TURIM

Economic Report

June 2023

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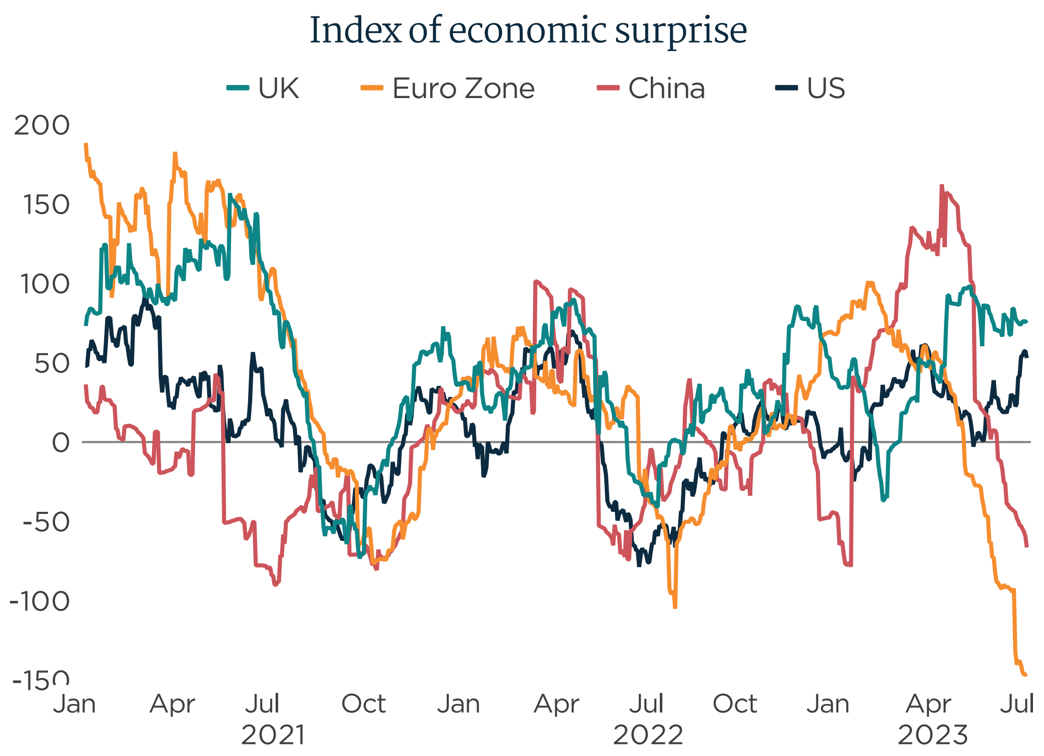
Activity:
China and Euro Zone expand negative surprises

Global Economy



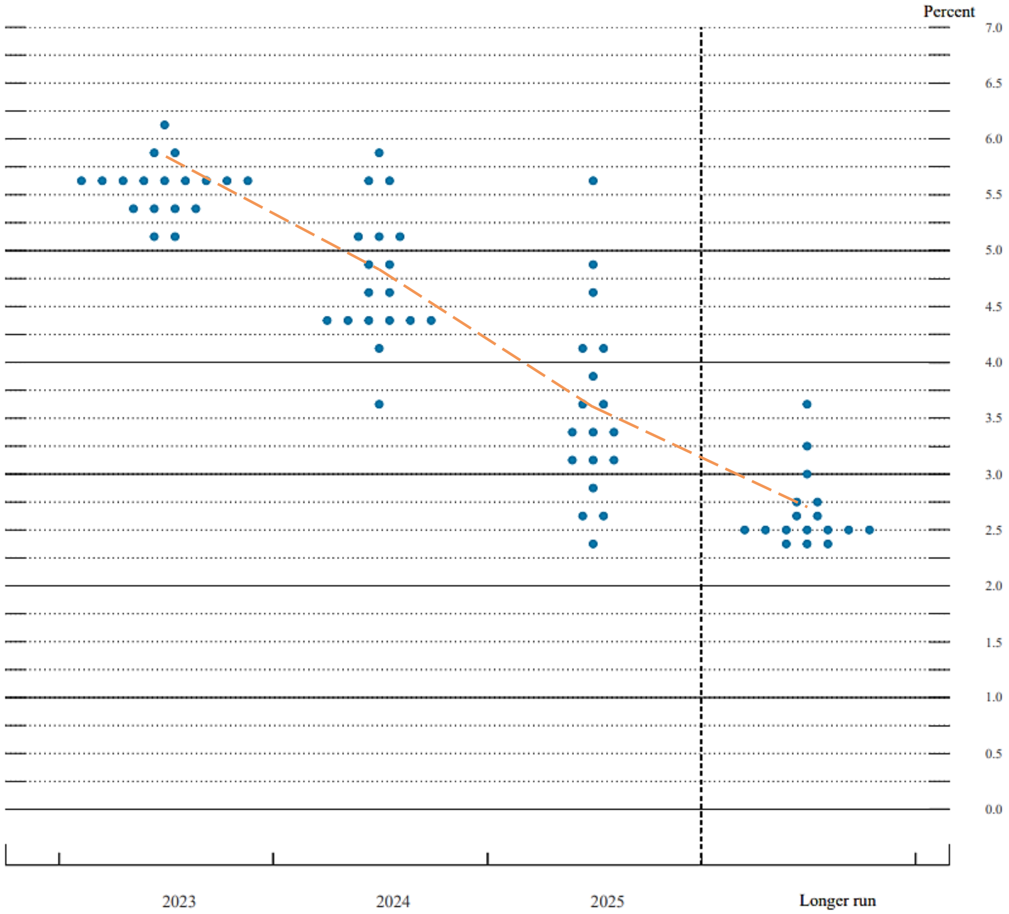
The continuing slowdown in global economic activity, particularly in the Euro Zone and China which has been springing a negative surprise since the second quarter – as can be seen in the accompanying graph – has contributed to the downward trend in commodity prices.

However, the risk of crop losses from El Niño, a climate anomaly that can cause drastic changes in temperature and the pattern of rainfall in various regions, could become an offsetting factor, raising prices of agricultural products in the near future.

Source: Macrobond

FOMC:
Committee foresees another two hikes after June pause

Global Economy



The economic data in the United States is proving to be stronger than expected. This led the Federal Reserve's monetary policy committee (FOMC) to adopt a tougher stance at its latest meeting. In practice, the committee opted to keep its rate steady – thereby “skipping a decision” – but indicating implicitly in the economic projections that there will be two further rate hikes by the end of the year.

The accompanying graph shows the distribution of the committee members' expectations along with the trajectory of the median of these expectations for the base interest rate over the coming years and the long term.

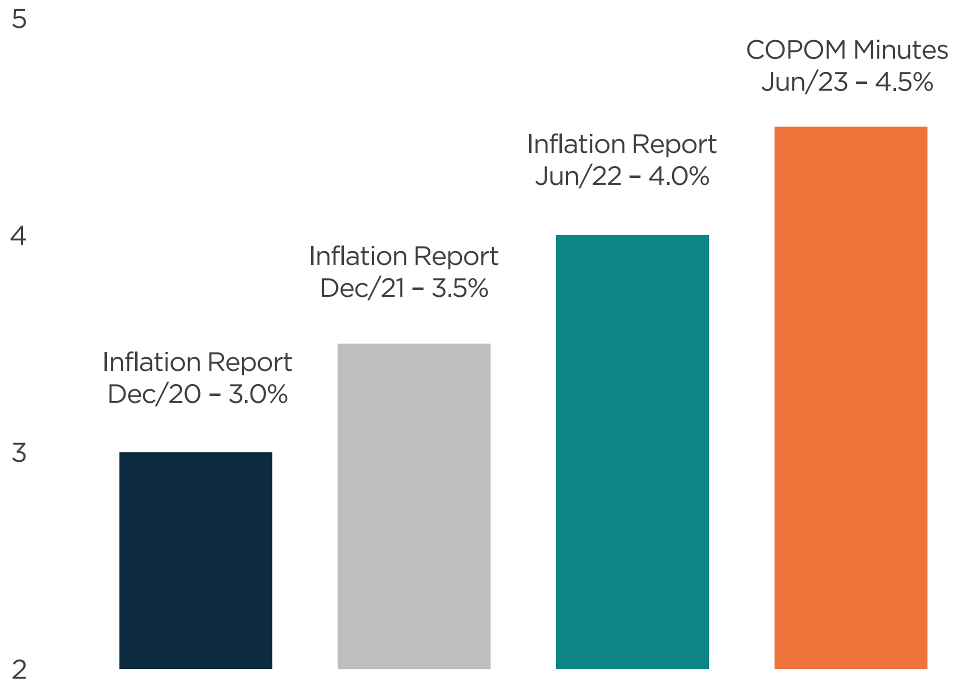
1 basis points or 1 bp = 0.01% or 1/100 percentage points

Source: Federal Reserve

COPOM:
Central Bank revises neutral rate to 4.5% and points to interest rate cuts beginning in August

Brazilian Economy

Revised estimates of Central Bank neutral rate



The Brazilian Central Bank, in turn, seems to be moving closer to the beginning of a new cycle of interest rate cuts. The latest minutes of the Monetary Policy Committee (Copom) brought an important change in the communication, stating that the predominant view of its members was that with continuing disinflation and improving expectations could allow the start of a parsimonious process of reversal as early as the next meeting.

Moreover, the committee revised its estimate for the natural rate – the real interest rate that neither stimulates nor shrinks the economy – from 4.0% to 4.5%. This compares with 3.0% at the beginning of the pandemic. As the accompanying graph shows, this is the fourth consecutive positive revision of the rate since 2020, respecting an interval of at least one year between each revision. This number helps us understand how much room the committee feels it has for interest rate cuts against a backdrop of inflation converging to the target.

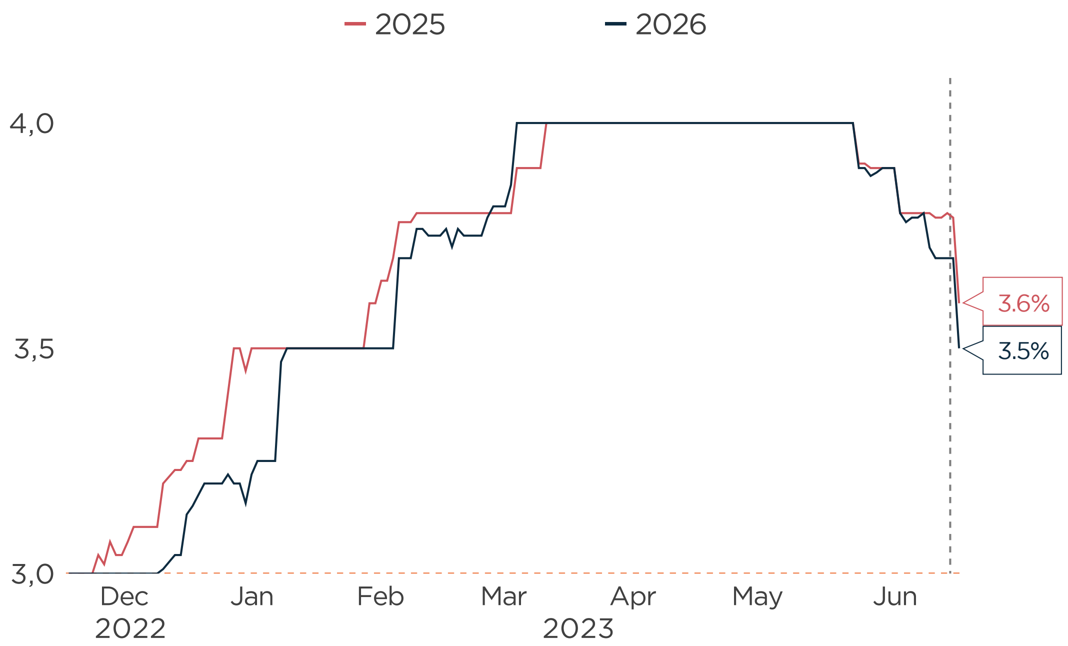
Source: Banco Central do Brasil

National Monetary Council:
Inflation target held at 3% but system changed from calendar-year to continuous target

Brazilian Economy

Focus: long-term projections for the IPCA

Median of expectations



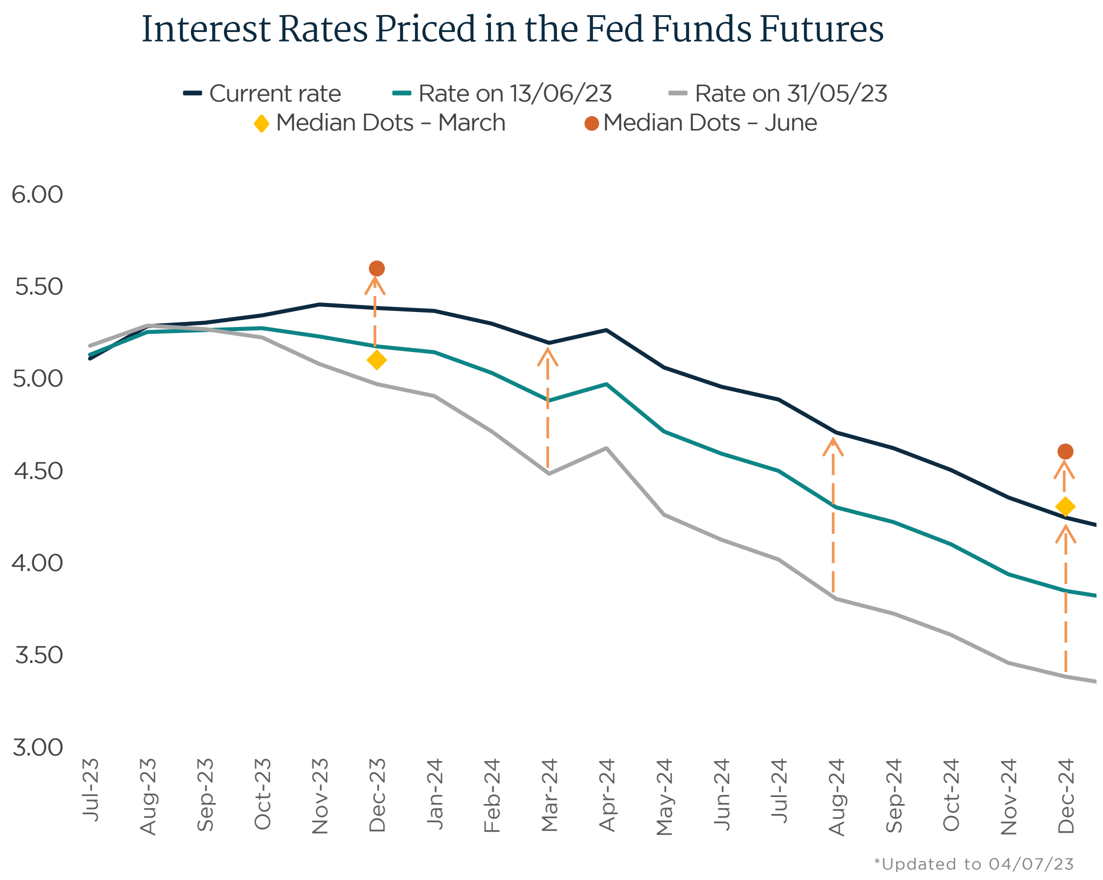
Another important factor for local monetary policy was the decision by the National Monetary Council (CMN) to maintain the inflation target at 3%. As expected, the decision also resulted in a change in the inflation targeting system which will no longer be assessed on a calendar-year system from 2025 onwards but on a continuous target model.

This decision triggered a further recoil in long-term inflation expectations that can be inferred from the Focus Bulletin, as shown in the accompanying graph. The event also symbolizes the removal of another tail risk in the domestic scenario.

Source: Macrobond

Interest rates:
American curve widens amidst Fed's hawkish tone

Markets



The US yield curve suffered a significant repricing throughout June in the wake of the change in the FOMC members' statement. As the outlook proved more adverse, the members' approach ended up confirming a process of revision of the terminal rate, even before the committee met.

Following the Fed decision and the confirmation of the committee's intention to raise interest rates further, the market continued the movement of opening interest rates.

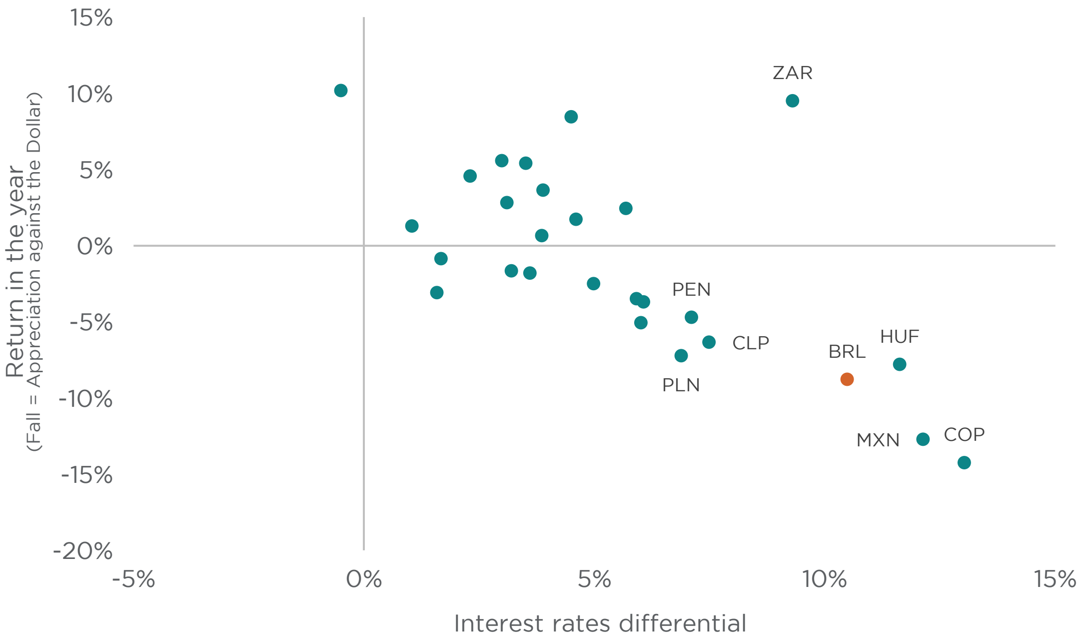
Dovish & Hawkish: These terms are used as a benchmark for the conduct of an economy´s monetary policy. When a Central Bank is "dovish", there is a downward bias for interest rates. The opposite is the case when it is "hawkish" and there is an upward bias for interest rates.

Source: Federal Reserve, Macrobond

Exchange rate:
High carry and low volatility are helping emerging market currencies

Markets

Dispersion: Return vs. Carry



* Updated to 04/07/23

Faced with the current international situation, a number of countries with high interest rates are seeing their currencies appreciate sharply. The Real is one of the most outstanding. The prospect of an end to the monetary tightening cycle, combined with the view that structural reforms are underway have boosted the currency even though its performance is not very different from that of its peers.

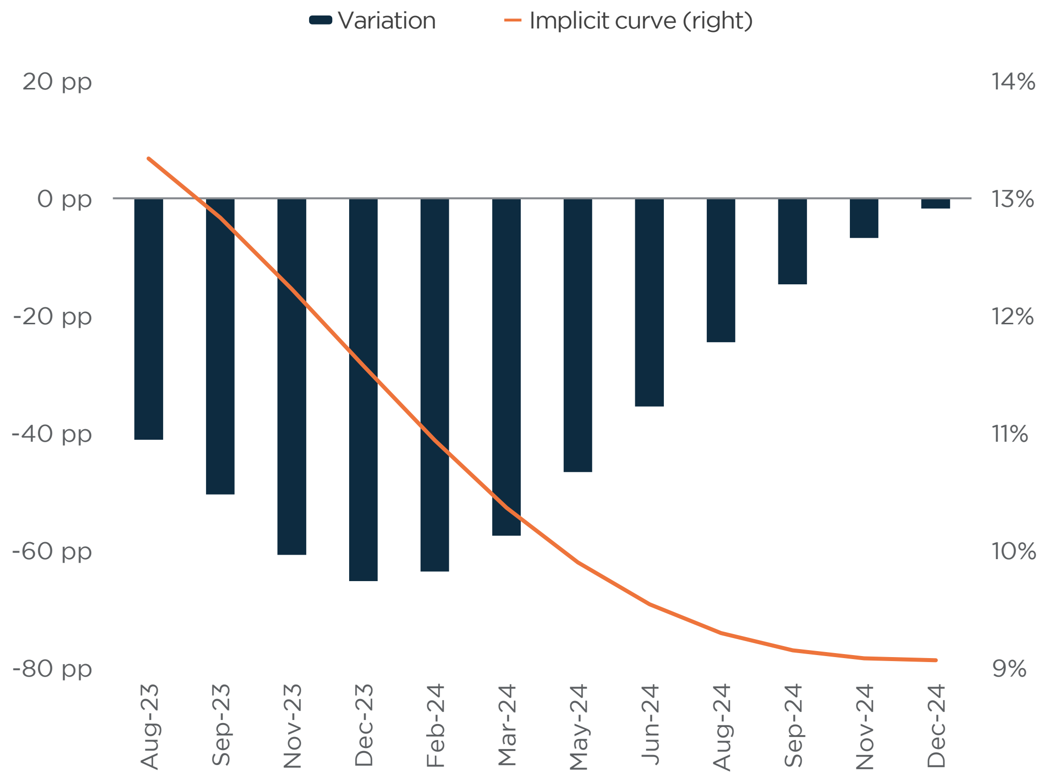
The accompanying graph represents the dispersion of nominal returns accumulated since the beginning of the year in a sample of currencies vis-à-vis the interest differential between a local government bond and a US Treasury bond over a 12-month horizon. A clear trend in favor of the currencies that have higher differentials can be seen.

Source: Bloomberg

Interest rates:
Market is pricing in imminent start of cuts, pushing the rate close to 9% in 2024

Markets

Selic: variation priced in by meeting



*Updated to 04/07/23

In line with the Central Bank's latest statement, the pricing of the term structure of interest rates implies an imminent start in the cycle of Selic rate cuts. The pricing does not rule out the possibility that the first interest rate cut, which should occur in August, would already be in the order of 50 basis points. This would take the nominal rate to close to 9.0% at the end of the rate-cutting cycle.

Despite being immersed in great uncertainty, the degree of loosening contracted in the yield curve already seems to make some sense considering the Central Bank's estimates and expectations for future inflation.

Source: Bloomberg

Stocks:
Interest rate tightening cycles typically have positive effects on the stock market

Markets

Ibovespa returns before and after monetary easing cycles

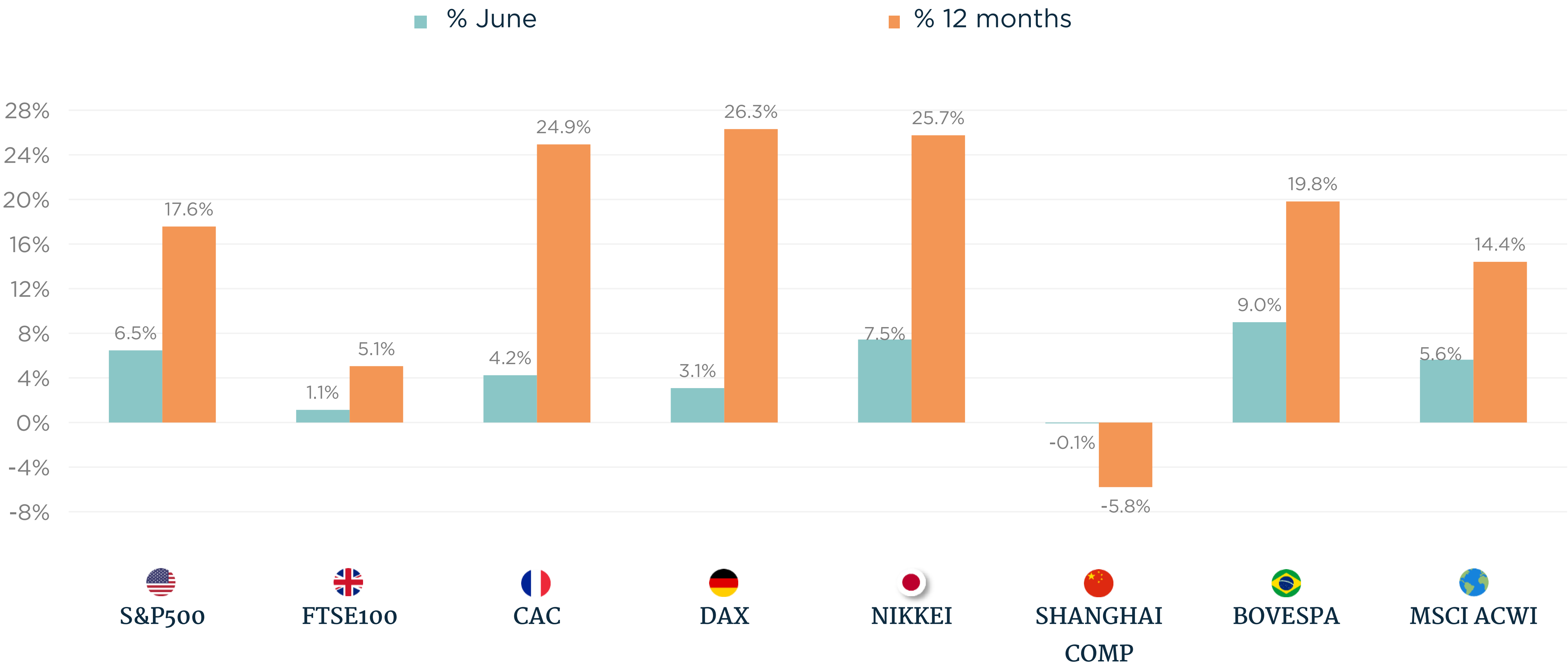
Start of cycle	1 month before	3 months before	6 months before	3 months after	6 months after	12 months after
Jun/03	-3.3%	15.1%	15.1%	23.4%	71.4%	63.0%
Sep/05	12.6%	26.1%	18.7%	5.9%	20.2%	15.4%
Jan/09	4.7%	5.5%	-34.0%	20.3%	39.4%	66.4%
Aug/11	-4.0%	-12.6%	-16.2%	0.7%	16.5%	1.0%
Oct/16	11.2%	13.3%	20.4%	-0.4%	0.7%	14.5%
Jul/19	0.8%	5.7%	4.5%	5.3%	11.7%	1.1%
Median	2.7%	9.5%	9.8%	5.6%	18.3%	14.9%
Average	3.7%	8.8%	1.4%	9.2%	26.6%	26.9%

The table above shows the profitability of the Ibovespa in different time windows, before and after the start of the monetary easing cycle. It is worth noting that there is a considerable heterogeneity in the dispersion of the returns although, generally speaking, these windows were very favorable for the index. Besides the decrease in the discount rate, which favors the valuation of these shares, the reduction in debt costs also plays an important role in the value of the companies.

Source: Bloomberg

Stock Exchanges

Markets



Indexes

	Variation June	Value on 30/06/2023	Variation in 2023	Variation 12 months
COMMODITIES				
OIL WTI	3.7%	70.64	-12.0%	-33.2%
GOLD	-2.2%	1,919.35	5.2%	6.2%
CURRENCIES (IN RELATION TO THE US$)				
EURO	2.1%	1.09	1.9%	4.1%
GBP	2.1%	1.27	5.1%	4.3%
YEN	-3.4%	144.31	-9.1%	-6.0%
REAL	5.6%	4.79	10.3%	9.9%
INDEXES				
S&P500	6.5%	4,450.38	15.9%	17.6%
FTSE100	1.1%	7,531.53	1.1%	5.1%
CAC	4.2%	7,400.06	14.3%	24.9%
DAX	3.1%	16,147.90	16.0%	26.3%
NIKKEI	7.5%	33,189.04	27.2%	25.7%
SHANGHAI COMP	-0.1%	3,202.06	3.7%	-5.8%
BOVESPA	9.0%	118,087.00	7.6%	19.8%
MSCI ACWI	5.6%	682.84	12.8%	14.4%

*Amounts and Results in local currency

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