交通銀行 BANK OF COMMUNICATIONS BBM

MACRO OUTLOOK

June 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 2024-Q1 data showed that disinflation is happening more gradually than expected. On the upside, FOMC members welcomed the latest CPI for April, but reinforced a cautious approach as they need more than just one month of good data to be convinced 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 future developments.

- As for China, real GDP surpassed market expectations in Q1 with a growth of 5.3% YoY, making the 2024 growth target of 'around 5%' looks way more achievable. However, most indicators so far in the year pointed to a continuity of the same pattern that has prevailed recently: strong production, but demand struggling to catch-up. This reflects policy decisions to incentivize growth in the manufacturing side of the economy, mainly on future-oriented industries, such as renewables, EVs and chips. But the outlook is challenging given the underwhelming recovery in domestic demand and adjustments in the property market.

- In Brazil, monthly indicators of economic activity posted mixed signs in March. Industrial production raised 0.9% MoM, below expectations, and Services sector increased 0.4% MoM, slightly above expectations. Broad retail sales, however, decreased by 0.3% this month, a big negative surprise. Given that, the Central Bank's monthly proxy for Brazil's GDP (IBC-BR) seems to summarize the overall below market expectations economic scenario, showing a decrease of 0.3% MoM;

- Concerning monetary policy, the Brazilian Central Bank (BCB) decided to cut Selic rates by 25 bps in its May meeting reaching 10.50% per year, in contrast to guidance given in previous meeting (a 50bps cut) but in line with recent communication given by some committee members. BCB projections indicate that rates reaching 9.63 % by 2024 and 9% by 2025 would bring inflation to 3.8% in 2024 and 3.3% in 2025. The committee notes that the international scenario has become more adverse, whereas labor markets show remarkable dynamism. Importantly, the communication indicates no guidance for the next meeting, and reinforces that the length and pace in interest rates adjustments are tied to the firm commitment to inflation convergence to the target. In a disputed decision, 5 members voted in favor of a 25 bps cut, whereas 4 members voted in favor of a 50 bps cut, showing diverging views of the 4 new committee members;

- In the inflation scenario, the May IPCA preview posted a variation of 0.44% MoM, below market consensus (0.47% MoM). In addition to a lower headline, inflation composition also came in marginally better. The average of core inflation advanced 0.31% MoM and the underlying services rose by 0.31% MoM, both of which stood slightly below expectations. It is worth noting that labor-intensive services (closely monitored by the Central Bank) retreated from 0.5% MoM in April preview to 0.36% in May. Our forecasts for 2024 and 2025 IPCA inflation were kept at 3.8% and 4.0%, respectively. May´s figure was another favorable inflation reading. Although we maintain the projection for the year stable, we now see a slightly better composition;

- In the fiscal scenario, total federal tax collections reached BRL 228.9 bn (8.3% YoY), in line with the consensus, but a historical record for the month. Overall, while registering historically high results, tax collections are still below what would be needed to reach the primary result target, with the performance of gains related to changes in ICMS subsidies, Interest on Equities (IoE) and CARF disappointing. Gross General Government Debt surged to 76.0% of GDP in April from 75.7% of GDP in March, pushed by nominal interest (+0.6pp.) and partially offset by nominal GDP growth (-0.4pp.) and net issuances (-0.1pp.).

China: Economic Activity - Overview

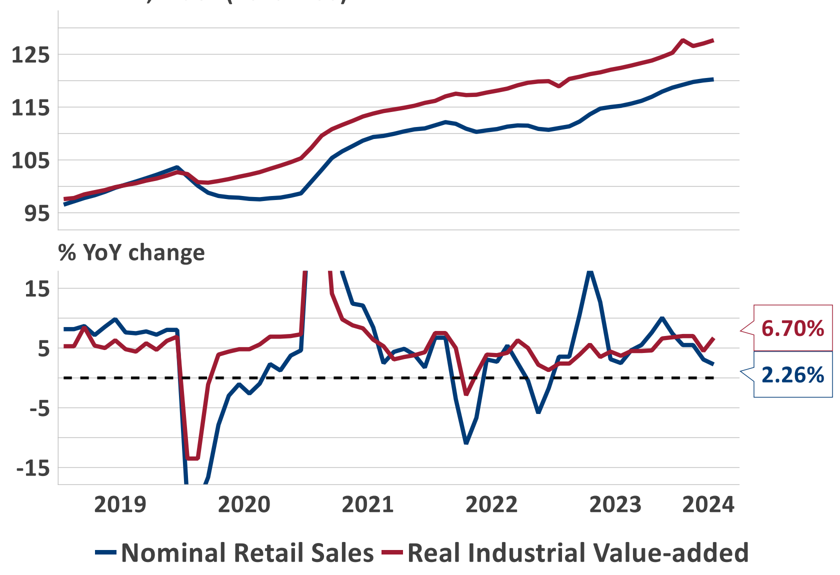
- April activity shows the same pattern that has prevailed recently: **strong production, but demand struggling to catch-up:**
- **Retail sales growth declined** from 3.1% to **2.3%** YoY (exp. 3.7%), due to base effects normalizing: notable on the slowdown of categories related to going-out, such as clothing and catering services (restaurants);
- **Industrial prod. accelerated** from 4.5% to **6.7%** YoY (exp 5.5%), reflecting strength in the production of products related to the "new productive forces", such as semiconductors and NEVs, but weaker production in property-related, such as steel and cement;
- **FAI slowed from 4.5% to 4.2% YTD YoY** (exp. 4.6%), above the overall 2023 growth of 3.0%: this was once again led by manufacturing and infrastructure investment, while real estate remains a drag;
- **The housing market remains in adjustment**, as indicators continued showing negative annual growth;

China: Activity (% YoY)

	4/2024	3/2024	4/2023
Industrial Production	6.70	4.50	5.6
Mining	2.00	0.20	0.0
Manufacturing	7.50	5.10	6.5
Utilities	5.80	4.90	4.8
Fixed Asset Investment (YTD)	4.20	4.50	4.7
Manufacturing	9.70	9.90	6.4
Real Estate	-9.80	-9.50	-6.2
Infrastructure	6.00	6.50	8.5
Retail Sales	2.26	3.08	18.4
Catering Services	4.40	6.90	43.8
Consumer Goods	2.00	2.70	15.9
Clothing	-2.00	3.80	32.4
Automobiles	-5.60	-3.70	38.0
Furniture	1.20	0.20	3.4
Cellphones	13.30	7.20	14.6
Home Appliances	4.50	5.80	4.7
Construction	-4.50	2.80	-11.2

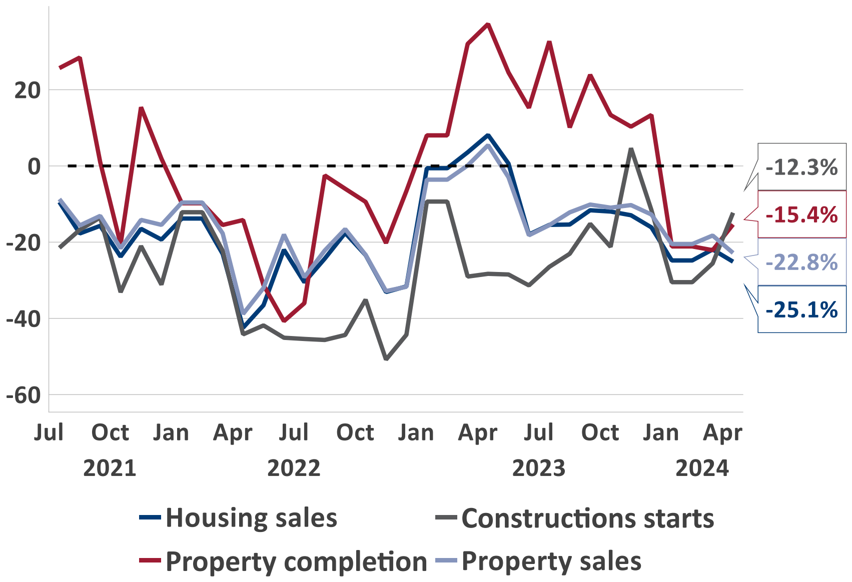
Source: BOCOM BBM, Macrobond

China: Industrial Production x Retail Sales



Source: BOCOM BBM, Macrobond, NBS

China: Property Indicators (% YoY)



Source: BOCOM BBM, NBS

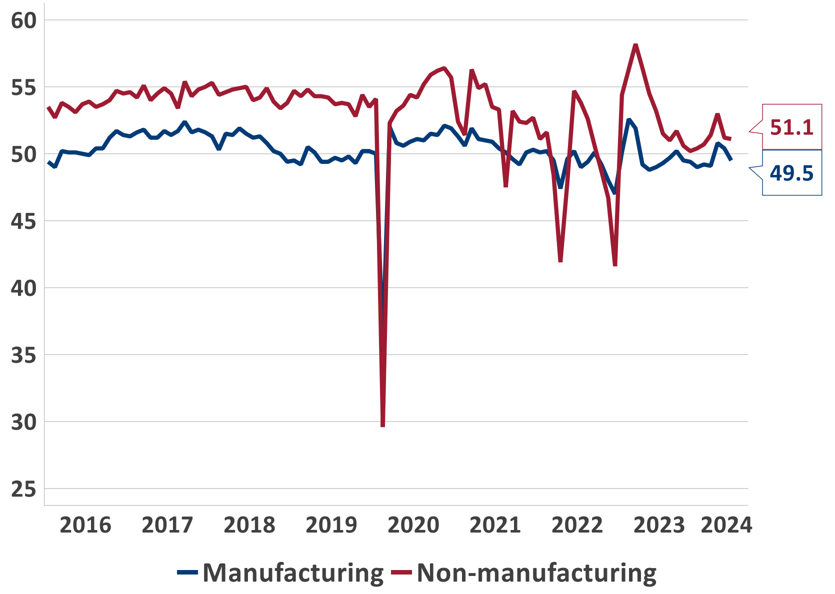
China: Economic Scenario

- In May, the manufacturing PMI fell below 50, while the non-manufacturing only fell slightly, but remained expansionary, pointing to diverging sectors;
  - NBS manufacturing PMI fell from 50.4 to **49.5** (exp. 50.5), with demand indicators deteriorating and softer, but still expanding, production;
  - Non-manufacturing sector continued expansionary, but slowed from 51.2 to **51.1**, as services improved, but construction slowed;

- **April exports surprised to the upside,** rising to expansion from -7.5% to **1.5% YoY** (exp. 1.0%): exported goods continued growing strongly in volume terms, while prices for most products are still on decline;
- **Imports also accelerated** from -1.9% to **8.4% YoY** (exp. 5.4%) as growth in commodities imports volume strengthened;

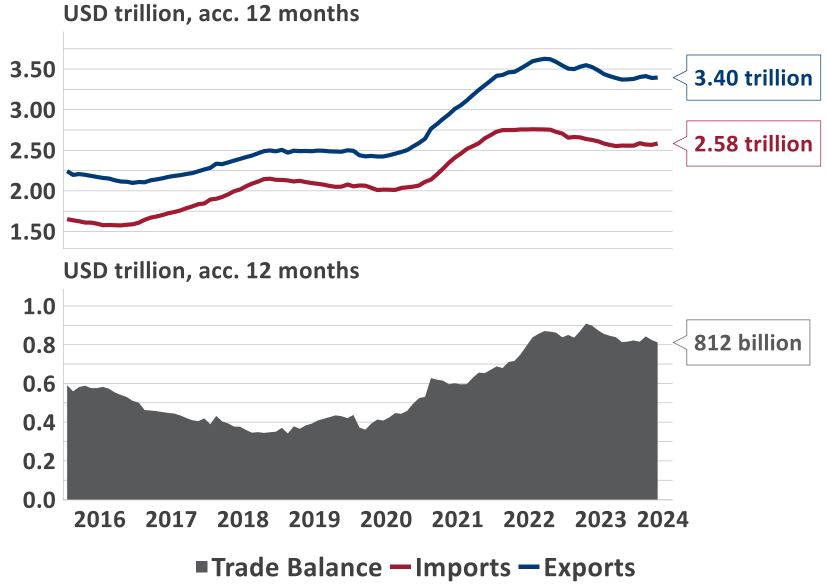
- April **CPI** inflation rose from 0.1% to **0.3%** YoY (exp. 0.1%), reflecting a rebound in energy prices and slight improvements in the core;
  - Core inflation seems a bit better than headline (+0.7% YoY), however still with an heterogeneous composition as services prices are up (+0.8% YoY) while goods are slowly improving (moved from -0.4% YoY deflation to 0% YoY);
  - Deflationary pressures remains persistent with a rather soft pricing environment: headline CPI averaged 0.1% YoY in the first 4 months;

China: PMI



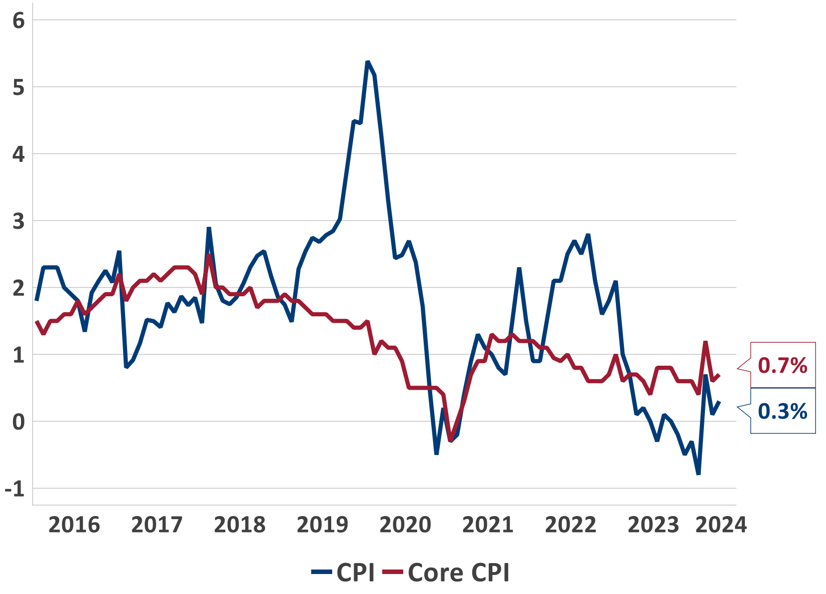
Source: BOCOM BBM, Macrobond, CFLP

China: Trade Balance



Source: BOCOM BBM, Macrobond, CCS

China: CPI (YoY, %)

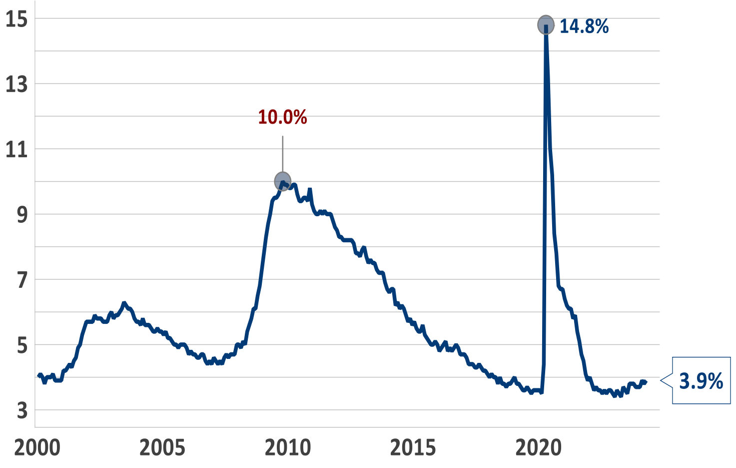


Source: BOCOM BBM, Macrobond, NBS

USA: Labor Market

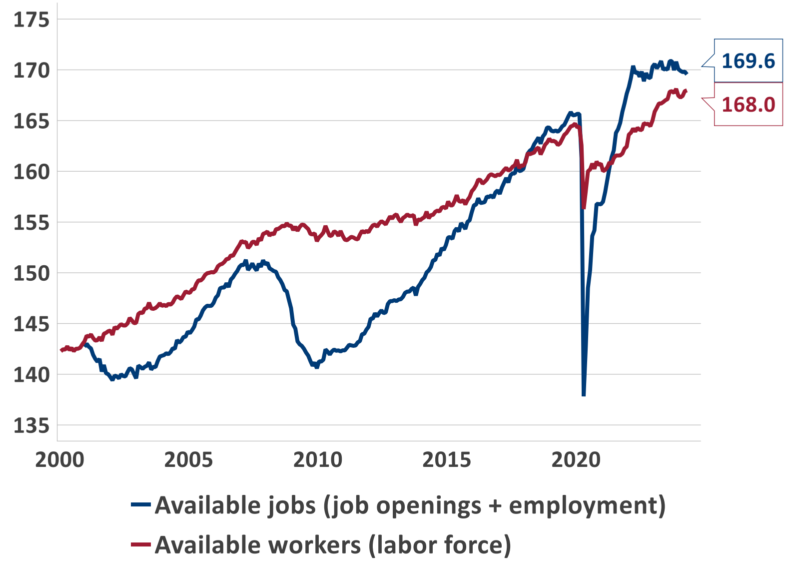
- **Labor market has cooled from its peak tightness,** but early 2024 data showed resiliency, only slowing slightly in the latest reading for April:
  - April payroll showed a job gain of **175k**, well below market expectations (240k), and a negative net revision of previous months (-22k);
  - The household survey, showed the unemployment rate moving up from 3.8% to **3.9%**, the same level of February;
- In April, **the jobs-workers gap decreased from 1.9M to 1.6M** due to a decrease in labor demand (falling job openings offset by rising employment) and rising labor force;
- April 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 (%)



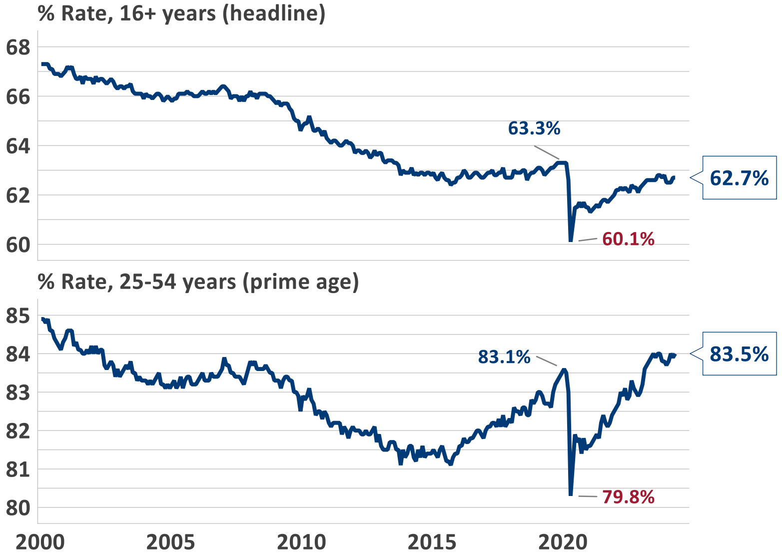
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



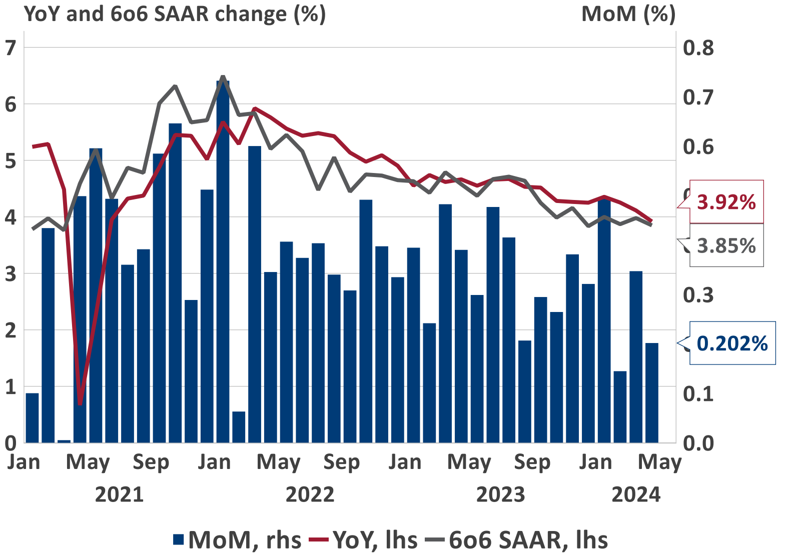
Source: BOCOM BBM, Macrobond, BLS

US: Labor Force Participation Rate (%)



Source: BOCOM BBM, Macrobond

US: Average Hourly Earnings Growth (%)



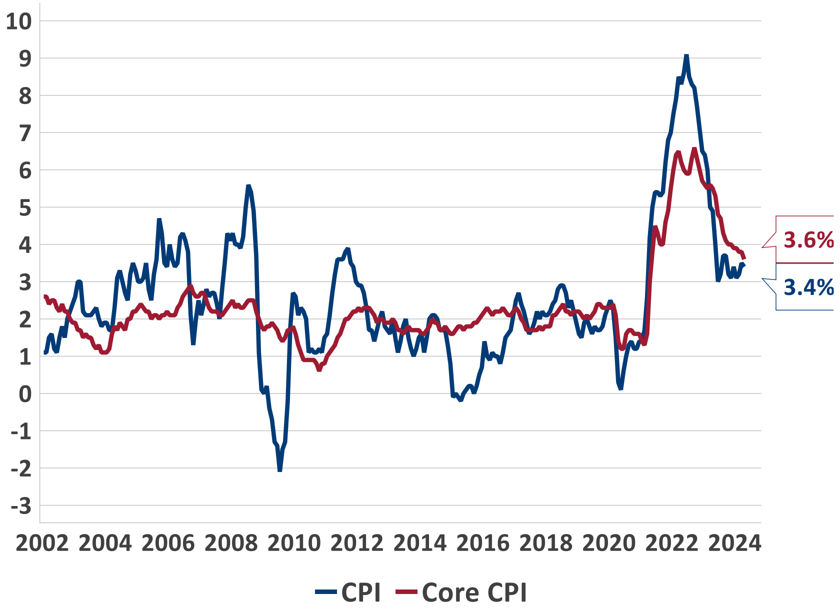
Source: BOCOM BBM, Macrobond

USA: Inflation

- Apr. headline CPI rose **0.31% MoM** (below the exp. 0.4%), leading to an annual growth rate decrease from 3.5% to **3.4% YoY:**
  - **Energy prices**: increased 1.12% MoM, following a rise in energy commodities prices, but was softer-than-expected (exp. 1.7%);
  - **Food prices** were roughly stable on the month (0.02% MoM), and hasn't pressured the headline in recent readings;

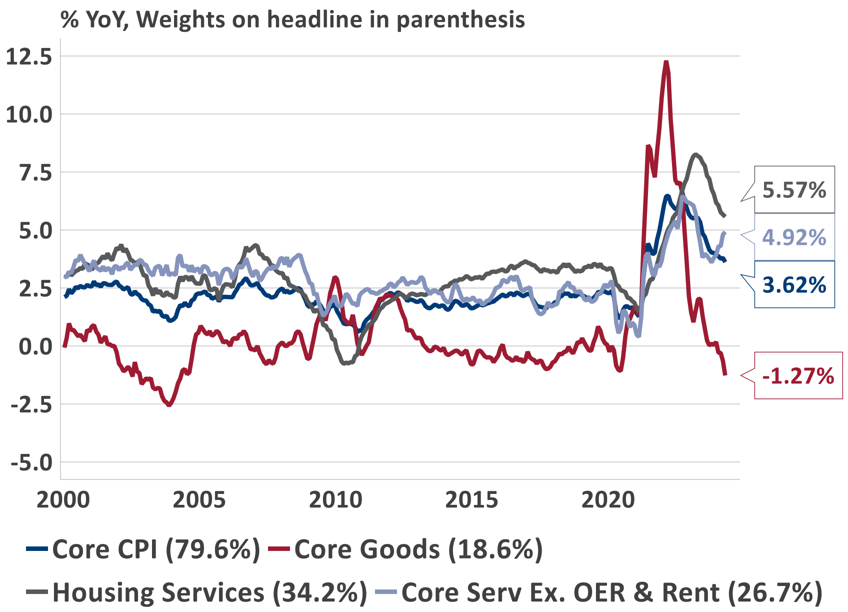
- **Core CPI** rose **0.29% MoM** (exp. 0.3%) and the annual growth rate fell from 3.8% to **3.6% YoY**;
  - **Core goods (-0.11% MoM):** another decline. Both new and used vehicle prices were weaker than expected (-0.45% and -1.38%, respectively);
  - **Housing services (0.38% MoM)**: continues to slowdown on annual basis due to the pass-through of slower new tenant rent into CPI rents, although this has been happening on a much slower pace than previously expected;
  - **Core Serv. Ex-Housing (0.42% MoM)**: moved down from March's pace, due to falling prices in motor vehicle insurance and airline fares. Looking ahead, it is expected to continue decelerating as auto insurance slows down further, the labor market moves into better balance, and pressure on salary indicators eases.

US: CPI (YoY, %)



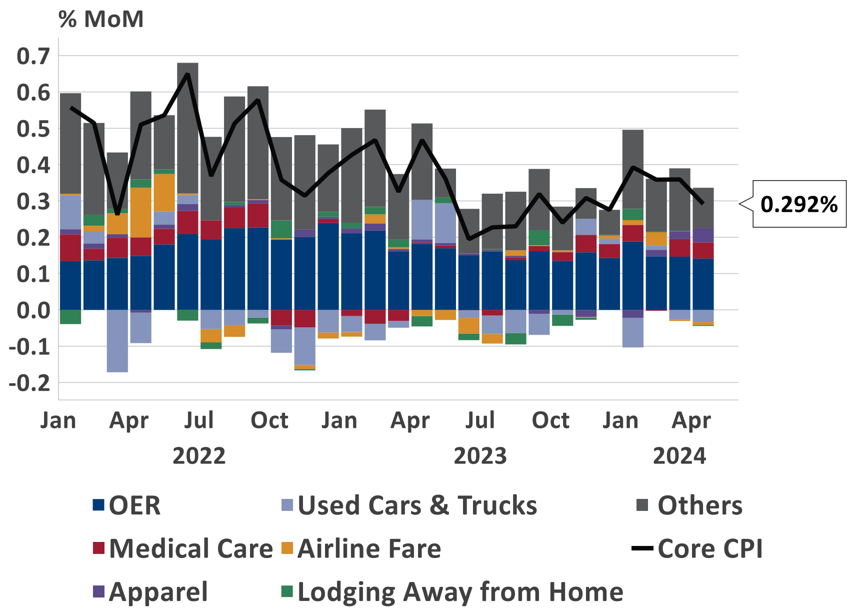
Source: BOCOM BBM, Macrobond, BLS

US: Core CPI Main Components (%)



Source: BOCOM BBM, Macrobond, BLS

US: Core CPI MoM Contributions



Source: BOCOM BBM, Macrobond, BLS

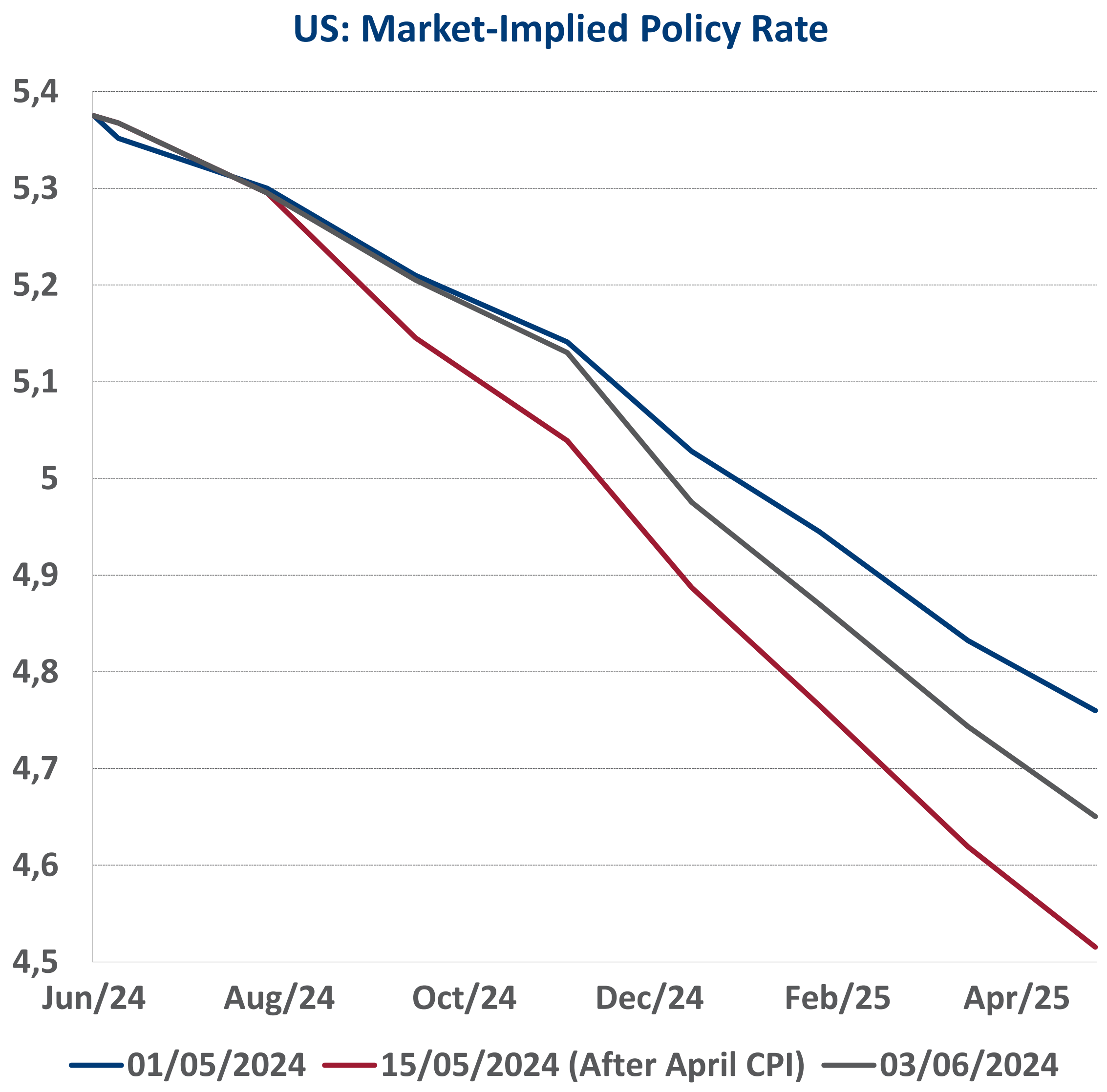
USA: Monetary Policy

- At May meeting, FOMC kept rates unchanged at 5.25% - 5.50%. During the post-meeting press conference, Chair Powell expressed less confidence about the inflation outlook and suggested that **rates will likely stay higher for longer**.

- **The threshold for lowering rates appears to have risen.**
  - FOMC members were concerned about the slower disinflation progress seen in 2024-Q1;
  - Many acknowledged the slight progress seen in April data, but also reinforced that just one month of good data isn't enough to gain confidence that inflation is falling to 2.0%;
  - Waller (Board) said that he "need to see **several months of good inflation data**" before being comfortable to support a rate cut;

- Markets continues to price between **1-2 cuts this year** with a higher likelihood for **an initial cut only from September onwards**;

- Nonetheless, considering that several Fedspeaks have been hawkish in recent speeches, even after April CPI release, **risks are skewed towards fewer cuts and/or towards an initial cut later than anticipated**

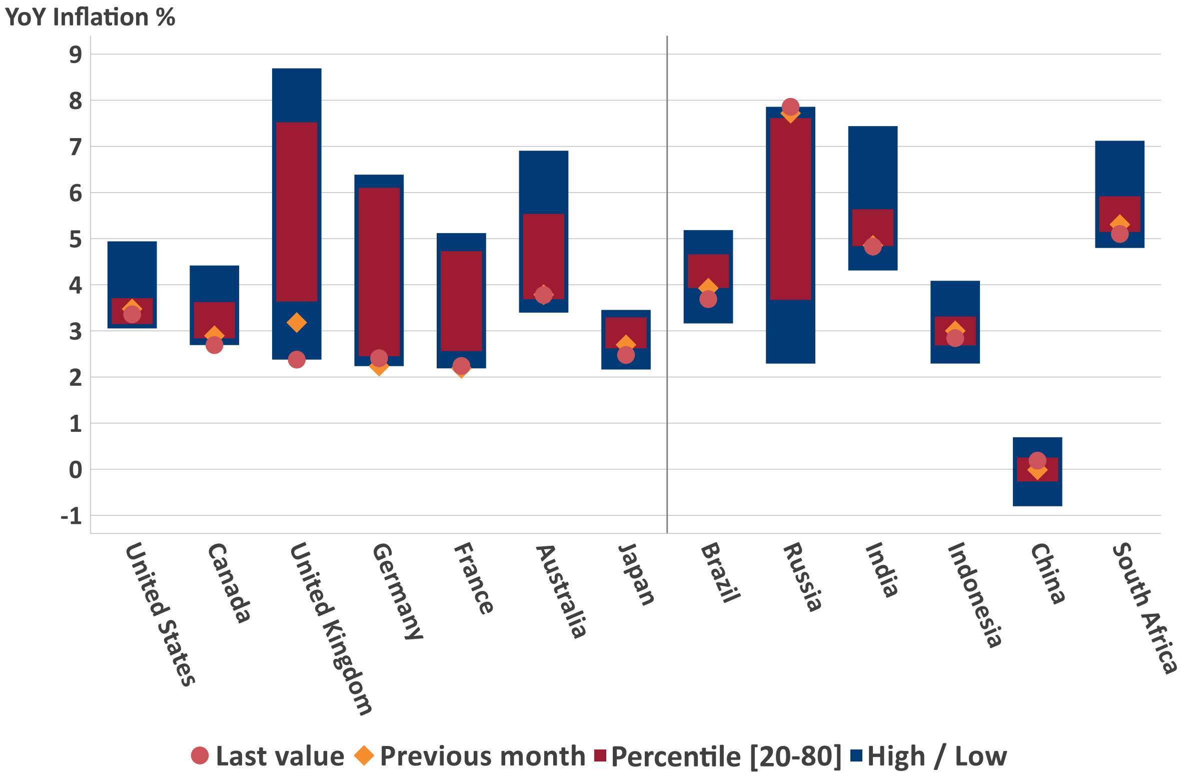


Global: Inflation & Activity

- 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 in 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

	Share (%)	#
2023	22.9	8
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	22.9	8
2011	14.3	5
2010	17.1	6
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

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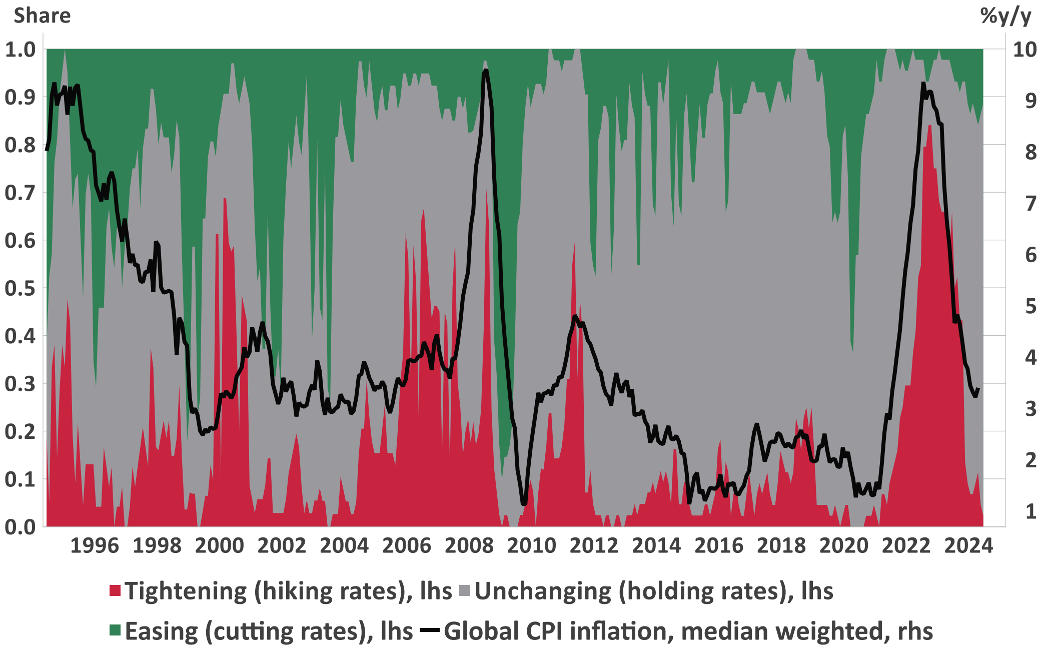
- Several **emerging markets already started cutting rates,** such as Brazil, Chile and Mexico;
- While many of the **developed markets central banks are holding rates steady in elevated levels**, such as the BoE, Fed and ECB;
- But **some advanced economies already pivoted into rate cuts**, such as Sweden and Switzerland, suggesting that the global monetary policy cycle is beginning to turn;

Global monetary breadth

Share of economies (GDP top 50) with higher/unchanged/lower policy rates; monthly/mtd avg, 4-Jun-24



Source: BOCOM BBM, Macrobond, World Bank

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	289.4	292.2	40.00	-10.00	Cut	5/2024	8	1
Australia	3.6	3.7	4.35	0.25	Hike	11/2023	7	43
Brazil	3.7	4.1	10.50	-0.25	Cut	5/2024	22	1
Canada	2.7	1.6	5.00	0.25	Hike	7/2023	11	50
Chile	4.0	3.2	6.50	-0.75	Cut	5/2024	20	0
China	0.2	0.7	3.45	-0.10	Cut	8/2023	124	9
Colombia	7.2	6.8	11.75	-0.50	Cut	5/2024	13	1
Costa Rica	-0.5	-0.1	4.75	-0.50	Cut	4/2024	19	1
Czech Republic	2.9	0.3	5.25	-0.50	Cut	5/2024	23	1
Denmark	0.8	1.5	3.75	0.25	Hike	9/2023	9	32
Euro Area	2.6	2.9	4.50	0.25	Hike	9/2023	9	99
Hungary	3.7	4.0	7.25	-0.50	Cut	5/2024	20	0
Iceland	6.2	6.2	9.25	0.50	Hike	8/2023	9	43
India	4.8	3.2	6.50	0.25	Hike	2/2023	16	48
Indonesia	2.8	1.9	6.25	0.25	Hike	4/2024	1	40
Israel	2.8	2.5	4.50	-0.25	Cut	1/2024	12	5
Japan	2.5	2.4	0.10	0.20	Hike	3/2024	2	100
Mexico	4.7	4.4	11.00	-0.25	Cut	3/2024	14	2
New Zealand	4.0	4.1	5.50	0.25	Hike	5/2023	12	51
Norway	3.6	4.4	4.50	0.25	Hike	12/2023	6	49
Poland	2.6	4.1	5.75	-0.25	Cut	10/2023	21	8
Russia	7.9	8.3	16.00	1.00	Hike	12/2023	6	21
Saudi Arabia	1.6		6.00	0.25	Hike	7/2023	10	51
South Africa	5.1	4.6	8.25	0.50	Hike	5/2023	12	46
South Korea	2.7	2.2	3.50	0.25	Hike	1/2023	17	48
Sweden	3.9	2.3	3.75	-0.25	Cut	5/2024	8	1
Switzerland	1.4	1.2	1.50	-0.25	Cut	3/2024	11	2
Turkey	75.4	75.0	50.00	5.00	Hike	3/2024	2	15
United Kingdom	2.4	3.8	5.25	0.25	Hike	8/2023	10	51
United States	3.4	3.6	5.50	0.25	Hike	7/2023	10	51

Source: BOCOM BBM, Macrobond

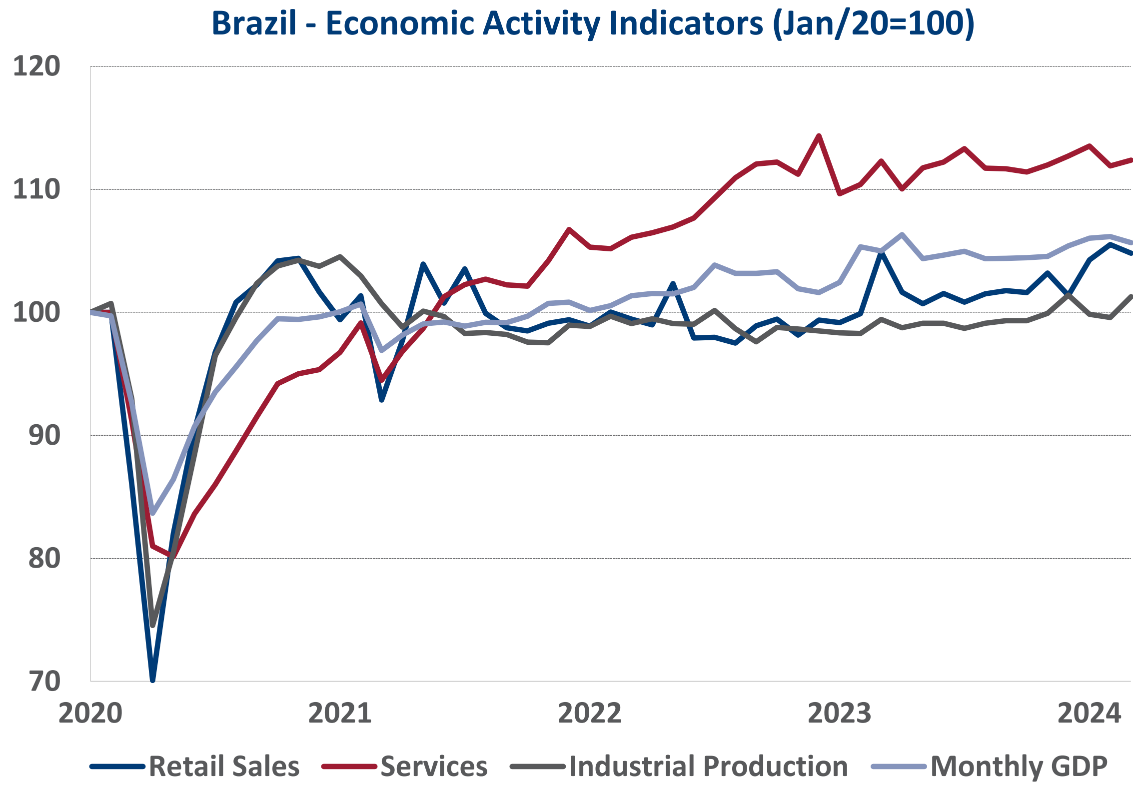
Brazil: Forecasts

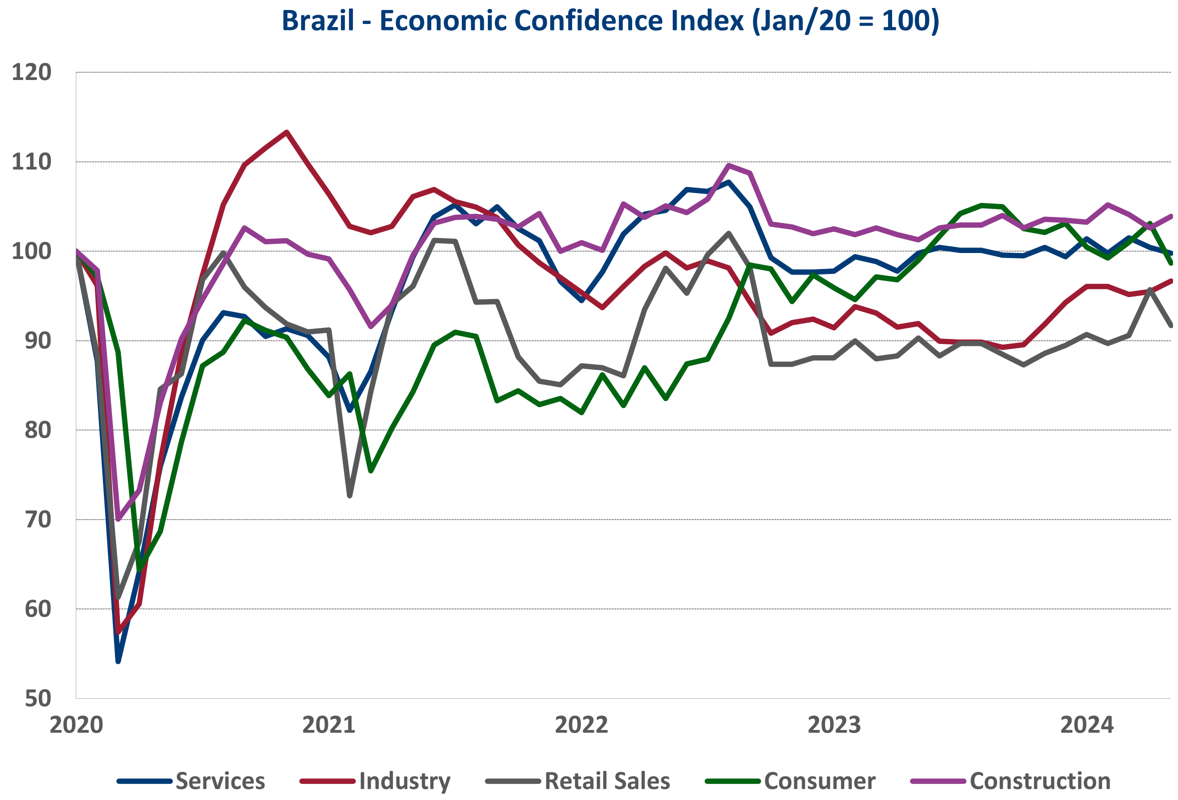
ECONOMIC FORECASTS	2019	2020	2021	2022	2023	2024F	2025F
GDP Growth (%)	1.2%	-3.3%	4.8%	3.0%	2.9%	1.8%	2.0%
Inflation (%)	4.3%	4.5%	10.1%	5.8%	4.6%	3.8%	4.0%
Unemployment Rate (eoy ,%)	11.1%	13.9%	13.3%	9.2%	8.0%	8.4%	8.5%
Policy Rate (eoy, %)	4.5%	2.0%	9.3%	13.8%	11.75%	10.50%	9.00%
External Accounts							
Trade Balance MDIC (US$ bn)	35	50	61	62	99	87	78
Trade Balance (US$ bn)	27	32	36	44	81	67	58
Current Account Balance (US$ bn)	-68	-28	-46	-48	-31	-34	-43
Current Account Balance (% of GDP)	-3.6%	-1.9%	-2.8%	-2.5%	-1.3%	-1.5%	-1.8%
Fiscal Policy							
Central Government Primary Balance (% of GDP)	-1.3%	-9.8%	-0.4%	0.5%	-2.1%	-0.7%	-0.8%
Government Gross Debt (% of GDP)	74.4%	86.9%	77.3%	71.7%	74.4%	77.9%	80.4%

Source: BOCOM BBM

Brazil: Activity

- In March, the monthly indicators of economic activity posted mixed signs, Broad retail sales contracted 0.3% MoM, while Services and Industrial production grew 0.4% and 0.9% MoM, respectively. In turn, IBC-Br decreased 0.34% MoM;
- Looking forward, services, consumers and retail sales confidence contracted, while construction and industry increased.



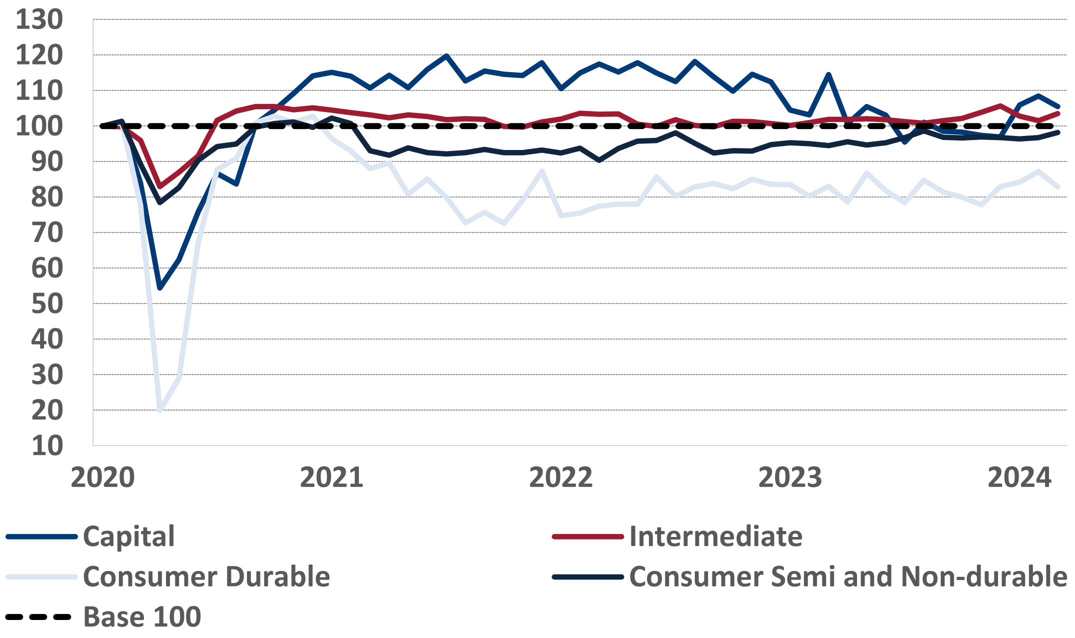


Source: BOCOM BBM, FGV

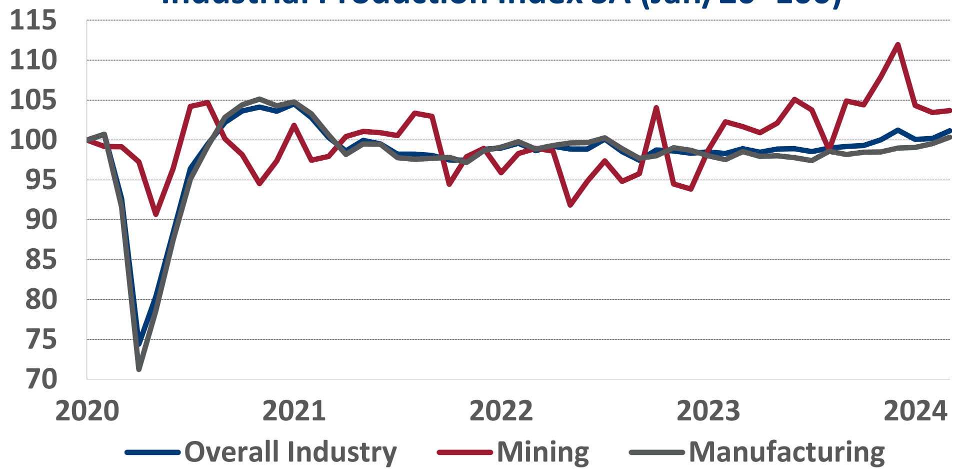
Brazil: Industrial Production

- 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 ended the 1Q24 with gains of 10.2% and 5.3% QoQ respectively;
- On the other hand, extractive industry disappointed, registering -3.9% QoQ in the 1Q24.

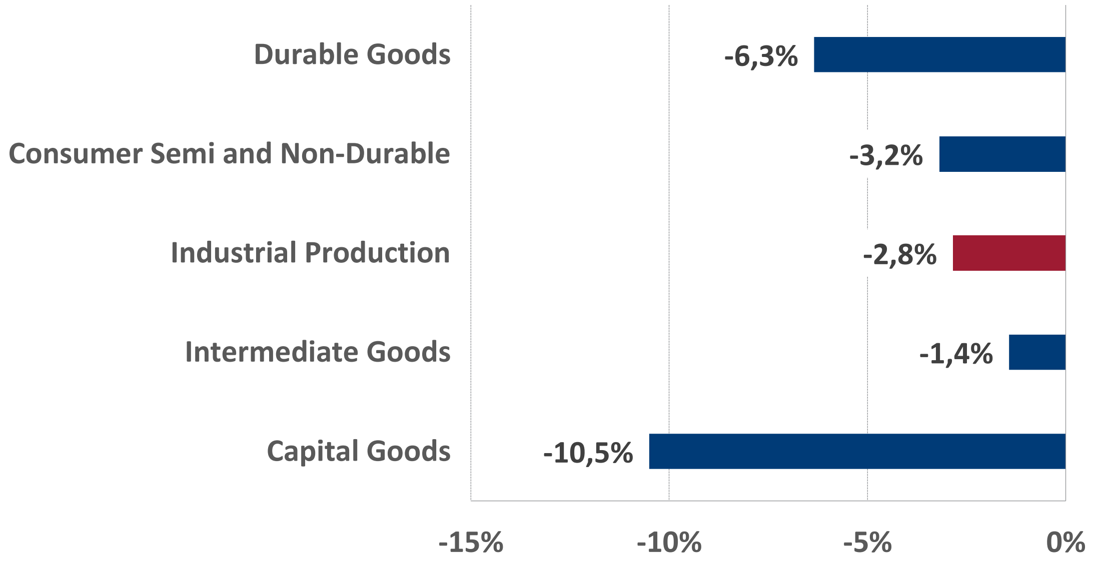
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



Industrial Production by Category - 03/2024 (YoY)

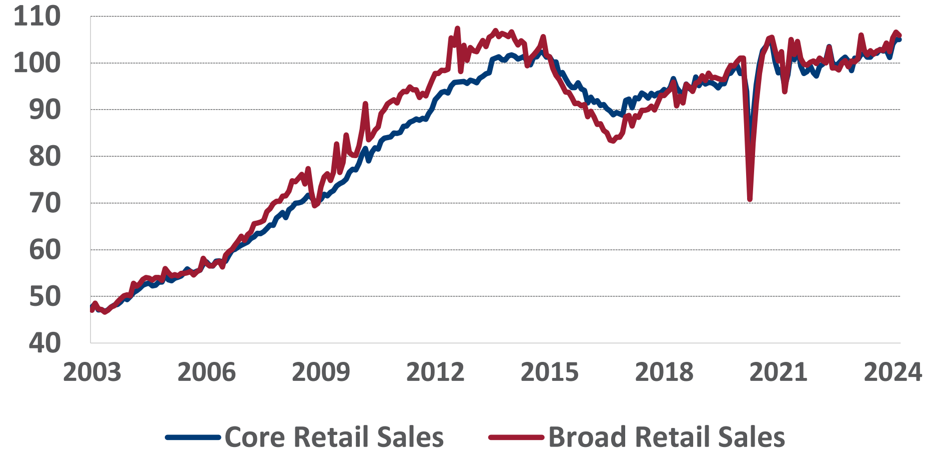


Source: IBGE, BOCOM BBM

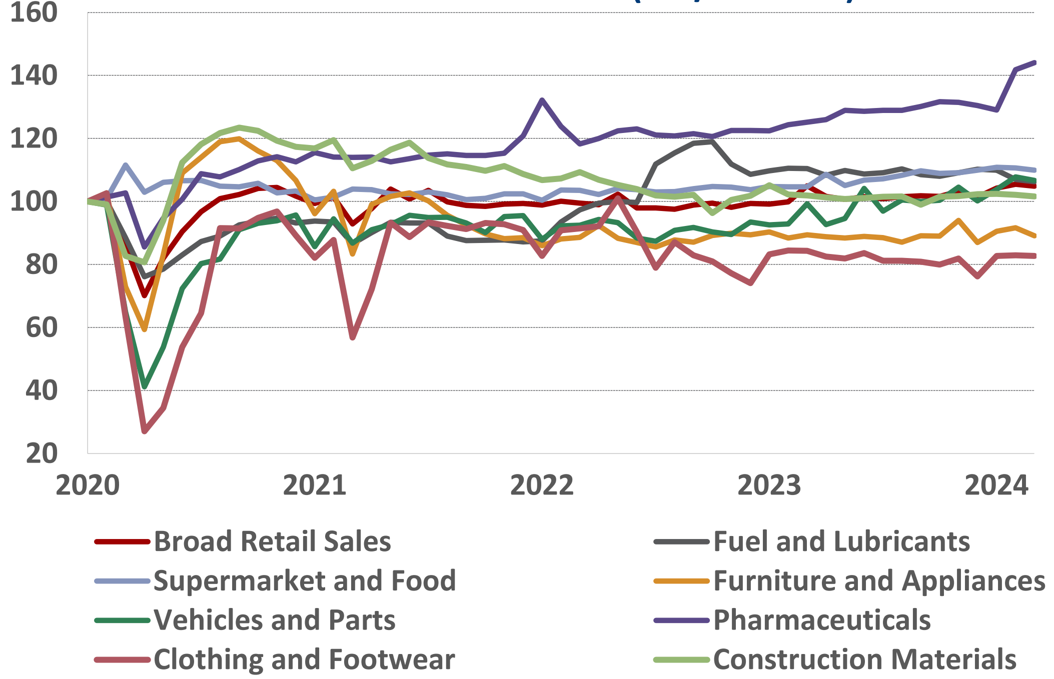
Brazil: Retail Sales

- Broad retail sales contracted 0.3% MoM (-1.5% YoY) in March, considerably below expectations (+0.7% MoM and +0.6% YoY);
- The result was impacted by weaker-than-expected results in volatile items, like Wholescale specialized in food, beverage and tobacco products;
- Core retail sales remained stable at the margin, with an increase of 5.7% YoY, slightly above expectations (-0.3% MoM and +5.2% YoY);
- Retail sales finishes 1Q24 with a growth of 2.5% QoQ, a solid performance boosted by household consumption.

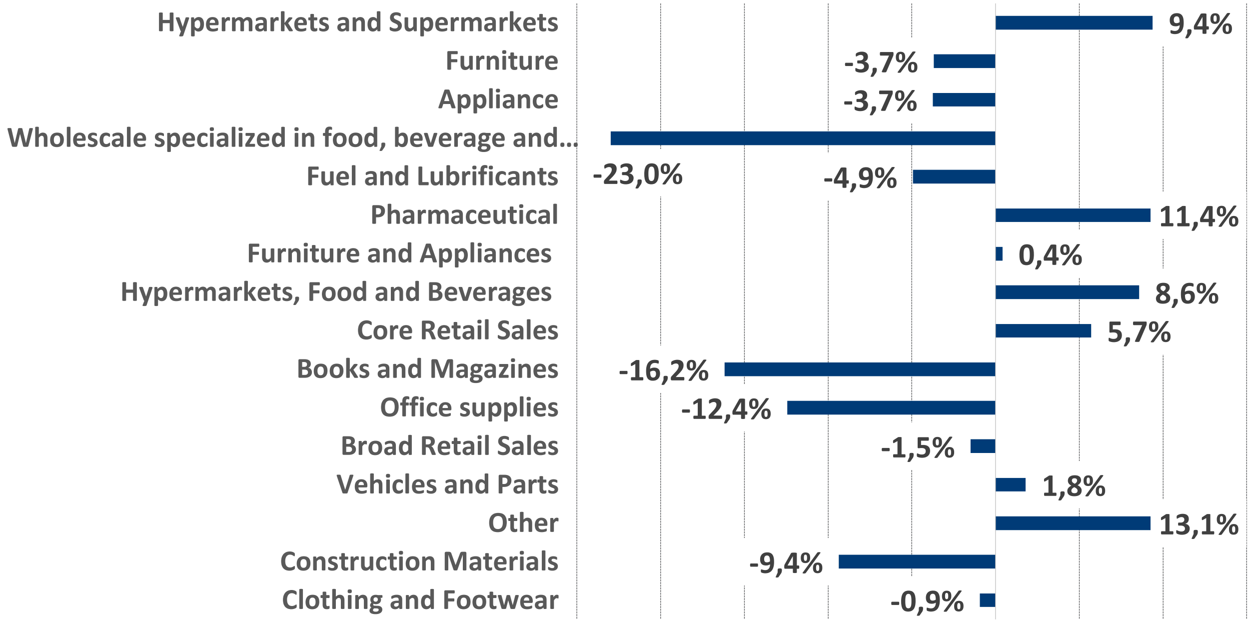
Broad Retail Sales SA x Core Retail Sales SA



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



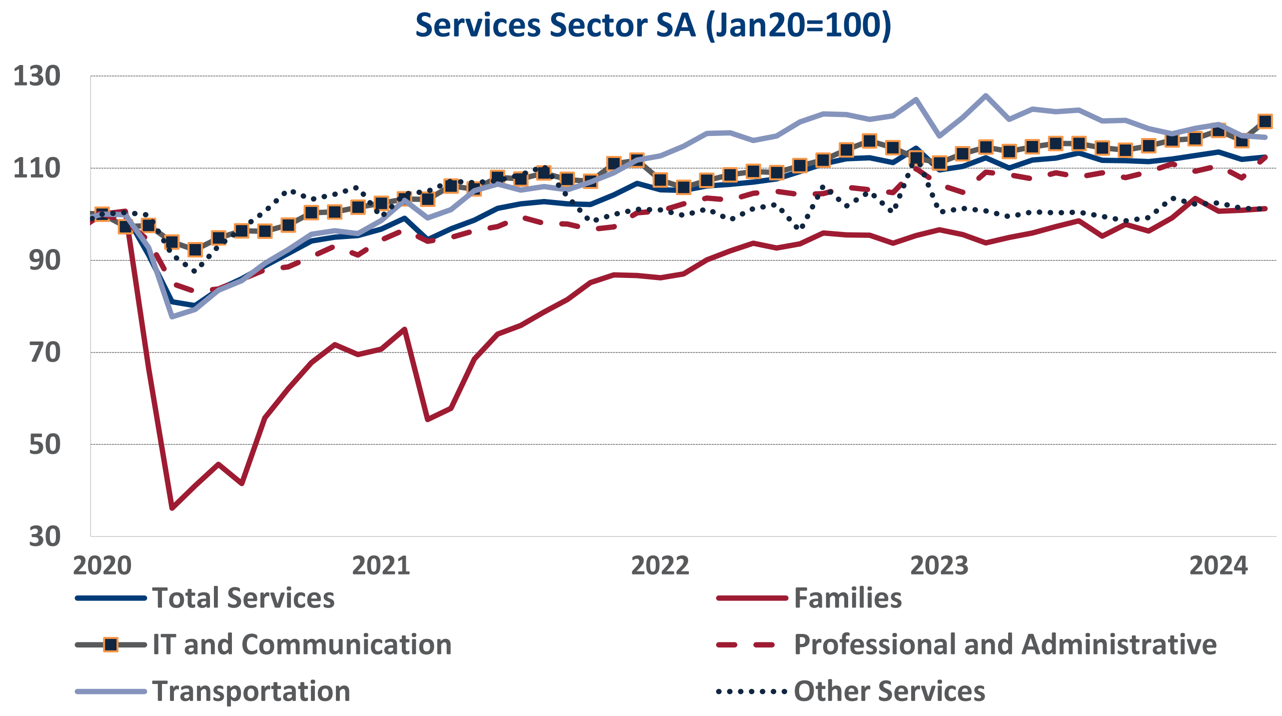
Retail Sales - YoY (03/2024)

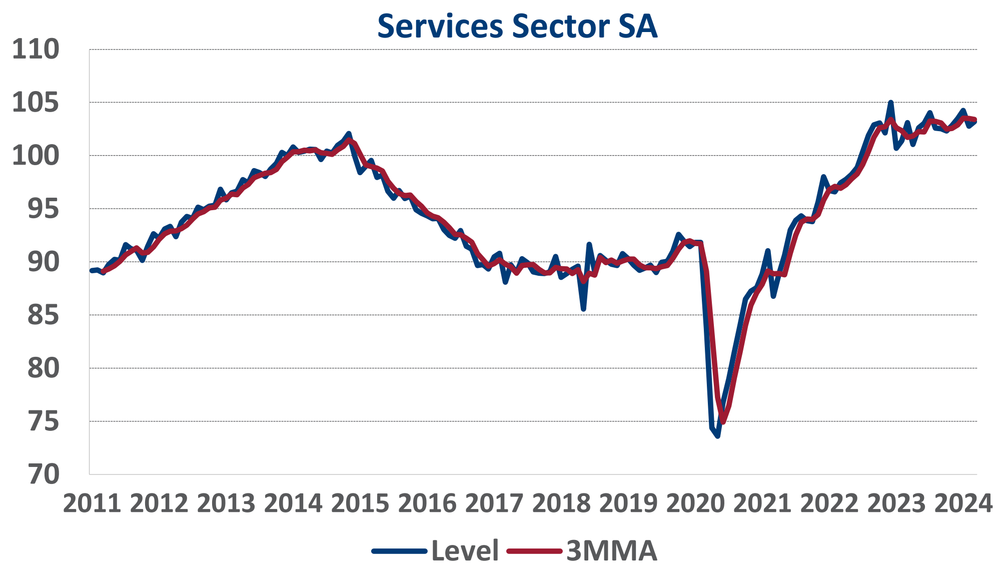


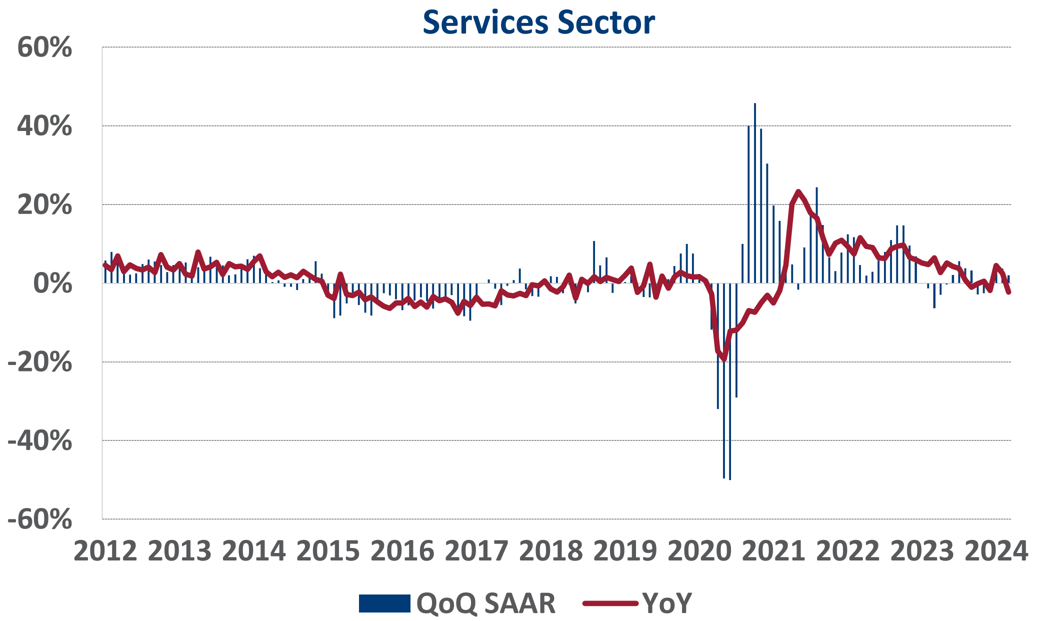
Source: IBGE, BOCOM BBM

Brazil: Services

- In March, the services sector rose 0.4% MoM (-2.3% YoY), after February's fall, slightly above market expectations (+0.2% MoM and -2.5% YoY) ;
- Almost all sectors had a rise in the last month, with exception of the other services sector, that stayed in the same level. Information and Communication sector had the best result (4.0% MoM);
- The Services had three out of five main segments growing in 1Q24, pushed by services rendered to families, driven by real household disposable income;
- On the other hand, Transportation Services was a negative highlight on the 1Q24, decreasing 0.3% in the period, reflecting the decline in Air and road transportation.





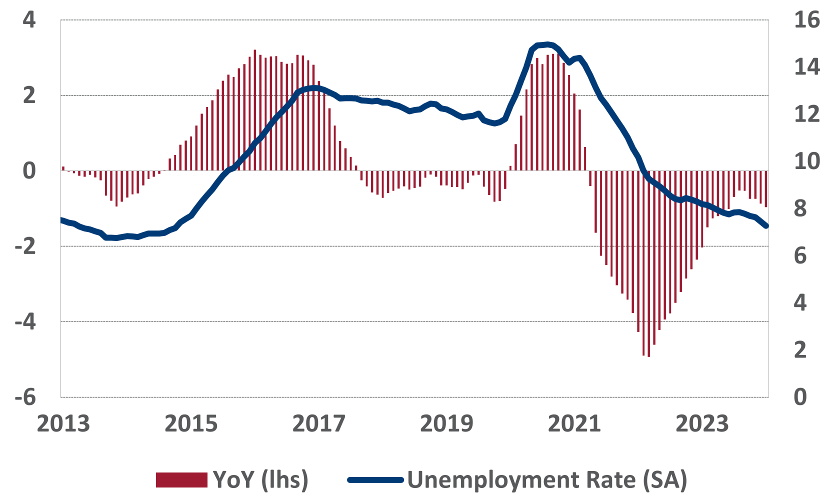


Source: IBGE, BOCOM BBM

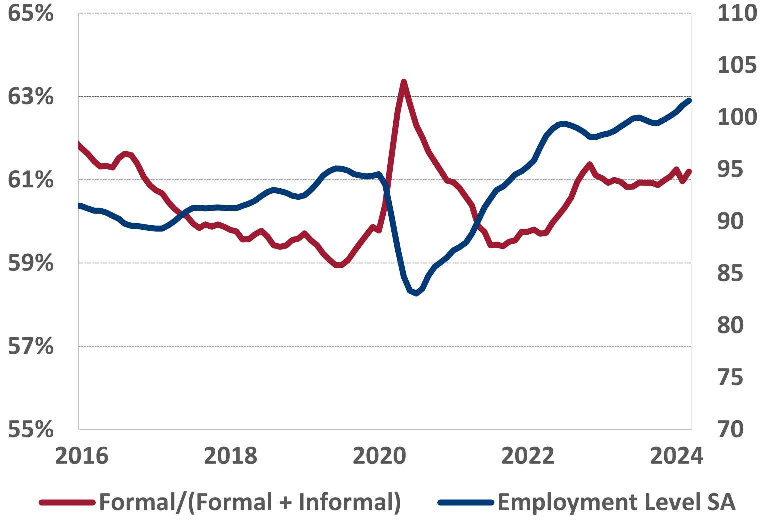
Brazil: PNAD

- The unemployment rate decreased to 7.53% in the moving quarter up to April, from 7.92% on the previous period;
- Seasonally adjusted, the indicator decreased from 7.43% to 7.26%, the lowest level in almost ten years;
- Total employment increased 0.47% MoM while labor force showed an expansion of 0.21% MoM;
- The labor force participation rate grew marginally again, to 62.24% from 62.15%, still running considerably below pre-pandemic levels (around 63.5%);
- Real labor earnings 0.8% MoM, resuming growth after a month of decline;
- Real aggregated labor income surged 1.4% in April, the eleventh positive reading in a row.

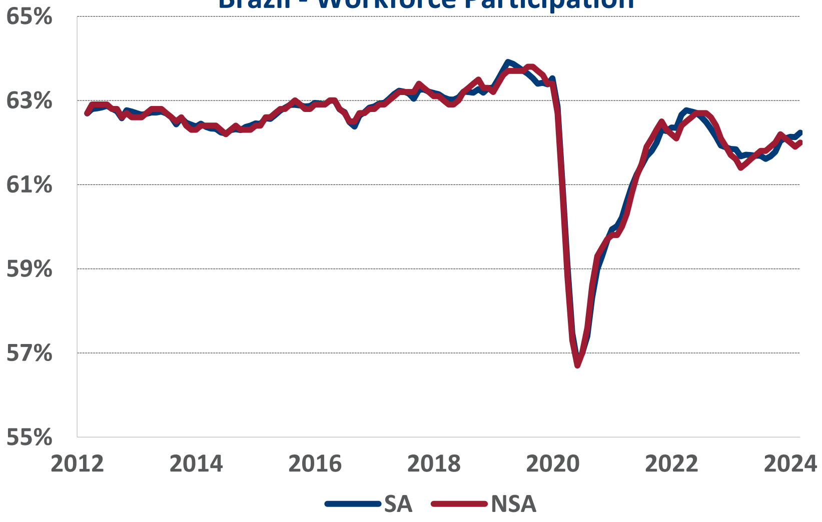
Brazil - Unemployment Rate



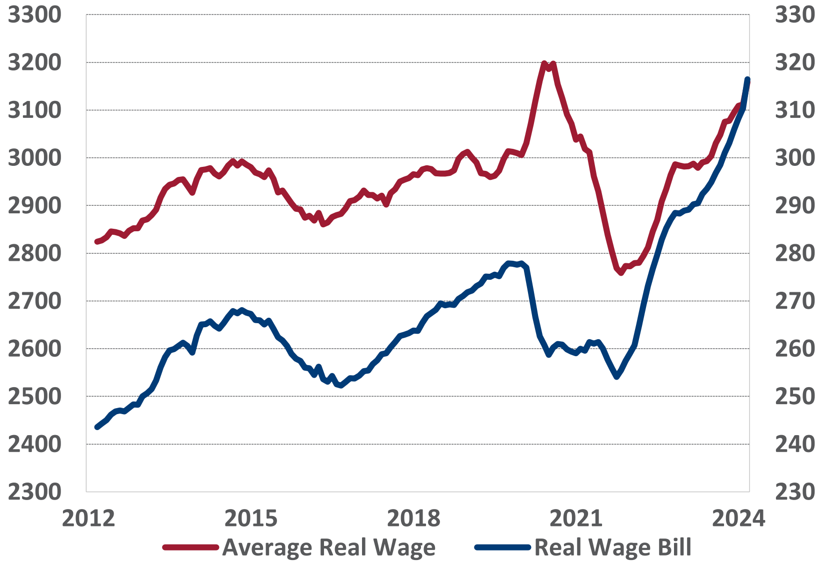
Brazil - Employment Level SA



Brazil - Workforce Participation



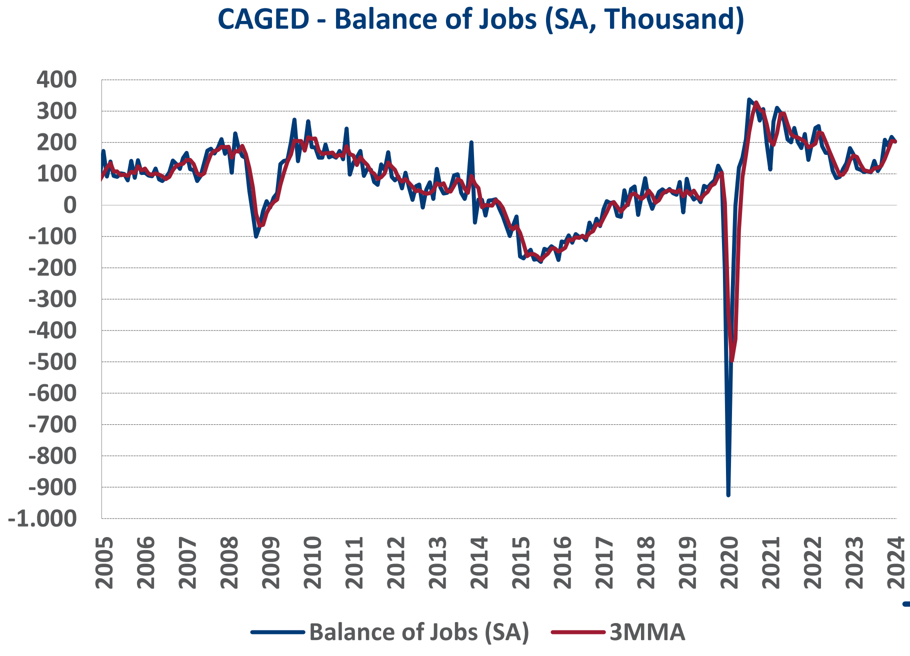
Brazil - Average Real Wage and Real Wage Bill

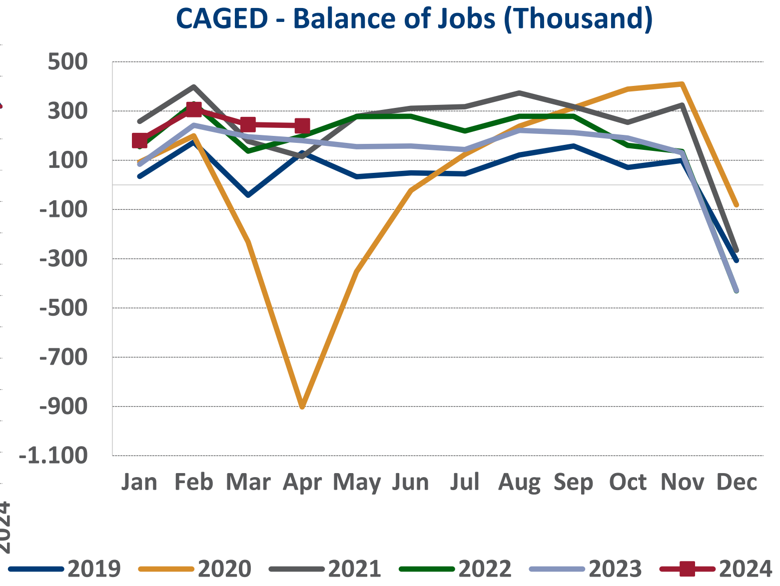


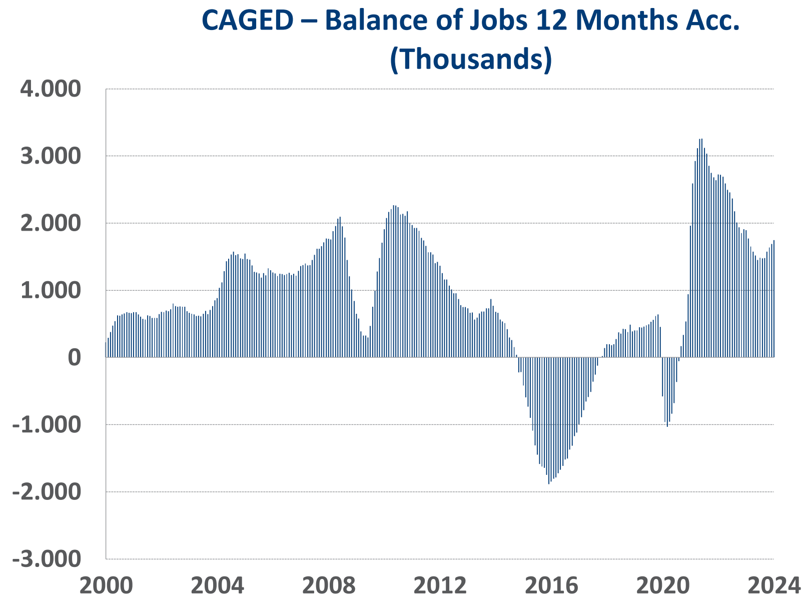
Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

- Caged registered a net creation of 240k formal jobs in April, above market expectations (210k);
- The net addition of jobs totaled almost 960k from January to April 2024, considerably above the same period of 2023;
- One highlight was the increase in hirings, mainly in the services sector;
- In sum, the formal labor market continues to present historically high numbers, contributing to support household consumption.





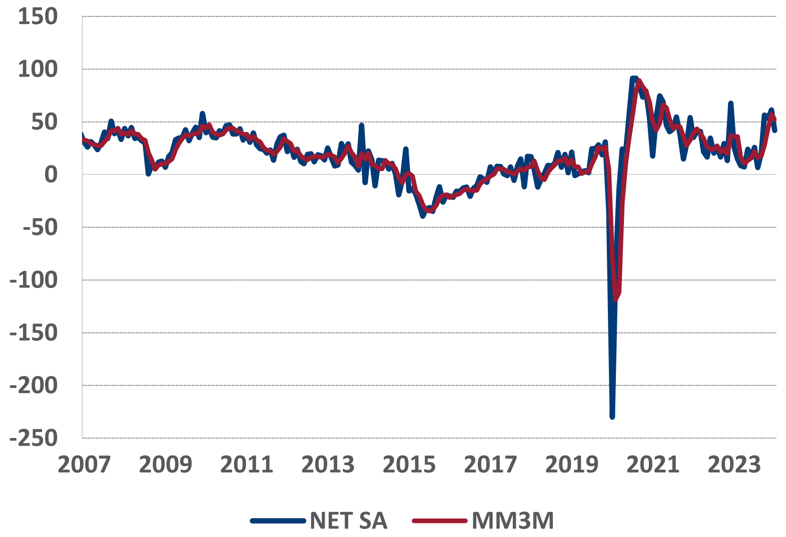


Source: BOCOM BBM, MTE

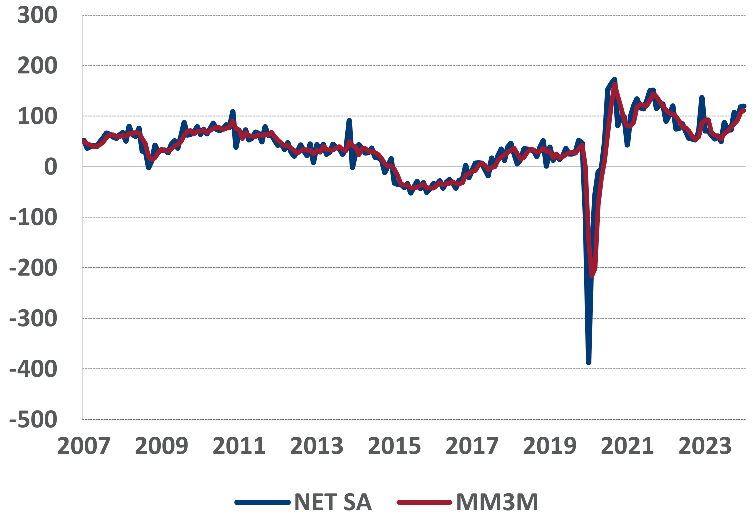
Brazil: Formal Labor Market

- 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 134.0k formal jobs;
- Industry was the second best, creating around 33.6k formal jobs;
- The Construction Sector, in turn, registered a net of 31.9k jobs;
- Finally, Retail Sales created about 27.3k formal jobs.

Brazil - Retail Net Payroll Job Creation (SA)

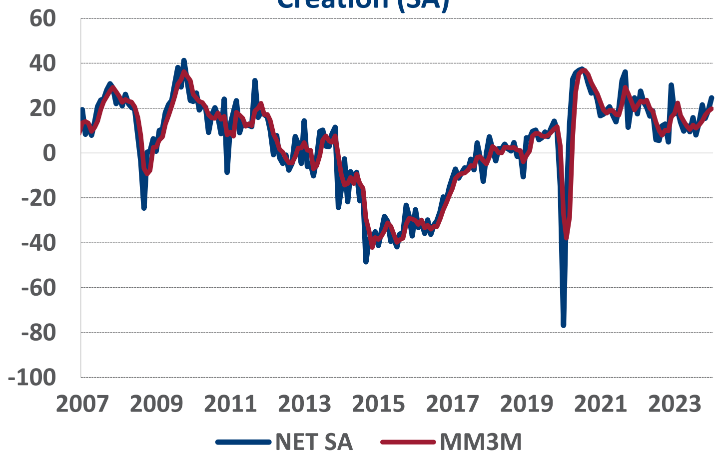


Brazil - Services Net Payroll Job Creation (SA)



Brazil - Industry Net Payroll Job Creation (SA)

Brazil - Construction Net Payroll Job Creation (SA)



Source: BOCOM BBM, MTE

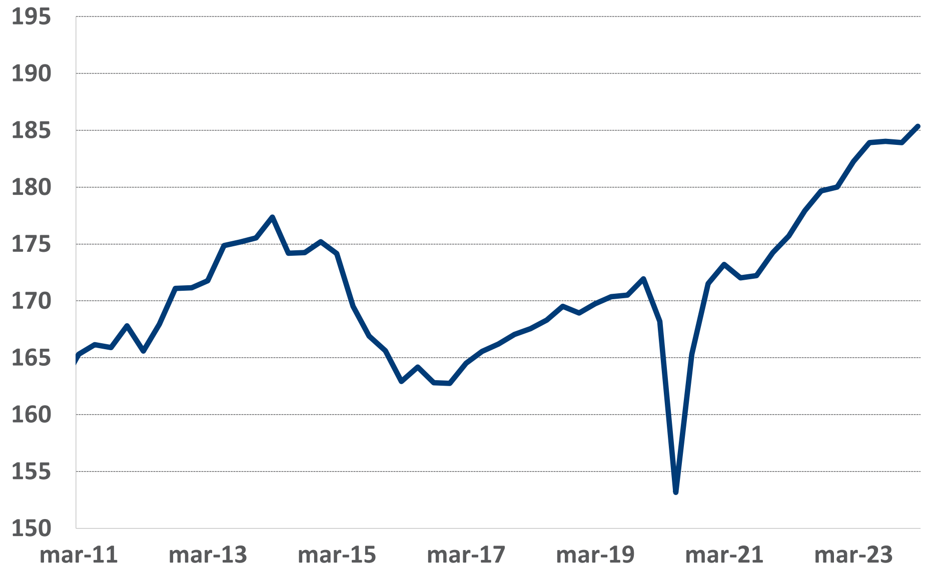
Brazil: GDP

- In Q1, **Brazil's GDP increased 0.8% QoQ, better-than expected** (we projected +0,6% QoQ). The annual growth rate was **2,5% YoY**;
- **Services sector surprised to the upside with a solid 1.4% QoQ growth**, especially due to retail activity, which grew 3% QoQ (exp. 1.4% QoQ);
- On the other hand, **industry sector declined 0.1% QoQ**, due to utilities sector's weakness (electricity, gas, water, etc.). Manufacturing sector, although have grown 0.7% QoQ, came in below our expectations (exp. 0.9%).

Brazil 2024 Q1 GDP: Forecast x Official

	Official 24-Q1 QoQ	Forecast 24-Q1 QoQ	Official 24-Q1 YoY	Forecast 24-Q1 YoY	Forecast 2024
GDP	0,8%	0,6%	2,5%	2,2%	1,8%
Agriculture	**11,3%**	**10,2%**	**-3,0%**	**-4,5%**	**-3,3%**
Industry	**-0,1%**	**0,4%**	**2,8%**	**3,3%**	**2,1%**
Mining	-0,4%	-0,7%	5,9%	5,4%	4,1%
Manufacturing	0,7%	0,9%	1,5%	1,8%	1,2%
Electricity	-1,6%	1,3%	4,6%	8,6%	4,4%
Civil Construction	-0,5%	-0,6%	2,1%	2,0%	1,6%
Services	**1,4%**	**0,4%**	**3,0%**	**2,8%**	**2,2%**
Retail	3,0%	1,4%	3,0%	2,7%	1,9%
Transports	0,5%	1,4%	0,4%	1,2%	1,3%
Information and Communication	2,1%	1,6%	4,6%	3,9%	3,5%
Financial Services	0,0%	1,2%	2,5%	4,7%	3,8%
Rents	1,0%	0,7%	3,9%	3,4%	2,9%
Other Services	1,6%	-0,6%	4,7%	2,8%	2,1%
Public Administration	-0,1%	0,1%	1,3%	1,6%	1,2%

Real GDP (Index, 1995 = 100)

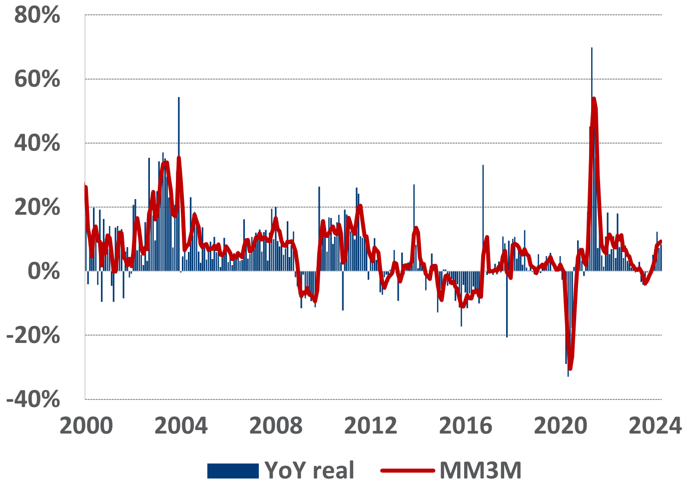


Source: BOCOM BBM, IBGE

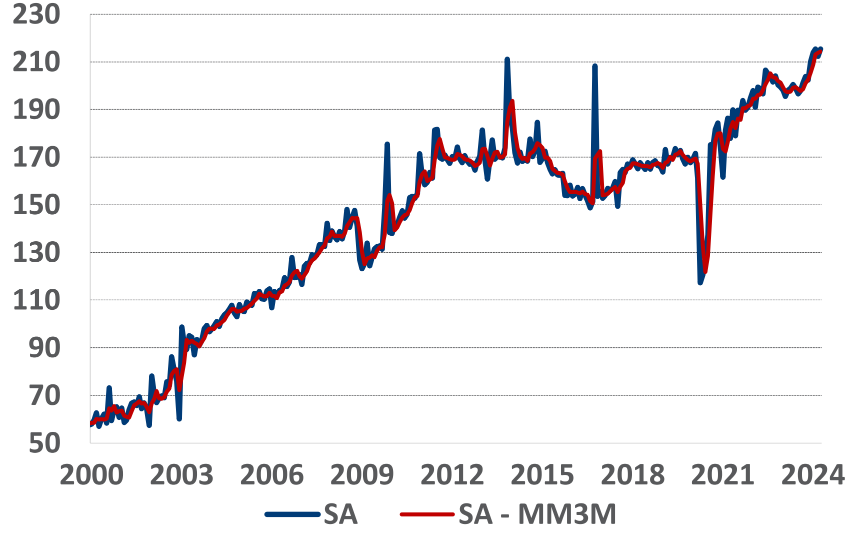
Brazil: Federal Tax Collections

- In April, total federal tax collections reached BRL 228.9 bn (8.3% YoY), in line with consensus and the best result for the month in the historical data;
- The main drivers were PIS/Cofins (23.4% YoY), due to the exclusion of ICMS credits from its tax base and the return of taxation on fuels, Social security revenue (6.2% YoY), due to the heated labor market, and IPI (26.4% YoY);
- Corporate income tax (IRPJ/CSLL) disappointed again, growing only 2.7%, despite the expectations of gains related to changes in ICMS subsidies and Interest on Equities (IoE);
- Overall, while registering historically high results, tax collections are still below what would be needed to reach the primary result target, with the performance of measures to increase revenues disappointing.

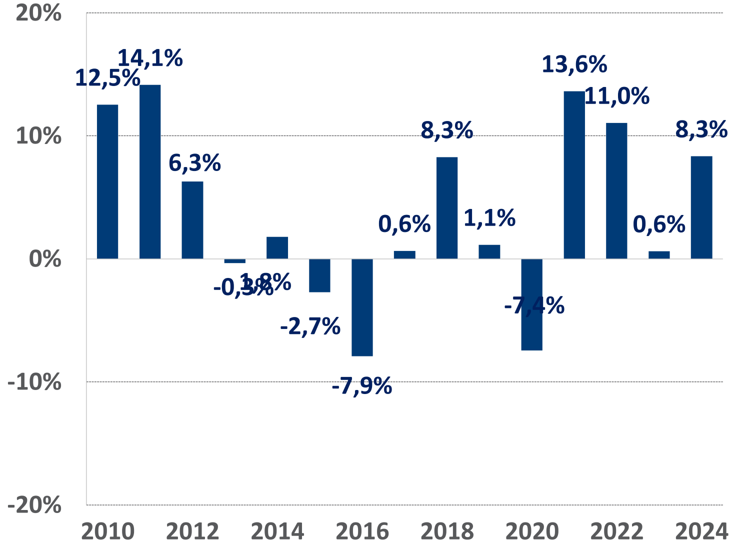
Total Tax Collection (YoY Real, %)



Total Tax Collection (BRL Bn, Real SA)



Total Tax Collection (YTD Real, %)



Total Tax Collection (% GDP)

Fonte: BOCOM BBM, RFB

Brazil: Consolidated Public Sector Budget

- The consolidated public sector recorded a primary surplus of BRL 6.7 billion in April, way below the market consensus (BRL +15.0 billion) and above the BRL 1.2 billion surplus recorded in April 2023. Central Government registered a surplus of BRL 8.8 bn, which was partially offset by deficits of BRL 1.4 bn by subnational governments and BRL 0.7 bn by state-owned enterprises;

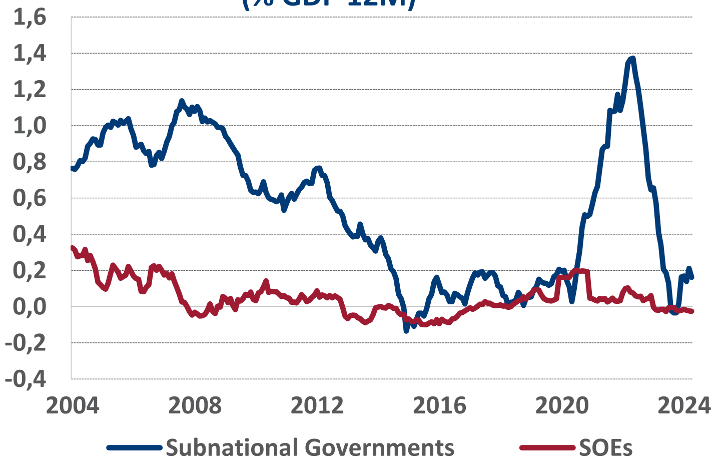
- Gross General Government Debt surged to 76.0% of GDP in April from 75.7% of GDP in March, pushed by nominal interest (+0.6pp.) and partially offset by nominal GDP growth (-0.4pp.) and net issuances (-0.1pp.).

Gross General Government Debt (% GDP)

Primary Budget Balance (% GDP 12M)

Primary Balance: Central Government (% GDP 12M)

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

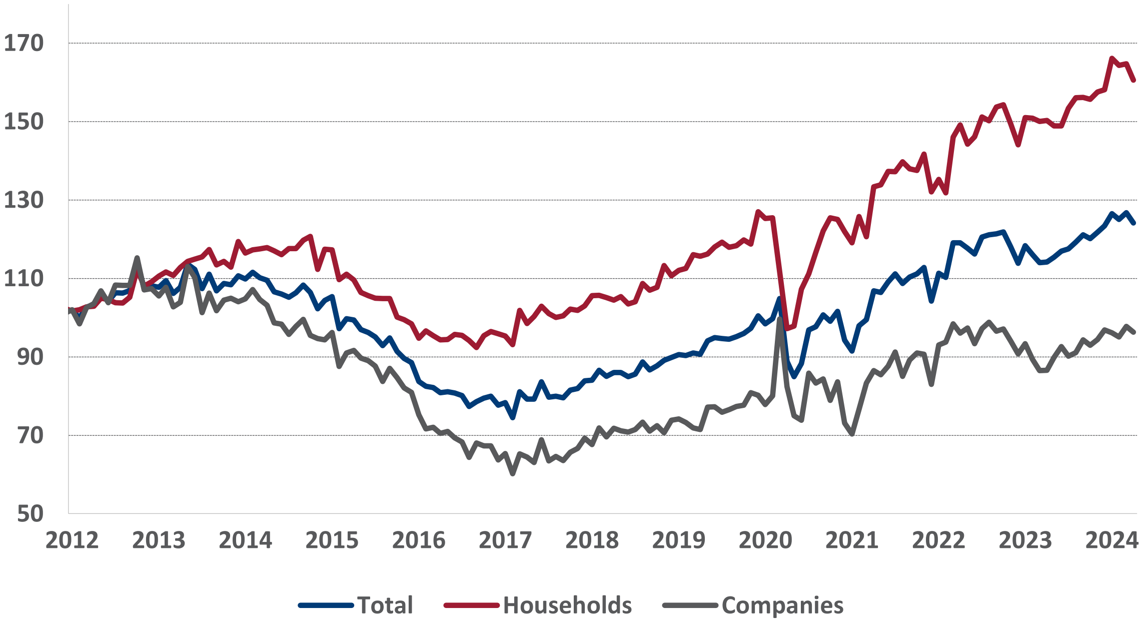


Source: BOCOM BBM, BCB

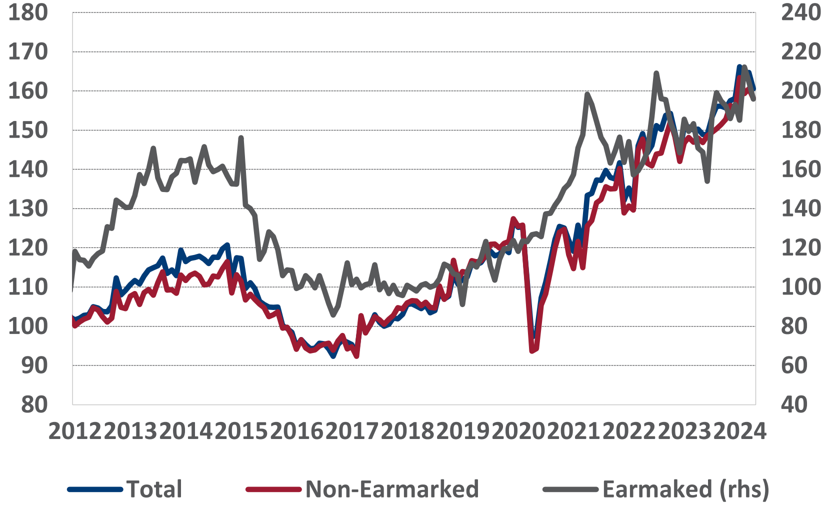
Brazil: Credit Statistics

- In April, total credit concessions contacted by 2.1% MoM in real terms;
- Non-earmarked credit concessions decreased 2.6% MoM to companies and 1.6% MoM to households;
- Earmarked credit concessions, in turn, expanded 8.5% MoM to companies and fell 4.3% MoM to families.

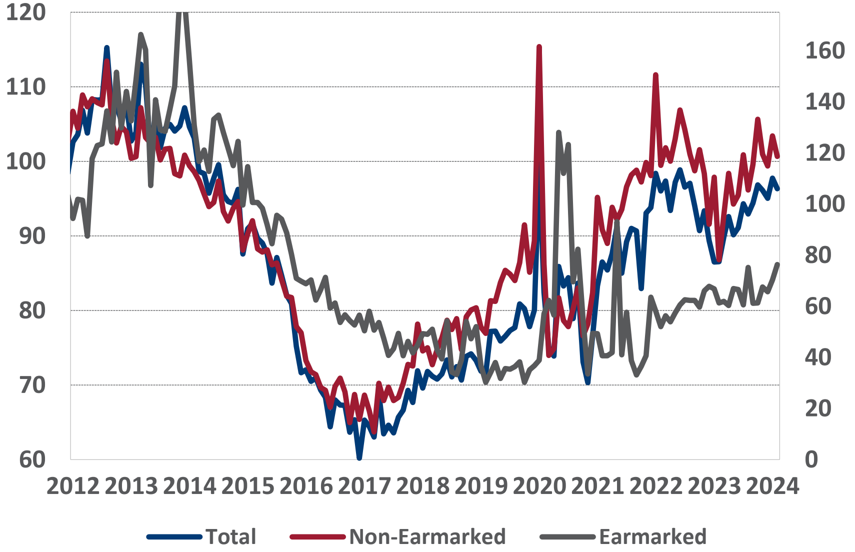
New Credit Operations SA (Real) - mar/11 = 100



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



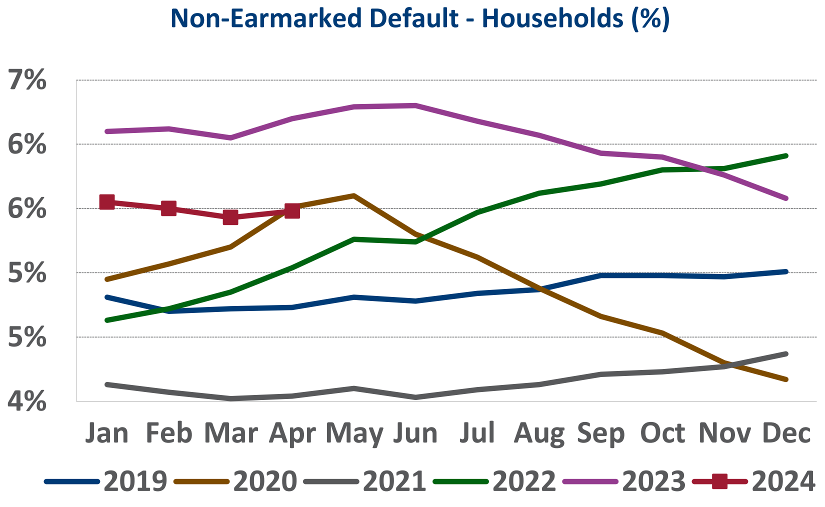
Concessions - Companies SA (Real) - mar/11 = 100

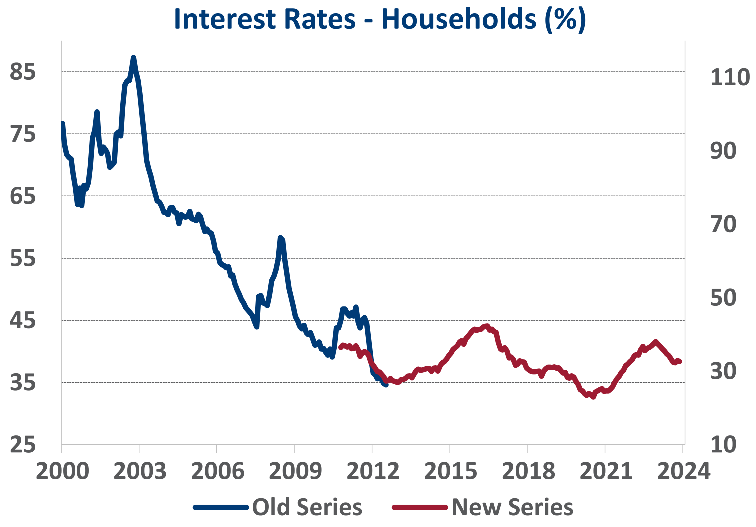


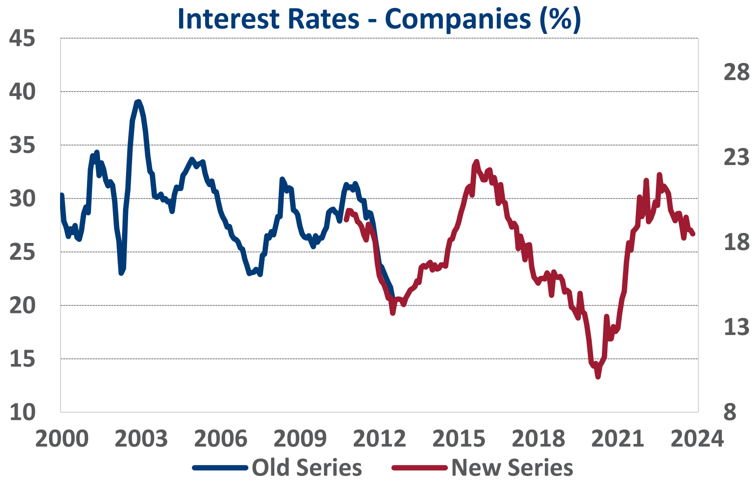
Source: BOCOM BBM, BCB

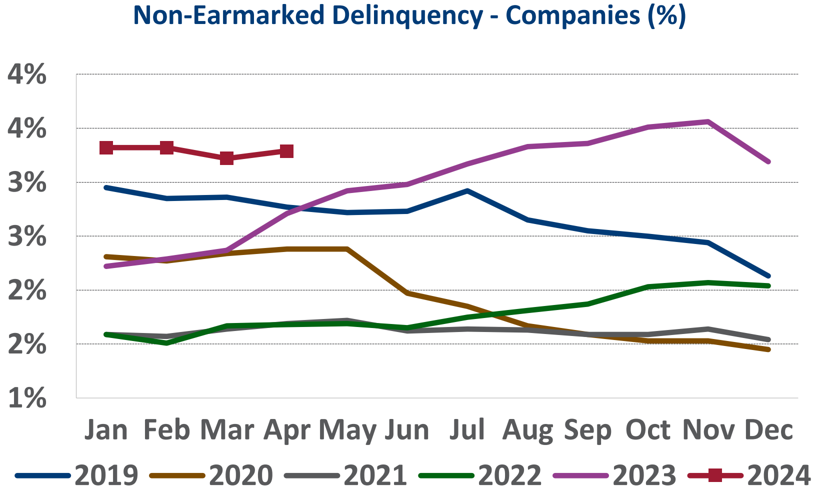
Brazil: Credit Statistics

- Lending rates decreased marginally, which was a result of a drop to 32.65% (from 32.85%) for individuals and a fall to 18.49% (from 18.72%) for companies;
- In turn, non-earmarked default rate is around 5.5% to individuals and 3.3% to companies.





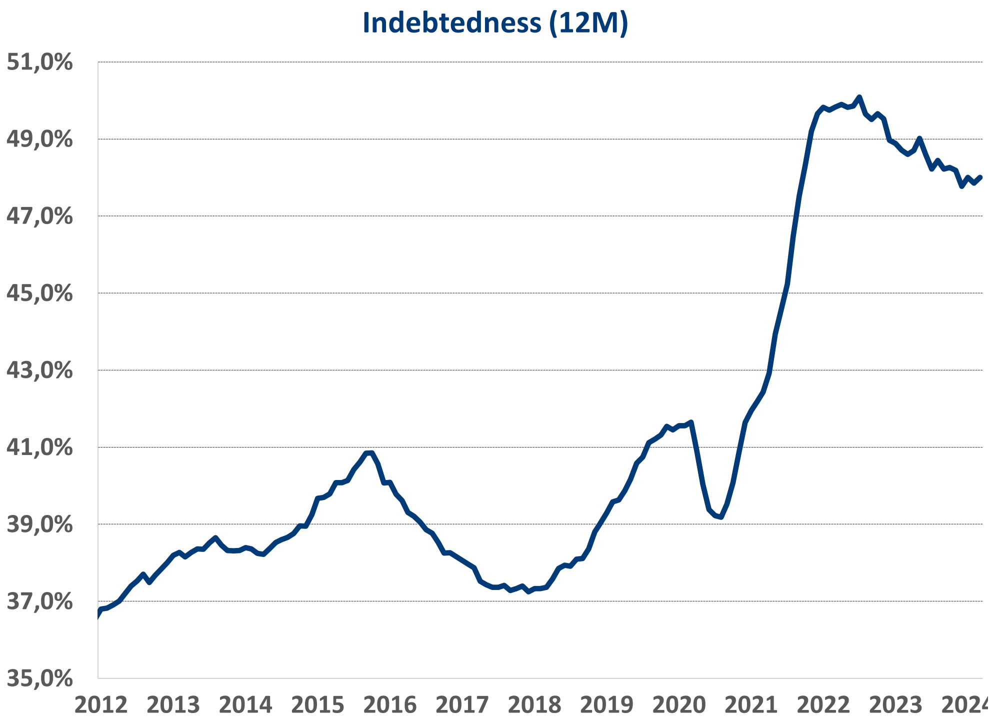


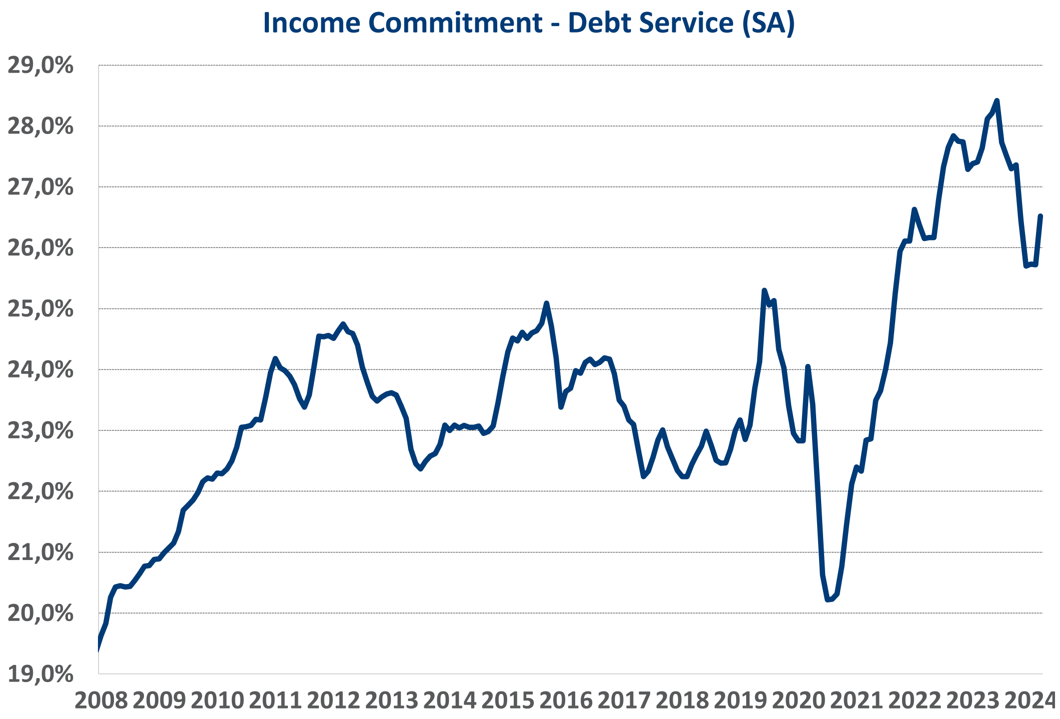


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- Household indebtedness stood around 48.0%, with a slight increase when compared to the previous month;
- Accordingly, income commitment to debt service raised to 26.5% (from 25.7%);



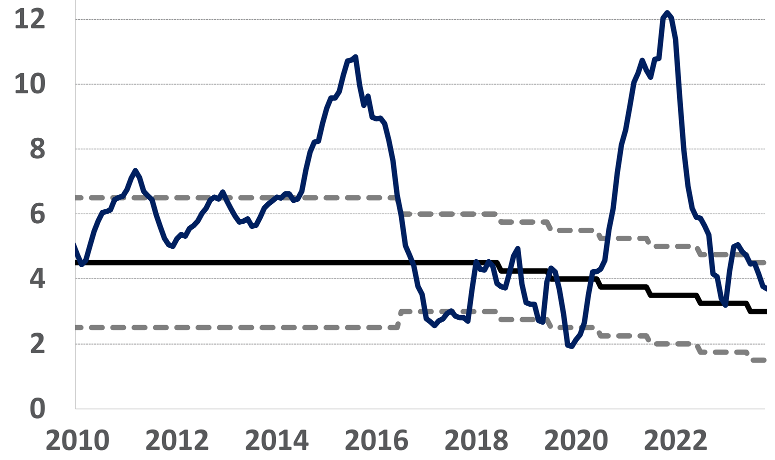


Source: BOCOM BBM, BCB

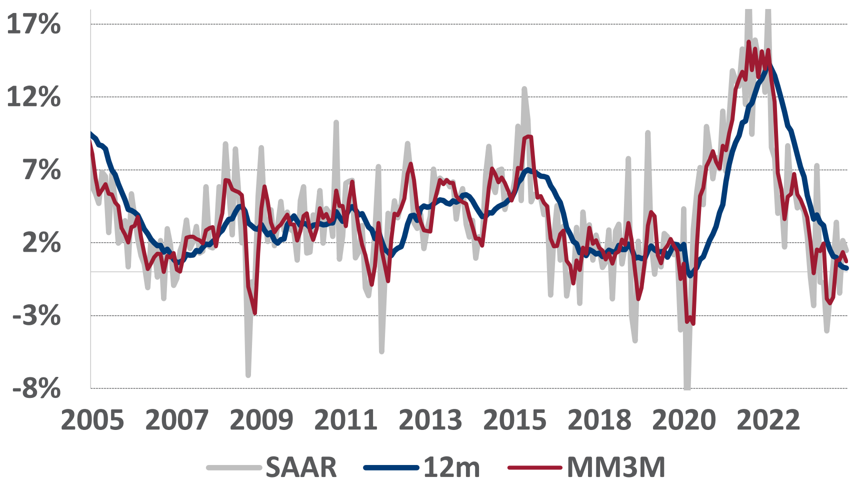
Brazil: Inflation 2024

- The May IPCA preview posted a variation of 0.44% MoM, below market consensus (0.47% MoM);
- The 12-month variation dropped from 3.77% in April to 3.70% in May;
- The main downward surprises came from volatile components such as foodstuff and some industrial items. The average of cores and core services also came slightly below consensus;
- The better-than-expected result was partially compensated by upward surprises in regulated items.

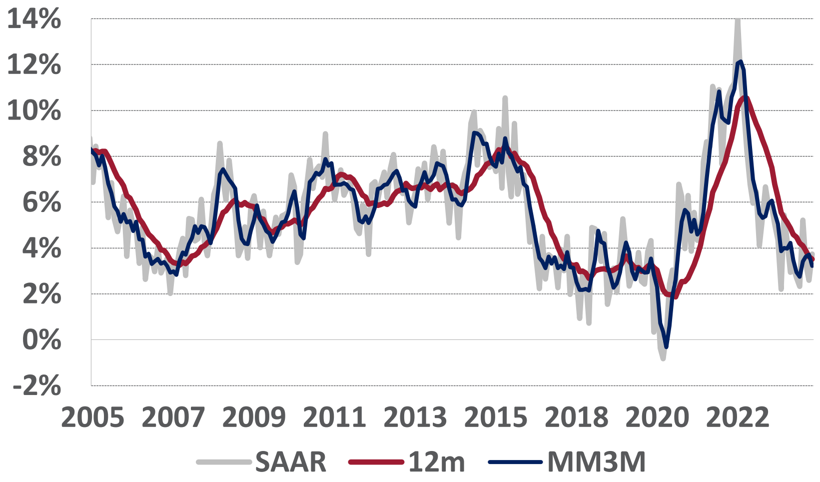
IPCA (YoY, %)



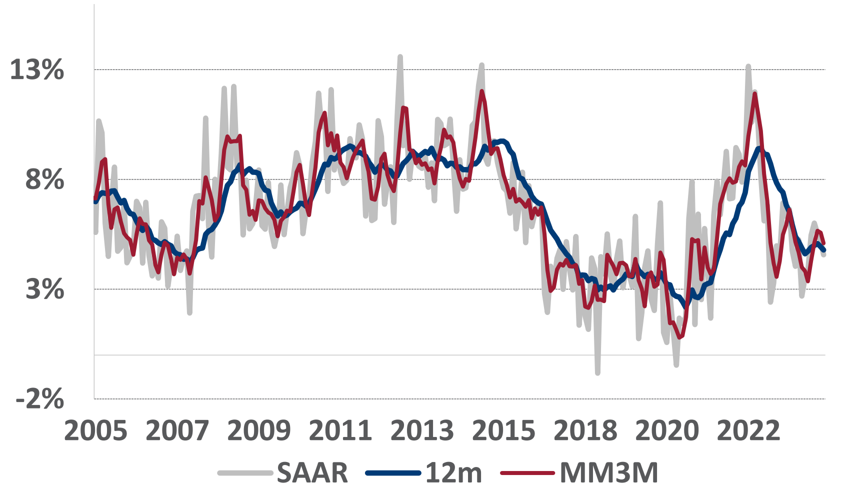
Industrial Goods



Average of Cores



Core Services

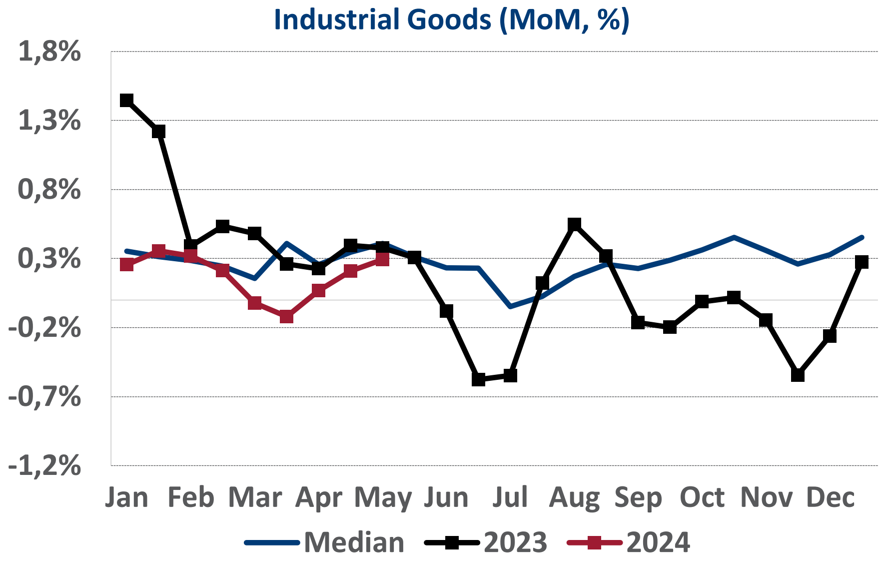


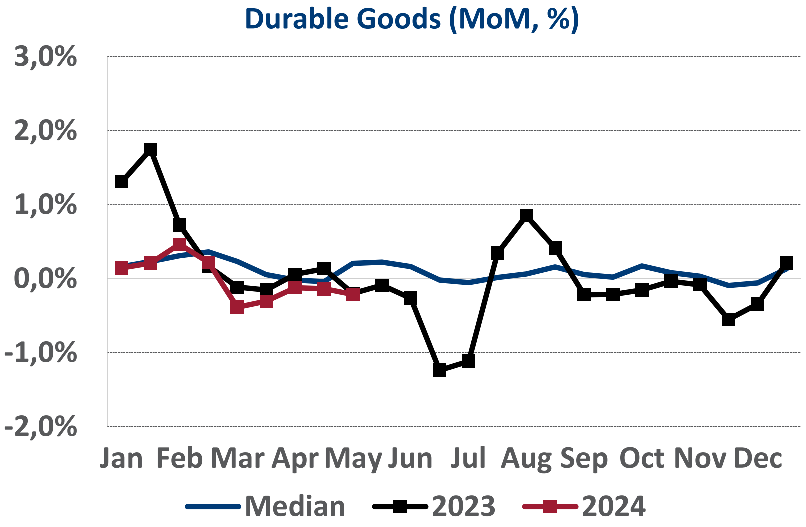
Source: BOCOM BBM, IBGE

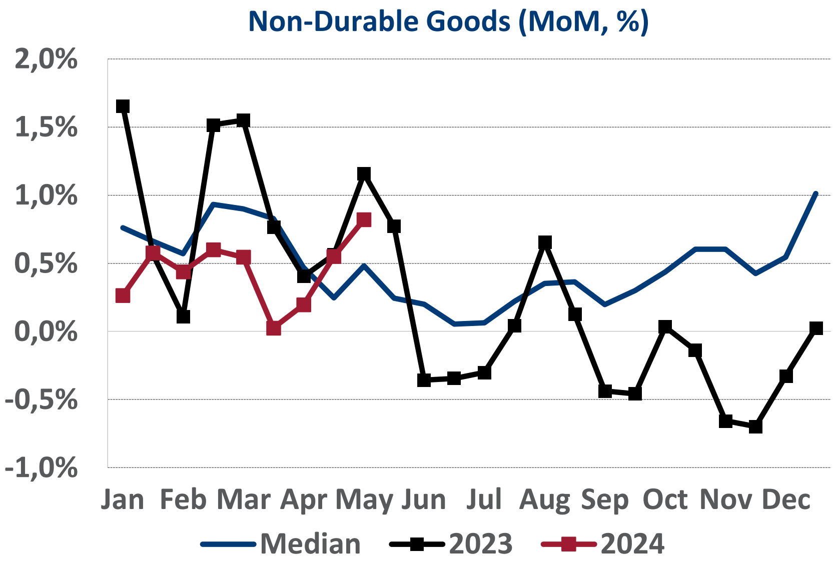
Brazil: Inflation 2024

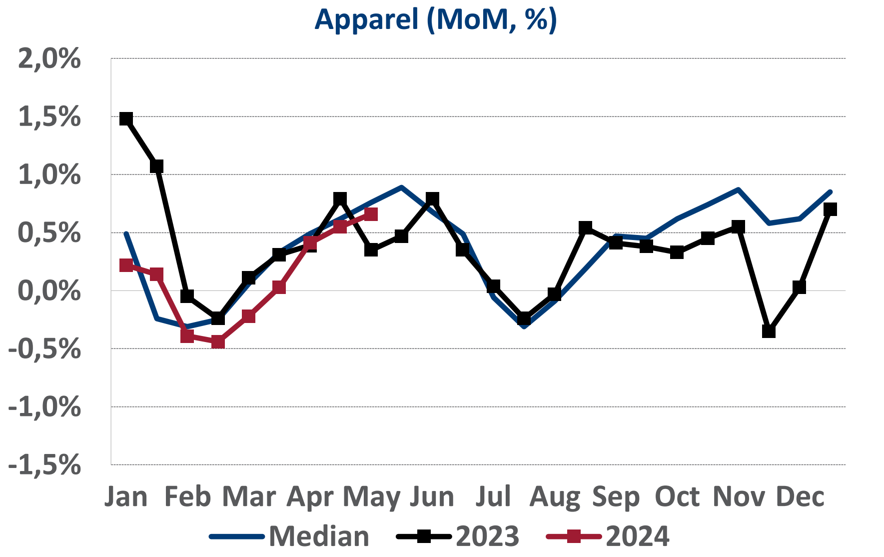
交通銀行 BANK OF COMMUNICATIONS BBM

- The group of industrial prices advanced 0.29% MoM and remain on a benign trajectory;





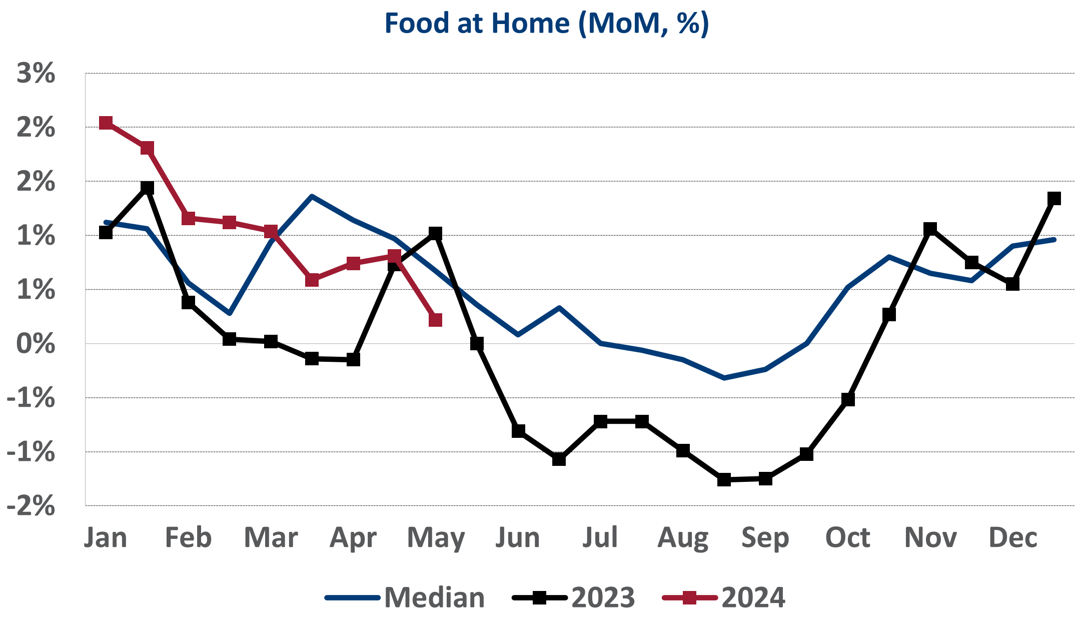


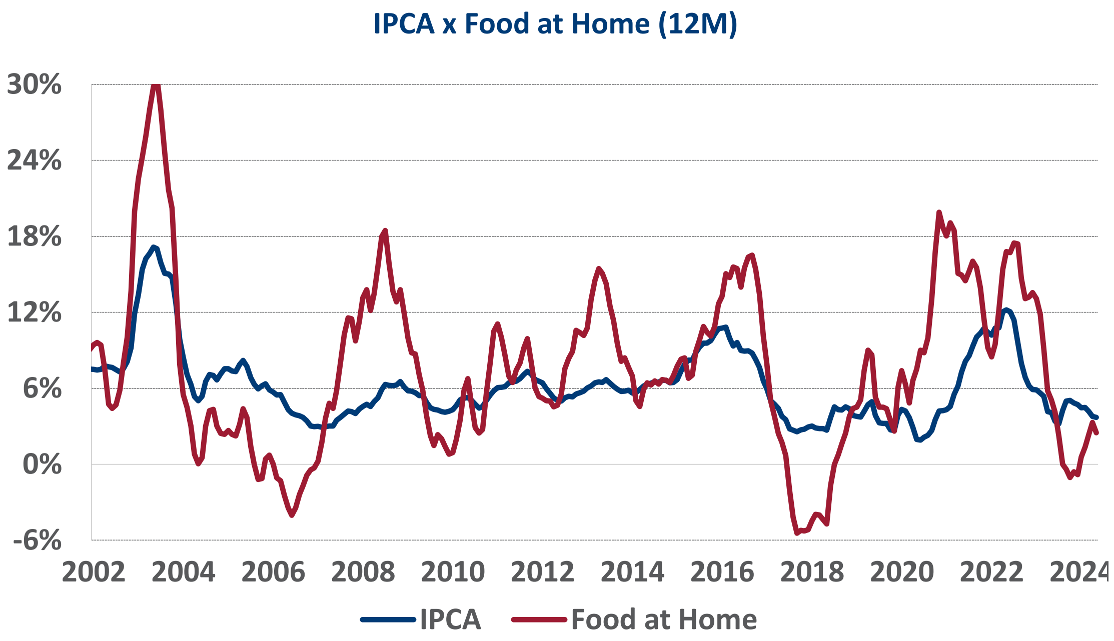


Source: BOCOM BBM, IBGE

Brazil: Inflation 2024

- Foodstuff prices came well below estimates;
- According to IBGE, 70% of IPCA-15 in RS had been collected before floods.





Source: BOCOM BBM, IBGE

Brazil: Inflation

- **Our forecasts for 2024 and 2025 inflation are at 3.8% and 4.0%, respectively;**
- May´s figure was another favorable inflation reading. Although we maintain the projection for the year stable, we now see a slightly better composition.

IPCA (%, annual)

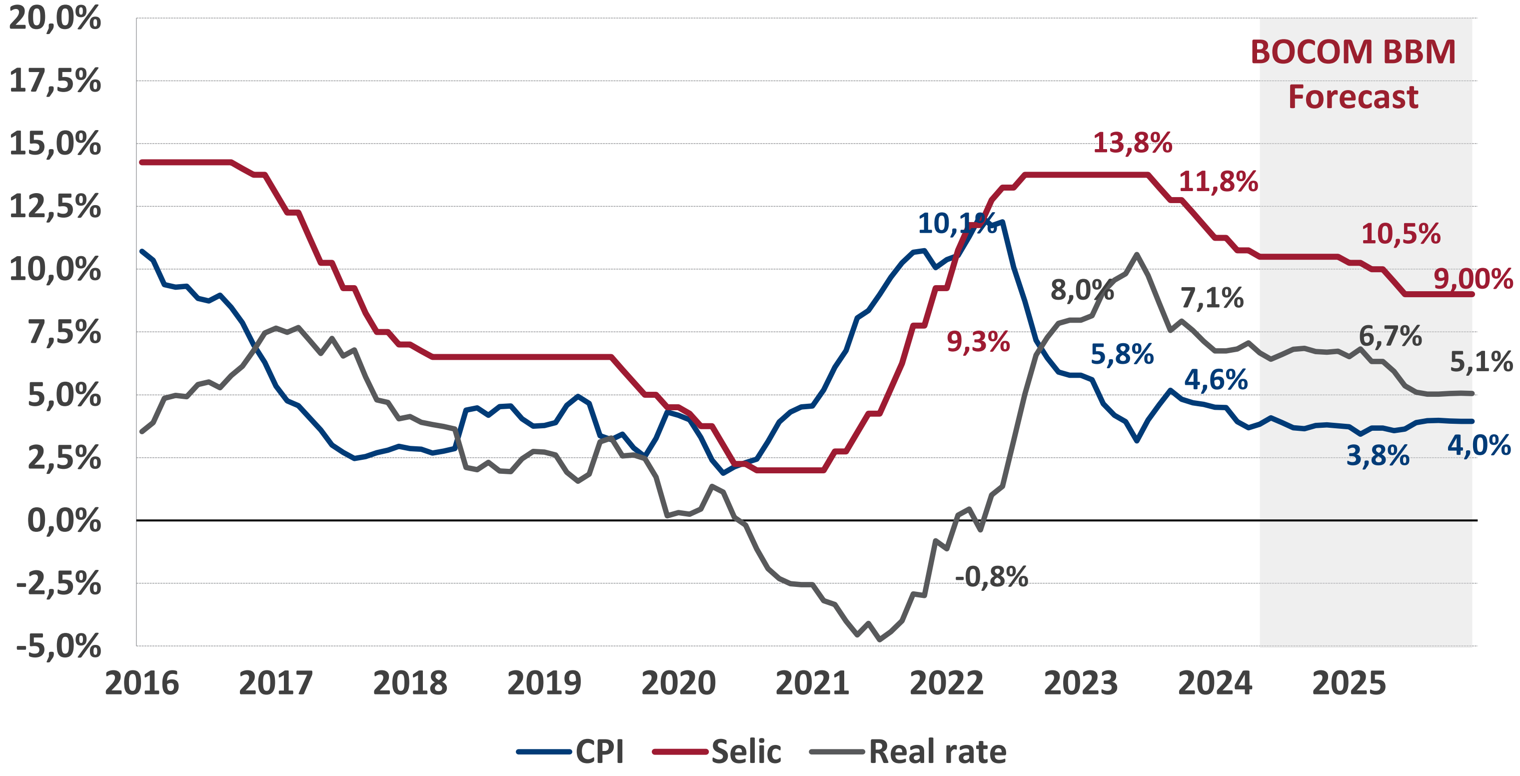
	Weight	2019	2020	2021	2022	2023	2024	2025
Regulated	**26.6**	**5.5**	**2.6**	**16.9**	**-3.8**	**9.1**	**3.8**	**4.1**
Industrial goods	**23.6**	**1.7**	**3.2**	**11.9**	**9.5**	**1.1**	**2.4**	**3.1**
Durable goods	10.3	0.0	4.5	12.9	6.1	-0.4	0.7	-
Semi-durable goods	5.9	0.6	-0.1	10.2	15.7	2.7	2.7	-
Non-durable goods	7.3	4.4	4.0	11.9	9.5	1.7	4.3	-
Food at home	**15.7**	**7.8**	**18.2**	**8.2**	**13.2**	**-0.5**	**4.7**	**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	4.7	4.2
Related to minimum wage	5.2	2.9	1.5	3.3	6.3	5.2	5.8	6.4
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.3	9.5	2.6	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**	**3.8**	**4.0**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

- Concerning monetary policy, the BCB decided to cut Selic rates by 25 bps in its May meeting reaching 10.50% per year, in contrast to guidance given in previous meeting (a 50bps cut) but in line with recent communication given by some committee members. Projections indicate that rates reaching 9.63 % by 2024 and 9% by 2025 would bring inflation to 3.8% in 2024 and 3.3% in 2025. The committee notes that the international scenario has become more adverse, whereas labor markets show remarkable dynamism. Importantly, the communication indicates no guidance for the next meeting, and reinforces that the length and pace in interest rates adjustments are tied to the firm commitment to inflation convergence to the target;
- In a disputed decision, 5 members voted in favor of a 25 bps cut, whereas 4 members voted in favor of a 50 bps cut, showing diverging views of the 4 new committee members.

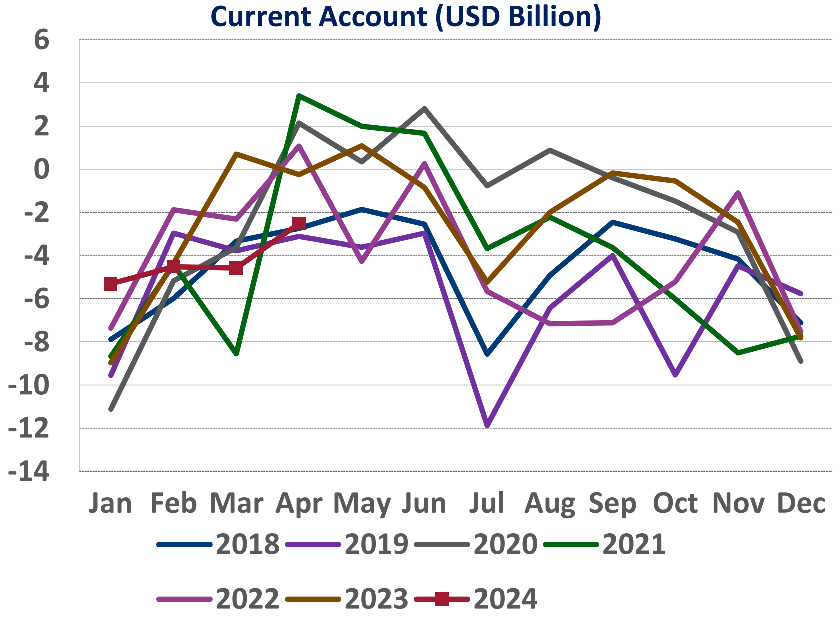
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

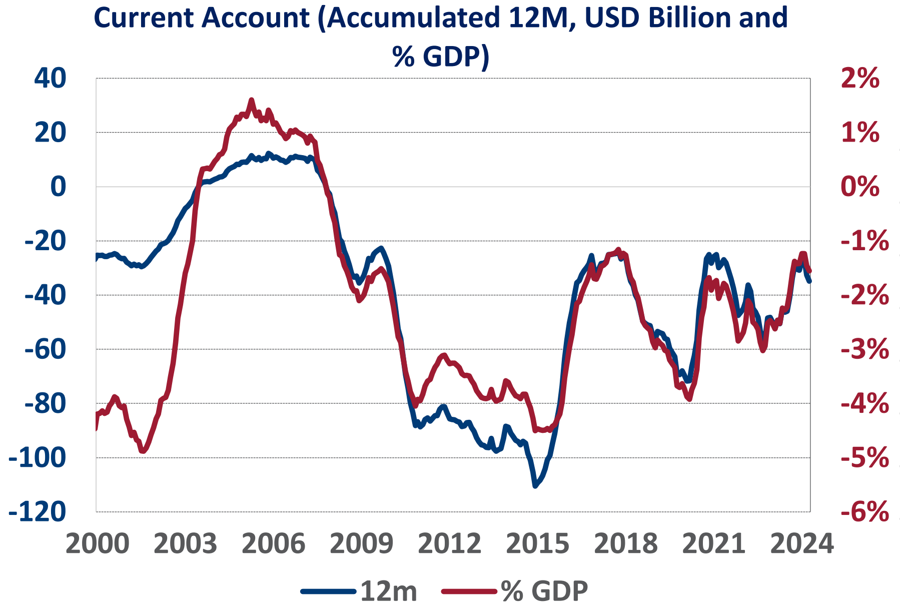


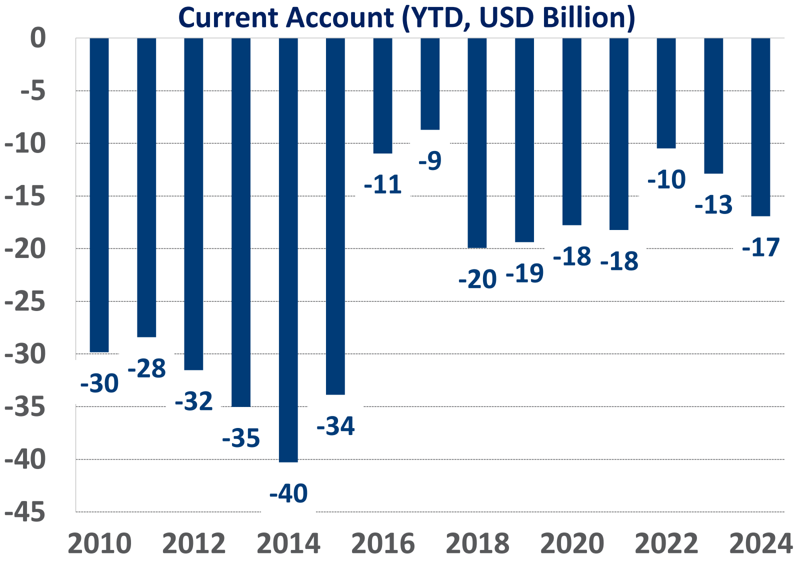
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The Brazilian current account recorded a deficit of USD 2.5 billion in April 2024, below expectations of USD 1.4 billion;
- Nevertheless, the 12-month accumulated remains significantly below one year ago (it reached 1.6% of GDP in April 2024 versus 2.5% of GDP in the same month of last year).



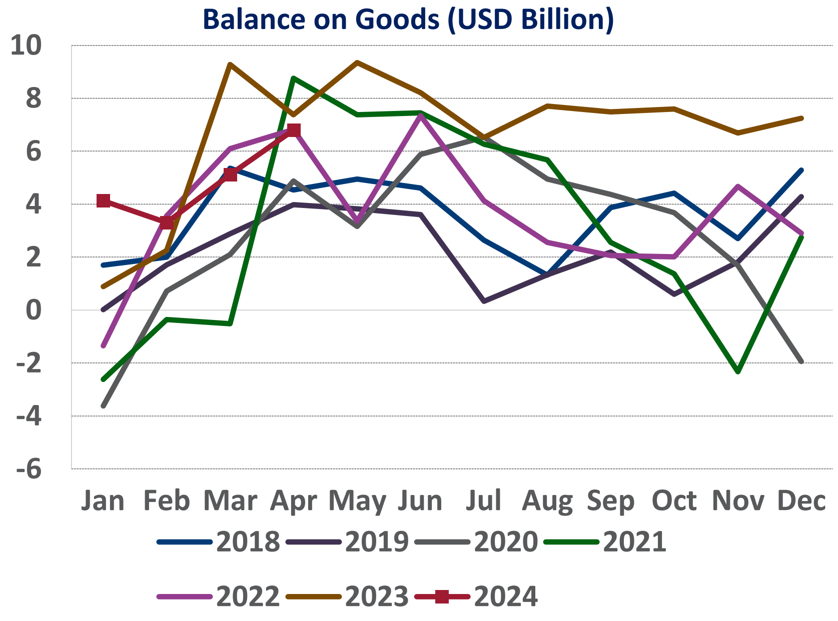


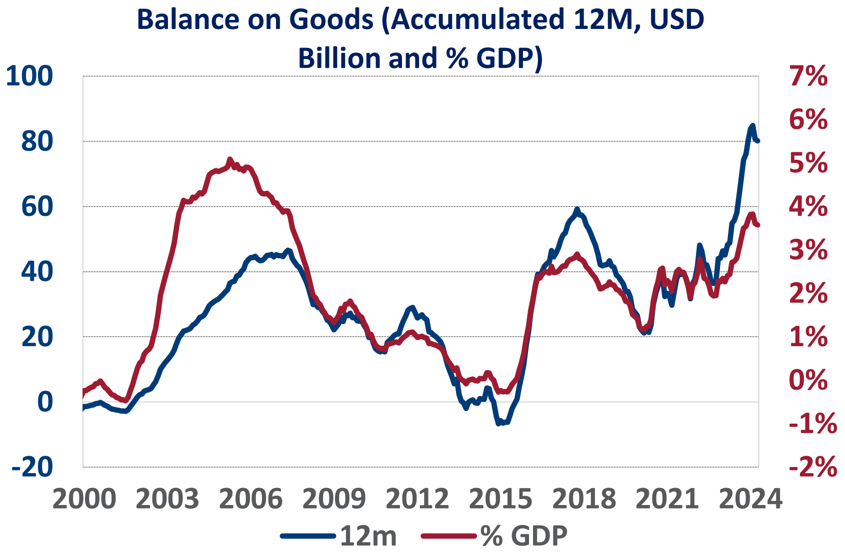


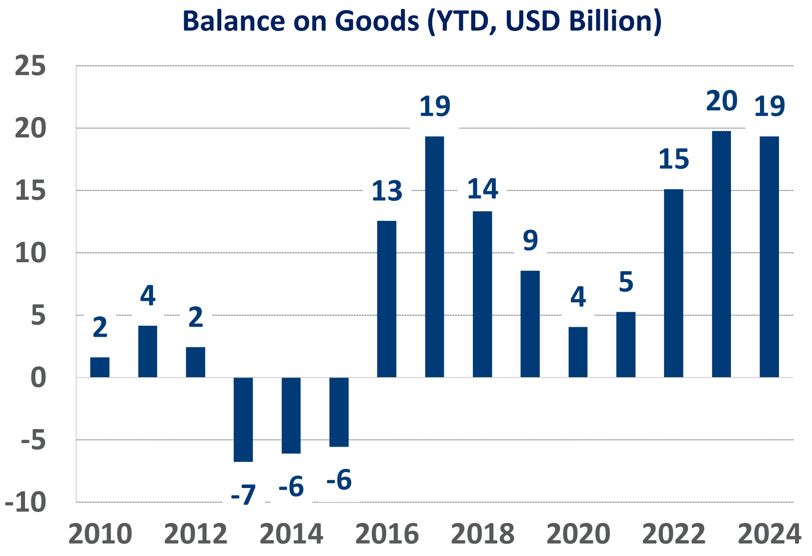
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- The Merchandise Trade Balance recorded a surplus of USD 6.8 billion in April;
- The 12-month rolling sum up to April 2024 reached USD 79.8 billion;
- This result was slightly below the recorded in April 2023 (+USD 7.4 billion), with the imports growing in a faster pace than the exports (14.3% vs 14.1% YoY). Despite that, the trade balance has been supporting the recent narrower current account levels;



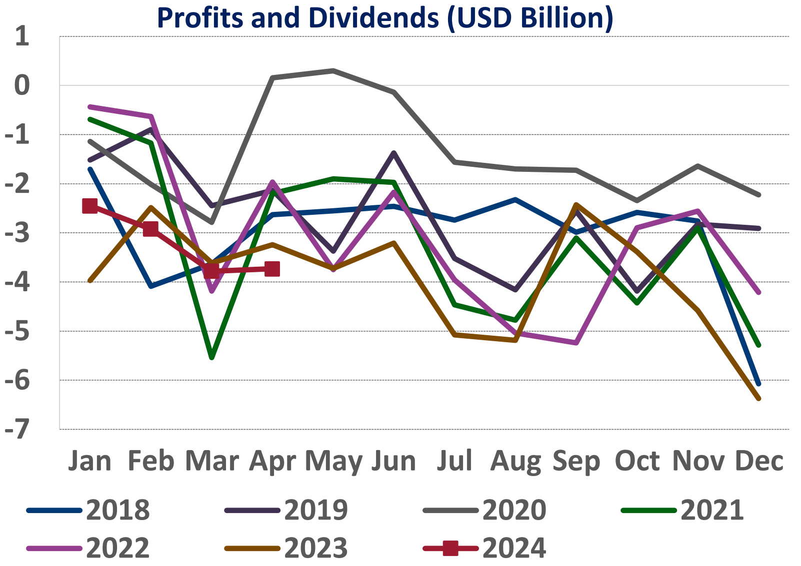


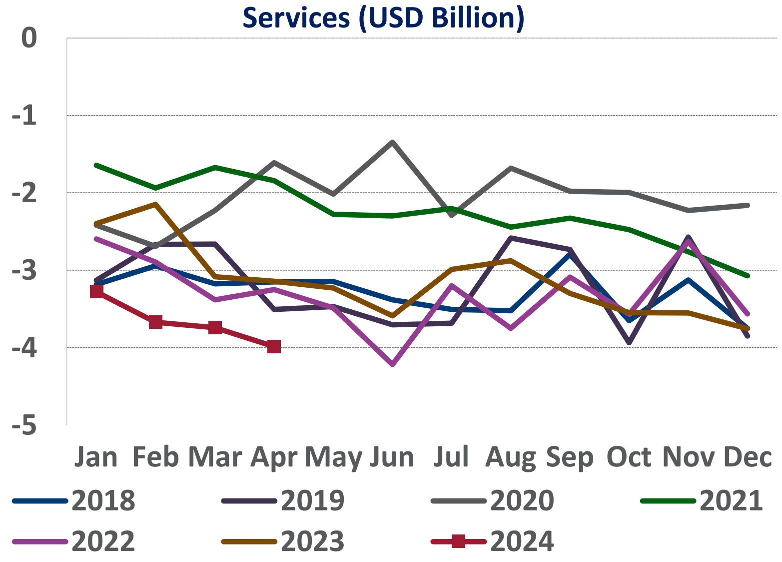


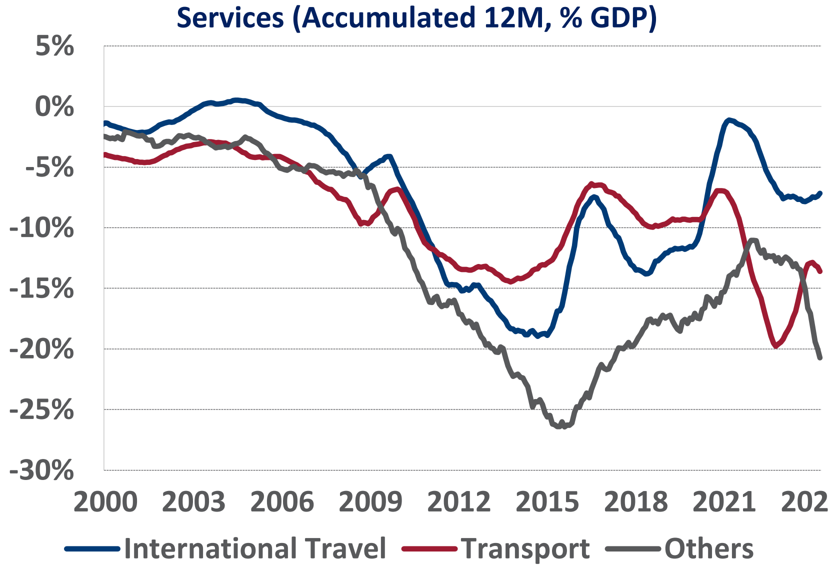
Source: BOCOM BBM, BCB

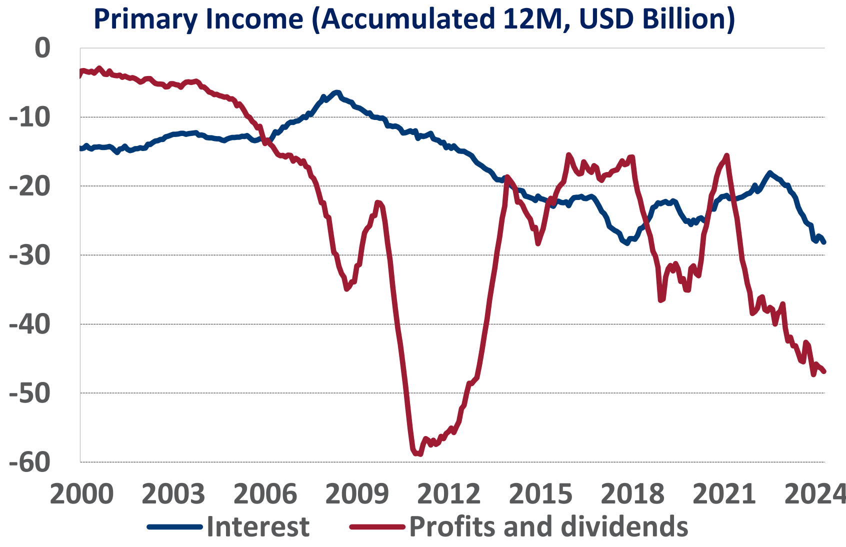
Brazil: Balance of Payments

- The deficit in the Services Account totaled USD 4.0 billion in April, from USD 3.1 billion a year earlier;
- The deficit in the Primary Income account reached USD 5.5 billion in April 2024 and USD 74.6 billion in the 12-month rolling sum, being the biggest downward surprise for the month, due to higher expenses in direct investment income.





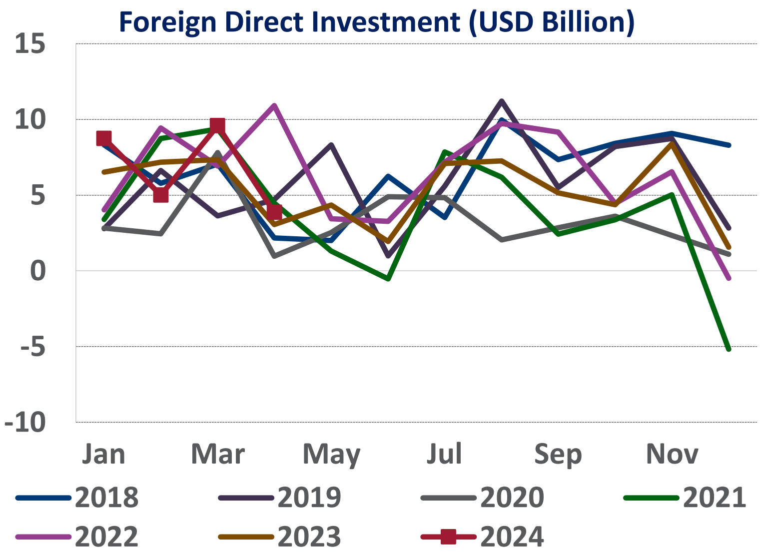


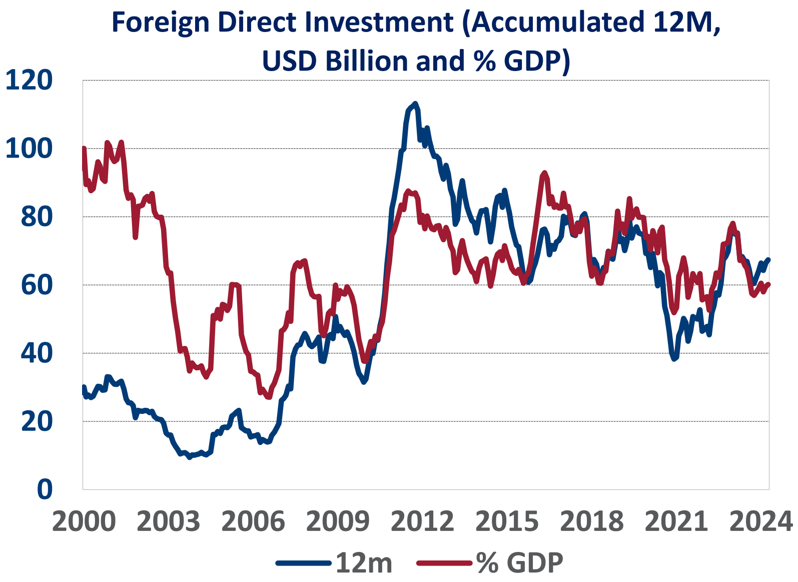


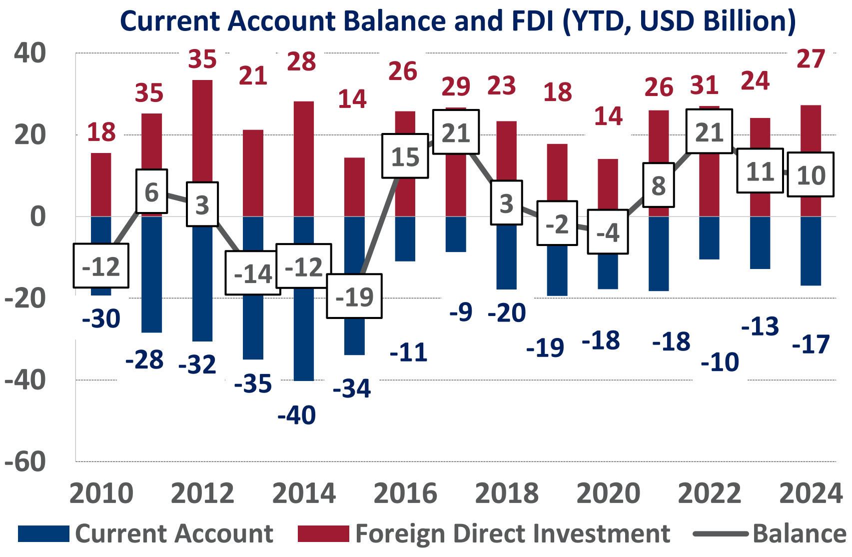
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- Net inflows in Foreign Direct Investment (FDI) totaled USD 3.9 billion in April 2024, below the market expectation (USD 5.0 billion);
- In 12 months, it reached USD 67.2 billion (3% of GDP);
- Overall, Brazilian balance of payments remain robust, with net inflows in FDI following a recovery trend, despite the monthly volatility.







Source: BOCOM BBM, BCB

Brazil: External Sector

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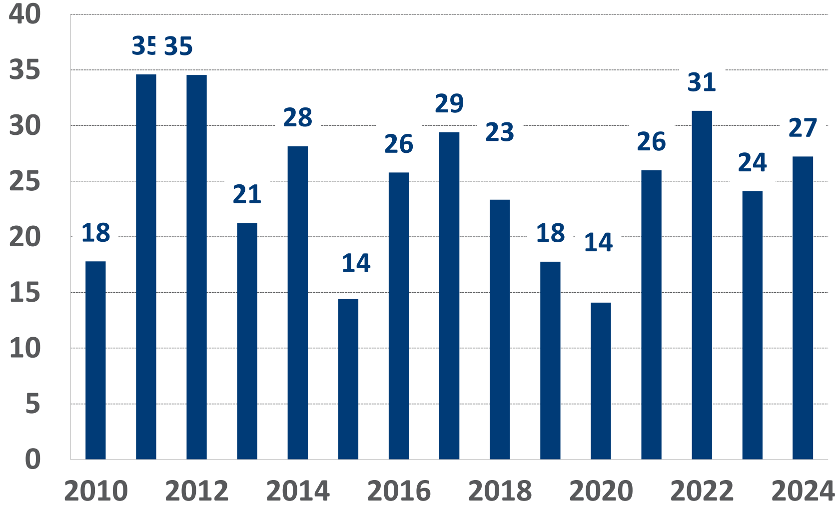
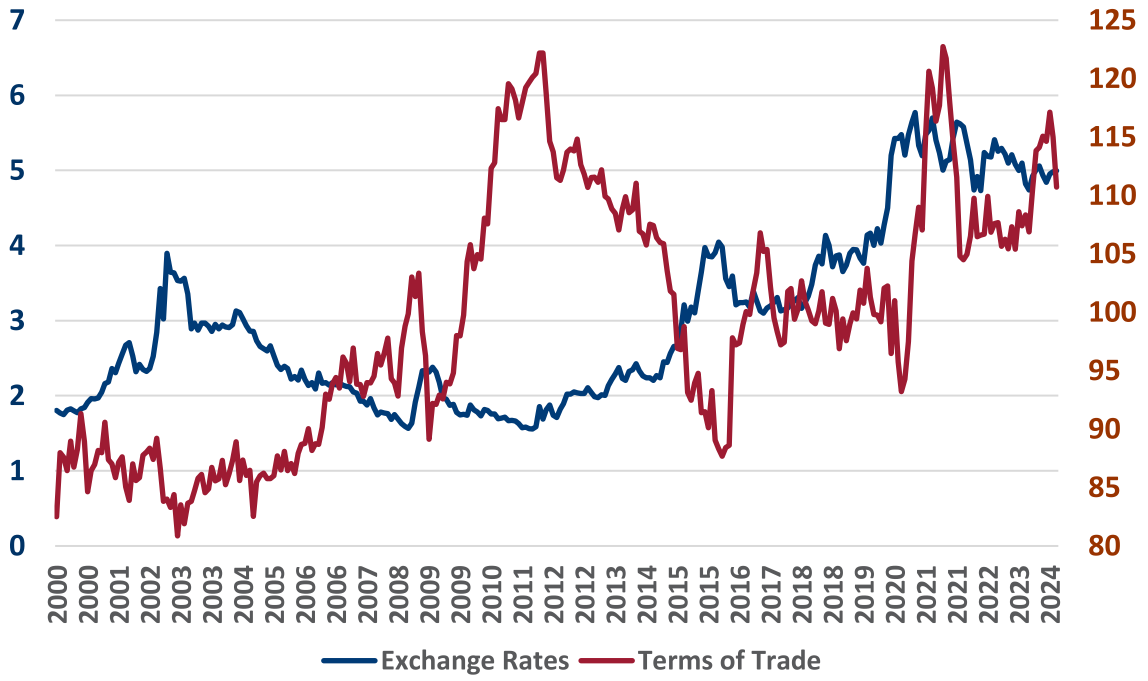
- Concerning the domestic scenario, the highlight in the Copom decision was the diverging views of members: the directors who are leaving the board by the end of the year were perceived as hawkish (voted in favor of a 25-bps cut) and those who will remain on the board for the next few years were perceived as dovish (voted in favor of a 50-bps cut). Aiming at the possibility of the new board being less austere, the Brazilian real depreciated after the decision;
- In the international front, US inflation data came in line with expectations and showed some slowdown in its trajectory. Additionally, retail sales were also weaker, which corroborates the sign of some cooling in the US economy, alleviating pressions on the BRL.

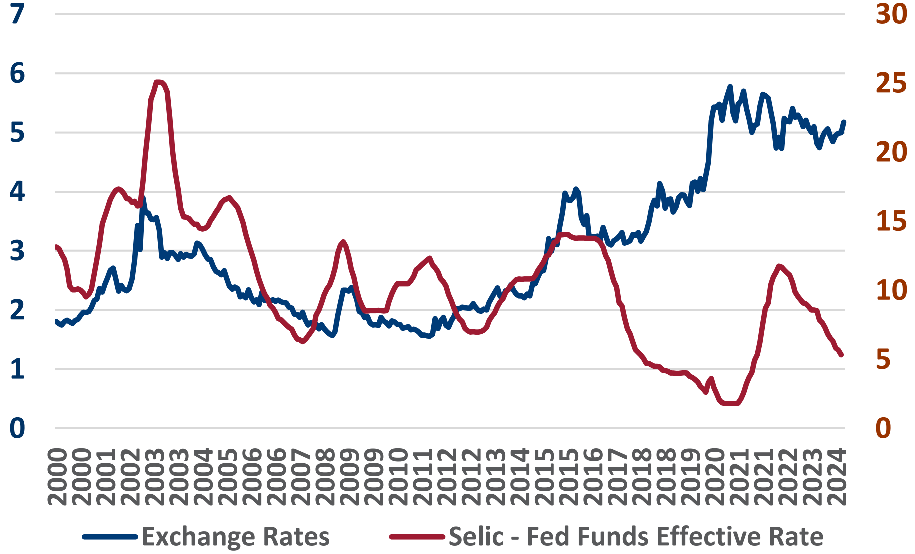
Foreign Direct Investment (YTD, USD Billion)



Terms of Trade x BRL



Interest Rate Differential x BRL

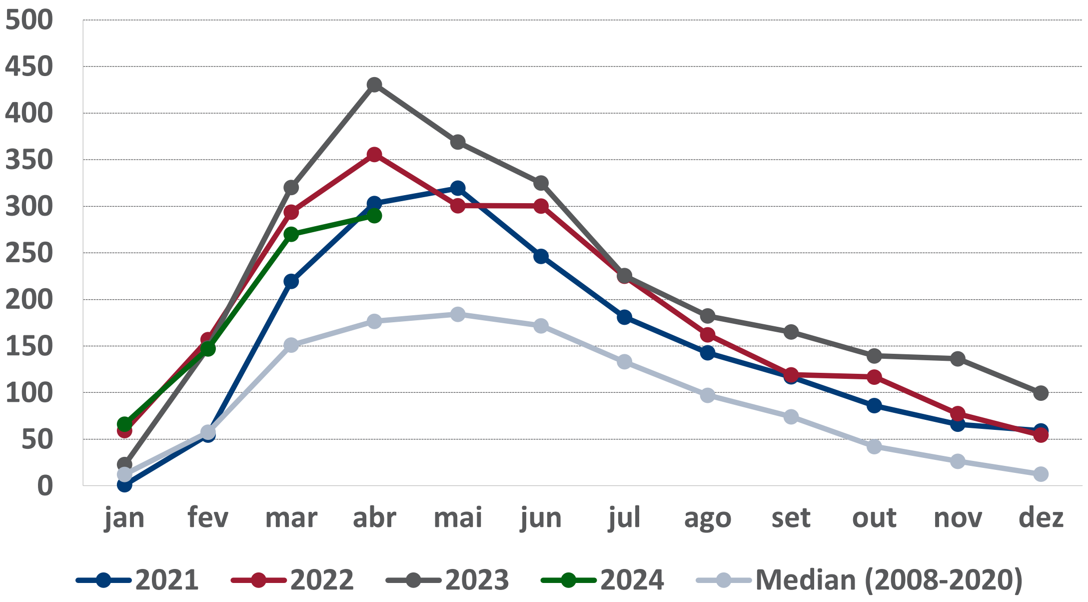


Source: BOCOM BBM, Bloomberg, Funcex, BCB

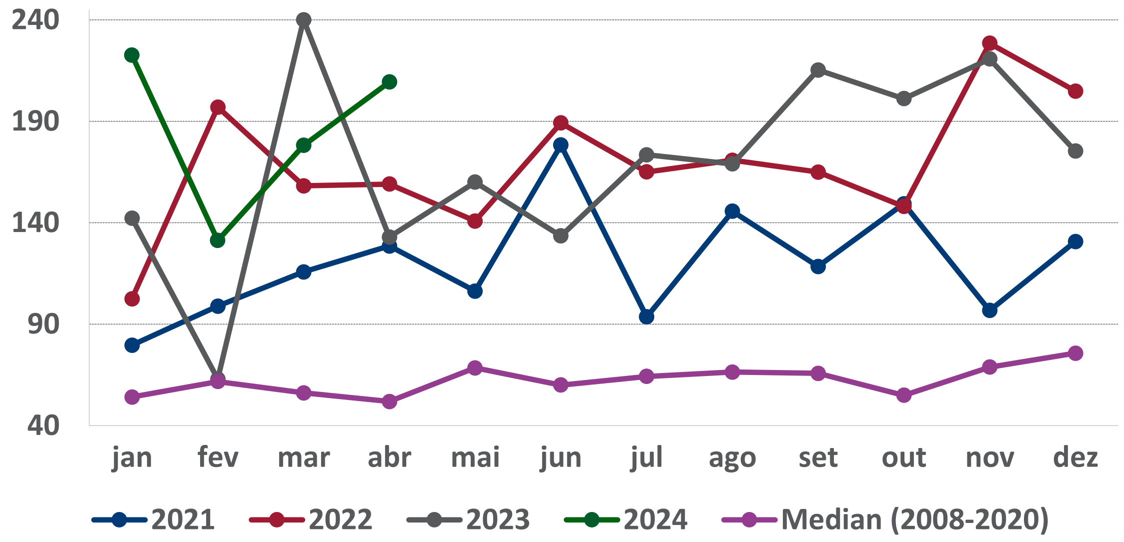
Brazil: External Sector

- In April, the trade balance presented a surplus of US$ 9.04 bn (+13.7% YoY) according to Secex data;
- Year to date, the trade surplus reached US$ 27.74 bn (+17.7% YoY);
- The exports increased 14.1% YoY, boosted by crude oil (+92.4% YoY) and fuel (+125.9% YoY);
- In turn, imports increased 14.3% YoY, mainly due to fuel (+17.3% 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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