MACRO OUTLOOK

July 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, progress resumed in April and May. FOMC members acknowledged these improvements, but reinforced a cautious and data-dependent approach as they need more months of good readings before cutting rates. Markets are pricing between 1-2 cuts this year, in an easing cycle that could begin from September onwards.

- As for China, we continue to see the same pattern that has prevailed in recent months: strong production, but demand struggling to catch-up. Manufacturing of industrial goods related to the 'new productive forces', such as chips, NEVs, and renewables remains strong. And this helps boosts Chinese exports, which grew a solid 2.7% YTD YoY, despite falling prices and a depreciating RMB. On the other hand, housing correction is still underway and it’s hard to say when it will bottom out. The upcoming July Politburo meeting will be the next main event that should provide clarity on the direction that policymakers want to follow.

- In Brazil, monthly indicators of economic activity posted mixed signs in April. The Services activity grew 0.5% MoM, while Industrial production and Broad retail sales contracted 0.5% and 1.0% MoM, respectively. Summarizing the scenario, IBC-Br was virtually stable. We have revised our GDP forecast from 1.8% to 2.1% for 2024, due to: higher GDP growth in Q1 and stronger real household income (in face of a resilient labor market and sharper increase in social transfers and the number of beneficiaries);

- Concerning monetary policy, the BCB decided to keep the Selic rates at 10.5% in June meeting, interrupting the easing cycle as widely expected given the recent developments in the economic scenario. BCB projections indicate that rates reaching 10.5% by 2024 and 9.5% by 2025 would bring inflation to 4% in 2024 and 3.4% in 2025. In an alternative scenario where rates are kept at 10.5% over the relevant horizon, projections reach 3.1% in 2025, very close to the target of 3%. The communication indicates that it will keep monetary policy contractionary as long as necessary, reinforcing that further adjustments are tied to the firm commitment to inflation convergence to the target. This time the votes for keeping rates at 10.5% were unanimous, in sharp contrast to the previous split decision;

- The June IPCA preview posted a variation of 0.39% MoM, below market consensus (0.44% MoM). In addition to a lower headline, inflation composition delivered the expected relief. The average of core inflation gauges advanced 0.33% MoM and the underlying services rose by 0.40% MoM, roughly in line estimations. However, the BRL depreciation pulled the projections up. We now forecast 3.9% for 2024 and 4.1% for 2025;

- In the fiscal scenario, total federal tax collections reached BRL 203.0 bn (10.5% YoY), in line with consensus and the best result for the month in the historical data, but still below what would be needed to reach the primary result target. The central government’s primary balance registered a deficit of BRL 60.8 billion in May, and accumulated in 12 months primary deficit of BRL 268.4 bn. This result was pushed by a jump of 14.0% YoY in real terms in expenditures, reflecting increasing pressures in pensions benefits (28.5%), elderly and disabled assistance BPC/LOAS (17.4%), and extraordinary credits, the latter due to the aid to Rio Grande do Sul on the climatic disaster. States and municipalities and state-owned enterprises showed a deficit of BRL 1.1 bn and BRL 0.2 bn, respectively. Gross General Government Debt rose to 76.8% of GDP in May from 76% of GDP in April, pushed by nominal interest (+0.6pp.), net issuances (+0.1pp.) and partially offset by nominal GDP growth (-0.4pp.).

China: Economic Activity

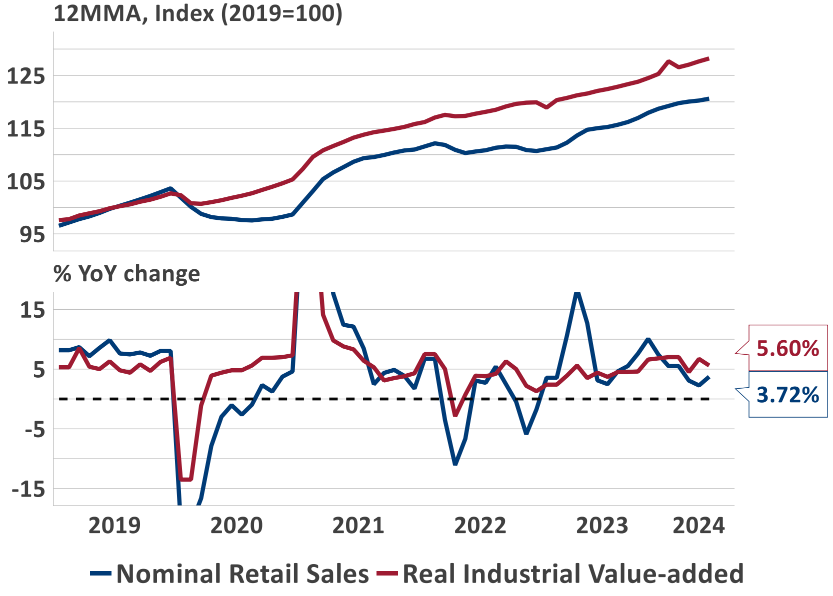
- May activity shows the same pattern that has prevailed recently: **domestic production growing faster than demand;**
- But this time, **retail sales growth surprised up,** accelerating from 2.3% to **3.7%** YoY (exp. 3.0%): both restaurants and goods consumption saw their annual rates accelerating, mainly on cellphones and home appliances;
- **Industrial prod. slowed** from 6.7% to **5.6%** YoY (exp 6.2%), reflecting continuing heterogeneity: 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 4.2% to 4.0% YTD YoY** (exp. 4.2%), 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)

	5/2024	4/2024	5/2023
Industrial Production	5.60	6.70	3.5
Mining	3.60	2.00	-1.2
Manufacturing	6.00	7.50	4.1
Utilities	4.30	5.80	4.8
Fixed Asset Investment (YTD)	4.00	4.20	4.0
Manufacturing	9.60	9.70	6.0
Real Estate	-10.10	-9.80	-7.2
Infrastructure	5.70	6.00	7.5
Retail Sales	3.72	2.26	12.7
Catering Services	5.00	4.40	35.1
Consumer Goods	3.60	2.00	10.5
Clothing	4.40	-2.00	17.6
Automobiles	-4.40	-5.60	24.2
Furniture	4.80	1.20	5.0
Cellphones	16.60	13.30	27.4
Home Appliances	12.90	4.50	0.1
Construction	-4.50	-4.50	-14.6

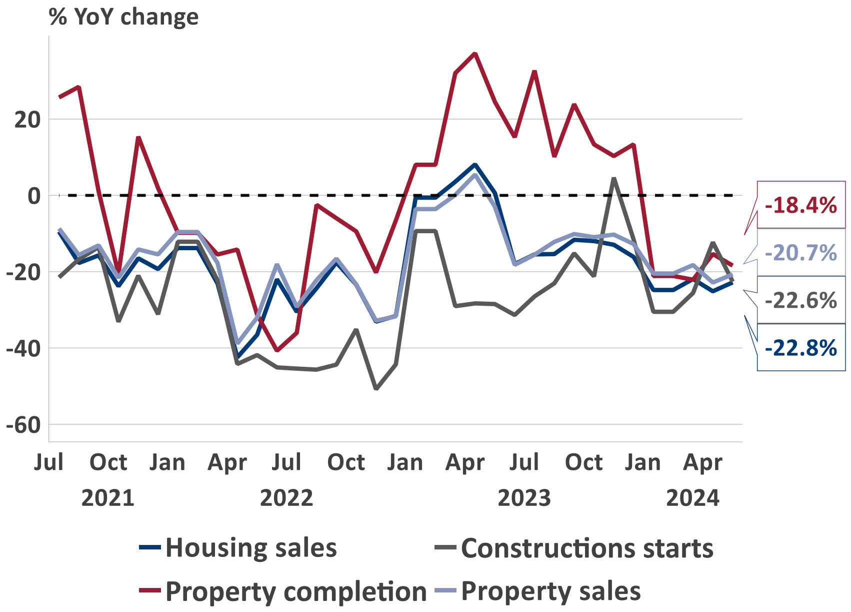
Source: BOCOM BBM, Macrobond

China: Industrial Production x Retail Sales



Source: BOCOM BBM, Macrobond, NBS

China: Property Indicators (% YoY)



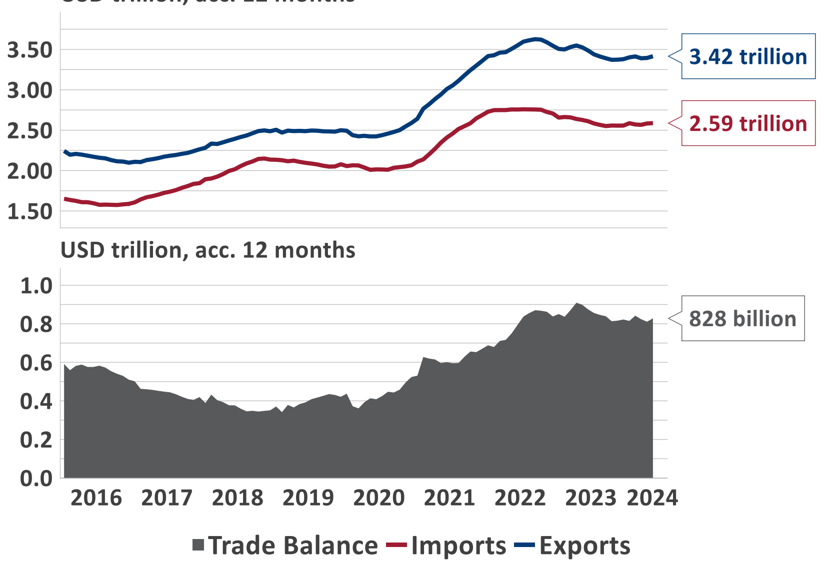
Source: BOCOM BBM, NBS

China: Economic Scenario

- **May exports surprised to the upside,** accelerating from 1.5% to **7.6% YoY** (exp. 6.0%): exported goods continued growing strongly in volume terms, despite prices for most products are still on decline;
- **On the other hand, imports slowed** from 8.4% to **1.8% YoY** (exp. 4.2%) as growth in certain commodities imported value slowed in the month, although overall Chinese demand for several commodities remains strong in volume terms;

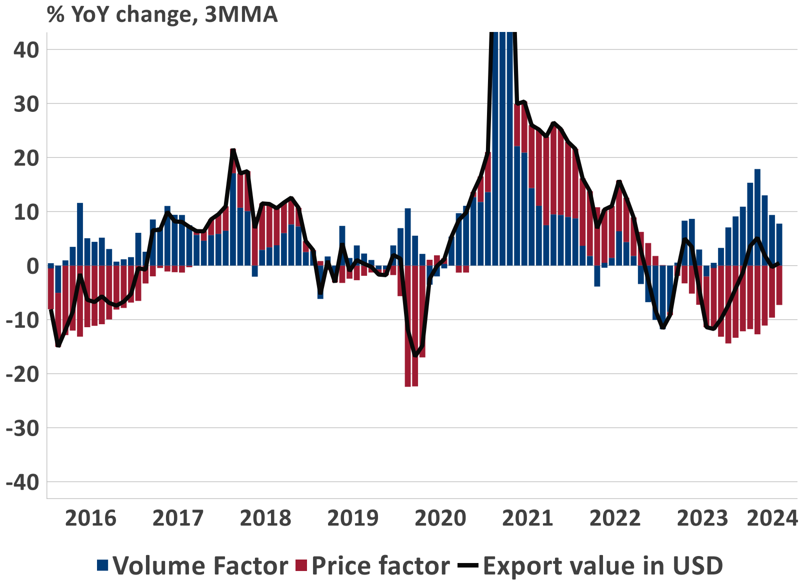
- May **CPI** inflation was stable at **0.3%** YoY (exp. 0.4%), reflecting a stable core and offsetting movements in food and energy;
  - Core inflation seems a bit better than headline (+0.6% YoY), however still with an heterogeneous composition as services prices are up (+0.8% YoY) while goods are slowly improving (moved from -0.4% YoY deflation to 0% YoY, and stayed put);
  - Food inflation is gradually stabilizing, while energy is also moving out of deflation following global commodity prices;
  - Deflationary pressures remains persistent: headline CPI averaged 0.1% YoY in the first 5 months;

China: Trade Balance



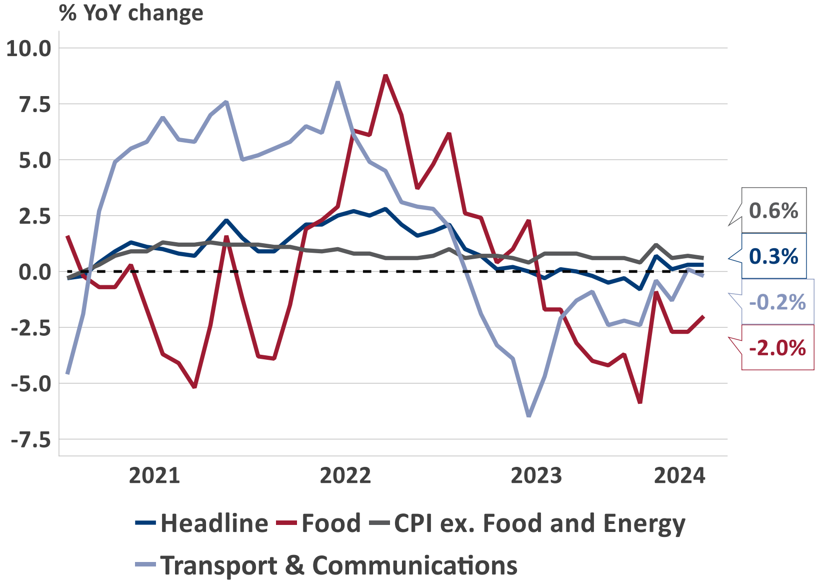
Source: BOCOM BBM, Macrobond, CCS

China: Exports (Price x Volume)



Source: BOCOM BBM, Macrobond, GAC, CCS

China: CPI

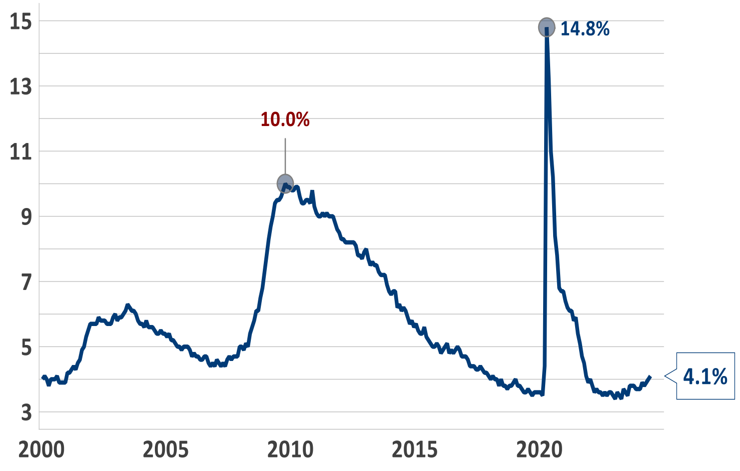


Source: BOCOM BBM, Macrobond, NBS

USA: Labor Market

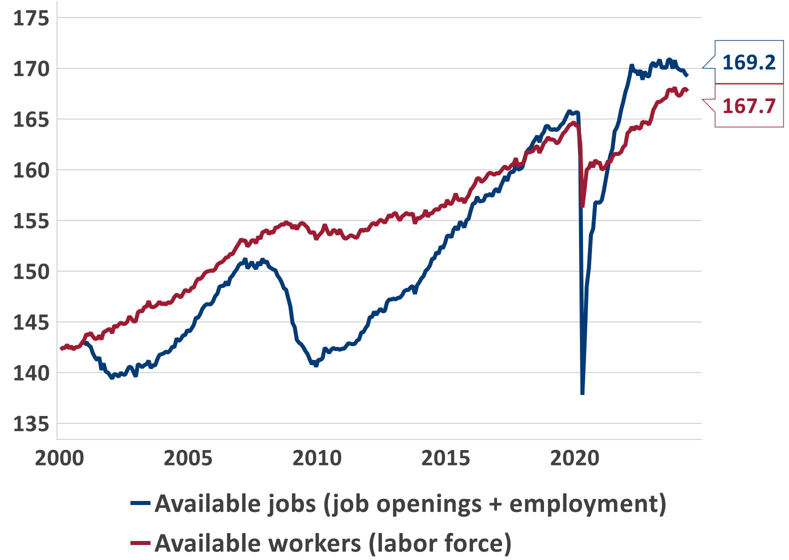
- **Labor market has cooled from its peak tightness,** but Q1 2024 payroll showed resiliency with the 3MMA rising to 267k, albeit slowing again in Q2 to 177k;
  - June payroll showed a job gain of **206k**, slightly above market expectations (190k), but with a large two-month net revision of -111k in May and April;
  - On the other hand, the household survey, showed the unemployment rate moving up from 4.0% to **4.1%**, the highest level since January 2022;
- In May, **the jobs-workers gap increased from 1.4M to 1.5M** due to mixed signs from labor demand (an increase in job openings with a slight decline in employment level) and falling labor force;
- June avg. hourly earnings **decelerated its monthly pace to 0.3% MoM** (below May's pace of 0.4%). Furthermore, the annual rate slowed down from 4.1% to 3.9% YoY, signaling a gradual relief in wage pressures, but remaining above levels compatible with the FOMC inflation target of 2.0%;

US: Unemployment Rate SA (%)



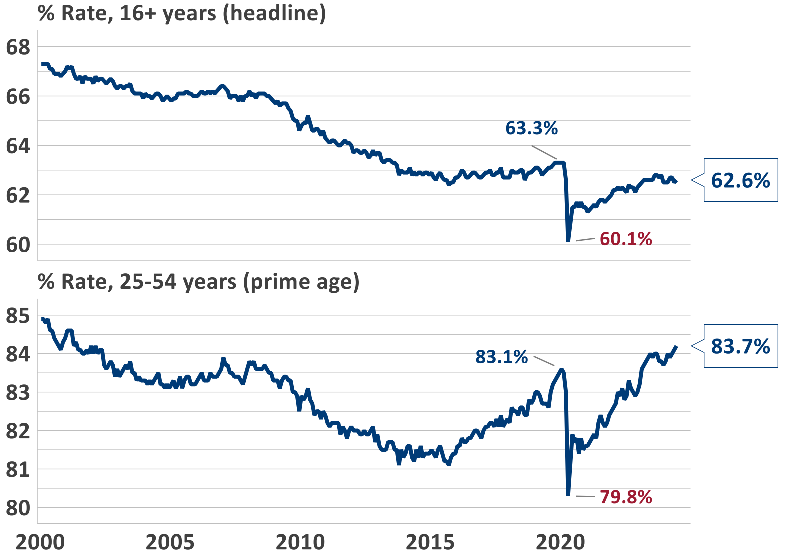
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



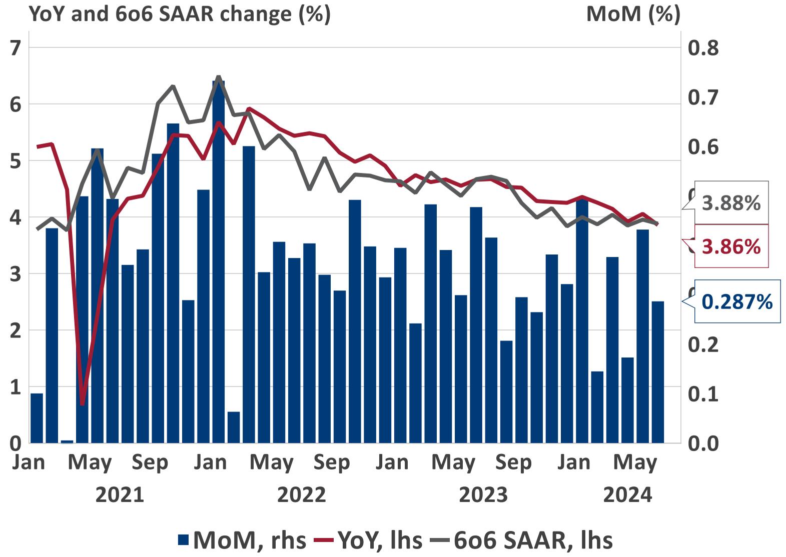
Source: BOCOM BBM, Macrobond, BLS

US: Labor Force Participation Rate (%)



Source: BOCOM BBM, Macrobond

US: Average Hourly Earnings Growth (%)



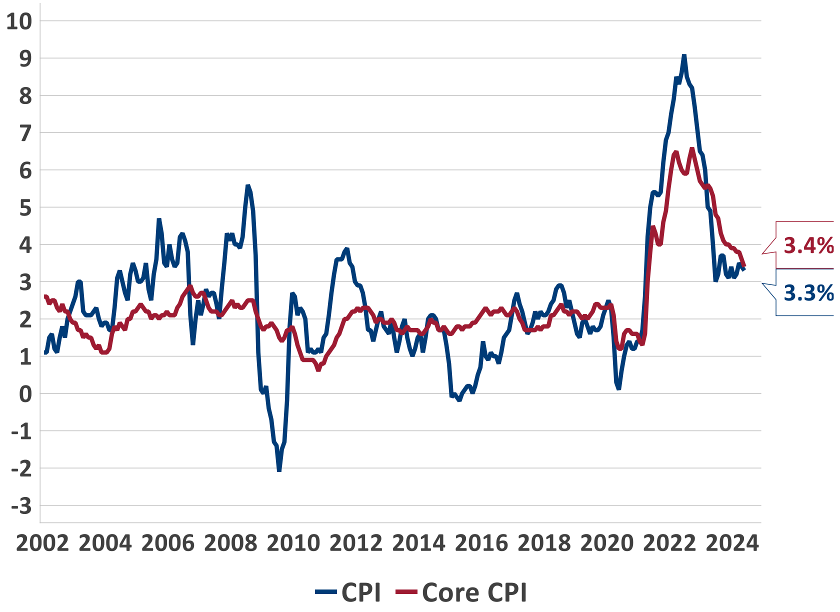
Source: BOCOM BBM, Macrobond

USA: Inflation

- May headline CPI rose **0.01% MoM** (below the exp. 0.1%), leading to an annual growth rate decrease from 3.35% to **3.26% YoY:**
  - **Energy prices**: declined 2.03% MoM, largely driven by a fall in gasoline prices after two months of increase;
  - **Food prices:** rose 0.14%, as widely expected, after remaining stable in April;

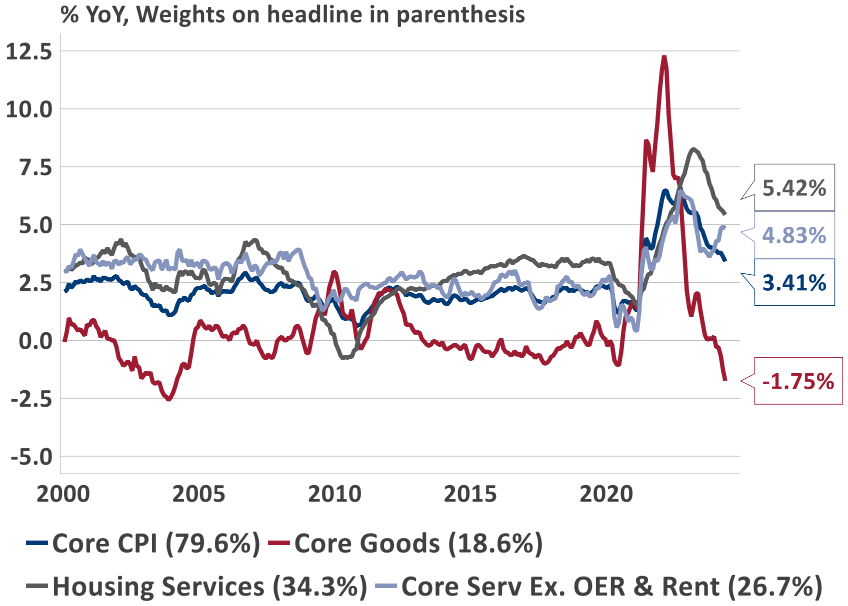
- **Core CPI** rose **0.16% MoM** (exp. 0.3%) and the annual growth rate fell from 3.6% to **3.4% YoY**;
  - **Core goods (-0.04% MoM):** another decline. Rising used car prices (0.6% MoM) was offset by a fall in new vehicle prices (-0.49%);
  - **Housing services (0.39% MoM)**: continues to slowdown 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 (-0.04% MoM)**: moved significantly down from April's pace (0.42% MoM), 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, %)



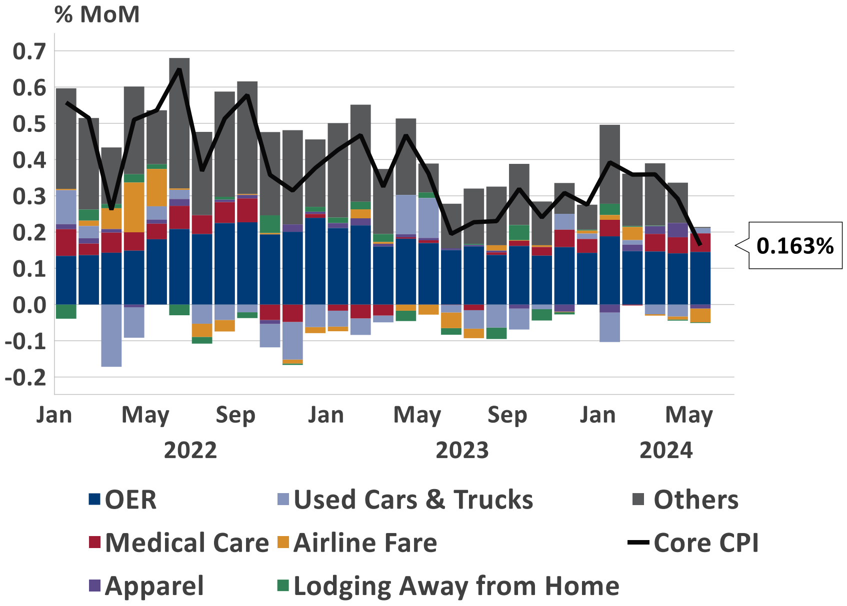
Source: BOCOM BBM, Macrobond, BLS

US: Core CPI Main Components (%)



Source: BOCOM BBM, Macrobond, BLS

US: Core CPI MoM Contributions



Source: BOCOM BBM, Macrobond, BLS

USA: Monetary Policy

BANK OF COMMUNICATIONS 交通銀行 BBM

- At June meeting, **FOMC kept rates unchanged at 5.25% - 5.50%.**

- New set of FOMC projections were **somewhat more hawkish,** as inflation forecasts were revised up in 2024 and 2025, reflecting the upside surprises in Q1;
- But all in all, they continue to **support the soft-landing narrative,** forecasting above-trend growth in the following years, healthy labor markets and inflation converging to the target;
- **Additionally, Fed funds rate forecast was revised from 3 to just 1 cut in 2024;**

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

Fed Projections Table

jun-24 Variable	2024 Median	2025 Median	2026 Median	Long Run Median
Change in real GDP	2.10%	2.00%	2.00%	1.80%
March projection	*2.10%*	*2.00%*	*2.00%*	*1.80%*
Unemployment rate	4.00%	4.20%	4.10%	4.20%
March projection	*4.00%*	*4.10%*	*4.00%*	*4.10%*
PCE inflation	2.60%	2.30%	2.00%	2.00%
March projection	*2.40%*	*2.20%*	*2.00%*	*2.00%*
Core PCE inflation	2.80%	2.30%	2.00%	
March projection	*2.60%*	*2.20%*	*2.00%*	

Fed Dots (June-24)

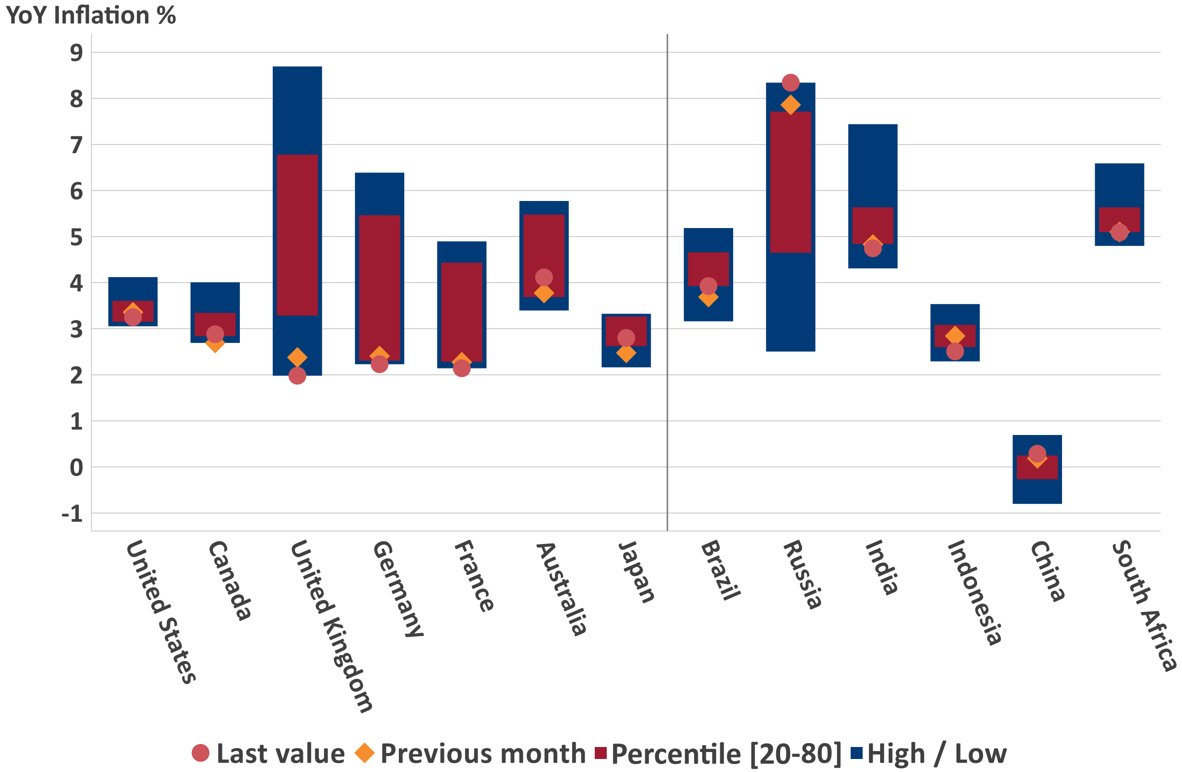
SEP (06/24)	2024		2025		2026		Longer Term	
Tgt Range	Mar-24	Jun-24	Mar-24	Jun-24	Mar-24	Jun-24	Mar-24	Jun-24
6.00-6.25								
5.75-6.00								
5.50-5.75								
5.25-5.50	2	4	1	1				
5.00-5.25	2	7						
4.75-5.00	5	8		1	1	1		
4.50-4.75	9							
4.25-4.50	1		2	4				
4.00-4.25			1	9		1		
3.75-4.00			6	2				
3.50-3.75			5	1	1	3	1	2
3.25-3.50			1		2	3	2	2
3.00-3.25			2		6	7	1	1
2.75-3.00				1	5	2	3	4
2.50-2.75			1		1	1	2	4
2.25-2.50					3	1	9	6
2.00-2.25								
1.75-2.00								
1.50-1.75								
1.25-1.50								
1.00-1.25								
0.75-1.00								
0.50-0.75								
0.25-0.50								
0.00-0.25								
MEDIAN	4.6	**5.1**	3.9	**4.1**	3.1	**3.1**	2.6	**2.8**
Participants	19	**19**	19	**19**	19	**19**	18	**19**

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

Global: Inflation & Activity

- Progress in inflation numbers are being seen across 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, however prospects for a change in policy are improving expectations this year.

Inflation range during the past 12 months



Source: BOCOM BBM, Macrobond

G20: GDP Growth Tracker (QoQ, %)

Countries marked in red indicates a technical recession:
2 consecutive quarters of negative sequential growth

	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022
Argentina	-2.6	-2.5	2.3	-2.4	1.1	-2.3	-0.1	1.7
Australia	0.1	0.3	0.2	0.4	0.6	0.8	0.1	0.9
Brazil	0.8	-0.1	0.1	0.9	1.2	0.2	1.0	1.3
Canada	0.4	0.0	-0.1	0.2	0.8	-0.2	0.5	0.9
China	1.6	1.2	1.8	0.5	1.8	0.8	4.0	-2.1
Euro Area	0.3	-0.1	0.0	0.1	0.6	0.0	0.5	0.8
France	0.2	0.3	0.1	0.7	0.1	0.0	0.5	0.4
Germany	0.2	-0.5	0.1	-0.1	0.3	-0.4	0.4	-0.1
India	7.8	4.7	2.3	-6.7	8.6	4.2	2.5	-8.4
Indonesia	-0.8	0.5	1.6	3.9	-0.9	0.4	1.8	3.7
Italy	0.3	0.1	0.4	-0.1	0.3	0.0	0.4	1.4
Japan	-0.7	0.0	-1.0	0.9	1.2	0.4	-0.2	1.2
Mexico	0.3	0.0	0.8	0.8	0.7	1.0	1.0	0.9
Russia	1.0	0.8	1.3	1.6	0.9	1.3	0.8	-4.3
Saudi Arabia	-2.6	5.7	-0.8	-3.7	-5.2	6.9	4.2	-2.2
South Africa	-0.1	0.3	-0.4	0.7	0.6	-1.4	1.9	-0.9
South Korea	1.3	0.5	0.8	0.6	0.4	-0.5	0.4	0.8
Turkey	-14.6	1.3	13.3	7.8	-16.0	3.3	11.0	7.9
United Kingdom	0.7	-0.3	-0.1	0.0	0.2	0.1	-0.1	0.1
United States	0.4	0.8	1.2	0.5	0.6	0.6	0.7	-0.1

Sources: BOCOM BBM, Macrobond, National Sources

Global: Monetary Policy

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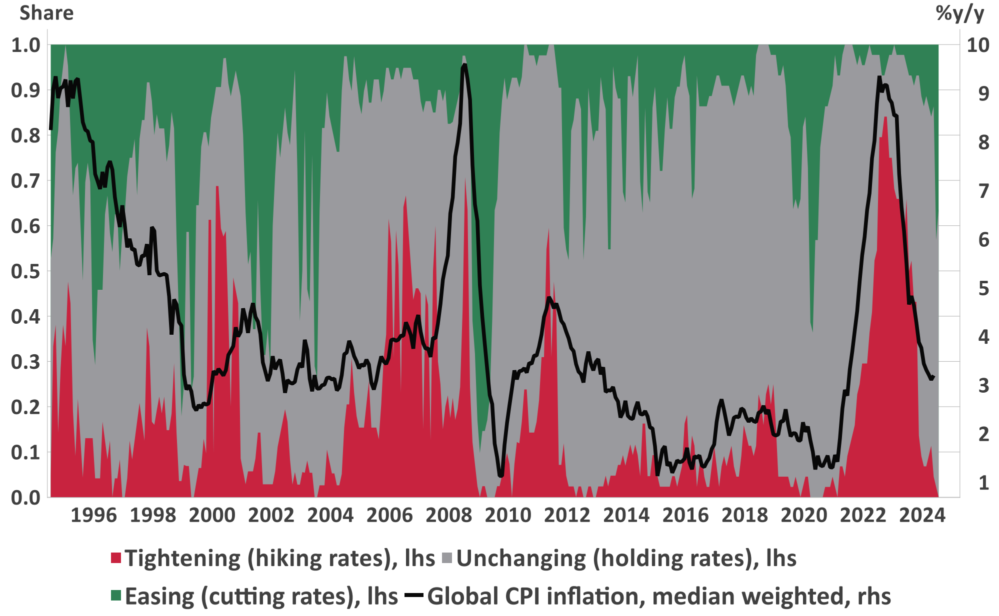
- Several **emerging markets already started cutting rates,** such as Colombia, Chile and Mexico;
- Some **developed markets central banks remains on hold at elevated levels,** such as the Fed and the BoE, due to sticky core inflation;
- However, **some advanced economies already pivoted into rate cuts**, such as Sweden, Switzerland and the ECB, 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, 5-Jul-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	276.4	277.3	40.00	-10.00	Cut	5/2024	9	2
Australia	3.6	3.7	4.35	0.25	Hike	11/2023	8	44
Brazil	3.9	4.1	10.50	-0.25	Cut	5/2024	23	2
Canada	2.9	1.8	4.75	-0.25	Cut	6/2024	12	1
Chile	4.1	3.3	6.50	-0.75	Cut	6/2024	21	1
China	0.3	0.6	3.45	-0.10	Cut	8/2023	125	11
Colombia	7.2	6.6	11.25	-0.50	Cut	7/2024	14	0
Costa Rica	-0.3	0.3	4.75	-0.50	Cut	4/2024	20	2
Czech Republic	2.6	0.1	4.75	-0.50	Cut	6/2024	24	0
Denmark	2.2	1.6	3.50	-0.25	Cut	6/2024	10	1
Euro Area	2.5	2.9	4.25	-0.25	Cut	6/2024	10	1
Hungary	4.0	4.0	7.00	-0.25	Cut	6/2024	21	1
Iceland	5.8	5.8	9.25	0.50	Hike	8/2023	10	44
India	4.7	3.2	6.50	0.25	Hike	2/2023	17	49
Indonesia	2.5	1.9	6.25	0.25	Hike	4/2024	2	41
Israel	2.7	2.2	4.50	-0.25	Cut	1/2024	13	6
Japan	2.8	2.1	0.10	0.20	Hike	3/2024	4	101
Mexico	4.7	4.2	11.00	-0.25	Cut	3/2024	15	3
New Zealand	4.0	4.1	5.50	0.25	Hike	5/2023	13	52
Norway	3.0	4.0	4.50	0.25	Hike	12/2023	7	50
Poland	2.7	3.8	5.75	-0.25	Cut	10/2023	22	9
Russia	8.3	8.6	16.00	1.00	Hike	12/2023	7	22
Saudi Arabia	1.6		6.00	0.25	Hike	7/2023	11	52
South Africa	5.1	4.6	8.25	0.50	Hike	5/2023	13	47
South Korea	2.4	2.2	3.50	0.25	Hike	1/2023	18	49
Sweden	3.7	2.3	3.75	-0.25	Cut	5/2024	9	2
Switzerland	1.3	1.1	1.25	-0.25	Cut	6/2024	12	0
Turkey	71.6	71.4	50.00	5.00	Hike	3/2024	3	16
United Kingdom	2.0	3.5	5.25	0.25	Hike	8/2023	11	52
United States	3.3	3.4	5.50	0.25	Hike	7/2023	11	52

Source: BOCOM BBM, Macrobond

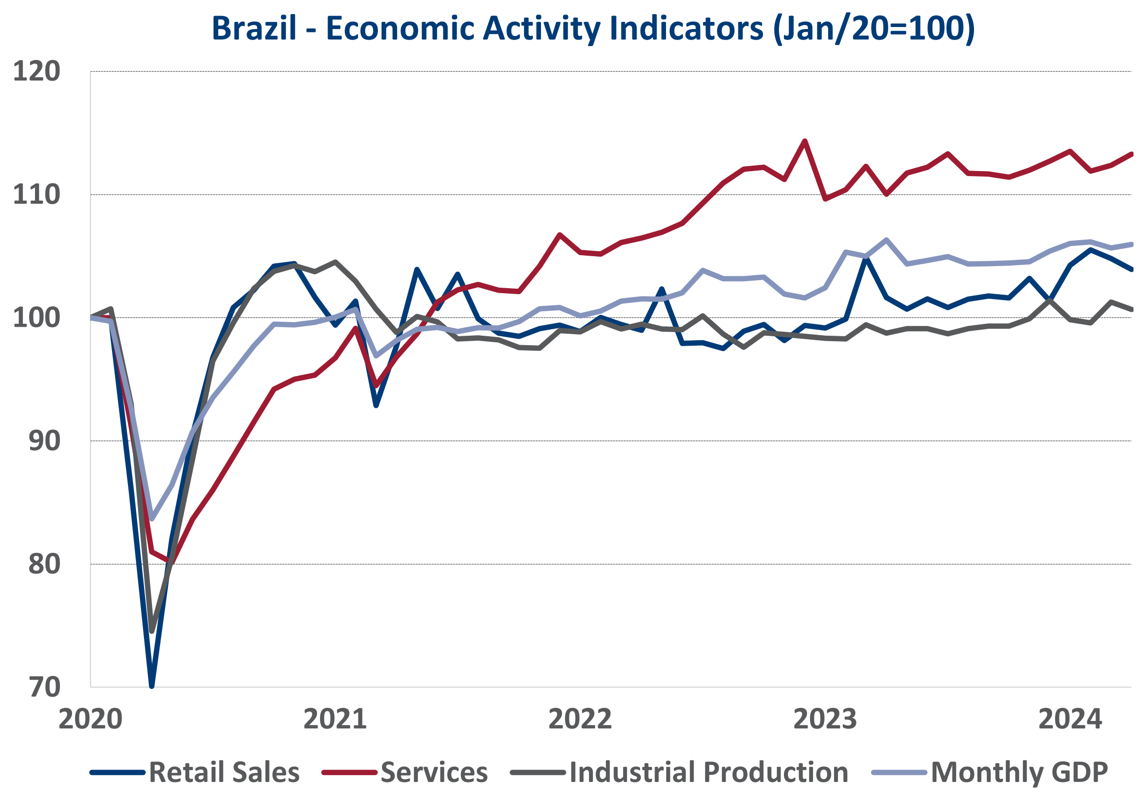
Brazil: Forecasts

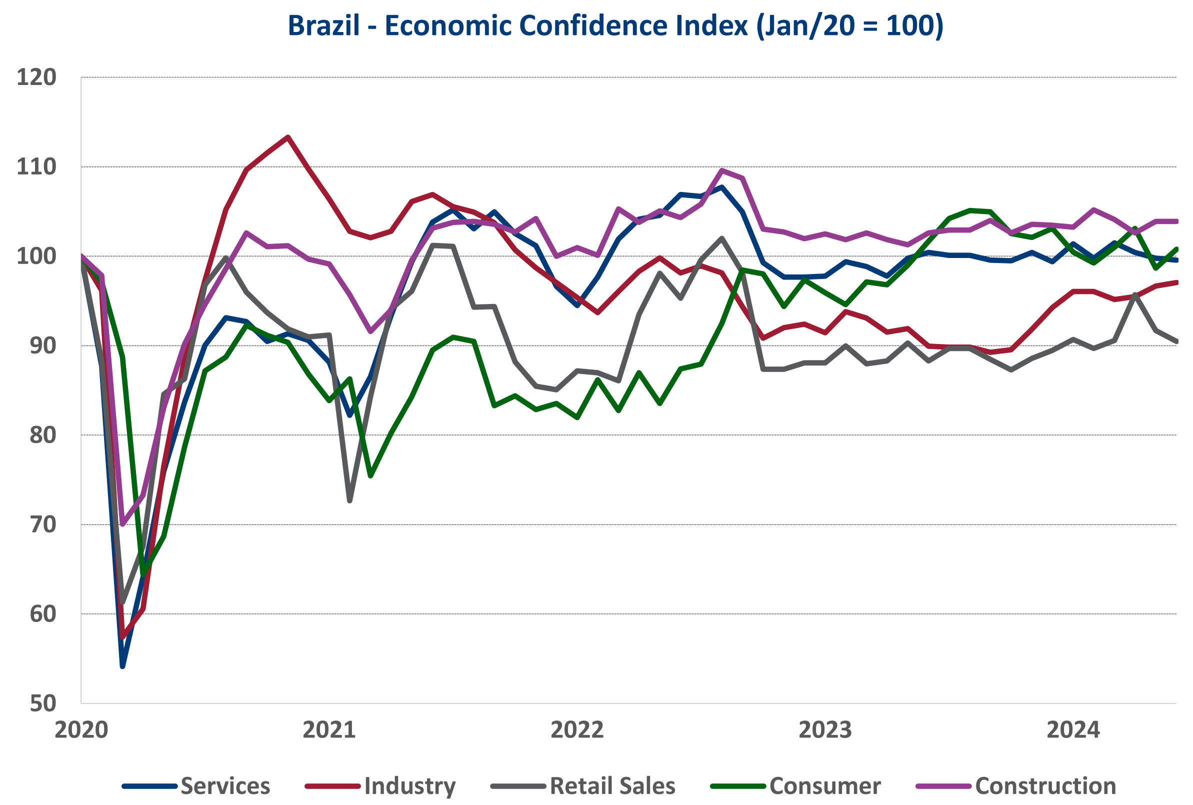
ECONOMIC FORECASTS	2019	2020	2021	2022	2023	2024F	2025F
GDP Growth (%)	1.2%	-3.3%	4.8%	2.9%	2.9%	2.1%	1.9%
Inflation (%)	4.3%	4.5%	10.1%	5.8%	4.6%	3.9%	4.1%
Unemployment Rate (eoy ,%)	11.1%	14.2%	11.1%	7.9%	7.4%	7.8%	7.9%
Policy Rate (eoy, %)	4.5%	2.0%	9.3%	13.8%	11.75%	10.50%	10.50%
External Accounts							
Trade Balance MDIC (US$ bn)	35	50	61	62	99	90	95
Trade Balance (US$ bn)	27	32	36	44	81	68	73
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 April, the monthly indicators of economic activity posted mixed signs, Services grew 0.5% MoM, while Industrial production and Broad retail sales contracted 0.5% and 1.0% MoM, respectively. Summarizing the scenario, IBC-Br was virtually stable;
- Looking forward, services and retail sales confidence contracted in June, while industry and consumer increased. Construction confidence remained flat.

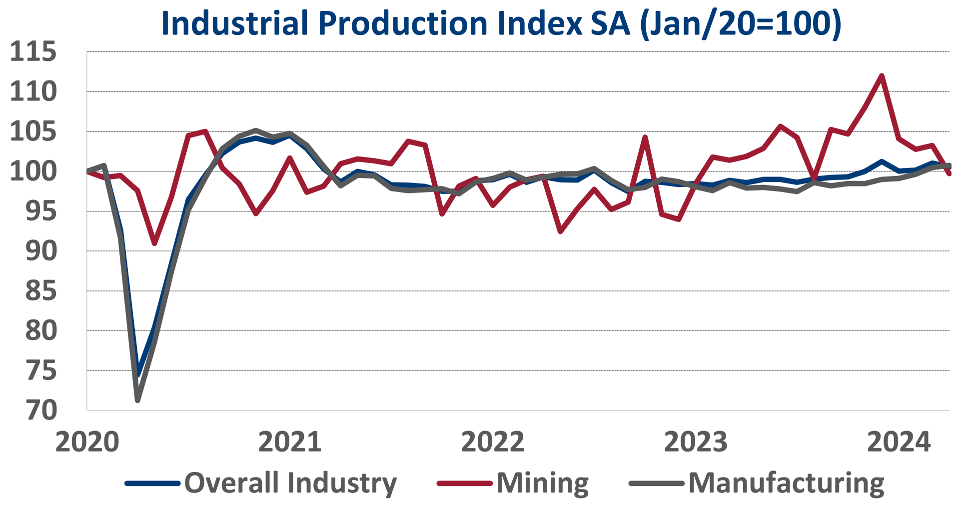


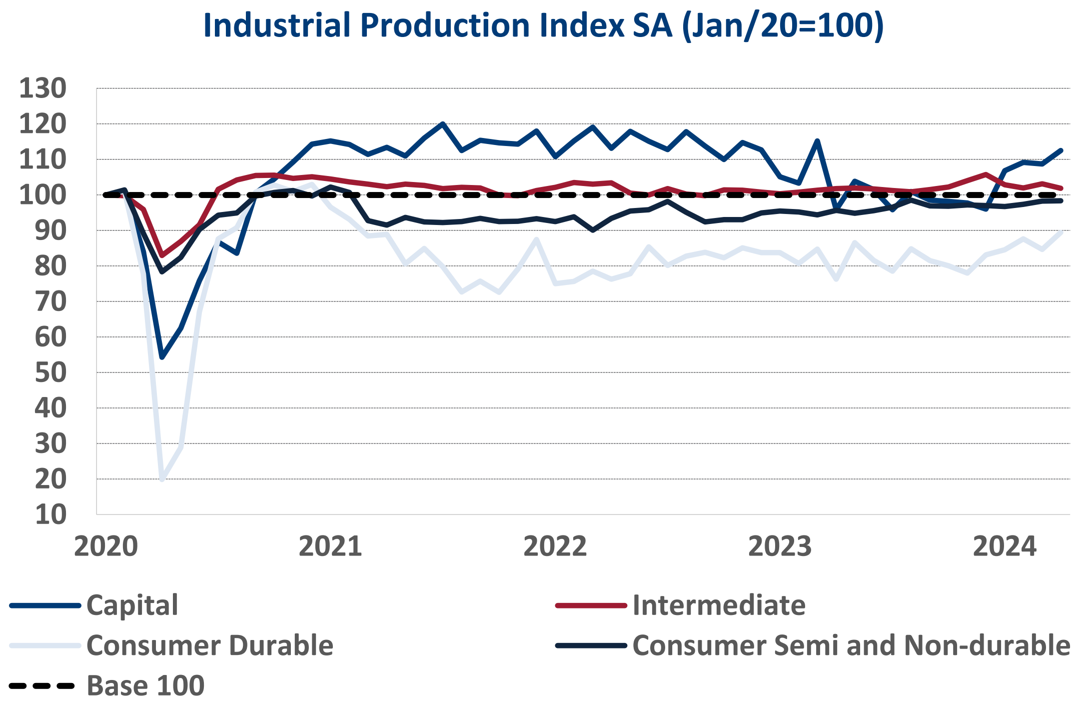


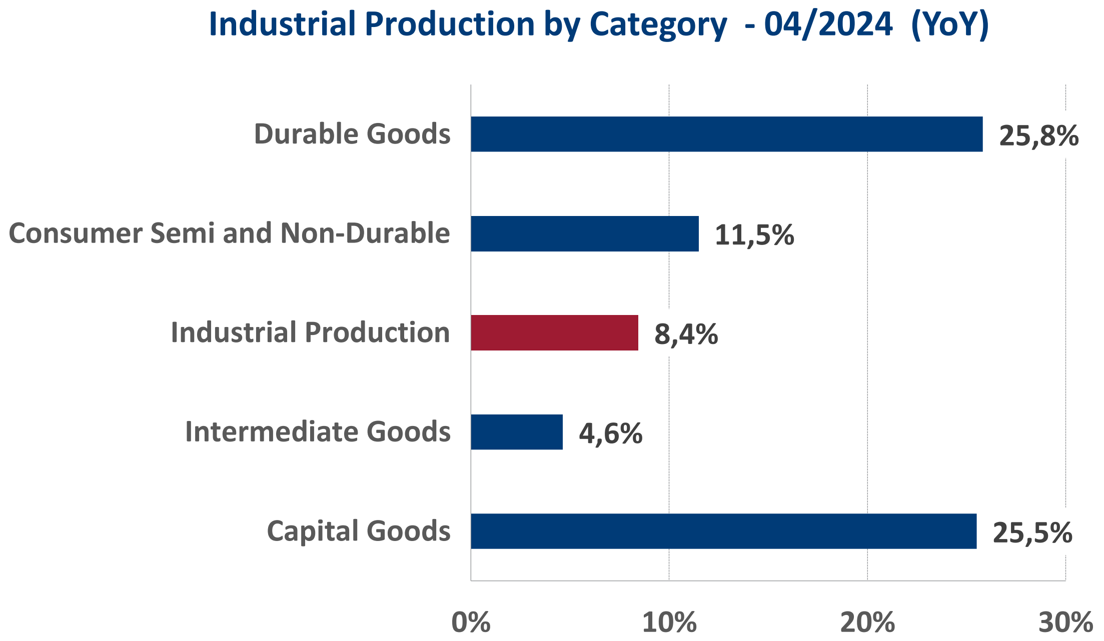
Source: BOCOM BBM, FGV

Brazil: Industrial Production

- In April, industrial production dropped 0.5% MoM (+8.4% YoY), roughly in line with expectations;
- Extractive activities dropped 3.4% MoM, remaining on a downward path, with a lower dynamism in crude oil and iron ore production;
- On the bright side, capital goods and durable goods both grew substantially, 3.5% and 5.6% MoM, respectively, largely due to the recovery in truck production, after regulatory changes in gas emissions.



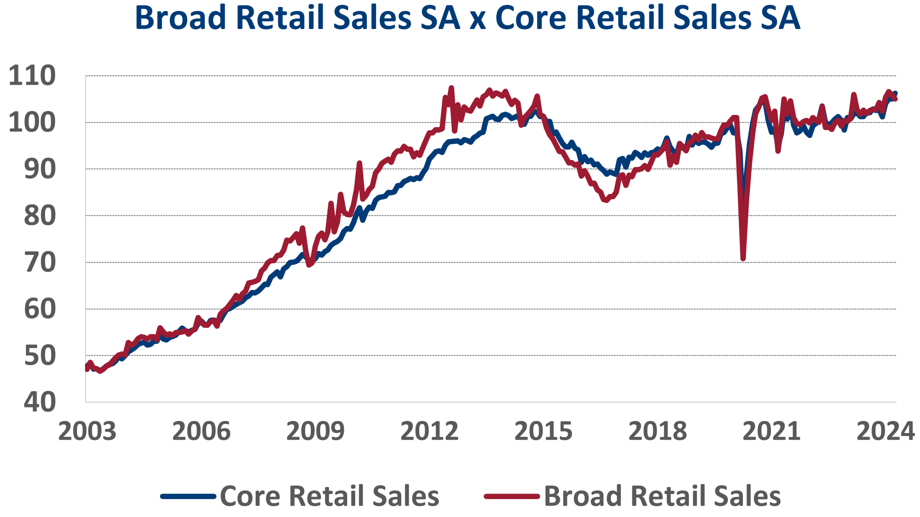


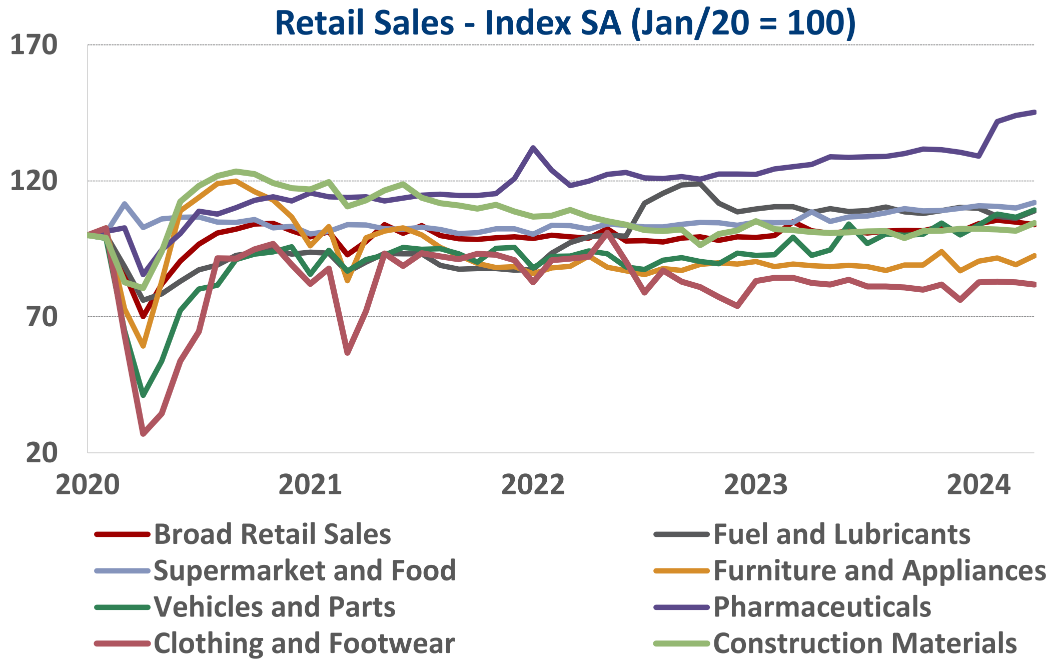


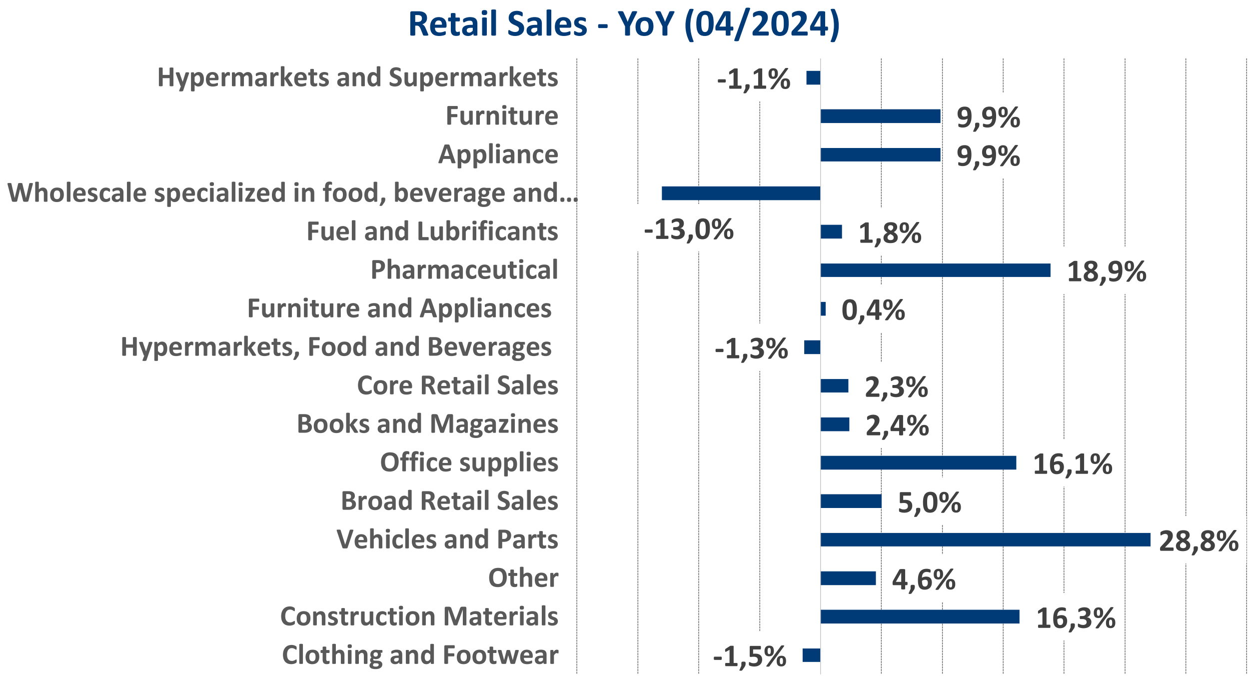
Source: IBGE, BOCOM BBM

Brazil: Retail Sales

- Broad retail sales dropped 1.0 % MoM in April, the second big negative surprise in a row (Consensus: 0.3% MoM);
- The breakdown, however, was positive, with building materials recovering after 3 months of poor figures (1.9% MoM) and vehicles sales keeping the good momentum (1.6% MoM), the negative surprise was again wholesale specialized in food, a very volatile item;
- Core retail sales expanded 0.9% MoM in April, below consensus of 1.7% MoM;
- This was the fourth positive reading in a row, with the highlights being Electronic Products (14.2% MoM) and Furniture and Appliances (2.4% MoM), both categories had posted poor figures in March.



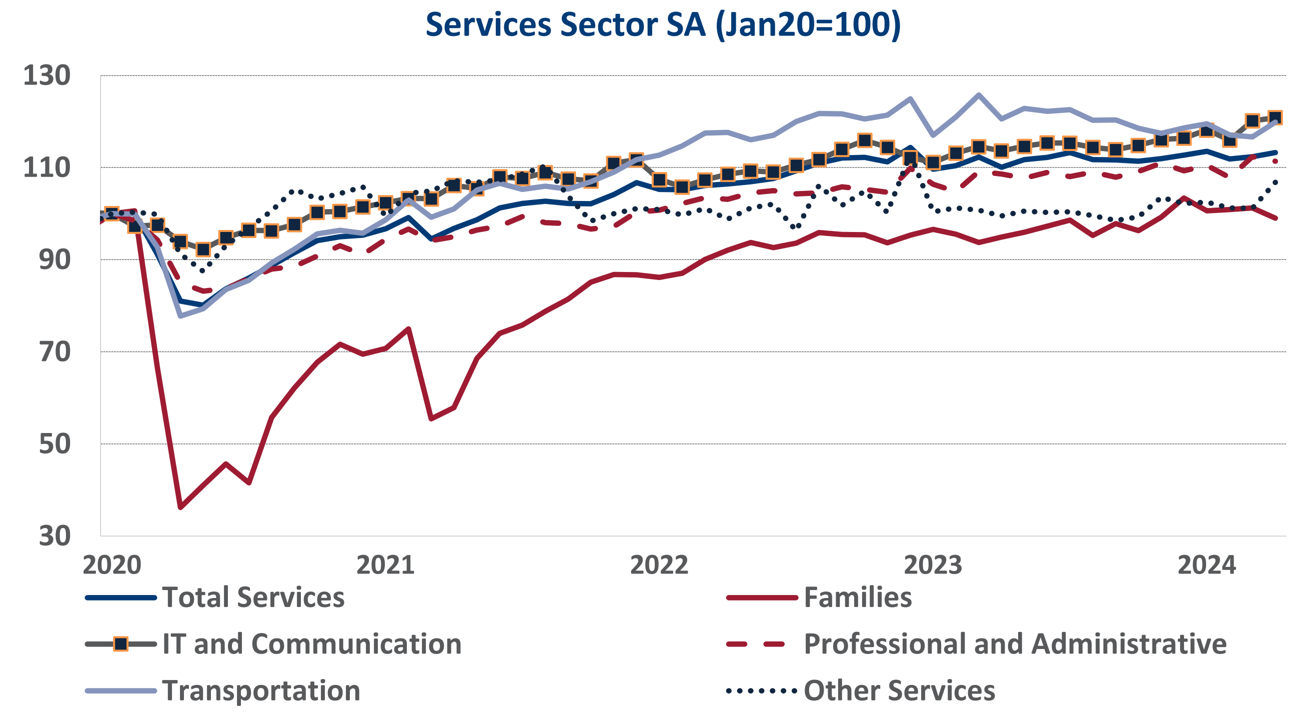


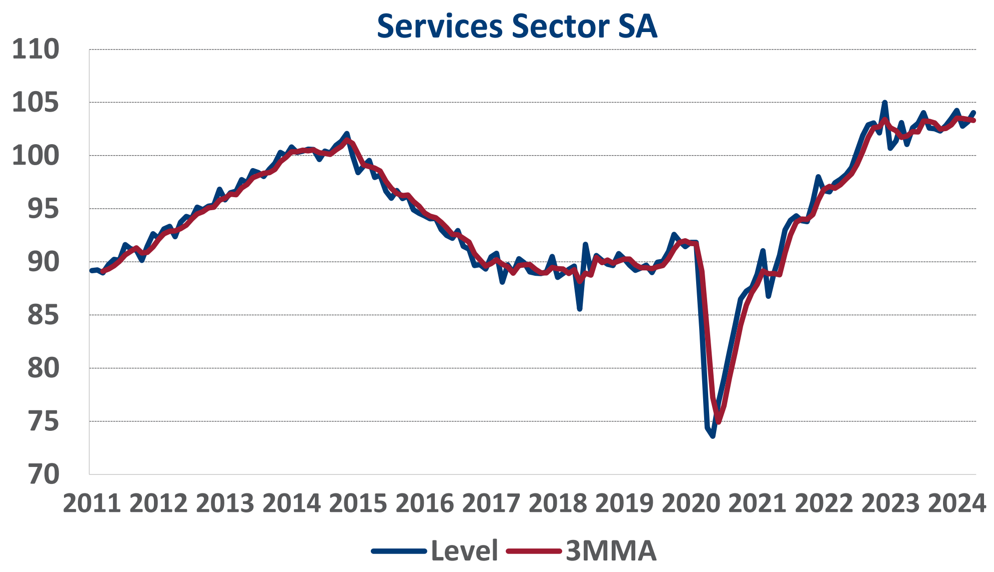


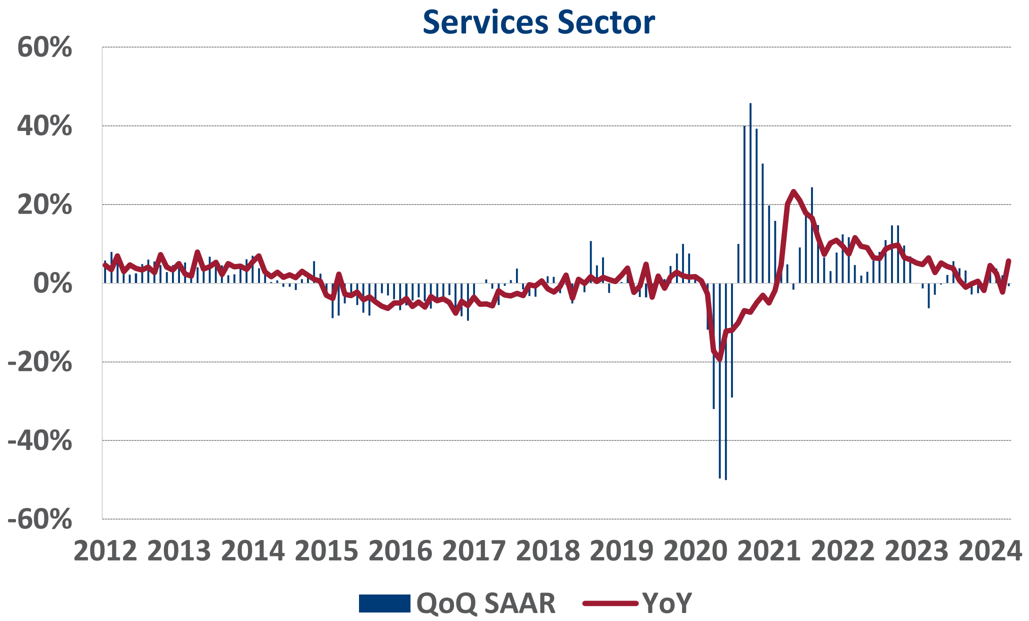
Source: IBGE, BOCOM BBM

Brazil: Services

- In April, the services sector rose 0.5% MoM (5.6% YoY), slightly above market expectations (+0.2% MoM and 5.4% YoY) ;
- Breakdown results were mixed, with three out of the five main segments growing in April from March.
- The positive highlights were Information & Communication Services that remained on a solid upward trend (0.4% MoM), with widespread expansion, and Transportation Services that recorded the second consecutive advance (1.7% MoM), influenced by the recovery in Road Transportation and the skyrocketing Air Transportation Services.
- On the other hand, Services Rendered to Families (-1.8% MoM) and Professional & Administrative Services (-1.1% MoM) have lost steam at the margin.



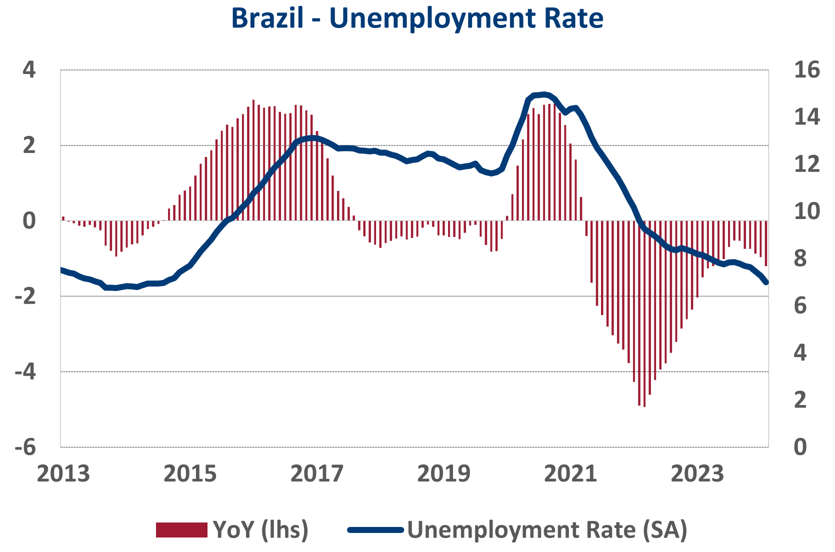


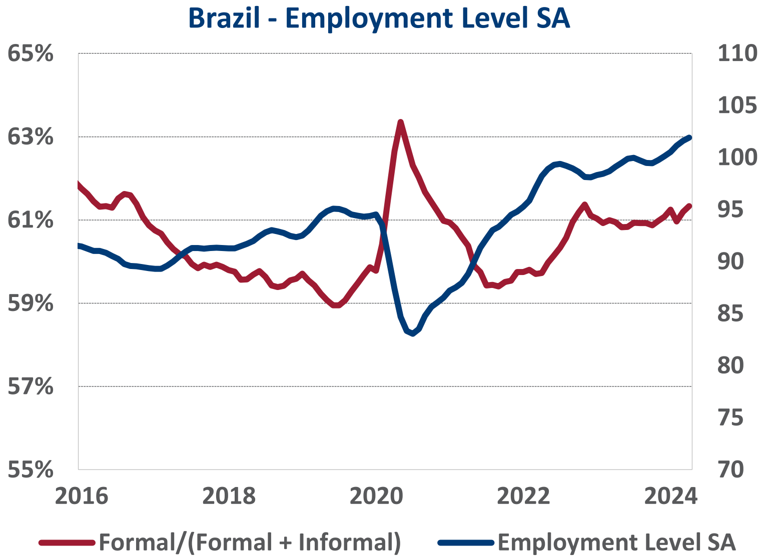


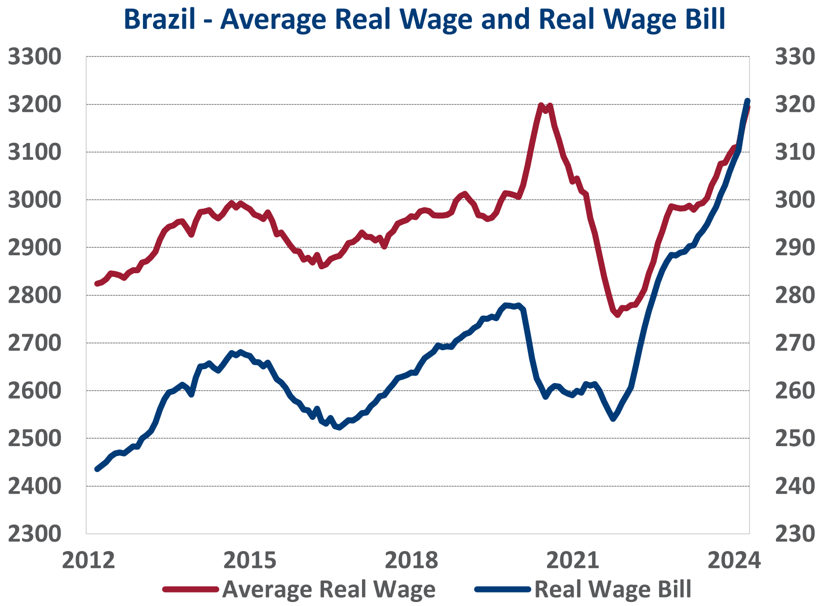
Source: IBGE, BOCOM BBM

Brazil: PNAD

- The unemployment rate decreased to 7.13% in the moving quarter up to May, from 7.53% on the previous period;
- Seasonally adjusted, the indicator decreased from 7.24% to 7.00%, the lowest level in almost ten years;
- Total employment increased 0.1% MoM while labor force showed a contraction of 0.2% MoM;
- The labor force participation rate remained at 62.2%, still running considerably below pre-pandemic levels (around 63.5%);
- Real labor earnings climbed 0.7% MoM, resuming the upward trend;
- Real aggregated labor income surged 0.9% in May, and it is almost 9% above May 2023 level.



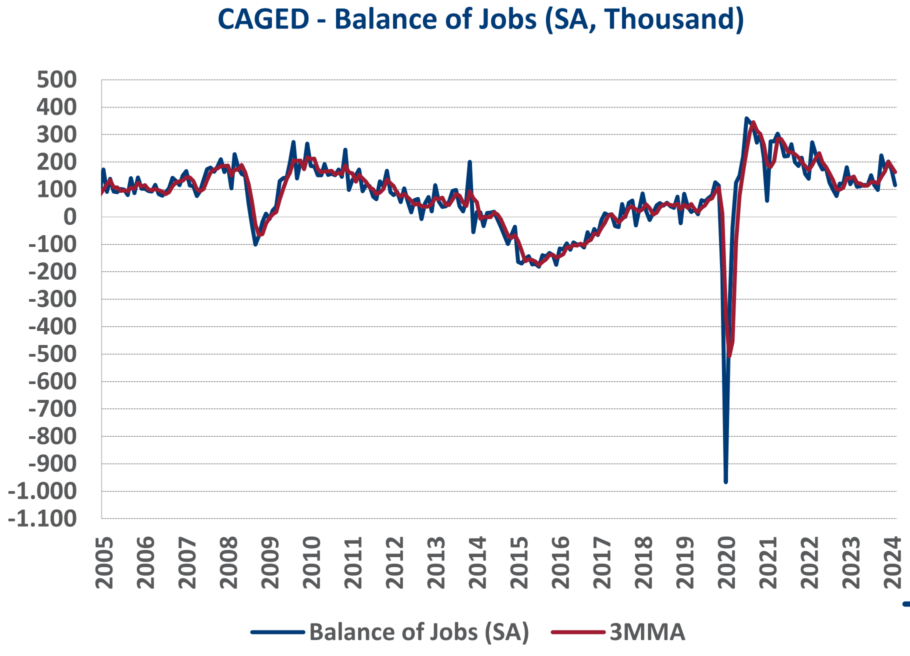


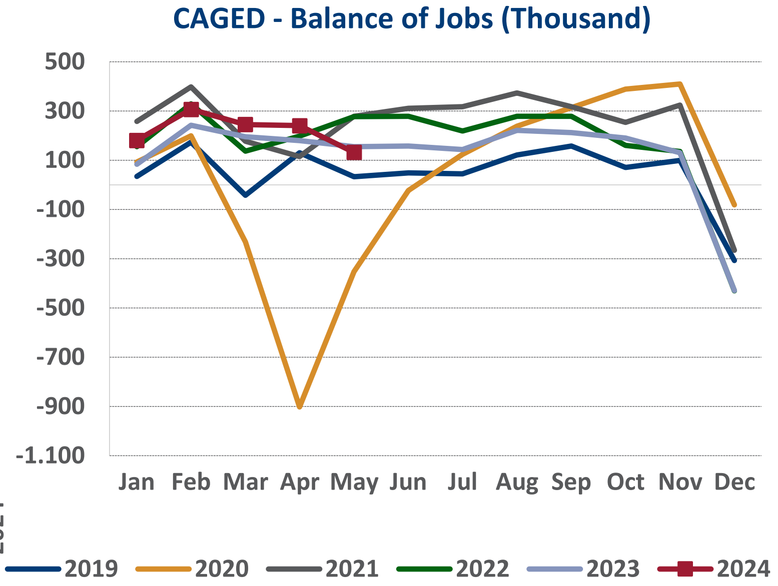


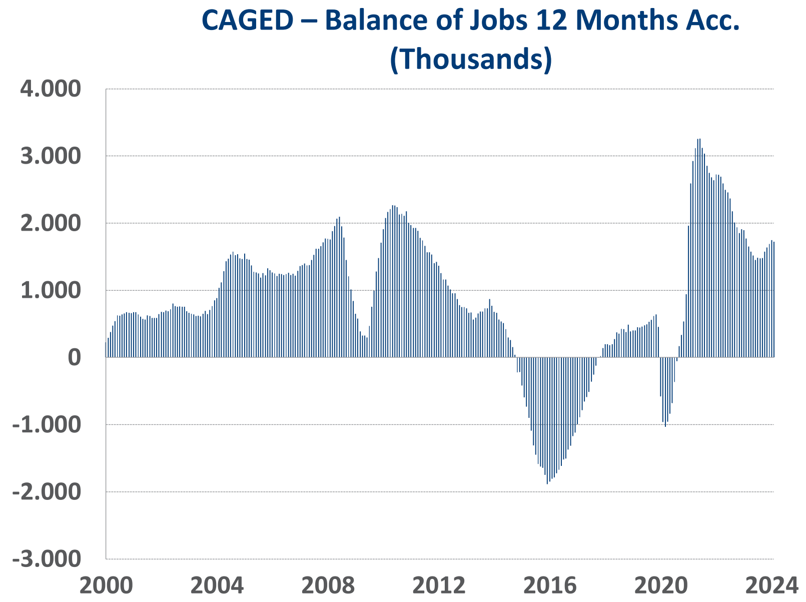
Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

- Caged registered a net creation of 131.8k formal jobs in May, well below market expectations (200k);
- The net addition of jobs totaled about 1.1 million from January to May 2024, considerably above the same period of 2023 (856k);
- The data were influenced by the floods in Rio Grande do Sul, with the state being the only one registering net destruction of jobs (-22.2k), although this by itself does not explains totally the bearish surprise;
- In sum, the formal labor market decelerated at the margin, but the good dynamism in the labor market should not be interrupted.







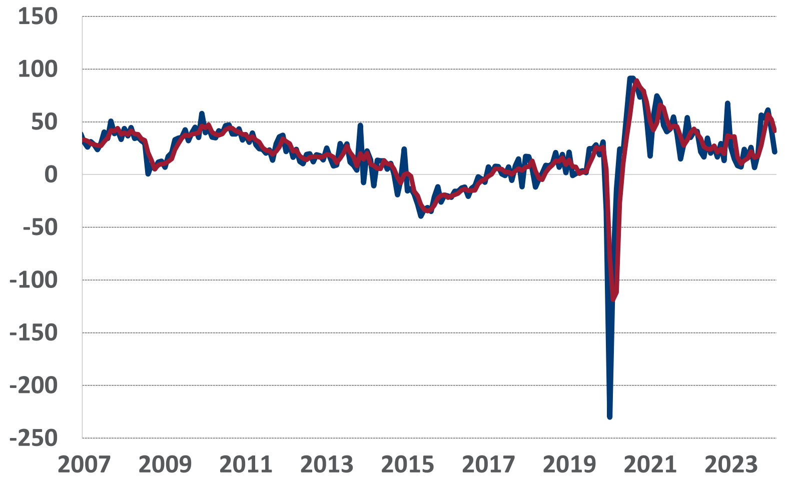
Source: BOCOM BBM, MTE

Brazil: Formal Labor Market

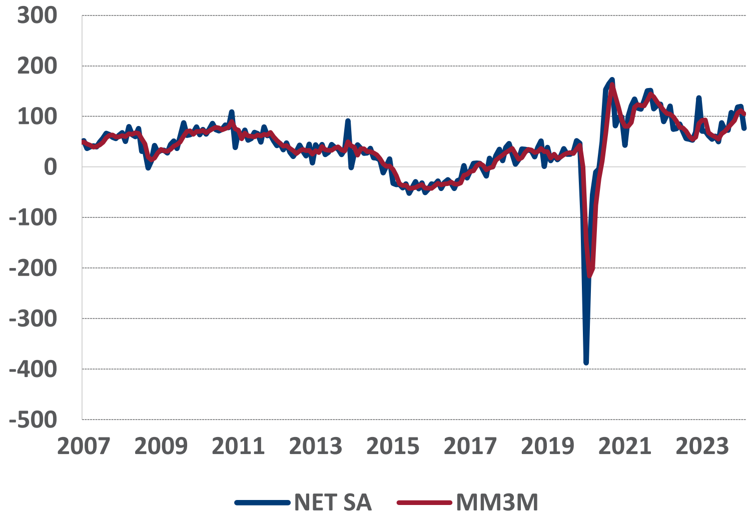
- The breakdown shows that all sectors registered positive net results;
- The biggest contribution came once again from the services sector, with a net creation of 66.9k formal jobs;
- Construction was the second best, creating around 18.1k formal jobs;
- Retail Sales, in turn, registered a net of 6.3k jobs;
- Finally, the Industry sector created about 16.2k formal jobs;

- All sectors weakened in May, registering lower numbers than previous months.

Brazil - Retail Net Payroll Job Creation (SA)

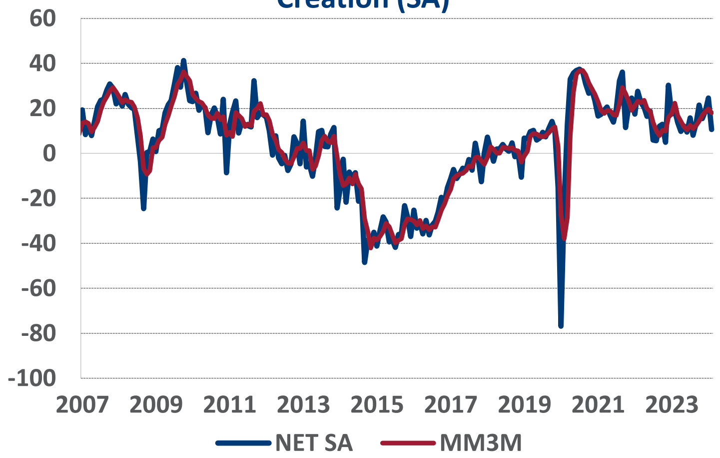


Brazil - Services Net Payroll Job Creation (SA)



Brazil - Industry Net Payroll Job Creation (SA)

Brazil - Construction Net Payroll Job Creation (SA)

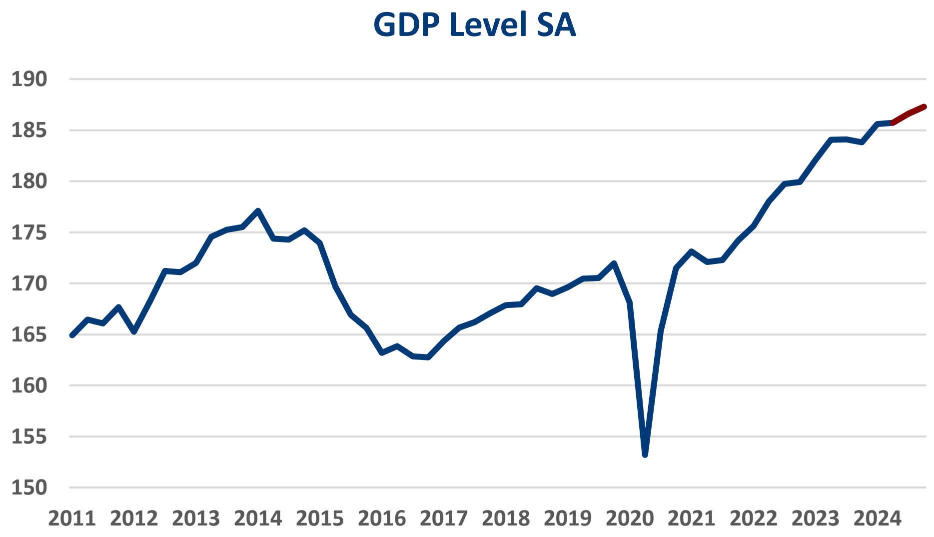


Source: BOCOM BBM, MTE

Brazil: GDP

- We have revised our GDP forecast from 1.8% to 2.1% for 2024, due to:
  - Higher GDP growth in Q1
  - Stronger real household income: resilient labor market and sharper increase in social transfers and the number of beneficiaries

Forecasts			
	2024.II QoQ	2024.II YoY	2024
GDP	0.4%	1.2%	2.1%
Agriculture	**-3.5%**	**-5.0%**	**-3.0%**
Industry	**0.2%**	**1.9%**	**2.6%**
Mining	-4.1%	1.3%	2.6%
Manufacturing	0.3%	1.5%	2.4%
Electricity	-0.4%	3.5%	3.8%
Civil Construction	0.9%	2.3%	2.6%
Services	**0.4%**	**1.7%**	**2.4%**
Retail	0.0%	1.3%	2.5%
Transports	0.1%	-0.5%	1.4%
Information and Communication	1.2%	4.1%	4.4%
Financial Services	0.5%	1.3%	1.8%
Rents	-0.2%	2.5%	2.7%
Other Services	0.0%	2.5%	3.3%
Public Administration	0.2%	0.8%	1.1%

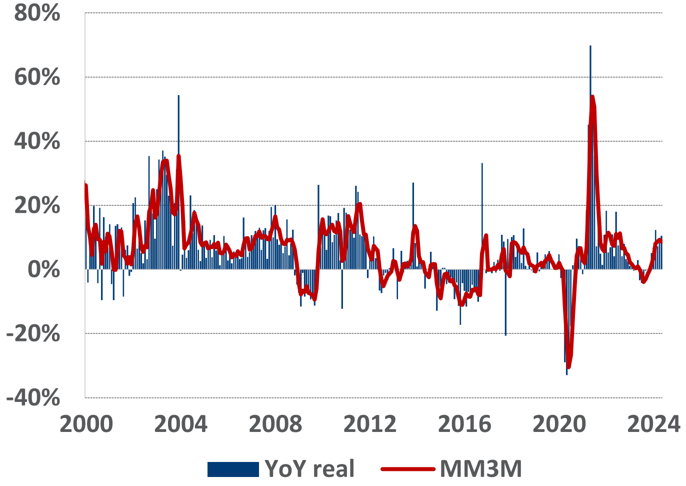


Source: BOCOM BBM, IBGE

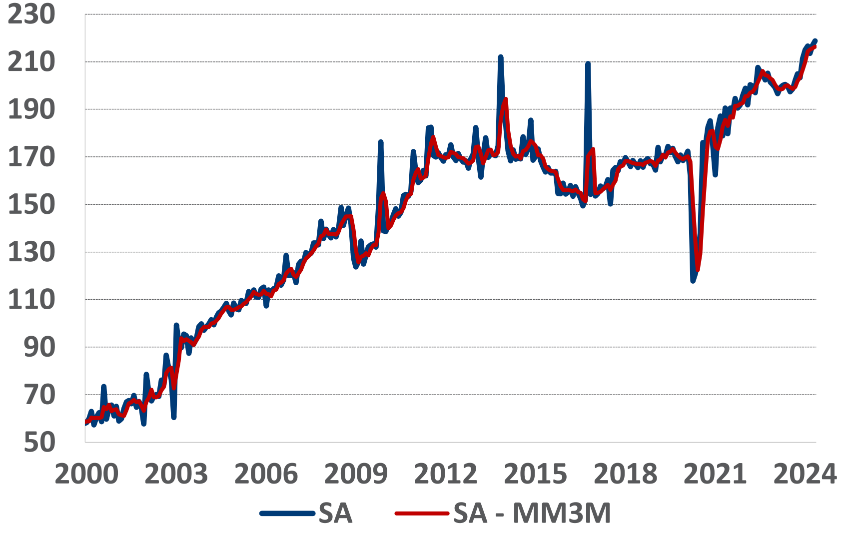
Brazil: Federal Tax Collections

- In May, total federal tax collections reached BRL 203.0 bn (10.5% YoY), in line with consensus and the best result for the month in the historical data;
- The main drivers were individual income tax (44.8% YoY), due to the influx from the taxation of investments abroad (BRL 7.3 bn) and PIS/Cofins (11.7% YoY), due to the exclusion of ICMS credits from its tax base. However, the result for PIS/Cofins came well below last month's, probably because of the deferred payment of taxes in Rio Grande do Sul;
- Social security contribution (2.7% YoY) also came well below last month's performance, which may also be associated with the natural disaster in Rio Grande do Sul, in addition, corporate income tax (IRPJ/CSLL) disappointed again, growing only 1.5%, 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 continuing to disappoint.

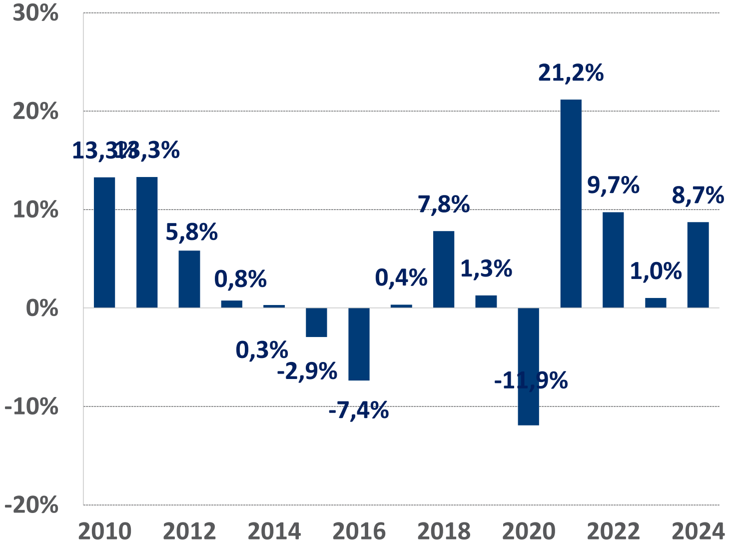
Total Tax Collection (YoY Real, %)



Total Tax Collection (BRL Bn, Real SA)



Total Tax Collection (YTD Real, %)

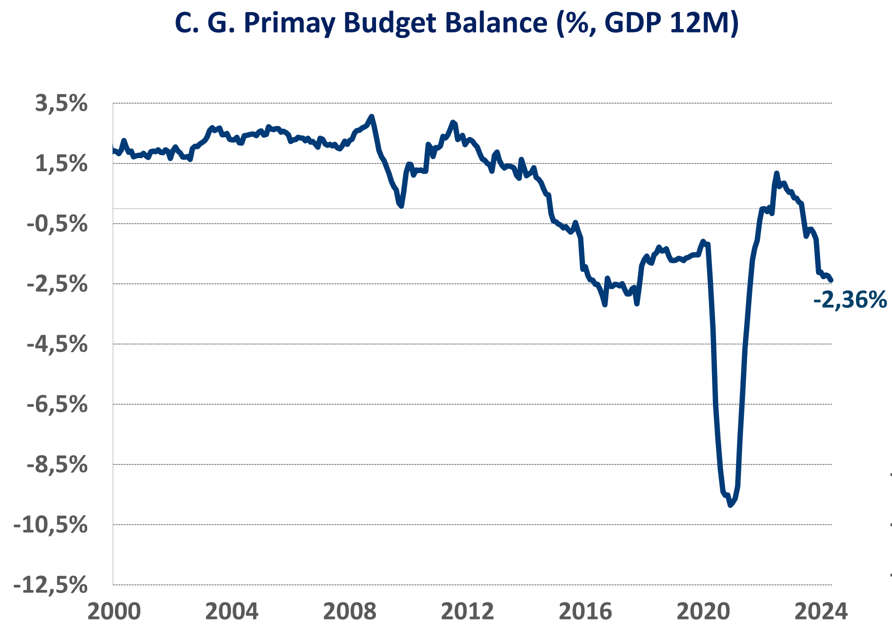


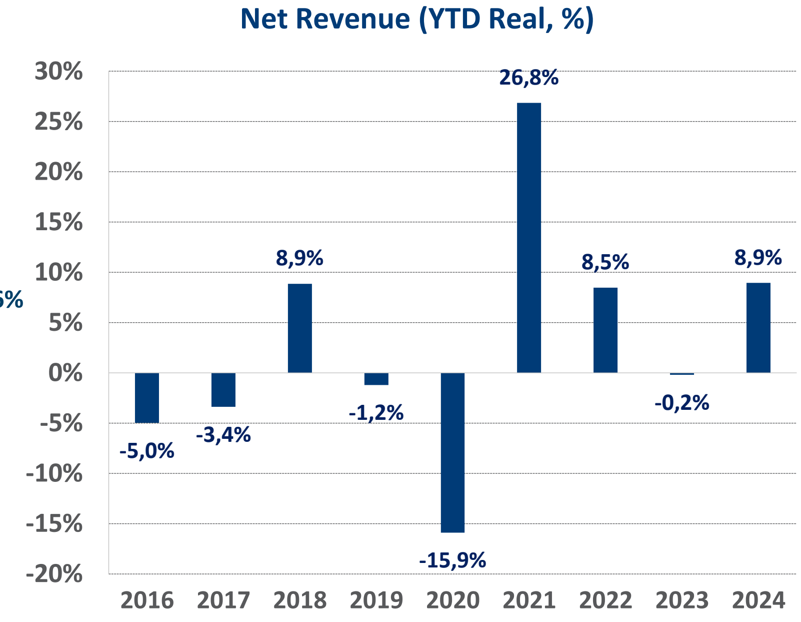
Total Tax Collection (% GDP)

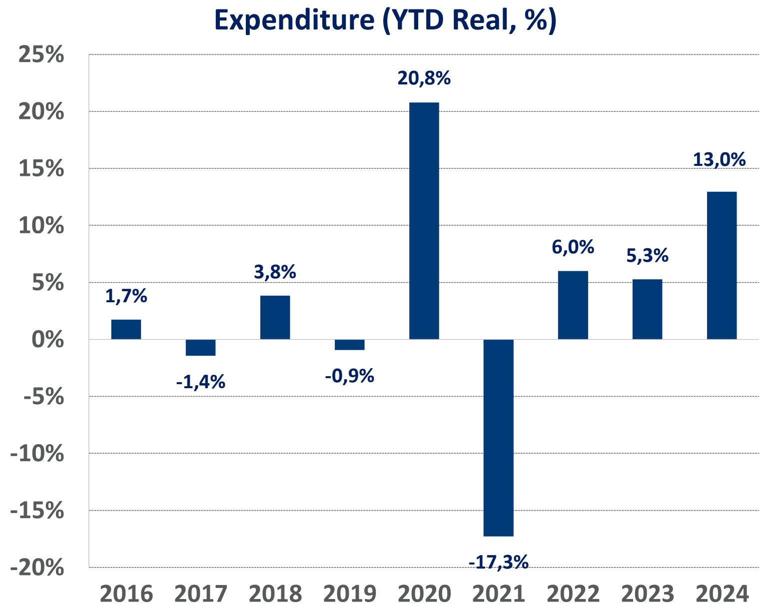
Fonte: BOCOM BBM, RFB

Brazil: Central Government Primary Result

- In May, the central government's primary balance posted a deficit of BRL 60.8 bn, below market expectations (BRL -58.1 bn);
- The 12-M accumulated primary deficit reached 268.4 bn, or 2.36% of GDP;
- Net revenue increased 9.0% YoY in real terms, driven by income tax (18.8% YoY), due to the influx from the taxation of investments abroad, and PIS/Cofins (17,8% YoY), due to the exclusion of ICMS credits from its tax base;
- On the other side, total spending grew 14.0% YoY in real terms, influenced by pension benefits (28.5% YoY), elderly and disabled assistance BPC/LOAS (17.4%), and extraordinary credits, the latter due to the aid to Rio Grande do Sul on the climatic disaster.







Fonte: BOCOM BBM, RTN

Brazil: Consolidated Public Sector Budget

- The consolidated public sector recorded a primary deficit of BRL 63.9 billion in May, from a surplus of BRL 6.7 bn in April, below the market consensus (BRL -59.5 billion). Central Government, subnational governments and state-owned enterprises registered deficits of BRL 60.8 bn, BRL 1.1 bn, and BRL 2.0 bn respectively ;

- Gross General Government Debt rose to 76.8% of GDP in May from 76% of GDP in April, pushed by nominal interest (+0.6pp.), net issuances (+0.1pp.) and partially offset by nominal GDP growth (-0.4pp.).

Gross General Government Debt (% GDP)

Primary Budget Balance (% GDP 12M)

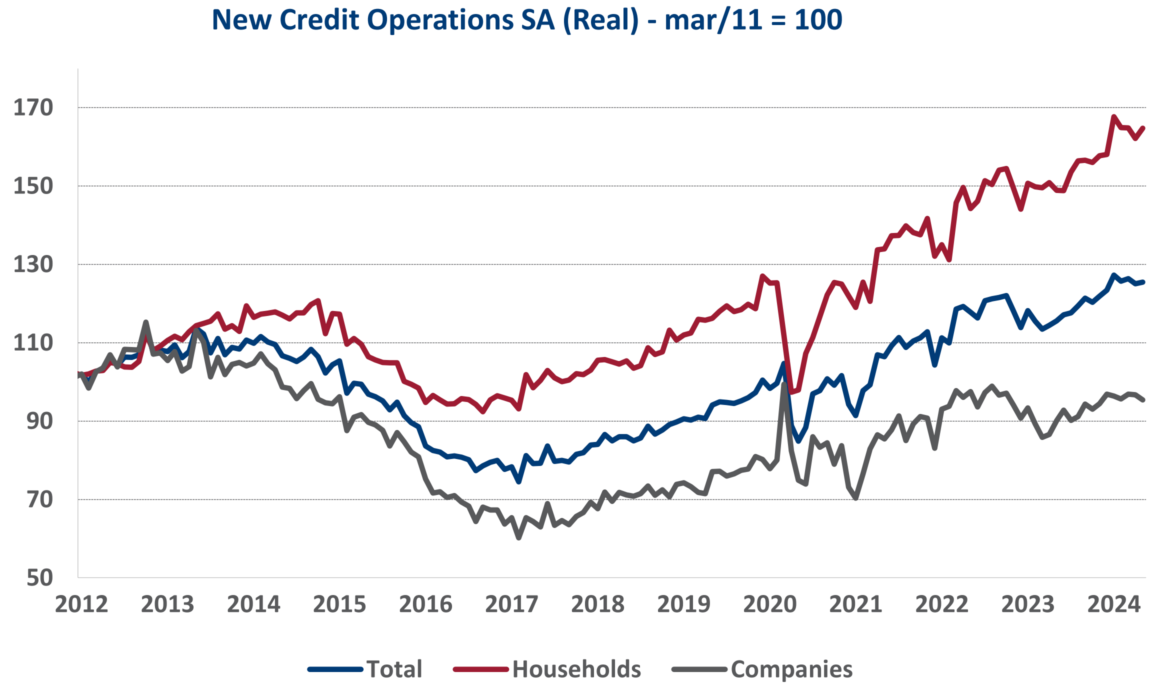
Primary Balance: Central Government (% GDP 12M)

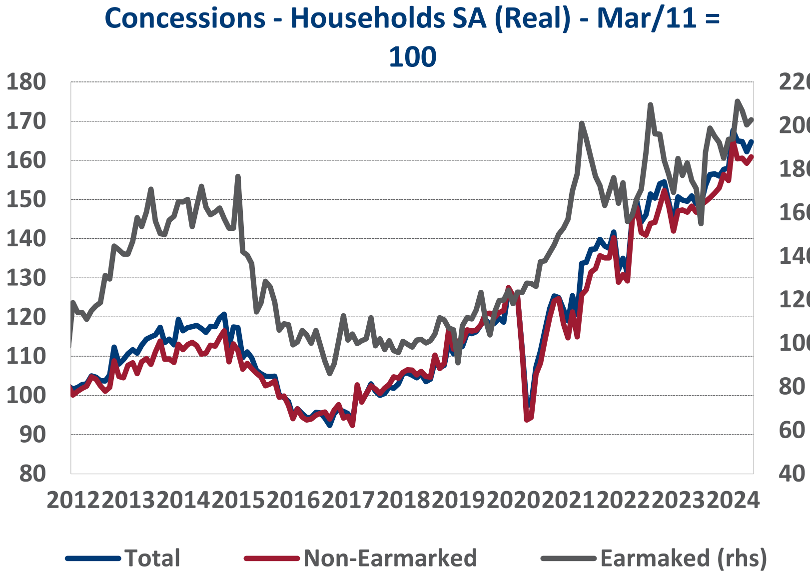
Primary Balance: Subnational governments and SOEs (% GDP 12M)

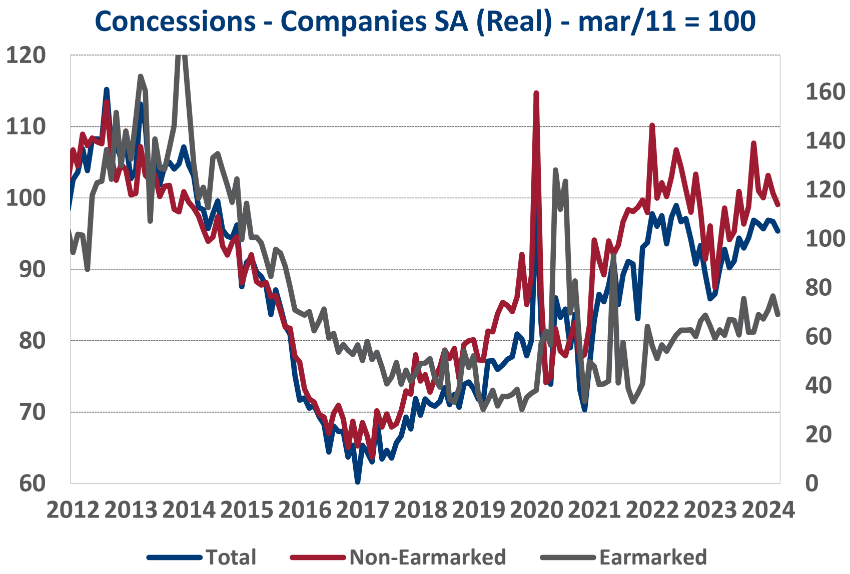
Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- In May, total credit concessions increased 0.3% MoM in real terms;
- Non-earmarked credit concessions fell 1.6% MoM to companies and increased 1.0% MoM to households;
- Earmarked credit concessions, in turn, fell 10% MoM to companies and grew 1.2% MoM to households.



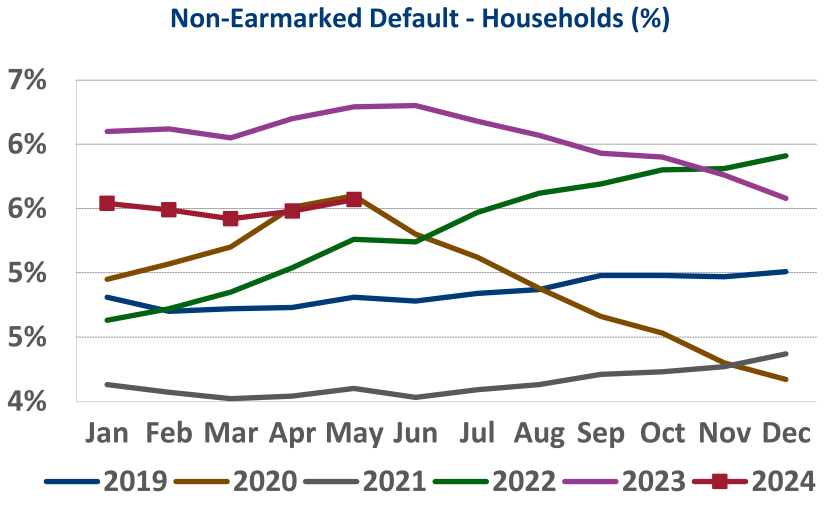


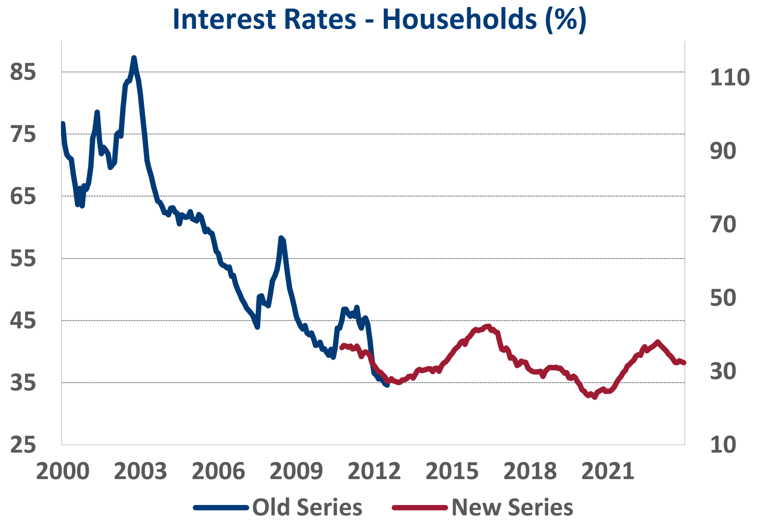


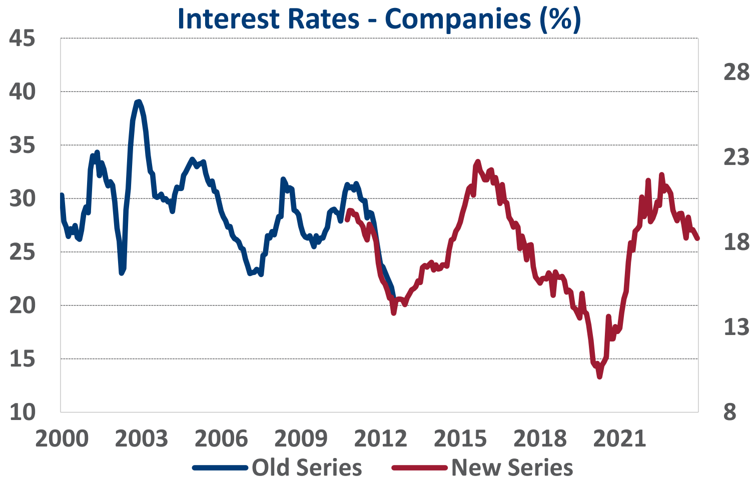
Source: BOCOM BBM, BCB

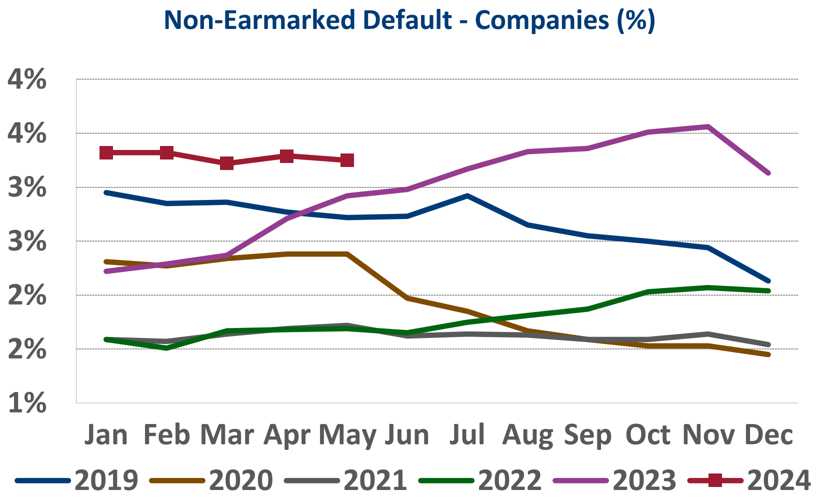
Brazil: Credit Statistics

- Lending rates fell marginally from 32.7% to 32.4% for individuals and fell from 18.5% to 18.2% for companies;
- In turn, non-earmarked default rate is around 5.6% to individuals and 3.2% to companies.





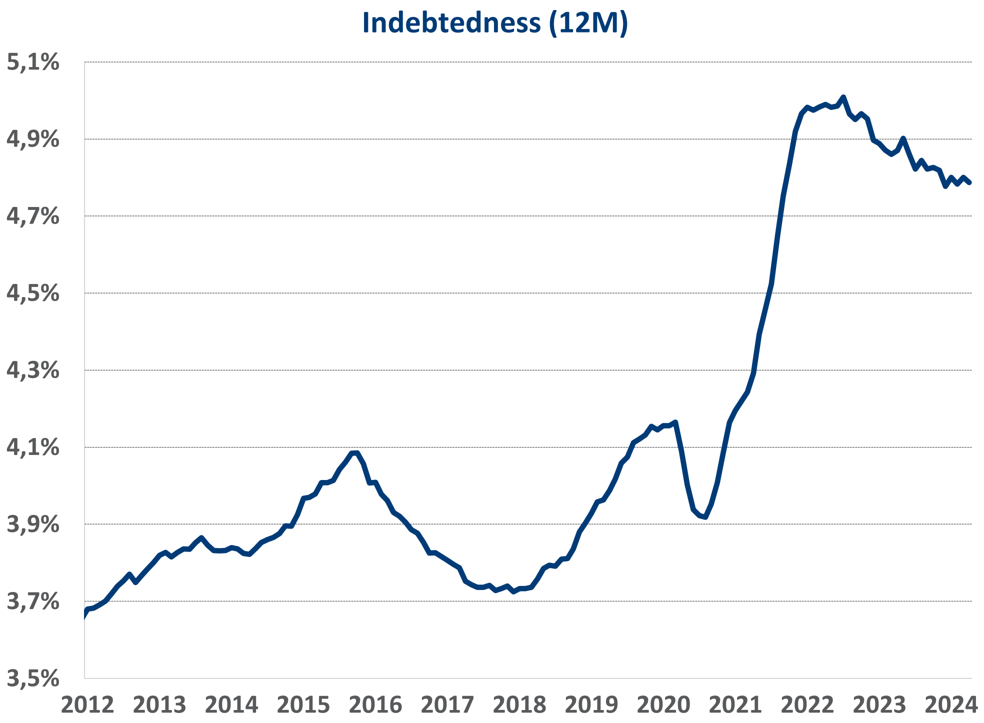


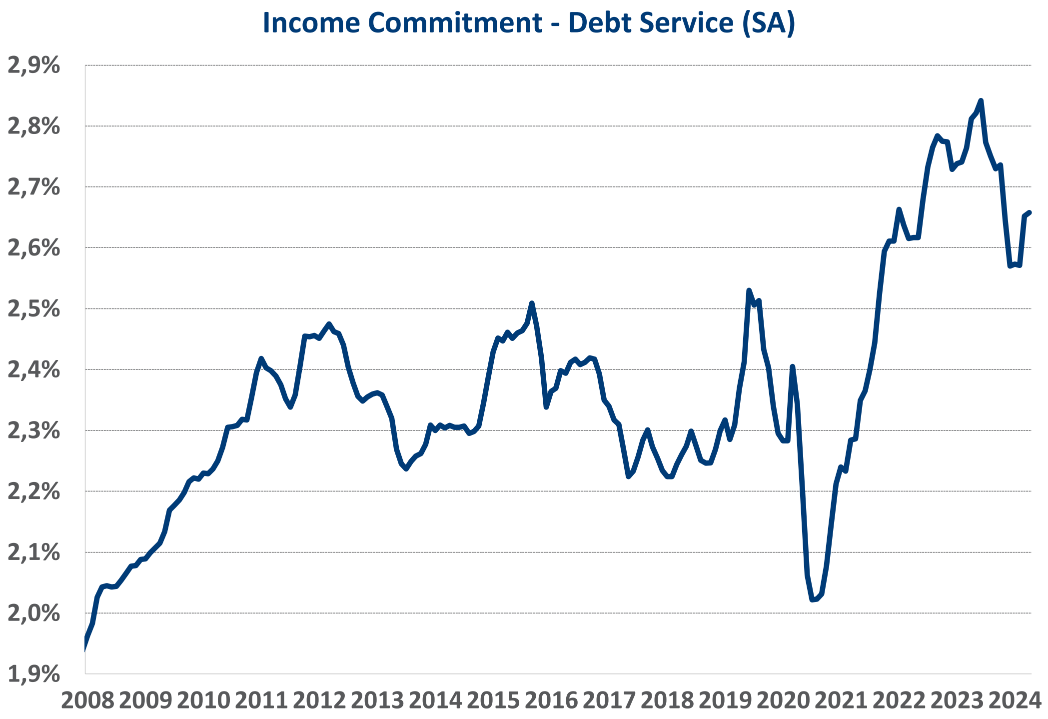


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- Household indebtedness fell slightly to 47.9%;
- Income commitment increased from 26.5% to 26.6%, a reduction in the growth pace seen in the last months.

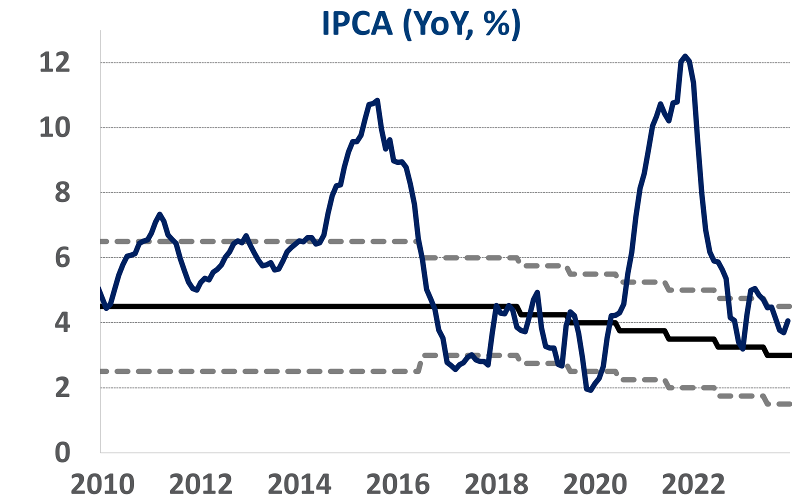


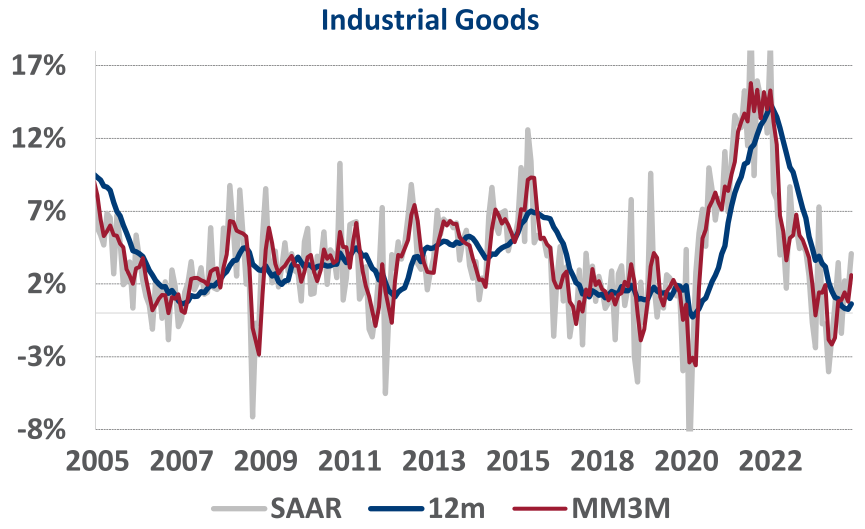


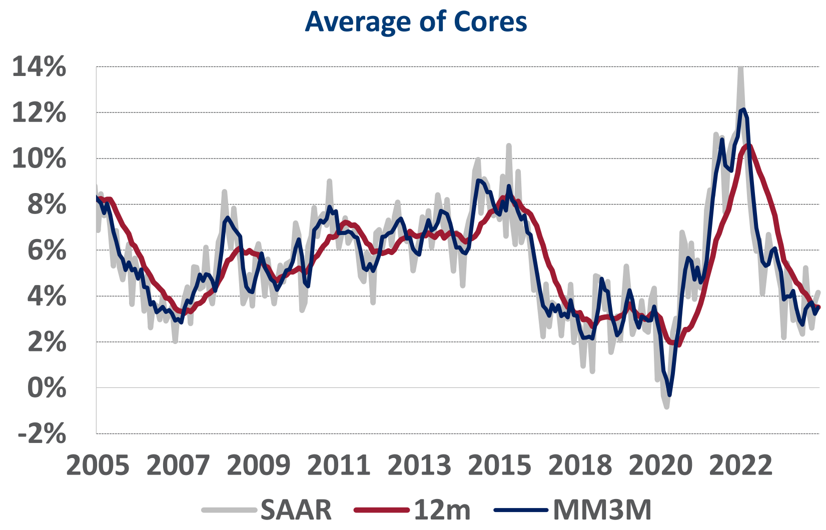
Source: BOCOM BBM, BCB

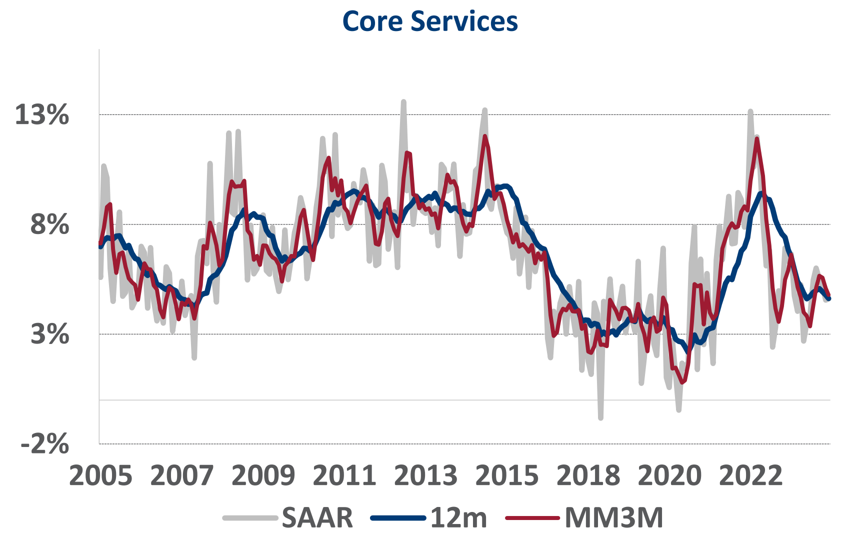
Brazil: Inflation 2024

- The June IPCA preview posted a variation of 0.39% MoM, below market consensus (0.44% MoM);
- The 12-month variation increased to 4.06% in June from 3.70% in May;
- The main downward surprise came from airfares, a volatile item;
- In addition to a lower headline, inflation composition delivered the expected relief. The average of core inflation gauges advanced 0.33% MoM and the underlying services rose by 0.40% MoM, roughly in line estimations.







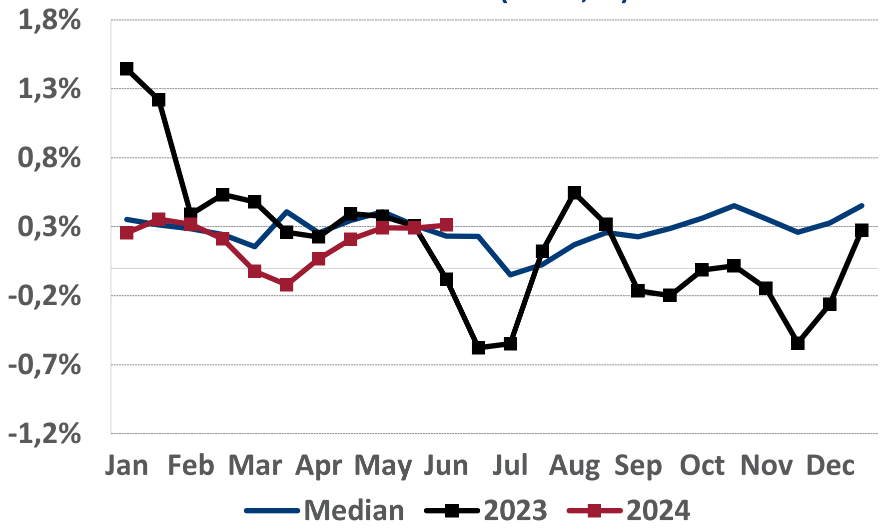


Source: BOCOM BBM, IBGE

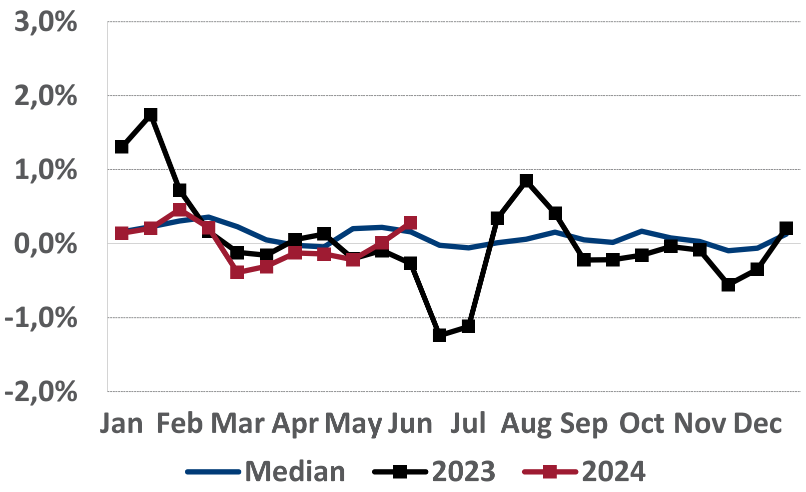
Brazil: Inflation 2024

- Industrial goods prices advanced 0.31% MoM, slightly above the market forecast;
- The main upward surprises came from durable goods, especially new vehicles.

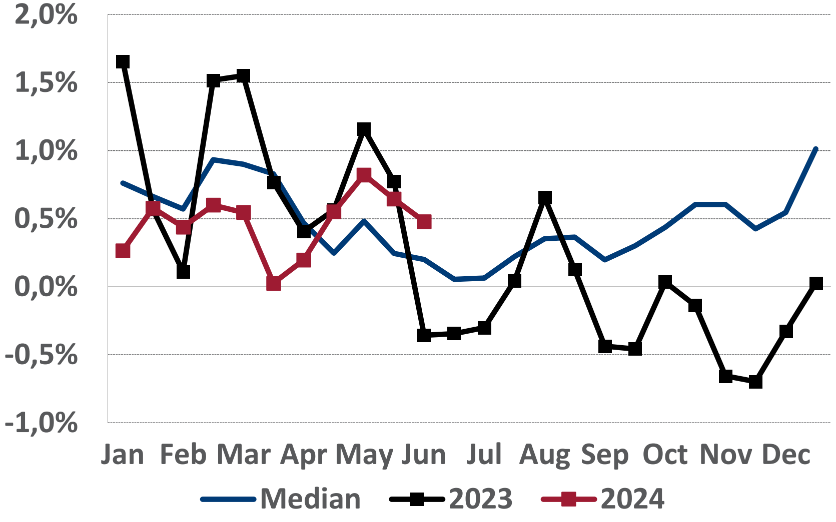
Industrial Goods (MoM, %)



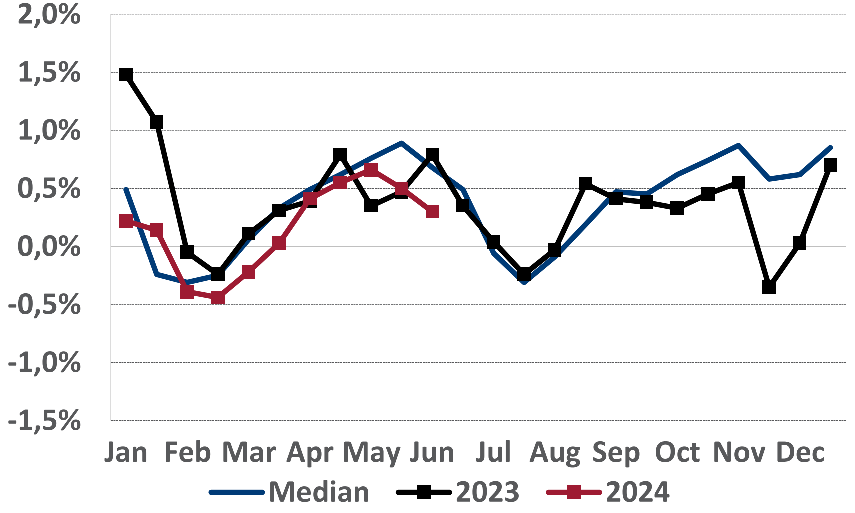
Durable Goods (MoM, %)



Non-Durable Goods (MoM, %)



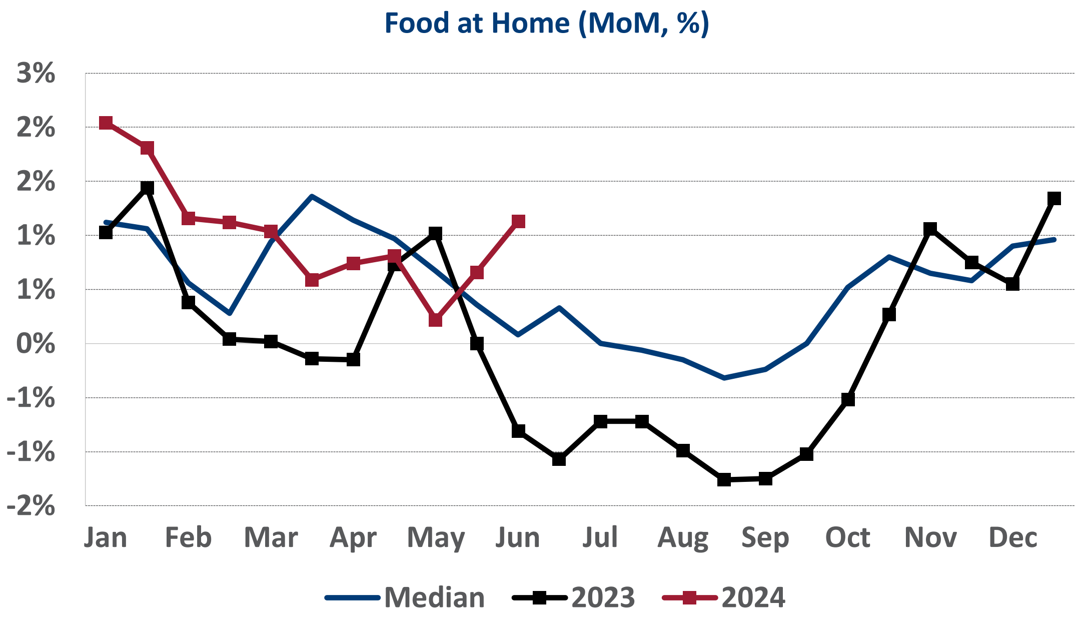
Apparel (MoM, %)

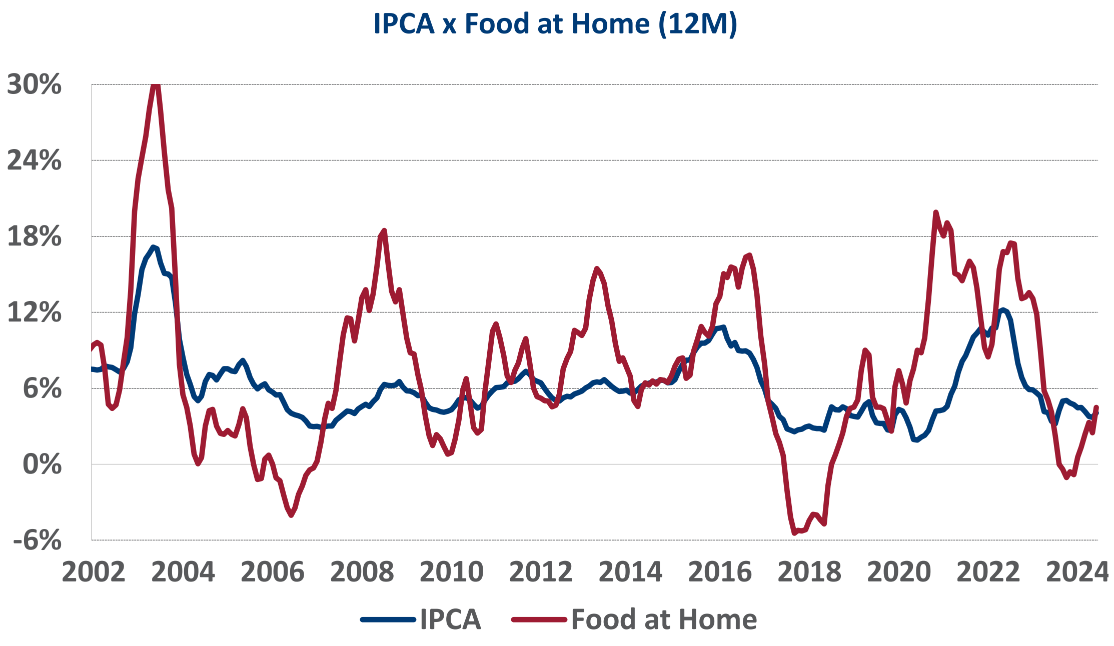


Source: BOCOM BBM, IBGE

Brazil: Inflation 2024

- Foodstuff prices grew 1.13% MoM, influenced by the floods in Rio Grande do Sul (strong effect in milk, vegetables and grains). However, we expect a payback in fresh foods from July onwards.





Source: BOCOM BBM, IBGE

Brazil: Inflation

- **Our forecasts for 2024 and 2025 inflation are at 3.9% and 4.1%, respectively;**
- June´s figure came in line with market expectations, but the BRL depreciation pulled the projections up.

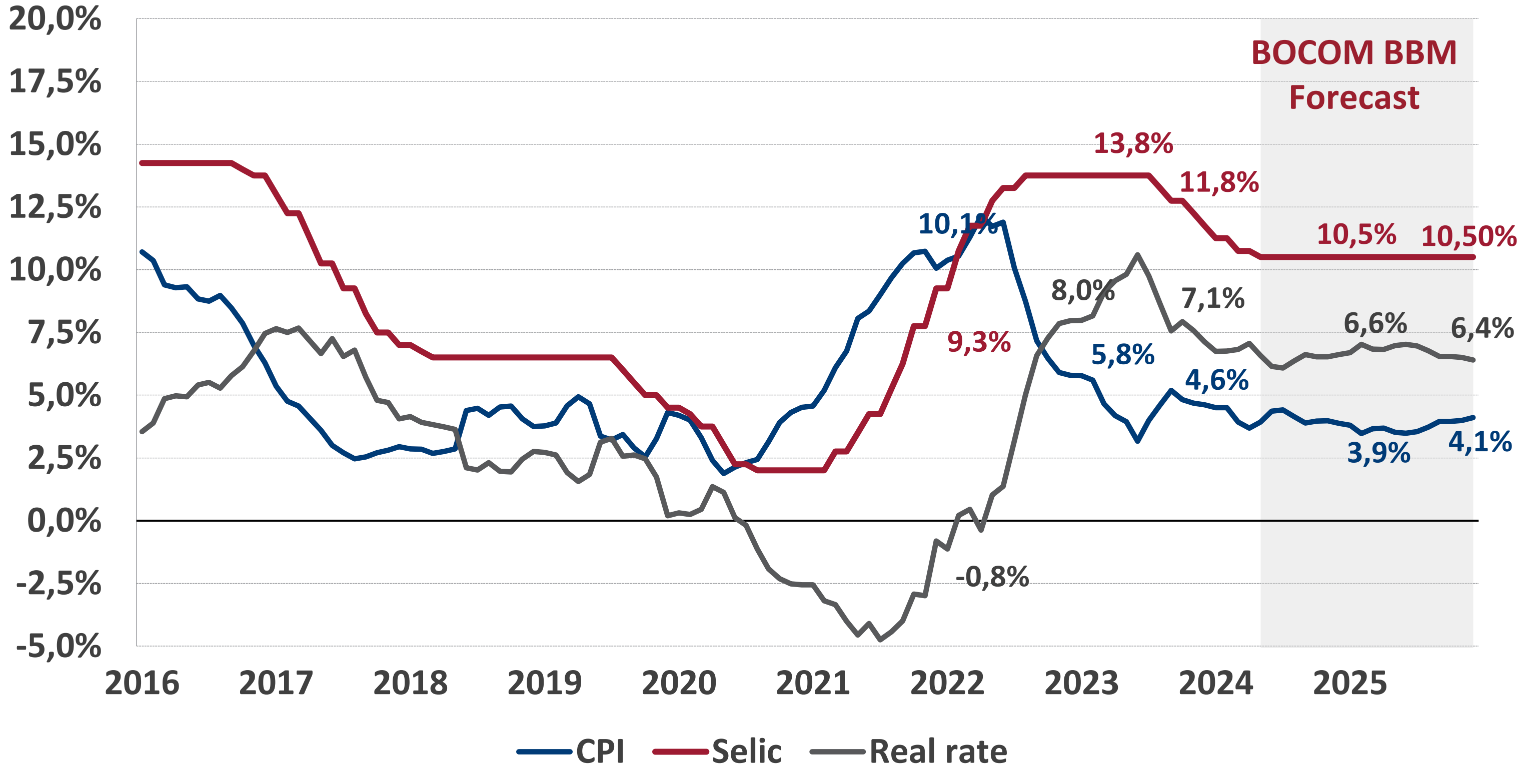
	Weight	2019	2020	2021	2022	2023	2024	2025
Regulated	**26.6**	**5.5**	**2.6**	**16.9**	**-3.8**	**9.1**	**3.7**	**3.8**
Industrial goods	**23.6**	**1.7**	**3.2**	**11.9**	**9.5**	**1.1**	**2.5**	**4.1**
Durable goods	10.3	0.0	4.5	12.9	6.1	-0.4	1.2	-
Semi-durable goods	5.9	0.6	-0.1	10.2	15.7	2.7	2.4	-
Non-durable goods	7.3	4.4	4.0	11.9	9.5	1.7	4.2	-
Food at home	**15.7**	**7.8**	**18.2**	**8.2**	**13.2**	**-0.5**	**5.4**	**4.1**
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	5.0	3.9
Related to minimum wage	5.2	2.9	1.5	3.3	6.3	5.2	5.7	6.1
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.3	9.5	2.2	4.1
Inertial	15.0	4.3	1.6	4.2	8.8	5.1	4.8	3.9
IPCA		**4.3**	**4.5**	**10.1**	**5.8**	**4.6**	**3.9**	**4.1**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

- Concerning monetary policy, the BCB decided to keep the Selic rates at 10.5% in June meeting, interrupting the easing cycle as widely expected given the recent developments in the economic scenario;
- BCB projections indicate that rates reaching 10.5 % by 2024 and 9.5% by 2025 would bring inflation to 4% in 2024 and 3.4% in 2025. In an alternative scenario where rates are kept at 10.5% over the relevant horizon, projections reach 3.1% in 2025, very close to the target of 3%;
- The communication indicates that it will keep monetary policy contractionary as long as necessary, reinforcing that further adjustments are tied to the firm commitment to inflation convergence to the target. This time the votes for keeping rates at 10.5% were unanimous, in sharp contrast to the previous split decision.

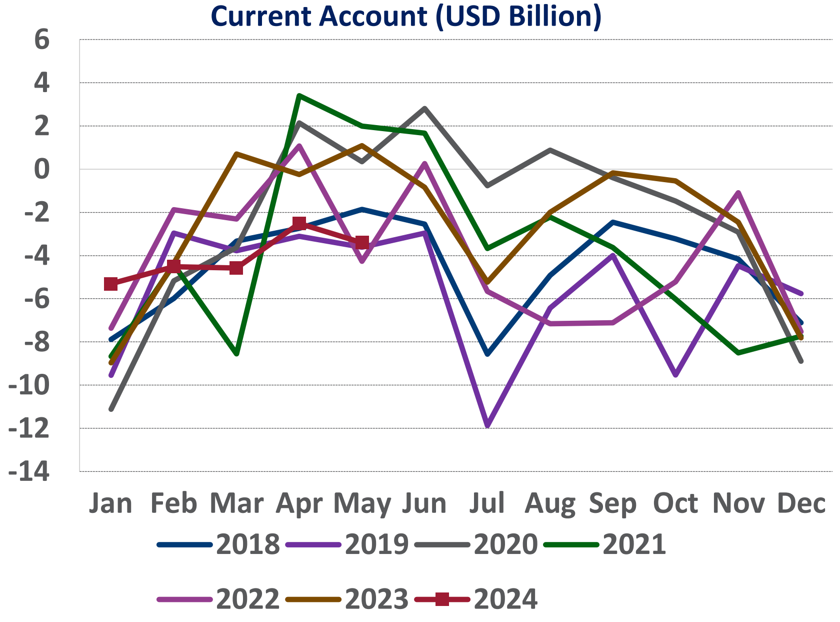
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

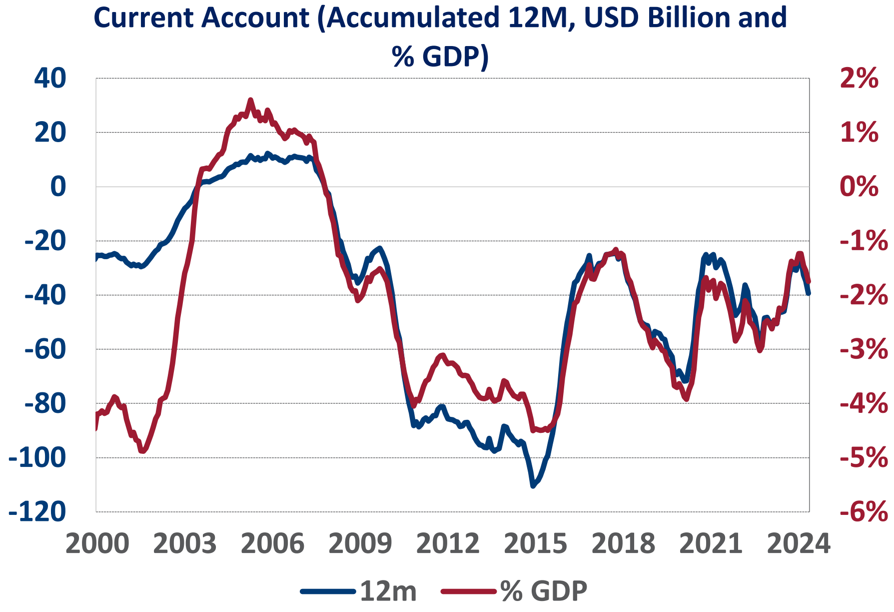


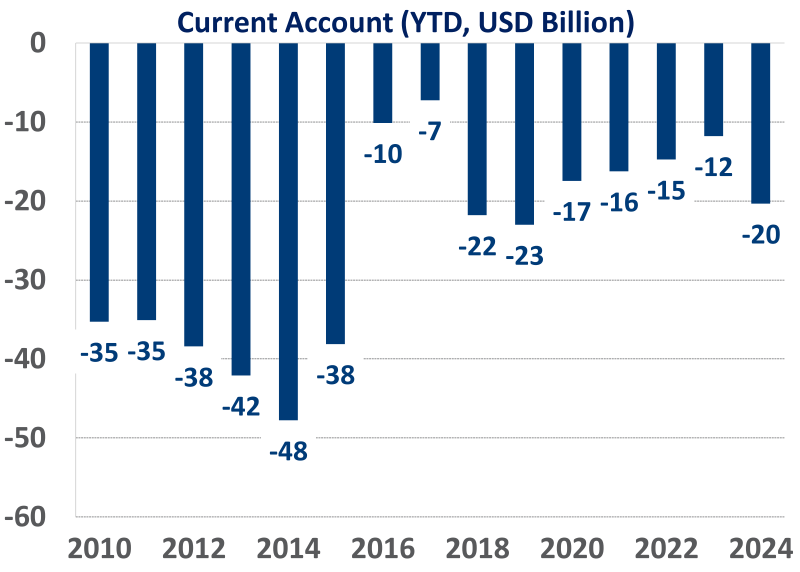
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The Brazilian current account posted a deficit of USD 3.4 billion, in line with market expectations;
- Over the 12-month rolling sum up to May, the deficit amounted to USD 40.1 billion (1.8% of GDP), an increase from the USD 35.7 billion (1.6% of GDP) recorded in the same month last year.







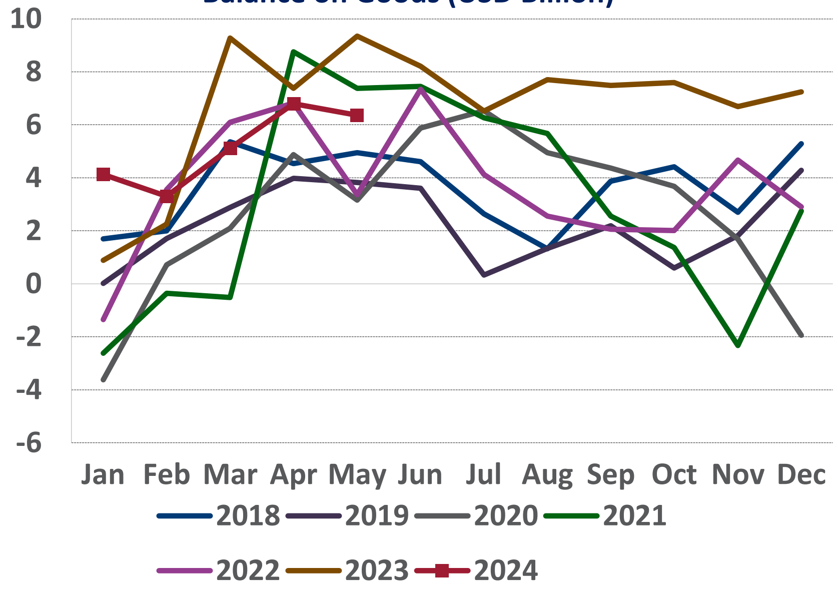
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

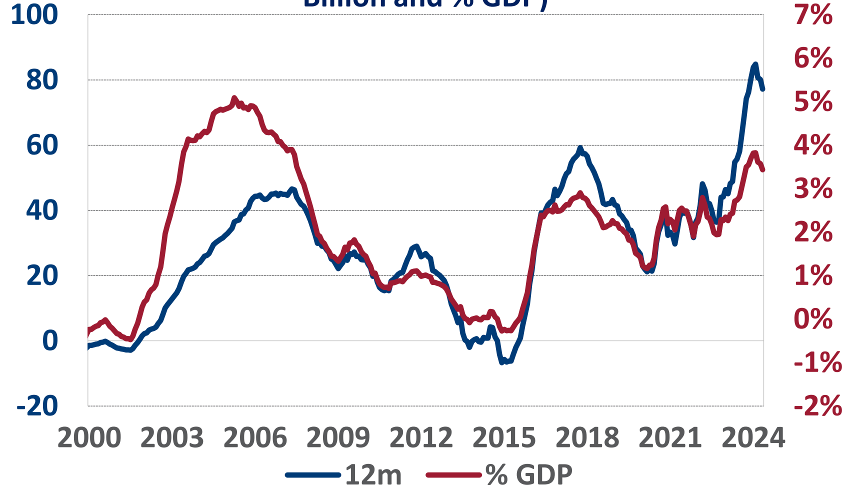
- The Merchandise Trade Balance recorded a surplus of USD 6.4 billion in May;
- The 12-month rolling sum up to May 2024 reached USD 76.9 billion;
- This result was significantly below the recorded in May 2023 (+USD 9.3 billion), with the imports growing 3.1% YoY and the exports falling 6.9% YoY. Even with that, the trade balance remains at high levels;

- **Extraordinary review in the next monthly release:** purchases and sales of crypto assets will be reclassified from the trade balance - included in current transactions - to the capital account. This review will significantly reduce the gap between the trade balance figures of the Central Bank and the MDIC.

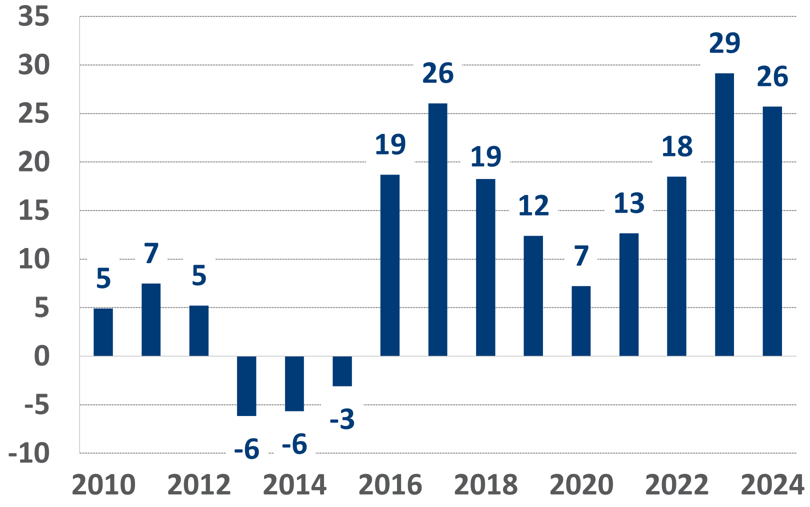
Balance on Goods (USD Billion)



Balance on Goods (Accumulated 12M, USD Billion and % GDP)



Balance on Goods (YTD, USD Billion)

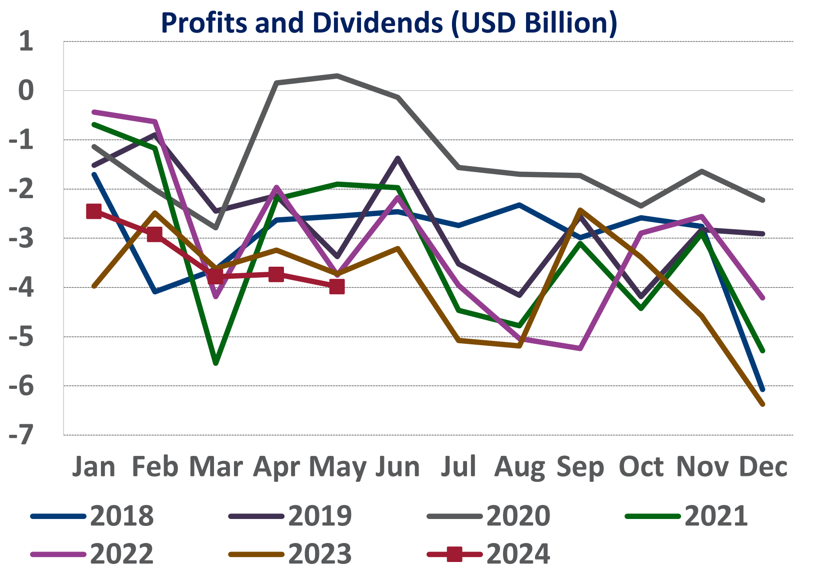


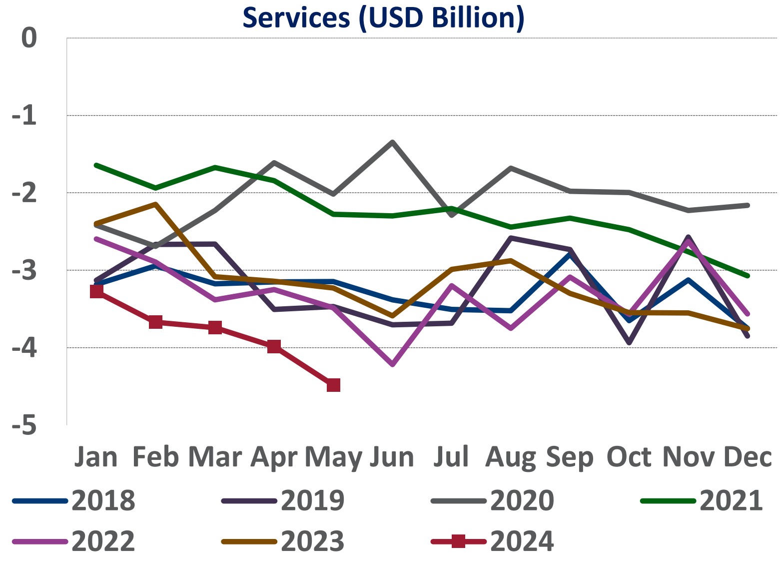
Source: BOCOM BBM, BCB

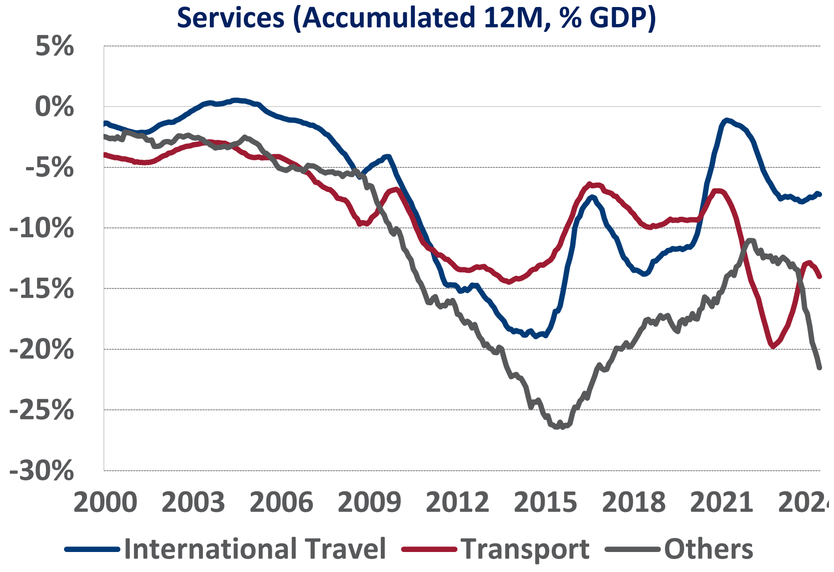
Brazil: Balance of Payments

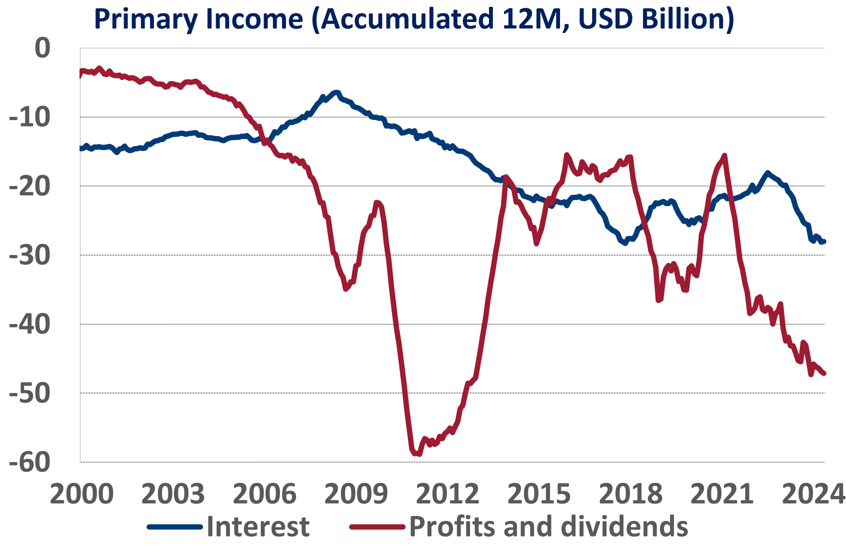
- The Services deficit also showed an annual increase, rising from USD 3.2 billion in May 2023 to USD 4.5 billion in May 2024 (38.9% YoY), mainly due to Telecommunications, Computing, and Information account;

- The Primary Income Account deficit slightly rose from USD 5.1 billion. to USD 5.2 billion, with the main accounts remaining virtually stable.





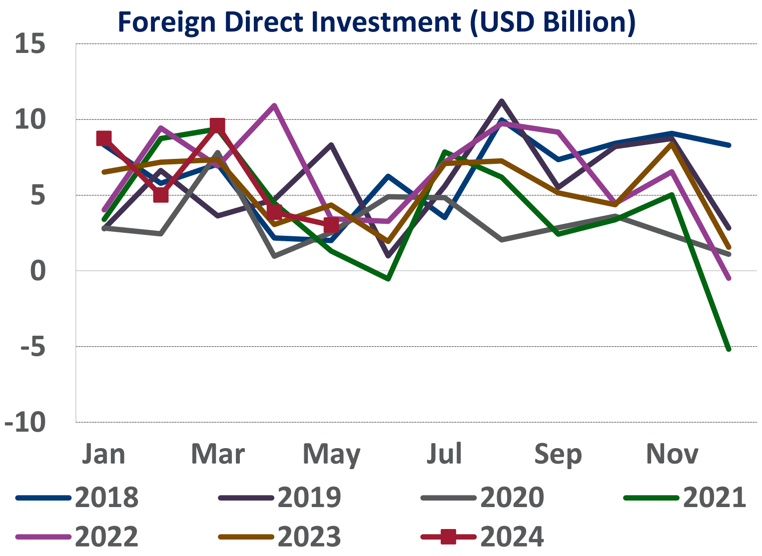


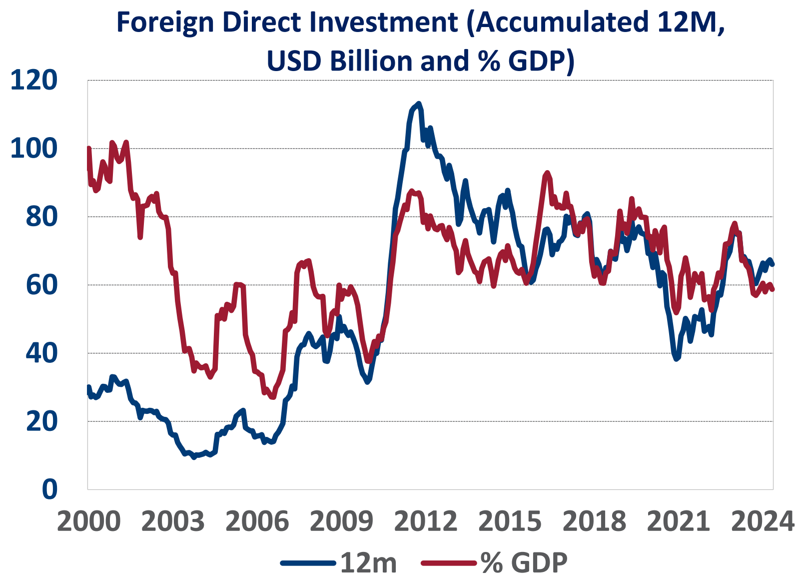


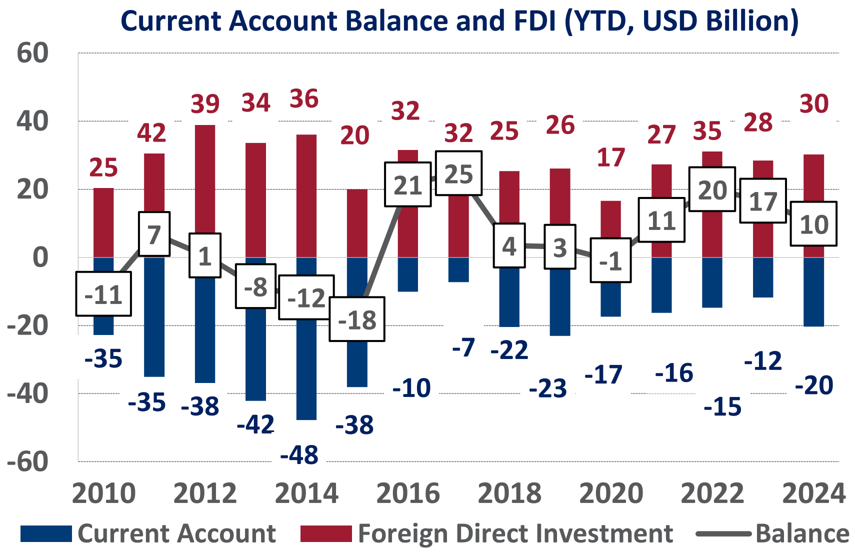
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- Net inflows in Foreign Direct Investment (FDI) totaled USD 3.0 billion in May 2024, below the market expectation (USD 4.7 billion), showing high volatility in a monthly basis;
- In 12 months, it reached USD 66.0 billion (2.95% of GDP), close to the levels observed in May 2023.



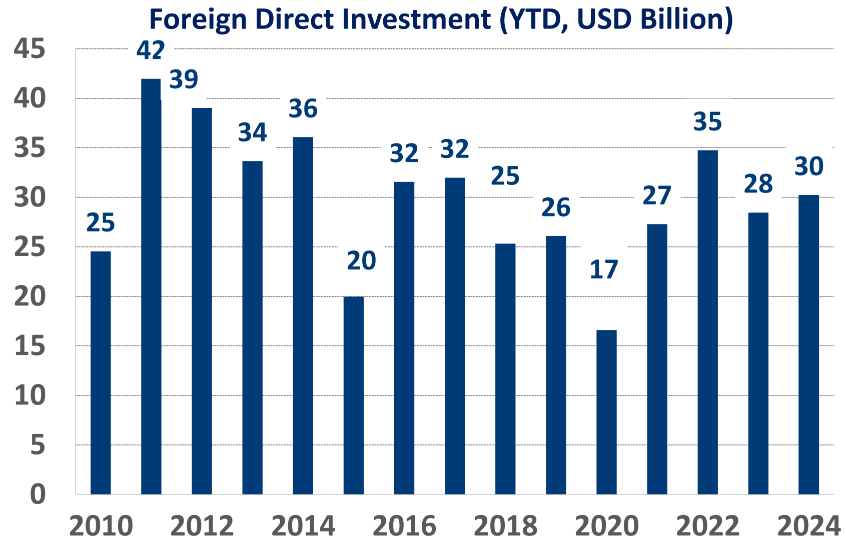


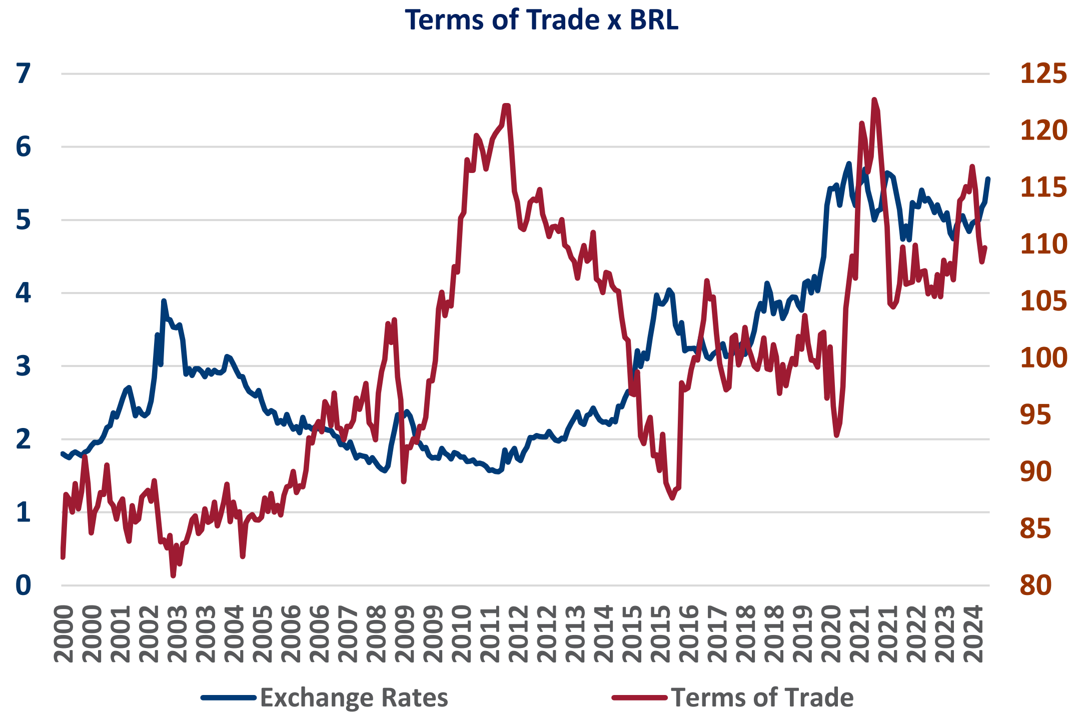


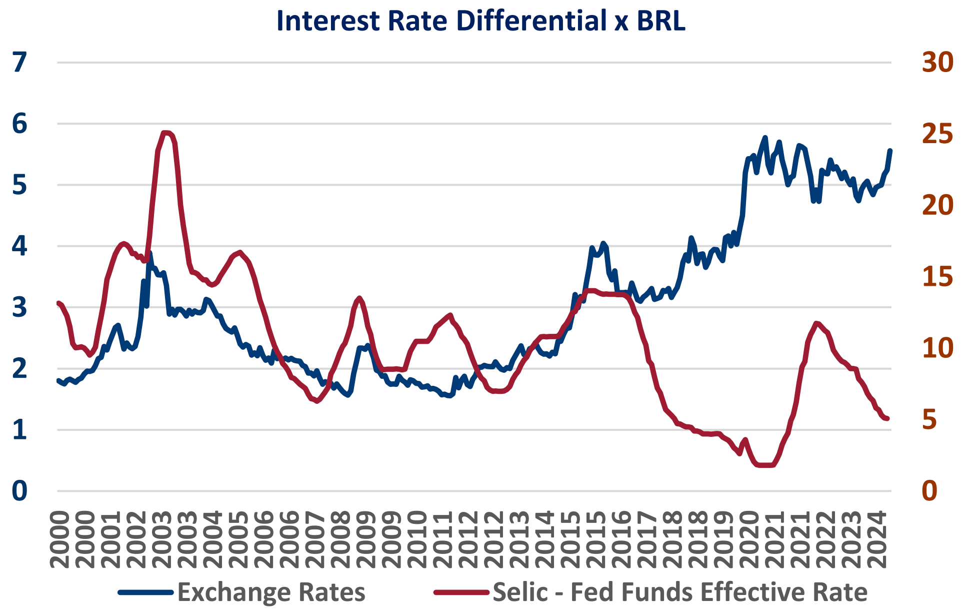
Source: BOCOM BBM, BCB

Brazil: External Sector

» In June, the Brazilian Real depreciated from 5.24 to 5.56 against the US Dollar. Concerning the domestic scenario, the fiscal risk perception has been increasing and there is greater uncertainty related to monetary policy handling. The market participants await the appointment of the new Central Bank's president, who should be appointed by President Lula until the end of the year. In the external scenario, political developments like the Mexican elections have also worsened agents' perception of EM assets, strengthening the USD vs. the BRL.



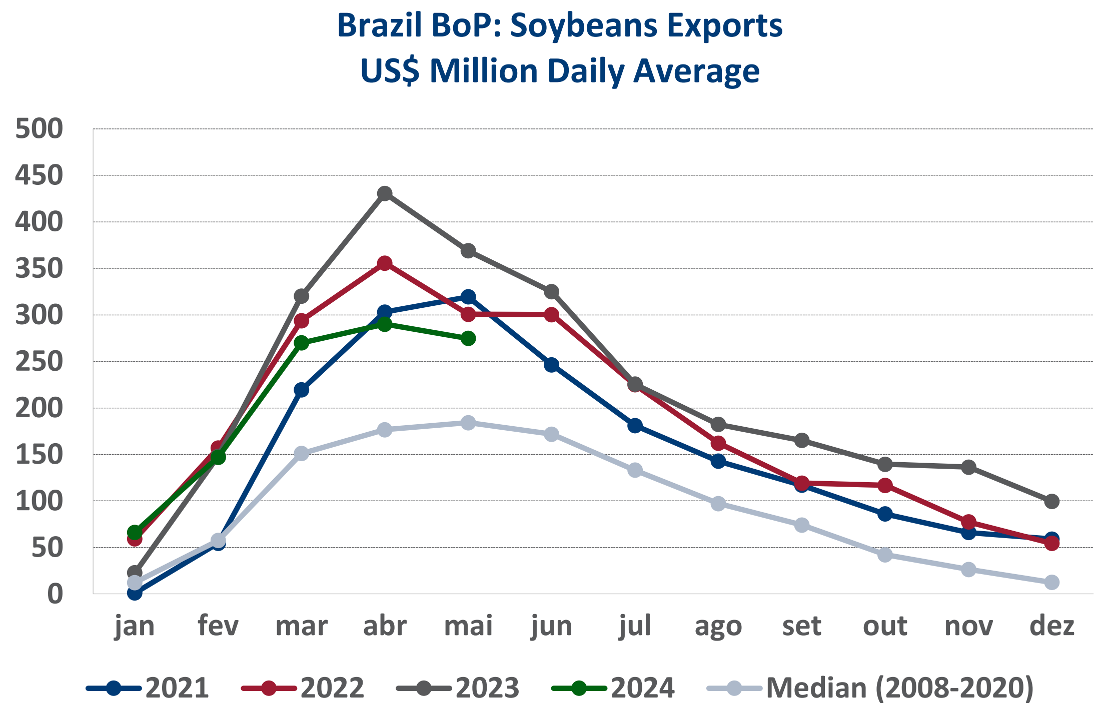


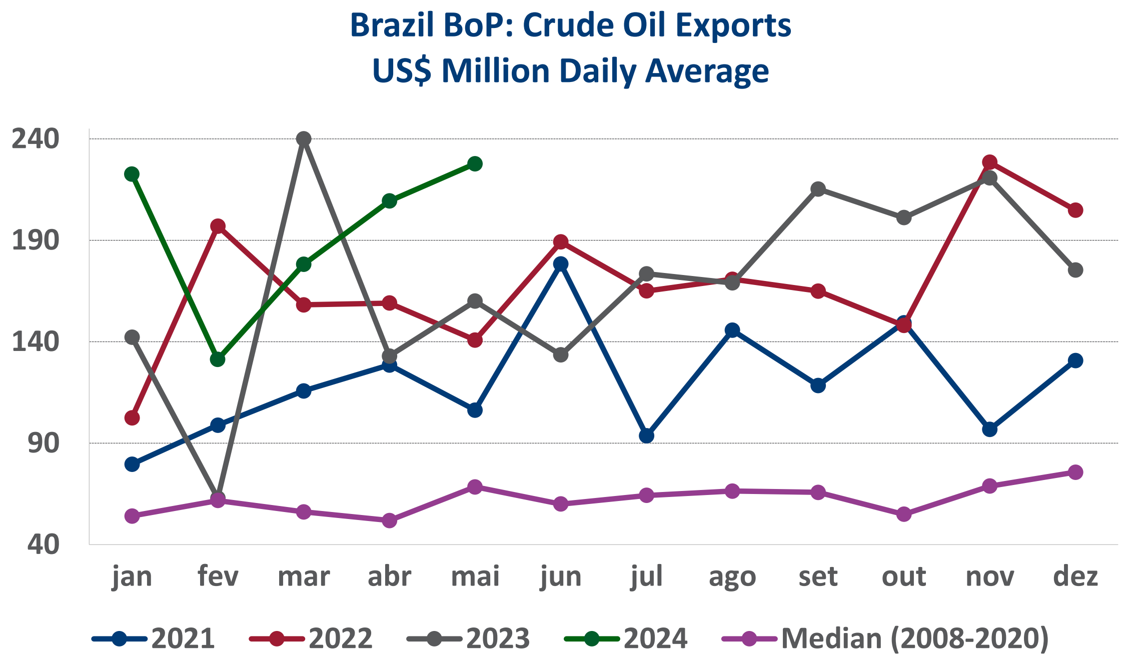


Source: BOCOM BBM, Bloomberg, Funcex, BCB

Brazil: External Sector

- In May, the trade balance presented a surplus of US$ 8.53 bn (-22.3% YoY) according to Secex data;
- Year to date, the trade surplus reached US$ 35.89 bn (+3.9% YoY);
- The exports decreased 7.1% YoY, with a big decrease in soybeans exports (-28.9% YoY);
- In turn, imports increased 0.5% YoY, mainly due to crude oil (+12.1% YoY).





Source: Secex, BOCOMBBM

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