Macro Outlook

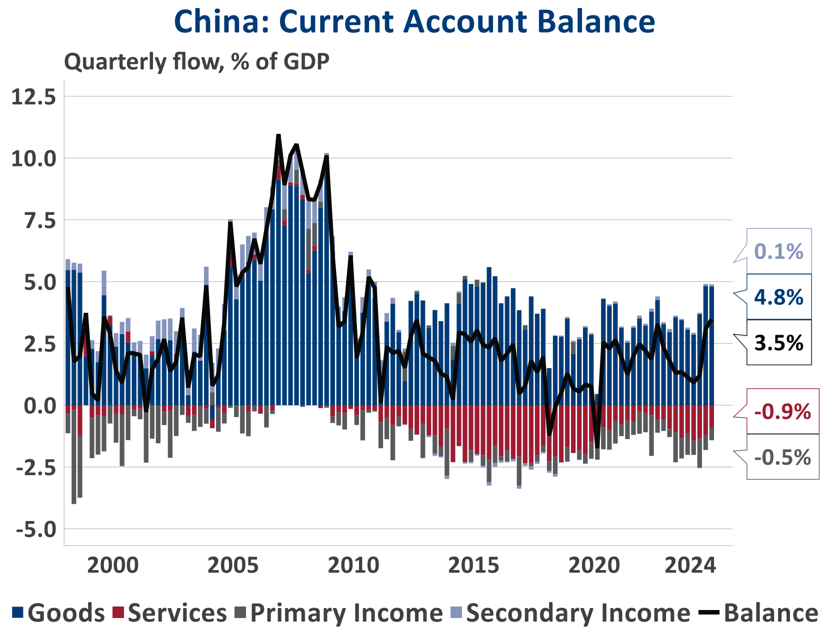
March 2025

Macro Outlook

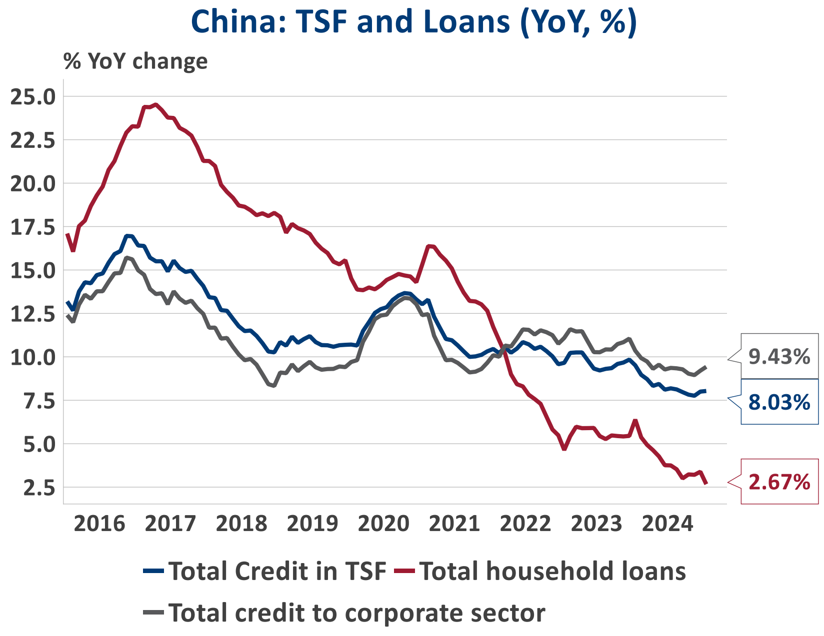
- In the US, with labor markets still solid, and inflation convergence happening more gradually than expected, the balance of risks for the FOMC has shifted back towards inflation. Accordingly, the FOMC is currently on pause, waiting to see if the progress in inflation will resume, what exact policies will be enacted by the new government administration and how they will affect prices. Chair Powell described that the committee is in “wait and see mode”, reflecting the environment of high uncertainty amid policy changes since Trump took office;
- Regarding China, economic activity data for January and February will only be released in March, as is standard practice by the NBS in order to smooth through distortions related to the Lunar New Year. But recently released data for credit, balance of payments, and CPI struck an optimistic note for the beginning of 2025. All eyes are now on the Two Sessions, one of the most important political and economical events for China, which started on March 4 and will be concluded on March 11. So far, major highlights includes the official growth target being kept unchanged at “around 5.0%” this year, supported by the expansion of the official on-budget fiscal deficit target to “around 4.0%” of GDP, the highest in history;
- In December, monthly indicators of economic activity posted negative signs. Services and retail sales were below expectations, decreasing, respectively, 0.5% MoM and 1.1% MoM, while the industrial production fell 0.3% MoM, above expectations. Our Q4 GDP projection was reduced to 0.4% QoQ, but we kept our 2024 GDP growth estimate stable at 3.5%. At the beginning of 2025, the signals are mixed: on the one hand, confidence indicators indicate that the negative trend may intensify, on the other hand, CAGED data showed strong formal job creation in January, suggesting that the labor market remains solid. Growth in 2025 is expected to reach 2.2%, thanks to the contribution of less cyclical sectors of the economy and government initiatives to support consumption (such as the release of FGTS funds and private payroll loans);
- Concerning monetary policy, the Brazilian Central Bank (BCB) raised the Selic rate by 100 bps to 13.25% p.a. at its January meeting and another 100 bps hike is expected for March, in line with the guidance given. Since the January meeting, inflation expectations continued to worsen marginally, but FX appreciated sharply from BRL6,00/USD to around BRL5,75/USD, which could bring relief to BCB inflation forecasts in March if BRL keep the good performance. This could allow the Copom to reduce the tightening pace in May. In January, BCB inflation projections six trimesters ahead stood at 4,0% in a scenario where rates peak at 15% and remain there until the end of 2025 but decrease to 12% in 2026;
- February IPCA-15 rose by 1.23% MoM, below expectations of 1.37% MoM. The 12-month variation increased to 4.96% in February from 4.50% in January. The main downward deviation to market forecasts came from services (airfare and education) and food at home. In turn, rents and condominium surprised to the upside, reflecting higher inertia. Regarding the breakdown, core services advanced 0.63% MoM, slightly above forecasts and the 3M SAAR reached 7.8%, remaining at worrisome levels even with the effect of cinema discounts this month. We reduced slightly our forecast for 2025 from 5.9% to 5.8% due to a volatile item (airfares) and lower education readjustments;
- In the fiscal scenario, the central government's primary balance registered a surplus of BRL 84.9 billion in January, below the market consensus (BRL 88.1 billion). As expected, the primary balance was positive in January, due to seasonal factors, higher inflation and economic activity.

China: Economic Scenario

- Economic activity data for January and February will only be released in March, as is standard practice by the NBS in order to smooth through distortions related to the Lunar New Year;
- But recently released data for credit, balance of payments, and CPI struck an optimistic note for the beginning of 2025:
- Preliminary data for China's current account in Q4 showed the **highest surplus in a single quarter since 2010 (3.5% of GDP),** consistent with the strong performance of Chinese exports throughout 2024 – these impressive figures for 2024H2 could be due to a frontloading of shipments ahead of potential tariffs hikes by the US;
- In YoY terms, **total credit growth surprised up by staying unchanged at 8.0% YoY:** this reflects mainly an acceleration of loans to the corporate sector, while household demand for loans continued to weaken amid the property downturn and softer mortgage demand;
- Chinese CPI inflation ticked up in January from 0.1% to **0.5% YoY, above the expected 0.4%.** This increase is likely because of the timing of the Lunar New Year, which fell on January this year, but was in February in 2024; Details reinforce this given the notable rise in services related to holiday spending (recreation, educational, cultural services, and transport services);
  - However, despite the LNY-related uptick, **deflation pressures remains a major concern this year** as other components remained subdued.



Source: BOCOM BBM, Macrobond, SAFE



Source: BOCOM BBM, Macrobond

Source: BOCOM BBM, Macrobond

China: Two Sessions

- During the National People's Congress, in the first week of March, Premier Li Qiang delivered the Government Work Report announcing key economic and fiscal targets for 2025, most of which came broadly in line with market's expectations;

- The government kept **unchanged the real GDP growth target of "around 5.0%",** and **lowered the CPI inflation target,** which is widely perceived as a ceiling, to around 2,0%
  - Forecasts for Chinese real GDP growth this year are hovering around 4.5%, which would be loosely in line with the official target;

- Beijing **raised the official on-budget fiscal deficit target to a record high of "around 4.0%" of GDP and** signaled an expansion of the consumer goods trade-in programs as well as pledges to increase the basic pension for urban and rural residents. Both measures with the intention of giving more support household consumption;

- **Stabilizing the housing sector** was also a major theme, with the government vowing to contain property developer debt default risks, accelerate the progress of urban village renovation, and instructed municipal governments to help reduce the existing stock of unsold housing inventory from developers in order to expand public housing support;

China's 2025 Major Economic Targets Forecast

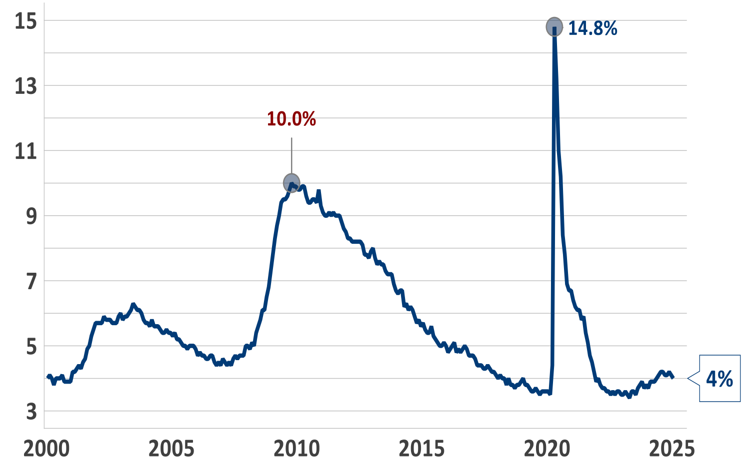
Institutions	Unit	2025		2024		2023	
		Target	Mkt. Exp	Target	Effective	Target	Effective
GDP Growth	% YoY	~5,0	~5,0	~5,0	5,0	~5,0	5,2
CPI Inflation	% YoY	~2,0	~2,0	~3,0	0,2	~3,0	0,2
Official fiscal deficit ratio	% of GDP	4,0	4,0	3,0	3,0	3,8	3,8
Local Government special bond quota	RMB tn	4,4	4,5	3,9	4,0	3,8	3,8
Central Government special bond quota	RMB tn	1,8	2,0-2,5	1,0	1,0	0,0	0,0
Implied total government bond net issuance quota	RMB tn	11,9	12-13	9,0	9,0	8,7	8,8
	% of GDP	8,4	~9	6,6	6,7	6,7	6,8
New urban jobs	mn persons	>12	>12	>12	12,6	~12	12,4
Surveyed unemployment rate	%	~5,5	~5.5	~5,5	5,2	~5,5	5,2

Source: BOCOM BBM, Xinhua, NBS, Government Websites

USA: Labor Market

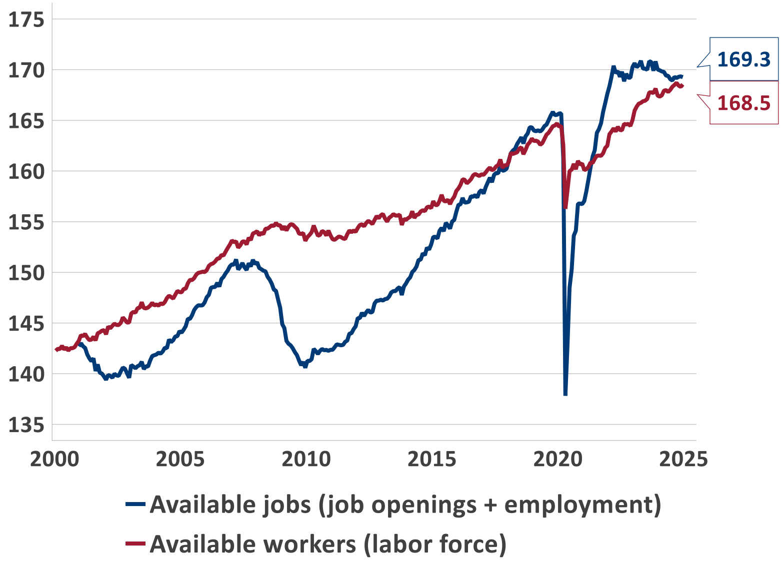
- **January labor market report came in strong, despite the downward surprise in payroll growth;**
  - January payroll showed a job gain of **143k**, below market expectations of 170k, with a strong two-month net revision of +100k in November (+49k) and December (+51k);
  - The unemployment rate declined from 4.09% to 4.01%, below expectations of 4.1%;
- In December, the **jobs-workers gap stood at 0.7M** and it has hovered between 0.5M-1M throughout 24H2, consistent with 2018/2019 → **tight, but not overheated labor market;**
- January avg. hourly earnings **accelerated to 0.5% MoM,** way above expectations of 0.3%, which could pressure inflation in the coming months;
  - The annual rate was stable at 4.05% YoY. Additionally, there were upward revisions to prior months – December YoY rate moved from 3.93% to 4.05%;

US: Unemployment Rate SA (%)



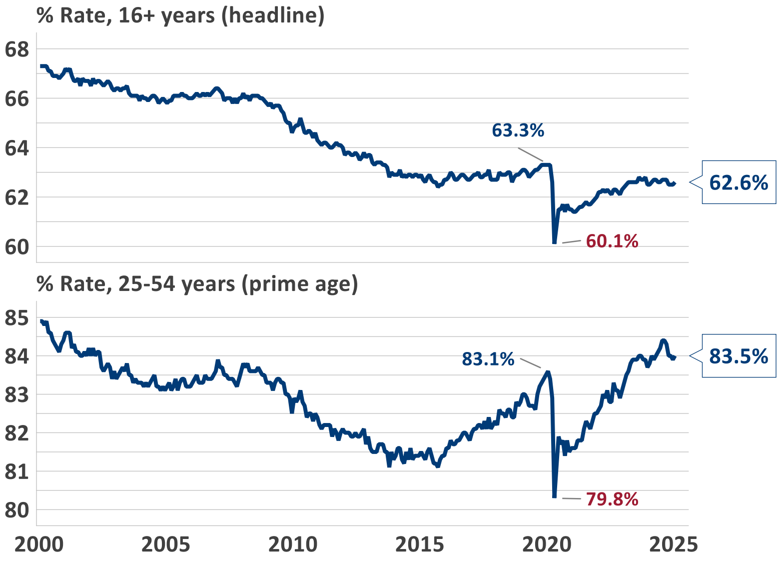
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



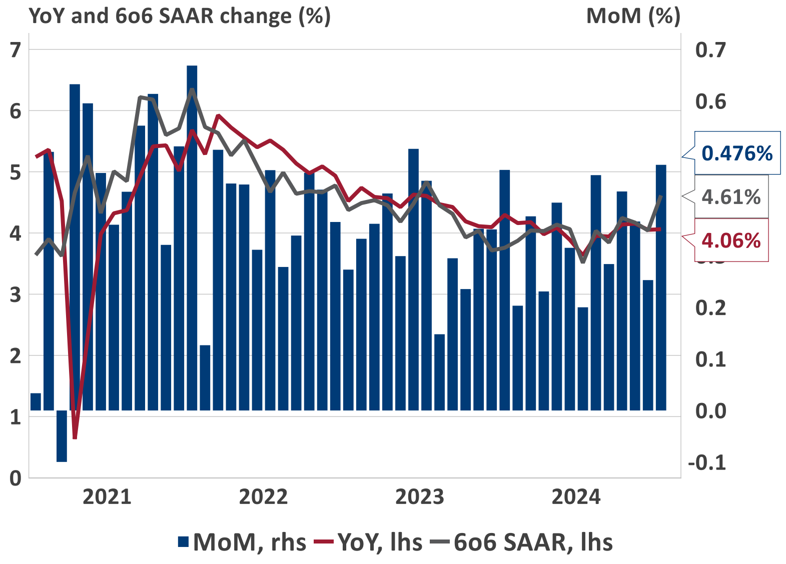
Source: BOCOM BBM, Macrobond, BLS

US: Labor Force Participation Rate (%)



Source: BOCOM BBM, Macrobond

US: Average Hourly Earnings Growth (%)

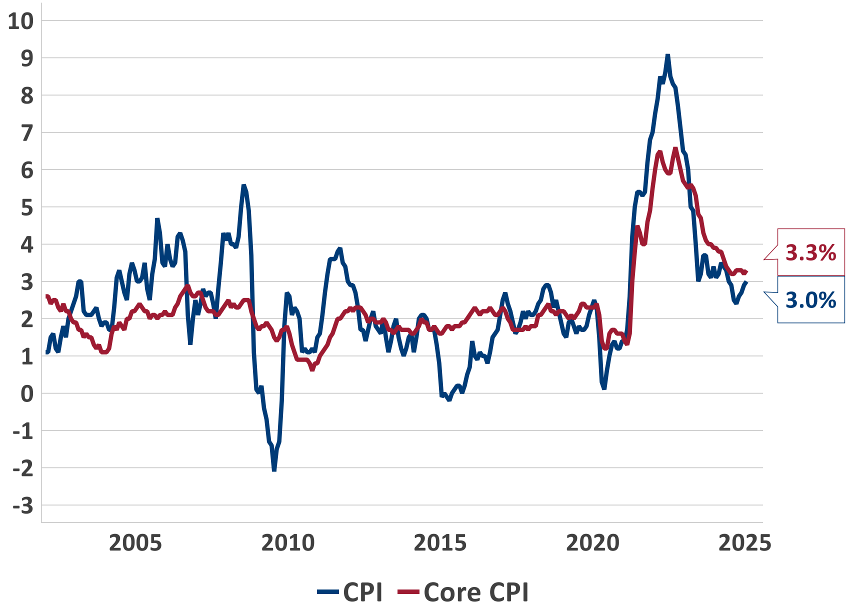


Source: BOCOM BBM, Macrobond

USA: Inflation

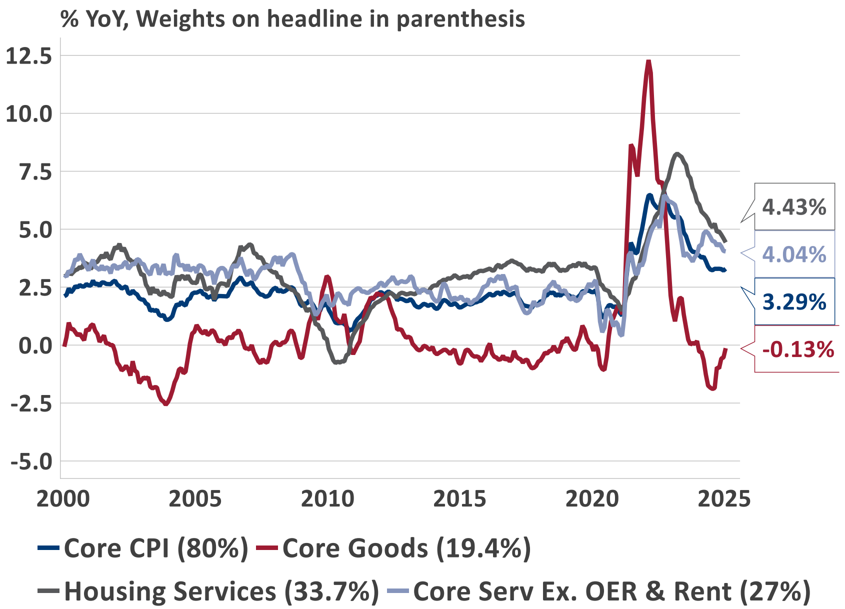
- January **headline CPI** rose **0.47% MoM** way above expectations (0.3%), leading to an annual growth rate surge from 2.89% to **3.00% YoY:**
  - Both energy (1.08% MoM) and food (0.36% MoM) prices had strong readings;
- **Core CPI** rose **0.45% MoM** (exp. 0.3%) and the annual growth rate went up from 3.24% to **3.26% YoY;**
  - Core goods (0.28% MoM): slightly above expectations, on the heels of still firm vehicle prices, especially used vehicles;
  - Housing services continues its slowing trend, in line with expectations (OER: 0.31% MoM vs exp. 0.33%) → the 7 smallest monthly OER increases since 2021 have all occurred in the past 8 months, although it remains somewhat above the pre-pandemic pace;
  - Core Serv. Ex-Housing (0.76% MoM): it was the biggest surprise (exp. 0.4%), although it was mostly concentrated in recreational services (+1.4%) and non-air transportation services (1.94%), while the remaining items were balanced such as medical care services (0%);
- In sum, **US inflation started 2025 with a hot, but narrow, print** in January -- looking forward, resilient labor markets, and higher upside risks to inflation, should lead the **FOMC to remain restrictive;**

US: CPI (YoY, %)



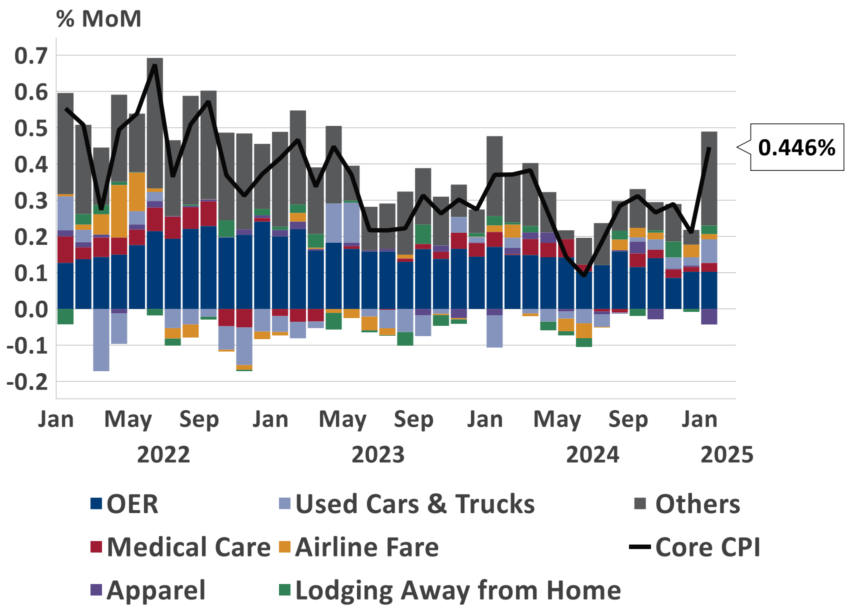
Source: BOCOM BBM, Macrobond, BLS

US: Core CPI Main Components (%)



Source: BOCOM BBM, Macrobond, BLS

US: Core CPI MoM Contributions

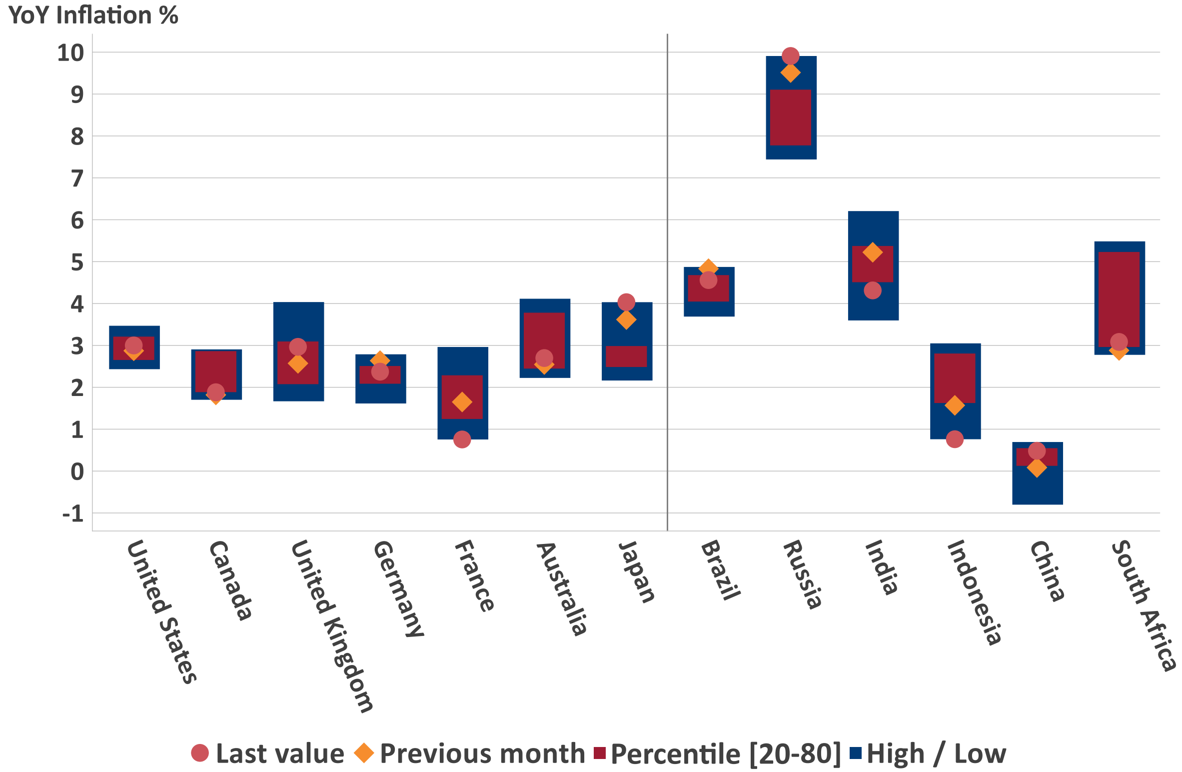


Source: BOCOM BBM, Macrobond, BLS

Global: Inflation & Activity

- Progress in inflation numbers are being seen in several developed markets, however, it seems to have stalled in some (like the US) and is heterogenous among 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, 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

	Q4 2024	Q3 2024	Q2 2024	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Argentina		3,9	-1,7	-2,1	-1,9	1,8	-2,8	1,5
Australia		0,3	0,2	0,2	0,2	0,5	0,3	0,5
Brazil		0,9	1,4	1,1	0,2	0,2	0,8	1,4
Canada	0,6	0,5	0,7	0,5	0,2	-0,1	0,2	1,0
China	1,6	1,3	0,9	1,5	0,9	1,5	1,2	1,7
Euro Area	0,1	0,4	0,2	0,3	0,0	0,0	0,1	0,5
France	-0,1	0,4	0,3	0,1	0,5	0,1	0,7	-0,1
Germany	-0,2	0,1	-0,3	0,2	-0,4	0,2	-0,2	0,1
India	5,0	1,1	-7,1	7,6	4,4	2,0	-5,5	8,8
Indonesia	0,5	1,5	3,8	-0,8	0,5	1,6	3,9	-0,9
Italy	0,0	0,0	0,2	0,4	-0,1	0,2	-0,2	0,4
Japan	0,7	0,4	0,7	-0,5	-0,1	-0,9	0,6	1,3
Mexico	-0,6	0,9	0,3	0,0	0,4	0,5	0,8	0,7
Russia		0,7	0,5	1,1	1,0	1,3	1,6	0,9
Saudi Arabia	7,3	2,3	-2,3	-2,6	5,7	-0,8	-3,7	-5,2
South Africa		-0,3	0,3	0,0	0,3	-0,4	0,7	0,6
South Korea	0,1	0,1	-0,2	1,3	0,5	0,8	0,6	0,4
Turkey	2,2	12,9	4,9	-14,9	1,5	13,0	8,0	-15,5
United Kingdom	0,1	0,0	0,4	0,8	-0,3	-0,1	0,0	0,1
United States	0,6	0,8	0,7	0,4	0,8	1,1	0,6	0,7

Sources: BOCOM BBM, Macrobond, National Sources

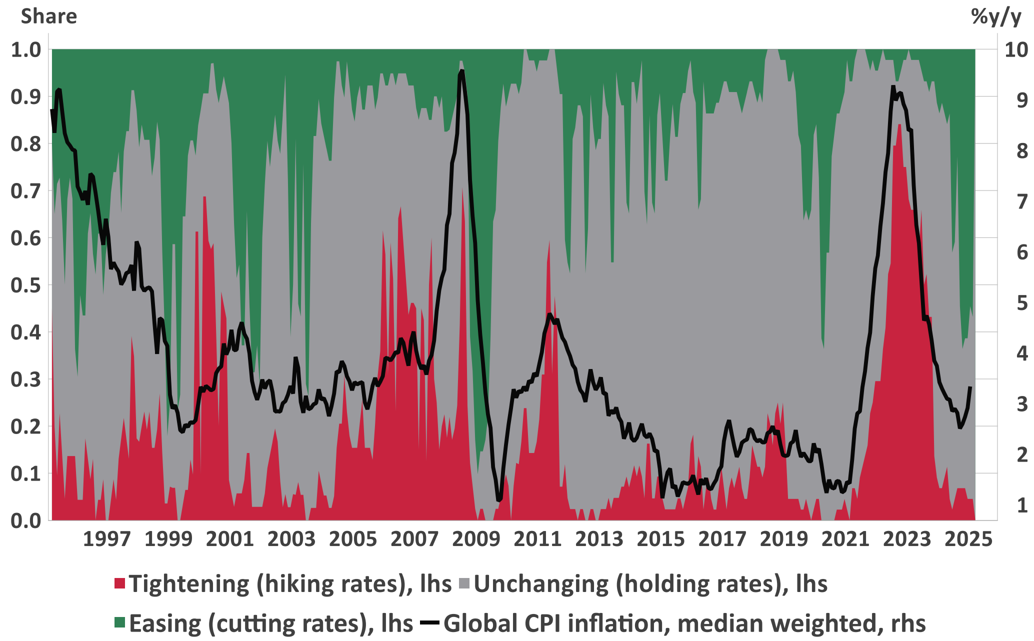
Global: Monetary Policy

交通銀行 BANK OF COMMUNICATIONS BBM

- Several emerging markets have already eased their monetary policy, such as Colombia, Chile and Mexico;
- Developed markets central banks took a little longer, but several also began cutting rates in 2024;
- However, the FOMC is currently on pause, given that inflation remains above the target, and the labor market continued to be resilient in early-2025. Uncertainty is elevated amid policy changes by the new administration and Chair Powell emphasized that the committee would wait to see how these will affect the economy.

Global monetary breadth

Share of economies (GDP top 50) with higher/unchanged/lower policy rates; monthly/mtd avg, 28-Feb-25



Source: BOCOM BBM, Macrobond, World Bank

Central bank tracker: G20 & OECD Countries

Argentina	84,5	75,0	29,00	-3,00	Cut	1/2025	17	1
Australia	2,4	2,7	4,10	-0,25	Cut	2/2025	16	0
Brazil	4,6	4,6	13,25	1,00	Hike	1/2025	1	10
Canada	1,9	2,1	3,00	-0,25	Cut	1/2025	20	1
Chile	4,9	4,1	5,00	-0,25	Cut	12/2024	29	2
China	0,5	0,6	3,10	-0,25	Cut	10/2024	133	4
Colombia	5,2	5,9	9,50	-0,25	Cut	12/2024	22	2
Costa Rica	1,2	0,4	4,00	-0,25	Cut	10/2024	28	4
Czech Republic	2,8	0,3	3,75	-0,25	Cut	2/2025	32	1
Denmark	1,5	1,4	2,50	-0,25	Cut	1/2025	18	1
Euro Area	2,5	2,7	2,90	-0,25	Cut	2/2025	17	1
Hungary	5,5	5,8	6,50	-0,25	Cut	9/2024	29	5
Iceland	4,2	4,2	8,00	-0,50	Cut	2/2025	18	1
India	4,3	3,7	6,25	-0,25	Cut	2/2025	25	1
Indonesia	0,8	2,4	5,75	-0,25	Cut	1/2025	10	1
Israel	3,8	3,6	4,50	-0,25	Cut	1/2024	21	14
Japan	4,0	2,5	0,50	0,25	Hike	1/2025	1	109
Mexico	3,6	3,7	9,50	-0,50	Cut	2/2025	23	1
New Zealand	2,2	3,0	3,75	-0,50	Cut	2/2025	21	0
Norway	2,3	2,7	4,50	0,25	Hike	12/2023	15	58
Poland	5,4	4,0	5,75	-0,25	Cut	10/2023	30	17
Russia	9,9	9,3	21,00	2,00	Hike	10/2024	4	29
Saudi Arabia	2,0		5,00	-0,25	Cut	12/2024	19	2
South Africa	3,1	3,5	7,50	-0,25	Cut	1/2025	21	1
South Korea	2,2	1,9	2,75	-0,25	Cut	2/2025	26	0
Sweden	0,9	2,2	2,25	-0,25	Cut	2/2025	17	1
Switzerland	0,4	0,9	0,50	-0,50	Cut	12/2024	20	3
Turkey	42,1	42,6	45,00	-2,50	Cut	1/2025	11	1
United Kingdom	3,0	3,8	4,50	-0,25	Cut	2/2025	19	1
United States	3,0	3,3	4,50	-0,25	Cut	12/2024	19	2

Source: BOCOM BBM, Macrobond

Brazil: Forecasts

ECONOMIC FORECASTS	2020	2021	2022	2023	2024F	2025F	2026F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	3.5%	2.2%	1.3%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	4.8%	5.8%	4.5%
Unemployment Rate (eoy ,%)	14.2%	11.1%	7.9%	7.4%	6.2%	6.8%	7.5%
Policy Rate (eoy, %)	2.0%	9.3%	13.8%	11.75%	12.3%	15.0%	12.0%
External Accounts							
Trade Balance (US$ bn)	36	42	52	92	66	77	86
Current Account Balance (US$ bn)	-25	-40	-42	-28	-61	-49	-46
Current Account Balance (% of GDP)	-1.7%	-2.4%	-2.2%	-1.3%	-2.8%	-2.2%	-2.0%
Fiscal Policy							
Central Government Primary Balance (% of GDP)	-9.8%	-0.4%	0.5%	-2.1%	-0.4%	-0.7%	-0.8%
Government Gross Debt (% of GDP)	86.9%	77.3%	71.7%	74.4%	76.1%	82.2%	87.5%

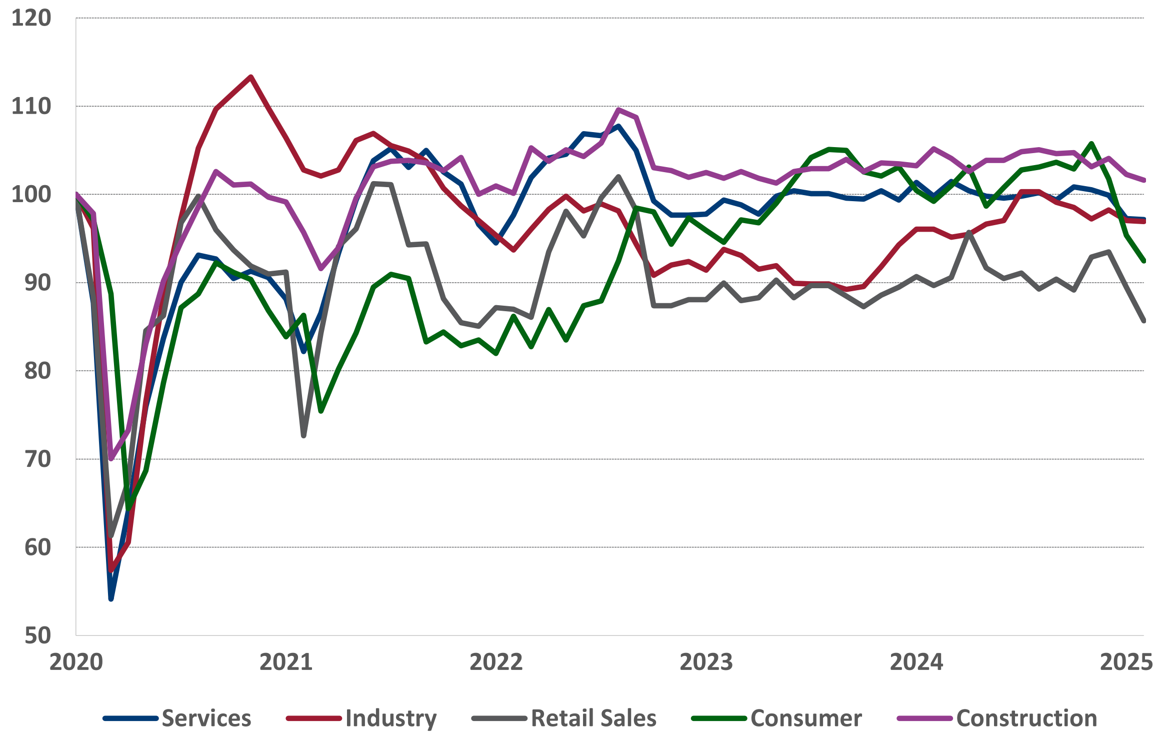
Source: BOCOM BBM, IBGE

Brazil: Activity

- In December, monthly indicators of economic activity posted negative signs. Services and retail sales were below expectations, decreasing, respectively, 0.5% MoM and 1.1% MoM, while the industrial production fell 0.3% MoM, above expectations. The IBC-BR summarized this scenario, by falling 0.7% MoM;
- Looking forward, the confidence surveys of all economic sectors contracted in February, anticipating some slowdown in economic growth ahead.

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

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

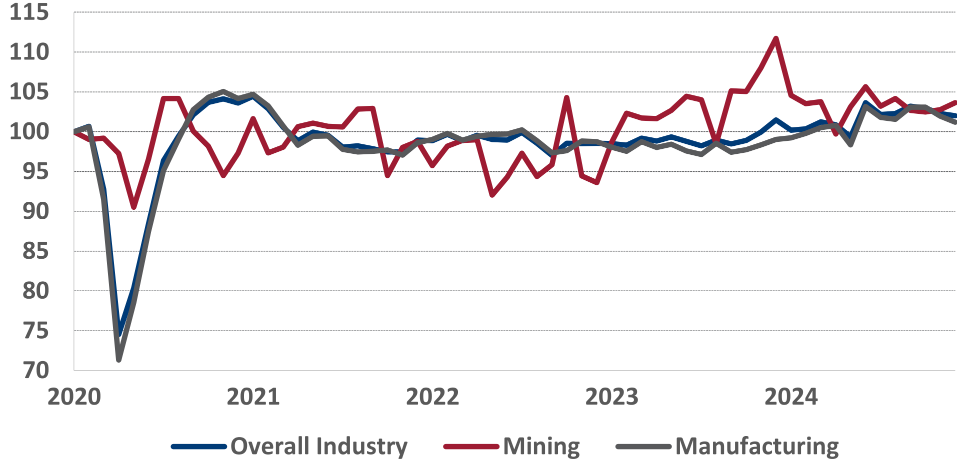


Source: BOCOM BBM, IBGE, FGV

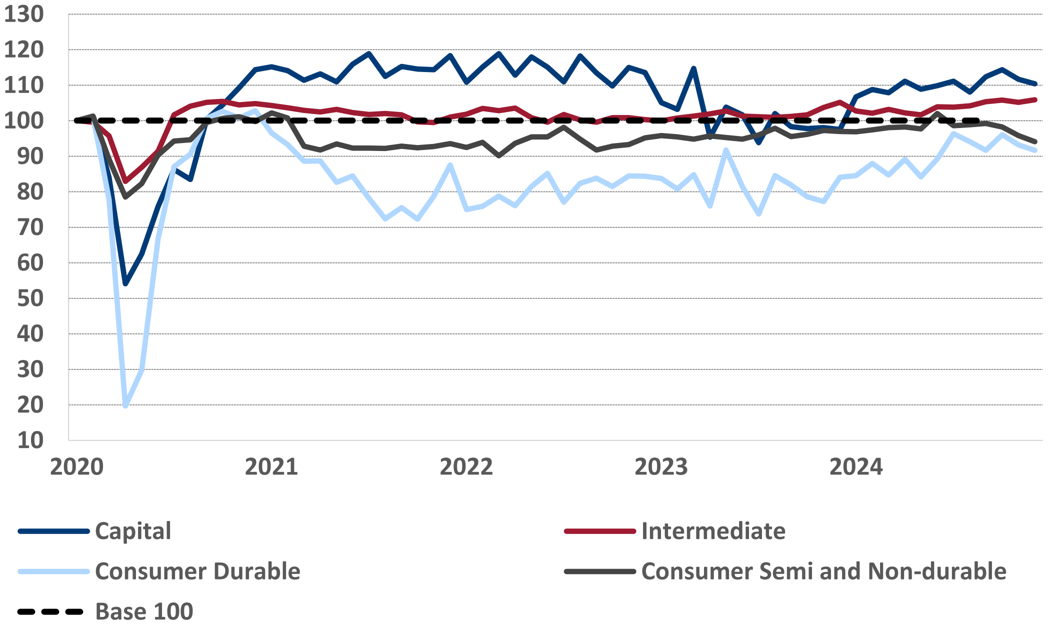
Brazil: Industrial Production

- Industrial output dropped by 0.3% MoM in December, above expectations (-1.1% MoM), decreasing for the third time in a row;
- The month predominantly registered negative numbers, with 3 out of the 4 major economic categories and 15 out of the 25 manufacturing activities falling in the monthly comparison;
- The surprise between market estimates and the actual result was mainly due to the better-than-anticipated figures for extractive industry (+0.8% MoM) and durable consumer goods (-1.6% MoM) in the month;
- Looking forward, a more challenging outlook is expected to 2025, with tight financial conditions and lower growth in household disposable income. On the other hand, Extractive Industry is expected to have a significant recovery throughout the year.

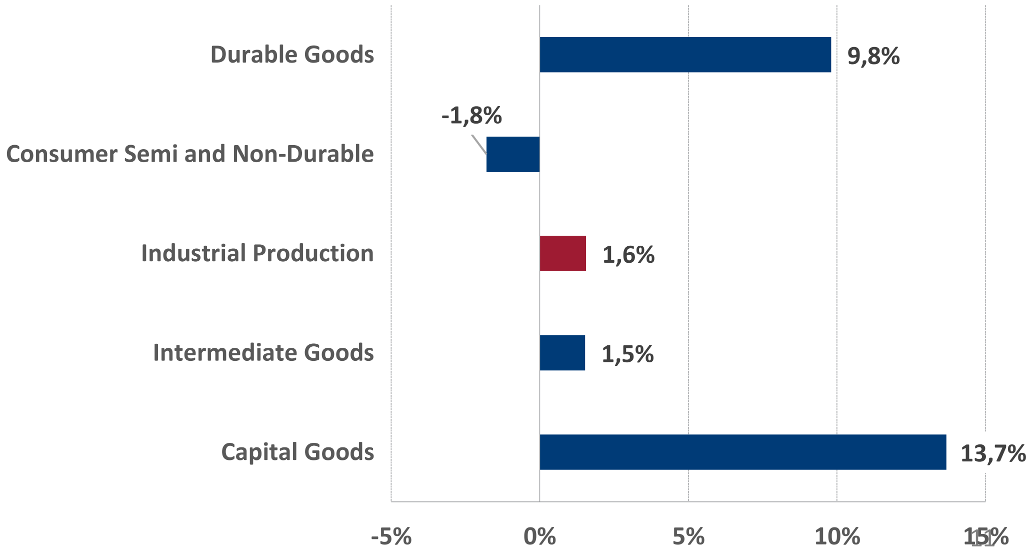
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



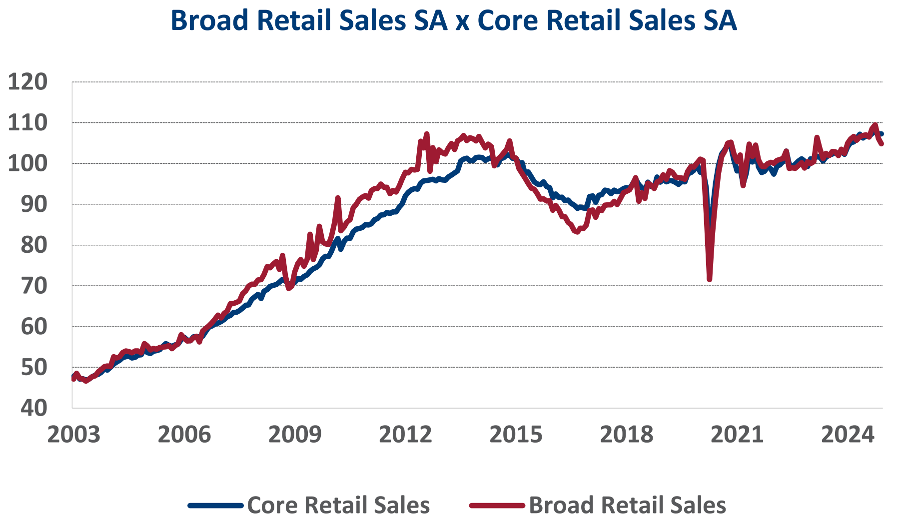
Industrial Production by Category - 12/2024 (YoY)

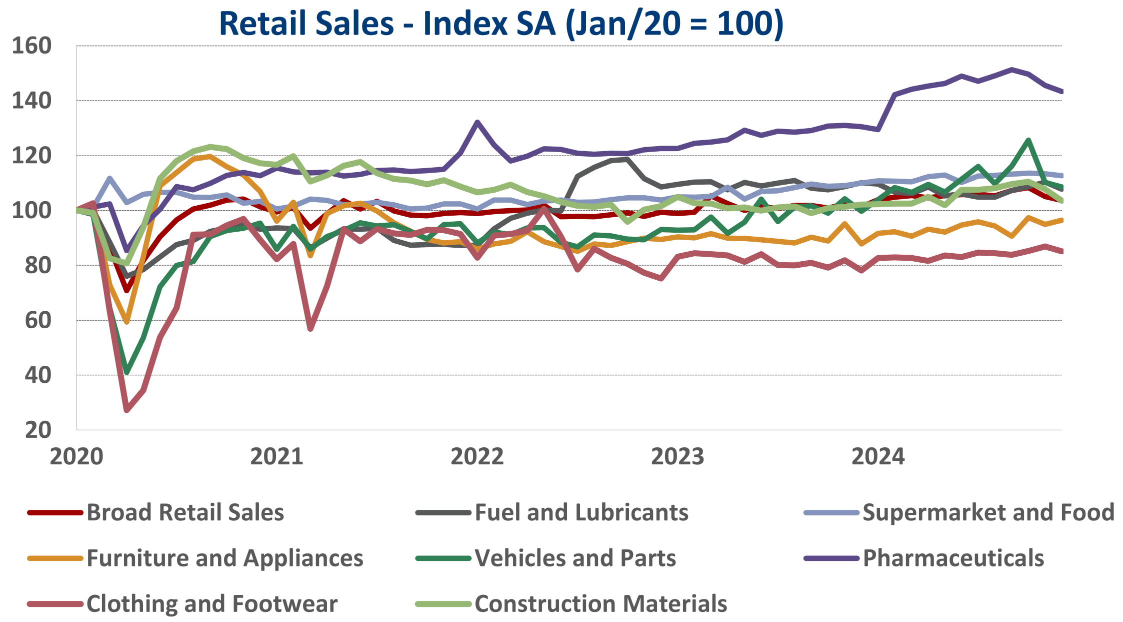


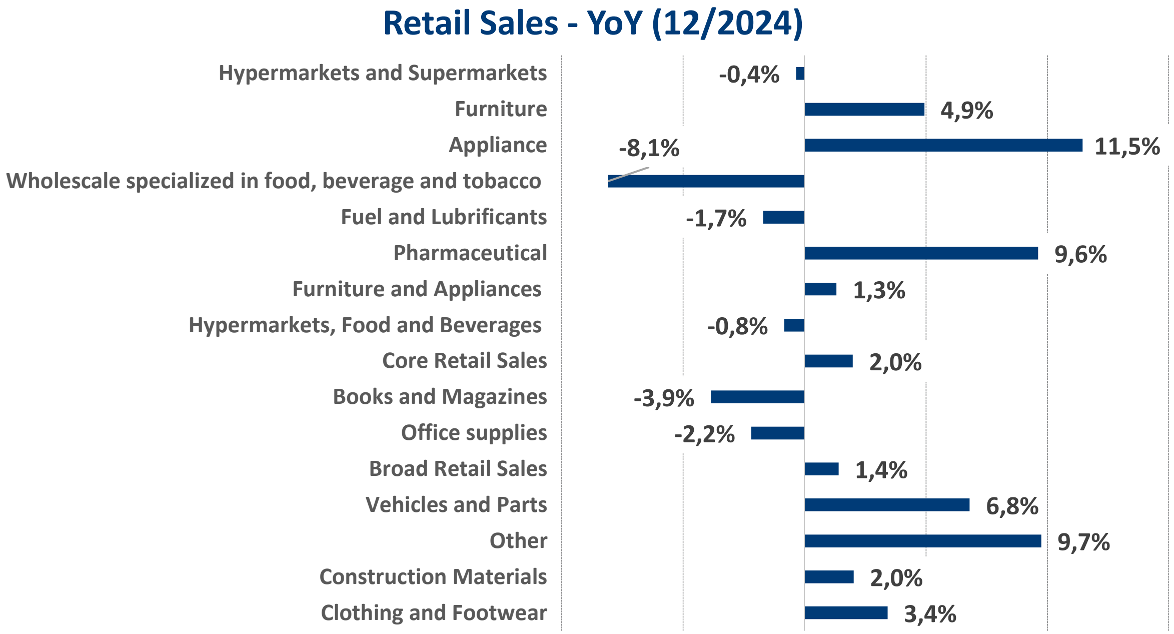
Source: IBGE, BOCOM BBM

Brazil: Retail Sales

- Broad retail sales tumbled 1.1% MoM in December, far below market expectations (-0.1% MoM).
- In the fourth quarter, the indicator fell by 0.4% QoQ, ending a streak of four consecutive gains, with the drop being relieved by a moderate upward revision to the November figure, from -1.8% to -1.4% MoM.
- Meanwhile, core retail sales edged down 0.1% MoM in December, slightly above expectations of stability, which was not enough to prevent a 0.6% QoQ gain in the last quarter.
- In the breakdown, 7 out of 10 retail sail categories fell in December, with the main negative highlights being office supplies (-5.0% MoM), pharmaceutical products (-3.3% MoM), fuel and lubricants (-3.1% MoM) and construction materials (-2.8% MoM).



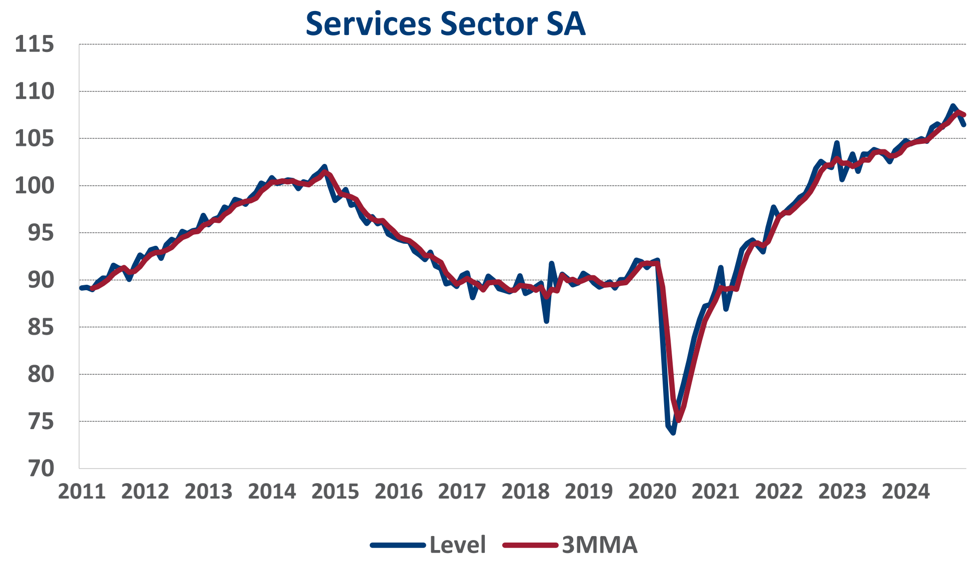


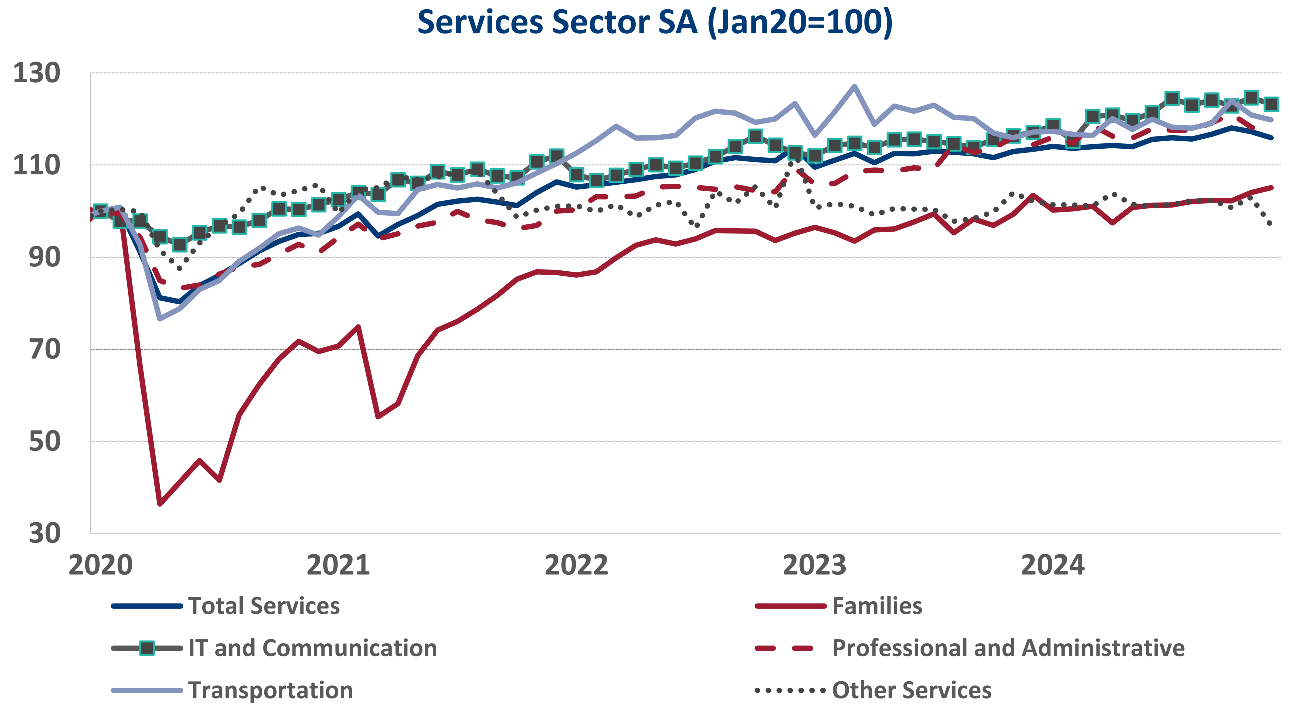


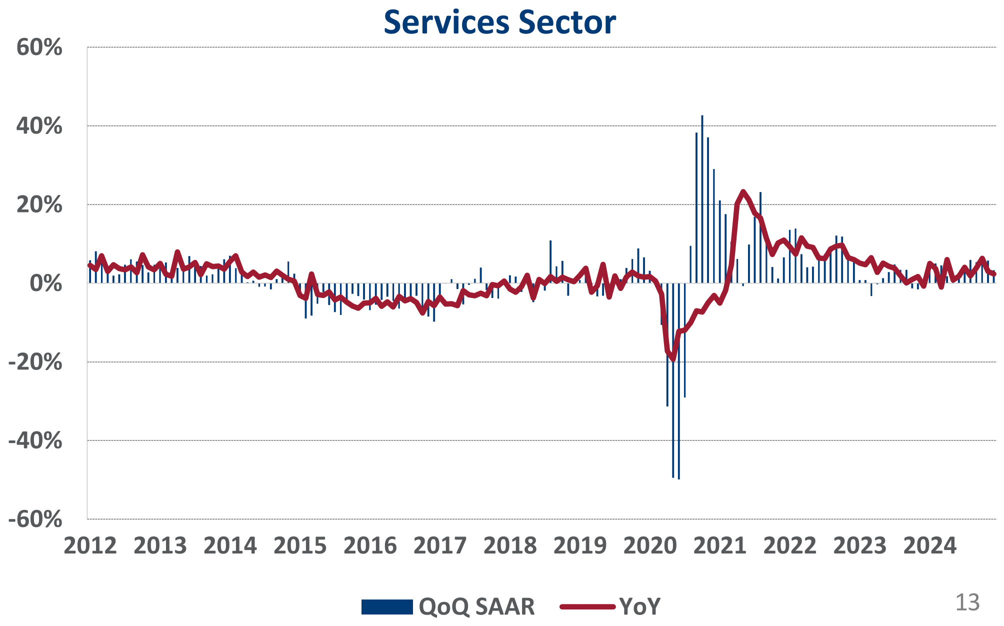
Source: IBGE, BOCOM BBM

Brazil: Services

- Services output fell by 0.5% MoM in December, below market expectations (+0.2% MoM). Besides, there was a downward revision to the November figure, from -0.9% to -1.4% MoM.
- The disappointment in the results was mainly explained by services linked to corporate demand, particularly within the technical-professional services category (-5.1% MoM). Moreover, the categories of road freight transport and other services plummeted, respectively, by 2.4% MoM and 4.2% MoM.
- Despite the negative performance, total services indicator increased by 0.8% QoQ in 24Q4 (2.4% YoY), the seventh consecutive gain on a quarterly basis, influenced by services linked to household demand.
- Notably, services rendered to families rose by 0.8% MoM and 1.8% in Q4 (4.0% YoY), driven by the food & accommodation services sector.
- In all, the sharp increase in real household disposable income was the main reason behind the dynamism of services to families throughout 2024.



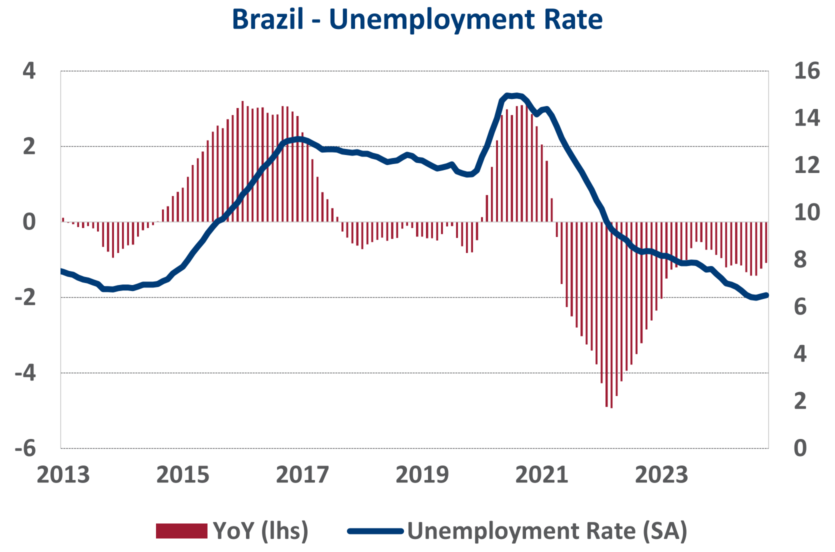


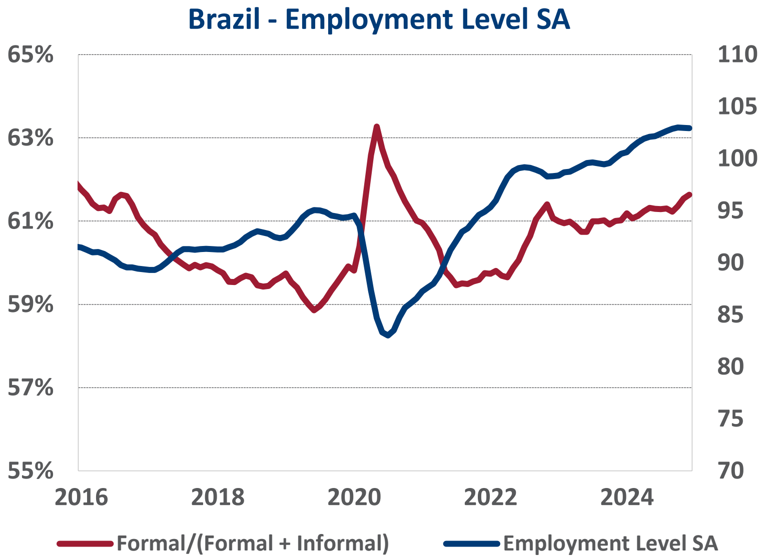


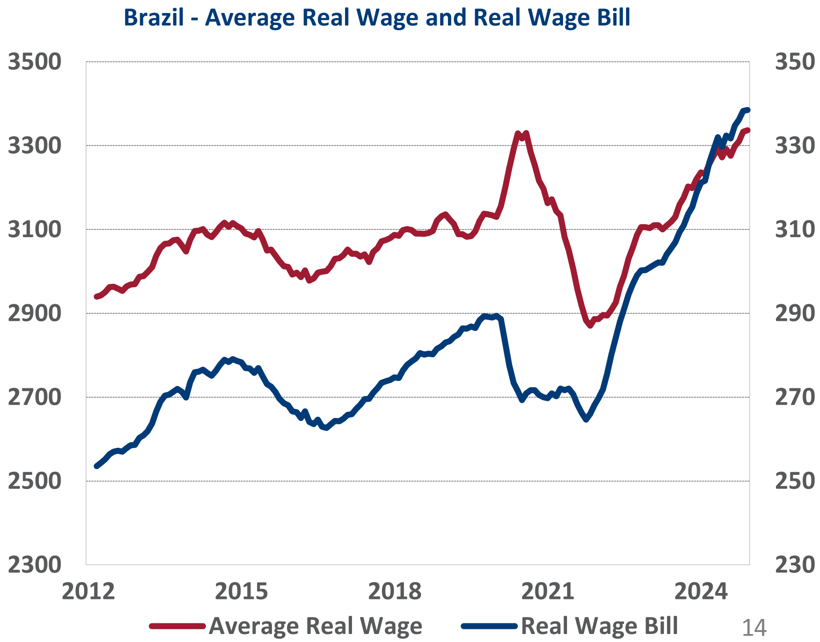
Source: IBGE, BOCOM BBM

Brazil: PNAD

- The unemployment rate increased to 6.5% in the moving quarter up to January, from 6.2% on the previous period;
- Seasonally adjusted, the indicator reached 6.49% in January, climbing up marginally, despite still being in a historically low level;
- Total employment (-0.2% MoM) and labor force (-0.12% MoM) both decreased at the margin;
- The labor force participation rate edged down to 62.3% in January, still running considerably below pre-pandemic levels (around 63.5%);
- Real labor earnings increased 0.2% MoM, reflecting a resilient labor market;
- In turn, real aggregated labor income increased 0.1% MoM in January.



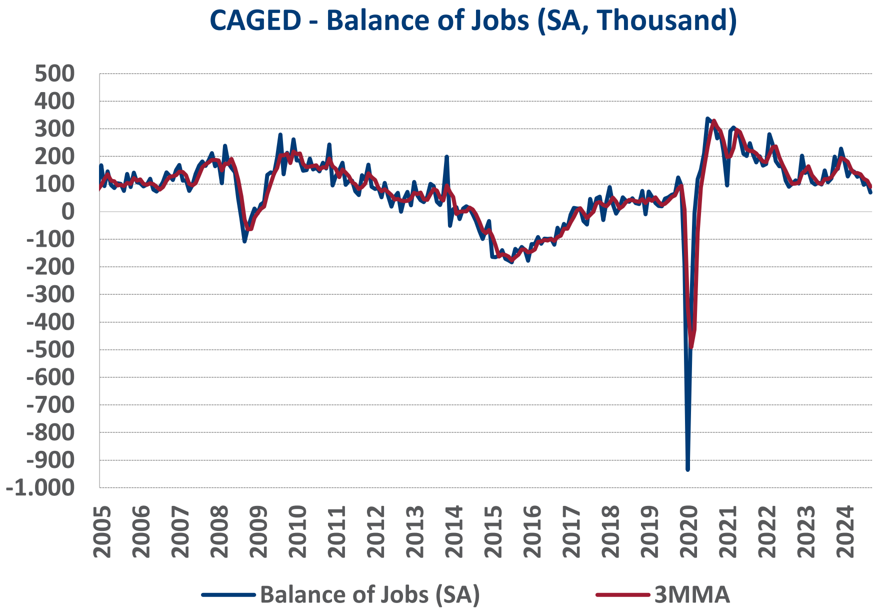


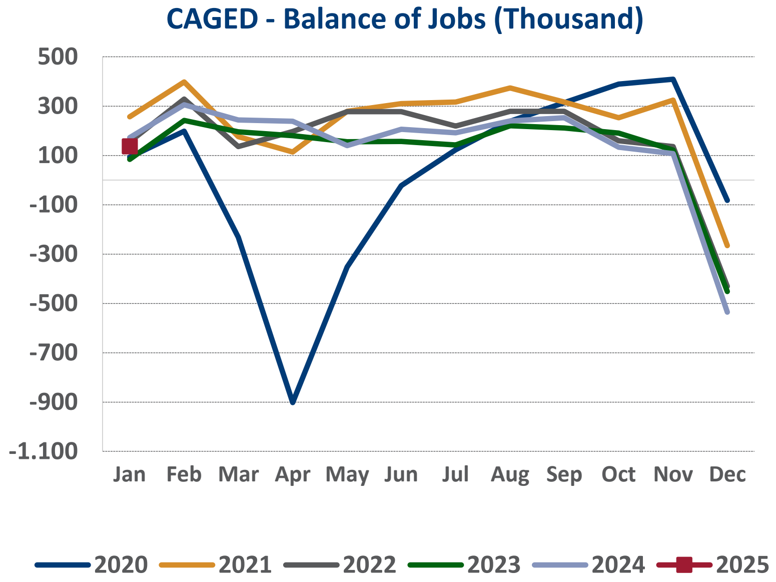


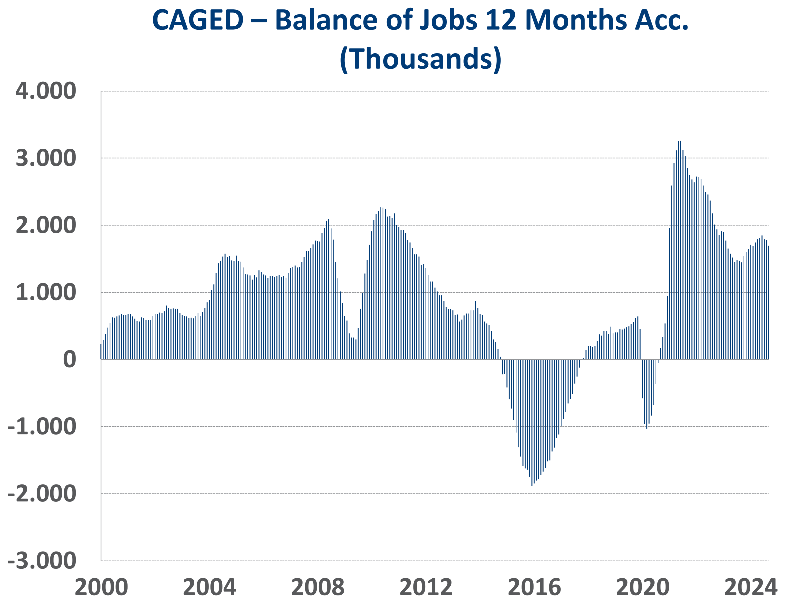
Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

- Caged registered a net creation of 137.3 k formal jobs in January, above market expectations (71.0k);
- There was a net creation of 1.651 million jobs in the 12-month rolling sum up to January, after 1.687 million jobs up to December (considering a revision in the data series for this month);
- Formal job hiring rose by 10.6% MoM, after a decline in the previous two months;
- All in all, the data reinforces that, even though economic activity is expected to decelerate, it remains robust in the short term.





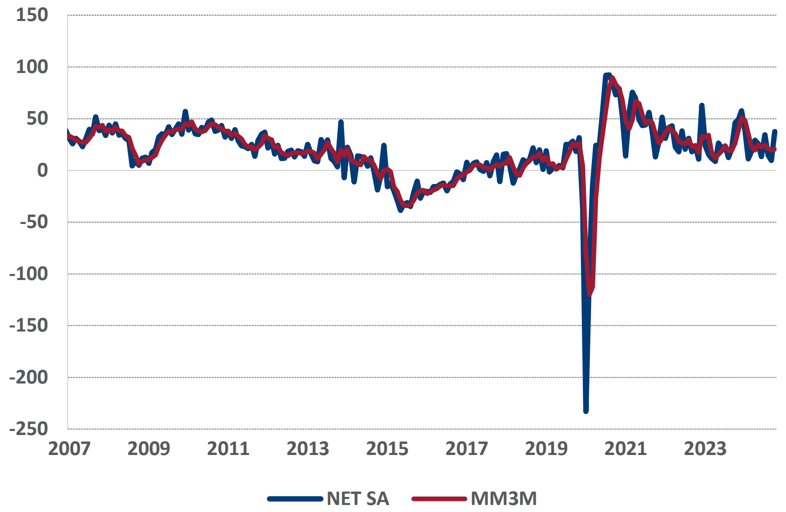


Source: BOCOM BBM, MTE

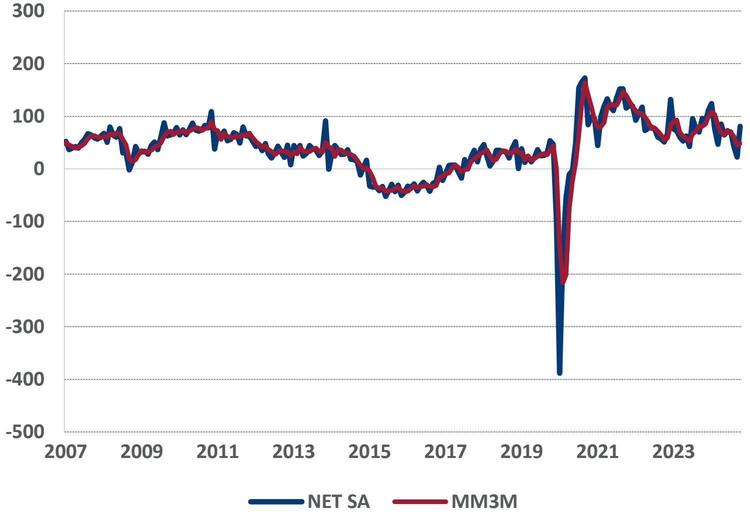
Brazil: Formal Labor Market

- The breakdown shows that all sectors recovered in January;
- The highlight was the services sector, that recorded a jump in the net addition of jobs from 14k in December to 65k in January;
- Retail sales, in turn, also increased, this time, from 9k to 31k in January;
- Manufacturing industry (from 9k to 40k) also showed a net addition of jobs considerably above the previous data;
- Besides, construction (from -7k to 15k) returned to positive territory this month.

Brazil - Retail Net Payroll Job Creation (SA)

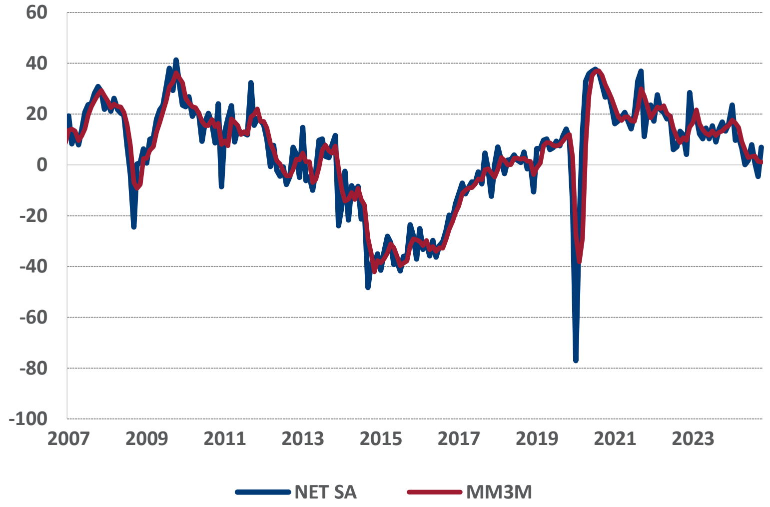


Brazil - Services Net Payroll Job Creation (SA)



Brazil - Industry Net Payroll Job Creation (SA)

Brazil - Construction Net Payroll Job Creation (SA)

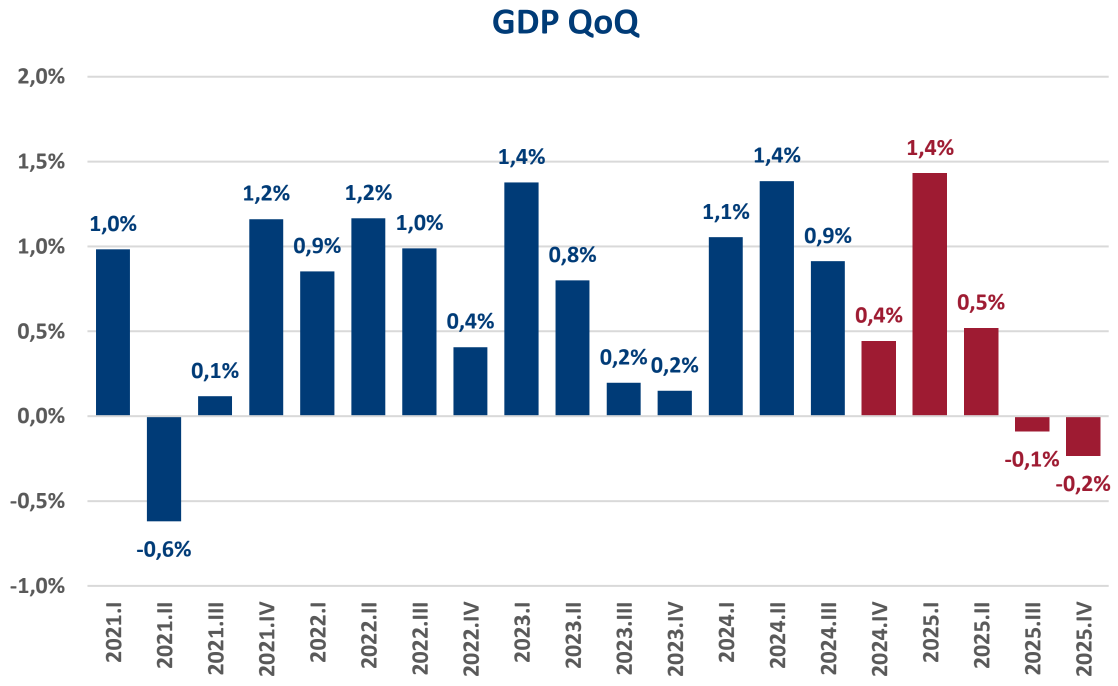


Source: BOCOM BBM, MTE

Brazil: GDP Forecast

- Following December data, we reduced marginally our forecast for the fourth quarter from 0.5% to 0.4% QoQ, but kept stable our estimate for the GDP growth in 2024 at 3.5%;
- Economic activity showed signs of losing momentum at the end of 2024;
- In the beginning of 2025, there were mixed signals: by one hand, confidence surveys indicate that the negative trend could intensify, on the other hand, CAGED data showed strong formal job creation in January, indicating that labor market remain solid
- In our view, growth in 2025 should register 2.2%, thanks to the contribution of less cyclical sectors of the economy (such as agriculture and extractive industries) and government iniciatives to sustain household consumption (such as the release of FGTS funds and the private payroll-deductible credit)
- By 2026, the lagged effects of monetary policy should be more significant, reducing growth to a level close to 1% in the absence of new fiscal measures

Forecast					
	2024.IV QoQ	2024.IV YoY	2024	2025	2026
GDP	**0.4%**	**4.0%**	**3.5%**	**2.2%**	**1.2%**
Agriculture	**-1.7%**	**-0.5%**	**-3.1%**	**8.3%**	**4.2%**
Industry	**0.3%**	**2.5%**	**3.3%**	**1.2%**	**1.0%**
Mining	0.1%	-4.4%	0.3%	7.0%	7.0%
Manufacturing	0.2%	4.5%	3.5%	-0.7%	-0.6%
Electricity	3.6%	3.9%	5.5%	3.2%	1.9%
Civil Construction	1.7%	4.2%	4.1%	0.9%	0.1%
Services	**0.6%**	**4.2%**	**3.9%**	**2.0%**	**1.1%**
Retail	-0.1%	4.0%	3.6%	0.4%	0.0%
Transports	0.1%	3.5%	1.8%	1.3%	-0.4%
Information and Communication	-1.6%	4.7%	5.8%	2.4%	1.9%
Financial Services	1.6%	5.7%	4.7%	4.9%	1.9%
Rents	1.0%	3.6%	3.6%	3.1%	2.9%
Other Services	1.1%	6.1%	5.8%	1.9%	0.4%
Public Administration	0.1%	1.9%	1.9%	1.2%	1.3%

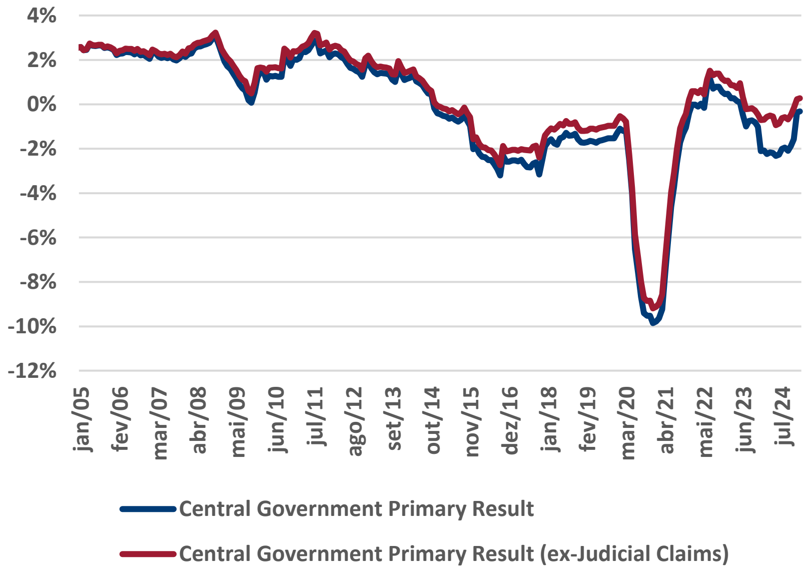


Source: BOCOM BBM, IBGE

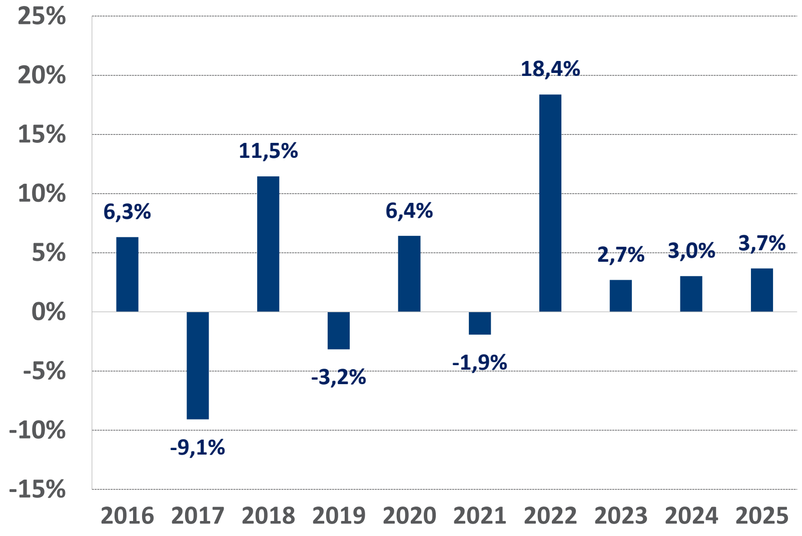
Brazil: Central Government Primary Result

- The central government's primary balance registered a surplus of BRL84.9 billion in January, higher than the BRL79.4 billion recorded in January 2024, but below the market consensus (BRL88.1 billion);
- Net revenue grew by 3.7% in real terms compared to January 2024, mainly driven by import tax (51.4%), IRPJ/CSLL (7.6%), and PIS/Cofins (4.4%). On the negative side, despite the strong performance of the labor market, social security contributions fell by 0.9%, which may be due to tax compensation.
- Total expenditure increased by 4.4% in real terms, driven by social security benefits (2.4%), assistance for the elderly and disabled BPC/LOAS (14.8%), all of which reflect the increase in the minimum wage, and Fundeb (21.9%), due to the increase in the federal government's contribution to the fund. There was also a significant increase in discretionary expenditure (25.2%).
- As expected, central government primary balance was very positive in January due to seasonal factors, specially regarding the higher inflation and economic activity.

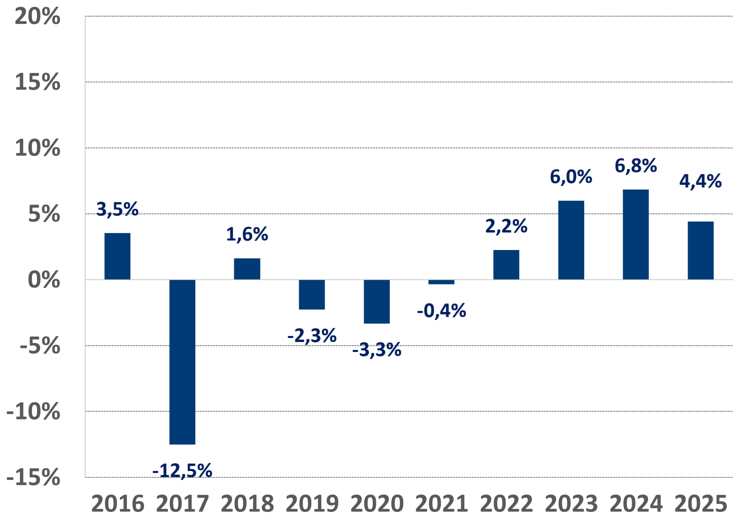
Central Government Primary Result (% GDP)



Net Revenue (YTD Real, %)



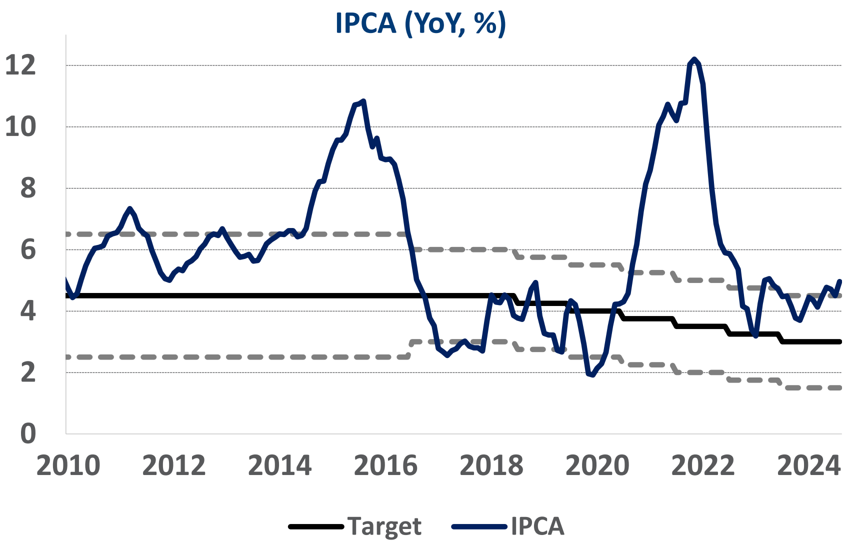
Expenditure (YTD Real, %)

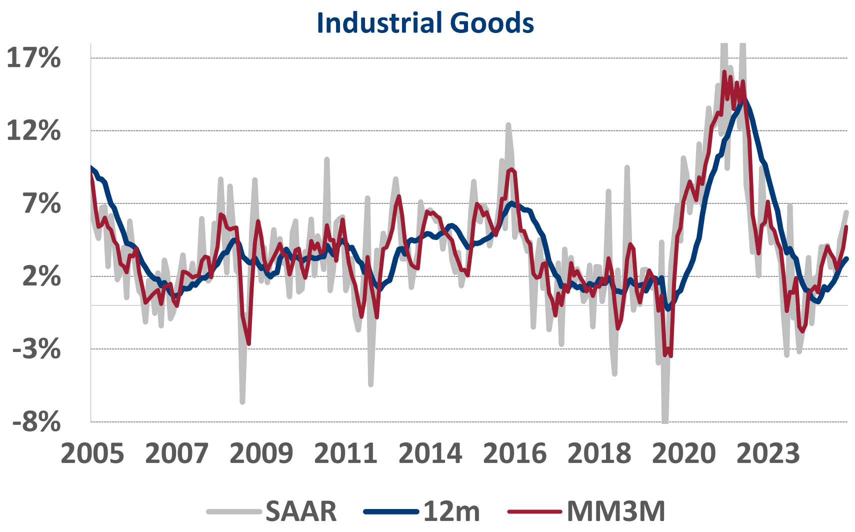


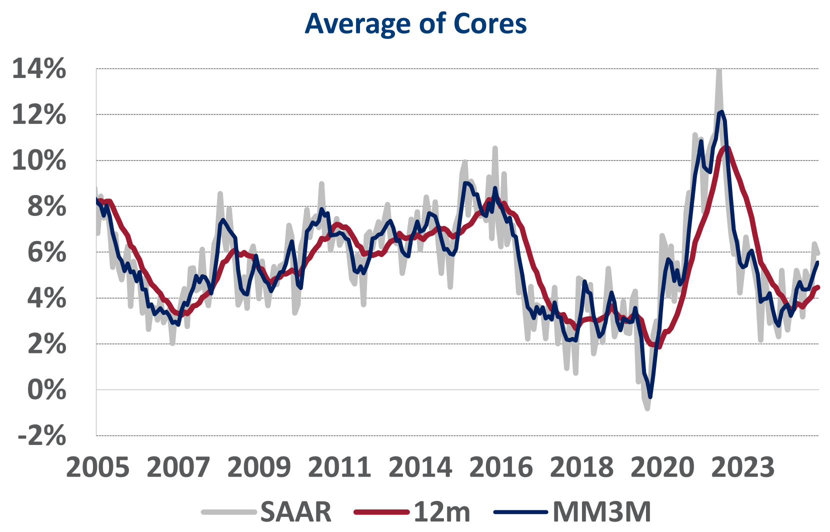
Source: BOCOM BBM, RTN

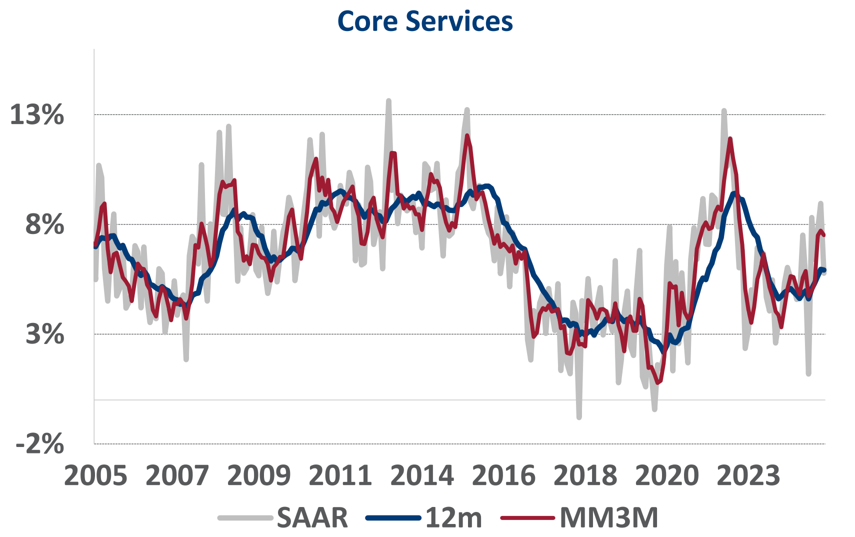
Brazil: Inflation 2025

- February IPCA-15 rose by 1.23% MoM, below expectations of 1.37% MoM. The 12-month variation increased to 4.96% in February from 4.50% in January;
- The main downward deviation to market forecasts came from services (airfare and education) and food at home. In turn, rents and condominium surprised to the upside, reflecting higher inertia. The headline above the seasonality is explained by the payback of Itaipu Bonus discounts on electricity fares and the hike in state-level tax (ICMS) on fuels;
- Regarding the breakdown, core services advanced 0.63% MoM, slightly above forecasts and the 3M SAAR reached 7.8%, remaining at worrisome levels even with the effect of cinema discounts this month;
- The average of core inflation increased by 0.62% MoM, with its 3M SAAR increasing from 5.5% to 5.6%. Although the overall result came below expectations, the breakdown of the IPCA-15 does not bring a relief, with cyclical sectors still showing inflation acceleration.





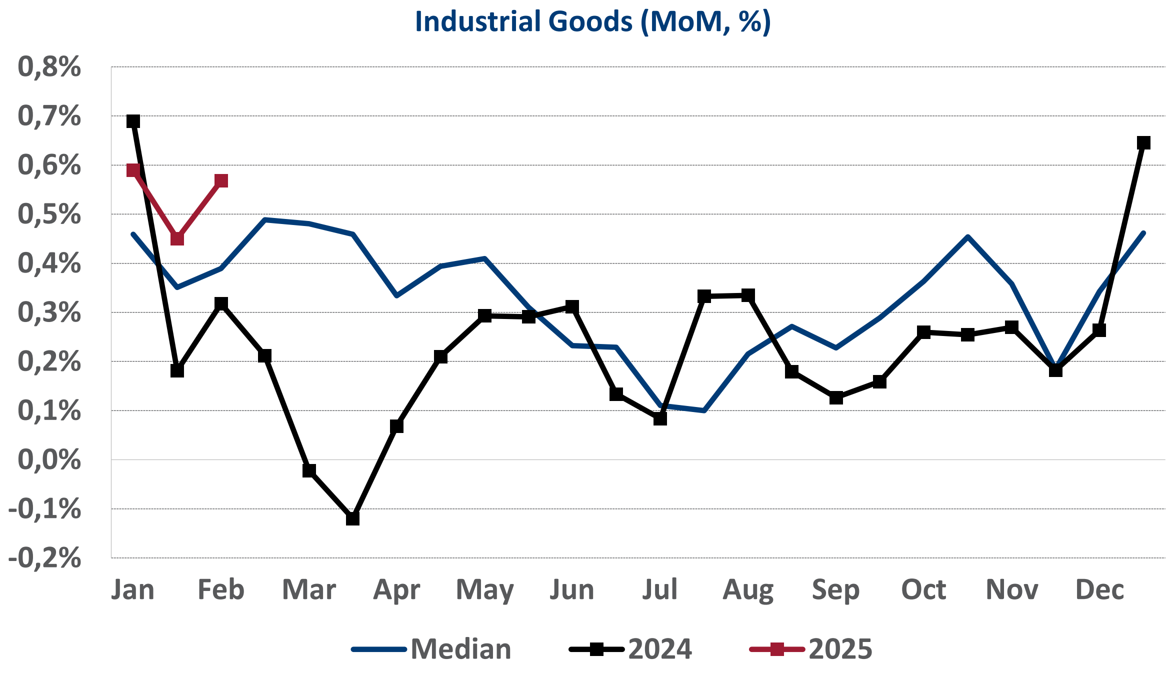


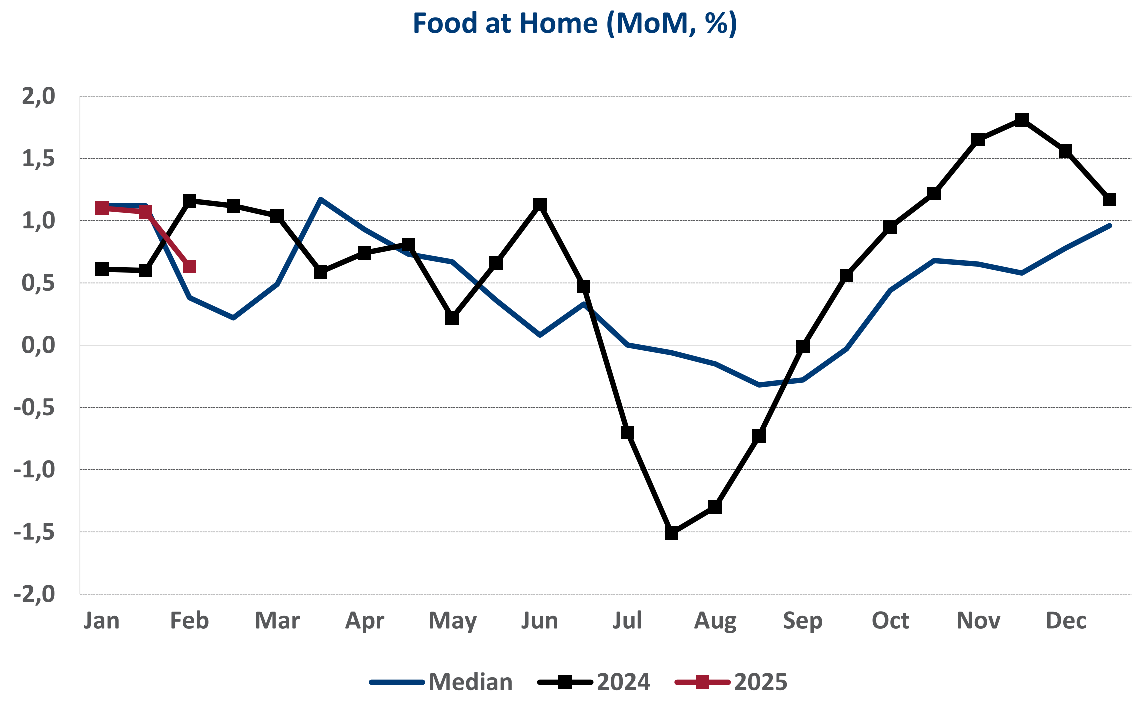


Source: BOCOM BBM, IBGE

Brazil: Inflation 2025

- Industrial goods prices advanced 0.57% MoM, above expectations, with 3M SAAR increasing from 3.9% to 4.6%, which reflects the more depreciated exchange rate last year;
  - However, if the recent good performance of the BRL persists it could bring a downward bias to industrial goods forecasts;
- In turn, foodstuff prices rose by 0.63% MoM, below expectations, driven by meat price. However, the scenario remain challenging for protein prices in the second half of the year, in a context of high demand and lower cattle slaughter.





Source: BOCOM BBM, IBGE

Brazil: Inflation

- After the February IPCA-15 result, we reduced slightly our forecast for 2025 from 5.9% to 5.8% due to a volatile item (airfares) and lower education readjustments;
- However, all the main inflation metrics are running well above the target (3.0%) and the 12M variation stands above the upper bound of the target;
- Therefore, we maintain our view that the inflation should accelerate throughout this year.

IPCA (%, annual)

	Weight	2020	2021	2022	2023	2024	2025	2026
Regulated	**26.6**	**2.6**	**16.9**	**-3.8**	**9.1**	**4.7**	**5.1**	**4.4**
Industrial goods	**23.6**	**3.2**	**11.9**	**9.5**	**1.1**	**2.9**	**4.3**	**3.8**
Durable goods	10.3	4.5	12.9	6.1	-0.4	1.5	3.1	-
Semi-durable goods	5.9	-0.1	10.2	15.7	2.7	2.0	3.8	-
Non-durable goods	7.3	4.0	11.9	9.5	1.7	5.4	6.4	-
Food at home	**15.7**	**18.2**	**8.2**	**13.2**	**-0.5**	**8.2**	**7.9**	**4.8**
Services	**34.1**	**1.7**	**4.8**	**7.6**	**6.2**	**4.6**	**6.3**	**4.9**
Food away from home	5.6	4.8	7.2	7.5	5.3	6.3	6.5	4.7
Related to minimum wage	5.2	1.5	3.3	6.3	5.2	5.0	6.0	4.9
Sensitive to economic activity	8.2	0.2	5.1	6.3	9.5	0.9	5.8	4.7
Inertial	15.0	1.6	4.2	8.8	5.1	6.0	6.7	5.0
IPCA		**4.5**	**10.1**	**5.8**	**4.6**	**4.8**	**5.8**	**4.5**

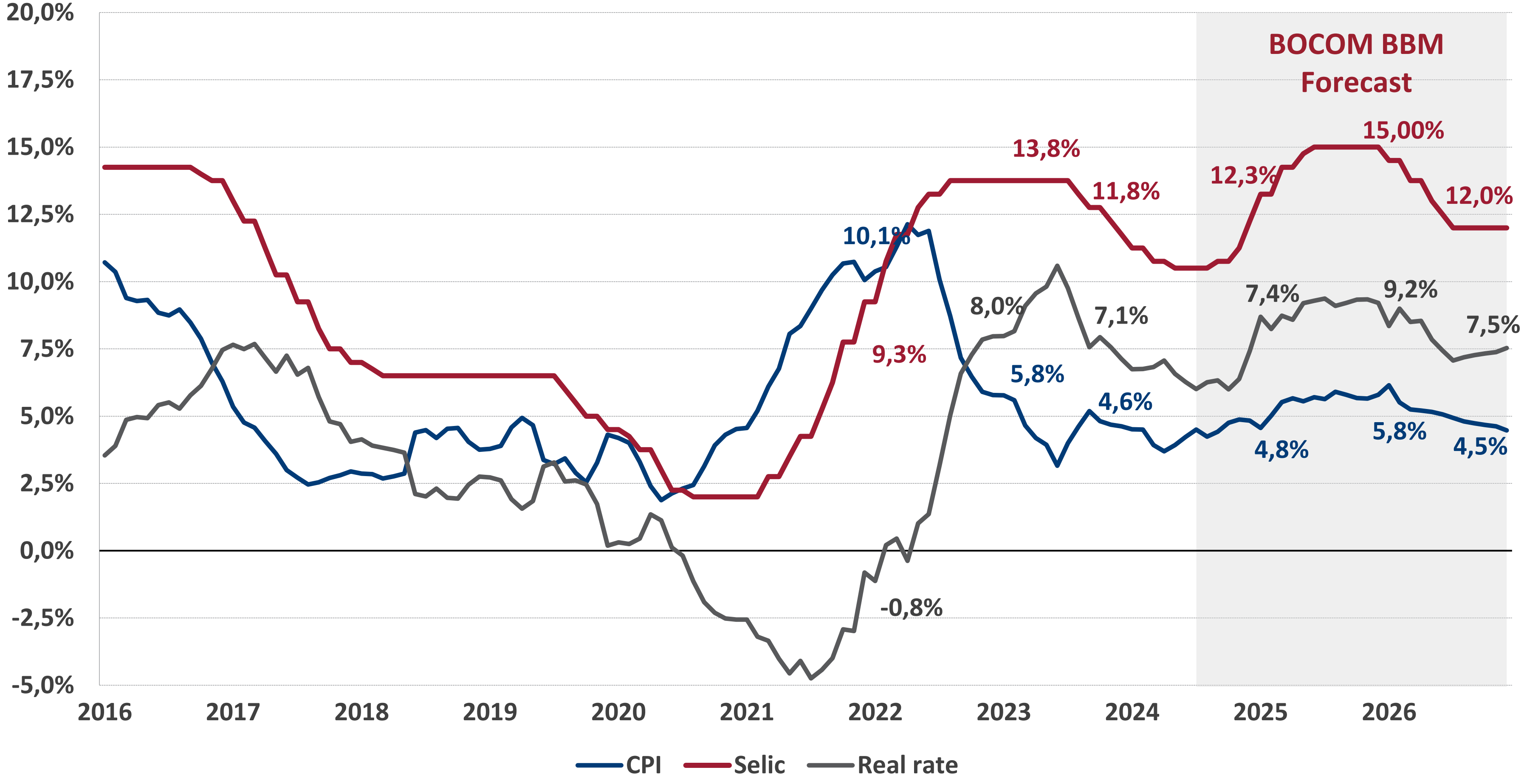
Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

交通銀行 BANK OF COMMUNICATIONS BBM

- Concerning monetary policy, the Brazilian Central Bank (BCB) raised the Selic rate by 100 bps to 13.25% p.a. at its January meeting and another 100 bps hike is expected for March, in line with the guidance given. Since the January meeting, inflation expectations continued to worsen marginally, but FX appreciated sharply from BRL6,00/USD to around BRL5,75/USD, which could bring relief to BCB inflation forecasts in March if BRL keep the good performance. This could allow the Copom to reduce the tightening pace in May. In January, BCB inflation projections six trimesters ahead stood at 4,0% in a scenario where rates peak at 15% and remain there until the end of 2025 but decrease to 12% in 2026.

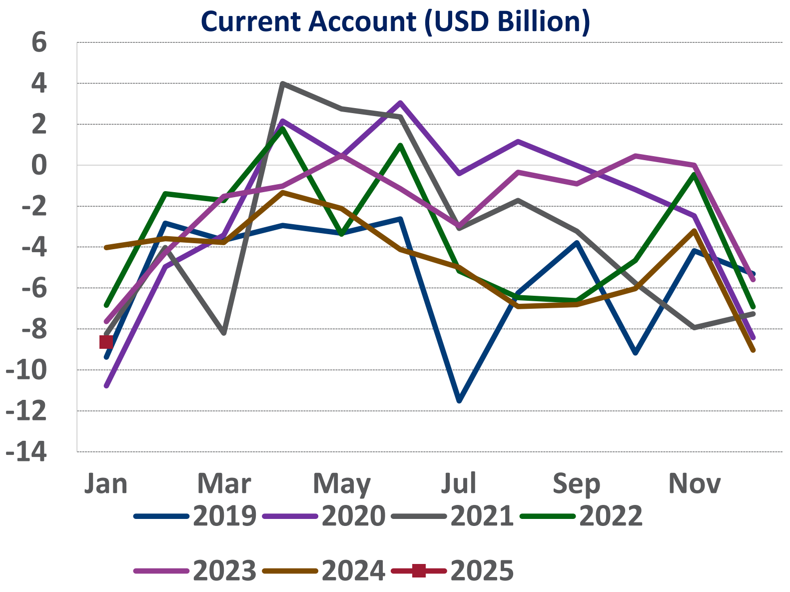
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

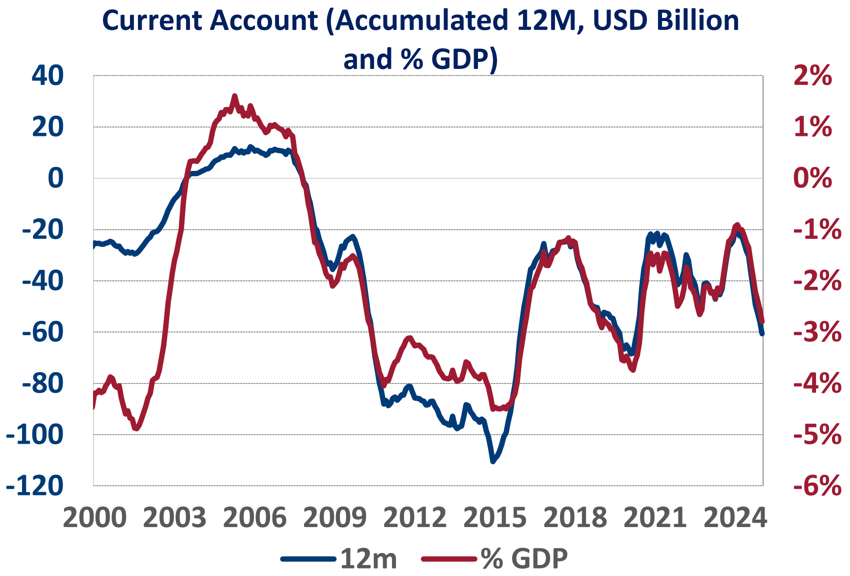


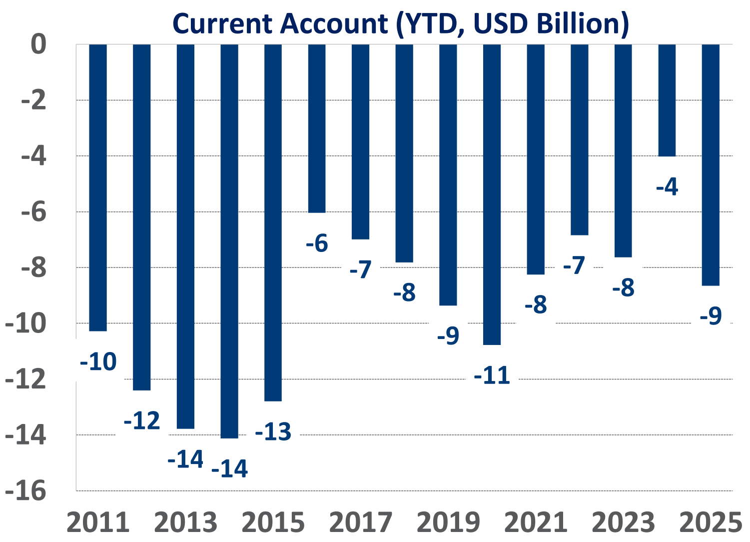
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The Brazilian current account recorded a USD 8.7 billion deficit for January, in line with expectations (USD -9.0 billion);
- Additionally, the Central Bank announced a methodological revision, including improvements to the statistical estimation and new sources of information;
- As a result, the current account deficit increased by USD 4.8 billion in 2024, widening from USD 56.0 billion reported in the previous data to USD 61.2 billion (2.8% of the GDP);
- Regarding the 12-month rolling sum up to January 2025, the deficit reached USD 65.4 billion (3.02% of GDP).



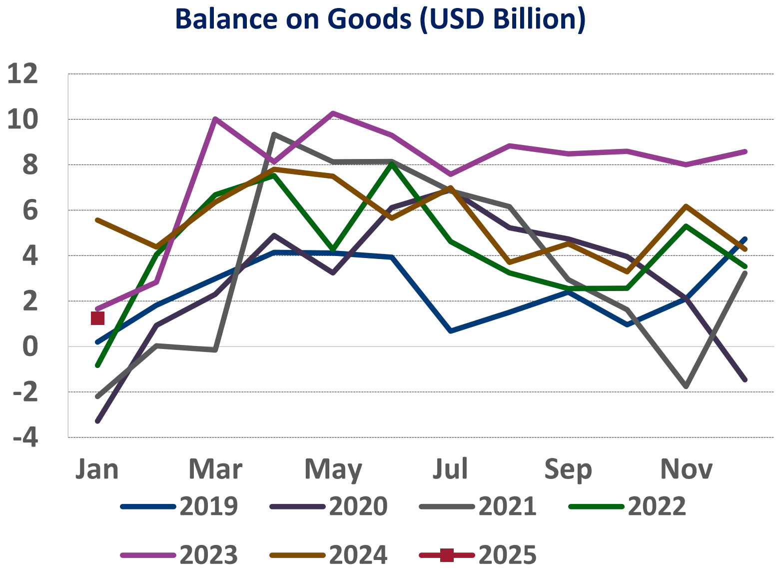


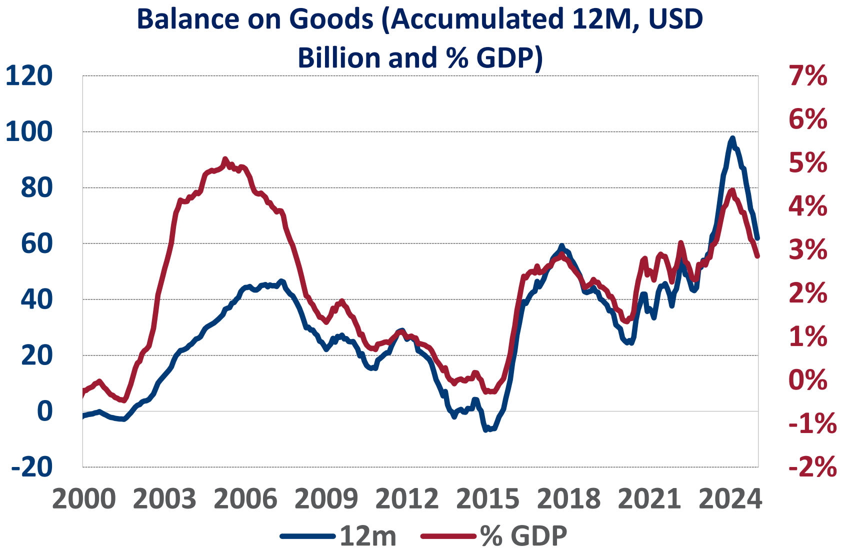


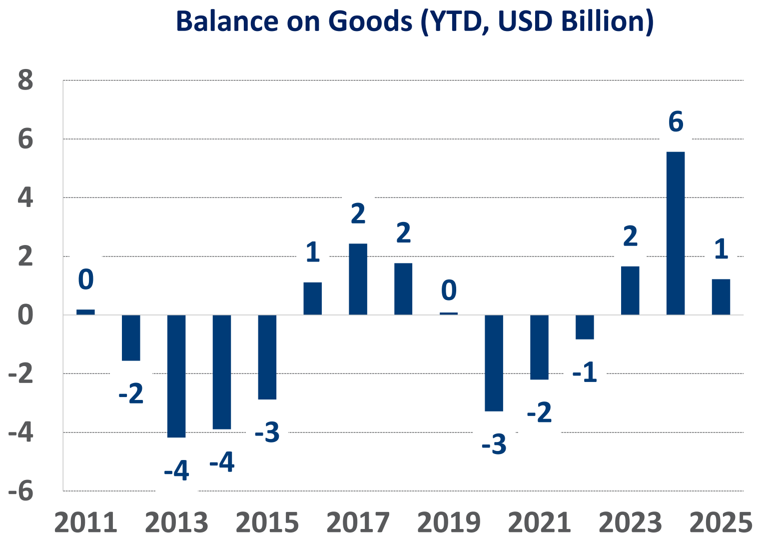
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- The trade balance recorded a surplus of USD 1.2 billion in January, below the USD 5.6 billion surplus reported one year earlier;
- Strong import figures have been sustaining lower levels for the trade balance so far.
- This trend should persist in the first quarter of 2025 before the slowdown in economic activity and the lagged effects of a weaker exchange take hold.
- More precisely, in January, the value of goods exports declined by 5.9% YoY to USD 25.4 billion while the value of goods imports increased 12.8% YoY to USD 24.1 billion.



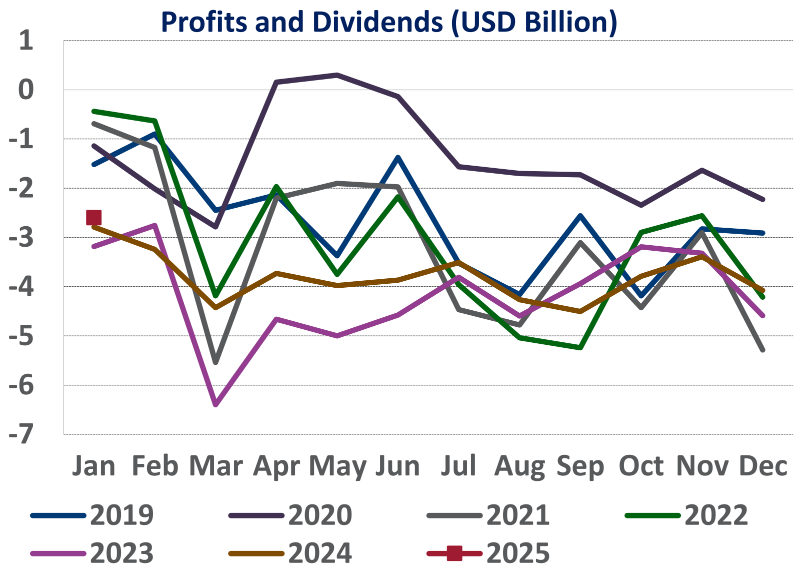


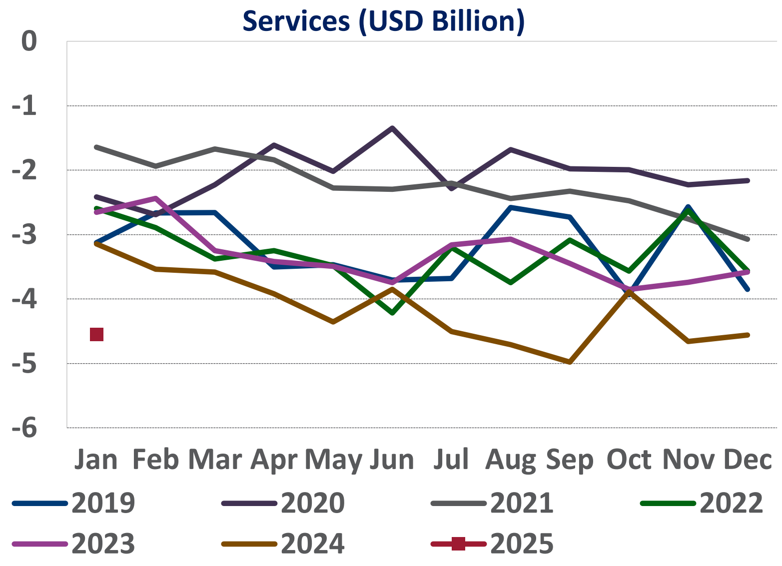


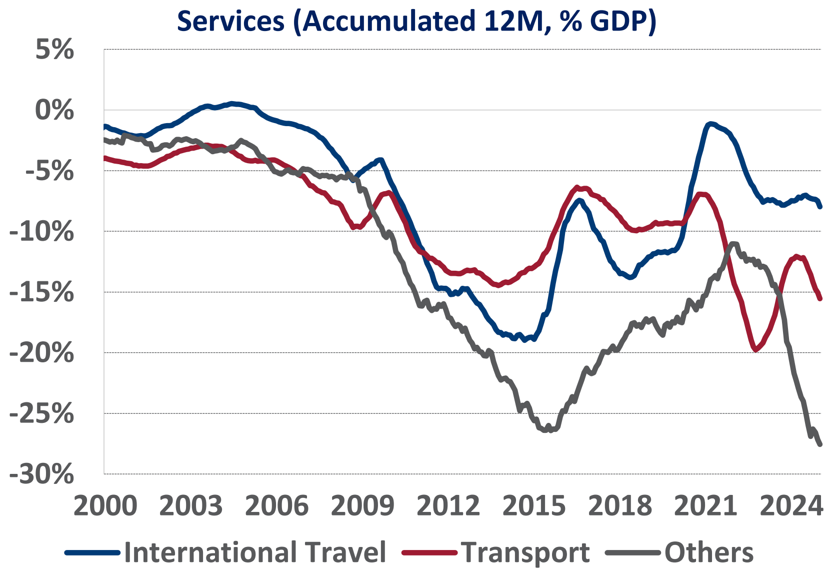
Source: BOCOM BBM, BCB

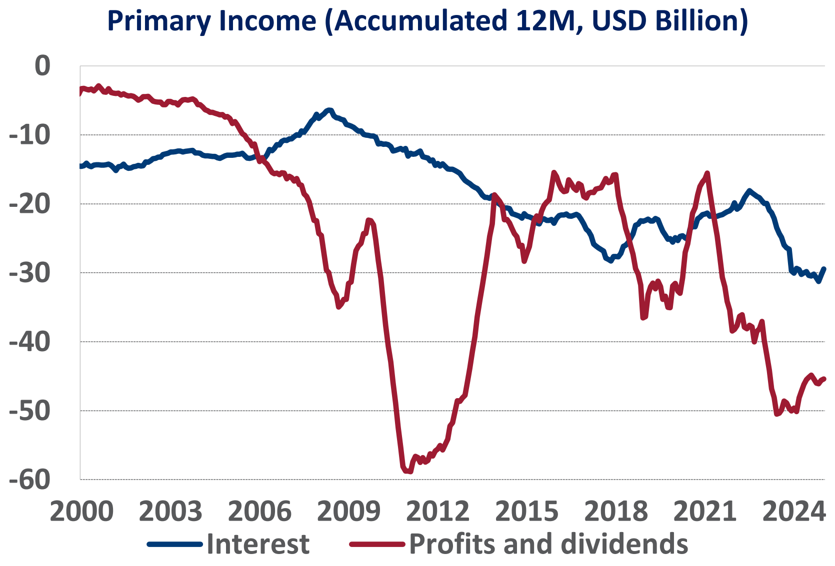
Brazil: Balance of Payments

- The services deficit reached USD 4.6 billion in January 2025, compared with USD 3.5 billion in January 2024.;
- 8 of the 13 components increased. The transportation account and the other business service component accounted for the main deviation when compared to last year's result.;
- Additionally, the intellectual property and telecommunication account deficit, whose dynamics are less sensitive to the economic cycle, also widened.







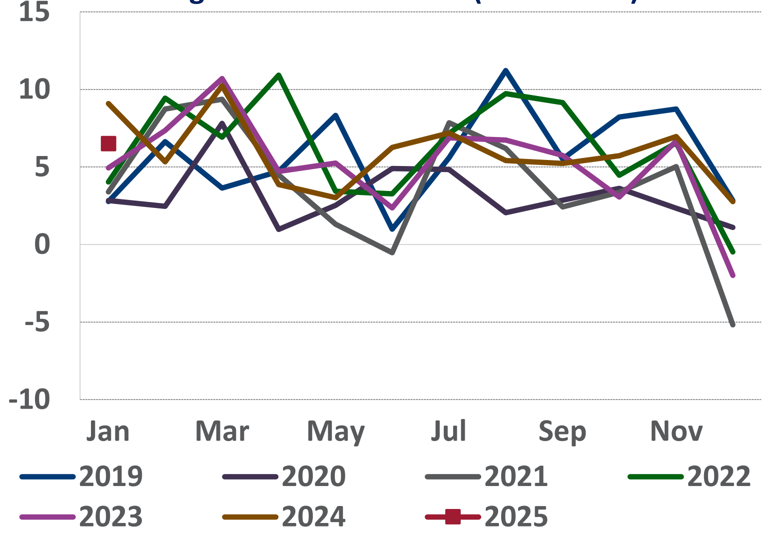


Source: BOCOM BBM, BCB

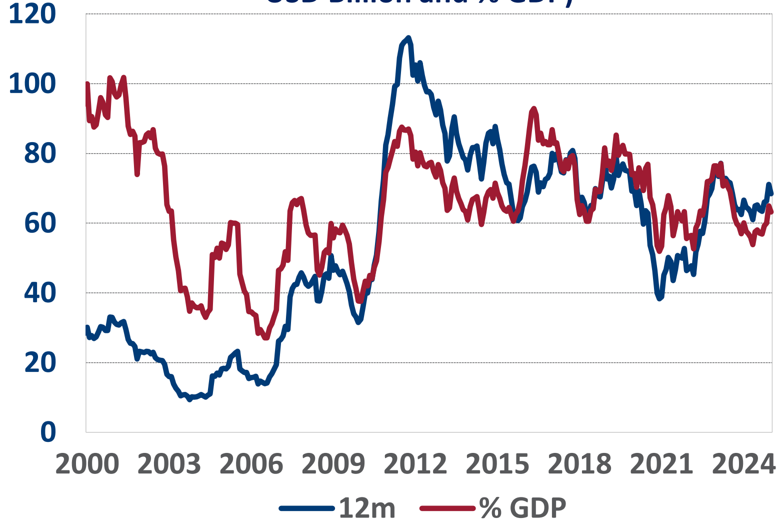
Brazil: Balance of Payments

- Net inflows in Foreign Direct Investment (FDI) totaled USD 6.5 billion in January 2025, surpassing expectations once again (of USD -5.7 billion);
- Thus, FDI reached USD 68.5 billion in the 12-month rolling sum up to January 2025 (3.16% of GDP).

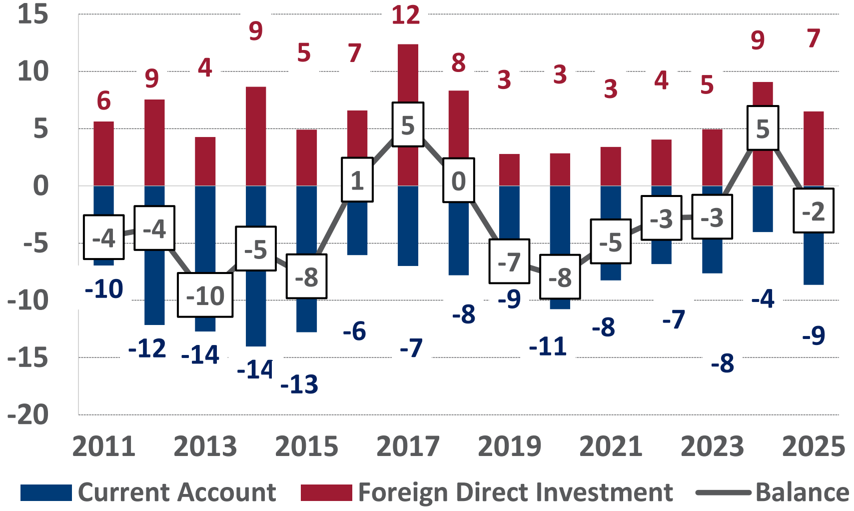
Foreign Direct Investment (USD Billion)



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



Current Account Balance and FDI (YTD, USD Billion)



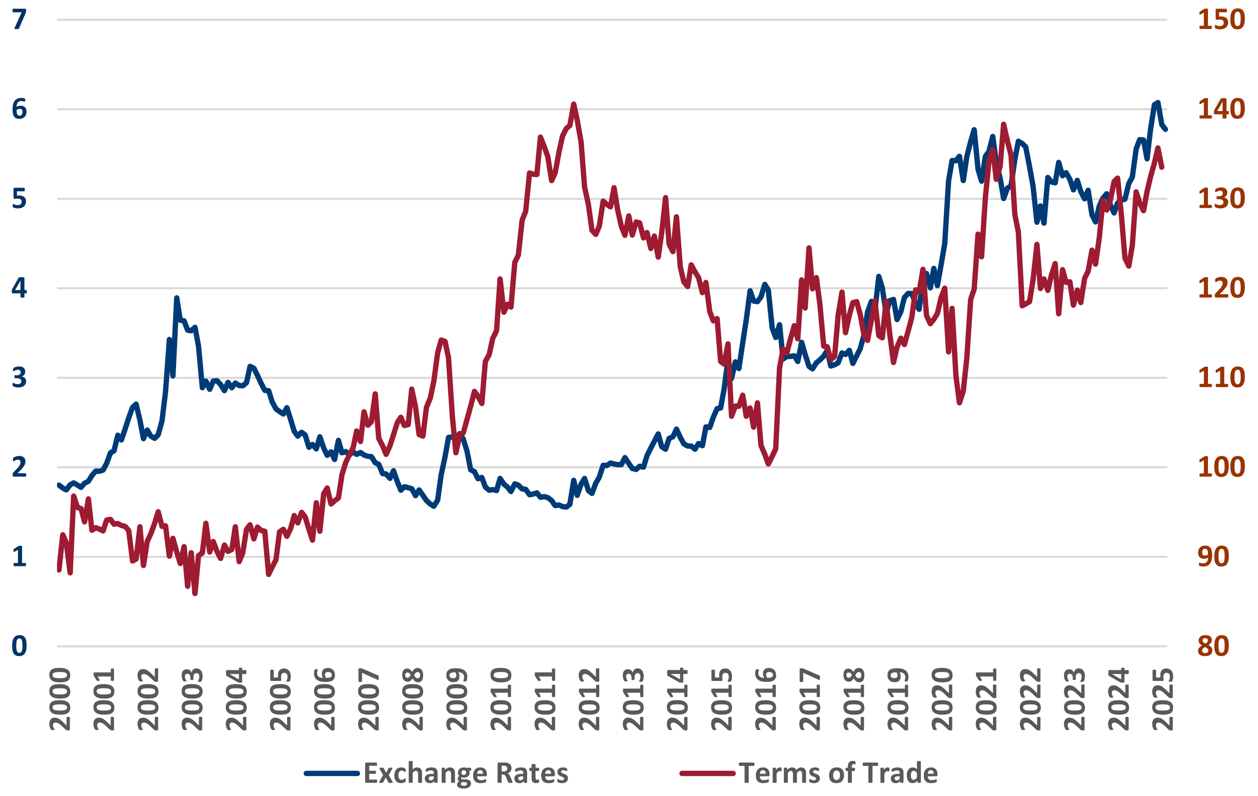
Source: BOCOM BBM, BCB

Brazil: External Sector

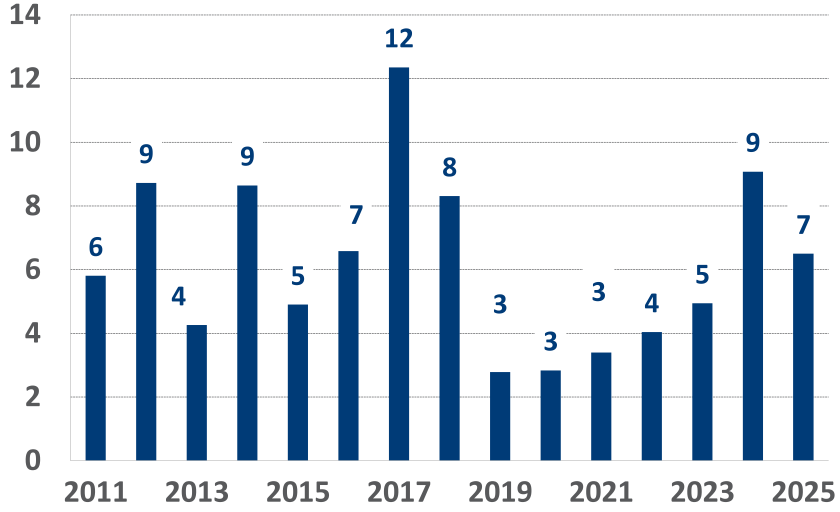
BANK OF COMMUNICATIONS BBM

- In February, the Brazilian Real appreciated from 5.86 to around 5.78 against the US Dollar. In the international front, President Trump speeches regarding tariffs remain distant from campaign promises, bringing relief to emergent currencies. In the domestic scenario, the drop in Lula's approval rate and the increase in the competitiveness of candidates from right-wing parties in electoral polls has encouraged the markets over the last weeks, strengthening the BRL.

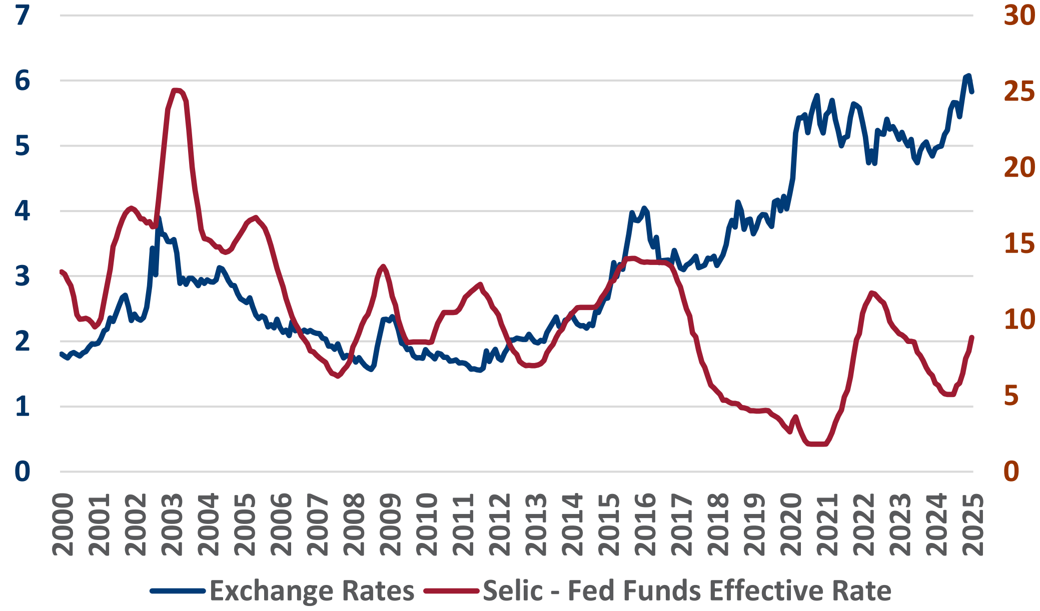
Terms of Trade x BRL



Foreign Direct Investment (YTD, USD Billion)



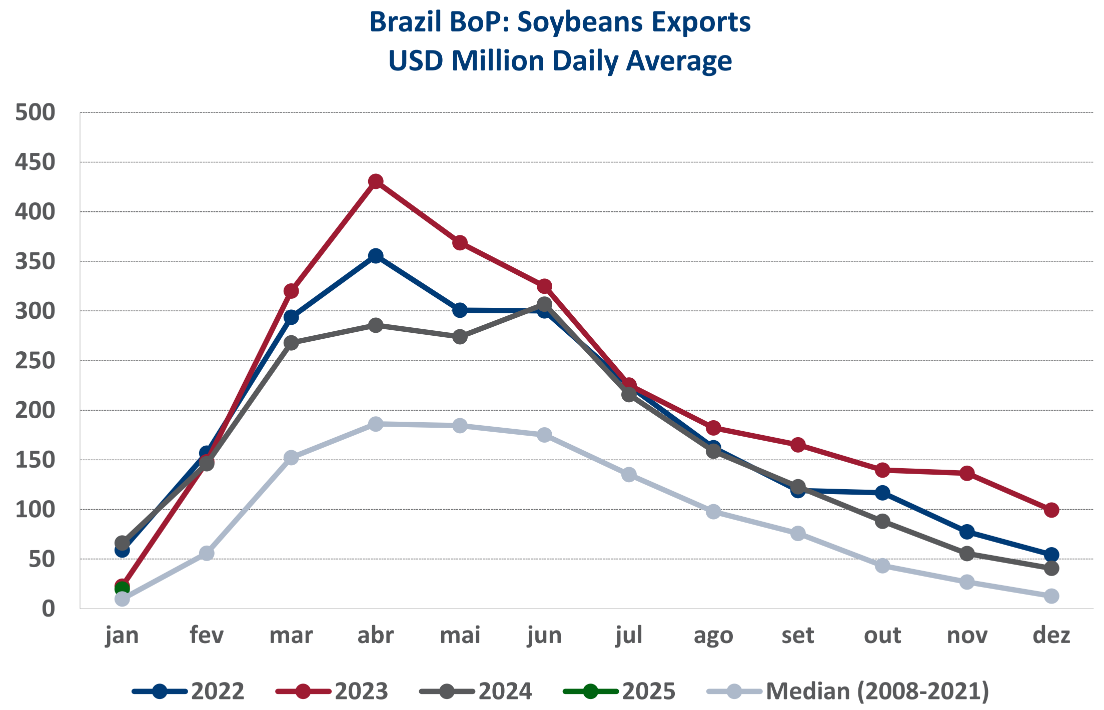
Interest Rate Differential x BRL

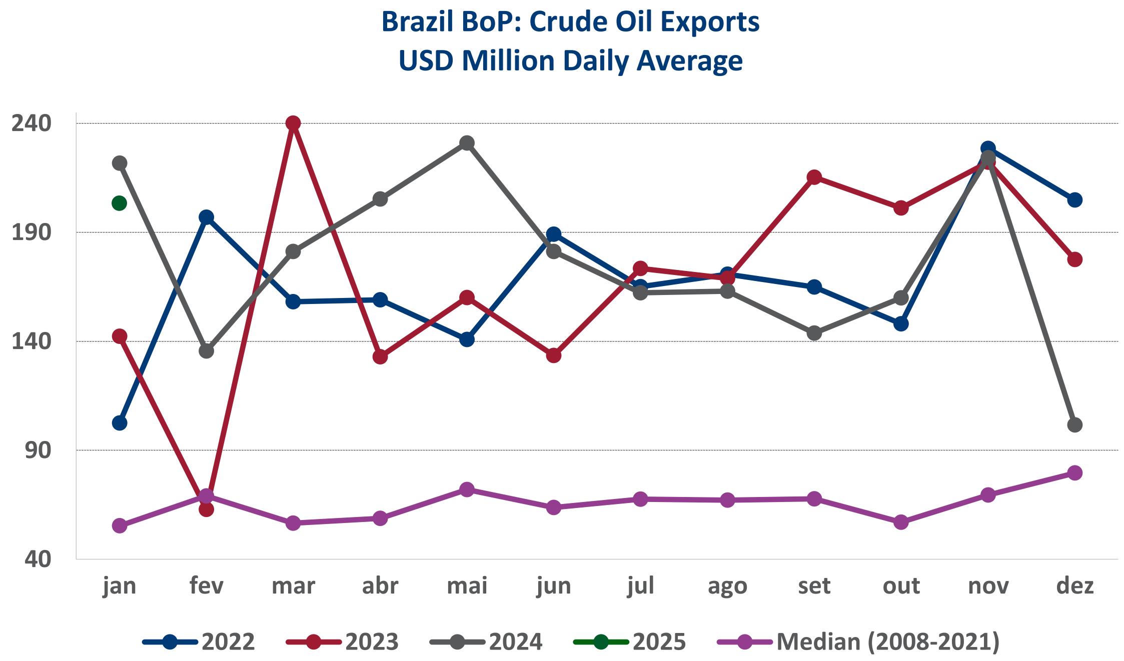


Source: BOCOM BBM, Bloomberg, Funcex, BCB

Brazil: External Sector

- In January, the trade balance presented a surplus of USD 2.16 bn (-65.1% YoY) according to Secex data;
- Exports fell 5.7% YoY, driven by the drop in soybeans (-70.06% YoY), iron ore (-21.9% YoY) and crude oil (-8.28% YoY);
- In turn, imports increased by 12.2% YoY, mainly due to non-electric motors and machinery (+56.67% YoY).





Source: Secex, BOCOM BBM

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