交通銀行 BANK OF COMMUNICATIONS

BBM

MACRO OUTLOOK

March 2024

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 improved from its peak, but recent data showed an upside surprise. In the latest FOMC meeting, policy rate was kept unchanged. Furthermore, recent FOMC speakers reiterated the message of patience for rate cuts, consistent with the latest Fed Dots that pointed to 75bps of cuts in 2024. Accordingly, the market adjusted the priced in yield curve and now has a similar view with 75-100bps of cuts, in an easing cycle that could begin in June.

- As for China, the central government once again set the GDP growth target at ‘around 5%’. As the low base effect from 2022 is gone, and recent data pointed to a gradual recovery of domestic demand, meeting the target will be challenging. Nonetheless, the government is increasingly setting a ‘pro-growth’ tone with focus on “new quality productive forces” refering to upgrading industrial and supply chains, as well as more emphasis in improving domestic demand and boosting spending in areas related to technology and science.

- In Brazil, the main indicators of economic activity showed relatively good signs in December. Increases were seen in both services (+0.3 MoM) and industrial production (1.1% MoM), meanwhile retail sales was the only indicator contracting at the margin (-1.1% MoM). Summarizing the result, Brazil’s GDP was flat in 4Q from 3Q, slightly below expectations of 0.1% QoQ, leading to an expansion of 2.9% in the full-year 2023 and a carry-over for 2024 of 0.2%. Agriculture & Livestock climbed 15.1% in 2023 but had a much weaker-than-expected performance in 4Q, leaving a -8.5% carry-over for 2024. Industry GDP increased by 1.3% QoQ in 4Q (the third positive reading in a row) and above expectations. In turn, Services GDP rose by 0.3% QoQ in 4Q, cooling down from the average of 0.6% QoQ recorded in the three previous quarters. After the 4Q result, we revised the 2024 GDP growth forecast from 1.6% to 1.7%, driven by better prospectives for the industry sector and partially compensated by lower production in the primary sector;

- Concerning monetary policy, the segments most sensitive to the economic cycle remain high which reinforces the cautious stance of Copom and our scenario. In its January meeting the Brazilian Central Bank decided to cut Selic rates by 50 bps, reaching 11.25% per year and anticipated further reductions of the same magnitude in the next meetings;

- In the inflation scenario, we reduced our projection for 2024 from 3.8% to 3.7%. The forecasts for food-at-home inflation were revised down due to February´s lower-than-expected print, benign price survey readings, and the improved outlook for the segment (lower commodity prices, el Niño appears to have had a smaller overall impact). However, other segments most sensitive to the economic cycle remain high, reflecting a worsening breakdown in recent inflation prints;

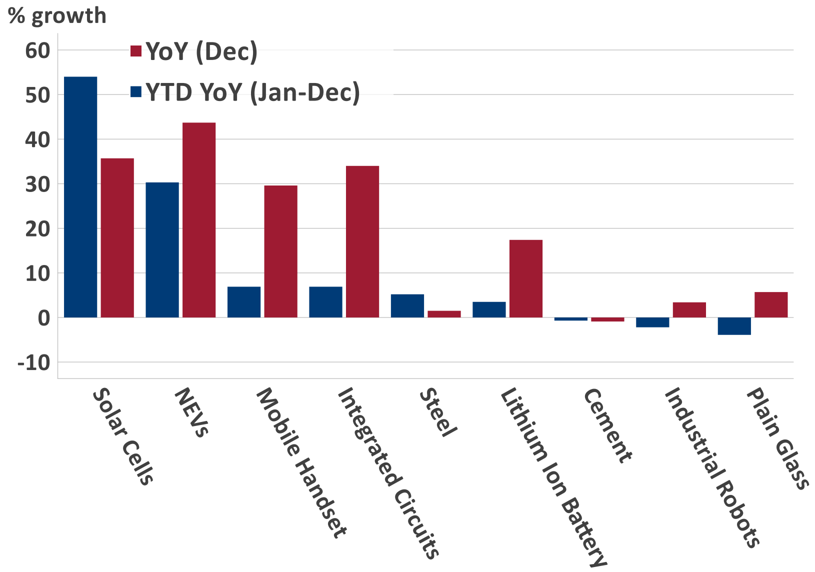
- In the fiscal scenario, total federal tax collections reached BRL 280.6 bn (6.7% YoY) in January, a historical record for the month. Despite the very positive result, it should be viewed with caution given that a significant amount was due to extraordinary events. The central government’s primary balance posted a surplus of BRL 79.3 bn (-3.8% YoY), the third best for the month in the historical series. The result was in line with market consensus. In 12 months, it now accumulates a deficit of BRL 235.0 bn (-2.1% of GDP).

China: Activity

December economic activity showed mixed results in YoY terms:

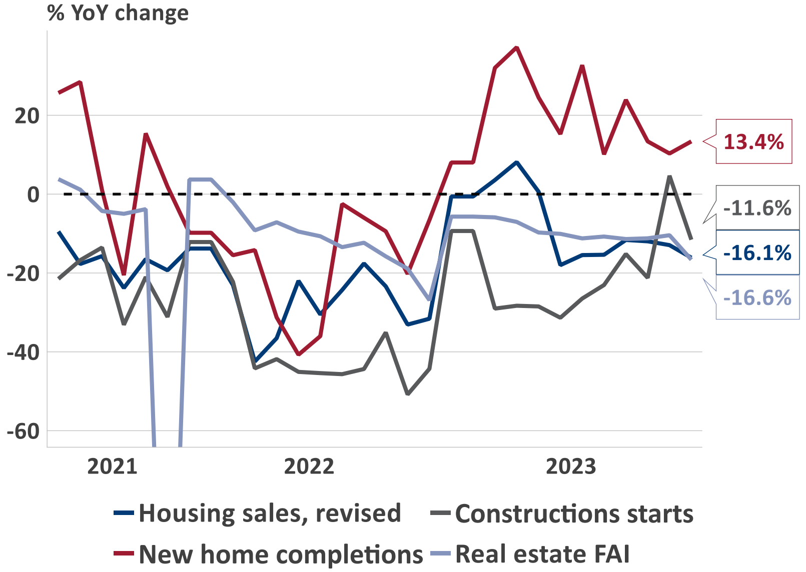
- **Retail sales slowed** from 10.1% to **7.4%** YoY (exp. 8.0%), pointing to strength in covid-sensitive segments on a low base (such as restaurants with +20.9% YoY), and slowing demand in consumer goods (4.8% YoY), such as cellphones, automobiles and clothing;
- **Industrial prod. rose** from 6.6% to **6.8%** YoY (exp 6.6%), with heterogenous effects: sectors related to renewables and high-tech products -- such as new energy vehicles (43.7%) and solar cells (35.7%) -- continued to thrive, whereas components related to real estate are contracting;
- **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 adjusting** with new home sales down by -16% YoY.

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

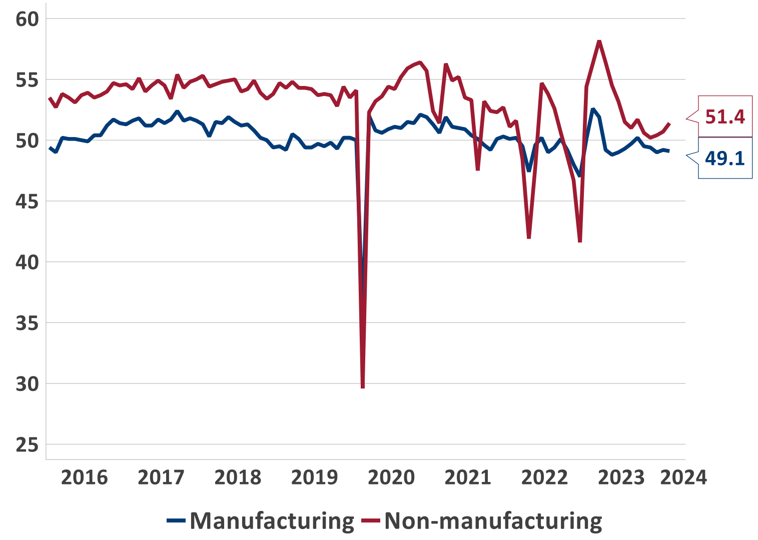
China: Economic Scenario

- In February, China's **PMI** continued to show divergence between services and manufacturing sector, with the latter remaining in contraction, while the former edged up its pace of expansion;
  - The NBS manufacturing PMI rose from 49.2 to **49.1**, in line with expectations, remaining contractionary due to external demand cooling up;
  - The non-manufacturing sector continued expansionary, rising from 50.7 to **51.4** as services 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.

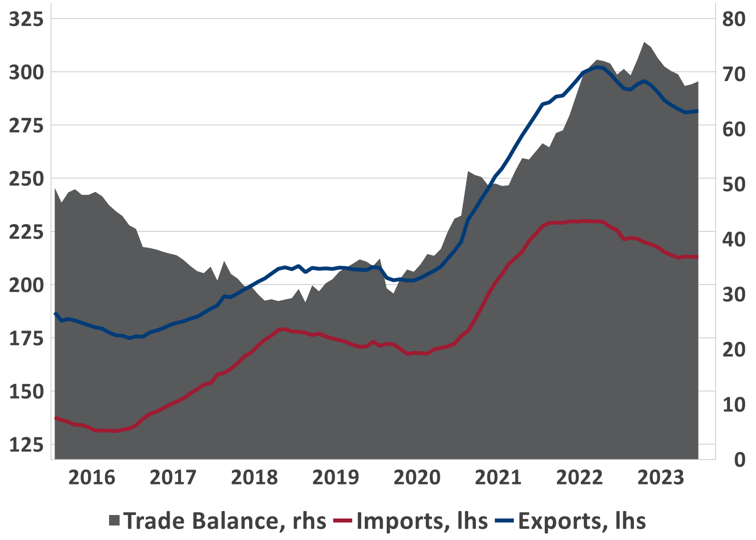
- **CPI** inflation rose by **0.3%** MoM and from -0.3% to **-0.8%** YoY (exp. -0.5%), as food deflation worsened, and domestic energy prices' fall moderated;
  - Goods YoY deflation deepened, while services inflation moderated, reflect the continued divergence between these sectors' recovery;

China: PMI



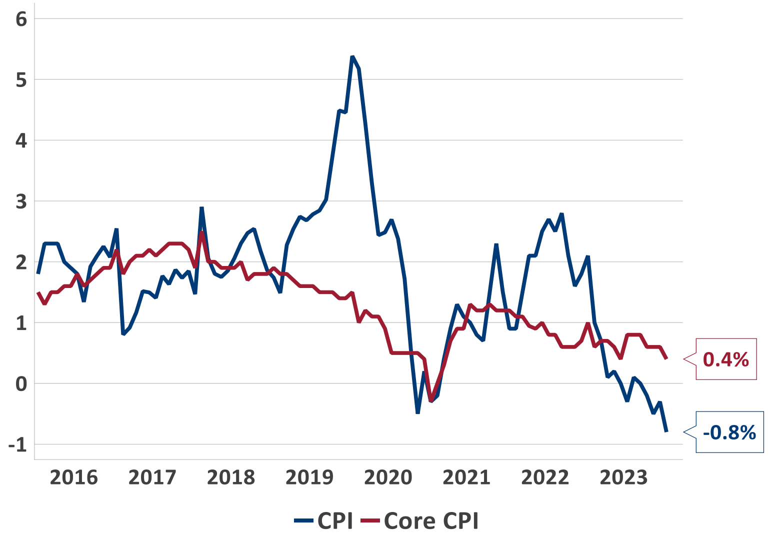
Source: BOCOM BBM, Macrobond, CFLP

China: Trade Balance (USD billion, 12MMA)



Source: BOCOM BBM, Macrobond, CCS

China: CPI (YoY, %)

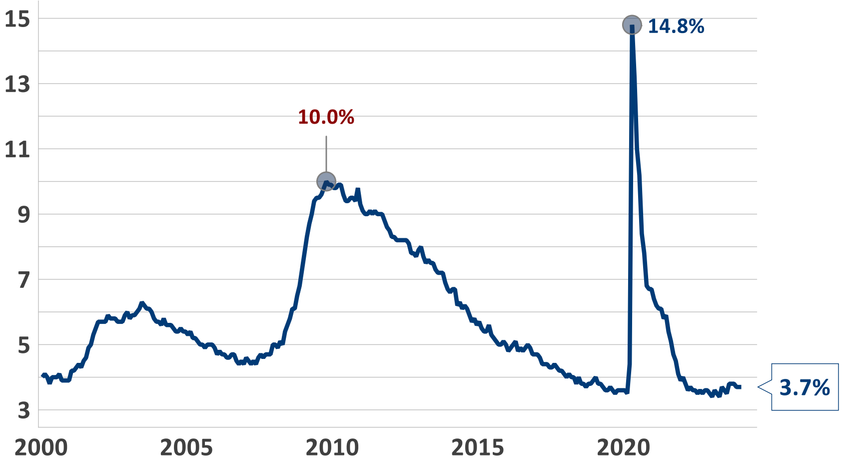


Source: BOCOM BBM, Macrobond, NBS

USA: Labor Market

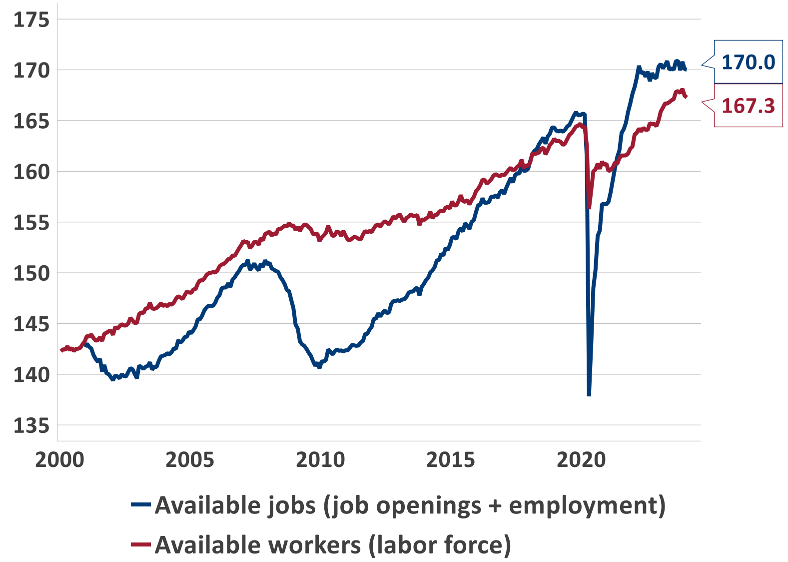
- **Labor market is gradually decelerating**, but January data showed a big turnaround, with nonfarm payroll surprising to the upside by creating 353k jobs (exp. 180k);
- The unemployment rate surprised downward by being stable at **3.7%** (exp. 3.8%);
- The jobs-workers gap increased from 2.6M to **2.7M** 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 (%)



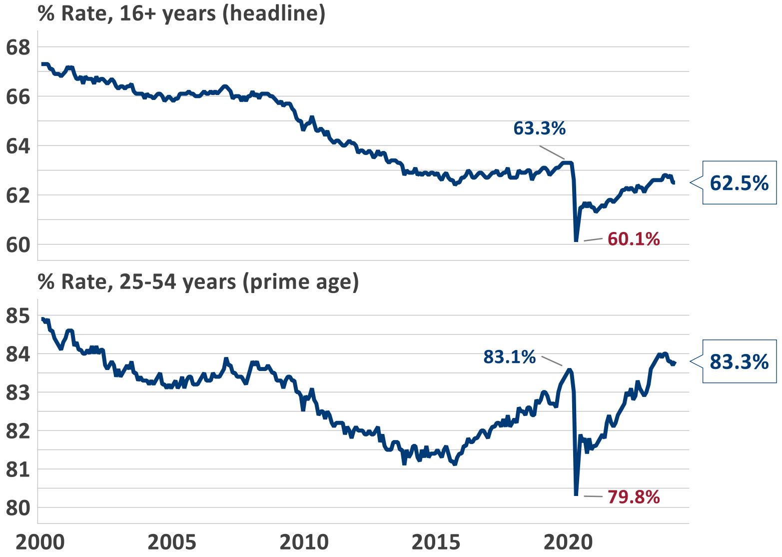
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



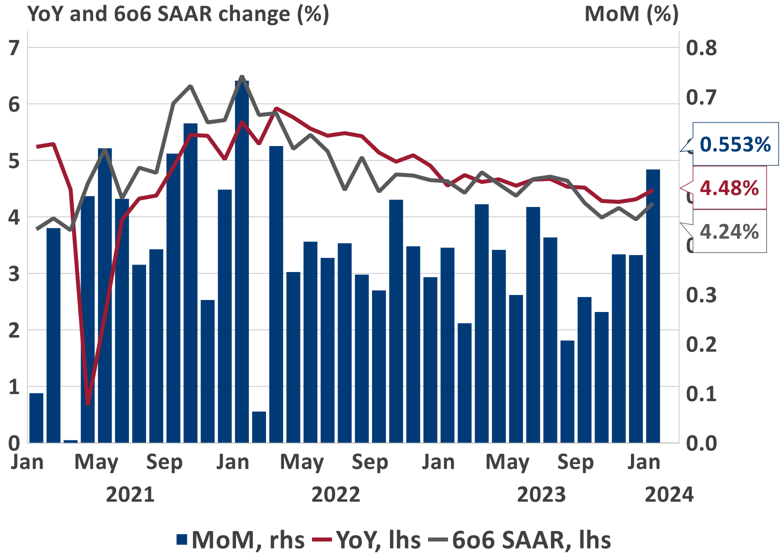
Source: BOCOM BBM, Macrobond, BLS

US: Labor Force Participation Rate (%)



Source: BOCOM BBM, Macrobond

US: Average Hourly Earnings Growth (%)



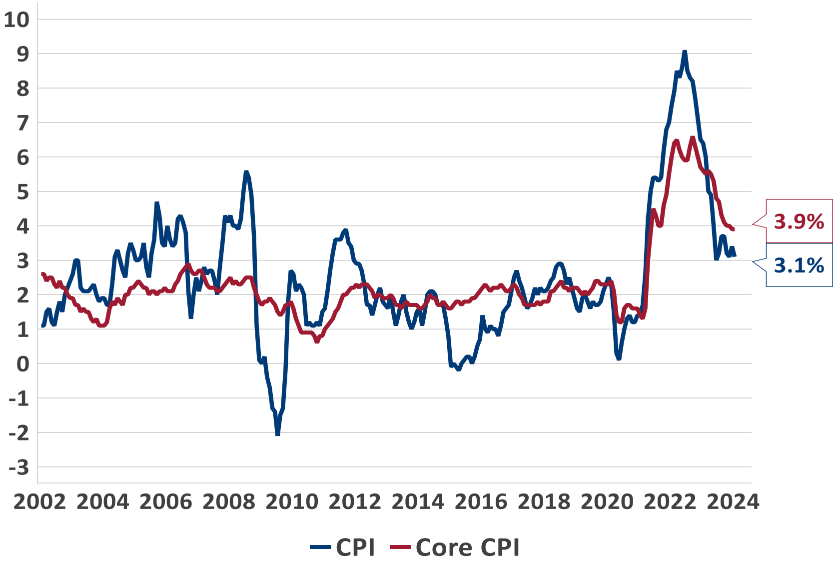
Source: BOCOM BBM, Macrobond

USA: Inflation

- Jan. headline CPI rose **0.31% MoM** (above the exp. 0.2%), leading the YoY rate fall from 3.4% to **3.1% YoY :**
  - **Energy**: fell sharply by 0.9% MoM, reflecting gasoline prices decreasing;
  - **Food:** increased the highest in 12 months (0.4% MoM), but remained below the end-22 avg. pace of 0.6%;

- **Core CPI** surprisingly rose **0.39% MoM** (exp. 0.3%): the YoY rate was stable at **3.9%** YoY (exp. 3.7%);
  - **Core goods (-0,3% MoM) :** mostly subdued following the post-pandemic easing of supply chains bottlenecks and import prices moving sidewalk;
  - **Housing services (0,56% MoM)**: a lagged component in the CPI which began slowing down in April-23, and should continue slowing over the following months as the growth of new tenants rent fell substantially since last year;
  - **Core Serv. Ex-Housing (0,85% MoM)**: after a long period of deceleration, January data surprised on the upside surprise, and was very broad-based.

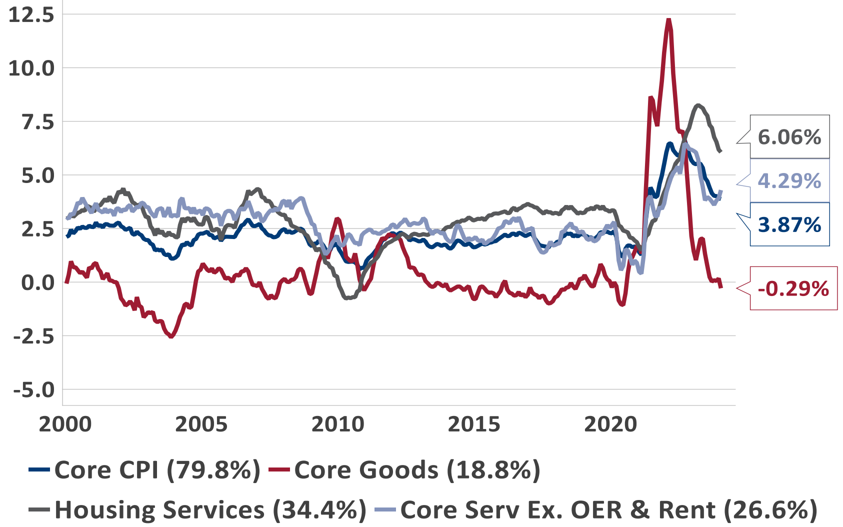
US: CPI (YoY, %)



Source: BOCOM BBM, Macrobond, BLS

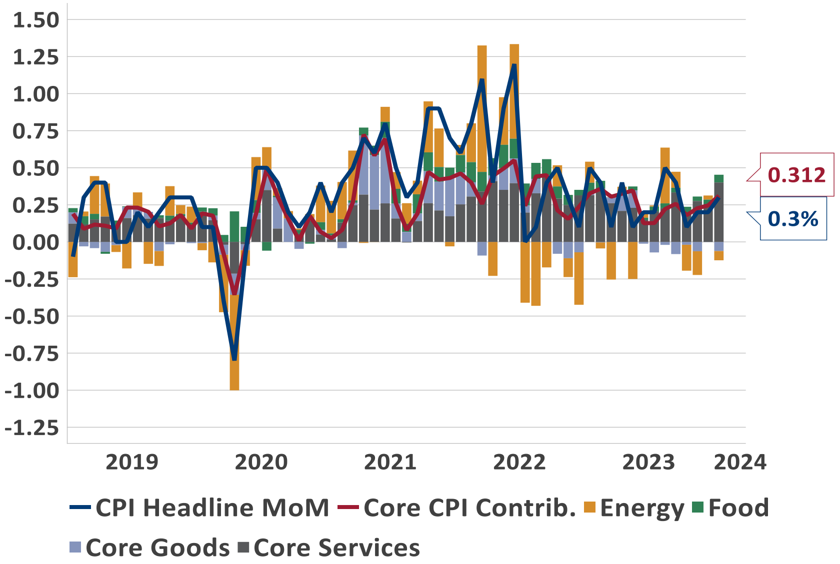
US: Core CPI Main Components (%)

% YoY, Weights on headline in parenthesis



Source: BOCOM BBM, Macrobond, BLS

US: CPI MoM Contributions



Source: BOCOM BBM, Macrobond, BLS

Global: Inflation & Activity

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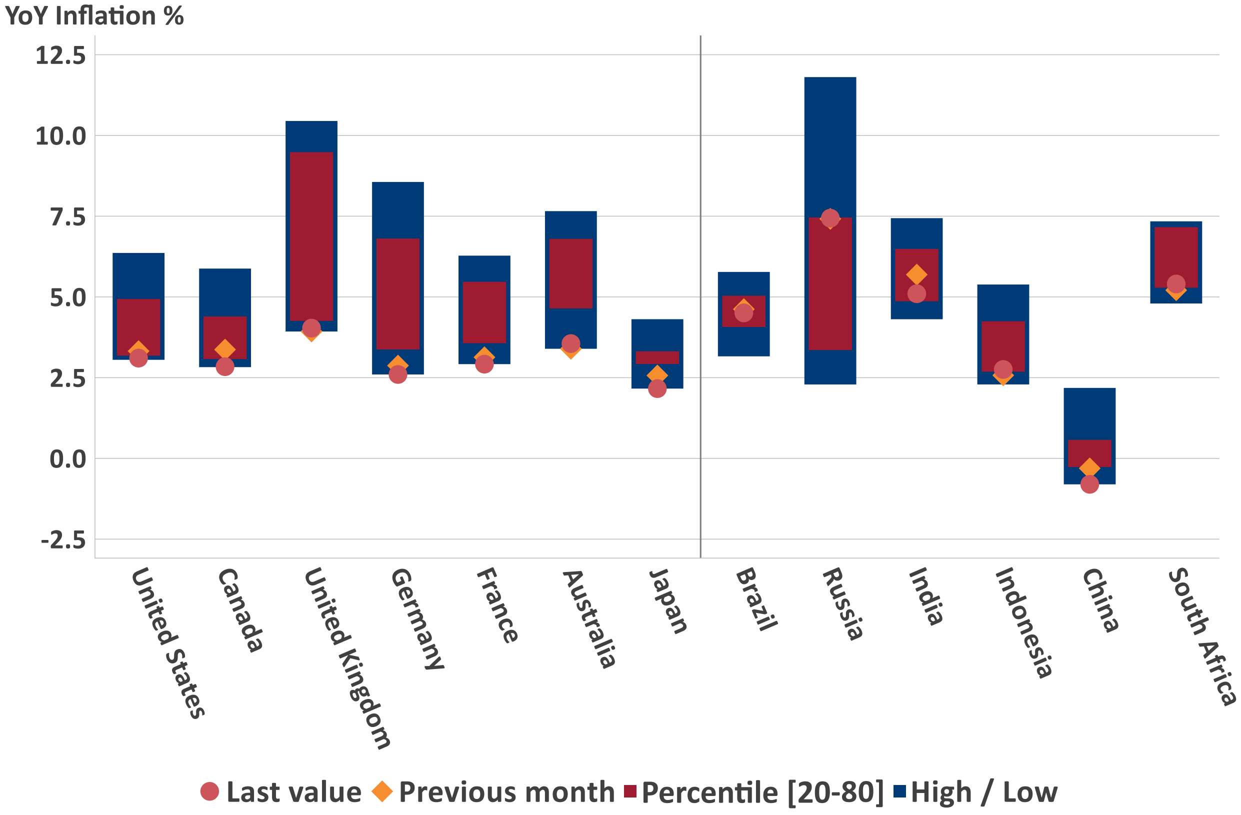
- Progress in inflation numbers are being seen across emerging and developed markets;
- Many central banks tightened sharply their monetary policy over the past year resulting in a slowdown to economic activity across several countries, although some showed remarkable resiliency.

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	31.4	11
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

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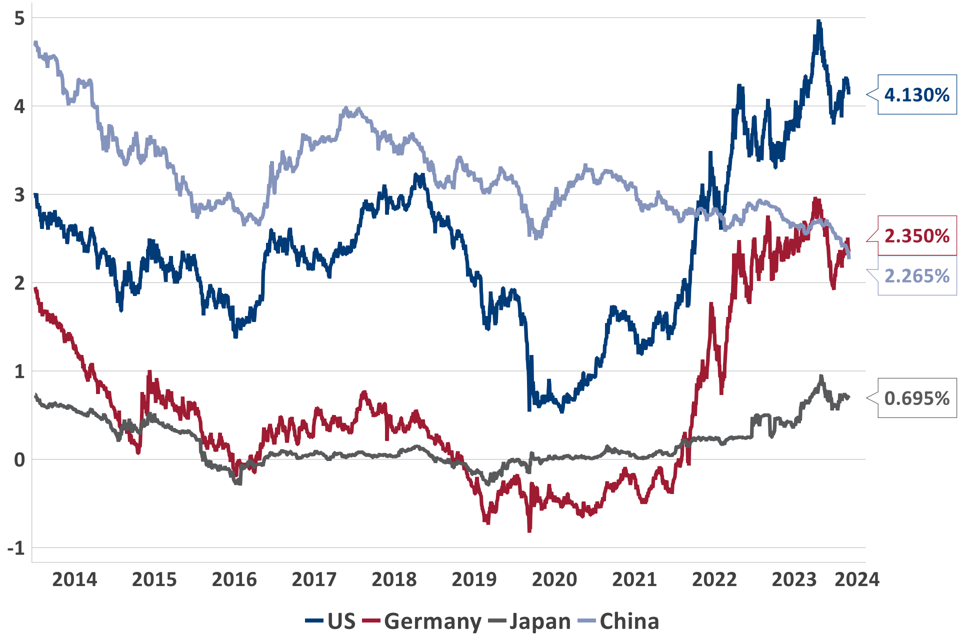
- Monetary policy tightening cycle has reached its peak in most countries;
- In EM economies such as as Brazil and Chile the easing process has already started, and the discussing is centered around the terminal rate.
- In the US, monetary policy has already peaked, but amid the still hot economic activity, FOMC speakers has been reiterating the message for patience on rate cuts, signaling that the Fed funds rate should remain elevated for longer;
  - Markets are pricing 75-100bps of cuts this year with a chance of beginning in June.

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	5	3
Australia	4.35	0.25	Hike	11/2023	4	40
Brazil	11.25	-0.50	Cut	2/2024	19	1
Canada	5.00	0.25	Hike	7/2023	8	47
Chile	7.25	-1.00	Cut	2/2024	17	1
China	3.45	-0.10	Cut	8/2023	121	7
Colombia	12.75	-0.25	Cut	2/2024	10	1
Costa Rica	5.75	-0.25	Cut	1/2024	16	2
Czech Republic	6.25	-0.50	Cut	2/2024	21	1
Denmark	3.75	0.25	Hike	9/2023	6	29
Euro Area	4.50	0.25	Hike	9/2023	6	96
Hungary	9.00	-1.00	Cut	2/2024	17	0
Iceland	9.25	0.50	Hike	8/2023	7	40
India	6.50	0.25	Hike	2/2023	13	46
Indonesia	6.00	0.25	Hike	10/2023	5	37
Israel	4.50	-0.25	Cut	1/2024	9	2
Japan	-0.10	-0.20	Cut	1/2016	204	97
Mexico	11.25	0.25	Hike	3/2023	11	37
New Zealand	5.50	0.25	Hike	5/2023	9	48
Norway	4.50	0.25	Hike	12/2023	3	46
Poland	5.75	-0.25	Cut	10/2023	18	5
Russia	16.00	1.00	Hike	12/2023	3	18
Saudi Arabia	6.00	0.25	Hike	7/2023	7	48
South Africa	8.25	0.50	Hike	5/2023	9	43
South Korea	3.50	0.25	Hike	1/2023	14	45
Sweden	4.00	0.25	Hike	9/2023	5	97
Switzerland	1.75	0.25	Hike	6/2023	9	110
Turkey	45.00	2.50	Hike	1/2024	1	12
United Kingdom	5.25	0.25	Hike	8/2023	7	48
United States	5.50	0.25	Hike	7/2023	7	48

Brazil: Forecasts

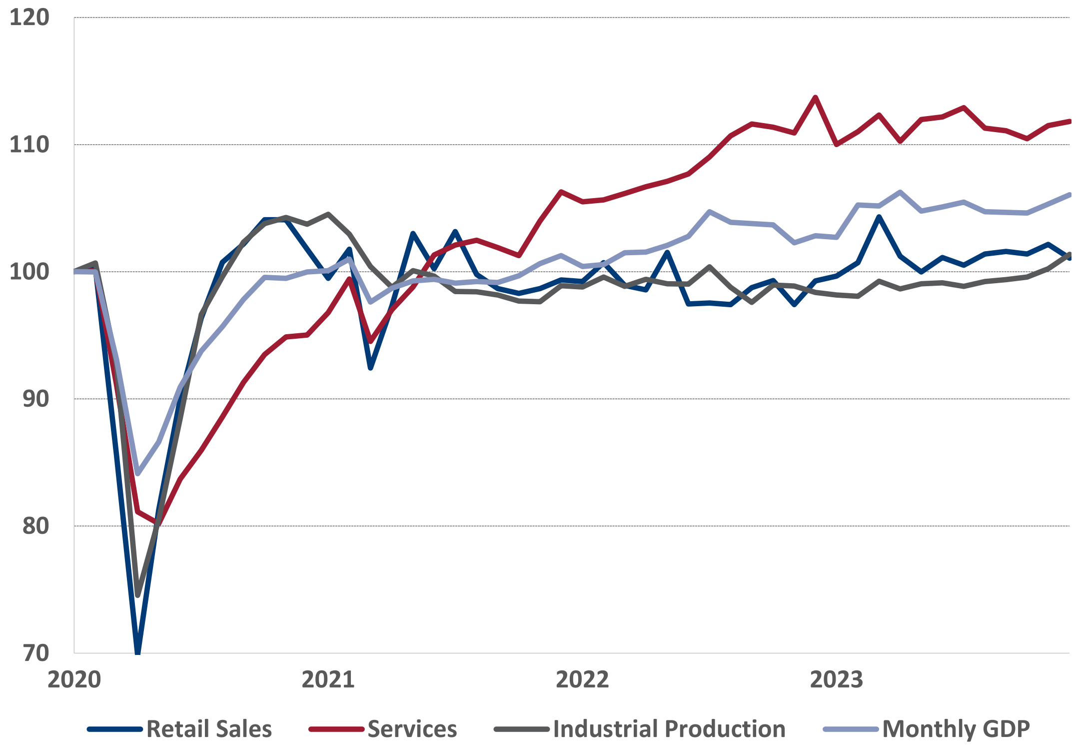
ECONOMIC FORECASTS	2020	2021	2022	2023	2024F	2025F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	1.7%	2.0%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	3.7%	4.0%
Unemployment Rate (eoy ,%)	14.7%	11.7%	8.3%	7.4%	8.4%	8.5%
Policy Rate (eoy, %)	2.0%	9.3%	13.8%	11.75%	9.50%	8.75%
External Accounts						
Trade Balance MDIC (US$ bn)	50	61	62	99	87	78
Trade Balance (US$ bn)	32	36	44	81	67	58
Current Account Balance (US$ bn)	-28	-46	-48	-29	-34	-43
Current Account Balance (% of GDP)	-1.9%	-2.8%	-2.5%	-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%	74.3%	77.8%	79.4%

Source: BOCOM BBM

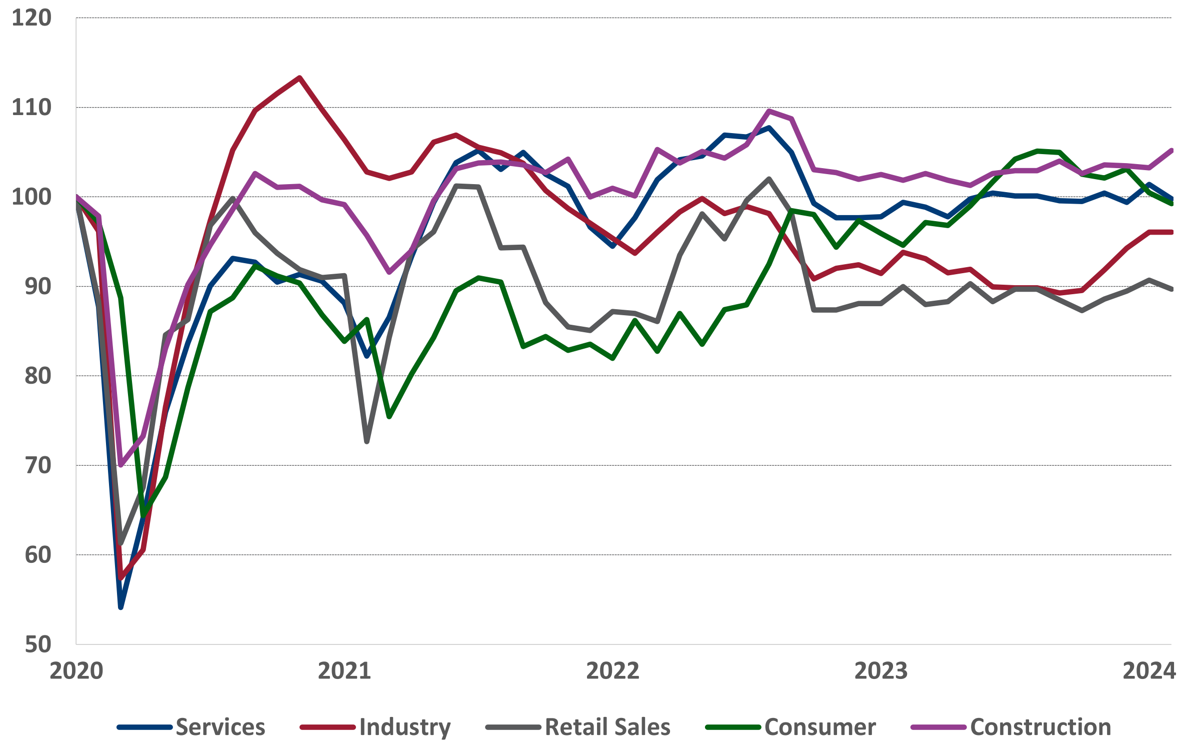
Brazil: Activity

- In December, the main indicators of Brazilian economic activity showed relatively good signs. Increases were seen in both services (+0.3 MoM) and industrial production (1.1% MoM), meanwhile retail sales was the only indicator contracting at the margin (-1.1% MoM);
- Summarizing the positive outlook, IBC-Br increased 0.8% MoM;
- Looking forward, consumers, services and retail sales confidence contracted in February, while construction confidence increased. Industry confidence, in turn, remained flat.

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



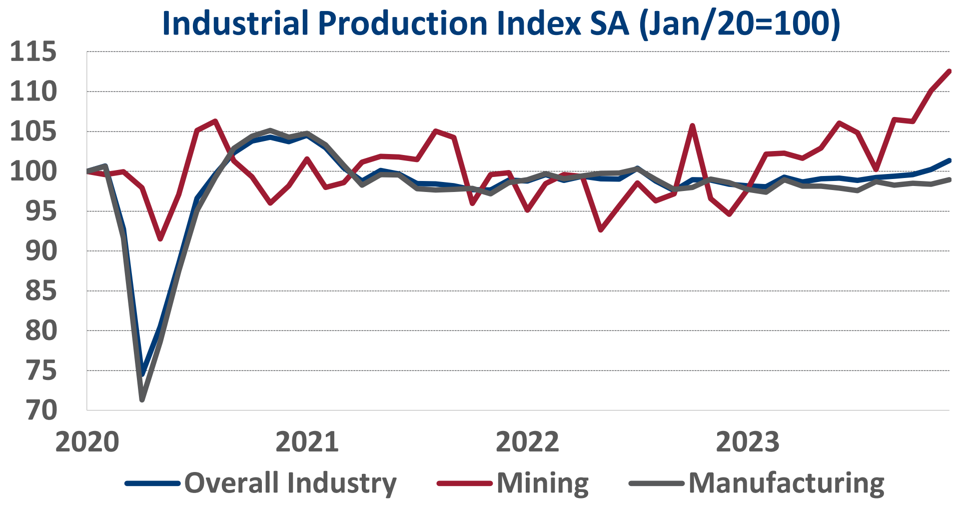
Brazil - Economic Confidence Index (Jan/20 = 100)

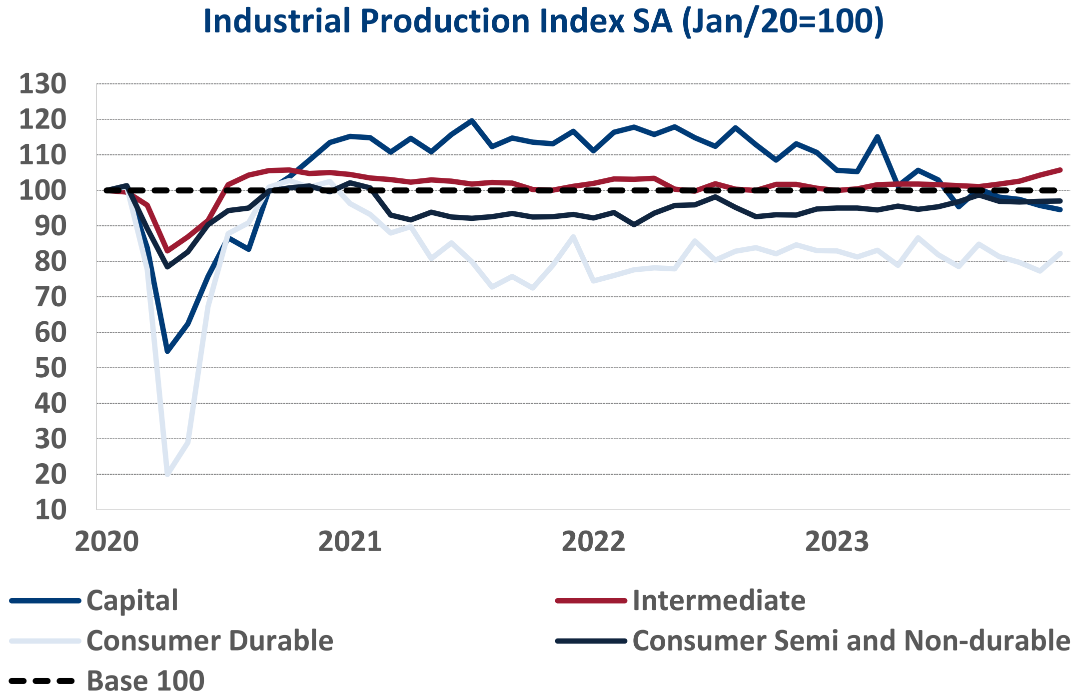


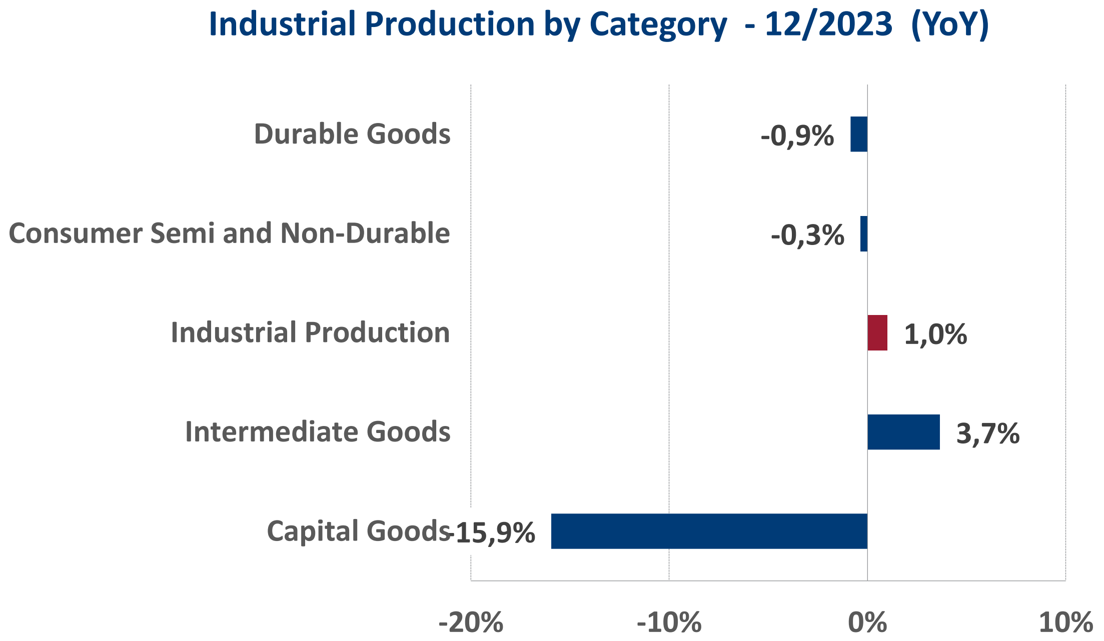
Source: BOCOM BBM, FGV

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.



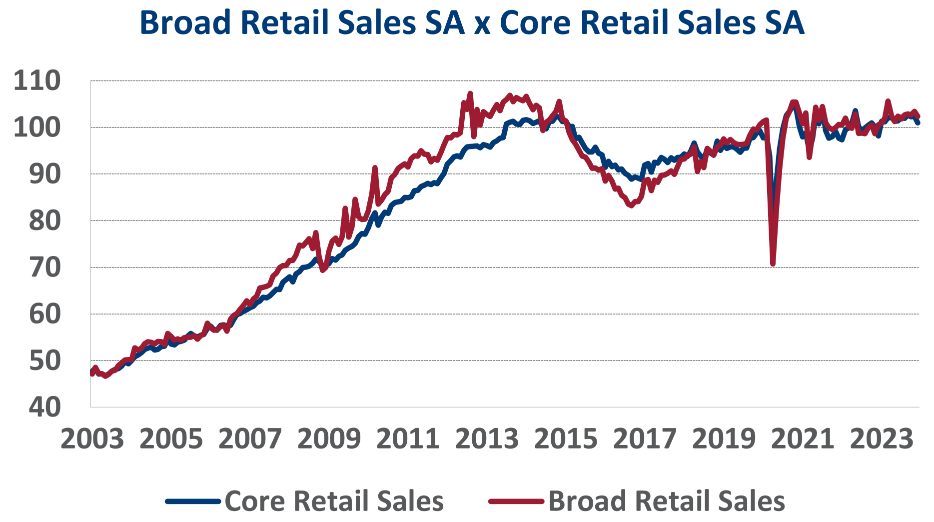


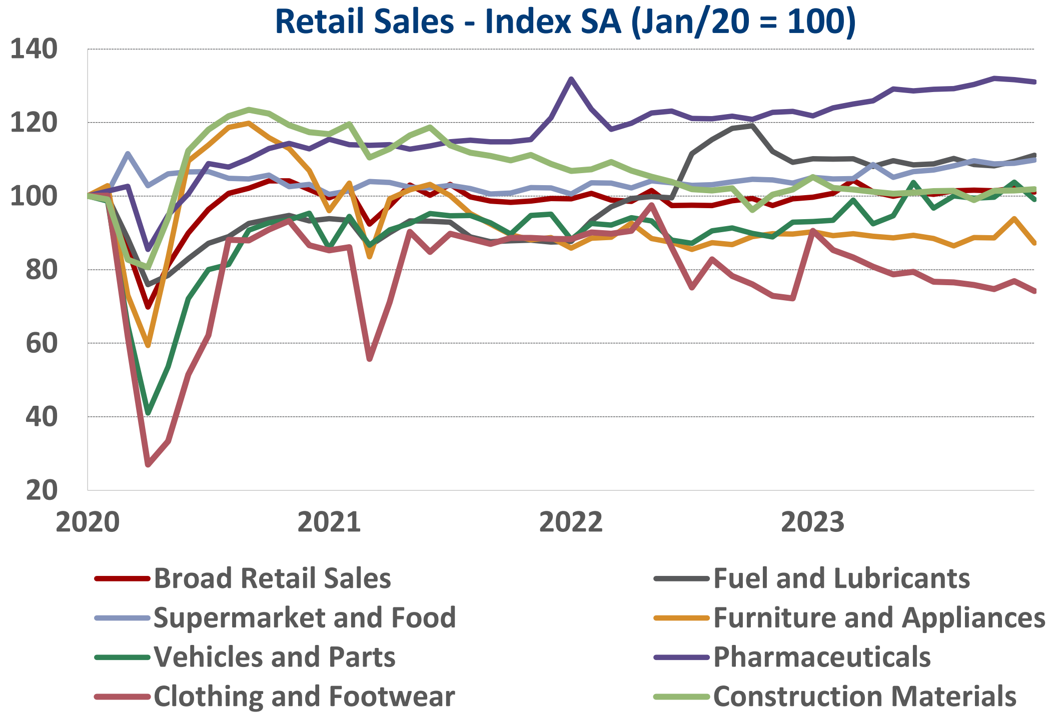


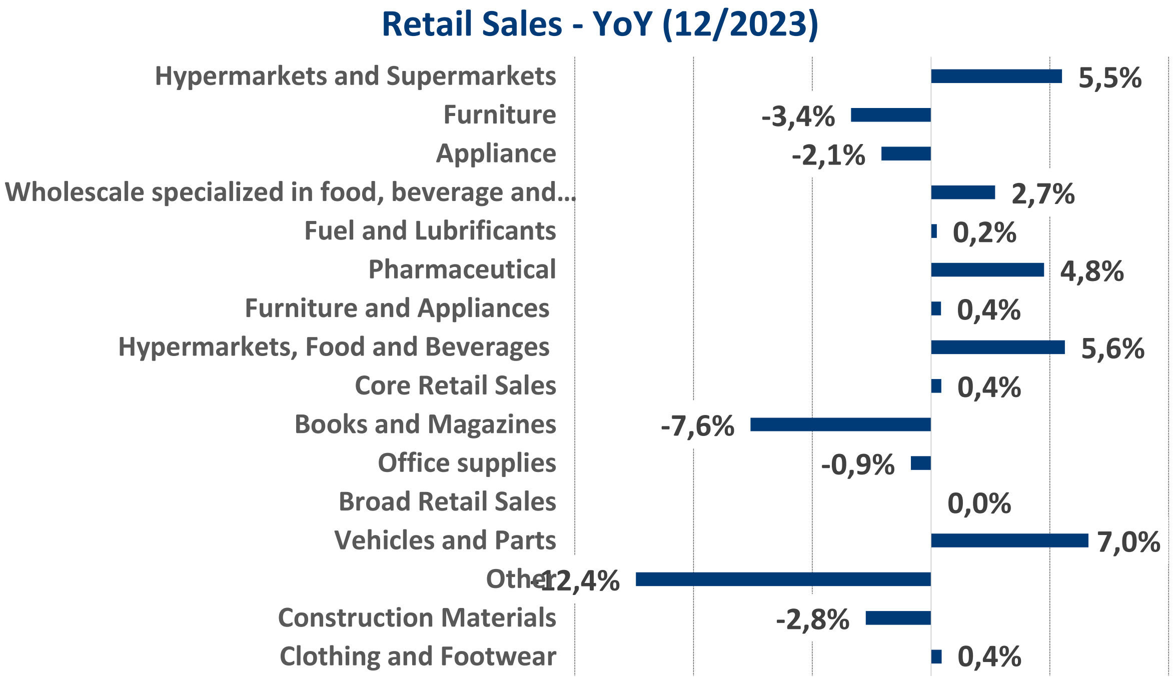
Source: IBGE, BOCOM BBM

Brazil: Retail Sales

- Broad retail sales shrank 1.1% MoM (0.0% YoY) in December, below expectations (+0.4% MoM and +3.1% YoY);
- The result was driven by negative results of electronic products (-13.1%), furniture and appliances (-7.0%) and clothing and footwear (-3.5%);
- In the same line, core retail sales contracted 1.3% MoM (+1.3% YoY);
- The negative performance of retail sales in December should be taken with caution as it was mostly driven by the payback following the previous month's strong increase resulting from the Black Friday promotional campaign.



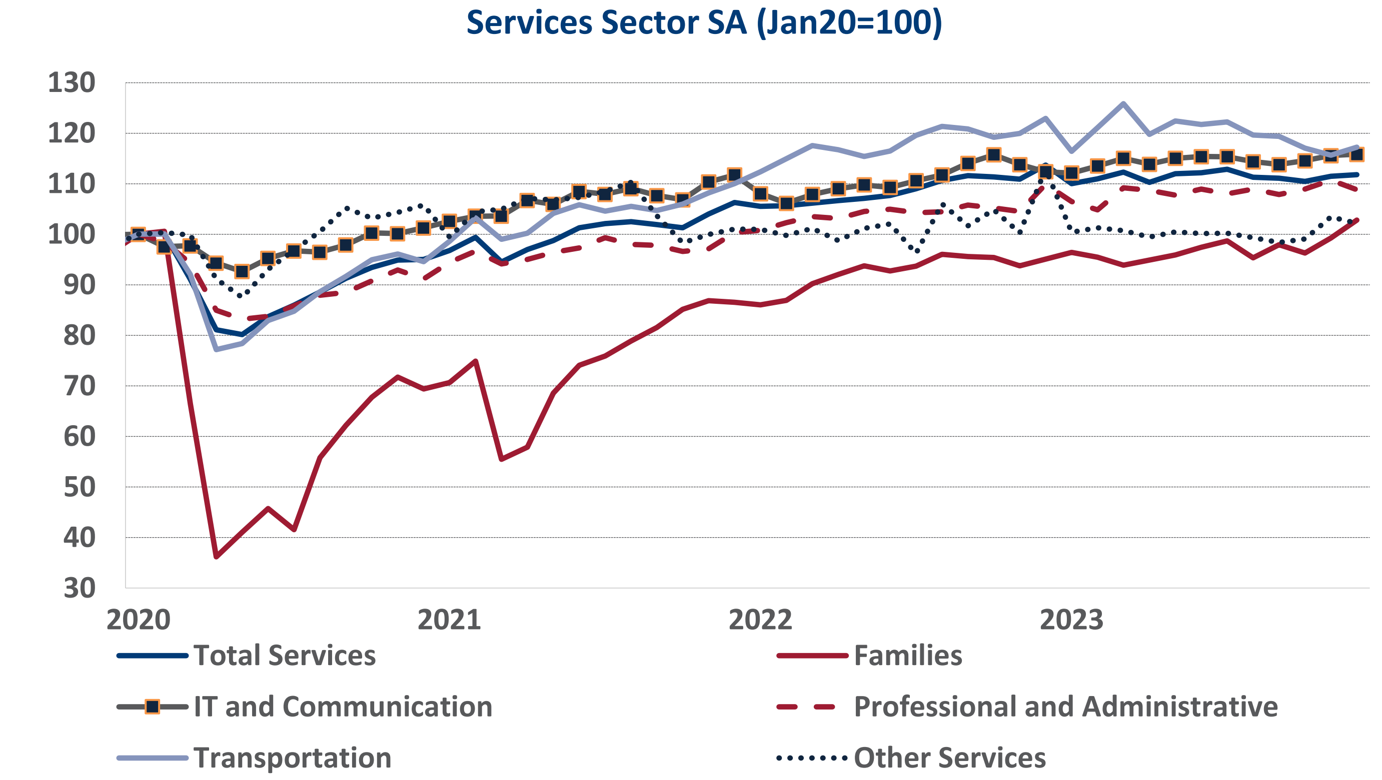


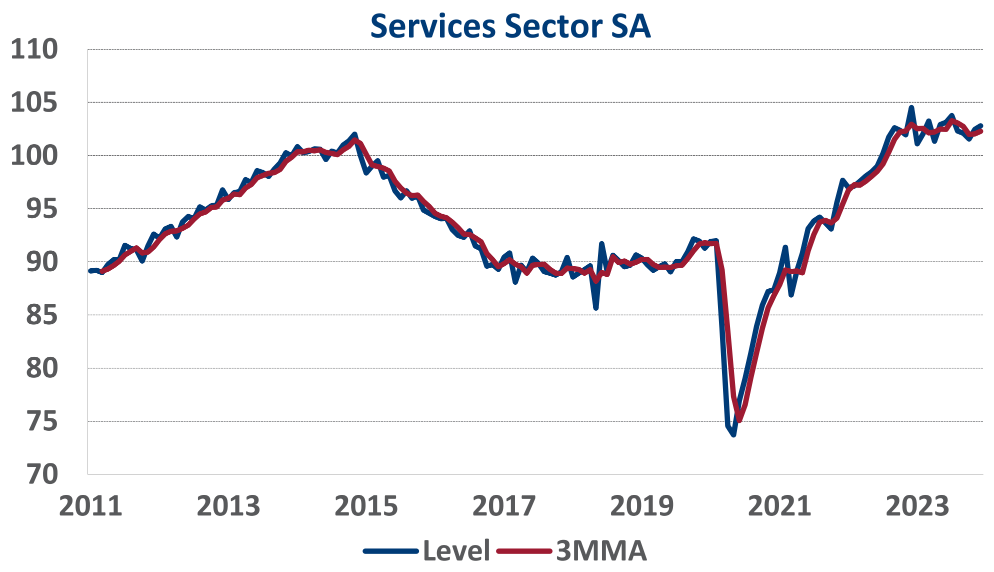


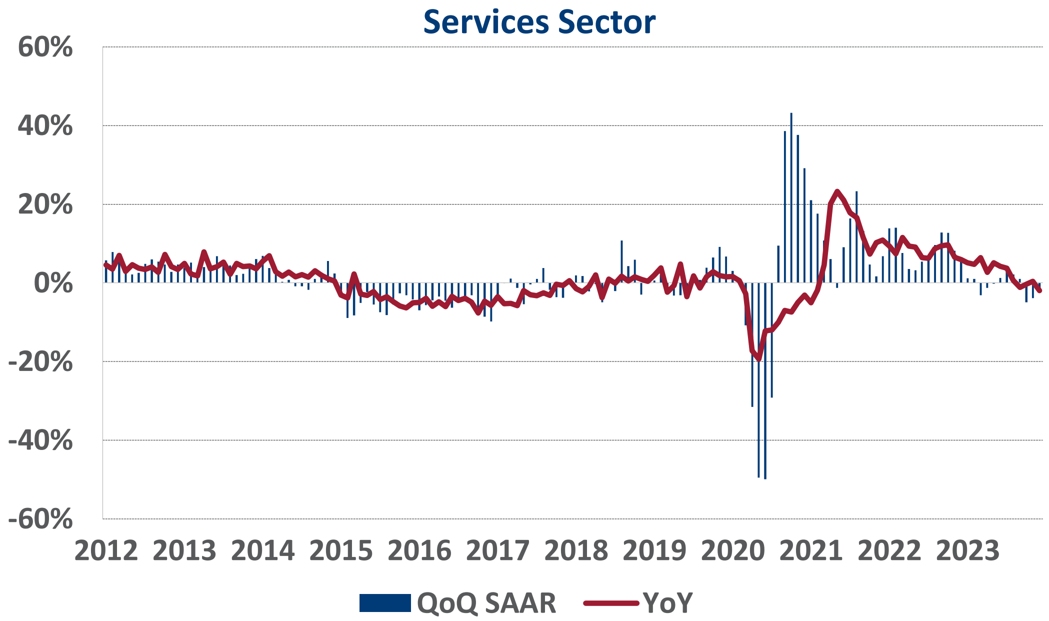
Source: IBGE, BOCOM BBM

Brazil: Services

- In December, the services sector expanded 0.3% MoM (-2.0% YoY), the second increase in a row;
- The category 'Services provided to households' (+3.5% MoM) was again the main highlight, driven by a solid labor market and greater fiscal transfers, which boosted household disposable income;
- In 2023, the services sector accumulated a growth of 2.3% and we expect it to continue to increase in 2024.



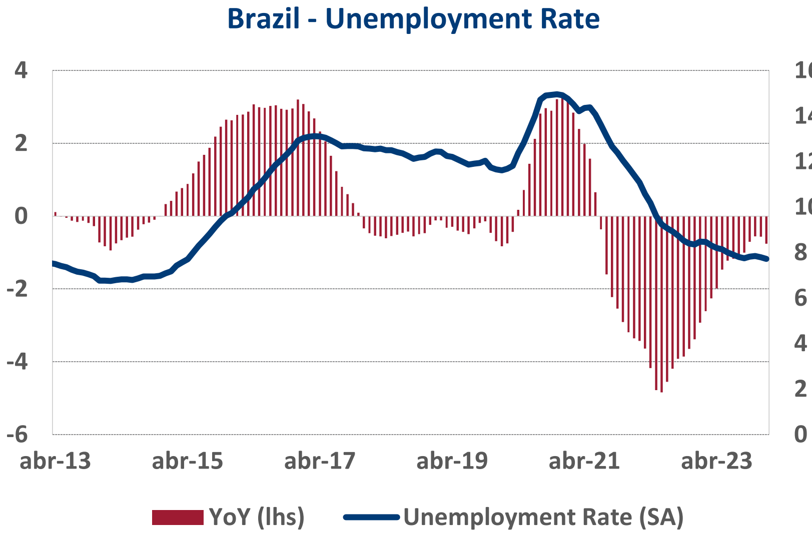


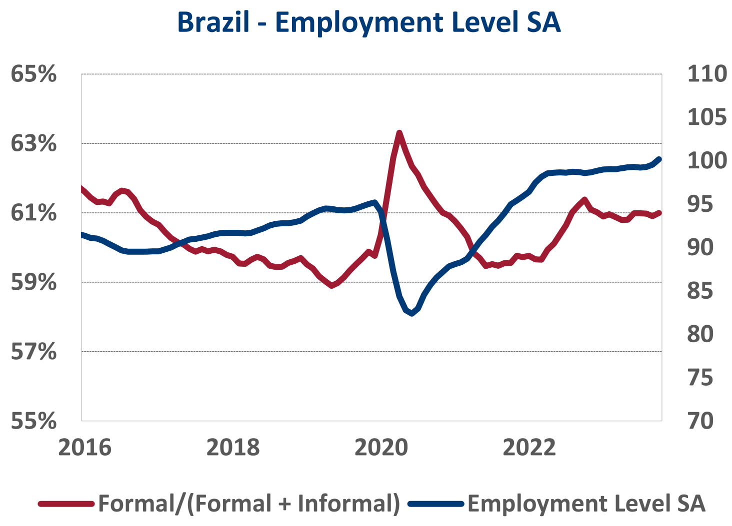


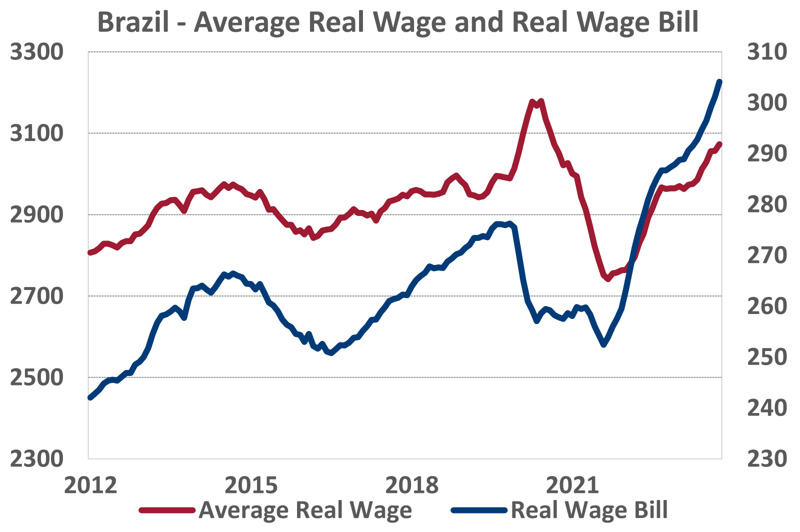
Source: IBGE, BOCOM BBM

Brazil: PNAD

- The unemployment rate increased to 7.6% in the moving quarter up to January, from 7.4% on the previous period;
- Seasonally adjusted, the indicator decreased from 7.8% to 7.7%, the lowest level since the beginning of 2015;
- This outcome was driven by an increase of 0.4% in employment, partially offset by a 0.13% growth in labor force;
- The labor force participation increased to 62.1%, remaining below pre-pandemic levels (63.5%);
- Real labor earnings continued the positive trend (+0.5% MoM), and so did the real aggregated labor income (+0.9% MoM). This dynamic must support household consumption throughout 2024.



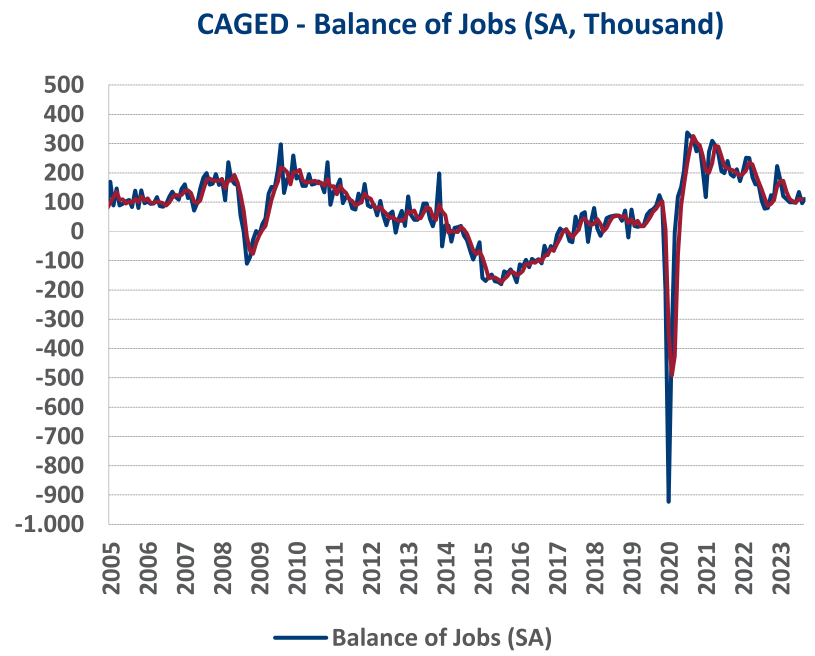


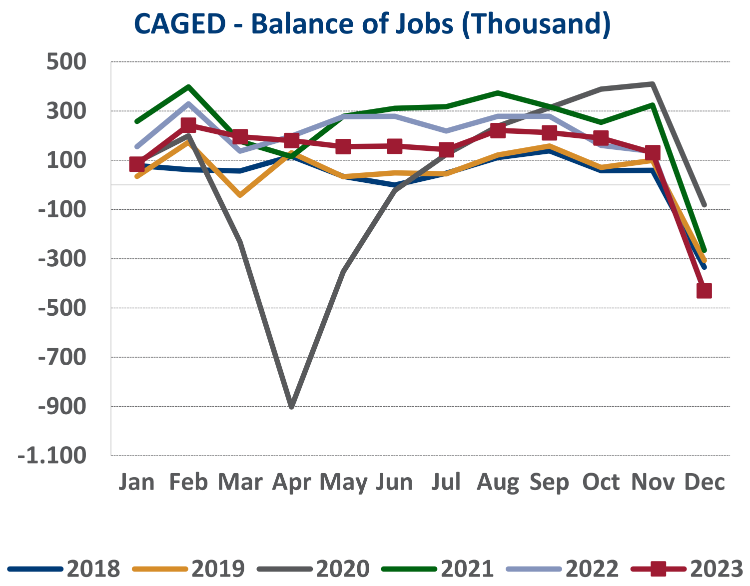


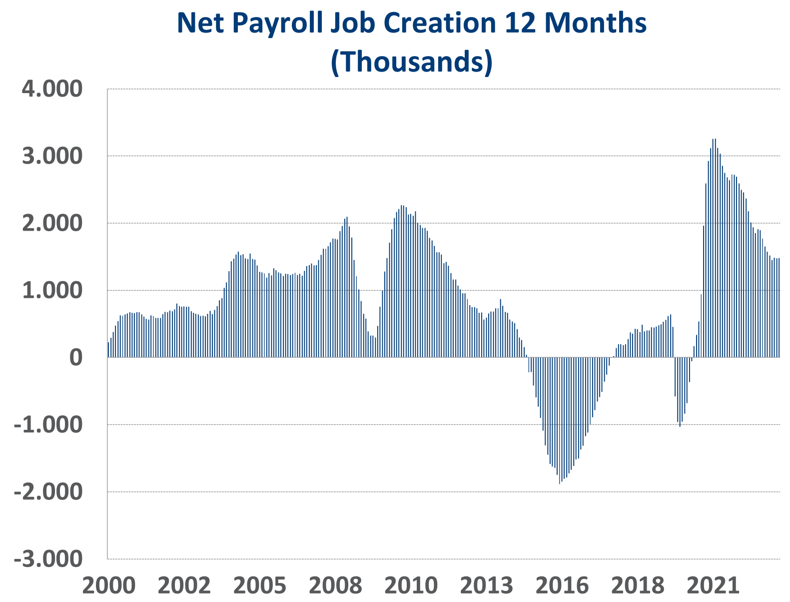
Source: IBGE, BOCOM BBM, MTE

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.





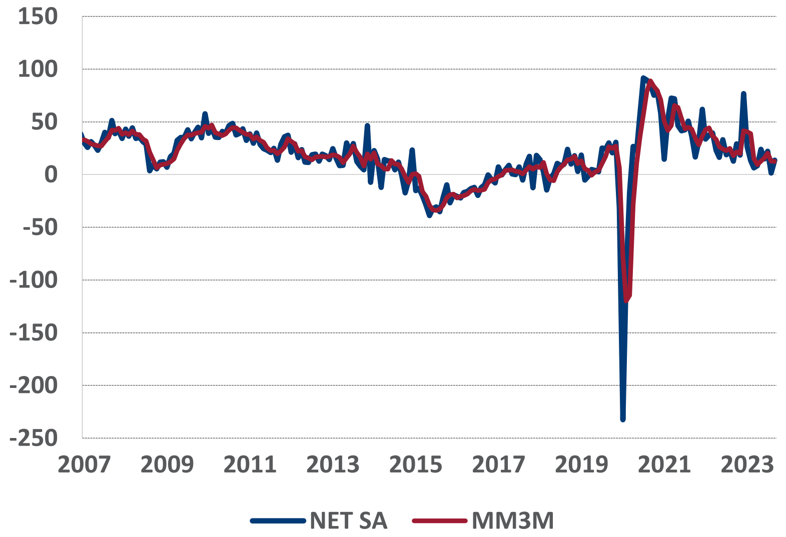


Source: BOCOM BBM, MTE

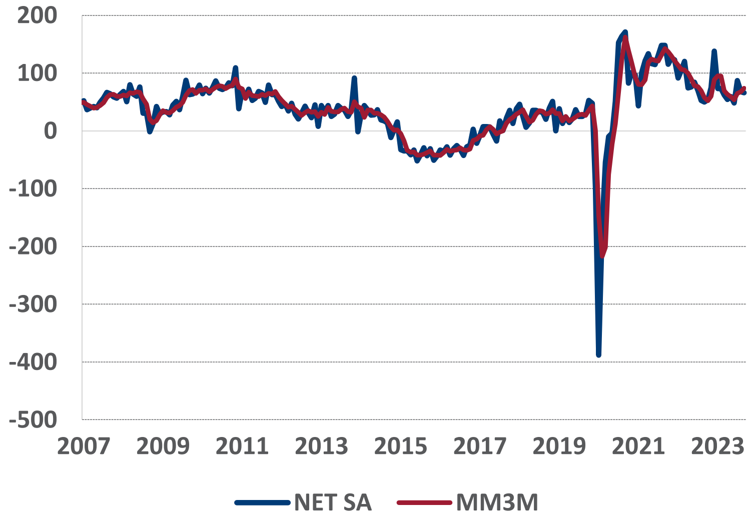
Brazil: Formal Labor Market

- 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)

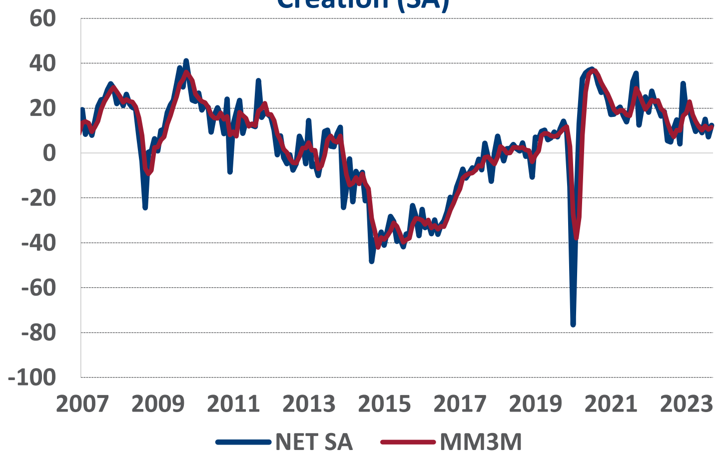


Brazil - Services Net Payroll Job Creation (SA)



Brazil - Industry Net Payroll Job Creation (SA)

Brazil - Construction Net Payroll Job Creation (SA)

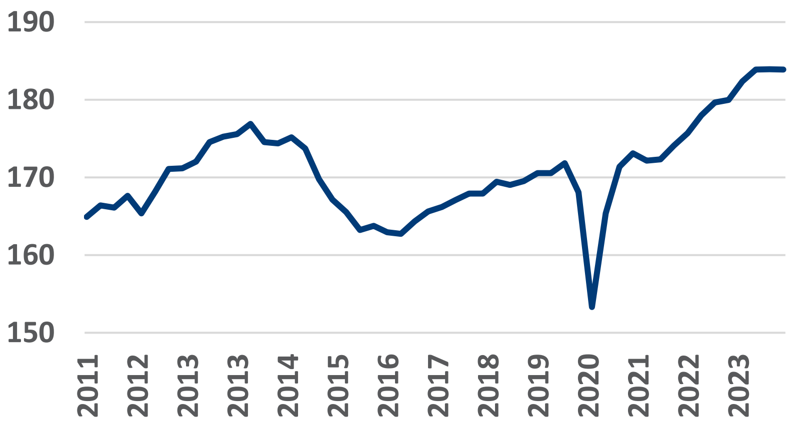


Source: BOCOM BBM, MTE

Brazil: GDP

- Brazil's GDP was flat in 4Q from 3Q, slightly below expectations of 0.1% QoQ, leading to an expansion of 2.9% in the full-year 2023 and a carry-over for 2024 of 0.2%
- Agriculture & Livestock climbed 15.1% in 2023 but had a much weaker-than-expected performance in 4Q, leaving a -8.5% carry-over for 2024
- Industry GDP increased by 1.3% QoQ in 4Q (the third positive reading in a row) and above expectations. Once again Mining played the major role by advancing for the seventh straight quarter
- Services GDP rose by 0.3% QoQ in 4Q, cooling down from the average of 0.6% QoQ recorded in the three previous quarters

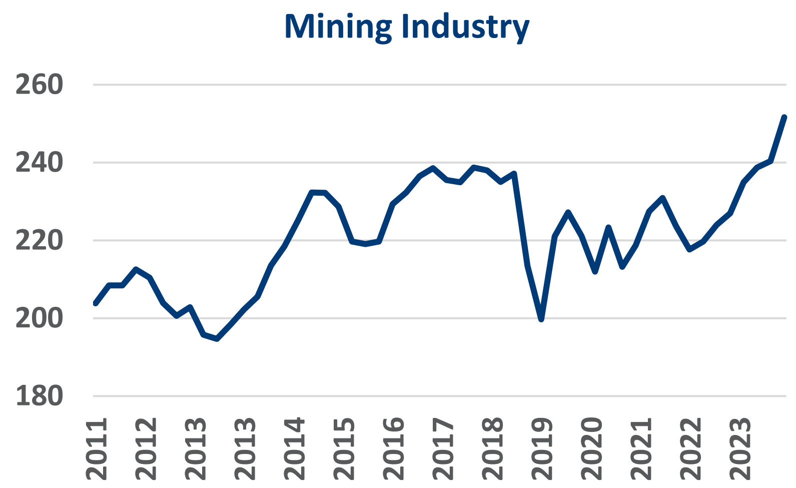
GDP Level

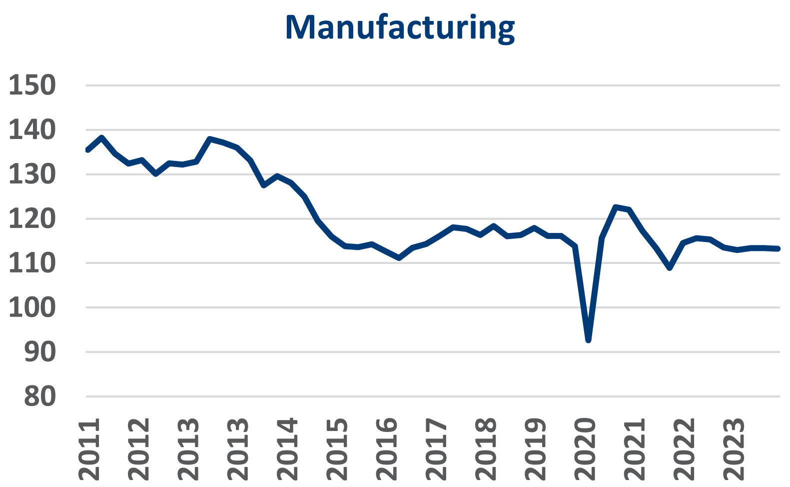


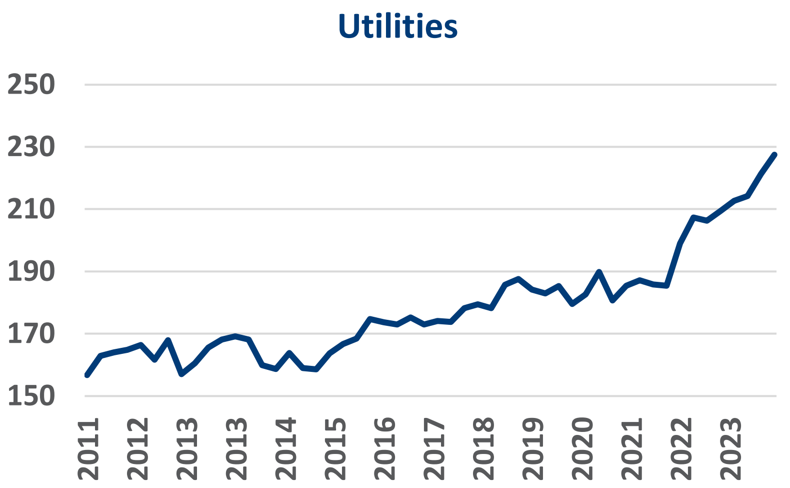
	Official	Forecast	Official	Forecast		
	Q4 QoQ	Q4 QoQ	Q4 YoY	Q4 YoY	2023	Carryover
GDP	**0.0%**	**0.1%**	**2.1%**	**2.3%**	**2.9%**	**0.2%**
Agriculture	**-5.3%**	**-0.9%**	**0.0%**	**7.9%**	**15.1%**	**-8.5%**
Industry	**1.3%**	**0.7%**	**2.9%**	**2.1%**	**1.6%**	**1.5%**
Mining	4.7%	4.4%	10.8%	10.5%	8.7%	4.2%
Manufacturing	-0.2%	-0.3%	-0.5%	-0.7%	-1.3%	0.0%
Electricity	2.8%	1.0%	8.7%	5.7%	6.5%	3.9%
Civil Construction	4.2%	1.5%	0.9%	-1.3%	-0.5%	1.5%
Services	**0.3%**	**0.3%**	**1.9%**	**2.0%**	**2.4%**	**0.6%**
Retail	-0.8%	0.0%	-0.1%	1.3%	0.6%	-0.6%
Transports	-0.6%	0.0%	0.0%	1.0%	2.6%	-0.6%
Information and Communication	-0.1%	1.0%	-0.3%	1.1%	2.6%	0.7%
Financial Services	0.7%	1.6%	5.6%	7.5%	6.6%	1.6%
Rents	0.1%	-0.2%	2.7%	2.5%	3.0%	1.0%
Other Services	1.2%	0.0%	2.4%	0.8%	2.8%	1.4%
Public Administration	0.1%	-0.2%	1.7%	1.3%	1.1%	0.3%
Demand Side						
Household Consumption	-0.2%		2.3%		3.1%	0.5%
Government Consumption	0.9%		3.0%		1.7%	1.2%
Gross Capital Formation	0.9%		-4.4%		-3.0%	-0.5%
Exports	0.1%		7.3%		9.1%	2.4%
Imports	0.9%		-0.9%		-1.2%	0.6%

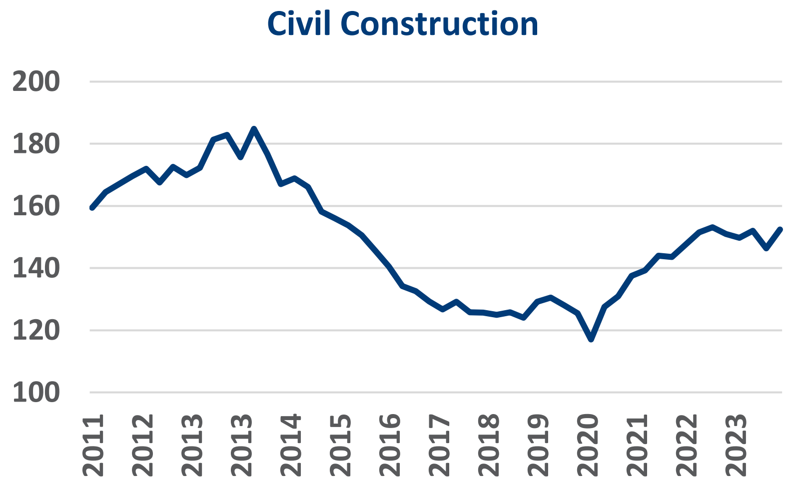
Source: BOCOM BBM, IBGE

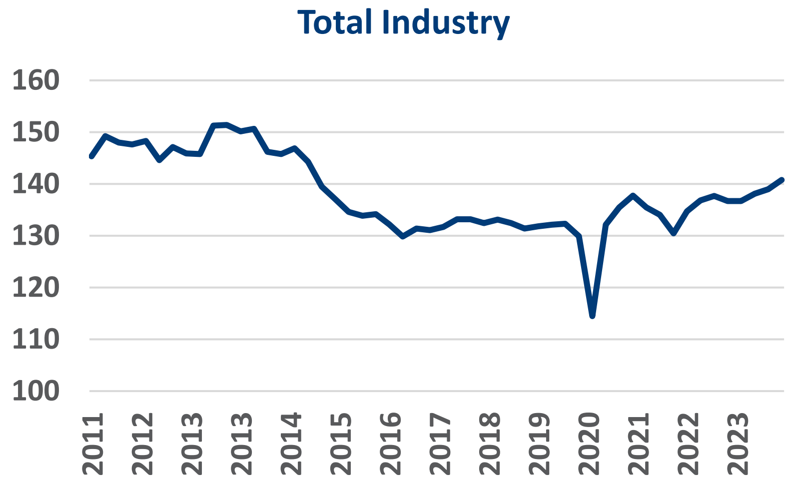
Brazil: GDP







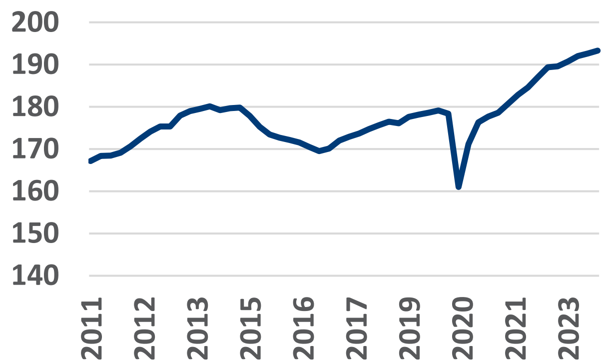




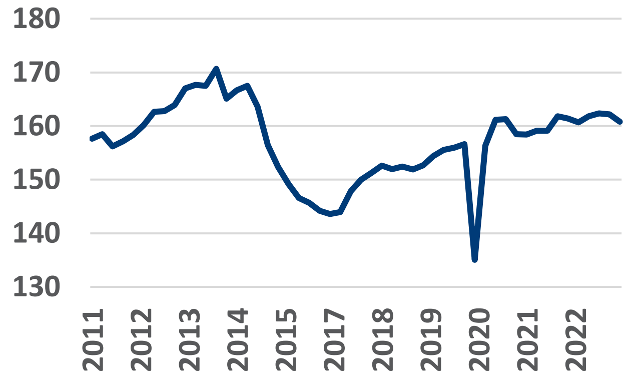
Source: BOCOM BBM, IBGE

Brazil: GDP

Services

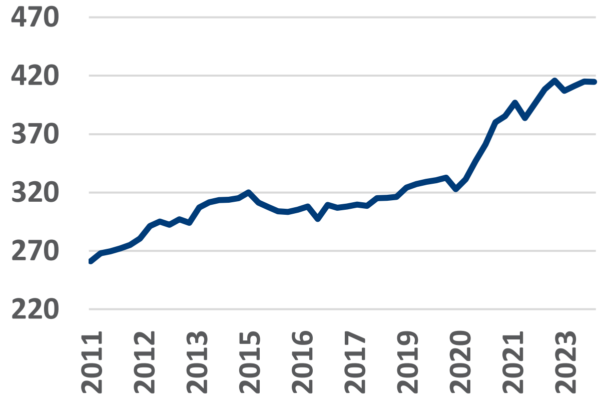


Retail

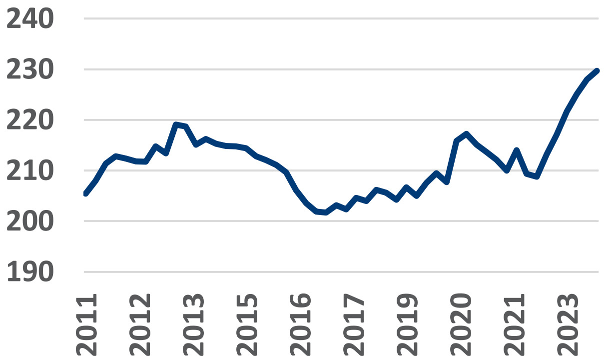


Transports

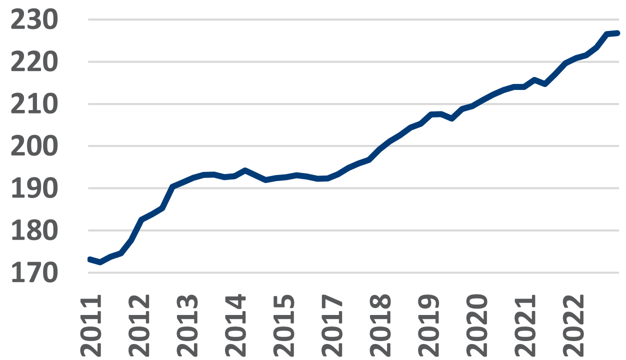
Information and Communication



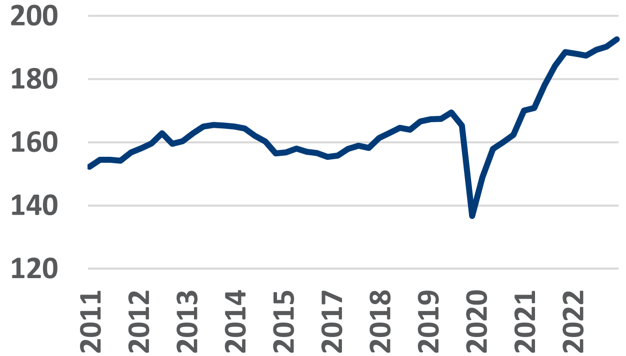
Financial Services



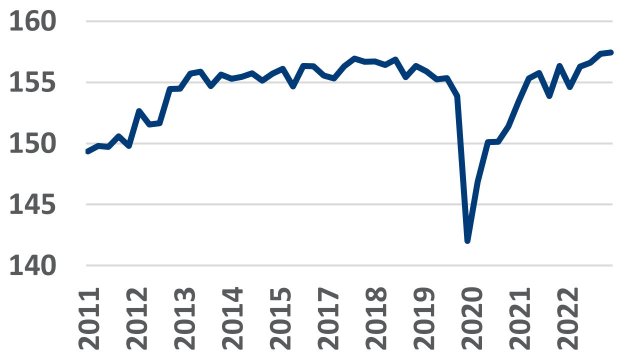
Rents



Other Services



Public Services

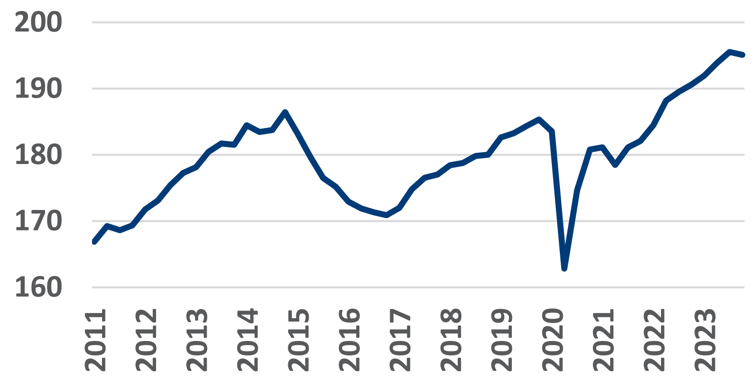


Source: BOCOM BBM, IBGE

Brazil: GDP

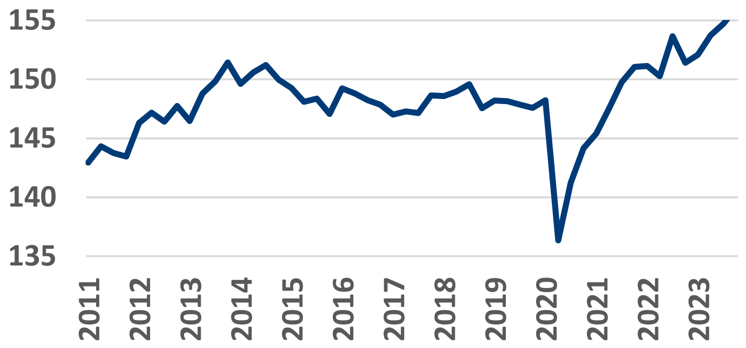
- On the demand side, Household Consumption lost strength and decreased 0.2% QoQ, interrupting a sequence of increases
- Government Consumption rose by 0.9% QoQ and Gross Fixed Capital Formation remained weak, growing only 0.9% QoQ and accumulating a fall of 3.0% in 2023
- The External Sector contributed positively to 2023 GDP growth (+2.0pp)

Household Consumption

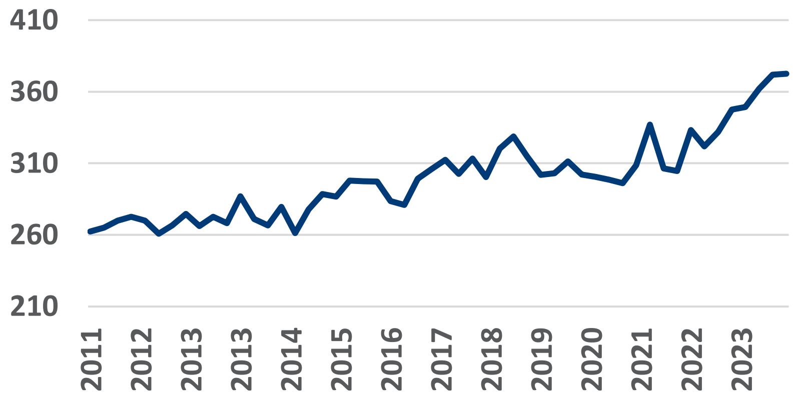


Gross Fixed Capital Formation

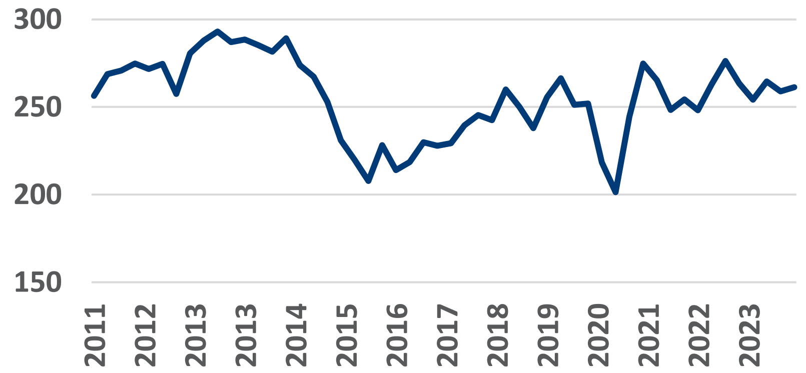
Government Consumption



Exports



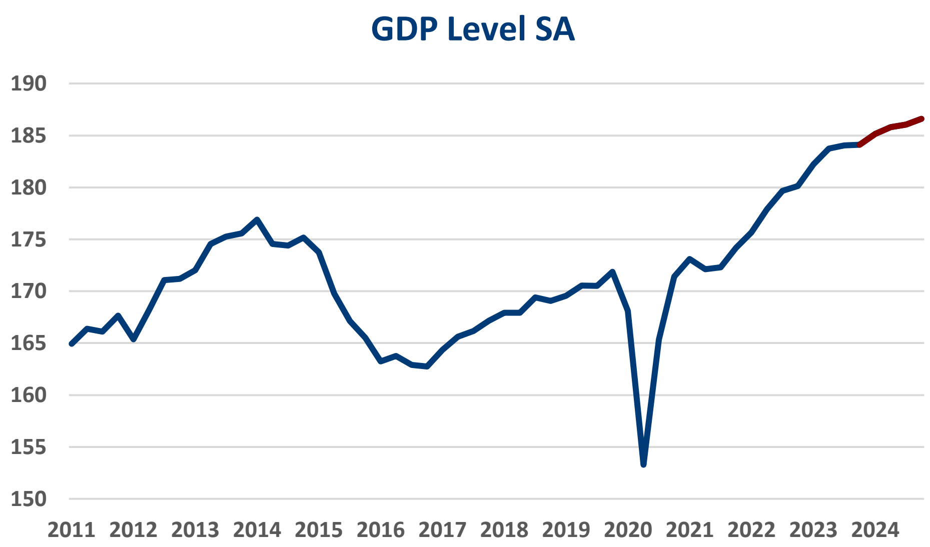
Imports



Source: BOCOM BBM, IBGE

Brazil: GDP Forecast

» After the 4Q result, we revised the 2024 GDP growth forecast from 1.6% to 1.7%, driven by better prospectives for the industry sector and partially compensated by lower production in the primary sector.



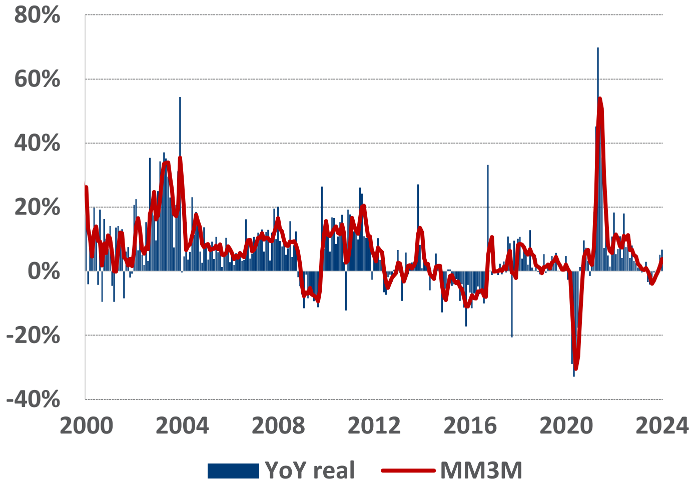
Forecasts			
	2024.I QoQ	2024.I YoY	2024
GDP	**0.5%**	**2.1%**	**1.7%**
Agriculture	**10.4%**	**-4.2%**	**-3.2%**
Industry	**0.2%**	**3.1%**	**2.2%**
Mining	2.4%	8.8%	7.0%
Manufacturing	0.1%	0.6%	0.6%
Electricity	0.8%	7.9%	5.6%
Civil Construction	-0.5%	2.2%	1.3%
Services	**0.3%**	**2.7%**	**2.0%**
Retail	0.4%	1.4%	1.1%
Transports	1.3%	1.1%	1.7%
Information and Communication	-0.1%	1.4%	2.0%
Financial Services	1.3%	4.8%	3.8%
Rents	0.1%	2.5%	2.2%
Other Services	0.4%	4.2%	2.6%
Public Administration	0.2%	1.8%	1.3%

Source: BOCOM BBM, IBGE

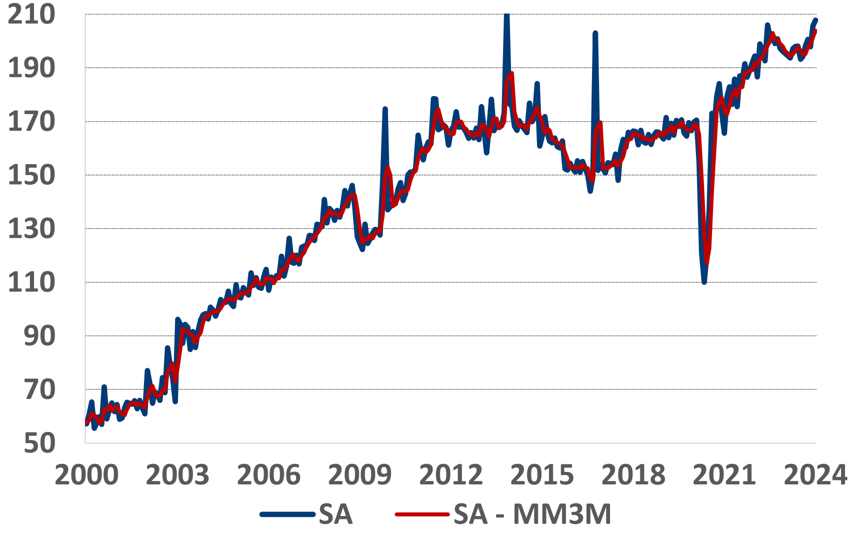
Brazil: Federal Tax Collections

- In January, total federal tax collections reached BRL 280.6 bn (6.7% YoY), a historical record for the month;
- The main drivers were social security revenues (+7.6% YoY) and withholding income tax on labor earnings (+24.4% YoY), due to the heated labor market, but also PIS/Cofins (+14.4% YoY), owing to the reversal in tax cuts implemented in 2022;
- In addition, corporate income tax (IRPJ/CSL) also contributed positively (1.2% YoY), owing to an annual adjustment from financial entities;
- Despite the very positive result, it should be viewed with caution given that a significant amount was due to extraordinary events.

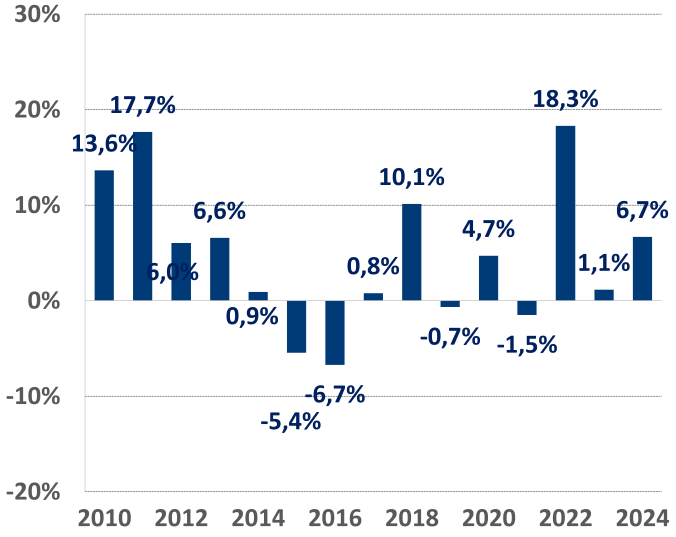
Total Tax Collection (YoY Real, %)



Total Tax Collection (BRL Bn, Real SA)



Total Tax Collection (YTD Real, %)



Total Tax Collection (% GDP)

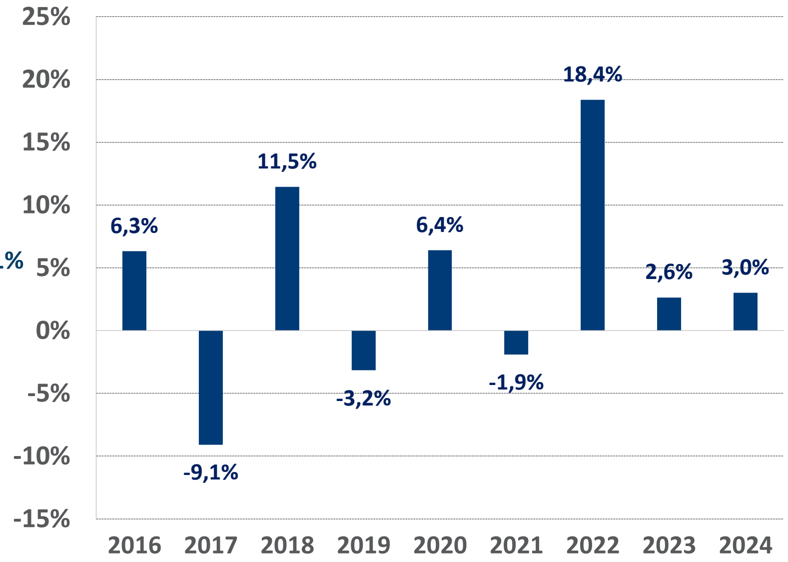
Fonte: BOCOM BBM, RFB

Brazil: Central Government Primary Result

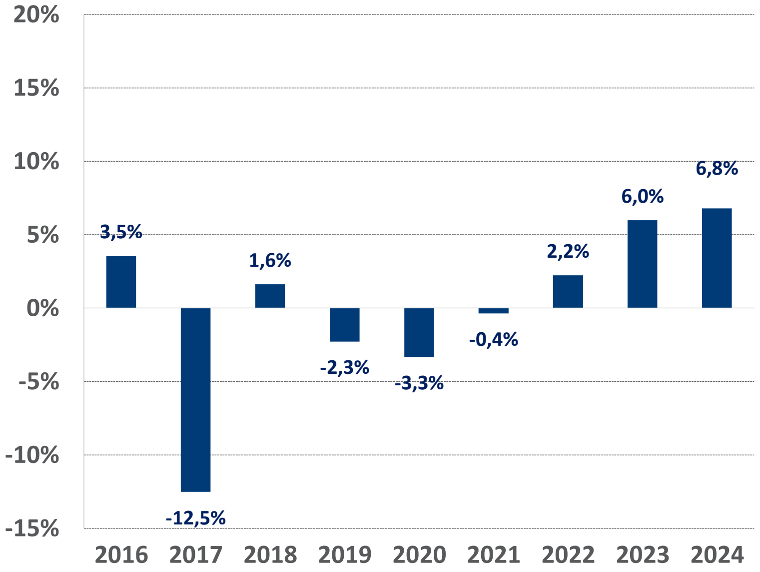
- In January, the central government's primary balance posted a surplus of BRL 79.3 bn (-3.8% YoY), the third best for the month in the historical series. The result was in line with market consensus;
- In 12 months, it now accumulates a deficit of BRL 235.0 bn (-2.1% of GDP);
- The result was driven by a positive number on the revenue side (+3% YoY), which had significant contributions from withholding income tax on capital income (+19.1% YoY), and social security revenues (+7.1%);
- On the spending side there was also an expansion (+6.8% YoY), reflecting gains in pension benefits (4.4%), unemployment insurance (20.3%), and elderly and disabled assistance (16.1%).

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

Net Revenue (YTD Real, %)



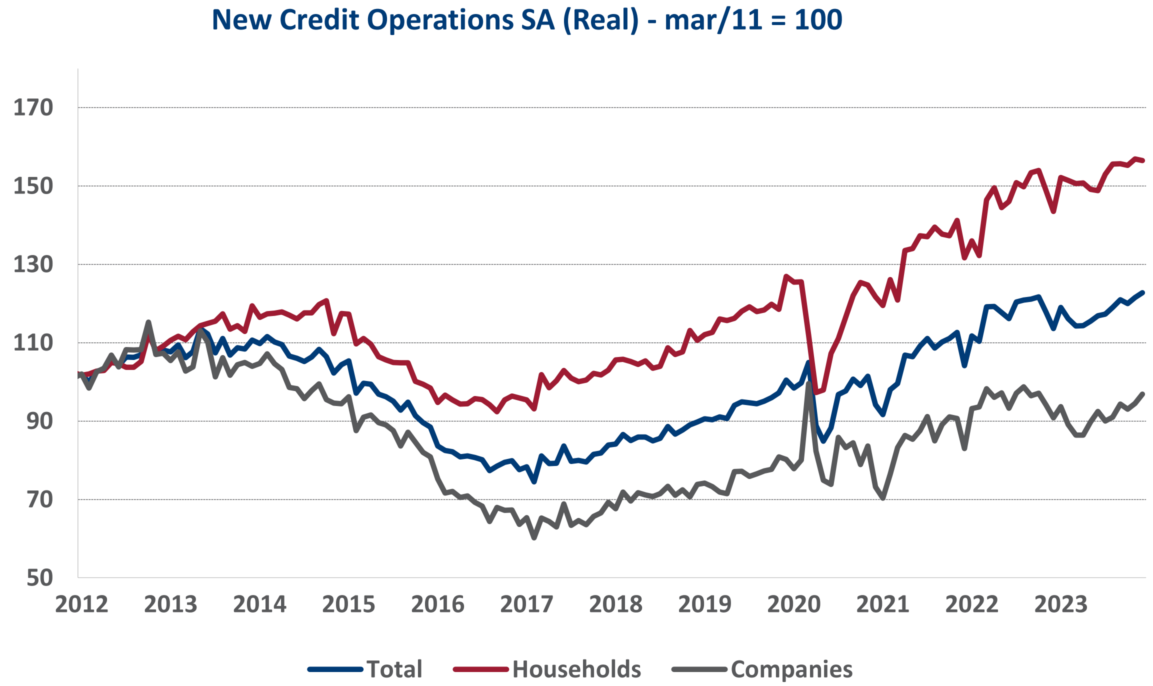
Expenditure (YTD Real, %)

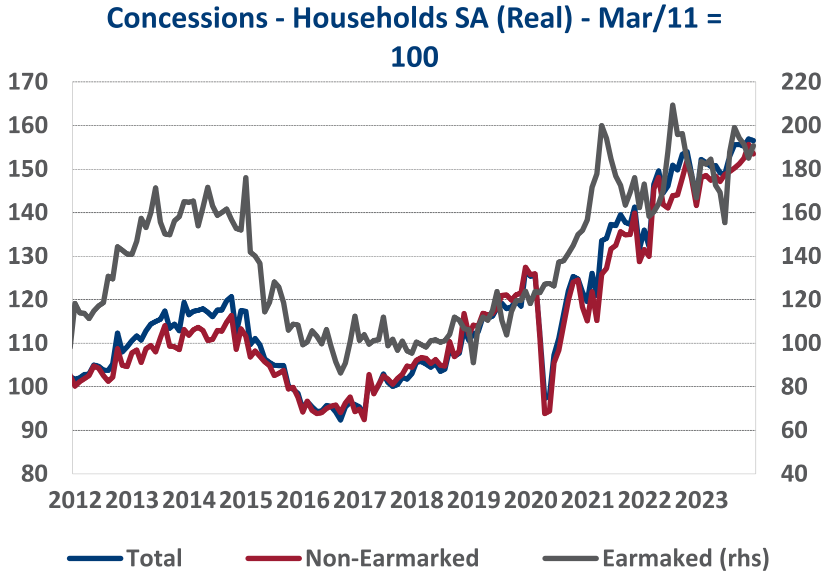


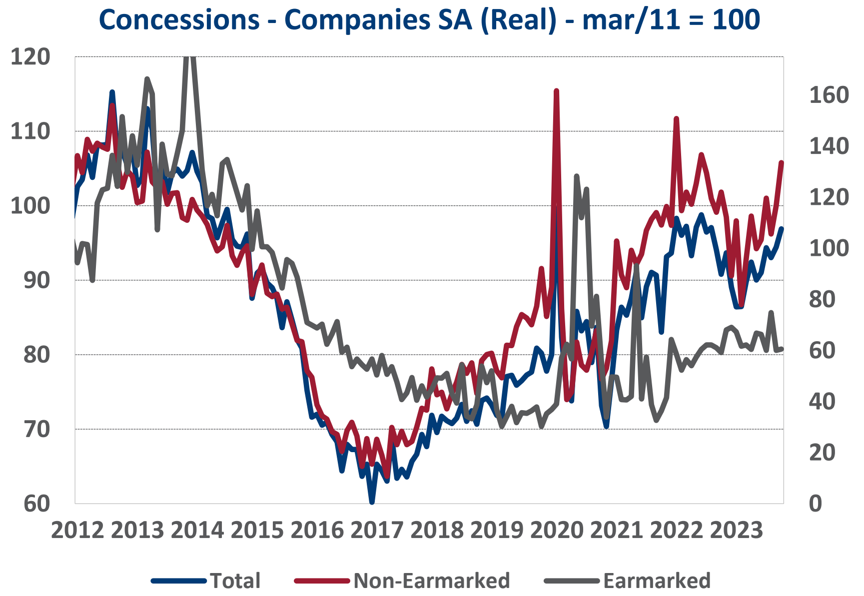
Fonte: BOCOM BBM, RTN

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).



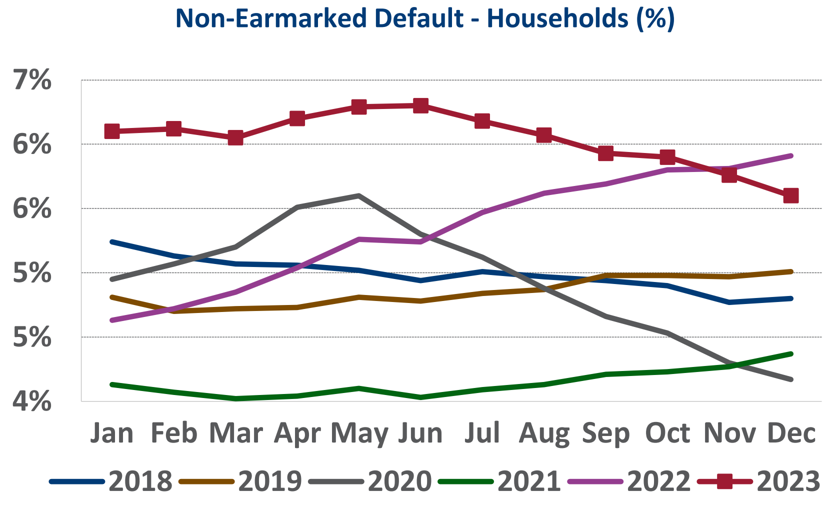


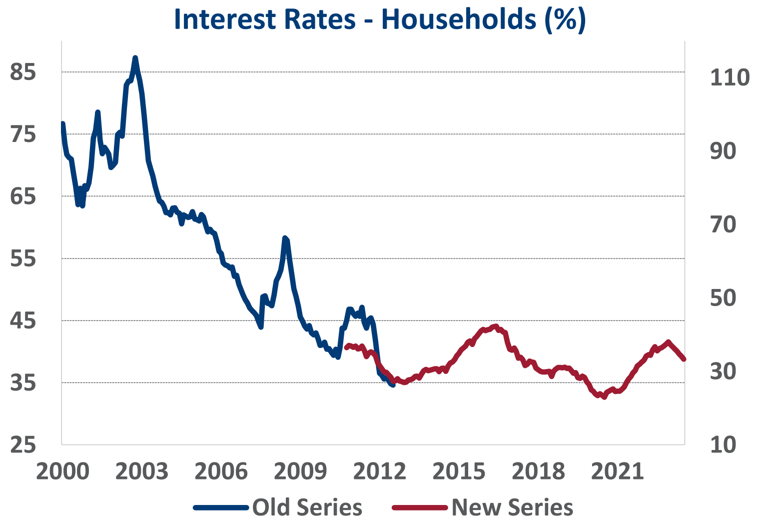


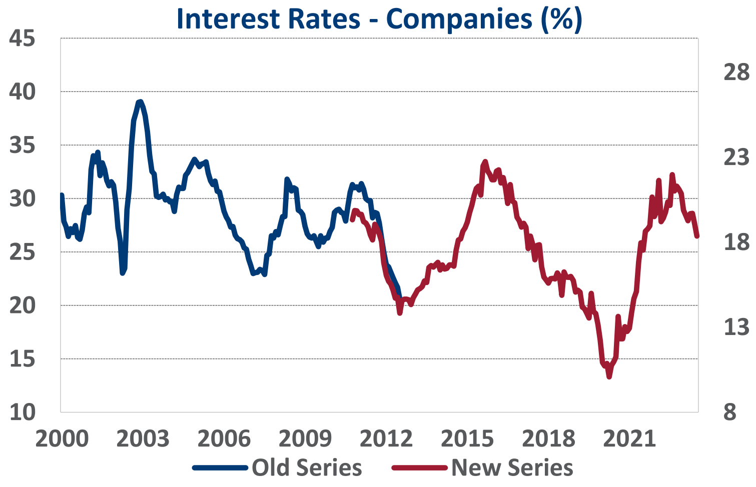
Source: BOCOM BBM, BCB

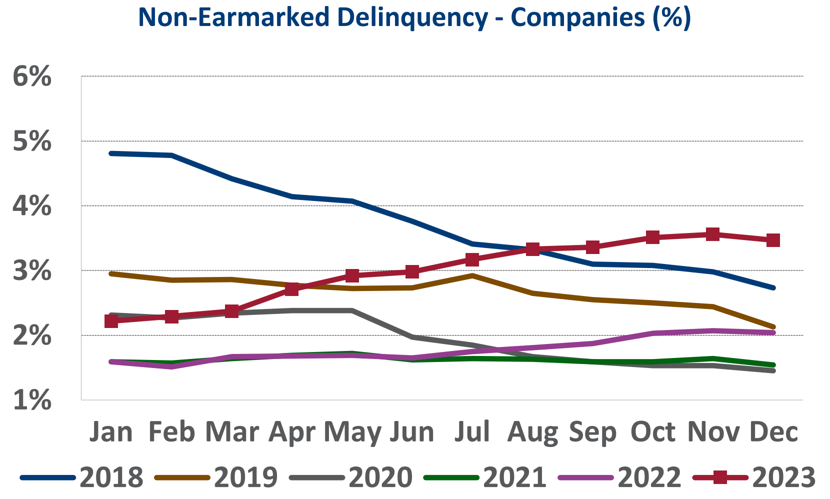
Brazil: Credit Statistics

- 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.





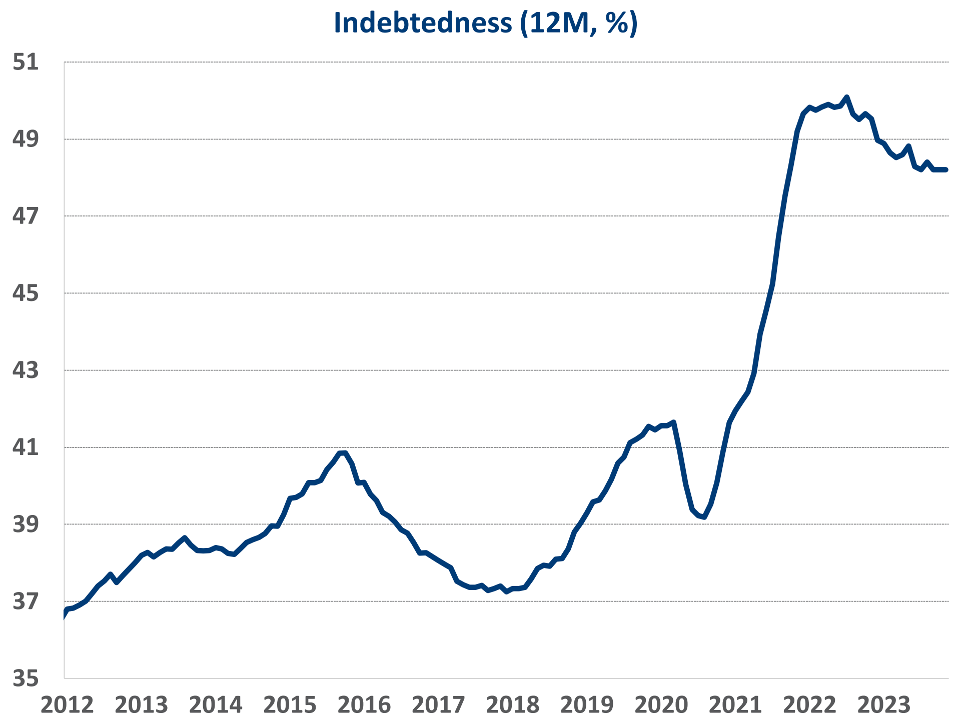


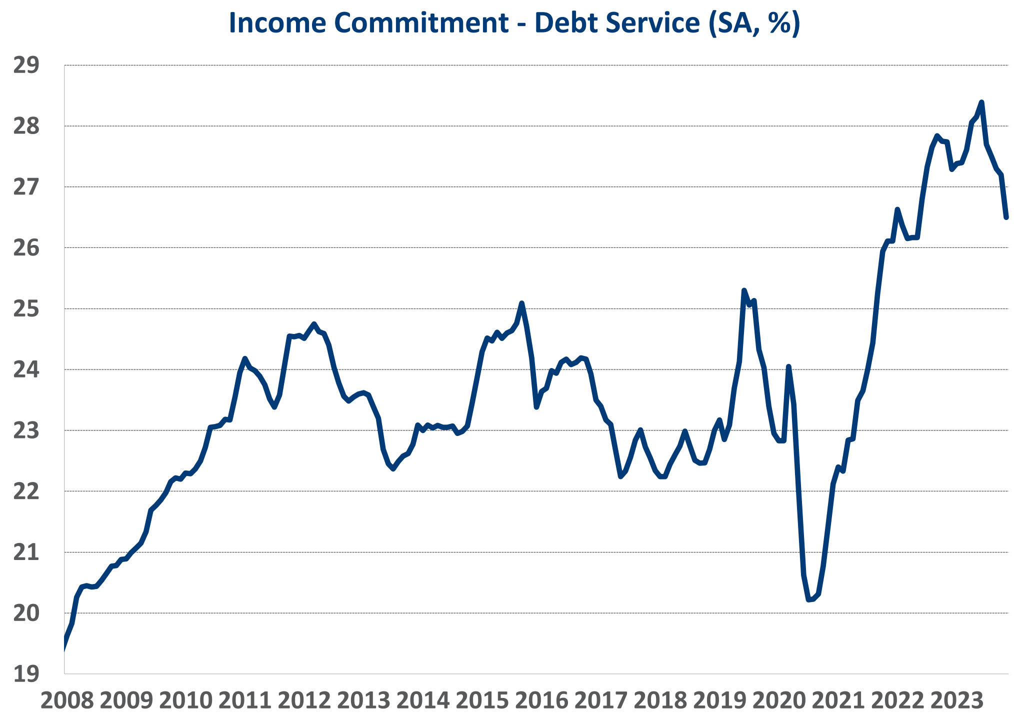


Source: BOCOM BBM, BCB

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.

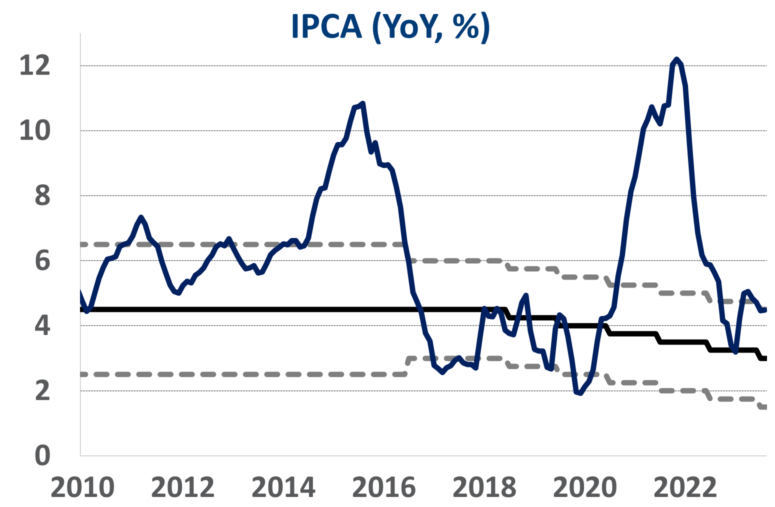


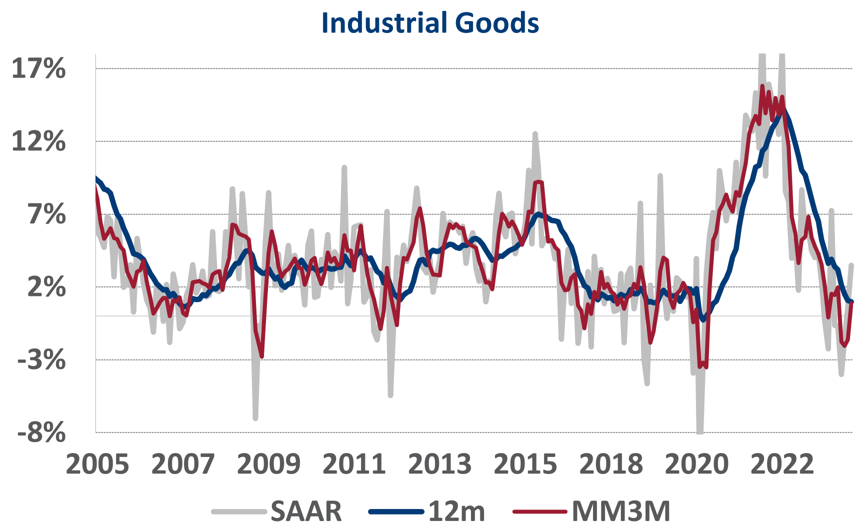


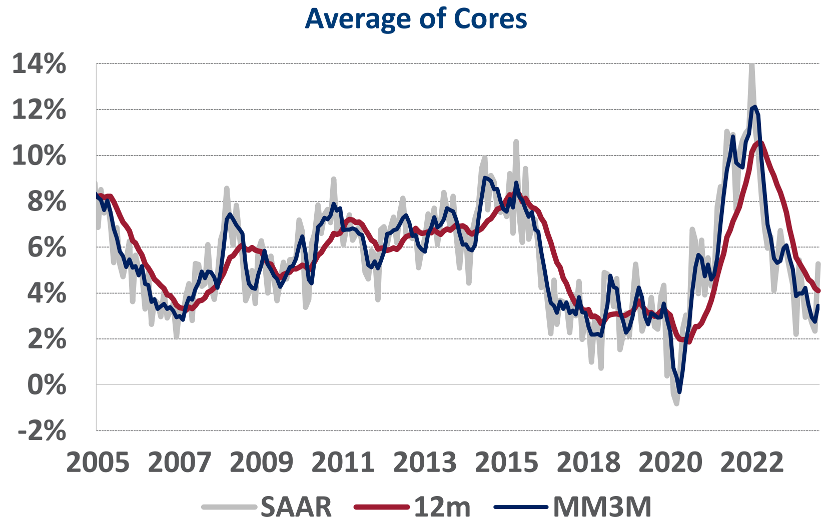
Source: BOCOM BBM, BCB

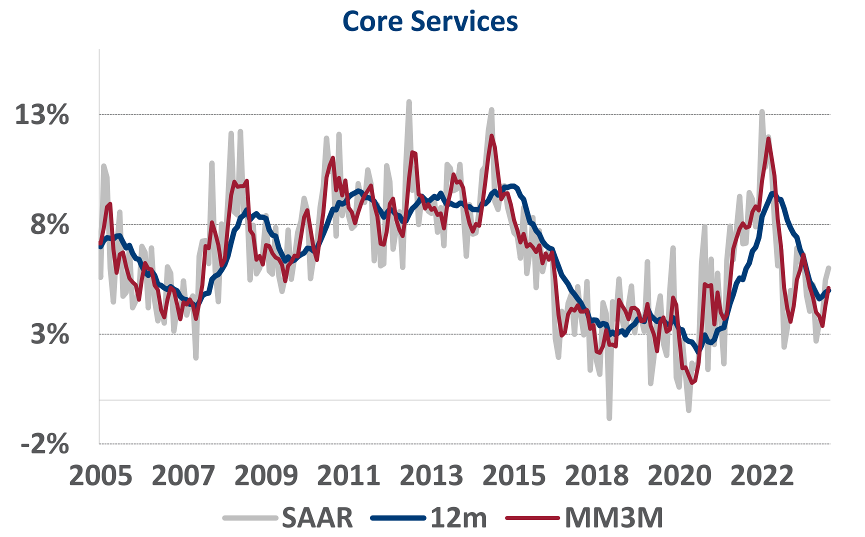
Brazil: Inflation 2023

- The IPCA-15 advanced 0.78% MoM in February, below market consensus (0.82% MoM);
- The 12-month variation accelerated to 4.49% in February from 4.47% in January;
- The main upward deviations came from airfares and fresh food (volatile items);
- By the other hand, underlying services surprised to the upside once again
- Consequently, the breakdown remained unfavorable, with core measures still running quite high





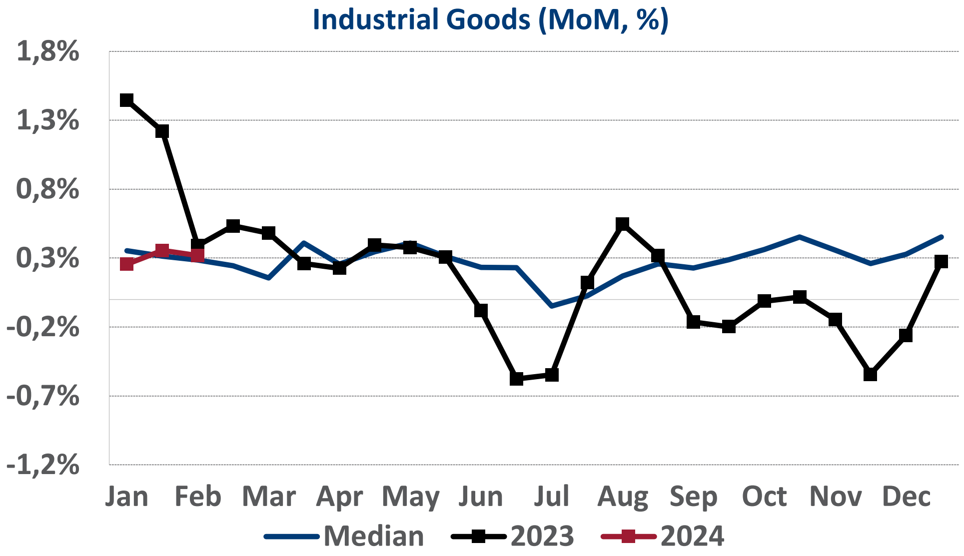


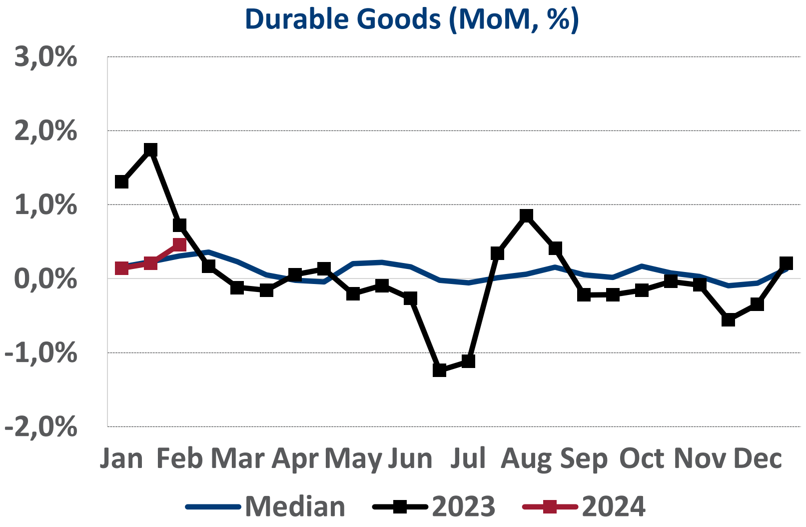


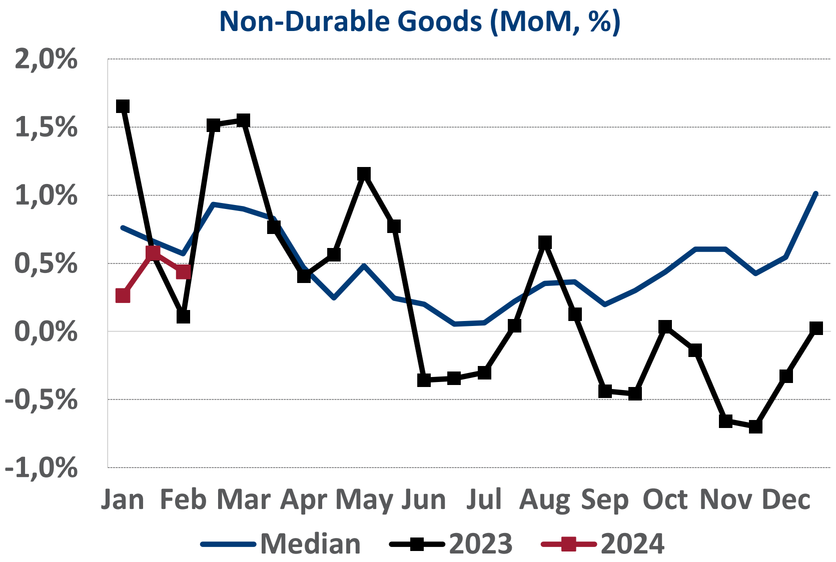
Source: BOCOM BBM, IBGE

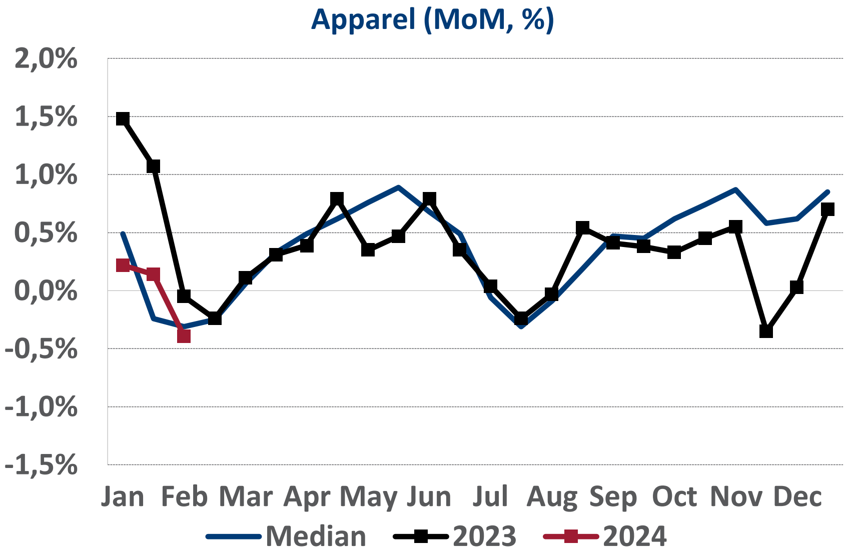
Brazil: Inflation 2023

- The group of industrial prices grew by 0.32% MoM, in line with forecasts;
- Industrial prices have been showing benign behavior and we expect that group to rise by 2.6% in 2024;
- Nonetheless, the pressures from freight costs could boost prices in this category over the following months.







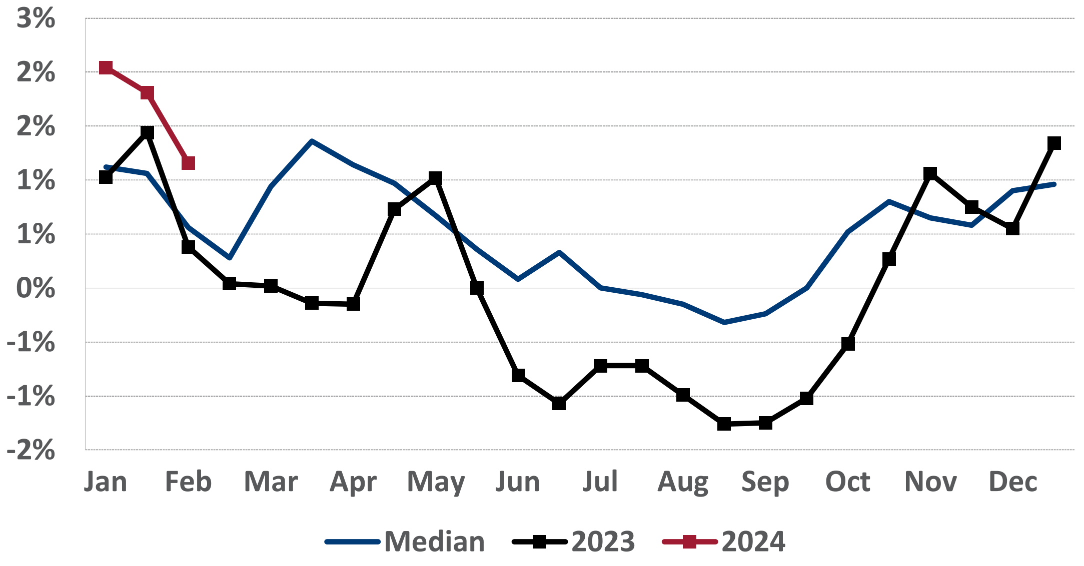


Source: BOCOM BBM, IBGE

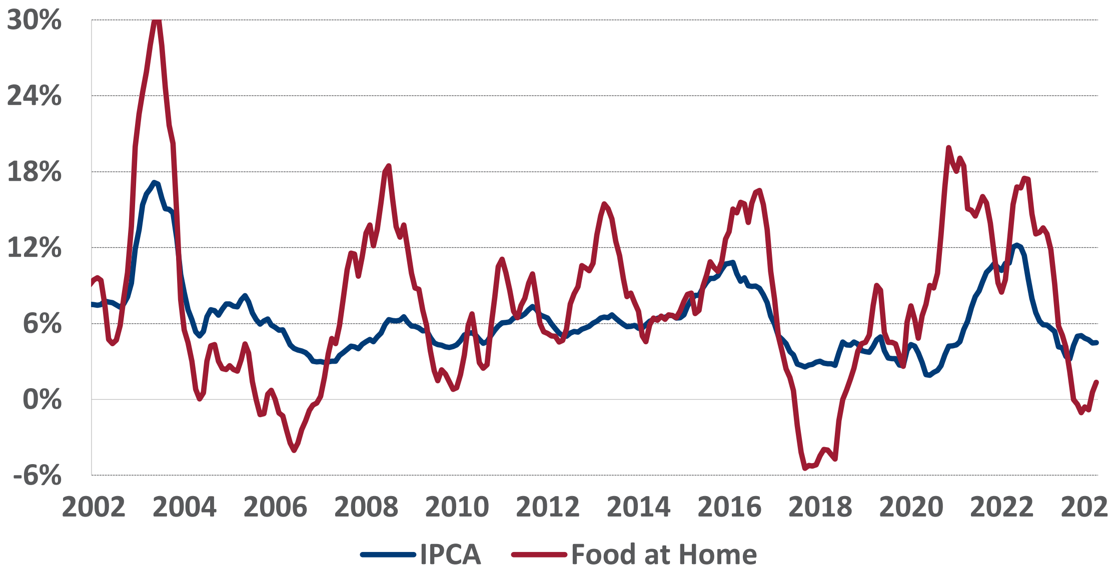
Brazil: Inflation 2023

» The main deviations to our forecast came from fresh foods, probably showing a faster-than-expected payback in El Niño effects

Food at Home (MoM, %)



IPCA x Food at Home (12M)



Source: BOCOM BBM, IBGE

Brazil: Inflation

- **Our forecast for 2024 IPCA was revised from 3.8% to 3.7%, while our estimate for 2025 remains at 4%**
- The forecasts for food-at-home inflation were revised down due to February´s lower-than-expected print, benign price survey readings, and the improved outlook for the segment (lower commodity prices, el Niño appears to have had a smaller overall impact)
- However, other segments most sensitive to the economic cycle remain high, reflecting a worsening breakdown in recent inflation prints
- This scenario reinforces the cautious stance of Copom. We expect the Selic rate to reach 9.5% this year.

IPCA (%, annual)

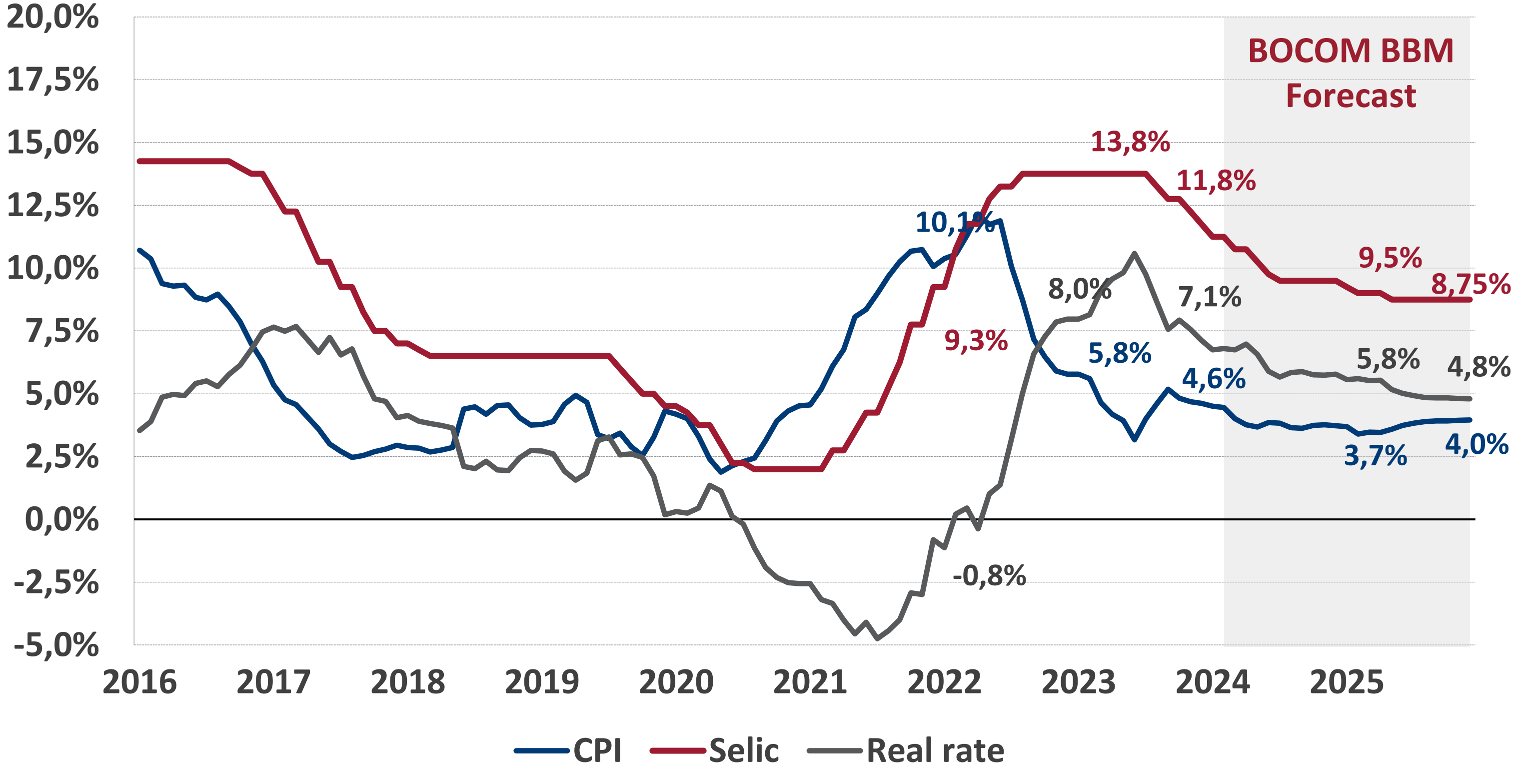
	Weight	2019	2020	2021	2022	2023	2024	2025
Regulated	**26.6**	**5.5**	**2.6**	**16.9**	**-3.8**	**9.1**	**4.2**	**4.1**
Industrial goods	**23.6**	**1.7**	**3.2**	**11.9**	**9.5**	**1.1**	**2.3**	**3.1**
Durable goods	10.3	0.0	4.5	12.9	6.1	-0.4	1.4	-
Semi-durable goods	5.9	0.6	-0.1	10.2	15.7	2.7	3.4	-
Non-durable goods	7.3	4.4	4.0	11.9	9.5	1.7	2.6	-
Food at home	**15.7**	**7.8**	**18.2**	**8.2**	**13.2**	**-0.5**	**3.7**	**4.5**
Services	**34.1**	**3.5**	**1.7**	**4.8**	**7.6**	**6.2**	**4.3**	**4.3**
Food away from home	5.6	3.8	4.8	7.2	7.5	5.3	4.3	4.2
Related to minimum wage	5.2	2.9	1.5	3.3	6.3	5.2	5.7	6.4
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.3	9.5	3.0	4.2
Inertial	15.0	4.3	1.6	4.2	8.8	5.1	4.4	3.6
IPCA		**4.3**	**4.5**	**10.1**	**5.8**	**4.6**	**3.7**	**4.0**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

» Concerning monetary policy, the segments most sensitive to the economic cycle remain high which reinforces the cautious stance of Copom and our scenario. In its January meeting the Brazilian Central Bank decided to cut Selic rates by 50 bps, reaching 11.25% per year and anticipated further reductions of the same magnitude in the next meetings.

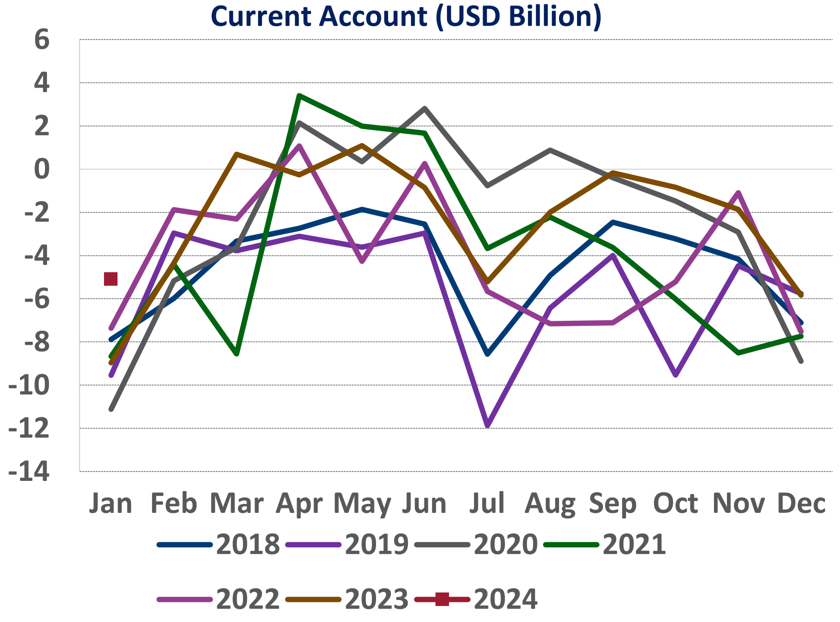
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

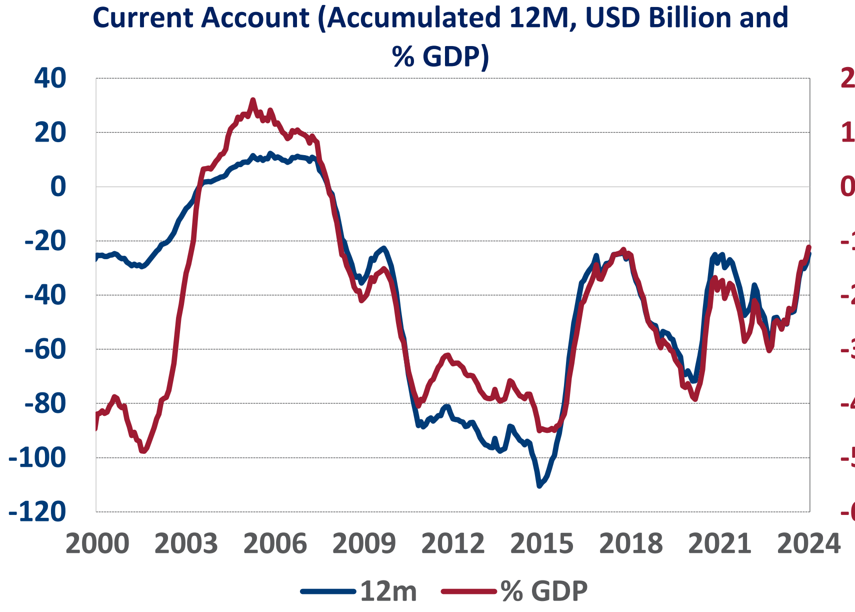


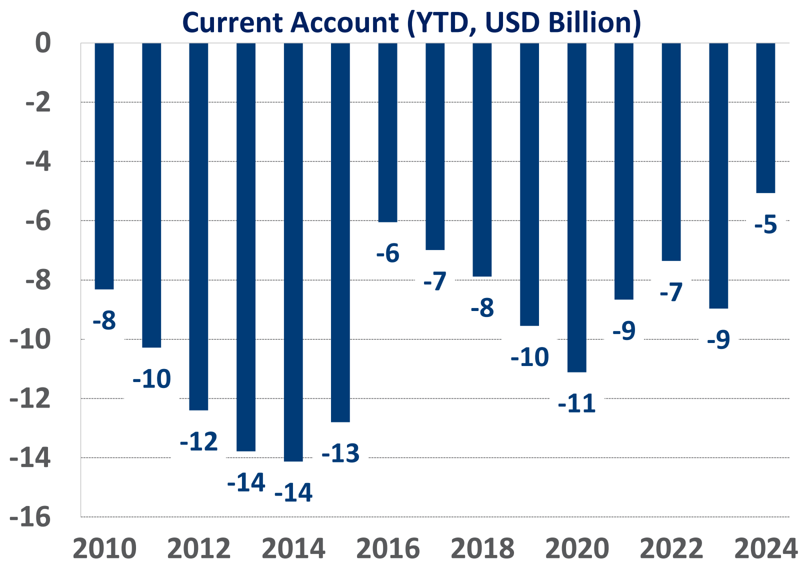
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The Brazilian current account showed a deficit of USD 5.1 billion in January, above market forecasts (USD -5.4 billion);
- In the 12-month rolling sum up to January 2024, the deficit reached USD 24.7 billion (1.12% of GDP).



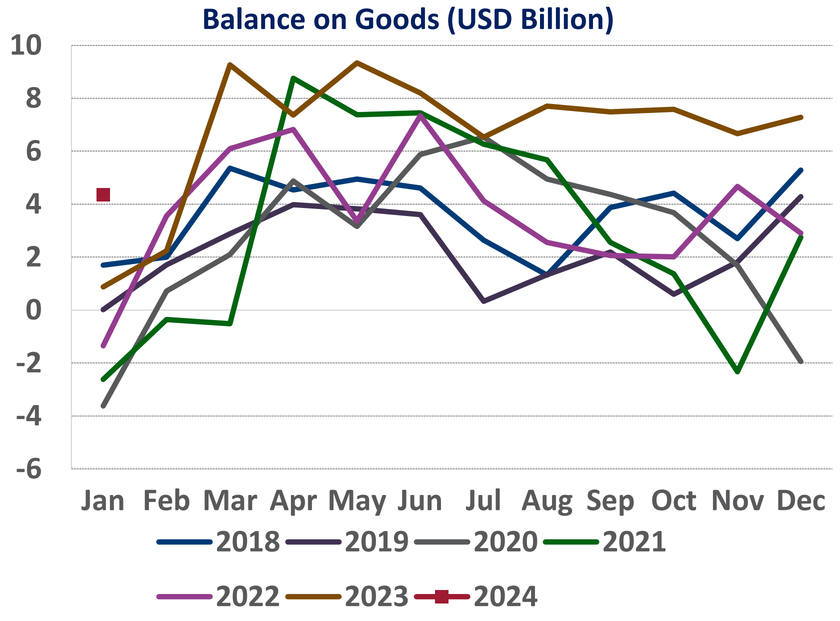


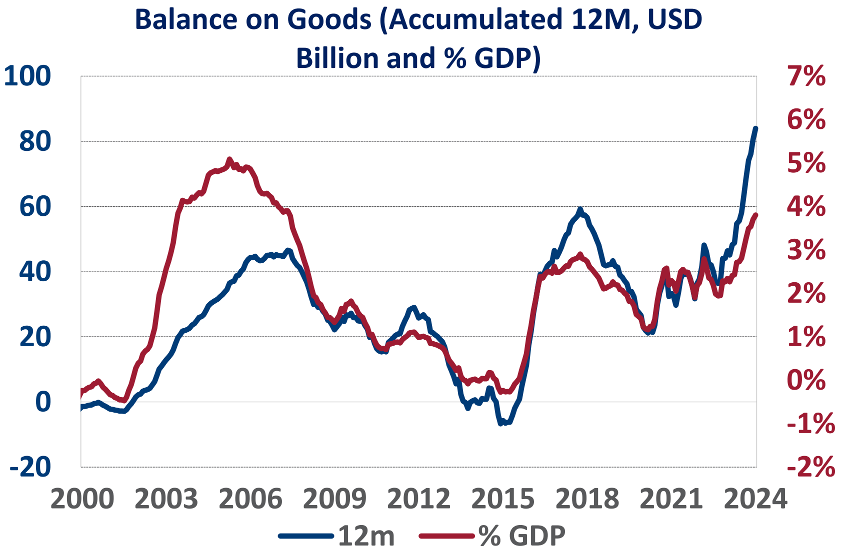


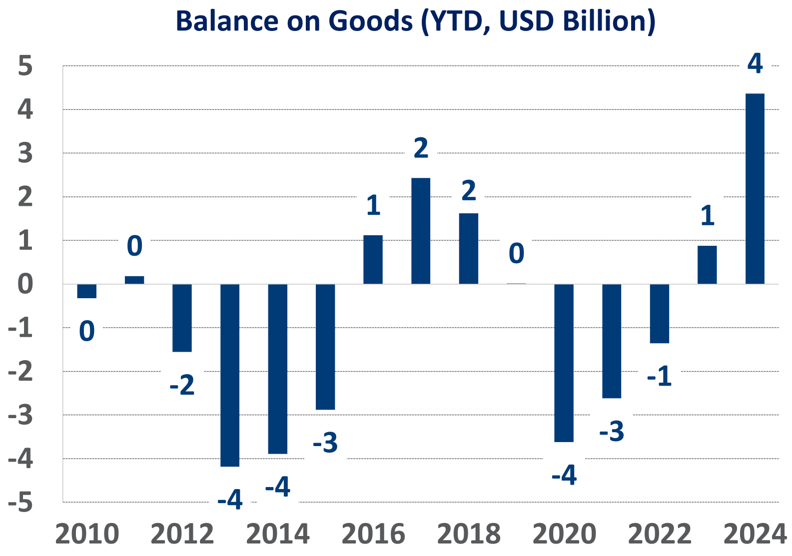
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- The Merchandise Trade Balance reached a surplus of USD 4.4 billion from USD 0.9 billion in January 2023. It was the best January result in the historical data series;
- The 12-month rolling sum up to January 2024 reached USD 84.1 billion;
- The strong figures from the Trade Balance are sustaining the current account deficit at historically low levels;
- Rising crude oil exports must keep the account at robust levels throughout 2024.



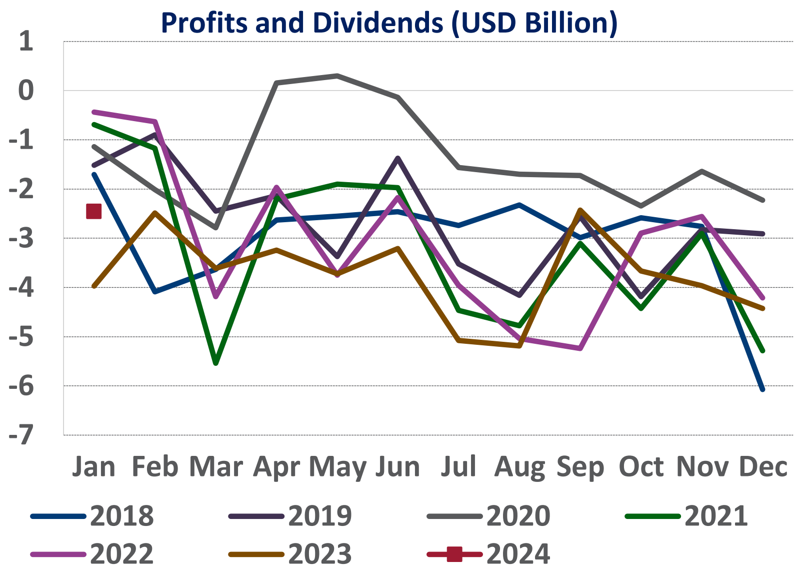


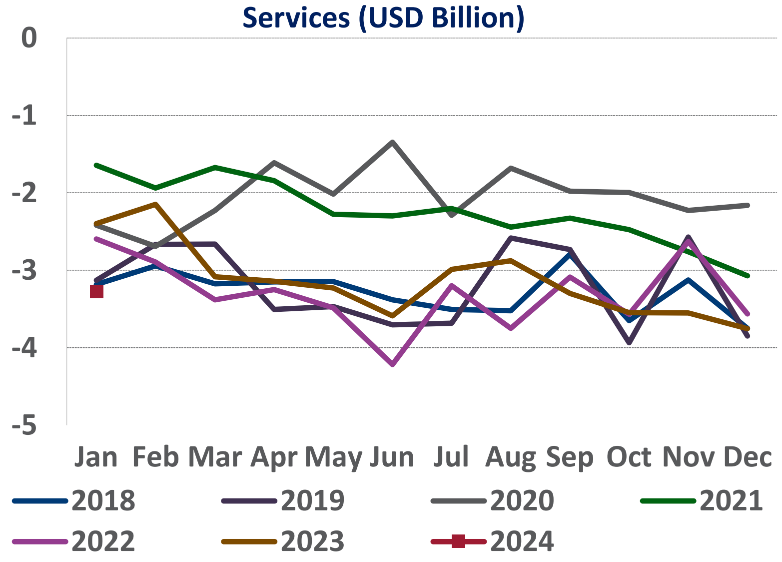


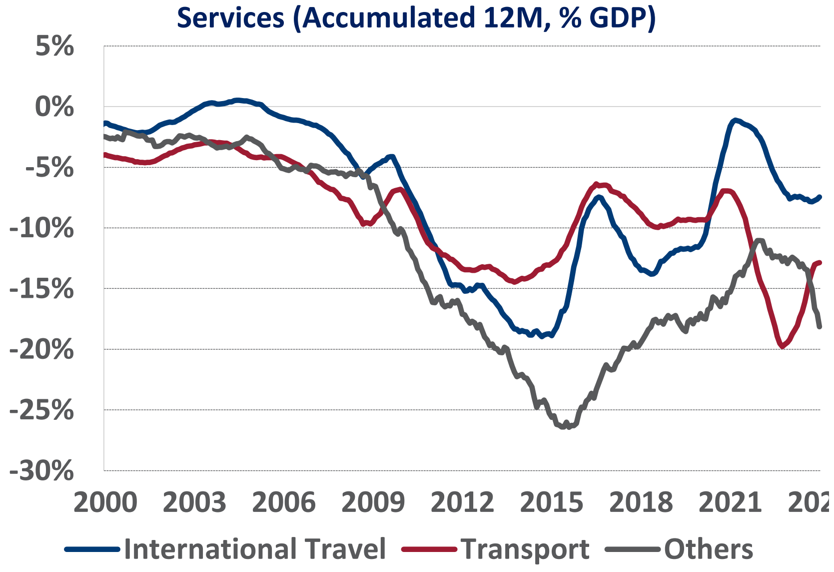
Source: BOCOM BBM, BCB

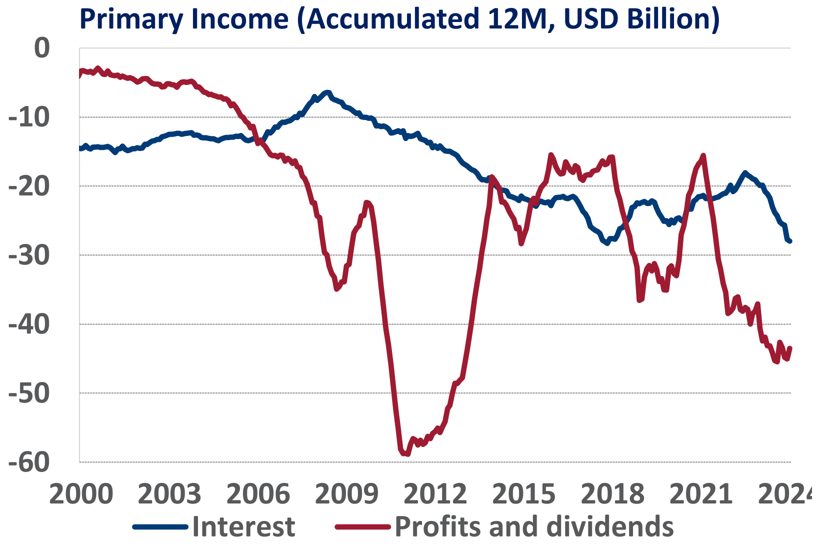
Brazil: Balance of Payments

- The deficit in the Services account reached USD 3.3 billion in January and -USD 38.5 billion in 12 months;
- The deficit in the Primary Income account reached USD 6.3 billion in January and -USD 71.2 billion in 12 months.







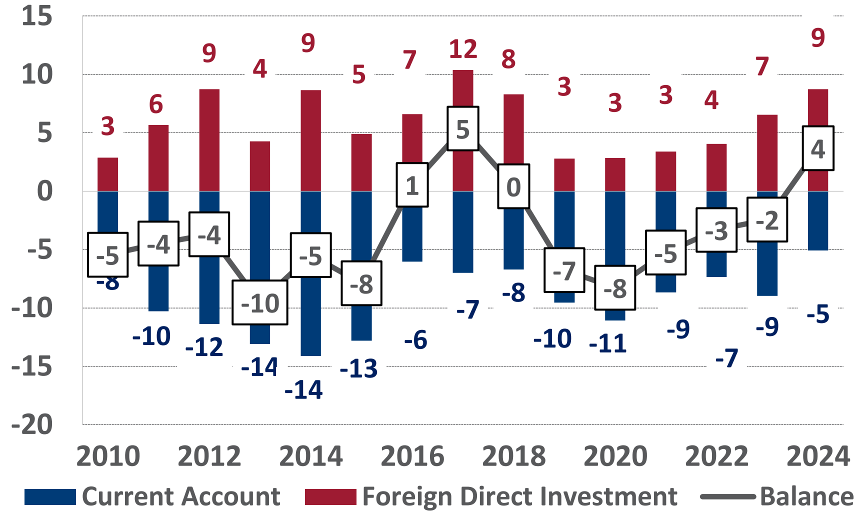


Source: BOCOM BBM, BCB

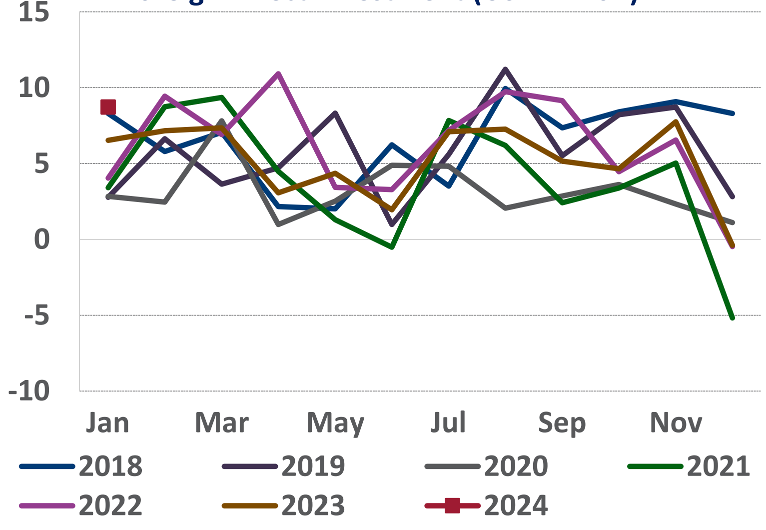
Brazil: Balance of Payments

- Net inflows in Foreign Direct Investment (FDI) totaled USD 8.7 billion in January 2024, above projections (USD 4.5 billion) and above the amount of USD 6.5 billion recorded one year earlier;
- In 12 months it reached USD 64.2 billion (2.92% of GDP);
- Overall, Brazilian balance of payments remain robust, with current account deficit below the historical average and net inflows in FDI have been showing signs of recovery, after significant weakening in 2023.

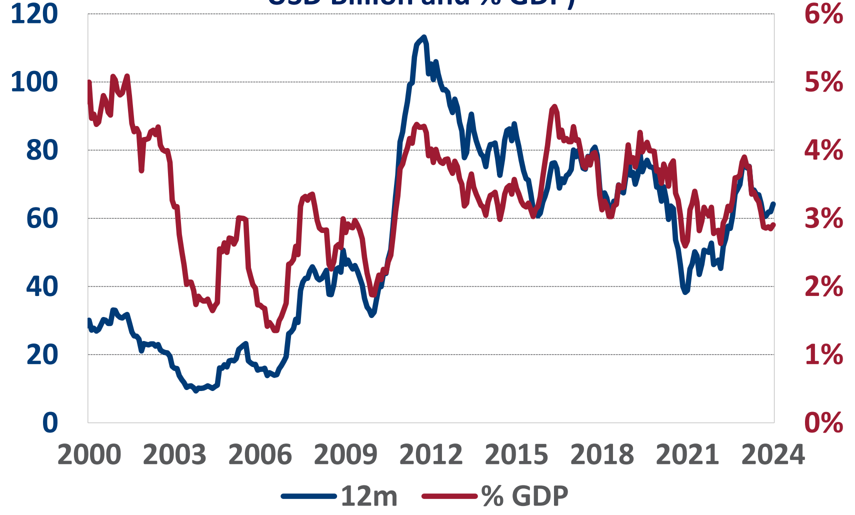
Current Account Balance and FDI (YTD, USD Billion)



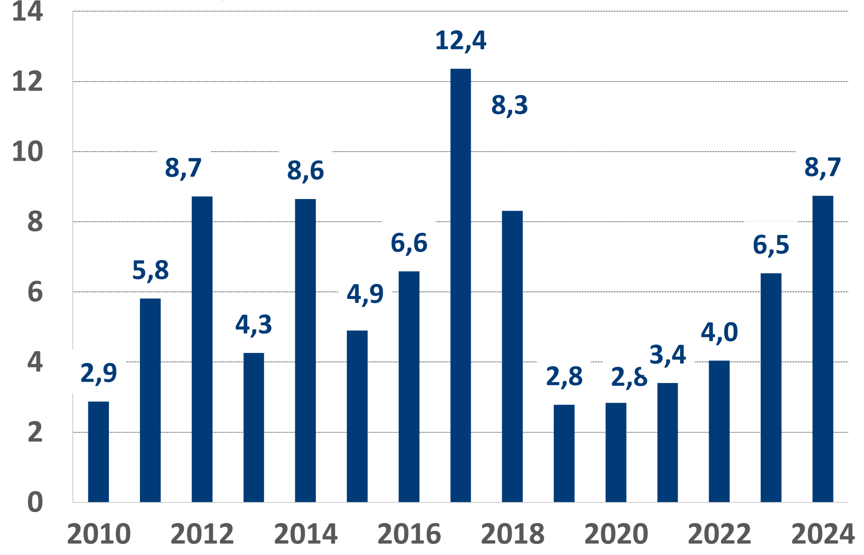
Foreign Direct Investment (USD Billion)



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



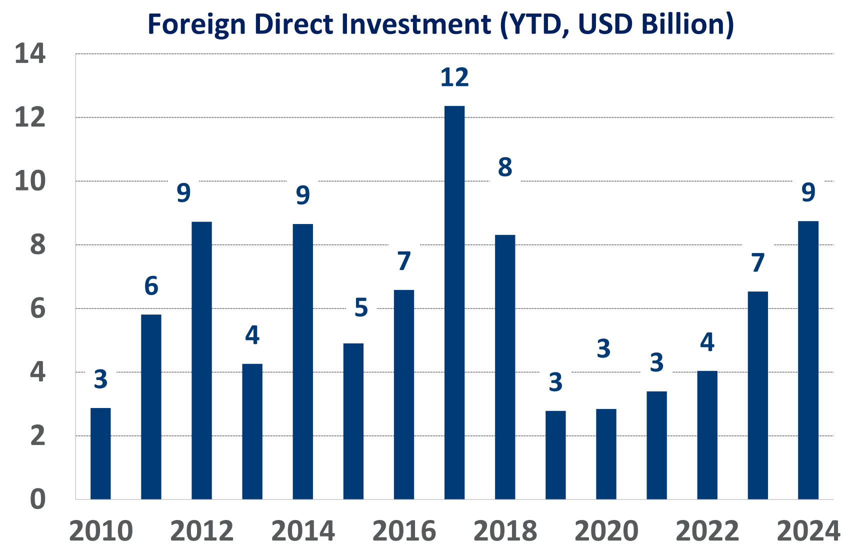
Foreign Direct Investment (YTD, USD Billion)

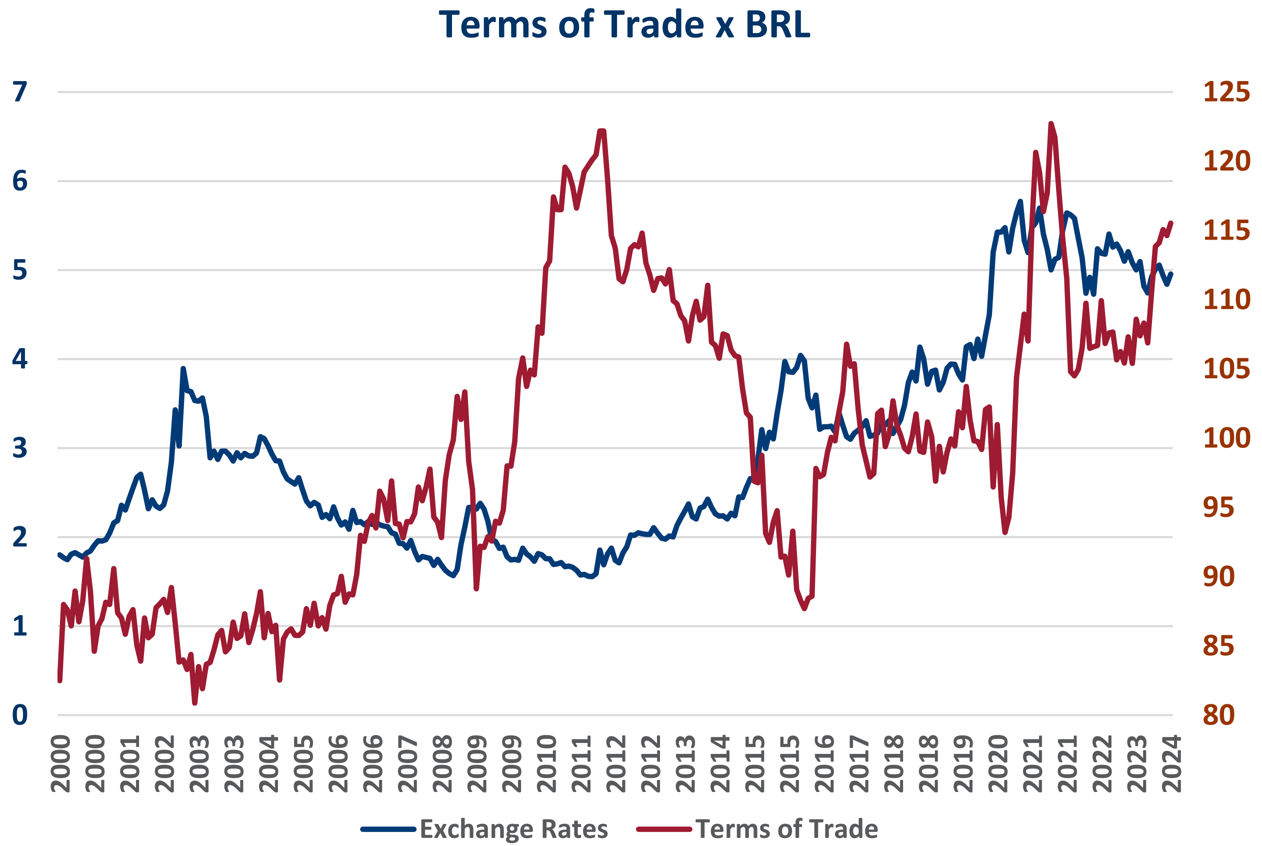


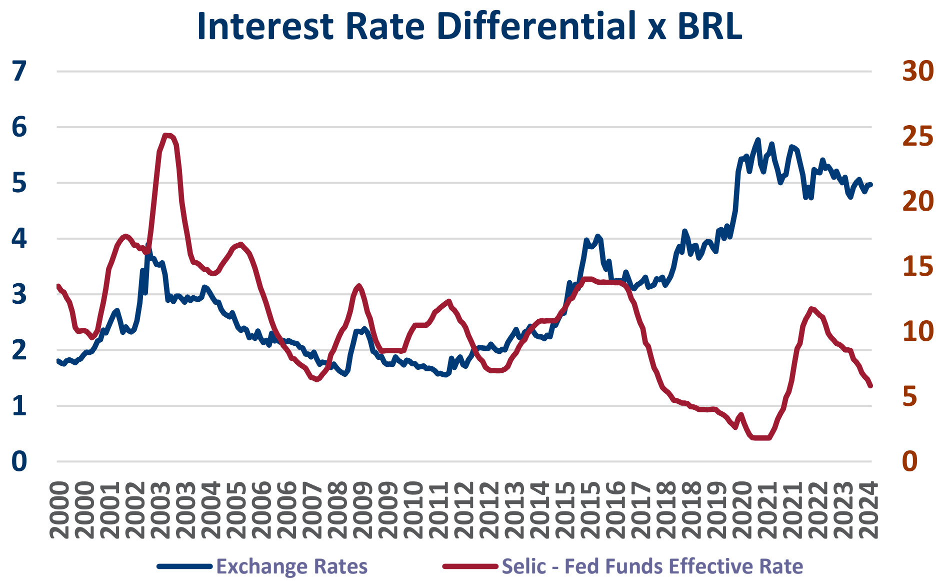
Source: BOCOM BBM, BCB

Brazil: External Sector

- The prospect for the beginning of Fed's cutting cycle must bring relief to the interest rate differential trajectory late 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. In January 2024 there was a strong inflow of FDI in the country.



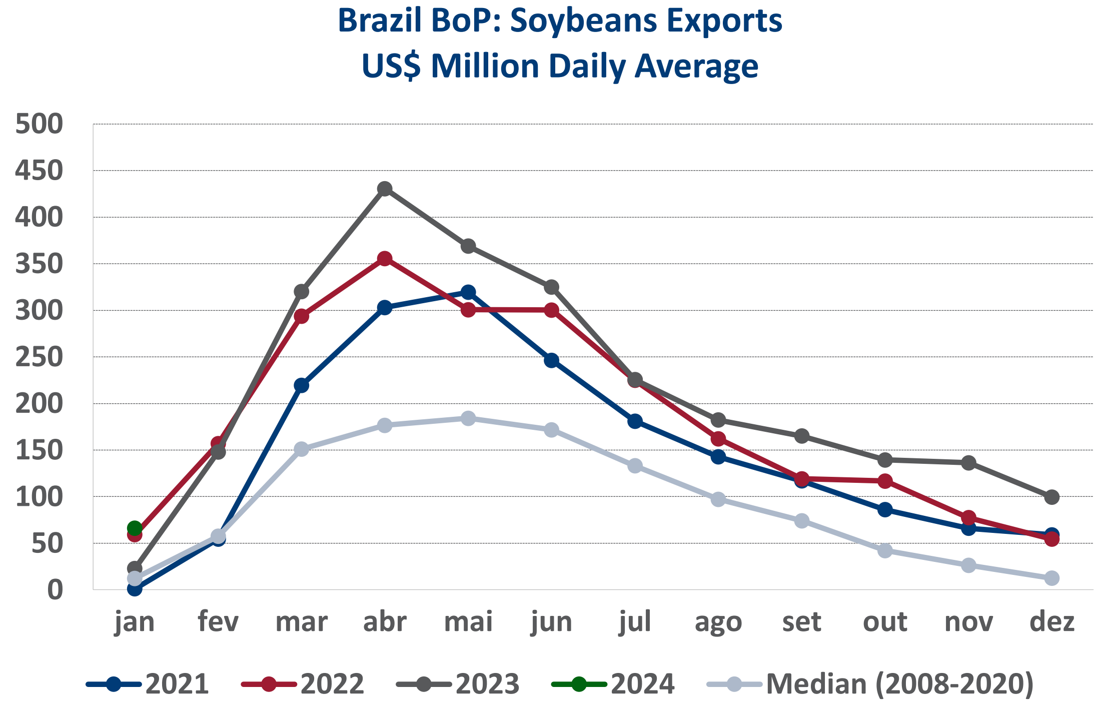


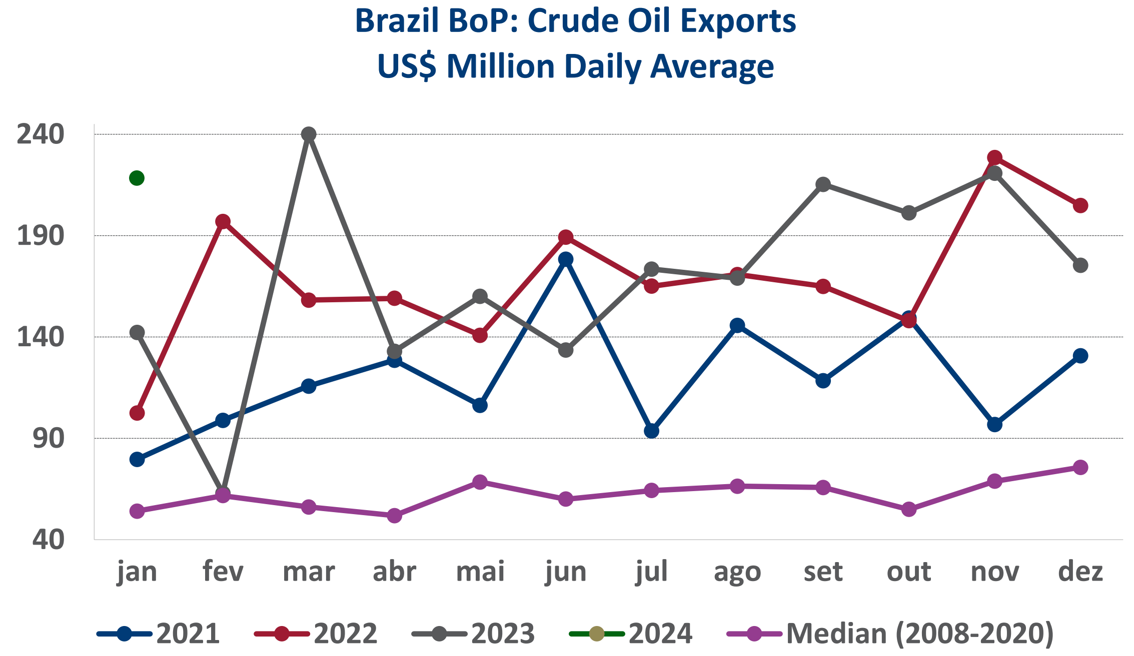


Source: BOCOM BBM, Bloomberg, Funcex, BCB

Brazil: External Sector

- In January, the trade balance presented a surplus of US$ 6.53 bn (+185,6% YoY) in Secex data;
- The result is the best for the month since the begging of the time series;
- The main driver for this excellent performance was a significant increase in exports (+18.5%), which presented greater results for mining industry (+53,3% YoY), including crude oils (+53.4 YoY), and soybeans (191,1% YoY).





Source: Secex, BOCOMBBM

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