Economic Report

July 2022

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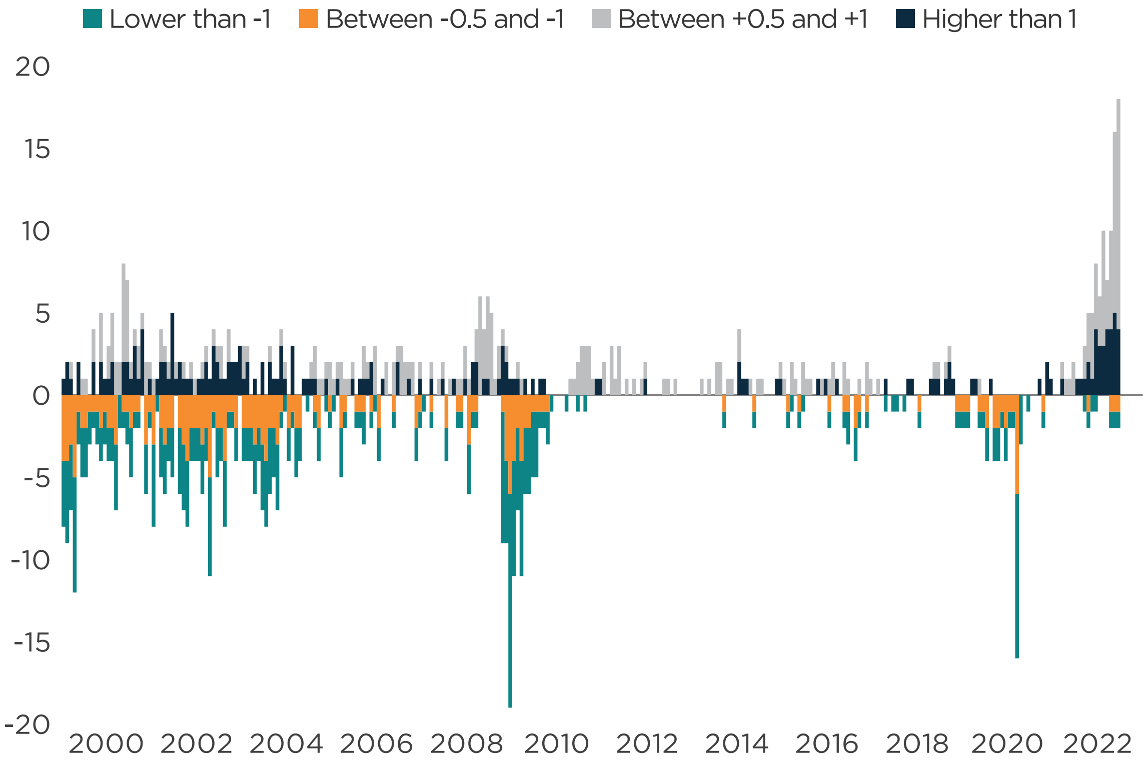
Monetary Policy: Record number of central banks raising interest rates by 50 bps or more

Global Economy

Rate of increases of the central banks

Cut = -1 | Increase = +1



*Figures to June

The global economy has been converging to a period of tighter monetary conditions at an ever-increasing rate.

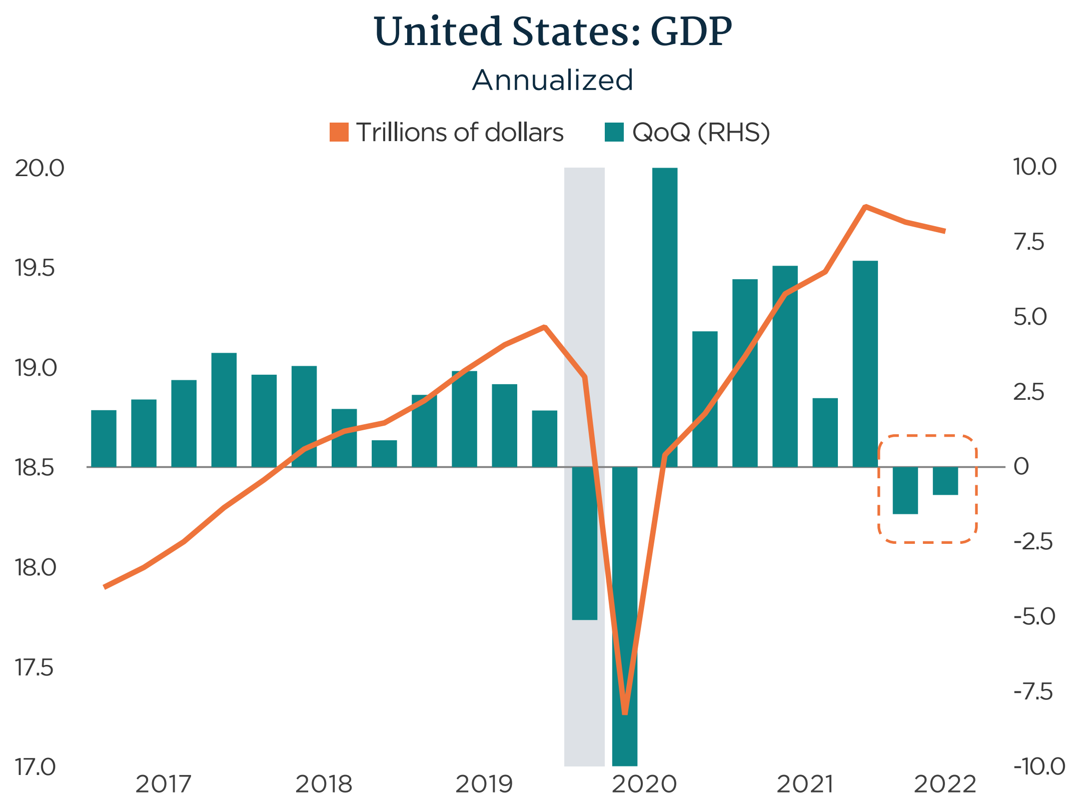
The accompanying graph shows an index based on the number of central banks that raised interest rates by at least 50 basis points* subtracted from those that cut rates by at least 50 bps month over month. It is worth noting that the number of central banks in the upward cycle according to this metric has risen to a level not seen for a long time.

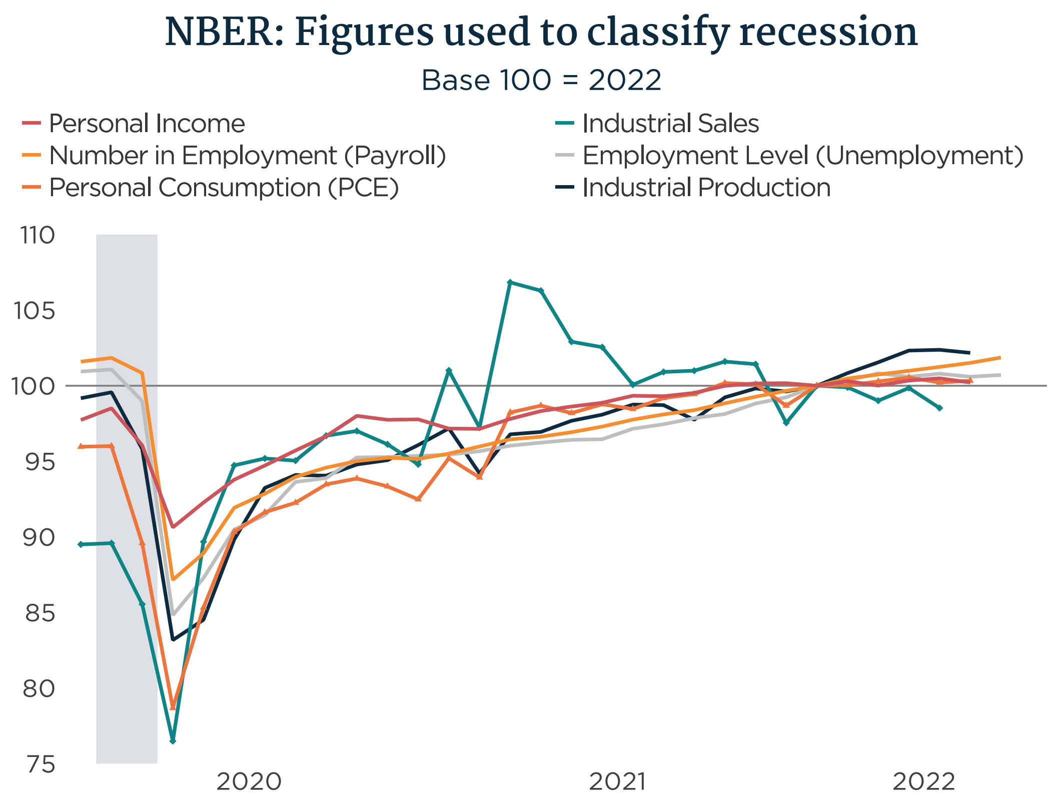
*1 basis point or 1 bp= 0.01% or 1/100 percentage points

Source: Macrobond

US: In a technical recession but still not in an economic one

Global Economy



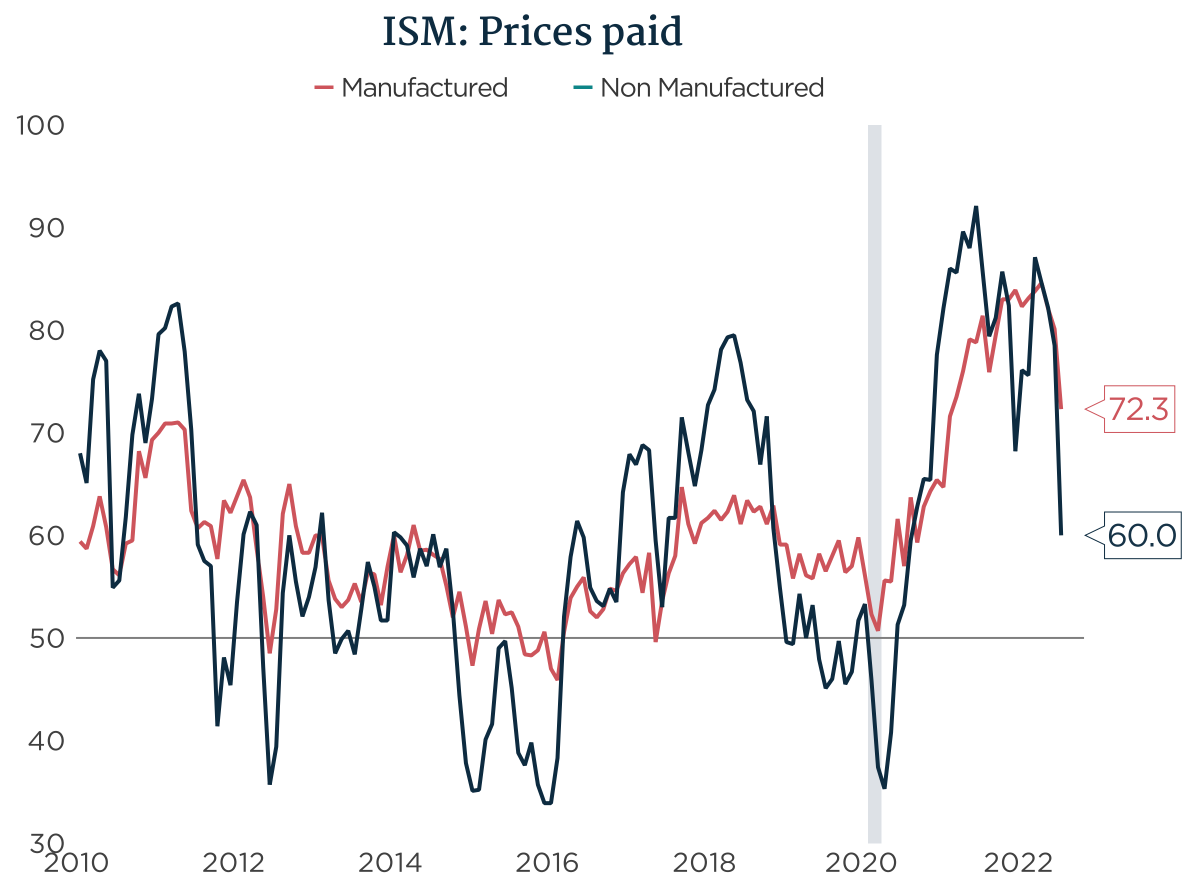


A period in which GDP declines for at least two consecutive quarters, as was the case in the United States after the figures for the second quarter were released, is usually classified as a "technical recession". On the other hand, the criteria used by the NBER (National Bureau of Economic Research), which diagnoses economic cycles in the US, are not consistent with an economic recession.

Source: Macrobond

US: Inflation should slow with the relief from the productive chains and commodities

Global Economy



U.S. inflation appears to have peaked at the full index, with widespread evidence of improvements in the more volatile components associated with the correction in commodity prices and relief in supply chains. On the other hand, the outlook for core inflation does not look as promising.

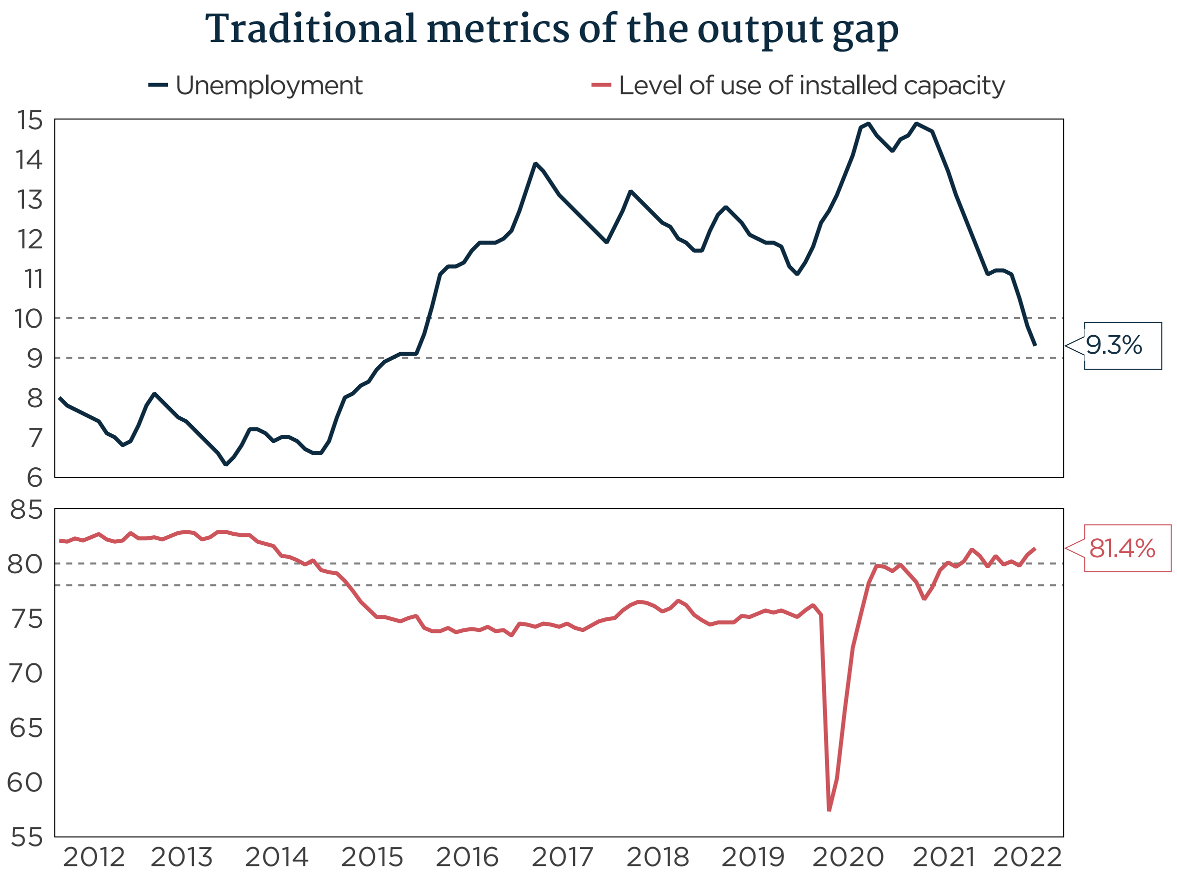
From the data that reinforces this view, it is worth mentioning the openings of prices paid in the ISM/PMIs* which showed a big slowdown in the last few months despite remaining at high levels. The opening in the manufacturing area fell by 10 points in July alone but is still 10 points above the neutral level.

*ISM: Institute for Supply Management Purchasing Managers' Index: Index used to assess activity in the services sector
*PMI: Purchasing Managers' Index: Economic index used to assess the ourlook for important activies in the economy.

Source: Macrobond

Strong advance in the job market raises questions over the output gap

Brazilian Economy



The Brazilian job market was an outstanding topic during the first half of the year and made a strong advance with consistent positive surprises over market expectations.

The substantial volume of new jobs created raises questions about the level of spare capacity in the Brazilian economy. An analysis of traditional metrics, such as the unemployment rate and the level of use of installed capacity, seem to point to the output gap being smaller than had been thought until recently.

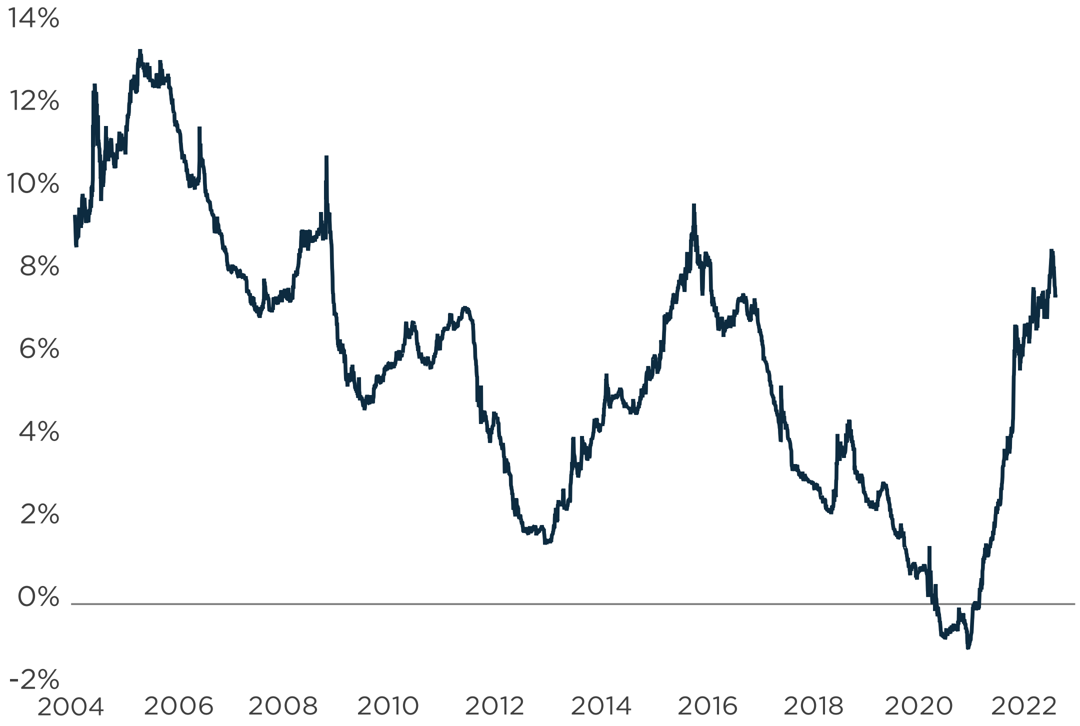
Source: Macrobond, Turim MFO

Copom indicates end of upward cycle

Brazilian Economy

Ex-ante real interest rates 1 year

Swap DixPre 360 – IPCA Focus



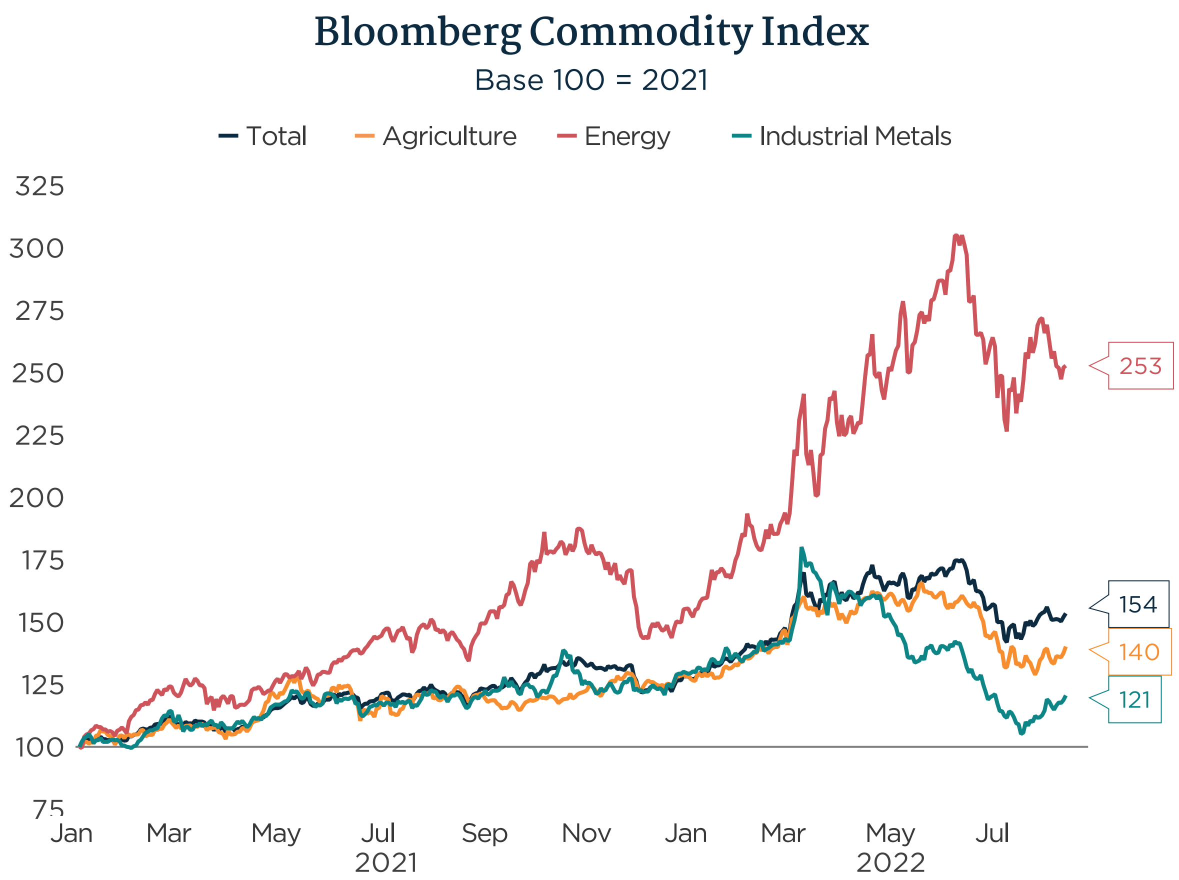
The Central Bank's monetary policy committee made the decision at the beginning of August to raise the interest rate by 50 bps, thereby hiking the Selic rate to 13.75% a year. Moreover, the Central Bank's aim of ending the cycle of interest rate hikes was spelled out more clearly, estimating the need for just one residual adjustment (25 bps) at the September meeting.

Although inflation continues to be widespread in volatile and inertial components, the lagged effects of the monetary policy should show clearer effects by the end of the year. As the accompanying graph shows, the ex-ante real interest rate has risen rapidly since the beginning of last year.

Source: Bloomberg

Commodities: Prices correcting, particularly energy

Markets



There has been a big correction in commodity prices in recent months, particularly in items linked to energy, with the exception of gas in Europe which has reacted to factors linked to the changing aspects of the conflict between Russia and Ukraine. The Bloomberg indexes shown in the chart alongside give a good summary of what has happened.

This price movement seems to reflect the following aspects in particular: (I) the global rise in interest rates against a backdrop of monetary policy tightening; and (II) a market that has been incorporating in an increasingly consensual way the possibility of recessions in large economies such as the American and European ones.

Source: Bloomberg

Shares: Recent recovery of the stock market reflected the closure of interest rates

Markets

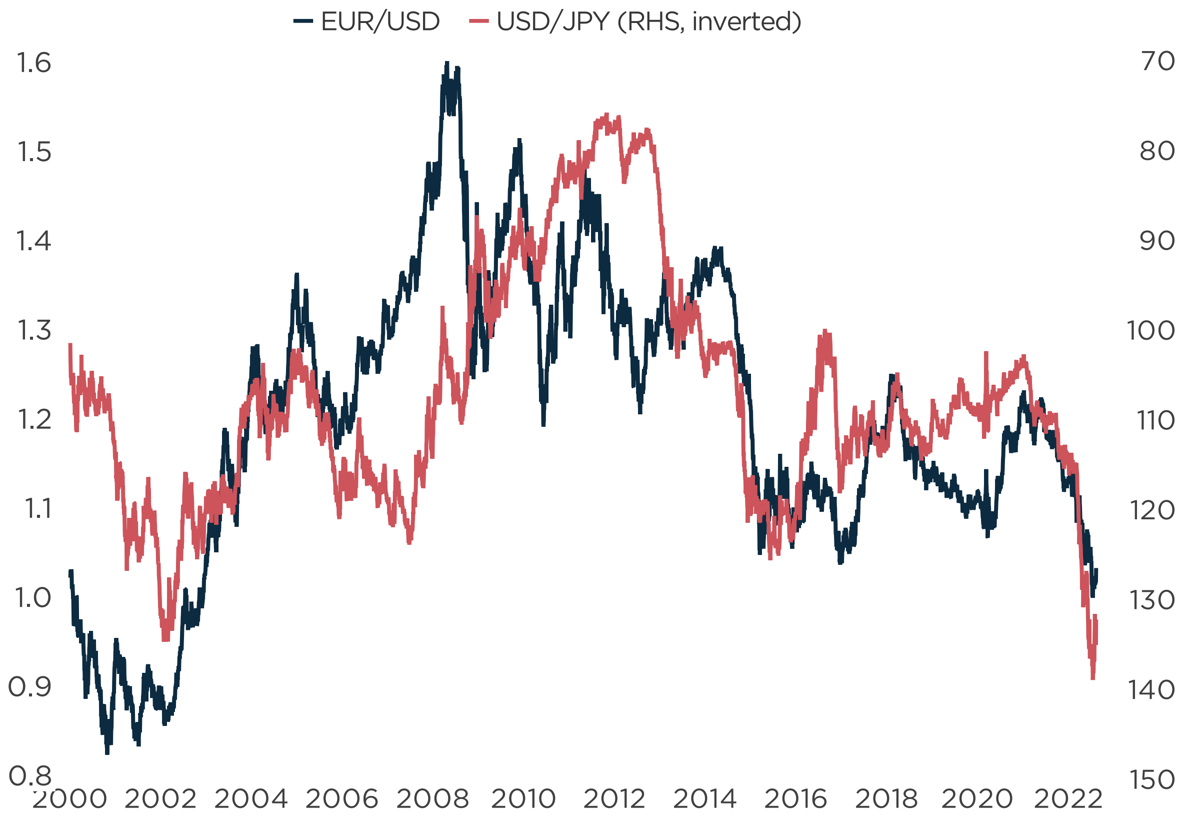
After a series of months in which the American stock market performed negatively, it showed a strong recovery from mid-July, with significant contributions from high duration stocks. The movement largely reflected the closure of the American interest rates.

Source: Bloomberg, Macrobond

Currencies: Strong dollar against developed peers

Markets

Dollar versus peer country currencies



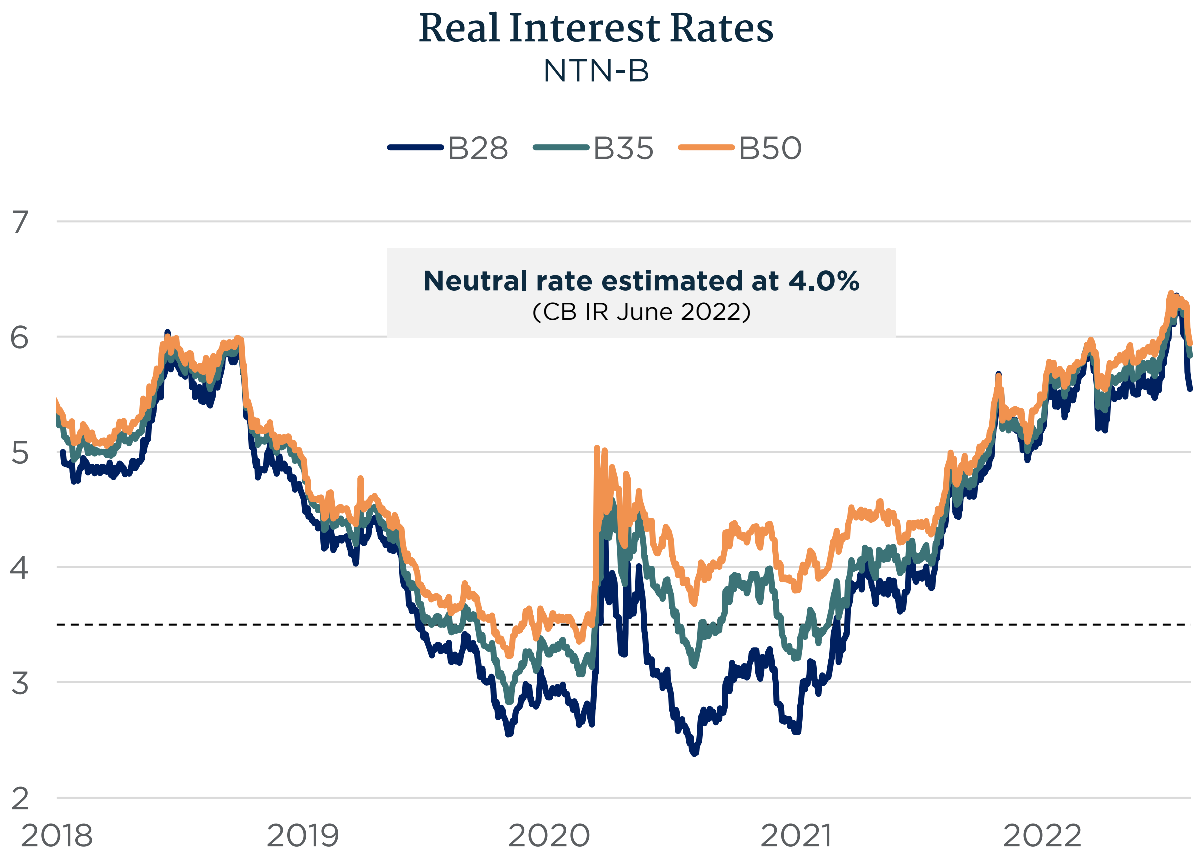
The US Dollar has shown itself to be very strong compared to its peer currencies from developed countries since last year. The accompanying graph shows two of these currencies, the Euro and the Japanese Yen.

The movement in these two currencies has been even more significant recently. In the case of the Yen, this was due to the increase in the interest rate differential as Japan is one of the few countries that has not started a monetary tightening cycle. In the case of the Euro, it was not only due to the differential but also because of the region's delicate situation in terms of activity, related to restrictions in the energy supply.

Source: Bloomberg

Fixed Income: Real interest rates slip along the curve

Markets



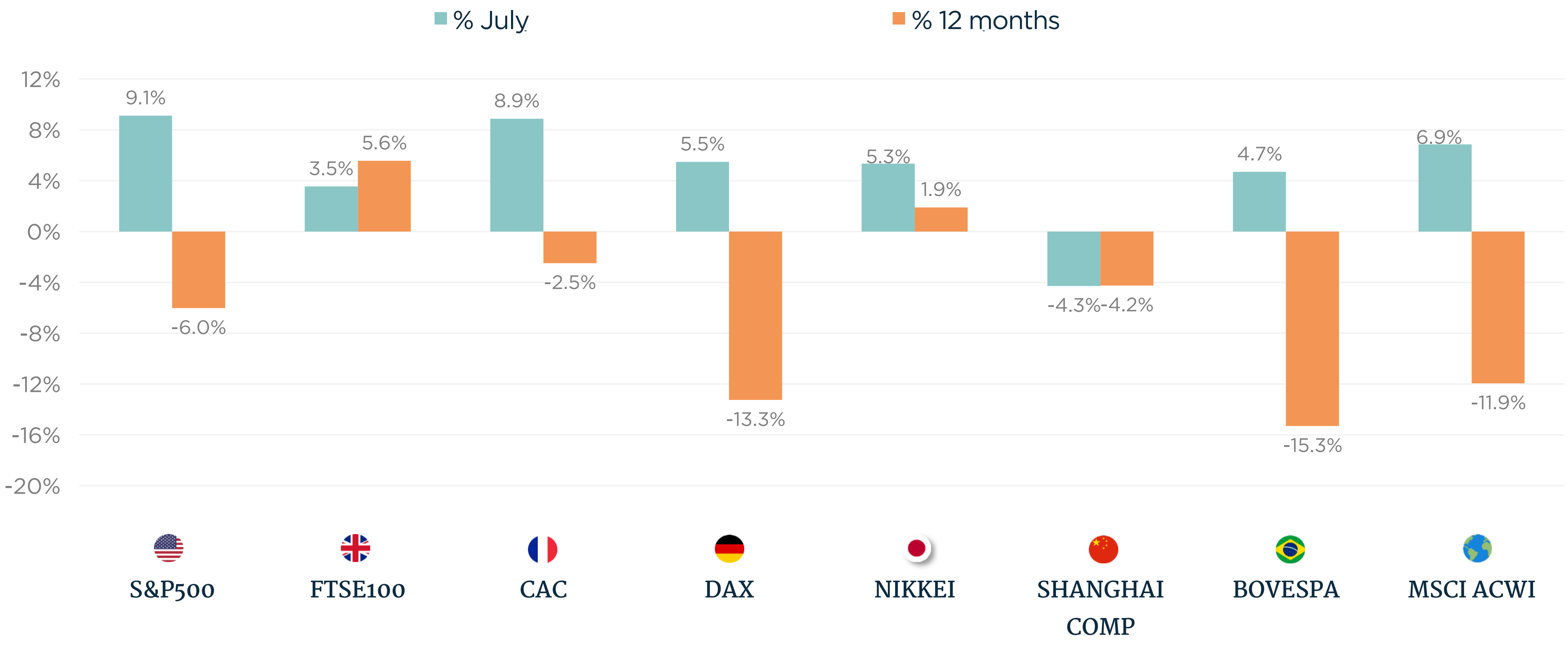
The latest statement from the Brazilian Central Bank's Monetary Policy Committee (COPOM) indicating the closeness of the end of the monetary tightening cycle had important implications for the performance of interest rates.

As the graph alongside shows, the real yield curve closed intensely following the committee's decision, leading the NTN-B rates, which had been trading around 6.3% per year, to retreat to below 6.0% a year.

Source: Bloomberg

Stock Markets

Markets



Indexes

	% July	Value on 29/07/2022	% 2022	% 12 months
COMMODITIES				
OIL WTI	-6.8%	98.62	28.1%	33.4%
GOLD	-2.3%	1,765.94	-3.5%	-2.7%
CURRENCIES (IN RELATION TO THE US$)				
EURO	-2.5%	1.02	-10.1%	-13.9%
GBP	-0.1%	1.22	-10.1%	-12.5%
YEN	1.8%	133.27	-13.6%	-17.7%
REAL	1.6%	5.17	7.8%	0.7%
INDEXES				
S&P500	9.1%	4,130,29	-13.3%	-6.0%
FTSE100	3.5%	7,423.43	0.5%	5.6%
CAC	8.9%	6,448.50	-9.8%	-2.5%
DAX	5.5%	13,484.05	-15.1%	-13.3%
NIKKEI	5.3%	27,801.64	-3.4%	1.9%
SHANGHAI COMP	-4.3%	3,253.24	-10.6%	-4.2%
BOVESPA	4.7%	103,164.69	-1.6%	-1.3%
MSCI ACWI	6.9%	637.72	-15.5%	-11.9%

*Amounts and Results in local currencies

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