Macro Outlook

September 2024

Macro Outlook

- 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 and July, 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 question now is about the pace and the magnitude of cuts. Markets are pricing approximately 110bps until the end of the year.

- Regarding China, year-to-date growth in 24H1 was 5.0% YoY - exactly in the center of the annual target of "around 5%". However, economic activity lost some momentum again in July. The composition continues to show the same pattern: strong industrial production, bolstered by external demand, but still a gradual recovery in domestic demand. However, even recent exports data disappointed market's expectations. In light of these developments, the government accelerated bond issuance in August with the intention of giving more support to weakened sectors.

- In Brazil, monthly indicators of economic activity posted, overall, positive signs among the sectors in July. Services sector and industrial production were both above expectations, increasing 4.1% and 1.7% MoM, respectively. In turn, broad retail sales grew 0.4% MoM, being a negative surprise. Summarizing the scenario, IBC-Br increased 1.4% MoM. The Q2 GDP increased 1.4% QoQ , well above consensus (+0.9% QoQ), after 1.0% QoQ growth in 1Q24, confirming the strength of short-term domestic activity. We now foresee 3.1% growth in 2024 (0.5% QoQ in Q3 and 0.0% QoQ in Q4). As most of the effect of the public stimulus is close to being over, we expect a growth moderation over the H2. For 2025 we now forecast 1.7% (from 1.9%) due to the tightening of financial conditions and the lower fiscal impulse expected for 2025;

- Concerning monetary policy, the Brazilian Central Bank (BCB) decided to keep the Selic rates at 10.5% in its July meeting, in line with expectations. However, more risks were added as sources of concerns, consequently the Copom unanimously reinforced that it will not hesitate to raise the interest rate to ensure inflation convergence to the target if it deems it appropriate. Since then, economic activity and labor market have been stronger than expected, BRL depreciated, and inflation expectations remained unanchored. This should trigger a reaction from the Central Bank, and the market is pricing a rate hiking cycle beginning in the next meeting. We foresee a gradual hiking cycle of 25 bps in each meeting up to January 2025. By the end of the next year, the BCB must start a cutting cycle, ending the year with Selic at 10.5%;

- August IPCA-15 rose by 0.19% MoM, in line with expectations (0.19%). The 12-month variation fell to 4.35% in August from 4.45% in July. The main upward surprises came from airfares and fresh food, while the downside surprises were due to gasoline, industrial goods and labor-intensive services. Overall, the inflation print was positive, but not enough to bring comfort for the Central Bank. The breakdown was positive, as the underlying services and the average of cores surprised downside. However, the SAAR 3 months moving average remained closed to the top of the target due to high inflation levels in July. Currently, our forecast stands at 4.3% for 2024 and 4.1% for 2015;

- In the fiscal scenario, total federal tax collections reached BRL 231.0 bn (9.5% YoY) in July, in line with the consensus and the best performance for the month in the historical data. However, tax collections are still below what would be needed to reach the primary result target, with the performance of other measures to increase revenues continuing to disappoint. The consolidated public sector recorded a primary deficit of BRL 21.4 billion in July, from a deficit of BRL 40.9 bn in June, well below the market consensus (BRL -6.9 billion). Central Government, subnational governments and state-owned enterprises registered deficits of BRL 8.6 bn, BRL 11.0 bn and BRL 1.7 bn, respectively. On August 31, the government presented the 2025 budget without major surprises. Once again, we saw dependence on spending restraint and extraordinary revenues (some of them are beyond government control, depending on votes in Congress) in order to balance the fiscal accounts.

China: Economic Activity

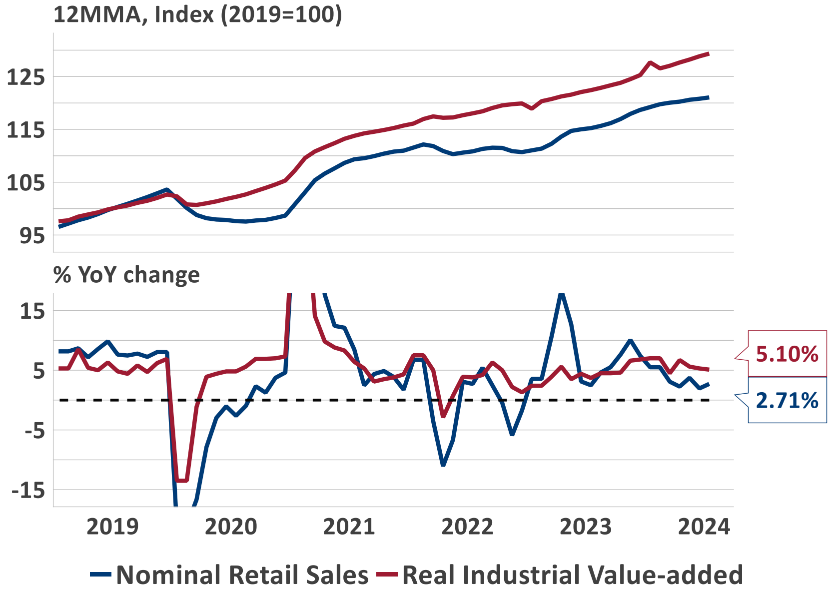
- **Economic activity continued losing some momentum in July:** IP continues growing faster than retail sales, but now also shows signs of slowing;
- **Retail sales growth surprised up** this time, rising from 2.0% to **2.7%** YoY (exp. 2.6%): goods spending recovered, but spending in services related to going out decelerated to 3.0% YoY, the worst pace since end of zero-Covid policy, signaling that the boost from pent-up demand has likely faded;
- **Industrial prod. slowed** from 5.3% to 5.1% YoY (exp 5.2%): still a solid growth and faster than most indicators, but marks the 2nd slowest growth in 2024, reflecting pressures from continued weak domestic demand and fading support from external demand as exports also slowed in July;
- **FAI slowed from 3.9% to 3.6% YTD YoY** (exp. 3.9%), still above the YTD growth in the same period in 2023 (3.4%): 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 July;

China: Activity (% YoY)

	7/2024	6/2024	7/2023
Industrial Production	5.10	5.30	3.70
Mining	4.60	4.40	1.30
Manufacturing	5.30	5.50	3.90
Utilities	4.00	4.80	4.10
Fixed Asset Investment (YTD)	3.60	3.90	3.40
Manufacturing	9.30	9.50	5.70
Real Estate	-10.20	-10.10	-8.50
Infrastructure	4.90	5.40	6.80
Retail Sales	2.71	1.95	2.48
Catering Services	3.00	5.40	15.80
Consumer Goods	2.70	1.50	1.00
Clothing	-5.20	-1.90	2.30
Automobiles	-4.90	-6.20	-1.50
Furniture	-1.10	1.10	0.10
Cellphones	12.70	2.90	3.00
Home Appliances	-2.40	-7.60	-5.50
Construction	-2.10	-4.40	-11.20

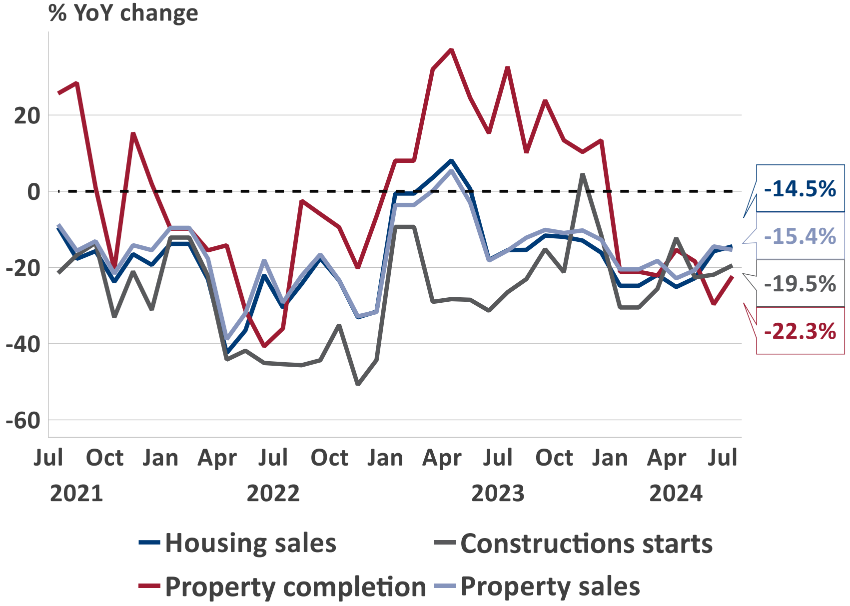
Source: BOCOM BBM, Macrobond

China: Industrial Production x Retail Sales



Source: BOCOM BBM, Macrobond, NBS

China: Property Indicators (% YoY)



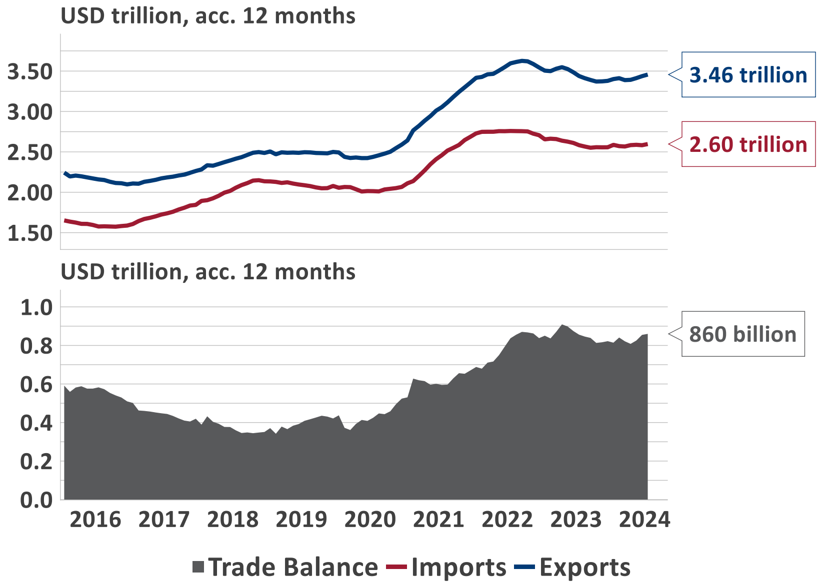
Source: BOCOM BBM, NBS

China: Economic Scenario

- **One of the main highlights in the Chinese economy this year has been exports,** which bolstered the strength in industrial production so far in 2024;
  - Exports year-to-date growth stands at **4.12%** in USD terms → solid growth, despite the historically elevated levels, global trade uncertainties, and RMB depreciating against the dollar throughout most of the year;
  - However, the latest data for July surprised to the downside as it slowed from 8.6% to **7.0%** YoY (exp 9.7%), which raises concerns that this growth driver could be starting to lose some steam;

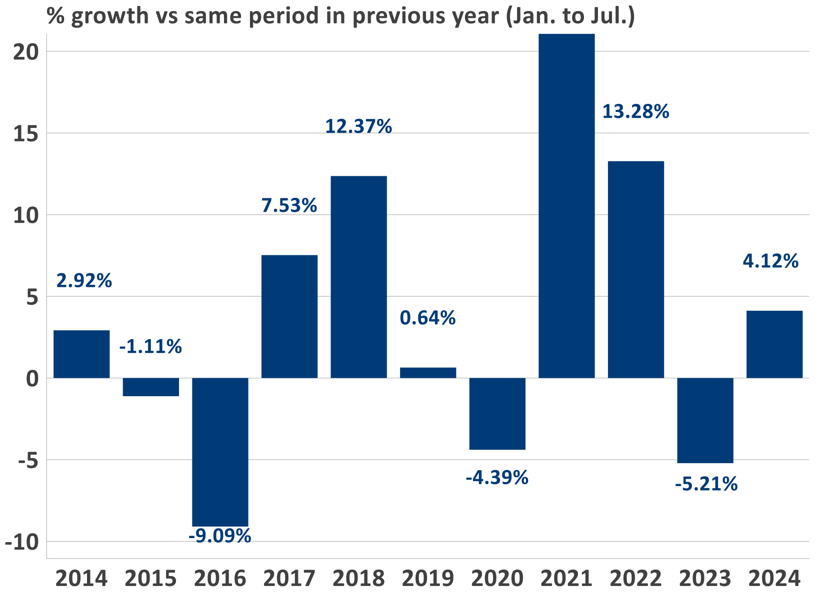
- July **CPI** inflation accelerated from 0.2% to **0.5%** YoY (above exp. 0.3%), reflecting a jump in food prices, but a slower core CPI;
  - Core inflation slowed from 0.6% to **0.4%** YoY, still suggesting somewhat weak momentum in domestic demand;
  - Pricing environment remained soft as headline CPI averaged 0.2% YoY in the first 7 months (was 0.1% previously);

China: Trade Balance



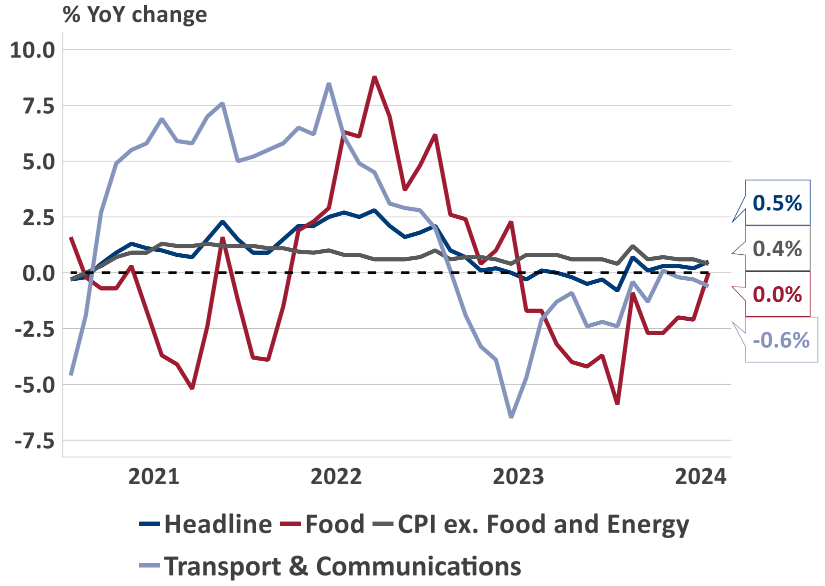
Source: BOCOM BBM, Macrobond, CCS

China: Exports (YTD YoY, Jan-Jul)



Source: BOCOM BBM, Macrobond, CCS

China: CPI

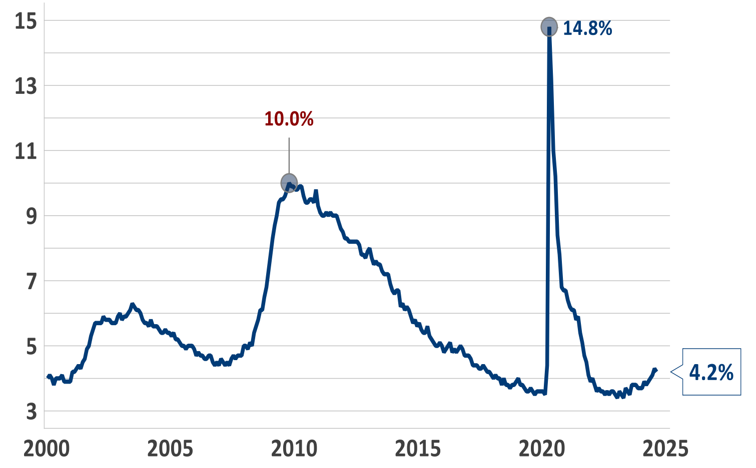


Source: BOCOM BBM, Macrobond, NBS

USA: Labor Market

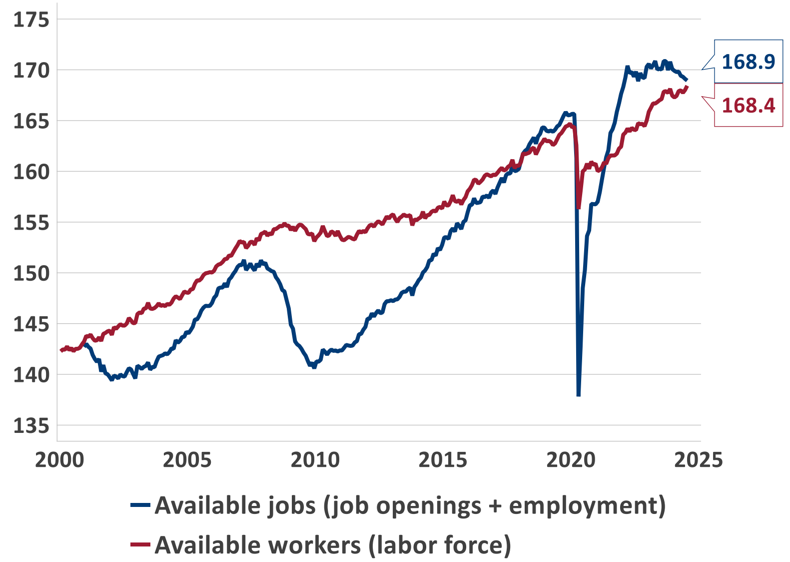
- **Labor market has cooled from its peak tightness**, with a more intense slowdown since this year's Q2;
  - August payroll showed a job gain of **142k**, below market expectations (165k), with a two-month net revision of -86k in July (-25k) and June (-61k);
  - The unemployment rate moved back to **4.2%** from 4.3%, alleviating concerns of a recession;
- In July, the **jobs-workers gap decreased to just 500k** from 1.1M previously, and a peak of 6.2M in 2022**,** following a considerable moderation in labor demand and increases in labor supply;
- August avg. hourly earnings **accelerated its monthly pace to 0.4% MoM,** above expectations of 0.3%;
  - The annual rate was up from 3.6% to **3.8%** YoY, which is still a step down from earlier in the year, and suggests that labor market's moderation is happening gradually;

US: Unemployment Rate SA (%)



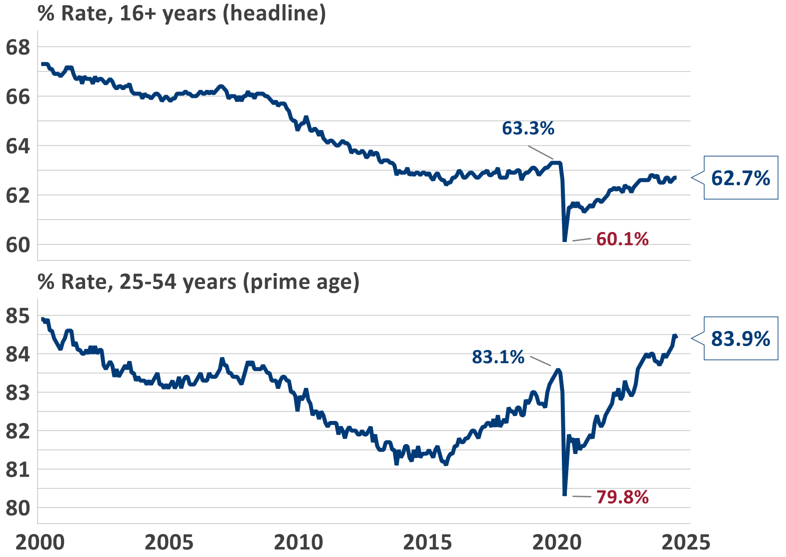
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



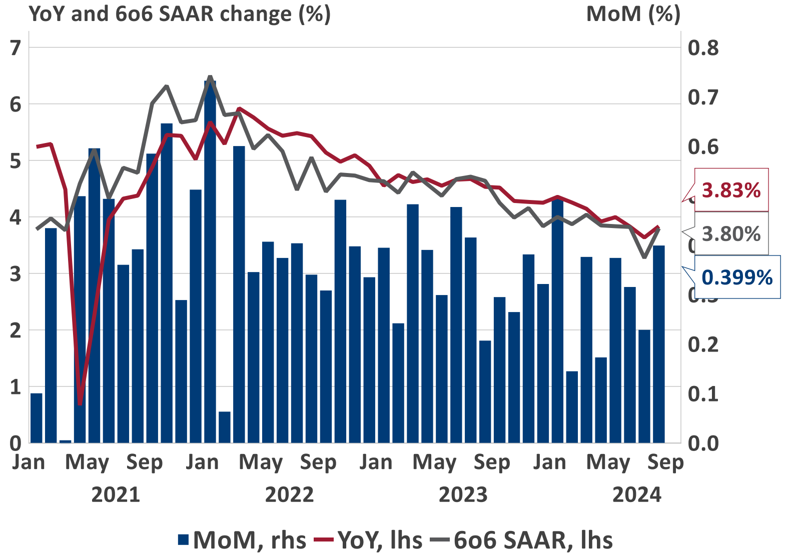
Source: BOCOM BBM, Macrobond, BLS

US: Labor Force Participation Rate (%)



Source: BOCOM BBM, Macrobond

US: Average Hourly Earnings Growth (%)

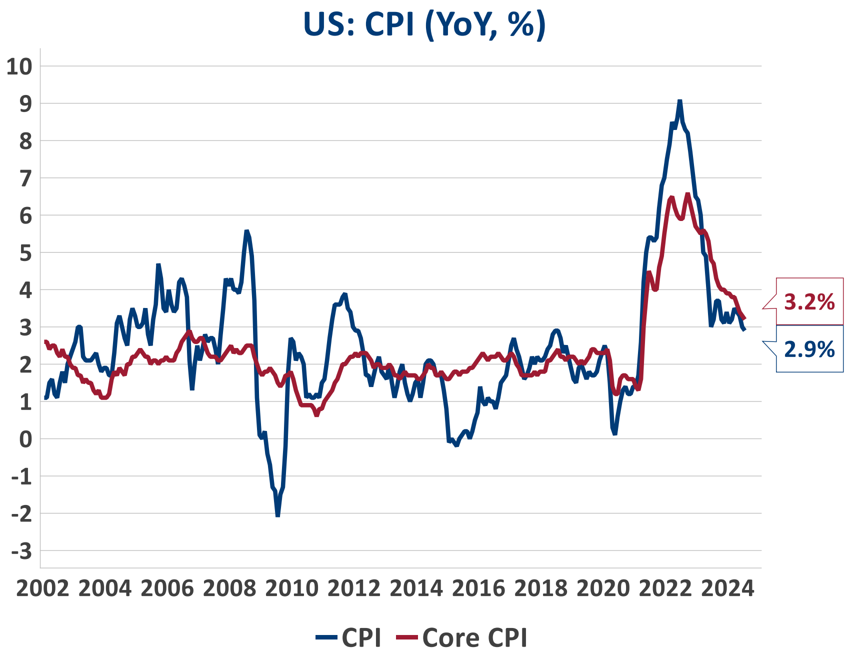


Source: BOCOM BBM, Macrobond

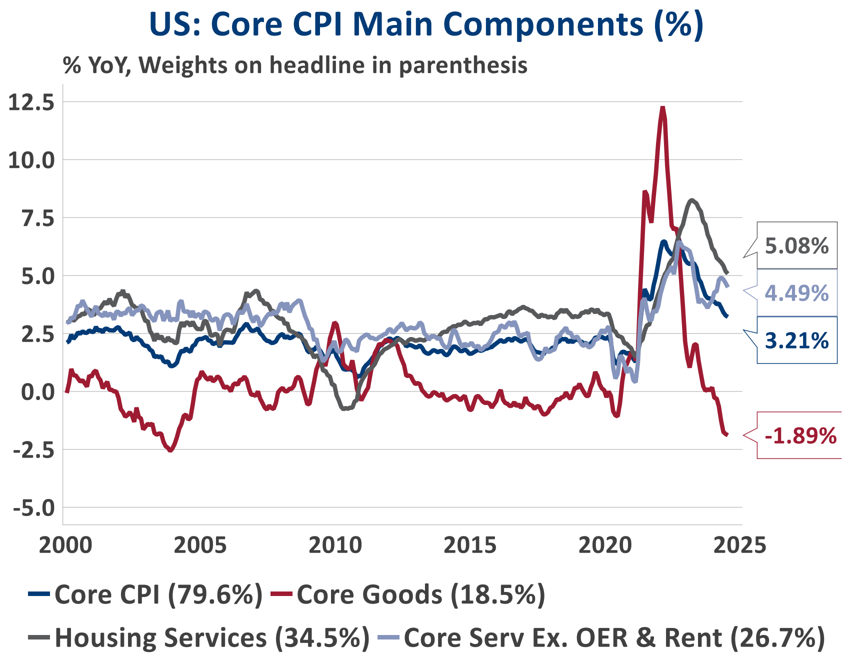
USA: Inflation

- July headline CPI rose **0.15% MoM** (below mkt exp. of 0.2%), leading to an annual growth rate decrease from 3.0% to **2.9% YoY:**
  - **Energy prices** were roughly stable (0.03% MoM), similar to retail gasoline prices;
  - **Food prices** rose 0.16% MoM – still a healthy pace, in line with its historical average;

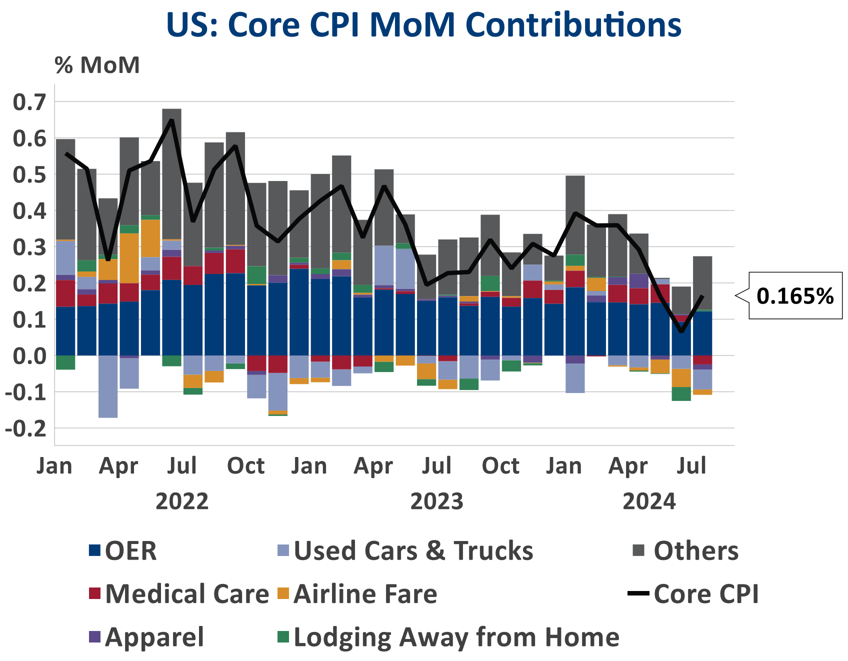
- **Core CPI** rose **0.16% MoM** (exp. 0.2%) and the annual growth rate fell from 3.3% to **3.2% YoY;**
  - **Core goods (-0.32% MoM):** another decline, with broad-based slowdown, mainly on used vehicles (-2.3% MoM)
  - **Housing services (0.35% MoM):** surprised slightly to the upside this time rebounding from the abrupt slowdown in June, but should continue gradually slowing as most leading indicators suggest;
  - **Core Serv. Ex-Housing (0.21% MoM):** rebounded after the 2 weak prints of May and June, but still a significant step down from Q1; Looking ahead, it's expected to continue decelerating as auto insurance slows down further, the labor market moves into better balance, and pressure on wages eases.



Source: BOCOM BBM, Macrobond, BLS



Source: BOCOM BBM, Macrobond, BLS



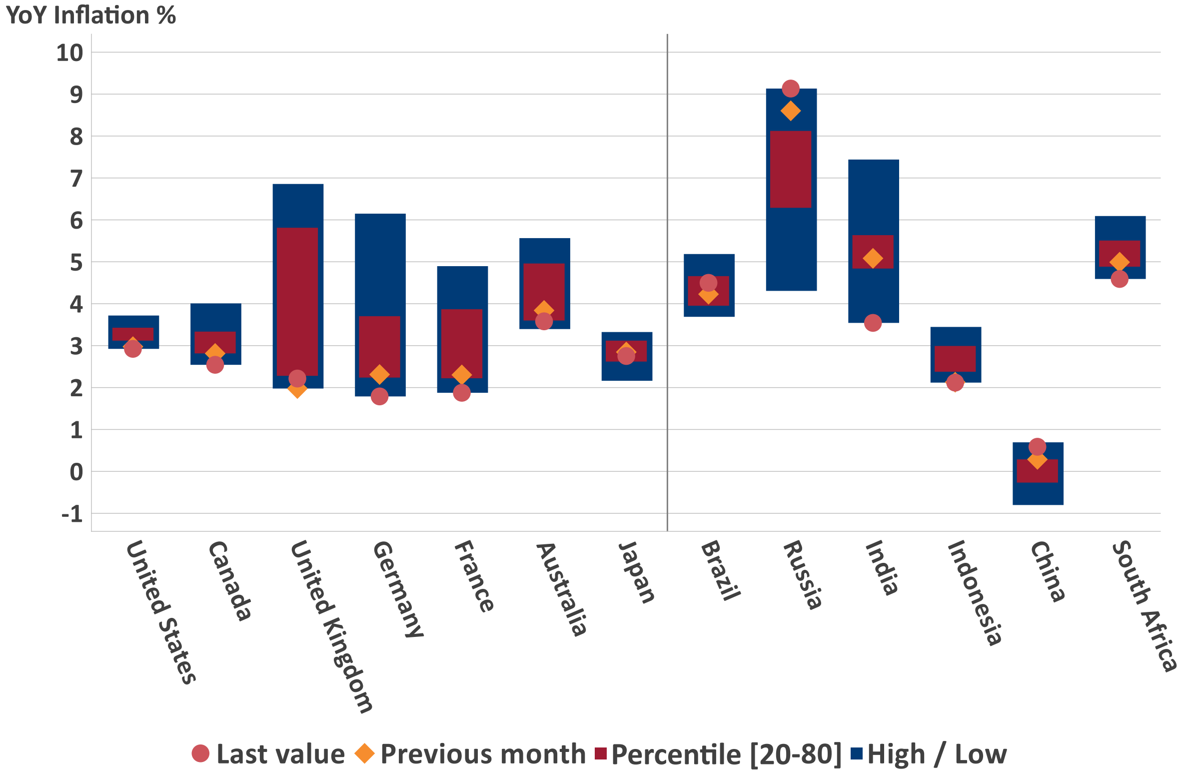
Source: BOCOM BBM, Macrobond, BLS

Global: Inflation & Activity

交通銀行 BANK OF COMMUNICATIONS BBM

- 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	0.5	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	0.2	0.3	0.4	0.1	0.7	0.0	0.1	0.5
Germany	-0.1	0.2	-0.4	0.2	-0.2	0.1	-0.5	0.6
India	-7.6	7.8	4.7	2.3	-6.7	8.6	4.2	2.5
Indonesia	3.8	-0.8	0.5	1.6	3.9	-0.9	0.4	1.8
Italy	0.2	0.3	0.1	0.3	-0.1	0.4	-0.1	0.4
Japan	0.8	-0.6	0.1	-1.0	0.6	1.3	0.4	-0.3
Mexico	0.2	0.1	-0.1	0.7	1.0	0.6	0.9	0.9
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	5.1	-15.0	1.5	13.0	8.0	-15.5	3.3	11.0
United Kingdom	0.6	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

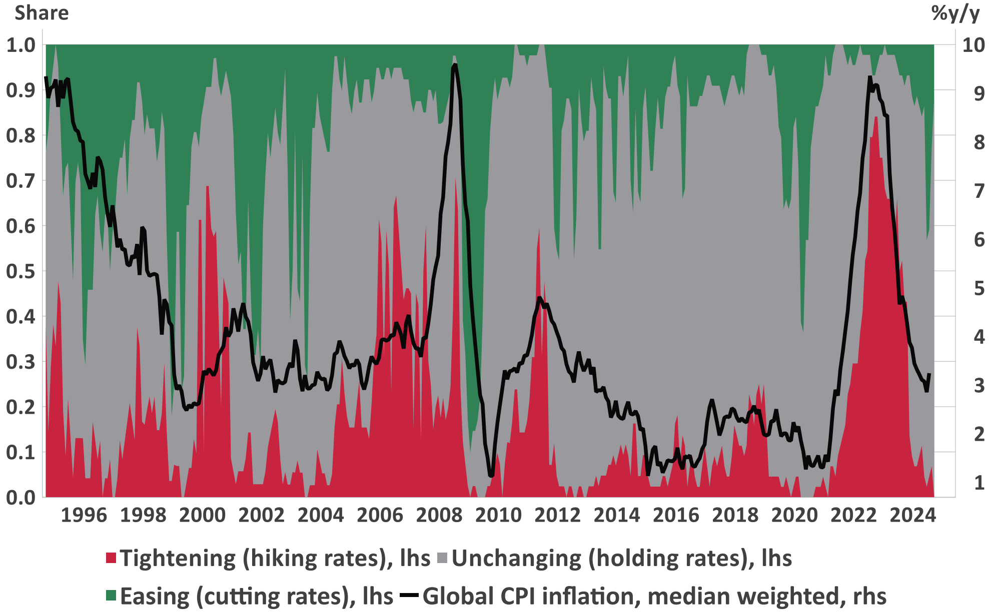
- Several **emerging markets already started cutting rates,** such as Colombia, Chile and Mexico;

- **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 DM central bank that remains on hold is the Fed, but, as Chair Powell signaled in the Jackson Hole, *"the time has come to adjust policy"***,** indicating that we should see a rate cut in the next meeting → markets are pricing around 100bps of cuts in 2024;

Global monetary breadth

Share of economies (GDP top 50) with higher/unchanged/lower policy rates; monthly/mtd avg, 2-Sep-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	263.4	257.9	40.00	-10.00	Cut	5/2024	11	4
Australia	3.8	3.7	4.35	0.25	Hike	11/2023	10	46
Brazil	4.5	4.4	10.50	-0.25	Cut	5/2024	25	4
Canada	2.5	1.7	4.50	-0.25	Cut	7/2024	14	1
Chile	4.6	3.3	6.50	-0.75	Cut	6/2024	23	3
China	0.6	0.4	3.35	-0.10	Cut	7/2024	127	1
Colombia	6.9	6.4	10.75	-0.50	Cut	8/2024	16	1
Costa Rica	0.0	0.6	4.75	-0.50	Cut	4/2024	22	4
Czech Republic	2.2	0.2	4.50	-0.25	Cut	8/2024	26	1
Denmark	1.1	1.0	3.50	-0.25	Cut	6/2024	12	3
Euro Area	2.2	2.8	4.25	-0.25	Cut	6/2024	11	3
Hungary	4.1	4.7	6.75	-0.25	Cut	7/2024	23	1
Iceland	6.0	6.1	9.25	0.50	Hike	8/2023	12	46
India	3.5	3.4	6.50	0.25	Hike	2/2023	19	51
Indonesia	2.1	2.0	6.25	0.25	Hike	4/2024	4	43
Israel	3.2	2.8	4.50	-0.25	Cut	1/2024	15	8
Japan	2.8	1.9	0.25	0.15	Hike	8/2024	1	103
Mexico	5.6	4.0	10.75	-0.25	Cut	8/2024	17	1
New Zealand	3.3	3.4	5.25	-0.25	Cut	8/2024	15	1
Norway	2.8	3.3	4.50	0.25	Hike	12/2023	9	52
Poland	4.5	3.8	5.75	-0.25	Cut	10/2023	24	11
Russia	9.1	8.6	18.00	2.00	Hike	7/2024	1	24
Saudi Arabia	1.5		6.00	0.25	Hike	7/2023	13	54
South Africa	4.6	4.3	8.25	0.50	Hike	5/2023	15	49
South Korea	2.6	2.2	3.50	0.25	Hike	1/2023	20	51
Sweden	2.6	1.7	3.50	-0.25	Cut	8/2024	11	0
Switzerland	1.3	1.1	1.25	-0.25	Cut	6/2024	14	2
Turkey	61.8	60.2	50.00	5.00	Hike	3/2024	5	18
United Kingdom	2.2	3.3	5.00	-0.25	Cut	8/2024	13	1
United States	2.9	3.2	5.50	0.25	Hike	7/2023	13	54

Source: BOCOM BBM, Macrobond

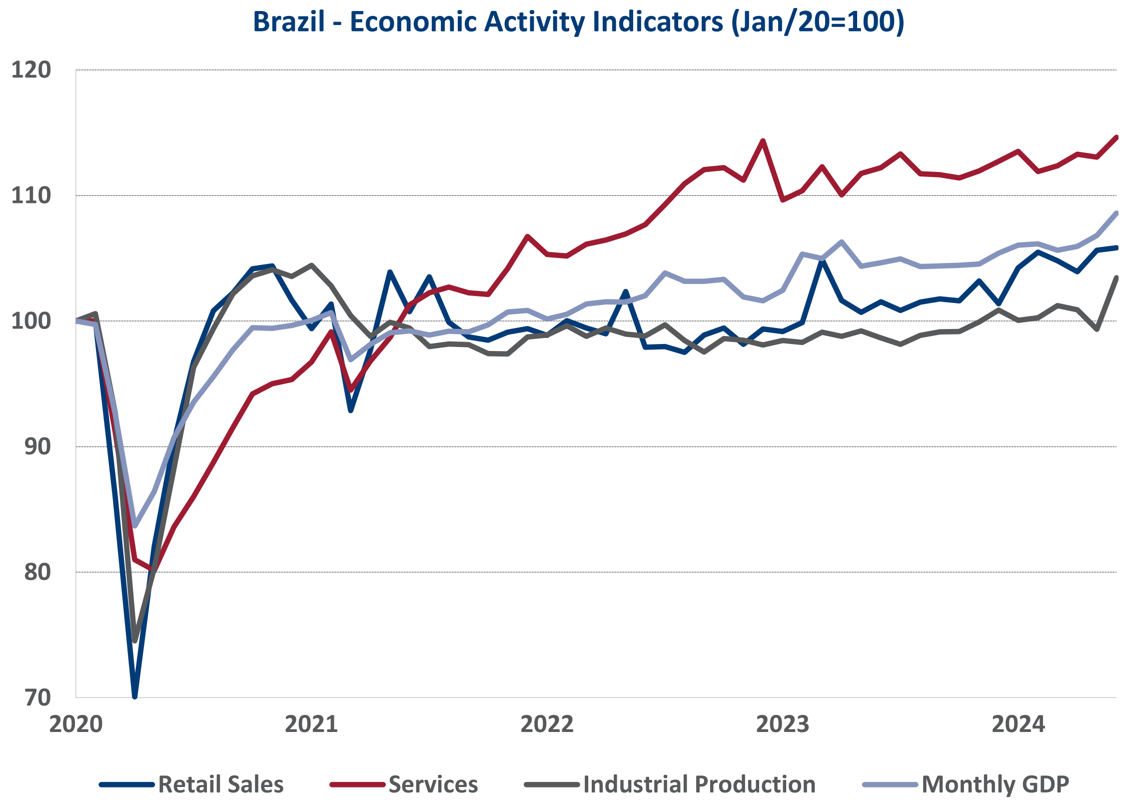
Brazil: Forecasts

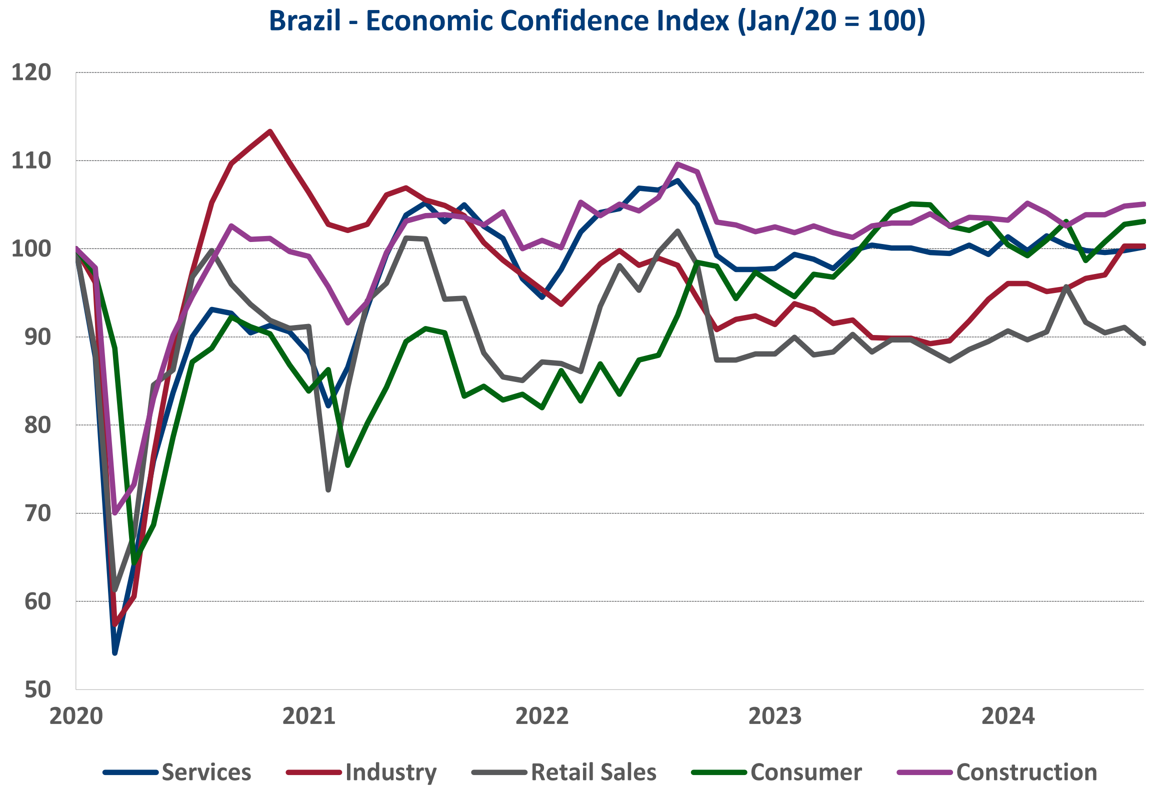
ECONOMIC FORECASTS	2019	2020	2021	2022	2023	2024F	2025F
GDP Growth (%)	1.2%	-3.3%	4.8%	2.9%	2.9%	3.1%	1.7%
Inflation (%)	4.3%	4.5%	10.1%	5.8%	4.6%	4.3%	4.1%
Unemployment Rate (eoy ,%)	11.1%	14.2%	11.1%	7.9%	7.4%	7.0%	7.3%
Policy Rate (eoy, %)	4.5%	2.0%	9.3%	13.8%	11.75%	11.25%	10.50%
External Accounts							
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	-32
Current Account Balance (% of GDP)	-3.6%	-1.9%	-2.8%	-2.5%	-1.3%	-1.6%	-1.4%
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%	80.3%

Source: BOCOM BBM, IBGE

Brazil: Activity

- In June, monthly indicators of economic activity posted, overall, positive signs among the sectors. Services sector and industrial production were both above expectations, increasing 4.1% and 1.7% MoM, respectively. In turn, Broad retail Sales grew 0.4% MoM, being a negative surprise. Summarizing the scenario, IBC-Br increased 1.4% MoM;
- Looking forward, services, consumer and construction confidence increased in August, while retail sales contracted. Industry confidence remained flat.



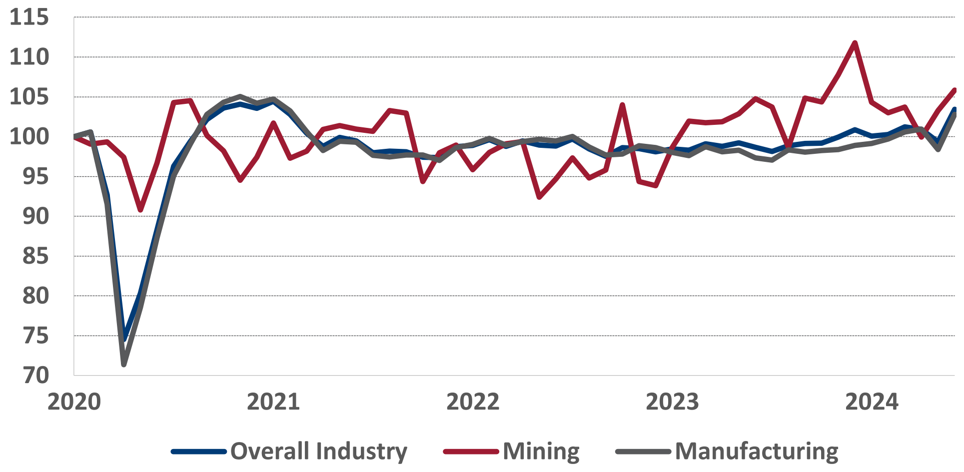


Source: BOCOM BBM, IBGE, FGV

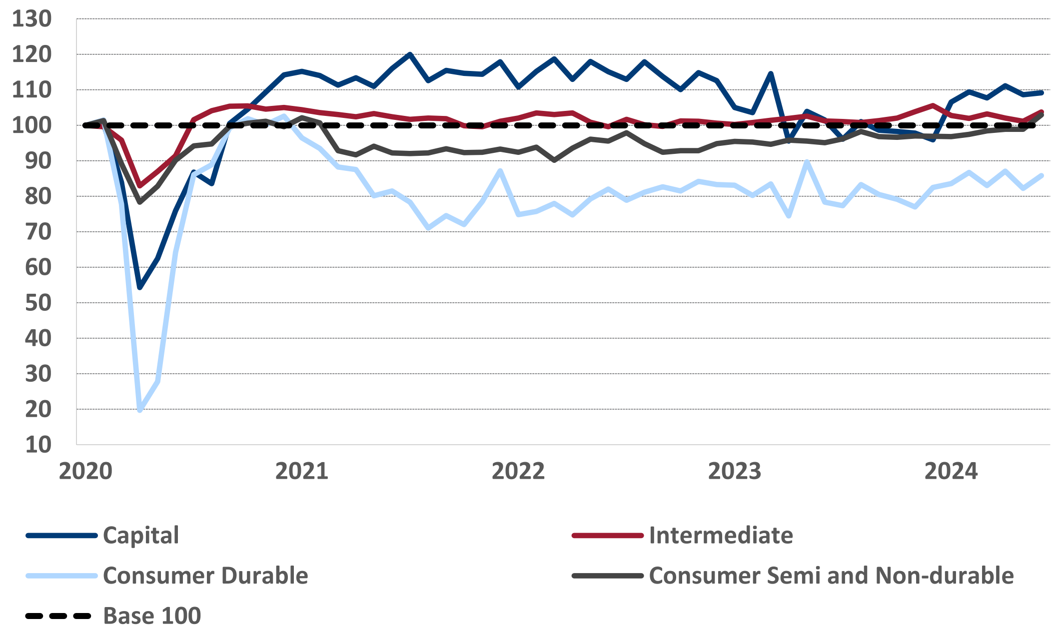
Brazil: Industrial Production

- In June, industrial production expanded by 4.1% MoM (3.2% YoY), well above expectations of 2.7% MoM;
- All manufacturing categories resumed growth, with the highlight being the sharp rise in consumer goods (6.8% MoM), in the wake of the continued increase in household disposable income;
- Furthermore, the production of capital goods remained on an upward trajectory (1.6% QoQ and 11.7% YoY in 2Q24), which is a positive sign for the short-term Gross Fixed Capital Formation;
- Overall industrial output increased by 0.7% QoQ in 2Q24.

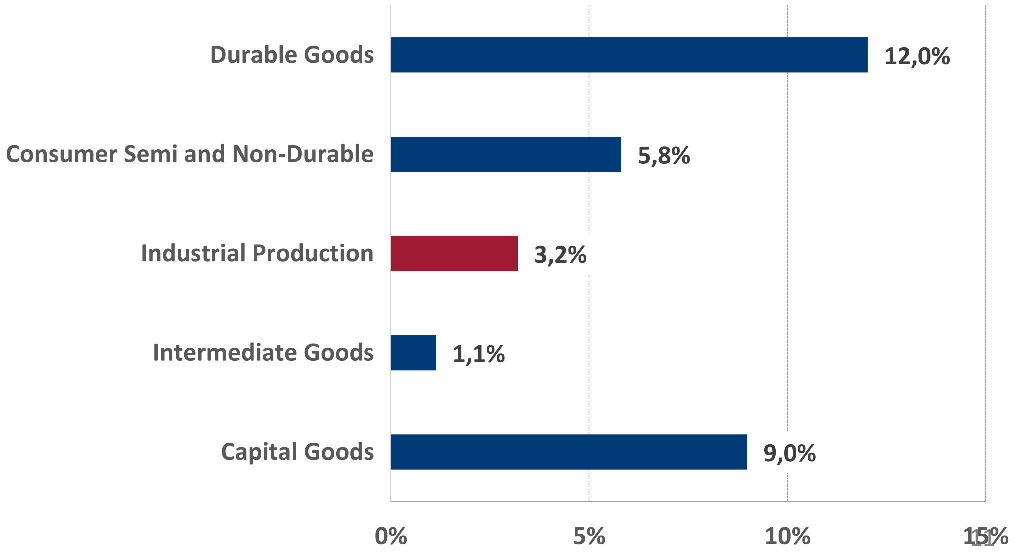
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



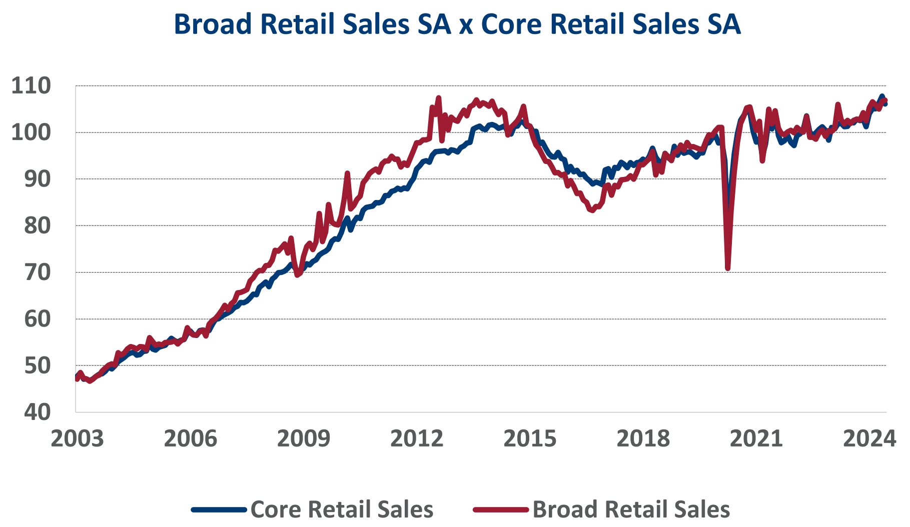
Industrial Production by Category - 06/2024 (YoY)

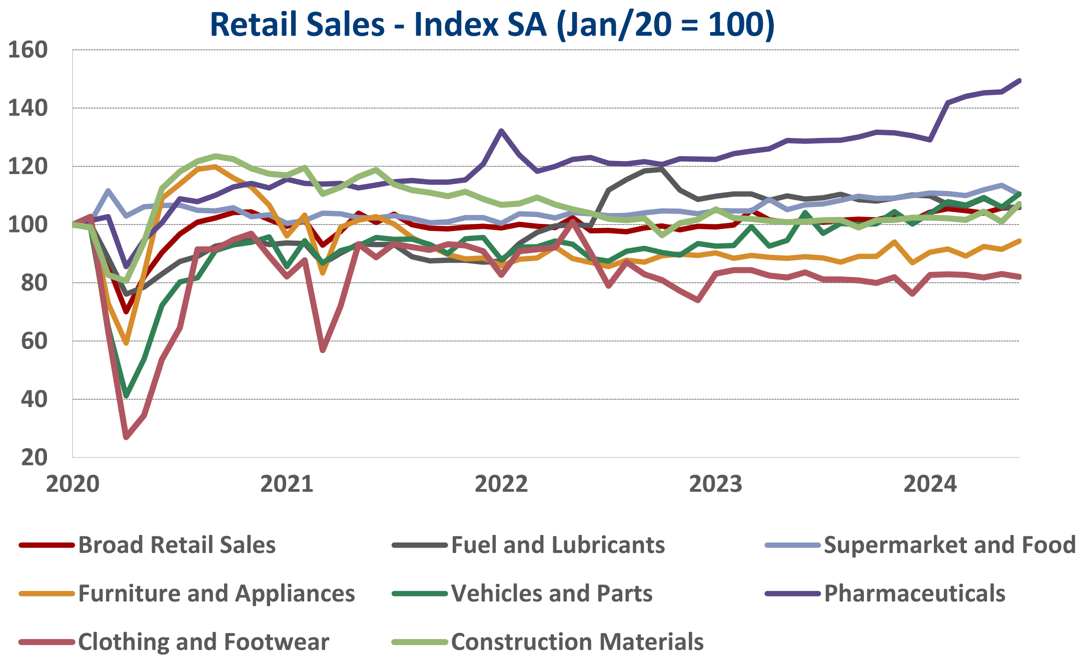


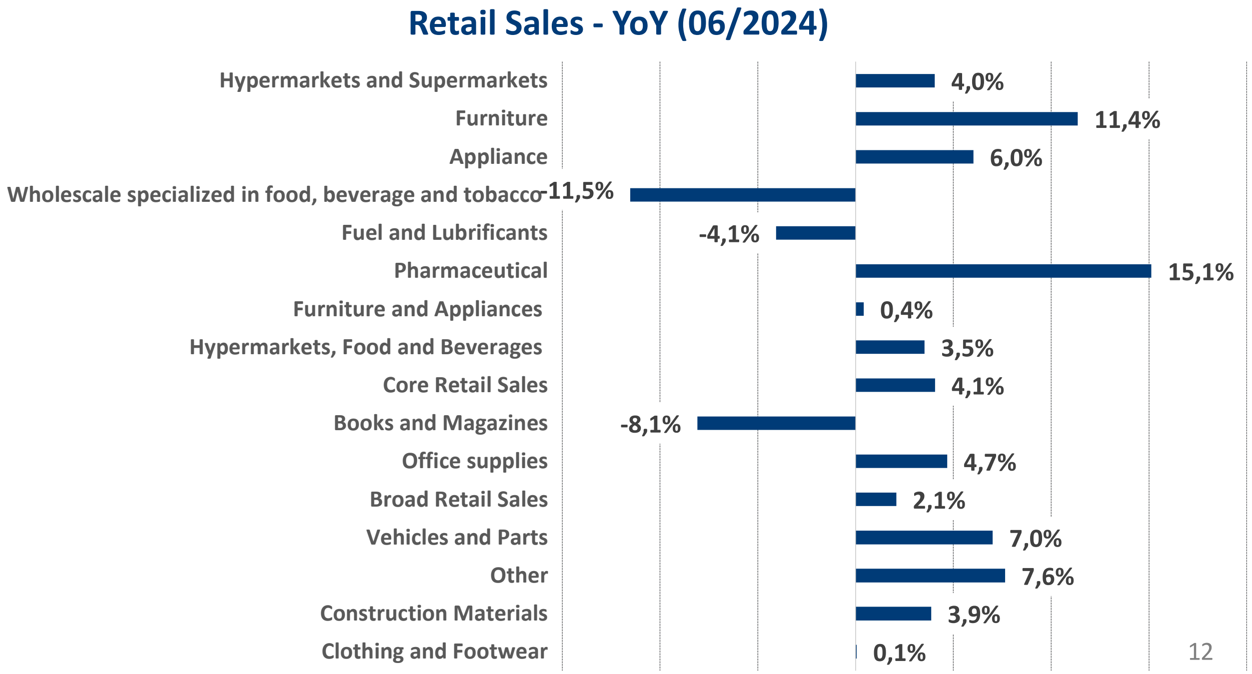
Source: IBGE, BOCOM BBM

Brazil: Retail Sales

- Broad retail sales increased 0.4% MoM in June, below expectations (Consensus: 1.3% MoM);
- The difference from the estimates came mainly due to the weaker-than-anticipated performance of cash & carry activities for food, beverages, and tobacco (-11.5% YoY);
- Vehicles and parts (3.9% MoM) and construction materials (4.8% MoM) recovered from the weak data seen in the May reading;
- Core retail sales contracted 1.0% MoM in June, also below expectations (-0.5% MoM), ending a streak of five consecutive increases;
- Hypermarkets, food and beverages (-2.1% MoM) decelerated after the stockpiling of basic items in Rio Grande do Sul during the natural disaster that boosted the sales in May.



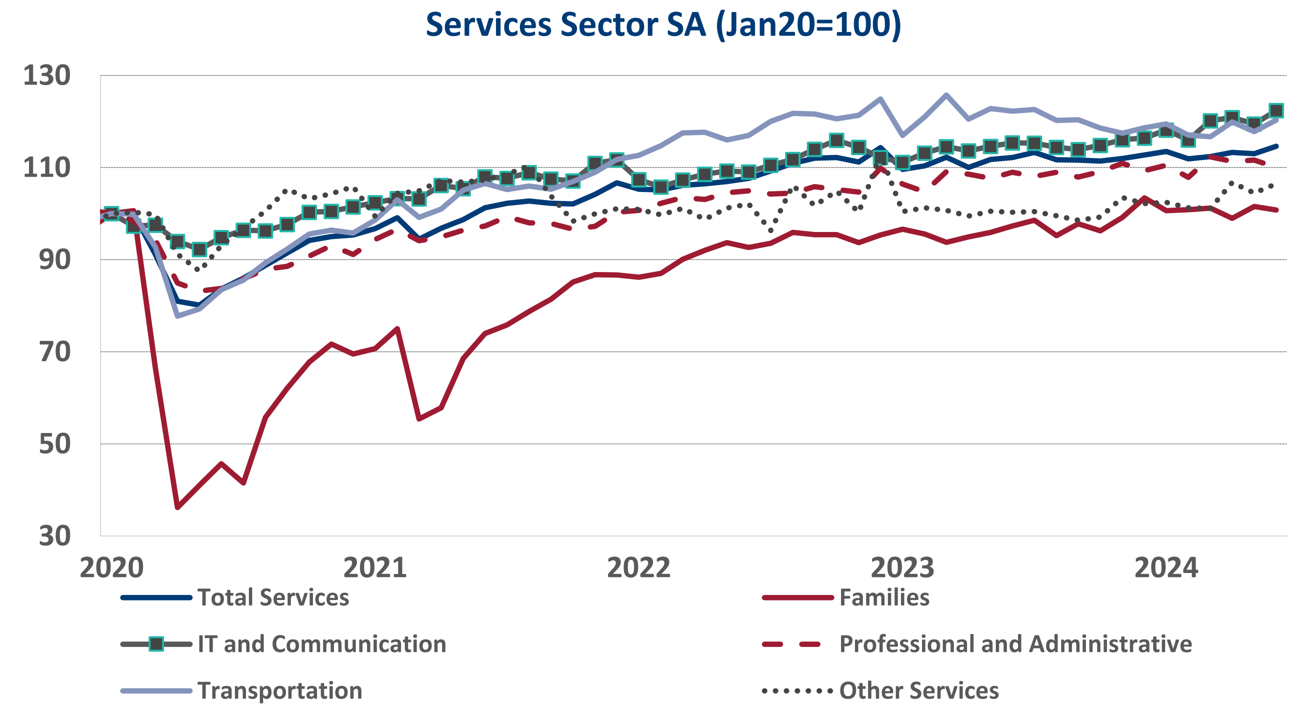


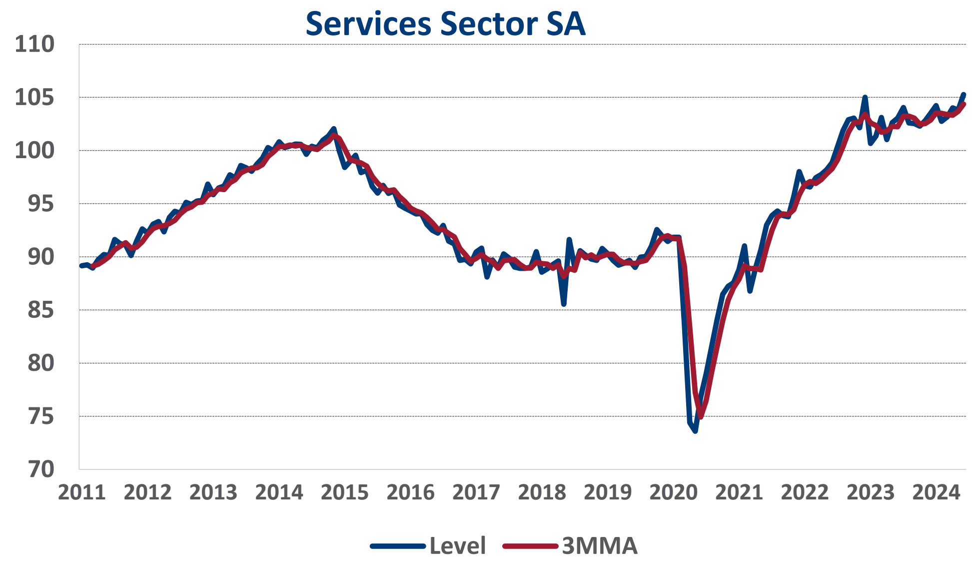


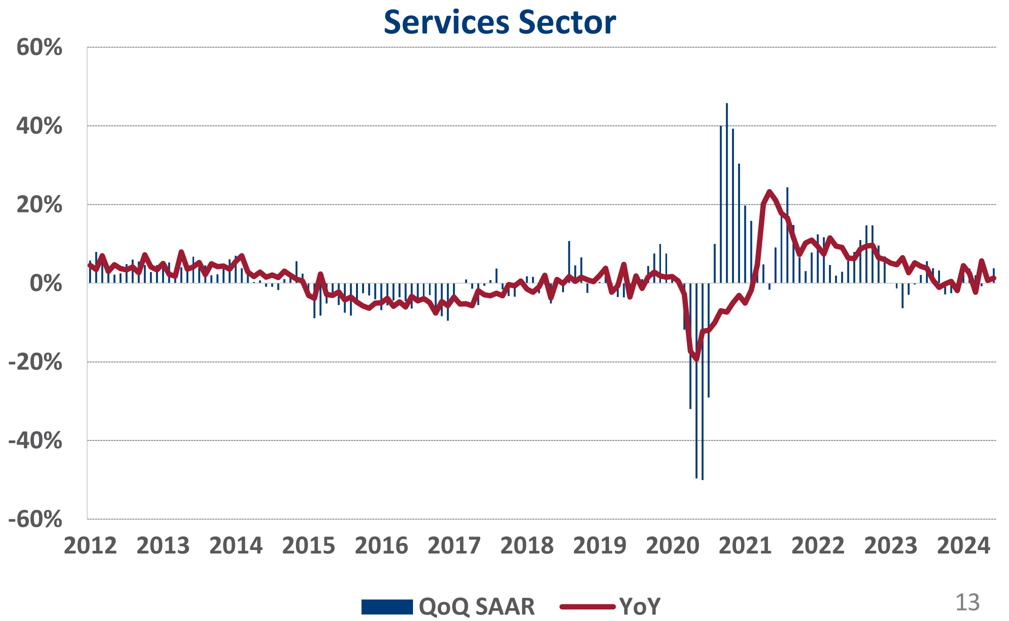
Source: IBGE, BOCOM BBM

Brazil: Services

- The services sector grew 1.7% in June from May, above expectations of 0.9% MoM ;
- Breakdown results were positive, with all major segments increasing in June;
- The positive highlight a highlight to information and communication services (2.0% MoM and 2.7% QoQ), that remained on a solid growth trajectory. The category of other services also posted a material advance (1.6% MoM and 3.8% QoQ), mostly driven by auxiliary financial service activities;
- On the other hand, services rendered to families lost steam in June (0.3% MoM);
- In the second quarter, the services index showed a 0.7% growth, despite the floods seen in Rio Grande do Sul in this quarter, the second consecutive gain on the quarterly comparison. The data reinforces a scenario of solid domestic activity in the short term.



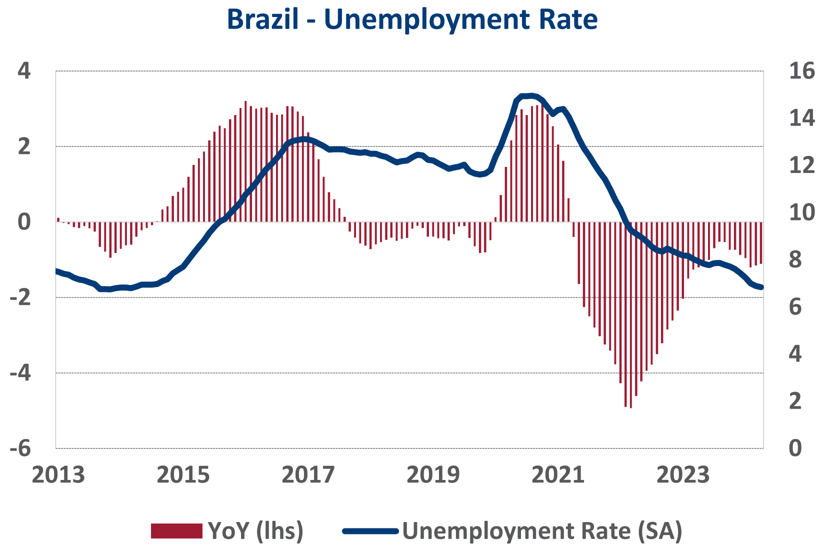


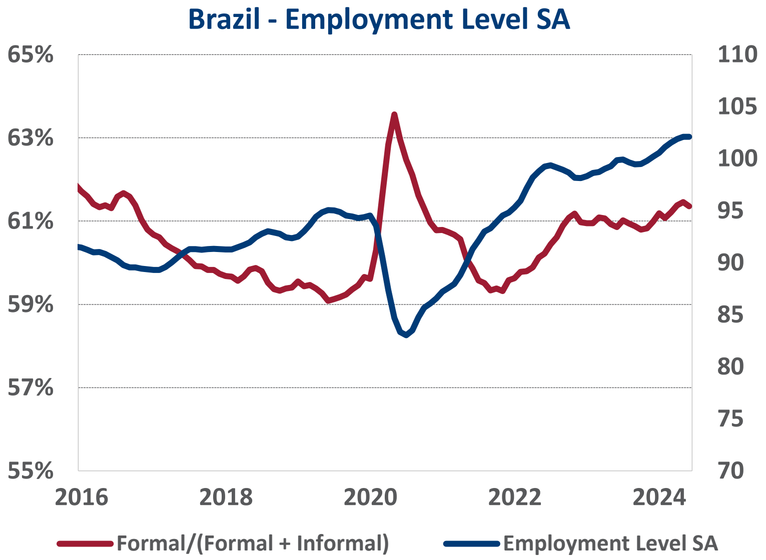


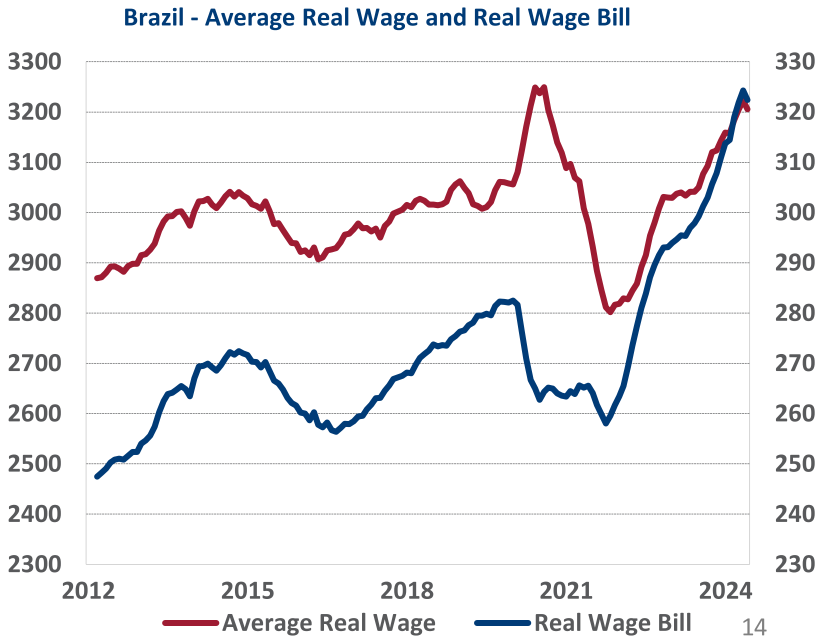
Source: IBGE, BOCOM BBM

Brazil: PNAD

- The unemployment rate decreased to 6.8% in the moving quarter up to July, from 6.9% on the previous period;
- Seasonally adjusted, the indicator dropped to 6.8% in July from 6.9% in June in the seasonally adjusted rate, reaching the lowest level for the month in the historical series;
- Total employment (-0.2% MoM) and labor force (-0,1% MoM) both decreased, after seven months of employed population growing;
- The labor force participation rate fell slightly to 62.0% in July, still running considerably below pre-pandemic levels (around 63.5%);
- Real labor earnings fell 0.4% MoM, ending a sequence of 6 straight gains;
- Real aggregated labor income dropped 0.7% in July, but it is 7.9% YoY.





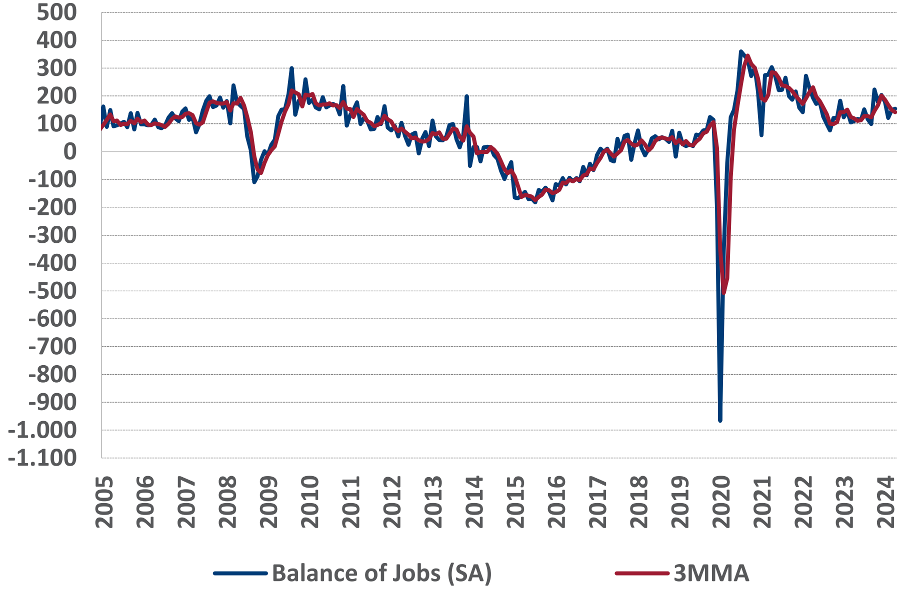


Source: IBGE, BOCOM BBM, MTE

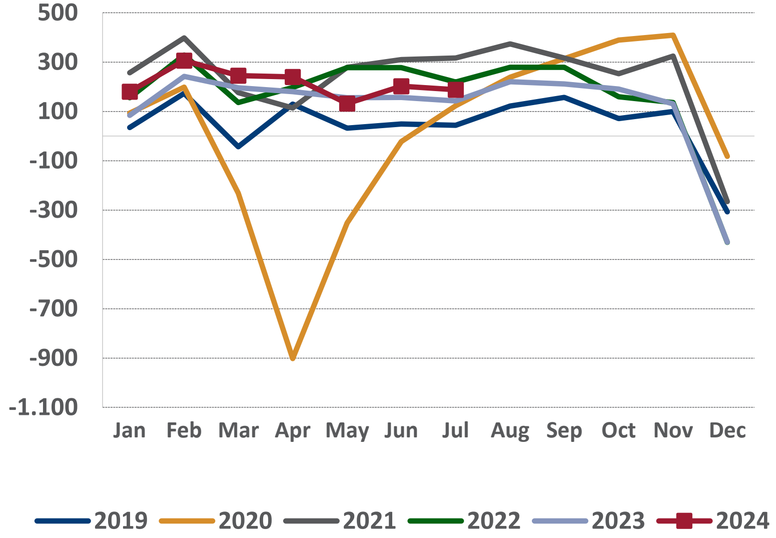
Brazil: Formal Labor Market

- Caged registered a net creation of 188k formal jobs in July, in line with market expectations (190k);
- The net addition of jobs totaled about 1.5 million from January to July 2024, considerably above the same period of 2023 (1.2 million);
- The data continues to show strong numbers in hiring, especially in the services sector;
- In sum, the formal labor market continues to present very strong numbers, contributing to support household consumption.

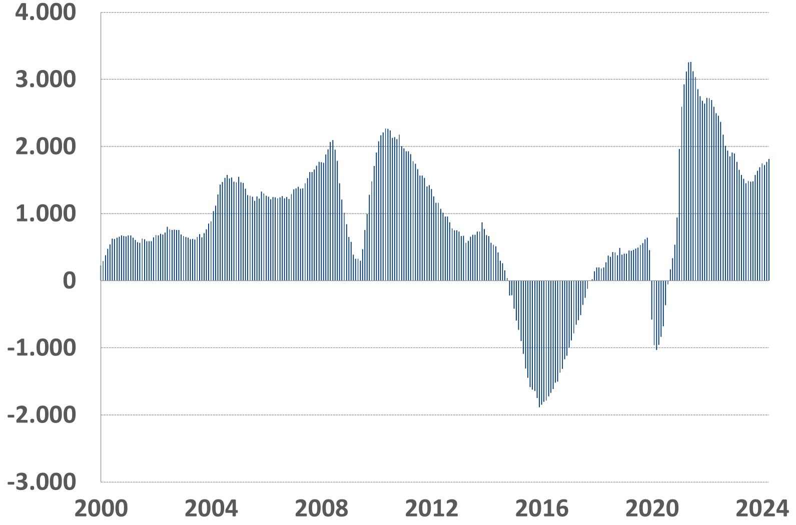
CAGED - Balance of Jobs (SA, Thousand)



CAGED - Balance of Jobs (Thousand)



CAGED – Balance of Jobs 12 Months Acc. (Thousands)

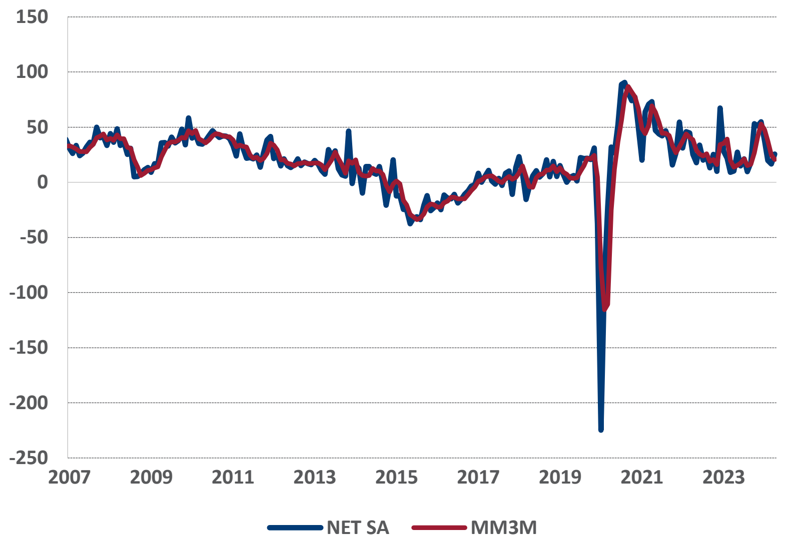


Source: BOCOM BBM, MTE

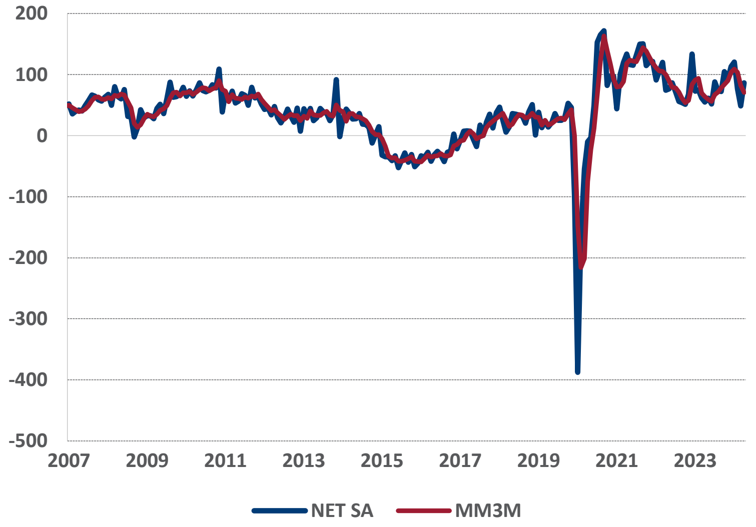
Brazil: Formal Labor Market

- 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 86.6k formal jobs;
- Industry was the second best, creating around 29.6k formal jobs;
- Retail Sales, in turn, registered a net of 25.6k;
- Finally, the construction sector created about 7.8k formal jobs.

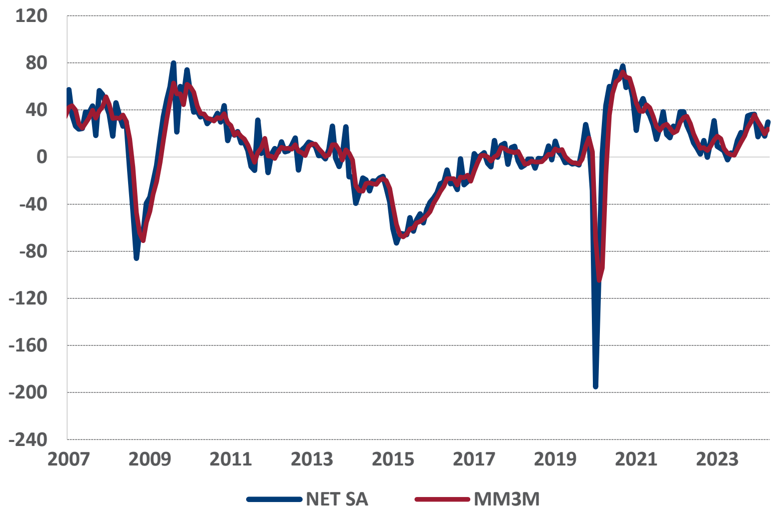
Brazil - Retail Net Payroll Job Creation (SA)



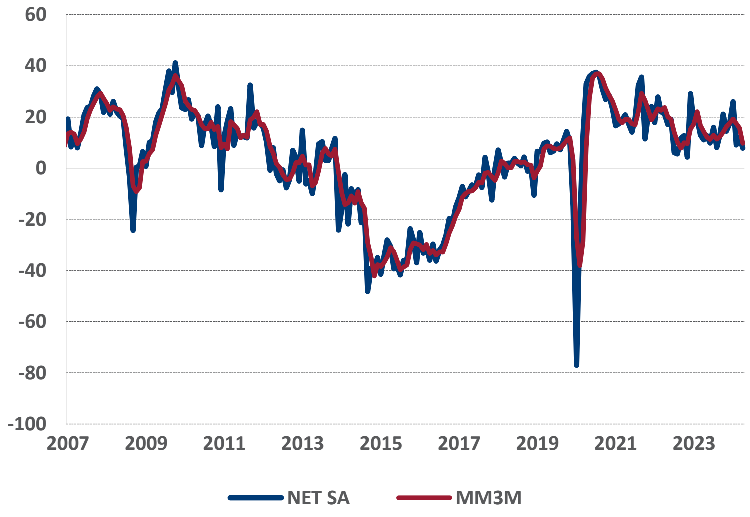
Brazil - Services Net Payroll Job Creation (SA)



Brazil - Industry Net Payroll Job Creation (SA)



Brazil - Construction Net Payroll Job Creation (SA)

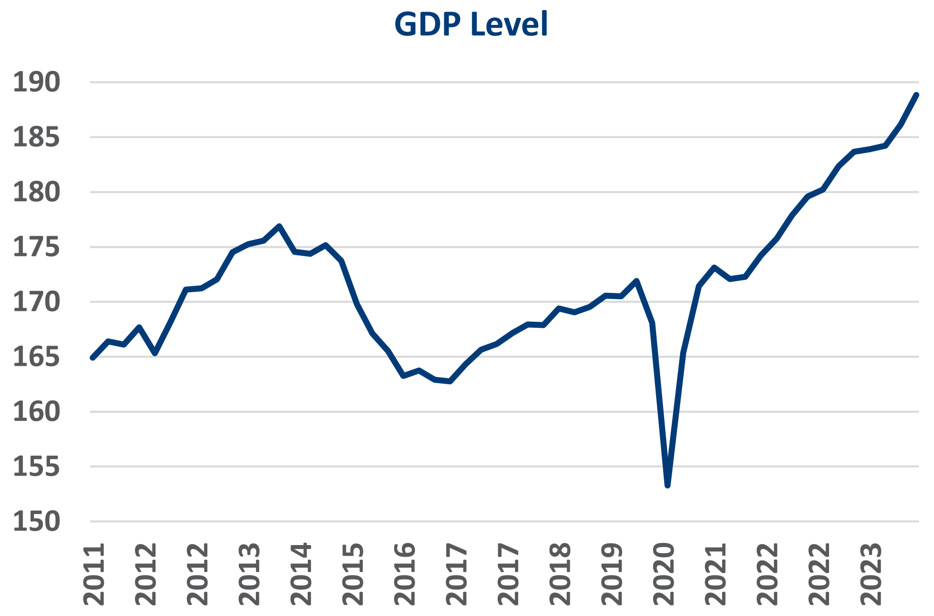


Source: BOCOM BBM, MTE

Brazil: GDP

- 2Q24 GDP increased 1.4% QoQ , well above consensus (+0.9% QoQ), after 1.0% QoQ growth in 1Q24;
- The result confirmed the strength of short-term domestic activity;
- The surprises were spread among activities. In the industry, stronger-than-expected performance of construction and utilities. The services, in turn, remained on a solid growth trajectory in all its components.

Brazil 2024 Q2 GDP: Forecast x Official					
	Official 24-Q1 QoQ	Forecast 24-Q1 QoQ	Official 24-Q1 YoY	Forecast 24-Q1 YoY	Carry over
GDP	**1.4%**	**0.9%**	**3.3%**	**2.5%**	**2.5%**
Agriculture	**-2.3%**	**-2.1%**	**-2.9%**	**-2.5%**	**0.2%**
Industry	**1.8%**	**0.5%**	**3.9%**	**3.5%**	**2.8%**
Mining	-4.4%	-3.6%	1.0%	1.9%	0.5%
Manufacturing	1.8%	2.0%	3.6%	3.9%	2.6%
Electricity	4.2%	0.1%	8.5%	4.1%	4.8%
Civil Construction	3.5%	0.9%	4.4%	2.3%	4.2%
Services	**1.0%**	**1.2%**	3.5%	2.7%	**3.0%**
Retail	1.4%	1.6%	4.0%	3.4%	3.5%
Transports	1.3%	1.4%	0.7%	1.8%	1.1%
Information and Communication	1.7%	1.1%	6.1%	5.2%	5.2%
Financial Services	2.0%	0.3%	4.0%	1.0%	2.9%
Rents	0.9%	1.0%	3.7%	4.1%	2.8%
Other Services	0.8%	0.8%	4.5%	3.5%	3.9%
Public Administration	1.0%	0.4%	1.9%	1.0%	1.1%
Demand Side					
Household Consumption	1.3%		4.9%		4.1%
Government Consumption	1.3%		3.1%		2.3%
Investment	2.1%		5.7%		5.4%
Exports	1.4%		4.5%		3.7%
Imports	7.6%		14.8%		13.1%

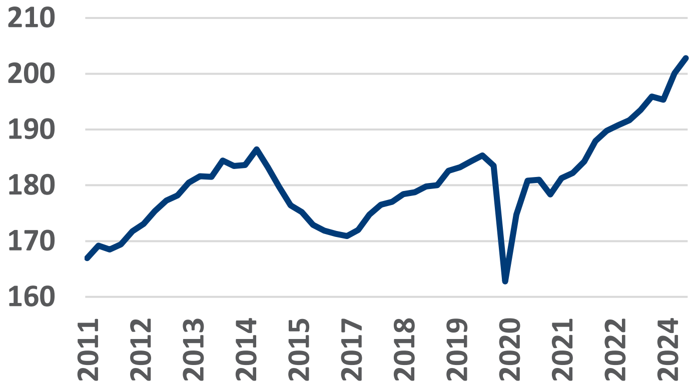


Source: BOCOM BBM, IBGE

Brazil: GDP

- On the demand side, the highlights were the resilience of household consumption, and the recovery of investments;
- The former reflects the increase in real disposable income and credit concessions, while the latter is a result of greater demand for capital goods and the exceptional construction sector performance.

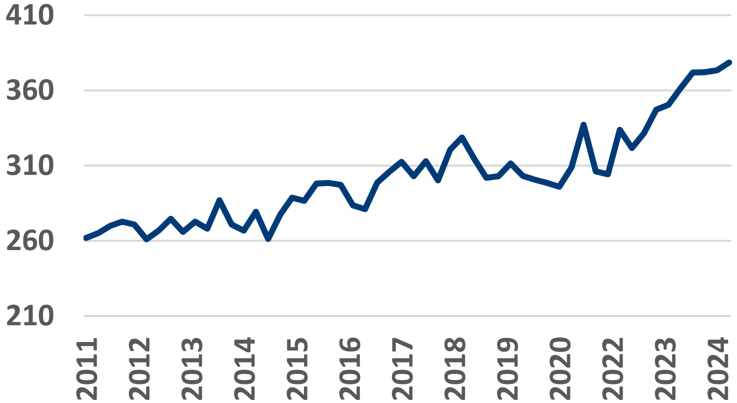
Household Consumption



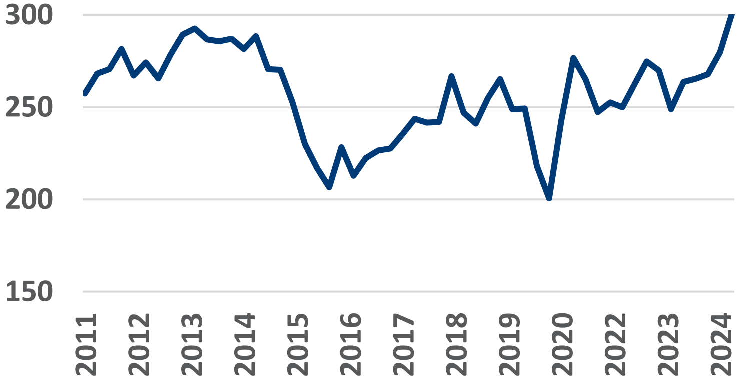
Gross Fixed Capital Formation

Government Consumption

Exports



Imports

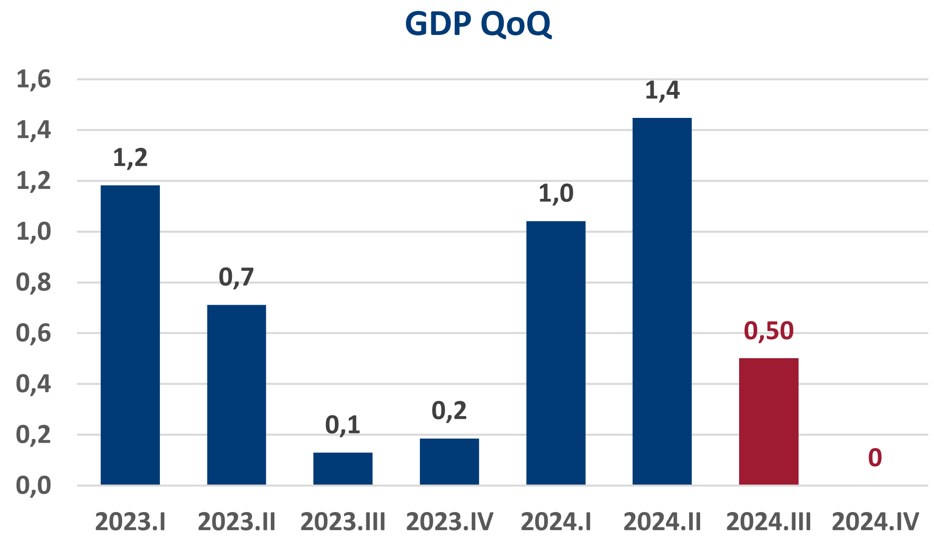


Source: BOCOM BBM, IBGE

Brazil: GDP Forecast

- We now foresee 3.1% growth in 2024 (0.5% QoQ in Q3 and 0.0% QoQ in Q4);
- As most of the effect of the public stimulus is close to being over, we expect a growth moderation over the H2;
- For 2025 we now forecast 1.7% (from 1.9%) due to the tightening of financial conditions and the lower fiscal impulse expected for 2025.

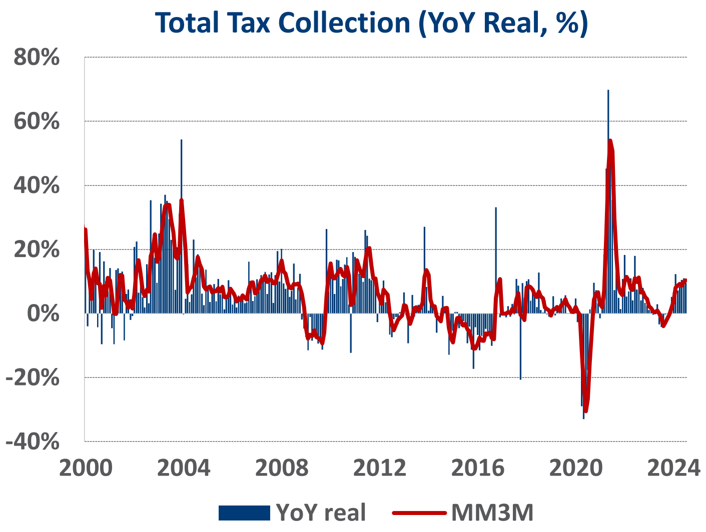
Forecasts				
	2024.III QoQ	2024.III YoY	2024	2025
GDP	0.5%	3.7%	3.1%	1.7%
Agriculture	**-1.7%**	**-2.0%**	**-2.4%**	**4.4%**
Industry	**1.3%**	**4.0%**	**3.4%**	**1.0%**
Mining	2.3%	1.7%	2.5%	5.5%
Manufacturing	0.2%	3.0%	2.6%	-0.8%
Electricity	3.3%	9.1%	7.9%	3.4%
Civil Construction	0.2%	7.7%	5.0%	2.0%
Services	**0.5%**	**3.8%**	**3.4%**	**1.7%**
Retail	1.0%	4.6%	3.7%	0.8%
Transports	0.1%	1.0%	0.6%	0.4%
Information and Communication	0.9%	6.2%	5.7%	4.1%
Financial Services	0.9%	3.7%	3.4%	1.5%
Rents	1.0%	3.3%	3.5%	2.3%
Other Services	0.9%	5.0%	4.5%	2.3%
Public Administration	0.8%	2.6%	1.8%	1.2%

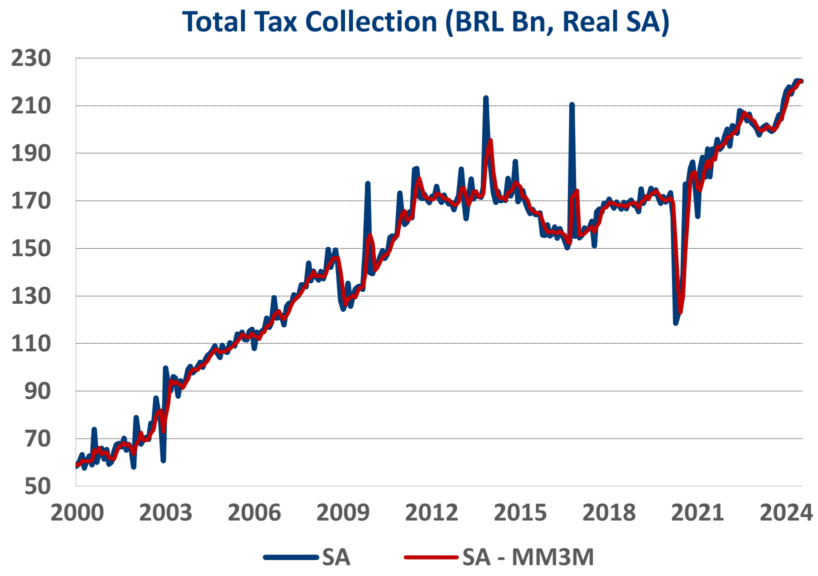


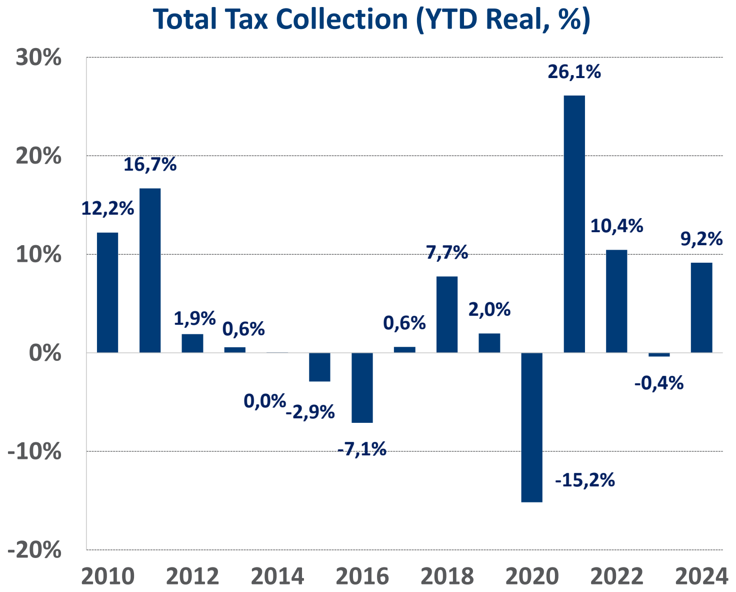
Source: BOCOM BBM, IBGE

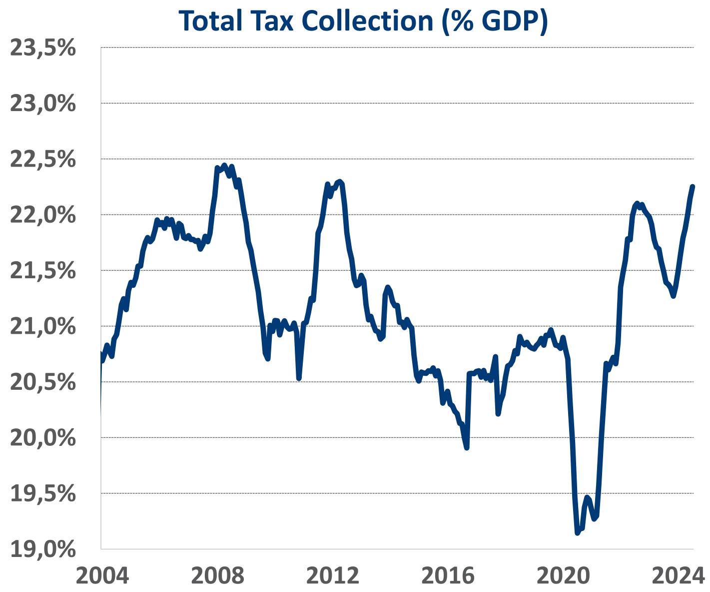
Brazil: Federal Tax Collections

- In July, total federal tax collections reached BRL 231.0 bn (9.5% YoY), in line with the consensus and the best performance for the month in the historical data;
- The main drivers were import tax (45.9% YoY), on the back of a higher exchange rate and import volume, PIS/Cofins (21.9%), due to the return of taxation on fuels, and IPI (31.3% YoY), due to gains in tobacco and automobiles taxation;
- On the negative side, other taxes administered by RFB, which includes the effects of the change on CARF and tax transactions, fell 19.9% YoY;
- Year-to-date growth reached 9.2%, indicating that some revenue-raising measures are being successful. The deterioration of some economic indicators, like the exchange rate, also contributed positively;
- However, tax collections are still below what would be needed to reach the primary result target, with the performance of other measures to increase revenues continuing to disappoint.









Source: BOCOM BBM, RFB

Brazil: Consolidated Public Sector Budget

- The consolidated public sector recorded a primary deficit of BRL 21.4 billion in July, from a deficit of BRL 40.9 bn in June, well below the market consensus (BRL -6.9 billion). Central Government, subnational governments and state-owned enterprises registered deficits of BRL 8.6 bn, BRL 11.0 bn and BRL 1.7 bn, respectively;

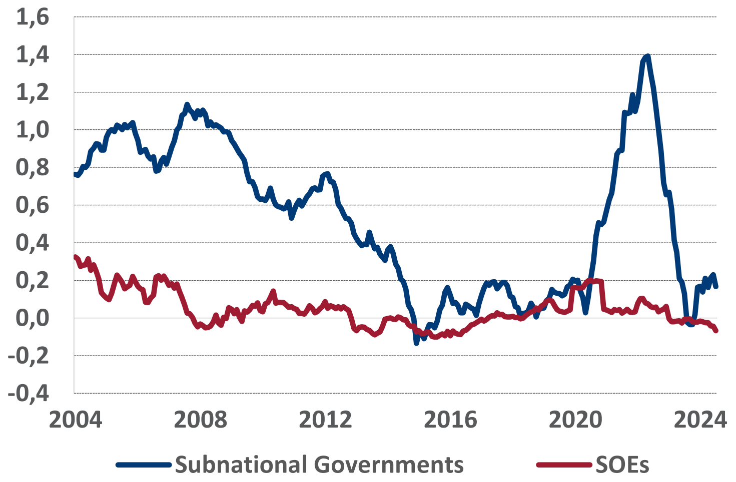
- Gross General Government Debt increased from 77.8% of GDP in June to 78.5% of GDP in July, driven by nominal interest (+0.7pp.), net issuance (+0.4pp.) and partially offset by nominal GDP growth (-0.5pp.).

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: 2025 budget

- On August 31, the government presented the 2025 budget without major surprises;
- Once again, we saw dependence on spending restraint and extraordinary revenues (some of them are beyond government control, depending on votes in Congress) in order to balance the fiscal accounts;
- The government forecasts BRL 121.5 billion in extraordinary revenues and BRL 46.7 billion in conditional revenues, some of them highly uncertain;
- On the spending side the budget bill included a spending review of BRL 25.9 billion: BRL 19.9 billion due to revisions in social security and social assistance spending and BRL 6.1 billion in reprogrammed spending;

- **Overall, the challenges regarding the budget implementation next year are going to be very similar to 2024.**

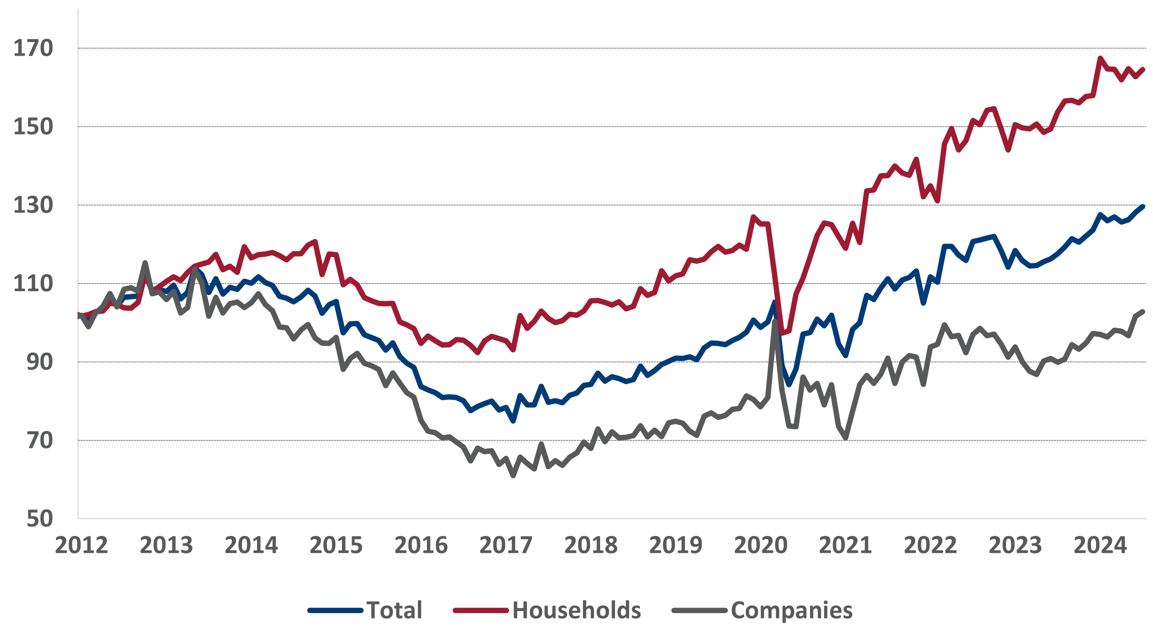
Source: BOCOM BBM, BCB

Brazil: Credit Statistics

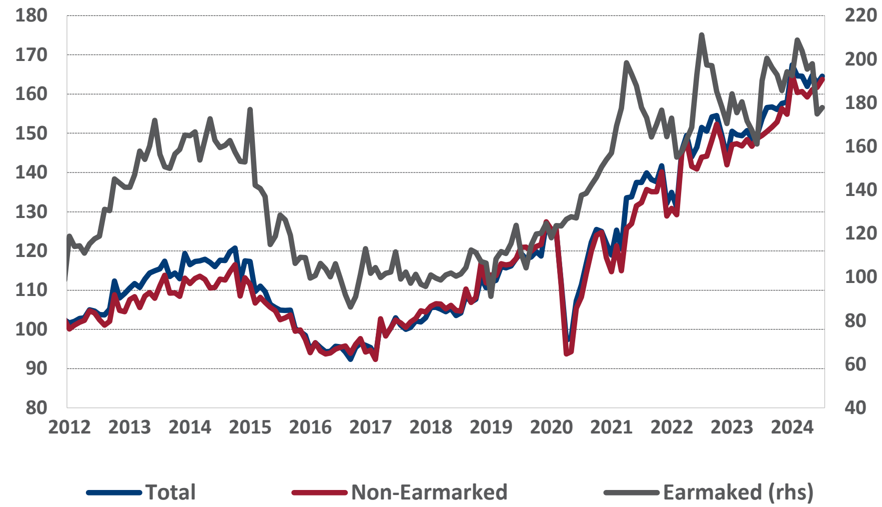
BANK OF COMMUNICATIONS 交通銀行 BBM

- In July, total credit concessions increased 1.1% MoM in real terms;
- Non-earmarked credit concessions increased 6.5% MoM to companies and 1.3% MoM to households in real terms;
- Earmarked credit concessions, in turn, grew 1.6% MoM to households and fell 28.2% MoM to companies in real terms.

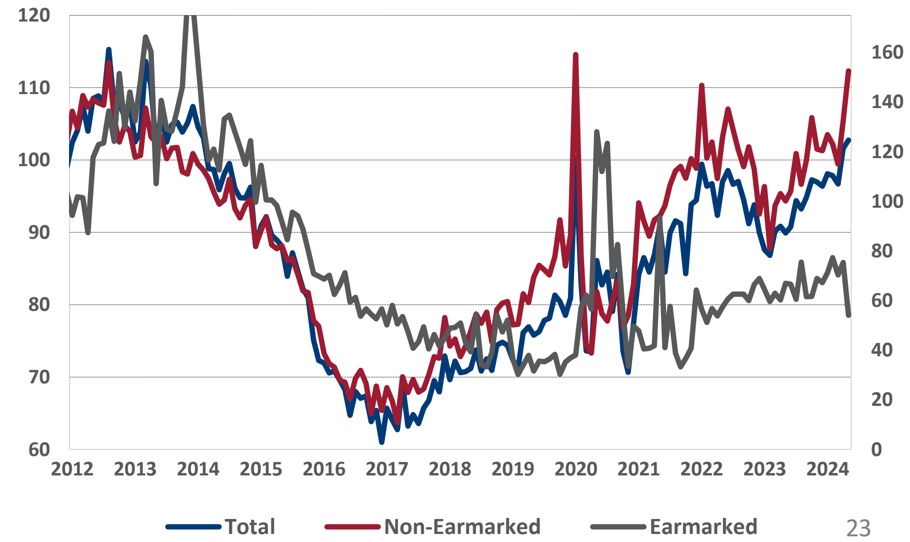
New Credit Operations SA (Real) - mar/11 = 100



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



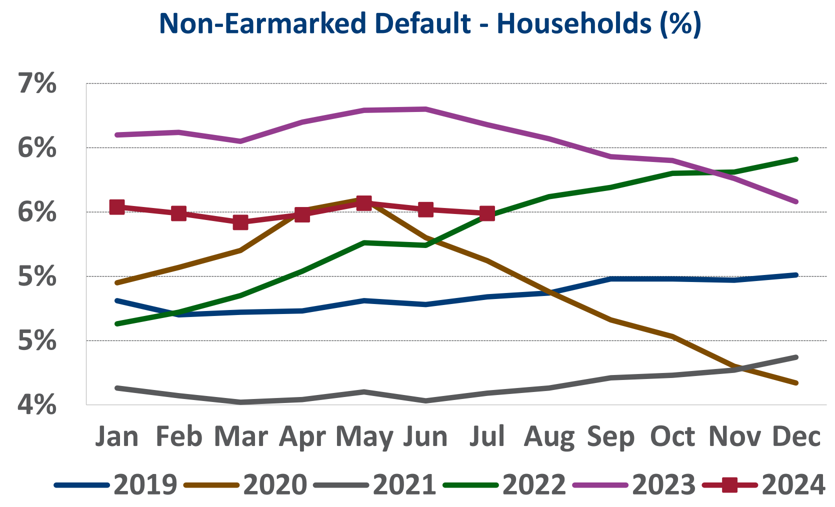
Concessions - Companies SA (Real) - mar/11 = 100

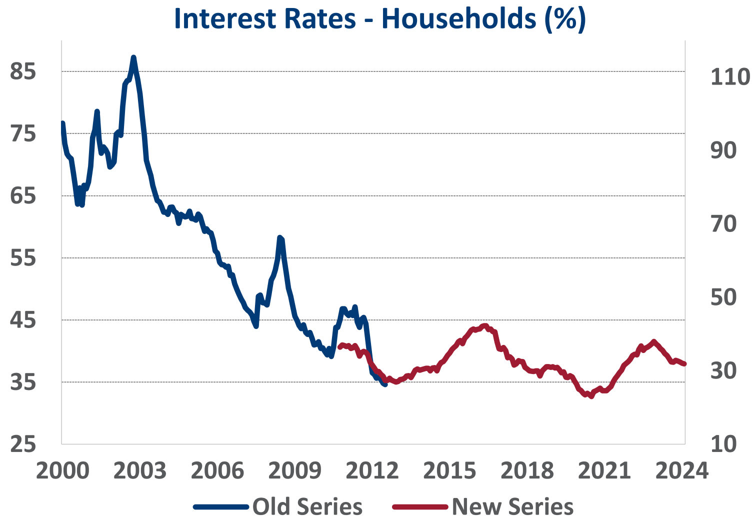


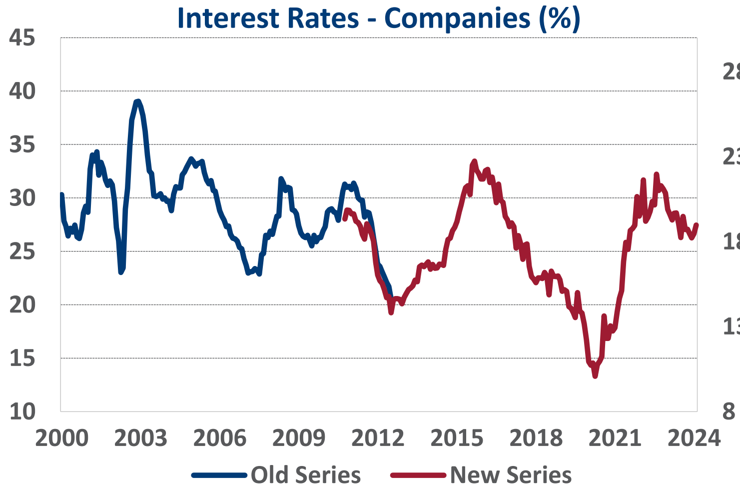
Source: BOCOM BBM, BCB

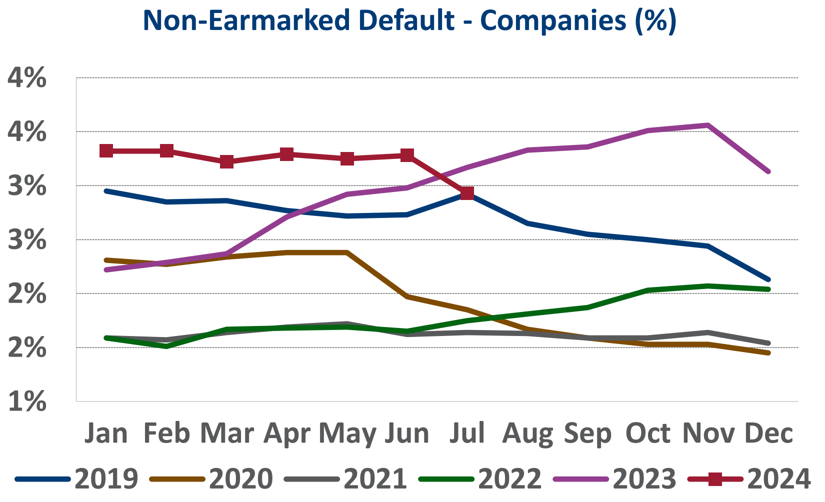
Brazil: Credit Statistics

- Lending rates fell marginally from 32.0% to 31.9% for individuals and grew from 18.5% to 19.0% for companies;
- In turn, non-earmarked default rate continued around 5.5% to individuals and fell to 2.9% to companies.





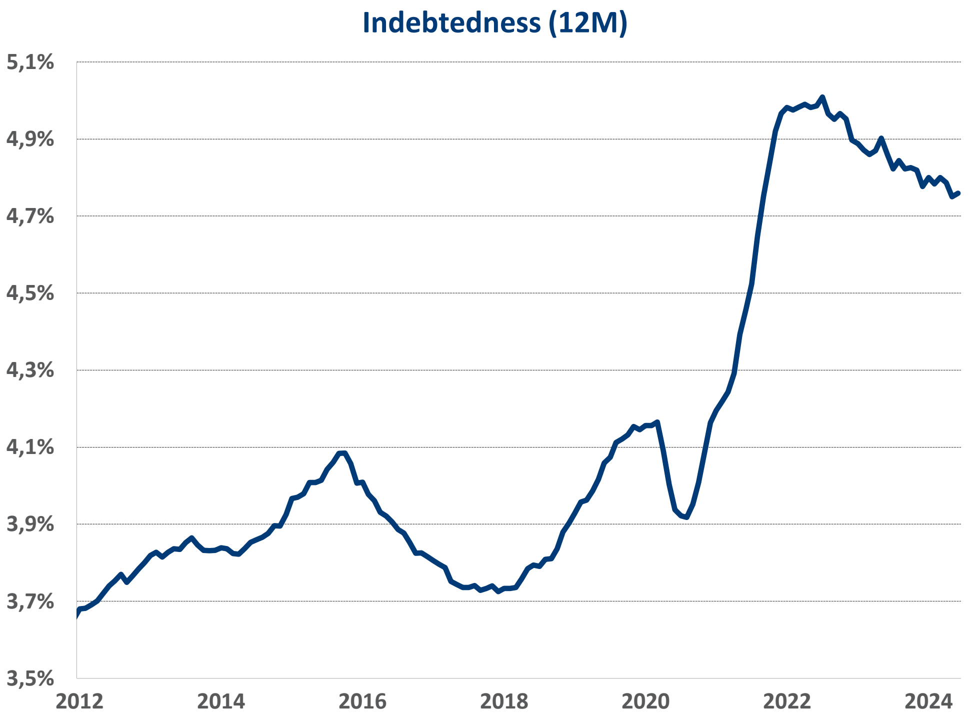


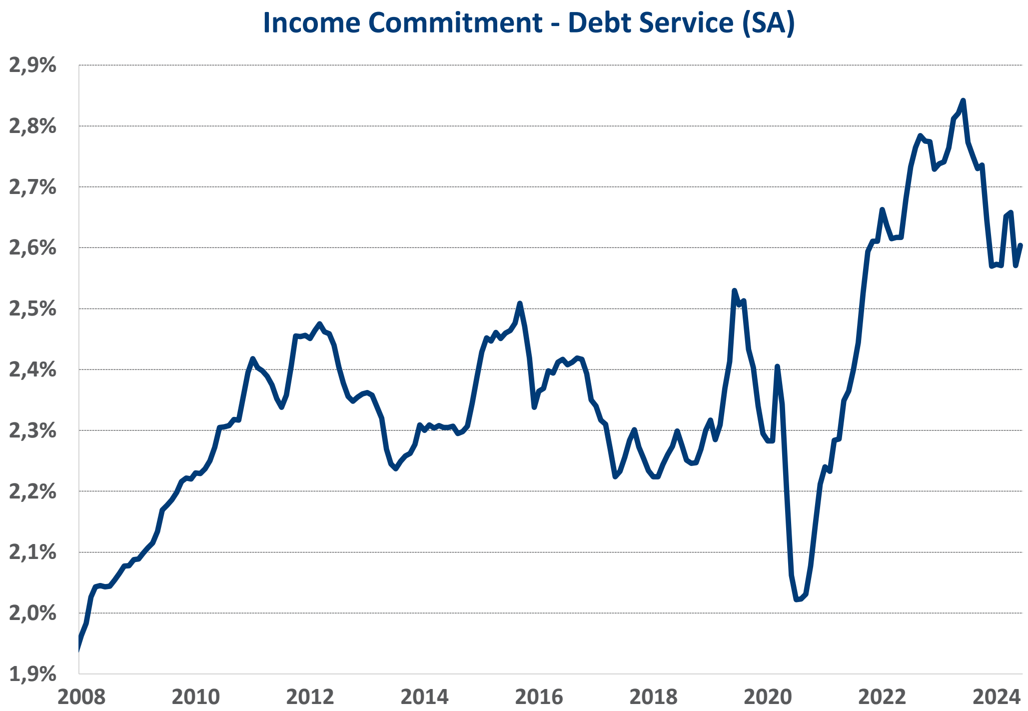


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- Household indebtedness rose slightly to 47.6%;
- Income commitment increased from 25.7% to 26.0%, after decreasing in the last month.



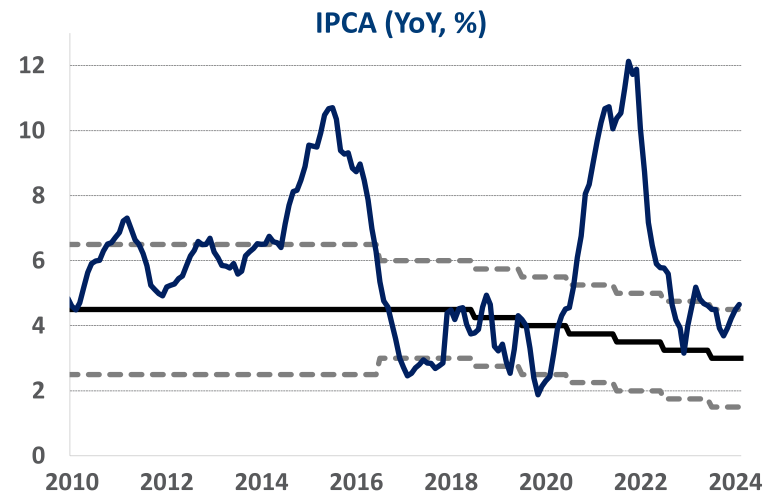


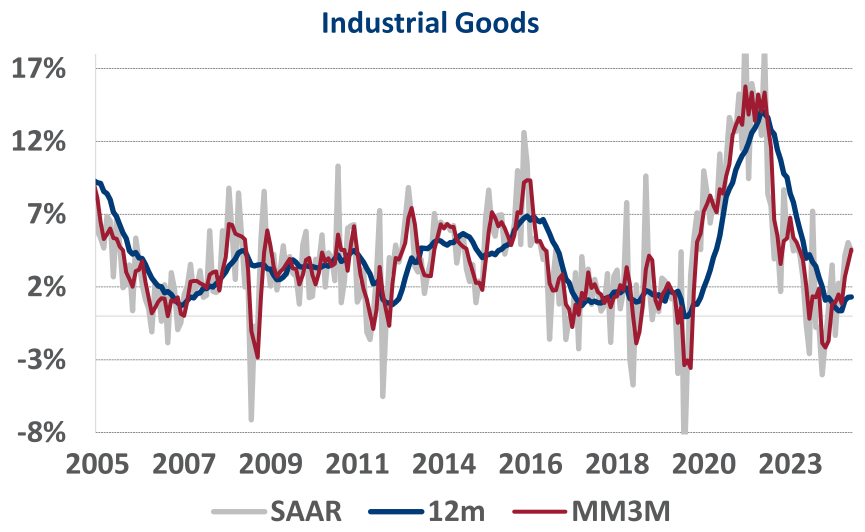
Source: BOCOM BBM, BCB

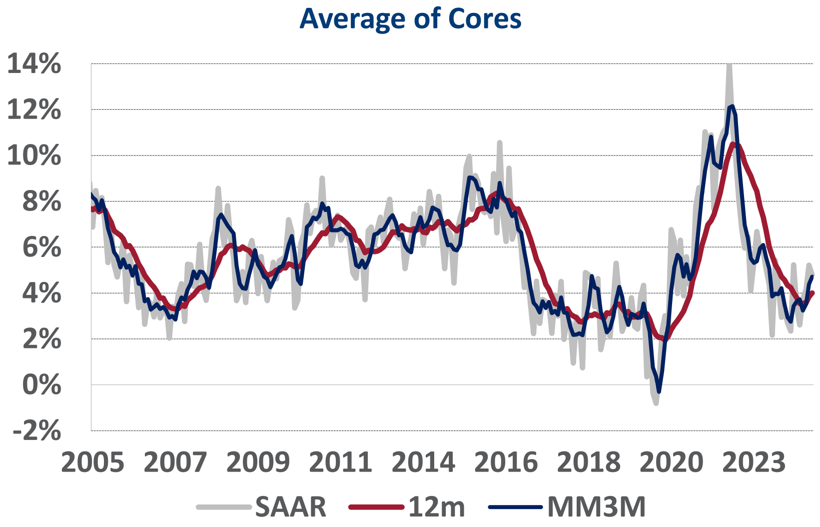
Brazil: Inflation 2024

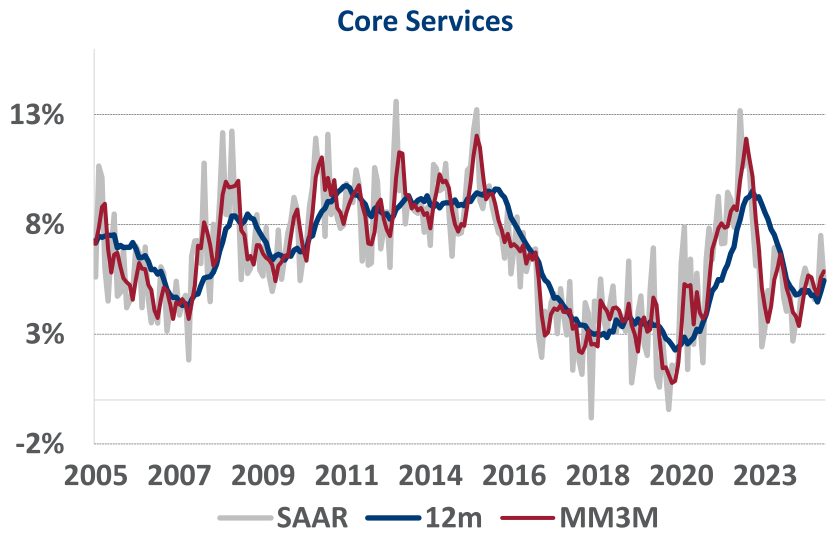
BANK OF COMMUNICATIONS BBM

- August IPCA-15 rose by 0.19% MoM, in line with expectations (0.19%);
- The 12-month variation fell to 4.35% in August from 4.45% in July;
- The main upward surprises came from airfares and fresh food, while the downside surprises were due to gasoline, industrial goods and labor-intensive services;
- The breakdown was positive, as the underlying services and the average of cores surprised downside. However, the SAAR 3 months moving average remained closed to the top of the target due to high inflation levels in July.





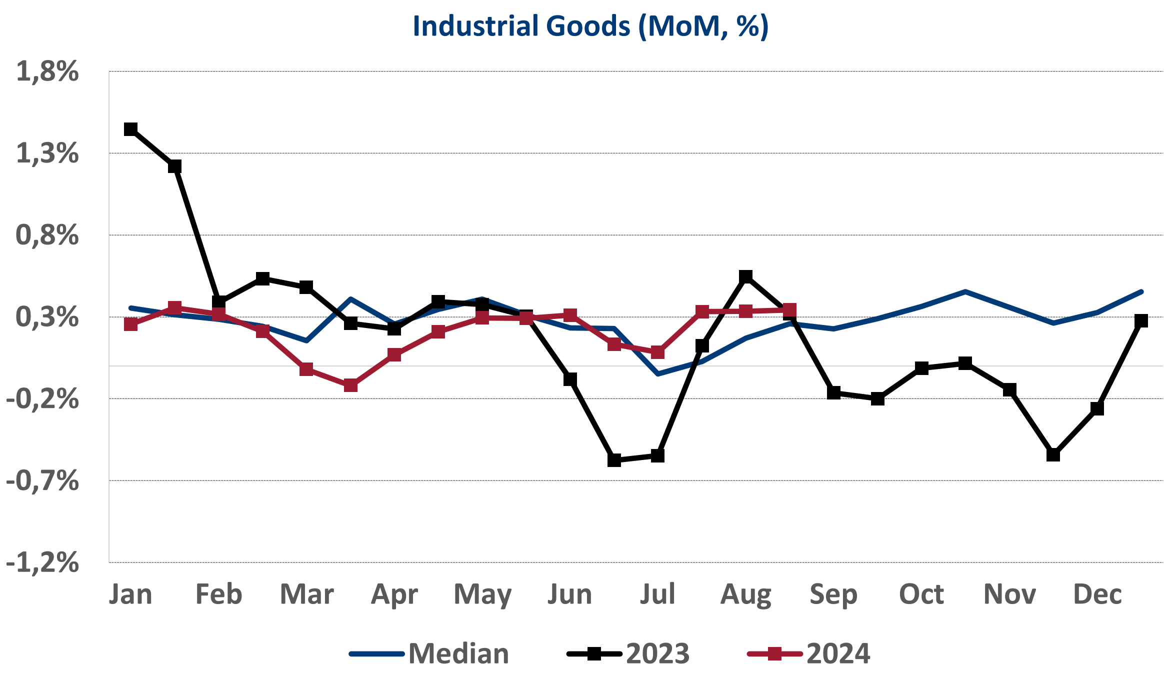


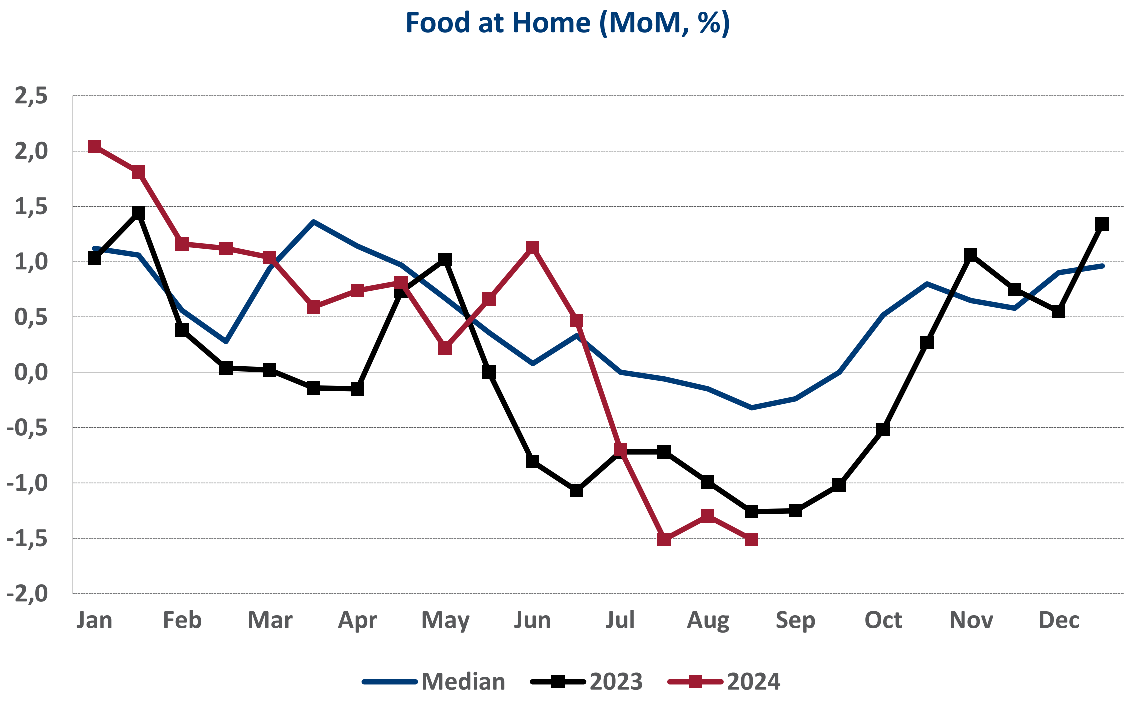


Source: BOCOM BBM, IBGE

Brazil: Inflation 2024

- Industrial goods advanced 0,33% MoM, confirming the expected acceleration, in line with FX depreciation;
- Foodstuff prices fell by 1.30% MoM. The main downward contribution came from fresh food, cooling down from the high levels seen in 2Q24.





Source: BOCOM BBM, IBGE

Brazil: Inflation

- Upside revision in the short term related to industrial, food at home and regulated markets, but without changing the scenario for the year;
- We consider the activation of the "red flag 1" on electricity tariffs starting in September 2024, but with a subsequent change to "yellow flag" in December.

IPCA (%, annual)

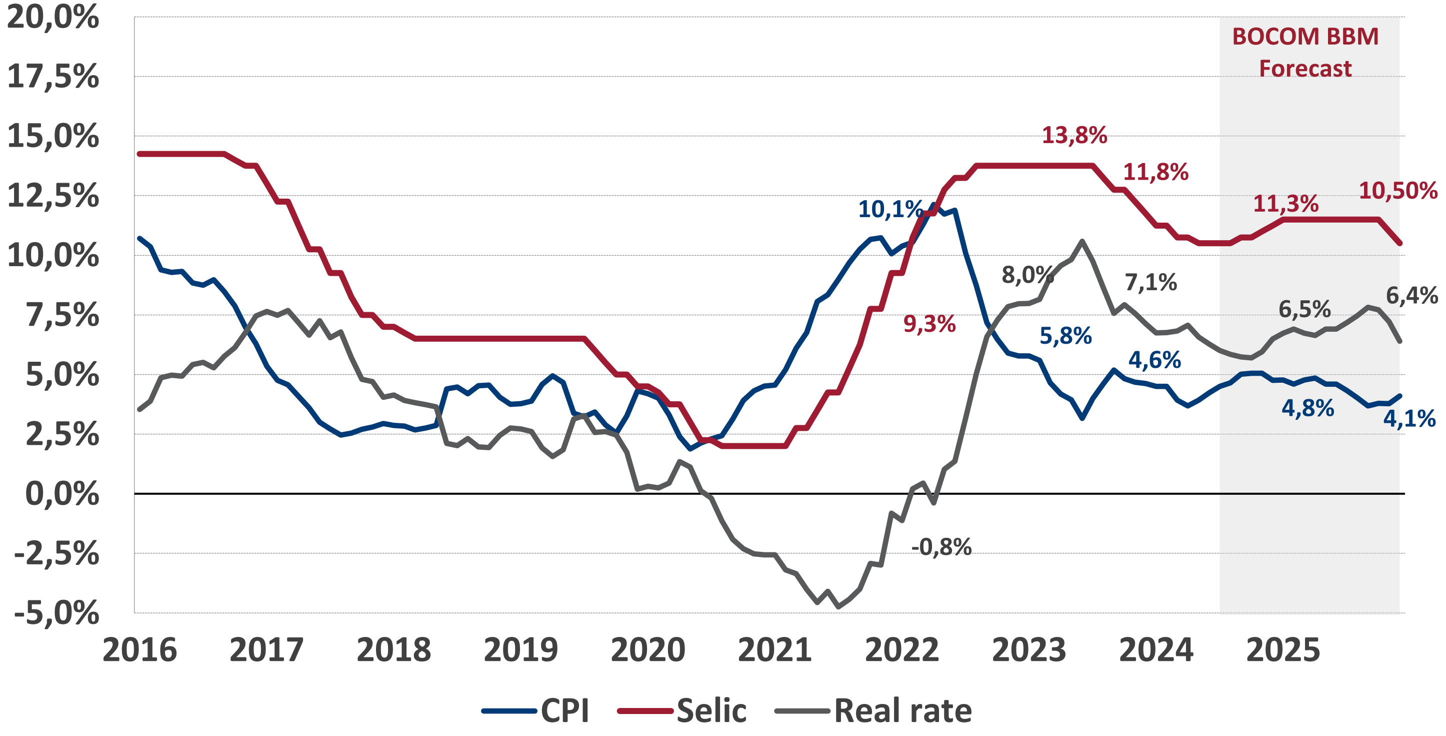
	Weight	2019	2020	2021	2022	2023	2024	2025
Regulated	**26.6**	**5.5**	**2.6**	**16.9**	**-3.8**	**9.1**	**5.3**	**3.8**
Industrial goods	**23.6**	**1.7**	**3.2**	**11.9**	**9.5**	**1.1**	**3.1**	**4.2**
Durable goods	10.3	0.0	4.5	12.9	6.1	-0.4	1.4	-
Semi-durable goods	5.9	0.6	-0.1	10.2	15.7	2.7	2.1	-
Non-durable goods	7.3	4.4	4.0	11.9	9.5	1.7	6.2	-
Food at home	**15.7**	**7.8**	**18.2**	**8.2**	**13.2**	**-0.5**	**4.4**	**4.3**
Services	**34.1**	**3.5**	**1.7**	**4.8**	**7.6**	**6.2**	**4.5**	**4.3**
Food away from home	5.6	3.8	4.8	7.2	7.5	5.3	4.8	3.9
Related to minimum wage	5.2	2.9	1.5	3.3	6.3	5.2	5.1	6.0
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.3	9.5	1.7	4.1
Inertial	15.0	4.3	1.6	4.2	8.8	5.1	5.7	3.9
IPCA		**4.3**	**4.5**	**10.1**	**5.8**	**4.6**	**4.3**	**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 its July meeting, in line with expectations;
- However, more risks were added as sources of concerns, consequently the Copom unanimously reinforced that it will not hesitate to raise the interest rate to ensure inflation convergence to the target if it deems it appropriate;
- Since then, economic activity and labor market have been stronger than expected, BRL depreciated, and inflation expectations remained unanchored. This should trigger a reaction from the Central Bank, and the market is pricing a rate hiking cycle beginning in the next meeting;
- We foresee a gradual hiking cycle of 25 bps in each meeting up to January 2025. By the end of the next year, the BCB must start a cutting cycle, ending the year with Selic at 10.5%.

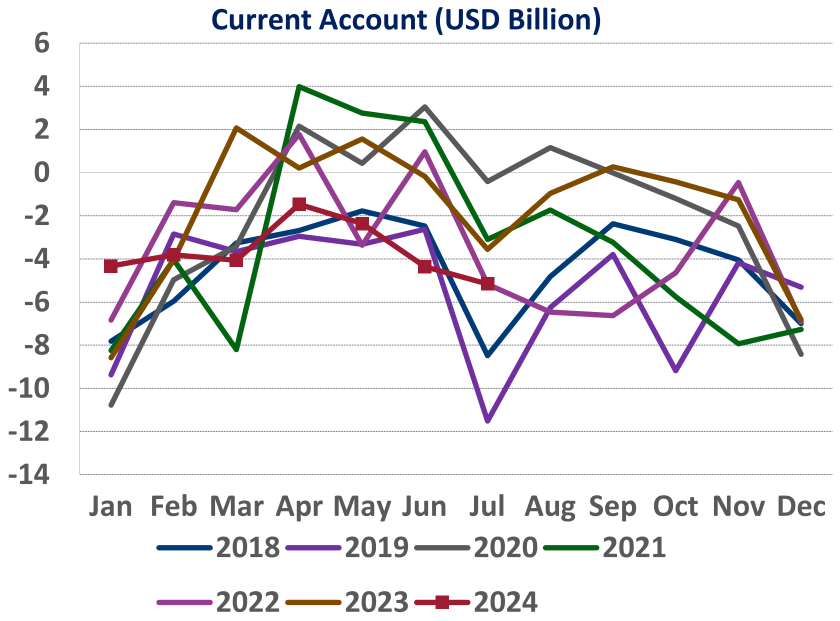
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

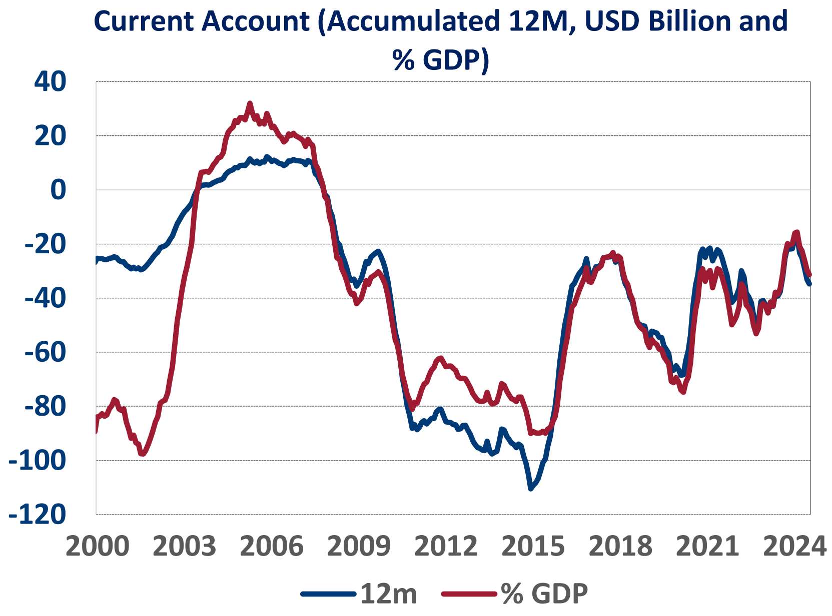


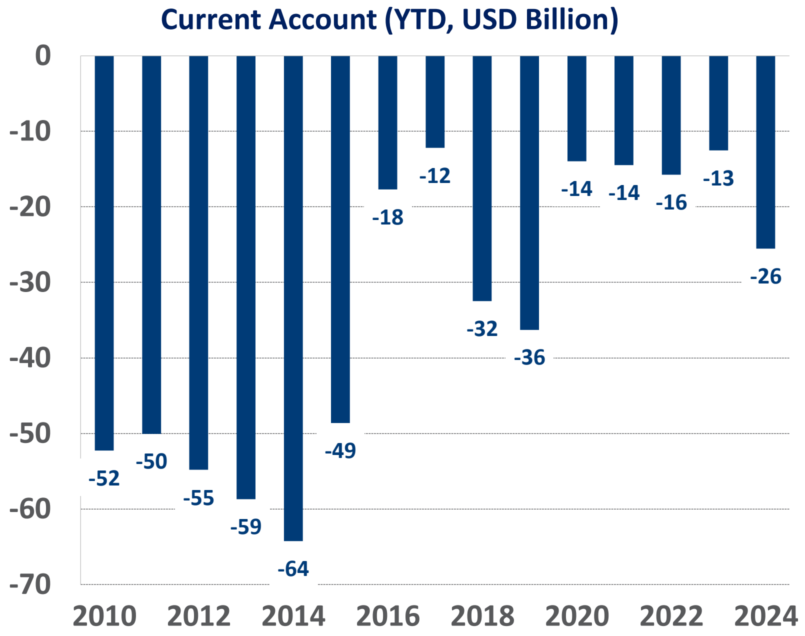
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- In June, the Brazilian current account printed a USD 5.2 billion deficit for July, worse than expectations (USD -4.0 billion);
- For the 12-month rolling sum up to July, the deficit amounted to USD 33.1 billion (-1.6% of GDP).



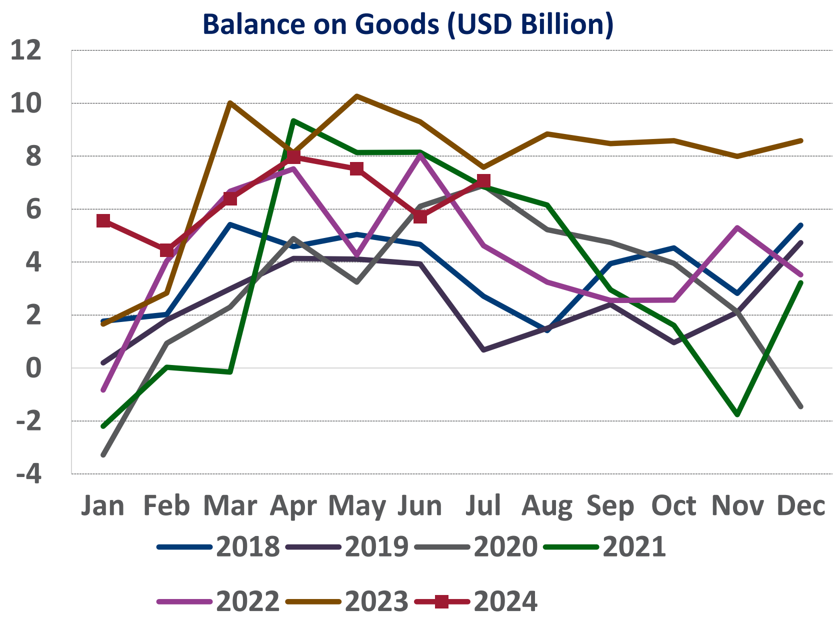


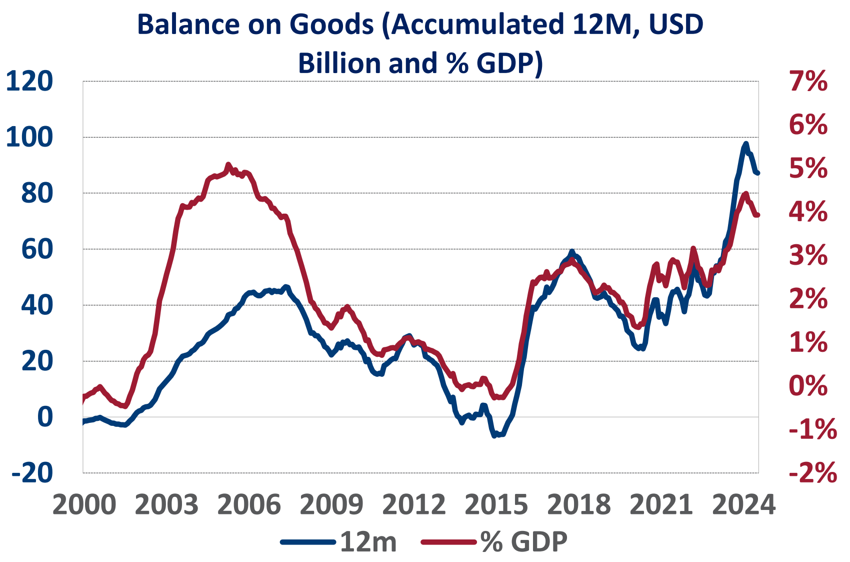


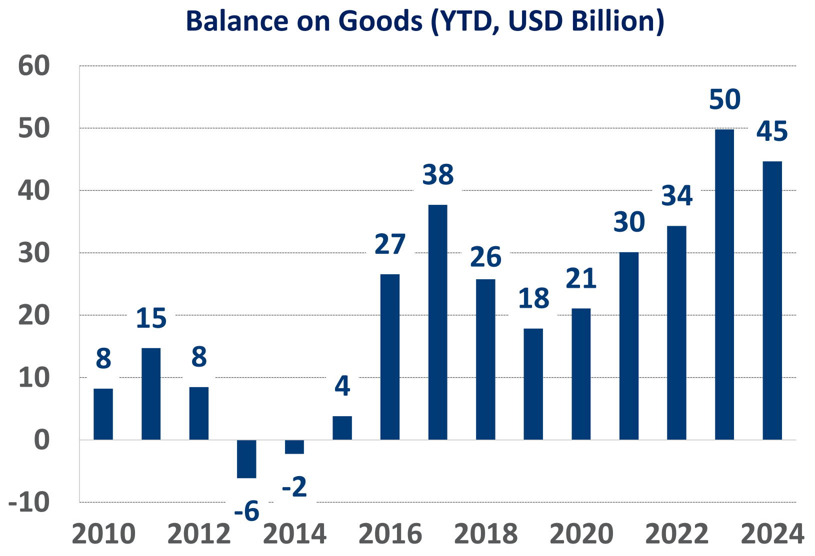
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- The merchandise trade balance recorded a surplus of USD 7.1 billion in July 2024;
- Both exports and imports increased in the period: exports rose by 9.3% YoY to USD 31.2 billion, while imports expanded by 15.2% to USD 24.1 billion;
- The 12-month rolling sum up to June 2024 reached USD 87.2 billion;
- This result was below the recorded in July 2023 (+USD 7.6 billion), mainly due to the increase in imported goods and the decrease in export prices.





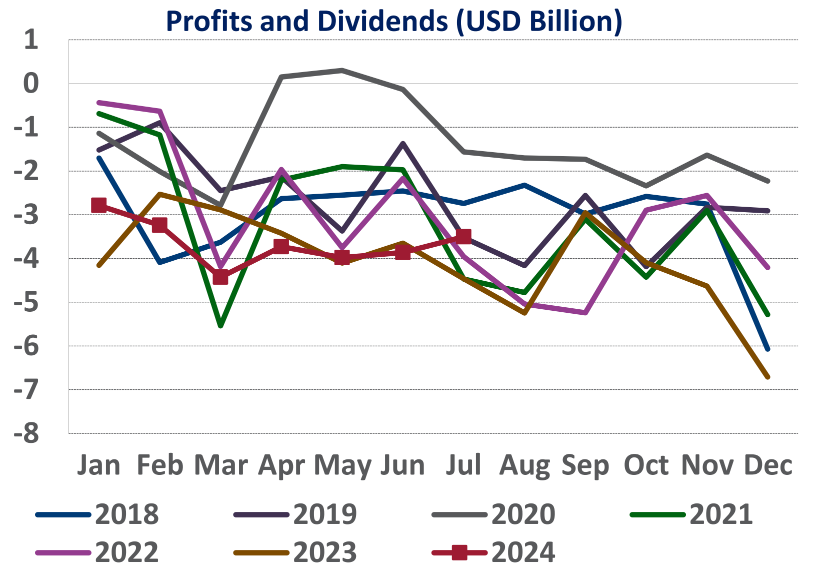


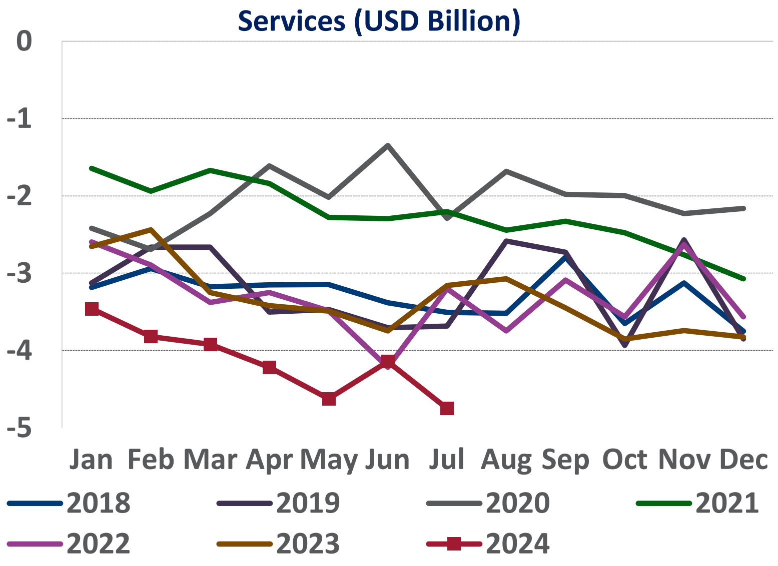
Source: BOCOM BBM, BCB

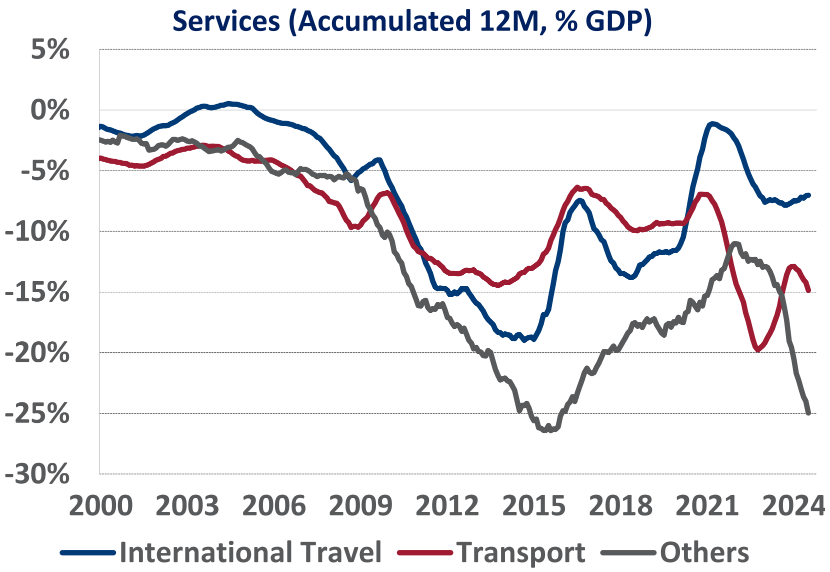
Brazil: Balance of Payments

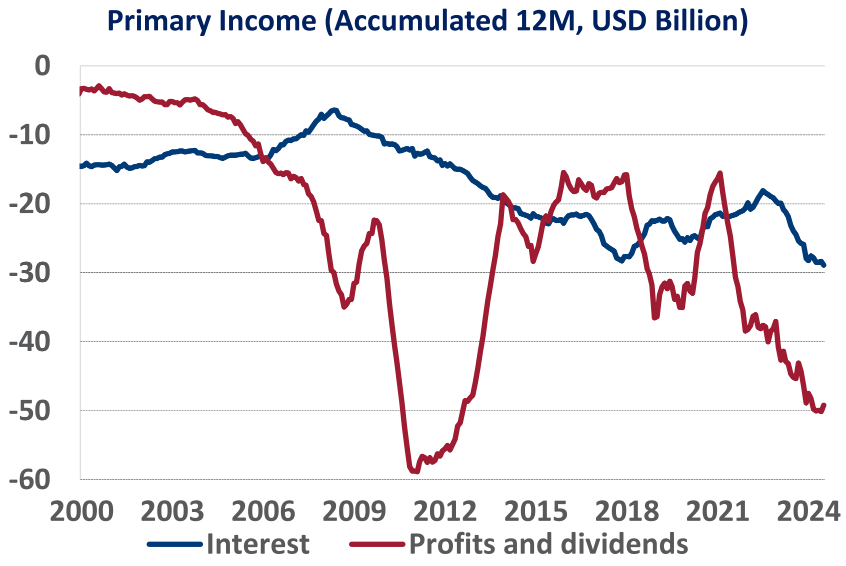
- The services deficit showed again an annual increase, rising from USD 3.2 billion in July 2023 to USD 4.8 billion in July 2024 (50.3% YoY), with the biggest driver being transportation account. It is also worth noting the increase in the telecommunications, computer, and information services account and the intellectual property services account;

- The deficit in the primary income account amounted to USD 7.8 billion in July 2024 from USD 8.2 billion in July 2023, and the year-to-date comparison, at USD 42.8 billion .









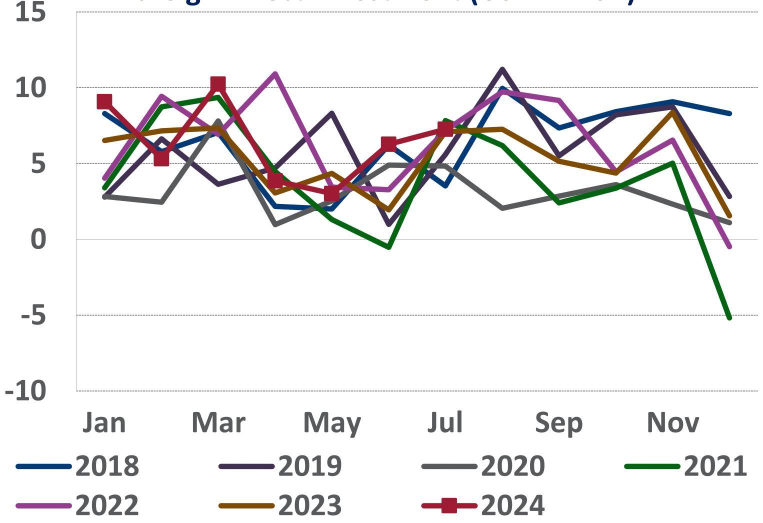
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

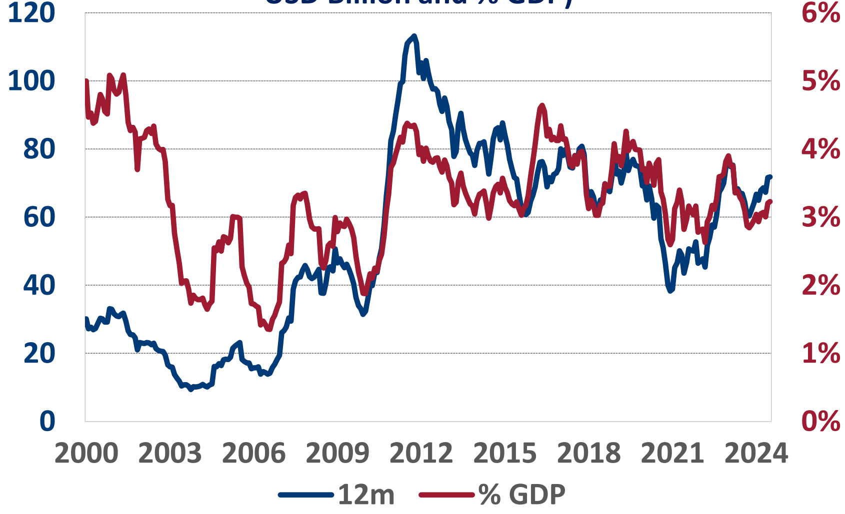
交通銀行 BANK OF COMMUNICATIONS BBM

- Net inflows in Foreign Direct Investment (FDI) totaled USD 7.3 billion in July 2024, slightly higher than market expectation (USD 7.2 billion);
- In 12 months, it reached USD 70.5 billion (3.3% of GDP).

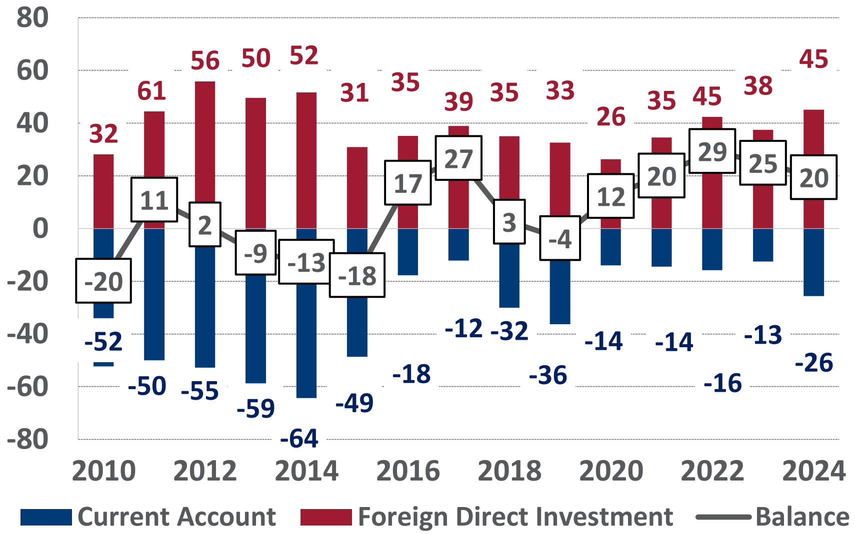
Foreign Direct Investment (USD Billion)



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



Current Account Balance and FDI (YTD, USD Billion)

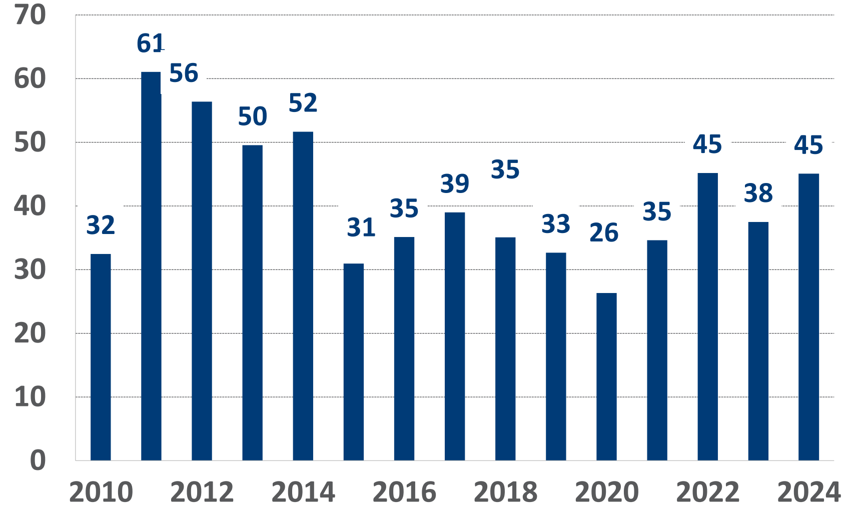


Source: BOCOM BBM, BCB

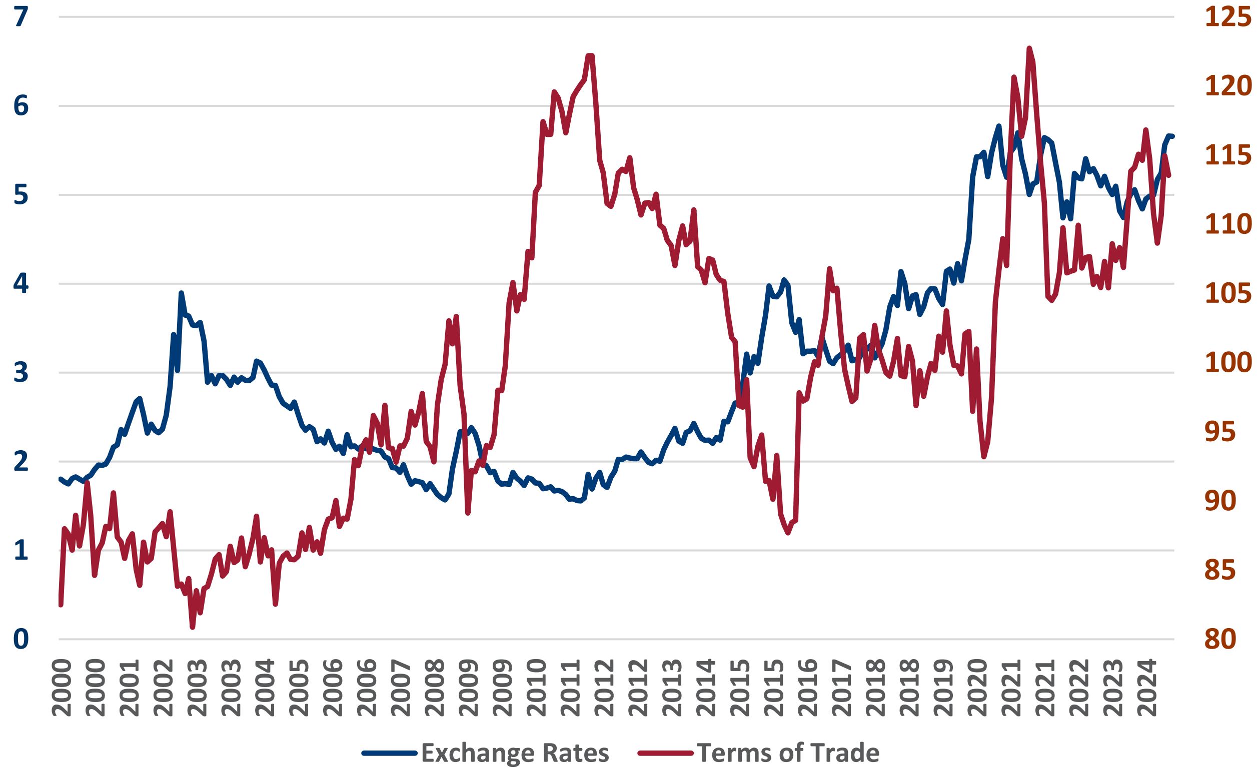
Brazil: External Sector

- In August, the Brazilian Real remained relatively flat around 5.66 against the US Dollar. In the domestic scenario, the Central Bank of Brazil made it clear that it will raise the Selic rate if necessary. In the international front, the President of the Fed made it official the time for the begging of the easing cycle has arrived. The strong downward revision of the payroll weighed in, providing evidence that the American labor market may be cooling more than expected with the current monetary tightening. Looking forward, widening of the interest rate differential could favor the BRL.

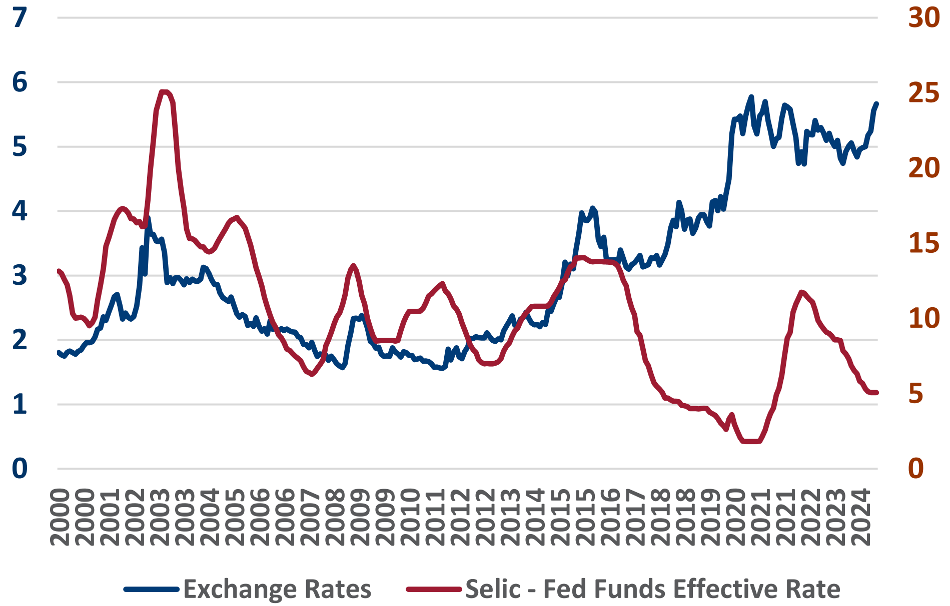
Foreign Direct Investment (YTD, USD Billion)



Terms of Trade x BRL



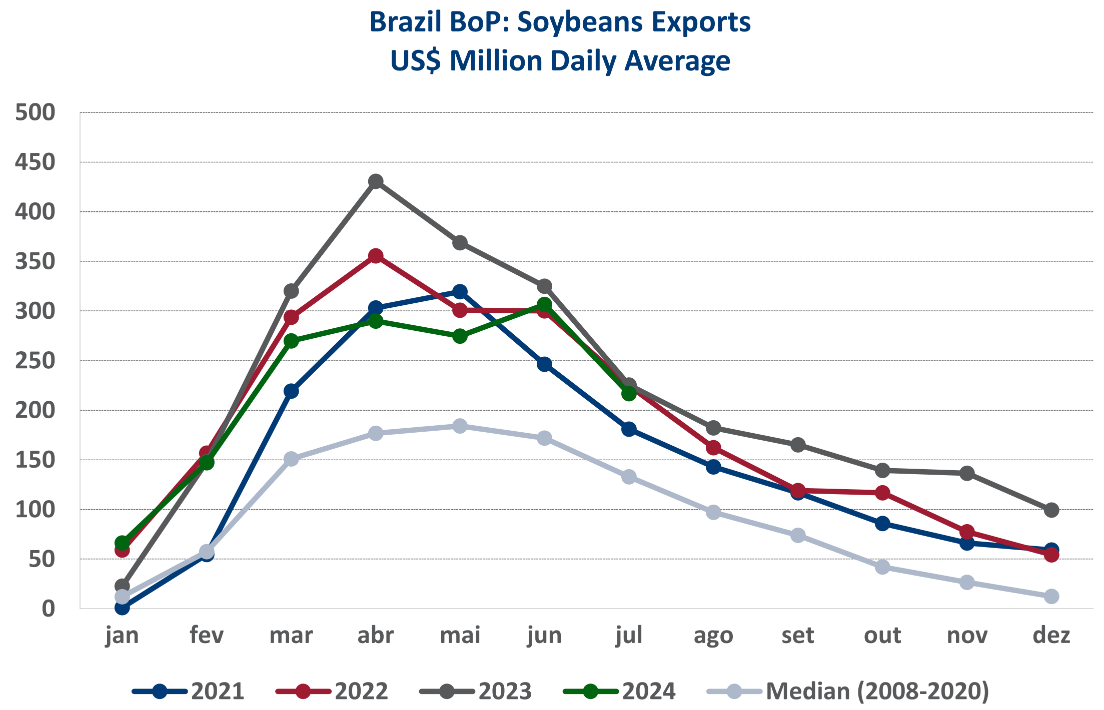
Interest Rate Differential x BRL

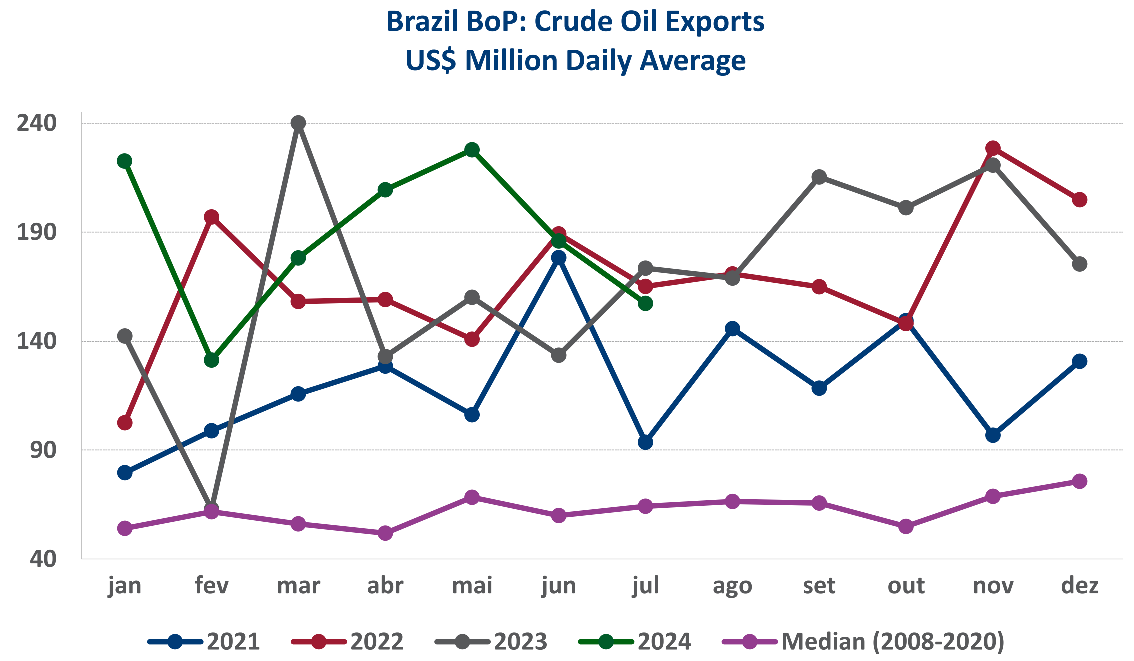


Source: BOCOM BBM, Bloomberg, Funcex, BCB

Brazil: External Sector

- In July, the trade balance presented a surplus of US$ 7.64 bn (-6.6% YoY) according to Secex data;
- Year to date, the trade surplus reached US$ 49.6 bn (-6.1% YoY);
- The exports increased 9.3% YoY, with a 5.3% increase in Soybeans exports and a 21.1% increase in Iron Ore exports when compared to the same month last year;
- In turn, imports increased 15.7% YoY, due to chemical fertilizers (+22.7% YoY) and fuel (+7.4% YoY).





Source: Secex, BOCOM BBM

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