Economic Report

August 2022

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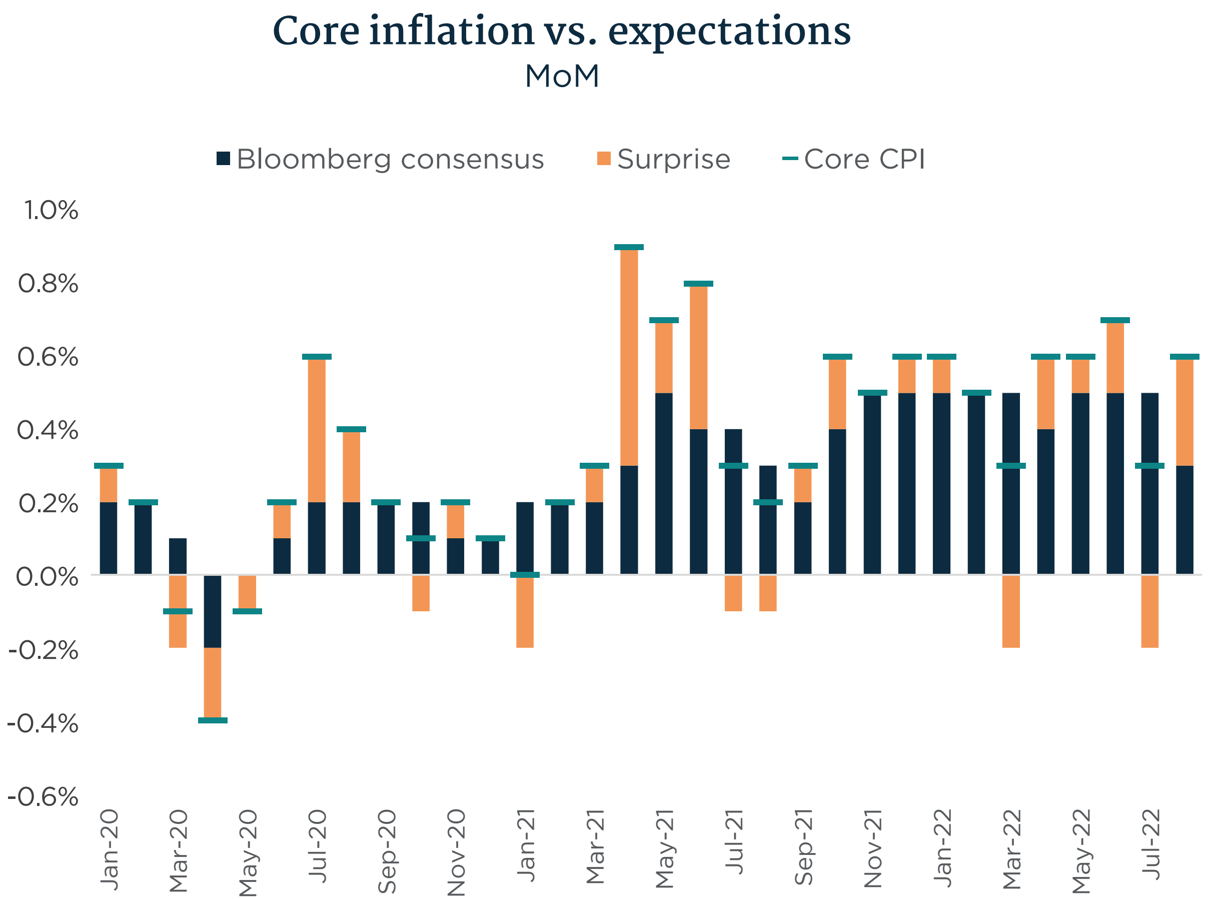
US: Stronger inflation points to a probable hike of 100 basis points in pricing

Global Economy



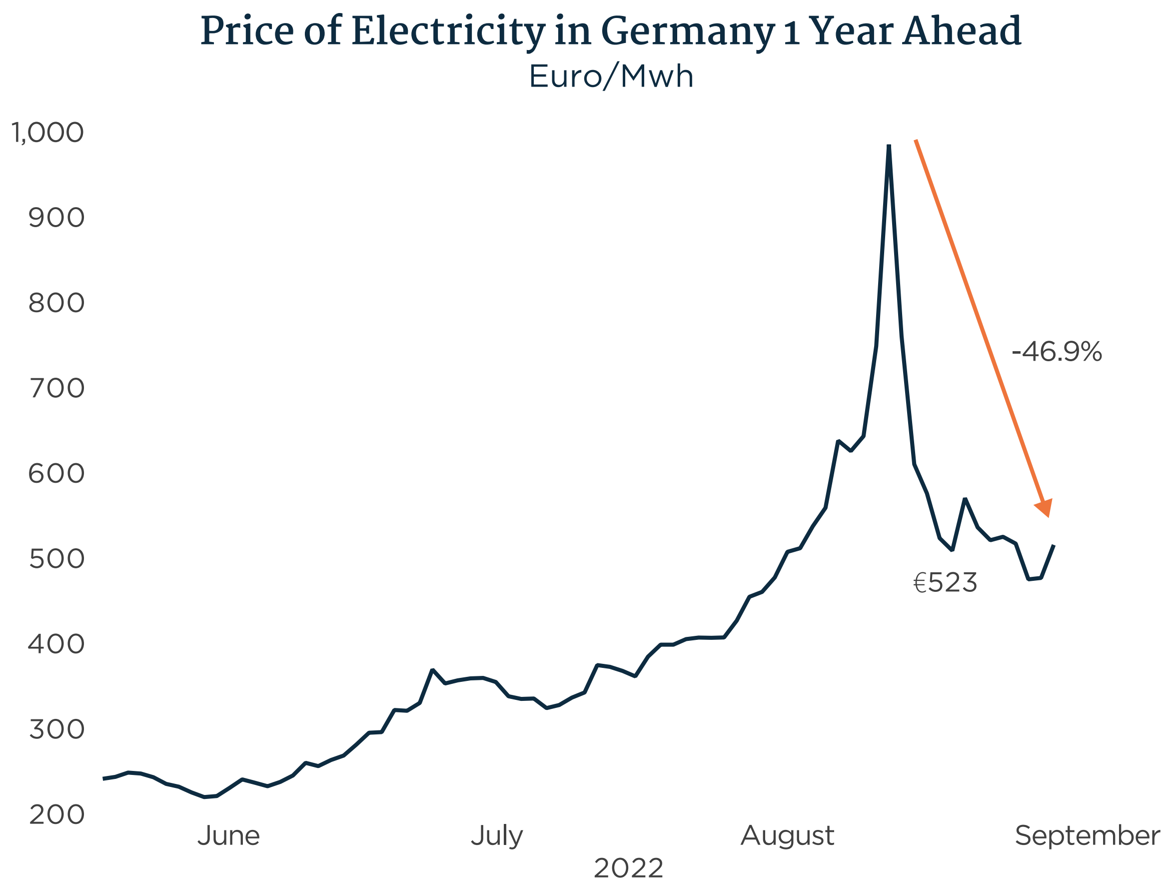
The release of the August CPI (Consumer Price Index) brought a significant positive surprise in US core consumer inflation. This triggered an opening in interest rates that raised the likelihood of a sharper hike at the September meeting of the Federal Reserve's monetary policy committee, the FOMC. Until then the market had priced in a much higher probability of a rise of 75 basis points* than 50bps. After the figures were posted, the market dismissed the chance of a hike of only 50 bps and also started considering the risk of a rise of 100 bps.

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

Source: Bloomberg

Europe: Volatile energy price faced with cut in gas supply and proposals to offset it

Global Economy



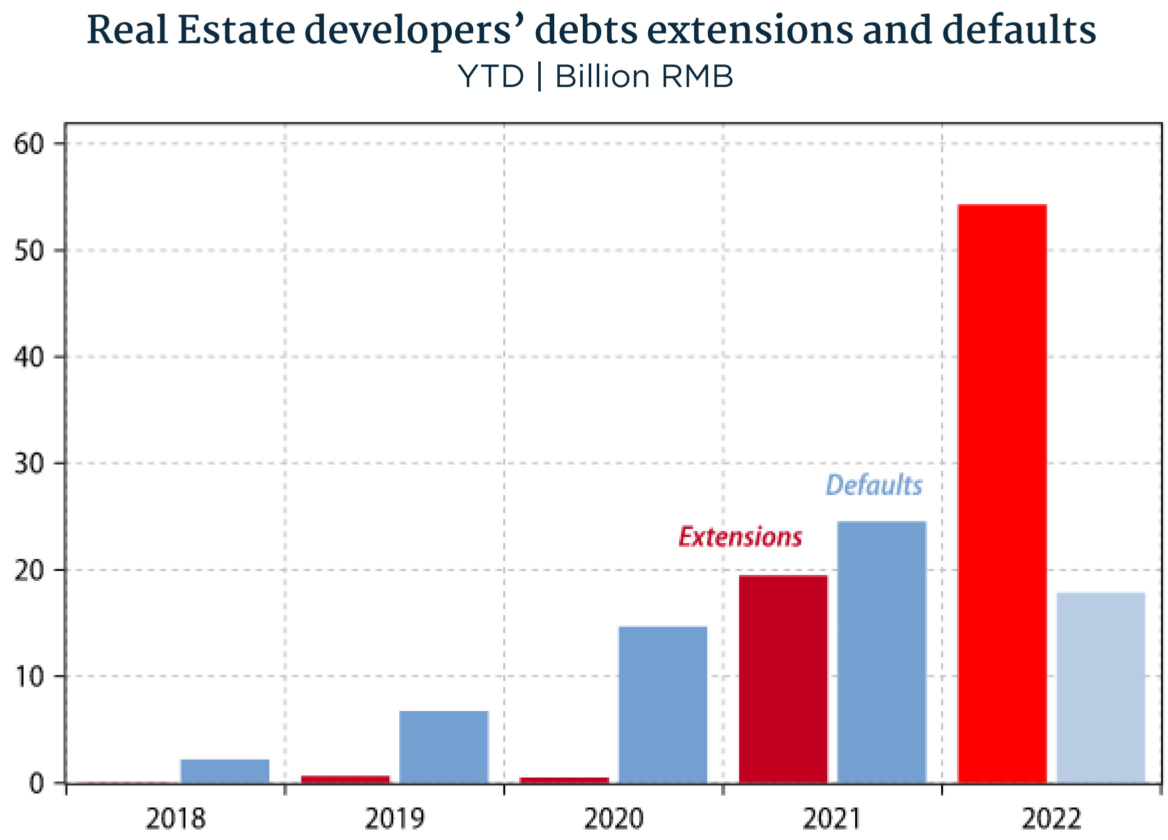
Europe is still dealing with a number of challenges, one of which is worth highlighting is the changing aspects of energy supply. Against a backdrop of the war between Russia and Ukraine, a loss of predictability over Russian natural gas supply has created great volatility in the price of electricity. As the outlook for gas supply became less clear, culminating with Nord Stream grid closing (main gas pipeline between the regions), the price of energy escalated.

The accompanying graph shows how the price of electricity traded on the futures market rose sharply and then declined, responding, at least in part, to the measures discussed by local policy makers to offset this move. This supply shock will have economic and social implications, ranging from inflationary pressures to limitations on activity's growth, particularly with upcoming winter in the northern hemisphere.

Source: Bloomberg

China: Real estate market in crisis

Global Economy



*Figures for 2022 up to mid-August

The Chinese economy is also facing a complicated economic outlook. The crisis in the real estate sector specifically is gaining new proportions. This is because developers responsible for building and selling real estate are finding it difficult to complete ongoing projects and pay their debts in light of the government's deleveraging measures for the sector.

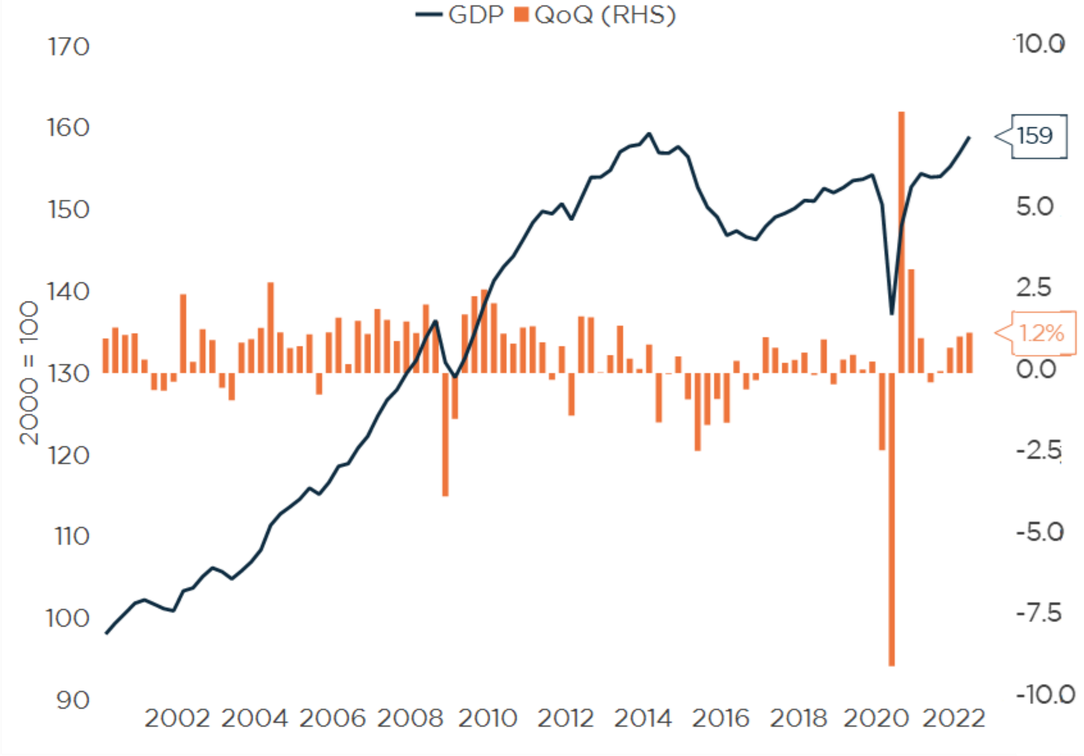
The graph represents the annual amounts of these companies' debts extensions and defaults. The accumulated volume of extensions reached very high proportions this year and increases the risk of default from next year on, unless: (I) creditors accept new roll-overs; (II) the sector recovers strongly; or (III) authorities decide to interfere more forcefully. The prospect of a solution is extremely unclear at the moment.

Source: Gavekal Dragonomics

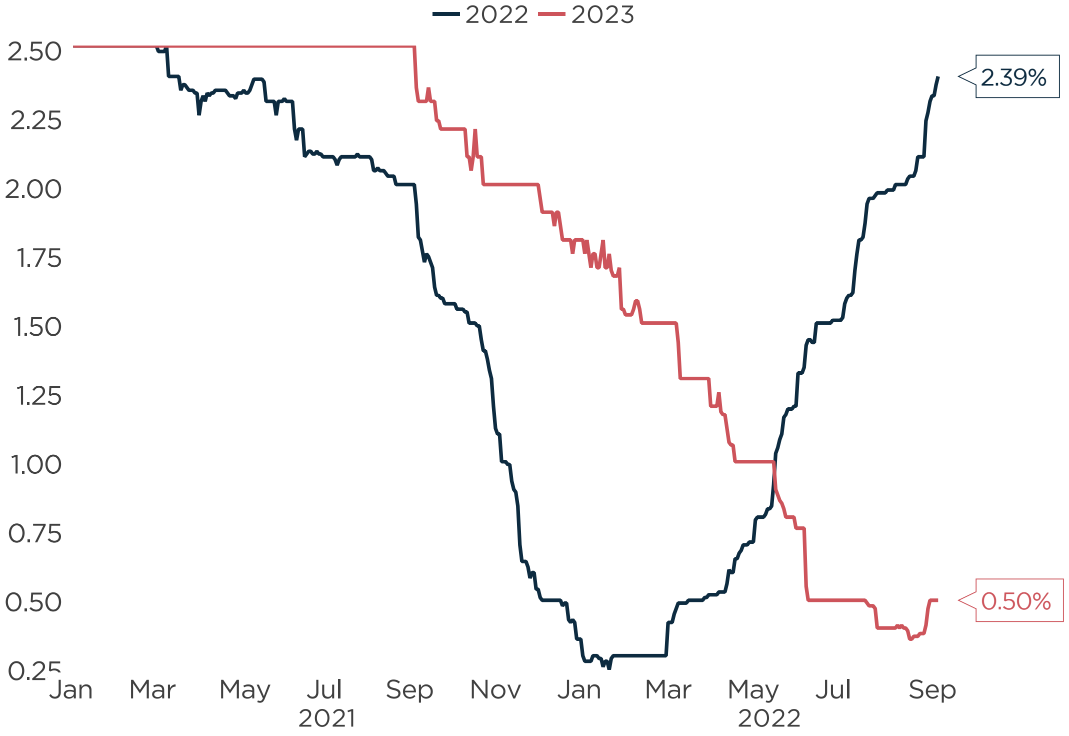
Activity: GDP in second quarter surprises

Brazilian Economy

GDP



Focus: GDP 2022 & 2023

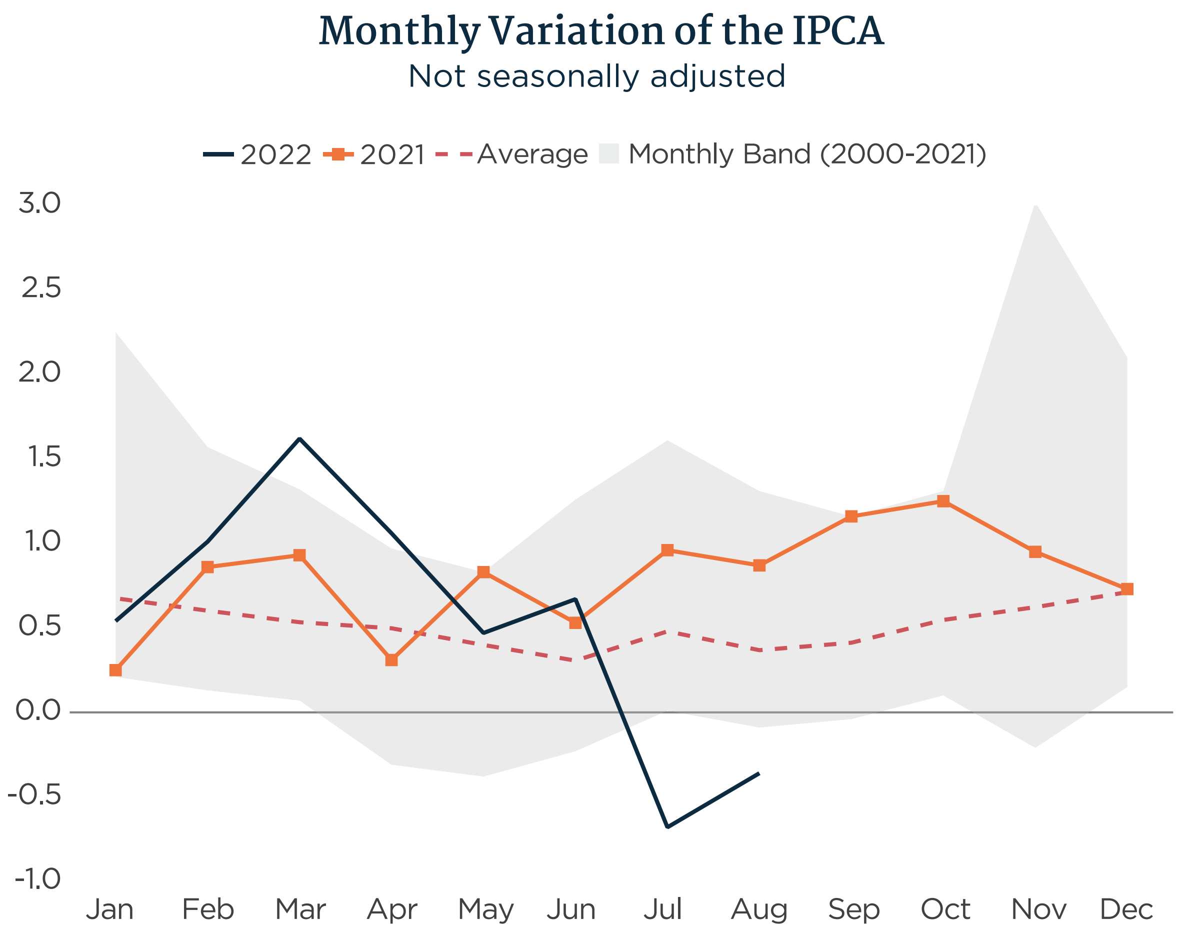


GDP in the second quarter was stronger than expected, following the trend of positive surprises we saw throughout the first half of the year. The result left a statistical burden of around 2.6%, which means that this would be the GDP of 2022 if activity remained stable throughout the rest of the year. However, it is worth noting that the Focus Report's expectations are lower than this amount, indicating that market players expect some deceleration ahead. This makes sense, mainly because of the lagged effect of the monetary policy.

Source: Macrobond

Inflation: Deflation continues, reflecting cut in ICMS tax and gasoline prices

Brazilian Economy



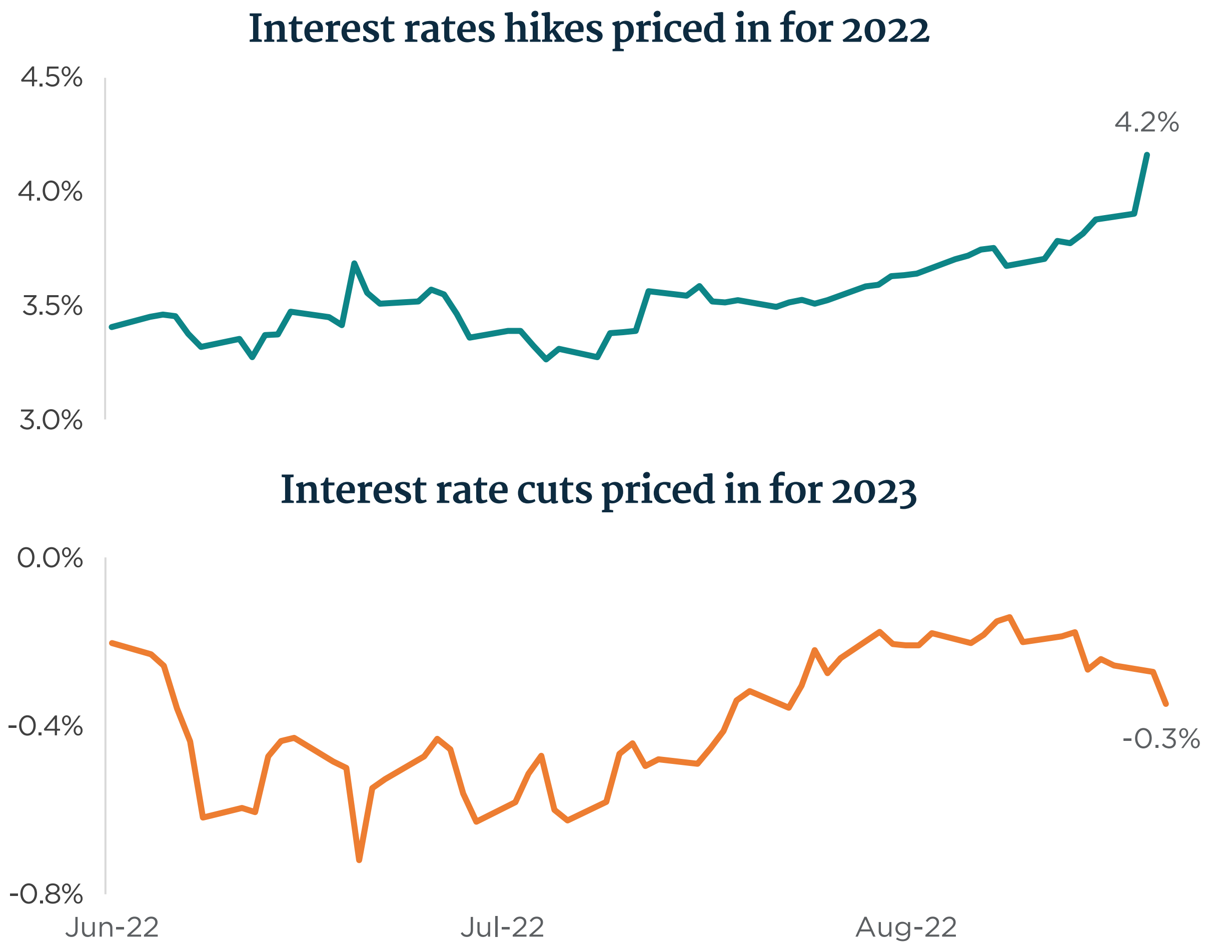
The IPCA inflation index for August brought the second consecutive month of deflation in Brazil. This figure continues to reflect not only the effect of the cut in the ICMS tax on regulated prices, particularly electricity and fuel, but also a sharp drop in international prices of oil and its by-products, particularly gasoline.

The graph shows the seasonal pattern of the monthly variations of Brazilian inflation. It is worth noting that the months of July and August renewed the historic lows for their respective months in the non-seasonally adjusted series. However, it should be stressed that despite the weaker results in the headline index, core inflation remains under pressure, particularly in the components linked to the services sector.

Source: Macrobond

Interest Rates: Market projection for end of cycle in the US rises above 4%

Markets



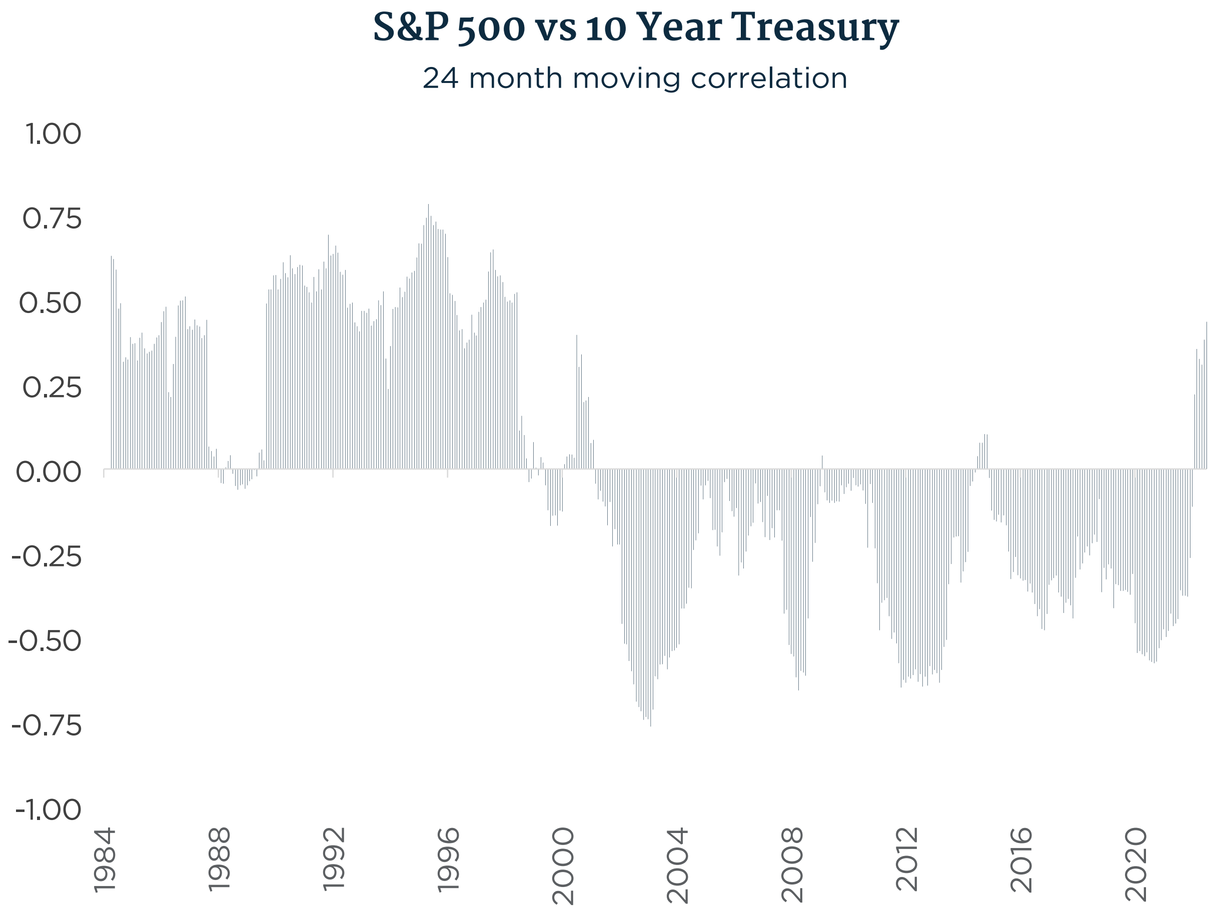
The US interest rate market responded to the statement by the FOMC (the Fed's monetary policy committee) by continuing to reprice the terminal rate, i.e. the highest spot where the federal funds rate will come to rest before the Fed begins cutting it back.

It can be seen that the hikes priced in for 2022 have been rising consistently in sequential terms while the cuts expected for next year, which were close to 80 bps, have slipped back. On one hand, the movement is in response to a more hawkish committee while on the other it is a reaction to the worse economic data, such as the CPI.

Source: Bloomberg

Stocks: Correlation between stocks and fixed income remains positive

Markets



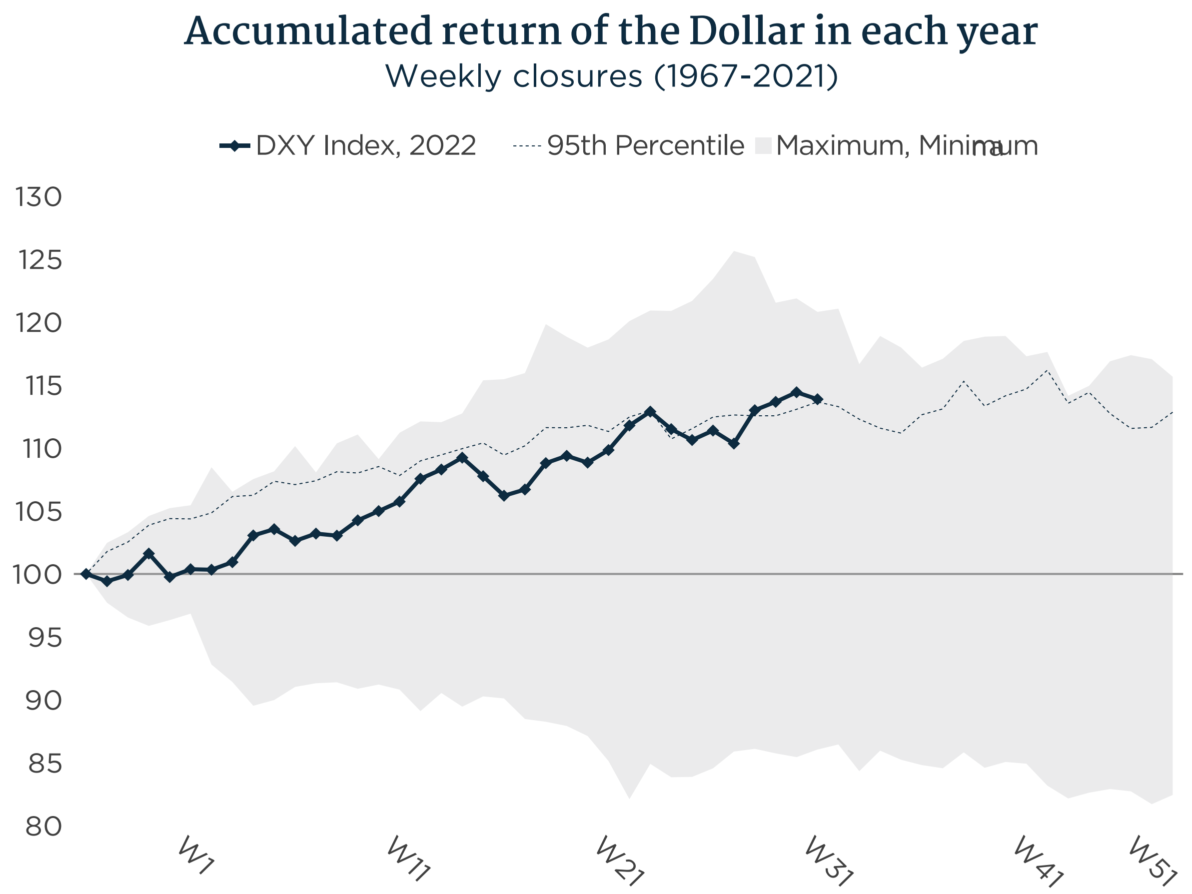
The ongoing economic outlook marked by great concern over inflation continues to lead to a positive correlation between returns of fixed and variable income assets, lately one of the biggest challenges in building investment portfolios.

When we analyze the relationship between these asset classes based on the 24-month moving correlation, we see that there have been a few times over the last 20 years when the performance of these assets has moved in the same direction. However, this correlation in this cycle has reached a very high level compared to the historical pattern.

Source: Bloomberg

Currencies: Dollar continues to stengthen, particularly against the Euro and Yen

Markets



In a global context of risk aversion and high interest rates in the United States, the American dollar continues to strengthen against its peers, as can be seen in the DXY index (which measures the US dollar against a basket of currencies from developed countries).

By analyzing the accumulated return's path year to date, it shows that the accumulated rise has been close to the 95th percentile. This points to the Dollar's performance in 2022 being around the top 5 results from every 100 in the sample, which covers over 50 years.

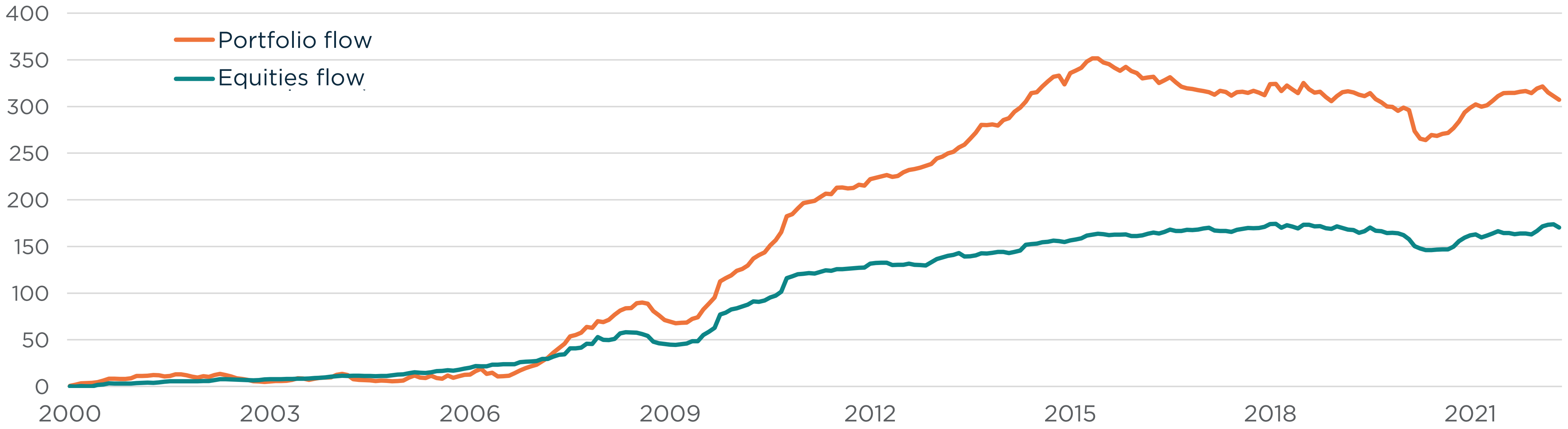
Source: Bloomberg

Stocks: Foreign flow continues to improve

Markets

Foreign Portfolio flow to Brazil

Accumulated since 2000 US$ Billion

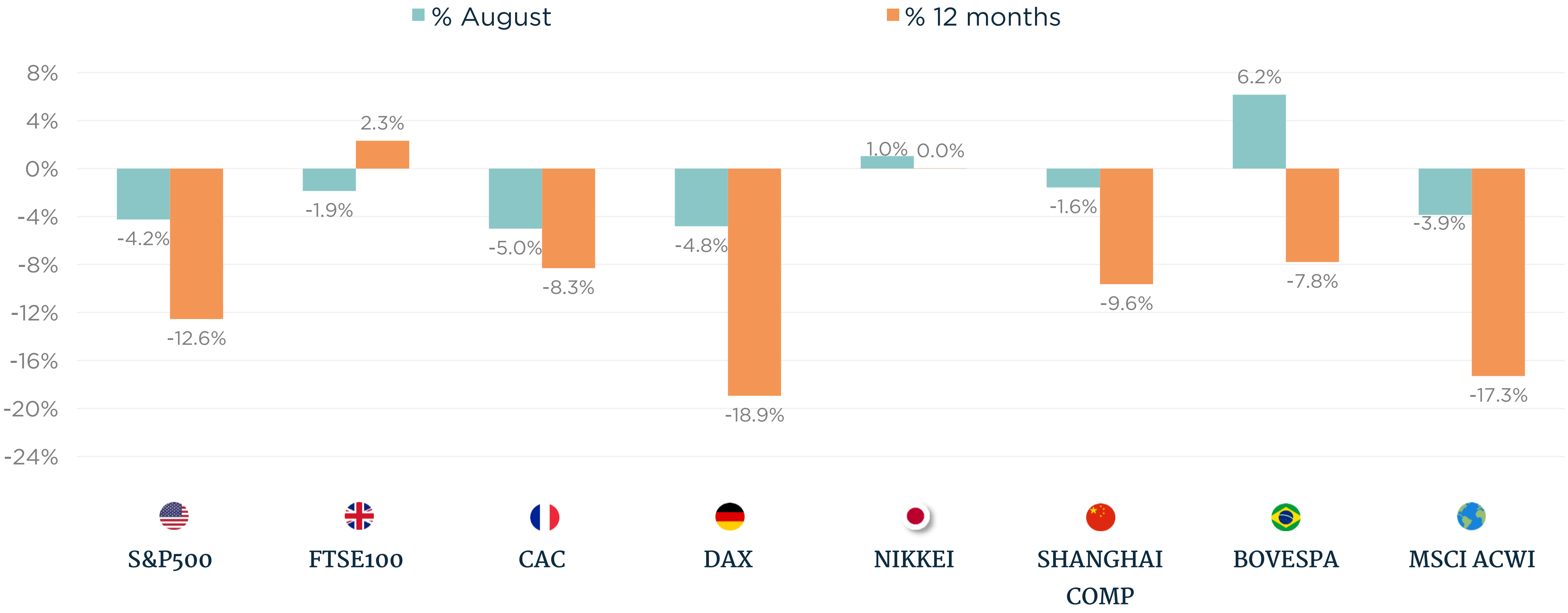


A historical overview shows that the accumulated portfolio flow into Brazil has been relatively stagnant over the last five years, particularly in equities. We believe the country has room to attract resources in the coming years should the fiscal solution be resolved.

Source: Banco Central

Stock Markets

Markets



Indexes

	% August	Value on 31/08/2022	% 2022	% 12 months
COMMODITIES				
OIL WTI	-9.2%	89.55	16.3%	30.7%
GOLD	-3.1%	1,711.04	-6.5%	-5.7%
CURRENCIES (IN RELATION TO THE US$)				
EURO	-1.6%	1.01	-11.6%	-14.9%
GBP	-4.5%	1.16	-14.1%	-15.5%
YEN	-4.1%	138.96	-17.2%	-20.8%
REAL	-0.2%	5,.8	7.6%	-0.6%
INDEXES				
S&P500	-4.2%	3,955.00	-17.0%	-12.6%
FTSE100	-1.9%	7,284.15	-1.4%	2.3%
CAC	-5.0%	6,125.10	-14.4%	-8.3%
DAX	-4.8%	12,834.96	-19.2%	-18.9%
NIKKEI	1.0%	28,091.53	-2.4%	0.0%
SHANGHAI COMP	-1.6%	3,202.14	-12.0%	-9.6%
BOVESPA	6.2%	109,522.88	4.5%	-7.8%
MSCI ACWI	-3.9%	613.11	-18.8%	-17.3%

*Amounts and Result in local currencies

Our opinions are often based on a number of sources as we extract our global analysis views
from various banks, managers, brokers, and independent advisors.

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