交通銀行 BANK OF COMMUNICATIONS BBM

MACRO OUTLOOK

May 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. In the US, core inflation improved from its peak, but recent data showed that disinflation is happening more gradually than expected. In the latest FOMC meeting, policy rate was kept unchanged and Fed Chair, Powell, emphasized the message for a cautious and patient approach towards rate cuts by saying the FOMC still needs to achieve "greater confidence" that inflation is falling to 2.0%. Markets are pricing between 1-2 cuts this year, but risks are skewed for having less than that depending on incoming inflation and labor market data.

- As for China, most indicators pointed to a good start of the year, but deteriorated a bit in the latest reading for March. Nonetheless, real GDP growth surprisingly expanded by 5.3% YoY in Q1, making the 2024 GDP growth target of "around 5%" looks way more achievable. The production side of the economy seems to be faring better than the demand side as the government highlights the "new productive forces", refering to modernizing supply chains and fostering emerging and future-oriented industries. However the outlook remains challenging given persistent deflationary forces and adjustments in the housing market.

- In Brazil, monthly indicators of economic activity posted mixed signs, with services and industrial production falling below expectations, registering respectively -0.9% and -0.3% MoM. Broad retail sales, however, increased by 1.2% this month, considerably above expectations, mostly due to vehicles and pharmaceutical products. Given that, the Central Bank's monthly proxy for Brazil's GDP (IBC-BR) seems to summarize the still heated economic scenario, showing an increase of 0.4% MoM. After strong economic activity data in February, we revised our forecast for Q1 GDP from 0.6% to 0.7% QoQ, and the year of 2024 from 1.7% to 1.8%;

- Concerning monetary policy, in its March meeting the Brazilian Central Bank decided to cut Selic rates by 50 bps, reaching 10.75% per year. The committee also dropped the forward guidance of a 50bps cut in the next two meetings, committing only to 50bps cut in the May meeting. However, uncertainty has increased considerably since then. The strong inflation and activity data in US postponed the begging of the Fed funds cutting cycle, demanding caution in the monetary policy conduction in emerging countries. Domestically, uncertainty regarding the fiscal accounts has increased, especially after changes in primary targets and frustration regarding important measures to increase revenues this year. The effects of increased uncertainty at national and international levels were reflected in recent exchange rate movements and in inflation expectations for longer horizons, which put the disinflation process at risk. Consequently, a reduction in the pace of cuts from the next meeting onwards seems to be the strategy that will be followed by the Central Bank;

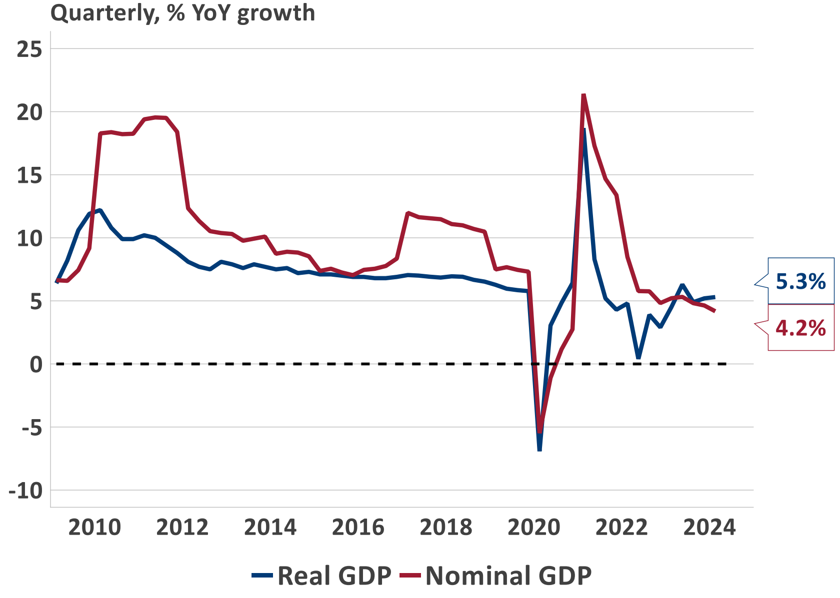
- In the inflation scenario, the April IPCA preview posted a variation of 0.21% MoM, below market consensus (0.29% MoM). In addition to a lower headline, inflation composition also came in marginally better. The average of core inflation advanced 0.19% MoM and the underlying services rose by 0.38% MoM, both of which stood slightly below expectations. However, the tight labor market, solid domestic demand and unanchored inflation expectations are challenges for further disinflation ahead. Our forecasts for 2024 and 2025 IPCA inflation were kept at 3.6% and 4.0%, respectively April´s figure presented an additional relief in headline and core inflation gauges, but were offset by higher gasoline and ethanol prices;

- In the fiscal scenario, total federal tax collections reached BRL 190.6 bn (7.2% YoY), slightly below the consensus, but a historical record for the month. The main drivers were PIS/Cofins (20.6% YoY), driven by the increase in sales and services volume, social security revenue (8.4% YoY), due to the heated labor market, and income tax on capital gains (48.9% YoY), due to taxing of exclusive funds. On the other hand, corporate income tax (IRPJ/CSLL) fell by 13.6%, a disappointing number, given the expectations surrounding the changes in ICMS subsides and interest on equities (IoE). Overall, March's result was disappointing. Although it showed significant growth compared to last year, it is still below what would be needed to reach the primary result target.

China: Q1 GDP

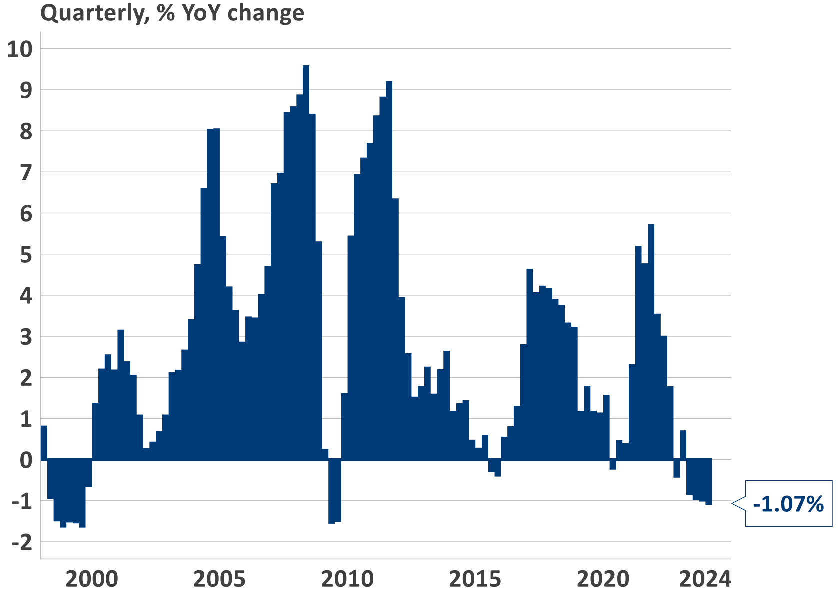
- **Q1 Real GDP grew 5.3% YoY,** above expectations of 4.8%, making the 2024 annual growth target of "around 5%" looks way more achievable;
- However, in nominal terms, growth was much lower at 4.2% YoY, causing the GDP deflator to remain in negative territory for the 4th quarter in a row, the longest streak since 1999;
  - This signals concerns over a detachment between production and demand, which might be caused either due to **overcapacity** in the supply side or still **weak recovery in aggregate demand;**
  - **Strong industrial output is behind Q1 upside surprise** (+6.1% YoY in Q1), while nominal retail sales decelerated (4.7% YoY), on a higher base ;

China: Nominal x Real GDP



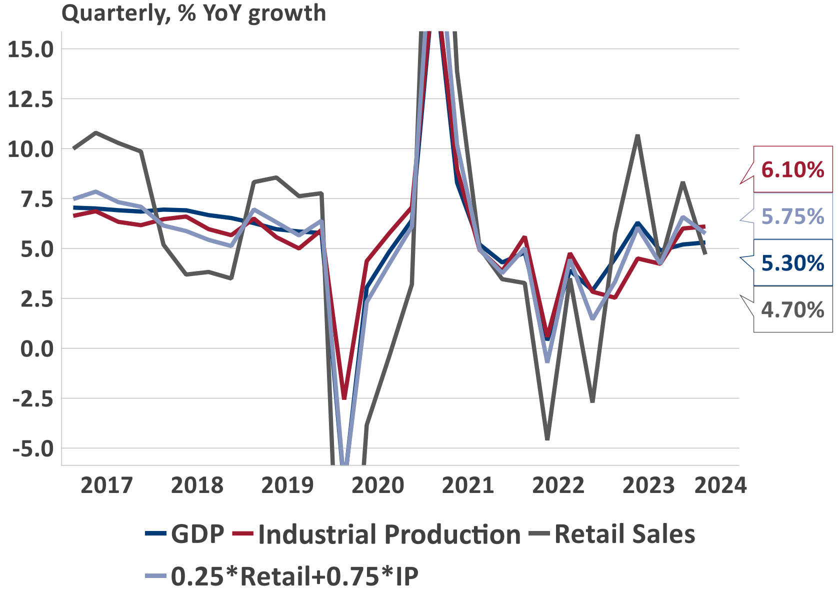
Source: BOCOM BBM, Macrobond, NBS

China: GDP Deflator (% YoY, Quarterly)



Source: BOCOM BBM, Macrobond, NBS

China: GDP x Other Indicators



Source: BOCOM BBM, Macrobond, NBS

China: Economic Activity - Overview

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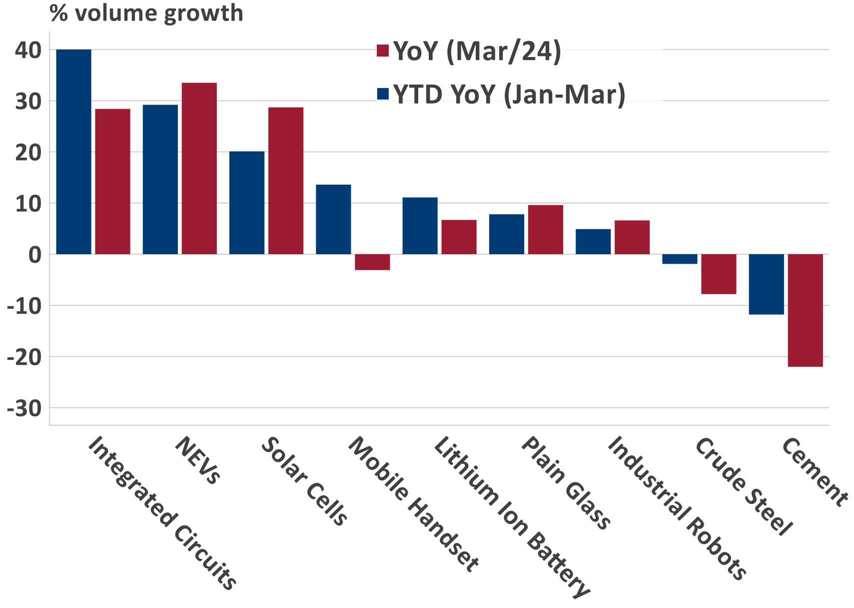
- Economic activity continued to grow in YoY terms, but disappointed market expectations in March:
- **Retail sales growth declined** from 5.5% to **3.1%** YoY (exp. 6.0%), due to base effects normalizing because of the reopening of the economy in early 2023: notable on the slowdown of categories related to going-out, such as clothing and catering services (restaurants);
- **Industrial prod. decelerated** from 7.0% to **4.5%** YoY (exp 5.3%), reflecting strength in the manufacturing sector, mainly on products related to the 'new economy' such as green tech, NEVs and chips, while other sectors related to real estate seems weaker, such as cement and steel.
- **FAI rose from 4.2% to 4.5% YTD YoY** (exp. 4.3%), above the overall 2023 growth of 3.0%: this was once again led by investments in the manufacturing and infrastructure sectors, while real estate investment continues weak;
- **The housing market remains in adjustment**, as indicators continued showing negative annual growth, although improving a bit since last month;

China: Activity (% YoY)

	3/2024	2/2024	3/2023
Industrial Production	4.50	7.0	3.9
Mining	0.20	2.3	0.9
Manufacturing	5.10	7.7	4.2
Utilities	4.90	7.9	5.2
Fixed Asset Investment (YTD)	4.50	4.2	5.1
Manufacturing	9.90	9.4	7.0
Real Estate	-9.50	-9.0	-5.8
Infrastructure	6.50	6.3	8.8
Retail Sales	3.08	5.5	10.6
Catering Services	6.90	30.0	26.3
Consumer Goods	2.70	4.8	9.1
Clothing	3.80	26.0	17.7
Automobiles	-3.70	4.0	11.5
Furniture	0.20	2.3	3.5
Cellphones	7.20	11.0	1.8
Home Appliances	5.80	-0.1	-1.4
Construction	2.80	-7.5	-4.7

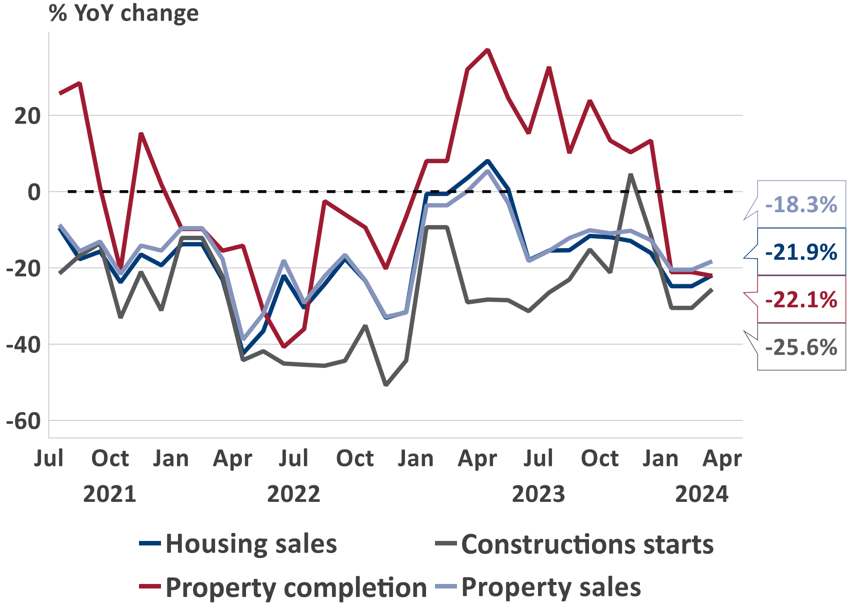
Source: BOCOM BBM, Macrobond

China: Industrial Production by Product



Source: BOCOM BBM, Macrobond, NBS

China: Property Indicators (% YoY)



Source: BOCOM BBM, NBS

China: Economic Scenario

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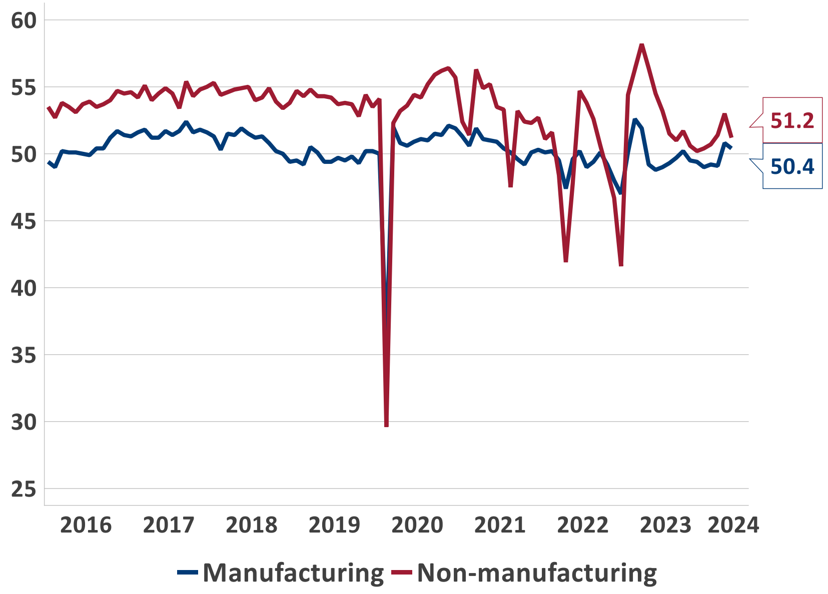
- In April, both the manufacturing and the non-manufacturing PMIs came in above 50, signaling expanding sectors;
  - NBS manufacturing PMI fell from 50.8 to **50.4** (exp. 50.3), reflecting accelerating production while demand indicators slowed but are still rising;
  - Non-manufacturing sector continued expansionary, but slowed from 53.0 to **51.2,** as the services sector slowed marginally;

- **March exports surprised to the downside** slowing from 7.1% to **-7.5% YoY** (exp. -3.0%): exported goods continued growing strongly in volume terms, while prices for most products are still on decline;
- **Imports also slowed**, falling from 3.5% to **-1.9% YoY** (exp. 1.2%) as growth in commodities imports volume moderated;

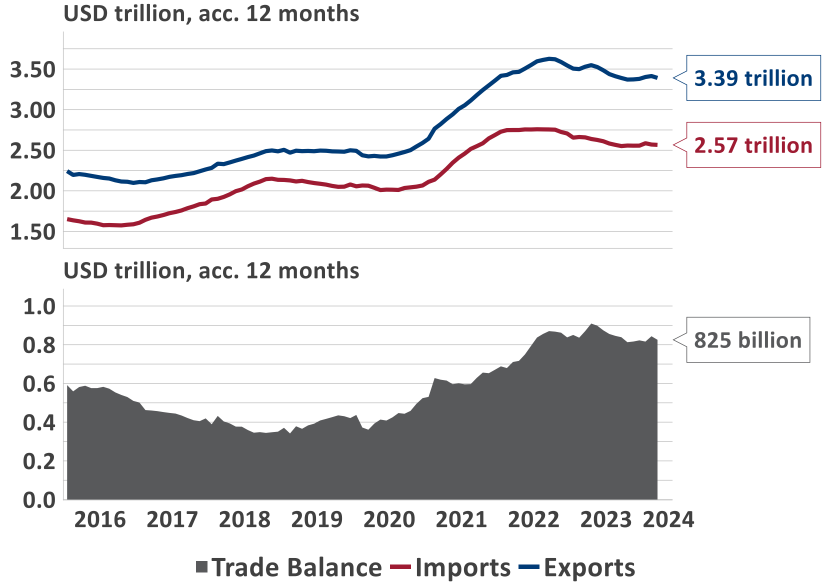
- March **CPI** inflation fell from 0.7% to **0.1%** YoY (exp. 0.4%), reflecting a relapse after the strong reading in Feb. due to the Lunar New Year effect;
  - Core inflation seems a bit better than headline, however still with an heterogeneous composition as services prices are up (+0.8% YoY) while goods are down -0.4% YoY;
  - Deflationary pressures remains are persistent as the GDP deflator continues negative and CPI failed to sustain February's rebound.

China: PMI



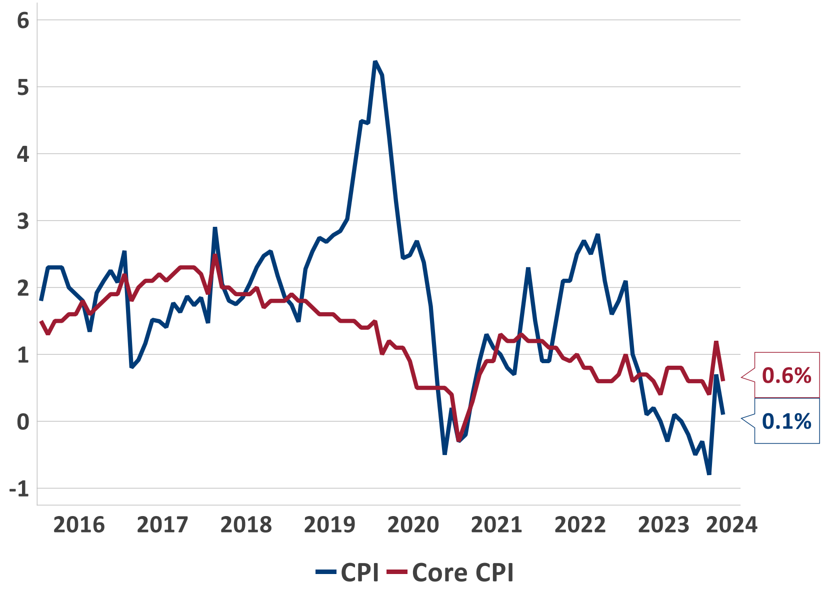
Source: BOCOM BBM, Macrobond, CFLP

China: Trade Balance



Source: BOCOM BBM, Macrobond, CCS

China: CPI (YoY, %)



Source: BOCOM BBM, Macrobond, NBS

USA: GDP Q1

- First release of Q1 GDP showed an increase of **1.6% QoQ SAAR**, below market exp. of 2.7%;
  - Although it surprised to the downside and slowed down compared to previous quarter, **its composition marked another strong growth**;
  - Only net exports and changes in inventories, which are volatile components, contributed negatively to GDP reading;

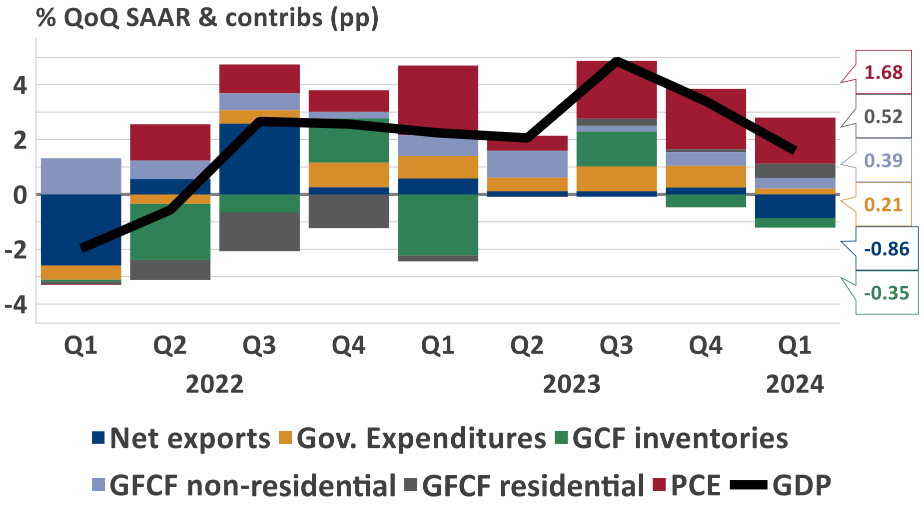
- Private domestic final purchases, which excludes net exports, inventories and the government sector, **maintained a solid growth of 3.1% QoQ SAAR,** a similar pace as 2H23, reinforcing the **resiliency in economic activity**.

US: GDP Growth (QoQ SAAR)

US GDP Growth (QoQ SAAR, %)	Weights (%)	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022
Real GDP	100.00	**1.59**	3.40	4.86	2.06	2.24	2.57
Personal Consumption Expenditures	67.85	**2.51**	3.28	3.11	0.80	3.78	1.17
Goods	22.06	-0.43	2.98	4.87	0.47	5.09	-0.04
Durable goods	7.75	-1.21	3.19	6.70	-0.33	13.97	-0.99
Non-durable goods	14.31	0.00	2.86	3.87	0.92	0.49	0.48
Services	45.79	3.97	3.43	2.24	0.97	3.13	1.80
Business fixed investment	13.52	**2.90**	3.74	1.45	7.45	5.74	1.75
Structures	3.10	-0.11	10.88	11.15	16.15	30.31	6.46
Equipment	4.97	2.10	-1.10	-4.40	7.73	-4.12	-4.96
Intellectual Property Products	5.46	5.40	4.35	1.82	2.68	3.79	6.09
Residential Fixed Investment	4.03	**13.93**	2.82	6.68	-2.19	-5.35	-24.95
Inventory contrib (pp)	0.16	**-0.35**	-0.47	1.27	0.00	-2.22	1.61
Net Exports contrib (pp)	-2.99	**-0.86**	0.25	0.03	0.04	0.58	0.26
Exports	10.89	0.91	5.05	5.40	-9.28	6.83	-3.49
Imports	13.88	7.19	2.21	4.20	-7.59	1.27	-4.27
Government Expenditures	17.44	**1.19**	4.62	5.78	3.34	4.82	5.32
Federal	6.50	-0.23	2.36	7.12	1.11	5.17	9.77
State & Local	10.94	2.04	5.99	4.98	4.69	4.61	2.81
Nominal GDP		4.77	5.12	8.34	3.77	6.28	6.52
GDP price index		3.13	1.67	3.31	1.68	3.95	3.86
PCE price index		**3.40**	1.79	2.59	2.49	4.17	4.16
Core PCE		**3.73**	2.04	2.04	3.66	4.96	4.71

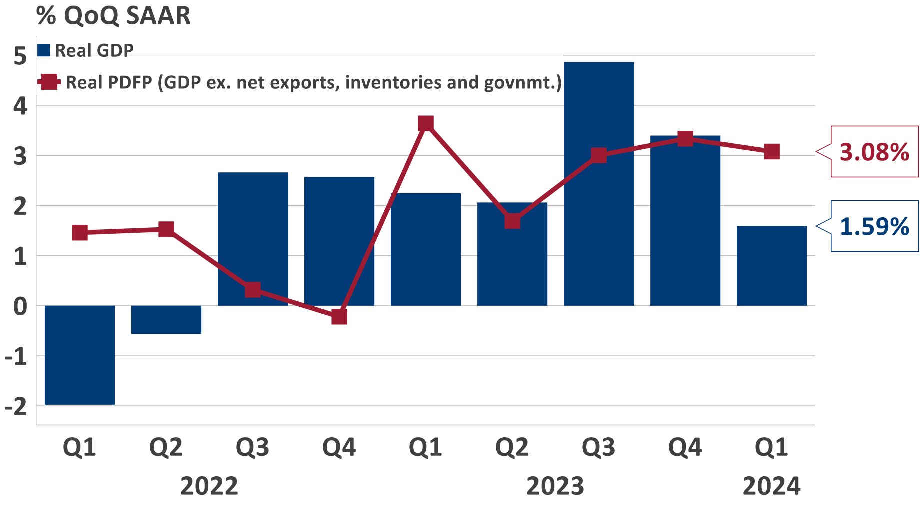
Source: BOCOM BBM, Macrobond, BEA

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



Source: BOCOM BBM, Macrobond, BEA

US: Private Domestic Final Purchases (QoQ SAAR)



Source: BOCOM BBM, Macrobond, BEA

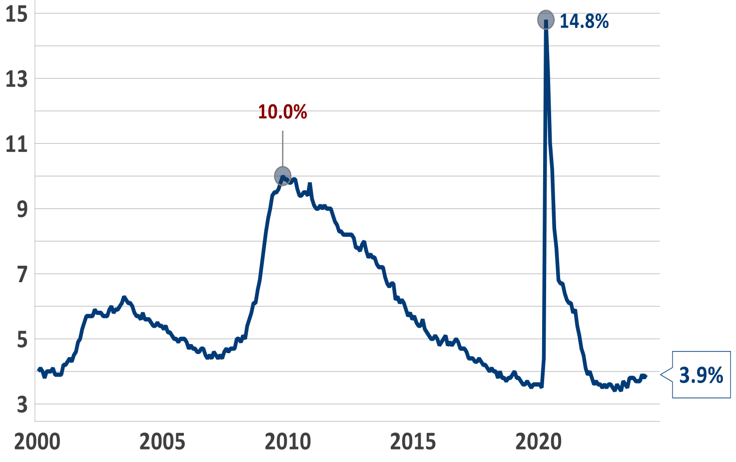
USA: Labor Market

- **Labor market has cooled from its peak tightness,** but early 2024 data showed resiliency, only slowing slightly in the latest reading for April:
  - April payroll showed a job gain of **175k**, well below market expectations (240k), and a negative net revision of previous months (-22k);
  - The household survey, showed the unemployment rate moving up from 3.8% to **3.9%**, the same level of February;

- In March., **the jobs-workers gap decreased from 2.4M to 2.1M** due to a decrease in labor demand (falling job openings offset by rising employment) and rising labor force;

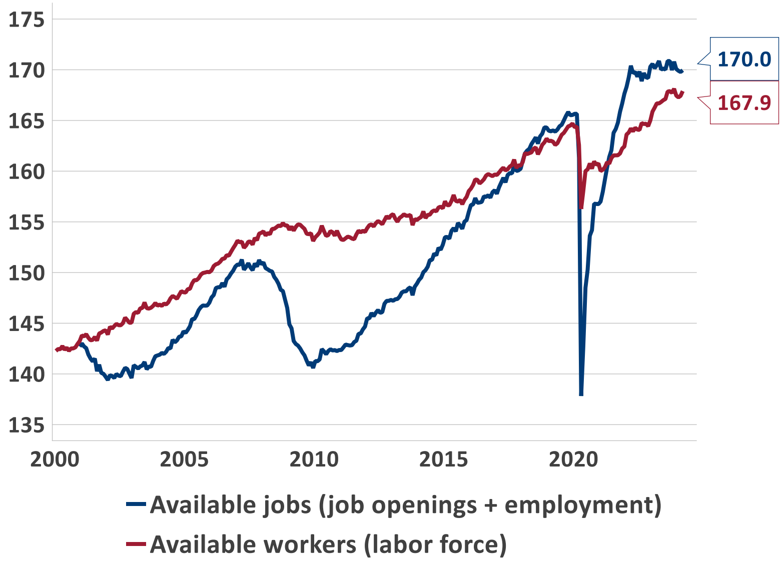
- March avg. hourly earnings **decelerated its monthly pace to 0.20% MoM**, despite the fall in average weekly hours worked from 34.4 to 34.3. Furthermore, the annual rate continued to fall from 4.1% to 3.9% YoY. However, remains above levels compatible with the FOMC inflation target of 2.0%;

US: Unemployment Rate SA (%)



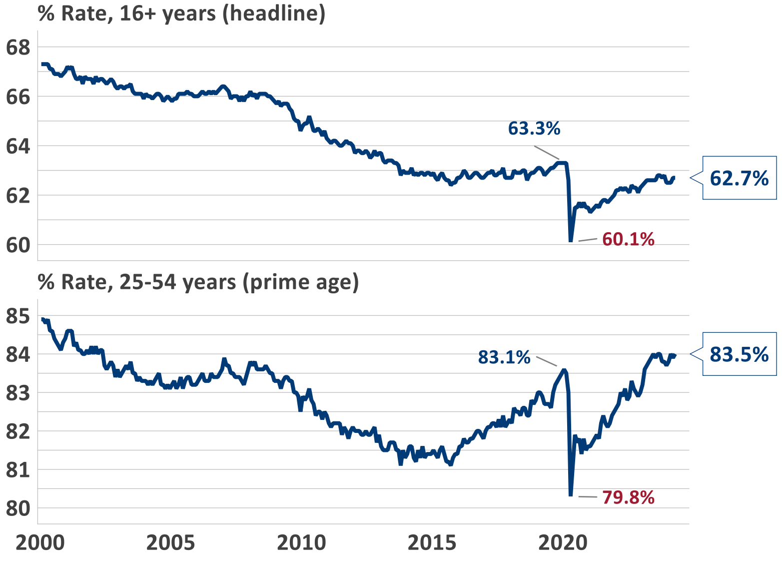
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



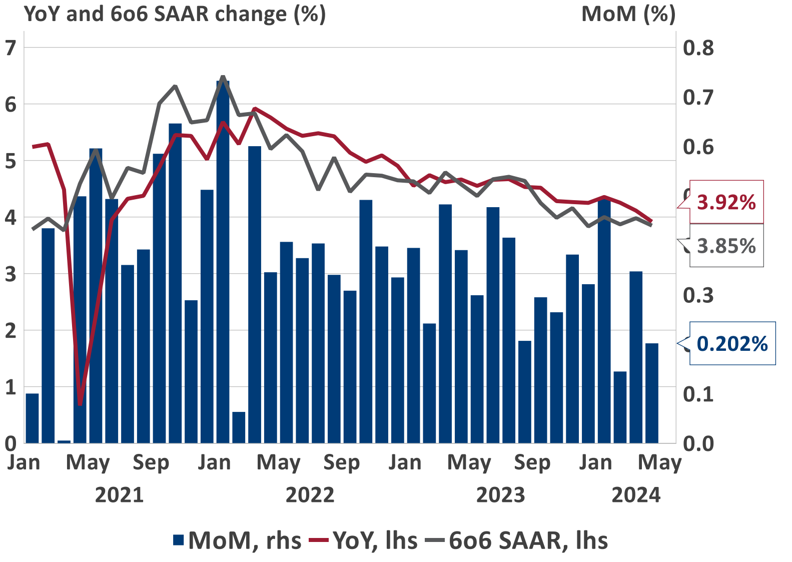
Source: BOCOM BBM, Macrobond, BLS

US: Labor Force Participation Rate (%)



Source: BOCOM BBM, Macrobond

US: Average Hourly Earnings Growth (%)



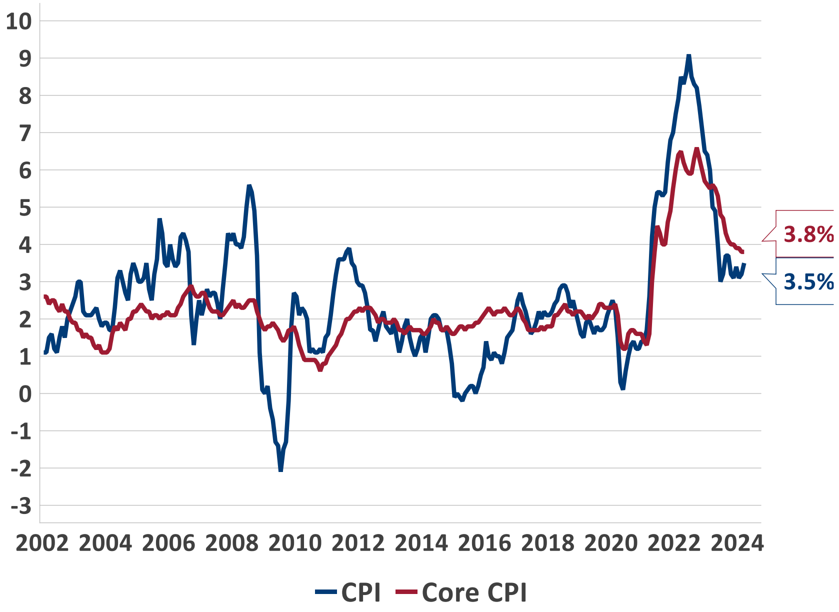
Source: BOCOM BBM, Macrobond

USA: Inflation

- Mar. headline CPI rose **0.38% MoM** (above the exp. 0.3%), leading to an annual growth rate increase from 3.2% to **3.5% YoY:**
  - **Energy prices**: increased 1.13% MoM, softer than previous month;
  - **Food prices:** showed an increase of 0.1% MoM, slighly above the February's reading of 0.02%, but still at reasonable levels.

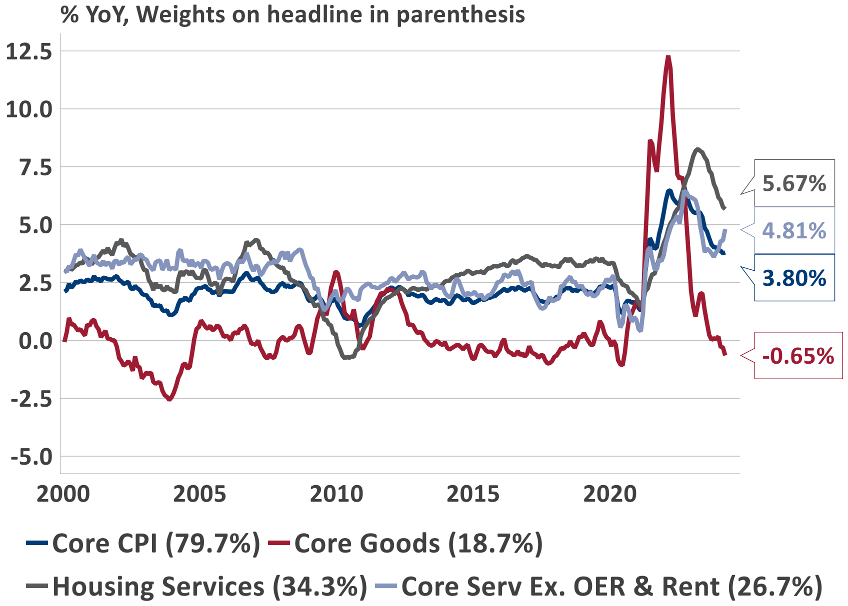
- **Core CPI** rose **0.36% MoM** (exp. 0.3%) and the annual rate remains unchanged at **3.8% YoY**;
  - **Core goods (-0.15% MoM):** showed a deceleration compared to the previous month, in line with market expectations. Although new vehicles surprised upwards, it was offset by the sharper drop in used vehicles prices;
  - **Housing services (0,42% MoM)**: another strong growth; housing is a lagged component in the CPI which is expected to slowdown ahead given the catch-down of continued rental contracts to the already slower pace of new rental contracts;
  - **Core Serv. Ex-Housing (0,65% MoM)**: the pace moved up from January's pace, but only due to rising prices in motor vehicle insurance. Nonetheless, it is expected to continue decelerating as the labor market moves into better balance and pressure on salary indicators eases.

US: CPI (YoY, %)



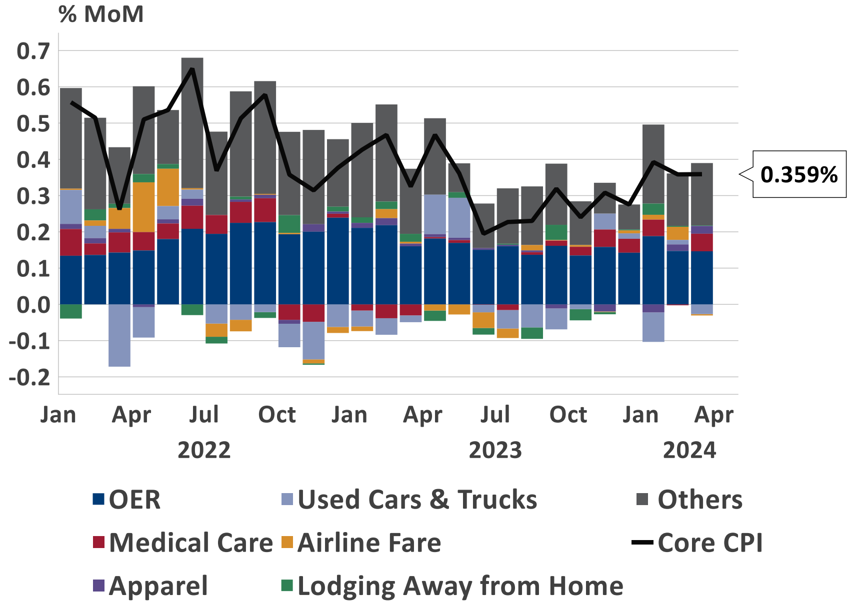
Source: BOCOM BBM, Macrobond, BLS

US: Core CPI Main Components (%)



Source: BOCOM BBM, Macrobond, BLS

US: Core CPI MoM Contributions



Source: BOCOM BBM, Macrobond, BLS

Global: Inflation & Activity

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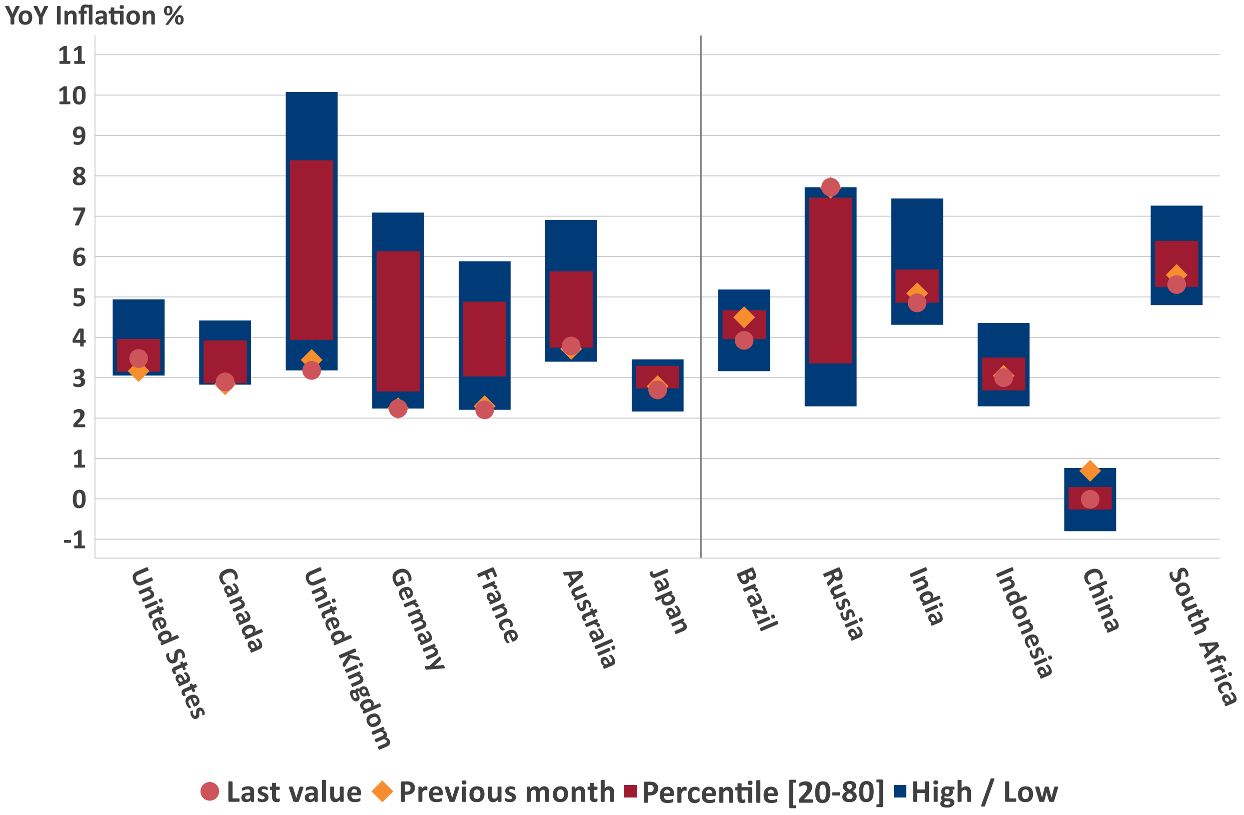
- Progress in inflation numbers are being seen across developed markets, while some emerging markets are moving sideways;
- Many central banks tightened sharply their monetary policy previous years resulting in a slowdown to economic activity across several countries, although some showed remarkable 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

Year	Share (%)	#
2023	25.7	9
2022	20.0	7
2021	2.9	1
2020	82.9	29
2019	11.4	4
2018	5.7	2
2017	n/a	n/a
2016	5.7	2
2015	11.4	4
2014	11.4	4
2013	5.7	2
2012	28.6	10
2011	14.3	5
2010	14.3	5
2009	31.4	11
2008	62.9	22
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	22.9	8
2000	5.7	2

Source: BOCOM BBM, Macrobond, National Sources

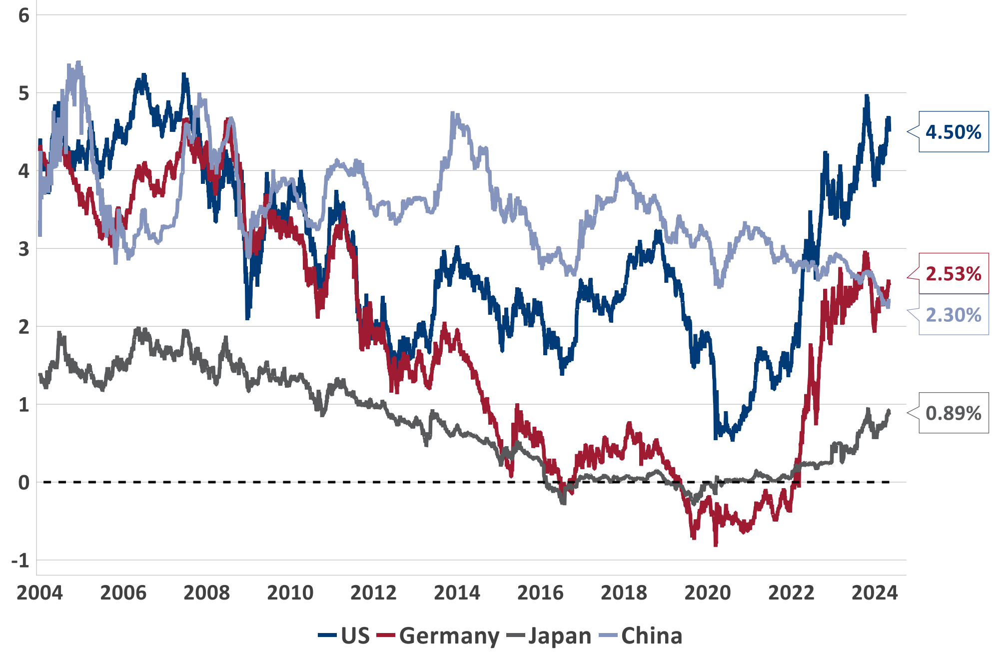
Global: Monetary Policy

- Several **emerging markets already started cutting rates,** such as Brazil, Chile and Mexico;

- While many of the **developed markets central banks are holding rates steady in elevated levels**, such as the BoE, Fed and ECB;

- In the latest FOMC decision, J. Powell reinforced a **cautious approach toward rate cuts**, but also gave some relief to the market by mentioning rate hikes are not the baseline scenario (although still on the table if the economy reheats);

10 Year Interest Rates (%)



Source: BOCOM BBM, Macrobond, U.S. Treasury, BUBA, JBT, CCDC

Central bank tracker: G20 & OECD Countries

	CPI Y/Y %	Core CPI Y/Y %	Key rate	Last decision		Last Move	Months since last hike	Months since last cut
Argentina	287.9	300.0	60.00	-10.00	Cut	4/2024	7	0
Australia	3.6	3.7	4.35	0.25	Hike	11/2023	6	42
Brazil	3.9	4.4	10.75	-0.50	Cut	3/2024	21	1
Canada	2.9	2.1	5.00	0.25	Hike	7/2023	10	49
Chile	3.7	3.3	6.50	-0.75	Cut	4/2024	19	1
China	0.0	0.6	3.45	-0.10	Cut	8/2023	123	8
Colombia	7.4	7.1	11.75	-0.50	Cut	5/2024	12	0
Costa Rica	-1.2	-0.3	4.75	-0.50	Cut	4/2024	18	0
Czech Republic	2.0	0.1	5.25	-0.50	Cut	5/2024	22	0
Denmark	0.9	1.7	3.75	0.25	Hike	9/2023	8	31
Euro Area	2.4	2.7	4.50	0.25	Hike	9/2023	7	98
Hungary	3.6	4.5	7.75	-0.50	Cut	4/2024	19	0
Iceland	6.0	6.0	9.25	0.50	Hike	8/2023	8	41
India	4.9	3.2	6.50	0.25	Hike	2/2023	15	47
Indonesia	3.0	1.8	6.25	0.25	Hike	4/2024	0	38
Israel	2.7	2.5	4.50	-0.25	Cut	1/2024	11	4
Japan	2.7	2.8	0.10	0.20	Hike	3/2024	1	99
Mexico	4.4	4.6	11.00	-0.25	Cut	3/2024	13	1
New Zealand	4.0	4.1	5.50	0.25	Hike	5/2023	11	50
Norway	3.9	4.6	4.50	0.25	Hike	12/2023	5	48
Poland	2.4	4.6	5.75	-0.25	Cut	10/2023	20	7
Russia	7.7	7.8	16.00	1.00	Hike	12/2023	5	19
Saudi Arabia	1.6		6.00	0.25	Hike	7/2023	9	50
South Africa	5.3	4.9	8.25	0.50	Hike	5/2023	11	45
South Korea	2.9	2.3	3.50	0.25	Hike	1/2023	16	47
Sweden	4.1	2.2	4.00	0.25	Hike	9/2023	7	99
Switzerland	1.4	1.2	1.50	-0.25	Cut	3/2024	10	1
Turkey	68.5	75.2	50.00	5.00	Hike	3/2024	1	14
United Kingdom	3.2	4.2	5.25	0.25	Hike	8/2023	9	50
United States	3.5	3.8	5.50	0.25	Hike	7/2023	9	50

Source: BOCOM BBM, Macrobond

Brazil: Forecasts

ECONOMIC FORECASTS	2020	2021	2022	2023	2024F	2025F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	1.8%	2.0%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	3.6%	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%	10.00%	9.00%
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%	-0.7%	-0.8%
Government Gross Debt (% of GDP)	86.9%	77.3%	71.7%	74.3%	77.9%	80.1%

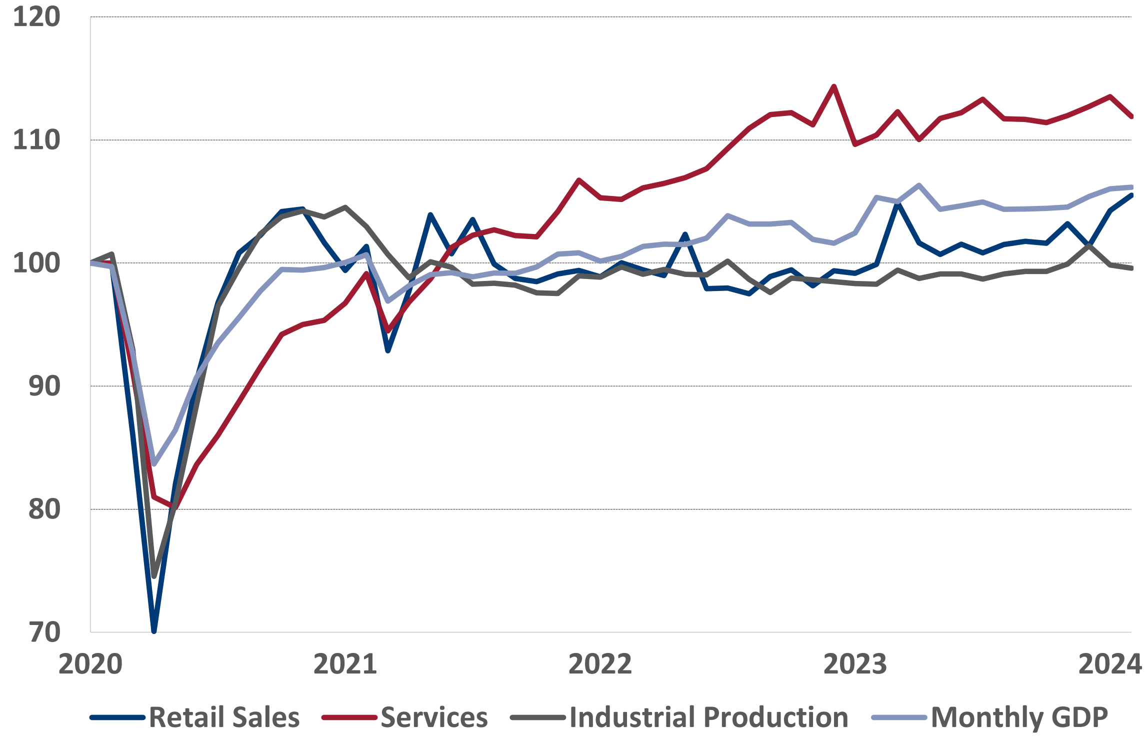
Source: BOCOM BBM

Brazil: Activity

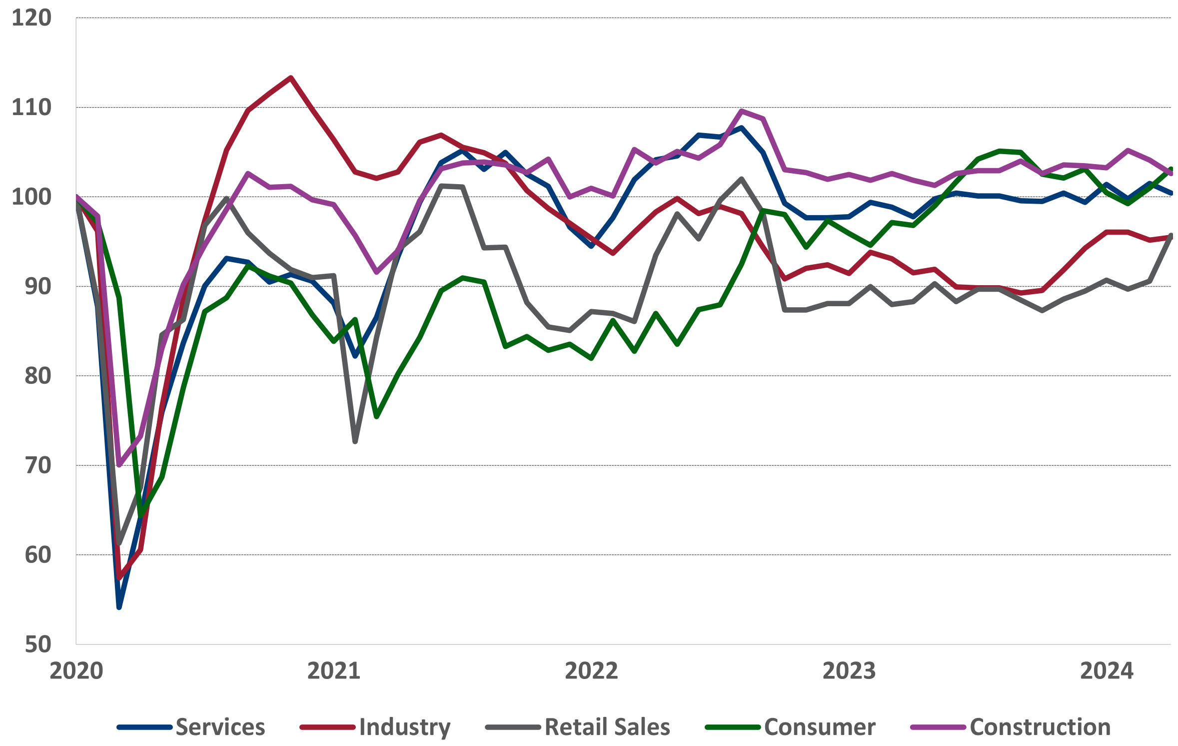
» In February, the monthly indicators of economic activity posted mixed signs, with Services and Industrial Production falling respectively 0.9% and 0.3% MoM. On the other hand, Broad Retail sales increased by 1.2% in this month. In turn, IBC-Br increased 0.4% MoM;

» Looking forward, services and construction confidence contracted in April, while consumers, industry and retail sales increased.

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



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

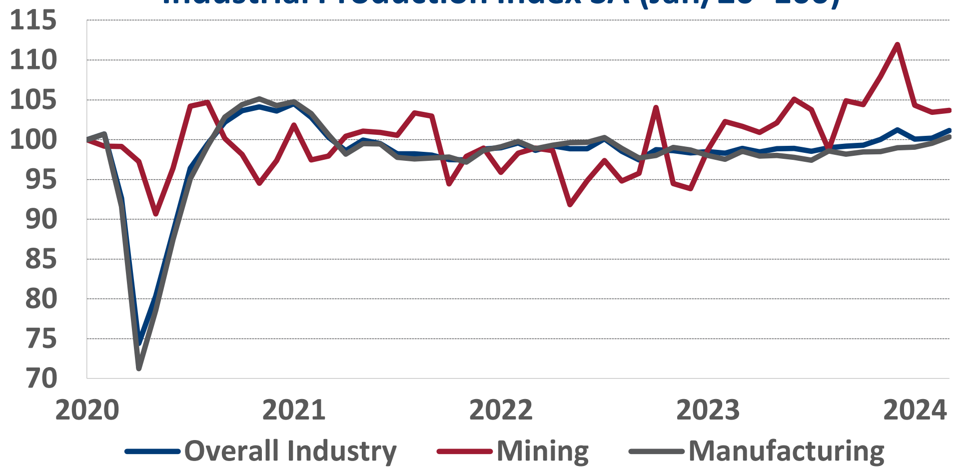


Source: BOCOM BBM, FGV

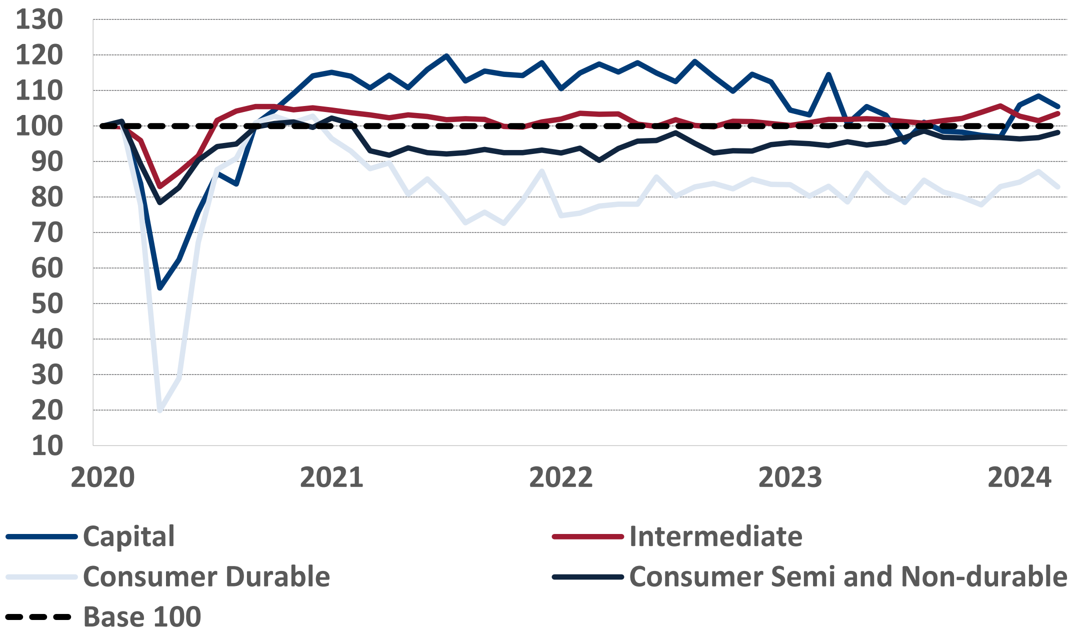
Brazil: Industrial Production

- In March, industrial production increased 0.9% MoM (-2.8% YoY), below expectations (+1.4% MoM and -2.4% YoY);
- The production of capital goods and durable goods ends the 1Q24 with gains of 10.2% and 5.3% QoQ respectively, positive results in general;
- On the other hand, extractive industry disappointed, registering -3.9% QoQ in the 1Q24.

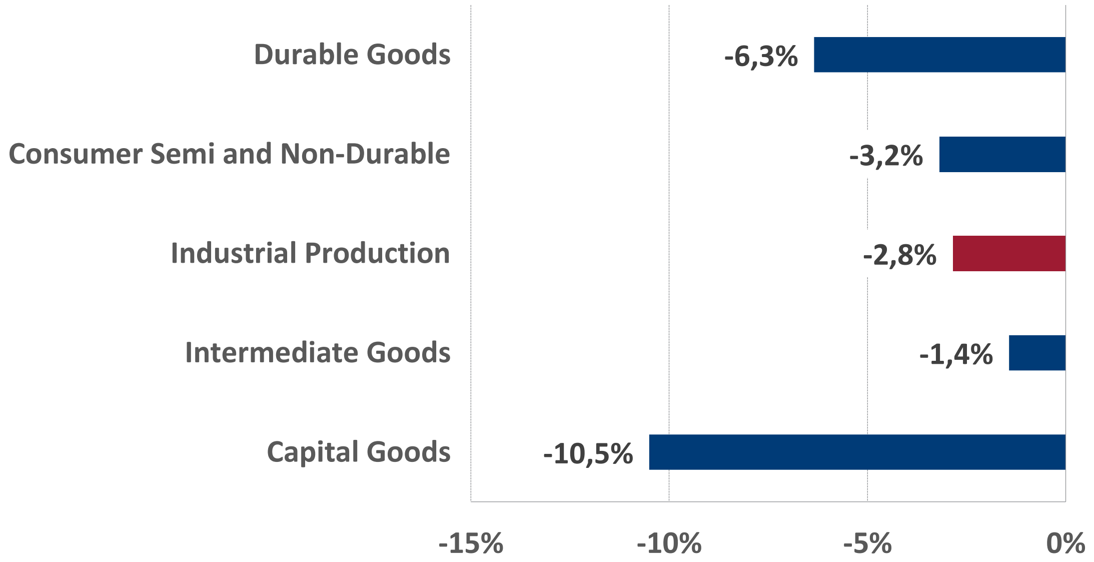
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



Industrial Production by Category - 03/2024 (YoY)

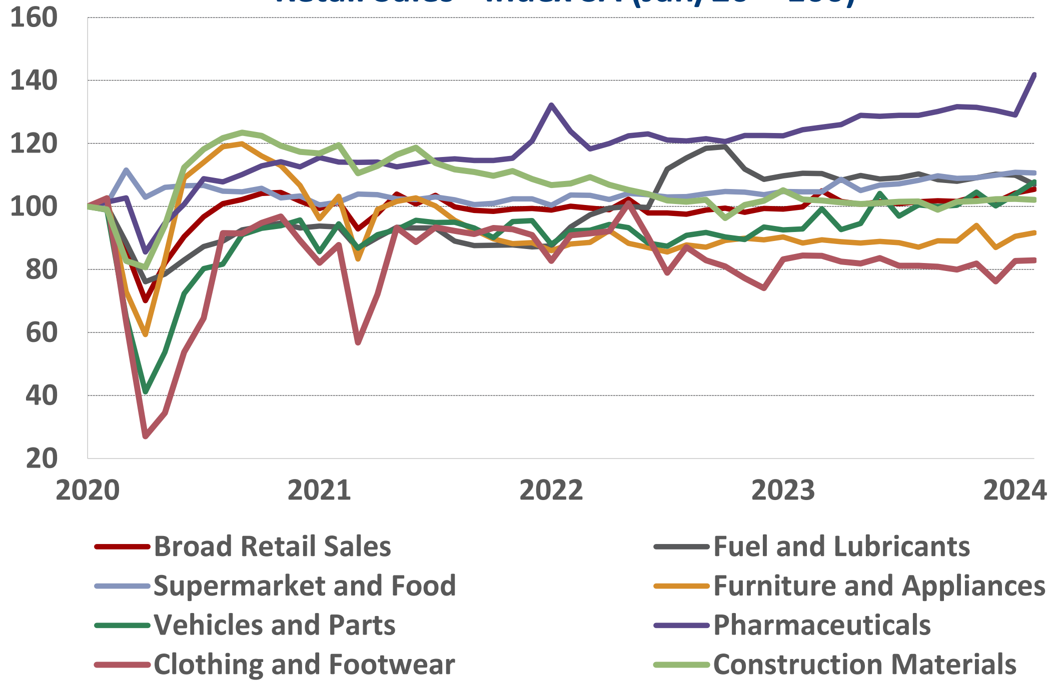


Source: IBGE, BOCOM BBM

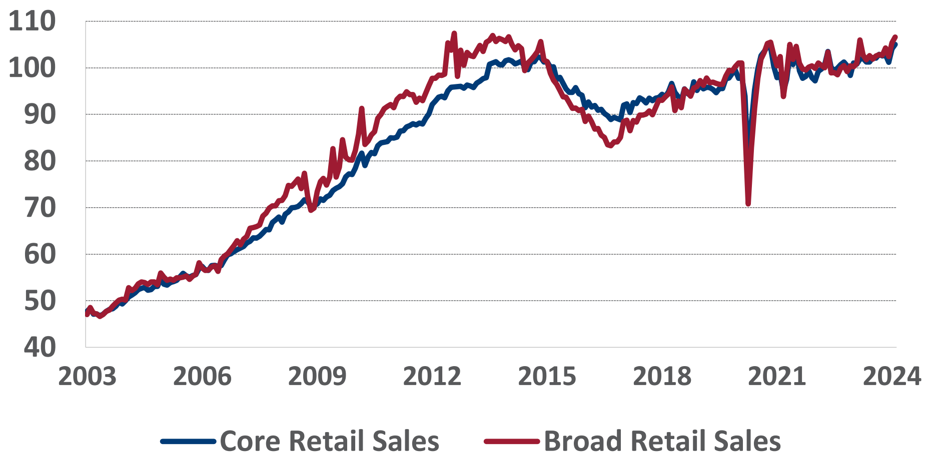
Brazil: Retail Sales

- Broad retail sales increased 1.2% MoM (9.7% YoY) in February, considerably above expectations (-0.8% MoM and +6.3% YoY);
- The result was driven by a sharp increase in pharmaceutical products (+18.5% YoY) and vehicles (+16.6% YoY);
- In the same line, core retail sales jumped 1.0% MoM (+8.2% YoY);
- The strong dynamics of personal spending in early 2024 continued in February and should be supported throughout this year by the recovery in credit market conditions combined with the expansion in real disposable income.

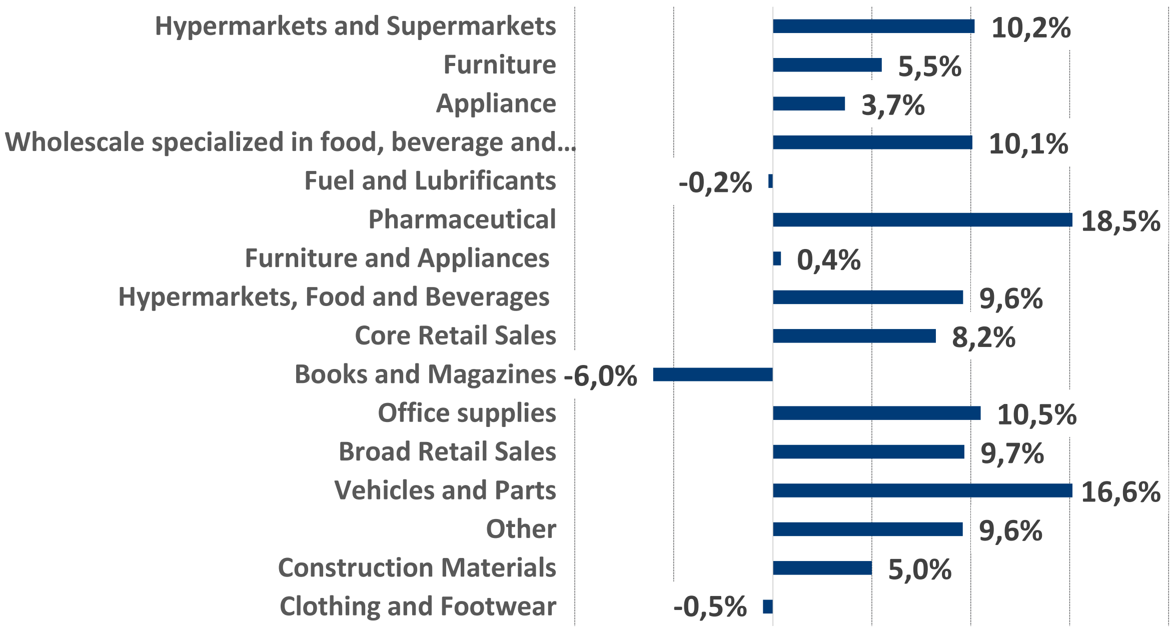
Retail Sales - Index SA (Jan/20 = 100)



Broad Retail Sales SA x Core Retail Sales SA



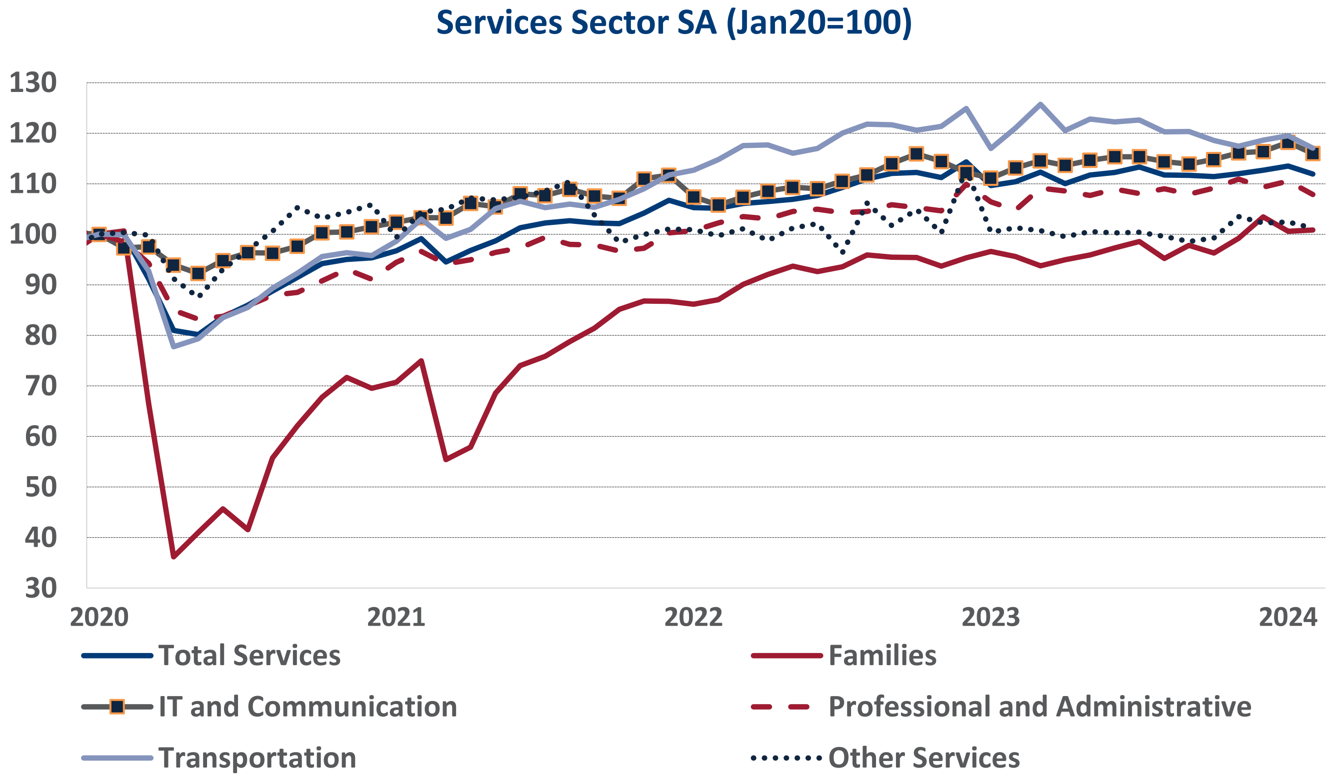
Retail Sales - YoY (02/2024)

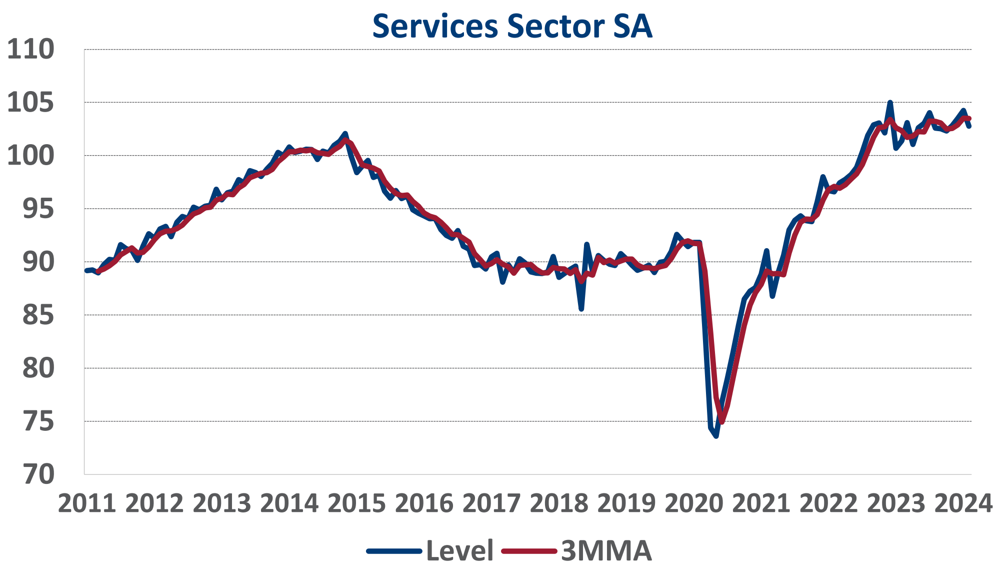


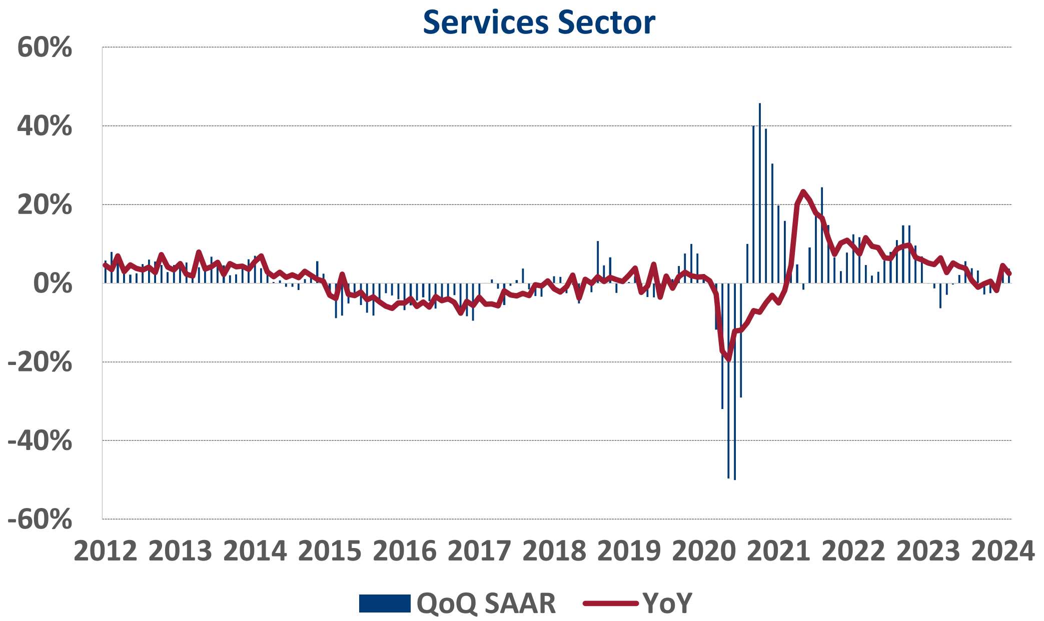
Source: IBGE, BOCOM BBM

Brazil: Services

- In February, the services sector contracted 0.9% MoM (2.5% YoY), ending a streak of three consecutive gains, far below market expectations (+0.2% MoM and 5.0% YoY) ;
- The breakdown results were mostly negative, services more linked to business demand cooled down in February;
- The only positive reading was services rendered to families (+0.4% MoM), pushed by 'Lodging and Food Services' (+0.6% MoM).



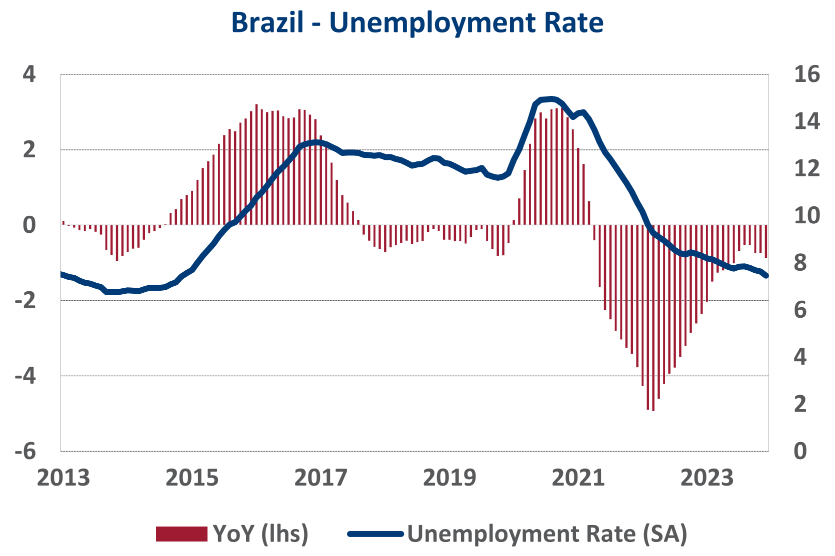


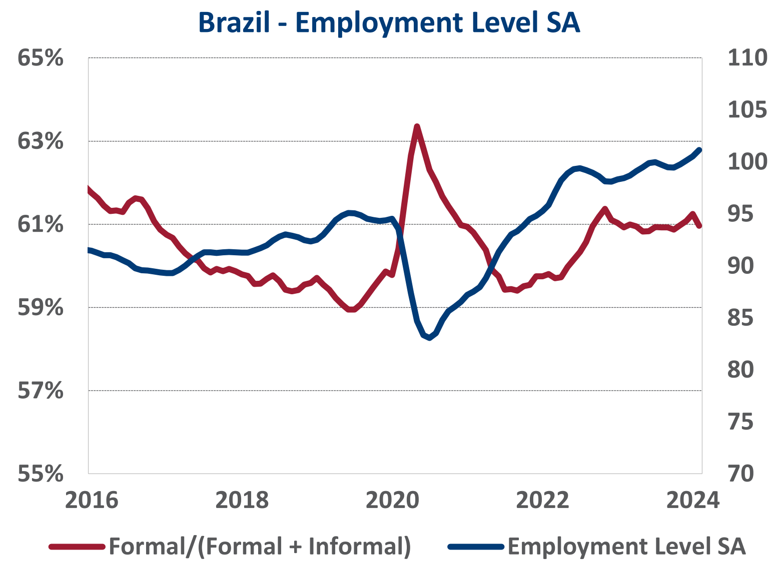


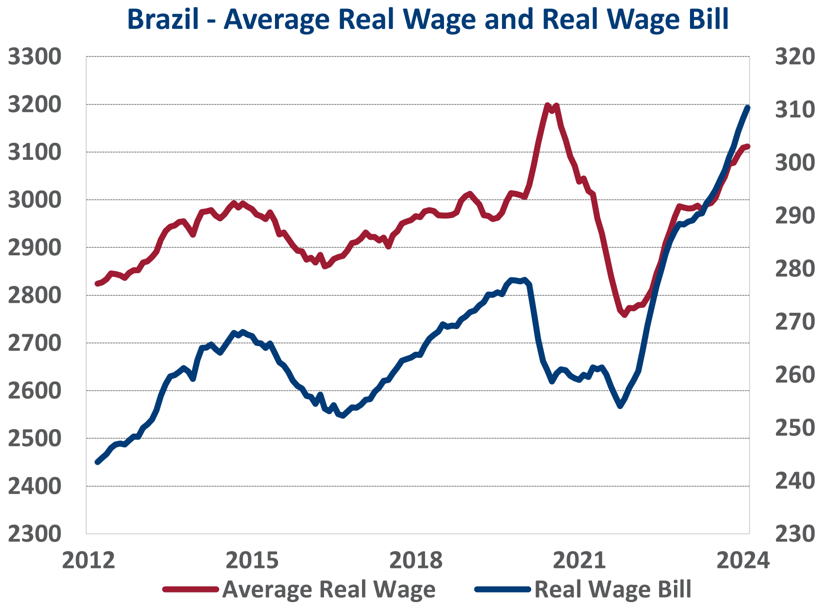
Source: IBGE, BOCOM BBM

Brazil: PNAD

- The unemployment rate increased to 7.9% in the moving quarter up to March, from 7.8% on the previous period;
- Seasonally adjusted, the indicator decreased from 7.6% to 7.4%, remaining at the lowest level since the beginning of 2015;
- Total employment increased 0.59% MoM while labor force showed an expansion of 0.15% MoM;
- The labor force participation rate grew marginally again, to 62.2% from 62.1%, still running considerably below pre-pandemic levels (around 63.5%);
- Real labor earnings fell 0.16% MoM, ending the streak of six consecutive gains that accumulated a 3.5% growth;
- Real aggregated labor income surged 0.5% in March, the tenth positive reading in a row.



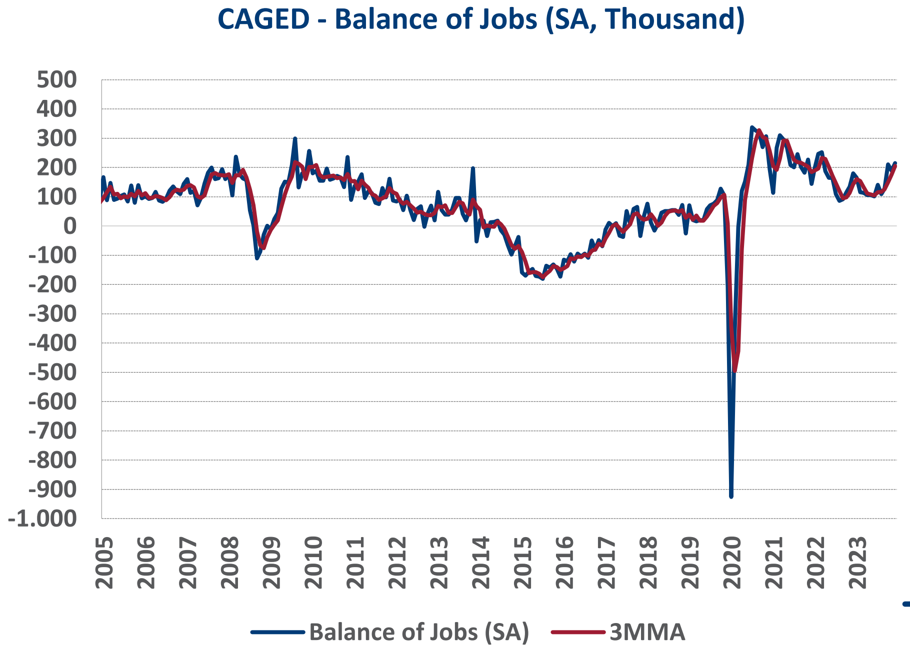


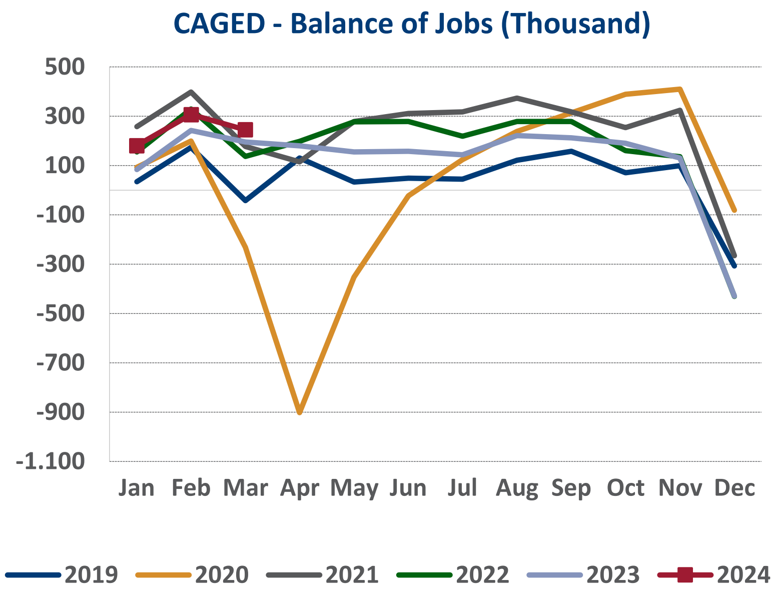


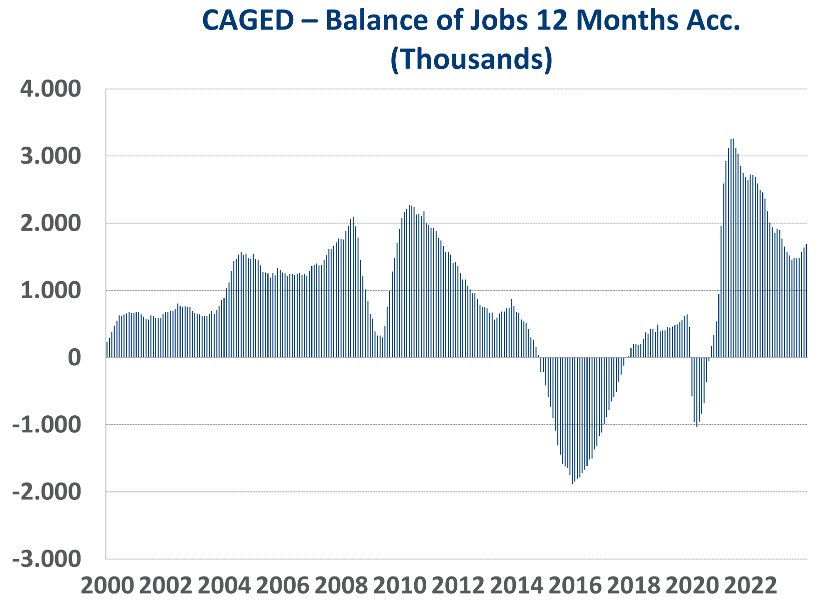
Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

- Caged registered a net creation of 244.3k formal jobs in February, above market expectations (190k);
- Seasonally adjusted, we estimated a net addition of 215.4k formal jobs;
- In sum, the formal labor market continues to present historically high numbers, contributing to support household consumption.





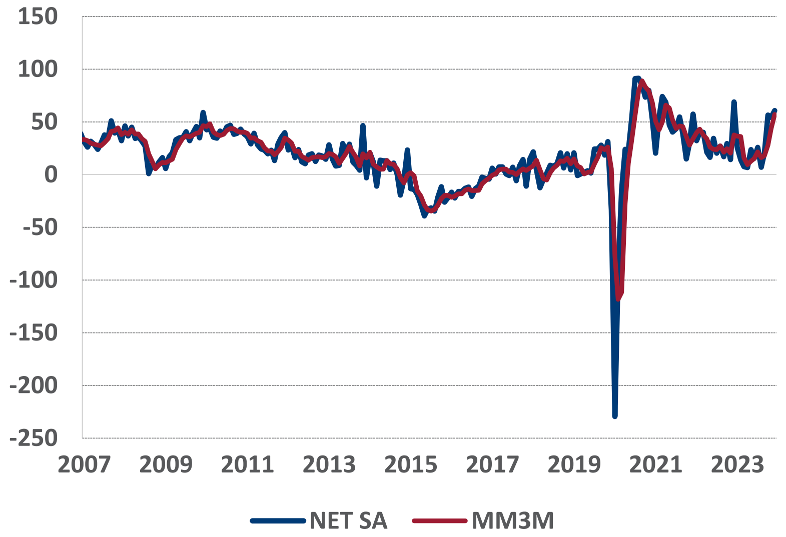


Source: BOCOM BBM, MTE

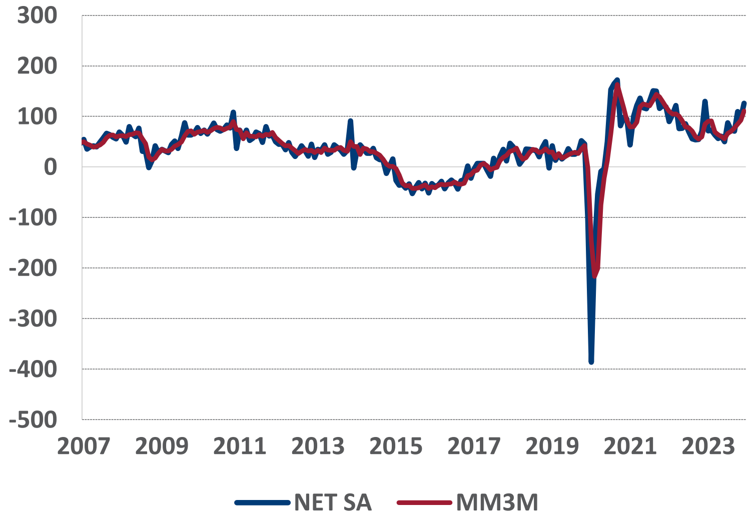
Brazil: Formal Labor Market

- The breakdown shows that all sectors registered positive net results;
- The biggest contribution came once again from the services sector, with a net creation of 141.3k formal jobs;
- Retail Sales was the second best, creating around 37.5k formal jobs;
- Industry, in turn, registered a net of 33.1k jobs;
- Finally, the construction sector created about 28.6k formal jobs.

Brazil - Retail Net Payroll Job Creation (SA)

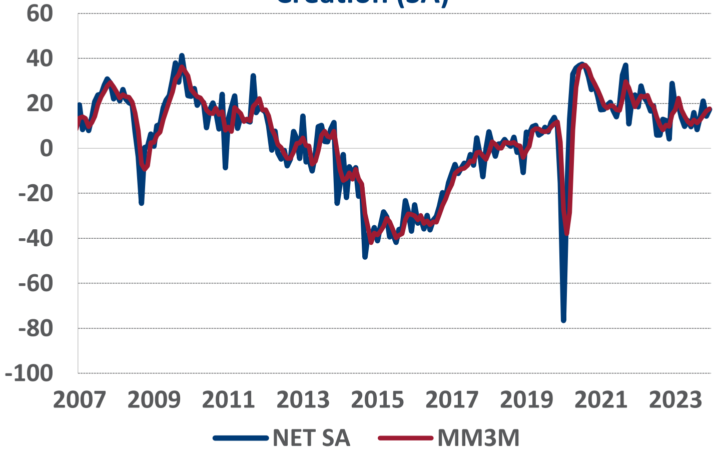


Brazil - Services Net Payroll Job Creation (SA)



Brazil - Industry Net Payroll Job Creation (SA)

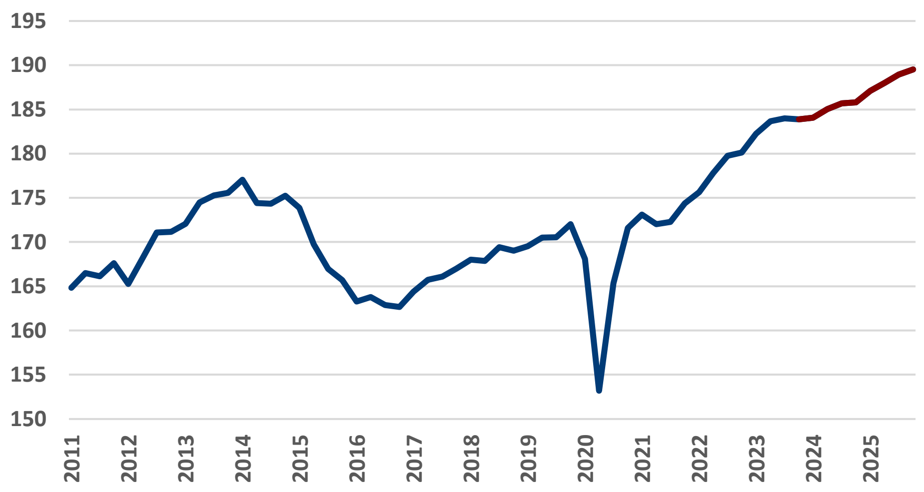
Brazil - Construction Net Payroll Job Creation (SA)



Source: BOCOM BBM, MTE

Brazil: GDP

- After strong economic activity data in February, we revised our forecast for Q1 GDP from 0.6% to 0.7% QoQ, and the year of 2024 from 1.7% to 1.8%;
- We highlight upside risks due to the strong expansion in real disposable income and in credit concessions;

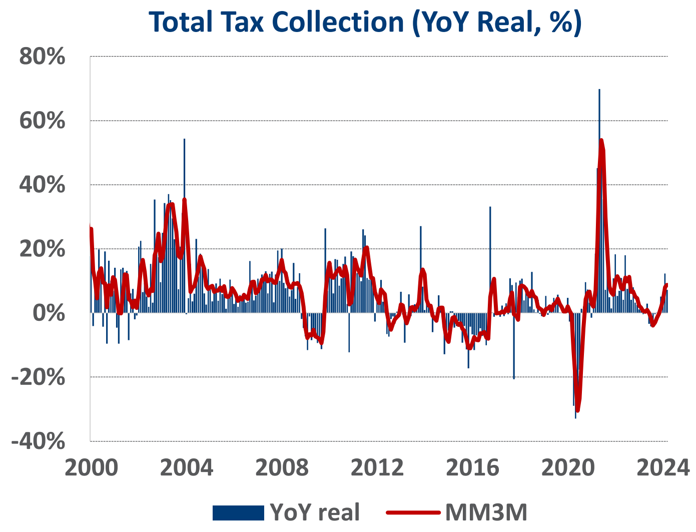


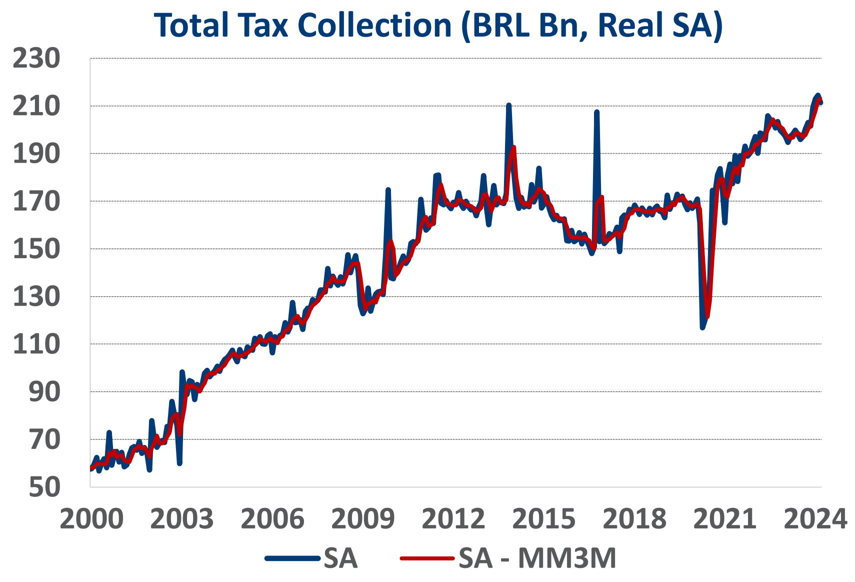
Forecasts			
	2024.I QoQ	2024.I YoY	2024
GDP	**0.7%**	**2.3%**	**1.8%**
Agriculture	**9.2%**	**-5.8%**	**-3.7%**
Industry	**0.9%**	**4.2%**	**2.4%**
Mining	0.8%	6.5%	4.8%
Manufacturing	1.6%	3.0%	1.5%
Electricity	0.7%	7.2%	3.8%
Civil Construction	0.0%	2.8%	2.1%
Services	**0.4%**	**2.7%**	**2.1%**
Retail	2.5%	4.0%	2.4%
Transports	2.6%	2.9%	1.8%
Information and Communication	1.7%	4.0%	3.6%
Financial Services	0.6%	4.0%	3.4%
Rents	0.4%	3.0%	2.6%
Other Services	-1.3%	2.0%	1.8%
Public Administration	0.0%	1.5%	1.2%

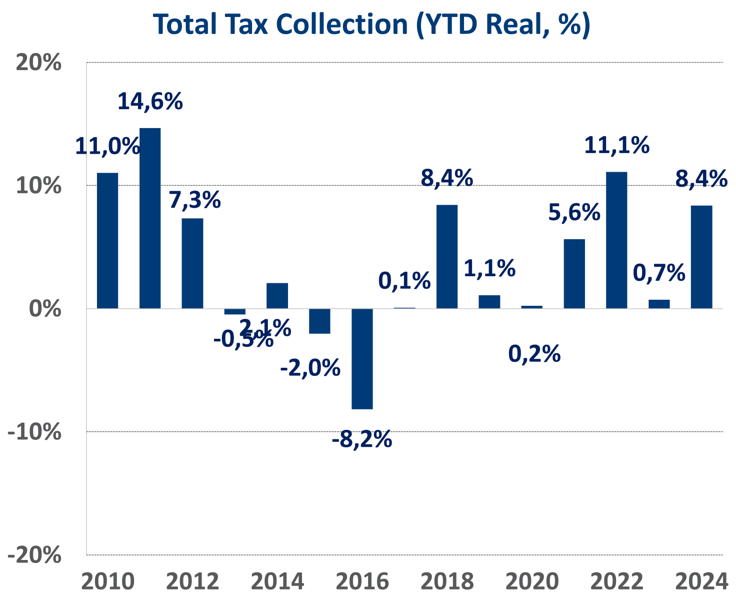
Source: BOCOM BBM, IBGE

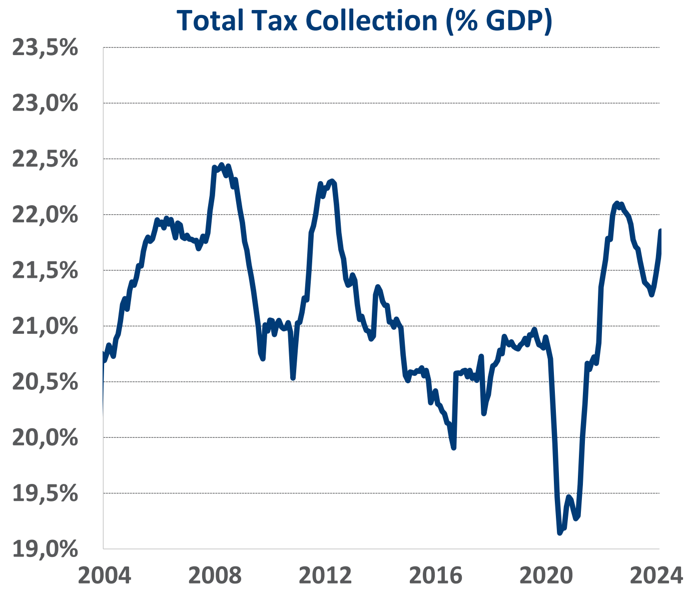
Brazil: Federal Tax Collections

- In March, total federal tax collections reached BRL 190.6 bn (7.2% YoY), slightly below the consensus, but a historical record for the month;
- The main drivers were PIS/Cofins (20.6% YoY), driven by the increase in sales and services volume, social security revenue (8.4% YoY), due to the heated labor market, and income tax on capital gains (48.9% YoY), due to taxing of exclusive funds;
- On the other hand, corporate income tax (IRPJ/CSLL) fell by 13.6%, a disappointing number, given the expectations surrounding the changes in ICMS subsides and interest on equities (IoE);
- Overall, March's result was disappointing, although it showed significant growth compared to last year, it is still below what would be needed to reach the primary result target.









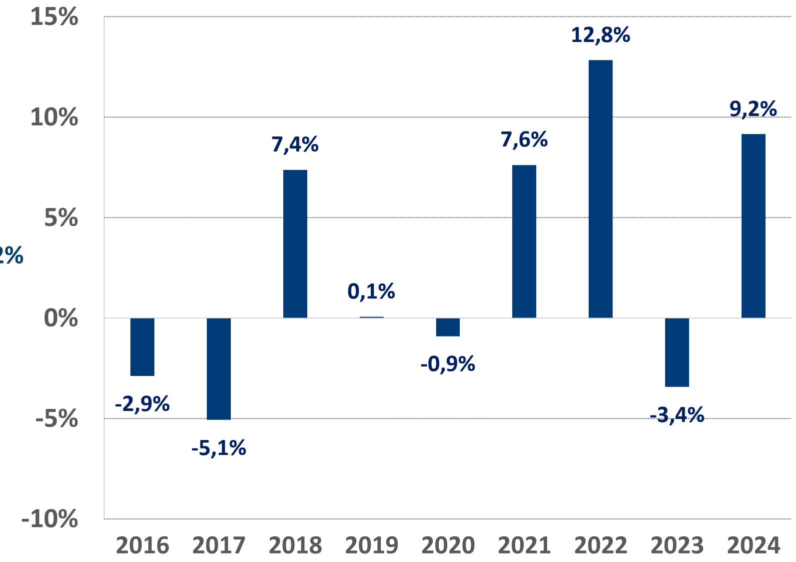
Fonte: BOCOM BBM, RFB

Brazil: Central Government Primary Result

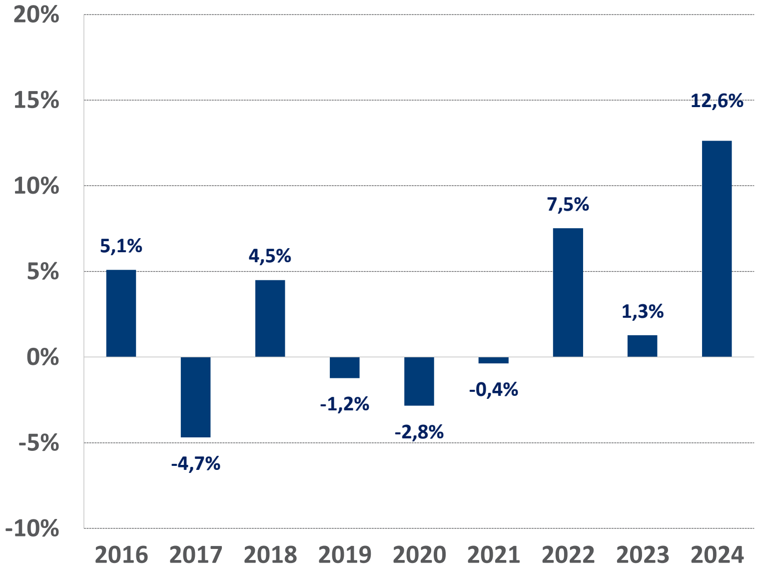
- In March, the central government's primary balance posted a deficit of BRL 1.5 bn, below market expectations (BRL +1.6 bn);
- The 12-M accumulated primary deficit reached 247.4 bn, or 2.2% of GDP;
- Net revenue increased 8.3% YoY, driven by the withholding income tax on capital income (51.9% YoY), due to taxing of exclusive funds, PIS/Cofins (22.6% YoY), thanks to heated economic activity and the reversal of tax cuts on fuels, and dividends and shareholdings of Caixa Econômica Federal and Petrobras;
- On the other hand, total spending increased 4.3% YoY in real terms, driven by pension benefits (6.0% YoY) and elderly and disabled assistance (BPC/LOAS) (18.5% YoY). Both effects are due to the increase in the minimum wage and in the number of beneficiaries.

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

Net Revenue (YTD Real, %)



Expenditure (YTD Real, %)



Fonte: BOCOM BBM, RTN

Brazil: Consolidated Public Sector Budget

- The consolidated public sector recorded a primary surplus of BRL 1.2 billion in March, above market consensus (BRL -1.9 billion) and a deficit of BRL 14.2 bn in March 2023. Subnational governments registered a surplus of BRL 3.4 bn, which was partially offset by deficits of BRL 1.9 bn and BRL 0.3 bn on the Central government and state-owned enterprises results, respectively;

- Gross General Government Debt surged to surged to 75.7% of GDP in March from 75.5% of GDP in February, pushed by nominal interest (+0.6pp.) and partially offset by nominal GDP growth (-0.2pp.) and net issuances (-0.2pp.).

Gross General Government Debt (% GDP)

Primary Budget Balance (% GDP 12M)

Primary Balance: Central Government (% GDP 12M)

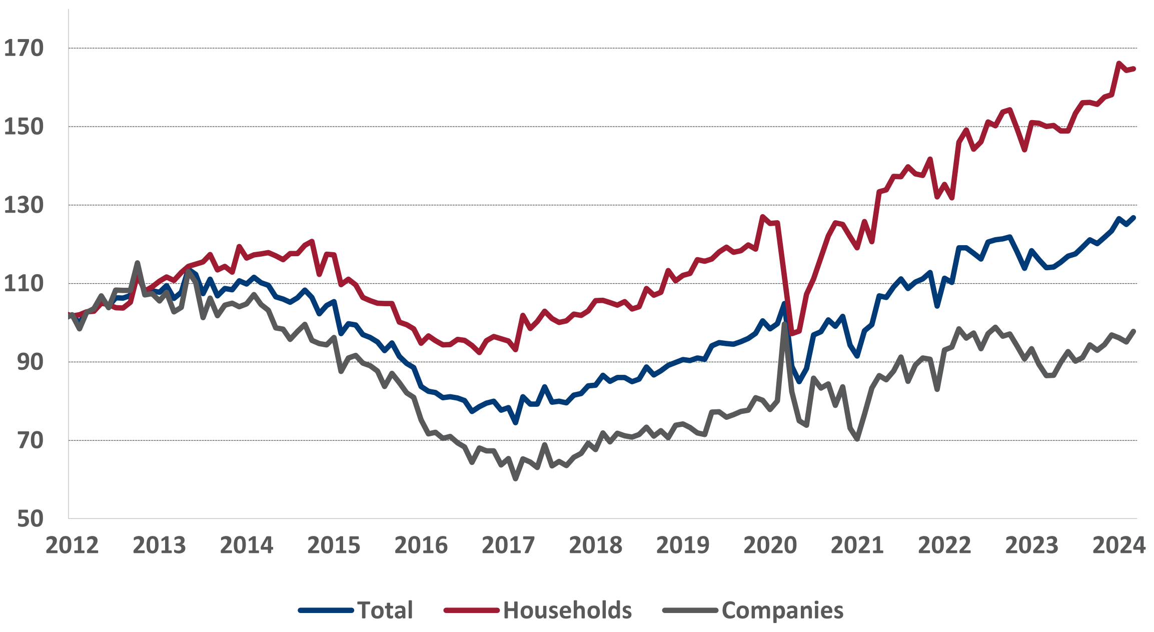
Primary Balance: Subnational governments and SOEs (% GDP 12M)

Source: BOCOM BBM, BCB

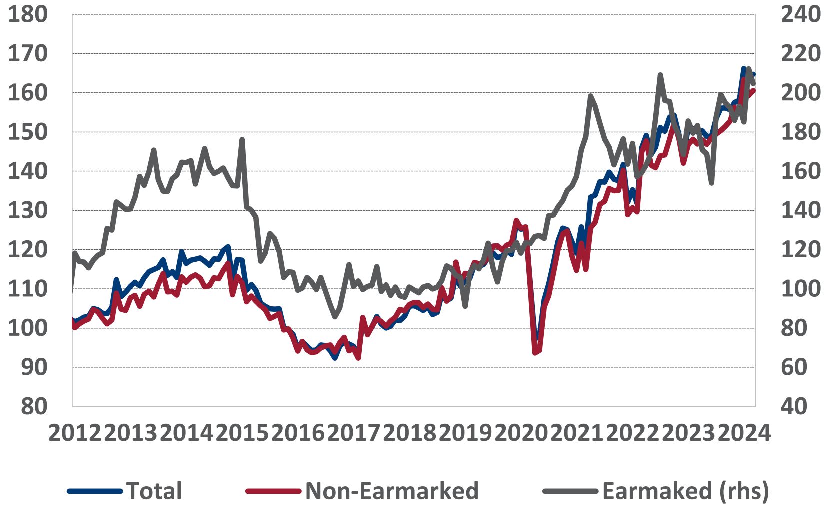
Brazil: Credit Statistics

- In March, total credit concessions expanded by 1.3% MoM in real terms;
- Non-earmarked credit concessions increased 4.1% MoM to companies and 0.8% MoM to households;
- Earmarked credit concessions, in turn, expanded 7.1% MoM to companies and fell 3.5% MoM to families.

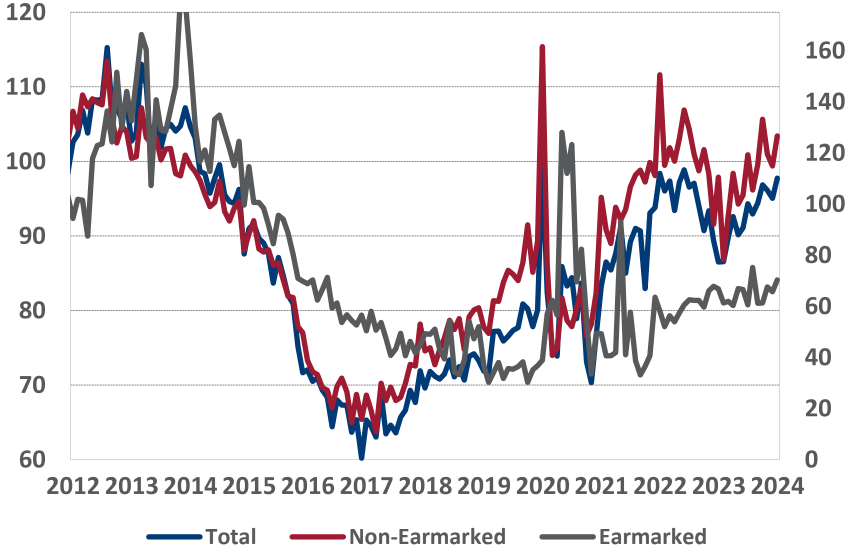
New Credit Operations SA (Real) - mar/11 = 100



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



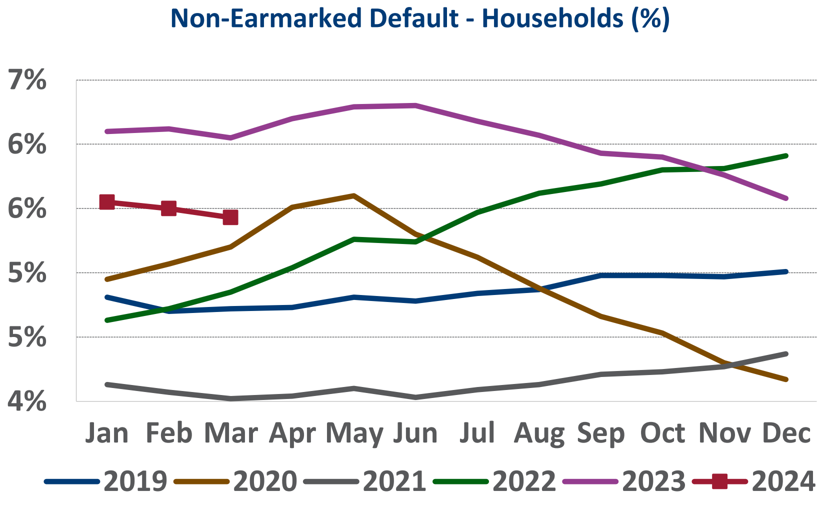
Concessions - Companies SA (Real) - mar/11 = 100

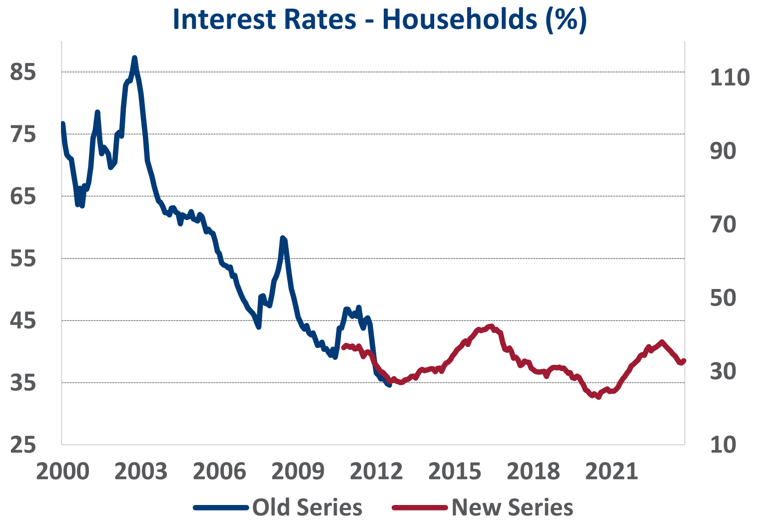


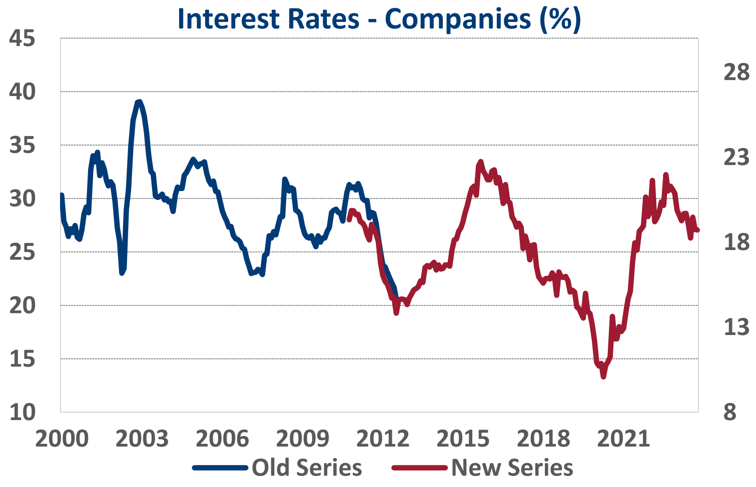
Source: BOCOM BBM, BCB

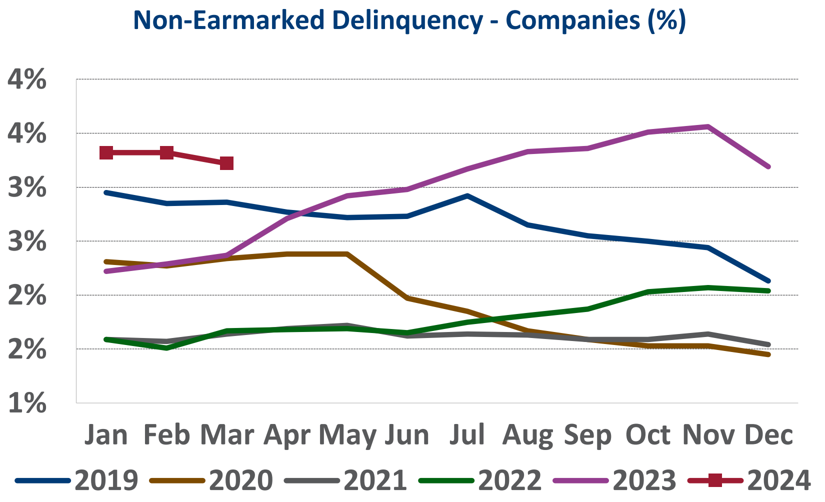
Brazil: Credit Statistics

- Lending rates increased marginally, which was a result of a rise to 32.8% (from 32.2%) for individuals and a fall to 18.7% (from 18.8%) for companies;
- In turn, non-earmarked default rate is around 5.4% to individuals and 3.2% to companies.





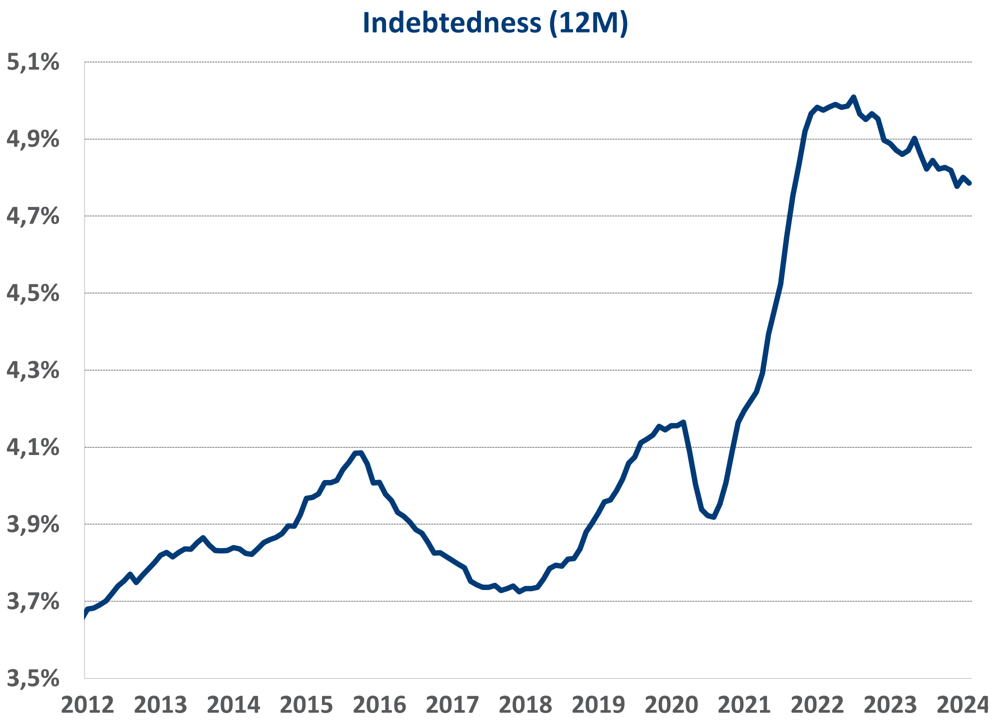


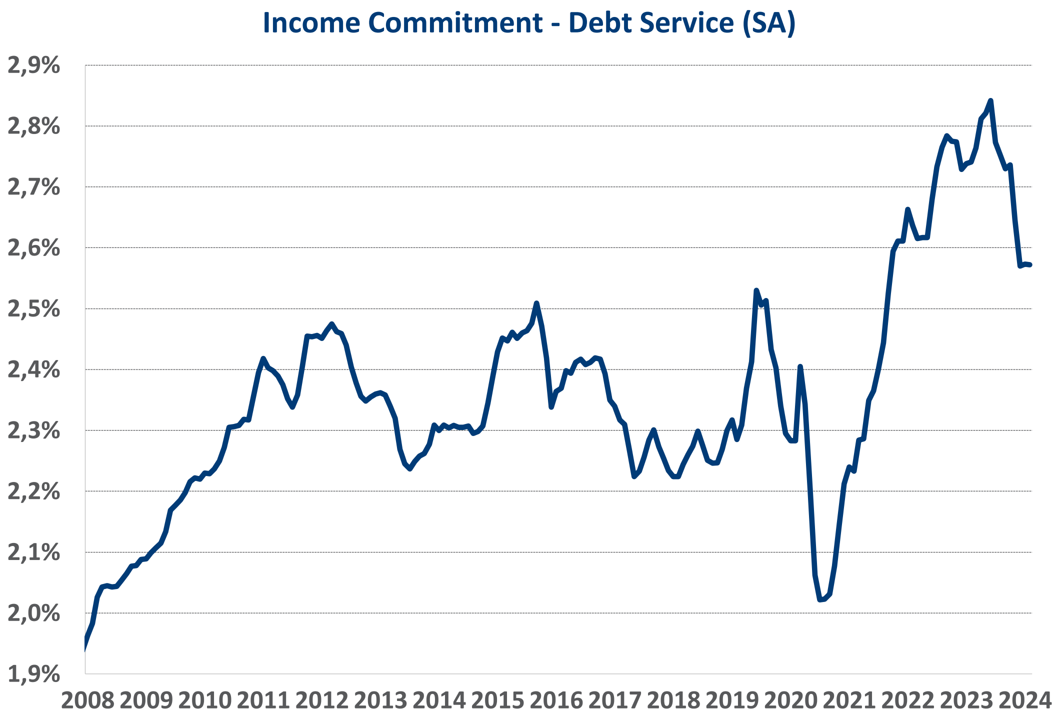


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- Household indebtedness stood at 47.8%, slight decrease when compared to the previous month;
- Accordingly, income commitment to debt service stood at 25.7%;

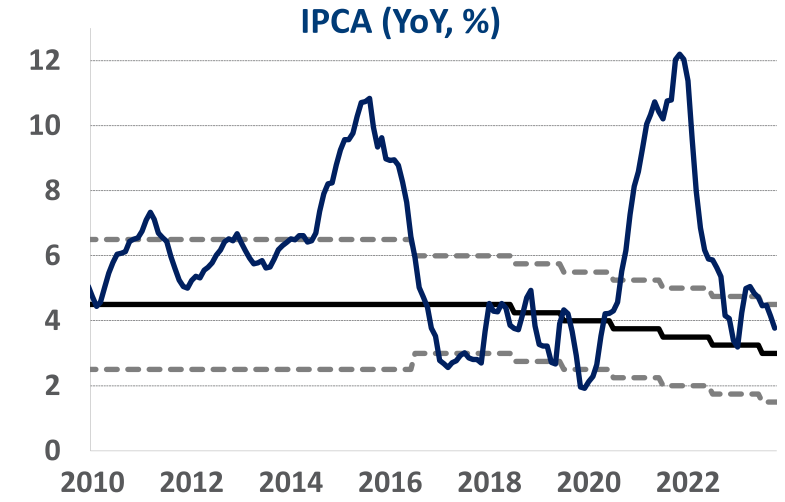


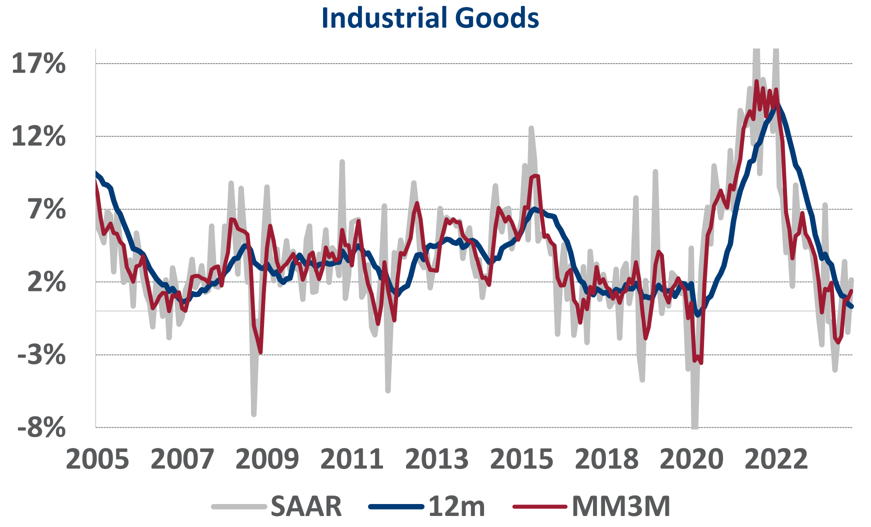


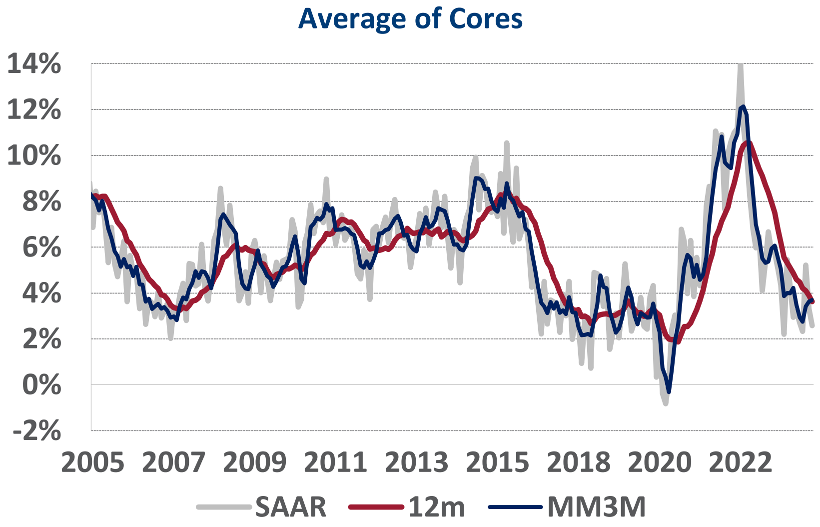
Source: BOCOM BBM, BCB

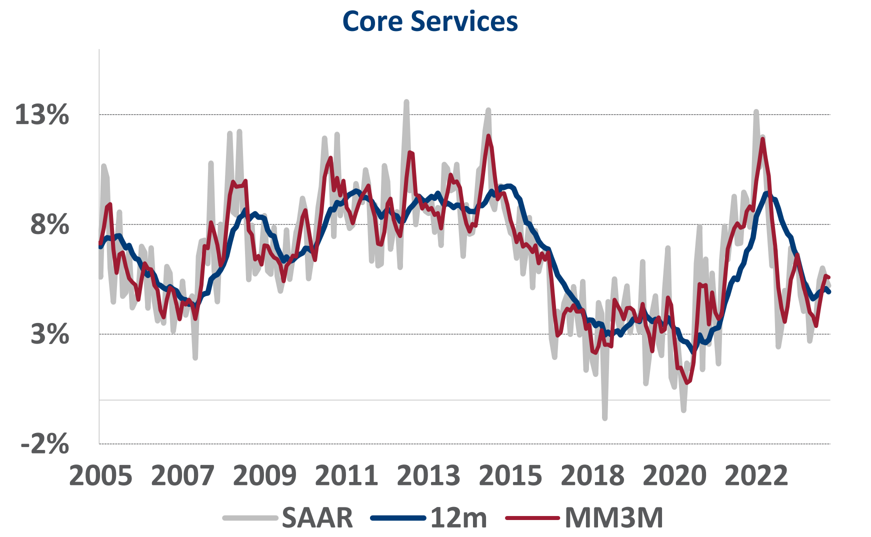
Brazil: Inflation 2024

- The April IPCA preview posted a variation of 0.21% MoM, below market consensus (0.29% MoM)
- The 12-month variation dropped to 3.77% in April from 4.14% in March;
- The lower-than-expected print came from monitored prices, such as gasoline and electricity bills, and services (mainly airline tickets);
- In addition to a lower headline, inflation composition also came in marginally better. The average of core inflation advanced 0.19% MoM and the underlying services rose by 0.38% MoM, both of which stood slightly below expectations.







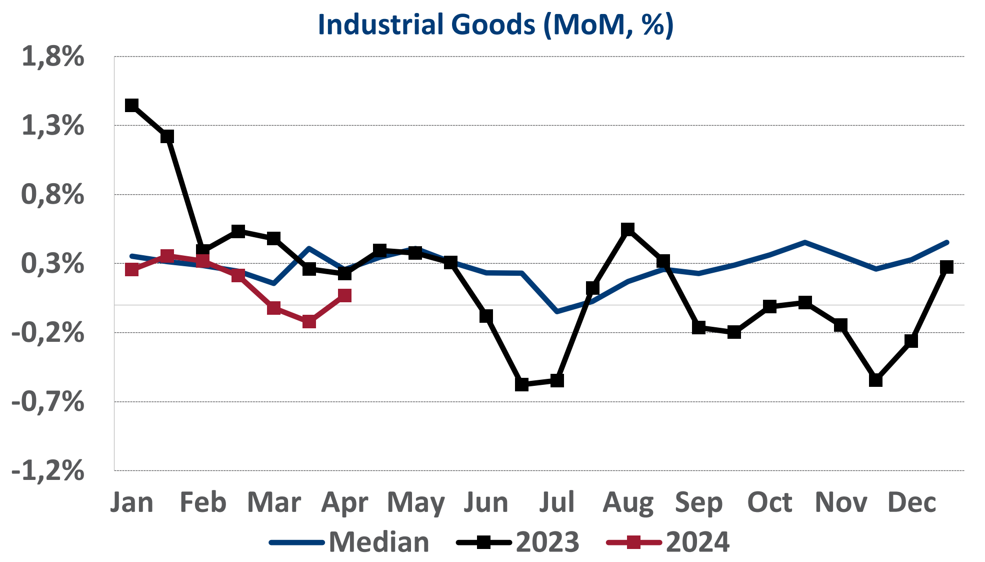


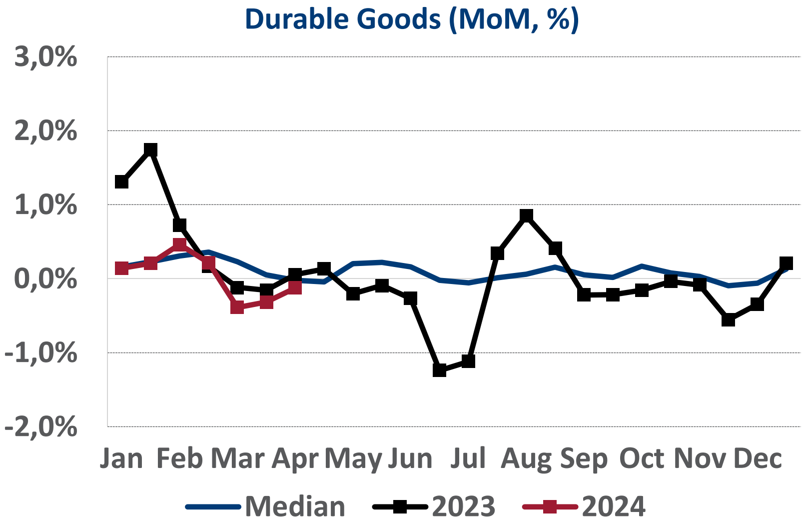
Source: BOCOM BBM, IBGE

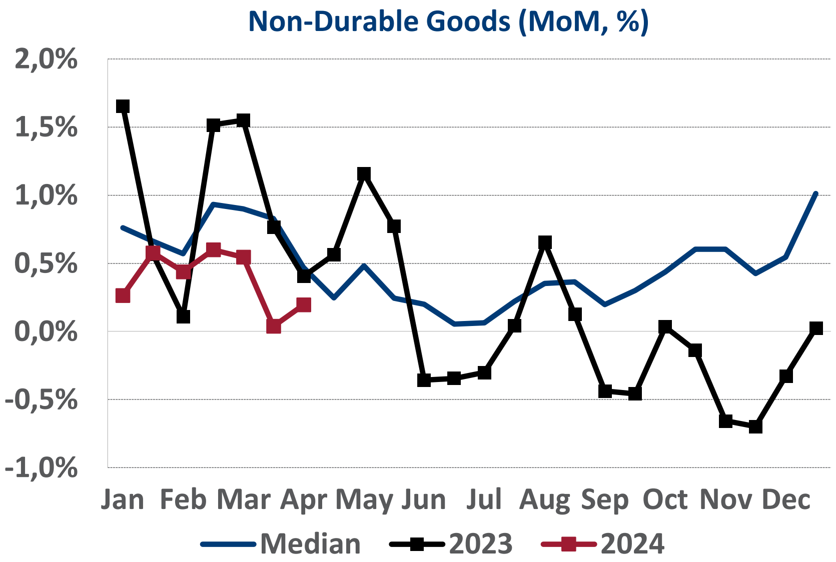
Brazil: Inflation 2024

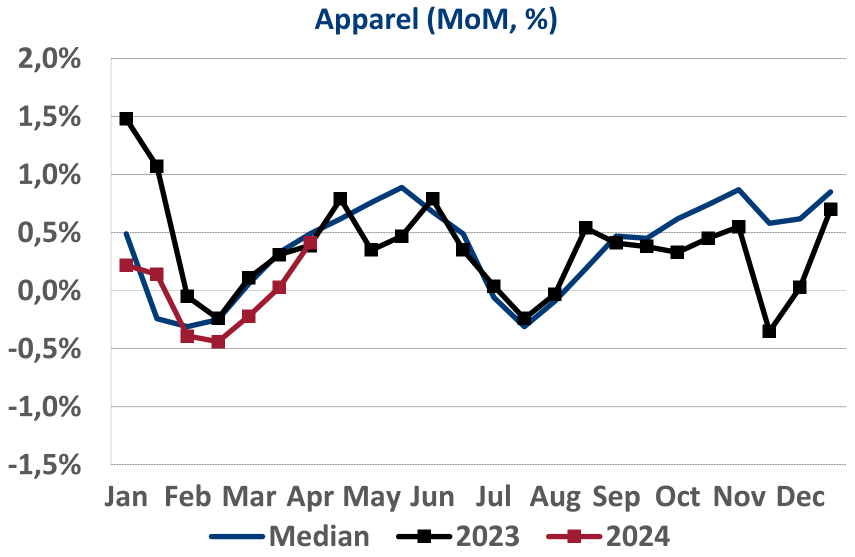
- The group of industrial prices advanced 0.07% MoM and remain an important contributor to the Brazilian disinflation process;

- The acceleration at the margin was due to a payback after the 'consumer week' discounts in March, but it was expected by market participants.







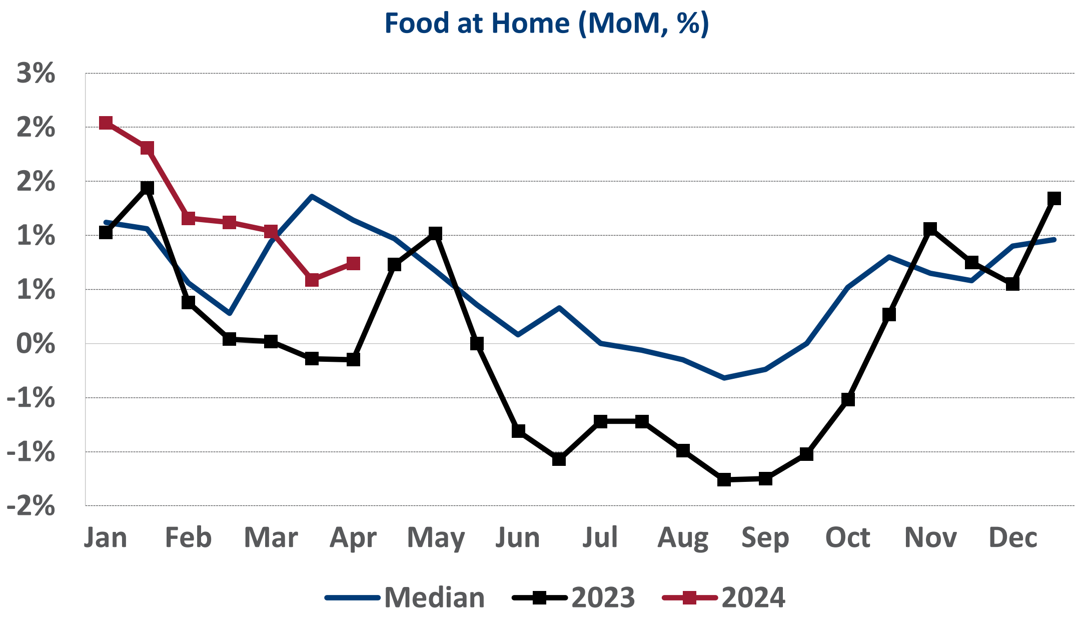


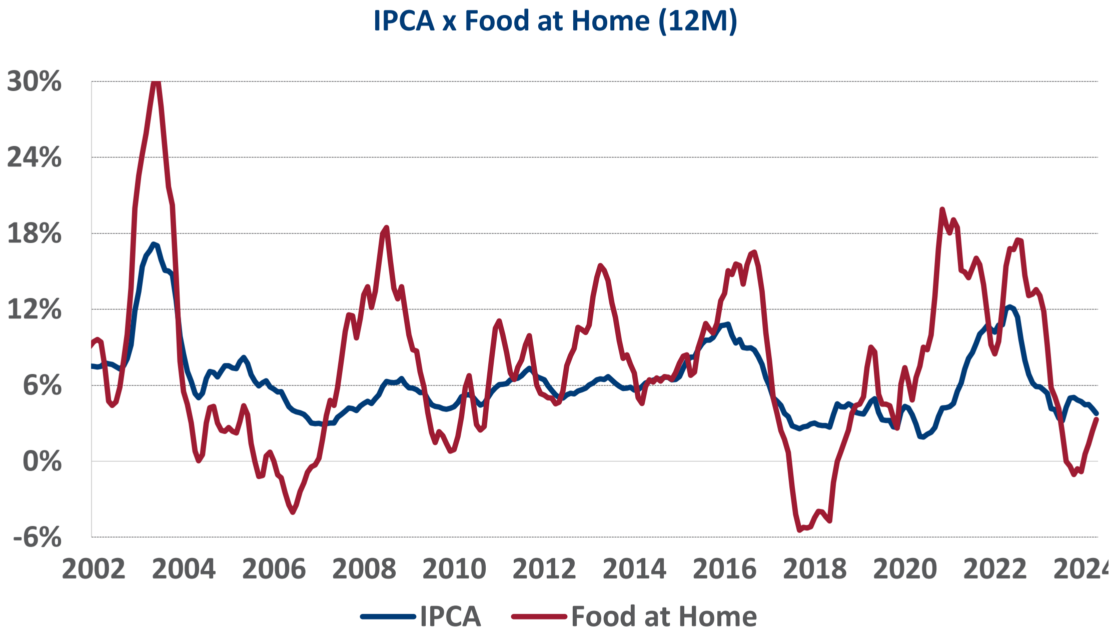
Source: BOCOM BBM, IBGE

Brazil: Inflation 2024

交通銀行 BANK OF COMMUNICATIONS BBM

» Foodstuff prices came in roughly in line with estimates (0.74%).





Source: BOCOM BBM, IBGE

Brazil: Inflation

- **Our forecasts for 2024 and 2025 IPCA inflation were kept at 3.6% and 4.0%, respectively**
- April´s figure presented an additional relief in headline and core inflation gauges, but were offset by higher gasoline and ethanol prices

IPCA (%, annual)

	Weight	2019	2020	2021	2022	2023	2024	2025
Regulated	**26.6**	**5.5**	**2.6**	**16.9**	**-3.8**	**9.1**	**3.9**	**4.1**
Industrial goods	**23.6**	**1.7**	**3.2**	**11.9**	**9.5**	**1.1**	**2.0**	**3.1**
Durable goods	10.3	0.0	4.5	12.9	6.1	-0.4	0.9	-
Semi-durable goods	5.9	0.6	-0.1	10.2	15.7	2.7	2.7	-
Non-durable goods	7.3	4.4	4.0	11.9	9.5	1.7	3.0	-
Food at home	**15.7**	**7.8**	**18.2**	**8.2**	**13.2**	**-0.5**	**3.0**	**4.5**
Services	**34.1**	**3.5**	**1.7**	**4.8**	**7.6**	**6.2**	**4.7**	**4.3**
Food away from home	5.6	3.8	4.8	7.2	7.5	5.3	4.5	4.2
Related to minimum wage	5.2	2.9	1.5	3.3	6.3	5.2	6.1	6.4
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.3	9.5	4.0	4.2
Inertial	15.0	4.3	1.6	4.2	8.8	5.1	4.7	3.6
IPCA		**4.3**	**4.5**	**10.1**	**5.8**	**4.6**	**3.6**	**4.0**

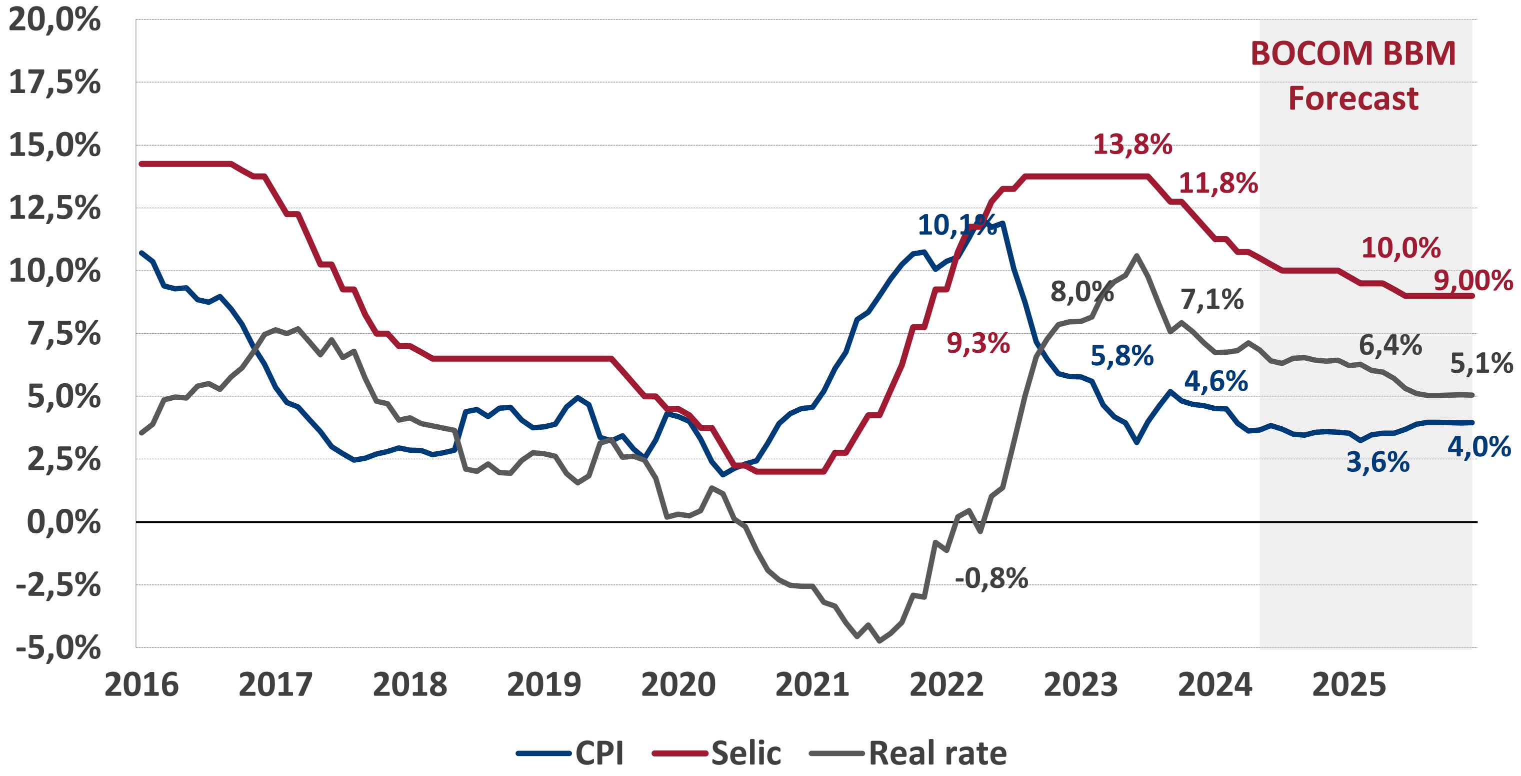
Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

» Concerning monetary policy, in its March meeting the Brazilian Central Bank decided to cut Selic rates by 50 bps, reaching 10.75% per year. The committee also dropped the forward guidance of a 50bps cut in the next two meetings, committing only to 50bps cut in the May meeting. However, uncertainty has increased considerably since then;

» The strong inflation and activity data in US postponed the begging of the Fed funds cutting cycle, demanding caution in the monetary policy conduction in emerging countries. Domestically, uncertainty regarding the fiscal accounts has increased, especially after changes in primary targets and frustration regarding important measures to increase revenues this year. The effects of increased uncertainty at national and international levels were reflected in recent exchange rate movements and in inflation expectations for longer horizons, which put the disinflation process at risk. Consequently, **a reduction in the pace of cuts from the next meeting onwards seems to be the strategy that will be followed by the Central Bank.**

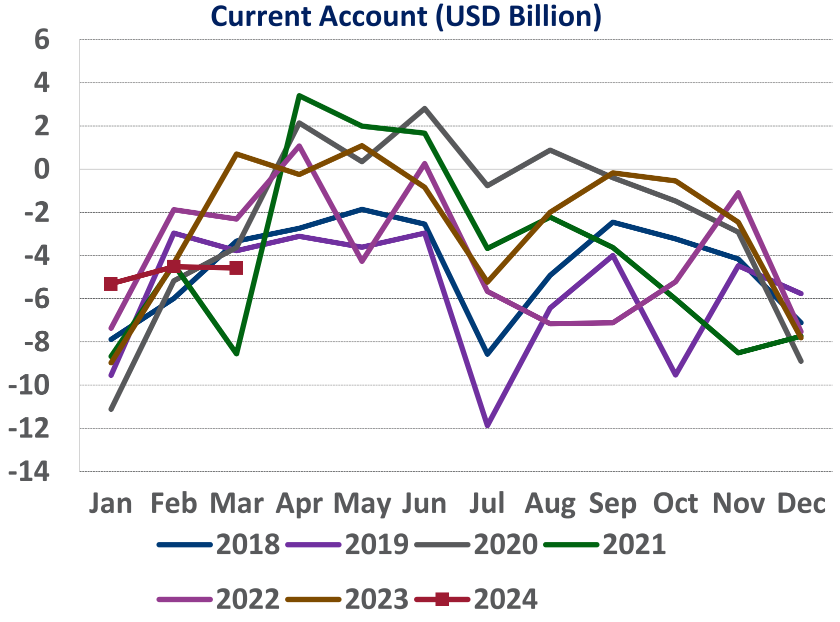
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

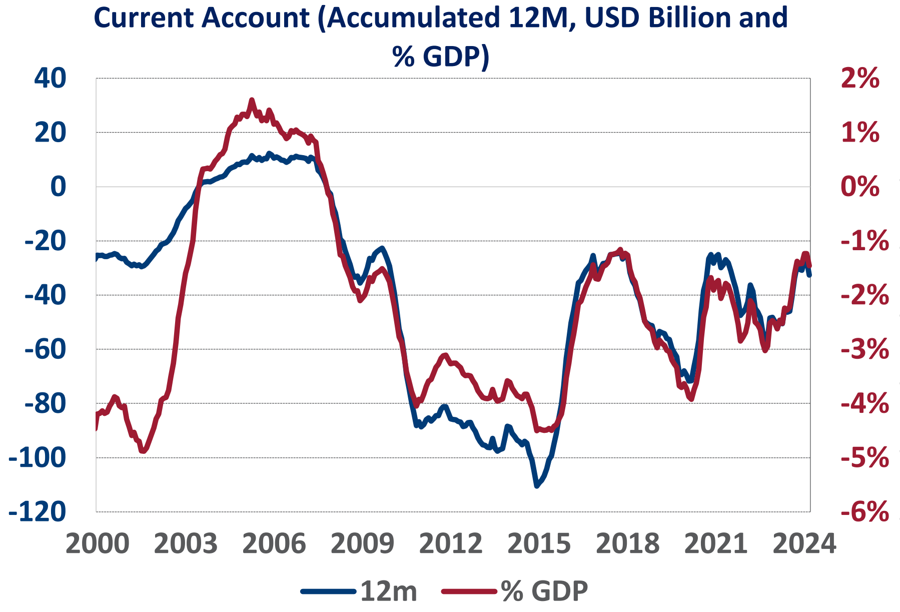


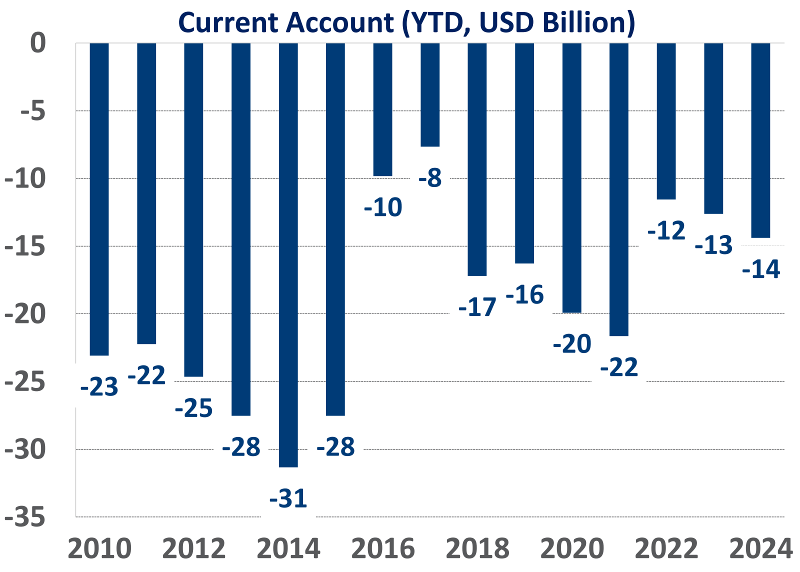
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The Brazilian current account recorded a deficit of USD 4.6 billion in March 2024, below expectations of USD 3.1 billion;
- Nevertheless, the current account deficit remains significantly below one year ago (it reached 1.5% of GDP in March 2024 versus 2.5% of GDP in the same month of last year).



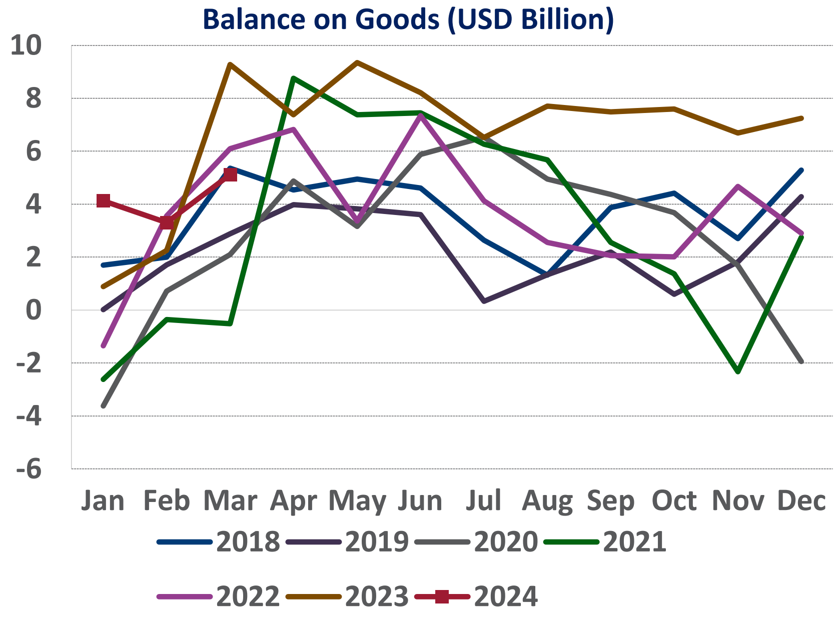


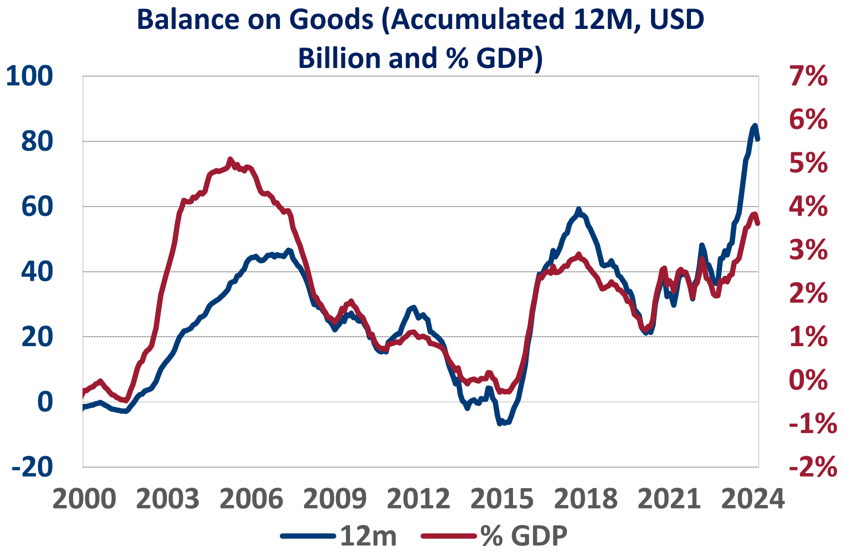


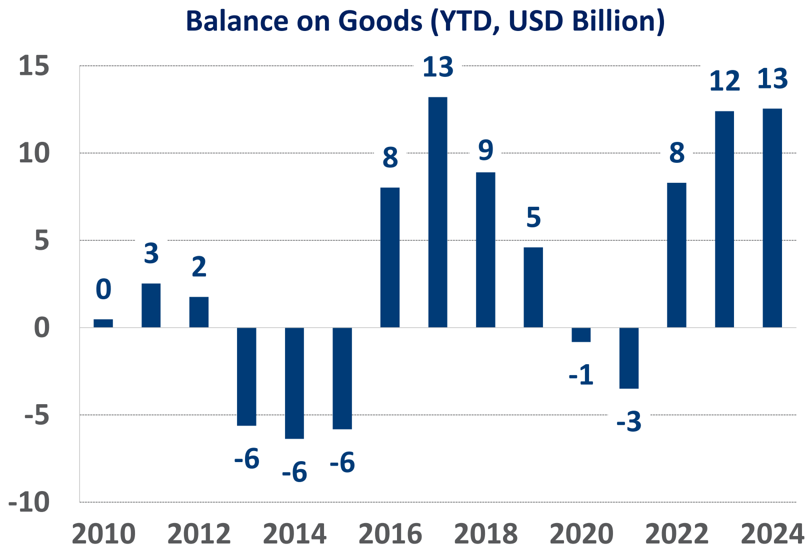
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- The Merchandise Trade Balance recorded a surplus of USD 5.1 billion in March;
- The 12-month rolling sum up to March 2024 reached USD 80.7 billion;
- This result was far below the recorded for the same month last year (+USD 9.3 billion), mainly due to the fall in soybean and iron ore export prices, but also due to crypto imports that reached US$ 1.8 billion in March and a deficit of 0.6% of GDP in the last twelve months.



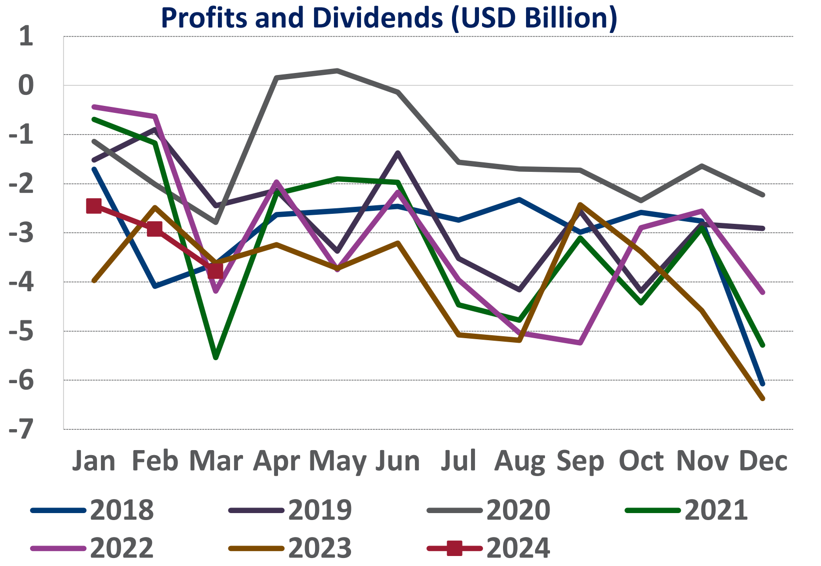


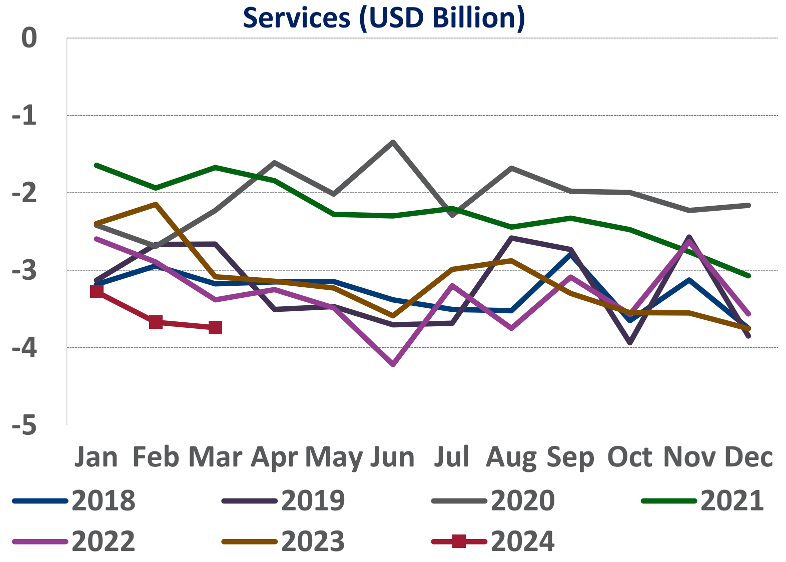


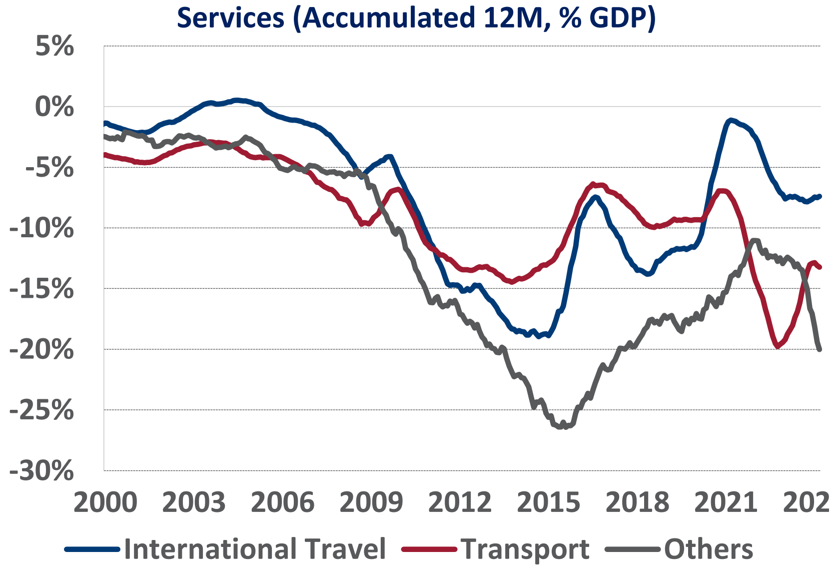
Source: BOCOM BBM, BCB

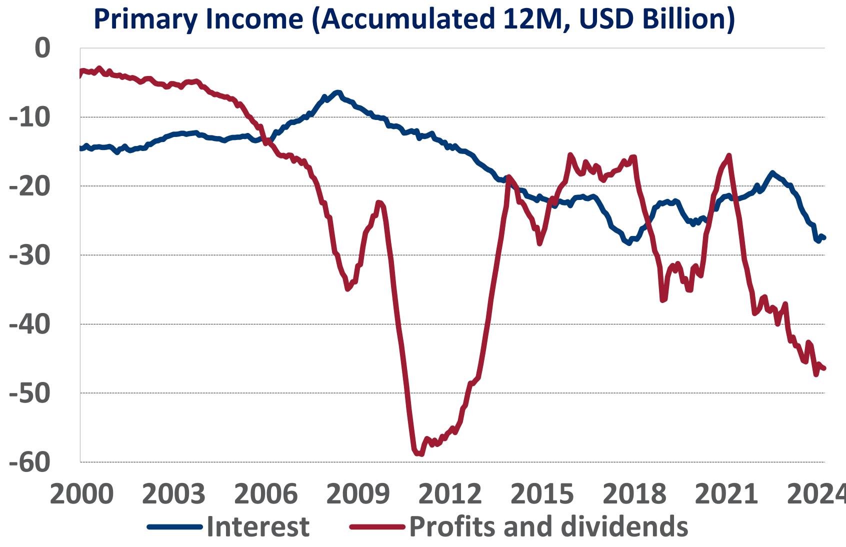
Brazil: Balance of Payments

- The deficit in the Services Account totaled USD 3.7 billion in March, from USD 3.1 billion a year earlier;
- The deficit in the Primary Income account reached USD 6.0 billion in March 2024 and USD 71.2 billion in the 12-month rolling sum.





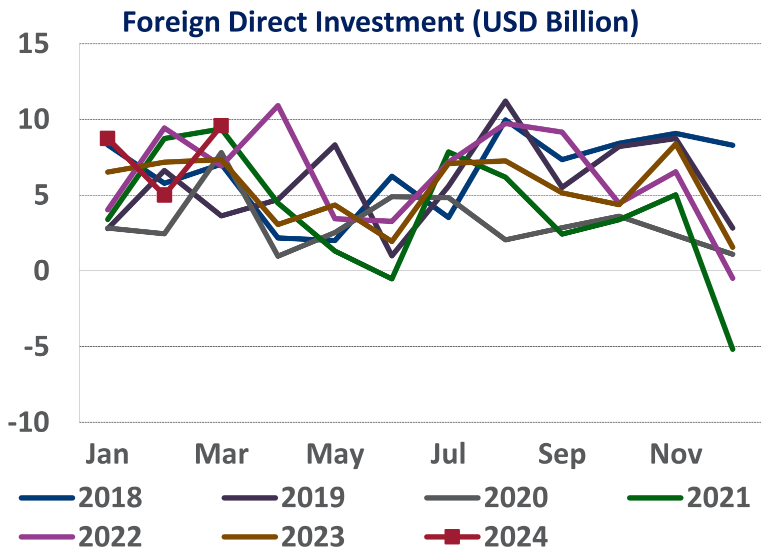


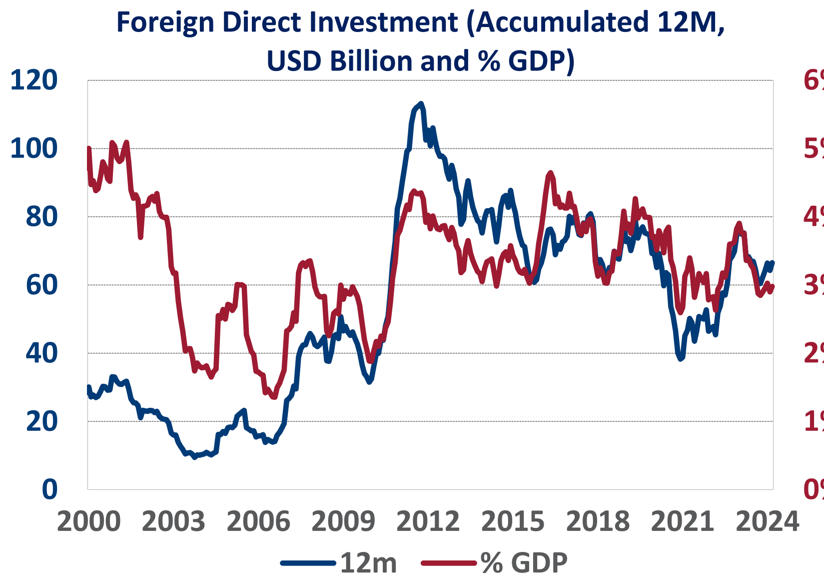


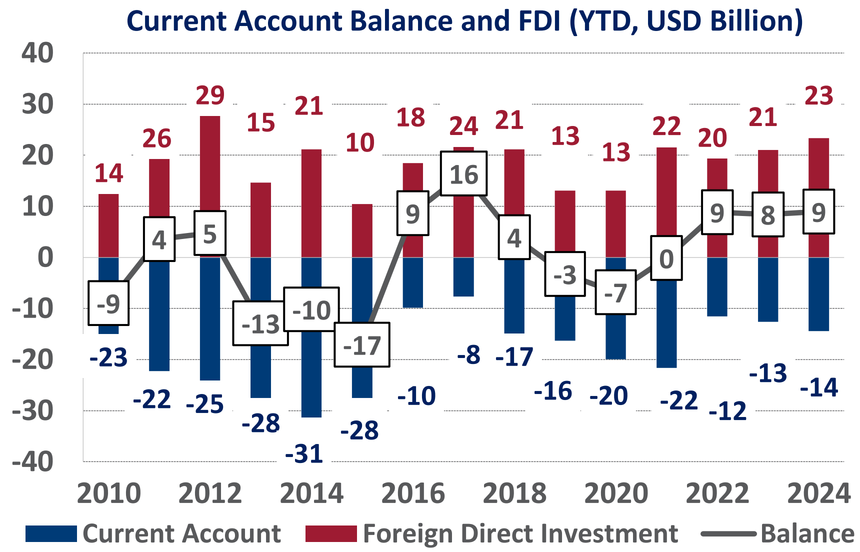
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- Net inflows in Foreign Direct Investment (FDI) totaled USD 9.6 billion in March 2024, way above projections (USD 6.9 billion) and the amount of USD 7.3 billion recorded in March 2023;
- In 12 months it reached USD 66.5 billion (2.98% of GDP);
- Overall, Brazilian balance of payments remain robust, with net inflows in FDI surpassing the current account deficit, despite the monthly volatility.



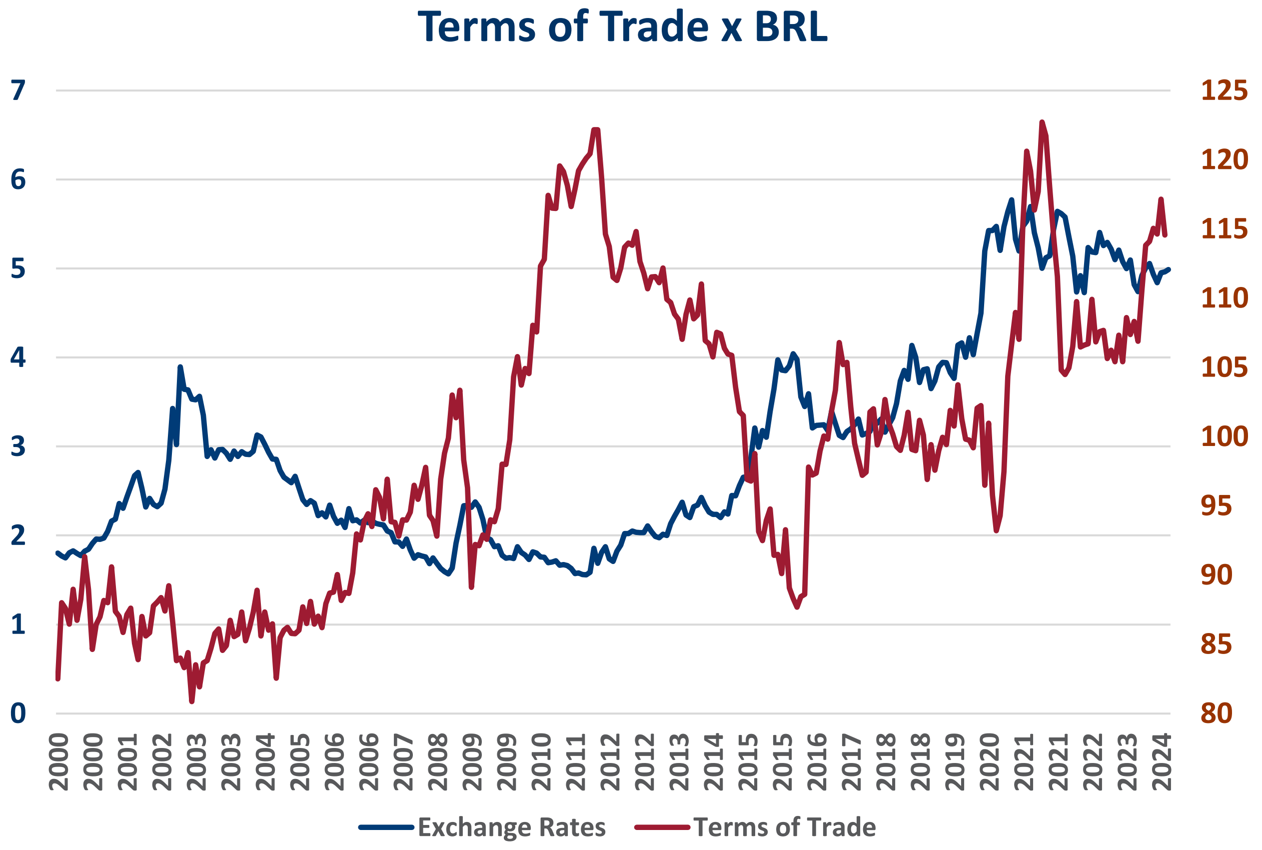


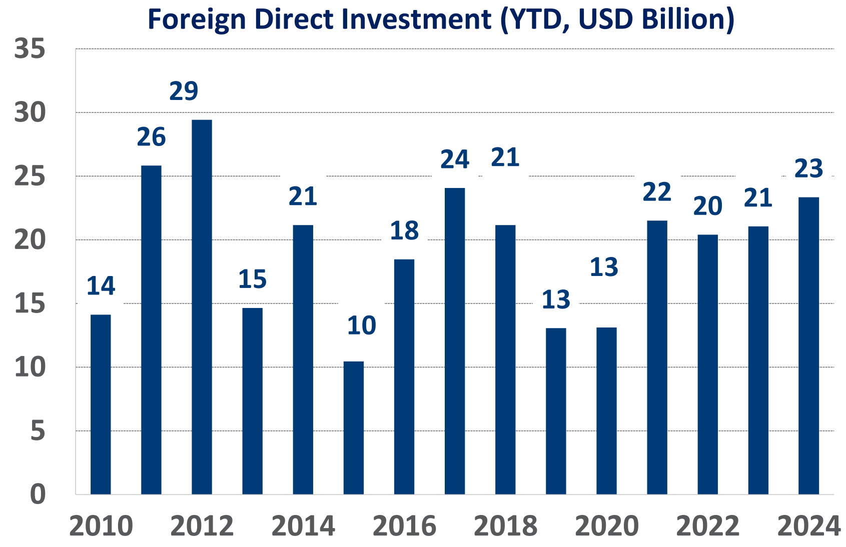


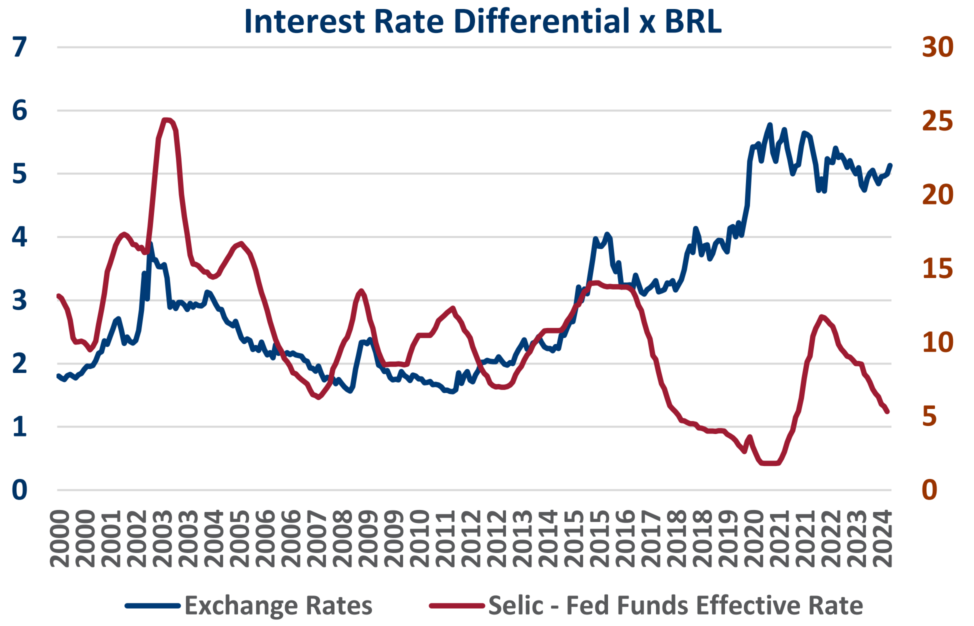
Source: BOCOM BBM, BCB

Brazil: External Sector

- In the international front, US inflation and economic activity data surprised to the upside. These events were followed by hawkish speeches from Fed members and a consequent repricing of Fed funds rate cuts expected for this year, strengthening the dollar;
- In the domestic front, the budget guidelines law set less challenging primary targets for 2025 onwards, postponing the debt stabilization in the government scenario by two years.





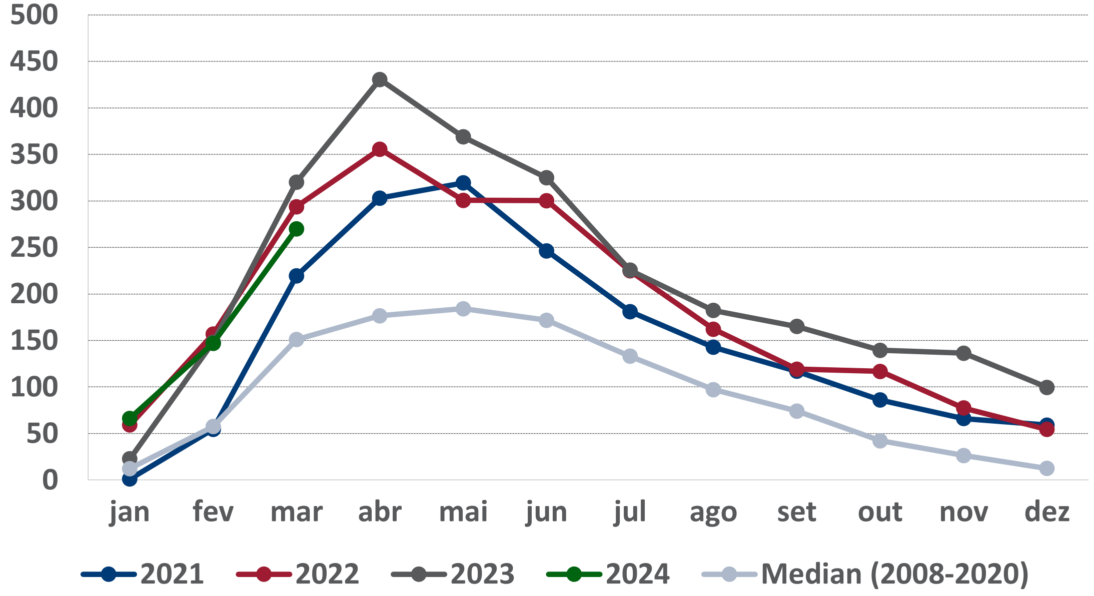


Source: BOCOM BBM, Bloomberg, Funcex, BCB

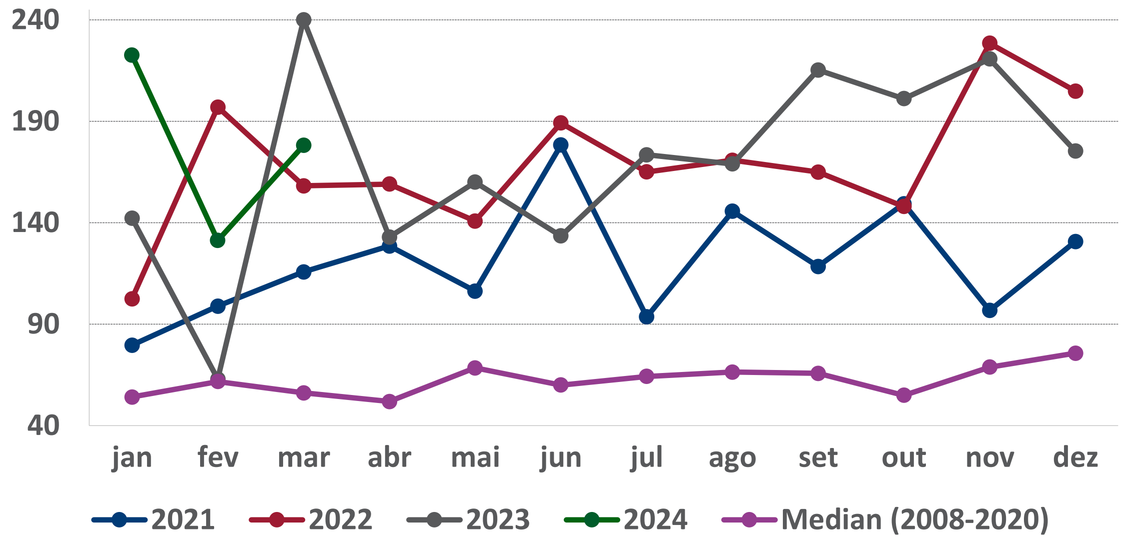
Brazil: External Sector

- In March, the trade balance presented a surplus of US$ 7.48 bn (-30.4% YoY) according to Secex data;
- Year to date, the trade surplus reached US$ 19.08 bn (22.2%% YoY);
- The exports decreased 14.8% YoY, pushed down by soybeans (-26.7% YoY), corn (-72.5% YoY) and crude oil (-35.5% YoY);
- On the other hand, imports decreased 7.1% YoY, mainly because of fuel oil (-17.6% YoY) and chemical fertilizers (-43.5% YoY).

Brazil BoP: Soybeans Exports
US$ Million Daily Average



Brazil BoP: Crude Oil Exports
US$ Million Daily Average



Source: Secex, BOCOMBBM

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