



Economic Report

January 2022

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Global Economy 03

Brazilian Economy 06

Markets 08

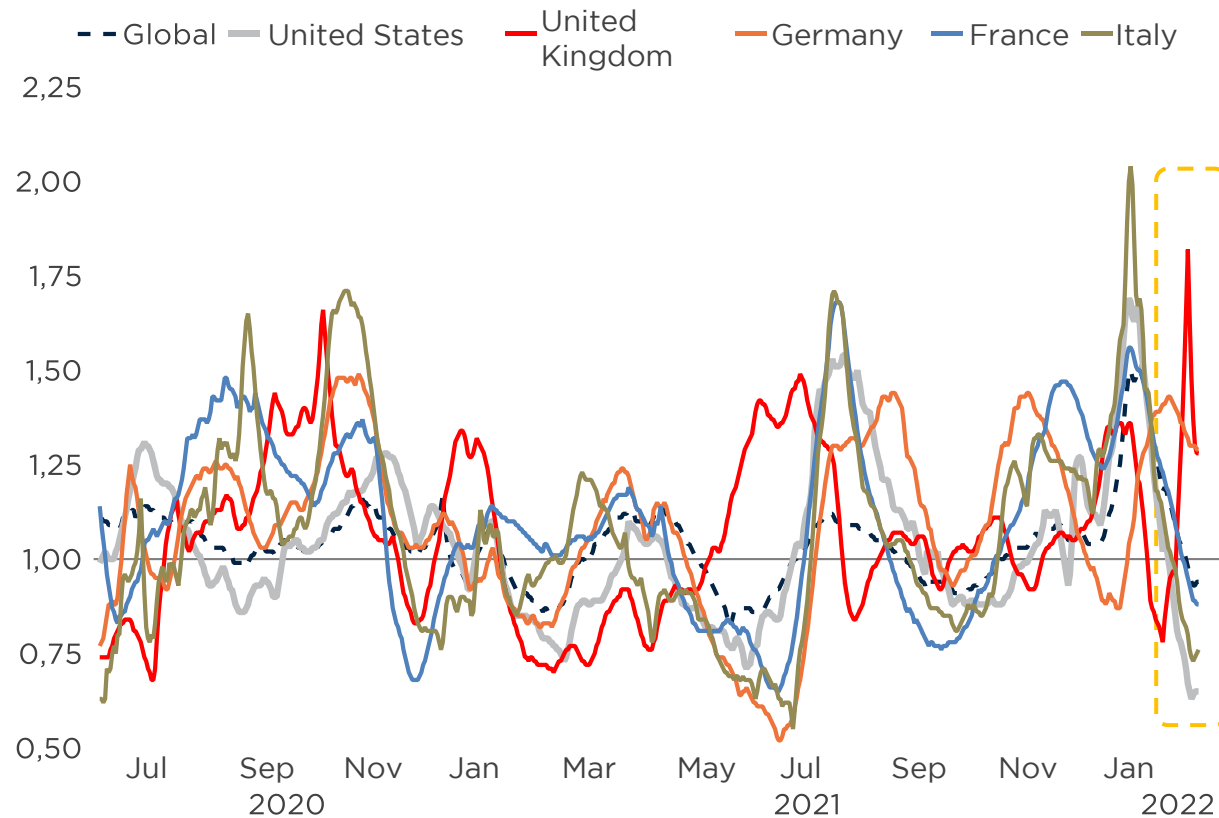
Indexes 12

Global: Omicron shows signs of slowing

Global Economy

Covid-19 Basic Reproduction Rate (Ro)

Average of Transmissions per Persons Infected

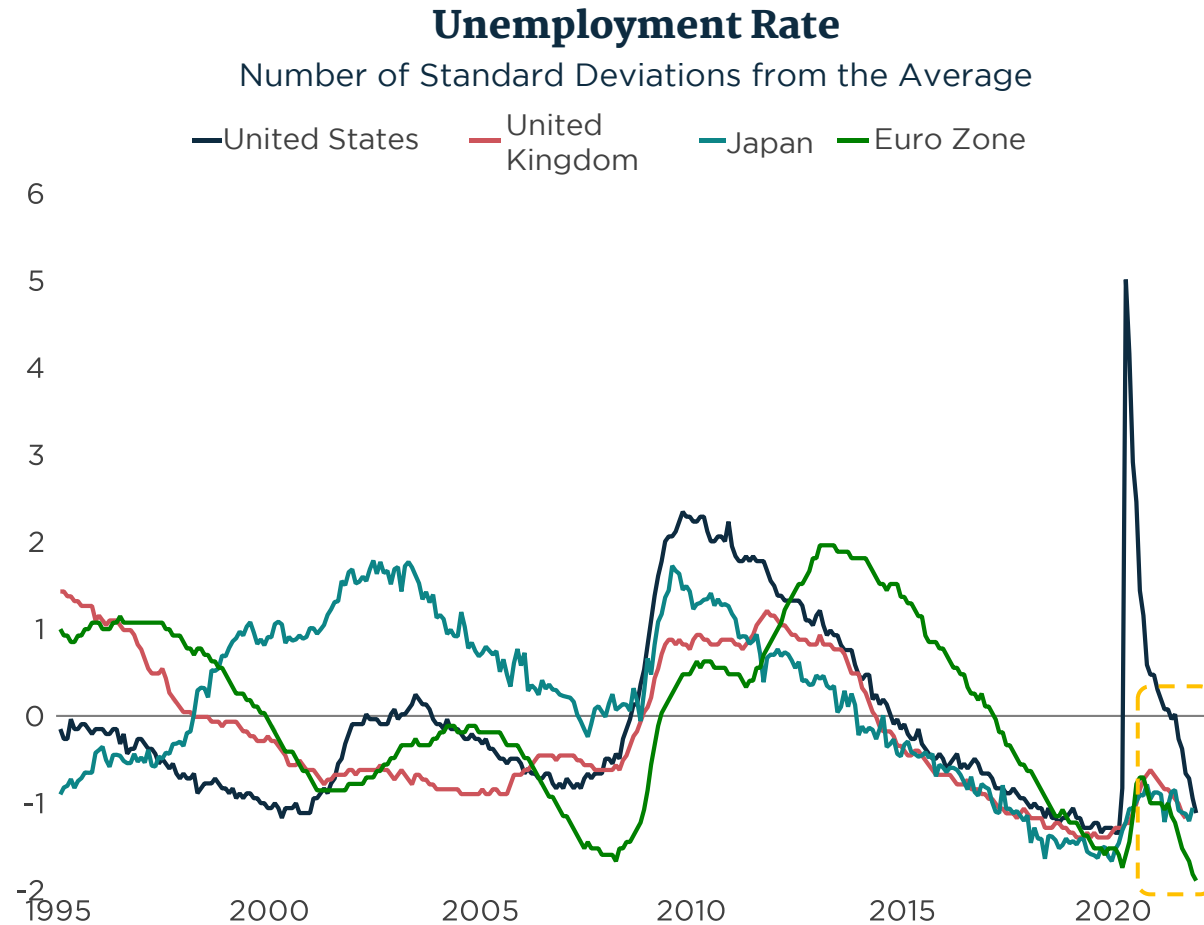


As shown in the accompanying graph, the reproduction rate of Covid-19 (Ro), which indicates proliferation speed of the virus, has fallen sharply in recent weeks, showing a contraction (level below 1) of infections in most developed countries. This could indicate that the peak of the Omicron wave is being overcome.

Moreover, this wave's dynamic (highly contagious but relatively less lethal), combined with success of the vaccination campaigns, has fueled expectations over a possible global change of attitude towards Covid, with the disease being treated as "endemic" and no longer "pandemic".

Global: Unemployment converging downwards

Global Economy



The graph on the left compares the unemployment rates of some of the major global economies, demonstrating the number of standard deviations above or below the historical average.

It is worth noting that labor markets in these regions have converged to more heated levels and are, in general, close to pre-pandemic levels. This movement has been one of the main drivers of the hawkish* trend from central banks in these regions.

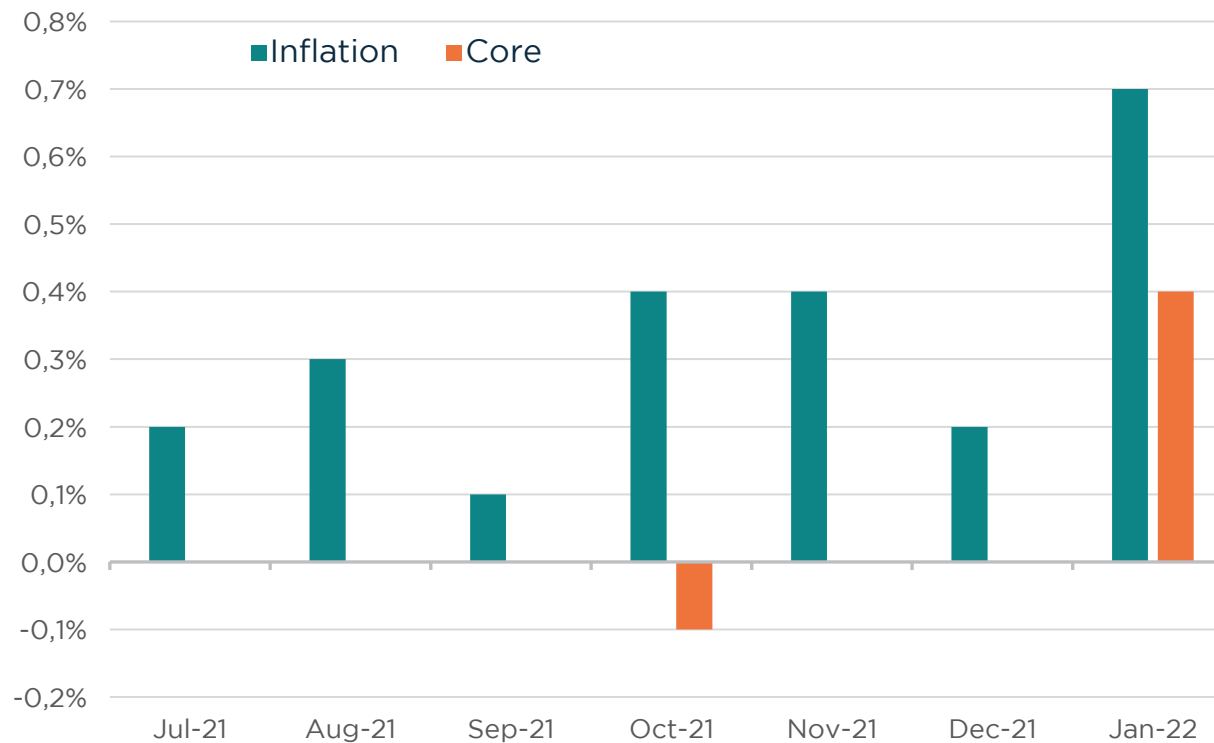
*Dovish & Hawkish: These terms are used as a benchmark for the conduct of an economy's monetary policy. When a Central Bank is "dovish", there is a downward bias for interest rates. The opposite is the case when it is "hawkish" and there is an upward bias for interest rates.

Europe: ECB does not rule out interest rates rising in 2022

Global Economy

Eurozone: Inflation and Core Inflation

Annual Variation vs Expectation



The press conference following the latest meeting of European Central Bank (ECB)'s monetary policy committee resulted in a significantly tougher stance in relation to combatting inflation than the previous one. The change in attitude is related to the persistence of the inflationary aspect, among other factors.

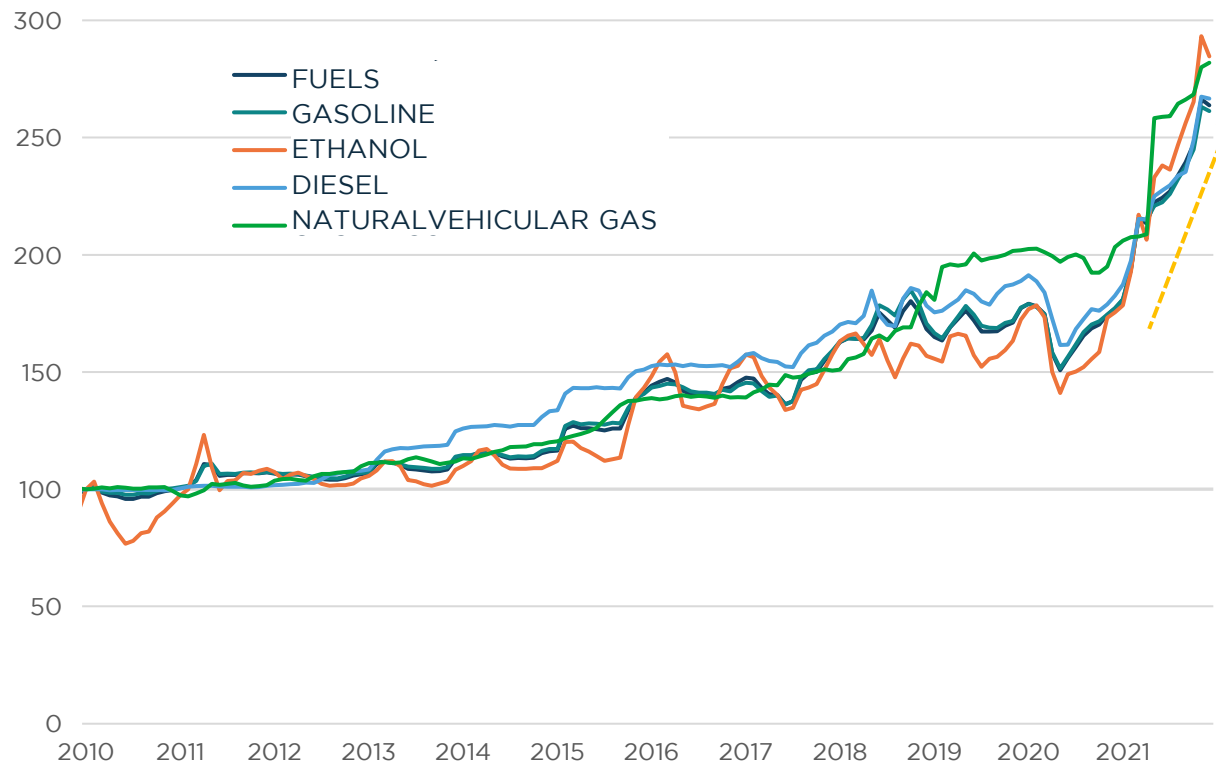
The accompanying graph shows the growing sequence of inflationary surprises - i.e. the difference between the official data and market expectations - over the last few months in the Euro Zone, highlighted by the even larger gap in the January result.

Inflation: Constitutional amendment proposal on fuel prices on the radar

Brazilian Economy

Fuel Prices in the Consumer Price Index, IPCA

Base 100 = Jan/2010



Fuel prices in Brazil rose sharply during 2021 in line with the global behavior of energy commodities. Amid high inflationary pressure and impending elections, proposals have emerged to combat this movement through a constitutional amendment proposal involving tax exemptions.

The immediate result of adopting policies of this kind would be an easing in the behavior of prices in this segment. However, in the long run, renouncing tax revenues would point to an increase in the country risk and a deterioration in inflation expectations, as mentioned in the latest minutes of the Monetary Policy Committee, the COPOM.

Monetary Policy: Copom close to end of cycle at significantly contracionist level

Brazilian Economy

Real interest rate ex-ante 1 year

DlxPré 360 Swap - IPCA Focus



The latest minutes of the Central Bank’s Monetary Policy Committee (COPOM) indicated that the cycle of hikes in the Selic rate (the country’s basic interest rate) should be slightly more intense and long lasting than expected, reaching a rate above 12% p.a. in May, and it should remain there for some time.

The series shown in the graph displays the consistent increase in the ex-ante real interest rates*, calculated from the relation between the DlxPre 360 Swap and the inflation expectations for the next 12 months of the Focus report, which are already close to the levels registered in 2016.

*Ex-ante real interest is the expected real interest rate (expected nominal interest rate discounted for expected inflation), the most important variable in the decision-making of market players..

Interest Rates: Movement continued in January

Markets

Fed Funds: Hikes Priced In for 2022

1 Increase = 25 bps



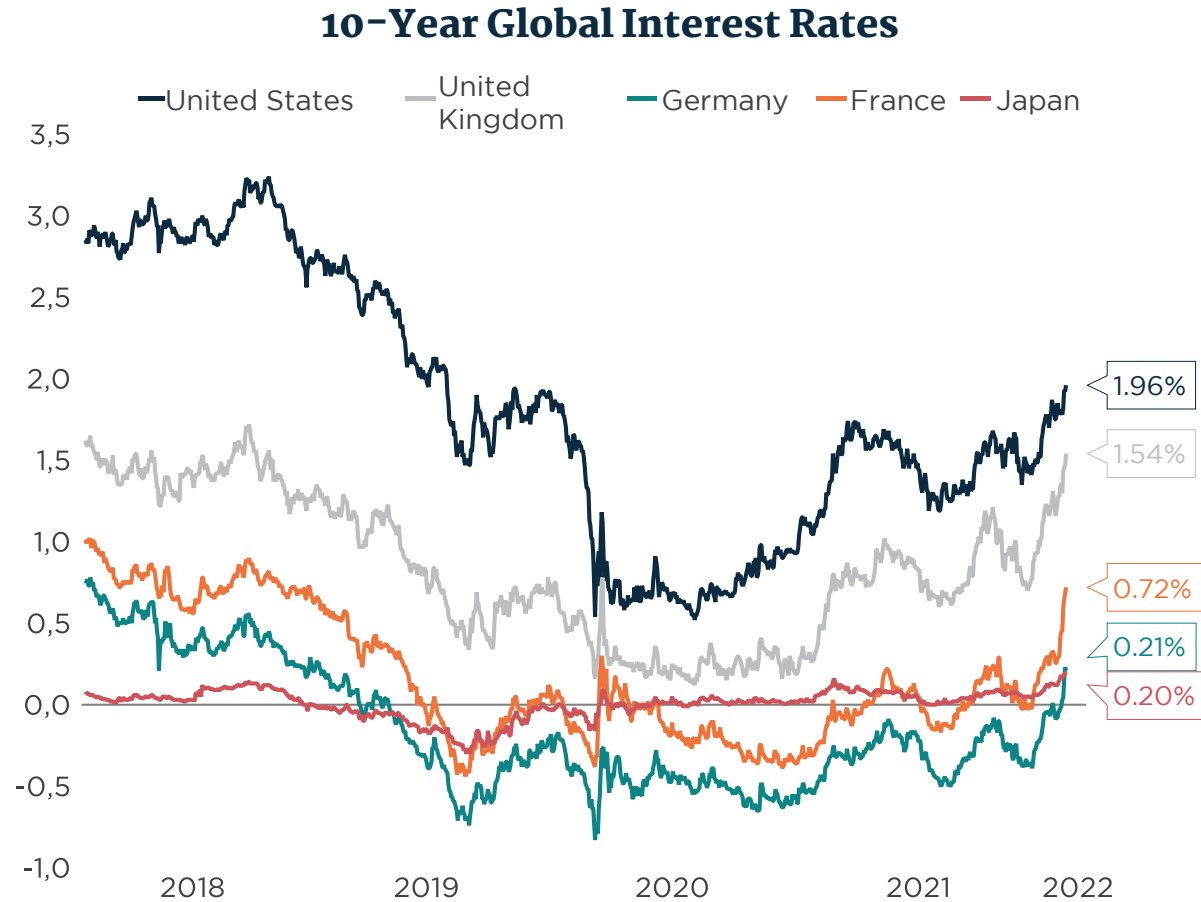
The tight US labor market, linked to stubborn inflation and the increasingly hawkish stance of the Federal Reserve (FED), have led market players to revise their expectations for the intensity and speed of the US interest rate hike cycle.

The accompanying graph shows that the Fed Funds futures market is already pricing in just over five 25 bps* hikes in 2022. It is worth noting that until a few months ago, at the end of last year, the pricing did not even reach one full increase.

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

Interest Rates: Global interest rates on the rise

Markets



The increases in interest rates are also present in the longer-term vertices and not only in the United States. American interest rates in the 10-year horizon are already approaching 2% p.a. and are being followed by a number of other developed countries, such as Germany, which has returned to positive nominal interest rates after years of negative levels.

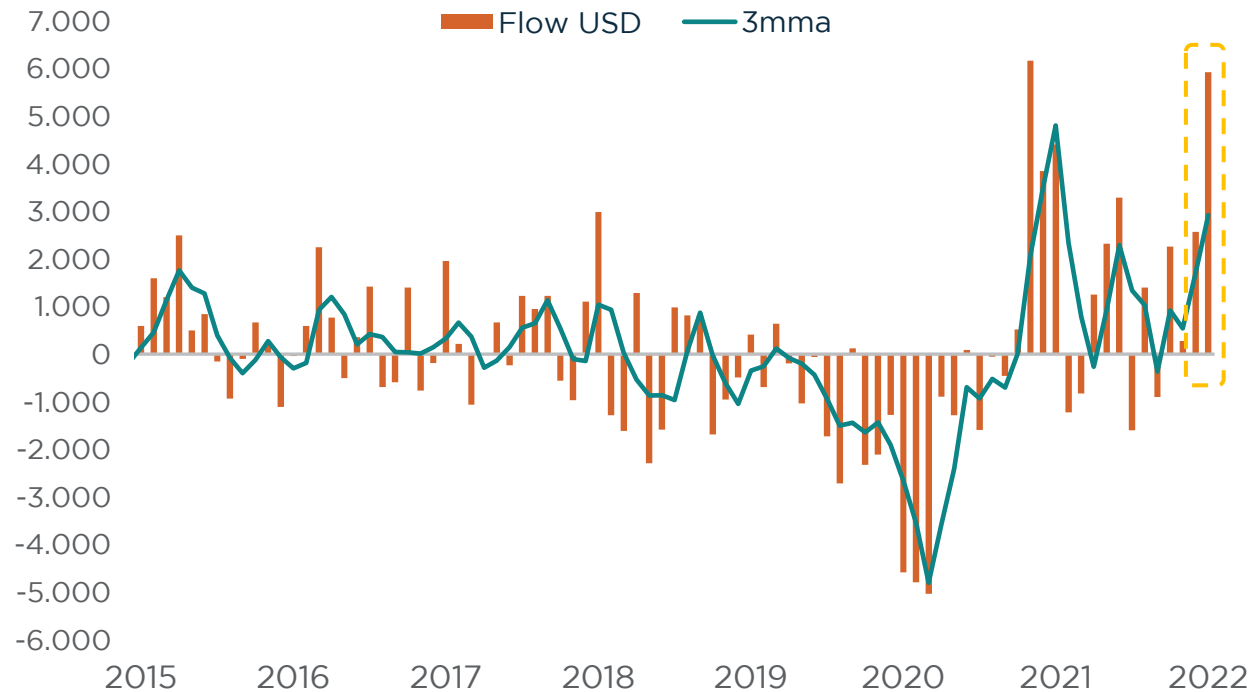
This movement had an important impact on assets around the world. Growth stocks in particular underwent significant corrections during 2021 and in early 2022.

Stock Market: Foreign flow makes strong comeback in January

Markets

Ibovespa: Flow of Foreign Investors

Excludes IPOs and follow-ons



Despite a still unfavorable scenario in Brazil, the month of January registered an extremely positive flow of foreign investors into the local stock market.

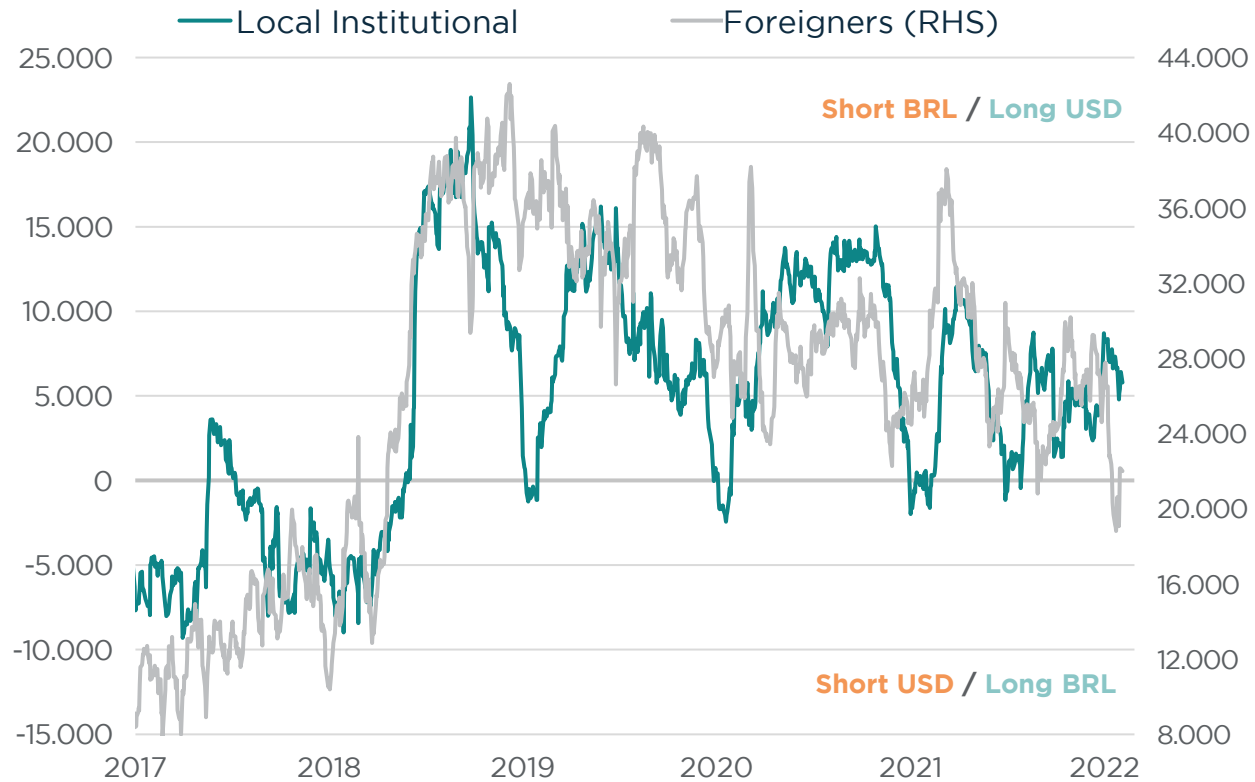
This occurrence seems to be more related to a global movement, directed at emerging economies and stoked by the forces of commodity prices, but may have been strengthened by the set of metrics that showed the Ibovespa was "cheap" compared with its peers.

Currency: Foreigners reduce long position in USD

Markets

BM&F: Positions in BRL/USD

US\$ Million

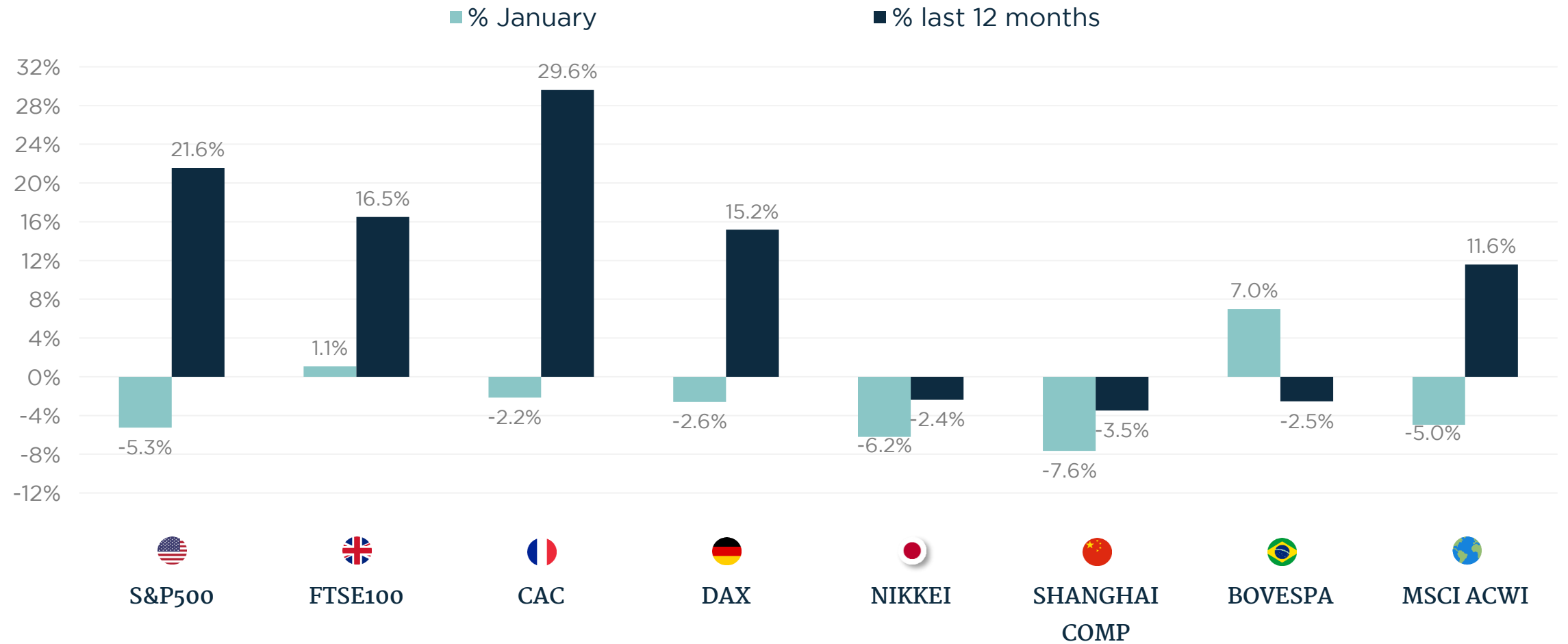


As happened with the stock market, the Brazilian currency also benefited from a positive net flow last month.

The general stance foreign investors are taking continues to be towards buying dollars against the Real, which structurally works as a hedge to positions in the country, but there was a reduction in sequential terms, catalyzing the appreciation of the Real

Stock Markets

Markets



Indexes

	% January	Value on 31/01/2022	% 2022	% last 12 months
COMMODITIES				
OIL WTI	14.5%	88.15	14.5%	68.9%
GOLD	-1.8%	1,797.17	-1.8%	-2.7%
CURRENCY (IN RELATION TO THE US\$)				
EURO	-1.2%	1.12	-1.2%	-7.4%
GBP	-0.6%	1.34	-0.6%	-1.9%
YEN	0.0%	115.11	0.0%	-9.1%
REAL	5.0%	5.31	5.0%	3.0%
INDEXES				
S&P500	-5.3%	4,515.55	-5.3%	21.6%
FTSE100	1.1%	7,464.37	1.1%	16.5%
CAC	-2.2%	6,999.20	-2.2%	29.6%
DAX	-2.6%	15,471.20	-2.6%	15.2%
NIKKEI	-6.2%	27,001.98	-6.2%	-2.4%
SHANGHAI COMP	-7.6%	3,361.44	-7.6%	-3.5%
BOVESPA	7.0%	112,143.50	7.0%	-2.5%
MSCI ACWI	-5.0%	717.38	-5.0%	11.6%



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