



Economic Report

February 2022

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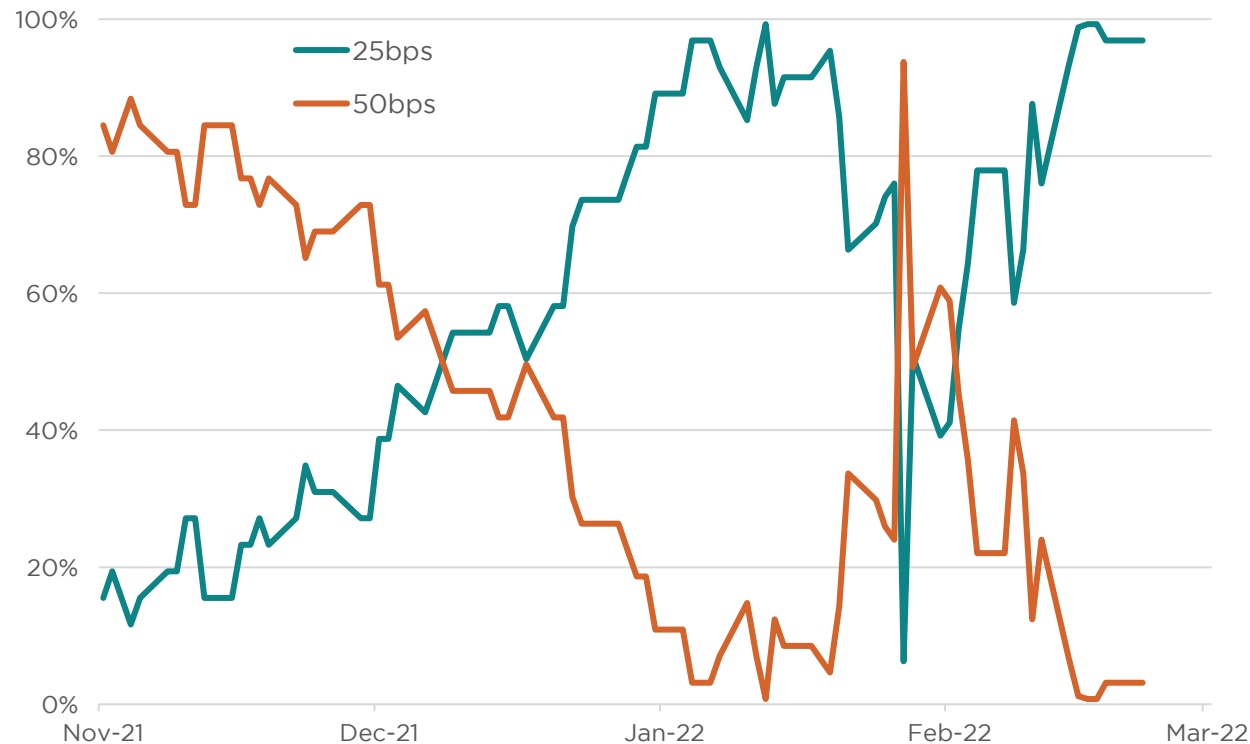


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High volatility in Fed's monetary policy pricing

Global Economy

Market Pricing on FOMC March Decision



Faced with accelerating global inflation and a significant tone shift of members of the FOMC (the Federal Reserve's monetary policy committee), the market began to price in a more immediate start to the cycle of interest rate hikes in the US economy.

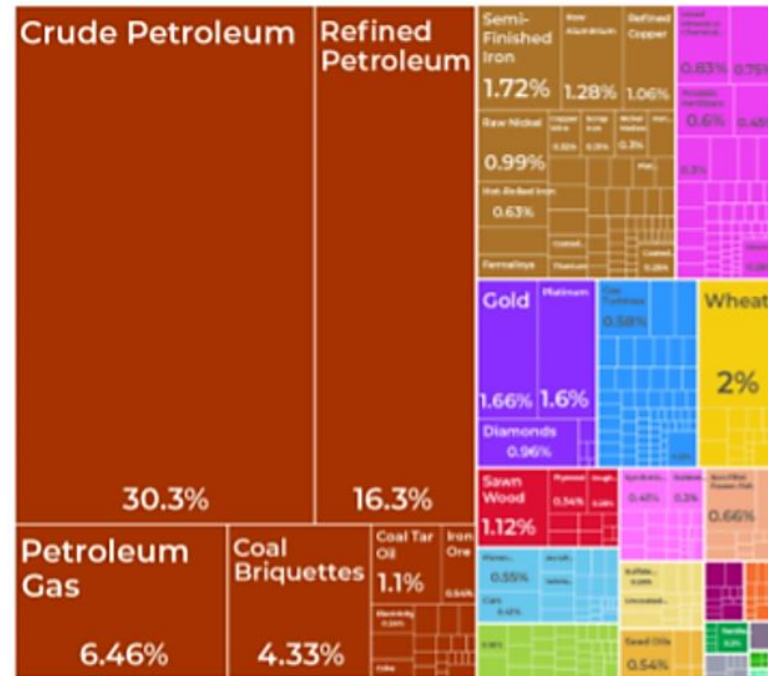
A speech by a member of the FOMC in the first half of February led the market to price in a 90% chance of more of a 50 basis points* hike at the March meeting. However, this move was quickly reversed as other members of the committee outlined their positions and even more so after the beginning of the conflict in Ukraine.

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

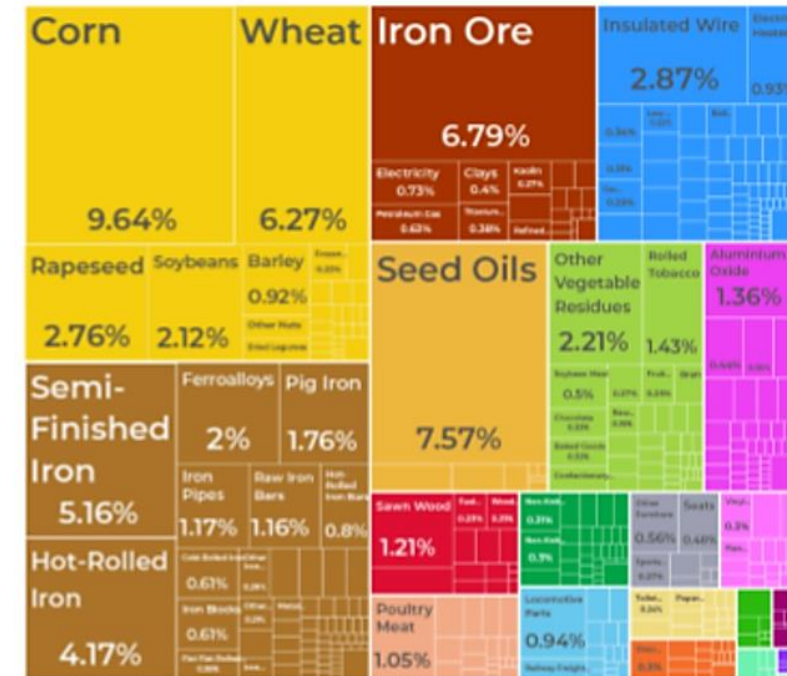
Russia and Ukraine: Main Exports

Global Economy

Russia



Ukraine



The above charts show the main goods exported by Russia and Ukraine in 2019. Note the high concentration of commodities in the make-up of both countries' exports. For this reason, the escalation of the conflict has led to a sharp increase in the prices of these goods.

Europe is extremely dependent on gas and oil

Global Economy

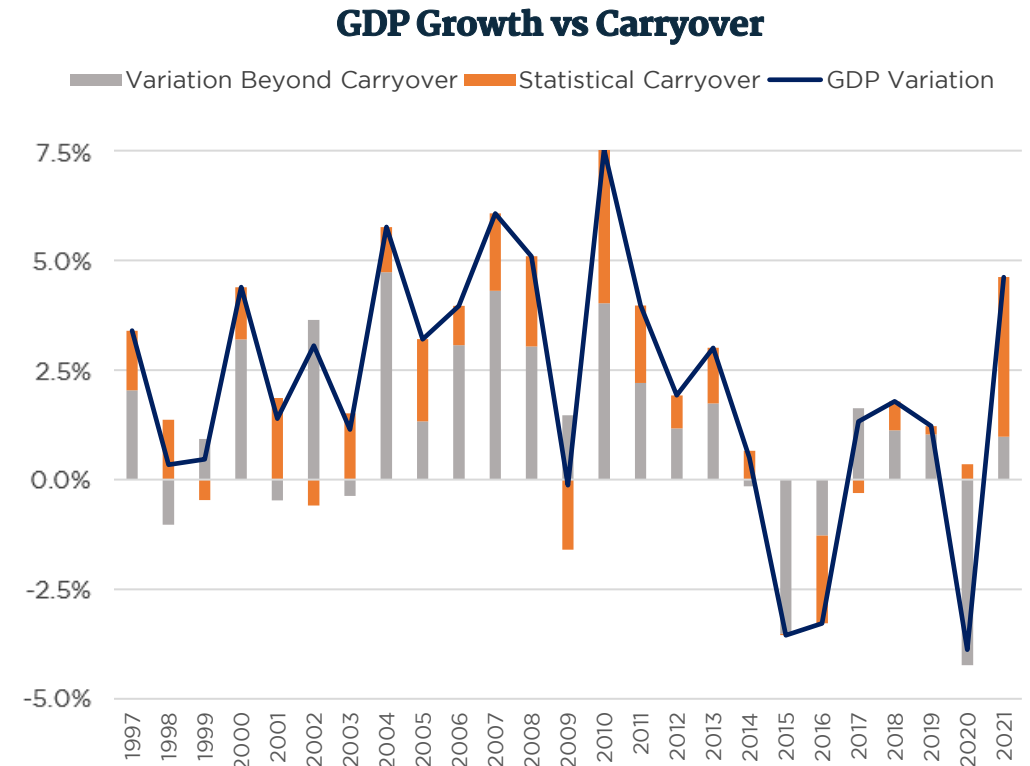
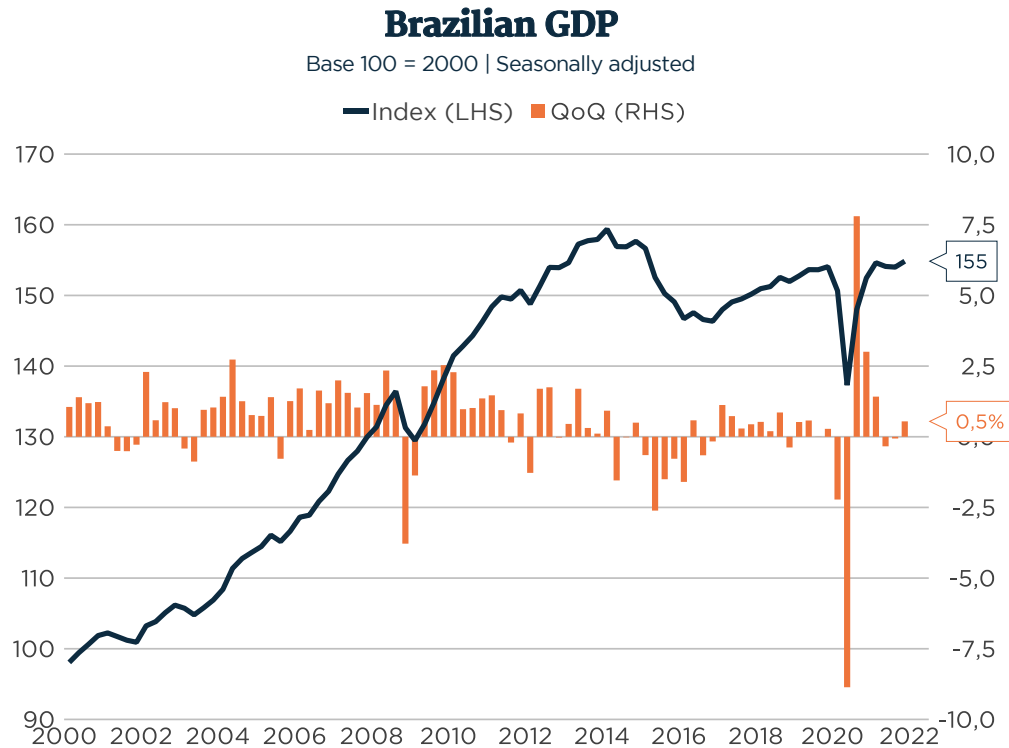
Energy consumption in Europe	1990	1995	2000	2005	2010	2015	2019	%
Coal	24	19	17	17	16	15	11	13%
Natural Gas	17	18	21	24	24	19	21	26%
Nuclear	10	11	11	12	11	11	10	12%
Hydro	2	2	2	2	2	2	2	2%
Wind, Solar, etc.	0	0	0	1	1	2	3	4%
Biomass	2	3	3	4	6	7	8	10%
Oil	32	30	30	31	28	26	26	32%
Total	88	83	85	90	89	82	82	100%

Million Terajoules

Europe stands out among the economies most affected by the supply shock caused by the war due to its strong dependence on energy from Russia, particularly natural gas, as confirmed by the table above. Besides the immediate inflationary impact, any cut in supply could limit growth and bring serious consequences to the region.

GDP surprises, but carryover effect explains most of the rise in the year

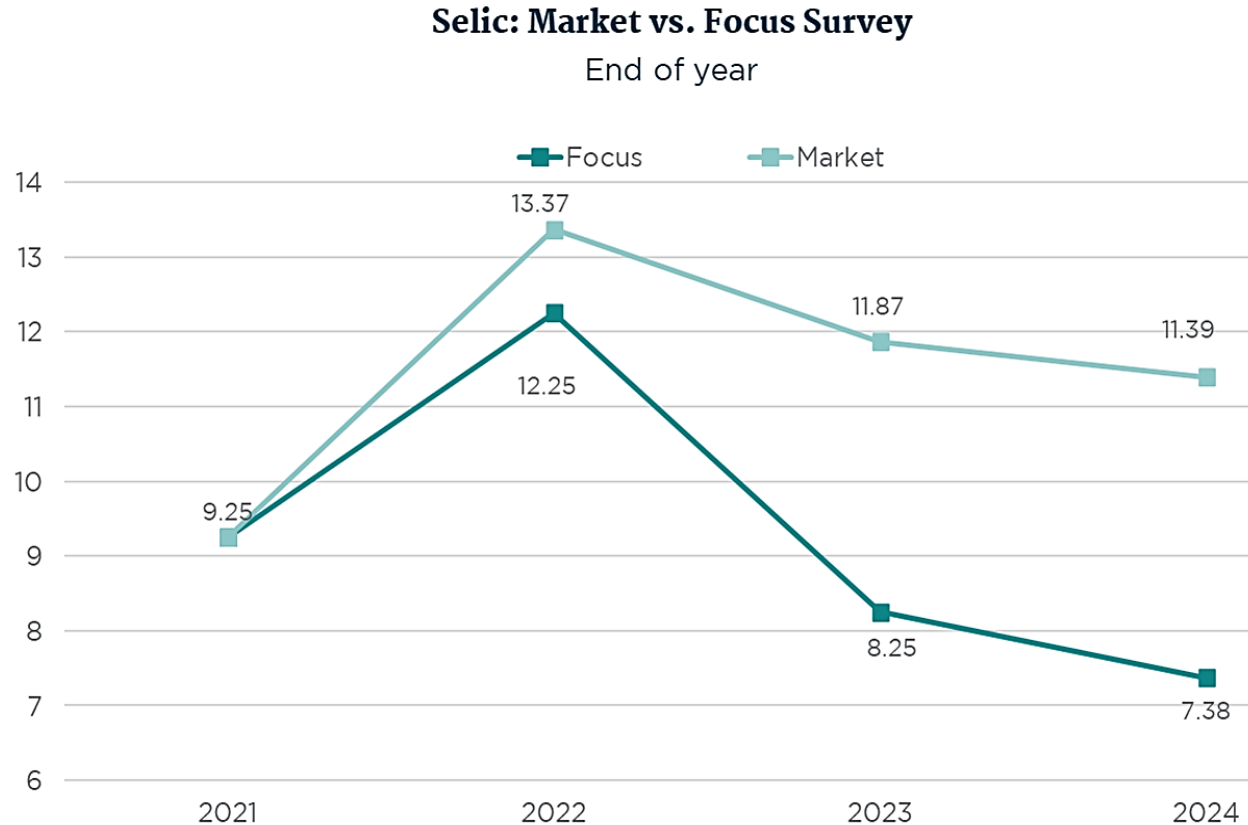
Brazilian Economy



The GDP figures for the 2021's fourth quarter came as a surprise and were above expectations: 0.5% over the previous quarter, as the graph on the left shows. Despite the 4.6% rise in 2021 GDP, growth over the year was actually weak, with the result benefitting from the statistical carryover effect (i.e. the annual GDP is the average of the year compared with the average of the previous year).

Market prices in ongoing upward cycle for Selic rate

Brazilian Economy

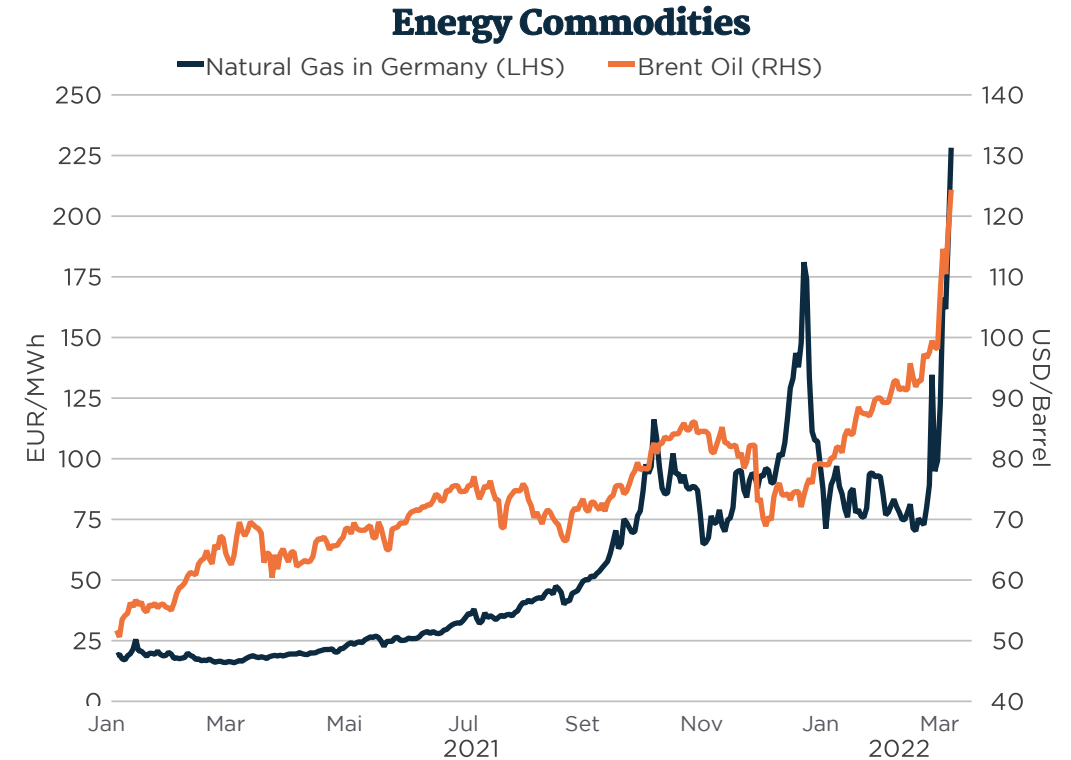
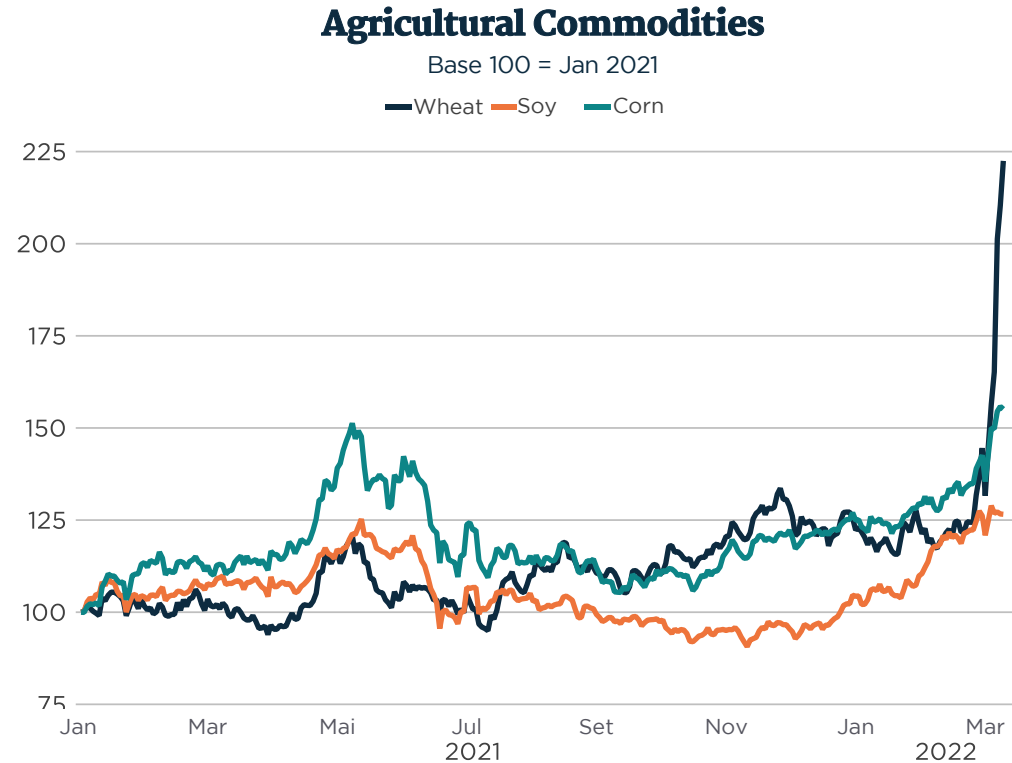


Expectations for the upward cycle of interest rate hikes in Brazil, which had already stabilized at around 12%, gained new impetus.

The movement was due to the inflation figures that remain under pressure despite the contractionist policy which is already very tight, as well as the uncertainties related to the conflict in Ukraine and commodity prices.

Commodities: Energy and grain prices take off

Markets



The upward trend was extremely widespread among different groups but hit energy and agricultural commodities (left graph above) first and very sharply. The price of natural gas in Germany, for example, has multiplied by around 10 times compared to the price of the beginning of 2021 (right graph above).

Interest rates: Despite slowdown, market continues to price in Fed cycle

Markets

Interest rates in the US

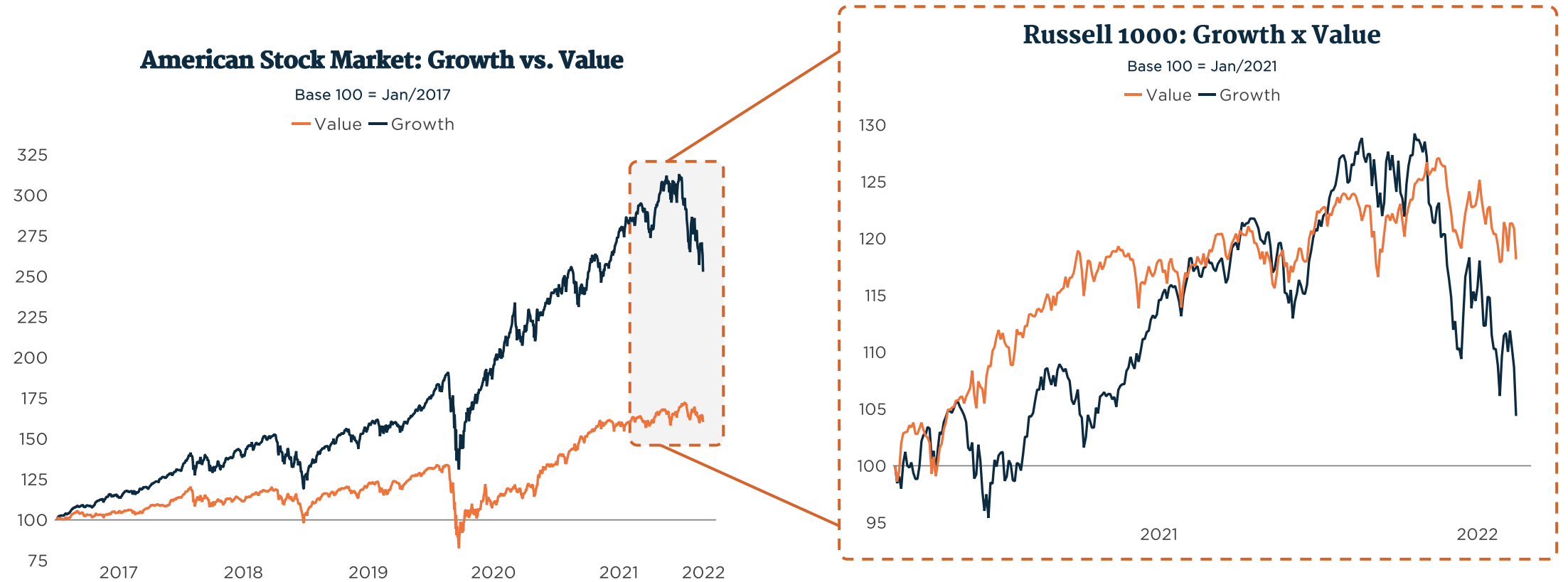


The American yield curve has been increasingly flattening in recent weeks - with an increase in the shorter yield curves (2-Year) and a decrease in the longer-term ones (10-Year) - as shown in the accompanying graph.

On the one hand, inflation and labor market figures at increasingly higher levels have stoked expectations of a more contractionist policy by the Fed in the short term. However, maintaining interest rates at high levels over the long term is losing credibility as new uncertainties arise in the global economy.

Stocks: Revolving move from Growth to Value intensifies

Markets

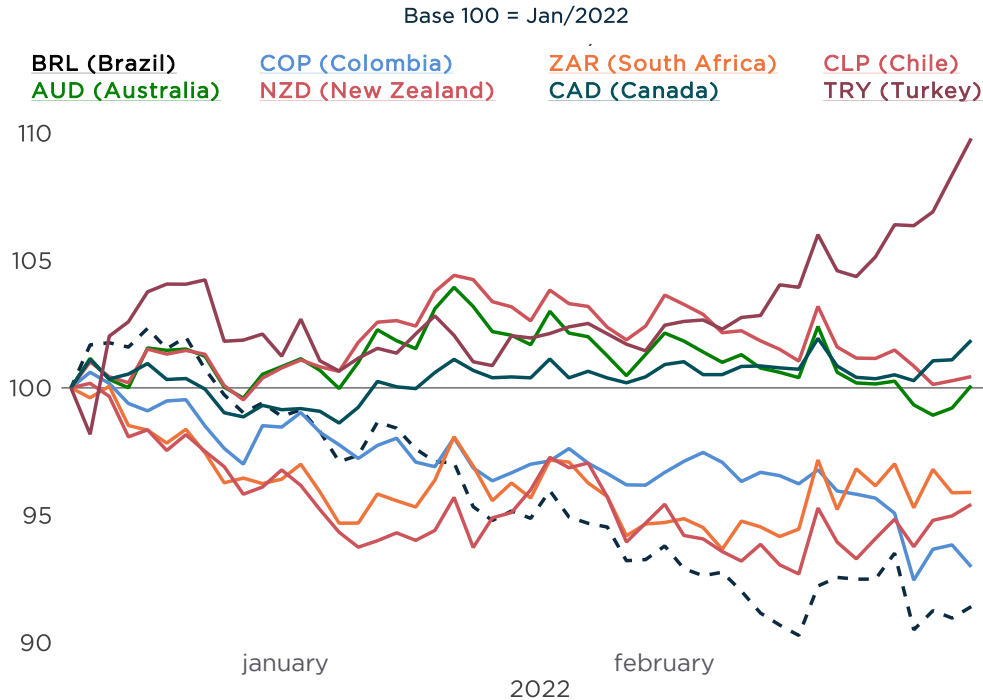


The behavior of the American stock market in recent years has reflected a performance that has been relatively more favorable to growth assets vis-à-vis value assets. However, we saw a reversal of this trend in 2021 which was due to the outlook for high inflation and interest rates, combined with the commodities boom.

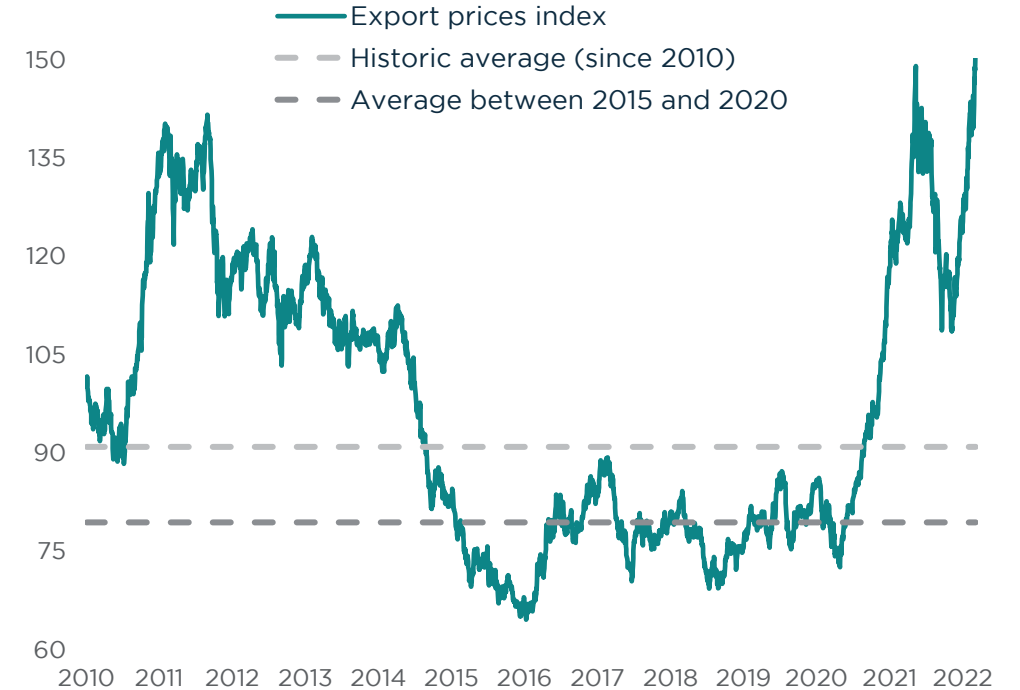
Exchange rate: Real outpaces peers

Markets

Real vs. Emerging Currencies and Commodities



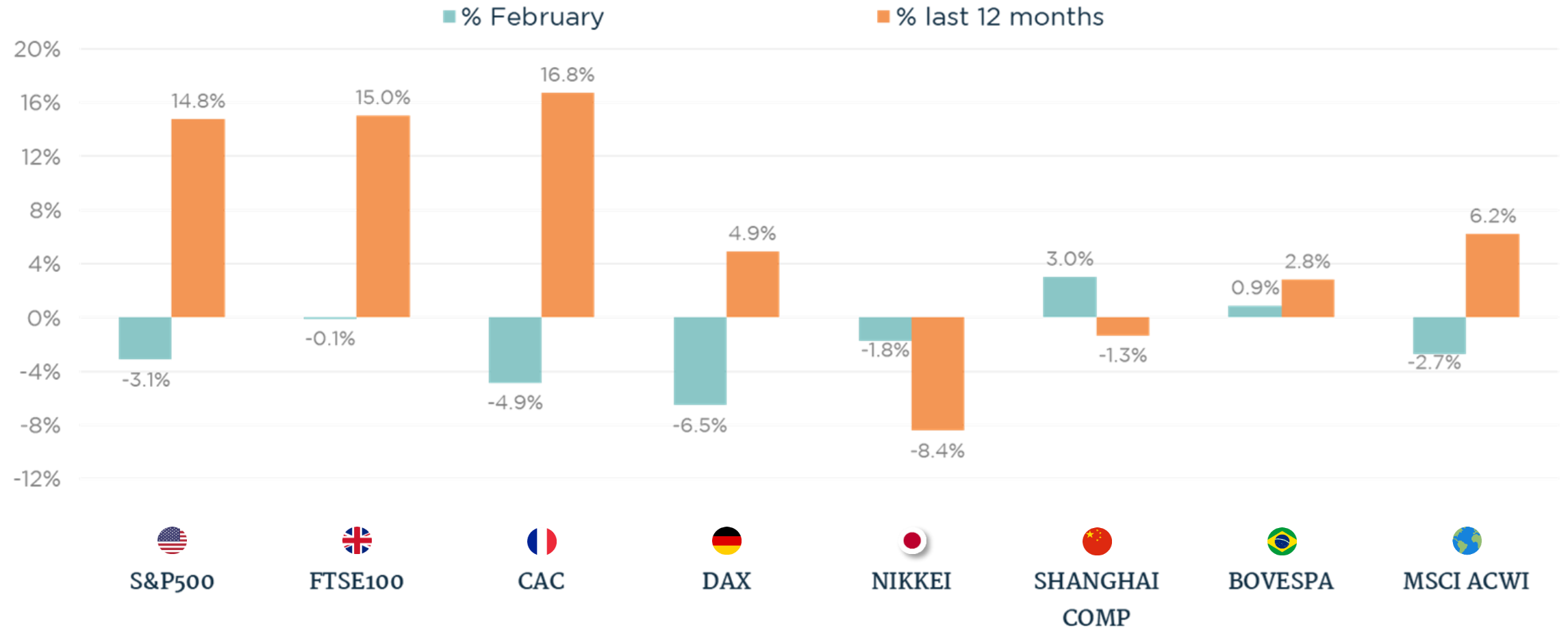
Proxy Price of Exports



The rapid rise in commodity prices has encouraged a positive flow into the currencies of emerging countries, particularly in economies that export these goods. Brazil has been one of the main beneficiaries of this move, not only because of its export make-up but also because of high interest rates and the highly depreciated level of the exchange rate until then.

Stock Markets

Markets



Indexes

	% February	Value on 28/02/2022	% 2022	% 12 months
COMMODITIES				
OIL WTI	8.6%	95.72	24.3%	55.6%
GOLD	6.2%	1,908.99	4.4%	10.1%
CURRENCIES (IN RELATION TO THE US\$)				
EURO	-0.1%	1.12	-1.3%	-7.1%
GBP	-0.2%	1.34	-0.8%	-3.7%
YEN	0.1%	115.00	0.1%	-7.3%
REAL	3.1%	5.15	8.2%	8.8%
INDEXES				
S&P500	-3.1%	4,373.94	-8.2%	14.8%
FTSE100	-0.1%	7,458.25	1.0%	15.0%
CAC	-4.9%	6,658.83	-6.9%	16.8%
DAX	-6.5%	14,461.02	-9.0%	4.9%
NIKKEI	-1.8%	26,526.82	-7.9%	-8.4%
SHANGHAI COMP	3.0%	3,462.31	-4.9%	-1.3%
BOVESPA	0.9%	113,141.90	7.9%	2.8%
MSCI ACWI	-2.7%	698.02	-7.5%	6.2%



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