Macro Outlook

October 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. In the US, with some disappointing readings of labor market data and inflation remaining on track to 2.0%, the balance of risks of the FOMC dual mandate shifted toward the employment side. Given that, the committee opted to start a cut cycle with a 50bps cut in it's September meeting. However, after that, a strong September labor market data cast doubt on the future of the cuts cycle (magnitude and frequency of cuts), suggesting an economy that is still resilient. Markets were pricing around 75bps of additional cuts in 2024 before the report, now it's leaning more towards 50bps;

- Regarding China, year-to-date growth in 24H1 was 5.0% YoY - exactly in the center of the annual target of "around 5%". However, August data marked the 3rd month in a row of slowing economic activity. The industrial production, which has been bolstered by external demand, continues growing faster than retail sales, but now also shows signs of weakening. The most recent data shows a weak momentum in domestic demand and possibly excess capacity concerns. The PBOC announced a package of monetary easing measures, and the September Politburo meeting sent a strong message of urgency in jump starting the economy and shoring up asset prices and market confidence;

- In Brazil, monthly indicators of economic activity posted mixed signs among sectors. Industrial production, decreased by 1.4% MoM, below market expectations. On the other hand, Services and Retail sales were above expectations, increasing, respectively, 1.2% and 0.1%. The IBC-BR seems to summarize the overall market expectations, showing a decrease of 0.4% in July from June. After July data, we kept our forecast for Q3 at 0.5% QoQ and a growth of 3.1% in 2024. For 2025 we forecast 1.7% due to the tightening of financial conditions that must adds up to lower fiscal impulse;

- Concerning monetary policy, the Brazilian Central Bank (BCB) decided to raise the Selic rates to 10.75% per year, as broadly expected. Board members' communication indicated that a hiking cycle would begin, but rate adjustments would be gradual, consistent with an initial 25bps hike. BCB inflation projections six trimesters ahead, which now reflect the new systematic for inflation targeting, reached 3.5% in the first quarter of 2026 in a scenario where rates reach 11.25%, 10.5% and 9.5% by the end of 2024, 2025 and 2026 respectively. The statement also gave emphasis to asymmetry in the balance of risks, with more risks to inflation on the upside. The BCB also reevaluated its assessment of the output gap, which is now in positive territory, considering the dynamism seen in economic activity. All in all, this corroborates the beginning of a hiking cycle. The statement gave no guidance on pace and magnitude of hikes, but reinforced that further adjustments are tied to the firm commitment to inflation convergence to the target;

- September IPCA-15 rose by 0.13% MoM, well below expectations (0.28%). The 12-month variation fell to 4.12% in September from 4.35% in August. The main contribution to downward surprises to our forecast came from foodstuff, airfares, and cinema. Overall, it was a benign print since lower than expected results were spread among categories, mainly underlying services and the average of cores. After September result, we reduced our forecast for services and regulated items but increased our forecast for food at home due to the droughts and the rise in protein prices. Consequently, our forecast increased from 4.3% to 4.4% in 2024. For 2025, we kept out forecast at 4.1%;

- In the fiscal scenario, total federal tax collections reached BRL 201.6 bn (11.9% YoY), below the consensus of BRL 203.5 bn, but the best performance for the month in the historical data. However, tax collections are still below what would be needed to offset the spending growth. The Brazilian public sector registered a deficit of BRL 21.4 billion in August. General government gross debt remained virtually stable, going from 78.4% of GDP in July to 78.5% of GDP in August, with nominal interest change (+0.7 p.p.) partially offset by nominal GDP growth (-0.5 p.p.), and net issuances close to zero.

China: Economic Activity

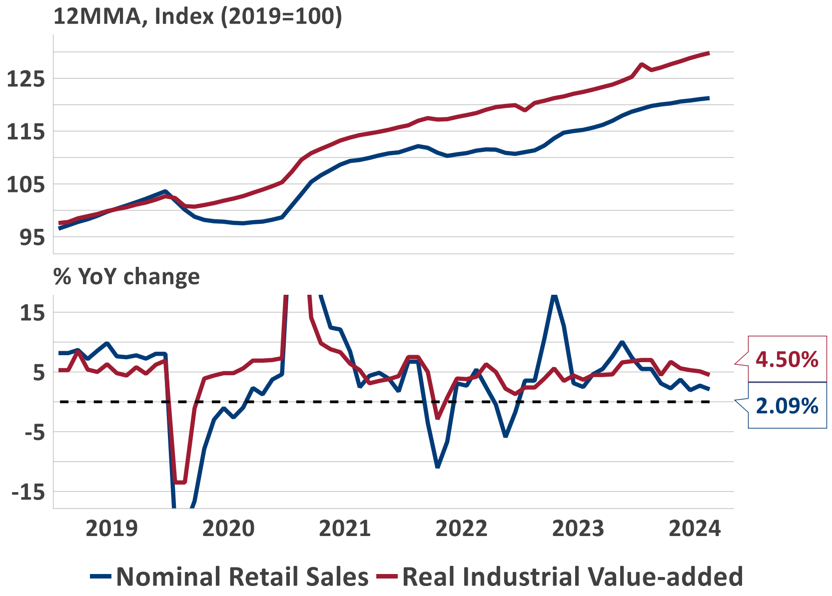
- **Aug. marked the 3rd month in a row of slowing economic activity:** IP continues growing faster than retail sales, but now also shows signs of weakening;
- **Retail sales growth surprised down**, falling from 2.7% to 2.0% YoY (exp. 2.5%): consumer demand stayed soft as goods spending decelerated, while spending in catering services rebounded slightly; that said, home appliances saw a rebound amid the recent consumer goods trade-in program;
- **Industrial prod. slowed** from 5.1% to 4.5% YoY (below exp 4.8%): still faster than most indicators, but marks the slowest growth in 2024 so far, despite the rebound in exports; Breakdown of productions shows solid growth among exports-oriented and high-tech products, but weakness in construction-related items;
- **FAI weakened** from 3.6% to 3.4% YTD YoY (exp. 3.5%), reflecting a broad-based slowdown, although overall growth remains above the growth in the same period in 2023 (3.2%);
- **The property market is still adjusting**, but indicators improved slightly in August with the volume of housing and property sales falling -14.0% and -12.6% YoY, respectively.

China: Activity (% YoY)

	8/2024	7/2024	8/2023
Industrial Production	4,50	5,10	4,50
Mining	3,70	4,60	2,30
Manufacturing	4,30	5,30	5,40
Utilities	6,80	4,00	0,20
Fixed Asset Investment (YTD)	3,40	3,60	3,20
Manufacturing	9,10	9,30	5,90
Real Estate	-10,20	-10,20	-8,80
Infrastructure	4,40	4,90	6,40
Retail Sales	2,09	2,71	4,62
Catering Services	3,30	3,00	12,40
Consumer Goods	1,90	2,70	3,70
Clothing	-1,60	-5,20	4,50
Automobiles	-7,30	-4,90	1,10
Furniture	-3,70	-1,10	4,80
Cellphones	14,80	12,70	8,50
Home Appliances	3,40	-2,40	-2,90
Construction	-6,70	-2,10	-11,40

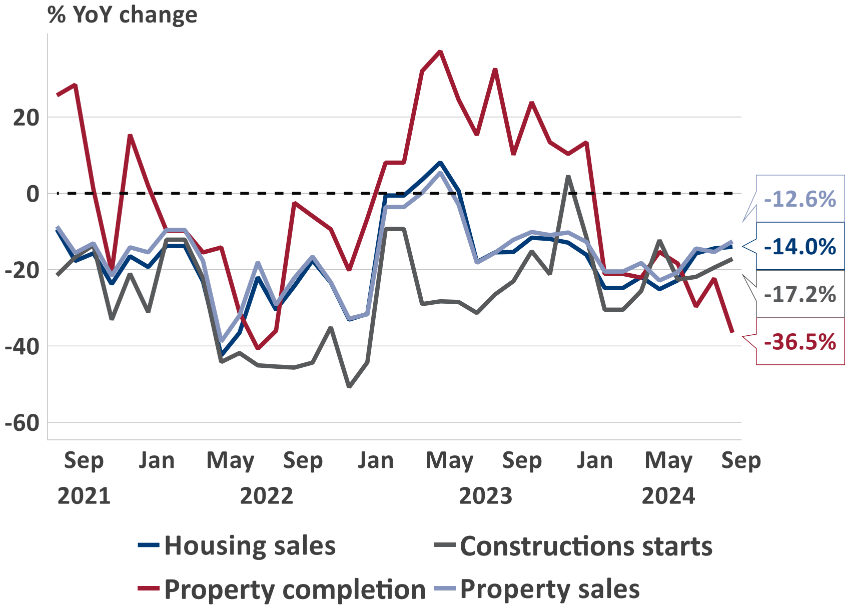
Source: BOCOM BBM, Macrobond

China: Industrial Production x Retail Sales



Source: BOCOM BBM, Macrobond, NBS

China: Property Indicators (% YoY)



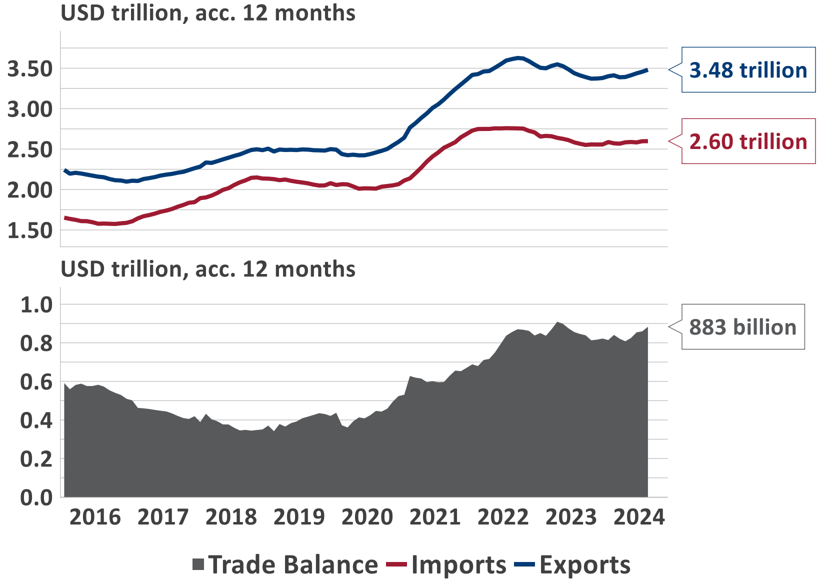
Source: BOCOM BBM, NBS

China: Economic Scenario

- **One of the main highlights in the Chinese economy this year has been exports**, which bolstered the strength in industrial production data:
  - Exports **year-to-date growth stands at 4.62% in USD terms** → continued solid growth, despite historically elevated levels, global trade uncertainties, and RMB depreciating against the dollar throughout most of the year (although this reversed in recent months);
  - Surprising market expectations, **latest data for August came in strongly**, accelerating from 7.0% to **8.7%** YoY (exp. 6.5%);

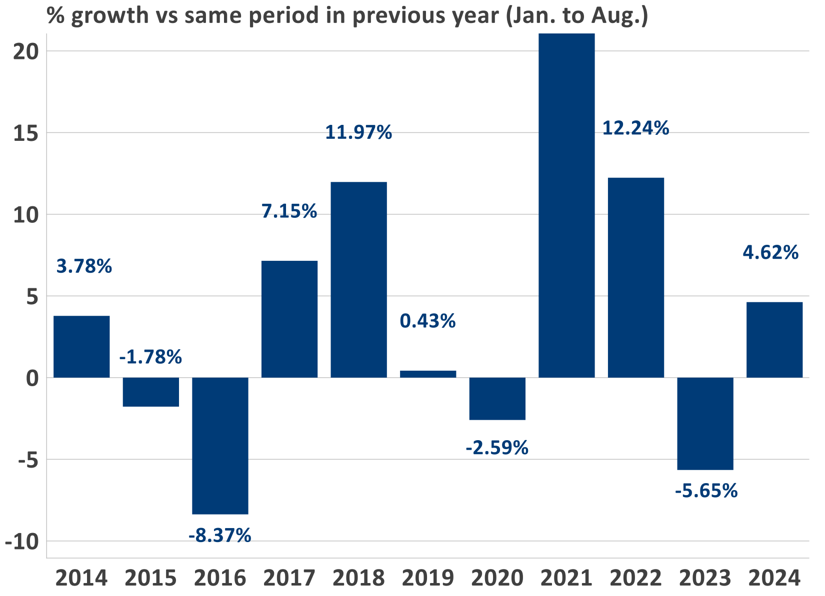
- August **CPI** inflation accelerated from 0.5% to **0.6%** YoY (below exp. 0.7%);
  - Core inflation slowed from 0.4% to **0.3%** YoY;
  - **General price trends for consumer goods and services remained soft**: Services inflation fell (0.5% YoY), while goods increased (0.7% YoY) → despite improving goods deflation, these figures still suggests somewhat weak momentum in domestic demand.

China: Trade Balance



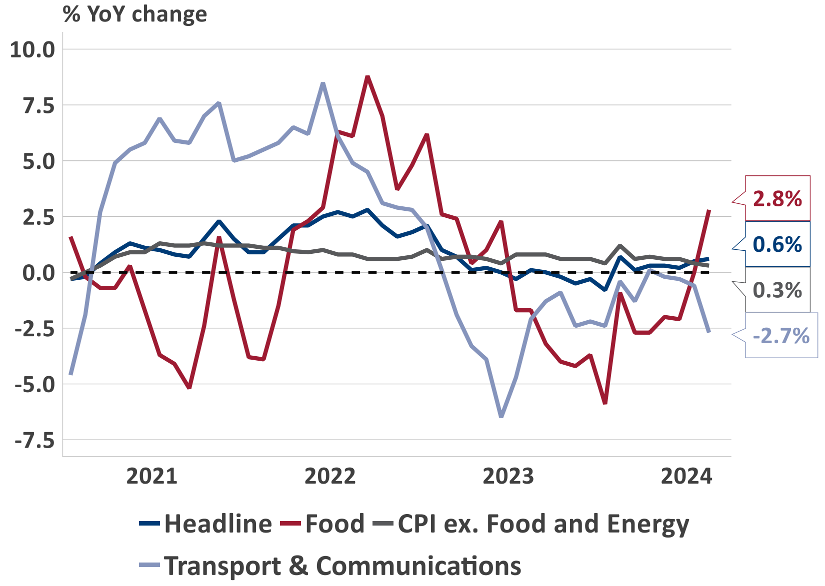
Source: BOCOM BBM, Macrobond, CCS

China: Exports (YTD YoY, Jan-Aug)



Source: BOCOM BBM, Macrobond, CCS

China: CPI

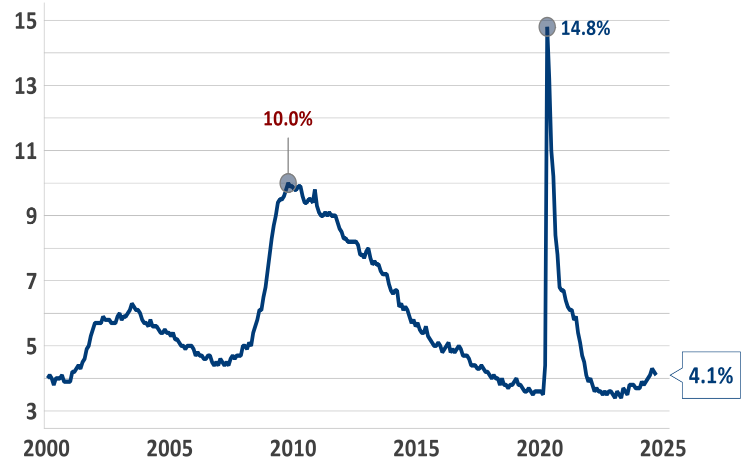


Source: BOCOM BBM, Macrobond, NBS

USA: Labor Market

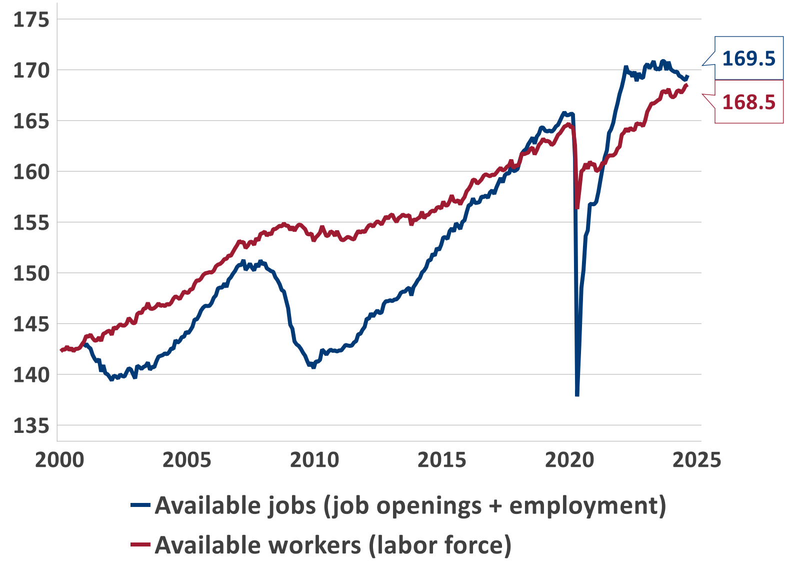
- **September labor market report weakened the theory that labor demand is losing steam;**
  - August payroll showed a job gain of **254k**, way above market expectations (150k), with a two-month net revision of +72k in August (+17k) and July (+55k);
  - The unemployment rate moved back to **4.1%** from 4.2%, alleviating concerns of a recession;
- In July, the **jobs-workers gap increased to just 800k** from 500k previously, and a peak of 6.2M in 2022**,** due to increases in both labor force and labor demand;
- September avg. hourly earnings **maintained its monthly pace at 0.4% MoM,** above expectations of 0.3%;
  - The annual rate was up from 3.8% to **4.0%** 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 (%)



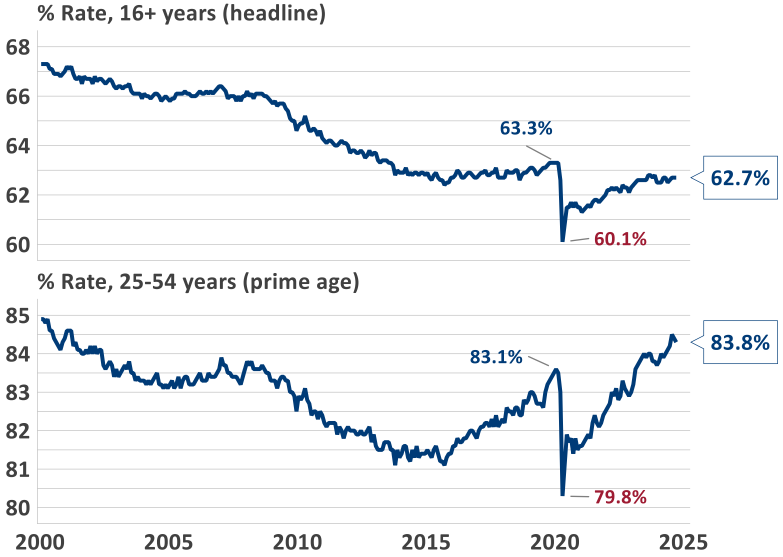
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



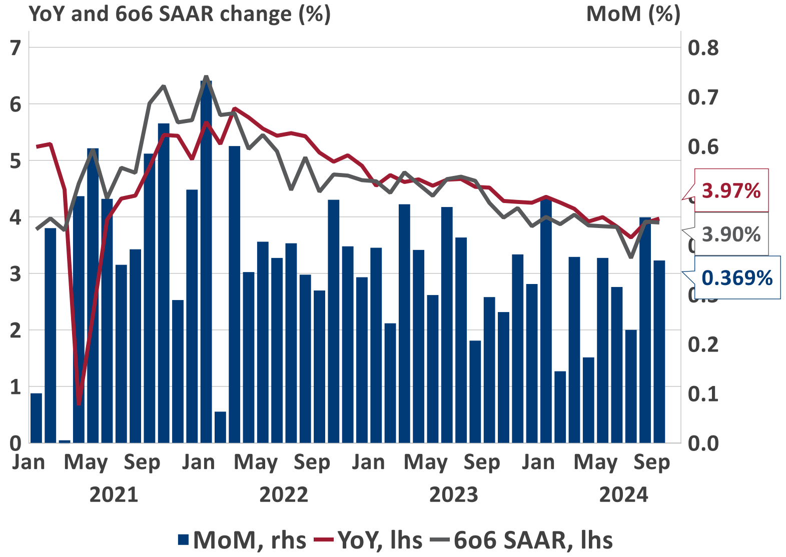
Source: BOCOM BBM, Macrobond, BLS

US: Labor Force Participation Rate (%)



Source: BOCOM BBM, Macrobond

US: Average Hourly Earnings Growth (%)



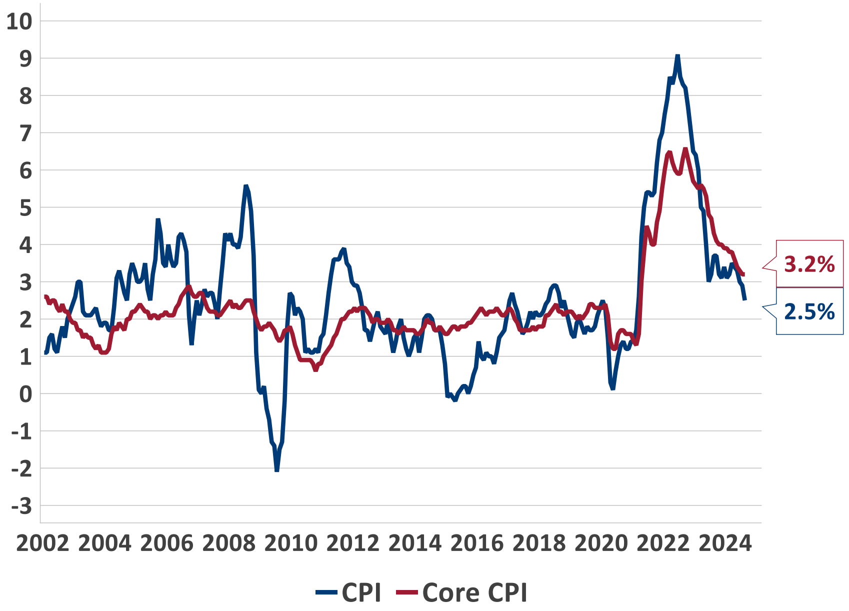
Source: BOCOM BBM, Macrobond

USA: Inflation

- August headline CPI rose **0.19% MoM** (slightly above exp. of 0.17%), leading to an annual growth rate decrease from 2.9% to **2.5% YoY:**
  - **Energy prices** fell 0.78% MoM, a downside surprise after being stable in July;
  - **Food prices** rose 0.12% MoM, also below expectations – still a healthy pace, in line with its historical average;

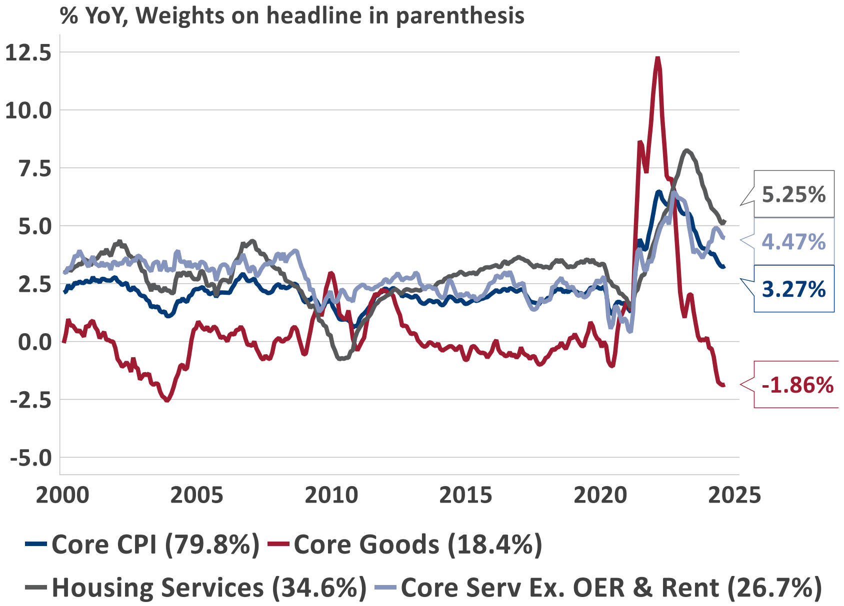
- **Core CPI** rose **0.28% MoM** (exp. 0.2%) and the annual growth rate was stable at **3.2% YoY;**
  - **Core goods (-0.17% MoM):** remained in deflation with broad-based declines, but mostly driven by weak used vehicles prices;
  - **Housing services (0.51% MoM):** the biggest upside surprise this month, adding some level of concern about lingering inflation pressure, even with indicators suggesting a gradually slowing in the coming months;
  - **Core Serv. Ex-Housing (0.33% MoM):** rebounded in line with the expected, although with a slightly different composition (weaker medical care, but stronger other services); 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.

US: CPI (YoY, %)



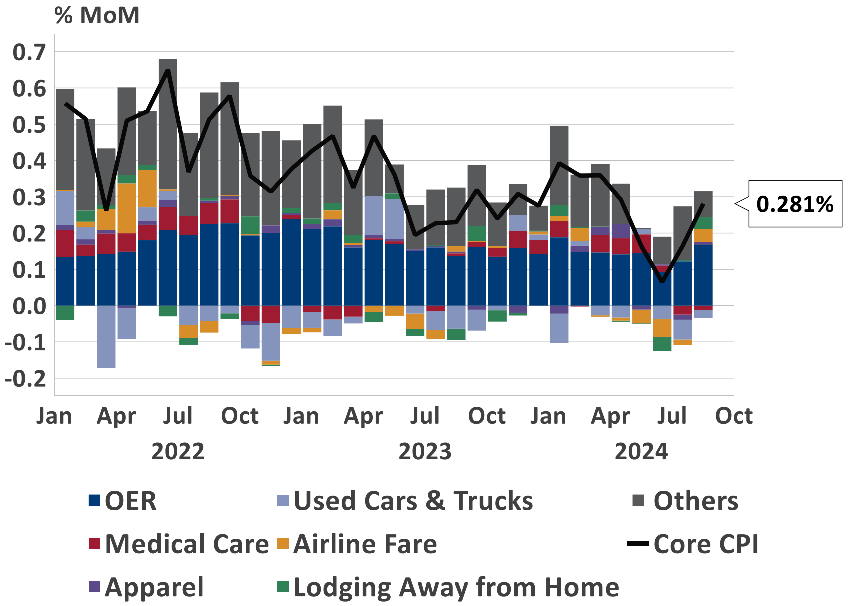
Source: BOCOM BBM, Macrobond, BLS

US: Core CPI Main Components (%)



Source: BOCOM BBM, Macrobond, BLS

US: Core CPI MoM Contributions

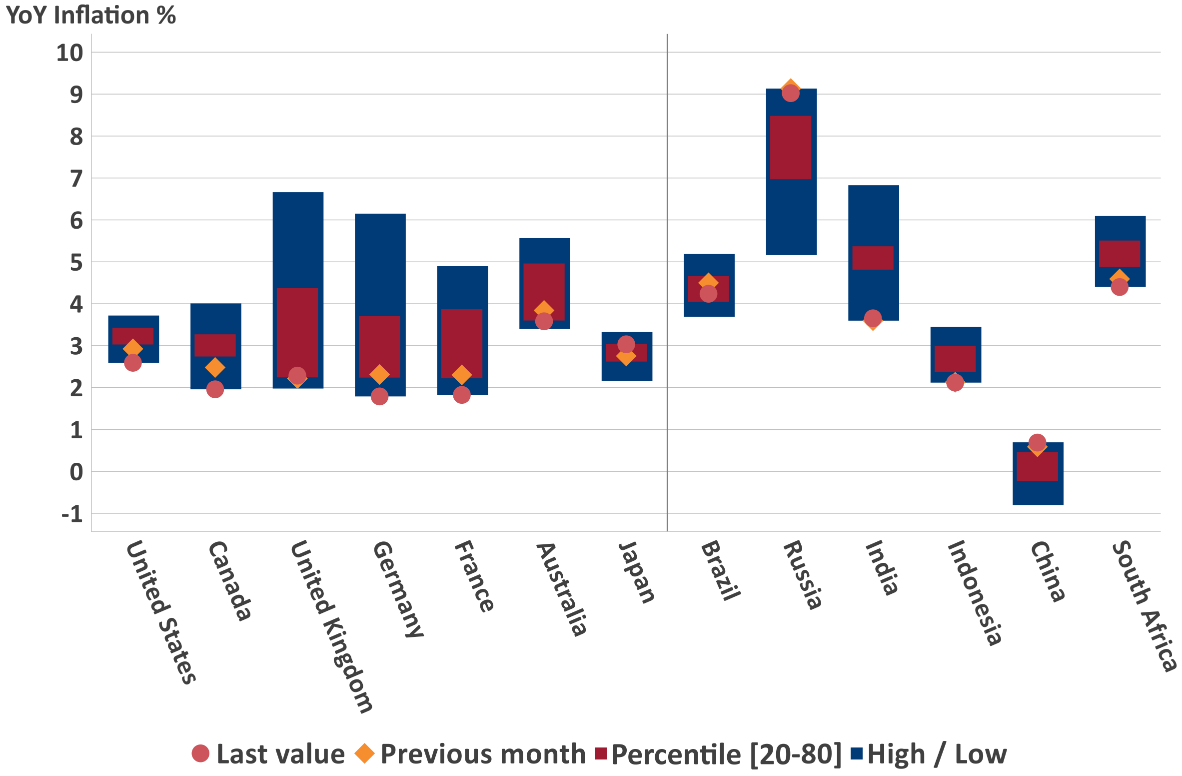


Source: BOCOM BBM, Macrobond, BLS

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	-1,7	-2,2	-2,3	2,2	-2,9	1,5	-2,2	-0,2
Australia	0,2	0,2	0,2	0,3	0,5	0,5	0,7	0,1
Brazil	1,4	1,0	0,2	0,1	0,7	1,2	0,4	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	0,2	0,3	0,1	0,0	0,1	0,5	-0,1	0,5
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	0,7	-0,6	0,1	-1,1	0,7	1,3	0,4	-0,3
Mexico	0,2	0,1	-0,1	0,7	1,0	0,6	0,9	0,9
Russia	0,5	1,0	0,9	1,3	1,5	1,0	1,3	0,8
Saudi Arabia	-2,3	-2,6	5,7	-0,8	-3,7	-5,2	6,9	4,2
South Africa	0,4	0,0	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

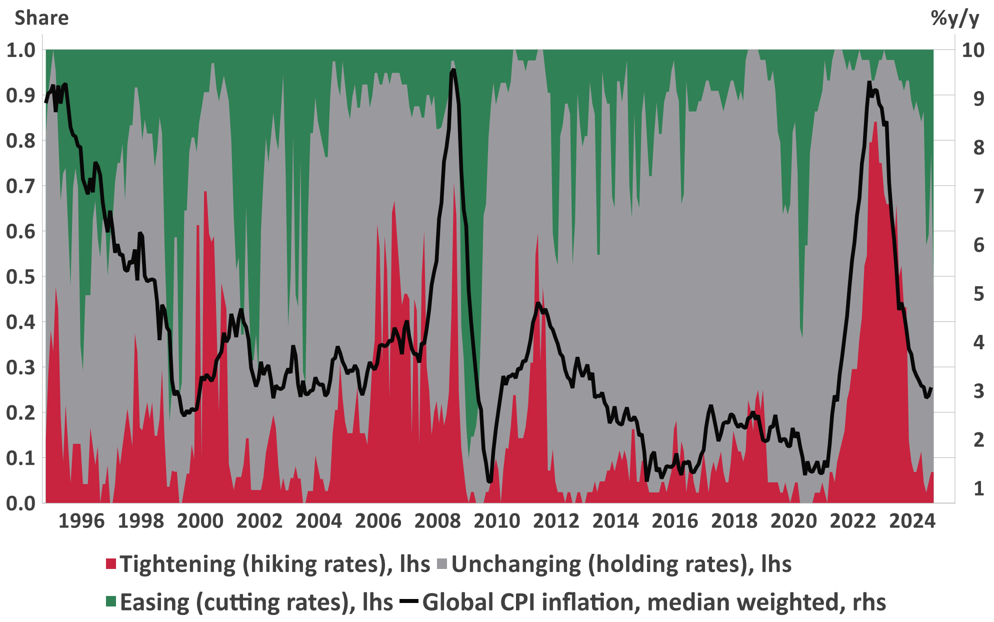
Sources: BOCOM BBM, Macrobond, National Sources

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 last DM central bank that started a cutting cycle was the Fed, with a 50bps cut in it's September meeting, corroborating with recent inflation and weak labor market data. However, after that a strong September payroll cast doubt on the future of the cuts cycle (magnitude and frequency of cuts), suggesting an economy that is still resilient. → Markets were pricing around 75bps of additional cuts in 2024 before the report, now it's leaning more towards 50bps;

Global monetary breadth

Share of economies (GDP top 50) with higher/unchanged/lower policy rates; monthly/mtd avg, 24-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	236,7	227,5	40,00	-10,00	Cut	5/2024	11	4
Australia	3,8	3,7	4,35	0,25	Hike	11/2023	11	47
Brazil	4,2	4,4	10,75	0,25	Hike	9/2024	0	5
Canada	2,0	1,4	4,25	-0,25	Cut	9/2024	14	1
Chile	4,7	3,6	6.50	-0.75	Cut	9/2024	23	1
China	0,7	0,3	3,35	-0,10	Cut	7/2024	127	2
Colombia	6,1	6,1	10,75	-0,50	Cut	8/2024	17	2
Costa Rica	0,3	0,9	4,25	-0,50	Cut	9/2024	23	0
Czech Republic	2,2	0,2	4,50	-0,25	Cut	8/2024	27	2
Denmark	1,4	1,2	3,25	-0,25	Cut	9/2024	12	0
Euro Area	2,2	2,8	3,65	-0,60	Cut	9/2024	12	0
Hungary	3,4	4,6	6,50	-0,25	Cut	9/2024	24	0
Iceland	6,0	6,1	9,25	0,50	Hike	8/2023	13	46
India	3,7	3,4	6,50	0,25	Hike	2/2023	20	52
Indonesia	2,1	2,0	6,00	-0,25	Cut	9/2024	5	0
Israel	3,6	3,4	4,50	-0,25	Cut	1/2024	16	9
Japan	3,0	2,1	0,25	0,15	Hike	8/2024	2	104
Mexico	5,0	4,0	10,75	-0,25	Cut	8/2024	18	2
New Zealand	3,3	3,4	5,25	-0,25	Cut	8/2024	16	1
Norway	2,6	3,2	4,50	0,25	Hike	12/2023	9	53
Poland	4,5	3,7	5,75	-0,25	Cut	10/2023	25	12
Russia	9,0	8,4	19,00	1,00	Hike	9/2024	0	24
Saudi Arabia	1,6		5,50	-0,50	Cut	9/2024	14	0
South Africa	4,4	4,1	8,00	-0,25	Cut	9/2024	16	0
South Korea	2,0	2,1	3,50	0,25	Hike	1/2023	20	52
Sweden	1,9	1,2	3,50	-0,25	Cut	8/2024	12	1
Switzerland	1,1	1,1	1,25	-0,25	Cut	6/2024	15	3
Turkey	52,0	51,6	50,00	5,00	Hike	3/2024	6	19
United Kingdom	2,3	3,6	5,00	-0,25	Cut	8/2024	14	2
United States	2,6	3,3	5,00	-0,50	Cut	9/2024	14	0

Source: BOCOM BBM, Macrobond

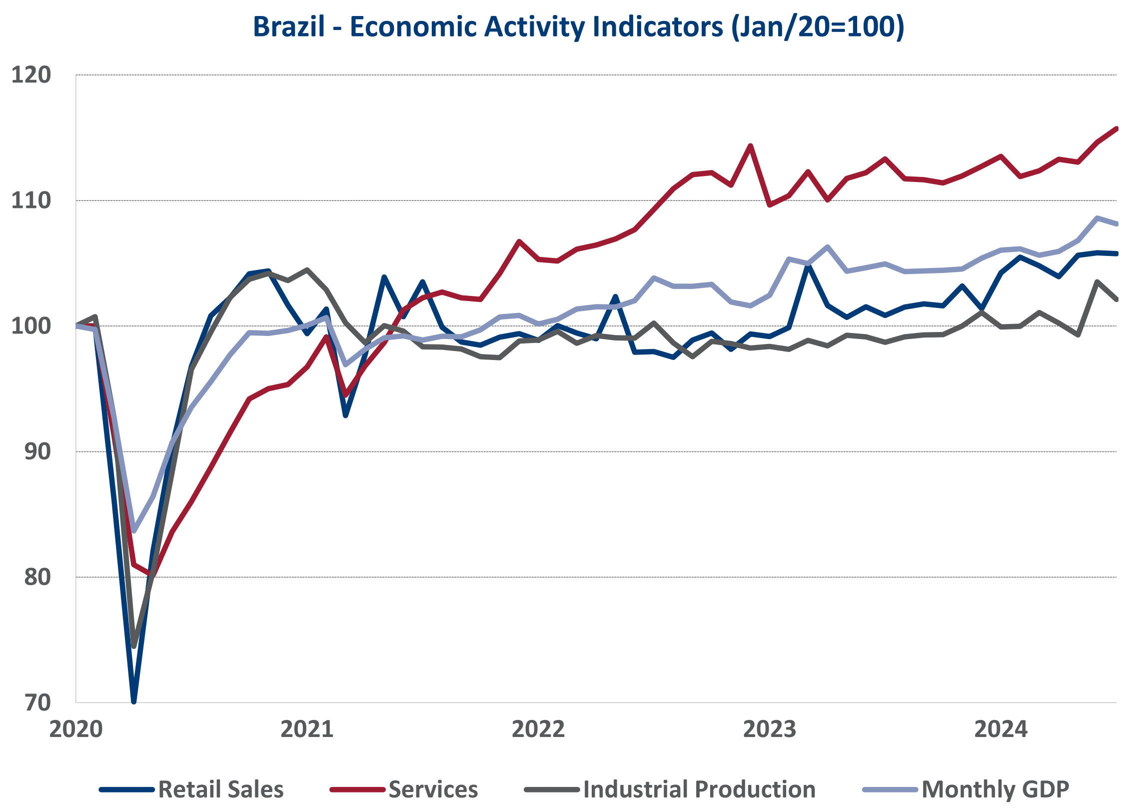
Brazil: Forecasts

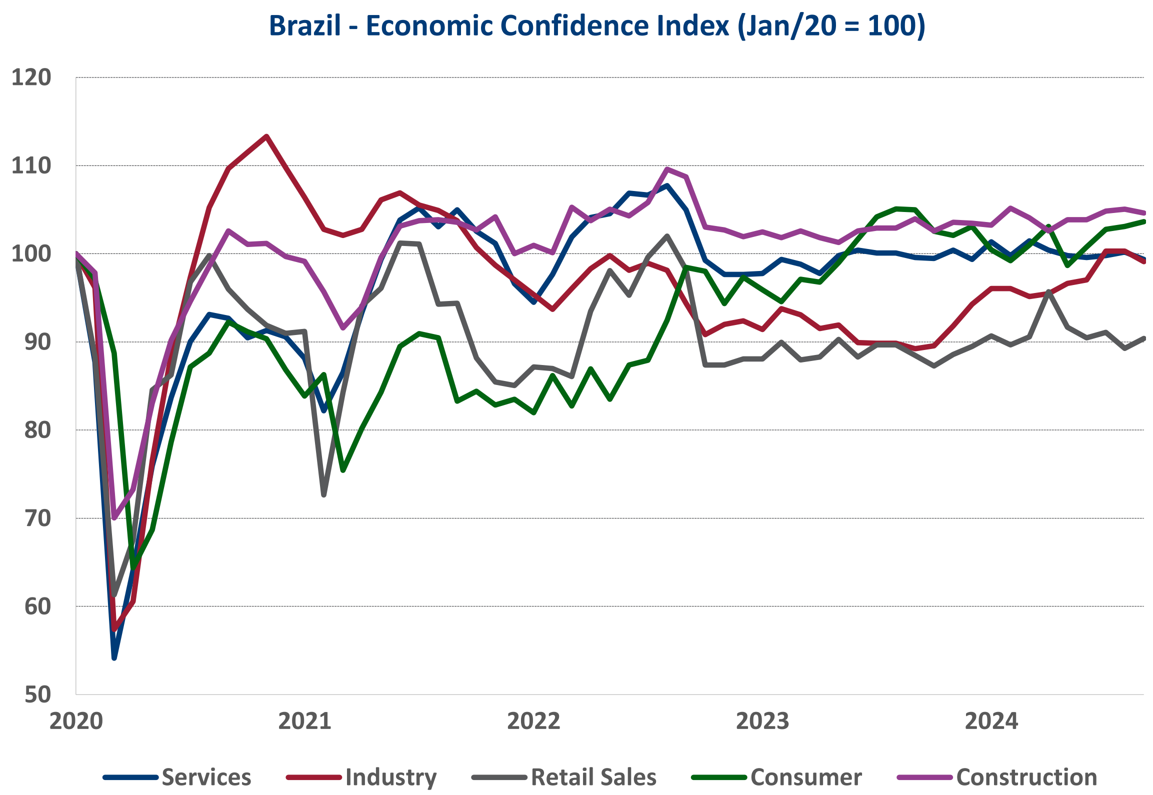
ECONOMIC FORECASTS	2019	2020	2021	2022	2023	2024F	2025F
GDP Growth (%)	1.2%	-3.3%	4.8%	2.9%	2.9%	3.1%	1.7%
Inflation (%)	4.3%	4.5%	10.1%	5.8%	4.6%	4.4%	4.1%
Unemployment Rate (eoy ,%)	11.1%	14.2%	11.1%	7.9%	7.4%	6.8%	7.2%
Policy Rate (eoy, %)	4.5%	2.0%	9.3%	13.8%	11.75%	11.75%	11.50%
External Accounts							
Trade Balance MDIC (US$ bn)	35	50	61	62	99	80	95
Trade Balance (US$ bn)	27	32	36	44	81	74	89
Current Account Balance (US$ bn)	-68	-28	-46	-48	-31	-45	-32
Current Account Balance (% of GDP)	-3.6%	-1.9%	-2.8%	-2.5%	-1.3%	-2.0%	-1.3%
Fiscal Policy							
Central Government Primary Balance (% of GDP)	-1.3%	-9.8%	-0.4%	0.5%	-2.1%	-0.5%	-0.8%
Government Gross Debt (% of GDP)	74.4%	86.9%	77.3%	71.7%	74.4%	77.4%	81.9%

Source: BOCOM BBM, IBGE

Brazil: Activity

- In July, monthly indicators of economic activity posted mixed signs among sectors. Industrial production, decreased by 1.4% MoM, below market expectations. On the other hand, Services and Retail sales were above expectations, increasing, respectively, 1.2% and 0.1% MoM. Summarizing the scenario, IBC-BR decreased of 0.4% MoM;
- Looking forward, retail sales and consumer confidence increased in September, while services, industry and construction contracted.





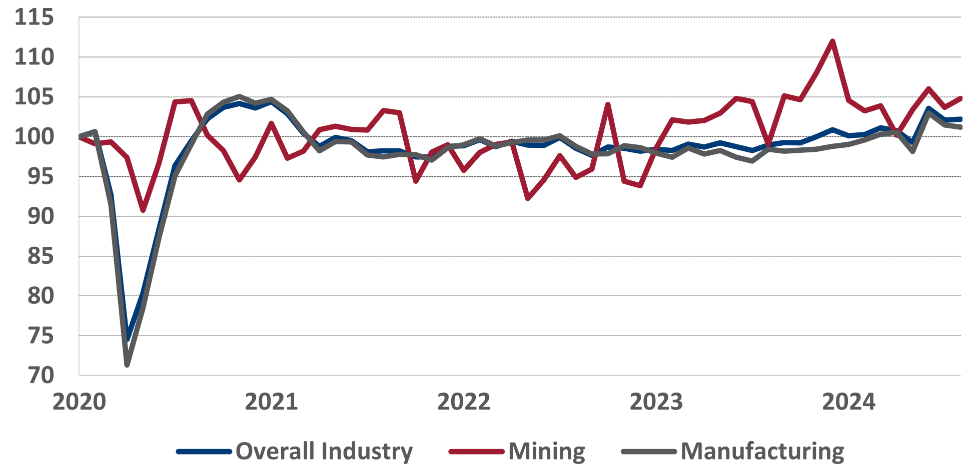
Source: BOCOM BBM, IBGE, FGV

Brazil: Industrial Production

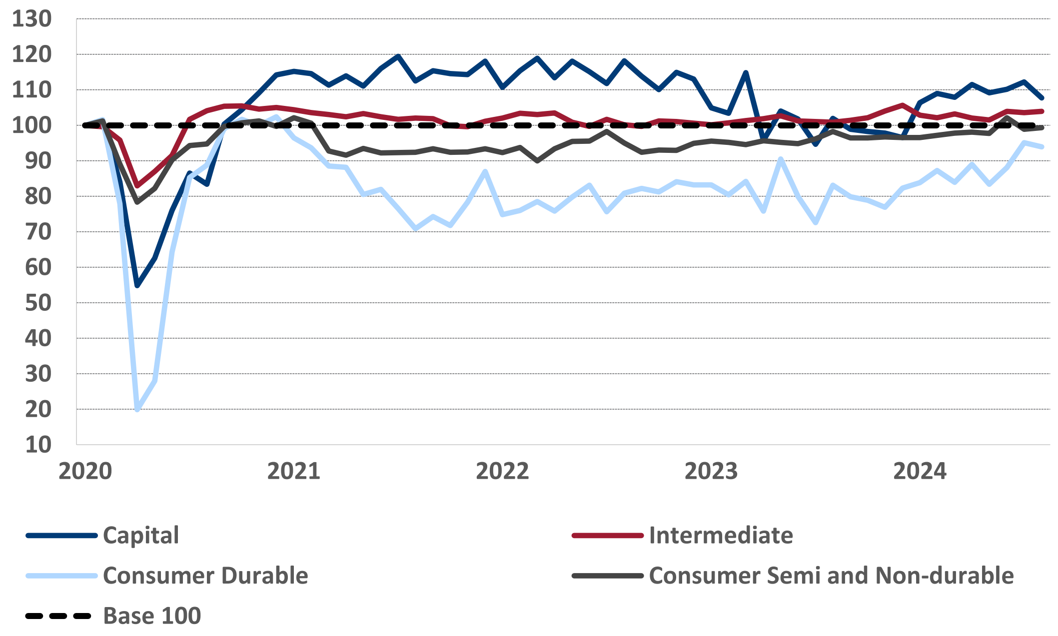
BANK OF COMMUNICATIONS BBM

- Industrial output recorded a timid gain of 0.1% MoM (2.2% YoY) in August, in line with expectations, after falling 1.4% MoM in July;
- 18 out of 25 activities fell in August, with the production of Capital Goods losing strength after encouraging numbers in the previous readings;
- The production of durable consumer goods also fell in July (-1.3% MoM) after two months of significant growth and given the effects of tight monetary policy.

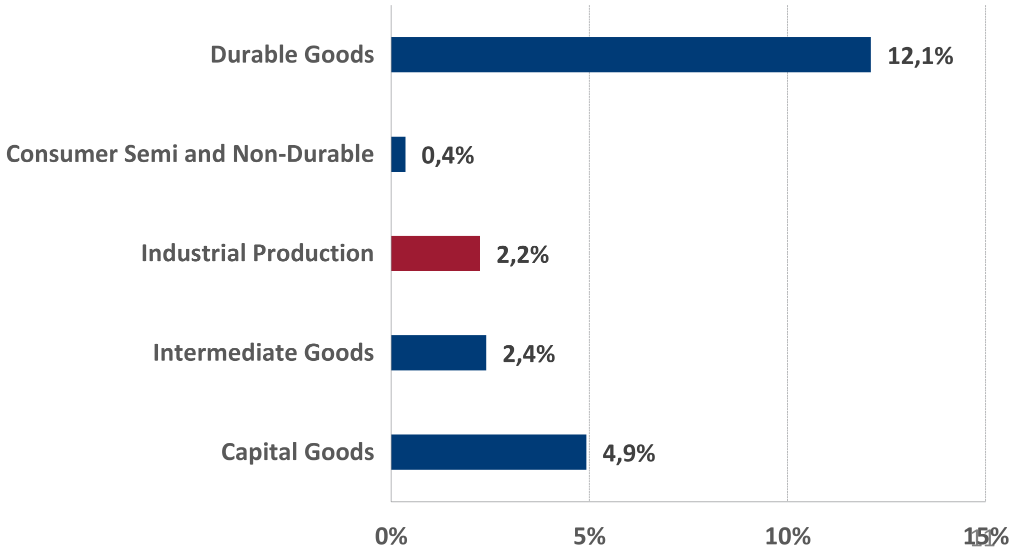
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



Industrial Production by Category - 08/2024 (YoY)

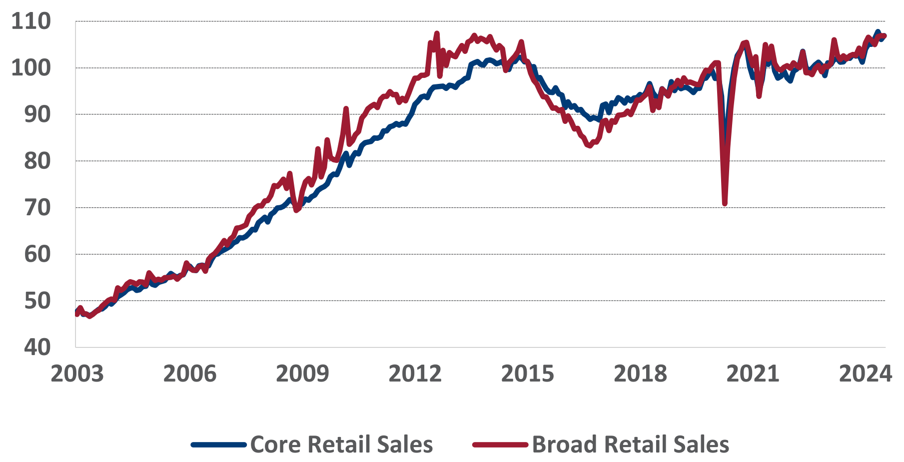


Source: IBGE, BOCOM BBM

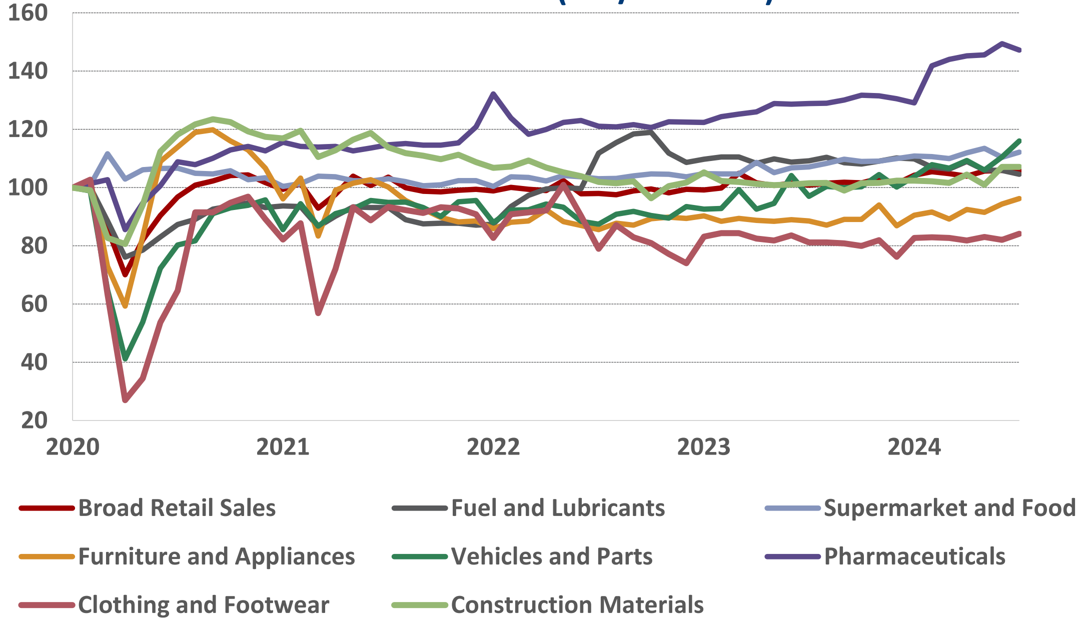
Brazil: Retail Sales

- Broad retail sales edged up 0.1% MoM in July, slightly above market expectations (-0.5%);
- Credit-sensitive activities have increased strongly in the recent period, with emphasis on Vehicles (4% MoM) and Furniture & Household Appliances (1.4% MoM);
- Core retail sales expanded by 0.6% in July from June, also in line with expectations (0.5%);
- The most income-sensitive activities, as Supermarkets, Food, Beverages and Household Articles, continued to rise, contributing to the growth of 8 of the 11 retail sectors;
- Considering that credit concessions and real disposable income remain at elevated levels these figures indicate that there will be no sharp slowdown in consumption.

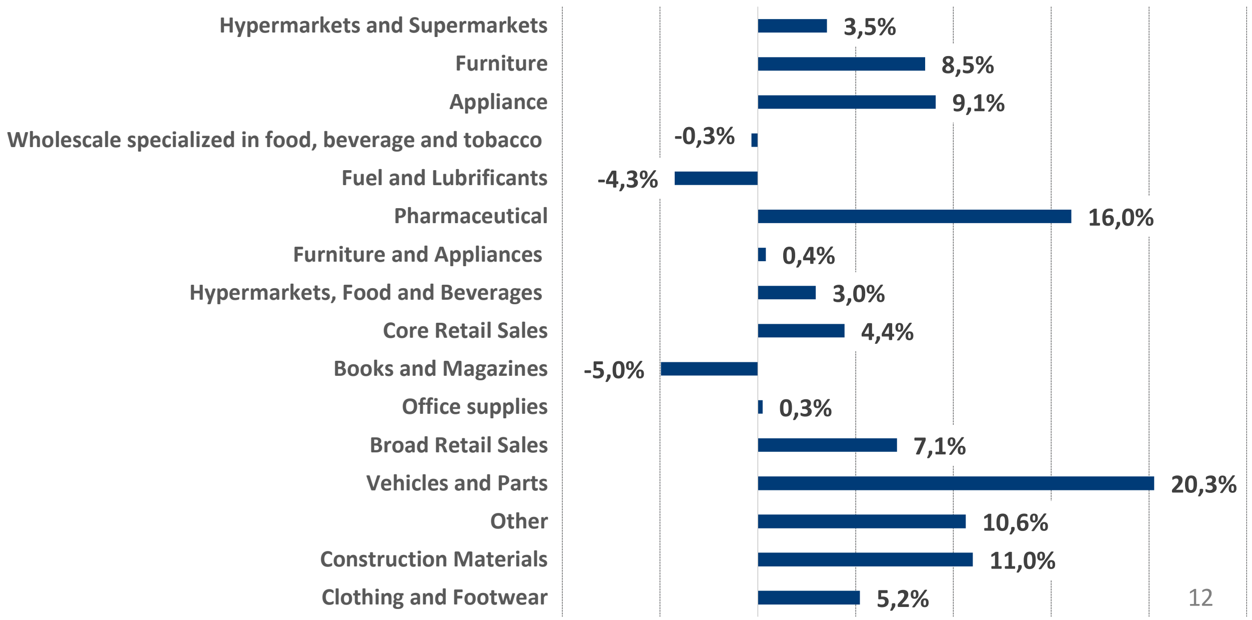
Broad Retail Sales SA x Core Retail Sales SA



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



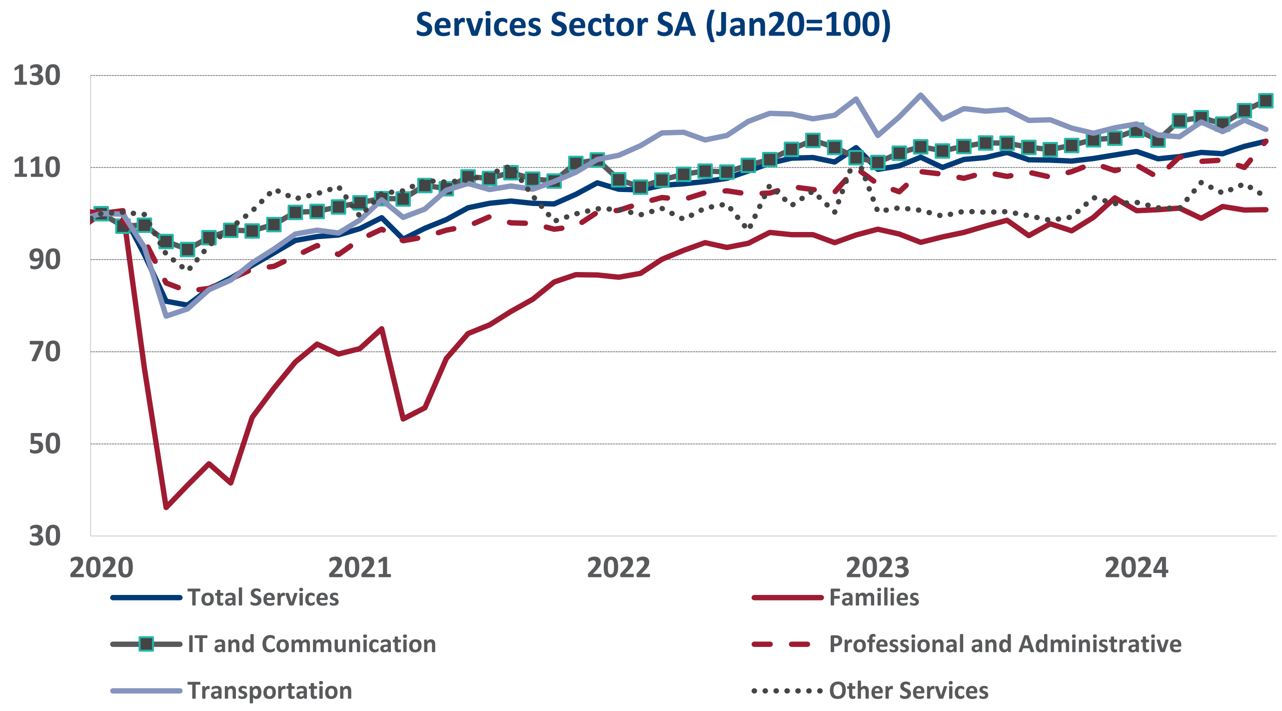
Retail Sales - YoY (07/2024)

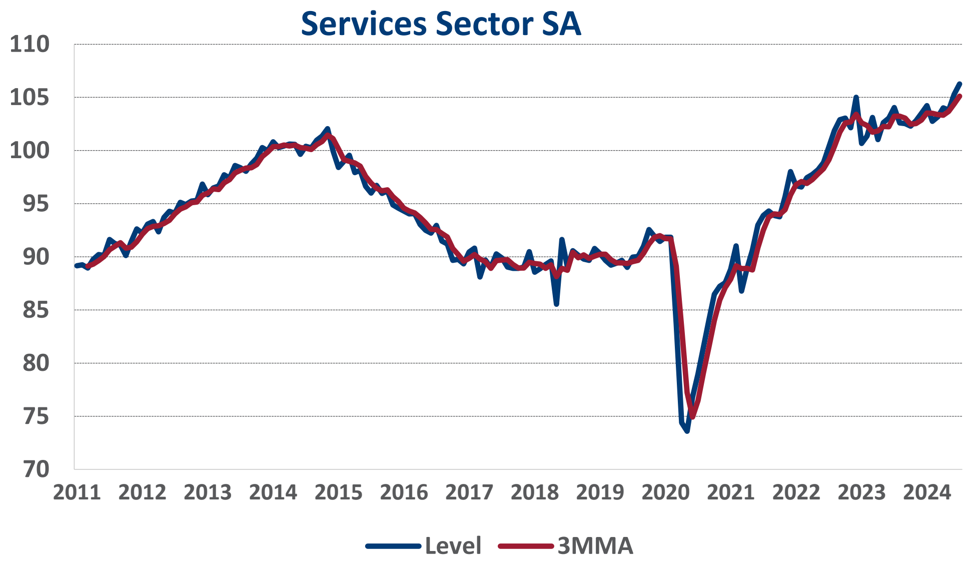


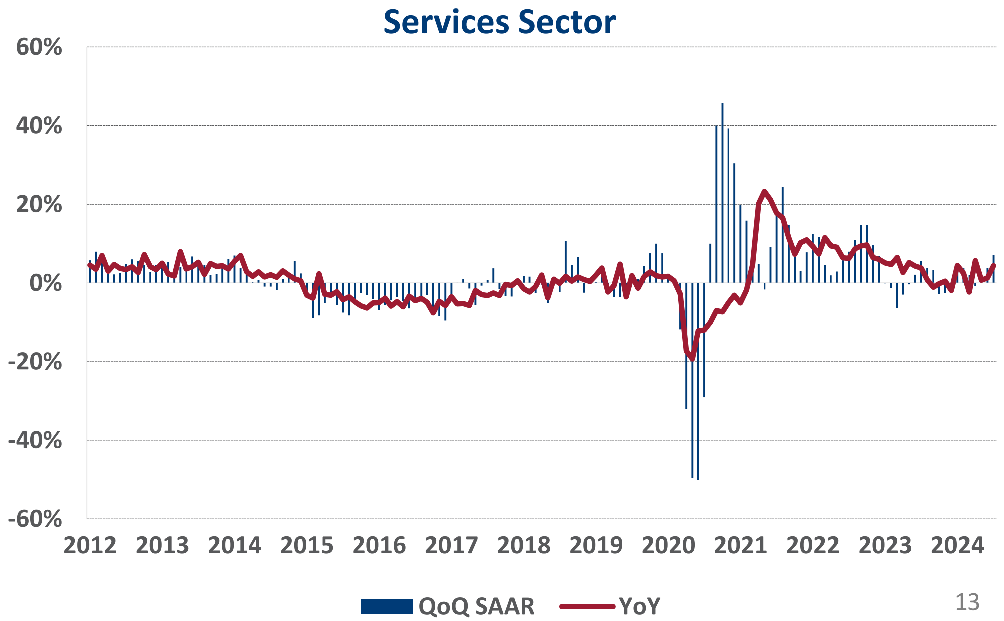
Source: IBGE, BOCOM BBM

Brazil: Services

- The services sector grew 1.2% in July from June, above expectations of virtual stability;
- Advertising and propaganda activities have contributed significantly to this performance, since there was readjustment of a considerable underestimation in reported revenues;
- According to IBGE (Brazilian statistics bureau), revenues from Administrative and Complementary Services – it includes Technical-Professional Services – will be much higher from now on;
- Information & Communication Services remained on a strong growth path in July while Transport Services fell, highlighting the weakening of Road Freight Transport and Air Transport components.



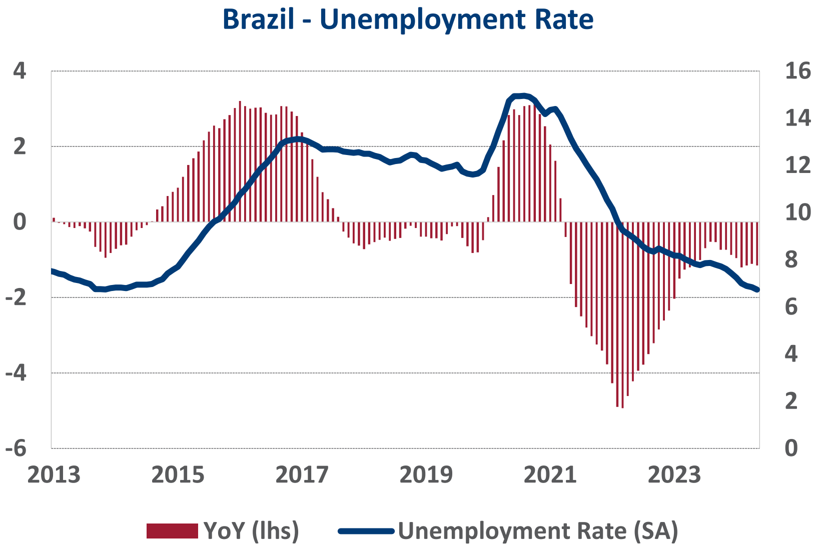


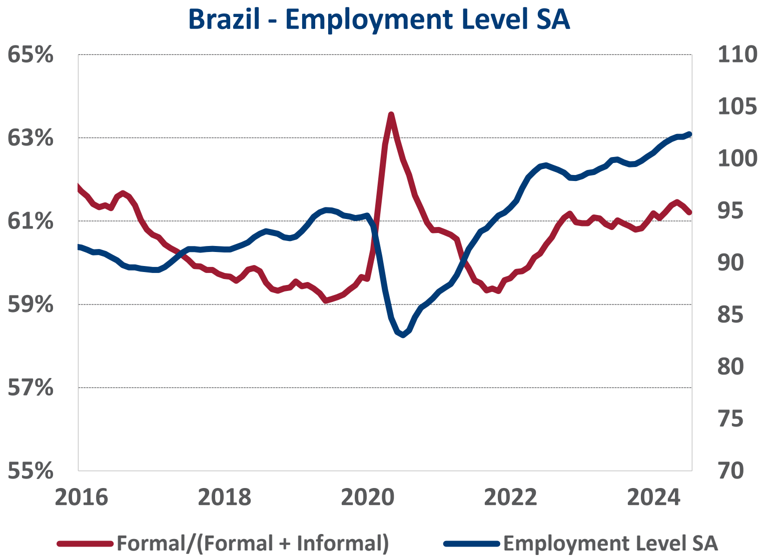


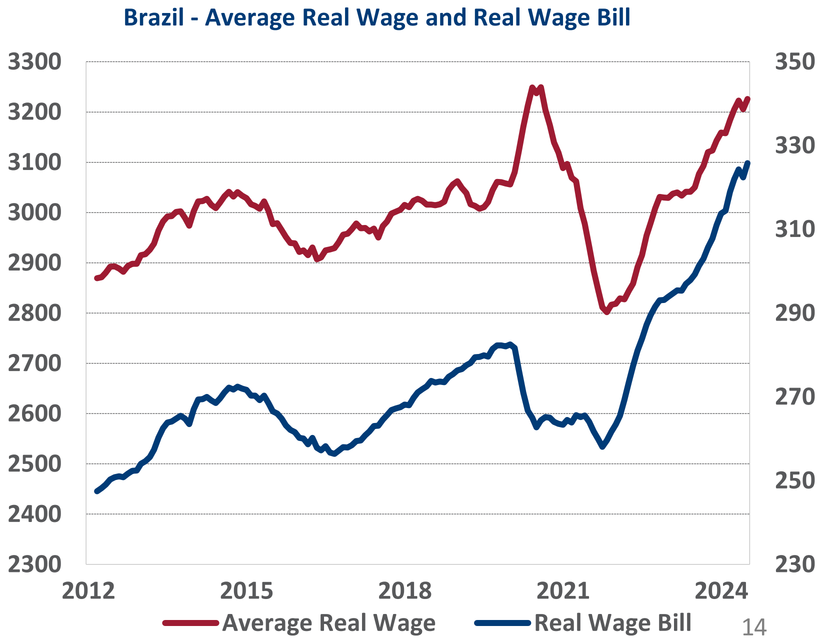
Source: IBGE, BOCOM BBM

Brazil: PNAD

- The unemployment rate decreased to 6.6% in the moving quarter up to August, from 6.9% on the previous period;
- Seasonally adjusted, the indicator dropped to 6.7% in August from 6.9% in July in the seasonally adjusted rate, virtually the lowest level for the month in the historical series;
- Total employment (0.2% MoM) and labor force (0,2% MoM) both increased, after decreasing in July;
- The labor force participation rate increased slightly to 62.3% in August, still running considerably below pre-pandemic levels (around 63.5%);
- Real labor earnings grew 0.55% MoM, after an unexpected decline in July;
- Real aggregated labor income increased 0.75% MoM in August, after decreasing last month, and is now 8.3% YoY.





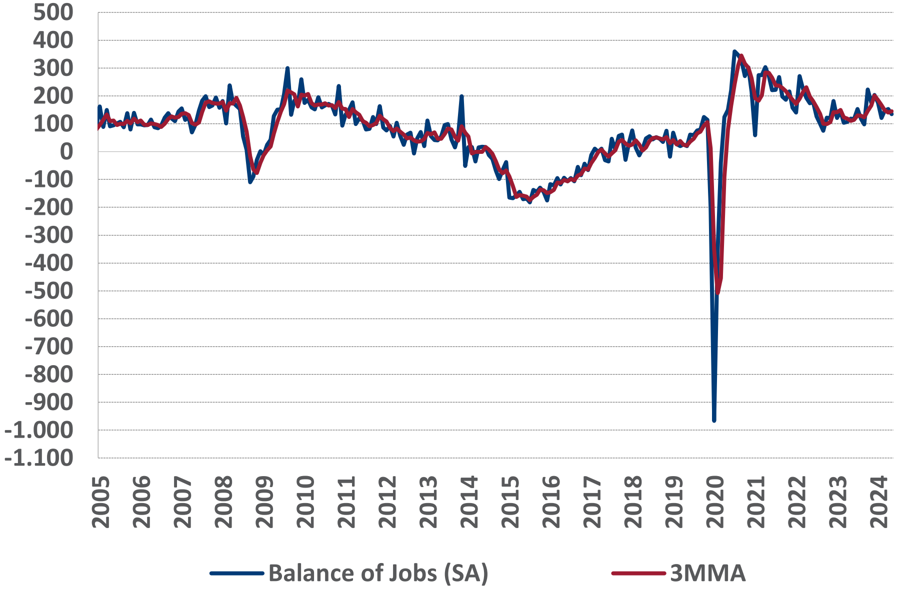


Source: IBGE, BOCOM BBM, MTE

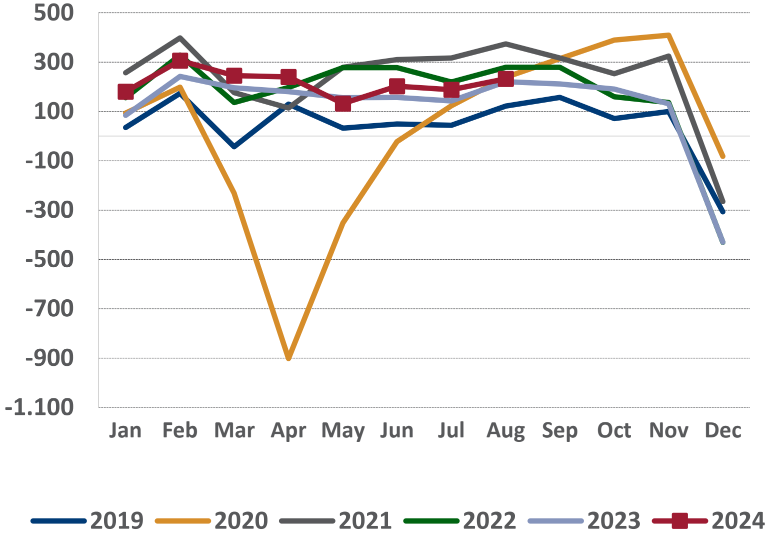
Brazil: Formal Labor Market

- Caged registered a net creation of 232.7k formal jobs in August, below market expectations (237.5k);
- The net addition of jobs totaled about 1.7 million from January to August 2024, considerably above the same period of 2023 (1.4 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.

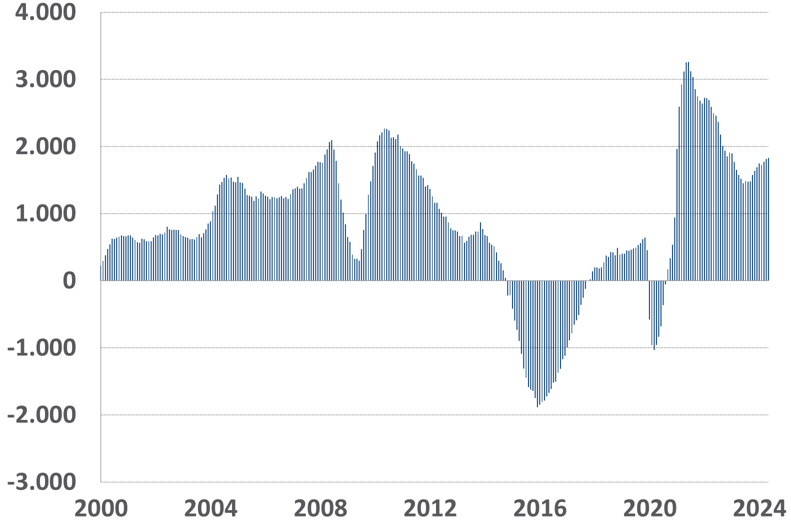
CAGED - Balance of Jobs (SA, Thousand)



CAGED - Balance of Jobs (Thousand)



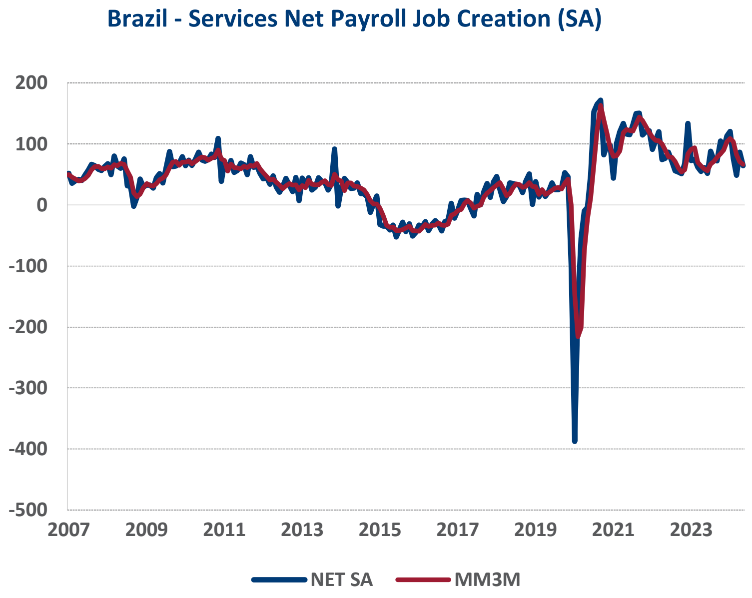
CAGED – Balance of Jobs 12 Months Acc. (Thousands)

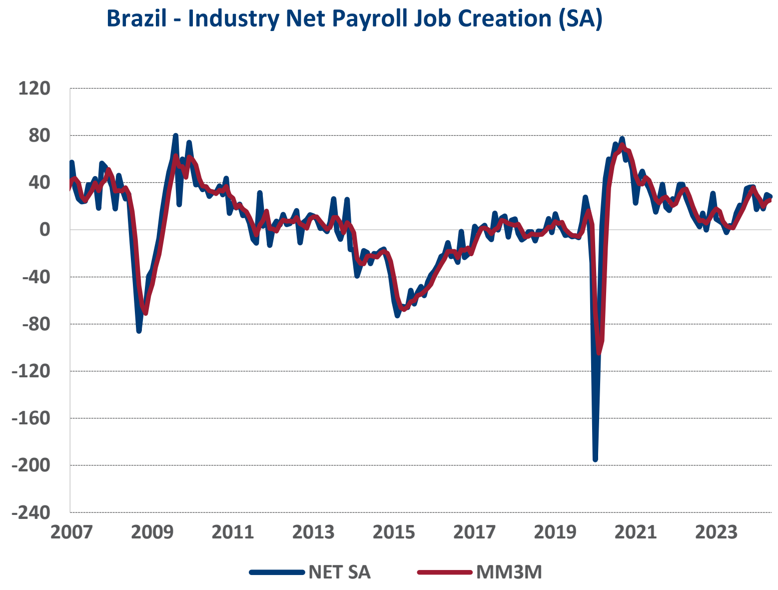


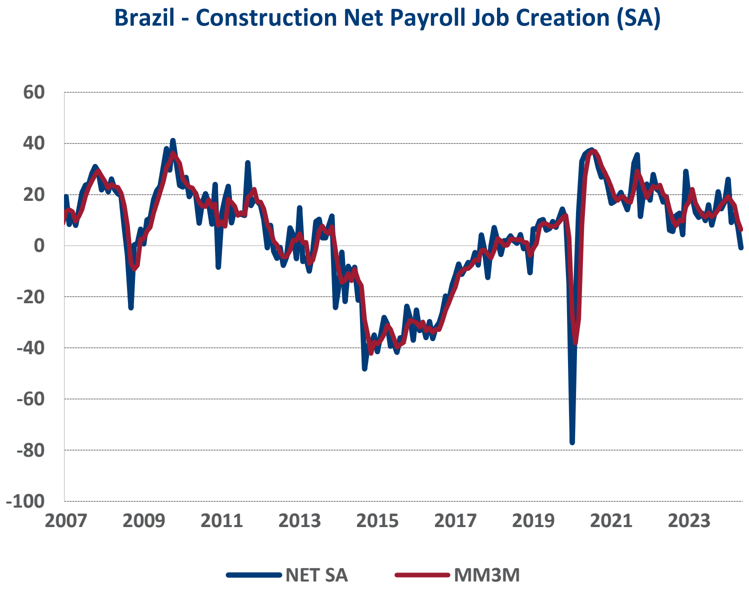
Source: BOCOM BBM, MTE

Brazil: Formal Labor Market

- The breakdown shows that three of the major sectors registered positive net results;
- The biggest contribution came once again from the services sector, with a net creation of 64.5k formal jobs;
- Industry was the second best, creating around 28.0k formal jobs;
- Retail Sales, in turn, registered a net of 24.7k;
- On the other hand, the construction sector registered destruction of about 0.8k formal jobs.





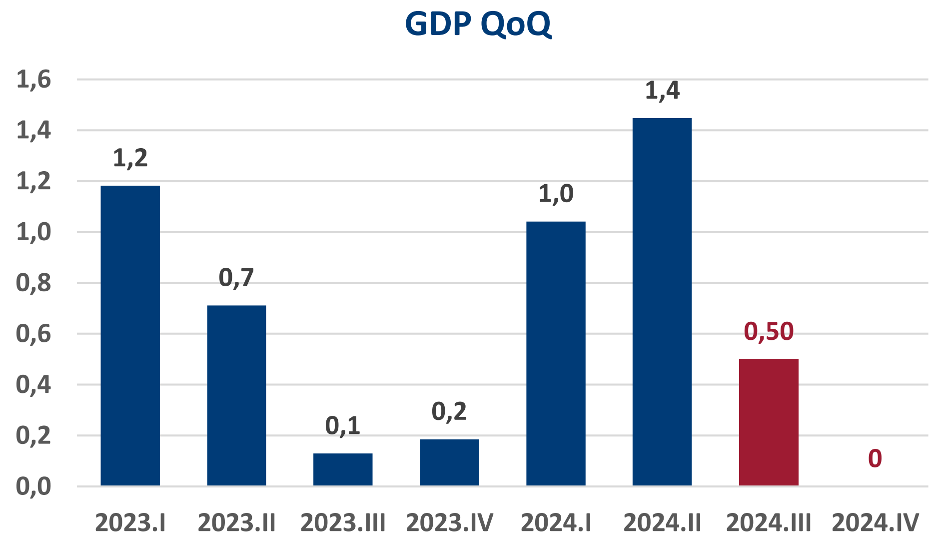


Source: BOCOM BBM, MTE

Brazil: GDP Forecast

- After July data, we kept our forecast for Q3 at 0.5% QoQ and a growth of 3.1% in 2024;
- The expected slowdown in economic activity is in line with a lower public stimulus over the H2 and in 2025;
- For 2025 we forecast 1.7% due to the tightening of financial conditions that must adds up to lower fiscal impulse.

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%

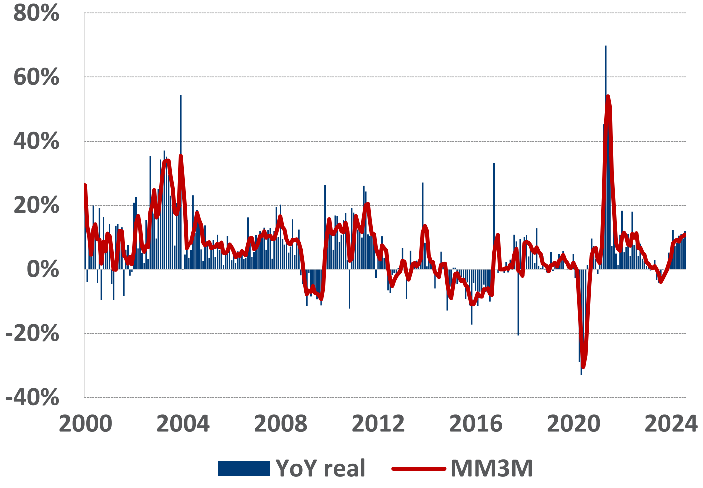


Source: BOCOM BBM, IBGE

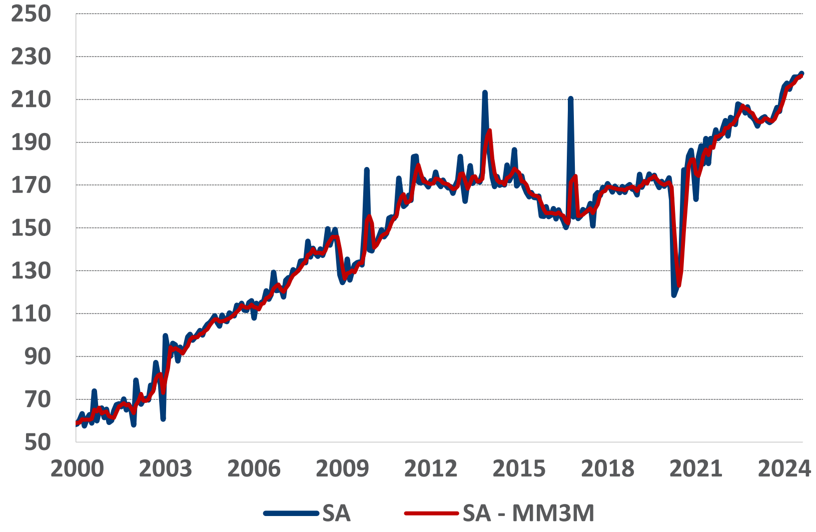
Brazil: Federal Tax Collections

- In August, total federal tax collections reached BRL 201.6 bn (11.9% YoY), below the consensus of 203.5 bn, but the best performance for the month in the historical data;
- The highlights in August were PIS/Cofins (19.9%), due to the strong performance of retail sales and services in July and the revenue-raising measures, as the resumption of taxation on fuels and the exclusion of ICMS credits from its tax base. Also very positive was the Import tax (38.5%) and IPI (31.7%), whose growth can be attributed to a higher exchange rate;
- On the negative side, corporate income tax (IRPJ/CSLL) remain growing far below expected and other revenue administered by RFB, which includes the effects of the change on CARF and tax transactions, fell about 39.6% YoY;
- Year-to-date growth reached 9.5%, indicating that some revenue-raising measures are being successful. The strong economic activity and 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.

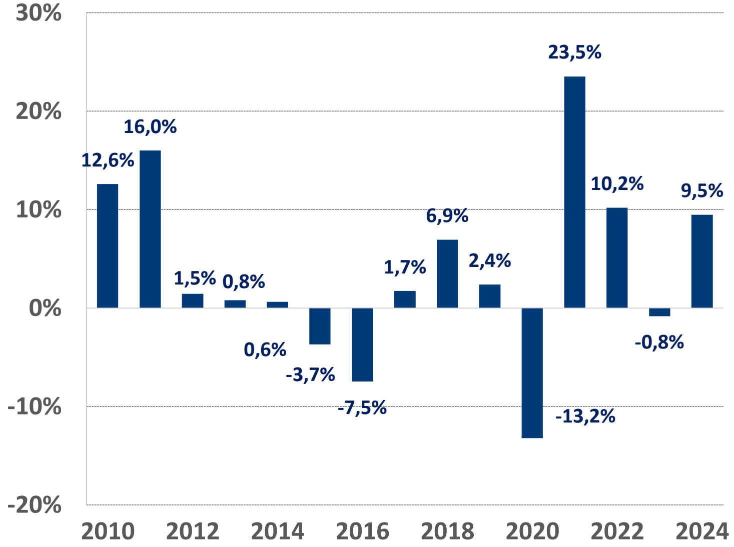
Total Tax Collection (YoY Real, %)



Total Tax Collection (BRL Bn, Real SA)



Total Tax Collection (YTD Real, %)

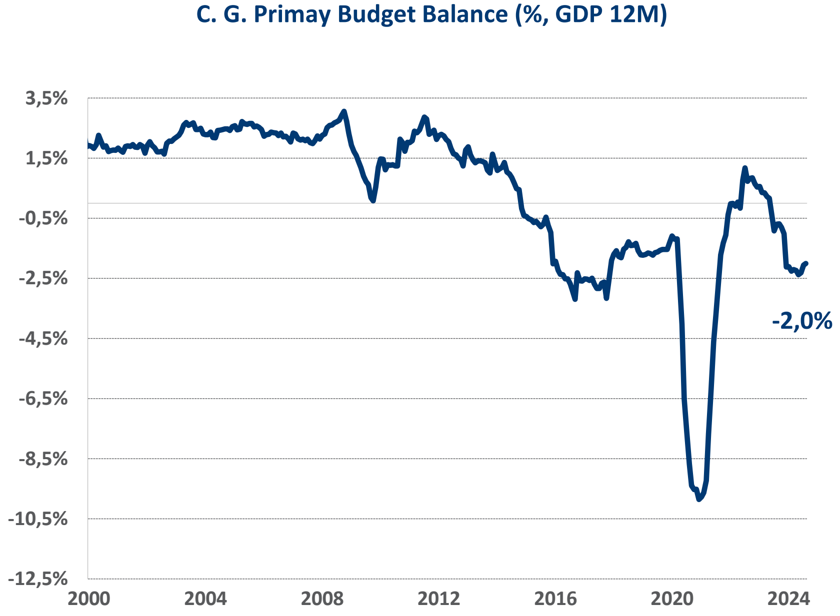


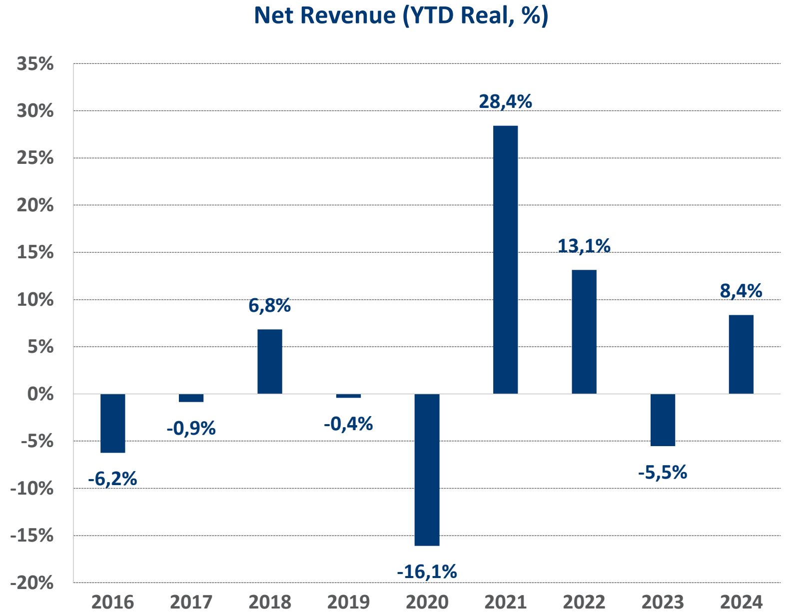
Total Tax Collection (% GDP)

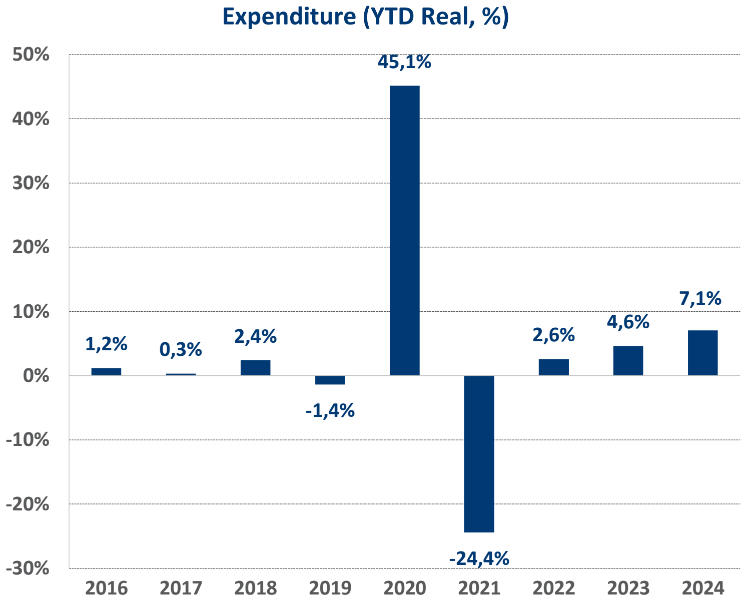
Source: BOCOM BBM, RFB

Brazil: Central Government Primary Result

- In August, the central government's primary balance posted a deficit of BRL 22.4 bn, in line with market expectations (BRL -22.6 bn);
- The 12-M accumulated primary deficit reached 227.5 bn, or 2.0% of GDP;
- Net revenue increased 6.2% YoY in real terms, mainly due to PIS/Cofins (15.5% YoY), reflecting the reversal of tax cuts on fuels and the exclusion of ICMS credits from the tax base, industrialized products tax (41.2% YoY) on the heels of the limitation of tax compensations, income tax (14.6% YoY) pushed by the taxation on withholding labor earnings and capital gains and social security revenue (8.6% YoY) thanks to the heated labor market;
- On the other side, total spending grew 2.0% YoY in real terms, influenced by Social Security Benefits (3.7% YoY) and elderly and disabled assistance BPC/LOAS (14.5% YoY), both due to the growth in the number of beneficiaries, and bonus wage and unemployment insurance (110,1%YoY), due to a change in the calendar of settlements.





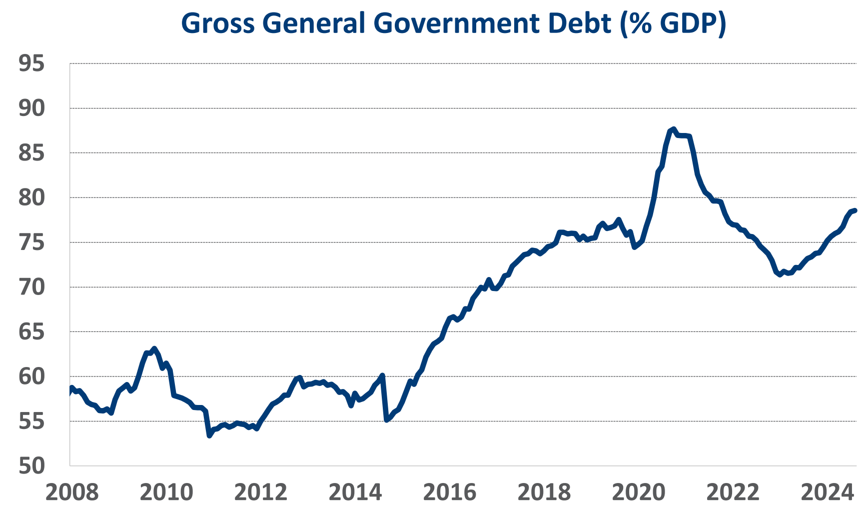


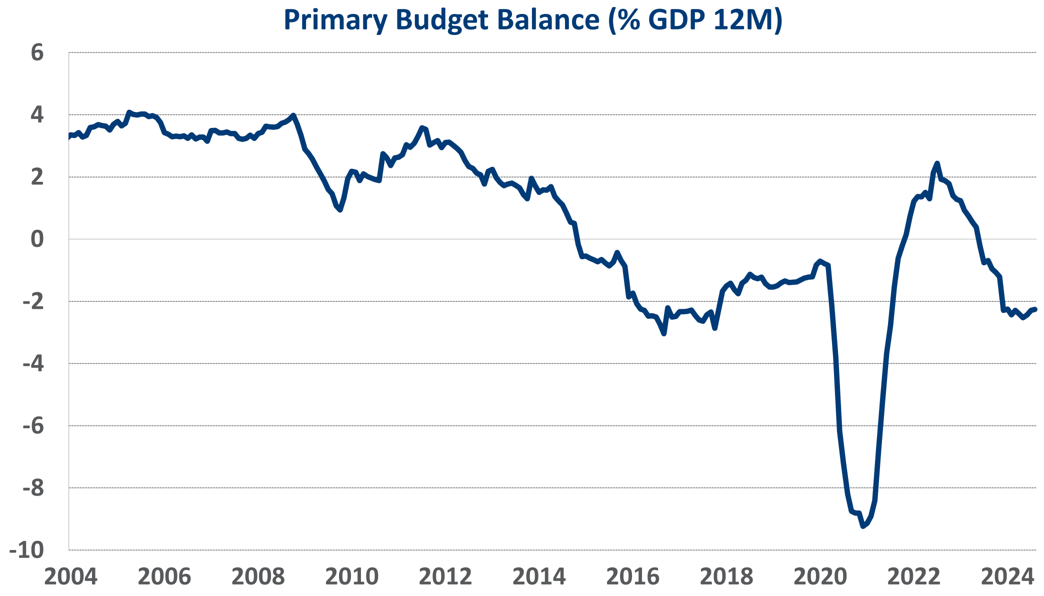
Source: BOCOM BBM, RTN

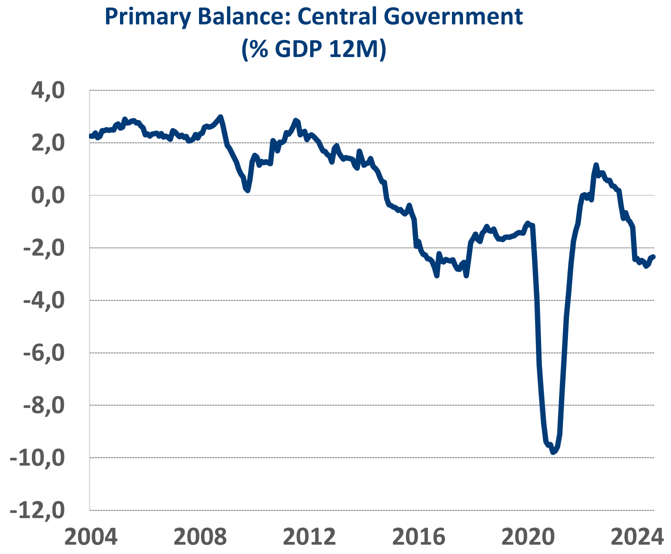
Brazil: Consolidated Public Sector Budget

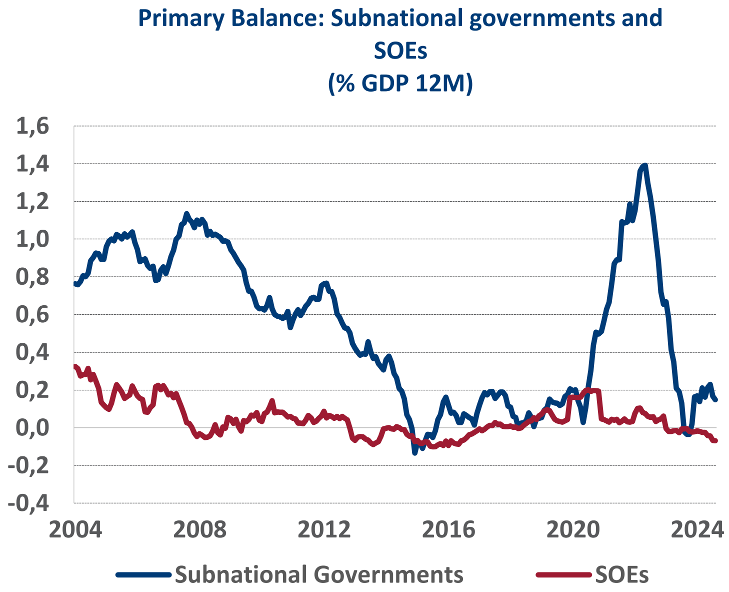
- The consolidated public sector recorded a primary deficit of BRL 21.4 billion in August, repeating the deficit of July, in line with the market consensus. Central Government registered a deficit of 22.3, while subnational governments and state-owned enterprises registered surplus of BRL 0.4 bn, BRL 0.5 bn, respectively;

- Gross General Government Debt remained virtually stable, going from 78.4% of GDP in July to 78.5% of GDP in August, with nominal interest change (+0.7 p.p.) almost offset by nominal GDP growth (-0.5 p.p.), and net issuances close to zero.







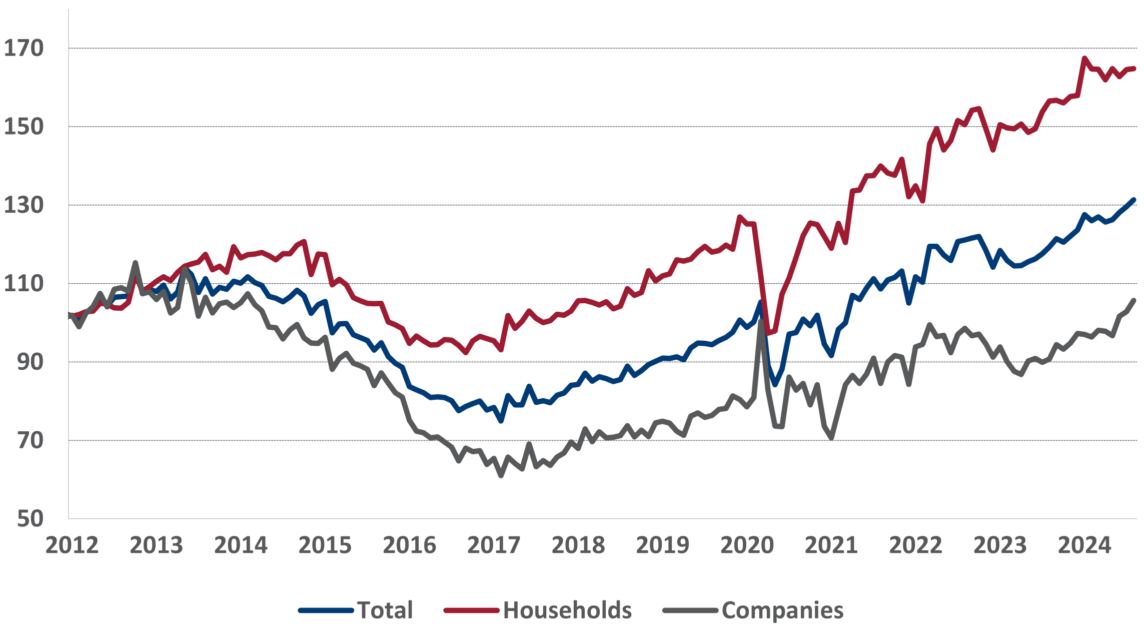


Source: BOCOM BBM, BCB

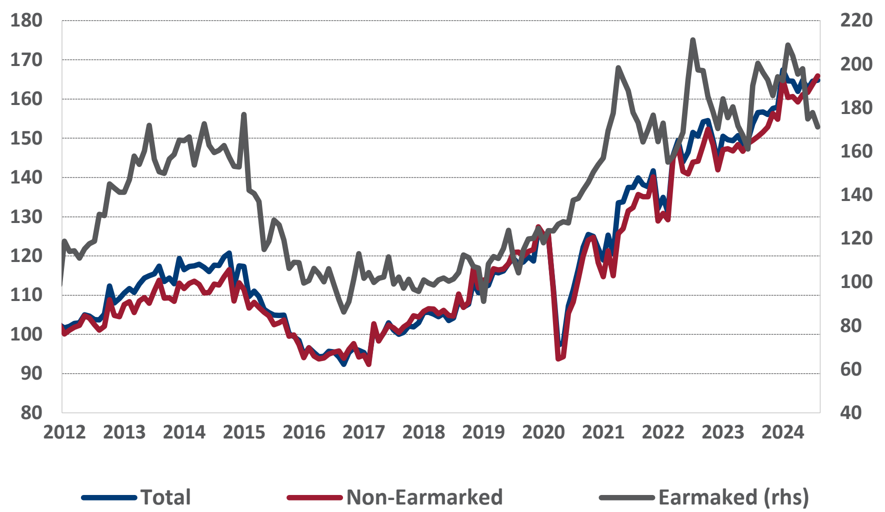
Brazil: Credit Statistics

- In August, total credit concessions increased 2.0% MoM in real terms;
- Non-earmarked credit concessions remained relatively stable to companies and increased 1.3% MoM to households;
- Earmarked credit concessions, in turn, grew 11.2% MoM to companies and fell 3.7% MoM to households;
- The credit market has been surprisingly resilient, suggesting an environment of supply expansion.

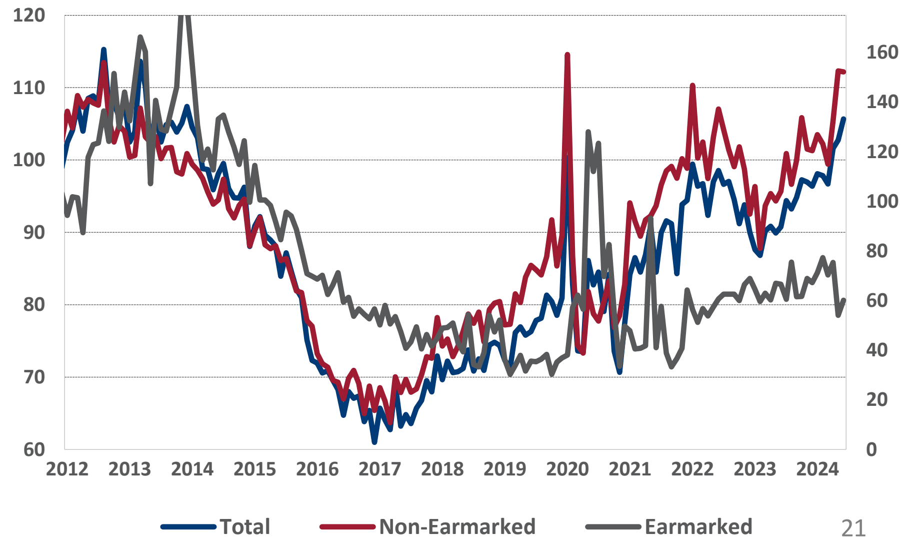
New Credit Operations SA (Real) - mar/11 = 100



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



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



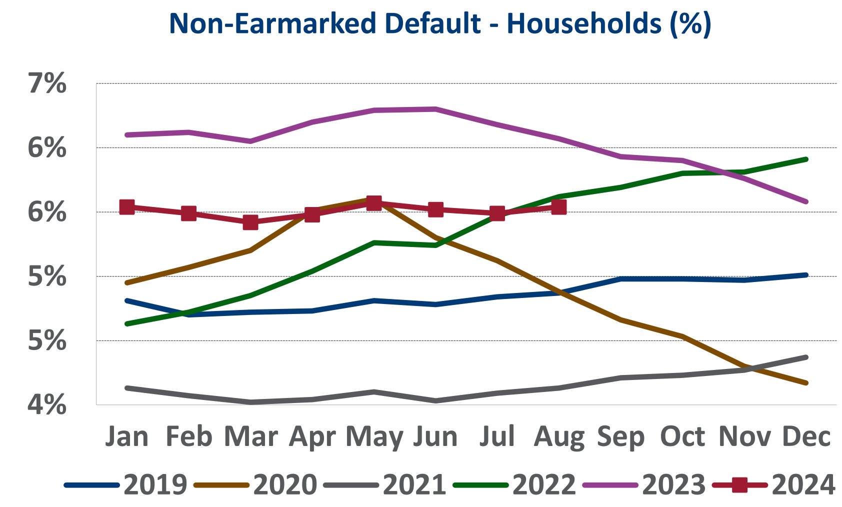
Source: BOCOM BBM, BCB

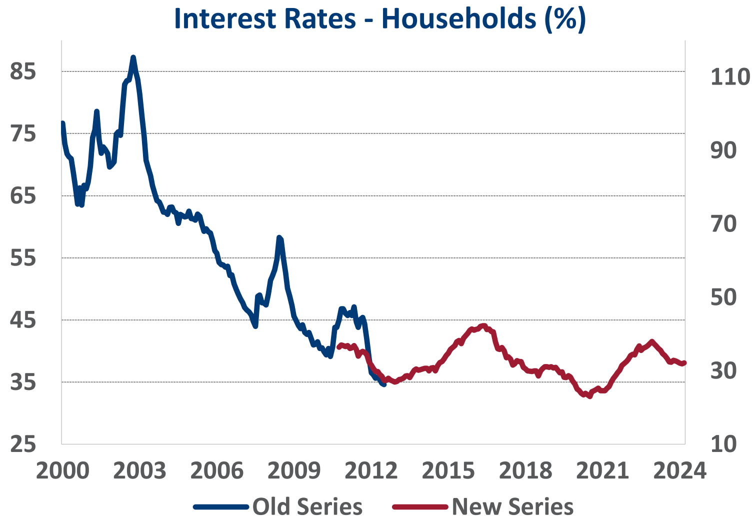
Brazil: Credit Statistics

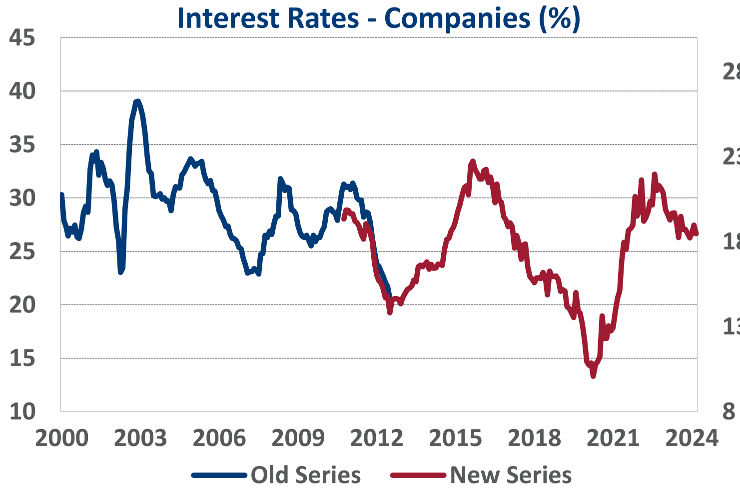
BANK OF COMMUNICATIONS BBM

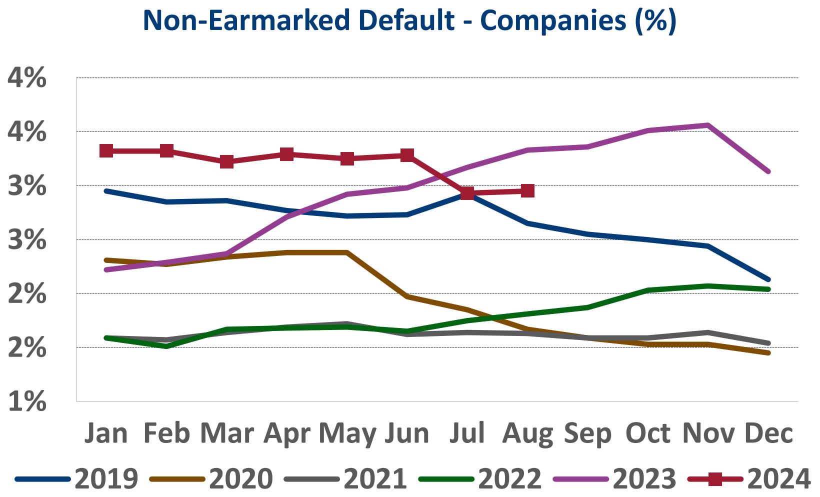
- Lending rates increased marginally from 32.0% to 32.2% for individuals and remained stable at 18.5% for companies;

- In turn, non-earmarked default rate is around 5.5% to individuals and 2.9% to companies (remaining relatively stable).





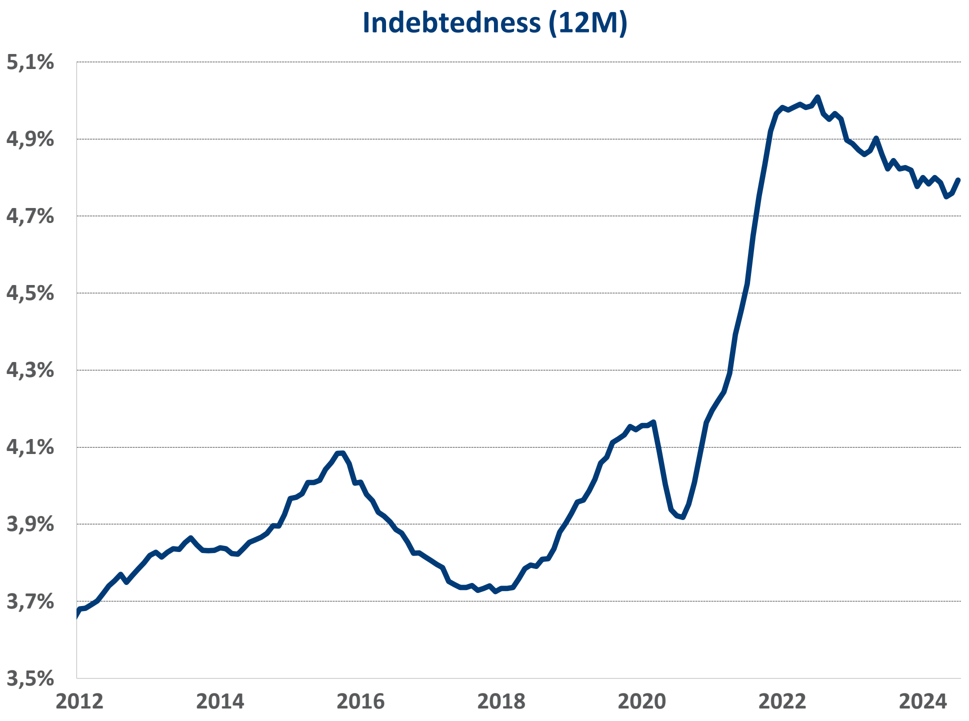


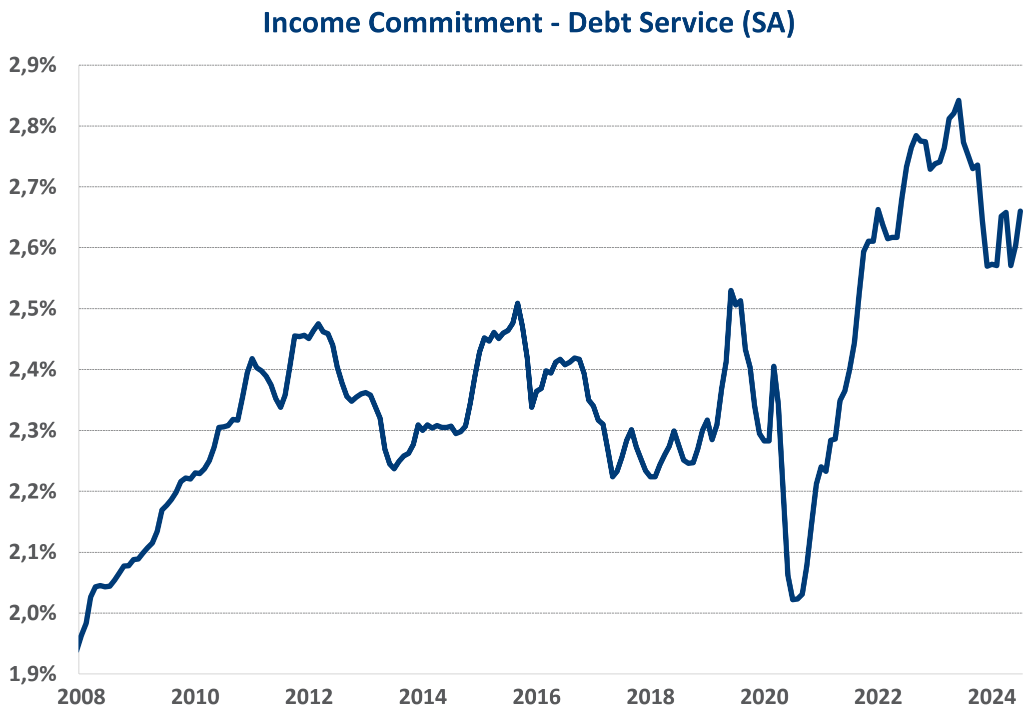


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- The ratio of household indebtedness increased slightly reaching 47.9% in July (30% ex-real estate), the highest since November 2023;
- Income commitment increased from 26% to 26.6%;
- The August data showed that households remain heavily indebted even in an environment of strong wage growth.

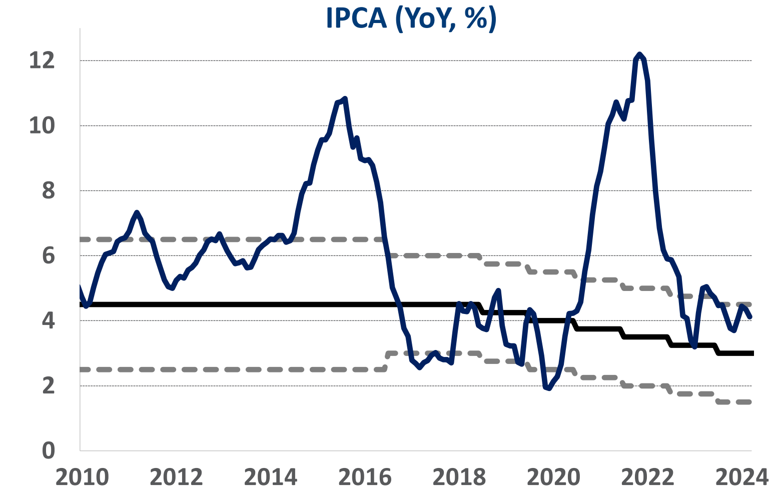


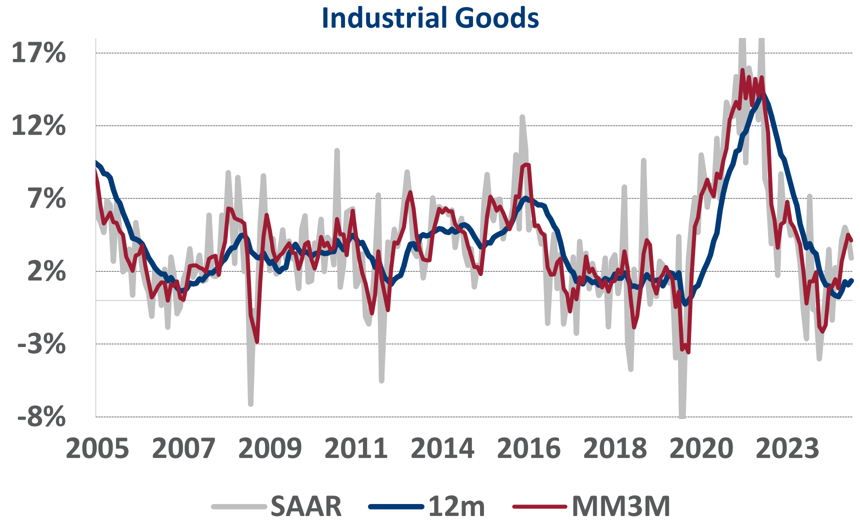


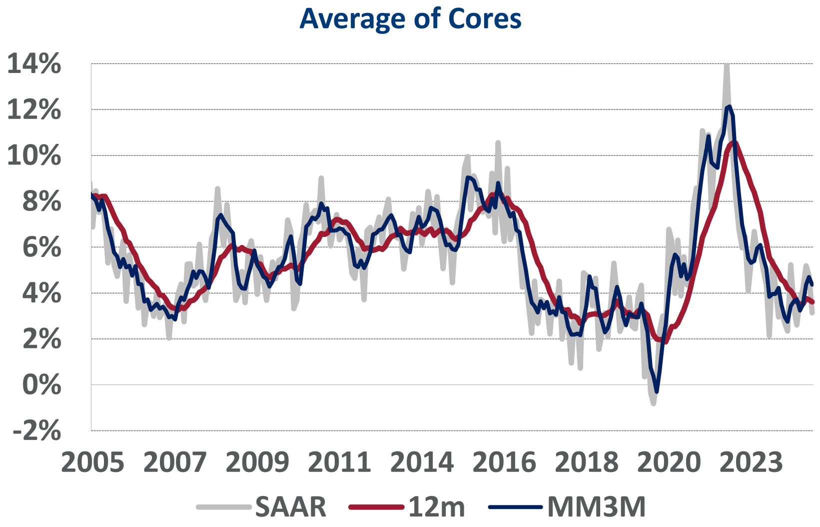
Source: BOCOM BBM, BCB

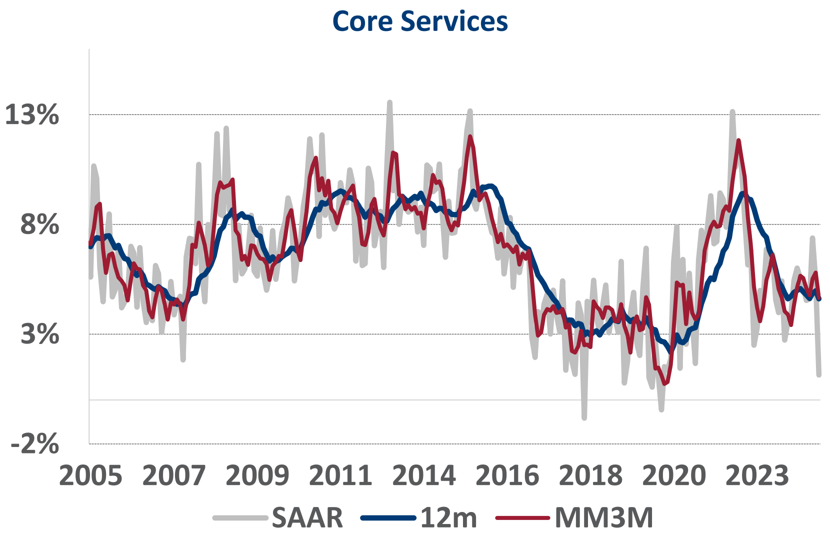
Brazil: Inflation 2024

- September IPCA-15 rose by 0.13% MoM, well below expectations of 0.28%;
- The 12-month variation, IPCA-15 fell to 4.12% in September from 4.35% in August;
- The main downward surprises came from cinema, airfares and foodstuff;
- The breakdown was positive, as the underlying services and the average of cores surprised downwards. The highlight was core services result, which remained stable in September, well below market expectation of 0.31% MoM. Consequently, the core services 3M SAAR melted from 5.8% to 4.6%;
- Labor-intensive and inertial services also showed moderation at the margin. The average of core inflation gauges advanced 0.17% MoM, also below estimates of 0.30%.





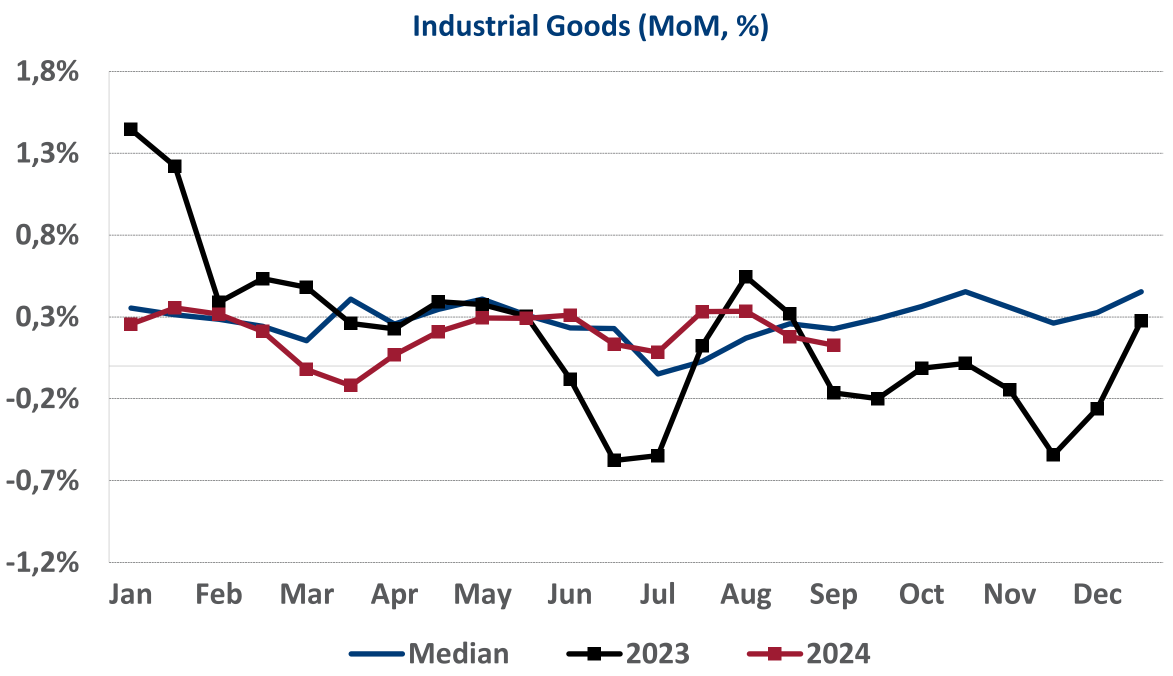


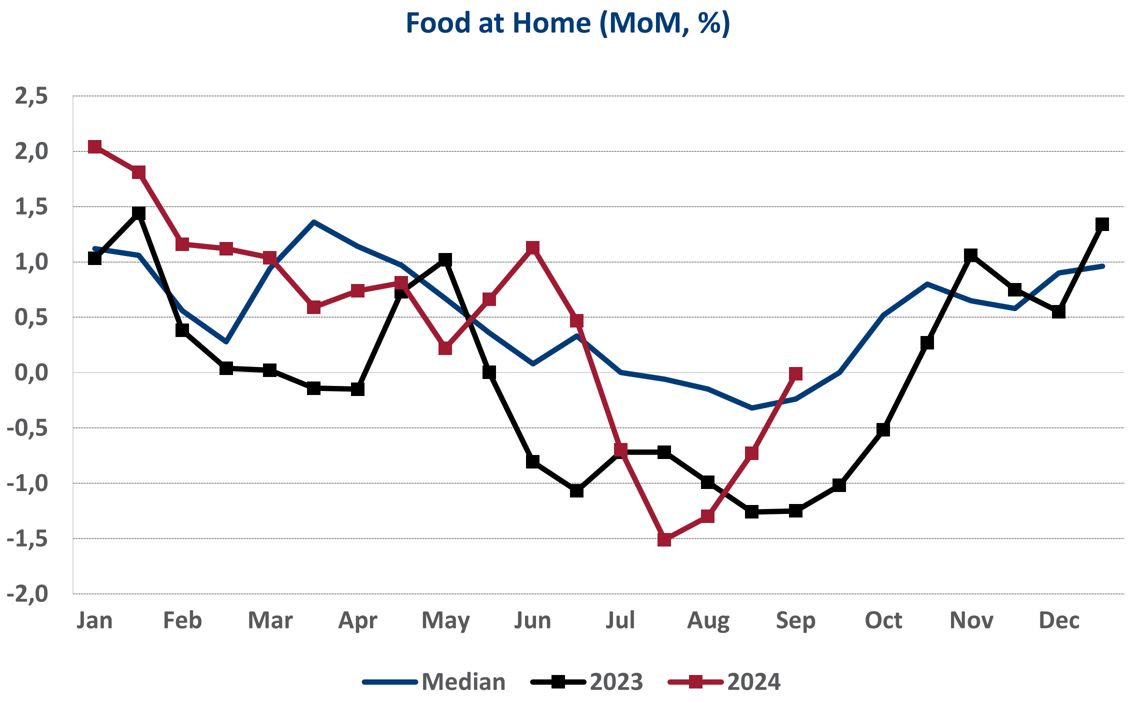


Source: BOCOM BBM, IBGE

Brazil: Inflation 2024

- Industrial goods prices advanced 0.13% MoM, below expectations of 0.24%, but recent levels of the exchange rate will put upward pressure in the coming months;
- Foodstuff prices remained virtually flat in September (-0.01%), close to forecasts. The main downward contribution came from fruits and sugar prices. Nonetheless, we see upward pressures going forwards. Not only the droughts, but the rise in protein prices will positively contribute for this trend.





Source: BOCOM BBM, IBGE

Brazil: Inflation

- After September result, we reduced our forecast for services and regulated items, but increased our forecast for food at home due to the droughts and the rise in protein prices;
- Consequently, our forecast increased from 4.3% to 4.4% in 2024.

IPCA (%, annual)

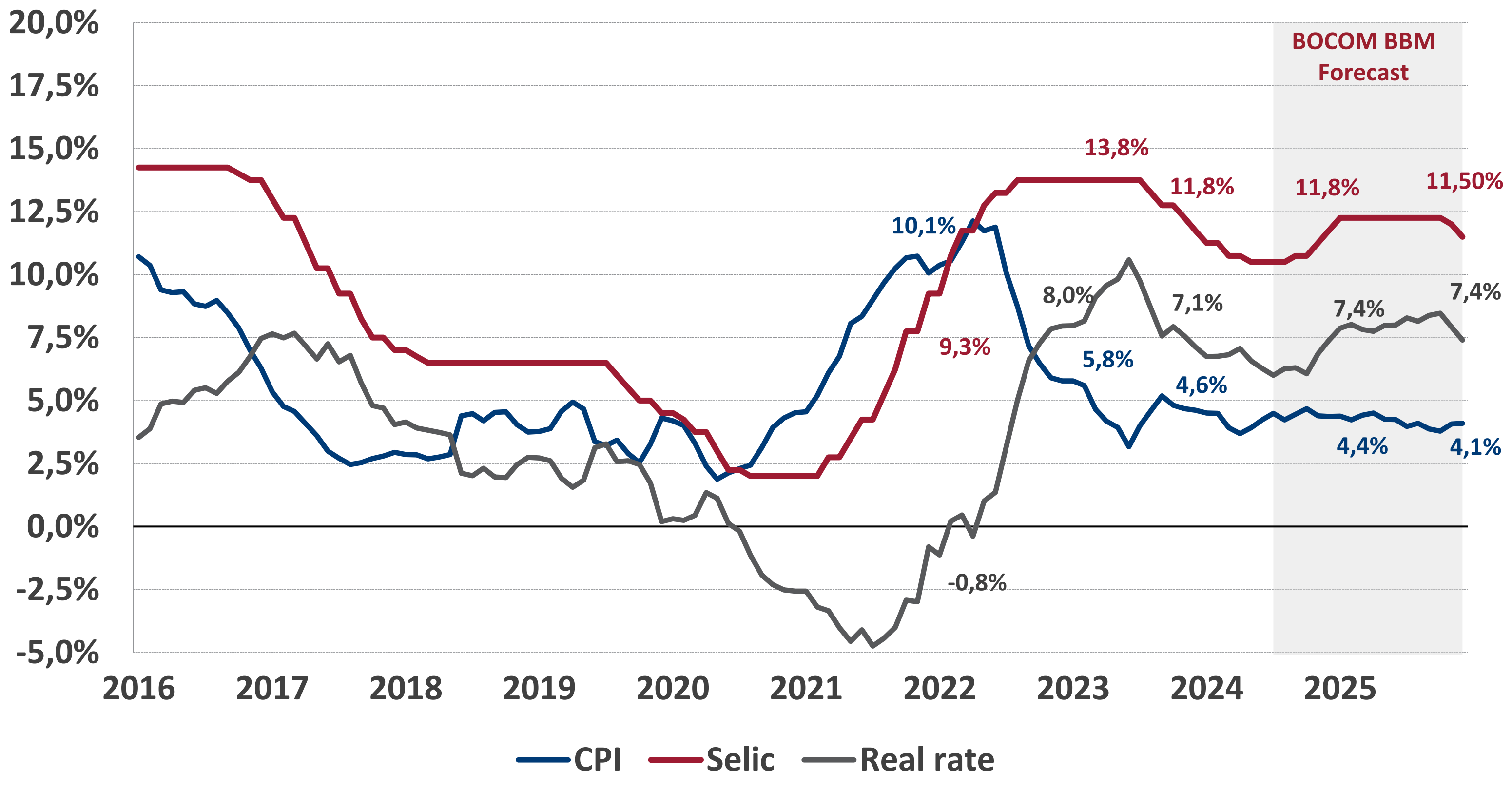
	Weight	2019	2020	2021	2022	2023	2024	2025
Regulated	**26.6**	**5.5**	**2.6**	**16.9**	**-3.8**	**9.1**	**4.9**	**3.8**
Industrial goods	**23.6**	**1.7**	**3.2**	**11.9**	**9.5**	**1.1**	**3.2**	**4.2**
Durable goods	10.3	0.0	4.5	12.9	6.1	-0.4	1.6	-
Semi-durable goods	5.9	0.6	-0.1	10.2	15.7	2.7	2.2	-
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**	**5.4**	**4.3**
Services	**34.1**	**3.5**	**1.7**	**4.8**	**7.6**	**6.2**	**4.3**	**4.3**
Food away from home	5.6	3.8	4.8	7.2	7.5	5.3	4.7	3.9
Related to minimum wage	5.2	2.9	1.5	3.3	6.3	5.2	4.8	6.0
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.3	9.5	1.5	4.1
Inertial	15.0	4.3	1.6	4.2	8.8	5.1	5.6	3.9
IPCA		**4.3**	**4.5**	**10.1**	**5.8**	**4.6**	**4.4**	**4.1**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

- Concerning monetary policy, the Brazilian Central Bank (BCB) decided to raise the Selic rates to 10.75% per year, as broadly expected. Board members' communication indicated that a hiking cycle would begin, but rate adjustments would be gradual, consistent with an initial 25bps hike. BCB inflation projections six trimesters ahead, which now reflect the new systematic for inflation targeting, reached 3.5% in the first quarter of 2026 in a scenario where rates reach 11.25%, 10.5% and 9.5% by the end of 2024, 2025 and 2026 respectively. The statement also gave emphasis to asymmetry in the balance of risks, with more risks to inflation on the upside. The BCB also reevaluated its assessment of the output gap, which is now in positive territory, considering the dynamism seen in economic activity. All in all, this corroborates the beginning of a hiking cycle. The statement gave no guidance on pace and magnitude of hikes, but reinforced that further adjustments are tied to the firm commitment to inflation convergence to the target.

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



Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

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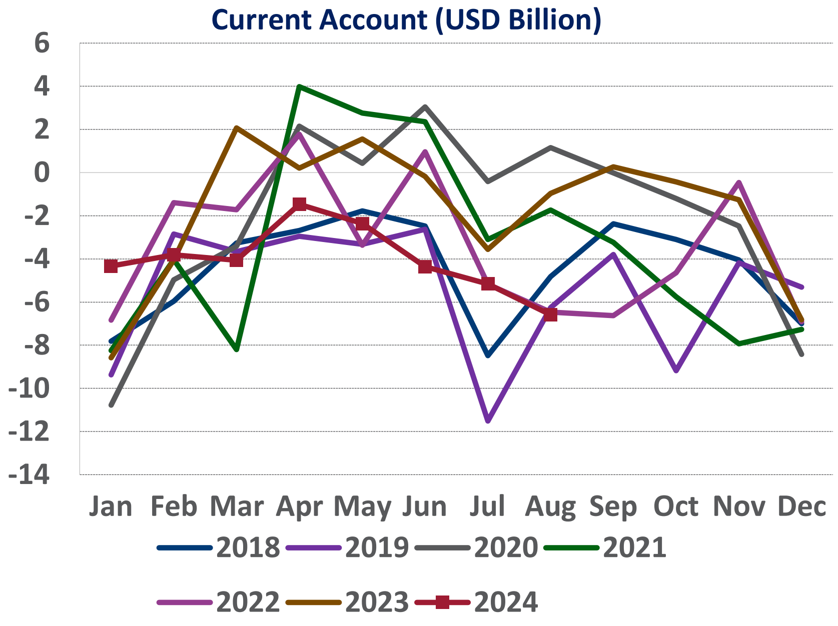
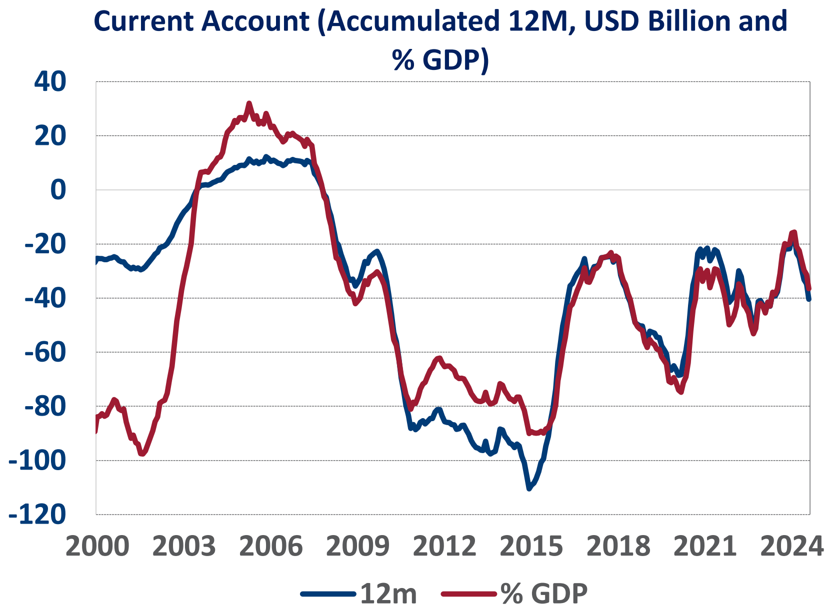
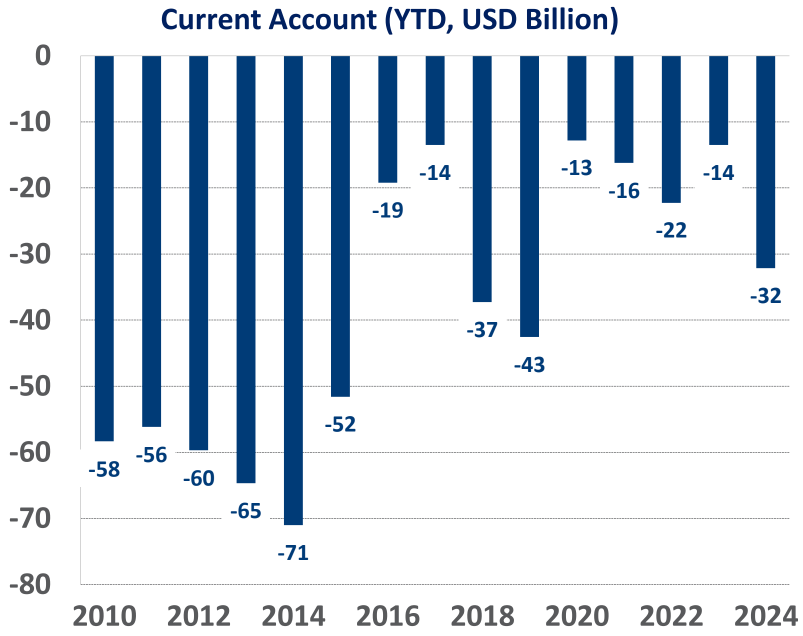
- In August, the Brazilian current account printed a USD 6.6 billion deficit, worse than expectations (USD -5.0 billion);
- For the 12-month rolling sum up to August, the deficit amounted to USD 38.6 billion deficit (-1.75% of GDP);
- The surprise was mainly driven by the services account.



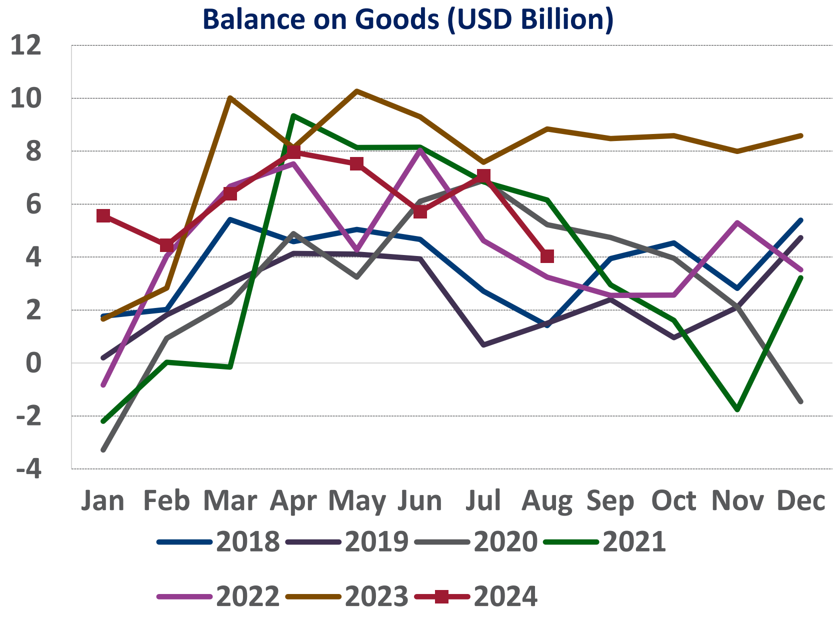


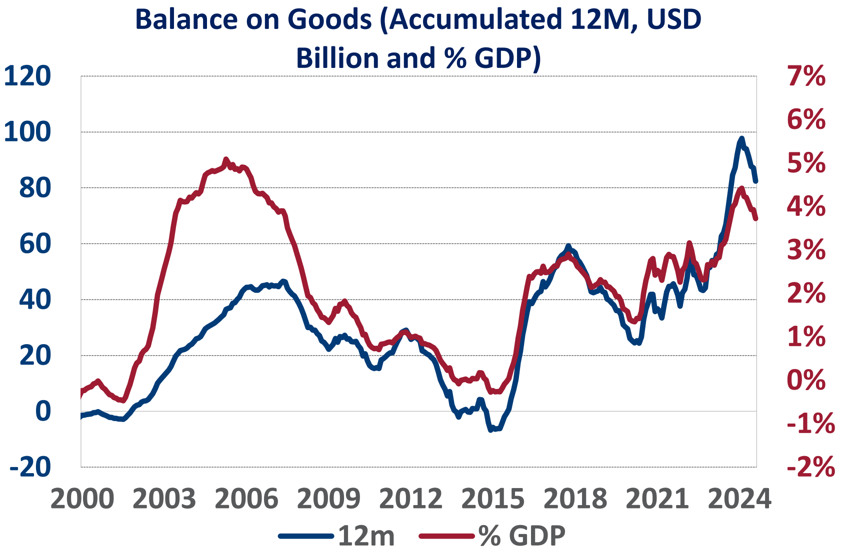


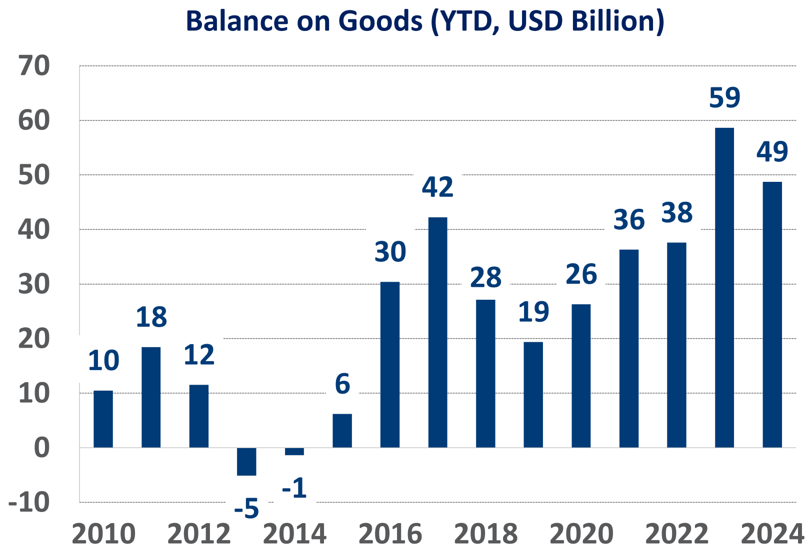
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- The trade balance recorded a surplus of USD 4.0 billion in August 2024;
- The 12-month rolling sum up to August 2024 reached USD 82.3 billion;
- Additionally, the exports fell by 6.8% YoY, while Imports surged by 12.0% YoY;
- This result was below the recorded in August 2023 (+USD 8.8 billion), mainly due to the increase rising import volumes, reflecting strong domestic economic activity, and the falling export prices.



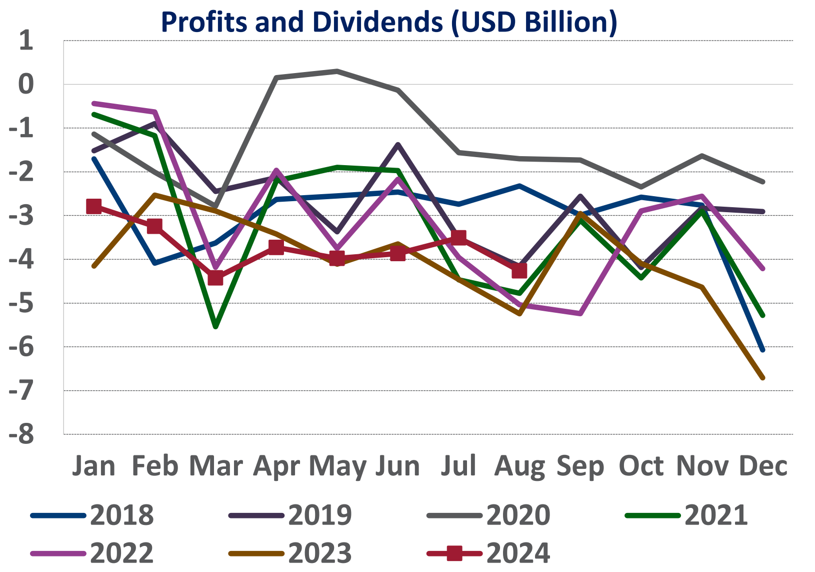


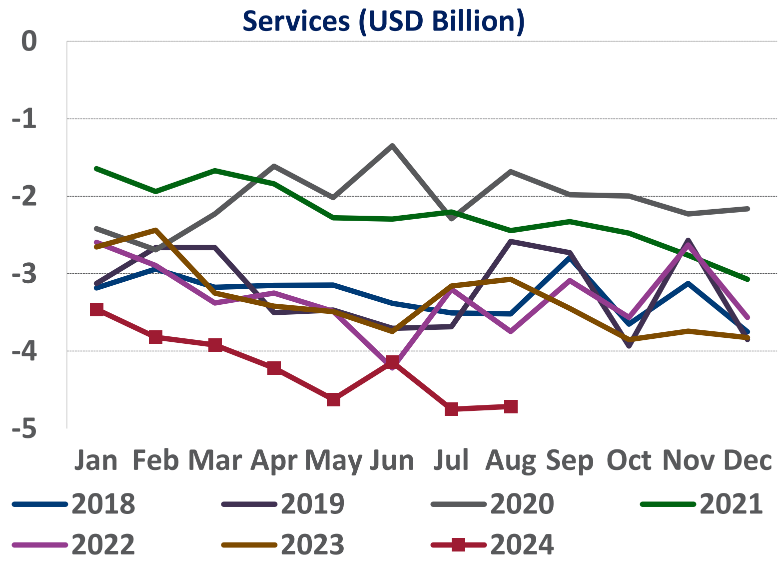


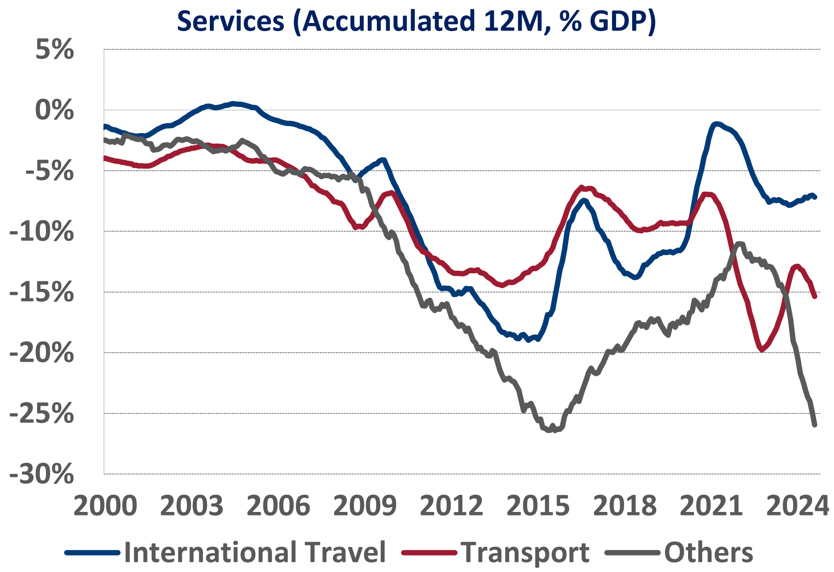
Source: BOCOM BBM, BCB

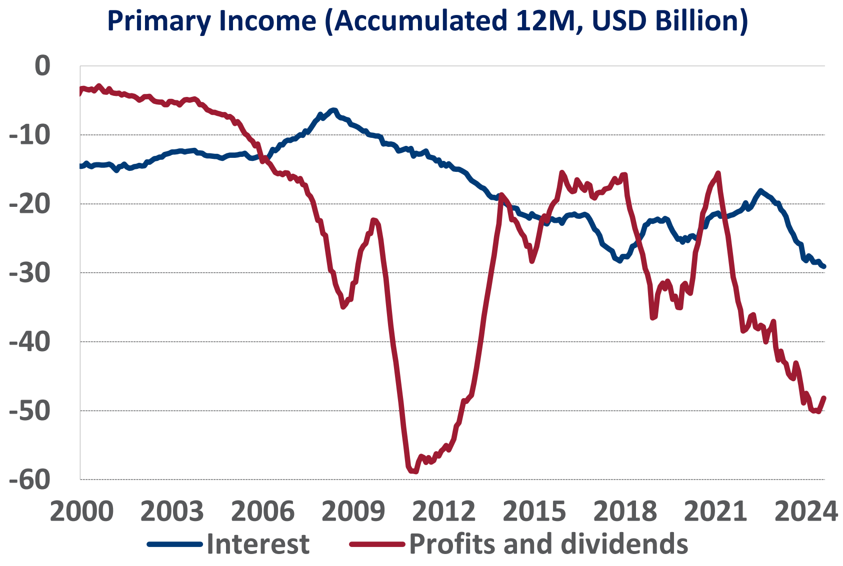
Brazil: Balance of Payments

- The services deficit showed again an annual increase, rising from USD 3.1 billion in August 2023 to USD 4.7 billion in August 2024 (53,4% YoY), with the biggest driver being transportation account. Additionally, there were important contributions coming from freights (reflecting the strong economic activity and rise in freight prices from China), intellectual property services and telecommunications, computer & information services accounts;
- It is worth noting the Central Bank has revised the transportation services account from January to July 2024. Net expenses were reduced by USD 2.0 billion, from USD 9.6 billion to USD 7.6 billion;
- The deficit in the primary income account amounted to USD 6.2 billion in August 2024 from USD 7.0 billion in August 2023, and the year-to-date comparison, at USD 49.0 billion.







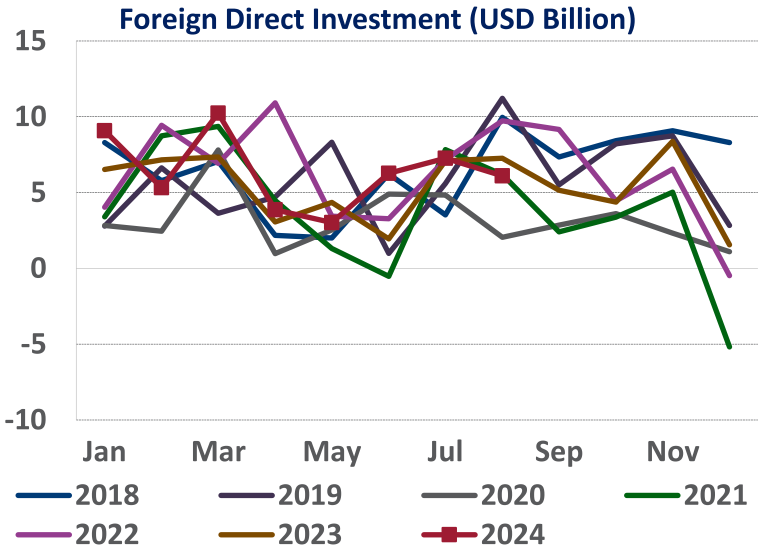


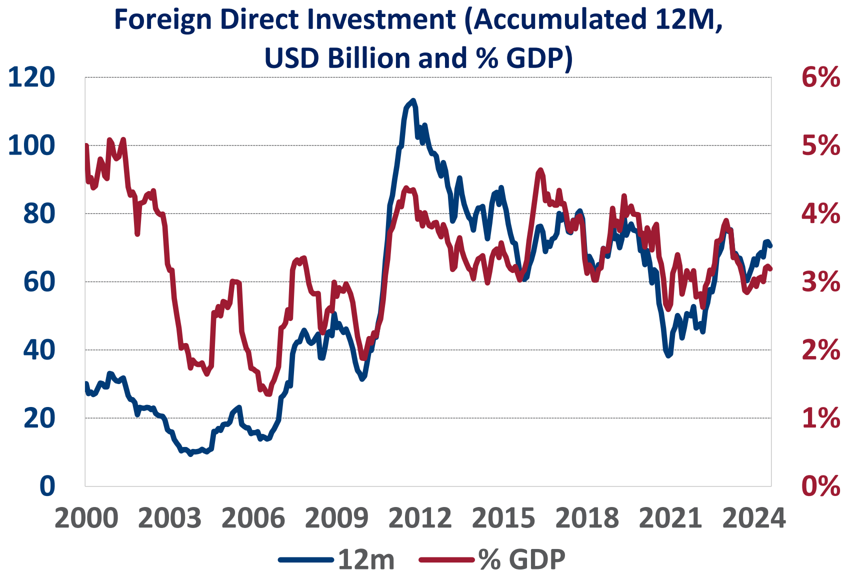
Source: BOCOM BBM, BCB

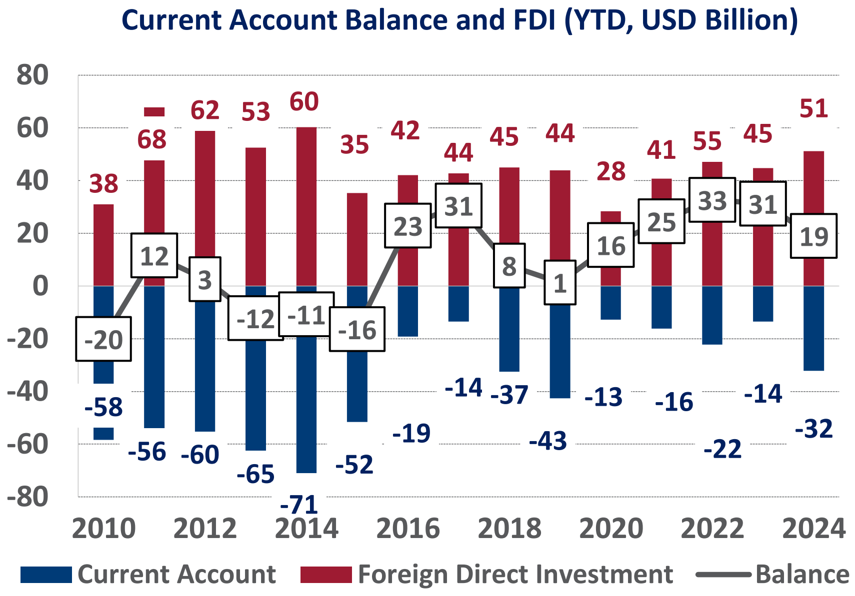
Brazil: Balance of Payments

- Net inflows in Foreign Direct Investment (FDI) totaled USD 6.1 billion in August 2024, bellow market expectation (USD 7.5 billion);

- In 12 months, it reached USD 70.6 billion (3.19% of GDP).





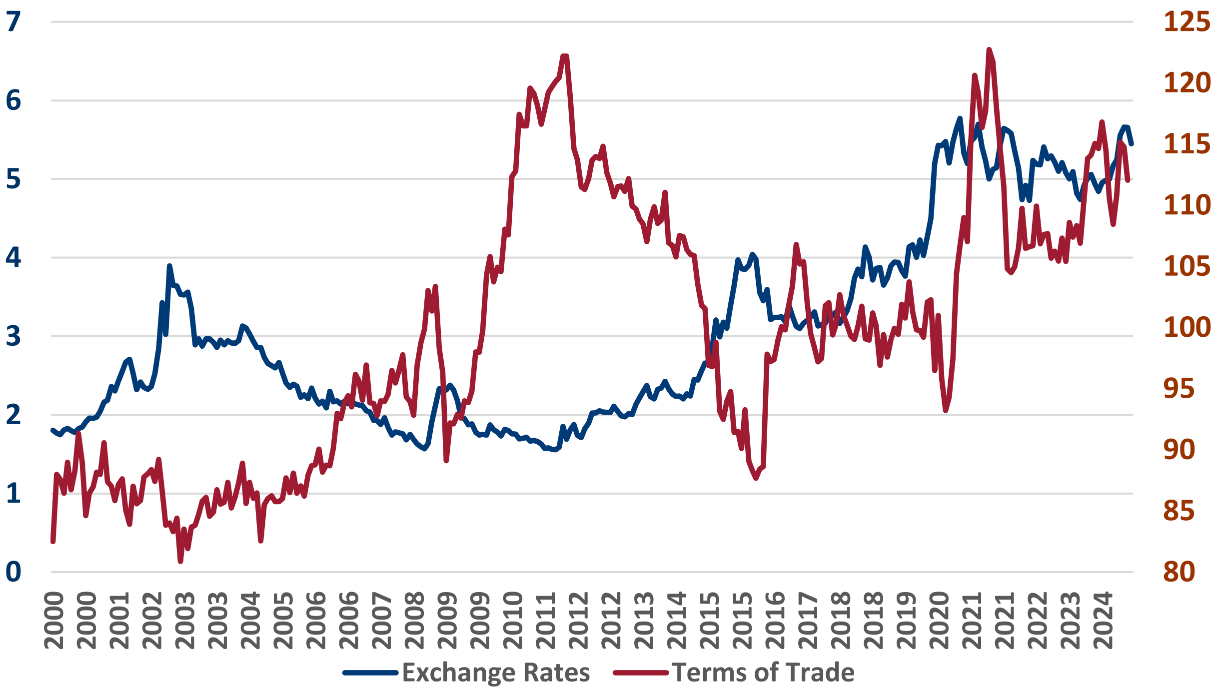


Source: BOCOM BBM, BCB

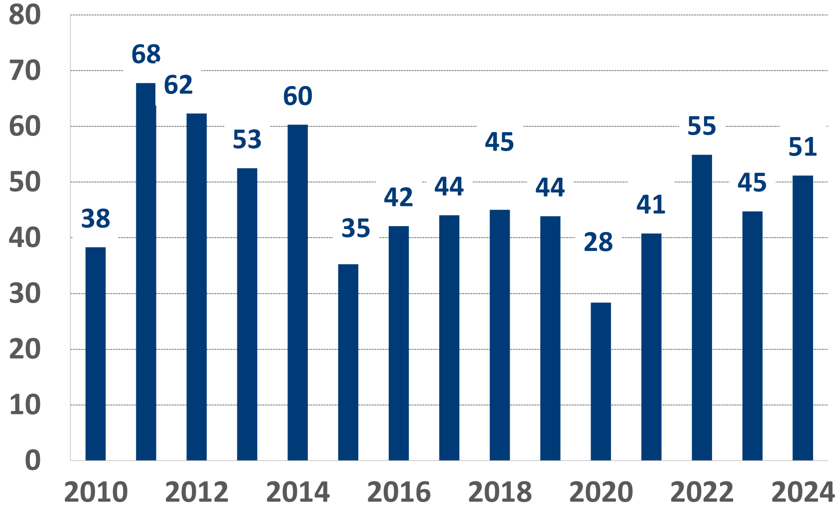
Brazil: External Sector

- In September, the Brazilian Real appreciated from around 5.65 to 5.45 against the US Dollar. In the domestic scenario, Brazil's central bank begun a hiking cycle in response to inflation projections moving further away from the 3% target. The BCB communication sounded hawkish, reinforcing that next steps will be guided by the firm commitment to inflation convergence to the target. In the international scenario, the FOMC began its easing cycle with a 50bp cut at its September meeting, supporting a lower USD. Additionally, the PBoC's stimulus package announced last week, followed by the first-ever Politburo economic meeting in September filled markets with optimism, benefiting emerging currencies.

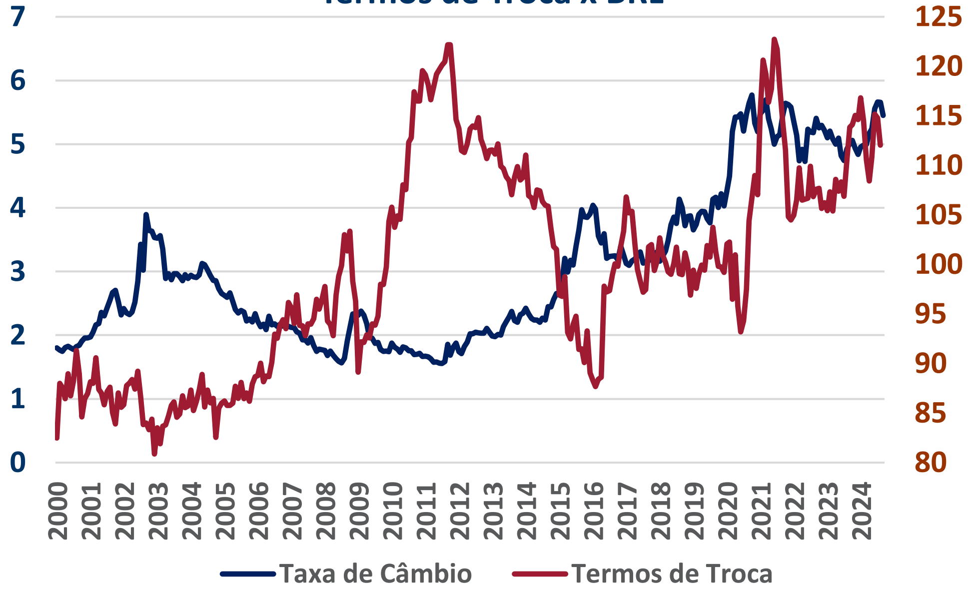
Terms of Trade x BRL



Foreign Direct Investment (YTD, USD Billion)



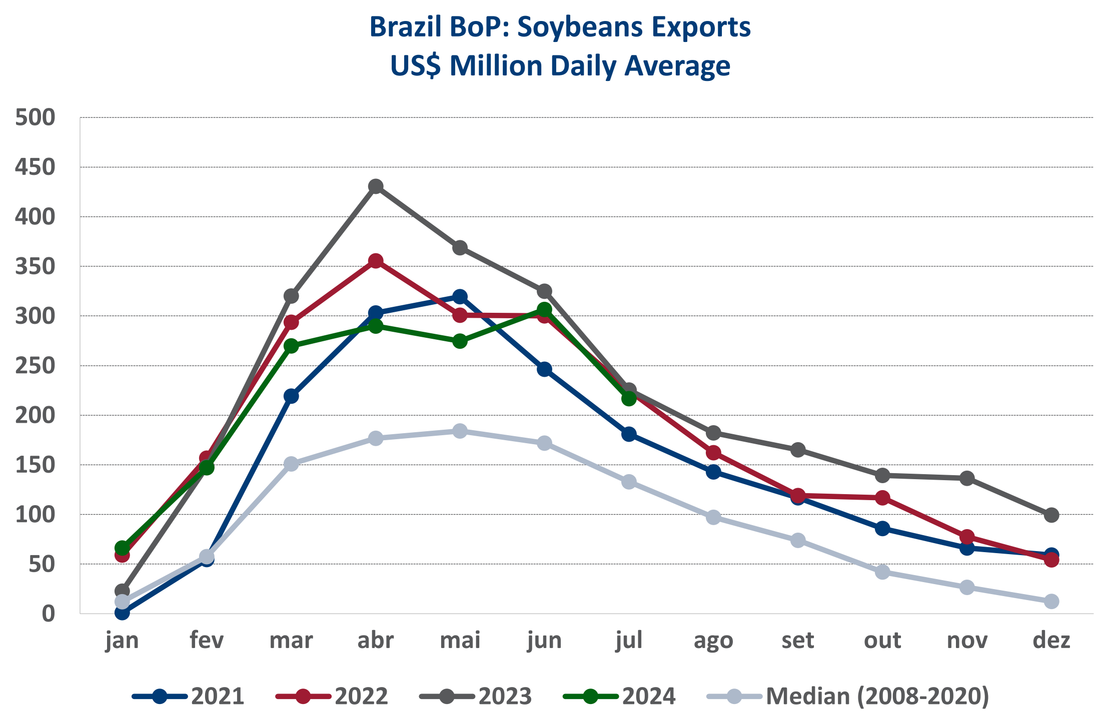
Termos de Troca x BRL

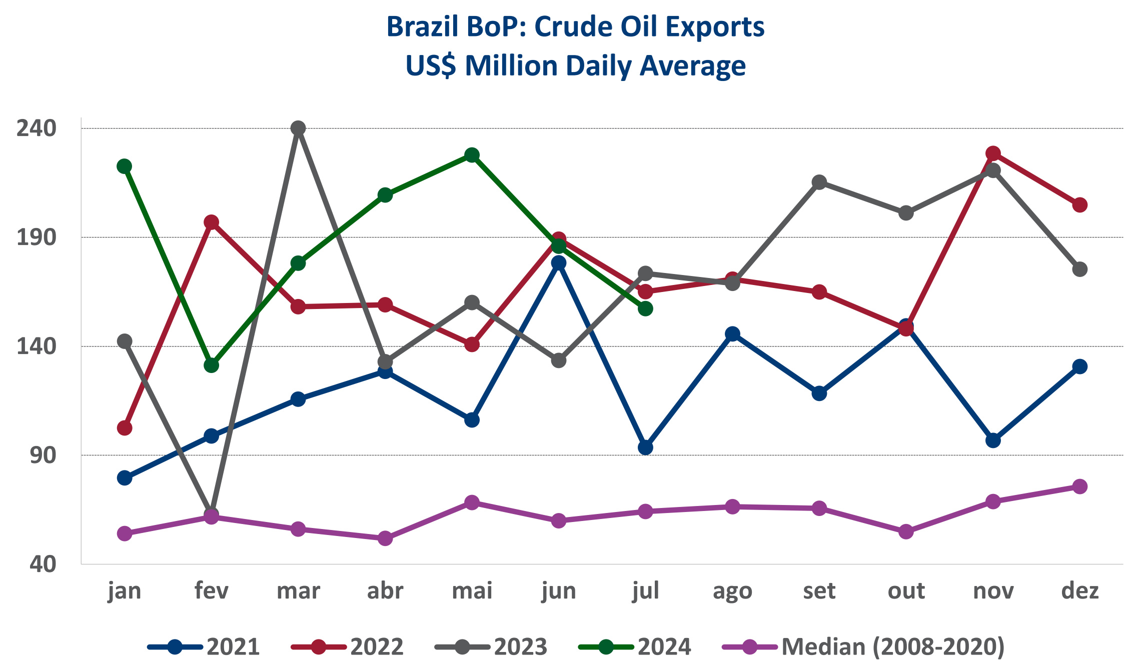


Source: BOCOM BBM, Bloomberg, Funcex, BCB

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

交通銀行 BANK OF COMMUNICATIONS BBM