



Economic Report

January 2023

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Global Economy 03

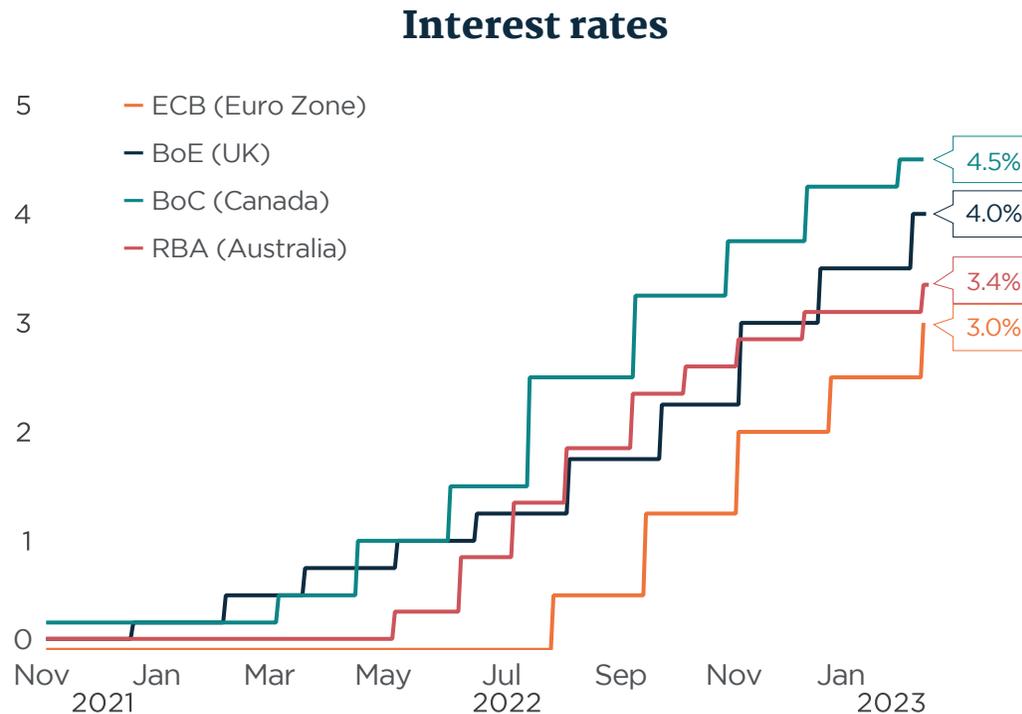
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Monetary Policy – Europe, Australia and Canada: Cycle of global interest rate hikes continues but divergences start appearing

Global Economy

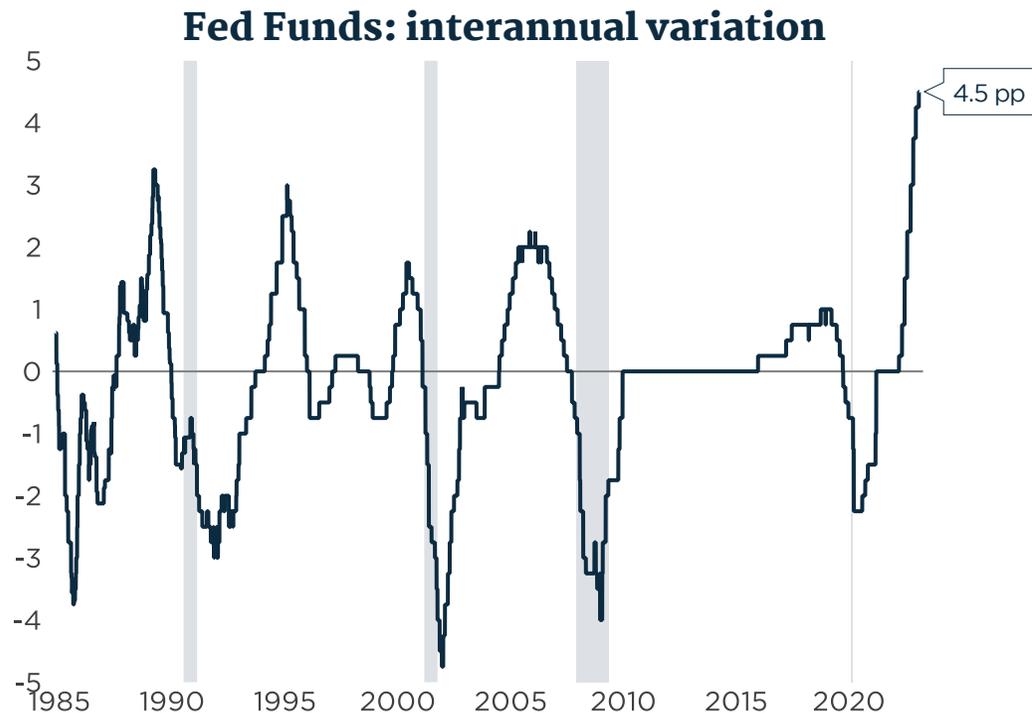


The global interest rate hike cycle is continuing but each country is doing it in its own distinctive way. It is worth noting that the ECB (European Central Bank) and the BoE (Bank of England), Europe's two biggest central banks, laid down new increases of 50 bps*, in line with expectations. However, the tone of the Eurozone's central bank was seen as being tougher than that of the UK. The ECB has pledged to deliver at least one more increase of 50 bps hike while the BoE split on the issue at the February meeting, with some committee members preferring to keep interest rates on hold.

*1 basis points or 1 bp = 0.01% or 1/100 percentage point

Monetary Policy – US: Fed raises interest rates and indicates that upcoming rises will be limited to 25 bps

Global Economy

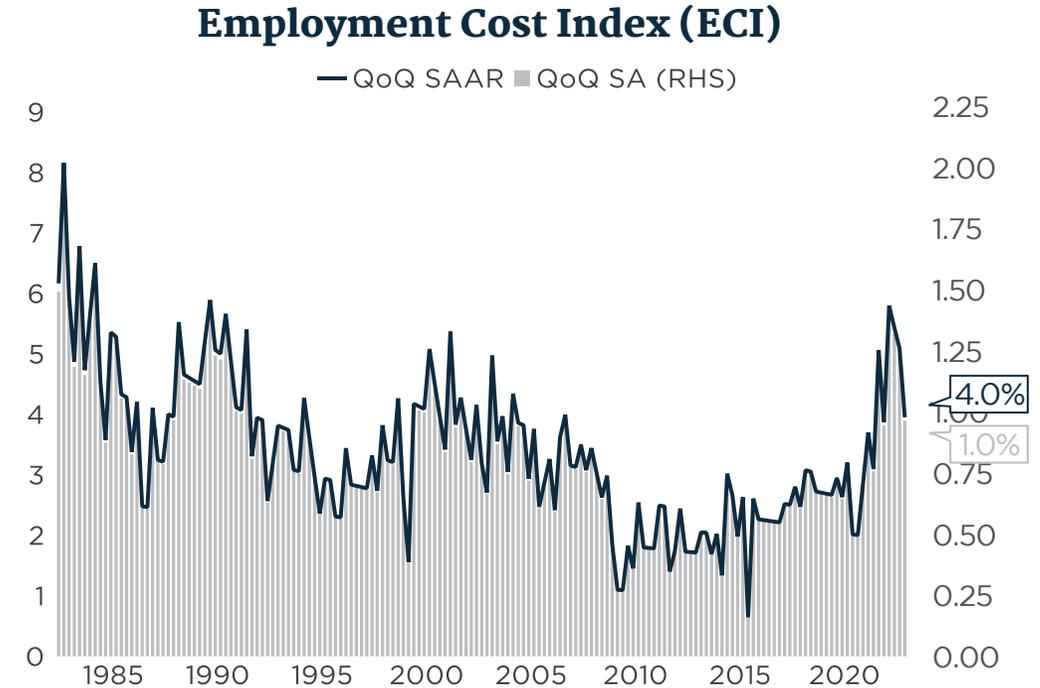
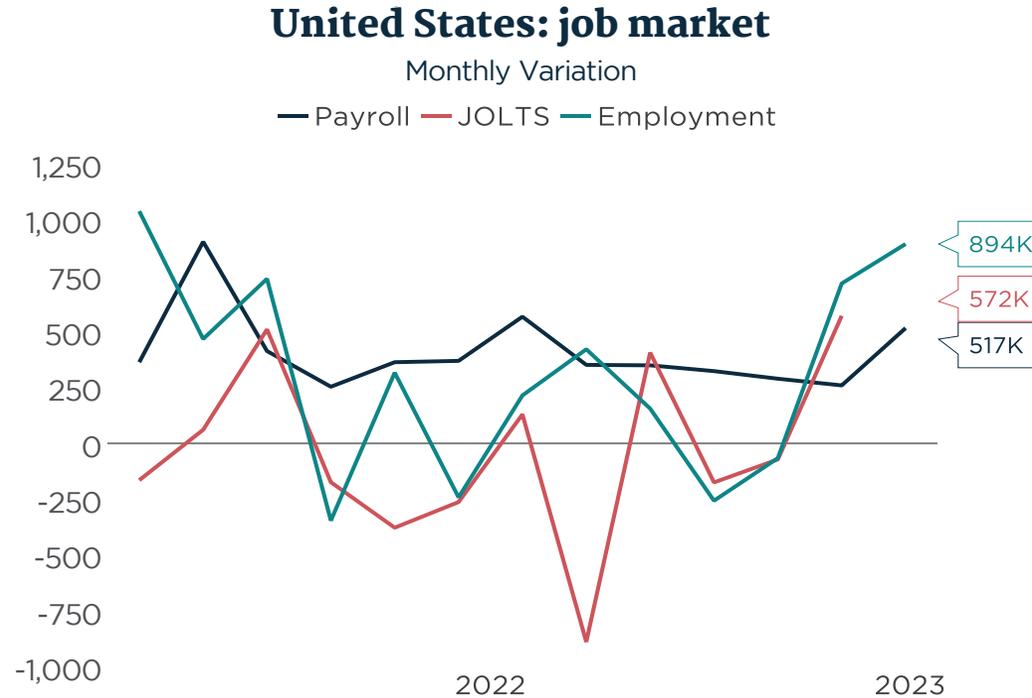


Following an extremely intense and accelerated cycle compared with the historical series (as can be seen in the accompanying graph which shows the variation of the basic interest rate in 12-month windows), the latest meeting of the Fed’s Monetary Policy Committee (FOMC) resulted in the second consecutive slowdown in the pace of interest rate increase, indicating that upcoming hikes will likely be limited to 25 basis points.

The decision came amid a relatively sustained fallback in the main inflation metrics, leading the committee to acknowledge the disinflation process, although at “very early stages”, as the Fed president Jerome Powell described it in the latest press conference

Job market – US: Job market extremely heated but some moderation seen in wages

Global Economy



A few days after the FOMC's decision, the labor market results were well above expectations, raising questions over the terminal interest rate in this upward cycle. It is interesting to note that although the job market is still very strong, the pressure for wage increases seems to be easing in sequential terms, as shown by the Employment Cost Index survey which takes into consideration not only wages but other benefits that impact the cost of labor (graph on the right).

Outlook: Weaker activity and inflation in the turn of the year

Brazilian Economy

Activity	Feb/22	Mar/22	Apr/22	May/22	Jun/22	Jul/22	Aug/22	Sep/22	Oct/22	Nov/22	Dec/22	Jan/23
Industrial Production (MoM)	0.2	0.1	0.0	-0.3	-0.1	0.0	0.0	0.0	0.0	0.1	0.0	
Volume of Services (YoY)	-1.2	2.9	-1.1	0.7	0.3	0.8	1.2	1.6	-1.0	-0.1		
Retail Sales (MoM)	0.8	0.5	0.6	-0.9	-0.3	-0.9	0.1	0.8	0.1	-0.3		
Expanded Retail Sales (MoM)	0.9	0.8	-0.1	-1.5	-1.5	-0.7	-0.3	0.8	0.0	-0.6		
IBC-Br (MoM)	-0.1	0.1	-	-0.1	0.3	0.8	-0.4	-0.2	-0.5	-0.3		
CAGED (x1,000 jobs)	108.3	5.9	23.0	95.8	37.9	-39.7	10.9	3.1	-50.5	-12.3	-101.0	
Unemployment (%)	-0.2	-0.3	-0.4	-0.4	0.0	0.1	0.0	0.0	-0.2	0.0		
GDP QoQ()		-0.2			0.3			-0.2				

Inflation

IPCA (bp)	6	27	6	-13	-4	-3	4	4	10	-12	17	
IPCA-15 (bp)	12	10	-11	14	2	-3	10	-17	7	-2	-2	4
IGP-10 (bp)	1	2	23	-23	-5	12	-10	-40	-1	-8	13	-25
IGP-M (bp)	-3	27	-29	2	-11	-7	-16	0	-13	-21	-10	-2
IGP-DI (bp)	-6	27	-27	-12	1	-20	-2	-38	13	0	-13	-22

Key: upward trend/downward trend surprise

The activity figures in Brazil have been moderating, particularly those related to the labor market, such as formal job creation (local acronym CAGED). The inflation figures which have a heavier weighting in the wholesale inflation indexes (IGPs) have also presented a downwards surprise, reflecting the fall in prices of some commodities in local currency.

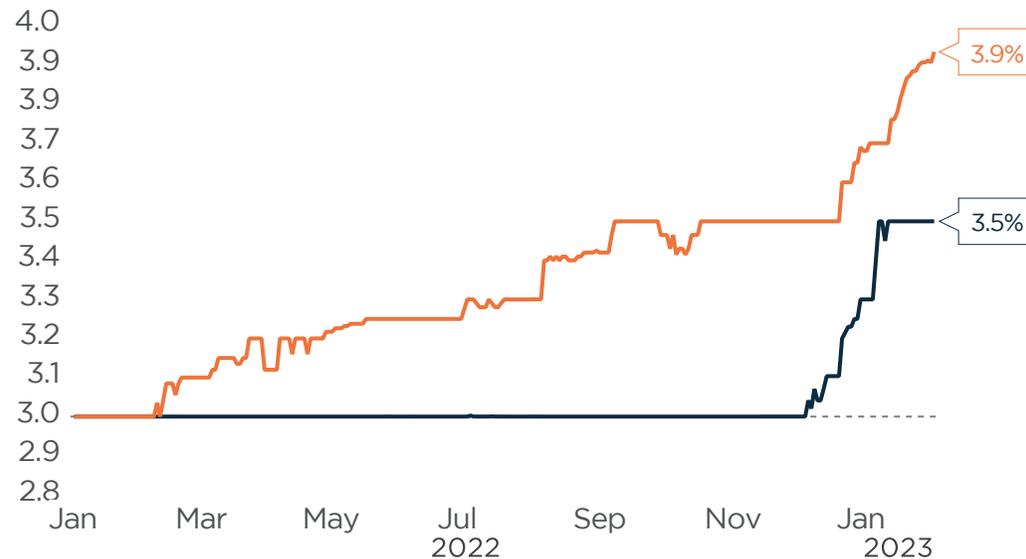
COPOM: Market still factoring in cuts in interest rates despite the balance of risks

Brazilian Economy

Focus: IPCA

Expectations for the end of the period

— 2024 — 2025



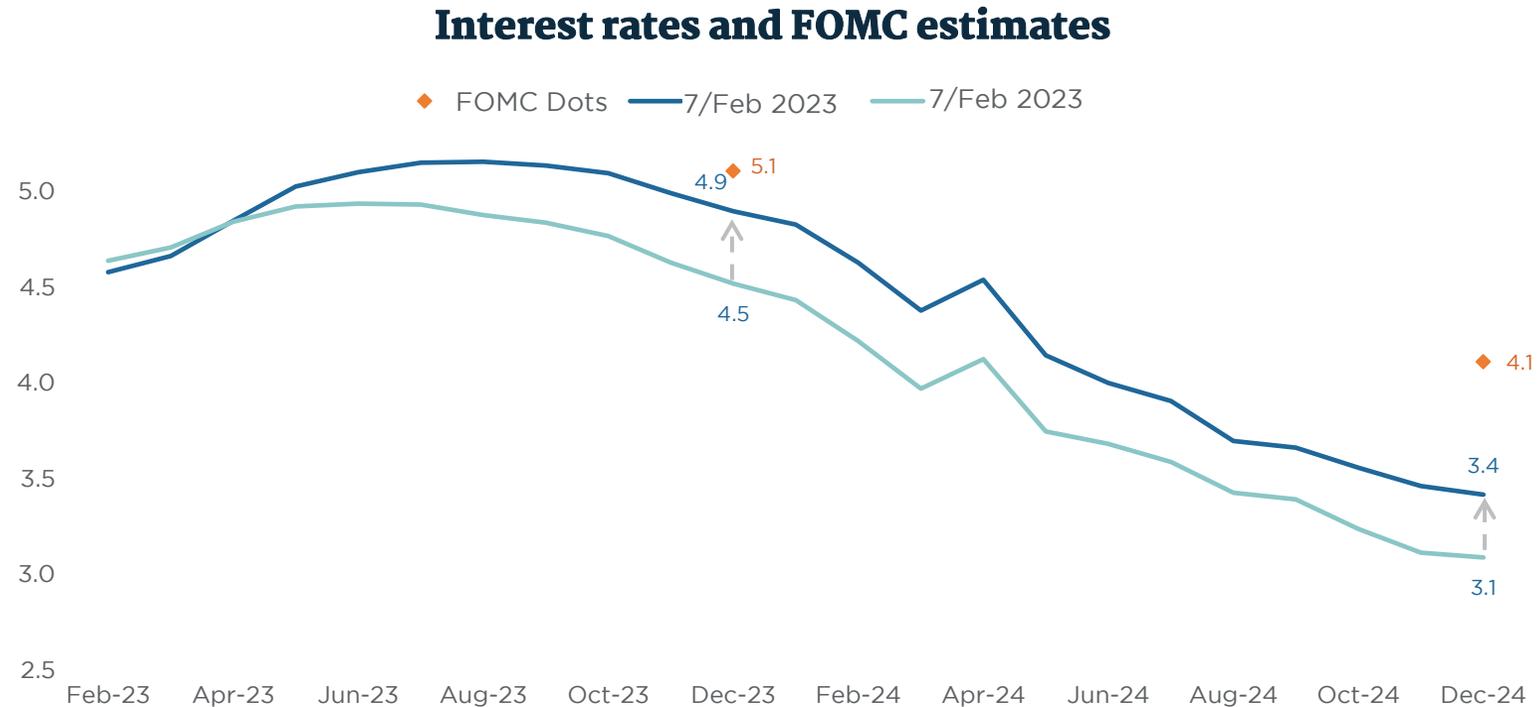
“The Committee noted with particular concern the deterioration in longer-term inflation expectations. Such deterioration may have happened for several reasons, among them a possible perception of the Banco Central do Brasil (BCB) leniency with the targets set by the National Monetary Council (CMN), an expansionary fiscal policy that pressures the aggregate demand over the projection horizon, or the possibility of changes in the inflation targets already set. [...] In summary, more important than analyzing the motivations for the rise in expectations, the Committee emphasizes that it will act to ensure that inflation converges to the targets.”

– COPOM, Minutes Feb 7th 2023

The Central Bank’s monetary policy committee continues to show concern over the deterioration of long-term expectations for inflation. The committee itself says this phenomenon may be associated with a perception of leniency with the targets, by the prospect of an expansionary fiscal policy or the possibility of changing the targets, as highlighted in the above quote from the minutes.

American interest rates: After strong figures, the size of the cycle is being questioned again

Markets

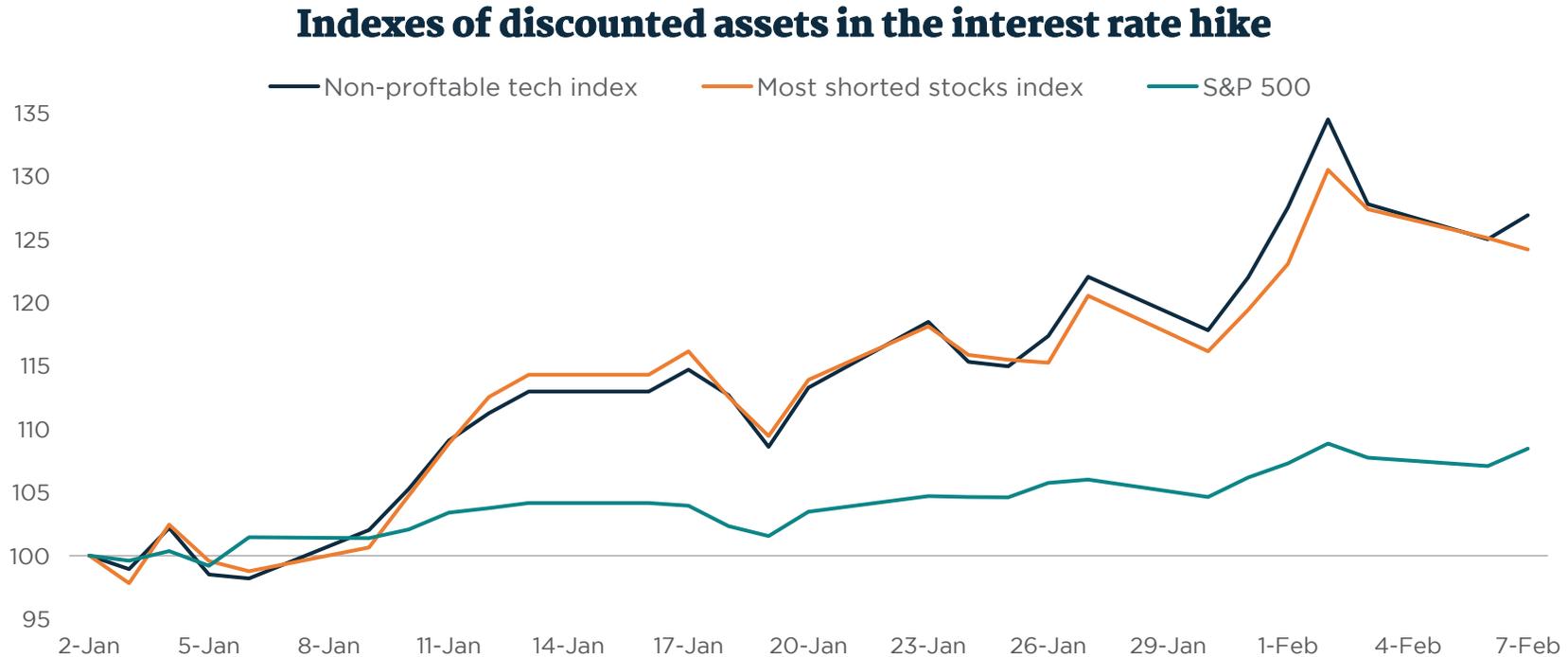


The recent stronger employment and activity figures in the United States were quickly reflected in the interest rate market which started indicating a higher terminal rate. Nevertheless, the expectations implicit in the curve point to lower rates than the latest FOMC projections for 2023 and 2024.

Equities:

Light technical positioning and repricing of long-term interest rates boosts more discounted stocks

Markets

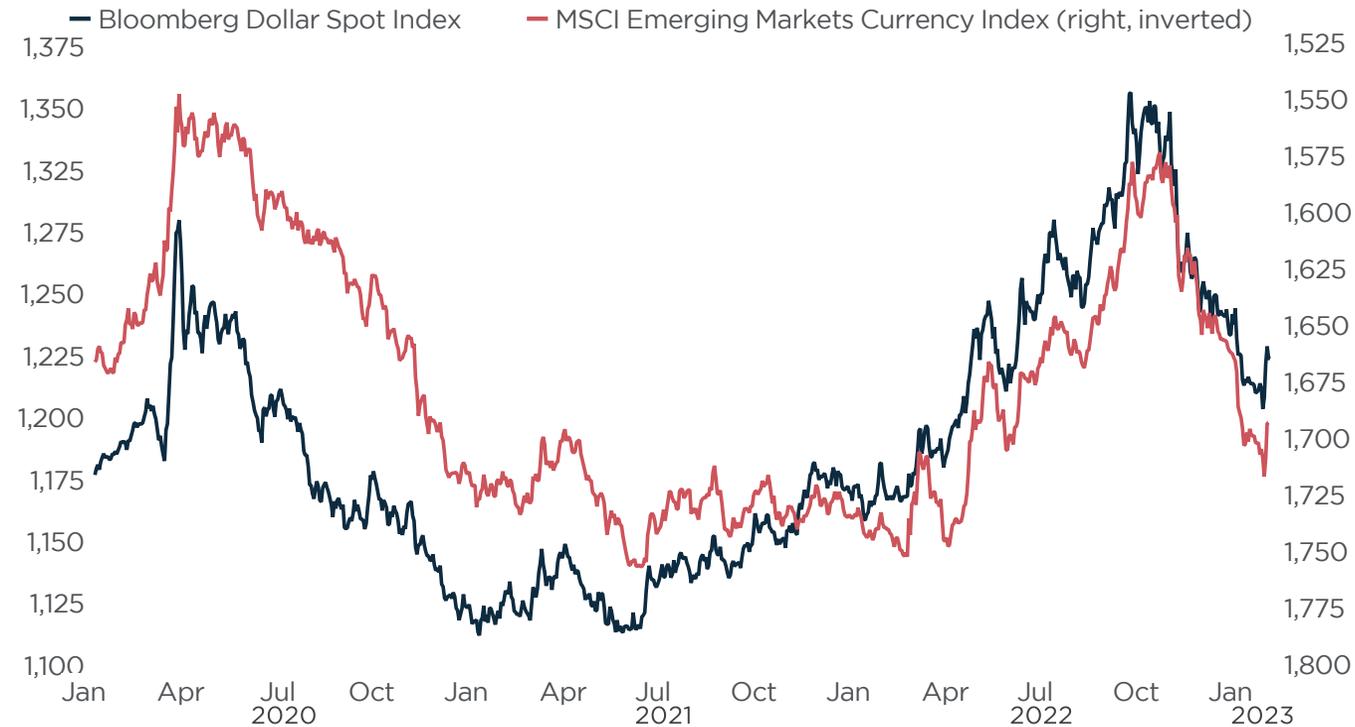


The start of the year was marked by a recovery in the American stock market, particularly in the most discounted assets. This movement benefited from the closing of interest rates in long-term vertices and the lighter technical positioning in these assets. The above graph shows how the indexes of non-profitable companies and the most shorted stocks outperformed the S&P in the period.

Dollar: Interest rate differential and Chinese reopening pushes dollar downwards

Markets

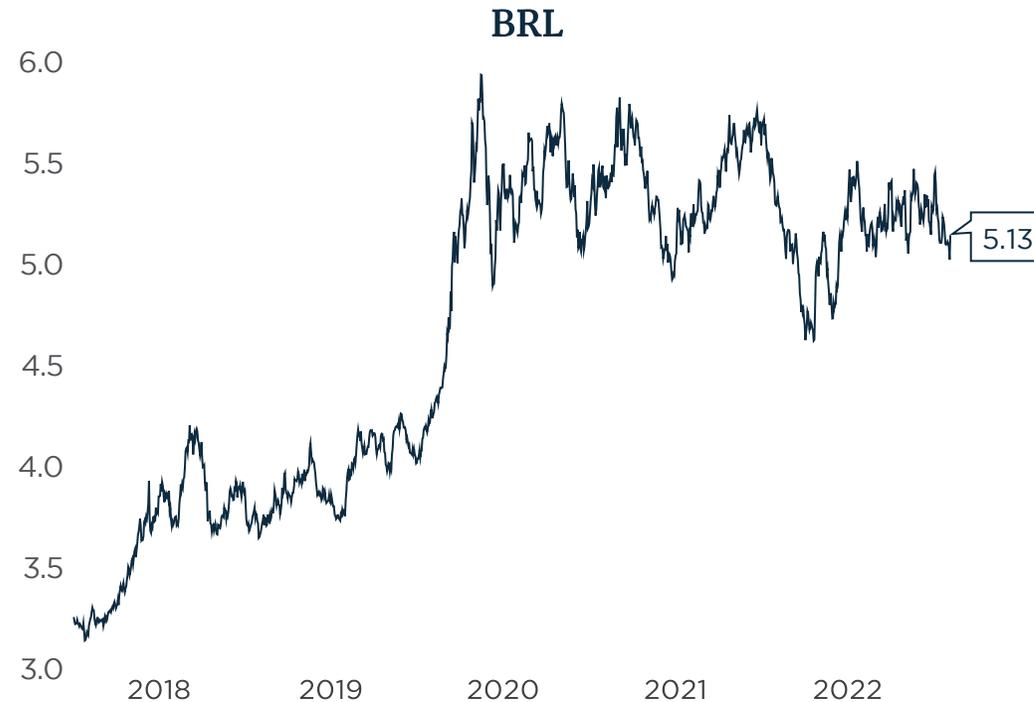
FX: Emerging vs developed country currencies



The dollar has been performing weaker since the end of last year, in line with the closing of the American yield curve. More recently, after the positive surprise from data released in February, the performance of the American currency showed some backtracking of this movement, as seen in the above graph.

Exchange Rate: BRL benefits from global movement

Markets



Emerging Currencies

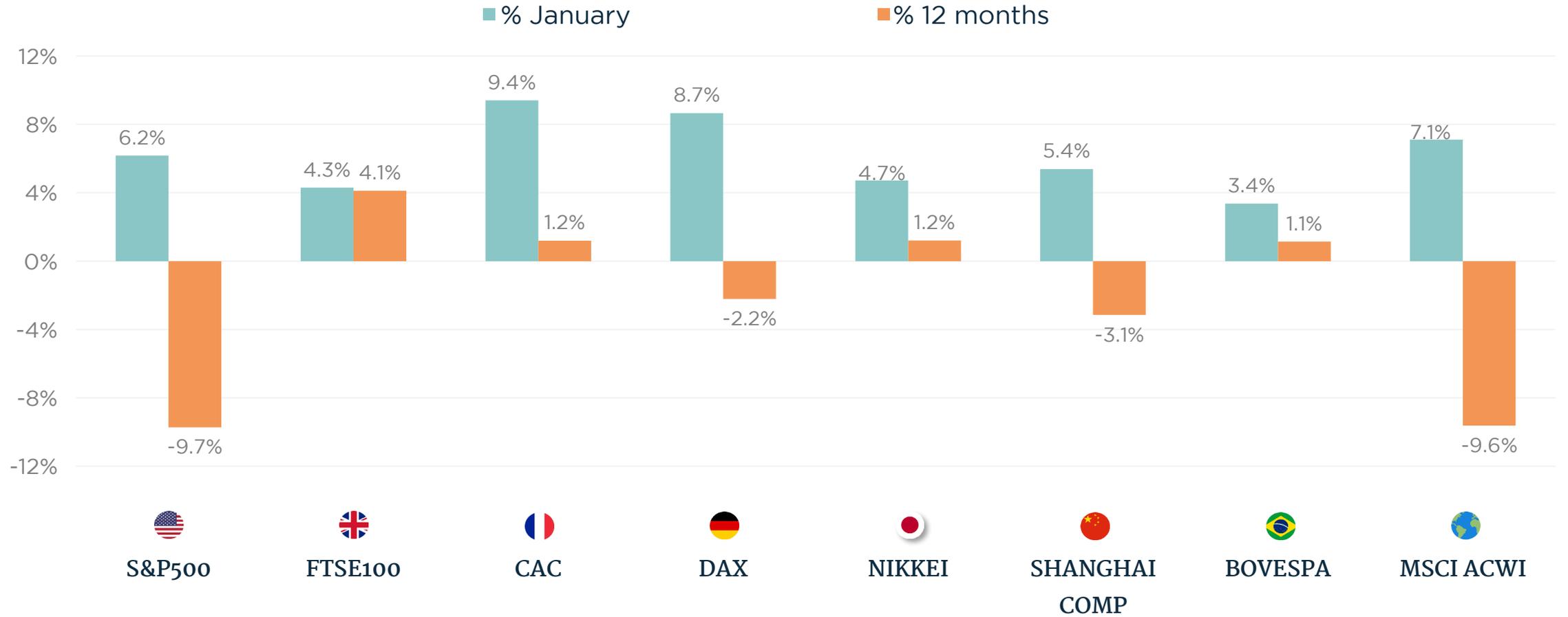
Variation (%)	30 days	60 days	90 days	120 days
BRL (Brazil)	1.2%	2.4%	0.1%	0.0%
COP (Colombia)	1.0%	-0.3%	5.6%	8.8%
CLP (Chile)	-9.2%	-10.9%	-16.4%	-15.6%
ZAR (South Africa)	3.5%	1.9%	-1.4%	3.6%
NZD (New Zealand)	-0.1%	-3.0%	-9.2%	-2.0%
AUD (Australia)	-3.1%	-2.9%	-6.0%	-0.6%
MXN (Mexico)	-1.9%	-1.7%	-4.6%	-5.5%
THB (Thailand)	-3.2%	-6.4%	-11.9%	-6.8%
KRW (South Korea)	-2.0%	-5.3%	-12.3%	-6.3%
PHP (Philippines)	-0.1%	-3.8%	-6.6%	-2.0%

Positive variation = depreciation
Negative variation = appreciation

The Real managed to remain relatively composed in the face of an extremely negative news flow on the domestic front over the past few weeks. Favorable external factors such as the reopening of China and the closing of the U.S. interest rates curve help explain this behavior. However, it is worth noting that the currency's performance was much worse than most of its peers in horizons of 3 to 4 months, as shown in the above table.

Stock Markets

Markets



Indexes

	% January	Value on 31/01/2023	% 2023	% 12 months
COMMODITIES				
OIL WTI	-1.7%	78.87	-1.7%	-10.5%
GOLD	5.7%	1,928.36	5.7%	7.3%
CURRENCIES (IN RELATION TO THE US\$)				
EURO	1.5%	1.09	1.5%	-3.3%
GBP	2.0%	1.23	2.0%	-8.4%
YEN	0.8%	130.09	0.8%	-11.5%
REAL	4.0%	5.08	4.0%	4%
INDEXES				
S&P500	6.2%	4,076.60	6.2%	-9.7%
FTSE100	4.3%	7,771.70	4.3%	4.1%
CAC	9.4%	7,082.42	9.4%	1.2%
DAX	8.7%	15,128.27	8.7%	-2.2%
NIKKEI	4.7%	27,327.11	4.7%	1.2%
SHANGHAI COMP	5.4%	3,255.67	5.4%	-3.1%
BOVESPA	3.4%	113,430.54	3.4%	1.1%
MSCI ACWI	7.1%	648.37	7.1%	-9.6%



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