Macro Outlook

September 2025

Macro Outlook

BANK OF COMMUNICATIONS BBM

- In the US, Chair Powell's Jackson Hole remarks stated that "with policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance", which was read as a high level of willingness to cut in the FOMC's upcoming meeting. On inflation, July CPI and PCE showed some slowdown on tariff effects, but inflation remains above target and tariffs are still expected to weight throughout H2. In the labor market, August payroll brought relevant downside surprises again, with a slowdown from 79k to 22k net jobs while markets expected 75k, and material reductions in both private and government jobs. 2-month-net revision was -21k. The increase in the unemployment rate to 4.3% suggests further slowing in the labor market and increased odds of more rate cuts (despite not as clearly shown in other indicators yet) - with markets now pricing a baseline scenario of three consecutive 25bps cuts in 2025. Further signs of cooling are expected as tariffs weigh on activity and boost inflation, but the outlook remains highly uncertain.

- Regarding China, July data pointed to a softer momentum in the economy. With the exception of exports, all major indicators missed expectations. Housing continues to be a drag and is expected to remain so in H2, weighting on construction and consumer confidence. Trade balance showed resilience in July amid trade tensions: exports surprised upwards, and the decrease on exports to the US was more than offset by strong shipments to ASEAN, Latin America, Africa and EU. With the weak dynamism of domestic demand and only marginal policy easing, growth is likely to gradually soften further in coming months.

- In Brazil, economic activity shows signs of deceleration. In June, industrial production result came slightly below expectations, increasing by 0.1% MoM. Additionally, retail sales posted a huge decline (-2.5% MoM) showing signs of slowdown in domestic demand. Services, in turn, registered a solid growth (0.3% MoM). Summarizing this scenario, the IBC-BR showed a decrease of 0.1% MoM in June. The formal labor market continues to show net job creation, but July's data reinforce the slowdown trend. The second-quarter GDP data just published shows a sharp fall in the growth. Mining and other sectors less sensitive to the business cycle displayed the strongest growth, alongside the resilience of the service sector, while sectors more reliant on credit such as manufacturing and construction were the negative highlights. The drop of 0.2% in domestic absorption following growth of 1.2% in the first quarter is the clearest indication that demand is losing dynamism.

- Concerning monetary policy, the Brazilian Central Bank (BCB) kept the Selic rate at 15.00% p.a. at its July meeting, as expected, pointing out the need to caution in conducting monetary policy. The committee made an effort to suggest that the recent developments on activity and inflation do not change its view that monetary policy's job is far from concluded, and extra caution is still needed ahead. However, improvements in inflation expectations and the BRL appreciation may lead the central bank to anticipate the cutting cycle. We now expect a cut of 50 bps in December, a scenario in line with the slowdown in economic activity and the better-than-expected IPCA prints. The beginning of the Fed cutting cycle should also contribute to BRL appreciation.

- August IPCA-15 fell by 0.14% MoM, above market expectations of -0.20% MoM. The 12-month variation slowed down from 5.30% in July to 4.95% in August. This reading was marked by the payment of the Itaipu bonus and the activation of red flag 2 in energy tariffs, with the subitem falling by 4.93% MoM. Regarding the breakdown, core services advanced 0.55% MoM, slightly above forecasts, and the 3M SAAR rose from 5.5% to 6.1%. The average of core inflation increased by 0.31% MoM, above expectations, with its 3M SAAR at 4.4%. Overall, last IPCA-15 breakdown presented deterioration at the margin, with a reacceleration in underlying service prices. However, currency appreciation was reflected in an improvement in recent tradable inflation.

- In the fiscal scenario, the Brazilian public sector posted a primary deficit of BRL 59.1 billion in July, above the market consensus (deficit of BRL 58.7 billion), from a deficit of BRL 8.9 billion in July 2024. Regarding the breakdown, central government, regional governments, and state-owned enterprises (SOEs) registered deficits of BRL 56.4 bn, BRL 8.1 bn, and BRL 2.1 bn, respectively. The General Government Gross Debt (GGGD) rose from 76.7% to 77.6% of GDP, with nominal interest (+0.8 p.p.) being the main driver of this growth, while nominal GDP growth (-0.4 p.p.) partially offset it.

China: Economic Activity

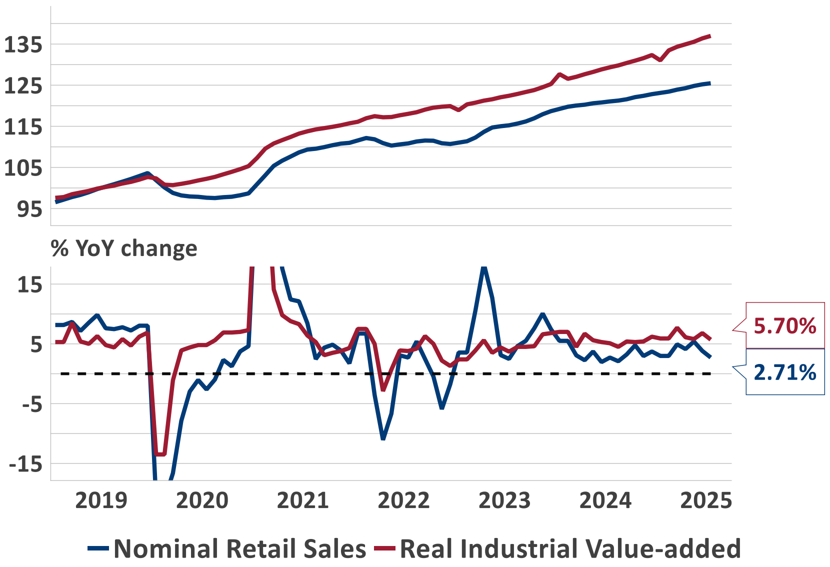
- **Monthly economic activity softened in July**; The data suggest that the Chinese economy's momentum weakened in July, as all major indicators but exports missed expectations, and that domestic factors are the weak spots, even as trade tensions dominate the headlines;
- **Retail sales slowed** from 4.8% to **3.7% YoY** (exp. 4.6%), below market expectations. **It was the slowest pace in six months**. This print was dragged down by declines in automobiles and construction, and also the continued weakness in catering services;
- **Industrial Production moderated** from 6.8 to **5.7% YoY** (exp. 6.0%), also below consensus. Despite only modestly below expectations, **it was the slowest pace since November 2024**, as both manufacturing and mining softened (while utilities modestly accelerated);
- **Fixed Asset Investment eased** from 2.8 to **1.6% YoY** (exp. 2.7%), below market consensus. On a month-on-month basis, FAI fell by -0.63% in July. Private sector fell by -1.5% YTD YoY, a big deterioration from previous months;
- **Housing**: Housing starts saw another decline in the 12MMA, reaching the lowest levels in 20 years. **The subdued demand also seems to be reflected in the credit data**, as household loans remained relatively weak despite strong government bonds.

China: Activity (% YoY)

	7/2025	6/2025	7/2024
Industrial Production	**5.7**	**6.8**	**5.1**
Mining	5.0	6.1	4.6
Manufacturing	6.2	7.4	5.3
Utilities	3.3	1.8	4.0
Fixed Asset Investment (YTD)	**1.6**	**2.8**	**3.6**
Manufacturing	6.2	7.5	9.3
Real Estate	-12.0	-11.2	-10.2
Infrastructure	3.2	4.6	4.9
Retail Sales	**3.7**	**4.8**	**2.7**
Catering Services	1.1	0.9	3.0
Consumer Goods	4.0	5.3	2.7
Clothing	1.8	1.9	-5.2
Automobiles	-1.5	4.6	-4.9
Furniture	20.6	28.7	-1.1
Cellphones	14.9	13.9	12.7
Home Appliances	28.7	32.4	-2.4
Construction	-0.5	1.0	-2.1

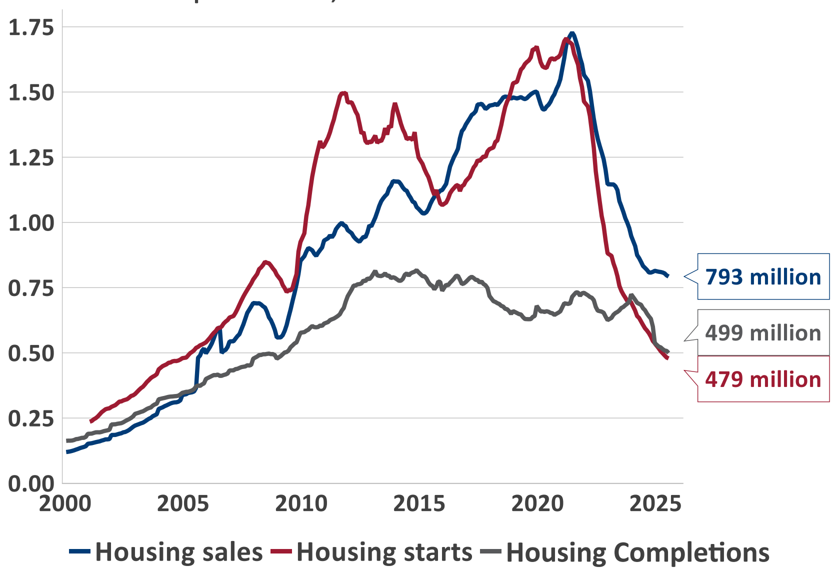
Source: BOCOM BBM, Macrobond

China: Industrial Production x Retail Sales



Source: BOCOM BBM, Macrobond, NBS

China: Housing Indicators

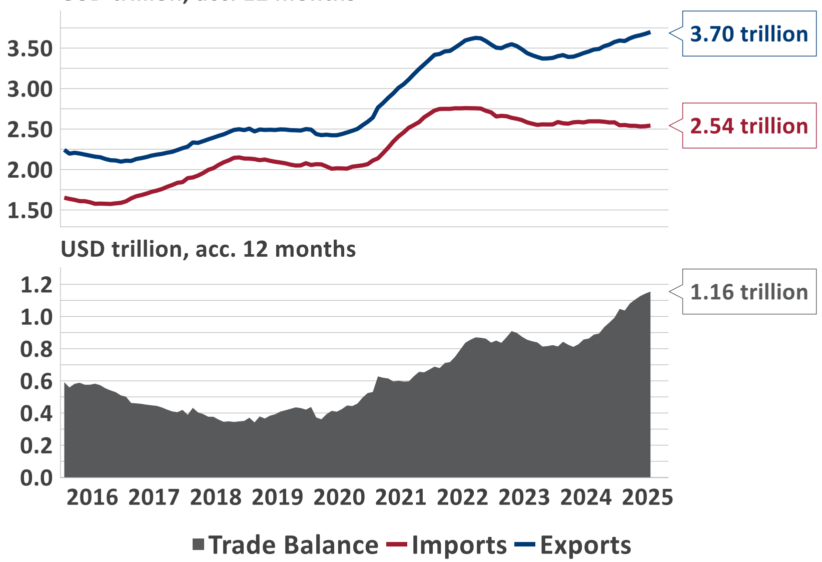


Source: BOCOM BBM, Macrobond, NBS

China: Economic Scenario

- **China's trade growth accelerated in July**, with the latest data coming in above expectations:
  - **Exports** came in higher than consensus, accelerating from 5.8% to **7.2% YoY** (expected: 5.4%), but this corresponded to a **-1.9% decrease in MoM terms**, and a slowing in growth momentum (3M/3M SAAR from 7.5 to 0.7%);
  - **Imports** also grew above expectations, from 1.1% to **4.1% YoY** (expected: -1.0%), or 1.6% MoM, after a decline in the previous month; The MoM was mostly supported by a rise in imports to Japan, but recent trends show relevant decreases on imports from US and increases from EMs. By products, there was a pick-up in imports of refined petroleum products;
  - Looking ahead, **export momentum is expected to moderate in Q3, as US frontloading ends and global demand weakens.** But the pace will depend on trade developments with the US;
- In July, **Headline CPI inflation declined from 0.1 to 0.0% YoY,** modestly higher than consensus (-0.1%). However, On a MoM basis, CPI increase by 0.4%:
  - The data was driven by a modest ease in goods deflation, while services CPI remained at 0.5%. **But core inflation increased** modestly in July, **by 0.1pp to 0.8% YoY**, the highest print since 02/2024;
  - The July print continues to reaffirm persistent deflationary pressures in China. These remain a major concern for this year, with economy still suggesting excess capacity and weakness in consumption and property investment.

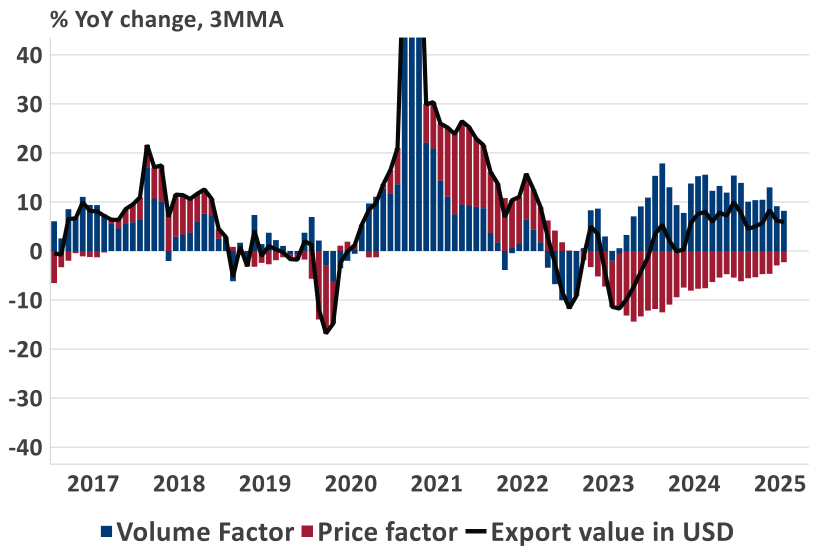
China: Trade Balance



Source: BOCOM BBM, Macrobond, GAC

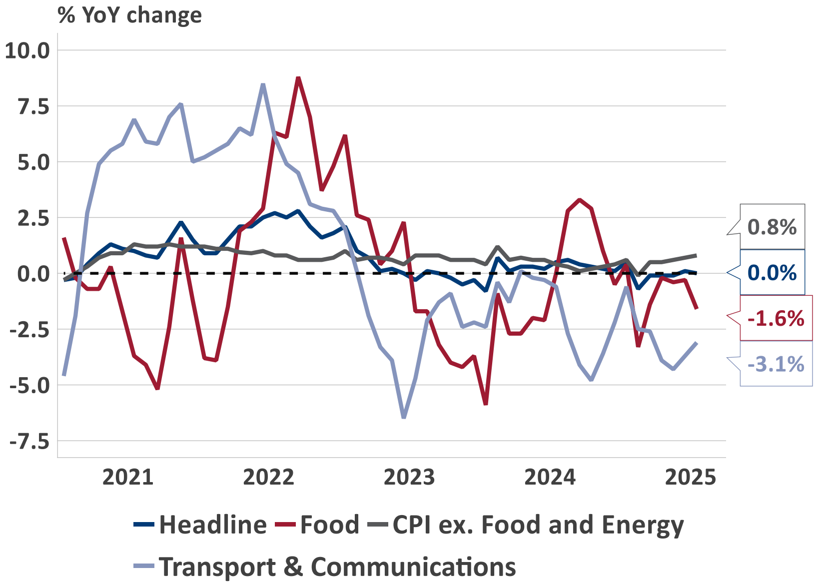
China: Exports (Price x Volume)

Last observation at 7/2025



Source: BOCOM BBM, Macrobond, GAC

China: CPI

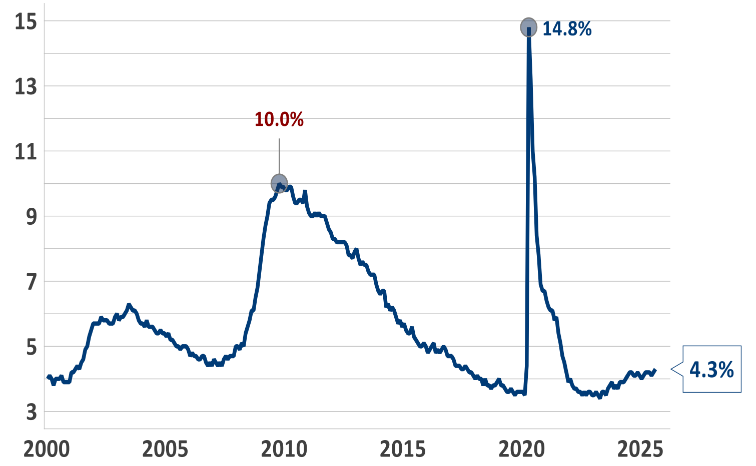


Source: BOCOM BBM, Macrobond, NBS

USA: Labor Market

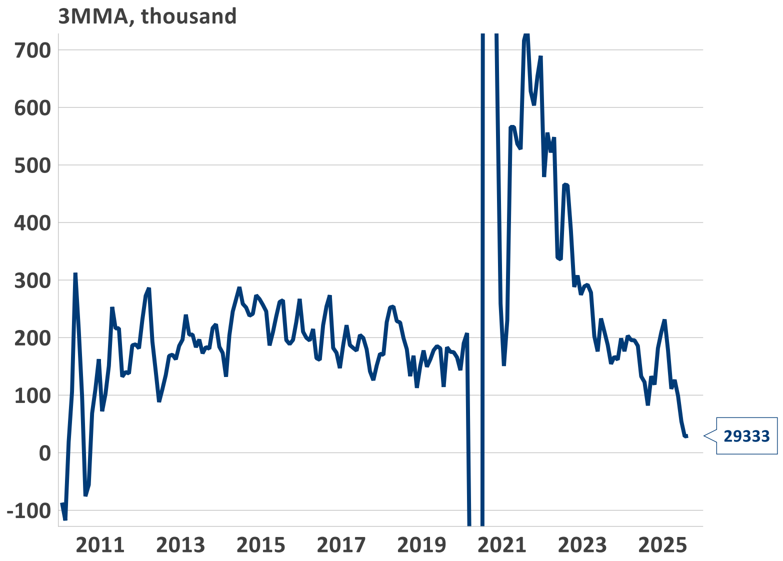
- **August Payroll brought a relevant downside surprise again:**
  - Job creation increased **22k**, below market expectations of 75k. Also, there was a 2-month net revision of -21k (June from 14k to -13k, July from 73k to 79k), keeping the updated 3MMA at 29k, well below the pre-covid average.
  - The unemployment rate ticked up again, from 4.25% to 4.32%, within consensus of 4.3% - reaching the highest level since 2021;
- Given that, the **jobs-workers gap fell to -0.06M,** indicating that there are more available workers than jobs in the economy for the first time in more than four years, a sign of the ongoing easing in the labor market.
- Average hourly earnings grew **0.3% MoM,** matching expectations, corresponding to an YoY deceleration from **3.9%** to **3.7%.**
  - Overall, the July data signals a still resilient wage growth, with other wage indicators pointing in the same direction.

US: Unemployment Rate SA (%)



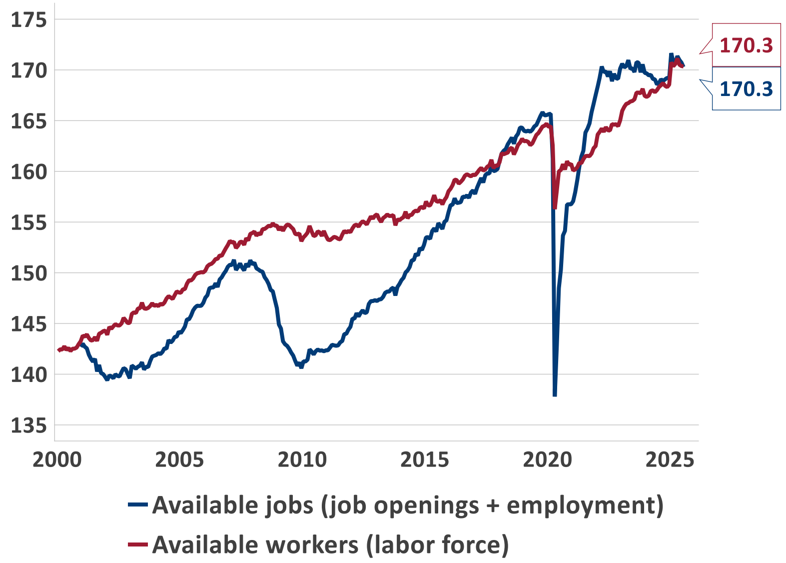
Source: BOCOM BBM, Macrobond, BLS

US: Nonfarm Payroll Employment Change



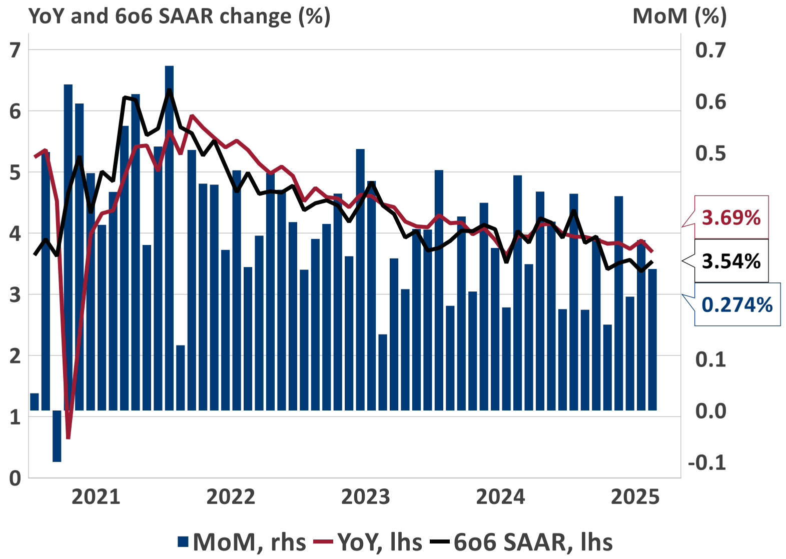
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



Source: BOCOM BBM, Macrobond, BLS

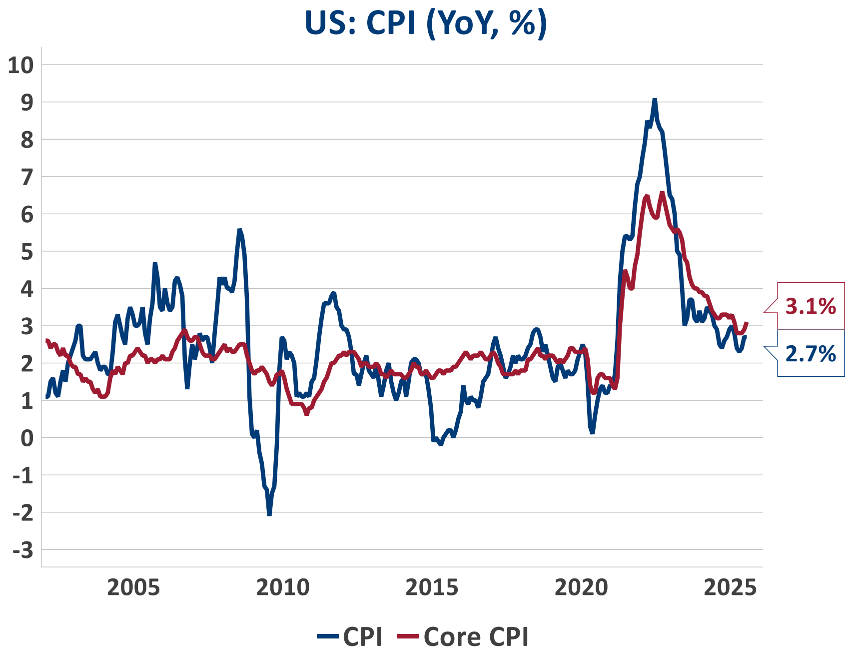
US: Average Hourly Earnings Growth (%)



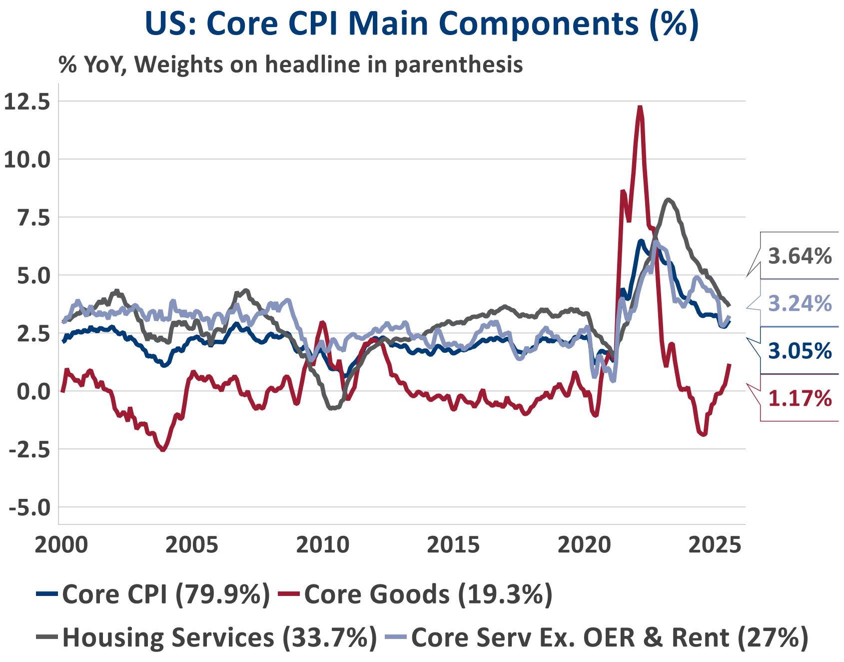
Source: BOCOM BBM, Macrobond, BLS

USA: Inflation

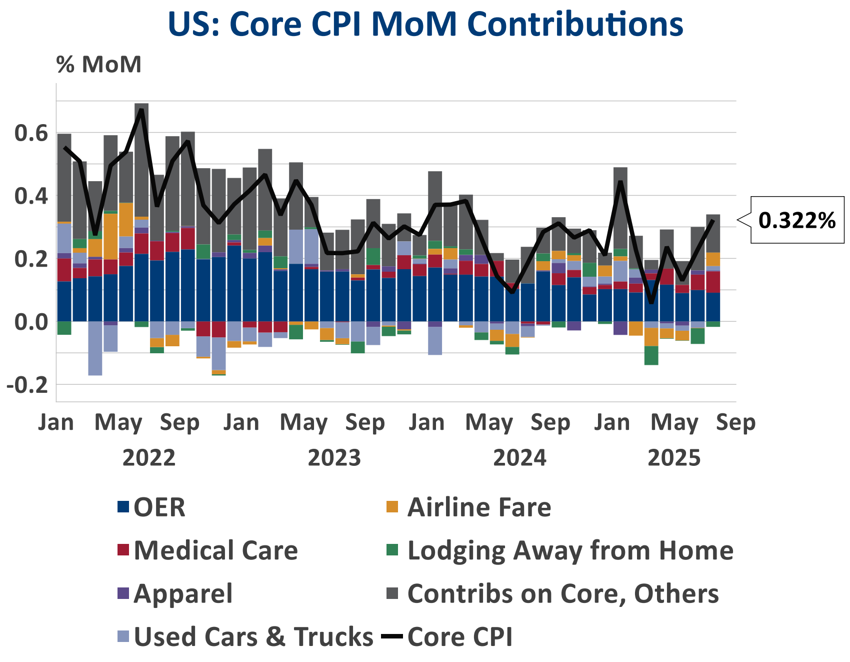
- The **July headline CPI** accelerated to **0.20% MoM** (modestly below expectations of 0.25%). The YoY remained at 2.7%, below consensus of 2.8%:
  - In the composition, both food (from 0.33% to 0.05% MoM) and energy prices (from 0.95% to -1.07%) were weaker than expected, driving the headline lower;
- **Core CPI** rose **0.32% MoM,** slightly below consensus of 0.33%, taking the YoY from 2.93% to 3.06%, above consensus of 3.0%:
  - Core Goods increased by less than consensus, coming from a strong spike in June. There was a widely spread slowdown in core goods ex vehicles (with Apparel and Furnishings being the most notable decelerations), despite modestly stronger vehicle prices;
  - Core services were stronger than expected, mainly led by airfares and medical care - resulting in a higher-than-expected Core Services Ex Housing (Supercore), despite housing remaining on a slowing trend overall;
- Overall, the June CPI composition **suggests tariff pass-through remains lagged, although is still expected to intensify** in the upcoming months;
- Looking ahead, **a one-off pick-up on inflation is expected in the second semester**, as tariff impacts become more relevant.



Source: BOCOM BBM, Macrobond, BLS



Source: BOCOM BBM, Macrobond, BLS

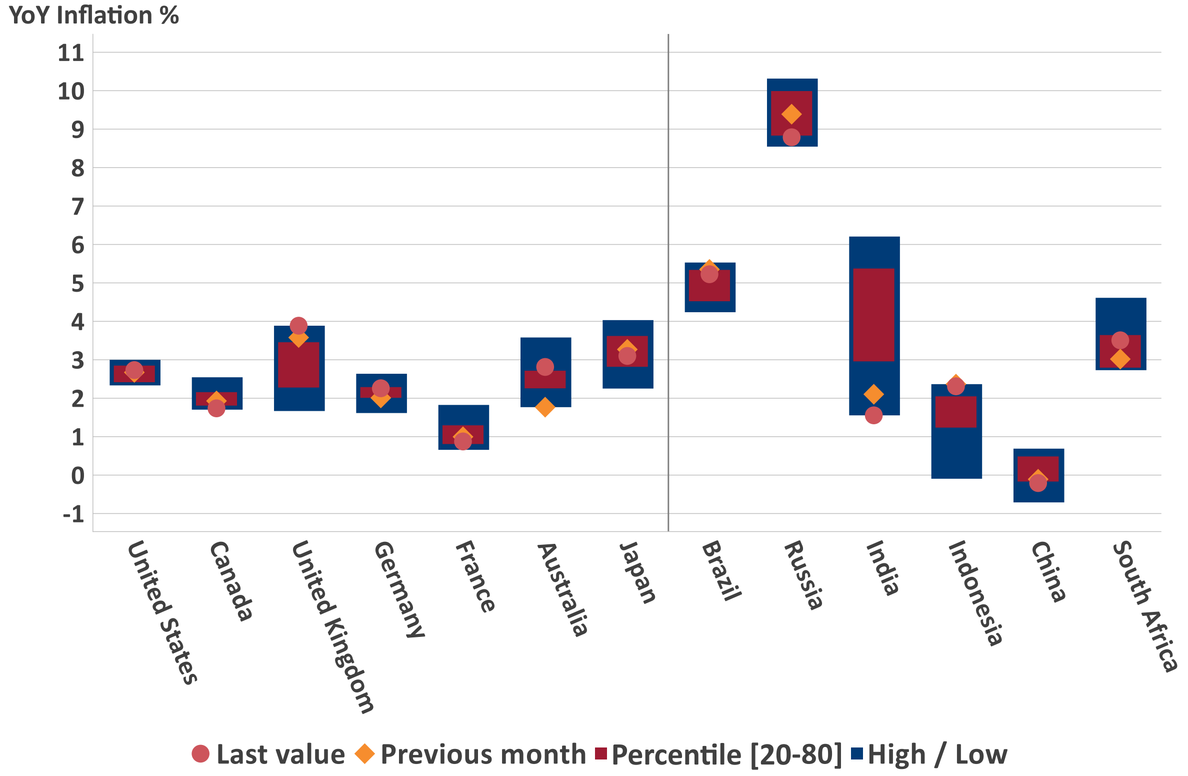


Source: BOCOM BBM, Macrobond, BLS

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 still in the first semester of 2025;
- 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

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

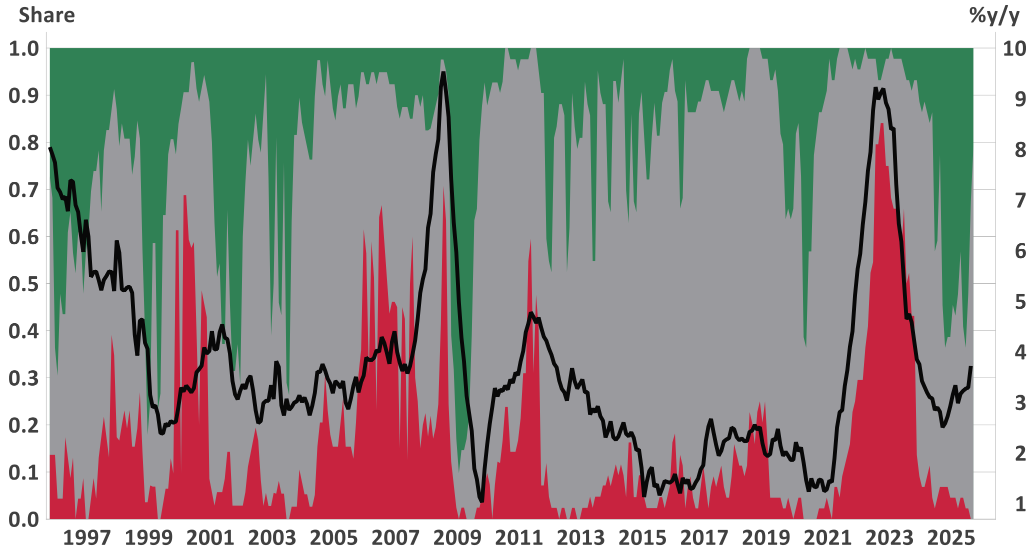
Sources: BOCOM BBM, Macrobond, National Sources

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, which raised interest rates in 2025;
- 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 partial trade de-escalation.

Global monetary breadth

Share of economies (GDP top 50) with higher/unchanged/lower policy rates; monthly/mtd avg, 5-Sep-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	36,6	38,9	29,00	-3,00	Cut	1/2025	23	7
Australia	2,0	2,5	3,60	-0,25	Cut	8/2025	22	1
Brazil	5,2	5,0	15,00	0,25	Hike	6/2025	3	16
Canada	1,7	2,6	2,75	-0,25	Cut	3/2025	26	6
Chile	4,3	3,8	4,75	-0,25	Cut	7/2025	35	1
China	-0,2	0,8	3,00	-0,10	Cut	5/2025	139	4
Colombia	4,9	5,2	9,25	-0,25	Cut	5/2025	28	4
Costa Rica	-0,6	0,4	3,75	-0,25	Cut	7/2025	34	2
Czech Republic	2,5	0,2	3,50	-0,25	Cut	5/2025	38	4
Denmark	2,3	2,2	1,75	-0,25	Cut	6/2025	24	3
Euro Area	2,1	2,3	2,15	-0,25	Cut	6/2025	24	3
Hungary	4,3	4,0	6,50	-0,25	Cut	9/2024	35	11
Iceland	3,8	3,6	7,50	-0,25	Cut	5/2025	24	4
India	1,6	4,2	5,50	-0,50	Cut	6/2025	31	3
Indonesia	2,3	2,2	5,00	-0,25	Cut	8/2025	16	1
Israel	3,1	3,2	4,50	-0,25	Cut	1/2024	27	20
Japan	3,1	3,4	0,50	0,25	Hike	1/2025	7	115
Mexico	3,5	4,2	7,75	-0,25	Cut	8/2025	29	1
New Zealand	2,7	2,7	3,00	-0,25	Cut	8/2025	27	1
Norway	3,3	3,2	4,25	-0,25	Cut	6/2025	21	3
Poland	3,0	3,3	4,75	-0,25	Cut	9/2025	36	0
Russia	8,8	8,5	18,00	-2,00	Cut	7/2025	10	1
Saudi Arabia	2,1		5,00	-0,25	Cut	12/2024	25	9
South Africa	3,5	3,0	7,00	-0,25	Cut	8/2025	27	1
South Korea	1,7	1,3	2,50	-0,25	Cut	5/2025	32	3
Sweden	0,8	3,0	2,00	-0,25	Cut	6/2025	23	2
Switzerland	0,2	0,7	0,00	-0,25	Cut	6/2025	26	3
Turkey	33,0	33,0	43,00	-3,00	Cut	7/2025	5	1
United Kingdom	3,9	3,7	4,00	-0,25	Cut	8/2025	25	1
United States	2,7	3,0	4,50	-0,25	Cut	12/2024	25	9

Source: BOCOM BBM, Macrobond

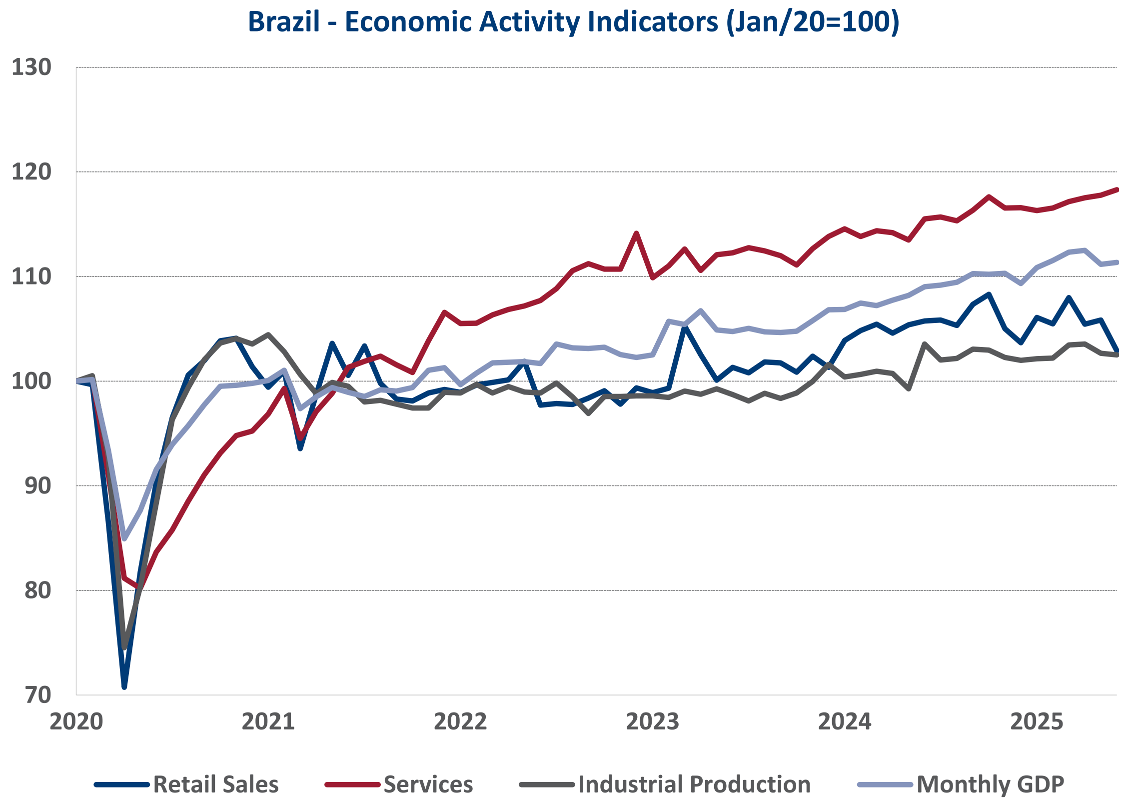
Brazil: Forecasts

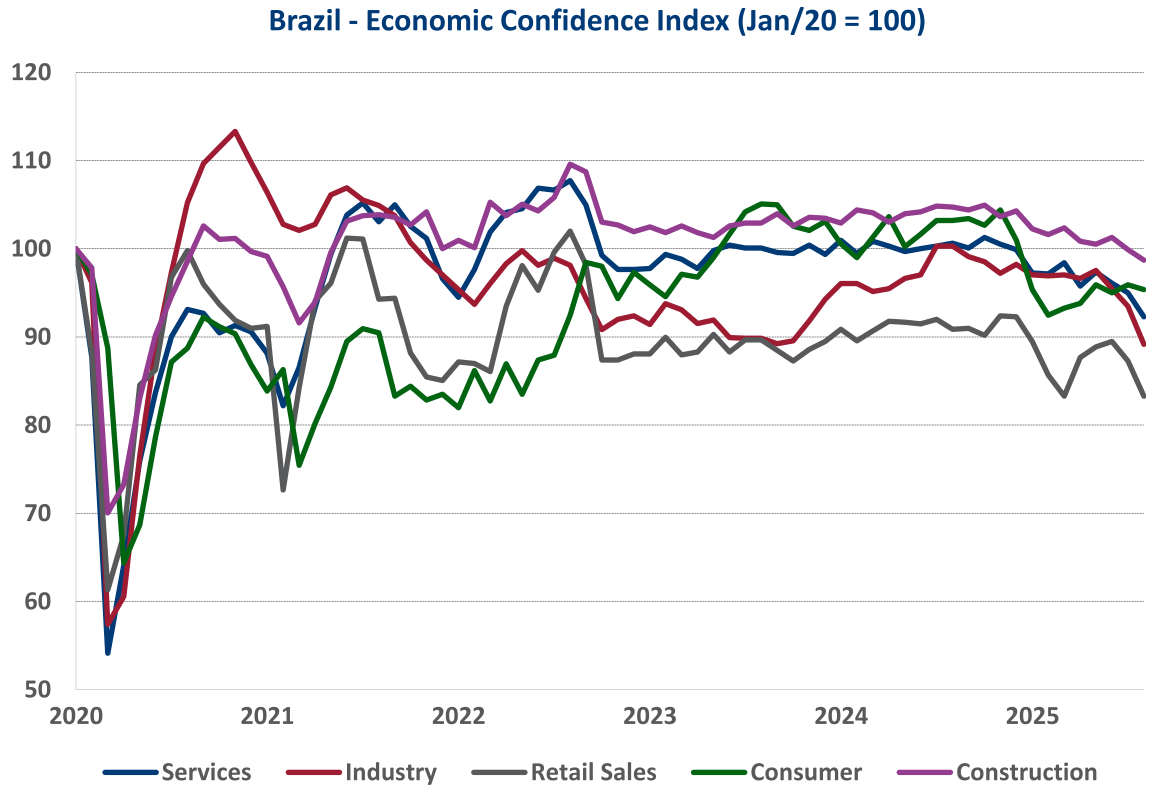
ECONOMIC FORECASTS	2020	2021	2022	2023	2024	2025F	2026F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	3.4%	2.0%	1.5%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	4.8%	4.7%	4.0%
Unemployment Rate (eoy ,%)	14.2%	11.1%	7.9%	7.4%	6.2%	6.5%	7.0%
Policy Rate (eoy, %)	2.0%	9.3%	13.8%	11.75%	12.3%	14.50%	12.0%
External Accounts							
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%	-0.5%	-0.7%
Government Gross Debt (% of GDP)	86.9%	77.3%	71.7%	74.4%	76.1%	80.3%	85.1%

Source: BOCOM BBM, IBGE

Brazil: Activity

- In June, industrial production result came slightly below expectations, increasing by 0.1% MoM. Additionally, while services surprised with a resilient rise (0.3% MoM), retail sales posted a huge decline (-2.5% MoM) showing signs of gradual slowdown in domestic demand. Summarizing this scenario, the IBC-BR showed a decrease of 0.1% MoM in June.
- Looking ahead, the confidence surveys of all economic sectors contracted in July, anticipating a slowdown in economic growth ahead.



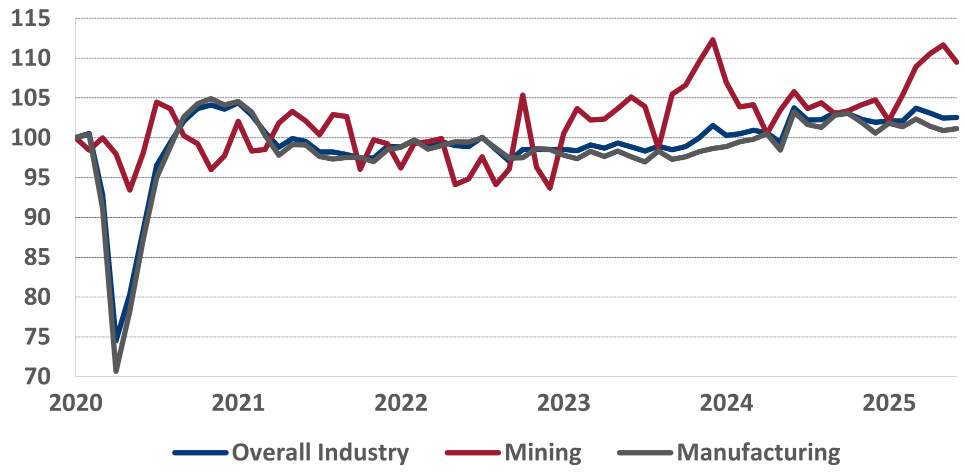


Source: BOCOM BBM, IBGE, FGV

Brazil: Industrial Production

- Industrial output rose by 0.1% MoM in June, slightly below expectations (0.4% MoM). Overall industry edged up 0.1% QoQ in Q2 (0.5% YoY), reinforcing the case for a slowdown in domestic activity.
- The month's figures registered mixed results, with 2 out of the 4 major economic categories and 16 out of the 25 manufacturing activities growing in the monthly comparison.
- On the positive side, the category of Capital Goods increased for the second consecutive quarter (0.2% QoQ) although losing steam amid the high-interest rate scenario. Besides, the category of Intermediate Goods grew significantly in Q2 (1.2% QoQ), despite the slight drop recorded in June (-0.1% MoM).
- Overall, the Brazilian industry will continue to cool down. The end of spare capacity in most manufacturing categories and contractionary monetary policy take their toll. That said, the resilience of the labor market and short-term stimulus measures will prevent a sharper slowdown in the manufacturing sector.

Industrial Production Index SA (Jan/20=100)



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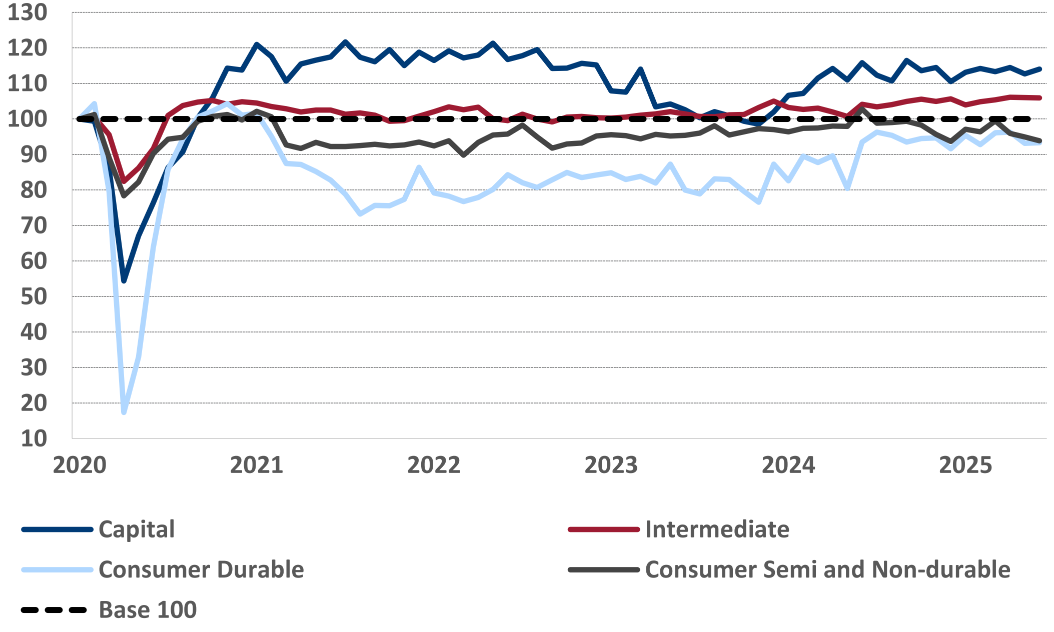
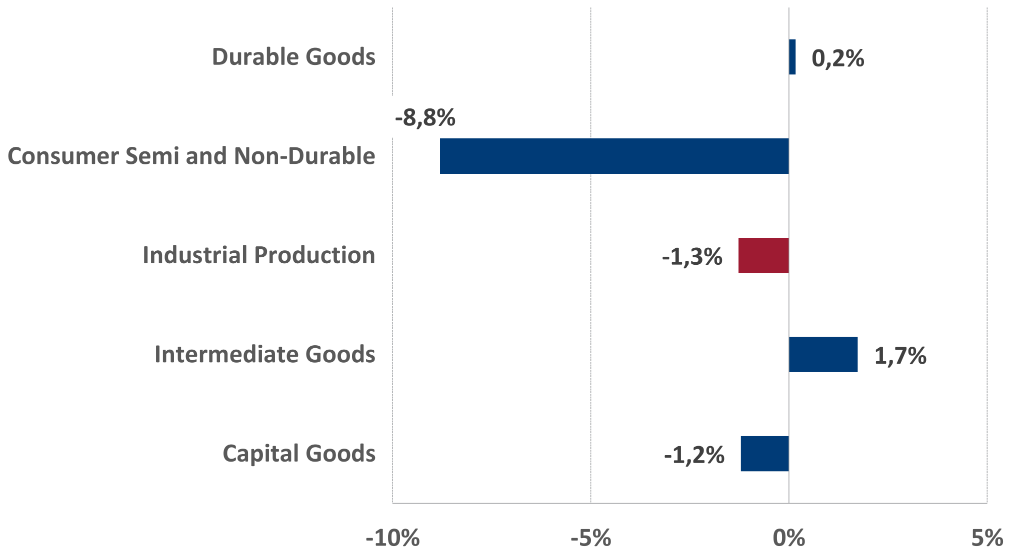


Industrial Production by Category - 06/2025 (YoY)

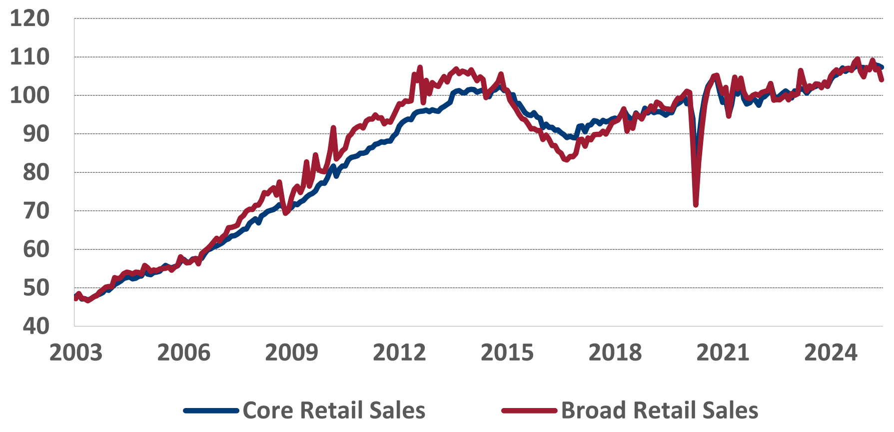


Source: IBGE, BOCOM BBM

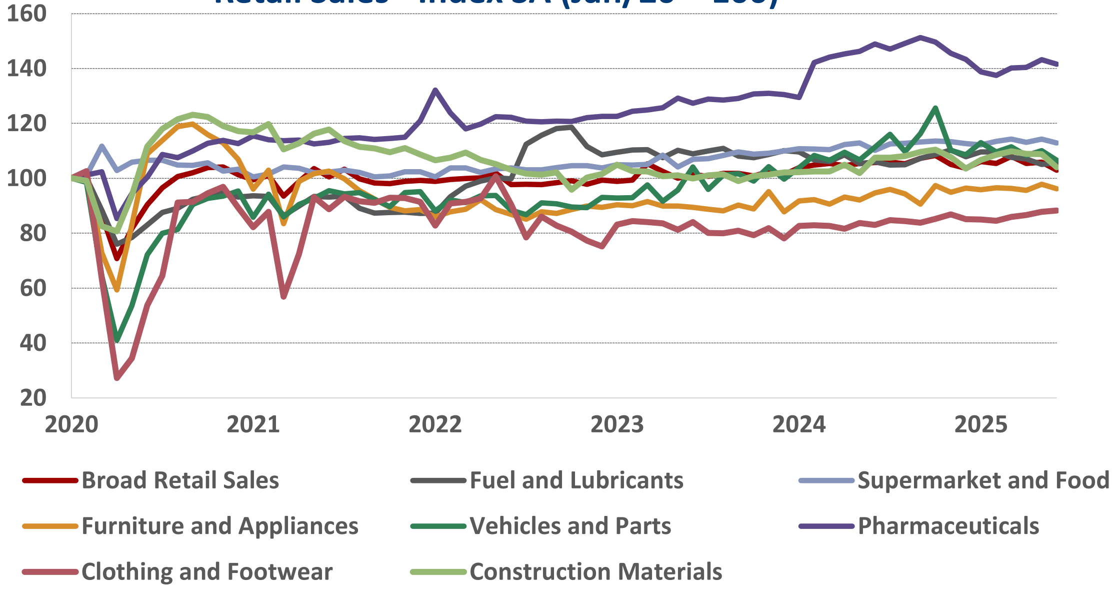
Brazil: Retail Sales

- Broad retail sales decreased by 2.5% MoM in June, far below expectations (0.2% MoM).
- In turn, core retail sales dropped 0.1% MoM, also a negative surprise (+0.8% MoM).
- In the breakdown, 7 out of 10 retail activities decreased in the monthly comparison, with the highlights being the poor performance of vehicles and parts (-6.7% MoM), furniture (-9.7% MoM) and wholesale specialized in food, beverage and tobacco products (-11.0). On the positive side, other articles of personal and domestic use (2.0% MoM), clothing and footwear (6.4% MoM) and appliances (2.7% MoM) performed better.
- In all, we foresee slight growth in overall retail sales throughout the second half of this year. In addition, tighter monetary policy effectiveness corroborates a gradual slowdown in domestic demand.
- Overall, credit-sensitive retail segments tumbled significantly, while income-sensitive ones were virtually stable and should remain resilient in the short term.

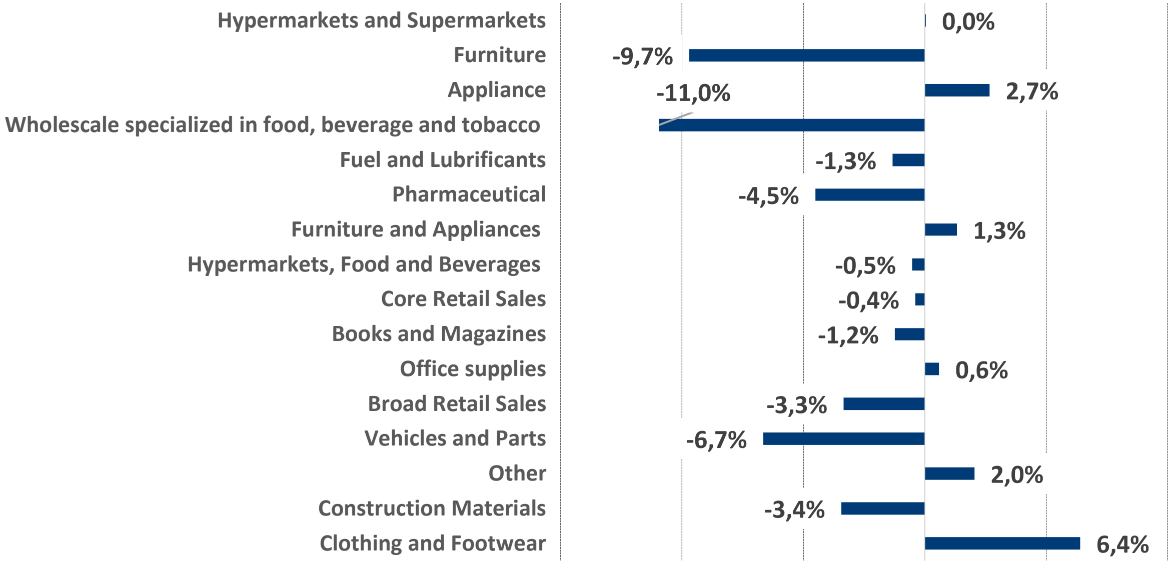
Broad Retail Sales SA x Core Retail Sales SA



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



Retail Sales - YoY (06/2025)

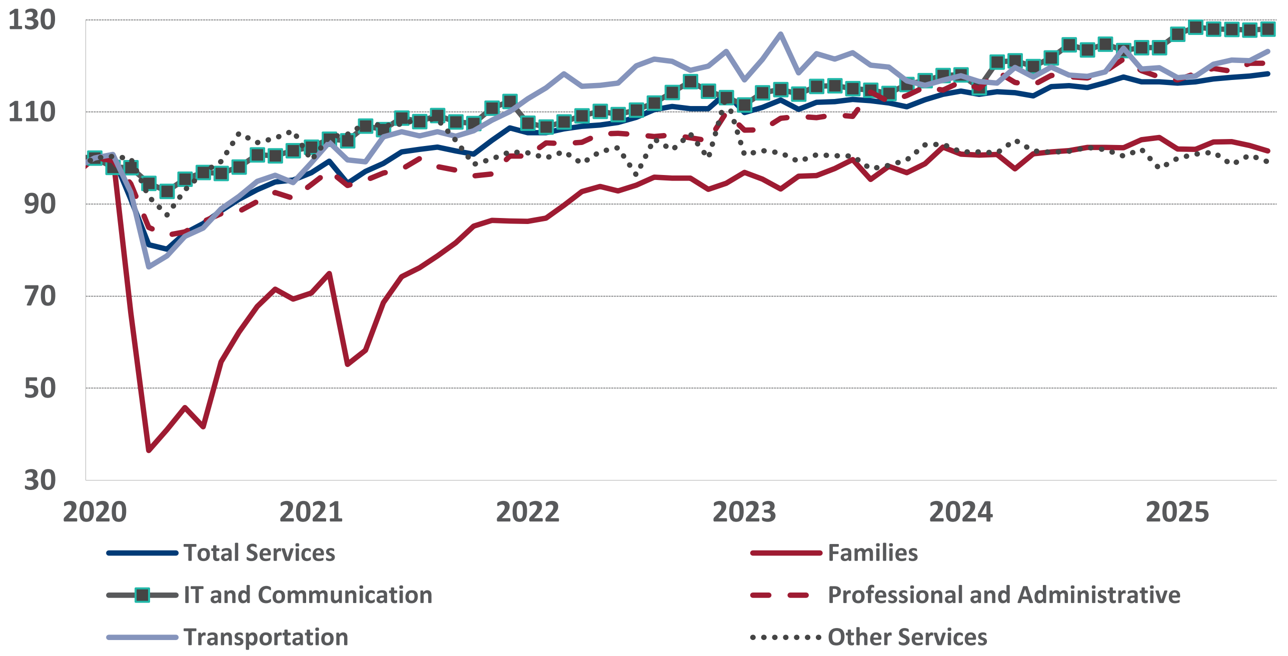


Source: IBGE, BOCOM BBM

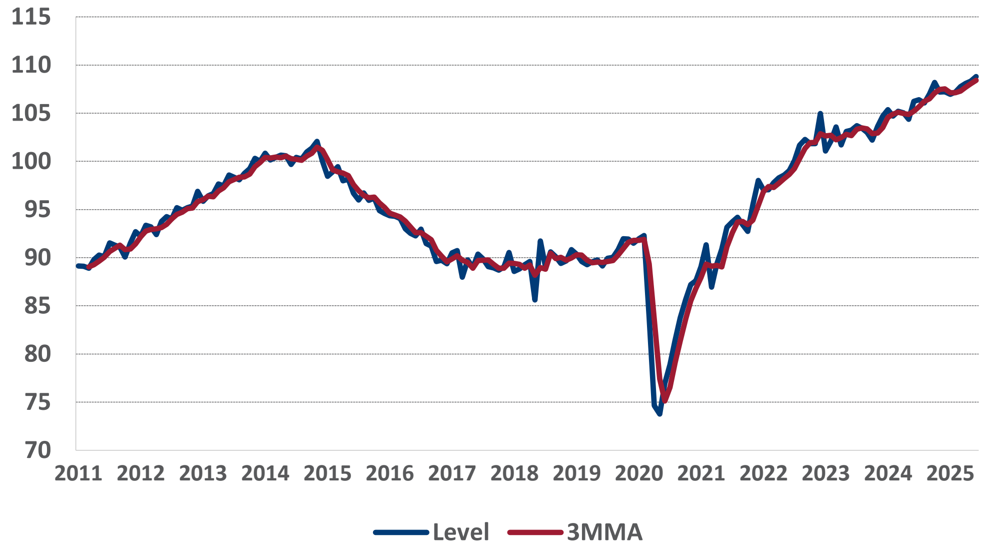
Brazil: Services

- Services output increased by 0.3% MoM in June, slightly above market expectations of 0.0% MoM. In addition, the indicator rose by 1.1% QoQ in Q2 (2.8% YoY).
- The highlight went to transportation and storage services (1.5% MoM). Furthermore, professional, administrative & complementary services grew 1.4% QoQ, owing chiefly to the recovery of technical-professional services.
- On the negative side, services rendered to families disappointed in June (-1.4% MoM; 0.4% QoQ). Additionally, the (much volatile) category of other services posted a poor performance after a significant increase in Q1.
- Overall, the service sector continues to grow, although at a moderate pace.

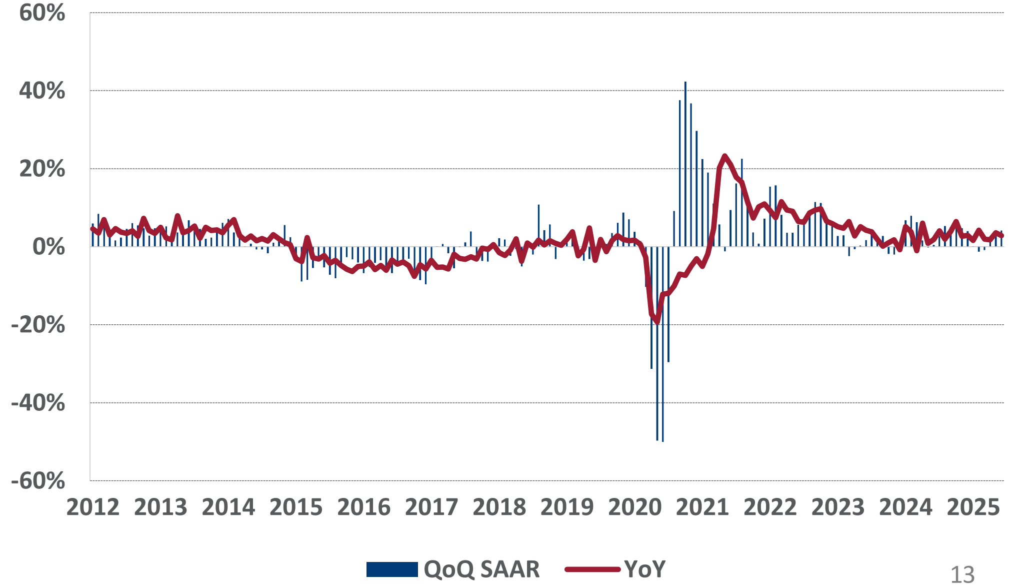
Services Sector SA (Jan/20=100)



Services Sector SA



Services Sector

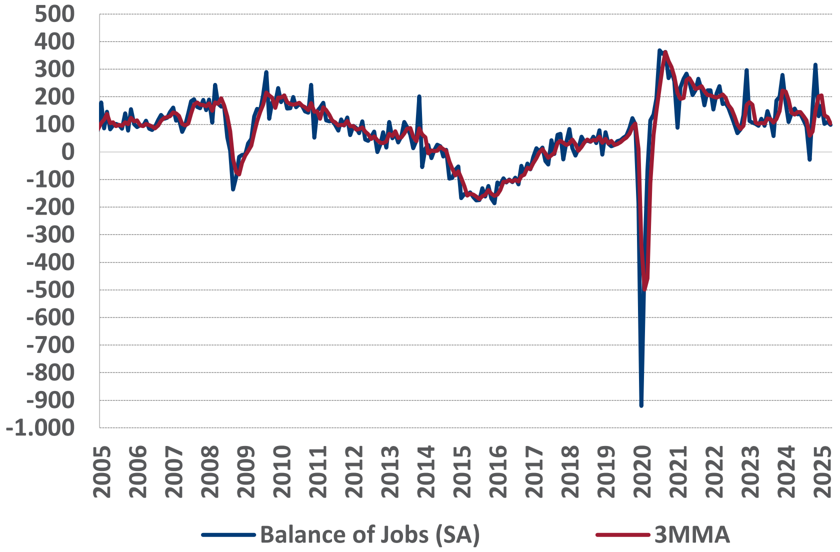


Source: IBGE, BOCOM BBM

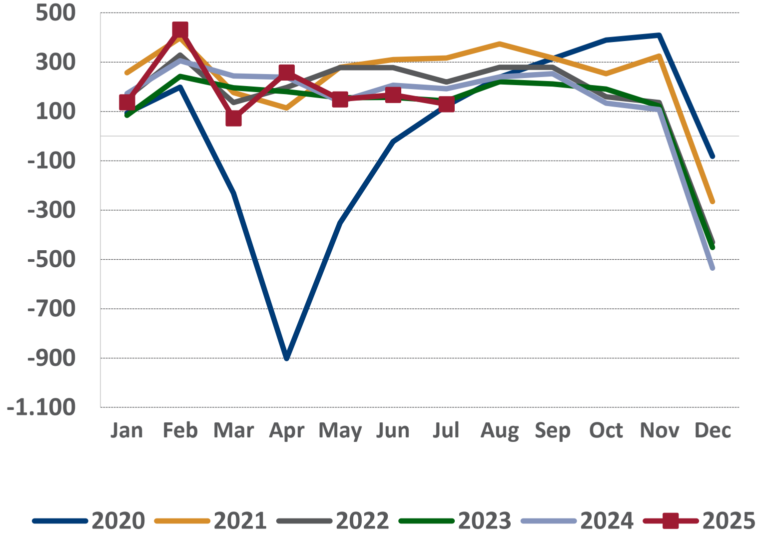
Brazil: Formal Labor Market

- CAGED registered a net creation of 129.8k formal jobs in July, slightly below market expectations (138k).
- There was a net addition of 1.348 million occupations from January to July 2025, not far below the 1.503 million in the same period of 2024.
- The 12-month rolling sum reached 1.524 million jobs.
- Formal job hiring fell by 2.2% MoM in July (5.1% YTD).
- In all, job creation regained steam in July, driven mainly by the resilient services sector.

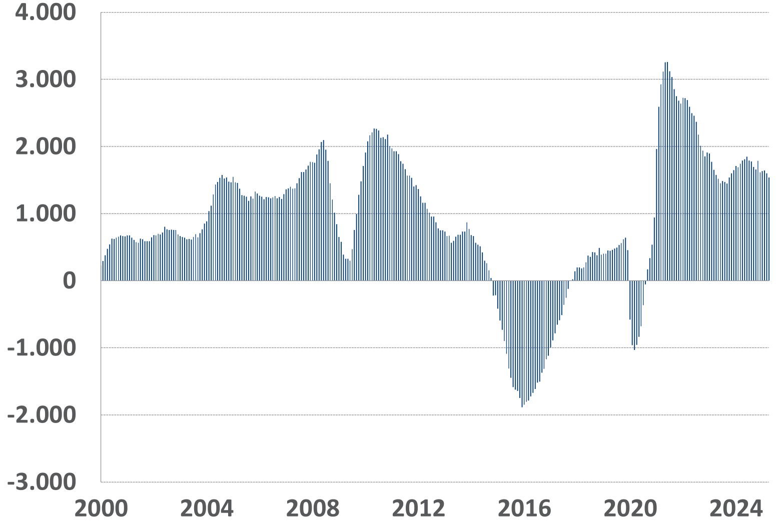
CAGED - Balance of Jobs (SA, Thousand)



CAGED - Balance of Jobs (Thousand)



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



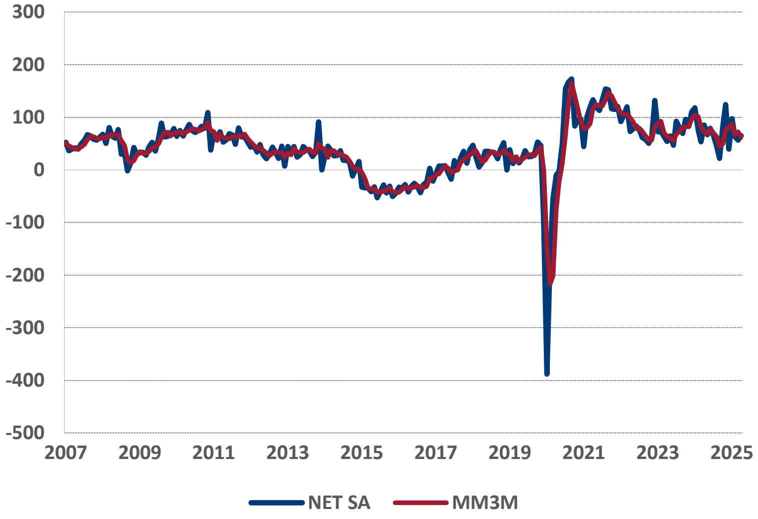
Source: BOCOM BBM, MTE

Brazil: Formal Labor Market

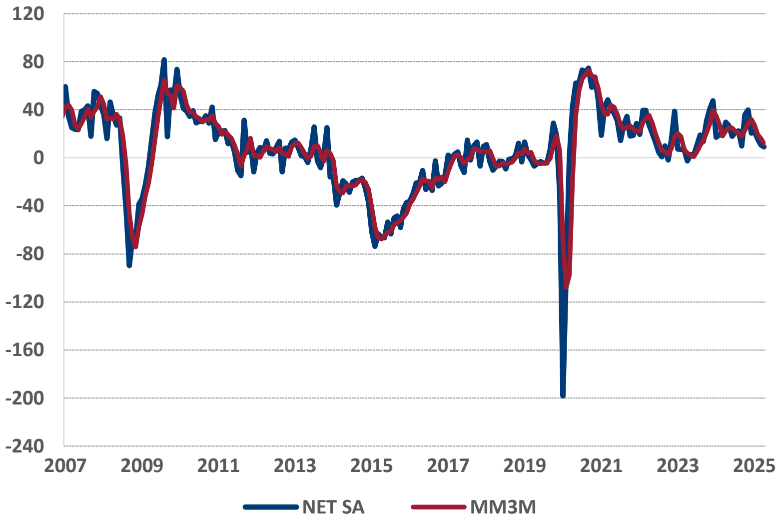
- The tertiary sector continues to stand out.
- The net addition in the services sector totaled 72k jobs in July, after 65k in June.
- Most activities gained strength in the monthly comparison.
- The retail (to 29k from 25k), construction (to 11k from -2k) and agriculture & livestock (to 1k from -5k) sector presented positive results, while manufacturing industry (to 7k from 11k) decelerated.
- Overall, the labor market remains tight, but July data reinforce the view of economic activity leveling off, with job creation returning to the deceleration trend.

Brazil - Retail Net Payroll Job Creation (SA)

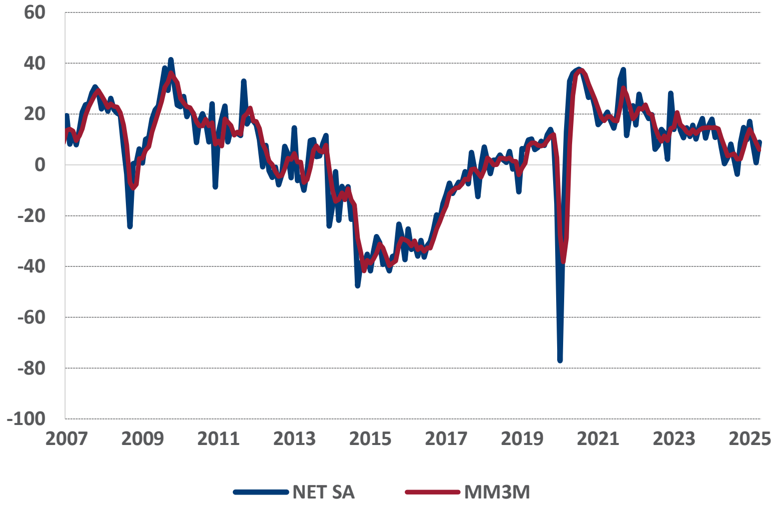
Brazil - Services Net Payroll Job Creation (SA)



Brazil - Industry Net Payroll Job Creation (SA)



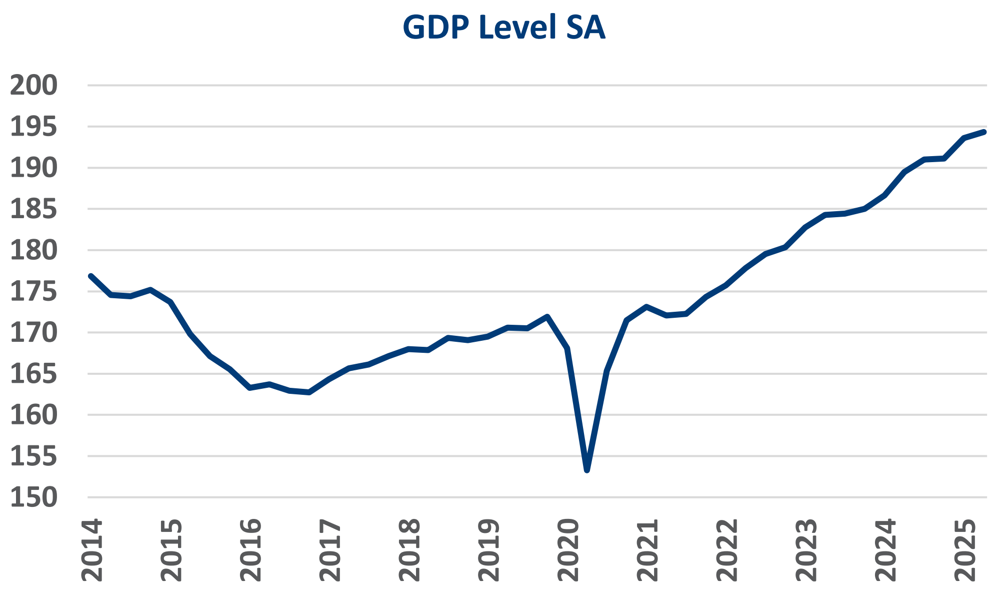
Brazil - Construction Net Payroll Job Creation (SA)



Source: BOCOM BBM, MTE

Brazil: Q2 GDP

- Q2 GDP rose 0.4% QoQ (2.2% YoY), slightly above market expectations and our forecast.
  - On the supply side, activities less sensitive to the economic cycle have performed robustly, mainly agriculture and livestock and the extractive industry.
  - Additionally, services showed resilience and surprised positively.
    - Five of its seven components grew at the margin.
  - The negative highlights were manufacturing and civil construction that fell for the second quarter in a row (tighter monetary conditions).
- For now, we maintain our forecast of 2% for the GDP growth this year.

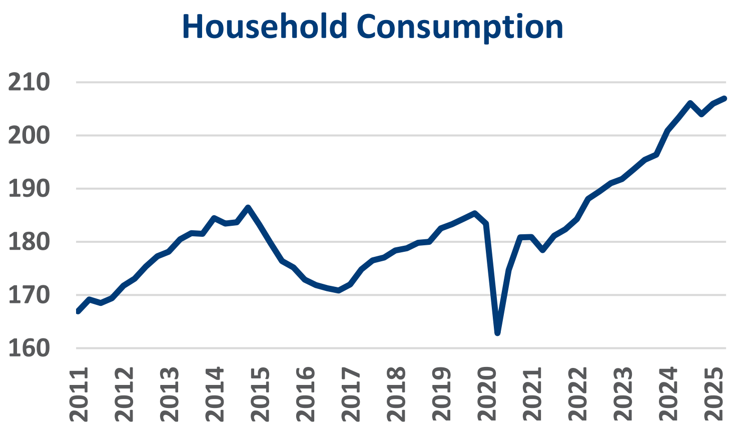


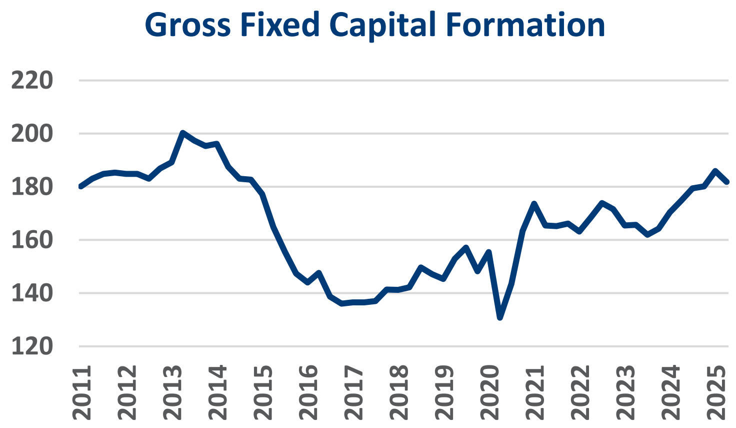
	Official		Forecast		
	2025.II QoQ	2025.II YoY	2025.II QoQ	2025.II YoY	Carry-over
GDP	0.4%	2.2%	0.2%	2.0%	2.4%
Agriculture	**-0.1%**	**10.1%**	**-0.2%**	**10.0%**	**9.7%**
Industry	**0.5%**	**1.1%**	**0.5%**	**1.1%**	**1.1%**
Mining	5.4%	8.7%	4.9%	8.0%	6.8%
Manufacturing	-0.5%	0.0%	-0.9%	-0.5%	0.0%
Electricity	-2.7%	-4.0%	-0.2%	-1.4%	-1.1%
Civil Construction	-0.2%	0.2%	0.0%	1.5%	1.1%
Services	**0.6%**	**2.0%**	**0.1%**	**1.6%**	**1.5%**
Retail	-0.01%	0.9%	-0.7%	0.2%	1.0%
Transports	1.0%	1.3%	0.8%	0.5%	0.9%
Information and Communication	1.2%	6.4%	0.3%	5.2%	5.3%
Financial Services	2.1%	3.8%	1.0%	1.5%	2.8%
Rents	0.3%	2.2%	0.6%	2.7%	1.8%
Other Services	0.7%	2.7%	0.0%	2.1%	1.7%
Public Administration	-0.4%	0.2%	0.2%	1.1%	0.5%

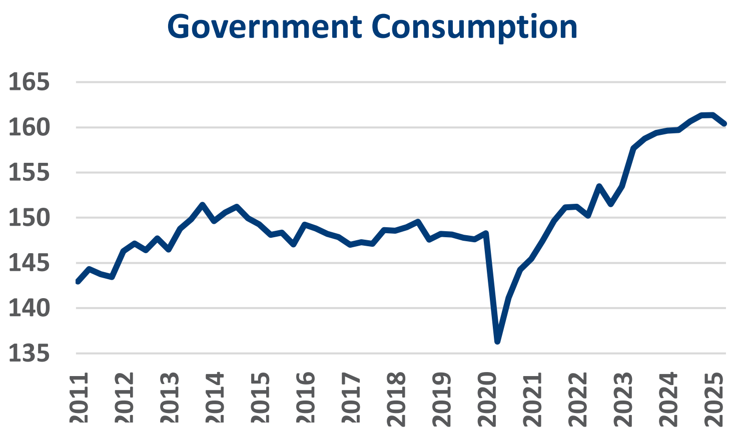
Source: BOCOM BBM, IBGE

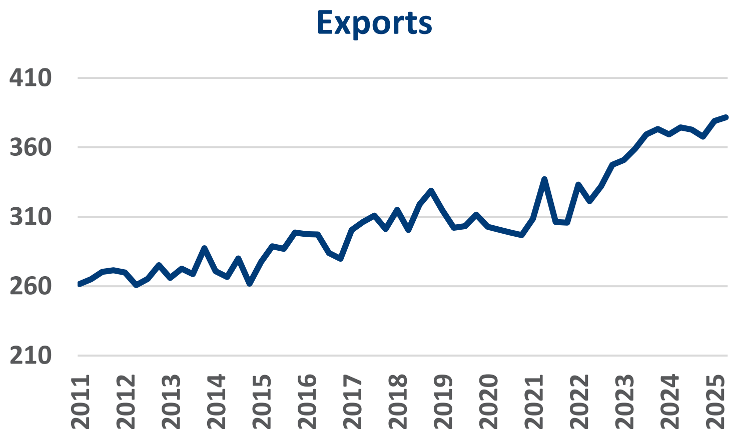
Brazil: Q2 GDP

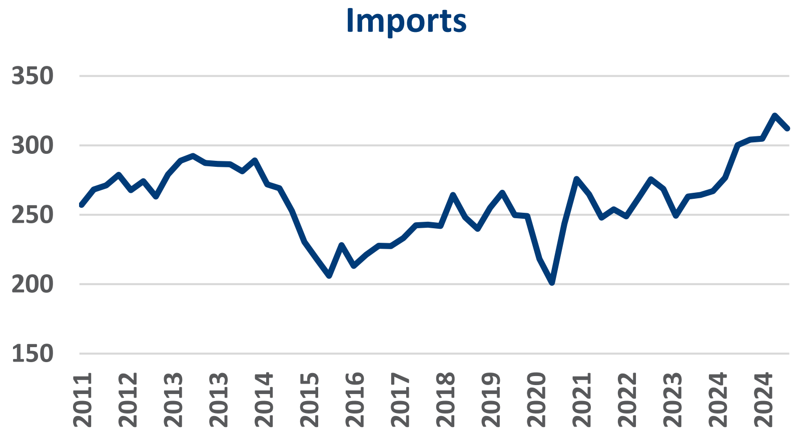
- On the demand side, **domestic absorption declined 0.2% QoQ**, a sharp deceleration after growing 1.2% QoQ in the first quarter.
  - Gross fixed capital formation recorded the first drop since 23Q3, on the heels of larger cost of credit.
  - Household consumption decelerated to 0.5% QoQ from 1% in 1Q.
  - Government consumption fell 0.6% QoQ in line with the under-execution of primary expenditures in the first half of the year.
  - Net exports contributed +0.6pts due to higher exports (agriculture) and lower imports linked to the overall domestic demand deceleration.
- Overall, demand has been supported by some resilience in consumption, due to a strong labor market, while investment has begun to decline.
- **Q2 GDP result corroborates the ongoing economic deceleration.**







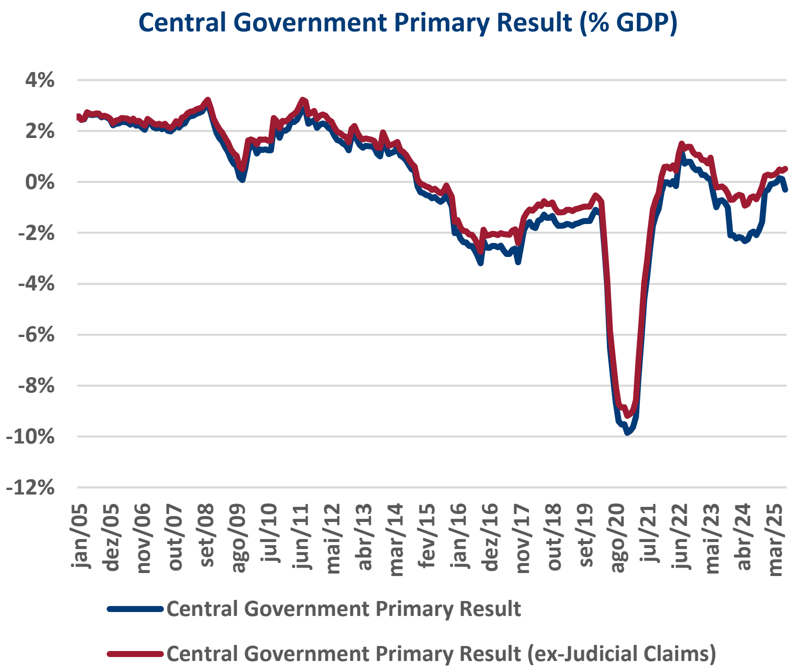


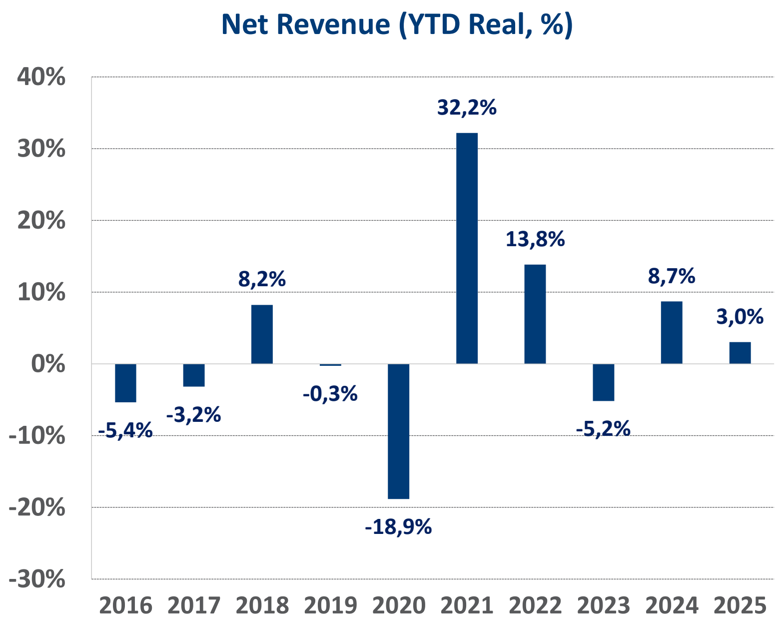


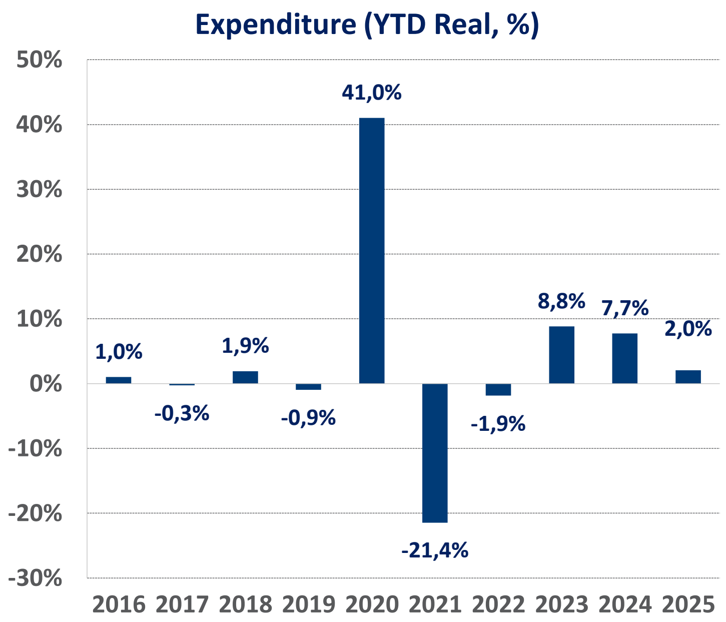
Source: BOCOM BBM, BCB

Brazil: Central Government Primary Result

- The central government's primary balance posted a deficit of BRL 59.1 billion in July, below market consensus (BRL 58.7 billion).
- Net revenues grew by 3.9% YoY in real terms, mainly driven by other revenues administered by RFB (44.2%), PIS/Cofins (7.4%) and income tax (7.0%). On the negative side, there was a sharp decline in IPI revenue (-24.9%), due to auto vehicles. Year-to-date, net revenue grew 3.0%.
- Total expenditure rose by 28.3% YoY in real terms. The change was mostly explained by the increase in court-ordered debts, which also affected social security benefits (26.8%), personnel (17.9%), and BPC/LOAS (11.2%). On the other hand, extraordinary credits (-61.4%) and discretionary expenditures (-19.3%) fell substantially.
- Year-to-date, total expenditure grew by 2.0% mostly due to social security benefits (4.8%) and BPC/LOAS (10.9%), partially offset by the lower execution of discretionary spending (-20.9%).
- Overall, revenue administered by RFB (tax revenues) and social security contribution continued to show a positive performance, although slowing down marginally. In turn, expenditure had shown a sharp increase, pushed by court-ordered payments, which led to the highest deficit for the central government this year.



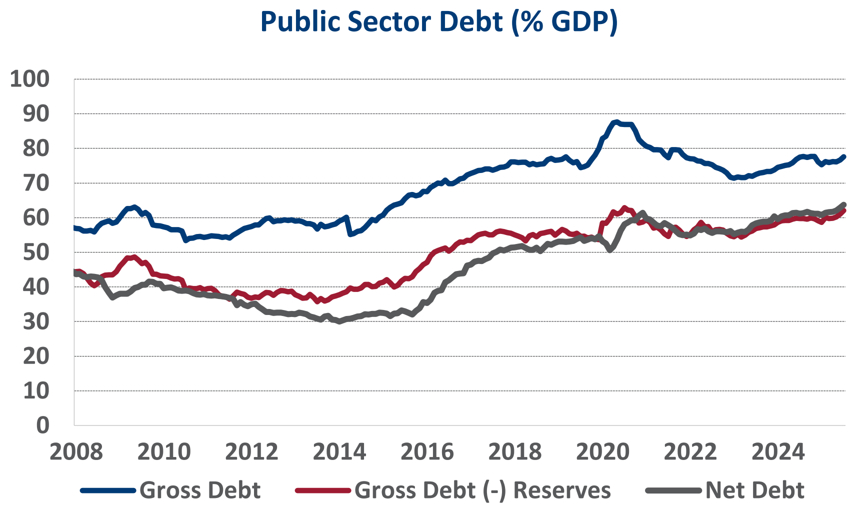


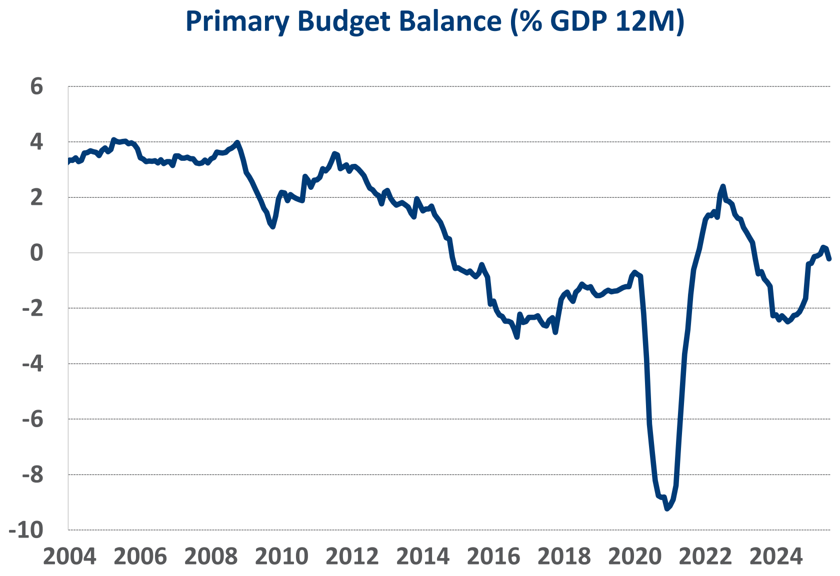


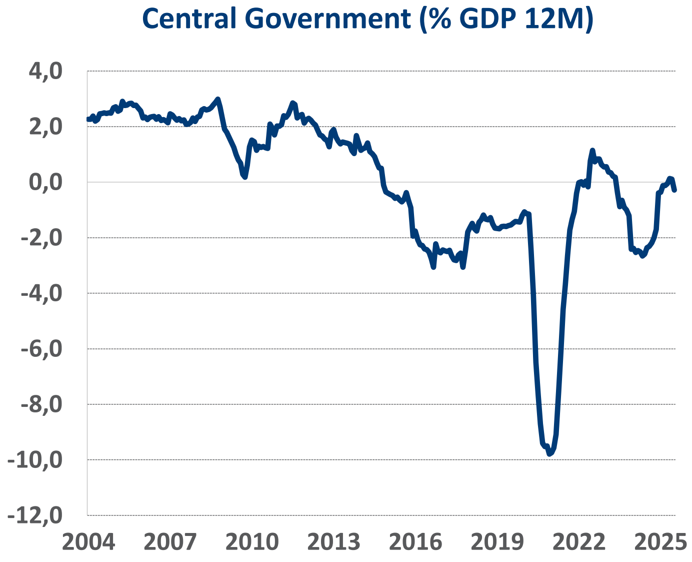
Source: BOCOM BBM, RTN

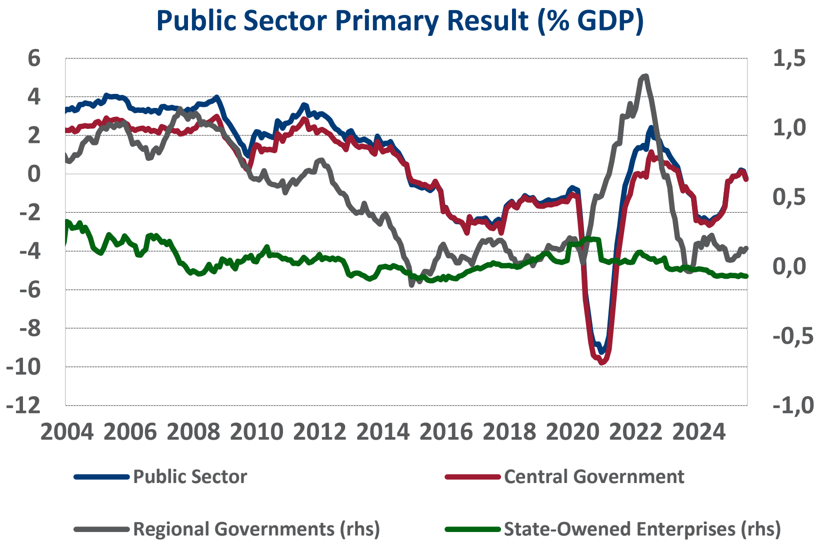
Brazil: Consolidated Public Sector Budget

- The consolidated public sector posted a primary deficit of BRL 66.6 billion in July, below the market consensus (deficit of BRL 60.6 billion).
- Regarding the breakdown, the central government, regional governments, and state-owned enterprises (SOEs) registered deficits of BRL 56.4 bn, BRL 8.1 bn, and BRL 2.1 bn, respectively
- General Government Gross Debt (GGGD) rose from 76.7% to 77.6% of GDP, with nominal interest (+0.8 p.p.) being the main driver of this growth, while nominal GDP growth (-0.4 p.p.) partially offset it.





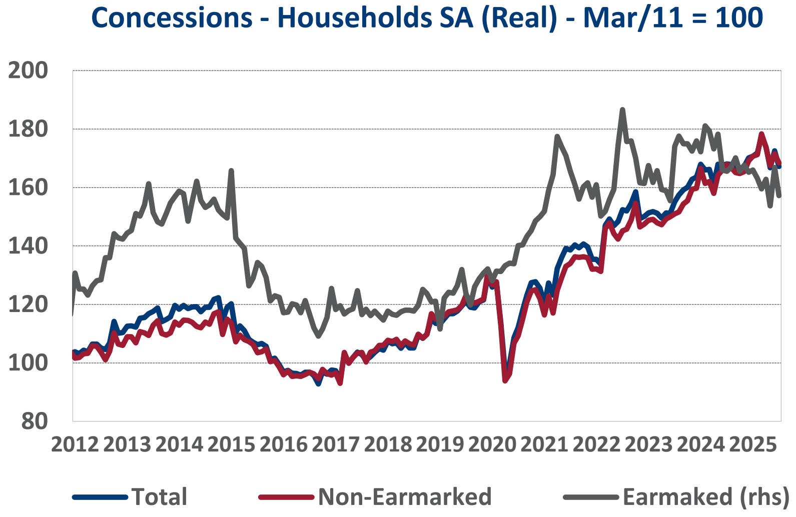


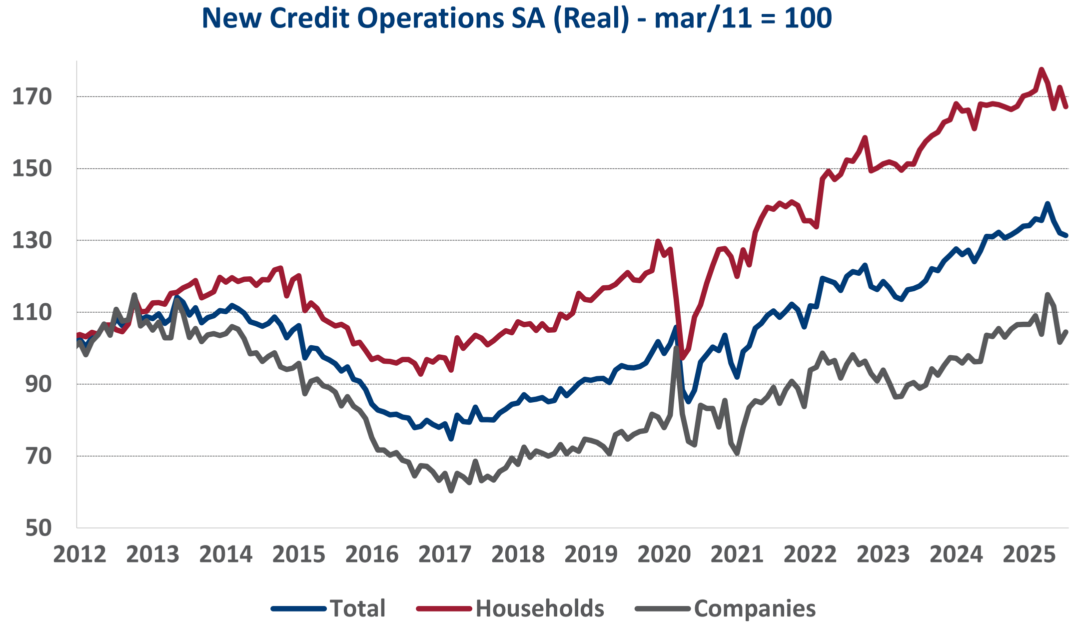


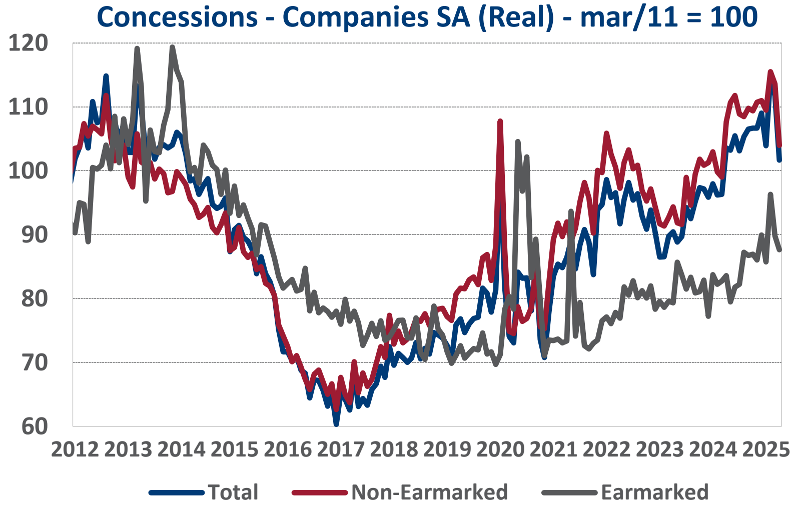
Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- In July, total credit concessions decreased by 0.5% MoM in real terms, after falling by 2.4% in the last month.
- Non-earmarked credit concessions decreased 1.9% MoM in real terms to households and increased 3.3% MoM to companies.
- In July, credit data continued to show a slowdown in concessions, rising delinquency, and high borrowing costs, which is consistent with the lagged and cumulative effects of monetary policy.





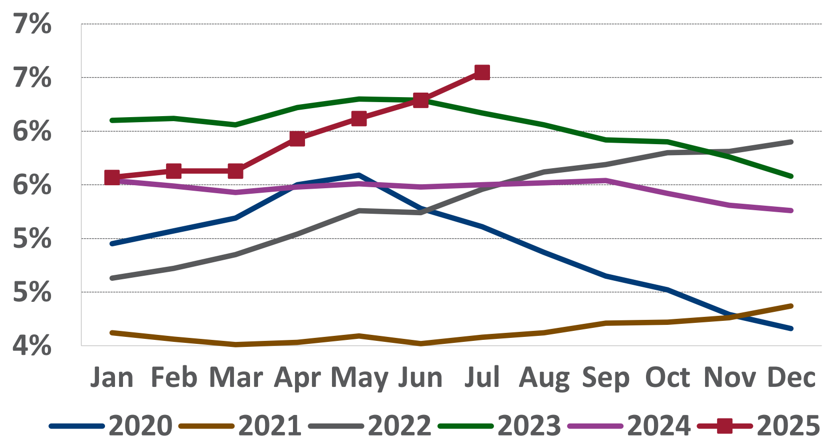


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- Lending rates fell, but still at high levels for households, staying at 35.9% in July from 36.3% in June, while for companies, rates went up marginally to 21.6% from 21.2%.
- In turn, delinquency on non-earmarked loans increased for households (from 6.3% to 6.5%) and for companies (from 3.1% to 3.3%).
- Private-sector payroll-deductible loans remain disappointing, with low volumes and very high interest rates
  - If this modality does not gain traction later in 2025, it will add downside risk to market GDP forecasts

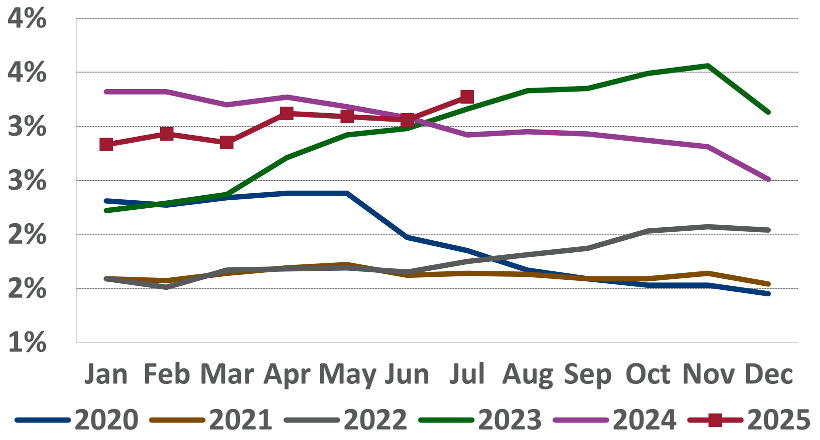
Non-Earmarked Delinquency - Households (%)



Interest Rates - Households (%)

Interest Rates - Companies (%)

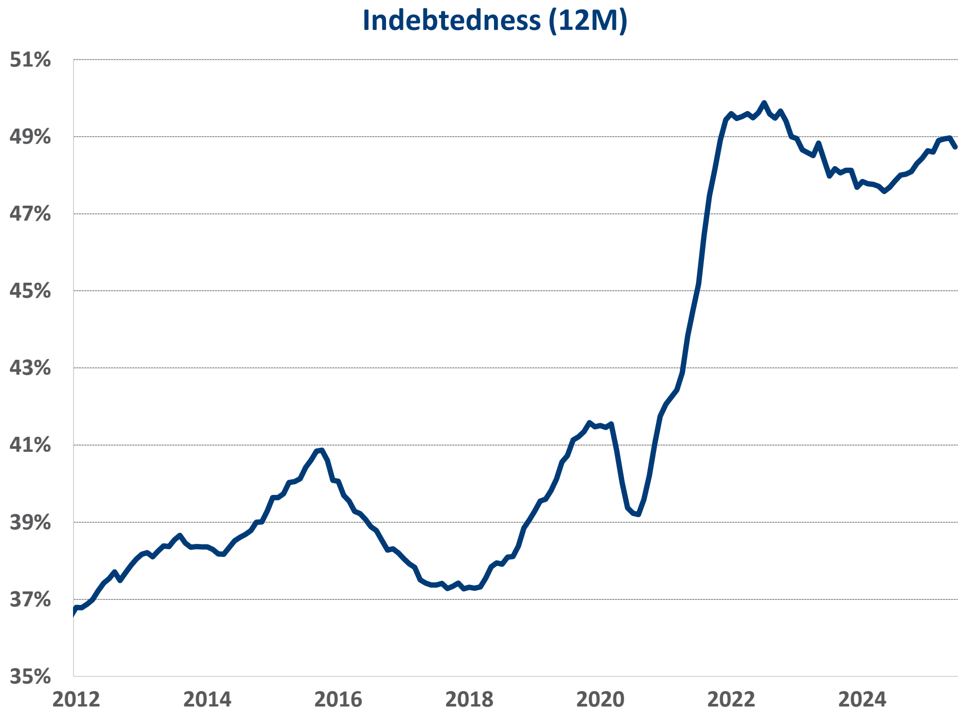
Non-Earmarked Delinquency - Companies (%)

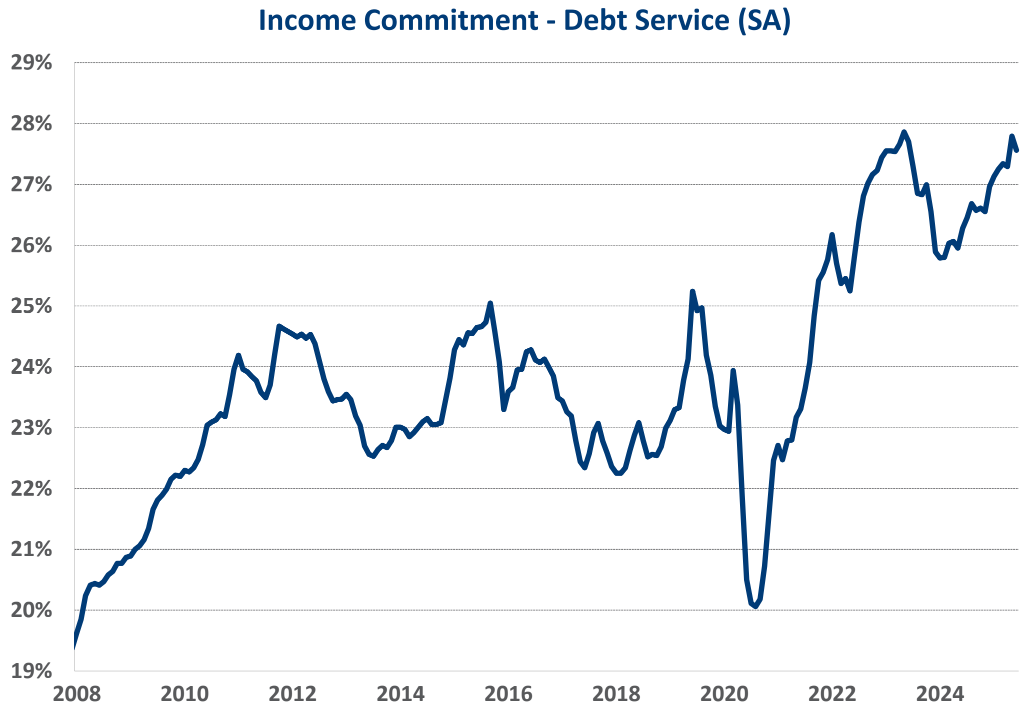


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- The household indebtedness remains high, falling marginally to 48.7% in June.
- Meanwhile, income commitment decreased marginally to a seasonally adjusted level of 27.6% in June, from 27.8% in May.
- Credit conditions should remain restrictive throughout the year, contributing to a gradually paced economic slowdown.

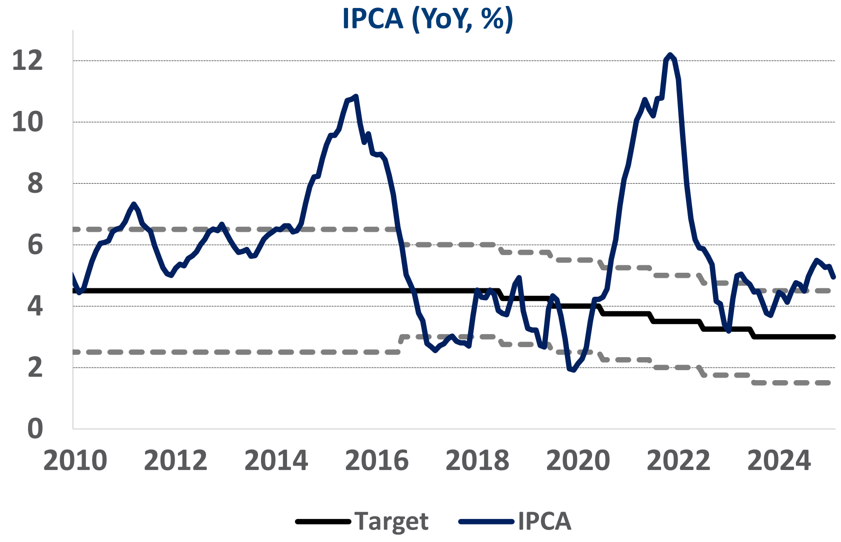


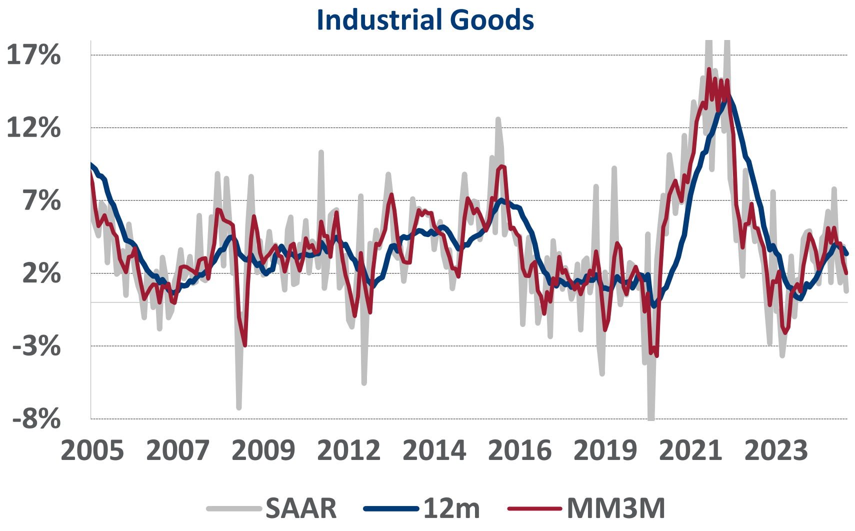


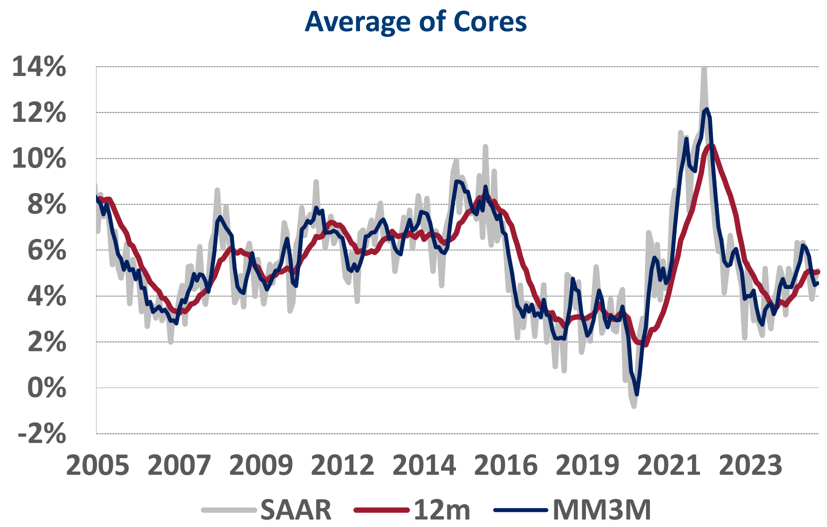
Source: BOCOM BBM, BCB

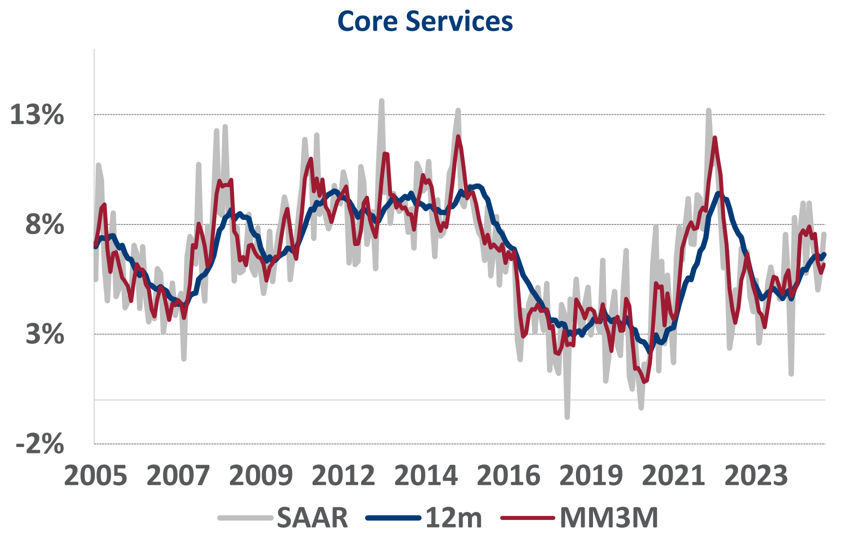
Brazil: Inflation 2025

- August IPCA-15 decreased by 0.14% MoM, above market expectations (-0.20% MoM). The 12-month variation slowed down from 5.30% in July to 4.95% in August.
- Due to the payment of the Itaipu bonus and the activation of red flag 2 in energy tariffs, the subitem fell by 4.93% MoM.
- Core services advanced 0.55% MoM, slightly above forecasts, and the 3M SAAR rose from 5.5% to 6.1% continuing at worrisome levels.
- The average of core inflation increased by 0.31% MoM, above expectations, with its 3M SAAR at 4.4%.
- In all, the August IPCA-15 breakdown presented deterioration at the margin, with a reacceleration in underlying service prices





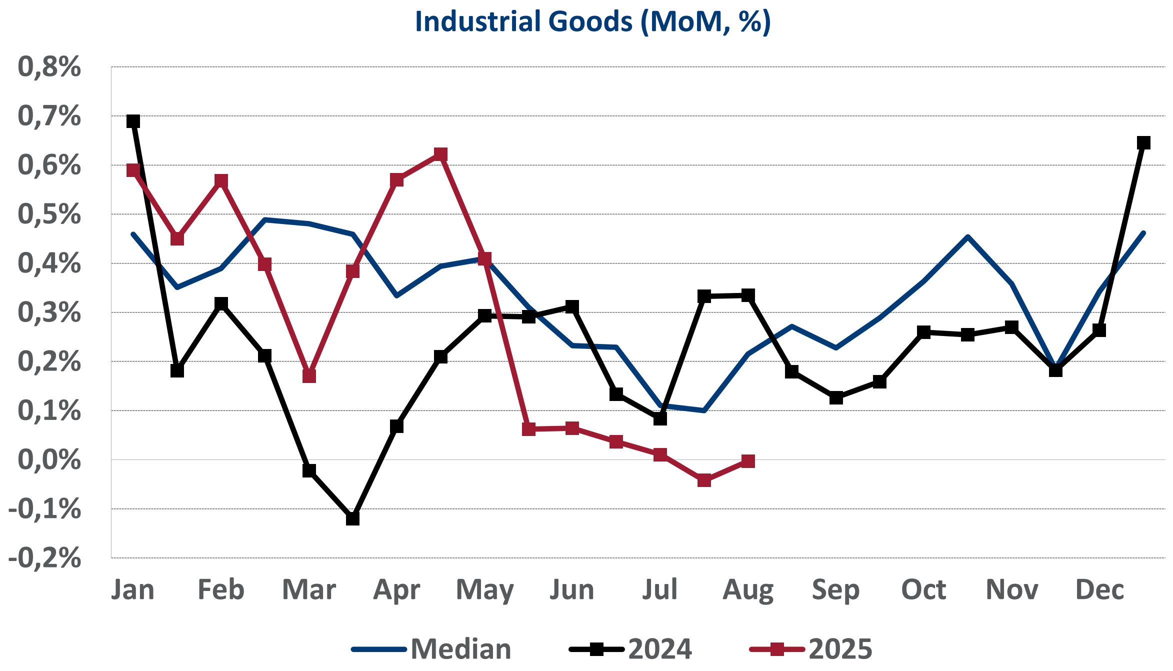


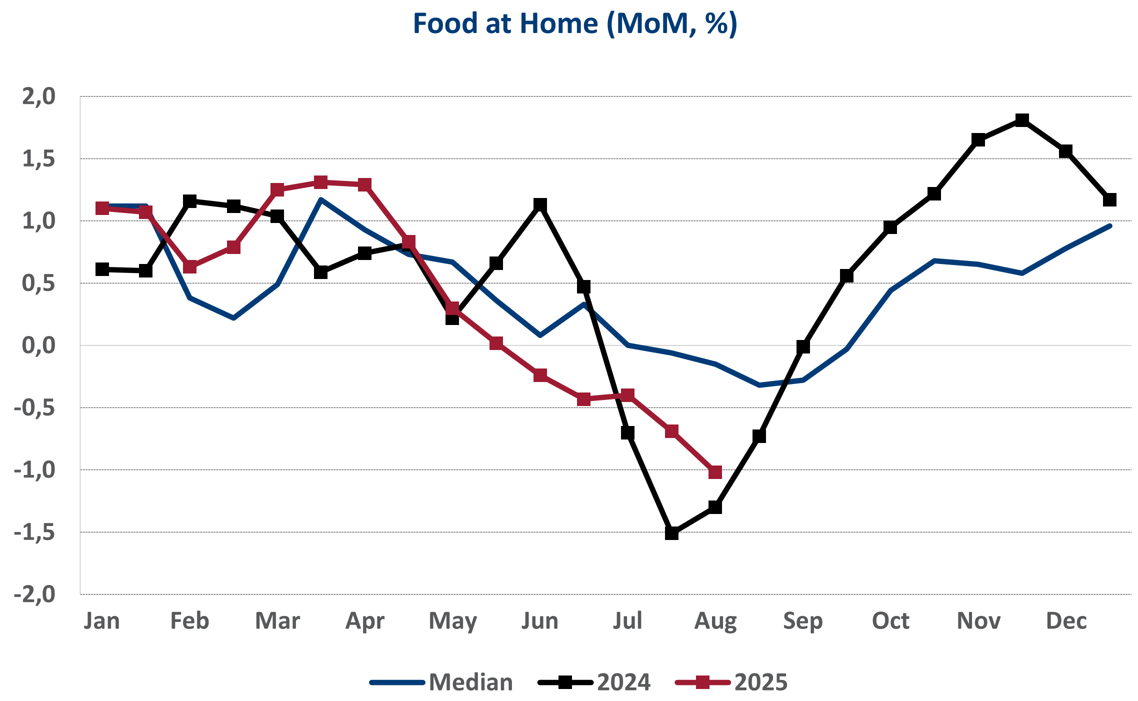


Source: BOCOM BBM, IBGE

Brazil: Inflation 2025

- Industrial goods remained stable, in line with estimates. The 3M SAAR decreased from 2.5% last month to 1.7% in August.
- Foodstuff prices decreased by 1.02% MoM, below expectations. Items such as fresh foods, cereals and protein contributed to the drop.
- Therefore, currency appreciation was reflected in an improvement in recent inflation for tradable goods, while the tight labor market limits disinflation in services.





Source: BOCOM BBM, IBGE

Brazil: Inflation

BANK OF COMMUNICATIONS 交通銀行 BBM

- We revised our 2025 inflation projection from 5.0% to 4.7%, primarily due to industrial and food-at-home inflation. Services inflation, in turn, remains sticky.
- For 2026, we reduced it from 4.1% to 4%, but we see downside risks associated with food given the very favorable scenario for global commodity supply in 2026

IPCA (%, annual)

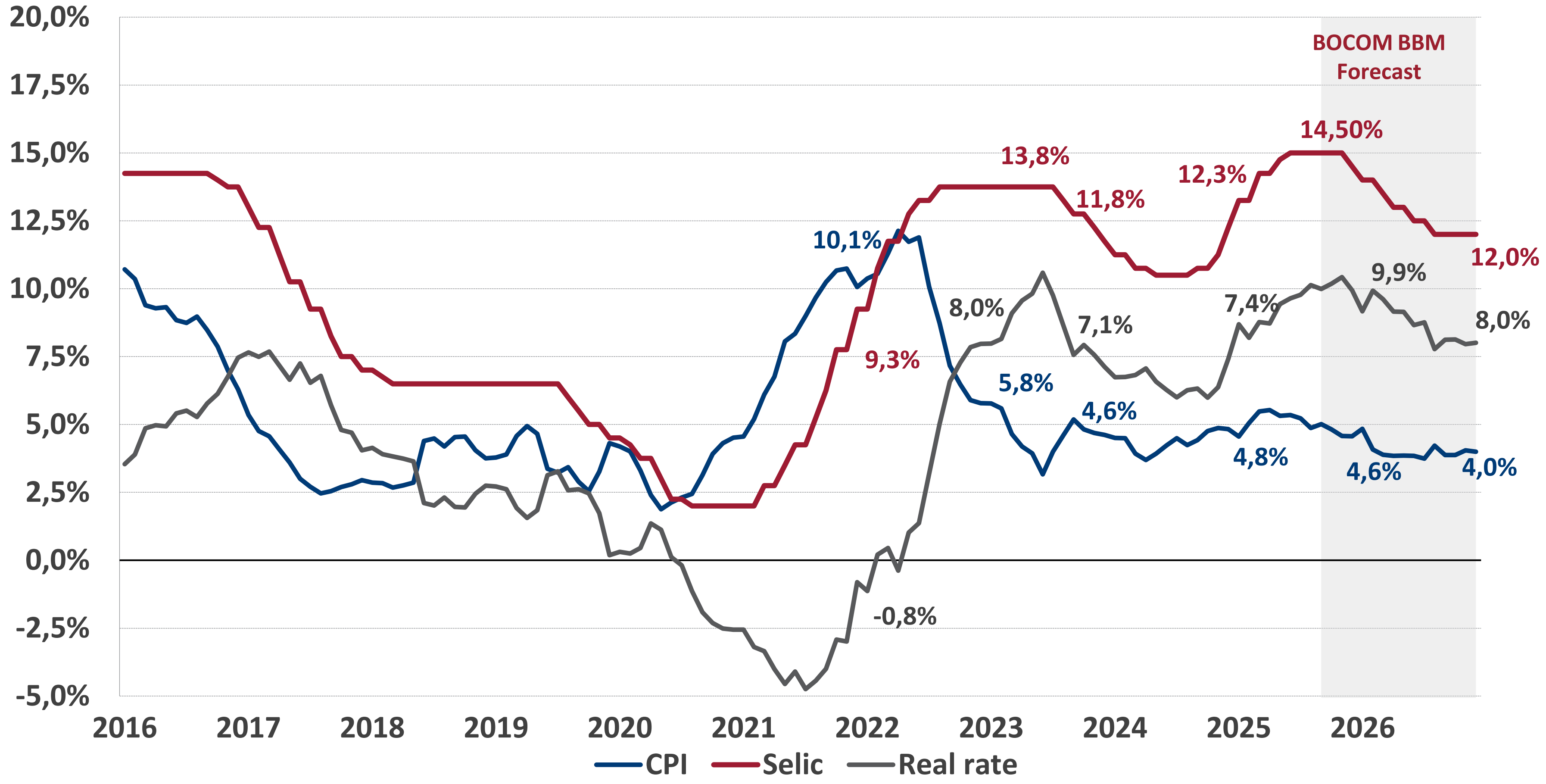
	Weight	2019	2020	2021	2022	2023	2024	2025	2026
Regulated	**26.6**	**5.5**	**2.6**	**16.9**	**-3.8**	**9.1**	**4.7**	**4.9**	**3.9**
Industrial goods	**23.6**	**1.7**	**3.2**	**11.9**	**9.5**	**1.1**	**2.9**	**2.7**	**2.4**
Durable goods	10.3	0.0	4.5	12.9	6.1	-0.4	1.5	1.0	-
Semi-durable goods	5.9	0.6	-0.1	10.2	15.7	2.7	2.1	2.8	-
Non-durable goods	7.3	4.4	4.0	11.9	9.5	1.7	5.4	4.9	-
Food at home	**15.7**	**7.8**	**18.2**	**8.2**	**13.2**	**-0.5**	**8.2**	**4.4**	**4.9**
Services	**34.1**	**3.5**	**1.7**	**4.8**	**7.6**	**6.2**	**4.6**	**5.9**	**4.8**
Food away from home	5.6	3.8	4.8	7.2	7.5	5.3	6.3	8.0	5.2
Related to minimum wage	5.2	2.9	1.5	3.3	6.3	5.2	5.0	6.4	5.0
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.3	9.5	0.9	5.1	4.5
Inertial	15.0	4.3	1.6	4.2	8.8	5.1	6.0	5.4	4.6
IPCA		**4.3**	**4.5**	**10.1**	**5.8**	**4.6**	**4.8**	**4.7**	**4.0**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

- Concerning monetary policy, the Brazilian Central Bank (BCB) kept the Selic rate at 15.00% p.a. at its July meeting, as expected, pointing out the need to caution in conducting monetary policy. The committee made an effort to suggest that the recent developments on activity and inflation do not change its view that monetary policy's job is far from concluded, and extra caution is still needed ahead. However, improvements in inflation expectations and the BRL appreciation may lead the central bank to anticipate the cutting cycle. We now expect a cut of 50 bps in December, a scenario in line with the slowdown in economic activity and the better-than-expected IPCA prints. The beginning of the Fed cutting cycle should also contribute to BRL appreciation.

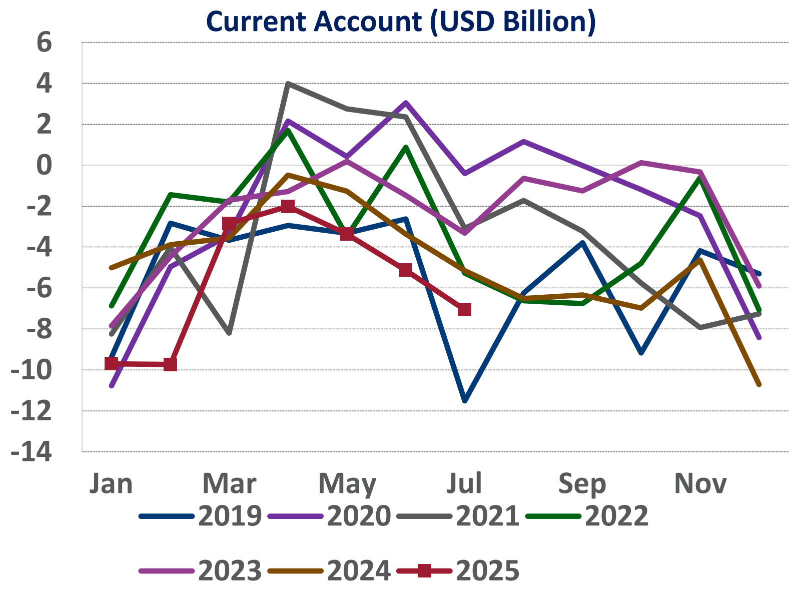
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

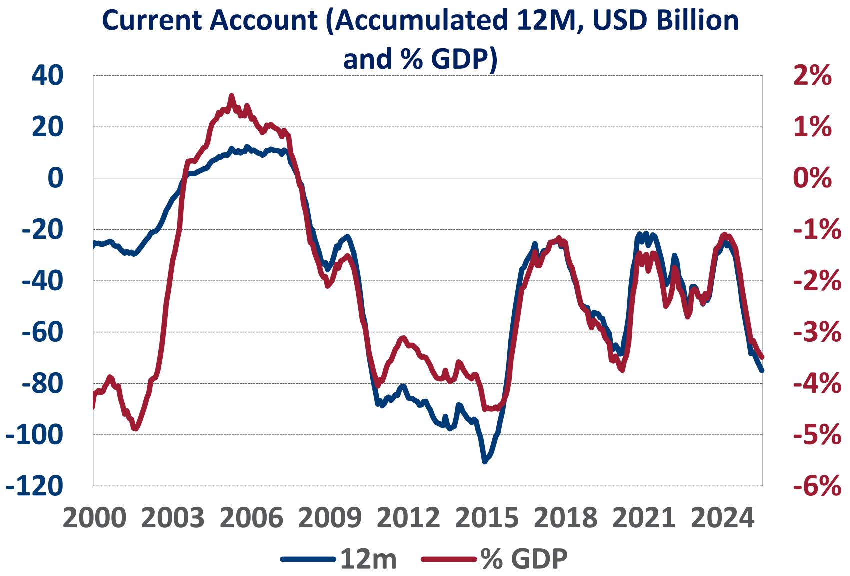


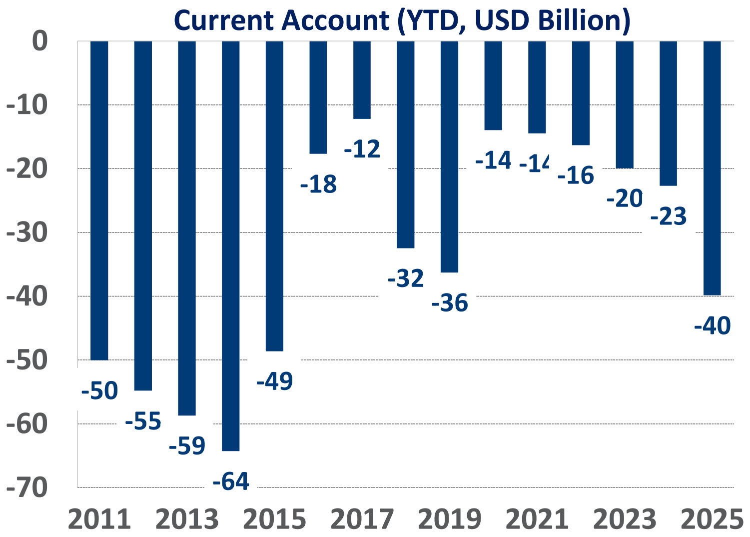
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The Brazilian current account recorded a deficit of USD 7.1 billion in July 2025, worse than market expectations (USD -5.5 billion).
- On a 12-month basis, the deficit reached USD 75.3 billion (3.50% of GDP) from USD 73.3 billion (3.43% of GDP) in June.
- In all, robust domestic demand remains the main factor behind the wider current account deficit.



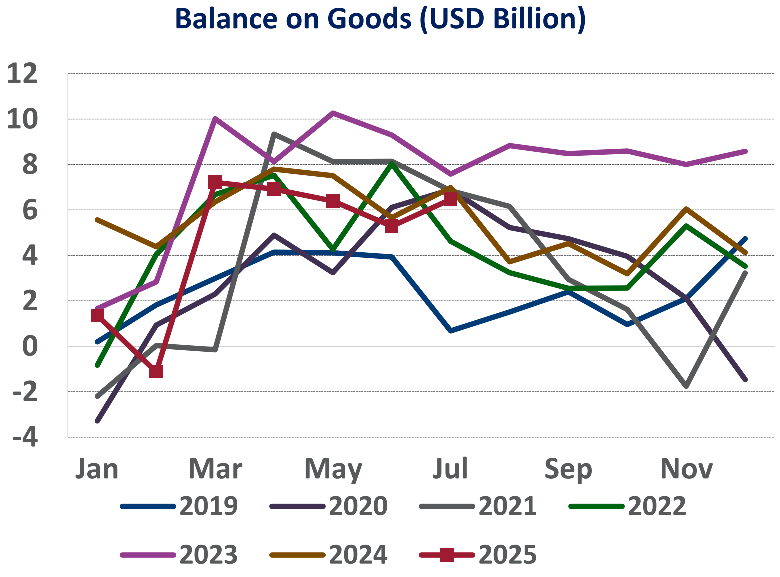


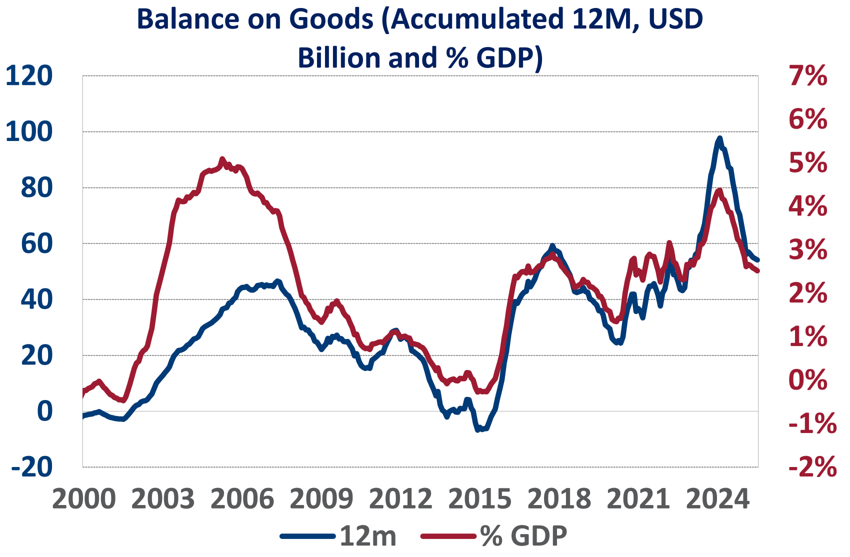


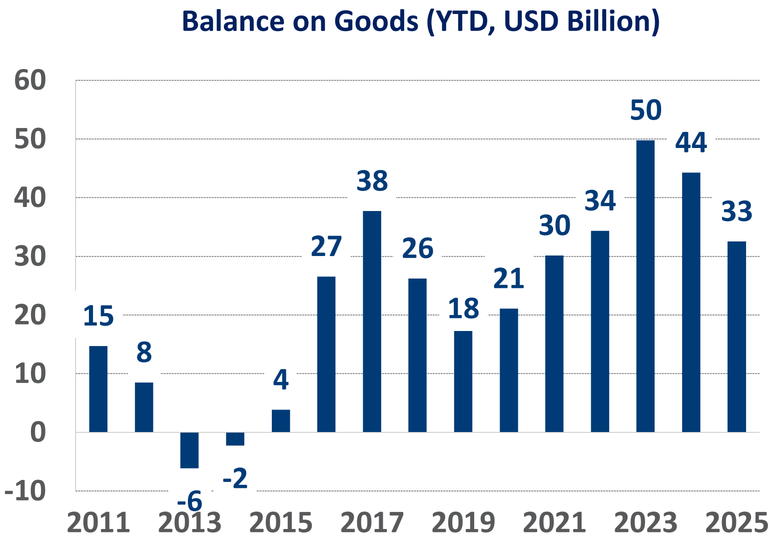
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- The merchandise trade balance recorded a surplus of USD 6.5 billion, in line with the USD 7.0 billion surplus recorded in July 2024.
- Exports rose significantly, (4.8% MoM) staying at USD 32.6 billion, while imports are still robust (+8.3% YoY to USD 26.1 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 53.9 billion, from USD 54.4 billion in June.
- Looking ahead, the easing of logistical constraints on soybean shipments should support exports in the second half, while import volumes remains high.







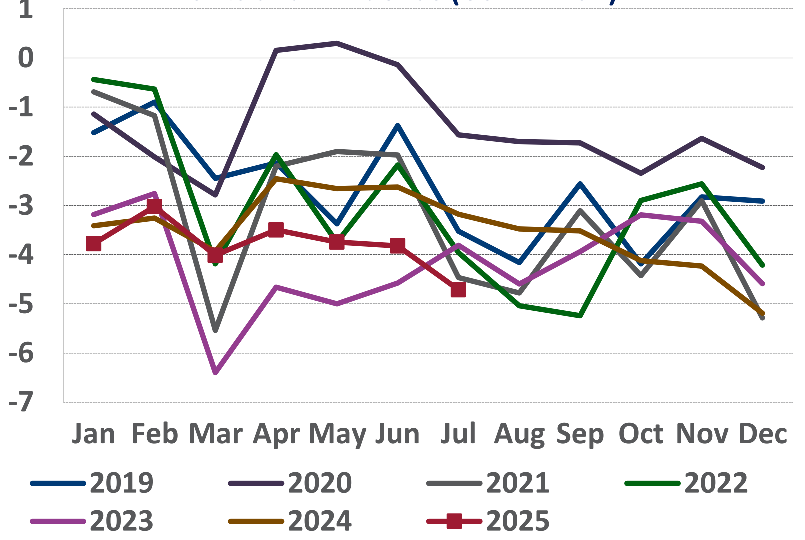
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

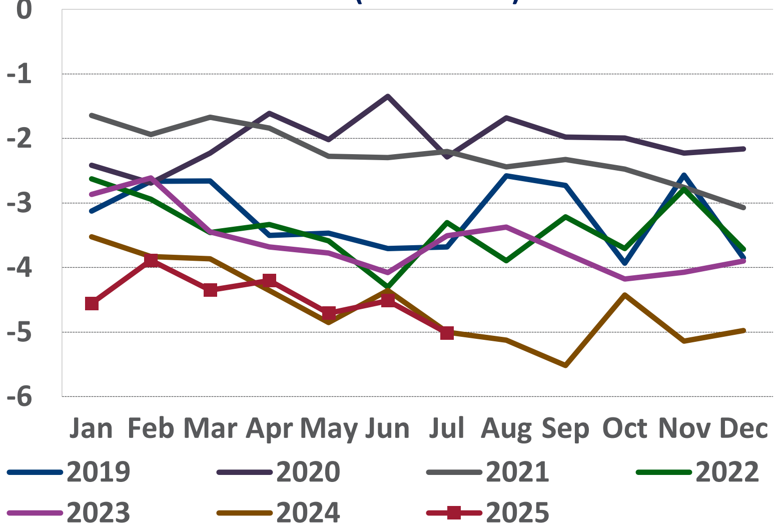
BANK OF COMMUNICATIONS BBM

- The Services account posted a deficit of USD 5.0 billion in July, in line with the USD 5.0 billion deficit observed in the same period last year. On a 12-month basis, the Services deficit reached USD 56.5 billion.
- The ‘Intellectual Property’ and ‘Telecommunication’ accounts, whose dynamics are less sensitive to the economic cycle, recorded a USD 0.8 billion deficit.
- On the other hand, the ‘Personal, Cultural, and Recreational Services’ Account posted a USD 57 million superavit in July 2025, coming from a deficit of USD 472 million in July 2024. The result came in line with the formalization of betting operations that began earlier this year.

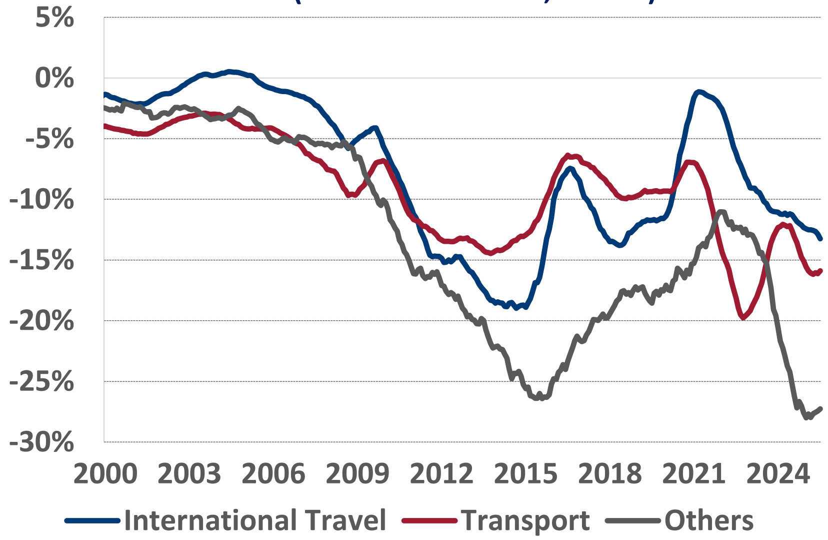
Profits and Dividends (USD Billion)



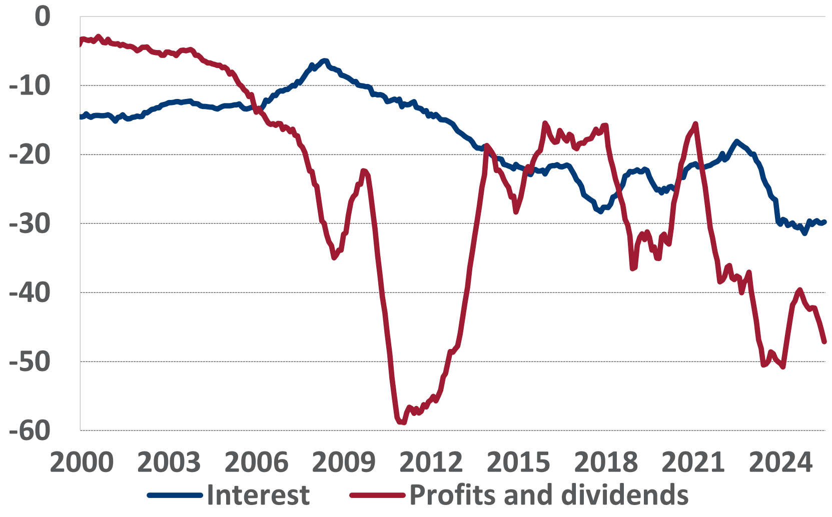
Services (USD Billion)



Services (Accumulated 12M, % GDP)



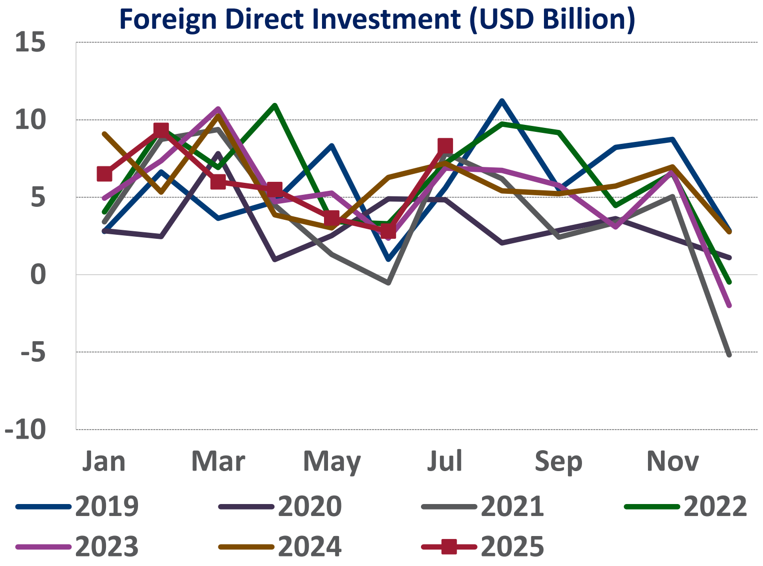
Primary Income (Accumulated 12M, USD Billion)

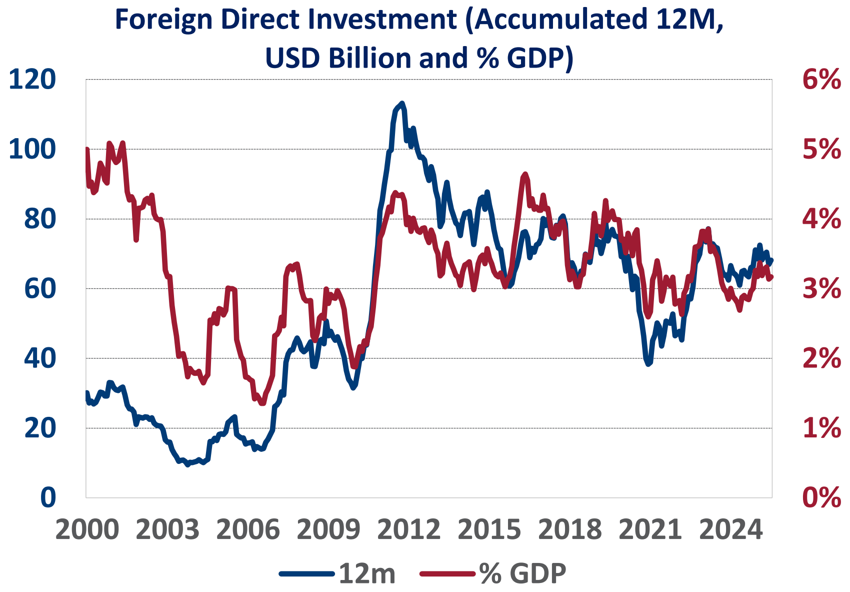


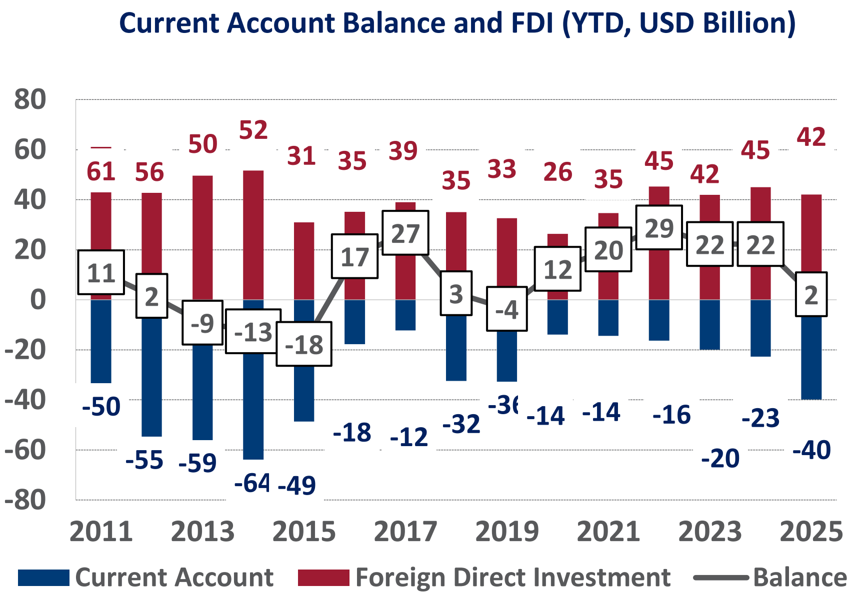
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- Foreign Direct Investment (FDI) registered a net inflow of USD 8.3 billion in July, above market consensus.
- On a 12-month basis, FDI inflows increased to USD 68.2 billion (3.17% of GDP), up from USD 67.0 billion in June.
- Overall, we see external conditions worsening with the combination of higher CA deficits, greater domestic capital outflow, and a lack of a sustained rebound in foreign investment.





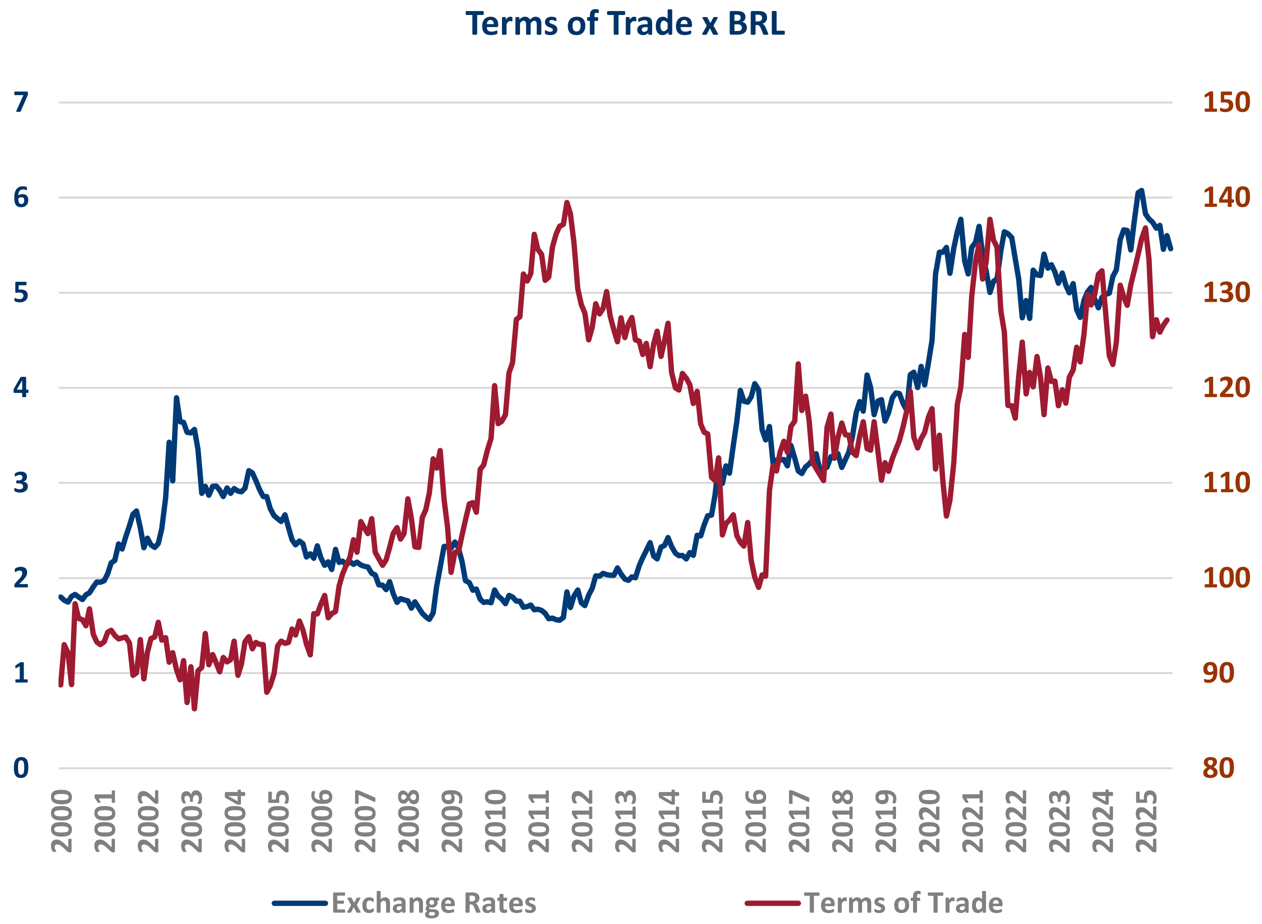


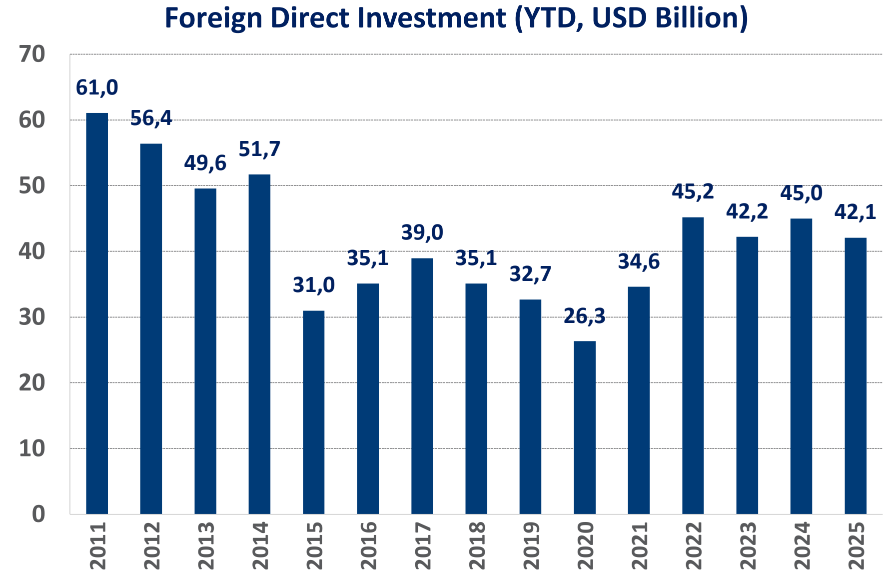
Source: BOCOM BBM, BCB

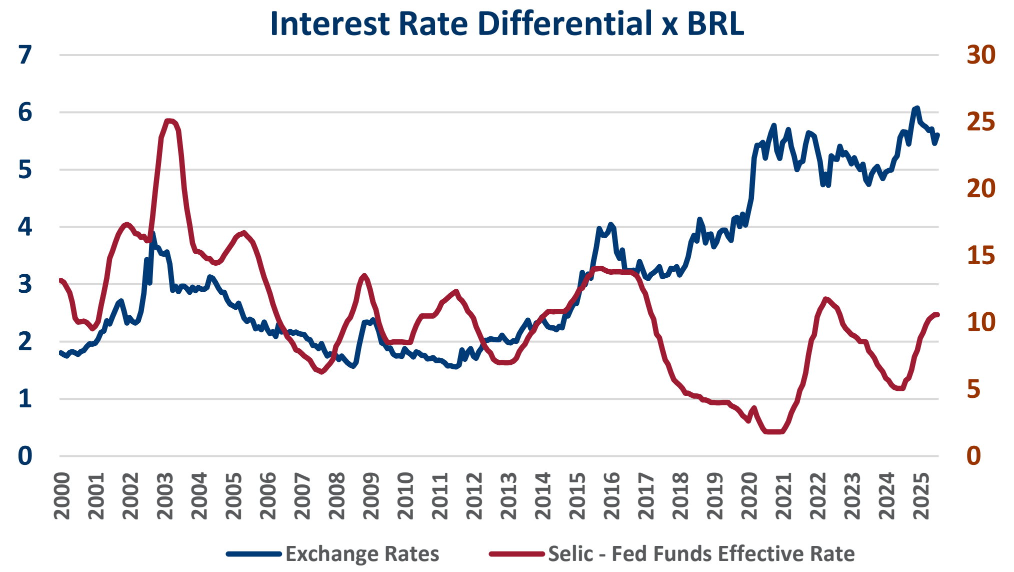
Brazil: External Sector

BANK OF COMMUNICATIONS BBM

- In August, the Brazilian Real appreciated from 5.58 to around 5.43 against the US Dollar. The move reflected a brief pause in global dollar strength after dovish Fed signals, but gains were limited by the surprise in August inflation preview and tighter local funding conditions. Inflation surprised negatively, especially services inflation, delaying expectations of monetary easing. Softer trade receipts and a wider external deficit added pressure. Still, the BRL held firm, supported by the elevated Selic rate and strong carry-trade flows. However, diplomatic tensions with the US and external fragilities pose risks to the resilience of FDI, even though August saw a solid US$8.3 billion in inflows.





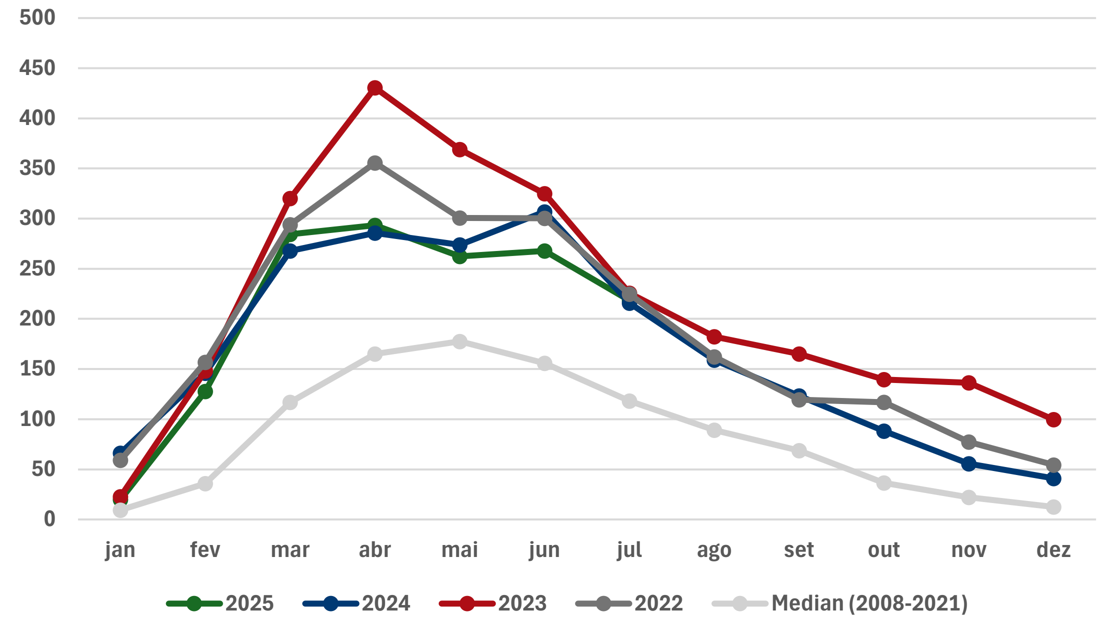


Source: BOCOM BBM, Bloomberg, BCB

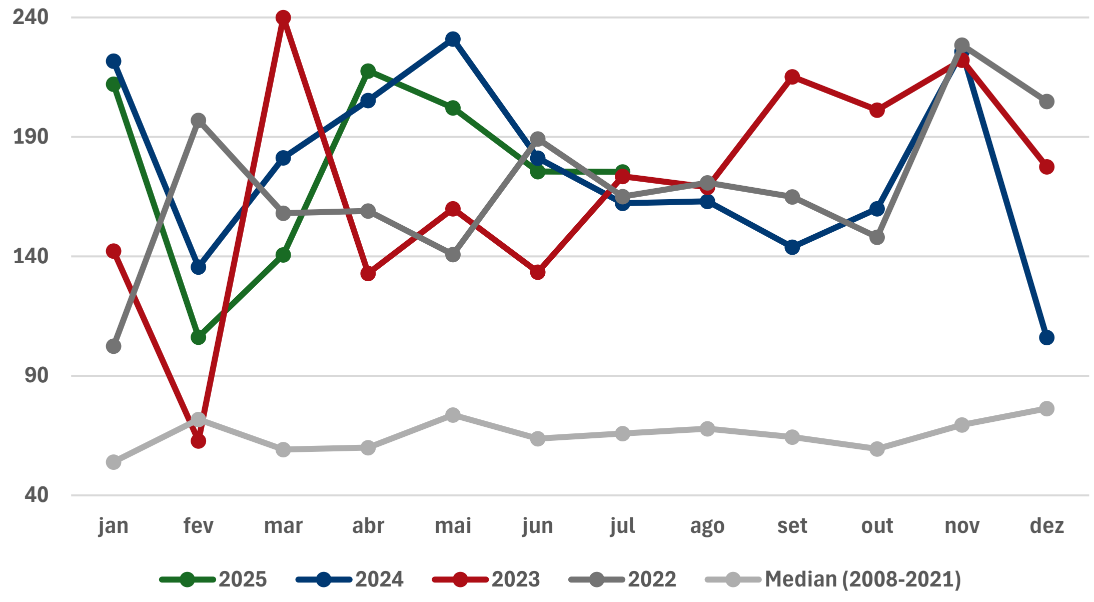
Brazil: External Sector

- In July, the trade balance presented a surplus of USD 7.07 bn (-6.3% YoY) according to Secex data.
- Exports increased by 4.8% YoY, mainly due to the performance of the manufacturing industry (7.4% YoY). In turn, even though exports grew, some products recorded a decrease in sales, such as pulp (-23.5%), raw cotton (-33.7%), and iron ore (-8.8%).
- On the other hand, imports rose by 8.4% YoY, driven by the manufacturing industry (11.1% YoY), while the mining industry imports declined by 29.2%.

Brazil BoP: Soy Exports
USD Million Daily Average



Brazil BoP: Crude Oil Exports
USD Million Daily Average



Source: Secex, BOCOM BBM

交通銀行 BANK OF COMMUNICATIONS BBM