TURIM

Economic Report

February 2023

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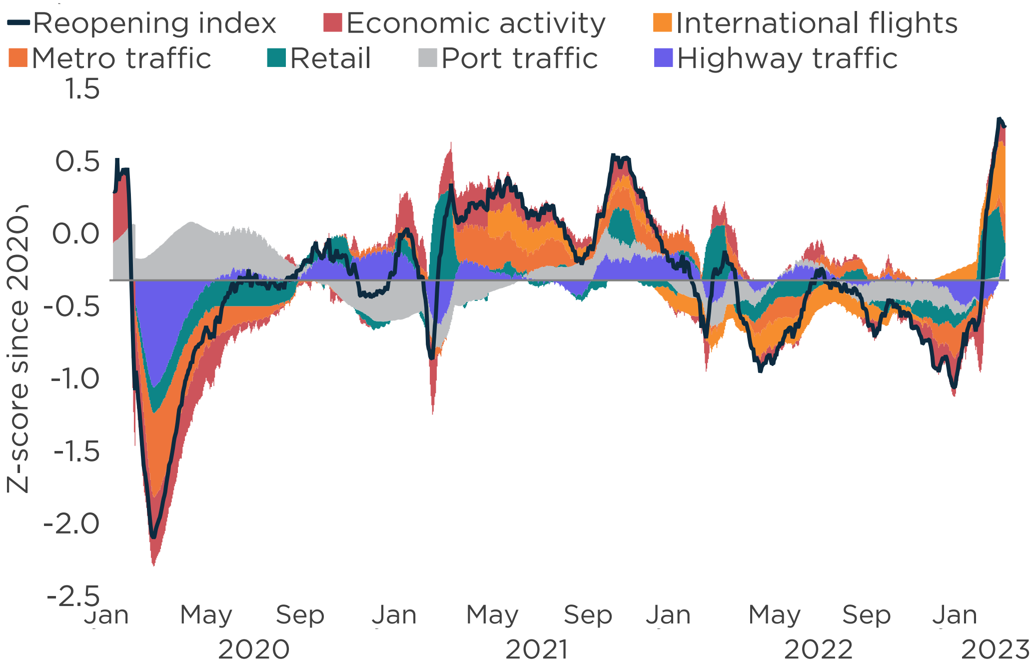
China:
Reopening of the Chinese economy is widely spread

Global Economy

China: Reopening Index



The opening of the Chinese economy post-Covid gained strength in February. The accompanying graph shows an index that reflects the difference in relation to the period average of a series of high-frequency data which aims to quantify the degree of the Chinese economy's "opening" .

It is worth noting that the recent rise in figures (which include different metrics of mobility and economic activity) is the highest since the series began in 2020. This confirms the findings of the PMIs* that came in above 50 for both services and manufacturing, pointing to an expansion of economic activity.

*PMI (Purchasing Managers' Index): An economic index used to assess the outlook for important activities in the economy.

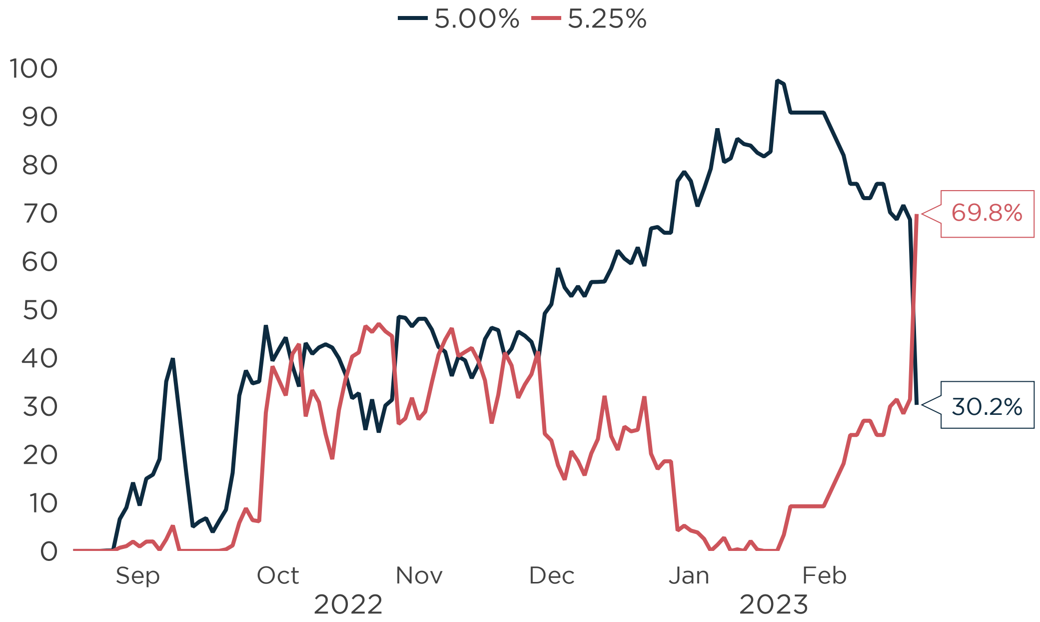
Source: Macrobond

United States: Monetary Policy
Prospect of "no landing" continues to gain force, leading to a possible acceleration in the pace of interest rate hikes

Global Economy

FOMC: Expectations for the upper band of Fed Funds

March interest rate decision



Following a sequence of stronger economic figures in the United States, the market started to price in a growing possibility of "no landing", i.e. a more sustained economy and a delay in the convergence of inflation to the target, leading to revisions in the yield curve and in other markets. This possibly results in a need for a more contractionary policy, raising interest rates above previous expectations and maintaining high rates for a longer period.

This movement was reinforced by Federal Reserve chairman, Jerome Powell, in his latest statement to Congress in which he raised the possibility of a new acceleration in the pace of interest rate hikes. The speech gained the spotlight after two consecutive meetings marked by a slowdown in the pace.

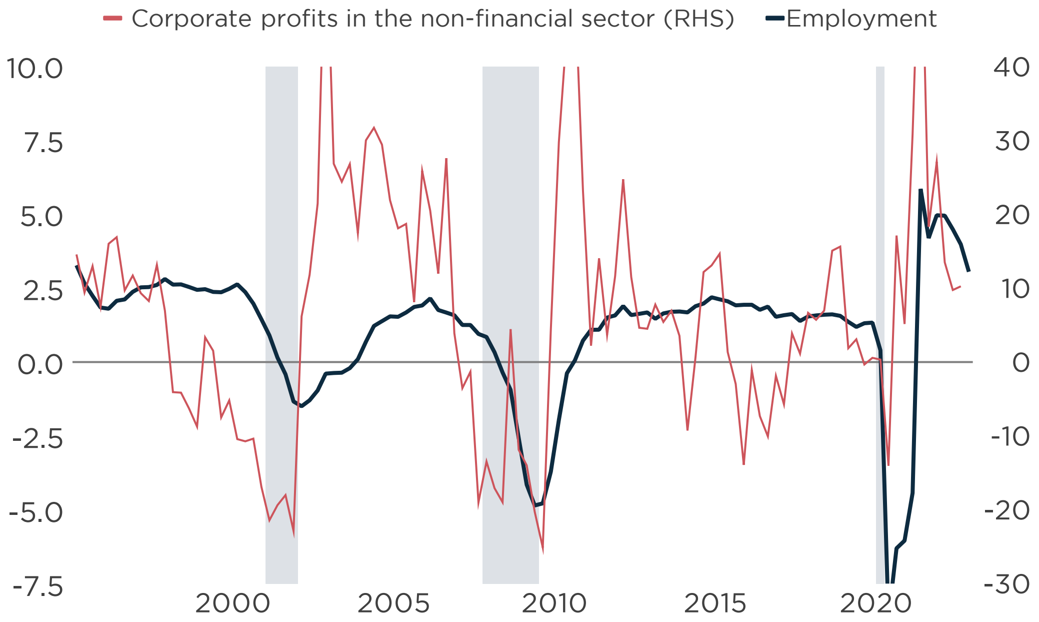
Source: Macrobond

United States: Labor Market
Employment data should remain upbeat as long as corporate profits do not fall

Global Economy

Profits vs. Jobs

Variation compared with same quarter of the previous year



The labor market remains very heated despite the monetary tightening implemented by the Fed.

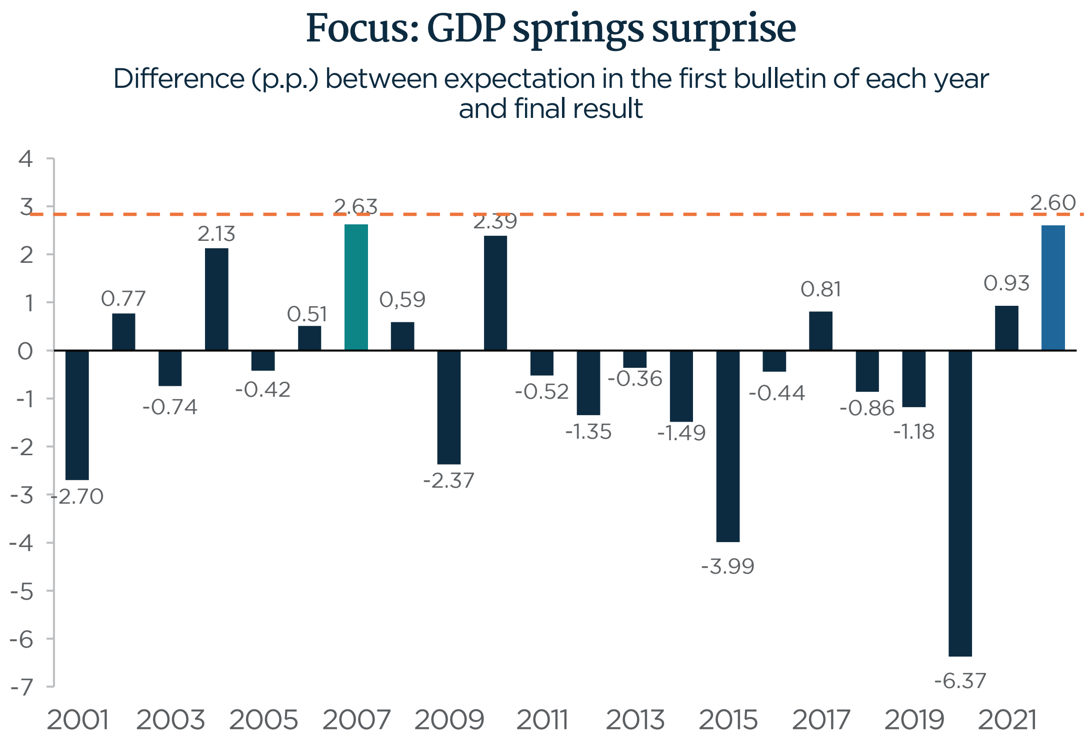
One of the factors contributing to this is that corporate profits continue to be well sustained.

Corporate profits operate as a leading indicator to how the labor market variates. This is because companies usually hire more workers when their profits expand and start laying employees off as their profits fall. Therefore, a drop in profits, whether due to a margin squeeze or lower revenues, would tend to decrease the demand for labor vis-à-vis supply and, in turn, reduce wage inflation and inflation in general.

Source: Macrobond

Activity:
GDP shows slight decline in 4Q22 but overall growth for the year was well above initial expectations

Brazilian Economy



The Brazilian economy declined slightly in 4Q22, slipping by 0.2% QoQ (quarter-over-quarter). The negative highlight was Investment (-1.4%), impacted partly by a reduction in inventories.

However, there was a rise of 2.9% for 2022 which was considerably better than market analysts had foreseen at the beginning of the year. For 2023, contractionary interest rate and issues that have recently arisen on the credit market should exert a downward force on domestic activity although this should be partly offset by stronger activity in the agribusiness sector and the fiscal boost.

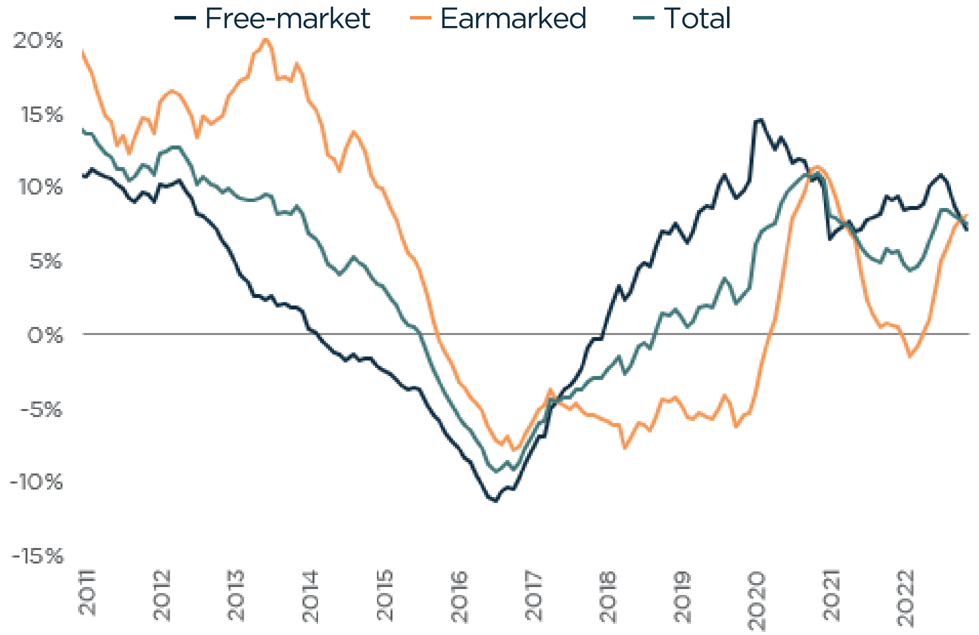
Source: Macrobond

Credit:
Tighter lending conditions and particular events push default levels higher

Brazilian Economy

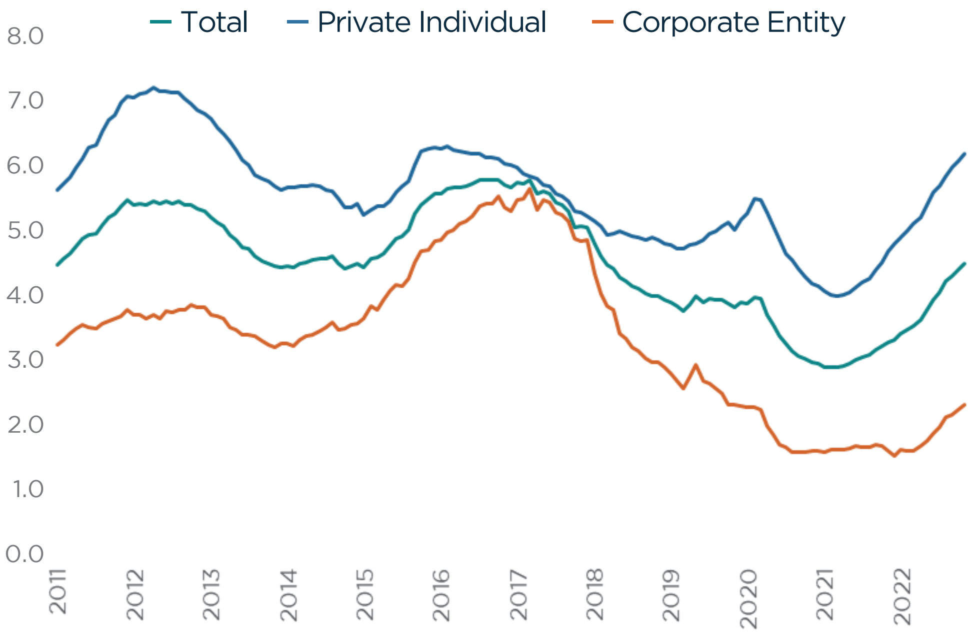
Credit Stock

Real annual variation



Default rate (over 90 days)

Free-market credit seasonally-adjusted



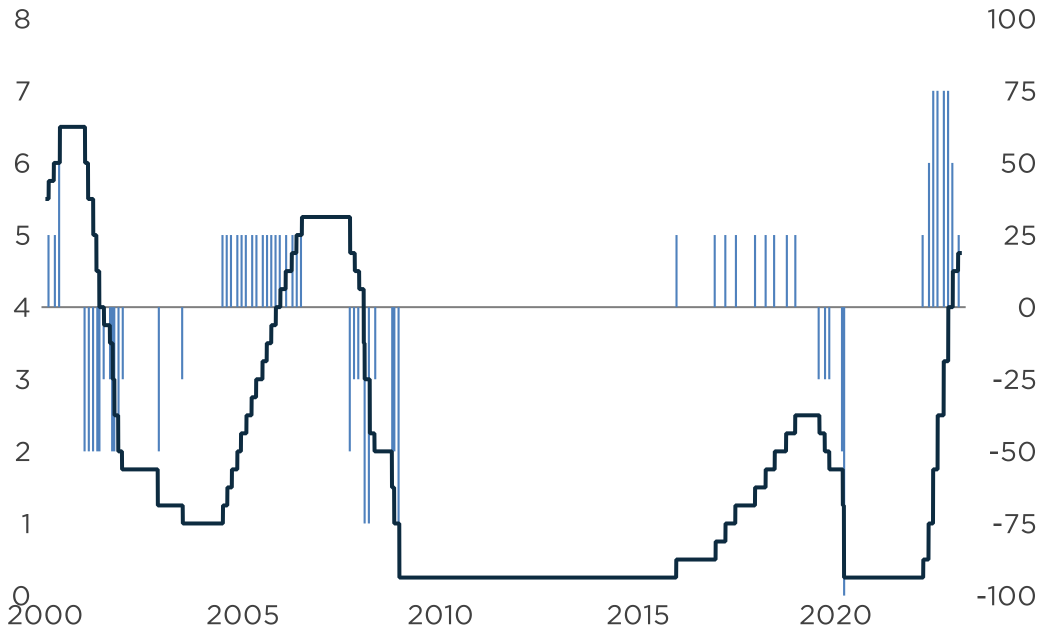
The credit events seen at the start of the year brought turbulence to the market, with an increase in withdrawals from credit funds and an increase in corporate funding spreads. In the case of bank credit in particular, the January figures did not show much visible impact but the trend points to higher default, as seen since the middle of last year, for private individuals and corporate entities.

Source: Macrobond, Turim

Interest rates:
Potential reacceleration in hikes by the Fed vs. Volatility

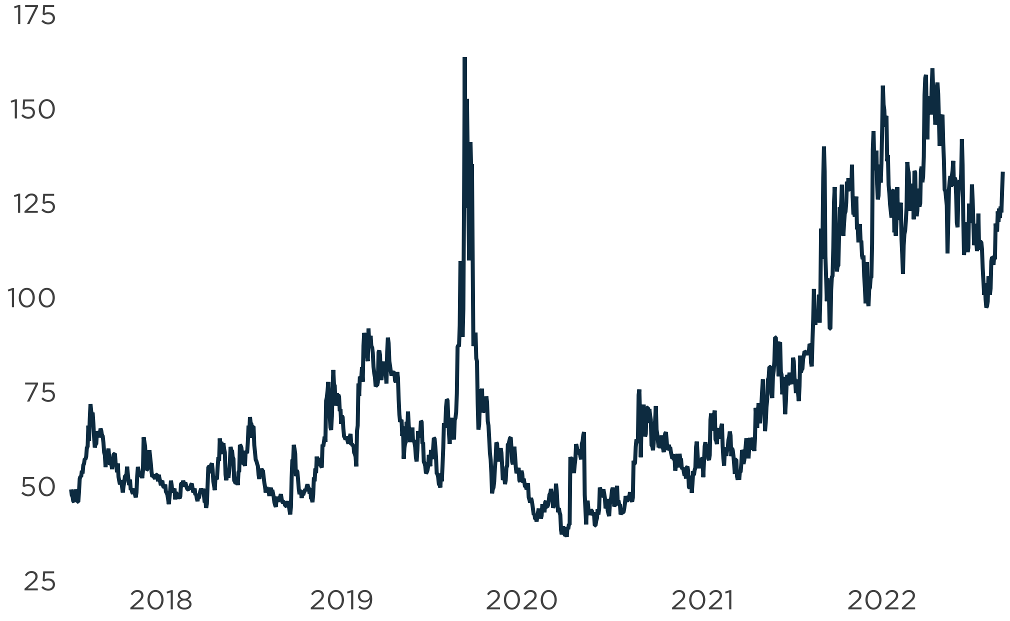
Markets

Interest rates and variations at the FOMC meetings



MOVE: Fixed Income Volatility Index

Implicit volatility in one-month Treasury options



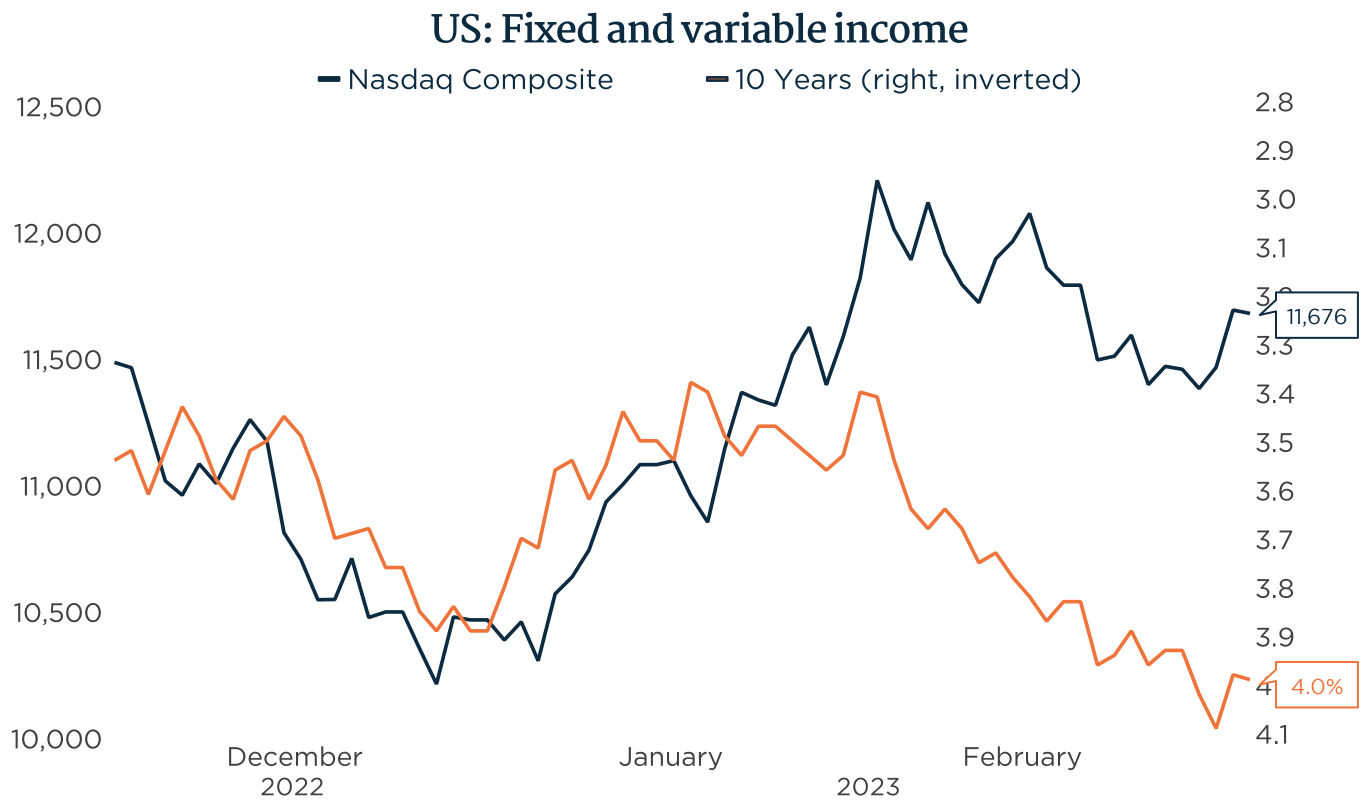
The upward surprises in the US activity and inflation figures at the start of the year led to a stronger possibility of a reacceleration in the pace of interest rate hikes by the Fed (from 25 basis points* to 50 bp). If confirmed, this could raise volatility in the fixed income market once again, with spillover effects on other risk assets.

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

Source: Macrobond

Stocks:
Equities still well founded despite higher interest rates

Markets

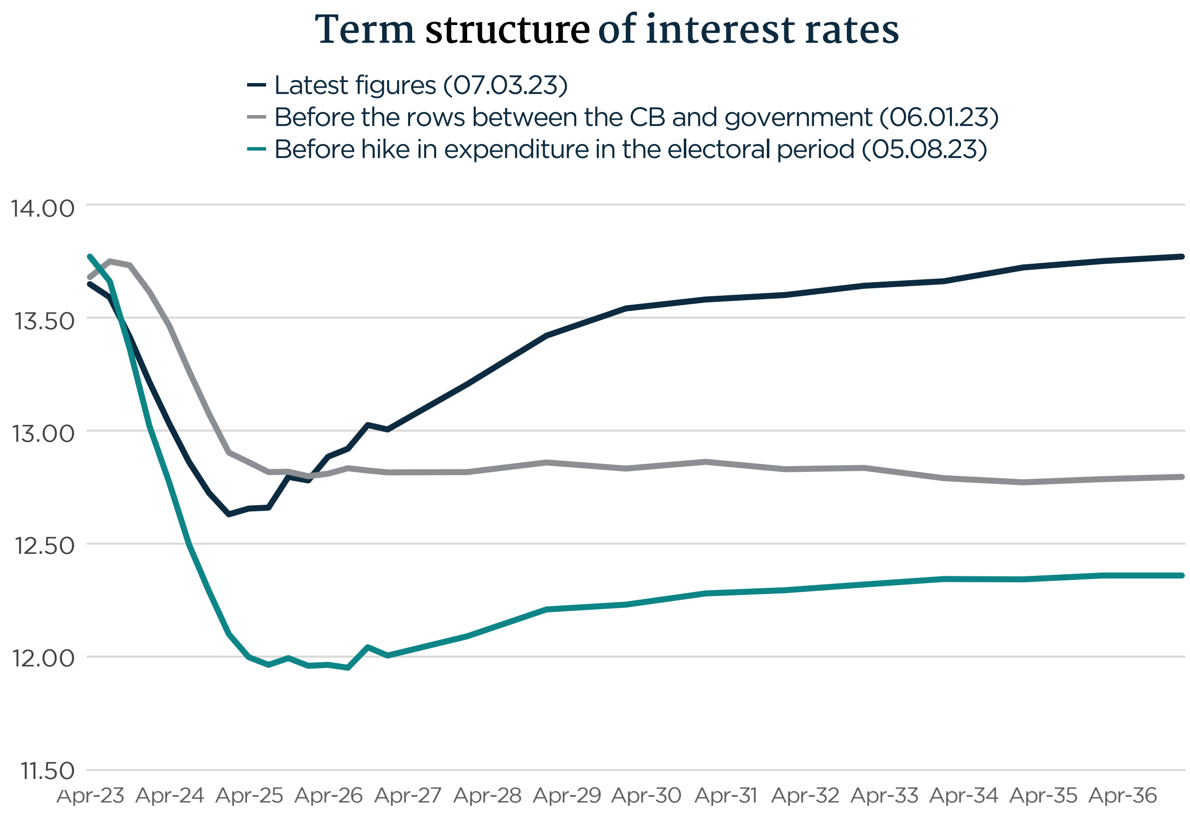


Even with the sharp rise in interest rates seen in February, the American stock market performed relatively well, as can be seen in the above graph. The lighter technical positioning helps explain some of this movement but this balance may prove unstable should interest rates rise again.

Source: Macrobond

Interest rates:
Rise in the domestic curve accompanied political and fiscal rows

Markets

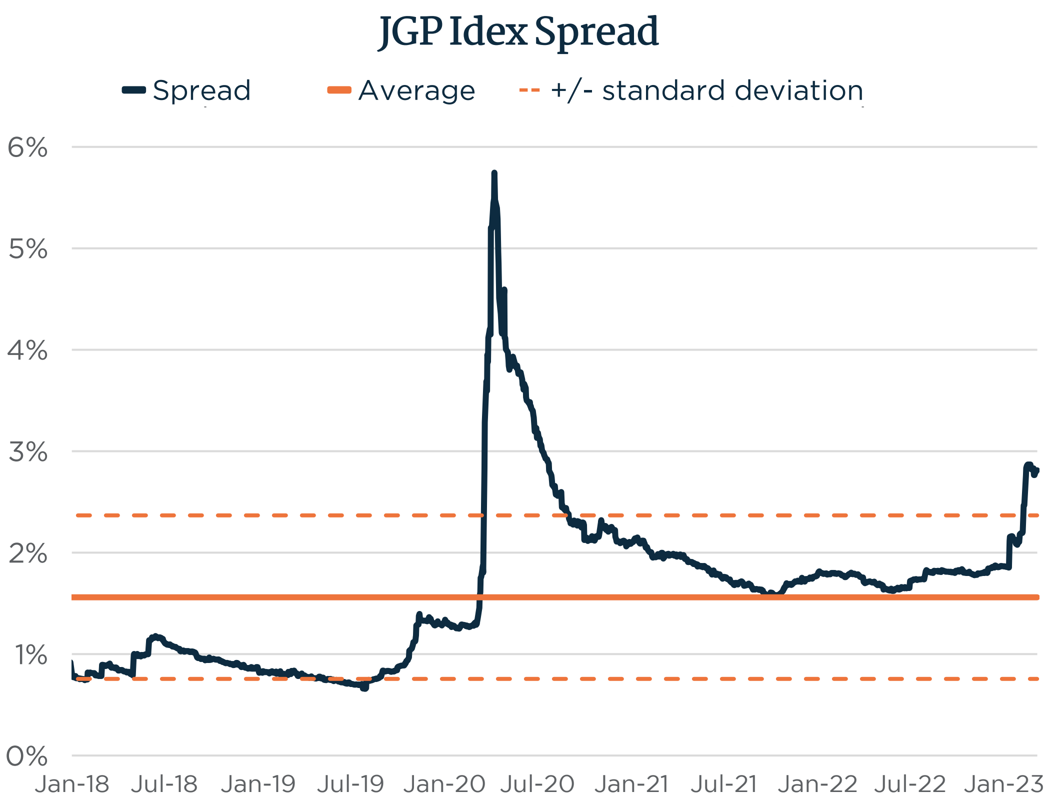


The public rows between the government and Brazil's central bank, along with concerns over fiscal policy, led to a strong re-pricing in the Brazilian yield curve, with a rise in basically all vertices – as shown in the accompanying graph.

Source: Bloomberg

Credit:
Turbulence on the credit market leads to higher spreads

Markets

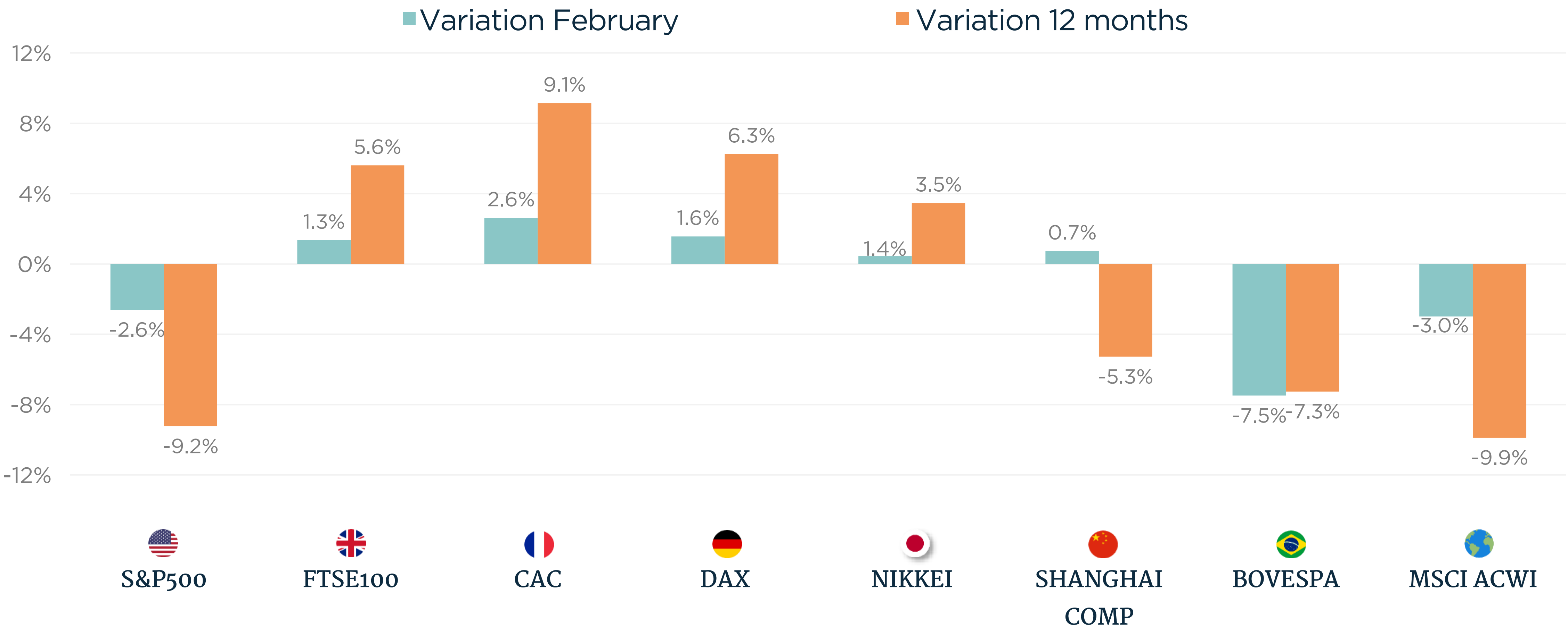


The events seen in the Brazilian credit market led to a significant increase in corporate bonds spread. Although the movement was of a much less intense magnitude than seen during the Covid crisis in 2020, it was still substantial. By raising the cost of funding, it should have a negative impact on economic activity in the coming quarters.

Source: Macrobond

Stock markets

Markets



Indexes

	Variation February	Value on 28/02/2023	Variation in 2023	Variation 12 months
COMMODITIES				
OIL WTI	-2.3%	77.05	-4.0%	-19.5%
GOLD	-5.3%	1,826.92	0.2%	-4.3%
CURRENCIES (IN RELATION TO THE US$)				
EURO	-2.6%	1.06	-1.2%	-5.7%
GDP	-2.4%	1.20	-0.5%	-10.4%
YEN	-4.5%	136.17	-3.7%	-15.5%
REAL	-3.1%	5.24	0.8%	-1.6%
INDEXES				
S&P500	-2.6%	3,970.15	3.4%	-9.2%
FTSE100	1.3%	7,876.28	5.7%	5.6%
CAC	2.6%	7,267.93	12.3%	9.1%
DAX	1.6%	15,365.14	10.4%	6.3%
NIKKEI	0.4%	27,445.56	5.2%	3.5%
SHANGHAI COMP	0.7%	3,279.61	6.2%	-5.3%
BOVESPA	-7.5%	104,931.93	-4.4%	-7.3%
MSCI ACWI	-3.0%	629.02	3.9%	-9.9%

*Valores e Resultados apresentados na moeda local

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