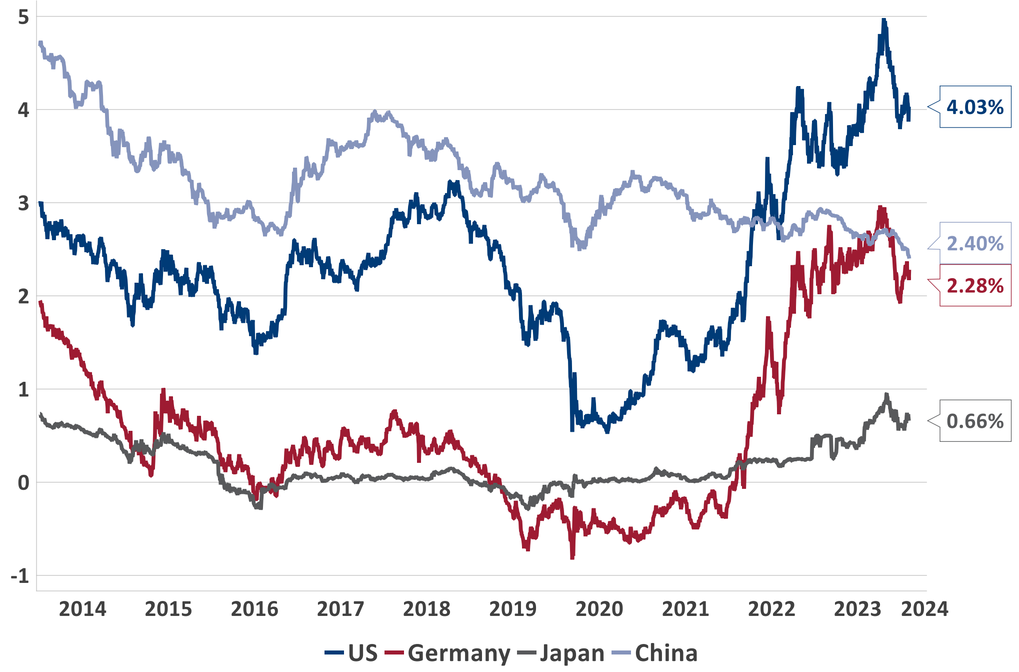
	Share (%)	#
2023	28.6	10
2022	22.9	8
2021	2.9	1
2020	85.7	30
2019	11.4	4
2018	5.7	2
2017	2.9	1
2016	5.7	2
2015	11.4	4
2014	11.4	4
2013	8.6	3
2012	28.6	10
2011	14.3	5
2010	14.3	5
2009	31.4	11
2008	65.7	23
2007	8.6	3
2006	2.9	1
2005	8.6	3
2004	5.7	2
2003	11.4	4
2002	14.3	5
2001	25.7	9
2000	5.7	2

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;
- In some countries, such as Brazil, Chile and other EM peers, the easing process has already started.
- In the US, monetary policy has already peaked, but amid the still hot economic activity, J. Powell tried to push away expectations for early cuts in March, signaling that the Fed funds rate should remain elevated for longer;

10 Year Interest Rates (%)



Source: BOCOM BBM, Macrobond, U.S. Treasury, 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	4	2
Australia	4.35	0.25	Hike	11/2023	3	39
Brazil	11.25	-0.50	Cut	2/2024	18	0
Canada	5.00	0.25	Hike	7/2023	7	46
Chile	7.25	-1.00	Cut	2/2024	16	0
China	3.45	-0.10	Cut	8/2023	120	6
Colombia	12.75	-0.25	Cut	2/2024	9	0
Costa Rica	5.75	-0.25	Cut	1/2024	15	1
Czech Republic	6.75	-0.25	Cut	12/2023	20	2
Denmark	3.75	0.25	Hike	9/2023	5	28
Euro Area	4.50	0.25	Hike	9/2023	5	95
Hungary	10.00	-0.75	Cut	1/2024	16	0
Iceland	9.25	0.50	Hike	8/2023	6	39
India	6.50	0.25	Hike	2/2023	12	45
Indonesia	6.00	0.25	Hike	10/2023	4	36
Israel	4.50	-0.25	Cut	1/2024	8	1
Japan	-0.10	-0.20	Cut	1/2016	204	96
Mexico	11.25	0.25	Hike	3/2023	10	36
New Zealand	5.50	0.25	Hike	5/2023	8	47
Norway	4.50	0.25	Hike	12/2023	2	45
Poland	5.75	-0.25	Cut	10/2023	17	4
Russia	16.00	1.00	Hike	12/2023	2	17
Saudi Arabia	6.00	0.25	Hike	7/2023	6	47
South Africa	8.25	0.50	Hike	5/2023	8	42
South Korea	3.50	0.25	Hike	1/2023	13	44
Sweden	4.00	0.25	Hike	9/2023	4	96
Switzerland	1.75	0.25	Hike	6/2023	8	109
Turkey	45.00	2.50	Hike	1/2024	0	11
United Kingdom	5.25	0.25	Hike	8/2023	6	47
United States	5.50	0.25	Hike	7/2023	6	47

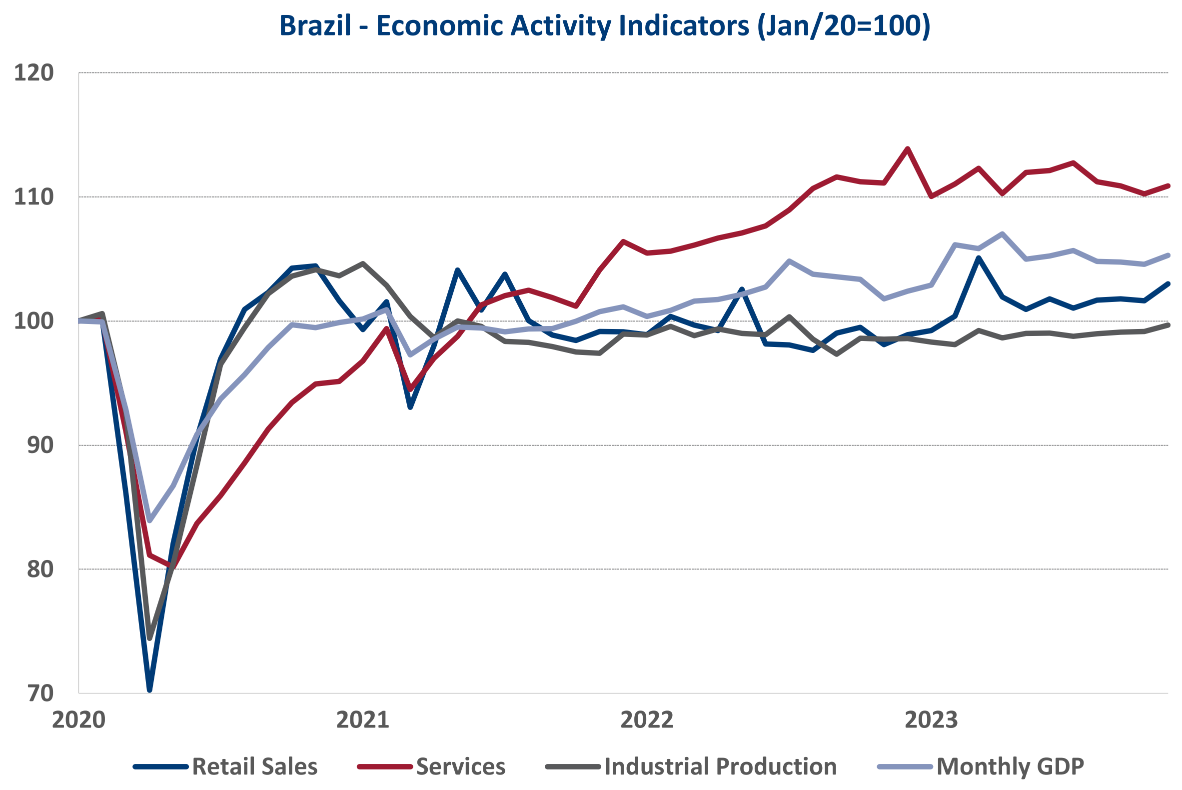
Brazil: Forecasts

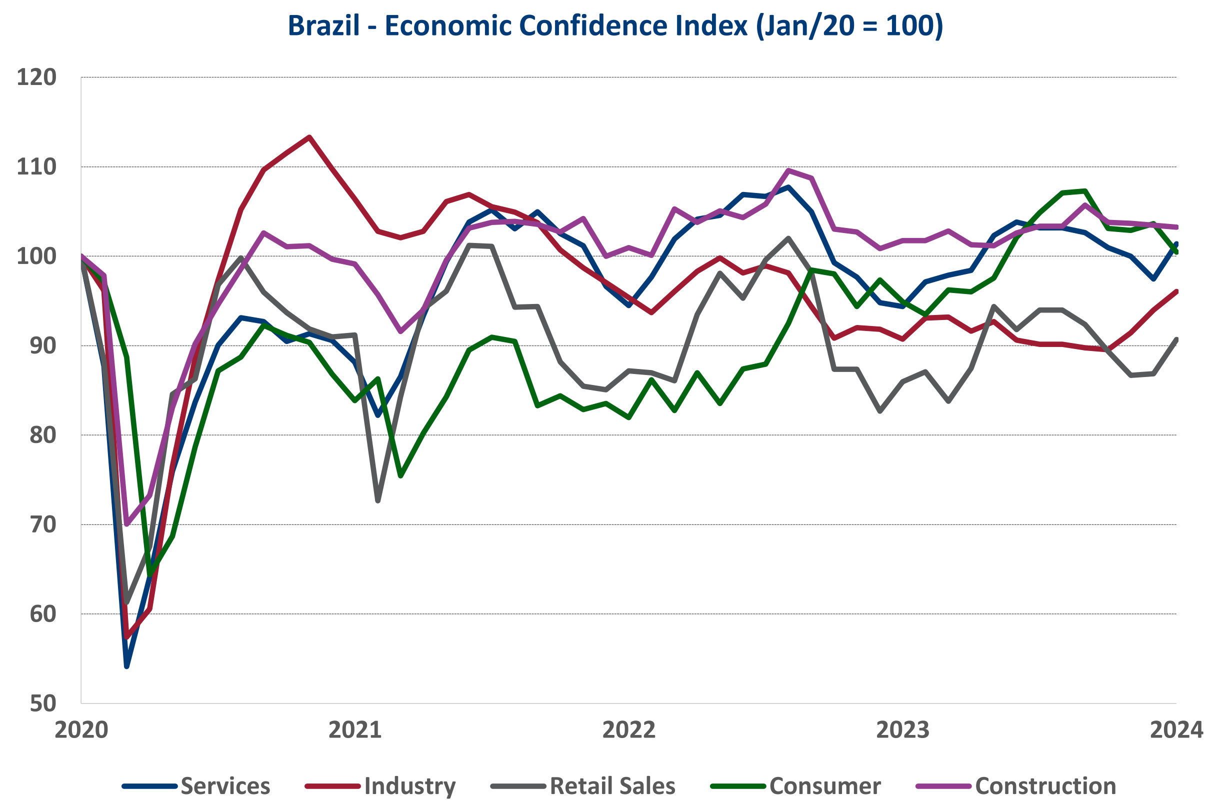
ECONOMIC FORECASTS	2020	2021	2022	2023F	2024F	2025F
GDP Growth (%)	-3.3%	4.8%	3.0%	3.0%	1.6%	2.0%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	3.8%	4.0%
Unemployment Rate (eoy ,%)	14.2%	11.1%	7.9%	7.4%	8.4%	8.5%
Policy Rate (eoy, %)	2.0%	9.3%	13.75%	11.75%	9.50%	8.75%
External Accounts						
Trade Balance MDIC (US$ bn)	50	61	62	99	87	78
Trade Balance (US$ bn)	32	36	44	81	67	58
Current Account Balance (US$ bn)	-28	-46	-54	-29	-34	-43
Current Account Balance (% of GDP)	-1.9%	-2.8%	-2.8%	-1.3%	-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%	75.4%	78.7%	80.6%

Source: BOCOM BBM

Brazil: Activity

- In November, all monthly indicators increased at the margin, although still modestly. Tertiary data indicated an expansion of 1.3% MoM for retail sales and 0.4% MoM for services, meanwhile industrial production increased 0.5% MoM in November and 1.1% MoM in December;
- In turn, the IBC-Br (the Central Bank monthly proxy for Brazil's GDP) remained flat;
- Looking forward, services, industry and retail sales confidence increased in January, while construction and consumer confidence decreased.

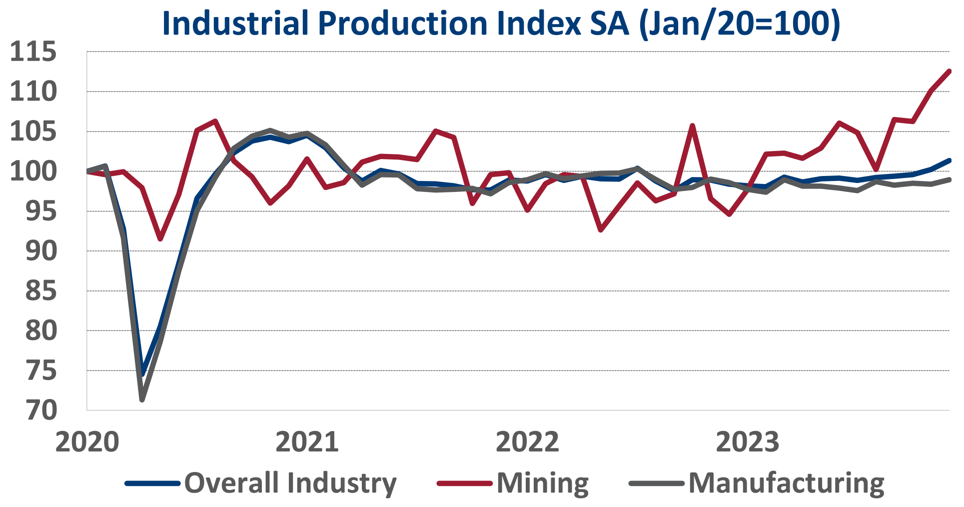


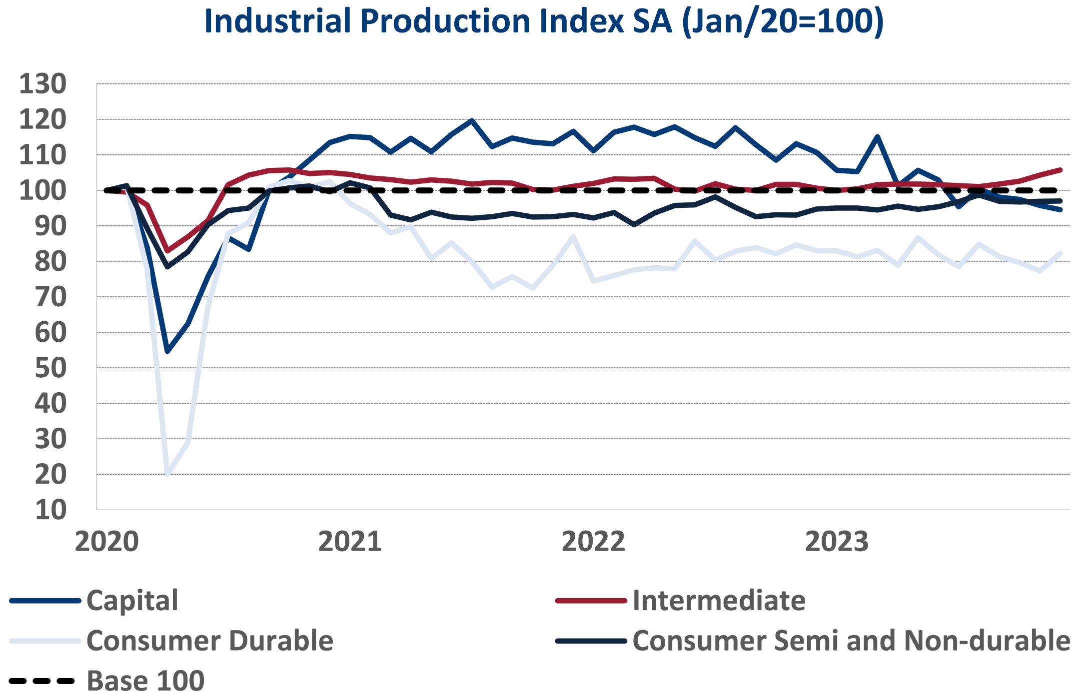


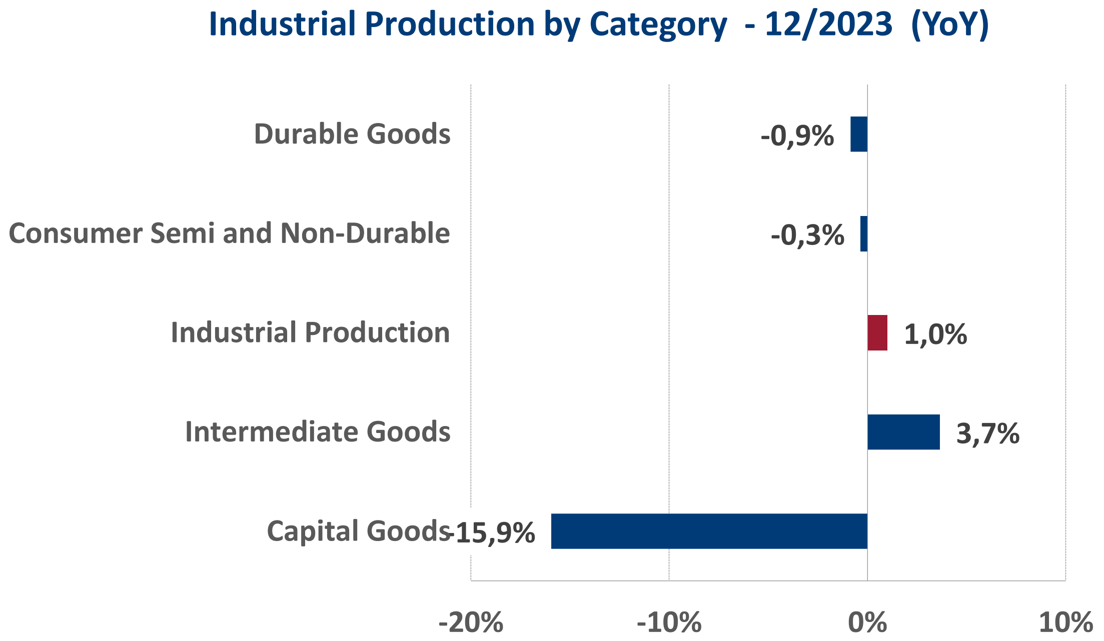
Source: BOCOM BBM, FGV

Brazil: Industrial Production

- In December, industrial production increased 1.1% MoM (+1.0% YoY), well above expectations (+0.3% MoM and -0.5% YoY);
- The result was driven by the production of 'durable goods' and the extractive industry
- The extractive industry grew 5.6% QoQ in 4Q and 7.0% in the full-year 2023, driven by rising mining and crude oil production
- On the negative side, the production of 'capital goods' declined -1.2% MoM, the fourth negative reading in a row, and -11.1% in 2023 vs. 2022





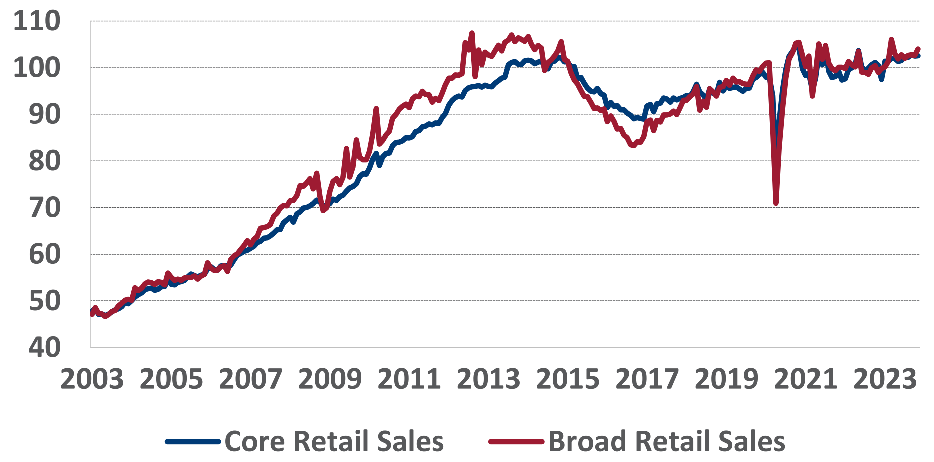


Source: IBGE, BOCOM BBM

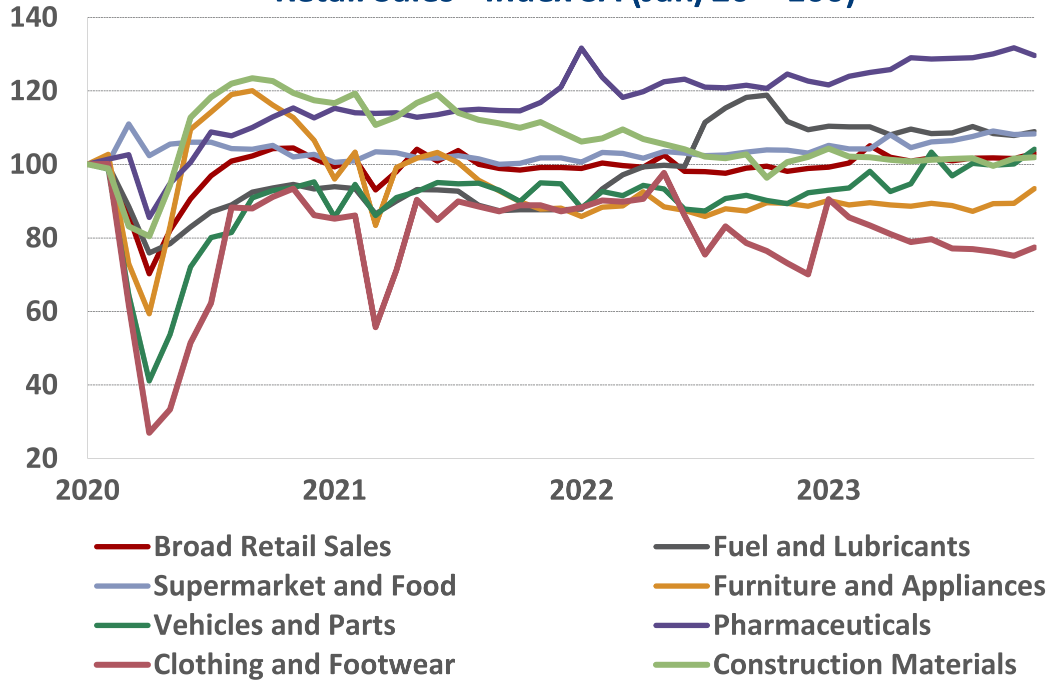
Brazil: Retail Sales

- Broad retail sales surged 1.4% MoM (+4.3% YoY) in November, the last month of available data, significantly above expectations (+0.6% MoM and +2.5% YoY);
- The increases were distributed across categories, reflecting large discounts on Black Friday, mainly on electronic products. 'Vehicle and Cars' increased significantly (+4.0% MoM), contributing for the headline;
- In the same line, core retail sales increased 0.1% MoM (+2.2% YoY);
- In our view, November's result should be viewed with caution, as Black Friday discounts and the very volatile 'Vehicles and Cars' category were the main factors behind its better-than-expected performance.

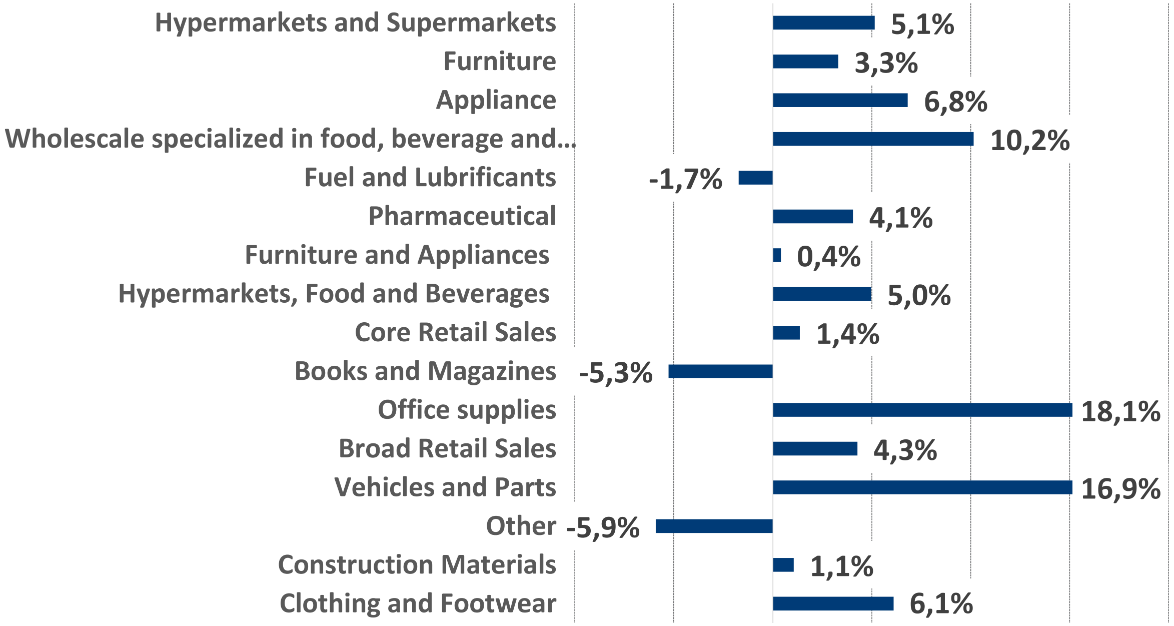
Broad Retail Sales SA x Core Retail Sales SA



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



Retail Sales - YoY (Nov/23)

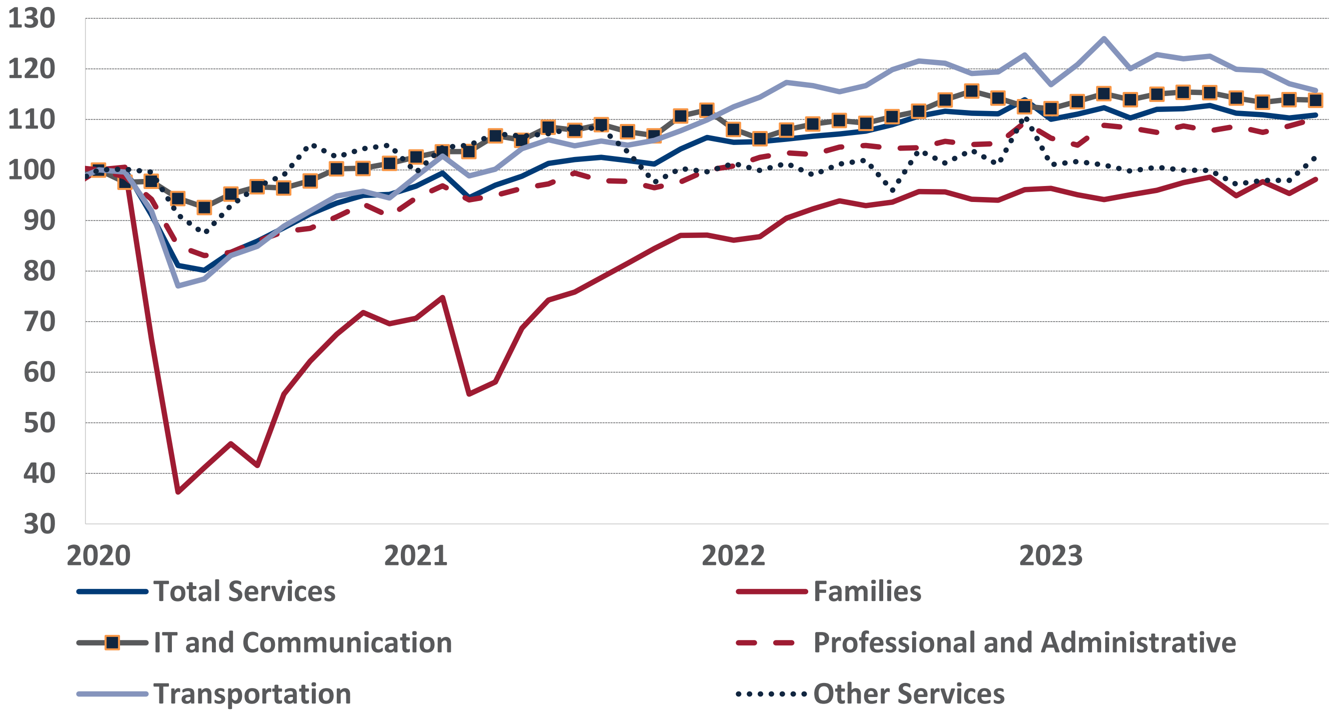


Source: IBGE, BOCOM BBM

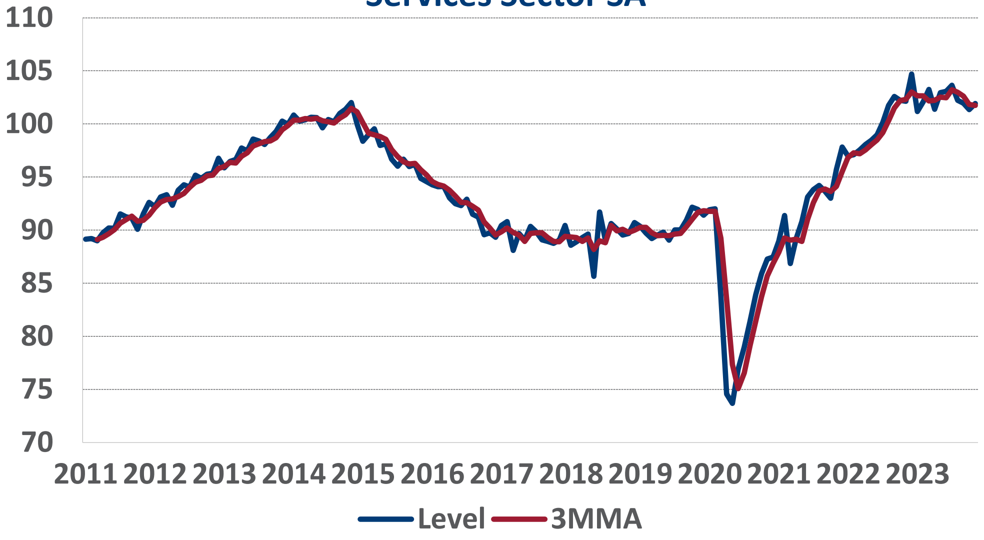
Brazil: Services

- In November, the last month of available data, the services sector expanded 0.4% MoM (-0.3% YoY), after three consecutive decreases;
- The category of services rendered to families increased significantly due to the higher real labor earnings and music concerts that happened at the month (+2.2% MoM);
- On the negative side, 'Transportation' registered the fourth straight fall (-1.0% MoM), pushed by 'Air Transportation' (-16.1% MoM);
- From now on, we expect the services sector to continue to increase, but in a very moderate way.

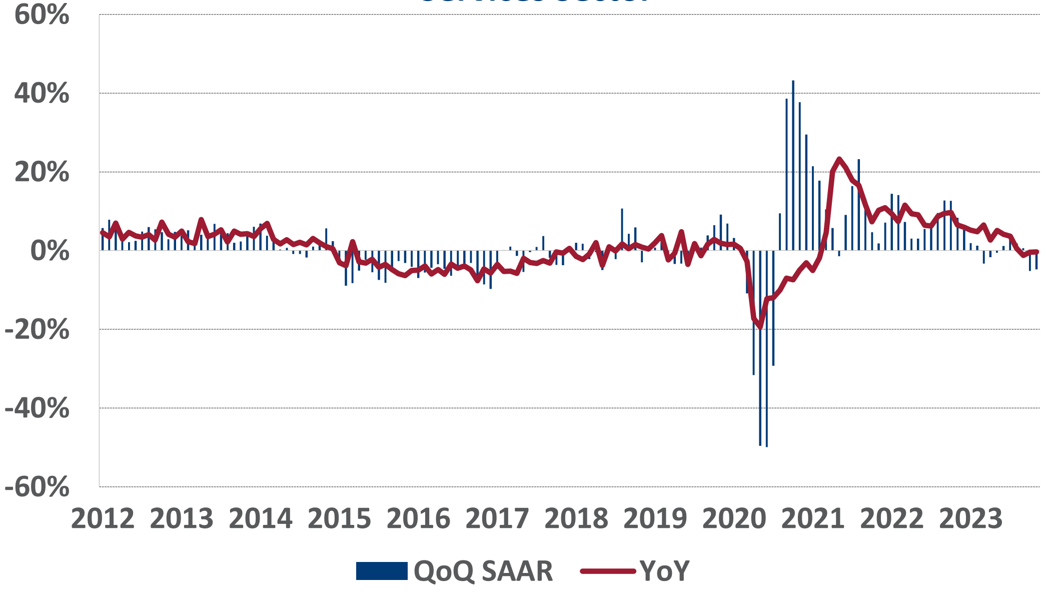
Services Sector SA (Jan20=100)



Services Sector SA



Services Sector

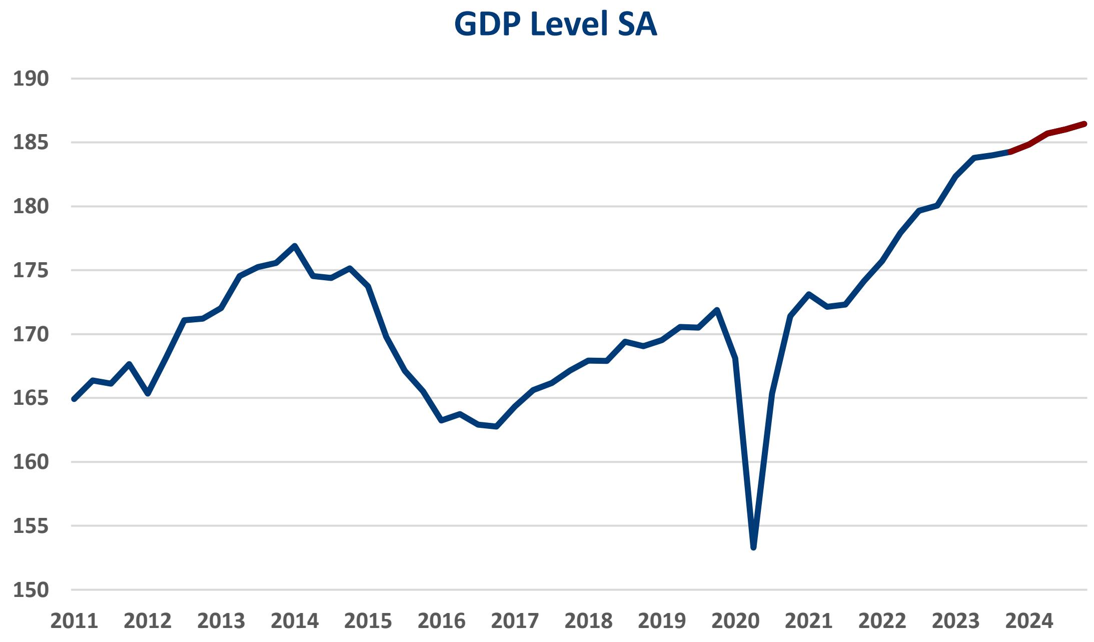


Source: IBGE, BOCOM BBM

Brazil: Economic Activity

- Following the November data, we revised our GDP forecast for Q4 from -0.1% QoQ to +0.1% QoQ
- Consequently, the forecast for 2023 from 2.9% to 3.0%
- For 2024, we updated our forecast from 1.3% to 1.6%, due to greater dynamism in the job and credit market
- **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

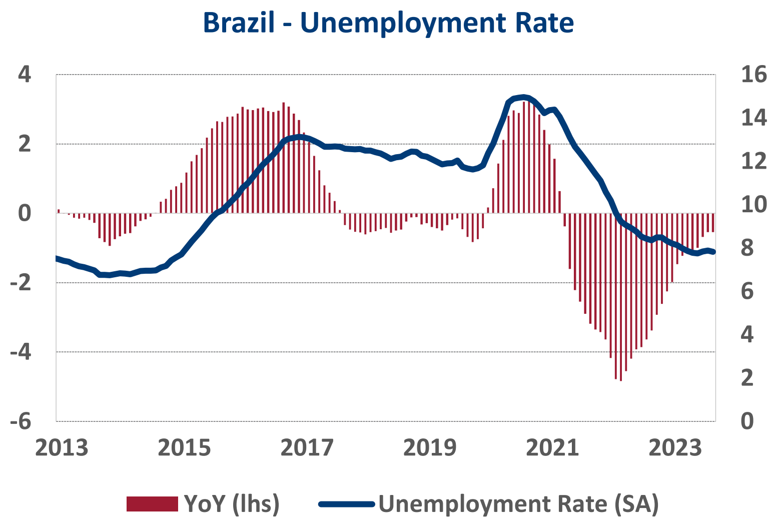
Forecasts				
	2023.IV QoQ	2023.IV YoY	2023	2024
GDP	**0.1%**	**2.2%**	**3.0%**	**1.6%**
Agriculture	**-0.9%**	**7.9%**	**16.4%**	**-2.0%**
Industry	**0.5%**	**1.8%**	**1.3%**	**1.7%**
Mining	2.4%	7.7%	7.9%	4.8%
Manufacturing	0.0%	-0.2%	-1.2%	0.5%
Utilities	0.8%	5.4%	5.7%	4.5%
Civil Construction	1.5%	-1.3%	-1.0%	0.4%
Services	**0.2%**	**1.8%**	**2.4%**	**1.9%**
Retail	0.1%	1.4%	1.0%	1.2%
Transports	0.5%	1.7%	3.1%	2.5%
Information and Communication	0.7%	0.7%	2.9%	2.5%
Financial Services	1.3%	6.6%	6.9%	4.0%
Rents	-0.1%	2.6%	2.9%	2.1%
Other Services	-0.3%	0.3%	2.2%	1.8%
Public Administration	-0.2%	1.3%	1.0%	1.2%

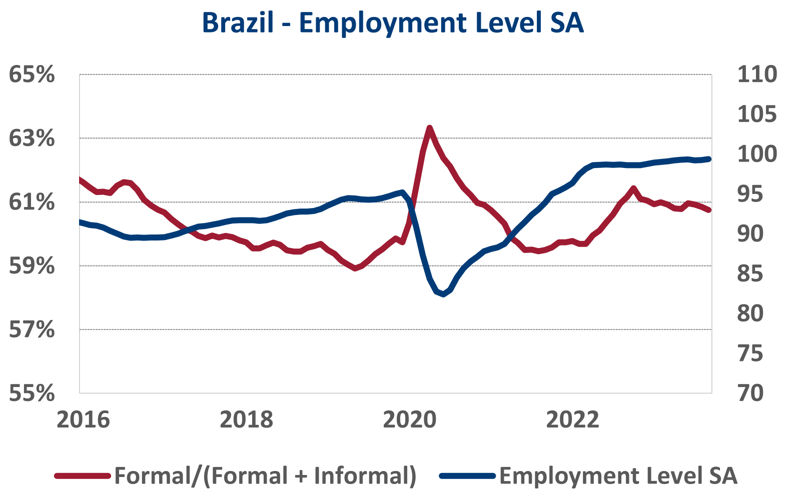


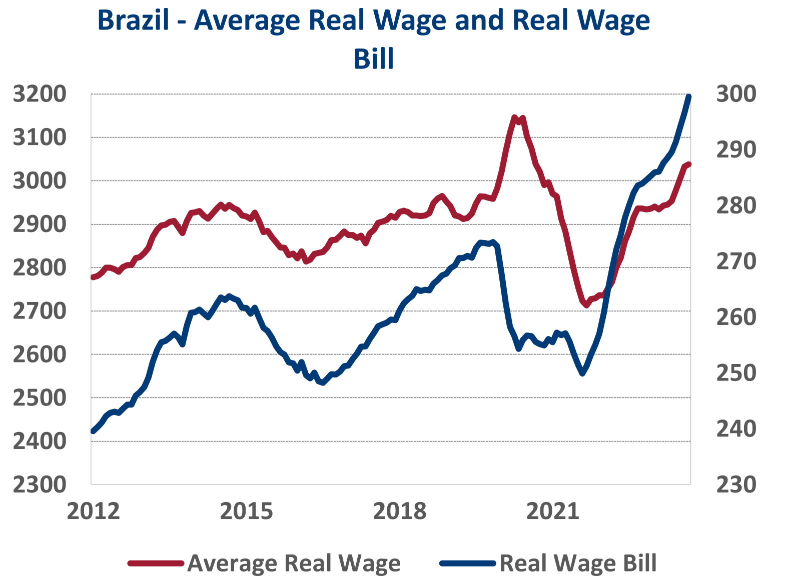
Source: BOCOM BBM, IBGE

Brazil: PNAD

- Unemployment rate fell to 7.4% in the moving quarter up to December from 7.5% on the period before;
- Seasonally adjusted, the indicator decreased from 7.9% to 7.8%;
- The decline was driven by an expansion of 0.8% MoM of total employment and was partially offset by a rise of 0.4% MoM on the labor force;
- The labor force participation expanded to 62.1%, still below the pre-pandemic record (63.5%);
- Real labor earnings, in turn, started to cool down showing a 0.1% MoM decrease, after an accumulated expansion of 3.2% from August to November;
- In the same line, real aggregated labor income expanded 0.8% MoM.



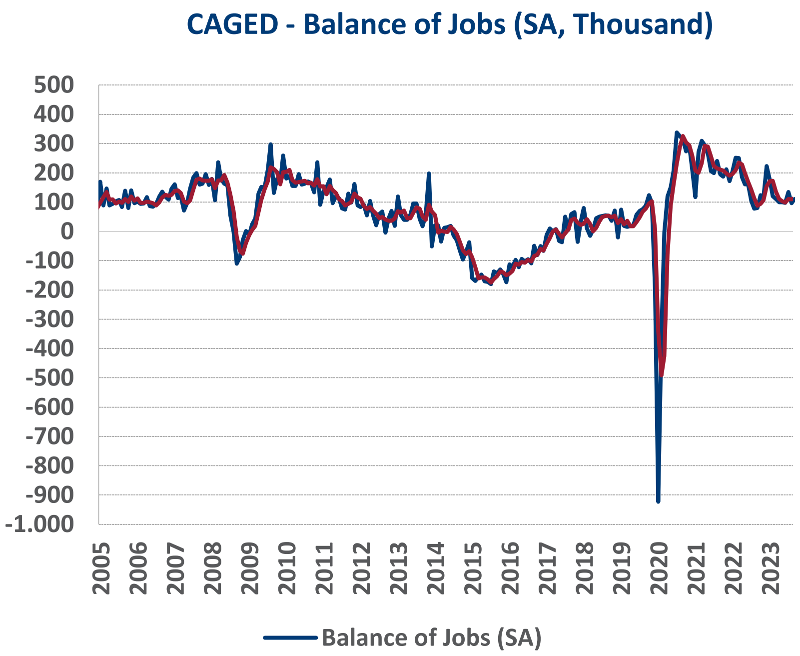


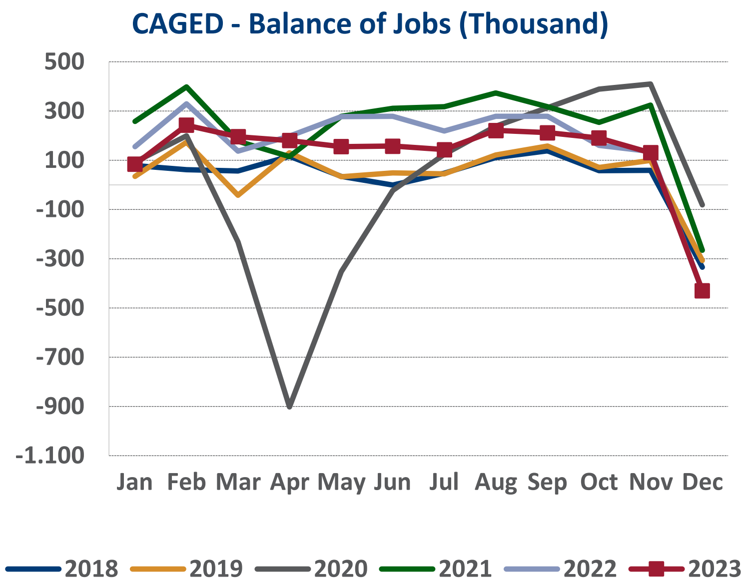


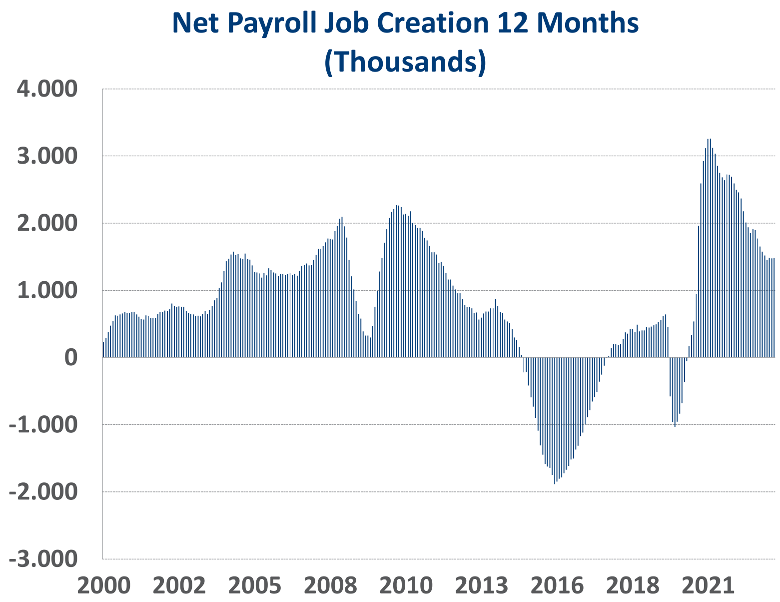
Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

- Caged registered a net destruction of 430.2k formal jobs in December, bellow market expectations (-370.0k);
- Seasonally adjusted, we estimated a net addition of 110.0 formal jobs;
- We call attention to the fact that the very negative headline came because of the significant negative seasonality at the end of the year;
- All in all, the result corroborates with the scenario of strong Brazilian formal employment, even though signs of moderation are evident.





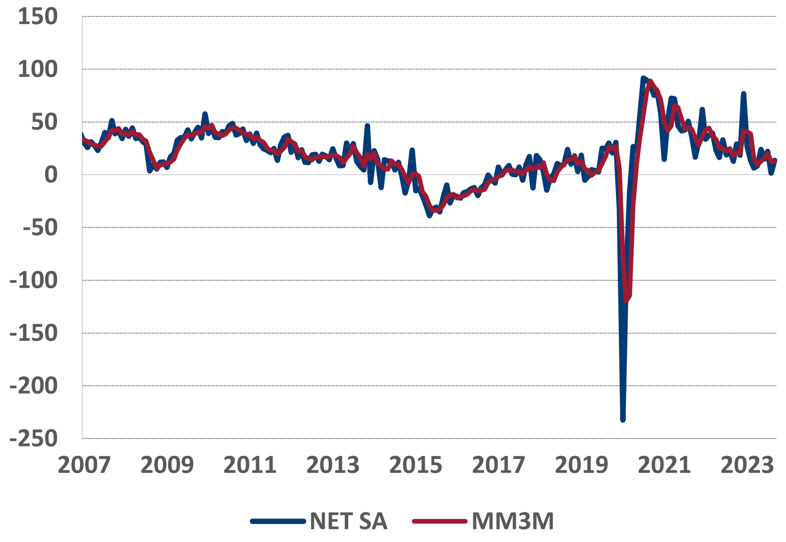


Source: BOCOM BBM, MTE

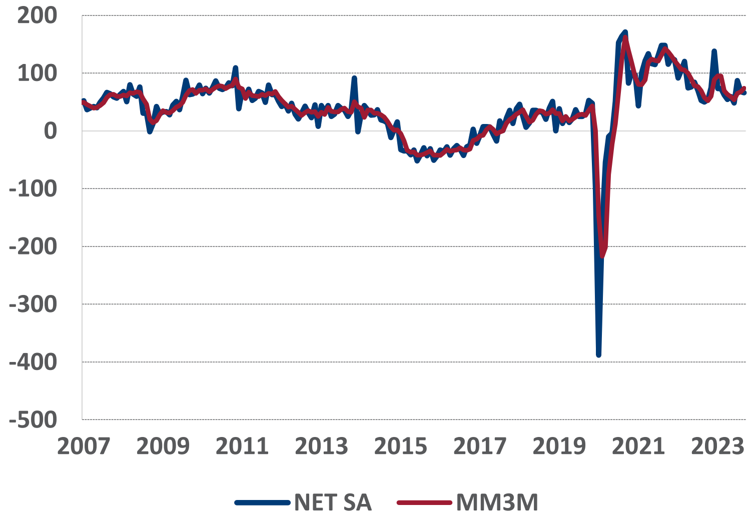
Brazil: Formal Labor Market

- The breakdown shows that all sectors expanded at the margin;
- The biggest contribution came from the services sector, with a net creation of 66.2k formal jobs;
- Retail sales was second best, creating about 13.7 formal jobs;
- Construction, in turn, registered a net of 12k;
- Finally, Industry created about 12.6k formal jobs.

Brazil - Retail Net Payroll Job Creation (SA)

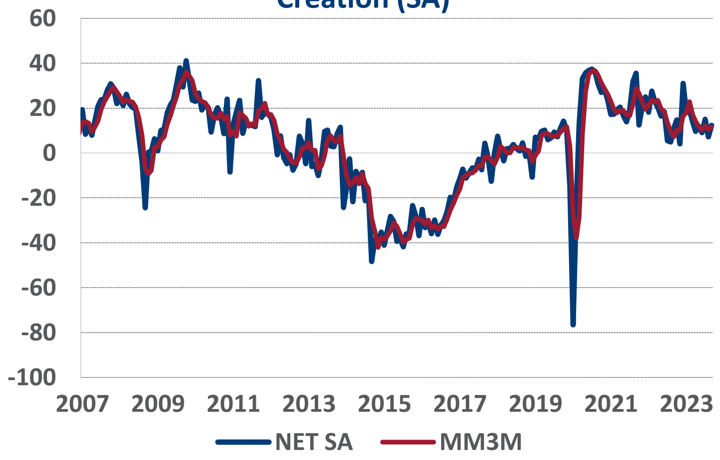


Brazil - Services Net Payroll Job Creation (SA)



Brazil - Industry Net Payroll Job Creation (SA)

Brazil - Construction Net Payroll Job Creation (SA)

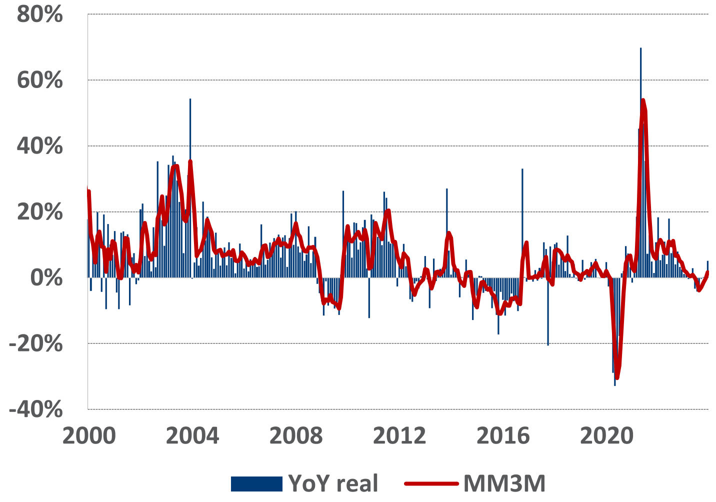


Source: BOCOM BBM, MTE

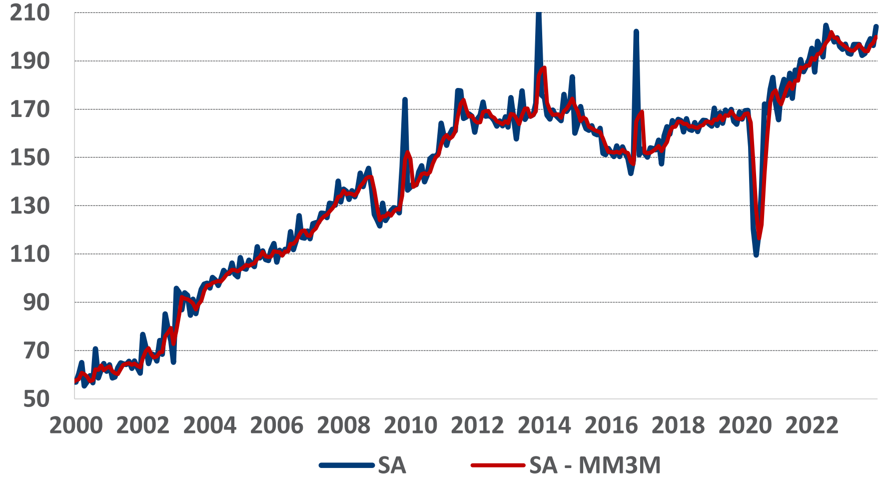
Brazil: Federal Tax Collections

- Total federal tax collections reached BRL 231.2 bn in December, a rise of 5.1% in real terms when compared to December 2022;
- Increases were seen in withholding income tax on capital gains (+21.6% YoY), PIS/Cofins (+12.1% YoY), and social security revenues (+2.9%);
- In 2023, tax collection summed BRL 2.318.1 bn (-0.1% YoY), driven by lower commodity prices and weaker economic activity;
- For 2024, new measures such as the change in ICMS subsidies and the taxation of exclusive funds and offshore investments should contribute to increases in federal revenue.

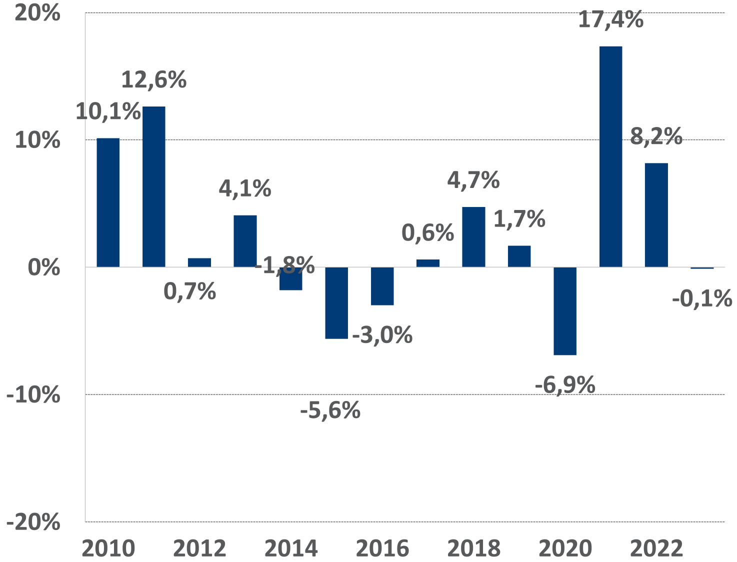
Total Tax Collection (YoY Real, %)



Total Tax Collection (BRL Bn, Real SA)



Total Tax Collection (YTD Real, %)



Total Tax Collection (% GDP)

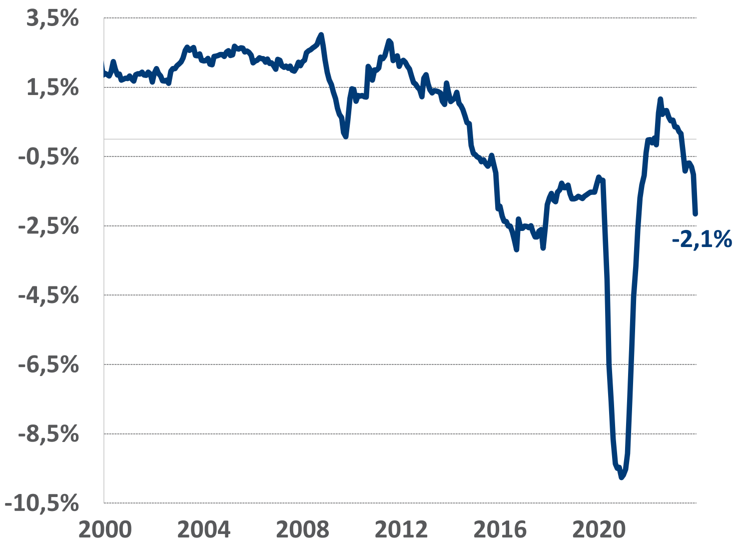
Fonte: BOCOM BBM, RFB

Brazil: Central Government Primary Result

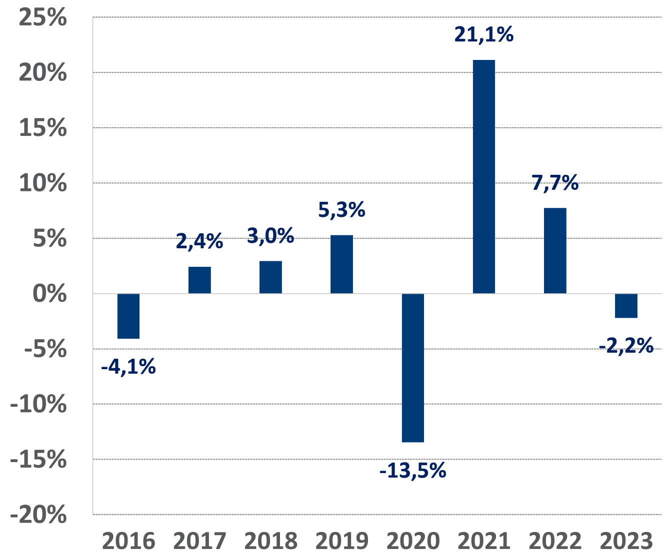
BANK OF COMMUNICATIONS BBM

- The central government's primary balance posted a deficit of BRL 116.1 bn in December, slightly above market expectations (BRL -117.6 bn);
- In 2023, it accumulated a deficit of BRL 230.5 billion (2.1% of GDP), well below the BRL 54.1 bn of surplus registered last year;
- On the spending side, the payment of BRL 92.4 billion of arrears from court-ordered debts and the compensations to states related to ICMS losses (around BRL 7.5 billion) contributed to an increase of 72.3% YoY in real terms;
- On the other hand, an influx of BRL 3.9 billion from withholding income tax on capital gains related to the first installment of the taxation on exclusive funds accumulated income contributed to the total revenue expansion (+3.8% YoY).

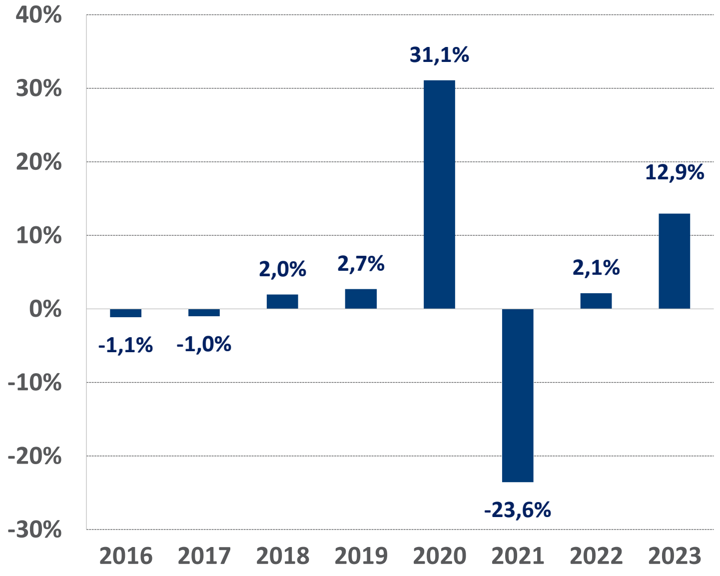
C. G. Primay Budget Balance (%, GDP 12M)



Net Revenue (YTD Real, %)



Expenditure (YTD Real, %)

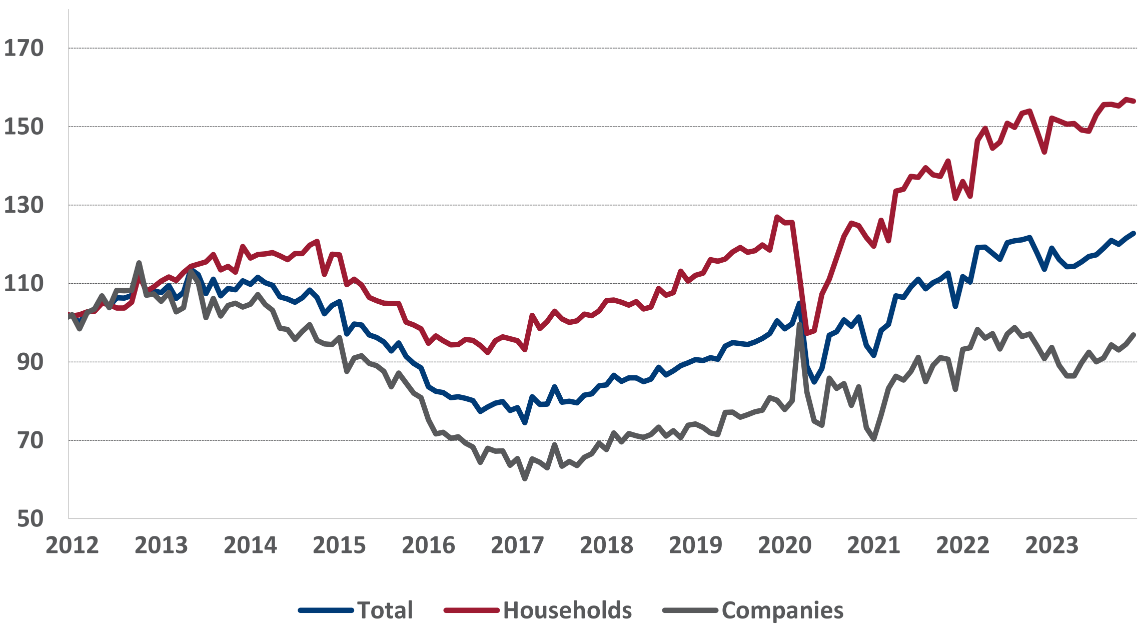


Fonte: BOCOM BBM, RTN

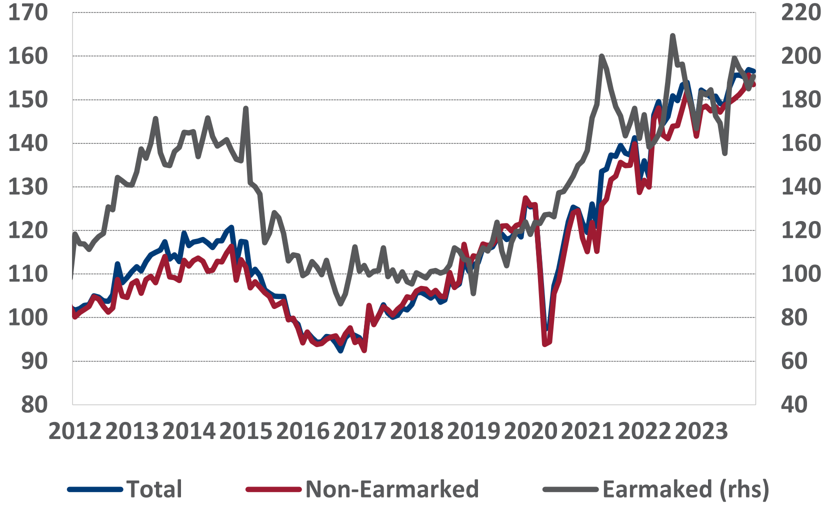
Brazil: Credit Statistics

- In December, total credit concessions expanded by 1.0% MoM in real terms;
- Non-earmarked credit concessions surged 5.7% MoM to companies and fell 1.4% MoM to households;
- Earmarked credit concessions, in turn, expanded both to families (3.2% MoM) and companies (0.9% MoM).

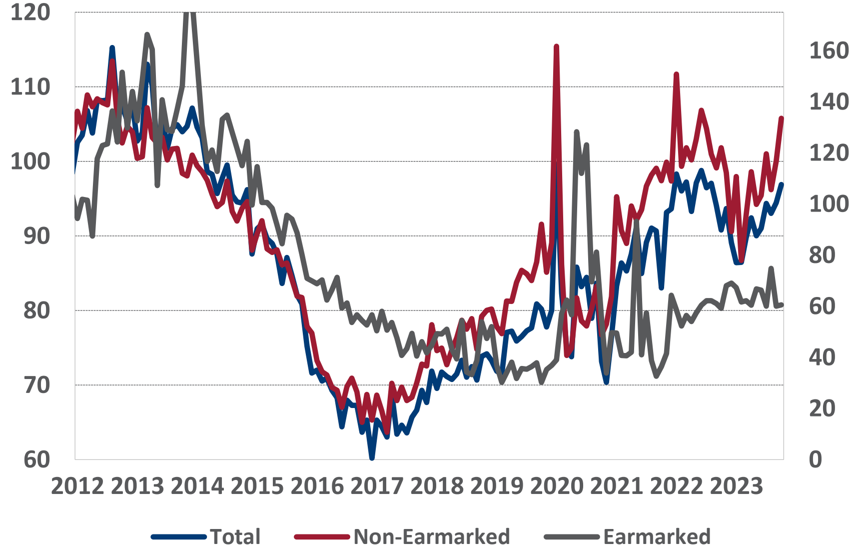
New Credit Operations SA (Real) - mar/11 = 100



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



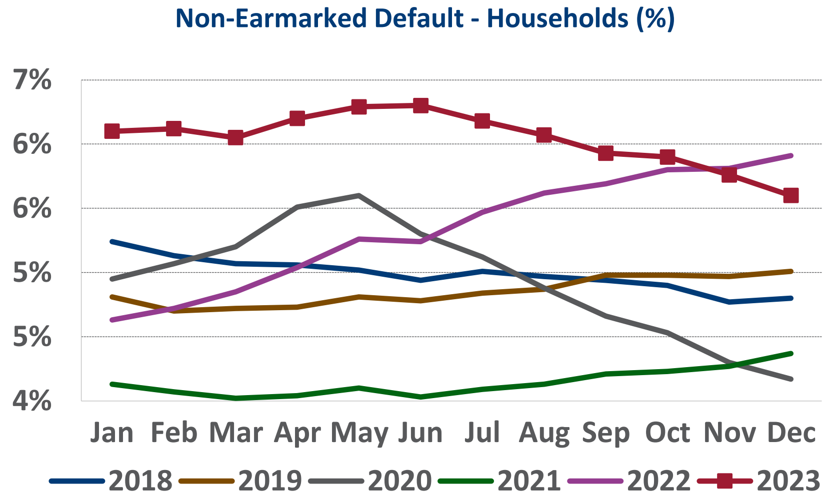
Concessions - Companies SA (Real) - mar/11 = 100

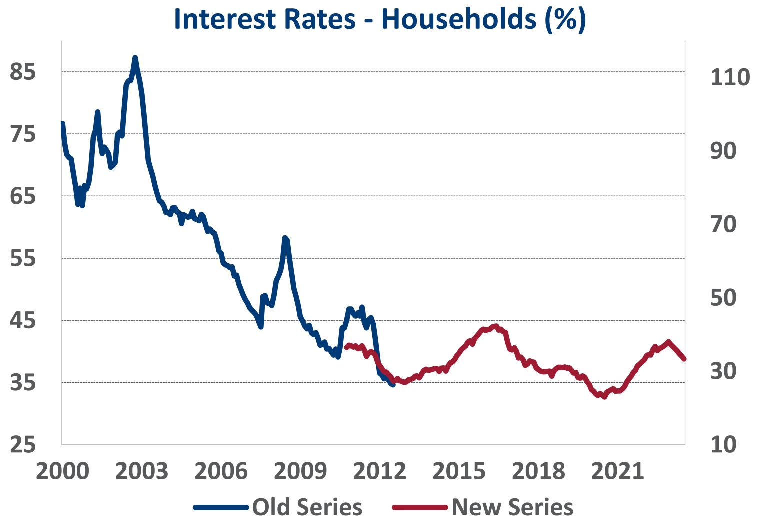


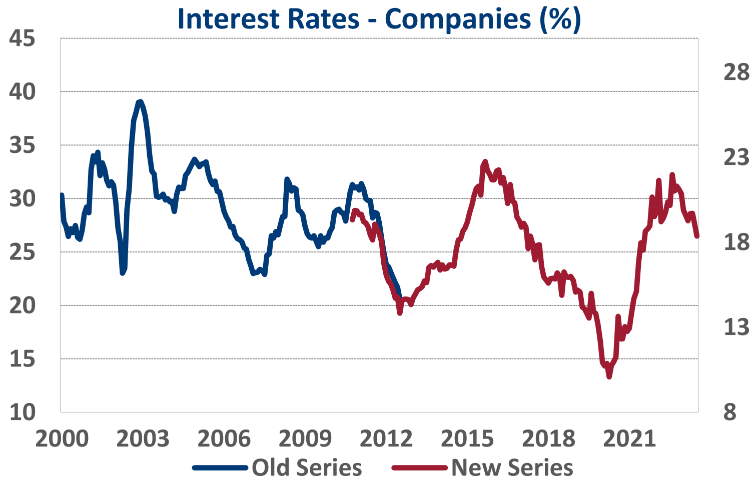
Source: BOCOM BBM, BCB

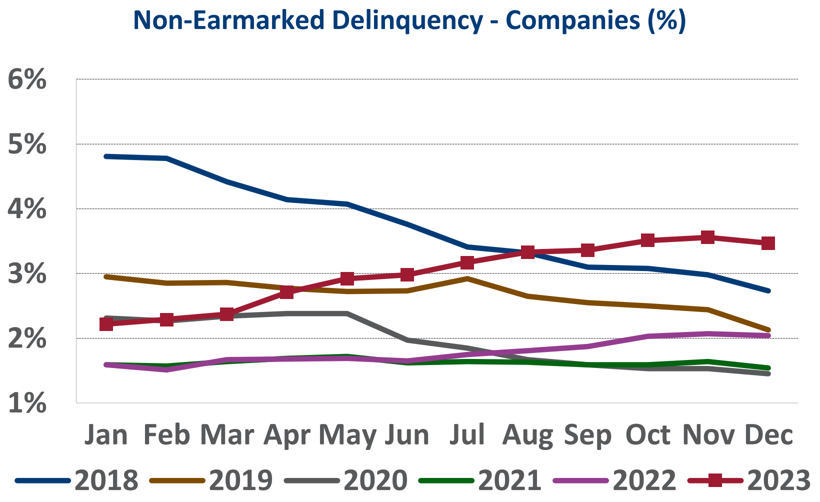
Brazil: Credit Statistics

- Lending rates decreased, which was a result of a fall to 33.3% (from 34.14%) for individuals and to 18.36% (from 19.05%) for companies;
- In turn, non-earmarked default rate is around 5.6% to individuals and 3.5% to companies.





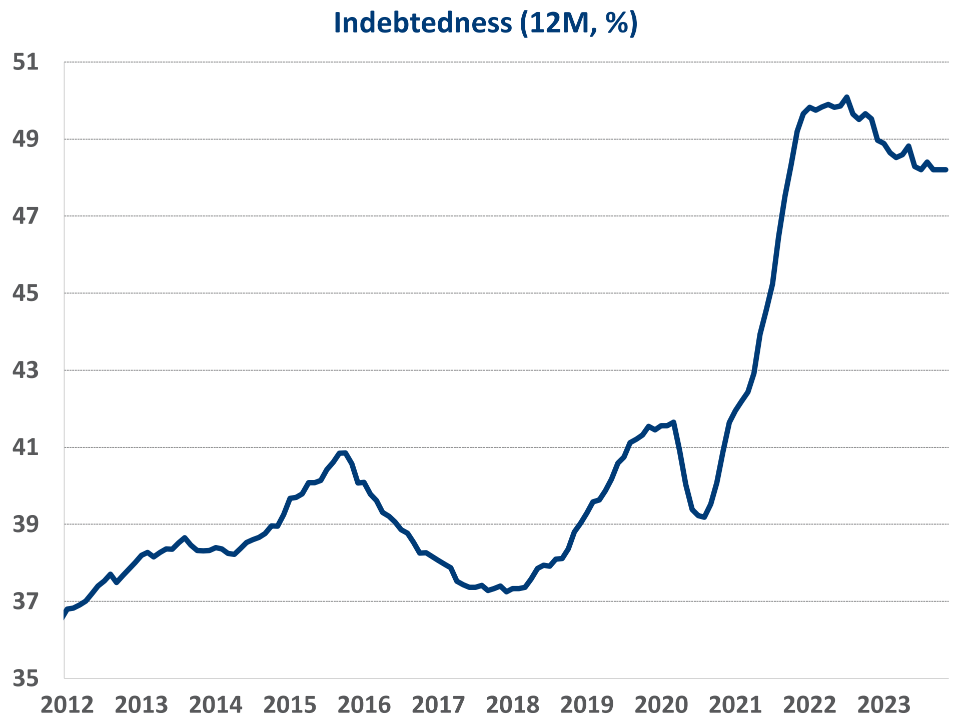


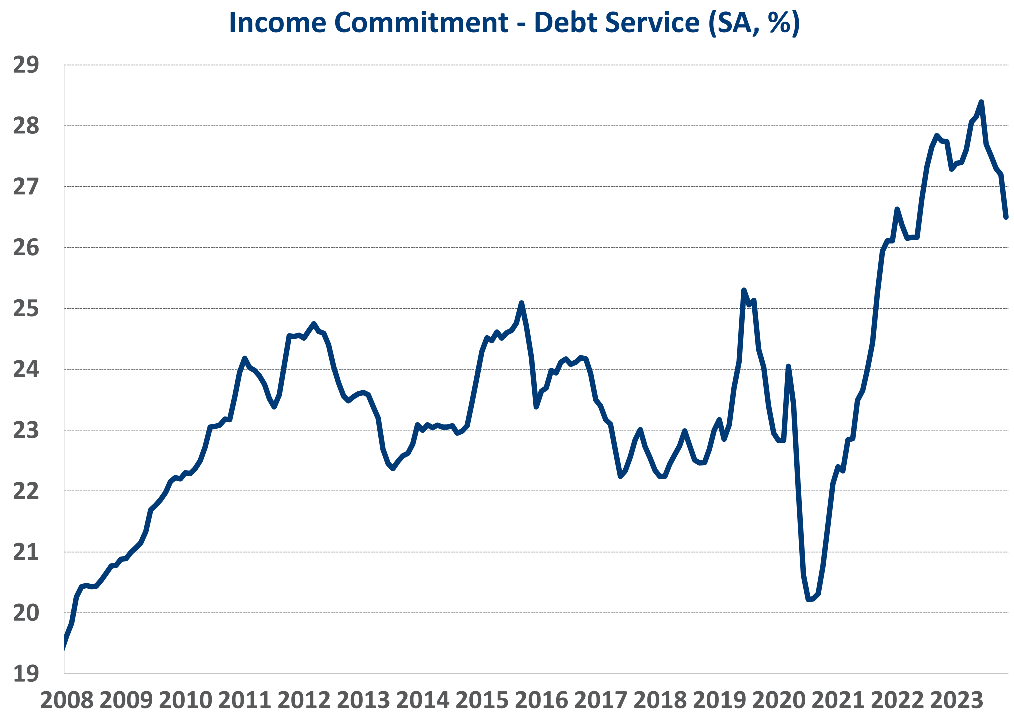


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- Household indebtedness stood at 48.2%, the lowest level since September 2021;
- Accordingly, income commitment to debt service decreased to 26.5%;
- Decreases in income commitment and household indebtedness are also driven by the 'Desenrola' program made by the government, targeting low-income families.

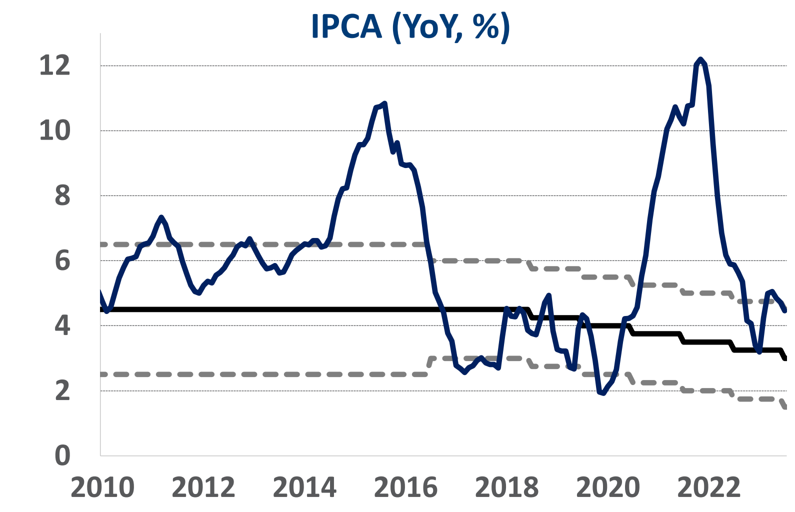


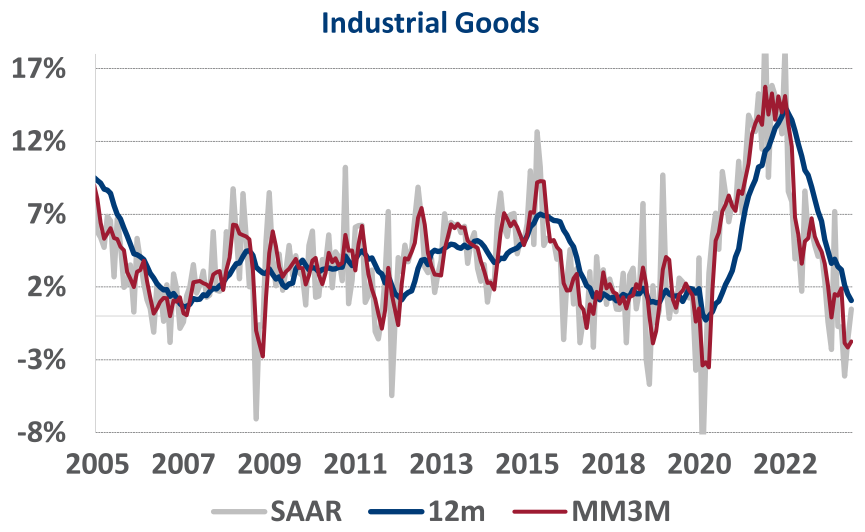


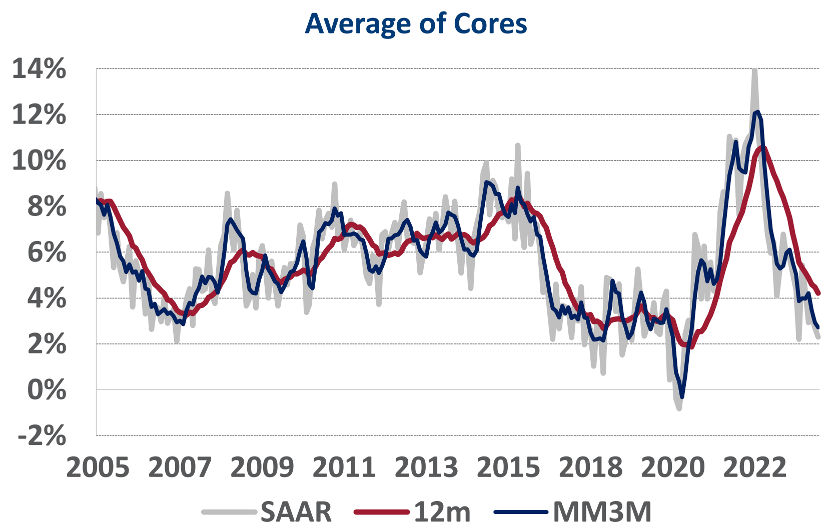
Source: BOCOM BBM, BCB

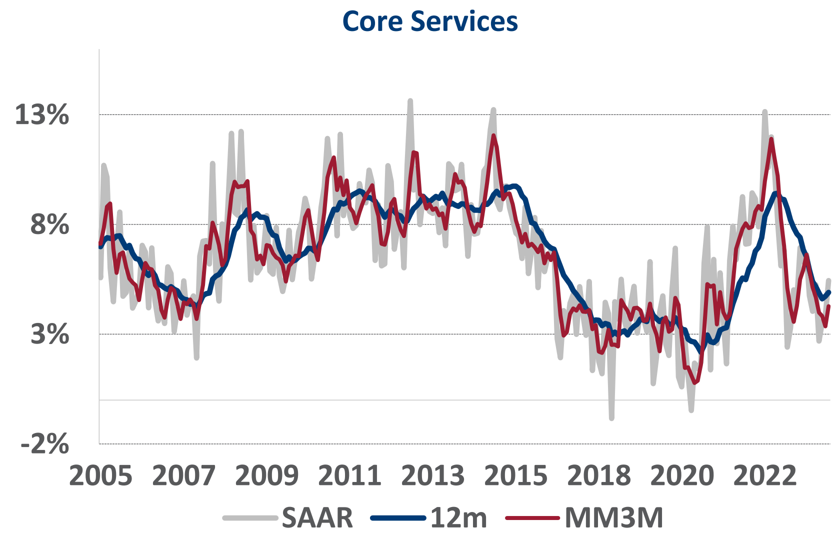
Brazil: Inflation 2023

- The IPCA-15 advanced 0.31% MoM in December, below market consensus (0.47% MoM);
- The 12-month variation increased from 4.72% in December to 4.72% in January;
- The lower-than-expected print was mainly due to 'airfares' and 'vehicle licensing and plates', which monthly variation repeats in all readings throughout the year, leading to downward revisions for 2024 forecasts;
- The average of core measures expanded 0.34% MoM, slightly below projections;
- By the other hand, 'Underling Services', closely monitored by the Central Bank, rose by 0.68% MoM, considerably above the expected, driven by banking services, car rental and labor-intensive services.





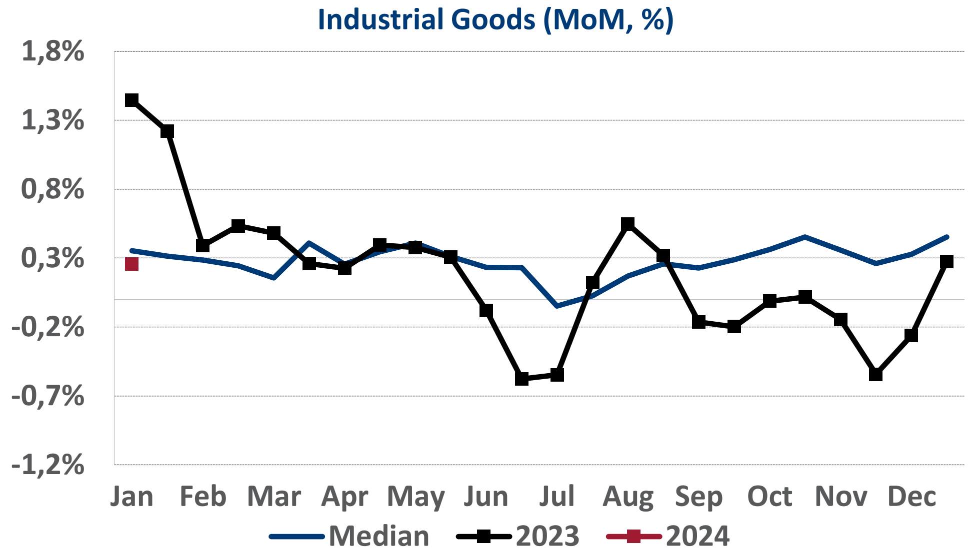


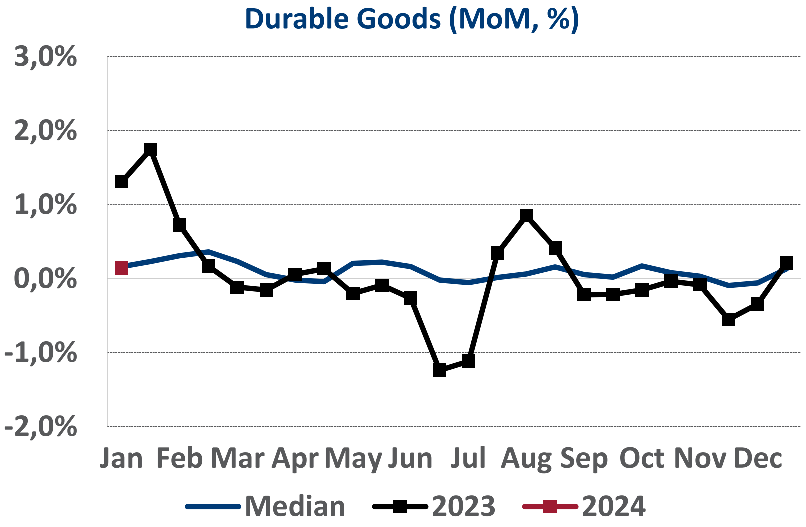


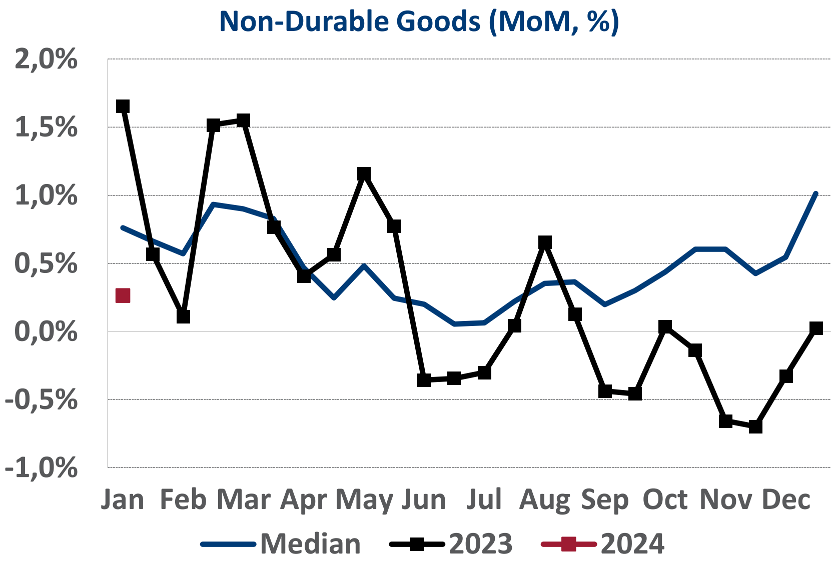
Source: BOCOM BBM, IBGE

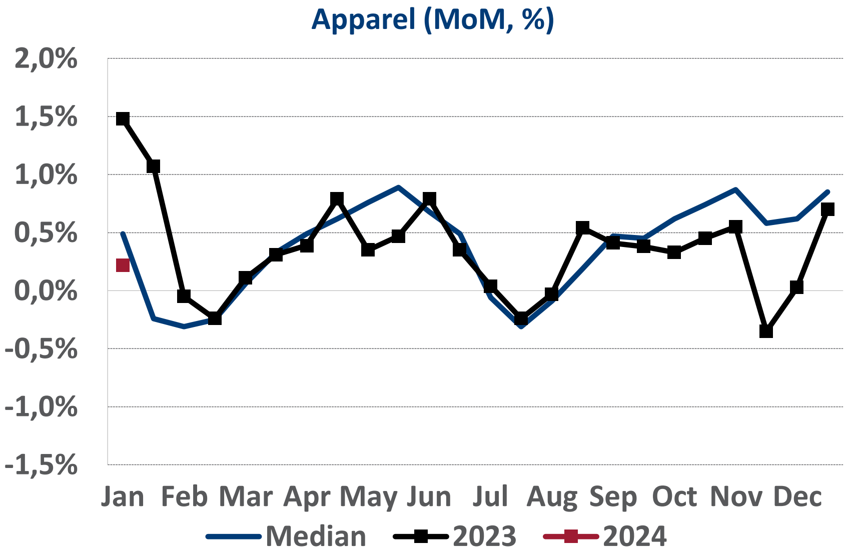
Brazil: Inflation 2023

- Industrial goods reached an inflation of 0.26% MoM, in line with expectations;
- Industrial prices have been showing benign behavior, contributing to the current disinflation process in Brazil;
- Nonetheless, the pressures from freight costs could boost prices in this category over the following months.







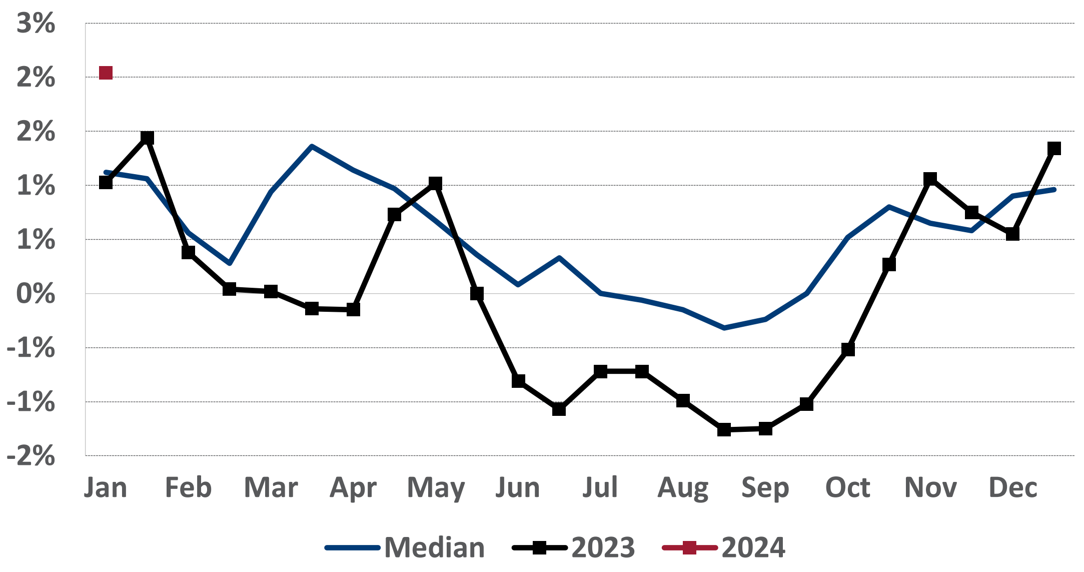


Source: BOCOM BBM, IBGE

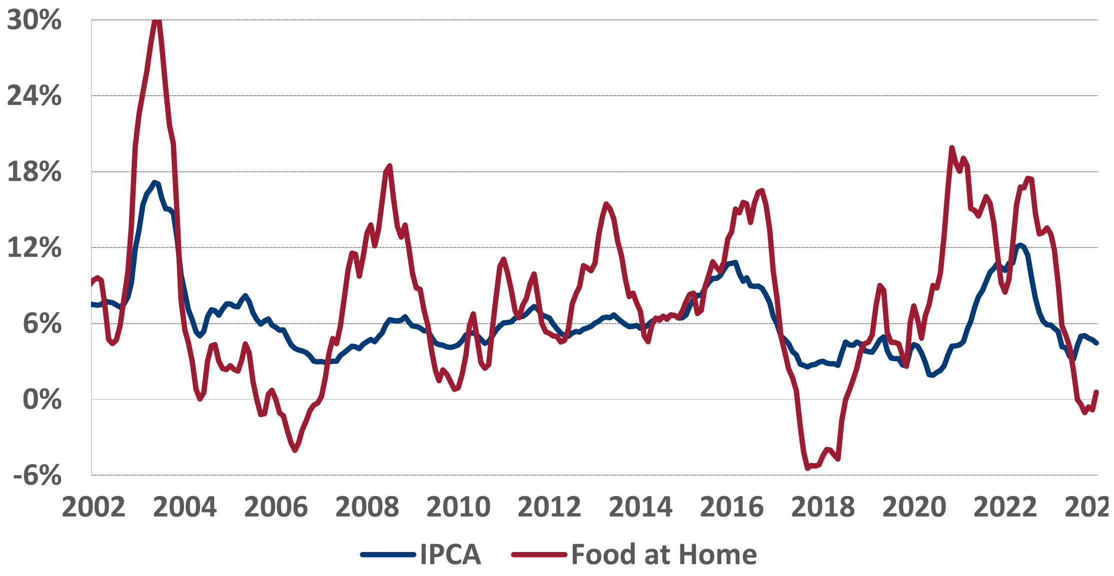
Brazil: Inflation 2023

- The food inflation came in a very high level for the period, confirming concerns regarding climate issues from El Niño on food prices.

Food at Home (MoM, %)



IPCA x Food at Home (12M)



Source: BOCOM BBM, IBGE

Brazil: Inflation

- The downward surprise in the 'vehicle licensing and plates' category contributed -15 bps to 2024 IPCA projection, justifying the revision from 4.0% to 3.8%.
- Overall, after a sequence of benign data, inflation has shown some contradictory news:
  - Adverse weather puts pressure on food inflation
  - Underlying services inflation brought upward surprises in December and January
  - Pressures from international freight costs threaten to drive up prices of industrial goods
  - On the other hand, a decision by the Supreme Court on the incidence of ICMS on electricity transmission and distribution tariffs has the potential to reduce the 2024 IPCA by around -40 bps;

IPCA (%, annual)

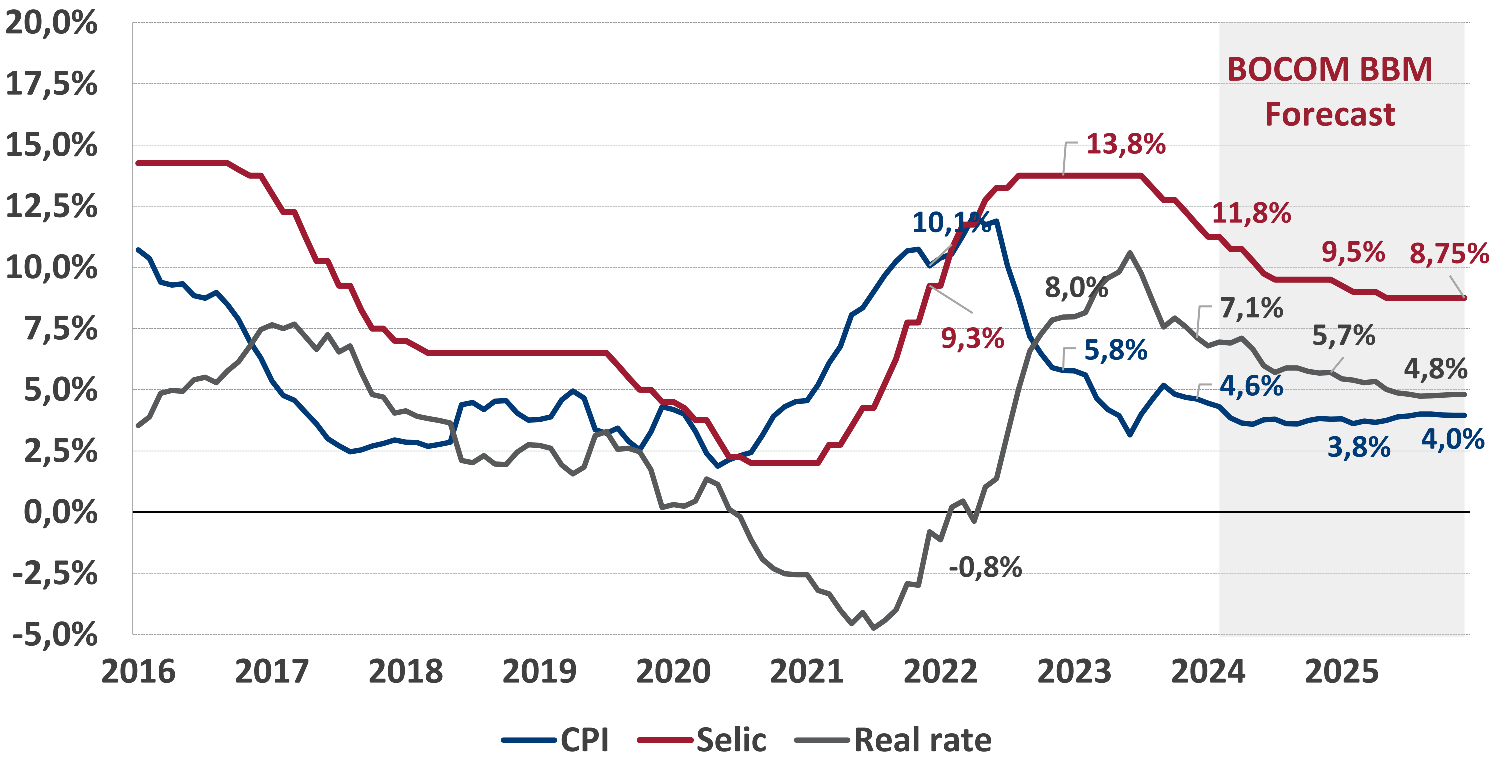
	Weight	2019	2020	2021	2022	2023	2024	2025
Regulated	**26.6**	**5.5**	**2.6**	**16.9**	**-3.8**	**9.1**	**4.1**	**3.9**
Industrial goods	**23.6**	**1.7**	**3.2**	**11.9**	**9.5**	**1.1**	**2.4**	**2.9**
Durable goods	10.3	0.0	4.5	12.9	6.1	-0.4	1.5	-
Semi-durable goods	5.9	0.6	-0.1	10.2	15.7	2.7	3.1	-
Non-durable goods	7.3	4.4	4.0	11.9	9.5	1.7	2.9	-
Food at home	**15.7**	**7.8**	**18.2**	**8.2**	**13.2**	**-0.5**	**5.3**	**4.0**
Services	**34.1**	**3.5**	**1.7**	**4.8**	**7.6**	**6.2**	**3.9**	**4.9**
Food away from home	5.6	3.8	4.8	7.2	7.5	5.3	4.3	4.8
Related to minimum wage	5.2	2.9	1.5	3.3	6.3	5.2	5.1	6.0
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.3	9.5	2.3	5.3
Inertial	15.0	4.3	1.6	4.2	8.8	5.1	4.3	4.3
IPCA		**4.3**	**4.5**	**10.1**	**5.8**	**4.6**	**3.8**	**4.0**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

» The Brazilian Central Bank decided to cut Selic rates by 50 bps in its January meeting reaching 11.25% per year, as largely expected and in line with the guidance given. Both 2024 and 2025 forecasts stood flat compared to December, at 3.5% and 3.2% respectively. The communication was virtually unchanged, repeating that "the Committee members unanimously anticipate further reductions of the same magnitude in the next meetings", meaning a cut of 50-bps for at least the next two meetings, in line with our baseline scenario.

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

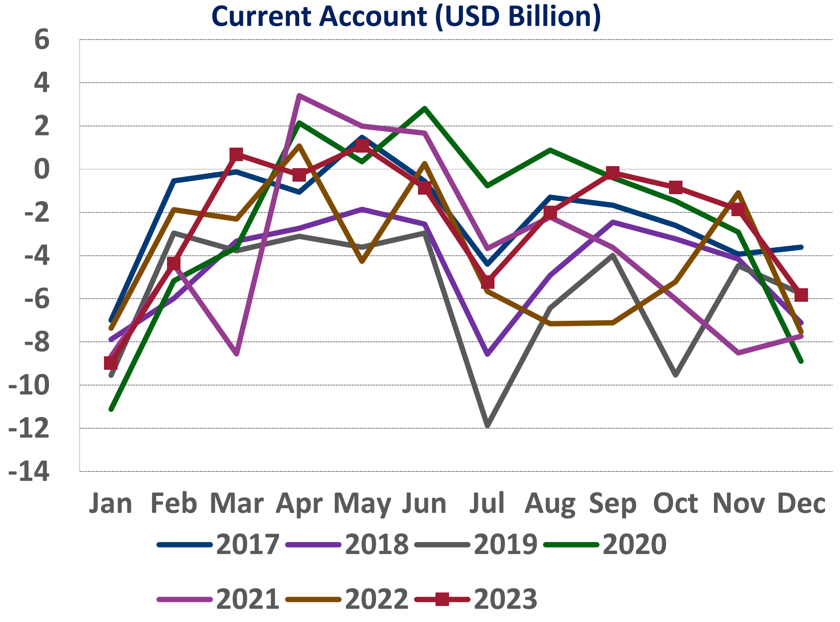


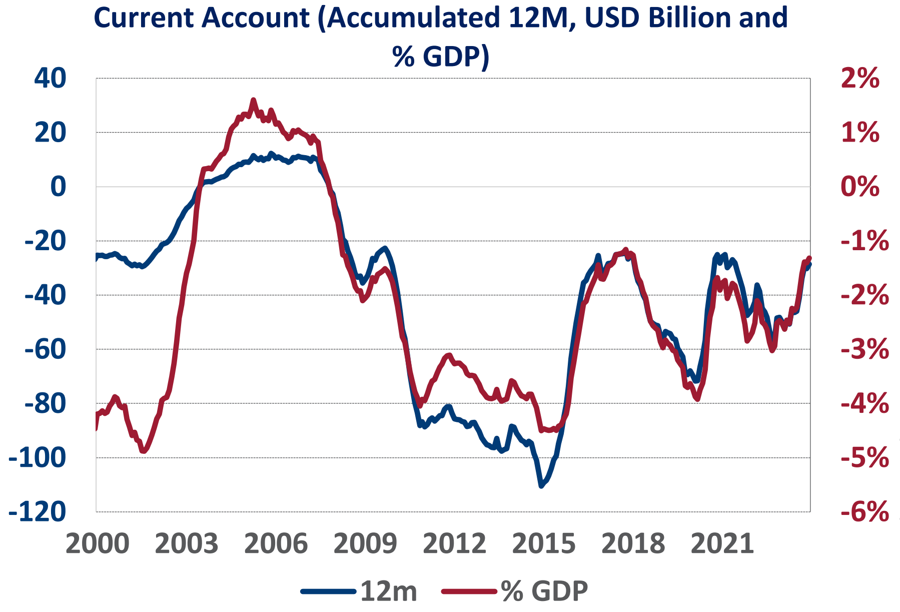
Source: BCB, BOCOM BBM, IBGE

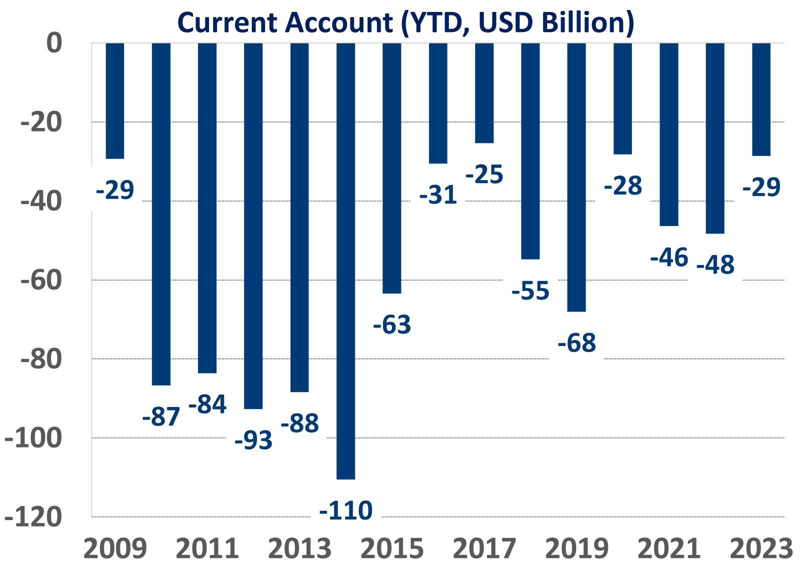
Brazil: Balance of Payments

- The Brazilian current account showed a deficit of USD 5.8 billion in December, above market forecasts (USD -7.3 billion);
- The current account balance stood at USD -28.6 billion in 2023 (-1.32% of GDP), from USD -48.3 billion in 2022 (-2.47% of GDP).

- Ordinary review of the balance of payments: the 2022 CA deficit was reduced by USD 5.4 billion, to USD 48.3 billion (2.47% of GDP) due to changes in primary income, whose deficit was altered to USD 56.5 billion from USD 61.9 billion.



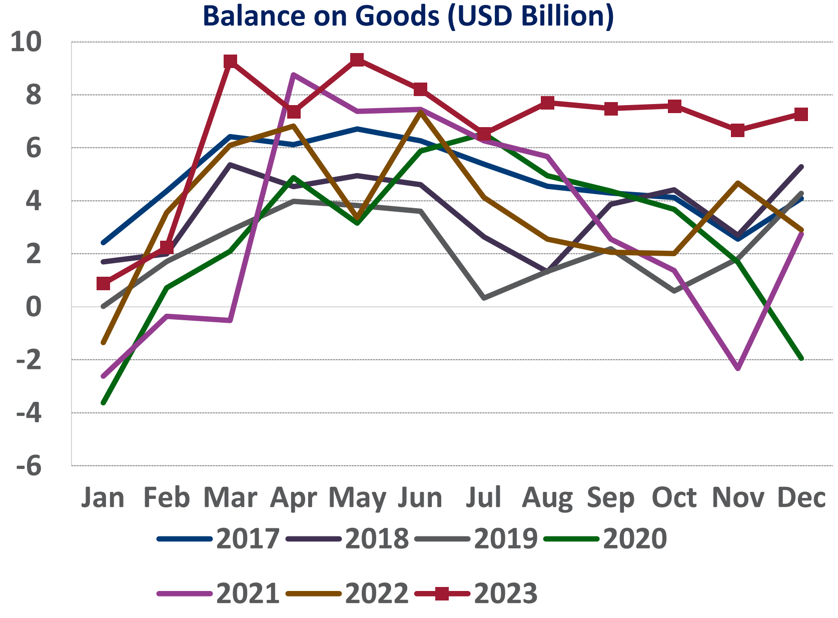


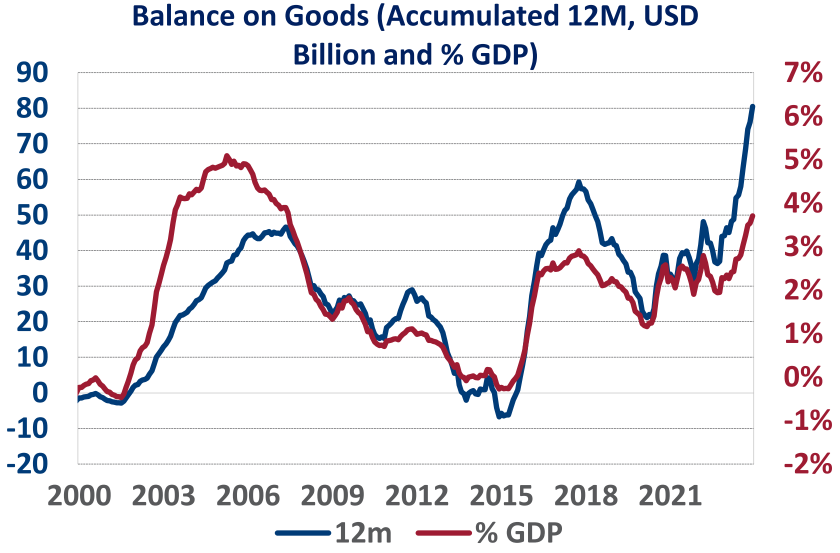


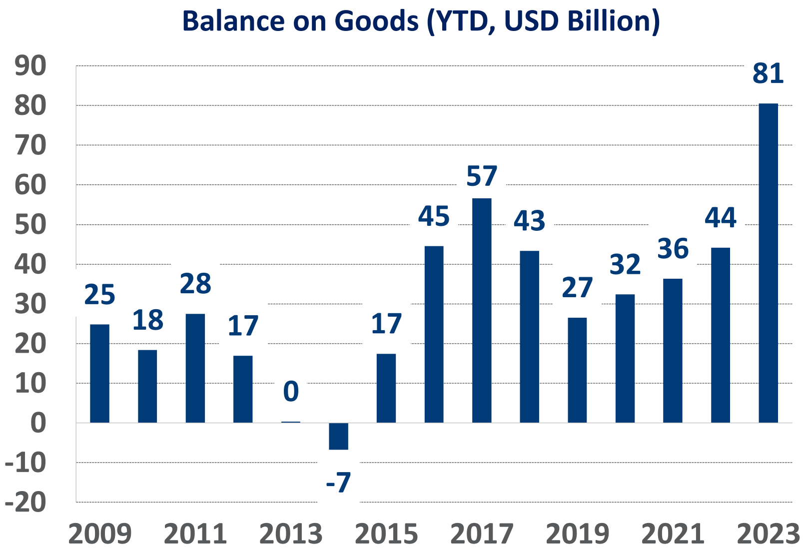
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- The merchandise trade balance continues at its historical highs, delivering a surplus of USD 7.3 billion in December;
- It resulted from a rise in exports of 7.4% combined with a fall in emports of -9.8% in year-over-year terms;
- For 2023, the trade balance totaled USD 80.5 billion, substantially higher than the USD 44.2 billion recorded in 2022, and way above the historical average.



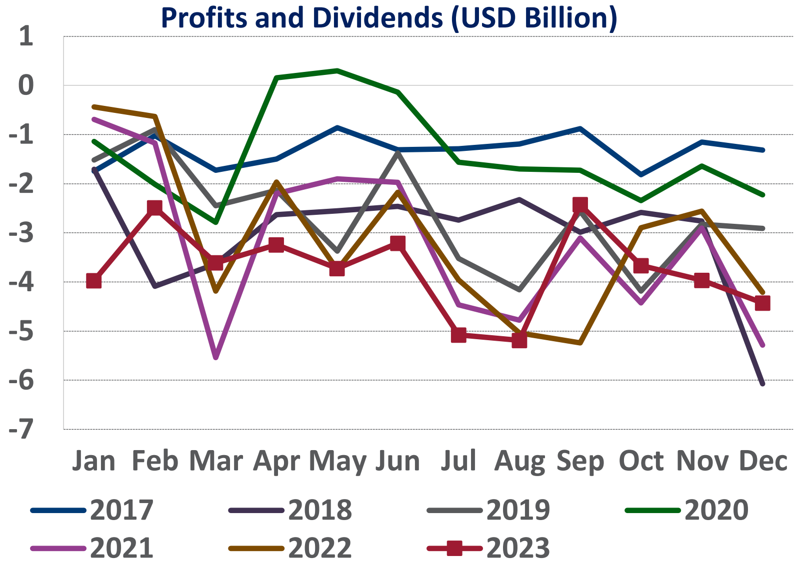


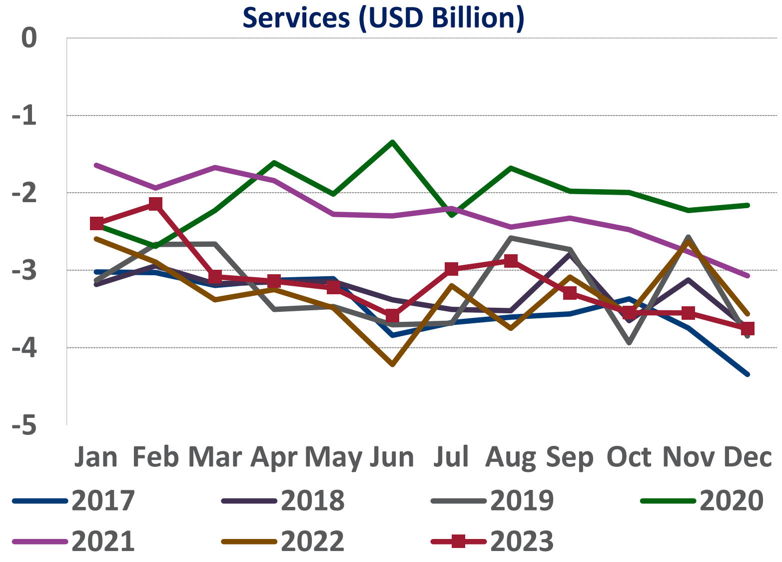


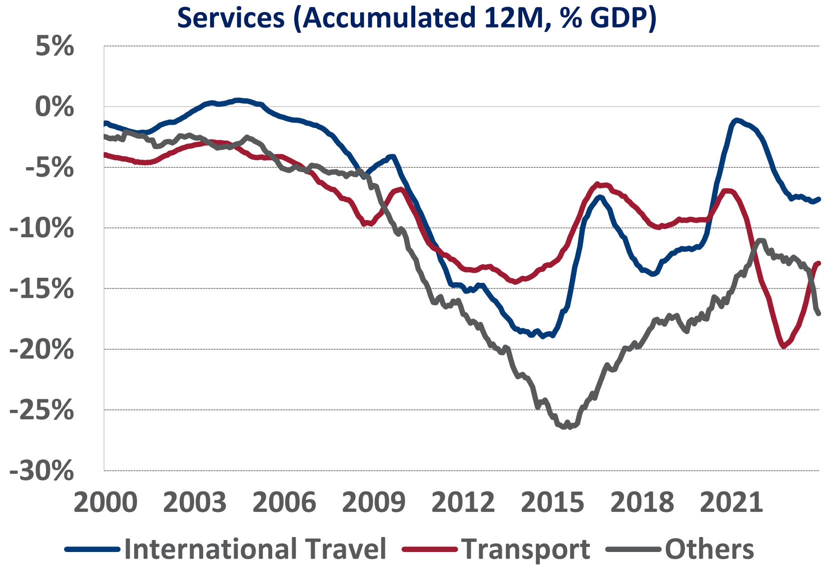
Source: BOCOM BBM, BCB

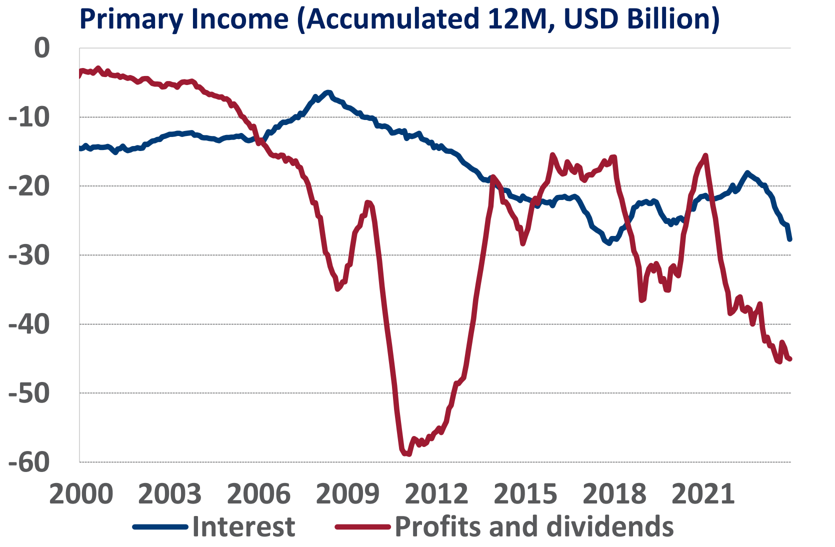
Brazil: Balance of Payments

- The deficit in the Services account reached USD 3.8 billion in December and USD 37.6 billion in 2023;
- The deficit in the Primary Income account reached USD 9.3 billion in December, running above the USD 11.0 billion deficit observed in December 2022.





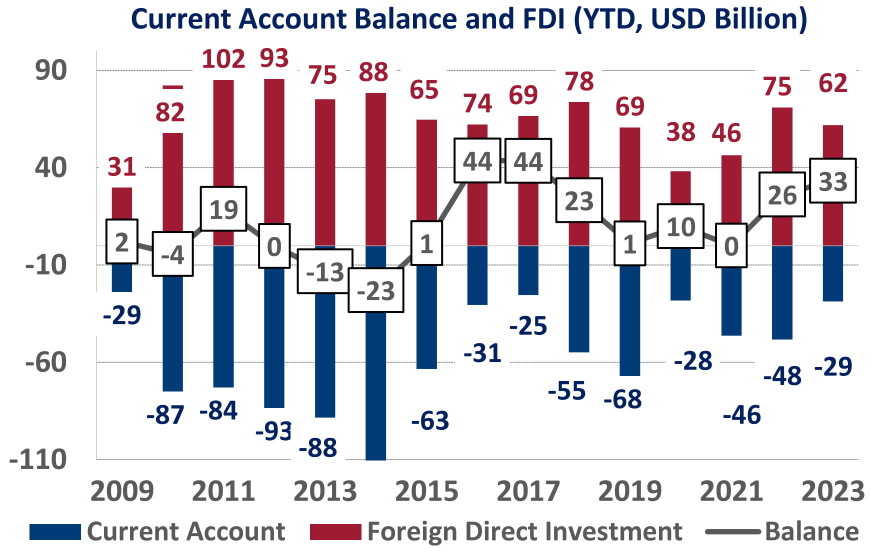


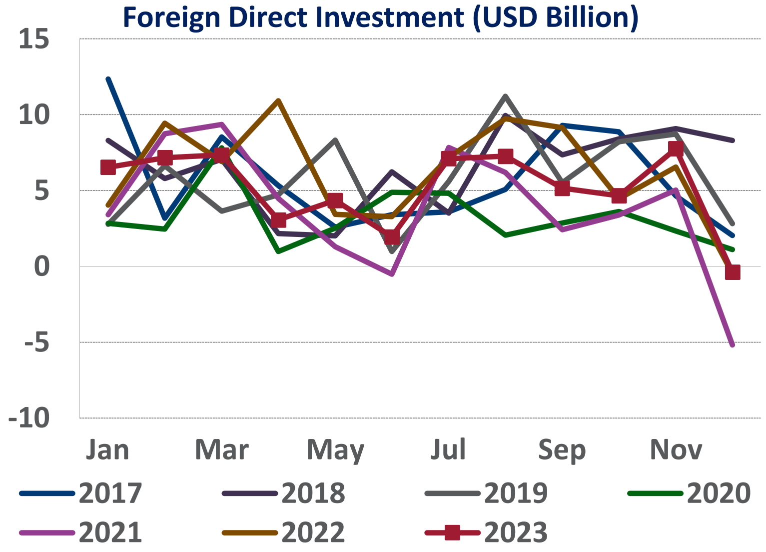


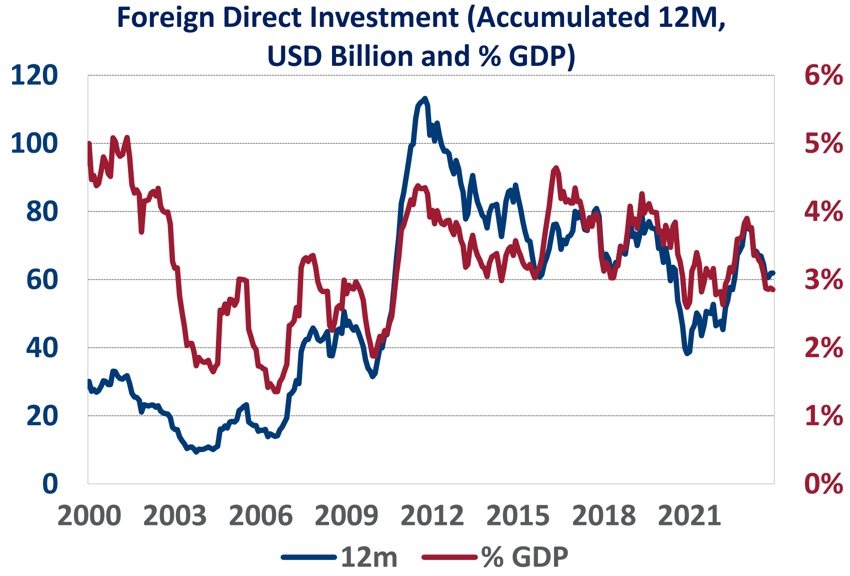
Source: BOCOM BBM, BCB

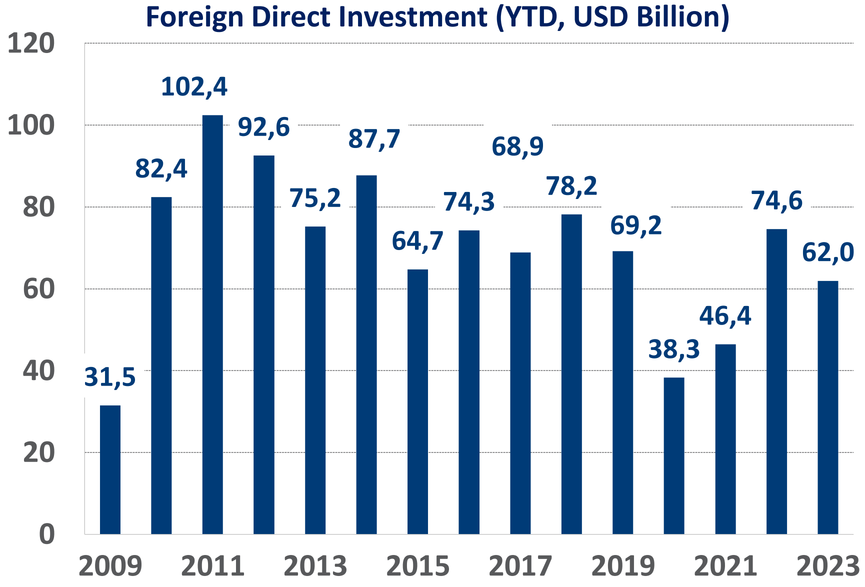
Brazil: Balance of Payments

- Net inflows in FDI tumbled in December, to USD -0.4 billion, significantly below expectations of 5.5 billion – mostly explained by methodological changes (incorporation of new statistics);
- The FDI amounted to USD 62.0 billion in 2023 (2.85% of GDP), lower than the figure registered in 2022 (USD 74.6 billion; 3.82% of GDP);
- The Brazilian balance of payments remains solid, in face of a record trade surplus and low current account deficit.









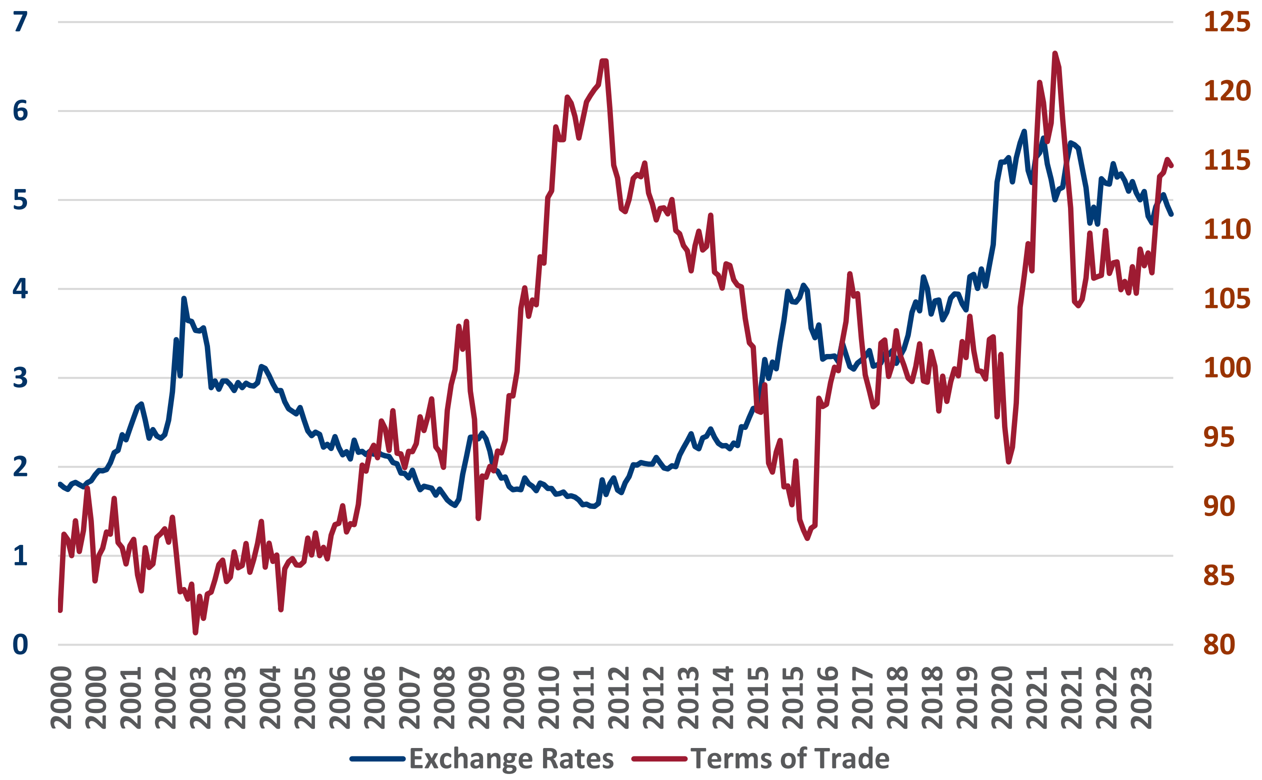
Source: BOCOM BBM, BCB

Brazil: External Sector

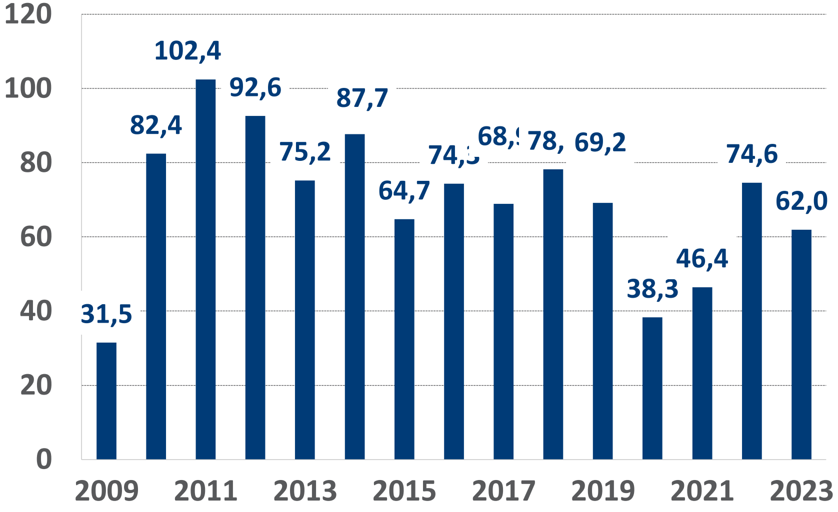
BANK OF COMMUNICATIONS BBM

- The prospect for the beginning of Fed's cutting cycle will bring relief to the interest rate differential trajectory this year;
- The reduction in the flow of Foreign Direct Investment (FDI) was a global phenomenon in 2023. Still, Brazil was the second country that attracted the most FDI in the first half of 2023, according to OECD data.

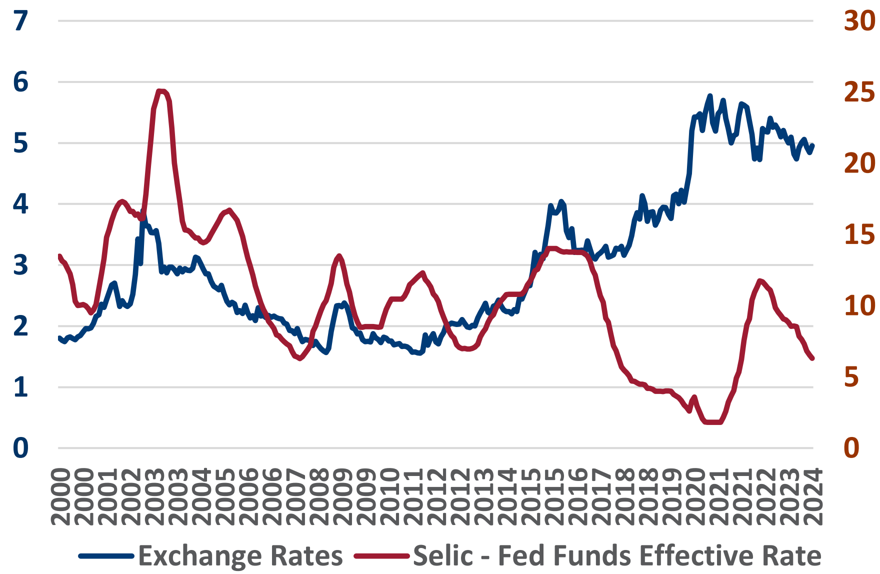
Terms of Trade x BRL



Foreign Direct Investment (YTD, USD Billion)



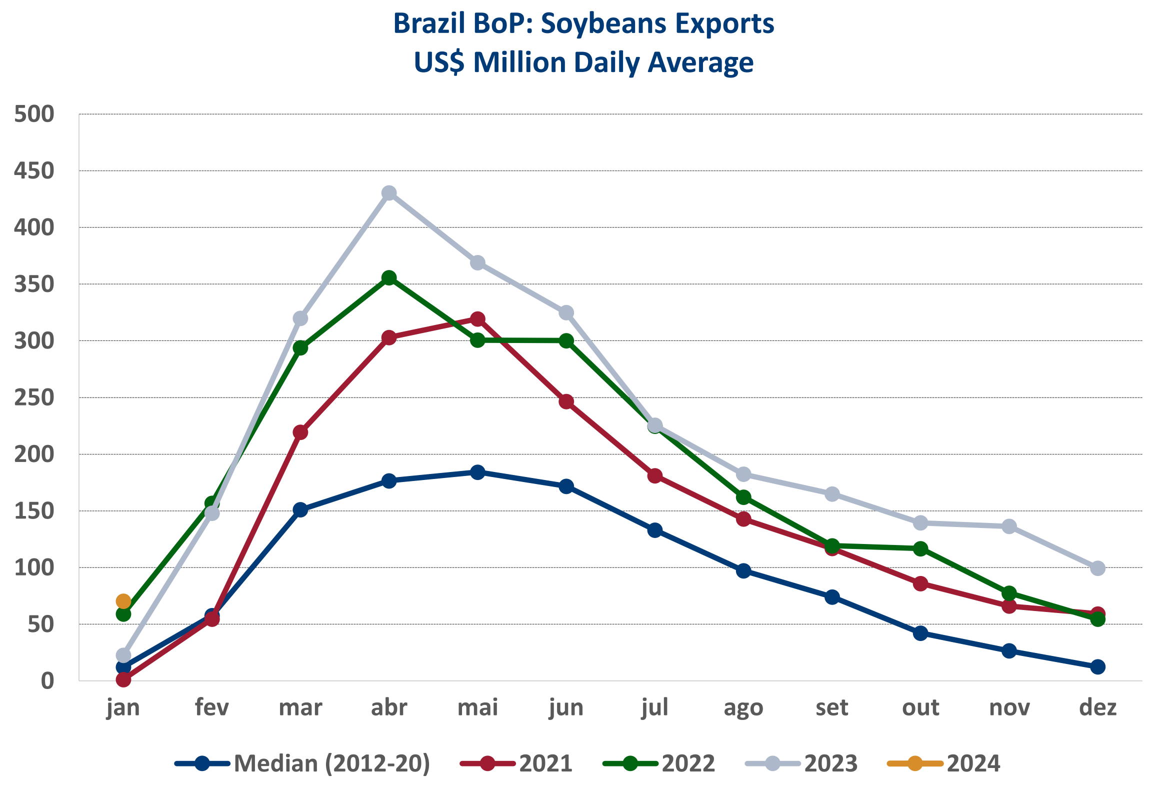
Interest Rate Differential x BRL

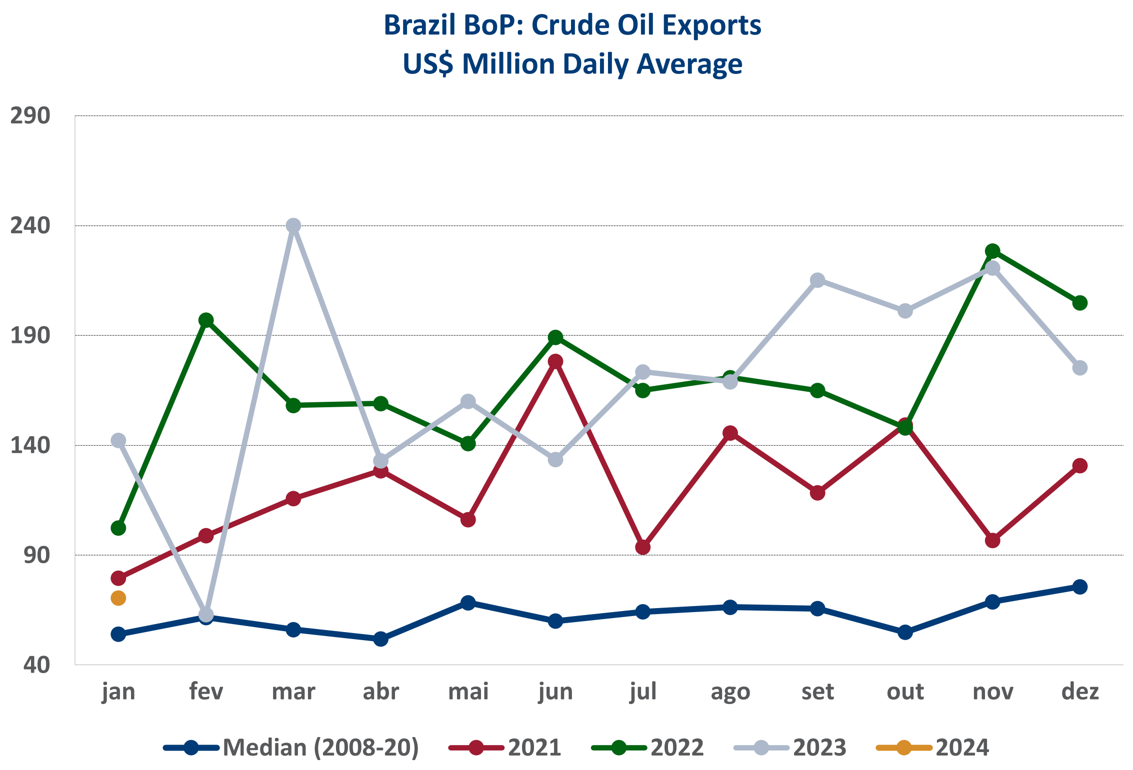


Source: BOCOM BBM, Bloomberg, Funcex, BCB

Brazil: External Sector

- In December, the trade balance presented a surplus of US$ 9.4 billion (+106.5% YoY) in Secex data;
- In that data, the trade surplus reached US$ 98.8 billion in 2023, around 60% above the 2022 record. It is the third consecutive record year;
- The main drivers of the exceptional trade balance performance in 2023 were increases in volume of exports (specially soybeans and crude oil) and an overall decline in imports, mainly prices.





Source: Secex, BOCOMBBM

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