



Economic Report

July 2024

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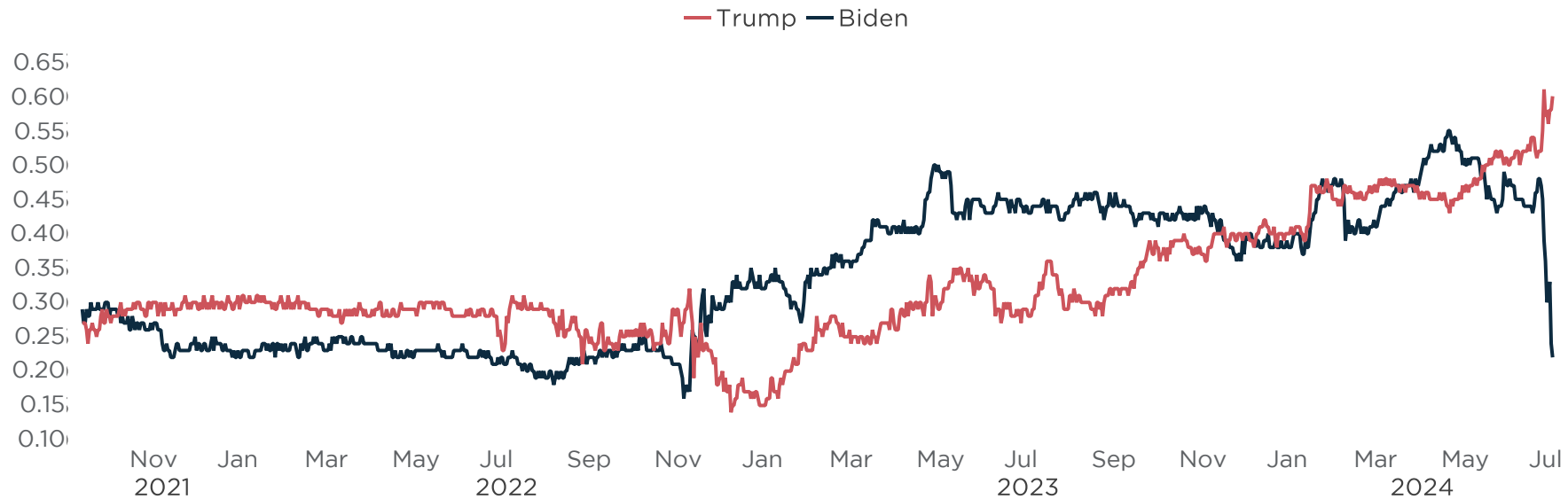
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US Elections: First debate reinforced questions over Joe Biden's health

Global Economy

Who will be the elected US president in 2024?
Quotes on betting site (PredictIt)

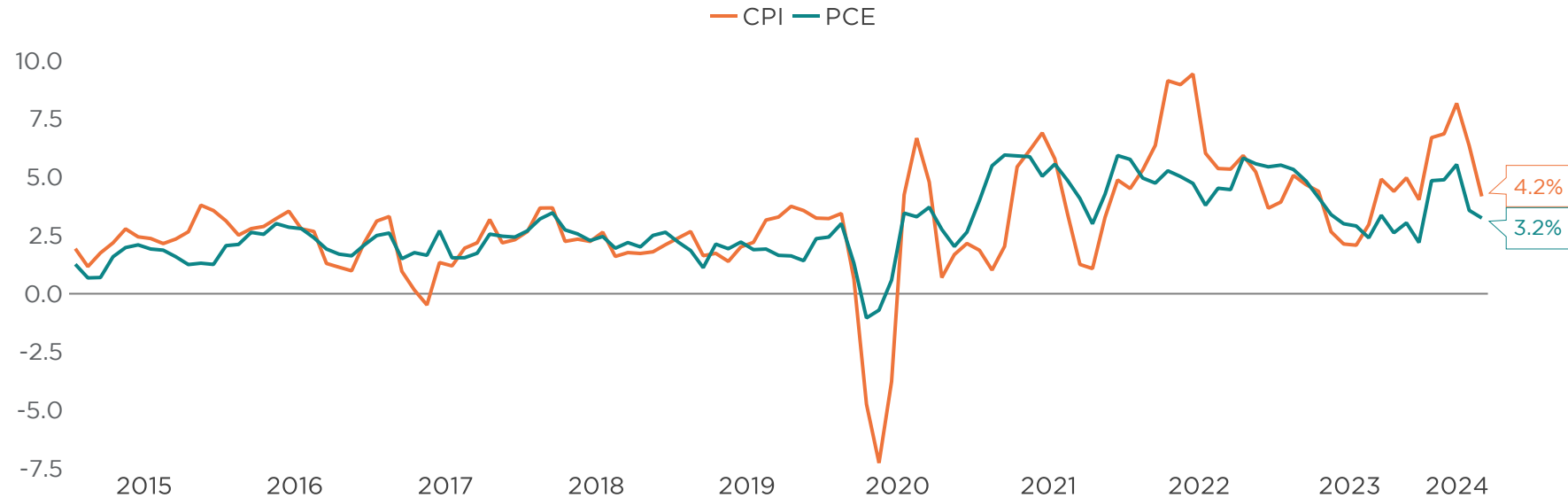


The last week of June was marked by the first debate between the United States presidential candidates. The event's aftermath was negative regarding the performance of the Democratic candidate Joe Biden, increasing criticism about his health condition. As a result, the chances of Trump being elected in November have increased, and speculations have emerged about the possibility of Biden being replaced as the party's representative. The above graph shows the implied probability of each candidate's victory according to the PredictIt betting site, which is calculated based on the odds and reflects the market's opinion of an event's outcome.

Inflation: Sharp broad slowdown in May

Global Economy

Core Services excluding Housing (“Super Core”)
Annualized three-month variation in seasonally-adjusted terms



After the fluctuations seen in the first quarter, we are witnessing a new slowdown in consumer inflation in the United States, including in the more inertial and less volatile components. The data from May was particularly favorable, as shown in the above graph, which presents the seasonally adjusted and annualized three-month variation in core services excluding housing, according to the country’s two main inflation metrics: the Consumer Price Index (CPI) and the Personal Consumption Expenditure Price Index (PCE).

FOMC: Committee's projections for inflation and interest rates rise

Global Economy

Median Expectations of the FOMC

June Projections (%)	2024	2025	2026	Long term
GDP Variation	2.1	2.0	2.0	1.8
March Projections	2.1	2.1	1.8	1.8
Unemployment Rate	4.0	4.2	4.1	4.2
March Projections	4.0	4.2	4.1	4.2
PCE Inflation	2.6	2.3	2.0	2.0
March Projections	2.4	2.1	2.0	2.0
Core PCE	2.8	2.3	2.0	-
March Projections	2.6	2.1	2.0	-
Interest Rate	5.1	4.1	3.1	2.8
March Projections	4.6	3.9	3.1	2.6

Despite recent improvements in inflation data, the Federal Reserve's Monetary Policy Committee (FOMC) has revised upward its projections for inflation and interest rates, including the estimate of the long-term interest rate, which is considered a proxy for the neutral rate. The table alongside represents the changes in the committee's projections, highlighting some of the most significant adjustments.

Even while projecting a more challenging scenario, the committee continues to believe that the current rate is sufficiently contractionary (i.e., an interest rate that reduces demand in the economy to control inflation) to bring inflation back to the target, allowing for a first rate cut later this year.

COPOM: Committee halts rate cut cycle, signaling higher interest rates for longer

Brazilian Economy

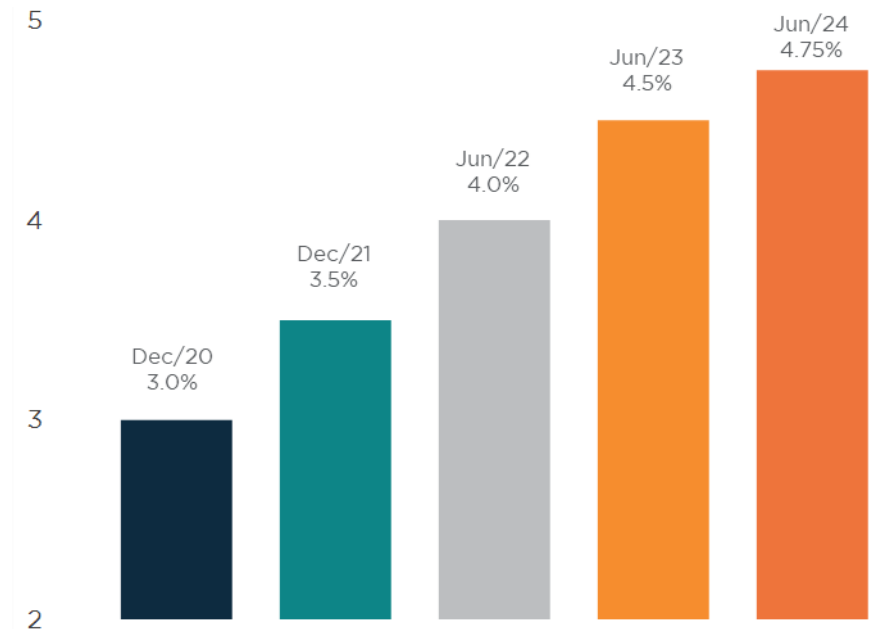
Central Bank Inflation Projections

Reference Scenario: Selic Focus and PPC Exchange Rate

Accumulated IPCA Variation over Four Quarters (%)

Year	Quarter	Target	RI - Mar/24	RI - Jun/24	Difference (p.p.)
2024	II		4.0	4.4	0.4
	III	3.00	3.7	4.1	0.4
	IV		3.5	4.0	0.5
2025	I		3.1	3.8	0.7
	II	3.00	3.1	3.3	0.2
	III		3.1	3.4	0.3
2026	IV		3.2	3.4	0.2
	I		3.2	3.2	0.0
	II	3.00	3.2	3.3	0.1
2026	III		3.2	3.3	0.1
	IV		3.2	3.3	0.1

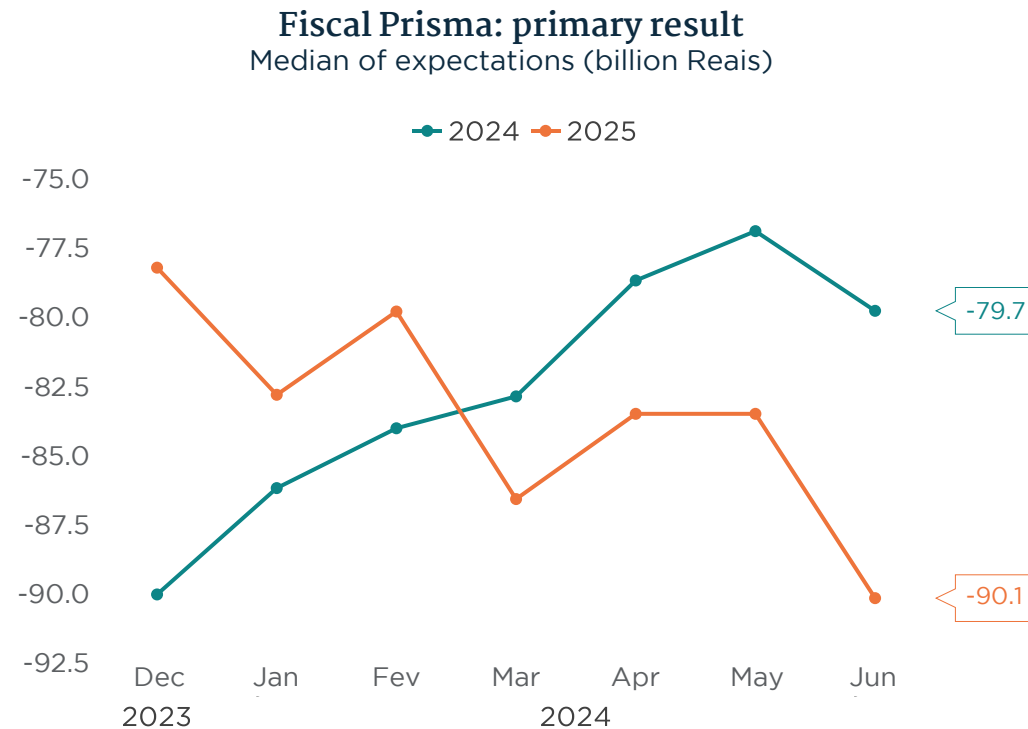
Revisions of Central Bank's neutral rate estimates



The Central Bank's Monetary Policy Committee (COPOM) unanimously decided to halt its interest rate cut cycle at the June meeting, amidst consistent de-anchoring of inflation expectations and intense currency depreciation. Additionally, the committee adopted a stricter stance, revising its inflation projections (as shown in the table on the left) and adjusting its estimate of the neutral rate to 4.75% (as indicated in the graph on the right). Although no specific guidance was provided on the next steps, the current scenario rules out the possibility of additional rate cuts in the short term.

Fiscal: Government promises “fine-tooth comb” on expenses, but framework remains at risk

Brazilian Economy

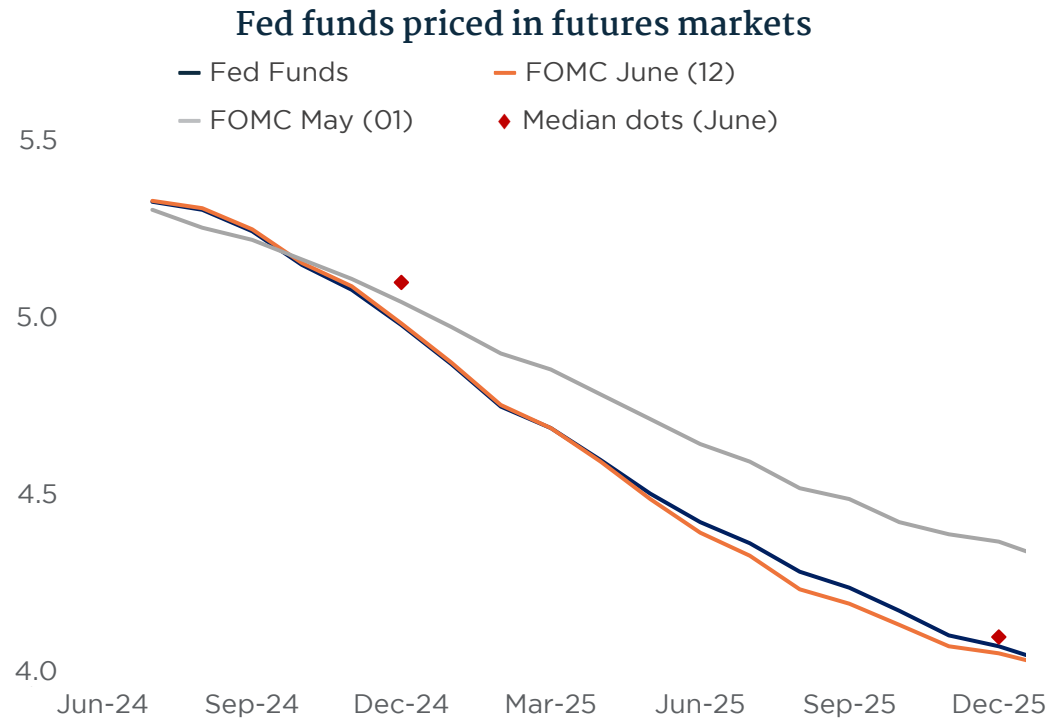


The interest rate and foreign exchange markets have been reacting negatively to the apparent lack of political will to make the necessary adjustments to meet the targets stipulated in the fiscal framework.

The chart alongside presents the recent evolution of expectations for the central government’s primary balance for 2024 and 2025, which represents the balance between government revenues and expenditures, excluding public debt interest. It is noted that expectations for this year’s result improved until May, following the announcement of new revenue measures and some positive surprises in the results. However, the same did not occur for the expectations for the coming year, which have been declining since the beginning of the year.

Interest rates: Markets still expects at least one cut in 2024

Markets

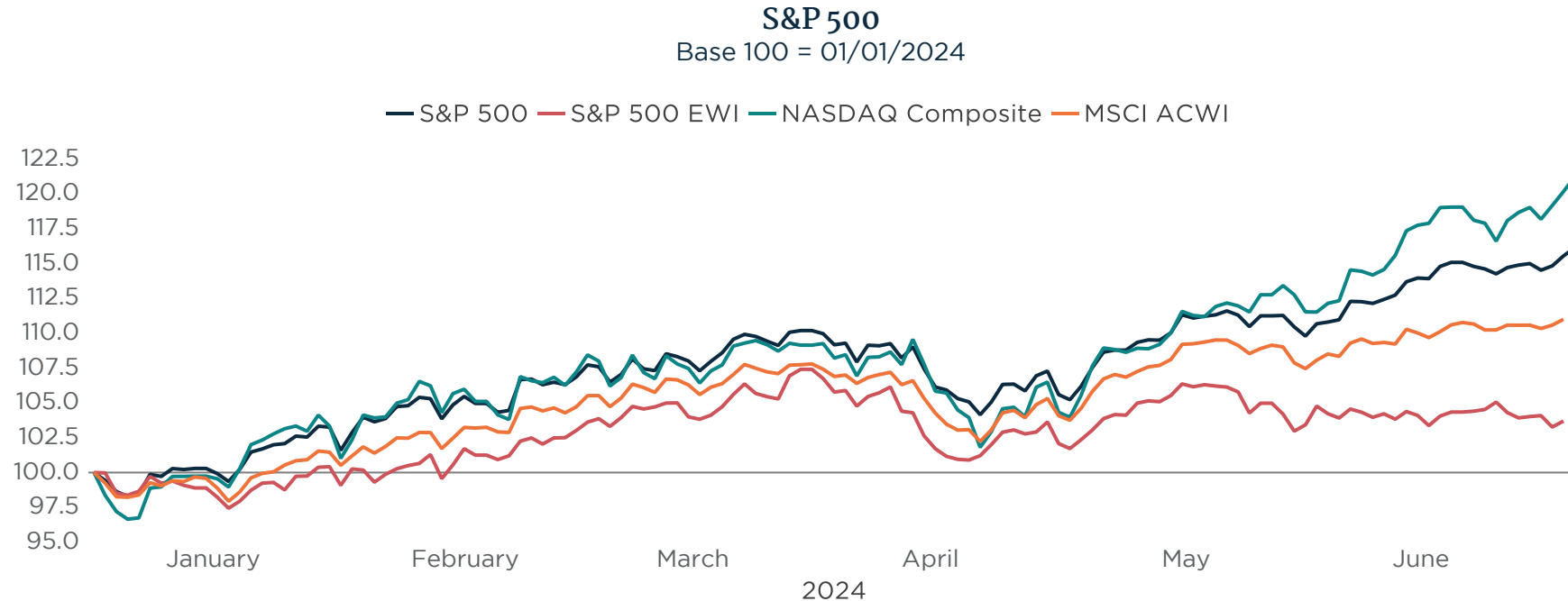


The American interest rate market closed more intensely following the release of benign consumer inflation data for May but remained relatively stable after the June FOMC meeting.

As previously mentioned, the committee adopted more challenging projections but still expects to implement a rate cut by the end of the year. Meanwhile, the market is pricing in a slightly earlier start to the rate cut cycle in the United States.

Stock market: Stocks experience another upbeat month concentrated in a handful of companies

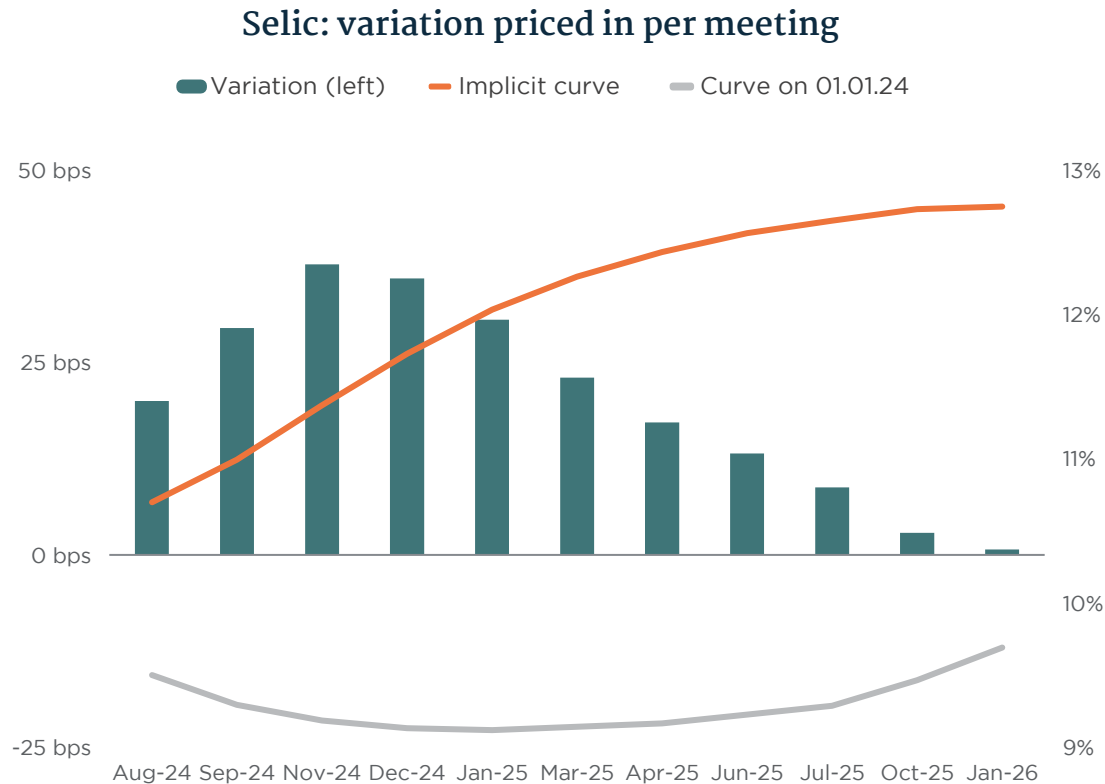
Markets



The American stock market recorded another month of gains, driven by a few companies, especially in the technology sector. The Nasdaq Composite, with an increase of 6.0% in June, rose significantly more than the traditional S&P 500, which had a gain of 3.5%, and its equal-weight version (S&P 500 EWI), which fell by 0.6%. The index also outperformed global markets, represented by the MSCI ACWI, which recorded a gain of 2.1%, as shown in the graph above.

Interest rates: Markets has already priced in a new upward cycle beginning in 2024

Markets



The Brazilian interest rate market has undergone a rapid repricing over the past few weeks, leading the future curve to price in a new rate hike cycle starting later this year, right after the COPOM halted its rate cut cycle.

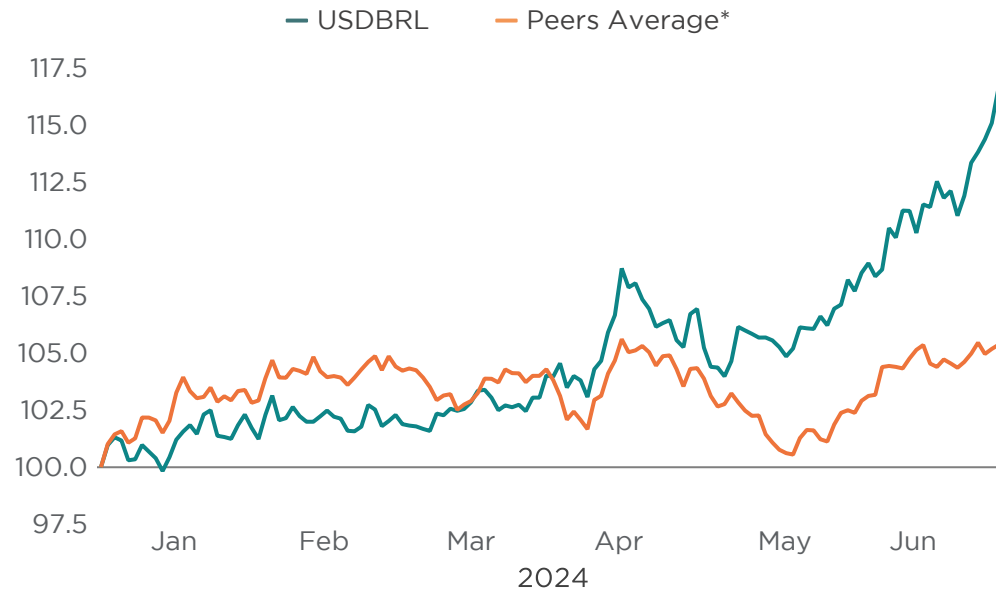
The graph illustrates the difference between the currently priced interest rate curve and the implied expectations for upcoming COPOM decisions, compared to the initial projections for the year. At the beginning of 2024, a more extensive rate cut cycle was expected, leading to a “terminal rate” close to 9% by the end of the year..

Exchange rate: Real depreciates and lags its peers

Markets

Performance of the Real against peers

Base 100 = 01/01/2024



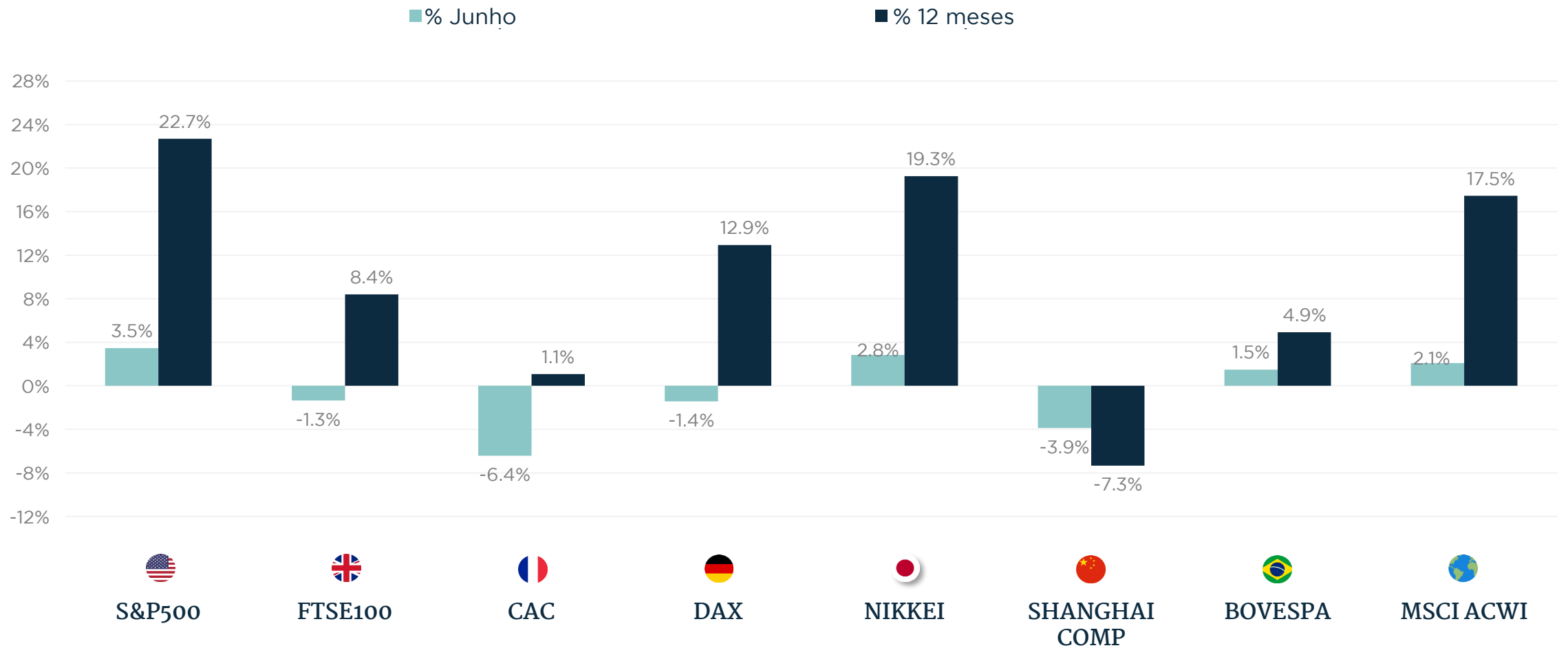
*Average of the following currencies: AUD, CLP, COP, MXN, NZD and ZAR

It could be said that the exchange rate was the main “escape valve” for the deterioration in sentiment over the local economic situation. The Dollar rose from around R\$ 5.15 in mid-May to test a high close to R\$ 5.70 in early July, showing a clear disparity compared to other currencies whose performance is usually highly correlated, as shown in the graph alongside.

The significant depreciation of the Brazilian currency also has important implications for inflation and monetary policy, contributing to the expectations reflected in the future interest rate curve.

Stock markets

Markets



Indices

	Variation June	Value on 30/06/2024	Variation in 2024	Variation over 12 months
COMMODITIES				
OIL WTI	5.9%	81.54	13.8%	15.4%
GOLD	0.0%	2,326.75	12.8%	21.2%
CURRENCIES (IN RELATION TO THE US\$)				
EURO	-1.2%	1.07	-3.0%	-1.8%
GBP	-0.8%	1.26	-0.7%	-0.5%
YEN	-2.2%	160.88	-12.3%	-10.3%
REAL	-6.2%	5.59	-13.2%	-14.5%
ÍNDICES				
S&P500	3.5%	5,460.48	14.5%	22.7%
FTSE100	-1.3%	8,164.12	5.6%	8.4%
CAC	-6.4%	7,479.40	-0.8%	1.1%
DAX	-1.4%	18,235.45	8.9%	12.9%
NIKKEI	2.8%	39,583.08	18.3%	19.3%
SHANGHAI COMP	-3.9%	2,967.40	-0.3%	-7.3%
BOVESPA	1.5%	123,906.55	-7.7%	4.9%
MSCI ACWI	2.1%	802.01	10.3%	17.5%

*Amounts and results in local currency



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