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Macro Outlook

December 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 softening in the labor market data and inflation remaining on a bumpy track to 2.0%, risks to the FOMC dual mandate are now roughly balanced. In it's November meeting, the Fed cut rates by 25bps, reducing the easing pace as latest data suggests an economy that's still resilient. The committee signaled that they're gradually moving towards neutral and reinforced that the future pace remains data-dependent, thus leaving the door open for a potential pause in December. Markets are equally divided between a pause and an additional 25bps cut;

- Regarding China, year-to-date growth until Q3 was 4.8% YoY – slightly below the center of the annual target of "around 5%". However, growth momentum picked up in October, as retail sales accelerated to the highest pace since Feb-23. The property market is still adjusting, but indicators also improved as the pace of decline in volume of housing and property sales fell to the slowest since early 2023, putting an end to the long streak of double-digit declines. All policies announced since late September have already been implemented, which should continue boosting activity through the remainder of the year;

- In Brazil, monthly indicators of economic activity posted positive signs. As expected by the market, industrial production increased by 1.1% MoM, while services surprised up by growing 1.0% MoM, and retail sales outperformed growing 1.8% MoM. IBC-Br showed an increase of 0.8% MoM. Brazil's GDP expanded by 0.9% QoQ in 3Q24 (4.0% YoY), which represents a gradual slowdown compared to the growth of 1.4% QoQ in the previous quarter. After the Q3 GDP data release, we increased our forecast for 2024 growth from 3.3% to 3.5% and for 2025 from 2.0% to 2.3%. The slowdown in economic activity has been smoother than expected, but it is in line with a lower public stimulus over the H2 and in 2025.

- Concerning monetary policy, the Brazilian Central Bank (BCB) raised the Selic rate by 50 bps to 11.25% p.a. at its November meeting. The committee increased its inflation forecast to 3.6% in the relevant horizon (2Q 2026) and kept the asymmetry in the balance of risks, with more risks to inflation on the upside. Since then, the outlook has deteriorated, with exchange rates depreciating and inflation expectations moved further away from the target. Given this scenario, a new acceleration in the pace of interest rate hikes is expected for the December meeting and the Selic rates should reach at least 14% in 2025;

- November IPCA-15 rose by 0.62% MoM, above expectations of 0.50% MoM. The 12-month variation advanced to 4.77% in November from 4.47% in October. The main upward surprise came from services - driven by a sharp rise in airfares – and food at home. Apart from these surprises, the breakdown was close to expectations. The core services advanced 0.45% MoM, in line with expectations, but the 3M SAAR rose from 4.8% to 5.3%, given tight labor market conditions and the acceleration of 12-month IGP-M inflation. 'Food away from home' was another category pressing the headline upwards, on the heels of the recent spike in food prices. After November result, we increased our forecast for food inflation and industrials due to proteins and the FX depreciation. Consequently, our forecast increased from 4.9% to 5.0% in 2024 and from 4.3% to 4.8% in 2025.

- In the fiscal scenario, the awaited fiscal package was finally announced by the government on November 28th. However, most of the measures proposed have only short-term effects and do not change the expenditure trend in the long term. In parallel, the announcement of income tax exemption for those receiving up to R$5,000 contributed to further clouding the prospects of fiscal consolidation. In October, total federal tax collections reached BRL 247.9 bn (9.8% YoY), representing the best performance for the month in the historical record, driven by stronger economic activity, a heated labor market, higher inflation and a depreciated exchange rate. However, the debt to GDP ratio continue increasing and reached 78.6% of GDP in October given the increase in expenditure that is taking place.

China: Economic Activity

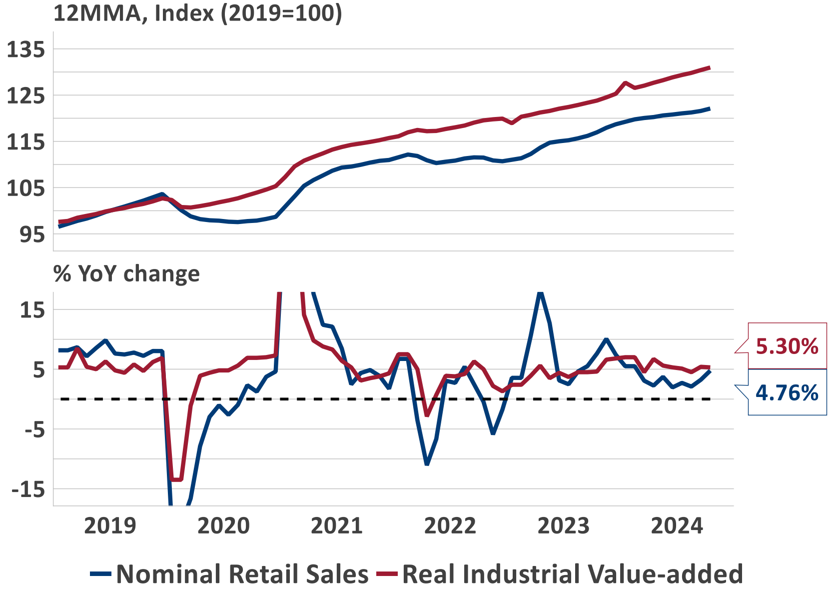
- **Growth momentum picked up in October:** retail sales accelerated to the highest since Feb-23 and IP moderated slightly;
- **Retail sales growth surprised up**, rising from 3.2% to 4.8% YoY (exp. 3.8%): growth in goods spending increased the most and was broad-based, although mainly driven by large increases in home appliances (+39.2% YoY) amid the recent consumer goods trade-in program;
- **Industrial prod. moderated** from 5.4% to 5.3% YoY (exp 5.5%): 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 2.9% growth in the same period last year;
- **The property market is still adjusting**, but indicators improved again in October with the pace of decline in volume of housing and property sales slowing down to -1.3% and -1.6% YoY, respectively, **the slowest pace since early 2023;**

China: Activity (% YoY)

	10/2024	9/2024	10/2023
Industrial Production	5.30	5.40	4.6
Mining	4.60	3.70	2.9
Manufacturing	5.40	5.20	5.1
Utilities	5.40	10.10	1.5
Fixed Asset Investment (YTD)	3.40	3.40	2.9
Manufacturing	9.30	9.20	6.2
Real Estate	-10.30	-10.10	-9.3
Infrastructure	4.30	4.10	5.9
Retail Sales	4.76	3.23	7.6
Catering Services	3.20	3.10	17.1
Consumer Goods	5.00	3.30	6.5
Clothing	8.00	-0.40	7.5
Automobiles	3.70	0.40	11.4
Furniture	7.40	0.40	1.7
Cellphones	14.40	12.30	14.6
Home Appliances	39.20	20.50	9.6
Construction	-5.80	-6.60	-4.8

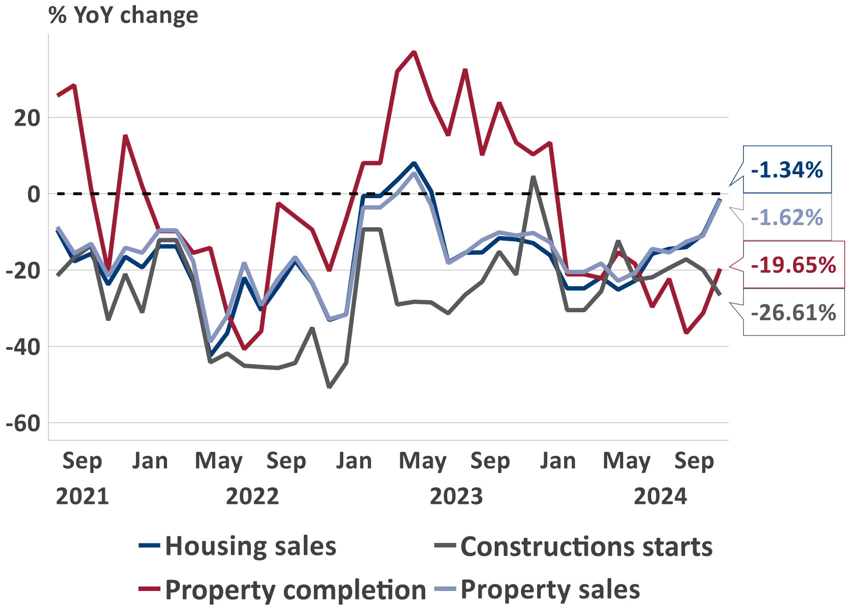
Source: BOCOM BBM, Macrobond

China: Industrial Production x Retail Sales



Source: BOCOM BBM, Macrobond, NBS

China: Property Indicators (% YoY)

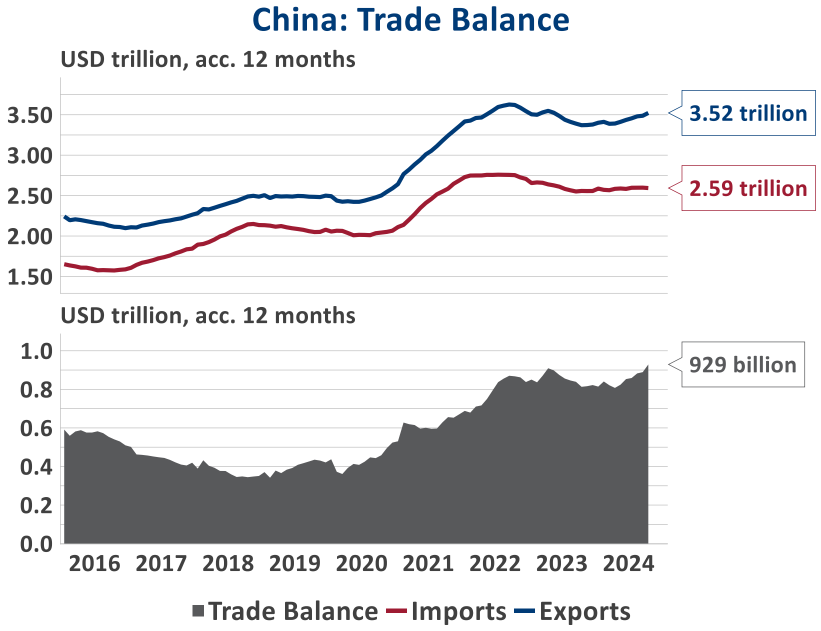


Source: BOCOM BBM, NBS

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:
  - **Latest data for October came in exceptionally strong, way above expectations**, accelerating from 2.4% to **12.7%** YoY (exp. 5.0%), the fastest growth in 26 months;
  - Exports **year-to-date growth stands at 5.15% in USD terms →** continued solid growth, despite historically elevated levels, and highly uncertain global trade outlook given the possibility of escalating another trade war after Donald Trump won the US elections;

- October **CPI** inflation decelerated from 0.4% to **0.3%** YoY (below exp. 0.4%);
  - Core inflation inched up from 0.1% to **0.2%** YoY, still low;
  - **General price trends for consumer goods and services remained soft**: soft figures on both services (0.4% YoY) and goods (0.2% YoY) suggests continued demand-supply imbalances, and possibly excess industry capacity in some sectors;



Source: BOCOM BBM, Macrobond, CCS

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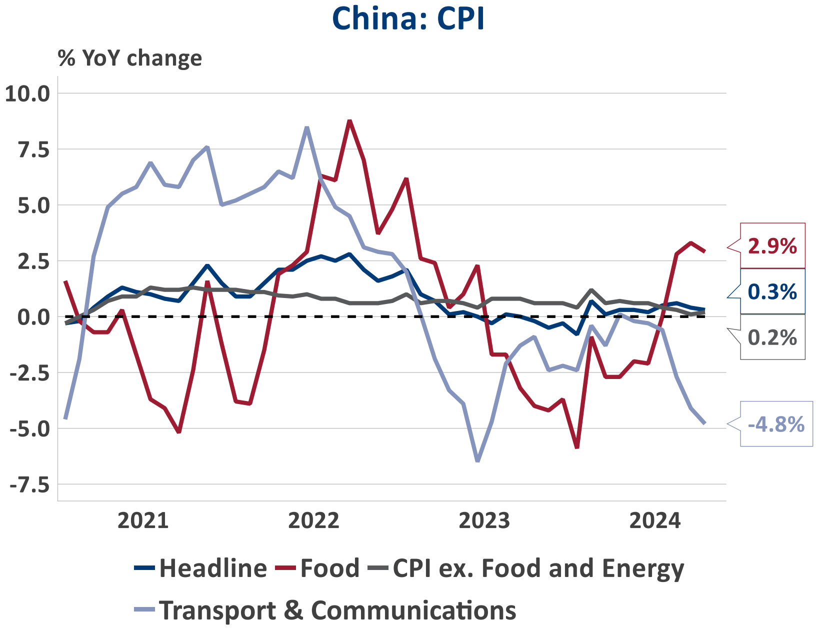

Source: BOCOM BBM, Macrobond, NBS

USA: Labor Market

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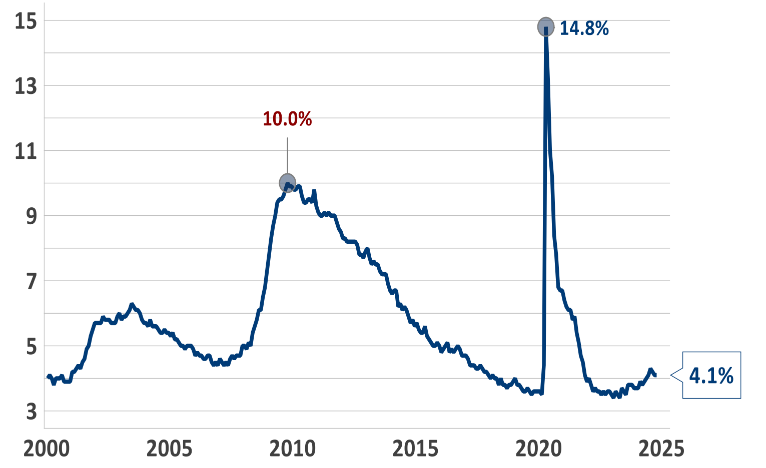
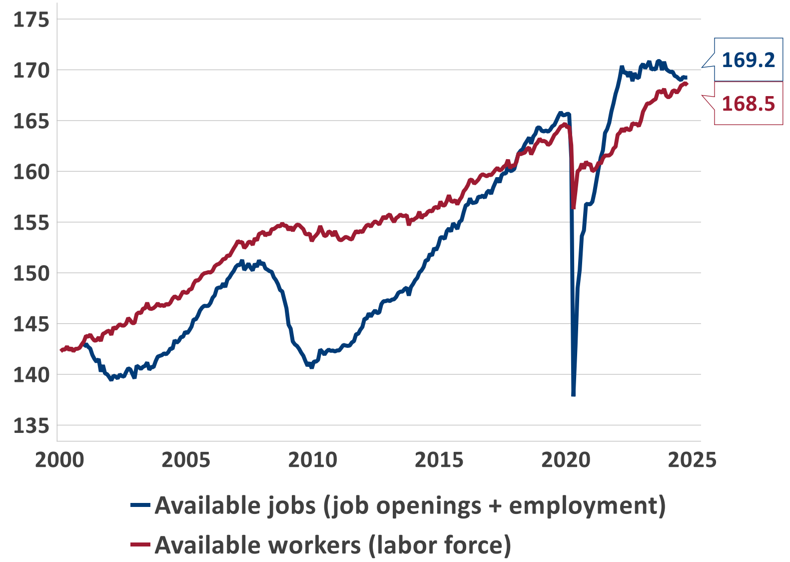
- **October labor market report came up short, amid hurricanes and strikes that led to a noisy reading;**
  - October payroll showed a job gain of **12k**, well below market expectations (100k), with a two-month net revision of -112k in August (-81k) and July (-31k);
  - The unemployment rate remained at **4.1%**, in line with expectations;
- In October, the **jobs-workers gap increased to 800k** from 600k 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;

US: Unemployment Rate SA (%)



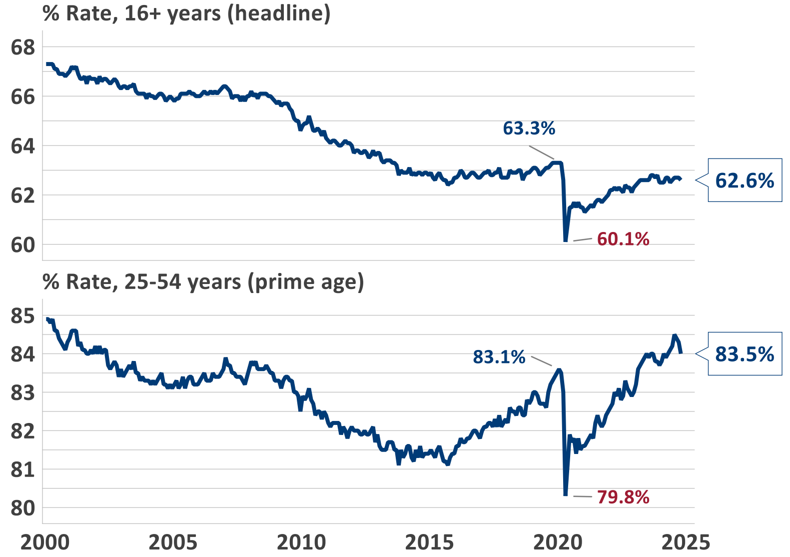
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



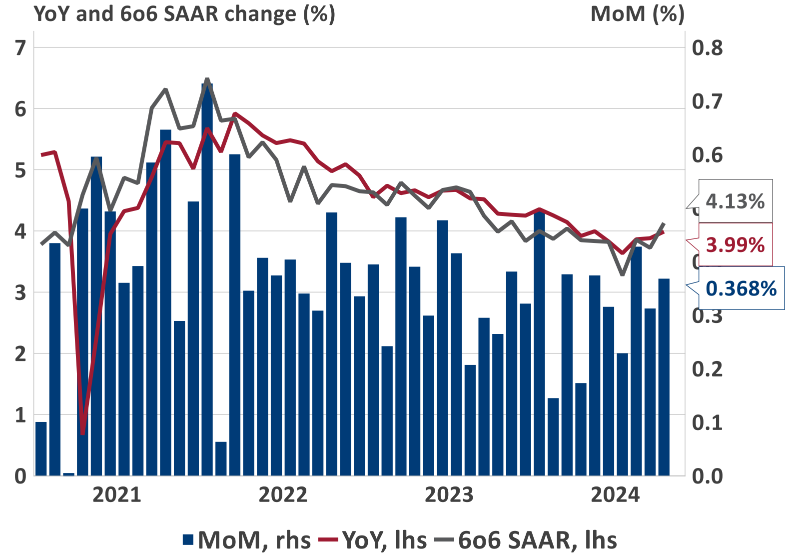
Source: BOCOM BBM, Macrobond, BLS

US: Labor Force Participation Rate (%)



Source: BOCOM BBM, Macrobond

US: Average Hourly Earnings Growth (%)



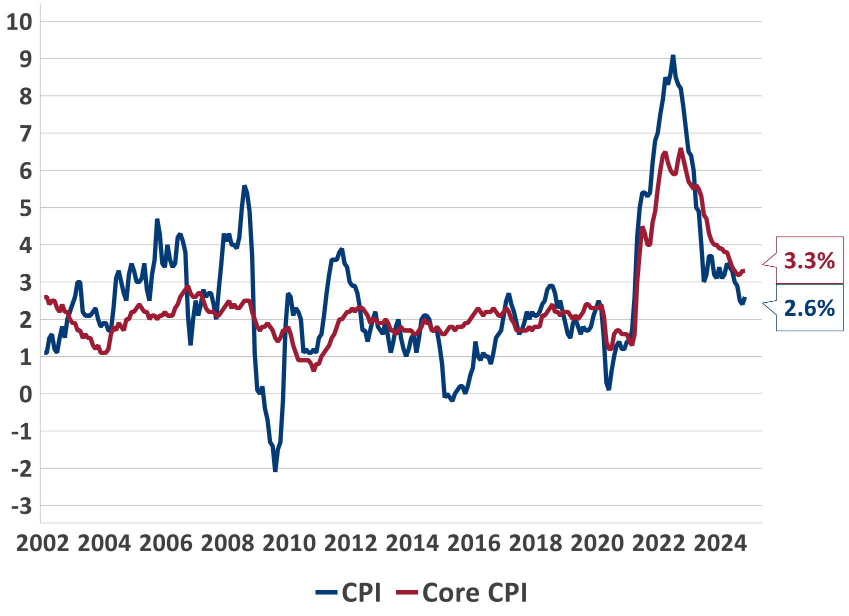
Source: BOCOM BBM, Macrobond

USA: Inflation

- October headline CPI rose **0.24% MoM,** in line with expectations, leading to an annual growth rate reacceleration from 2.4% to **2.6% YoY:**
  - **Energy prices** were stable in the month, following the sideways movement of retail gasoline prices;
  - **Food prices** rose 0.16% MoM, in line with expectations and with its historical average;

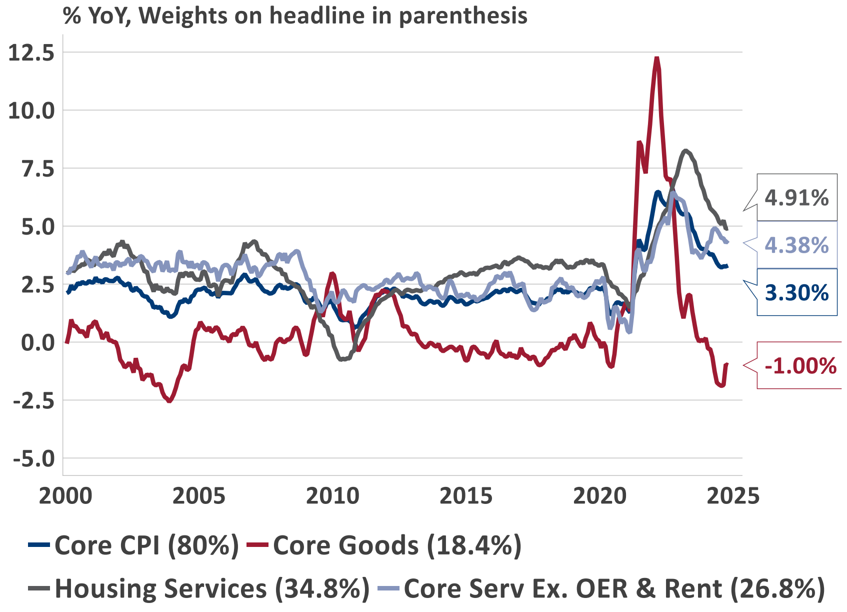
- **Core CPI** rose **0.28% MoM** (exp. 0.31%) and the annual growth rate remained at **3.3% YoY;**
  - **Core goods (0.05% MoM):** below the expected, despite a strong climb in used vehicles (2.7% MoM). The downside surprise came mostly from apparel prices (-1.46% MoM) as a payback from last month`s increase;
  - **Housing services surprised to the upside (OER 0.40% MoM):** although most indicators continue pointing to further slowing ahead;
  - **Core Serv. Ex-Housing (0.31% MoM):** came in line with expectations, driven by stronger airfares and medical care, although non-airfare transportation and other labor-intensive services surprised down.

US: CPI (YoY, %)



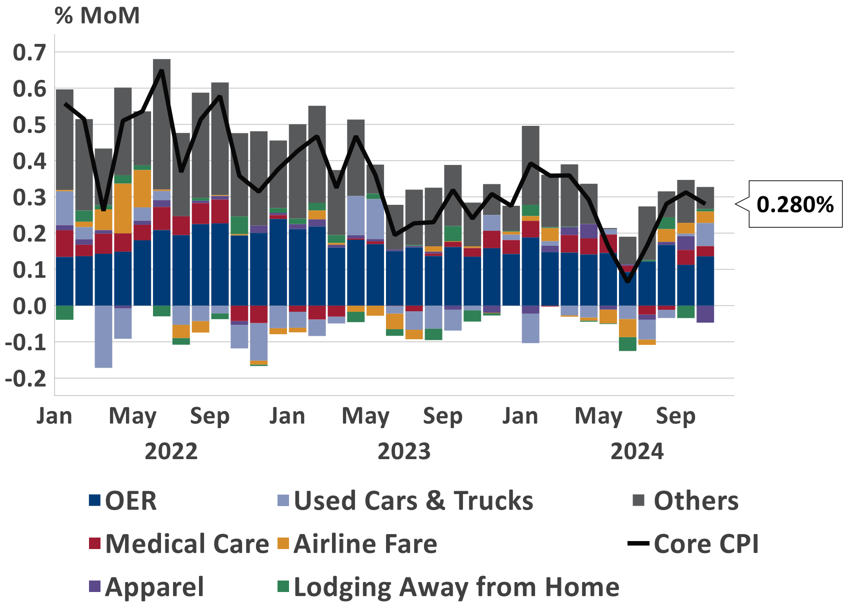
Source: BOCOM BBM, Macrobond, BLS

US: Core CPI Main Components (%)



Source: BOCOM BBM, Macrobond, BLS

US: Core CPI MoM Contributions

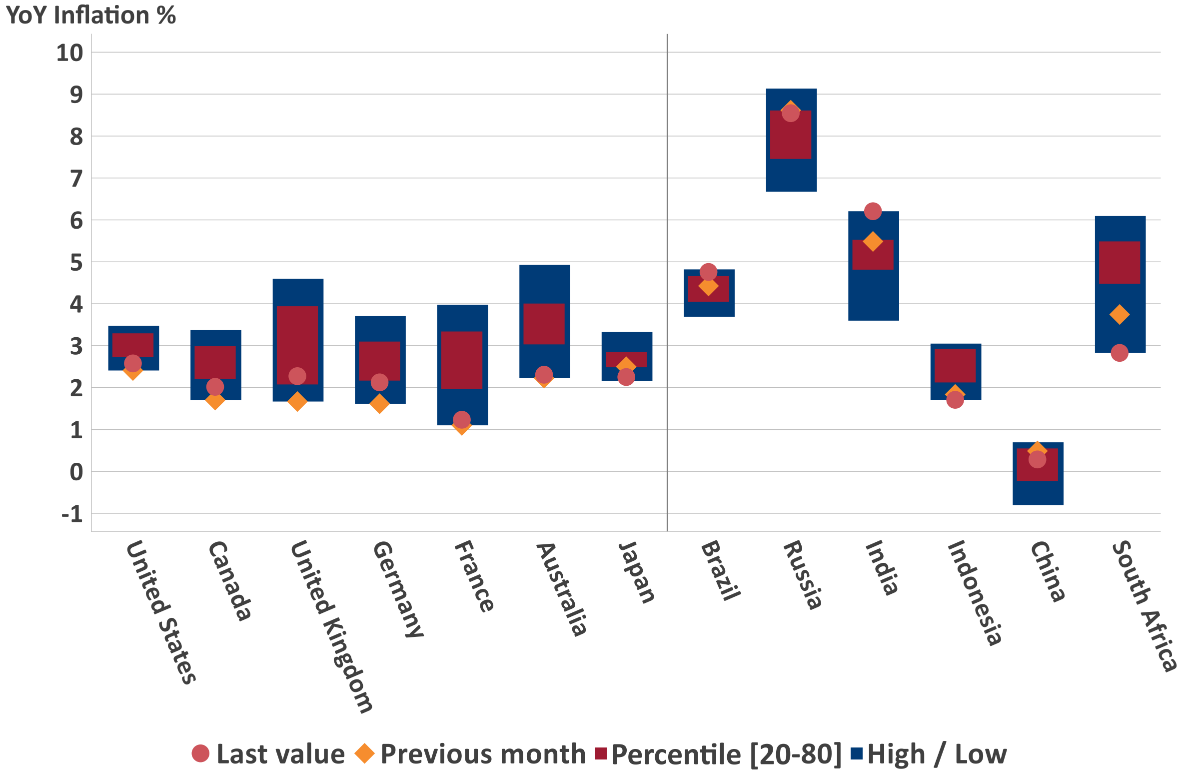


Source: BOCOM BBM, Macrobond, BLS

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 of economic activity across several countries, although global growth continued surprising up and remained resilient in 2024;
- Prospects for easing policy are improving expectations this year and next, as we should see another year of solid global growth in 2025.

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	0.1	-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	1.5	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	0.2	0.5	-0.6	0.1	-1.0	0.6	1.2	0.4
Mexico	1.1	0.4	0.1	0.1	0.7	0.9	0.7	1.1
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	0.1	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

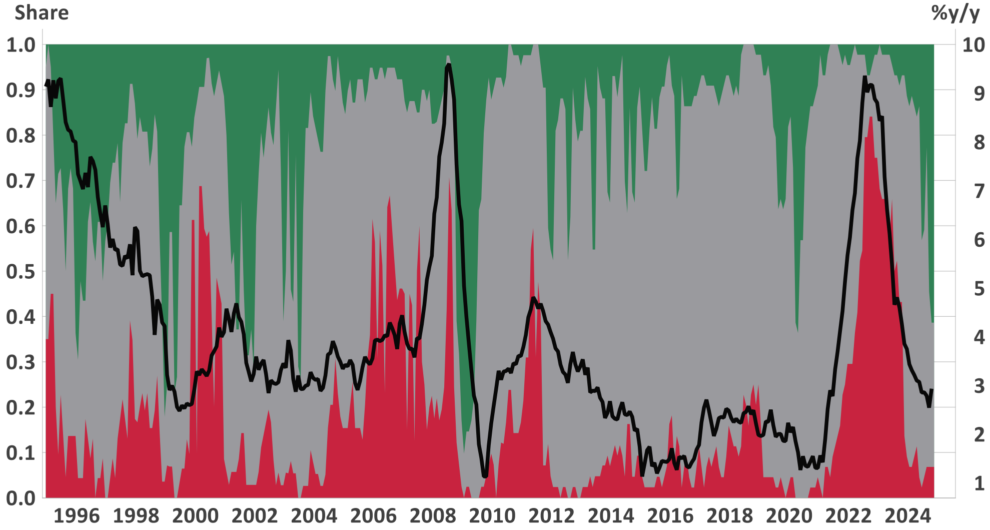
Sources: BOCOM BBM, Macrobond, National Sources

Global: Monetary Policy

- Several **emerging markets are on the process of easing monetary policy,** such as Colombia, Chile and Mexico;
- **Developed markets** central banks took a little longer, but several also began cutting rates this year;
- In it's November meeting, the Fed cut rates by 25bps, reducing the pace as latest data suggests an economy that is still resilient.
- The committee signaled it will continue moving gradually towards neutral but left the door open for a potential pause in December as it remains data-dependent. Markets are split between a pause and an additional 25bps cut;

Global monetary breadth

Share of economies (GDP top 50) with higher/unchanged/lower policy rates; monthly/mtd avg, 27-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	193.0	182.0	35.00	-5.00	Cut	11/2024	14	1
Australia	2.9	3.1	4.35	0.25	Hike	11/2023	13	49
Brazil	4.8	4.6	11.25	0.50	Hike	11/2024	1	7
Canada	2.0	1.6	3.75	-0.50	Cut	10/2024	17	1
Chile	4.7	3.9	6.50	-0.75	Cut	10/2024	26	1
China	0.3	0.2	3.10	-0.25	Cut	10/2024	129	1
Colombia	5.4	6.0	9.75	-0.50	Cut	11/2024	19	1
Costa Rica	-0.8	0.1	4.00	-0.25	Cut	10/2024	25	1
Czech Republic	2.8	0.2	4.00	-0.25	Cut	11/2024	29	1
Denmark	1.6	1.5	3.00	-0.25	Cut	10/2024	14	1
Euro Area	2.0	2.7	3.40	-0.25	Cut	10/2024	14	1
Hungary	3.2	4.4	6.50	-0.25	Cut	9/2024	26	2
Iceland	5.1	5.2	8.50	-0.50	Cut	11/2024	15	0
India	6.2	3.7	6.50	0.25	Hike	2/2023	22	54
Indonesia	1.7	2.2	6.00	-0.25	Cut	9/2024	7	2
Israel	3.4	3.5	4.50	-0.25	Cut	1/2024	18	11
Japan	2.3	2.2	0.25	0.15	Hike	8/2024	4	106
Mexico	4.8	3.8	10.25	-0.25	Cut	11/2024	20	0
New Zealand	2.2	3.1	4.25	-0.50	Cut	11/2024	18	0
Norway	2.6	2.7	4.50	0.25	Hike	12/2023	11	55
Poland	5.1	4.1	5.75	-0.25	Cut	10/2023	27	14
Russia	8.5	8.2	21.00	2.00	Hike	10/2024	1	26
Saudi Arabia	1.9		5.25	-0.25	Cut	11/2024	16	1
South Africa	2.8	3.9	7.75	-0.25	Cut	11/2024	18	0
South Korea	1.3	1.8	3.25	-0.25	Cut	10/2024	23	2
Sweden	1.6	1.5	2.75	-0.50	Cut	11/2024	14	1
Switzerland	0.6	0.8	1.00	-0.25	Cut	9/2024	17	2
Turkey	48.6	47.8	50.00	5.00	Hike	3/2024	8	21
United Kingdom	2.3	3.3	4.75	-0.25	Cut	11/2024	16	1
United States	2.6	3.3	4.75	-0.25	Cut	11/2024	16	1

Source: BOCOM BBM, Macrobond

Brazil: Forecasts

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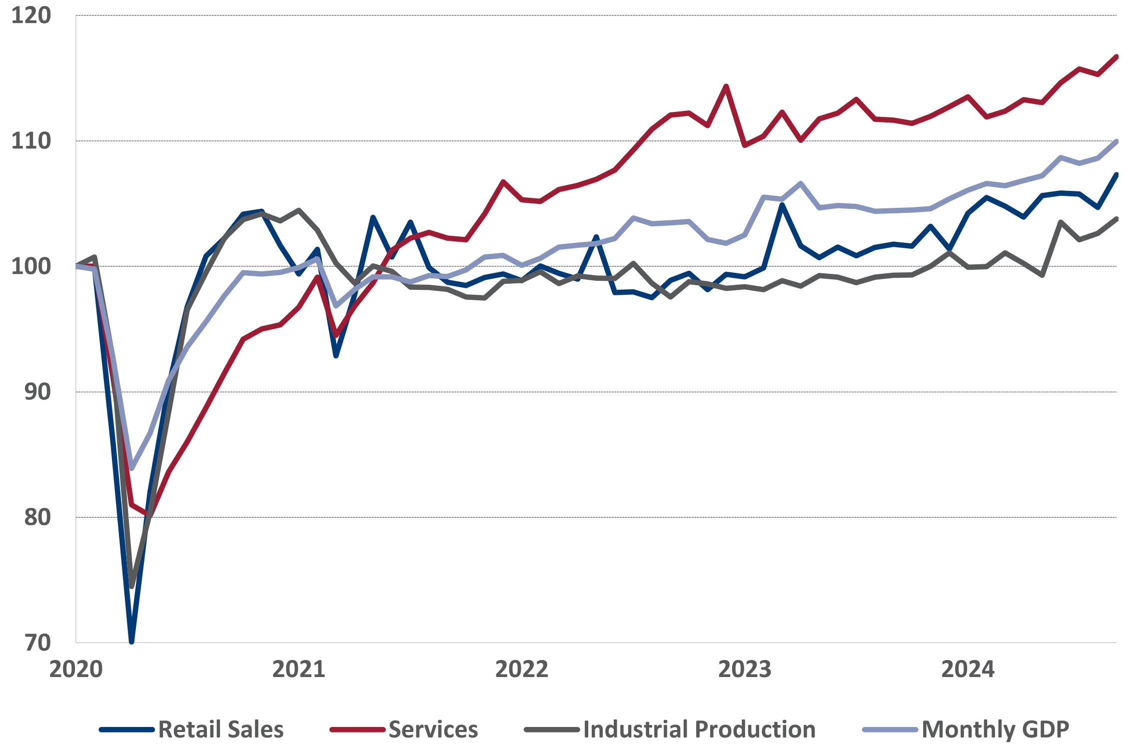
ECONOMIC FORECASTS	2019	2020	2021	2022	2023	2024F	2025F	2026F
GDP Growth (%)	1.2%	-3.3%	4.8%	3.0%	2.9%	3.5%	2.3%	2.0%
Inflation (%)	4.3%	4.5%	10.1%	5.8%	4.6%	5.0%	4.8%	4.0%
Unemployment Rate (eoy ,%)	11.1%	14.2%	11.1%	7.9%	7.4%	6.3%	7.0%	7.5%
Policy Rate (eoy, %)	4.5%	2.0%	9.3%	13.8%	11.75%	12.00%	14.00%	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%	77.9%	83.0%	87.9%

Source: BOCOM BBM, IBGE

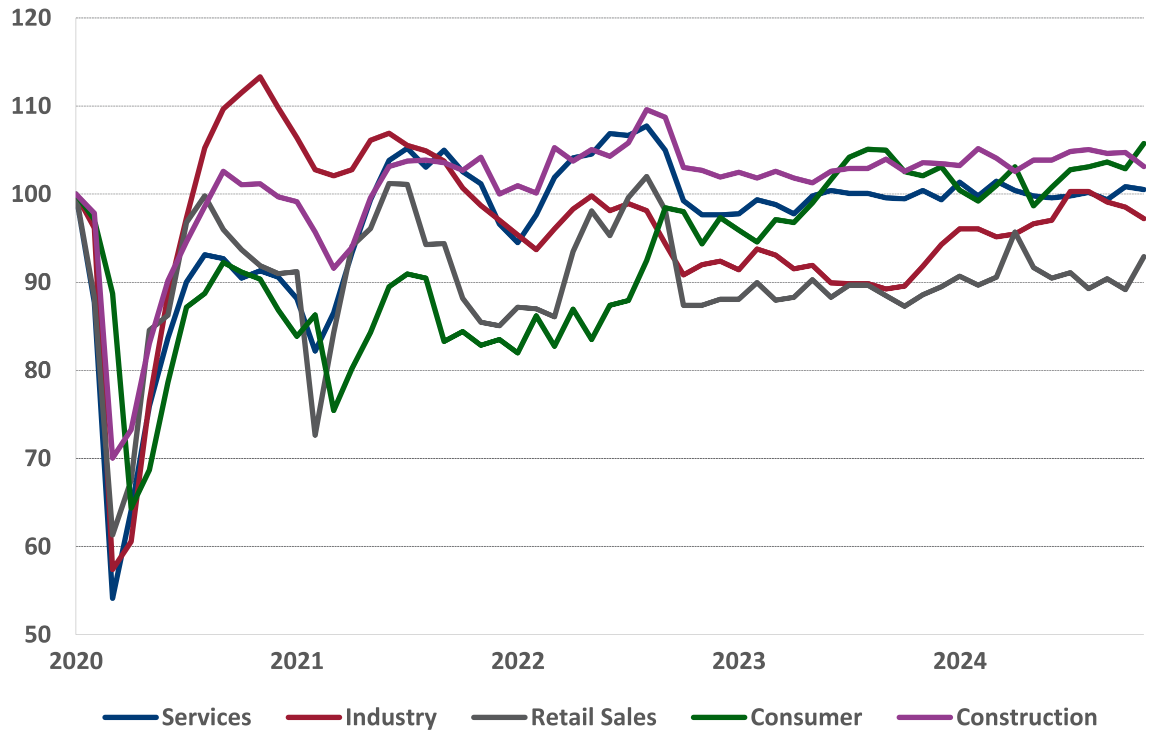
Brazil: Activity

- In September, all monthly indicators of economic activity posted positive signs. As expected by the market, industrial production increased by 1.1% MoM, while services surprised up growing 1.0% MoM, and retail sales outperformed growing 1.8% MoM. Summarizing this scenario, IBC-Br showed an increase of 0.8% MoM;
- Looking forward, industry, services and construction confidence contracted in October, while retail sales and consumer confidence increased.

Brazil - Economic Activity Indicators (Jan/20=100)



Brazil - Economic Confidence Index (Jan/20 = 100)

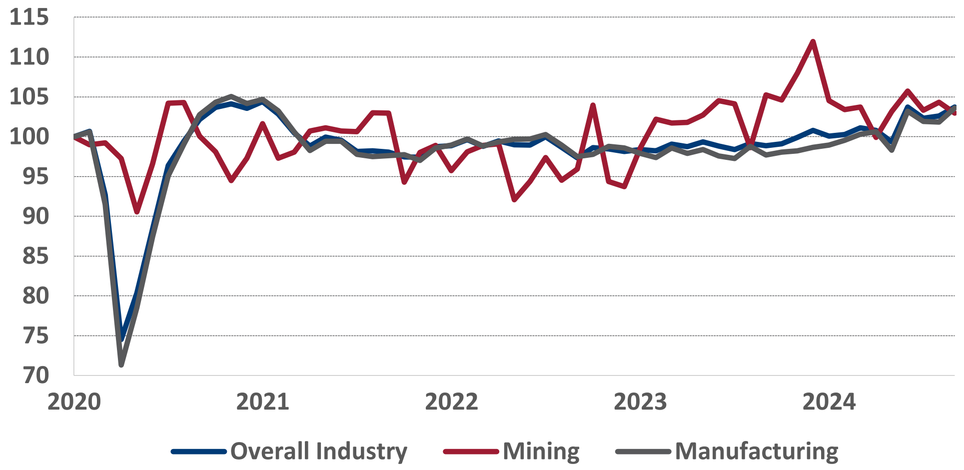


Source: BOCOM BBM, IBGE, FGV

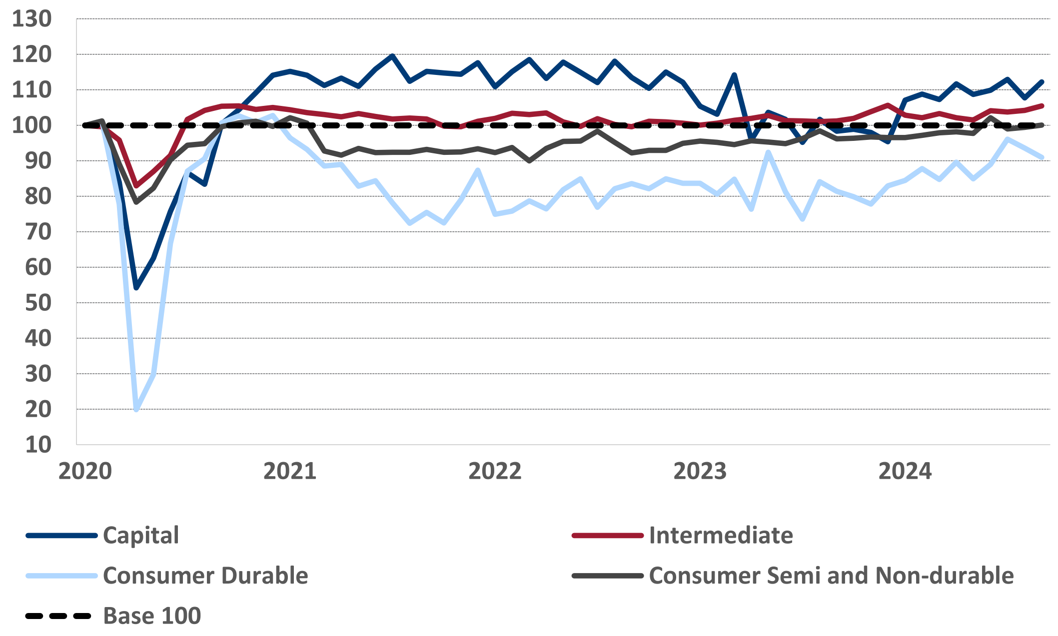
Brazil: Industrial Production

- 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 due to 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.

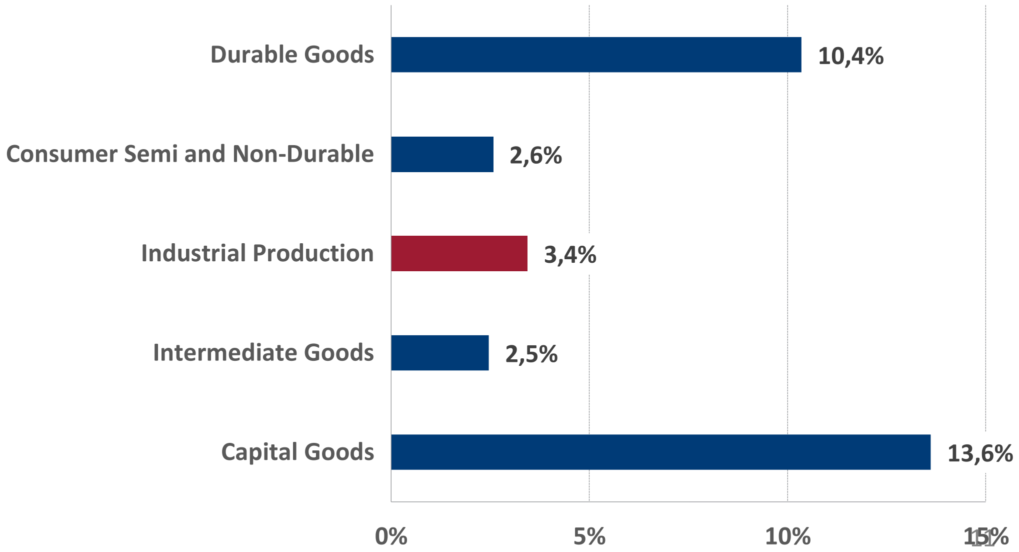
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



Industrial Production by Category - 09/2024 (YoY)

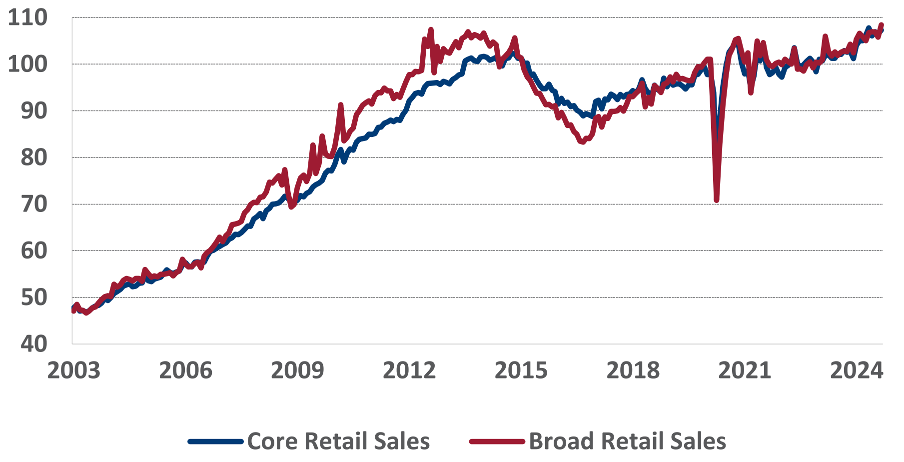


Source: IBGE, BOCOM BBM

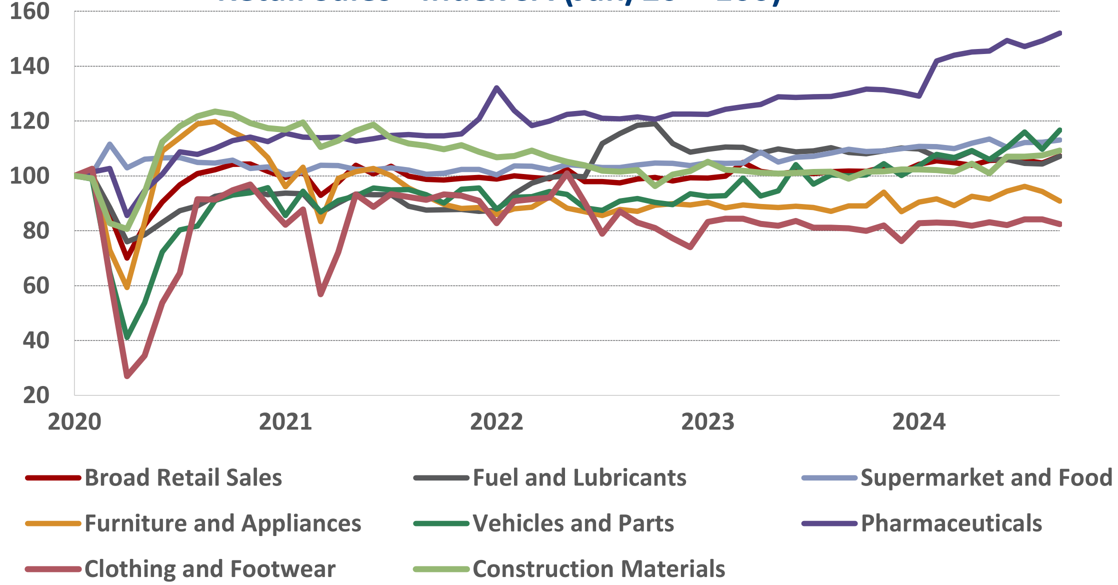
Brazil: Retail Sales

- Broad retail sales increased by 1.8% MoM in September, below market expectations (2.3% MoM);
- In the third quarter, broad retail sales grew by 1.0% QoQ, the eighth gain in a row, with six out of the ten activities recording positive figures;
- The highlight was the 'vehicles, motorcycles, and auto parts' category, that climbed 4.2% QoQ, on the heels of rising credit concessions. Furthermore, building materials resumed growth after two poor readings (3.2% QoQ);
- Core retail sales expanded by 0.5% MoM in September, below estimates (1.4% MoM), and recorded a 0.3% QoQ gain in the third quarter. In the breakdown, four out of the eight core retail activities grew in a monthly comparison, with a weaker than expected result from furniture and household appliances (-2.9%).

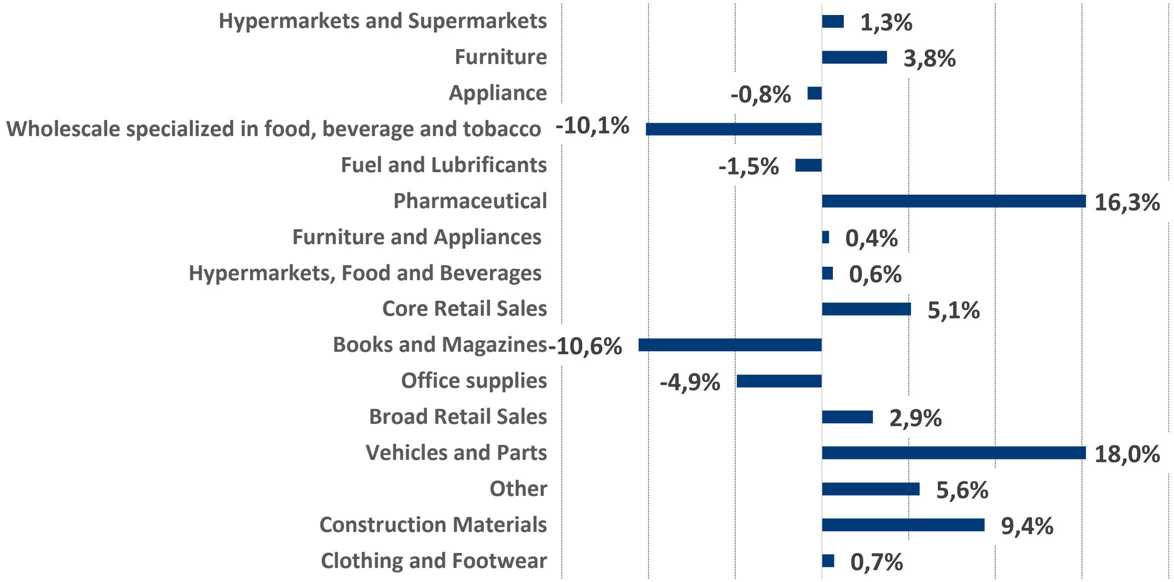
Broad Retail Sales SA x Core Retail Sales SA



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



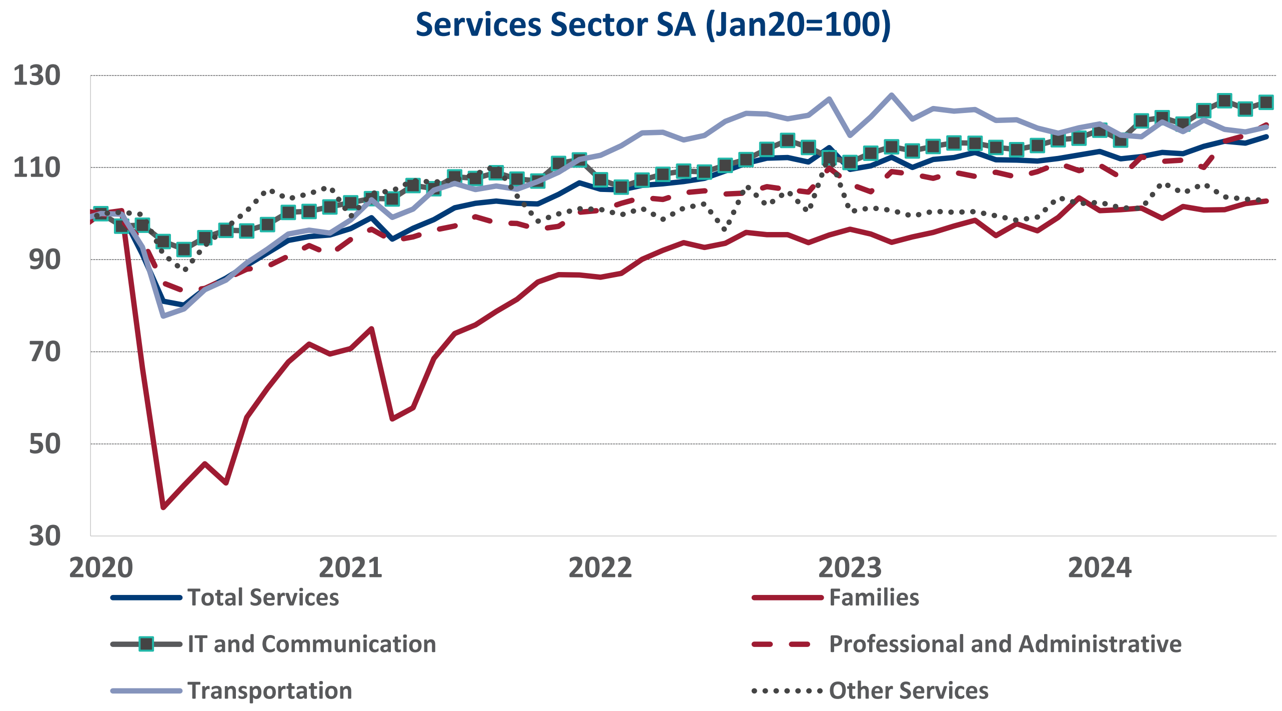
Retail Sales - YoY (09/2024)

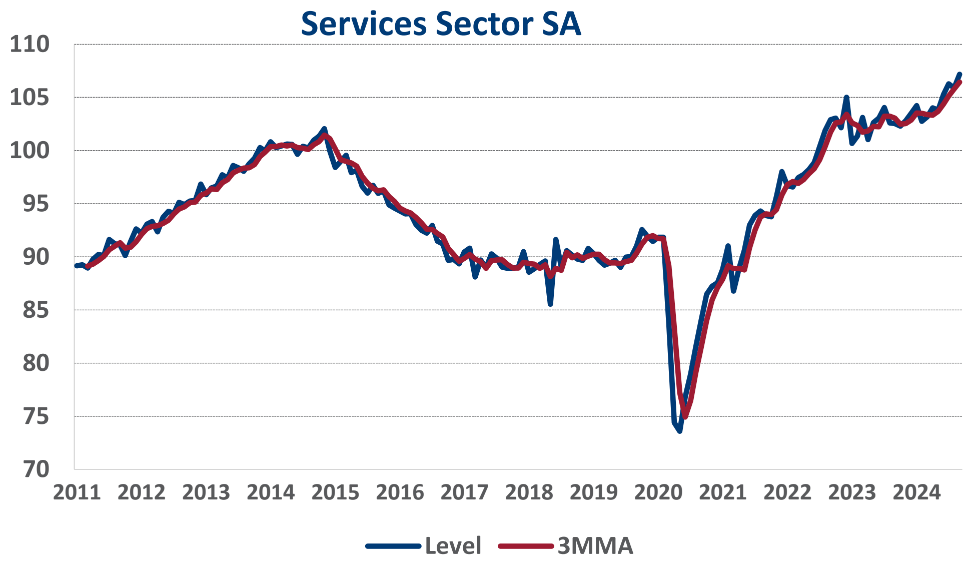


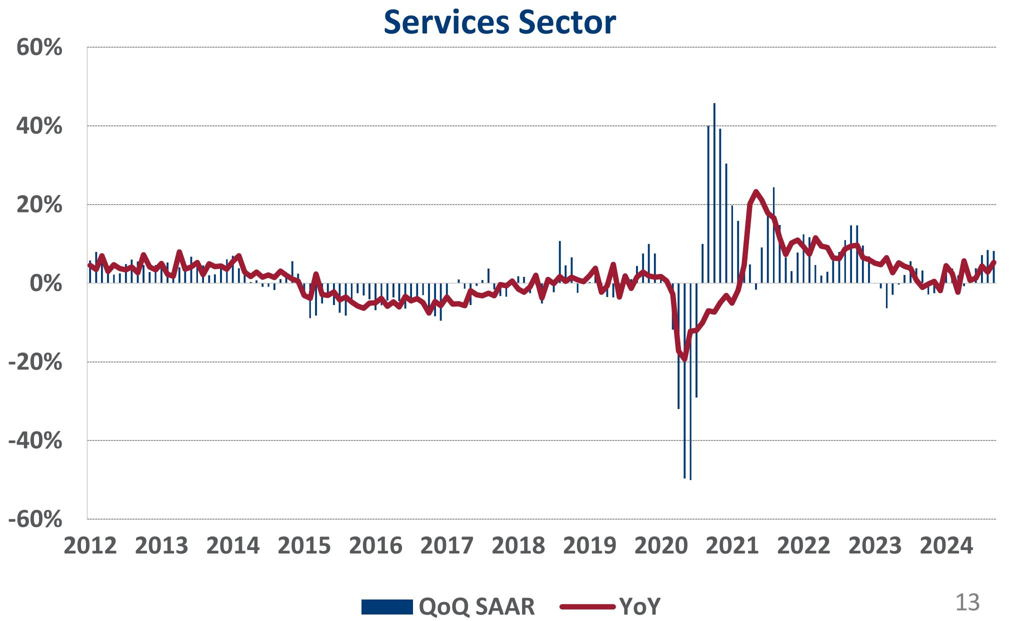
Source: IBGE, BOCOM BBM

Brazil: Services

- The services sector increased by 1.0% MoM in September, above expectations (0.7% MoM), after a revision to the data series in the previous reading;
- In the third quarter, the service sector grew 1.3% QoQ, the sixth gain in a row, with four of the five major service categories recording positive figures.
- The highlights were communication & information services (2.7% QoQ), and services rendered to families (2.4% QoQ), reflecting a solid household demand. Following the growth trend, professional, administrative and complementary services also advanced in 3Q (1.2% QoQ), with mixed signals across its components;
- On the other hand, transportation services fell by 0.9% QoQ in 3Q, mainly due to lower revenues from road freight transport.



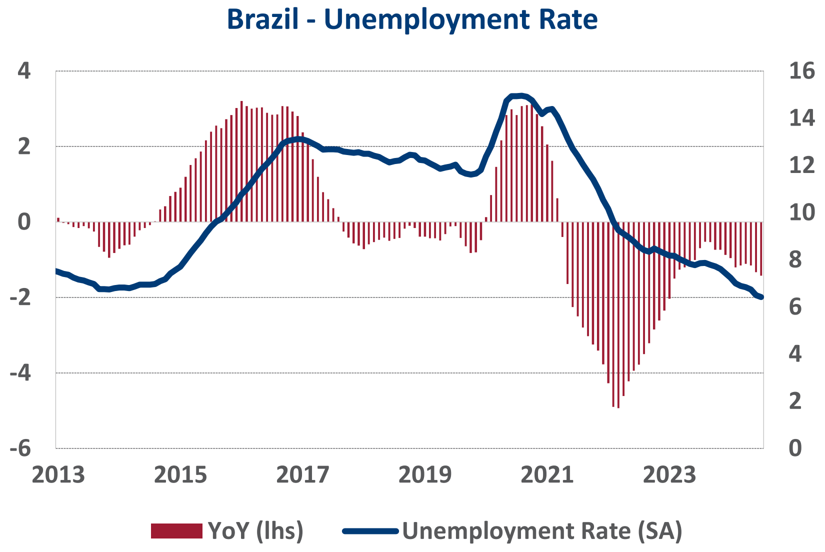


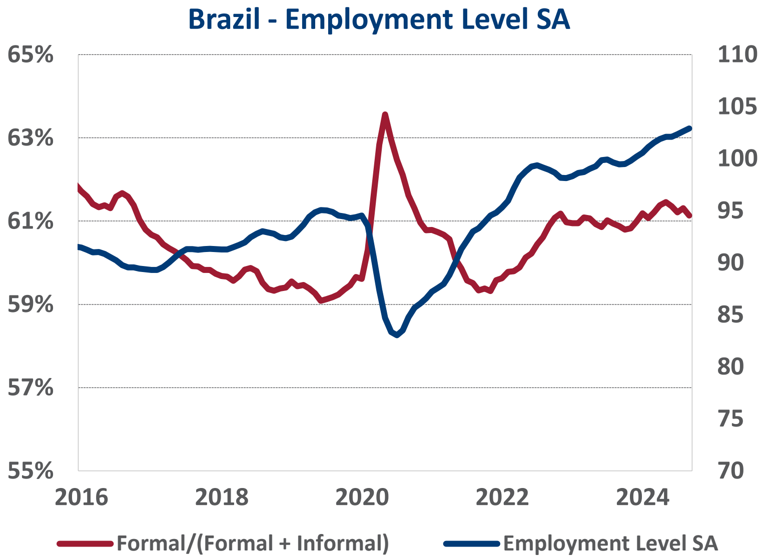


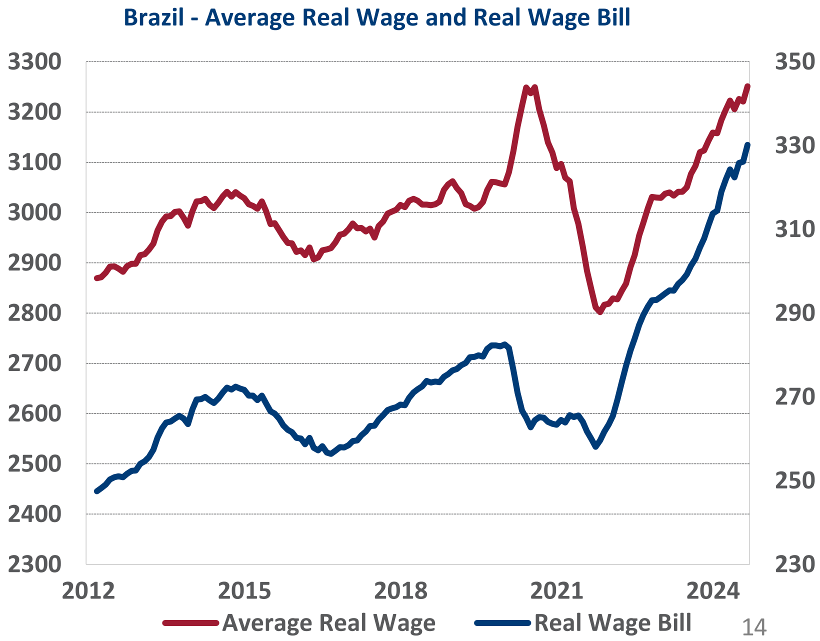
Source: IBGE, BOCOM BBM

Brazil: PNAD

- The unemployment rate decreased to 6.2% in the moving quarter up to October, from 6.4% on the previous period;
- Seasonally adjusted, the indicator dropped to 6.4% in October from 6.5% in September in the seasonally adjusted rate, the lowest level of the data series that began in 2012;
- Total employment (0.2% MoM) and labor force (0.2% MoM) both increased;
- The labor force participation rate increased slightly to 62.4% in October from 62.3% in September, still running considerably below pre-pandemic levels (around 63.5%);
- Real labor earnings increased 0.55% MoM, remaining at high levels;
- Real aggregated labor income increased 0.75% MoM and 7.7% YoY in October .







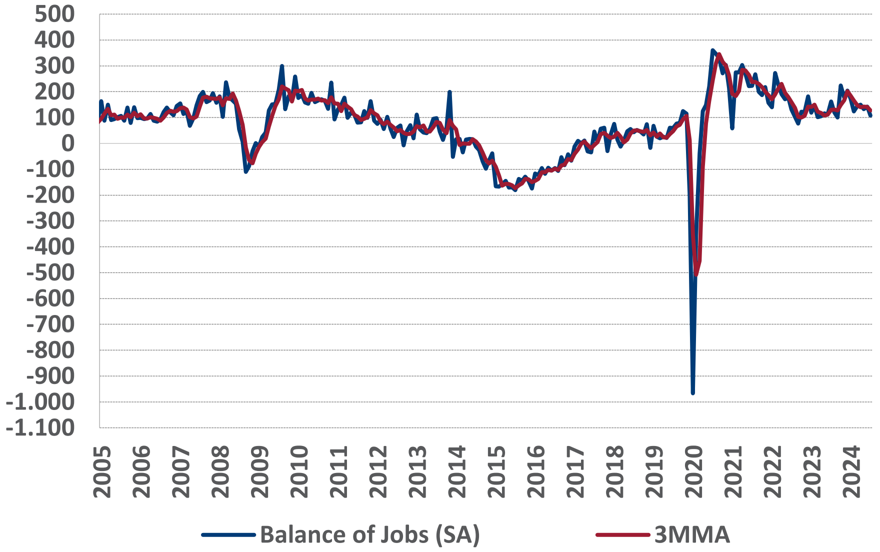
Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

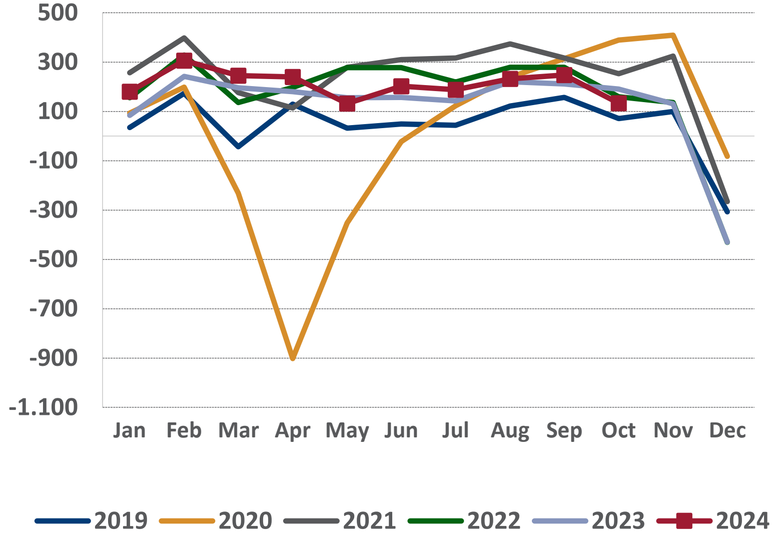
BANK OF COMMUNICATIONS BBM

- Caged registered a net creation of 132.7 k formal jobs in October, far below market expectations (192.5 k);
- The net addition of jobs totaled about 2.1 million from January to October 2024, considerably above the same period of 2023 (1.8 million);
- The data continues to show strong numbers in formal job hiring, which grew 1.9% compared to September;
- In sum, the formal labor market continues to present strong numbers and support household consumption, but at a more moderate pace, in line with the expected scenario of soft landing in domestic activity by 2025.

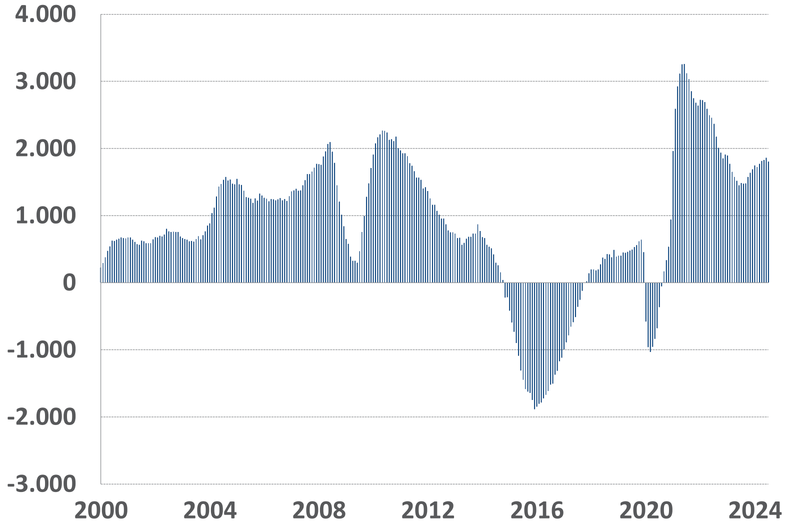
CAGED - Balance of Jobs (SA, Thousand)



CAGED - Balance of Jobs (Thousand)



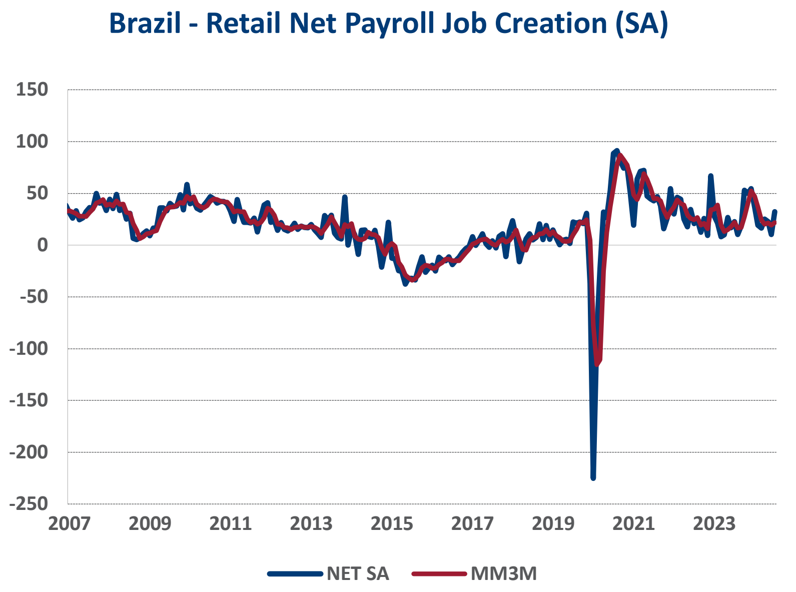
CAGED – Balance of Jobs 12 Months Acc. (Thousands)

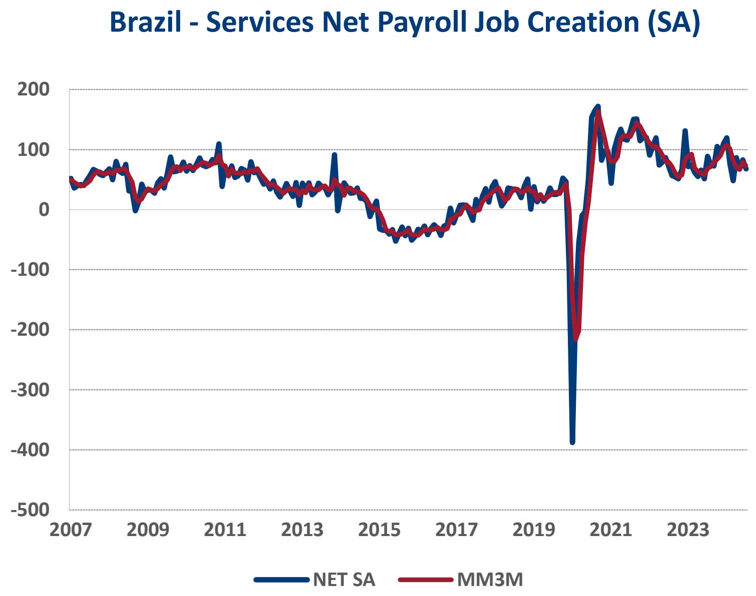


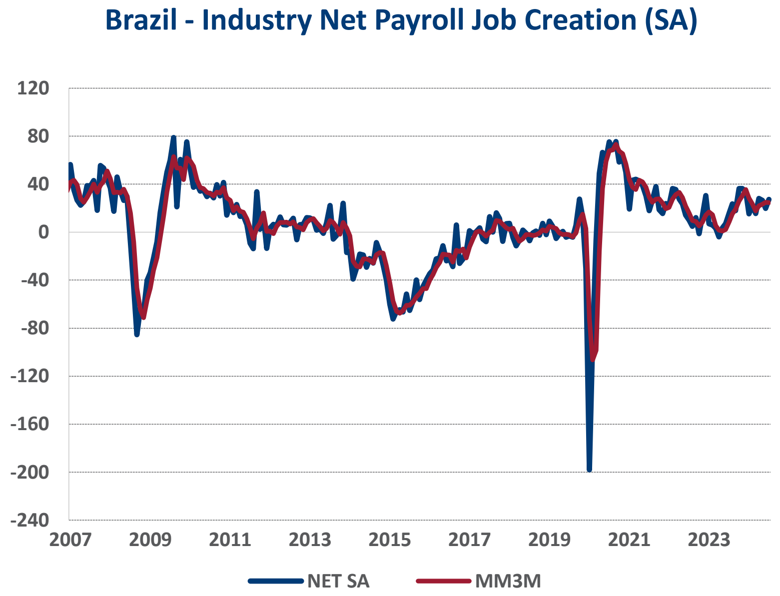
Source: BOCOM BBM, MTE

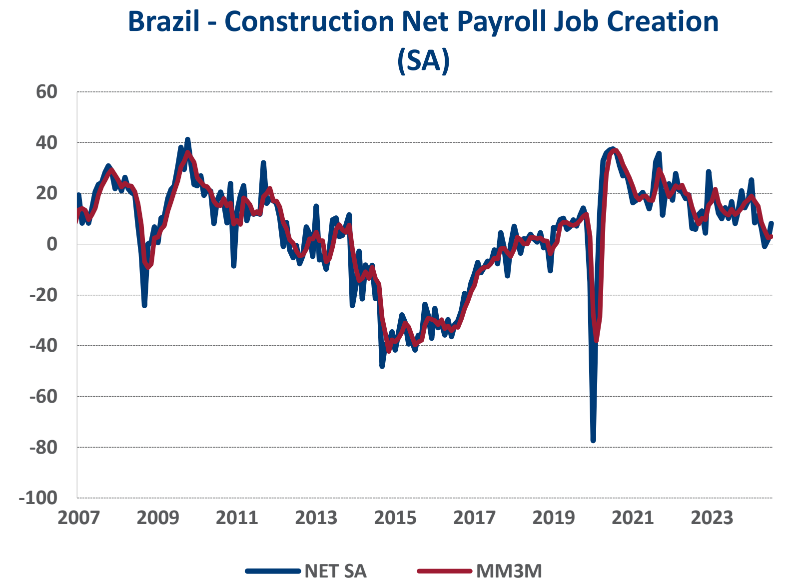
Brazil: Formal Labor Market

- The breakdown shows that all major sectors registered positive net results;
- The biggest contribution came once again from the services sector with a net creation of 67.6k formal jobs;
- Retail Sales was the second best, creating around 32.3k formal jobs, which presents an acceleration from September;
- Industry, in turn, registered 27.3k formal jobs;
- Finally, the construction sector created about 8.1k formal jobs.









Source: BOCOM BBM, MTE

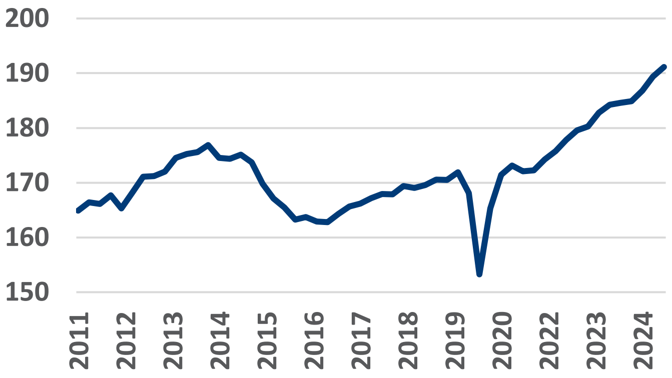
Brazil: Q3 GDP

交通銀行 BANK OF COMMUNICATIONS BBM

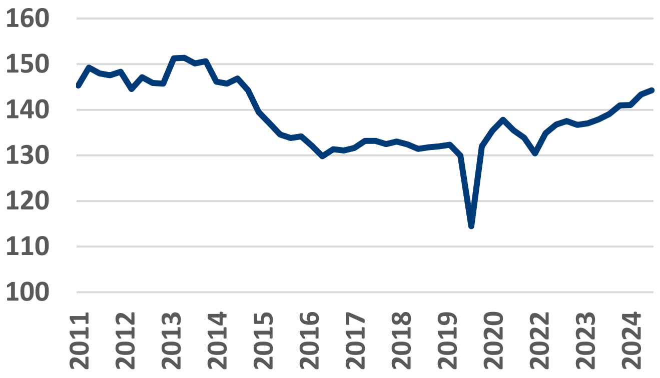
- Brazil’s GDP expanded by 0.9% QoQ in 3Q24 (4.0% YoY), slightly above our forecast;
- This result represent a gradual slowdown compared to the growth of 1.4% QoQ in the previous quarter;
- Once again, the services activity was the highlight by rising 0.9% QoQ, with positive signs in all its components (big surprises coming from other services and financial services);
- In turn, the industry and the agriculture sector came in below expectations.

	Official	Forecast	Official	Forecast		
	Q3 QoQ	Q3 QoQ	Q3 YoY	Q3 YoY	2024	Carry over
GDP	**0.9%**	**0.7%**	**4.0%**	**3.9%**	**3.5%**	**3.0%**
Agriculture	**-0.9%**	**-0.8%**	**-0.8%**	**-0.5%**	**-3.1%**	**-0.9%**
Industry	**0.6%**	**1.7%**	**3.6%**	**4.6%**	**3.2%**	**3.2%**
Mining	-0.3%	2.6%	-1.0%	2.1%	0.7%	0.6%
Manufacturing	1.3%	1.3%	4.2%	4.5%	3.6%	3.5%
Electricity	-1.4%	2.0%	3.7%	7.4%	4.7%	4.2%
Civil Construction	-1.7%	-0.9%	5.7%	5.7%	3.5%	3.4%
Services	**0.9%**	**0.4%**	**4.1%**	**3.7%**	**3.9%**	**3.7%**
Retail	0.8%	1.2%	3.9%	4.9%	3.8%	3.5%
Transports	0.6%	0.3%	2.5%	1.3%	1.9%	1.8%
Information and Communication	2.1%	2.7%	7.8%	8.6%	6.5%	6.4%
Financial Services	1.5%	0.7%	5.1%	3.4%	4.6%	4.4%
Rents	1.0%	0.8%	3.1%	2.9%	3.5%	3.5%
Other Services	1.7%	0.5%	6.4%	4.5%	5.7%	5.4%
Public Administration	0.5%	0.4%	1.7%	2.0%	1.7%	1.5%
Demand Side						
Household Consumption	1.5%		5.5%		4.1%	5.2%
Government Consumption	0.8%		1.3%		2.3%	1.7%
Gross Fixed Capital Formation	2.1%		10.8%		2.1%	7.1%
Exports	-0.6%		2.1%		9.7%	2.8%
Imports	1.0%		17.7%		4.4%	13.3%

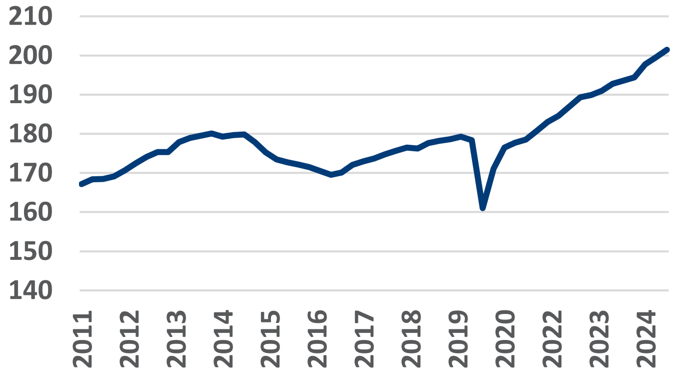
GDP Level



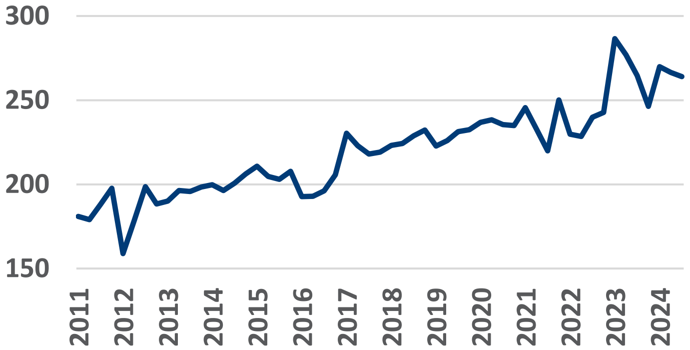
Industry



Services



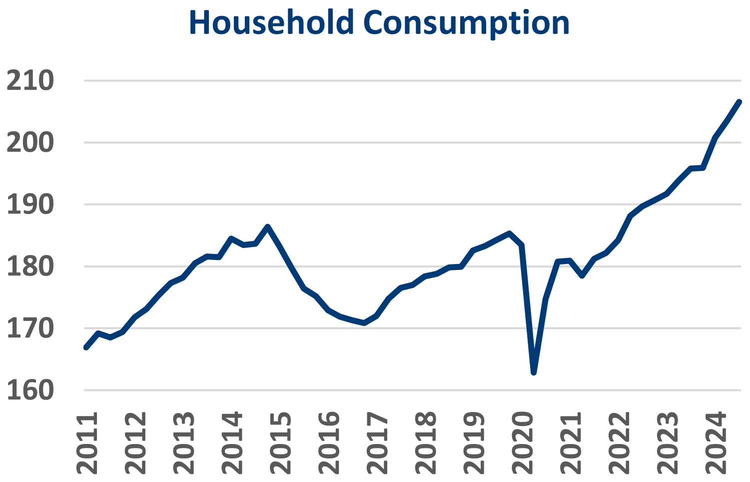
Agriculture & Livestock

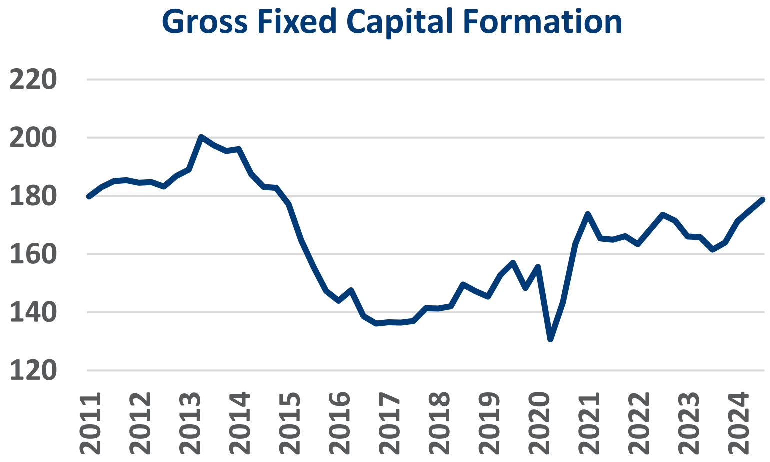


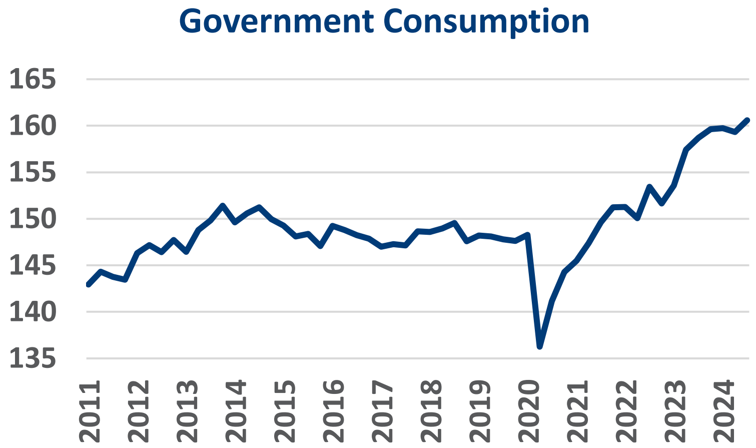
Source: BOCOM BBM, IBGE

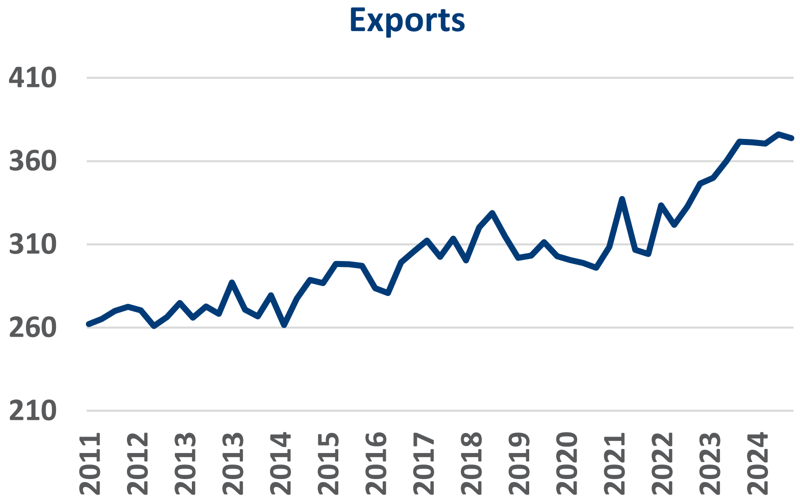
Brazil: Q3 GDP

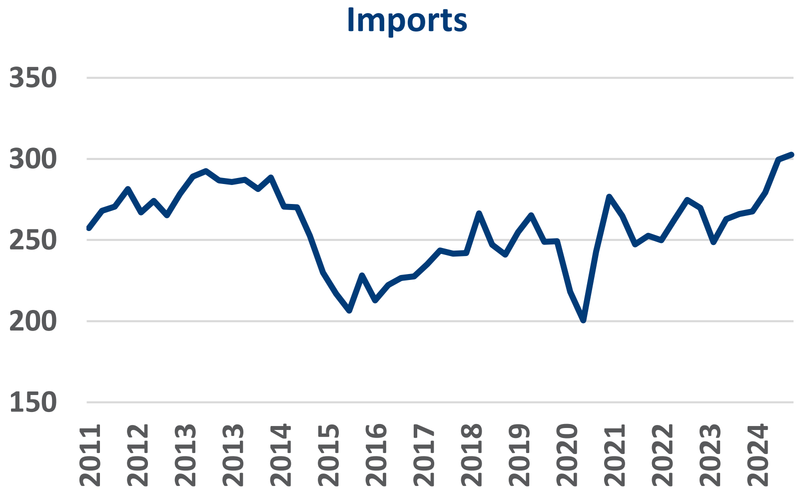
- On the demand side stand out the resilience of household consumption (1.5% QoQ; 5.5% YoY) - supported by a resilient labor market and rising income, as well as a positive credit environment - and the continued recovery of the gross fixed capital formation (2.1% QoQ; 10.8% YoY)
- In turn, the external sector's contribution was negative due to the firm expansion in imports and the decline in exports.









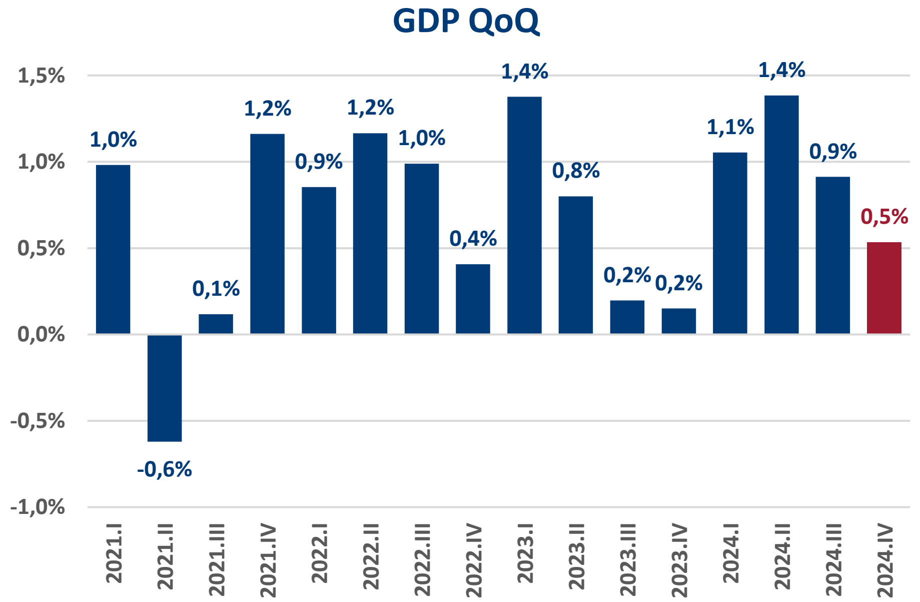


Source: BOCOM BBM, IBGE

Brazil: GDP Forecast

- After the Q3 GDP data, we increased our forecast for 2024 growth from 3.3% to 3.5%;
- The slowdown in economic activity has been smoother than expected, but it is in line with a lower public stimulus over the H2 and in 2025;
- For 2025 we forecast 2.3% due to the tightening of financial conditions that must adds up to lower fiscal impulse.

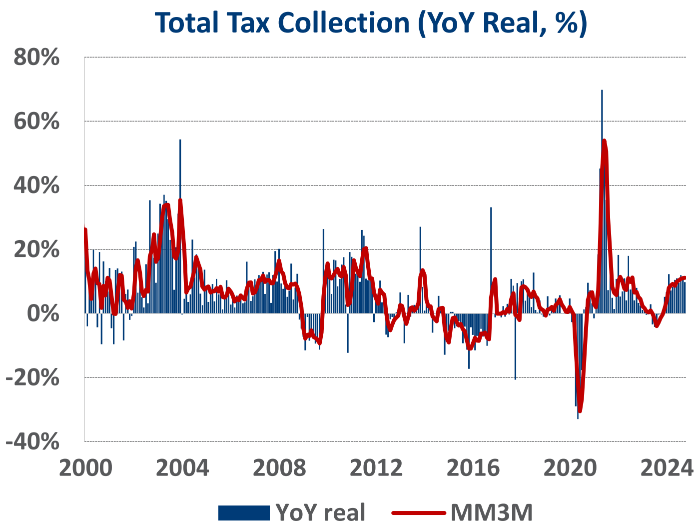
Forecasts					
	2024.IV QoQ	2024.IV YoY	2024	2025	2026
GDP	0.5%	4.2%	3.5%	2.3%	2.0%
Agriculture	**-1.7%**	**-0.5%**	**-3.1%**	**6.0%**	**3.6%**
Industry	**0.1%**	**2.3%**	**3.2%**	**0.9%**	**2.0%**
Mining	1.1%	-3.0%	0.7%	5.2%	6.2%
Manufacturing	0.4%	4.8%	3.6%	-0.3%	1.1%
Electricity	3.2%	0.8%	4.7%	2.6%	2.0%
Civil Construction	-0.1%	2.0%	3.5%	-0.2%	1.0%
Services	**0.7%**	**4.2%**	**3.9%**	**2.4%**	**1.8%**
Retail	0.2%	4.7%	3.8%	1.5%	1.3%
Transports	0.3%	3.8%	1.9%	2.8%	1.6%
Information and Communication	0.5%	7.4%	6.5%	3.8%	2.8%
Financial Services	1.5%	5.5%	4.6%	5.6%	2.7%
Rents	0.6%	3.1%	3.5%	2.8%	2.9%
Other Services	1.0%	6.0%	5.7%	2.4%	1.4%
Public Administration	-0.3%	1.3%	1.7%	1.0%	1.4%

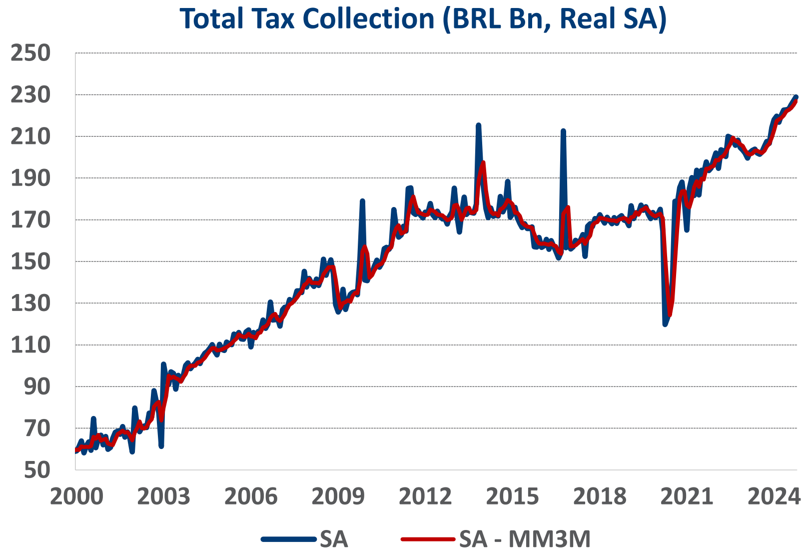


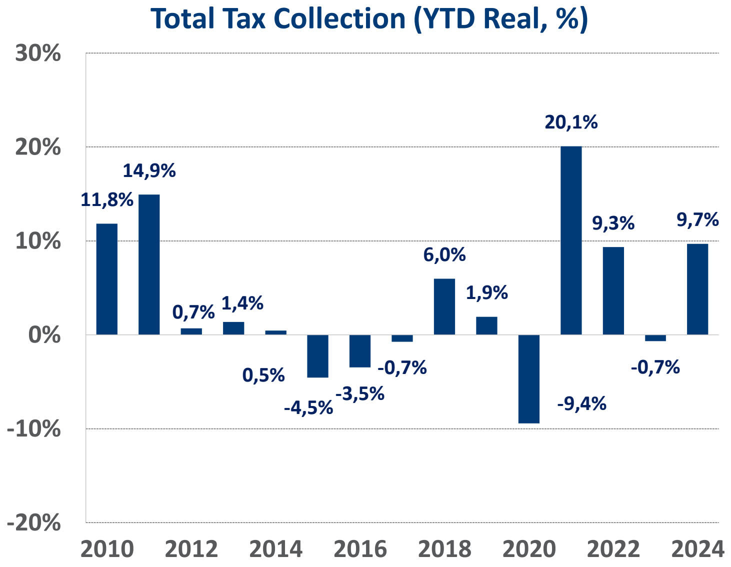
Source: BOCOM BBM, IBGE

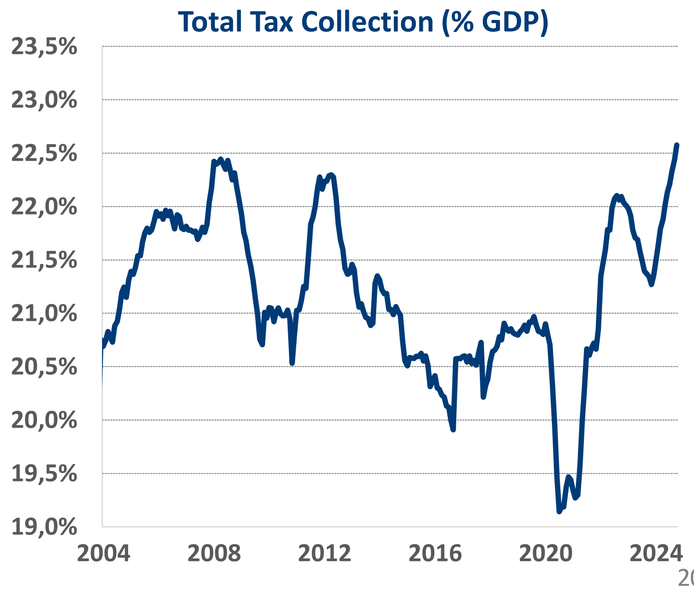
Brazil: Federal Tax Collections

- In October, total federal tax collections reached BRL 247.9 bn (9.8% YoY), above the consensus of BRL 243.5 bn, representing the best performance for the month in the historical record;
- The highlights in October were PIS/Confins (20.3%), which grew again due to the strong performance of retail sales and services in September and revenue-raising measures, import tax (64.3% YoY), due to exchange rate depreciation and an increase in the import volume, and social security contribution (6.3%), which reflects the strong labor market;
- Additionally, the corporate taxes (IRPJ/CSLL) once again showed growth (4.3%), although it slowed down at the margin;
- Overall, stronger economic activity, a heated labor market, higher inflation and a depreciated exchange rate were fundamental vectors in explaining the rise in tax collections throughout the year;
- Year-to-date growth reached 9.7%, supporting the positive trend in tax collections. Nonetheless, the fiscal scenario is still challenging given the increase in expenditure that is taking place.









Source: BOCOM BBM, RFB

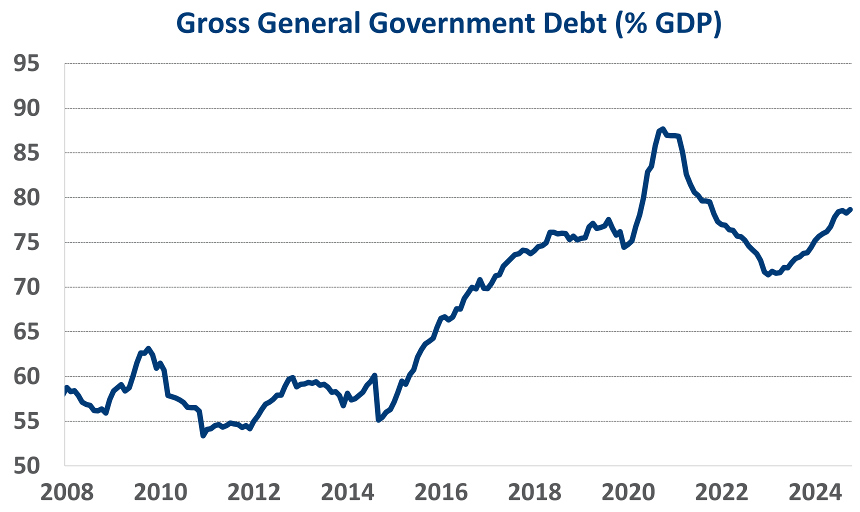
Brazil: Consolidated Public Sector Budget

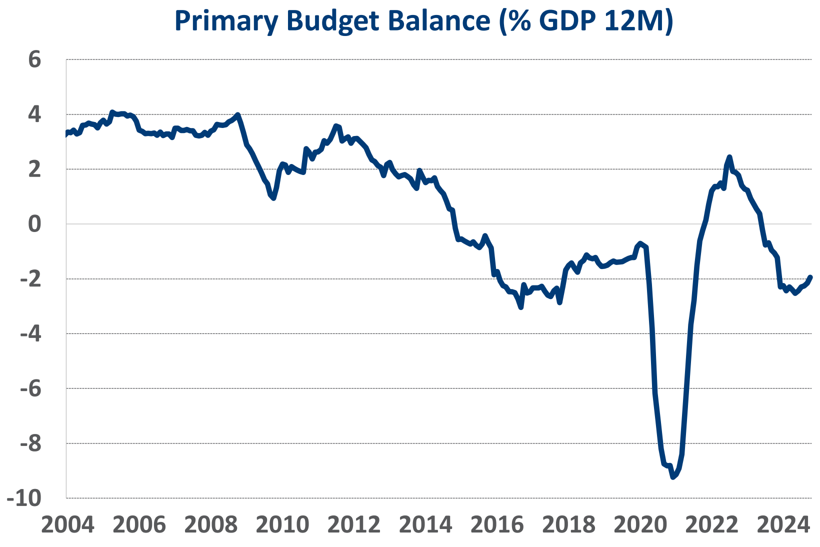
BANK OF COMMUNICATIONS BBM

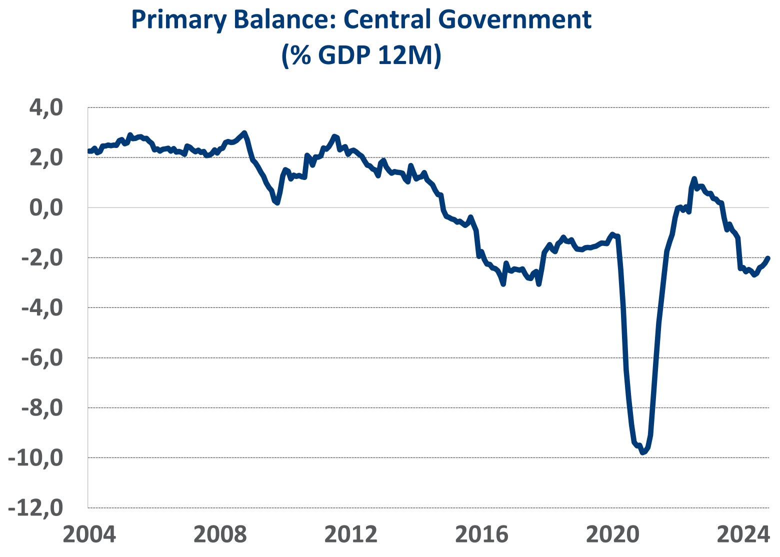
- The consolidated public sector recorded a primary surplus of BRL 36.9 billion in October, from a deficit of BRL 7.34 bn in September, below the market consensus (BRL 40.1 billion). Central Government registered a surplus of BRL 39.2 bn, while subnational governments and state-owned enterprises registered deficits of BRL 1.9 bn and BRL 0.4 bn, respectively;

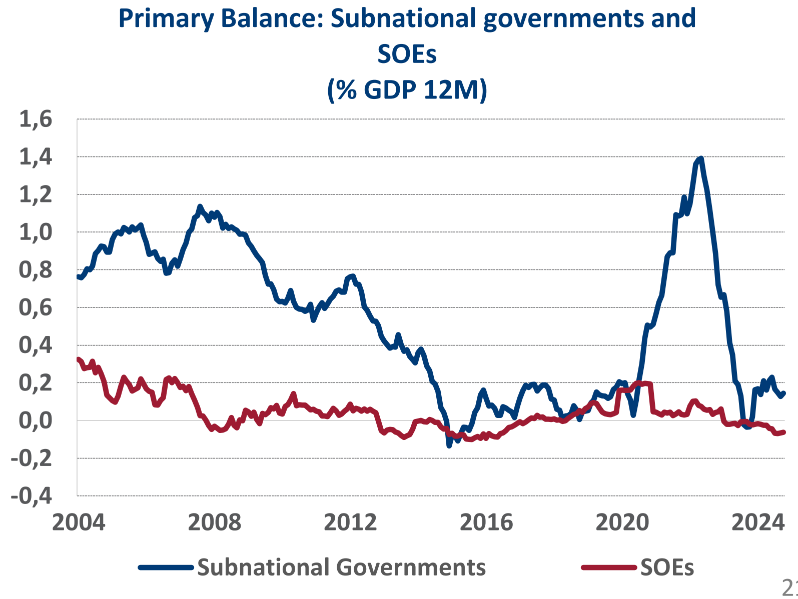
- Gross General Government Debt increased from 78.3% of GDP in September to 78.6% of GDP in October, driven by nominal interest (+0.7p.p.) and exchange rate depreciation (+0.3 p.p.), while net issuances (-0.1 p.p.) and nominal GDP growth (-0.5 p.p.) partially offset the rise;

- On November 28th, after a long debate, the awaited fiscal package was finally announced by the government. However, most of the measures proposed have only short-term effects and do not change the expenditure trend in the long term.







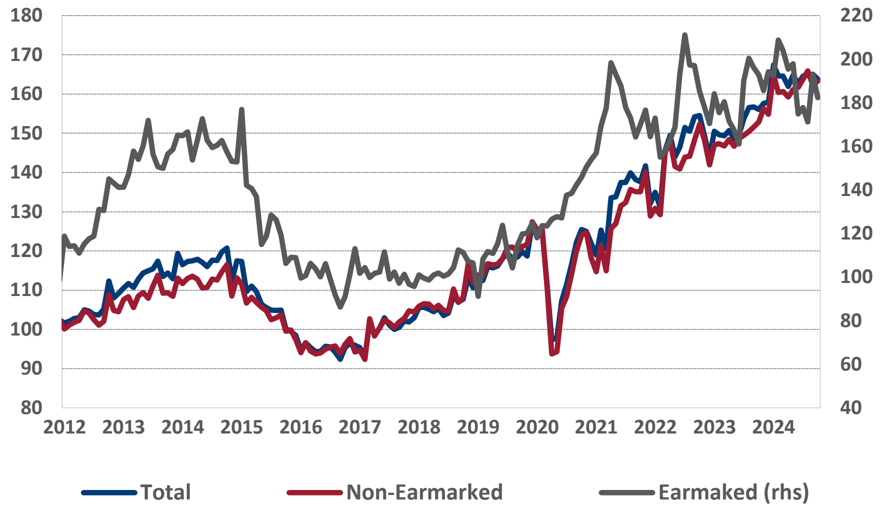


Source: BOCOM BBM, BCB

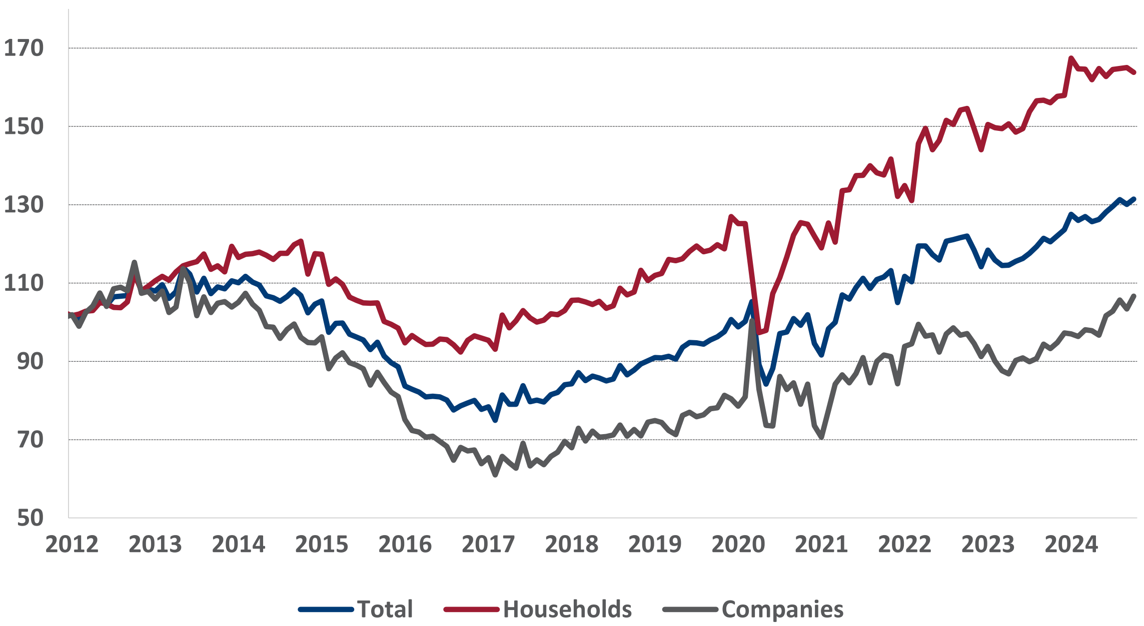
Brazil: Credit Statistics

- In October, total credit concessions increased 1.0% MoM in real terms, resuming growth after weaker statistics in September;
- Non-earmarked credit concessions increased 0.3% to companies and increased 0.7% MoM to households;
- Earmarked credit concessions, in turn, grew 34.1% MoM to companies and fell 5.54% MoM to households;

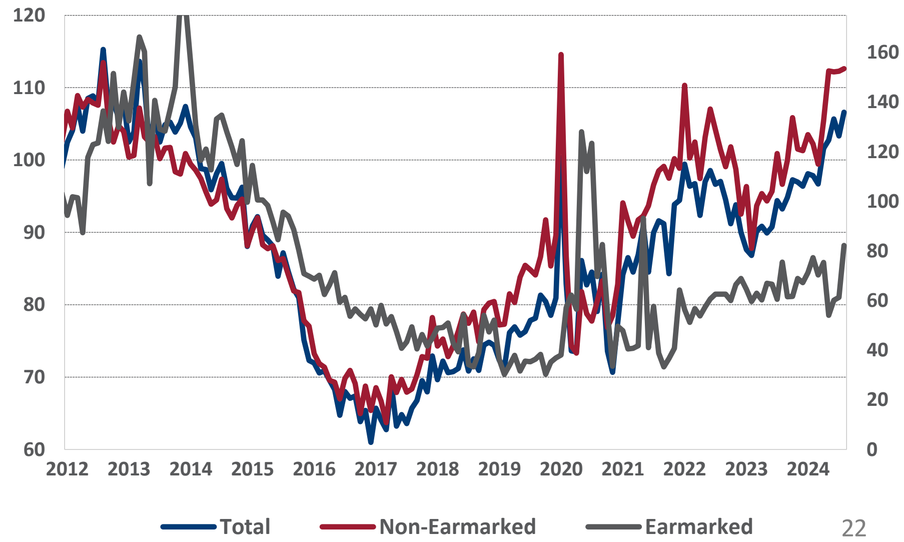
Concessions - Households SA (Real) - Mar/11 = 100



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



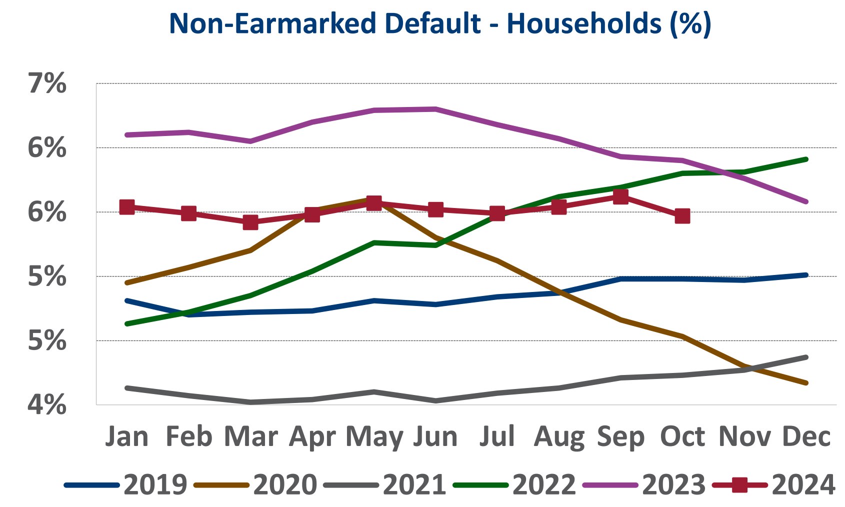
Concessions - Companies SA (Real) - mar/11 = 100

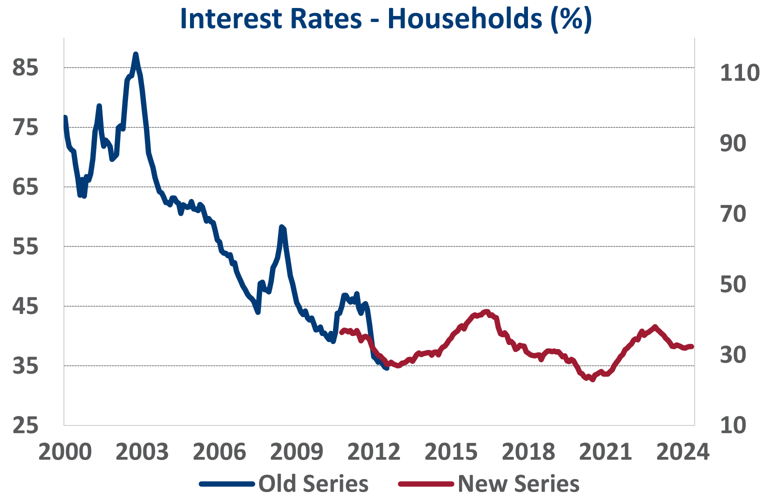


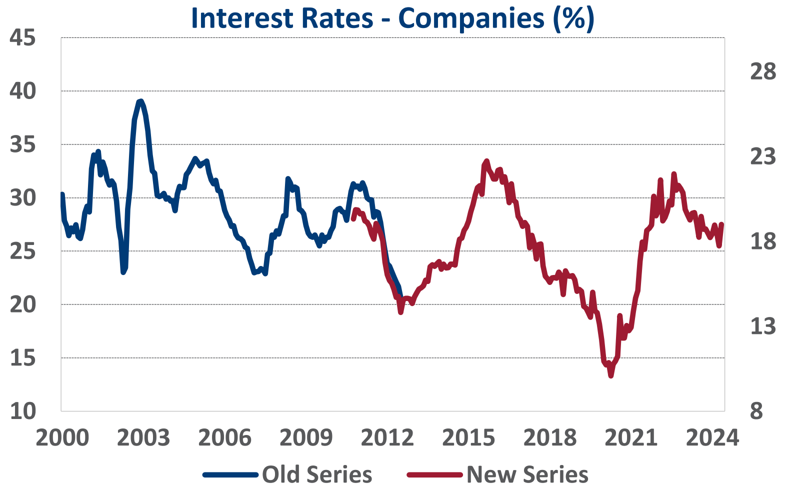
Source: BOCOM BBM, BCB

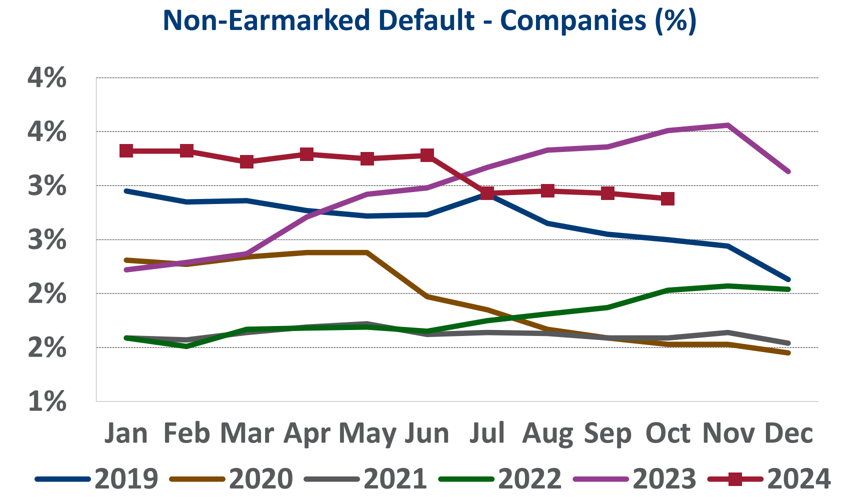
Brazil: Credit Statistics

- Lending rates remained relatively stable in 32.4% for individuals and increased from 17.7% to 19.0% for companies;
- In turn, non-earmarked default rate is around 5.5% to individuals and 2.9% to companies (remaining relatively stable).







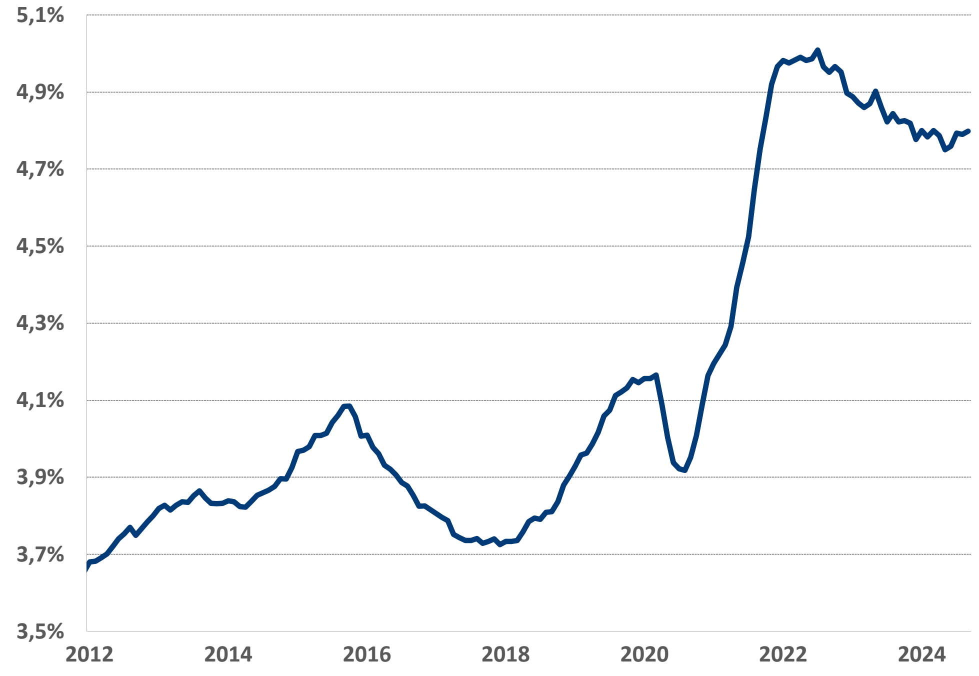


Source: BOCOM BBM, BCB

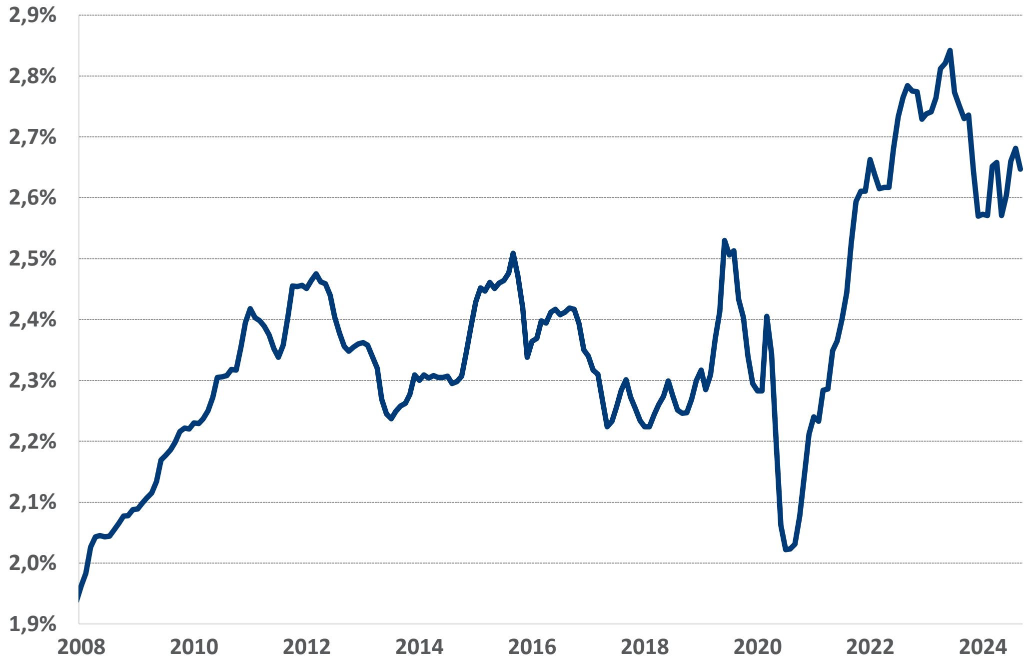
Brazil: Credit Statistics

- The ratio of household indebtedness increased slightly reaching 48.0% in September (30.0% excluding mortgage debt), the highest since November 2023;
- Income commitment decreased from 26.8% to 26.5%;

Indebtedness (12M)



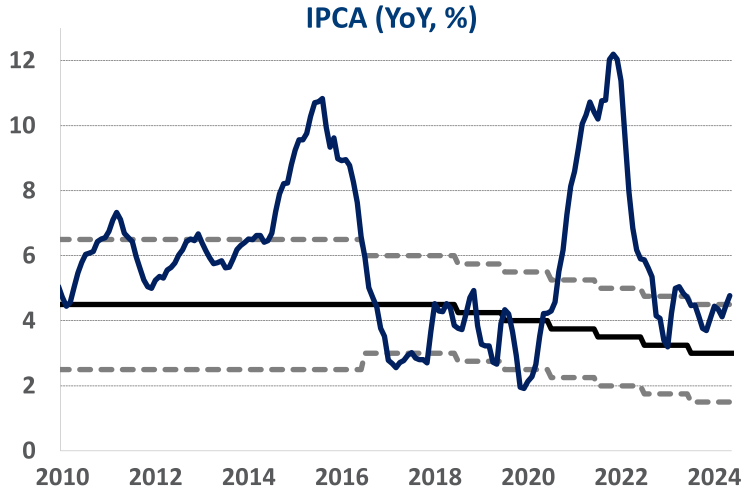
Income Commitment - Debt Service (SA)

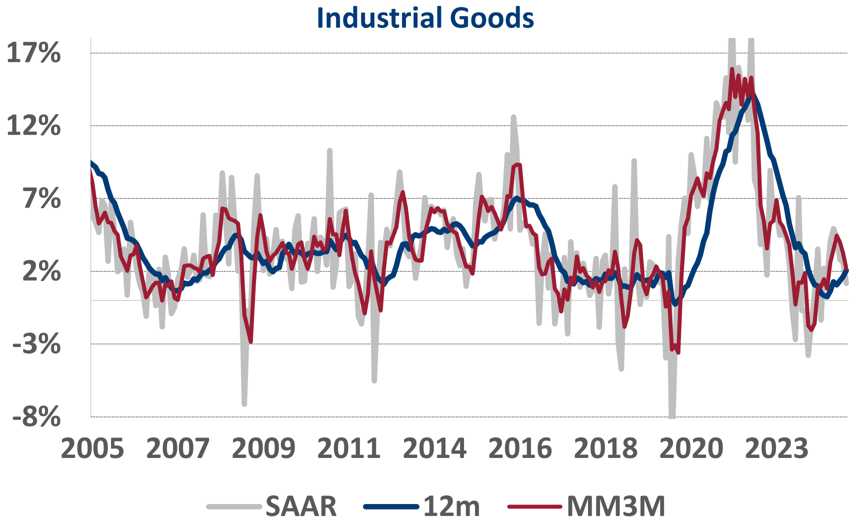


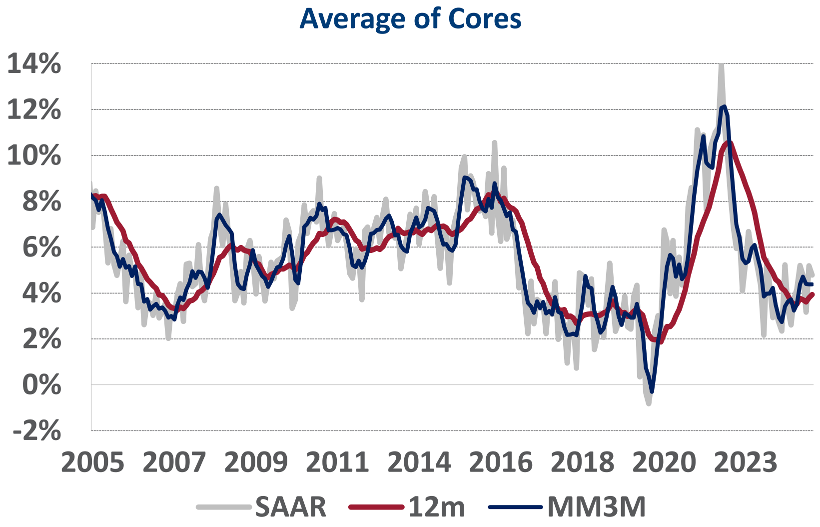
Source: BOCOM BBM, BCB

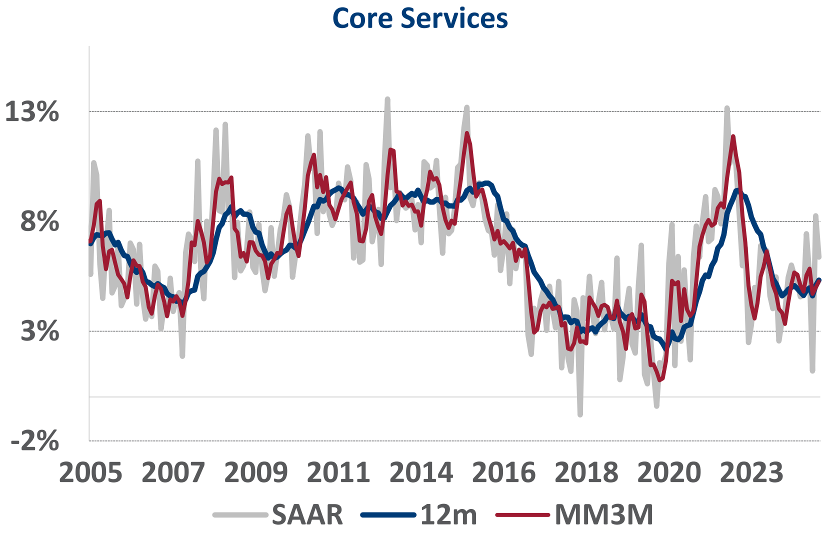
Brazil: Inflation 2024

- November IPCA-15 rose by 0.62% MoM, above expectations of 0.50% MoM;
- The 12-month variation advanced to 4.77% in November from 4.47% in October;
- The main upward surprise came from services - driven by a sharp rise in airfares – and food at home. Apart from these surprises, the breakdown was close to expectations;
- The core services advanced 0.45% MoM, in line with expectations. The core services 3M SAAR rose from 4.8% to 5.3%, given tight labor market conditions and the acceleration of 12-month IGP-M inflation. 'Food away from home' was another category pressing the headline upwards, on the heels of the recent spike in food prices. The average of core inflation gauges advanced 0.4% MoM, in line with estimates, with the 3M SAAR staying at 4.4%.





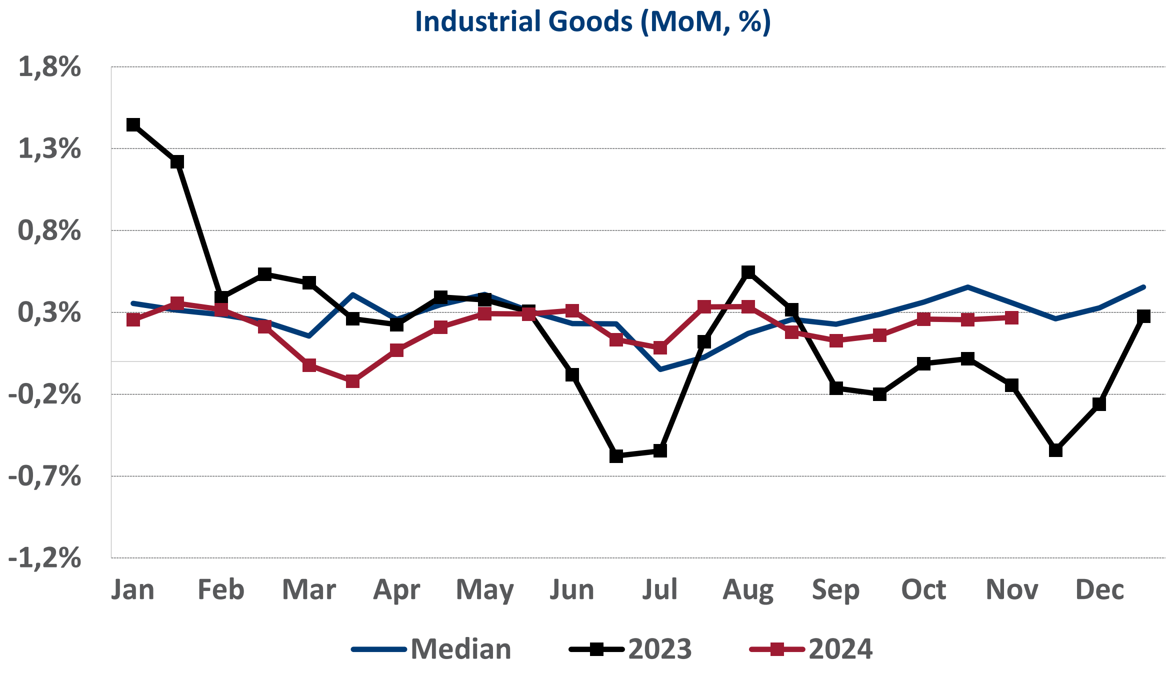


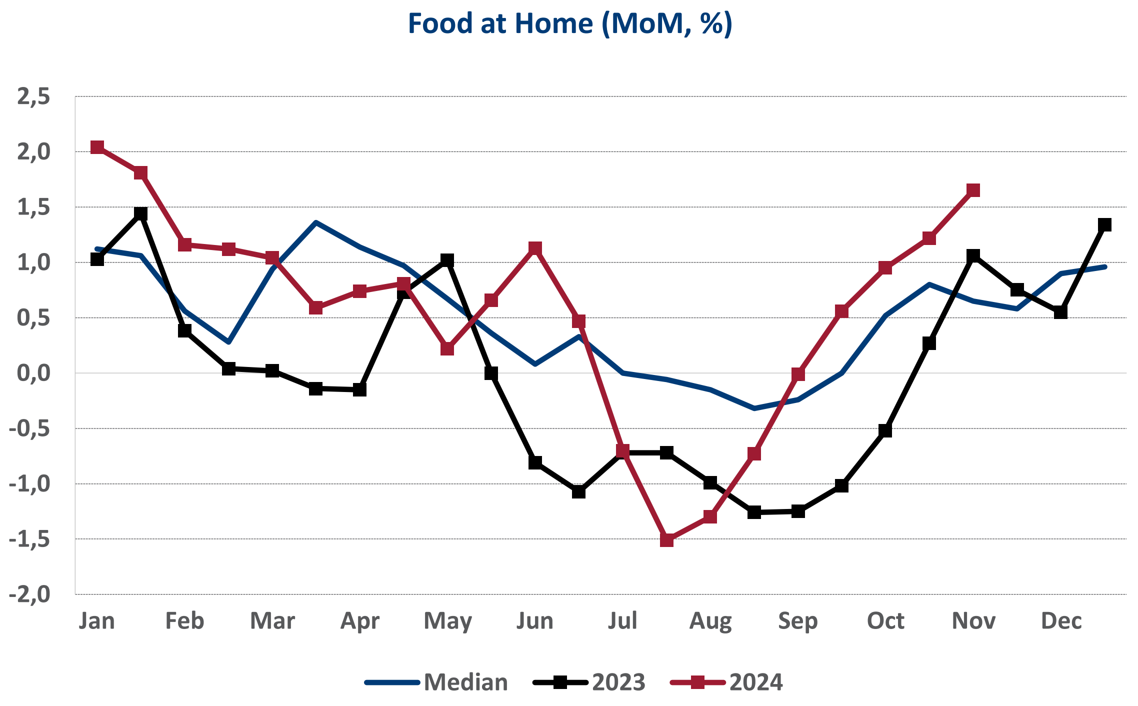


Source: BOCOM BBM, IBGE

Brazil: Inflation 2024

- Foodstuff prices sharply accelerated in November (1.7% MoM), above expectations of 1.5%, driven by the persistent acceleration in meat prices (7.5% MoM), following the spike in live cattle prices, which puts upward pressure on the prices of other proteins, given the substitution effect;
- Industrial goods prices advanced 0.27% MoM, in line with expectations. Inflationary pressures related to passthrough persist and the impact of pre-Black Friday discounts appears limited.





Source: BOCOM BBM, IBGE

Brazil: Inflation

- After November result, we increased our forecast for food inflation and industrials due to proteins and the FX depreciation;
- Consequently, our forecast increased from 4.9% to 5.0% in 2024 and from 4.3% to 4.8% in 2025.

IPCA (%, annual)

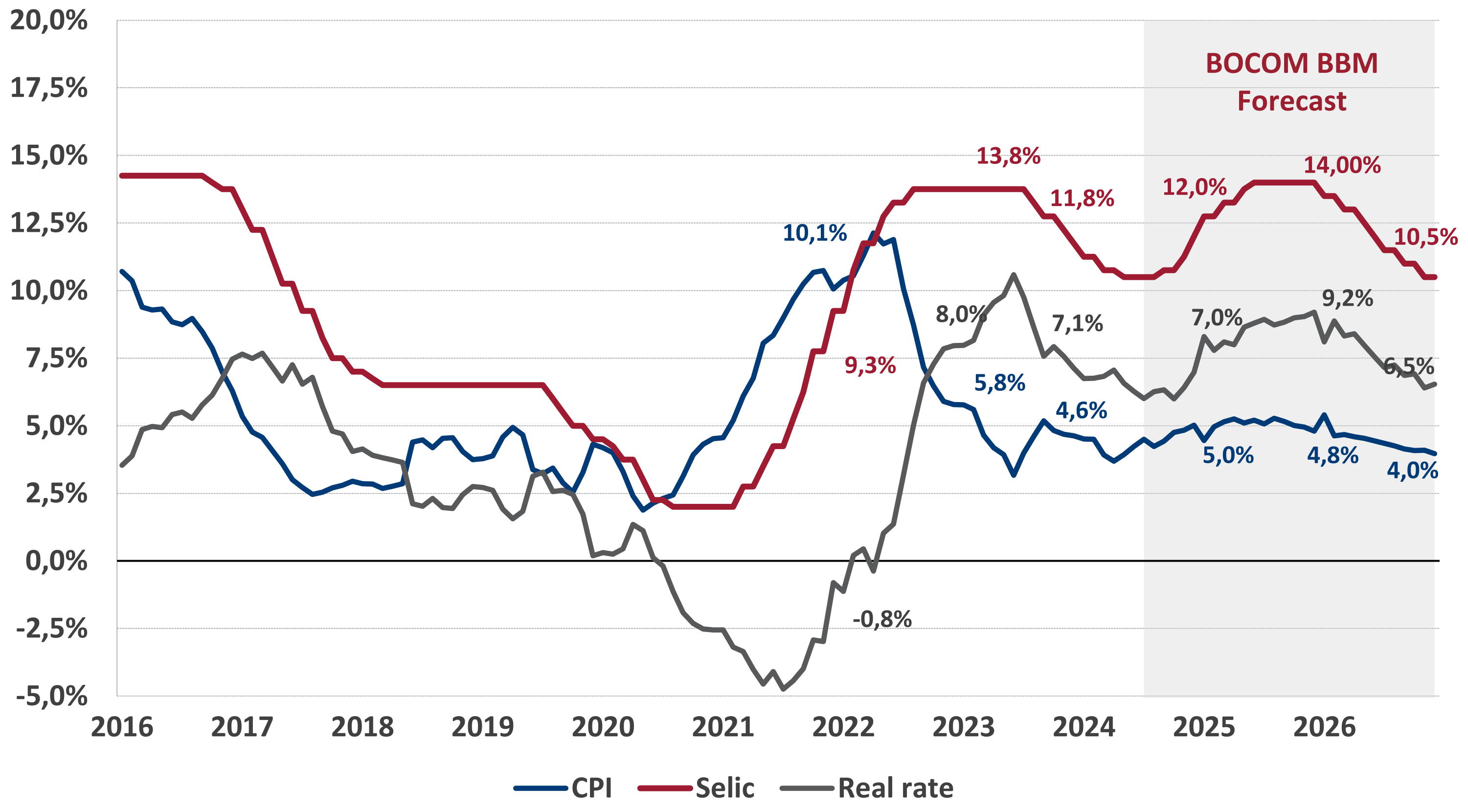
	Weight	2020	2021	2022	2023	2024	2025	2026
Regulated	**26.6**	**2.6**	**16.9**	**-3.8**	**9.1**	**4.6**	**4.0**	**4.0**
Industrial goods	**23.6**	**3.2**	**11.9**	**9.5**	**1.1**	**2.7**	**3.1**	**2.9**
Durable goods	10.3	4.5	12.9	6.1	-0.4	1.6	2.1	-
Semi-durable goods	5.9	-0.1	10.2	15.7	2.7	1.8	3.4	-
Non-durable goods	7.3	4.0	11.9	9.5	1.7	4.9	4.0	-
Food at home	**15.7**	**18.2**	**8.2**	**13.2**	**-0.5**	**9.4**	**7.4**	**4.8**
Services	**34.1**	**1.7**	**4.8**	**7.6**	**6.2**	**4.9**	**5.4**	**4.3**
Food away from home	5.6	4.8	7.2	7.5	5.3	5.6	5.8	4.0
Related to minimum wage	5.2	1.5	3.3	6.3	5.2	4.8	4.8	4.4
Sensitive to economic activity	8.2	0.2	5.1	6.3	9.5	2.5	4.4	4.6
Inertial	15.0	1.6	4.2	8.8	5.1	6.1	6.0	4.2
IPCA		**4.5**	**10.1**	**5.8**	**4.6**	**5.0**	**4.8**	**4.0**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

- Concerning monetary policy, the Brazilian Central Bank (BCB) raised the Selic rate by 50 bps to 11.25% p.a. at its November meeting. The committee increased its inflation forecast to 3.6% in the relevant horizon (2Q 2026) and kept the asymmetry in the balance of risks, with more risks to inflation on the upside. Since then, the outlook has deteriorated, with exchange rates depreciating and inflation expectations moved further away from the target. Given this scenario, a new acceleration in the pace of interest rate hikes is expected for the December meeting and the Selic rates should reach at least 14% in 2025.

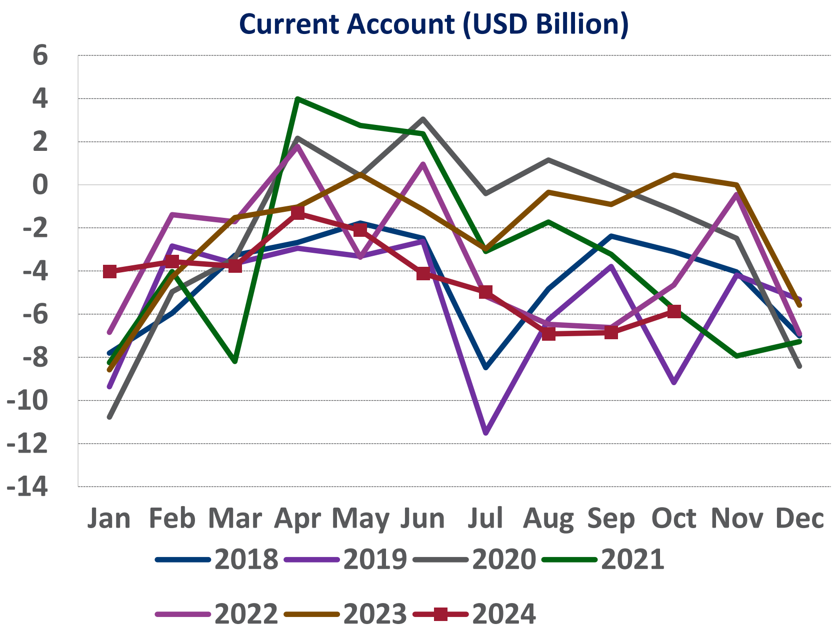
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

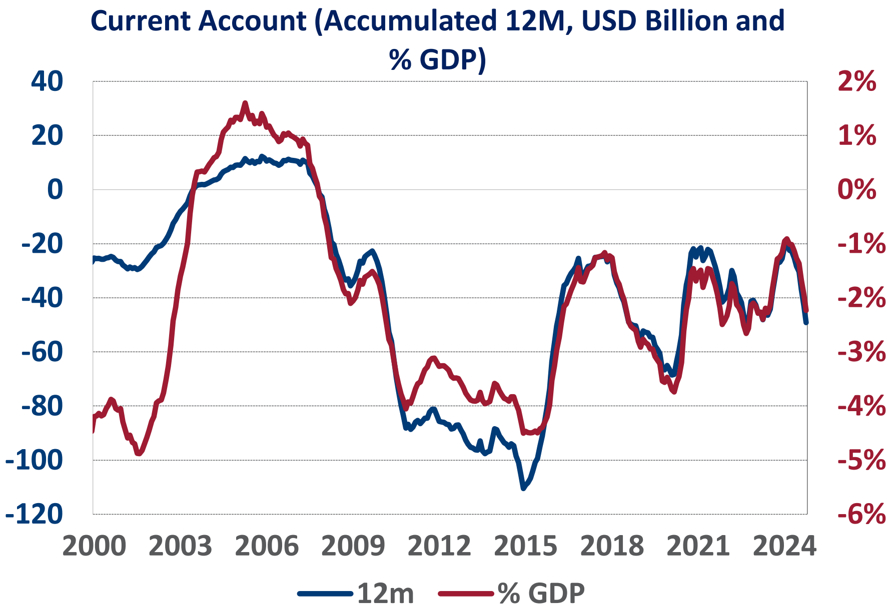


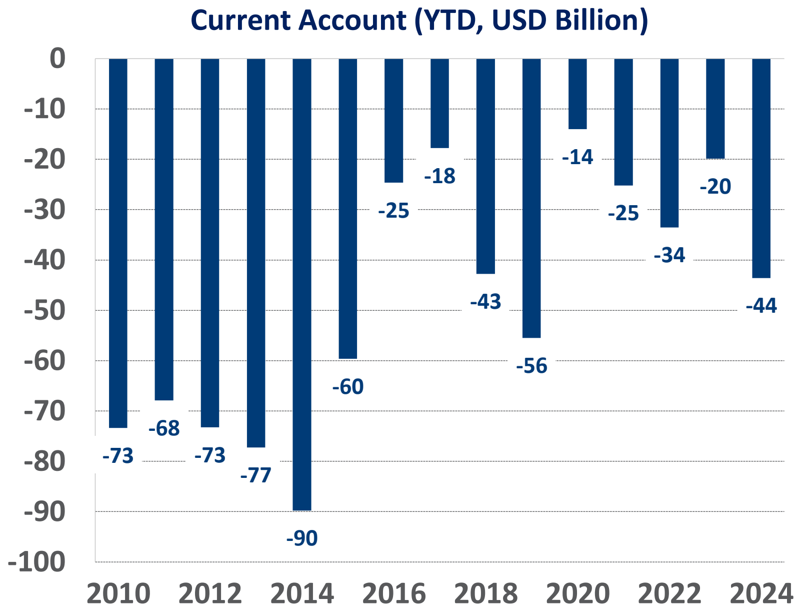
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- In October, the Brazilian current account printed a USD 5.9 billion deficit, better than expectations (USD -6.2 billion);
- For the 12-month rolling sum up to October, the deficit amounted to USD 49.2 billion (-2.2% of GDP);
- The current account deficit will continue to 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.



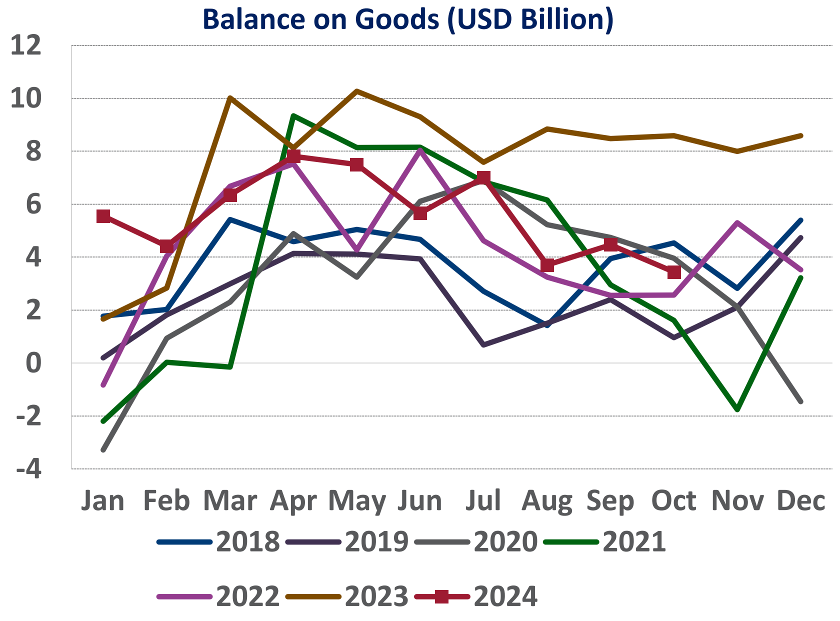


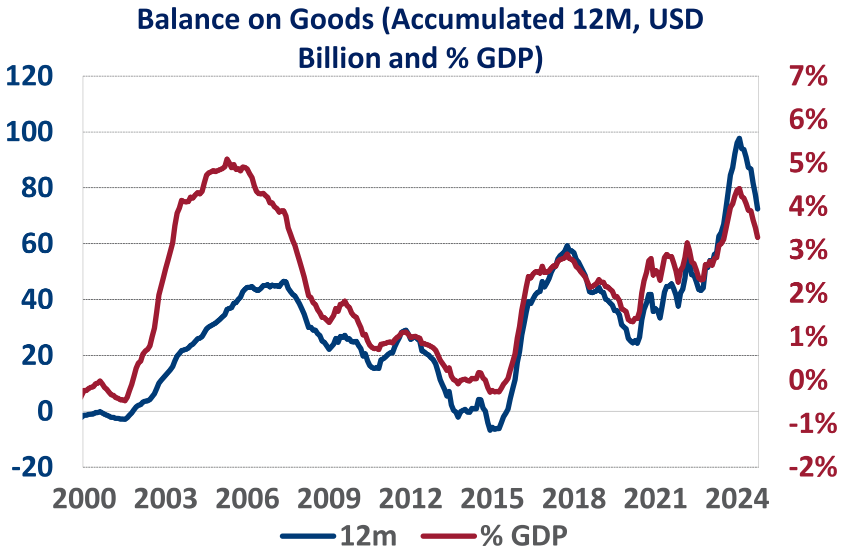


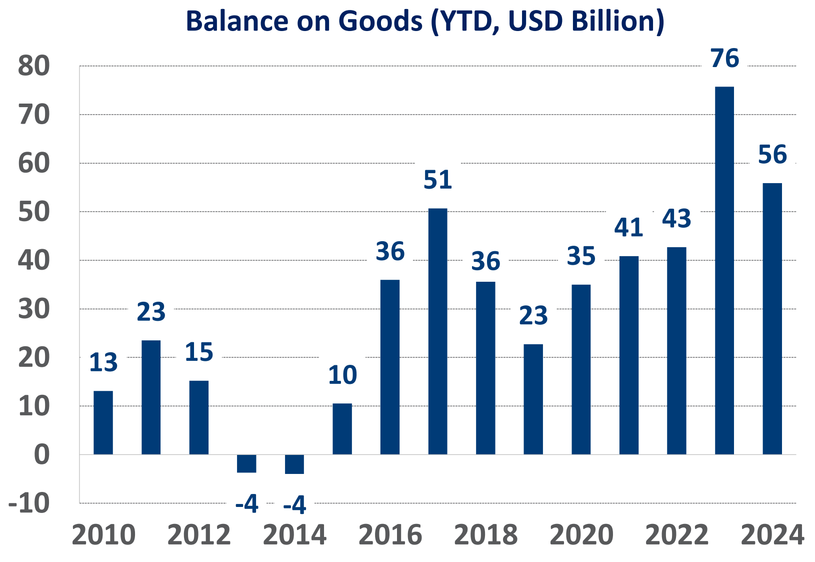
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- The trade balance recorded a surplus of USD 3.4 billion in October 2024;
- Additionally, imports surged by 23.5% YoY, reflecting a stronger domestic activity, while exports remained virtually stable (-0.6% YoY);
- This result represents a sharp decline from October 2023 (+USD 8.6 billion), mainly driven by an increase in imports, reflecting a stronger domestic activity;
- Although it reflects a downward trend from earlier highs, its 12-month rolling sum up to October recorded a robust surplus of USD 72.5 billion.





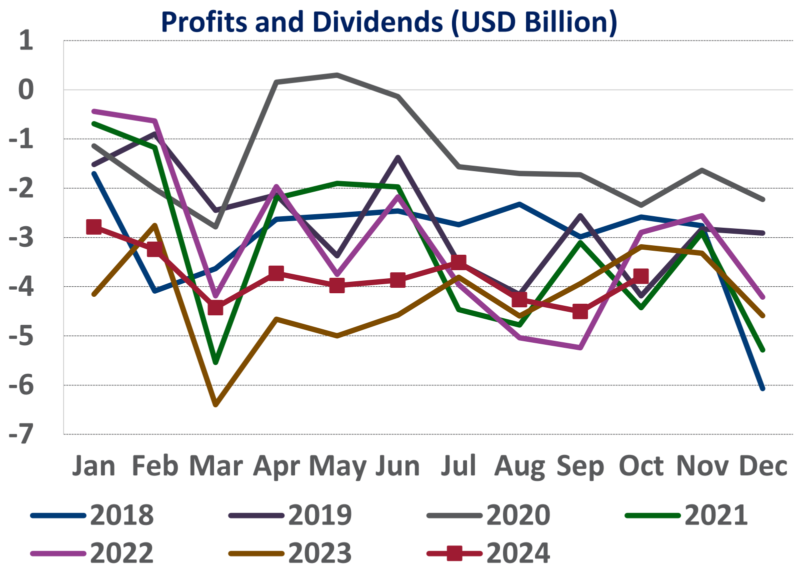


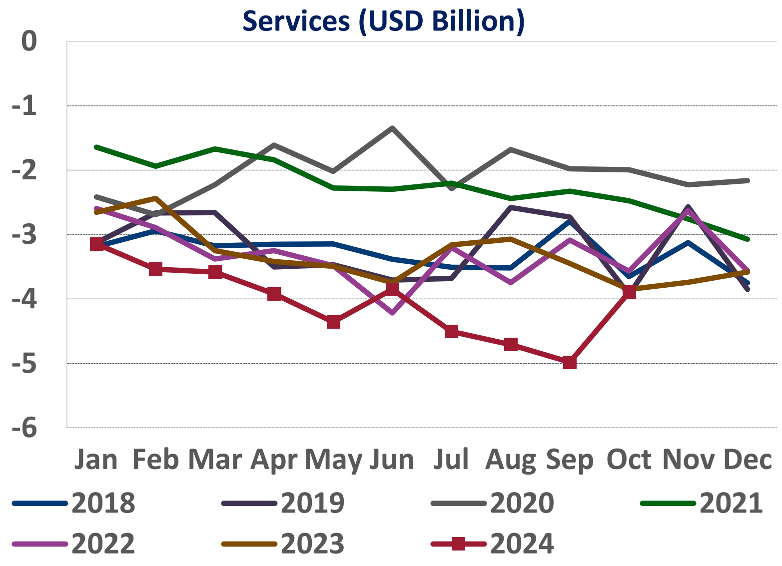
Source: BOCOM BBM, BCB

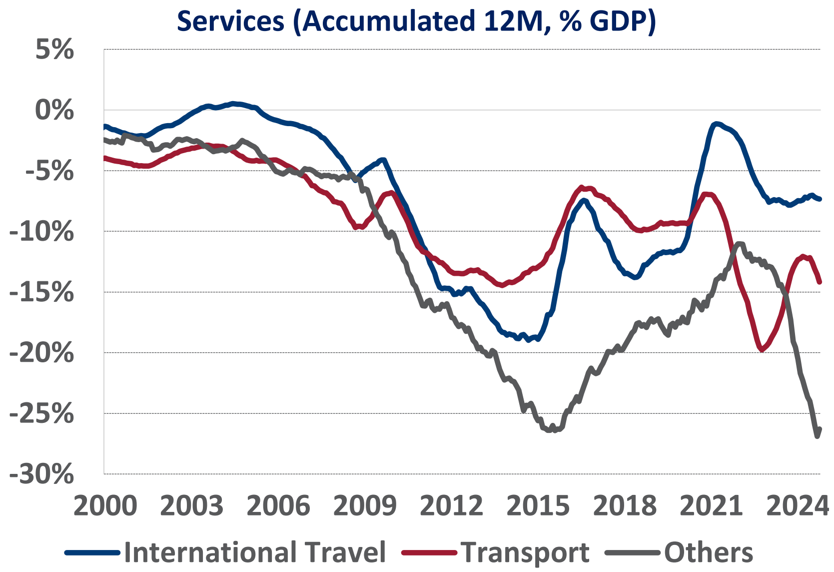
Brazil: Balance of Payments

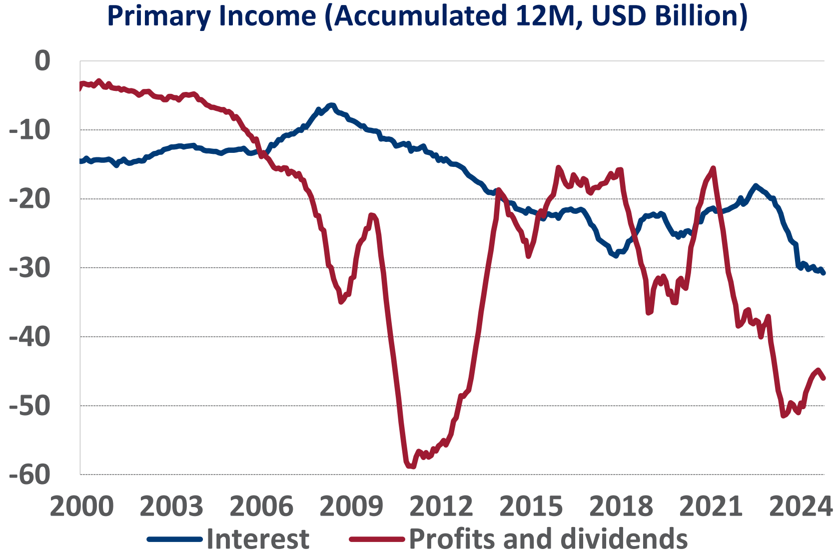
- The services deficit rose to USD 3.89 billion, in line with the deficit printed in the same month last year (USD 3.85 billion). The major contributors to this result were higher freight costs and strong domestic demand. In addition, sectors like 'charges for the use of intellectual property' and 'telecommunication, computer & information' services explain much of the year-over-year difference.

- The deficit in the primary income account amounted to USD 5.8 billion in October 2024 from USD 4.6 billion in October 2023, and the 12-month rolling sum deficit in the Primary Income account reached USD 78.5 billion (-3.44% of GDP).





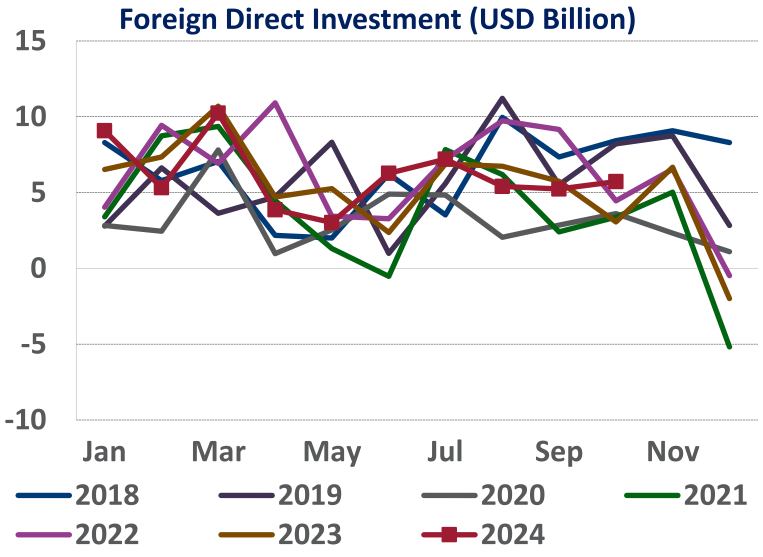


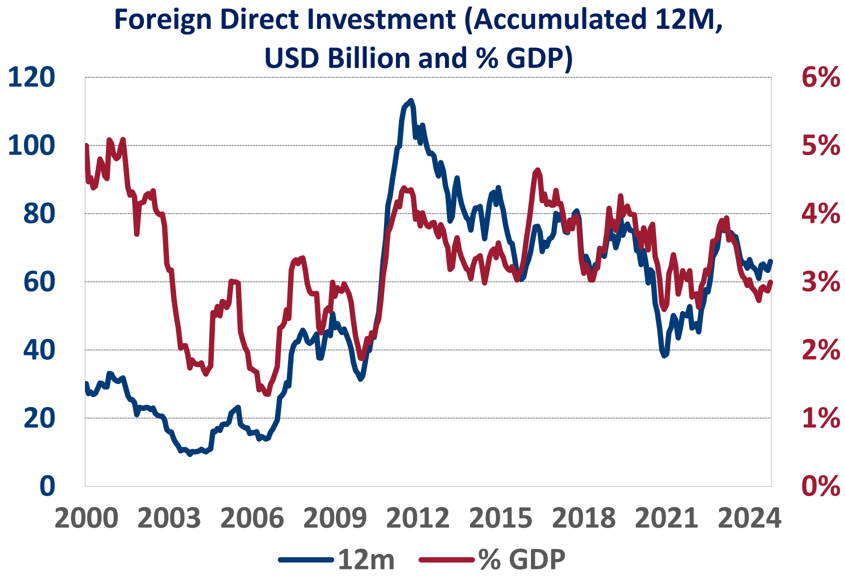


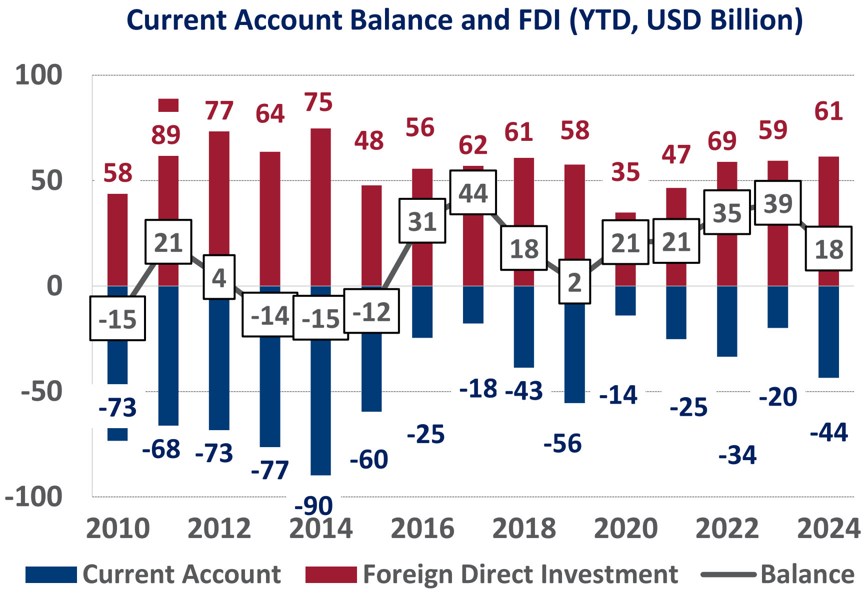
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- Net inflows in Foreign Direct Investment (FDI) totaled USD 5.7 billion in October 2024, above market expectation (USD 5.0 billion);
- In 12 months, it reached USD 66.0 billion (3.0% of GDP).



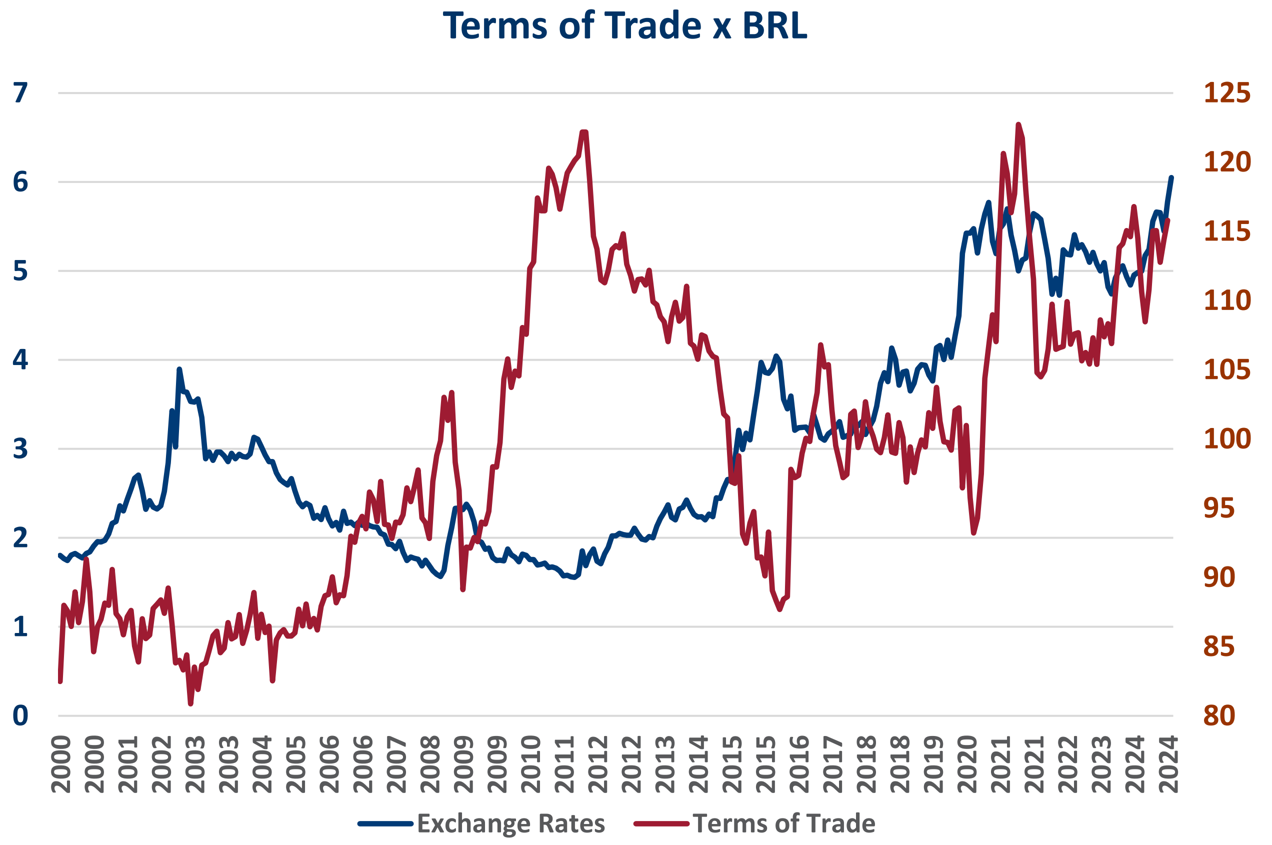


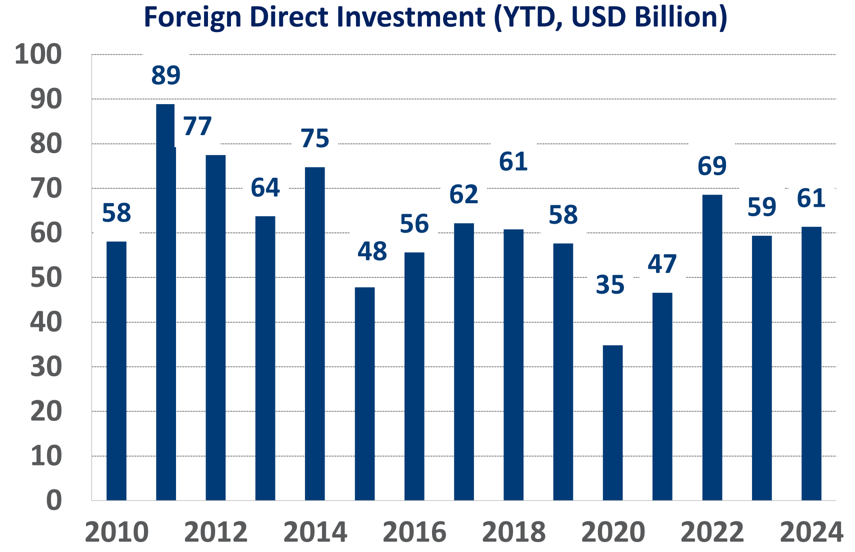


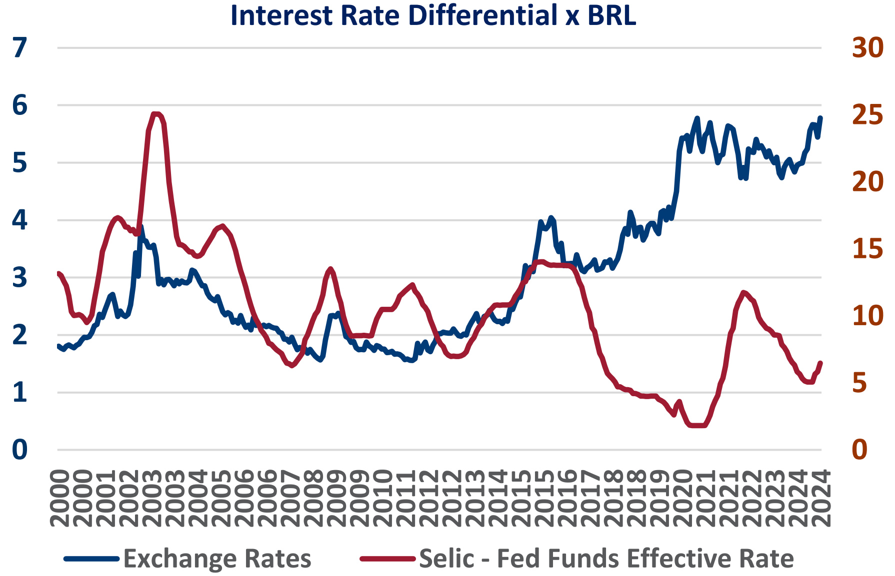
Source: BOCOM BBM, BCB

Brazil: External Sector

- In November, the Brazilian Real depreciated from 5.81 to 6.05 against the US Dollar. The movement was mainly explained by the government announcement of the fiscal package that frustrated market expectations due to the lack of structural measures that effectively promote spending cuts. In parallel, the announcement of income tax exemption for those receiving up to R$5,000 contributed to further clouding the prospects of fiscal consolidation, causing strong exchange rate depreciation. However, speeches by the presidents of the Senate and the Lower House reaffirming the national congress' commitment to fiscal responsibility helped to calm the market turbulence.



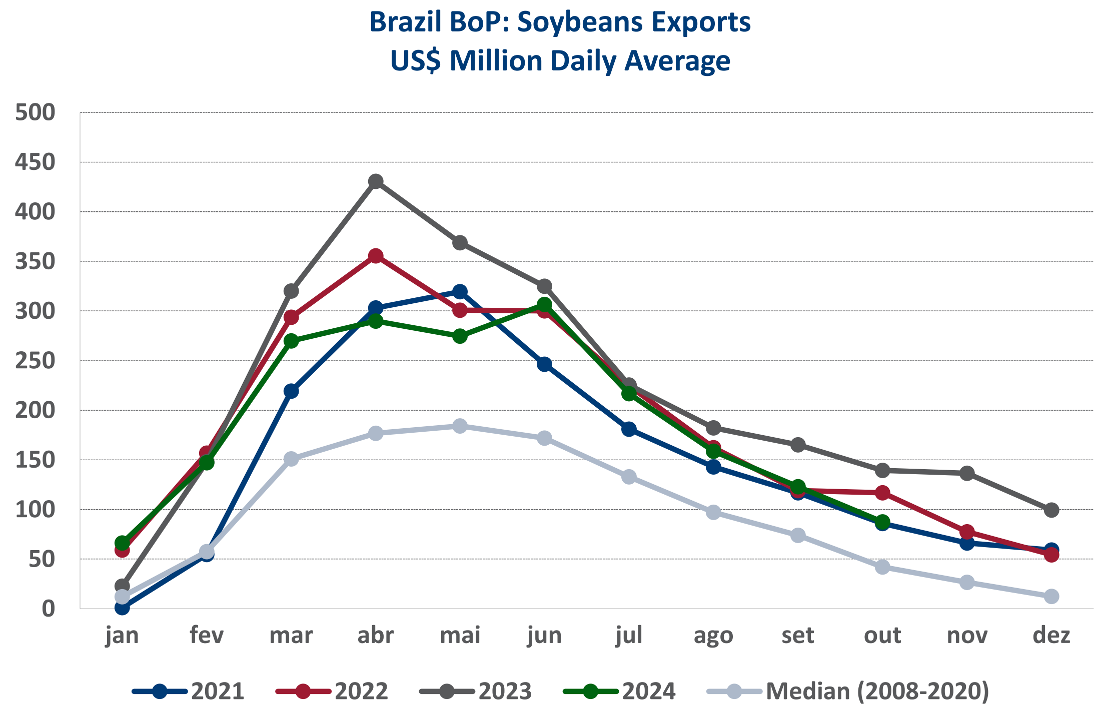


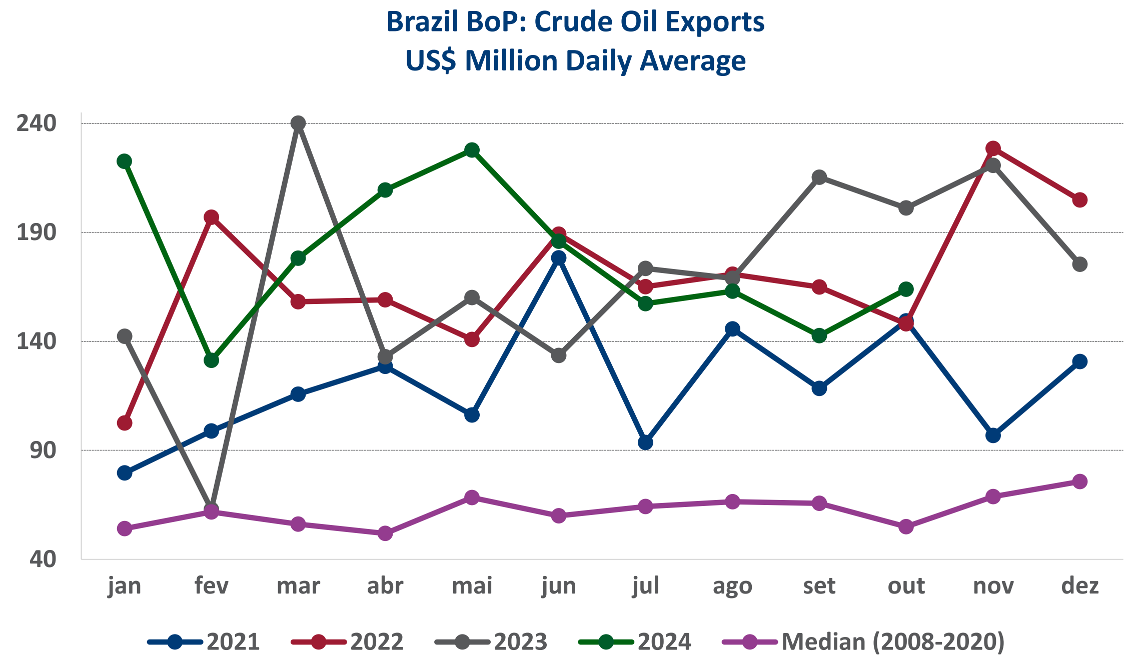


Source: BOCOM BBM, Bloomberg, Funcex, BCB

Brazil: External Sector

- In October, the trade balance presented a surplus of US$ 4.34 bn (-52.7% YoY) according to Secex data;
- Year to date, the trade surplus reached US$ 63.0 bn (-22.0% YoY);
- The exports decreased 0.7% YoY, with a 31.3% decrease in Soybeans exports, a 18.7% decrease in Iron Ore exports and a 10.8% decrease in crude oil when compared to the same month last year;
- In turn, imports increased 22.5% YoY, due mainly to Automotive parts and accessories (+41.9% YoY) and Non-electric engines and machinery and parts (+57.5% YoY).





Source: Secex, BOCOM BBM

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