



Economic Report

May 2022

São Paulo

Av. Faria Lima, 2277 / 12th floor
Jd. Paulistano – São Paulo, SP
01452-000
+ 55 11 3071-3329
turimsp@turimbr.com

Rio de Janeiro

Rua Major Rubens Vaz, 236
Gávea – Rio de Janeiro, RJ
22470-070
+ 55 21 2259-8015
turimrj@turimbr.com

Turim UK

111 Park Street
London – W1K 7JF
+44 (0) 20 3585-2436
turimuk@turimuk.com



Global Economy 03

Brazilian Economy 06

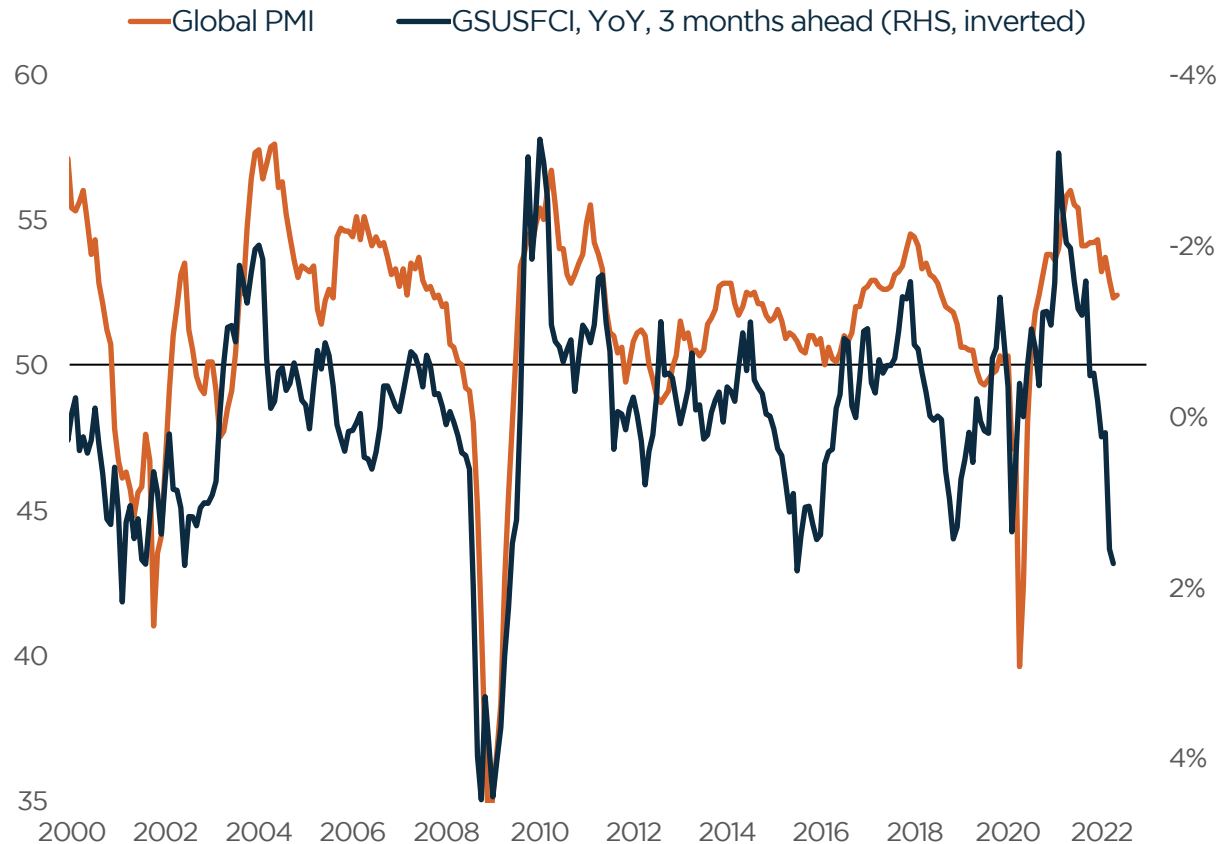
Markets 08

Indexes 13

Global: Despite monetary tightening, activity remains resilient to date

Global Economy

Global Economic Activity vs Financial Conditions in the US



Global economic activity continues to show growth despite the tightening of financial conditions by central banks. The general opinion is that, after some delay, the contractionary monetary policy should lead to a slowdown.

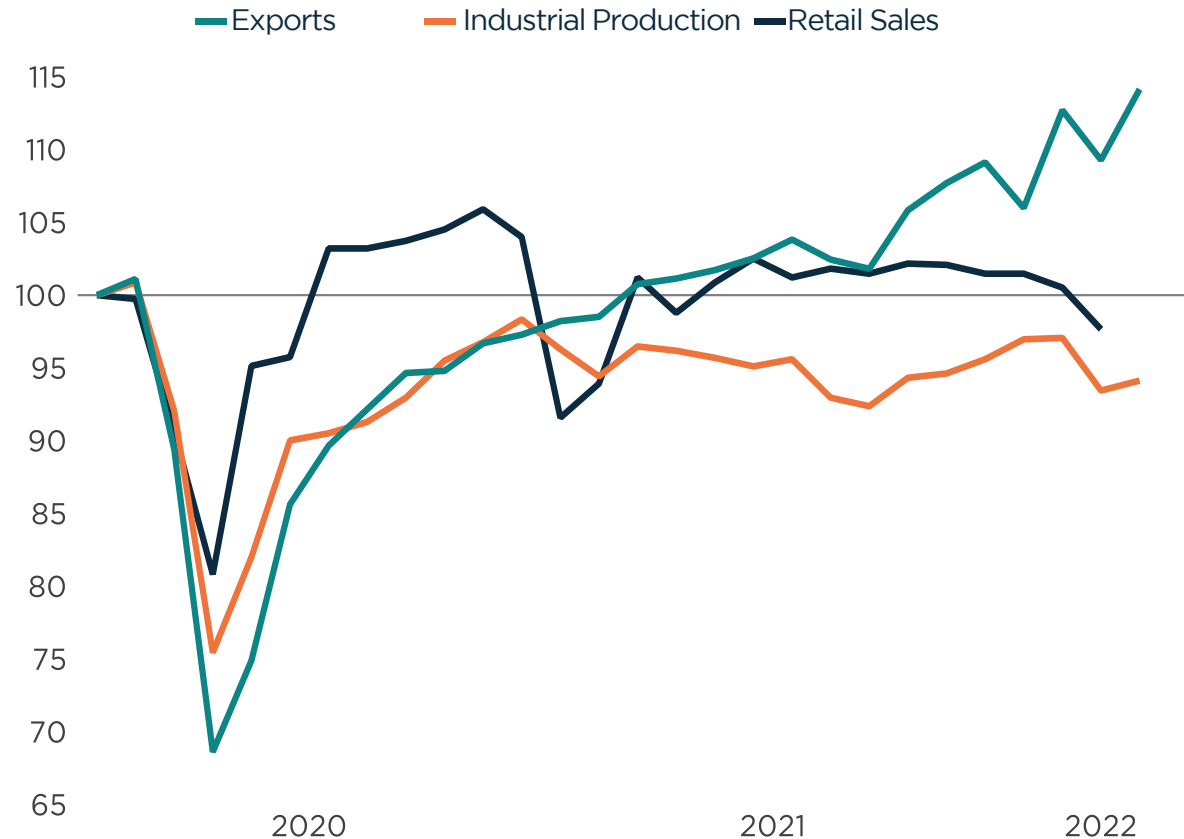
The accompanying graph shows the historical relationship between economic activity at world level, represented by the Global PMI, and the variation in financial conditions, represented by the Goldman Sachs US Financial Conditions Index.

Euro Zone: Surveys remain strong but the signs are weaker in sequential terms

Global Economy

Economic Activity in Germany

Base 100 = 2020



Confidence indicators in the Euro Zone remain healthy even with uncomfortably high inflation. On the other hand, some activity indicators have started to show a slowdown.

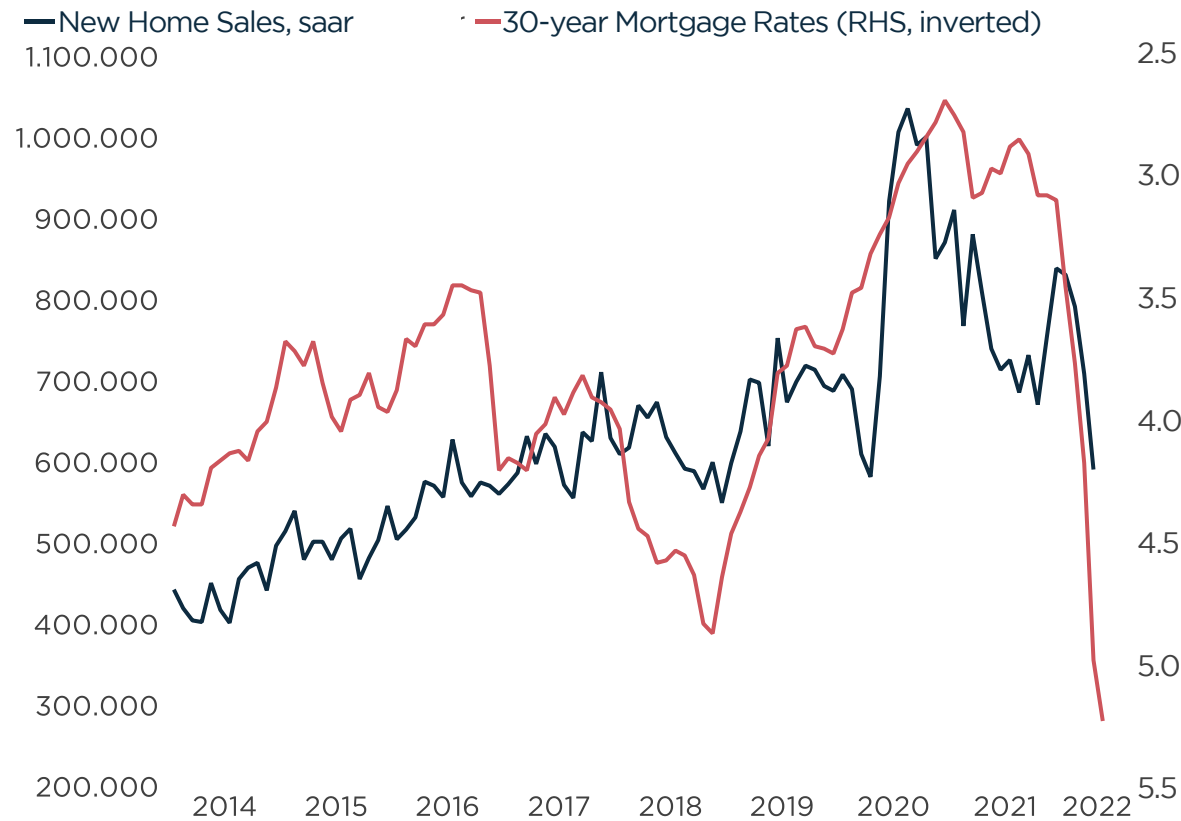
The accompanying graph shows how some of Germany's key activity indicators have started to lose momentum at the same time as the interest rates market started to price changes in the monetary policy's course considering a more hawkish European Central Bank.

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.

US: Higher interest rates begin to impact the housing sector

Global Economy

New Home Sales in the US vs Interest Rates



Some markets in the United States are already showing significant effects from the monetary tightening. The housing sector in particular has been showing a substantial slowdown in the wake of higher mortgage rates.

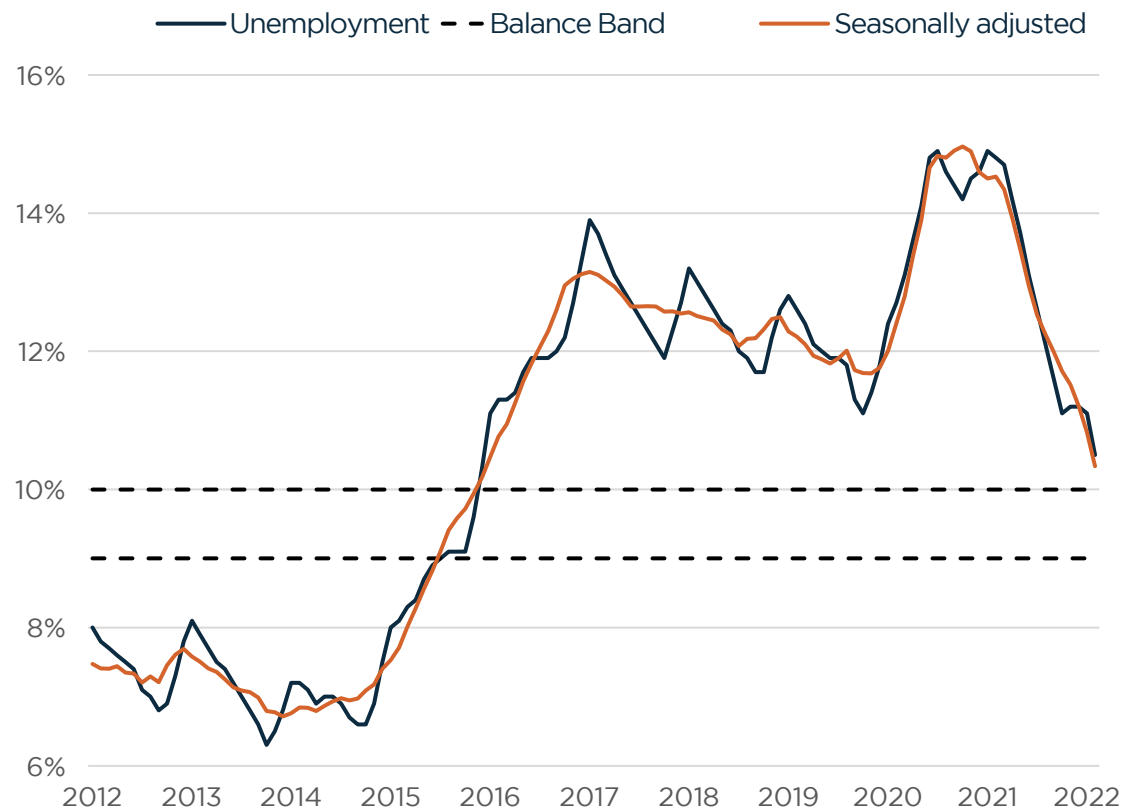
The accompanying graph shows that the recent drop in sales of new houses occurred at the same time as mortgage rates jumped higher (inverted in the graph).

Labor market: Unemployment continues to be surprisingly low

Brazilian Economy

Unemployment Rate: Official vs Adjusted

3-month moving average



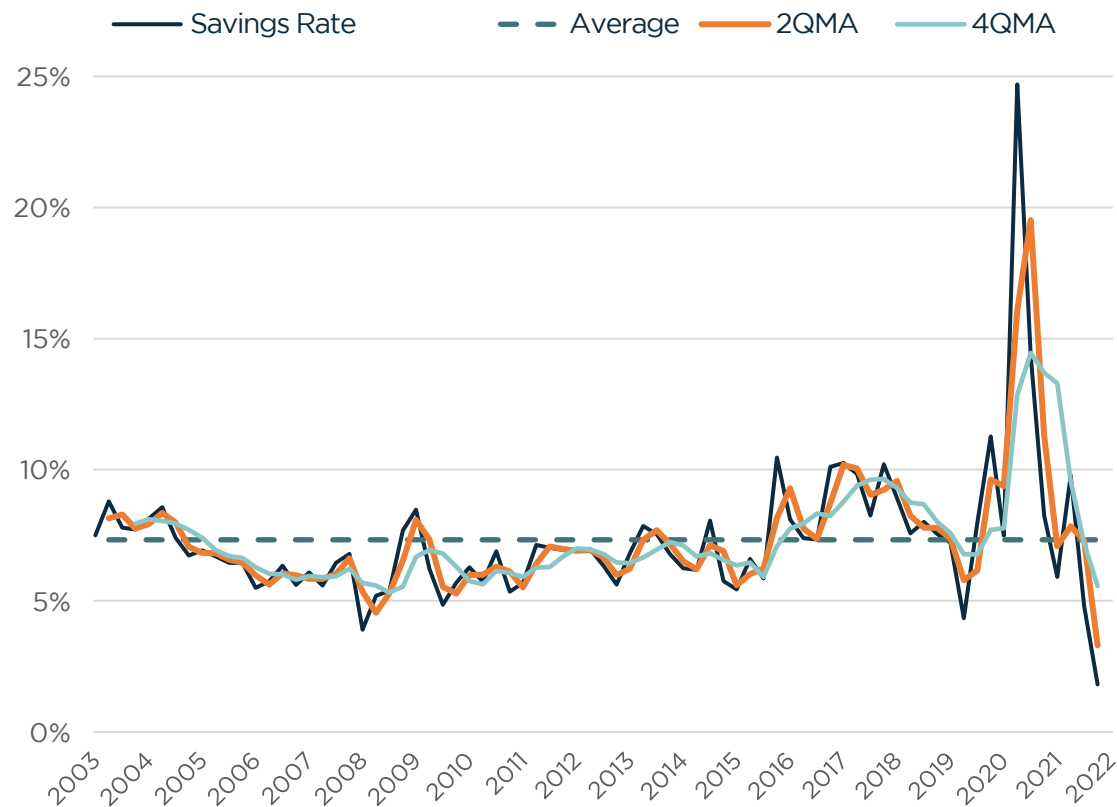
The labor market in Brazil has been springing a positive surprise, with a sharp increase in the active population. Unemployment has returned to a pre-pandemic level. On the other hand, there has been a significant corrosion in real wages since the beginning of the pandemic.

Activity: Savings accumulated during the pandemic are helping to sustain consumption

Brazilian Economy

Household Savings Rate

Seasonally adjusted

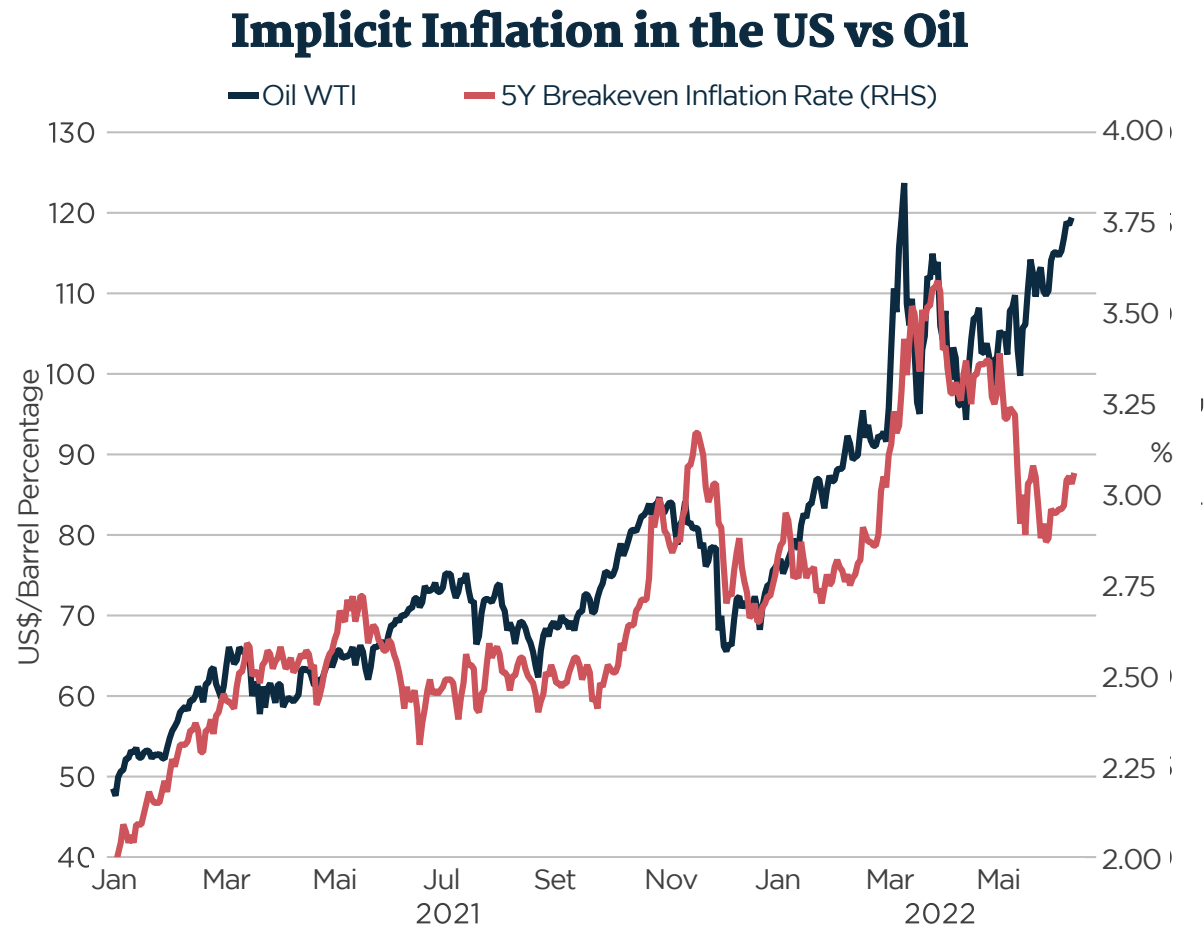


Even in the face of the government's increased cash transfer programs, there was a significant drop in Brazil's real mass income, due to higher inflation. A natural result of this phenomenon would be a weakening of aggregate demand, but this has not occurred.

One of the explanations for this lies in the behavior of the household savings rate which rose sharply during the peak of the pandemic, leading to an accumulation of savings during that period. After the economy reopened, this rate began to operate in much lower territory than the historical average, sustaining demand. However, this growth factor is not sustainable in the medium term.

Fixed Income: Implicit inflation distanced itself from the oil price

Markets



The correlation between implicit inflation in the US interest rates market and the price of a barrel of oil underwent a reversal in May.

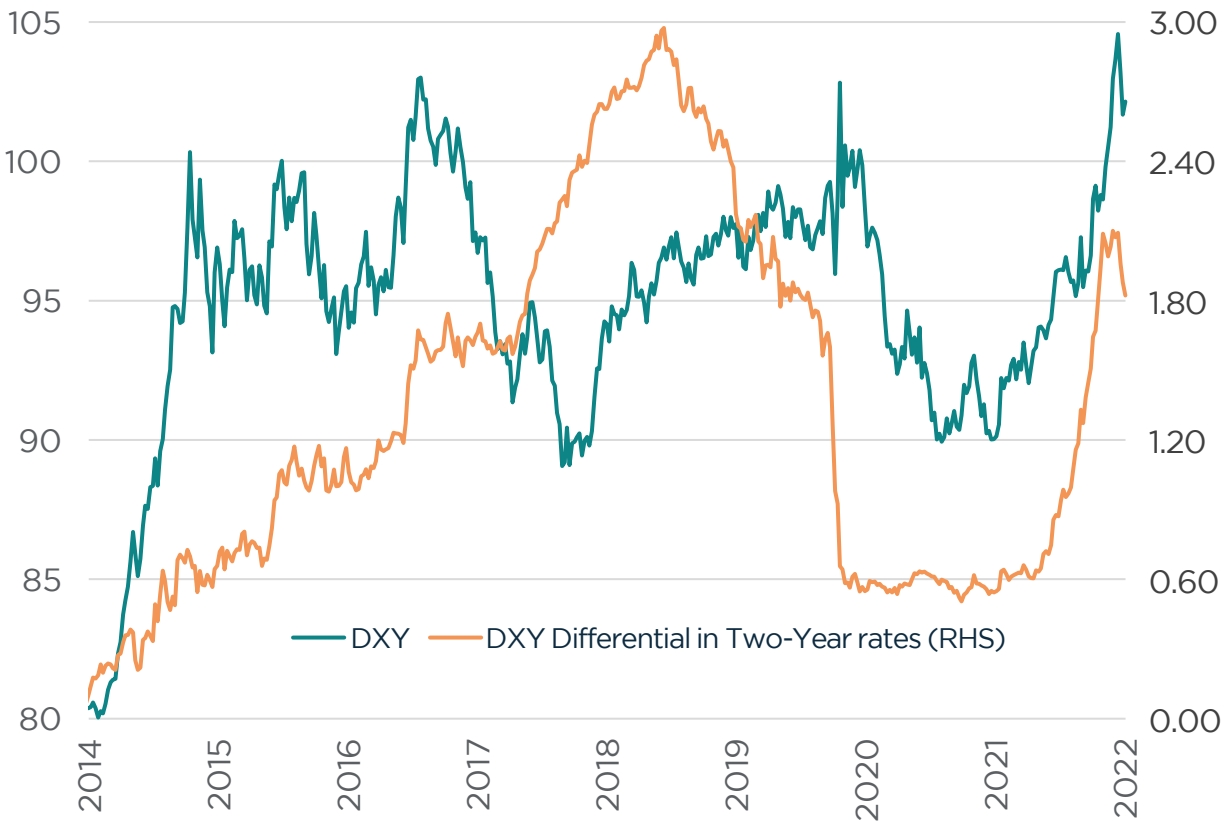
Among the possible reasons for this, we can highlight the market pricing in a slowdown in core inflation, which does not include the direct effect of energy and food, driven by the tightening of the monetary policy.

Currency: USD rally loses strength in May as other central banks also turn hawkish

Markets

DXY vs two-year Interest rates Differential

Weekly Figures | Differential Weighted by Weight



The US Dollar, which had been strengthening due to the FOMC's change of stance and the subsequent factoring in of interest rate hikes, began to weaken as monetary authorities in other regions started adopting policies that were less tolerant of rising inflation.

The prospect of higher interest rates denominated in other currencies, particularly the Euro, reduces the interest differential with the Dollar, leading to its depreciation. This is shown in the DXY index in the accompanying graph.

Fixed Income: Fiscal uncertainties have still not affected the country risk

Markets

Brazil CDS 5Y

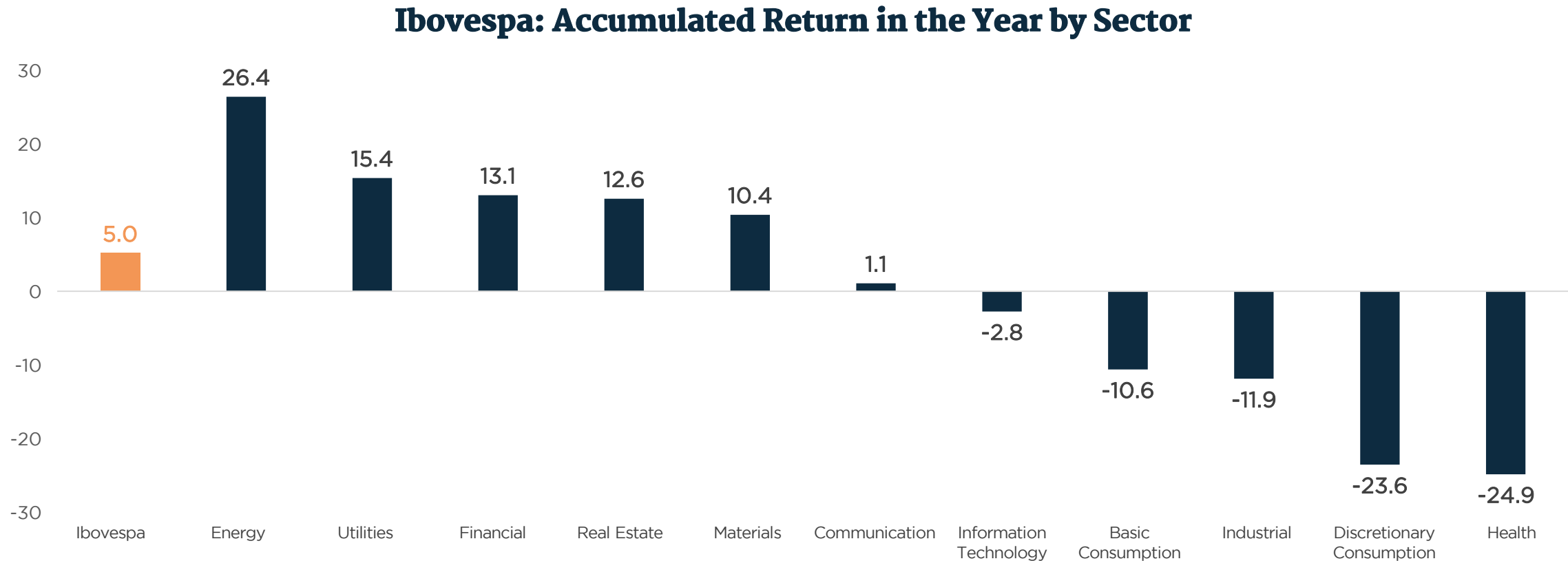


The persistence of inflation in Brazil, particularly in energy, has increased pressures for more public spending which, despite the high tax revenues collected in the short term, represents a risk to the direction of the public debt.

Nevertheless, the main country risk metrics have not reacted broadly to this movement. The Credit Default Swap, shown on the left, works as an insurance for risk assets and its price fluctuation is associated with the country's default risk. As can be seen, there has been no relevant movement to date.

Stock Market: Discrepancy arises between domestic stocks and those linked to commodities

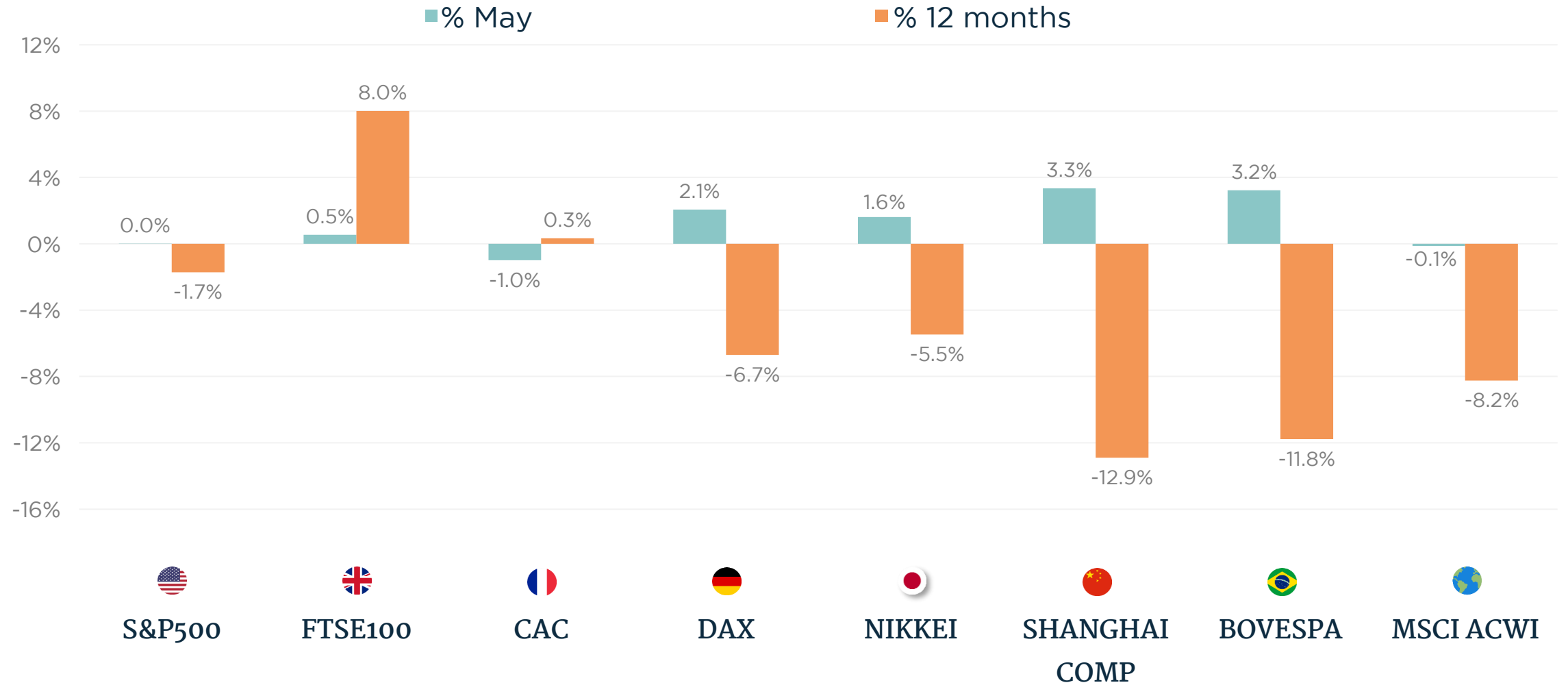
Markets



There is a clear discrepancy on the local stock market between those stocks that benefit from the rise in commodity prices, which have underpinned the index's year-to-date high, and the others.

Stock Markets

Markets



Indexes

	% May	Value on 31.05.2022	% 2022	% 12 months
COMMODITIES				
PETRÓLEO WTI	9.5%	114.67	48.9%	72.9%
OURO	-3.1%	1,837.35	0.4%	-3.6%
MOEDAS (EM RELAÇÃO AO US\$)				
EURO	1.8%	1.07	-5.6%	-12.2%
LIBRA	0.2%	1.26	-6.9%	-11.3%
YEN	0.8%	128.67	-10.6%	-14.8%
REAL	5.0%	4.73	17.8%	10.3%
ÍNDICES				
S&P500	0.0%	4,132.15	-13.3%	-1.7%
FTSE100	0.5%	7,585.46	2.7%	8.0%
CAC	-1.0%	6,468.80	-9.6%	0.3%
DAX	2.1%	14,388.35	-9.4%	-6.7%
NIKKEI	1.6%	27,279.80	-5.3%	-5.5%
SHANGHAI COMP	3.3%	3,149.06	-13.5%	-12.9%
BOVESPA	3.2%	111,350.51	6.2%	-11.8%
MSCI ACWI	-0.1%	652.81	-13.5%	-8.2%

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São Paulo

Av. Faria Lima, 2277 / 12º andar
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