Macro Outlook

August 2026

Macro Outlook

BANK OF COMMUNICATIONS BBM

- In the global scenario, tensions between US and Iran resumed in July, after a ceasefire that lasted around three weeks. Flows in the Strait of Hormuz declined sharply again, and a new front of conflict between Iran-backed Houthis and US ally Saudi Arabia imposed additional risks to oil flows through the Strait of Bab El-Mandeb. Therefore, the conflict continues to increase inflationary pressures and weigh on growth, even as the maintenance of the diplomatic channels leaves the door open for a new ceasefire. In the US, the FOMC decided to hold rates, as the committee continues to assess the economic implications of the conflict for the domestic economy. In the communication, a brief statement absent of forward guidance was maintained and, in the press conference, Chair Warsh highlighted the FOMC's commitment to achieving the inflation target but provided conflicting answers regarding the willingness to raise rates, prompting markets to question his rhetoric. Regarding data, June inflation indicators surprised expectations to the downside, given both a temporary relief in energy prices and broad-based slowing in core inflation. On the labor market, the July payroll was weaker than expected again, with slower job creation, but with a reduction in the unemployment rate, which was partly driven by lower participation rate. On activity, the first estimate of the GDP was lower than expected but with a stronger underlying composition, as private consumption and business investment were solid despite volatility in net exports and inventories. Overall, the economy appears solid, and inflation showed signs of improvement, but the worsening in the geopolitical front and its risks continues to pressure the Fed to tighten monetary policy.

- Regarding China, June data continued to point to a heterogenous growth composition in the economy. External trade and industrial production grew by more than expected, as both continued to be strongly driven by growth in high technology sectors. However, retail sales and fixed asset investment surprised to the downside and continue to suggest a relatively subdued domestic demand. Additionally, June continued to show the impacts of the Middle East conflict on inflation, specially in the producer price index, while growth in the housing sector continued to lag the rest of the economy. Overall, high-tech manufacturing and exports are expected to continue to outperform the rest of the economy, but the re-escalation of the conflict continues to put downside risks to domestic confidence and broader growth.

- In June, industrial production fell 1.8% MoM, below market expectations (-0.9% MoM). Additionally, services contracted 0.4% MoM, below market expectations (-0.1% MoM), while broad retail sales disappointed, falling 0.2% MoM, underperforming market expectations of +0.8% MoM. The broader set of indicators points to signs of moderation in economic activity. Meanwhile, the IBC-Br rose 0.1% MoM, above market expectations (-0.1% MoM). The labor market remained strong in June, with the unemployment rate falling and formal job creation exceeding expectations.

- The COPOM reduced Selic rates from 14.25% to 14.00% per year in its August meeting, as expected. Inflation projections were kept at 3.2% in the first quarter of 2028 in a scenario where rates reach 13,75% in 2026 and 12% in 2027. The balance of risks was also maintained. But since it already had one more upward risk for inflation, the communication now explicitly acknowledged that the balance of risks is asymmetric. While there was some acknowledge that incoming data points to moderation in activity and to improvements in current inflation, there was substantial emphasis and concern about unanchored inflation expectations at longer horizons. In all, the statement acknowledges improvements and challenges moving forward but leaves the door open for the continuation of the easing cycle.

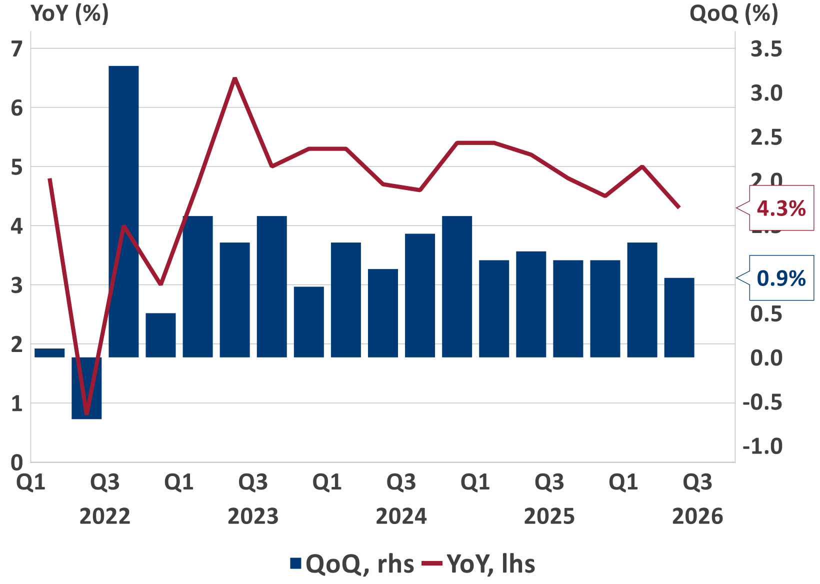
- July IPCA-15 rose 0.06% MoM, well below market expectations (0.22% MoM). Twelve-month inflation declined from 4.80% in June to 4.52% in July. The main downside surprises came from market-set prices, particularly transportation and airfares, while electricity also surprised to the downside. Core services inflation advanced 0.30% MoM, below market consensus of 0.34% MoM. Underlying services 3M SAAR fell from 5.19% in June to 4.60% in July, while the 12-month rate eased from 5.25% to 5.08%. The average of core inflation measures rose 0.21% MoM, while the 12-month rate edged down from 4.35% to 4.26%. Looking ahead, July's IPCA-15 reinforces the view of a gradual and broad-based disinflation process, marking another benign inflation print. While labor-intensive services remain relatively resilient, the moderation across food, core measures, industrial goods and headline services suggests inflation dynamics are evolving more favorably than expected.

- The consolidated public sector posted a primary deficit of BRL 55.3 billion in June, worse than the BRL 47.1 billion deficit recorded in the same month of 2025. The result came in above both market consensus of BRL 49.8 billion. Year-to-date, the public sector has posted a deficit of BRL 80.2 billion, while over 12 months it registered a deficit of BRL 157.2 billion, equivalent to 1.2% of GDP. Regarding the breakdown, the central government, regional governments, and state-owned enterprises posted deficits of BRL 47.2 billion, BRL 6.6 billion, and BRL 1.5 billion, respectively. General Government Gross Debt (GGGD) rose from 81.0% to 81.9% of GDP, driven by nominal interest payments (+0.8 p.p.) and net debt issuance (+0.6 p.p.), partially offset by nominal GDP growth (-0.5 p.p.). Over the past 12 months, GGGD increased by 5.6 p.p., largely reflecting the impact of nominal interest payments (+9.4 p.p.). Meanwhile, Net Public Sector Debt (NPSD) rose by 0.6 p.p. to 68.5% of GDP and accumulated a 5.9 p.p. increase over the last 12 months.

China: Economic Activity

- **China's GDP** grew 4.3% YoY in Q2/26, modestly below the expectations (4.5%) and slowing from the previous month (5.0%). In the composition, the tertiary sector remained the most resilient, while the secondary sector showed the strongest deceleration.
  - The slowing in Q2 GDP was broadly expected given monthly activity indicators, as growth continues to narrow towards selected components in production and trade, especially AI and green tech sectors, but annual growth targets are still broadly on track to be met.
- **Monthly economic activity** continued to show mixed signals in June, after a slower performance in May:
  - **Industrial production** accelerated above consensus, from 4.5% to 5.3% YoY (exp 4.6%). The acceleration continued to be mostly driven by high-technology sectors, including AI-related industries, and renewable energy.
  - **Retail sales** rose from -0.6 to +1.0% YoY, above market expectations of -0.1%, primarily led by cellphones, while growth in automobiles remained at subdued levels.
  - On the other hand, **fixed asset investment (FAI)** fell from - 4.1 % to -5.7% YTD YoY, below market consensus of -4.9%. Intellectual property-product and high-tech investments rose, but not enough to offset the weakness in the property sector. Anti-involution policies (aimed to address overcapacity and deflation) continue to generate weakness in investment.
  - **Housing:** growth in property indicators broadly continued to deepen into negative territory YoY, after some indicators showed modest recovery in recent months.

China: Real GDP Growth (Quarterly)



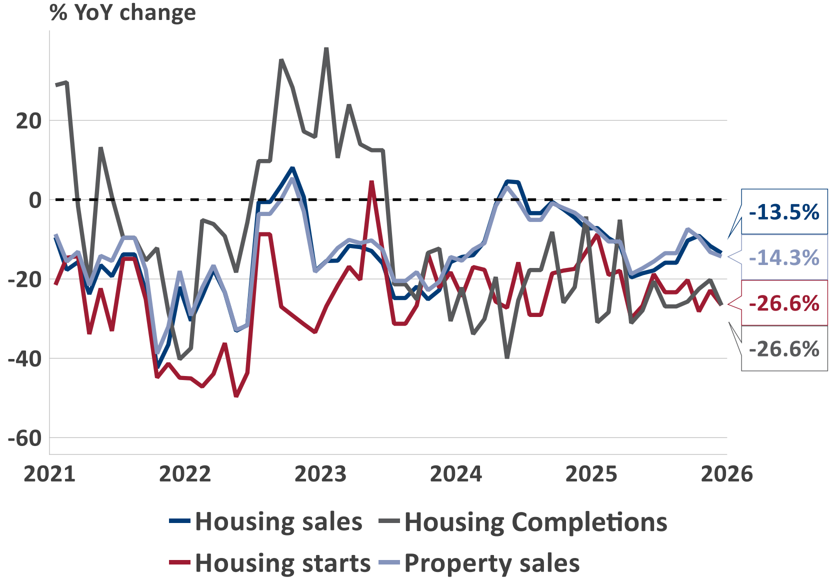
Source: BOCOM BBM, Macrobond, NBS

China: Activity (% YoY)

	6/2026	5/2026	6/2025
Industrial Production	**5.3**	**4.5**	**6.8**
Mining	-2.2	5.1	6.1
Manufacturing	6.0	4.4	7.4
Utilities	7.4	7.6	1.8
Fixed Asset Investment (YTD)	**-5.7**	**-4.1**	**2.8**
Manufacturing	-1.2	-0.4	7.5
Real Estate	-18.0	-16.2	-11.2
Infrastructure	-2.4	0.6	4.6
Retail Sales	**1.0**	**-0.6**	**4.8**
Catering Services	1.2	0.6	0.9
Consumer Goods	0.9	-0.7	5.3
Clothing	3.9	3.8	1.9
Automobiles	-16.1	-16.1	4.6
Furniture	-6.6	-8.7	28.7
Cellphones	16.5	0.7	13.9
Home Appliances	-8.7	-15.6	32.4
Construction	-10.5	-13.6	1.0

Source: BOCOM BBM, Macrobond

China: Property Indicators (YoY)

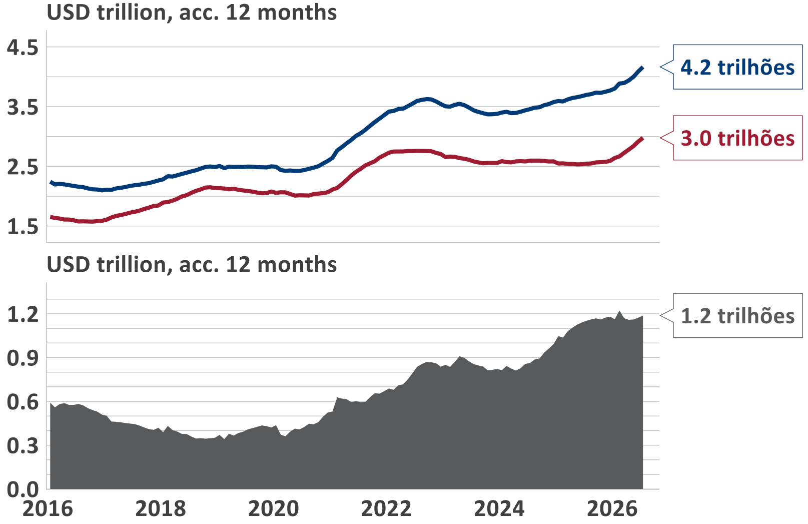


Source: BOCOM BBM, NBS

China: Economic Scenario

- **Trade growth continued to strengthen in June:**
  - **Export growth** accelerated meaningfully, from 19.4 % to 27.0%, against consensus of 18.2%. The increase was broad-based within major partners, with tech goods remaining as the strongest components.
  - **Imports** were also stronger than expected and maintained a strong pace (from 27.4 % to 36.0%, exp. 24.0%). In the composition, these were supported by an improvement in commodity-heavy imports.
- **CPI inflation modestly decreased in June, broadly in line with market expectations** (at 1.0% YoY, vs 1.1% expected):
  - Energy prices remained elevated due to the Iran conflict, but there was a partial offset given the geopolitical improvement in June.
  - **The Core CPI also ticked slightly down**, from 1.1% to 1.0% YoY, as Consumer Goods decelerated marginally.
  - The impacts of higher energy prices are clearer in the PPI, which ticked up again, from 3.9 to 4.1%, in line with market consensus - the fourth consecutive month of positive PPI inflation, after almost 4 years in negative territory.
  - Looking ahead, inflation should continue on a modest trend upwards in the upcoming months, reflecting higher energy prices and anti-involution policies.

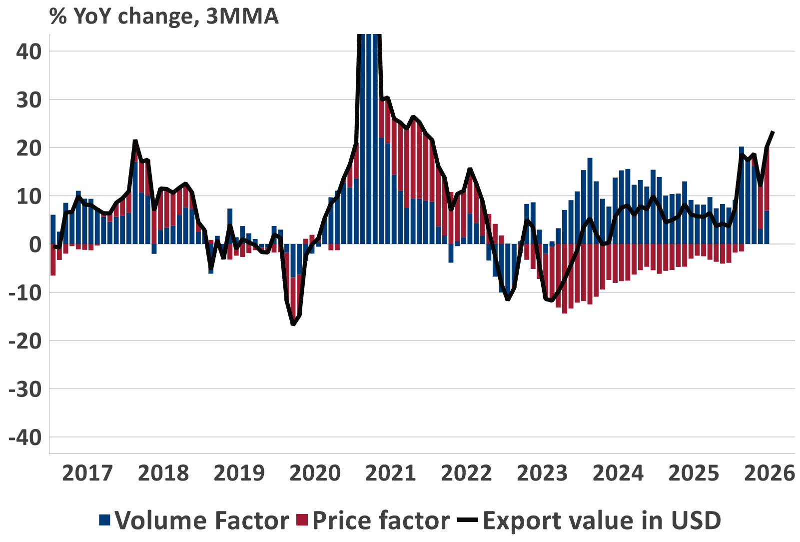
China: Trade Balance



Source: BOCOM BBM, Macrobond, GAC

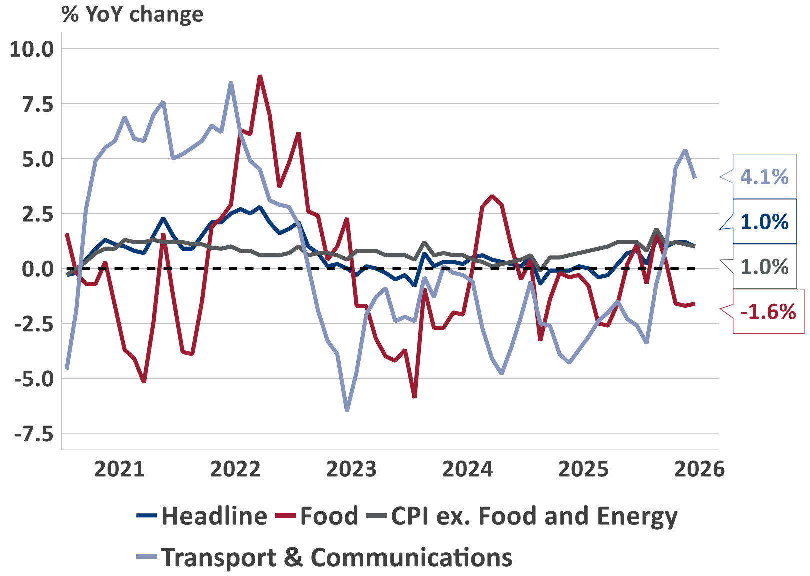
China: Exports (Price x Volume)

Last observation at 6/2026



Source: BOCOM BBM, Macrobond, GAC

China: CPI

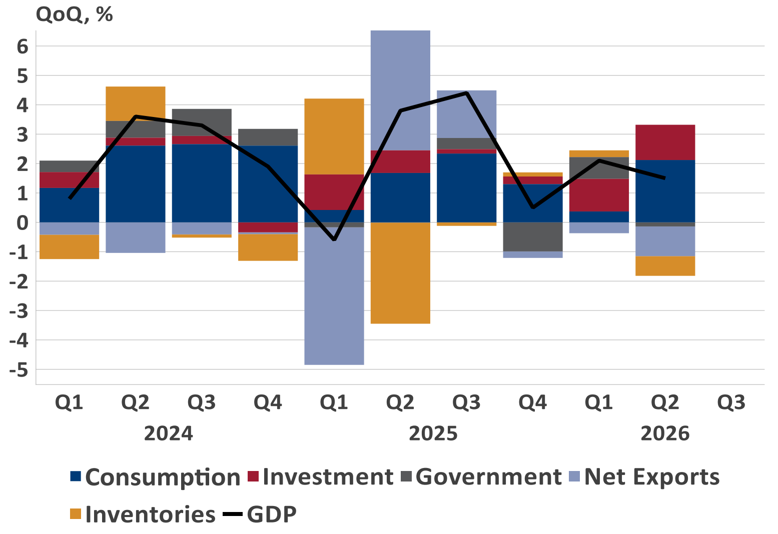


Source: BOCOM BBM, Macrobond, NBS

USA: Labor Market and Activity

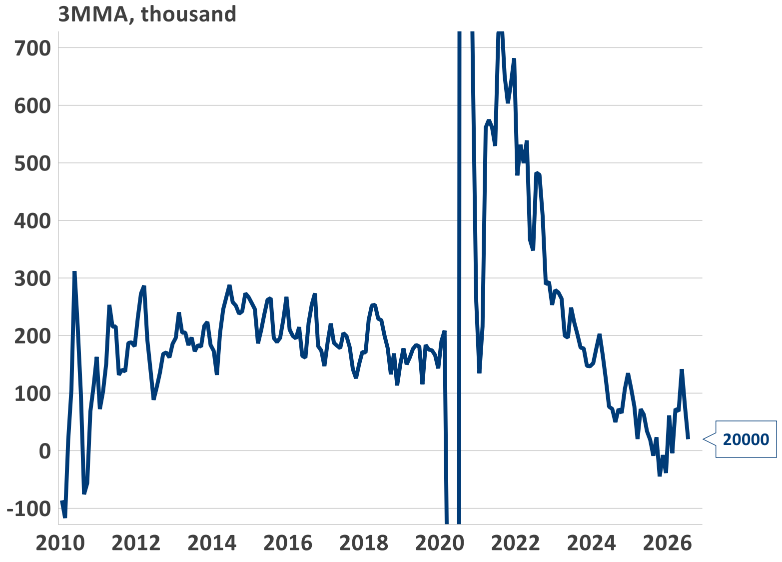
- The **July Payroll surprised expectations to the downside**;
  - **Job creation came in below consensus**, from 20k (after revision from 57k) to -23k, also below expectations of 75k.
  - The 2-month net revision was a meaningful -103k: from 129k to 63k in May and from 57k to 20k in June.
    - This took the 3MMA pace of job creation down to 20k, from 87k in the previous month (111k prior to revision).
  - In the composition, government payrolls drove this month's slowdown, from -10k (after revision from +8k) to -53k (vs. 0k expected), while private payrolls were also below consensus, stable at 30k vs 75k expected.
  - In the other hand, the unemployment rate unexpectedly decreased again, from 4.2% to 4.1%, against consensus for increasing to 4.3%. But the move was partly driven by a drop in the participation rate;
  - Average hourly earnings rose 0.05% MoM, considerably below its recent trend and market consensus of 0.3%
    - It suggests considerable slowing in wage pressures, pointing to downside risks to other Wage Growth Measures;
- Overall, the July payroll had a **weaker than expected composition**, **slowing its recent trend**, making it the second consecutive downward surprise to market expectations. Despite other labor market indicators showing relative resilience, it adds downside risks to the sector.
- Regarding activity, **the Q2 GDP grew by less than expected** (1.5 vs 2.0 exp) in the first estimate. But **the underlying composition was stronger**, with stronger Consumption and Investment, while volatility in Net Exports and Inventories dragged the total lower.
  - Looking ahead, the economy is expected to remain at a solid pace, with the continuation of the AI cycle and resilient consumption supporting domestic demand.

US: GDP Growth



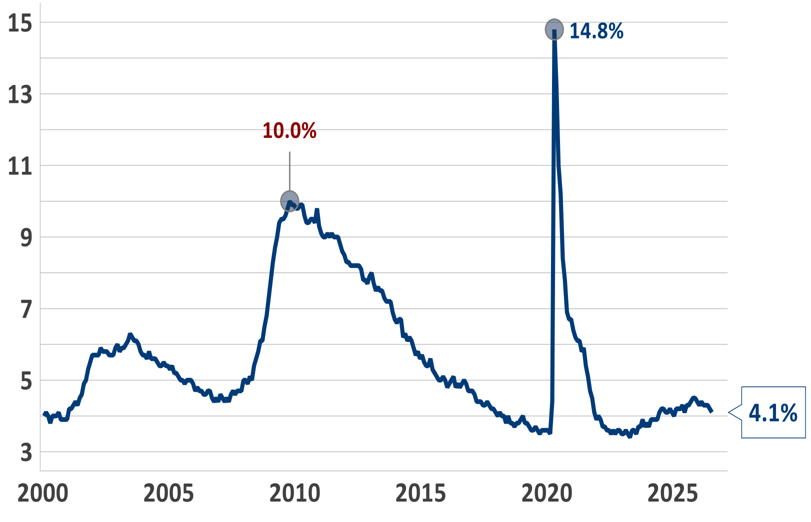
Source: BOCOM BBM, Macrobond, BEA

US: Nonfarm Payroll Employment Change



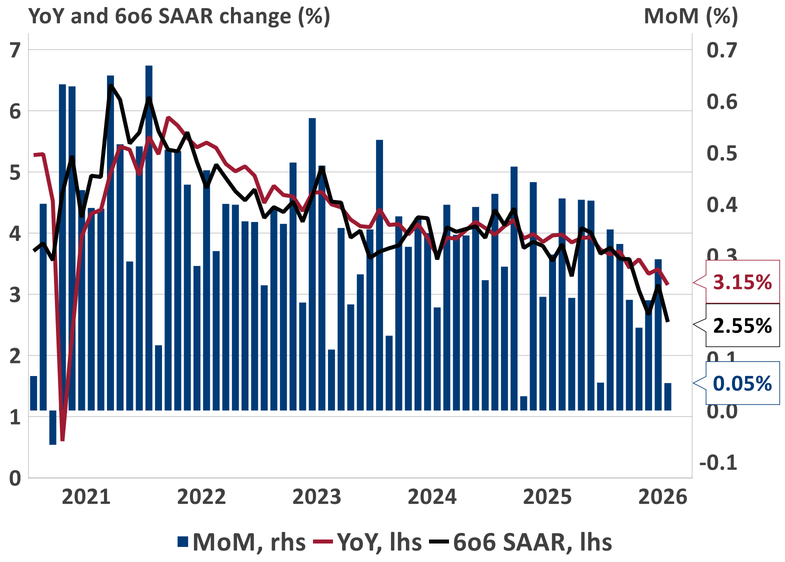
Source: BOCOM BBM, Macrobond, BLS

US: Unemployment Rate SA (%)



Source: BOCOM BBM, Macrobond, BLS

US: Average Hourly Earnings Growth (%)

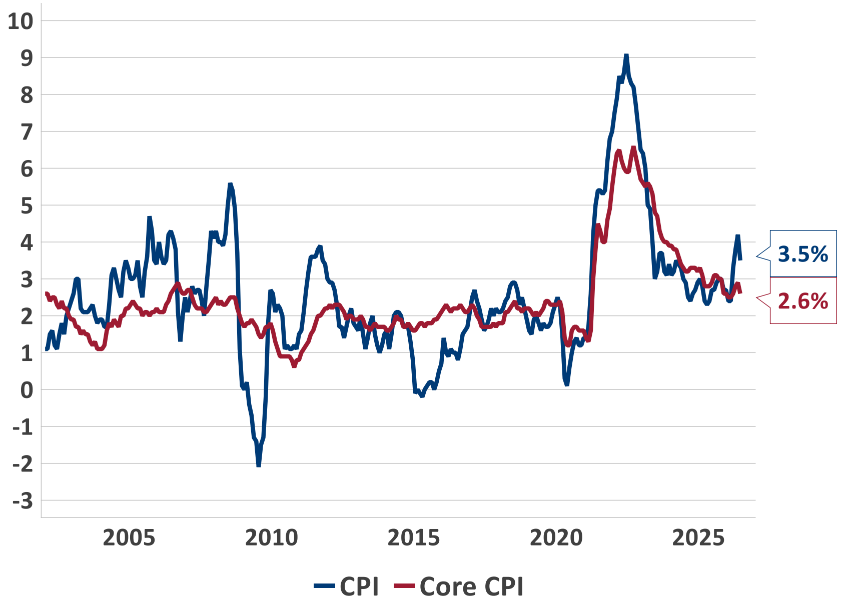


Source: BOCOM BBM, Macrobond, BLS

USA: Inflation

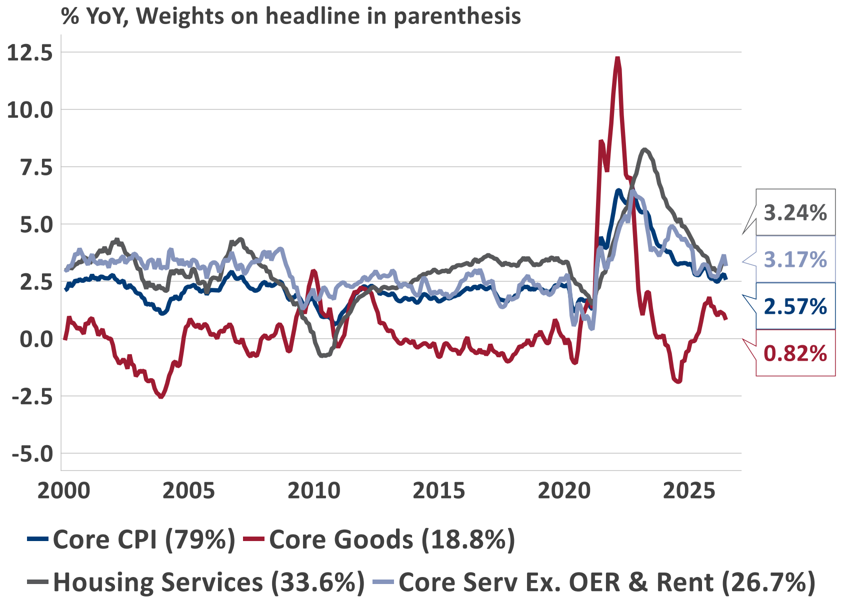
- The **headline CPI slowed** from 0.47% to -0.42% MoM, significantly below expectations, reversing part of the increases from the Middle East conflict. This led the YoY to slow from to 4.2 to 3.5%:
  - In the composition, energy prices decreased by even more than expected (from +3.9% to -5.7% MoM, vs -5.3% exp), and food prices were a bit weaker than consensus.
- The **core CPI also slowed by more than expected, from 0.21% to -0.02% (vs 0.22% exp**), lowering the YoY rate from 2.9% to 2.6%:
  - Core goods stayed at negative levels, from -0.11 to -0.09% MoM (vs -0.02% exp). Core goods excluding vehicles were also negative. These remain on a downward trend, showing optimistic signals after tariff pressures led to a peak in the end of 2025.
  - Core Services were the biggest surprise in the release, slowing from 0.29% to 0.03%, against expectations of stability at 0.30%, especially due to a significantly weaker core services ex-housing (supercore), from 0.27 to -0.21% (0.34% expected), amid weak vehicle insurance and airfares.
- **Overall, the June CPI showed notable improvement in the inflation trajectory**, not only in energy but also in the core - suggesting conflict-related inflation hasn't meaningfully spilled over to core inflation until the moment:
  - Nonetheless, the current trend remains elevated, and the recent re-escalation brings additional risks to the upcoming months, keeping discussions of a rate hike in 2026 alive.

US: CPI (YoY, %)



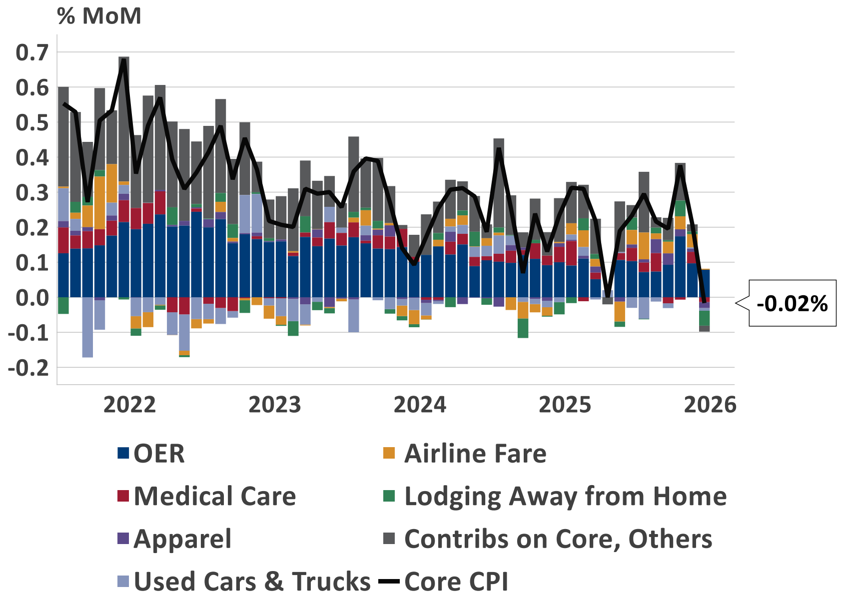
Source: BOCOM BBM, Macrobond, BLS

US: Core CPI Main Components (%)



Source: BOCOM BBM, Macrobond, BLS

US: Core CPI MoM Contributions

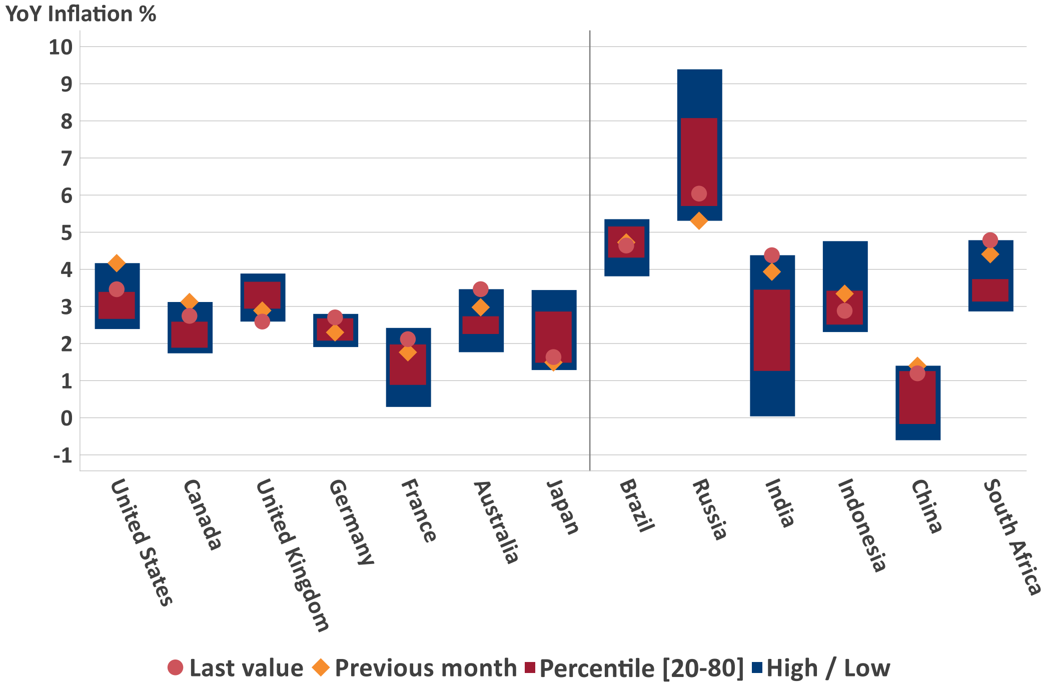


Source: BOCOM BBM, Macrobond, BLS

Global: Inflation & Activity

- **With the re-escalation of the Middle East conflict, the geopolitical shock from the Middle East conflict kept affecting trade flows and disrupting global supply chains;**
- **These impacts continue to drive expectations of elevated inflation and slower activity in most economies**, even as impacts have been heterogenous based on exposure to the conflict and domestic fundamentals.
- Nonetheless, **global activity is expected to count with some resilience buffers**, especially from the strong AI investment cycle, significant monetary policy easing in recent years and the boost related to increased fiscal easing. **The impacts 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

	Q2 2026	Q1 2026	Q4 2025	Q3 2025	Q2 2025	Q1 2025	Q4 2024	Q3 2024
Argentina		0,7	1,2	0,1	0,3	0,8	1,9	3,6
Australia		0,3	0,9	0,4	1,0	0,3	0,4	0,3
Brazil		1,1	0,3	0,1	0,3	1,3	0,1	0,9
Canada		0,0	-0,2	0,5	-0,2	0,7	0,7	0,8
China	0,9	1,3	1,1	1,1	1,2	1,1	1,6	1,4
Euro Area	0,4	0,6	0,2	0,3	0,0	0,6	0,3	0,5
France	0,2	-0,1	0,3	0,4	0,3	0,2	0,0	0,4
Germany	0,2	0,4	0,3	0,0	0,0	0,1	0,2	0,1
India		3,7	12,4	0,0	-7,4	3,8	12,8	-1,4
Indonesia	3,7	-0,8	0,9	1,4	4,0	-1,0	0,5	1,5
Italy	0,2	0,3	0,3	0,2	0,0	0,3	0,1	0,0
Japan		0,5	0,2	-0,6	0,3	0,5	0,3	0,7
Mexico	1,5	-0,6	0,7	-0,1	0,3	0,6	-1,1	1,1
Russia		-0,6	0,4	0,0	0,3	-0,4	0,9	0,5
Saudi Arabia	-8,2	-2,5	3,9	2,4	-0,7	-0,4	3,9	1,6
South Africa		0,5	0,4	0,3	0,8	0,1	0,4	-0,3
South Korea	0,6	1,8	-0,1	1,4	0,6	-0,2	0,2	0,1
Turkey		-16,4	1,7	12,2	7,4	-15,6	2,1	13,1
United Kingdom		0,6	0,1	0,1	0,2	0,6	0,4	0,2
United States	0,4	0,5	0,1	1,1	0,9	-0,2	0,5	0,8

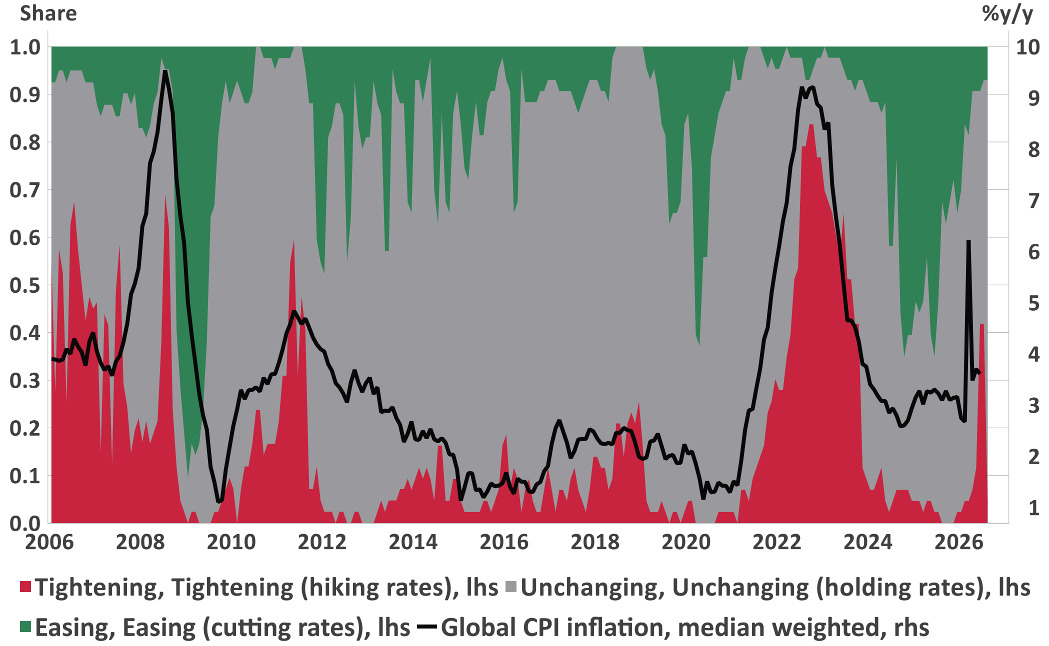
Sources: BOCOM BBM, Macrobond, National Sources

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, is **pushing central banks toward a more restrictive stance**.
- The uncertainty regarding potential effects of geopolitical tensions in each country's domestic context continues to drive institutions towards a more careful approach in 2026.
- Overall, **easing bias has already been replaced by tightening discussions in the majority of G20 economies**, and some central banks delivered rate hikes in recent months - such as in EU, Japan and Australia;

Global monetary breadth

Share of economies (GDP top 50) with higher/unchanged/lower policy rates; monthly/mtd avg, 7-Aug-26



Source: BOCOM BBM, Macrobond, World Bank

Central bank tracker: G20 & OECD Countries

	CPI Y/Y %	Core CPI Y/Y %	Key rate	Last Move		Date of Last Move	Months since last hike	Months since last cut
Argentina	33,5	31,8	29,00	-3,00	Cut	1/2025	34	18
Australia	3,7	4,2	4,35	0,25	Hike	5/2026	3	12
Brazil	4,6	4,3	14,00	-0,25	Cut	8/2026	14	0
Canada	2,7	2,1	2,25	-0,25	Cut	10/2025	37	9
Chile	3,5	2,9	4,50	-0,25	Cut	12/2025	46	8
China	1,2	1,0	3,00	-0,10	Cut	5/2025	150	15
Colombia	6,1	6,3	12,00	0,75	Hike	7/2026	1	15
Costa Rica	-0,3	0,1	3,00	-0,25	Cut	7/2026	45	0
Czech Republic	1,7	0,1	3,75	0,25	Hike	6/2026	2	15
Denmark	1,9	2,3	2,00	0,25	Hike	6/2026	2	14
Euro Area	2,9	2,5	2,40	0,25	Hike	6/2026	2	14
Hungary	1,1	1,9	5,75	-0,25	Cut	7/2026	46	1
Iceland	5,3	6,8	7,75	0,25	Hike	5/2026	3	9
Indonesia	2,9	2,8	5,75	0,25	Hike	6/2026	2	11
Israel	1,7	1,5	3,50	-0,25	Cut	7/2026	38	1
Japan	1,6	1,8	1,00	0,25	Hike	6/2026	2	126
Mexico	3,1	3,9	6,50	-0,25	Cut	5/2026	40	3
New Zealand	4,1	2,5	2,50	0,25	Hike	7/2026	1	8
Norway	2,7	2,7	4,25	0,25	Hike	5/2026	3	11
Poland	3,0	3,0	3,75	-0,25	Cut	3/2026	47	5
Russia	6,0	5,0	14,00	-0,25	Cut	7/2026	21	0
Saudi Arabia	1,8		4,25	-0,25	Cut	12/2025	36	8
South Africa	4,8	4,1	7,00	0,25	Hike	5/2026	2	9
South Korea	2,8	2,6	2,75	0,25	Hike	7/2026	1	14
Sweden	0,7	1,3	1,75	-0,25	Cut	10/2025	34	10
Switzerland	0,4	0,3	0,00	-0,25	Cut	6/2025	38	14
Turkey	31,8	29,9	37,00	-1,00	Cut	1/2026	16	6
United Kingdom	2,6	2,6	3,75	-0,25	Cut	12/2025	36	8
United States	3,5	2,6	3,75	-0,25	Cut	12/2025	36	8

Source: BOCOM BBM, Macrobond

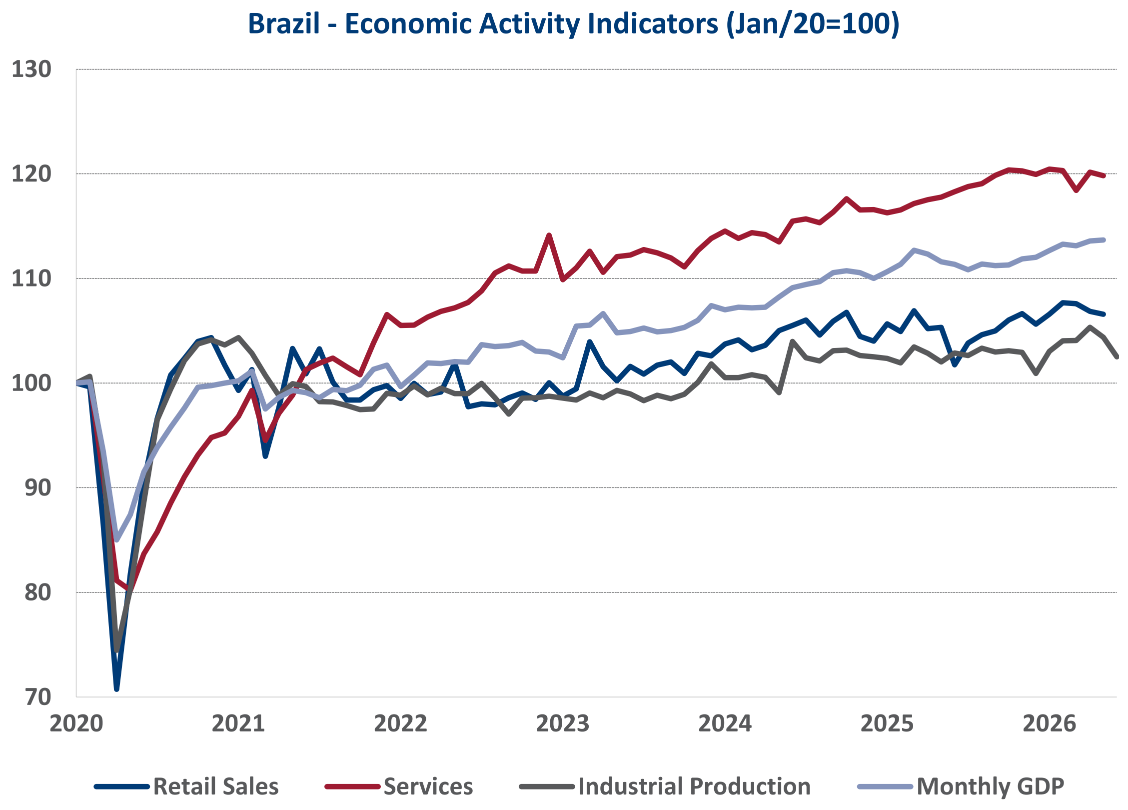
Brazil: Forecasts

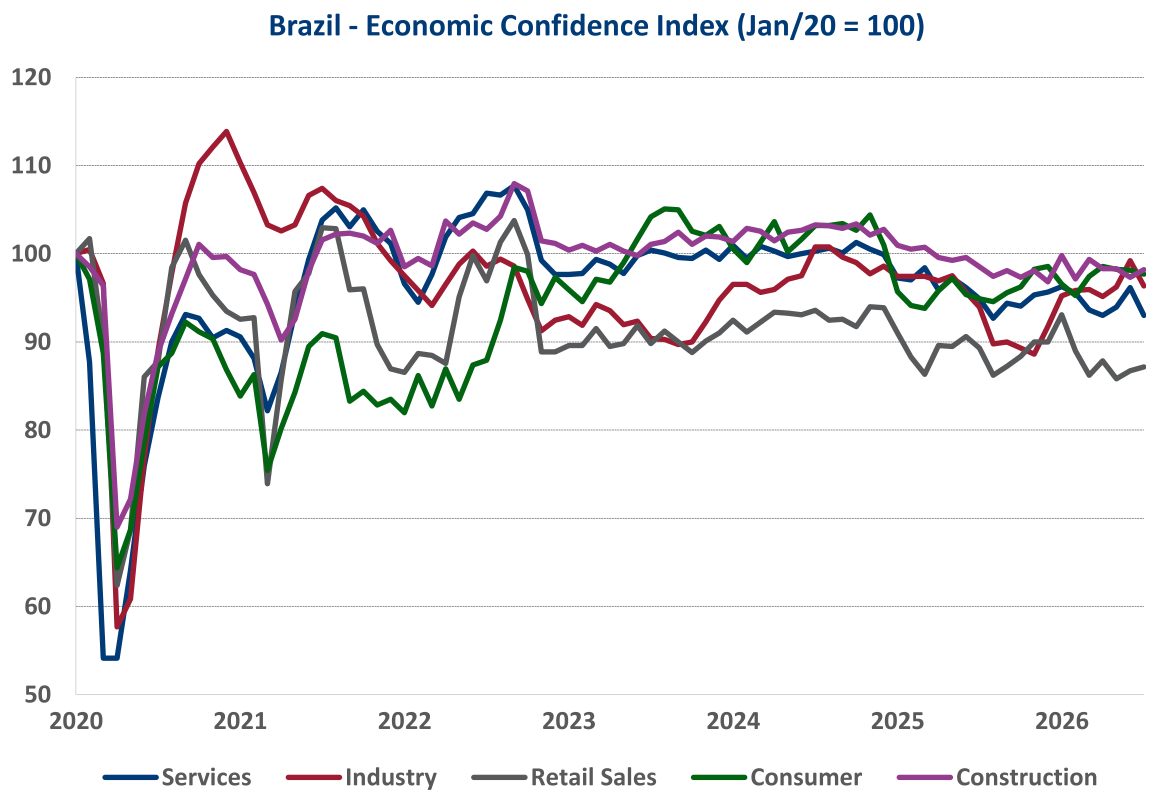
ECONOMIC FORECASTS	2020	2021	2022	2023	2024	2025	2026F	2027F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	3.4%	2.3%	2.0%	1.2%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	4.8%	4.3%	4.9%	4.4%
Unemployment Rate (eoy ,%)	14.2%	11.1%	7.9%	7.4%	6.2%	5.1%	5.5%	6.2%
Policy Rate (eoy, %)	2.0%	9.3%	13.8%	11.75%	12.3%	15.0%	13.75%	12.00%
External Accounts								
Trade Balance (US$ bn)	36	42	52	92	66	60	81	75
Current Account Balance (US$ bn)	-25	-40	-42	-28	-66	-69	-59	-58
Current Account Balance (% of GDP)	-1.7%	-2.4%	-2.2%	-1.3%	-3.0%	-2.9%	-2.4%	-2.3%
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%	83.1%	86.9%

Source: BOCOM BBM, IBGE

Brazil: Activity

- In June, industrial production fell 1.8% MoM, well below market expectations (-0.9% MoM). Additionally, services contracted 0.4% MoM, below market expectations (-0.1% MoM), while broad retail sales disappointed, falling 0.2% MoM, underperforming market expectations of +0.8% MoM. The broader set of indicators points to signs of moderation in economic activity. Meanwhile, the IBC-Br rose 0.1% MoM, above market expectations (-0.1% MoM).
- Looking ahead, consumer, services and industrial confidence surveys weakened in July, while the retail and construction sectors posted gains.





Source: BOCOM BBM, IBGE, FGV

Brazil: Industrial Production

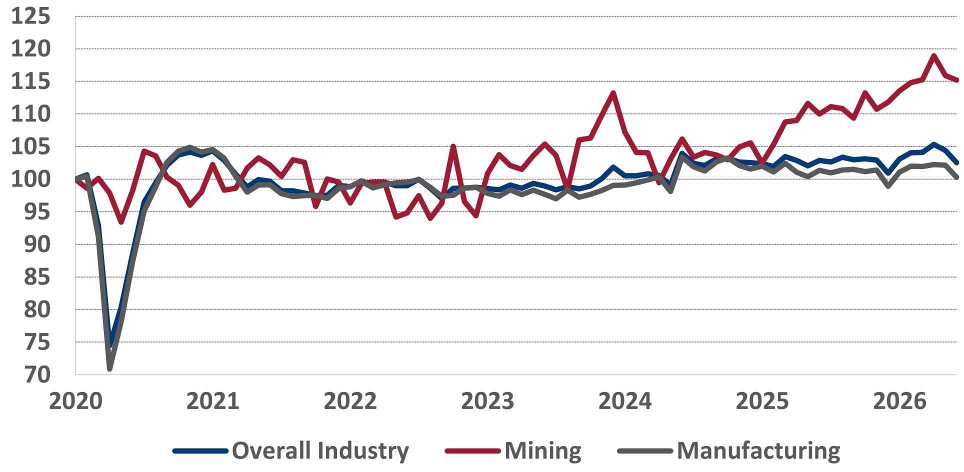
- Industrial output decreased 1.8% from May to June, well below market expectations (-0.9% MoM), leaving total industrial production up just 0.3% QoQ in Q2, a sharp slowdown from the 1.4% QoQ growth recorded in Q1. The manufacturing industry contracted 1.8% MoM, although it remained positive on an annual basis (+1.1% YoY), while the extractive industry edged down 0.6% MoM but continued to lead industrial growth, posting a robust 5.2% YoY expansion.

- On the bright side, Capital Goods advanced 0.6% QoQ, the first positive quarter after four declines in a row; Intermediate Goods rose 1.5% QoQ, remaining the main engine of the industrial cycle and extending the 1.9% gain recorded in Q1.

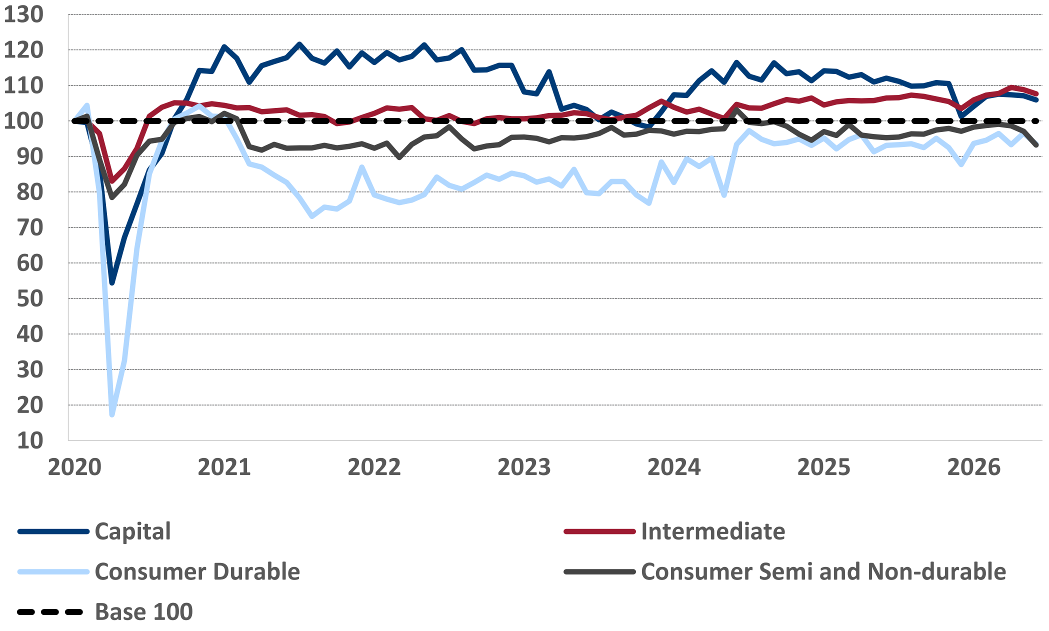
- Meanwhile, Consumer Goods edged down 2.3% QoQ, with Durables Goods down 0.5% and Semi - and Non-Durable down 2.4%, ending the recovery trend in this segment.

- Looking ahead, the broad-based weakness observed across industrial activities and the growing concentration of growth in a few segments suggest a challenging backdrop for the sector. With manufacturing and consumer-related industries losing momentum, a sustained and more generalized recovery still appears unlikely in the short term.

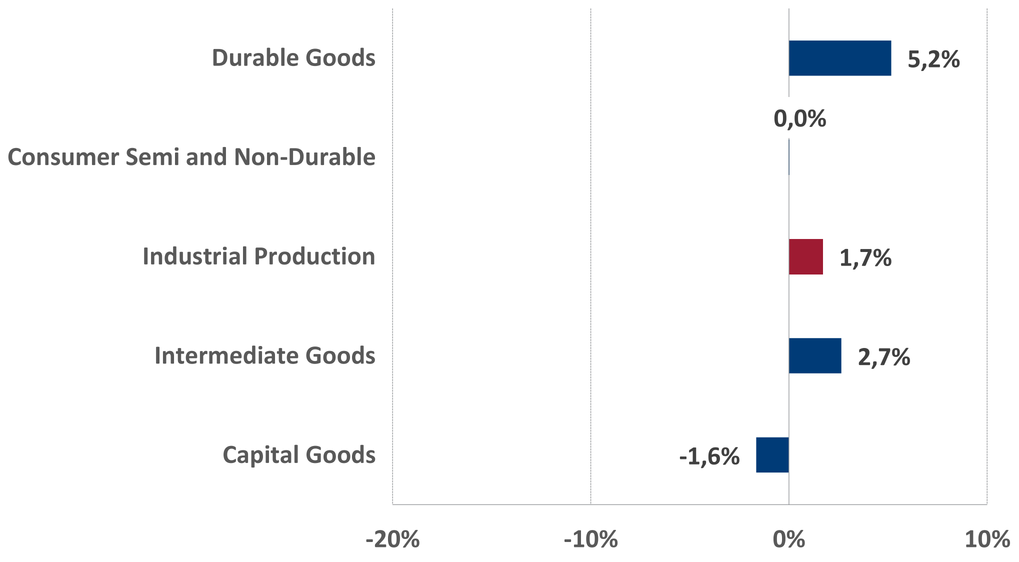
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



Industrial Production by Category - 06/2026 (YoY)



Source: IBGE, BOCOM BBM

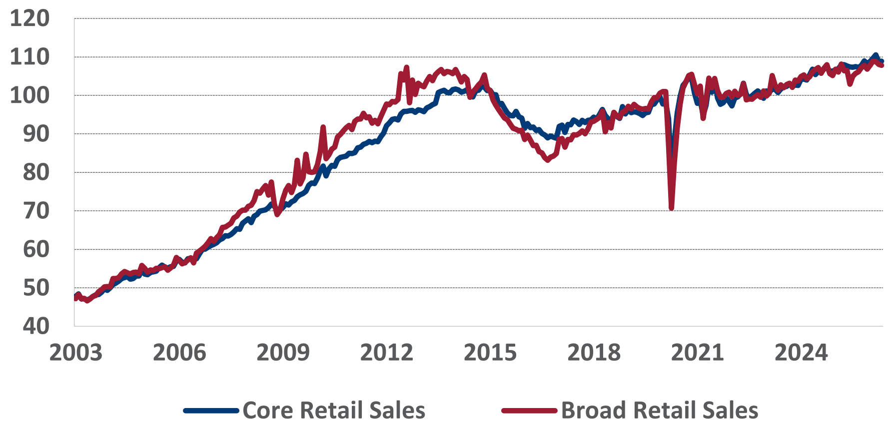
Brazil: Retail Sales

- Broad retail sales edged down 0.2% MoM in May, below market consensus (+0.8% MoM). On a yearly basis, broad retail sales declined 0.6% YoY (vs. +1.1% consensus), mainly driven by a 7.6% YoY contraction in Cash & Carry sales amid elevated food inflation.

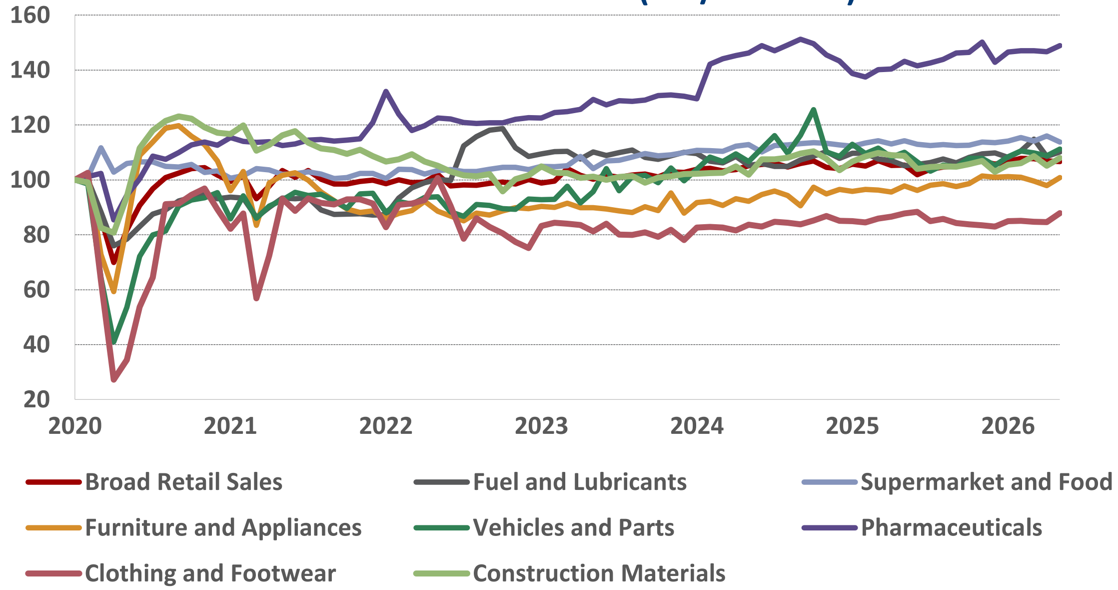
- Core retail sales inched up 0.1% MoM in May, below market consensus (+0.5% MoM). Monthly performance was mixed, with Hyper/Supermarkets, Food Products, Beverages and Tobacco (-1.5% MoM; -0.5% YoY) acting as the main drag, while Clothing & Footwear (+3.1% MoM), Furniture & Household Appliances (+2.7% MoM) and Pharmaceuticals, Medical Articles, Toiletries & Cosmetics (+1.4% MoM) posted solid gains.

- Despite the downside surprise in May, the breakdown was not as bad as suggested by the headline indexes, as seven out of ten retail segments increased compared to April. Overall, retail sales data suggest some slowdown in household consumption in Q2 versus Q1, although resilient labor income and the recovery in discretionary and credit-sensitive categories should allow moderate growth ahead.

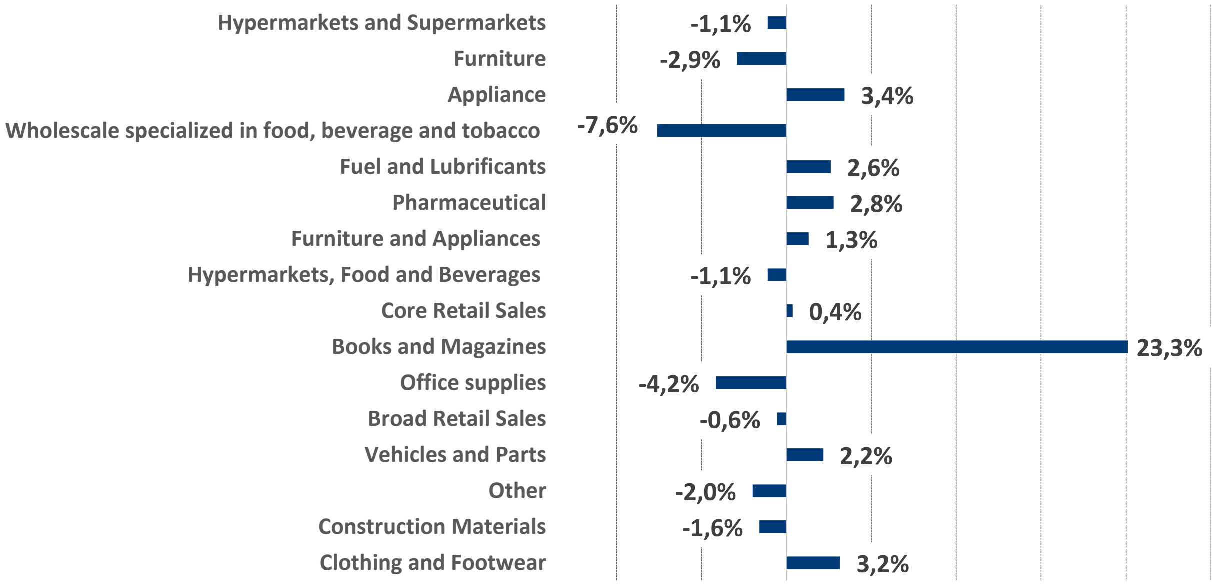
Broad Retail Sales SA x Core Retail Sales SA



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



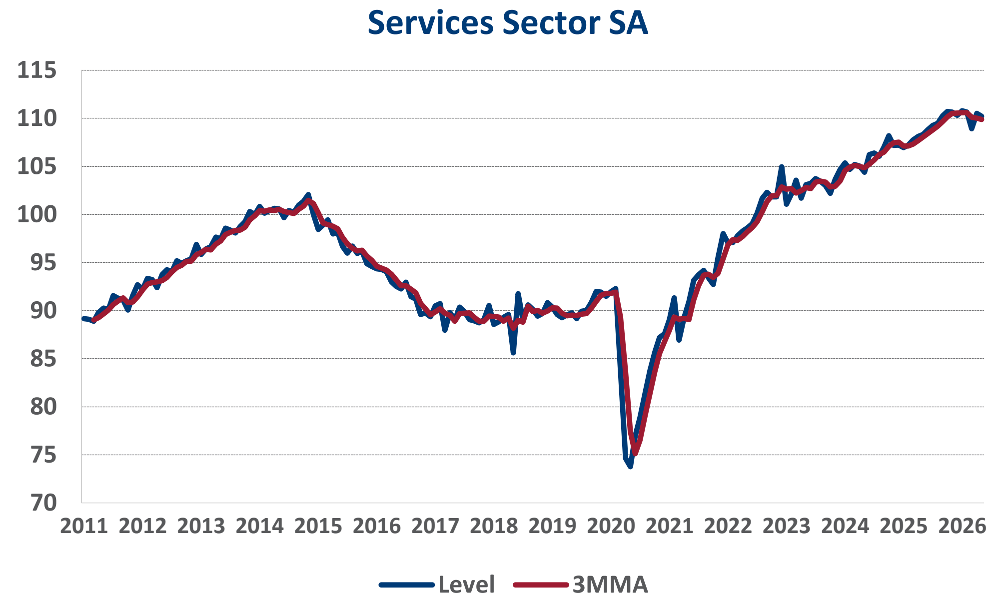
Retail Sales - YoY (05/2026)

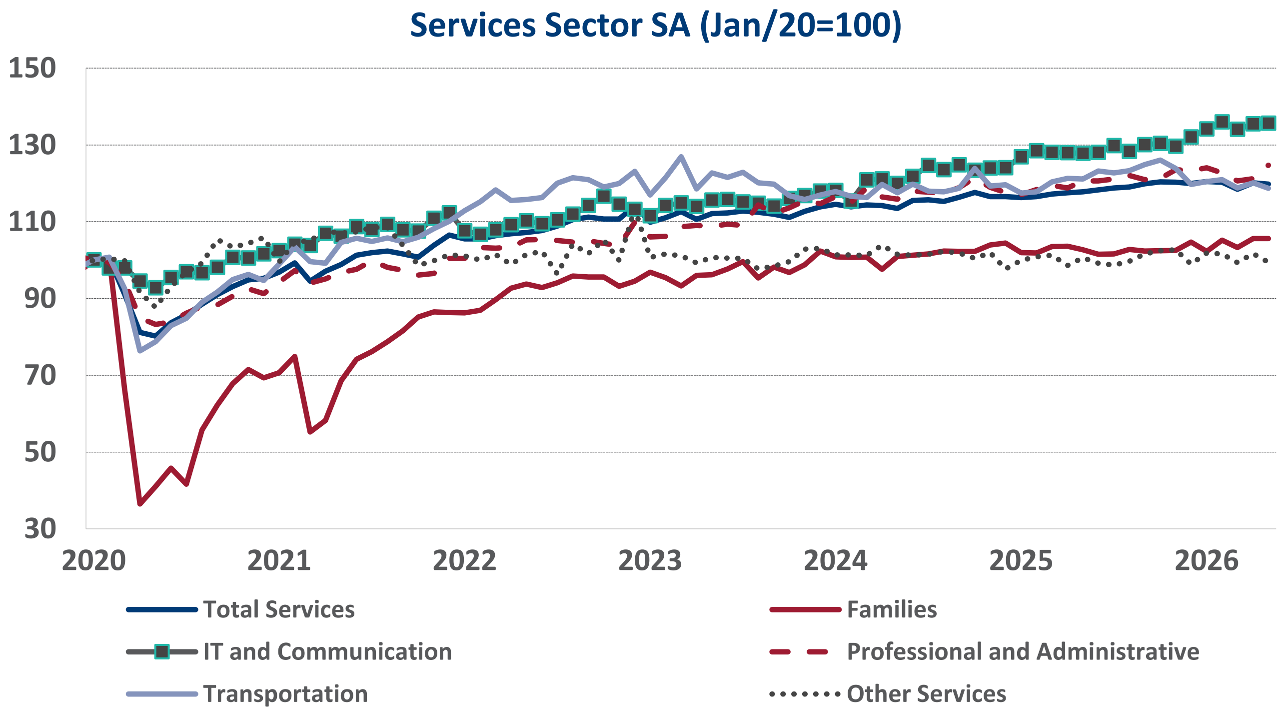


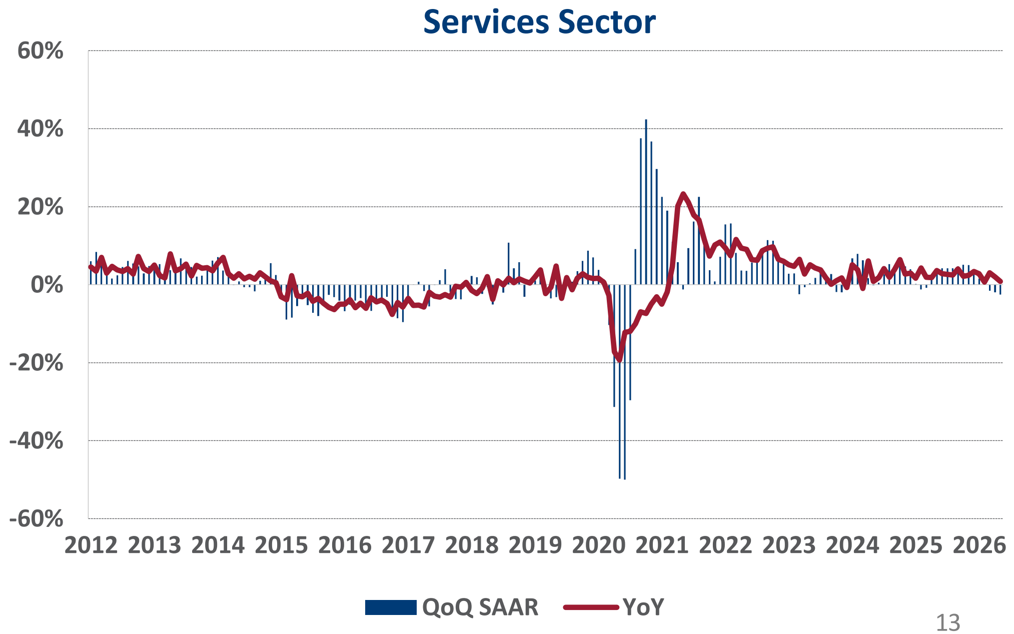
Source: IBGE, BOCOM BBM

Brazil: Services

- The services sector declined 0.4% MoM in May, below market consensus (-0.1% MoM). Compared to May 2025, real service sector revenues increased 0.4%, broadly in line with market expectations.
- Results were mixed across segments, with Professional, Administrative and Complementary Services (2.3% YoY; 1.9% MoM), Communication and Information Services (5.2% YoY), and Services Rendered to Families (3.1% YoY; 0.2% MoM) posting solid growth.
- In contrast, Transportation, Storage and Mailing Services remained the main drag (-4.2% YoY; -1.0% MoM), subtracting 1.5 p.p. from annual growth, while Air Transportation Services plunged 20.7% YoY and 5.1% MoM.
- Overall, the May headline figure was weak, but the composition was more benign for Services GDP. Positive revisions to previous months and stronger results in less transportation-intensive segments suggest a somewhat better underlying picture for services in 2026.



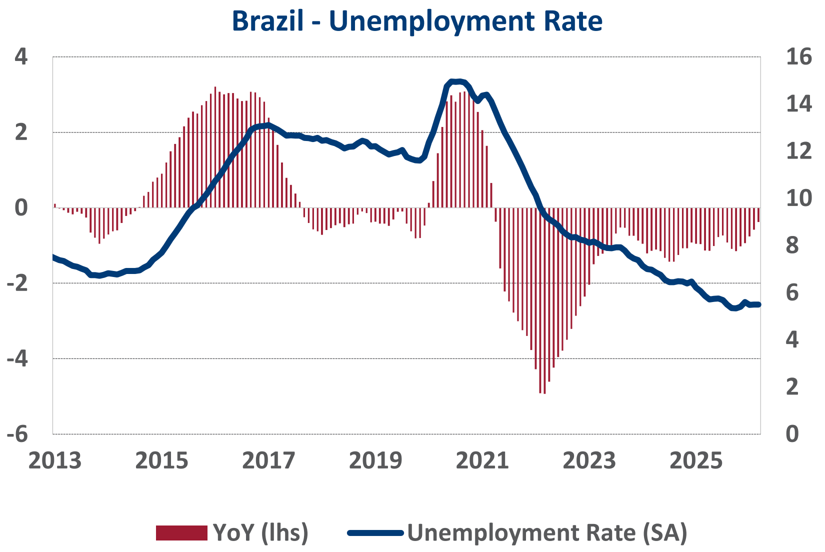


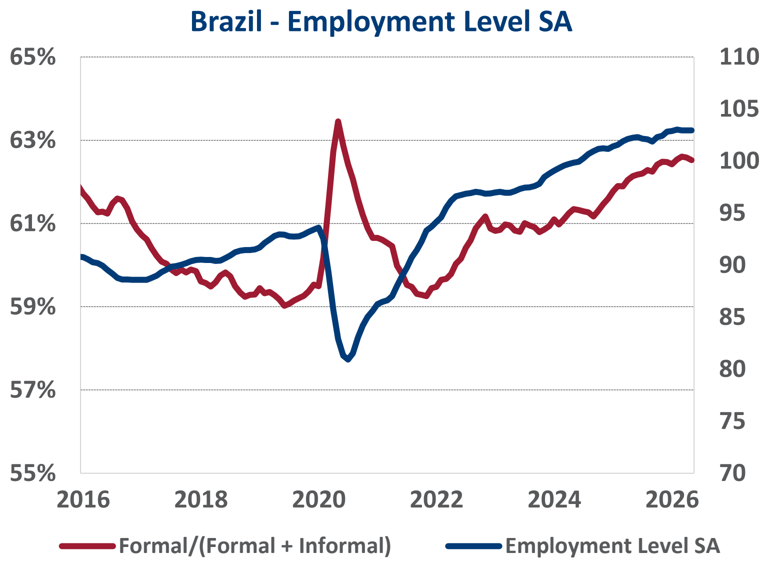


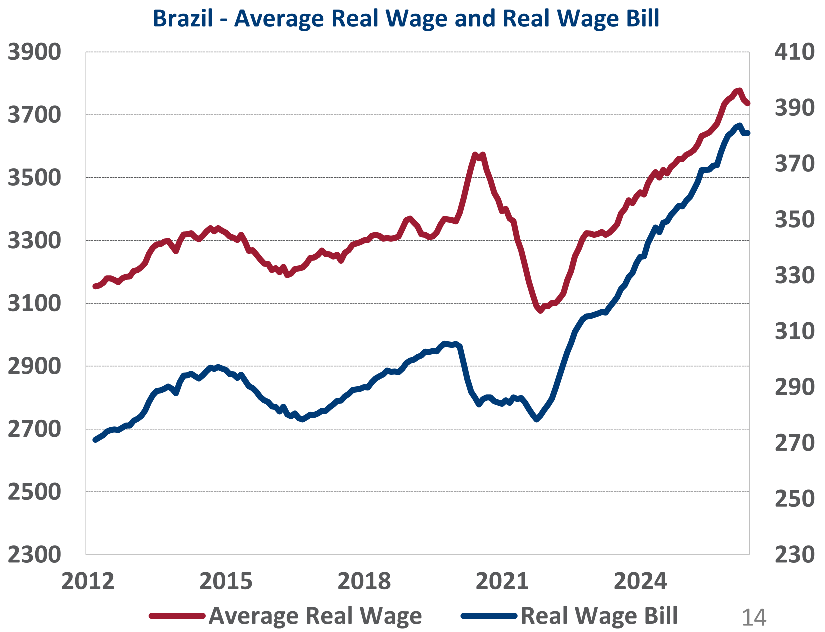
Source: IBGE, BOCOM BBM

Brazil: PNAD

- The unemployment rate dropped from 5.6% in the moving quarter up to May to 5.4% in the moving quarter up to June, in line with expectations.
- Seasonally adjusted, the indicator reached at 5.5%, remaining at historically low levels.
- Total employment edged up 0.1% MoM in June, reaching 103.1 million, marking the eighth consecutive monthly increase. On a year-over-year basis, employment grew 0.7%, taking the 12-month gain to 1.3%.
- The labor force participation rate remained at 62.1%, still well below pre-pandemic levels of around 63.5%.
- The effective average real labor income decreased 0.33% MoM in June, reaching BRL 3736 per month. The indicator expanded 2.8% over the past 12 months.
- Real aggregate labor income, which combines average labor earnings and total employment, advanced 0.9% MoM, while expanding 3.6% YoY and 5.9% over the past 12 months.
- Overall, June's PNAD data reinforced the view of a still-tight labor market, with the unemployment rate remaining well below its neutral level.





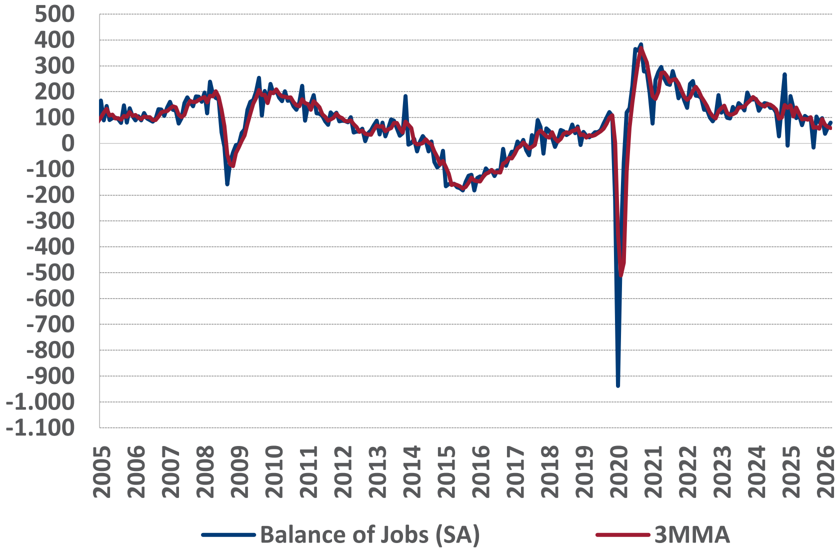


Source: IBGE, BOCOM BBM, MTE

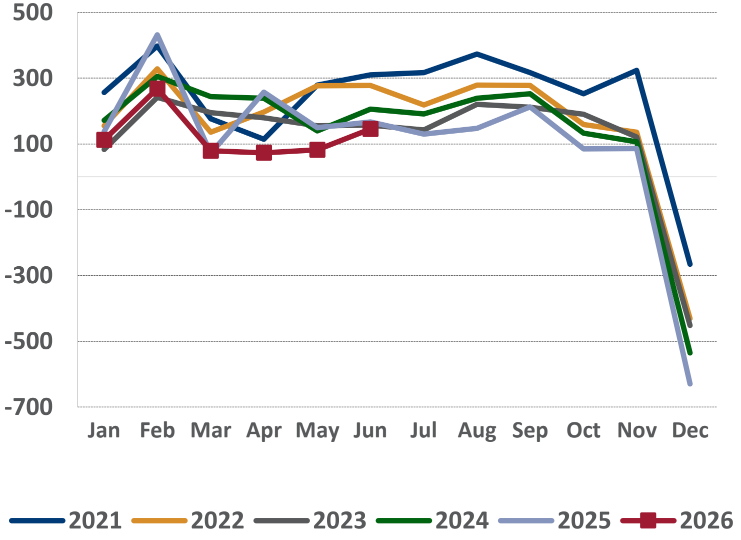
Brazil: Formal Labor Market

- CAGED registered a net creation of 145.2k formal jobs in June, above market expectations (115.0k).
- There was a net creation of 964k formal jobs in the 12-month rolling sum through June 2026, below the 981k recorded in the previous reading.
- Overall, formal employment rebounded in June, easing concerns about a labor-market reversal, although the underlying trend still points to a gradual slowdown.

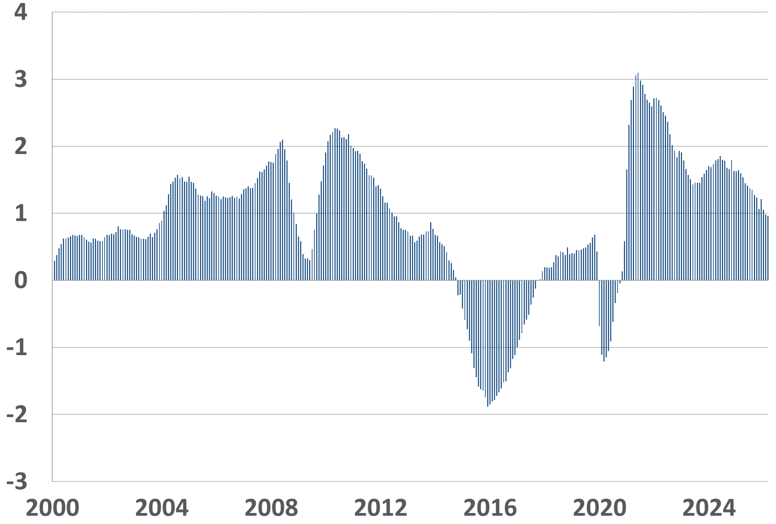
CAGED - Balance of Jobs (SA, Thousand)



CAGED - Balance of Jobs (Thousand)



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



Source: BOCOM BBM, MTE

Brazil: GDP Forecast

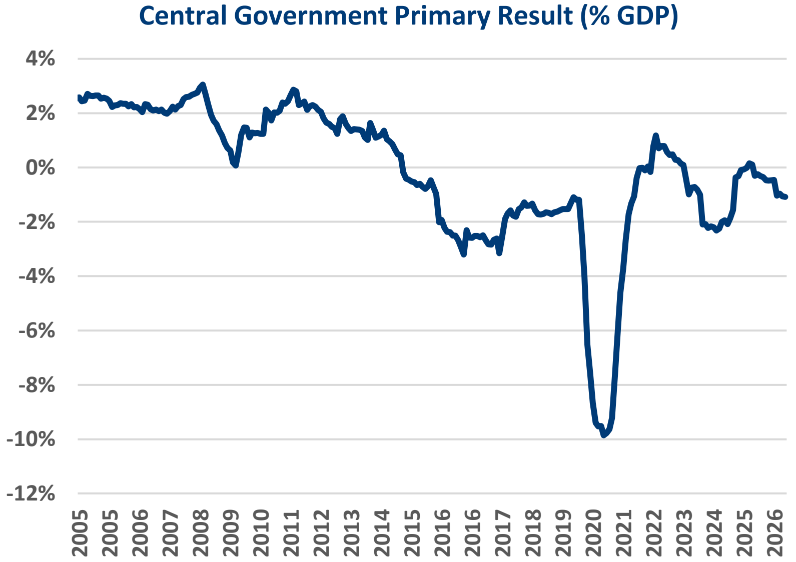
- We maintained our forecast for 2026 at 2.0%
- Growth must decelerate through the second semester: from an average of 0,8% QoQ in H1 to 0,3% QoQ in H2
- We reduced our forecast for the GDP growth in 2027, due to lower productivity in the Agriculture sector (El Niño effect)

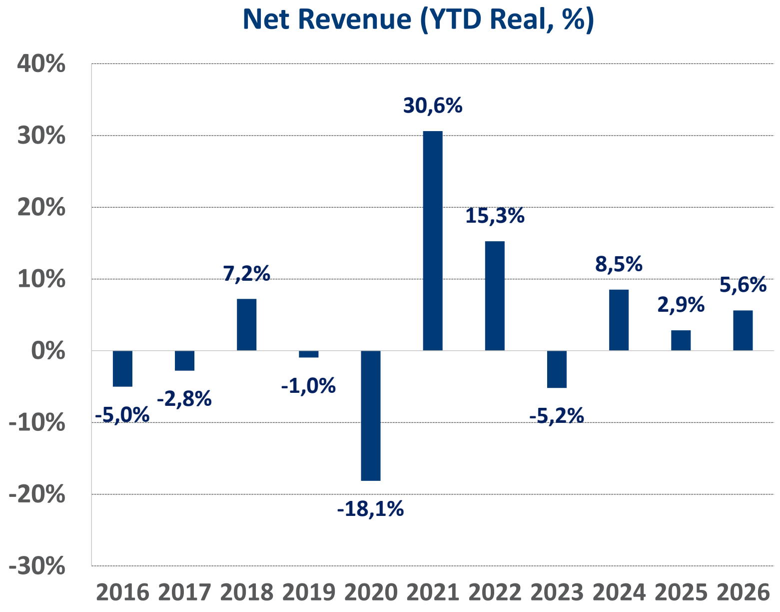
Forecasts				
	2026.II QoQ	2026.II YoY	2026	2027
GDP	**0.5%**	**2.0%**	**2.0%**	**1.2%**
Agriculture	**-1.0%**	**-0.5%**	**0.5%**	**0.0%**
Industry	**1.0%**	**2.8%**	**2.1%**	**0.6%**
Mining	3.4%	12.0%	9.6%	2.5%
Manufacturing	0.8%	0.9%	0.3%	0.1%
Electricity	0.5%	1.6%	1.1%	2.7%
Construction	0.1%	1.5%	1.8%	-0.9%
Services	**0.4%**	**2.1%**	**2.2%**	**1.5%**
Retail	0.4%	1.5%	1.3%	0.6%
Transports	-0.5%	-1.0%	0.3%	0.0%
Information and Comunication	1.3%	7.4%	6.5%	3.7%
Financial Services	0.0%	1.5%	2.0%	1.7%
Rents	0.8%	3.0%	3.1%	3.1%
Other Services	0.5%	2.1%	2.6%	1.3%
Public Administration	0.3%	1.7%	1.4%	1.1%

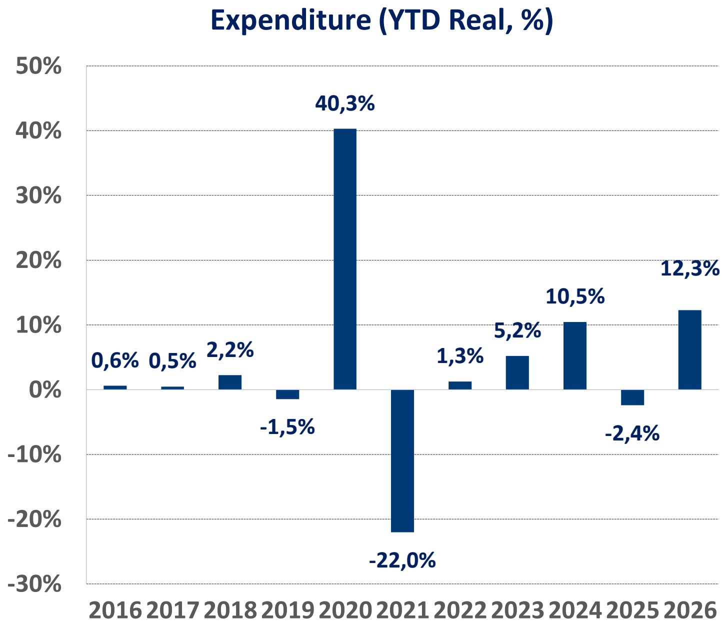
Source: BOCOM BBM, IBGE

Brazil: Central Government Primary Result

- The Central Government posted a primary deficit of BRL 48.2 billion in June, slightly worse than market expectations of BRL 48.0 billion and wider than the BRL 44.2 billion deficit recorded in the same month of 2025.
- Net revenues increased 10.3% YoY. Revenues administered by the Federal Revenue Service rose 10.2%, supported by corporate income taxes (IRPJ/CSLL, +22.8%), PIS/Cofins (+8.7%) and tax compensations. Other administered revenues increased 78.7%, driven by taxation on crude oil exports. Social security contributions rose 5.6%, while non-administered revenues increased 23.0%, mainly due to a 77.9% rise in revenues from natural resource exploration. Year-to-date, net revenues grew 5.8%, led by social security contributions (+6.1%), PIS/Cofins (+5.7%) and income tax (+2.9%).
- Total expenditure rose 9.0% YoY, mainly driven by discretionary spending (+45.9%), reflecting stronger execution in the first half of the year, in line with the expected pattern for an electoral cycle. Extraordinary credits also increased, including approximately BRL 2.8 billion in diesel subsidies, while mandatory expenditures subject to flow control rose 9.6%, associated with higher healthcare spending. Year-to-date, expenditure increased 12.3%, driven by social security benefits (+8.0%), discretionary spending (+56.2%) and personnel expenses (+10.6%).
- Looking ahead, strong revenue performance and a gradual moderation in discretionary spending should support an improvement in fiscal results, although lower oil prices and subsidy-related expenditures remain important risks to the outlook.



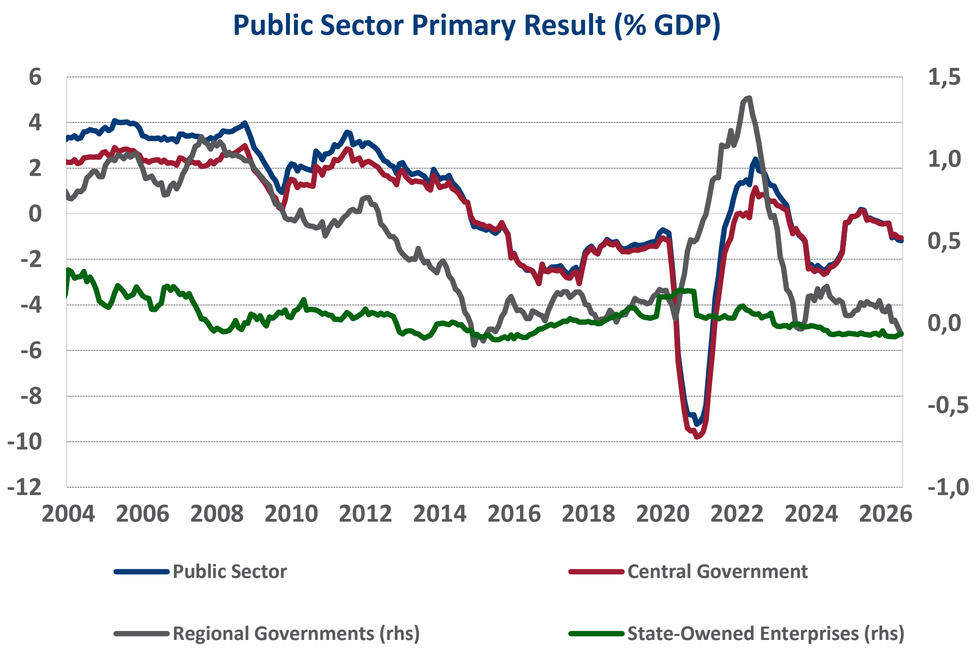


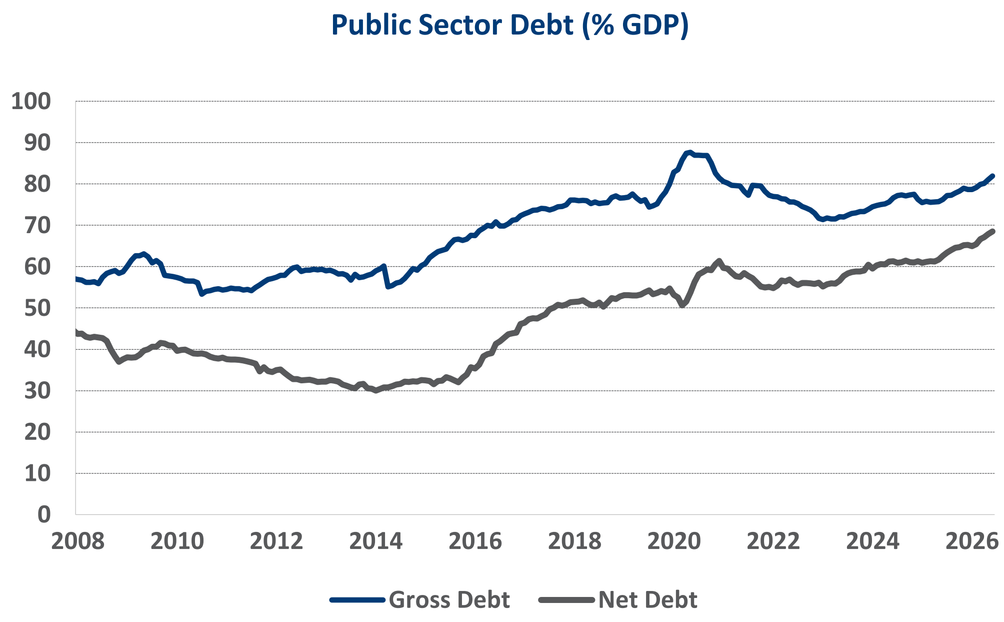


Source: BOCOM BBM, RTN

Brazil: Consolidated Public Sector Budget

- The consolidated public sector posted a primary deficit of BRL 55.3 billion in June, worse than the BRL 47.1 billion deficit recorded in the same month of 2025. The result came in above both market consensus of BRL 49.8 billion. Year-to-date, the public sector has posted a deficit of BRL 80.2 billion, while over 12 months it registered a deficit of BRL 157.2 billion, equivalent to 1.2% of GDP.
- Regarding the breakdown, the central government, regional governments, and state-owned enterprises posted deficits of BRL 47.2 billion, BRL 6.6 billion, and BRL 1.5 billion, respectively.
- General Government Gross Debt (GGGD) rose from 81.0% to 81.9% of GDP, driven by nominal interest payments (+0.8 p.p.) and net debt issuance (+0.6 p.p.), partially offset by nominal GDP growth (-0.5 p.p.). Over the past 12 months, GGGD increased by 5.6 p.p., largely reflecting the impact of nominal interest payments (+9.4 p.p.). Meanwhile, Net Public Sector Debt (NPSD) rose by 0.6 p.p. to 68.5% of GDP and accumulated a 5.9 p.p. increase over the last 12 months.
- Overall, June's fiscal results highlighted the continued deterioration in Brazil's debt dynamics, as wider primary deficits and elevated nominal interest costs pushed gross debt to its highest level since April 2021 and net public debt to a record high, with further increases expected in the absence of a sustained fiscal adjustment.



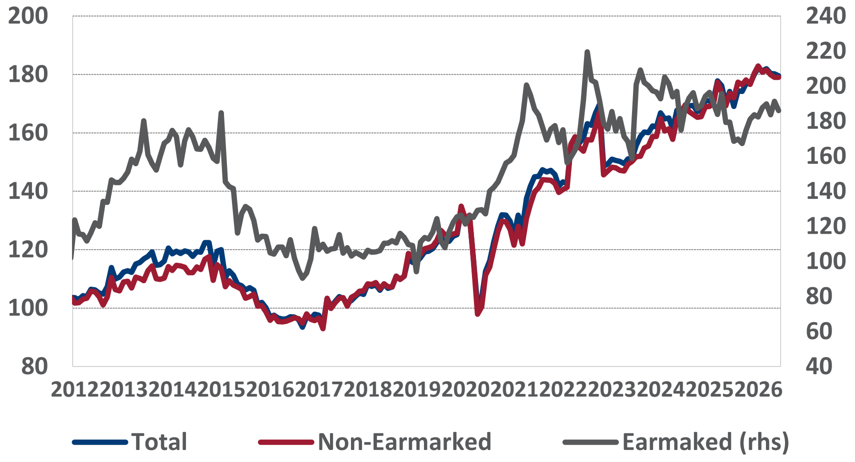


Source: BOCOM BBM, BCB

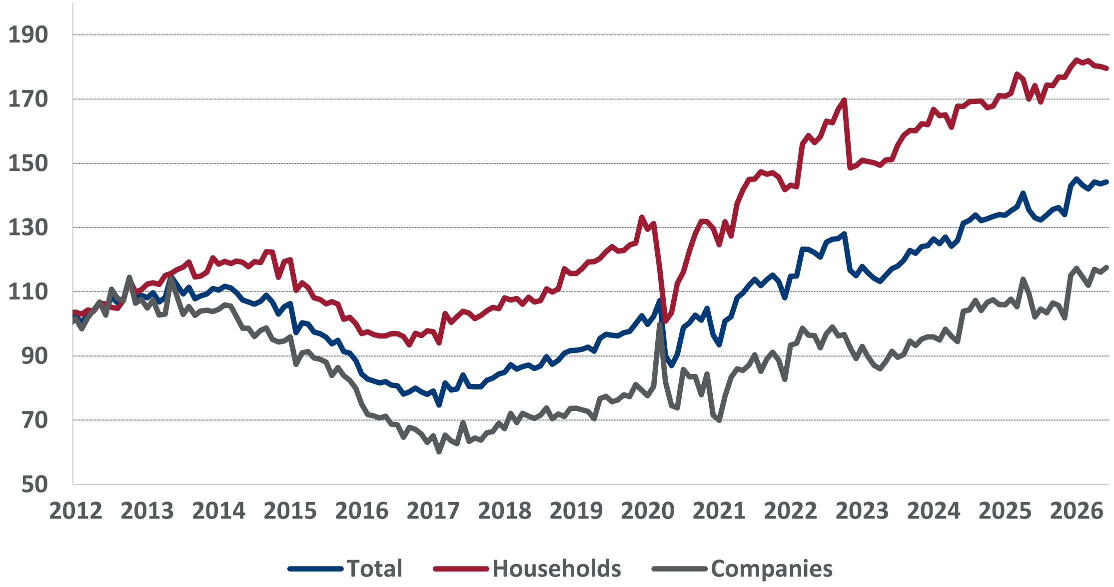
Brazil: Credit Statistics

- In June, total credit concessions rose by 0.4% MoM in real terms, after decreasing by 0.4% in the last month.
- In real terms, non-earmarked credit concessions advanced 1.2% MoM to companies and contracted 0.3% to households in the monthly comparison.
- Credit growth continued to show resilience, reflecting strong labor market conditions and ongoing support from fiscal stimulus measures.

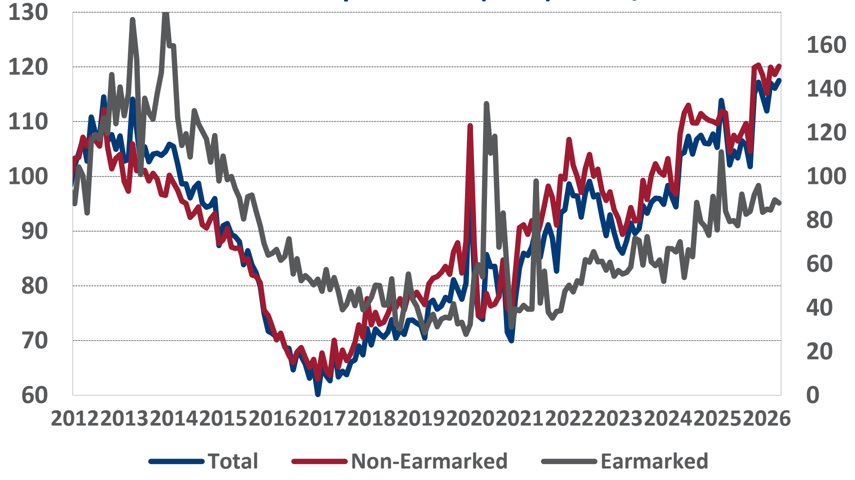
Concessions - Households SA (Real) - Mar/11 = 100



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



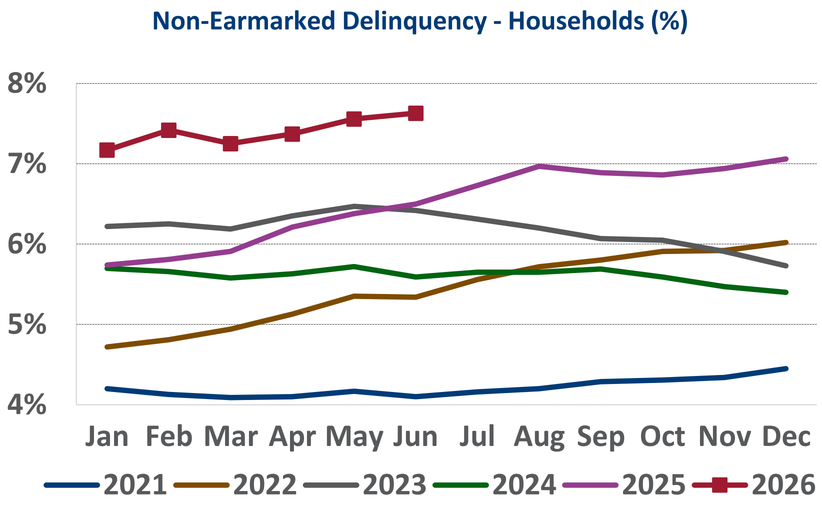
Concessions - Companies SA (Real) - mar/11 = 100

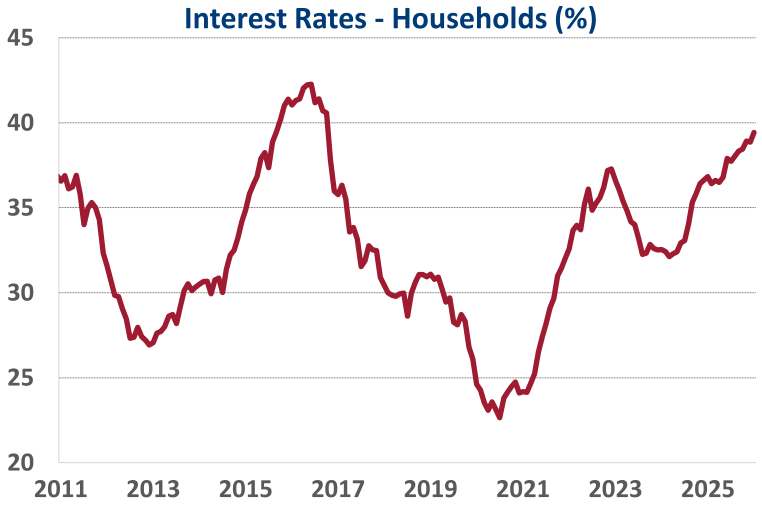


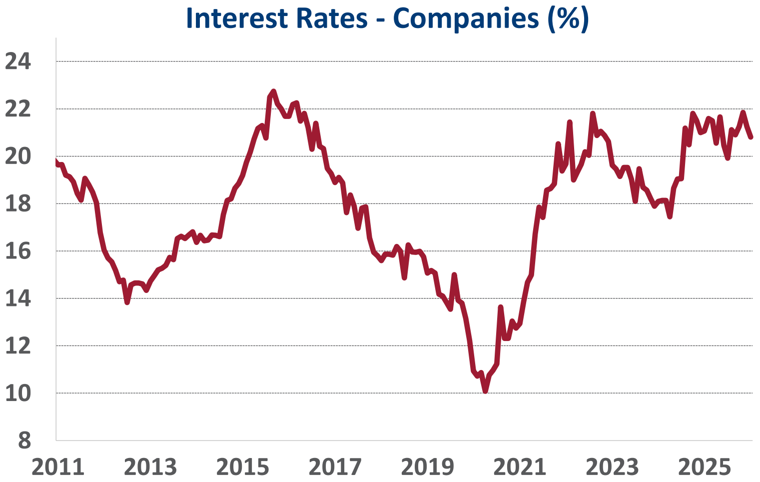
Source: BOCOM BBM, BCB

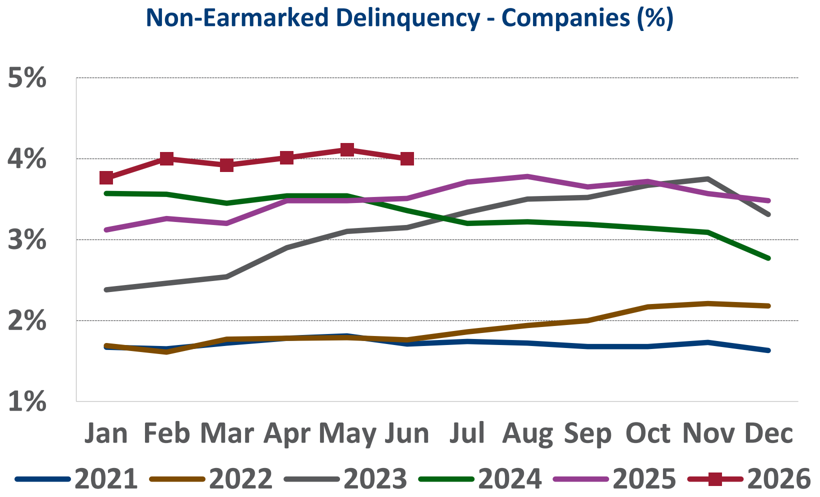
Brazil: Credit Statistics

- Lending rates remained elevated. Rates for households rose to 39.44% from 38.86% in May, while rates for companies fell to 20.80% from 21.25%.
- Meanwhile, delinquency on non-earmarked loans for households inched up to 7.63% in June, additionally for companies, it decreased from 4.11% to 4.0%.





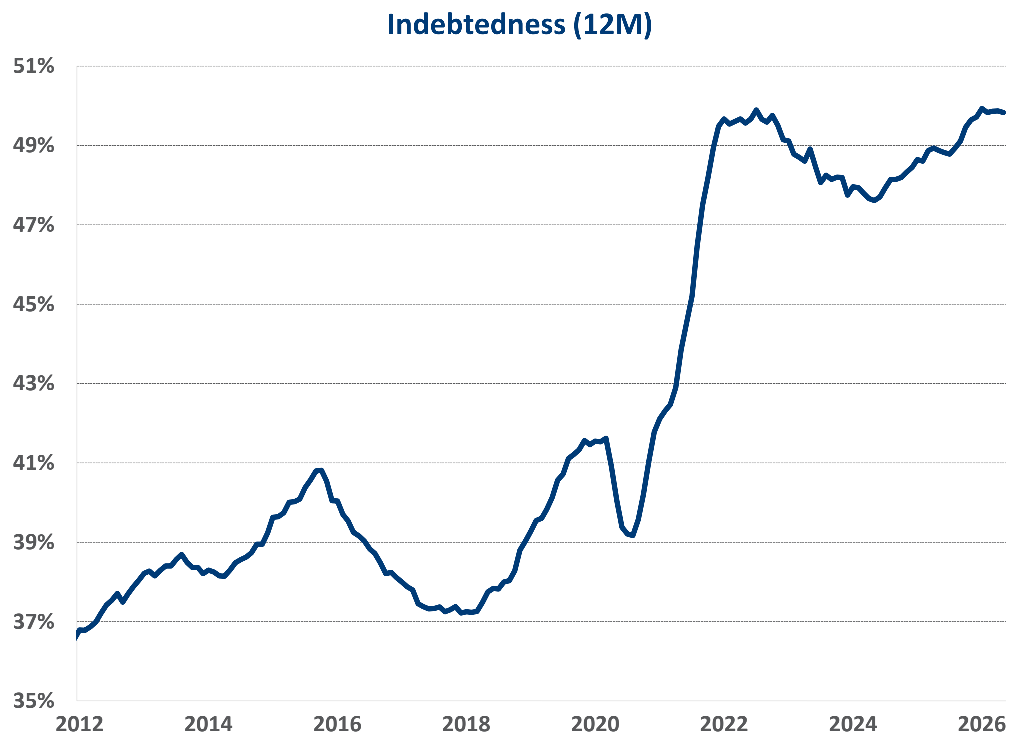


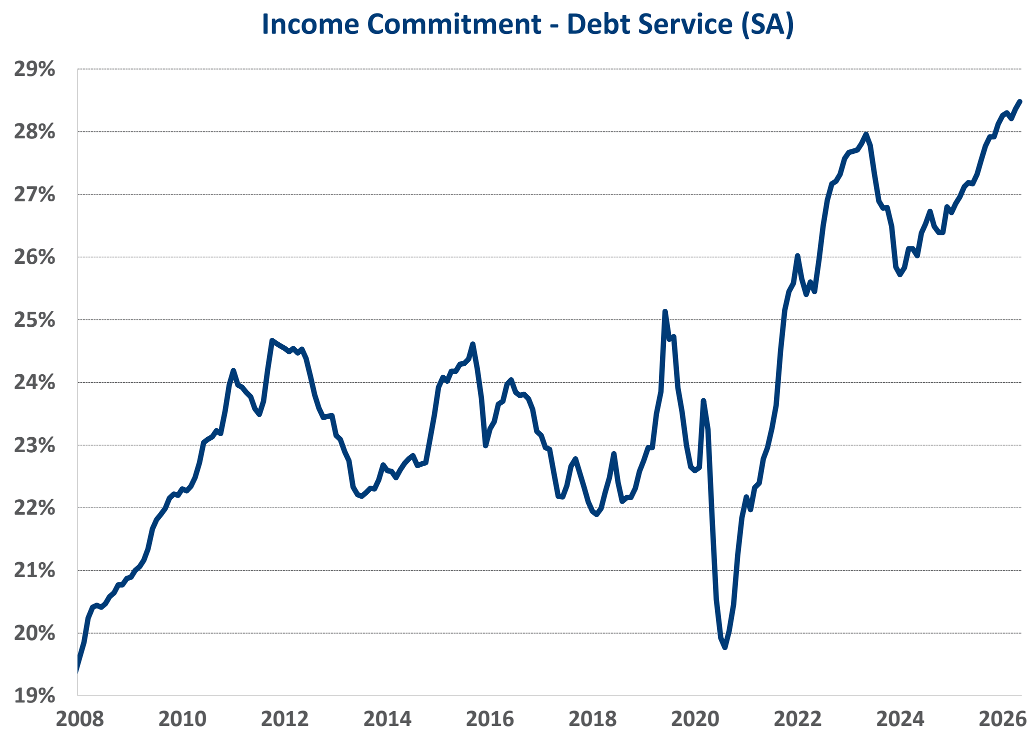


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- Total household indebtedness remains high, despite a slight decrease at the margin, standing at 49.83% in May.
- Meanwhile, income commitment increased to 28.48%.
- Credit conditions remain tight, reflecting elevated interest rates, persistent delinquency, and high household indebtedness.

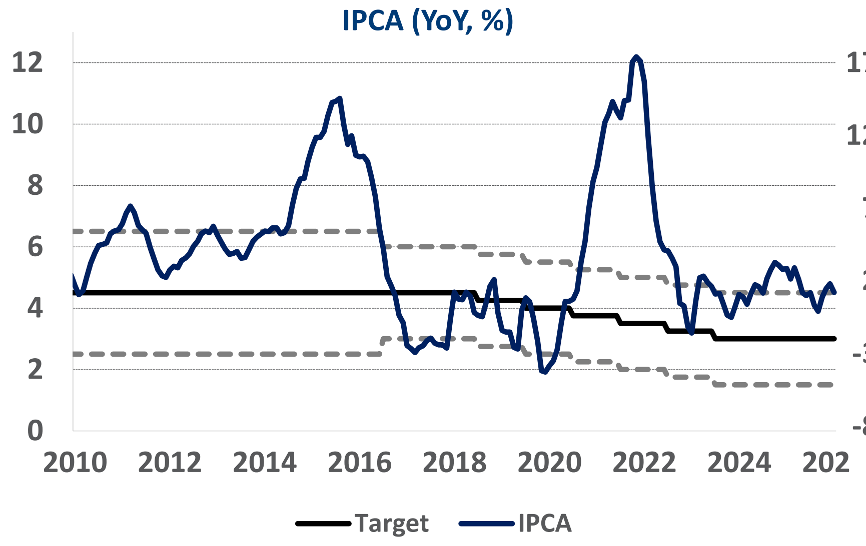


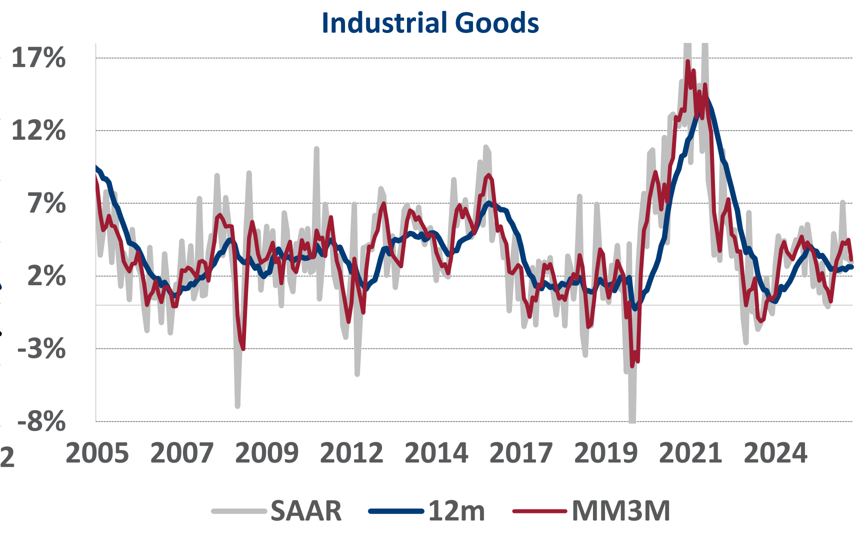


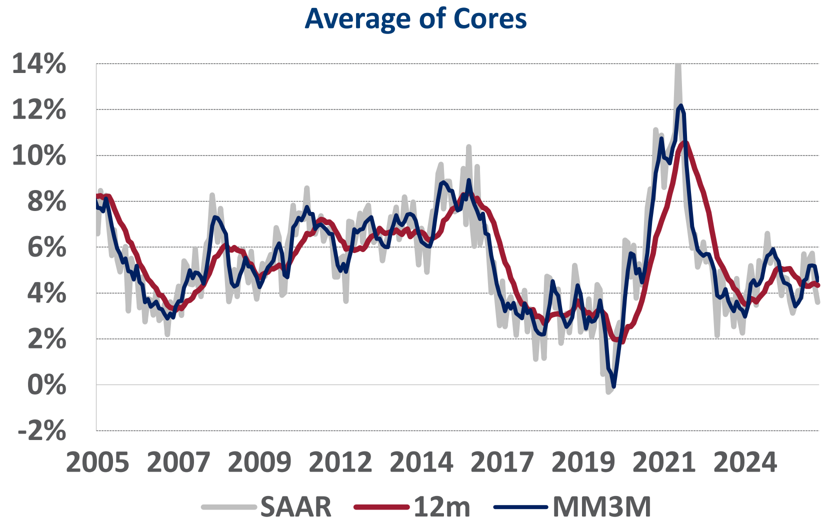
Source: BOCOM BBM, BCB

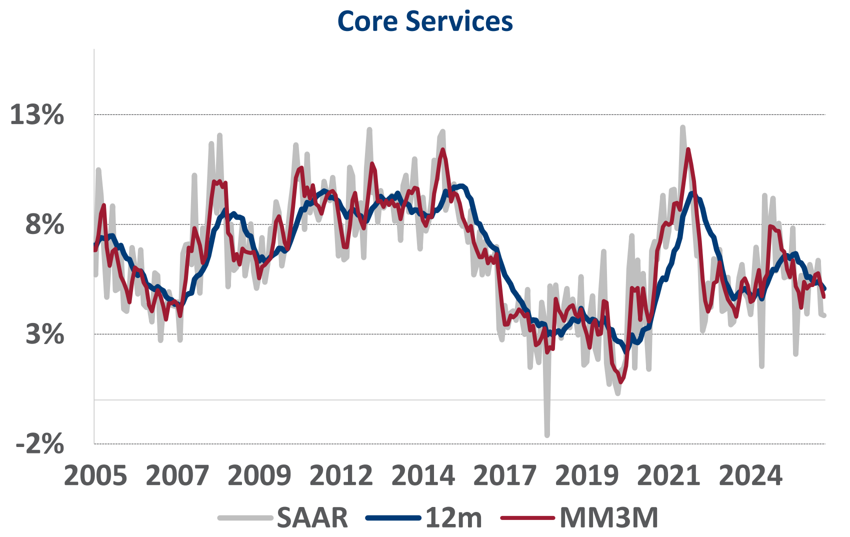
Brazil: Inflation 2026

- July IPCA-15 rose 0.06% MoM, well below market expectations (0.22% MoM). Twelve-month inflation declined from 4.80% in June to 4.52% in July.
- The main downside surprises came from market-set prices, particularly transportation and airfares, while electricity also surprised to the downside.
- Core services inflation advanced 0.30% MoM, below market consensus of 0.34% MoM. Underlying services 3M SAAR fell from 5.19% in June to 4.60% in July, while the 12-month rate eased from 5.25% to 5.08%.
- The average of core inflation measures rose 0.21% MoM, while the 12-month rate edged down from 4.35% to 4.26%.
- Looking ahead, July's IPCA-15 reinforces the view of a gradual and broad-based disinflation process, marking another benign inflation print. While labor-intensive services remain relatively resilient, the moderation across food, core measures, industrial goods and headline services suggests inflation dynamics are evolving more favorably than expected.





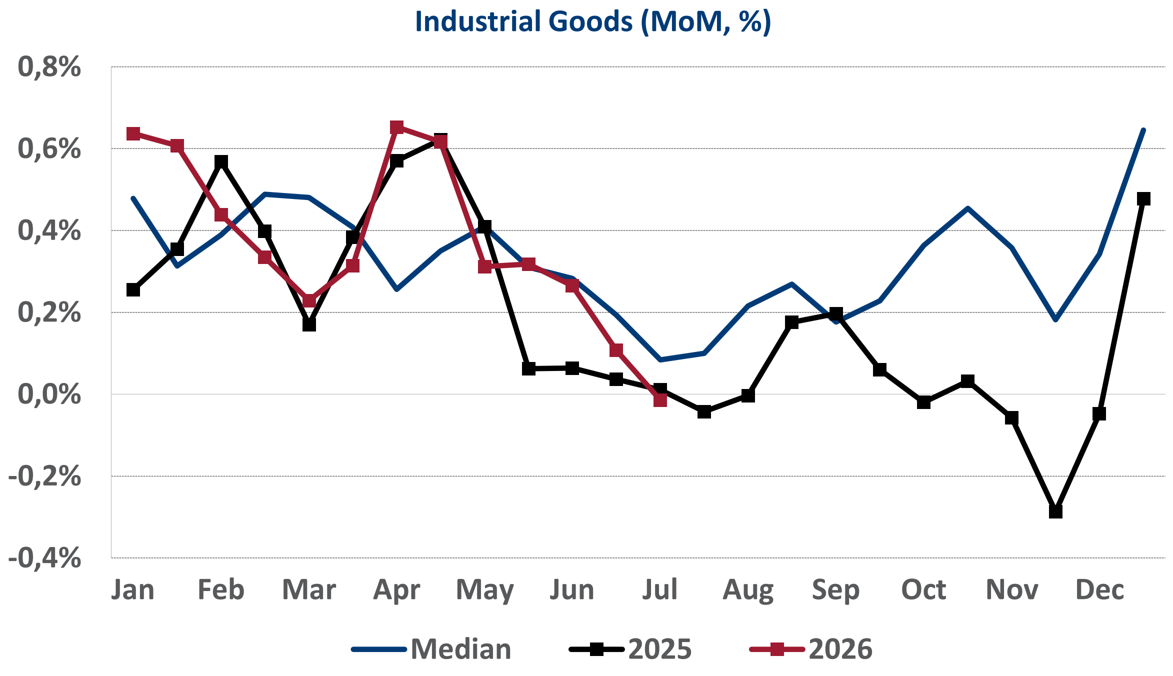


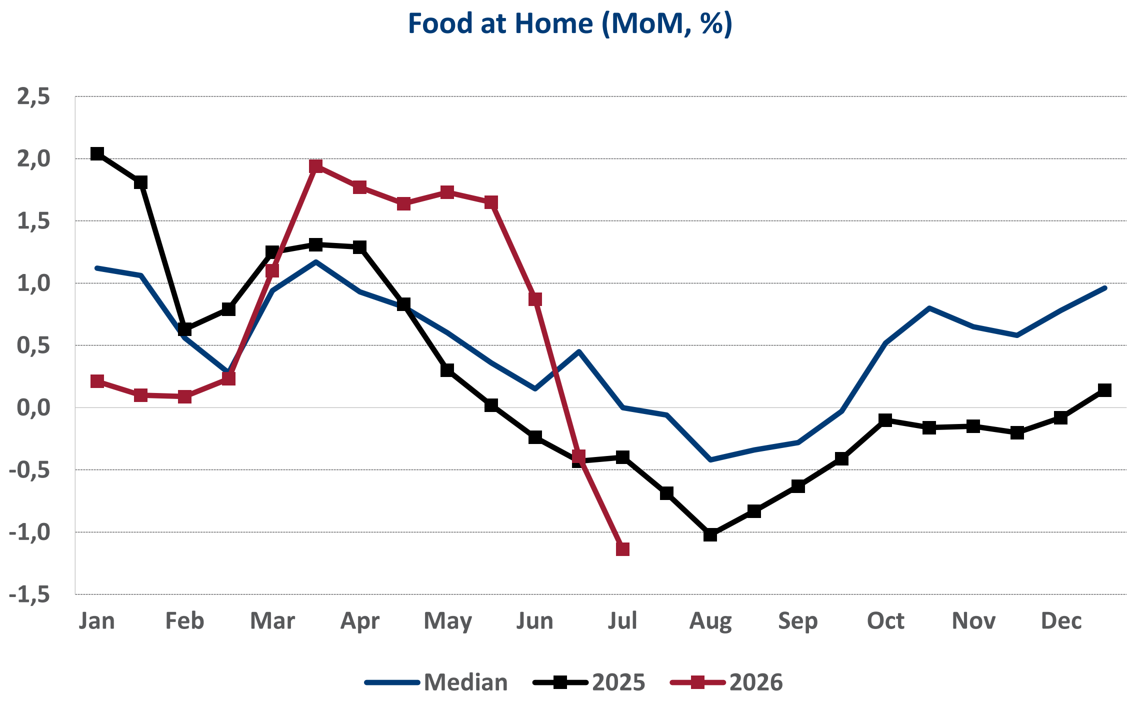


Source: BOCOM BBM, IBGE

Brazil: Inflation 2026

- Industrial goods inflation fell -0.01% MoM, slightly below market expectations (0.01% MoM).
- Food-at-home prices fell 1.14% MoM, below market expectations of 0.84% MoM. The main downside surprise came from vegetables, tubers and roots, partially offset by an upside surprise in meat prices.
- Food-at-home deflation is expected to persist in the near term, before prices gradually normalize later in the year.





Source: BOCOM BBM, IBGE

Brazil: Inflation Outlook

- After July IPCA-15 results, we revised our forecast for this year from 5% to 4.9% and for 2027 from 4.5% to 4.4%

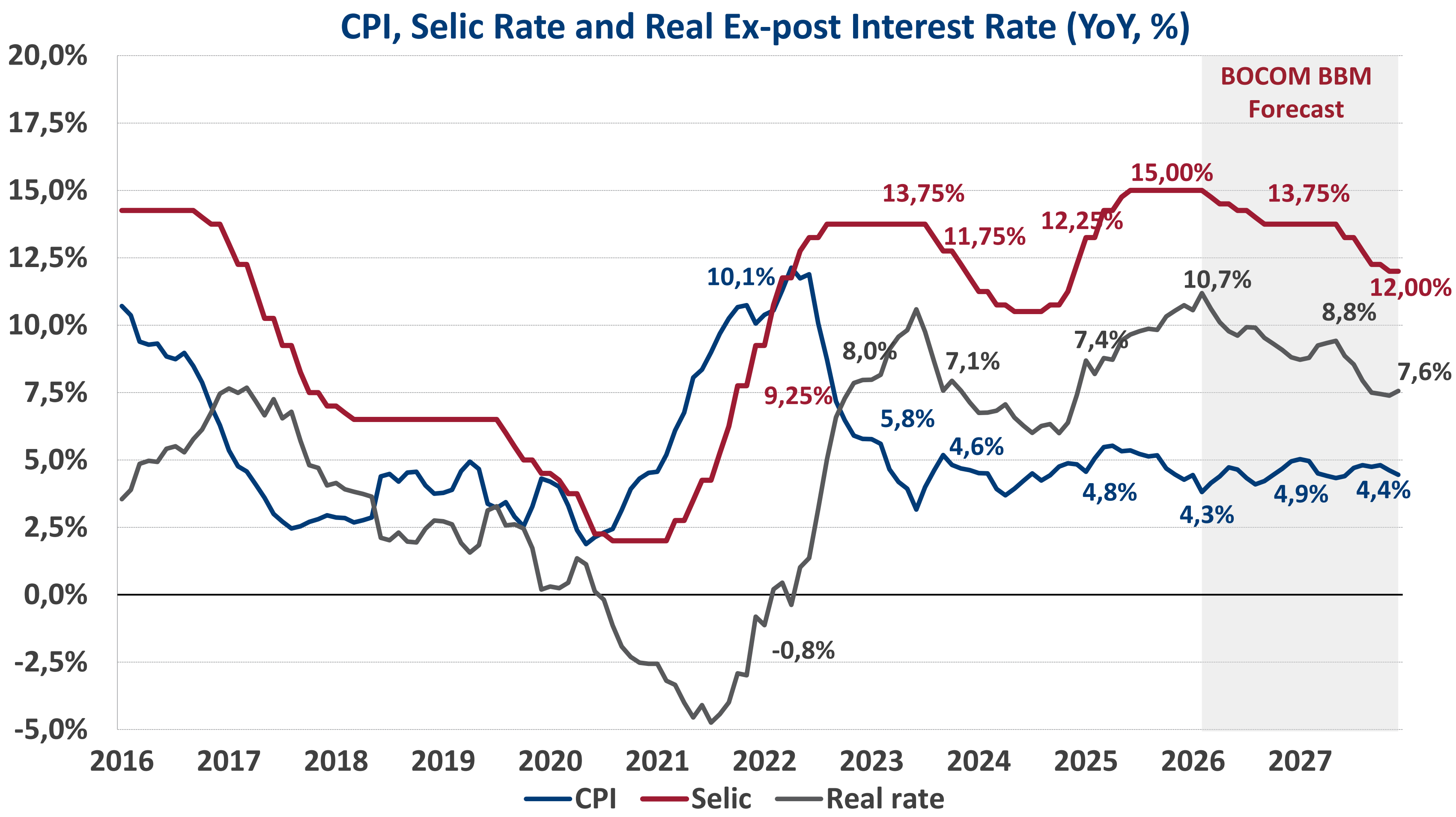
IPCA (%, annual)

	Weight	2021	2022	2023	2024	2025	2026	2027
Regulated	**26.6**	**16.9**	**-3.8**	**9.1**	**4.7**	**5.3**	**4.7**	**4.2**
Industrial goods	**23.6**	**11.9**	**9.5**	**1.1**	**2.9**	**2.4**	**3.8**	**3.4**
Durable goods	10.3	12.9	6.1	-0.4	1.5	0.5	2.6	2.0
Semi-durable goods	5.9	10.2	15.7	2.7	2.1	3.5	2.5	3.2
Non-durable goods	7.3	11.9	9.5	1.7	5.4	3.9	6.3	5.3
Food at home	**15.7**	**8.2**	**13.2**	**-0.5**	**8.2**	**1.4**	**6.2**	**5.0**
Services	**34.1**	**4.8**	**7.6**	**6.2**	**4.6**	**5.8**	**5.3**	**5.0**
Food away from home	5.6	7.2	7.5	5.3	6.3	7.0	6.6	5.7
Related to minimum wage	5.2	3.3	6.2	5.5	5.2	6.7	6.3	4.6
Sensitive to economic activity	8.2	5.1	6.3	9.5	0.9	5.4	3.6	4.2
Inertial	15.0	4.2	8.8	5.1	6.0	5.2	5.2	4.9
IPCA		**10.1**	**5.8**	**4.6**	**4.8**	**4.3**	**4.9**	**4.4**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

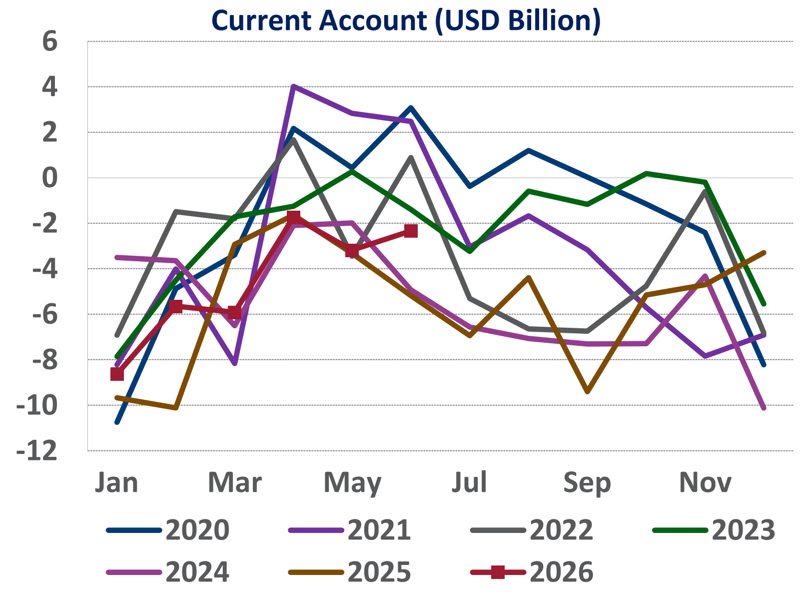
- The COPOM reduced Selic rates from 14.25% to 14.00% per year in its August meeting, as expected. Inflation projections were kept at 3.2% in the first quarter of 2028 in a scenario where rates reach 13,75% in 2026 and 12% in 2027. The balance of risks was also maintained. But since it already had one more upward risk for inflation, the communication now explicitly acknowledged that the balance of risks is asymmetric. While there was some acknowledge that incoming data points to moderation in activity and to improvements in current inflation, there was substantial emphasis and concern about unanchored inflation expectations at longer horizons. In all, the statement acknowledges improvements and challenges moving forward but leaves the door open for the continuation of the easing cycle.

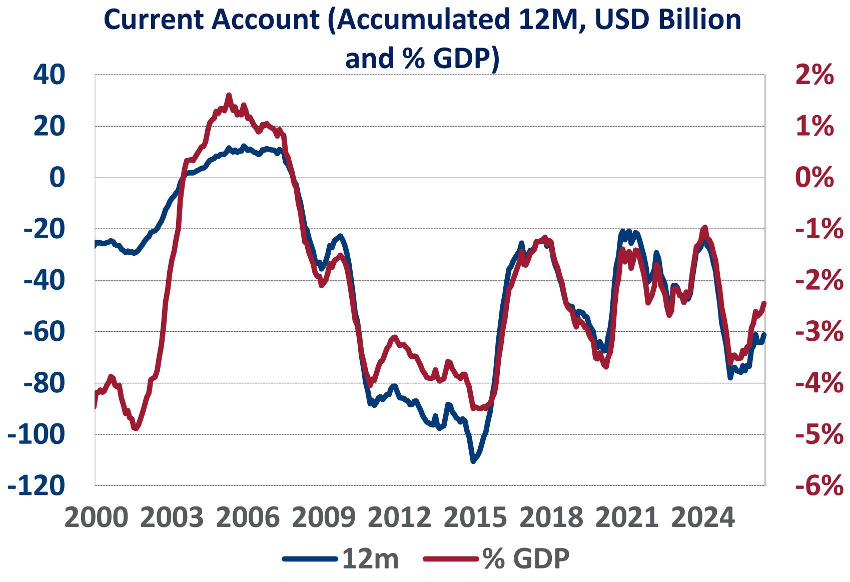


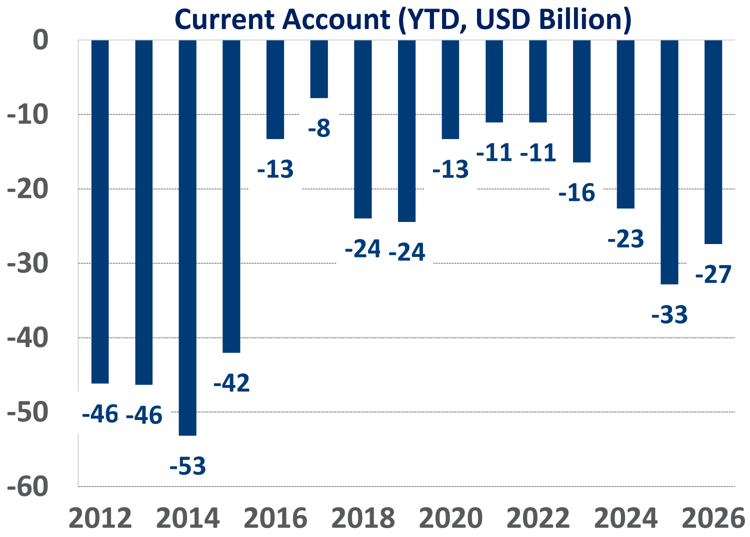
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The Brazilian current account posted a deficit of USD 2.3 billion in June 2026, in line with market expectations.
- On a 12-month rolling basis, the current account deficit narrowed to USD 61.4 billion, equivalent to 2.46% of GDP, from USD 64.2 billion and 2.60% of GDP in May.



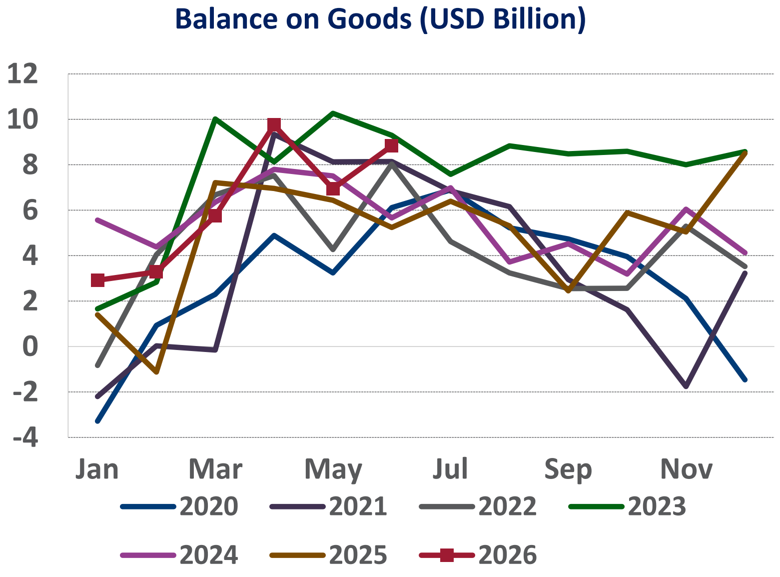


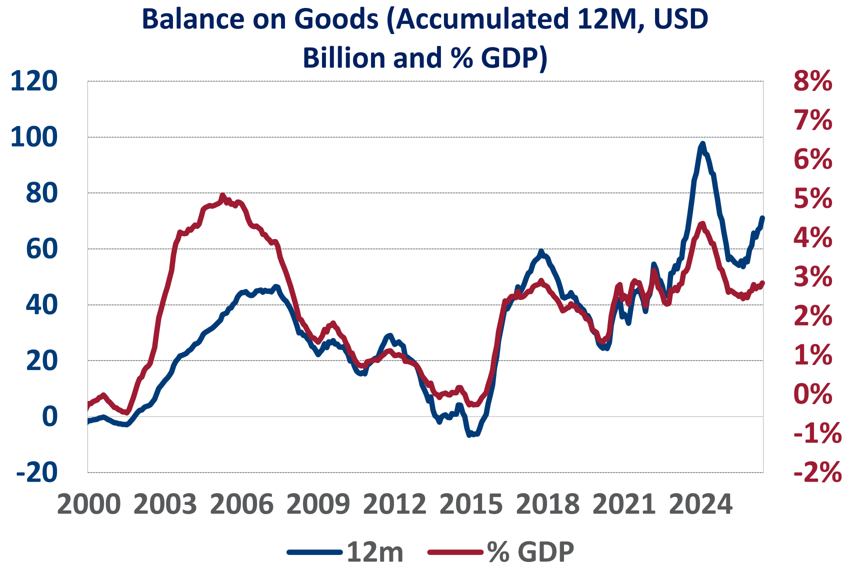


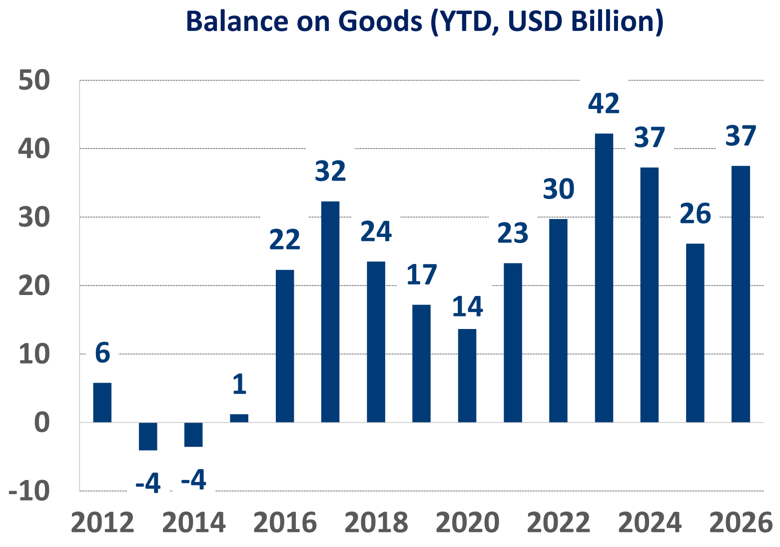
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- The merchandise trade balance recorded a surplus of USD 8.8 billion in June, above the USD 5.2 billion surplus registered in June 2025.
- Exports reached USD 36.4 billion, up 24.8% YoY and the highest monthly figure in the data series. Crude oil led the performance, while beef and soybeans also contributed meaningfully. Imports totaled USD 27.6 billion, a 15.3% YoY increase, with passenger vehicles as the main driver.
- On a 12-month rolling basis, the trade surplus reached USD 71.0 billion, up from USD 67.4 billion in May.





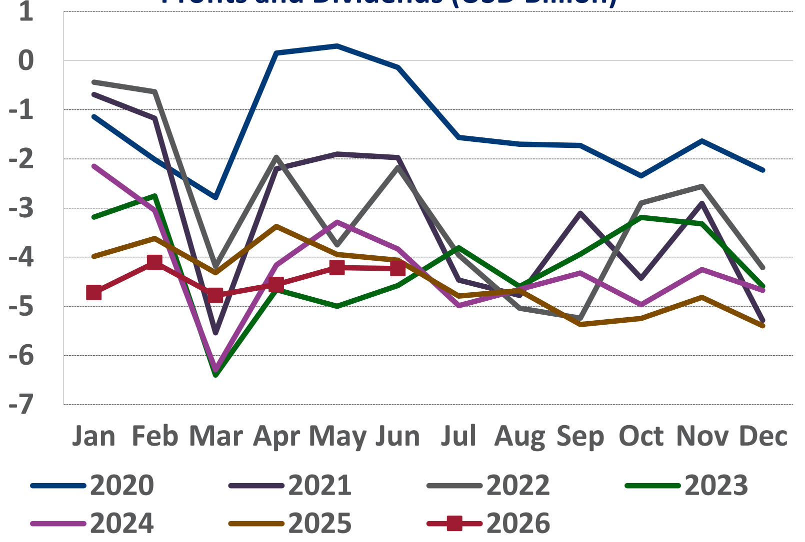


Source: BOCOM BBM, BCB

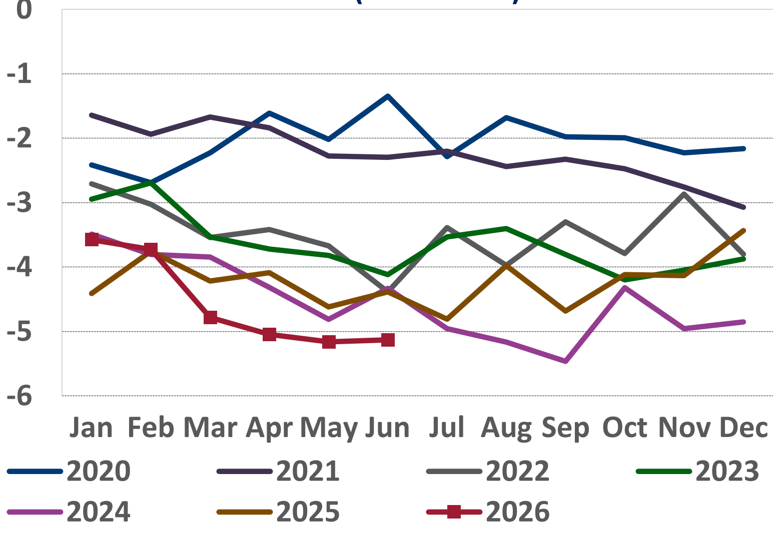
Brazil: Balance of Payments

- The services account registered a deficit of USD 5.1 billion in June, wider than the USD 4.4 billion deficit recorded in June 2025.
- Travel-related outflows continued to reflect the BRL appreciation accumulated during the year, while the services deficit was further pressured by higher international freight rates and wider deficits in telecommunications and intellectual property services.
- The primary income account posted a deficit of USD 6.5 billion, virtually stable compared with USD 6.4 billion registered in the same month last year.
- On a 12-month rolling basis, the services deficit reached USD 52.6 billion, from USD 51.8 billion in May.

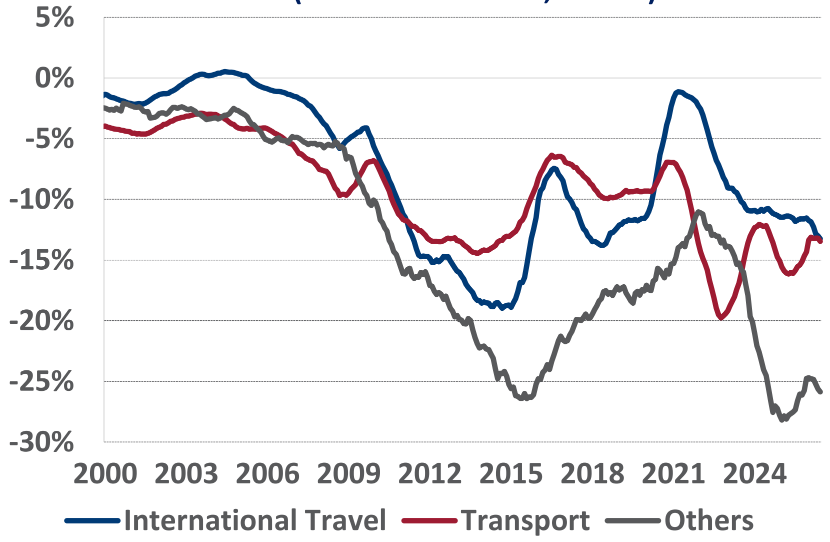
Profits and Dividends (USD Billion)



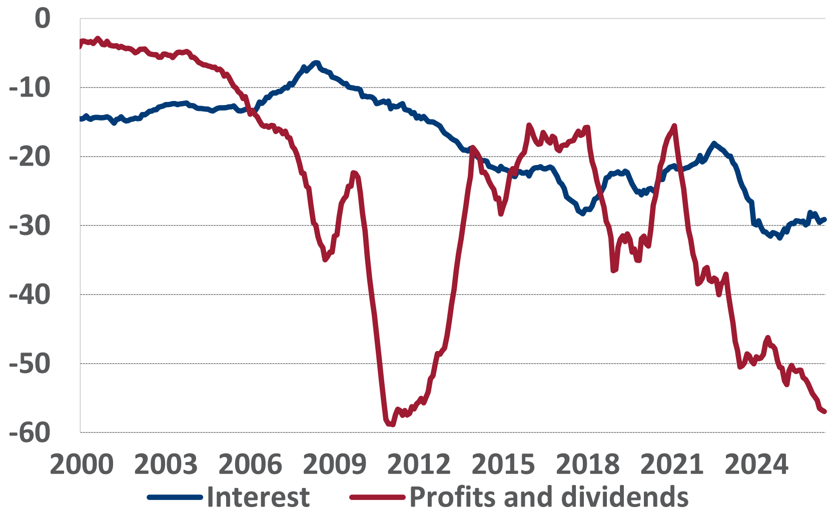
Services (USD Billion)



Services (Accumulated 12M, % GDP)



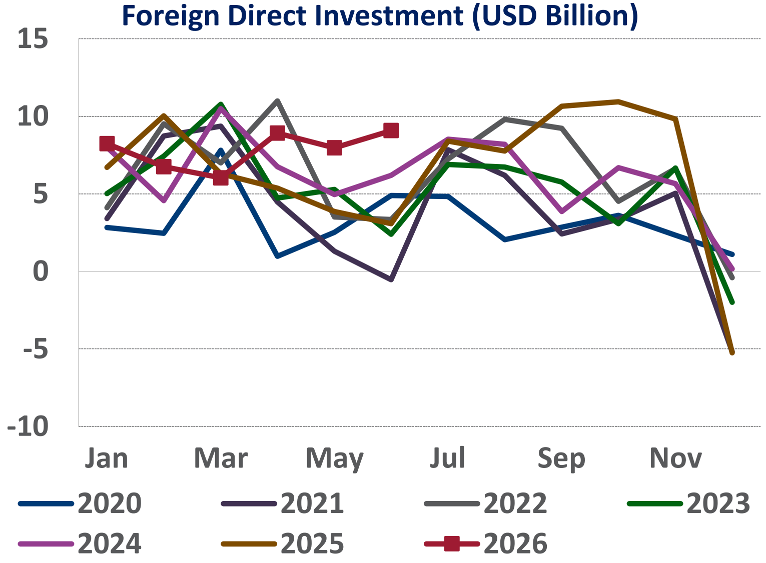
Primary Income (Accumulated 12M, USD Billion)

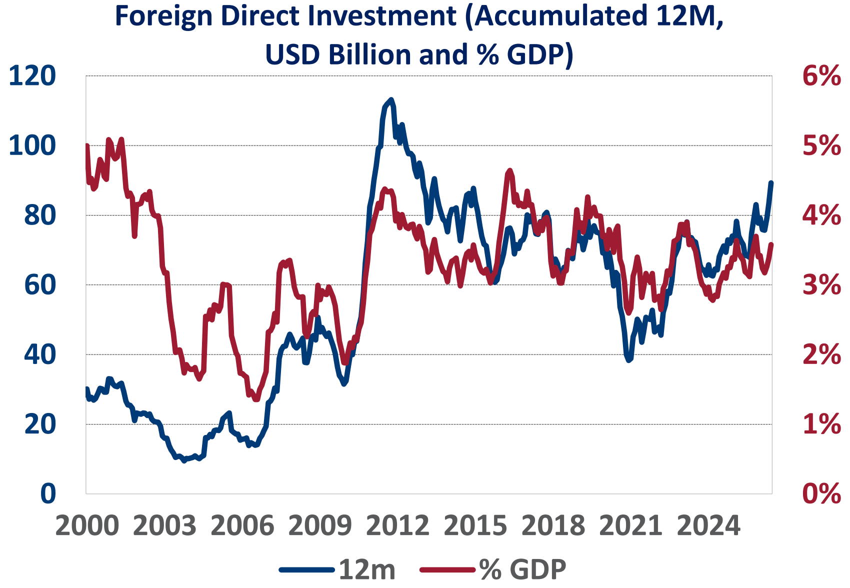


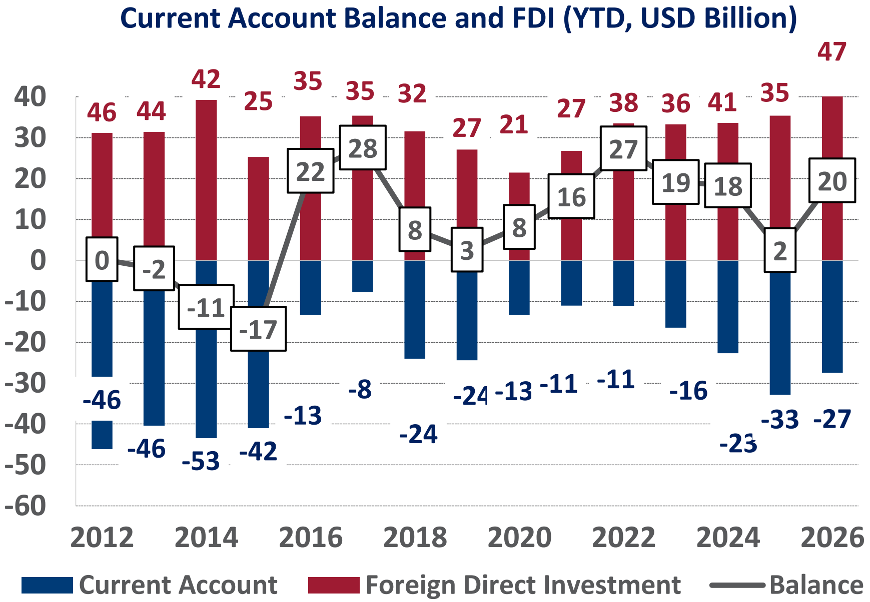
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- Foreign Direct Investment registered net inflows of USD 9.1 billion in June, well above market expectations of USD 5.6 billion and the USD 3.1 billion recorded in the same month last year.
- On a 12-month rolling basis, FDI inflows rose to USD 89.3 billion, equivalent to 3.58% of GDP, from USD 83.3 billion and 3.38% of GDP in May, the highest level since June 2013.
- Brazil remains structurally attractive for foreign direct investment, supported by its diversified industrial base and favorable position in data centers and extractive mining activities.



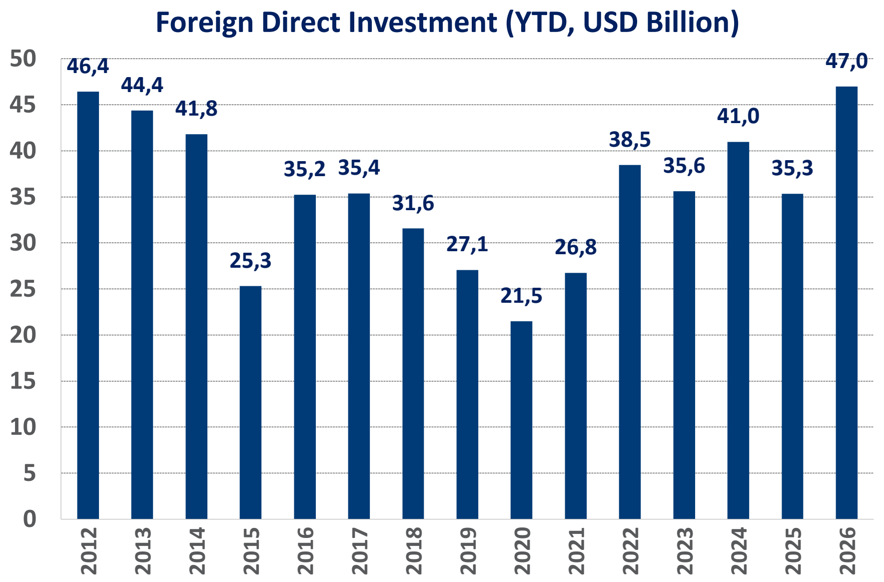


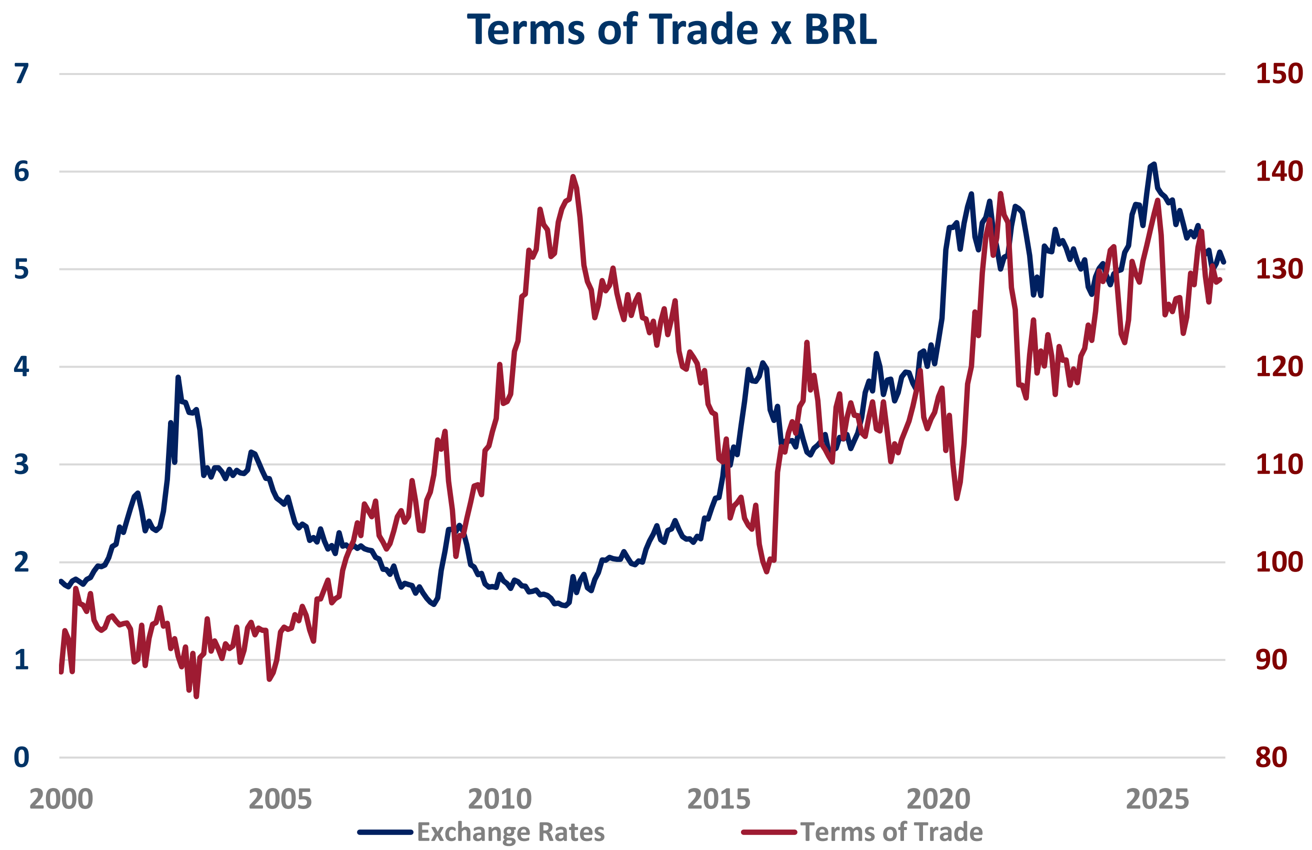


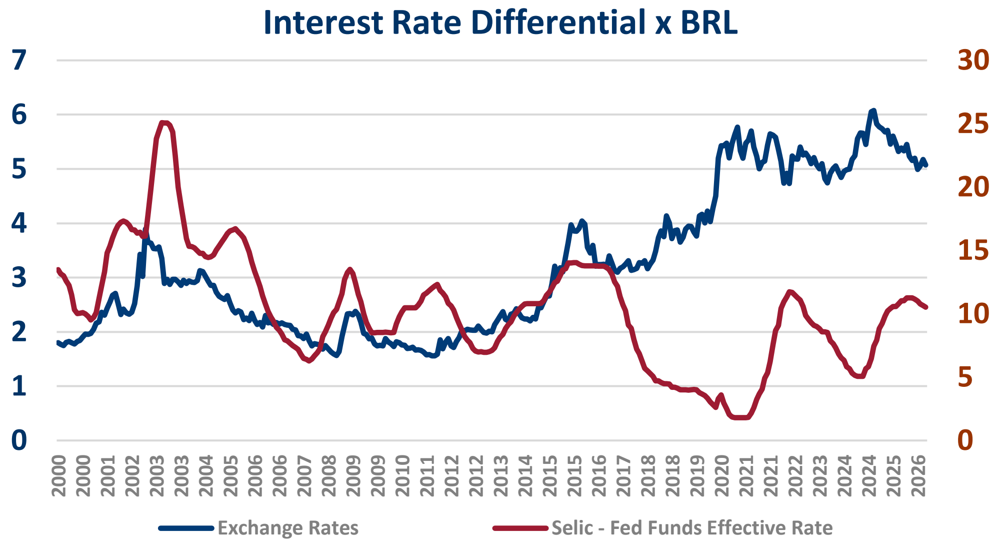
Source: BOCOM BBM, BCB

Brazil: External Sector

- In July, the Brazilian real appreciated, strengthening from around 5.18 to 5.08 per dollar by month-end, supported by a more favorable external environment and improved domestic inflation dynamics. Geopolitical tensions remained a concern throughout the month, but the absence of major escalations helped contain risk aversion and supported emerging-market currencies. Domestically, inflation data surprised to the downside, reinforcing confidence in the disinflation process and helping improve sentiment toward Brazilian assets. Meanwhile, foreign exchange flows remained broadly supportive, with strong trade-related inflows partially offsetting continued volatility in financial flows. Overall, the combination of a more constructive global backdrop and a benign inflation print outweighed persistent fiscal concerns, allowing the BRL to post gains during the month.





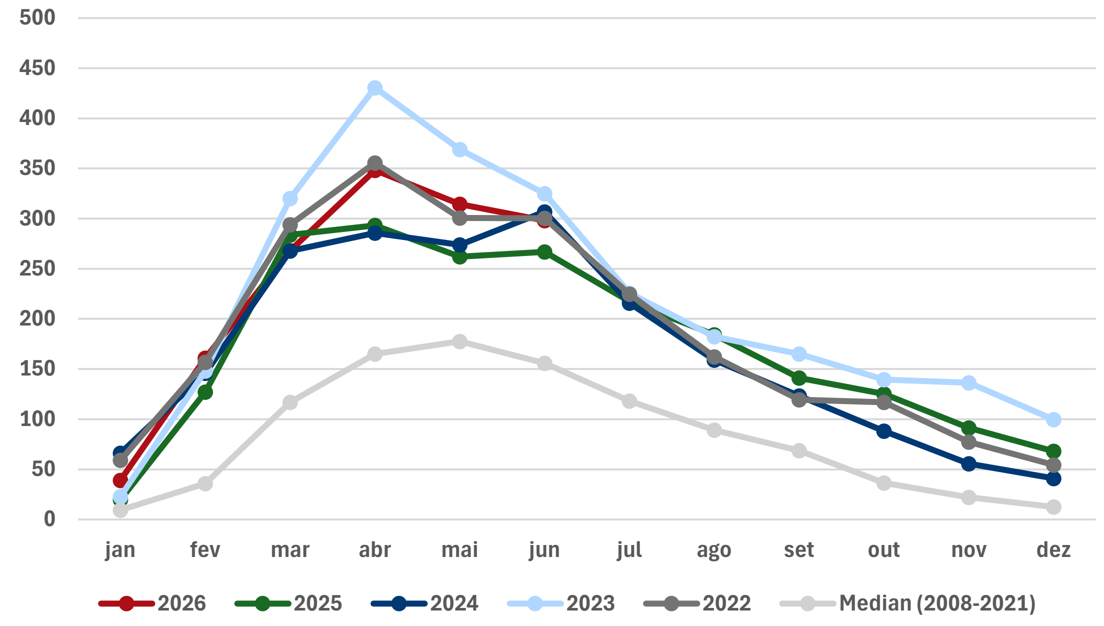


Source: BOCOM BBM, Bloomberg, BCB

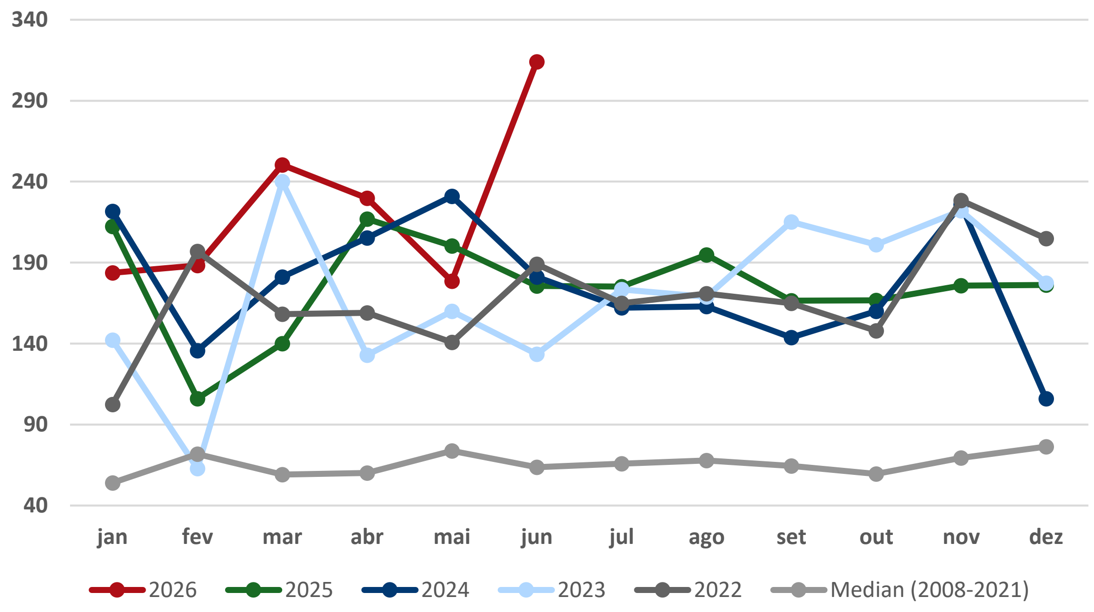
Brazil: External Sector

- In June, exports totaled US$36.28 billion and imports US$26.52 billion, resulting in a trade surplus of US$9.76 billion.
- Export performance was positive across the three major sectors, with growth in Agriculture (+18.0%, USD 8.14bn), Extractive Industries (+58.4%, USD 9.92bn), and Manufacturing (+14.7%, USD 18.04bn), resulting in an overall increase in total exports. The main positive contributions came from soybeans, iron ore, crude oil, beef, poultry, and fuel oils.
- Imports also expanded, with growth in Agriculture (+0.4%, USD 0.45bn), Extractive Industries (+25.0%, USD 1.18bn), and Manufacturing (+14.3%, USD 24.73bn), driving an overall increase in total imports. The increase was influenced by fertilizers, crude oil, natural gas, pharmaceuticals, valves and tubes, and passenger vehicles.

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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