Macro Outlook

November 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 an easing cycle with a 50bps cut in it’s September meeting. However, everything indicates that they will reduce the magnitude of next cuts, as subsequent data suggests an economy that is still resilient. Markets are pricing 50bps of additional cuts in 2024 in the last two meetings (i.e. 25bps in each meeting);

- Regarding China, year-to-date growth until Q3 was 4.8% YoY – slightly below the center of the annual target of "around 5%“. September data showed a rebound in economic activity, with both retail sales and industrial production reaching the fastest pace since May, ending a 3-month streak of weakening. Given that, 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 initial signs of deceleration. Industrial production increased by 0.1% MoM, in line with market expectations. On the other hand, services and broad retail sales were below expectations, decreasing 0.4% MoM and 0.8% MoM, respectively. The Central Bank's monthly proxy for Brazil's GDP (IBC-BR) seems to summarize the overall market expectations, showing an increase of only 0.2% MoM, after a fall in July;

- Concerning monetary policy, the Brazilian Central Bank (BCB) raised the Selic rate by 25 bps to 10.75% p.a. at its September meeting. The committee highlighted that economic activity has demonstrated more strength than anticipated, and the disinflation seems more challenging, with an upward asymmetry in the balance of risks. Since then, the outlook keeps showing a combination of resilient activity, inflation close to the upper limit of the target, unanchored expectations, and raising concerns regarding fiscal and parafiscal policies. At the same time, the external environment remained challenging for emerging countries. Thus, a hike of 50 bps at the November meeting is highly expected. We expected that rates will reach at least 12,5% by the end of the cycle;

- October IPCA-15 rose by 0.54% MoM, above market expectations (0.50%). The 12-month variation advanced to 4.47% in October from 4.12% in September. The upward surprise was spread among the categories and the acceleration from September was driven by a sharp rise in food inflation, a higher electricity tariff flag and a reacceleration in industrial goods and core services. In general, services figures reinforce the view of a deterioration in the coming months on the heels of solid domestic demand, a tight labor market, and unanchored inflation expectations. After October result, we increased our forecast for food inflation due to proteins and the risks continue to rise, following the spike in live cattle prices. Consequently, our forecast increased from 4.4% to 4.9% in 2024 and from 4.0% to 4.3% in 2025.

- In the fiscal scenario, total federal tax collections reached BRL 203.2 bn in September (11.6% YoY), above the consensus of BRL 201.1 bn, representing the best performance for the month in the historical record. However, tax collections are still below what would be needed to offset the spending growth. That is why financial markets awaits the government's announcement of a new spending cut package. The government's lack of details about the new fiscal package has been generating uncertainty and volatility.

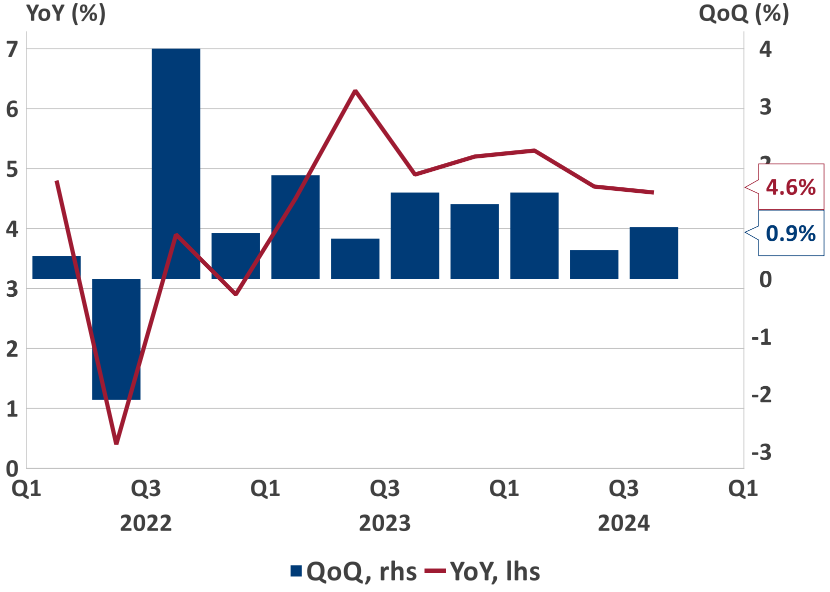
China: GDP – 3Q 2024

- China's GDP grew slightly above expectations in Q3: slowed from 4.7% to **4.6%** YoY (exp. 4.5%), remaining softer than the annual target;
  - Year-to-date growth stands at 4.8%, when compared to the same period last year → **requires further acceleration in Q4 to meet the annual growth target of "around 5.0%";**
  - In sequential terms, GDP growth accelerated to 0.9% QoQ SA, faster than Q2's pace of 0.5%;

- Household consumption growth continued to slow down, reaching now the slowest pace since the end of Covid lockdown and being below disposable income and nominal GDP growth, suggesting there is still a long way to rebalance towards a consumption led economy;

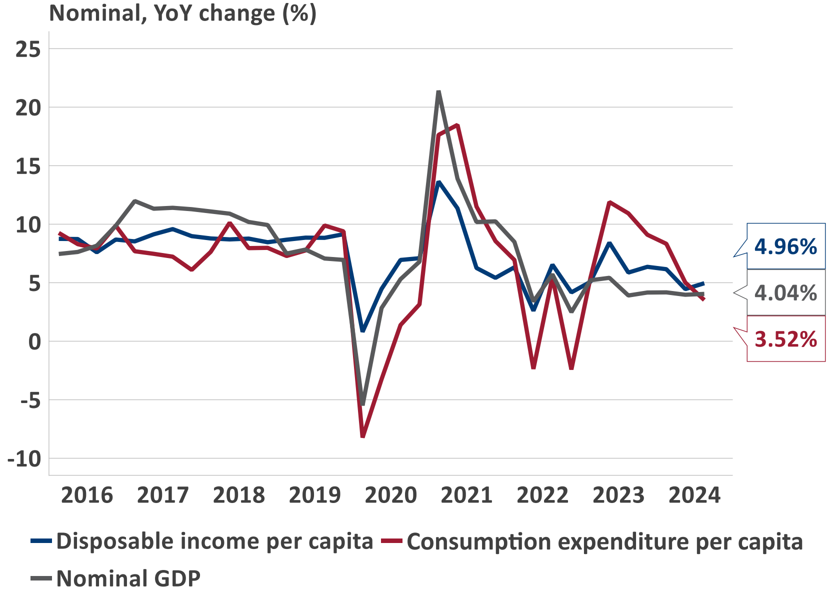
- In nominal terms, growth was just 4.0% YoY, below real growth, marking the 6th consecutive quarter of negative GDP deflator, reflecting the detachment between production and demand;

China: Real GDP Growth (Quarterly)



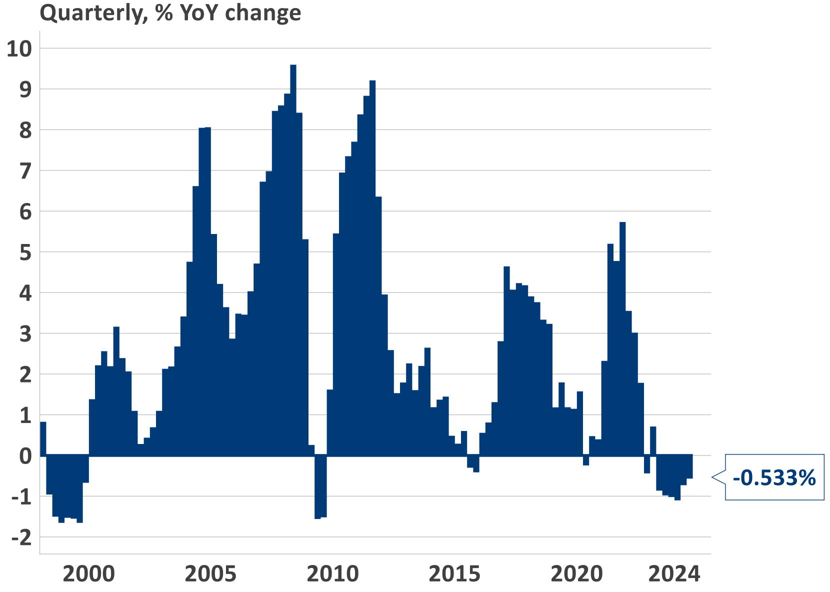
Source: BOCOM BBM, Macrobond, NBS

China: Consumption Expenditure & Disposable Income



Source: BOCOM BBM, Macrobond, NBS

China: GDP Deflator (% YoY, Quarterly)



Source: BOCOM BBM, Macrobond, NBS

China: Economic Activity

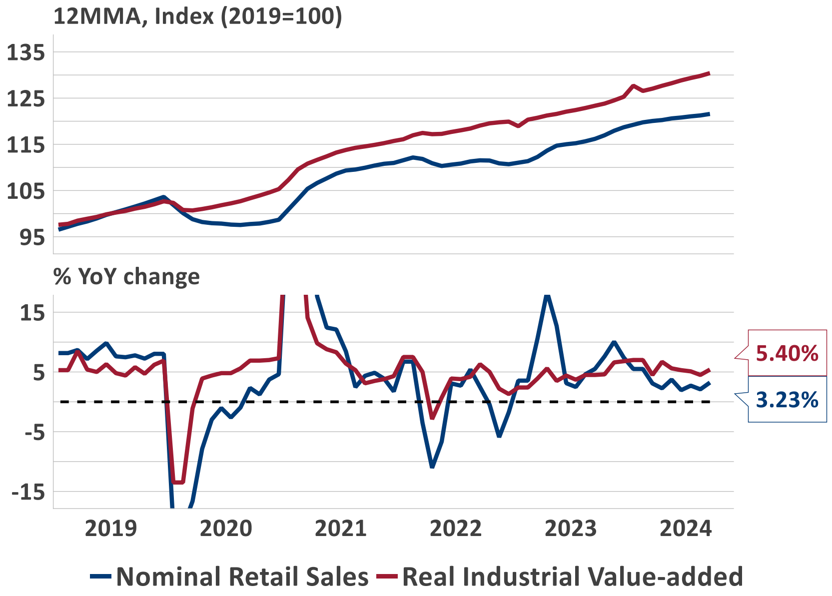
- **Sep. showed a rebound in economic activity:** both retail sales and IP reached the fastest pace since May, ending a 3-month streak of weakening;
- **Retail sales growth surprised up**, rising from 2.1% to 3.2% YoY (exp. 2.5%): growth in goods spending increased, while spending in catering services slowed slightly; that said, home appliances saw a sharp rebound amid the recent consumer goods trade-in program;
- **Industrial prod. accelerated** from 4.5% to 5.4% YoY (exp 4.6%): breakdown of productions shows solid growth among exports-oriented and high-tech products, but weakness in construction-related items, such as cement and steel;
- **FAI was stable** at 3.4% YTD YoY (exp. 3.5%), above the growth in the same period in 2023 (3.2%);
- **The property market is still adjusting**, but indicators improved again in September with the pace of decline in volume of housing and property sales slowing down to -10.6% and -11% YoY, respectively.

China: Activity (% YoY)

	9/2024	8/2024	9/2023
Industrial Production	5.40	4.50	4.50
Mining	3.70	3.70	1.50
Manufacturing	5.20	4.30	5.00
Utilities	10.10	6.80	3.50
Fixed Asset Investment (YTD)	3.40	3.40	3.10
Manufacturing	9.20	9.10	6.20
Real Estate	-10.10	-10.20	-9.10
Infrastructure	4.10	4.40	6.20
Retail Sales	3.23	2.09	5.51
Catering Services	3.10	3.30	13.80
Consumer Goods	3.30	1.90	4.60
Clothing	-0.40	-1.60	9.90
Automobiles	0.40	-7.30	2.80
Furniture	0.40	-3.70	0.50
Cellphones	12.30	14.80	0.40
Home Appliances	20.50	3.40	-2.30
Construction	-6.60	-6.70	-8.20

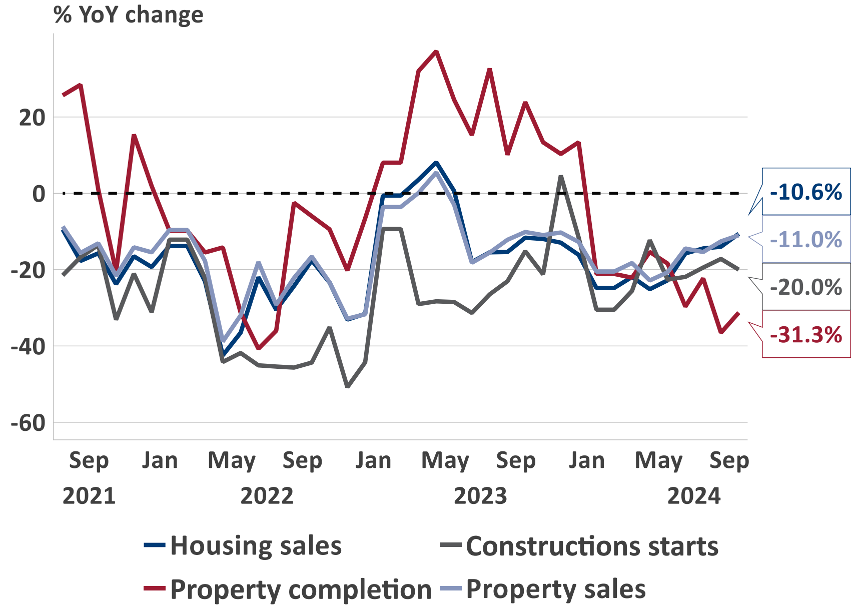
Source: BOCOM BBM, Macrobond

China: Industrial Production x Retail Sales



Source: BOCOM BBM, Macrobond, NBS

China: Property Indicators (% YoY)



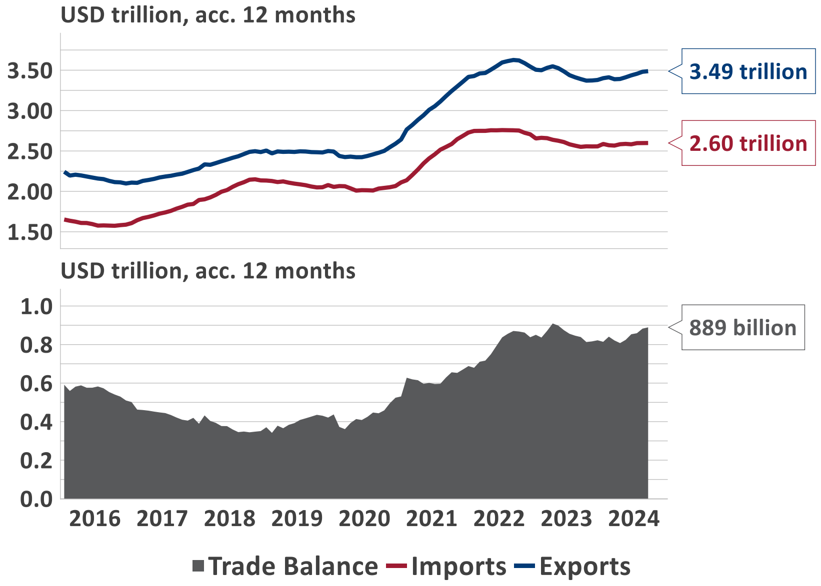
Source: BOCOM BBM, NBS

China: Economic Scenario

- **One of the main highlights in the Chinese economy this year has been exports**, which bolstered the strength in industrial production data:
  - Exports **year-to-date growth stands at 4.33% in USD terms** → continued solid growth, despite historically elevated levels, global trade uncertainties;
  - However, **latest data for September came in below expectations**, slowing down from 8.7% to **2.4%** YoY (exp. 6.0%). Nonetheless, most of the weakness is attributed to falling prices, while in terms of volume export growth remained strong throughout the entire year;

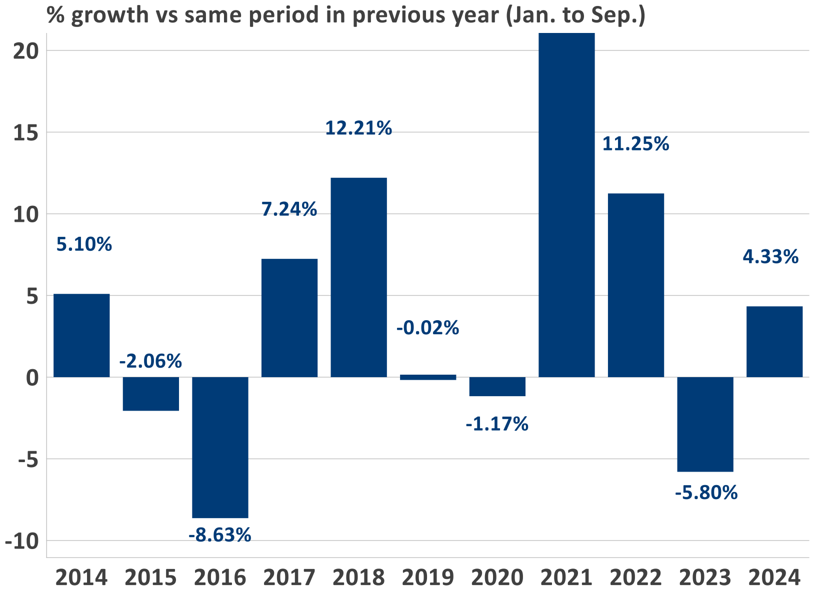
- September **CPI** inflation decelerated from 0.6% to **0.4%** YoY (below exp. 0.6%);
  - Core inflation fell from 0.3% to **0.1%** YoY;
  - **General price trends for consumer goods and services remained soft**: Services inflation fell (0.2% YoY), as well as goods (0.5% YoY) → these figures still suggests somewhat weak momentum in domestic demand and persistent deflationary pressures.

China: Trade Balance



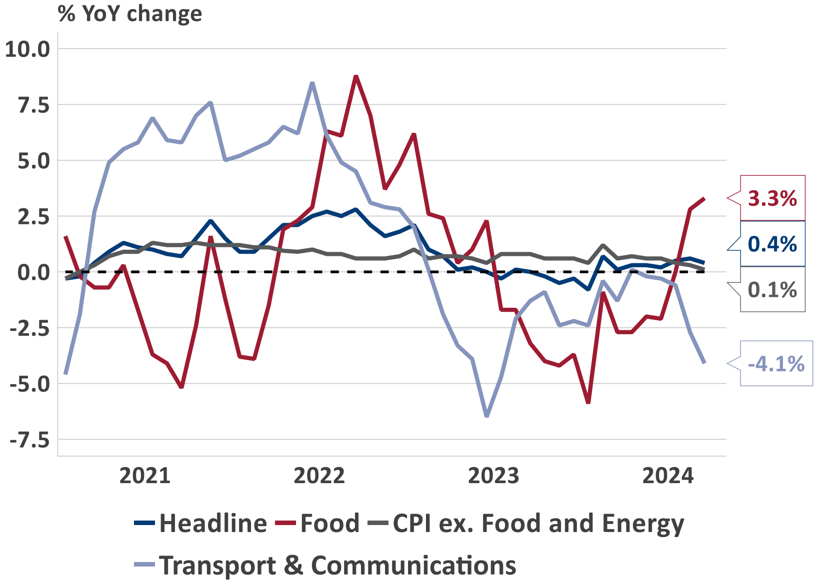
Source: BOCOM BBM, Macrobond, CCS

China: Exports (YTD YoY, Jan-Sep)



Source: BOCOM BBM, Macrobond, CCS

China: CPI



Source: BOCOM BBM, Macrobond, NBS

USA: GDP Q3

- First release of Q3 GDP showed a solid increase of **2.8% QoQ SAAR**, slightly below market exp. of 2.9%, but with a strong composition;
  - PCE expanded 3.7% QoQ, above Q2's pace of 2.8% QoQ, especially due to an acceleration in goods expenditures;
  - Net exports, a volatile component, contributed negatively to GDP reading (-0.6 p.p.), as well as inventory investment (-0.2 p.p.);

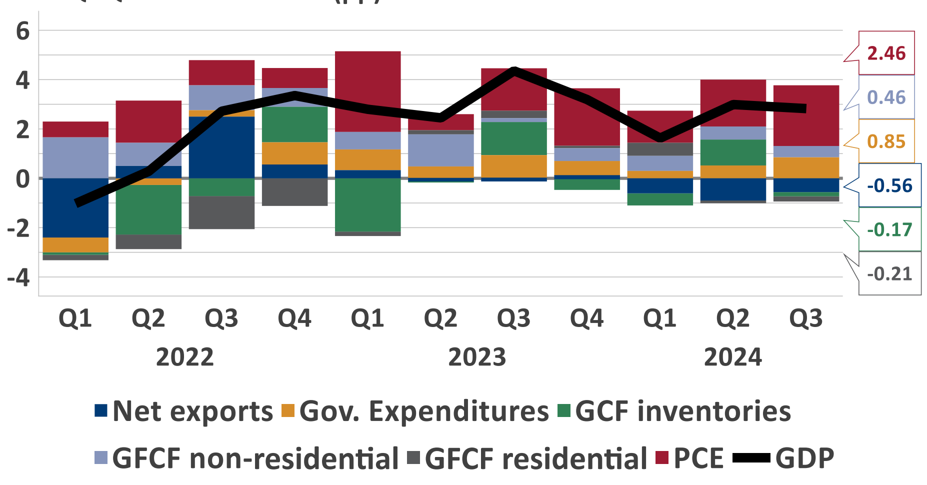
- Private domestic final purchases, a better indicator of underlying domestic demand, which excludes volatile items such as net exports, inventories and the government sector, registered a solid growth of 3.2% QoQ SAAR, reinforcing the resiliency in economic activity.

US: GDP Growth (QoQ SAAR)

US GDP Growth (QoQ SAAR, %)	Weights (%)	Q3 2024	Q2 2024	Q1 2024	Q4 2023	Q3 2023	Q2 2023
Real GDP	100.00	**2.83**	2.99	1.63	3.19	4.36	2.45
Personal Consumption Expenditures	67.92	**3.67**	2.81	1.93	3.49	2.55	0.99
Goods	21.36	5.99	2.96	-1.16	3.37	3.47	-0.34
Durable goods	7.40	8.12	5.45	-1.76	2.86	4.17	-0.32
Non-durable goods	13.97	4.88	1.67	-0.84	3.64	3.09	-0.36
Services	46.56	2.62	2.74	3.41	3.54	2.10	1.64
Business fixed investment	13.89	**3.32**	3.87	4.51	3.82	1.10	9.85
Structures	3.09	-4.05	0.15	6.27	6.51	1.75	16.39
Equipment	5.28	11.12	9.83	0.34	0.73	-1.06	12.46
Intellectual Property Products	5.52	0.56	0.72	7.48	5.24	2.82	3.94
Residential Fixed Investment	4.00	**-5.15**	-2.76	13.69	2.55	7.73	4.48
Inventory contrib (pp)	0.27	**-0.17**	1.05	-0.49	-0.47	1.34	-0.06
Net Exports contrib (pp)	-3.24	**-0.56**	-0.90	-0.61	0.09	-0.10	-0.11
Exports	10.94	8.91	1.03	1.92	6.19	4.88	-4.80
Imports	14.18	11.19	7.57	6.14	4.21	4.65	-3.12
Government Expenditures	17.16	**5.05**	3.05	1.77	3.64	5.68	2.93
Federal	6.45	9.74	4.30	-0.37	-0.35	5.27	-1.10
State & Local	10.70	2.33	2.32	3.05	6.09	5.92	5.42
Nominal GDP		4.67	5.60	4.70	4.79	7.70	4.33
GDP price index		1.80	2.54	3.03	1.55	3.20	1.84
PCE price index		**1.51**	2.53	3.43	1.65	2.69	2.92
Core PCE		**2.16**	2.79	3.75	2.03	2.35	3.85

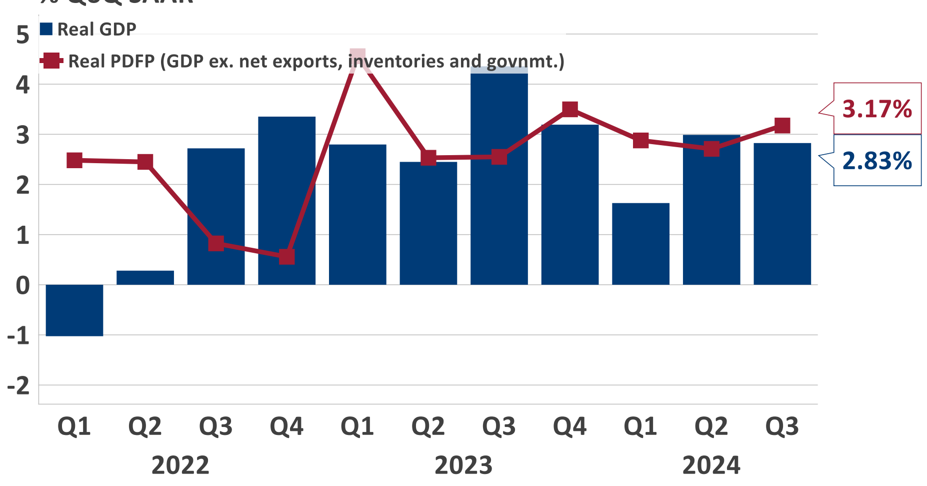
Source: BOCOM BBM, Macrobond, BEA

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



Source: BOCOM BBM, Macrobond, BEA

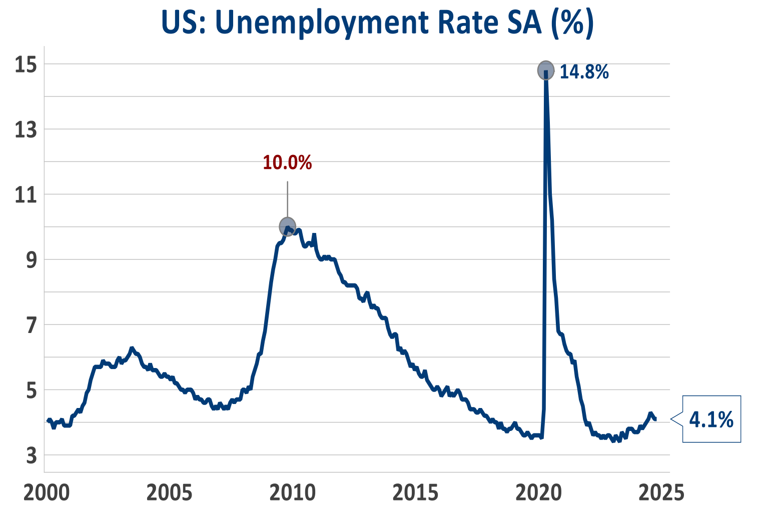
US: Private Domestic Final Purchases (QoQ SAAR)



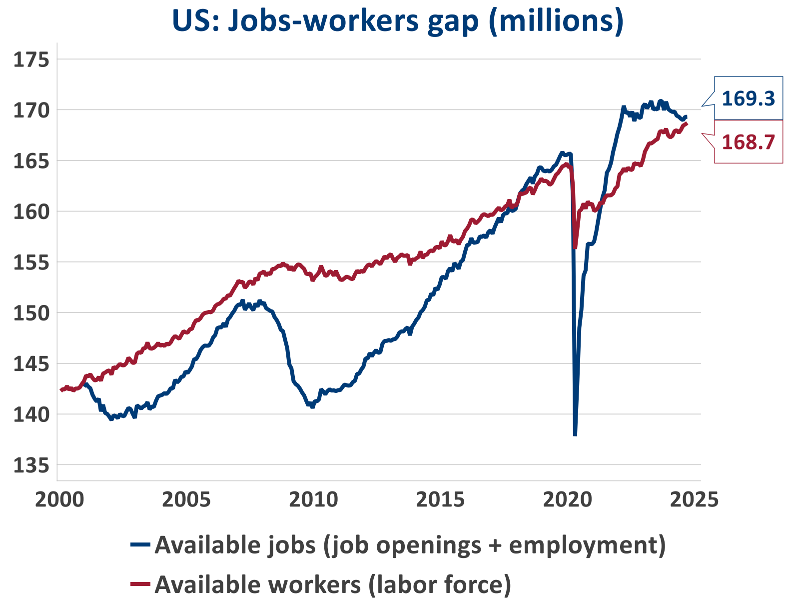
Source: BOCOM BBM, Macrobond, BEA

USA: Labor Market

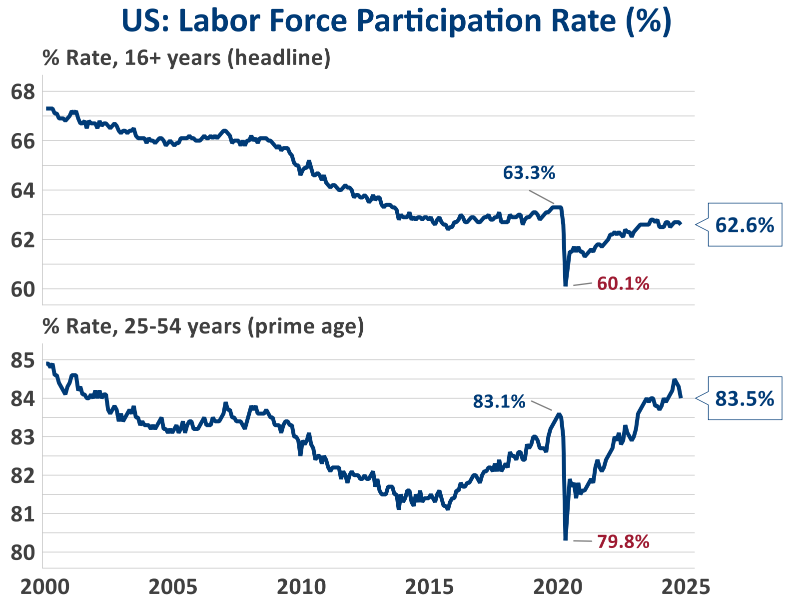
- **October labor market report came up short, amid hurricanes and strikes that led to a noisy reading;**
  - October payroll showed a job gain of **12k**, well below market expectations (100k), with a two-month net revision of -112k in August (-81k) and July (-31k);
  - The unemployment rate remained at **4.1%**, in line with expectations;
- In September, the **jobs-workers gap decreased to just 600k** from 800k previously, and a peak of 6.2M in 2022 → **tight, but not overheated** labor market;
- October avg. hourly earnings **maintained its monthly pace at 0.4% MoM,** above expectations of 0.3%;
  - The annual rate was roughly flat at **4.0%** YoY, which is still a step down from earlier in the year, and suggests that labor market's moderation is happening gradually;



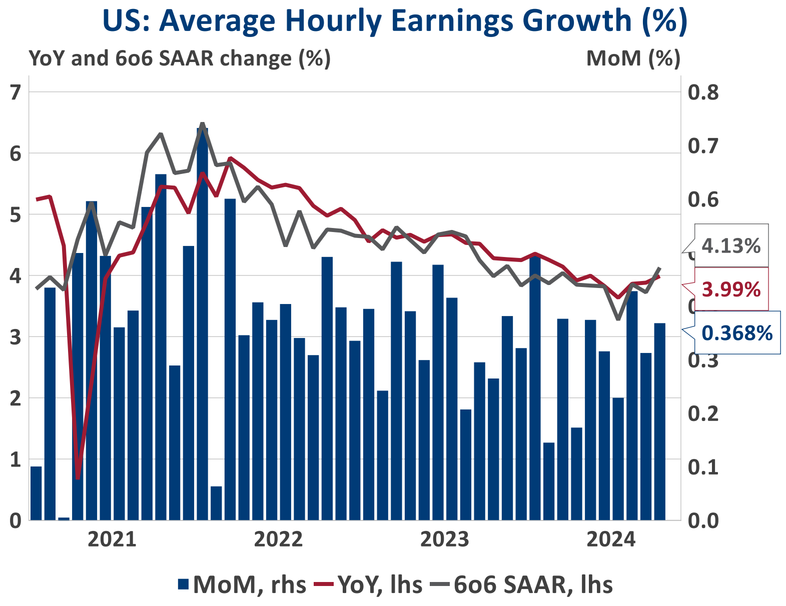
Source: BOCOM BBM, Macrobond, BLS



Source: BOCOM BBM, Macrobond, BLS



Source: BOCOM BBM, Macrobond



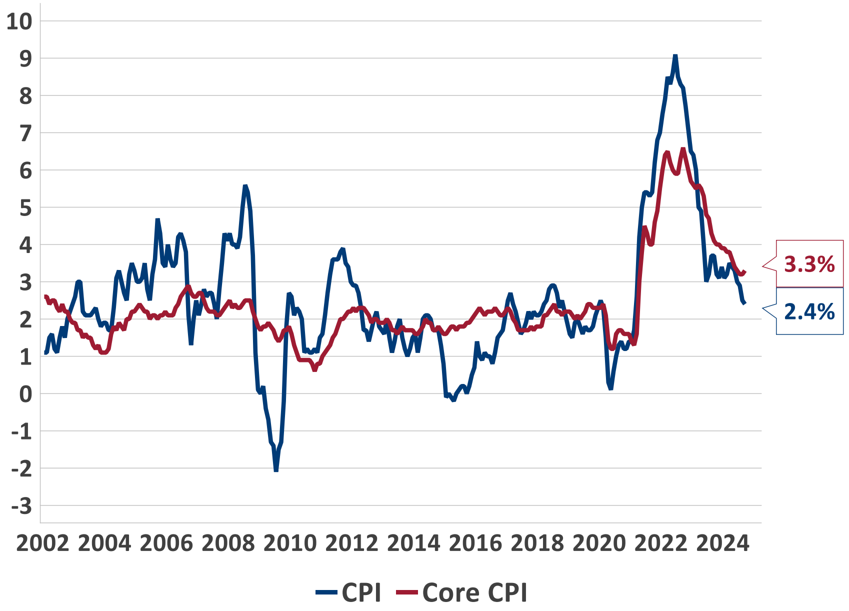
Source: BOCOM BBM, Macrobond

USA: Inflation

- September headline CPI rose **0.18% MoM** (above exp. of 0.09%), leading to an annual growth rate decrease from 2.5% to **2.4% YoY:**
  - **Energy prices** fell 1.85% MoM, the second decrease in a row, led by declines in gasoline and fuel oil prices;
  - **Food prices** rose 0.40% MoM, above expectations, being one of the main drivers for the upside surprise in the headline, but still in line with its historical average;

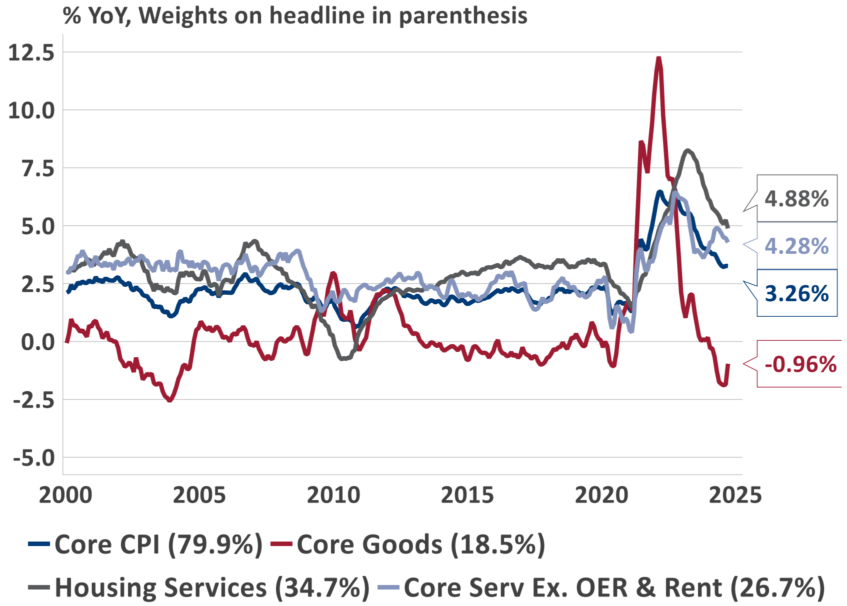
- **Core CPI** rose **0.31% MoM** (exp. 0.27%) and the annual growth rate rose from 3.2% to **3.3% YoY;**
  - **Core goods (0.17% MoM):** left deflationary territory after 6 months, driven by surprises in apparel and used cars reacceleration (easy financial conditions and recent hurricanes could exert additional inflationary pressures on goods prices, in particular vehicle prices);
  - **Housing services (0.24% MoM):** the biggest downside surprise this month, unwinding some of the strength seen in August;
  - **Core Serv. Ex-Housing (0.40% MoM):** accelerated above expectations, with stronger medical care and upward surprise in airline fares and motor vehicle insurance.

US: CPI (YoY, %)



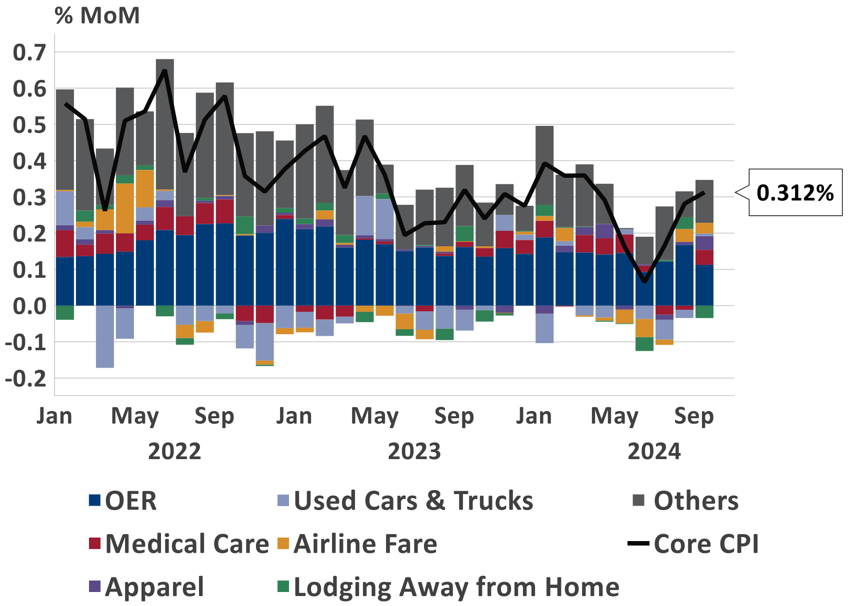
Source: BOCOM BBM, Macrobond, BLS

US: Core CPI Main Components (%)



Source: BOCOM BBM, Macrobond, BLS

US: Core CPI MoM Contributions

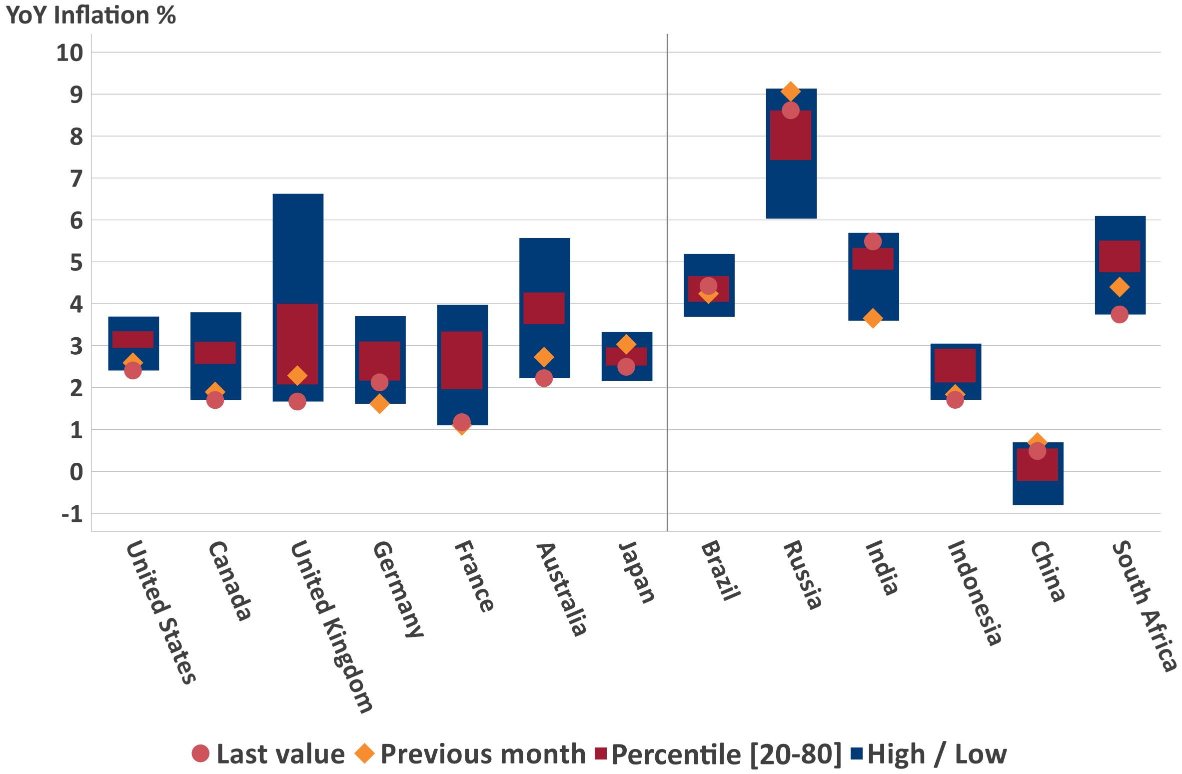


Source: BOCOM BBM, Macrobond, BLS

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

	Q3 2024	Q2 2024	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022
Argentina		-1.7	-2.2	-2.3	2.2	-2.9	1.5	-2.2
Australia		0.2	0.2	0.2	0.3	0.5	0.5	0.7
Brazil		1.4	1.0	0.2	0.1	0.7	1.2	0.4
Canada		0.5	0.4	0.0	-0.1	0.2	0.8	-0.2
China	0.9	0.5	1.5	1.3	1.5	0.7	1.8	0.8
Euro Area	0.4	0.2	0.3	0.1	0.0	0.1	0.5	-0.1
France	0.4	0.2	0.2	0.5	0.1	0.7	0.1	0.1
Germany	0.2	-0.3	0.2	-0.4	0.2	-0.2	0.1	-0.5
India		-7.6	7.8	4.7	2.3	-6.7	8.6	4.2
Indonesia		3.8	-0.8	0.5	1.6	3.9	-0.9	0.4
Italy	0.0	0.2	0.3	0.0	0.2	-0.2	0.3	-0.2
Japan		0.7	-0.6	0.1	-1.1	0.7	1.3	0.4
Mexico	1.0	0.2	0.1	-0.1	0.7	1.0	0.6	0.9
Russia		0.5	1.0	0.9	1.3	1.5	1.0	1.3
Saudi Arabia	2.3	-2.3	-2.6	5.7	-0.8	-3.7	-5.2	6.9
South Africa		0.4	0.0	0.3	-0.4	0.7	0.6	-1.4
South Korea	0.1	-0.2	1.3	0.5	0.8	0.6	0.4	-0.5
Turkey		5.1	-15.0	1.5	13.0	8.0	-15.5	3.3
United Kingdom		0.5	0.7	-0.3	-0.1	0.0	0.1	0.3
United States	0.7	0.7	0.4	0.8	1.1	0.6	0.7	0.8

Sources: BOCOM BBM, Macrobond, National Sources

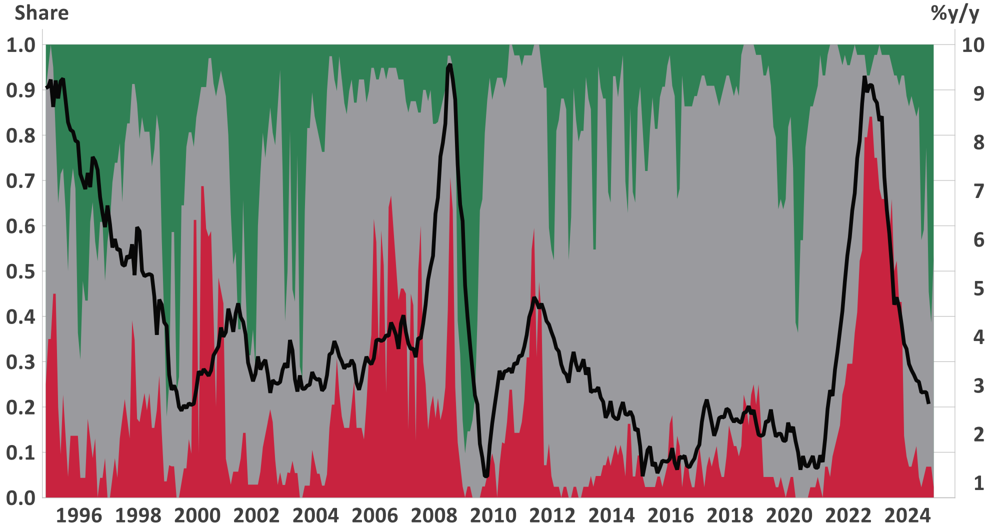
Global: Monetary Policy

BANK OF COMMUNICATIONS BBM

- Several **emerging markets are on the middle of easing cycles,** 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, everything indicates that they will reduce the magnitude of next cuts, as subsequent data suggests an economy that is still resilient. → Markets are pricing 50bps of additional cuts in 2024 in the last two meetings;

Global monetary breadth

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



Tightening (hiking rates), lhs Unchanging (holding rates), lhs
Easing (cutting rates), lhs Global CPI inflation, median weighted, rhs

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	209.0	198.1	35.00	-5.00	Cut	11/2024	13	0
Australia	2.9	3.1	4.35	0.25	Hike	11/2023	12	48
Brazil	4.4	4.4	10.75	0.25	Hike	9/2024	2	6
Canada	1.7	1.6	3.75	-0.50	Cut	10/2024	16	0
Chile	4.1	3.7	6.50	-0.75	Cut	10/2024	25	1
China	0.5	0.1	3.10	-0.25	Cut	10/2024	129	1
Colombia	5.8	6.1	9.75	-0.50	Cut	11/2024	18	0
Costa Rica	-0.1	0.4	4.00	-0.25	Cut	10/2024	24	1
Czech Republic	2.6	0.1	4.25	-0.25	Cut	9/2024	28	1
Denmark	1.3	1.6	3.00	-0.25	Cut	10/2024	14	1
Euro Area	2.0	2.7	3.40	-0.25	Cut	10/2024	14	0
Hungary	2.9	4.8	6.50	-0.25	Cut	9/2024	25	1
Iceland	5.1	5.2	9.00	-0.25	Cut	10/2024	14	1
India	5.5	3.5	6.50	0.25	Hike	2/2023	21	54
Indonesia	1.7	2.2	6.00	-0.25	Cut	9/2024	6	2
Israel	3.4	3.3	4.50	-0.25	Cut	1/2024	17	10
Japan	2.5	2.0	0.25	0.15	Hike	8/2024	3	105
Mexico	4.6	3.9	10.50	-0.25	Cut	9/2024	19	1
New Zealand	2.2	3.1	4.75	-0.50	Cut	10/2024	17	1
Norway	3.0	3.1	4.50	0.25	Hike	12/2023	11	54
Poland	5.1	4.3	5.75	-0.25	Cut	10/2023	26	13
Russia	8.6	8.3	21.00	2.00	Hike	10/2024	0	26
Saudi Arabia	1.7		5.50	-0.50	Cut	9/2024	15	2
South Africa	3.7	4.1	8.00	-0.25	Cut	9/2024	17	2
South Korea	1.6	2.0	3.25	-0.25	Cut	10/2024	22	1
Sweden	1.6	1.1	3.25	-0.25	Cut	10/2024	13	1
Switzerland	0.6	0.8	1.00	-0.25	Cut	9/2024	16	1
Turkey	48.6	47.8	50.00	5.00	Hike	3/2024	8	20
United Kingdom	1.7	3.2	5.00	-0.25	Cut	8/2024	15	3
United States	2.4	3.3	5.00	-0.50	Cut	9/2024	15	2

Source: BOCOM BBM, Macrobond

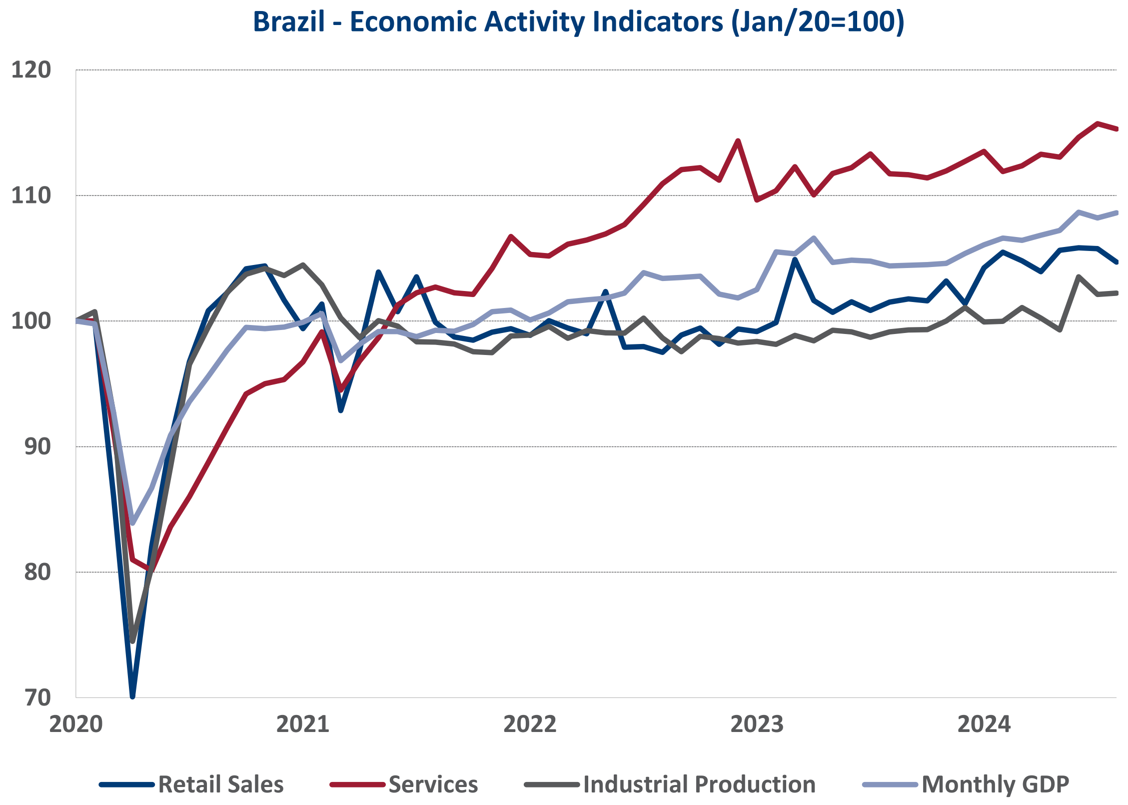
Brazil: Forecasts

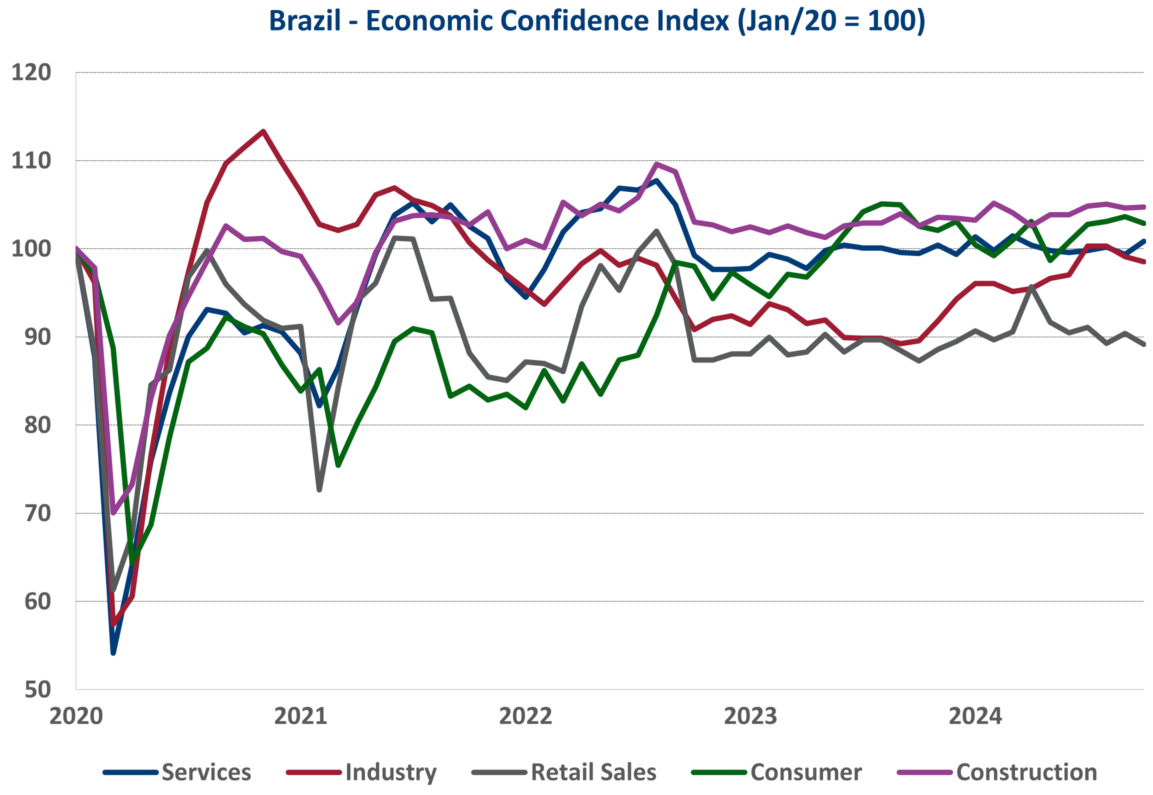
ECONOMIC FORECASTS	2019	2020	2021	2022	2023	2024F	2025F	2026F
GDP Growth (%)	1.2%	-3.3%	4.8%	2.9%	2.9%	3.1%	2.0%	2.0%
Inflation (%)	4.3%	4.5%	10.1%	5.8%	4.6%	4.9%	4.3%	4.0%
Unemployment Rate (eoy ,%)	11.1%	14.2%	11.1%	7.9%	7.4%	6.3%	7.0%	7.5%
Policy Rate (eoy, %)	4.5%	2.0%	9.3%	13.8%	11.75%	11.75%	12.50%	10.50%
External Accounts								
Trade Balance (US$ bn)	27	32	36	44	92	72	77	86
Current Account Balance (US$ bn)	-68	-28	-46	-48	-31	-51	-49	-46
Current Account Balance (% of GDP)	-3.6%	-1.9%	-2.8%	-2.5%	-1.3%	-2.4%	-2.2%	-2.0%
Fiscal Policy								
Central Government Primary Balance (% of GDP)	-1.3%	-9.8%	-0.4%	0.5%	-2.1%	-0.5%	-0.8%	-0.8%
Government Gross Debt (% of GDP)	74.4%	86.9%	77.3%	71.7%	74.4%	77.4%	82.1%	86.7%

Source: BOCOM BBM, IBGE

Brazil: Activity

- In August, monthly indicators of economic activity posted initial signs of deceleration. Industrial production increased by 0.1% MoM, in line market expectations. On the other hand, Services and Retail sales were below expectations, decreasing 0.4% and 0,8% MoM, respectively. Summarizing this scenario, IBC-Br showed an increase of 0.2% MoM, after a fall in July;
- Looking forward, industry, retail sales and consumer confidence contracted in October, while services and construction increased.



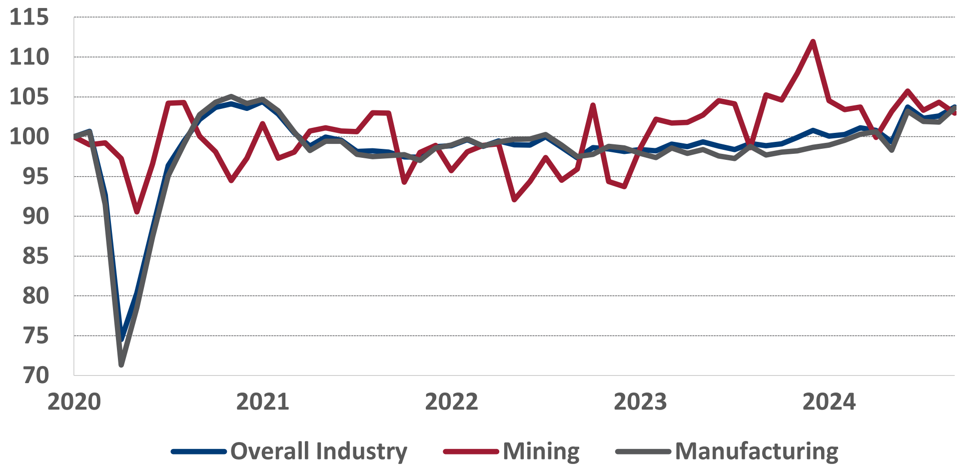


Source: BOCOM BBM, IBGE, FGV

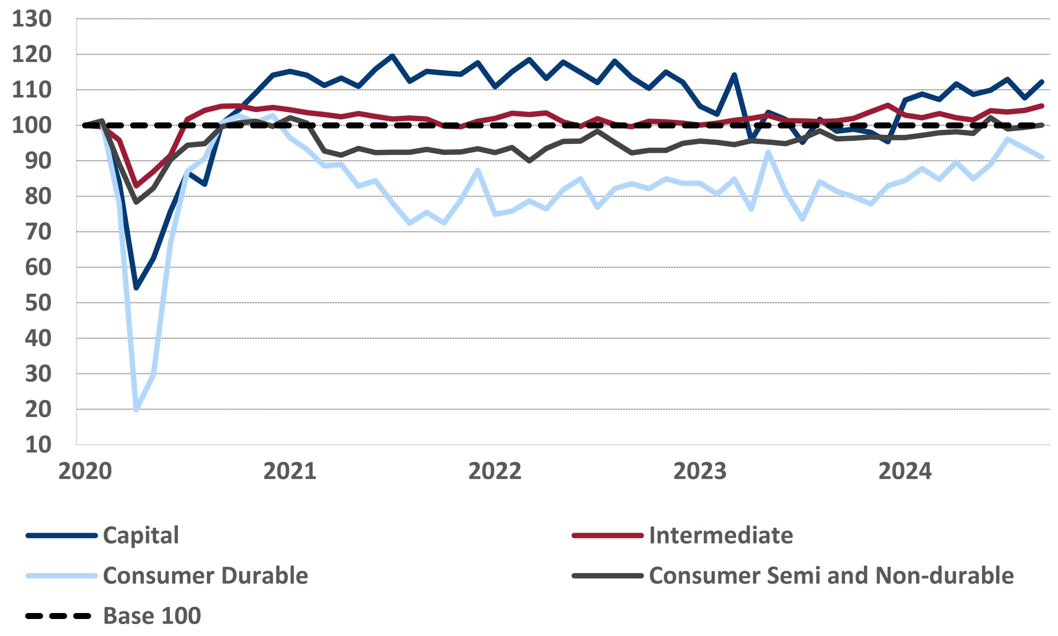
Brazil: Industrial Production

- Industrial output increased by 1.1% MoM in September, after an increase of only 0.1% MoM in August;
- In the third quarter industry expanded by 1.6% QoQ, the fourth gain in a row, with 19 out of 25 industrial activities increasing;
- The highlight was the durable goods production that advanced for the fourth time in a row (6.5% QoQ), mainly because of the increase in the vehicle sector (5.8% QoQ), driven by the surge in credit concessions;
- Furthermore, the category of intermediate goods resumed growth after two quarters in the negative territory (1.9% QoQ), with the recovery of metallurgy (4.0% QoQ) and chemical products (5.3% QoQ) playing a leading role.

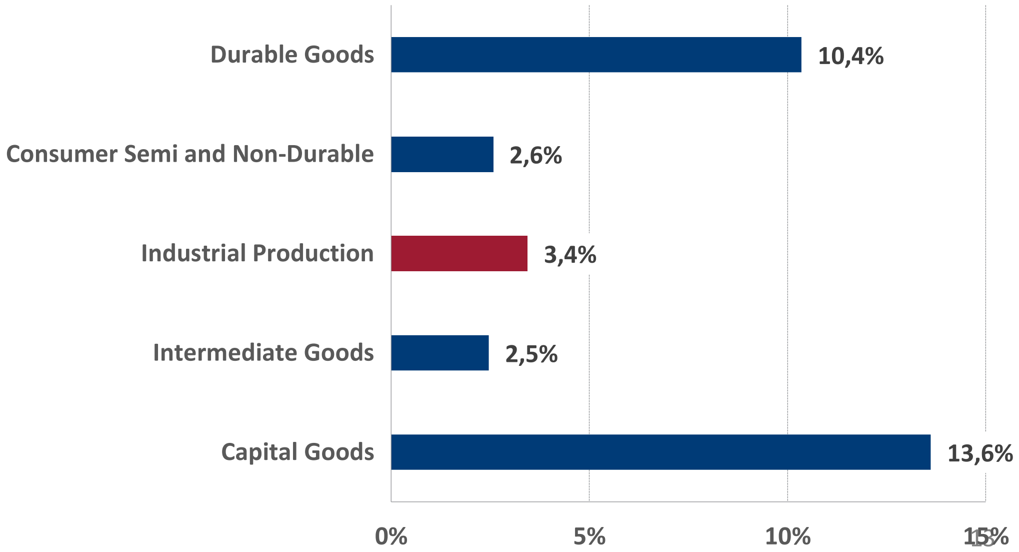
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



Industrial Production by Category - 09/2024 (YoY)

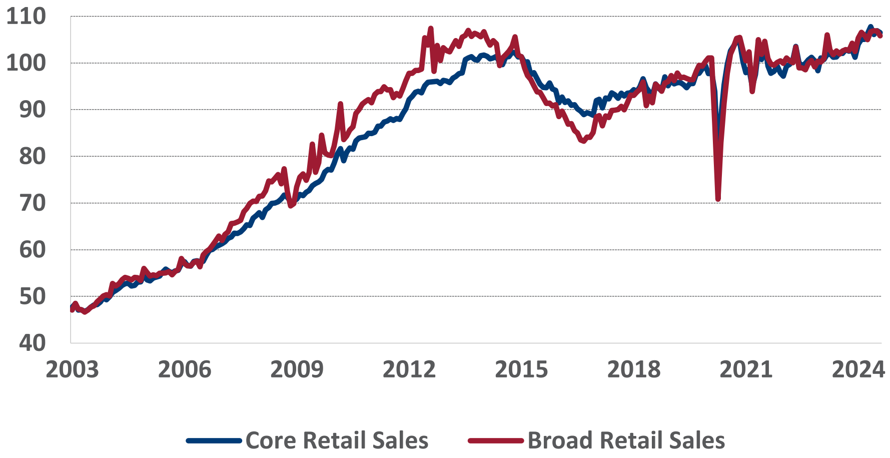


Source: IBGE, BOCOM BBM

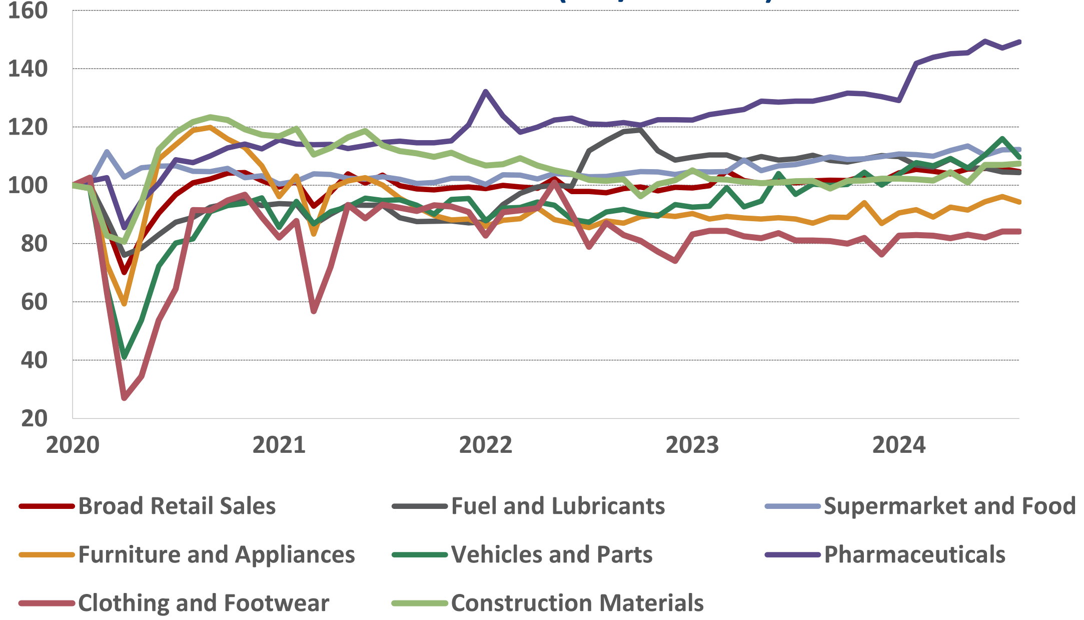
Brazil: Retail Sales

- Broad retail sales fell by 0.8% MoM in August, below market expectations (+0.3% 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);
- Core retail sales dropped 0.3% MoM in August from July, slightly better than estimates (-0.6% MoM);
- Seven out of the eight core retail activities decreased in a monthly comparison, with the negative highlight being the other articles of personal and domestic use category;
- In a nutshell, retail data for August corroborate the view of a moderate grow in personal spending on goods this semester.

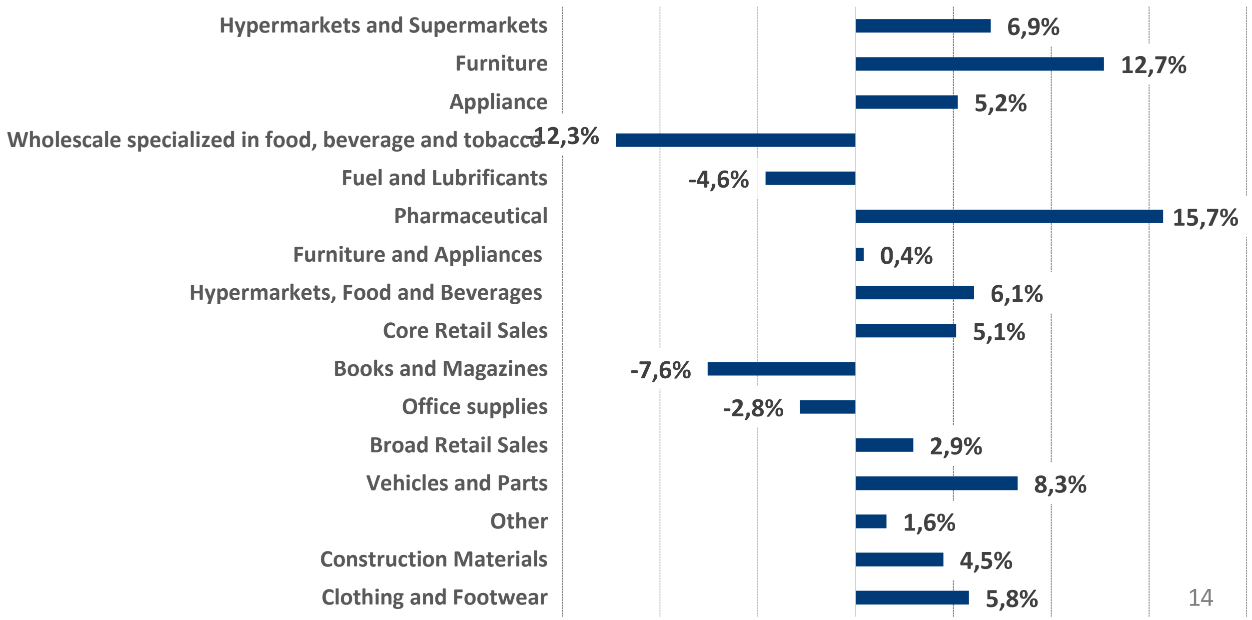
Broad Retail Sales SA x Core Retail Sales SA



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



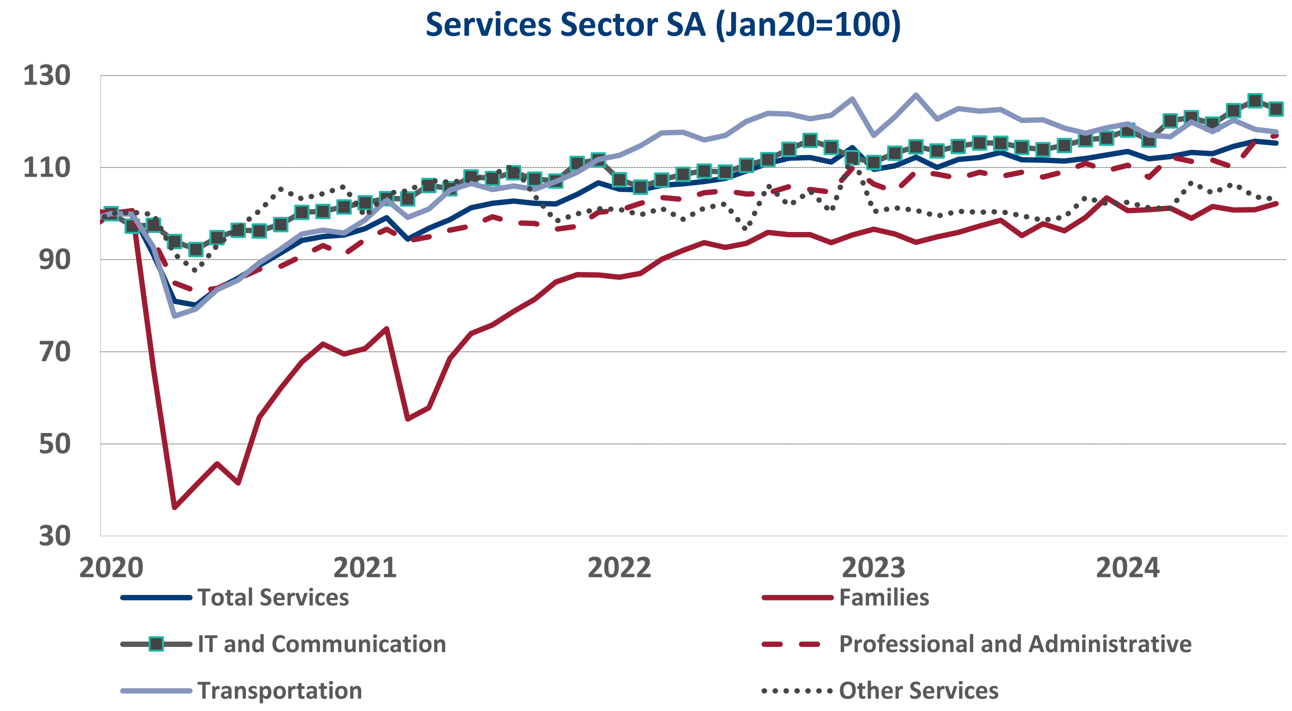
Retail Sales - YoY (08/2024)

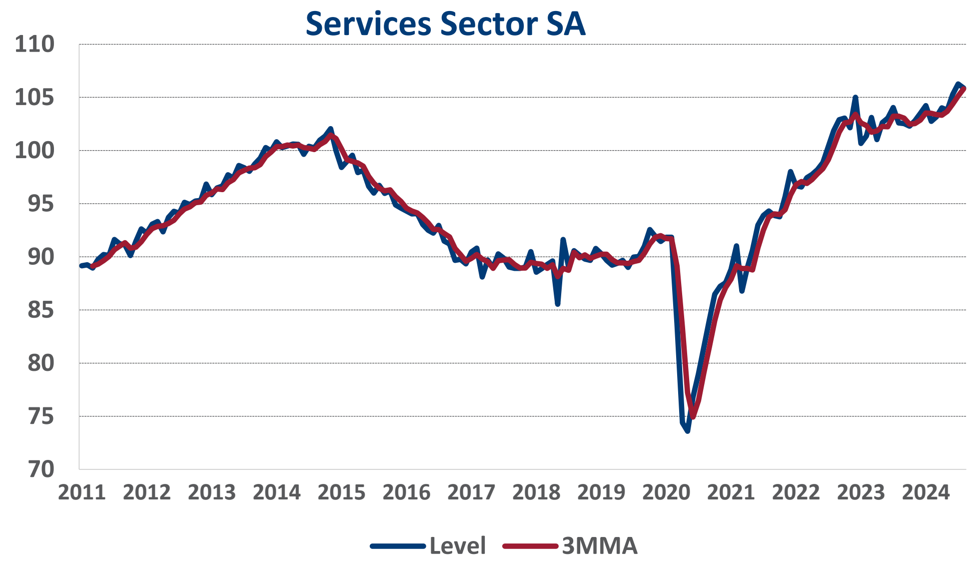


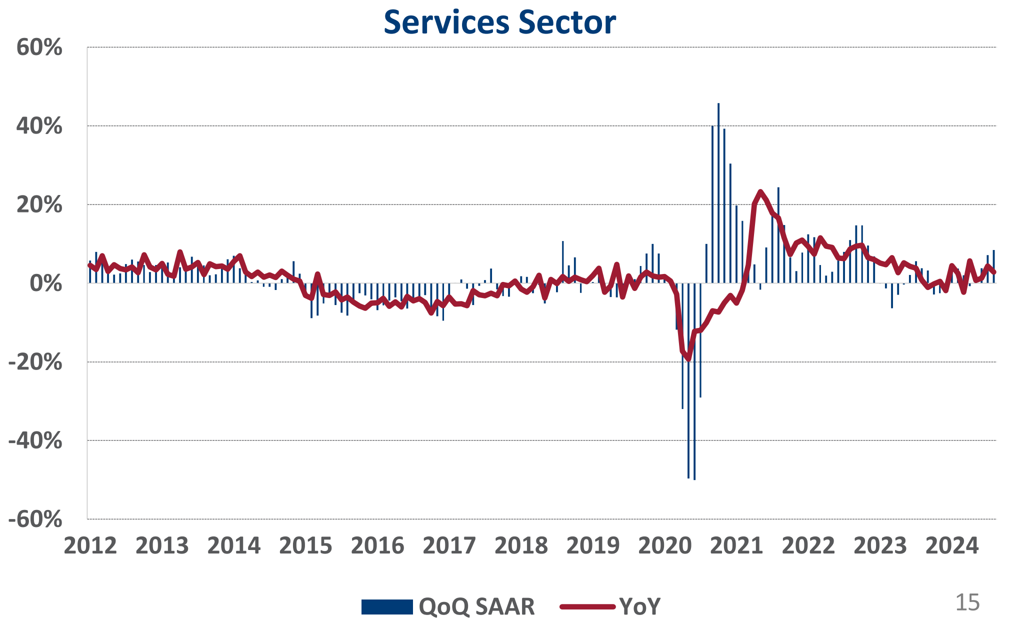
Source: IBGE, BOCOM BBM

Brazil: Services

- The services sector fell by 0.4% in August from July, below expectations (+0.2% MoM);
- Services rendered to families increased for the fourth consecutive month (0.8% MoM), reflecting solid consumption fundamentals, while transport services underperformed (-0.4% MoM), particularly due to the poor performance of Road Freight Transport;
- It is important to consider that IBGE made a significant data revision, due to a large advertising space company that was reporting underestimated revenues since August 2023 and started to correctly report much higher values last month. In the previous release, IBGE had not yet adjusted retroactive data. As a result, July´s increase was revised from 1.2% MoM to 0.2% MoM;
- With the updated dataset, the average annual PMS growth rate increased from +2.5% p.a. to +3.0% p.a. in 2023, and +1.9% p.a. to +2.9% p.a. in 2024 (by July), which could lead to upward revisions to GDP growth in both 2023 and 2024.





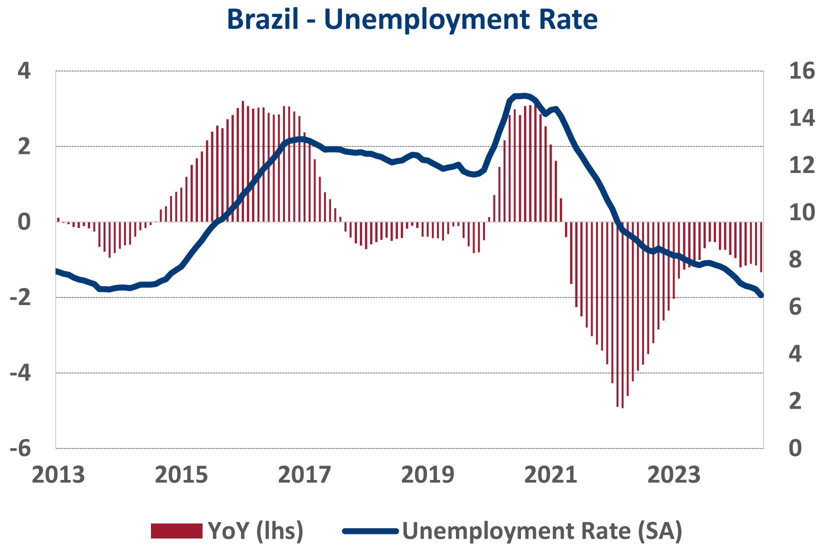


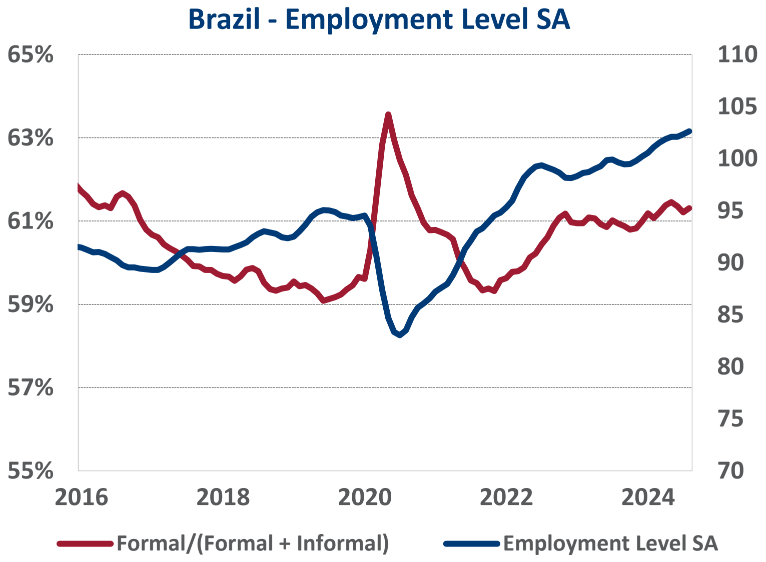
Source: IBGE, BOCOM BBM

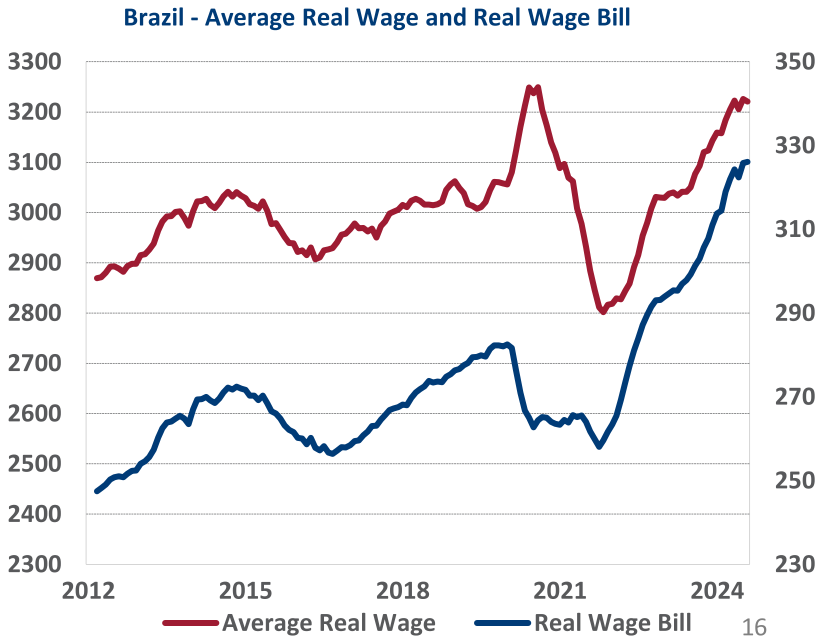
Brazil: PNAD

BANK OF COMMUNICATIONS BBM

- The unemployment rate decreased to 6.4% in the moving quarter up to September, from 6.6% on the previous period;
- Seasonally adjusted, the indicator dropped to 6.5% in September from 6.7% in August in the seasonally adjusted rate, the lowest level of the data series that began in 2012;
- Total employment (0.2% MoM) and labor force (0.1% MoM) both increased;
- The labor force participation rate increased slightly to 62.3% in September from 62.2% in August, still running considerably below pre-pandemic levels (around 63.5%);
- Real labor earnings decreased 0.42% MoM, but remain at high levels;
- Real aggregated labor income decreased 0.1% MoM in September but jumped 7.2% YoY.



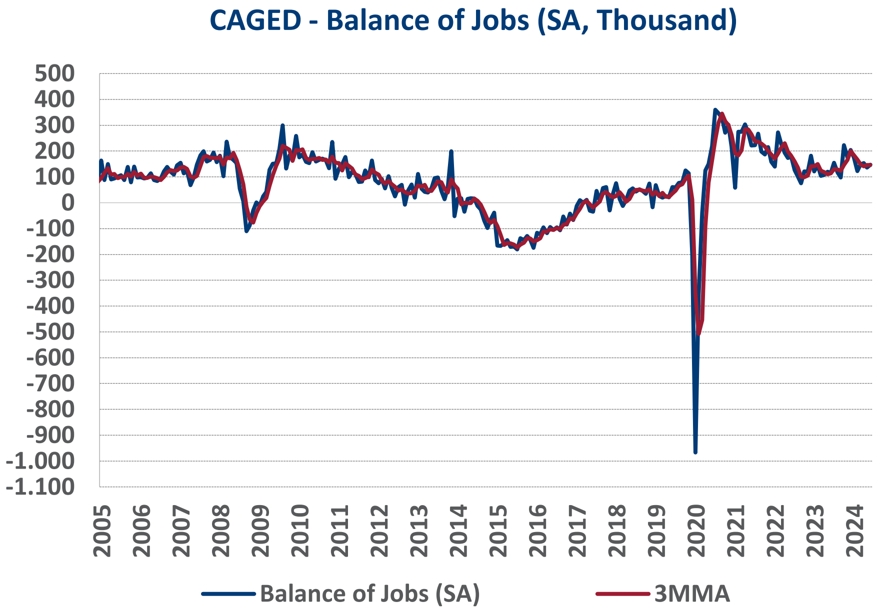


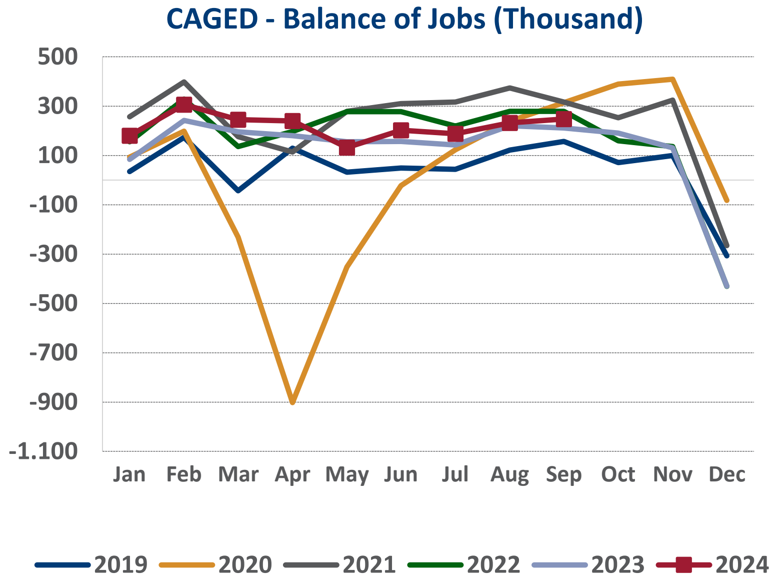


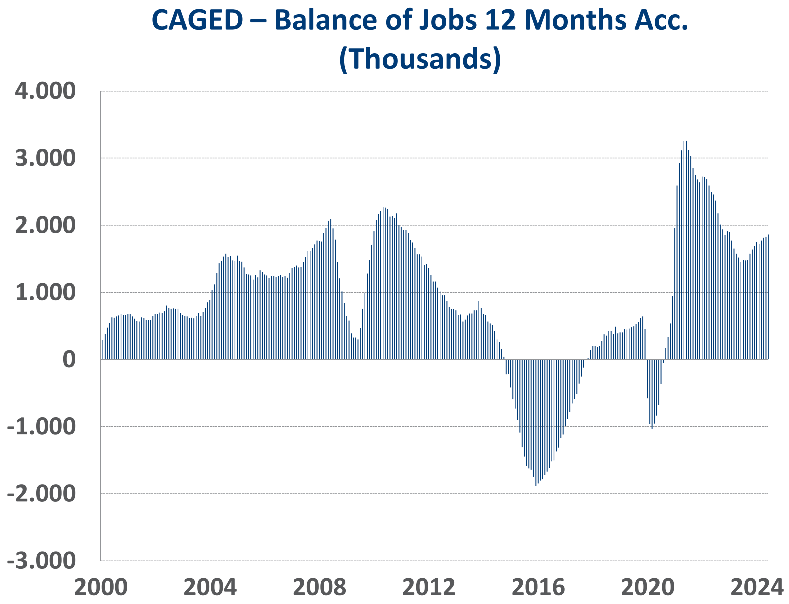
Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

- Caged registered a net creation of 247.8k formal jobs in September, below market expectations (224k);
- The net addition of jobs totaled about 2.0 million from January to September 2024, considerably above the same period of 2023 (1.6 million);
- The data continues to show strong numbers in hiring, especially in the services sector;
- In sum, the formal labor market continues to present strong numbers, contributing to support household consumption.





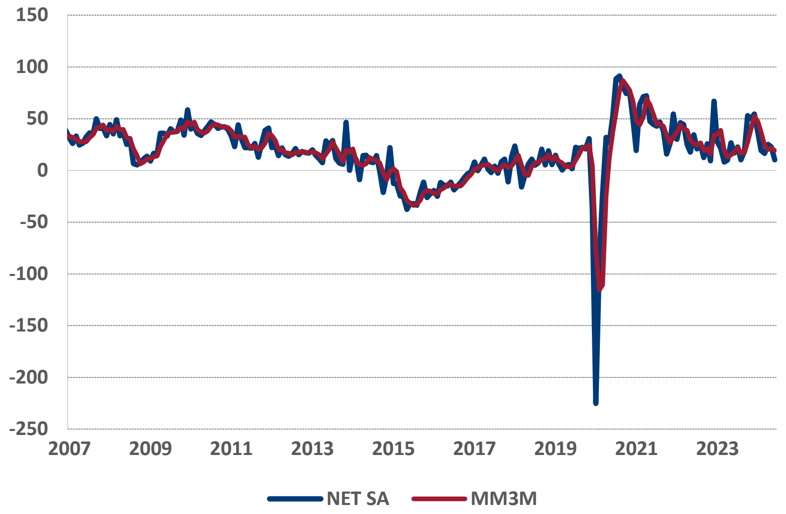


Source: BOCOM BBM, MTE

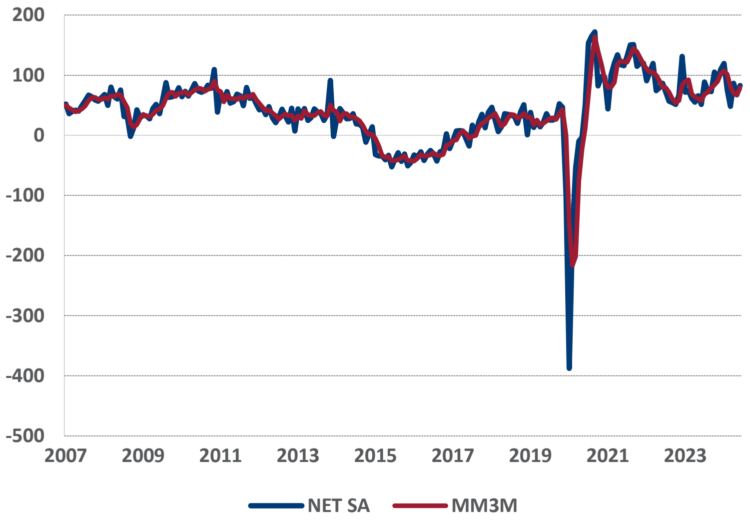
Brazil: Formal Labor Market

- The breakdown shows that all major sectors registered positive net results;
- The biggest contribution came once again from the services sector, with a net creation of 82.5k formal jobs;
- Industry was the second best, creating around 19.7k formal jobs;
- Retail Sales, in turn, registered a net of 10.2k;
- Finally, the construction sector created about 1.9k formal jobs.

Brazil - Retail Net Payroll Job Creation (SA)

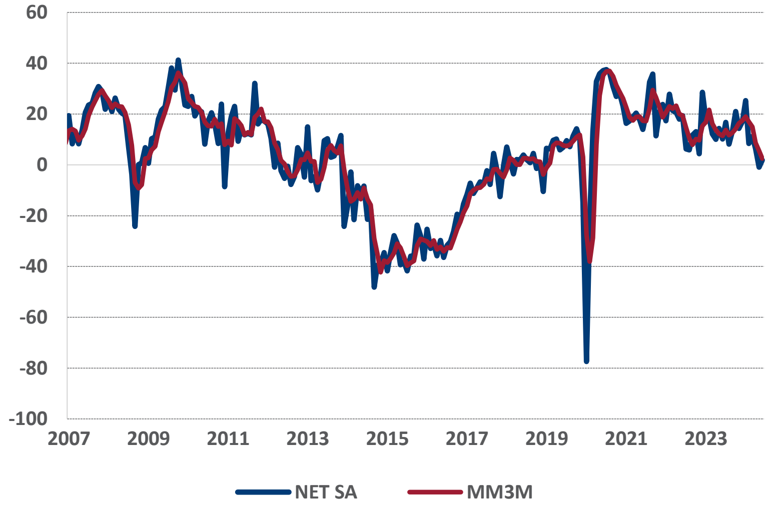


Brazil - Services Net Payroll Job Creation (SA)



Brazil - Industry Net Payroll Job Creation (SA)

Brazil - Construction Net Payroll Job Creation (SA)

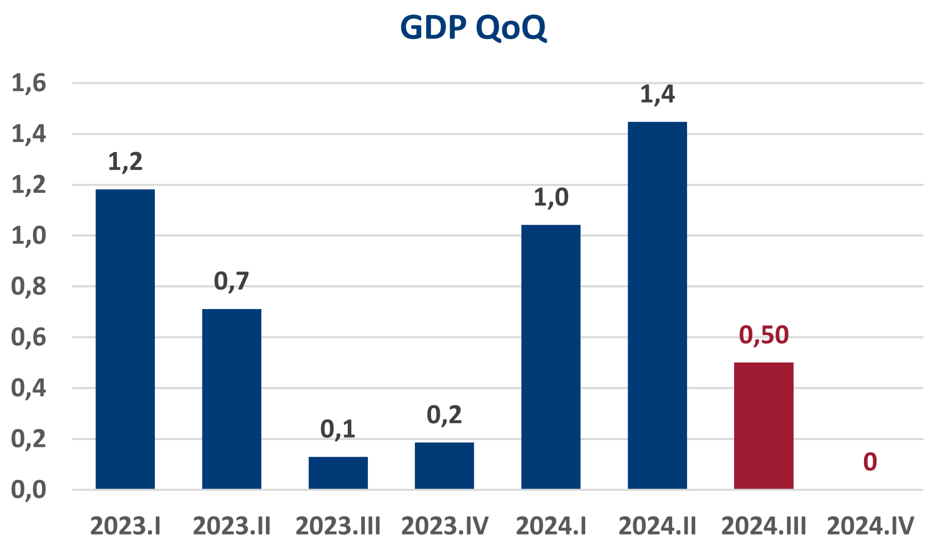


Source: BOCOM BBM, MTE

Brazil: GDP Forecast

- After August 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 2.0% 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%**	**3.6%**	**3.1%**	**2.0%**
Agriculture	**-0.8%**	**-0.5%**	**-2.0%**	**4.5%**
Industry	**1.8%**	**4.6%**	**3.6%**	**1.7%**
Mining	3.4%	3.0%	3.1%	7.8%
Manufacturing	1.2%	4.3%	3.0%	-0.4%
Electricity	2.0%	7.4%	7.4%	4.3%
Civil Construction	-0.7%	6.0%	4.3%	1.8%
Services	**0.1%**	**3.4%**	**3.2%**	**1.8%**
Retail	0.7%	4.2%	3.5%	0.9%
Transports	0.1%	1.0%	0.6%	0.4%
Information and Communication	1.6%	7.2%	6.1%	4.3%
Financial Services	0.6%	3.1%	3.3%	3.1%
Rents	0.8%	2.9%	3.4%	2.7%
Other Services	0.4%	4.3%	4.2%	1.9%
Public Administration	0.4%	2.0%	1.6%	1.1%

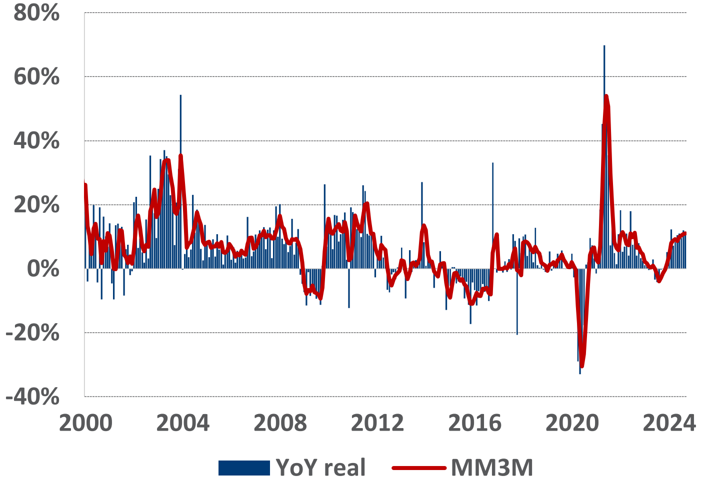


Source: BOCOM BBM, IBGE

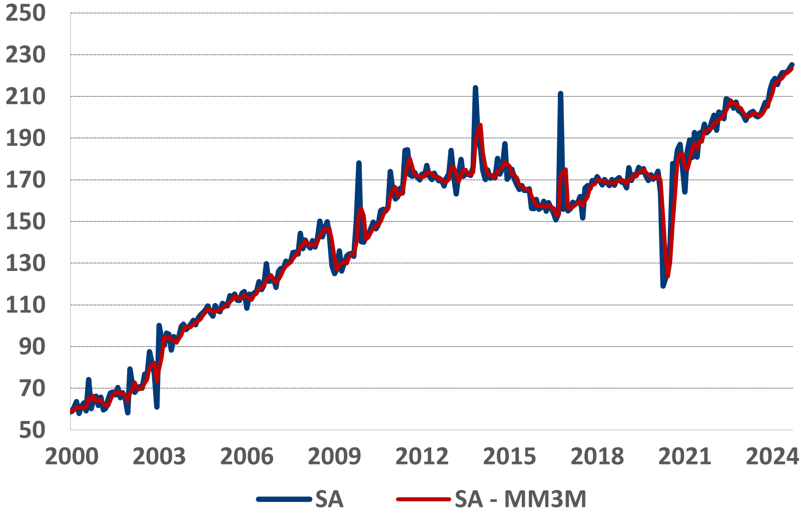
Brazil: Federal Tax Collections

- In September, total federal tax collections reached BRL 203.2 bn (11.6% YoY), above the consensus of BRL 201.1 bn, representing the best performance for the month in the historical record;
- The highlights in September were PIS/Confins (18.9%), which grew again due to the strong performance of retail sales and services in August, measures to increase revenue and the deferral of federal taxes in Rio Grande do Sul. Also very positive was the Import tax (47.4%) and industrialized products tax (31.1%), whose growth can be attributed to a higher exchange rate and the limitation on tax compensations;
- Additionally, social security contribution was also a highlight (7.0%), and IRPJ/CSLL accelerated from the previous months (6.4%), driven by sectors that are more sensitive to economic activity, reflecting the heated labor market;
- On the negative side, the frustration persists in some revenue-raising measures such as the change in CARF, tax transactions and the ICMS subsidies;
- Year-to-date growth reached 9.7%, supporting the positive trend in tax collections. However, the results are still below what was intended, indicating that the achievement of the primary result target will depend on one-off non-tax revenues (such as dividends and judicial deposits).

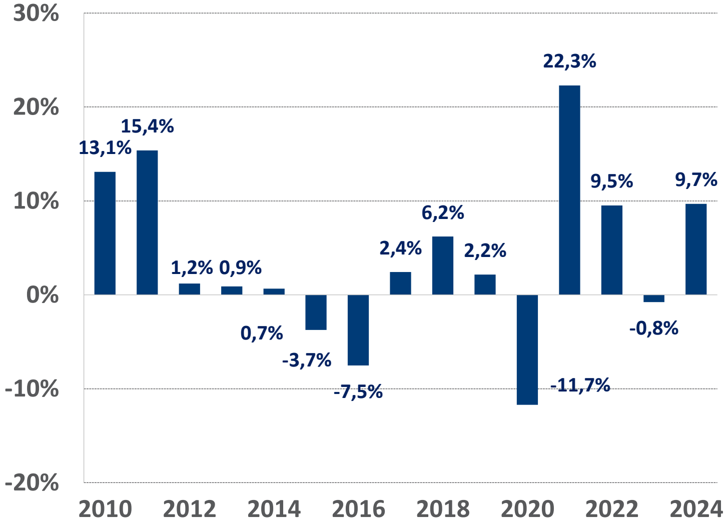
Total Tax Collection (YoY Real, %)



Total Tax Collection (BRL Bn, Real SA)



Total Tax Collection (YTD Real, %)



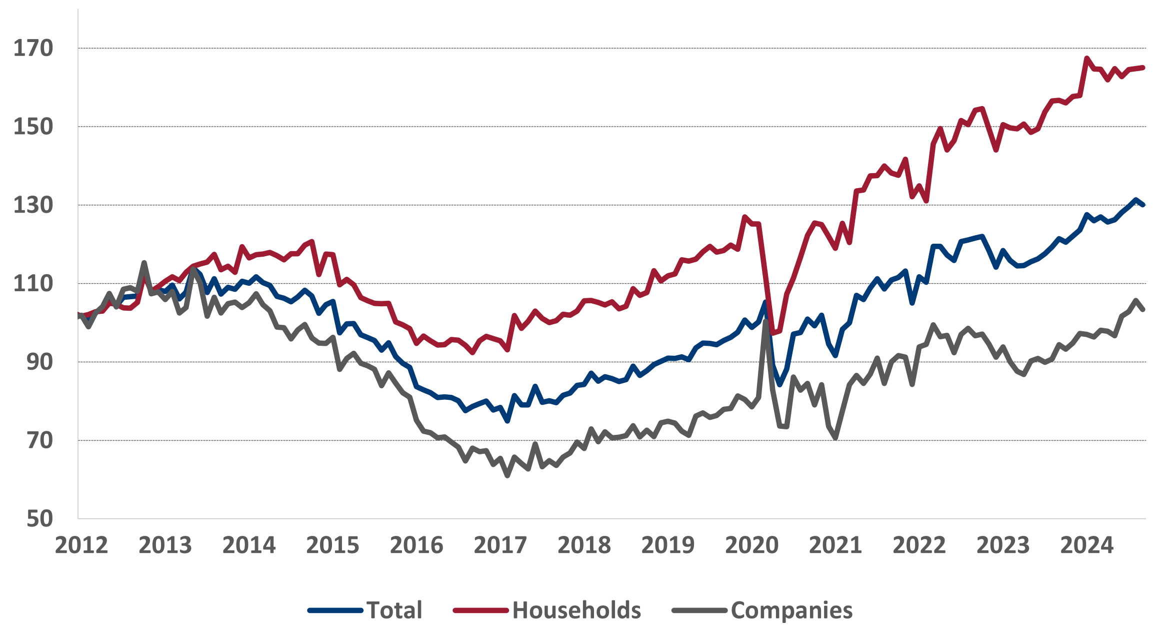
Total Tax Collection (% GDP)

Source: BOCOM BBM, RFB

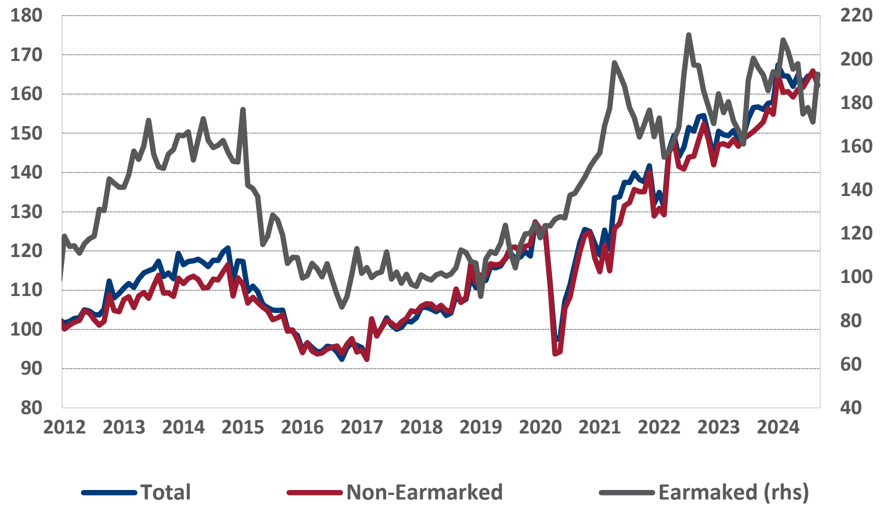
Brazil: Credit Statistics

- In September, total credit concessions contracted by 0.9% MoM in real terms;
- Non-earmarked credit concessions increased 0.1% MoM to companies and decreased 2.3% MoM to households;
- Earmarked credit concessions, in turn, grew 1.8% MoM to companies and 12.7% MoM to households;
- New loans growth decelerated, driven by a loss of momentum in non-earmarked loans.

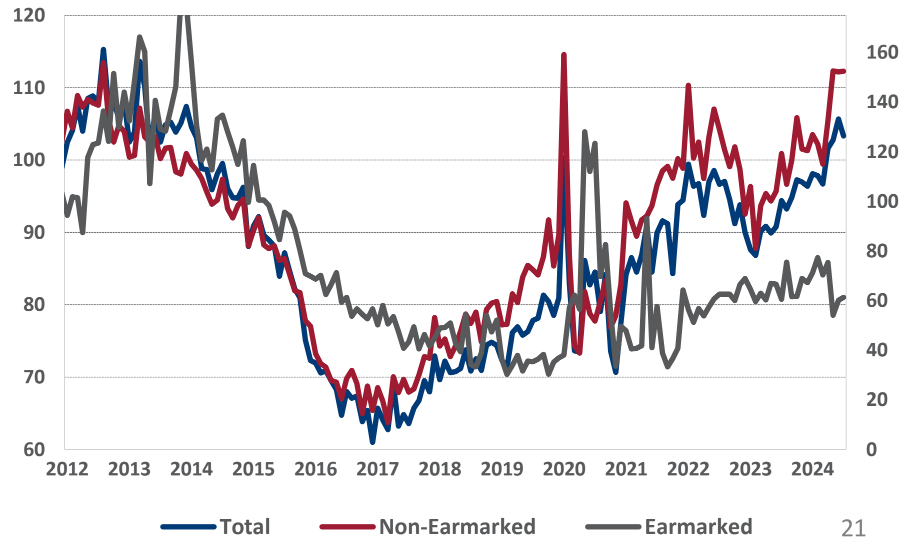
New Credit Operations SA (Real) - mar/11 = 100



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



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

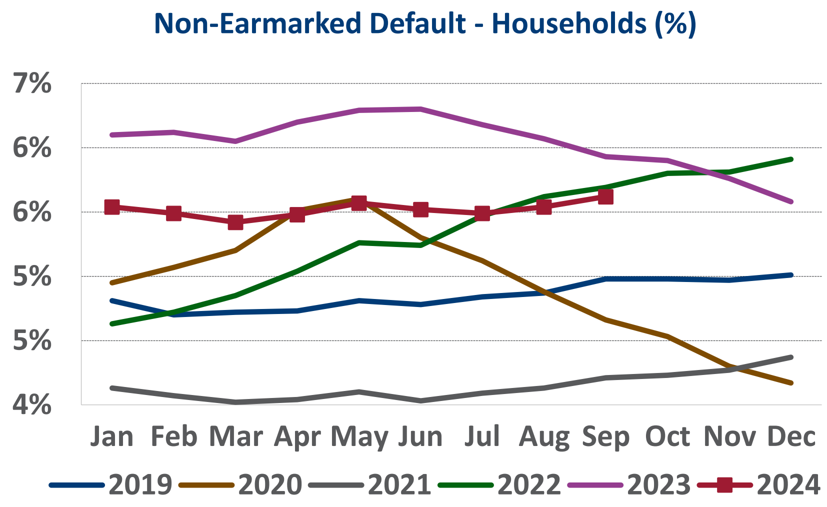


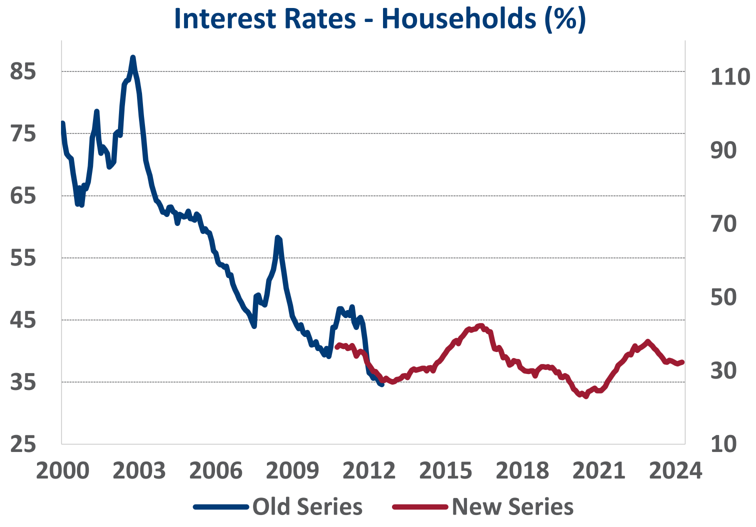
Source: BOCOM BBM, BCB

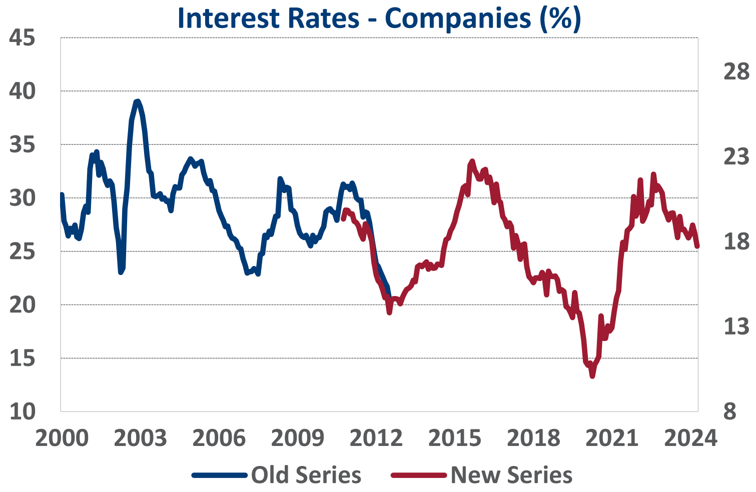
Brazil: Credit Statistics

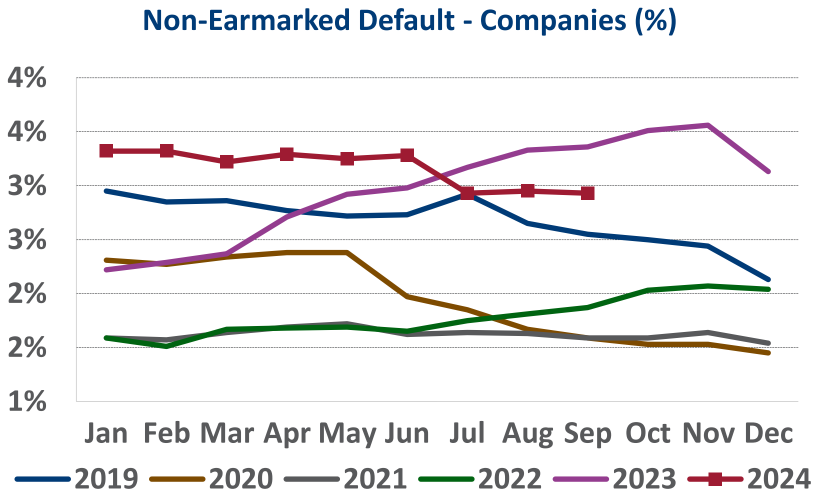
- Lending rates increased marginally from 32.2% to 32.4% for individuals and decreased from 18.5% to 17.7% for companies;

- In turn, non-earmarked default rate is around 5.6% to individuals and 2.9% to companies (remaining relatively stable).





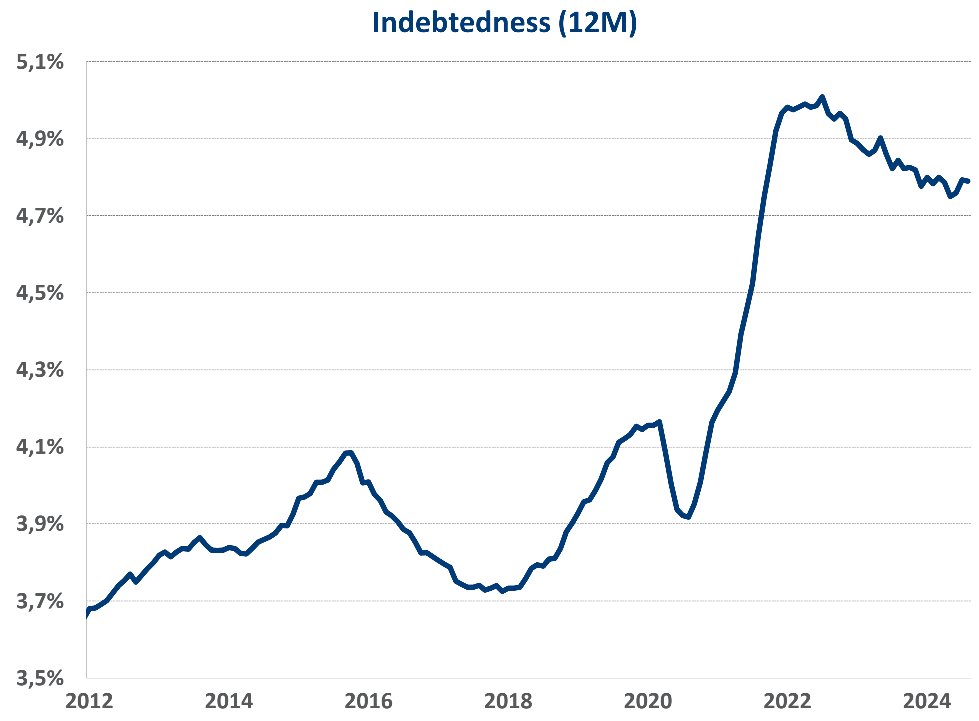


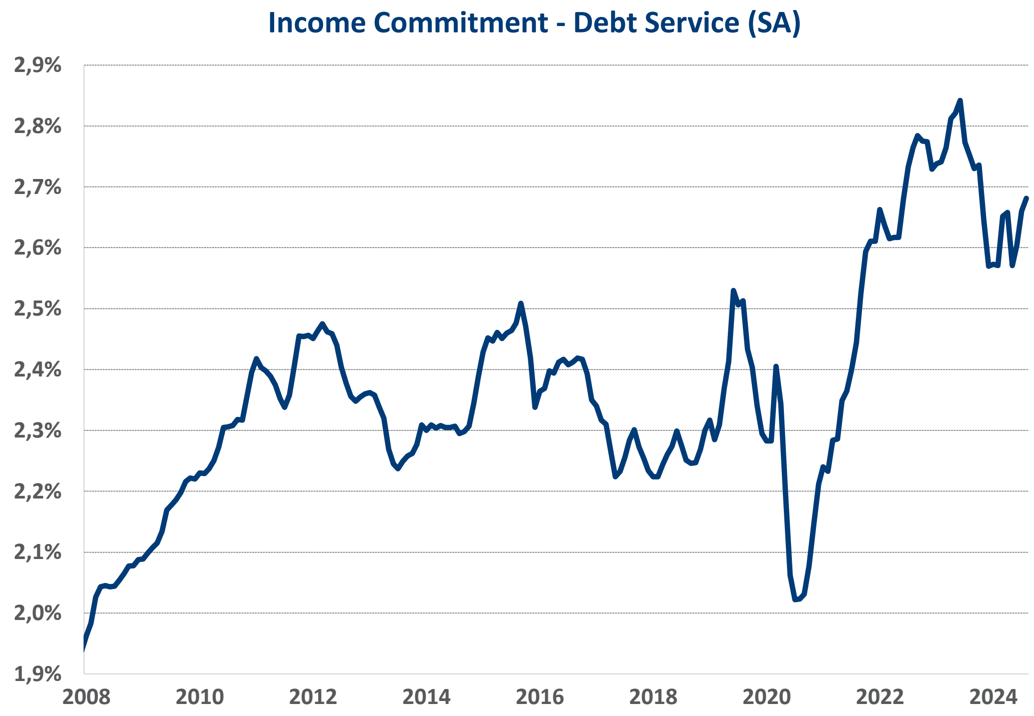


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- The ratio of household indebtedness remained stable at 47.9% in August;
- Income commitment increased from 26.6% to 26.8%;
- The August data showed that households remain heavily indebted even in an environment of strong wage growth.

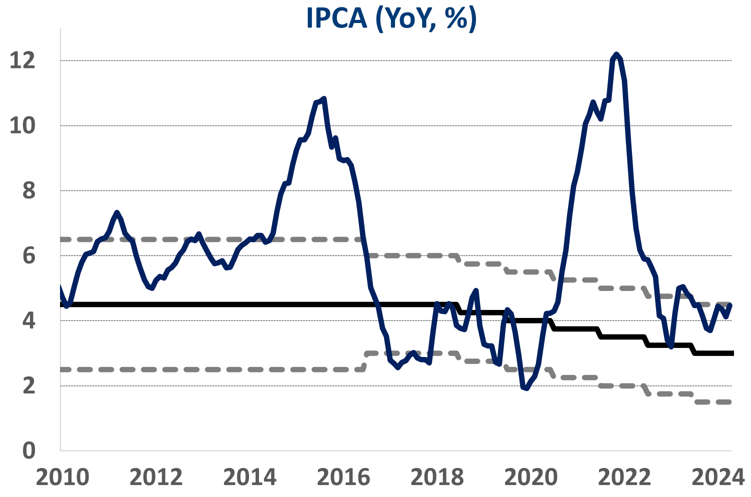


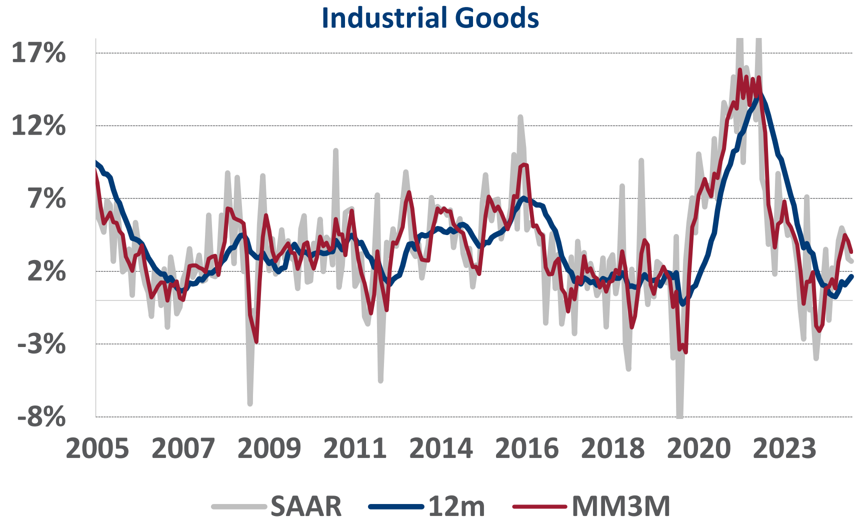


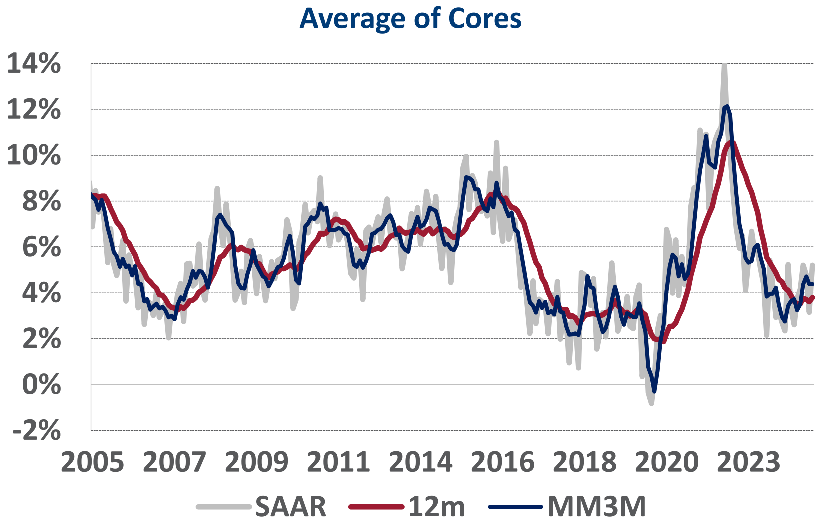
Source: BOCOM BBM, BCB

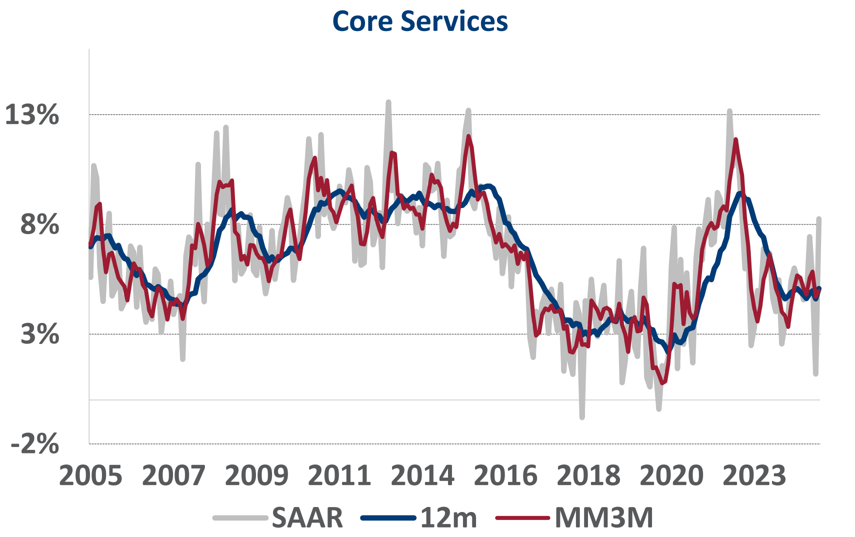
Brazil: Inflation 2024

- October IPCA-15 rose by 0.54% MoM, above market expectations (0.50%);
- The 12-month variation advanced to 4.47% in October from 4.12% in September;
- The upward surprise was spread among the categories and the acceleration from September was driven by a sharp rise in food inflation, a higher electricity tariff flag and a reacceleration in industrial goods and core services;
- The average of core inflation gauges advanced 0.41% MoM, also above estimates of 0.34%, driven by underlying services and industrials. Core services advanced 0.59% MoM, above market expectation (0.39%). The core services 3M SAAR increased from 4.7% to 5.0%. Services figures reinforce the view of a deterioration in the coming months on the heels of solid domestic demand, the tight labor market, and unanchored inflation expectations.





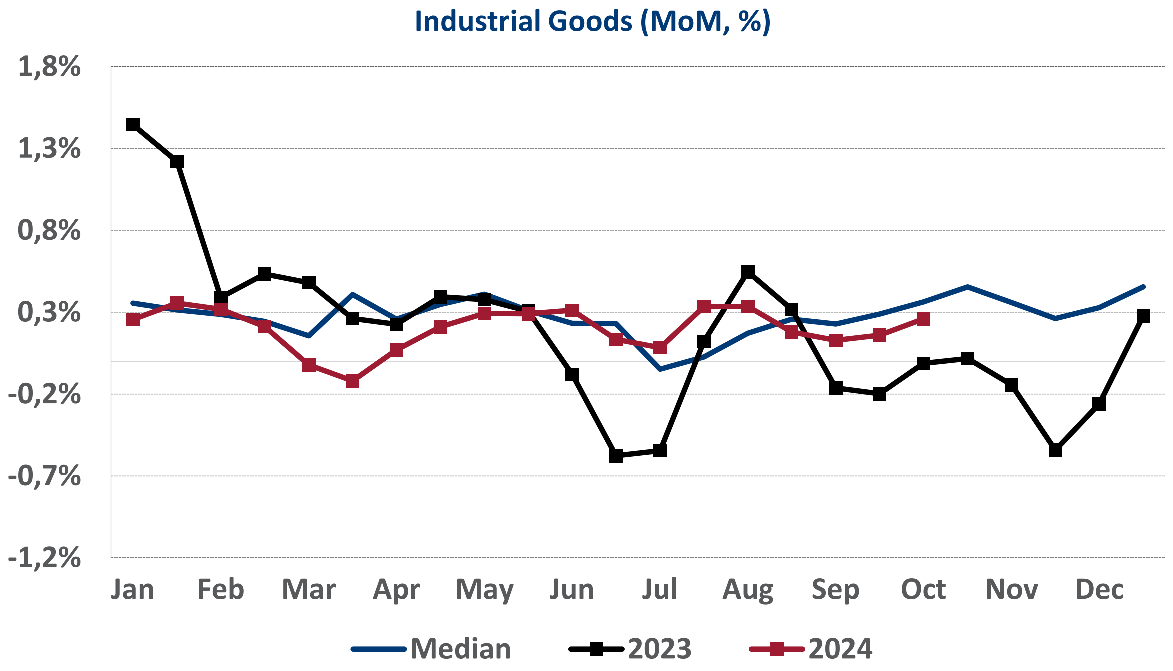


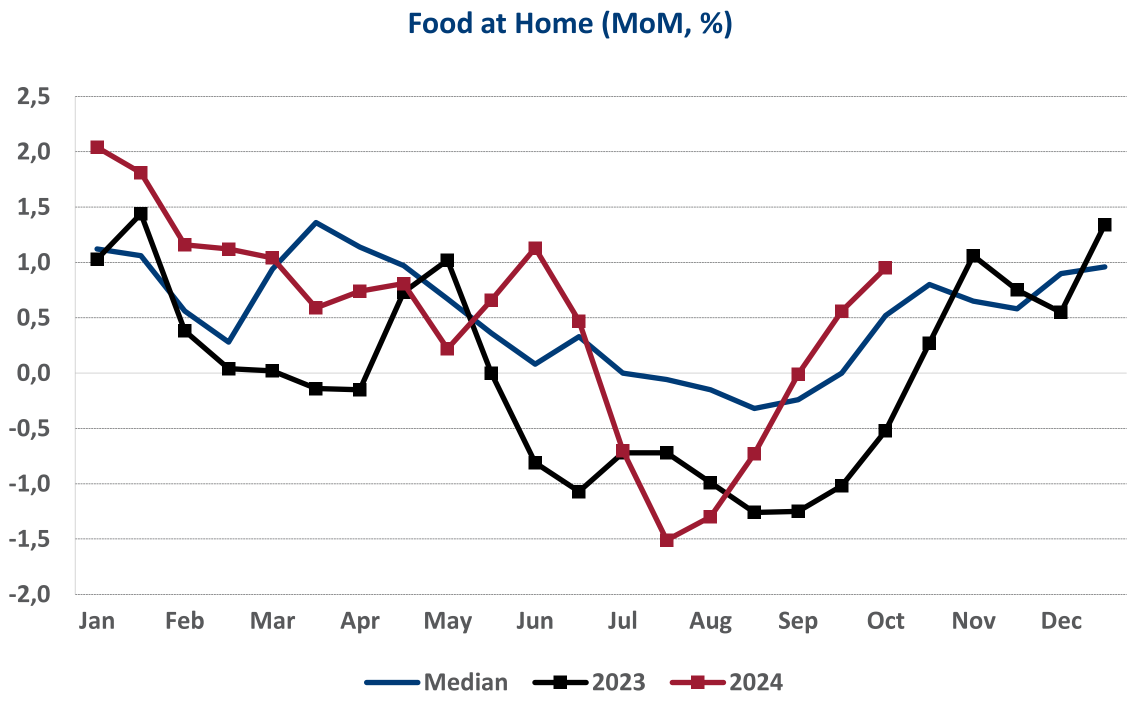


Source: BOCOM BBM, IBGE

Brazil: Inflation 2024

- Industrial goods prices advanced 0.26% MoM, close to expectations of 0.24%, but recent levels of the exchange rate will put upward pressure from fourth quarter onwards;
- Foodstuff prices accelerated in October (0.95%), above expectations of 0.75%, driven by a material acceleration in meat prices (4.2%), following the spike in live cattle prices, and this increase will put upward pressure on the prices of other proteins in the coming months, given the substitution effect.





Source: BOCOM BBM, IBGE

Brazil: Inflation

- After October result, we increased our forecast for food inflation due to proteins and the risks continue to rise, following the spike in live cattle prices;
- Consequently, our forecast increased from 4.4% to 4.9% in 2024 and from 4.0% to 4.3% in 2025.

IPCA (%, annual)

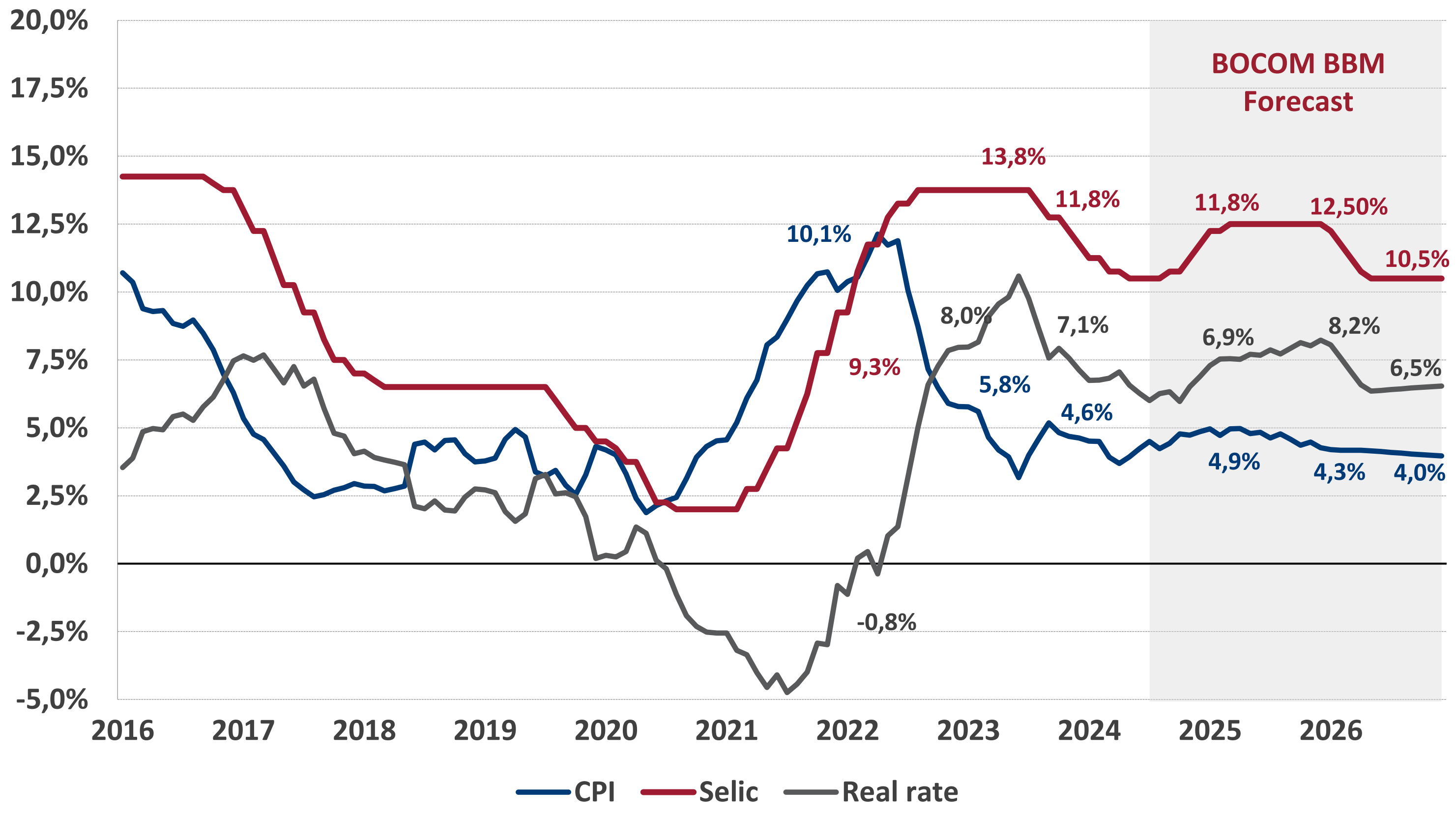
	Weight	2019	2020	2021	2022	2023	2024	2025
Regulated	**26.6**	**5.5**	**2.6**	**16.9**	**-3.8**	**9.1**	**5.2**	**3.8**
Industrial goods	**23.6**	**1.7**	**3.2**	**11.9**	**9.5**	**1.1**	**2.6**	**3.1**
Durable goods	10.3	0.0	4.5	12.9	6.1	-0.4	1.2	-
Semi-durable goods	5.9	0.6	-0.1	10.2	15.7	2.7	1.9	-
Non-durable goods	7.3	4.4	4.0	11.9	9.5	1.7	5.2	-
Food at home	**15.7**	**7.8**	**18.2**	**8.2**	**13.2**	**-0.5**	**9.2**	**5.8**
Services	**34.1**	**3.5**	**1.7**	**4.8**	**7.6**	**6.2**	**4.2**	**4.8**
Food away from home	5.6	3.8	4.8	7.2	7.5	5.3	5.1	4.7
Related to minimum wage	5.2	2.9	1.5	3.3	6.3	5.2	4.6	4.7
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.3	9.5	0.2	4.8
Inertial	15.0	4.3	1.6	4.2	8.8	5.1	5.9	4.7
IPCA		**4.3**	**4.5**	**10.1**	**5.8**	**4.6**	**4.9**	**4.3**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

- Concerning monetary policy, the Brazilian Central Bank (BCB) raised the Selic rate by 25 bps to 10.75% p.a. at its September meeting. The committee highlighted that economic activity has demonstrated more strength than anticipated, and the disinflation seems more challenging, with an upward asymmetry in the balance of risks. Since then, the outlook keeps showing a combination of resilient activity, inflation close to the upper target limit, unanchored expectations, and raising concerns regarding fiscal and parafiscal policies. At the same time, the external environment remained challenging for emerging countries. Thus, a hike of 50 bps at the November meeting is highly expected. We expected that rates will reach at least 12,5% by the end of the cycle.

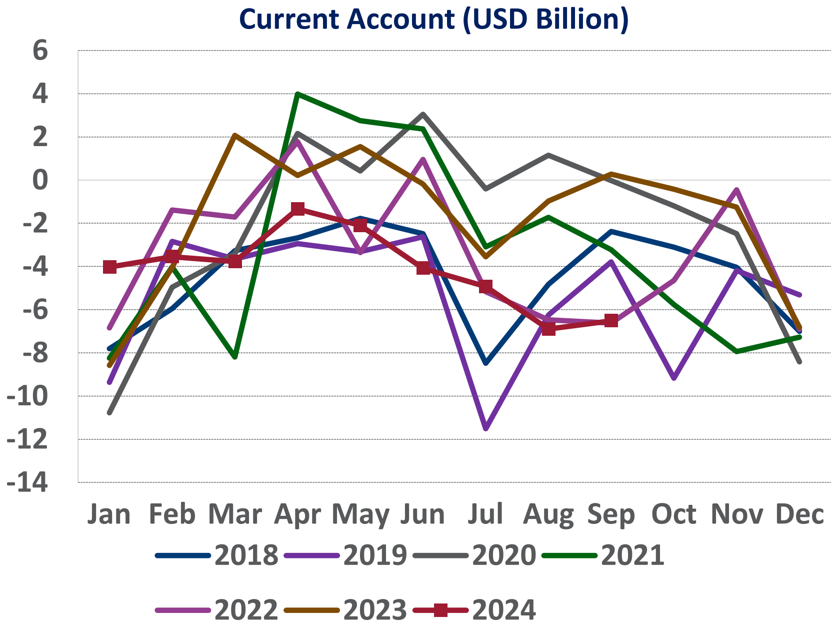
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

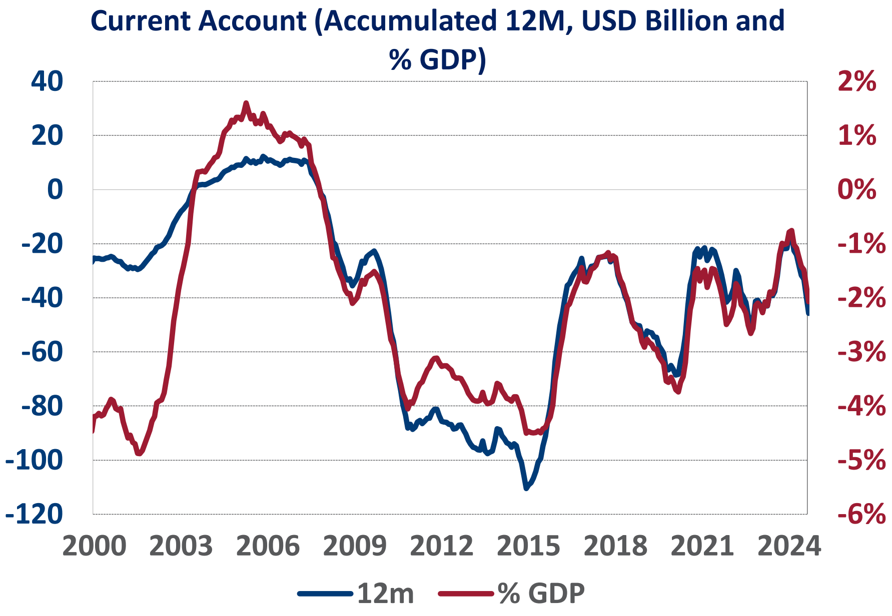


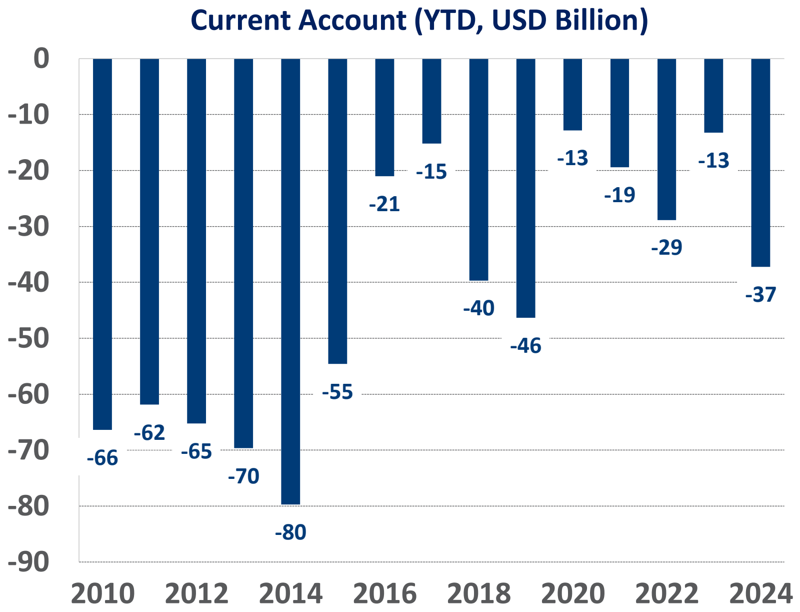
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- In September, the Brazilian current account printed a USD 6.5 billion deficit, worse than expectations (USD -5.0 billion);
- For the 12-month rolling sum up to September, the deficit amounted to USD 45.8 billion (-2.1% of GDP);
- The current account deficit will worsen until the end of the year, driven by the trade surplus slowdown and continued high spending on services and income fueled by robust economic growth.



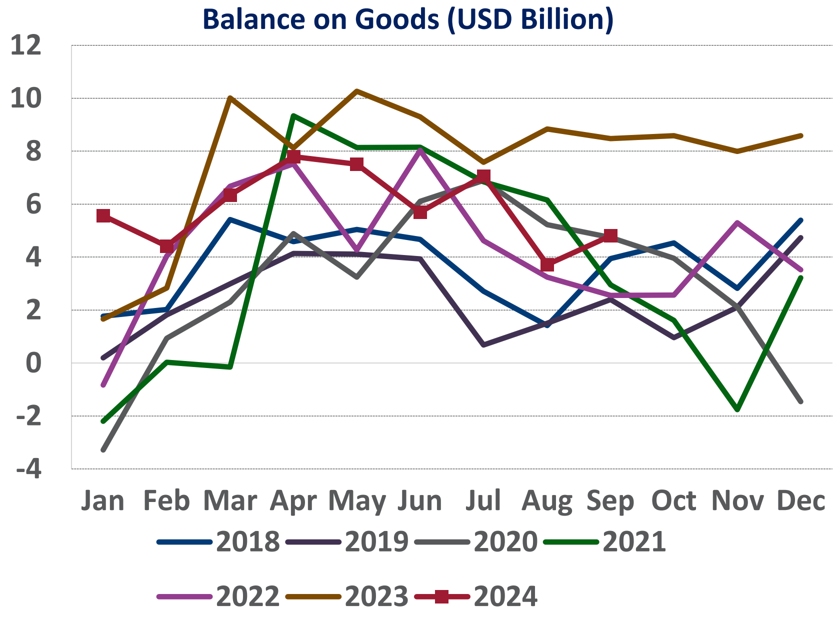


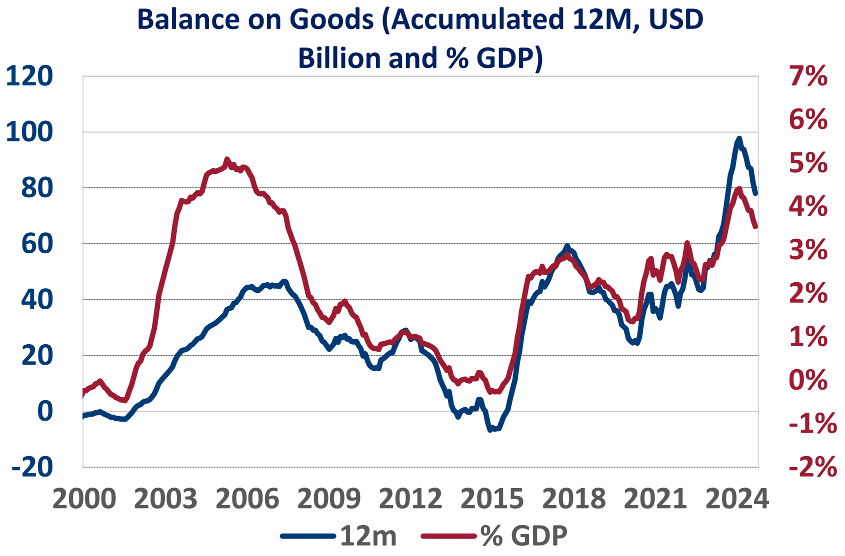


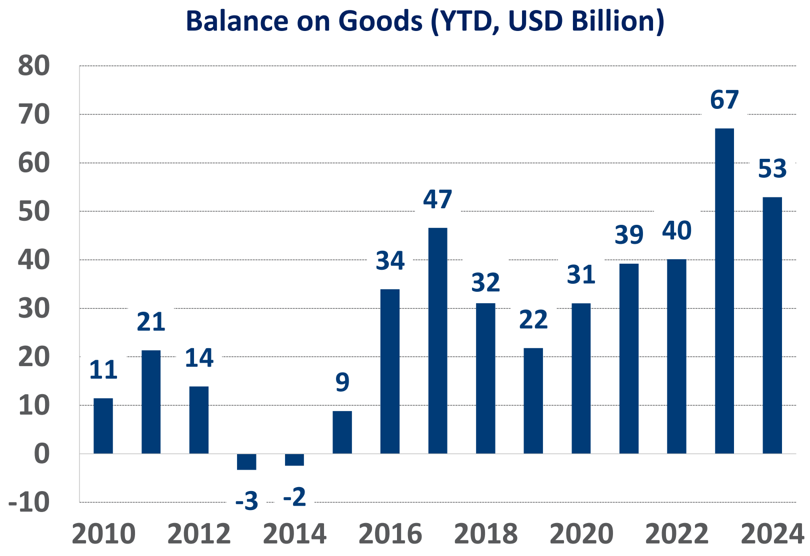
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- The trade balance recorded a surplus of USD 4.8 billion in September 2024;
- The 12-month rolling sum up to September 2024 reached USD 78.1 billion;
- Additionally, imports surged by 18.4% YoY, while Exports remained virtually stable (+0.3% YoY), reflecting the downward trend of key commodity prices;
- This result was below the recorded in September 2023 (+USD 8.5 billion), mainly due to higher import volumes and falling export prices, in the wake of the acceleration in domestic demand and falling commodity prices.





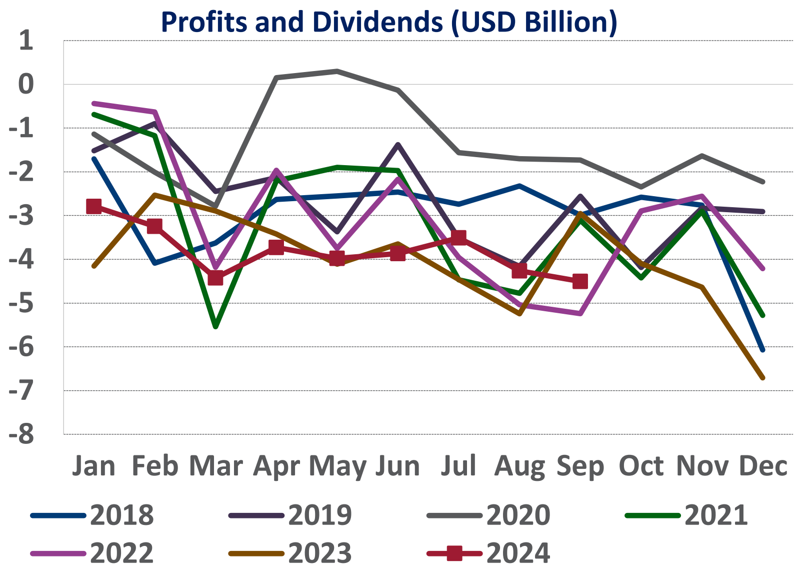


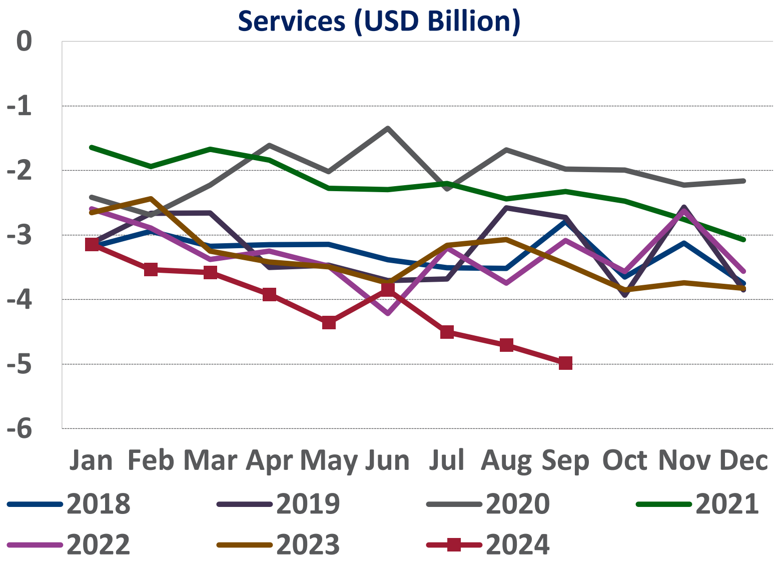
Source: BOCOM BBM, BCB

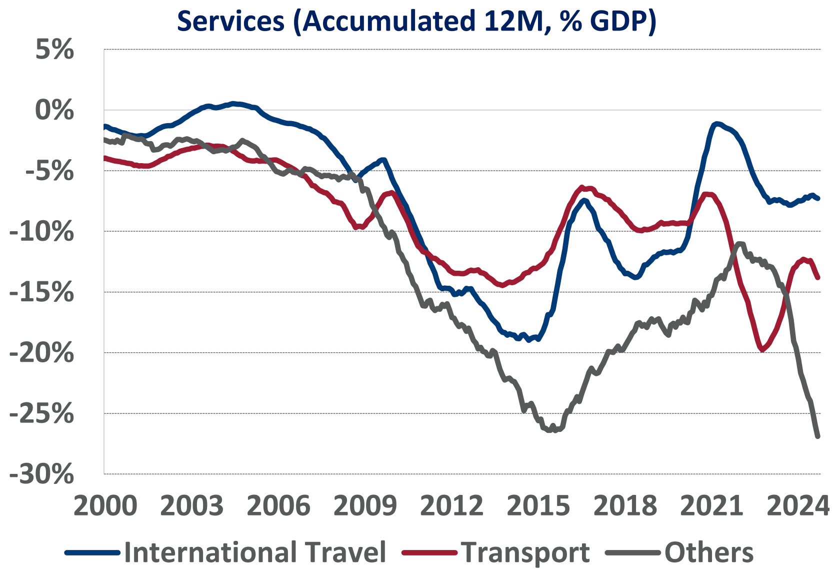
Brazil: Balance of Payments

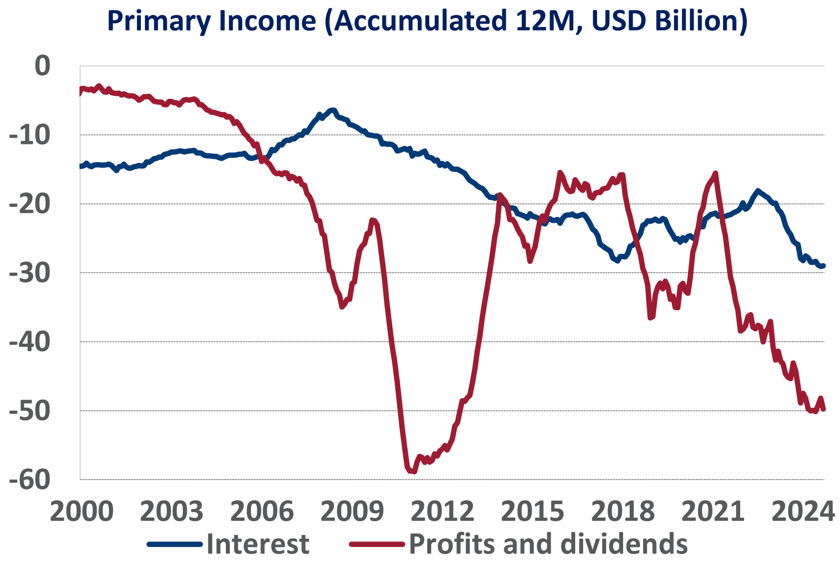
- The services deficit showed again an annual increase, rising from USD 3.5 billion in September 2023 to USD 5.0 billion in September 2024 (44.4% YoY). The main contributor was the Freight services component of the Transportation account, reflecting the strong domestic activity and higher freight prices;

- The deficit in the primary income account amounted to USD 6.5 billion in September 2024 from USD 5.1 billion in September 2023, and the year-to-date comparison, at USD 55.5 billion.







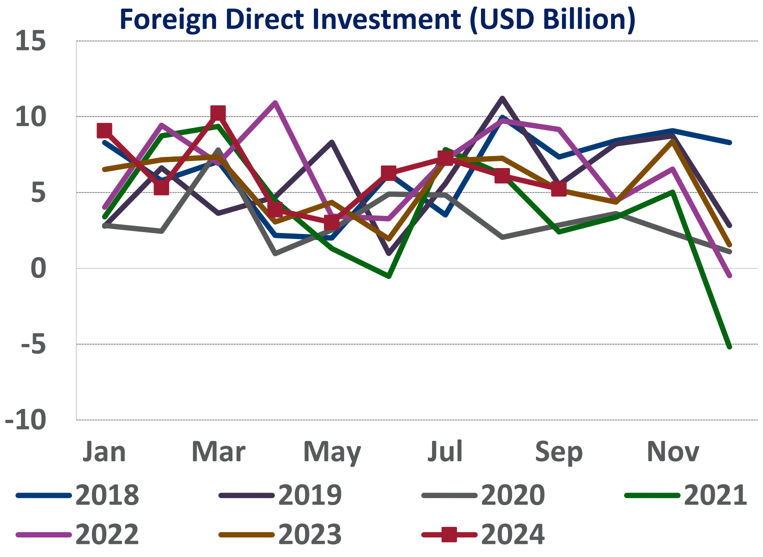


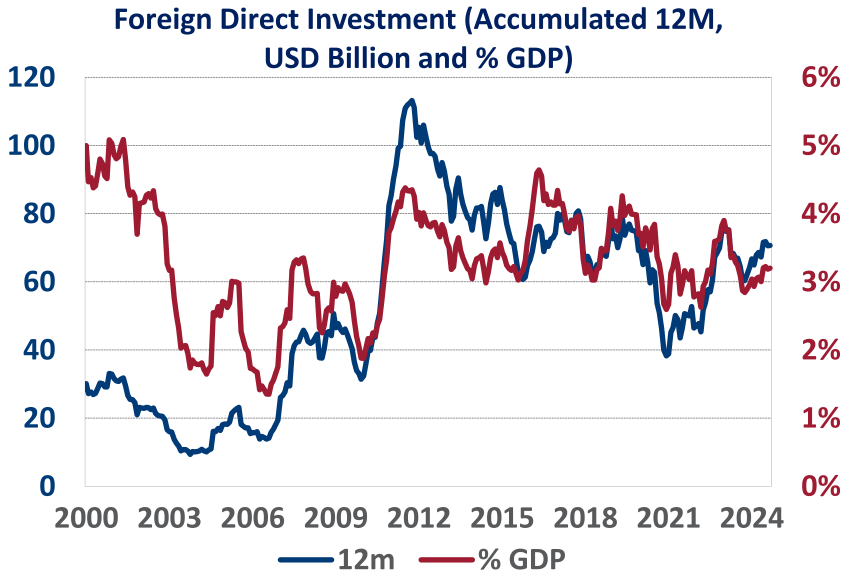
Source: BOCOM BBM, BCB

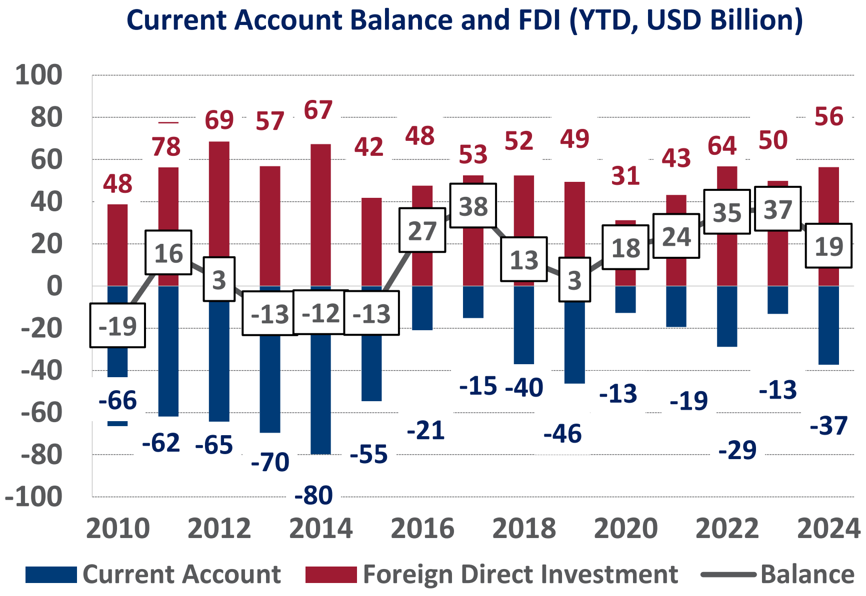
Brazil: Balance of Payments

- Net inflows in Foreign Direct Investment (FDI) totaled USD 5.2 billion in September 2024, bellow market expectation (USD 5.9 billion);

- In 12 months, it reached USD 70.7 billion (3.2% of GDP).



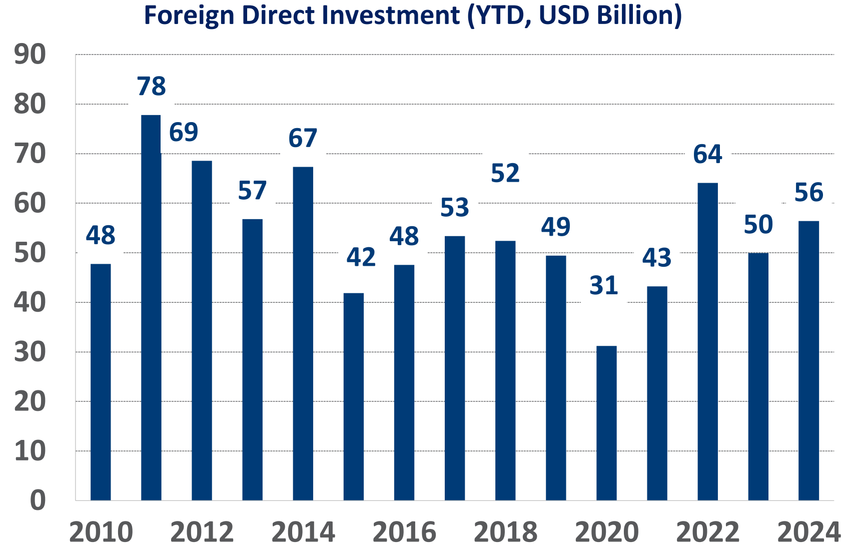


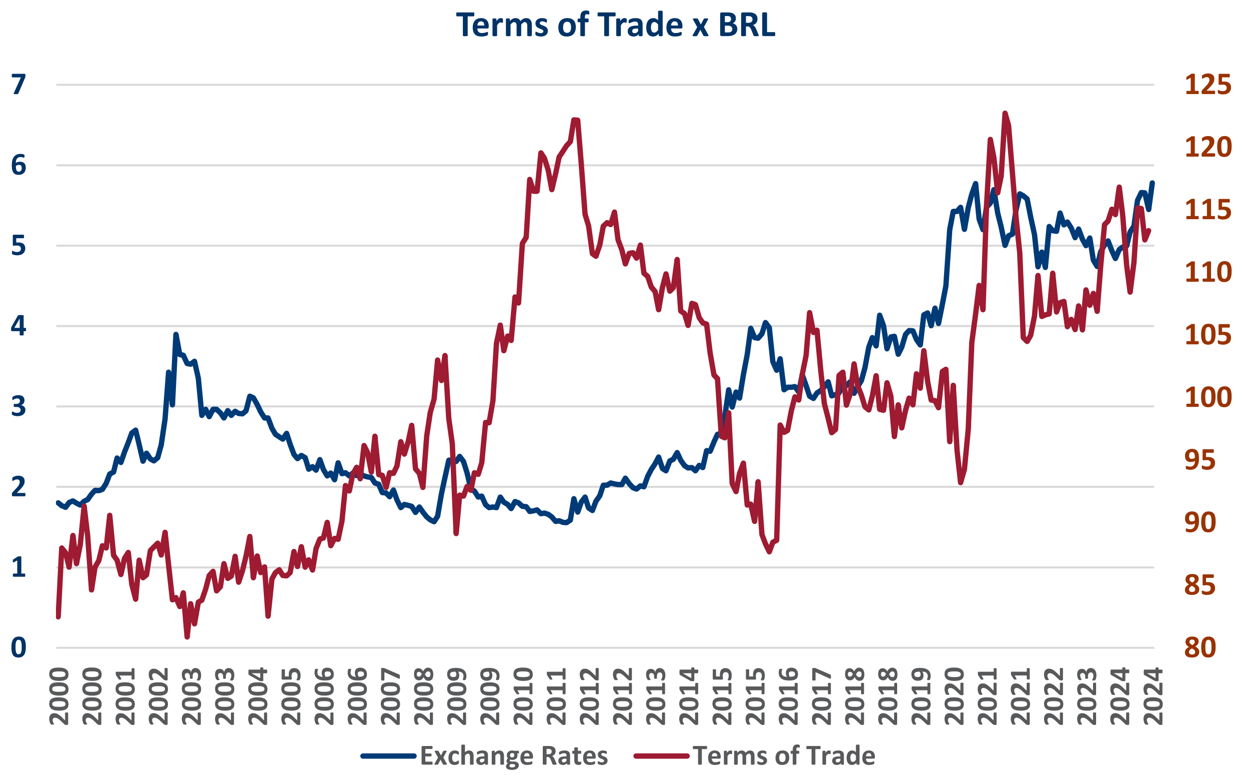


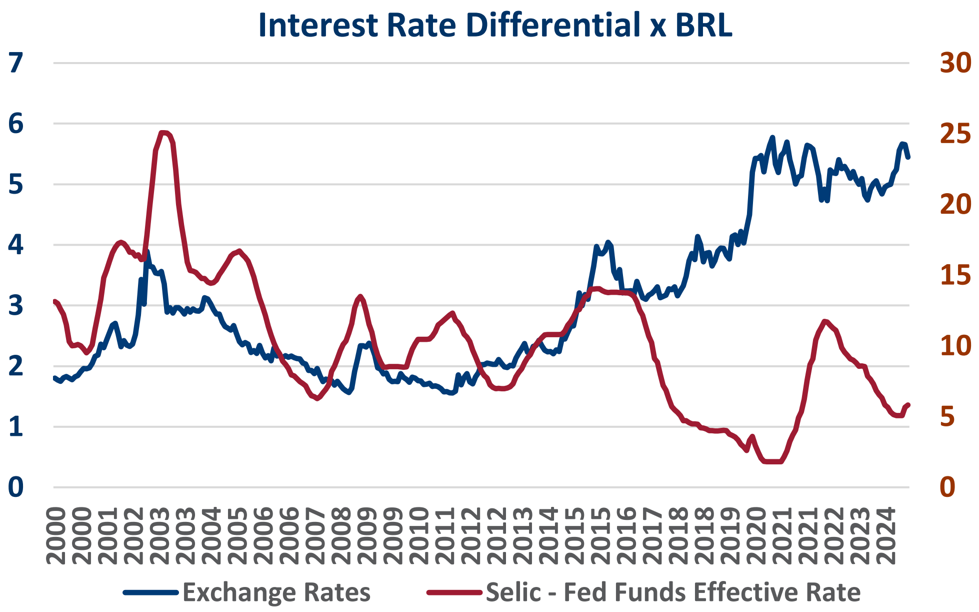
Source: BOCOM BBM, BCB

Brazil: External Sector

- In October, the Brazilian Real depreciated from 5.45 to around 5.79 against the US Dollar. In the domestic scenario, the fiscal policy situation was the main concern driving the FX. The finance minister Haddad continues seeking to achieve the fiscal target this year in order to not discredit the fiscal framework in its first year of validity. The market awaits the government's announcement of a new spending cut package that will help to comply with the fiscal targets in the coming years. The government's lack of details about the new fiscal package generates uncertainty, increasing FX volatility. In the international scenario, the proximity of the American elections gained prominence by the end of October, with Trump gaining strength in the final stretch, which raises the prospect of a stronger dollar in the coming months.



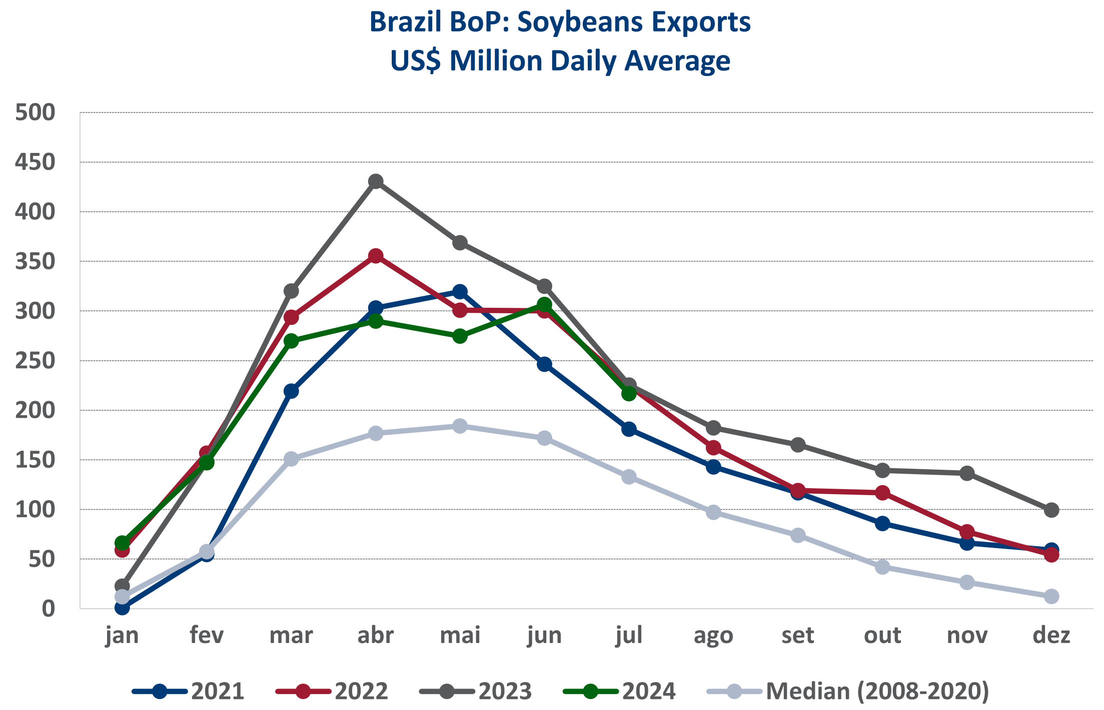


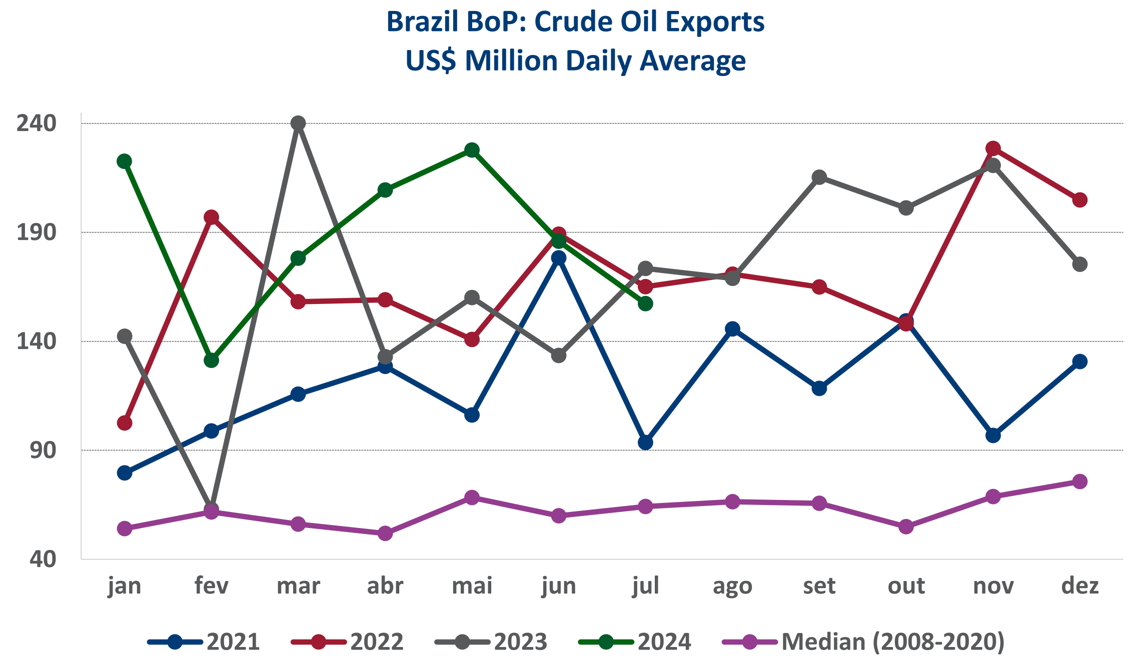


Source: BOCOM BBM, Bloomberg, Funcex, BCB

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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