Macro Outlook

June 2025

Macro Outlook

- In the US, the FOMC decided to remain on pause in the May meeting. Elevated uncertainty caused by higher tariffs increased risks of both higher unemployment and higher inflation, and chairman Powel argued that policy was in good place for the committee to wait and see how the economy evolves. But tariff tension de-escalation between US and China triggered more constructive outlooks across the market, pushing back expectations for cuts. In the data front, latest releases continued to point to gradual inflation deceleration and a cooling but still resilient labor market.

- Regarding China, activity data overall slowed in April following a strong Q1, reflecting impacts of recent US tariff increases. However, exports slowed much less than expected, with the tariff-led decrease to the US being offset by strong trade re-routing to other countries. Housing data also showed weak demand, which was made visible in credit data, as household loans were up by the smallest amount since 2008 in the first four months of the year. Deflationary pressure persists, with both the CPI and PPI remaining soft - marking the 3rd straight month in negative territory. Looking ahead, the trade war de-escalation implies a smaller drag to growth.

- In Brazil, economic activity remains resilient. In March, industrial production exceeded expectations, rising by 1.2% MoM, while services (0.3% MoM) and retail sales (1.9% MoM) remained robust, albeit slightly below forecasts. Summarizing this scenario, the IBC-BR showed a solid increase of 0.8% MoM in the month. Labor market remains 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 50 bps to 14.75% p.a. at its May meeting, in line with our expectations. Moving forward, the committee did not give any guidance, leaving the door open to either end or continue the hiking cycle at a slower pace. To be consistent with the improved international scenario and the domestic inflationary pressures, monetary policy will most likely remain contractionary for a prolonged period, as is being emphasized by Copom members.

- May IPCA-15 rose by 0.36% MoM, materially below market expectations of 0.44% MoM. The 12-month variation declined from 5.49% in April to 5.40% in May. Downward surprises were widespread in all market-set prices groups, with a highlight in industrialized non-durable goods. Regarding the breakdown, core services advanced 0.45% MoM, lower than forecasts, and the 3M SAAR (3-month seasonally adjusted annualized moving average) remained high at 7.5%. The average of core inflation increased by 0.40% MoM, also below expectations, with its 3M SAAR at 5.7%. In all, May IPCA-15 presented a relief in market-set prices, and can add downside bias to further forecasts. Moderation is expected ahead, driven by this year's exchange rate appreciation and the decline in Brent oil prices;

- In the fiscal scenario, the Brazilian public sector posted a primary surplus of BRL 14.1 billion in April, below the market consensus (BRL 18.8 billion), from a surplus of BRL 6.7 billion in April 2024. Regarding the breakdown, central government was the main contribution for the positive result, registering a surplus of BRL 16.2 billion, while regional governments and state-owned enterprises (SOEs) posted deficits of BRL 0.7 billion and BRL 1.4 billion, respectively. Central government net revenues continued to grow in April; however, the slowdown in tax revenue growth raises concerns about the potential impact on the government's overall revenue collection capacity. In turn, total expenditure is also rising, with discretionary spending accelerating by 5.0% despite the 1/18th execution rule. The General Government Gross Debt (GGGD) rose from 75.9% to 76.2% of GDP, with nominal interest (+0.7 p.p.) being the main driver of this growth, while nominal GDP growth (-0.4 p.p.) partially offset it.

China: Economic Activity

- **Economic activity** weakened in April, **reflecting impacts of recent US tariff increases and a soft domestic demand**. FAI and Retail Sales modestly missed expectations, while Industrial Production were a slight beat; however, underlying demand remains subdued;

- **Retail sales** declined from 5.9% to 5.1% YoY, below the consensus for 5.8%. The biggest drop came from auto sales, while home appliances showed the largest increase;

- **Industrial Production** slowed from 7.7% to 6.1% YoY (exp. 5.7%), reflecting slowing export growth given higher US tariffs. Besides this, the slightly-above-consensus data indicates significant trade re-routing.
  - By industry, the deceleration was mainly led by the drop in mobile handsets (smartphones);

- **FAI** growth slowed slightly from 4.2% to 4.0% YTD YoY (exp. 4.2%), mostly driven by a further drop in real estate, which has been an ongoing weakness for the latest years;

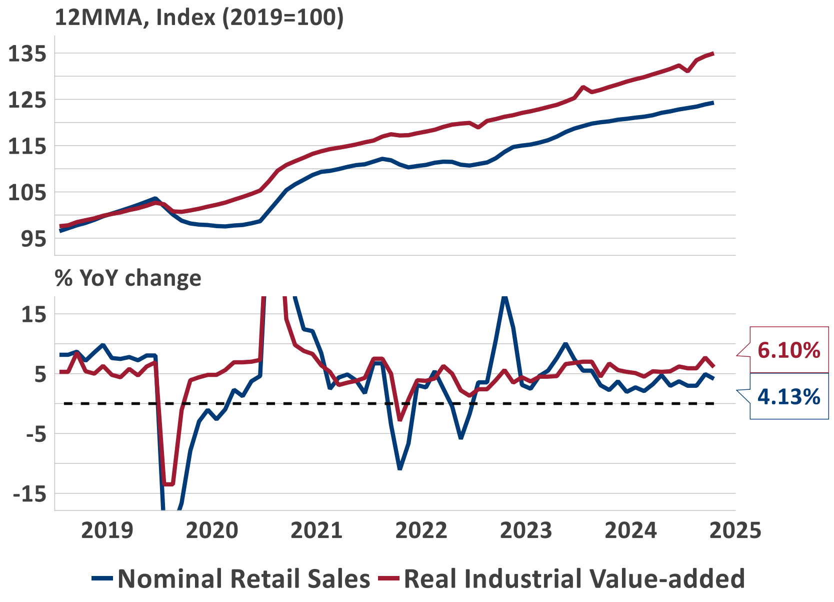
- **Housing:** From a 12-month accumulated perspective, housing starts saw another decline, reaching below 500million square meters - the lowest level in 20 years. Meanwhile, housing sales showed signs of stabilizing near 810m square meters, indicating that the decline for housing demand could be bottoming out.

China: Activity (% YoY)

	4/2025	3/2025	4/2024
Industrial Production	**6.1**	**7.7**	**6.7**
Mining	5.7	9.3	2.0
Manufacturing	6.6	7.9	7.5
Utilities	2.1	3.5	5.8
Fixed Asset Investment (YTD)	**4.0**	**4.2**	**4.2**
Manufacturing	8.8	9.1	9.7
Real Estate	-10.3	-9.9	-9.8
Infrastructure	5.8	5.8	6.0
Retail Sales	**5.1**	**5.9**	**2.3**
Catering Services	5.2	5.6	4.4
Consumer Goods	5.1	5.9	2.0
Clothing	2.2	3.6	-2.0
Automobiles	0.7	5.5	-5.6
Furniture	26.9	29.5	1.2
Cellphones	19.9	28.6	13.3
Home Appliances	38.8	35.1	4.5
Construction	9.7	-0.1	-4.5

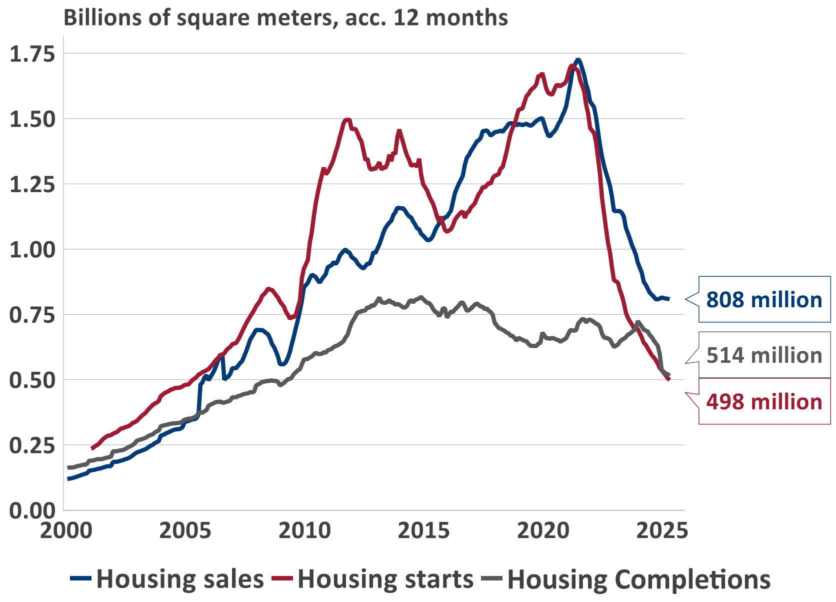
Source: BOCOM BBM, Macrobond

China: Industrial Production x Retail Sales



Source: BOCOM BBM, Macrobond, NBS

China: Housing Indicators



Source: BOCOM BBM, Macrobond, NBS

China: Economic Scenario

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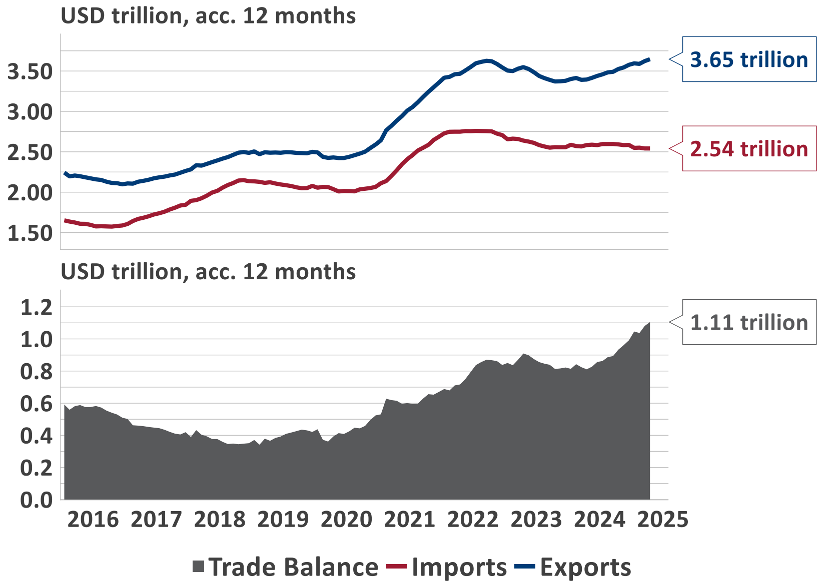
- **Exports softened in April**, amid higher US import tariffs, but in a way lesser degree than consensus expectations.
  - In level terms, trade surplus remains near all-time-highs at USD 1.11tn;
  - In real terms, exports growth came in above expectations, moderating from 12.4% to 8.1% YoY (exp. 2.0%);
  - Despite overall resilience in April, exports to the US contracted sharply in April, plunging from +8.8% to -20.9% YoY. In contrast, shipments to non-US markets remained robust, expanding by 13.1%. Looking ahead, the sharp declines in new export orders and container shipment data suggest the tariff impact is likely to deepen in coming months;
- April **CPI** inflation held steady at -0.1% YoY, in line with expectations;
  - **Core inflation** remained stable at **0.5% YoY** in April, still low and below historical pre-Covid levels; The data was driven by gains in services (0.3% YoY), mostly coming from recreation, housekeeping and education services, which were up 0.7%, 2.5% and 1.2% YoY respectively;
  - The April CPI print reaffirms persistent disinflationary dynamics in China's consumer prices. **Deflation pressures remains a major concern for this year,** with economy still suggesting demand-supply imbalances.

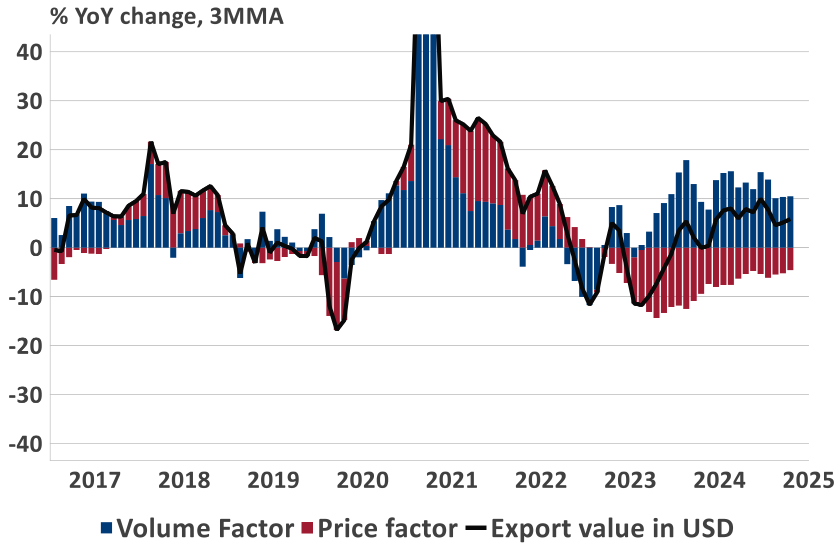
China: Trade Balance



Source: BOCOM BBM, Macrobond, GAC

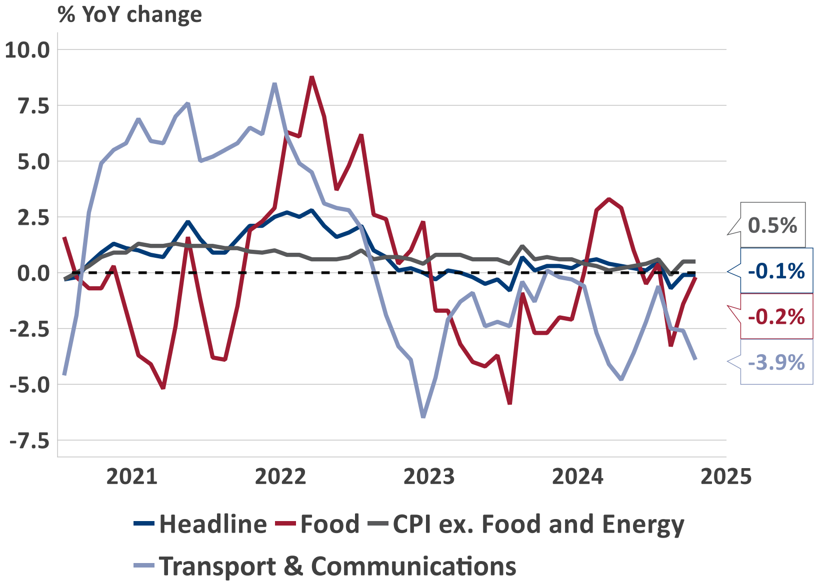
China: Exports (Price x Volume)

Last observation at 4/2025



Source: BOCOM BBM, Macrobond, GAC

China: CPI

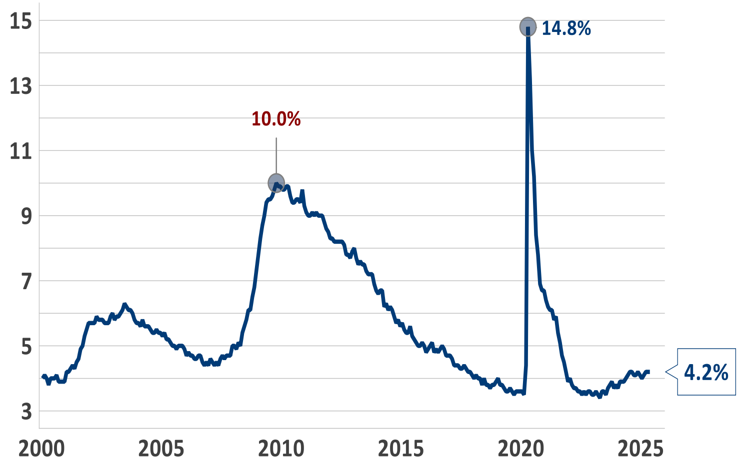


Source: BOCOM BBM, Macrobond, NBS

USA: Labor Market

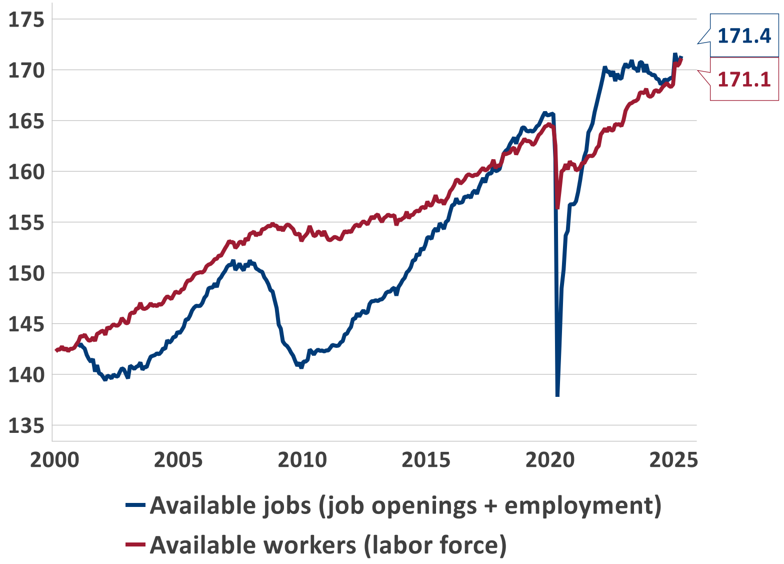
- **May labor market report was an upside surprise, sustaining the strong pace from April;**
  - May payroll showed a job gain of **139k**, above market expectations of 126k. Previous months were strongly revised downwards (net revision of -95 between March and April).
  - The unemployment rate remained stable at 4.2%, in line with the market expectations.
- In April, the **jobs-workers gap was 0.23M,** consistent with the pace of 2018 and 2019, indicating a **tight but not overheated labor market.**
- April average hourly earnings accelerated **0.4 % MoM,** slightly above expectations of 0.3%. Overall, wage growth remains resilient.
  - The YoY remained stable at **3.9%**. Additionally, there were upward revisions – April data moved from 3.8% to 3.9%.

US: Unemployment Rate SA (%)



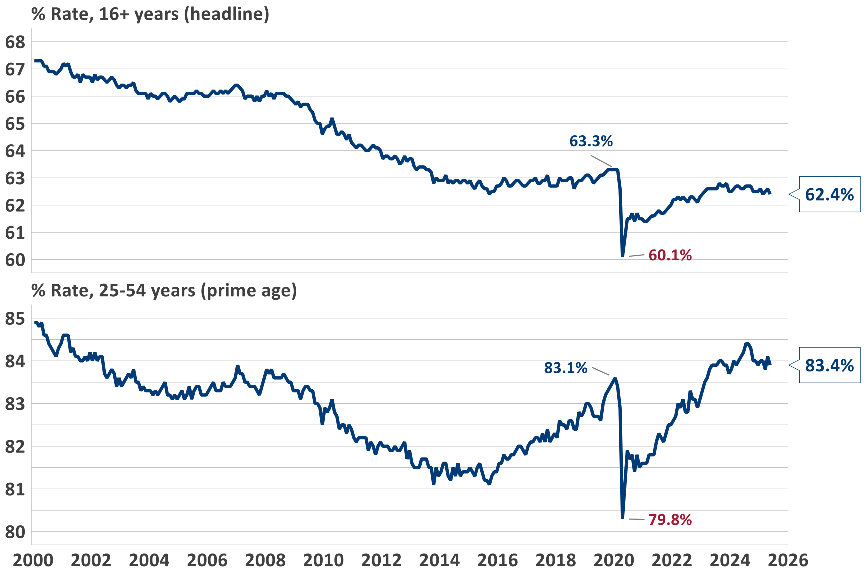
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



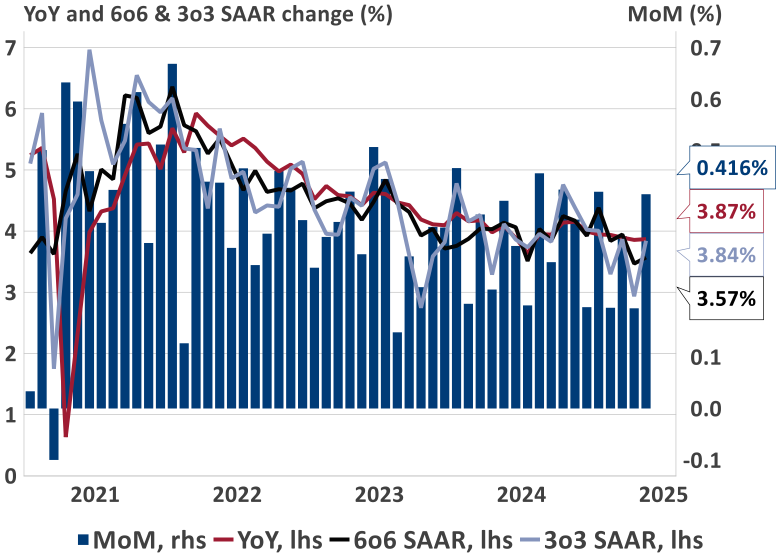
Source: BOCOM BBM, Macrobond, BLS

US: Labor Force Participation Rate (%)



Source: BOCOM BBM, Macrobond

US: Average Hourly Earnings Growth (%)

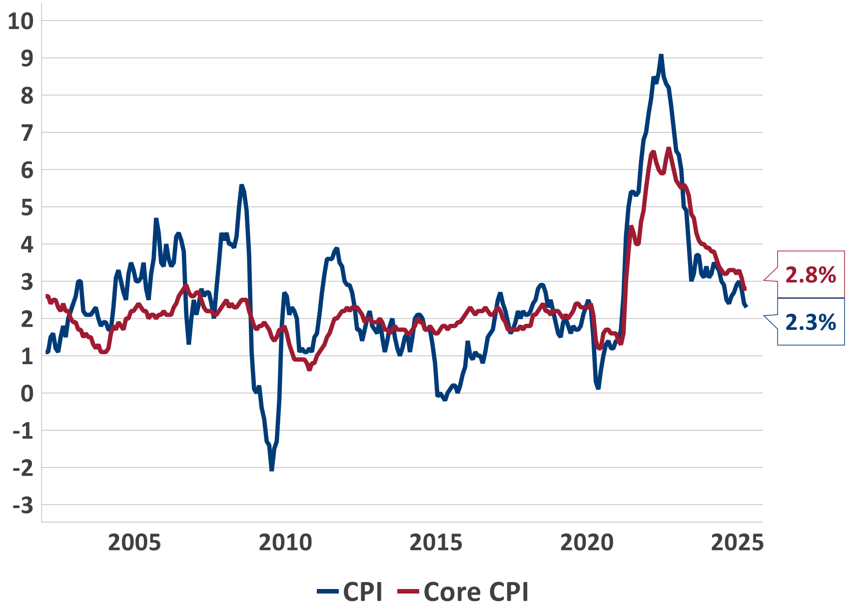


Source: BOCOM BBM, Macrobond, BLS

USA: Inflation

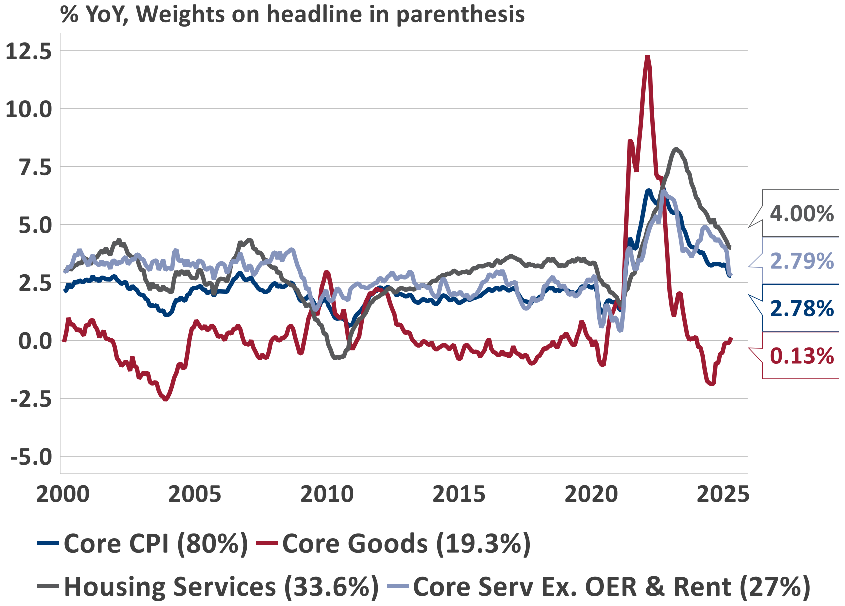
- **April headline CPI** accelerated **0.2% MoM** slightly below the expectations (0.3%), leading to an annual growth rate decrease from 2.4% to **2.3% YoY:**
  - Biggest changes came from higher energy prices (from -2.39 to 0.67% MoM) and lower food prices (from 0.44 to -0.08% MoM);
- **Core CPI** increased to **0.24% MoM** (exp. 0.3%), and the annual growth rate remained steady at **2.8%:**
  - The downward surprise was mostly explained by Airline Fares(-2.83% MoM), lodging away from home(-0.1% MoM) and apparel (-0.20%);
    - The soft print in airfares and hotel booking suggests potential weakness in services consumption;
- In sum, the breakdown revealed that both core services (0.24% vs 0.06%), supercore inflation (0.21% vs -0.24%) and core goods (0.06% vs -0.09%) rebounded from low levels in March. However, all of them came in softer-than-expected for the third consecutive month, signaling a more moderate pace of increase than we were seeing in the beginning of the year;
- Despite this soft print, inflation should start to accelerate somewhat in May and more notably in June due to tariffs.

US: CPI (YoY, %)



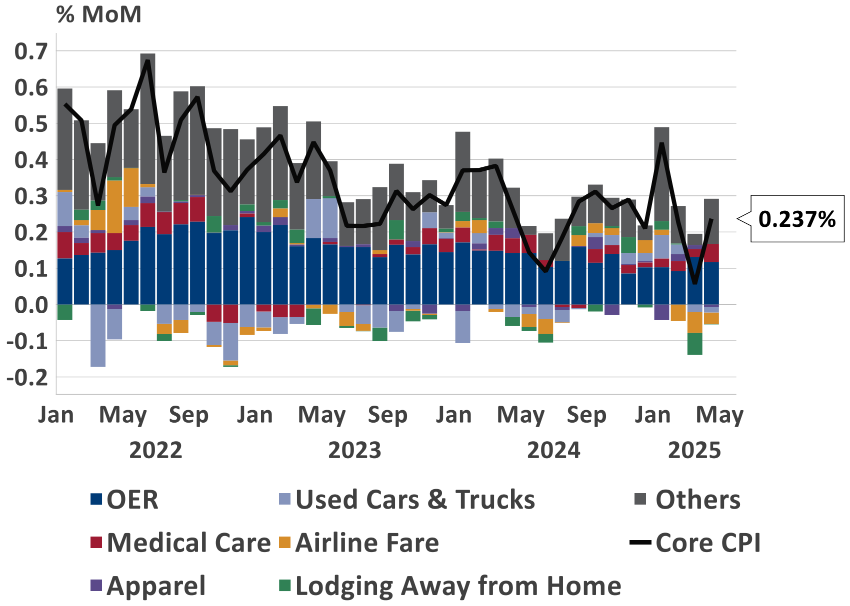
Source: BOCOM BBM, Macrobond, BLS

US: Core CPI Main Components (%)



Source: BOCOM BBM, Macrobond, BLS

US: Core CPI MoM Contributions

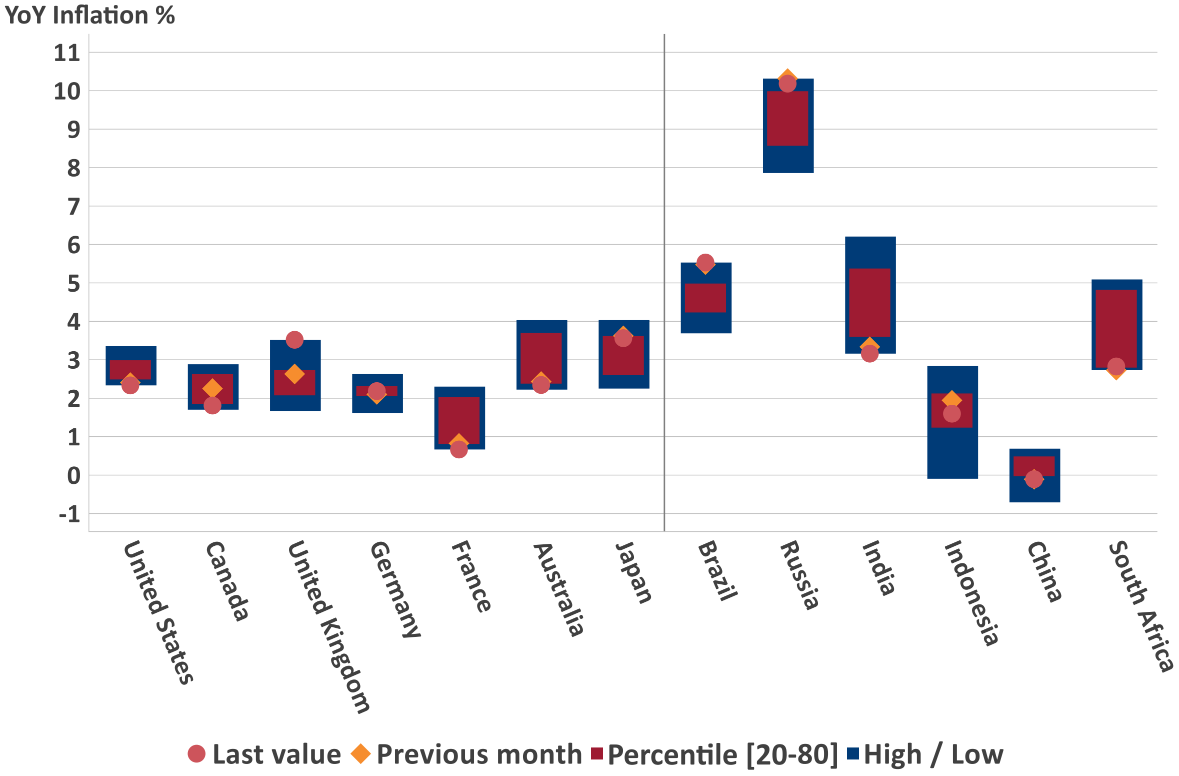


Source: BOCOM BBM, Macrobond, BLS

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;
- The significant tightening in monetary policy in the recent years resulted in a slowdown of economic activity across several countries, although global growth continued surprising up and remained resilient in 2024;
- Expectations of further global economic deceleration, fueled by US economic policy and tariff uncertainty, improves the expectation of monetary policy easing this year, but timing and magnitudes should rely on each country's domestic context.

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

	Q1 2025	Q4 2024	Q3 2024	Q2 2024	Q1 2024	Q4 2023	Q3 2023	Q2 2023
Argentina		1,4	4,3	-1,7	-1,4	-2,3	2,0	-2,9
Australia	0,2	0,6	0,3	0,2	0,1	0,1	0,5	0,4
Brazil	1,4	0,1	0,8	1,5	1,0	0,3	0,1	0,8
Canada	0,5	0,5	0,6	0,6	0,5	0,2	-0,1	0,2
China	1,2	1,6	1,4	1,0	1,3	0,9	1,5	1,3
Euro Area	0,6	0,3	0,4	0,2	0,3	0,1	0,0	0,2
France	0,1	-0,1	0,4	0,2	0,1	0,4	0,2	0,9
Germany	0,4	-0,2	0,1	-0,3	0,2	-0,4	0,2	-0,2
India	8,6	5,2	1,2	-7,1	7,6	4,4	2,0	-5,5
Indonesia	-1,0	0,5	1,5	3,8	-0,8	0,5	1,6	3,9
Italy	0,3	0,2	0,0	0,2	0,2	0,2	0,1	-0,2
Japan	-0,2	0,6	0,2	0,9	-0,4	-0,1	-1,0	0,6
Mexico	0,2	-0,7	0,8	0,2	0,0	0,4	0,5	0,8
Russia		1,6	0,9	0,8	1,2	0,7	1,8	1,4
Saudi Arabia	-1,4	4,3	1,2	-1,3	0,2	2,8	-1,2	-2,4
South Africa	0,1	0,4	-0,3	0,3	0,1	0,4	-0,4	0,8
South Korea	-0,2	0,1	0,1	-0,2	1,2	0,5	0,8	0,7
Turkey	-15,7	2,2	12,9	4,9	-14,9	1,5	13,0	8,0
United Kingdom	0,7	0,1	0,0	0,5	0,9	-0,2	-0,1	0,0
United States	-0,1	0,6	0,8	0,7	0,4	0,8	1,1	0,6

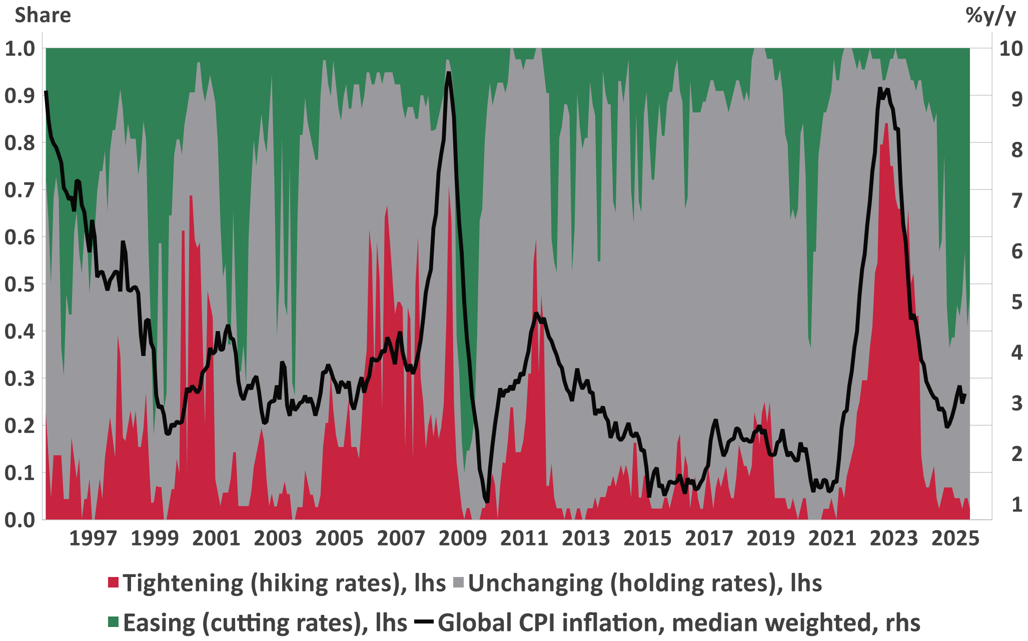
Sources: BOCOM BBM, Macrobond, National Sources

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. However, there are exceptions, such as Japan and Norway, which raised interest rates at its last meeting;
- Overall, the uncertainty surrounding US tariffs and their potential effects continues to drive institutions towards a more careful, data-dependent approach.

Global monetary breadth

Share of economies (GDP top 50) with higher/unchanged/lower policy rates; monthly/mtd avg, 6-Jun-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	47,3	46,9	29,00	-3,00	Cut	1/2025	20	4
Australia	2,4	2,6	3,85	-0,25	Cut	5/2025	19	1
Brazil	5,5	5,1	14,75	0,50	Hike	5/2025	1	13
Canada	1,8	2,6	2,75	-0,25	Cut	3/2025	23	3
Chile	4,4	3,7	5,00	-0,25	Cut	12/2024	32	6
China	-0,1	0,5	3,00	-0,10	Cut	5/2025	136	1
Colombia	5,2	5,3	9,25	-0,25	Cut	5/2025	25	1
Costa Rica	0,4	0,9	4,00	-0,25	Cut	10/2024	31	8
Czech Republic	2,4	0,1	3,50	-0,25	Cut	5/2025	36	1
Denmark	1,5	1,7	2,00	-0,25	Cut	4/2025	21	2
Euro Area	1,9	2,3	2,15	-0,25	Cut	6/2025	21	0
Hungary	4,2	5,0	6,50	-0,25	Cut	9/2024	32	8
Iceland	3,8	3,6	7,25	-0,50	Cut	5/2025	22	1
India	3,2	4,1	5,50	-0,50	Cut	6/2025	28	0
Indonesia	1,6	2,4	5,50	-0,25	Cut	5/2025	14	1
Israel	3,5	3,7	4,50	-0,25	Cut	1/2024	25	17
Japan	3,6	3,0	0,50	0,25	Hike	1/2025	4	112
Mexico	3,9	3,9	8,50	-0,50	Cut	5/2025	26	1
New Zealand	2,5	2,6	3,25	-0,25	Cut	5/2025	25	0
Norway	2,5	2,9	4,50	0,25	Hike	12/2023	18	61
Poland	4,4	3,4	5,25	-0,50	Cut	5/2025	33	1
Russia	10,2	9,2	20,00	-1,00	Cut	6/2025	7	0
Saudi Arabia	2,3		5,00	-0,25	Cut	12/2024	23	6
South Africa	2,8	3,0	7,25	-0,25	Cut	5/2025	25	0
South Korea	1,9	2,0	2,50	-0,25	Cut	5/2025	29	0
Sweden	0,3	2,3	2,25	-0,25	Cut	2/2025	20	4
Switzerland	-0,1	0,5	0,25	-0,25	Cut	3/2025	24	3
Turkey	35,4	35,4	46,00	3,50	Hike	4/2025	2	3
United Kingdom	3,5	3,8	4,25	-0,25	Cut	5/2025	22	1
United States	2,3	2,8	4,50	-0,25	Cut	12/2024	22	6

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%	2,5%	1,5%
Inflation (%)	4,5%	10,1%	5,8%	4,6%	4,8%	5,5%	4,1%
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%	15,00%	12,0%
External Accounts							
Trade Balance (US$ bn)	36	42	52	92	66	62	73
Current Account Balance (US$ bn)	-25	-40	-42	-28	-61	-70	-55
Current Account Balance (% of GDP)	-1,7%	-2,4%	-2,2%	-1,3%	-2,8%	-3,2%	-2,4%
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

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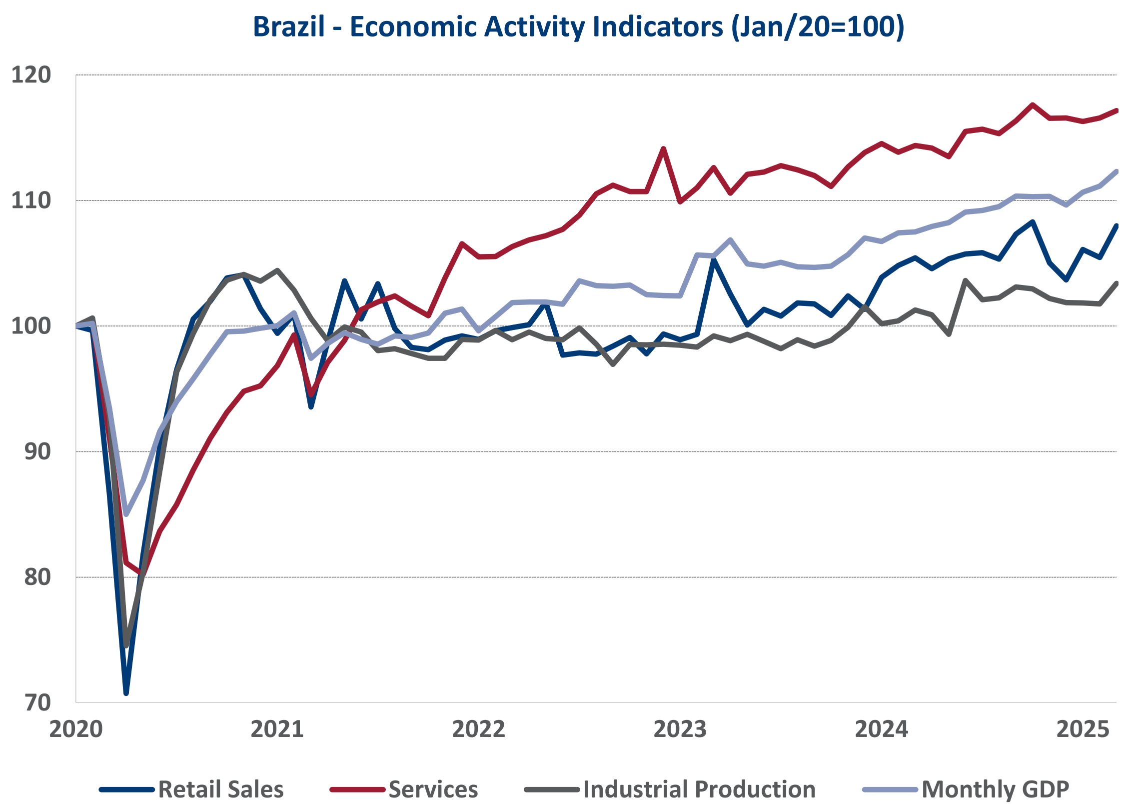
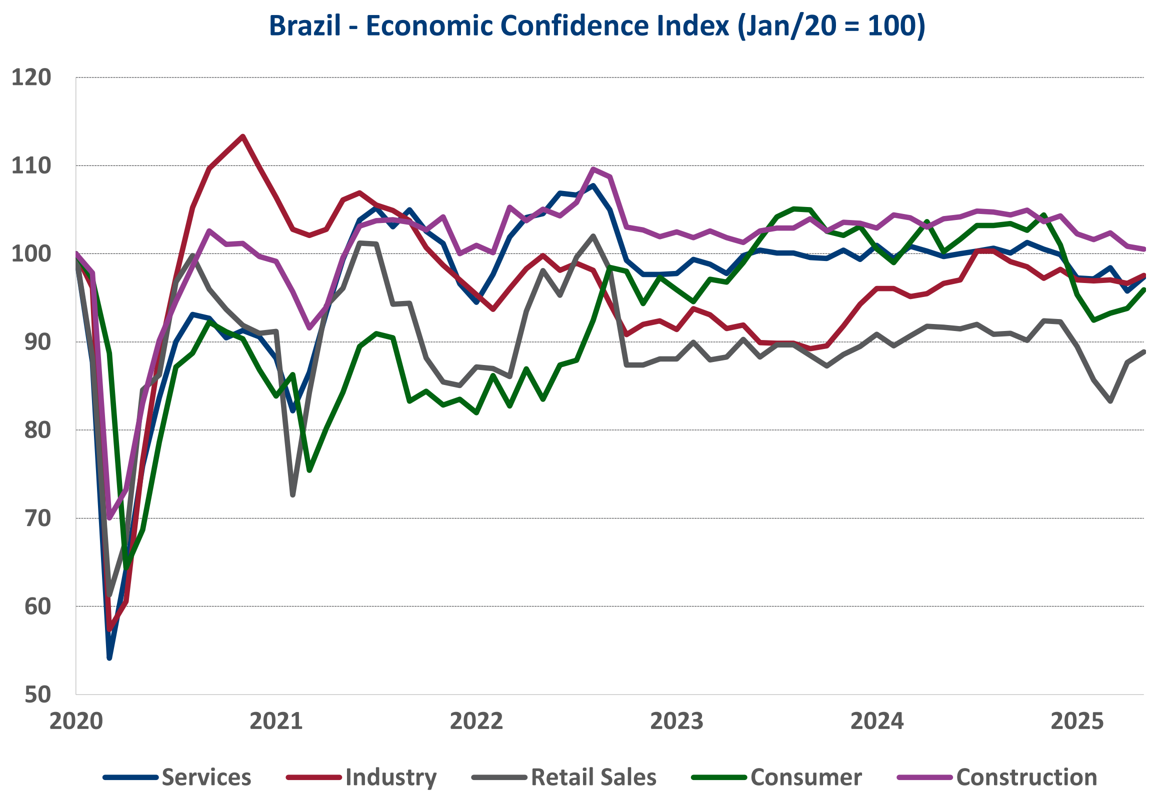
- In March, monthly indicators of economic activity posted, overall, positive signs across sectors. Industrial production exceeded expectations, rising by 1.2% MoM, while services and retail sales increased slightly below consensus, by 0.3% MoM and 1.9% MoM, respectively. Summarizing this scenario, the IBC-BR showed a solid increase of 0.8% MoM in the month.
- Looking ahead, the confidence surveys for the services, retail sales, and consumer sectors grew in May, while construction contracted.



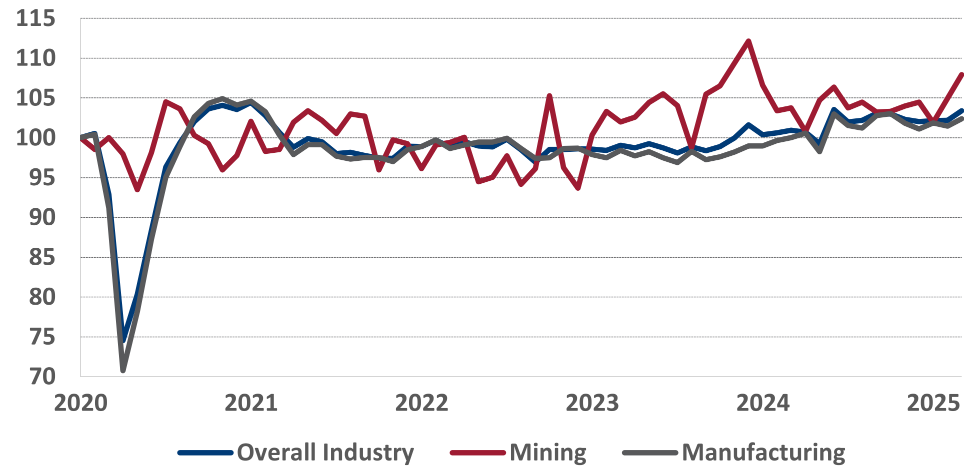


Source: BOCOM BBM, IBGE, FGV

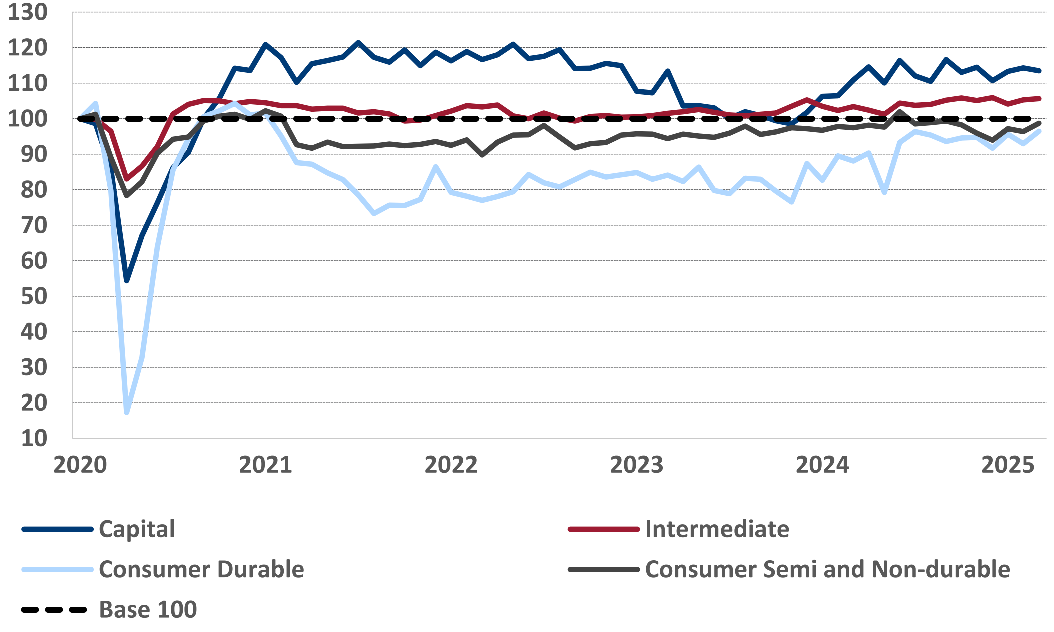
Brazil: Industrial Production

- Industrial output increased by 1.2% MoM in March, considerably above consensus (-0.3% MoM), ending a series of five consecutive weak figures, driven by mining production (2.8% MoM) and manufacturing (0.9% MoM).
- The month's figures registered mainly positive results, with 3 out of the 4 major economic categories and 16 out of the 25 manufacturing activities growing in the monthly comparison.
- On the positive side, semi & nondurable goods rebounded (2.4% MoM), led by a strong recovery in pharmaceutical products (13.7% MoM). Durable goods also saw a solid increase (3.8% MoM), supported by continued growth in vehicle output. Furthermore, intermediate goods recorded a second consecutive rise (0.3% MoM), bolstered by a 2.8% MoM expansion in the extractive industry.
- Meanwhile, tighter financial conditions and worsening business confidence remain contributing to a gradual slowdown in the manufacturing industry.

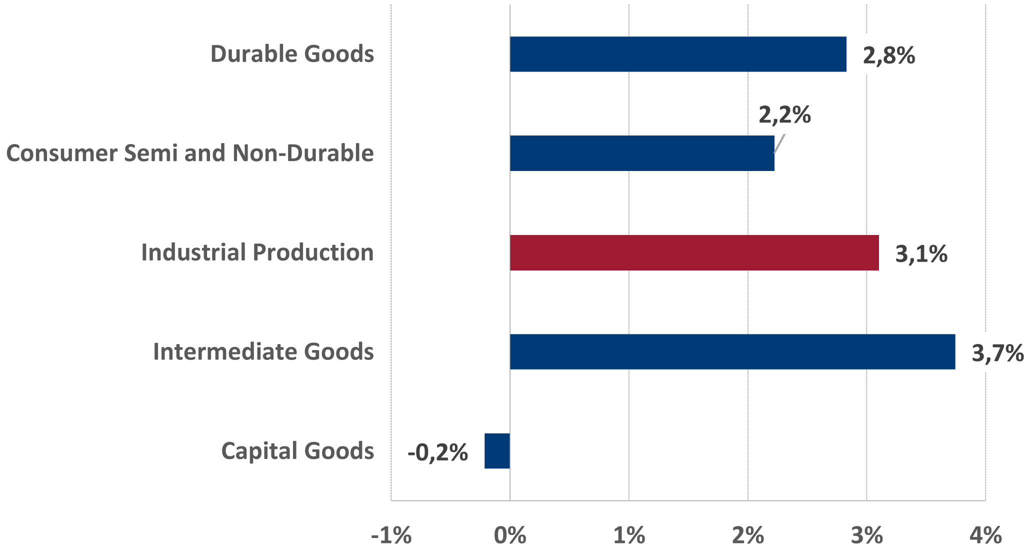
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



Industrial Production by Category - 03/2025 (YoY)

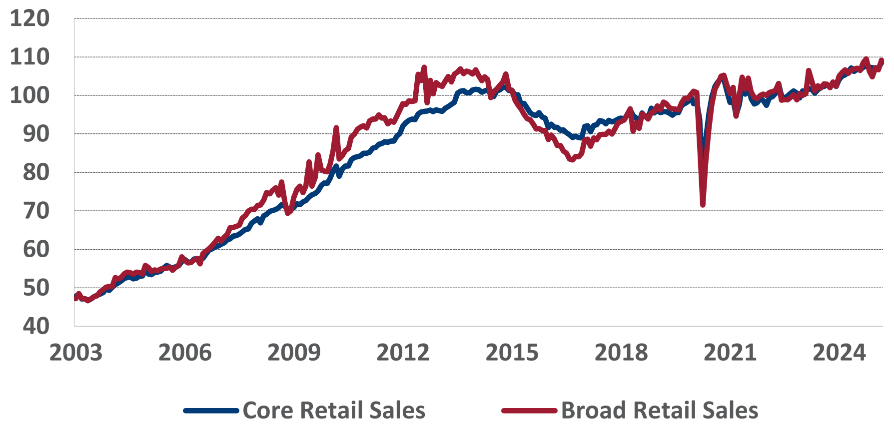


Source: IBGE, BOCOM BBM

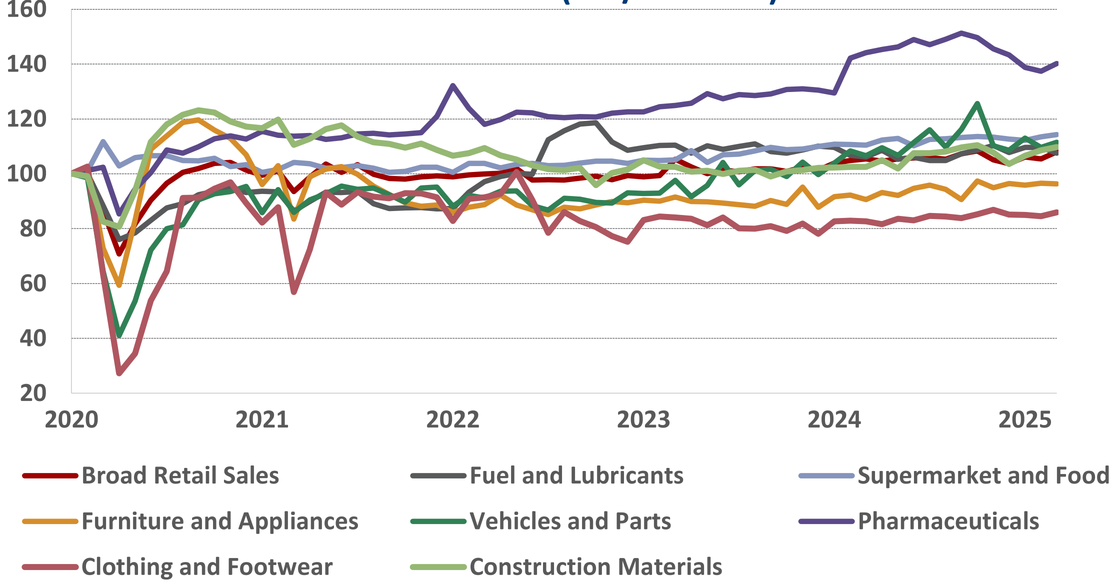
Brazil: Retail Sales

- Broad retail sales expanded by 1.9% MoM in March, below expectations (2.1% MoM).
- In turn, core retail sales increased 0.8% MoM, also below market prospects (1.0% MoM), portraying the third consecutive month of growth.
- In the breakdown, 8 out of 10 retail activities grew in the monthly comparison, with the highlights being the third rise in a row in building materials (0.6% MoM) and in pharmaceutical products (1.2% MoM) on the positive side, and clothing and footwear (-1.2% MoM) and fuels and lubricants (-2.1% MoM) on the negative.
- Moreover, the category of vehicles, motorcycles and auto parts is tracing an upward trajectory despite fluctuations registered in recent months (1.7% MoM).
- Overall, both credit-sensitive and income-sensitive retail activities grew moderately in the first quarter of 2025.

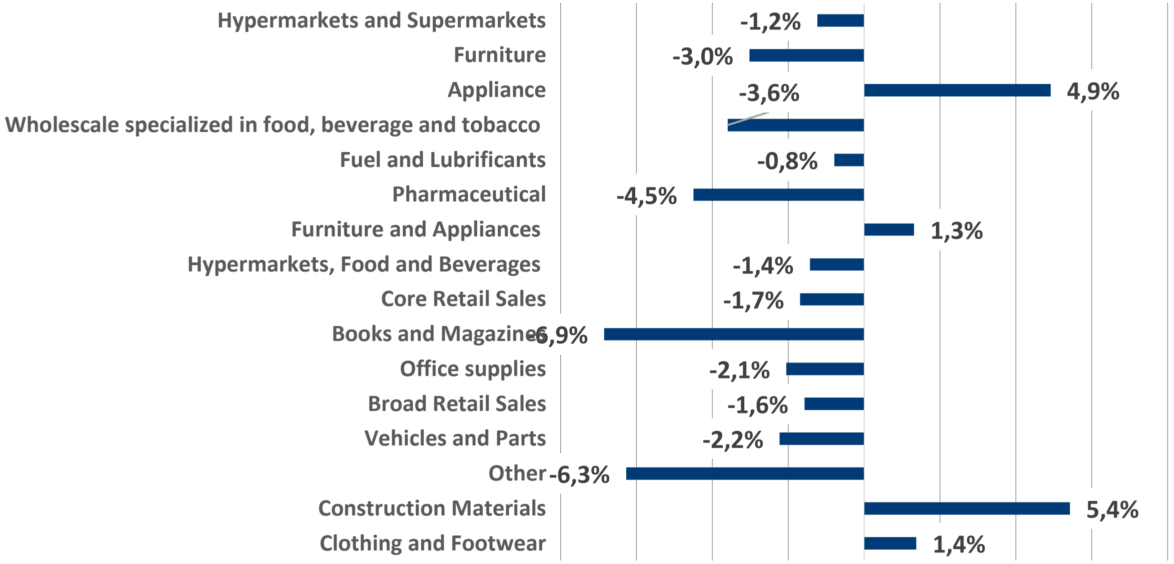
Broad Retail Sales SA x Core Retail Sales SA



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



Retail Sales - YoY (03/2025)

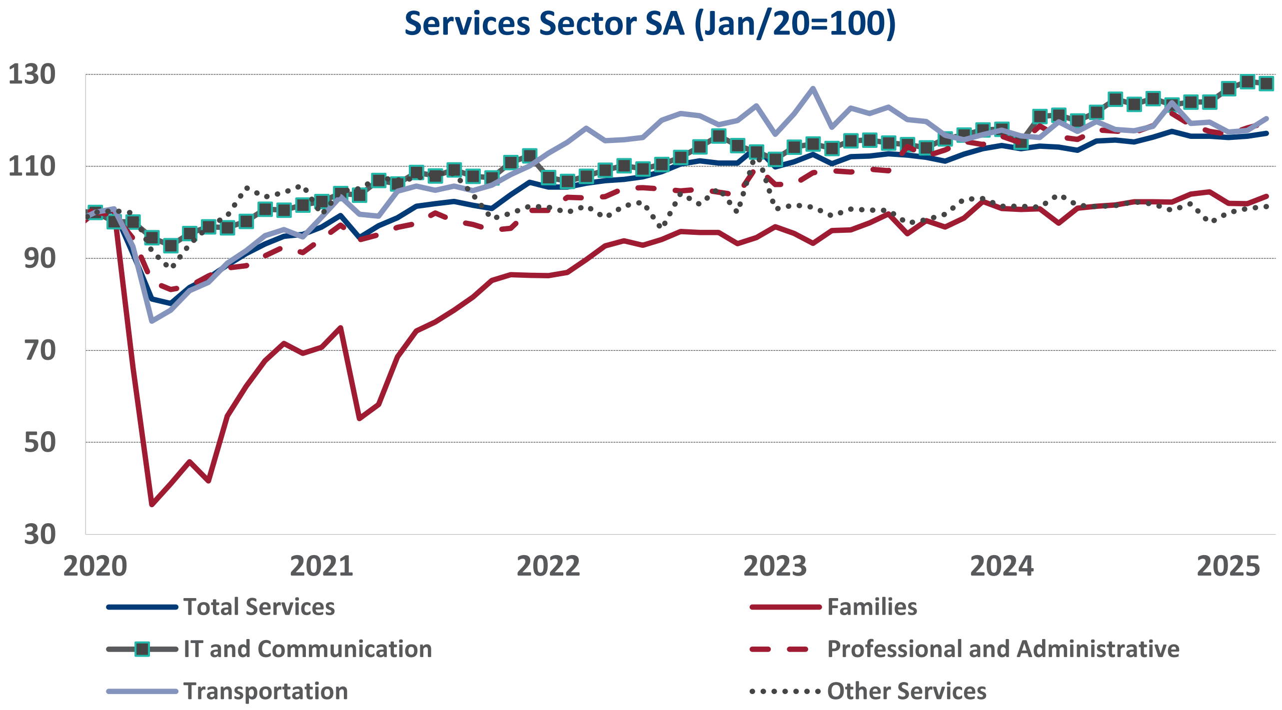


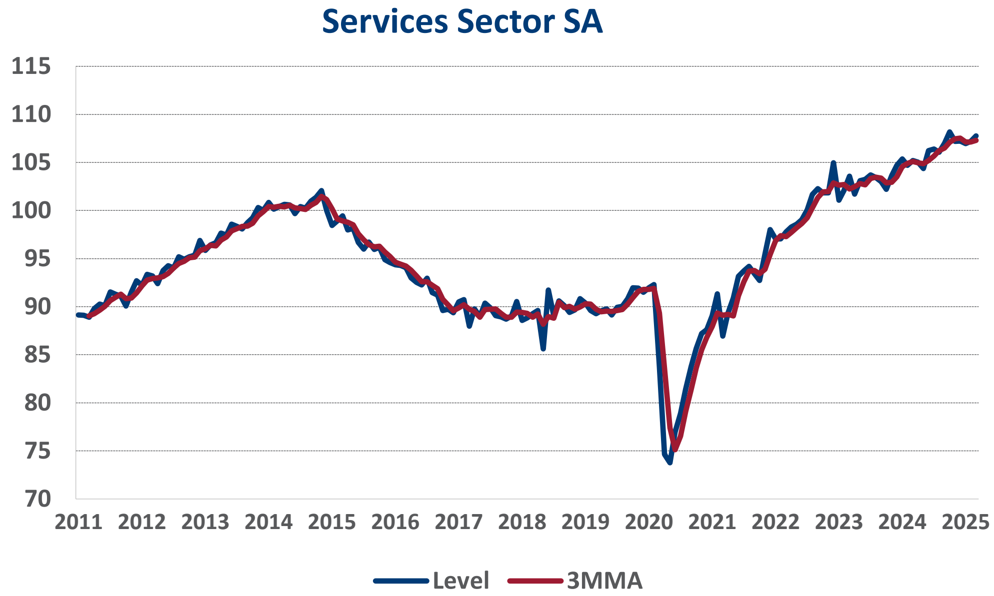
Source: IBGE, BOCOM BBM

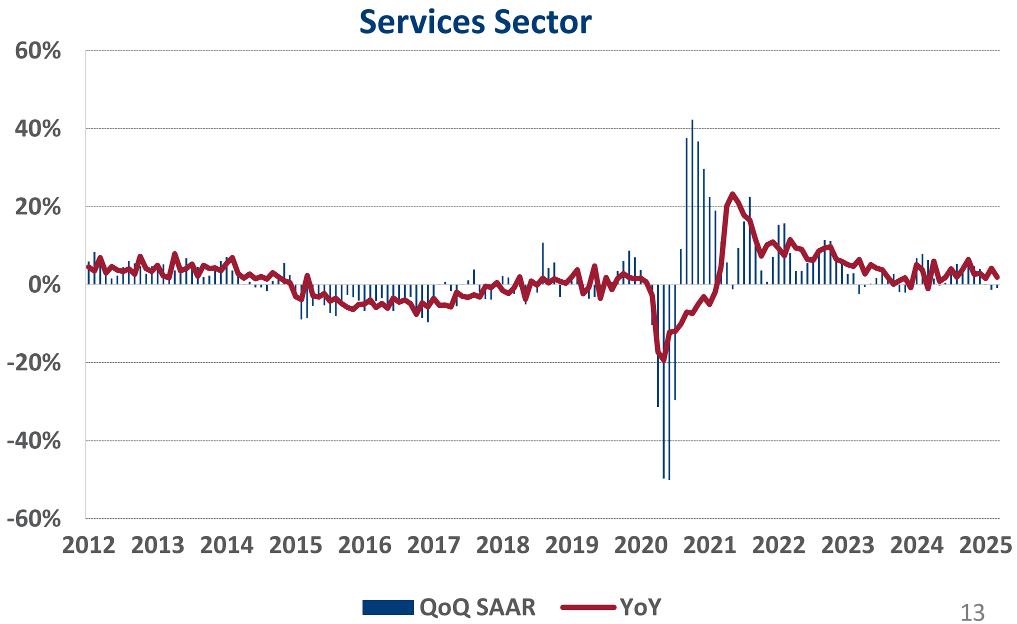
Brazil: Services

交通銀行 BANK OF COMMUNICATIONS BBM

- Services output increased by 0.3% MoM in March, close to market expectations of 0.5% MoM.
- Despite this, the indicator edged down 0.2% QoQ in 25Q1, marking its first quarterly decline since 23Q1. Notably, the January-February readings were collectively revised upwards.
- The subgroup of food and accommodation services resumed growth after two months of decline (2.1% MoM; -1.6% QoQ), contrasting with previous years. Accordingly, the 1.5% MoM increase in the group services rendered to families did not prevent the 1.1% QoQ fall in 25Q1.
- Overall, personal spending on services is expected to gradually cool down due to higher inflation and tight financial conditions. However, strong labor market conditions and short-term government stimulus should provide some support.





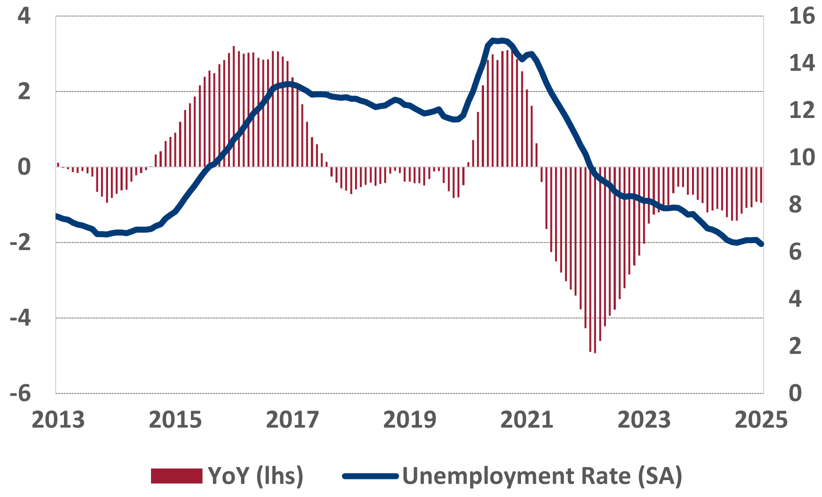


Source: IBGE, BOCOM BBM

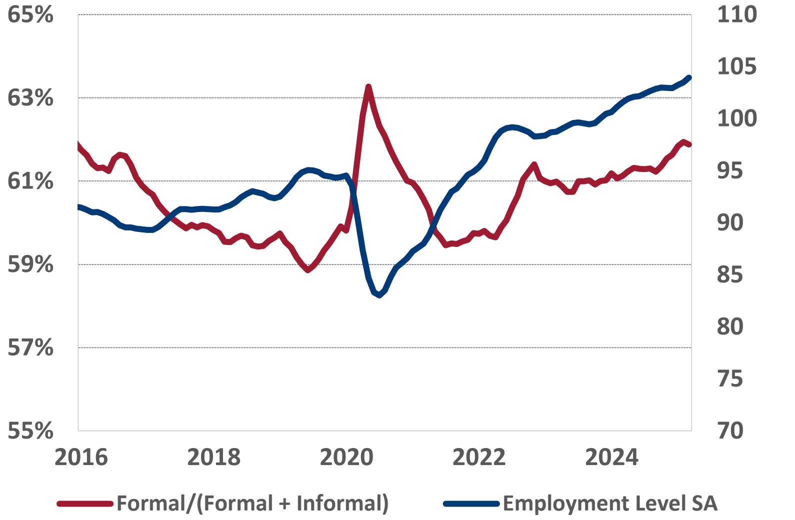
Brazil: PNAD

- The unemployment rate fell to 6.6% in the moving quarter up to April, from 7.0% on the previous period.
- Seasonally adjusted, the indicator dropped to 6.3% in April from 6.5% in March, remaining at a historically low level.
- Total employment increased by 0.4% MoM, driven by formal employment categories, while labor force inched up 0.3% MoM, reflecting the resilience of economic activity.
- The labor force participation rate remained stable around 62.5%, still below pre-pandemic levels of 63.5%.
- The average real wage kept increasing marginally, this time by 0.04% MoM, marking the seventh gain in a row.
- In turn, real aggregated labor income increased 0.6% MoM in April.

Brazil - Unemployment Rate



Brazil - Employment Level SA



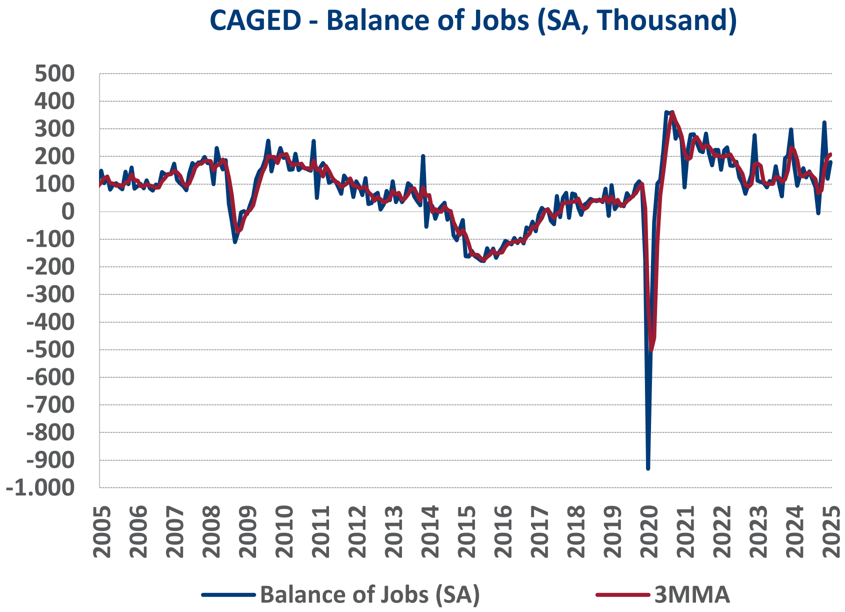
Brazil - Workforce Participation

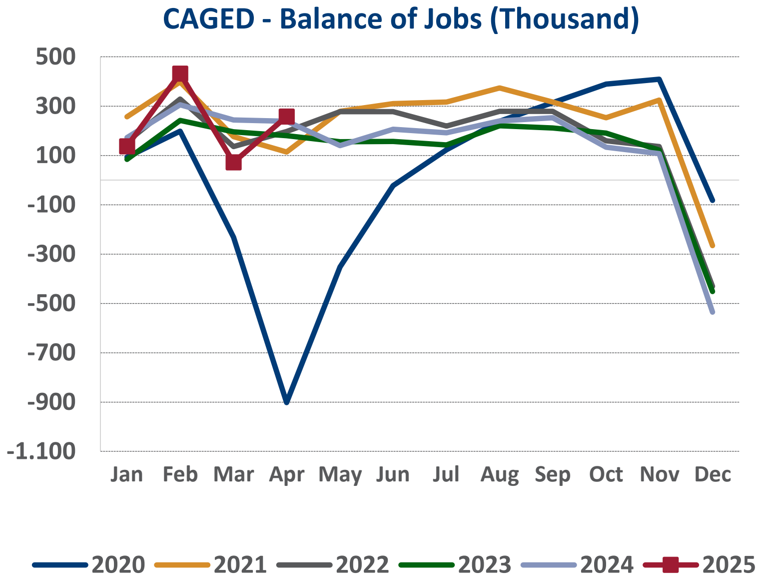
Brazil - Average Real Wage and Real Wage Bill

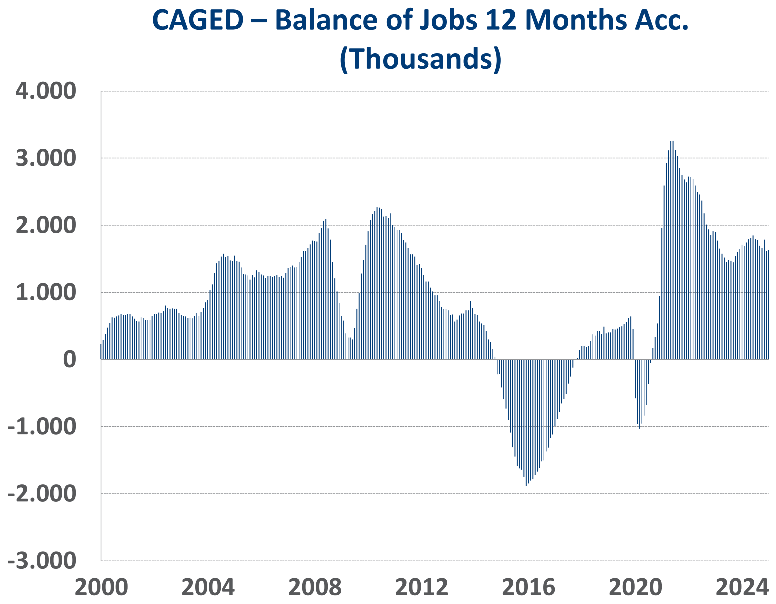
Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

- CAGED registered a net creation of 257.5k formal jobs in April, considerably above market expectations (170k).
- There was a net creation of 1.640 million jobs in the 12-month rolling sum up to April, after 1.614 million jobs up to March.
- Formal job hiring increased by 8.2% MoM in April (3.6% QoQ)
- Overall, formal employment surprised to the upside once again, corroborating the robust labor market outlook. The print reinforce a resilient internal demand.







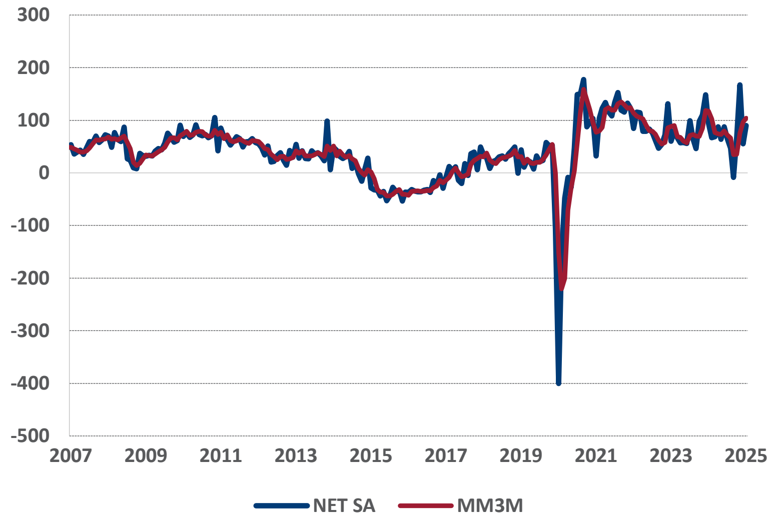
Source: BOCOM BBM, MTE

Brazil: Formal Labor Market

- The tertiary sector continues to take center stage.
- The net addition in the services sector totaled 117k jobs in April, after 37k in March.
- The construction (from 5k to 25k) and manufacturing (from 5k to 24k) categories accelerated in the monthly comparison, while agriculture and livestock remained stable at 5k.
- In turn, retail posted a net increase of 43k jobs in April, after a net destruction of 4k in the previous month.
- All in all, formal employment data was strong in April, showing a labor market with net job openings in the five sectors of the economy.

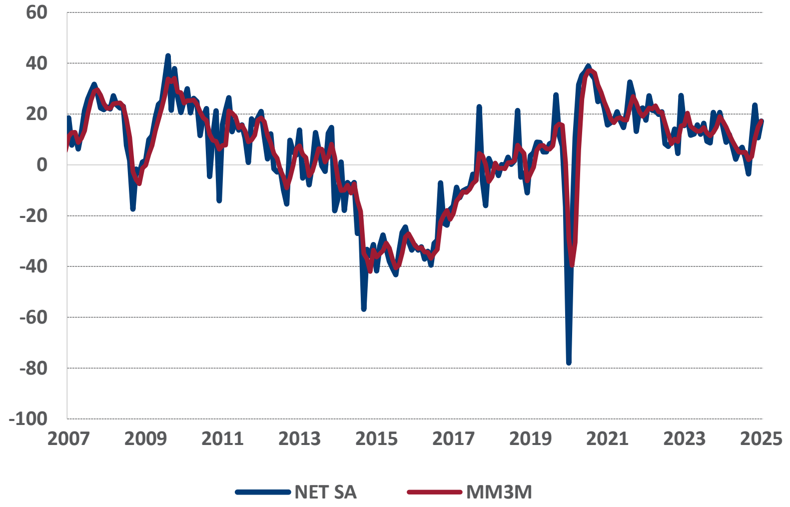
Brazil - Retail Net Payroll Job Creation (SA)

Brazil - Services Net Payroll Job Creation (SA)



Brazil - Industry Net Payroll Job Creation (SA)

Brazil - Construction Net Payroll Job Creation (SA)

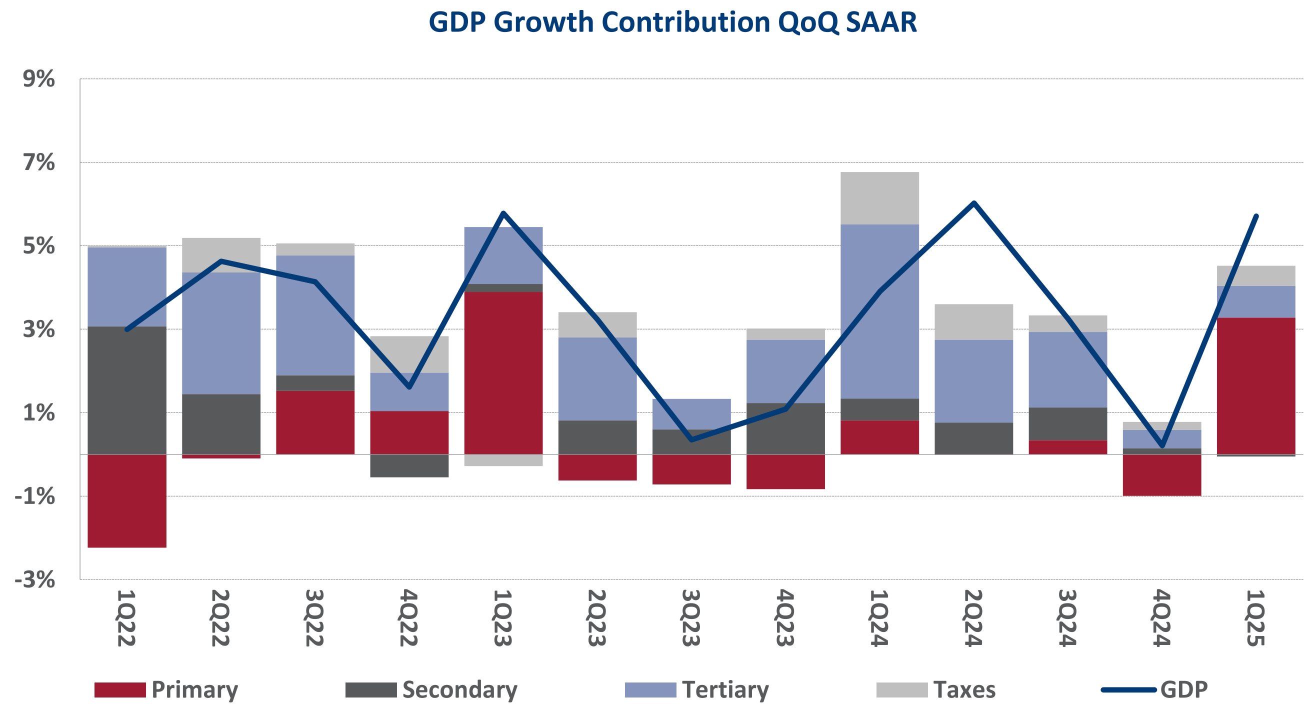


Source: BOCOM BBM, MTE

Brazil: GDP Q1-2025

- Brazil's GDP rose by 1.4% QoQ in 25Q1 (2.9% YoY), slightly below our expectation (1.7% QoQ), expanding by 3.5% in the last four quarters.
  - Agriculture and Livestock was the highlight by recording double-digit growth (12.2% QoQ), owing chiefly to the record soybean harvest.
  - Services posted a widespread growth in its subcategories, advancing 0.3% QoQ, with highlight to information and communication (3.0%), real estate (0.8%) and other services (0.8%).
  - Industry showed the first decline since 22Q4 (-0.1% QoQ), due to the weakening of manufacturing Industry and construction.

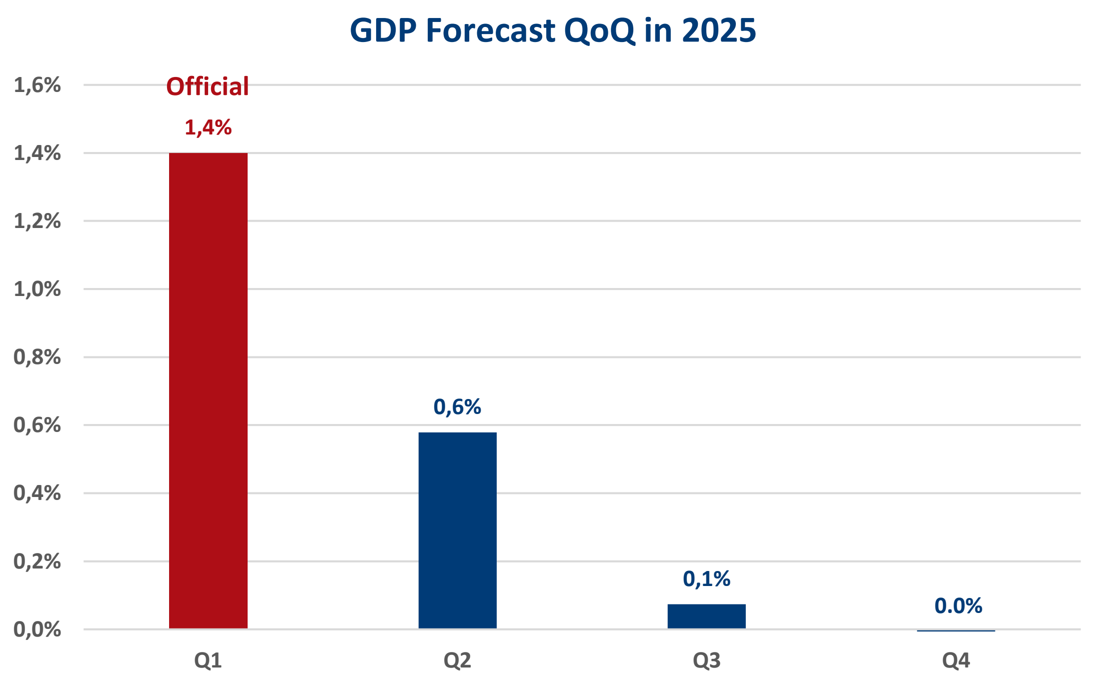
	Official	Forecast	Official	Forecast	
	Q1 QoQ	Q1 QoQ	Q1 YoY	Q1 YoY	Carry over
GDP	**1.4%**	**1.7%**	**2.9%**	**3.2%**	**2.2%**
Agriculture	**12.2%**	**12.8%**	**10.2%**	**10.2%**	**9.2%**
Industry	**-0.1%**	**-0.3%**	**2.4%**	**2.1%**	**0.7%**
Mining	2.1%	1.1%	0.2%	-1.2%	1.4%
Manufacturing	-1.0%	-0.9%	2.8%	3.0%	0.4%
Electricity	1.5%	-0.1%	1.6%	-1.5%	0.8%
Civil Construction	-0.8%	0.4%	3.4%	4.2%	1.1%
Services	**0.3%**	**1.2%**	**2.1%**	**2.4%**	**1.0%**
Retail	0.3%	1.0%	2.1%	3.3%	0.8%
Transports	-0.6%	-0.1%	1.1%	2.2%	0.1%
Information and Communication	3.0%	3.2%	6.9%	7.1%	4.3%
Financial Services	0.1%	0.5%	2.1%	3.0%	0.7%
Rents	0.8%	0.5%	2.8%	2.0%	1.6%
Other Services	0.8%	0.9%	2.5%	2.6%	1.8%
Public Administration	0.6%	0.7%	0.5%	0.7%	0.9%
Demand Side					
Household Consumption	1.0%		2.6%		1.3%
Government Consumption	0.1%		1.1%		0.8%
Gross Fixed Capital Formation	3.1%		9.1%		5.6%
Exports	2.9%		1.2%		2.0%
Imports	5.9%		14.0%		9.1%



Source: BOCOM BBM, IBGE

Brazil: GDP Forecast

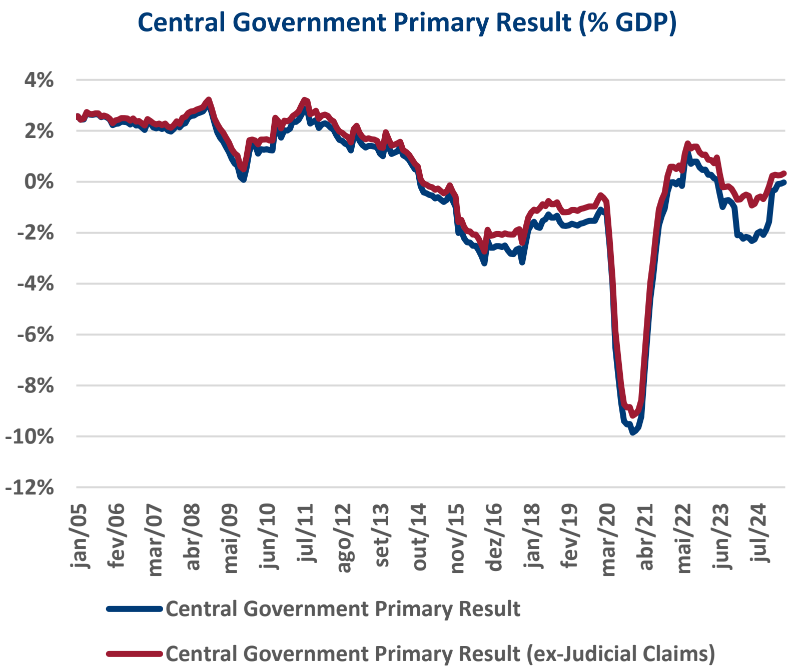
- Economic activity showed signs of losing momentum at the end of 2024, but recent data suggest resilience;
- Labor market remain robust, with low unemployment rate and substantial rise in real aggregate labor income;
- Our growth forecast for 2025 stands in 2.5%, with risks in both directions;
  - Positive: federal transfers and tax exemptions to low-income households with a high propensity to consume, expansion of real household labor;
  - Negative: tighter monetary and financial conditions, and high levels of household indebtedness;
- By 2026, the lagged effects of monetary policy should be more significant, reducing growth to 1.5% in the absence of new fiscal measures

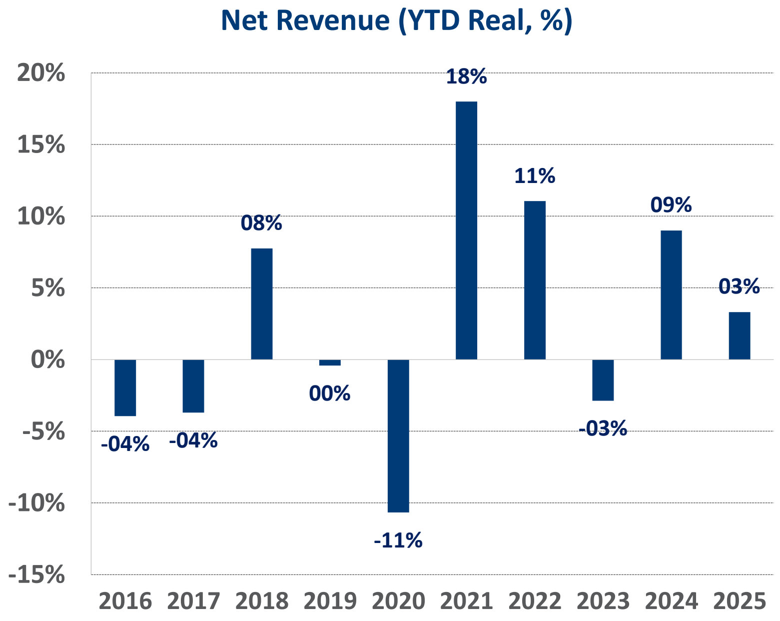


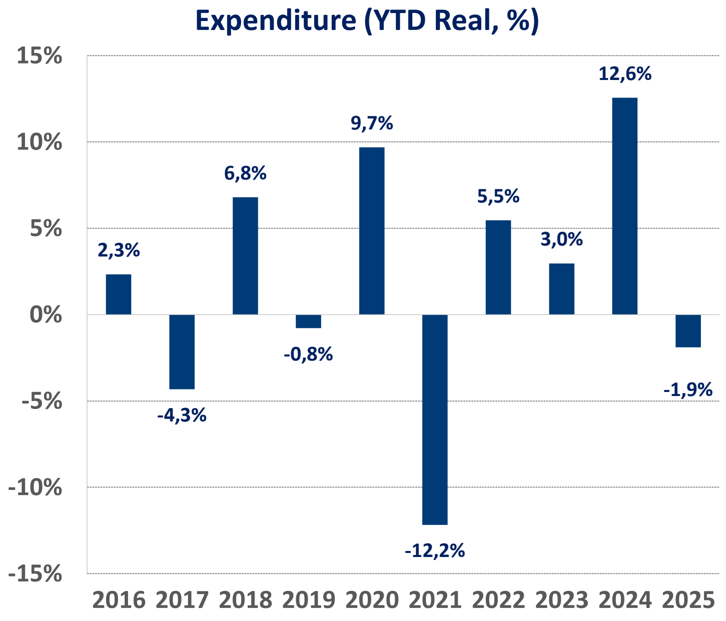
Source: BOCOM BBM, IBGE

Brazil: Central Government Primary Result

- The central government's primary balance registered a surplus of BRL 17.8 billion in April, higher than the BRL 11.6 billion surplus recorded last year and in line with the market consensus (BRL 18 billion).
- Net revenues grew by 5.1% YoY in real terms, mainly driven by natural resources exploitation (18.1%), income tax (6.4%) and social security contribution (2.5%). On the negative side, there was an unexpected decline in PIS/Confins revenue (-10.5%) that may reflect an increase in tax compensations and a mild slowdown in economic activity.
- Total expenditure increased by 2.5% YoY in real terms, being predominantly explained by Fundeb (22.8%), BPC/LOAS (9.9%) and social security benefits (2.4%). Additionally, discretionary spending accelerated by 5.0%. Conversely, bonus wage and unemployment insurance declined by 5.2% and personnel and charges inched down by 1.4%.
  - Year-to-date, total expenditure fell by 1.9% mostly due to the change in the payment calendar for court-ordered debts but also due to a lower execution of discretionary spending (-4.3%).
- Overall, the central government's primary balance for April was positive but hides some risks. We anticipate a potential risk that these expenses will grow substantially as the queue for social security benefits and BPC/LOAS decreases, putting pressure on other expenditures.





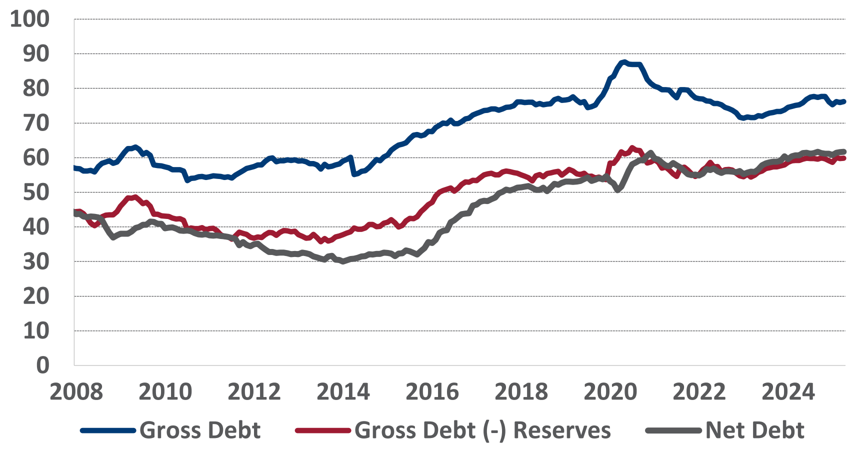


Source: BOCOM BBM, RTN

Brazil: Consolidated Public Sector Budget

- The consolidated public sector posted a primary surplus of BRL 14.1 billion in April, below the market consensus (BRL 18.8 billion), from a surplus of BRL 6.7 billion in April 2024.
- Regarding the breakdown, central government was the main contribution for the positive result, registering a surplus of BRL 16.2 billion, while regional governments and state-owned enterprises (SOEs) posted deficits of BRL 0.7 billion and BRL 1.4 billion, respectively.
- General Government Gross Debt (GGGD) rose from 75.9% to 76.2% of GDP, with nominal interest (+0.7 p.p.) being the main driver of this growth, while nominal GDP growth (-0.4 p.p.) partially offset it.

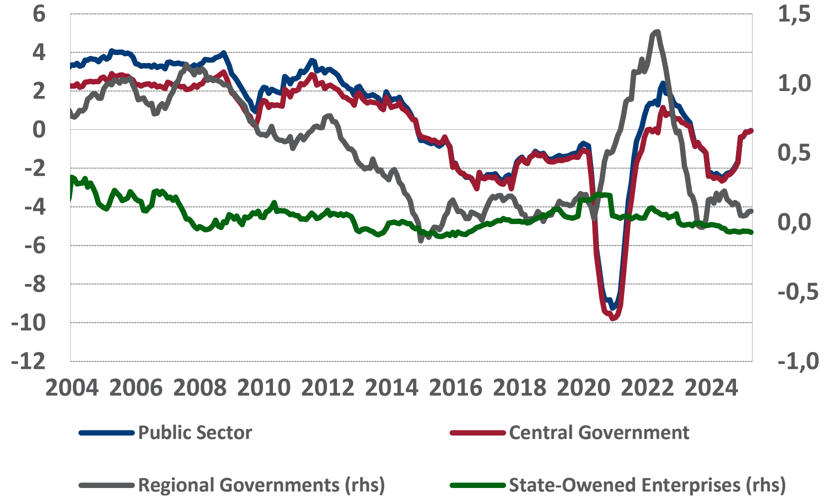
Public Sector Debt (% GDP)



Primary Budget Balance (% GDP 12M)

Central Government (% GDP 12M)

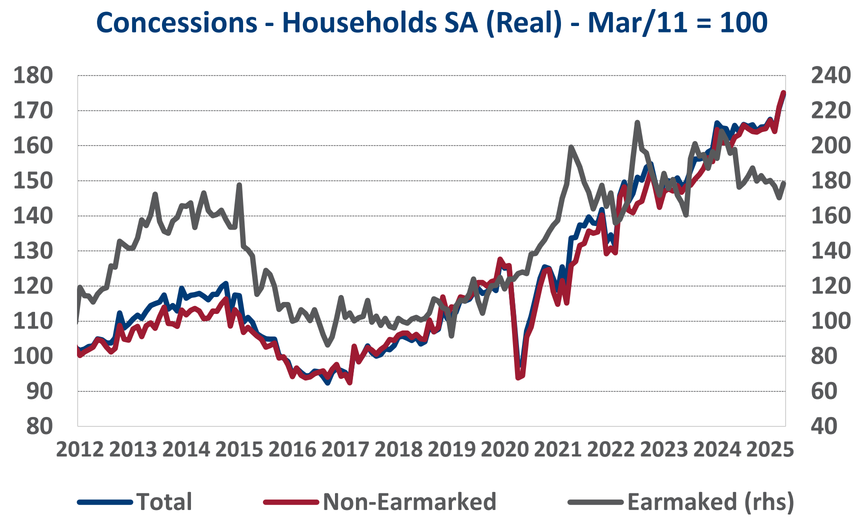
Public Sector Primary Result (% GDP)

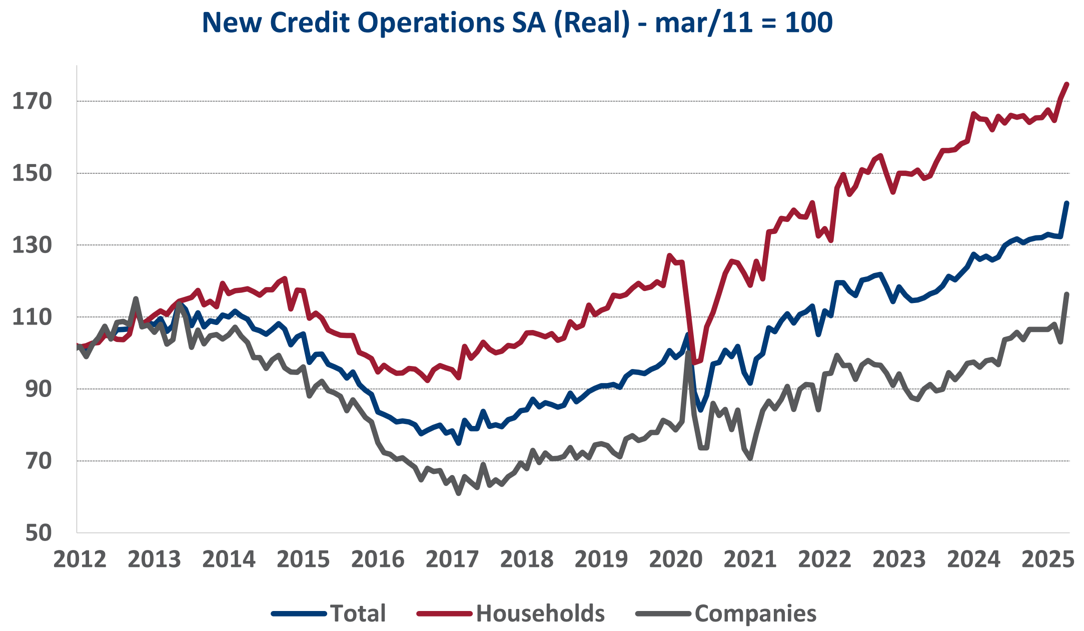


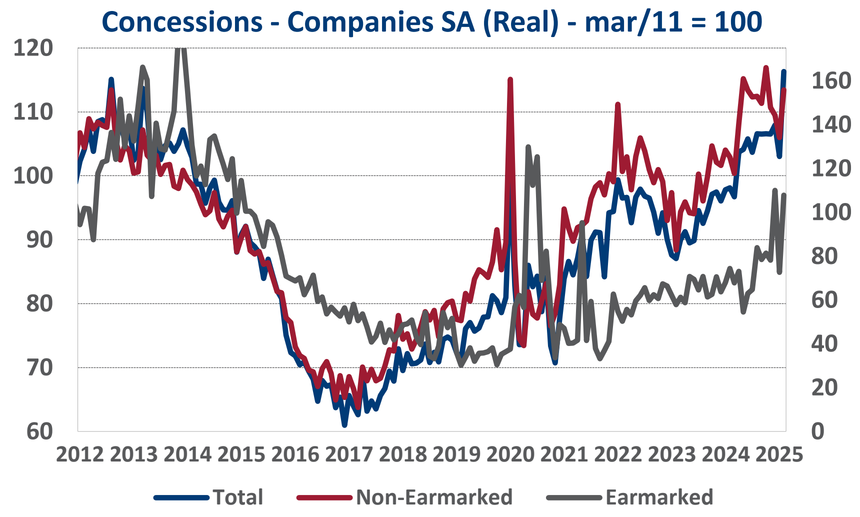
Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- In April, total credit concessions increased sharply by 5.3% MoM in real terms, after falling 0.4% in the last month.
- Non-earmarked credit concessions increased 5.2% MoM in real terms to companies and fell 0.2% MoM to households.
- This marks an acceleration in the annual pace of loan growth, after a slowdown over 2025Q1, driven by credit to corporate clients, but also due to regulatory changes.



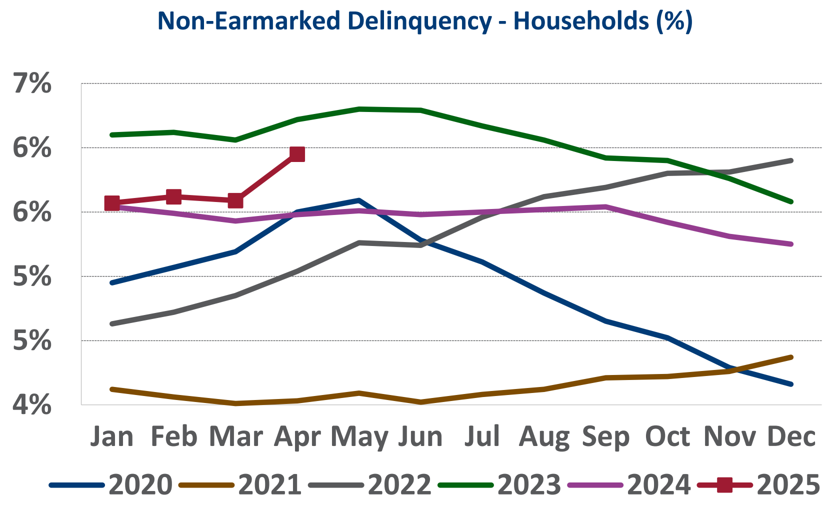


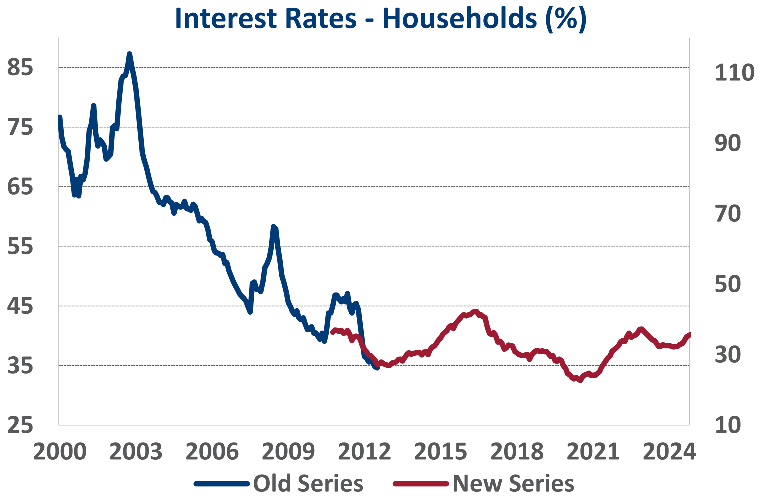


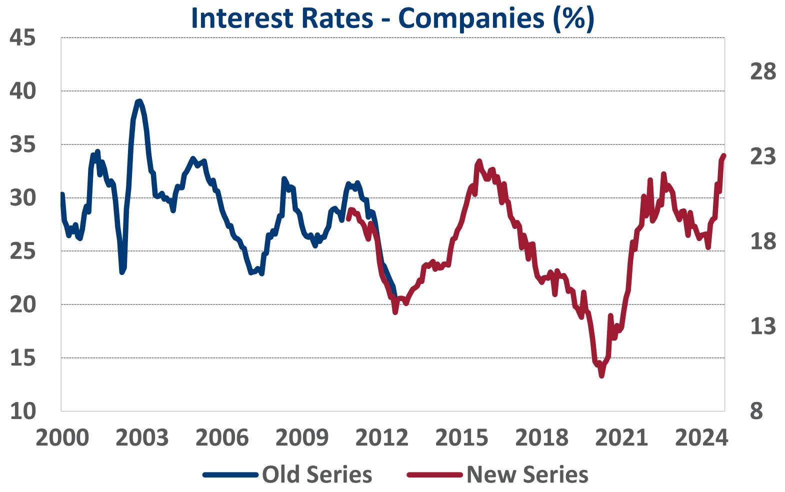
Source: BOCOM BBM, BCB

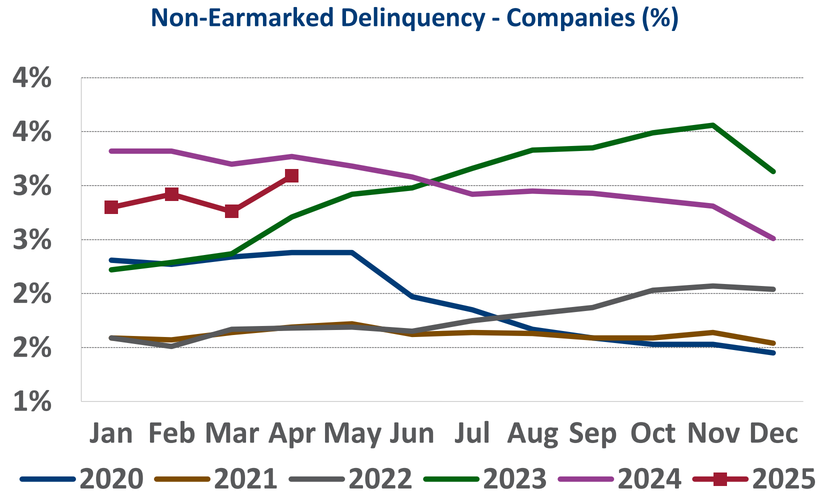
Brazil: Credit Statistics

- Lending rates reached historically high levels, increasing to 35.8% in April from 35.4% in March for households and to 23.1% from 22.8% for companies.
- In turn, delinquency on non-earmarked loans increased in April, both for households (from 5.6% to 5.9%) and companies (from 2.8% to 3.1%). This movement may be partially explained by the regulatory change that delayed the recognition of losses on past-due loans.





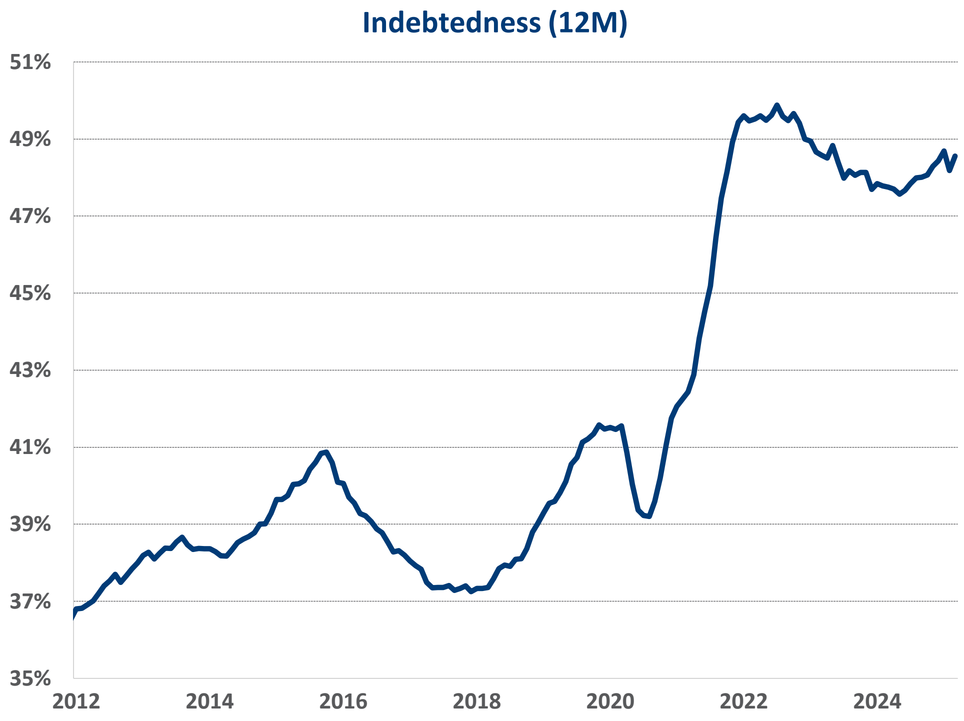


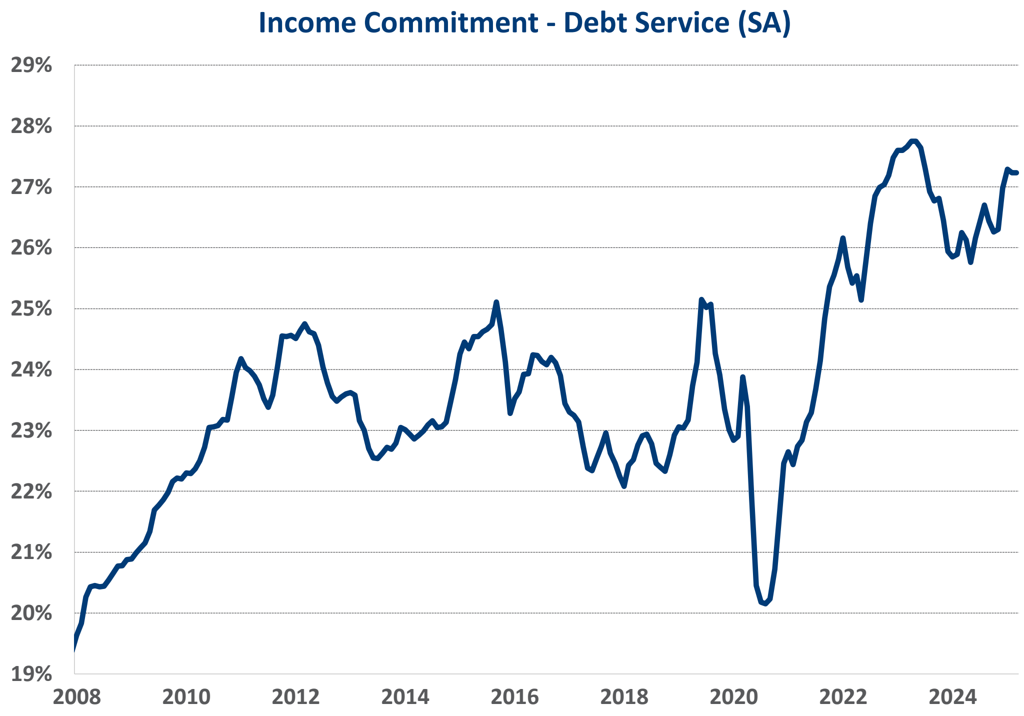


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- The household indebtedness remains high, rising to 48.6% in March, from 48.2% in February.
- Meanwhile, income commitment showed stability, keeping its seasonally adjusted level around 27.2% in February.
- Looking forward, there is uncertainty over credit.
  - The sharp rise in default rates and borrowing costs raises concerns about the sector's outlook, especially with the IOF tax hike on corporate credit, which is expected to increase effective credit costs. Combined with the lagged effects of monetary tightening, credit conditions are likely to worsen further in the coming months.
  - However, the effects of the new payroll-backed loan modality are starting to be observed in the data and may create a movement contrary to monetary policy.

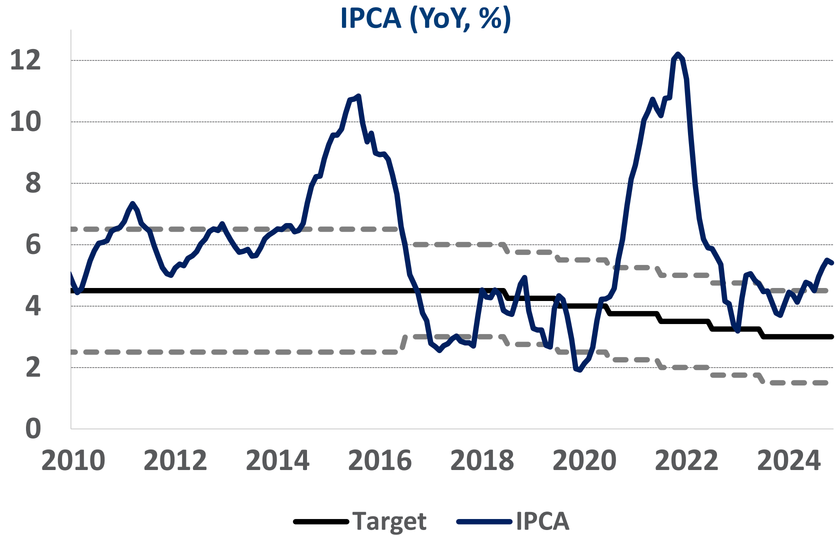


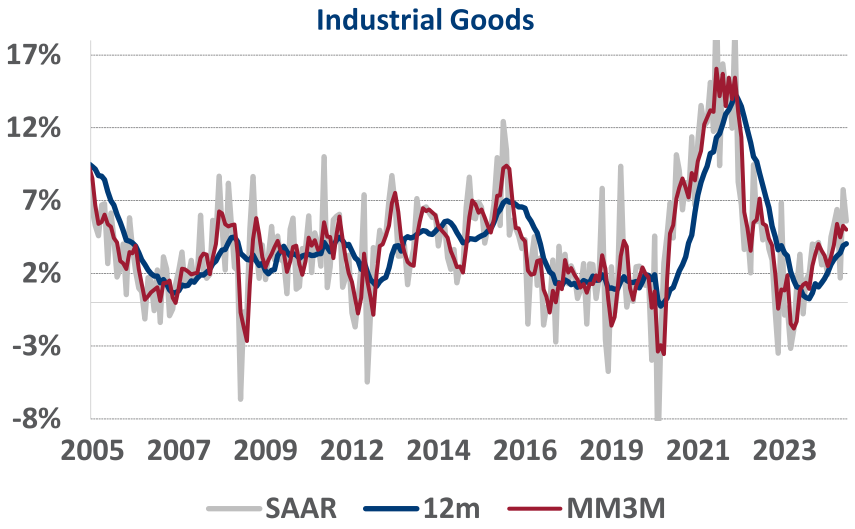


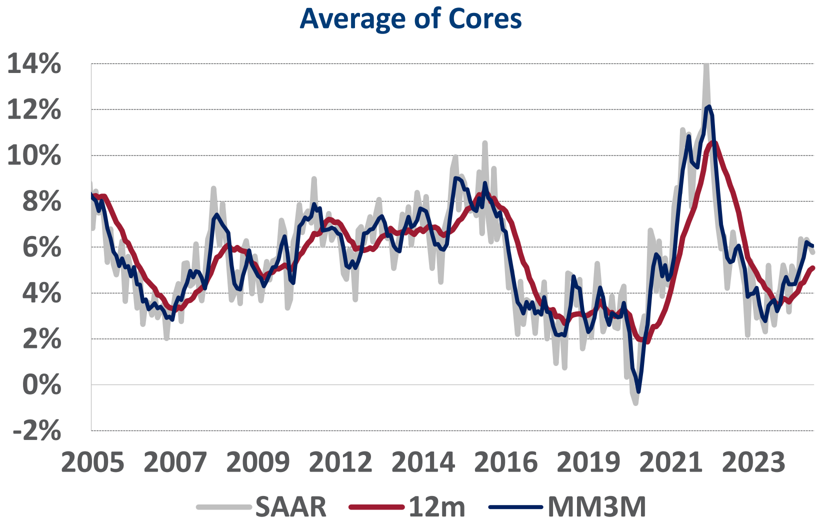
Source: BOCOM BBM, BCB

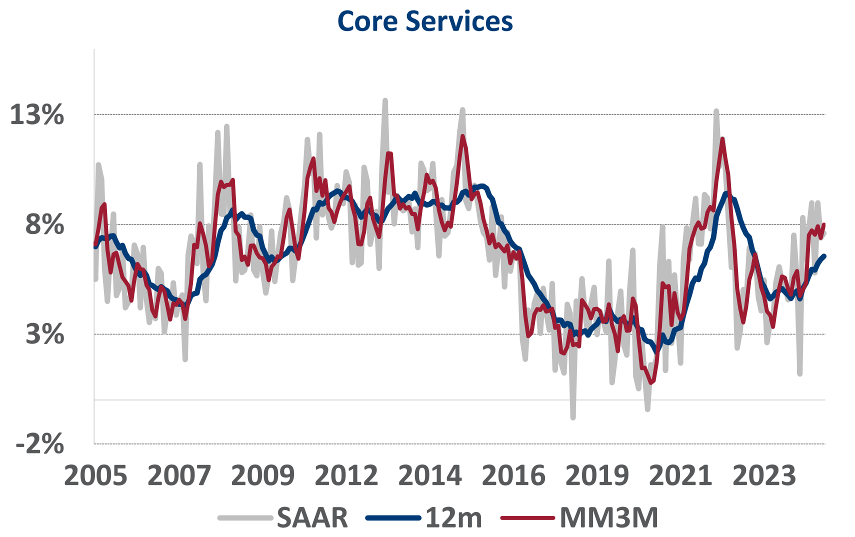
Brazil: Inflation 2025

- May IPCA-15 rose by 0.36% MoM, considerably below market expectations (0.44% MoM). The 12-month variation slowed down from 5.49% in April to 5.40% in May.
- Doward surprises were widespread in all market-set prices groups, with a highlight in industrialized non-durable goods.
- Core services advanced 0.45% MoM, slightly below forecasts, and the 3M SAAR remained at 7.5%, continuing at worrisome levels.
- The average of core inflation increased by 0.40% MoM, also below expectations, with its 3M SAAR at 5.7%.
- This IPCA likely signals the culmination of the exchange rate pass-through effects observed toward the end of 2024.





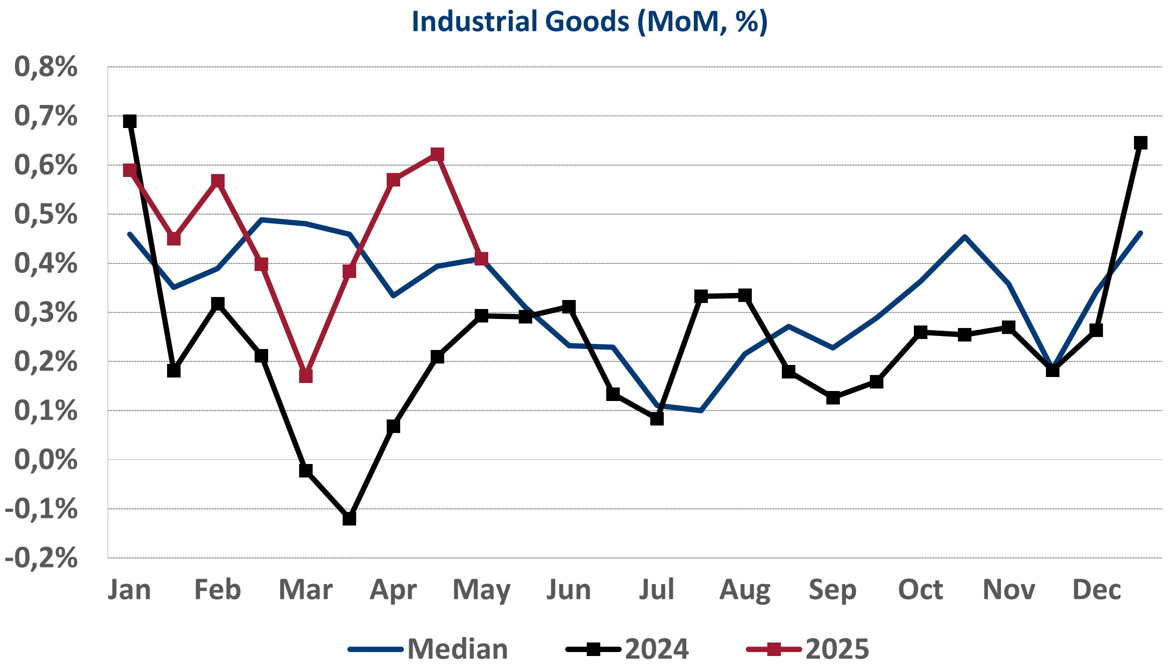


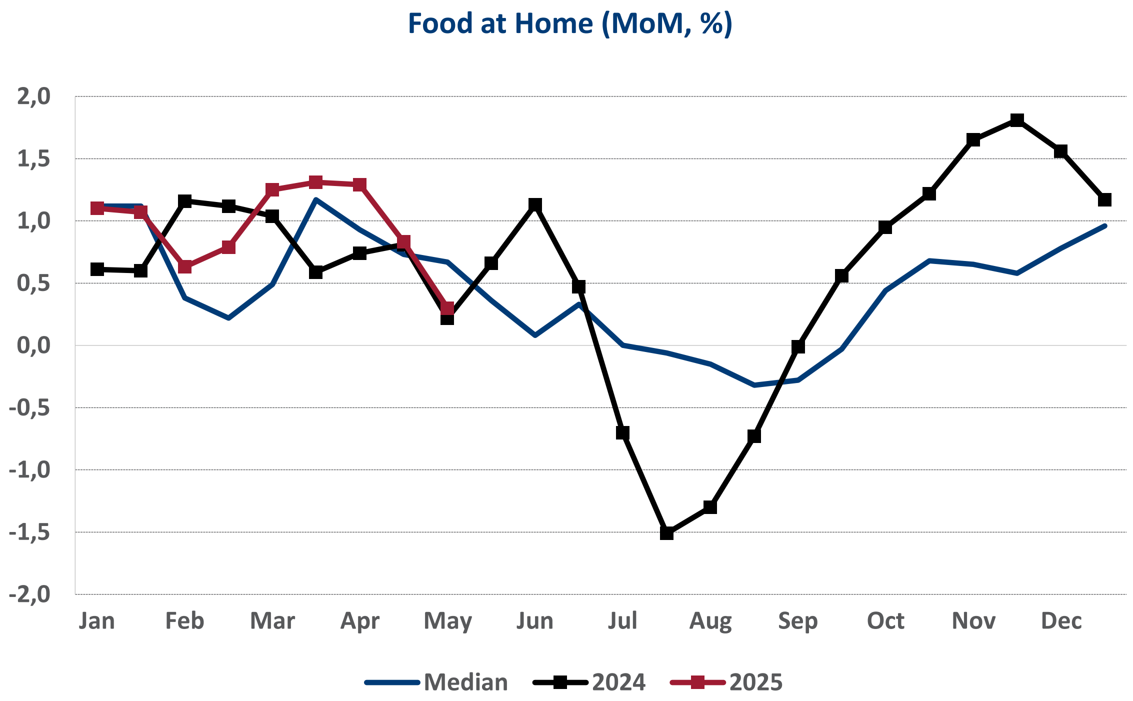


Source: BOCOM BBM, IBGE

Brazil: Inflation 2025

- Industrial goods increased by 0.41% MoM, materially below estimates. The 3M SAAR decreased from 4.4% last month to 4.0% in May.
- Foodstuff prices rose by 0.3% MoM, well below expectations. Surprises came in volatile items, such as fresh foods.
- Despite the lower-than-expected headline and lower prints in industrial goods and food at home, the inflationary pressures remain high and highly disseminated.





Source: BOCOM BBM, IBGE

Brazil: Inflation

- Our forecast was marginally revised from 5.6% to 5.5%.
- International scenario brings risks in both directions:
- Down: weak dollar, increasing imports of Chinese industrial goods, lower commodity prices (fuels, metals)
- Up: risk off scenario could depreciate BRL, lower commodity prices brings fiscal challenges, higher demand for Brazilian grains can increase food domestic prices

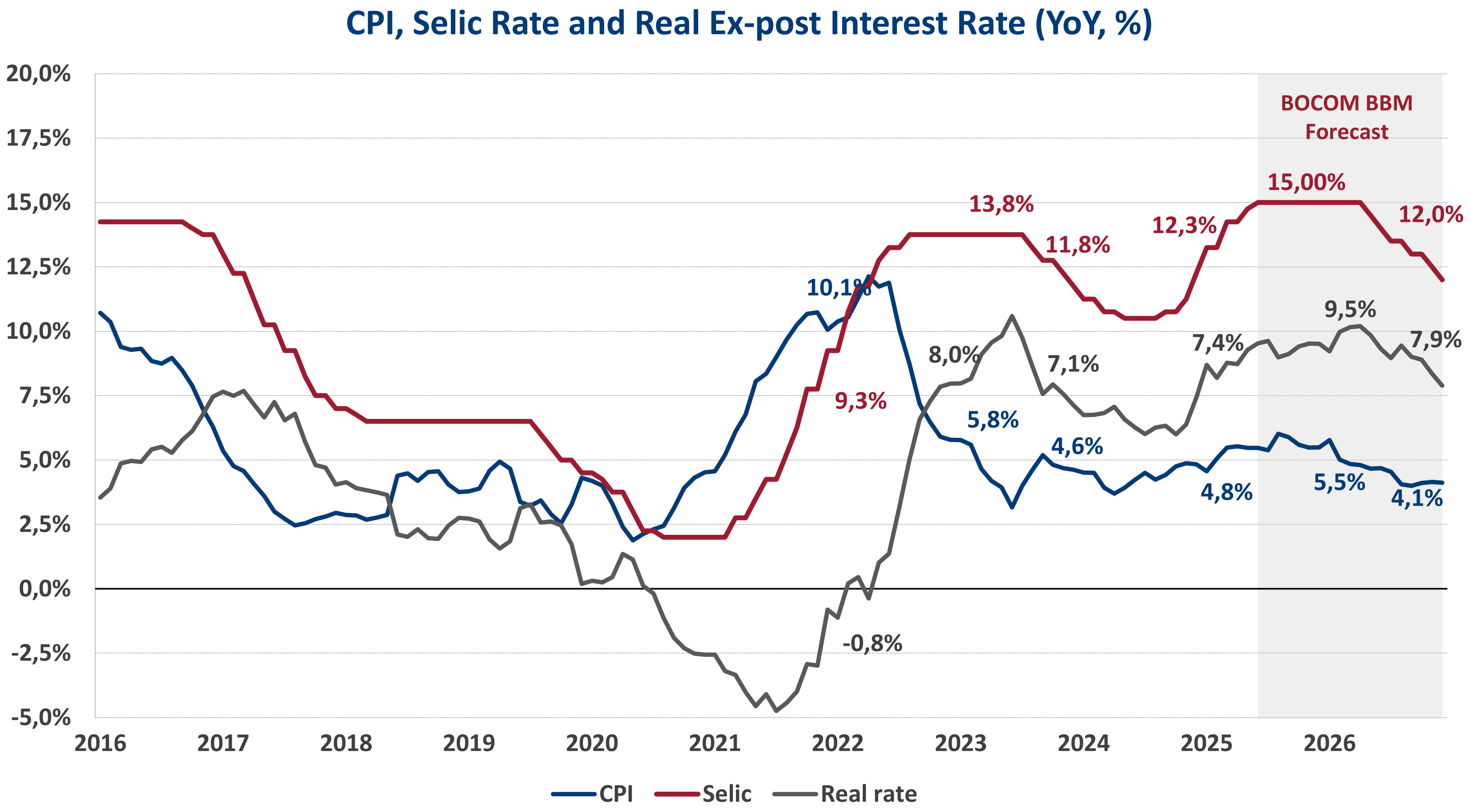
IPCA (%, annual)

	Weight	2020	2021	2022	2023	2024	2025	2026
Regulated	**26,6**	**2,6**	**16,9**	**-3,8**	**9,1**	**4,7**	**4,7**	**3,9**
Industrial goods	**23,6**	**3,2**	**11,9**	**9,5**	**1,1**	**2,9**	**3,9**	**3,3**
Durable goods	10,3	4,5	12,9	6,1	-0,4	1,5	2,2	-
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	6,1	-
Food at home	**15,7**	**18,2**	**8,2**	**13,2**	**-0,5**	**8,2**	**7,8**	**4,0**
Services	**34,1**	**1,7**	**4,8**	**7,6**	**6,2**	**4,6**	**6,2**	**4,9**
Food away from home	5,6	4,8	7,2	7,5	5,3	6,3	7,4	4,9
Related to minimum wage	5,2	1,5	3,3	6,3	5,2	5,0	6,7	5,3
Sensitive to economic activity	8,2	0,2	5,1	6,3	9,5	0,9	5,2	4,7
Inertial	15,0	1,6	4,2	8,8	5,1	6,0	6,0	4,9
IPCA		**4,5**	**10,1**	**5,8**	**4,6**	**4,8**	**5,5**	**4,1**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

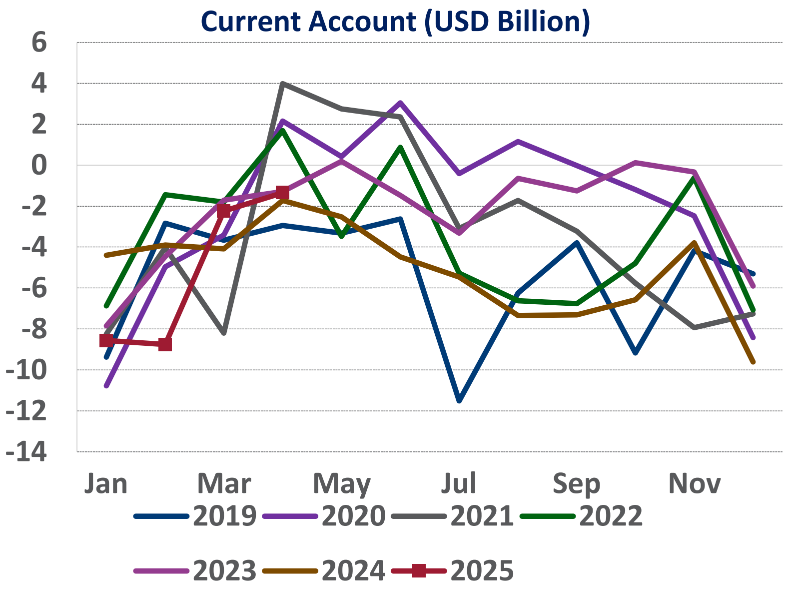
- Concerning monetary policy, the Brazilian Central Bank (BCB) raised the Selic rate by 50 bps to 14.75% p.a. at its May meeting, in line with our expectations. Moving forward, the committee did not give any guidance, leaving the door open to either end or continue the hiking cycle at a slower pace. To be consistent with the improved international scenario and the domestic inflationary pressures, monetary policy will most likely remain contractionary for a prolonged period, leading rates to stay high for longer, as proposed by the Copom.

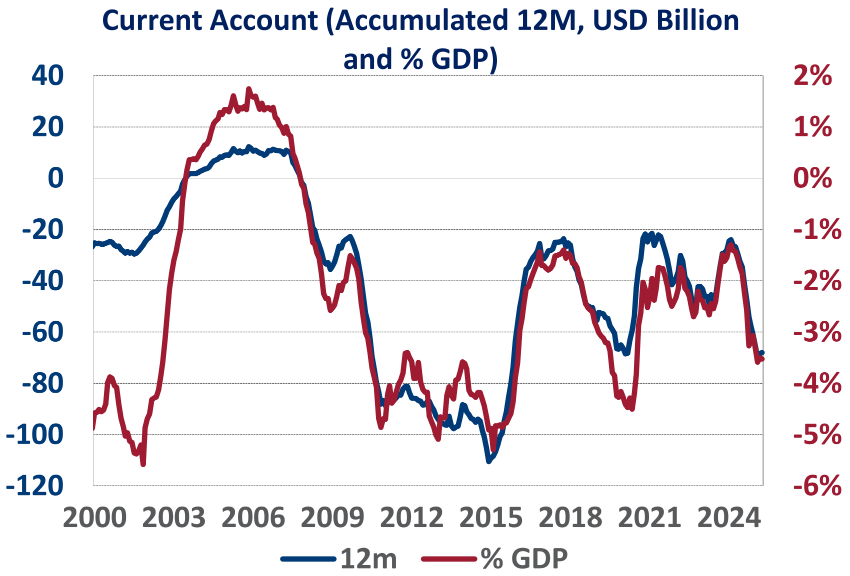


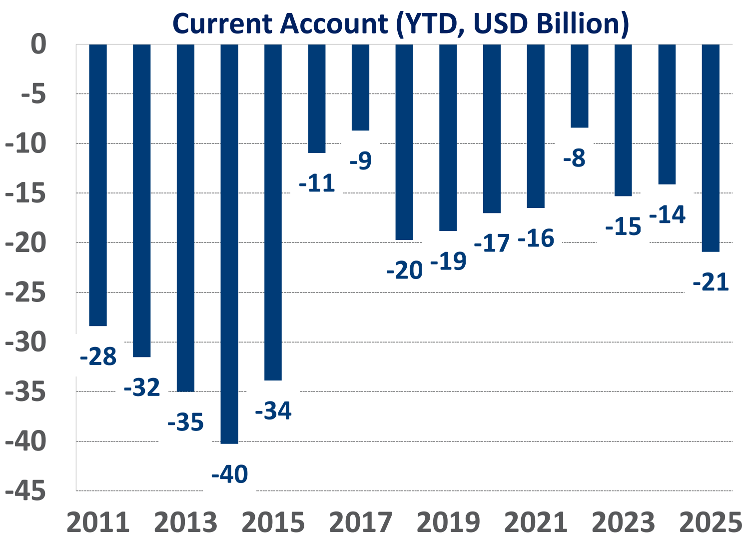
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The Brazilian current account recorded a deficit of USD 1.3 billion in April 2025, below market expectations (USD -1.9 billion).
- The Services account contributed most to the difference between estimates and the actual result.
- On a 12-month basis, the deficit reached USD 68.5 billion (3.22% of GDP) from USD 68.9 billion (3.23% of GDP) in March.





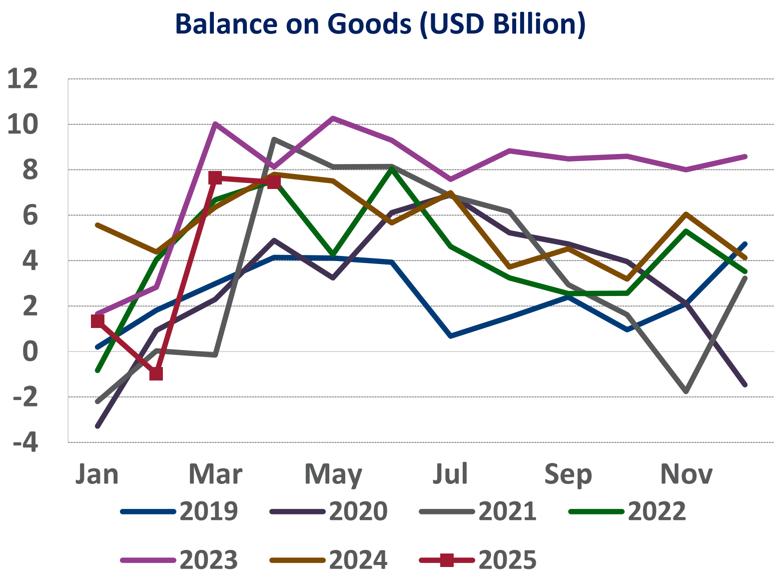


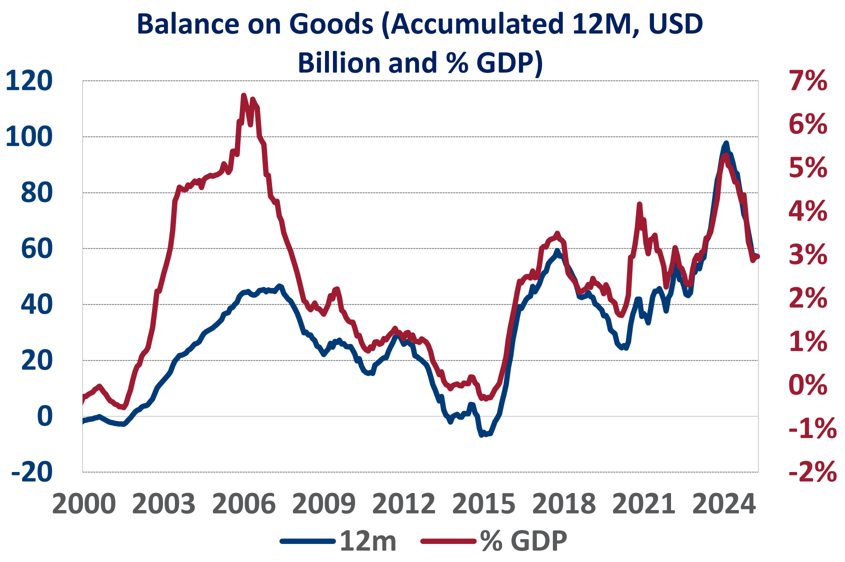
Source: BOCOM BBM, BCB

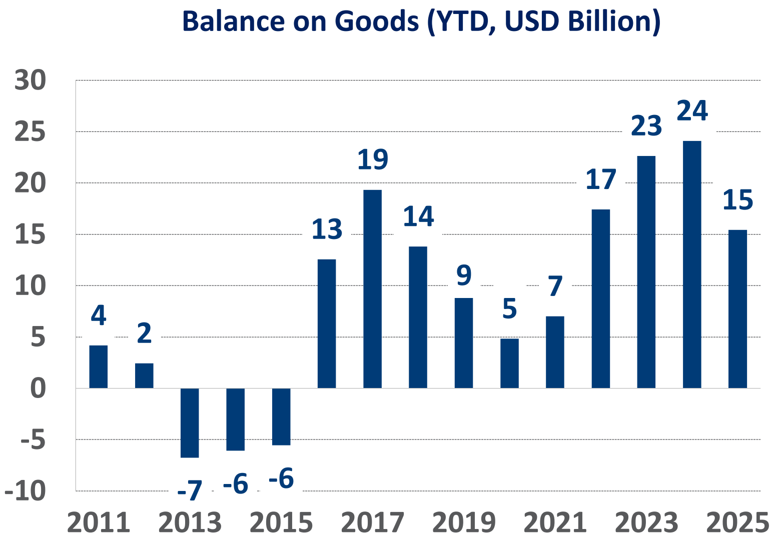
Brazil: Balance of Payments

BANK OF COMMUNICATIONS BBM

- The merchandise trade balance recorded a surplus of USD 7.4 billion, lower than the USD 7.8 billion surplus recorded in April 2024.
- Exports remained at USD 30.6 billion, while imports kept posting strong figures (+1.5% YoY to USD 23.2 billion). According to MDIC data, import volumes remain robust while prices are falling.
- On a 12-month basis, the trade surplus fell to USD 57.2 billion, from USD 57.5 billion in March.



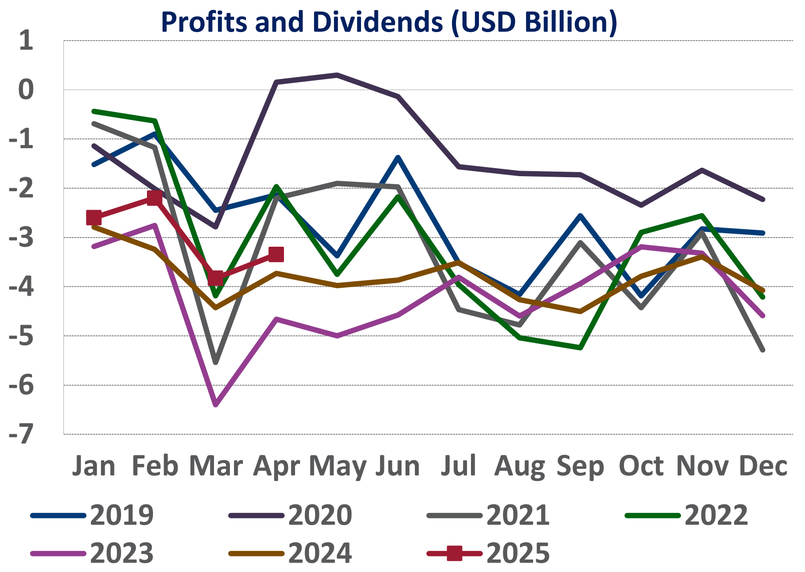


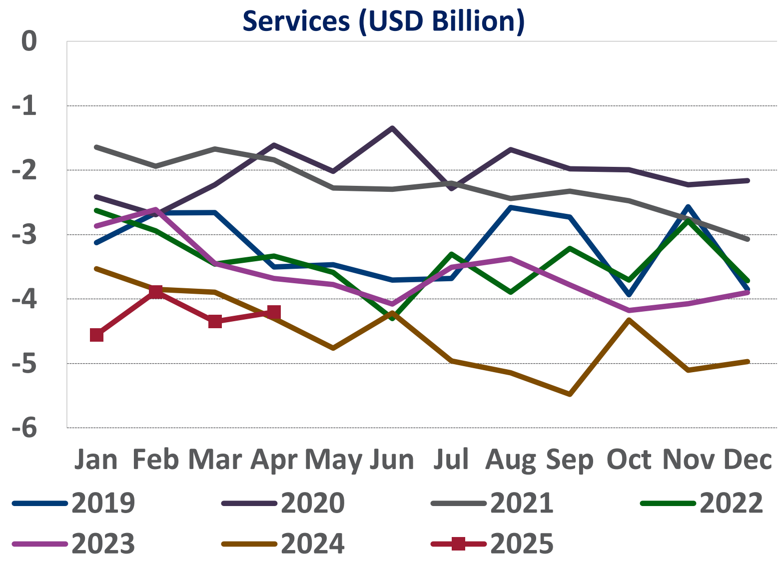


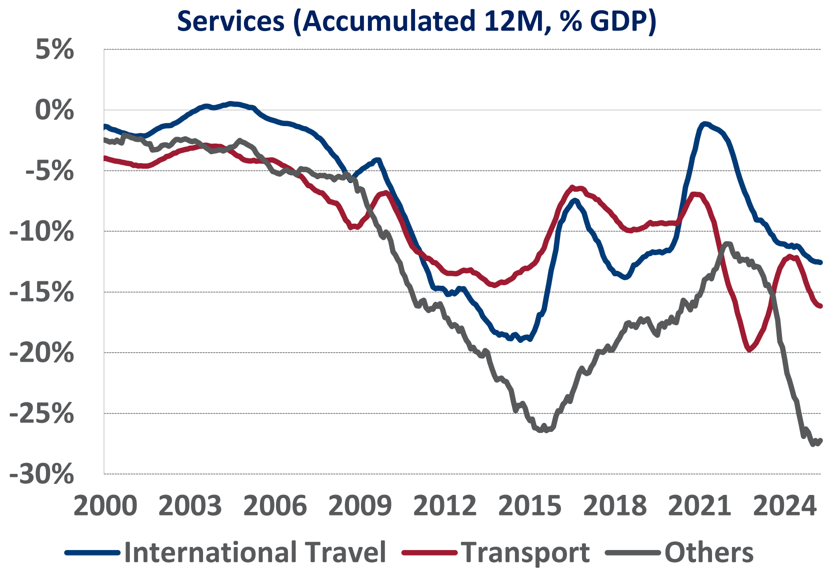
Source: BOCOM BBM, BCB

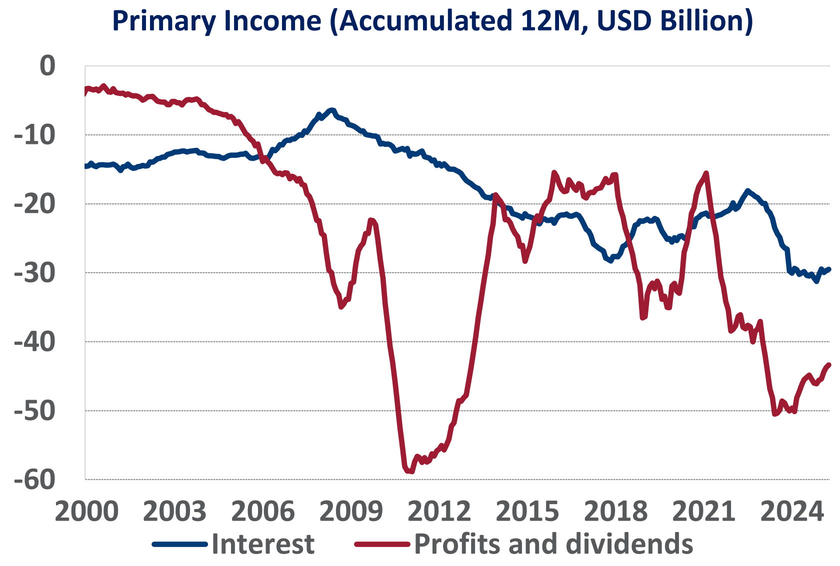
Brazil: Balance of Payments

- The Services account posted a deficit of USD 4.2 billion in April, slightly narrower than the USD 4.3 billion deficit observed in the same period last year. On a 12-month basis, the Services deficit reached USD 56.0 billion.
- The 'Intellectual Property' and 'Telecommunication' accounts deficit, whose dynamics are less sensitive to the economic cycle, increased by USD 0.3 billion. Additionally, the 'Operating Leasing Services' account deficit widened in April by USD 0.1 billion, in line with higher GFCF investments.
- On the other hand, the 'Personal, Cultural, and Recreational Services' Account posted narrower deficits than last year (USD 26 million surplus in April 2025 from USD 0.4 billion deficit in April 2024), driven by the regulation of betting activities that took effect in January.





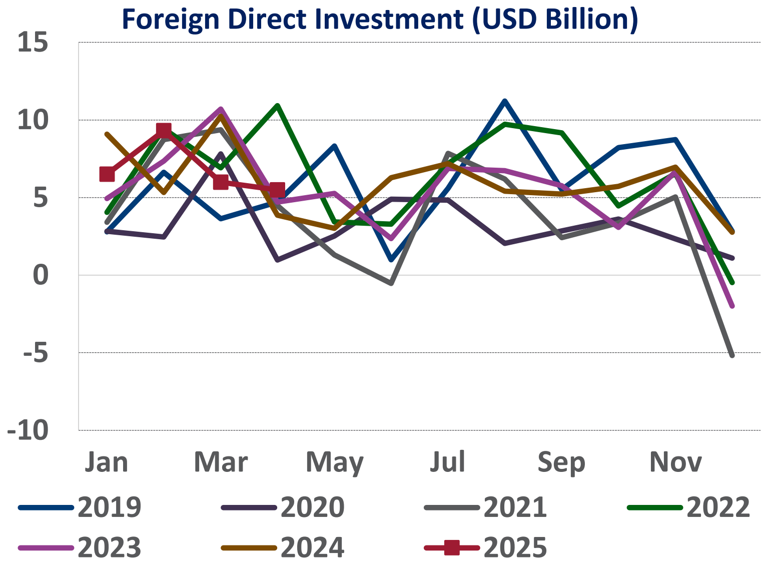


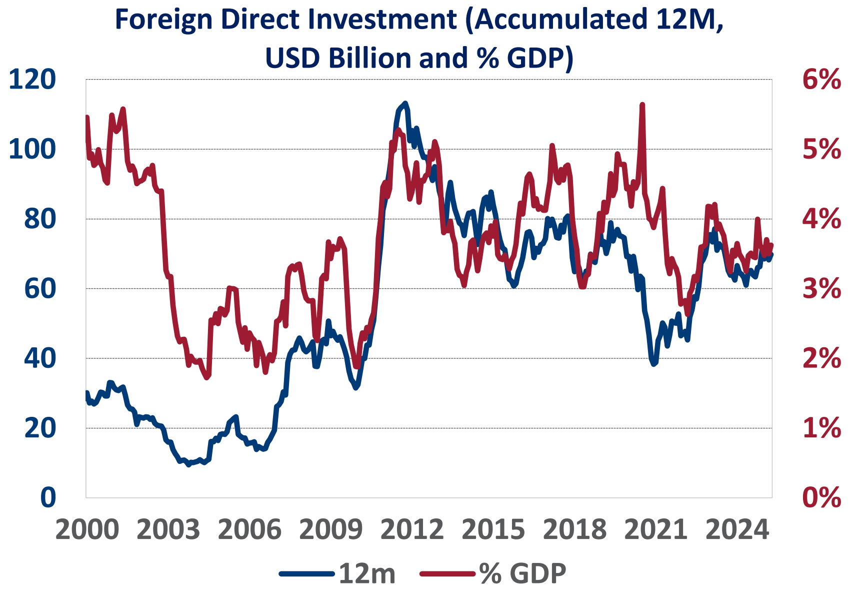


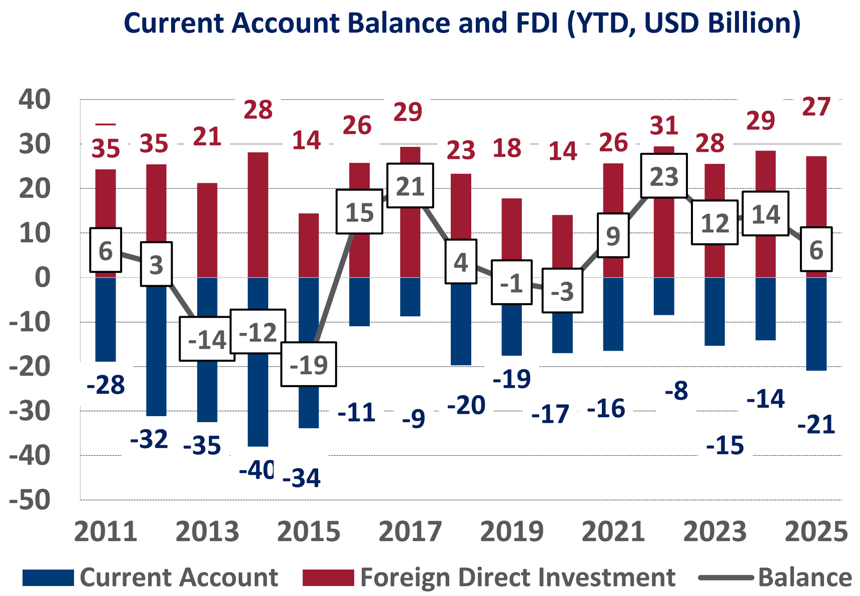
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- Foreign Direct Investment (FDI) registered a net inflow of USD 5.5 billion in April — in line with the market consensus.
- The equity capital account explained the higher FDI inflow (from USD 2.7 billion surplus in April last year to USD 6.6 billion surplus last month), while intercompany loans registered an outflow of USD 1.1 billion in April 2025 from USD 0.9 million net inflow in April 2024.
- On a 12-month basis, FDI inflows increased to USD 69.8 billion (3.29% of GDP), up from USD 68.2 billion in March.
- Despite a higher uncertainty scenario and the downward surprise in April, FDI inflows are still posting strong numbers.







Source: BOCOM BBM, BCB

Brazil: External Sector

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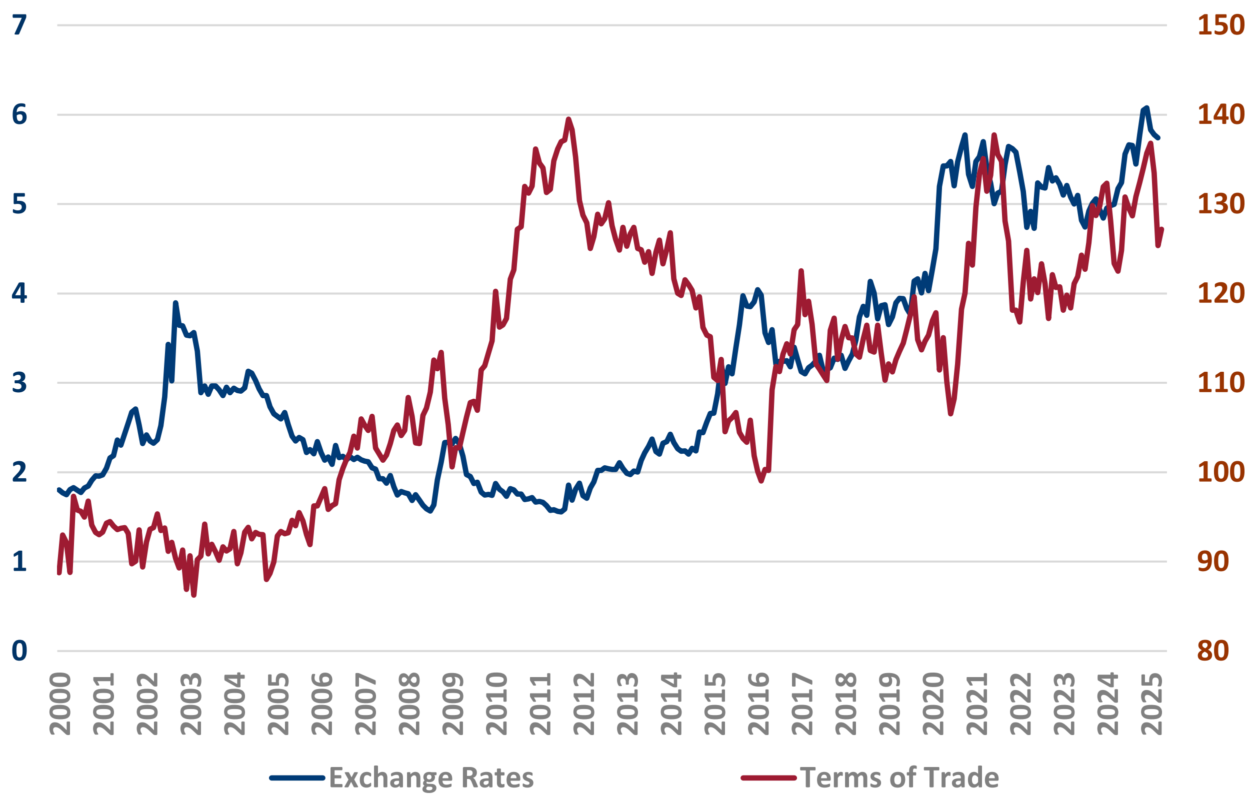
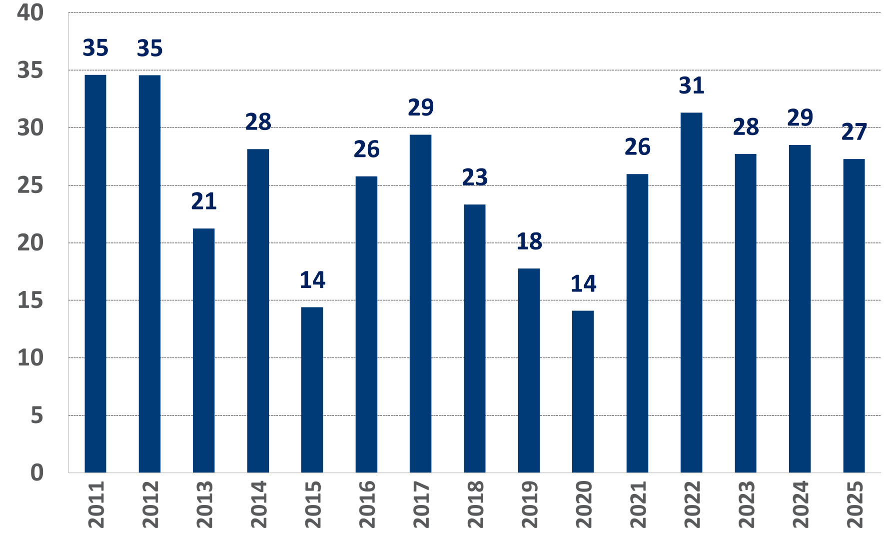
- In May, the Brazilian Real depreciated from 5.66 to around 5.72 against the US Dollar, which was mainly explained by domestic developments. On May 22nd, the FX rate deteriorated significantly due to worsening fiscal perceptions and changes in the IOF rate. However, the impact of Trump's "Liberation Day" and the negotiation developments, still benefits BRL in some way. Uncertainty coming from the international outlook and relevant USD underperformance against EM, supported BRL overall stability during this period.

Terms of Trade x BRL

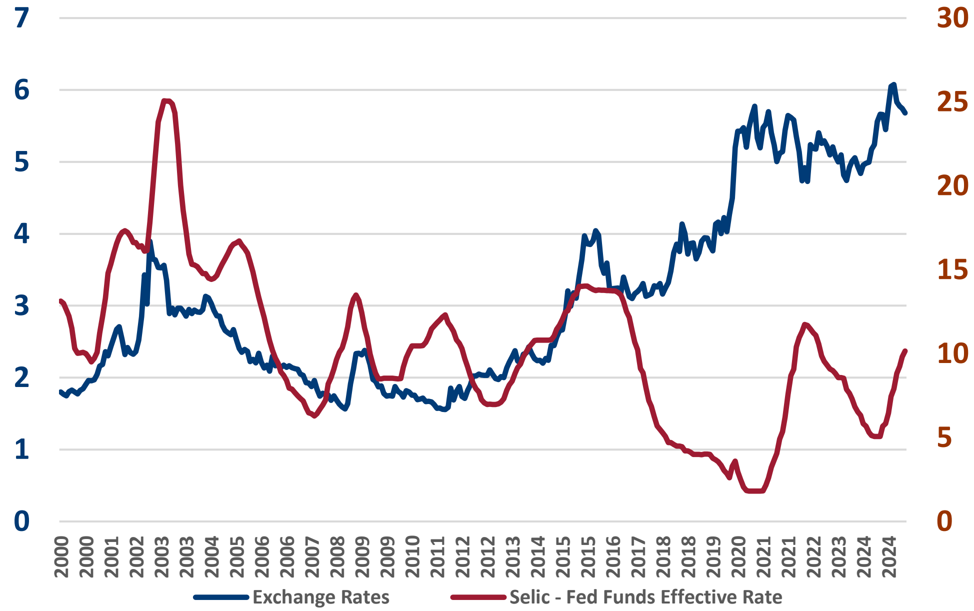


Source: BOCOM BBM, Bloomberg, BCB

Foreign Direct Investment (YTD, USD Billion)



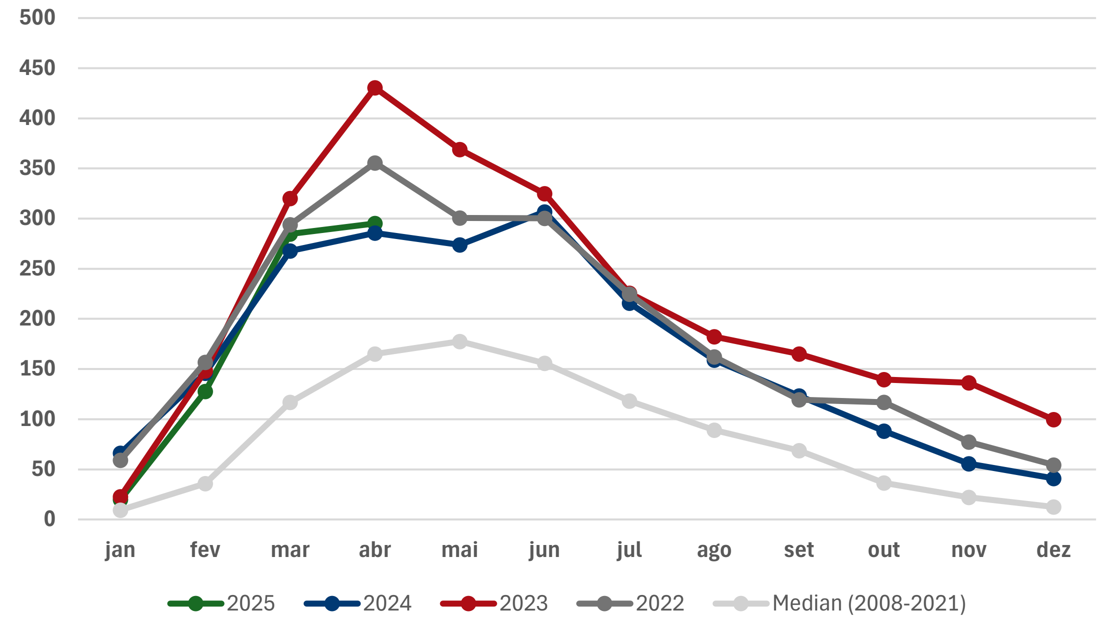
Interest Rate Differential x BRL



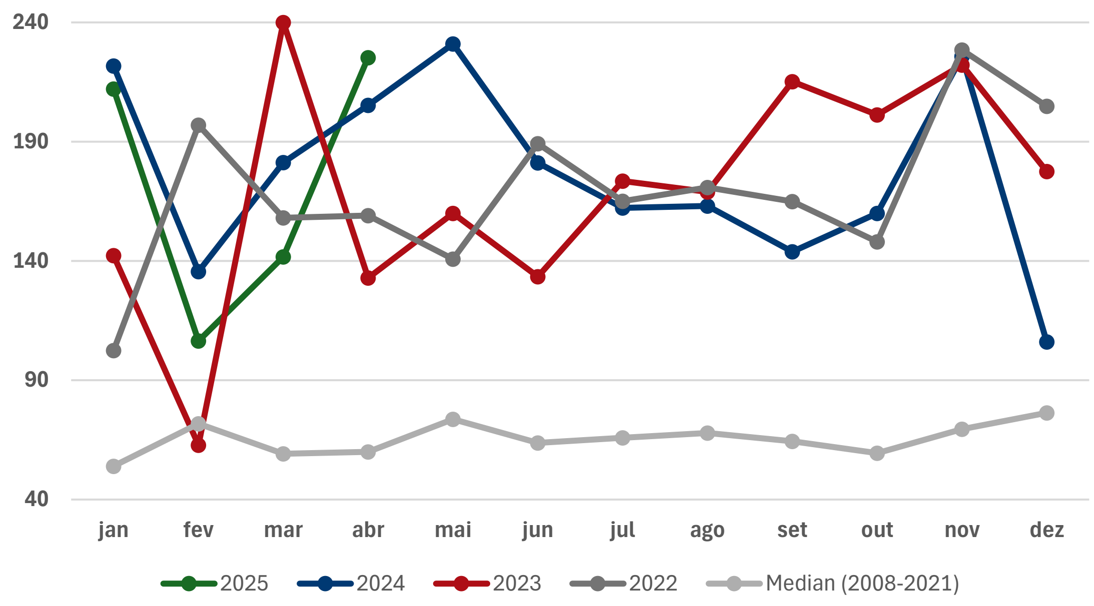
Brazil: External Sector

- In April, the trade balance presented a surplus of USD 8.15 bn (-3.3% YoY) according to Secex data;
- Exports increased marginally by 0.3% YoY, mainly due to the performance of the transformation industry (2.4% YoY). Key contributors to this growth included corn (105.5% YoY) and gold (77.7% YoY).
- In turn, imports rose by 1.6% YoY, driven by the demand in agriculture (3.3% YoY) and transformation industry (4.4% YoY), while the extractive industry imports declined by 31.5%.

Brazil BoP: Soy Exports
USD Million Daily Average



Brazil BoP: Crude Oil Exports
USD Million Daily Average



Source: Secex, BOCOM BBM

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