



Economic Report

September 2023

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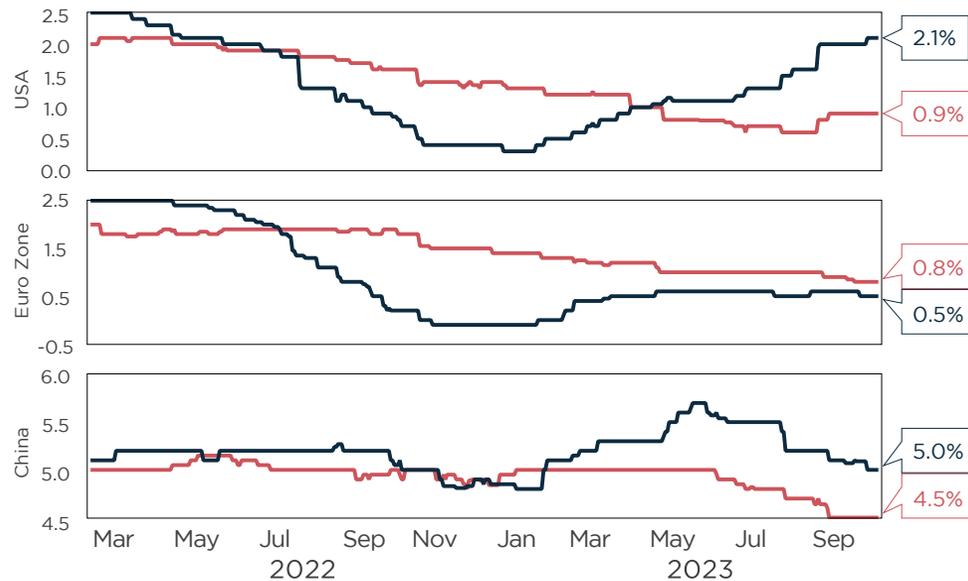
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Global: Activity strengthens in the United States but is weaker in China

Global Economy

Median of GDP growth expectations

Projections for 2023 (blue) and 2024 (red)



*Updated to 04/10/2023

Growth expectations for the United States continue to be revised upwards, particularly for 2023, due to the consistent positive surprises in the activity and labor market data. On the other hand, the outlook is different for other important economic hubs such as the Euro Zone and, above all, China.

The situation in Europe is still one of weak activity, particularly in industrial production, which has been particularly hit by the disruption of the global production chains and sharp increase in costs, especially items linked to energy.

The deterioration of expectations in China is even more striking despite the ensuing announcements of economic stimulus measures implemented by the local government.

Monetary Policy: FOMC keeps interest rates on hold but makes major revisions in the projections

Global Economy

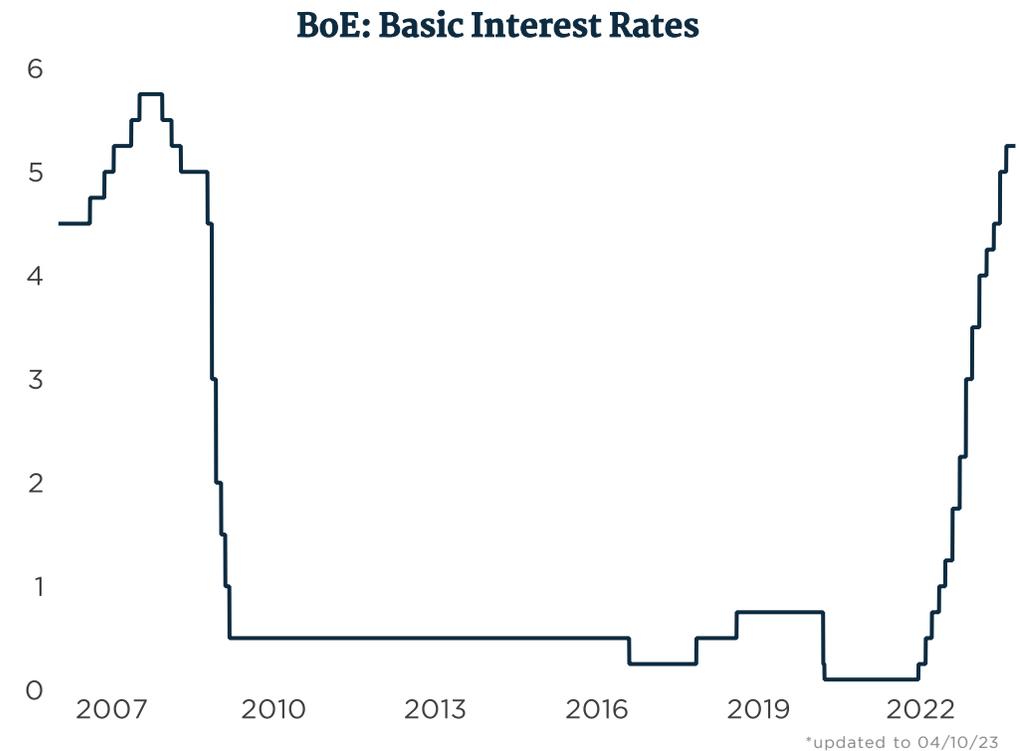
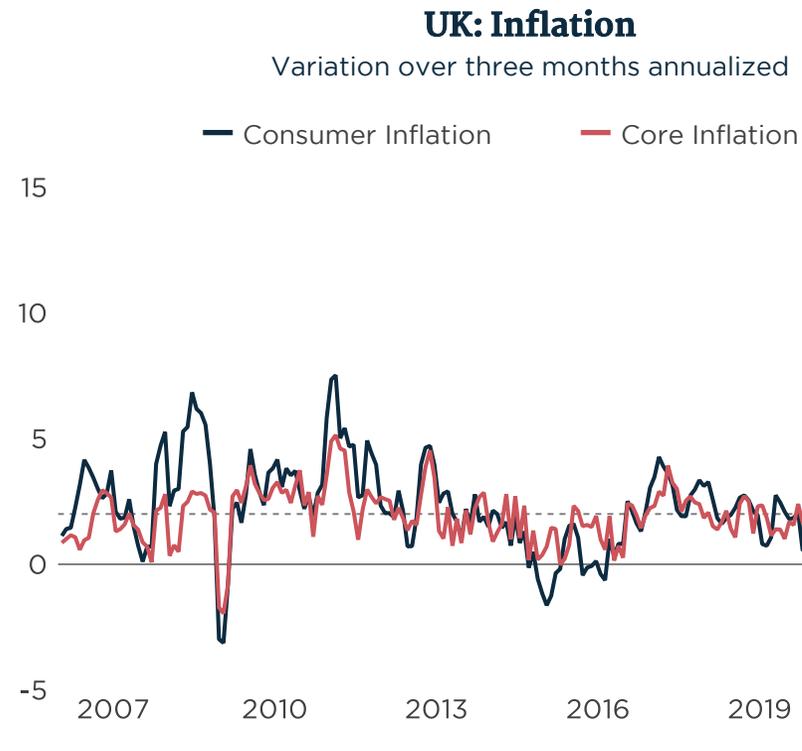
Median of FOMC expectations

September projections (%)	2023	2024	2025	2026	Long term
Variation in GDP	2.1	1.5	1.8	1.8	1.8
June projection	1.0	1.1	1.8	-	1.98
Unemployment rate	3.8	4.1	4.1	4.0	4.0
June projection	4.1	4.5	4.5	-	4.0
Inflation measured by the PCE	3.3	2.5	2.2	2.0	2.0
June projection	3.2	2.5	2.1	-	2.0
PCE core	3.7	2.6	2.3	2.0	-
June projection	3.9	2.6	2.2	-	-
Interest rate	5.6	5.1	3.9	2.9	2.5
June projection	5.6	4.6	3.4	-	2.5

The latest meeting of the American Central Bank's Monetary Policy Committee (FOMC) resulted in no change in interest rates, as had been widely expected. However, the Fed issued a tough warning. The main highlight was the revision in the committee's expectations which pointed to the prospect of a still strong economy, requiring higher interest rates for a longer period. There was some expectation of a possible revision of the long-term (neutral) rate but this did not come about in the median of the committee's projections.

UK: BoE stops hiking interest rates due to benign outlook for inflation

Global Economy



The UK Central Bank (BoE) chose not to deliver the interest rate hike the market had expected at the August meeting and kept the rate on hold for the first time since the beginning of the monetary tightening cycle. The main reason for the change of direction was the release of the consumer inflation figures which showed a sharp slowdown in August (see left graph).

Monetary Policy:

Inflation report points to few changes in the projections despite the broad debate over possibilities

Brazilian Economy

Central Bank's Inflation Projections

Outlook with Selic Focus and PPP exchange rate

Variation of IPCA index accumulated over four quarters (%)

Year	Quarter	Target	IR Jun/23	IR Sep/23	Difference (p.p.)
2023	III	3.25	5.4	5.3	-0.1
	IV		5.0	5.0	0.0
2024	I	3.00	4.1	4.1	0.0
	III		4.1	4.2	0.1
	III		3.7	3.9	0.2
	IV		3.4	3.5	0.1
2025	I	3.00	3.2	3.2	0.0
	III		3.1	3.1	0.0
	III		3.0	3.0	0.0
	IV		3.1	3.1	0.0
2026	I	3.00	-	3.1	-
	III		-	3.1	-
	III		-	3.1	-
	IV		-	3.1	-

The Brazilian Central Bank cut the Selic rate (the country's basic interest rate) by 50 basis points* at its September meeting, as expected. The committee's statement was quite emphatic about the way ahead and made it clear that the monetary authority has no intention of speeding up the pace of cuts for the time being.

After the decision, with the release of the minutes and the quarterly inflation report, the committee discussed the possible reasons why activity has been resilient in the last few quarters despite high interest rates. These included the indirect effects of the strong agricultural sector on other sectors, a possible rise in disposable income, a higher neutral rate and even potentially higher growth brought about by regulatory reforms and institutional advances. Each of these possibilities (or sub sections of them) would have different implications for the conduct of the monetary policy.

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

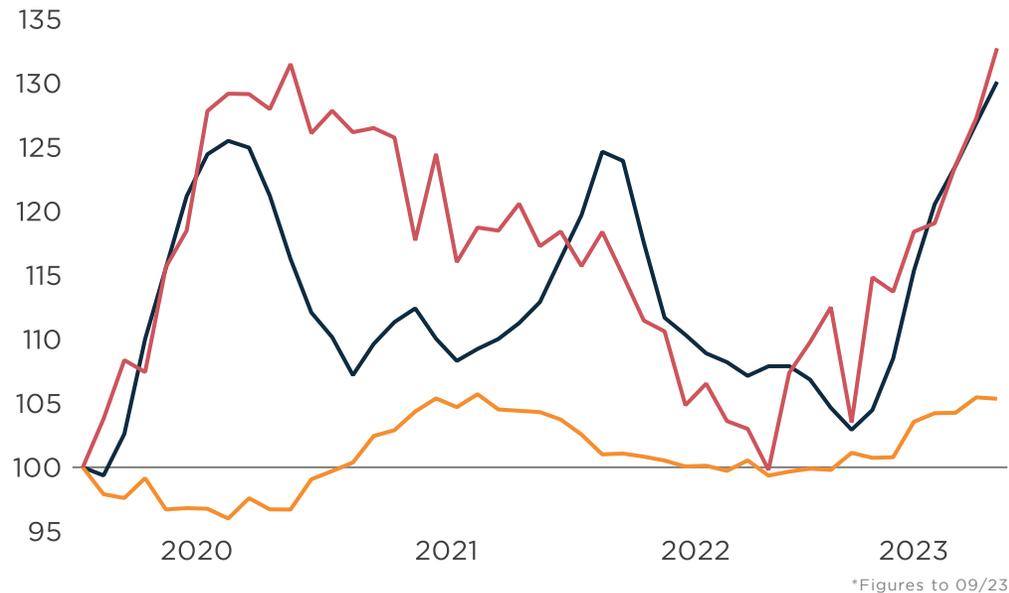
Trade Balance: Rise in exports helps sustain the currency flow

Brazilian Economy

Net exports accumulated over 12 months (kg)

Base 100 = Jan/2020

— Crude oil — Iron ore — Soy

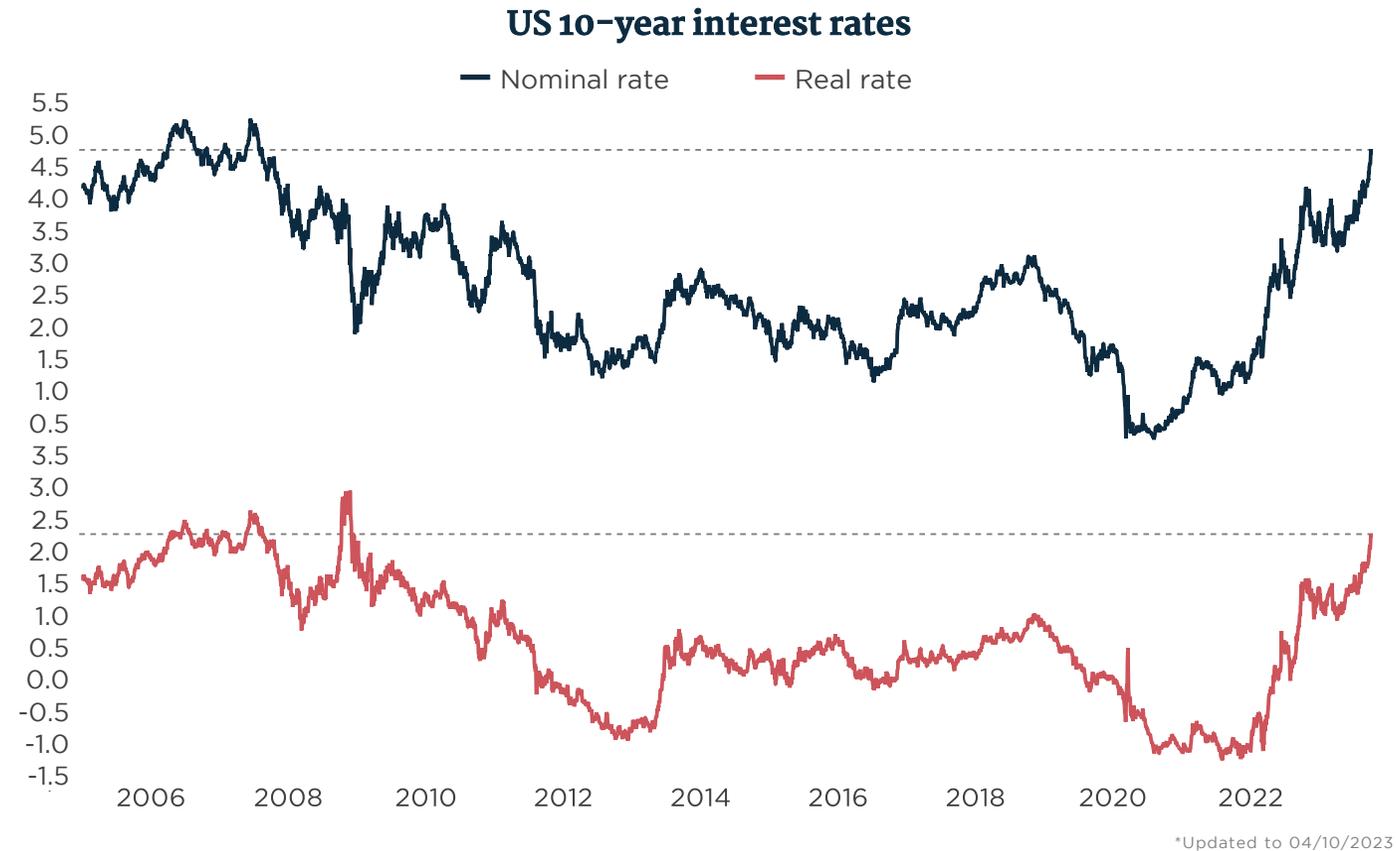


The external accounts have remained at a relatively comfortable level over the last two years, i.e. the flow of investments into Brazil has been more than enough to offset the current account deficit.

This positive picture largely reflects an increase in the inflow of capital to the country, but it is also worth mentioning the growing trade surplus. Despite the volatility in prices, commodities have accounted for a large part of the result due to the expansion of the volume exported. It is worth singling out the contributions made by the soybean and corn harvests and the performance of the extractive industry, particularly crude oil.

Interest rates: Long-term rates reach record levels in over a decade

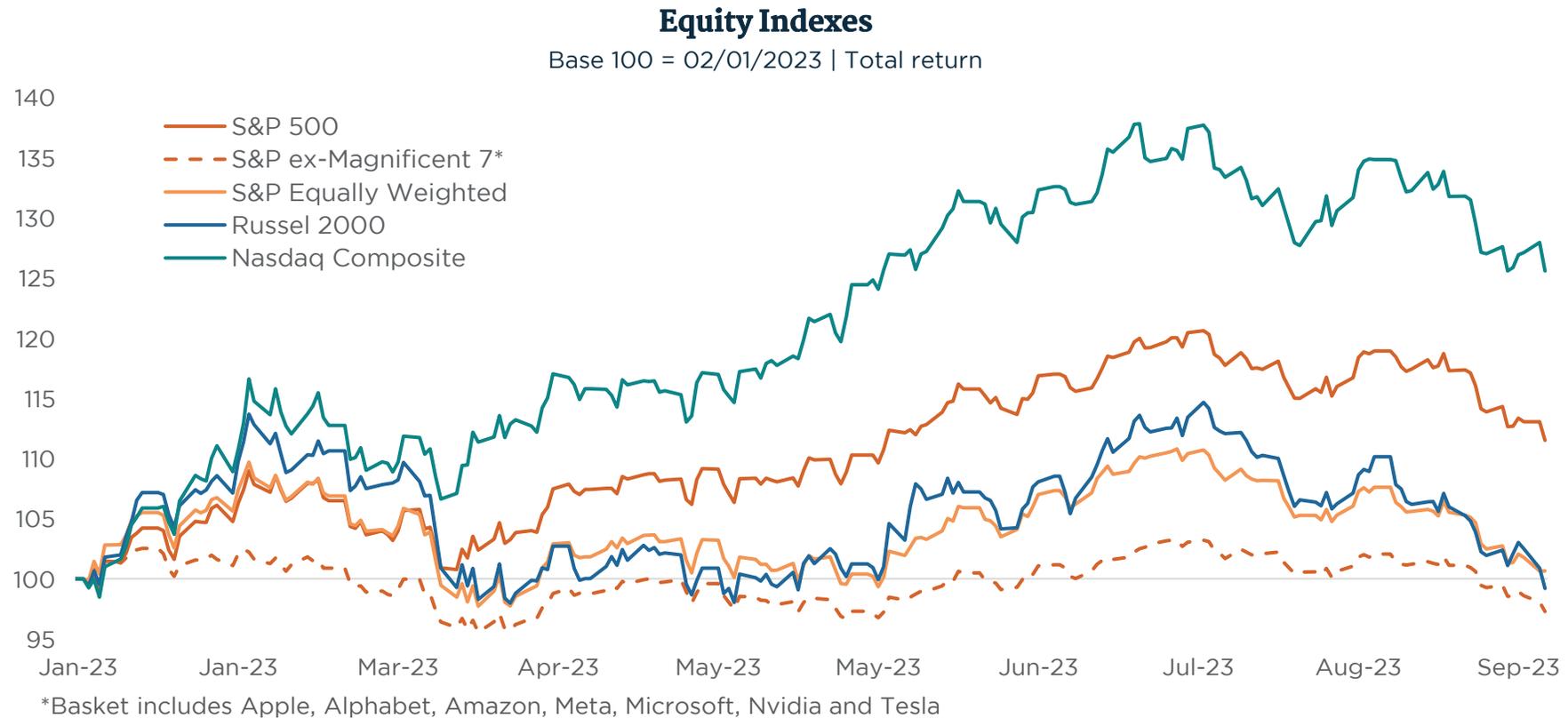
Markets



The longer-term vertices of the American yield curve continued to open in the transition period from September to October. As a result, rates tested highs which had not been seen since 2008. Some of the longest bonds, shown in the above graph which presents the interest rate on the 10-year US Treasury bond, traded above 5% in nominal terms.

Equities: Opening of the interest rate curve continues to penalize the American stock market

Markets

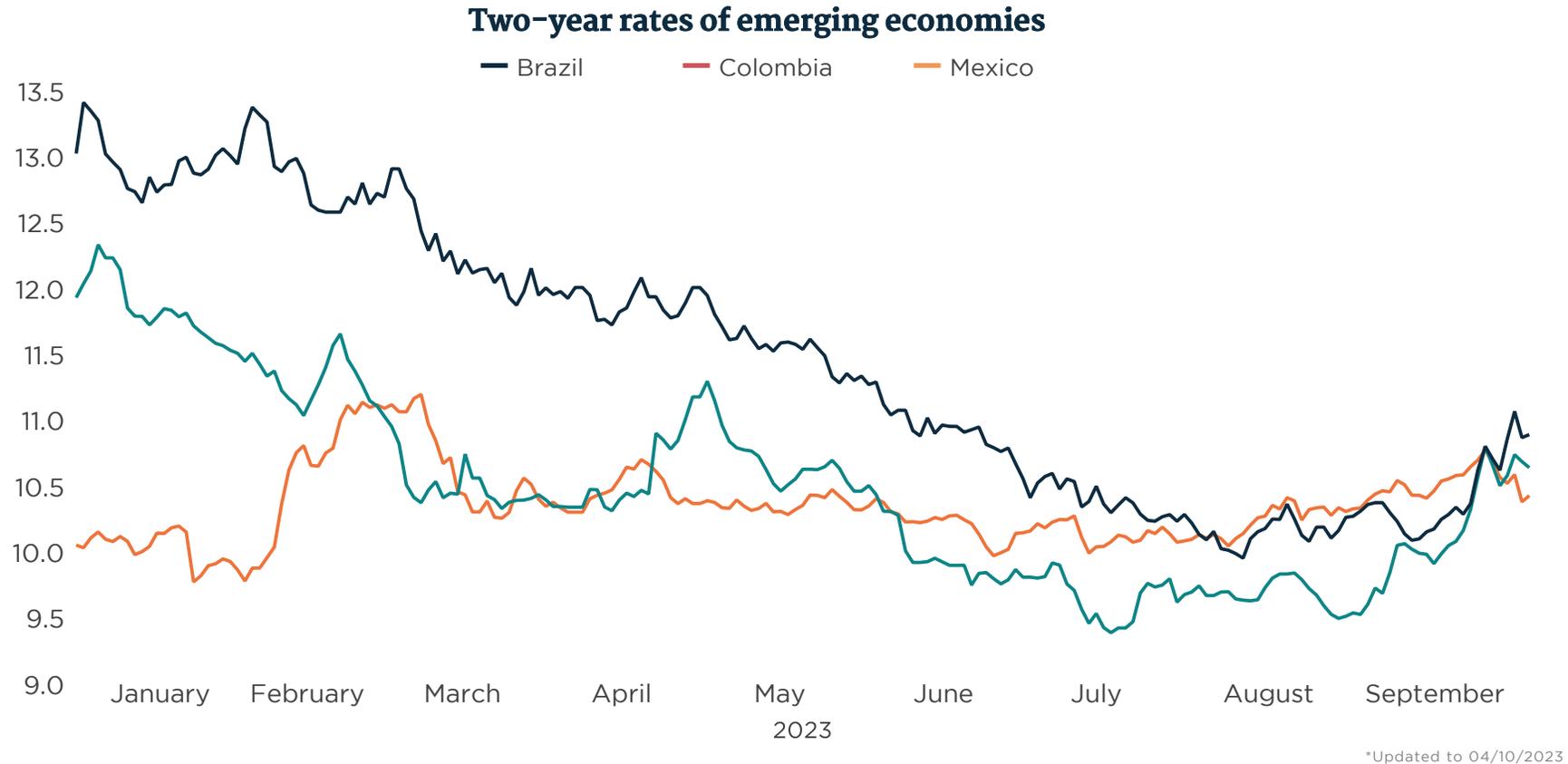


*Updated to 03/10/2023

As exemplified in the above graph, the main global stock indexes had another difficult month, still reeling from the effects of the opening of the interest rate curve. Not even the Big Techs (such as Apple, Alphabet, Amazon, Meta, Microsoft, Nvidia and Tesla) achieved positive results for the month although they are still performing very well for the year.

Interest rates: Rates continue to open in line with the global trend and tougher COPOM statement

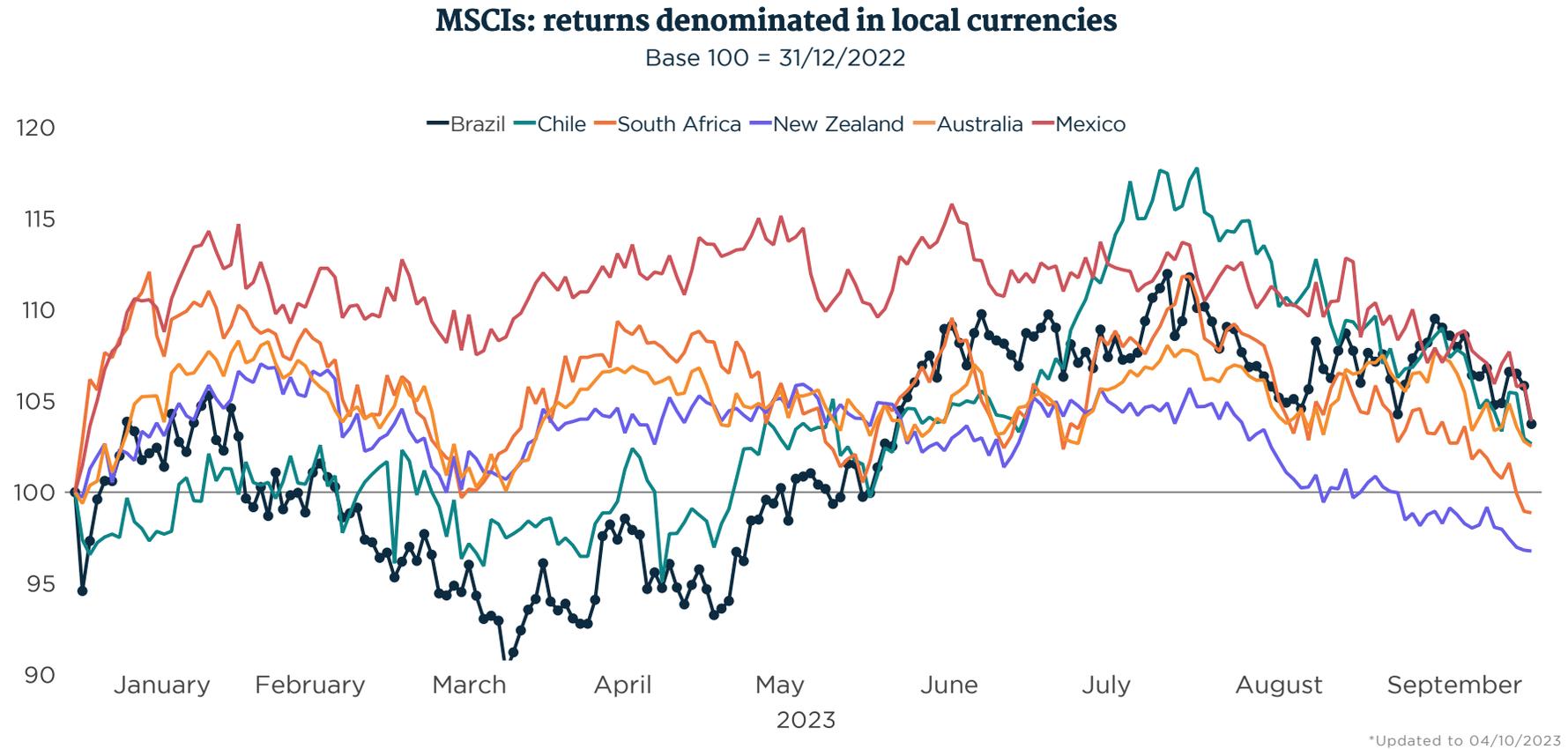
Markets



In line with the global trend, Brazil's longer-dated fixed-income bond rates also opened up, despite the Central Bank's relatively tough tone. However, it is worth noting that the movement was less intense in Brazil than in other emerging economies.

Stock market: Despite the decline in sequential terms, Brazil has been outperforming its peers

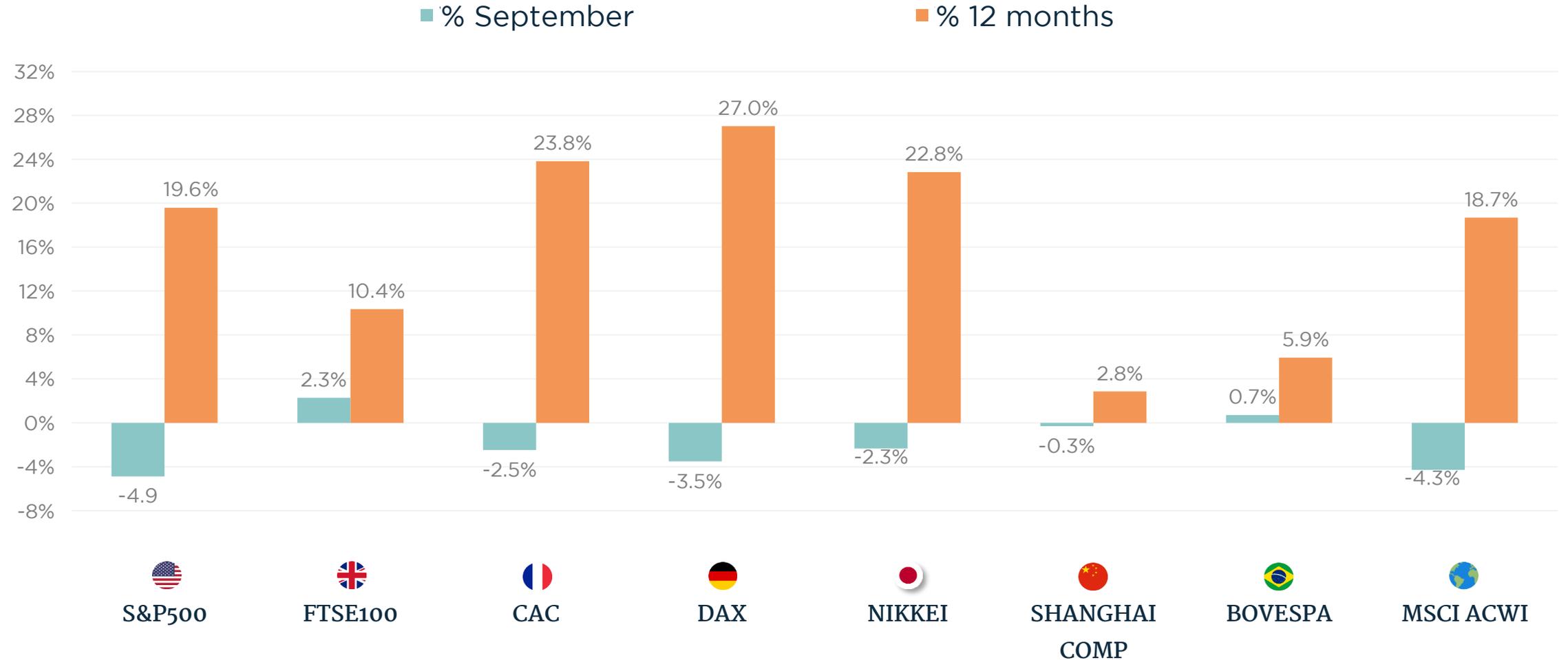
Markets



As occurred in the interest rate market, the local stock market did not perform well in September. However, it still outperformed its peers, as shown in the above graph.

Stock markets

Markets



Indexes

	Variation September	Value on 30/09/2023	Variation in 2023	Variation 12 months
COMMODITIES				
OIL WTI	8.6%	90.79	13.1%	14.2%
GOLD	-4.7%	1,848.63	1.3%	11.3%
CURRENCIES (IN RELATION TO THE US\$)				
EURO	-2.5%	1.06	-1.2%	7.9%
GBP	-3.7%	1.22	1.0%	9.2%
YEN	-2.6%	149.37	-12.2%	-3.1%
REAL	-1.6%	5.03	4.9%	7.6%
INDEXES				
S&P500	-4.9%	4,288.05	11.7%	19.6%
FTSE100	2.3%	7,608.08	2.1%	10.4%
CAC	-2.5%	7,135.06	10.2%	23.8%
DAX	-3.5%	15,386.58	10.5%	27.0%
NIKKEI	-2.3%	31,857.62	22.1%	22.8%
SHANGHAI COMP	-0.3%	3,110.48	0.7%	2.8%
BOVESPA	0.7%	116,565.17	6.2%	5.9%
MSCI ACWI	-4.3%	656.82	8.5%	18.7%



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