



Economic Report

September 2022

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Global Economy 03

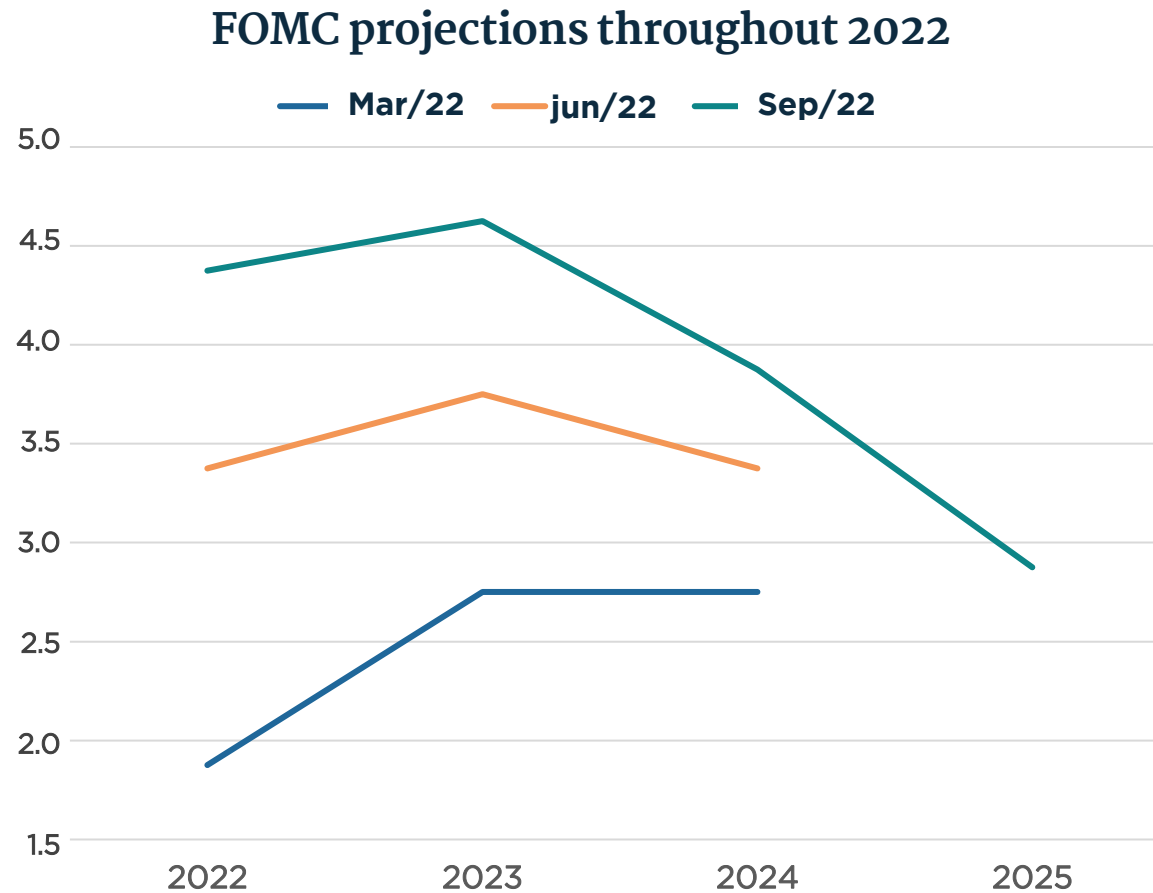
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FOMC: Committee's projections develop and show no sign of any early decline

Global Economy



The US monetary policy committee raised the Fed funds rate by 75 basis points* at its latest meeting, the third consecutive increase at this rate. It is worth noting that only three hikes of this magnitude have been registered between 1971 and 2021 but the market consensus points to another rise on the way at the November meeting. At the same time, the FOMC released its regular quarterly economic projections, the highlights of which include expectations for the interest rate target.

As the graph shows, the Federal Reserve members have been raising their expectations since the beginning of the year in such a way that the latest median points to a rate of around 4.375% at the end of this year and 4.625% at the end of 2023. The result is in line with the monetary authority's message underscoring its commitment to maintaining a contractionary rate for an extended period.

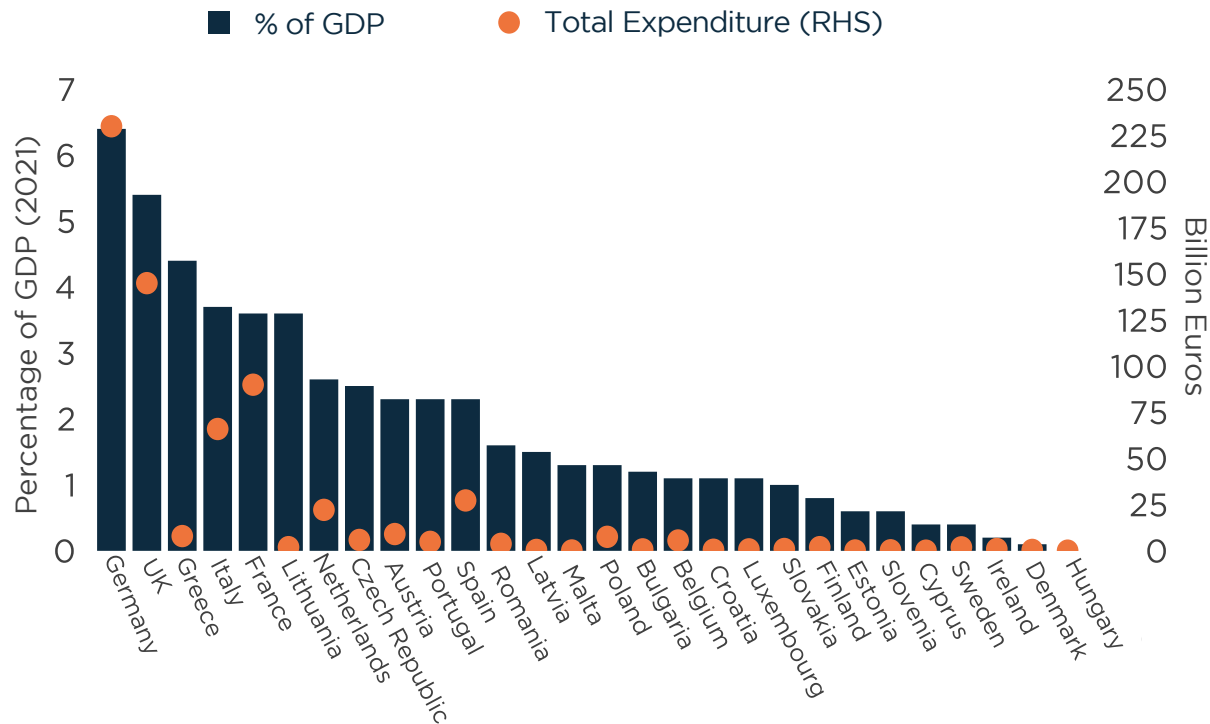
*1 basis point or 1 bp= 0.01% or 1/100 percentage point

Europe: Volatile price of energy arising from cut in gas supply and proposals to offset it

Global Economy

Fiscal measures faced with the rise in the price of energy

Fiscal measures announced since Sep/21



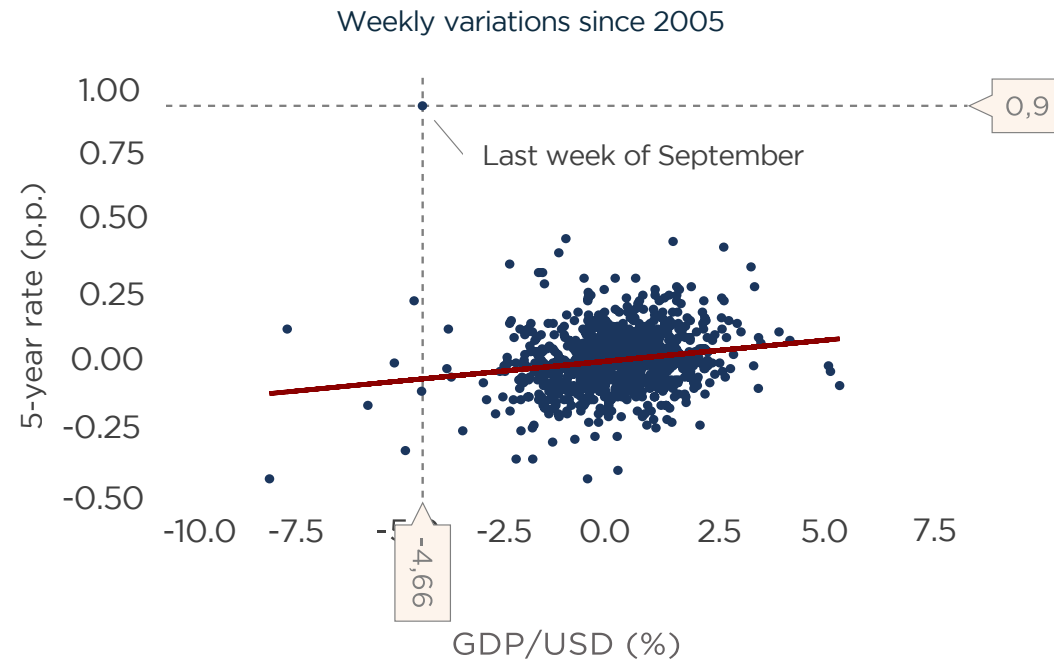
The supply shock in Europe caused by the increase in energy prices continues to raise a series of social and economic implications, including secondary effects on the public accounts. The graph shows the fiscal effort made by a number of governments in order to avoid rising in the energy prices, measured by the financial volume (right axis) and as a proportion of each country's GDP (left axis).

It is worth noting in particular the largest and most recent package announced: that of Germany which presented a package of over 200 billion Euros. This is equivalent to more than 6% of the country's GDP.

UK: Monetary tightening and fiscal expansion in a controversial policy mix

Global Economy

Dispersion: variation in interest rates vs exchange rate



The announcement of a controversial tax package in the UK drew attention. The economic policy mix that already included higher interest rates and increased public spending became even more complicated as the result of a proposed significant tax waiver.

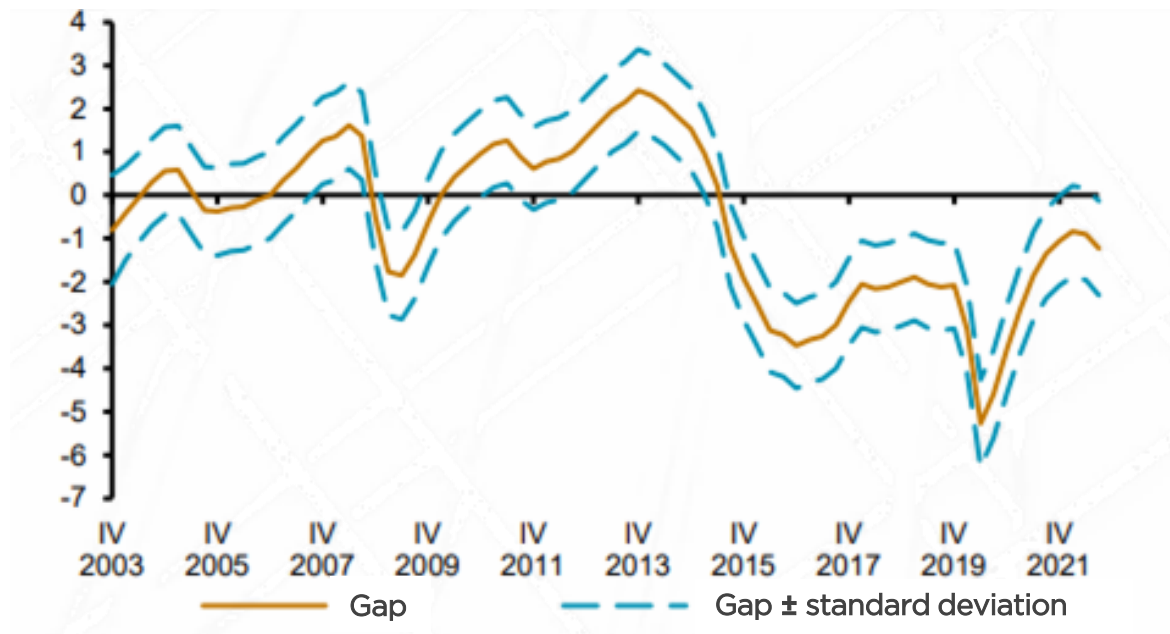
The reaction by the markets led to one of the largest combined movements with the widening of local interest rates and depreciation of the Pound ever seen.

COPOM: Monetary policy committee expects inflation to converge to the target in 2024

Brazilian Economy

Estimate of the output gap

Figures from 4Q of 2003 to 3Q of 2022 | %



Brazil's monetary policy committee, the COPOM, signaled a pause in the process of raising interest rate, promising to keep the rate at 13.75% for some time while seeking signs of a slowdown in inflation. However, it stressed that it could resume the upward cycle if the outlook does not match expectations.

The COPOM also released its Inflation Report for the third quarter in which it presented a narrower estimate of the output gap* than in the previous report, reflecting the surprises in activity and employment figures seen during the quarter. Despite this, the committee's projections remain compatible with inflation reaching the target by the end of 2024.

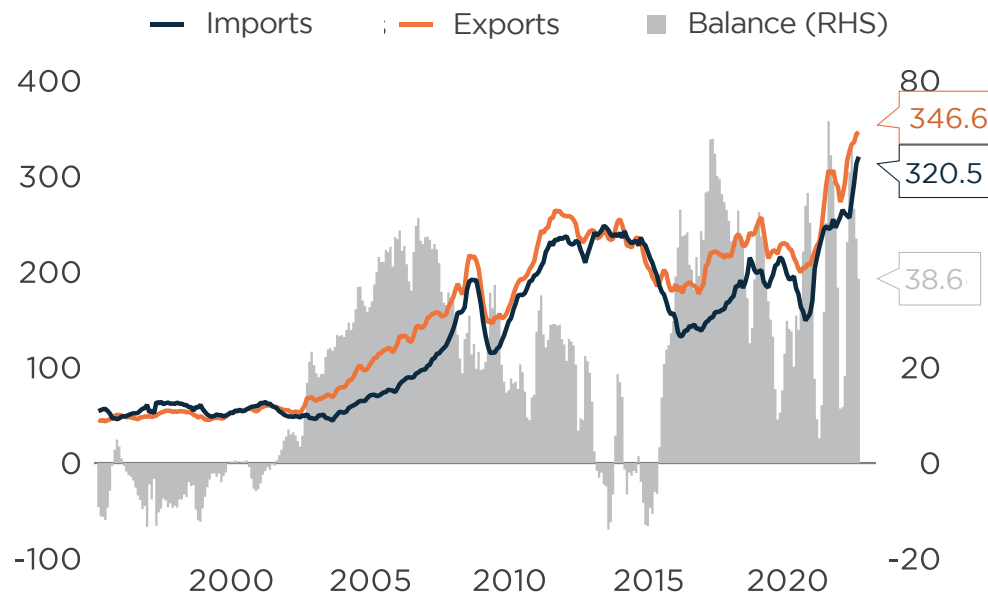
*Difference between actual economic activity and its potential activity.

External Sector: Trade balance loses pace, but investment flow to Brazil springs a surprise

Brazilian Economy

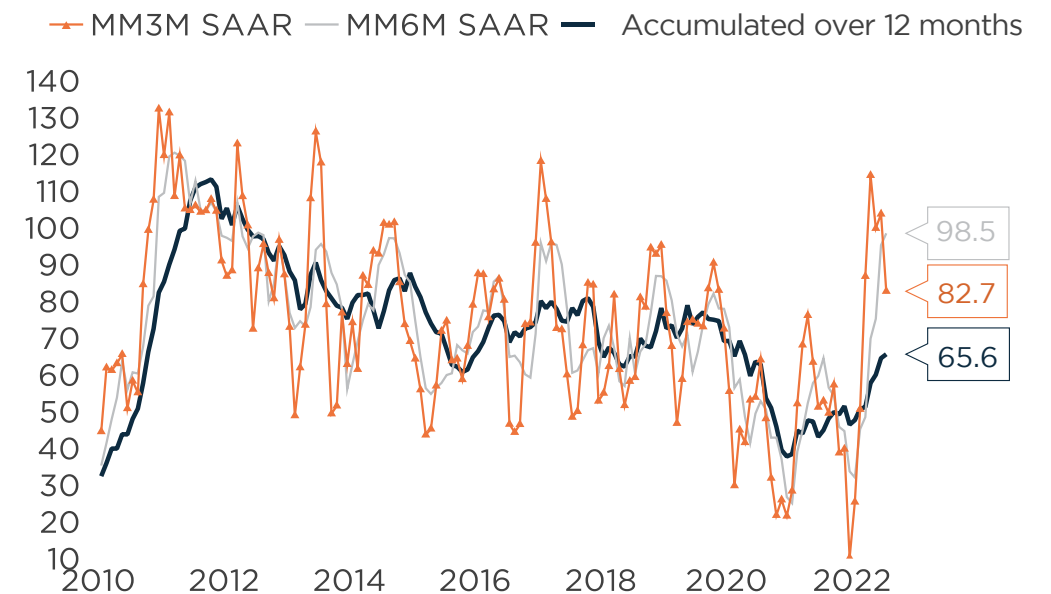
Trade balance

MM3M SAAR | Billion dollars



Direct Investment in the country

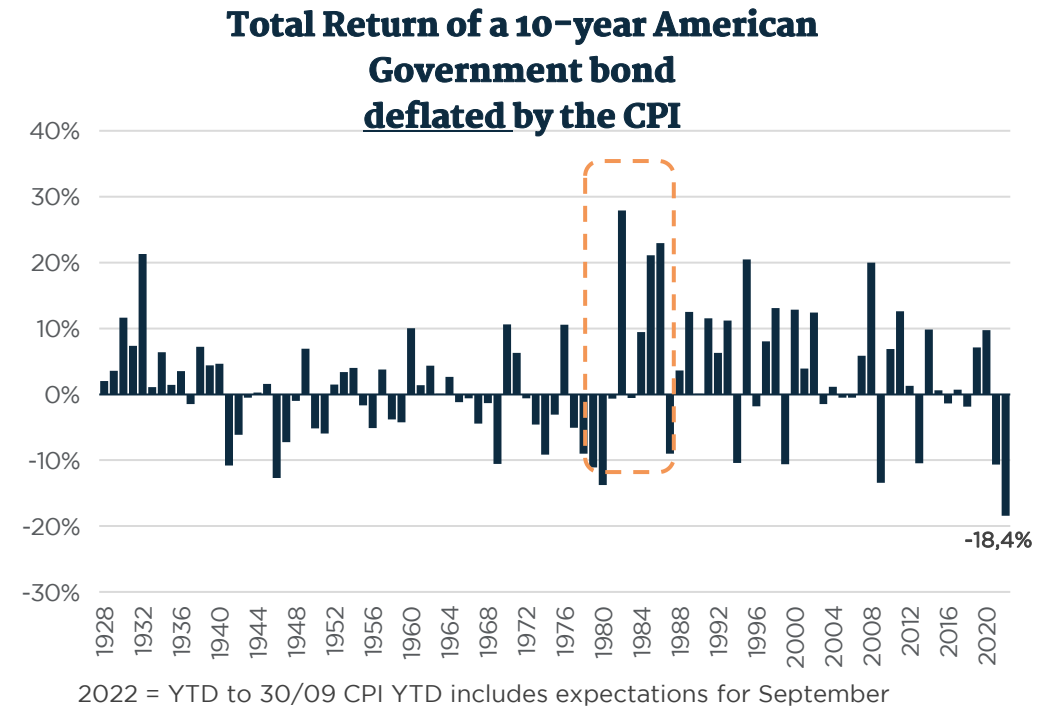
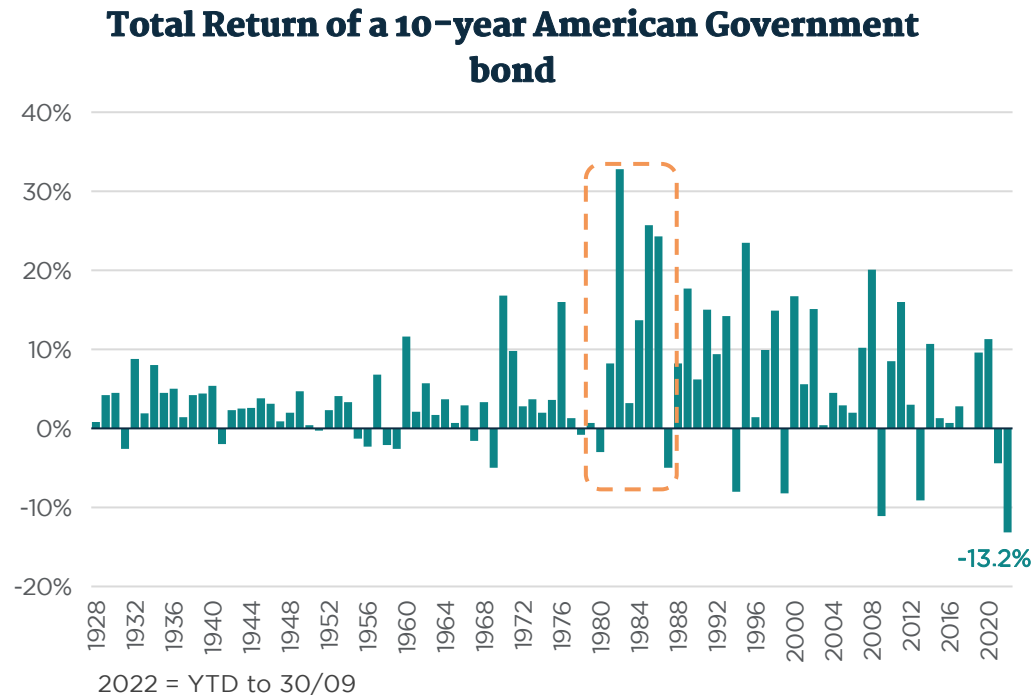
Billion dollars



The latest figures from the external accounts have been showing a very different picture from the expectations seen at the start of the year for the current account balance. In sequential terms, the growth in imports is reducing the trade balance despite remaining at a high level. The positive side is that the flow of investment to Brazil has been stronger in recent months and more than enough to offset the decline in the current account.

Fixed Income: Unprecedented correction, particularly in real terms

Markets



Fixed income securities are continuing to have a very rough year. For example, the mark-to-market price of a 10-year US government bond in 2022 is the most negative since 1928, as can be seen in the above graphs. As a comparison, not even during the 1970s when Paul Volcker was head of the Federal Reserve and interest rates reached 20% were corrections as sharp as those accumulated throughout 2022.

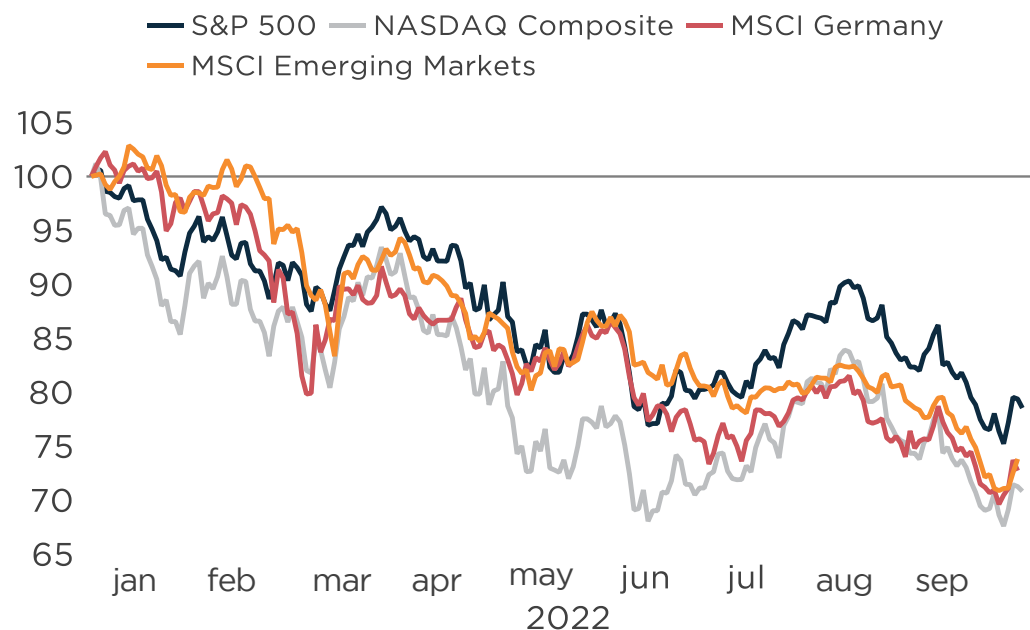
Stocks: Correlation with fixed income remains positive

Markets

*figures up to 06/10/2022

Performance of the global stock markets

Base 100 = 31/12/2021



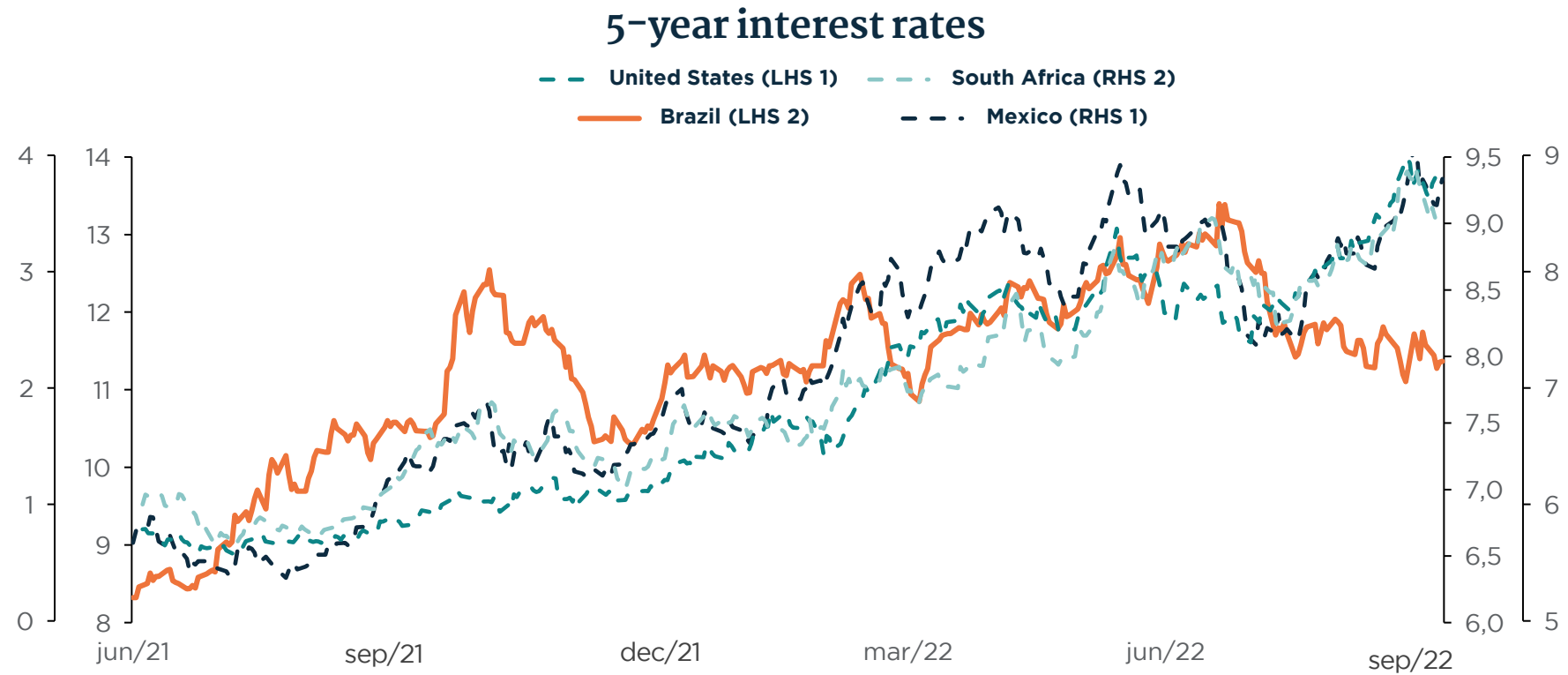
The generalized widening of interest rates around the world continue to have a negative impact on stock markets, as shown in the accompanying graph.

It should be noted that part of the fall in stock price indexes can be attributed to negative revisions of corporate earnings estimates within the context of the global slowdown. However, this factor does not seem to be as important as the interest rate movements.

Fixed Income: End of discorrelated fixed income cycle in Brazil

Markets

*figures up to 06/10/2022













Global interest rates continue in a very intense widening movement which was intensified more recently by the contagion caused by the strong repricing in the UK fixed income market. Despite this trend, interest rates in Brazil moved in the opposite direction of their peers after the announced closure of the Central Bank's cycle of interest rate hikes.

Currencies: Real stands out in year particularly when the carryover effect is taken into account











Markets

*figures up to 06/10/2022

Total return of the currencies: Exchange rate + Interest rate

	2022 YTD	2021	2020	Accumulat ed
 BRL	17.8%	-2.0%	-20.8%	-8.5%
 MXN	9.0%	1.9%	0.4%	11.5%
 CLP	-3.9%	-15.0%	5.9%	-13.5%
 COP	-5.7%	-14.1%	-1.4%	-20.1%
 ZAR	-6.6%	-3.3%	0.2%	-9.5%
 TRY	-9.3%	-29.6%	-7.6%	-41.0%
 AUD	-10.2%	-5.6%	10.0%	-6.7%
 EUR	-13.3%	-7.4%	8.5%	-13.0%
 GBP	-16.0%	-0.9%	3.5%	-13.8%
 JPY	-20.6%	-10.4%	5.0%	-25.3%

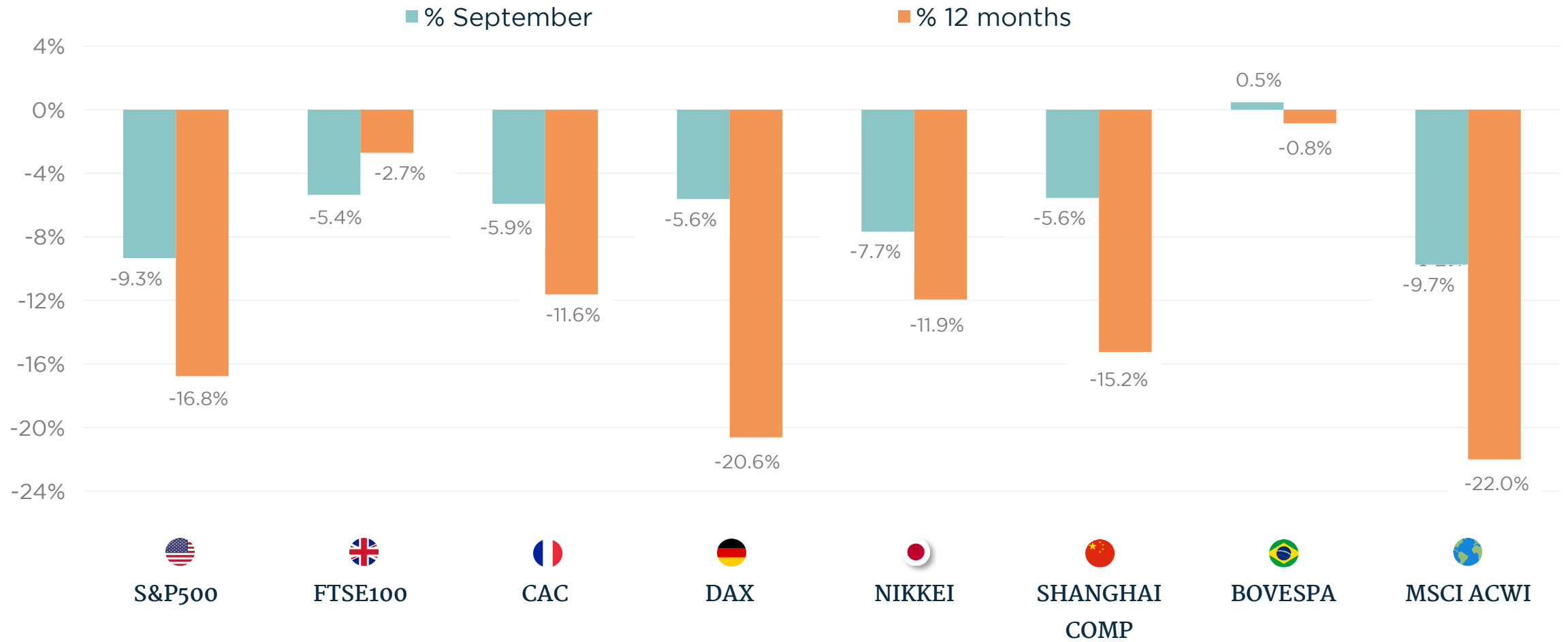
Nominal return of the currencies

	2022 YTD	2021	2020	Accumulat ed
 BRL	7.1%	-6.8%	-22.6%	-22.7%
 MXN	2.2%	-3.0%	-4.9%	-5.8%
 CLP	-9.4%	-16.6%	5.9%	-20.0%
 COP	-10.7%	-16.9%	-4.0%	-28.8%
 ZAR	-11.0%	-7.9%	-4.7%	-21.8%
 TRY	-28.3%	-44.2%	-19.9%	-68.0%
 AUD	-11.6%	-5.6%	9.6%	-8.5%
 EUR	-13.6%	-6.9%	8.9%	-12.4%
 GBP	-17.3%	-1.0%	3.1%	-15.6%
 JPY	-20.5%	-10.2%	5.1%	-25.0%

Against a global backdrop of a strong US dollar and sharp depreciation of emerging and developed market currencies, the performance of the Real has been well sustained. It is one of the few currencies which have performed positively against the Dollar in 2022 and its return is even more important when the carry over effect by the high interest rate is taken into account.

Stock Markets

Markets



Indexes

	% September	Value on 30/09/2022	% 2022	% 12 months
COMMODITIES				
OIL WTI	-11.2%	79.49	3.2%	5.9%
GOLD	-2.9%	1,660.61	-9.2%	-5.5%
CURRENCIES (IN RELATION TO THE US\$)				
EURO	-2.5%	0.98	-13.8%	-15.4%
GBP	-3.9%	1.12	-17.5%	-17.1%
YEN	-4.0%	144.74	-20.5%	-23.1%
REAL	-4.3%	5.42	3.0%	0.5%
INDEXES				
S&P500	-9.3%	3,585.62	-24.8%	-16.8%
FTSE100	-5.4%	6,893.81	-6.6%	-2.7%
CAC	-5.9%	5,762.34	-19.4%	-11.6%
DAX	-5.6%	12,114.36	-23.7%	-20.6%
NIKKEI	-7.7%	25,937.21	-9.9%	-11.9%
SHANGHAI COMP	-5.6%	3,024.39	-16.9%	-15.2%
BOVESPA	0.5%	110,036.79	5.0%	-0.8%
MSCI ACWI	-9.7%	553.37	-26.7%	-22.0%



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