交通銀行 BANK OF COMMUNICATIONS BBM

Macro Outlook

July 2025

Macro Outlook

- In the US, the FOMC decided to remain on pause at the June meeting. The statement was little changed from the May meeting, economic projections were revised towards more inflation and less growth. The median Dots projection for the Fed Funds rate kept 2 cuts in 2025 but changed to one cut in each of the following years (from 2 previously). However, Chair Powell downplayed the changes in the Dots, given the elevated level of uncertainty in the economy. Over the coming months, tariffs are expected to cause a tick-up in inflation, although the absence of relevant impacts yet has been increasing the odds of earlier cuts than previously thought. Additionally, the labor market remains resilient but has been showing signs of gradual cooling. Looking ahead, the outlook remains uncertain, given trade policy, fiscal and geopolitical concerns.

- Regarding China, activity data delivered mixed results in May. The trade war remained a drag: exports moderated, led by another sharp decline in exports to the US, although partially offset by trade re-routing. Retail Sales was surprisingly strong, while fixed asset investment (FAI) softened. Housing data also showed weak demand, which was also made visible in credit data, as household loans were up by the smallest amount since 2008. Furthermore, the data front reaffirmed persistent deflationary pressures in China, due to excess capacity and structural weakness in consumption and property investment.

- In Brazil, economic activity remains resilient. In April, industrial production result came below expectations, rising by 0.1% MoM, along with modest rise on services (0.2% MoM). However, retail sales dropped significantly (-1.9% MoM) showing signs of gradual slowdown in household spending. Summarizing this scenario, the IBC-BR showed an increase of 0.2% 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 25 bps to 15.00% p.a. at its June meeting, in line with our expectation. Concerning monetary policy, the Brazilian Central Bank (BCB) raised the Selic rate by 25 bps to 15.00% p.a. at its June meeting, in line with our expectations. BCB inflation projections six trimesters ahead stand at 3.6 % in the fourth quarter of 2026 in a scenario where rates stay at 14.75% until the end of 2025 and reach 12.5% in 2026. Looking forward, the committee highlighted the need to maintain the Selic rate at current levels for "a very prolonged period". In all, the statement points to the likely end of the hiking cycle, with some room for rate adjustments if needed;

- June IPCA-15 rose by 0.26% MoM, slightly below market expectations of 0.30% MoM. The 12-month variation declined from 5.40% in May to 5.27% in June. Downward surprises were widespread in market-set prices groups, with a highlight in services, especially airfares, condominium and rents. Regarding the breakdown, core services advanced 0.42% MoM, lower than forecasts, and the 3M SAAR plunged to 6.6%. The average of core inflation increased by 0.30% MoM, also below expectations, with its 3M SAAR at 5.0%. The result reinforces the more benign services dynamics observed over recent months, pointing to a cooling in the segment's inflation (albeit still elevated), while also confirming the easing of FX pass-through in industrial goods;

- In the fiscal scenario, the Brazilian public sector posted a primary deficit of BRL 33.7 billion in May, below the market consensus (deficit of BRL 42.7 billion), from a deficit of BRL 63.9 billion in May 2024. Regarding the breakdown, Central government and state-owned enterprises (SOE) registered a deficit of BRL 37.4 bn and BRL 0.9 bn, respectively, while regional governments reached a surplus of BRL 4.5 bn. The General Government Gross Debt (GGGD) rose from 76.0% to 76.1% of GDP, with nominal interest (+0.8 p.p.) being the main driver of this growth, while nominal GDP growth (-0.6 p.p.) partially offset it.

China: Economic Activity

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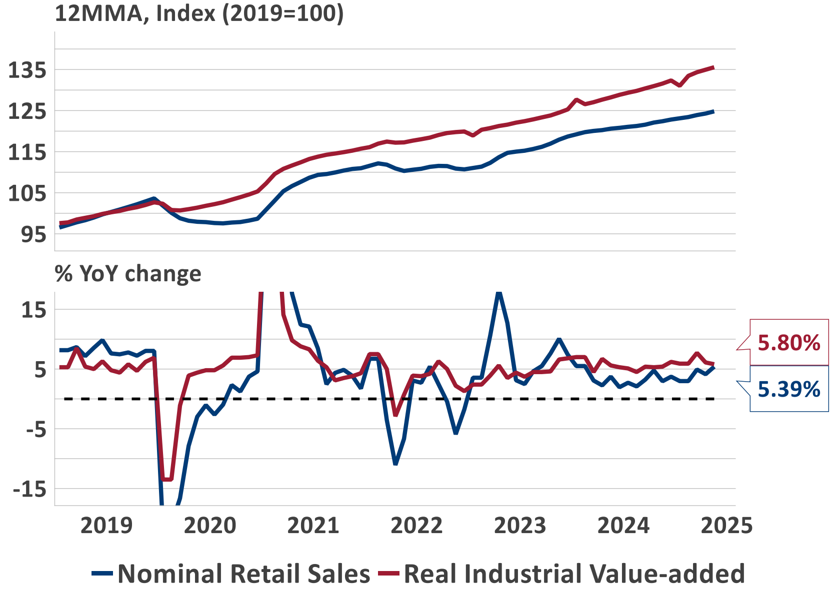
- **Economic activity** showed mixed signals in May, **reflecting impacts of the trade war and a soft domestic demand**. FAI and Industrial Production modestly missed expectations, while Retail Sales were above consensus. However, underlying demand remains subdued;
- **Retail sales reaccelerated** from 5.1% to **6.4% YoY** above the expectations (exp. 5.0%), the fastest pace in 17 months; The increase was mostly led by sectors such as home appliances (53% YoY), cellphones (33%) and furniture (25.6%), **reflecting some response to government's trade-in programs**;
- **Industrial Production slowed** from 6.1 to **5.8% YoY** (exp. 5.9%), amid slowing exports given higher tariffs (although still resilient overall);
- **FAI** slowed from 4.0 to **3.7% YoY** (exp. 4.0%), below-consensus. It was 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 490million square meters – the lowest level in 20 years. Meanwhile, housing sales still shows signs of stabilizing near 810m square meters, indicating that the decline for housing demand could be bottoming out. This subdued demand, is also reflected in the credit data, with household loans rising by only 572 billion RMB in the first five months of the year, the smallest increase since 2008.

China: Activity (% YoY)

	5/2025	4/2025	5/2024
Industrial Production	**5.8**	**6.1**	**5.6**
Mining	5.7	5.7	3.6
Manufacturing	6.2	6.6	6.0
Utilities	2.2	2.1	4.3
Fixed Asset Investment (YTD)	**3.7**	**4.0**	**4.0**
Manufacturing	8.5	8.8	9.6
Real Estate	-10.7	-10.3	-10.1
Infrastructure	5.6	5.8	5.7
Retail Sales	**6.4**	**5.1**	**3.7**
Catering Services	5.9	5.2	5.0
Consumer Goods	6.5	5.1	3.6
Clothing	4.0	2.2	4.4
Automobiles	1.1	0.7	-4.4
Furniture	25.6	26.9	4.8
Cellphones	33.0	19.9	16.6
Home Appliances	53.0	38.8	12.9
Construction	5.8	9.7	-4.5

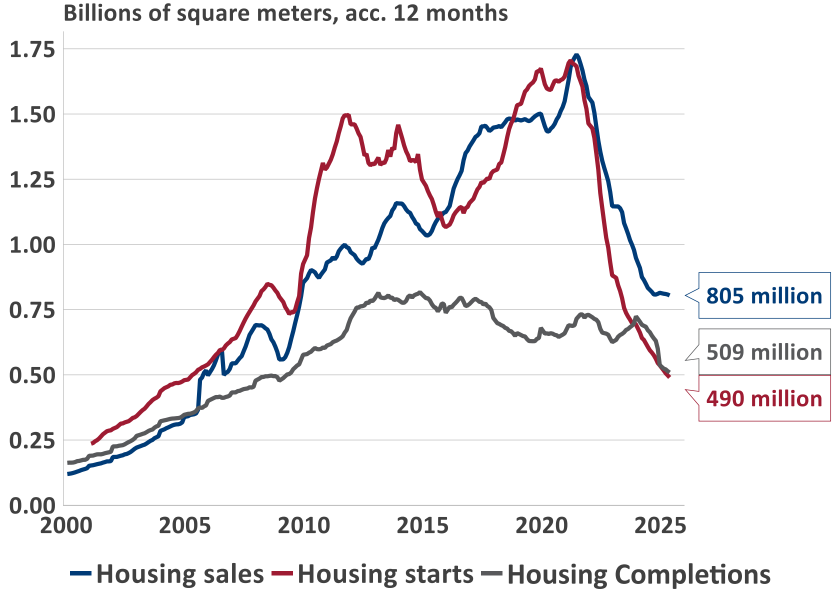
Source: BOCOM BBM, Macrobond

China: Industrial Production x Retail Sales



Source: BOCOM BBM, Macrobond, NBS

China: Housing Indicators

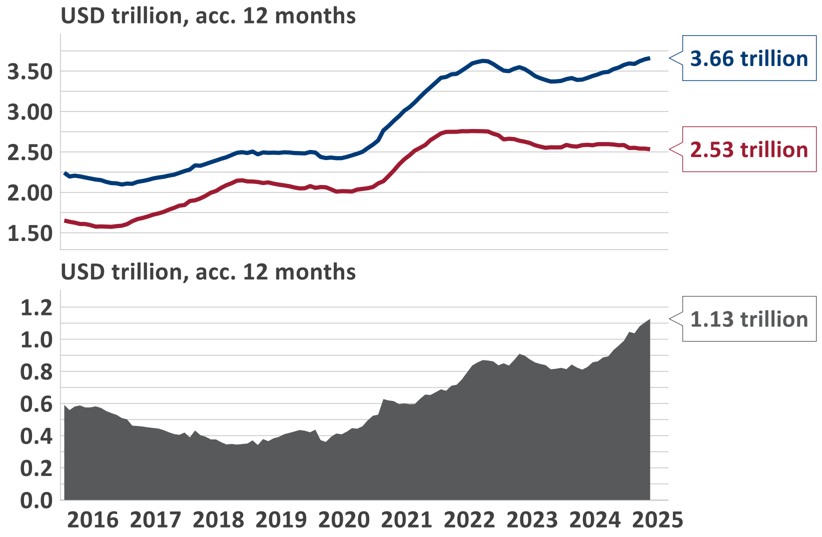


Source: BOCOM BBM, Macrobond, NBS

China: Economic Scenario

- **Exports softened in May**, with the latest data coming in slightly below expectations though still at solid levels;
  - In real terms, exports growth came in above expectations, moderating from 8.1% to 4.8% YoY (exp. 6.0%);
  - Despite overall resilience in May, **US tariffs remained a relevant drag**, leading to a 35% decrease in exports to the US. Despite the de-escalation deal announced on May 12th, it takes time for companies to rearrange routes. However, the decline of exports to the US was partly offset by strong growth in other regions – although softer than April. Exports were up around 15% YoY to ASEAN, 14% to Latin America and Africa, and 12% for the European Union;
- **May CPI inflation remained in negative territory** for the fourth consecutive month in May, both in YoY and MoM terms (-0.1% YoY vs exp. -0.2%);
  - **Core inflation** increased modestly **in May,** by 0.1pp to 0.6%YoY, while MoM increased up to 1.2% SAAR - still low and below historical pre-Covid levels; The data was driven by gains in services, which rebounded to 0.5% YoY in May from 0.3% in April. The robust holiday demand was the main driver behind the improvement in services inflation;
  - The May 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.

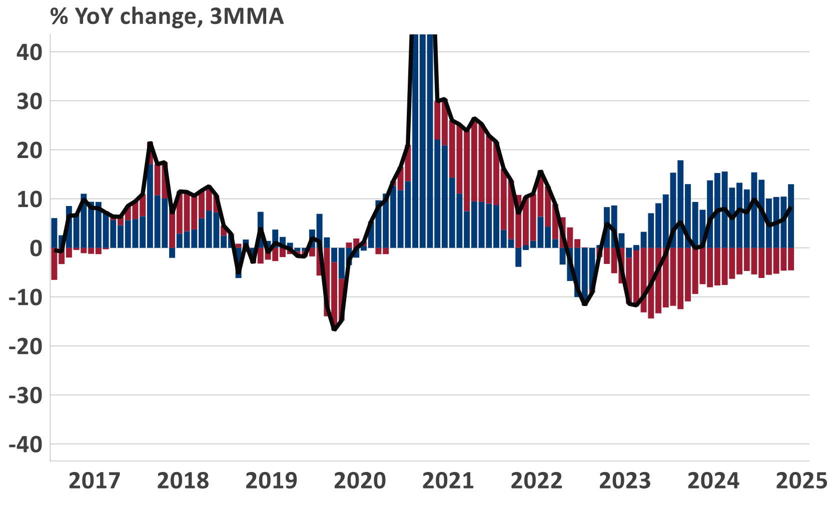
China: Trade Balance



Source: BOCOM BBM, Macrobond, GAC

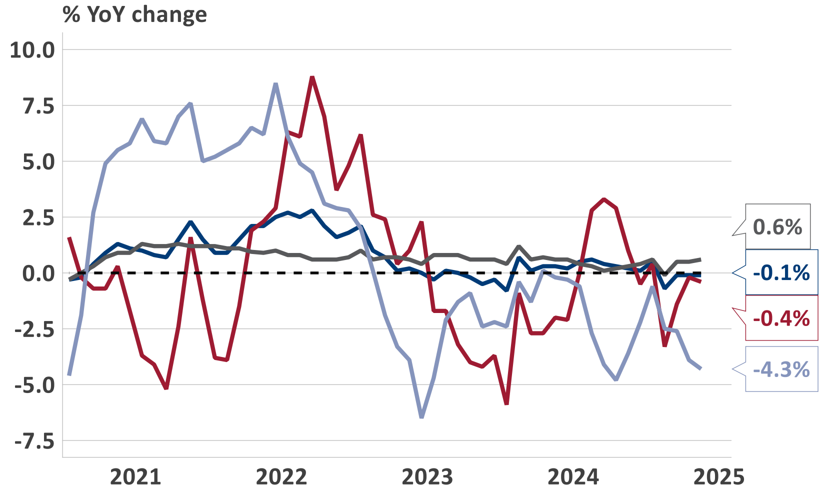
China: Exports (Price x Volume)

Last observation at 5/2025



Source: BOCOM BBM, Macrobond, GAC

China: CPI

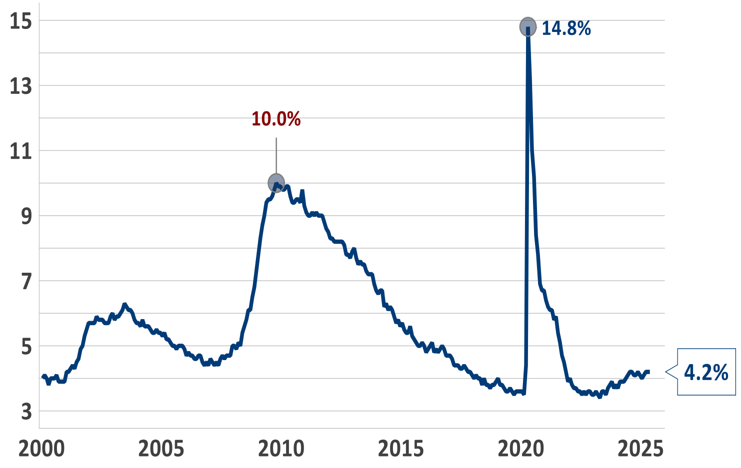


Source: BOCOM BBM, Macrobond, NBS

USA: Labor Market

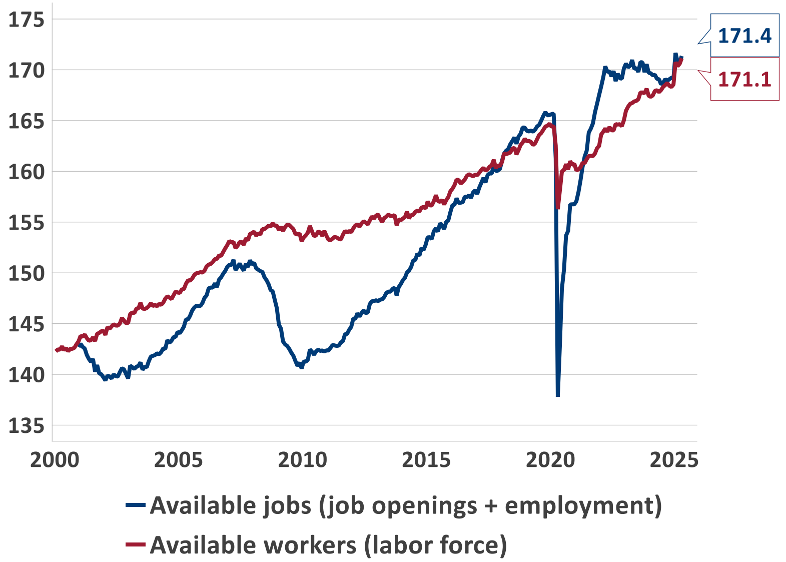
- **Job creation was larger-than-expected in the May labor market report, sustaining the strong pace from April;**
  - Payroll increased **139k**, above market expectations of 126k. Previous months were strongly revised downwards (net revision of -95 between March and April).
  - The unemployment rate 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, upward revisions made April data move from 3.8% to 3.9%.

US: Unemployment Rate SA (%)



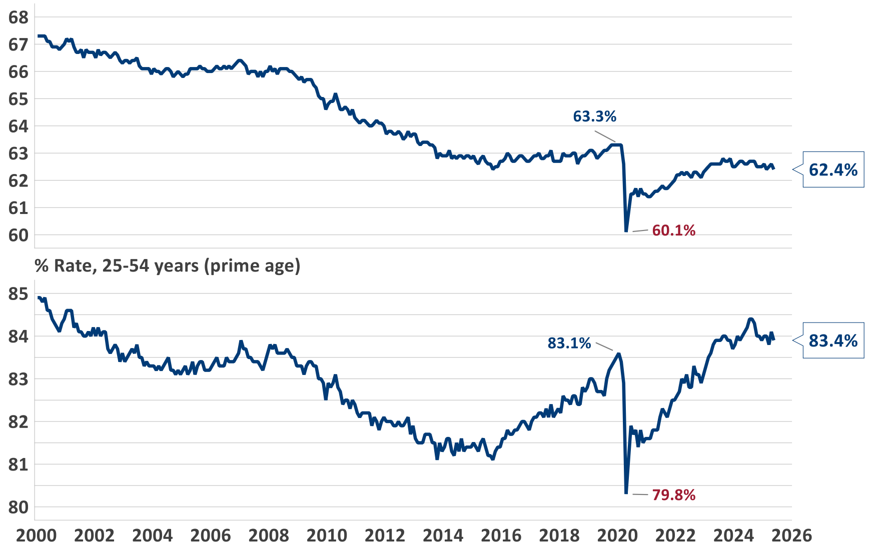
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



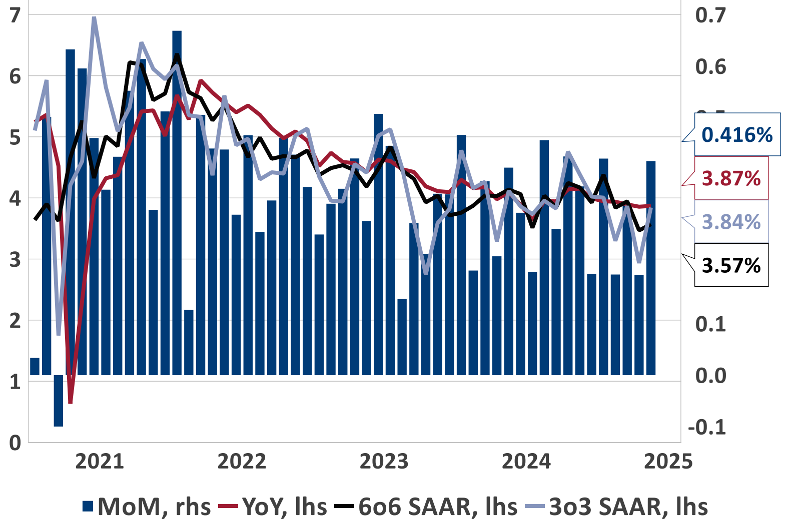
Source: BOCOM BBM, Macrobond, BLS

US: Labor Force Participation Rate (%)



Source: BOCOM BBM, Macrobond

US: Average Hourly Earnings Growth (%)

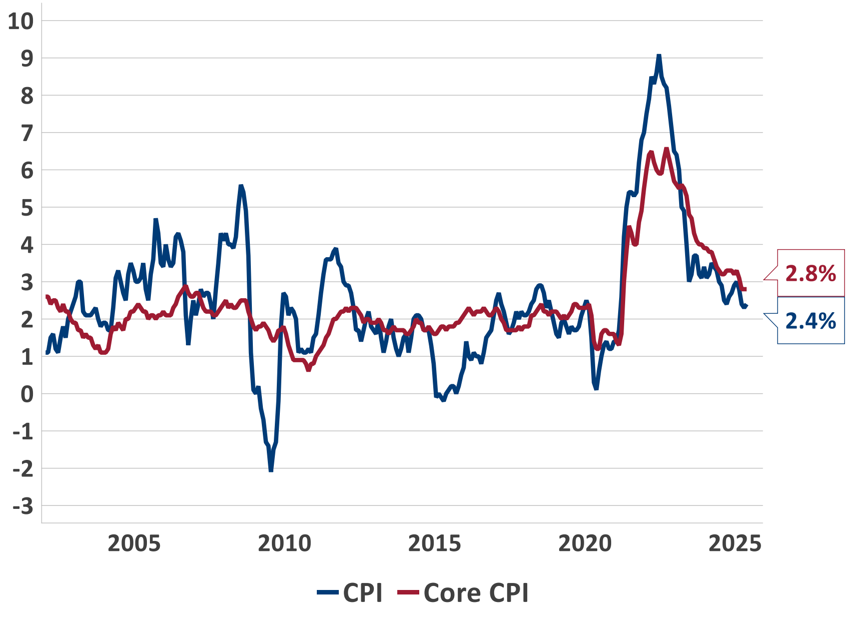


Source: BOCOM BBM, Macrobond, BLS

USA: Inflation

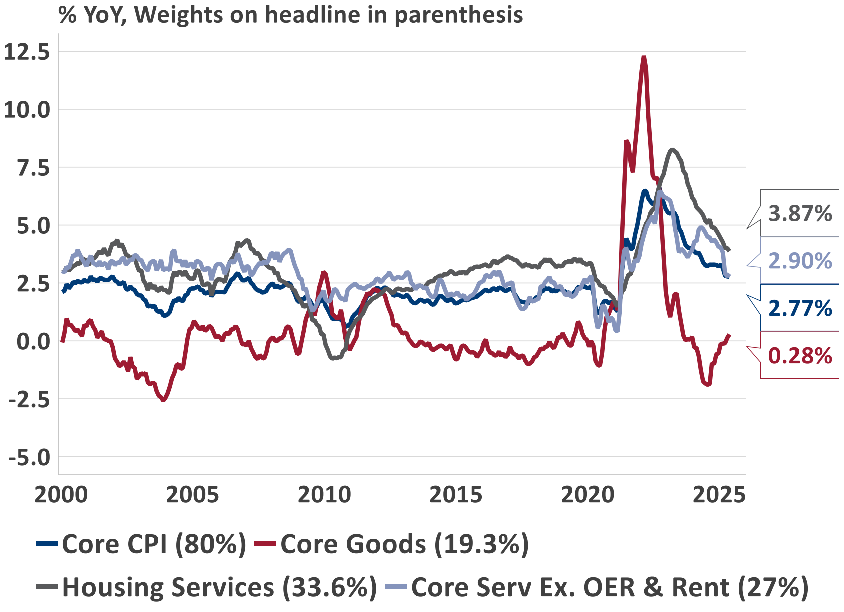
- The **May headline CPI** accelerated **0.08% MoM** (below consensus of 0.2%), leading to a YoY increase from 2.3% to **2.4% YoY:**
  - In the composition, the most notable changes were an increase in food prices (from -0.08% to +0.29% MoM) and a decrease in energy prices (from 0.67% to -0.98% MoM);
- **Core CPI** rose **0.13% MoM,** below expectations of 0.3%, and the annual growth rate accelerated from 2.8% to **2.9% YoY:**
  - The downward surprise was mostly explained by the weakness in core goods, notably Apparel and New Vehicles, both of which carry a relatively high weight in the index;
  - On the core services side, the soft print was mainly led by a step-down in housing rents (from 0.34% to 0.21% MoM) and OER (from 0.36% to 0.27%) inflation;
- In sum, May CPI print came in on the soft side. The breakdown revealed that core goods (-0.04% MoM vs exp. 0.20%), core services (0.17% MoM vs exp. 0.29%) and Core Services ex-housing, or "Supercore", (0.06% MoM VS exp. 0.21%) came-in-softer-than-expected, and their declines were relatively broad-based;
- Despite this soft print, inflation is expected to reaccelerate somewhat in the next months (assuming current tariffs remains in place), although more mildly than previously expected.

US: CPI (YoY, %)



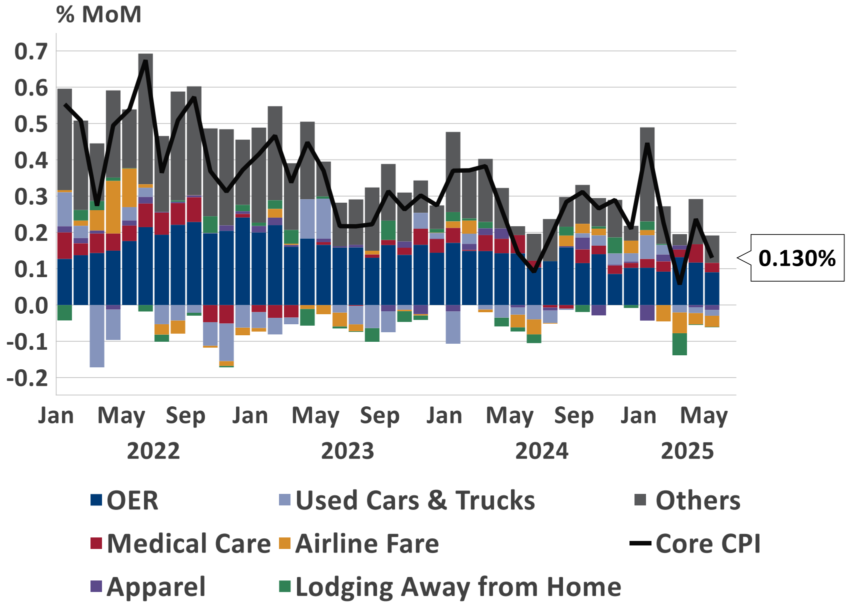
Source: BOCOM BBM, Macrobond, BLS

US: Core CPI Main Components (%)



Source: BOCOM BBM, Macrobond, BLS

US: Core CPI MoM Contributions

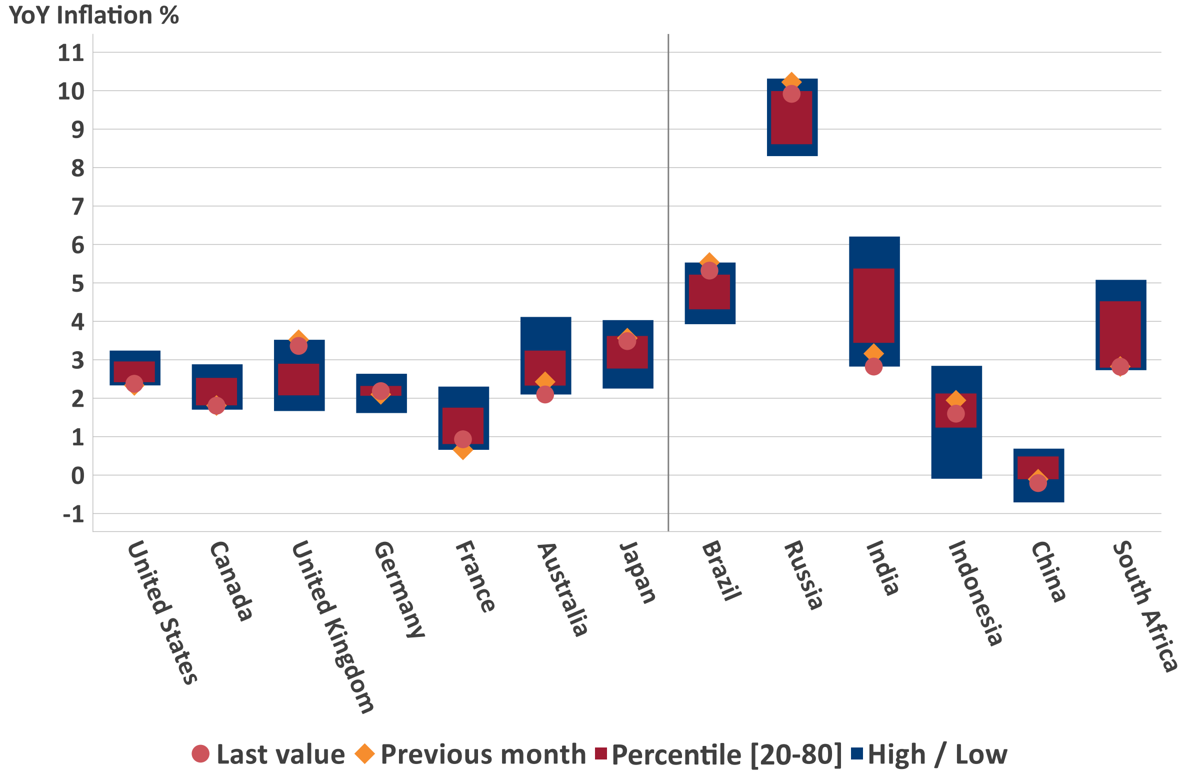


Source: BOCOM BBM, Macrobond, BLS

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	0,8	2,0	3,9	-0,8	-1,8	-2,3	2,1	-2,5
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	0,0	0,6	0,2	1,0	-0,3	-0,1	-1,0	0,6
Mexico	0,2	-0,7	0,8	0,2	0,0	0,4	0,5	0,8
Russia	-0,6	1,1	0,4	0,6	1,9	0,4	1,7	1,4
Saudi Arabia	-0,6	4,1	1,0	-1,2	0,5	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

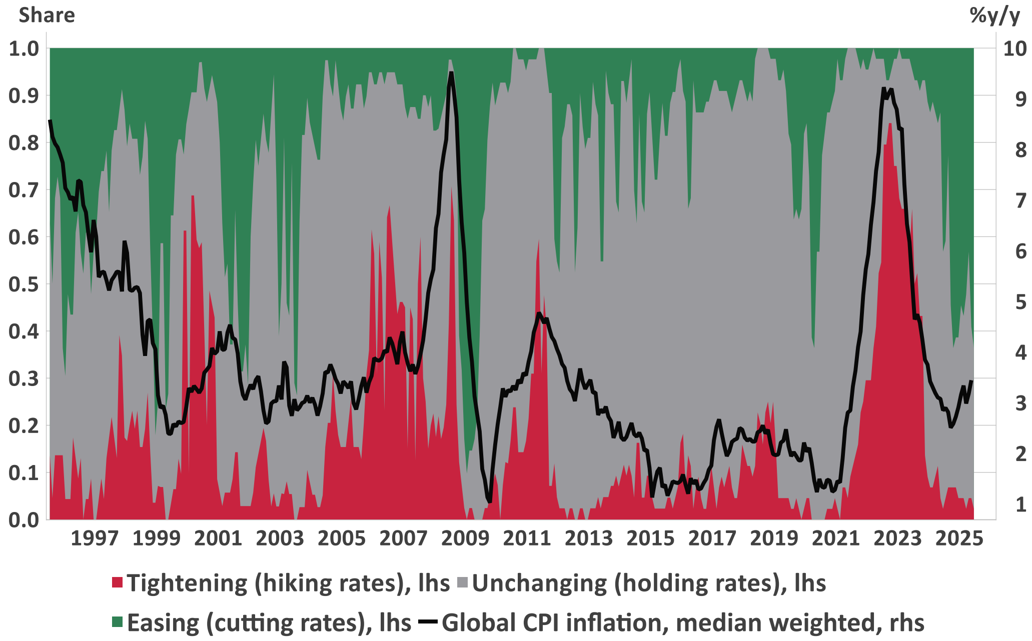
Sources: BOCOM BBM, Macrobond, National Sources

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 Turkey, which raised interest rates at its last meeting;
- Overall, the uncertainty surrounding US tariffs and their potential effects in each country's domestic context continues to drive institutions towards a more careful, data-dependent approach, despite the US-China truce.

Global monetary breadth

Share of economies (GDP top 50) with higher/unchanged/lower policy rates; monthly/mtd avg, 27-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	43,5	44,7	29,00	-3,00	Cut	1/2025	21	5
Australia	2,4	2,6	3,85	-0,25	Cut	5/2025	20	1
Brazil	5,3	5,1	15,00	0,25	Hike	6/2025	0	14
Canada	1,8	2,5	2,75	-0,25	Cut	3/2025	24	4
Chile	4,4	3,7	5,00	-0,25	Cut	12/2024	33	6
China	-0,2	0,6	3,00	-0,10	Cut	5/2025	137	1
Colombia	5,1	5,3	9,25	-0,25	Cut	5/2025	26	2
Costa Rica	-0,1	0,6	4,00	-0,25	Cut	10/2024	32	8
Czech Republic	2,4	0,2	3,50	-0,25	Cut	5/2025	36	2
Denmark	1,6	1,6	1,75	-0,25	Cut	6/2025	22	1
Euro Area	1,9	2,3	2,15	-0,25	Cut	6/2025	21	1
Hungary	4,4	4,8	6,50	-0,25	Cut	9/2024	33	9
Iceland	4,1	4,0	7,50	-0,25	Cut	5/2025	22	1
India	2,8	4,2	5,50	-0,50	Cut	6/2025	29	1
Indonesia	1,6	2,4	5,50	-0,25	Cut	5/2025	14	1
Israel	3,1	3,4	4,50	-0,25	Cut	1/2024	25	18
Japan	3,5	3,3	0,50	0,25	Hike	1/2025	5	113
Mexico	4,4	4,1	8,00	-0,50	Cut	6/2025	27	0
New Zealand	2,5	2,6	3,25	-0,25	Cut	5/2025	25	1
Norway	3,0	2,8	4,25	-0,25	Cut	6/2025	19	0
Poland	4,4	3,3	5,25	-0,50	Cut	5/2025	34	2
Russia	9,9	8,9	20,00	-1,00	Cut	6/2025	8	1
Saudi Arabia	2,2		5,00	-0,25	Cut	12/2024	23	6
South Africa	2,8	3,0	7,25	-0,25	Cut	5/2025	25	1
South Korea	1,9	2,0	2,50	-0,25	Cut	5/2025	30	1
Sweden	0,2	2,3	2,00	-0,25	Cut	6/2025	21	0
Switzerland	-0,1	0,5	0,00	-0,25	Cut	6/2025	24	0
Turkey	35,4	35,4	46,00	3,50	Hike	4/2025	2	4
United Kingdom	3,4	3,5	4,25	-0,25	Cut	5/2025	23	2
United States	2,4	2,8	4,50	-0,25	Cut	12/2024	23	6

Source: BOCOM BBM, Macrobond

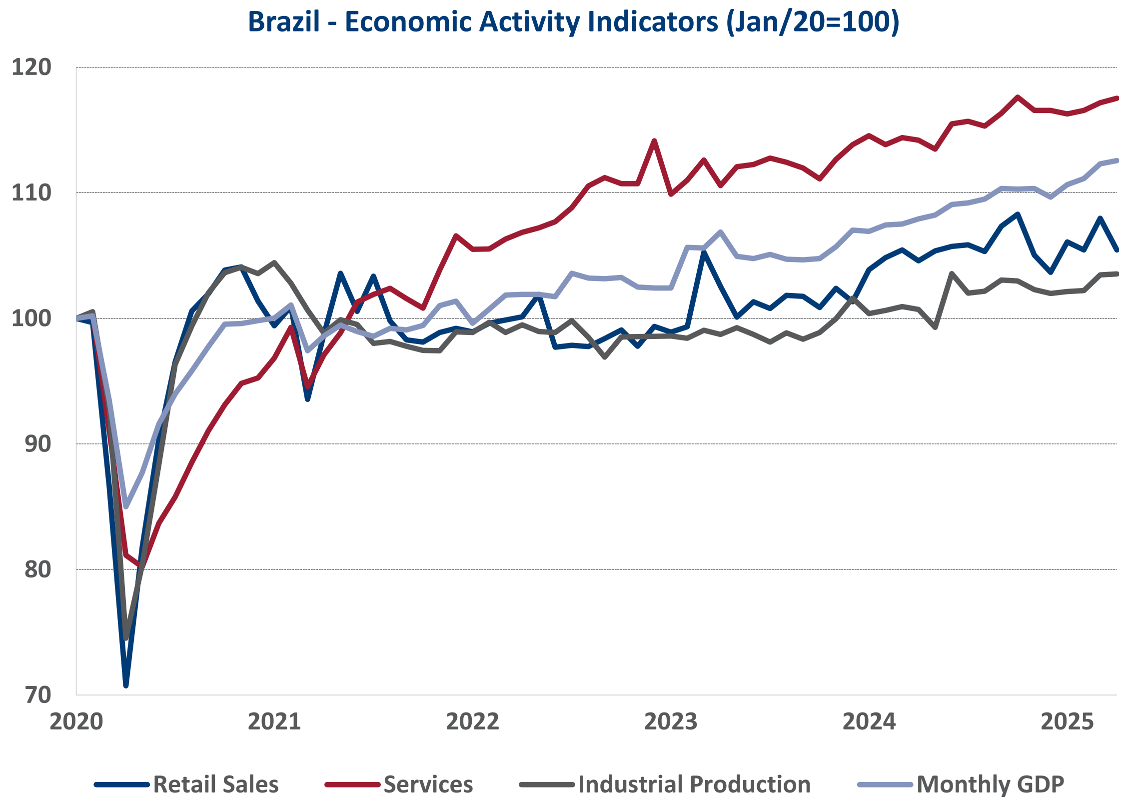
Brazil: Forecasts

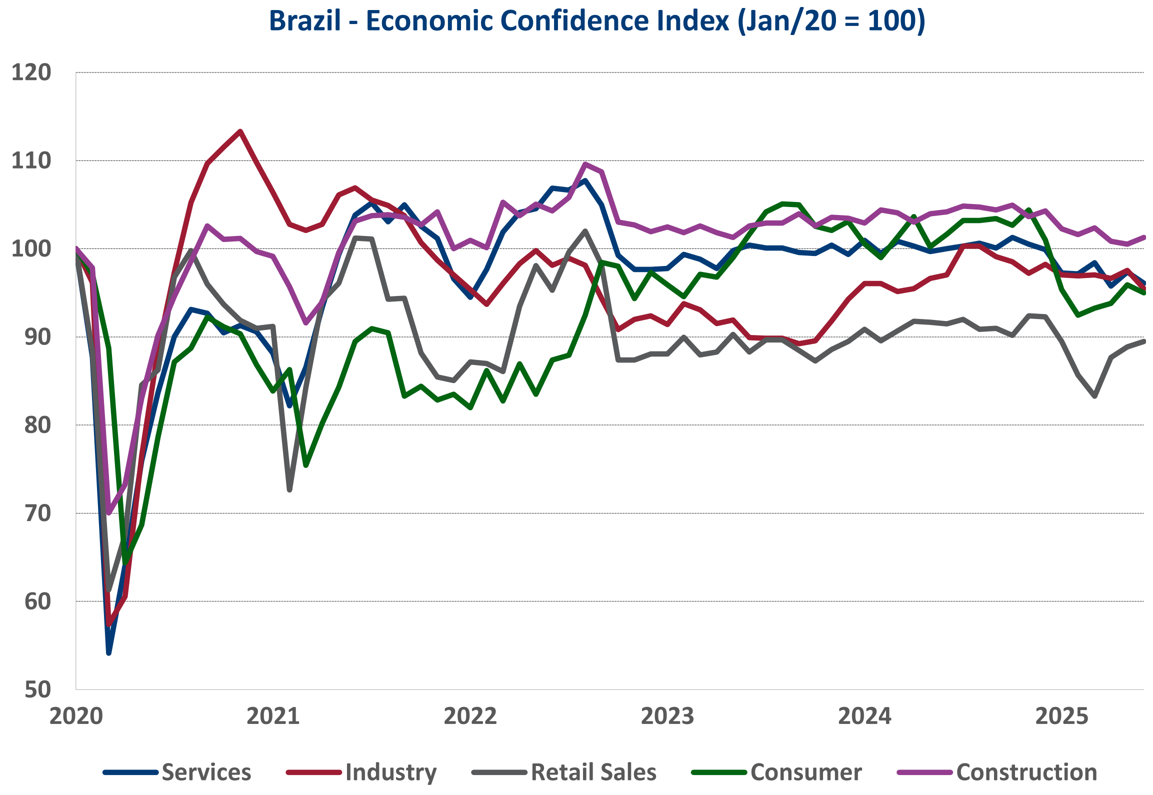
ECONOMIC FORECASTS	2020	2021	2022	2023	2024	2025F	2026F
GDP Growth (%)	-3,3%	4,8%	3,0%	2,9%	3,4%	2,3%	1,5%
Inflation (%)	4,5%	10,1%	5,8%	4,6%	4,8%	5,1%	4,1%
Unemployment Rate (eoy ,%)	14,2%	11,1%	7,9%	7,4%	6,2%	6,8%	7,5%
Policy Rate (eoy, %)	2,0%	9,3%	13,8%	11,75%	12,3%	15,00%	12,0%
External Accounts							
Trade Balance (US$ bn)	36	42	52	92	66	62	73
Current Account Balance (US$ bn)	-25	-40	-42	-28	-61	-65	-55
Current Account Balance (% of GDP)	-1,7%	-2,4%	-2,2%	-1,3%	-2,8%	3,0%	-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

- In April, industrial production result came below expectations, rising by 0.1% MoM, along with modest rise on services (0.2% MoM). Although, retail sales dropped significantly (-1.9% MoM) showing signs of gradual slowdown in household spending. Summarizing this scenario, the IBC-BR showed an increase of 0.2% MoM in the month
- Looking ahead, the confidence surveys for the retail sales and construction sectors grew in June, while services, industry and consumer contracted.



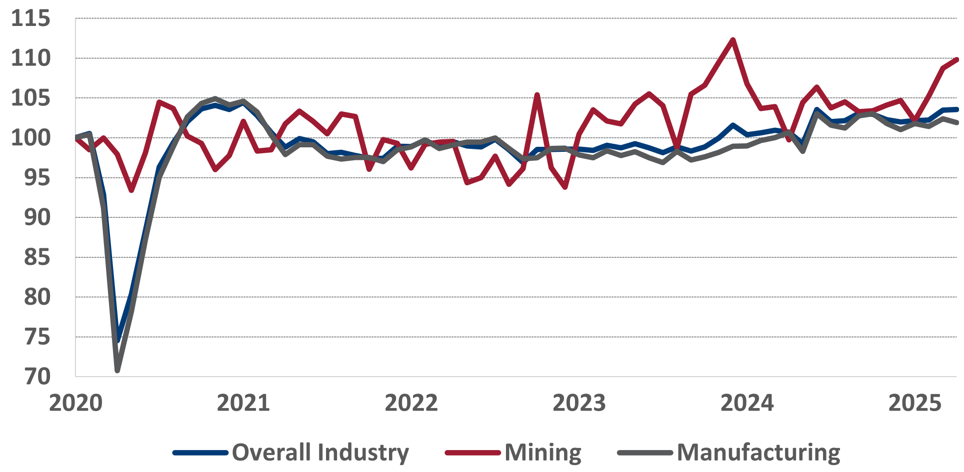


Source: BOCOM BBM, IBGE, FGV

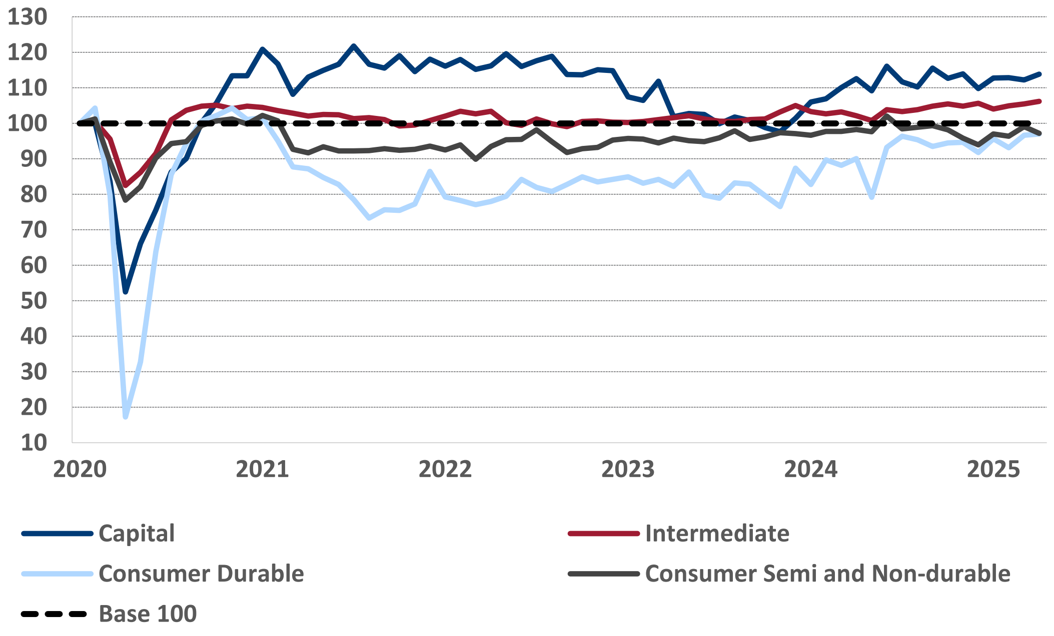
Brazil: Industrial Production

- Industrial output increased by 0.1% MoM in April, slightly below expectations (0.4% MoM), driven by capital goods (1.4% MoM) and intermediate goods (0.7% MoM).
- The month's figures registered mainly positive results, with 3 out of the 4 major economic categories and 14 out of the 25 manufacturing activities growing in the monthly comparison.
- On the positive side, the category of Intermediate Goods increased for the third consecutive month (0.7% MoM; 0.7% QoQ), with emphasis on the recovery of the Extractive Industry. Furthermore, Durable Goods also advanced in April (0.4% MoM; 1.7% QoQ) explained by the resilience of Motor Vehicles.
- Nonetheless, a compensating movement for the strong increases observed in the March reading and still tighter financial conditions remain contributing to a gradual slowdown in the manufacturing industry.

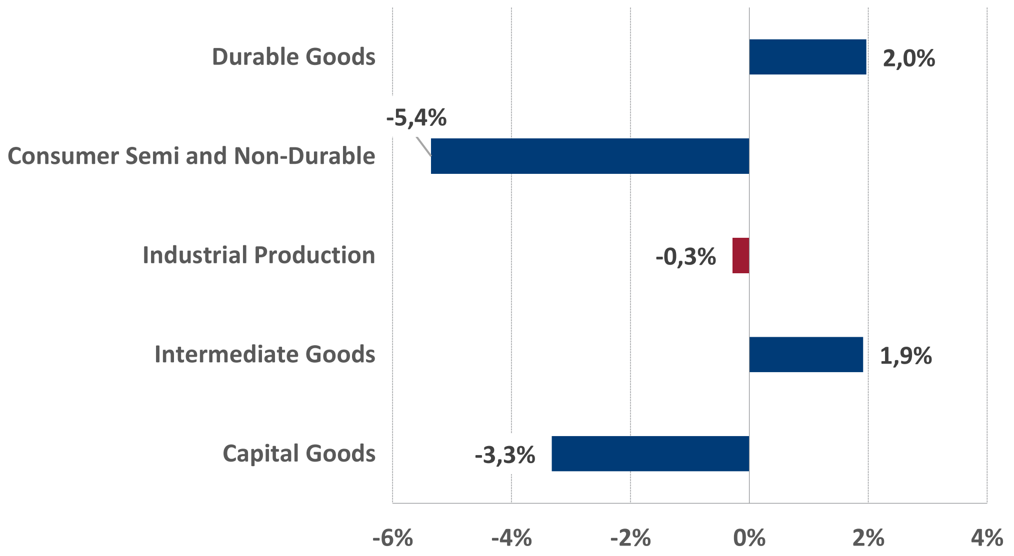
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



Industrial Production by Category - 04/2025 (YoY)

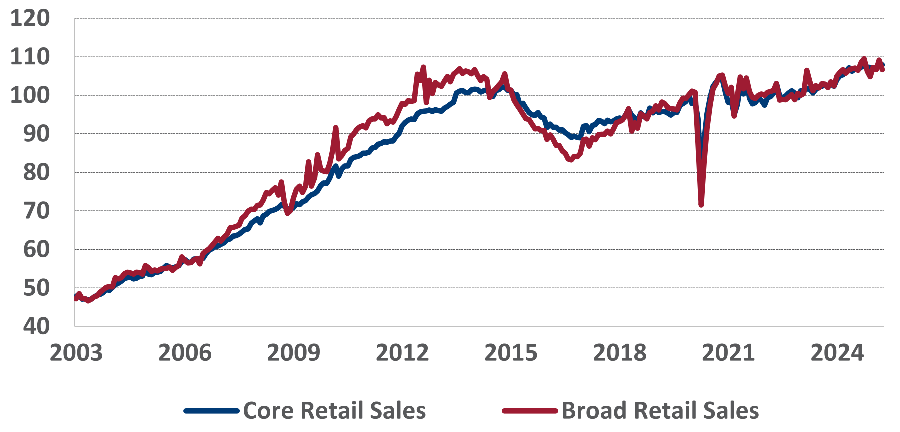


Source: IBGE, BOCOM BBM

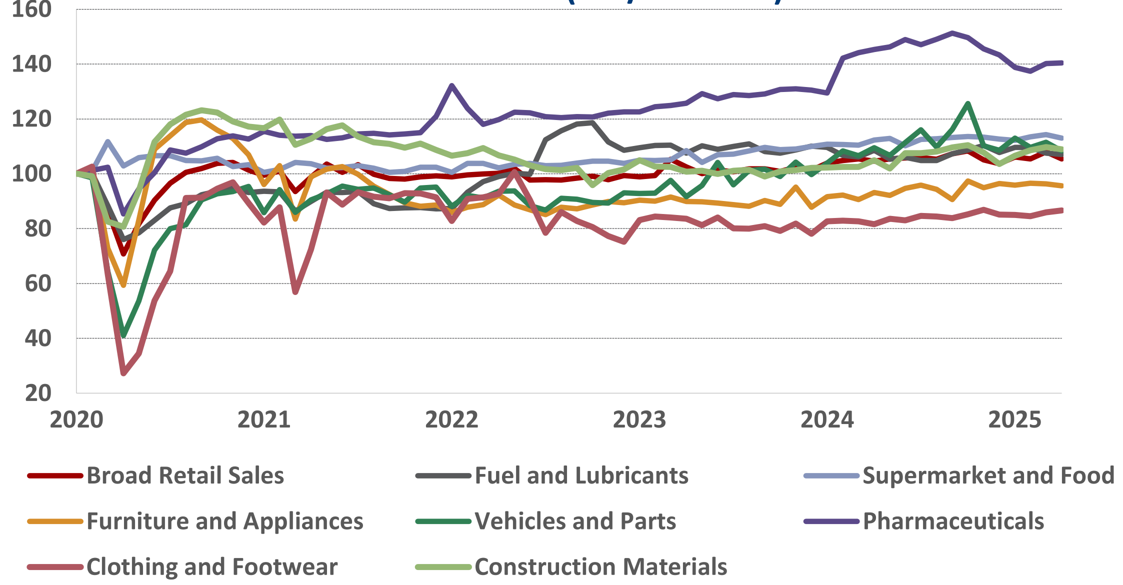
Brazil: Retail Sales

- Broad retail sales decreased by 1.9% MoM in April, below expectations (-1.3% MoM)
- In turn, core retail sales dropped 0.4% MoM, in line with market prospects (0.5% MoM), ending a streak of three consecutive gains
- In the breakdown, 6 out of 10 retail activities fell in the monthly comparison, with the highlights being the sharp fall in vehicles and parts (-2.2% MoM) and in fuels and lubricants (-1.7% MoM) on the negative side, and books and magazines (1.6% MoM) and other articles of personal and domestic use (1.0% MoM) on the positive.
- With a solid labor market and a significant rise in real disposable income, the result shows a sector that remains resilient, standing very close to the highest level in the historical series
- Overall, both credit-sensitive and income-sensitive retail activities fell moderately in April.

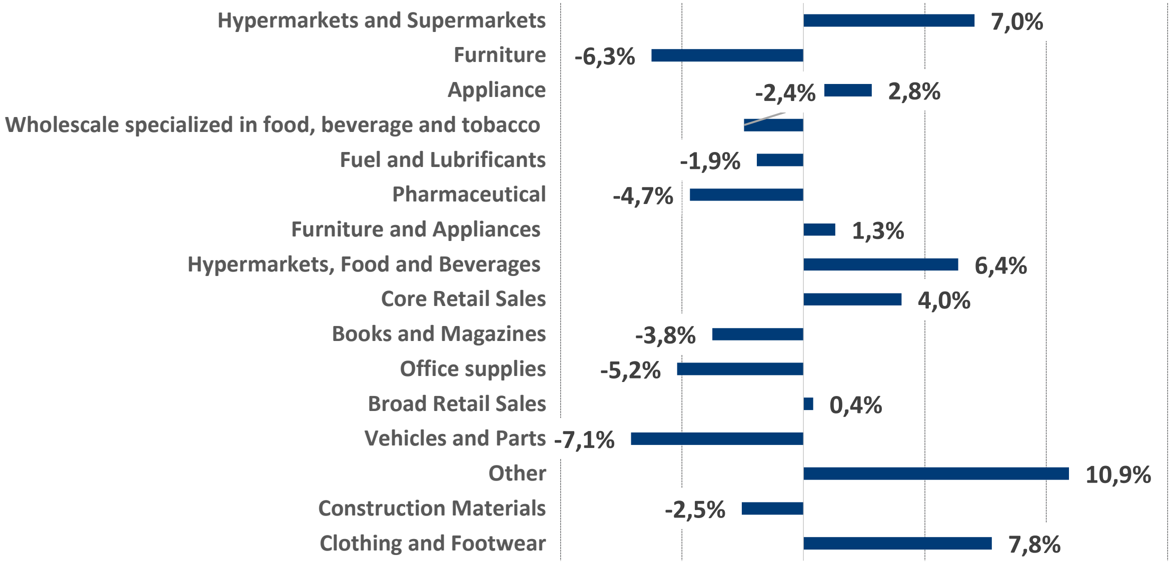
Broad Retail Sales SA x Core Retail Sales SA



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



Retail Sales - YoY (04/2025)



Source: IBGE, BOCOM BBM

Brazil: Services

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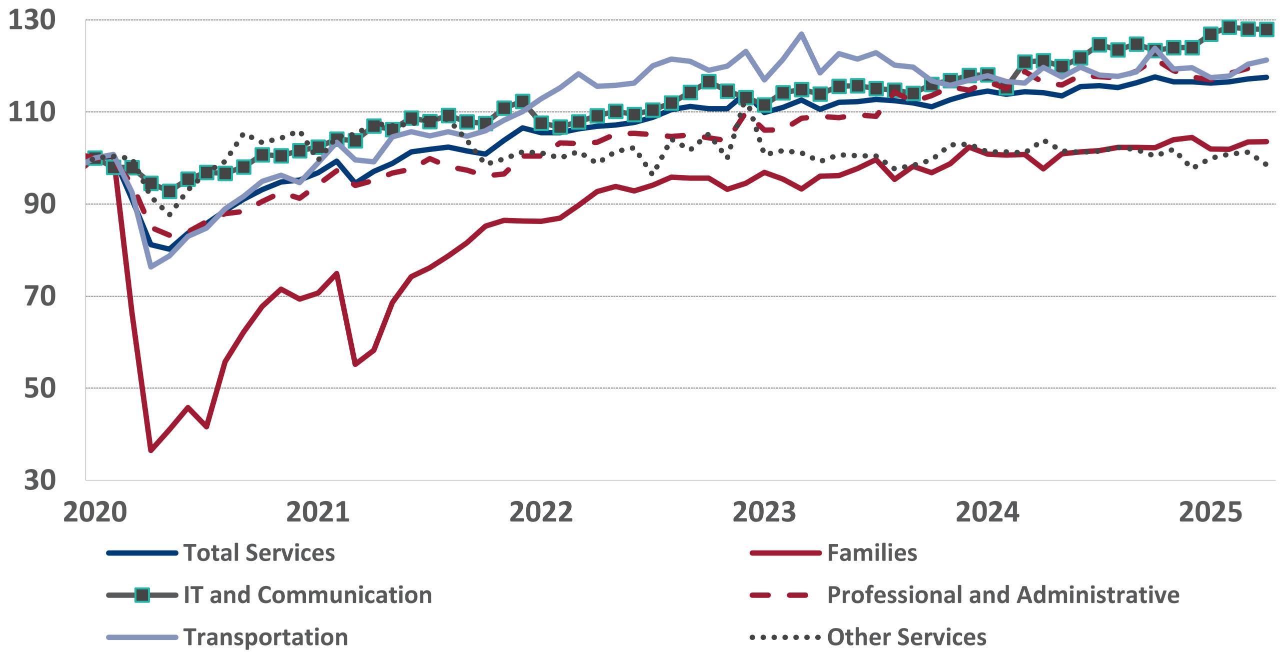
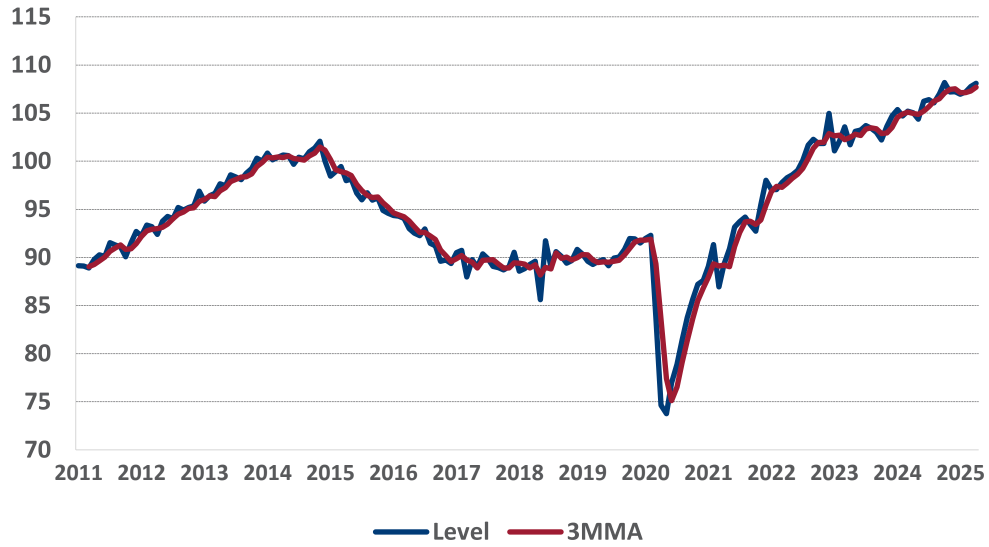
BBM

- Services output increased by 0.2% MoM in April, in line with market expectations of 0.2% MoM. In addition, the indicator rose by 0.9% QoQ in the moving quarter up to April.
- The subgroup of professional, administrative and complementary services showed a moderate decline, by falling 0.5% MoM. Similarly, services rendered to families presented a timid drop of 0.1% MoM after increasing 1,6% MoM in March.
- On the positive side, transportation and storage services presented another positive print (0.5% MoM; 0.9% QoQ) mainly reflecting the 6.3% MoM rise in air transportation.
- Overall, personal spending on services is expected to gradually cool down due to higher inflation and challenging financial circumstances. However, robust labor market and short-term government stimulus should counterbalance the effects from tighter monetary conditions

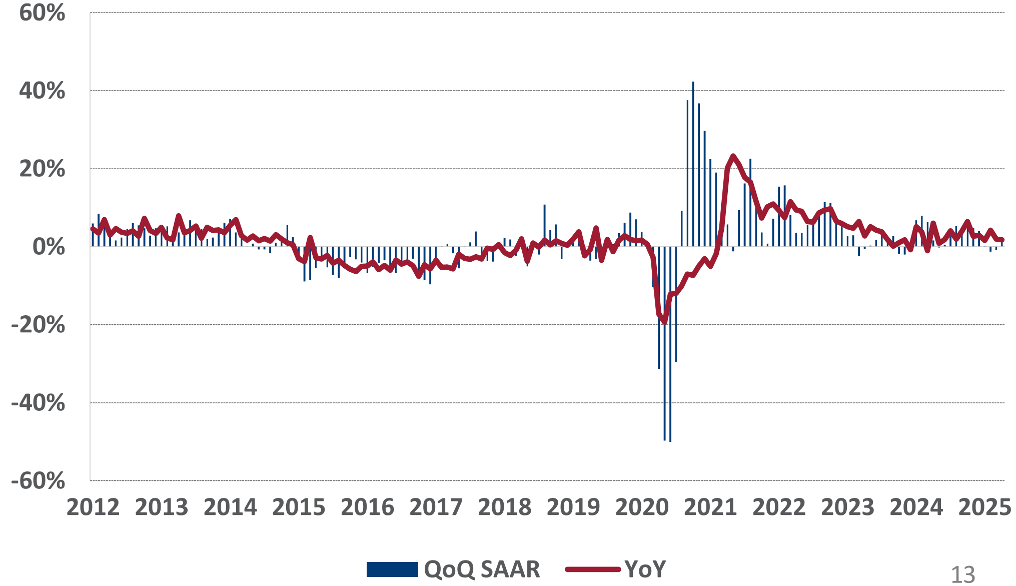
Services Sector SA (Jan/20=100)



Services Sector SA



Services Sector

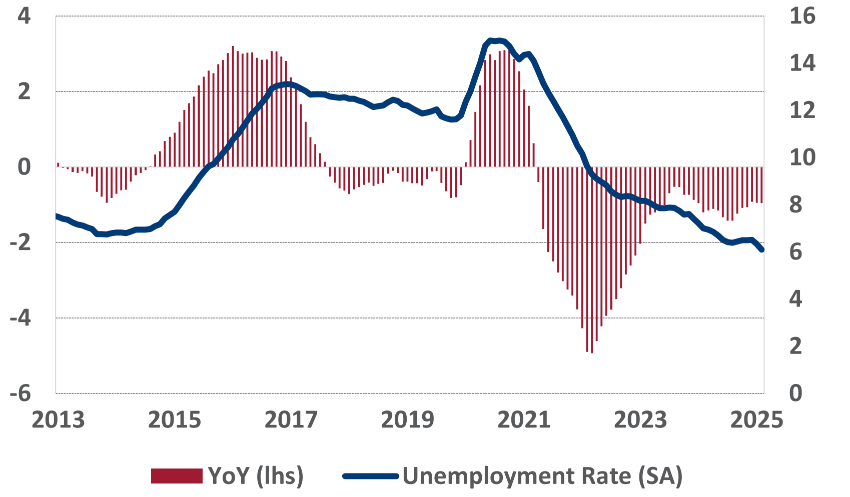


Source: IBGE, BOCOM BBM

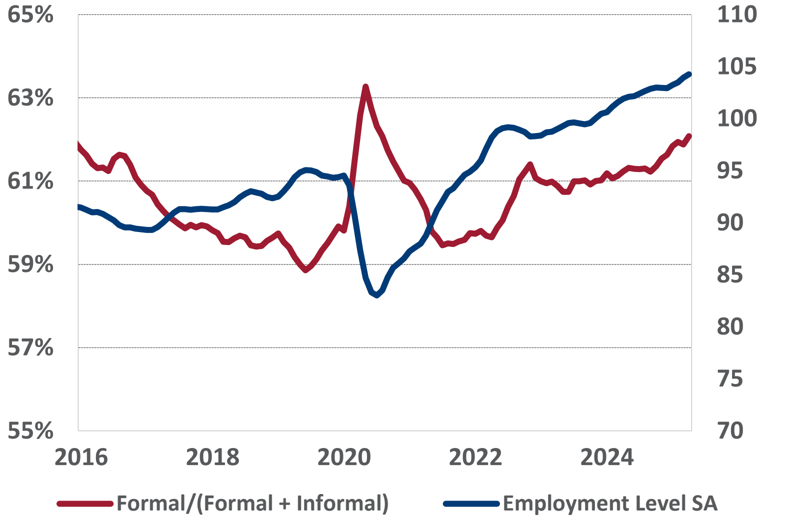
Brazil: PNAD

- The unemployment rate fell to 6.2% in the moving quarter up to May, from 6.6 % on the previous period.
- Seasonally adjusted, the indicator dropped to 6.0% in May from 6.2% in April, remaining at a historically low level.
- Total employment increased by 0.3% MoM, standing at 104.3 million, while labor force stayed virtually flat in MoM terms, reflecting the resilience of economic activity and a still tight labor market
- The labor force participation rate remained stable around 62.5%, still below pre-pandemic levels of 63.5%.
- The average real wage kept increasing significantly, this time by 0.40% MoM, marking the eigth gain in a row.
- In turn, real aggregated labor income increased 0.6% MoM in May.

Brazil - Unemployment Rate



Brazil - Employment Level SA



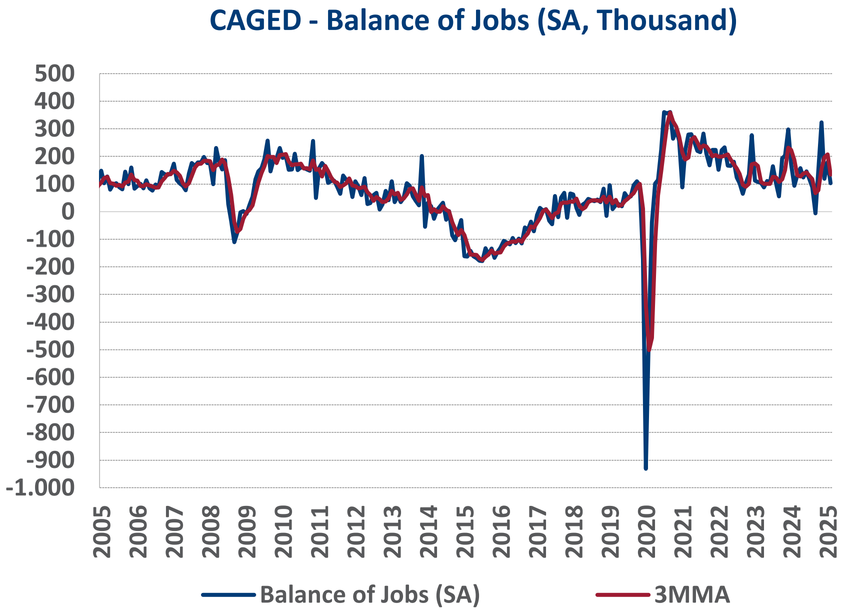
Brazil - Workforce Participation

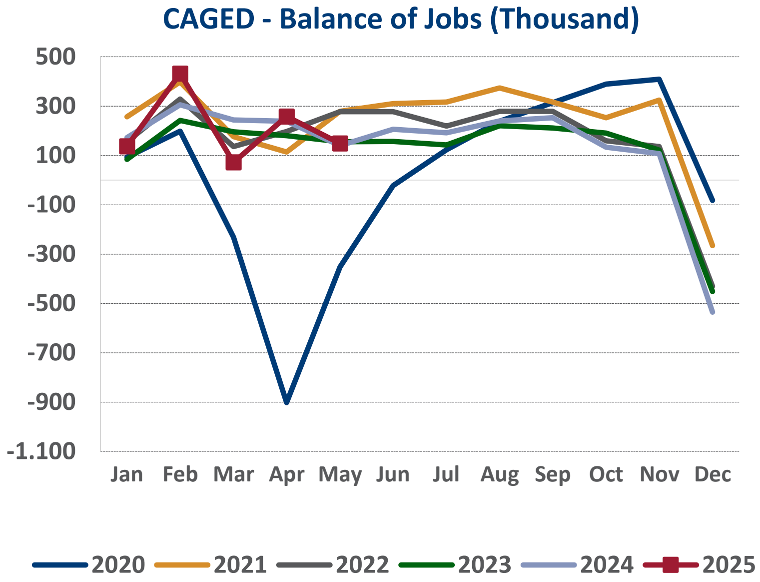
Brazil - Average Real Wage and Real Wage Bill

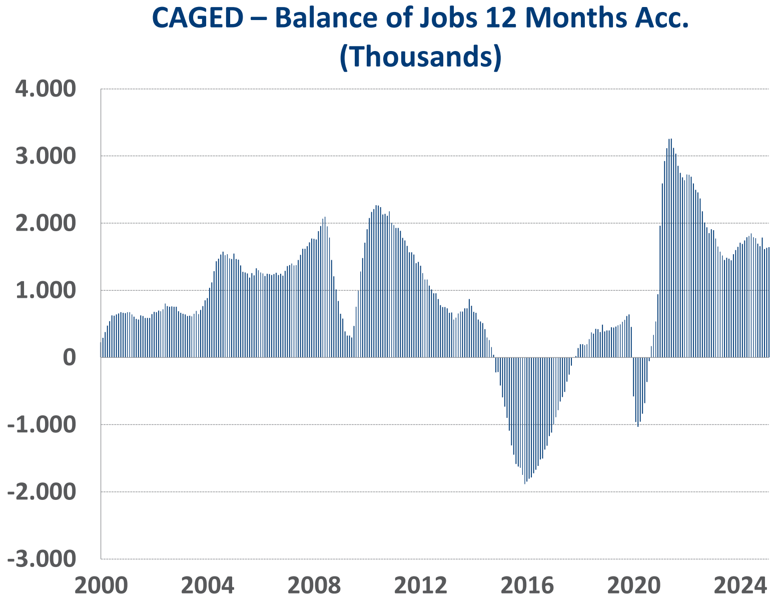
Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

- CAGED registered a net creation of 149k formal jobs in May, considerably below market expectations (176k).
- There was a net addition of 1.050 million occupations from January to May 2025, close to 1.105 million in the same period of 2024. The 12-month rolling sum reached 1.630 million jobs.
- Formal job hiring fell by 1.7% MoM in May (-0.5% QoQ)
- Overall, labor market still shows resilience in sectors that are more sensitive to income, contrasting with some weakening in sectors that are more dependent on credit conditions.



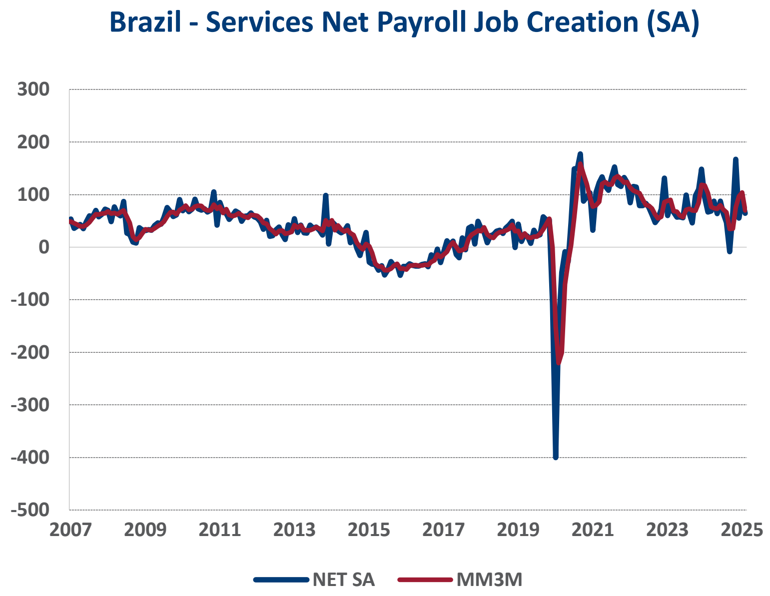


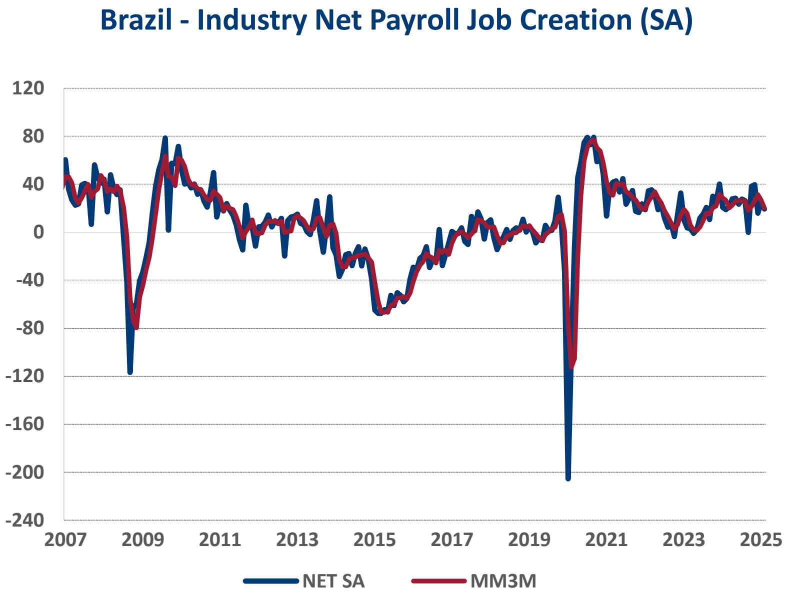


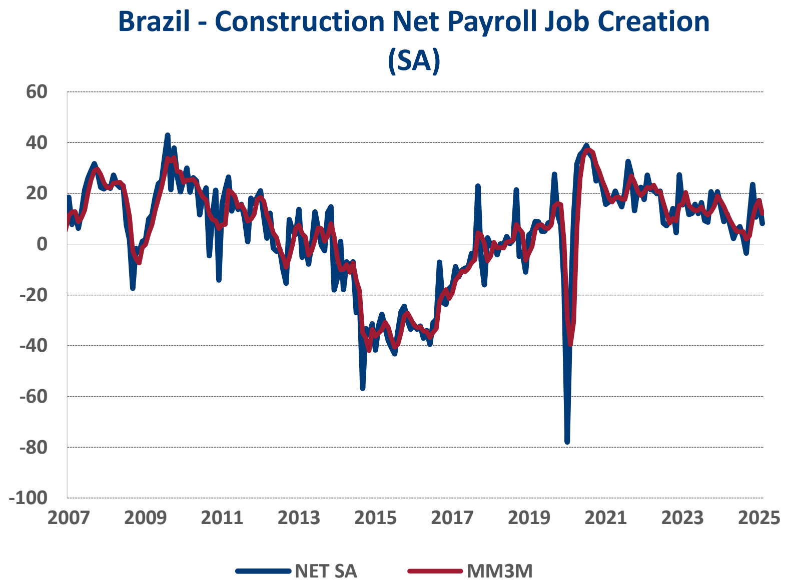
Source: BOCOM BBM, MTE

Brazil: Formal Labor Market

- All sectors posted a moderate slowdown in May
- The net addition in the services sector totaled 62k jobs in May, after 100k in April.
- Other activities presented a mild slowdown in the monthly comparison.
- The retail (to 36k from 40k), construction (to 12k from 20k), manufacturing industry (to 21k from 22k) and agriculture & livestock (to 1k from 4k) sector presented deceleration.
- All in all, formal employment data has been volatile on a month-on-month basis, but its trend is still encouraging





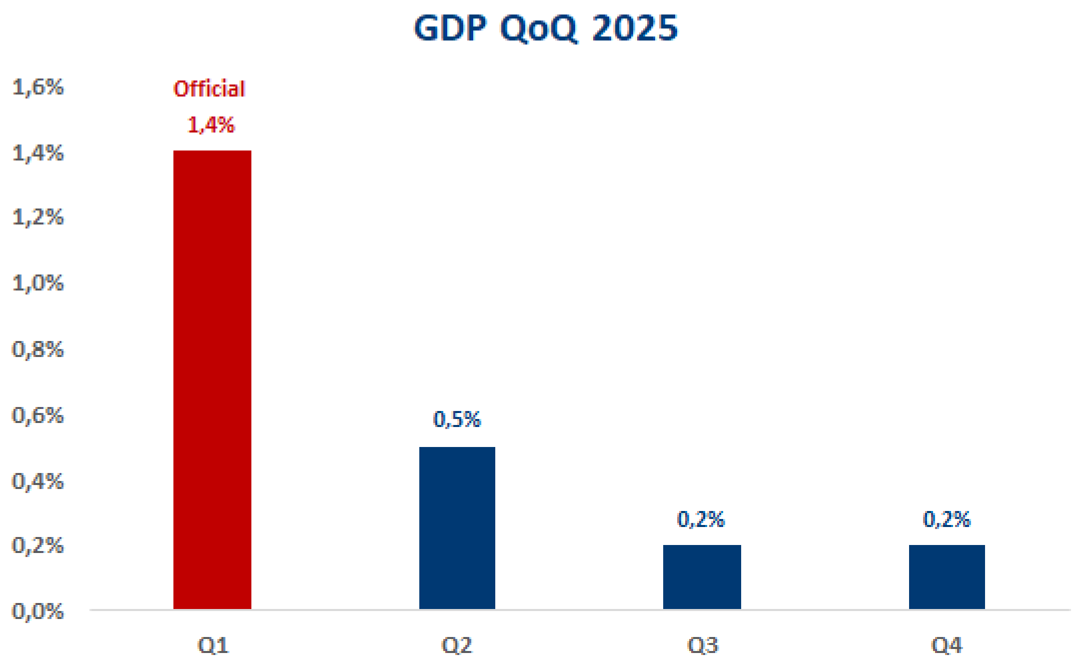


Source: BOCOM BBM, MTE

Brazil: GDP Forecast

- Economic activity showed signs of losing momentum at the end of 2024, but recent data suggest resilience;
- Labor market remain robust, with low unemployment rate and substantial rise in real aggregate labor income;
- In our view, growth in 2025 should register 2.3%, 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

Forecast				
	2025.II QoQ	2025.II YoY	2025	2026
GDP	0,5%	2,5%	2,3%	1,5%
Agriculture	**-0,2%**	**10,0%**	**7,9%**	**4,2%**
Industry	**1,1%**	**1,9%**	**2,4%**	**1,2%**
Mining	4,2%	7,0%	7,9%	4,8%
Manufacturing	-0,1%	0,5%	1,0%	0,2%
Electricity	1,6%	1,0%	1,8%	1,9%
Civil Construction	0,4%	2,0%	2,0%	0,8%
Services	**0,3%**	**1,9%**	**1,7%**	**1,5%**
Retail	0,1%	1,5%	1,5%	0,8%
Transports	1,2%	1,0%	0,9%	0,7%
Information and Communication	0,7%	5,8%	5,3%	3,3%
Financial Services	1,0%	1,5%	1,6%	1,1%
Rents	0,6%	2,7%	2,8%	2,9%
Other Services	0,0%	2,2%	1,6%	1,2%
Public Administration	0,1%	1,0%	0,9%	1,4%

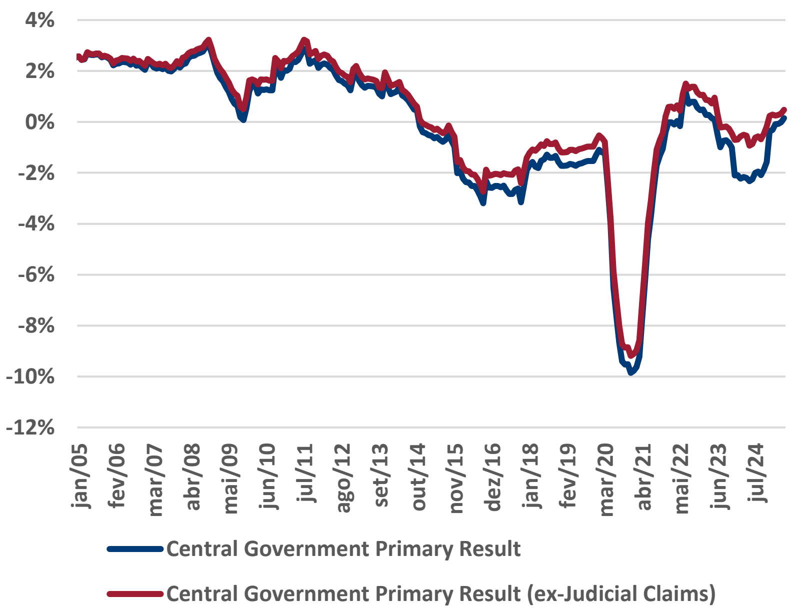


Source: BOCOM BBM, IBGE

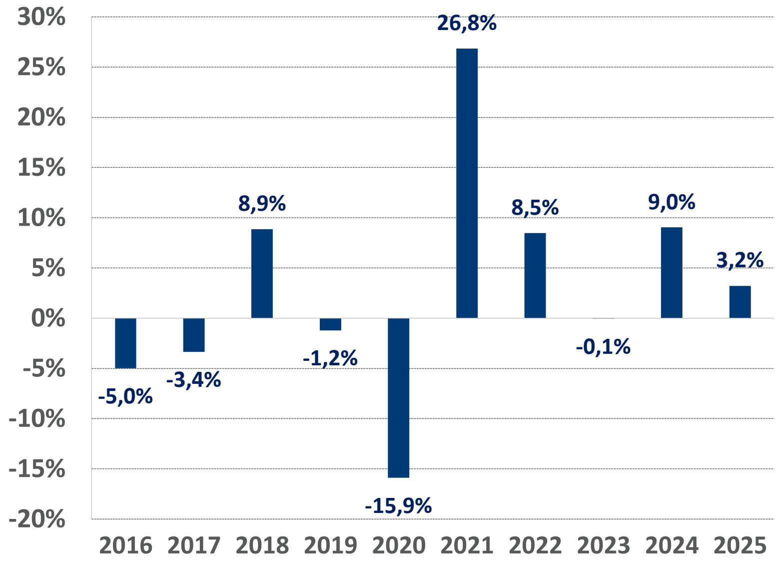
Brazil: Central Government Primary Result

- The central government's primary balance posted a deficit of BRL 40.6 billion in May, lower than the BRL 60.4 billion deficit recorded in last years' and slightly above the market consensus (BRL 40.0 billion)
- Net revenues grew by 2.8% YoY in real terms, mainly driven by natural resources exploitation (19.6%), income tax (9.0%) and import tax (25.9%). On the negative side, there was a decline in PIS/Cofins revenue (-0.3%) and in dividends and shareholdings (-49.4%), this one due to the lower influx of receipts from BNDES (-BRL 4.1 bn) and Petrobras (-BRL 4.3 bn)
- Total expenditure fell by 7.6% YoY in real terms. The change was partly explained by the extraordinary credit related to the Rio Grande do Sul natural disaster last year without any correspondence this year. However, even excluding this effect, we would have a fall of 5.2% in total expenditure a result pushed by discretionary spending (-43.6%), social security benefits (-3.4%) and bonus wage and unemployment insurance (-8.3%)
  - Year-to-date, total expenditure fell by 3.3% mostly due to the change in the payment calendar for court-ordered debts but also due to a lower execution of discretionary spending (-16.9%) and extraordinary credits (-81.6%).
- Overall, the central government's primary balance for May was in line with expectations. We continue to see a risk of higher spending due to the reduction in the backlog of applications for social security benefits and BPC/LOAS

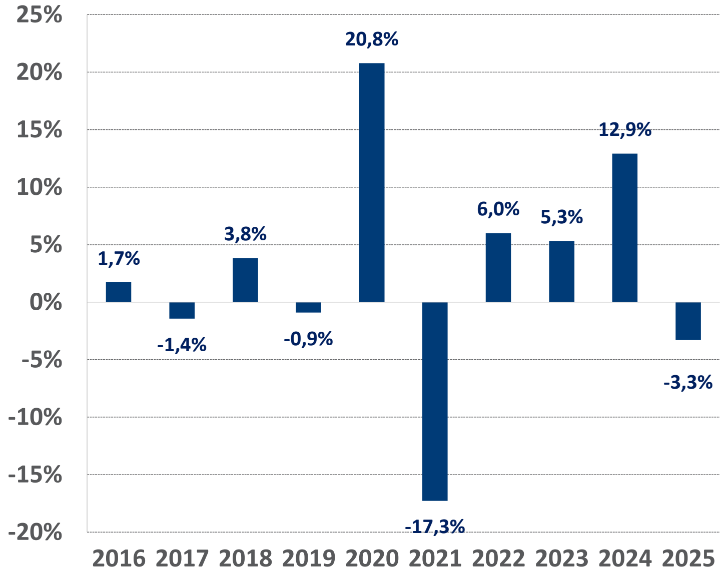
Central Government Primary Result (% GDP)



Net Revenue (YTD Real, %)



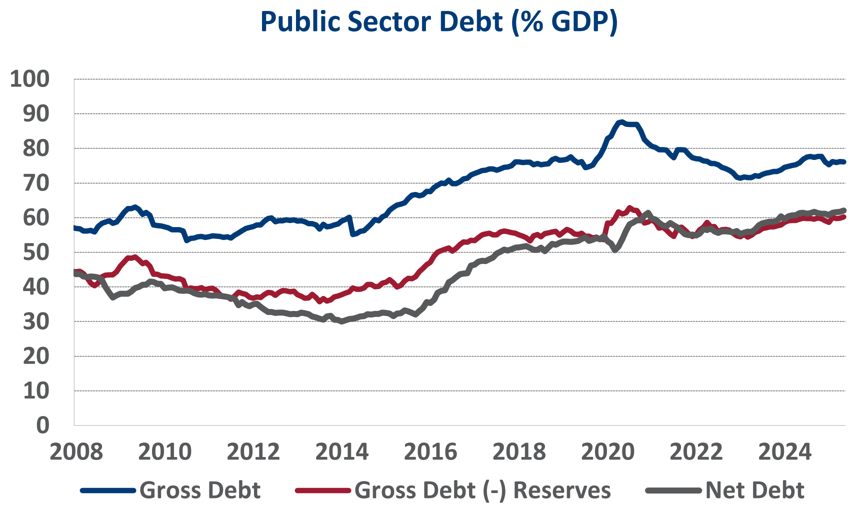
Expenditure (YTD Real, %)

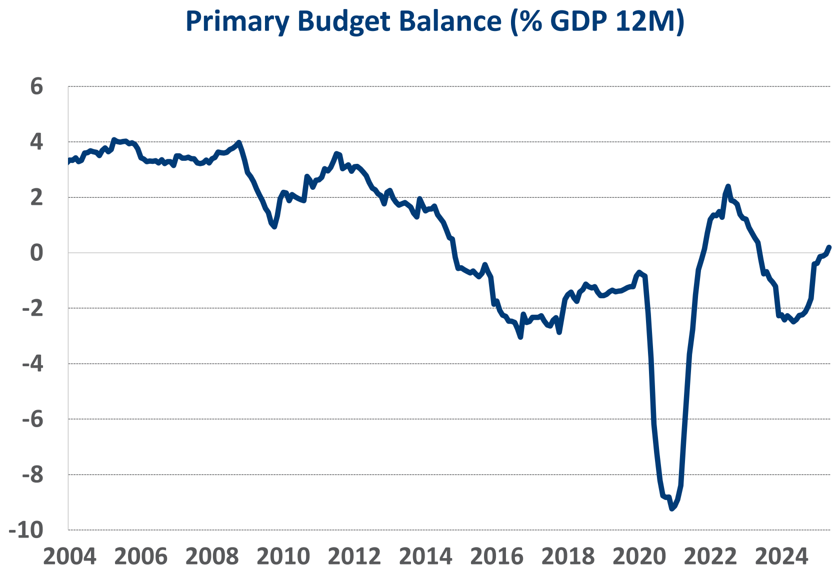


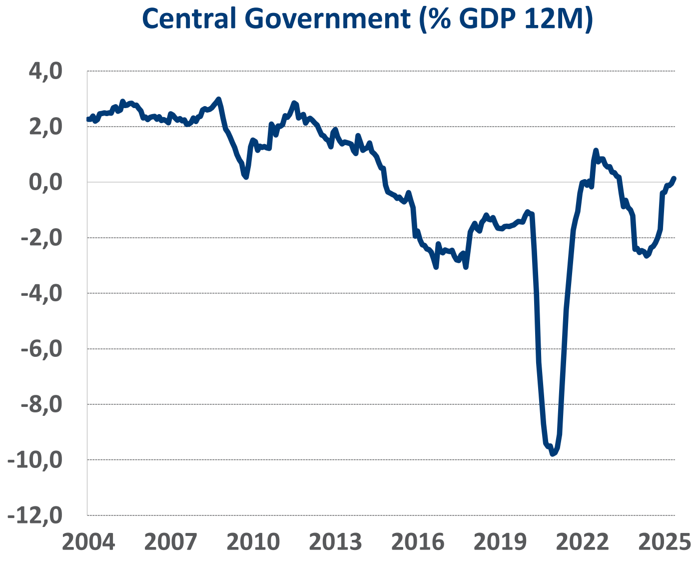
Source: BOCOM BBM, RTN

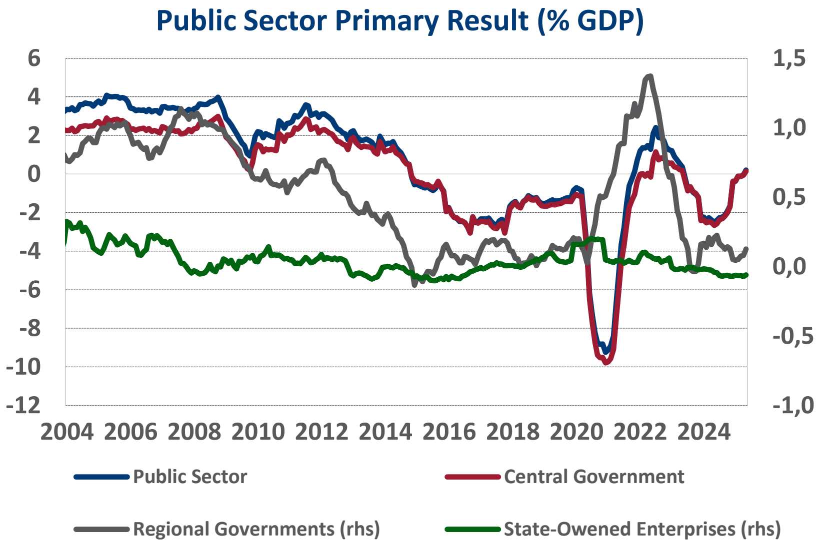
Brazil: Consolidated Public Sector Budget

- The consolidated public sector posted a primary deficit of BRL 33.7 billion in May, below the market consensus (deficit of BRL 42.7 billion), from a deficit of BRL 63.9 billion in May 2024.
- Regarding the breakdown, Central government and state-owned enterprises (SOE) registered a deficit of BRL 37.4 bn and BRL 0.9 bn, respectively, while regional governments reached a surplus of BRL 4.5 bn.
- General Government Gross Debt (GGGD) rose from 76.0% to 76.1% of GDP, with nominal interest (+0.8 p.p.) being the main driver of this growth, while nominal GDP growth (-0.6 p.p.) partially offset it.







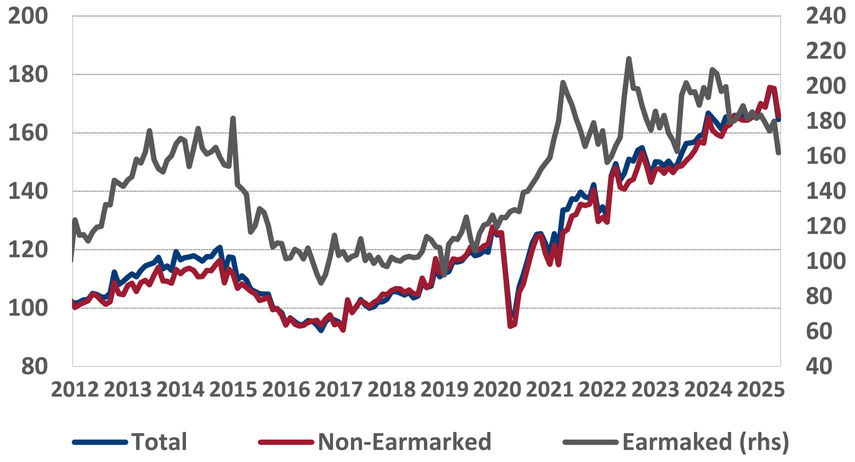


Source: BOCOM BBM, BCB

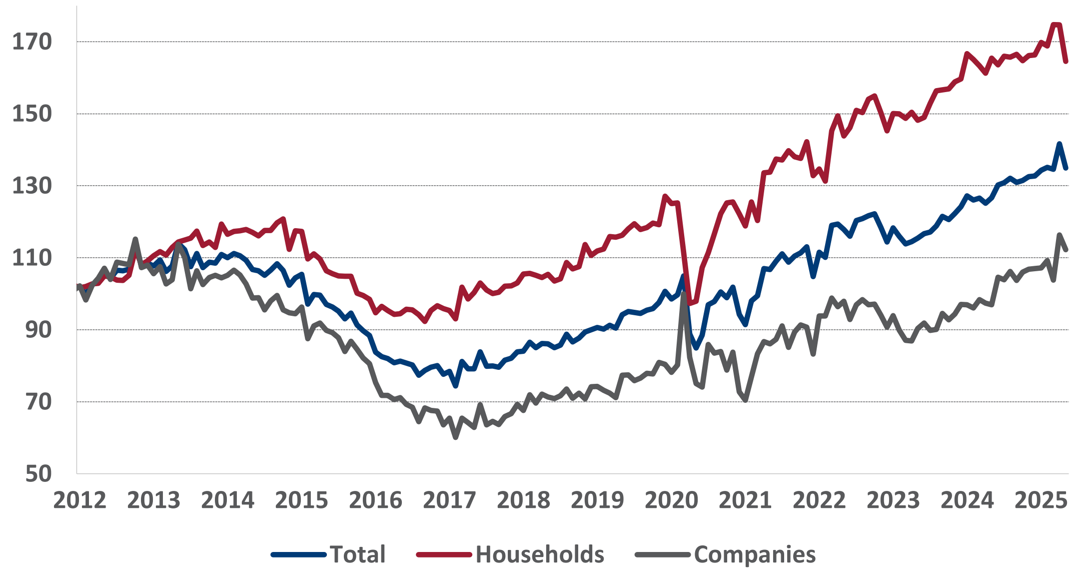
Brazil: Credit Statistics

- In May, total credit concessions decreased by 4.8% MoM in real terms, after increasing 5.3% in the last month.
- Non-earmarked credit concessions increased 1.8% MoM in real terms to companies and fell 5.3% MoM to households.
- May credit results reflected the lagged effects of monetary policy, with a slowdown in disbursements, increases in interest rates and delinquency, and supported the view that the credit market is set to gradually moderate throughout the year.

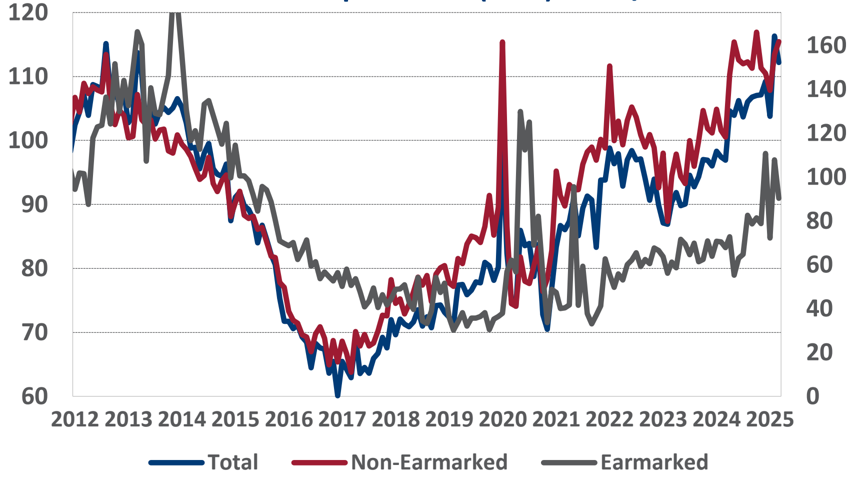
Concessions - Households SA (Real) - Mar/11 = 100



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



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



Source: BOCOM BBM, BCB

Brazil: Credit Statistics

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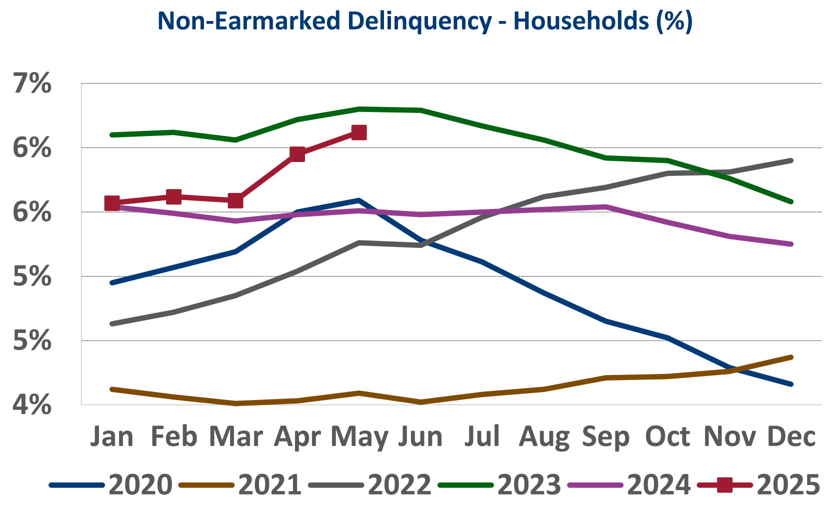
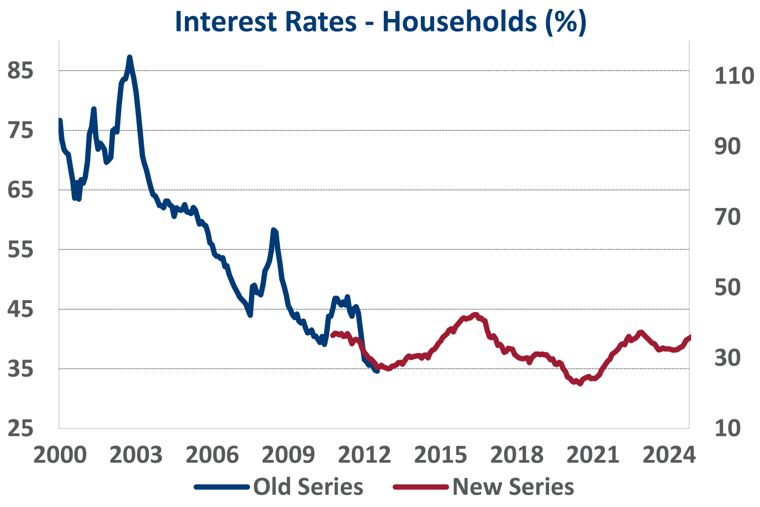
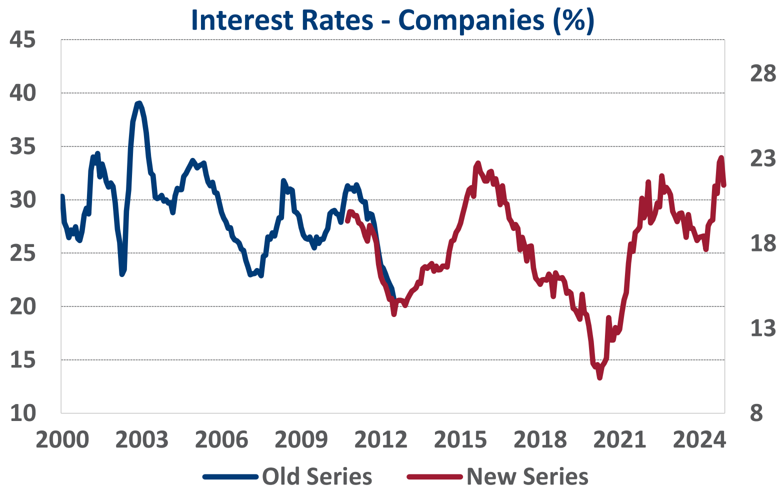
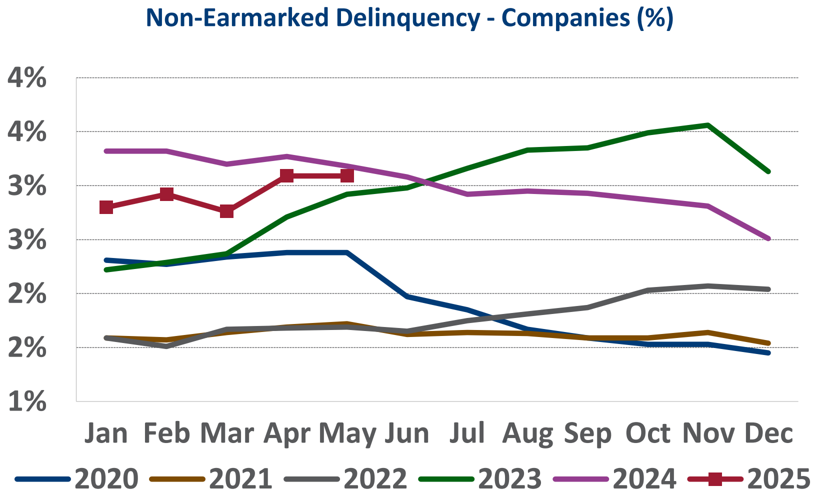
- Lending rates reached historically high levels for households, rising to 36.2% in May from 35.8% in April, while for companies, rates declined to 21.4% from 23.1%.
- In turn, delinquency on non-earmarked loans increased for households (from 5.9% to 6.1%) and remained stable for companies (at 3.1%). This movement may be partially explained by the regulatory change that delayed the recognition of losses on past-due loans.





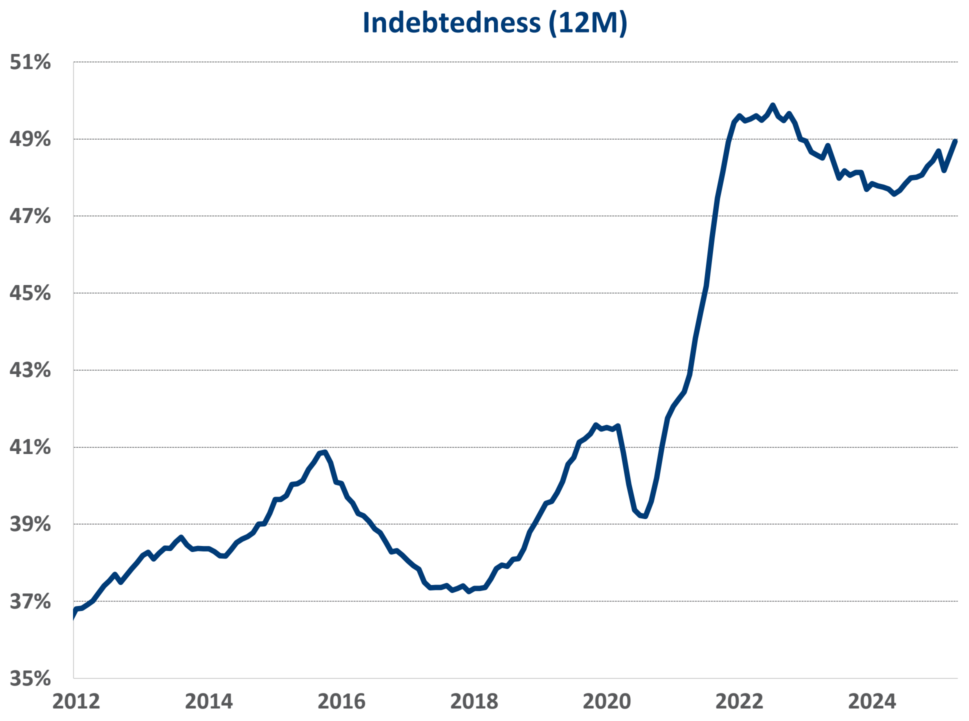


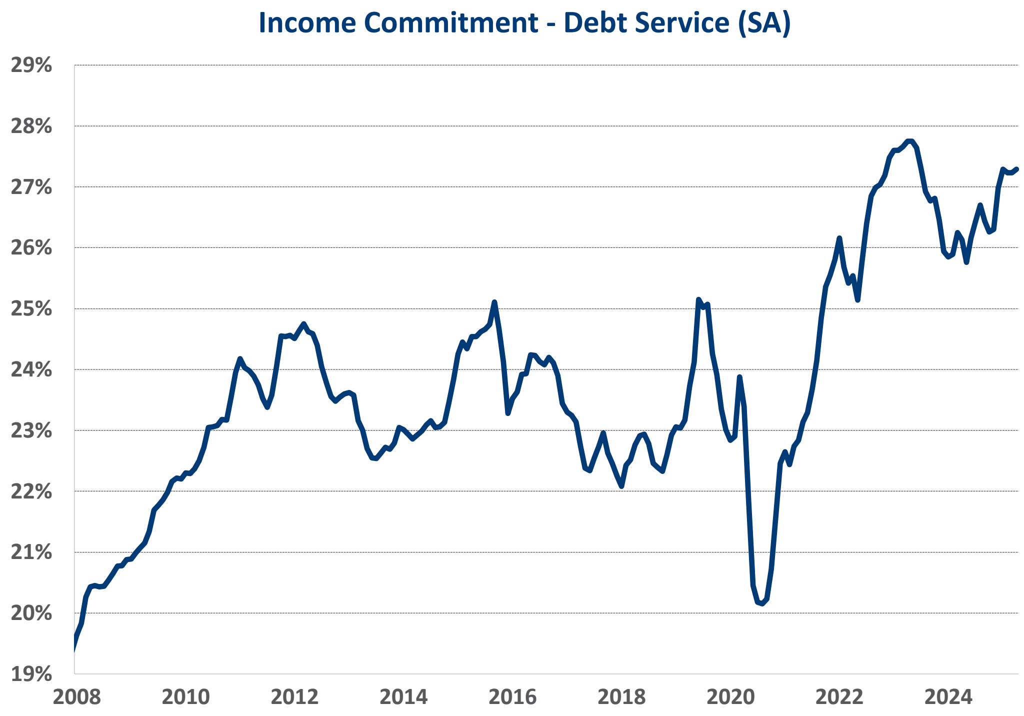


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- The household indebtedness remains high, rising to 48.9% in April, from 48.6% in March.
- Meanwhile, income commitment remained stable, increasing marginally to a seasonally adjusted level of 27.3% in April, from 27.2% in March.
- Looking forward, there is uncertainty over credit.
  - The sharp rise in default rates and high borrowing costs raise concerns about the sector's outlook. Combined with the lagged effects of monetary tightening, credit conditions are likely to worsen further in the coming months.
  - In the short term, the stronger-than-expected resilience of the labor market is expanding the pool of workers eligible for the new government-backed credit program for CLT employees. This, along with other demand-side impulses, is contributing to a slower-than-anticipated deceleration in credit activity this year.

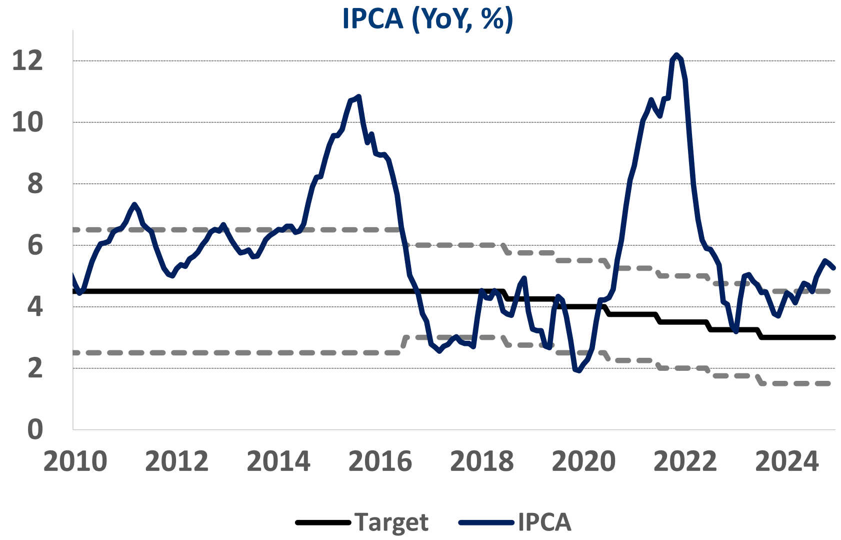


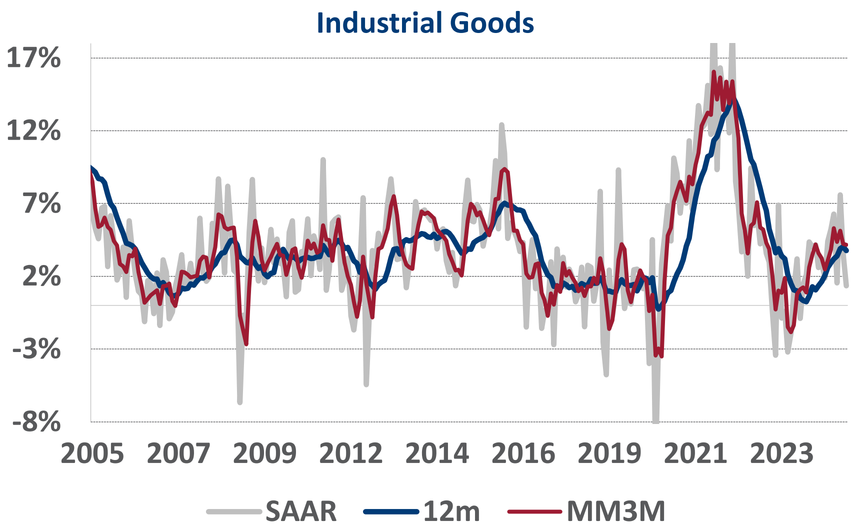


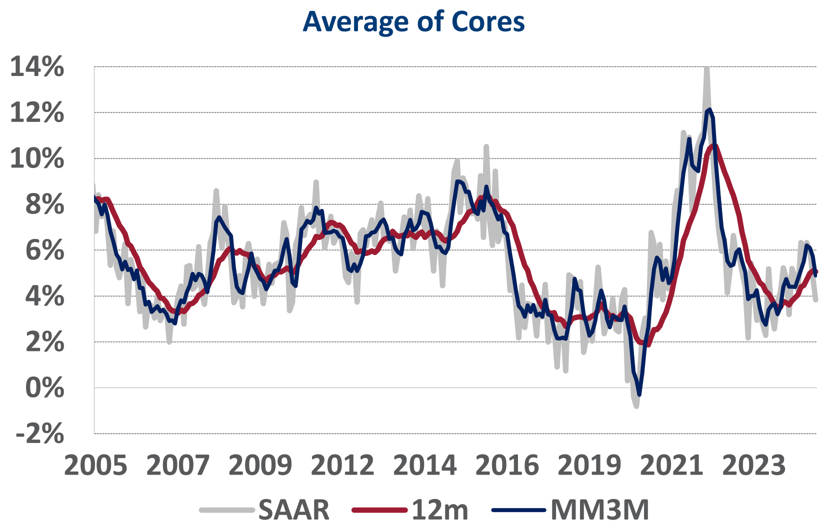
Source: BOCOM BBM, BCB

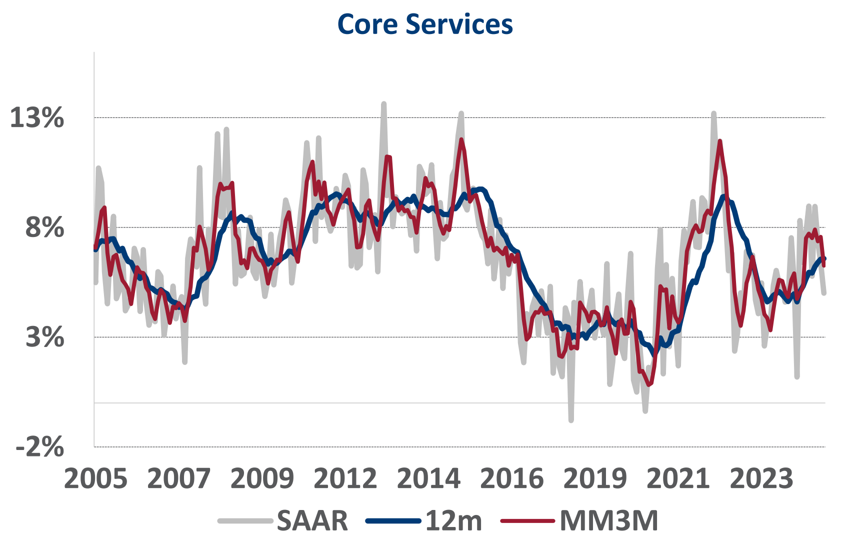
Brazil: Inflation 2025

- June IPCA-15 rose by 0.26% MoM, slightly below market expectations (0.30% MoM). The 12-month variation slowed down from 5.40% in May to 5.27% in June.
- Downward surprises were concentrated in services, especially airfares, condominium and rents
- Core services advanced 0.42% MoM, slightly below forecasts, and the 3M SAAR fell from 7.4% to 6.2% continuing at worrisome levels.
- The average of core inflation increased by 0.30% MoM, also below expectations, with its 3M SAAR at 5.0%.
- In all, June IPCA-15 presented widespread relief in market-set prices





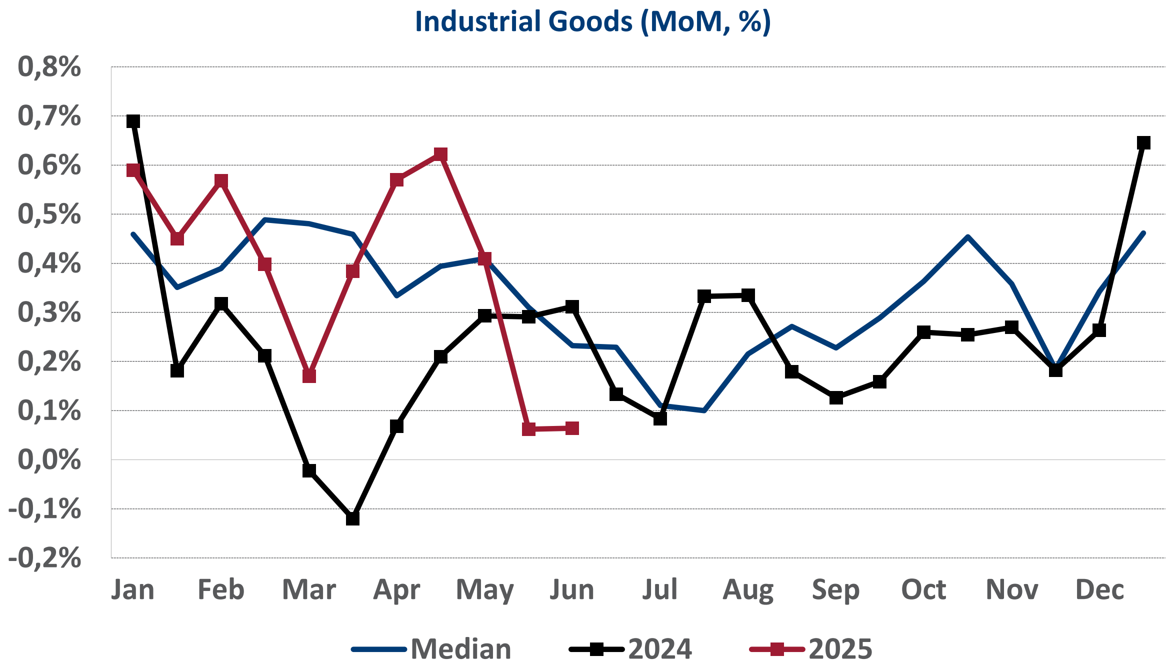


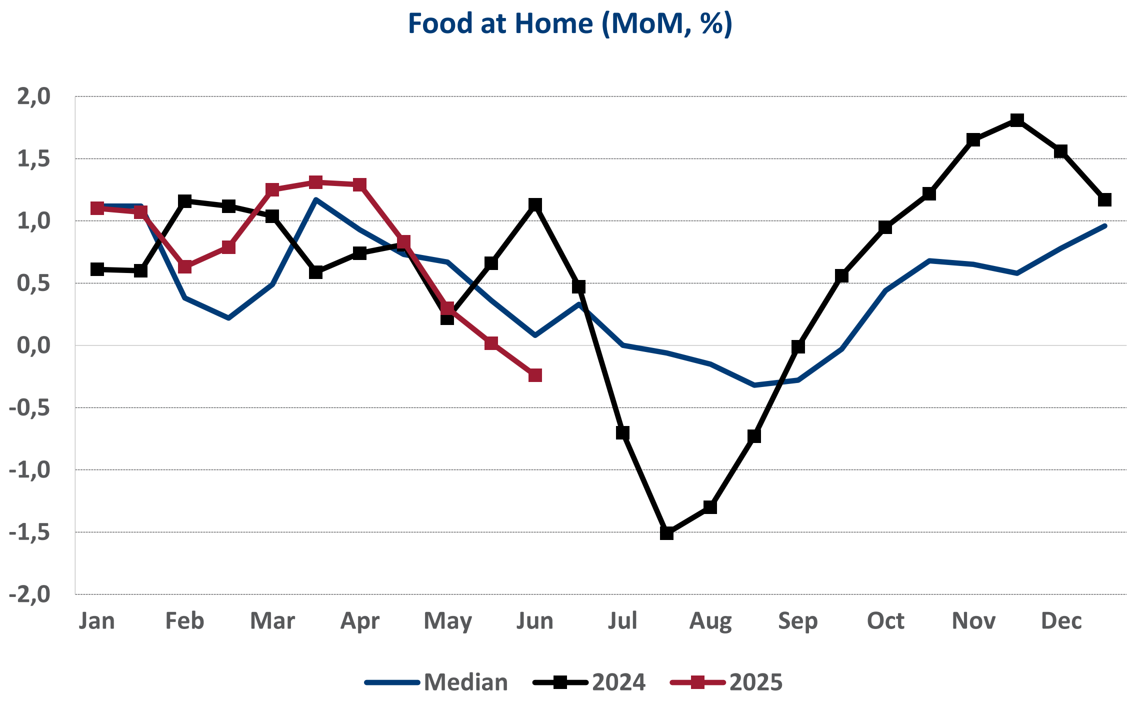


Source: BOCOM BBM, IBGE

Brazil: Inflation 2025

- Industrial goods increased by 0.06% MoM, materially below estimates. The 3M SAAR decreased from 3.9% last month to 3.6% in June.
- Foodstuff prices decreased by 0.24% MoM, in line with expectations. Items such as fresh foods, poultry and eggs contributed to the drop
- The recent benign dynamics of the BRL have materialized in weak readings for industrial goods inflation in recent months





Source: BOCOM BBM, IBGE

Brazil: Inflation

- Our forecast was marginally revised down again from 5.3% to 5.1%
- Better perspectives for tradables due to BRL appreciation, cheaper industrial goods coming from China and high-interest rate differential

IPCA (%, annual)

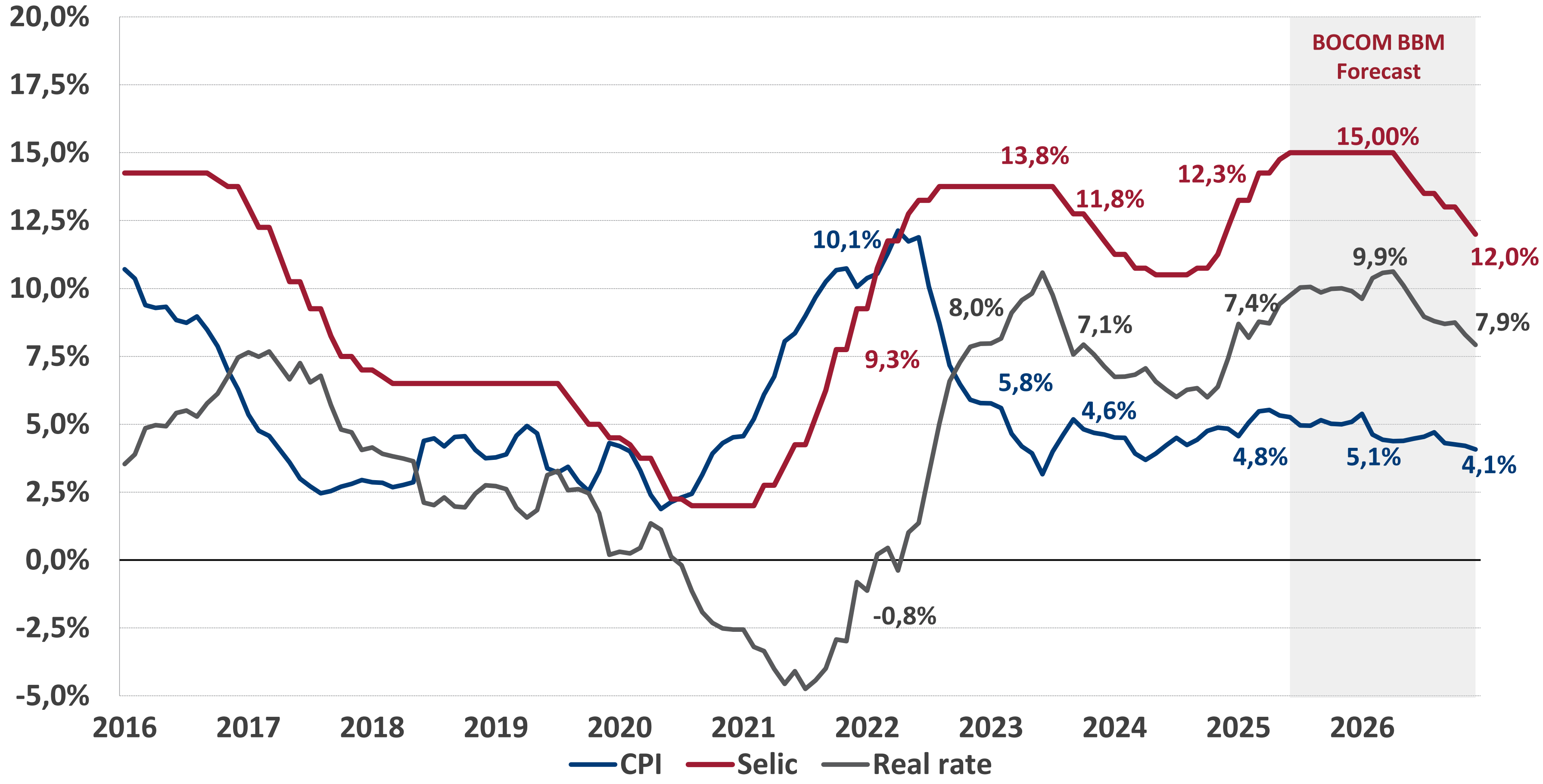
	Weight	2019	2020	2021	2022	2023	2024	2025	2026
Regulated	**26,6**	**5,5**	**2,6**	**16,9**	**-3,8**	**9,1**	**4,7**	**4,5**	**3,9**
Industrial goods	**23,6**	**1,7**	**3,2**	**11,9**	**9,5**	**1,1**	**2,9**	**2,9**	**2,6**
Durable goods	10,3	0,0	4,5	12,9	6,1	-0,4	1,5	1,7	-
Semi-durable goods	5,9	0,6	-0,1	10,2	15,7	2,7	2,1	3,2	-
Non-durable goods	7,3	4,4	4,0	11,9	9,5	1,7	5,4	4,3	-
Food at home	**15,7**	**7,8**	**18,2**	**8,2**	**13,2**	**-0,5**	**8,2**	**7,4**	**4,8**
Services	**34,1**	**3,5**	**1,7**	**4,8**	**7,6**	**6,2**	**4,6**	**5,9**	**4,9**
Food away from home	5,6	3,8	4,8	7,2	7,5	5,3	6,3	6,8	5,2
Related to minimum wage	5,2	2,9	1,5	3,3	6,3	5,2	5,0	6,9	5,2
Sensitive to economic activity	8,2	2,4	0,2	5,1	6,3	9,5	0,9	5,3	4,9
Inertial	15,0	4,3	1,6	4,2	8,8	5,1	6,0	5,6	4,6
IPCA		**4,3**	**4,5**	**10,1**	**5,8**	**4,6**	**4,8**	**5,1**	**4,1**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

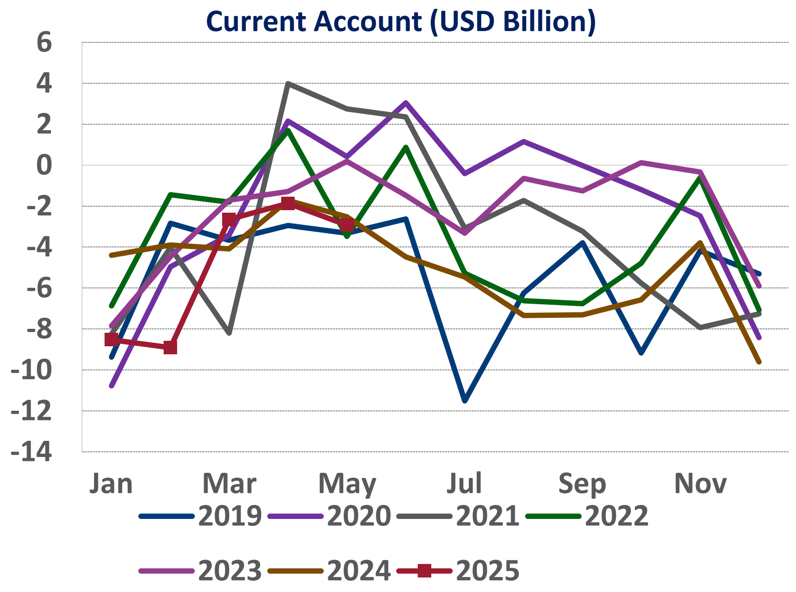
- Concerning monetary policy, the Brazilian Central Bank (BCB) raised the Selic rate by 25 bps to 15.00% p.a. at its June meeting, in line with our expectation. Concerning monetary policy, the Brazilian Central Bank (BCB) raised the Selic rate by 25 bps to 15.00% p.a. at its June meeting, in line with our expectations. BCB inflation projections six trimesters ahead stand at 3.6 % in the fourth quarter of 2026 in a scenario where rates stay at 14.75% until the end of 2025 and reach 12.5% in 2026. Looking forward, the committee highlighted the need to maintain the Selic rate at current levels for “a very prolonged period”. In all, the statement points to the likely end of the hiking cycle, with some room for rate adjustments if needed.

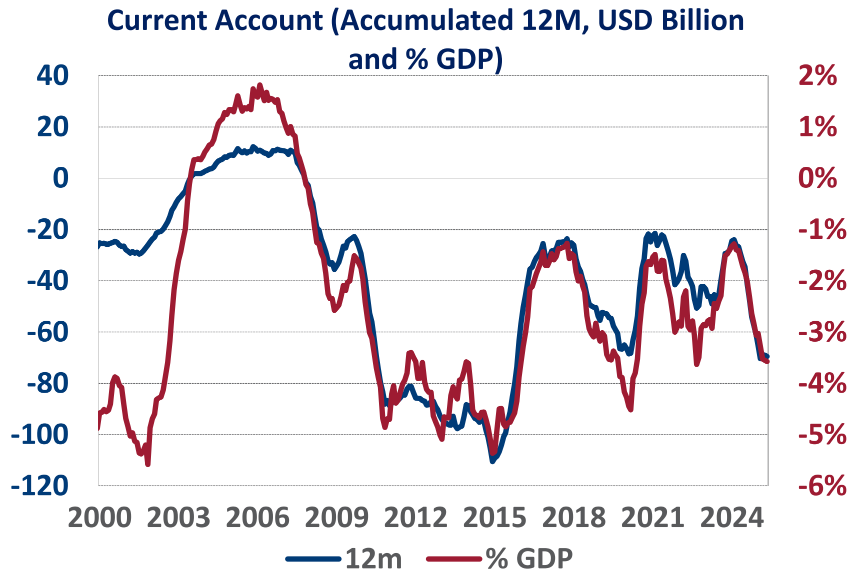
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

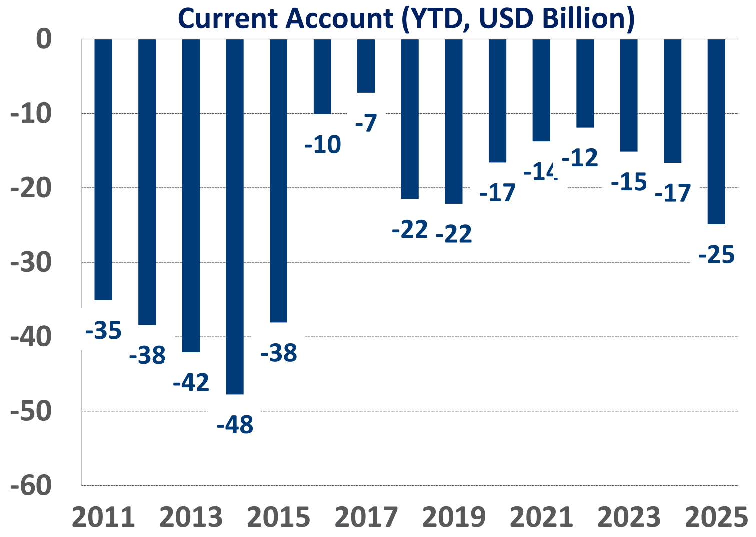


Brazil: Balance of Payments

- The Brazilian current account recorded a deficit of USD 2.9 billion in May 2025, close to market expectations (USD -3.2 billion).
- The Services account contributed most to the difference between estimates and the actual result.
- On a 12-month basis, the deficit reached USD 69.4 billion (3.26% of GDP) from USD 69.0 billion (3.24% of GDP) in April.



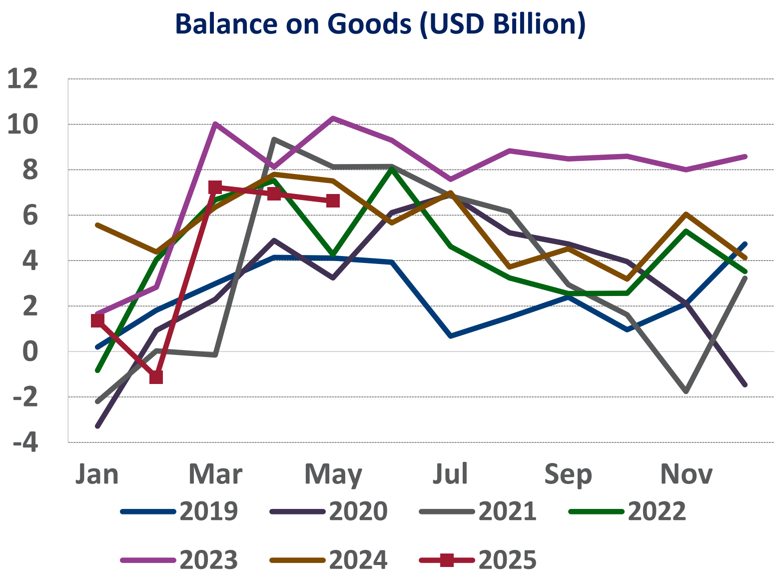


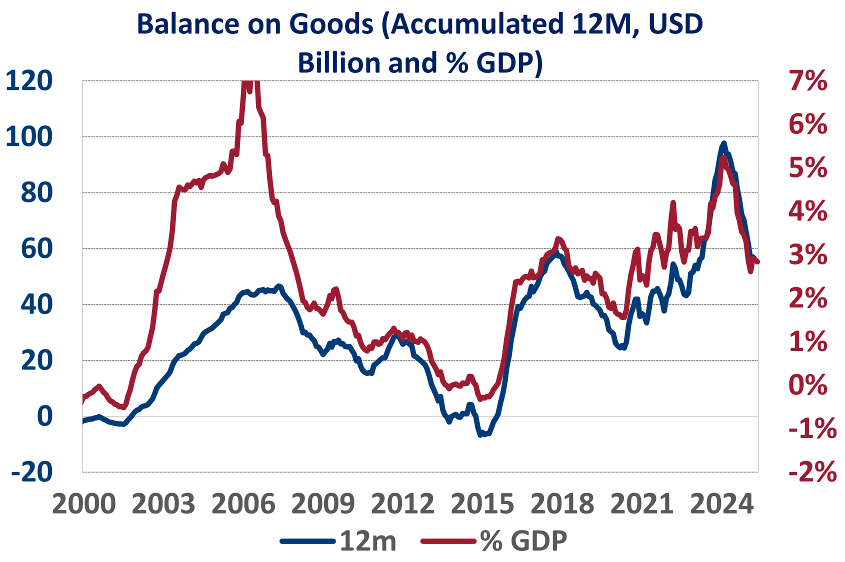


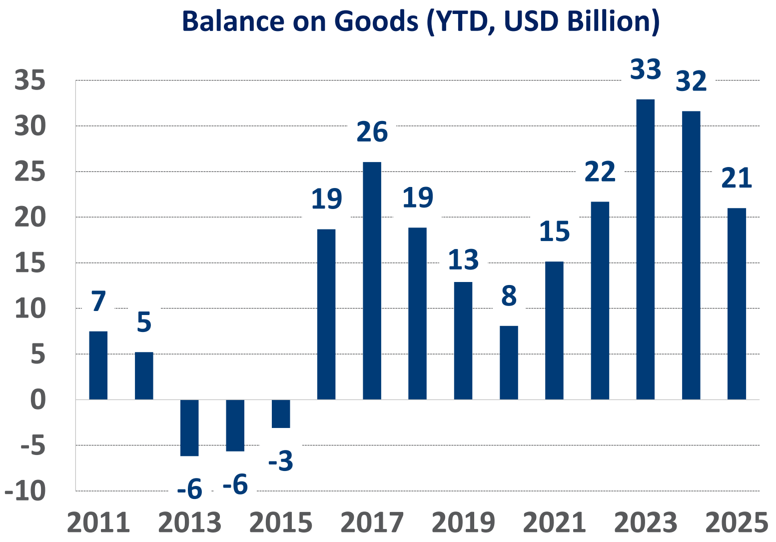
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- The merchandise trade balance recorded a surplus of USD 6.6 billion, lower than the USD 7.5 billion surplus recorded in May 2024.
- Exports remained flat at USD 30.3 billion, while imports kept posting strong figures (+3.5% YoY to USD 23.7 billion). According to MDIC data, import volumes remain robust, pressuring the trade surplus
- On a 12-month basis, the trade surplus declined slightly to USD 56.2 billion, from USD 57.1 billion in May.
- A delayed recovery in export volumes, especially in agriculture, and a gradual deceleration in imports is expected



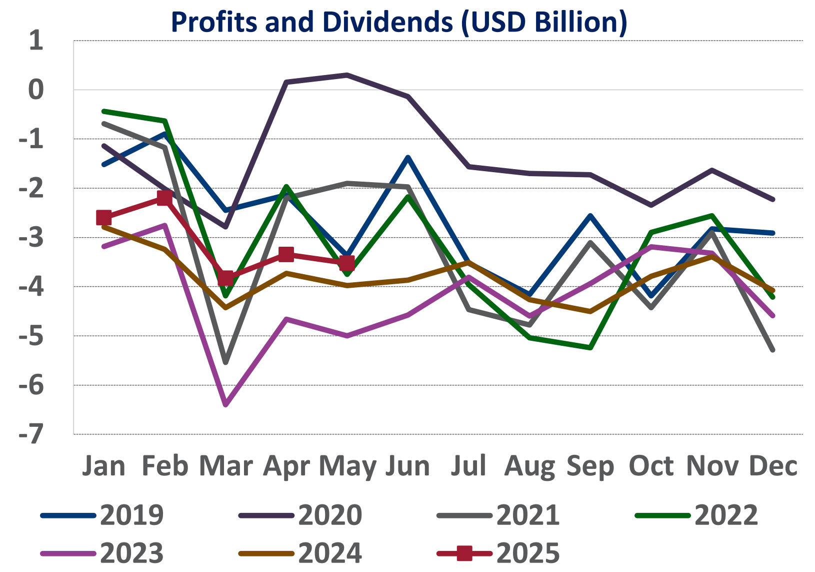


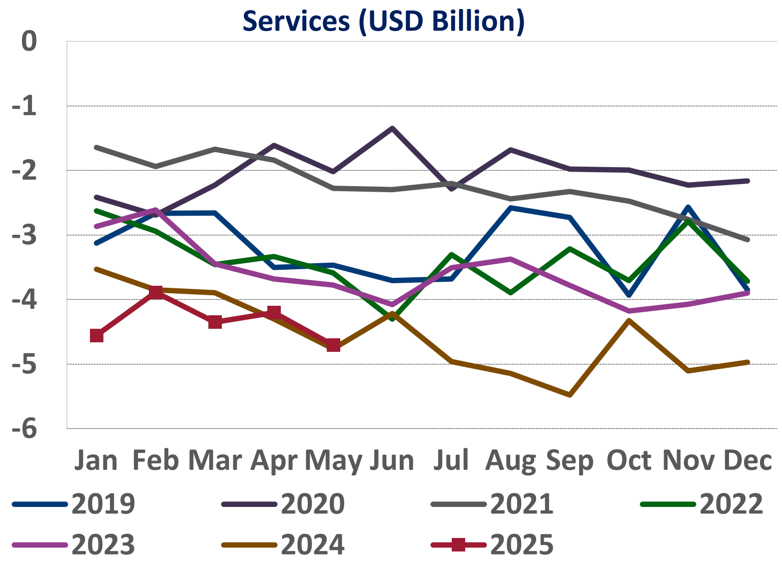


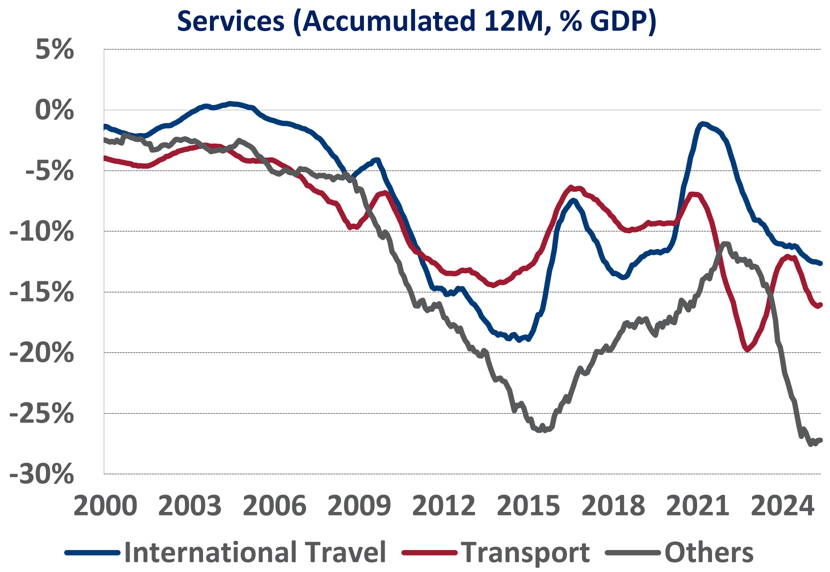
Source: BOCOM BBM, BCB

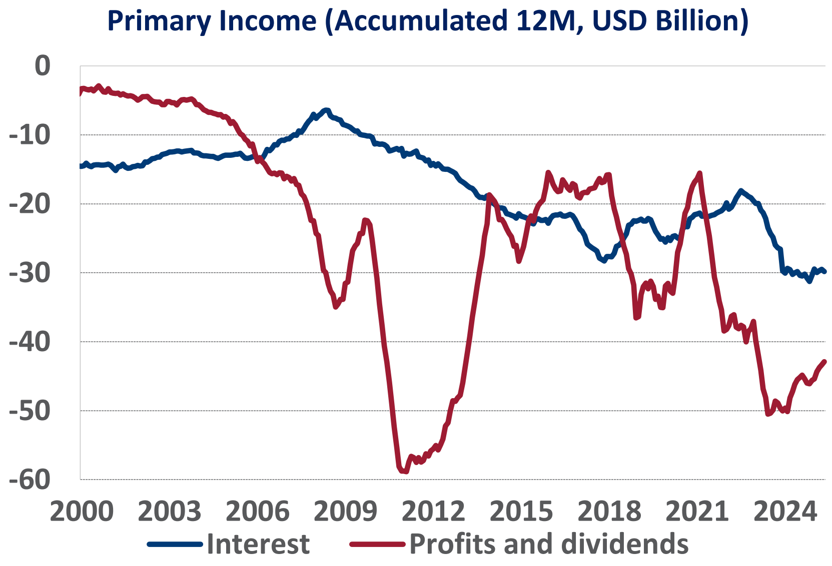
Brazil: Balance of Payments

- The Services account posted a deficit of USD 4.7 billion in May, slightly narrower than the USD 4.8 billion deficit observed in the same period last year. On a 12-month basis, the Services deficit reached USD 55.9 billion.
- The 'Intellectual Property' and 'Telecommunication' accounts, whose dynamics are less sensitive to the economic cycle, recorded a USD 1.7 billion deficit. Additionally, the 'Operating Leasing Services' account deficit widened in May by USD 0.2 billion, in line with higher GFCF investments.
- On the other hand, the 'Personal, Cultural, and Recreational Services' Account posted a surplus of USD 10 million in May 2025, from a deficit of USD 500 million in May 2024. The result came in line with the formalization of betting operations that began earlier this year.









Source: BOCOM BBM, BCB

Brazil: Balance of Payments

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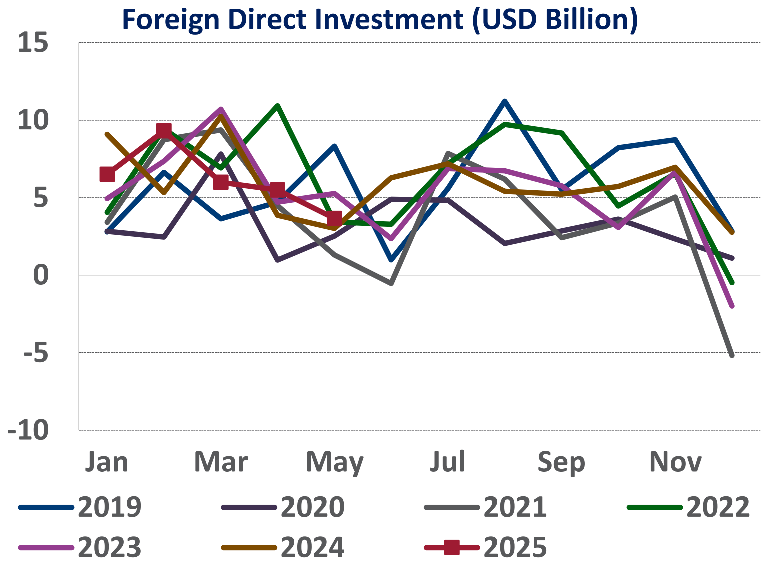
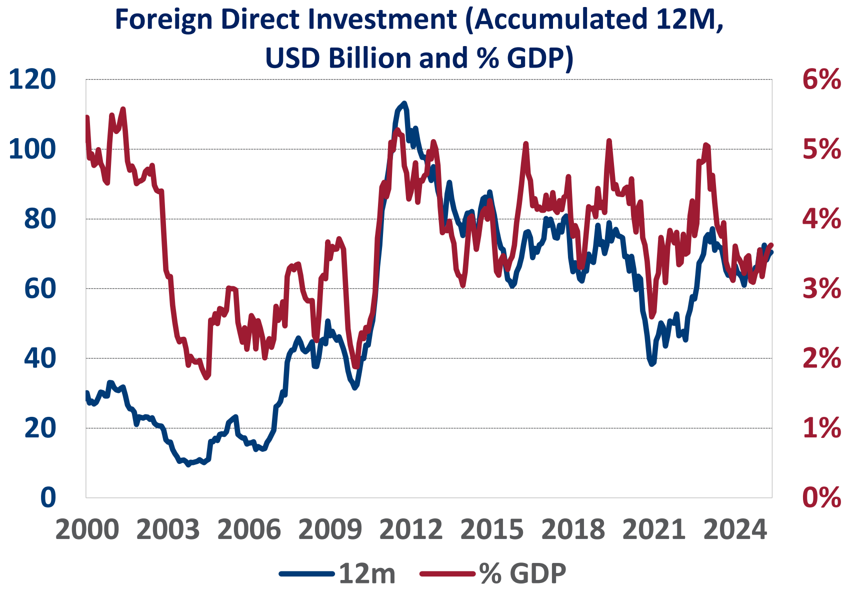
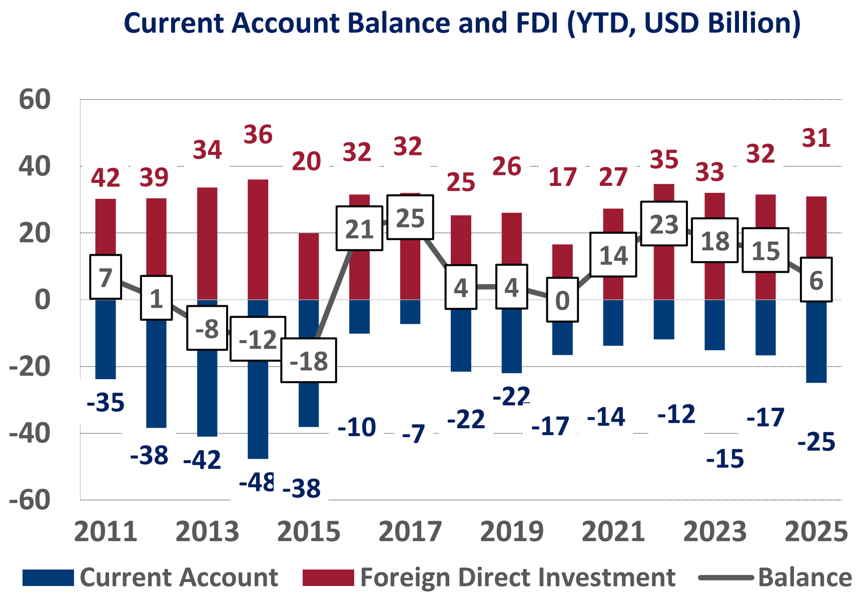
- Foreign Direct Investment (FDI) registered a net inflow of USD 3.7 billion in May, below market consensus.
- Equity capital and intercompany loans posted a net inflow of USD 1.8 billion each.
- On a 12-month basis, FDI inflows increased to USD 70.5 billion (3.31% of GDP), up from USD 69.8 billion in April.
- Despite this month's figure below expectations, the Foreign Direct Investment (FDI) inflows to Brazil remain robust, continuing to serve as a key source of stable financing for the current account deficit



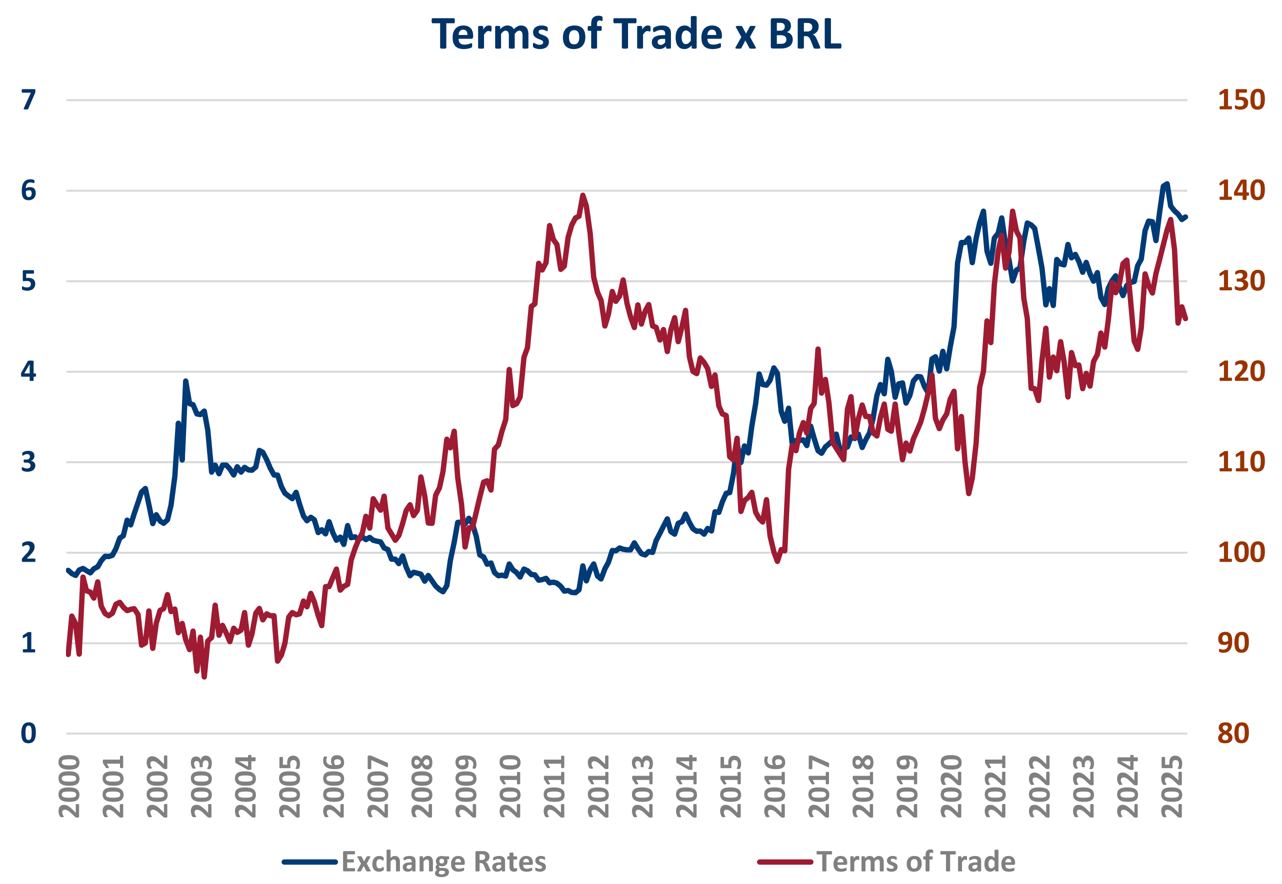


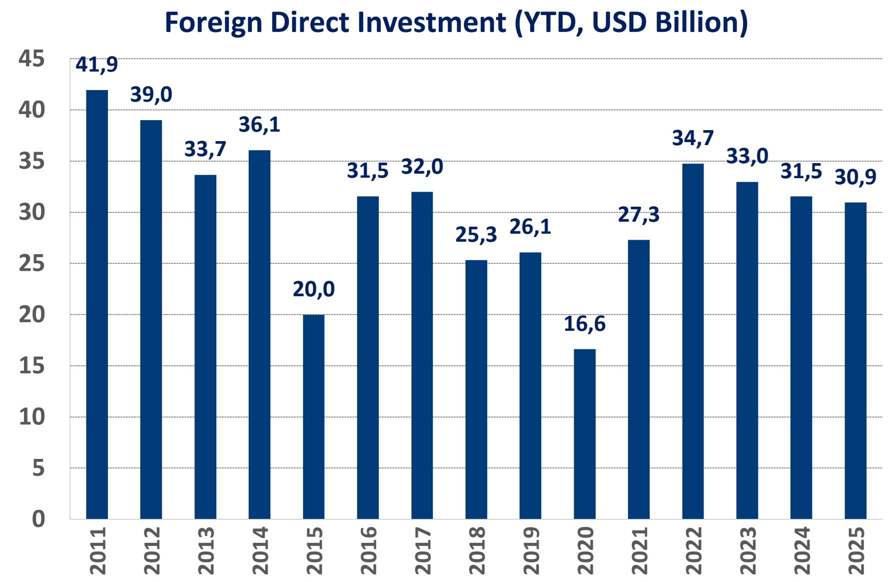


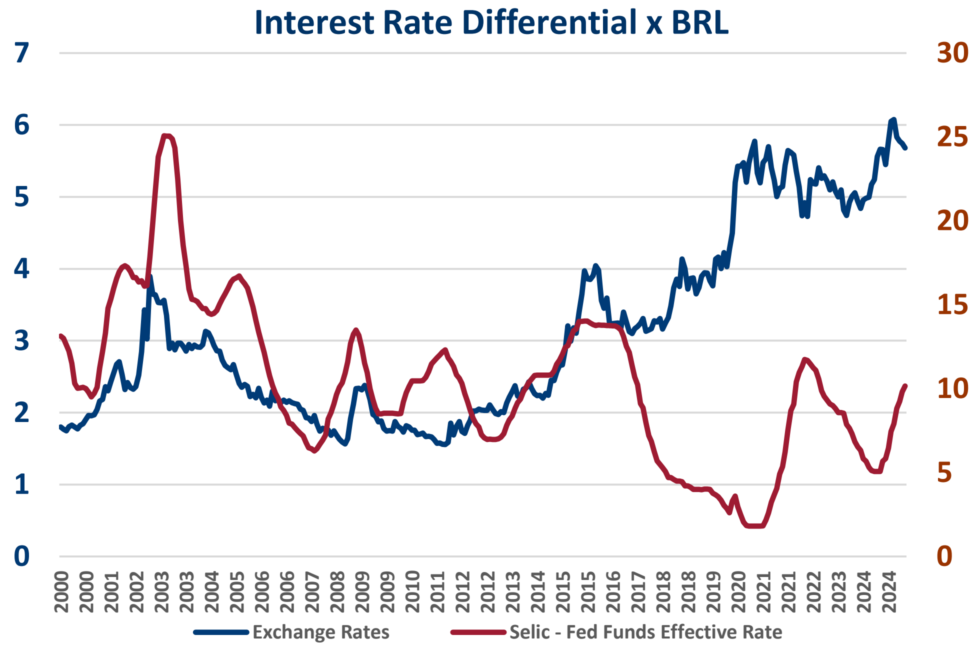
Source: BOCOM BBM, BCB

Brazil: External Sector

In June, the Brazilian Real appreciated from 5.70 to around 5.46 against the US Dollar. In the domestic front, the June inflation preview surprised positively with a benign composition, while the Central Bank maintained a cautious instance increasing Selic rates by 25 bps in the June meeting, supporting the BRL appreciation. In the international front, the relief on geopolitical tensions was the driver for the dollar weakening.





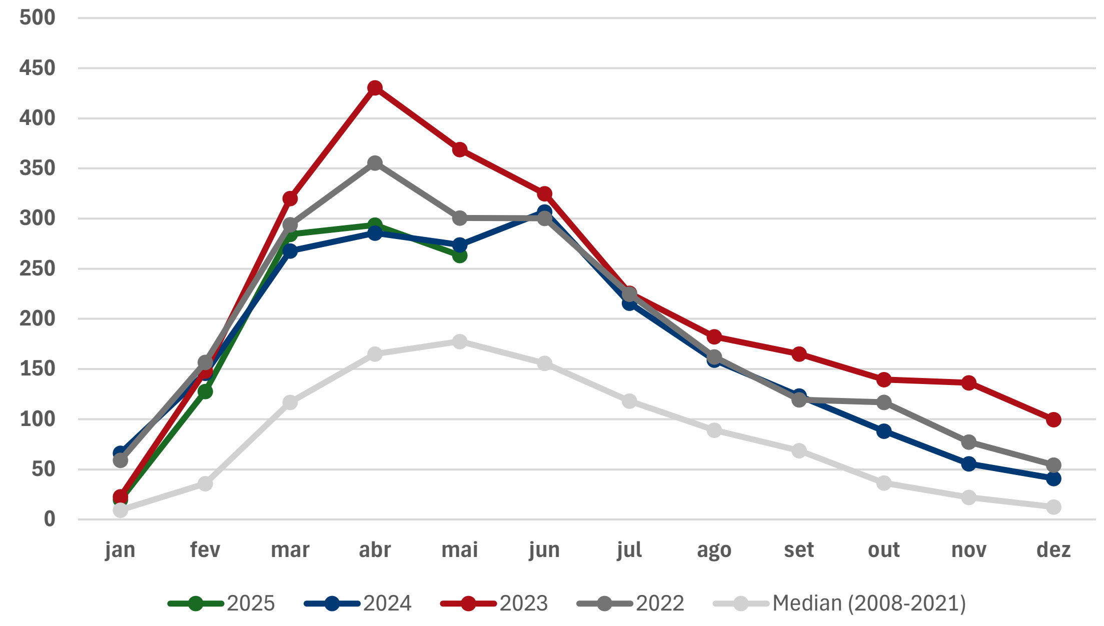


Source: BOCOM BBM, Bloomberg, BCB

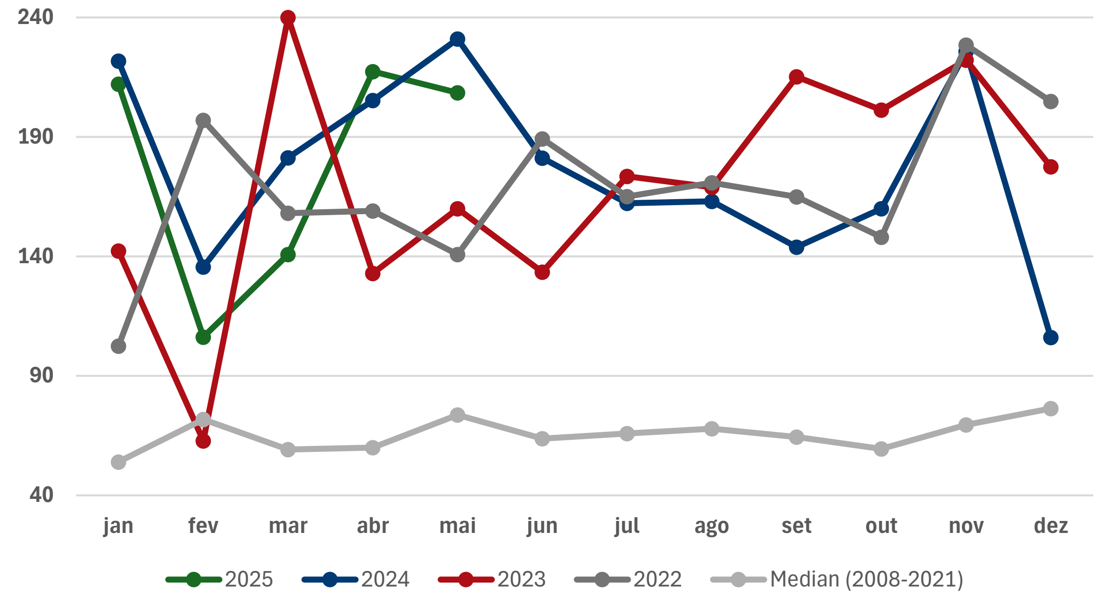
Brazil: External Sector

- In May, the trade balance presented a surplus of USD 7.24 bn (-12.8% YoY) according to Secex data;
- Exports decreased marginally by 0.1% YoY, mainly due to the performance of the extractive industry (-6.6% YoY). Key contributors to this fall included corn (-78.7% YoY) and Precious metal ores and concentrates (-89.8% YoY).
- In turn, imports rose by 4.7% YoY, driven by the demand transformation industry (9.5% YoY), while the extractive industry imports declined by 45.9%.

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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