TURIM
MFO

Economic Report

June 2022

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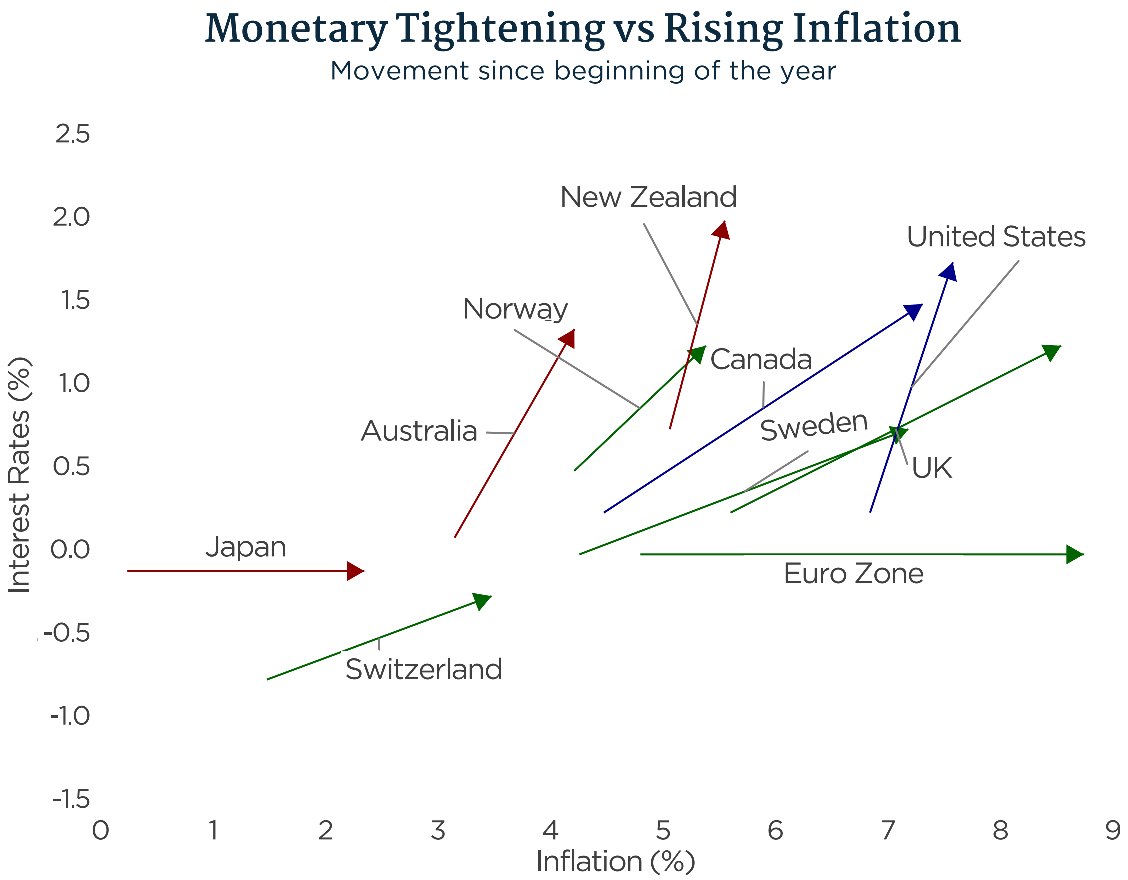
Global: Inflation and interest rates rise in the first half of 2022

Global Economy



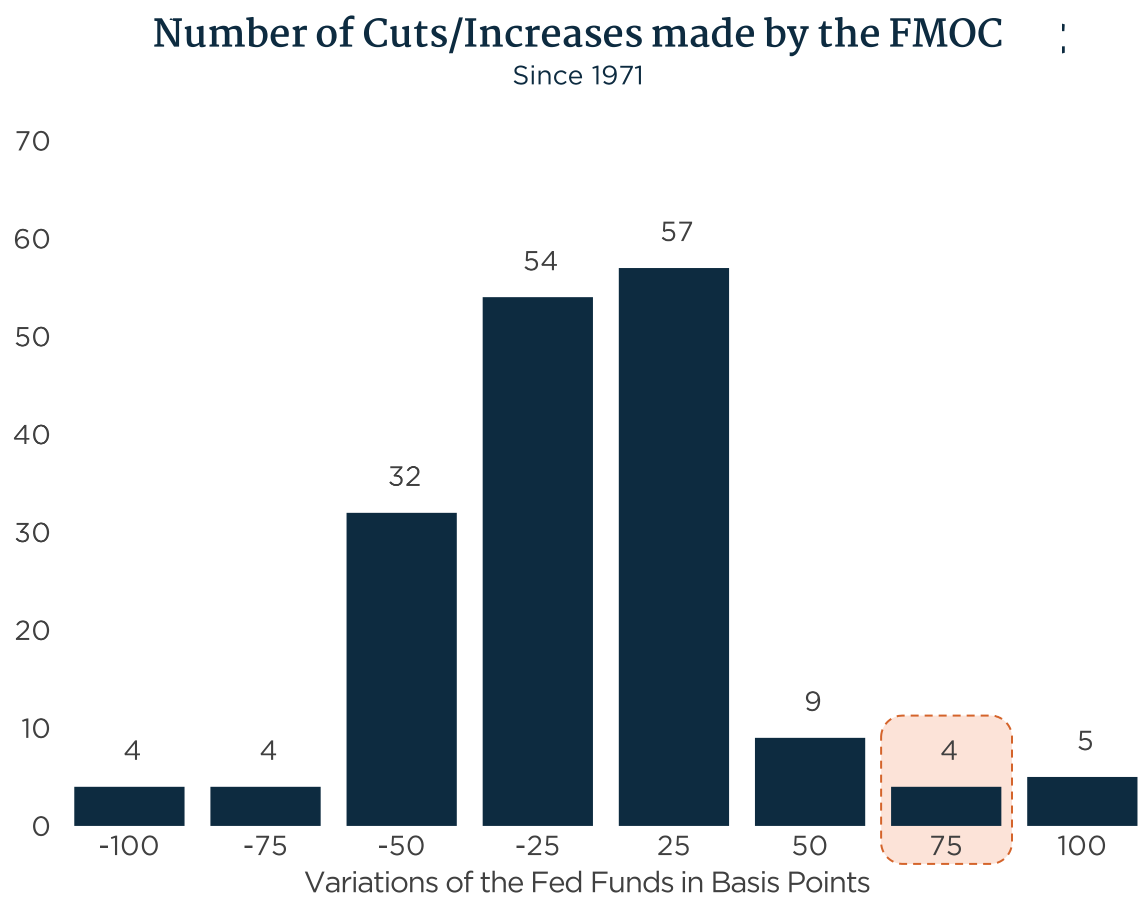
During the first half of the year, inflation reached the highest levels in decades around the world.

Central banks responded by taking tougher measures and tightening monetary conditions. The graph on the left shows the development of the inflation rate (horizontal axis) and the short-term interest rate (vertical axis) for a group of developed countries from January 2022 (beginning of the arrow) to date (arrowhead).

Source: Macrobond

United States: CPI springs surprise and FOMC becomes more hawkish[1]

Global Economy



Source: Macrobond

The move towards higher interest rates around the world in June was even more accelerated. This was the case in the United States where the FOMC (the Fed's monetary policy committee) opted for a 75 basis points[2] hike, breaking previous indications that pointed to increases of 50 bps in the subsequent meetings. The committee justified the move by highlighting the worse-than-expected CPI (Consumer Price Index) result in May and the deterioration in longer-term inflation expectations.

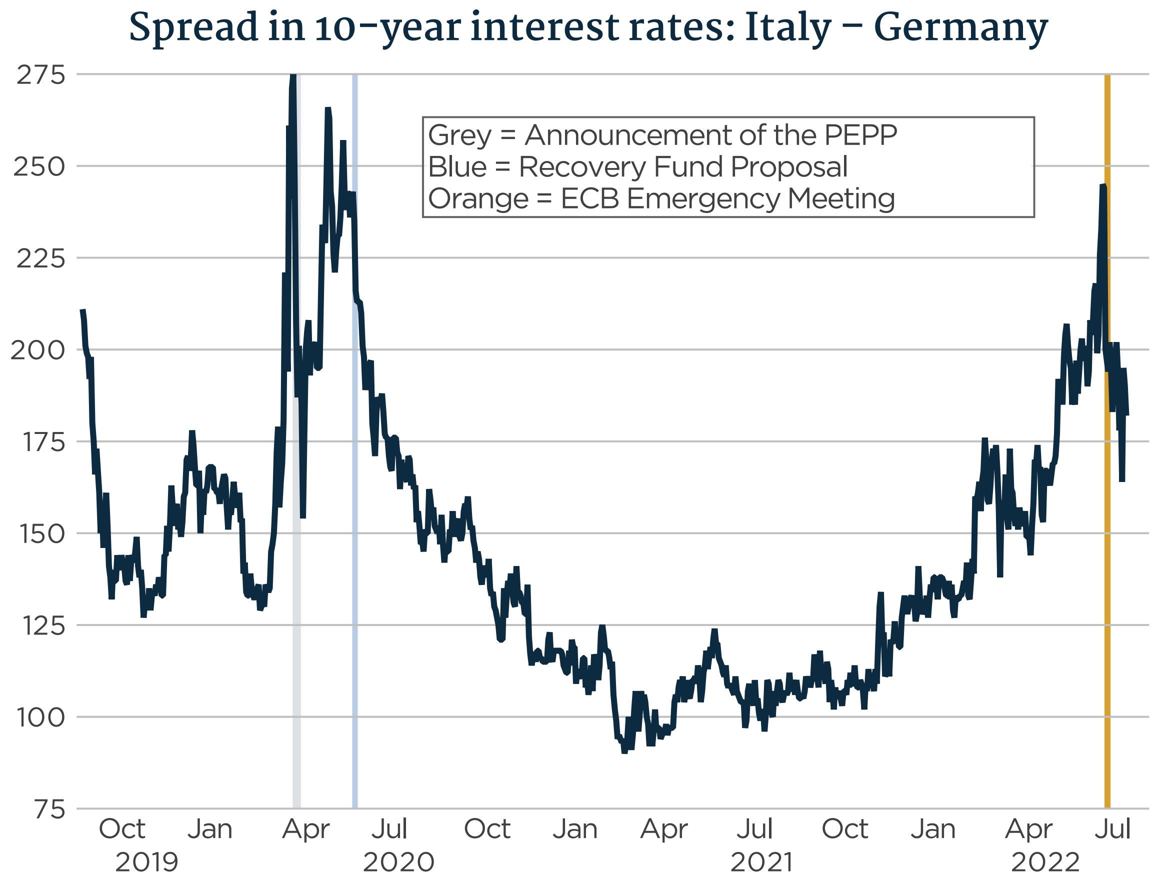
As Fed chairman Powell pointed out in his post-decision press conference, moves like this are infrequent. In fact, this was only the fourth time the committee has raised rates by this magnitude since 1971.

[1] 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.

[2] 1 basis point or 1 bp= 0.01% or 1/100 of a percentage point.

Euro Zone: Outlook becomes more challenging

Global Economy



A series of challenges are hanging over Europe.

On one hand, the continuing war in Ukraine worsens the region's energy crisis with the decrease in gas supplies from Russia. Germany faces a risk of rationing as temperatures are set to fall for the rest of the year after the summer.

On the other hand, the European Central Bank's intention to normalize interest rates has caused an increase in the risk premium embedded in the interest rates of the most indebted countries in the block. The accompanying graph shows the increase in the interest rate difference between Italian and German government bonds. The ECB held an emergency meeting (orange bar) to discuss this situation and should shortly announce some set of "anti-fragmentation" measures.

Source: Macrobond

Fiscal: Another stimulus measure on the demand side

Brazilian Economy

Expenditure Contracted in the PEC 1/2022 Amendment

Description	Estimated Cost
Expansion of Auxílio Brasil welfare program from R$400 to R$600 a month	R$26 billion
Introduction of a voucher paid to truckers amounting to R$1,000	R$5.4 billion
Expansion of Auxilio-Gas subsidy from R$53 to the cost of a cylinder every two months	R$1.05 billion
Compensation to states for free public transport, as legally required, for the elderly.	R$2.5 billion
Transfer of up to R$3.8 billion through tax credits to maintain ethanol´s competitivity with gas.	R$3.8 billion
Benefits for taxi drivers duly registered by May 31, 2022.	R$2 billion
Alimenta Brasil program: foresees purchases of food produced by small farmers and distribution to households lacking food security among other destinations.	R$500 million
Total impact of the measures	**R$41.25 billion**

The Federal Senate passed constitutional amendment PEC 1/2022 in June which authorizes - among other measures - the expansion of the Auxílio Brasil welfare program (Brazil Aid) until the end of the year. The estimated total cost comes to more than R$ 41 billion. The measure represents another stimulus to demand in the short term and, by sidestepping the spending ceiling, highlights the difficulty in balancing the need for help to the most disadvantaged sections of the population with the sustainability of the public finances.

Source: Federal Senate

Monetary Policy: Central Bank looks for window to close the cycle

Brazilian Economy

Central Bank Inflation Projections

IPCA Variation Accumulated in Four Quarters

Quarter	Target	IR Mar/22	IR Jun/22	Difference
2022.2		10.5	12.0	1.5
2022.3		8.4	10.3	1.9
2022.4	3.50	6.30	8.80	2.50
2023.1		4.6	6.7	2.1
2023.2		4.0	5.6	1.6
2023.3		3.4	4.9	1.5
2023.4	3.25	3.10	4.00	0.90
2024.1		2.8	3.6	0.8
2024.2		2.5	3.1	0.6
2024.3		2.4	2.8	0.4
2024.4	3.00	2.30	2.70	0.40

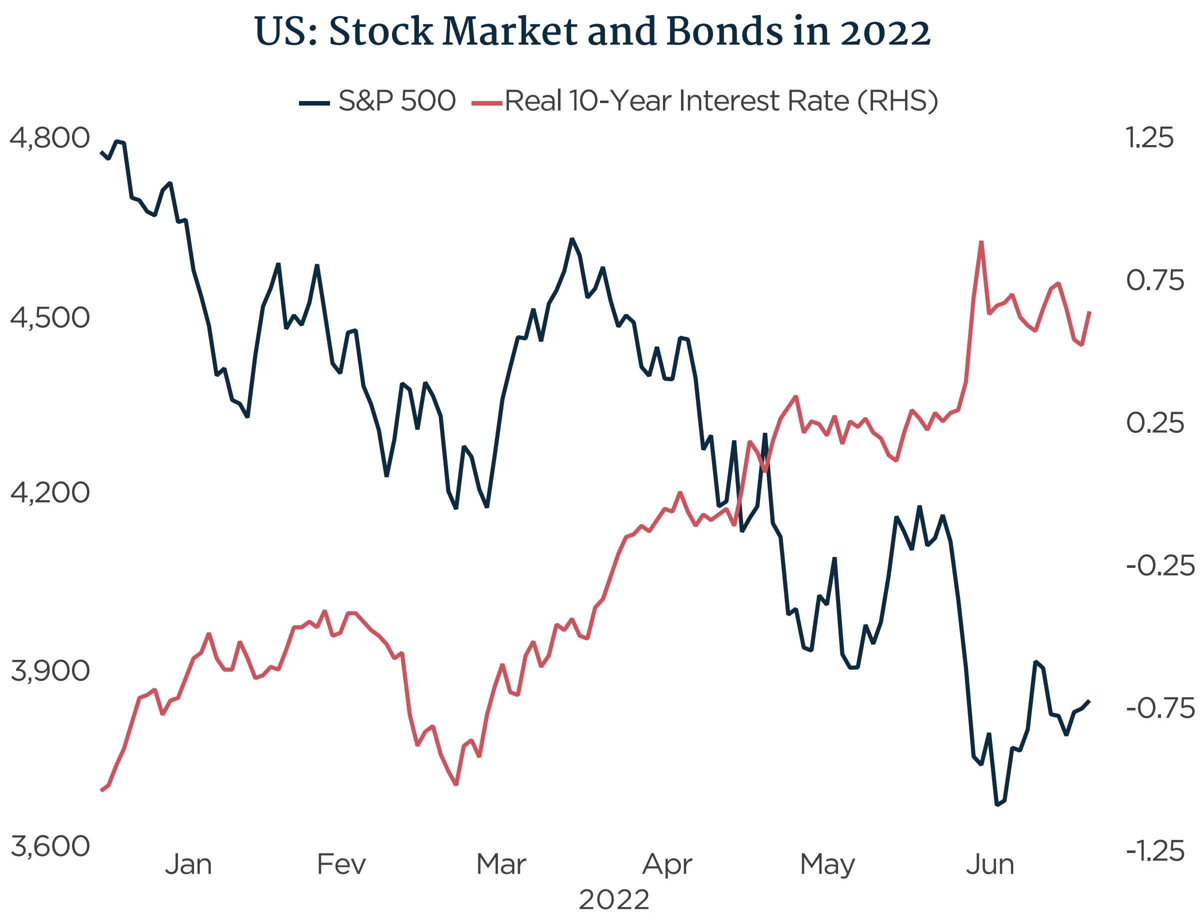
The Central Bank showed much higher inflation projections in the second quarter Inflation Report than it had in the first quarter of the year, reaching 4.0% by the end of 2023. It also presented an additional exercise with the Selic (Brazil's basic interest rate) stable at 13.25% a year which led the inflation projections for 2023 to slip by 0.3 percentage points.

In this situation, the Central Bank is maintaining signs consistent with another interest rate increase, indicating that the likely strategy will be to maintain interest rates in contractionary territory for a prolonged period in order to bring inflation around the target, regarded as somewhat lower than the 4% projected for the specific horizon (2023).

Source: Central Bank

Risk Assets: 1st semester marked by losses in main asset classes

Brazilian Economy



The prospect of high interest rates has led long-term US bonds to register the worst returns for the first six months of the year in decades. At the same time, the opening of interest rates helps explain much of the stock market decline from the contraction in multiples.

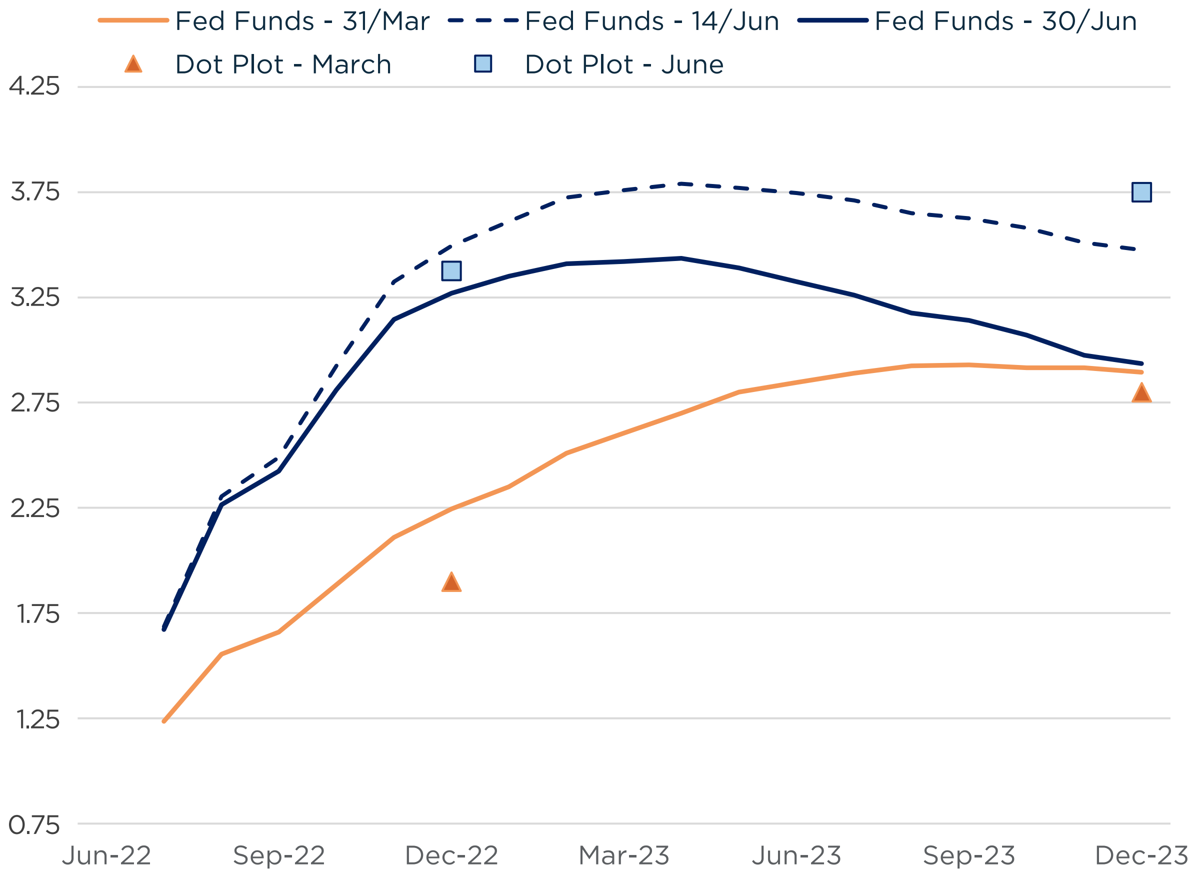
The simultaneous fall in fixed and variable income markets, a reversal of the relationship that has prevailed for the last few years (as shown in the accompanying graph) has brought a major challenge for portfolio management.

Source: Macrobond

Interest Rates: Markets factors in small decline in interest rates in 2023 although policy remains contracionist

Markets

Interest Rates Priced into Fed Funds Futures



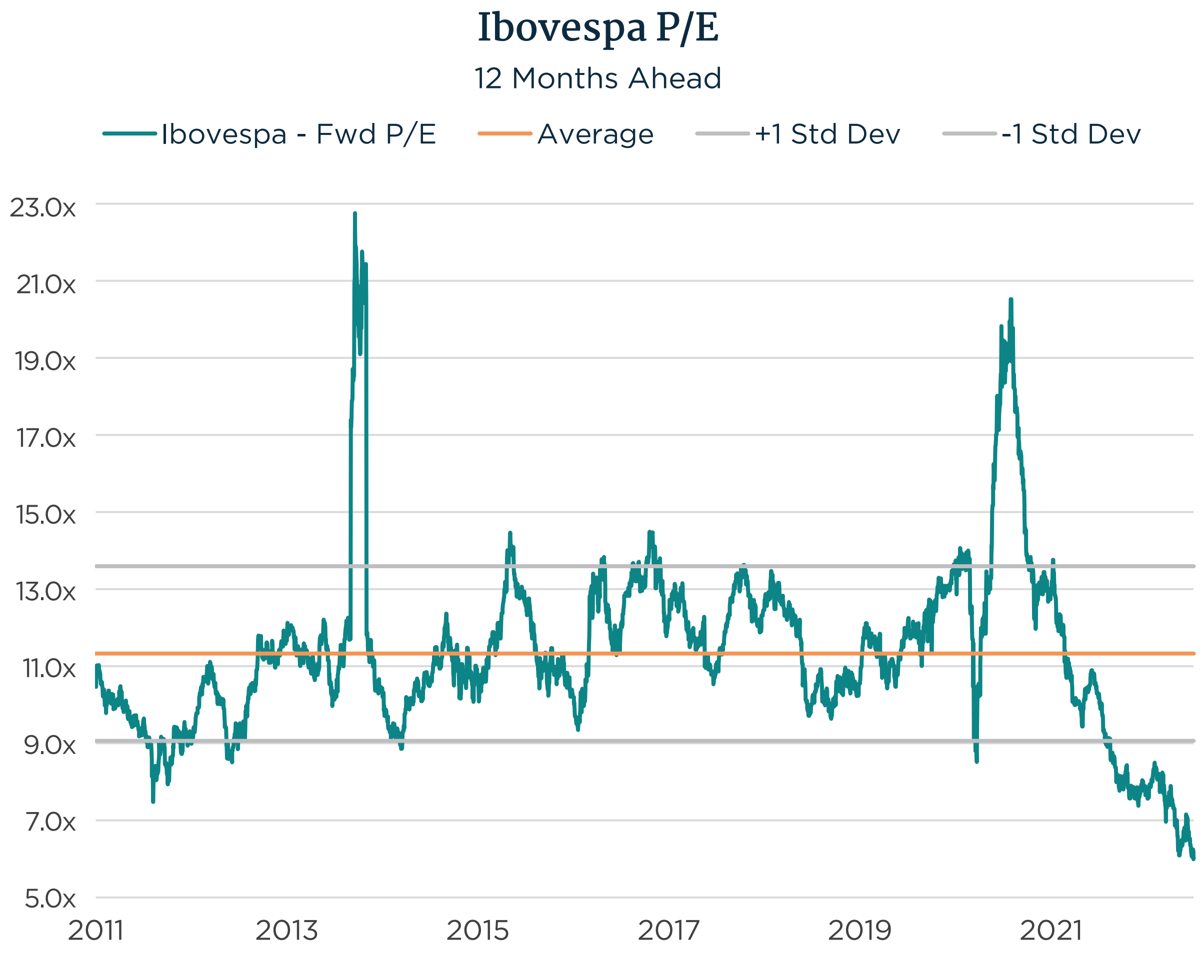
There has been a major re-pricing over the last quarter in the U.S. yield curve which led to an estimated terminal rate of around 4.0% at the height of a period of stress. However, the Federal Reserve's tighter stance in the short term and the increased likelihood of a recession led to a flattening of the curve in the second half of June, particularly for the year 2023.

Against this backdrop, the yield curve remains extremely volatile and highly sensitive to surprises in inflation readings, activity and labor market data in the United States.

Source: Macrobond

Shares: Multiples squeezed tightly

Markets



The multiples of companies traded on the Brazilian stock market remain squeezed, particularly compared to the historical average (orange line in the chart). This can be attributed largely to assets linked to the commodities sector, which had profits revised upwards, while the sectors linked to domestic consumption show multiples closer to historical levels.

It is also worth mentioning that companies linked to domestic consumption have not yet returned to their historical average level of profitability and could be attractive options for investment portfolios when the macroeconomic scenario becomes clearer.

Source: Bloomberg

Interest Rates: Wide opening in real rates

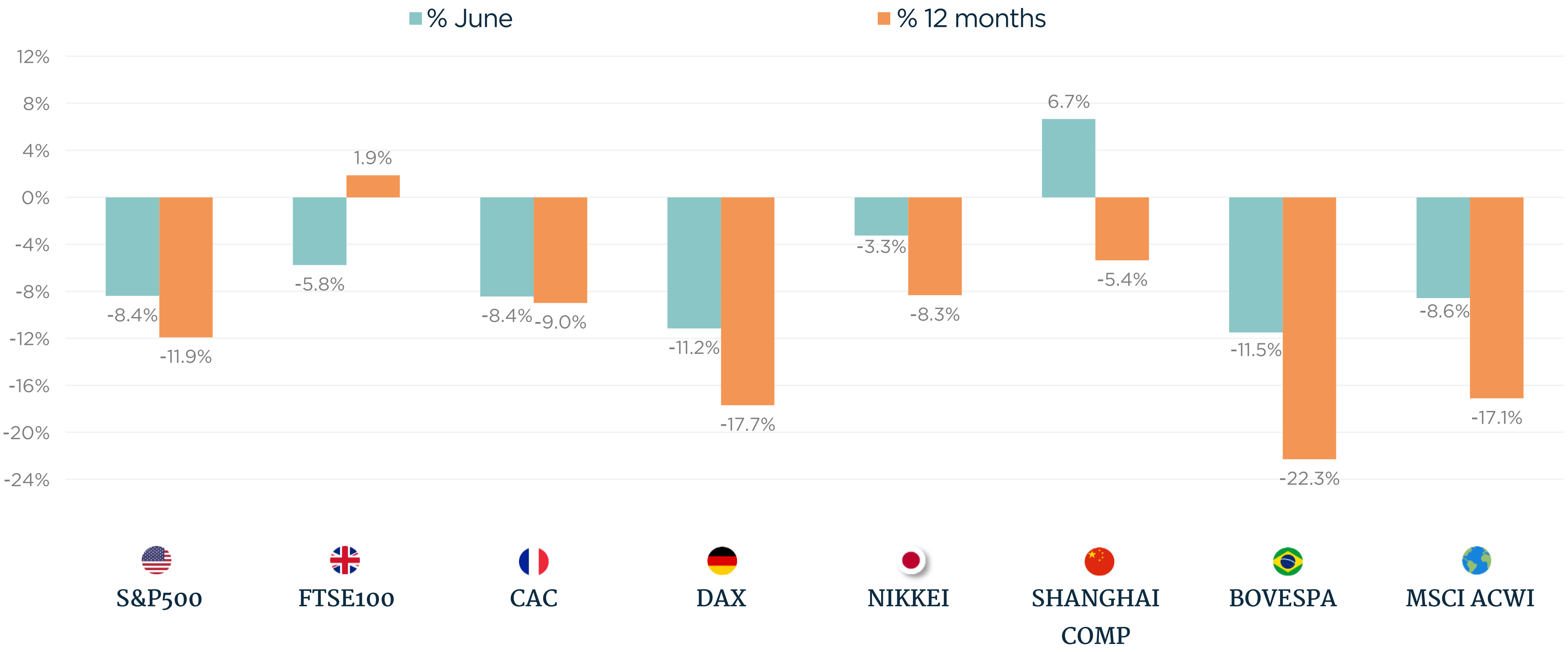
Markets

Real interest rates opened again and converged in different vertices to levels around 6.0% in response to the global movement of interest rate repricing movement and concerns about Brazil's fiscal position.

Source: Bloomberg

Stock Markets

Markets



Indexes

	% June	Value on 30/06/2022	% 2022	% 12 months
COMMODITIES				
OIL WTI	-7.8%	105.76	37.4%	43.9%
GOLD	-1.6%	1,8.27	-1.2%	2.1%
CURRENCIES (IN RELATION TO THE US$)				
EURO	-2.3%	1.05	-7.8%	-11.6%
GBP	-3.4%	1.22	-10.0%	-12.0%
YEN	-5.2%	135.72	-15.2%	-18.1%
REAL	-10.0%	5.26	6.1%	-5.5%
INDEXES				
S&P500	-8.4%	3,785.38	-20.6%	-11.9%
FTSE100	-5.8%	7,16928	-2.9%	1.9%
CAC	-8.4%	5,922.86	-17.2%	-9.0%
DAX	-11.2%	12,783.77	-19.5%	-17.7%
NIKKEI	-3.3%	26,393.04	-8.3%	-8.3%
SHANGHAI COMP	6.7%	3,398.62	-6.6%	-5.4%
BOVESPA	-11.5%	98,541.95	-6.0%	-22.3%
MSCI ACWI	-8.6%	596.77	-20.9%	-17.1%

*Amounts and results in local currencies.

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