BANK OF COMMUNICATIONS

MACRO OUTLOOK

August 2024

Macro Outlook

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- Some developed economies are facing a more pronounced slowdown of economic activity, such as Europe, while others display a more gradual slowdown, like the US. However, the odds of a soft-landing scenario in the US have become narrower, given the latest disappointing reading of labor market data. On the inflation side, core surprised to the downside and improved its composition in Q2, after the more gradual-than-expected disinflation in Q1. All in all, the outlook favors policy easing already at the next FOMC meeting, in September. The big question now is about the pace and the magnitude of cuts. Markets are pricing approximately 125bps until the end of the year.

- Regarding China, 2Q GDP disappointed market expectations by growing 4.7% YoY. Year-to-date growth in 24H1 was 5.0% YoY, exactly in the center of the annual target of "around 5%". The composition continues to show the same pattern: strong industrial production, boosted by external demand, but still a gradual recovery in domestic demand. Accordingly, the GDP deflator remained negative for the fifth consecutive quarter. In light of these developments, the government's tone in July was firmer, acknowledging the necessity to accelerate the implementation of fiscal stimulus and to support the economy in 24H2.

- In Brazil, monthly indicators of economic activity posted mixed signs among the sectors in May. Broad retail sales increased 0.8% MoM, far above expectations. In turn, services remained virtually stable and industrial production contracted 0.9% MoM, still slightly better than expectations. Summarizing the scenario, IBC-Br advanced 0.25% MoM. Consequently, our GDP forecast was revised from 2.1% to 2.2% for 2024. Resilient labor market and sharp increase in social transfers have boosted the real household income;

- Concerning monetary policy, the Brazilian Central Bank (BCB) decided to keep the Selic rates at 10.5% in July meeting, in line with expectations, as the previous communication indicated that rates held at that level would bring inflation to the target over the relevant horizon. The BCB gave emphasis to inflation projections six trimesters ahead, which now reflect the new systematic for inflation targeting. Inflation projections for the first quarter of 2026 reach 3,4% in scenario where Selic rates are kept at 10.5% by the end of 2024 and fall to 9.5% and 9% by 2025 and 2026. In an alternative scenario where rates are kept at 10.5% over the relevant horizon, projections for the first quarter of 2026 reach 3.2%. Projections for 2025 were reported in a footnote and increased from 3,1% to 3,4% in the alternative scenario. 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. The votes for keeping rates at 10.5% were also unanimous this time around;

- The July IPCA-15 advanced 0.30% MoM, above market consensus expectation (0.22%). The 12-month variation increased to 4.45% in July from 4.06% in June. The upward deviations came from services (mainly airfares, condominium, and vehicle insurance). On the other hand, foodstuff surprised downwards. In addition to a higher headline, inflation composition came worse than expected. The average of cores rose by 0.33% MoM, above expectations. The 3 months moving average SAAR accelerated to 4.4% from 3.5%, considerably above the target. In turn, the ‘underlying services’ increased by 0.58% MoM, above market projections, remaining above the top of the target, around 4.9% SAAR. We now forecast inflation of 4.1% in 2024 and 2025;

- In the fiscal scenario, total federal tax collections reached BRL 208.8 bn (11.0% YoY), above the consensus of 207.0 bn and the best performance for the month in the historical data. Year-to-date growth reached 9.1%, indicating that some revenue-raising measures are being successful, the exchange rate depreciation also contributed positively. However, tax collections are still below what would be needed to reach the primary result target. In turn, the central government’s primary balance registered a deficit of BRL 38.8 billion in June, below market expectations (BRL -37.0 bn). The 12 months accumulated primary deficit reached BRL 260.7 bn, or 2.3% of GDP.

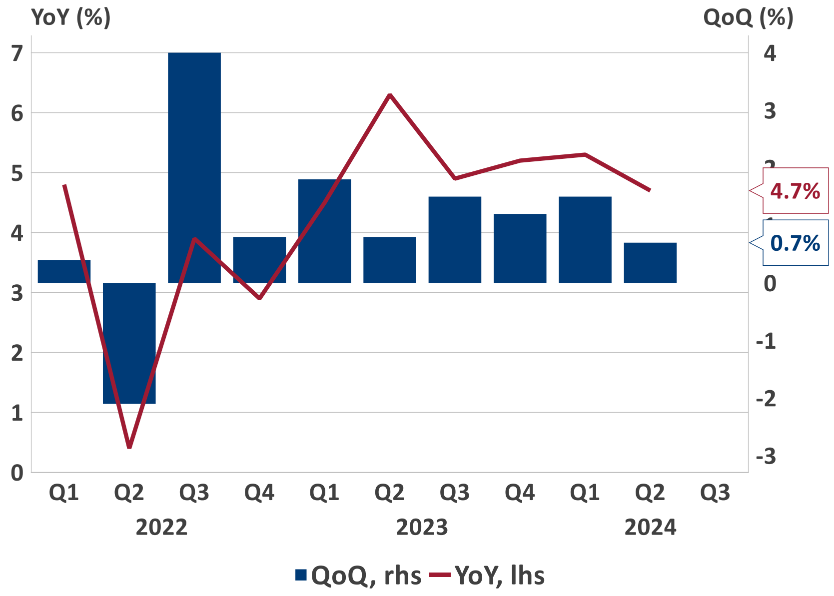
China: GDP – 2Q 2024

- China's GDP grew below expectations in Q2: slowed from 5.3% to 4.7% YoY (exp. 5.1%);
  - Year-to-date growth in H1 stands at 5.0%, compared to the same period last year → center of the annual growth target of "around 5.0%";
  - In sequential terms, GDP decelerated to 0.7% QoQ SA, → requires a reacceleration in the coming quarters to achieve the target;

- Household consumption growth slowed down, however still remains above the growth of disposable income and nominal GDP, suggesting the continuity of the recovery in consumer's marginal propensity to spend → rising consumption as a proportion of disposable income;

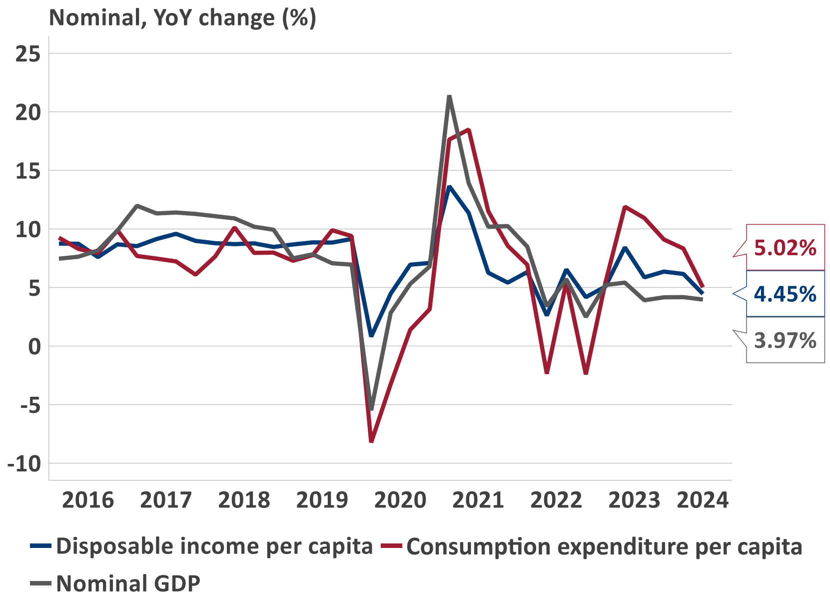
- Reflecting the detachment between production and demand, the GDP deflator remained in negative territory for the 5th consecutive quarter;

China: Real GDP Growth (Quarterly)



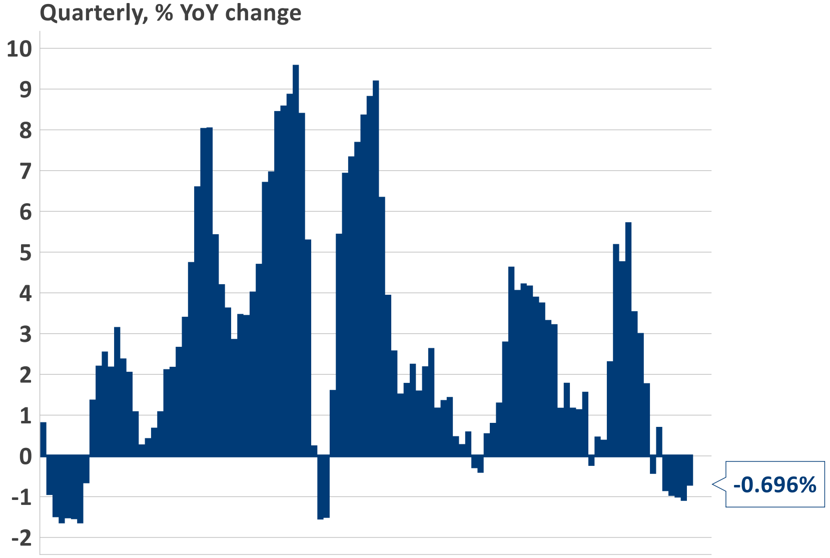
Source: BOCOM BBM, Macrobond, NBS

China: Consumption Expenditure & Disposable Income



Source: BOCOM BBM, Macrobond, NBS

China: GDP Deflator (% YoY, Quarterly)



Source: BOCOM BBM, Macrobond, NBS

China: Economic Activity

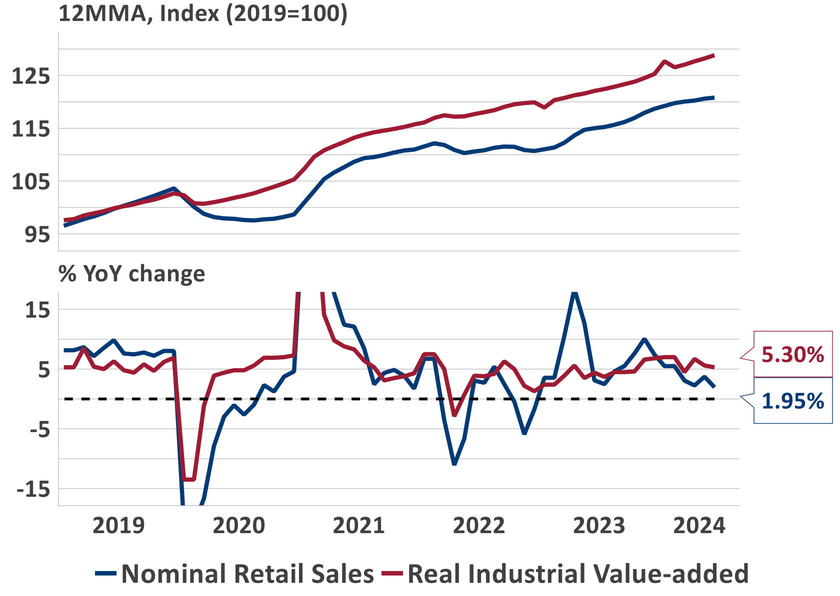
- June activity showed the same pattern that has prevailed recently: **weak domestic demand, strong industrial production and exports;**
- **Retail sales growth surprised down,** decelerating from 3.7% to **2.0%** YoY (exp. 3.3%): spending in restaurants continued resilient, but slowed in consumer goods from 3.6% to 1.5% YoY;
- **Industrial prod. slowed** from 5.6% to **5.3%** YoY (above exp 4.9%), 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 4.0% to 3.9% YTD YoY** (exp. 3.9%), still 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, although improved slightly in June;

China: Activity (% YoY)

	6/2024	5/2024	6/2023
Industrial Production	5.30	5.60	4.40
Mining	4.40	3.60	1.50
Manufacturing	5.50	6.00	4.80
Utilities	4.80	4.30	4.90
Fixed Asset Investment (YTD)	3.90	4.00	3.80
Manufacturing	9.50	9.60	6.00
Real Estate	-10.10	-10.10	-7.90
Infrastructure	5.40	5.70	7.20
Retail Sales	1.95	3.72	3.12
Catering Services	5.40	5.00	16.10
Consumer Goods	1.50	3.60	1.70
Clothing	-1.90	4.40	6.90
Automobiles	-6.20	-4.40	-1.10
Furniture	1.10	4.80	1.20
Cellphones	2.90	16.60	6.60
Home Appliances	-7.60	12.90	4.50
Construction	-4.40	-4.50	-6.80

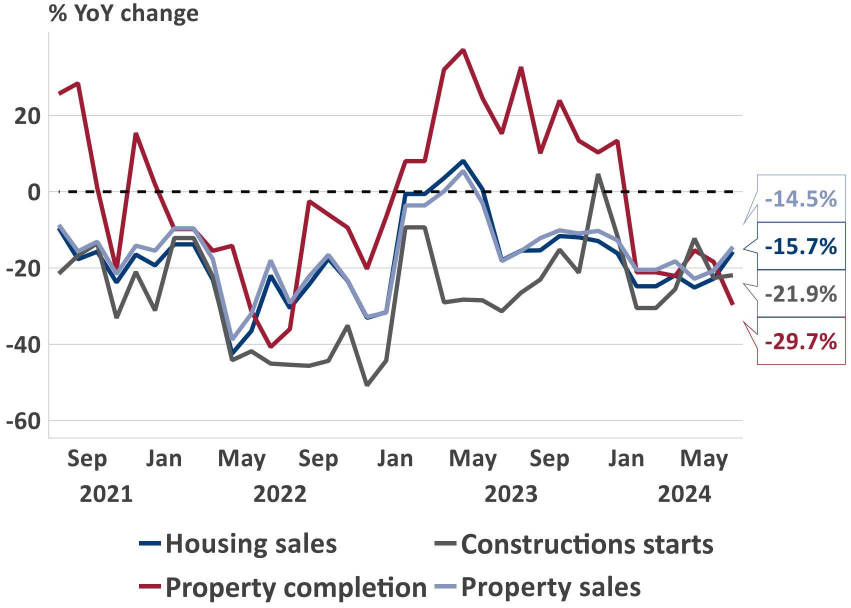
Source: BOCOM BBM, Macrobond

China: Industrial Production x Retail Sales



Source: BOCOM BBM, Macrobond, NBS

China: Property Indicators (% YoY)



Source: BOCOM BBM, NBS

China: Economic Scenario

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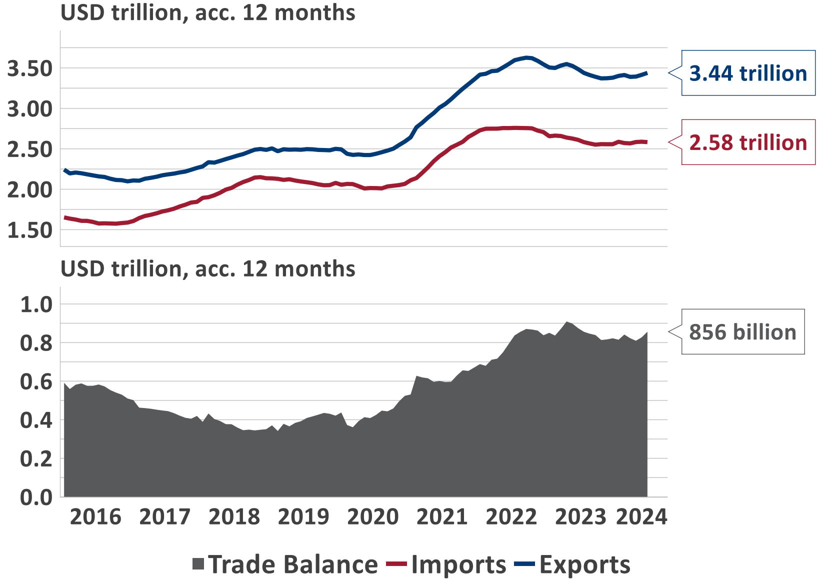
- **June exports surprised to the upside,** accelerating from 7.6% to **8.6% YoY** (exp. 8.0%): exported goods continued growing strongly in volume terms, despite prices for most products remaining in decline;
- **On the other hand, imports contracted -2.3% YoY** (exp. 2.8%) reflecting a slowdown in imports from agriculture commodities and industrial goods, although the Chinese demand for mineral commodities remains in all-time-highs, in volume terms;

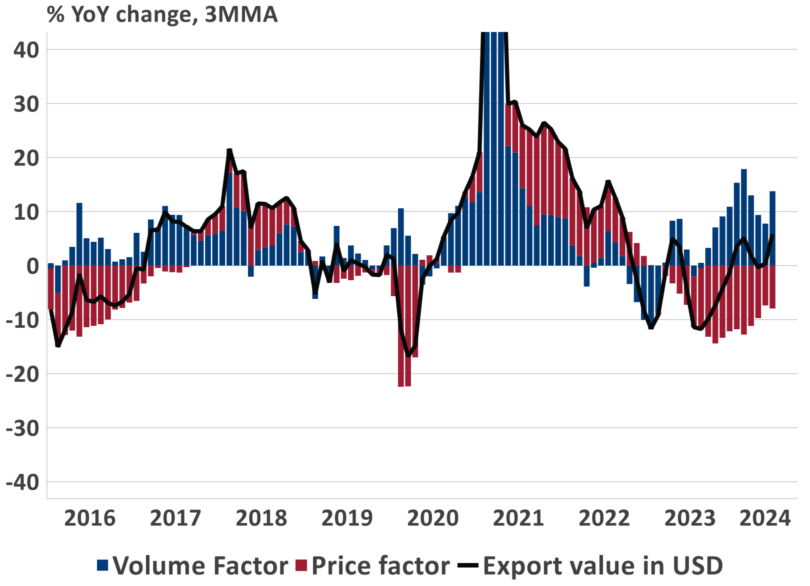
- June **CPI** inflation slowed from 0.3% to **0.2%** YoY (exp. 0.4%), reflecting a stable core but falling prices in food and energy;
  - Core inflation seems a bit better than headline (+0.6% YoY), however still with an heterogeneous composition as services prices are up (+0.7% YoY) while goods are falling (-0.1% YoY);
  - Deflationary pressures remains persistent: headline CPI averaged 0.1% YoY in the first 6 months;

China: Trade Balance



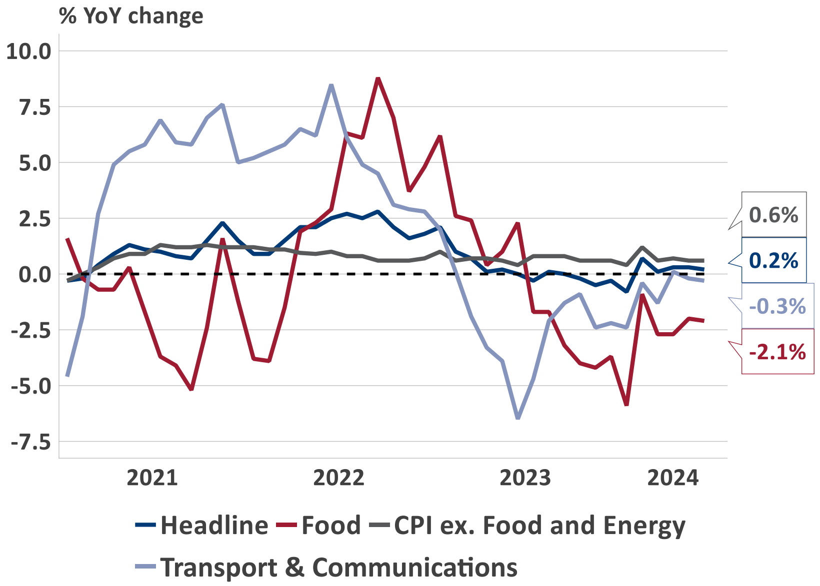
Source: BOCOM BBM, Macrobond, CCS

China: Exports (Price x Volume)



Source: BOCOM BBM, Macrobond, GAC, CCS

China: CPI



Source: BOCOM BBM, Macrobond, NBS

USA: GDP Q2

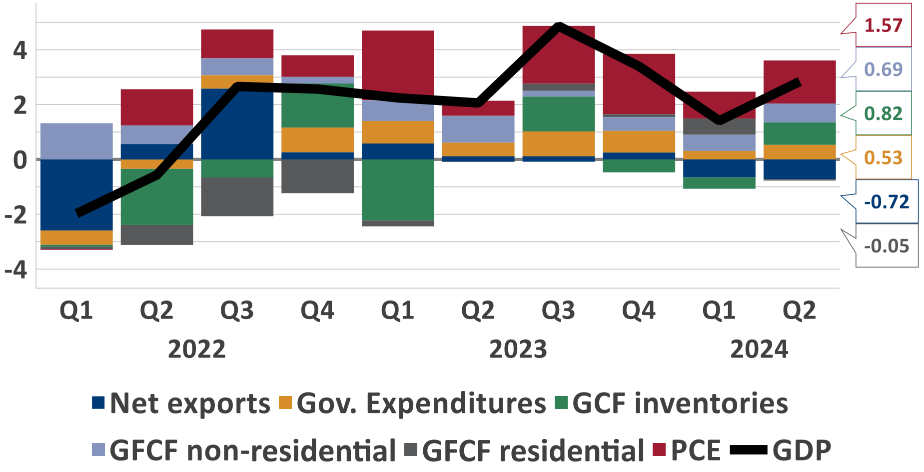
- First release of Q2 GDP showed an increase of **2.8% QoQ SAAR**, above market exp. of 2.5%;
  - **Its composition marked another strong growth:** PCE expanded 2.3% QoQ, above Q1's pace of 1.5% QoQ especially due to a rebound in goods expenditures;
  - Only net exports, which is a volatile component, contributed negatively to GDP reading (with -0.7 p.p.);
- Private domestic final purchases, a better indicator of underlying domestic demand, which excludes volatile items such as net exports, inventories and the government sector, **maintained a solid growth of 2.6% QoQ SAAR**, reinforcing the **resiliency in economic activity**.

US: GDP Growth (QoQ SAAR)

US GDP Growth (QoQ SAAR, %)	Weights (%)	Q2 2024	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Real GDP	100.00	**2.84**	1.41	3.40	4.86	2.06	2.24
Personal Consumption Expenditures	67.69	**2.32**	1.45	3.28	3.11	0.80	3.78
Goods	21.87	2.52	-2.26	2.98	4.87	0.47	5.09
Durable goods	7.63	4.70	-4.45	3.19	6.70	-0.33	13.97
Non-durable goods	14.24	1.37	-1.06	2.86	3.87	0.92	0.49
Services	45.82	2.23	3.32	3.43	2.24	0.97	3.13
Business fixed investment	13.64	**5.16**	4.45	3.74	1.45	7.45	5.74
Structures	3.06	-3.34	3.38	10.88	11.15	16.15	30.31
Equipment	5.06	11.55	1.64	-1.10	-4.40	7.73	-4.12
Intellectual Property Products	5.52	4.50	7.69	4.35	1.82	2.68	3.79
Residential Fixed Investment	4.01	**-1.36**	15.99	2.82	6.68	-2.19	-5.35
Inventory contrib (pp)	0.32	**0.82**	-0.42	-0.47	1.27	0.00	-2.22
Net Exports contrib (pp)	-3.12	**-0.72**	-0.65	0.25	0.03	0.04	0.58
Exports	10.89	1.99	1.57	5.05	5.40	-9.28	6.83
Imports	14.01	6.95	6.12	2.21	4.20	-7.59	1.27
Government Expenditures	17.47	**3.08**	1.79	4.62	5.78	3.34	4.82
Federal	6.51	3.89	-0.25	2.36	7.12	1.11	5.17
State & Local	10.96	2.60	3.02	5.99	4.98	4.69	4.61
Nominal GDP		5.19	4.54	5.12	8.34	3.77	6.28
GDP price index		2.29	3.09	1.67	3.31	1.68	3.95
PCE price index		**2.62**	3.41	1.79	2.59	2.49	4.17
Core PCE		**2.89**	3.74	2.04	2.04	3.66	4.96

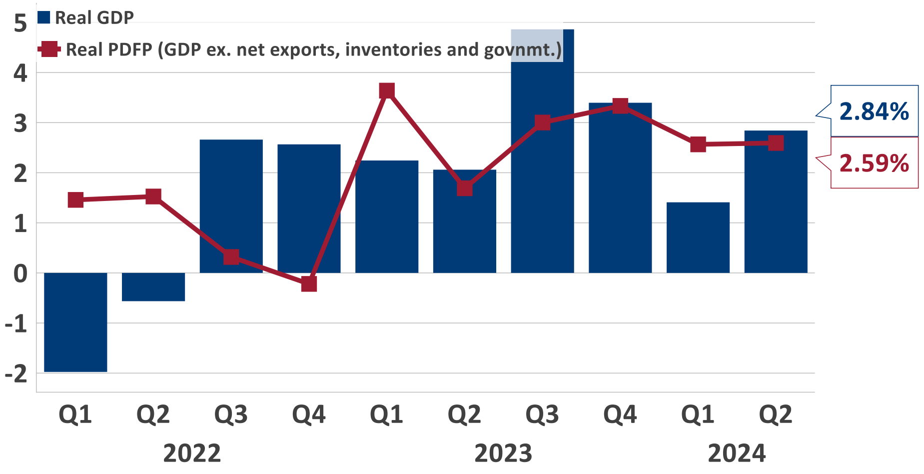
Source: BOCOM BBM, Macrobond, BEA

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



Source: BOCOM BBM, Macrobond, BEA

US: Private Domestic Final Purchases (QoQ SAAR)

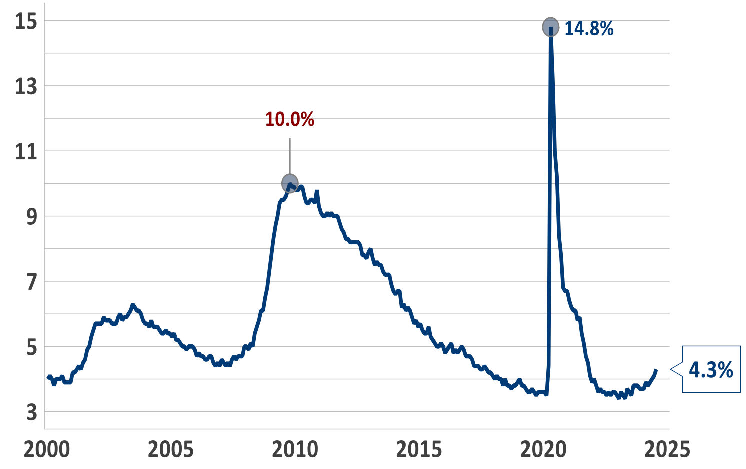


Source: BOCOM BBM, Macrobond, BEA

USA: Labor Market

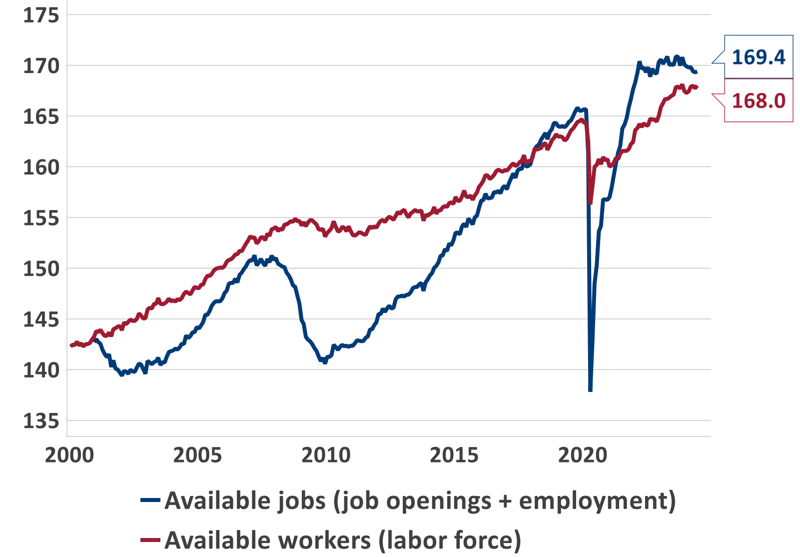
- **Labor market has cooled from its peak tightness,** with a more intense slowdown since this year's 2nd quarter;
  - July payroll showed a job gain of **114k**, well below market expectations (179k), with a two-month net revision of -29k in June (-27k) and May (-2k);
  - Furthermore, the unemployment rate moved up from 4.1% to **4.3%**, the highest level since Oct-21;
- In June, **the jobs-workers gap decreased from 1.6M to 1.4M,** following a considerable moderation in labor demand and the continuity of a rising labor force;
- July avg. hourly earnings **decelerated its monthly pace to 0.2% MoM,** below June's pace of 0.3%.
  - The annual rate slowed down from 3.9% to 3.6% YoY, signaling a gradual relief in wage pressures, in line with a more balanced labor market;

US: Unemployment Rate SA (%)



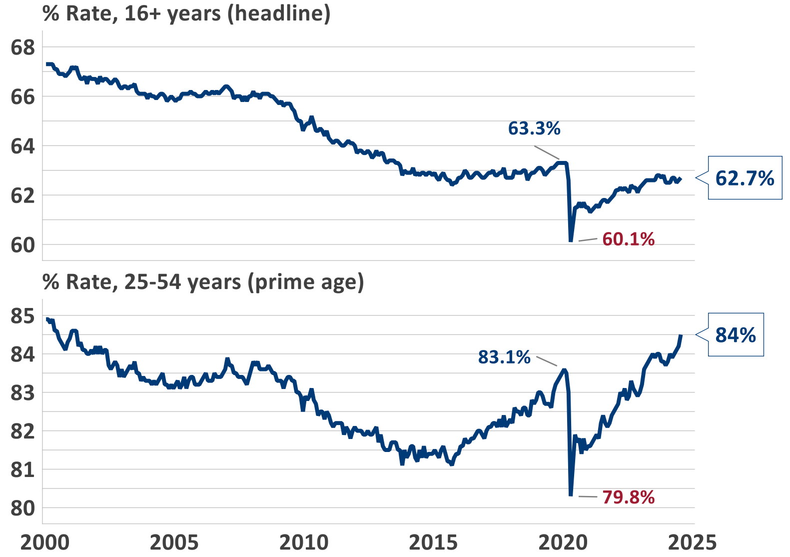
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



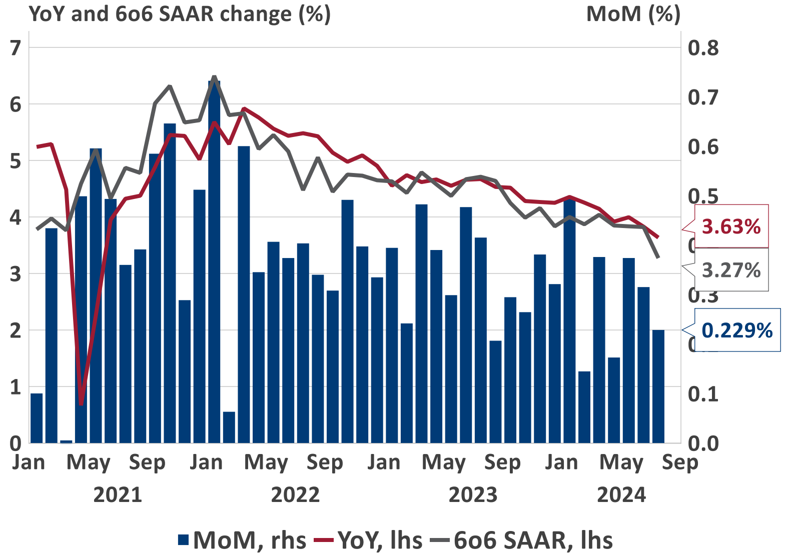
Source: BOCOM BBM, Macrobond, BLS

US: Labor Force Participation Rate (%)



Source: BOCOM BBM, Macrobond

US: Average Hourly Earnings Growth (%)



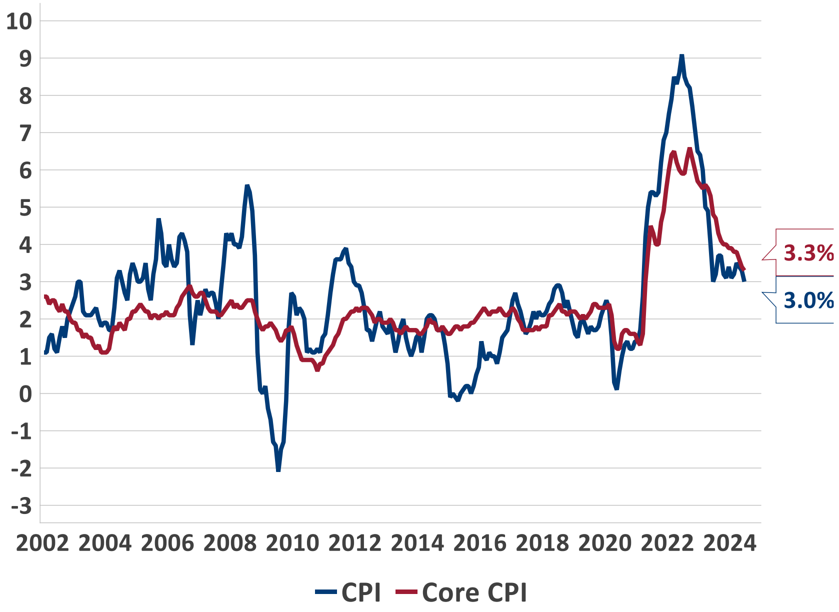
Source: BOCOM BBM, Macrobond

USA: Inflation

- June headline CPI declined **0.06% MoM** (below mkt exp. of +0.09%), leading to an annual growth rate decrease from 3.27% to **2.97% YoY:**
  - **Energy prices**: declined 2.04% MoM, just like in May, largely driven by a fall in gasoline prices;
  - **Food prices:** rose 0.24% MoM, a little bit above the market expectations of +0.10%;

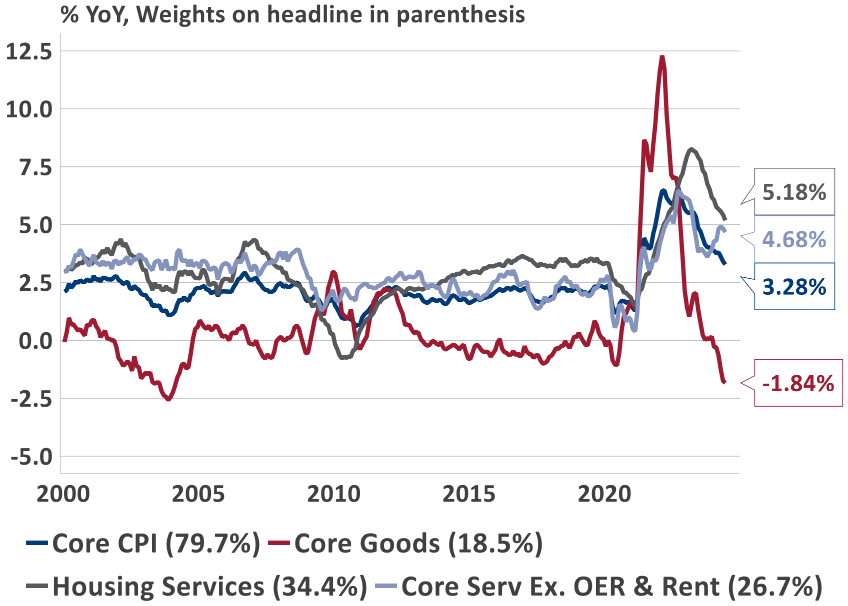
- **Core CPI** rose only **0.06% MoM** (exp. 0.2%) and the annual growth rate fell from 3.41% to **3.26% YoY**;
  - **Core goods (-0.12% MoM):** another decline, following decreases in new (-0.16% MoM) and used vehicles (-1.53% MoM) prices;
  - **Housing services (0.20% MoM)**: below mkt. expectations of +0.4% MoM. OER rose 0.28% (exp. +0.42%), marking the first reading below 30bps since August 2021 and the biggest positive surprise of June reading;
  - **Core Serv. Ex-Housing (-0.05% MoM)**: similar to May's pace (-0.04% MoM), due to falling prices in 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 wages eases.

US: CPI (YoY, %)



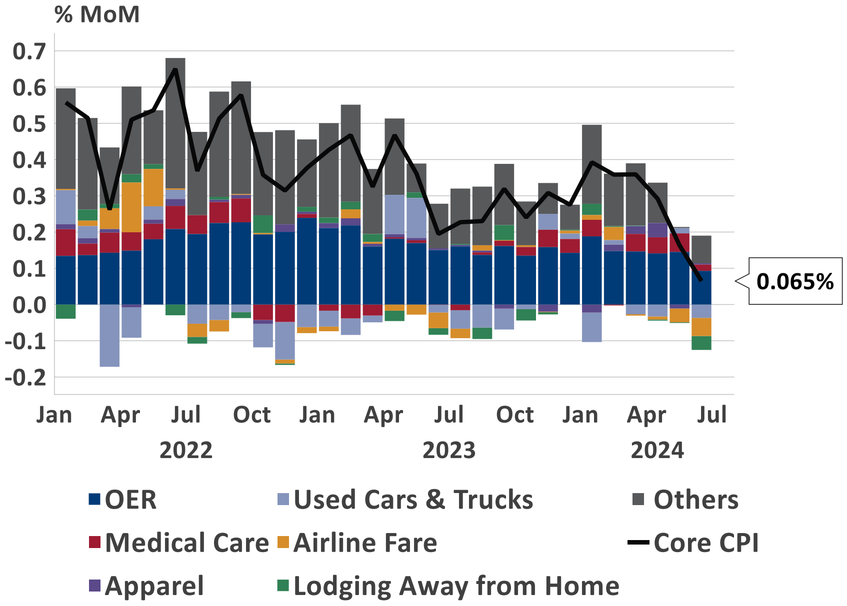
Source: BOCOM BBM, Macrobond, BLS

US: Core CPI Main Components (%)



Source: BOCOM BBM, Macrobond, BLS

US: Core CPI MoM Contributions

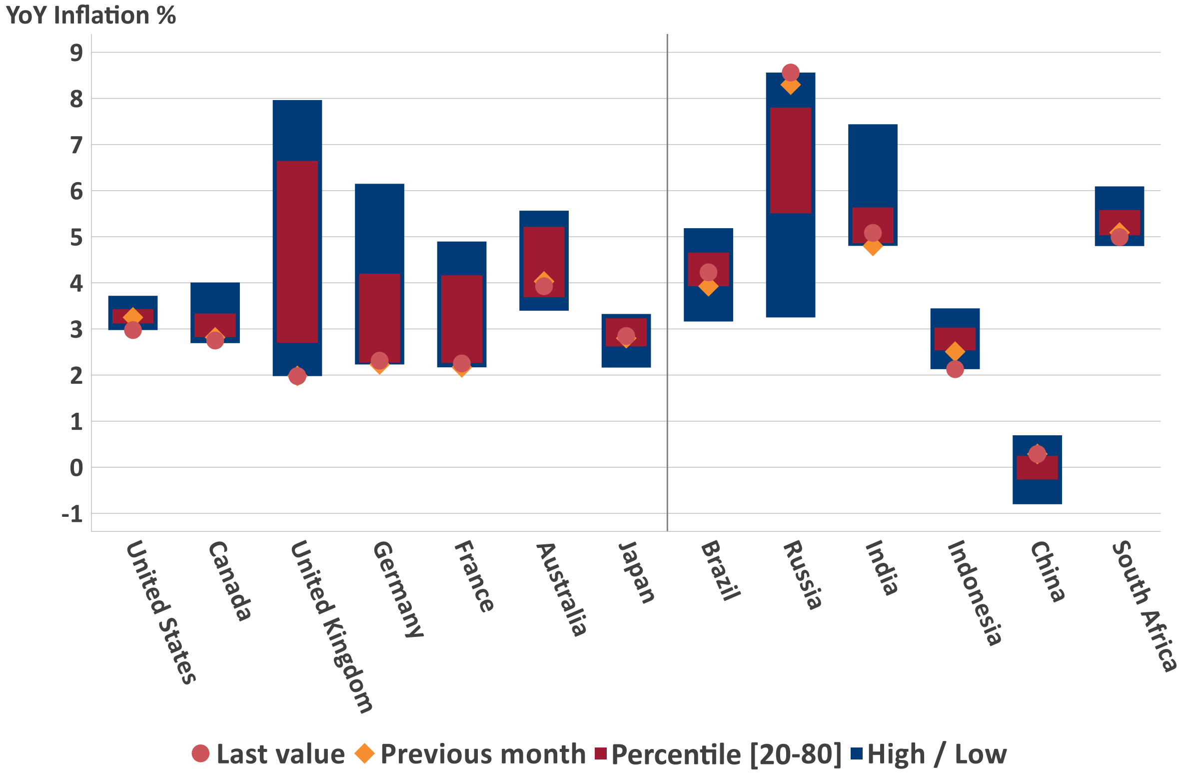


Source: BOCOM BBM, Macrobond, BLS

Global: Inflation & Activity

- Progress in inflation numbers are being seen across developed markets, while in some emerging markets inflation is 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

	Q2 2024	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022
Argentina		-2.6	-2.5	2.3	-2.4	1.1	-2.3	-0.1
Australia		0.1	0.3	0.2	0.4	0.6	0.8	0.1
Brazil		0.8	-0.1	0.1	0.9	1.2	0.2	1.0
Canada		0.4	0.0	-0.1	0.2	0.8	-0.2	0.5
China	0.7	1.5	1.2	1.5	0.8	1.8	0.8	4.0
Euro Area	0.3	0.3	0.0	0.0	0.1	0.5	-0.1	0.4
France	0.3	0.3	0.4	0.1	0.6	0.1	0.1	0.5
Germany	-0.1	0.2	-0.4	0.2	-0.1	0.1	-0.5	0.6
India		7.8	4.7	2.3	-6.7	8.6	4.2	2.5
Indonesia		-0.8	0.5	1.6	3.9	-0.9	0.4	1.8
Italy	0.2	0.3	0.1	0.3	-0.2	0.4	-0.1	0.4
Japan		-0.7	0.0	-1.0	0.9	1.2	0.4	-0.2
Mexico	0.2	0.3	0.0	0.8	0.8	0.7	1.0	1.0
Russia		1.0	0.8	1.3	1.6	0.9	1.3	0.8
Saudi Arabia	-2.4	-2.6	5.7	-0.8	-3.7	-5.2	6.9	4.2
South Africa		-0.1	0.3	-0.4	0.7	0.6	-1.4	1.9
South Korea	-0.2	1.3	0.5	0.8	0.6	0.4	-0.5	0.4
Turkey		-14.6	1.3	13.3	7.8	-16.0	3.3	11.0
United Kingdom		0.7	-0.3	-0.1	0.0	0.2	0.1	-0.1
United States	0.7	0.4	0.8	1.2	0.5	0.6	0.6	0.7

Sources: BOCOM BBM, Macrobond, National Sources

Global: Monetary Policy

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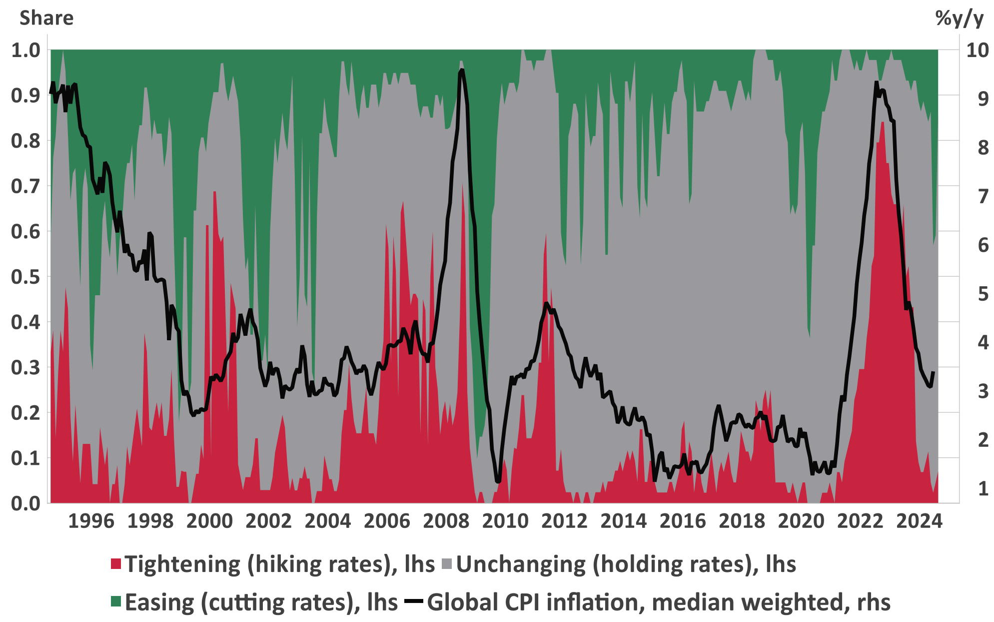
- Several **emerging markets already started cutting rates,** such as Colombia, Chile and Mexico;
- **Developed markets** central banks took a little longer, but several also began cutting rates this year such as the BoE, ECB and the SNB;
- The main central bank that remains on hold is the Fed, although in the latest policy meeting, J. Powell signaled the **possibility of cuts in the next meeting**, corroborated with recent inflation and labor market data → markets price approx. 125bps of cuts until the end of 2024;

Global monetary breadth

Share of economies (GDP top 50) with higher/unchanged/lower policy rates; monthly/mtd avg, 2-Aug-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	271.5	267.2	40.00	-10.00	Cut	5/2024	10	3
Australia	3.8	3.7	4.35	0.25	Hike	11/2023	9	45
Brazil	4.2	4.2	10.50	-0.25	Cut	5/2024	24	3
Canada	2.7	1.9	4.50	-0.25	Cut	7/2024	13	0
Chile	4.2	2.9	6.50	-0.75	Cut	6/2024	22	2
China	0.3	0.6	3.35	-0.10	Cut	7/2024	126	0
Colombia	7.2	6.5	10.75	-0.50	Cut	8/2024	15	0
Costa Rica	0.0	0.8	4.75	-0.50	Cut	4/2024	21	3
Czech Republic	2.0	0.0	4.50	-0.25	Cut	8/2024	25	0
Denmark	1.8	1.3	3.50	-0.25	Cut	6/2024	11	2
Euro Area	2.6	2.9	4.25	-0.25	Cut	6/2024	10	2
Hungary	3.7	4.1	6.75	-0.25	Cut	7/2024	22	0
Iceland	6.3	6.2	9.25	0.50	Hike	8/2023	11	45
India	5.1	3.1	6.50	0.25	Hike	2/2023	18	50
Indonesia	2.1	2.0	6.25	0.25	Hike	4/2024	3	41
Israel	2.9	2.5	4.50	-0.25	Cut	1/2024	14	7
Japan	2.8	2.2	0.25	0.15	Hike	8/2024	0	102
Mexico	5.0	4.1	11.00	-0.25	Cut	3/2024	16	4
New Zealand	3.3	3.4	5.50	0.25	Hike	5/2023	14	53
Norway	2.6	3.5	4.50	0.25	Hike	12/2023	8	51
Poland	4.4	3.6	5.75	-0.25	Cut	10/2023	23	10
Russia	8.6	8.7	18.00	2.00	Hike	7/2024	0	23
Saudi Arabia	1.5		6.00	0.25	Hike	7/2023	12	53
South Africa	5.0	4.5	8.25	0.50	Hike	5/2023	14	48
South Korea	2.6	2.2	3.50	0.25	Hike	1/2023	19	50
Sweden	2.6	1.3	3.75	-0.25	Cut	5/2024	10	3
Switzerland	1.3	1.1	1.25	-0.25	Cut	6/2024	13	1
Turkey	71.6	71.4	50.00	5.00	Hike	3/2024	4	17
United Kingdom	2.0	3.6	5.00	-0.25	Cut	8/2024	12	0
United States	3.0	3.3	5.50	0.25	Hike	7/2023	12	53

Source: BOCOM BBM, Macrobond

Brazil: Forecasts

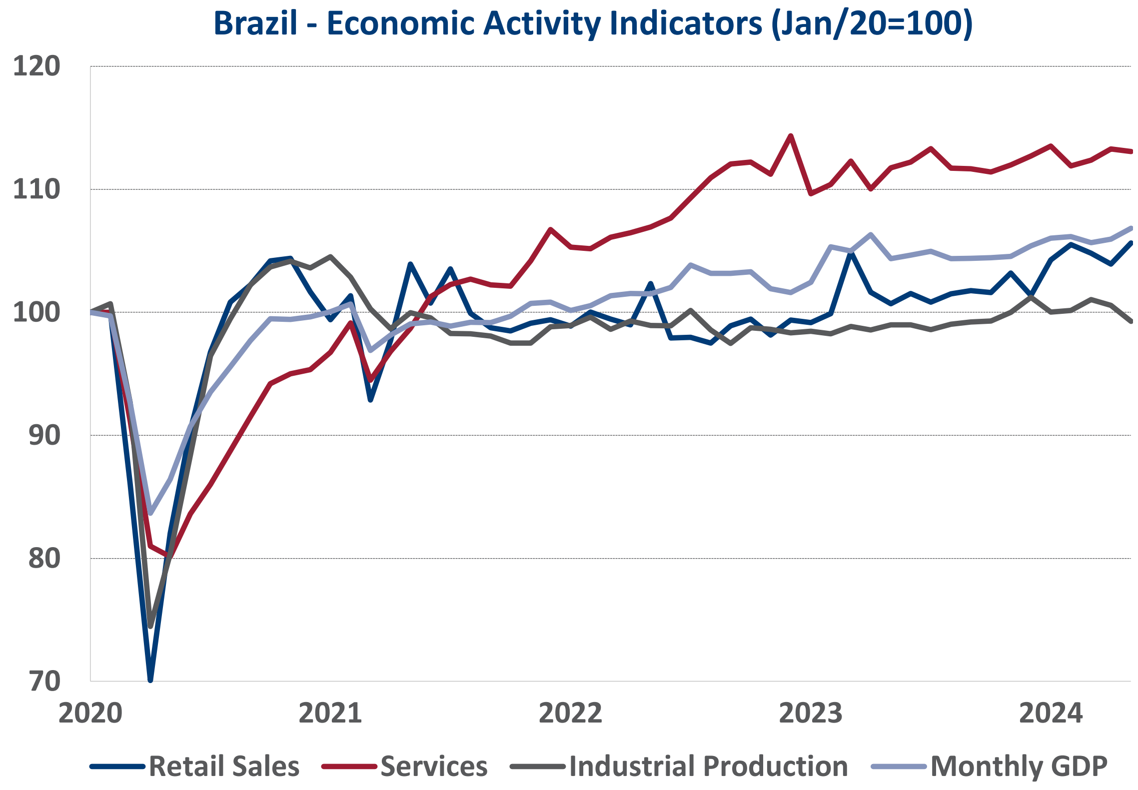
ECONOMIC FORECASTS	2019	2020	2021	2022	2023	2024F	2025F
GDP Growth (%)	1.2%	-3.3%	4.8%	2.9%	2.9%	2.2%	1.9%
Inflation (%)	4.3%	4.5%	10.1%	5.8%	4.6%	4.1%	4.1%
Unemployment Rate (eoy ,%)	11.1%	14.2%	11.1%	7.9%	7.4%	7.8%	7.9%
Policy Rate (eoy, %)	4.5%	2.0%	9.3%	13.8%	11.75%	10.50%	10.50%
External Accounts							
Trade Balance MDIC (US$ bn)	35	50	61	62	99	90	95
Trade Balance (US$ bn)	27	32	36	44	81	86	91
Current Account Balance (US$ bn)	-68	-28	-46	-48	-31	-35	-36
Current Account Balance (% of GDP)	-3.6%	-1.9%	-2.8%	-2.5%	-1.3%	-1.6%	-1.5%
Fiscal Policy							
Central Government Primary Balance (% of GDP)	-1.3%	-9.8%	-0.4%	0.5%	-2.1%	-0.7%	-0.9%
Government Gross Debt (% of GDP)	74.4%	86.9%	77.3%	71.7%	74.4%	77.3%	80.0%

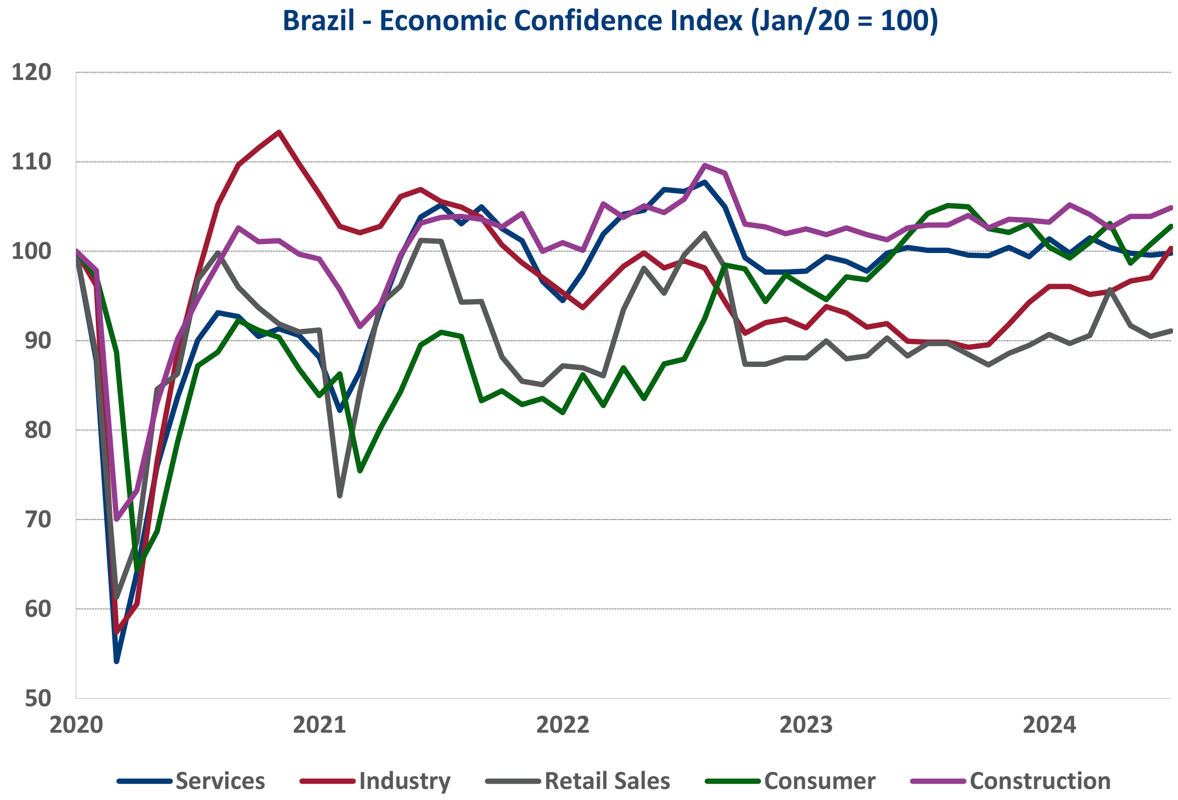
Source: BOCOM BBM

Brazil: Activity

» In May, the monthly indicators of economic activity posted mixed signs, Broad retail sales increased 0.8% MoM, Services remained virtually stable and Industrial production contracted 0.9% MoM. Summarizing the scenario, IBC-Br advanced 0.25% MoM;

» Looking forward, confidence index increased for all sectors in July: services, retail sales, industry, consumer and construction.



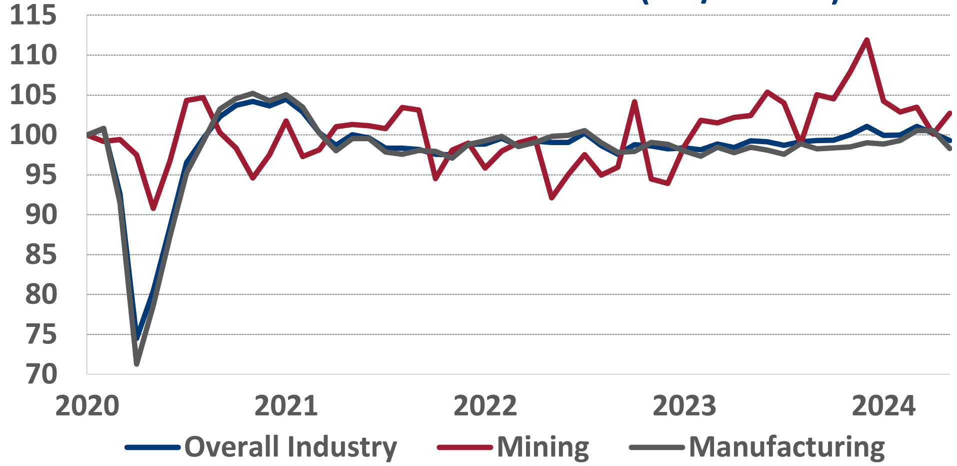


Source: BOCOM BBM, FGV

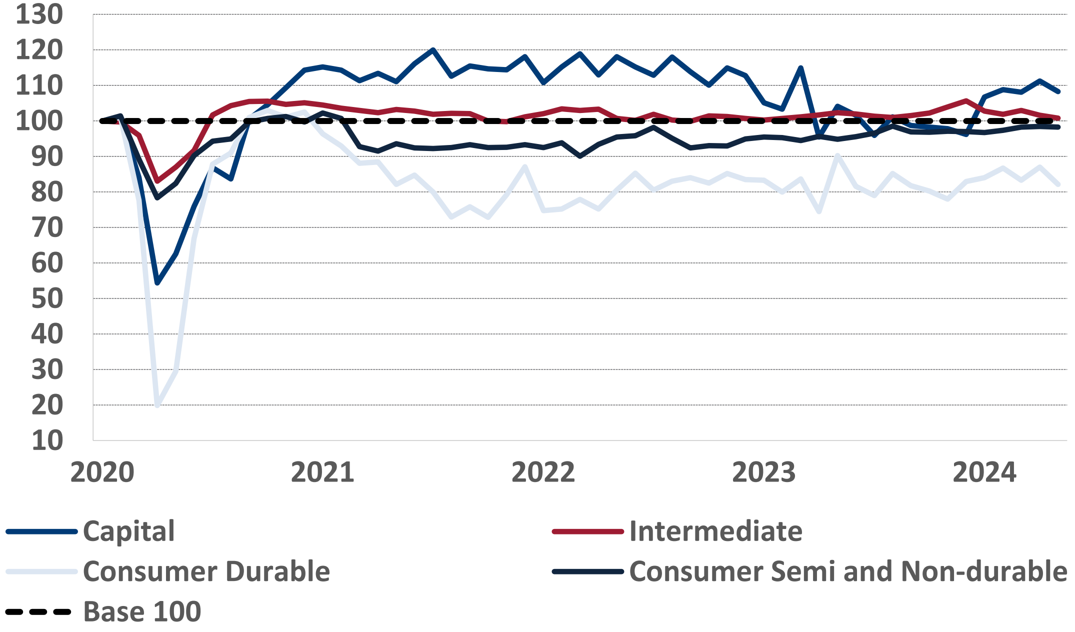
Brazil: Industrial Production

- In May, industrial production dropped 0.9% MoM (-1.0% YoY), slightly better than expectations (Consensus: -1.4% MoM);
- The breakdown showed negative figures in all manufacturing categories, reflecting the impact of the floods in Rio Grande do Sul;
- Durable goods had a substantial fall (-5.7% MoM), influenced by a 11.7% drop in vehicle output (the production of vehicles is significant in Rio Grande do Sul);
- On the bright side, extractive industry grew 2.6% MoM, resuming growth with an increase in oil and iron ore production.

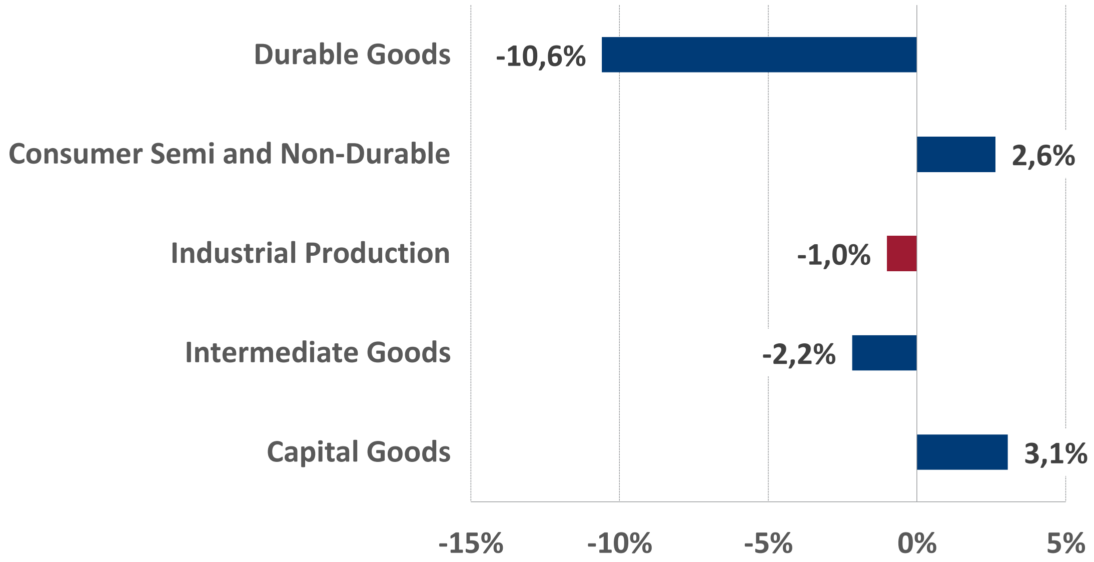
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



Industrial Production by Category - 05/2024 (YoY)



Source: IBGE, BOCOM BBM

Brazil: Retail Sales

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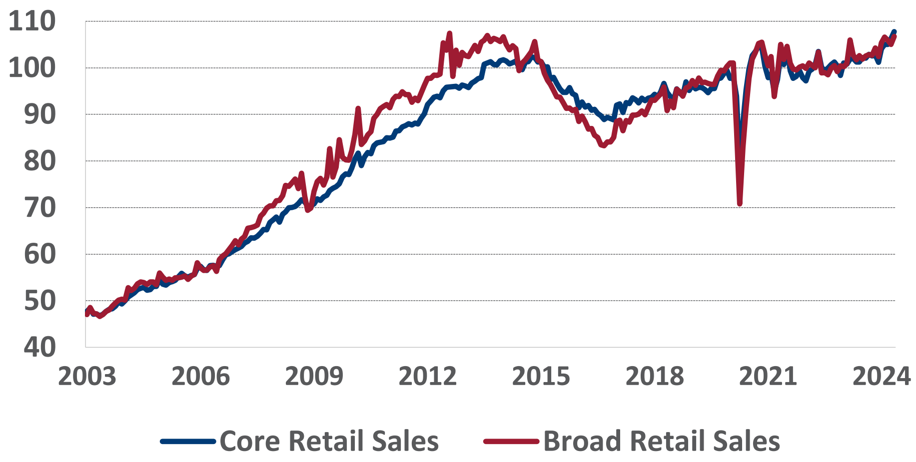
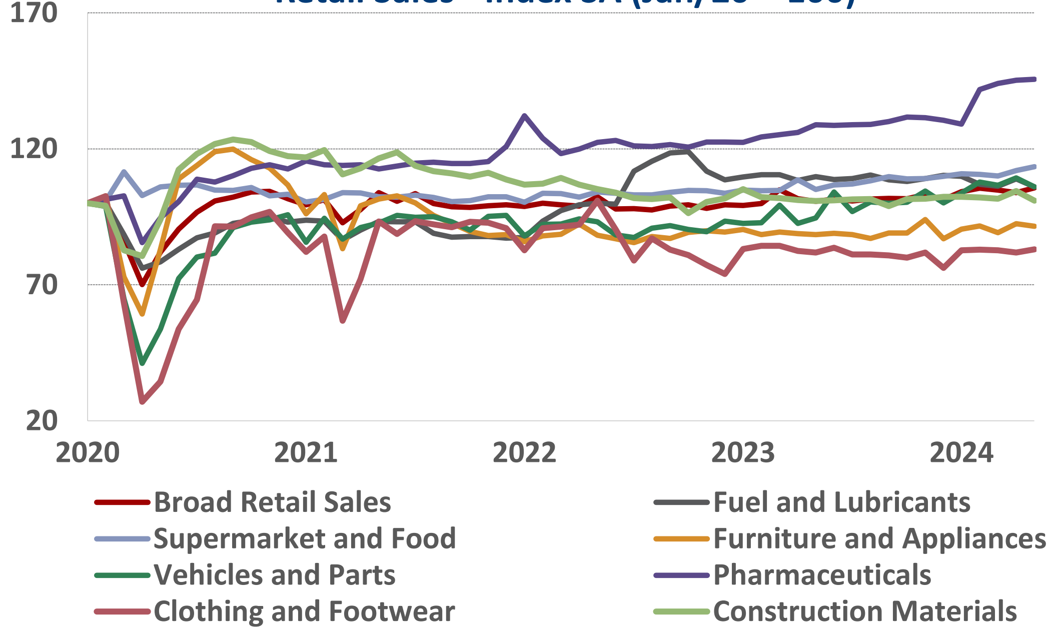
- Broad retail sales increased 0.8% MoM in May, far above expectations (Consensus: -0.5% MoM);
- This result offset the contraction seen in the previous reading, however, Vehicles and Parts (-2.3% MoM) and Construction Materials (-3.5% MoM) lost steam at the margin, after posting good numbers in April;
- Core retail sales expanded 1.2% MoM in May, well above consensus of -0.5% MoM;
- This was the fifth positive reading in a row, with good performances in Clothing and Footwear (2.0% MoM) and Hypermarkets, Food and Beverages (0.7% MoM), reflecting the stockpiling of basic items in Rio Grande do Sul during the natural disaster.

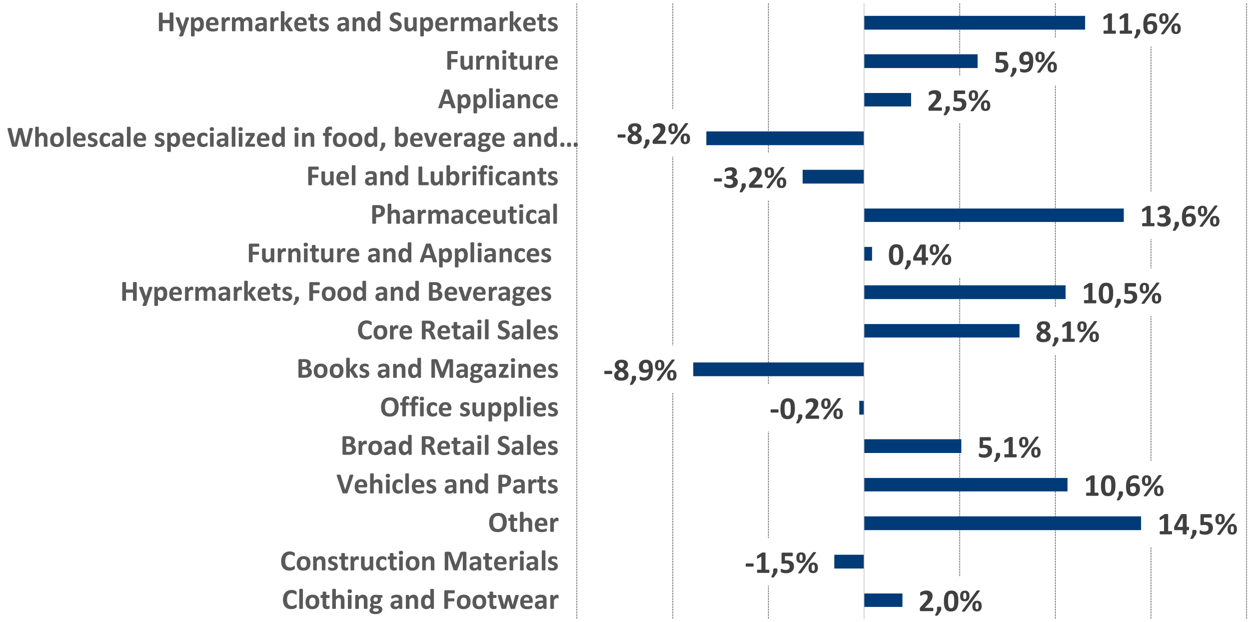
Broad Retail Sales SA x Core Retail Sales SA



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



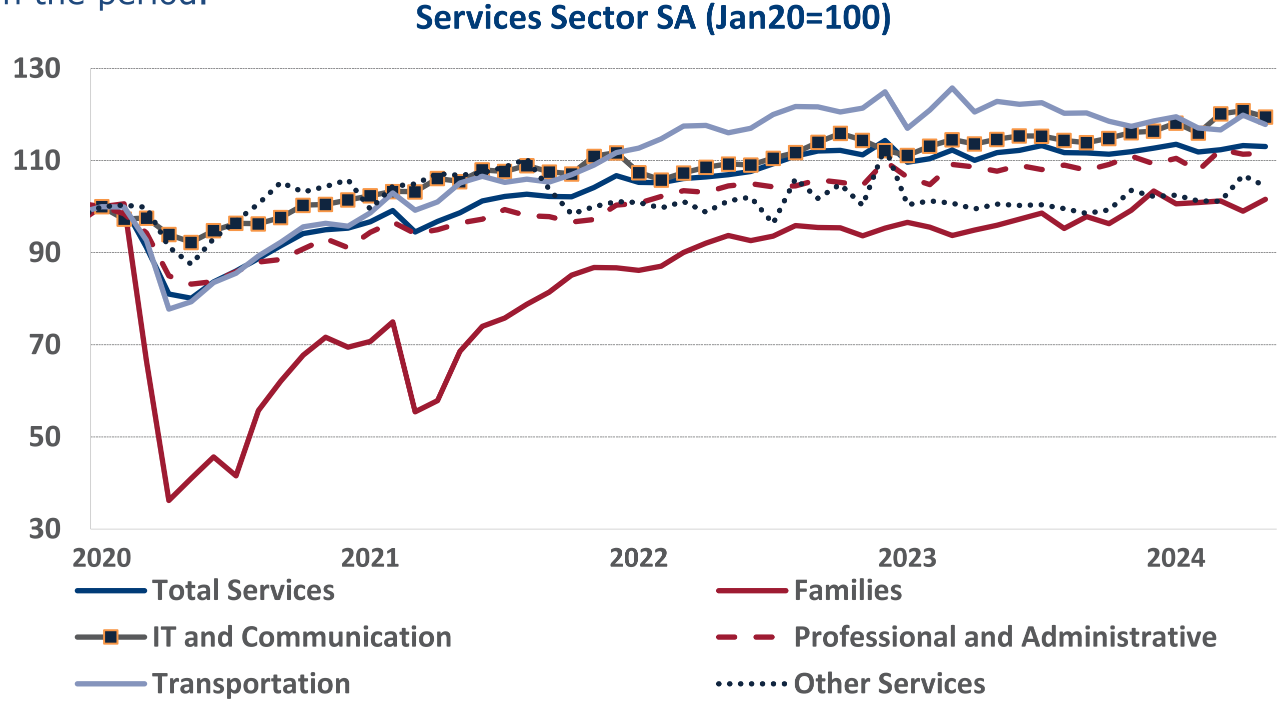
Retail Sales - YoY (05/2024)

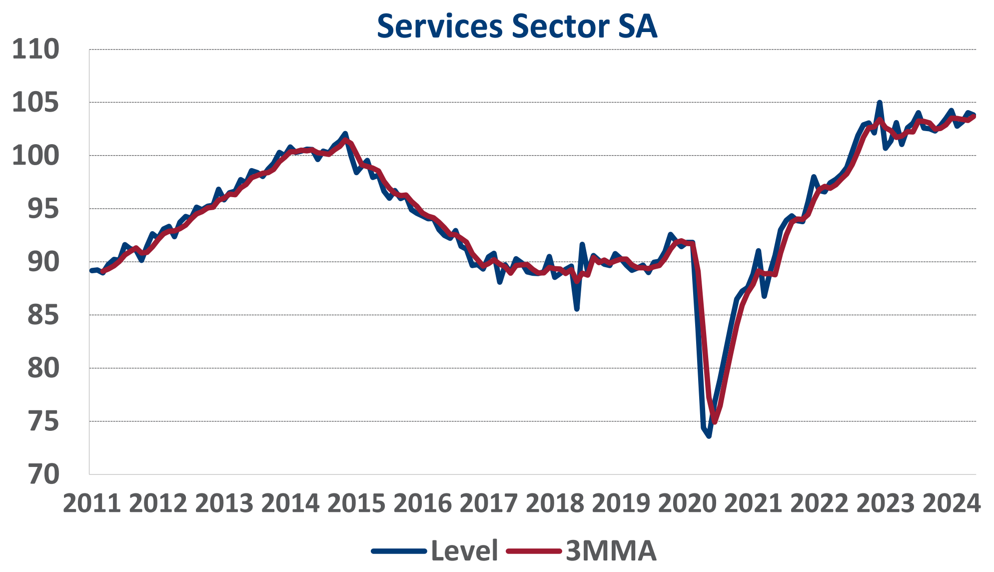


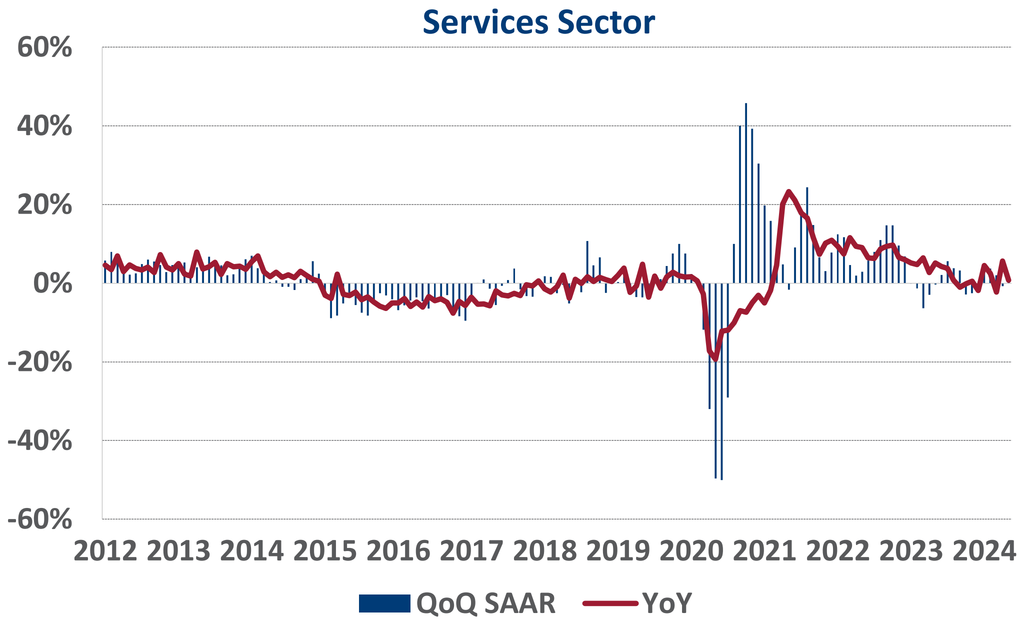
Source: IBGE, BOCOM BBM

Brazil: Services

- In May, the services sector was stable when comparing to April, above market expectations (-0.7% MoM) ;
- Breakdown results were mixed, with two out of the five main segments growing in May from April.
- The positive highlight was Services Rendered to Families that expanded by 3.0% MoM offsetting the decline recorded in the previous month, with household consumption remaining firm on the heels of the rising disposable income. This good performance came despite the fall of the category in RS (-28% YoY) amid the floods.
- On the other hand, the segments of Communication & Information Services (-1.1% MoM), Other Services (-1.6% MoM) and Transport Services (-1.6% MoM) lost steam in the period.



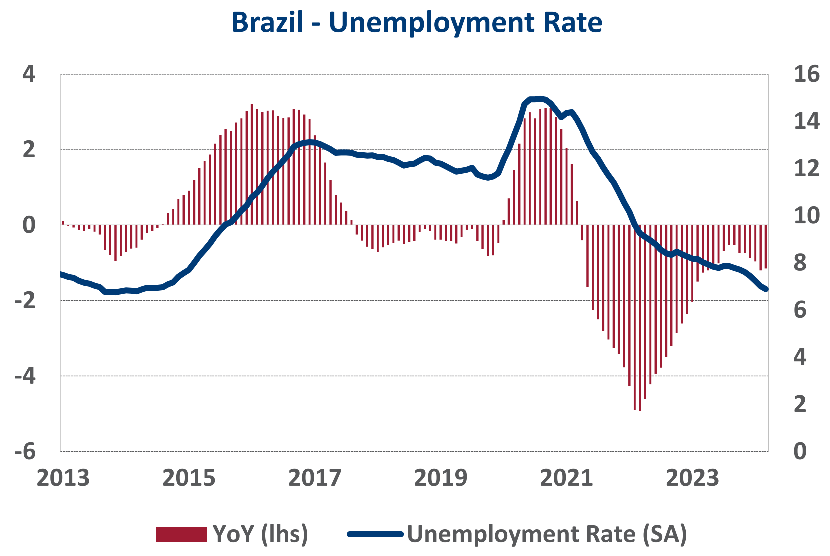


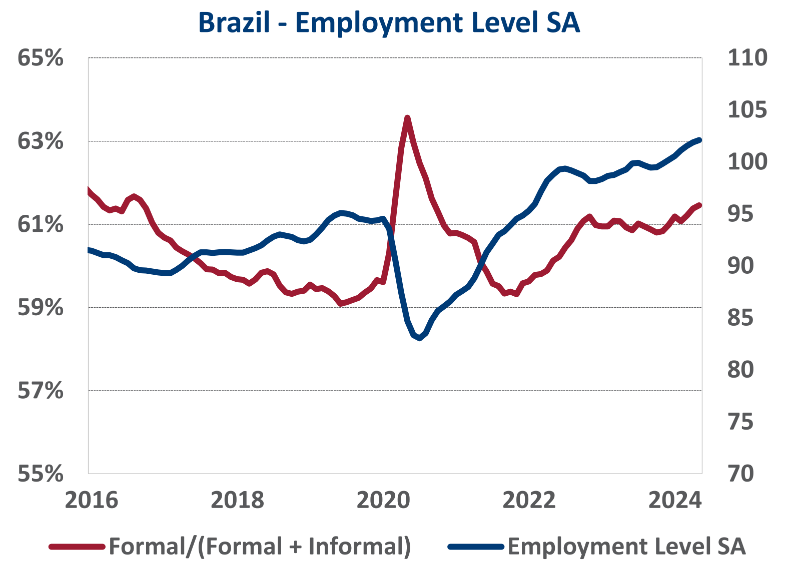


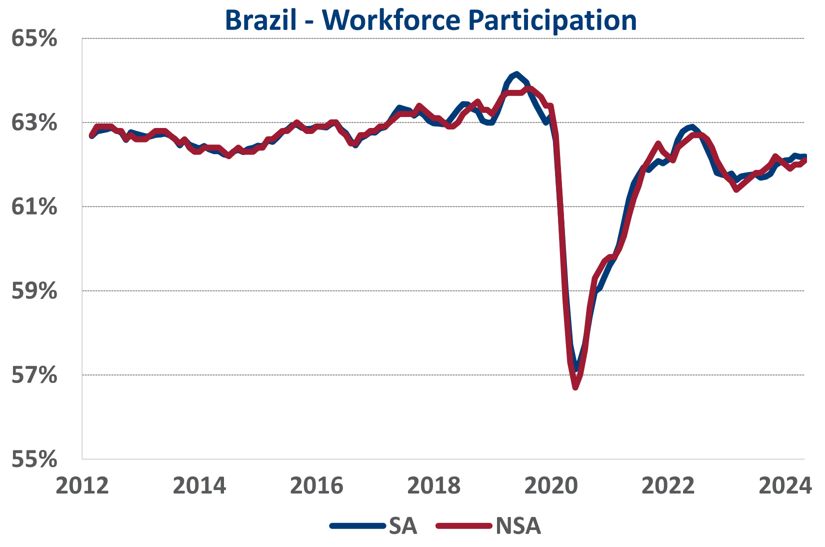
Source: IBGE, BOCOM BBM

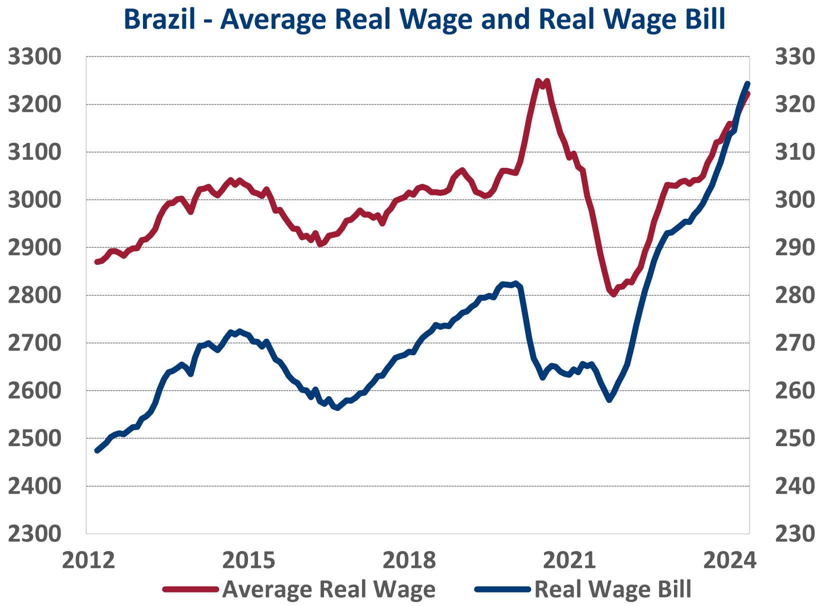
Brazil: PNAD

- The unemployment rate decreased to 6.89% in the moving quarter up to June, from 7.13% on the previous period;
- Seasonally adjusted, the indicator decreased from 7.00% to 6.89%, the lowest level in ten years and close to the lowest levels in the historical series;
- Total employment (0.2% MoM) and labor force (0,1% MoM) both increased, with the employed population growing for the seventh straight month;
- The labor force participation rate remained at 62.2%, still running considerably below pre-pandemic levels (around 63.5%);
- Real labor earnings climbed 0.6% MoM, continuing the upward trend;
- Real aggregated labor income surged 0.7% in June, and 9.2% YoY.





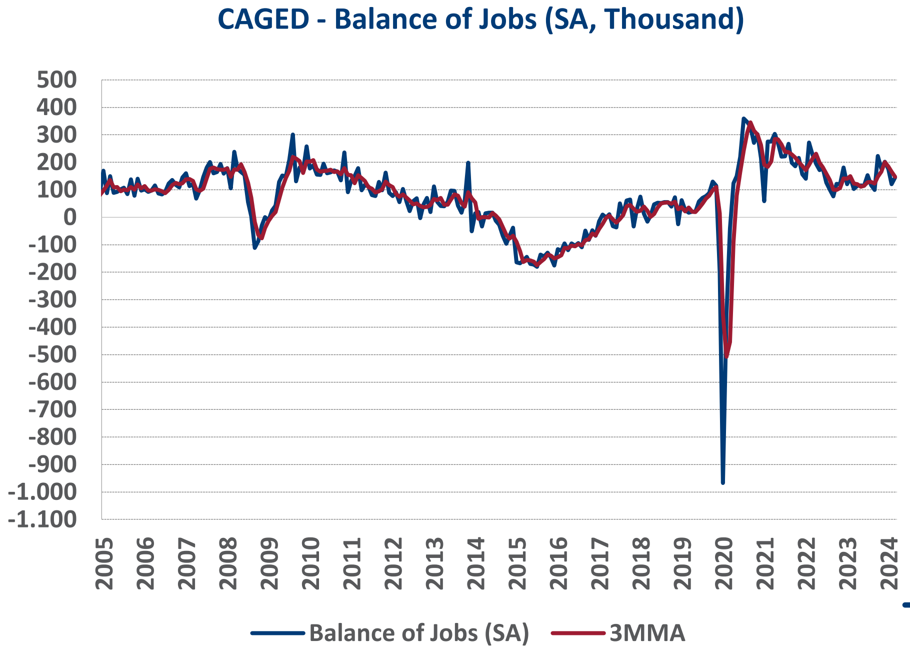


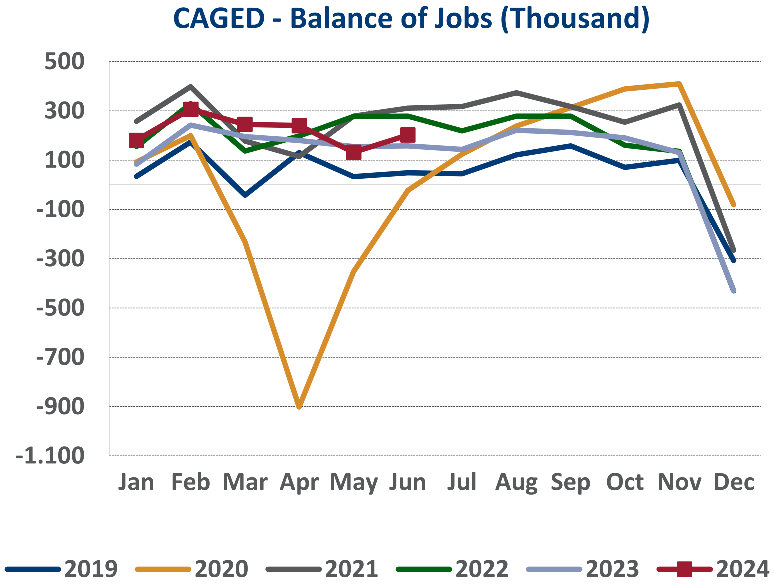


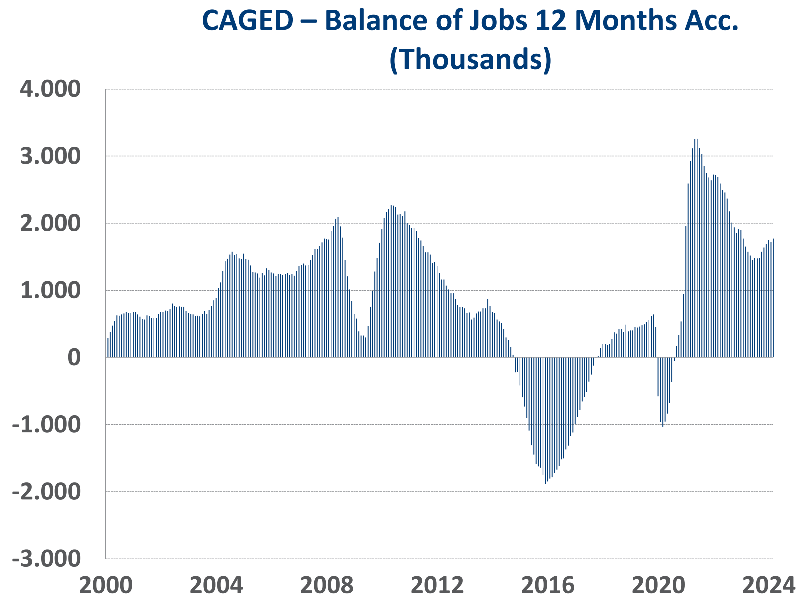
Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

- Caged registered a net creation of 201.7k formal jobs in June, well above market expectations (165k);
- The net addition of jobs totaled about 1.3 million from January to June 2024, considerably above the same period of 2023 (1.0 million);
- The increase in job balance on a monthly basis occurred despite weak data in Rio Grande do Sul (-8.6k formal jobs);
- In sum, the formal labor market resumed the strong trend seen this year after a deceleration in May, which will contribute to support household consumption.







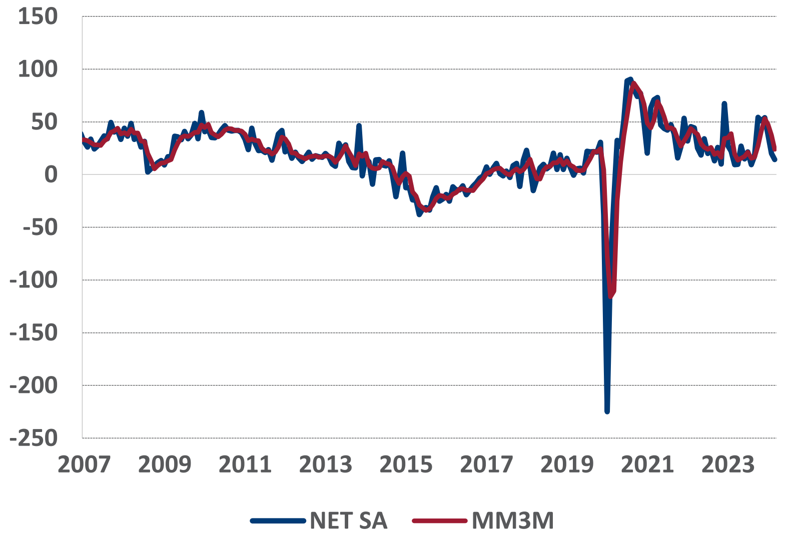
Source: BOCOM BBM, MTE

Brazil: Formal Labor Market

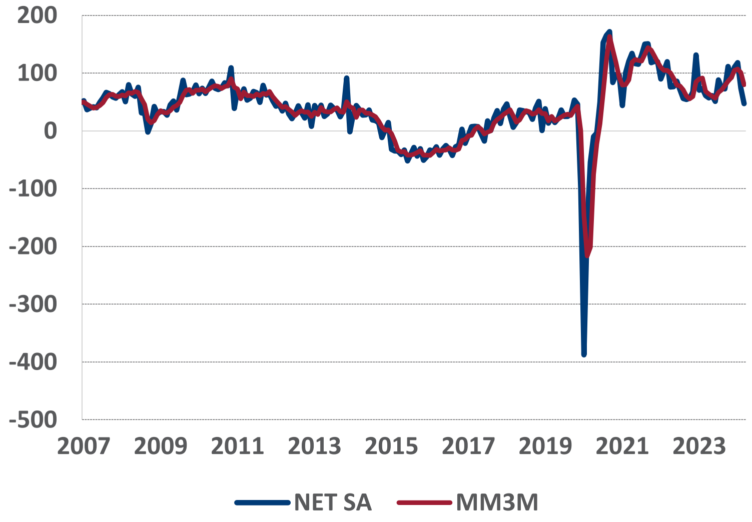
- The breakdown shows that all sectors registered positive net results;
- The biggest contribution came once again from the services sector, with a net creation of 84.7k formal jobs;
- Retail sales was the second best, creating around 33.4k formal jobs;
- Industry, in turn, registered a net of 29.8k;
- Finally, the Construction sector created about 21.4k formal jobs;

- All sectors rebounded in June, registering stronger numbers than the May report.

Brazil - Retail Net Payroll Job Creation (SA)

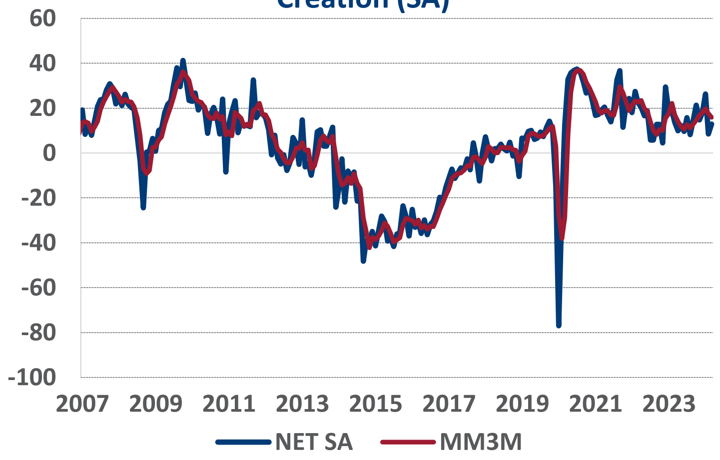


Brazil - Services Net Payroll Job Creation (SA)



Brazil - Industry Net Payroll Job Creation (SA)

Brazil - Construction Net Payroll Job Creation (SA)

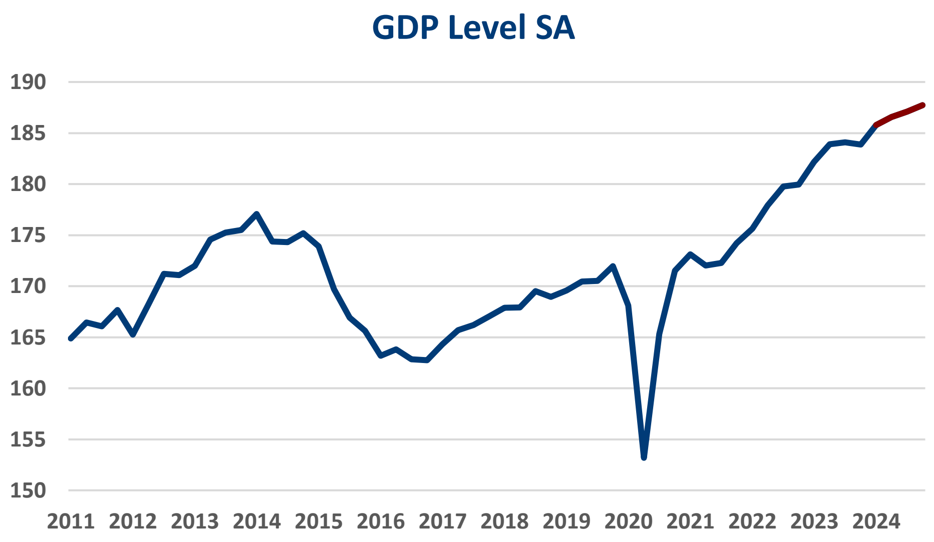


Source: BOCOM BBM, MTE

Brazil: GDP

- We have revised our GDP forecast from 2.1% to 2.2% for 2024
- Resilient labor market and sharp increase in social transfers have boosted the real household income

Forecasts			
	2024.II QoQ	2024.II YoY	2024
GDP	0.5%	1.8%	2.2%
Agriculture	**-2.7%**	**-3.5%**	**-2.6%**
Industry	**0.8%**	**2.7%**	**2.6%**
Mining	-3.6%	1.9%	2.9%
Manufacturing	1.0%	2.5%	2.3%
Electricity	-0.2%	3.8%	3.9%
Civil Construction	1.0%	2.5%	2.5%
Services	**0.8%**	**2.2%**	**2.5%**
Retail	0.8%	2.5%	2.7%
Transports	0.6%	0.5%	1.5%
Information and Communication	1.5%	4.5%	4.5%
Financial Services	0.7%	1.7%	2.0%
Rents	0.6%	3.5%	3.0%
Other Services	0.4%	3.0%	3.4%
Public Administration	0.2%	0.7%	1.1%

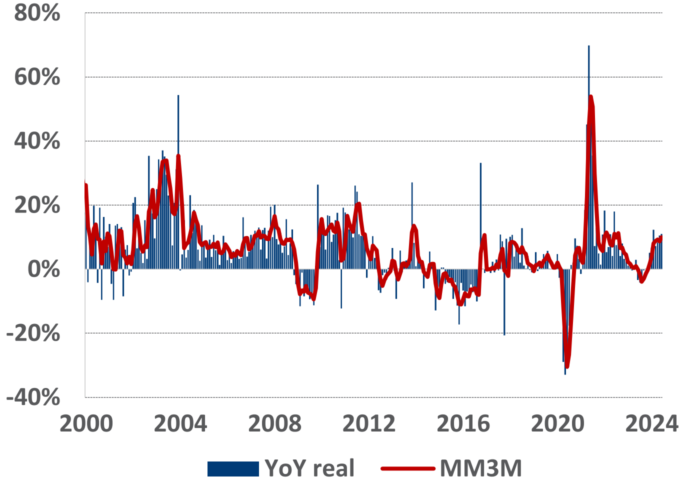


Source: BOCOM BBM, IBGE

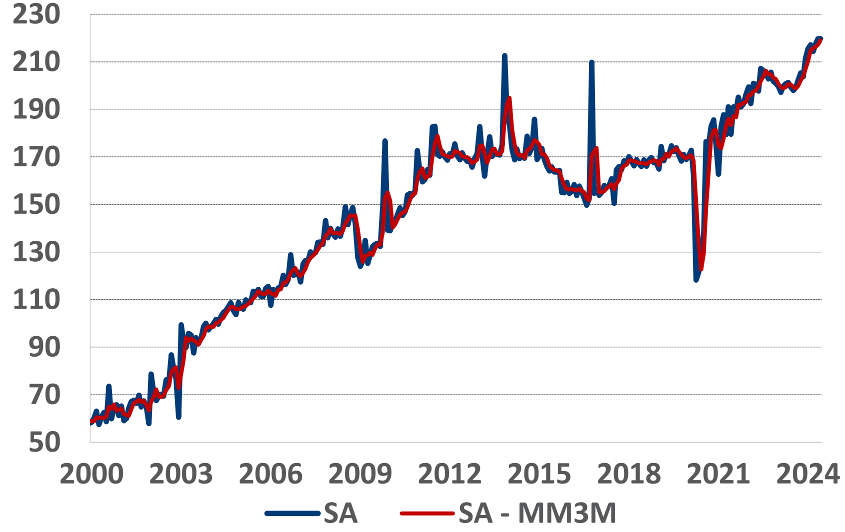
Brazil: Federal Tax Collections

- In June, total federal tax collections reached BRL 208.8 bn (11.0% YoY), above consensus (BRL 207.0 bn) and the best performance for the month in the historical data;
- The main drivers were PIS/Cofins (22.0% YoY), due to revenue-raising measures but also stronger-than-anticipated performance of retail sales, import tax (45.5% YoY) and industrialized products tax (29.4% YoY), both boosted by the rise in the exchange rate;
- On the negative side, corporate income tax (IRPJ/CSLL) continues to disappoint, growing far below expected, despite the expectations of gains related to changes in ICMS subsidies and Interest on Equities (IoE). Also, other taxes administered by RFB, which includes the effects of the change on CARF and tax transactions, fell 8.8% YoY;
- Year-to-date growth reached 9.1%, indicating that some revenue-raising measures are being successful, the exchange rate depreciation also contributed positively. However, tax collections are still below what would be needed to reach the primary result target.

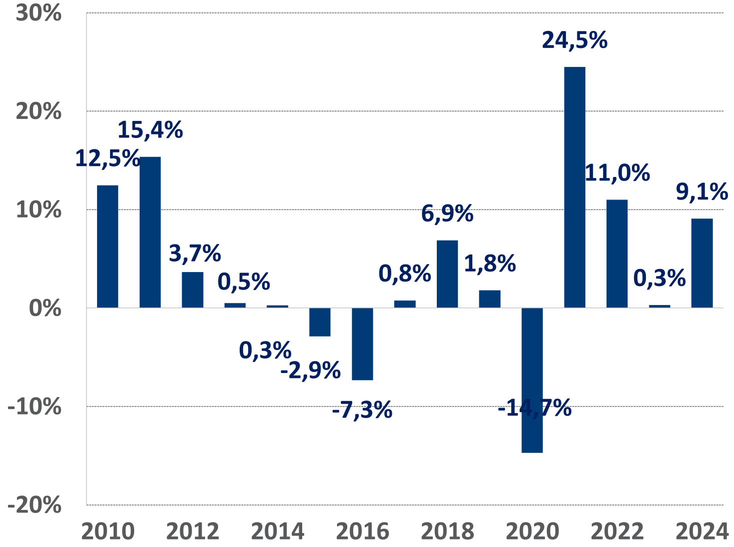
Total Tax Collection (YoY Real, %)



Total Tax Collection (BRL Bn, Real SA)



Total Tax Collection (YTD Real, %)



Total Tax Collection (% GDP)

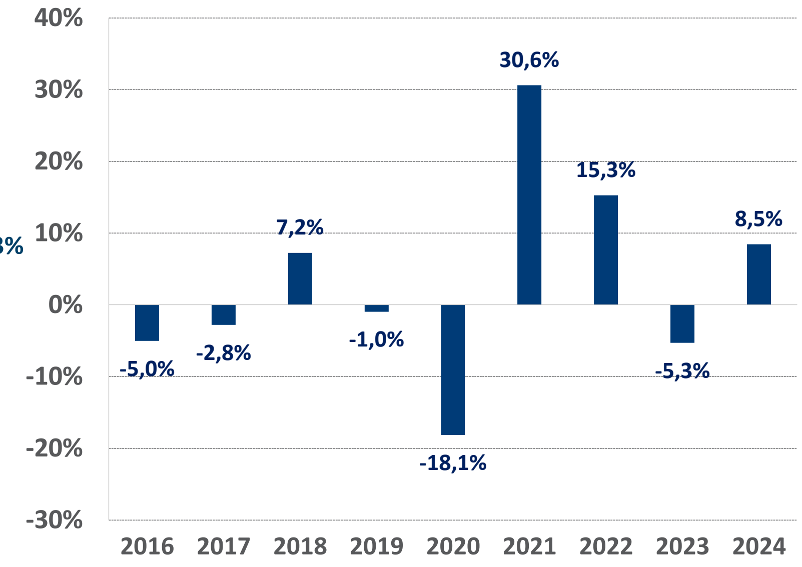
Fonte: BOCOM BBM, RFB

Brazil: Central Government Primary Result

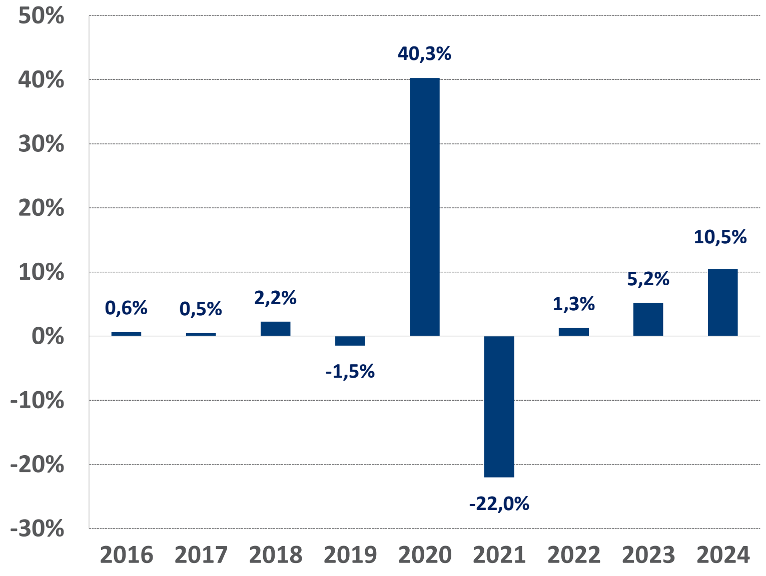
- In June, the central government's primary balance posted a deficit of BRL 38.8 bn, below market expectations (BRL -37.0 bn);
- The 12-M accumulated primary deficit reached 260.7 bn, or 2.3% of GDP;
- Net revenue increased 5.8% YoY in real terms, driven by PIS/Cofins (19.9%), reflecting the reversal of tax cuts on fuels and the exclusion of ICMS credits from the tax base, industrialized products tax (28.0%) on the heels of the limitation of tax compensations, income tax (7.8%) pushed by the taxation on capital gains, and dividends and shareholdings (44.6%) due to the payment of extraordinary dividends from Petrobras;
- On the other side, total spending grew 0.3% YoY in real terms, with elderly and disabled assistance BPC/LOAS (16.0% YoY), pushed by the surge in the minimum wage and the growth in the number of beneficiaries, discretionary spending (26.3% YoY), influenced by health expenditures, and personnel (2.6% YoY) remaining in an upward trend, while Pension benefits (-7.0% YoY) presented a decline due to the change in the bonus salary (13th salary) payment schedule.

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 deficit of BRL 40.9 billion in June, from a deficit of BRL 63.9 bn in May, below the market consensus (BRL -39.5 billion). Central Government, state-owned enterprises registered deficits of BRL 40.2 bn and BRL 1.7 bn, respectively, while subnational governments had a surplus of BRL 1.1 bn;

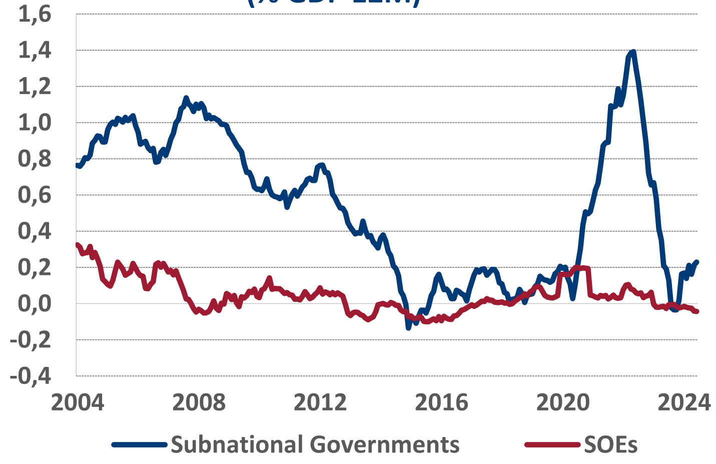
- Gross General Government Debt increased from 76.8% of GDP in May to 77.8% of GDP in June, driven by nominal interest (+0.6 p.p. of GDP), net issuance (+0.6 p.p.) and partially offset by nominal GDP growth (-0.4pp.).

Gross General Government Debt (% GDP)

Primary Budget Balance (% GDP 12M)

Primary Balance: Central Government (% GDP 12M)

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

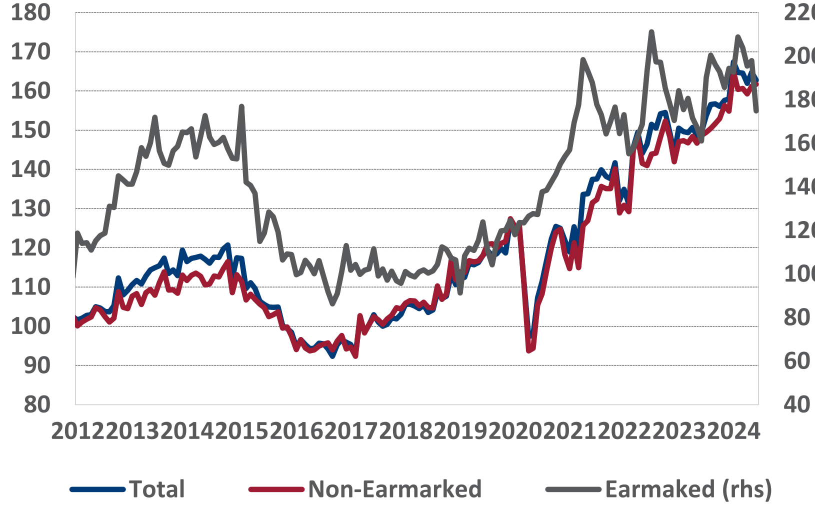


Source: BOCOM BBM, BCB

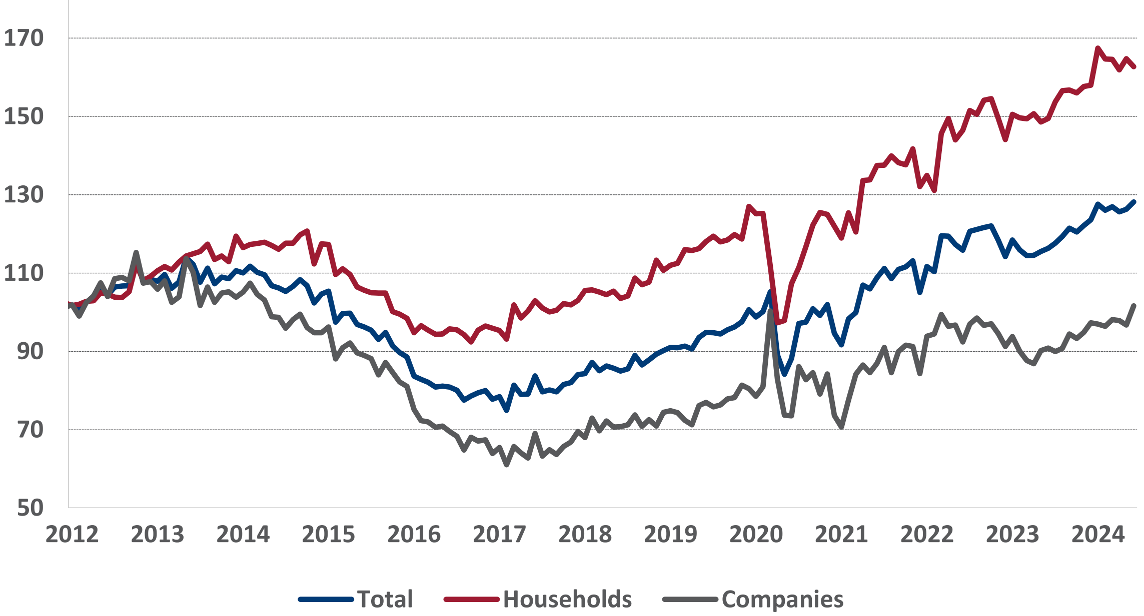
Brazil: Credit Statistics

- In June, total credit concessions increased 1.5% MoM in real terms;
- Non-earmarked credit concessions increased 6.0% MoM to companies and increased 0.3% MoM to households;
- Earmarked credit concessions, in turn, grew 7.1% MoM to companies and fell 11.6% MoM to households.

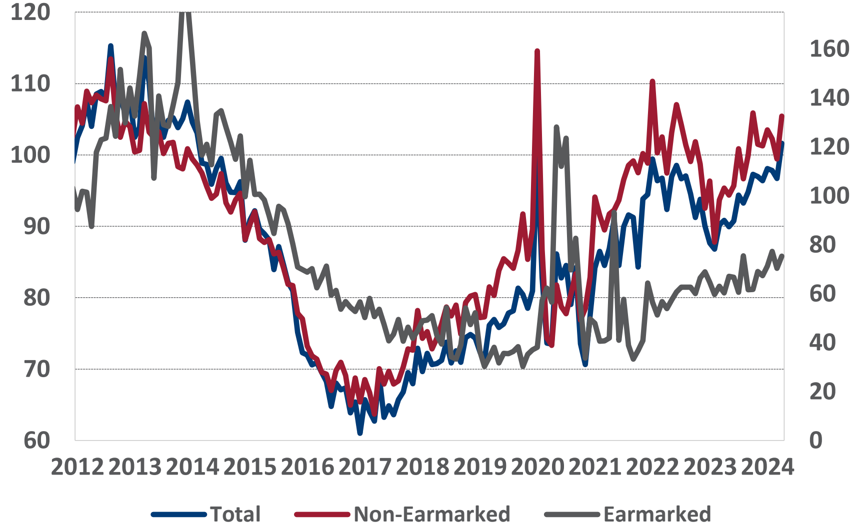
Concessions - Households SA (Real) - Mar/11 = 100



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



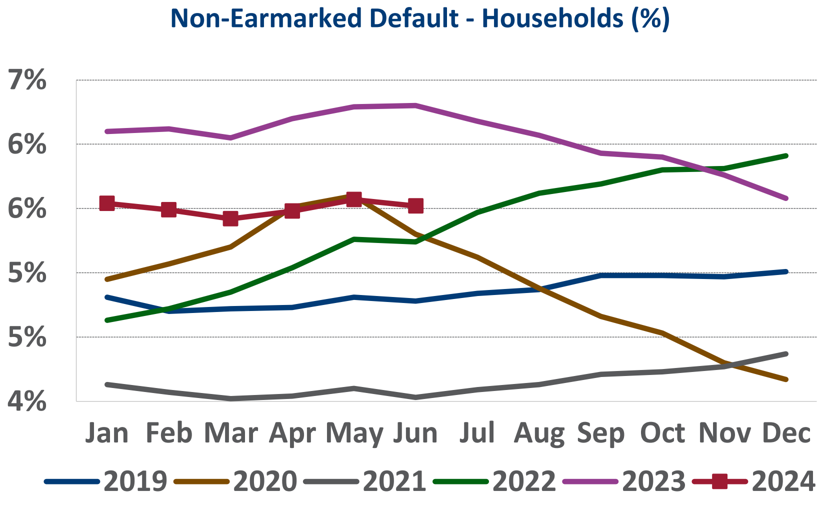
Concessions - Companies SA (Real) - mar/11 = 100

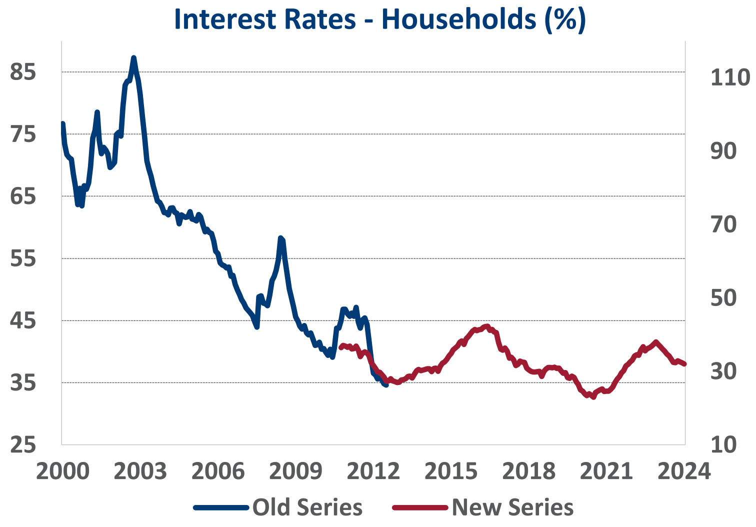


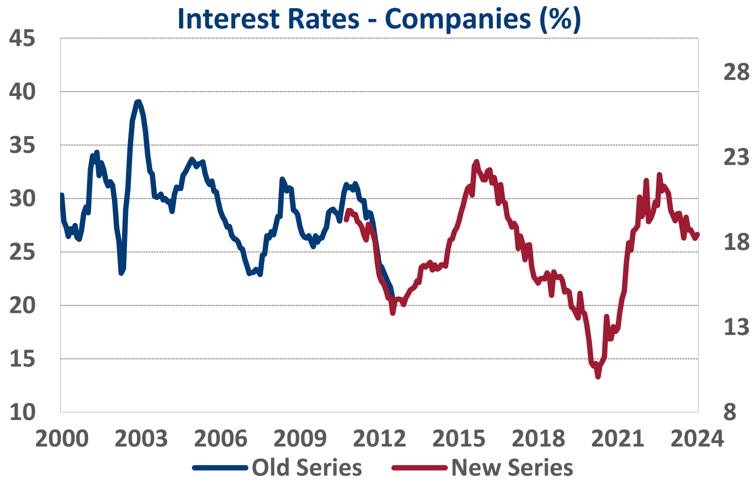
Source: BOCOM BBM, BCB

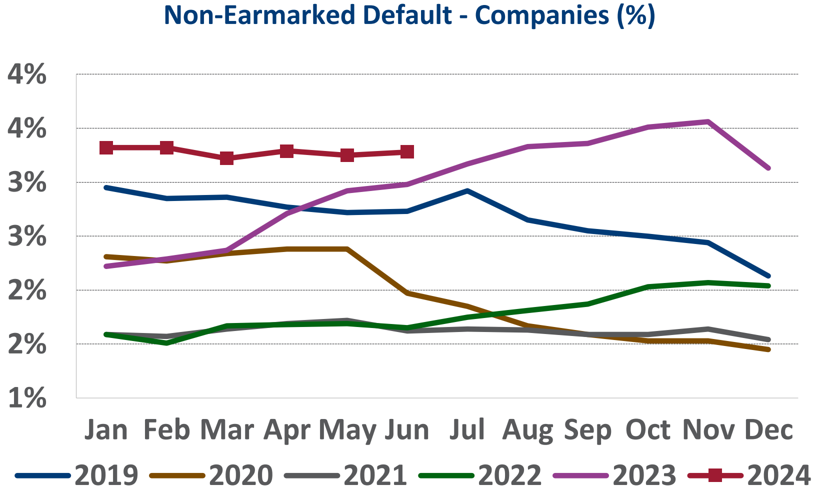
Brazil: Credit Statistics

- Lending rates fell marginally from 32.4% to 32.0% for individuals and grew from 18.2% to 18.5% for companies;
- In turn, non-earmarked default rate is around 5.5% to individuals and 3.3% to companies.





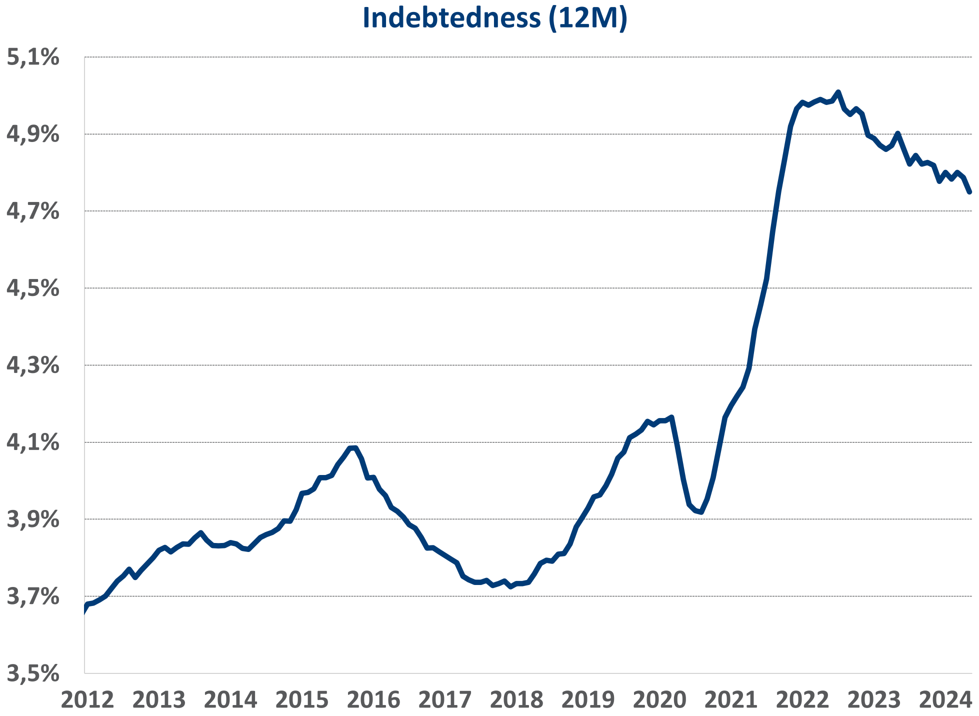


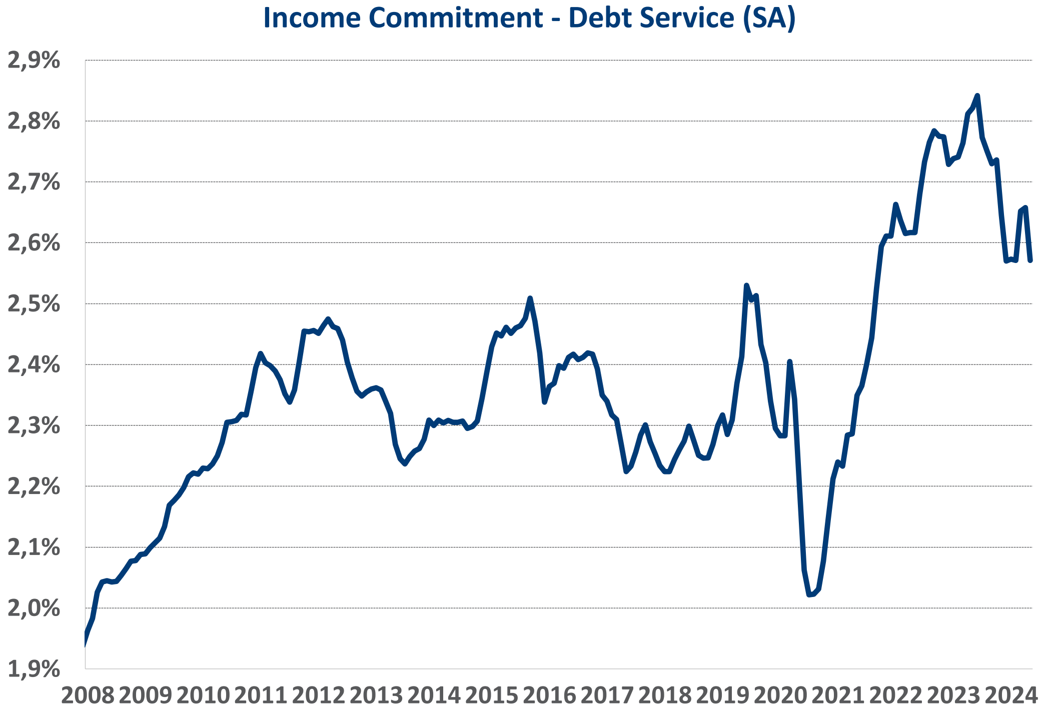


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- Household indebtedness fell slightly to 47.5%;
- Income commitment decreased from 26.6% to 25.7%, after increasing in the last two months.

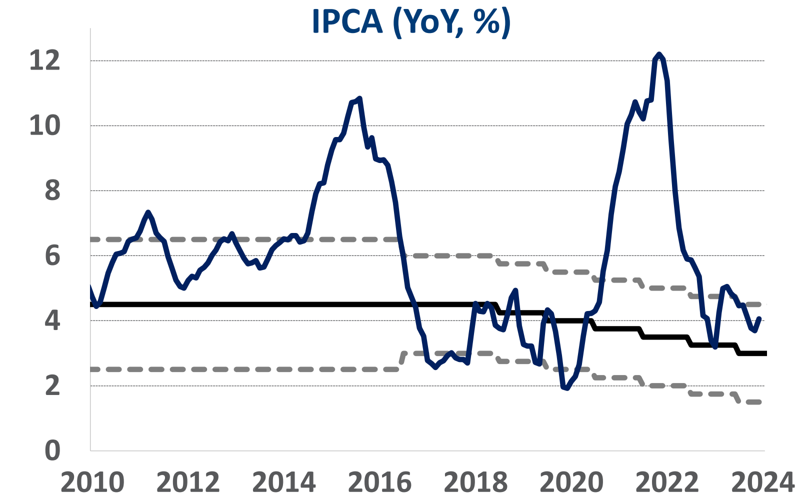


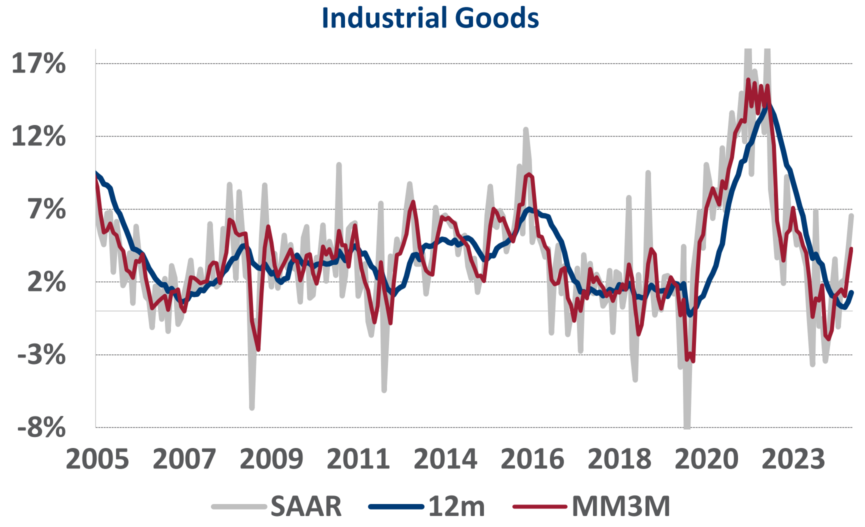


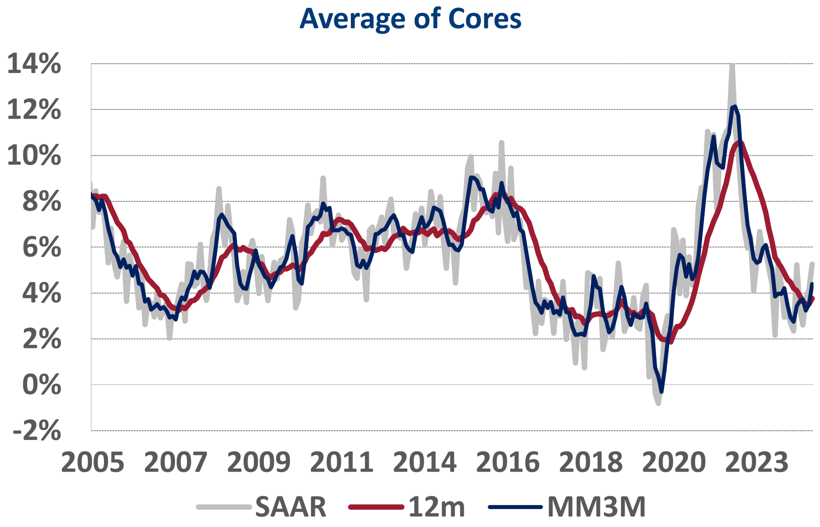
Source: BOCOM BBM, BCB

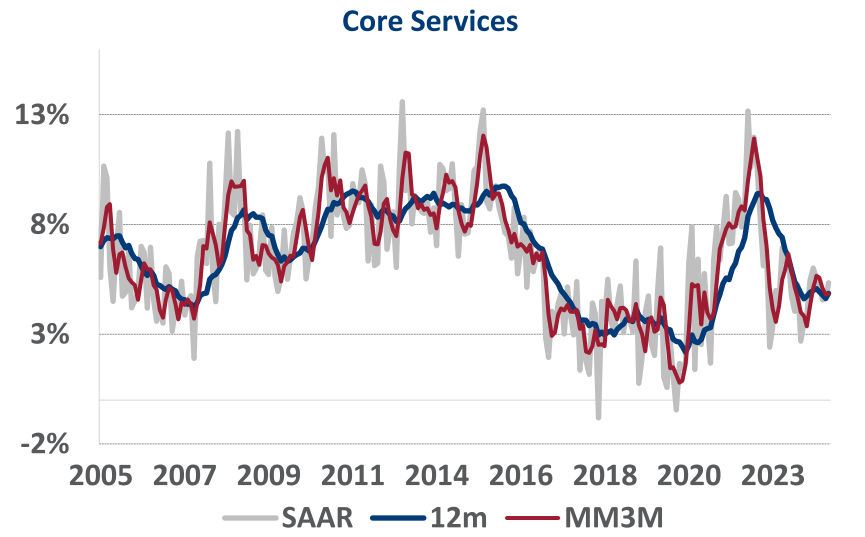
Brazil: Inflation 2024

- The July IPCA-15 advanced 0.30% MoM, above market consensus (0.22%);
- The 12-month variation increased to 4.45% in July from 4.06% in June;
- The upward deviations came from services (mainly airfares, condominium and vehicle insurance). On the other hand, foodstuff surprised downwards;
- In addition to a higher headline, inflation composition came worse than expected;
- The average of cores rose by 0.33% MoM and the 'underlying services' increased by 0.58% MoM, both above market projections.







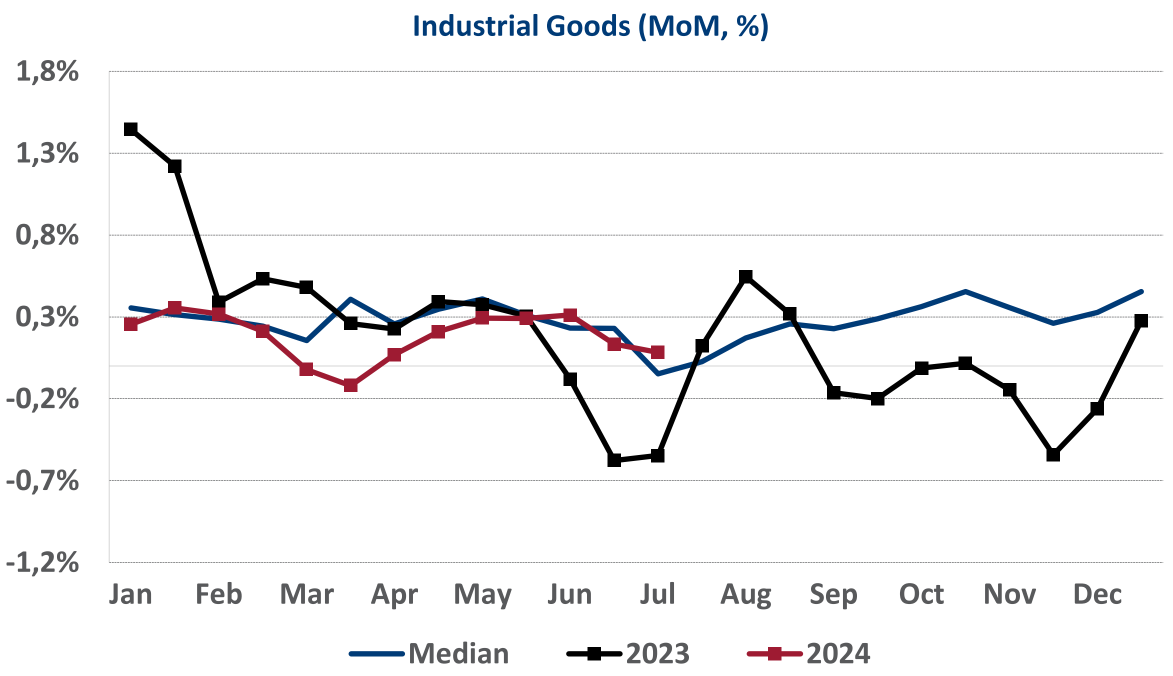


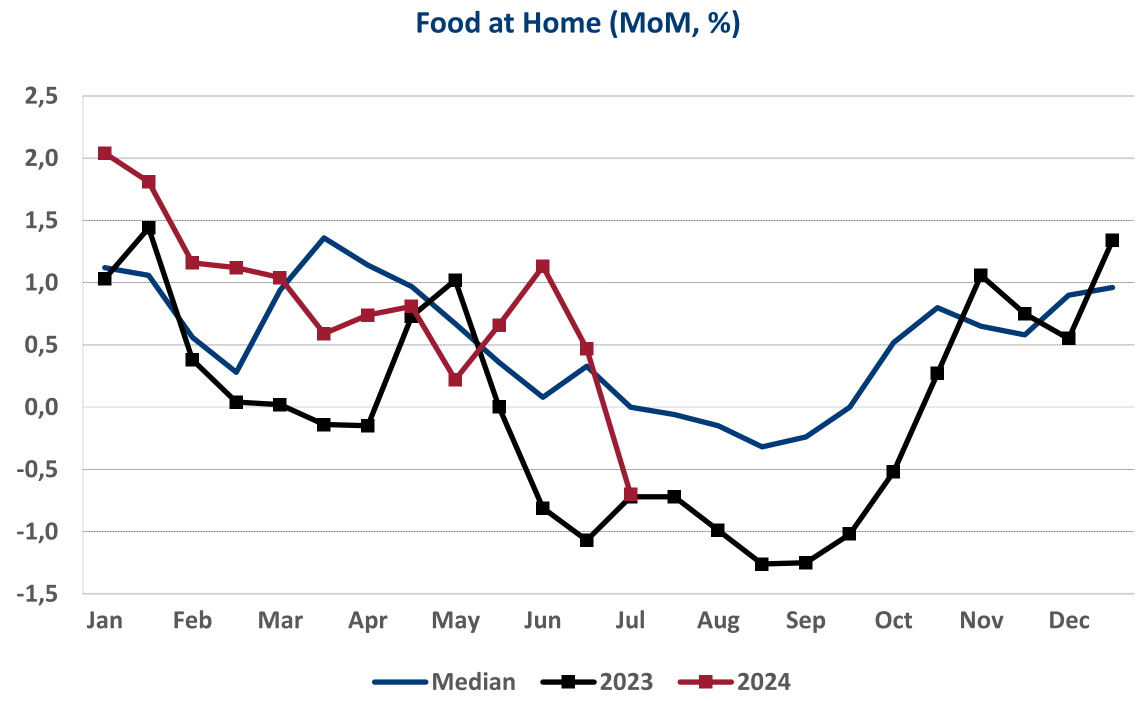
Source: BOCOM BBM, IBGE

Brazil: Inflation 2024

- Industrial goods advanced 0.08% MoM in July, in line with expectations. However, recent levels of the exchange rate will put upward pressure on the inflation looking forwards;

- Foodstuff prices melted in July, falling by 0.7% MoM, below market forecasts. The food prices are normalizing after Rio Grande do Sul floods.





Source: BOCOM BBM, IBGE

Brazil: Inflation

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- Our forecast for 2024 increased from 4% to 4.1%;
- Higher forecasts for services and industrial goods (BRL depreciation effect), partially compensated by lower food at home inflation.

IPCA (%, annual)

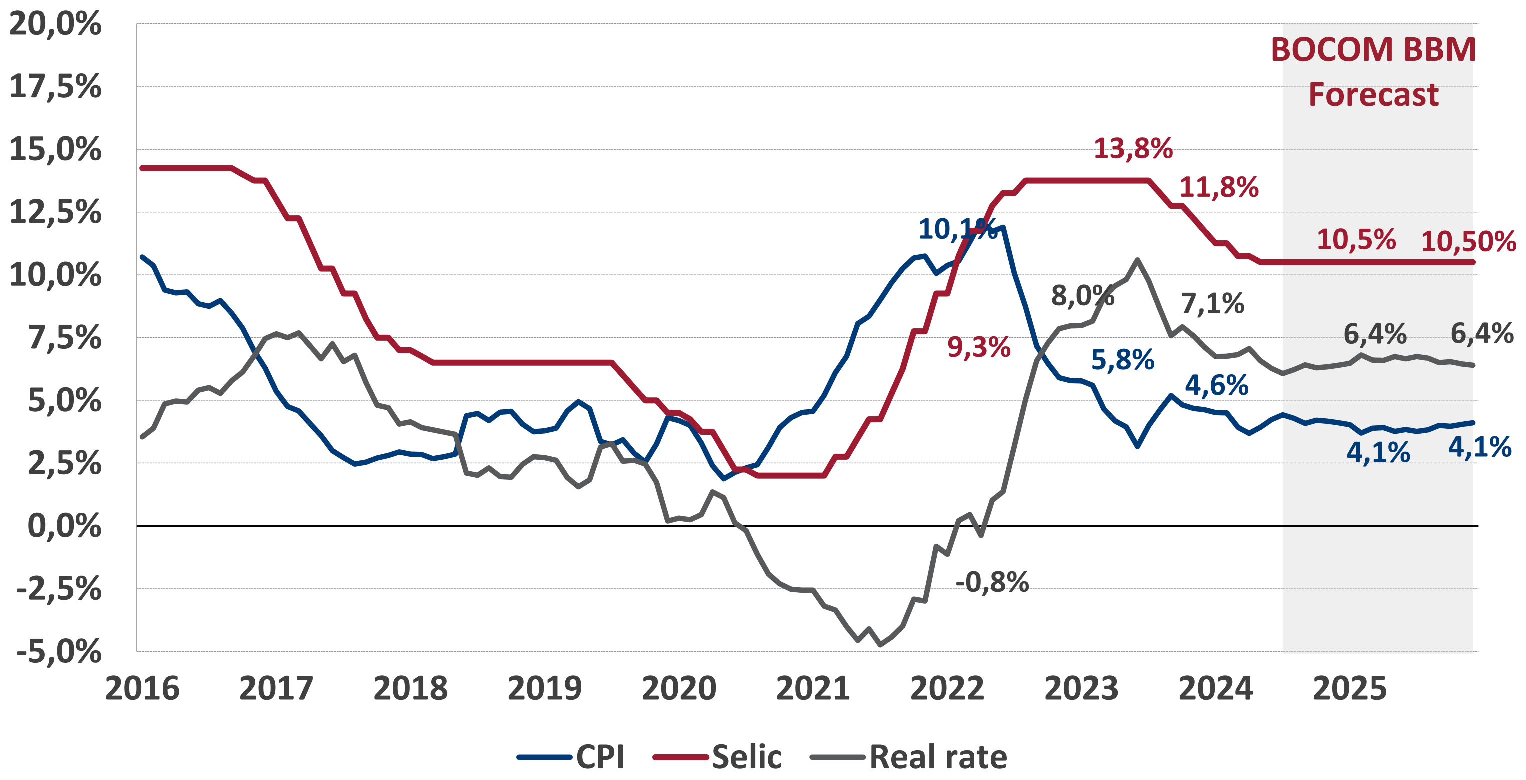
	Weight	2019	2020	2021	2022	2023	2024	2025
Regulated	**26.6**	**5.5**	**2.6**	**16.9**	**-3.8**	**9.1**	**4.7**	**3.8**
Industrial goods	**23.6**	**1.7**	**3.2**	**11.9**	**9.5**	**1.1**	**2.6**	**4.1**
Durable goods	10.3	0.0	4.5	12.9	6.1	-0.4	0.7	-
Semi-durable goods	5.9	0.6	-0.1	10.2	15.7	2.7	2.5	-
Non-durable goods	7.3	4.4	4.0	11.9	9.5	1.7	5.3	-
Food at home	**15.7**	**7.8**	**18.2**	**8.2**	**13.2**	**-0.5**	**3.4**	**4.1**
Services	**34.1**	**3.5**	**1.7**	**4.8**	**7.6**	**6.2**	**4.9**	**4.3**
Food away from home	5.6	3.8	4.8	7.2	7.5	5.3	4.6	3.9
Related to minimum wage	5.2	2.9	1.5	3.3	6.3	5.2	5.5	6.1
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.3	9.5	4.0	4.1
Inertial	15.0	4.3	1.6	4.2	8.8	5.1	5.4	3.9
IPCA		**4.3**	**4.5**	**10.1**	**5.8**	**4.6**	**4.1**	**4.1**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

- Concerning monetary policy, the Brazilian Central Bank (BCB) decided to keep the Selic rates at 10.5% in July meeting, in line with expectations, as the previous communication indicated that rates held at that level would bring inflation to the target over the relevant horizon.
- The BCB gave explicit emphasis to inflation projections six trimesters ahead, which now reflect the new systematic for inflation targeting. Inflation projections for the first quarter of 2026 reach 3,4% in scenario where Selic rates are kept at 10.5% by the end of 2024 and fall to 9.5% and 9% by 2025 and 2026. In an alternative scenario where rates are kept at 10.5% over the relevant horizon, projections for the first quarter of 2026 reach 3.2%. Projections for 2025 were reported in a footnote and increased from 3,1% to 3,4% in the alternative scenario.
- 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. The votes for keeping rates at 10.5% were also unanimous this time around.

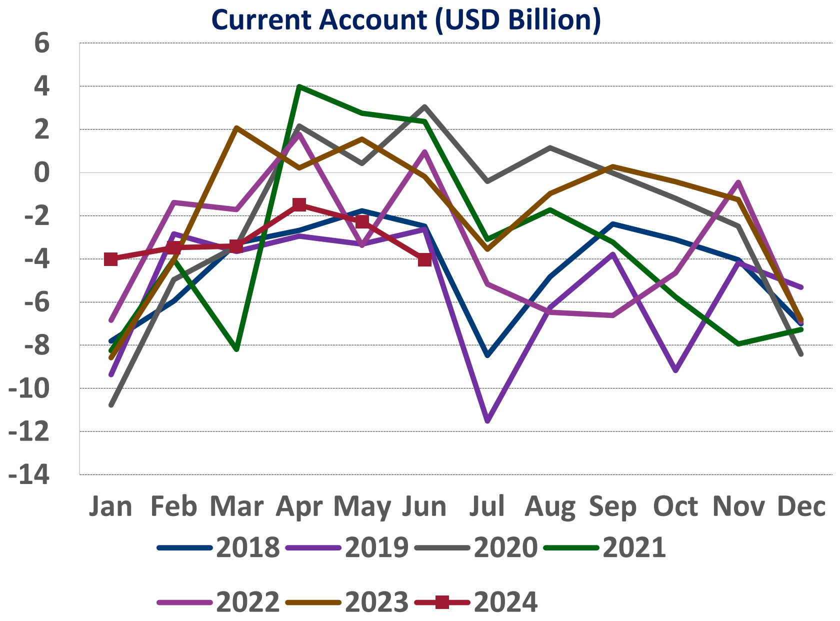
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

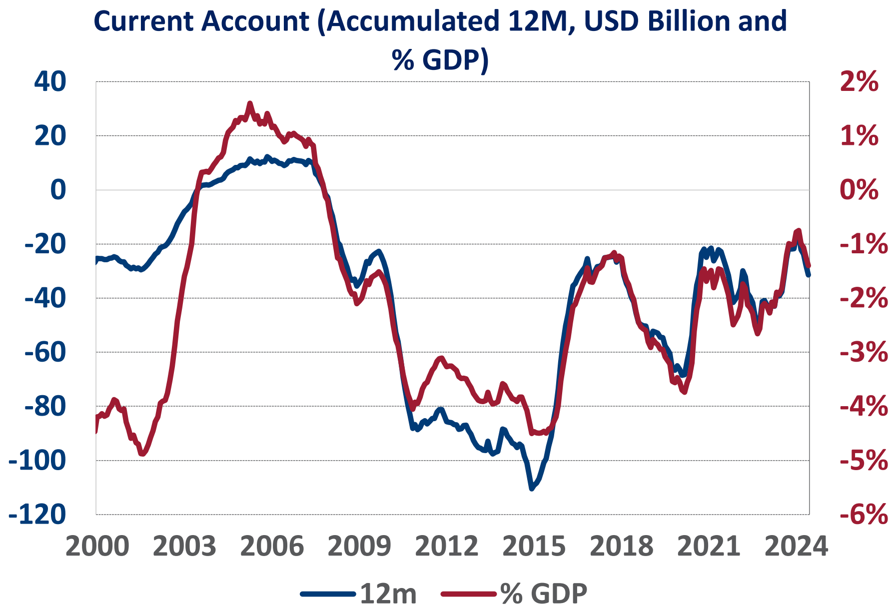


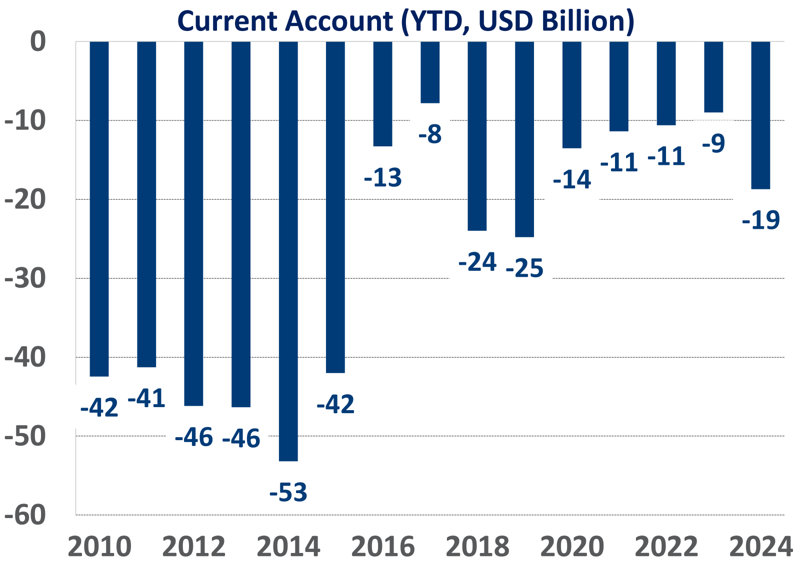
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- In June, the Brazilian current account posted a deficit of USD 4,0 billion, below market expectations of a USD 2.9 billion deficit;
- Over the 12-month rolling sum up to June, the deficit amounted to USD 31,5 billion (1.4% of GDP), decreasing from the USD 39.3 billion (1.9% of GDP) recorded in the same month last year;
- As indicated in the previous release, the Central Bank held an extraordinary methodological review, reclassifying purchases and sales of crypto assets from the trade balance - included in current transactions - to the capital account. Thus, the deficit in the current account reduced from USD 48.3 billion (-2.5% of GDP) to USD 40.9 billion (2.1% of GDP) in 2022, and from USD 30.8 billion (-1.4% of GDP) to USD 21.7 billion (1.0% of GDP) in 2023.



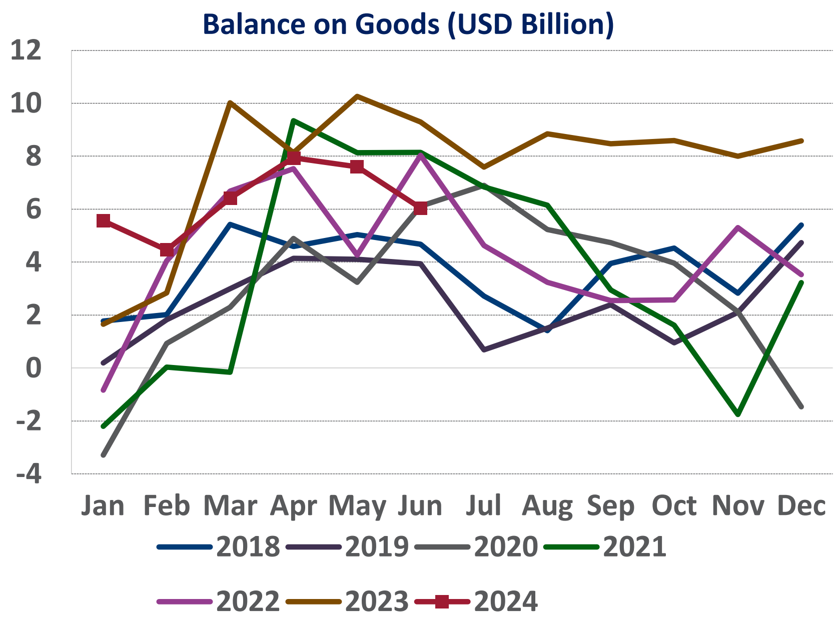


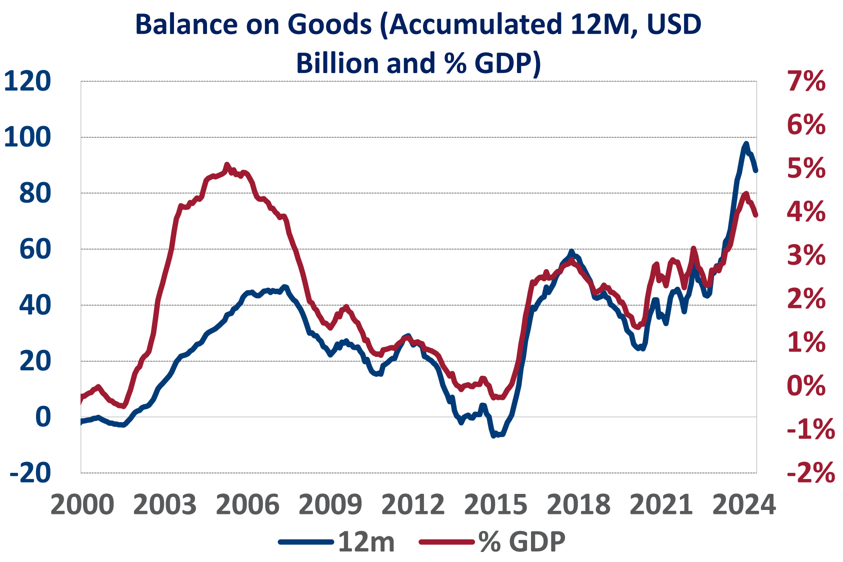


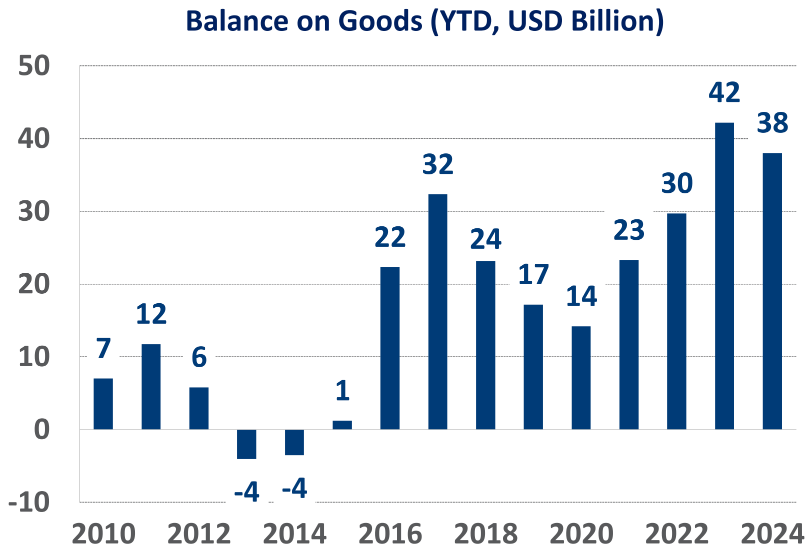
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- The Merchandise Trade Balance recorded a surplus of USD 6.0 billion in June;
- The 12-month rolling sum up to June 2024 reached USD 42,8 billion;
- This result was considerably below the recorded in June 2023 (+USD 9.3 billion), with the imports increasing 13.2% YoY and the exports decreasing 1.8% YoY, year-to-date these accounts expanded 0.6% and 4.1%, respectively;
- This decline in the account from 2023, is mainly explained by the increase in capital goods imports, in line with the recovery of the Gross Fixed Capital Formation.





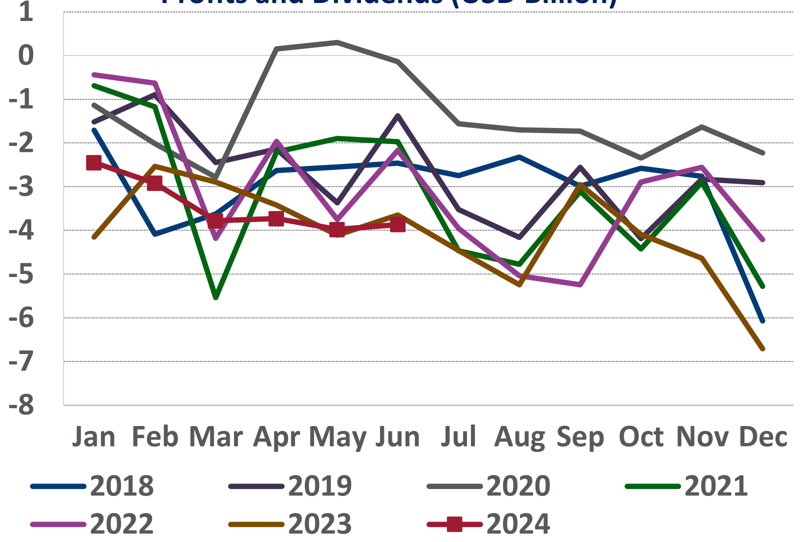


Source: BOCOM BBM, BCB

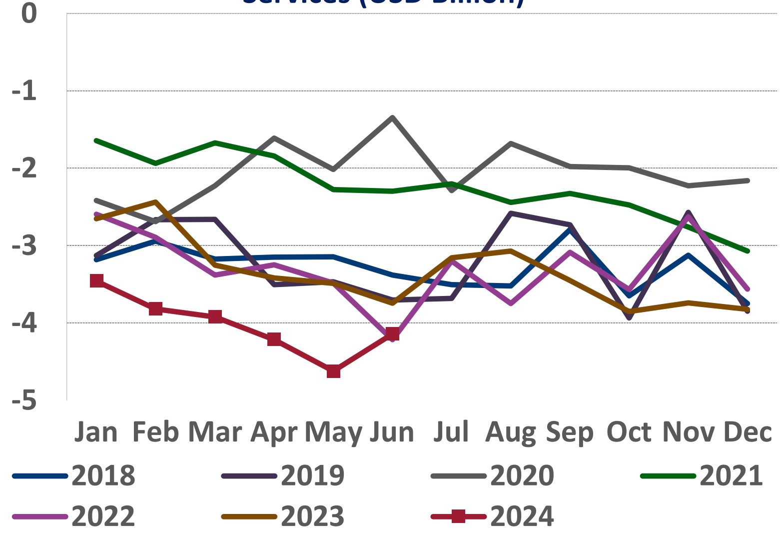
Brazil: Balance of Payments

- The Services deficit showed again an annual increase, rising from USD 3.7 billion in June 2023 to USD 4.1 billion in June 2024 (10% YoY), with the biggest driver being Intellectual Property Services account;

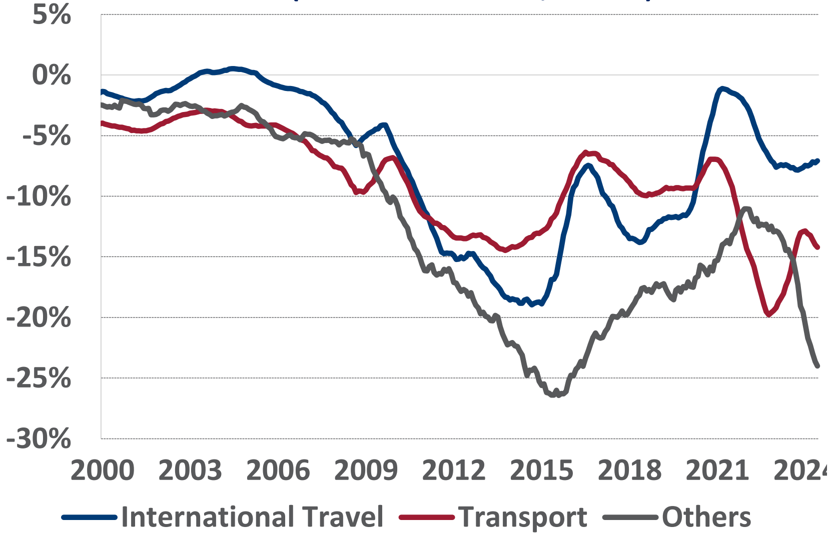
- The deficit in the Primary Income Account remained virtually stable in the yearly comparison, at USD 6.2 billion, and in the year-to-date comparison, at USD 33.7 billion.



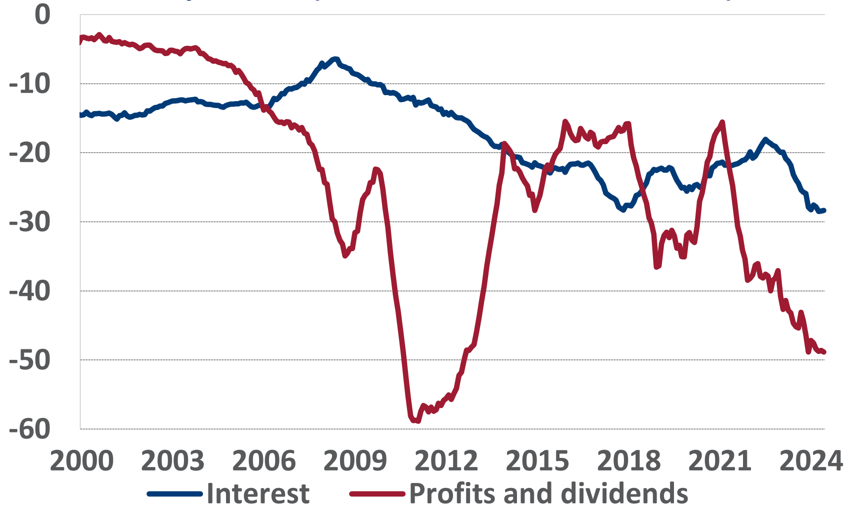
Profits and Dividends (USD Billion)



Services (USD Billion)



Services (Accumulated 12M, % GDP)



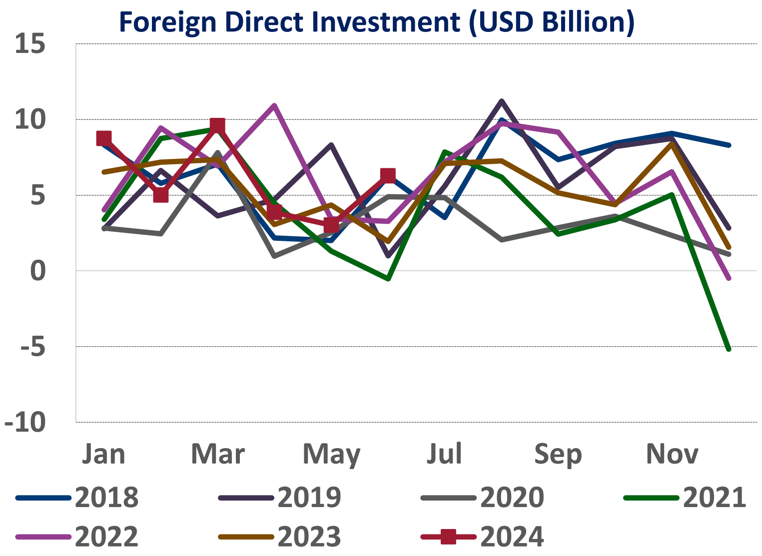
Primary Income (Accumulated 12M, USD Billion)

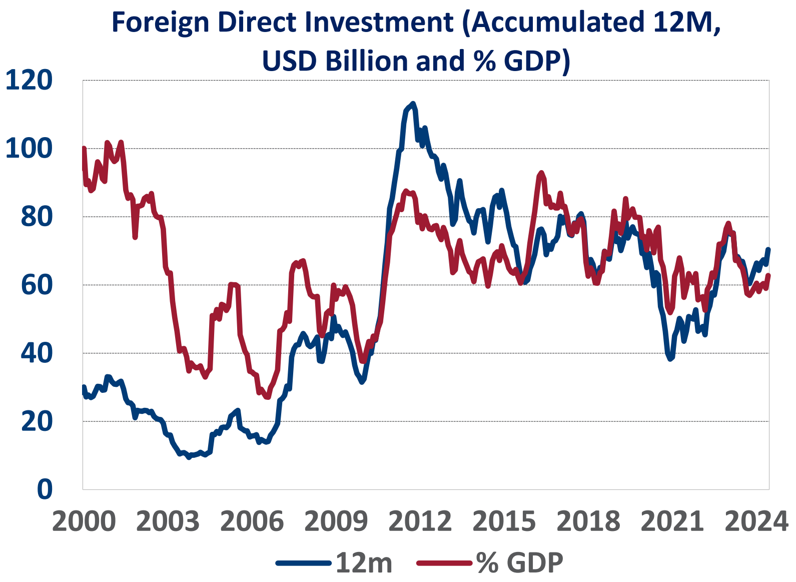
Source: BOCOM BBM, BCB

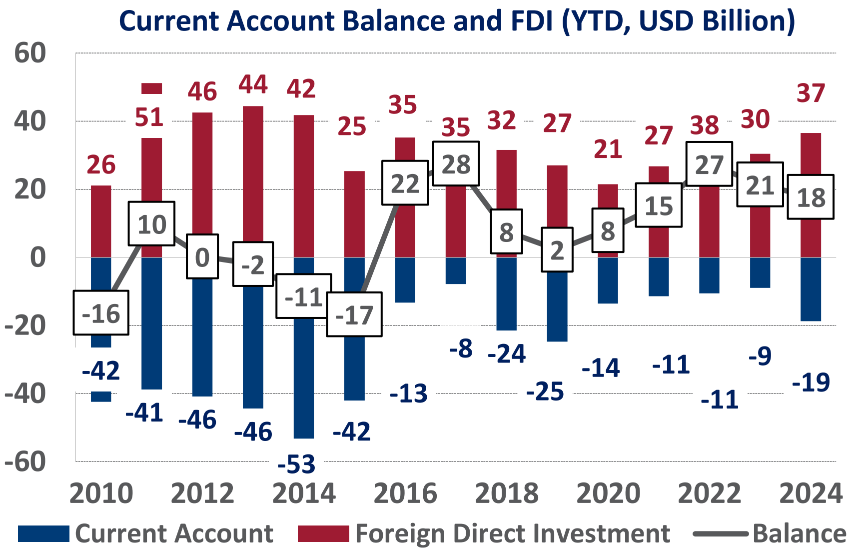
Brazil: Balance of Payments

BANK OF COMMUNICATIONS 交通銀行 BBM

- Net inflows in Foreign Direct Investment (FDI) totaled USD 6.3 billion in June 2024, considerably higher than market expectation (USD 3.3 billion), showing high volatility in a monthly basis;
- In 12 months, it reached USD 70.3 billion (3.2% of GDP), up from the USD 67.0 billion (3.3% of GDP) observed in June 2023.





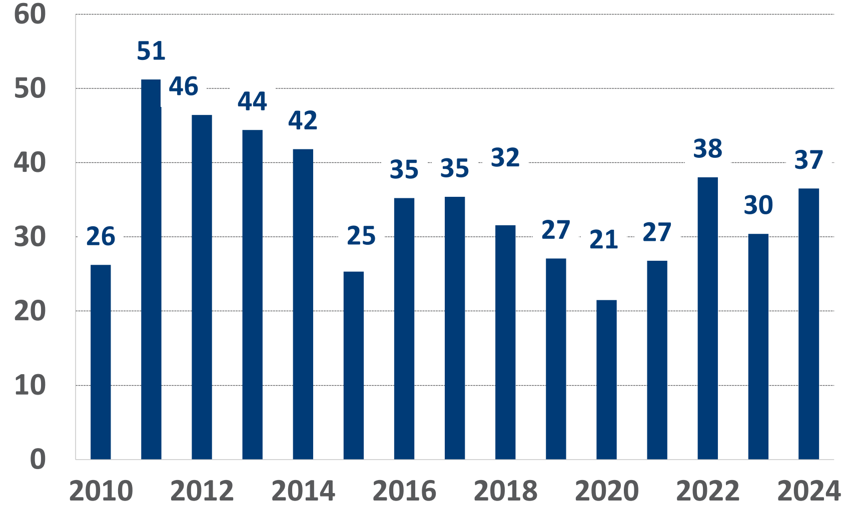


Source: BOCOM BBM, BCB

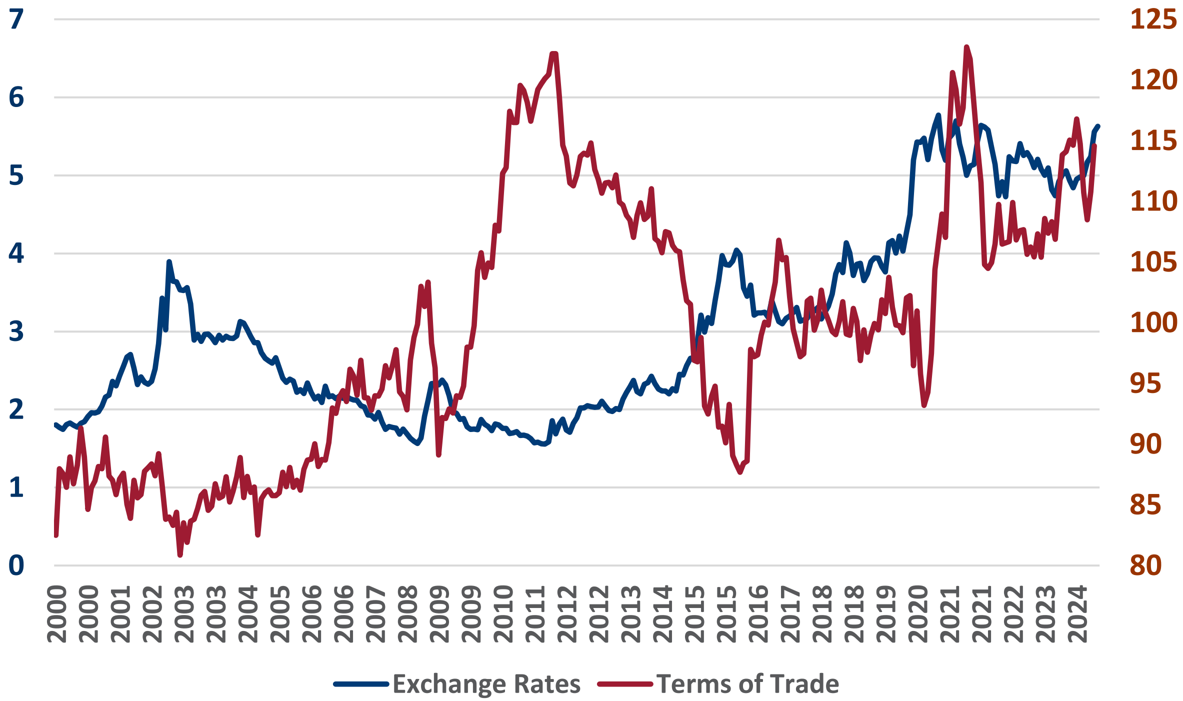
Brazil: External Sector

» In July, the Brazilian Real depreciated from 5.58 to 5.66 against the US Dollar. BRL weakening was mainly influenced by domestic factors, especially the government's statements on fiscal and monetary policy. The release of the third Bimonthly Primary Revenue and Expenditure Report intensified the BRL depreciation, as market participants believe the spending cut was smaller than the needed to meet the primary target. In the international front, the outlook for US elections brought volatility to financial markets, but the release of US economic data reinforced bets that the cutting cycle should begin in September, partially relieving pressures on the real.

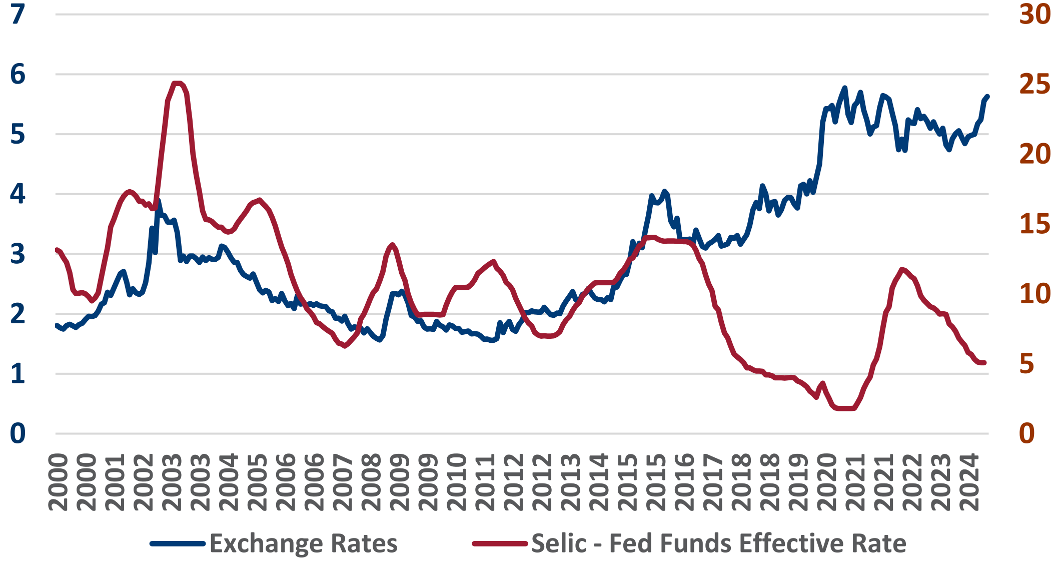
Foreign Direct Investment (YTD, USD Billion)



Terms of Trade x BRL



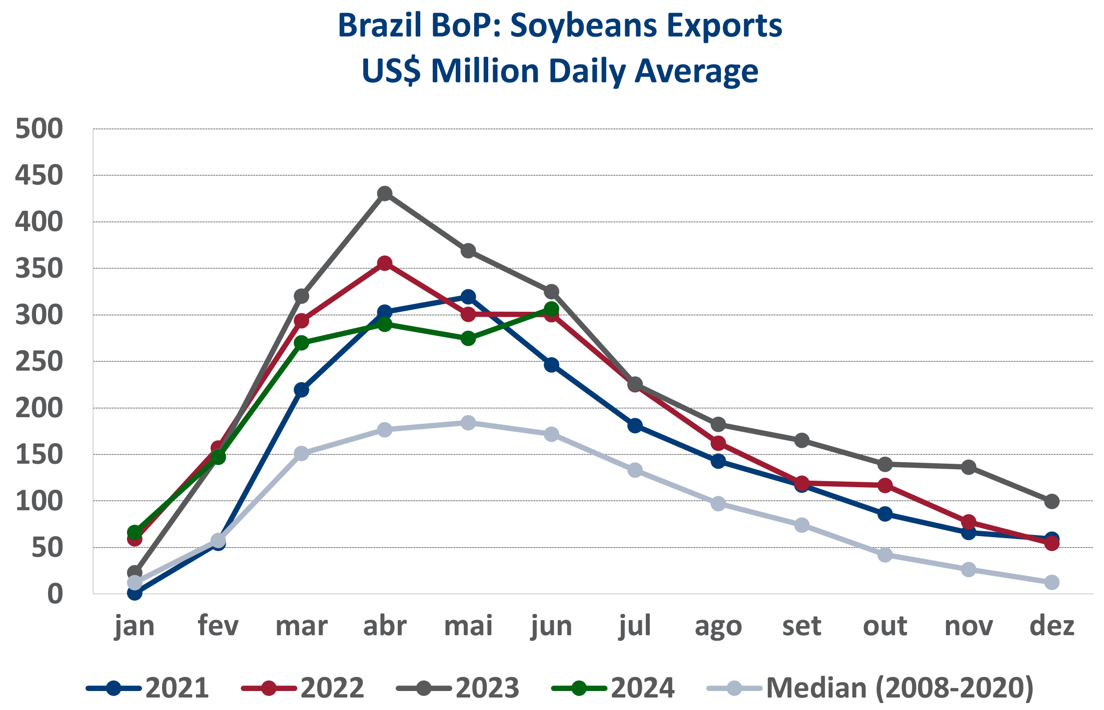
Interest Rate Differential x BRL

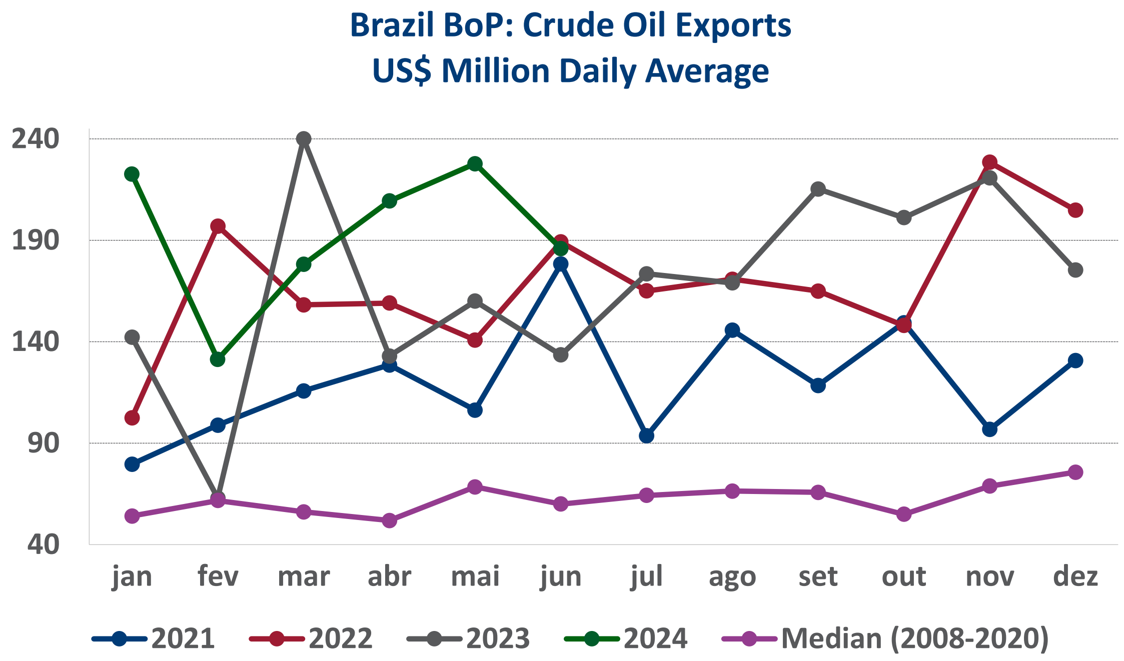


Source: BOCOM BBM, Bloomberg, Funcex, BCB

Brazil: External Sector

- In June, the trade balance presented a surplus of US$ 6.57 bn (4.6% YoY) according to Secex data;
- Year to date, the trade surplus reached US$ 42.3 bn (-5.1% YoY);
- The exports decreased 1.9% YoY, with a decrease in Soybeans exports (-10.1% YoY);
- In turn, imports increased 14.4% YoY, mainly due to passenger vehicles (+432,0 % YoY).





Source: Secex, BOCOMBBM

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