Macro Outlook

April 2025

Macro Outlook

BANK OF COMMUNICATIONS

- In March, the FOMC decided to remain on hold, as was widely expected. Their median rate projections were unchanged, but did show a broad upward movement. Economic projections were revised showing less GDP growth, slightly higher unemployment rate, and higher inflation this year. Chair Powell admitted that a good part of those revisions were due to trade policy developments, that uncertainty is highly elevated, and there could be further downward revisions to growth and upward revisions to inflation;

- Regarding China, economic activity data for January and February showed that growth momentum was sustained in these months, with both retail sales and IP showing similar numbers to December. Exports, on the other hand, slowed notably after sustaining a very strong pace throughout 2024, besides still being near all-time-highs in level terms. February CPI inflation declined from 0.5% to -0.7% YoY, deflation pressures remains a major concern for this year, with economy still suggesting demand-supply imbalances.

- In Brazil, economic activity showed signs of losing momentum at the end of 2024, but recent data suggest resilience. In January, services decelerated as expected, decreasing by 0.2% MoM, and industrial production underperformed, showing no monthly variation. Meanwhile, retail sales exceeded expectations, rising by 2.3% MoM. Summarizing this scenario, the Central Bank's monthly proxy for Brazil's GDP (IBC-BR) showed an increase of 0.9% MoM in January. Labor market remain solid, with increasing employment and income. Furthermore, recently announced government measures should provide additional stimulus to demand;

- Concerning monetary policy, the Brazilian Central Bank (BCB) raised the Selic rate by 100 bps to 14.25% p.a. at its March meeting, as expected, and in line with the guidance that was previously given. BCB inflation projections six trimesters ahead stand at 3,9 % in the third quarter of 2026 in a scenario where rates peak at 15% and remain there until the end of 2025 but decrease to 12.5% in 2026. Projections have decreased, but only slightly, as the last projection released in January stood at 4%. This time around the committee did not indicate the magnitude of the next hikes, but expects that the hiking cycle will continue, albeit at a slower pace. The statement reinforced that further adjustments are tied to the firm commitment to inflation convergence to the target. The votes for rising rates were once again born from a unanimous decision;

- March IPCA-15 rose by 0.64% MoM, below expectations of 0.68% MoM. The 12-month variation advanced from 4.96% in February to 5.26% in March. The main downward deviation came from industrial goods (especially durable goods), but also lower-than-expected results from core inflation metrics. Regarding the breakdown, core services advanced 0.67% MoM, slightly below forecasts and the 3M SAAR (3-month seasonally adjusted annualized moving average) remained at 7.9%, remaining at worrisome levels. The average of core inflation increased by 0.47% MoM, also below expectations, with its 3M SAAR increasing from 5.6% to 5.9%. Although the overall result came below expectations, the breakdown of the IPCA-15 does not bring relief;

- In the fiscal scenario, the central government's primary balance registered a deficit of BRL 31.7 billion in February 2025, better than the BRL -58.3 billion recorded in last year's, due to the transitory fall in expenses driven by a change in the payment schedule for court-ordered debt and the delay in 2025 budget approval that impacted downwards some expenditure lines.

China: Economic Activity

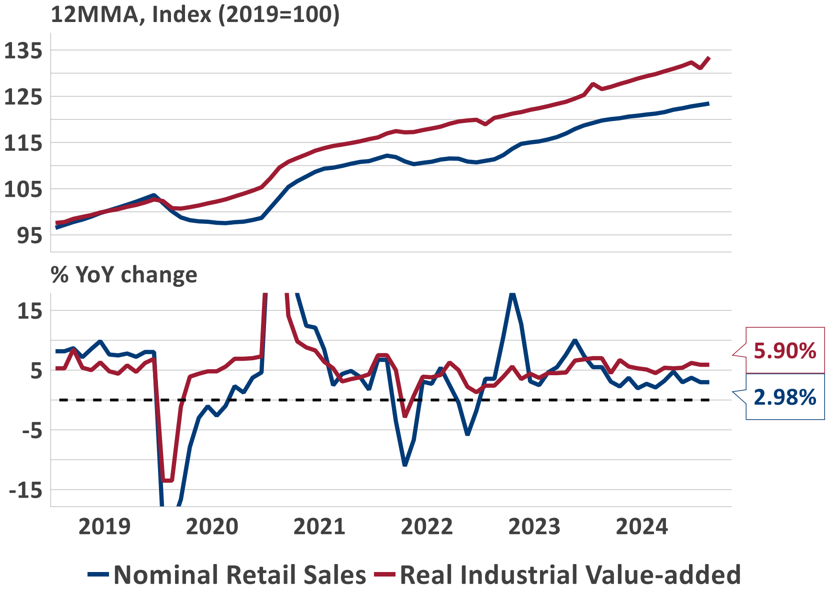
- **Growth momentum was sustained in January-February,** with both retail sales and IP showing similar numbers to December;
- **Retail sales accelerated** from 3.7% to 4.0% YoY (exp. 4.0%), still showing signs of support from the consumer goods trade-in programs (home appliances up 10.9% YoY and cellphones +26.2% YoY, although cars sales fell by 4.4%, possibly reflecting softer prices);
- **Industrial prod. decelerated** from 6.2% to 5.9% YoY (exp 5.3%): the breakdown continues to be heterogeneous with continued strength in the new economy sectors, such as industrial robots (+27% YoY) and NEVs (47.7% YoY), but weakness on those related to real estate (cement fell -5.7% YoY);
- **FAI picked up** to 4.1% YTD YoY (exp. 3.2%), close to the 4.2% growth in the same period of 2024, still heavily tilted towards manufacturing and infrastructure;
- **Housing:** the recovery still looks shaky as new home sales were down again in Jan-Feb, and construction activity remained weak, although on a 12-months sum, sales data has stabilized around 811M since September last year.

China: Activity (% YoY)

	2/2025	1/2025	2/2024
Industrial Production	5.90	6.2	7.0
Mining	4.30	2.4	2.3
Manufacturing	6.90	7.4	7.7
Utilities	1.10	1.1	7.9
Fixed Asset Investment (YTD)	4.10	3.2	4.2
Manufacturing	9.00	9.2	9.4
Real Estate	-9.80	-10.6	-9.0
Infrastructure	5.60	4.4	6.3
Retail Sales	3.72	n/a	n/a
Catering Services	2.70	2.7	30.0
Consumer Goods	3.90	3.9	4.8
Clothing	-0.30	-0.3	26.0
Automobiles	0.50	0.5	4.0
Furniture	8.80	8.8	2.3
Cellphones	14.00	14.0	11.0
Home Appliances	39.30	39.3	-0.1
Construction	0.80	0.8	-7.5

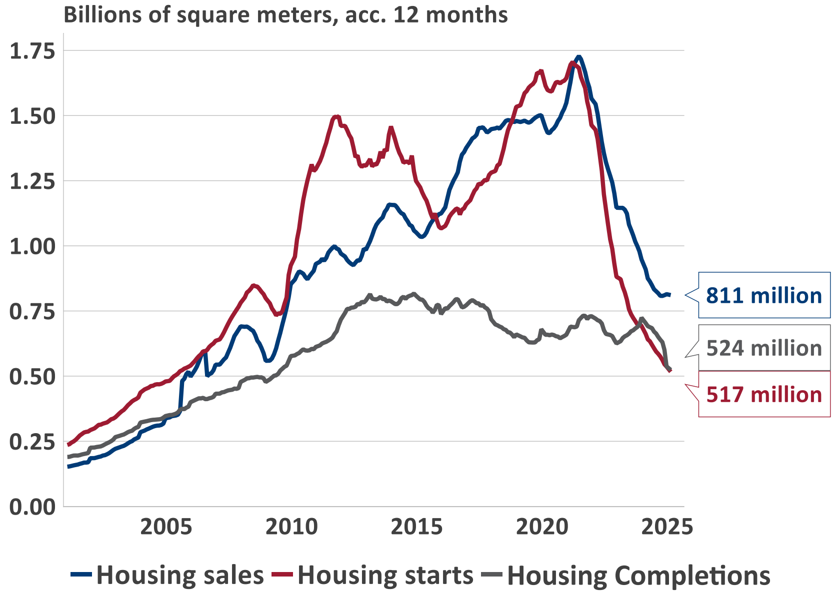
Source: BOCOM BBM, Macrobond

China: Industrial Production x Retail Sales



Source: BOCOM BBM, Macrobond, NBS

China: Housing Indicators



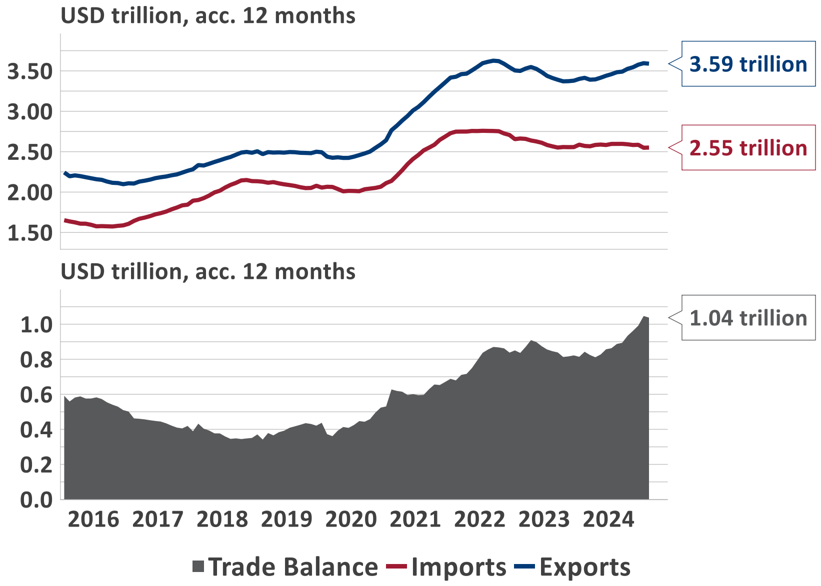
Source: BOCOM BBM, Macrobond, NBS

China: Economic Scenario

- **Exports slowed notably after sustaining a very strong pace throughout 2024**, which bolstered the strength in industrial production data:
  - In level terms, trade surplus remains near all-time-highs at USD 1.04tn;
  - In real terms, exports growth dropped to only 2.3% YoY in Jan-Feb, below the expected 5.0% and way below the 10.7% in December, this softness on growth could be reflecting either initial impacts of tariffs in February or the earlier than usual Chinese New Year;

- February **CPI** inflation declined from 0.5% to **-0.7%** YoY, below expectations of -0.4%;
  - Core inflation dropped from 0.6% to **-0.1%** YoY, still low and below historical pre-COVID level;
  - This abrupt drop was mainly a result of the mismatch in the timing of Chinese New Year holiday, which fell on January this year, but was in February in 2024;
  - **Deflation pressures remains a major concern for this year,** with economy still suggesting demand-supply imbalances, and possibly excess industry capacity in some sectors.

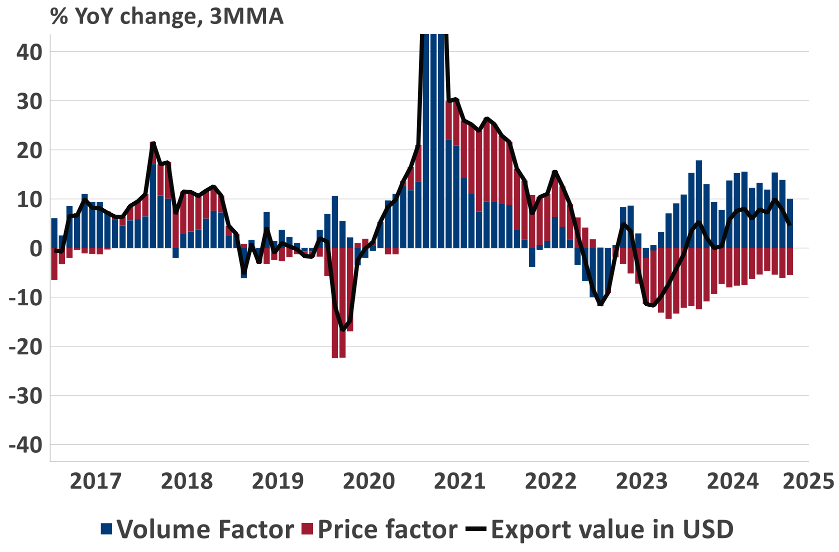
China: Trade Balance



Source: BOCOM BBM, Macrobond, CCS

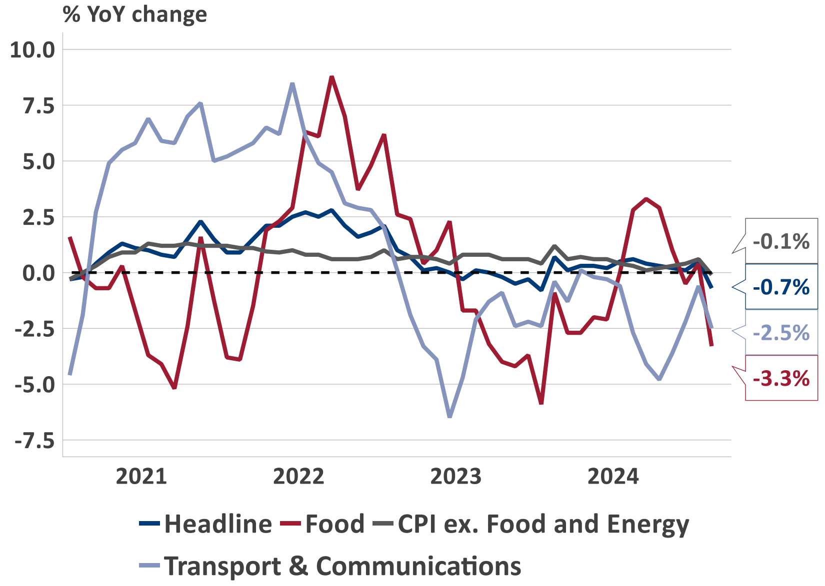
China: Exports (Price x Volume)

Last observation at 2/2025



Source: BOCOM BBM, Macrobond, GAC, CCS

China: CPI

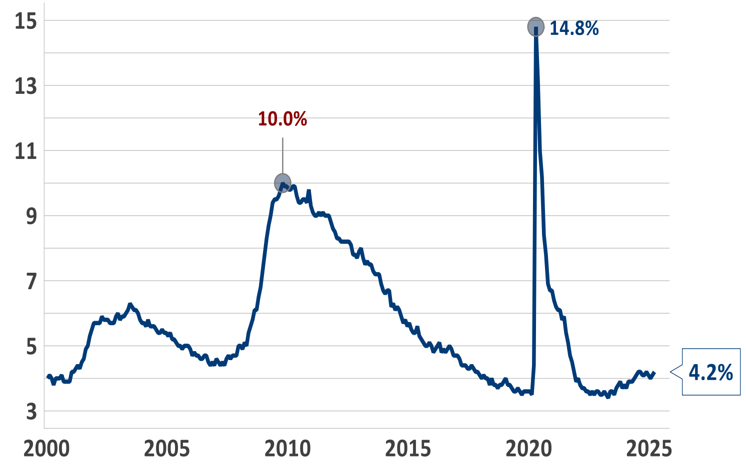


Source: BOCOM BBM, Macrobond, NBS

USA: Labor Market

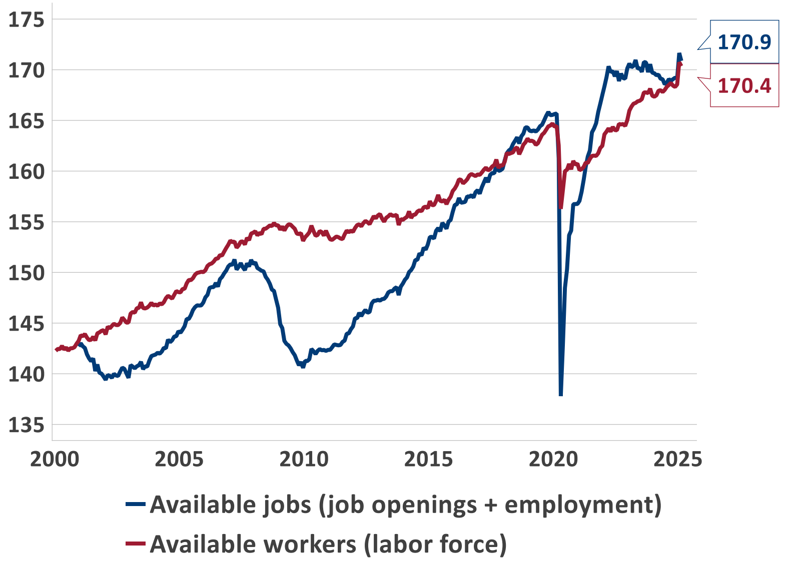
- **March labor market report was an upside surprise, despite some initial softening signs;**
  - March payroll showed a job gain of **228k**, above market expectations of 146k, with a two-month net revision of -48k (-12k in January and -34k in February);
  - The unemployment rate rose from 4.1% to 4.2%, above expectations of 4.1%. However, when accounting for two decimal places, the rise was only from 4.14% to 4.15%;
- In March, the **jobs-workers gap descended to 0.5M,** and it stood at 0.7M throughout January and February 2025, indicating a **tight but not overheated labor market;**
- March avg. hourly earnings climbed **0.3 % MoM,** in line with expectations;
  - The annual rate dropped to **3.8% YoY**, below market expectations of 4.0% YoY. Additionally, there were downward revisions to prior months of - 0.1% YoY.

US: Unemployment Rate SA (%)



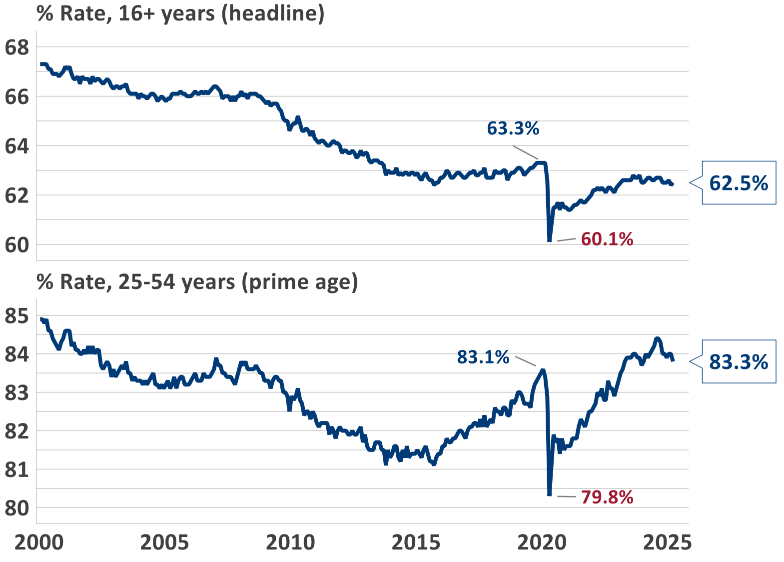
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



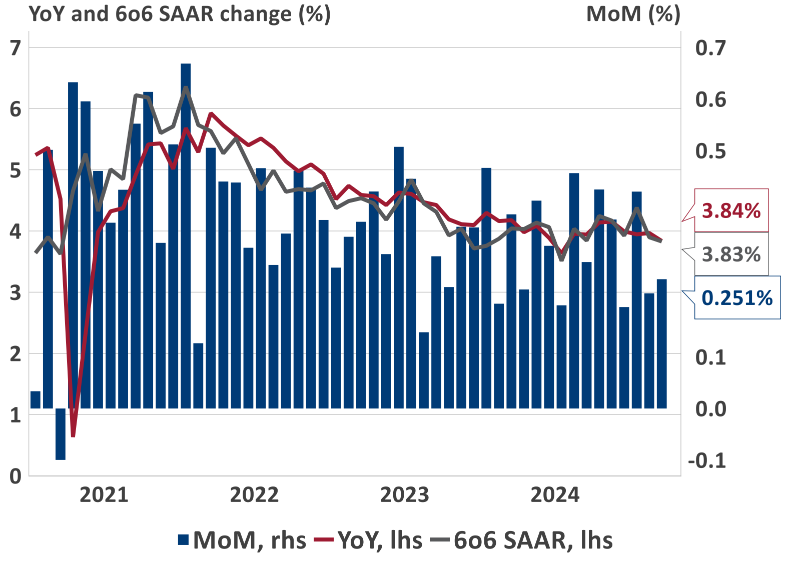
Source: BOCOM BBM, Macrobond, BLS

US: Labor Force Participation Rate (%)



Source: BOCOM BBM, Macrobond

US: Average Hourly Earnings Growth (%)

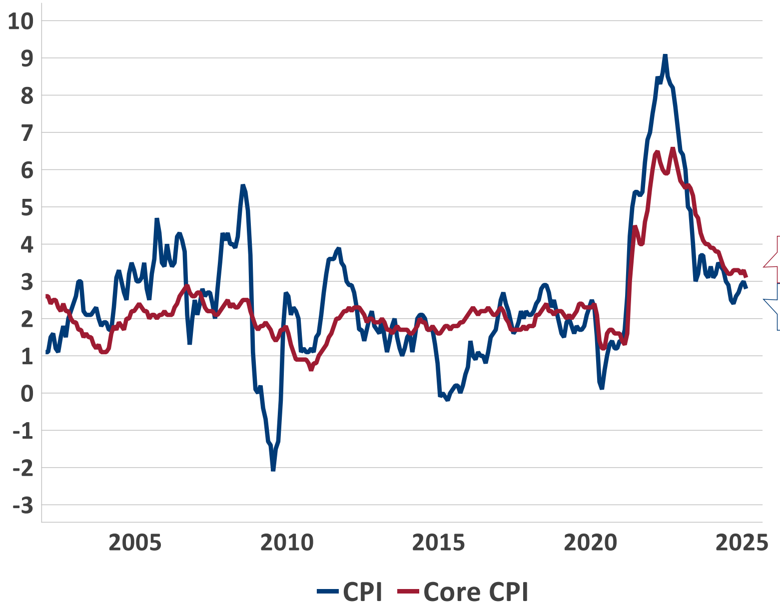


Source: BOCOM BBM, Macrobond

USA: Inflation

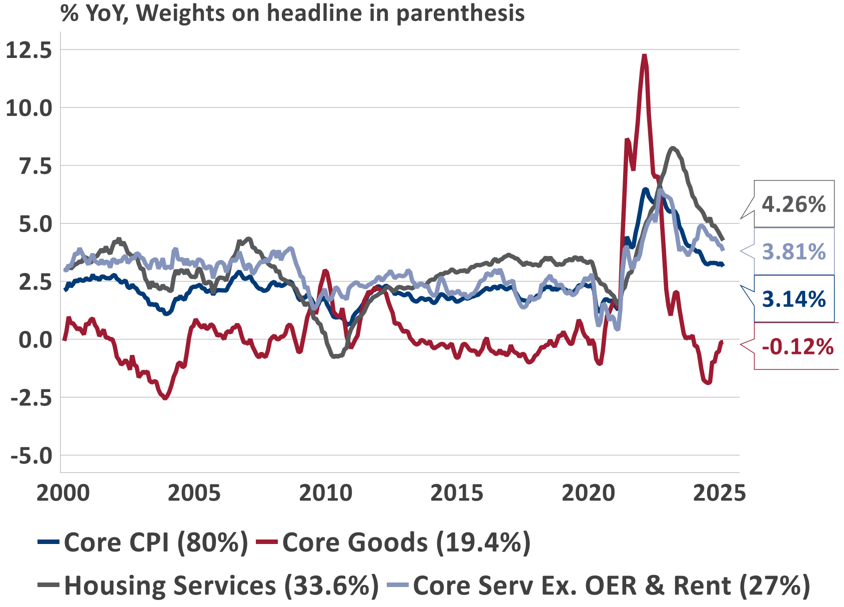
- February **headline CPI** slowed to **0.23% MoM** below expectations (0.29%), leading to an annual growth rate decrease from 2.9% to **2.8% YoY:**
  - Lower impulse from energy (0,20% MoM) and food prices (0.16% MoM);
- **Core CPI** decreased to **0.23% MoM** (exp. 0.31%), and the annual growth rate went down from 3.2% to **3.1% YoY:**
  - Core goods (0.22% MoM): slightly above expectations (0.17%), due to a surprise in Household furnishings (0.19% vs exp. -0.20%) and in other goods (0.84% vs exp.0.40%);
  - Housing services continues its slowing trend, in line with expectations, guided by slower OER (0.28% MoM vs exp. 0.32%);
  - Core Services Ex-Housing (0.22% MoM): transportation services (-0.81% vs exp. 0.77%) was the biggest surprise, although it was mostly concentrated in Public transportation (-3.4% vs exp. 0.87%), while the remaining items were in line with expectations;
- In sum, most of the US slowing in core inflation this month came from core services categories, while **other categories, such as core goods inflation held reasonably firm** – Looking forward, resilient labor markets, and higher upside risks to inflation, alongside with high levels of uncertainty are risks to the inflation outlook this year.

US: CPI (YoY, %)



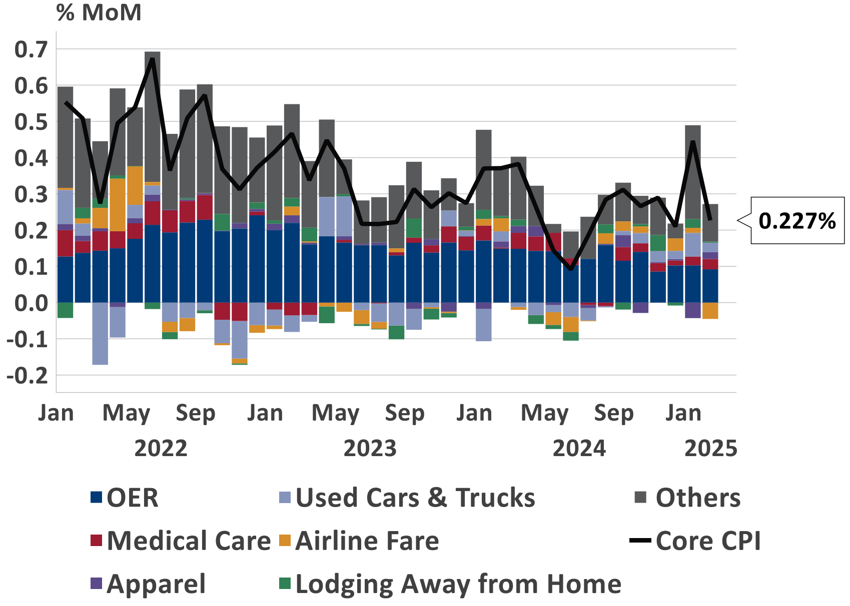
Source: BOCOM BBM, Macrobond, BLS

US: Core CPI Main Components (%)



Source: BOCOM BBM, Macrobond, BLS

US: Core CPI MoM Contributions



Source: BOCOM BBM, Macrobond, BLS

USA: Monetary Policy

- In March, the **FOMC decided to remain on hold,** as was widely expected → current range at **4.25%-4.50%, 100bps below the peak of this cycle;**
- Rate projections didn’t show a change in the median, however, it did show a broad upward movement:
  - The **average Fed Funds projection moved 14bps higher** (3.87% in December, to **4.01%** in March), and that 8 members penciled out fewer than 2 cuts (vs just 4 in December);
- Economic projections were revised in a stagflationary direction: **less GDP growth + slightly higher unemployment rate in 2025 + higher inflation;**
  - In the press conference, Chair Powell indicated that a good part of those revisions were due to trade policy developments, and the SEP bias of risk indicated that there could be further downward revisions to growth and upward revisions to inflation;

FOMC: Summary of Economic Projections (Mar/25)

	2025	2026	2027	Long run
Real GDP (% Q4/Q4)	**1.7**	**1.8**	**1.8**	**1.8**
**Market expectation for March*	1.8	1.9	1.9	1.8
December value	2.1	2.0	1.9	1.8
Unemployment Rate (%)	**4.4**	**4.3**	**4.3**	**4.2**
**Market expectation for March*	4.3	4.3	4.3	4.2
December value	4.3	4.3	4.3	4.2
PCE Inflation (%YoY at Q4)	**2.7**	**2.2**	**2.0**	**2.0**
**Market expectation for March*	2.8	2.3	2.0	2.0
December value	2.5	2.1	2.0	2.0
Core PCE Inflation (%YoY at Q4)	**2.8**	**2.2**	**2.0**	--
**Market expectation for March*	2.8	2.4	2.0	--
December value	2.5	2.2	2.0	--

Source: BOCOM BBM, Fed

*Median expectation from UBS, JP, Nomura, MS, GS, BofA, Barclays.

Fed Dots (March-25)

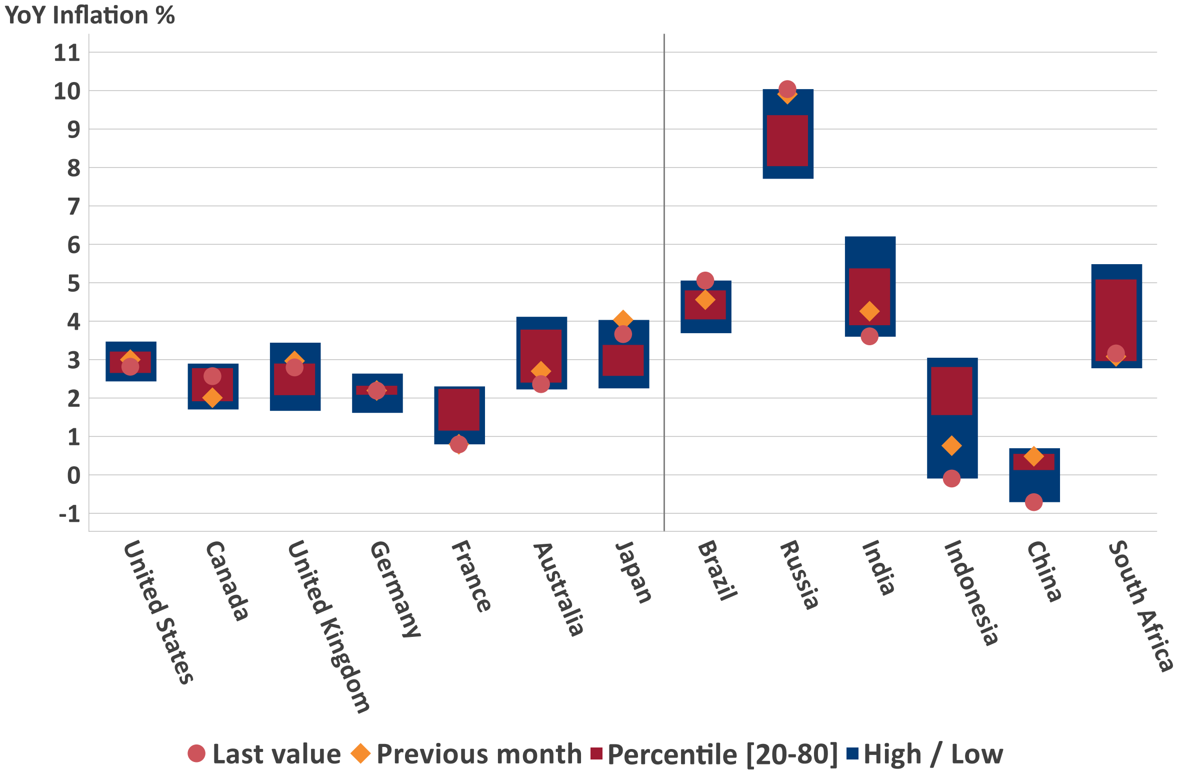
	2025		2026		2027		Longer Term	
Tgt Range	**dez/24**	**mar/25**	**dez/24**	**mar/25**	**dez/24**	**mar/25**	**dez/24**	**mar/25**
6.00-6.25								
5.75-6.00								
5.50-5.75								
5.25-5.50								
5.00-5.25								
4.75-5.00								
4.50-4.75								
4.25-4.50	1	4						
4.00-4.25	3	4		3				
3.75-4.00	10	9	3	1	2	2	1	1
3.50-3.75	3	2	4	2	4	4	3	3
3.25-3.50	1		5	9	1	2	3	3
3.00-3.25	1		4	1	7	6	1	1
2.75-3.00			1	3	2	3	7	7
2.50-2.75			1		2	2	2	2
2.25-2.50			1		1		2	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	3.9	**3.9**	3.4	**3.4**	3.1	**3.1**	3	**3**
Participants	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 yellow.

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	1.4	4.3	-1.7	-1.4	-2.3	2.0	-2.9	1.8
Australia	0.6	0.3	0.2	0.2	0.1	0.5	0.3	0.5
Brazil	0.2	0.7	1.3	1.0	0.4	0.1	0.7	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	0.2	0.4	0.2	0.3	0.1	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	0.1	0.0	0.1	0.3	0.2	0.0	-0.3	0.6
Japan	0.6	0.4	0.8	-0.5	0.0	-1.0	0.6	1.2
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	7.4	2.3	-2.3	-2.6	5.7	-0.8	-3.7	-5.2
South Africa	0.6	-0.1	0.3	0.1	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	0.5	0.9	-0.2	-0.1	0.0	0.1
United States	0.6	0.8	0.7	0.4	0.8	1.1	0.6	0.7

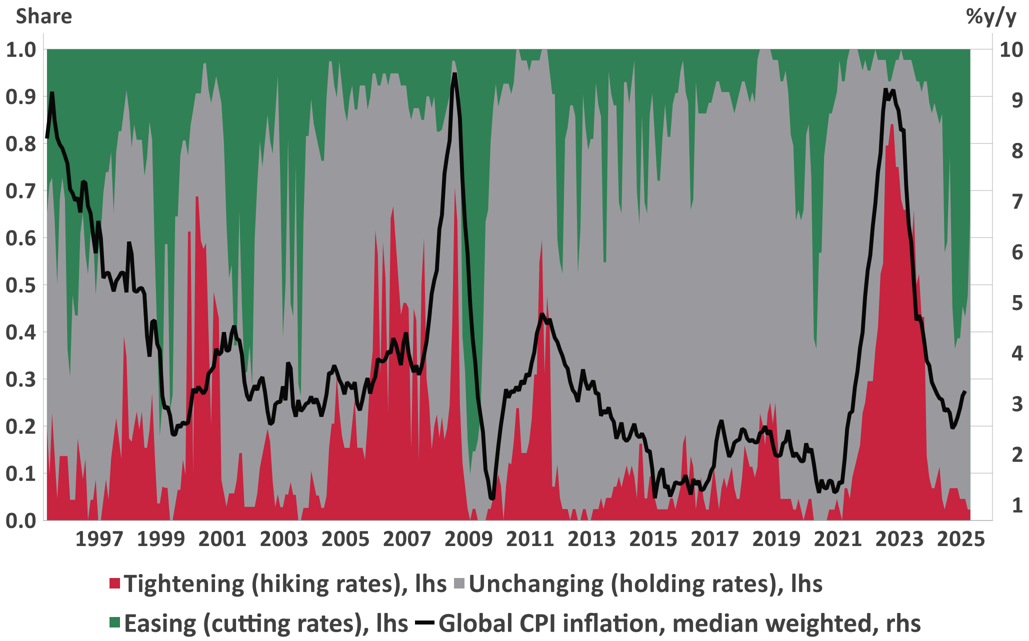
Sources: BOCOM BBM, Macrobond, National Sources

Global: Monetary Policy

- 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;
- On average, global monetary policy has become less synchronized over the last months, however, given the uncertainty surrounding US tariffs and its effects, most institutions, mainly in emerging markets, are expressing a degree of caution that could eventually result in more convergence going forward.

Global monetary breadth

Share of economies (GDP top 50) with higher/unchanged/lower policy rates; monthly/mtd avg, 4-Apr-25



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	66.9	60.4	29.00	-3.00	Cut	1/2025	18	2
Australia	2.4	2.7	4.10	-0.25	Cut	2/2025	17	1
Brazil	5.1	4.6	14.25	1.00	Hike	3/2025	1	11
Canada	2.6	2.7	2.75	-0.25	Cut	3/2025	21	1
Chile	4.7	3.8	5.00	-0.25	Cut	12/2024	30	4
China	-0.7	-0.1	3.10	-0.25	Cut	10/2024	134	5
Colombia	5.3	5.9	9.50	-0.25	Cut	12/2024	23	3
Costa Rica	1.2	0.3	4.00	-0.25	Cut	10/2024	29	6
Czech Republic	2.7	0.2	3.75	-0.25	Cut	2/2025	33	2
Denmark	2.0	1.8	2.25	-0.25	Cut	3/2025	19	1
Euro Area	2.2	2.4	2.65	-0.25	Cut	3/2025	18	1
Hungary	5.6	6.2	6.50	-0.25	Cut	9/2024	30	6
Iceland	3.8	3.7	7.75	-0.25	Cut	3/2025	19	1
India	3.6	4.0	6.25	-0.25	Cut	2/2025	26	2
Indonesia	-0.1	2.5	5.75	-0.25	Cut	1/2025	11	3
Israel	3.5	3.3	4.50	-0.25	Cut	1/2024	22	15
Japan	3.7	2.6	0.50	0.25	Hike	1/2025	2	110
Mexico	3.8	3.6	9.00	-0.50	Cut	3/2025	24	0
New Zealand	2.2	3.0	3.75	-0.50	Cut	2/2025	22	1
Norway	3.6	3.4	4.50	0.25	Hike	12/2023	16	59
Poland	5.3	3.6	5.75	-0.25	Cut	10/2023	31	18
Russia	10.0	9.6	21.00	2.00	Hike	10/2024	5	31
Saudi Arabia	2.0		5.00	-0.25	Cut	12/2024	20	4
South Africa	3.2	3.4	7.50	-0.25	Cut	1/2025	22	2
South Korea	2.1	1.9	2.75	-0.25	Cut	2/2025	27	1
Sweden	1.3	2.9	2.25	-0.25	Cut	2/2025	18	2
Switzerland	0.3	0.9	0.25	-0.25	Cut	3/2025	21	0
Turkey	38.1	37.4	42.50	-2.50	Cut	3/2025	12	1
United Kingdom	2.8	3.5	4.50	-0.25	Cut	2/2025	20	2
United States	2.8	3.1	4.50	-0.25	Cut	12/2024	20	4

Source: BOCOM BBM, Macrobond

Brazil: Forecasts

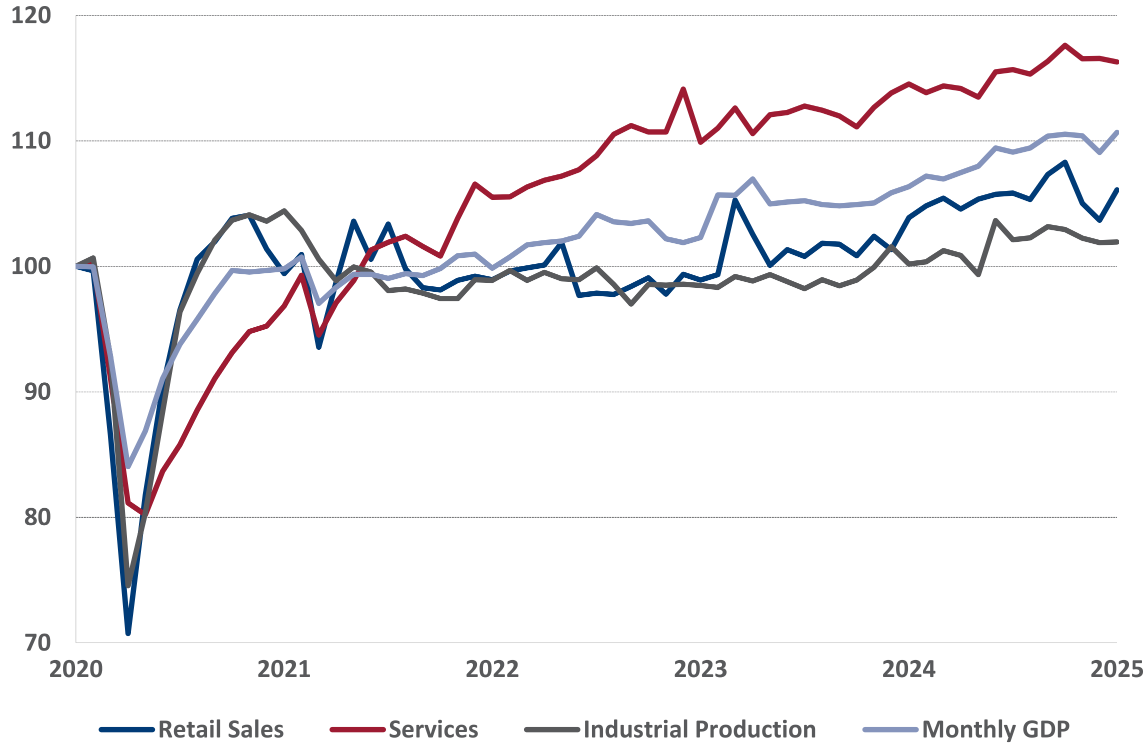
ECONOMIC FORECASTS	2020	2021	2022	2023	2024	2025F	2026F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	3.4%	2.2%	1.3%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	4.8%	5.8%	4.5%
Unemployment Rate (eoy ,%)	14.2%	11.1%	7.9%	7.4%	6.2%	6.8%	7.5%
Policy Rate (eoy, %)	2.0%	9.3%	13.8%	11.75%	12.3%	15.0%	13.0%
External Accounts							
Trade Balance (US$ bn)	36	42	52	92	66	77	78
Current Account Balance (US$ bn)	-25	-40	-42	-28	-61	-49	-51
Current Account Balance (% of GDP)	-1.7%	-2.4%	-2.2%	-1.3%	-2.8%	-2.2%	-2.1%
Fiscal Policy							
Central Government Primary Balance (% of GDP)	-9.8%	-0.4%	0.5%	-2.1%	-0.4%	-0.7%	-0.6%
Government Gross Debt (% of GDP)	86.9%	77.3%	71.7%	74.4%	76.1%	80.5%	85.3%

Source: BOCOM BBM, IBGE

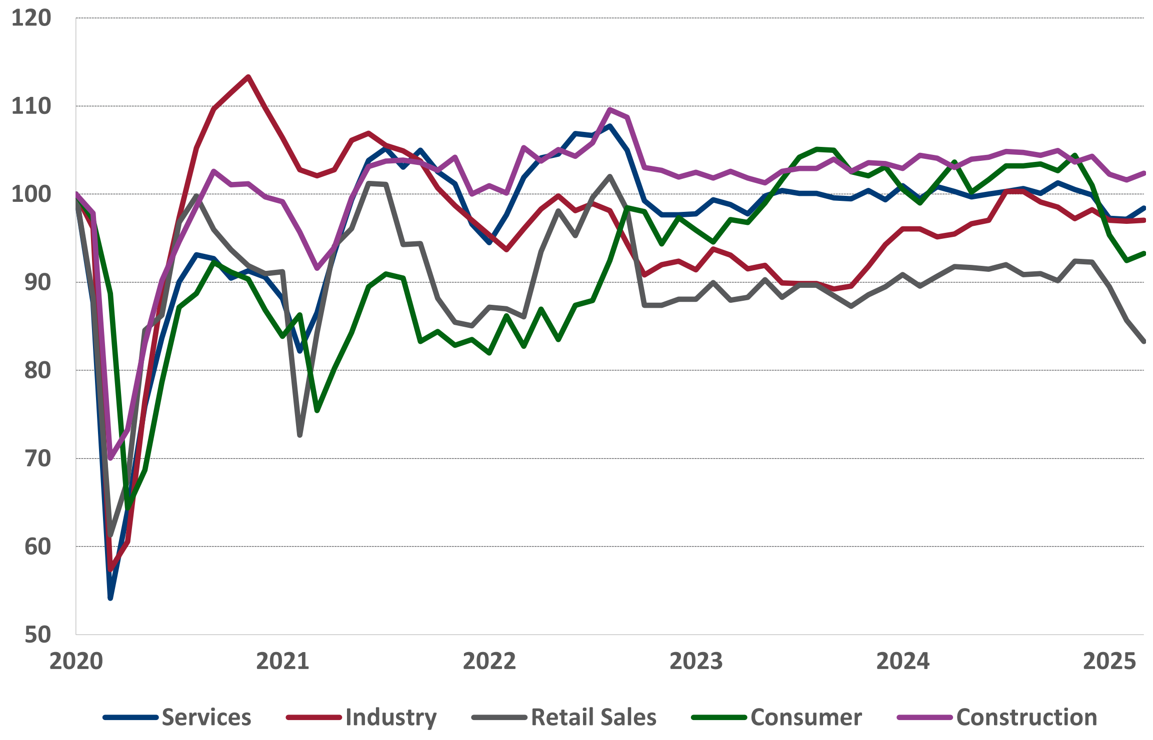
Brazil: Activity

- In January, monthly indicators of economic activity posted mixed signs across sectors. Services decelerated as expected, decreasing by 0.2% MoM, and industrial production underperformed, showing no monthly variation. Meanwhile, retail sales exceeded expectations, rising by 2.3% MoM. Summarizing this scenario, the IBC-BR showed an increase of 0.9% MoM in the month;
- Looking forward, the confidence surveys of all economic sectors contracted in March, albeit in a slower pace when compared to February, anticipating a deceleration in economic growth ahead.

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



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

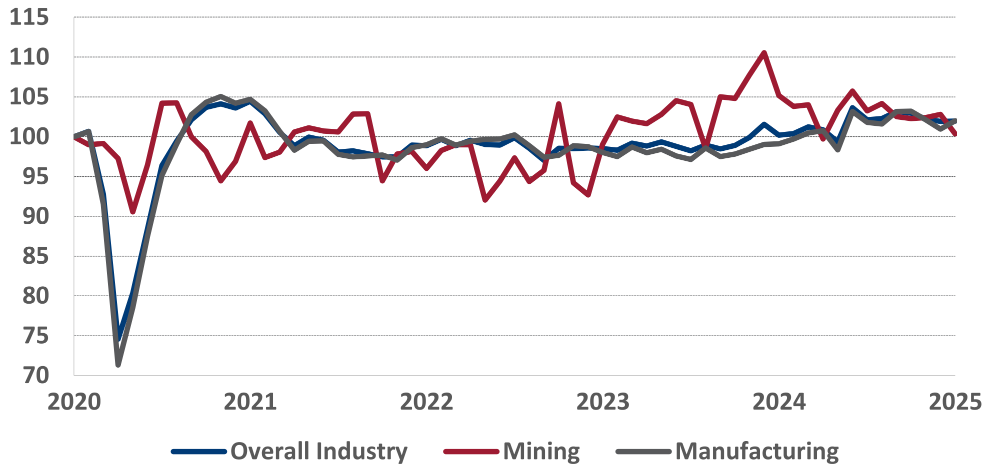


Source: BOCOM BBM, IBGE, FGV

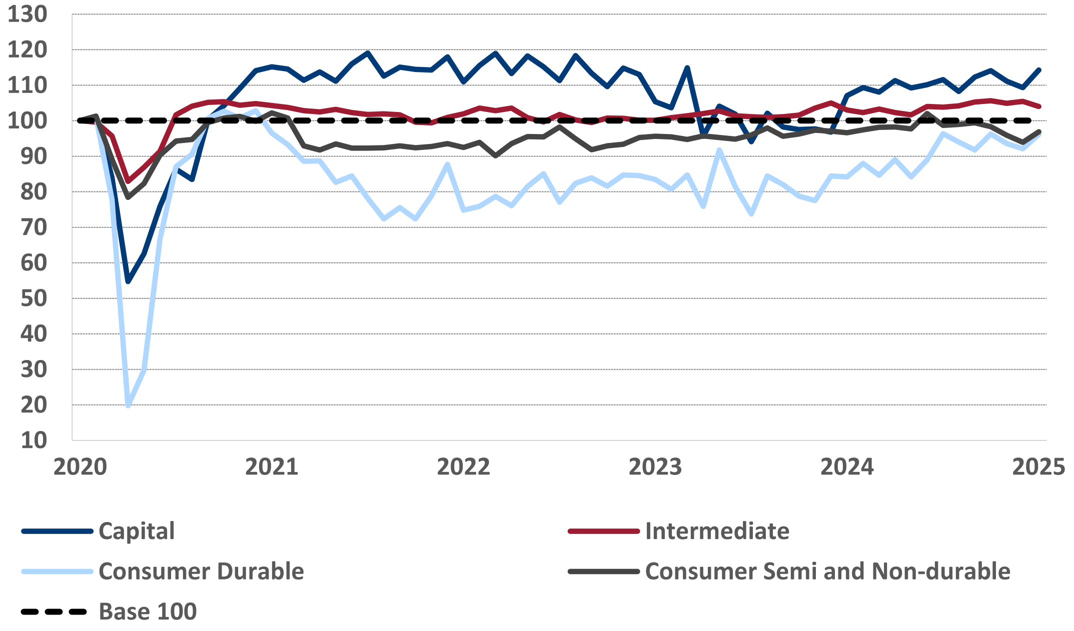
Brazil: Industrial Production

- Industrial output remained stable in January (0% MoM), below expectations (0.4% MoM);
- The month's figures registered mainly positive results, with 3 out of the 4 major categories and 18 out of the 25 manufacturing activities increasing in the monthly comparison;
- The surprise between market estimates and the actual result was concentrated in the mining industry, which fell 2.4% MoM due to shutdowns on oil and gas platforms, also affecting the production of intermediate goods (-1.4% MoM);
- Considering this, the expected scenario of gradual slowdown in the manufacturing industry remains.

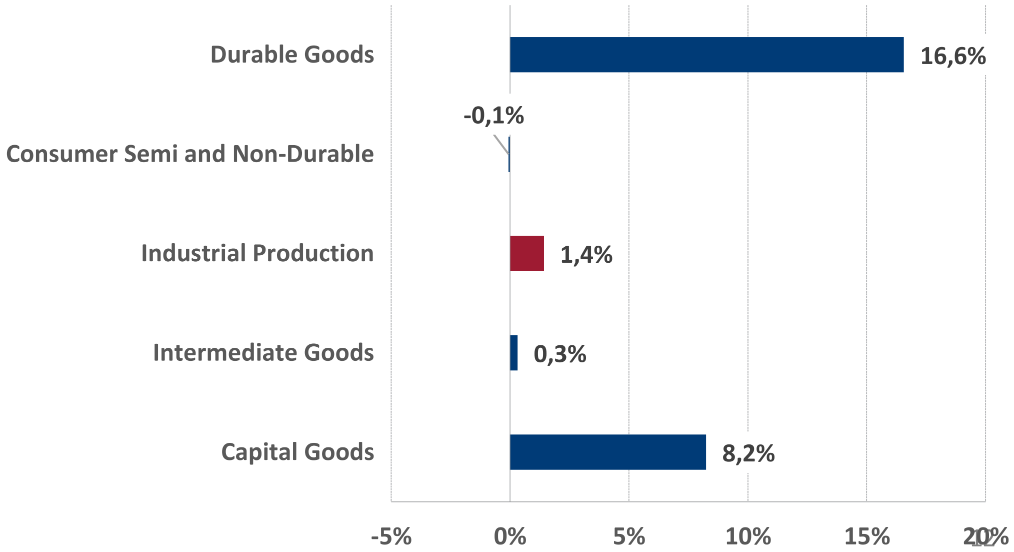
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



Industrial Production by Category - 01/2025 (YoY)

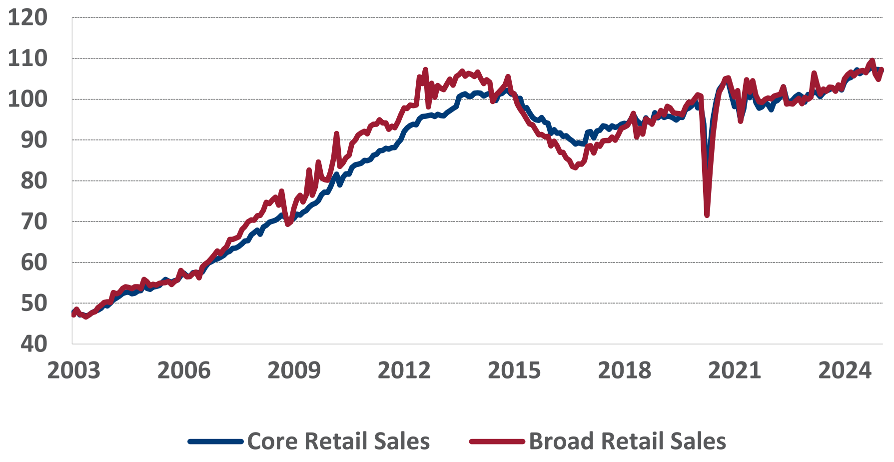


Source: IBGE, BOCOM BBM

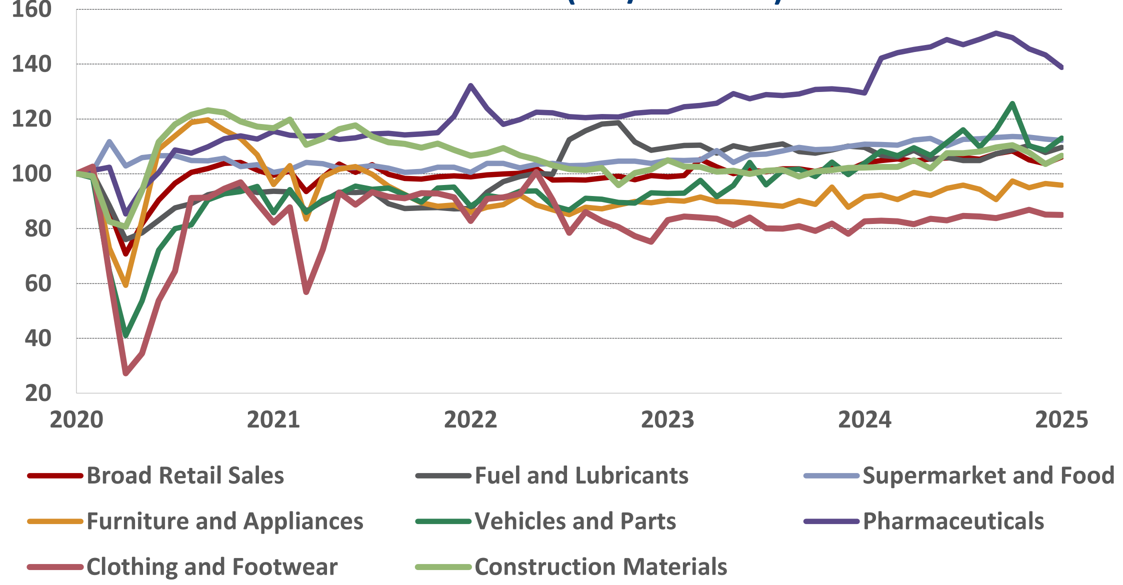
Brazil: Retail Sales

- Broad retail sales expanded by 2.3% MoM in January, above expectations (1.5% MoM).
- This result came after an accumulated contraction of around 3% in the last two months of 2024, with the upward surprise for the month stemming mainly from the stronger-than-anticipated increase in vehicle sales.
- Meanwhile, core retail sales inched down 0.1% MoM, slightly below market prospects (+0.1% MoM), portraying the third consecutive month of modest decline.
- In the breakdown, 6 out of 10 retail activities increased in the monthly comparison, with the highlights being the categories of vehicles, motorcycles and auto parts (4.8 MoM), building materials (3.0 MoM), and office, computer and communication equipment (5.3 MoM).

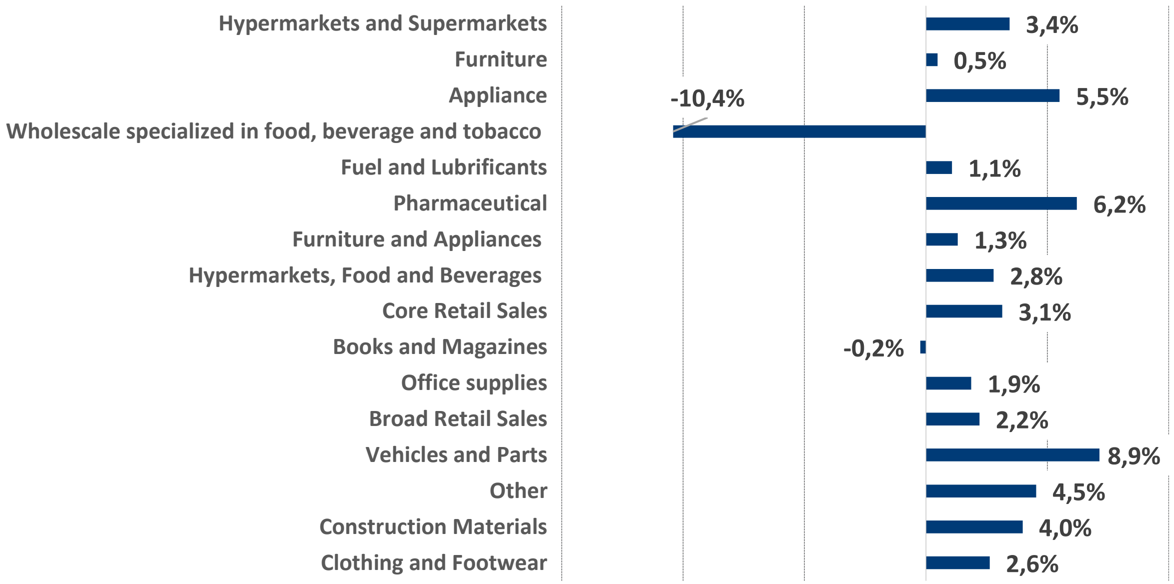
Broad Retail Sales SA x Core Retail Sales SA



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



Retail Sales - YoY (01/2025)



Source: IBGE, BOCOM BBM

Brazil: Services

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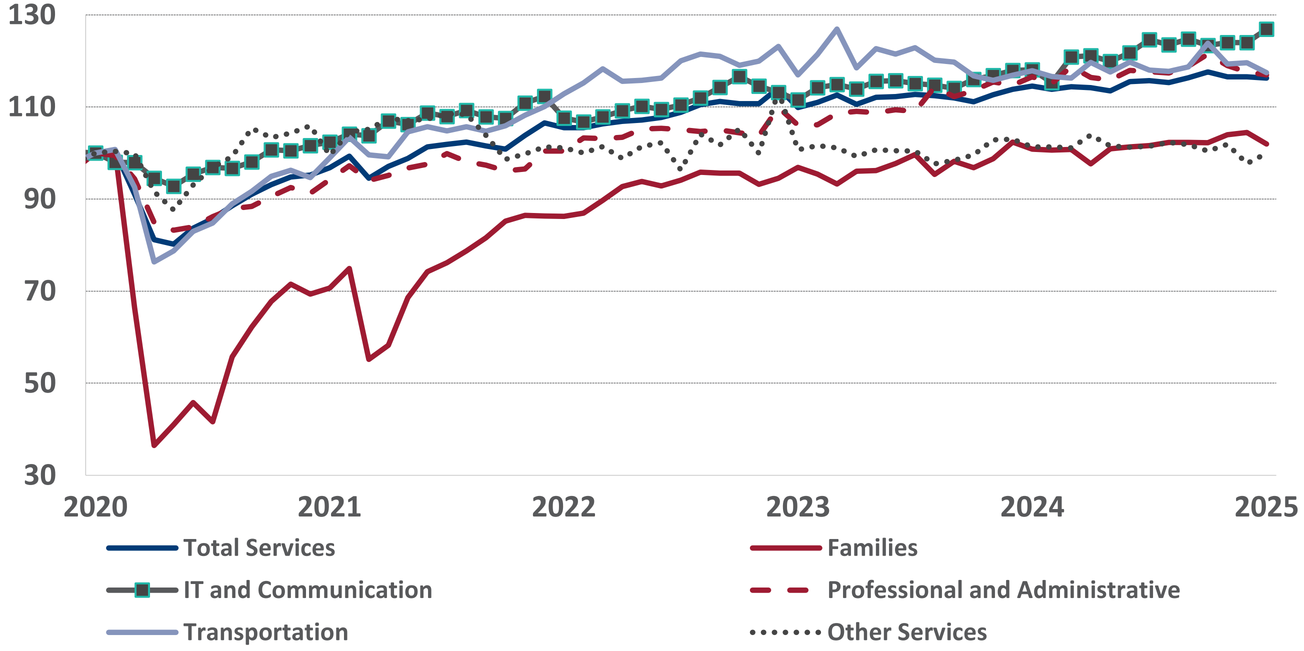
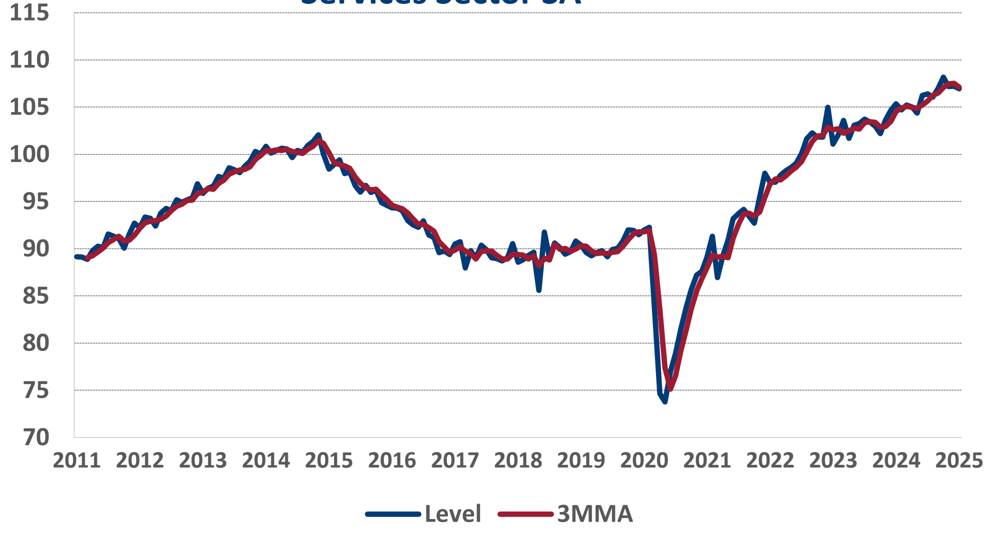
- Services output edged by 0.2% MoM in January, in line with expectations, representing the third consecutive month of poor performance in the sector.
- In the first place, it is worth noting that the negative reading was predominantly influenced by the upward revision made to the data series of previous months. Furthermore, the group of services rendered to families was the highlight of the negative composition by plunging 2.4% MoM in January and offsetting the expansion seen in the previous two releases.
- Meanwhile, groups that have shown high volatility monthly have brought growth to the sector, as is the case of technical-professional (4.7% MoM), and other services (2.3% MoM).
- Overall, service sector figures for January reinforce the scenario of a slowdown in Brazilian economy this year, with activities linked to household consumption continuing to lose steam.

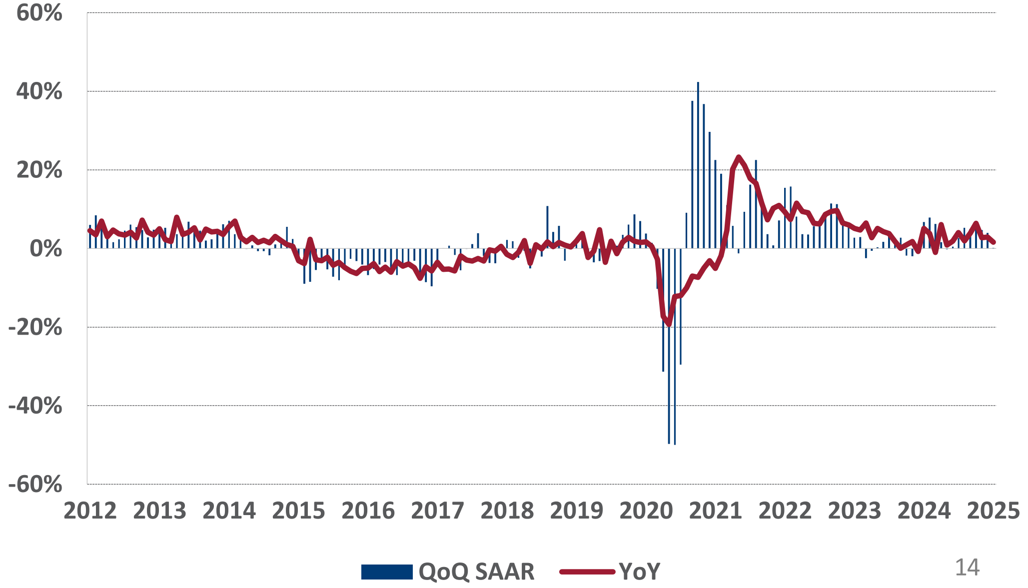
Services Sector SA (Jan20=100)



Services Sector SA



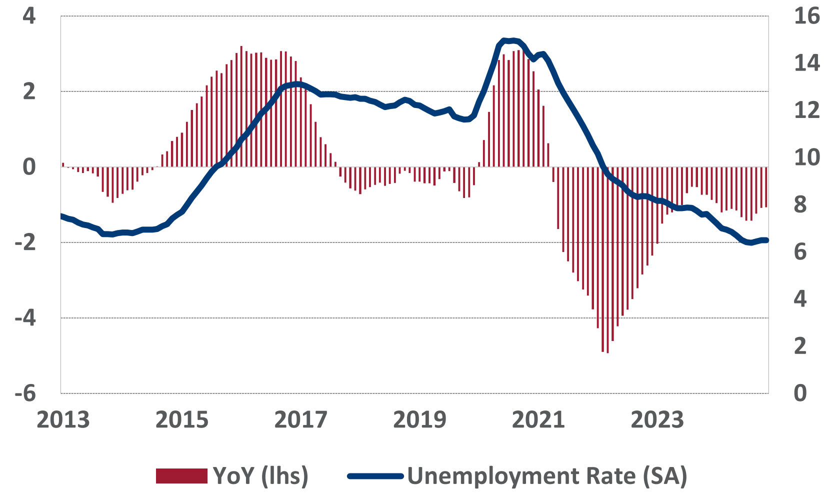
Services Sector

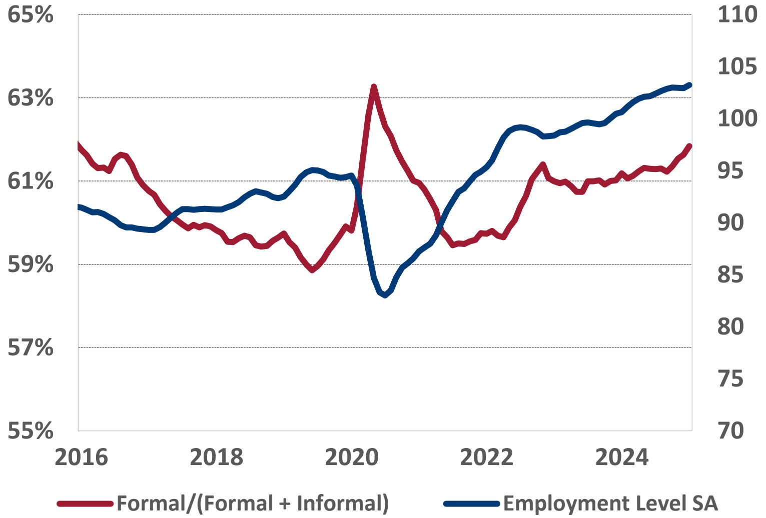


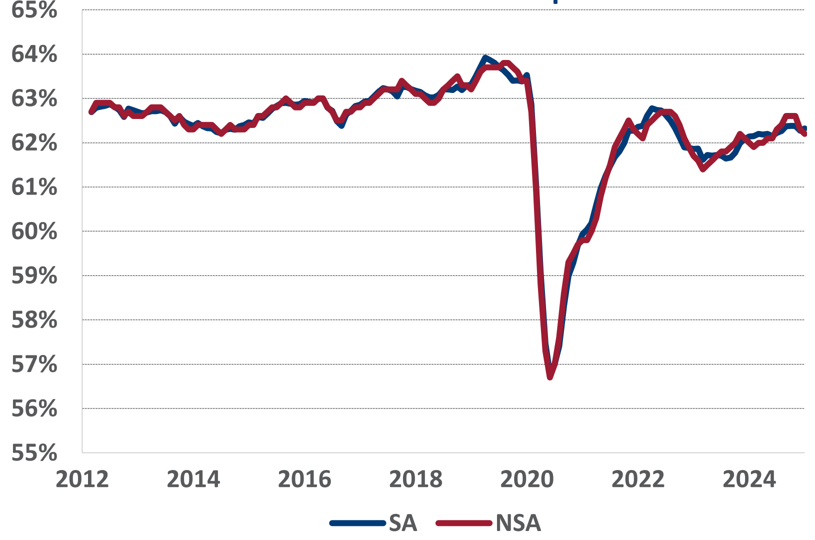
Source: IBGE, BOCOM BBM

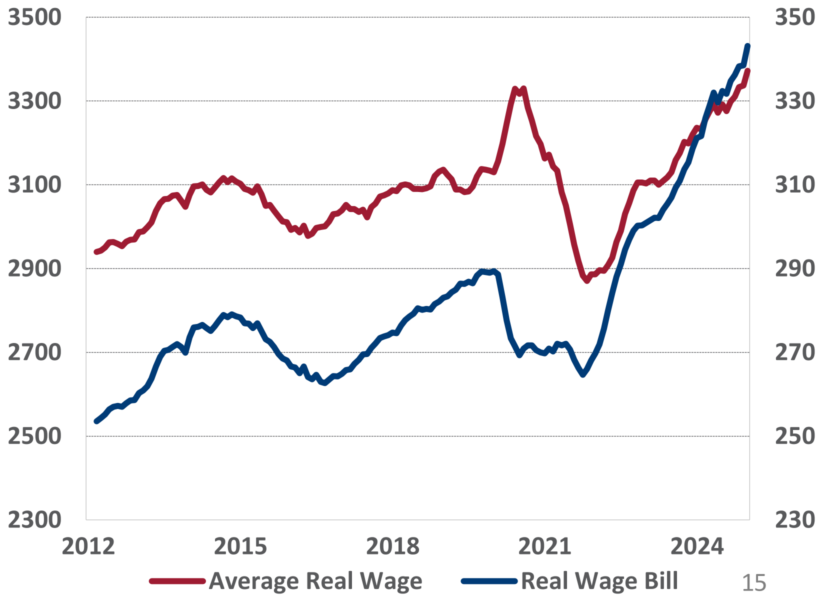
Brazil: PNAD

- The unemployment rate increased to 6.8% in the moving quarter up to February, from 6.5% on the previous period;
- Seasonally adjusted, the indicator remained at 6.49% in January, being in a historically low level;
- Total employment increased by 0.31% MoM, driven by formal employment categories, while labor force inched up 0.15% MoM, reflecting the resilience of economic activity;
- The labor force participation rate remained stable at 62.3%, still running considerably below pre-pandemic levels (around 63.5%);
- The average real wage kept increasing marginally, this time by 0.4% MoM, marking the fifth gain in a row and reaching the highest level of the data series;
- In turn, real aggregated labor income increased 0.7% MoM in February.







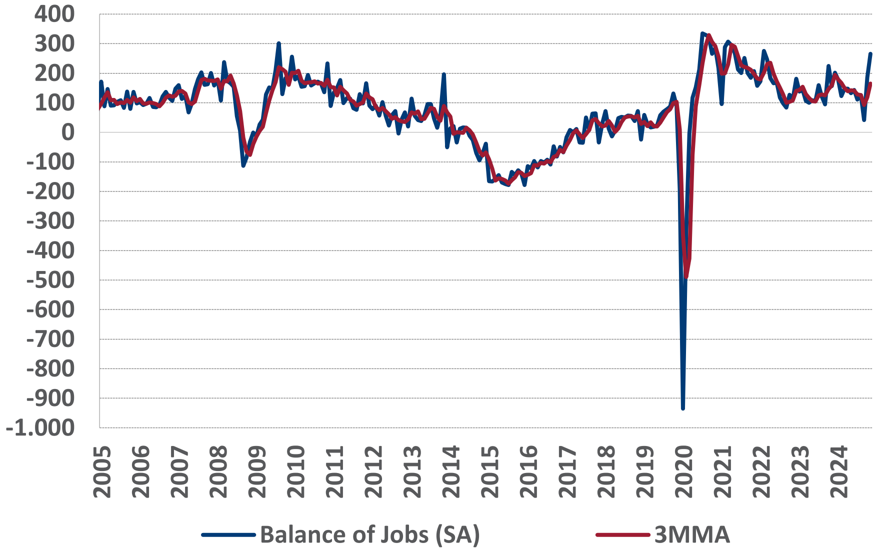


Source: IBGE, BOCOM BBM, MTE

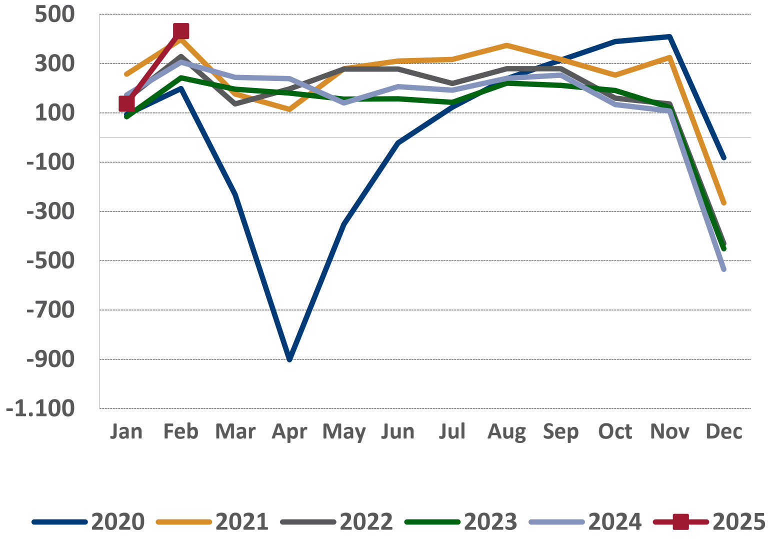
Brazil: Formal Labor Market

- Caged registered a net creation of 432.0 k formal jobs in February, significantly above market expectations (227.5k);
- There was a net creation of 1.785 million jobs in the 12-month rolling sum up to February, after 1.651 million jobs up to January;
- Formal job hiring rose by 2.1% MoM, the second substantial gain in a row;
- All in all, formal employment data has reinforced the tight labor market scenario.

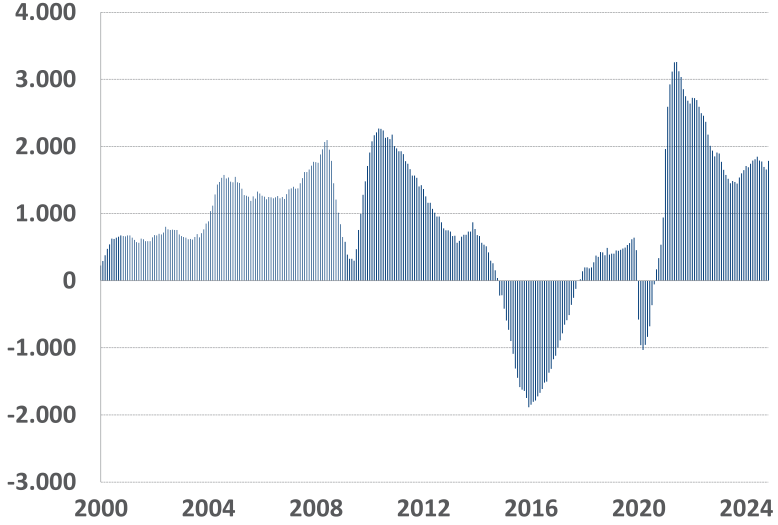
CAGED - Balance of Jobs (SA, Thousand)



CAGED - Balance of Jobs (Thousand)



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

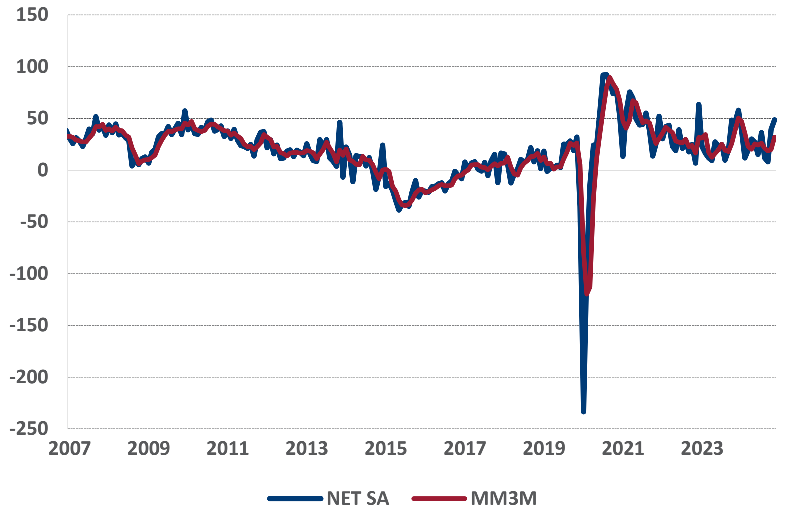


Source: BOCOM BBM, MTE

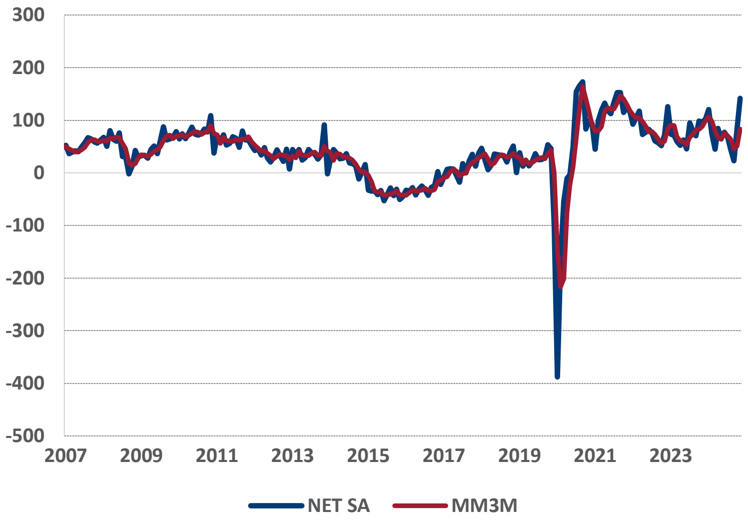
Brazil: Formal Labor Market

- The services sector was, by far, the highlight of the breakdown, totaling a net addition of 110k jobs in February, after 88k in January;
- Retail (to 40k from 38k) and construction (to 16k from 15k) posted slightly stronger figures in February;
- Meanwhile, manufacturing industry (to 37k from 41k) slowed modestly;
- Overall, the data shows a net positive performance across sectors.

Brazil - Retail Net Payroll Job Creation (SA)

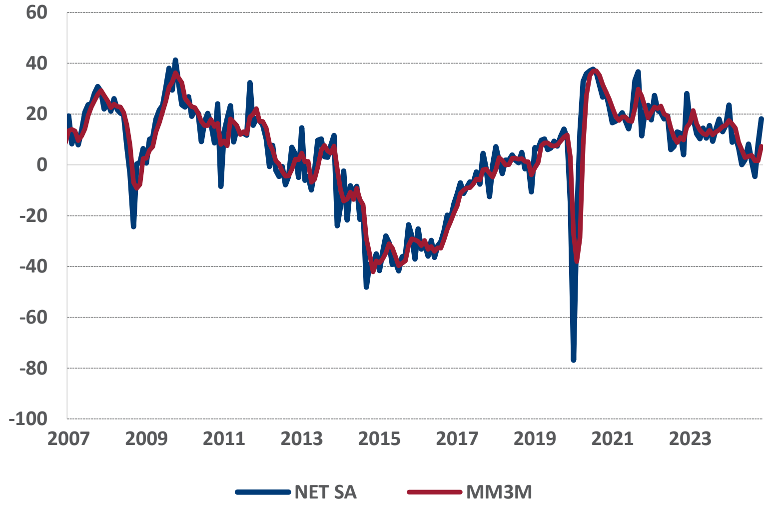


Brazil - Services Net Payroll Job Creation (SA)



Brazil - Industry Net Payroll Job Creation (SA)

Brazil - Construction Net Payroll Job Creation (SA)

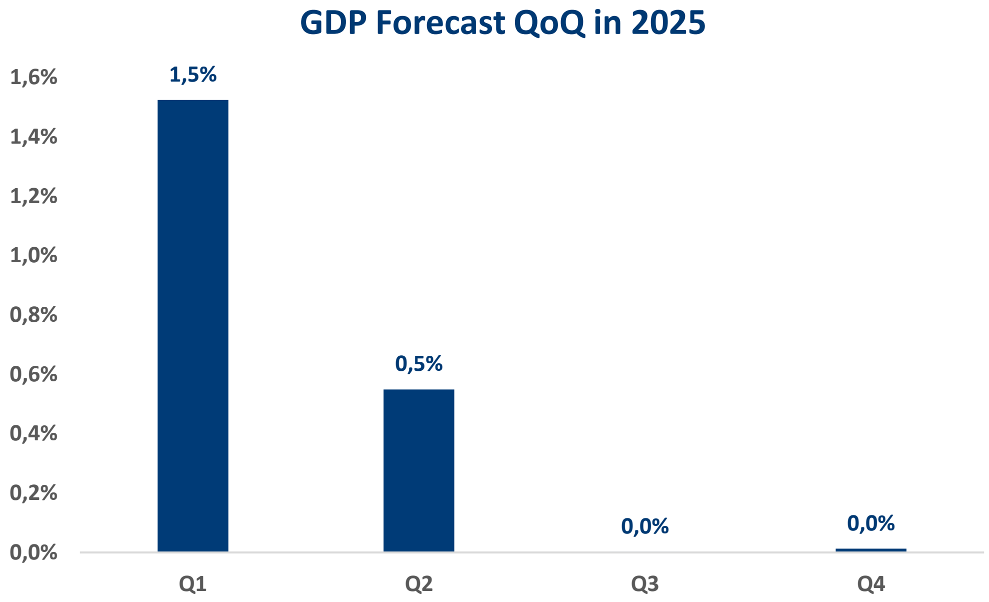


Source: BOCOM BBM, MTE

Brazil: GDP Forecast

- Economic activity showed signs of losing momentum at the end of 2024, but recent data suggest resilience;
- Labor market remain solid, with increasing employment and income. Furthermore, recently announced government measures should provide additional stimulus to demand;
- In our view, growth in 2025 should register 2.2%, with risks in both directions;
  - Positive: government initiatives could sustain household consumption over the second semester;
  - Negative: falling commodity prices in response to Trump's liberation day;
- By 2026, the lagged effects of monetary policy should be more significant, reducing growth to 1.3% in the absence of new fiscal measures

Forecast				
	2025.I QoQ	2025.I YoY	2025	2026
GDP	**1.5%**	**3.0%**	**2.2%**	**1.3%**
Agriculture	**13.5%**	**12.0%**	**8.5%**	**4.2%**
Industry	**-0.3%**	**2.0%**	**1.9%**	**0.8%**
Mining	0.1%	-2.5%	6.7%	4.7%
Manufacturing	-0.8%	3.2%	0.5%	-0.5%
Electricity	0.0%	-1.4%	0.9%	1.8%
Civil Construction	0.7%	4.6%	2.7%	0.9%
Services	**0.9%**	**2.1%**	**1.8%**	**1.4%**
Retail	0.6%	2.5%	1.5%	0.3%
Transports	-0.2%	2.0%	2.0%	0.6%
Information and Communication	2.3%	6.0%	4.4%	2.7%
Financial Services	0.5%	3.0%	2.8%	1.7%
Rents	0.5%	2.0%	2.1%	2.8%
Other Services	0.2%	1.7%	1.2%	1.1%
Public Administration	1.0%	1.0%	1.3%	1.4%



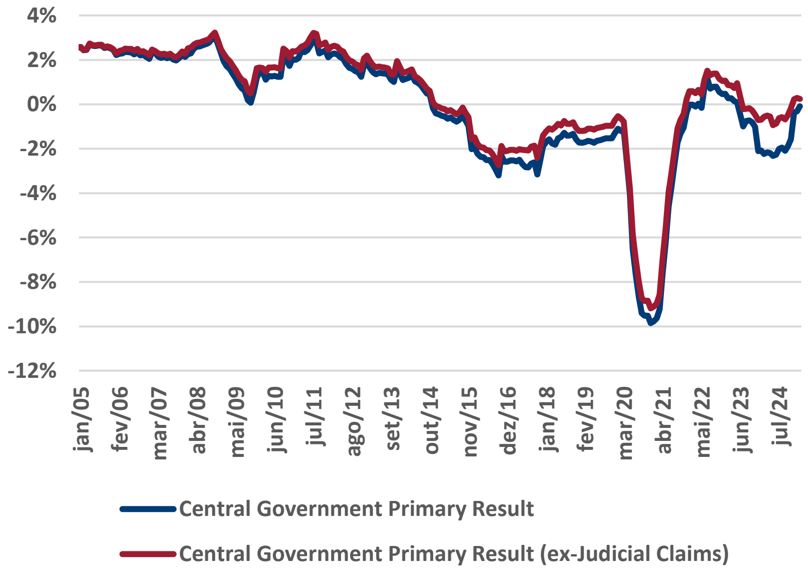
Source: BOCOM BBM, IBGE

Brazil: Central Government Primary Result

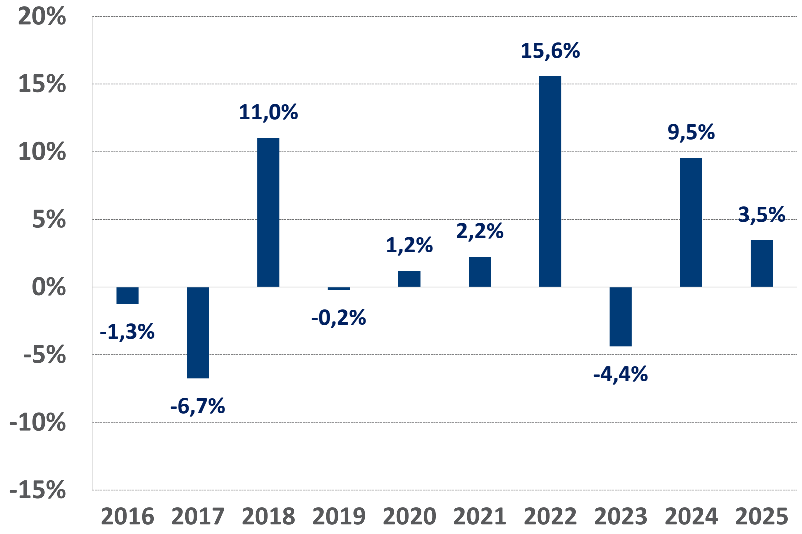
BANK OF COMMUNICATIONS BBM

- The central government's primary balance registered a deficit of BRL 31.7 billion in February, better than the BRL -58.3 billion recorded in last years', but below the market consensus (BRL 30.4 billion);
- Net revenue grew by 3.1% YoY in real terms, mainly driven by import tax (41.0%), IPI (26.8%), and natural resources exploitation (23.1%). On the negative side, there was an unexpected decline in IRPJ/CSLL revenue (16.5%) – this may be due to the advance payment of the annual adjustment by companies.
- Total expenditure fell by 12.6% YoY in real terms, being mainly explained by the change in the payment schedule for court-ordered debt, which last year was paid in February. Excluding this effect, we should observe an increase of about 3.3% in total expenditure, reflecting the increase in the minimum wage and the federal government's contribution to Fundeb.
- As expected, central government primary balance was negative in February due to seasonal factors.

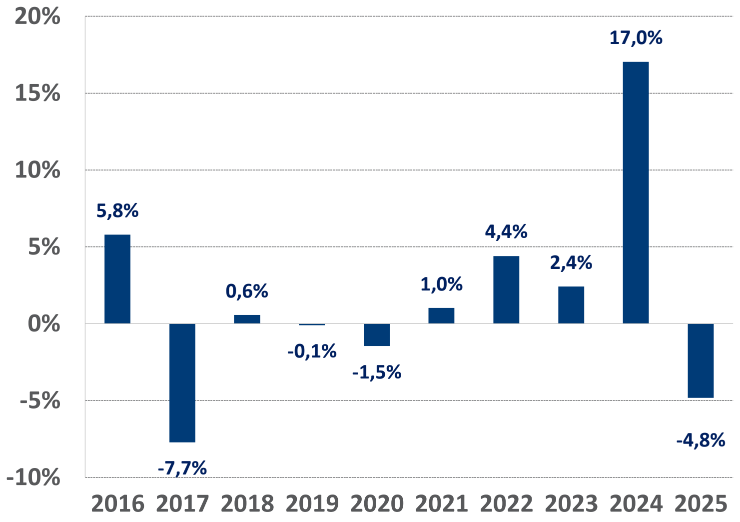
Central Government Primary Result (% GDP)



Net Revenue (YTD Real, %)



Expenditure (YTD Real, %)

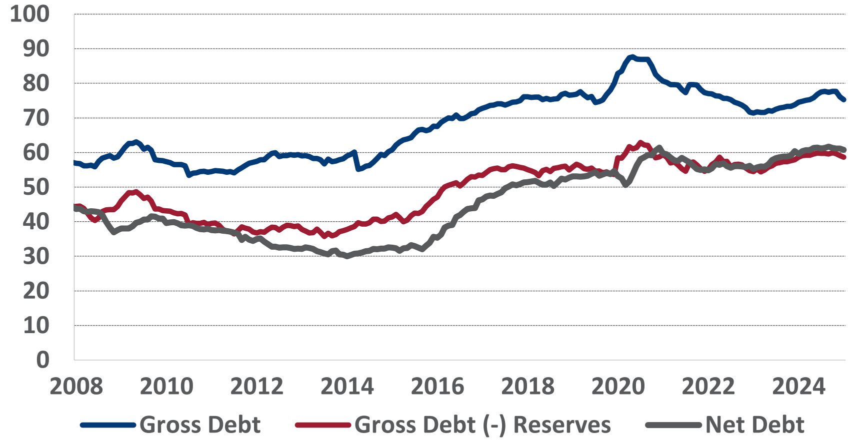


Source: BOCOM BBM, RTN

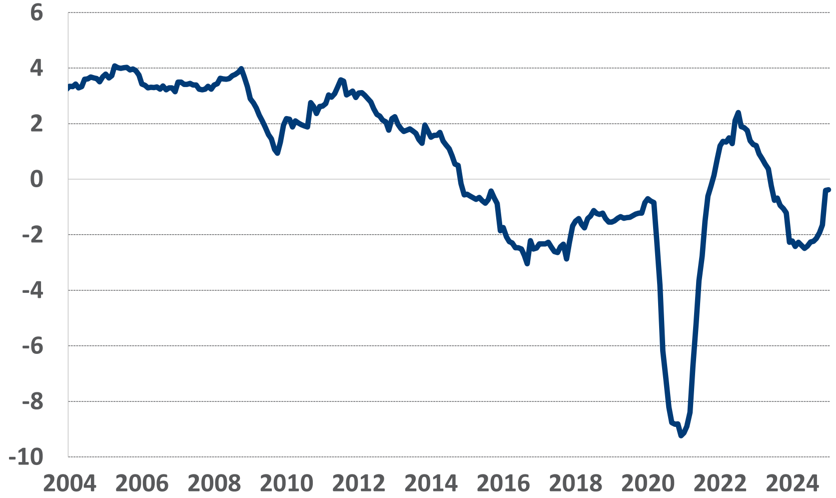
Brazil: Consolidated Public Sector Budget

- The consolidated public sector recorded a primary a surplus of BRL 104.1 bn in January, in line with market consensus.
- The result was driven by a BRL 83.1 bn surplus for the central government and a BRL 22 bn surplus for regional governments. Additionally, interest payments amounted to BRL 910.9 bn (7.7% of GDP), down from BRL 950.4 bn in the previous month (8.1% of GDP).
- Consequently, the public sector achieved a nominal surplus of BRL 63.7 bn this month.
- General government's gross debt, in turn, decreased from 76.1% of GDP in December to 75.3% in January. This decline was primarily due to FX appreciation, which reduced the BRL-denominated value of public debt issued in foreign currencies.

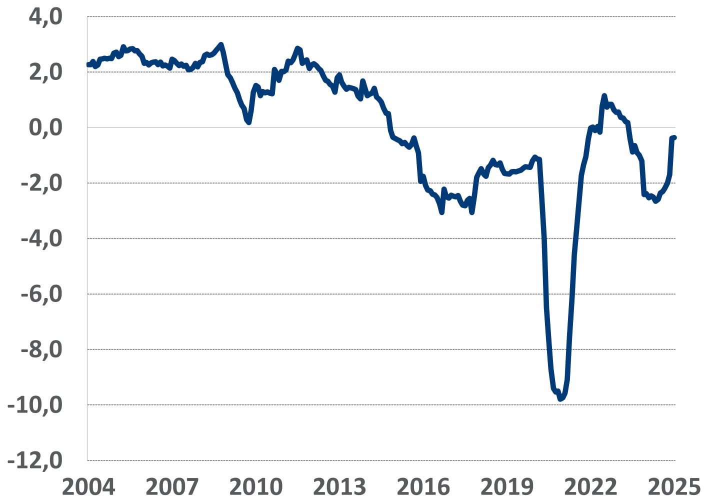
Public Sector Debt (%GDP)



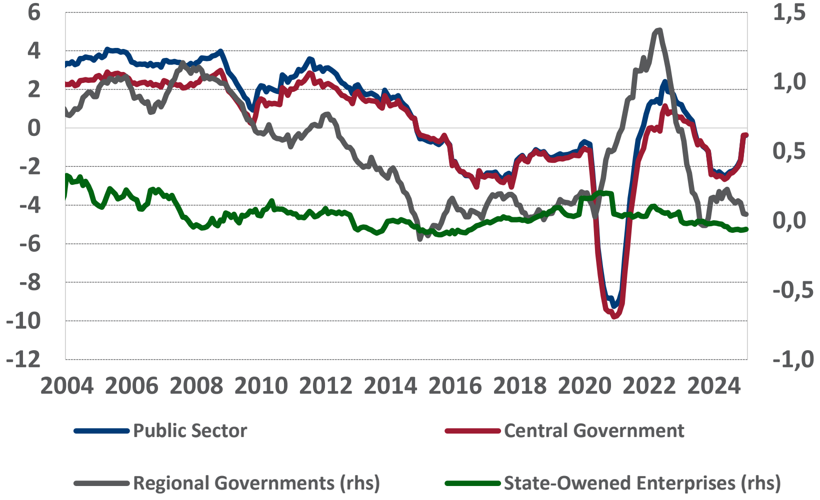
Primary Budget Balance (% GDP 12M)



Central Government (% GDP 12M)



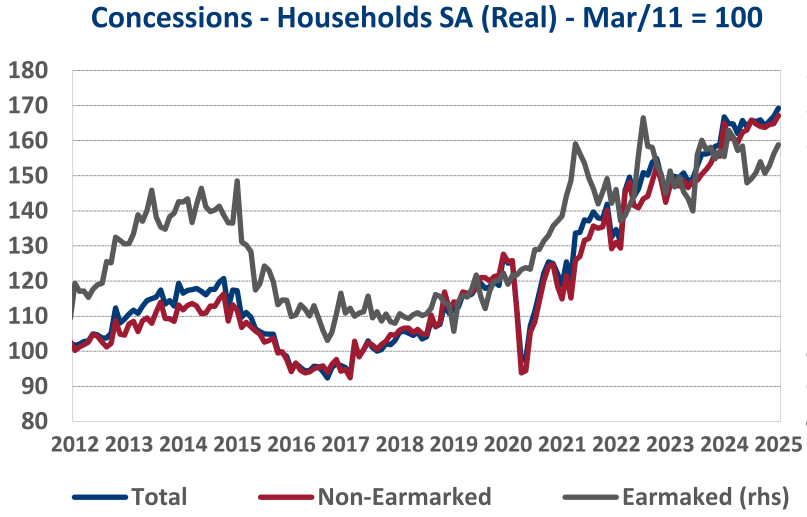
Public Sector Primary Result (% GDP)

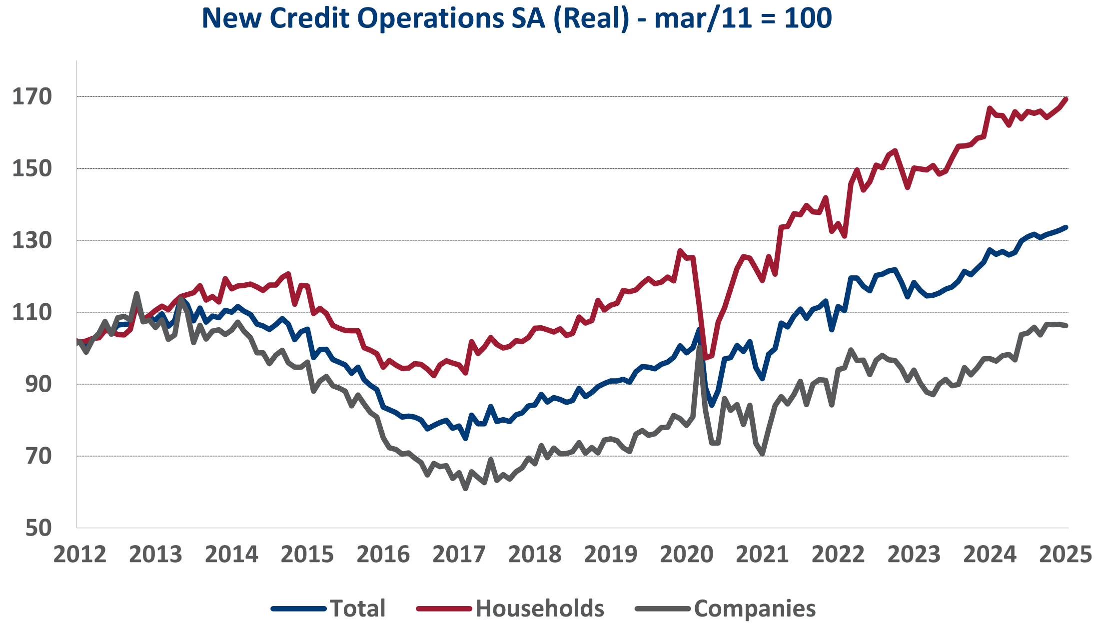


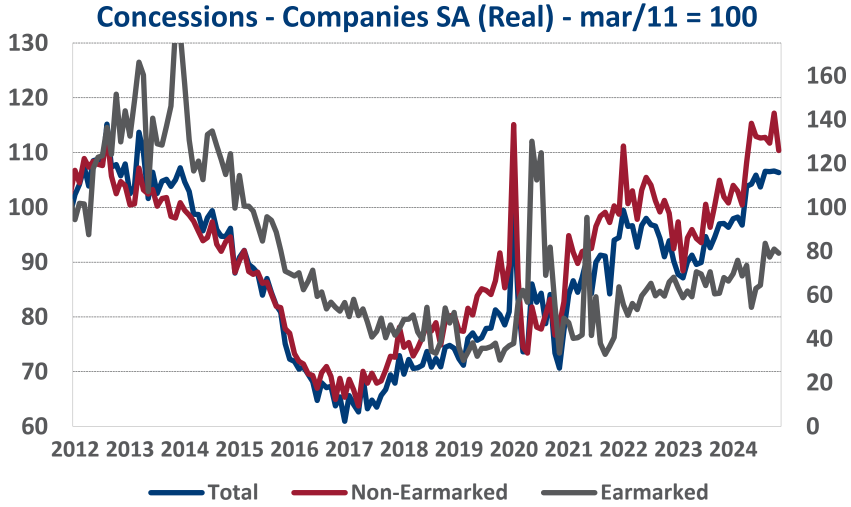
Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- In January, total credit concessions increased 0.6% MoM in real terms, after increasing 0.5% in the last month;
- Non-earmarked credit concessions decreased 5.8% to companies and increased 1.4% households in real terms;
- Overall, January data shows resilience in new credit operations, that should be boosted by the new payroll-backed loans in the next months





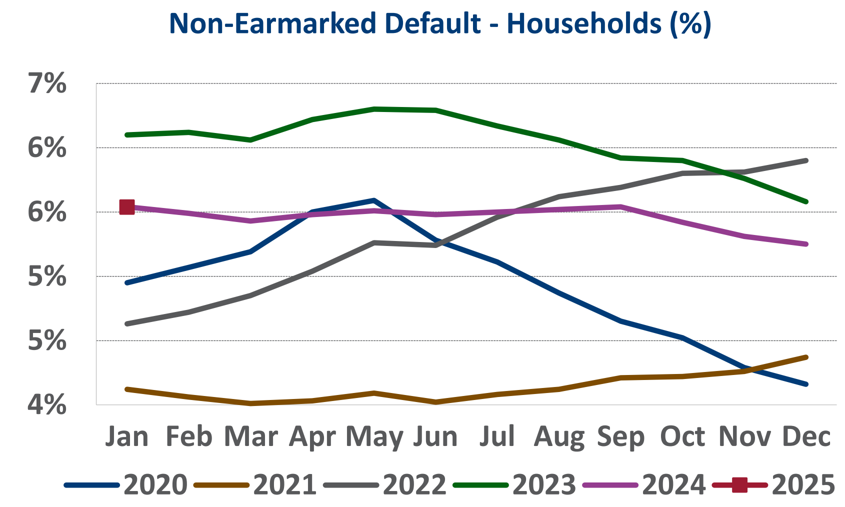


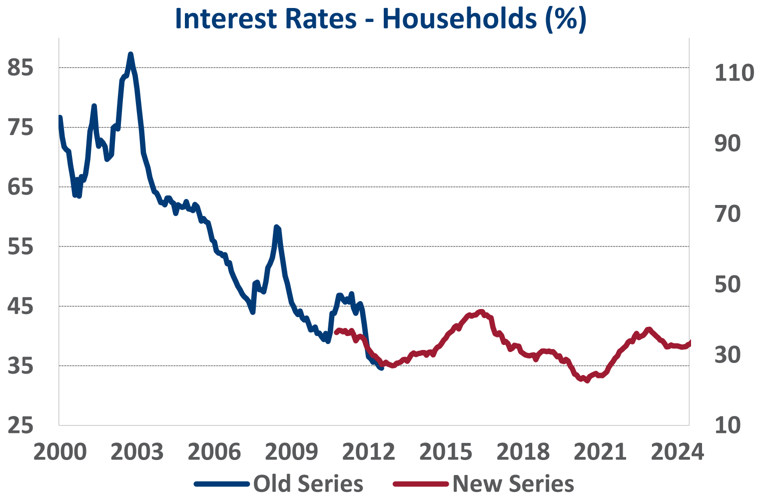
Source: BOCOM BBM, FGV

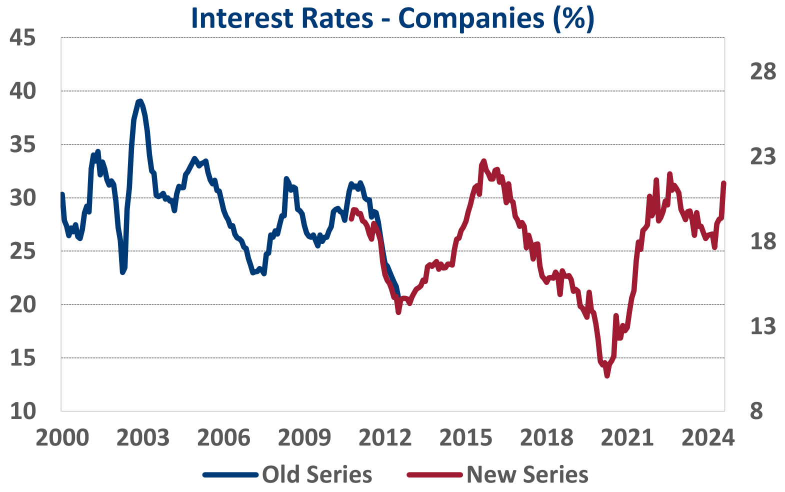
Brazil: Credit Statistics

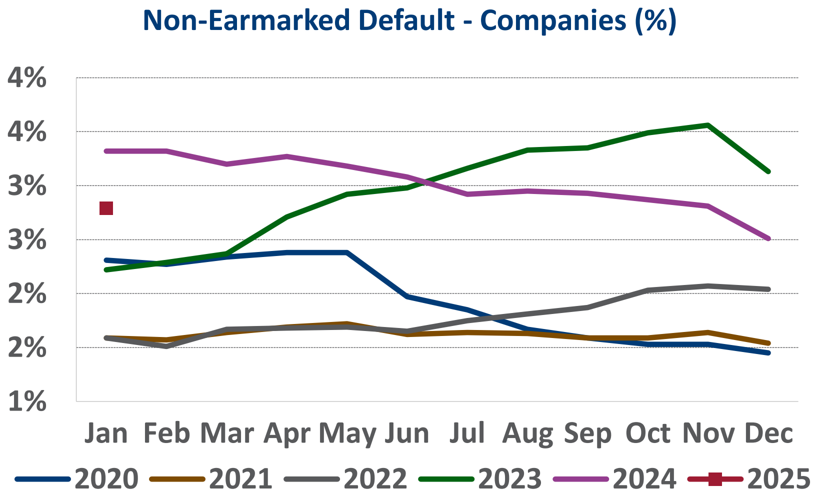
- Lending rates increased from 33.0% to 33.8% for individuals and increased from 19.4% to 21.4% for companies;

- In turn, non-earmarked default rate increased from 5.3% to 5.5% to individuals and from 2.5% to 2.8% to companies.





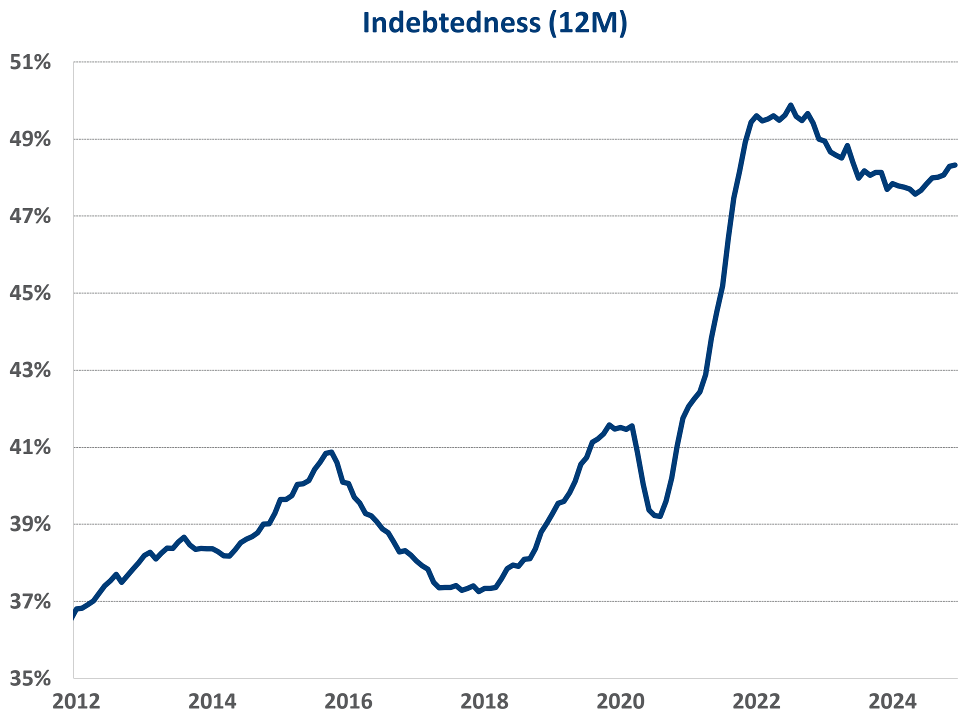


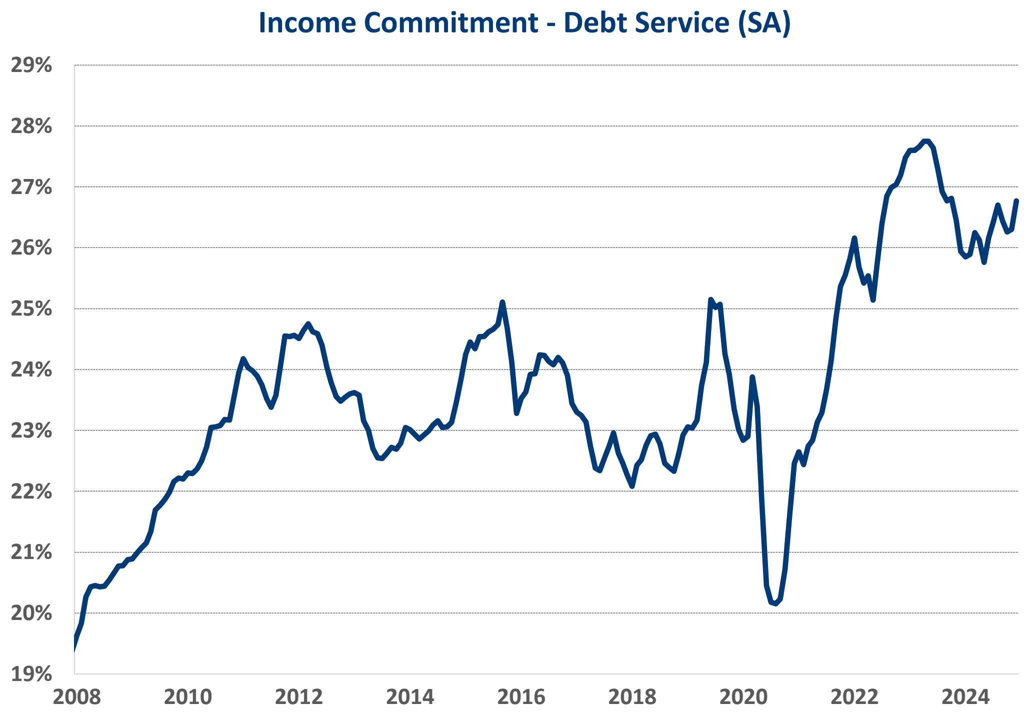


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- The household indebtedness increased marginally to 48.3% in December;
- Income commitment increased to 27.8%;





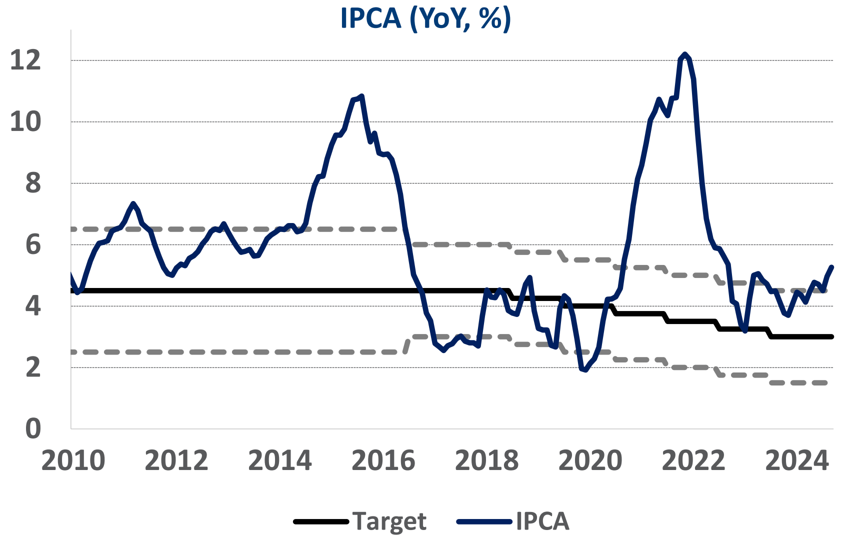
Source: BOCOM BBM, BCB

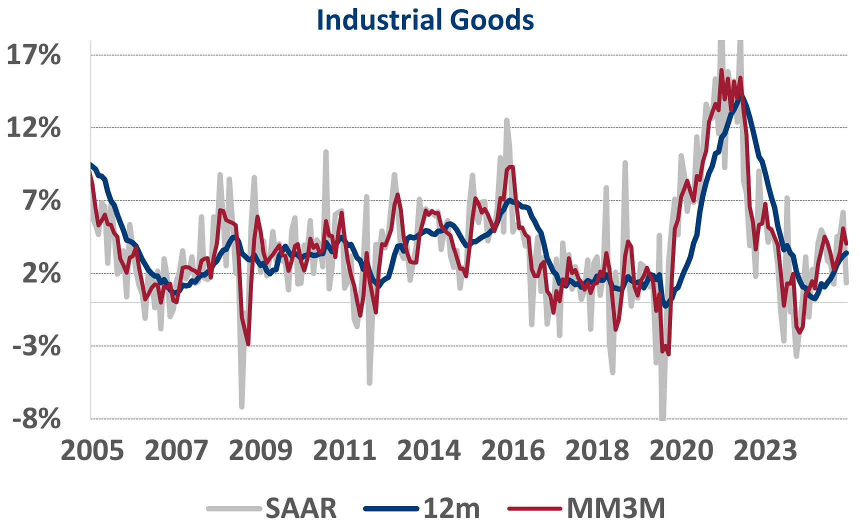
Brazil: Inflation 2025

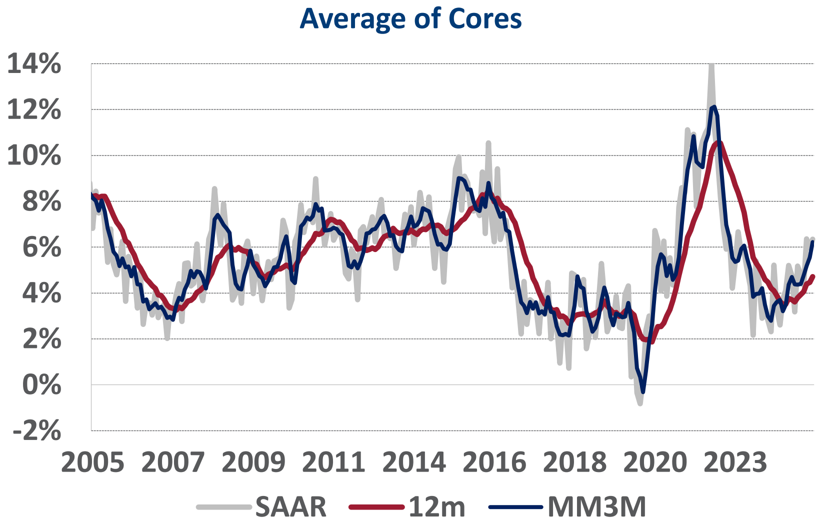
- March IPCA-15 rose by 0.64% MoM, below expectations of 0.68% MoM. The 12-month variation advanced from 4.96% in February to 5.26% in March;

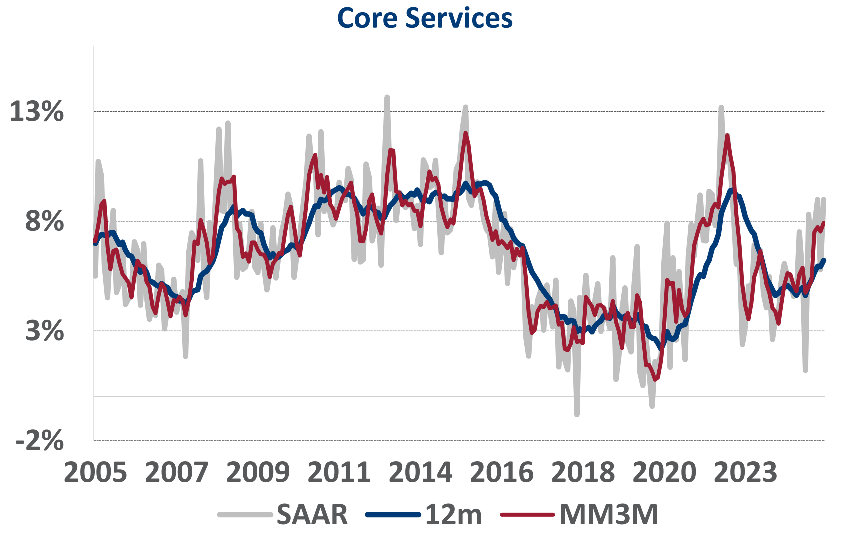
- The main downward deviation came from industrial goods (especially durable goods), but also lower-than-expected results from core inflation metrics;

- Core services advanced 0.67% MoM, slightly below forecasts and the 3M SAAR remained at 7.9%, remaining at worrisome levels. The average of core inflation increased by 0.47% MoM, also below expectations, with its 3M SAAR increasing from 5.6% to 5.9%. Although the overall result came below expectations, the breakdown of the IPCA-15 does not bring relief.





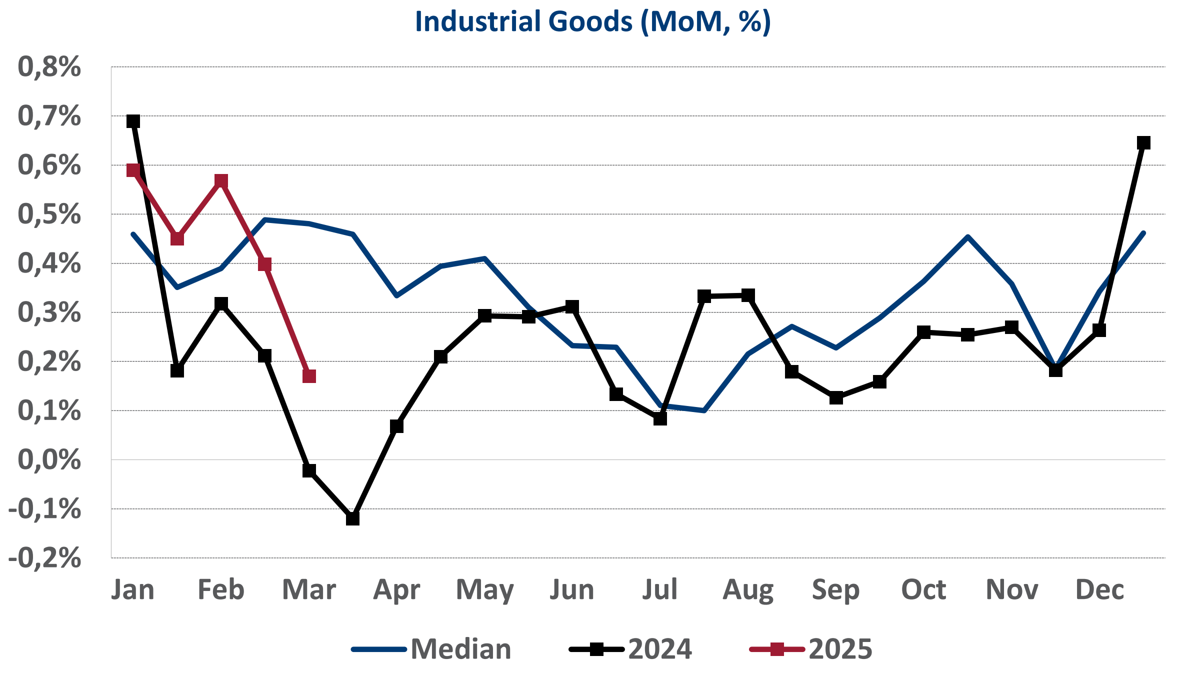


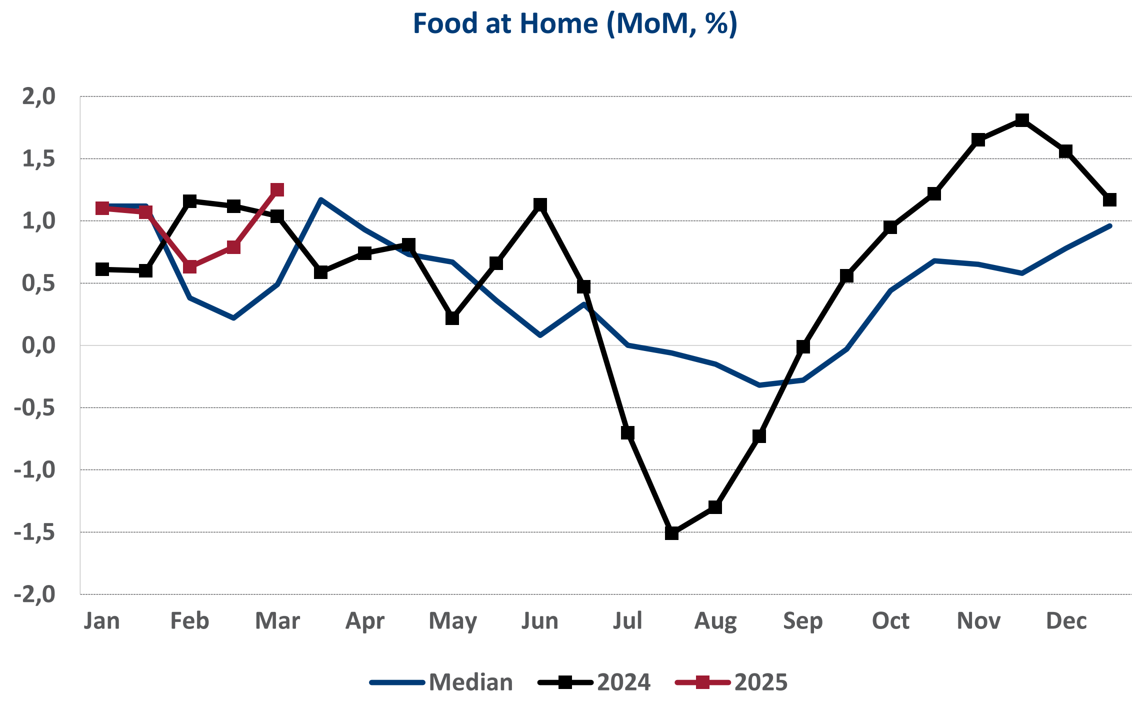


Source: BOCOM BBM, IBGE

Brazil: Inflation 2025

- Industrial goods prices rose by 0.17% MoM, materially below our estimate. The 3M SAAR decreased from 4.6% last month to 4.1% in March
- The main downward contribution came from durable goods, especially vehicles, with softer variations in electronics and home appliances, owing to a stronger effect from 'consumer week' discounts
- Foodstuff prices rose by 1.25% MoM, also below expectations, due to lower pressures in meats and rice





Source: BOCOM BBM, IBGE

Brazil: Inflation

- March IPCA-15 did not change our view of accelerating inflation throughout 2025;
- All the main metrics are running well above the target (3.0%).

IPCA (%, annual)

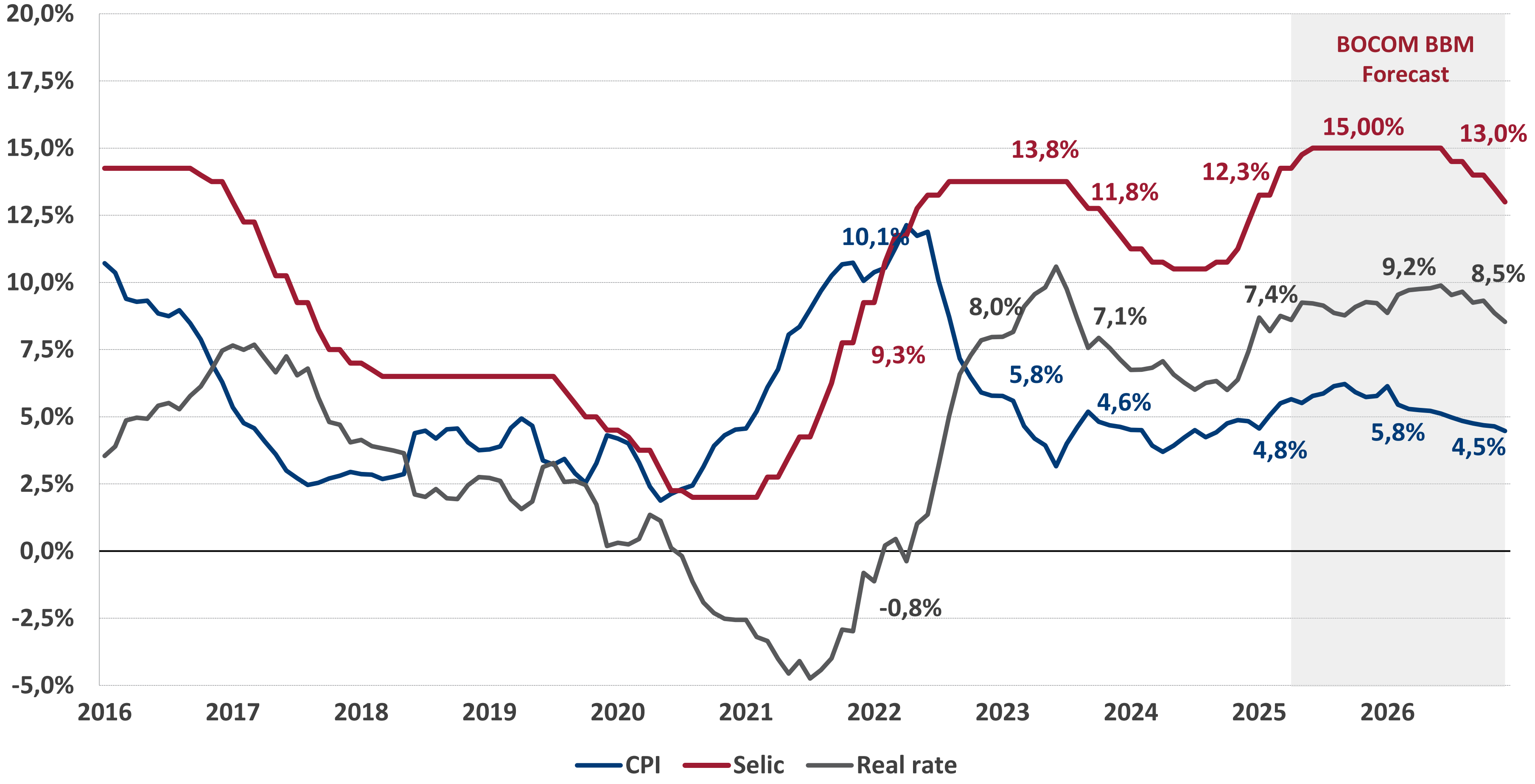
	Weight	2020	2021	2022	2023	2024	2025	2026
Regulated	**26.6**	**2.6**	**16.9**	**-3.8**	**9.1**	**4.7**	**5.0**	**4.3**
Industrial goods	**23.6**	**3.2**	**11.9**	**9.5**	**1.1**	**2.9**	**4.4**	**3.9**
Durable goods	10.3	4.5	12.9	6.1	-0.4	1.5	2.8	-
Semi-durable goods	5.9	-0.1	10.2	15.7	2.7	2.0	3.7	-
Non-durable goods	7.3	4.0	11.9	9.5	1.7	5.4	7.0	-
Food at home	**15.7**	**18.2**	**8.2**	**13.2**	**-0.5**	**8.2**	**7.6**	**4.8**
Services	**34.1**	**1.7**	**4.8**	**7.6**	**6.2**	**4.6**	**6.5**	**4.9**
Food away from home	5.6	4.8	7.2	7.5	5.3	6.3	6.4	4.7
Related to minimum wage	5.2	1.5	3.3	6.3	5.2	5.0	6.7	5.0
Sensitive to economic activity	8.2	0.2	5.1	6.3	9.5	0.9	6.7	4.7
Inertial	15.0	1.6	4.2	8.8	5.1	6.0	6.2	4.9
IPCA		**4.5**	**10.1**	**5.8**	**4.6**	**4.8**	**5.8**	**4.5**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

- Concerning monetary policy, the Brazilian Central Bank (BCB) raised the Selic rate by 100 bps to 14.25% p.a. at its March meeting, as expected, and in line with the guidance that was previously given. BCB inflation projections six trimesters ahead stand at 3,9 % in the third quarter of 2026 in a scenario where rates peak at 15% and remain there until the end of 2025 but decrease to 12.5% in 2026. Projections have decreased, but only slightly, as the last projection released in January stood at 4%. This time around the committee did not indicate the magnitude of the next hikes, but expects that the hiking cycle will continue, albeit at a slower pace. The statement reinforced that further adjustments are tied to the firm commitment to inflation convergence to the target. The votes for rising rates were once again born from a unanimous decision.

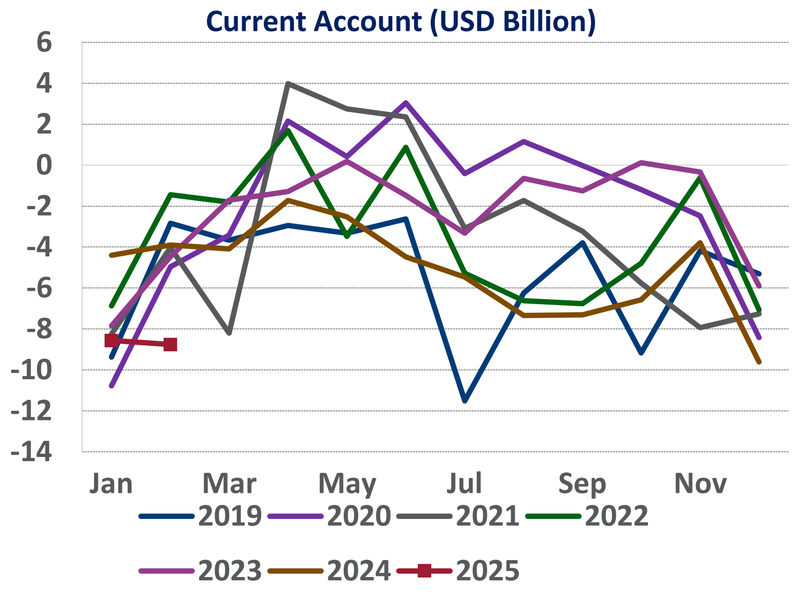
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

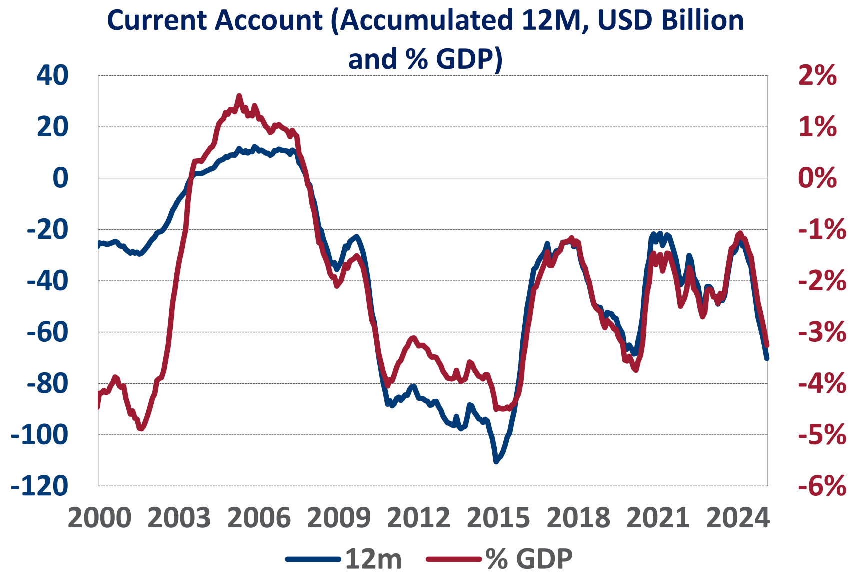


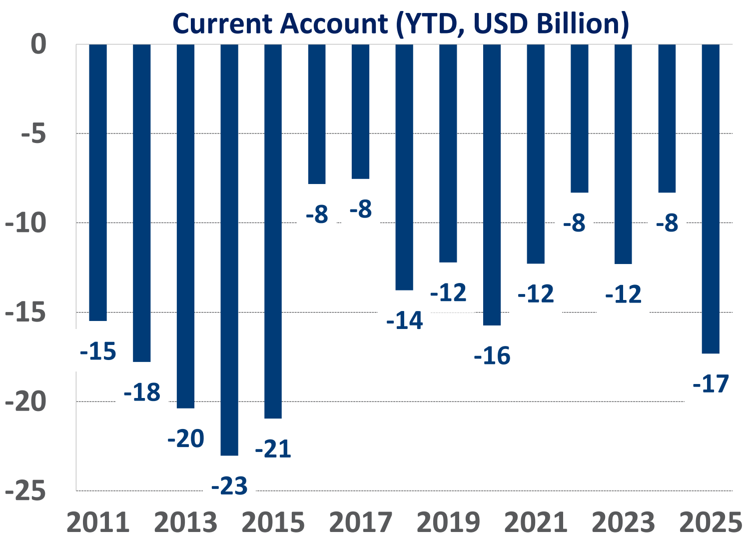
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The Brazilian current account recorded a USD 8.8 billion deficit for February, roughly in line with expectations (USD -9.0 billion);
- This result was significantly worse than the USD 3.9 billion deficit recorded in February 2024, having the difference mainly explained by the worse trade balance figures from this year.
- For the 12-month rolling sum, the deficit reached USD 70.3 billion (3.28% of GDP) in February from USD 65.3 billion (-3.03% of GDP) in January.





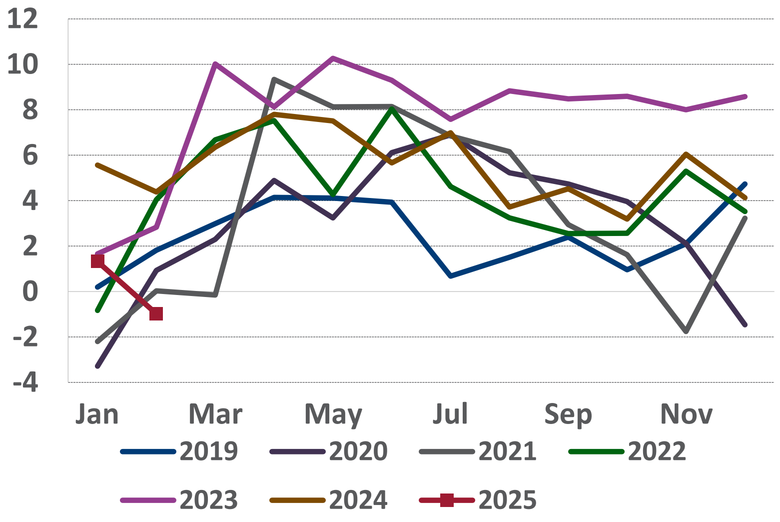


Source: BOCOM BBM, BCB

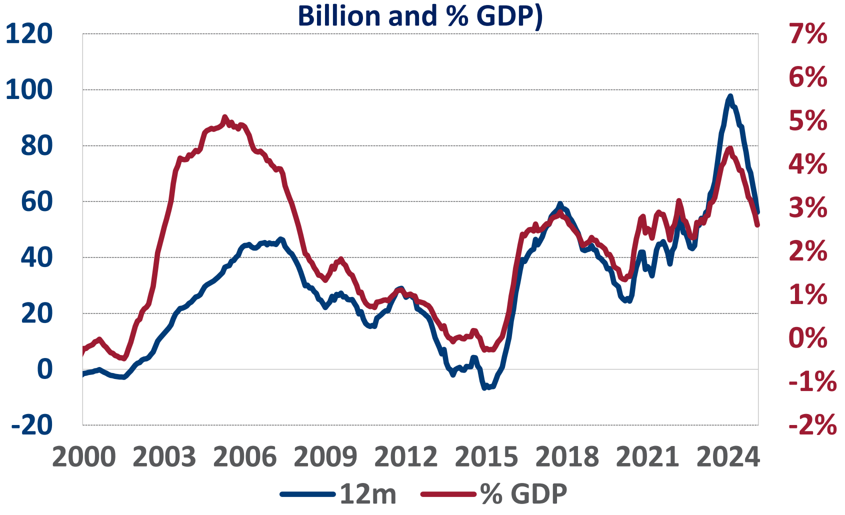
Brazil: Balance of Payments

- The trade balance recorded a surplus of USD 1.0 billion in February, significantly weaker than the USD 4.4 billion surplus reported one year earlier, marking the lowest level for February in the historic series since 2014;
- Exports of goods decreased by 1.8% YoY to USD 23.2 billion, while imports surged by 25.7%, reaching USD 24.1 billion, highlighting the persistent trend of strong import figures reducing the trade balance levels.
- Nevertheless, it is worth to note that February's result should be interpreted cautiously, as an oil rig valued at USD 2.7 billion was imported from China, and agricultural exports experienced delays.

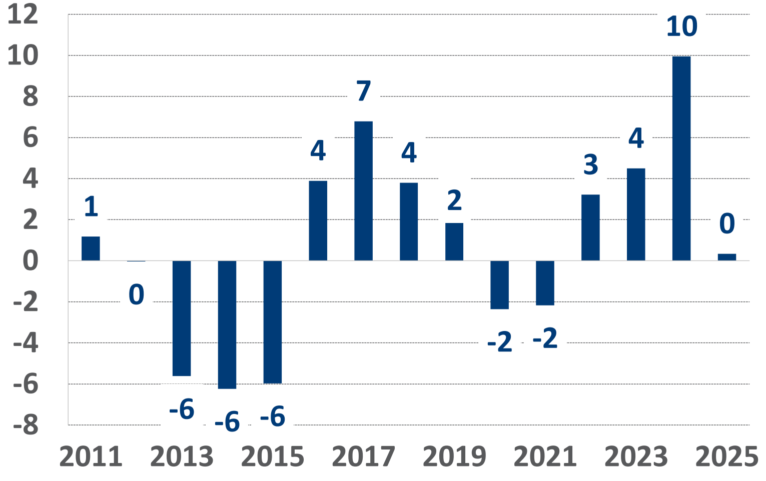
Balance on Goods (USD Billion)



Balance on Goods (Accumulated 12M, USD Billion and % GDP)



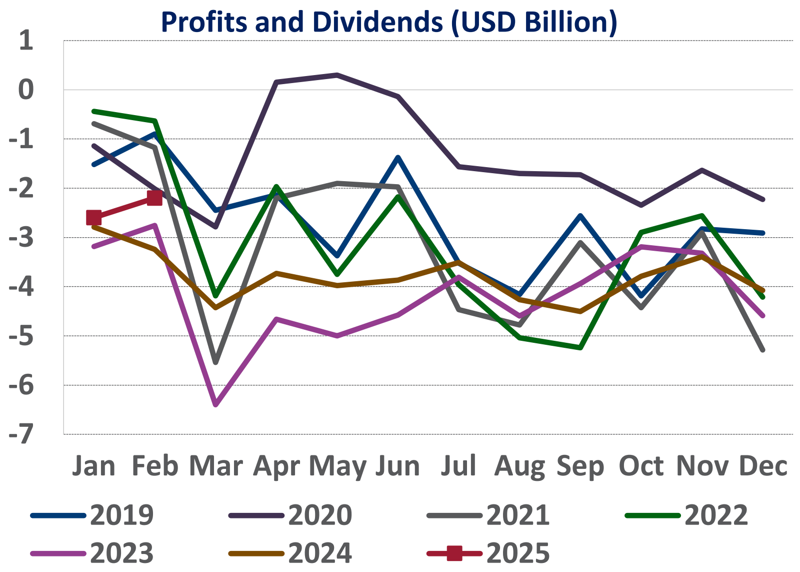
Balance on Goods (YTD, USD Billion)

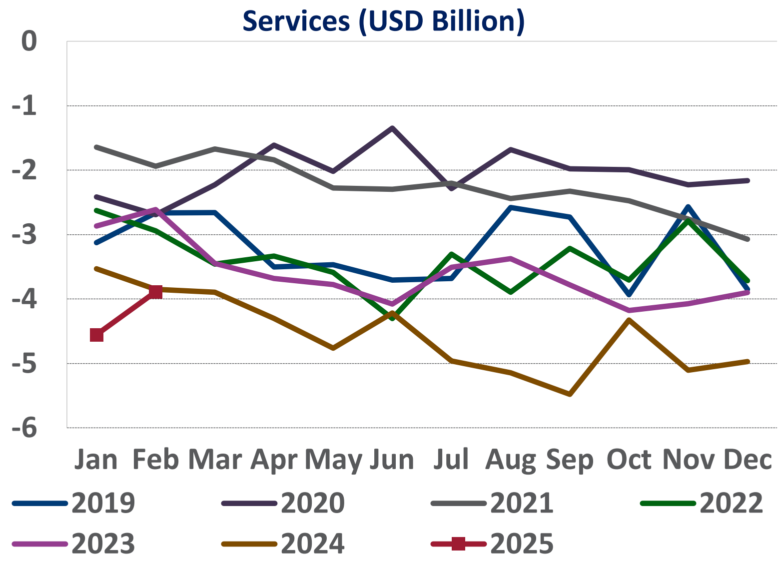


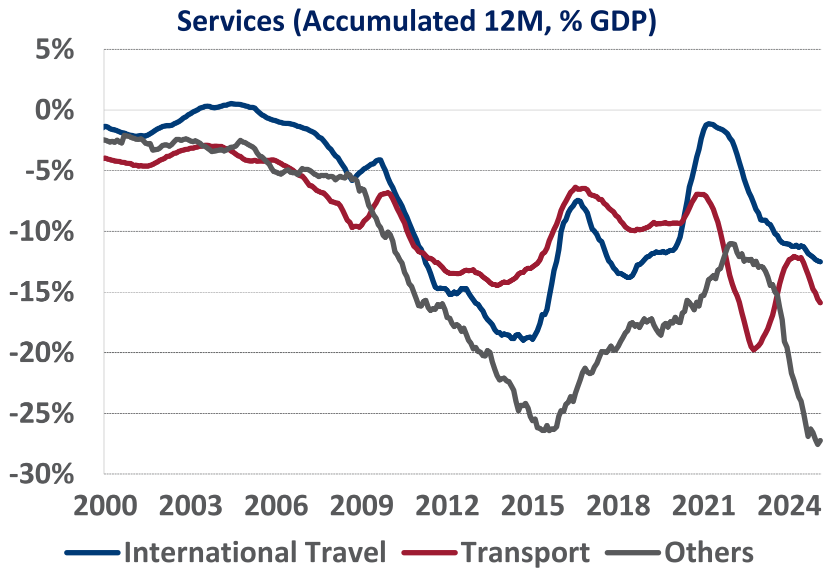
Source: BOCOM BBM, BCB

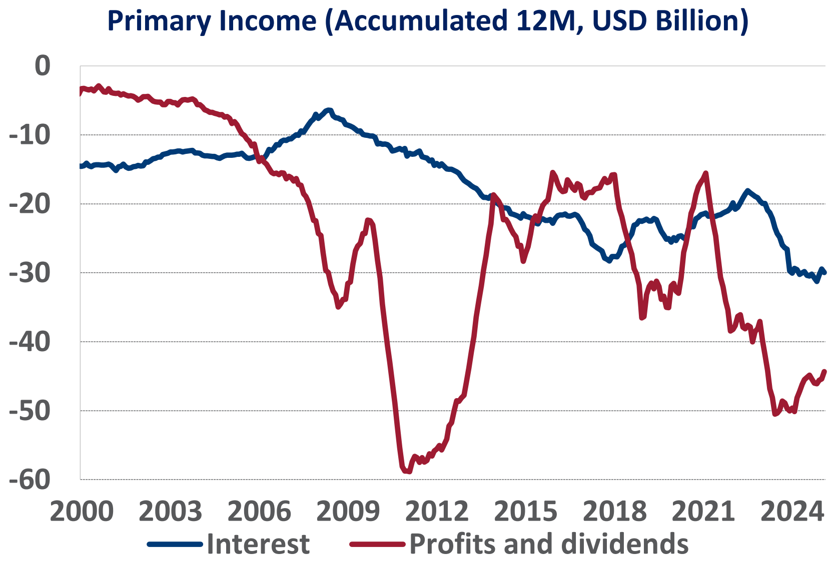
Brazil: Balance of Payments

- The services deficit reached USD 3.9 billion in February 2025, in line with the USD 3.8 billion deficit recorded in February of 2024;
- The transportation and operational leasing accounts accounted for the main share in the composition of the total services deficit. That said, there were no major changes in the breakdown when compared to the same month one year earlier;
- In turn, for this year, there were better-than-expected deficits from the less cyclical accounts, such as intellectual property and telecommunication.





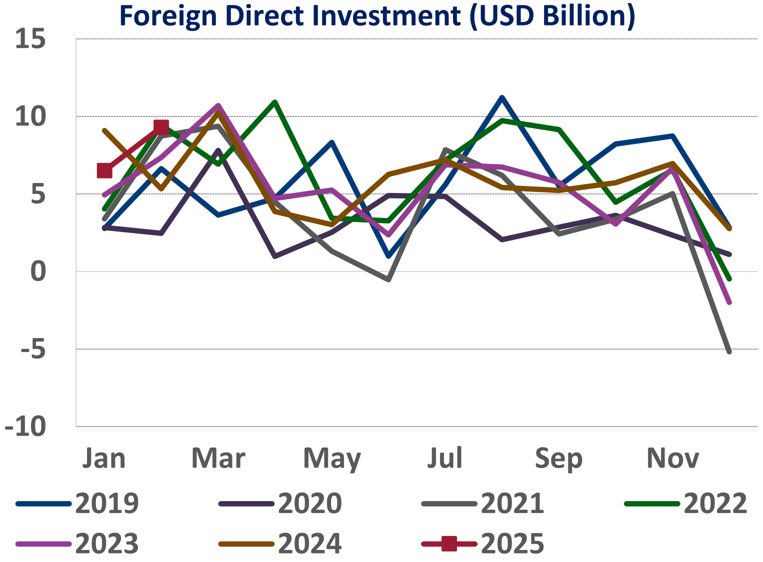


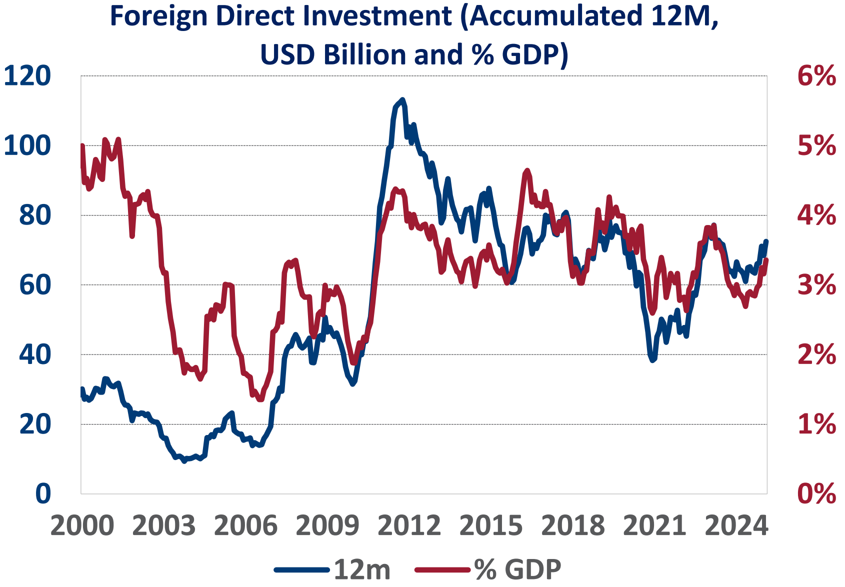


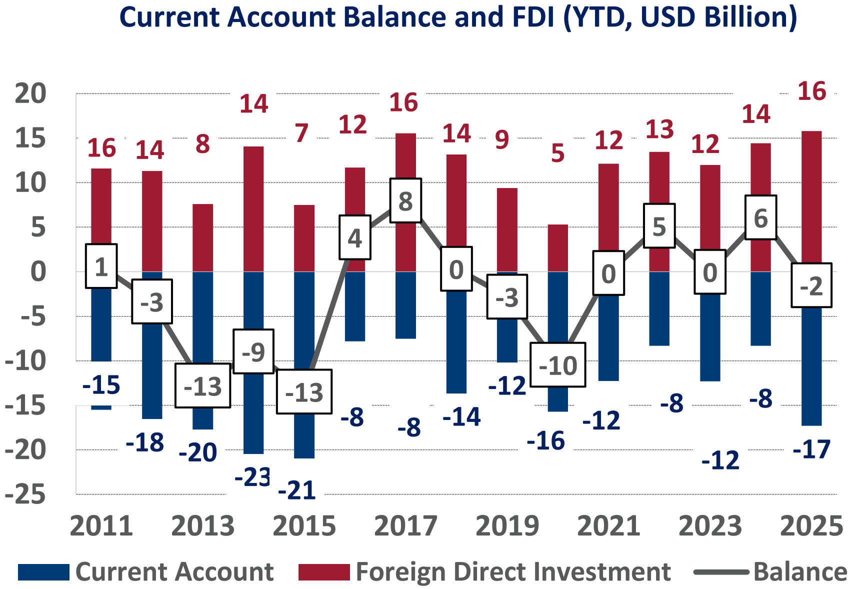
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- Net inflows in Foreign Direct Investment (FDI) totaled USD 9.3 billion in February 2025, outperforming expectations once again (of USD 5.5 billion);
- Thus, FDI reached USD 72.5 billion in the 12-month rolling sum up to February 2025 (3.38% of GDP).



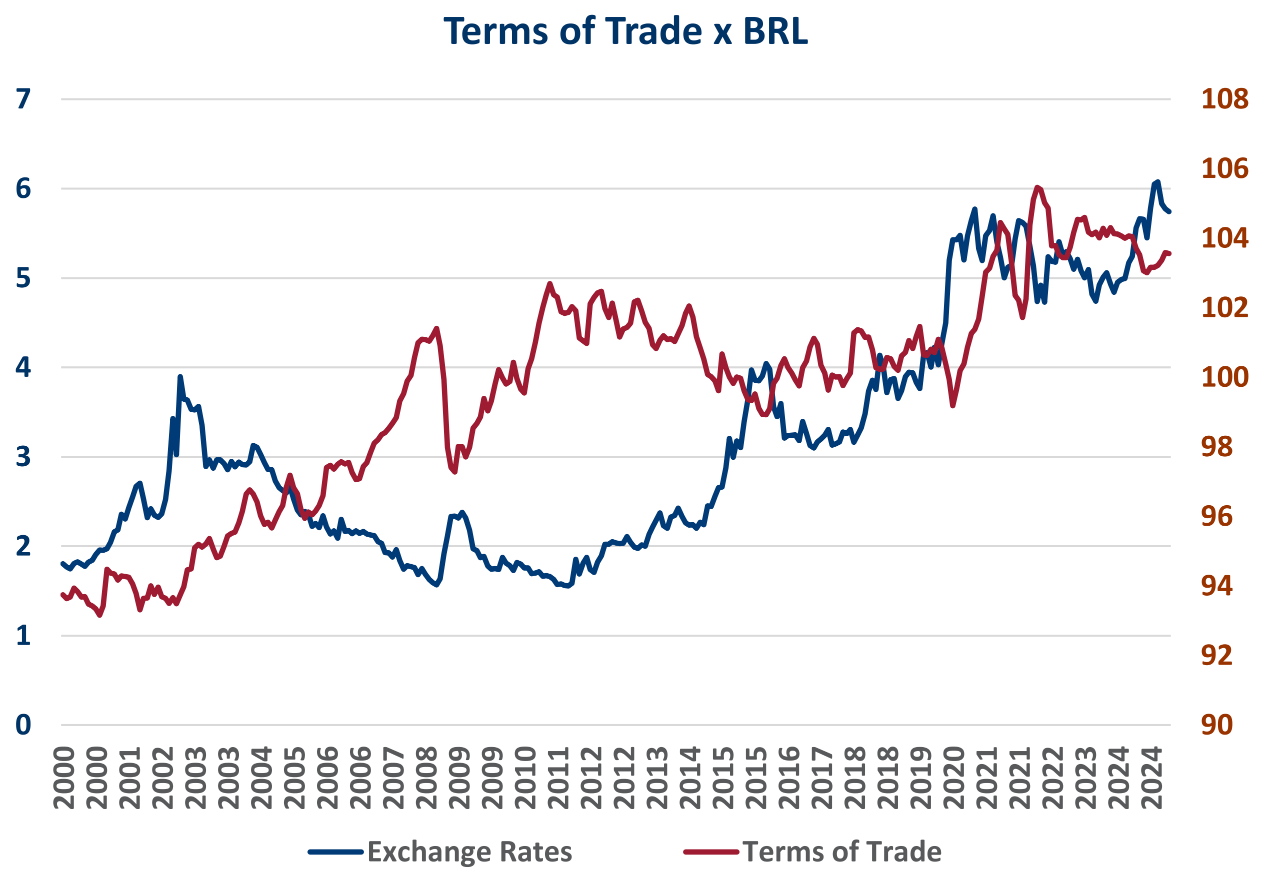


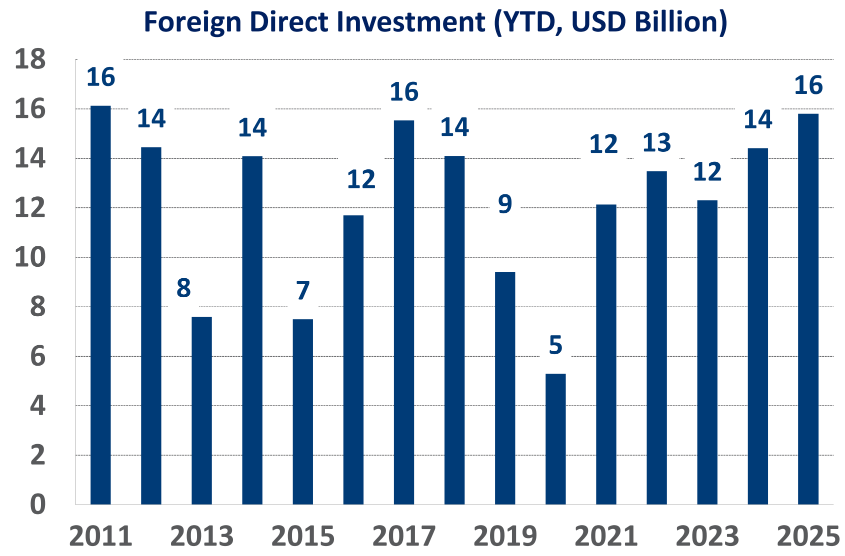


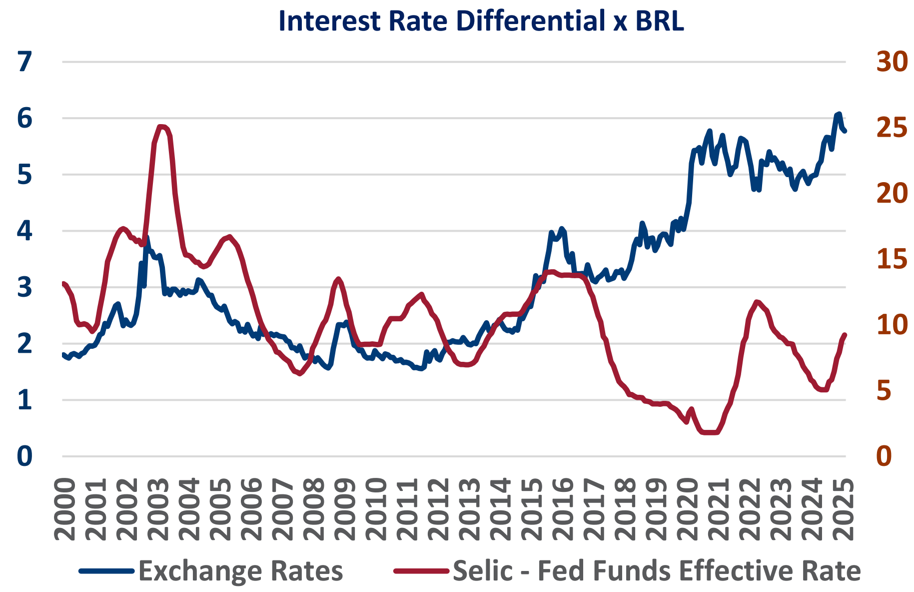
Source: BOCOM BBM, BCB

Brazil: External Sector

- In March, the Brazilian Real appreciated from 5.85 to around 5.73 against the US Dollar, which was mainly explained by international developments. The focus remains on Trump's protectionist policies, with new tariffs being announced. This scenario intensifies uncertainty about the country's trade policy, generating expectations of falling productivity and a weaker dollar.





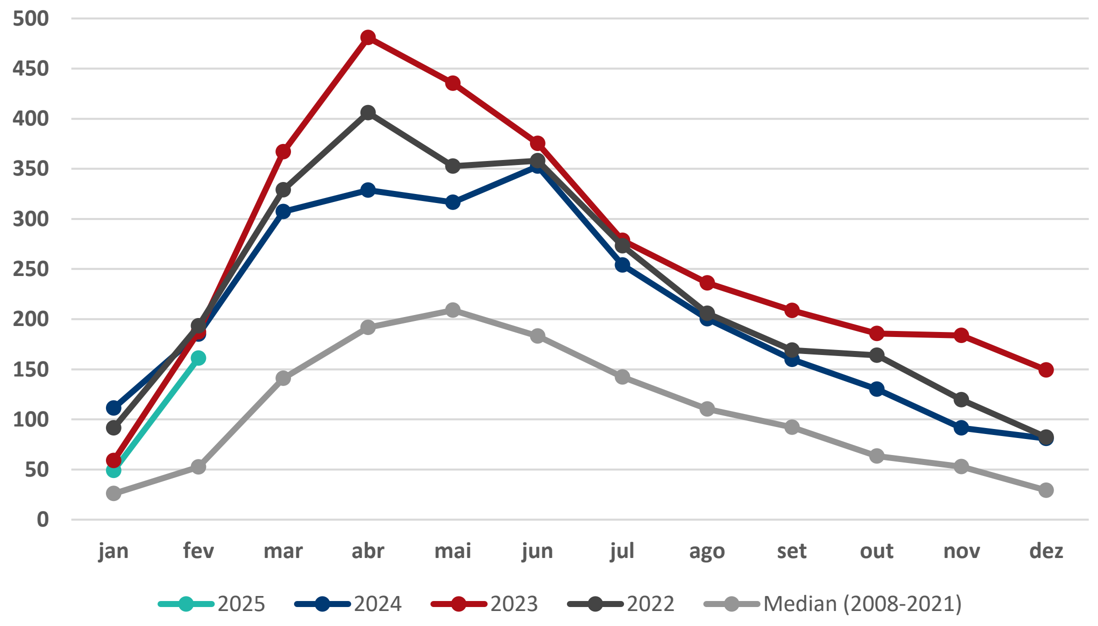


Source: BOCOM BBM, Bloomberg, BCB

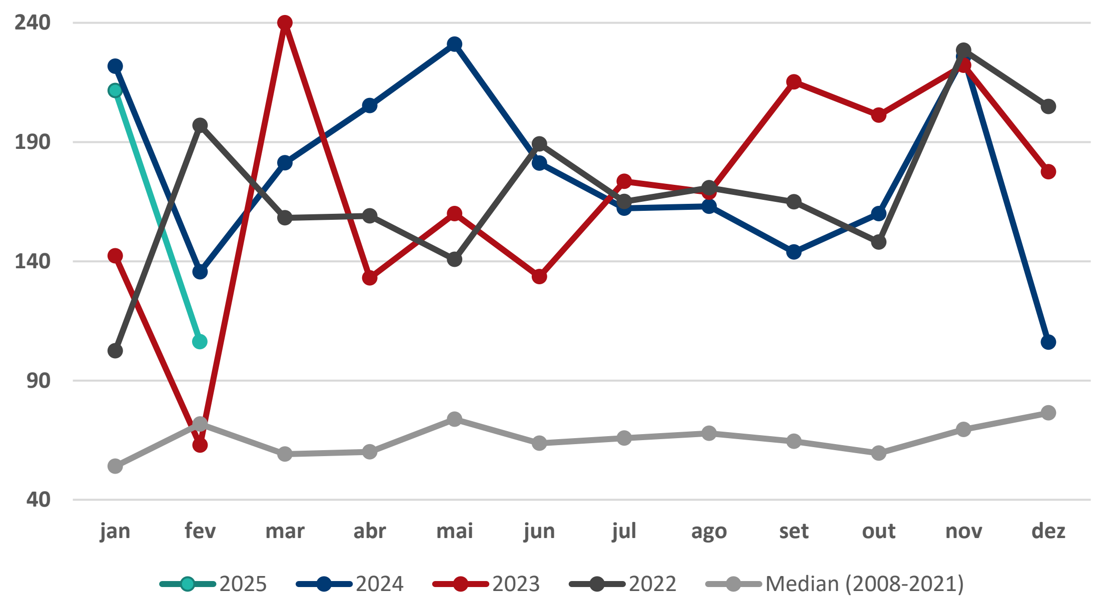
Brazil: External Sector

- In February, the trade balance presented a deficit of USD 0.32 bn (11.1% YoY) according to Secex data;
- Exports fell 1.8% YoY, primarily due to the poor performance of the mining industry. Notable declines were seen in precious metals ores (-88.3% YoY), iron ore (-33.6% YoY), and crude oil (-21.6% YoY).
- Imports, on the other hand, rose by 27.6% YoY, mainly due to the growth in the agriculture sector. Key contributors included unground barley (122.5% YoY), raw roasted cocoa (162.8% YoY), and latex products (203.0% YoY).

Brazil BoP: Soy Exports
USD Million Average



Brazil BoP: Crude Oil Exports
USD Million Average



Source: Secex, BOCOM BBM

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