Macro Outlook

January 2025

Macro Outlook

- In the US, with the labor market still solid and inflation convergence being more gradual than expected, the balance of risks for the FOMC has shifted back towards inflation. In it's December meeting, the committee decided to cut rates by 25bps, as was widely expected, now standing 100bps below the peak of this cycle. Their Fed funds projections now shows a slower pace towards a higher neutral rate, which together with upward revisions to inflation forecasts, indicates less cuts amid higher uncertainty in 2025;

- Regarding China, growth momentum was mixed in November, with retail sales decelerating after the strong October reading, while industrial production remained solid. The good news came from the property market in which indicators for housing demand improved again, now showing the first positive figure in 3 years in property sales growth, suggesting that adjustments in housing might be coming to an end. Additionally, the annual Central Economic Work Conference (CEWC) struck a more pro-growth tone, calling for "more proactive" fiscal policy and a "moderately loose" monetary policy next year;

- In Brazil, monthly indicators of economic posted mostly positive signs, with industrial production decreasing by 0.2% MoM, below expectations, while services and retail sales surprised up growing 1.1% MoM and 0.9% MoM, respectively. Summarizing this scenario, IBC-Br showed an increase of 0.14% MoM. Following stronger-than-expected 3Q GDP data and October monthly economic activity indicators, we increased our forecast for GDP growth in 2024 from 3.5% to 3.6% and for the fourth quarter from 0.5% to 0.7% QoQ. Economic activity has proven to be more resilient than expected, but the strong tightening of financial conditions should promote a more significant slowdown from the second quarter of 2025. Growth in 2025 should remain at around 2%, thanks to the contribution of less cyclical sectors of the economy (such as agriculture and extractive industries).By 2026, the lagged effects of monetary policy should be more significant, reducing growth to a level close to 1%;

- Concerning monetary policy, the Brazilian Central Bank (BCB) raised the Selic rate by 100 bps to 12.25% p.a. at its December meeting, doubling the pace. The committee increased its inflation forecast to 4.0% in the relevant horizon (2Q 2026) and kept the asymmetry in the balance of risks, drawing attention to the materialization of a more adverse scenario. The increase of the output gap, and sharp deterioration of inflation and currency dynamics, in addition to a stronger-than-anticipated credit and fiscal stimuli, were highlighted in the composition of a more challenging outlook ahead. Given this perspective, the committee indicated that expects hikes of the same magnitude in the next two meetings. This means that if the scenario evolves as expected, Selic rates will reach 14,25% by March of 2025;

- December IPCA-15 rose by 0.34% MoM, well below expectations of 0.46% MoM. The 12-month variation declined to 4.71% in December from 4.77% in November. The main downward deviation to our forecast came from airfares (-18bps). The activation of the 'green flag' on electricity fares and Black Friday discounts also pushed the headline downwards. Regarding the breakdown, core services advanced 0.71% MoM, well above expectations. The core services 3M SAAR spiked from 5.5% to 8.0%. Labor-intensive services were another highlight, advancing 0.57% MoM, with the 3M SAAR accelerating from 4.7% to 5.9%, the highest level since April. In turn, the average of core inflation advanced 0.41% MoM and its 3M SAAR increased from 4.3% to 5.0%, drifting away from the inflation target (3.0%). Therefore, the decomposition still shows deterioration driven by the heated labor market, depreciated exchange rates and unanchored inflation expectations;

- In the fiscal scenario, the perception of fiscal risk has increased significantly in the last few weeks. The fiscal package was seen as insufficient to contain the growth of mandatory expenditure and its announcement was linked to a promise to raise the income tax threshold to BRL 5,000 per month, increasing the likelihood of continuous growth of the public debt in the years ahead. Our scenario contemplates deficits in the vicinity of 1% of GDP in the next two years, with gross debt rising to 88.4% of GDP in 2026, a growth of 16 percentage points in the four years of the incumbent administration.

China: Economic Activity

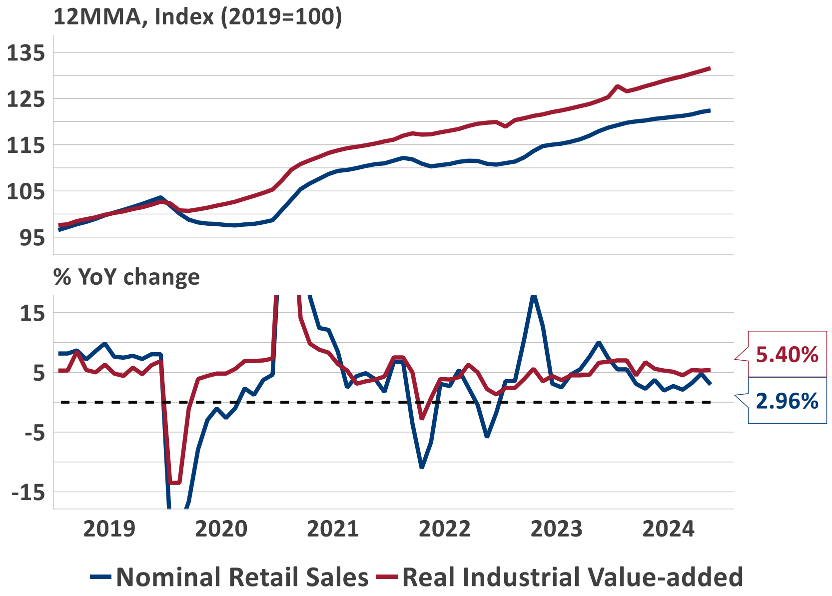
- **Growth momentum was mixed in November,** with retail sales decelerating after the strong October reading and IP still solid and improving slightly;
- **<u>Retail sales</u> growth surprised down,** slowing from 4.8% to 3.0% YoY (exp. 4.6%) with better performance in services, but slower goods spending - the impact of consumer goods trade-in programs was still visible, but it began to wear off (home appliances slowed from 39% to 22% YoY);
- **<u>Industrial prod.</u> improved** from 5.3% to 5.4% YoY (exp 5.4%): breakdown of productions continues to show solid growth among exports-oriented and high-tech products, but weakness in construction-related items, such as cement and steel;
- **<u>FAI</u> slowed** to 3.3% YTD YoY (exp. 3.5%), above the 2.9% growth in the same period last year;
- **Indicators for housing demand improved again in November** now showing **the first positive figure in housing (4.6% YoY) and property (3.2% YoY) sales growth since end-22;**

China: Activity (% YoY)

	11/2024	10/2024	11/2023
Industrial Production	5.40	5.30	6.6
Mining	4.20	4.60	3.9
Manufacturing	6.00	5.40	6.7
Utilities	1.60	5.40	9.9
Fixed Asset Investment (YTD)	3.30	3.40	2.9
Manufacturing	9.30	9.30	6.3
Real Estate	-10.40	-10.30	-9.4
Infrastructure	4.20	4.30	5.8
Retail Sales	2.96	4.76	10.1
Catering Services	4.00	3.20	25.8
Consumer Goods	2.80	5.00	8.0
Clothing	-4.50	8.00	22.0
Automobiles	6.60	3.70	14.7
Furniture	10.50	7.40	2.2
Cellphones	-7.70	14.40	16.8
Home Appliances	22.20	39.20	2.7
Construction	2.90	-5.80	-10.4

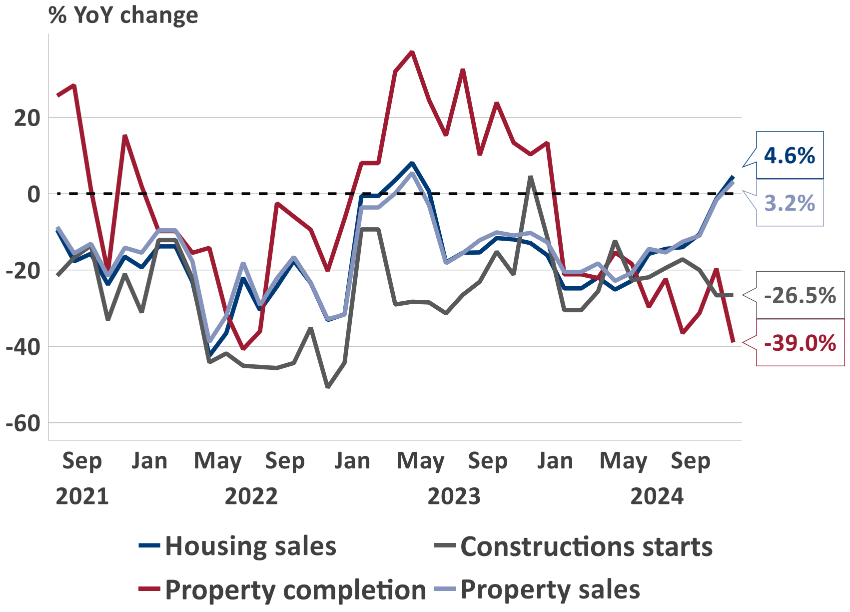
Source: BOCOM BBM, Macrobond

China: Industrial Production x Retail Sales



Source: BOCOM BBM, Macrobond, NBS

China: Property Indicators (% YoY)



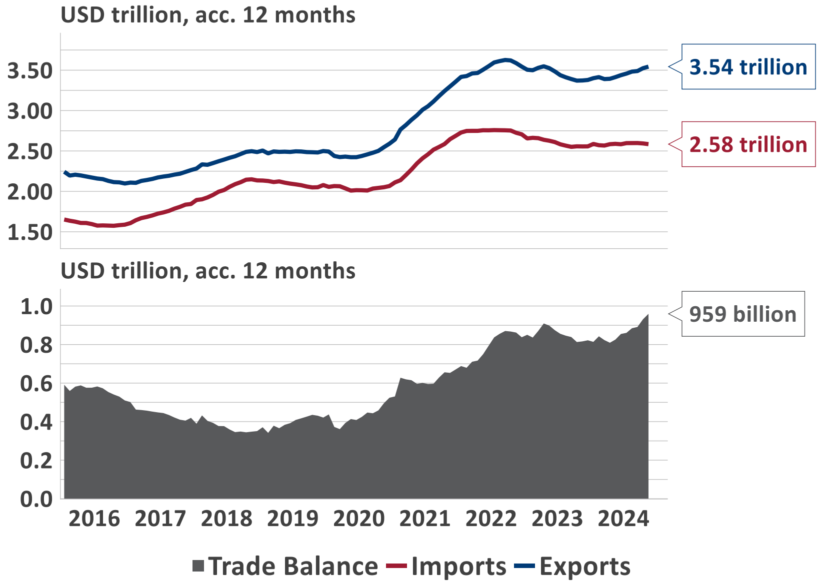
Source: BOCOM BBM, NBS

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:
  - **However, latest data for November softened slightly**, after the exceptional strength in October: slowed to from 12.7% to **6.7%** YoY (exp. 8.5%);
  - Exports **year-to-date YoY growth is still solid at 5.3% in USD terms**, despite historically elevated levels and an adverse global trade environment for China;

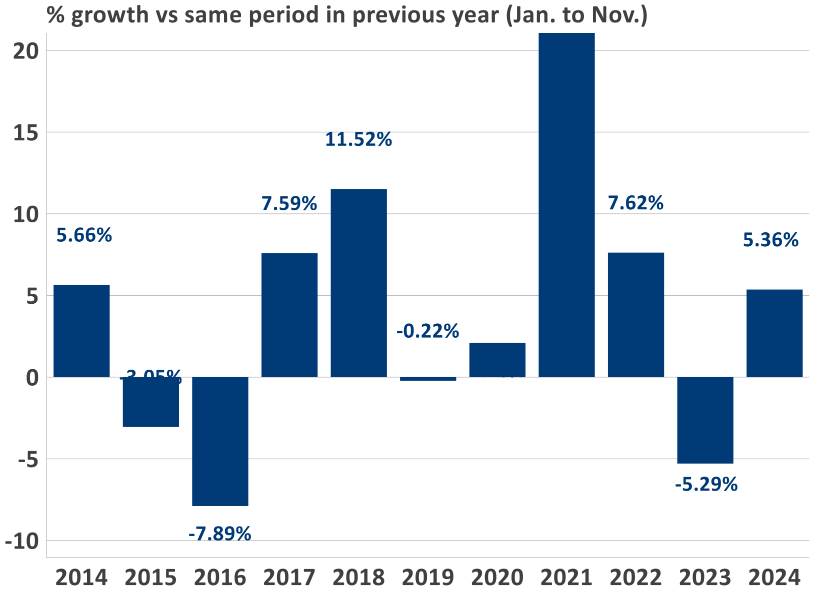
- November **CPI** inflation decelerated from 0.3% to **0.2%** YoY (below exp. 0.4%);
  - Core inflation inched up from 0.2% to **0.3%** YoY, still low and below the YTD average of 0.5%;
  - **General price trends for consumer goods and services remained soft**: soft figures on both services (0.4% YoY) and goods (0.0% YoY) still suggests demand-supply imbalances, and possibly excess industry capacity in some sectors.

China: Trade Balance



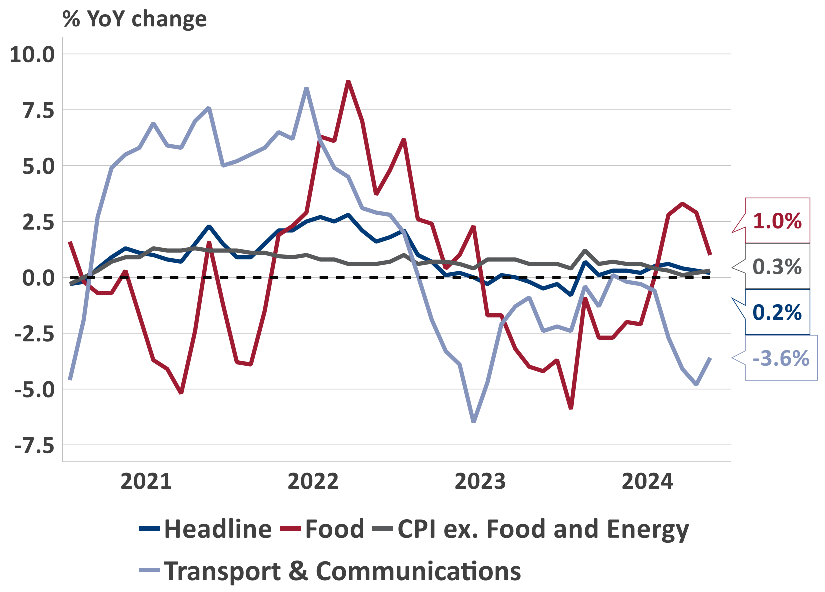
Source: BOCOM BBM, Macrobond, CCS

China: Exports (YTD YoY, Jan-Nov)



Source: BOCOM BBM, Macrobond, CCS

China: CPI

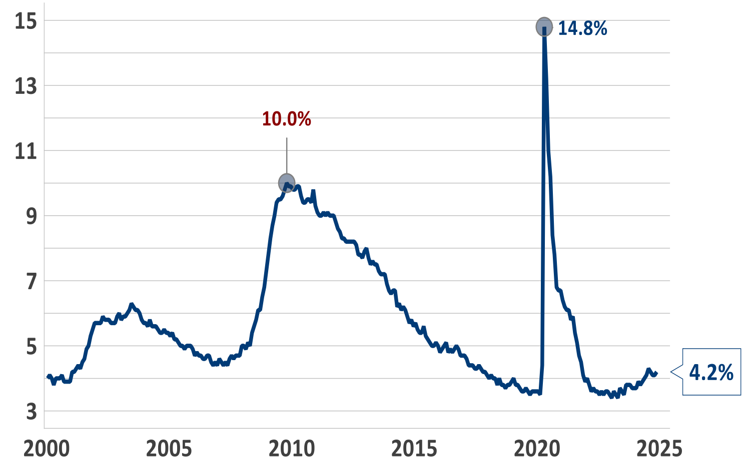


Source: BOCOM BBM, Macrobond, NBS

USA: Labor Market

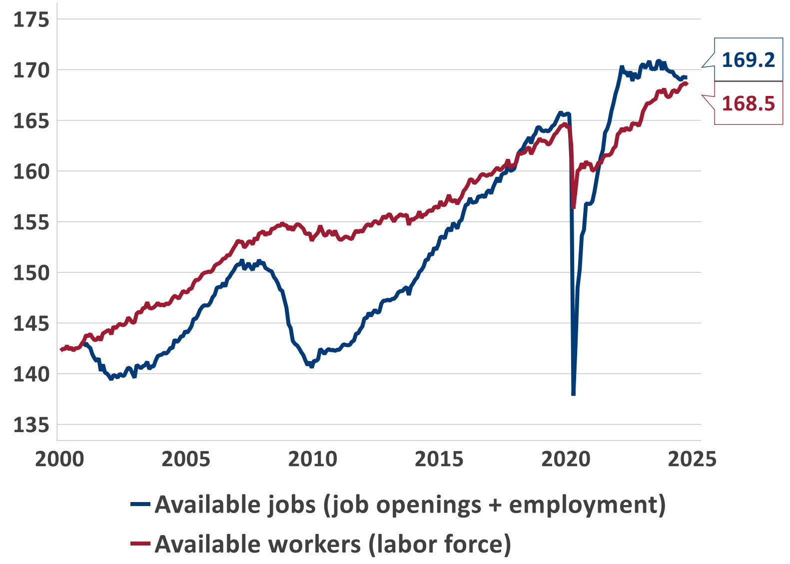
- **November labor market report showed a payback, after an October reading affected by hurricanes and strikes;**
  - November payroll showed a job gain of **227k**, aligned with market expectations, with a two-month net revision of +56k in October(+24k) and September (+32k);
  - The unemployment rate inched up again, from 4.15% to 4.25%, above expectations;
- In October, the **jobs-workers gap increased to 761k** from 600k previously, and a peak of 6.2M in 2022 → **tight, but not overheated** labor market;
- November 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. Its likely that wages will continue gradually moving down, given the less heated labor market, but remain solid, above their pre-pandemic pace;

US: Unemployment Rate SA (%)



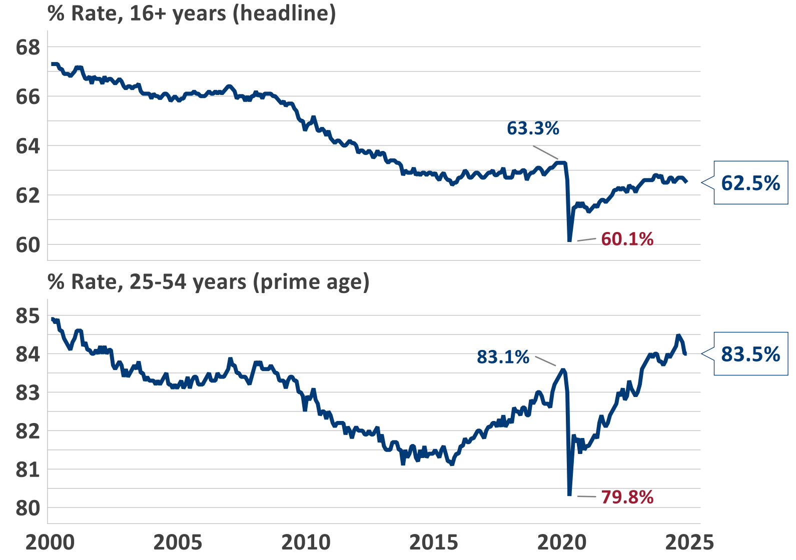
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



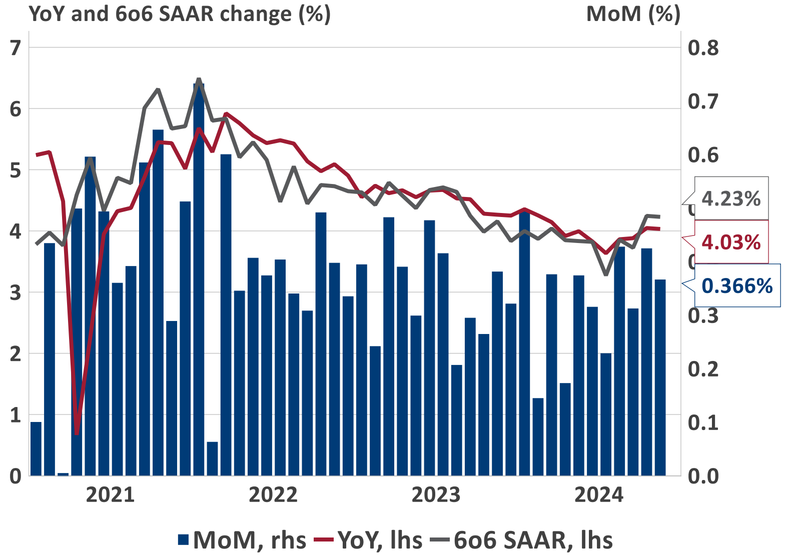
Source: BOCOM BBM, Macrobond, BLS

US: Labor Force Participation Rate (%)



Source: BOCOM BBM, Macrobond

US: Average Hourly Earnings Growth (%)



Source: BOCOM BBM, Macrobond

USA: Inflation

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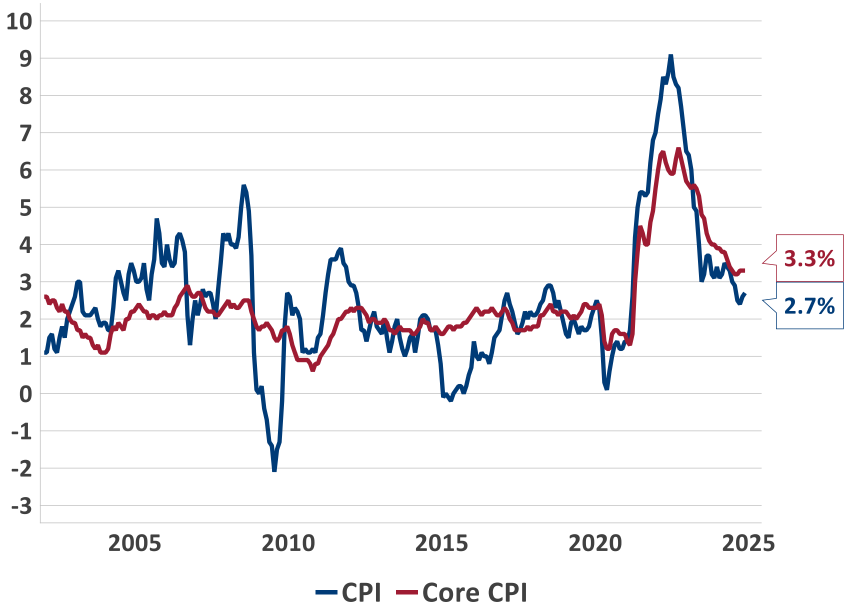
- November headline CPI rose **0.31% MoM,** slightly stronger than expectations (0.3%), leading to an annual growth rate surge from 2.6% to **2.75% YoY:**
  - **Both energy (0.20% MoM) and food prices (0.39% MoM) accelerated,** in line with expectations;

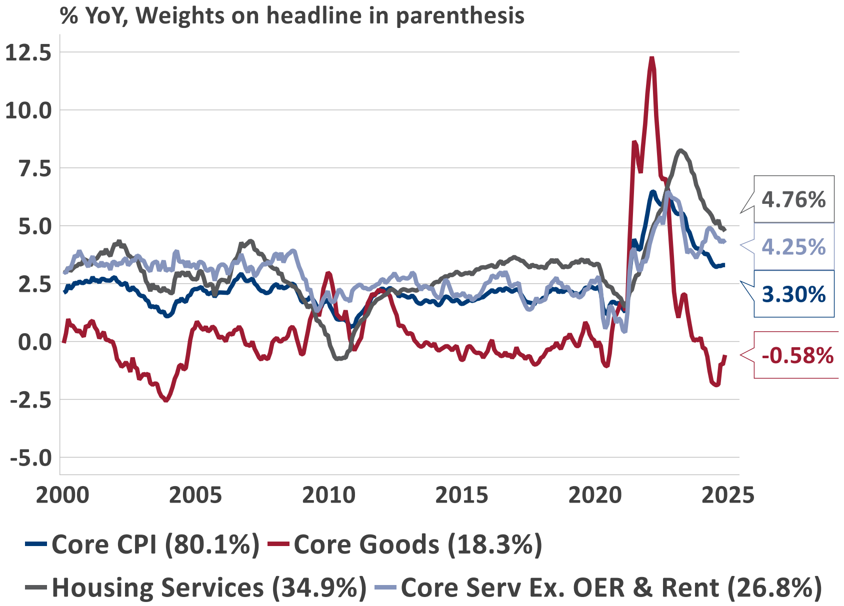
- **Core CPI** rose **0.31% MoM** (exp. 0.28%) and the annual growth rate remained at **3.3% YoY;**
  - **Core goods (0.31% MoM):** above expectations, being responsible for most of the acceleration, driven by strong increases in both new (0.6%) and used (2.0%) vehicle prices;
  - **Housing services surprised to the downside:** registering the smallest monthly increase in three and a half years for both **OER (0.23% MoM)** and **rent of primary residence (0.21% MoM)**;
  - **Core Serv. Ex-Housing (0.34% MoM):** came in close to expectations, with weaker airfares and a downside surprise in car insurance inflation, offset by accelerating lodging away from home, a volatile and mean-reverting item;

US: CPI (YoY, %)



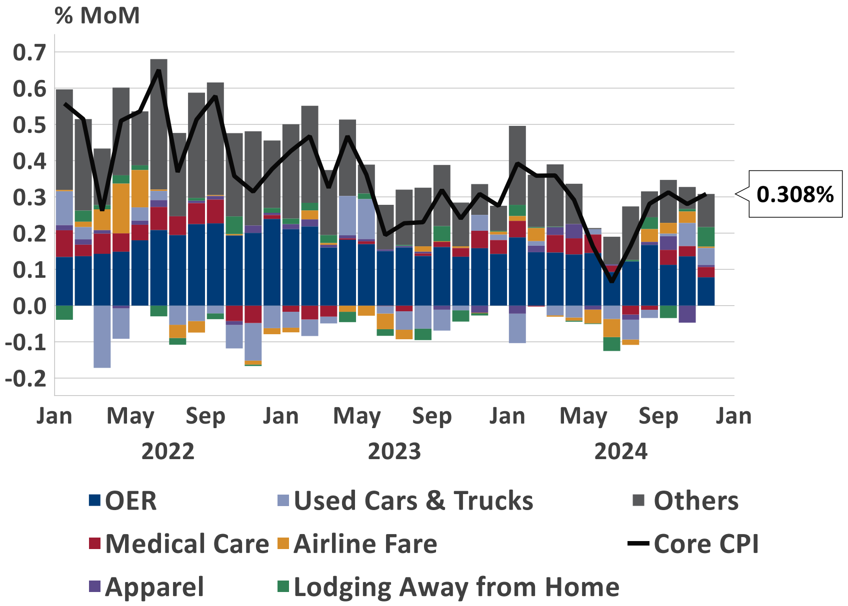
Source: BOCOM BBM, Macrobond, BLS

US: Core CPI Main Components (%)



Source: BOCOM BBM, Macrobond, BLS

US: Core CPI MoM Contributions



Source: BOCOM BBM, Macrobond, BLS

USA: Monetary Policy

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- In December, the **FOMC decided to cut rates by 25bps,** as was widely expected → current range at **4.25%-4.50%, 100bps below the peak of this cycle;**

- Rate projections now shows a **slower pace toward a higher neutral policy stance** (r* median estimate raised to **3.0%);**
  - 2025 projection rose to **3.9%** (50bps above prior est. of 3.4%, **now implying 2 cuts next year instead of 4**);

- **Other projections are still consistent with a soft-landing:** above trend growth + healthy labor markets + inflation convergence towards target;
  - However, **inflation forecasts were revised up,** now suggesting that the balance of risks is shifting back towards inflation, and reflecting higher policy uncertainty amid a transition of governments;

FOMC: Summary of Economic Projections

dez-24	2024	2025	2026	2027	Long Run
Change in real GDP	2.50%	2.10%	2.00%	1.90%	1.80%
September projection	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*1.80%*
Unemployment rate	4.20%	4.30%	4.30%	4.30%	4.20%
September projection	*4.40%*	*4.40%*	*4.30%*	*4.20%*	*4.20%*
PCE inflation	2.40%	2.50%	2.10%	2.00%	2.00%
September projection	*2.30%*	*2.10%*	*2.00%*	*2.00%*	*2.00%*
Core PCE inflation	2.80%	2.50%	2.20%	2.00%	
September projection	*2.60%*	*2.20%*	*2.00%*	*2.00%*	

Fed Dots (Dec-24)

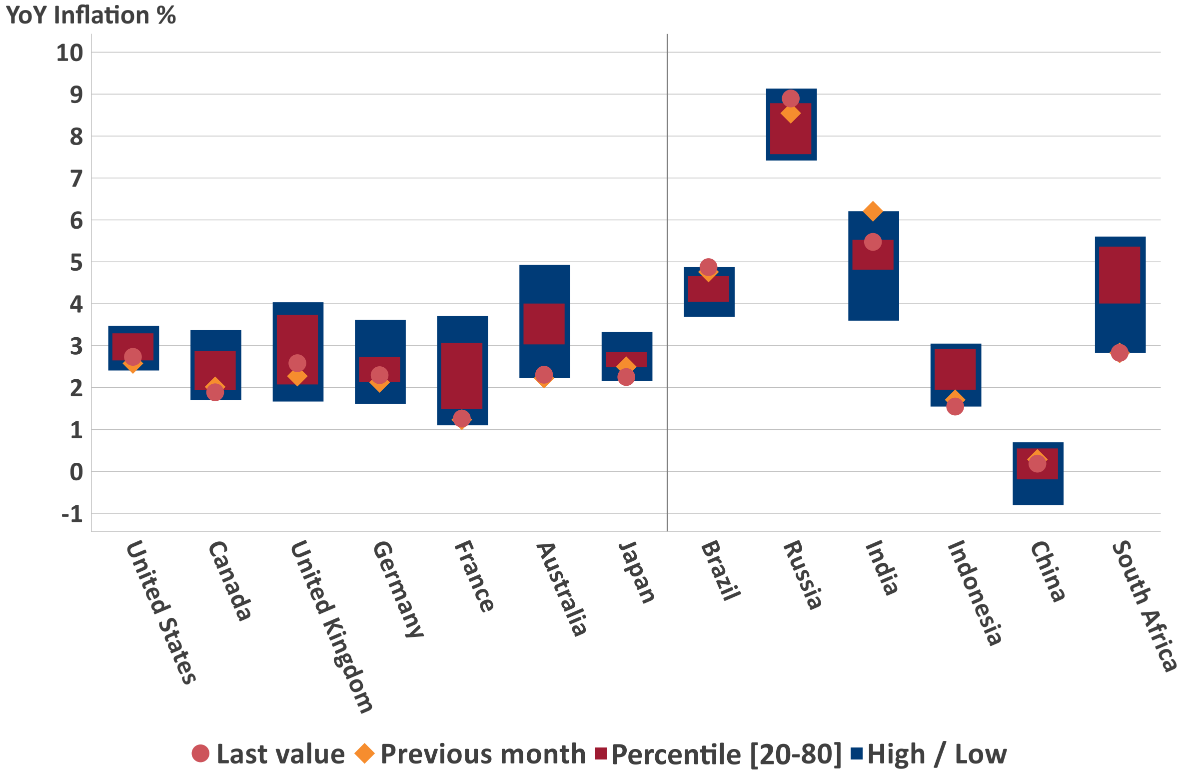
SEP (12/24)	2024		2025		2026		2027		Longer Term	
Tgt Range	**Sep-24**	**Dec-24**	**Sep-24**	**Dec-24**	**Sep-24**	**Dec-24**	**Sep-24**	**Dec-24**	**Sep-24**	**Dec-24**
6.00-6.25										
5.75-6.00										
5.50-5.75										
5.25-5.50										
5.00-5.25										
4.75-5.00	2									
4.50-4.75	7	4								
4.25-4.50	9	15		1						
4.00-4.25	1		1	3						
3.75-4.00			1	10	1	3	1	2		1
3.50-3.75			3	3	3	4	3	4	2	3
3.25-3.50			6	1	3	5	3	1	4	3
3.00-3.25			6	1	2	4	2	7	1	1
2.75-3.00			2		6	1	5	2	4	7
2.50-2.75					3	1	3	2	4	2
2.25-2.50					1	1	2	1	4	2
2.00-2.25										
1.75-2.00										
1.50-1.75										
1.25-1.50										
1.00-1.25										
0.75-1.00										
0.50-0.75										
0.25-0.50										
0.00-0.25										
MEDIAN	4.4	**4.4**	3.4	**3.9**	2.9	**3.4**	2.9	**3.1**	2.9	**3**
Participants	19	**19**	19	**19**	19	**19**	19	**19**	19	**19**

* If a member's forecast has their decimal case ending in either 0, .25 or .5, it's being considered as the upper end of the range (e.g. a forecast of 2.5, goes into the range of 2.25-2.50). Medians are highlighted in green.

Global: Inflation & Activity

- Progress in inflation numbers are being seen in several developed markets, however, it seems to have stalled in some (like the US) and is heterogenous emerging markets;
- 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	3.9	-1.7	-2.1	-1.9	1.8	-2.8	1.5	-1.9
Australia	0.3	0.2	0.2	0.2	0.5	0.3	0.5	0.8
Brazil	0.9	1.4	1.1	0.2	0.2	0.8	1.4	0.4
Canada	0.3	0.5	0.5	0.2	-0.1	0.2	1.0	-0.1
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	0.0	0.0	0.1	0.5	-0.1
France	0.4	0.2	0.2	0.4	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	1.1	-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	0.3	0.5	-0.6	0.2	-1.0	0.5	1.2	0.4
Mexico	1.1	0.4	0.1	0.1	0.7	0.9	0.7	1.1
Russia	0.7	0.5	1.1	1.0	1.3	1.6	0.9	1.3
Saudi Arabia	2.3	-2.3	-2.6	5.7	-0.8	-3.7	-5.2	6.9
South Africa	-0.3	0.3	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	12.7	5.0	-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	0.8	0.7	0.4	0.8	1.1	0.6	0.7	0.8

Sources: BOCOM BBM, Macrobond, National Sources

Global: Monetary Policy

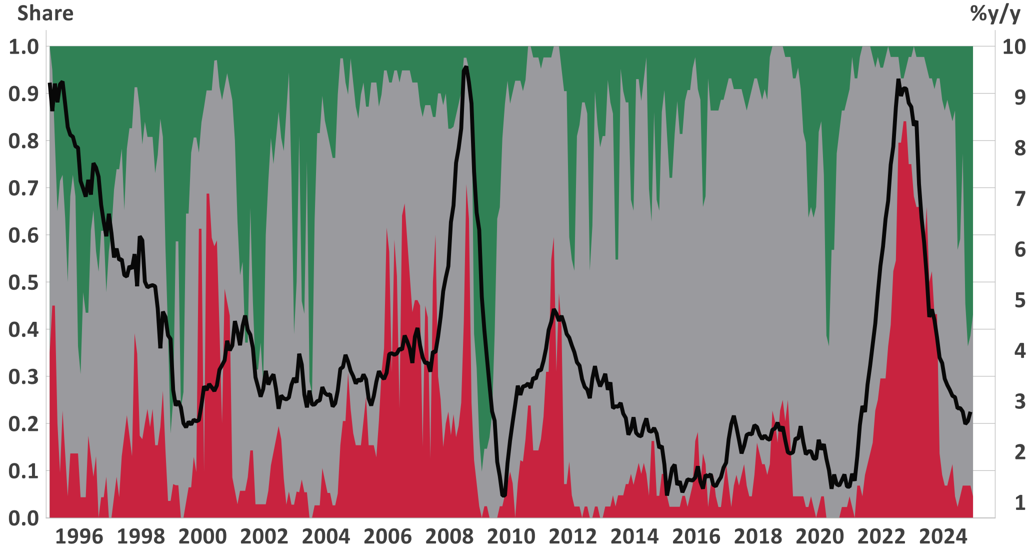
- Several **emerging markets are on the process of easing monetary policy,** such as Colombia, Chile and Mexico;

- **Developed markets** central banks took a little longer, but several also began cutting rates this year;

- On average, global monetary policy is becoming considerably less restrictive, although this is not the same for every country – Brazil and Japan, for example, are passing through a hiking cycle.

Global monetary breadth

Share of economies (GDP top 50) with higher/unchanged/lower policy rates; monthly/mtd avg, 19-Dec-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	166.0	155.4	32.00	-3.00	Cut	12/2024	15	1
Australia	2.9	3.1	4.35	0.25	Hike	11/2023	14	50
Brazil	4.9	4.5	12.25	1.00	Hike	12/2024	1	8
Canada	1.9	1.5	3.25	-0.50	Cut	12/2024	18	1
Chile	4.2	3.7	6.50	-0.75	Cut	12/2024	27	0
China	0.2	0.3	3.10	-0.25	Cut	10/2024	131	2
Colombia	5.2	5.9	9.75	-0.50	Cut	11/2024	20	2
Costa Rica	-0.1	0.4	4.00	-0.25	Cut	10/2024	26	2
Czech Republic	2.8	0.1	4.00	-0.25	Cut	11/2024	30	2
Denmark	1.6	1.2	2.75	-0.25	Cut	12/2024	16	1
Euro Area	2.2	2.7	3.15	-0.25	Cut	12/2024	15	0
Hungary	3.7	4.4	6.50	-0.25	Cut	9/2024	27	3
Iceland	4.7	4.9	8.50	-0.50	Cut	11/2024	16	1
India	5.5	3.6	6.50	0.25	Hike	2/2023	23	55
Indonesia	1.5	2.3	6.00	-0.25	Cut	9/2024	8	3
Israel	3.4	3.4	4.50	-0.25	Cut	1/2024	19	12
Japan	2.3	2.2	0.25	0.15	Hike	8/2024	5	107
Mexico	4.5	3.6	10.25	-0.25	Cut	11/2024	21	2
New Zealand	2.2	3.1	4.25	-0.50	Cut	11/2024	19	1
Norway	2.4	3.0	4.50	0.25	Hike	12/2023	13	56
Poland	4.9	4.3	5.75	-0.25	Cut	10/2023	28	15
Russia	8.9	8.3	21.00	2.00	Hike	10/2024	2	27
Saudi Arabia	2.0		5.00	-0.25	Cut	12/2024	17	0
South Africa	2.8	3.7	7.75	-0.25	Cut	11/2024	19	1
South Korea	1.5	1.9	3.00	-0.25	Cut	11/2024	24	1
Sweden	1.6	1.8	2.75	-0.50	Cut	11/2024	15	2
Switzerland	0.7	0.9	0.50	-0.50	Cut	12/2024	18	1
Turkey	47.1	47.1	50.00	5.00	Hike	3/2024	9	22
United Kingdom	2.6	3.5	4.75	-0.25	Cut	11/2024	17	2
United States	2.7	3.3	4.50	-0.25	Cut	12/2024	17	0

Source: BOCOM BBM, Macrobond

Brazil: Forecasts

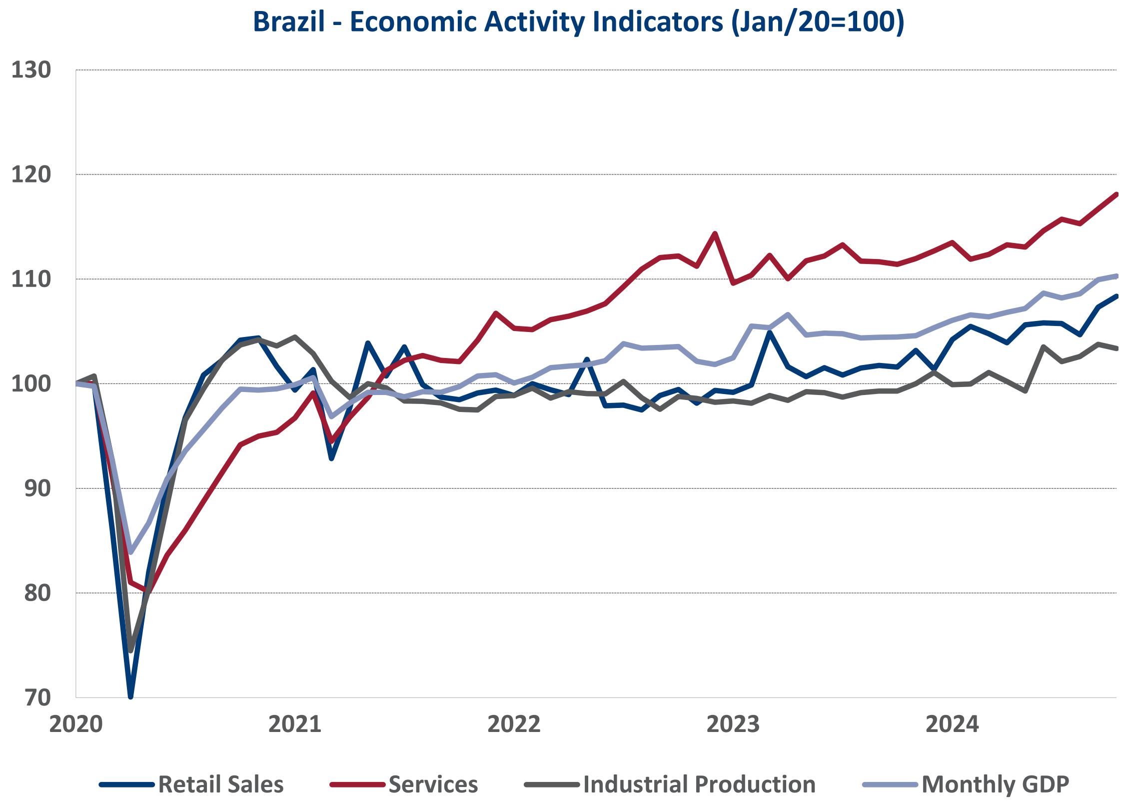
BANK OF COMMUNICATIONS BBM

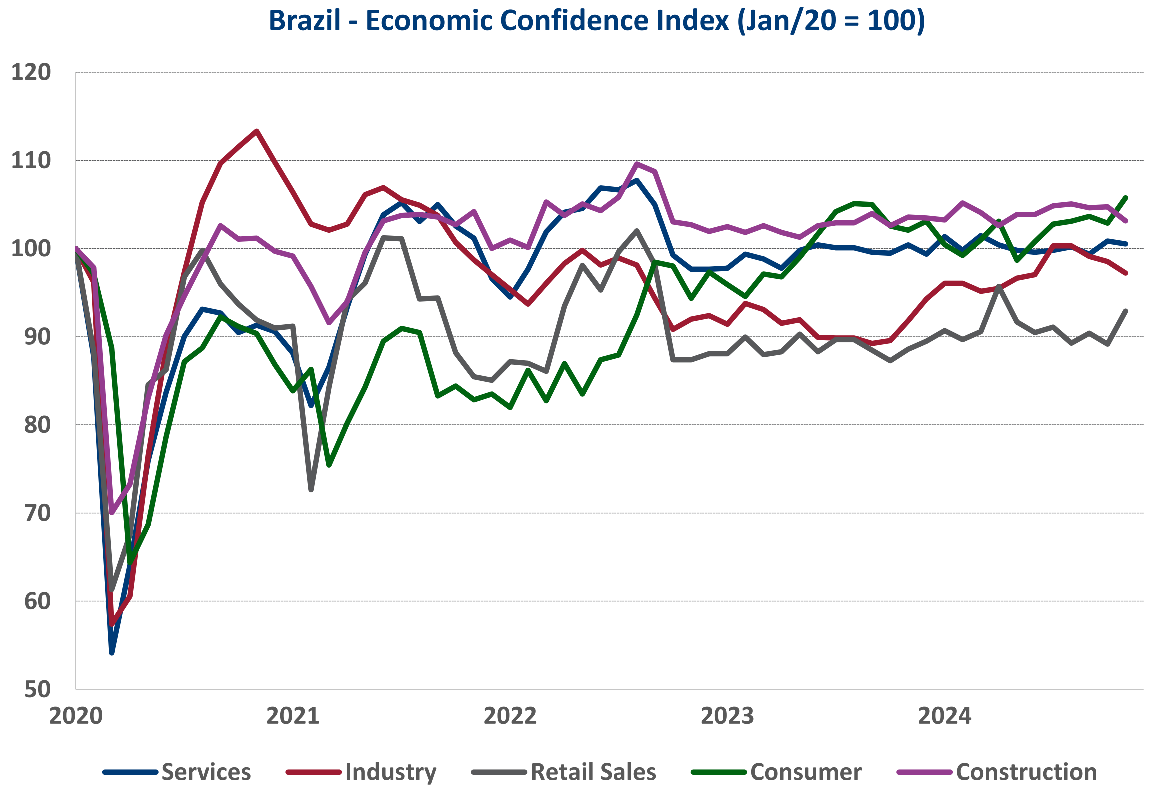
ECONOMIC FORECASTS	2019	2020	2021	2022	2023	2024F	2025F	2026F
GDP Growth (%)	1.2%	-3.3%	4.8%	3.0%	2.9%	3.6%	2.2%	1.3%
Inflation (%)	4.3%	4.5%	10.1%	5.8%	4.6%	4.9%	5.5%	4.5%
Unemployment Rate (eoy ,%)	11.1%	14.2%	11.1%	7.9%	7.4%	6.3%	7.0%	7.5%
Policy Rate (eoy, %)	4.5%	2.0%	9.3%	13.8%	11.75%	12.3%	15.0%	11.0%
External Accounts								
Trade Balance (US$ bn)	27	32	36	44	92	67	77	86
Current Account Balance (US$ bn)	-68	-28	-46	-48	-31	-56	-49	-46
Current Account Balance (% of GDP)	-3.6%	-1.9%	-2.8%	-2.5%	-1.3%	-2.5%	-2.2%	-2.0%
Fiscal Policy								
Central Government Primary Balance (% of GDP)	-1.3%	-9.8%	-0.4%	0.5%	-2.1%	-0.4%	-0.7%	-0.9%
Government Gross Debt (% of GDP)	74.4%	86.9%	77.3%	71.7%	74.4%	77.7%	82.9%	88.4%

Source: BOCOM BBM, IBGE

Brazil: Activity

- In October, indicators of economic activity posted mostly positive signs, with industrial production decreasing by 0.2% MoM, below expectations, while services and retail sales surprised up growing 1.1% MoM and 0.9% MoM, respectively. Summarizing this scenario, IBC-Br showed an increase of 0.14% MoM;
- Looking forward, industry, services and construction confidence contracted in November, while retail sales and consumer confidence increased.



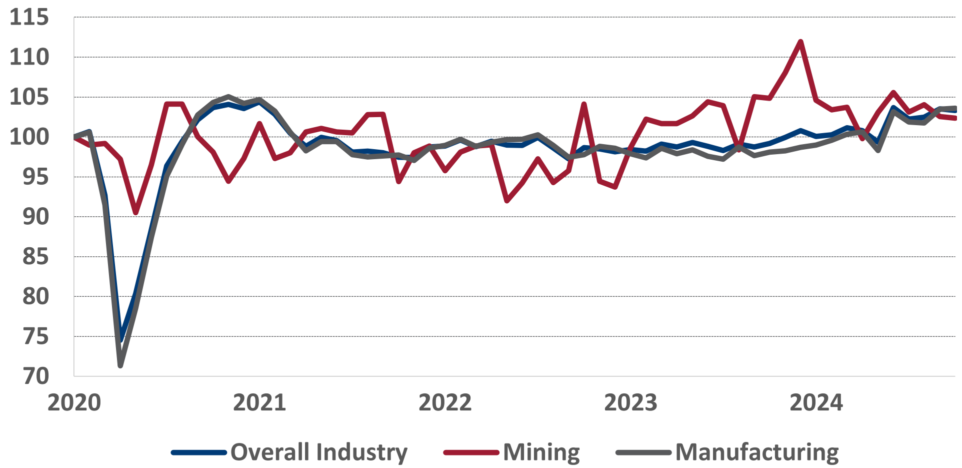


Source: BOCOM BBM, IBGE, FGV

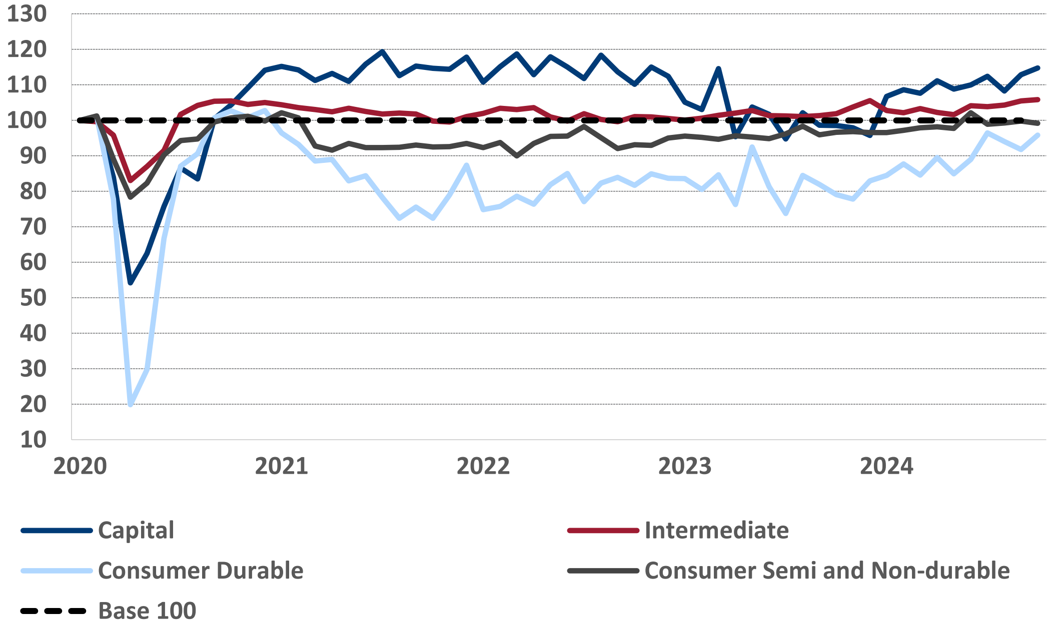
Brazil: Industrial Production

- Industrial output dropped by 0.2% MoM in October, below expectations, after an increase of 1.1% MoM in September. On a yearly basis, however, the indicator increased by 5.8% YoY.
- 19 out of 25 industrial activities increased in the monthly comparison, with positive contributions coming from the categories of capital goods (1.6% MoM; 15.3% YoY) and durable consumer goods (4.4% MoM; 19.6% YoY) once again;
- The disappointment came from the extractive industry, which fell for the second consecutive month. Nevertheless, a consistent recovery is expected throughout 2025 due to favorable oil production;
- Regarding the manufacturing industry, some deceleration should be seen in the coming months in line with the monetary policy tightening.

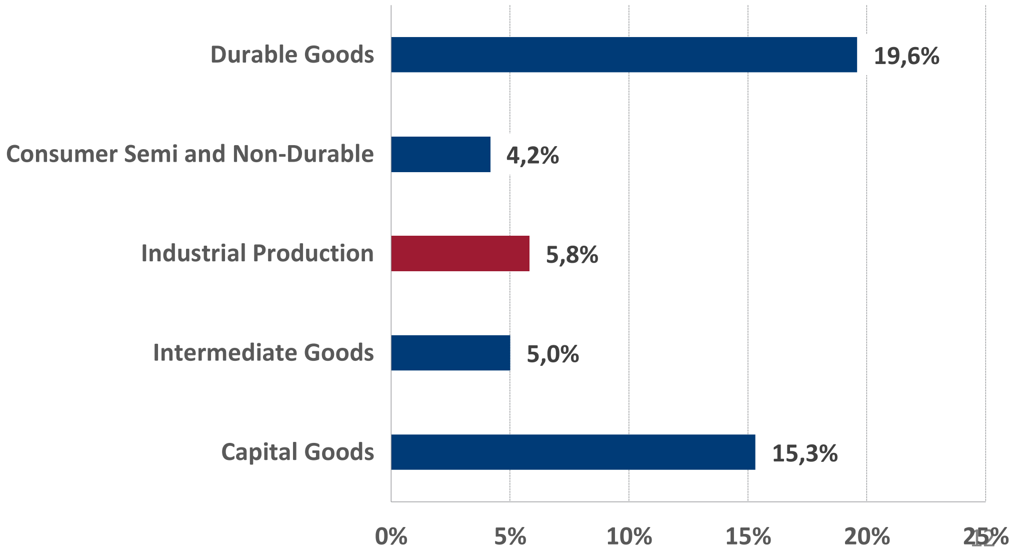
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



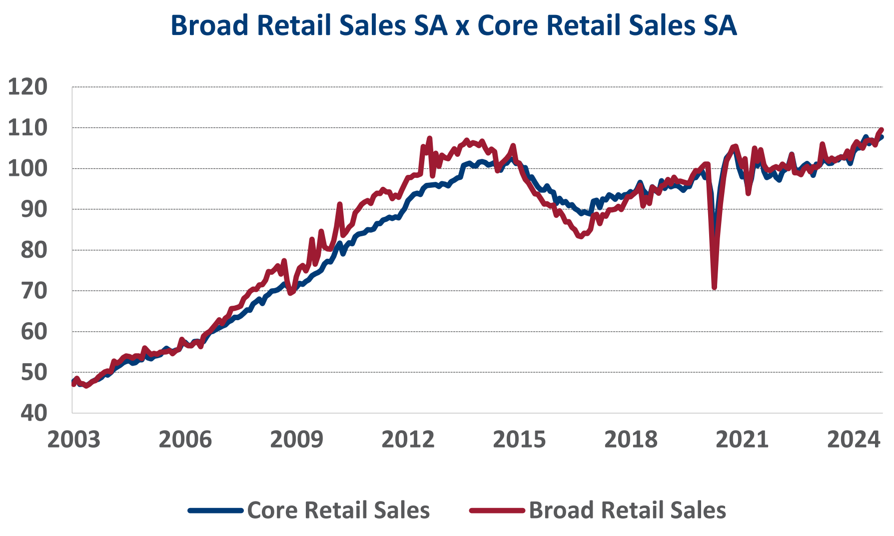
Industrial Production by Category - 10/2024 (YoY)

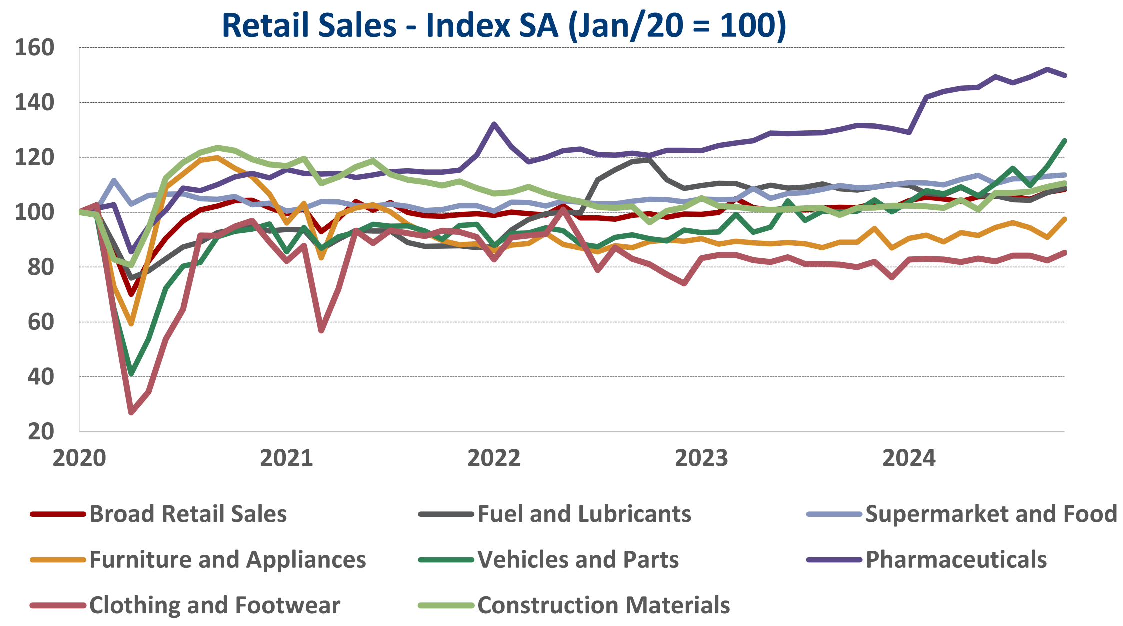


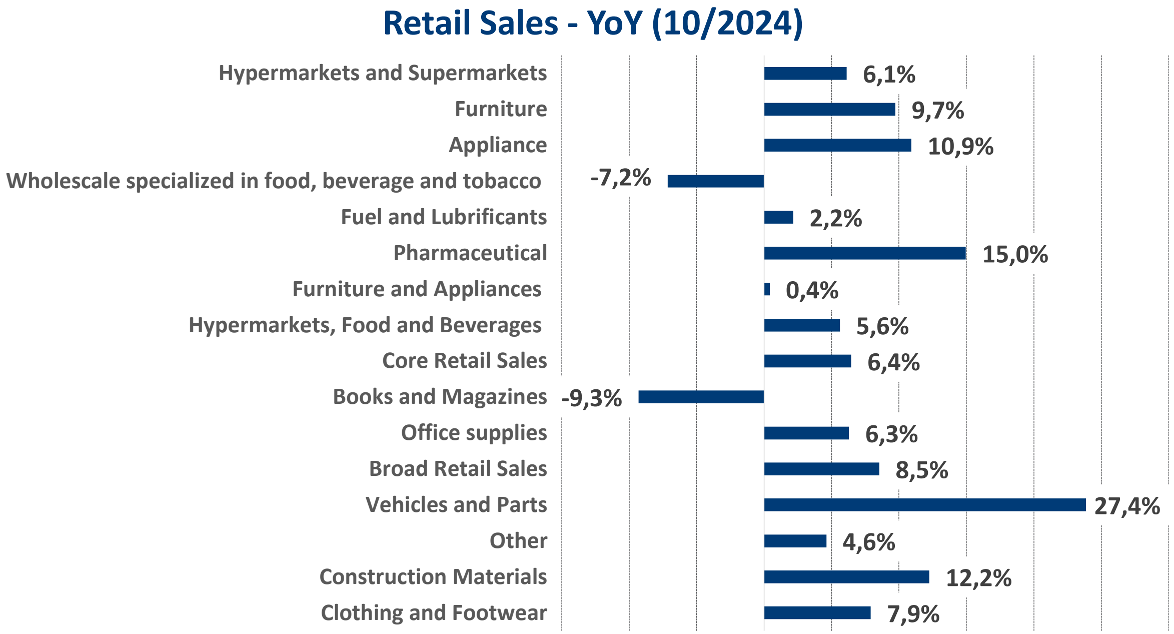
Source: IBGE, BOCOM BBM

Brazil: Retail Sales

- Broad retail sales increased by 0.9% MoM (8.8% YoY) in October, well above market expectations of 0.1% MoM (7.3% YoY);
- While wholesale specialized in food, beverage and tobacco remained at negative territory on a yearly basis, the strong positive performance of vehicles and building materials sales, once again, more than offset it;
- Core retail sales also exceeded expectations in October increasing 0.4% MoM (6.5% YoY), while the market consensus was at -0.2% MoM (4.8% YoY);
- 6 out of 8 core activities grew in the monthly comparison, with furniture and household appliances presenting a stronger than expected recovery of 7.5% MoM (9.9% YoY);
- Overall, personal spending on goods remains on an upward trend amid the rise in credit concessions and the maintenance of real disposable income at elevated levels.



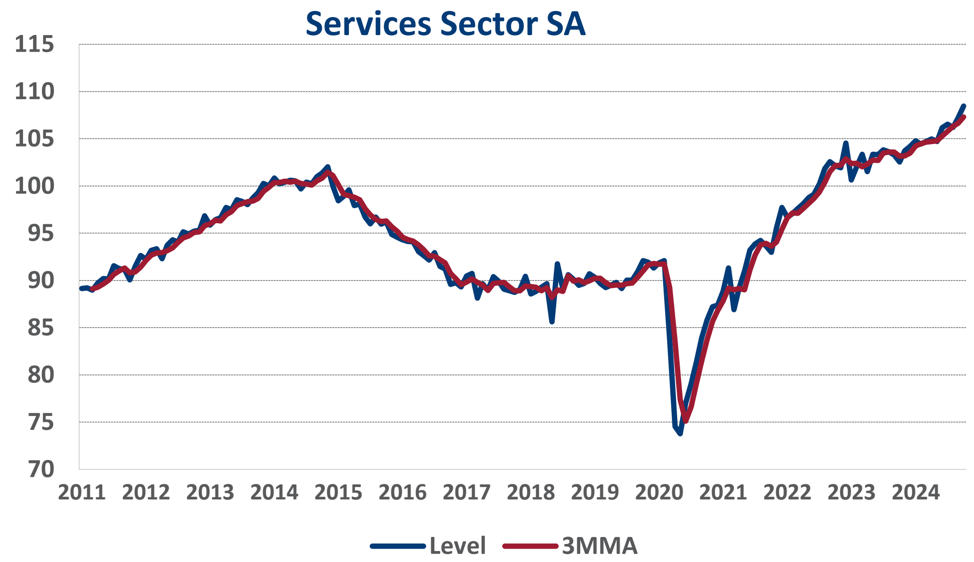


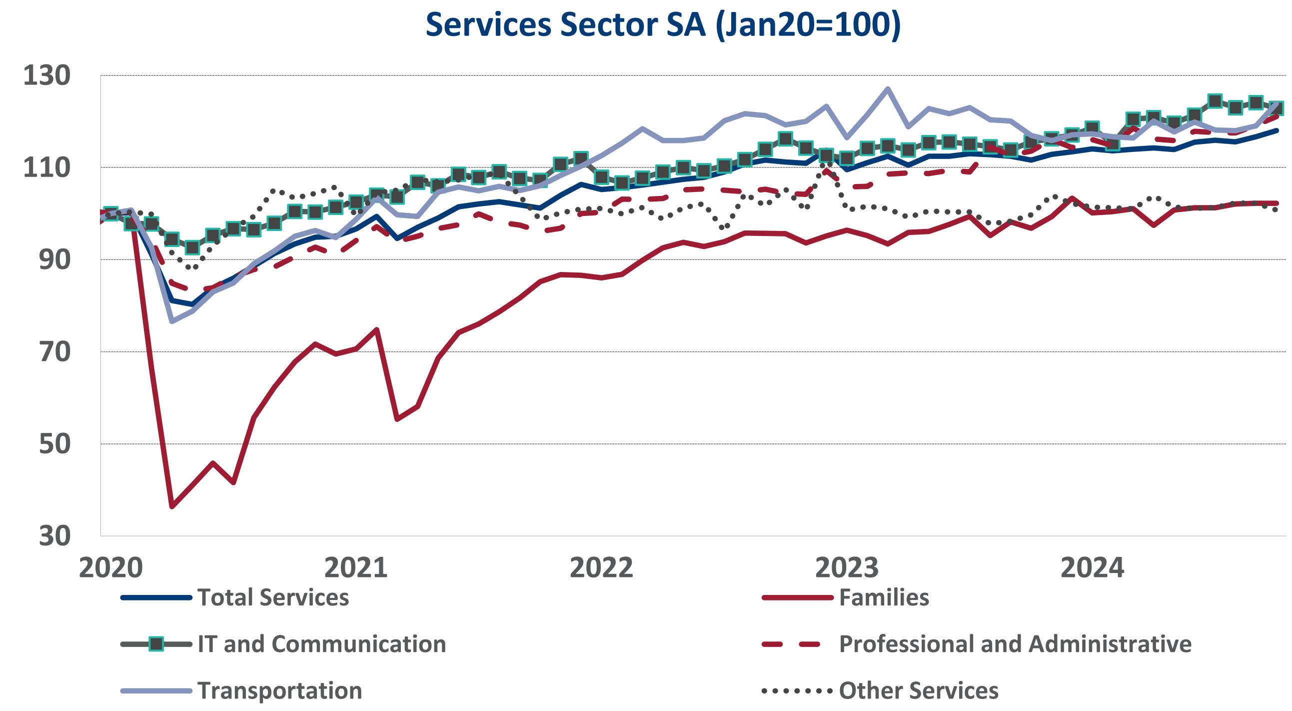


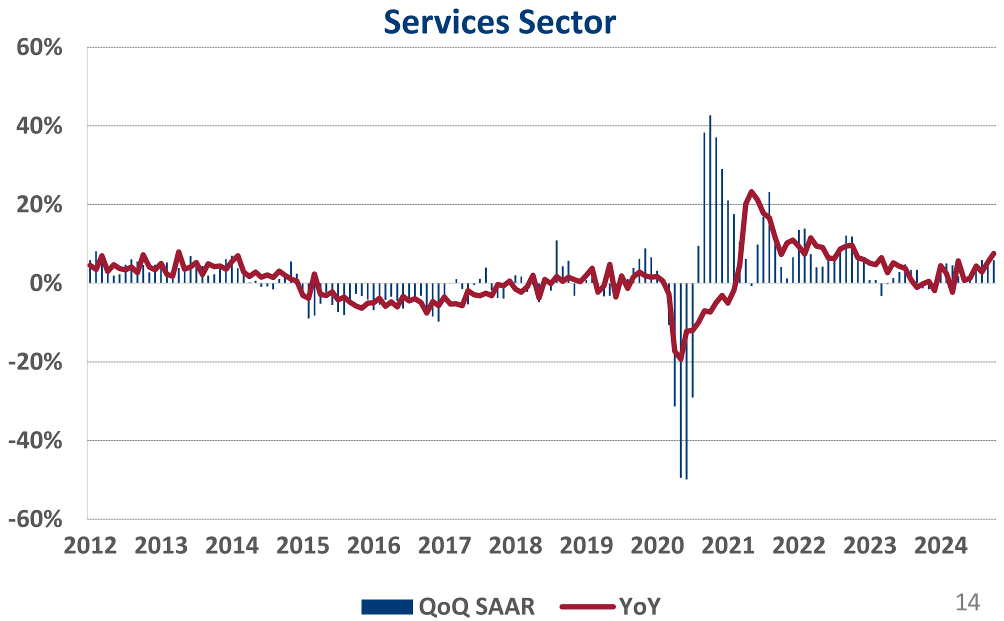
Source: IBGE, BOCOM BBM

Brazil: Services

- The services sector advanced 1.1% MoM (6.3% YoY) in October, above market expectations of 0.6% MoM (5.6% YoY);
- The upward surprise came mainly from air transportation services (27% MoM; 34% YoY), which may show some payback in the next release;
- In the breakdown, most of the service categories showed positive signs, with ‘technical-professional’ services rebounding (3.8% MoM; 13.8% YoY), and services rendered to families and information & communication services remaining on an upward trend in YoY terms, despite some moderation at the margin;
- In all, the figures from October corroborate the view that the tertiary sector will continue a growth path, although, most likely, losing strength throughout 2025.





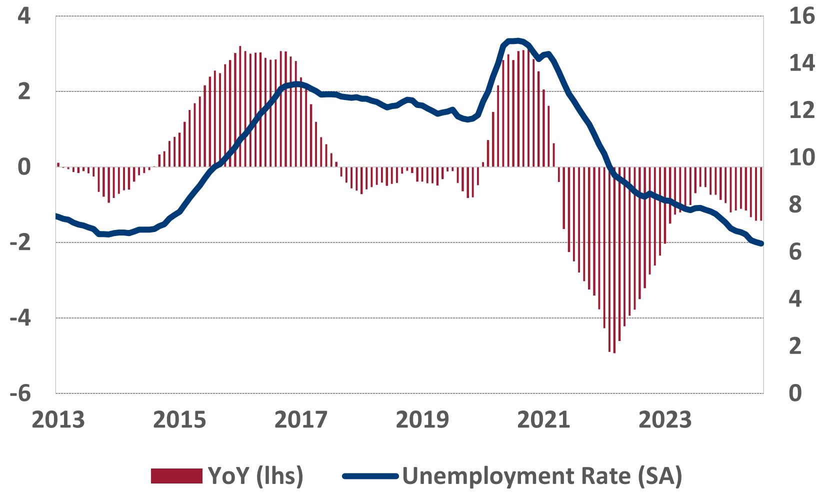


Source: IBGE, BOCOM BBM

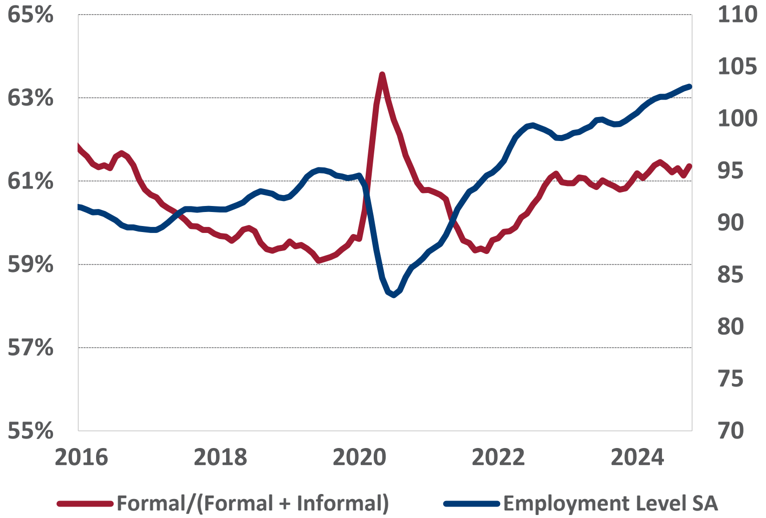
Brazil: PNAD

- The unemployment rate decreased to 6.1% in the moving quarter up to November, from 6.2% on the previous period;
- Seasonally adjusted, the indicator reached 6.35% in November, 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 remained stable at 62.4% in November, still running considerably below pre-pandemic levels (around 63.5%);
- Real labor earnings increased 0.31% MoM, remaining at high levels;
- Real aggregated labor income increased 0.44% MoM and 7.2% YoY in November .

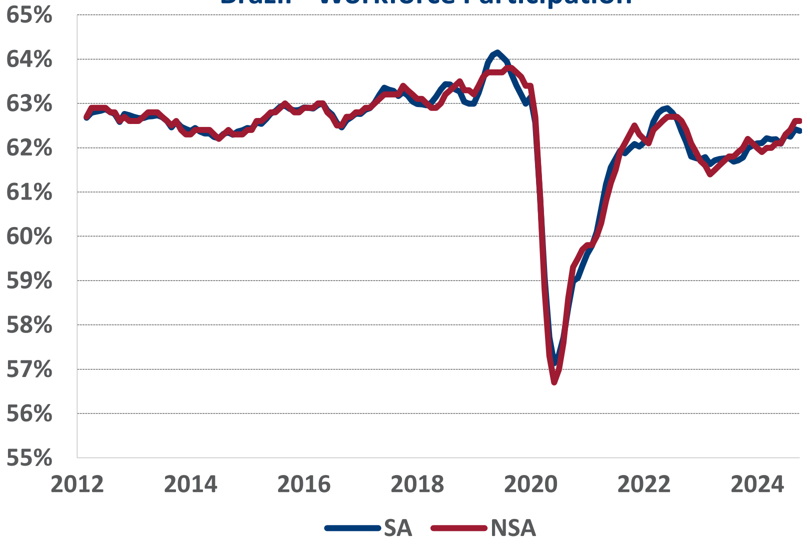
Brazil - Unemployment Rate



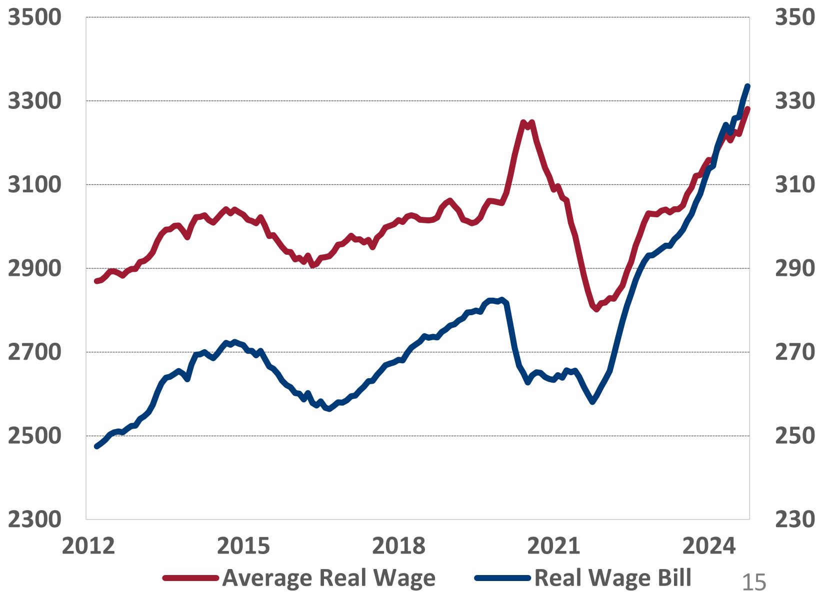
Brazil - Employment Level SA



Brazil - Workforce Participation



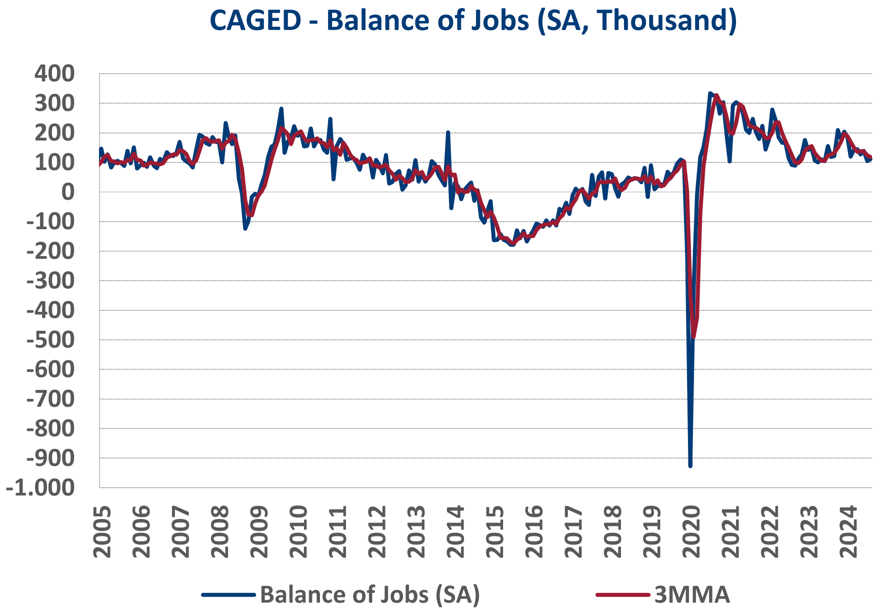
Brazil - Average Real Wage and Real Wage Bill

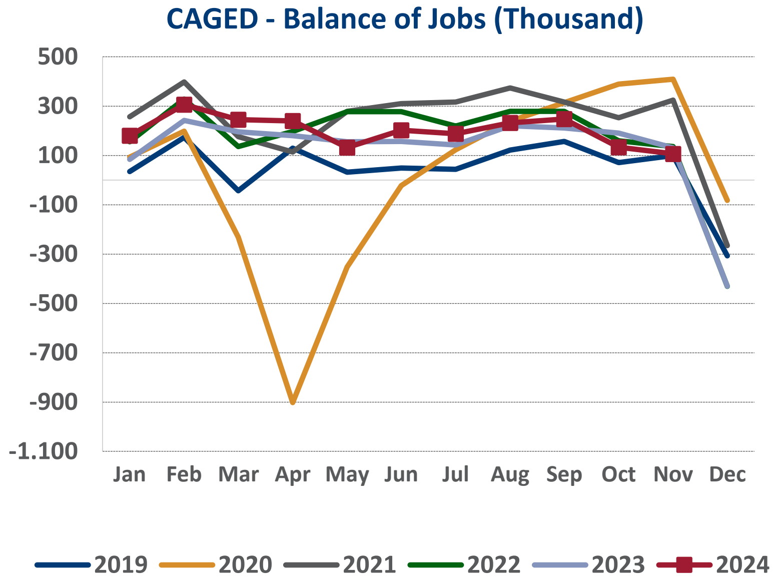


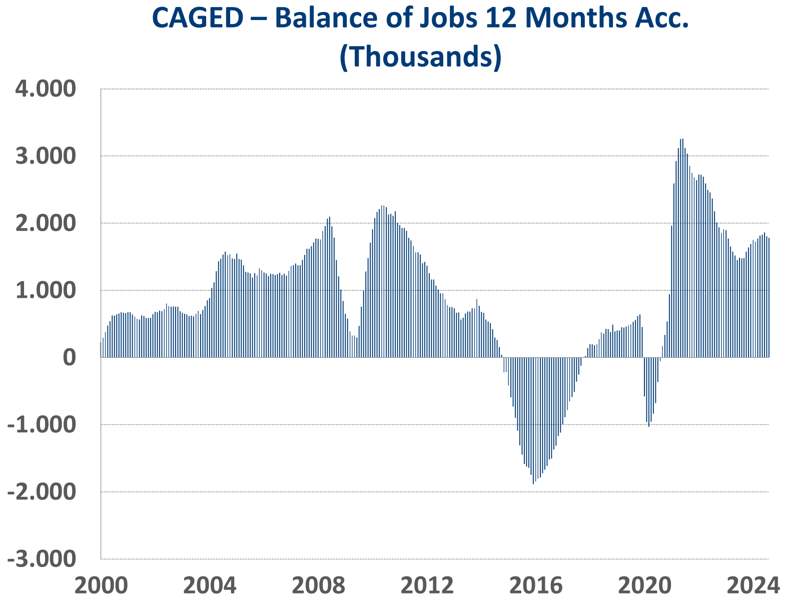
Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

- Caged registered a net creation of 106.6k formal jobs in November, below market expectations (120.0 k);
- The net addition of jobs totaled about 2.2 million from January to November 2024, considerably above the same period of 2023 (1.9 million);
- Formal job hiring fell by 4.4% MoM, following an accumulated increase of around 4% in the previous two months, but remains at historically high levels;
- All in all, the data is in line with the expected scenario of a soft landing in domestic activity by 2025.







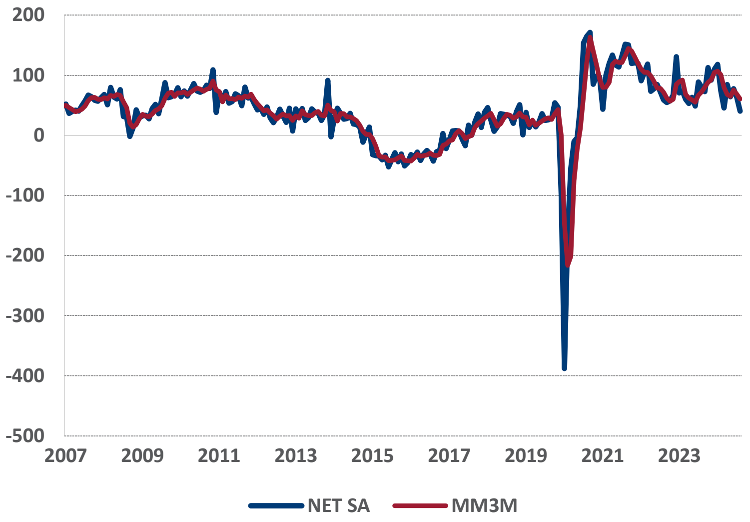
Source: BOCOM BBM, MTE

Brazil: Formal Labor Market

- The breakdown shows that all major sectors registered positive net results, albeit decelerating from the previous reading;
- The biggest positive contribution came once again from services with a net creation of 40.3k formal jobs;
- Industry was the second best, creating around 25.4k formal jobs;
- Retail sales, in turn, registered 7.2k formal jobs;
- Finally, the construction sector also created about 7.2k formal jobs.

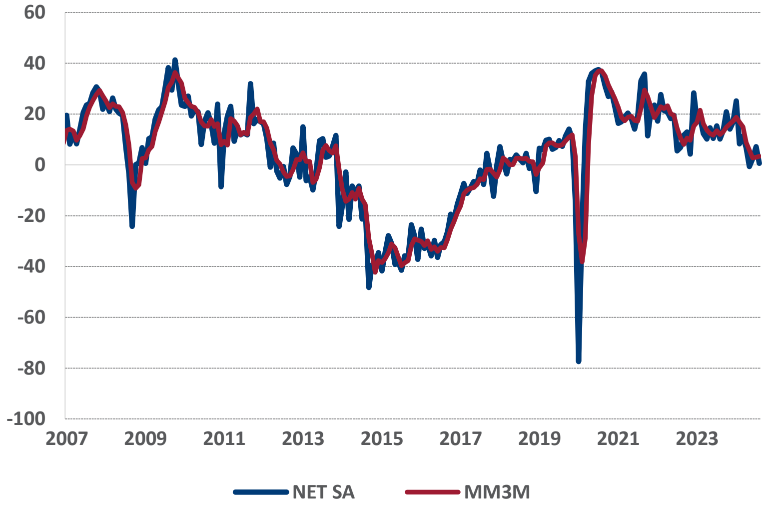
Brazil - Retail Net Payroll Job Creation (SA)

Brazil - Services Net Payroll Job Creation (SA)



Brazil - Industry Net Payroll Job Creation (SA)

Brazil - Construction Net Payroll Job Creation (SA)

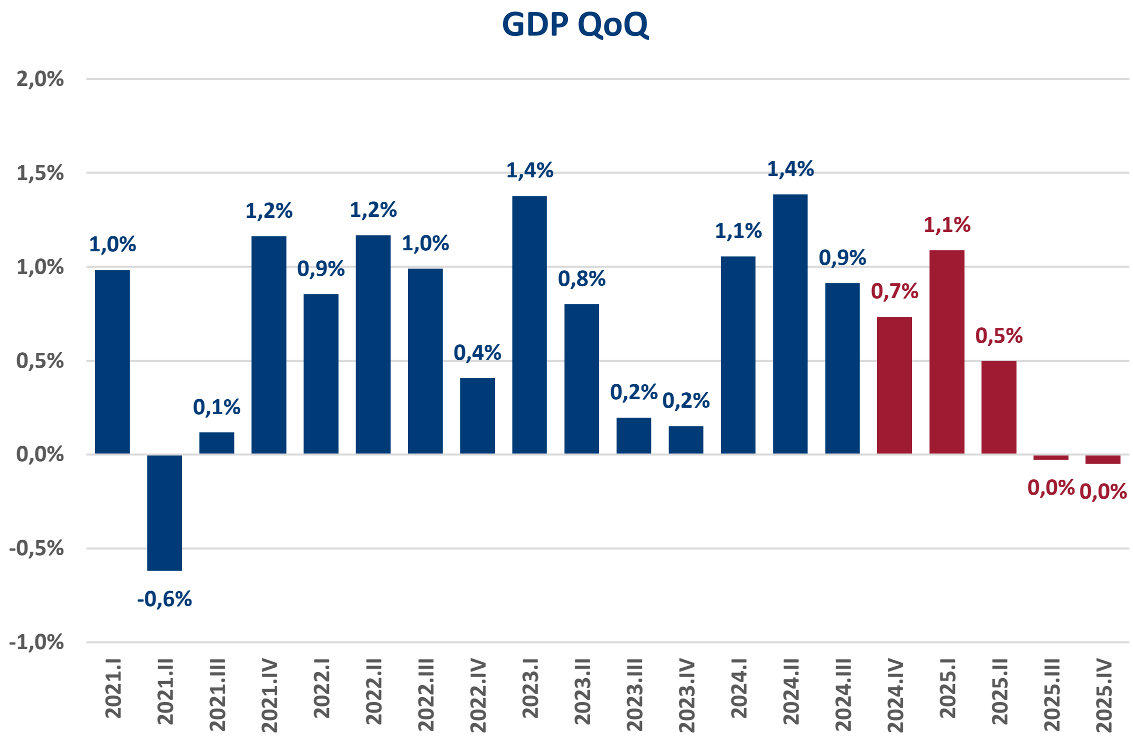


Source: BOCOM BBM, MTE

Brazil: GDP Forecast

- Following stronger-than-expected 3Q GDP data and October monthly economic activity indicators, we increased our forecast for GDP growth in 2024 from 3.5% to 3.6% and for the fourth quarter from 0.5% to 0.7% QoQ;
- Economic activity has proven to be more resilient than expected, but the strong tightening of financial conditions should promote a more significant slowdown from the second quarter of 2025;
- Growth in 2025 should remain at around 2%, thanks to the contribution of less cyclical sectors of the economy (such as agriculture and extractive industries);
- By 2026, the lagged effects of monetary policy should be more significant, reducing growth to a level close to 1%.

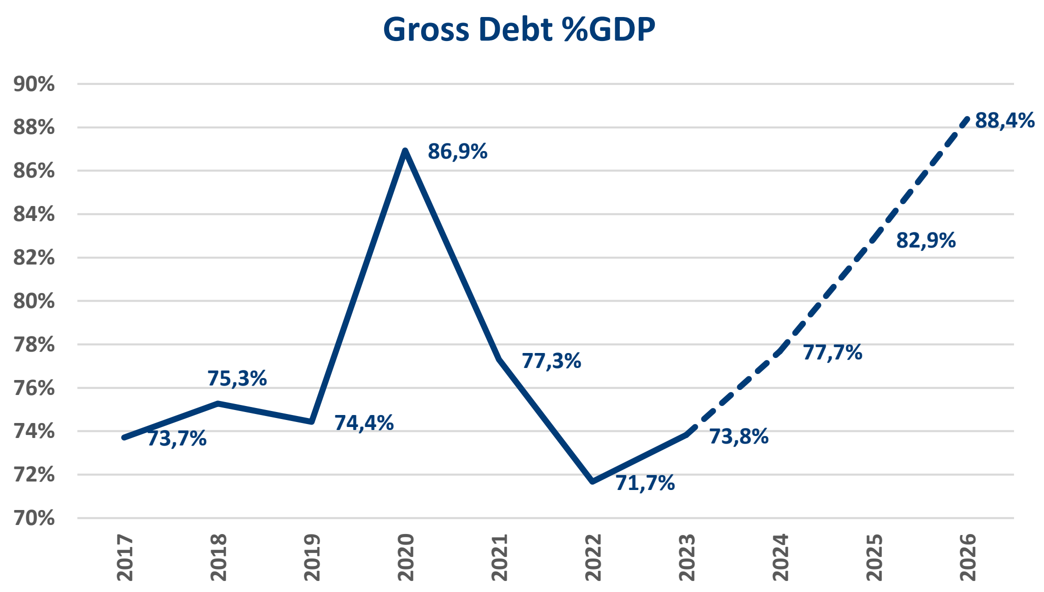
Forecasts					
	2024.IV QoQ	2024.IV YoY	2024	2025	2026
GDP	**0.7%**	**4.5%**	**3.6%**	**2.2%**	**1.3%**
Agriculture	**-1.7%**	**-0.5%**	**-3.1%**	**6.0%**	**3.6%**
Industry	**1.2%**	**3.8%**	**3.6%**	**1.2%**	**1.3%**
Mining	1.1%	-3.0%	0.7%	5.2%	6.2%
Manufacturing	1.4%	6.3%	4.0%	-0.3%	-0.1%
Electricity	5.1%	2.5%	5.2%	3.0%	1.9%
Civil Construction	2.6%	5.5%	4.4%	1.9%	0.7%
Services	**0.8%**	**4.3%**	**3.9%**	**2.2%**	**1.2%**
Retail	0.2%	4.7%	3.8%	0.8%	0.2%
Transports	0.3%	3.9%	1.9%	1.8%	0.1%
Information and Communication	0.6%	7.5%	6.6%	3.6%	2.0%
Financial Services	1.5%	5.5%	4.6%	5.4%	2.4%
Rents	0.9%	3.4%	3.5%	3.0%	2.9%
Other Services	1.1%	6.1%	5.8%	2.2%	0.6%
Public Administration	-0.1%	1.5%	1.8%	1.1%	1.4%

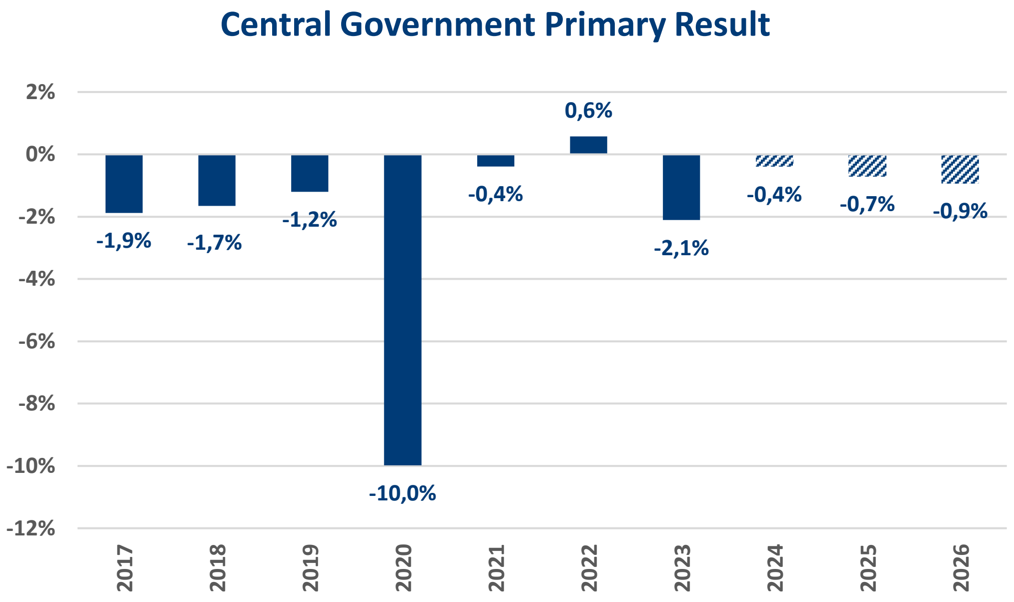


Source: BOCOM BBM, IBGE

Brazil: Fiscal Policy

- The perception of fiscal risk has increased significantly in the last few weeks;
- The fiscal package was seen as insufficient to contain the growth of mandatory expenditure and its announcement was linked to a promise to raise the income tax threshold to BRL 5,000 per month, increasing the likelihood of continuous growth of the public debt in the years ahead;
- Our scenario contemplates deficits in the vicinity of 1% of GDP in the next two years, with gross debt rising to 88.4% of GDP in 2026, a growth of 16 percentage points in the four years of the incumbent administration.





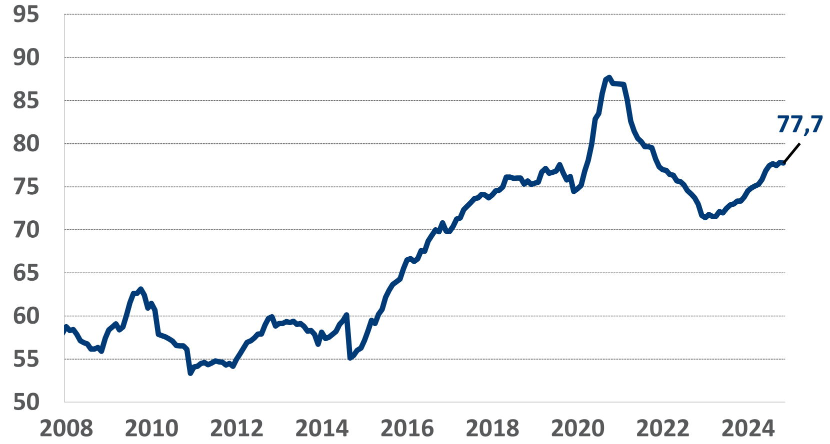
Source: BOCOM BBM, National Treasury, BCB

Brazil: Consolidated Public Sector Budget

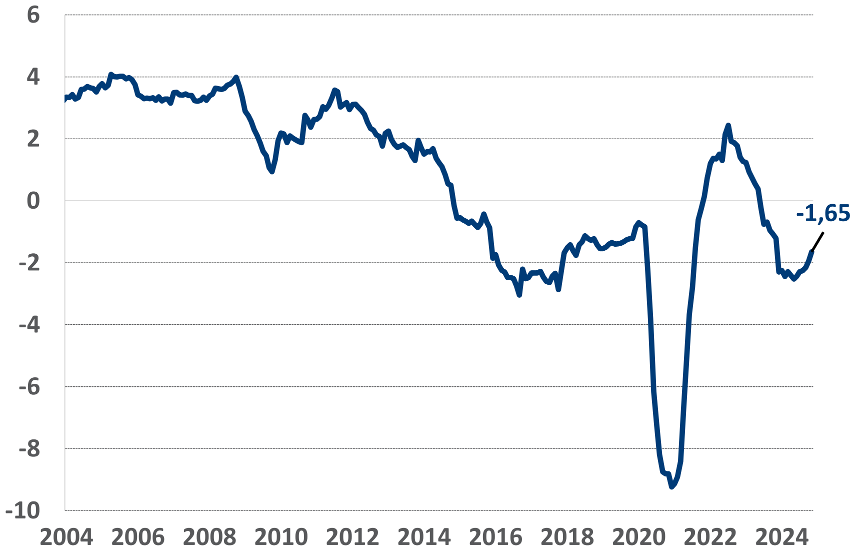
- The consolidated public sector recorded a primary deficit of BRL 6.6 billion in November, from a surplus of BRL 36.9 bn in October, above market consensus (BRL -7.0 billion). Central government and state-owned companies posted a deficit of 5.7 bn and BRL 1.3 bn, respectively, while states and municipalities presented a small surplus of BRL 0.4 bn;

- Gross General Government Debt fell by 0.1 pp. to 77.7% of GDP in November, driven by nominal GDP growth (-0.6 p.p.), net issuances (-0.3 p.p.), while nominal interest change (+0.7 p.p. of GDP) and exchange rate depreciation (+0.3 p.p.), partially offset it.

Gross General Government Debt (% GDP)

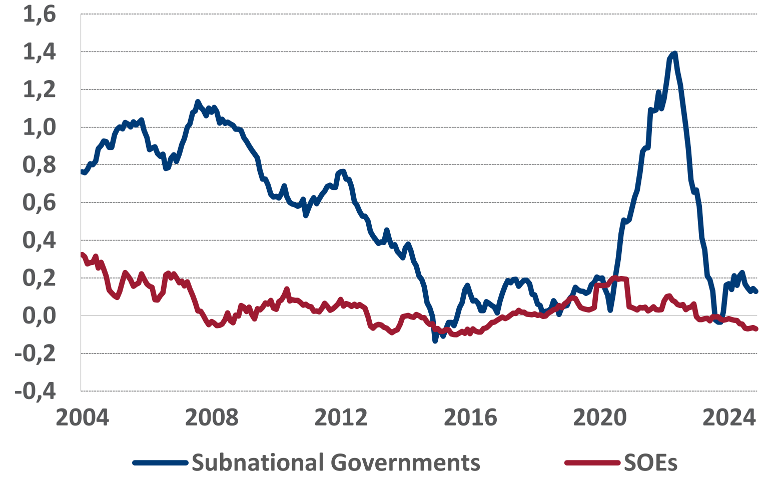


Primary Budget Balance (% GDP 12M)



Primary Balance: Central Government (% GDP 12M)

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



Source: BOCOM BBM, BCB

Brazil: Credit Statistics

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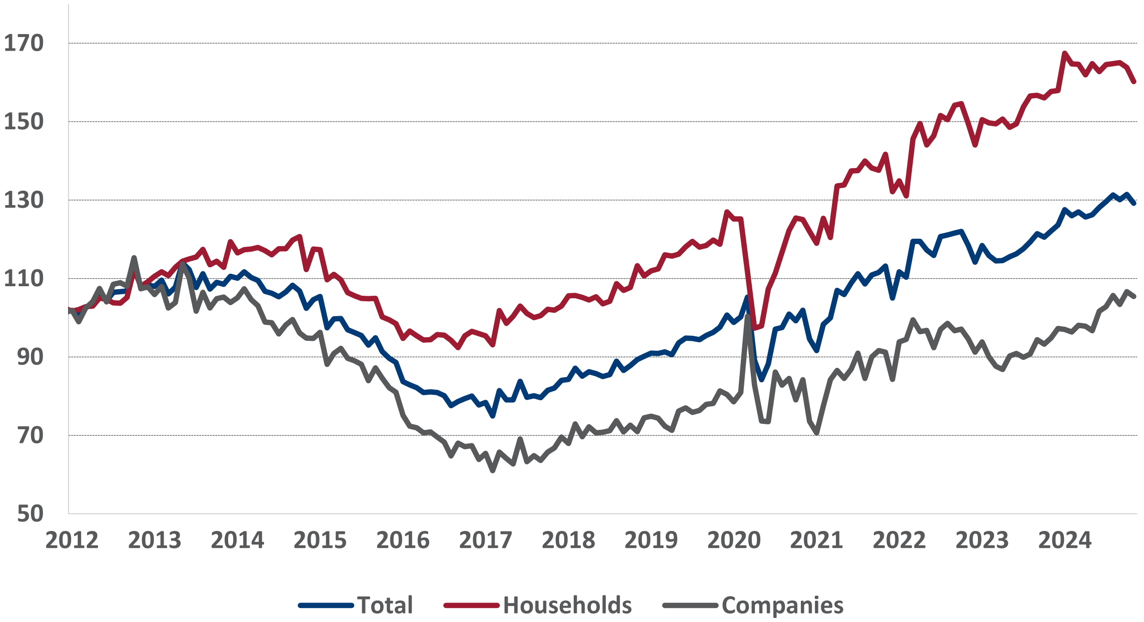
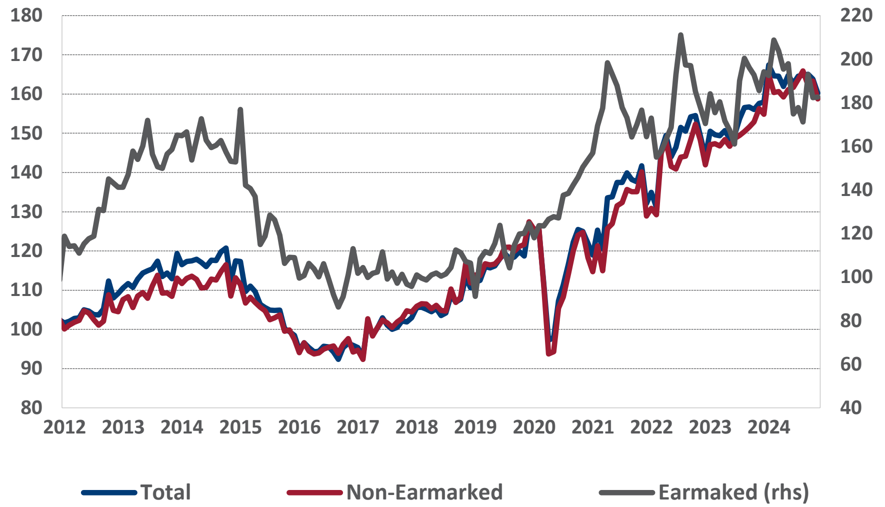
- In November, total credit concessions decreased 1.7% MoM in real terms, after increasing 1.0% in the last month;
- Non-earmarked credit concessions decreased 1.9% to companies and 2.8% households in real terms;
- Earmarked credit concessions, in turn, dropped 8.1% MoM to companies and increased slightly by 0.2% MoM to households in real terms;
- Despite the tightening of financial conditions in the second half of this year, credit and private bond issuance growth have been robust. November data are finally showing some slowdown in new credit operations.

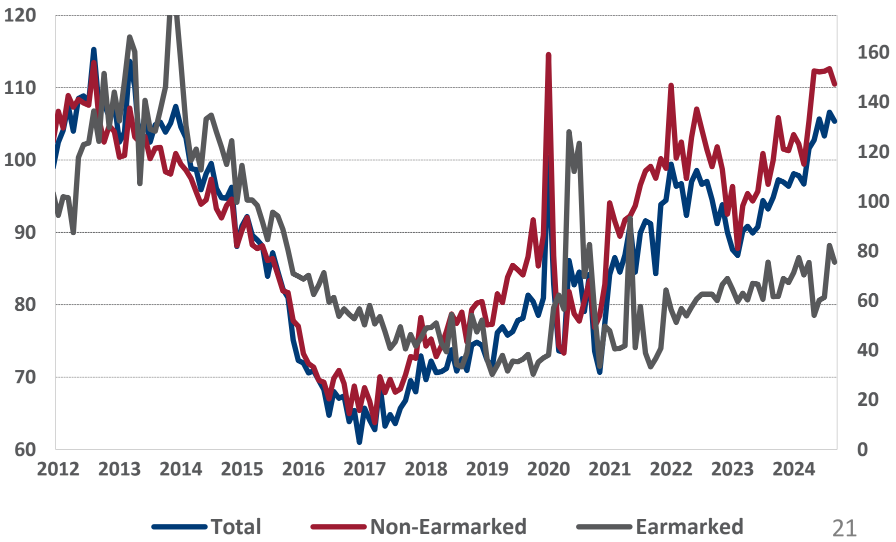
New Credit Operations SA (Real) - mar/11 = 100



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



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



Source: BOCOM BBM, BCB

Brazil: Credit Statistics

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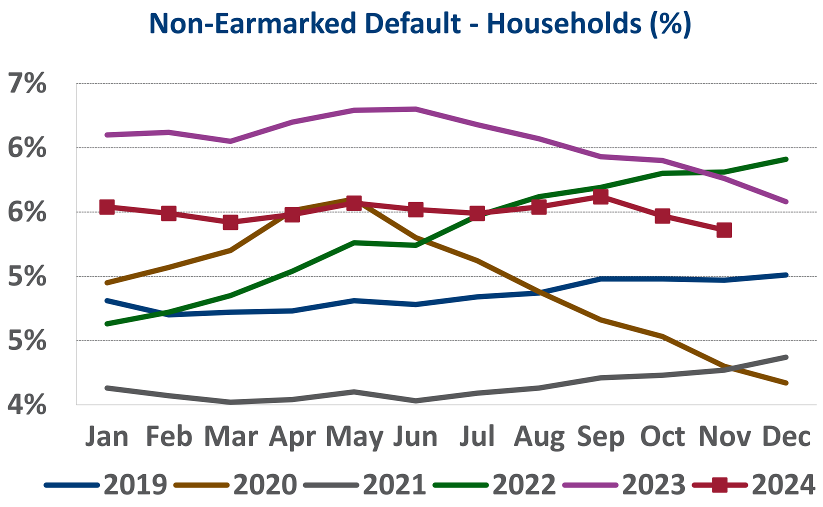
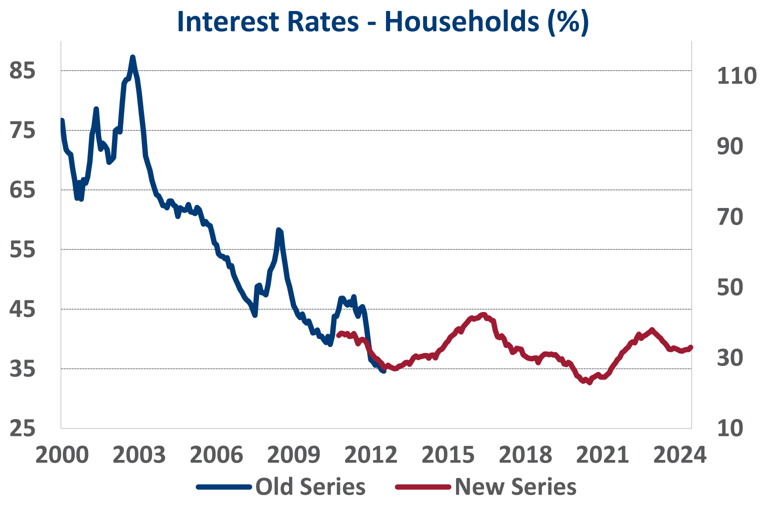
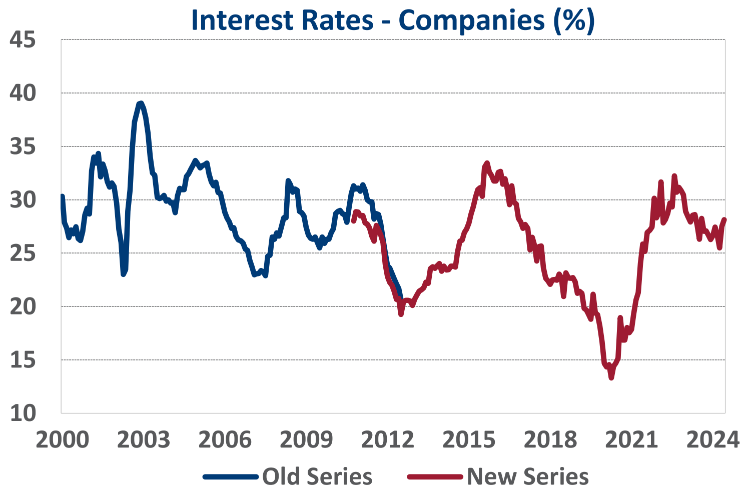
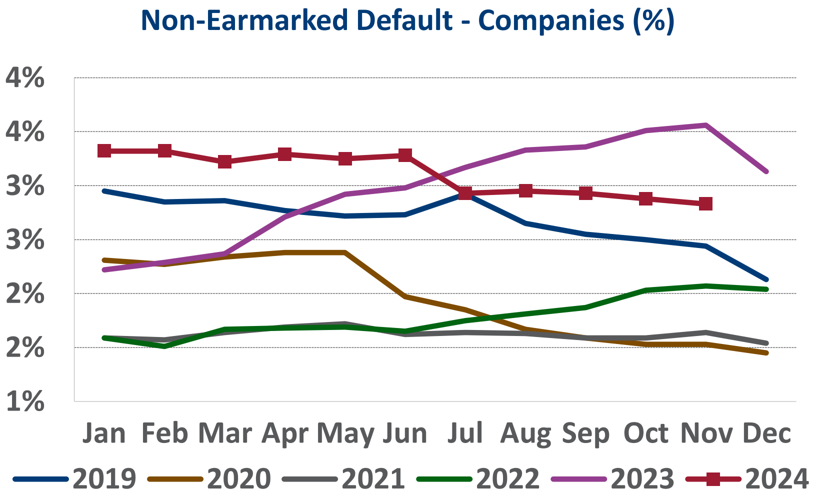
- The tightening is most evident in pricing;
- Lending rates increased from 32.4% to 33.0% for individuals and increased from 19.0% to 19.4% for companies;
- In turn, non-earmarked default rate is around 5.4% to individuals and 2.8% to companies (remaining relatively stable).





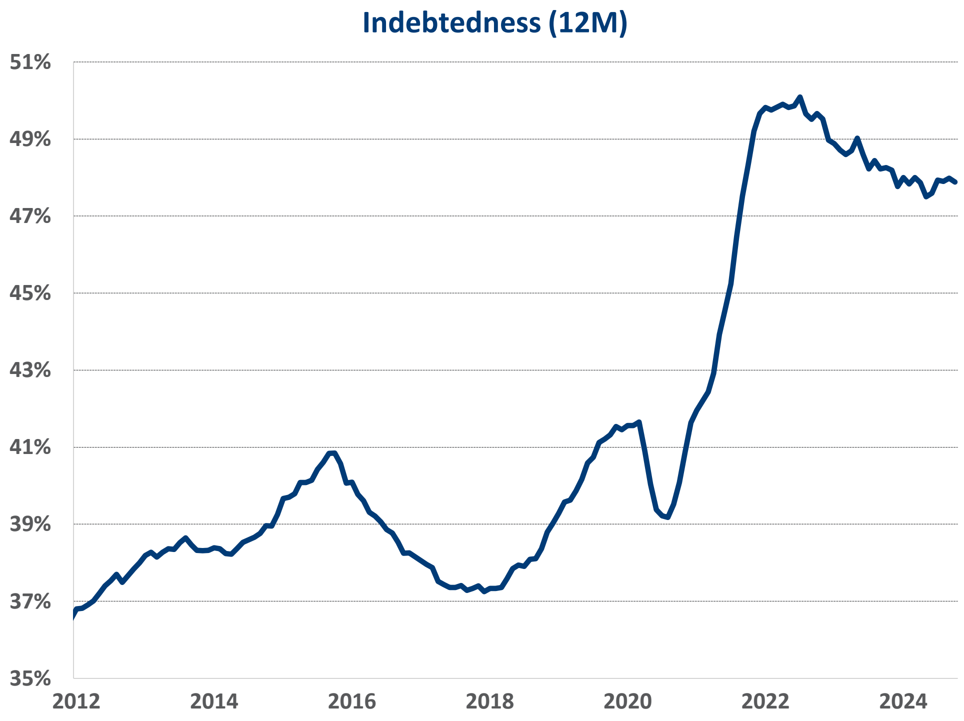


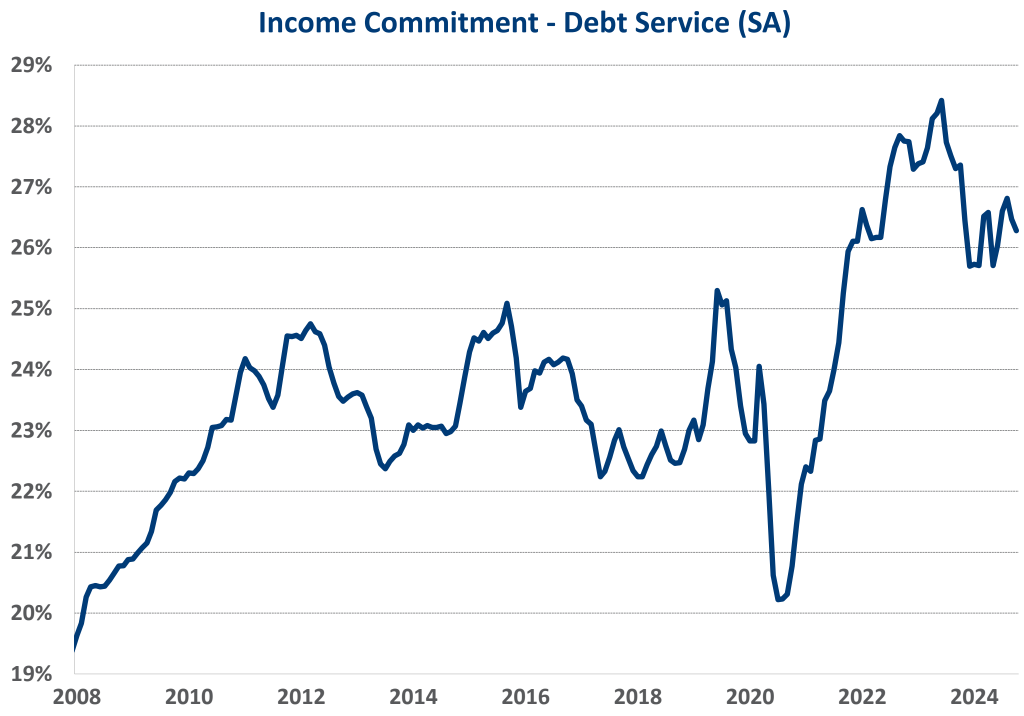


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- The ratio of household indebtedness decreased slightly to 47.9% in October (29.9% excluding mortgage debt), after reaching 48.0% in September;
- Income commitment decreased from 26.5% to 26.3%;





Source: BOCOM BBM, BCB

Brazil: Inflation 2024

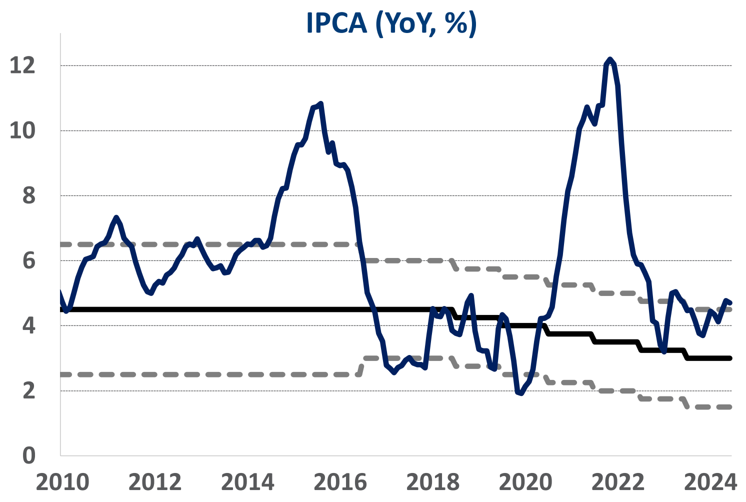
- December IPCA-15 rose by 0.34% MoM, well below expectations of 0.46% MoM;

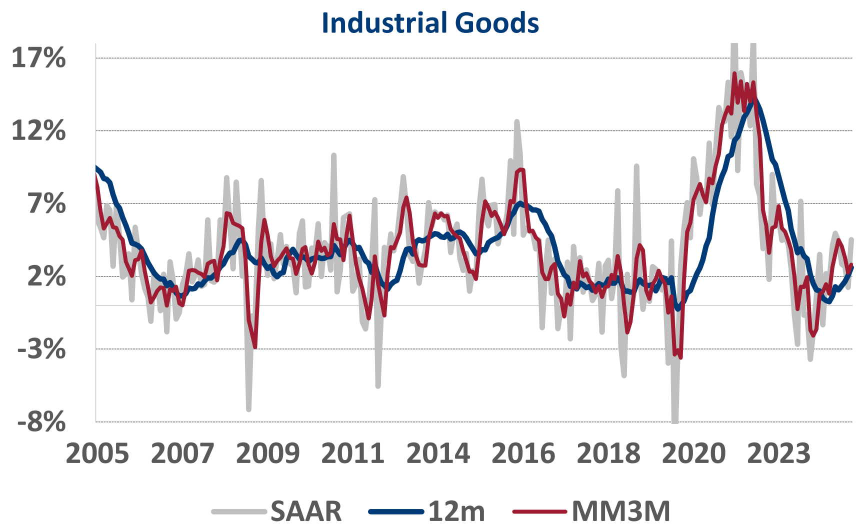
- The 12-month variation declined to 4.71% in December from 4.77% in November;

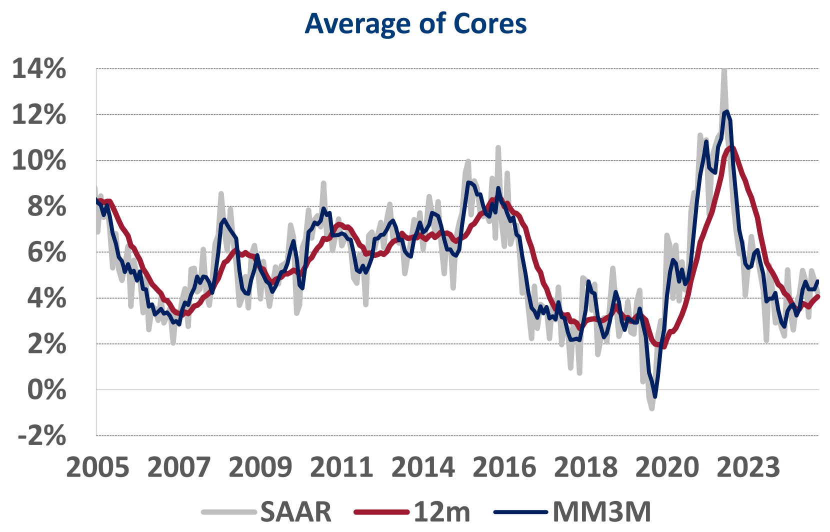
- The main downward deviation to our forecast came from airfares (-18bps). The activation of the 'green flag' on electricity fares and Black Friday discounts also pushed the headline downwards;

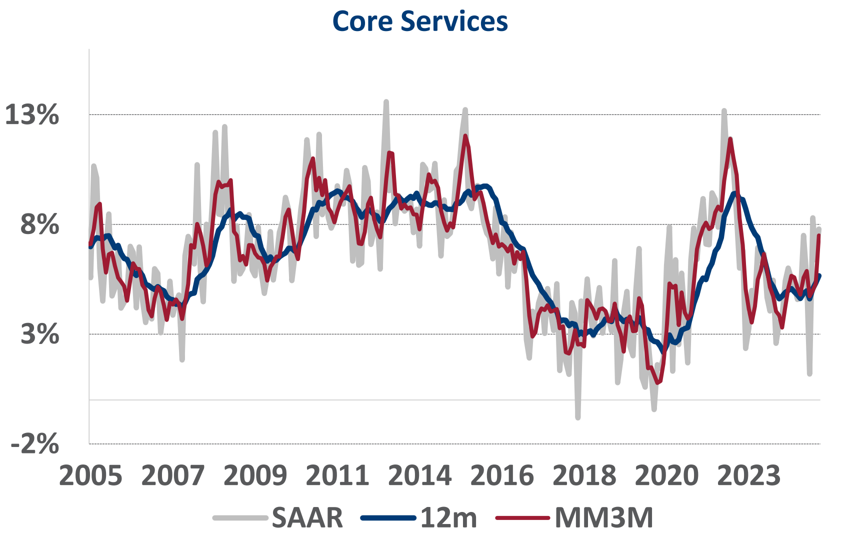
- Regarding the breakdown, core services advanced 0.71% MoM, well above expectations. The core services 3M SAAR spiked from 5.5% to 8.0%. Labor-intensive services were another highlight, advancing 0.57% MoM, with the 3M SAAR accelerating from 4.7% to 5.9%, the highest level since April. In turn, the average of core inflation advanced 0.41% MoM and its 3M SAAR increased from 4.3% to 5.0%, drifting away from the inflation target (3.0%);

- Therefore, the decomposition still shows deterioration driven by the heated labor market, depreciated exchange rates and unanchored inflation expectations.









Source: BOCOM BBM, IBGE

Brazil: Inflation 2024

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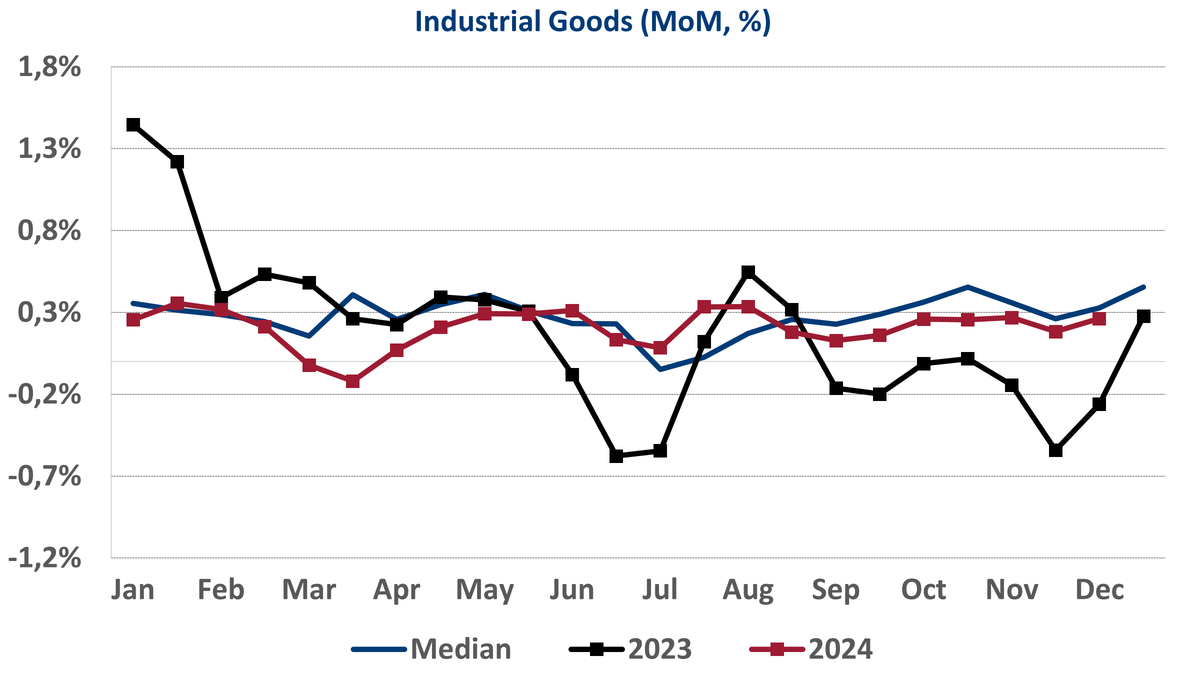
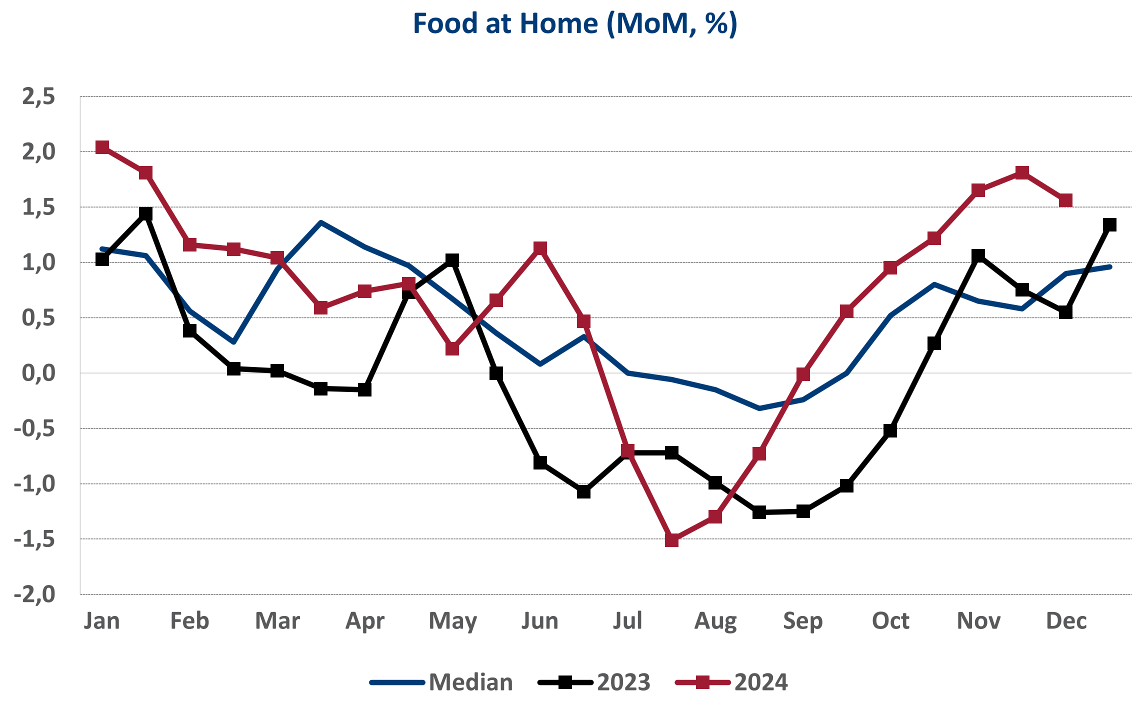
- Foodstuff prices rose by 1.56% MoM on the heels of higher protein prices;
- Industrial goods prices advanced 0.26% MoM, with the 3M SAAR advancing from 3.2% to 3.6% in face of lower-than-expected Black Friday discounts. It is expected an acceleration in the coming months reflecting the more depreciated exchange rate.





Source: BOCOM BBM, IBGE

Brazil: Inflation

- After Dezember IPCA-15 result, we decreased our forecast for December IPCA, reflecting lower airfares inflation. Consequently, our forecast for 2024 is now at 4.9%;
- For 2025 and 2026 we forecast 5.5% and 4.5%, as the lagging effects of monetary policy on inflation will tend to become visible only during 2026.

IPCA (%, annual)

	Weight	2020	2021	2022	2023	2024	2025	2026
Regulated	**26.6**	**2.6**	**16.9**	**-3.8**	**9.1**	**4.6**	**4.6**	**4.4**
Industrial goods	**23.6**	**3.2**	**11.9**	**9.5**	**1.1**	**2.8**	**4.2**	**3.8**
Durable goods	10.3	4.5	12.9	6.1	-0.4	1.3	2.7	-
Semi-durable goods	5.9	-0.1	10.2	15.7	2.7	1.9	3.5	-
Non-durable goods	7.3	4.0	11.9	9.5	1.7	5.5	6.7	-
Food at home	**15.7**	**18.2**	**8.2**	**13.2**	**-0.5**	**8.7**	**7.4**	**4.8**
Services	**34.1**	**1.7**	**4.8**	**7.6**	**6.2**	**4.6**	**6.4**	**4.9**
Food away from home	5.6	4.8	7.2	7.5	5.3	6.5	7.6	4.7
Related to minimum wage	5.2	1.5	3.3	6.3	5.2	5.2	6.2	4.9
Sensitive to economic activity	8.2	0.2	5.1	6.3	9.5	0.6	5.3	4.7
Inertial	15.0	1.6	4.2	8.8	5.1	6.0	6.5	5.0
IPCA		**4.5**	**10.1**	**5.8**	**4.6**	**4.9**	**5.5**	**4.5**

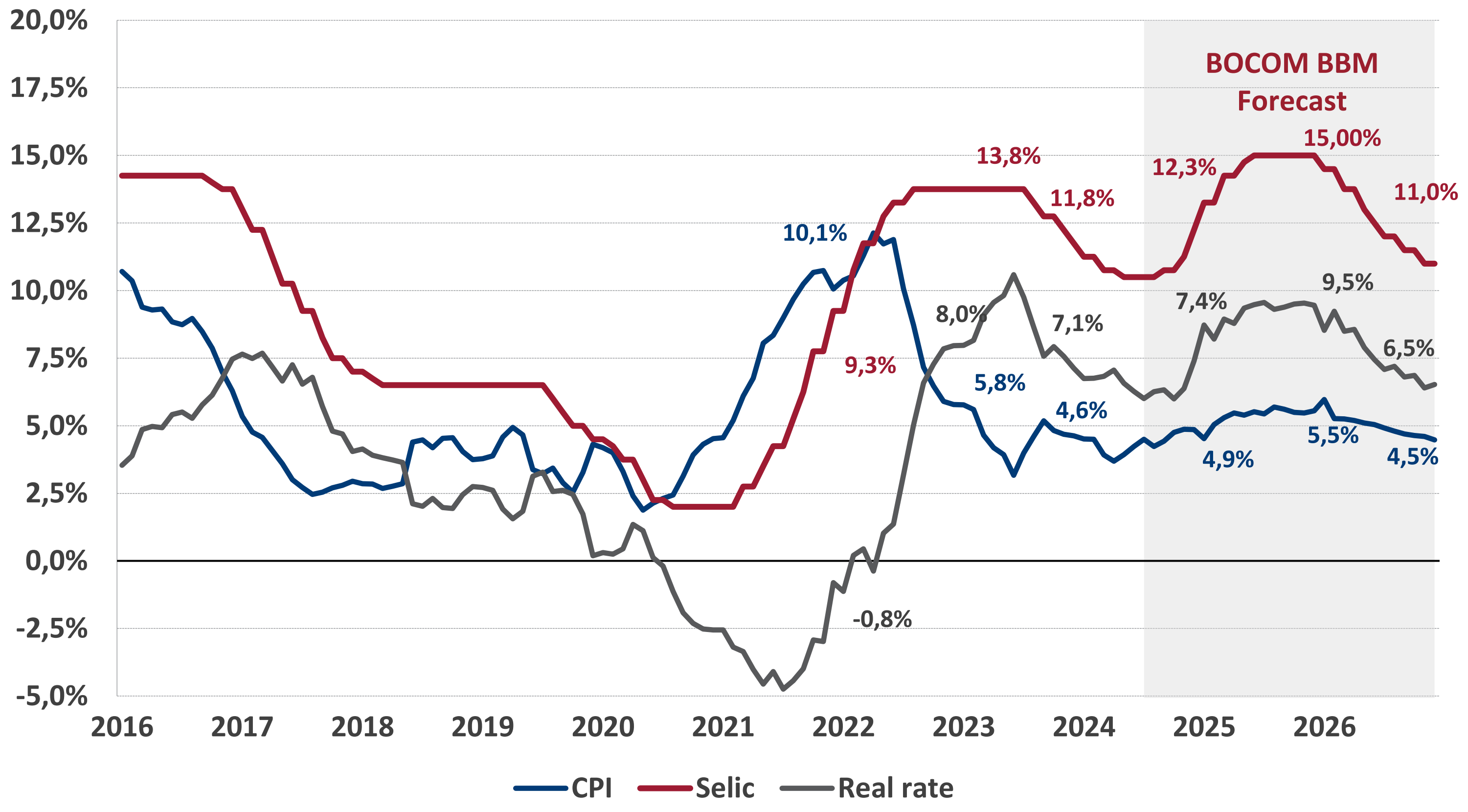
Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

BANK OF COMMUNICATIONS BBM

- Concerning monetary policy, the Brazilian Central Bank (BCB) raised the Selic rate by 100 bps to 12.25% p.a. at its December meeting, doubling the pace. The committee increased its inflation forecast to 4.0% in the relevant horizon (2Q 2026) and kept the asymmetry in the balance of risks, drawing attention to the materialization of a more adverse scenario. The increase of the output gap, and sharp deterioration of inflation and currency dynamics, in addition to a stronger-than-anticipated credit and fiscal stimuli, were highlighted in the composition of a more challenging outlook ahead. Given this perspective, the committee indicated that expects hikes of the same magnitude in the next two meetings. This means that if the scenario evolves as expected, Selic rates will reach 14,25% by March of 2025.

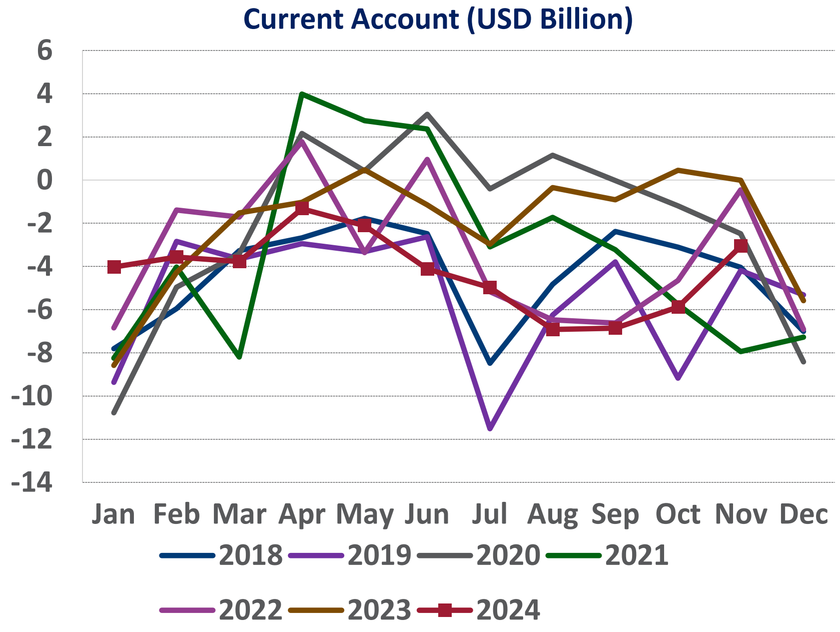
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

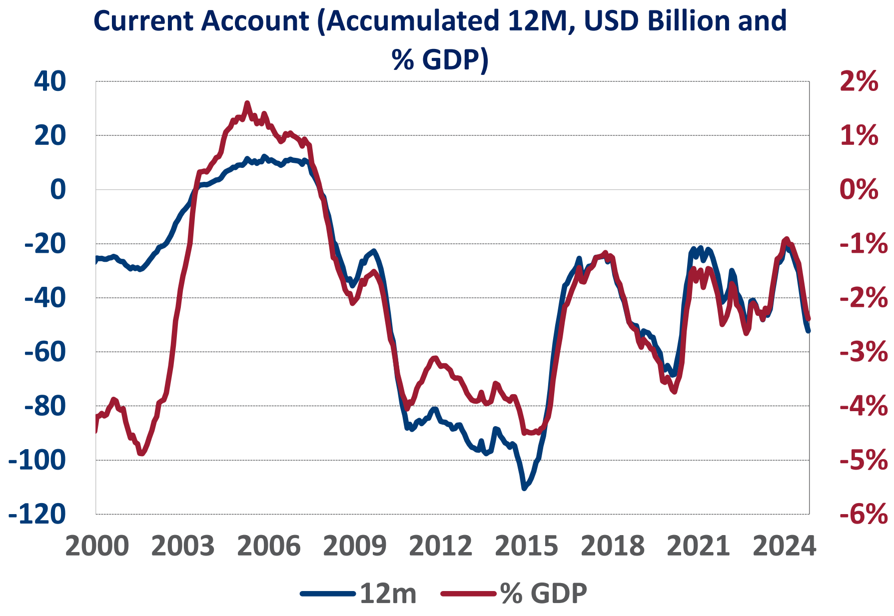


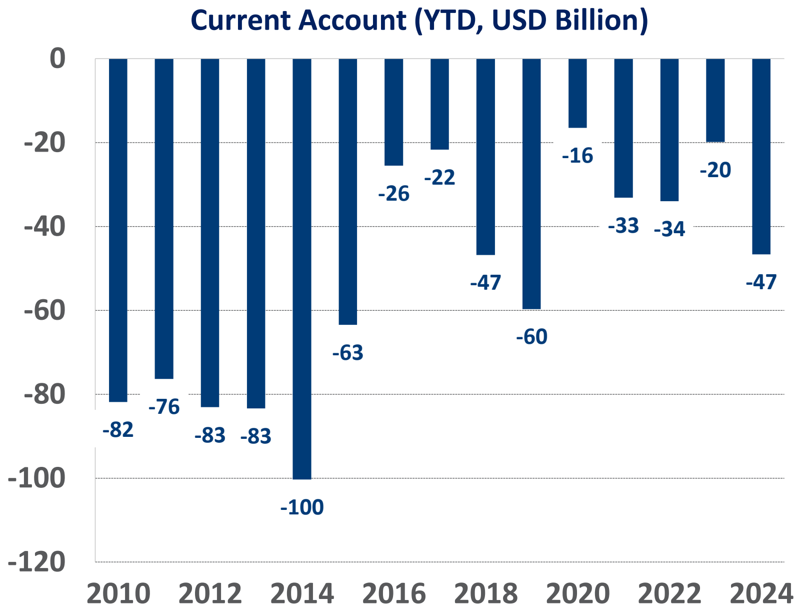
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- In November, the Brazilian current account printed a USD 3.1 billion deficit, roughly in line with expectations (USD -3.4 billion);
- For the 12-month rolling sum up to November, the deficit amounted to USD 52.2 billion (-2.4% of GDP);
- This result represents the realization of a trade surplus slowdown and continued high spending on services and income. It is expected that the current account deficit narrows moderately in 2025 in line with the slowdown in economic activity and the exchange rate depreciation.



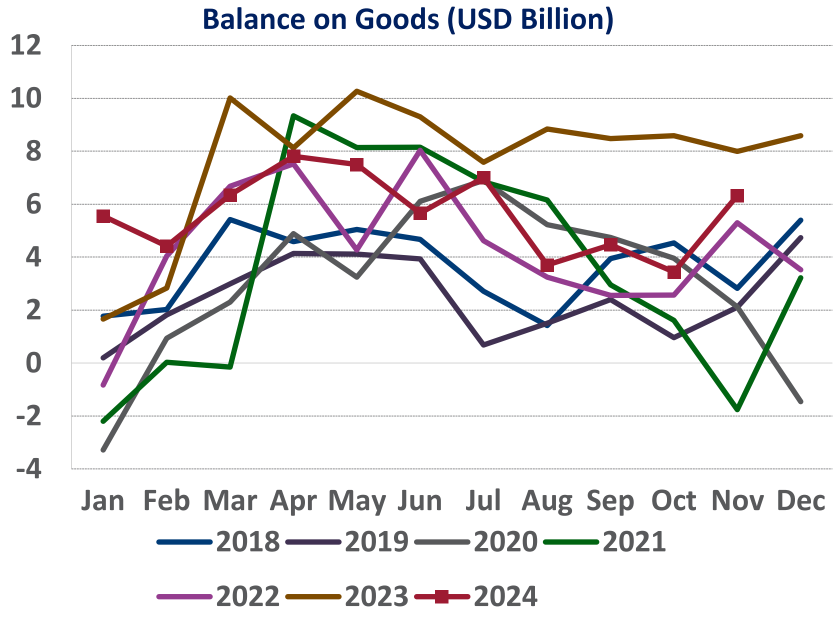


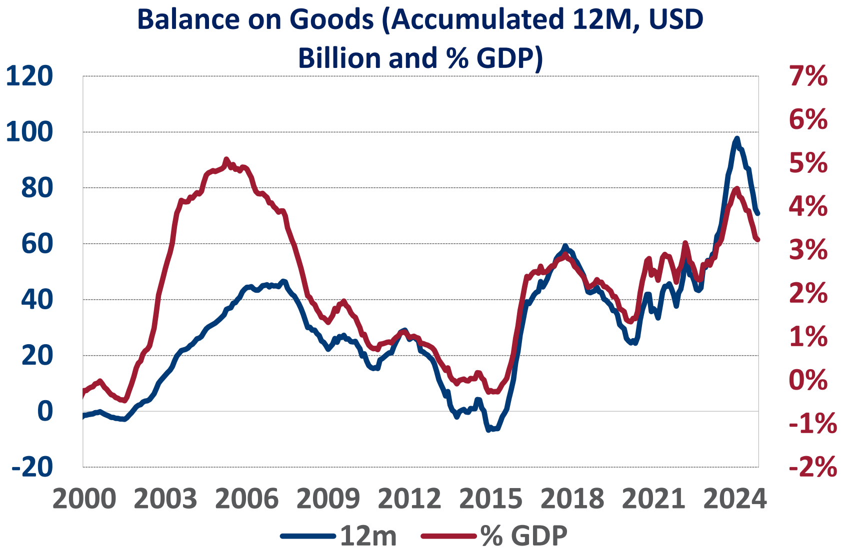


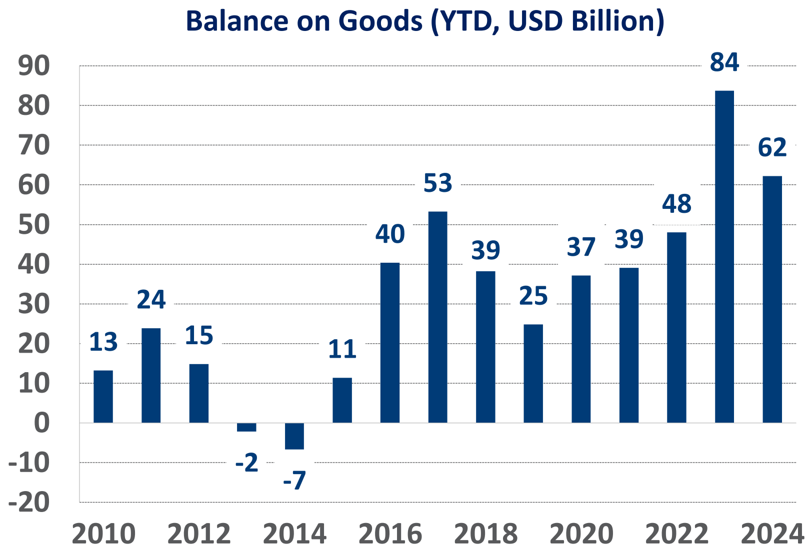
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- The trade balance recorded a surplus of USD 6.3 billion in November 2024, down from the USD 8.0 billion recorded one year earlier;
- This reduction was mainly driven by the increase in imports (8.9% YoY), reflecting the heated domestic demand, while exports grew modestly (0.4% YoY);
- Additionally, the trade balance reached USD 70.8 billion in the 12-month rolling sum up to November (3.2% of GDP);
- The 12-month accumulated trade balance remains at high levels, although below the figures observed one year ago (e.g., USD 87.2 billion or 4.0% of GDP in November 2023).



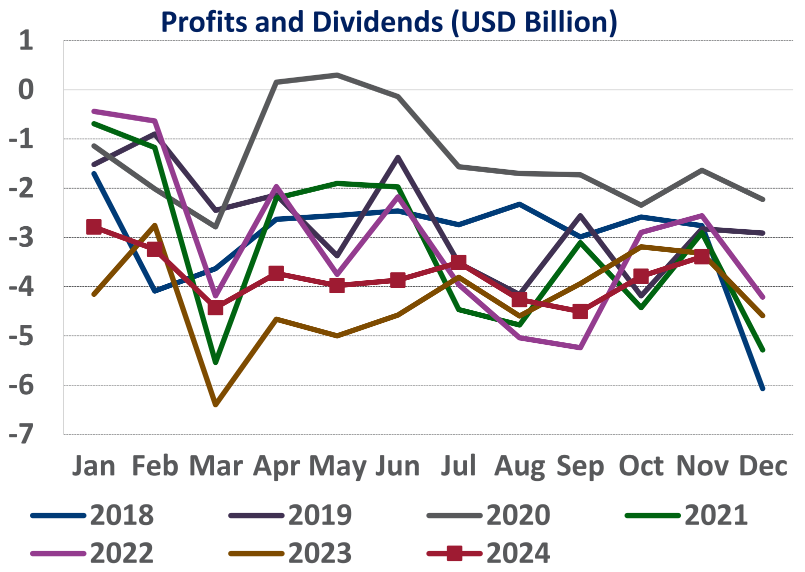


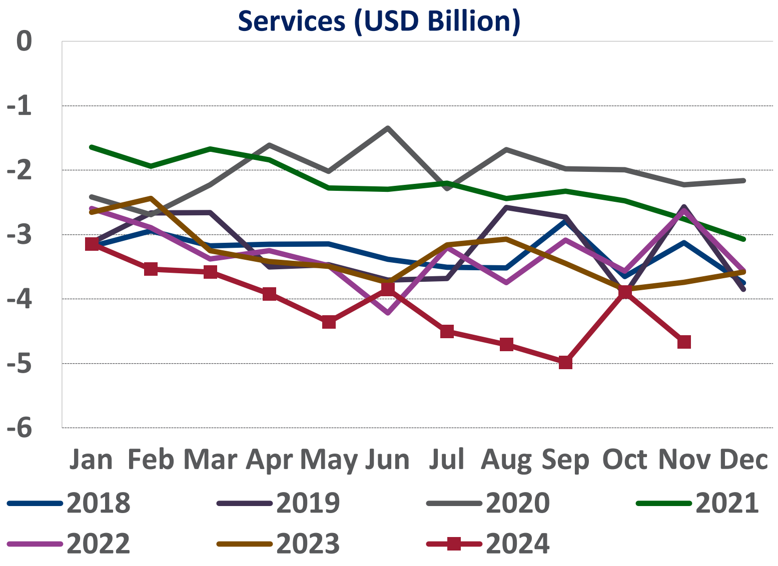


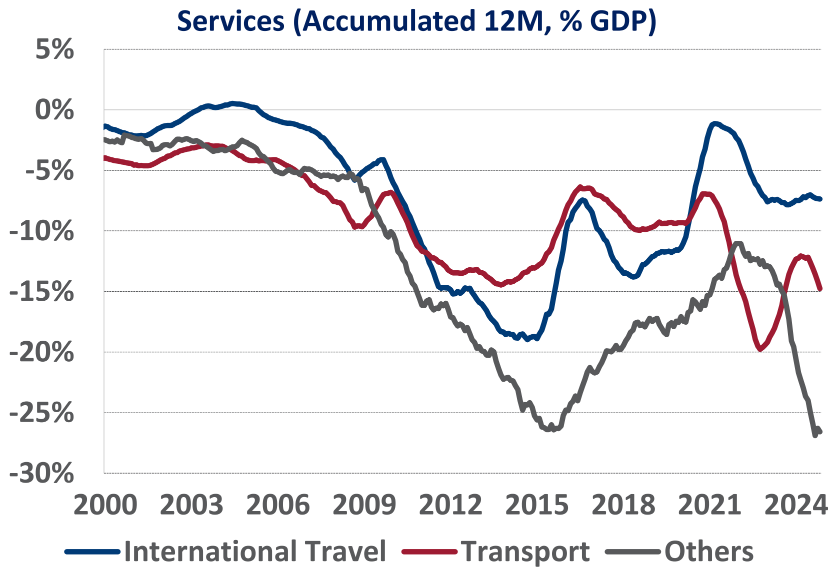
Source: BOCOM BBM, BCB

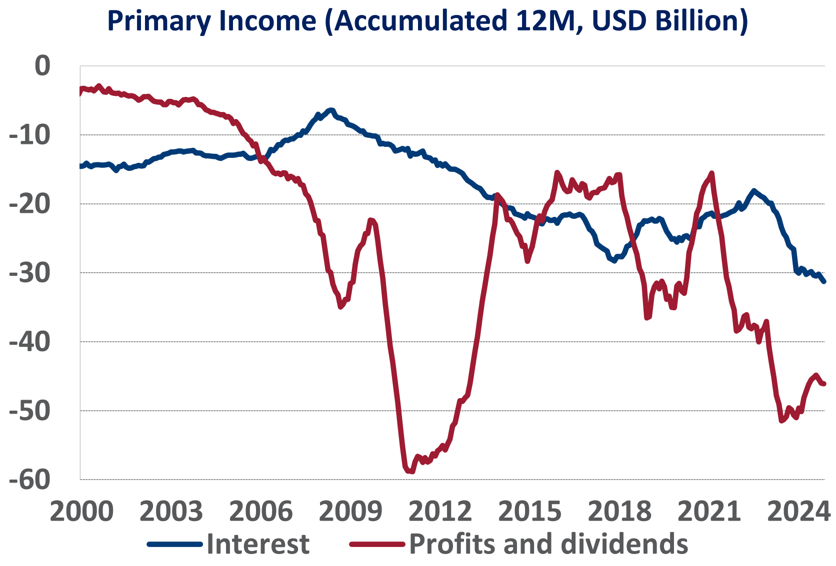
Brazil: Balance of Payments

- The services deficit increased to USD 4.7 billion in November 2024, from USD -3.7 billion recorded in the same month last year;
- The ‘transportation services’ account was the main contributor to this result, continuously elevated by increases in imported volume and freight costs;
- Besides the effects of stronger domestic demand, the greater expenditure in sectors like ‘charges for the use of intellectual property’ and ‘telecommunication, computer & information’ explain much of the year-over-year difference;
- The deficit in the primary income account amounted to USD 5.0 billion in November 2024 from USD 4.4 billion in November 2023, and the 12-month rolling sum deficit in the Primary Income account reached USD 76.9 billion (-3.51% of GDP).





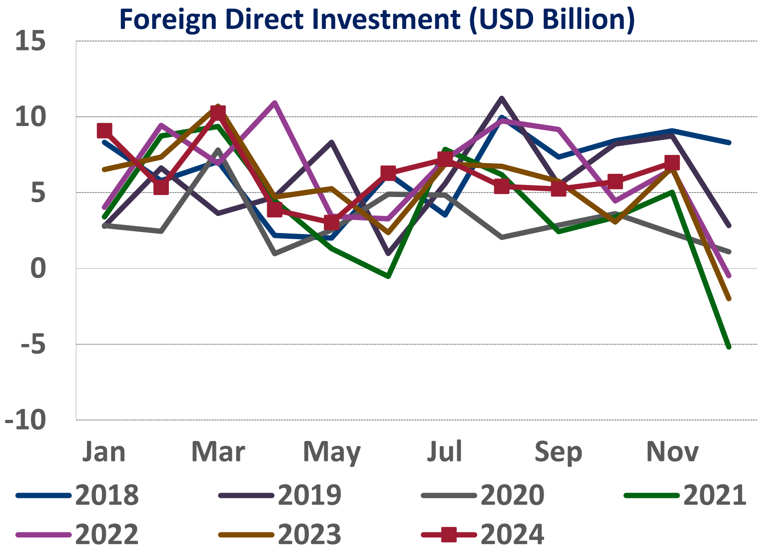


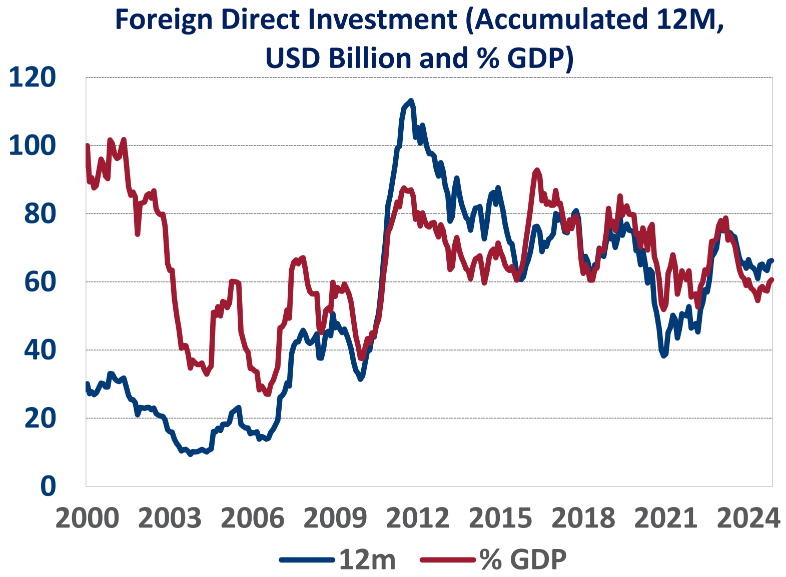


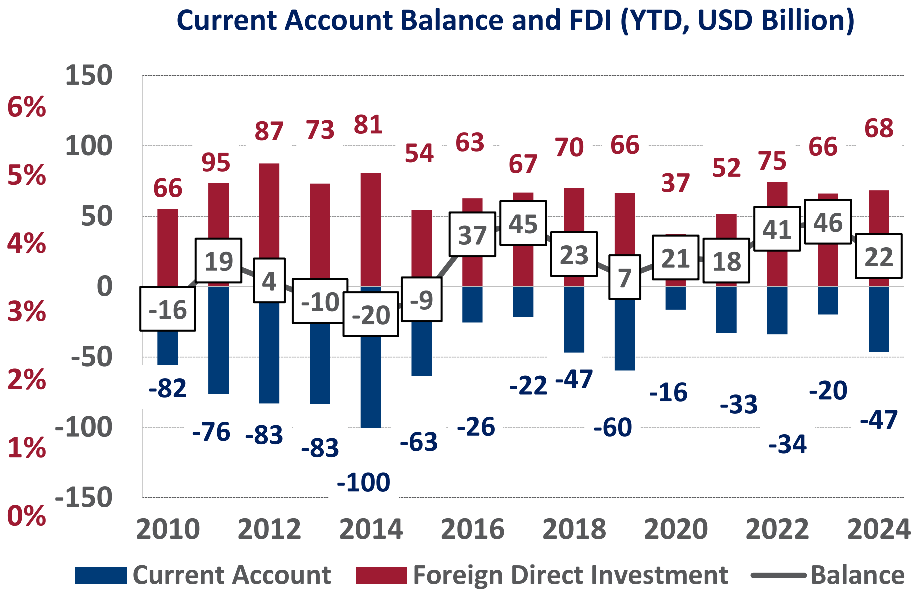
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- Net inflows in Foreign Direct Investment (FDI) totaled USD 7.0 billion in November 2024, above expectations once again (of USD 6.0 billion);
- In 12 months, it reached USD 66.3 billion (3.0% of GDP), slightly above the USD 64.0 billion in November 2023 (2.9% of GDP).



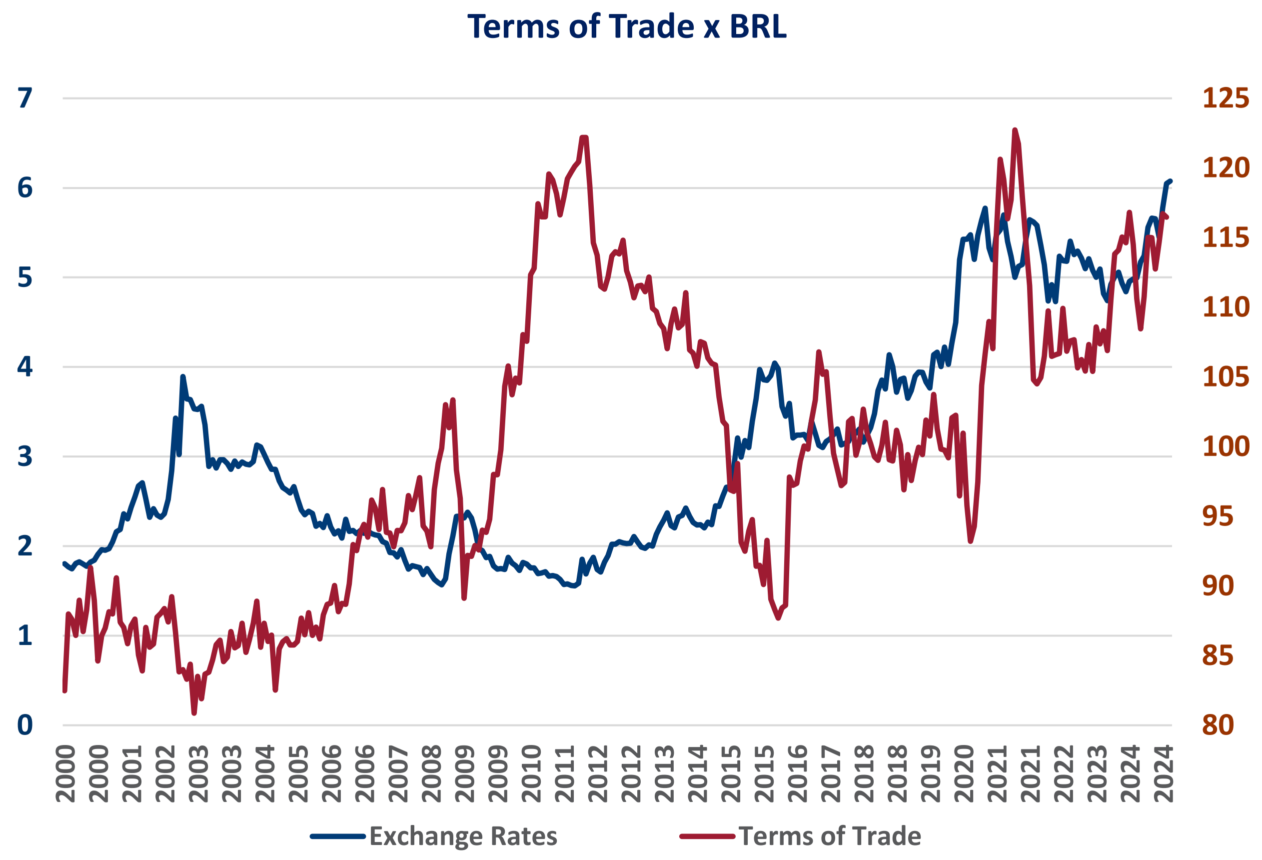


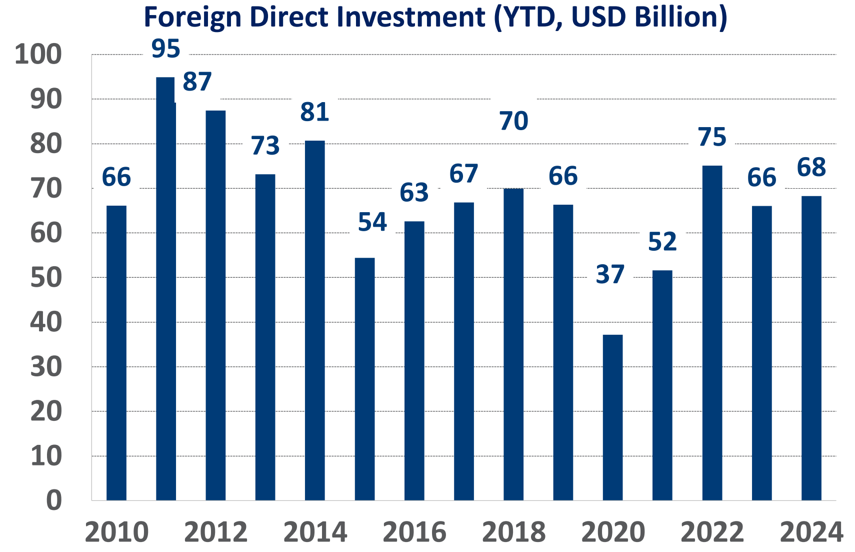


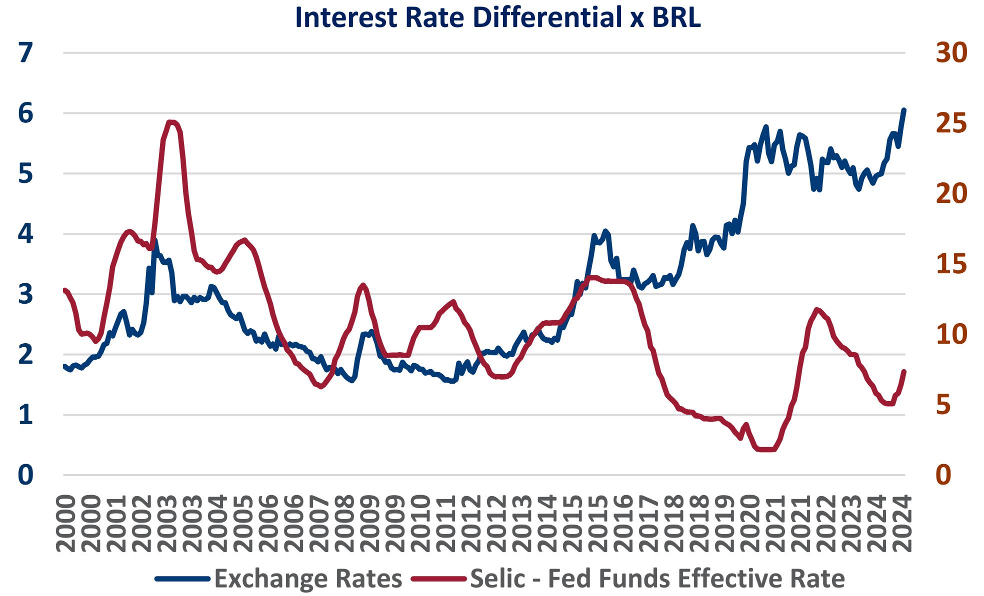
Source: BOCOM BBM, BCB

Brazil: External Sector

- In December, the Brazilian Real depreciated from 6.05 to around 6.20 against the US Dollar. In the international front, the resilient domestic demand and labor market in US, along with risks to the inflation scenario associated with the new administration's policies, should lead the Fed to adopt a more cautious stance, strengthening the US dollar. In the domestic market, the perception of fiscal risk increased and led to a sharp deterioration in domestic asset prices. The prospect of continued growth in public debt contributed to the BRL devaluation.





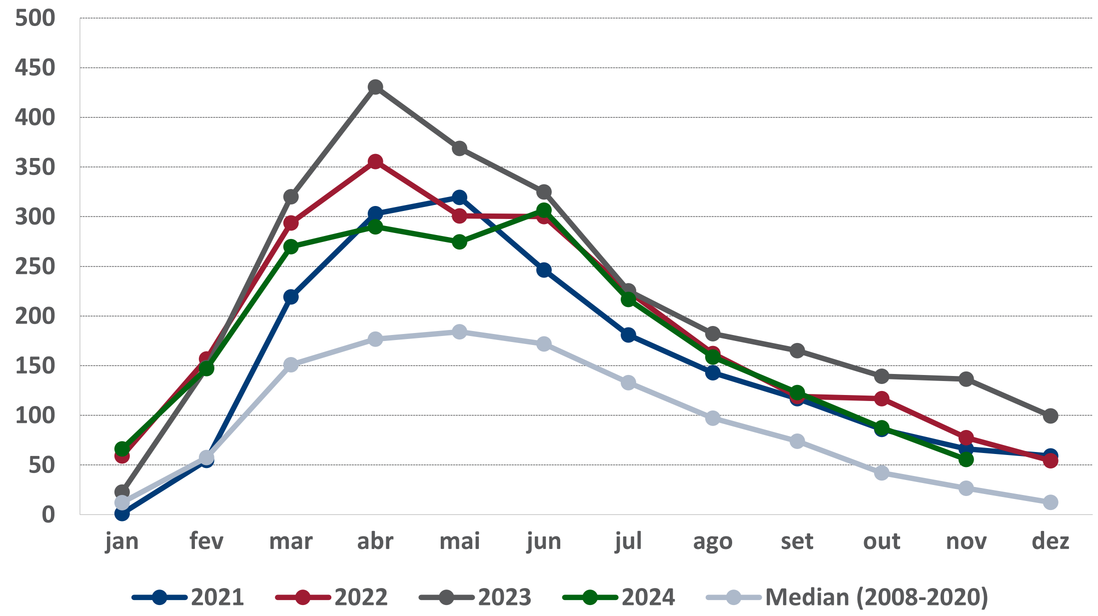


Source: BOCOM BBM, Bloomberg, Funcex, BCB

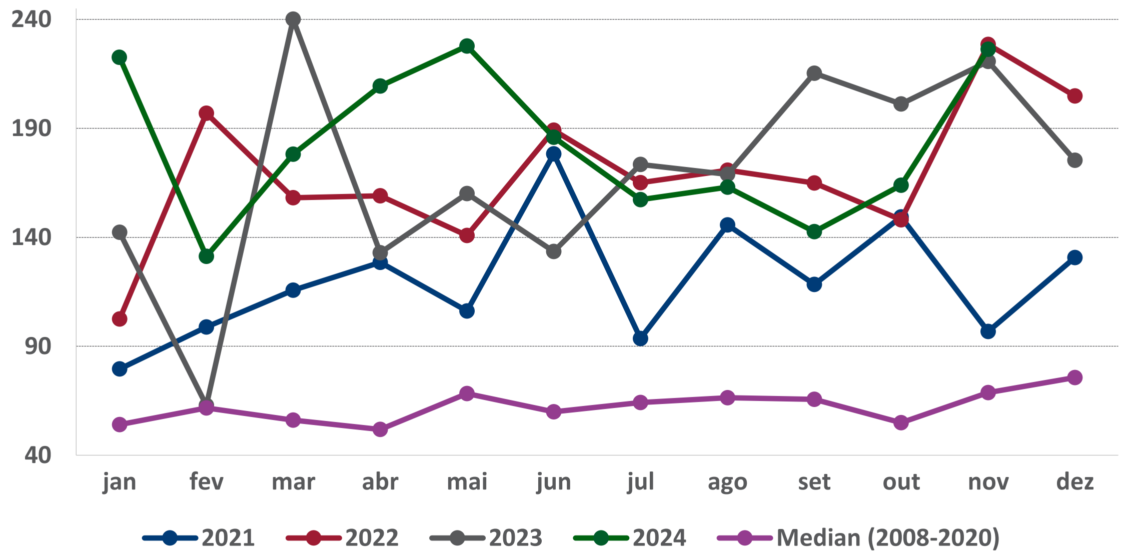
Brazil: External Sector

- In November, the trade balance presented a surplus of US$ 7.03 bn (-20.0% YoY) according to Secex data;
- Year to date, the trade surplus reached US$ 69.86 bn (-22.0% YoY);
- Exports increased 0.5% YoY, with unroasted coffee and bovine meet exports rising, respectively, 86.5% and 18.7%, and soybean exports decreasing 59.19% when compared to the same month last year;
- In turn, imports increased 9.9% YoY, mainly due to automotive parts and accessories (+31.2% YoY).

Brazil BoP: Soybeans Exports
US$ Million Daily Average



Brazil BoP: Crude Oil Exports
US$ Million Daily Average



Source: Secex, BOCOM BBM

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