Macro Outlook

May 2026

交通銀行 BANK OF COMMUNICATIONS BBM

Macro Outlook

- In the global scenario, April was marked by continuation of geopolitical tensions, despite a ceasefire in place during most of the month. The U.S. decided to impose a blockade over Iran-related vessels, with the objective of weakening Iran's bargaining power with its blockade of the Strait of Hormuz. As a result, the conflict continued pressing energy prices and disrupting key supply chains, raising the risks of higher inflation and slower growth. In its April decision, the FOMC kept interest rates unchanged, with one expected dissent for a rate cut and three unexpected dissents against the easing bias in the statement. In his last press conference as Fed Chair, Powell stated the committee is well-positioned to assess the impacts of the conflict - suggesting rates on hold for an elevated period - and announced he will remain on the board until the government investigation into the Fed is resolved. Regarding U.S. data, the latest CPI and PCE readings came broadly in line with expectations. The inflationary impacts of the war have started to materialize, lifting headline inflation away from the Fed's target, despite limited impacts on core. On activity, the first estimate of 1Q26 GDP was stronger than expected, driven by stronger AI investment and consumption despite weaker government spending and net exports. Labor market data has been modestly stronger than expected and continues to show a low hiring and low layoff rates. Recent developments have increased uncertainty and are likely to keep the FOMC at a more cautious stance as the Committee assesses economic implications of the conflict.

- Regarding China, recent data have showed mixed signals in the economy. First-quarter GDP growth came in slightly above expectations, mainly driven by stronger-than-expected performance in secondary industry - particularly manufacturing. Among monthly activity indicators, industrial production surprised on the upside, while retail sales and fixed asset investment suggested signs of moderation. Additionally, trade data weakened by more than anticipated after a strong previous month, but the change seems related to post-Lunar New Year normalization. March inflation showed continuous improvement, with producer prices turning positive for the first time in four years. This suggests positive results from government policies aimed at addressing excess capacity, even as it remains a central concern for the Chinese economy. Looking ahead, China's technological edge and coordinated government support should boost manufacturing activity and technology exports. However, the broader macroeconomic environment poses meaningful risks to this outlook.

- In Brazil, February industrial production grew 0.9% MoM, above market expectations (0.8%). Additionally, services increased 0.1% MoM (vs. 0.5% expected), retail sales also surprised on the downside, rising by 1.0% MoM (vs. 1.6% expected). The broader set of indicators points to a gradual economic reacceleration. In line with this trend, the IBC-BR expanded 0.6% MoM, roughly in line with expectations. The labor market remains solid: the unemployment rate is still at historically low levels, and the Caged report continues to show notable net job creation.

- In the April meeting, the Monetary Policy Committee cut the Selic rate by 25 bps to 14.50%, as expected. The Committee acknowledged that the inflation outlook has worsened, with projections moving further away from the target and rising to 3.5% for the fourth quarter of 2027. At the same time, it emphasized that the current restrictive stance has been effective in cooling activity, leaving the door open for a continuation of the calibration cycle. Going forward, the pace and extent of easing will depend on geopolitical developments and on data as it becomes available.

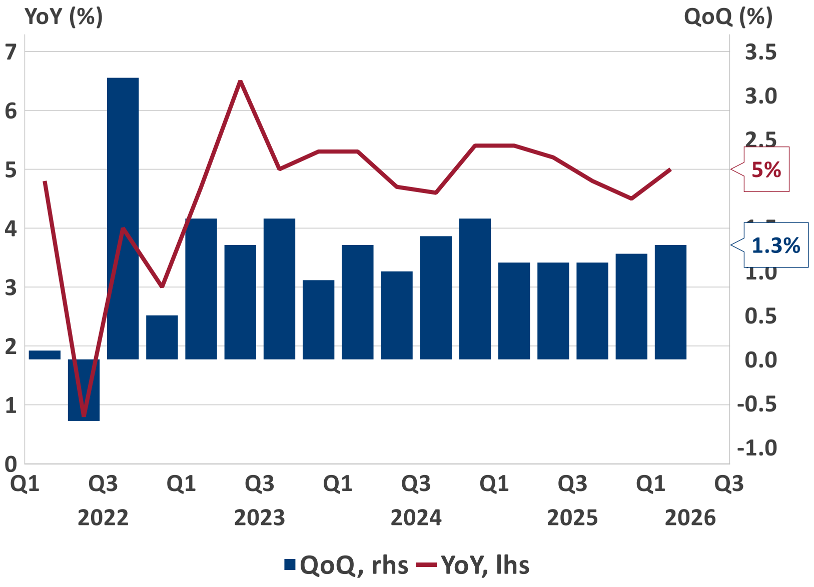
- April IPCA-15 increased by 0.89% MoM, below market expectations (0.98% MoM). The 12-month accumulated inflation accelerated from 3.90% to 4.37%. The main downward surprise to our forecast came from services, mainly airfares, which eased after posting increases in the previous release. Core services advanced 0.45% MoM, in line with market expectations, and the 3M SAAR rose from 5.2% to 5.9%.The average of core inflation rose by 0.46% MoM, with its 12-month accumulated at 4.3%. Looking ahead, April IPCA should remain pressured, reflecting strong food price dynamics and higher fuel costs driven by the Middle East conflict, despite limited relief from services. We increased our forecast for 2026 from 4.3% to 5.0%.

- The consolidated public sector posted a primary deficit of BRL 80.7 billion in March, worse than market consensus (deficit of BRL 67.7 billion) and down from the BRL 3.6 billion surplus in the same month of 2025. Regarding the breakdown, the central government, regional governments, and state-owned enterprises registered deficits of BRL 74.8 billion, BRL 5.4 billion, and BRL 0.5 billion, respectively. General Government Gross Debt (GGGD) rose from 79.2% of GDP to 80.1% of GDP, a change driven by net issuance (+0.4 p.p.) and nominal interest (+0.9 p.p.), which was partially offset by nominal GDP growth (-0.5 p.p.).

China: Economic Activity

- **GDP** grew 5.0% YoY in Q1/26, above expectations (4.8%) and the previous quarter (4.5%). It was driven by an acceleration in the secondary industry - as manufacturing picked up -, while the tertiary sector was stable amid still subdued domestic demand, and primary sector decreased a bit. This suggests an optimistic beginning of the year for China's economy;
- **March economic activity data continues to point to a gradual deceleration:**
  - **Retail sales** slowed from 2.8 to 1.7% YoY in March, below market expectations of 2.3%. The decrease was primarily led by auto and home appliances, related to payback effects from the recent scale-back in the trade-in program.
  - **Industrial Production** slowed by less than expected, from 6.3 to 5.7% YoY, against consensus of 5.5%. The slowdown seems related to residual distortions from the later-than-usual Chinese Lunar New Year.
  - **Fixed Asset Investment (FAI)** was basically stable, from 1.8% to 1.7% YTD YoY, below market consensus of 2.4%. Some components, such as manufacturing and infrastructure, still exhibit growth, while other investments, such as in real estate, remain under adjustment.
  - **Housing**: The latest data suggest the housing market remains depressed overall, despite some improvement observed in March - as all key property indicators rose but stayed in negative territory. While price declines continue to dominate across major Chinese cities, the housing prices diffusion index points to a notable increase in the share of sequential price gains, indicating early signs of stabilization

China: Real GDP Growth (Quarterly)



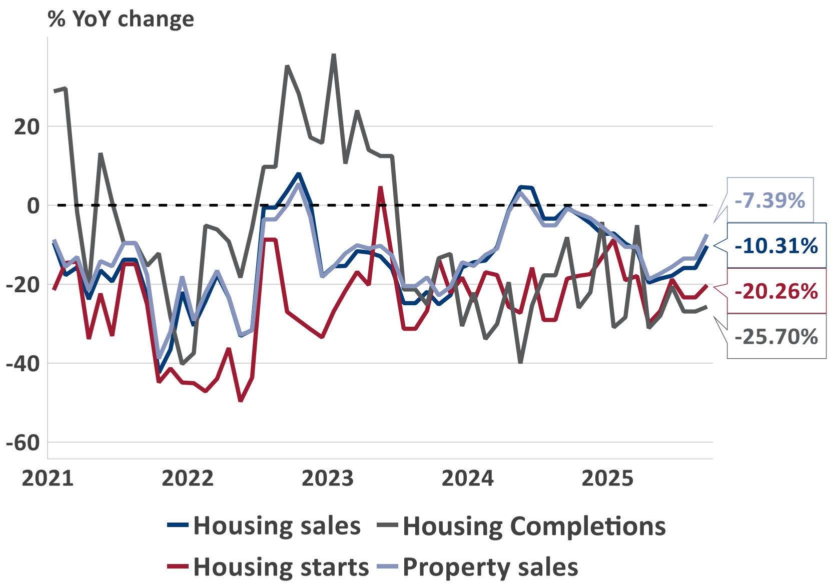
Source: BOCOM BBM, Macrobond, NBS

China: Activity (% YoY)

	3/2026	2/2026	3/2025
Industrial Production	5,70	6,3	7,70
Mining	5,70	6,1	9,30
Manufacturing	6,00	6,6	7,90
Utilities	3,50	4,7	3,50
Fixed Asset Investment (YTD)	1,70	1,8	4,20
Manufacturing	4,10	3,1	9,10
Real Estate	-11,20	-11,1	-9,90
Infrastructure	8,90	11,4	5,80
Retail Sales	1,65	2,8	4,92
Catering Services	2,90	4,8	5,60
Consumer Goods	1,50	0,7	5,90
Clothing	7,00	10,4	3,60
Automobiles	-11,80	-7,3	5,50
Furniture	-8,70	8,8	29,50
Cellphones	27,30	17,8	28,60
Home Appliances	-5,00	3,3	35,10
Construction	-9,00	-2,2	-0,10

Source: BOCOM BBM, Macrobond

China: Property Indicators (YoY)

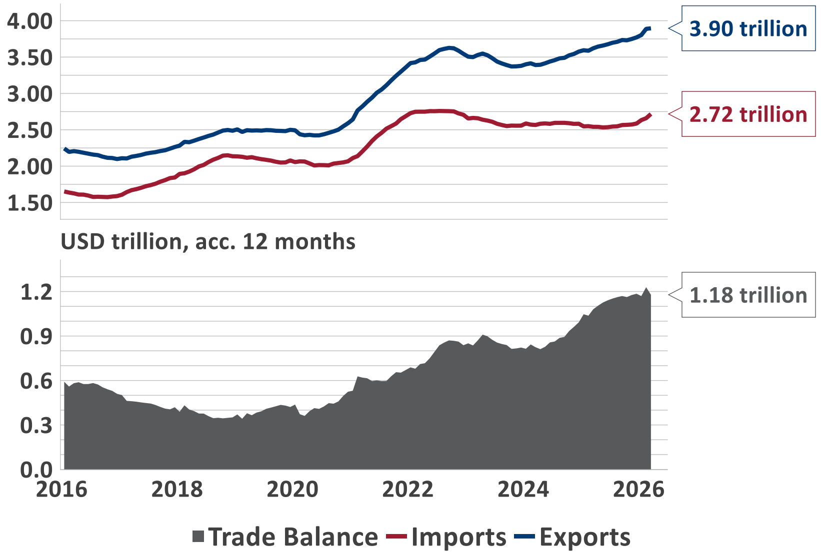


Source: BOCOM BBM, NBS

China: Economic Scenario

- **Trade growth underperformed in March:**
  - Exports growth slowed meaningfully, from 39.6% to 2.5% YoY (8.3% expected). However, the decline in exports seems highly related to post-Lunar New Year normalization, and the recent trend remains resilient;
  - Imports rose by more than expected, from 13.8% to 27.8% (11.1% expected). There were broad-based increases, especially on semiconductors and tech products;
- **March CPI inflation slowed a bit more than expected (from 1.3% to 1.0% YoY, vs consensus of 1.2%):**
  - Part of the surprise in the headline was related to lower food prices, which went from 1.7% to 0.3%;
  - The Core CPI also slowed, from 1.8% to 1.1%, as services printed an anticipated slowing after picking up during the Chinese New Year, while consumer goods accelerated.
  - The impacts of higher energy prices due to the Middle East conflict are clearer in the PPI, which ticked up from -0.9% to +0.5% (above consensus of +0.4%), turning positive for the first time in almost 4 years.
  - The recent trend of inflation improvement seems to remain in place, given government policies aimed to address excess capacity. And looking ahead, the expected inflation boost due to the conflict should also help alleviate this structural challenge.

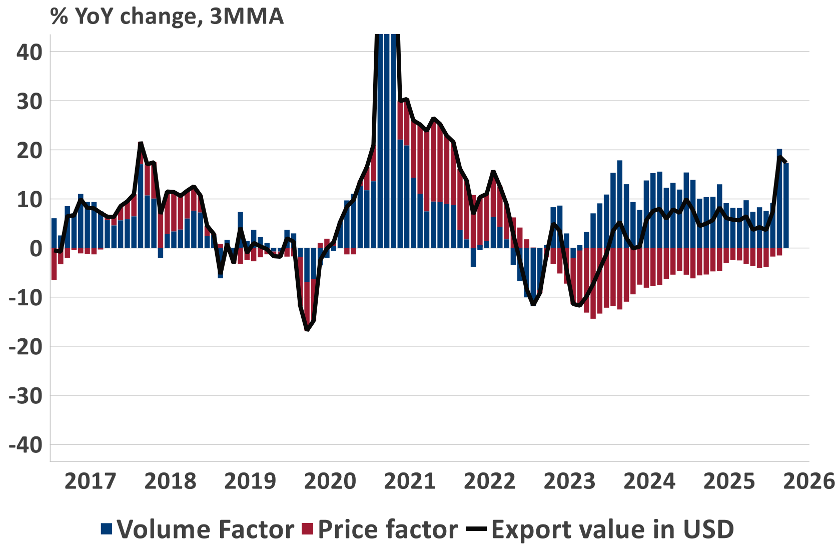
China: Trade Balance



Source: BOCOM BBM, Macrobond, GAC

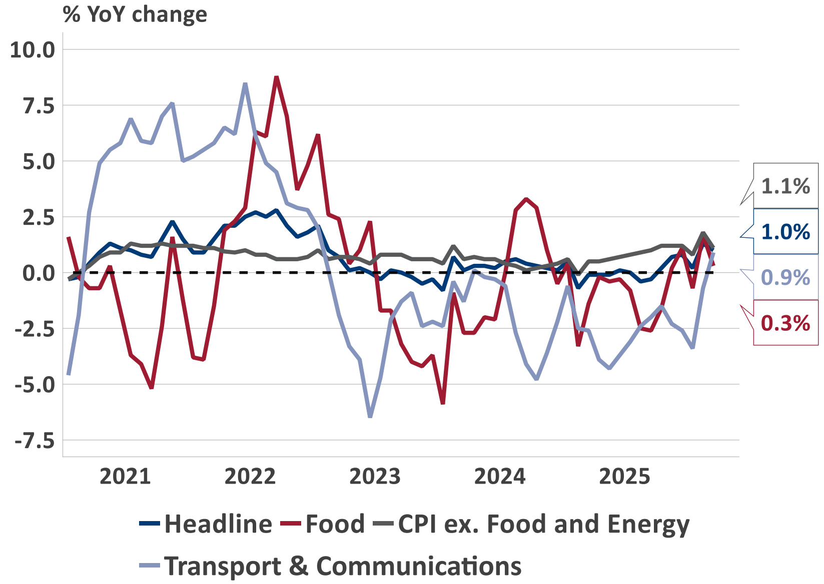
China: Exports (Price x Volume)

Last observation at 3/2026



Source: BOCOM BBM, Macrobond, GAC

China: CPI

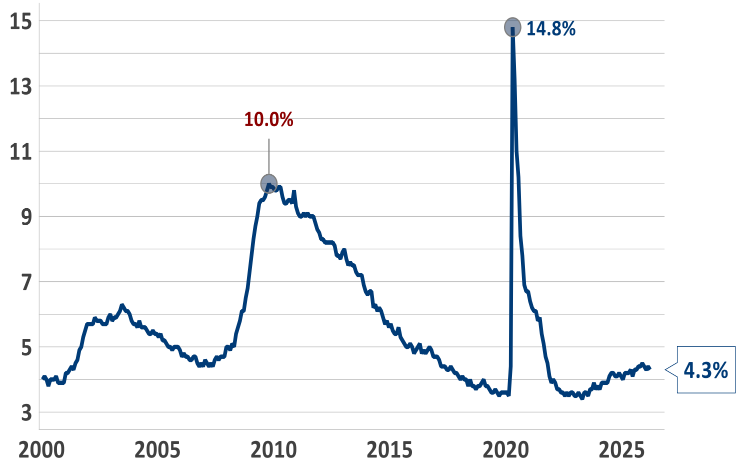


Source: BOCOM BBM, Macrobond, NBS

USA: Labor Market

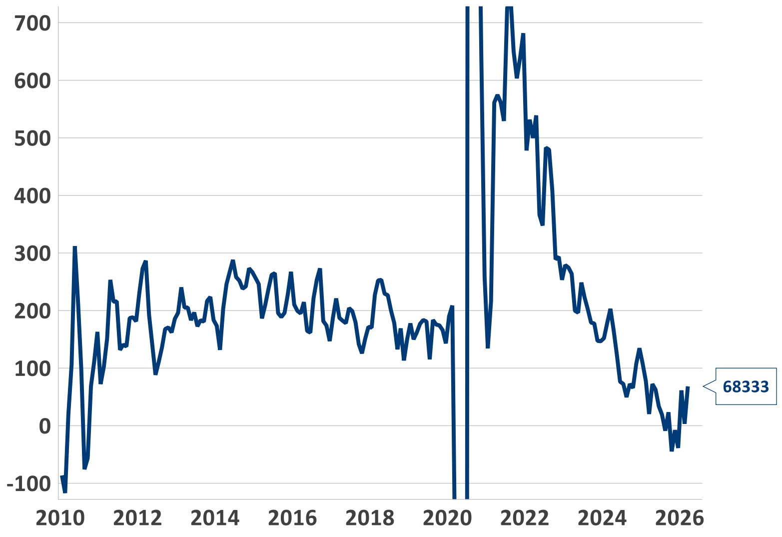
- The **March Payroll brought signals of labor market reacceleration, after a very weak February**:
  - **Job creation increased to 178k**, considerably above the 60k expected and the previous month's -133k.
  - The 2-month net revision was a small -7k, as it pushed February data even lower, from -92k to -133k, while increased January from 126k to 160k.
    - This took the **3MMA pace of job creation up to 68k**, considerably above the previous release's 3k
  - In the composition, private growth led the surprise, increasing from -129k to 186k (70k expected), while government jobs were -8k, broadly in line with consensus of -5k.
  - Also, the unemployment rate ticked down, from 4.44% to 4.26%, below the consensus of stability at 4.4%.
  - Overall, **the March Payroll survey pointed to relevant recovery in the labor market**, in the opposite direction of the previous release, reducing downside risks to the labor market.
- In any case, the **US economy continues to show low hiring and layoff rates**, as shown in the March JOLTS survey - a sign of relative resilience despite the easing in the labor market in recent years.
- Average hourly earnings rose 0.24% MoM, modestly below its recent trend of 0.3%
  - But the **recent pace of the data keeps showing resilience**, in line with other wage growth measures.

US: Unemployment Rate SA (%)



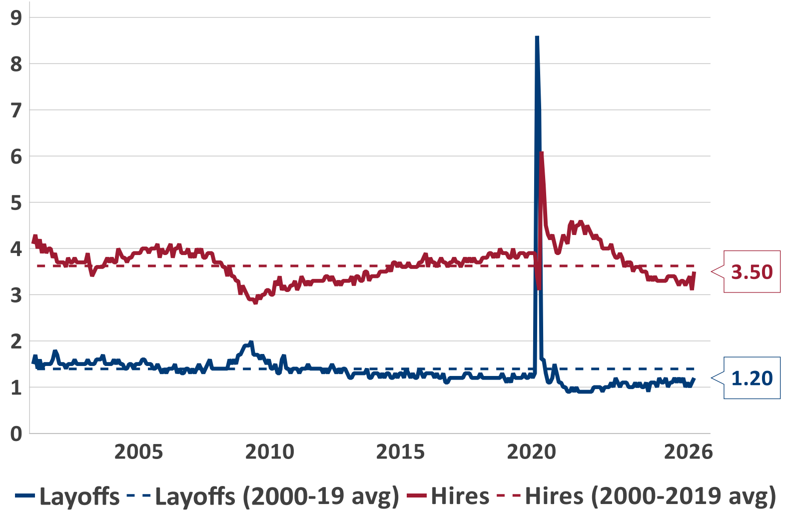
Source: BOCOM BBM, Macrobond, BLS

US: Nonfarm Payroll Employment Change



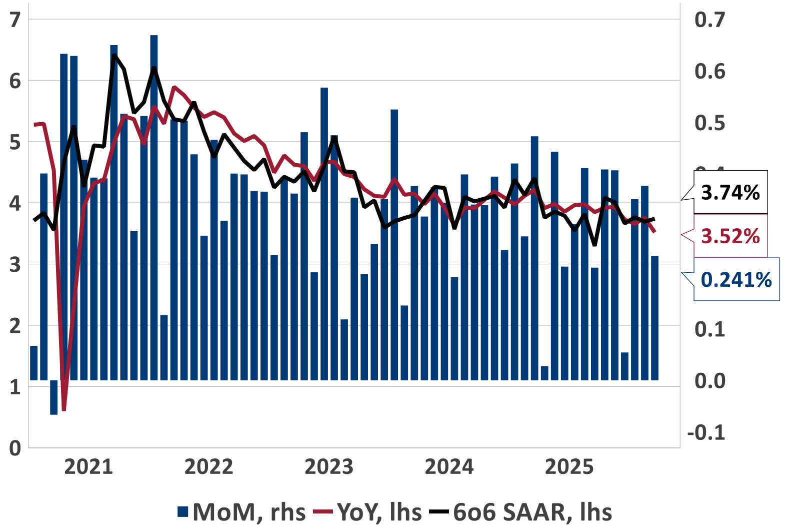
Source: BOCOM BBM, Macrobond, BLS

US: JOLTS - Hires x Layoffs (Rates)



Source: BOCOM BBM, Macrobond, BLS

US: Average Hourly Earnings Growth (%)

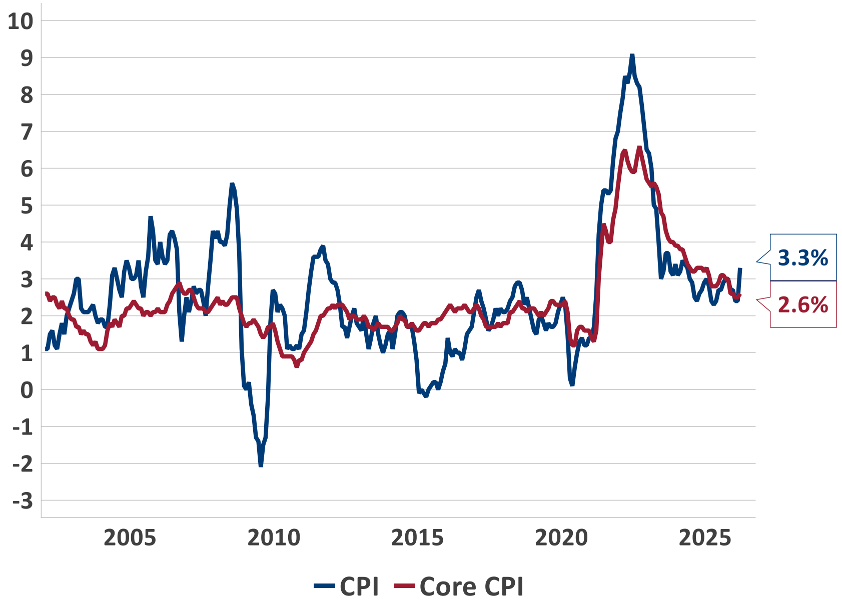


Source: BOCOM BBM, Macrobond, BLS

USA: Inflation

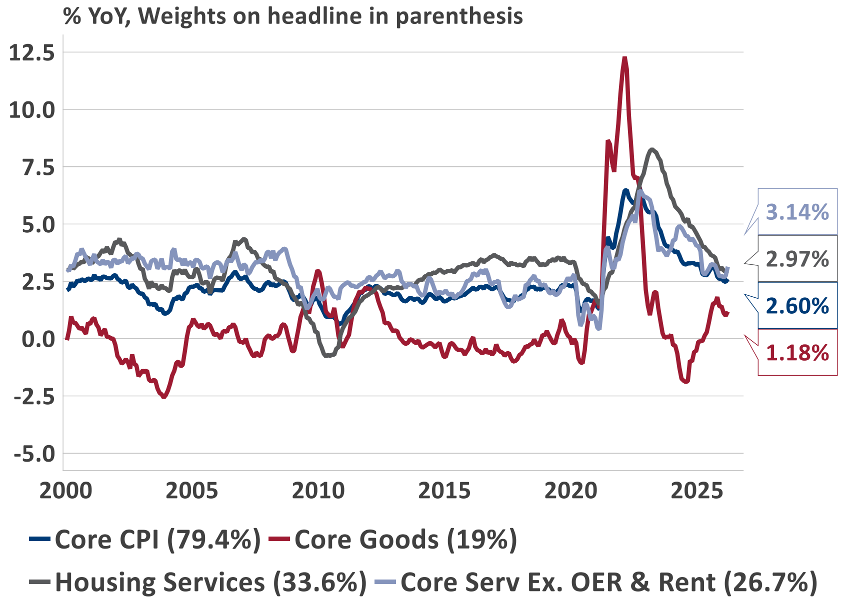
- The **March headline CPI** rose 0.87% MoM, slightly below expectations of 0.89%. This led the YoY to increase to 3.3%, in line with market consensus;
  - In the composition, energy prices came in above market expectations (10.87% vs 10.51% exp), while food were below (-0.01 vs 0.25 exp);
- The **core CPI** decelerated to 0.20% MoM, below expectations of 0.26%, raising the YoY rate to 2.6% (below the consensus of 2.7%);
  - Core goods printed below consensus (0.11% vs 0.29% expected). However, core goods excluding cars accelerated more than expectations, and its recent trend remains in elevated levels, suggesting tariff impacts on inflation remain clear;
  - Core services were also below the consensus (0.20% vs 0.27% exp.) and remain on a modest trend downwards. The main drag came from core services ex-housing (supercore) (0.18% vs 0.30% exp), as medical services dropped;
- Overall, **the March CPI was broadly in line with expectations**:
  - Looking ahead, inflation is expected to remain above the Fed's target in 2026, with tariff-related increases and the middle-east conflict as main drivers.

US: CPI (YoY, %)



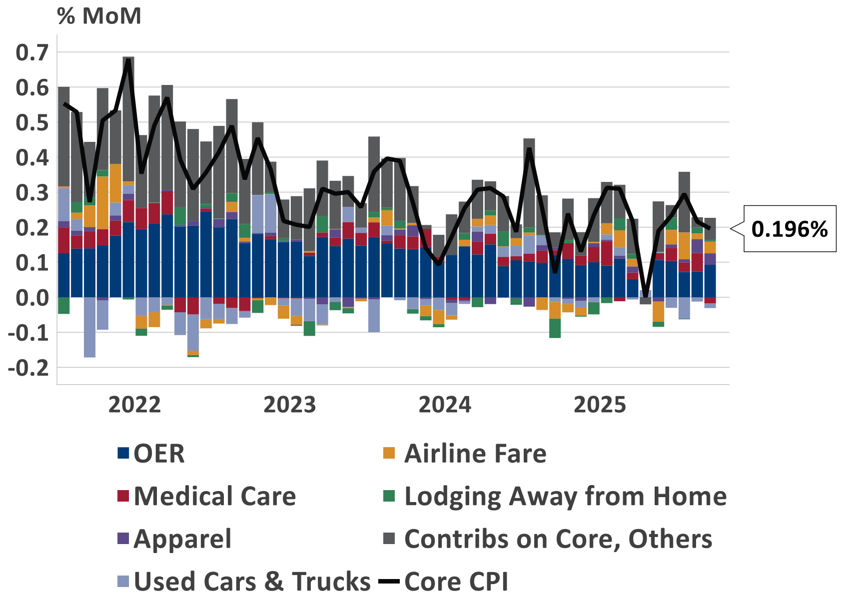
Source: BOCOM BBM, Macrobond, BLS

US: Core CPI Main Components (%)



Source: BOCOM BBM, Macrobond, BLS

US: Core CPI MoM Contributions

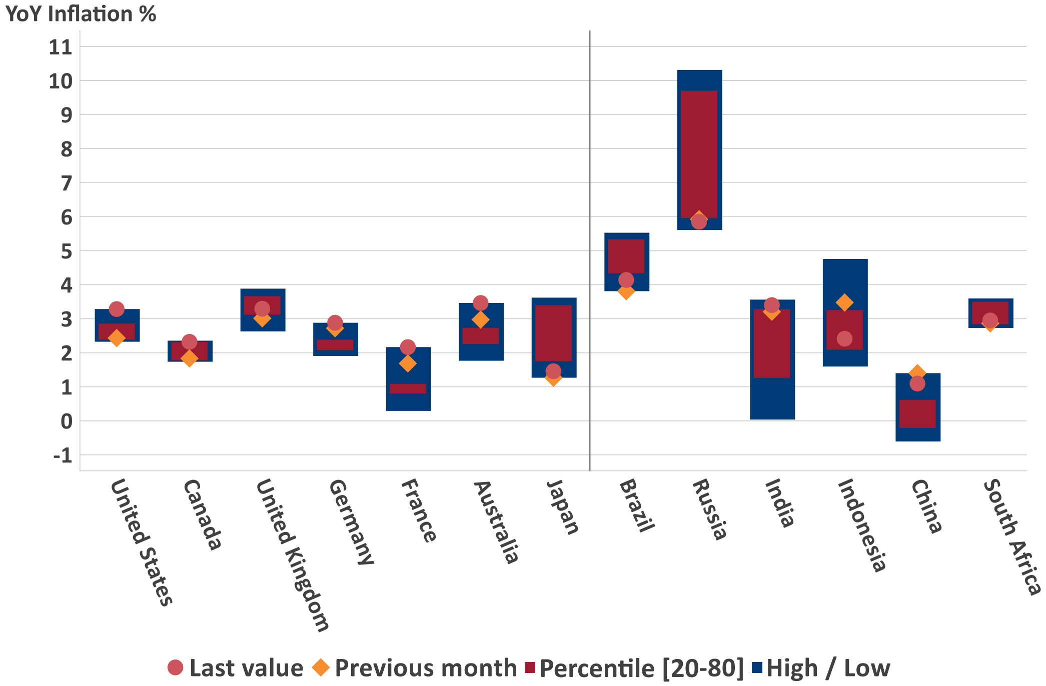


Source: BOCOM BBM, Macrobond, BLS

Global: Inflation & Activity

- **The geopolitical shock from the Middle East conflict is affecting trade flows and disrupting global supply chains**.
- This scenario has been driving expectations of an inflation acceleration and an activity slowdown in most economies, with prospects of heterogenous impacts based on exposure to the conflict and domestic fundamentals.
- Nonetheless, **global activity is expected to count with some resilience buffers**, especially from the significant monetary policy easing in recent years and the boost related to increased fiscal easing. **The duration and pass-throughs of the conflict will determine the dominant drivers to the global economy in 2026.**

Inflation range during the past 12 months



Source: BOCOM BBM, Macrobond

G20: GDP Growth Tracker (QoQ, %)

Countries marked in red indicates a technical recession:
2 consecutive quarters of negative sequential growth

	Q1 2026	Q4 2025	Q3 2025	Q2 2025	Q1 2025	Q4 2024	Q3 2024	Q2 2024
Argentina		0,6	0,6	-0,1	1,0	1,6	3,9	-0,8
Australia		0,8	0,5	0,8	0,4	0,3	0,3	0,2
Brazil		0,1	0,0	0,3	1,5	0,0	0,8	1,7
Canada		-0,2	0,6	-0,2	0,5	0,7	0,8	0,8
China	1,3	1,2	1,1	1,1	1,1	1,6	1,4	1,0
Euro Area	0,7	0,2	0,3	0,1	0,6	0,4	0,4	0,2
France	0,0	0,2	0,6	0,4	0,2	-0,1	0,3	0,2
Germany	0,3	0,2	0,0	-0,2	0,4	0,2	0,0	-0,3
India		12,1	0,1	-7,5	3,8	12,8	-1,4	-7,3
Indonesia	-0,8	0,9	1,4	4,0	-1,0	0,5	1,5	3,8
Italy	0,2	0,3	0,2	0,0	0,3	0,1	0,0	0,2
Japan		0,3	-0,7	0,6	0,3	0,5	0,7	0,2
Mexico	-0,8	0,9	0,1	0,5	0,3	-1,0	1,2	-0,1
Russia		0,7	0,3	0,4	-0,8	1,0	0,6	0,6
Saudi Arabia	-2,5	4,1	1,9	-0,6	-0,4	3,9	1,6	-1,4
South Africa		0,4	0,3	0,8	0,1	0,4	-0,3	0,3
South Korea	1,7	-0,2	1,3	0,7	-0,2	0,1	0,1	-0,2
Turkey		1,7	12,2	7,4	-15,6	2,1	13,1	5,1
United Kingdom		0,1	0,1	0,2	0,7	0,3	0,2	0,6
United States	0,5	0,1	1,1	0,9	-0,2	0,5	0,8	0,9

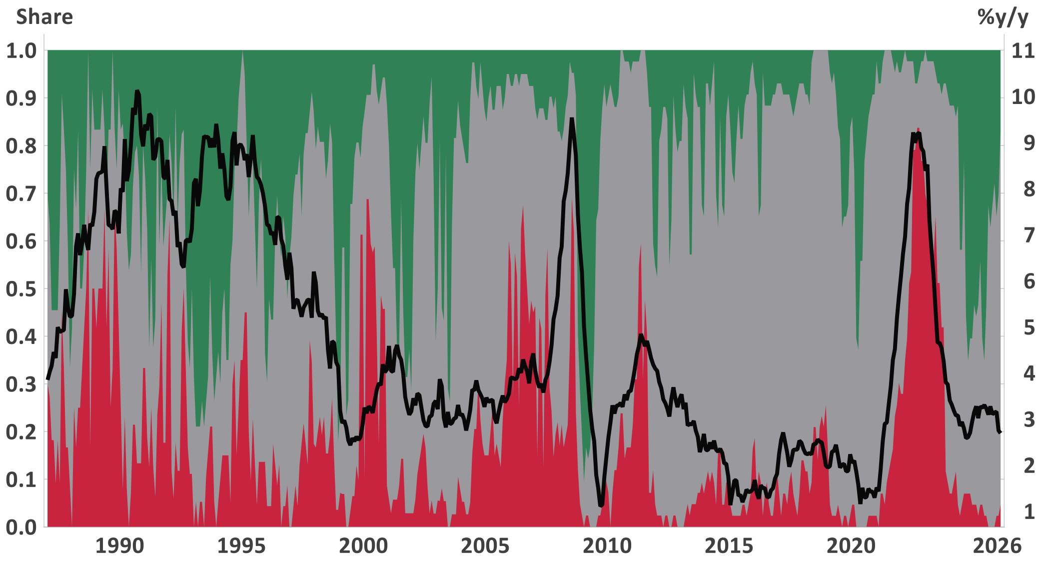
Sources: BOCOM BBM, Macrobond, National Sources

Global: Monetary Policy

- After a global easing in monetary policy during 2025, the impulse in a stagflationary direction from the Middle East conflict, combined with rising risk premia, has been **pushing central banks toward a more restrictive stance**.
- The uncertainty regarding potential effects of geopolitical tensions in each country's domestic context should continue to drive institutions towards a more careful approach in 2026.
- Overall, the **budget for further cuts seems limited**, with markets expecting that the next policy rate move will be a hike for the majority of G20 economies.

Global monetary breadth

Share of economies (GDP top 50) with higher/unchanged/lower policy rates; monthly/mtd avg, 5-May-26



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	32,6	33,6	29,00	-3,00	Cut	1/2025	31	15
Australia	4,6	3,9	4,35	0,25	Hike	5/2026	0	9
Brazil	4,1	4,4	14,50	-0,25	Cut	4/2026	11	0
Canada	2,3	2,5	2,25	-0,25	Cut	10/2025	34	6
Chile	2,8	2,9	4,50	-0,25	Cut	12/2025	43	5
China	1,1	1,1	3,00	-0,10	Cut	5/2025	147	12
Colombia	5,6	5,9	11,25	1,00	Hike	4/2026	1	12
Costa Rica	-2,1	0,5	3,25	-0,25	Cut	12/2025	42	5
Czech Republic	1,9	0,2	3,50	-0,25	Cut	5/2025	46	12
Denmark	1,2	1,7	1,75	-0,25	Cut	6/2025	32	11
Euro Area	3,0	2,2	2,15	-0,25	Cut	6/2025	32	11
Hungary	1,8	1,9	6,25	-0,25	Cut	2/2026	43	2
Indonesia	2,4	2,4	4,75	-0,25	Cut	9/2025	24	8
Israel	1,9	2,0	4,00	-0,25	Cut	1/2026	35	4
Japan	1,5	2,4	0,75	0,25	Hike	12/2025	4	123
Mexico	4,6	4,4	6,75	-0,25	Cut	3/2026	37	1
New Zealand	3,1	2,6	2,25	-0,25	Cut	11/2025	35	5
Norway	3,6	3,0	4,00	-0,25	Cut	9/2025	29	8
Poland	3,2	2,7	3,75	-0,25	Cut	3/2026	44	2
Russia	5,9	5,0	14,50	-0,50	Cut	4/2026	18	0
Saudi Arabia	1,8		4,25	-0,25	Cut	12/2025	33	5
South Africa	3,0	3,2	6,75	-0,25	Cut	11/2025	35	5
South Korea	2,2	2,2	2,50	-0,25	Cut	5/2025	40	11
Sweden	0,5	1,6	1,75	-0,25	Cut	10/2025	31	7
Switzerland	0,6	0,3	0,00	-0,25	Cut	6/2025	34	11
Turkey	32,4	29,8	37,00	-1,00	Cut	1/2026	13	3
United Kingdom	3,3	3,1	3,75	-0,25	Cut	12/2025	33	5
United States	3,3	2,6	3,75	-0,25	Cut	12/2025	33	5

Source: BOCOM BBM, Macrobond

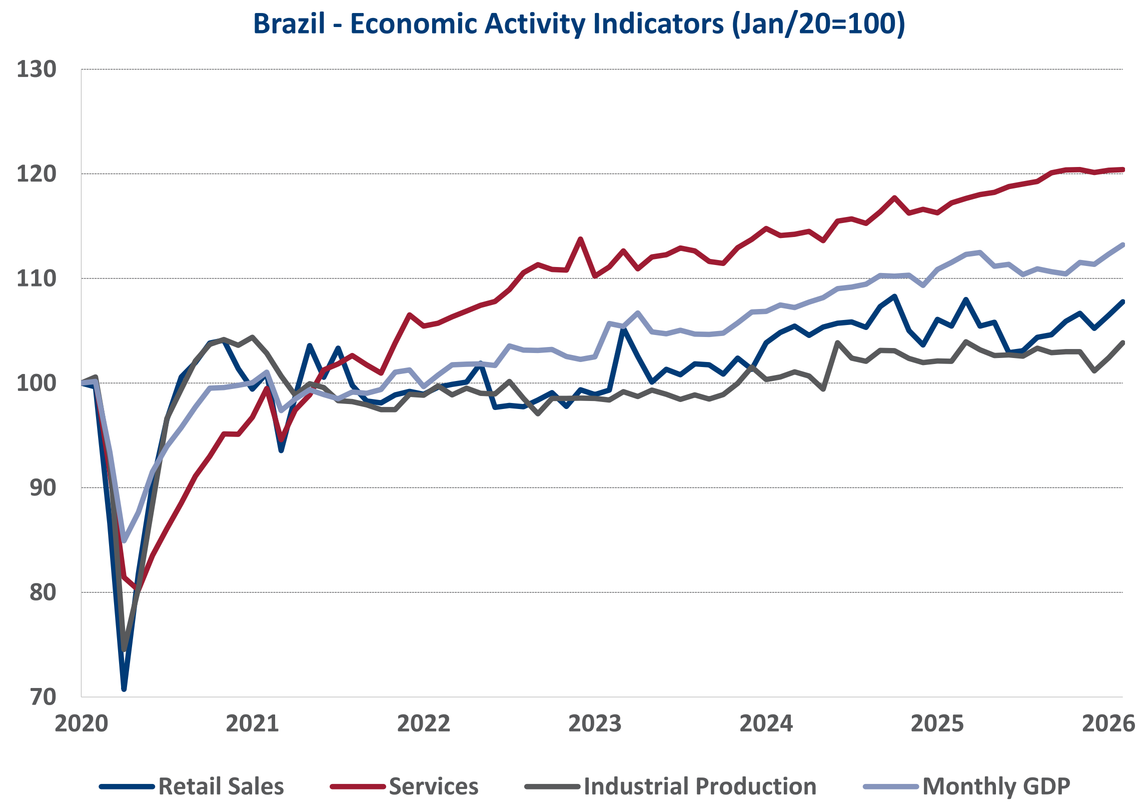
Brazil: Forecasts

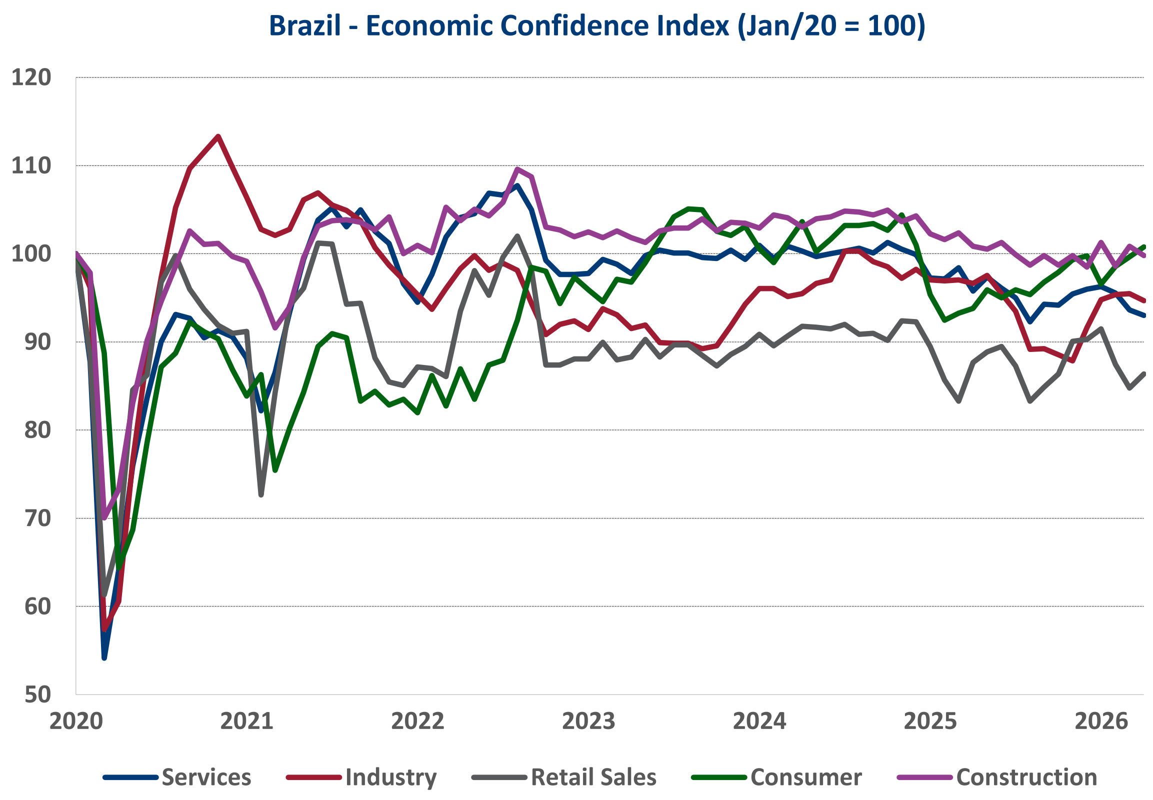
ECONOMIC FORECASTS	2020	2021	2022	2023	2024	2025	2026F	2027F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	3.4%	2.3%	2.0%	1.5%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	4.8%	4.3%	5.0%	3.9%
Unemployment Rate (eoy ,%)	14.2%	11.1%	7.9%	7.4%	6.2%	5.1%	5.5%	6.2%
Policy Rate (eoy, %)	2.0%	9.3%	13.8%	11.75%	12.3%	15.0%	12.75%	11.00%
External Accounts								
Trade Balance (US$ bn)	36	42	52	92	66	60	77	71
Current Account Balance (US$ bn)	-25	-40	-42	-28	-66	-69	-58	-53
Current Account Balance (% of GDP)	-1.7%	-2.4%	-2.2%	-1.3%	-3.0%	-3.0%	-2.2%	-2.0%
Fiscal Policy								
Central Government Primary Balance (% of GDP)	-9.8%	-0.4%	0.5%	-2.1%	-0.4%	-0.5%	-0.4%	-0.3%
Government Gross Debt (% of GDP)	86.9%	77.3%	71.7%	74.4%	76.1%	78.7%	82.7%	86.8%

Source: BOCOM BBM, IBGE

Brazil: Activity

- In February, industrial production grew 0.9% MoM, above market expectations (0.8%). Additionally, services increased 0.1% MoM (vs. 0.5% expected), retail sales also surprised on the downside, rising by 1.0% MoM (vs. 1.6% expected). The broader set of indicators points to a gradual economic reacceleration. In line with this trend, the IBC-BR expanded 0.6% MoM, roughly in line with expectations.
- Looking ahead, confidence surveys for the services, industrial and construction sectors weakened in April, whereas consumer and retail confidence posted gains.



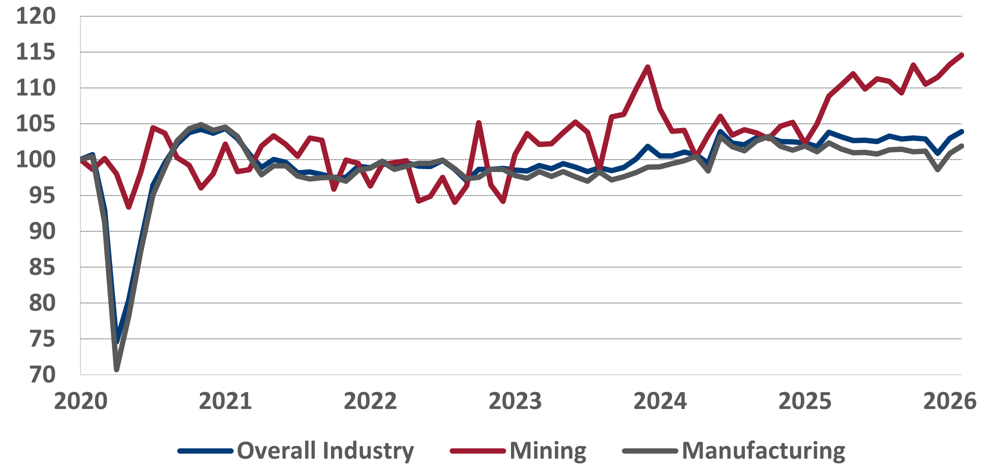


Source: BOCOM BBM, IBGE, FGV

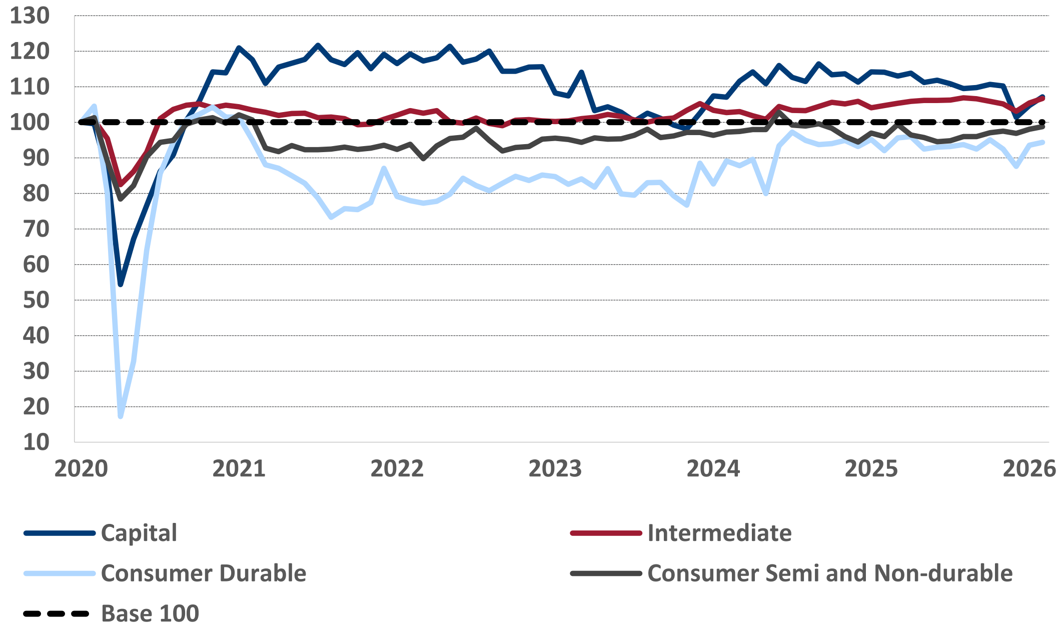
Brazil: Industrial Production

- Industrial output rose by 0.9% from January to February, above market expectations (0.8% MoM). The manufacturing industry increased by 1.0% MoM (-2.6% YoY), while the extractive industry increased by 1.1% MoM (10.2% YoY).
- All four economic categories grew compared to January, however, most of them show weakening when compared to 2025.
- Intermediate goods resumed expanded 2.3% mom, supported by a sharp increase in the extractive industry, driven by oil derivatives & biofuels. Semi and non-durable goods grew after disappointing figures at the end of 2025 (0.7% MoM; -0.3% YoY), driven mainly by the recovery in food products and beverages.
- Capital goods remained the main drag on industrial performance, despite a temporary 2.3% MoM, the category fell by 5.2% QoQ and 13.5% YoY, which signals short-term weakness in gross fixed capital formation. Furthermore, durable consumer goods advanced for the second consecutive month but considerably weaker compared to last year (0.9% MoM; -9.3% YoY).

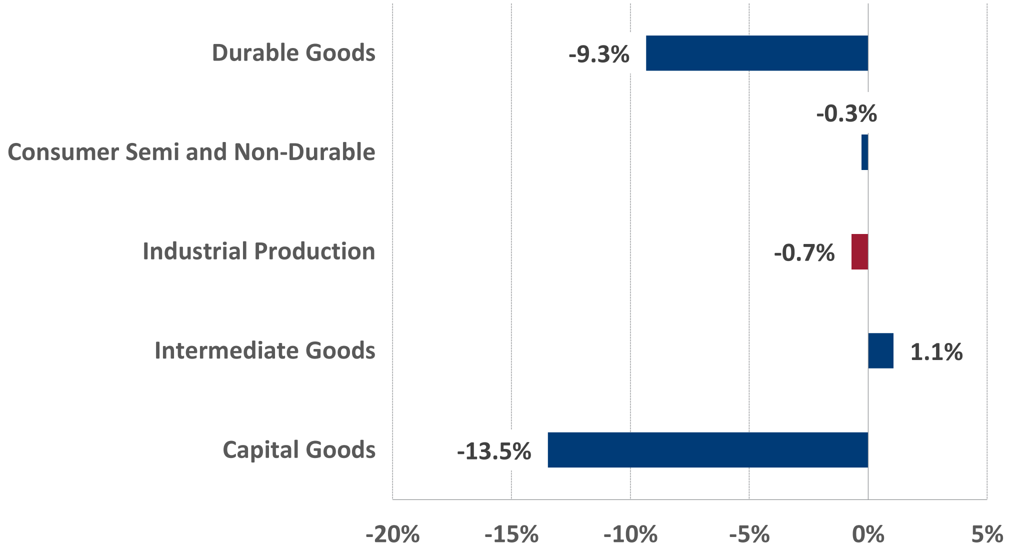
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



Industrial Production by Category - 02/2026 (YoY)



Source: IBGE, BOCOM BBM

Brazil: Retail Sales

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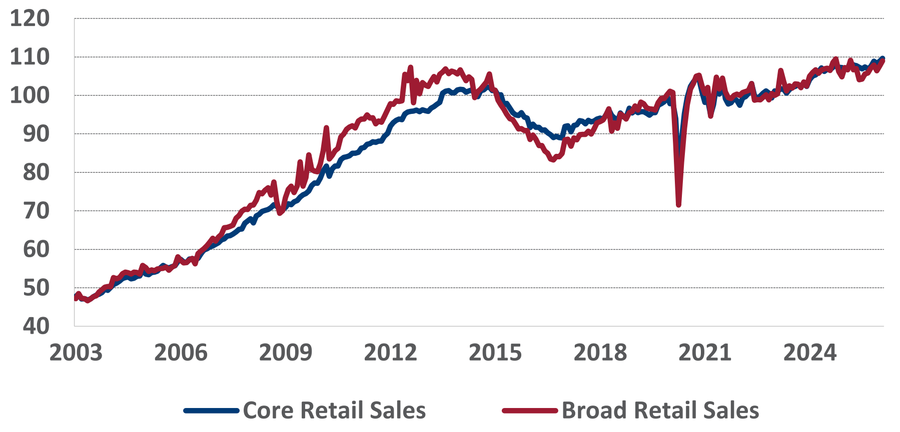
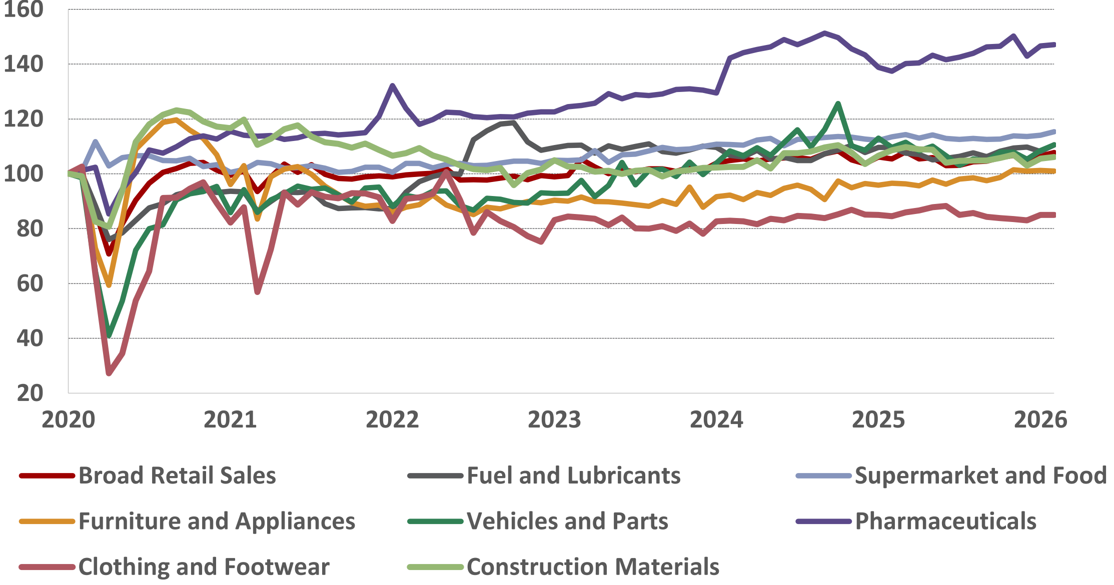
- Broad retail sales rose by 1.0% MoM in February, below expectations (+1.6% MoM).
- In turn, core retail sales increased by 0.6% MoM, also below estimates (+0.9% MoM).
- Looking at the breakdown, 6 out of 10 retail activities grew in the monthly comparison, with the highlights being the positive performance of motor vehicles (1.6%), supermarkets, food products & beverages (1.1%) and fuels & lubricants (1.7%).
- On the negative side, office, computer, and communication material & equipment recorded the second consecutive MoM contraction (-2,7% MoM; 0.2% YoY). Also, other personal and household articles (-0.6% MoM; -5.3% YoY) and furniture (-8.3% YoY) contracted in February.
- Overall, following a disappointing performance in 2H25 under still-tight monetary policy, domestic activity should regain momentum in 1H26, as the still-tight labor market, rising real disposable income, and expanding fiscal and credit stimulus keep demand resilient.

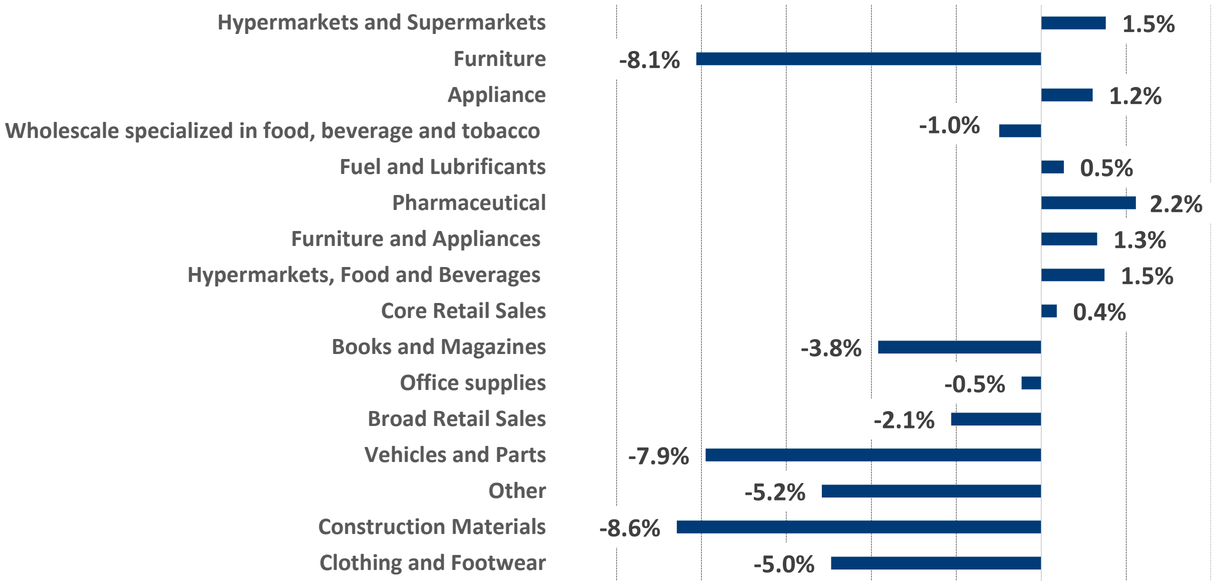
Broad Retail Sales SA x Core Retail Sales SA



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



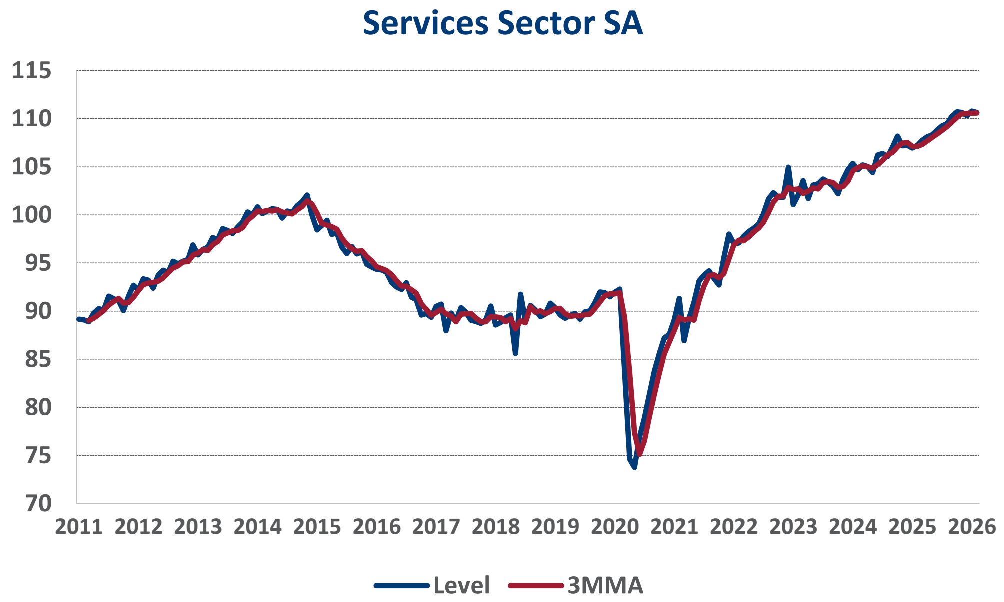
Retail Sales - YoY (02/2026)

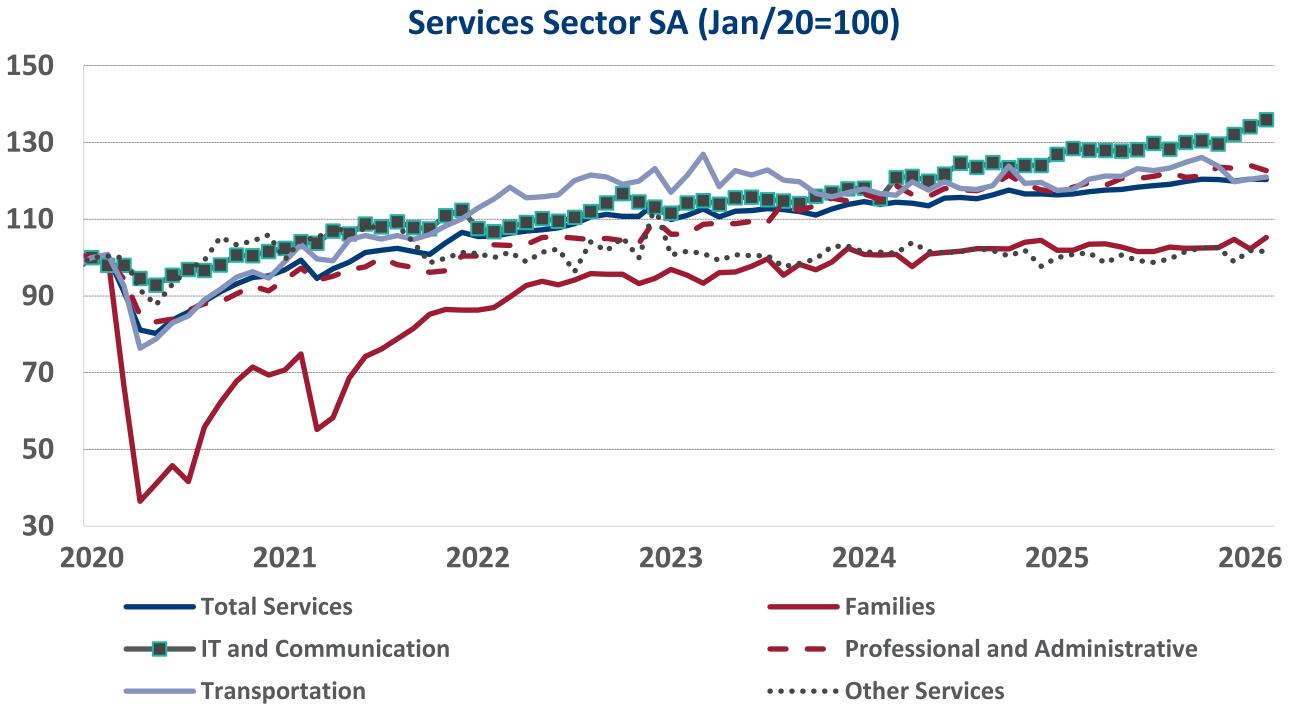


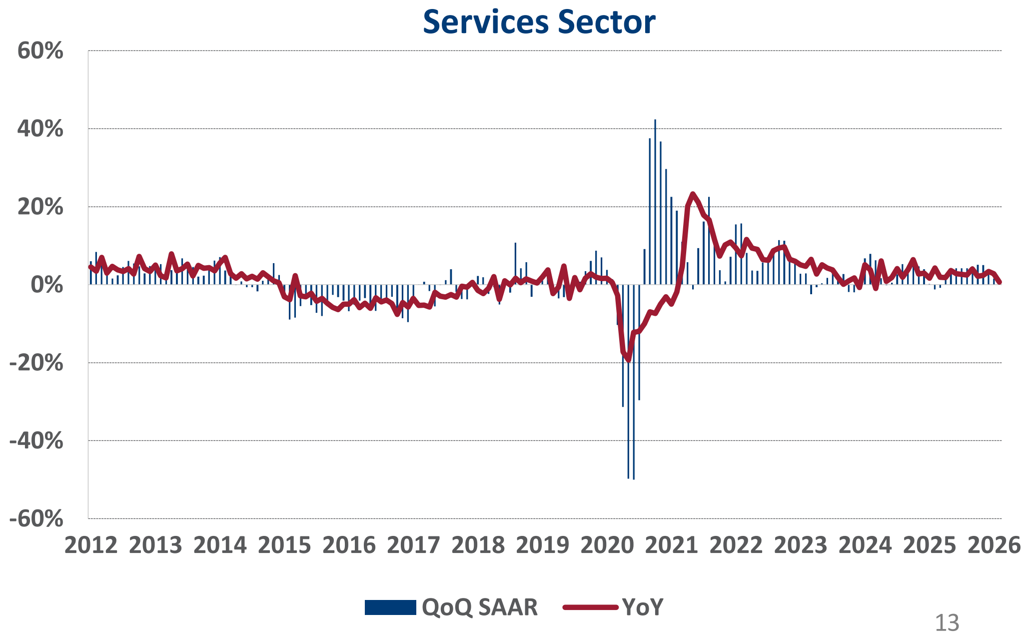
Source: IBGE, BOCOM BBM

Brazil: Services

- The services sector edged up 0.1% MoM in February, below market expectations (0.5% MoM).
- Three of the five major service categories grew in February. On the brighter side, information & communication services increased for the third consecutive month (1.1% MoM; 4.9% YoY), led by the IT services subsector. This component grew by nearly 5% since December 2025. The category of services rendered to families expanded 1.4% MoM In February (4.2% YoY), owing chiefly to food & accommodation services.
- On the negative side, transportation and storage posted weak performance in February (0.6% MoM; -2.8% YoY), despite the positive month-over-month variation. This outcome was driven by adverse developments in its main subsectors: waterway transportation declined by 0.5% MoM (-10.8% YoY), while air transportation services recorded a sharp contraction of 7.5% MoM (-10.5% YoY), amid a context of strong increases in airfares prices. In addition, the categories of other services (-0.4% MoM; -2.8% YoY) and professional, administrative and complementary services (-0.3% MoM; 0.8% YoY) also contracted on the margin.
- Overall, the service sector will continue to drive the Brazilian economy, supported by a strong labor market and stimulus-driven domestic demand, despite some recent moderation in momentum.



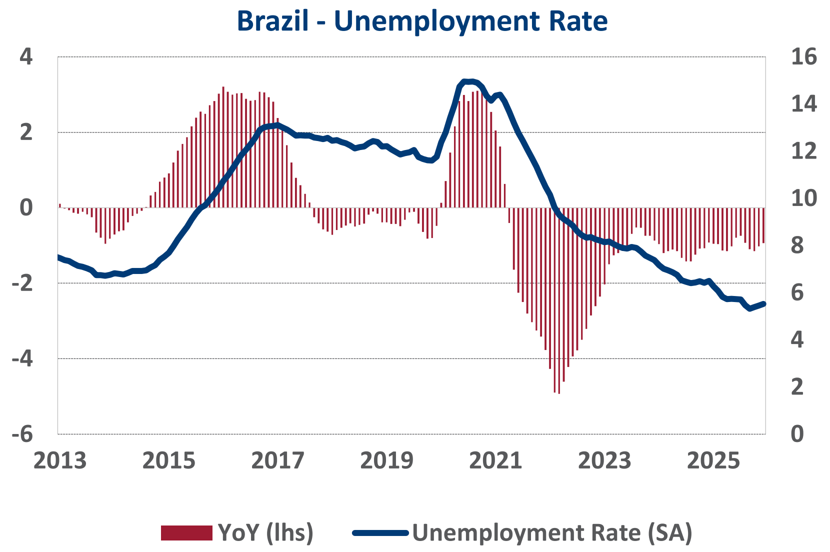


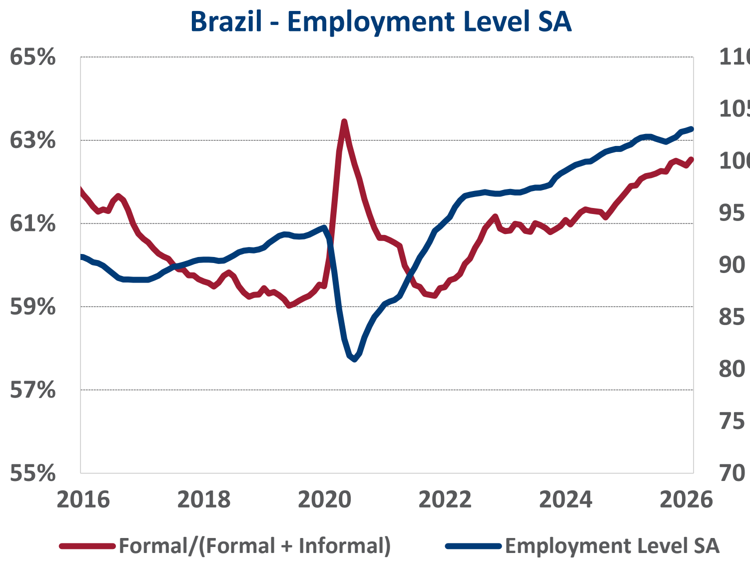


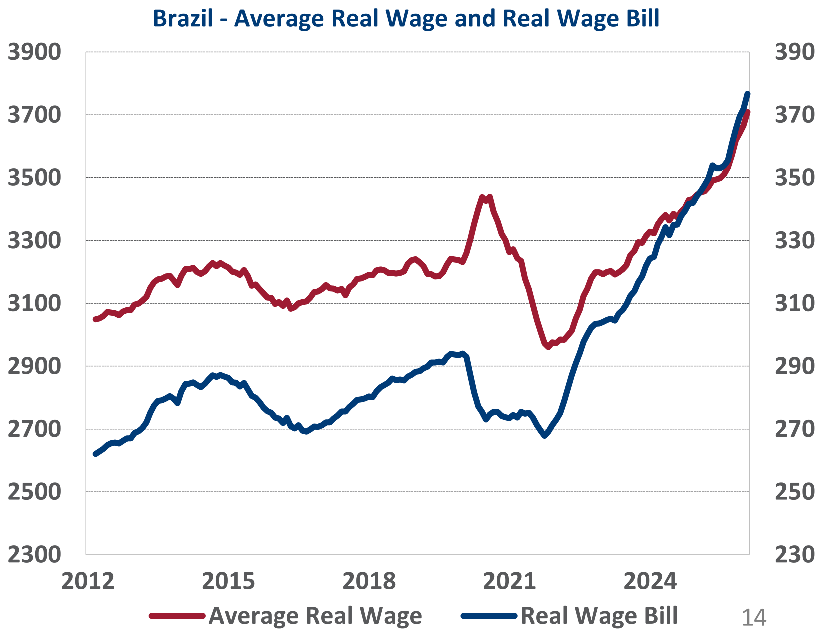
Source: IBGE, BOCOM BBM

Brazil: PNAD

- The unemployment rate rose from 5.8% to 6.1% in the moving quarter up to March, in line with market consensus.
- Seasonally adjusted, the indicator ticked up to 5.7% from 5.6%, still a historically low level.
- Total employment inched up 0.1% MoM in March, standing at 102.8 million, additionally labor force advanced by 0.2% MoM to 108.9 million, pointing to a persistently tight labor market.
- The labor force participation rate grew from 62,1% to 62.2%, still below pre-pandemic levels of 63.5%.
- The average real wage expanded by 0.5% MoM, continuing its rising trajectory.
- Consequently, real aggregated labor income, which combines average labor earnings and total employment, rose by 0.5% MoM.
- Overall, PNAD statistics reinforce a still-tight labor market, with the unemployment rate remaining well below its neutral level.



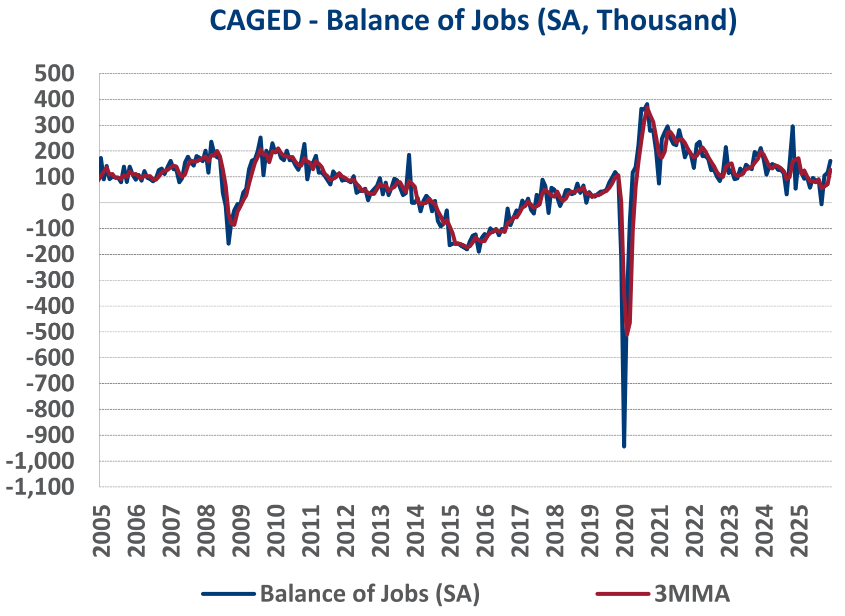


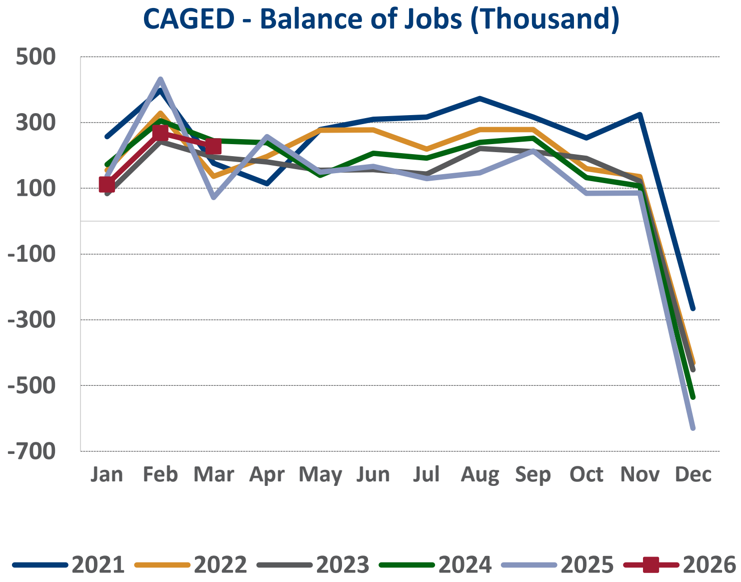


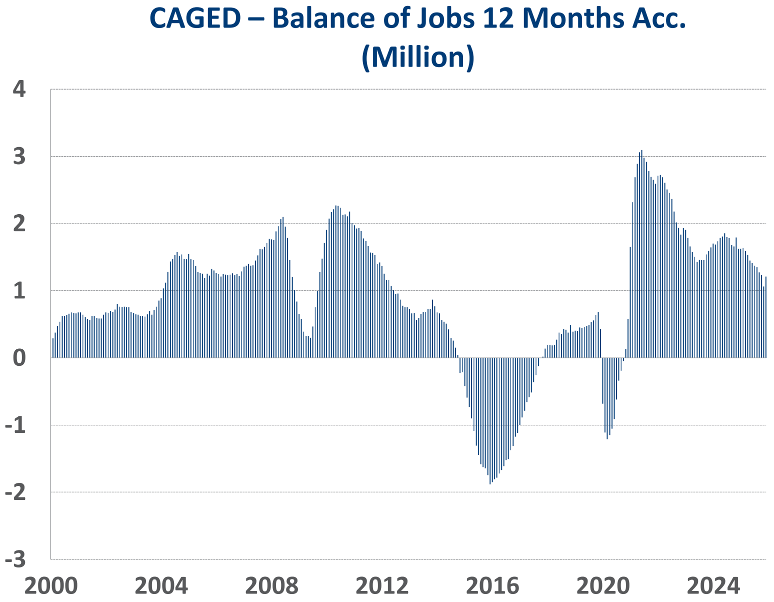
Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

- CAGED registered a net creation of 228.2k formal jobs in March, well above market expectations (148.6k).
- There was a net creation of 1.211 million jobs in the 12-month rolling sum up to March 2026, above the 1.063 million posted in the previous reading.
- Overall, formal employment remains strong, with job creation significantly exceeding expectations and signaling resilient short-term labor market momentum.







Source: BOCOM BBM, MTE

Brazil: GDP Forecast

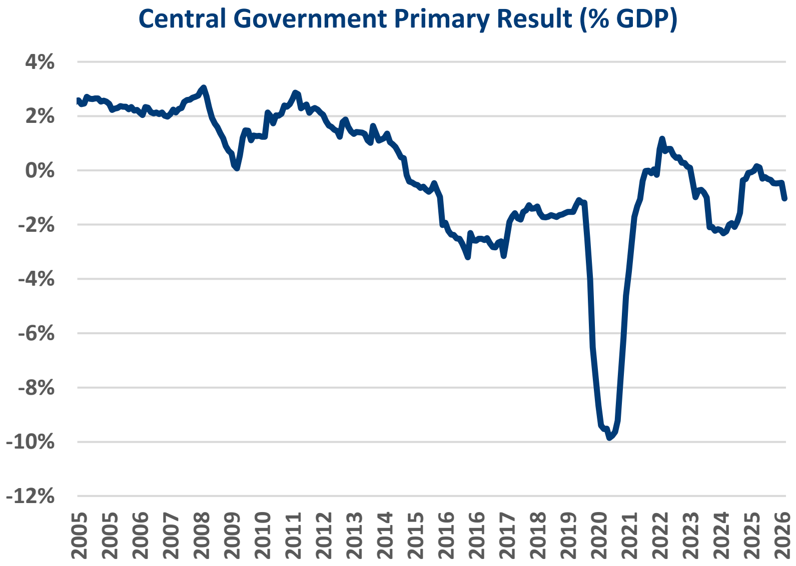
- We maintained our GDP forecast for this year at 2.0%, reflecting the impact of fiscal and credit stimulus policies approved at the end of last year.

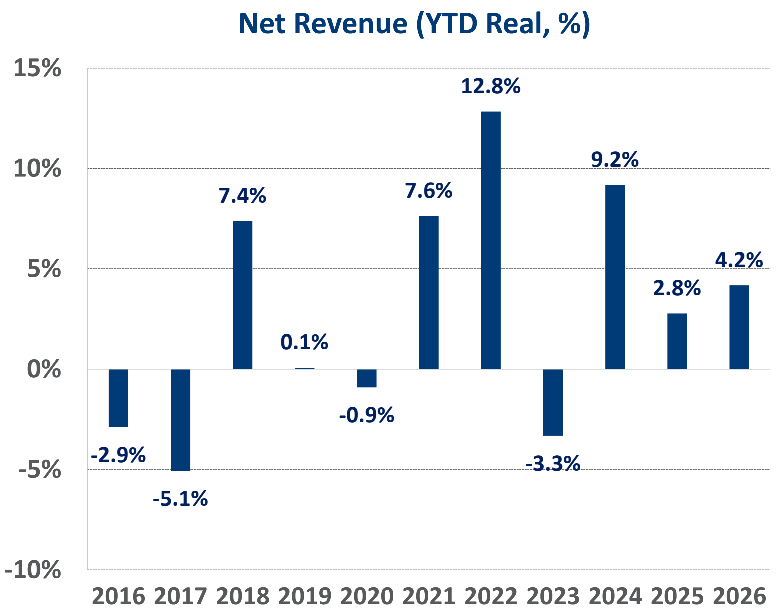
Forecasts				
	2026.I QoQ	2026.I YoY	2026	2027
GDP	1.1%	1.8%	2.0%	1.5%
Agriculture	**4.0%**	**4.5%**	**2.4%**	**5.0%**
Industry	**0.1%**	**0.2%**	**0.8%**	**0.5%**
Mining	1.3%	9.7%	6.6%	2.5%
Manufacturing	-0.6%	-1.8%	-0.5%	0.1%
Electricity	1.0%	0.5%	1.6%	2.7%
Construction	-0.1%	-2.7%	-0.9%	-1.6%
Services	**0.8%**	**2.1%**	**2.5%**	**1.6%**
Retail	0.6%	1.0%	1.1%	0.5%
Transports	-0.5%	1.0%	1.2%	0.3%
Information and Comunication	2.1%	7.1%	5.6%	3.4%
Financial Services	1.0%	4.6%	4.5%	1.9%
Rents	0.4%	1.8%	2.2%	3.0%
Other Services	0.8%	2.5%	3.0%	1.3%
Public Administration	0.1%	0.6%	1.6%	1.5%

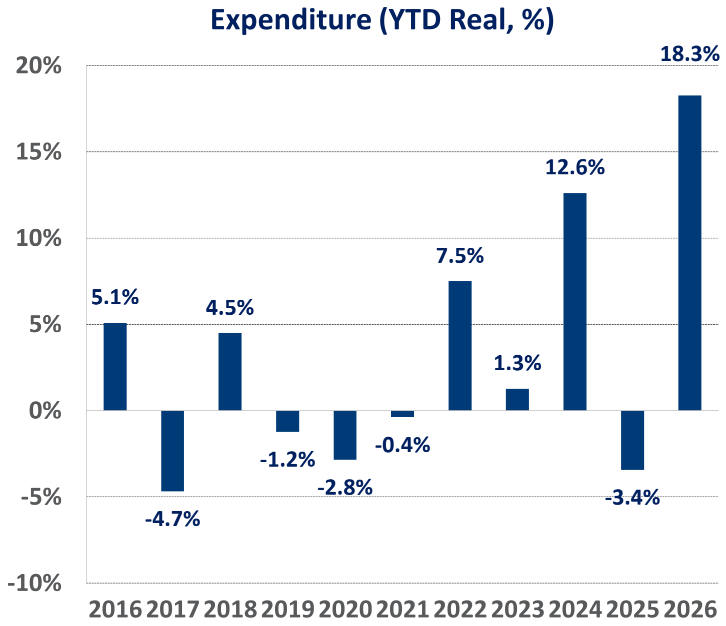
Source: BOCOM BBM, IBGE

Brazil: Central Government Primary Result

- The central government's primary balance posted a deficit of BRL 73.8 billion in March, slightly above market consensus (BRL 72.4 billion deficit), while much worse than the result recorded in the same month last year (BRL 1.6 billion surplus).
- Net revenues grew 7.5% YoY in real terms. Revenue administered by the RFB increased 6.2%, driven by import tax (32.7%), reflecting tax hikes on capital goods, IOF (49.7%), led by tax hikes implemented in 2025 and, IRPJ/CSLL (14.0%), supported by economic activity and lower tax compensation. Social Securities contributions grew 5.8%, as the labor market remains solid. In contrast, revenues not administered by the RFB (non-tax revenues) decreased by 3.1%, due mainly to a 35.4% drop in dividends and shareholding, largely reflecting lower payments from Banco do Brasil and Petrobras.
- Total expenditure rose 49.2% YoY in real terms, driven by court-ordered payments concentrated in March, whereas in 2025 these payments occurred in a different month. Underlying pressures remained firm with social security up 5.9% and personnel 8.2%, alongside a sharp 121.7% increase in discretionary spending, and year-to-date expenditures are up 18.3%, led by social security (+14.4%), discretionary (+59.3%) and personnel (+17.9%), highlighting increasing pressure on the spending cap.
- Looking ahead, tax revenues should remain supported by strong activity and high oil prices, while continued pressure from discretionary spending and benefit normalization is expected to weigh on the primary balance, with projections still pointing to a 2026 that may widen further with new government measures.





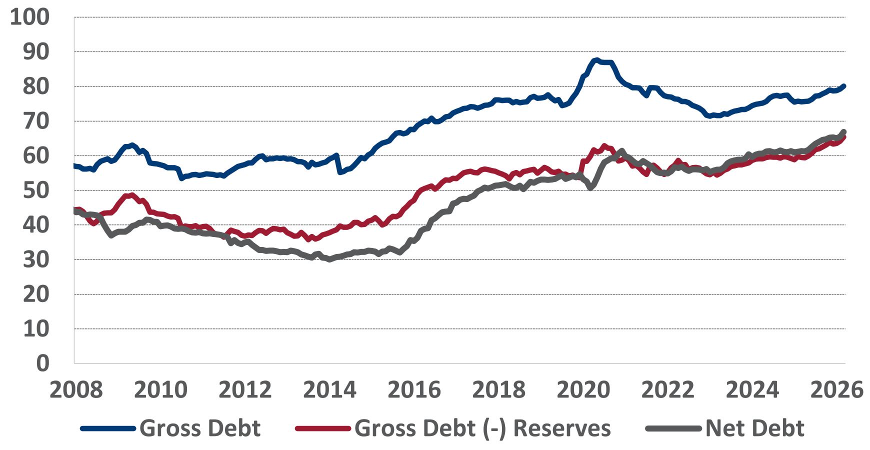


Source: BOCOM BBM, RTN

Brazil: Consolidated Public Sector Budget

- The consolidated public sector posted a primary deficit of BRL 80.7 billion in March, worse than market consensus (deficit of BRL 67.7 billion) and down from the BRL 3.6 billion surplus in the same month of 2025.
- Regarding the breakdown, the central government, regional governments, and state-owned enterprises registered deficits of BRL 74.8 billion, BRL 5.4 billion, and BRL 0.5 billion, respectively.
- General Government Gross Debt (GGGD) rose from 79.2% of GDP to 80.1% of GDP, a change driven by net issuance (+0.4 p.p.) and nominal interest (+0.9 p.p.), which was partially offset by nominal GDP growth (-0.5 p.p.).
- Overall, a negative surprise from regional governments widened the public sector deficit in March, while the central government posted a record deficit for the month, largely driven by court ordered debt payments. Excluding this factor, the BRL 8.2 billion deficit would still be elevated, mainly reflecting stronger discretionary spending typical of electoral years, in line with expectations.

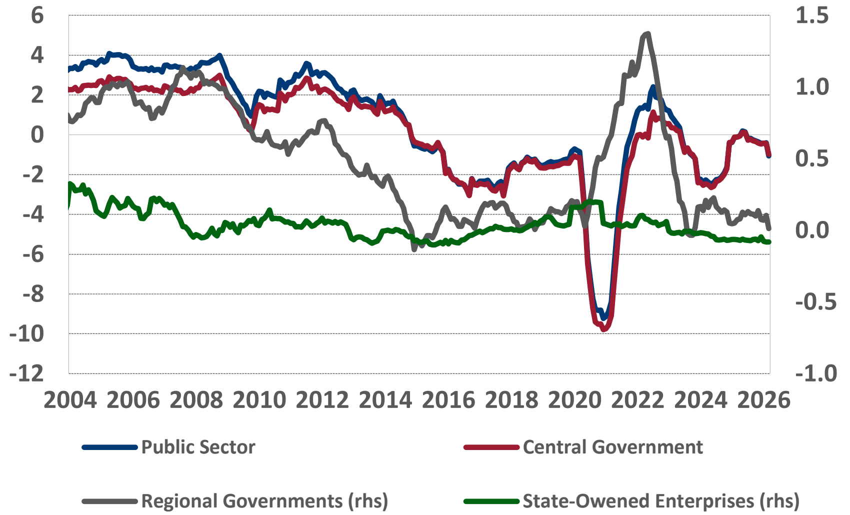
Public Sector Debt (% GDP)



Primary Budget Balance (% GDP 12M)

Central Government (% GDP 12M)

Public Sector Primary Result (% GDP)

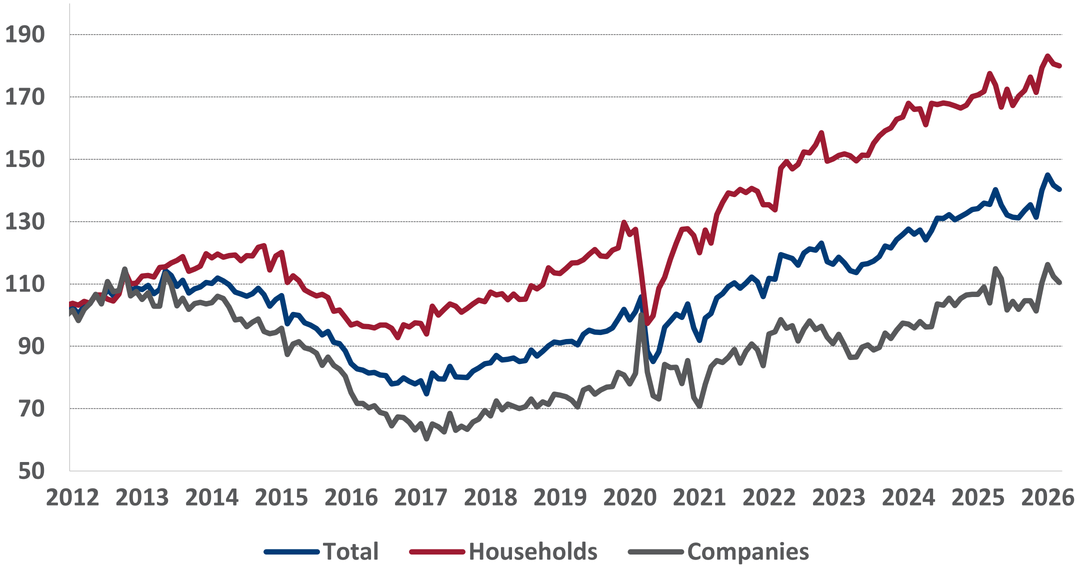


Source: BOCOM BBM, BCB

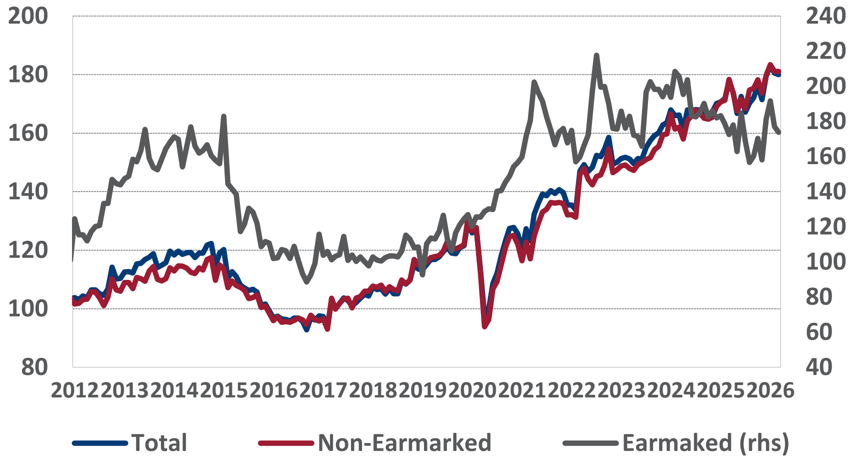
Brazil: Credit Statistics

- In March, total credit concessions fell by 1.0% MoM in real terms, after decreasing by 2.3% in the last month.
- In real terms, non-earmarked credit concessions fell 0.3% MoM to households and contracted by 1.7% to companies in the monthly comparison.
- As in the previous month, credit growth slowed at the margin in March, following months of notable resilience.

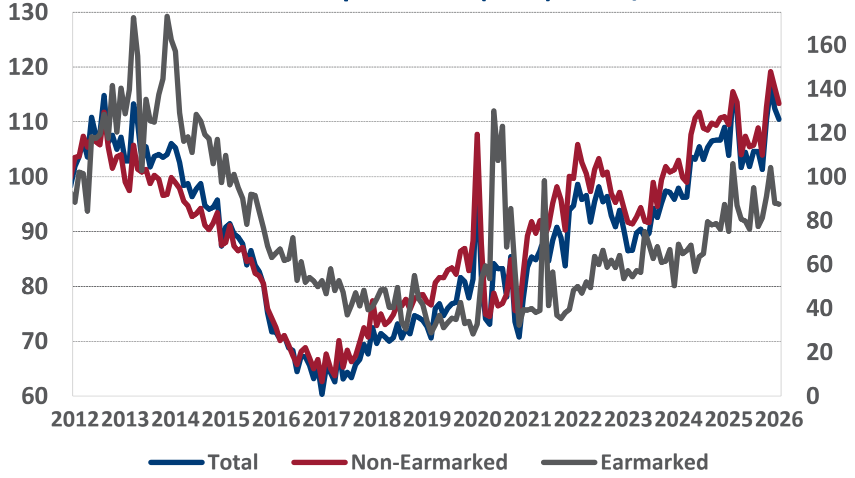
New Credit Operations SA (Real) - mar/11 = 100



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



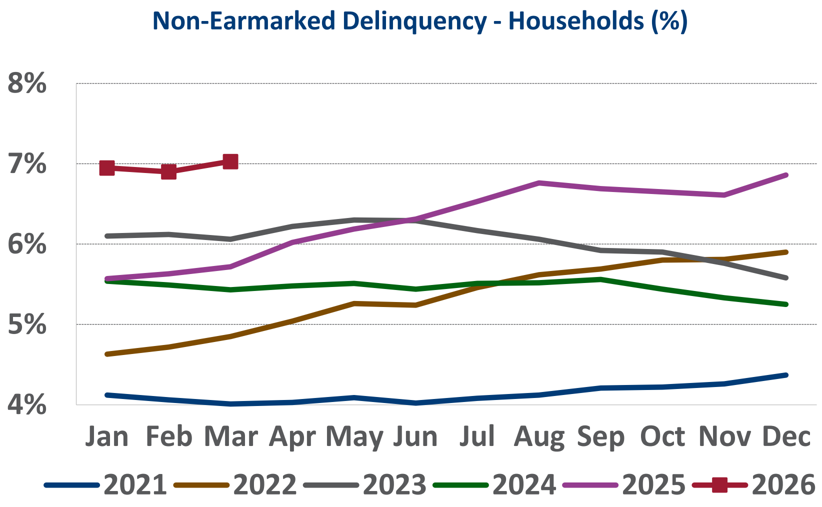
Concessions - Companies SA (Real) - mar/11 = 100

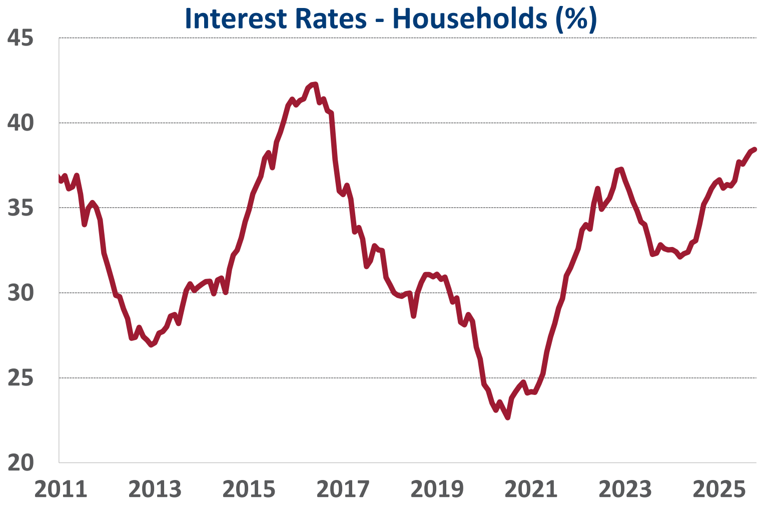


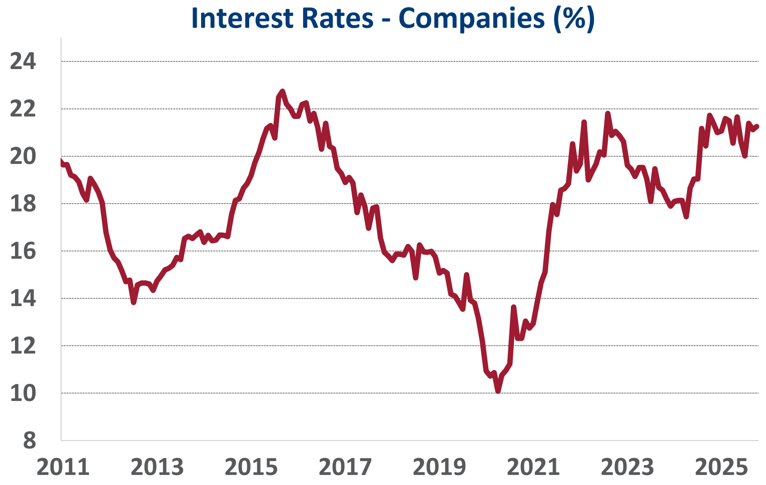
Source: BOCOM BBM, BCB

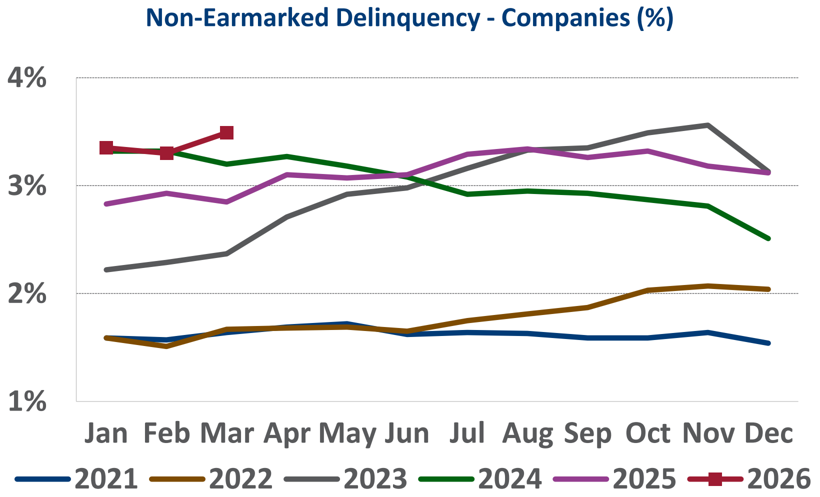
Brazil: Credit Statistics

- Lending rates increased marginally, remaining at high levels for households, reaching 38.43% in March from 38.3% in February, while for companies, rates increased to 21.25% from 21.12%.
- Meanwhile, delinquency on non-earmarked loans for households stood at 7.03% in March, additionally for companies, it expanded from 3.30% to 3.49%.





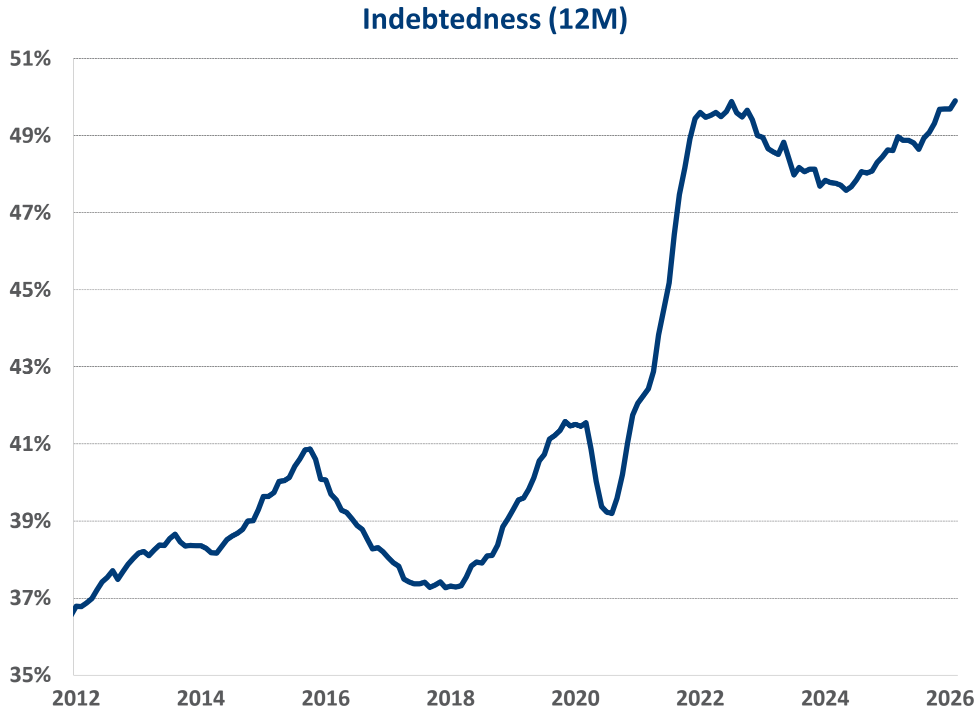


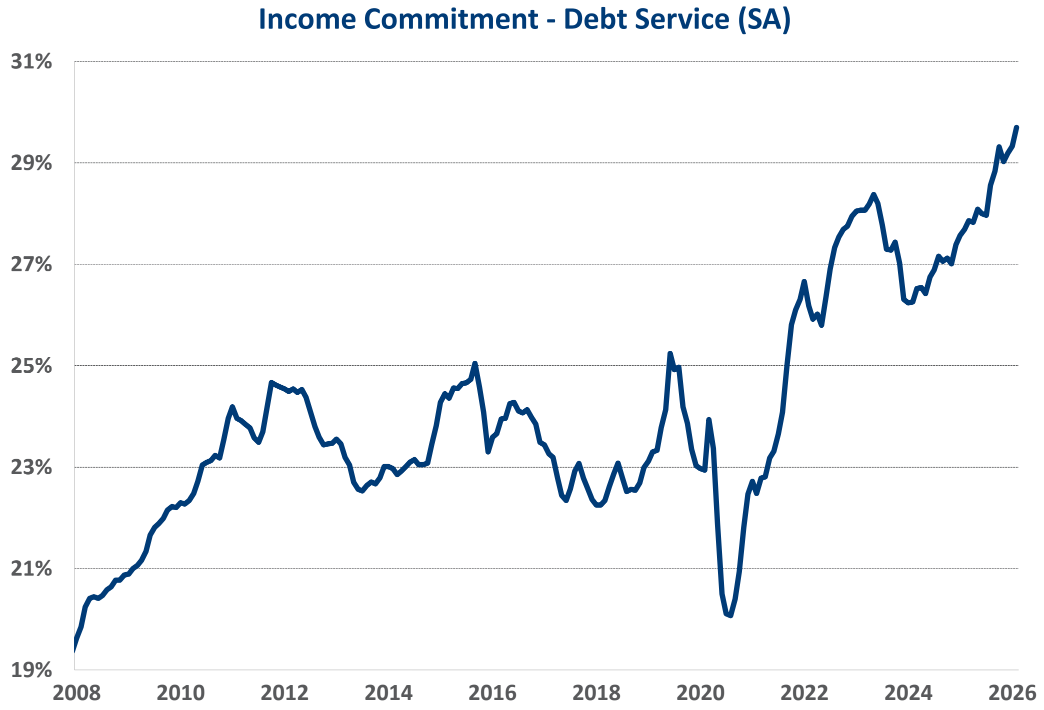


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- Total household indebtedness remains high, standing at 49.9% in February.
- Meanwhile, income commitment rose to 29.7%.
- Credit conditions remain restrictive, reflecting high household indebtedness and income commitment amid still elevated interest rates.



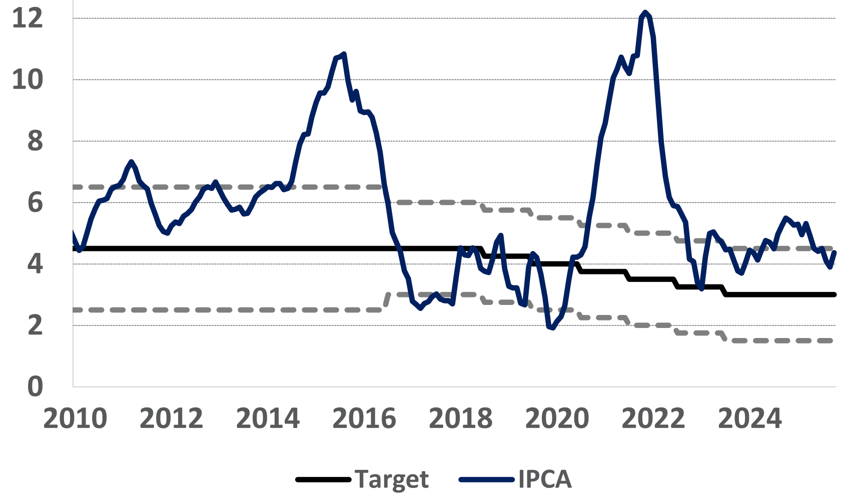


Source: BOCOM BBM, BCB

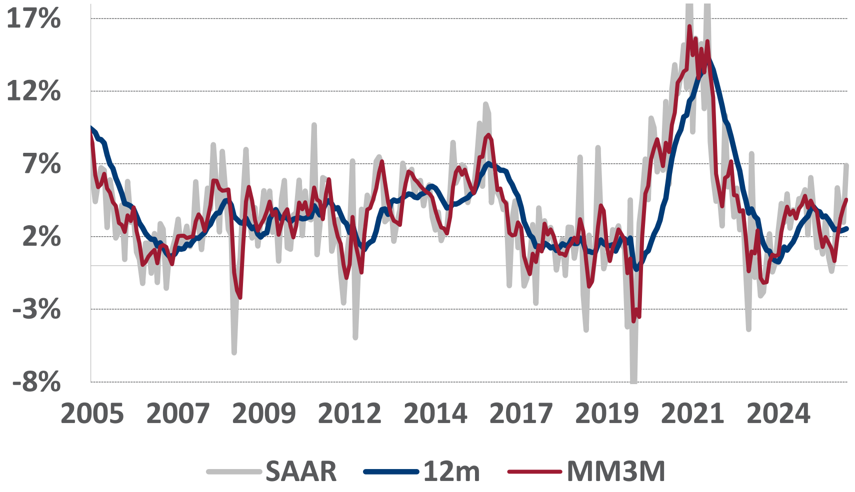
Brazil: Inflation 2026

- April IPCA-15 increased by 0.89% MoM, below market expectations (0.98% MoM). The 12-month accumulated inflation accelerated from 3.90% to 4.37%.
- The main downward surprise to our forecast came from services, mainly airfares, which eased after posting increases in the previous release.
- Core services advanced 0.45% MoM, in line with market expectations, and the 3M SAAR rose from 5.2% to 5.9%.
- The average of core inflation rose by 0.46% MoM, with its 12-month accumulated at 4.3%.
- Looking ahead, April IPCA should remain pressured, reflecting strong food price dynamics and higher fuel costs driven by the Middle East conflict, despite limited relief from services.

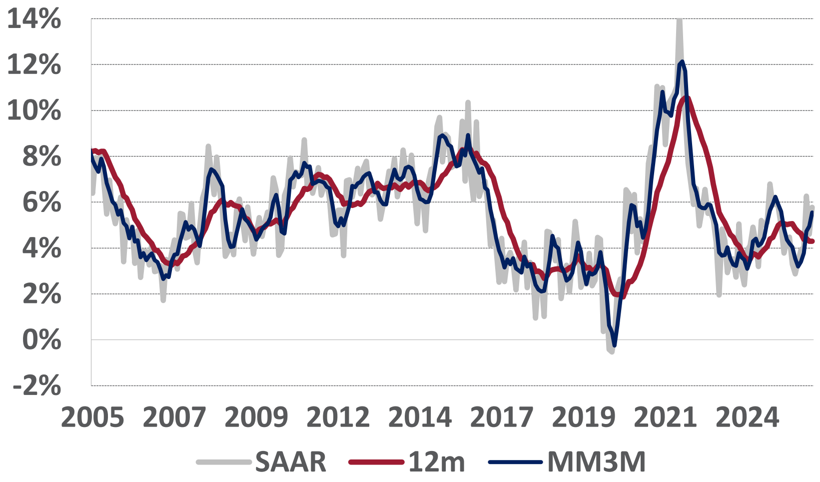
IPCA (YoY, %)



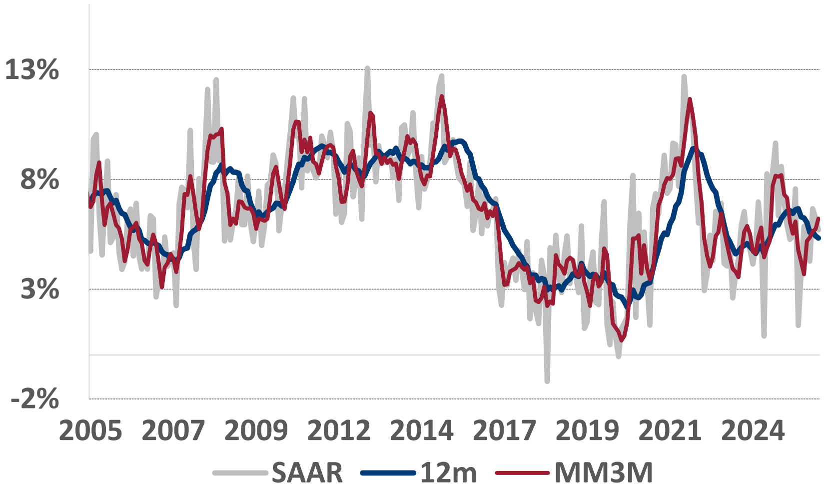
Industrial Goods



Average of Cores



Core Services



Source: BOCOM BBM, IBGE

Brazil: Inflation 2026

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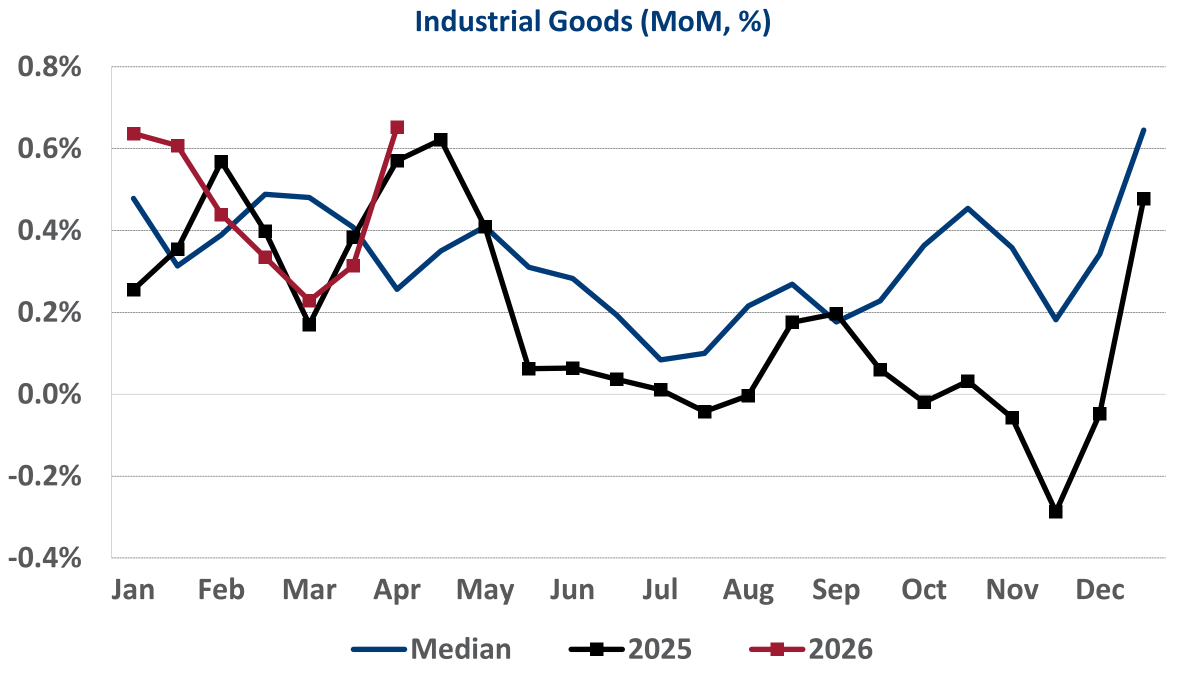
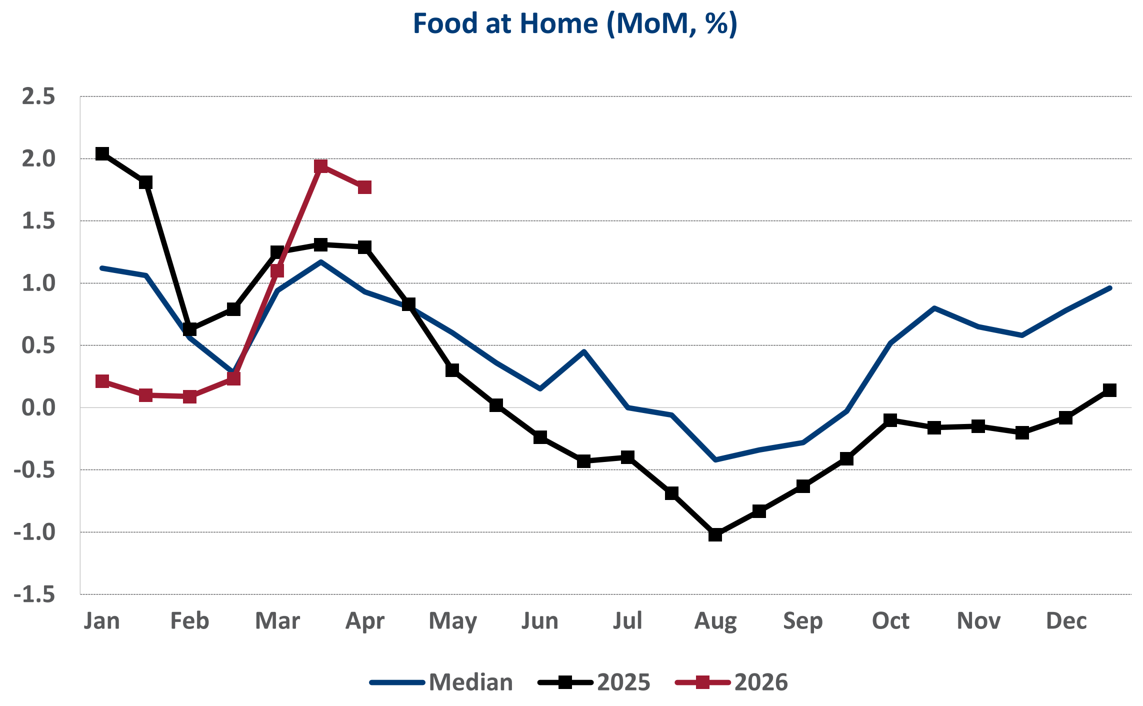
- Industrial goods prices rose 0.65% MoM, well above expectations, while the 3M SAAR accelerated from 3.4% to 3.9% in April.
- Foodstuff prices increased by 1.77% MoM, below expectations (1.83% MoM). The surprise was driven by dairy products, beef and fresh food prices.
- Additionally, the Middle East conflict is driving energy prices higher, adding inflationary pressure and constraining the pace of monetary easing.





Source: BOCOM BBM, IBGE

Brazil: Inflation Outlook

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- We have increased our inflation forecast from 4.3% to 5.0% in response to the rise in fuel and industrial goods prices.

IPCA (%, annual)

	Weight	2020	2021	2022	2023	2024	2025	2026	2027
Regulated	**26.6**	**2.6**	**16.9**	**-3.8**	**9.1**	**4.7**	**5.3**	**5.7**	**3.7**
Industrial goods	**23.6**	**3.2**	**11.9**	**9.5**	**1.1**	**2.9**	**2.4**	**4.3**	**2.0**
Durable goods	10.3	4.5	12.9	6.1	-0.4	1.5	0.5	2.1	-
Semi-durable goods	5.9	-0.1	10.2	15.7	2.7	2.1	3.5	3.0	-
Non-durable goods	7.3	4.0	11.9	9.5	1.7	5.4	3.9	8.2	-
Food at home	**15.7**	**18.2**	**8.2**	**13.2**	**-0.5**	**8.2**	**1.4**	**4.2**	**4.5**
Services	**34.1**	**1.7**	**4.8**	**7.6**	**6.2**	**4.6**	**5.8**	**5.1**	**5.0**
Food away from home	5.6	4.8	7.2	7.5	5.3	6.3	7.0	5.2	-
Related to minimum wage	5.2	1.5	3.3	6.2	5.5	5.2	6.7	5.3	-
Sensitive to economic activity	8.2	0.2	5.1	6.3	9.5	0.9	5.4	4.6	-
Inertial	15.0	1.6	4.2	8.8	5.1	6.0	5.2	4.9	-
IPCA		**4.5**	**10.1**	**5.8**	**4.6**	**4.8**	**4.3**	**5.0**	**3.9**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

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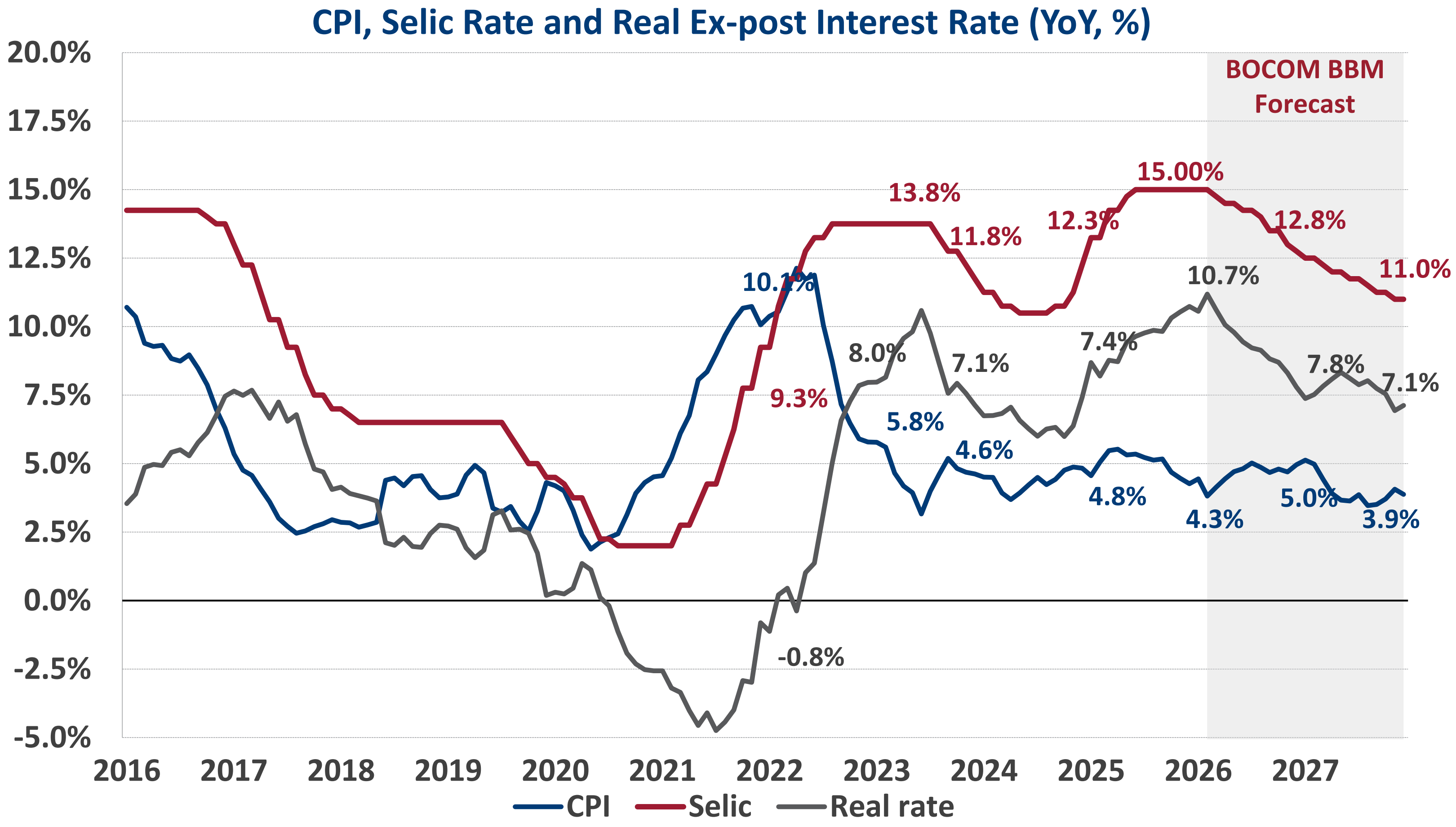
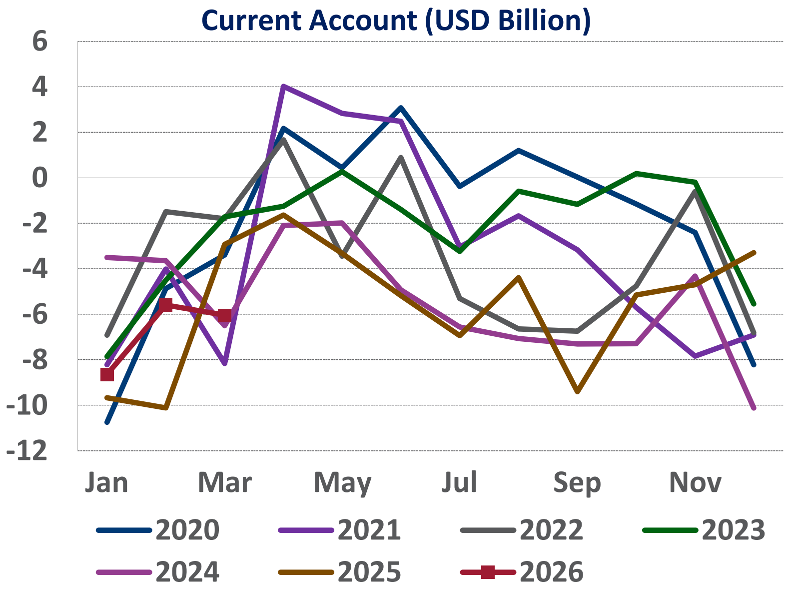
- In the April meeting, the Monetary Policy Committee cut the Selic rate by 25 bps to 14.50%, as expected. The Committee acknowledged that the inflation outlook has worsened, with projections moving further away from the target and rising to 3.5% for the fourth quarter of 2027. At the same time, it emphasized that the current restrictive stance has been effective in cooling activity, preserving room to continue the calibration cycle. Going forward, the pace and extent of easing will remain data-dependent, particularly on geopolitical developments.

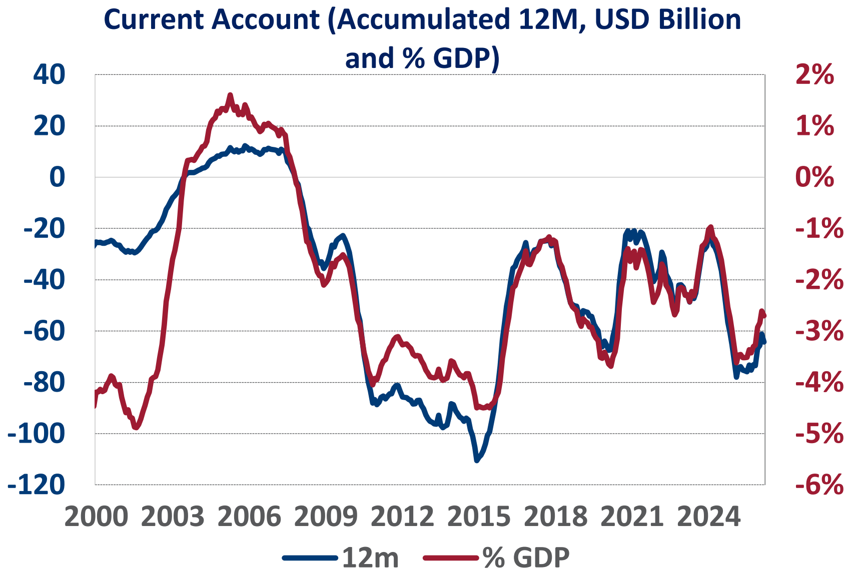


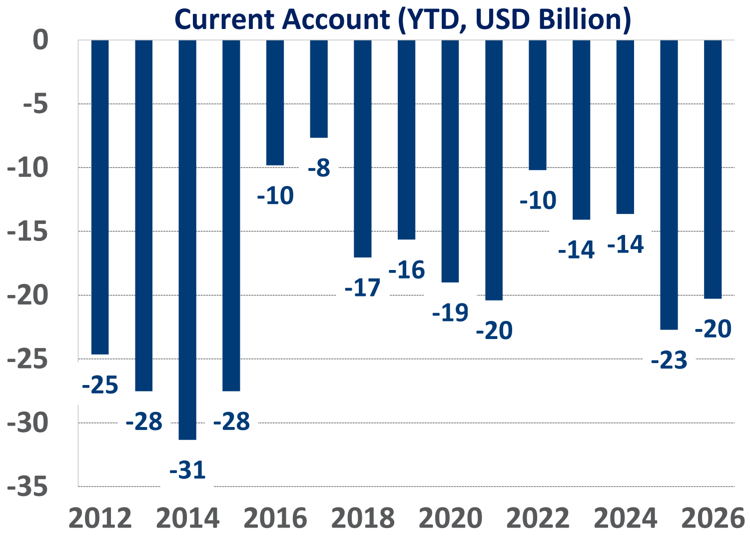
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The Brazilian current account recorded a deficit of USD 6.0 billion in March 2026, below market consensus (a deficit of USD 6.3 billion).
- On a 12-month basis, the deficit widened to USD 64.3 billion (2.71% of GDP), from USD 61.2 billion (2.61% of GDP) last month.





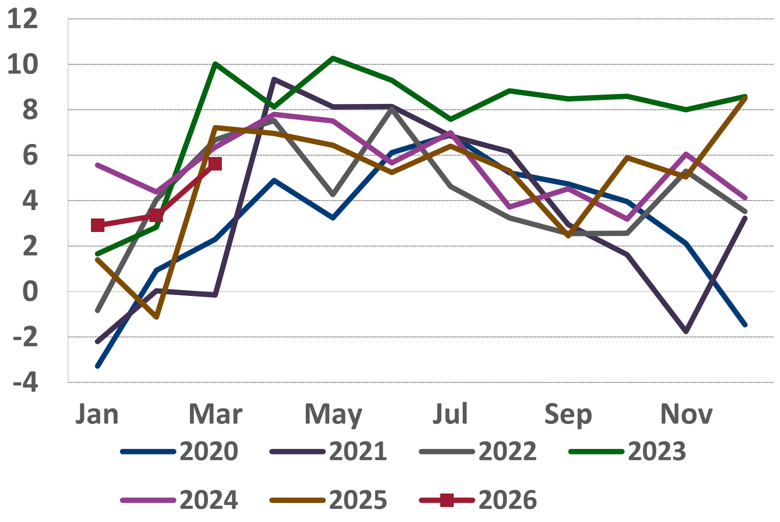


Source: BOCOM BBM, BCB

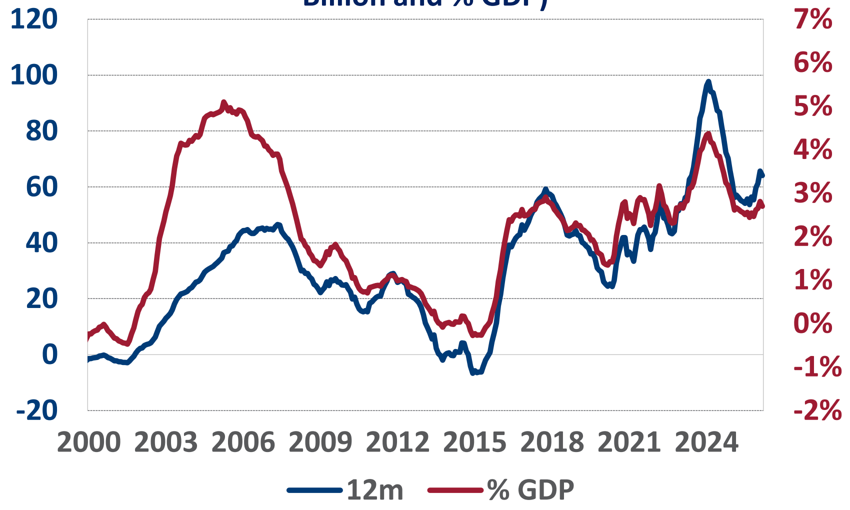
Brazil: Balance of Payments

- The merchandise trade balance posted a surplus of USD 5.6 billion in March, compared to a USD 7.2 billion surplus in the same month last year.
- Exports increased to USD 31.7 billion (9.5% YoY), while imports rose to USD 26.1 billion (19.9% YoY). Export growth was concentrated in commodities, especially crude oil volumes, while the full impact of higher oil prices should materialize ahead due to the usual lag between shipment and customs clearance, supporting stronger trade balance readings going forward.
- On a 12-month basis, the trade surplus decreased to USD 64.1 billion, from USD 65.7 billion in February.

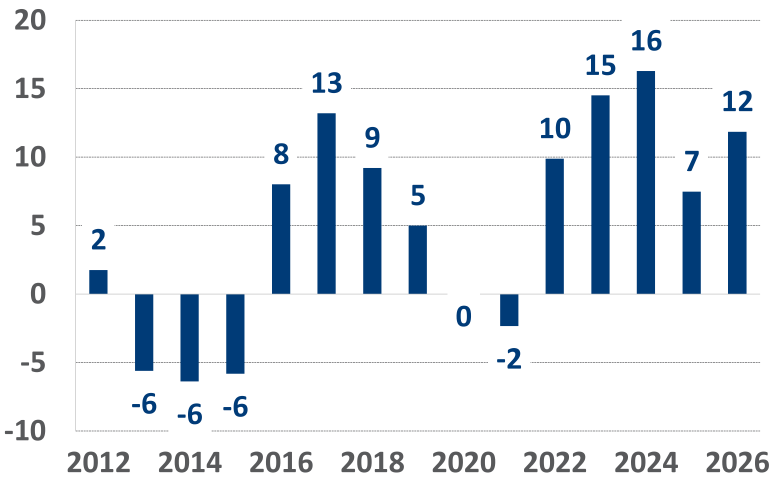
Balance on Goods (USD Billion)



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



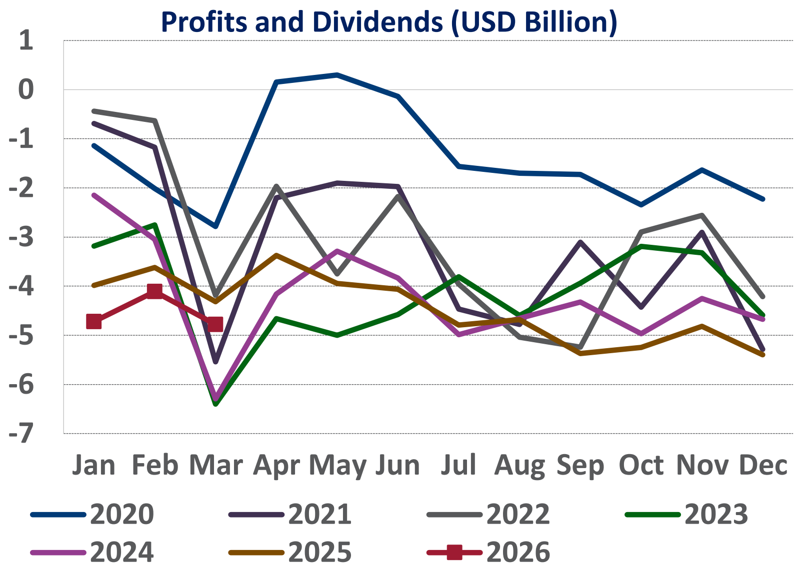
Balance on Goods (YTD, USD Billion)

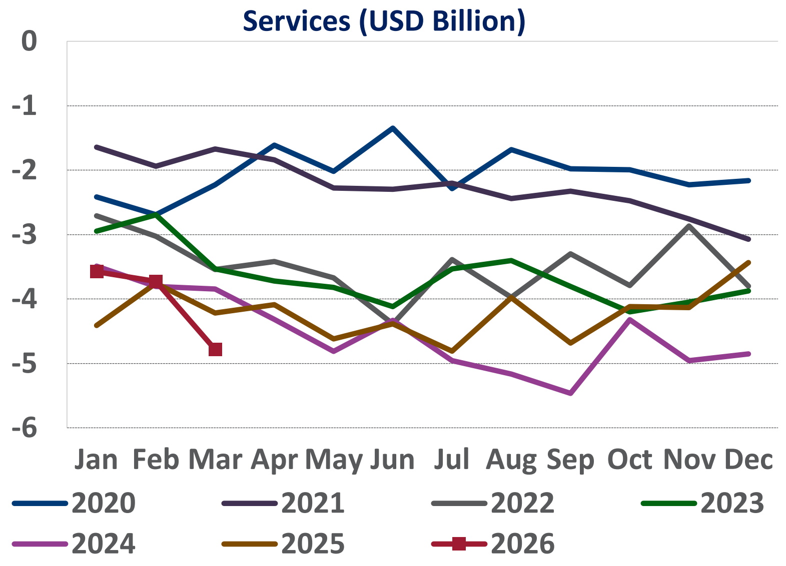


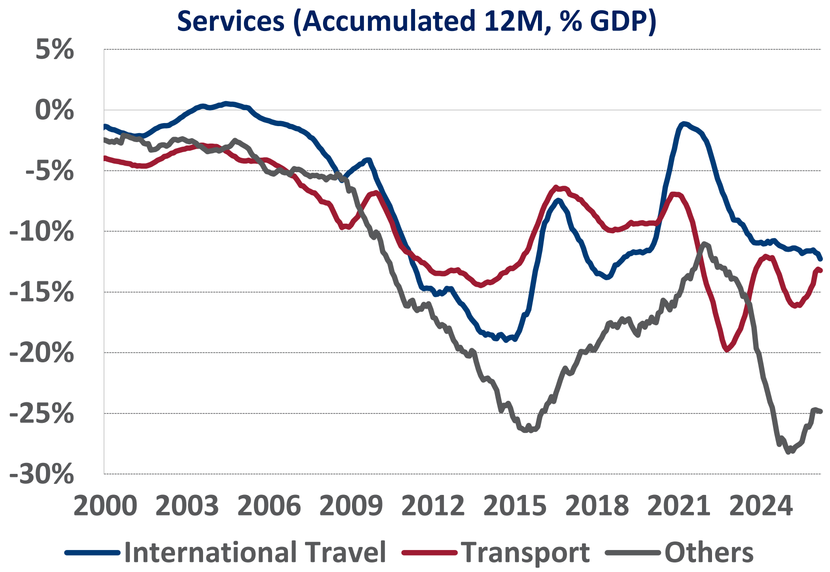
Source: BOCOM BBM, BCB

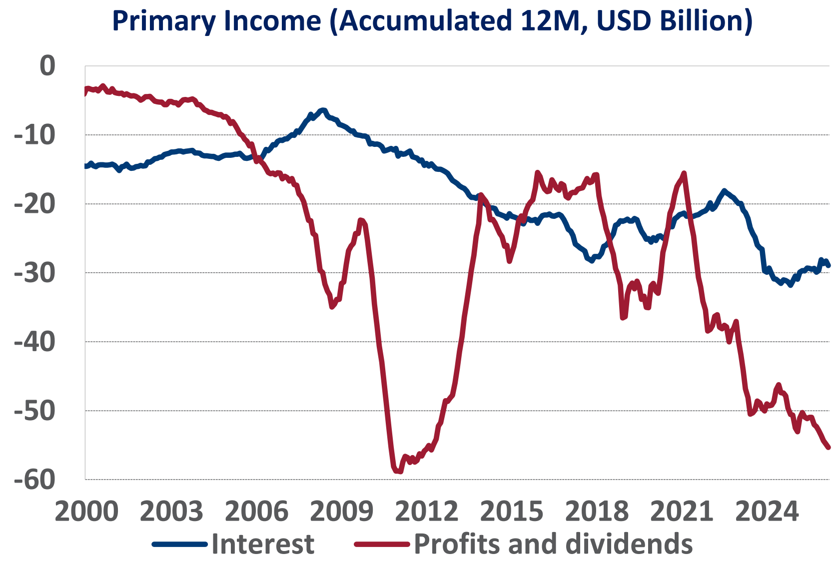
Brazil: Balance of Payments

- Services posted a deficit of USD 4.8 billion in March, slightly worse than the USD 4.2 billion recorded in March 2025. On a 12-month basis, the Services deficit rose from USD 49.8 billion, to USD 50.3 billion in March.
- Higher net travel expenses, still reflecting FX appreciation, were the main driver of the wider services deficit, while rising freight rates began to offset the earlier relief from lower shipping costs.
- Structural components such as intellectual property and telecommunications, together with higher freight costs linked to Middle East tensions, suggest continued pressure on the services balance ahead.





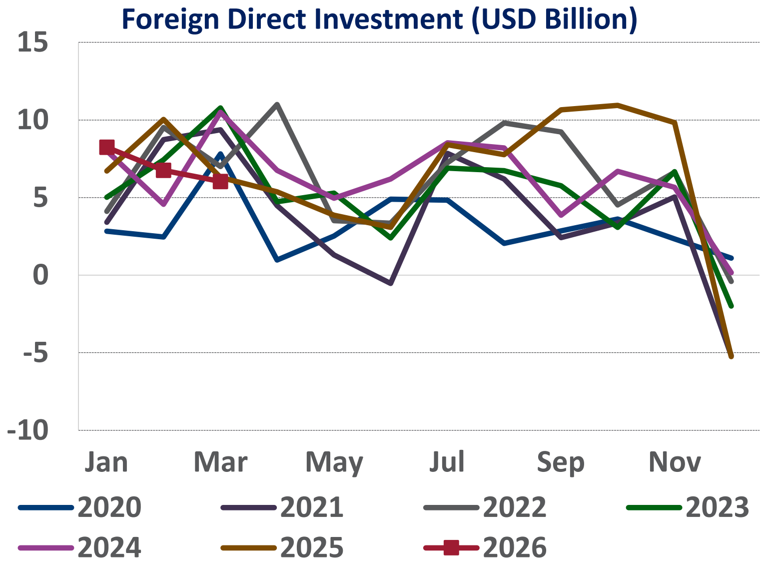


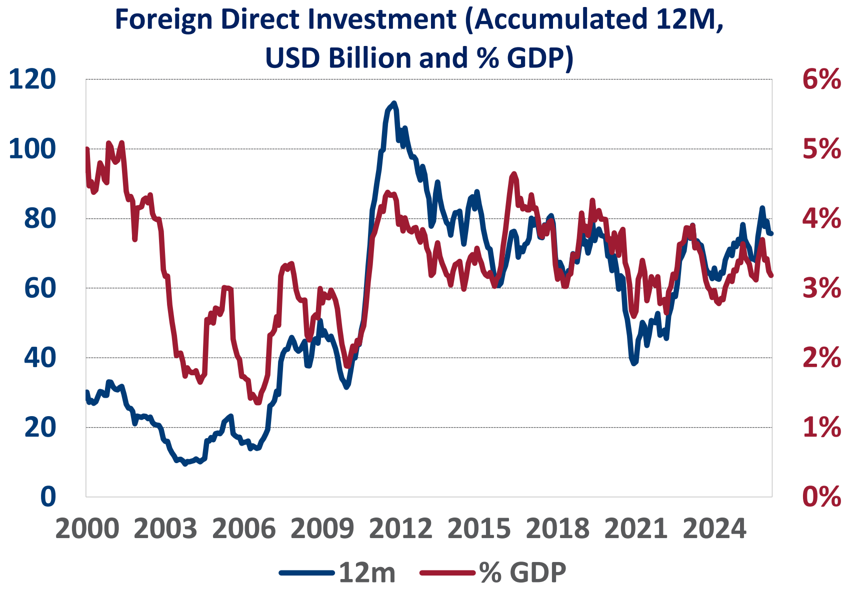


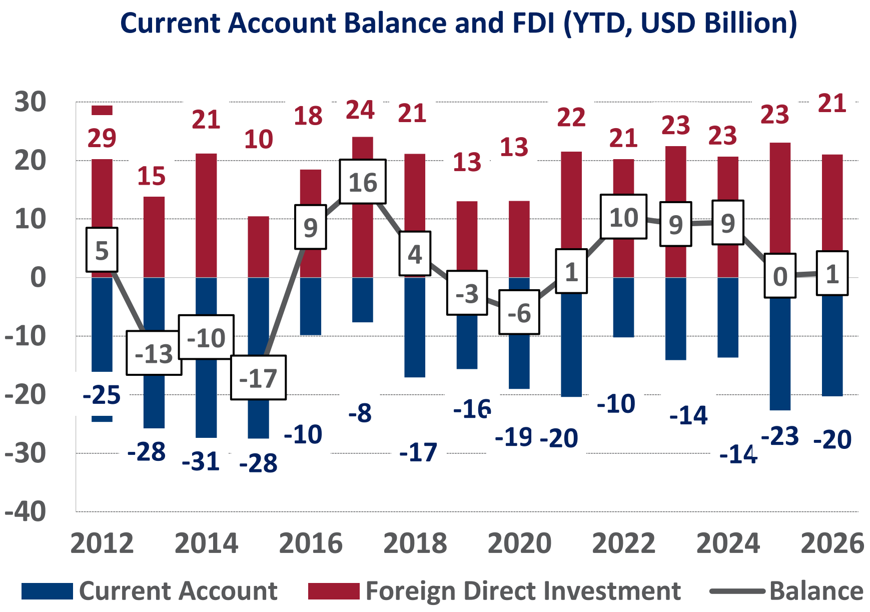
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- Foreign Direct Investment (FDI) registered net inflows of USD 6.0 billion in March, below market consensus of USD 7.0 billion.
- On a 12-month basis, FDI inflows totaled USD 75.7 billion (3.18% of GDP), from USD 75.9 billion (3.24% of GDP) in February.
- Overall Brazil remains well positioned to attract FDI, supported by its diversified industrial base, abundant water resources, and clean energy matrix, which enhance its appeal for data center investments, while large rare earth reserves strengthen its strategic role in global technology value chains despite short-term geopolitical volatility.



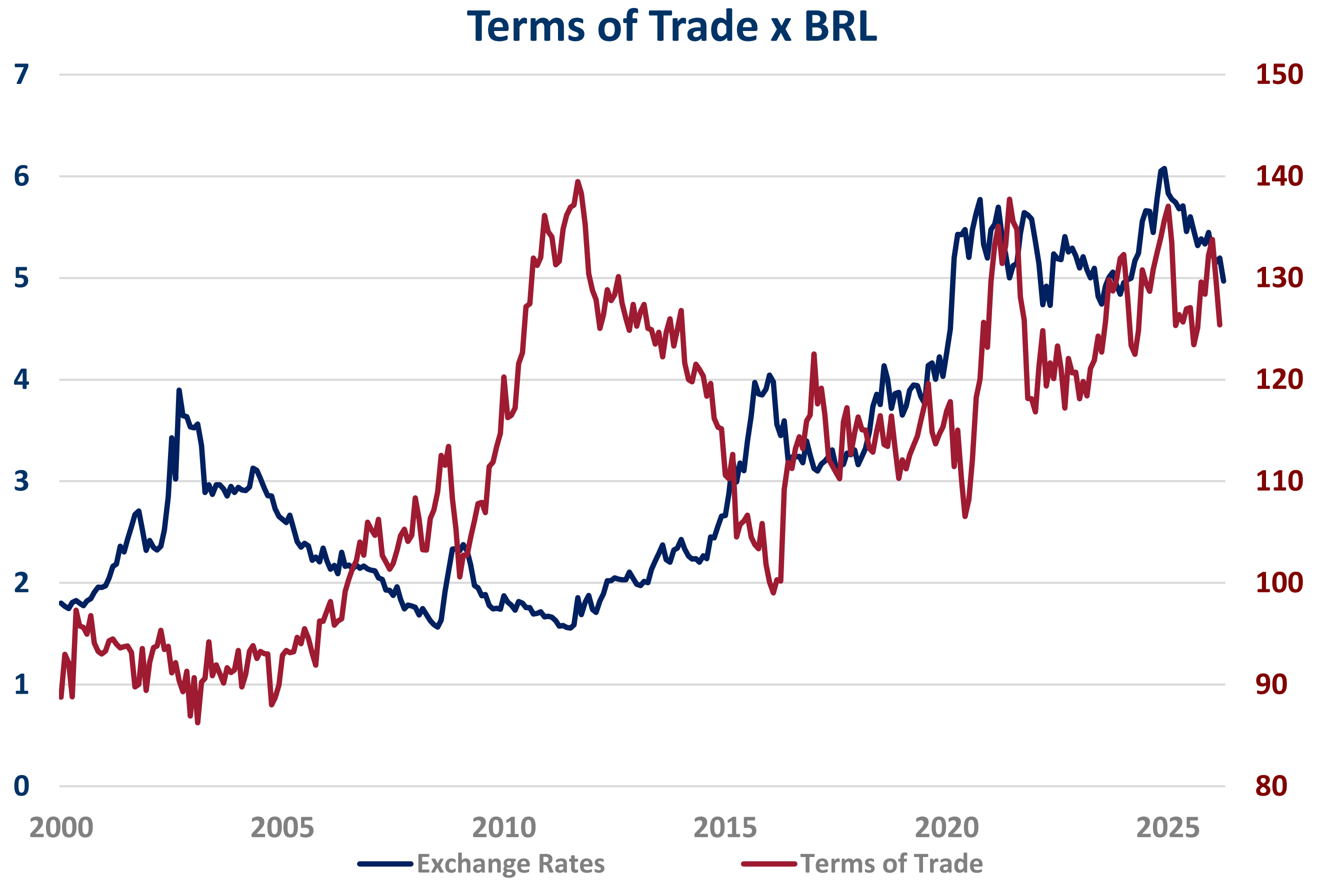


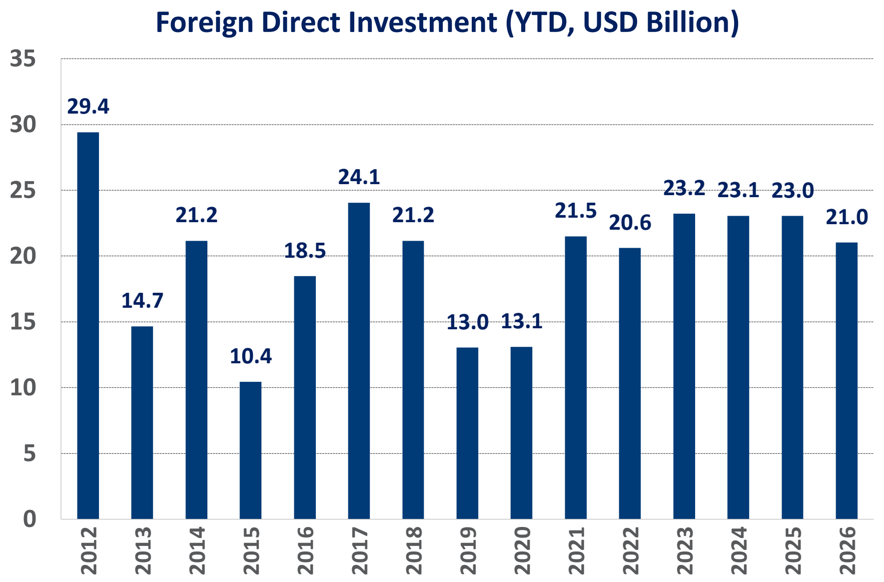


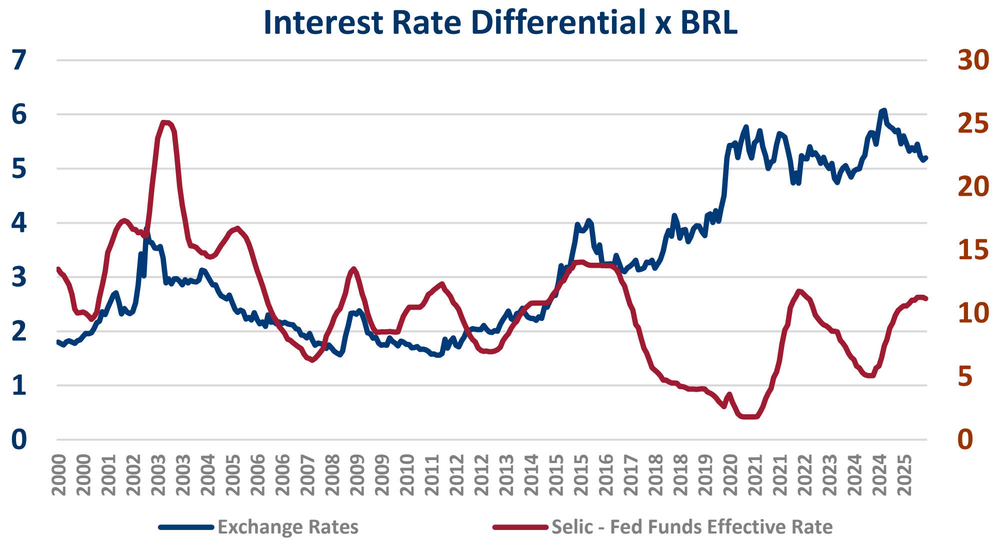
Source: BOCOM BBM, BCB

Brazil: External Sector

- In April, the Brazilian real appreciated significantly, rising from around 5.19 to nearly 4.97 per dollar, reflecting Brazil's relatively favorable position in the global environment due to its status as a net exporter of oil. The improved terms of trade and the high-interest rate differential helped strengthen the currency. Overall, exchange rate dynamics were primarily driven by global financial conditions and short-term positioning, which ultimately determined its behavior throughout April.





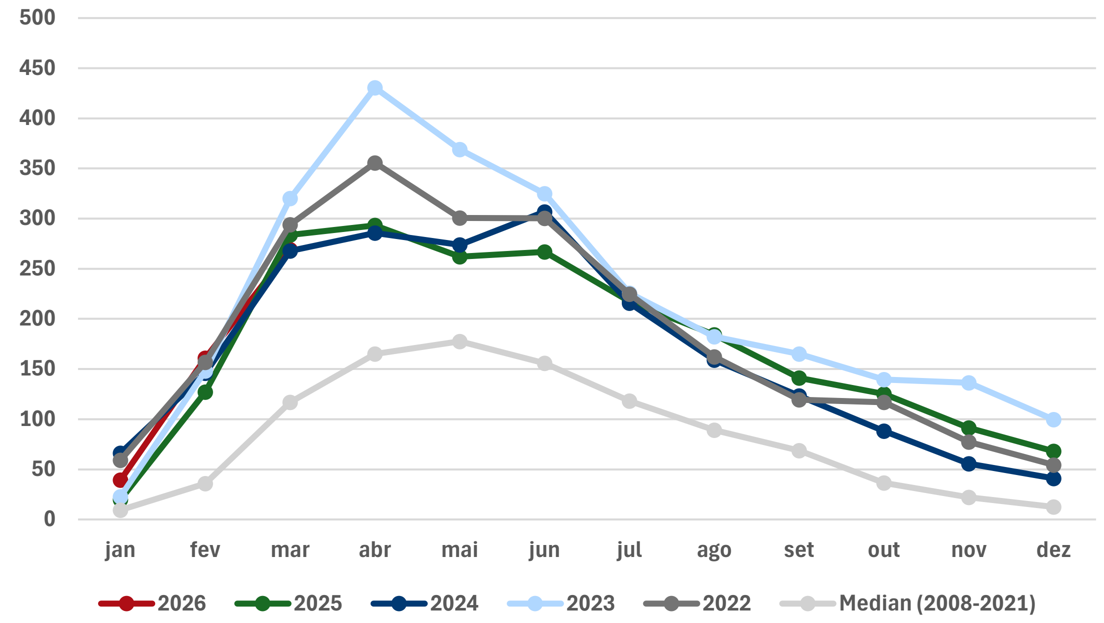


Source: BOCOM BBM, Bloomberg, BCB

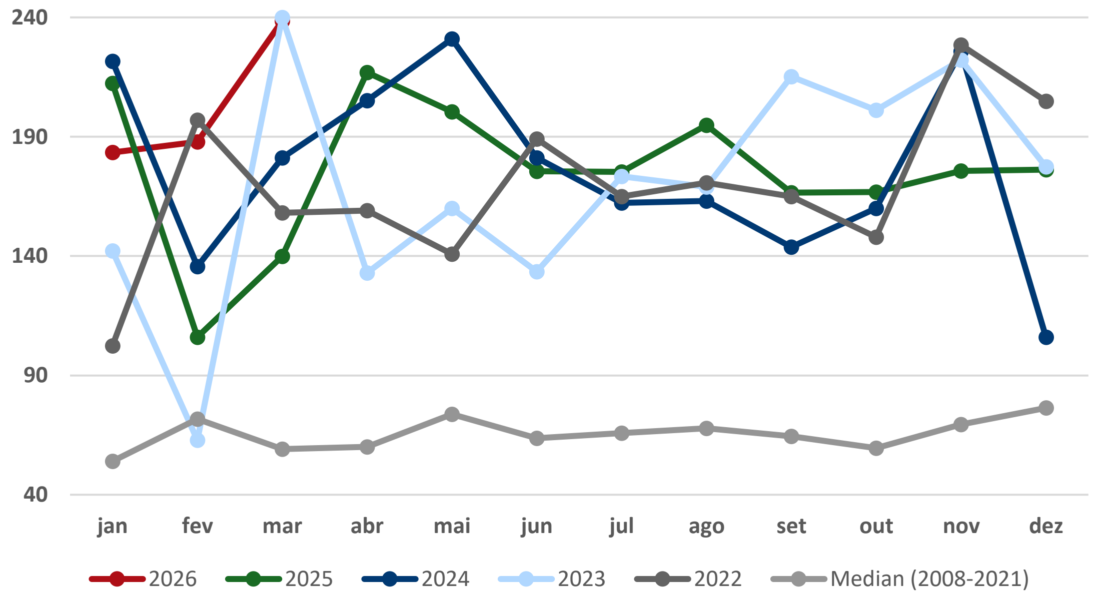
Brazil: External Sector

- In March 2026, exports totaled US$31.60 billion and imports US$25.20 billion, resulting in a positive balance of US$6.40 billion.
- Exports rose 10.0% YoY, mainly driven by higher sales of live animals (excluding fish and crustaceans) (49.4%), raw cotton (33.6%), and soybeans (4.3%) in Agriculture; other base metal ores and concentrates (66.8%), other crude minerals (55.9%), and crude petroleum oils (70.4%) in Extractive Industries; and fuel oils (excluding crude) (30.0%), fresh, chilled or frozen beef (29.0%), and non-monetary gold (excluding gold ores and concentrates) (92.7%) in Manufacturing.
- Meanwhile, imports expanded 20.1% YoY, with increased purchases of whole fish (live, dead, or chilled) (28.9%), fresh or dried non-oil fruits and nuts (26.6%), and soybeans (782.0%) in agriculture; other base metal ores and concentrates (33.7%), crude petroleum oils (19.4%), and coal (59.9%) in extractive industries; and chemical fertilizers (61.0%), other pharmaceuticals (including veterinary) (72.2%), and passenger motor vehicles (204.2%) in Manufacturing.

Brazil BoP: Soy Exports
USD Million Daily Average



Brazil BoP: Crude Oil Exports
USD Million Daily Average



Source: Secex, BOCOM BBM

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