Macro Outlook

October 2025

Macro Outlook

BANK OF COMMUNICATIONS BBM

- In the US, the FOMC decided to cut rates by 25 bps at the September meeting. The FOMC median projection now points to three 25bps cuts in 2025 (from two previously). In the press conference, Chair Powell emphasized the cut was based on rising downside risks to the labor market, which justifies 'insurance cuts' to a more neutral stance in a heated economy. On inflation, the August CPI and PCE reports indicated a modest deceleration on tariff effects, but inflation remains above target and tariffs are still expected to push prices up throughout H2. On activity, the final estimate of Q2 GDP was revised up on higher domestic demand, and other indicators continue to show resilience within US households. In the labor market, the September Payroll was delayed due to a government shutdown, causing markets to put more weight in secondary indicators. Among these, the September ADP employment report came in lower than consensus, increasing odds of another weaker-than-expected payroll report – after August brought a slowdown on job creation from 79k to 22k, a 2-month-net revision of -21k and a modest increase in the unemployment rate to 4.3%. Gradual signs of further cooling are expected as tariffs weigh on activity and boost inflation, but the outlook remains very uncertain.

- Regarding China, August data pointed again to a weaker momentum in the economy, with all major indicators missing expectations. There was a widespread slowdown on activity indicators, and housing continues to be a drag. The slowdown is also reflected in the credit data, as household loans remained relatively weak despite strong government bonds. Deflationary pressures persist, remaining a major concern of the economy. With the weak dynamism of domestic demand and only marginal policy easing, growth is still likely to gradually soften further in coming months.

- In Brazil, economic activity shows signs of deceleration. In July, industrial production result came in line with expectations, decreasing by 0.2% 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 0.5% MoM in July. The formal labor market continues to show employment balance cooling down, although the tight labor market scenario remains.

- Concerning monetary policy, the Brazilian Central Bank (BCB) kept the Selic rate at 15.00% p.a. at its September meeting, as largely expected. The hiking cycle seems to be over since COPOM no longer foresees an interruption of the cycle, paving the way for a cutting cycle at some point in the near future. Nonetheless, the committee also stated that it will remain vigilant evaluating whether rates at the current level will be sufficient to bring inflation to the target. BCB inflation projection six trimesters ahead was kept at 3,4 % in the first quarter of 2027, remaining unchanged despite currency appreciation and lower inflation expectations in FOCUS at the time of this last meeting. In all, Copom indicates that while a continuation of a hiking cycle is more unlikely, inflation projections still at 3,4% (and above the target) might require caution and rates that remain high for a prolonged period of time.

- September IPCA-15 increased by 0.48% MoM, slightly below market expectations of 0.52% MoM. The 12-month variation rose from 4.95% in August to 5.32% in September. This reading was marked by the payback of the Itaipu bonus in energy tariffs, which jumped 12.2% MoM. Regarding the breakdown, core services advanced 0.04% MoM, well below forecasts, and the 3M SAAR fell from 5.8% to 5.0%. The average of core inflation increased by 0.19% MoM, below expectations, with its 3M SAAR at 4.3%. Overall, last IPCA-15 breakdown was slightly better than expected, especially in core services metrics. Furthermore, the appreciation of the currency continued to be reflected in an improvement in recent inflation for tradable goods, especially food.

- In the fiscal scenario, the Brazilian public sector posted a primary deficit of BRL 17.3 billion in August, above market consensus (deficit of BRL 21.0 billion), from a deficit of BRL 21.4 billion in August 2024. Regarding the breakdown, central government and regional governments registered deficits of BRL 15.9 billion and BRL 1.3 billion, respectively, while state-owned enterprises (SOEs) remained virtually flat. The General Government Gross Debt (GGGD) remained at 77.5% of GDP, with nominal interest (+0.8 p.p.) being the main driver of this growth, while nominal GDP growth (-0.5 p.p.) partially offset it.

China: Economic Activity

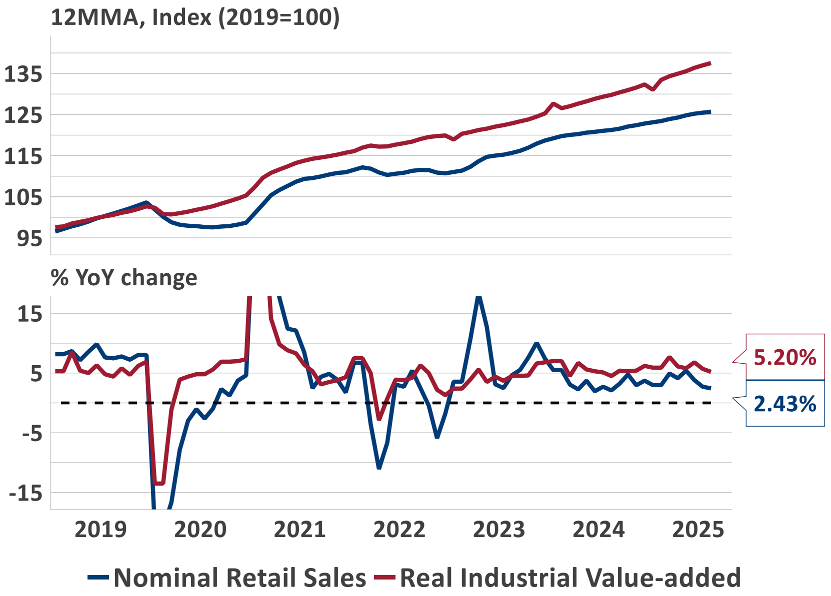
- **Monthly economic activity softened in August**; The data suggest that the Chinese economy's momentum weakened in August, the second consecutive month of broad-based slowdown in activity indicators;
- **Retail sales slowed** from 3.7% to 3.4% YoY, below market expectations of 3.8%. **It was the slowest pace in seven months**. Despite an uptick in auto sales, trade-in subsidies seem to be gradually fading, and base effects are turning less favorable;
- **Industrial Production moderated** from 5.7% to 5.2% YoY, also below consensus of 5.6%. I**t was the slowest pace since August 2024**, as both manufacturing and utilities softened (while mining modestly accelerated);
- **Fixed Asset Investment eased** further, from 1.6% to 0.5% YTD YoY, below market consensus of 1.5%. There were deeper contractions across most components, with real-estate remaining a key drag to the economy;
- **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)

	8/2025	7/2025	8/2024
Industrial Production	**5.2**	**5.7**	**4.5**
Mining	5.1	5.0	3.7
Manufacturing	5.7	6.2	4.3
Utilities	2.4	3.3	6.8
Fixed Asset Investment (YTD)	**0.5**	**1.6**	**3.4**
Manufacturing	5.1	6.2	9.1
Real Estate	-12.9	-12.0	-10.2
Infrastructure	2.0	3.2	4.4
Retail Sales	**3.4**	**3.7**	**2.1**
Catering Services	2.1	1.1	3.3
Consumer Goods	3.6	4.0	1.9
Clothing	3.1	1.8	-1.6
Automobiles	0.8	-1.5	-7.3
Furniture	18.6	20.6	-3.7
Cellphones	7.3	14.9	14.8
Home Appliances	14.3	28.7	3.4
Construction	-0.7	-0.5	-6.7

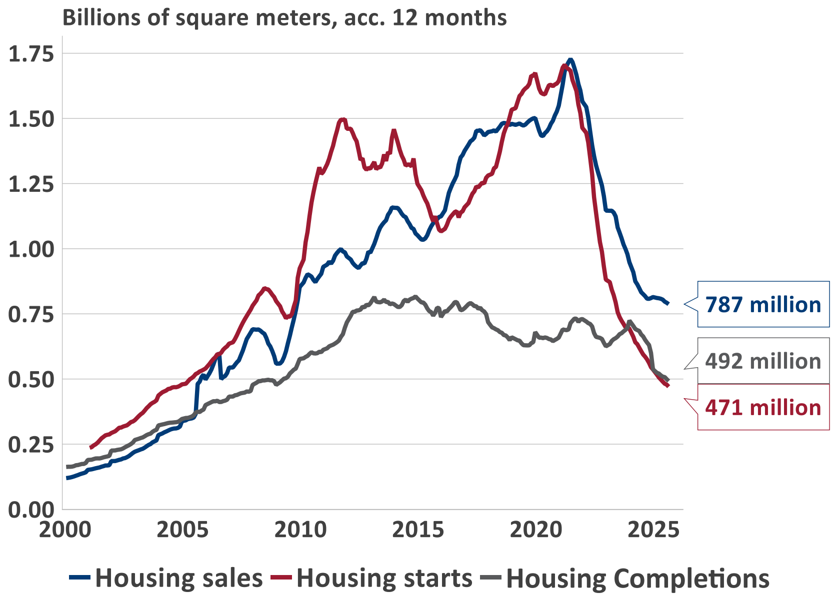
Source: BOCOM BBM, Macrobond

China: Industrial Production x Retail Sales



Source: BOCOM BBM, Macrobond, NBS

China: Housing Indicators



Source: BOCOM BBM, Macrobond, NBS

China: Economic Scenario

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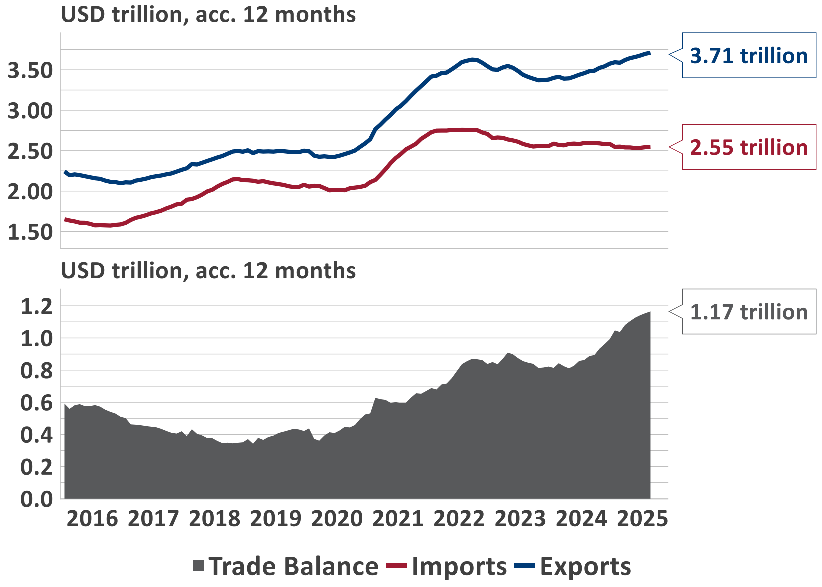
- **China's trade growth softened in August**, with the latest data print below expectations:
  - **Exports decelerated** from 7.2% to **4.4% YoY,** below consensus of 5.5%. This dragged the 3MMA SAAR into negative territory for the first time since Oct/24, suggesting some unwinding of recent front-loading patterns;
  - **Imports also slowed,** from 4.1% to **1.3% YoY,** against the consensus for 3.4%. The softness is in line with recent data pointing to weak domestic demand in the Chinese economy;
  - Looking ahead, export momentum is expected to moderate in H2 and reduce net exports' contribution on GDP, as US frontloading ends and global demand weakens;
- Regarding Inflation, the **Headline CPI declined from 0.0% to -0.4% YoY,** modestly below consensus of -0.2% and remaining in very subdued levels:
  - The data was dragged down by weak food and energy prices. However, **core inflation edged up** marginally in August, **by 0.1pp to 0.9% YoY**, the highest print since 02/2024, but also at subdued levels.
  - The August print continues to reaffirm persistent deflationary pressures in China.

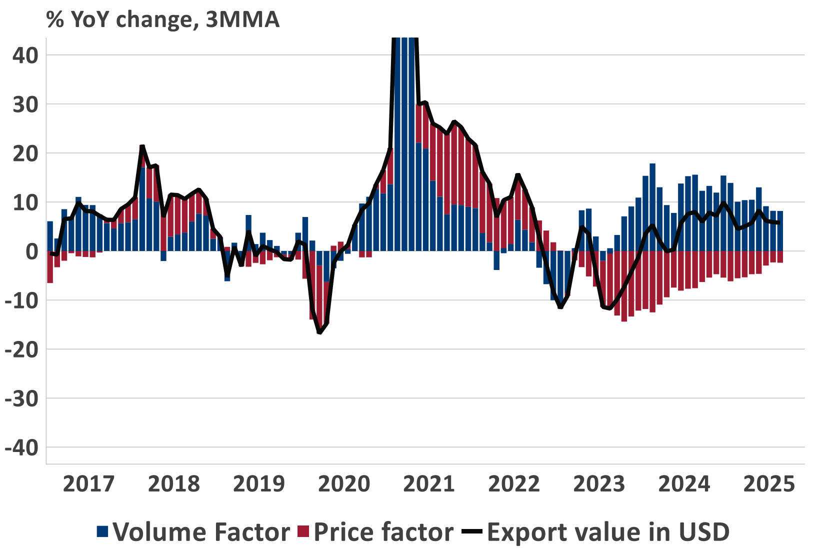
China: Trade Balance



Source: BOCOM BBM, Macrobond, GAC

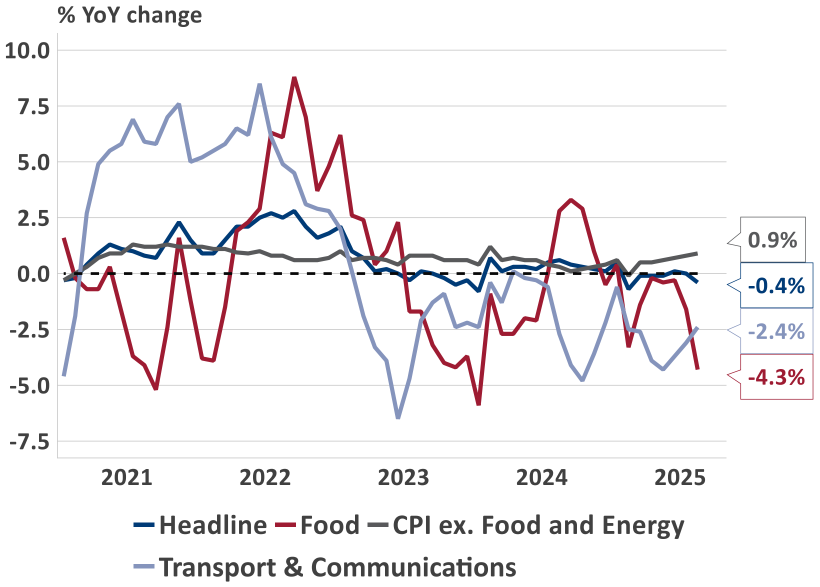
China: Exports (Price x Volume)

Last observation at 8/2025



Source: BOCOM BBM, Macrobond, GAC

China: CPI

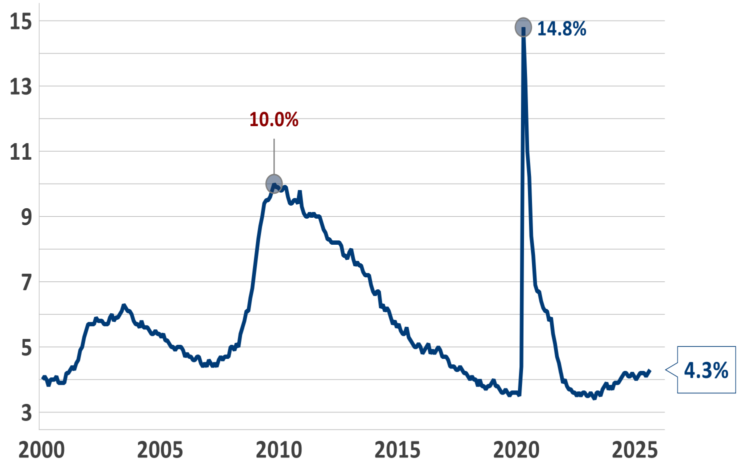


Source: BOCOM BBM, Macrobond, NBS

USA: Labor Market

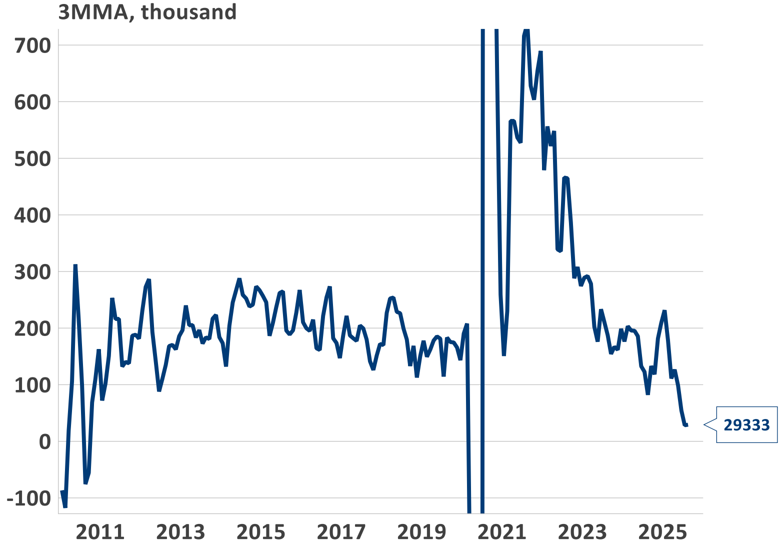
- **September Payroll was delayed due to a still-ongoing shutdown in the US government**, causing markets to put more weight in secondary indicators;
- Among these, **September ADP employment report came in lower than consensus, increasing the odds of another weaker-than-expected payroll report;**
- **It comes after a weaker-than-expected August Payroll report**:
  - 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;
- Additionally, the jobs-workers gap fell to -0.16M, 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 on the labor market.
- A more detailed assessment of the labor market is dependent on the latest Payroll report, **to be released once the shutdown ends**.
  - The exact date is highly uncertain, but a resolution is expected by October 15th, based on market probabilities and historical patterns.

US: Unemployment Rate SA (%)



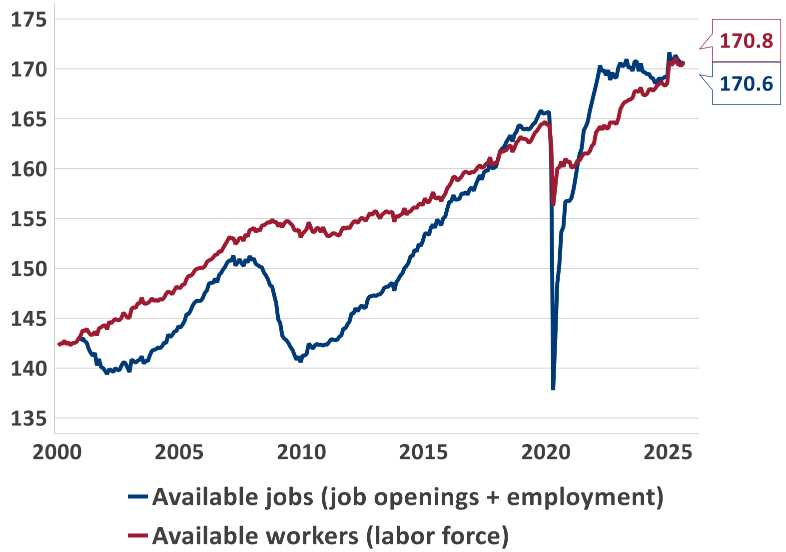
Source: BOCOM BBM, Macrobond, BLS

US: Nonfarm Payroll Employment Change



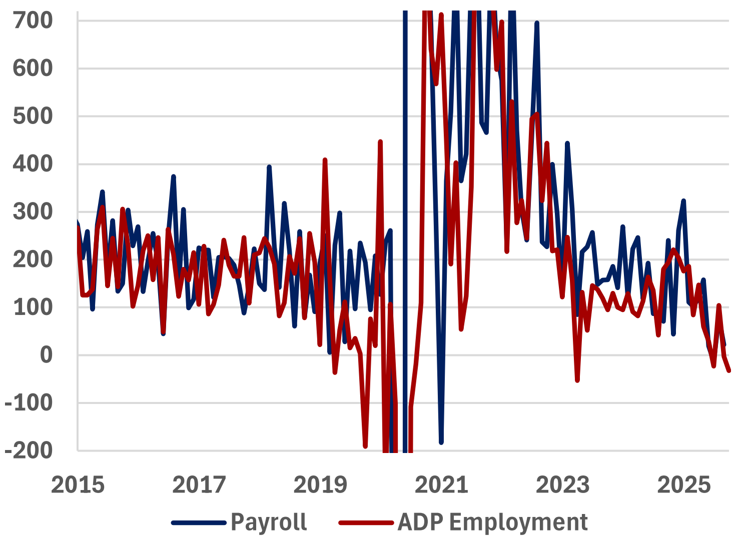
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



Source: BOCOM BBM, Macrobond, BLS

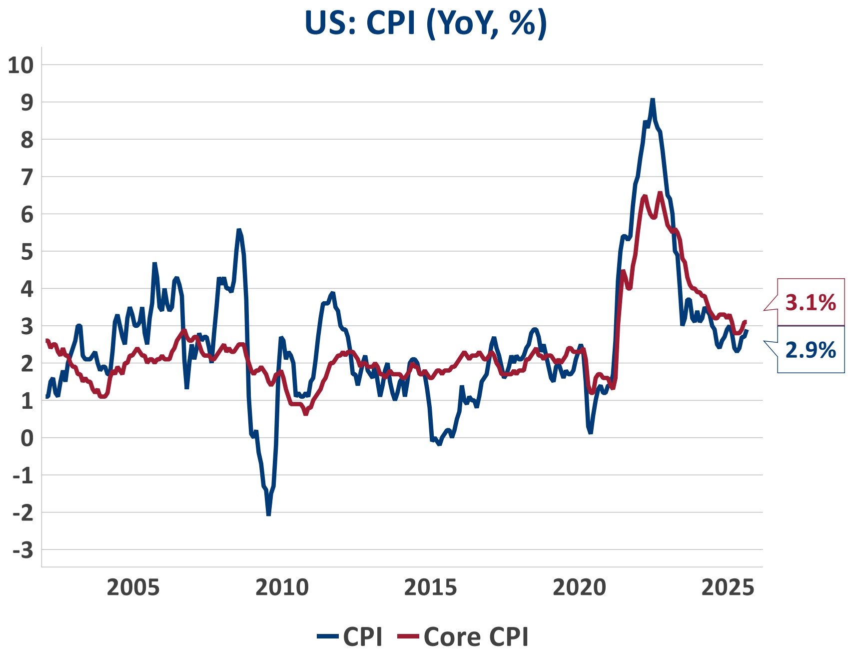
US: ADP Employment x Payroll



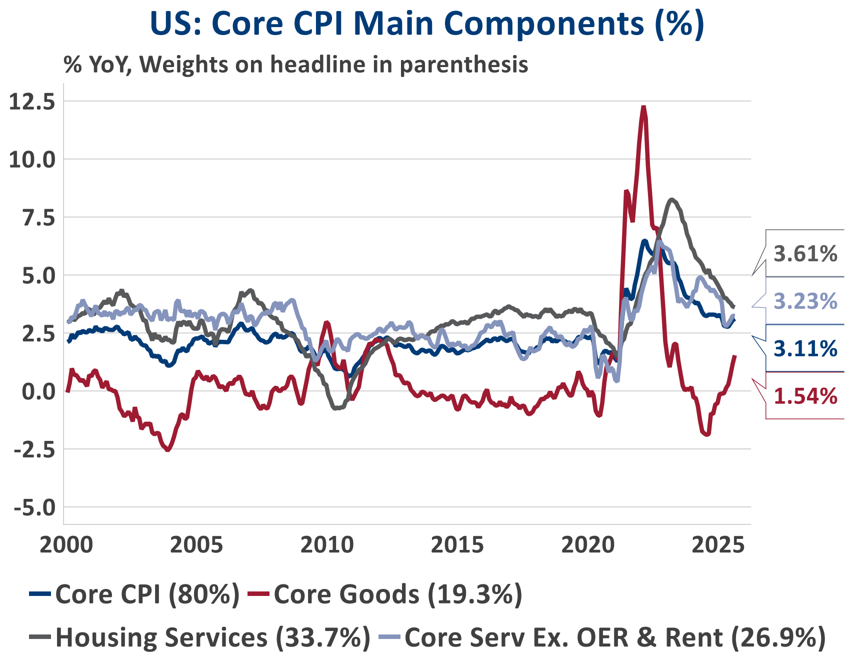
Source: BOCOM BBM, BLS, ADP, Bloomberg

USA: Inflation

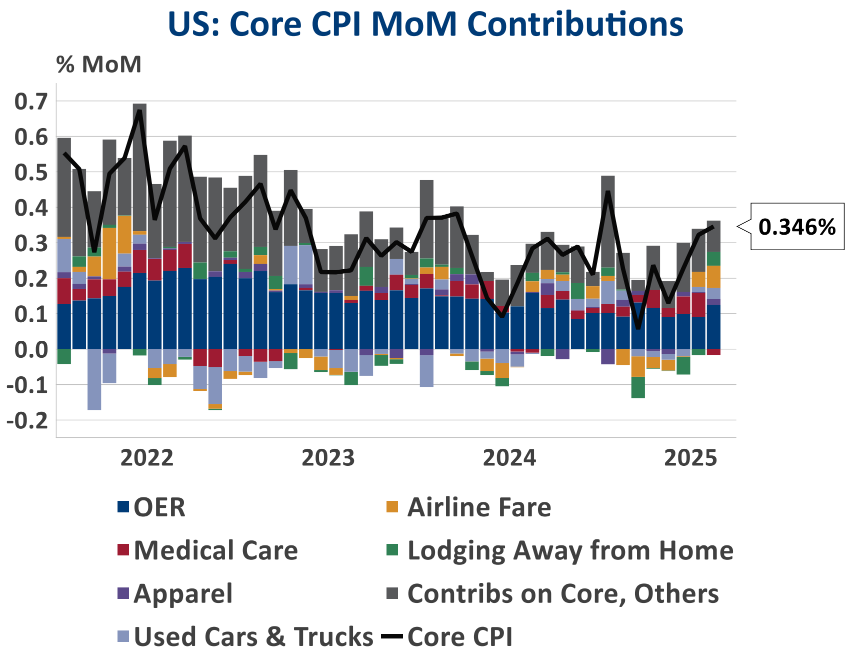
- The **August headline CPI** accelerated to **0.38% MoM** (slightly above market expectations of 0.37%). The YoY increased from 2.7% to 2.9%, in line with consensus:
  - In the composition, there was a larger-than expected pickup in food, while energy prices came in below consensus;
- **Core CPI** rose **0.35% MoM, also** slightly above expectations of 0.34%, keeping the YoY at 3.1% as expected:
  - Core Goods increased by less than consensus but still reached the highest reading since January. Tariffs are showing clear effects on inflation, but these seem short of the full expected pass-through;
  - Core services were modestly firmer than expected, especially on Housing, and remain on a resilient trend despite a modest slowing on Core Services ex Housing (supercore);
- Overall, the August 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 projected until the end of the year,** as tariff impacts intensify - but softer recent releases have been reducing the probability of more persistent effects;



Source: BOCOM BBM, Macrobond, BLS



Source: BOCOM BBM, Macrobond, BLS

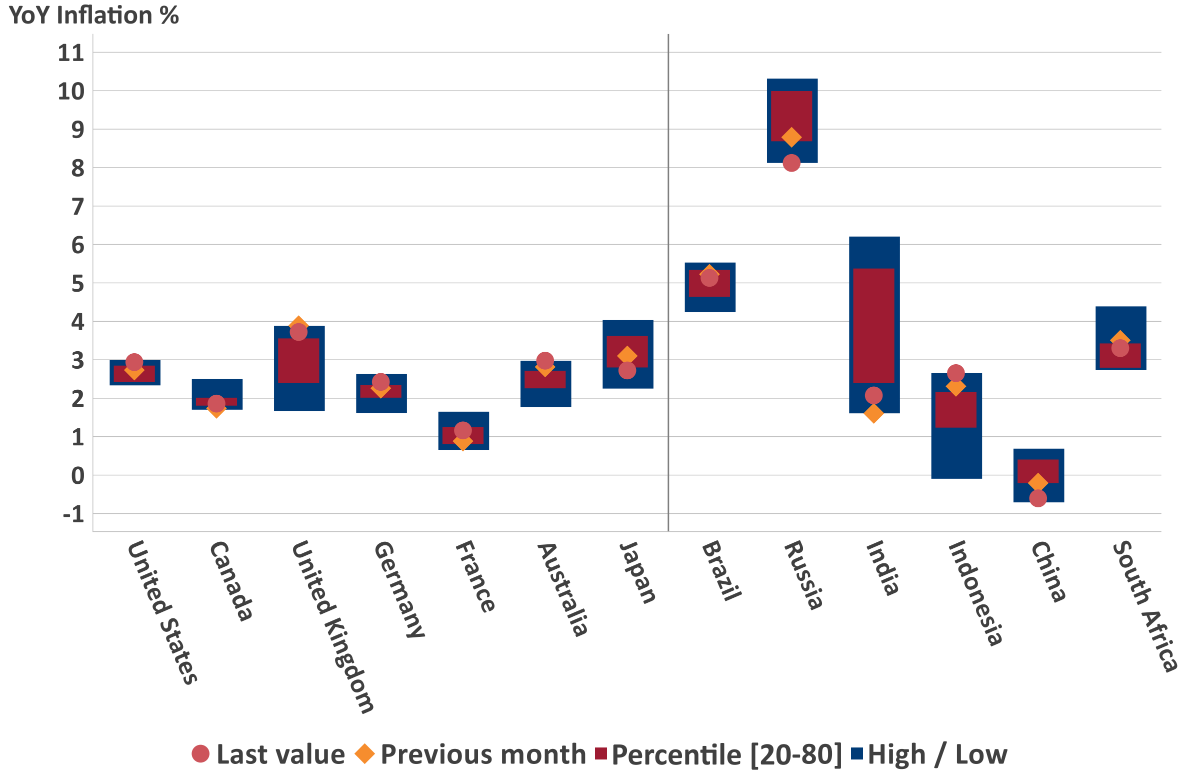


Source: BOCOM BBM, Macrobond, BLS

Global: Inflation & Activity

- Progress in inflation numbers is 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 more monetary policy easing, 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	-0,1	0,9	2,2	3,6	-0,8	-1,8	-2,2	1,9
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	0,5	0,1	0,5	0,6	0,5	-0,2	-0,1	-0,8
Mexico	0,6	0,3	-0,6	0,9	0,1	0,0	0,4	0,6
Russia	0,4	-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	0,8	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	0,2	0,2	0,6	0,8	-0,3	-0,2
United States	0,9	-0,2	0,5	0,8	0,9	0,2	0,8	1,2

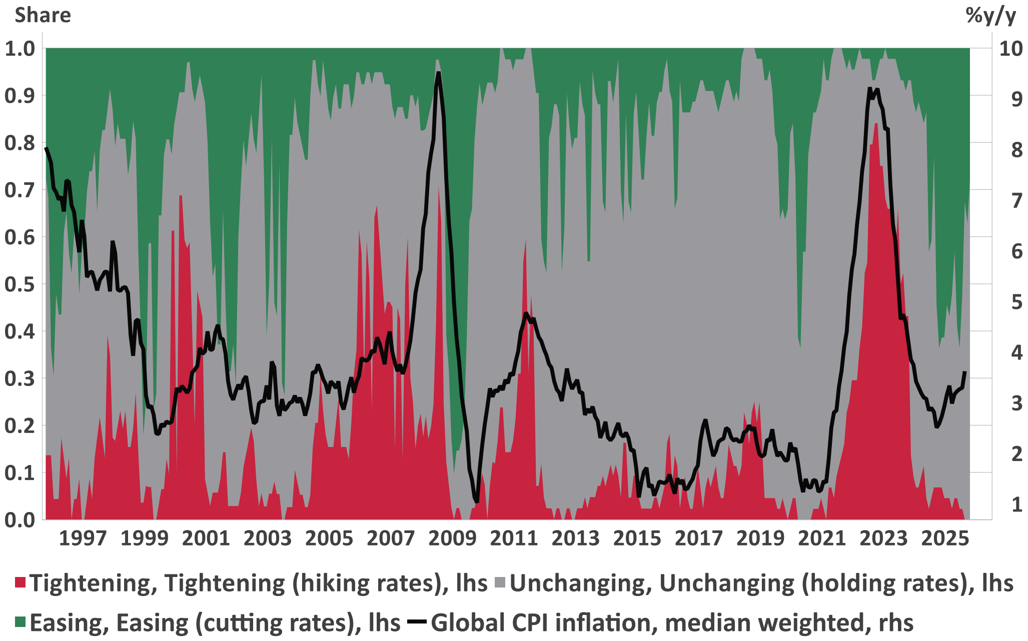
Sources: BOCOM BBM, Macrobond, National Sources

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, 2-Oct-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	33,6	36,1	29,00	-3,00	Cut	1/2025	24	8
Australia	2,0	2,5	3,60	-0,25	Cut	8/2025	23	2
Brazil	5,1	5,0	15,00	0,25	Hike	6/2025	4	17
Canada	1,9	2,6	2,50	-0,25	Cut	9/2025	27	1
Chile	4,0	3,4	4,75	-0,25	Cut	7/2025	36	2
China	-0,6	0,9	3,00	-0,10	Cut	5/2025	140	5
Colombia	5,1	5,3	9,25	-0,25	Cut	5/2025	29	5
Costa Rica	-0,9	0,4	3,50	-0,25	Cut	9/2025	35	1
Czech Republic	2,5	0,2	3,50	-0,25	Cut	5/2025	39	5
Denmark	2,0	2,3	1,75	-0,25	Cut	6/2025	25	4
Euro Area	2,2	2,3	2,15	-0,25	Cut	6/2025	25	4
Hungary	4,3	3,9	6,50	-0,25	Cut	9/2024	36	12
Iceland	4,1	3,9	7,50	-0,25	Cut	5/2025	25	5
India	2,1	4,1	5,50	-0,50	Cut	6/2025	32	4
Indonesia	2,7	2,2	4,75	-0,25	Cut	9/2025	17	1
Israel	2,9	2,9	4,50	-0,25	Cut	1/2024	28	21
Japan	2,7	3,3	0,50	0,25	Hike	1/2025	8	116
Mexico	3,6	4,2	7,50	-0,25	Cut	9/2025	30	0
New Zealand	2,7	2,7	3,00	-0,25	Cut	8/2025	28	2
Norway	3,5	3,0	4,00	-0,25	Cut	9/2025	22	1
Poland	3,0	3,2	4,75	-0,25	Cut	9/2025	37	1
Russia	8,1	8,0	17,00	-1,00	Cut	9/2025	11	1
Saudi Arabia	2,3		4,75	-0,25	Cut	9/2025	26	1
South Africa	3,3	3,1	7,00	-0,25	Cut	8/2025	28	2
South Korea	2,1	2,0	2,50	-0,25	Cut	5/2025	33	4
Sweden	1,1	3,2	1,75	-0,25	Cut	10/2025	24	0
Switzerland	0,2	0,7	0,00	-0,25	Cut	6/2025	27	4
Turkey	33,0	33,0	40,50	-2,50	Cut	9/2025	6	1
United Kingdom	3,7	3,6	4,00	-0,25	Cut	8/2025	26	2
United States	2,9	3,1	4,25	-0,25	Cut	9/2025	26	1

Source: BOCOM BBM, Macrobond

Brazil: Forecasts

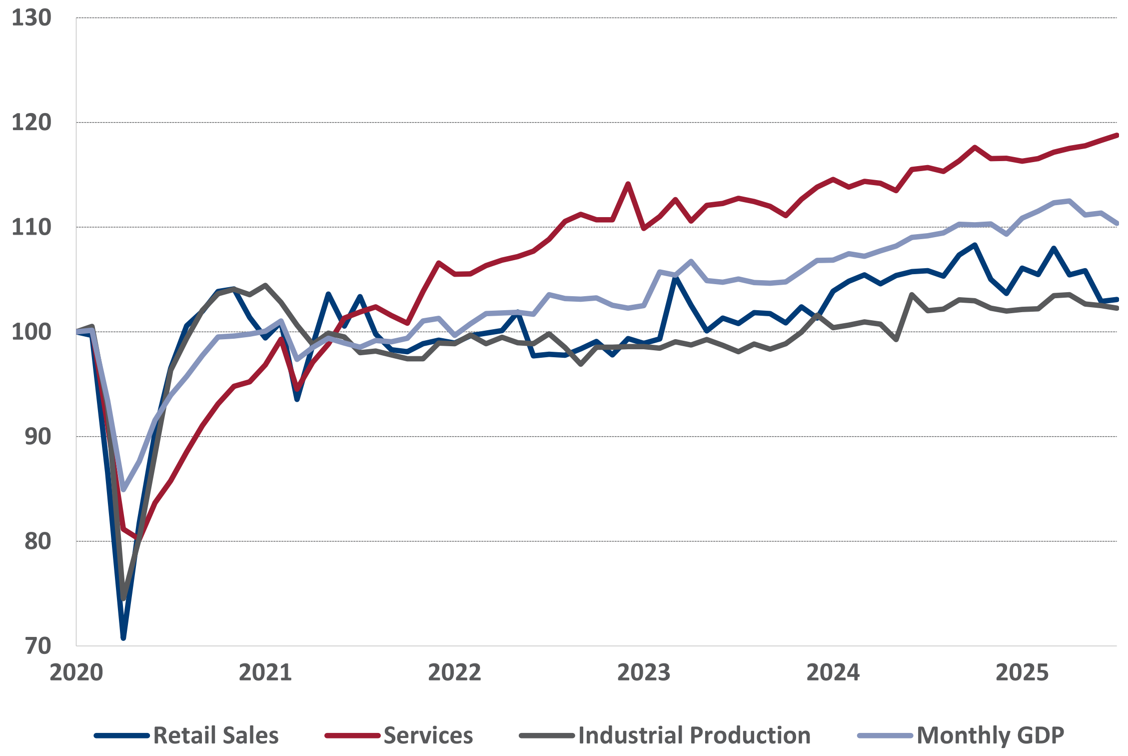
ECONOMIC FORECASTS	2020	2021	2022	2023	2024	2025F	2026F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	3.4%	2.1%	1.5%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	4.8%	4.7%	4.0%
Unemployment Rate (eoy ,%)	14.2%	11.1%	7.9%	7.4%	6.2%	6.5%	7.0%
Policy Rate (eoy, %)	2.0%	9.3%	13.8%	11.75%	12.3%	15.00%	12.5%
External Accounts							
Trade Balance (US$ bn)	36	42	52	92	66	62	73
Current Account Balance (US$ bn)	-25	-40	-42	-28	-61	-72	-55
Current Account Balance (% of GDP)	-1.7%	-2.4%	-2.2%	-1.3%	-2.8%	-3.3%	-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

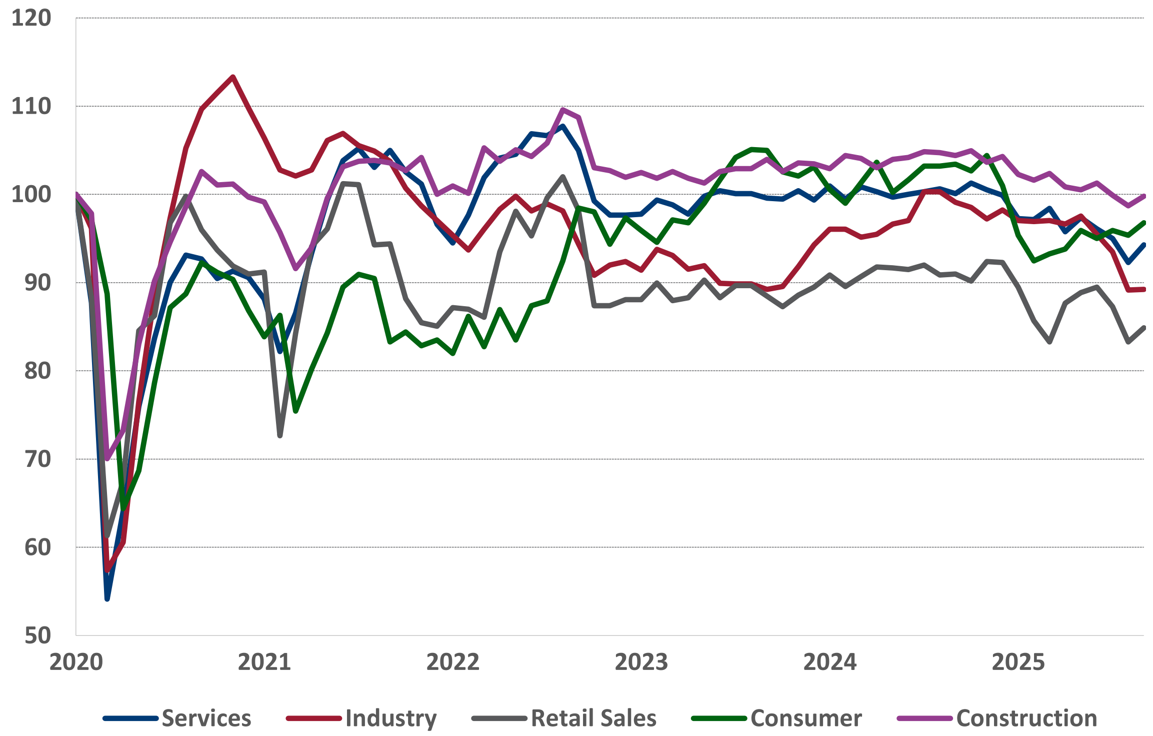
Brazil: Activity

- In July, industrial production result came in line with expectations, falling by 0.2% MoM. Additionally, while services recorded a resilient rise (0.3% MoM), retail sales posted a significant decline (-2.5% MoM) showing signs of gradual slowdown in domestic demand. Summarizing this scenario, the IBC-BR showed a decrease of 0.5% MoM in July.
- Looking ahead, confidence surveys across all economic sectors fell in August, but rebounded partially in September.

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



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

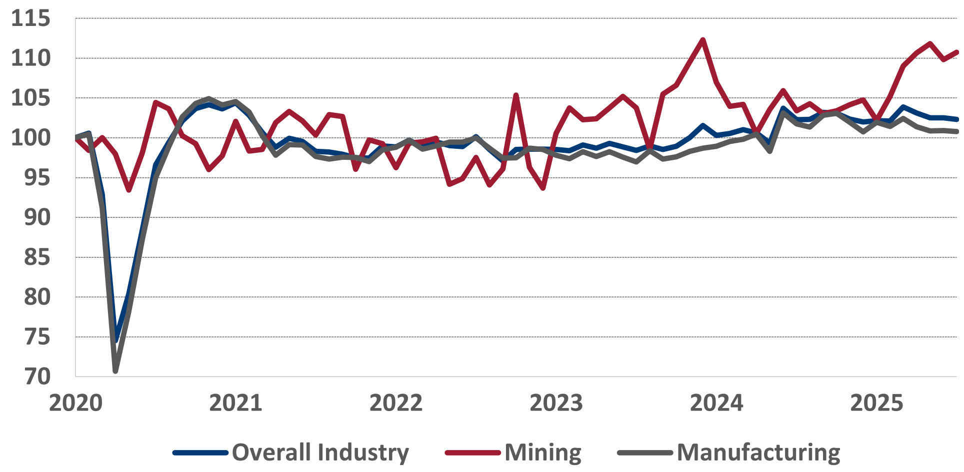


Source: BOCOM BBM, IBGE, FGV

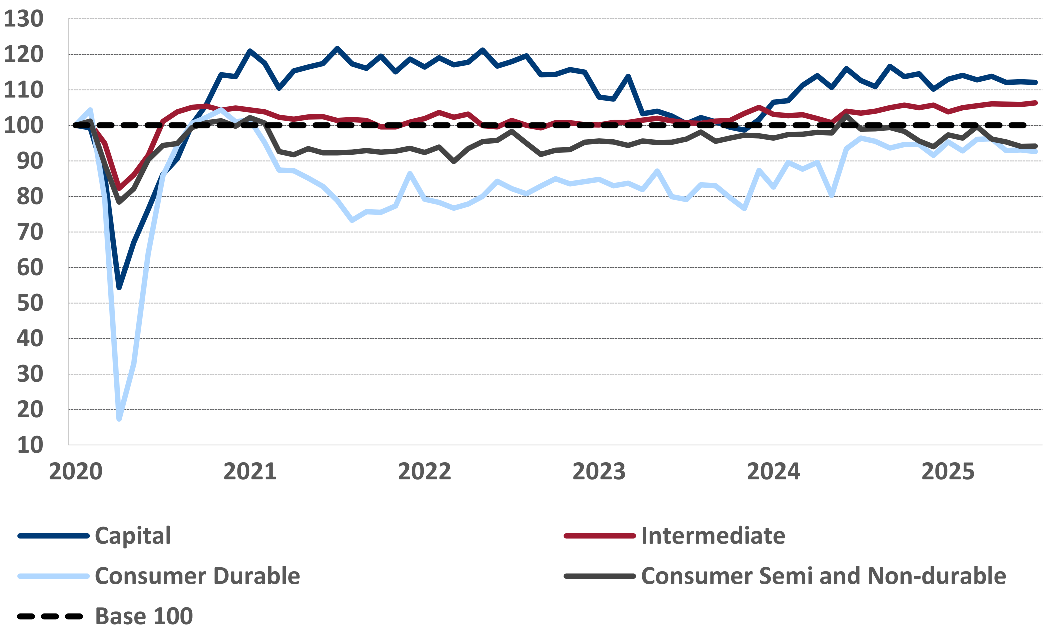
Brazil: Industrial Production

- Industrial output fell by 0.2% MoM in July, in line with expectations (-0.3% MoM). The manufacturing industry dropped 0.1% MoM (-0.9% YoY), while the extractive industry rose by 0.8% MoM (6.3% YoY).
- The month's figures registered mixed results, with 2 out of the 4 major economic categories and 12 out of the 25 manufacturing activities growing in the monthly comparison.
- On the positive side, the category of Intermediate Goods advanced 0.5% MoM in July, owing chiefly to the continued expansion of the extractive industry (oil output plays a major role). In contrast, the category of Capital Goods has been weakening amid the high-interest rate scenario (-0.2% MoM and -0.1% YoY in July).
- Overall, the Brazilian industry should remain stagnant in the coming months. The end of spare capacity in most manufacturing categories and contractionary financial conditions have taken their toll. That said, the resilience of the labor market and the sharp expansion in the extractive industry should avoid a recessionary cycle in total industry.

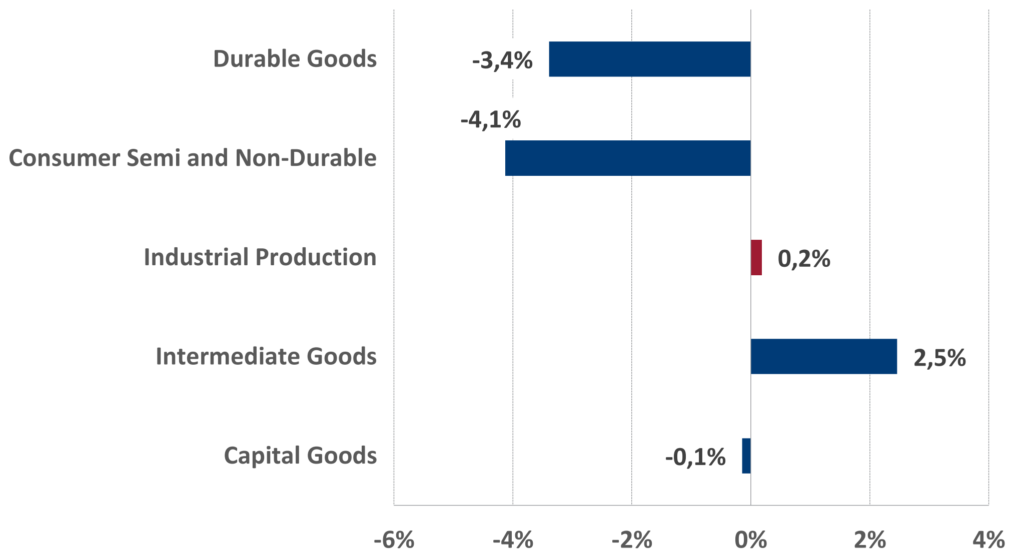
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



Industrial Production by Category - 07/2025 (YoY)

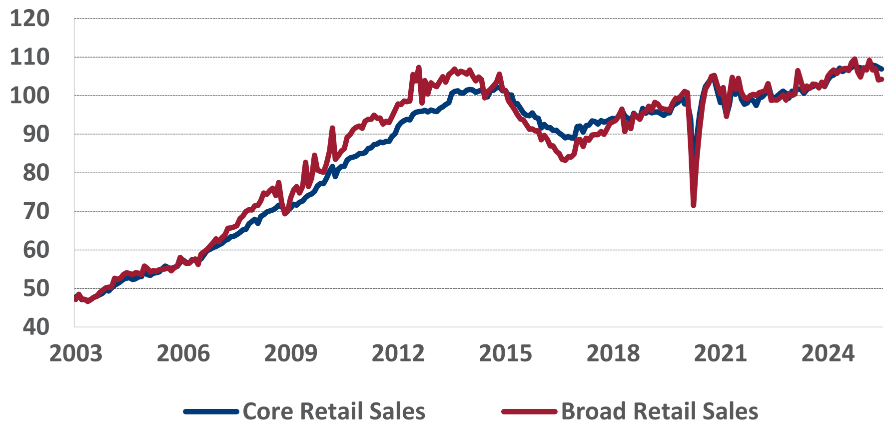


Source: IBGE, BOCOM BBM

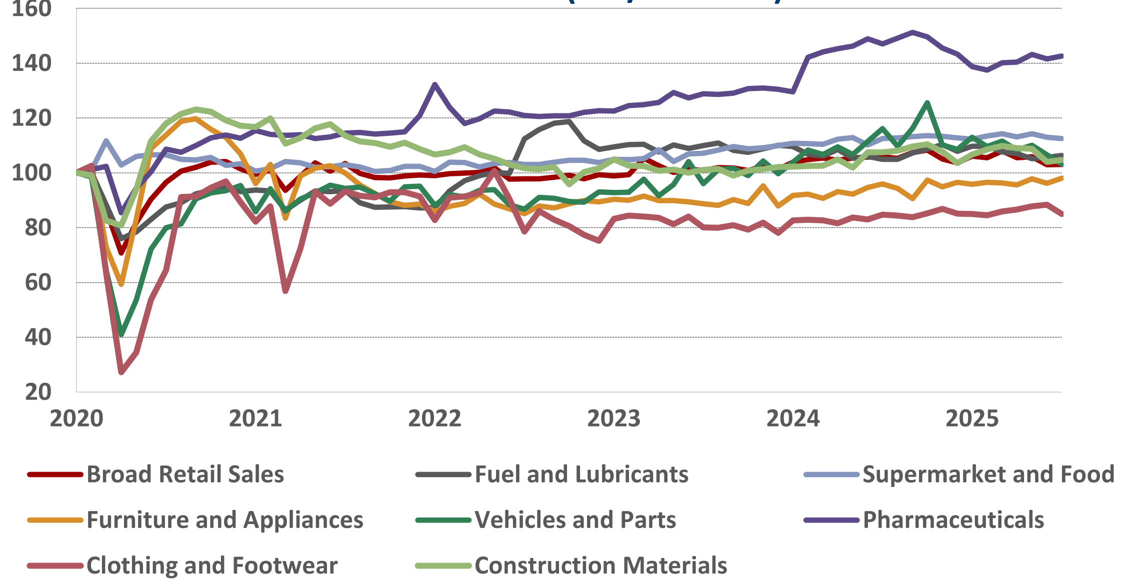
Brazil: Retail Sales

- Broad retail sales decreased by 2.5% MoM in July, worse than expectations (-1.6% MoM).
- In turn, core retail sales dropped 0.3% MoM, in line with expectations.
- In the breakdown, 6 out of 10 retail activities increased in the monthly comparison, with the highlights being the moderate performance of vehicles and parts (1.8% MoM), furniture (1.5% MoM) and books and magazines (1.0% MoM). On the negative side, office supplies (-3.1% MoM), clothing and footwear (-2.9% MoM) and hypermarkets, food and beverages (-0.3% MoM) performed poorly.
- Overall, credit-sensitive retail segments have been cooling, while income-sensitive segments remained relatively solid and should still be resilient in the short term.

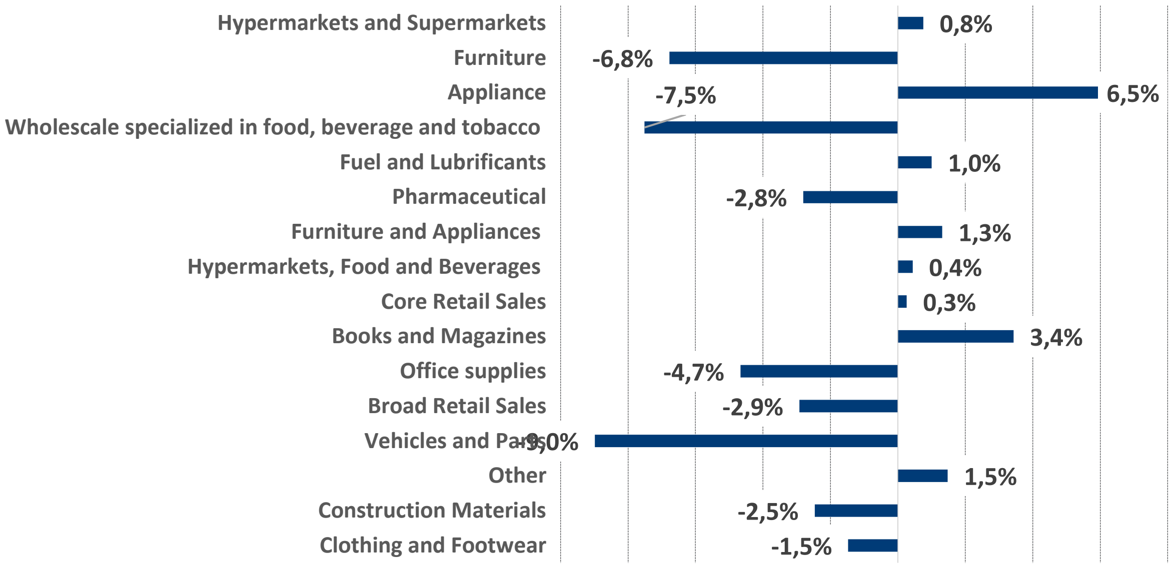
Broad Retail Sales SA x Core Retail Sales SA



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



Retail Sales - YoY (07/2025)

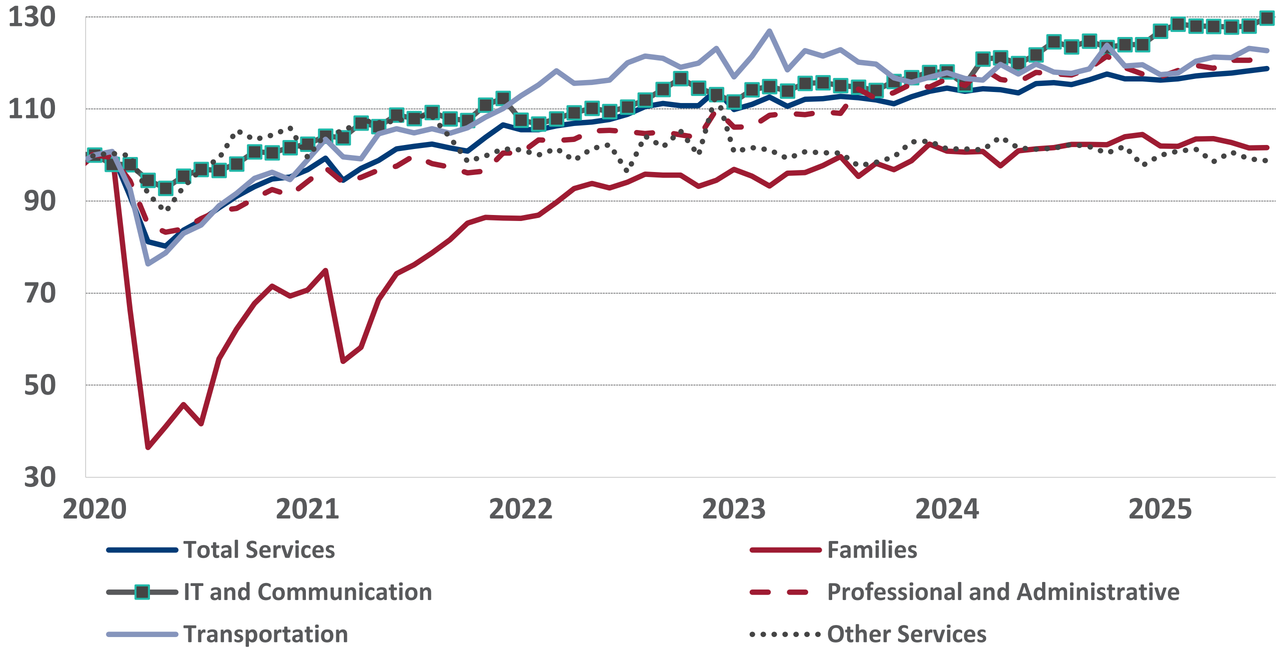


Source: IBGE, BOCOM BBM

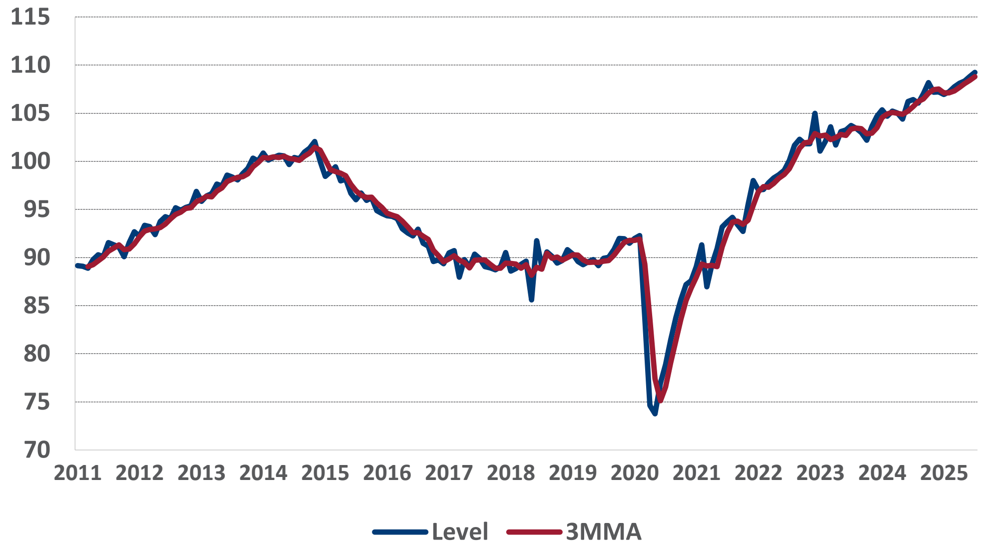
Brazil: Services

- Services output increased by 0.3% MoM in July, in line with market expectations of 0.4% MoM. In addition, the indicator rose by 0.9% QoQ and 2.8% YoY.
- The highlight went to information and communication services (1.0% MoM). Additionally, professional, administrative & complementary services have been growing steadily, owing chiefly to technical-professional services (0.8% MoM, the third consecutive increase).
- On the negative side, services rendered to families have been losing steam, despite the modest gain recorded in July (0.3% MoM; -1.8% YoY). Additionally, the (much volatile) category of other services recorded its second consecutive monthly drop.
- Overall, the service sector continues to grow, although at a moderate pace.

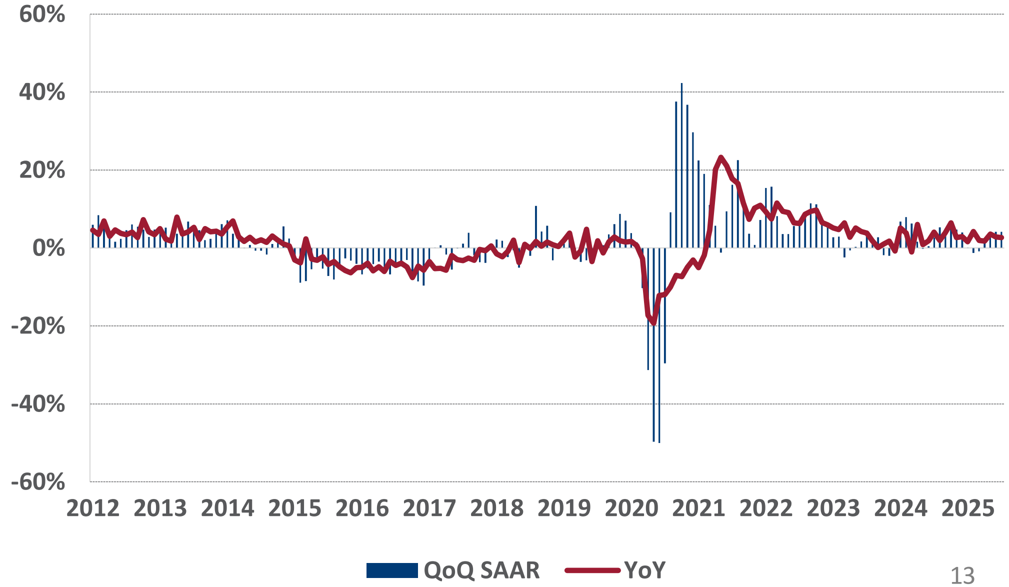
Services Sector SA (Jan/20=100)



Services Sector SA



Services Sector

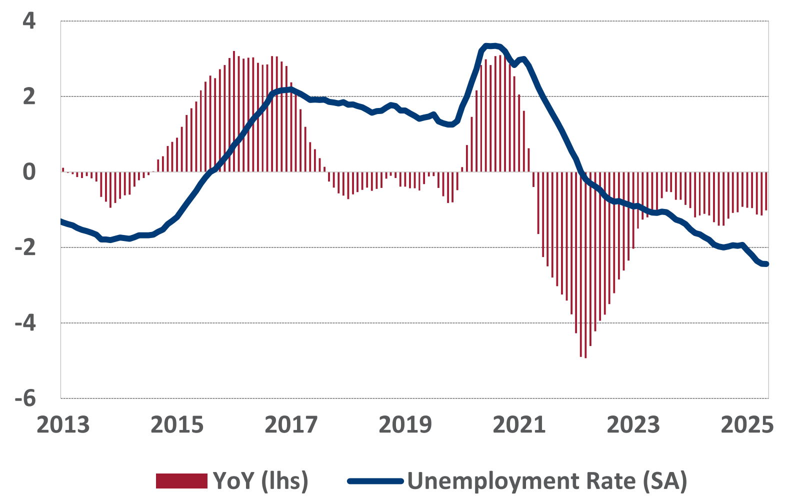


Source: IBGE, BOCOM BBM

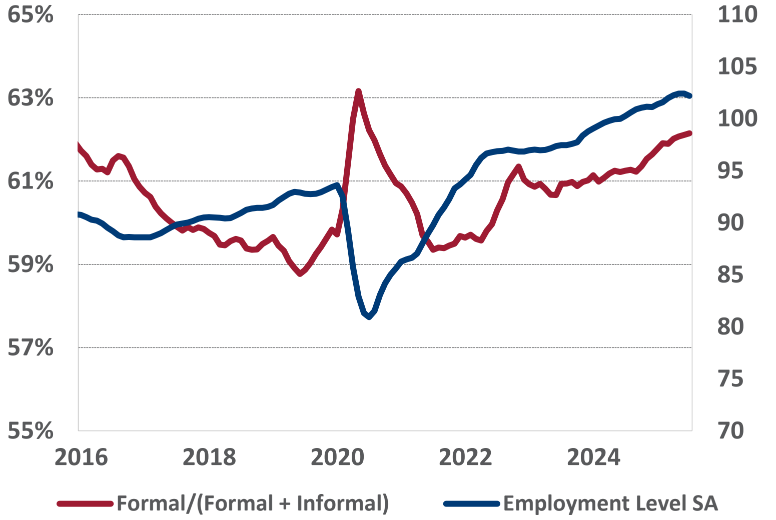
Brazil: PNAD

- The unemployment rate was stable at 5.6% in the moving quarter up to August, roughly in line with expectations.
- Seasonally adjusted, the indicator rose to 5.8% from 5.7%, remaining at a historically low level.
- Total employment fell by 0.3%, standing at 102.2 million, while labor force fell by 0.2% MoM, reflecting a still tight labor market.
- The labor force participation rate edged down marginally to 62.3%, still below pre-pandemic levels of 63.5%.
- The average real wage dropped 0.1% MoM, following ten consecutive months on the rise.
- In turn, real aggregated labor income declined 0.3% MoM in August.

Brazil - Unemployment Rate



Brazil - Employment Level SA



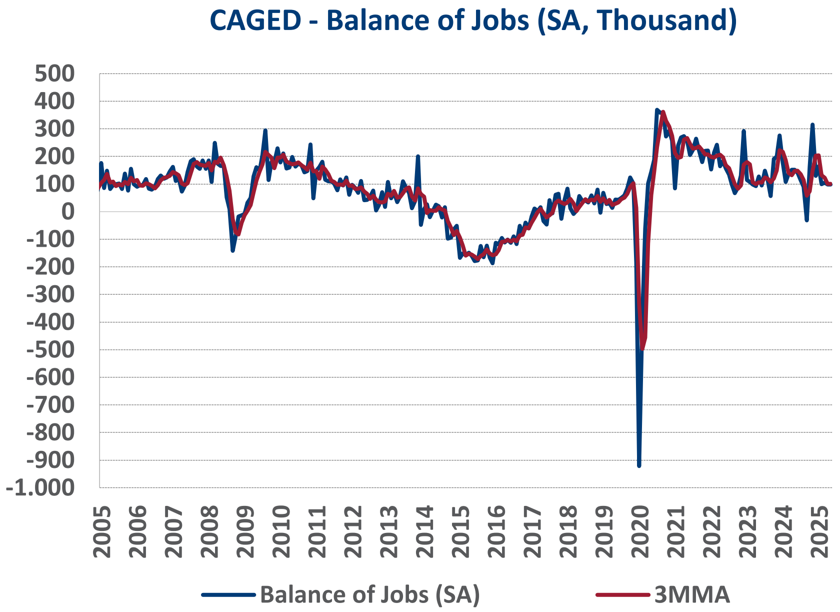
Brazil - Workforce Participation

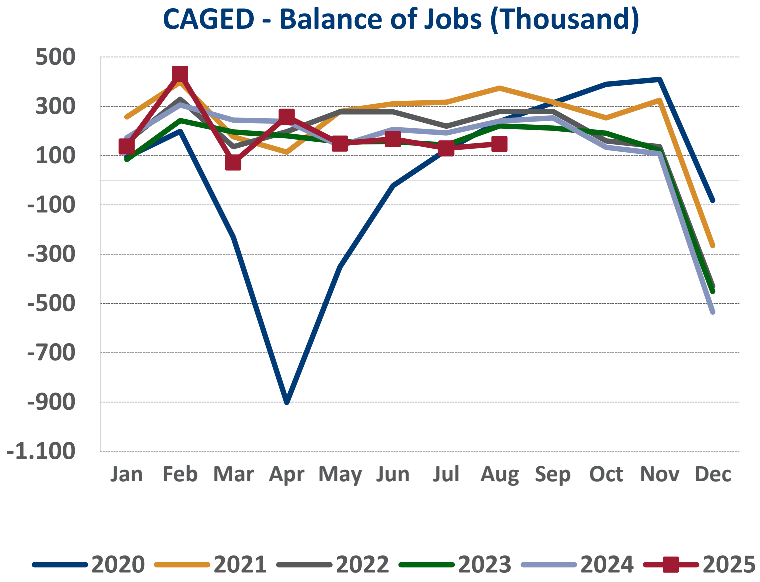
Brazil - Average Real Wage and Real Wage Bill

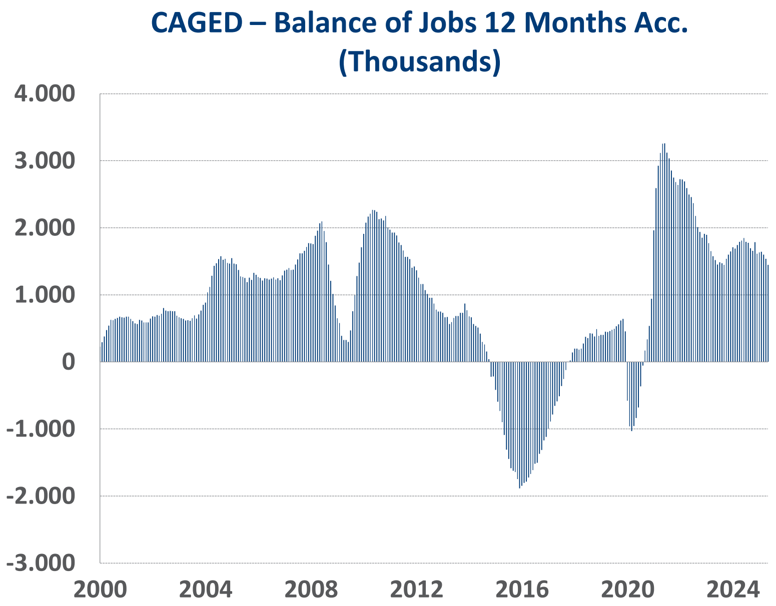
Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

- CAGED registered a net creation of 147.4k formal jobs in August, once again below market expectations (181.9k).
- There was a net addition of 1.502 million occupations from January to August 2025, following the 1.743 million in the same period of 2024.
- The 12-month rolling sum reached 1.438 million jobs.
- Formal job hiring fell by 3.0% MoM in August (4.5% YTD).
- In all, job creation in August showed a loss of momentum, in line with the cooling domestic activity.





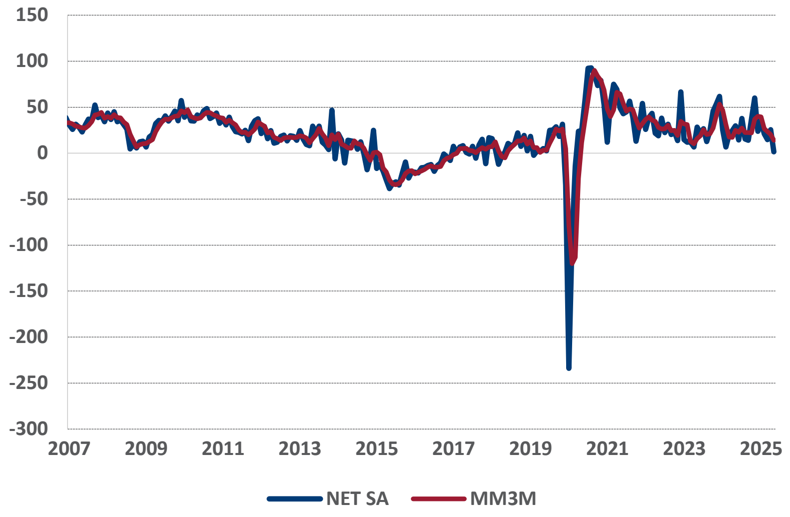


Source: BOCOM BBM, MTE

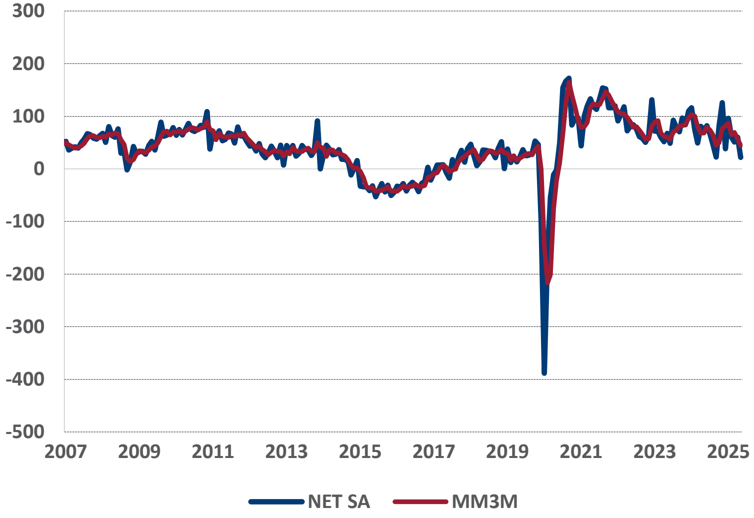
Brazil: Formal Labor Market

- The tertiary sector experienced a significant decline in the month.
- The net addition in the services sector totaled 15k jobs in August, after 72k in July.
- All sectors weakened in the monthly comparison.
- The retail (to 10k from 30k) and construction (to 6k from 10k) also slowed down, while manufacturing industry (to -1k from 8k) and agriculture & livestock (to -2k from 1k) recorded a net destruction of occupations.
- Overall, formal employment continued to lose strength in August.

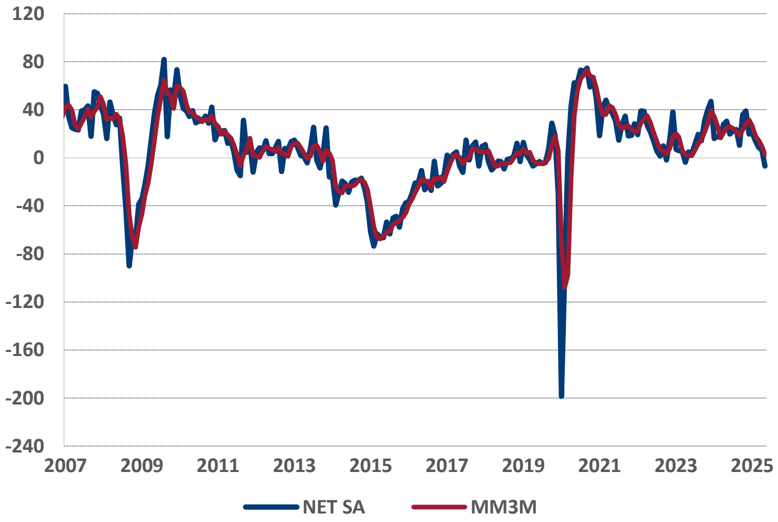
Brazil - Retail Net Payroll Job Creation (SA)



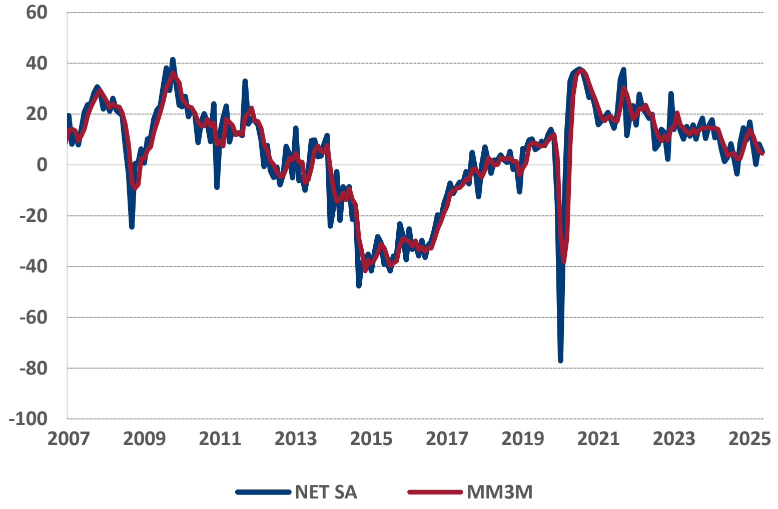
Brazil - Services Net Payroll Job Creation (SA)



Brazil - Industry Net Payroll Job Creation (SA)



Brazil - Construction Net Payroll Job Creation (SA)

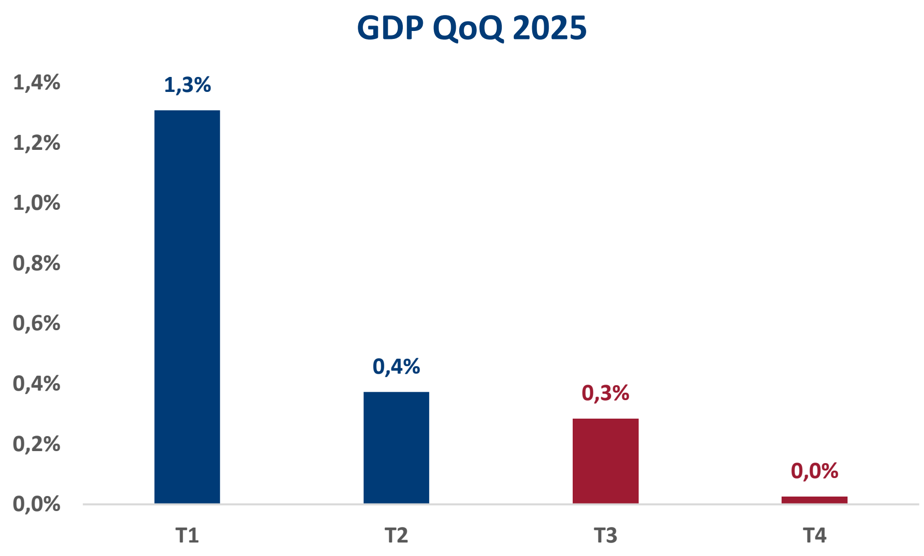


Source: BOCOM BBM, MTE

Brazil: GDP Forecast

- We forecast a growth of 2.1% in 2025, with an important slowdown of the economic activity in the second semester

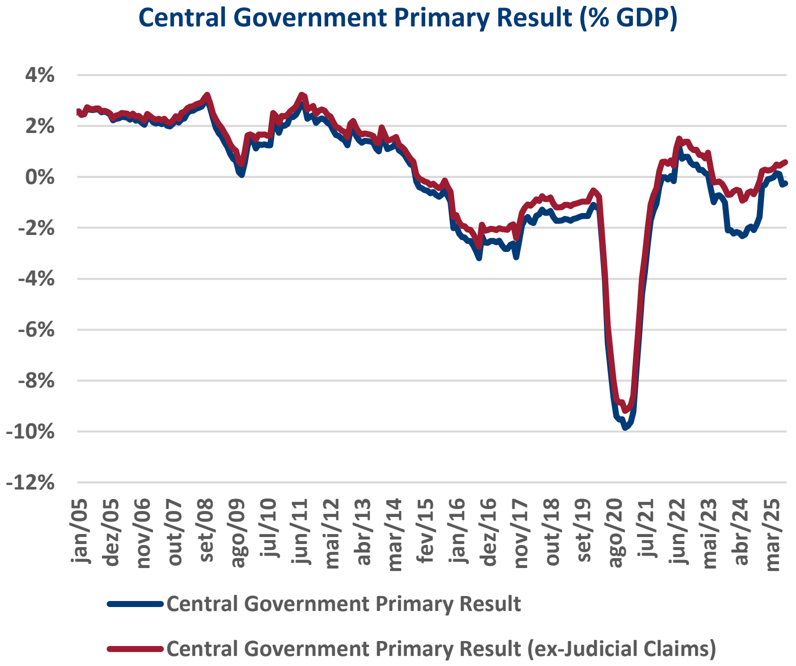
Forecast			
	2025.III QoQ	2025.III YoY	2025
GDP	0.3%	1.8%	2.1%
Agriculture	**-2.2%**	**4.5%**	**7.9%**
Industry	**0.7%**	**1.4%**	**1.7%**
Mining	0.8%	11.0%	7.6%
Manufacturing	0.8%	0.1%	0.8%
Electricity	-0.8%	-2.6%	-1.2%
Civil Construction	-0.6%	-0.5%	0.7%
Services	**0.6%**	**1.8%**	**1.8%**
Retail	-0.01%	0.5%	1.1%
Transports	1.0%	2.3%	1.6%
Information and Communication	1.2%	6.0%	6.0%
Financial Services	2.1%	4.0%	3.2%
Rents	0.3%	2.3%	2.4%
Other Services	0.7%	2.0%	1.9%
Public Administration	-0.4%	0.3%	0.3%

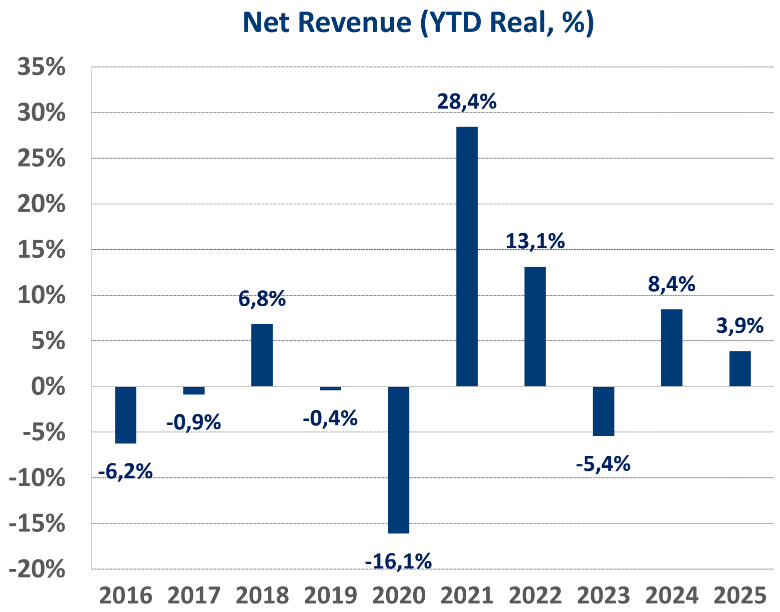


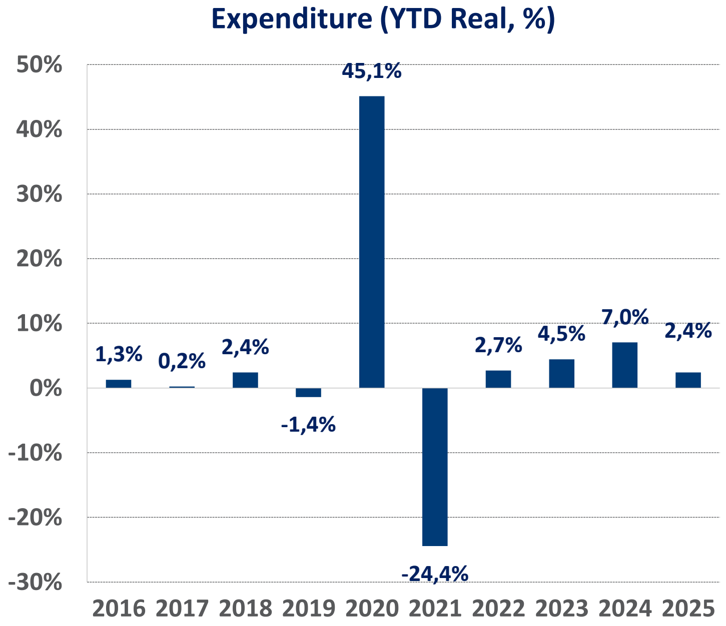
Source: BOCOM BBM, IBGE

Brazil: Central Government Primary Result

- The central government's primary balance posted a deficit of BRL 15.6 billion in August, above market consensus (BRL -19.7billion).
- Net revenues grew by 11.1% YoY in real terms, mainly driven by income tax, social security contributions, IOF, boosted by the recent tax rate increase and dividends and shareholdings. On the negative side, there was a sharp decline in CSLL revenue, attributable to the economic slowdown. Year-to-date, net revenue grew 3.9%.
- Total expenditure rose by 5.3% YoY in real terms. Most of this increase is explained by discretionary expenditures, reflecting an acceleration in budget execution during the second half of the year, particularly related to parliamentary amendments. Additional contributors to the expenditure growth include social security benefits, personnel costs, and BPC/LOAS.
- Overall, strong net revenue was primarily driven by lower refunds and compensations, as well as higher non-tax revenues, notably dividends. On the expenditure side, the government maintained a conservative approach to discretionary spending until mid-year due to budget approval delays. However, spending has picked up since last month and is expected to continue rising, adding pressure to both the primary balance and the fiscal deficit.





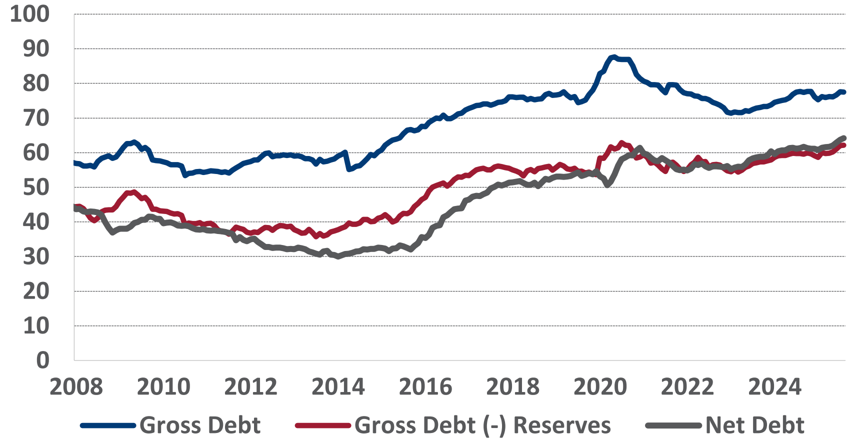


Source: BOCOM BBM, RTN

Brazil: Consolidated Public Sector Budget

- The consolidated public sector posted a primary deficit of BRL 17.3 billion in August, above market consensus (deficit of BRL 21.0 billion).
- Regarding the breakdown, the central government and regional governments registered deficits of BRL 15.9 billion and BRL 1.3 billion, respectively, while state-owned enterprises (SOEs) remained virtually flat.
- General Government Gross Debt (GGGD) remained at 77.5% of GDP, with nominal interest (+0.8 p.p.) being the main driver of this growth, while nominal GDP growth (-0.5 p.p.) partially offset it.

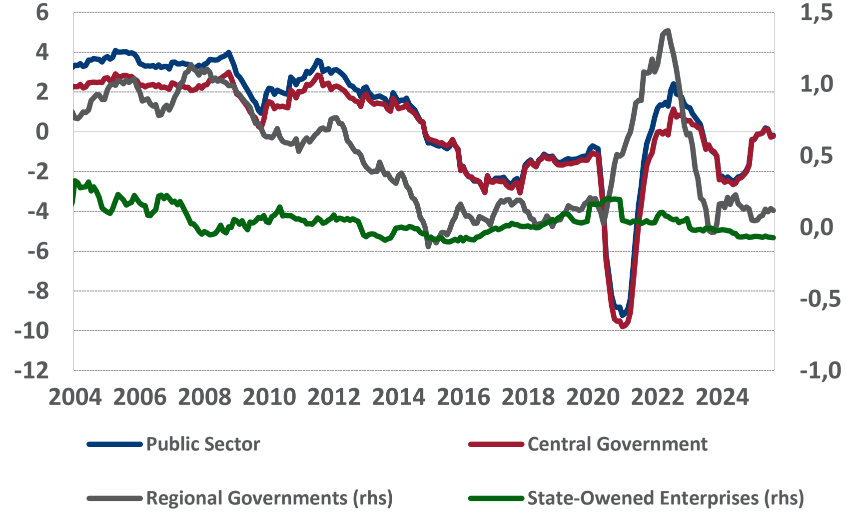
Public Sector Debt (% GDP)



Primary Budget Balance (% GDP 12M)

Central Government (% GDP 12M)

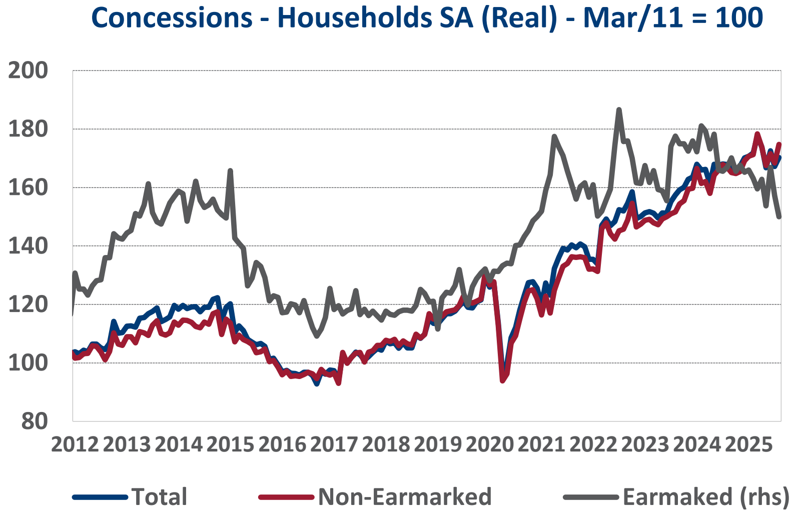
Public Sector Primary Result (% GDP)

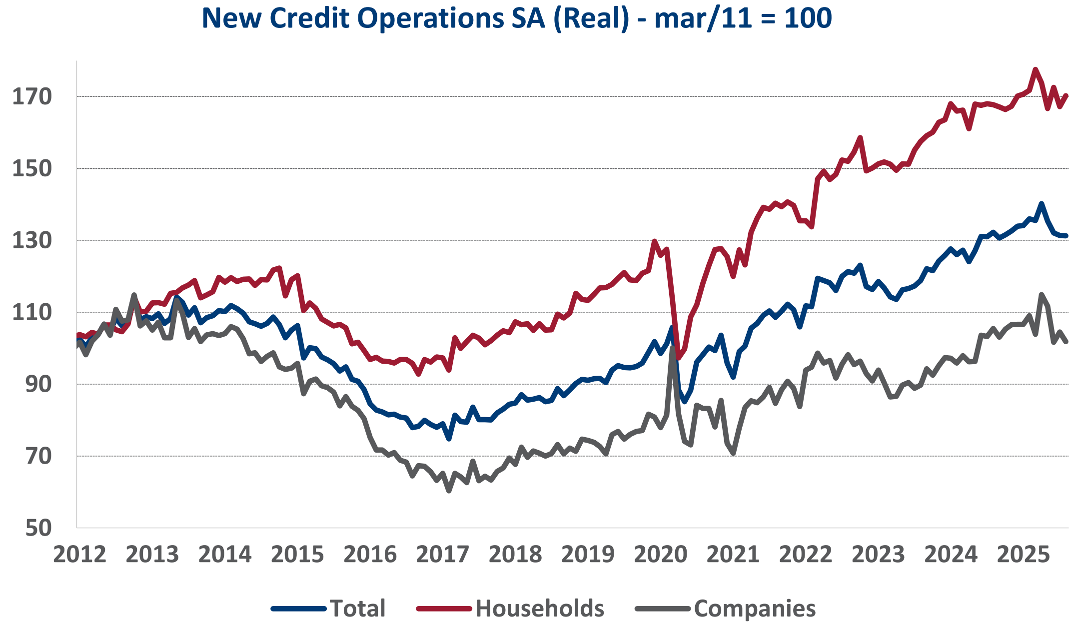


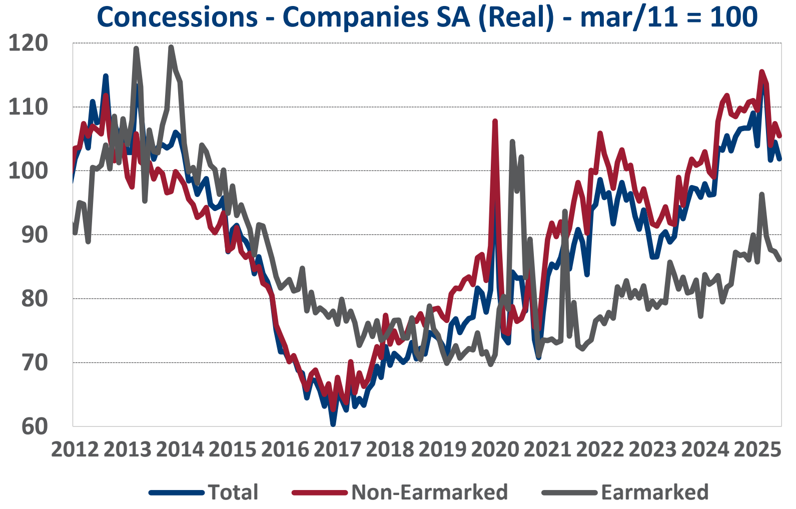
Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- In August, total credit concessions decreased by 0.1% MoM in real terms, after falling by 0.5% in the last month.
- Non-earmarked credit concessions increased 3.8% MoM in real terms to households and decreased 1.8% MoM to companies.
- In August, credit data continued to show weaker volume, rising delinquency, and high borrowing costs, which is consistent with the lagged and cumulative effects of monetary policy.



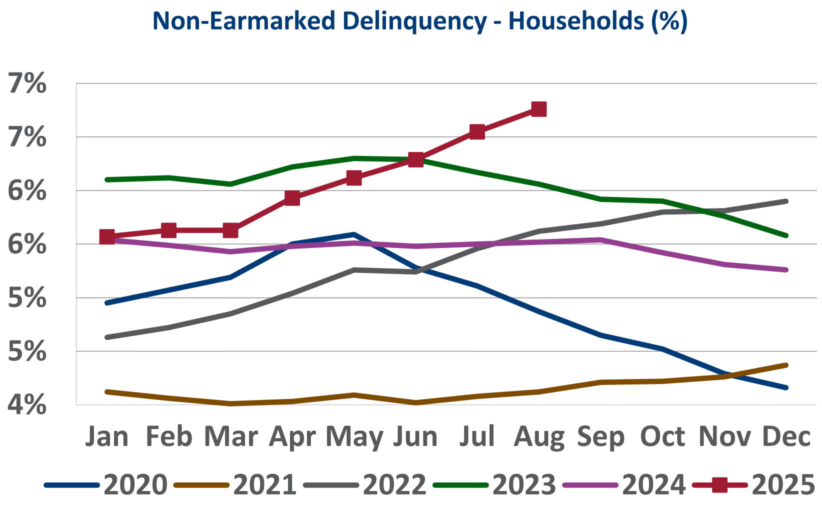


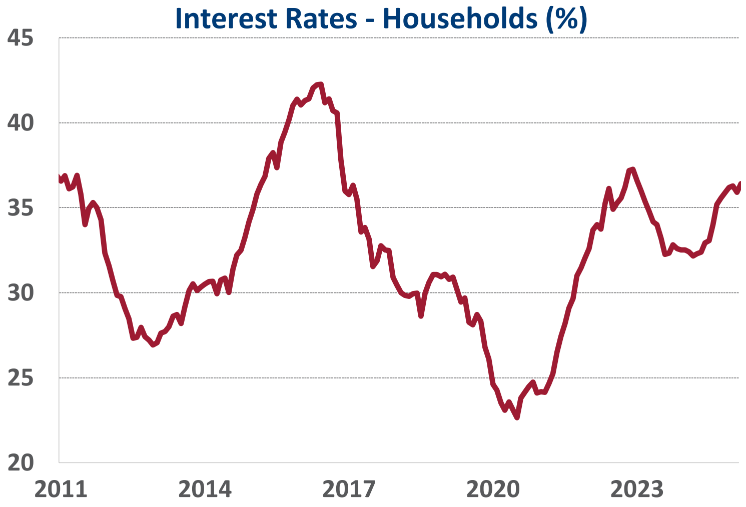


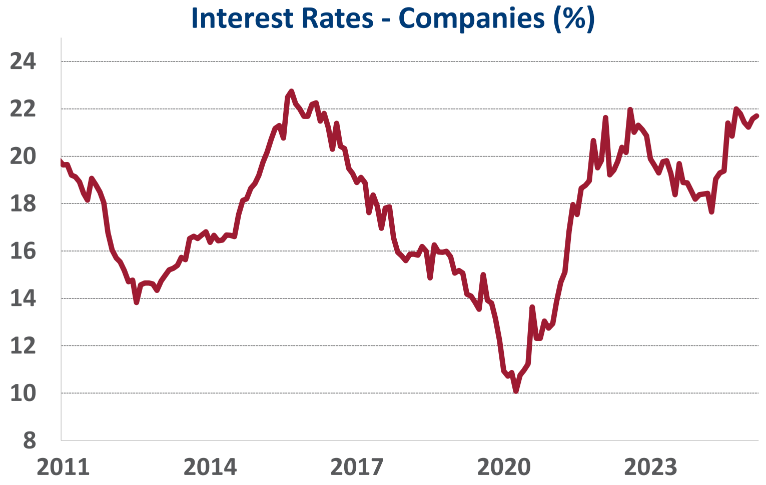
Source: BOCOM BBM, BCB

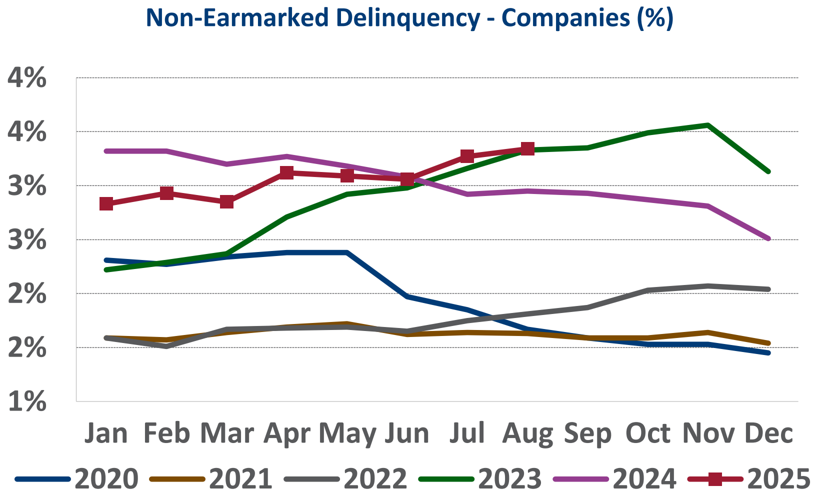
Brazil: Credit Statistics

- Lending rates increased, remaining at high levels for households, staying at 36.4% in August from 35.9% in July, while for companies, rates went up marginally to 21.7% from 21.6%.
- In turn, delinquency on non-earmarked loans increased for households (from 6.6% to 6.8%) and remained stable for companies, at 3.3%.
  - According to the Central Bank, 70% of this increase is related to the implementation of new accounting rules for financial instruments effective January 1, 2025.





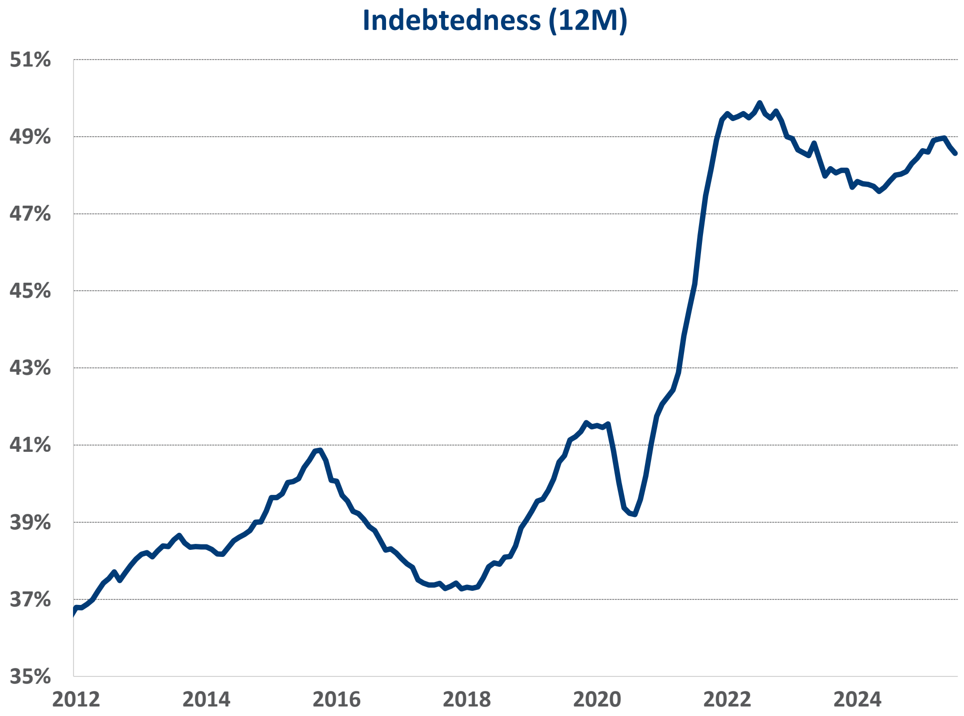


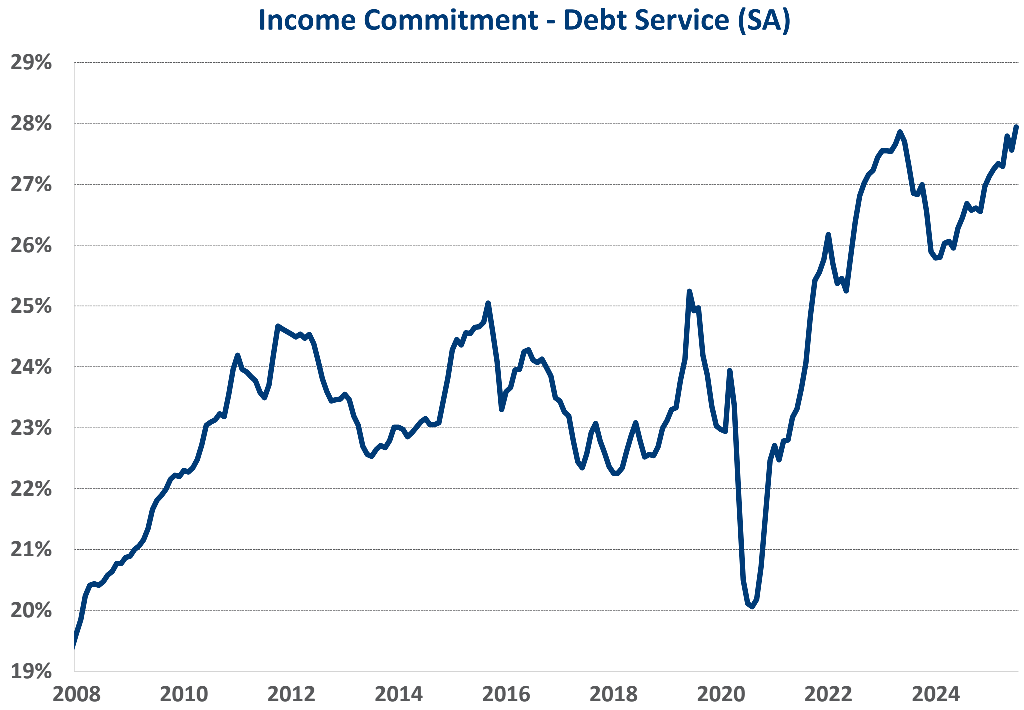


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- The household indebtedness remains high, falling marginally to 48.6% in July.
- Meanwhile, income commitment increased marginally to a seasonally adjusted level of 27.9% in July, from 27.6% in June.
- Credit conditions are deteriorating as credit impulse contracts sharply across corporate and household segments, with elevated delinquency rates and high household indebtedness, suggesting that the credit channel will play a central role in the ongoing slowdown in economic activity.

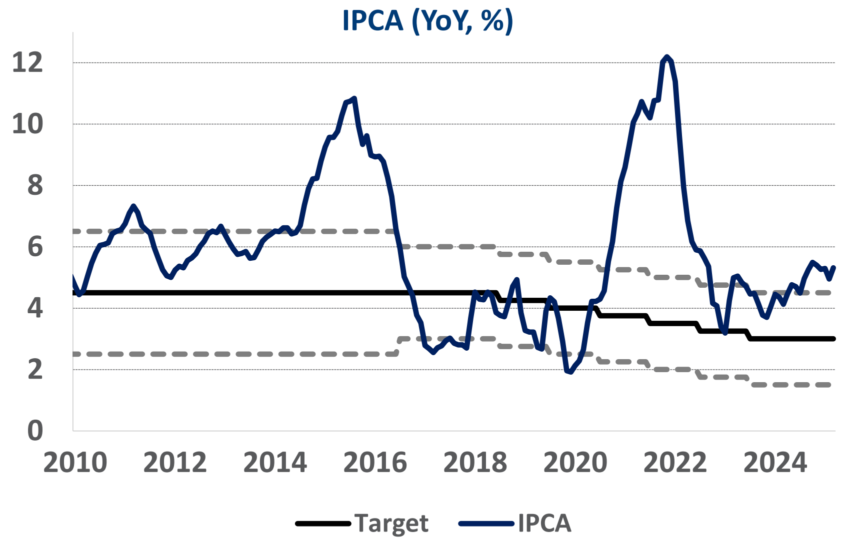


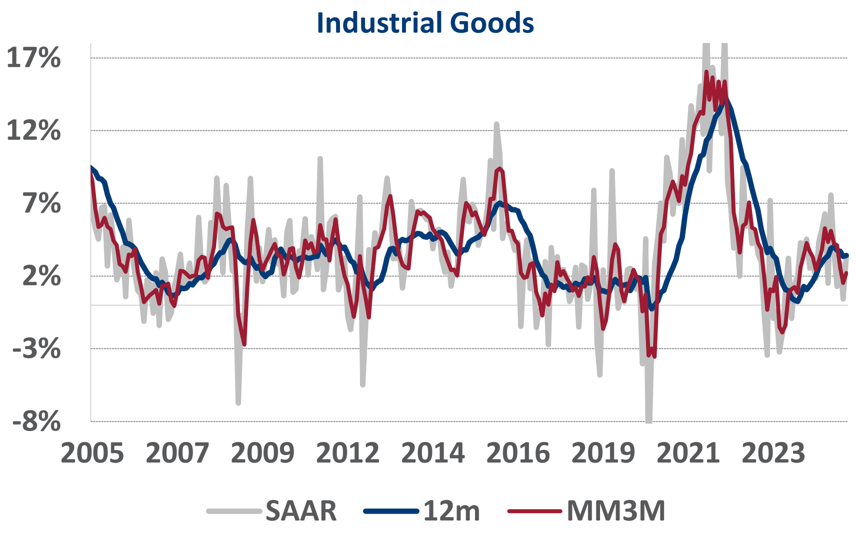


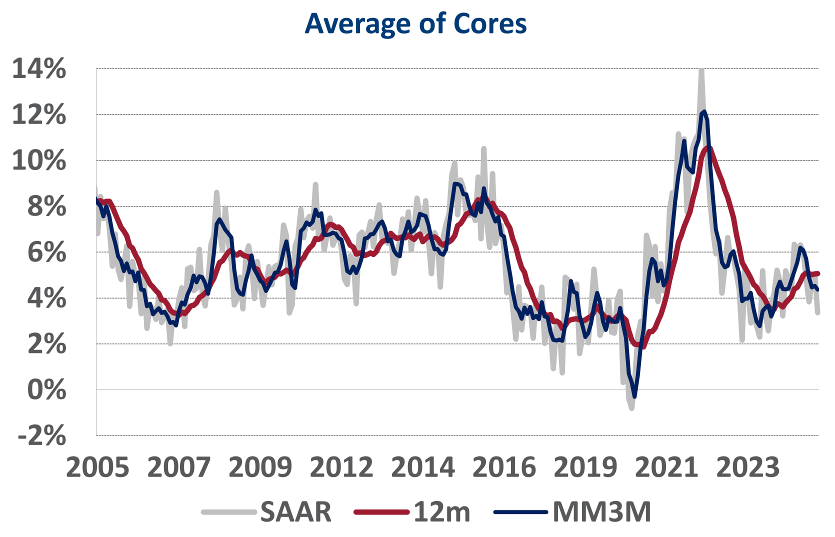
Source: BOCOM BBM, BCB

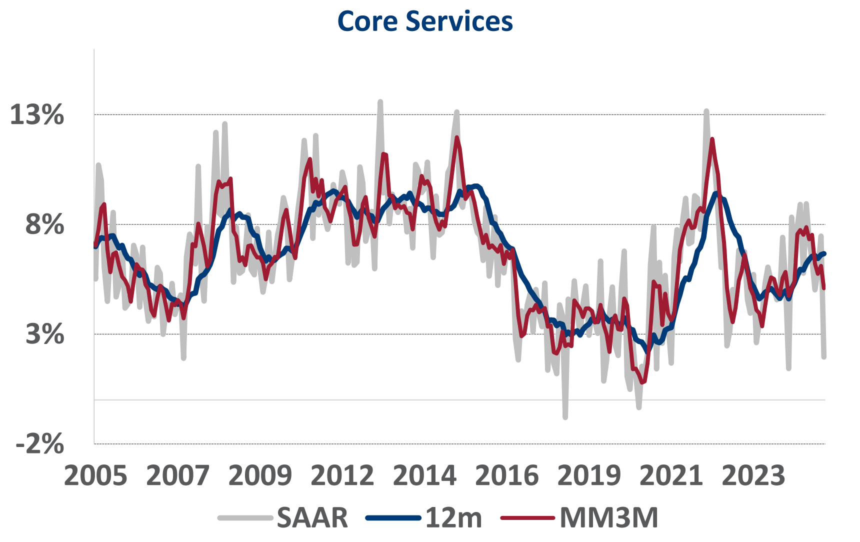
Brazil: Inflation 2025

- September IPCA-15 increased by 0.48% MoM, below market expectations (0.52% MoM). The 12-month variation rose from 4.95% in August to 5.32% in September.
- This reading was marked by the payback of the Itaipu bonus in energy tariffs, which jumped 12.2% MoM.
- Core services advanced 0.04% MoM, well below forecasts, and the 3M SAAR decreased from 5.8% to 5.0%.
- The average of core inflation increased by 0.19% MoM, below expectations, with its 3M SAAR at 4.3%.
- In all, the September IPCA-15 breakdown was slightly better than expected, especially in core services metrics.



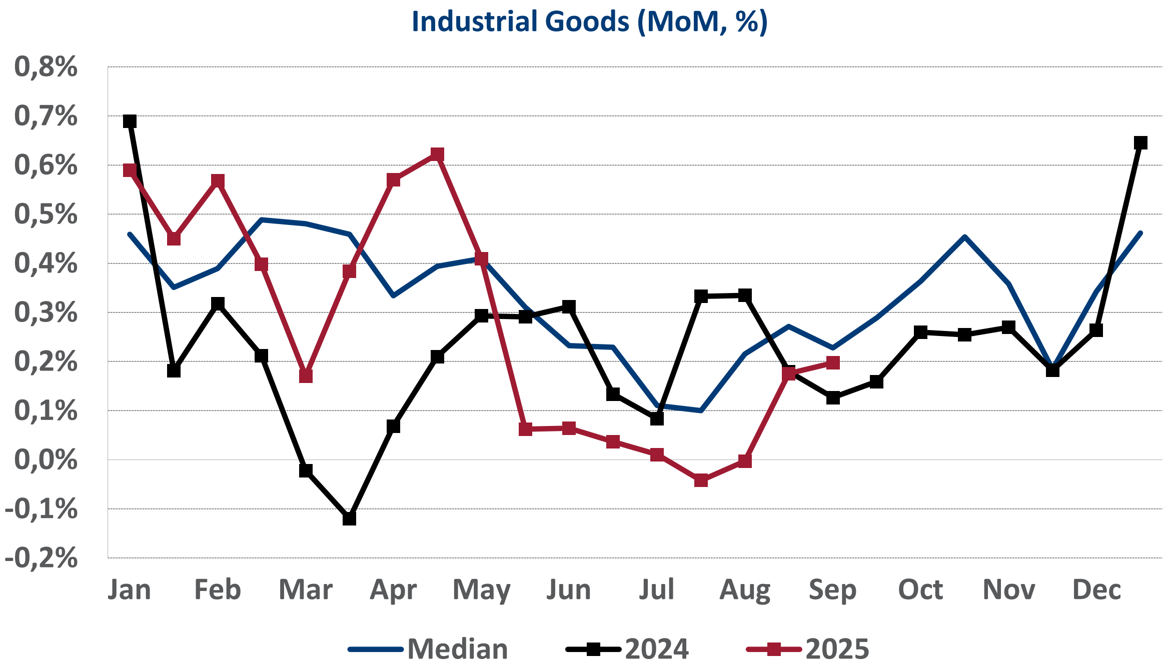


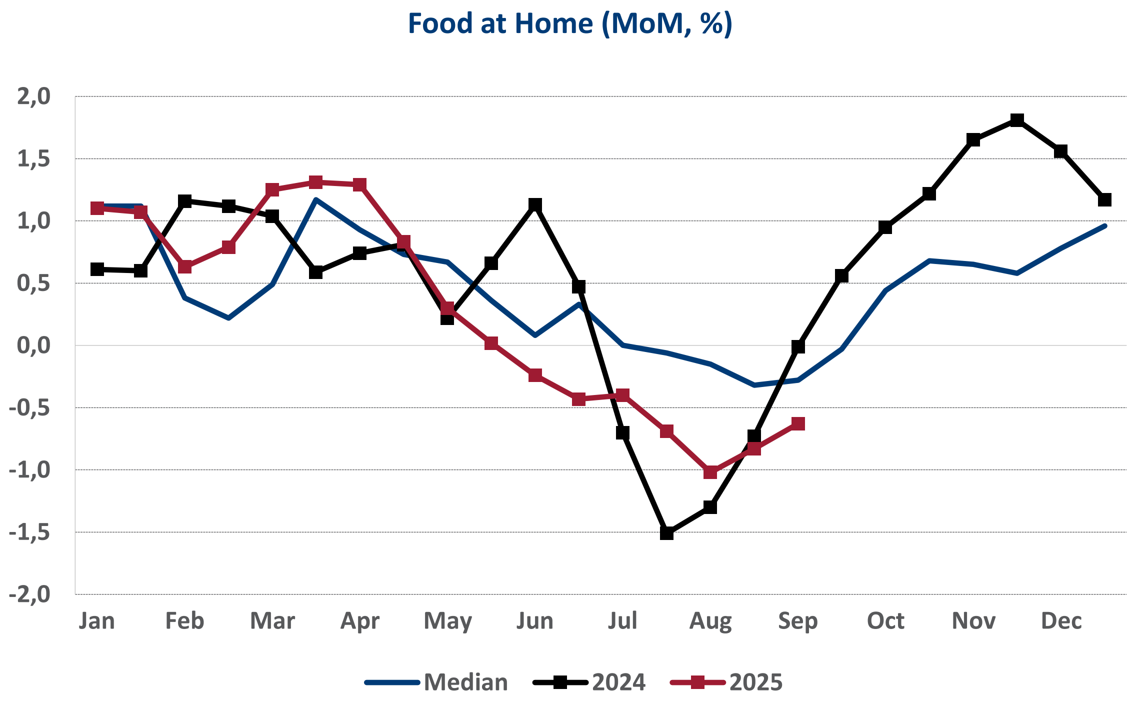




Brazil: Inflation 2025

- Industrial goods prices advanced 0.2%, above expectations., while the 3M SAAR stood at 2.2% in September.
- Foodstuff prices decreased by 0.63% MoM, in line with expectations. Items such as fresh foods, cereals and poultry contributed to the drop.
- Therefore, currency appreciation was reflected in an improvement in recent inflation for tradable goods, while core metrics presented some partial relief.





Source: BOCOM BBM, IBGE

Brazil: Inflation

- We maintained our inflation projection for 2025 at 4.7%.
  - Recent downward surprises have been driven by tradable goods, but the latest release showed a slightly more favorable outlook for services.
- For 2026, we maintained our projection at 4.0%.

IPCA (%, annual)

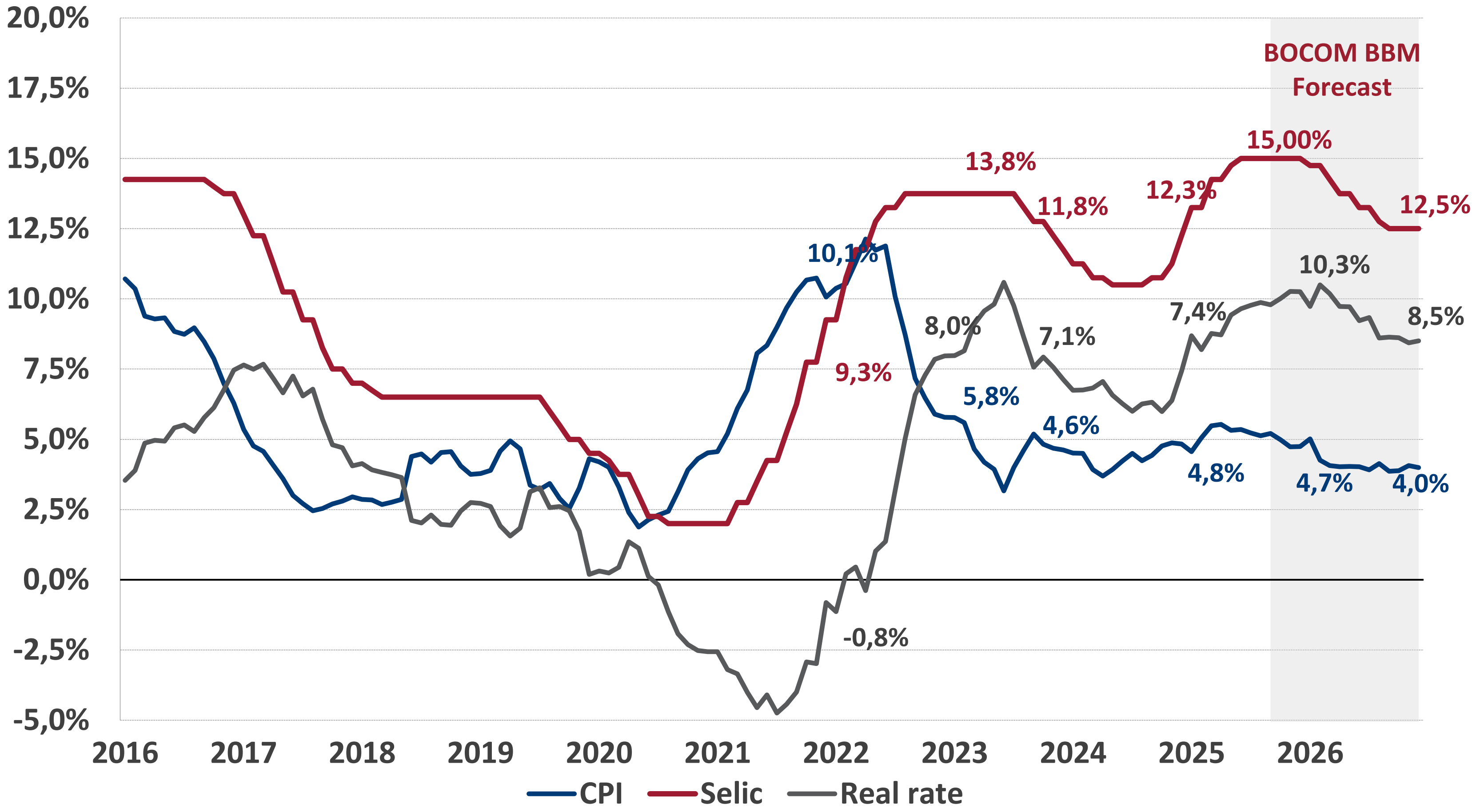
	Weight	2019	2020	2021	2022	2023	2024	2025	2026
Regulated	**26.6**	**5.5**	**2.6**	**16.9**	**-3.8**	**9.1**	**4.7**	**5.6**	**3.9**
Industrial goods	**23.6**	**1.7**	**3.2**	**11.9**	**9.5**	**1.1**	**2.9**	**2.7**	**2.4**
Durable goods	10.3	0.0	4.5	12.9	6.1	-0.4	1.5	1.0	-
Semi-durable goods	5.9	0.6	-0.1	10.2	15.7	2.7	2.1	3.1	-
Non-durable goods	7.3	4.4	4.0	11.9	9.5	1.7	5.4	4.6	-
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**	**5.6**	**4.8**
Food away from home	5.6	3.8	4.8	7.2	7.5	5.3	6.3	7.8	5.2
Related to minimum wage	5.2	2.9	1.5	3.3	6.3	5.2	5.0	6.1	5.0
Sensitive to economic activity	8.2	2.4	0.2	5.1	6.3	9.5	0.9	4.4	4.5
Inertial	15.0	4.3	1.6	4.2	8.8	5.1	6.0	5.2	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 September meeting, as largely expected. COPOM no longer foresees an interruption of the cycle, paving the way for a cutting cycle at some point in the near future. Nonetheless, the committee also stated that it will remain vigilant evaluating whether rates at the current level will be sufficient to bring inflation to the target. BCB inflation projection six trimesters ahead was kept at 3,4 % in the first quarter of 2027, remaining unchanged despite currency appreciation and lower inflation expectations in FOCUS at the time of this last meeting. In all, Copom indicates that while a continuation of a hiking cycle is more unlikely, inflation projections still at 3,4% (and above the target) might require caution and rates that remain high for a prolonged period of time.

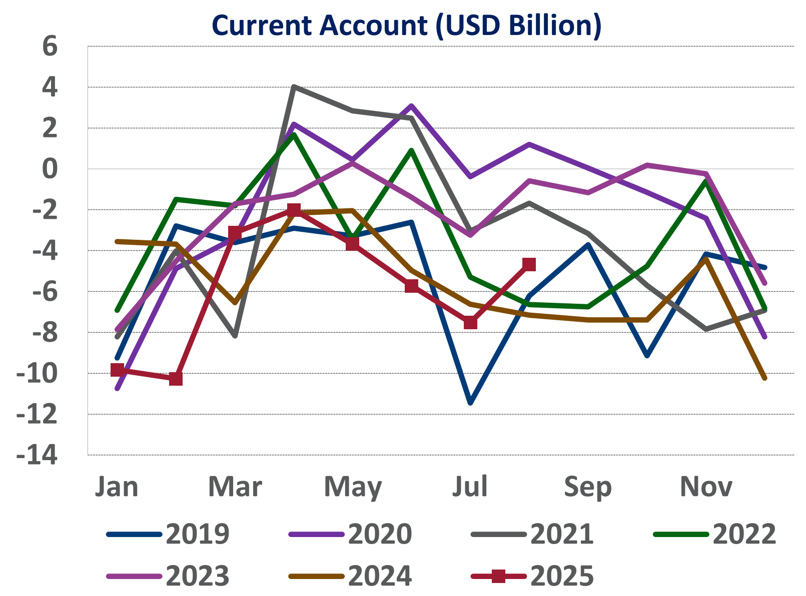
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

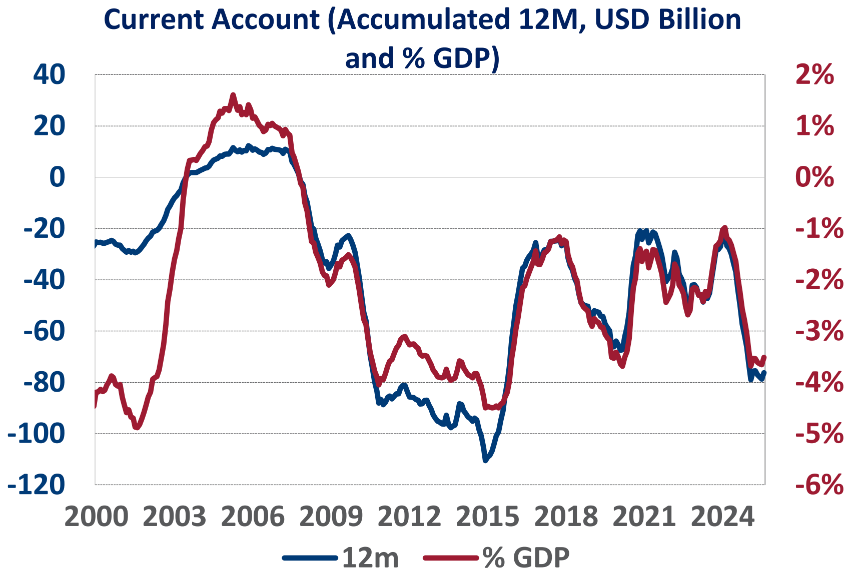


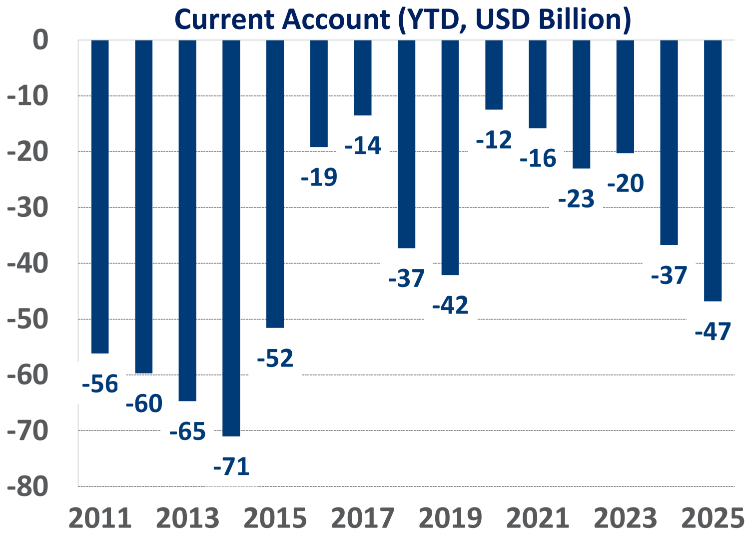
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The Brazilian current account recorded a deficit of USD 4.7 billion in August 2025, better than market expectations (USD -5.4 billion).
- On a 12-month basis, the deficit reached USD 76.2 billion (3.51% of GDP) from USD 78.7 billion (3.66% of GDP) in July.
- In all, the greater dynamism of economic activity in the first half of the year continues to result in higher current account deficits.





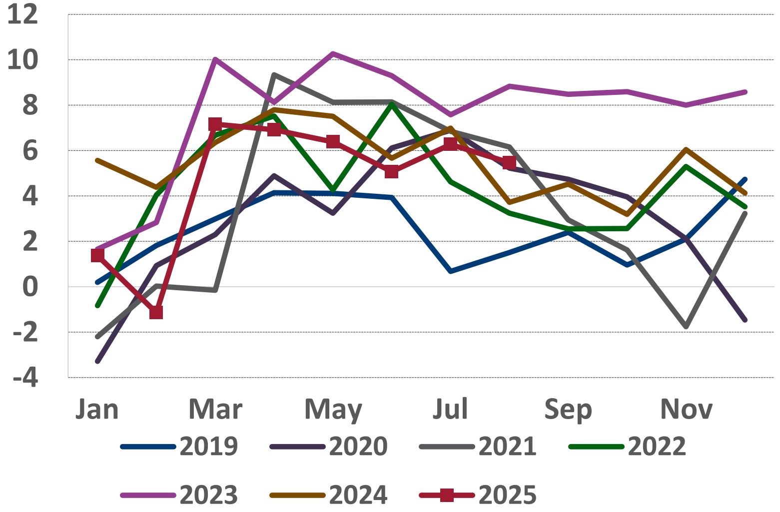


Source: BOCOM BBM, BCB

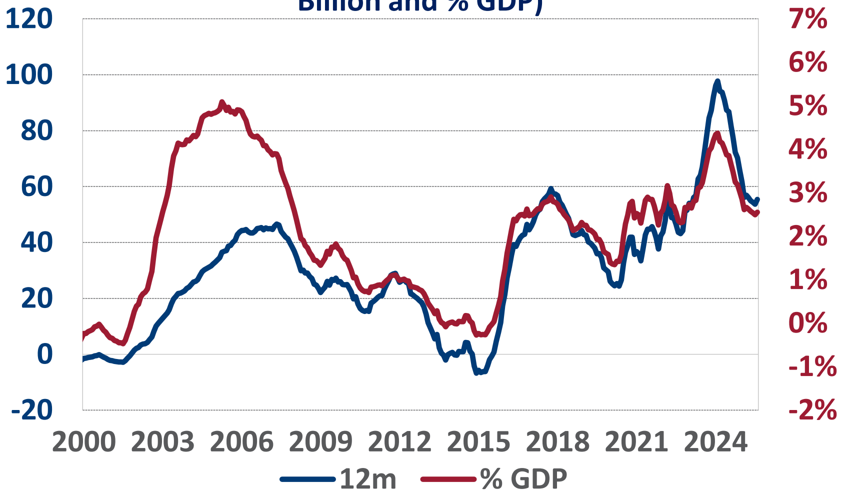
Brazil: Balance of Payments

- The merchandise trade balance recorded a surplus of USD 5.5 billion, above the USD 3.7 billion surplus recorded in August 2024.
- Exports fell this month, staying at USD 30.0 billion, while imports are still strong (USD 24.5 billion). According to MDIC data, import volumes remain robust, pressuring the trade surplus.
- On a 12-month basis, the trade surplus increased to USD 55.4 billion, from USD 53.6 billion in July.
- Exports are performing well, in line with the record grain harvest, higher coffee prices, and high meat and vehicle exports.
- In its turn, import flows are beginning to lose steam, and this slowdown should persist as domestic activity continues to soften.

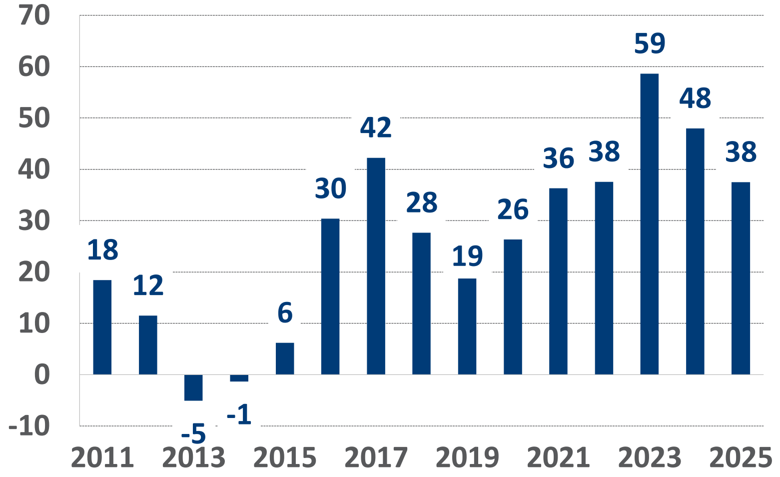
Balance on Goods (USD Billion)



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



Balance on Goods (YTD, USD Billion)

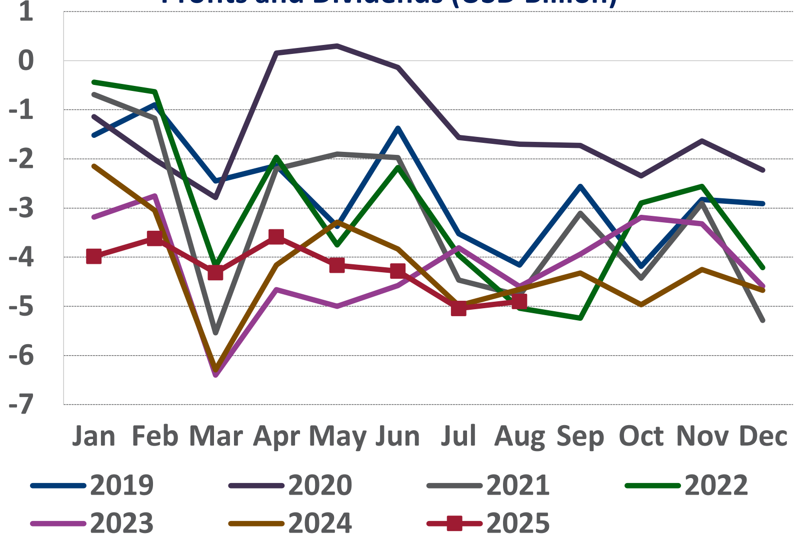


Source: BOCOM BBM, BCB

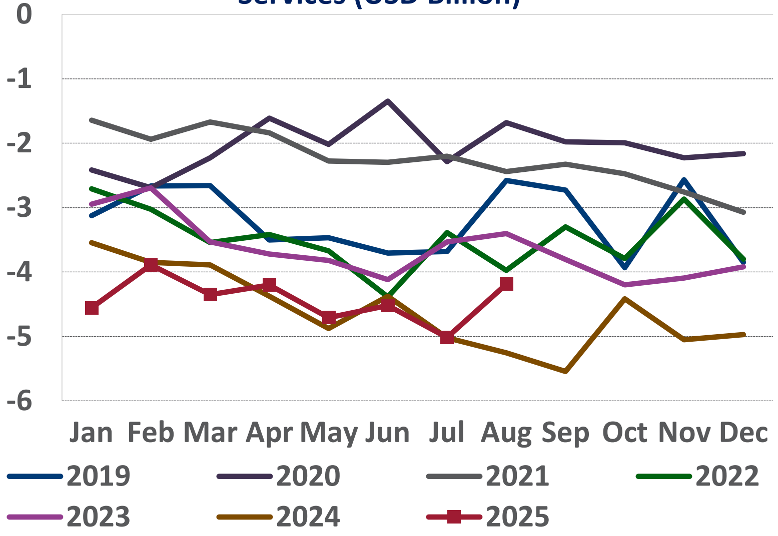
Brazil: Balance of Payments

- The Services account posted a deficit of USD 4.2 billion in August, below the USD 5.3 billion deficit observed in the same period last year. On a 12-month basis, the Services deficit reached USD 55.4 billion.
- The ‘Intellectual Property’ and ‘Telecommunication’ accounts, whose dynamics are less sensitive to the economic cycle, recorded a USD 0.6 billion deficit.
- On the other hand, the ‘Personal, Cultural, and Recreational Services’ Account posted a USD 50 million superavit in August 2025, coming from a deficit of USD 422 million in August 2024.

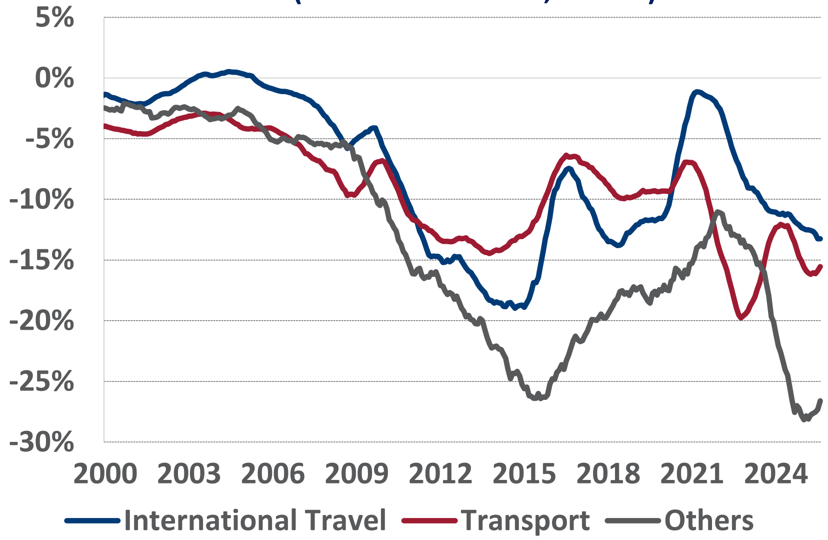
Profits and Dividends (USD Billion)



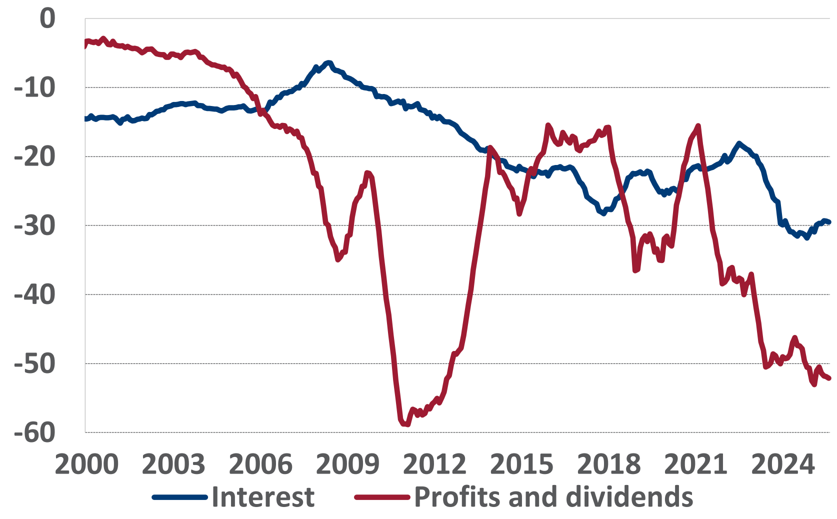
Services (USD Billion)



Services (Accumulated 12M, % GDP)



Primary Income (Accumulated 12M, USD Billion)

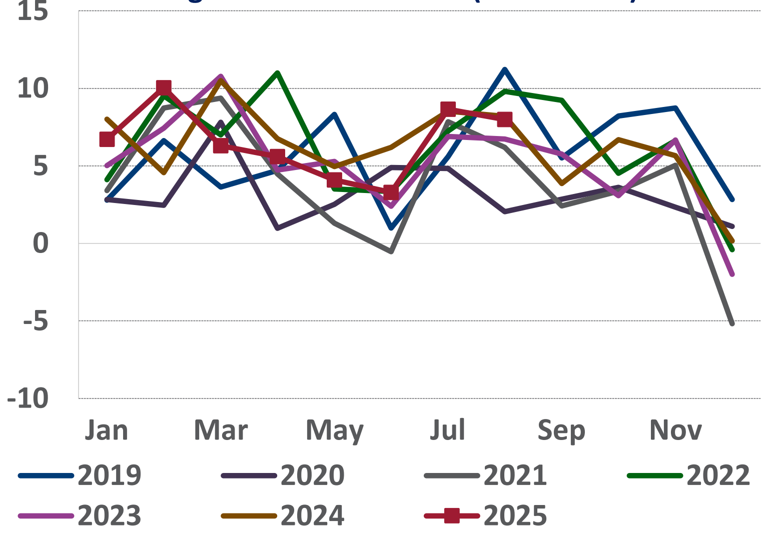


Source: BOCOM BBM, BCB

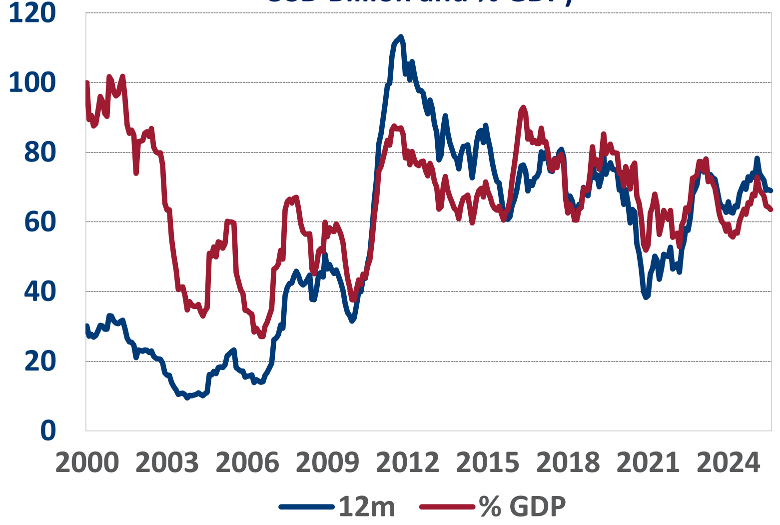
Brazil: Balance of Payments

- Foreign Direct Investment (FDI) registered a net inflow of USD 8.0 billion in August, above market consensus.
- On a 12-month basis, FDI inflows decreased to USD 69.0 billion (3.18% of GDP), up from USD 69.2 billion in July.

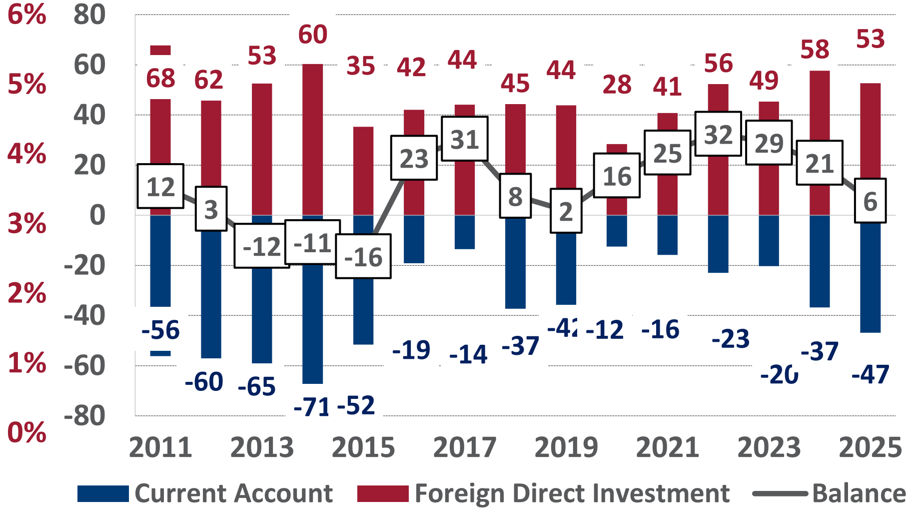
Foreign Direct Investment (USD Billion)



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



Current Account Balance and FDI (YTD, USD Billion)

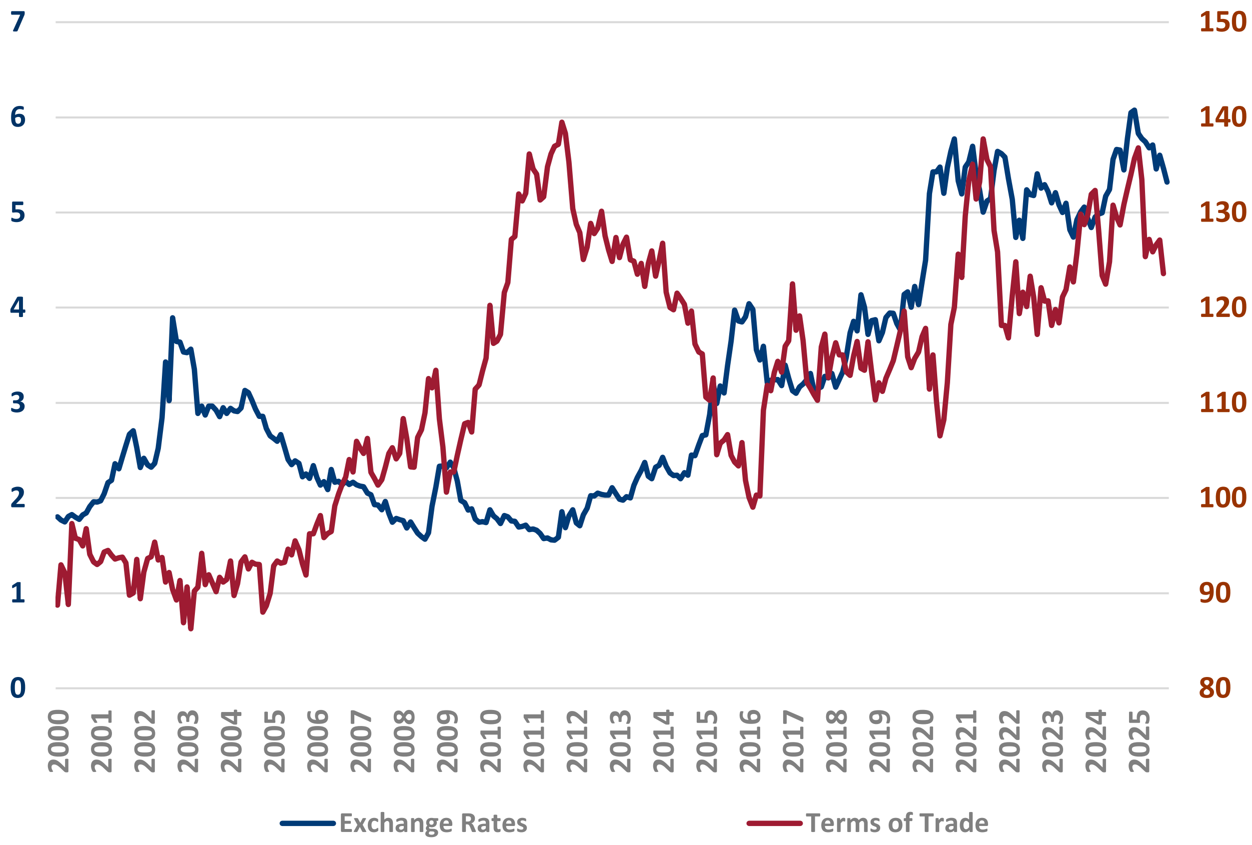


Source: BOCOM BBM, BCB

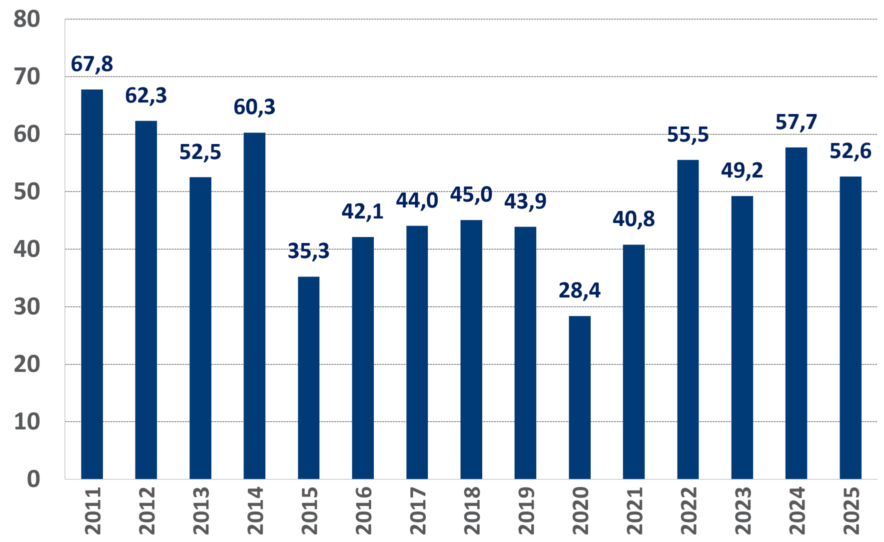
Brazil: External Sector

- In September, the Brazilian Real appreciated from 5.44 to around 5.32 against the US Dollar, supported by a wide interest rate differential and global dollar weakness. Domestically, the Central Bank maintained a restrictive stance amid a historically tight labor market, sustaining carry flows, while the IPCA-15 surprised to the downside, signaling a softer inflation trend. Externally, weaker U.S. labor data and a benign inflation print reinforced expectations of further Fed cuts, pushing Treasury yields lower and weighing on the dollar, though resilient U.S. activity tempered the extent of depreciation. These factors drove the BRL to its strongest level since June, despite persistent global uncertainties.

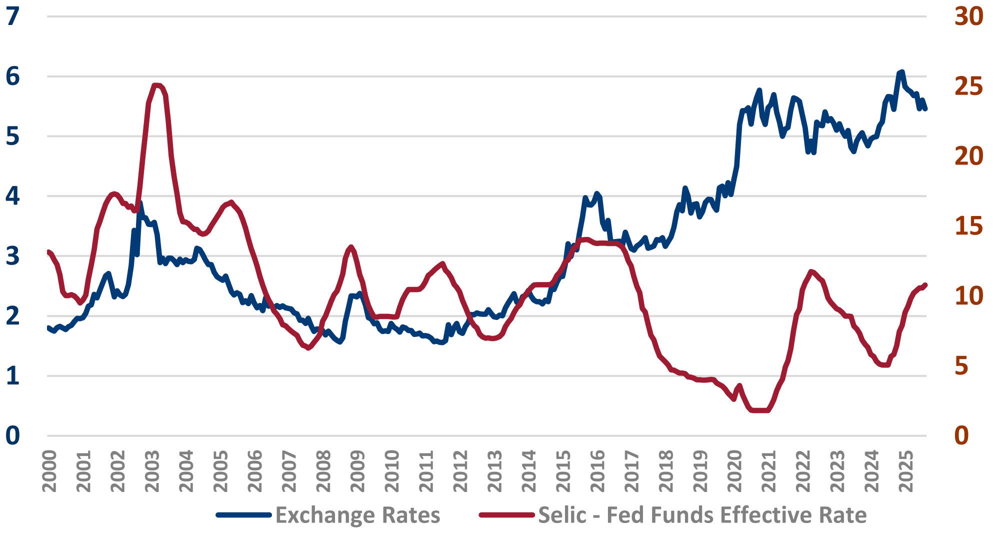
Terms of Trade x BRL



Foreign Direct Investment (YTD, USD Billion)



Interest Rate Differential x BRL

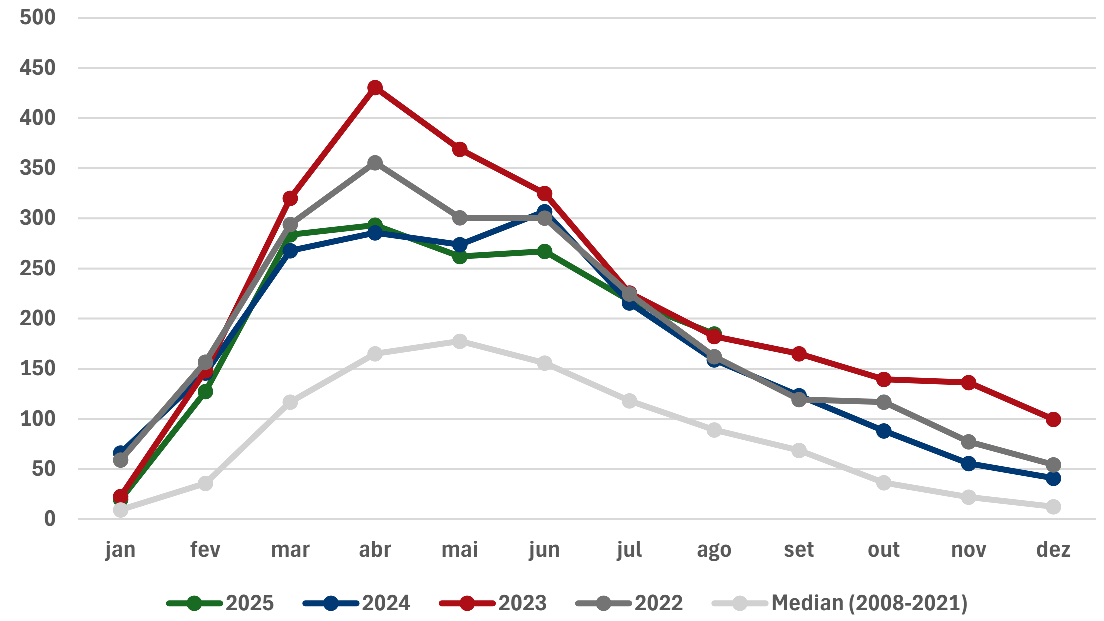


Source: BOCOM BBM, Bloomberg, BCB

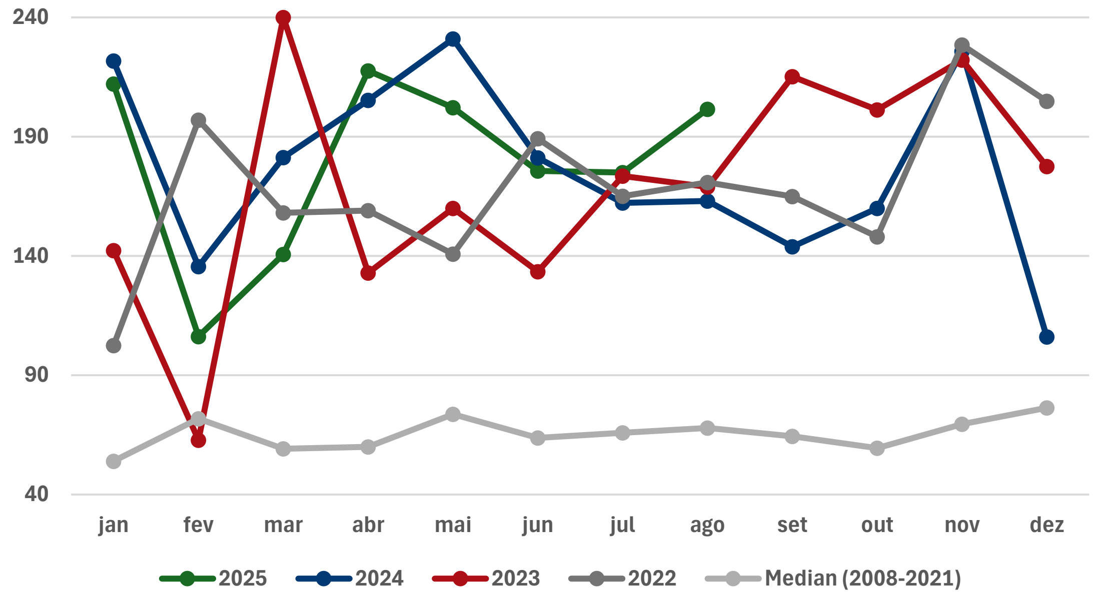
Brazil: External Sector

- In August, the trade balance presented a surplus of USD 6.13 bn (35.8% YoY) according to Secex data.
- Exports increased by 3.9% YoY, mainly due to the performance of the extractive industry (11.3% YoY). In turn, even though exports grew, some products recorded a decrease in sales, such as cotton (-37.1%), precious metal ores (-98.5%), and petroleum fuel oils (-18.1%).
- On the other hand, imports fell by -2.0% YoY, driven by the performance of manufacturing industry (-3.8 YoY), while the extractive industry imports increased by 26.5%.

Brazil BoP: Soy Exports
USD Million Daily Average



Brazil BoP: Crude Oil Exports
USD Million Daily Average



Source: Secex, BOCOM BBM