



Economic Report

May 2023

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Global inflation: Fall in commodities helps global disinflation but cores remain challenging

Global Economy

Inflation Year over year		Apr 22	May 22	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23
Headline inflation	United States	8.3	8.6	9.1	8.5	8.3	8.2	7.7	7.1	6.5	6.4	6.0	5.0	4.9
	Canada	6.8	7.7	8.1	7.6	7.0	6.9	6.9	6.8	6.3	5.9	5.2	4.3	4.4
	Japan	2.5	2.5	2.4	2.6	3.0	3.0	3.7	3.8	4.0	4.3	3.3	3.2	3.5
	UK	9.0	9.0	9.4	10.1	9.8	10.1	11.1	10.7	10.5	10.0	10.4	10.1	8.7
	Euro Zone	7.4	8.1	8.6	8.9	9.1	9.9	10.6	10.1	9.2	8.6	8.5	6.9	7.0
	Germany	6.2	7.0	6.7	6.7	7.0	8.6	8.8	8.8	8.1	8.7	8.7	7.4	7.2
	France	4.8	5.2	5.8	6.1	5.9	5.6	6.2	6.2	5.9	6.0	6.3	5.7	5.9
	Italy	6.0	6.8	8.0	7.9	8.4	8.9	11.8	11.8	11.6	10.0	9.1	7.6	8.2
	Spain	8.3	8.7	10.2	10.8	10.5	8.9	7.3	6.8	5.7	5.9	6.0	3.3	4.1
	Switzerland	2.5	2.9	3.4	3.4	3.5	3.3	3.0	3.0	2.8	3.3	3.4	2.9	2.6
	Sweden	6.4	7.3	8.7	8.5	9.8	10.8	10.9	11.5	12.3	11.7	12.0	10.6	10.5
	Norway	5.4	5.7	6.3	6.8	6.5	6.9	7.5	6.5	5.9	7.0	6.3	6.5	6.4
Core Inflation	United States	6.1	6.0	5.9	5.9	6.3	6.6	6.3	6.0	5.7	5.5	5.5	5.6	5.5
	Canada	5.8	6.1	6.1	6.1	5.8	5.9	5.8	5.8	5.5	5.0	4.7	4.3	4.0
	Japan	0.8	0.9	1.0	1.2	1.5	1.9	2.5	2.7	3.0	3.2	3.5	3.8	4.1
	UK	6.2	5.9	5.8	6.2	6.2	6.5	6.4	6.3	6.4	5.8	6.2	6.2	6.8
	Euro Zone	3.5	3.8	3.7	4.0	4.3	4.8	5.0	5.0	5.2	5.3	5.6	5.7	5.6
	Germany	3.4	3.7	3.3	3.5	3.7	4.6	4.8	5.0	5.2	5.6	5.7	5.8	5.8
	France	3.3	3.7	3.7	4.3	4.7	4.5	5.0	5.3	5.3	5.6	6.1	6.2	6.3
	Italy	2.4	3.2	3.8	4.1	4.4	5.0	5.3	5.6	5.8	6.0	6.3	6.3	6.2
	Spain	4.4	4.9	5.5	6.1	6.4	6.2	6.2	6.3	7.0	7.5	7.6	7.5	6.6
	Switzerland	1.5	1.7	1.9	2.0	2.0	2.0	1.8	1.9	2.0	2.2	2.4	2.2	2.2
	Sweden	6.4	7.2	8.5	8.0	9.0	9.7	9.3	9.5	10.2	9.3	9.4	8.0	7.6
	Norway	2.6	3.4	3.6	4.4	4.7	5.3	5.8	5.7	5.7	6.4	6.0	6.3	6.4

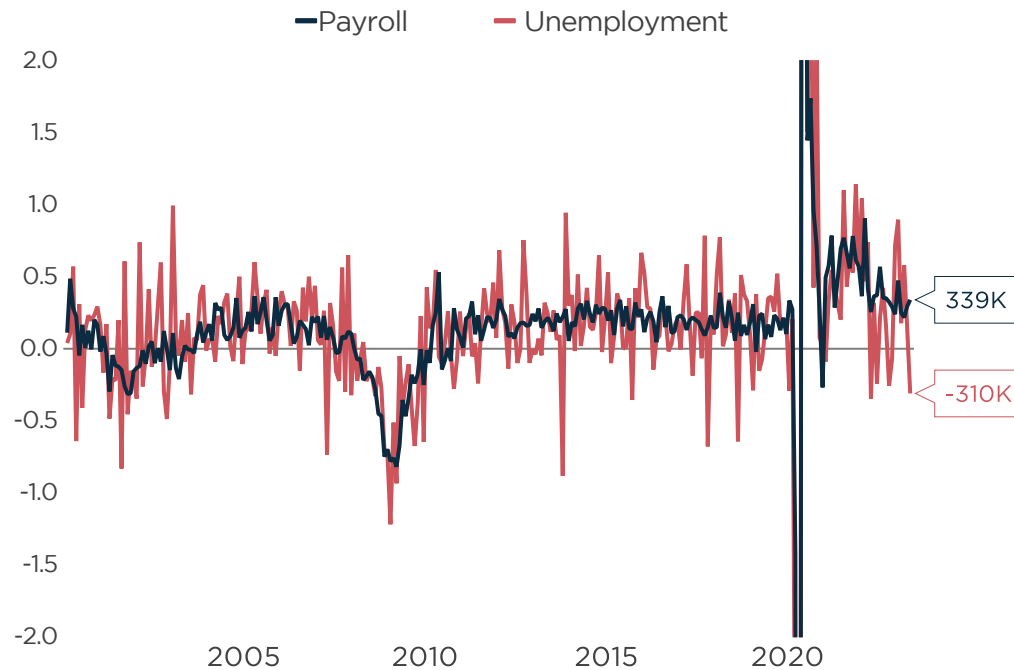
The global slowdown, particularly in the consumption of goods, is already reflected in the lower prices of various commodities and wholesale price indexes. This movement is helping the global disinflation process. On the other hand, the components more related to services which are more labor-intensive and, therefore, more influenced by the still strong growth in wage levels, continue to pose a great challenge.

The heat map on the left shows that headline inflation in most of the developed economies has already peaked and started a downward trend. However, the outlook for these developed economies does not look so benign when judged by the underlying inflation component.

Labor market: Mixed results increase uncertainty over the trajectory of the Fed Funds Rates

Global Economy

Net variation of employed population



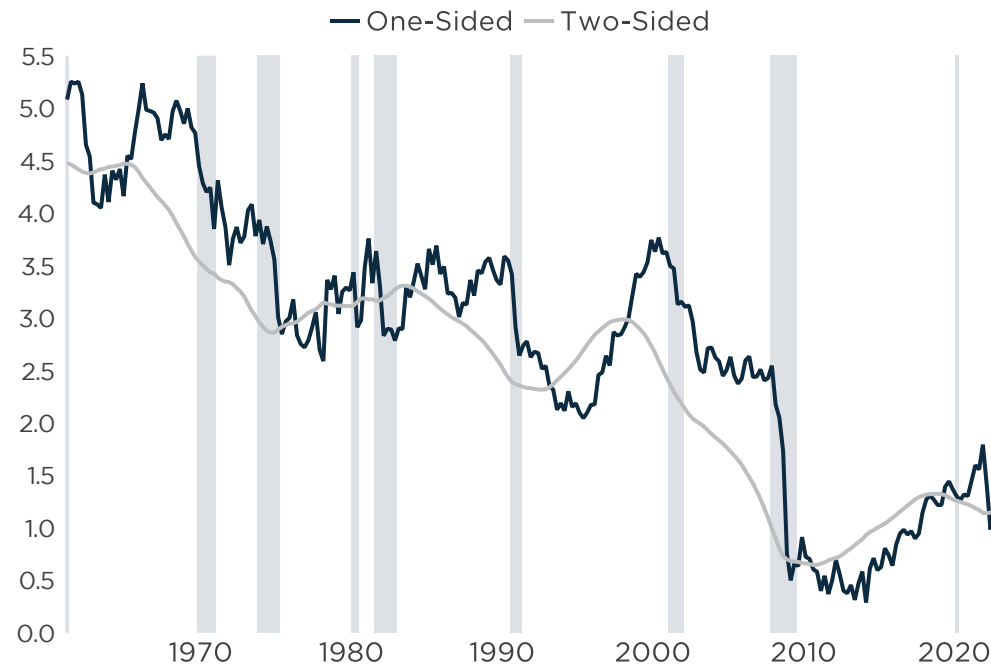
Market expectations for the upcoming meetings of the Fed monetary policy committee (FOMC) – implicit in the pricing of the yield curve – have varied enormously over the last few weeks, against a backdrop of highly varied economic data. These include the May release of the main surveys of the American labor market – Nonfarm Payroll and Unemployment, shown in the accompanying graph – which presented contradictory results. Whereas one showed a strong labor market, with higher-than-expected job creation, the other pointed to the destruction of jobs and a rise in the unemployment rate.

This is the fourth event of its kind since last year and has added to the opaqueness surrounding the future trajectory of the US labor market as well as its implications for the monetary policy.

Federal Reserve: New estimate of the natural interest rates showed a higher number than in the pre-pandemic period

Global Economy

Natural interest rates (Laubach-Williams)

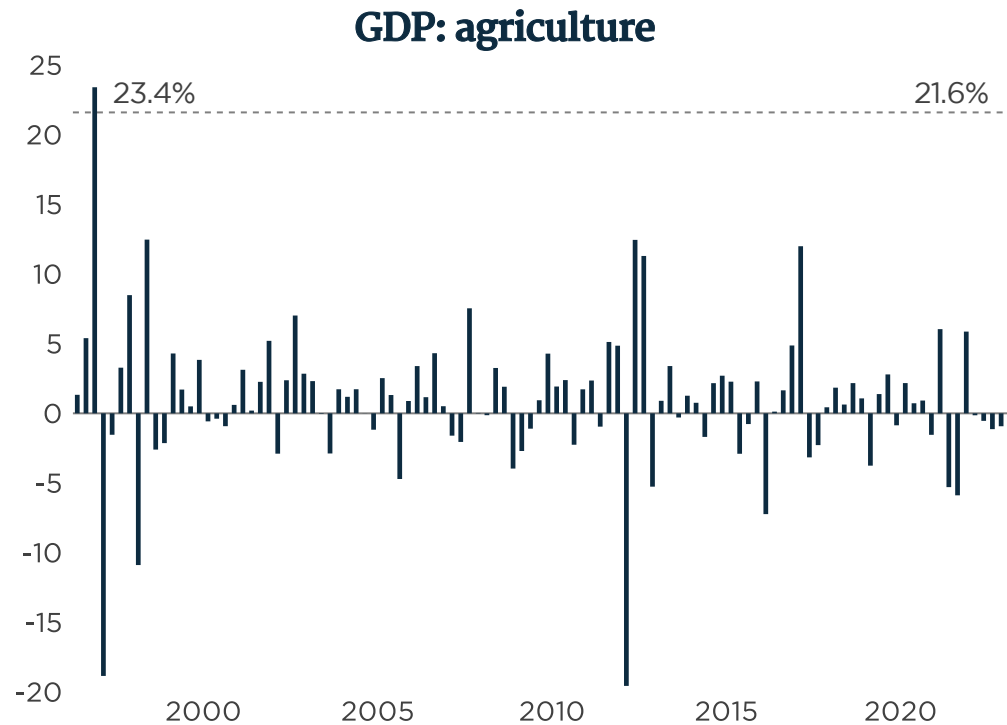


At the current stage of the monetary policy conduct, faced with significantly high rates, the FOMC statement started to show that the committee is even more split between those who already foresee an interruption in the interest rate hike cycle at the June meeting and those who believe a further tightening may be necessary.

To shine more light on the debate, the Federal Reserve again updated its estimate for the natural interest rate – i.e. the real rate that neither accelerates nor decelerates aggregate demand and inflation. The estimate, which had its release interrupted at the end of 2020 with the pandemic, returned with a positive revision, rising from around 0.5% to closer to 1%. This reading still points to a contractionary rate at current levels although less so than previously estimated.

GDP: Performance of agribusiness unprecedented in over two decades

Brazilian Economy



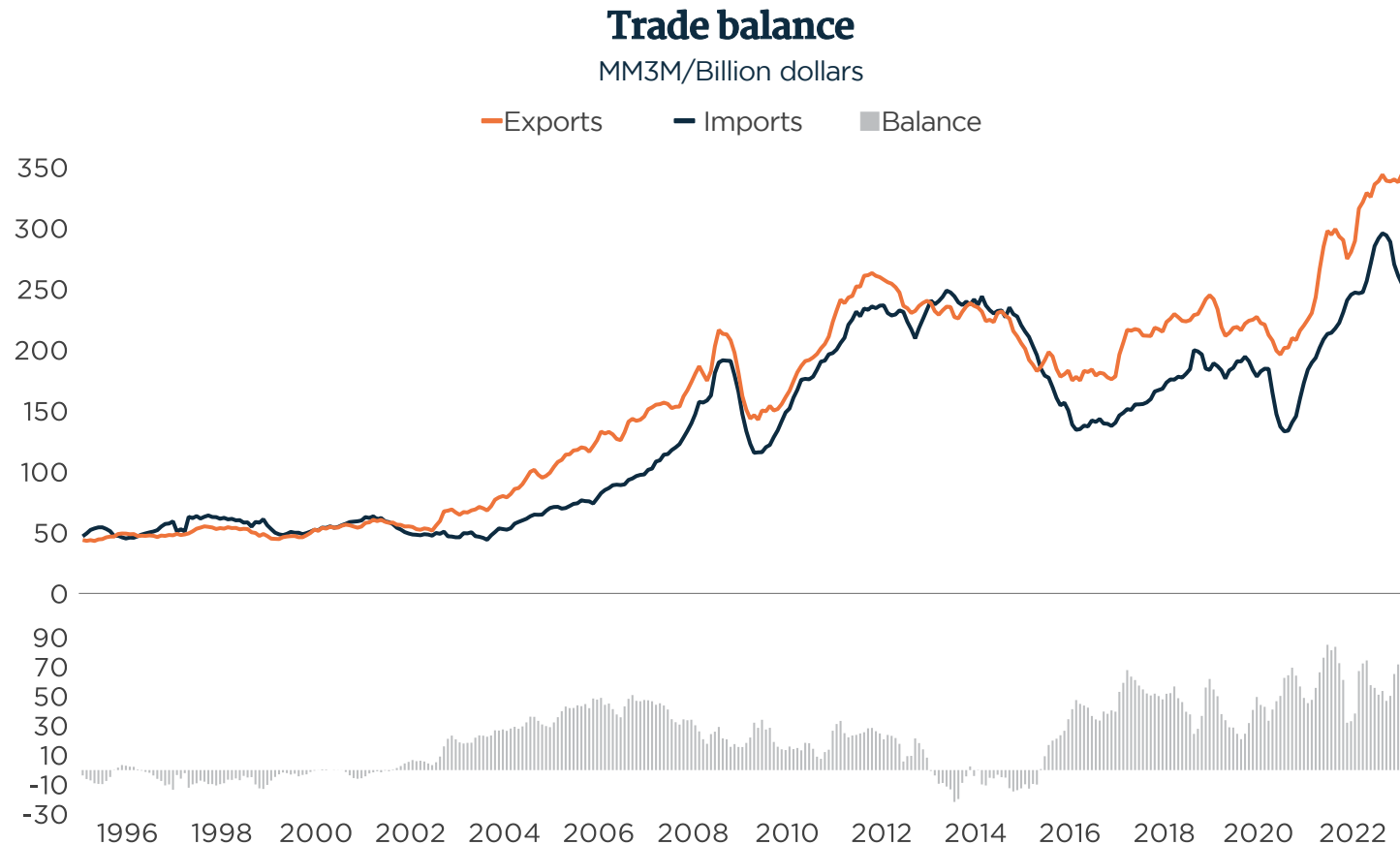
The GDP figures for the first quarter turned out to be much stronger than market expectations and showed an increase of 1.9% over last year's fourth quarter. On the supply side, the result reflected an impressive performance by the agriculture sector which expanded by 21.6% in the period, the highest quarterly rise since 1996.

In contrast, on the demand side, fixed capital investment slumped, indicating a worsening in Brazil's future growth outlook. With household and government consumption also growing at a modest rate, the surplus product was due to the drop in imports and formation of inventories.

The comparison between the estimates in the Central Bank's Focus Report for the country's growth in 2023 and the statistical carryover suggest that the market still expects activity to contract throughout the year.

Trade balance: Exports remain strong despite the correction in commodity prices

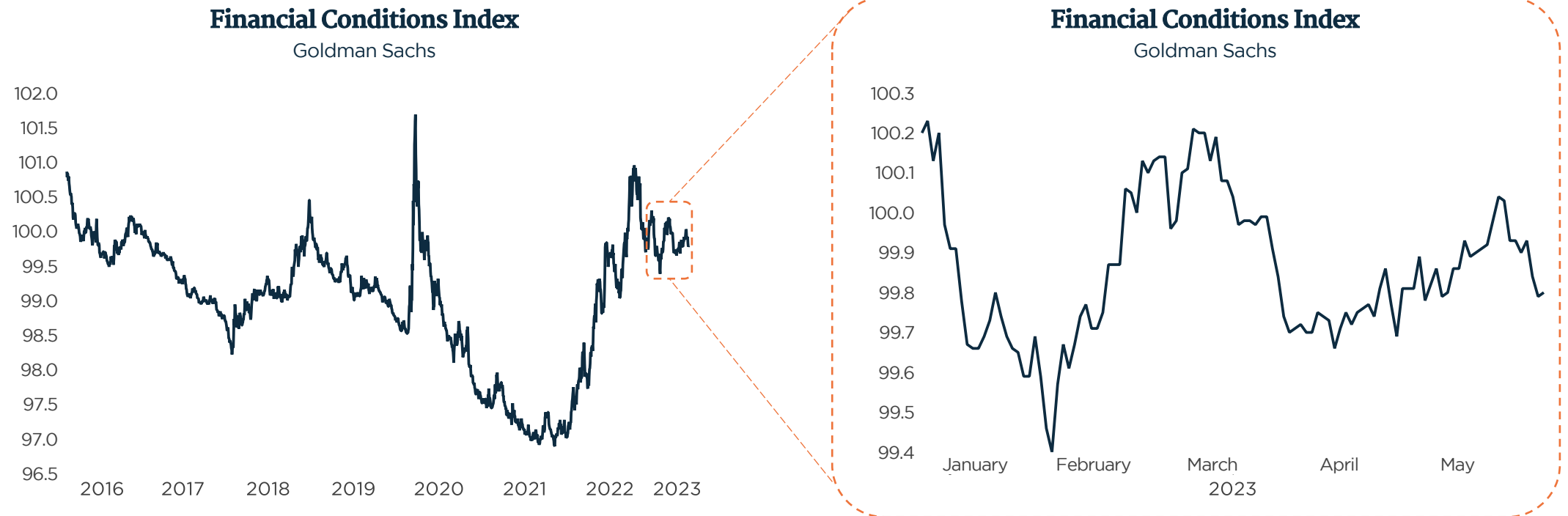
Brazilian Economy



Despite the correction in various commodities prices that are important for Brazil's export portfolio – in line with the prospect of a slowdown in the global economy – the trade balance remained at a strong level in the first half of the year. This was due, on one hand, to a sharp fall in imports along with an increase in the quantity of exported goods, particularly fruits from agriculture and the extractive industry.

Markets: Financial conditions show accomodation following banking turbulence

Markets

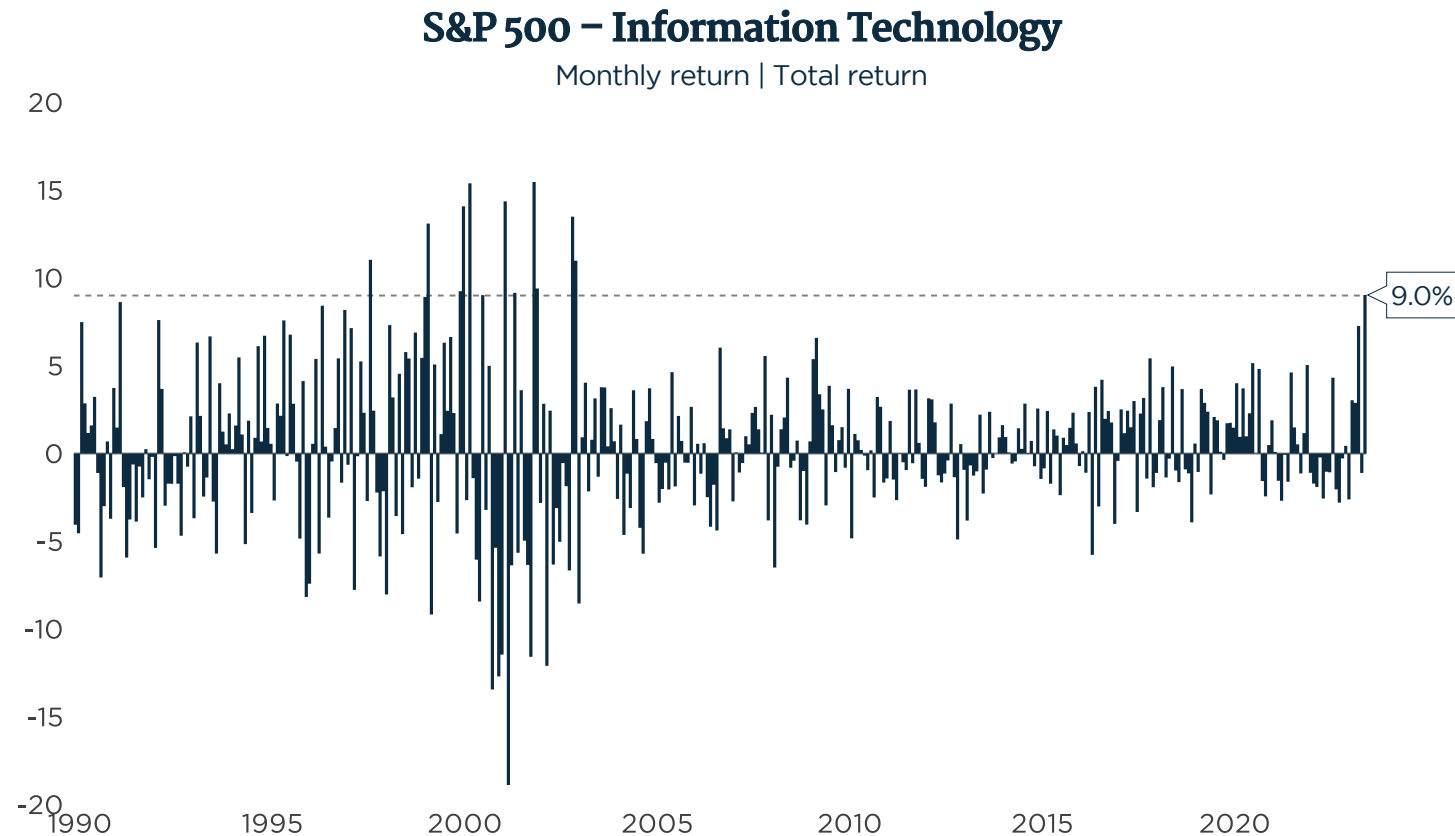


The deterioration in credit supply which followed the events in the American banking system created an environment of great uncertainty in which it was feared that these restrictions would culminate in a credit crunch (a term used to describe serious crises in the credit market). However, when we look at the index above, we see there was no significant contagion from credit to the rest of the financial conditions. In practice, the removal of an imminent hard landing* scenario has raised interest rates slightly but helped improve credit spreads and stocks performance, maintaining the index more or less flat.

**Hard Landing: economic term for the movement of a country's economic slowdown after a period of intense growth*

Stocks: American stock market continues to be driven by a few names

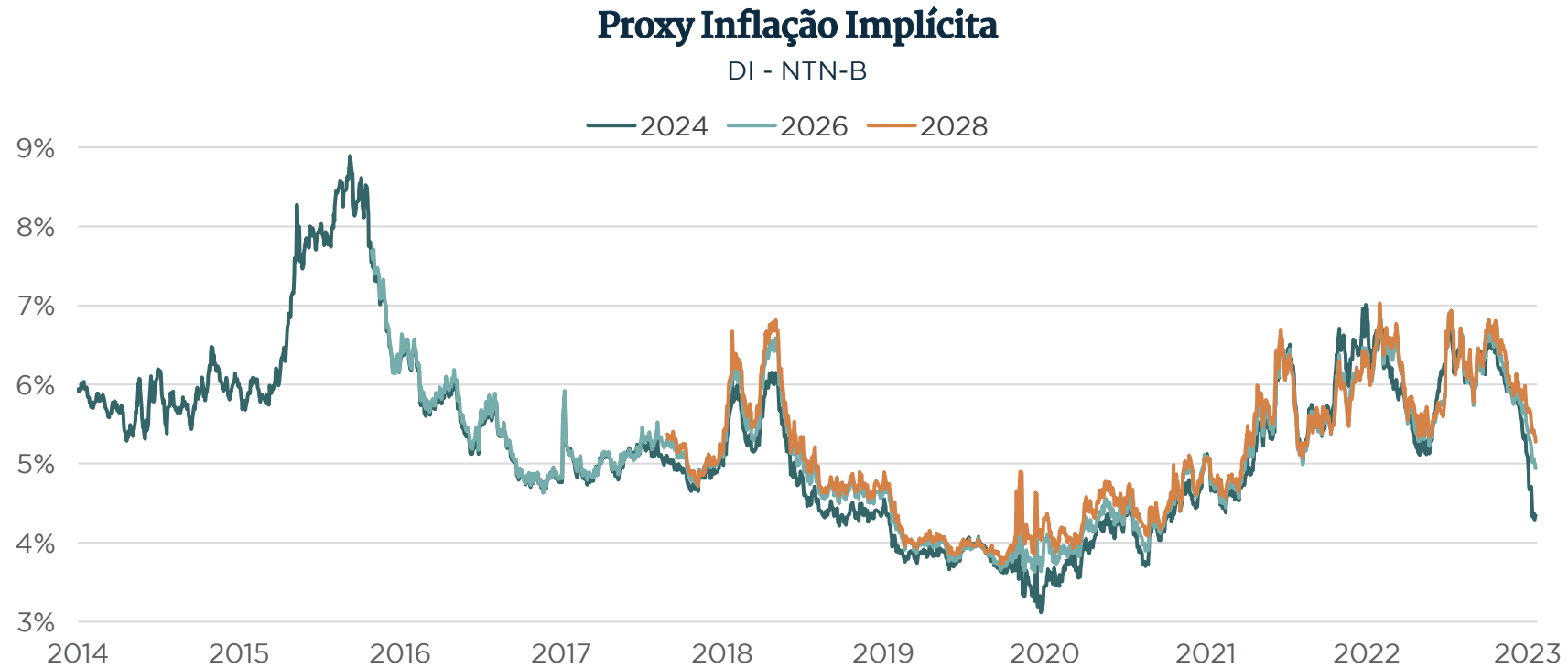
Markets



The strong performance of some companies on the American stock market continues to underpin the performance of the main stock indexes despite a still unfavorable economic scenario. In sequential terms, this movement was reinforced by companies in the technology sector, more particularly those with the potential to benefit from the development of new technologies in artificial intelligence.

Implicit inflation: Perception of the lower tail risks point to a fall in expected inflation

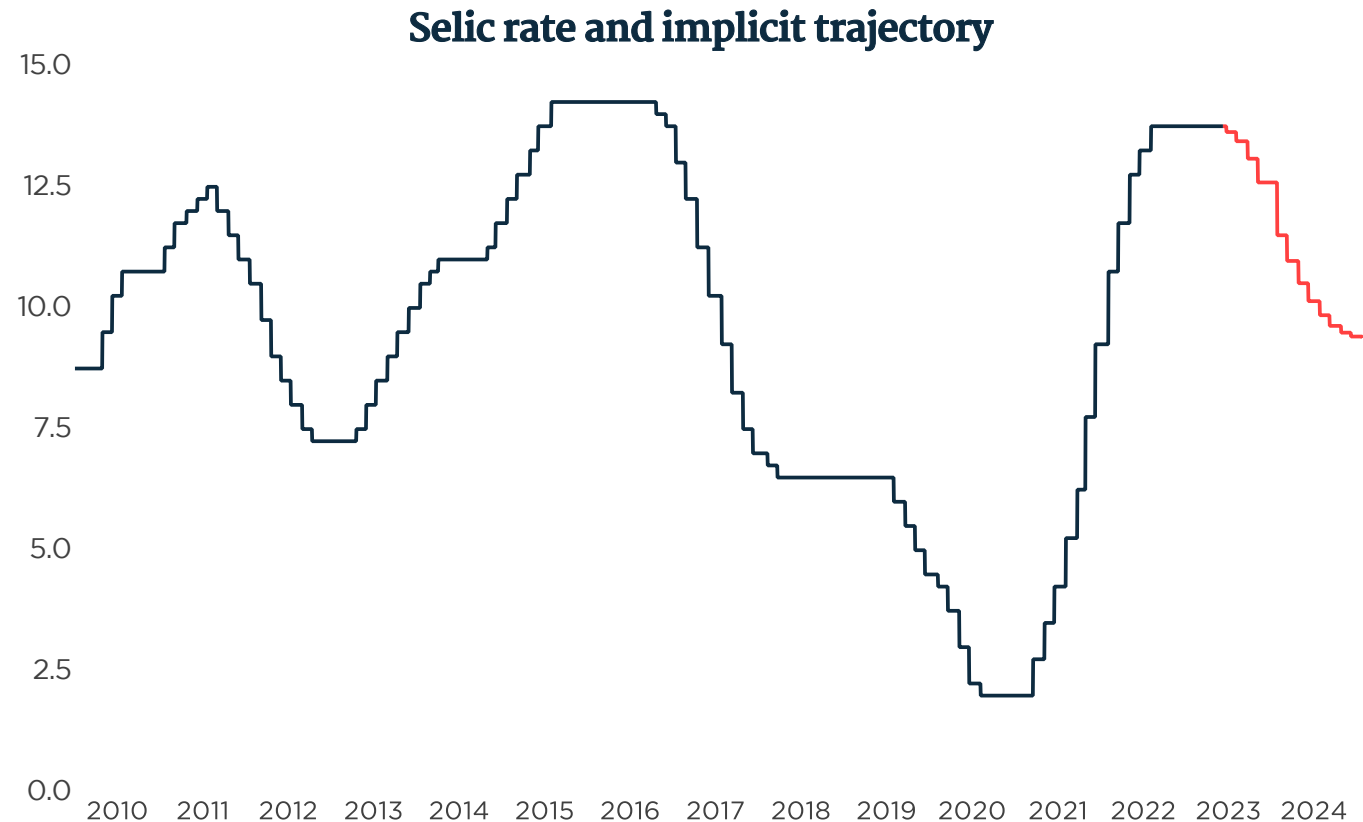
Markets



In Brazil, the approval by Congress of the new fiscal framework – which removes an important tail risk from the explosive trajectory for the public debt – linked to the improvement in the inflation readings has led to a sharp drop in implicit inflation throughout the second quarter of the year.

Interest rates: Cuts cycle moves closer and put downwards pressure on the curve

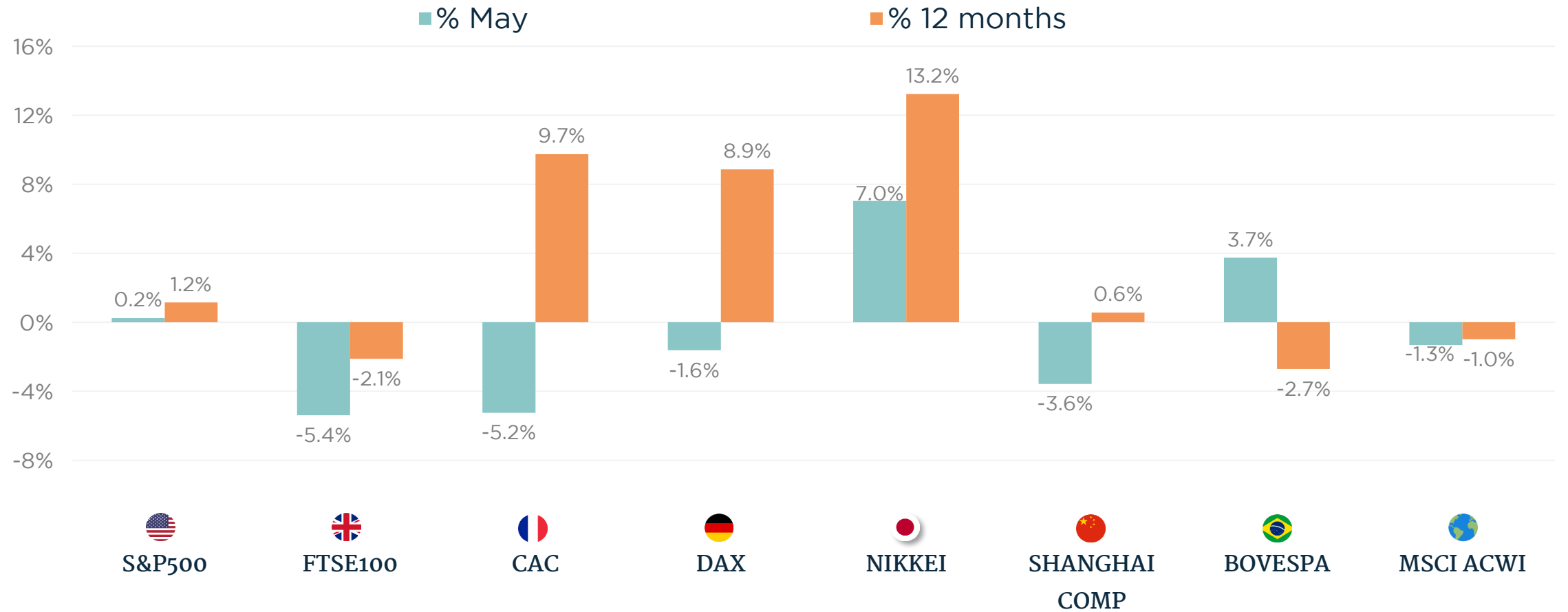
Markets



The improvement in the balance of risks and start of a process of inflation converging to the target helps bring some comfort to allow the Copom (the Central Bank's Monetary Policy Committee) to consider whether to start cutting interest rates. As a result, the market is moving towards a consensus that cuts will begin as early as 2023. This would take the Selic rate below 10% in 2024, as shown in the above graph.

Stock Markets

Markets



Indexes

	Variation May	Value on 31/05/2023	Variation in 2023	Variation 12 months
COMMODITIES				
OIL WTI	-11.3%	68.09	-15.2%	-40.6%
GOLD	-1.4%	1,962.73	7.6%	6.8%
CURRENCIES (IN RELATION TO THE US\$)				
EURO	-3.0%	1.07	-0.1%	-0.4%
GBP	-1.0%	1.24	3.0%	-1.3%
YEN	-2.2%	139.34	-5.9%	-7.7%
REAL	-1.3%	5.06	4.4%	-6.4%
INDEXES				
S&P500	0.2%	4,179.83	8.9%	1.2%
FTSE100	-5.4%	7,446.14	-0.1%	-2.1%
CAC	-5.2%	7,098.70	9.7%	9.7%
DAX	-1.6%	15,64.02	12.5%	8.9%
NIKKEI	7.0%	30,887.88	18.4%	13.2%
SHANGHAI COMP	-3.6%	3,204.56	3.7%	0.6%
BOVESPA	3.7%	10,335.07	-1.3%	-2.7%
MSCI ACWI	-1.3%	64.37	6.8%	-1.0%



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