Economic Report

March 2022

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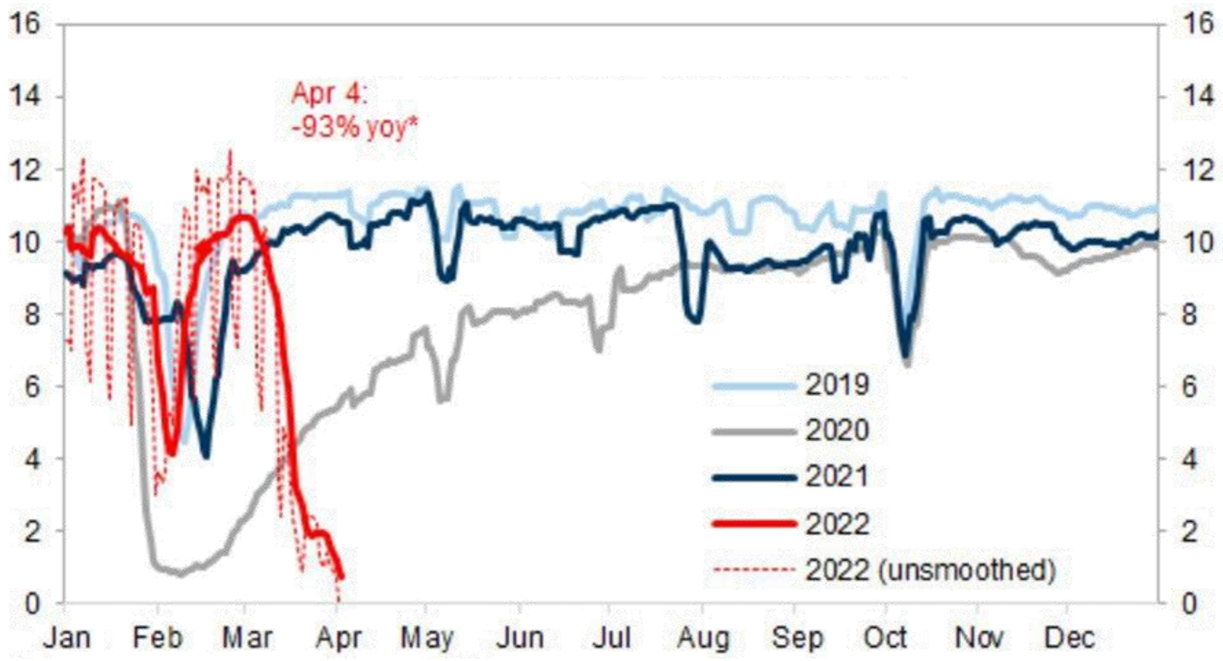
Covid-19: Zero policy in China led to a series of restrictions

Global Economy

Number of daily passengers on the Shanghai metro

% compared with 2021 | millions of people, 7-day moving average



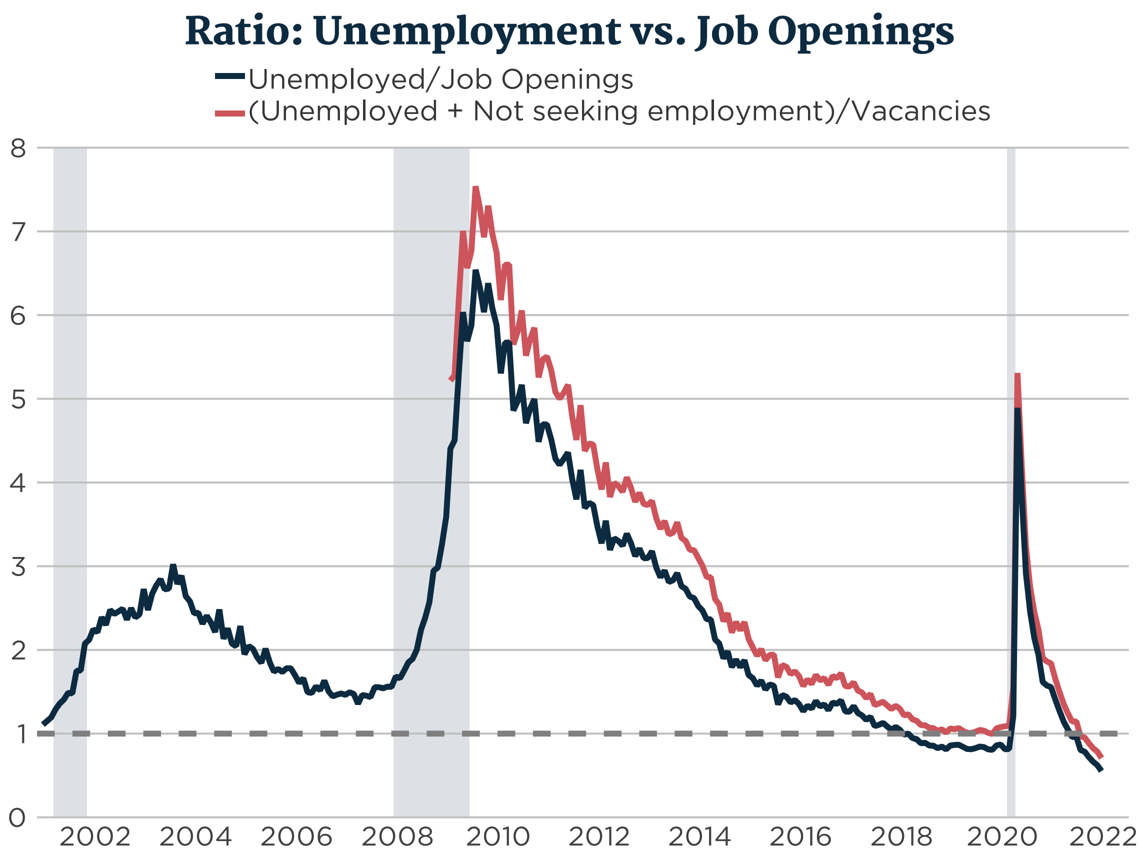
The expansion of the Omicron variant in China, where a nationwide "Zero Covid" policy has been adopted, led to a series of strict lockdowns in the country.

The immediate impact of this on the rest of the world was seen in reduced demand for commodities, particularly oil. However, the medium-term consequences of this interruption in activities in the region could increase bottlenecks in the production chains, leading to an even more inflationary net result.

Source: Goldman Sachs

US: Labor market remains very tight

Global Economy



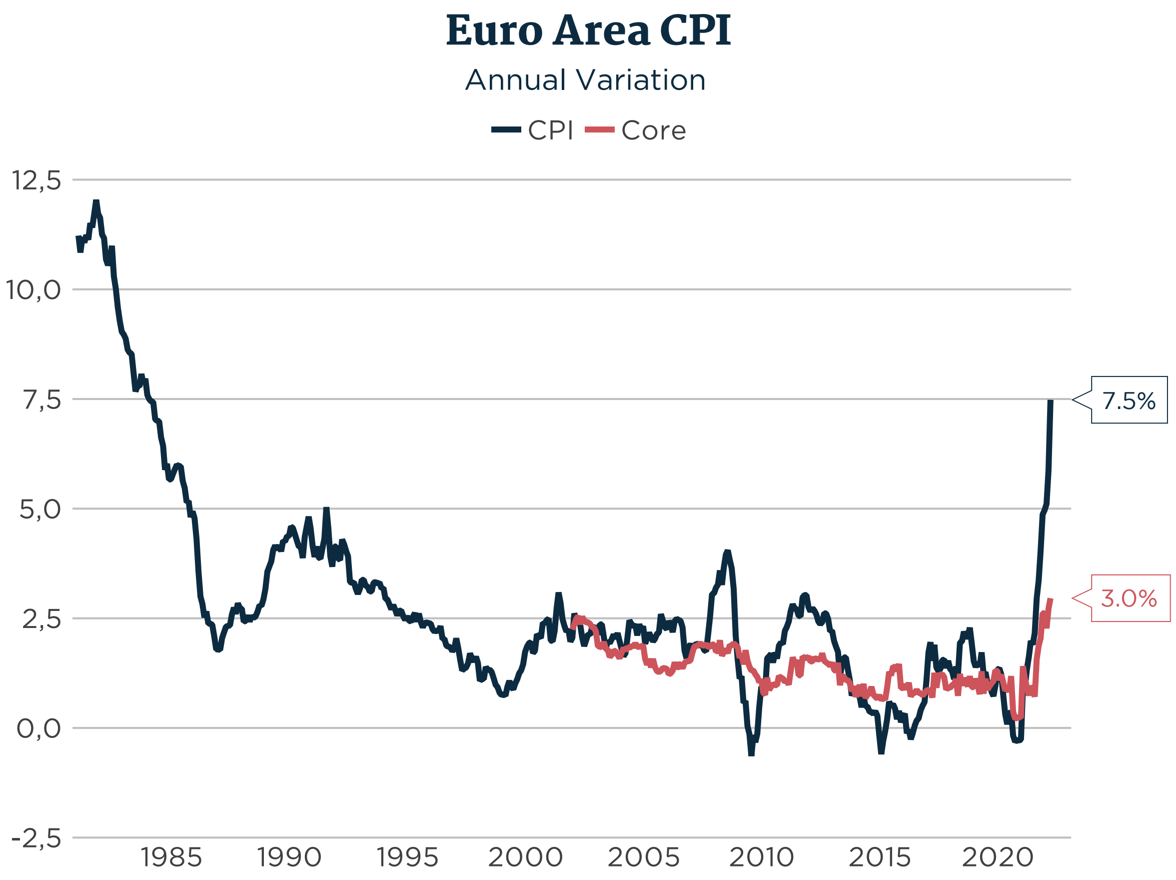
An analysis of a number of different metrics showed that the U.S. labor market is very tight. The accompanying graph shows two metrics: one comparing the ratio of the number of unemployed people to the number of vacancies and the other that includes not only the unemployed but people who are not actively looking for work but would like to be part of the labor market.

It is worth noting that following the peak of the Covid-19 crisis, when there were about 5 unemployed people per vacancy, this ratio fell sharply and the parity is currently less than 1:1.

Source: Macrobond

Europe: CPI continues to spring positive surprise

Global Economy



Inflation figures in the Eurozone (Consumer Price Index) hit an all-time high in March, rising by 7.5% YoY in the headline index, well above expectations. A big part of the inflationary shock in sequential terms was due to the energy item, brought about by the rising cost of fuels, such as natural gas, reflecting the conflict in Ukraine.

On the other hand, the core inflation (red line in the accompanying graph) - which excludes energy and food – shows that the inflationary pressure is not restricted to the shock from energy prices.

Source: Macrobond and Eurostat

Inflation: Central Bank nears end of cycle

Brazilian Economy

Central Bank Inflation Estimates

IPCA Variation Accumulated over Four Quarters

Year	Quarter	Target	IR – Dec/21	IR – Mar/22		Difference (bp)	
				Outlook A	Outlook B	Outlook A	Outlook B
2022	I	3.50	9.3	10.6	10.6	1.3	1.3
	II		8.2	10.5	10.6	2.3	2.4
	III		6.4	8.4	8.8	2.0	2.4
	IV		**4.7**	**6.3**	**7.1**	**1.6**	**2.4**
2023	I	3.25	4.5	4.6	5.6	0.1	1.1
	II		4.4	4.0	4.9	-0.4	0.5
	III		3.5	3.4	4.1	-0.1	0.6
	IV		**3.2**	**3.1**	**3.4**	**-0.1**	**0.2**
2024	I	3.00	2.9	2.8	3.1	-0.1	0.2
	II		2.7	2.5	2.7	-0.2	0.0
	III		2.6	2.4	2.5	-0.2	-0.1
	IV		**2.6**	**2.3**	**2.4**	**-0.3**	**-0.2**

The Central Bank's latest statement pointed to another hike of 100 bps* in the Selic rate (Brazil's basic interest rate), taking it to 12.75% p.a. in May. This would be enough to meet the aim of converging inflation to the target by 2023.

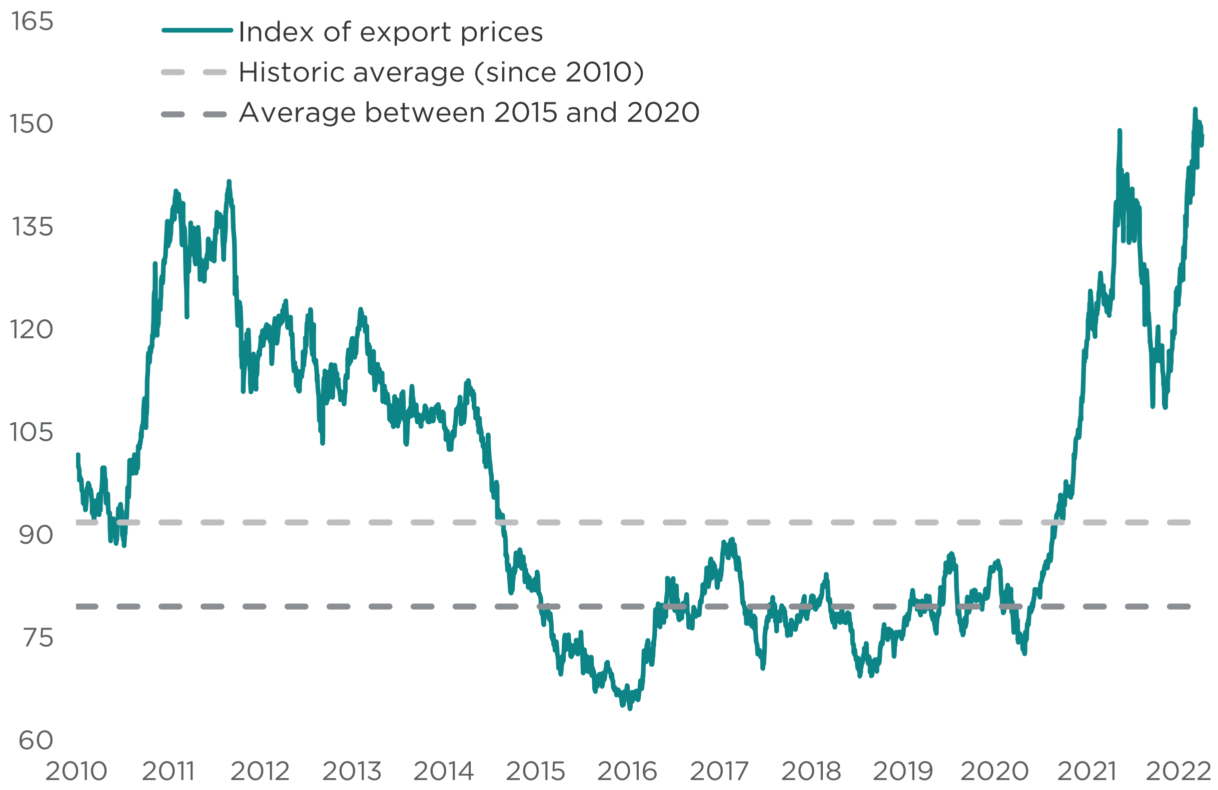
*1 basis points or 1 bp= 0.01% or 1/100 percentage point

Source: Central Bank

External Sector: Price of commodities vs. main exports

Brazilian Economy

Proxy Price of Exports



The recent performance of commodity prices has favored the terms of emerging countries trades like Brazil, which have a significant portion of their exports pegged to this type of product.

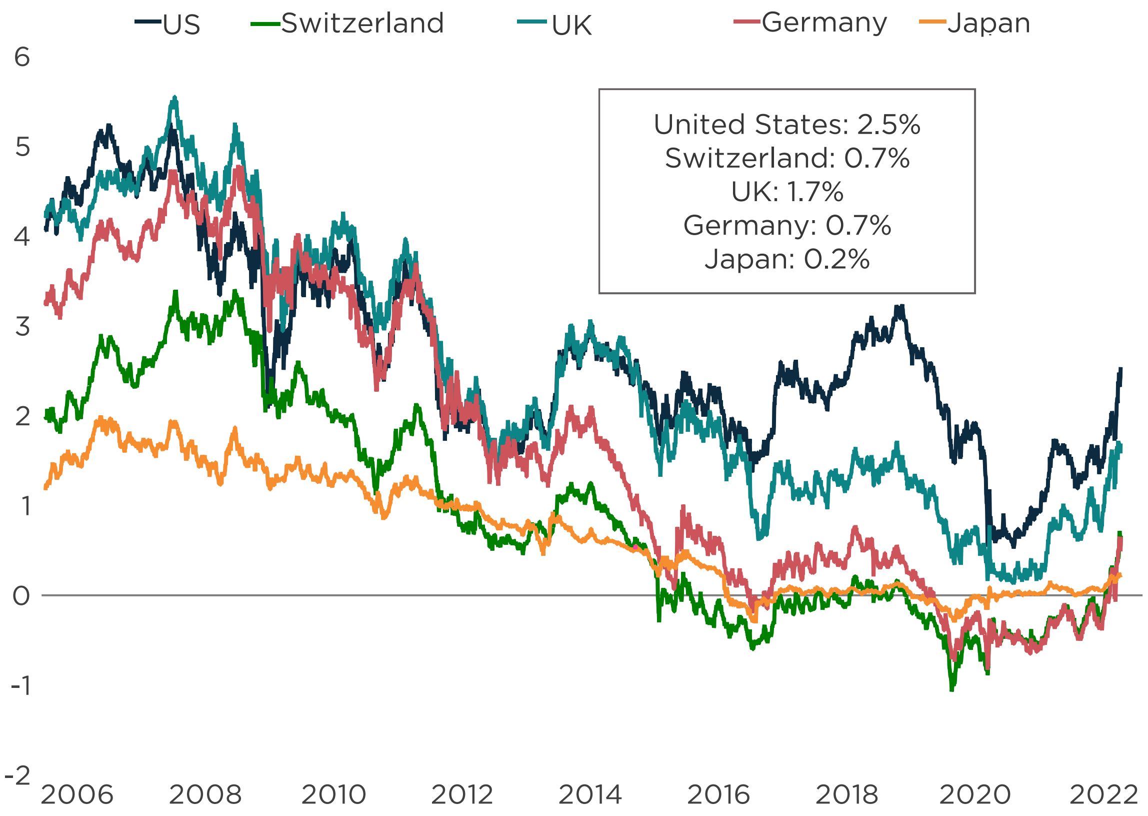
Our proxy for prices of Brazilian exports, which includes the main items weighted by their share of exports, has already reached an all-time high and exceeded the previous record reached in 2021, as shown in the accompanying graph.

Source: Bloomberg and Turim MFO

Interest Rates: Nominal long-term rates start speeding up again

Markets

10-year Rates of Developed Countries



The growing concern with global inflation has triggered a big repricing movement in interest rates of major economies.

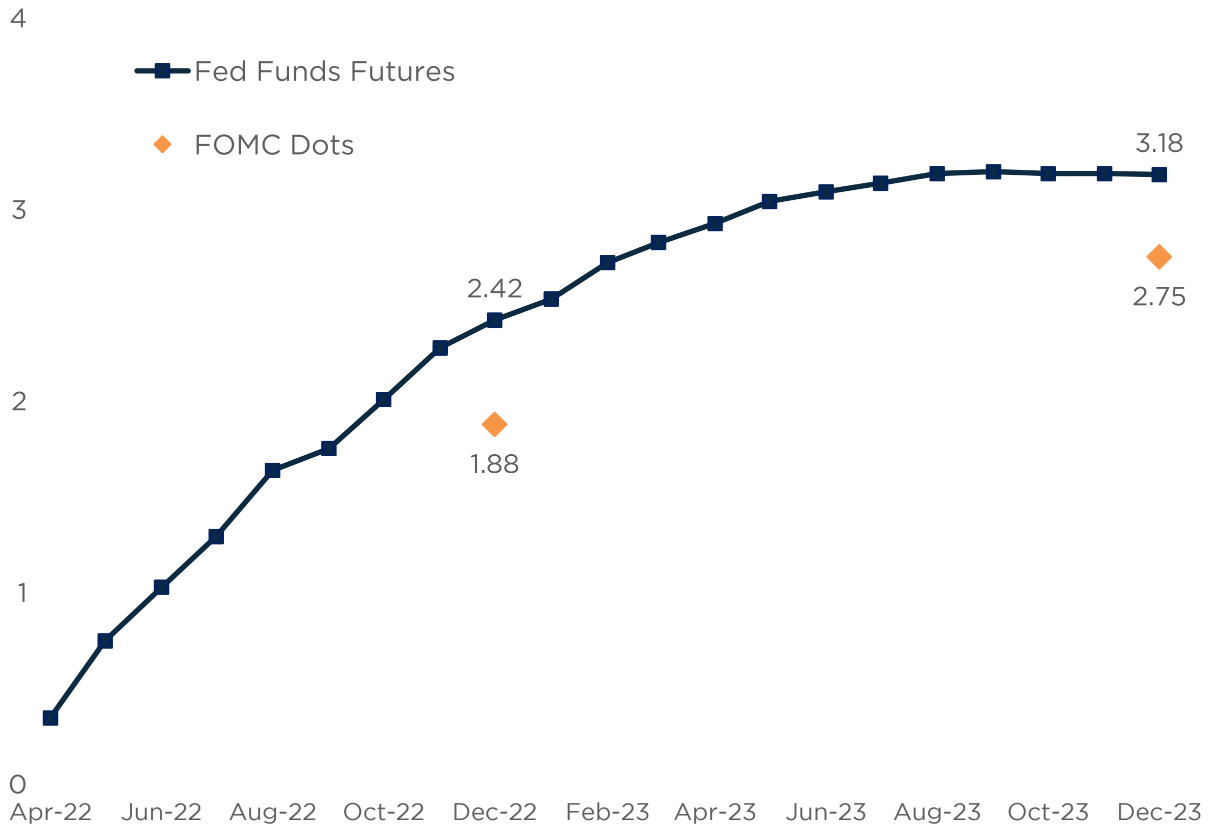
Although the size of the movement is already quite considerable, rates may continue to rise as inflationary pressures and the ensuing responses by the major central banks continue to escalate. Therefore, it makes sense against this uncertain backdrop to adopt a more defensive stance.

Source: Macrobond

US: Acceleration in rate of interest rate hikes

Markets

American Interest Rates Priced into Market



Stubborn inflation and a very heated labor market in the US, combined with an increasingly public hawkish* stance by members of the Fed's monetary policy committee (FOMC) has led to a significant increase in expectations for the interest rate hike cycle.

The market is already pricing in an upward cycle with at least two hikes of 50 basis points starting from the May meeting. This would lead to a year-end rate of almost 3% p.a. in 2023, above the levels projected by the median vote of the Fed monetary policy committee members at the March meeting.

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.

Source: Macrobond

Interest Rates: Inversion of the curve and recession

Markets

Inversions of the American Interest Rate Curve, S&P and Recessions

Inversions of the Curve (10-2Y)	S&P 500 Peaks	Start of Recession	Number of Months Between:	
			Inversions and Peaks of the SPX	Inversions and Recessions
Dec-67	Nov-68	Dec-69	11	24
Mar-73	Jan-73	Nov-73	-2	8
Aug-78	Feb-80	Jan-80	18	17
Dec-88	Jul-90	Jul-90	19	19
Feb-00	Mar-00	Mar-01	2	13
Jan-06	Oct-07	Dec-07	20	23
Aug-19	Feb-20	Feb-20	6	6
Median			**11**	**17**
Average			**11**	**16**

In the midst of a complicated situation – including pandemics, war conflicts, high inflation and high interest rate cycles – the 2 and 10 year vertices of the American yield curve "inverted", i.e. the yield of a short-term vertex outperformed the yield of a longer-term one.

This type of event has often been associated with some lagged effect linked to the beginning of a recession and falling stock markets. In retrospect, it can be seen that this lag has varied greatly from case to case which makes it difficult to predict the outlook.

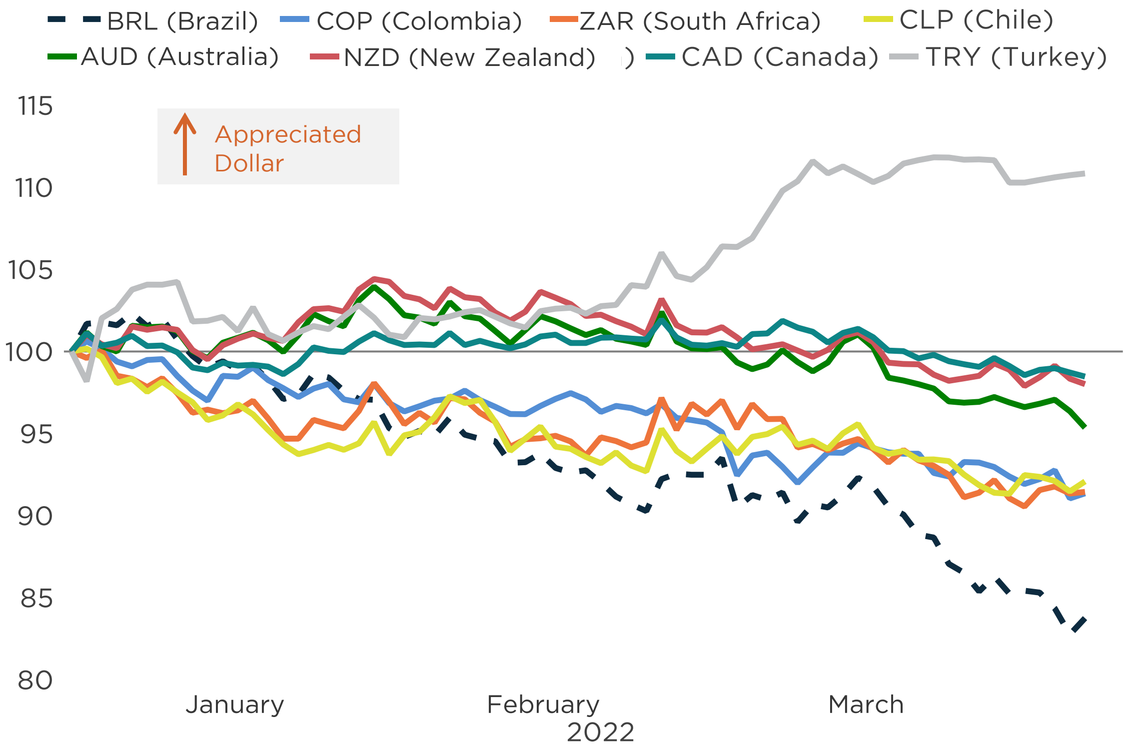
Source: JP Morgan

Exchange Rate: BRL benefiting from rising commodity prices

Markets

Real vs. Emerging Currencies and Commodities

Base 100 = Jan/2022



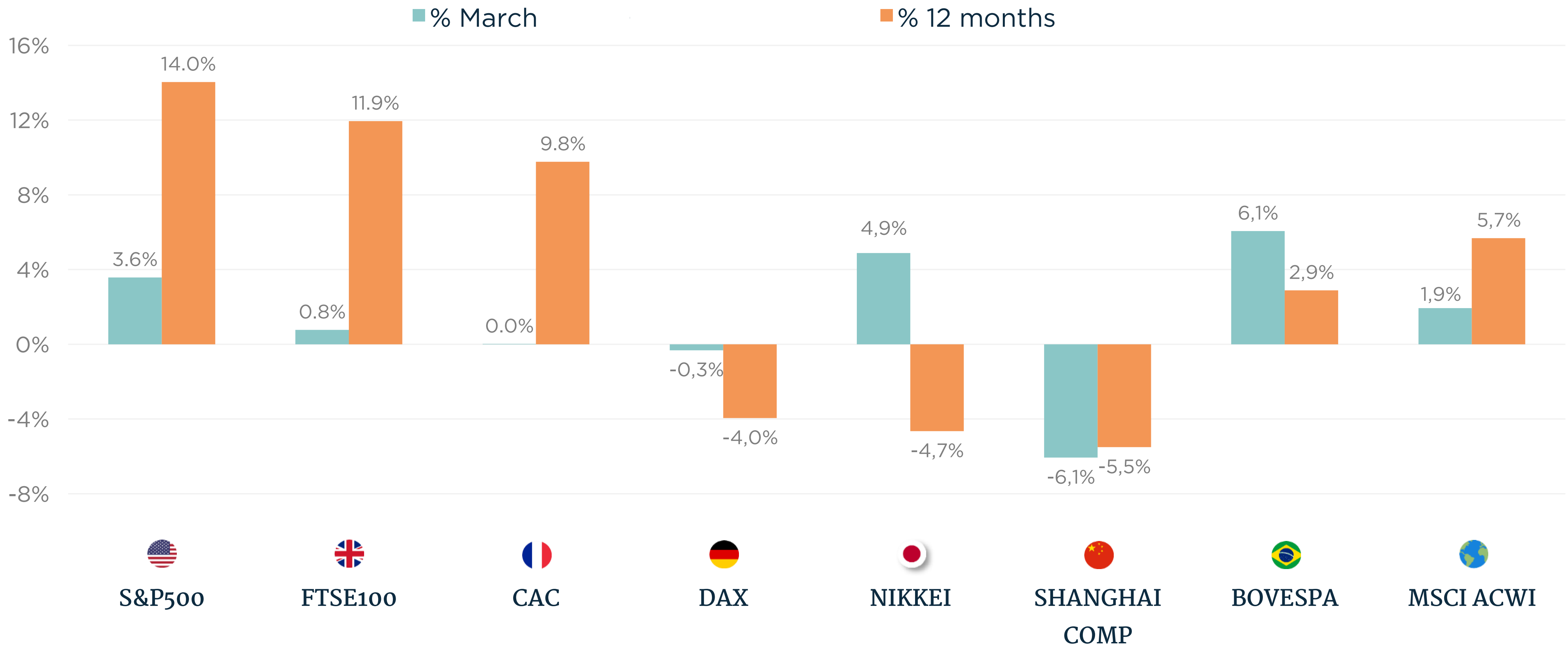
The acceleration in commodity prices since the beginning of the year has been an important driver for international capital flow which started to look for assets in emerging economies, and to currencies in particular.

The accompanying graph shows that this movement has been widely spread across a series of commodity currencies since the start of 2022. However, this has been even more apparent in Brazil which also has high interest rates and discounted assets.

Source: Bloomberg and Macrobond

Stock Markets

Markets



Indexes

	% March	Value on 31/03/2022	% 2022	% 12 months
COMMODITIES				
OIL WTI	4.8%	100.28	30.3%	69.5%
GOLD	1.5%	1,937.44	5.9%	13.5%
CURRENCIES (IN RELATION TO THE US$)				
EURO	-1.4%	1.11	-2.7%	-5.7%
GBP	-2.1%	1.31	-2.9%	-4.7%
YEN	-5.5%	121.70	-5.4%	-9.0%
REAL	8.7%	4.74	17.6%	18.8%
INDEXES				
S&P500	3.6%	4,530.41	-4.9%	14.0%
FTSE100	0.8%	7,515.68	1.8%	11.9%
CAC	0.0%	6,659.87	-6.9%	9.8%
DAX	-0.3%	14,414.75	-9.3%	-4.0%
NIKKEI	4.9%	27,821.43	-3.4%	-4.7%
SHANGHAI COMP	-6.1%	3,252.20	-10.6%	-5.5%
BOVESPA	6.1%	119,999.23	14.5%	2.9%
MSCI ACWI	1.9%	711.56	-5.7%	5.7%

*Amounts and Results in local currency

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