TURIM

Economic Report

October 2023

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FOMC:
Rate kept on hold and cautious tone although recognising tightening of financial conditions

Global Economy

US financial conditions index

Goldman Sachs

*Updated on 08/11/23

The US central bank's Monetary Policy Committee (FOMC) kept interest rates unchanged at its latest meeting, as widely expected by the market. However, its statement showed some adjustments that were regarded as more moderate. In particular, the Committee explicitly recognized the tightening of financial conditions, as shown in the accompanying graph.

It is felt that if this additional tightening – which is explained to a large extent by the opening up of long-term interest rates – is maintained for long enough, it could replace the need for an additional hike in the fed funds rate. On the other hand, weaker economic data, as well as a more dovish stance* by the FOMC, could rapidly undo this tightening.

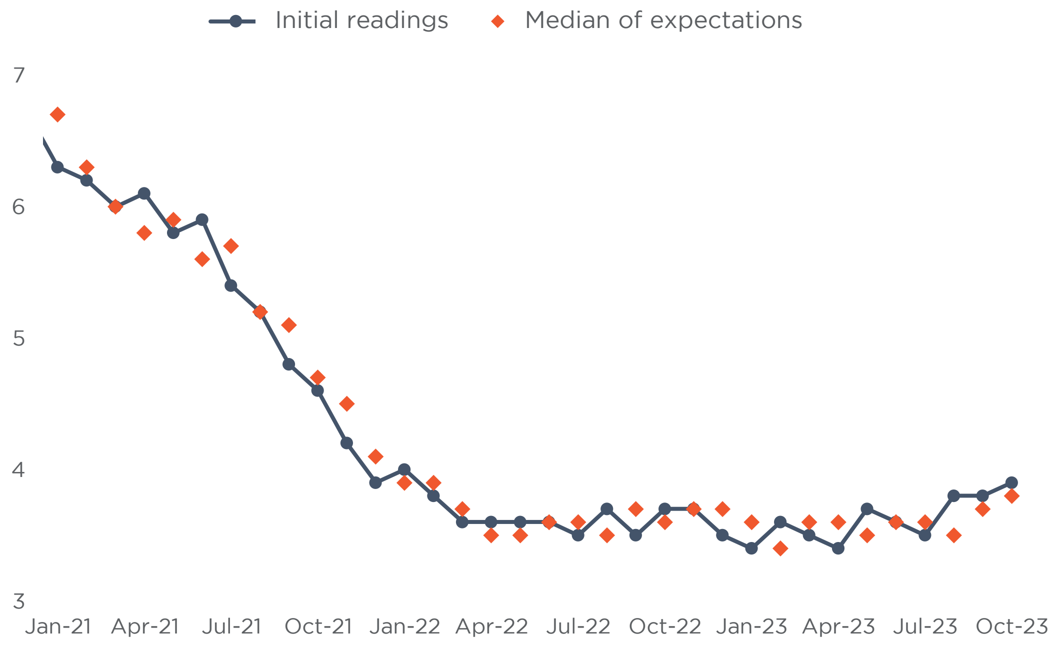
**Dovish & Hawkish: These terms are used as a benchmark for the conduct of an economy's monetary policy. When a Central Bank is "dovish", there is a downward bias for interest rates. The opposite is the case when it is "hawkish" and there is an upward bias for interest rates.*

Source: Bloomberg

Labor Market:
Ease in figures raise likelihood of “Goldilocks” scenario

Global Economy

Unemployment: Figures spring surprise



*Figures from Oct/23

A broad range of data released over the last few weeks has pointed to a less heated US economy than suggested by market projections. Some of the labor market figures are worth highlighting, such as payroll, the unemployment rate (accompanying graph) and growth in wages. In the latest release, all these figures pointed to the prospect of a gradual slowdown consistent with a "Goldilocks" scenario, market jargon to describe an economy that is neither too “hot” nor too “cold”.

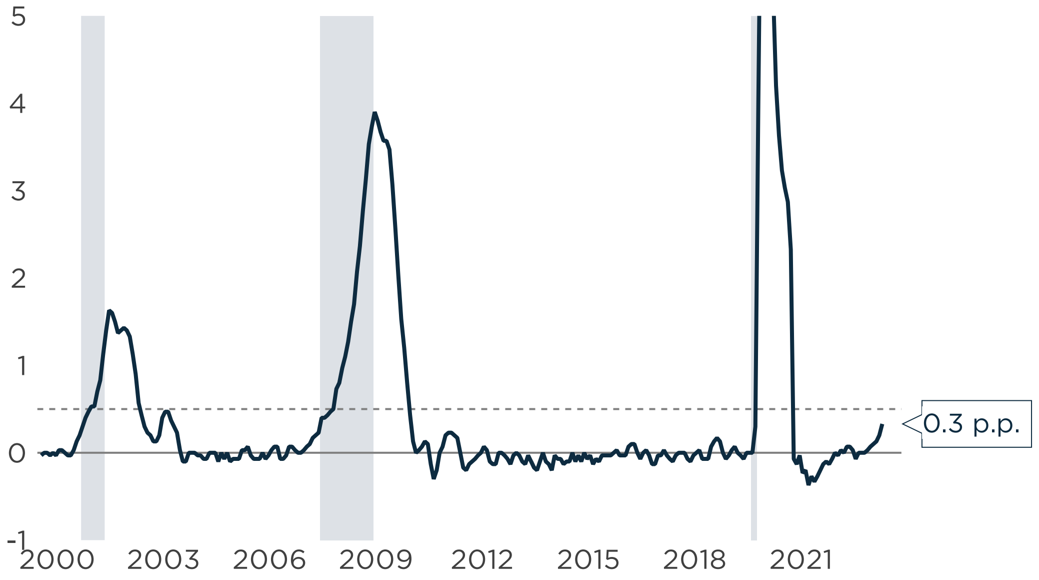
Source: Bloomberg

Activity:
Risk of recession could re-emerge

Global Economy

The Sahm Rule

A recession is inevitable when the 3-month moving average unemployment rate rises by 0.5% or more



*Figures from Oct/23

Although the weaker data has been well received by markets for the time being, at some point the focus of discussion could turn to the risk of a possible recession as well as its degree. Should this occur the market's reaction to the weaker figures could change radically.

It is also apparent that several indicators are already pointing to a probable recession (although not necessarily an intense one) in the near future. One indicator to watch closely is the "Sahm Rule" (named after its creator, former Federal Reserve economist Claudia Sahm). In practice, this "pocket rule" indicates a recession whenever the three-month moving average of the unemployment rate rises by 0.5 percentage points or more from the lowest reached in the previous 12 months. The latest figures have not yet reached this point but, as the accompanying graph shows, it could arrive soon.

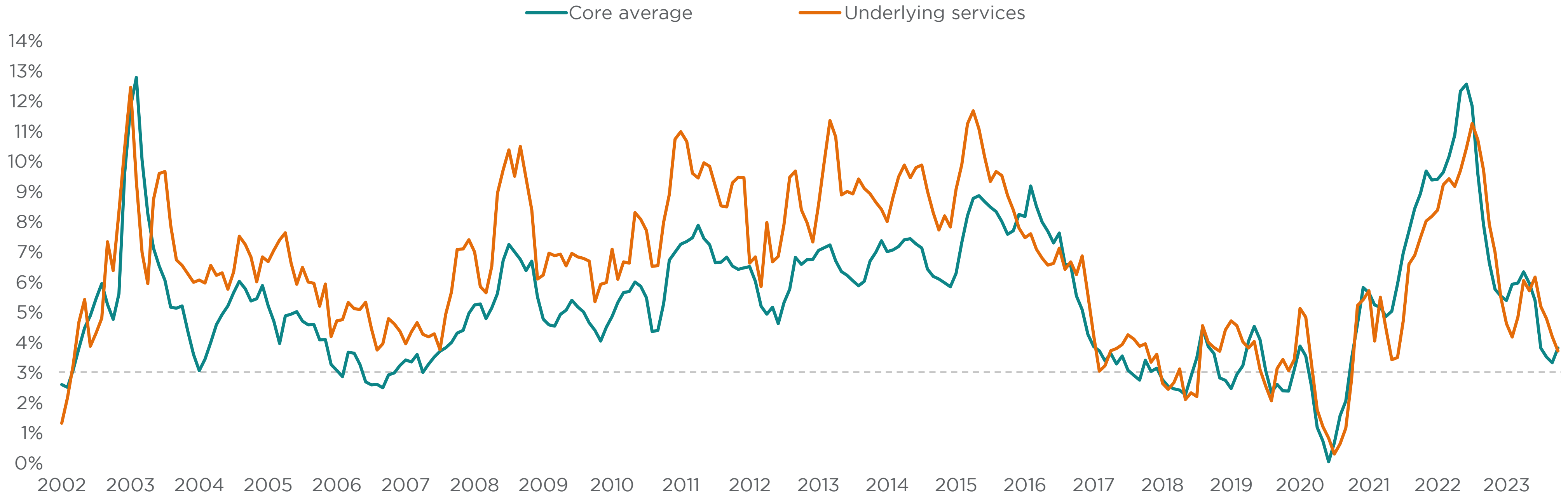
Source: Macrobond

Inflation:
IPCA-15 index showed big advance in disinflation

Brazilian Economy

IPCA-15: Inertial inflation metrics

Three-month variation annualized and seasonally adjusted



*Figures from Oct/23

As the above graph shows, the IPCA-15 broader consumer index for October showed a significant advance in the disinflation process, particularly in the core indicators monitored by the Central Bank and in the services sector. Both metrics have been closely monitored by the COPOM (Monetary Policy Committee) and are already running at a level compatible with the upper band of the inflation target in the three-month annualized variation seasonally adjusted.

Source: IBGE, Turim

COPOM:
Committee concerned that international scenario could maintain contractionist rate in 2024

Brazilian Economy

Differential between two-year interest rates

Difference between Brazilian and American sovereign interest rates

*Updated on 08/11/23

Despite the improvement in the inflation figures, the latest COPOM meeting showed the committee's concern over the international scenario. Its concern largely lies in the strong opening of global interest rates which could increase the risk of a currency depreciation, making the cost of disinflation even more difficult in the domestic environment.

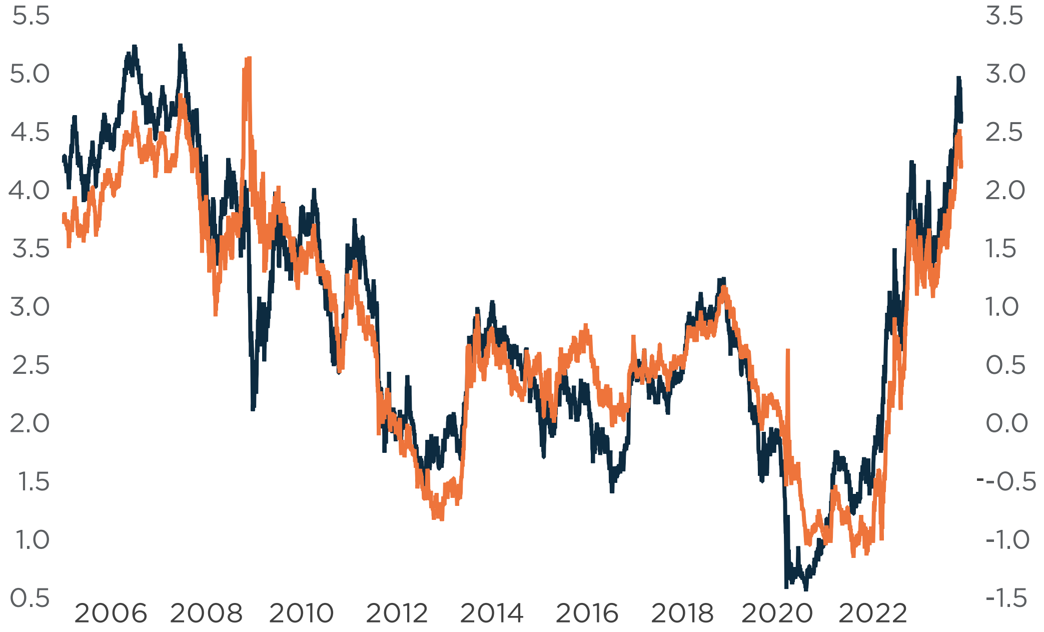
Furthermore, against a backdrop of inflation still above the target and expectations unanchored, we see that some factors that had been helping the process of disinflation are starting to run out of steam, such as production chains returning to normal (which mainly affected industrial goods) and the fall in commodity prices (which directly helped to reduce the prices of food consumed at home).

Source: Macrobond

Interest rates:
Strong opening of long-term rates until end of October

Markets

American 10-year interest rates



*Updated on 08/11/23

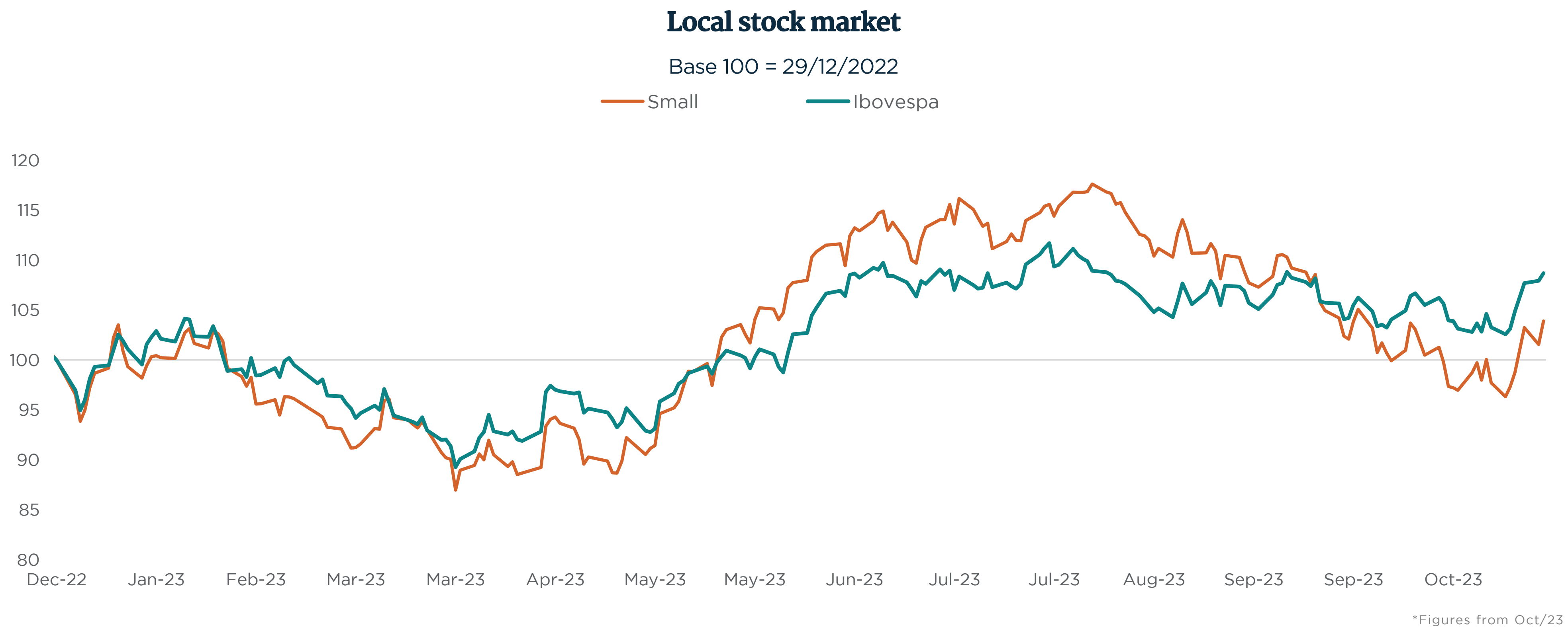
Long-term U.S. interest rate vertices continued a strong opening movement throughout October, reaching highs of close to 5% on the 10, 20 and 30-year nominal rates. The movement is linked to a number of factors but the fiscal deterioration and subsequent increase in the supply of bonds issued has been one of the main elements in the recent window.

It is worth noting that part of this movement was reversed in early November, due to signs of a slowdown in the economy, the prospect of a marginally more dovish FOMC and news related to the profile of US treasury debt issues which should favor bonds with shorter maturities.

Source: Macrobond

Stock Market:
Performance of equities continues to be explained by long-term interest rates

Markets



The performance of the main stock indexes continued to reflect, in most cases, the movement of US interest rates, whether on the international market or even in Brazil (see above graph). In both cases, this dynamic resulted in falls throughout October followed by a rapid recovery at the beginning of November.

Source: Bloomberg

Energy:
Despite global geopolitical tensions oil prices remain relatively under control

Markets

Brent Oil

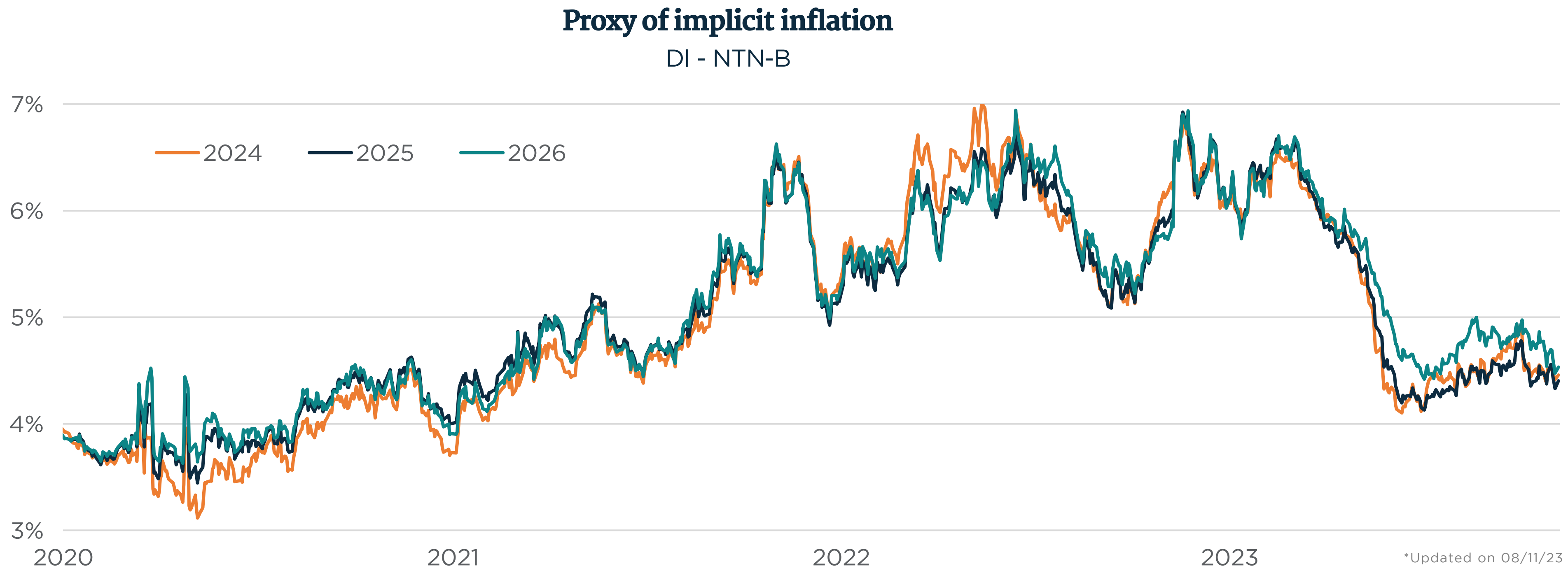
*Updated on 08/11/23

The relatively restrained behavior of certain commodities – particularly oil – is quite striking despite the escalation of global geopolitical conflicts. At the time of writing, just over a month after the Hamas attack on Israel, oil is trading at levels below those prior to the attack, as the above graph shows.

Source: Macrobond

Fiscal:
Questions raised over primary result target have had limited effects on the market to date

Markets

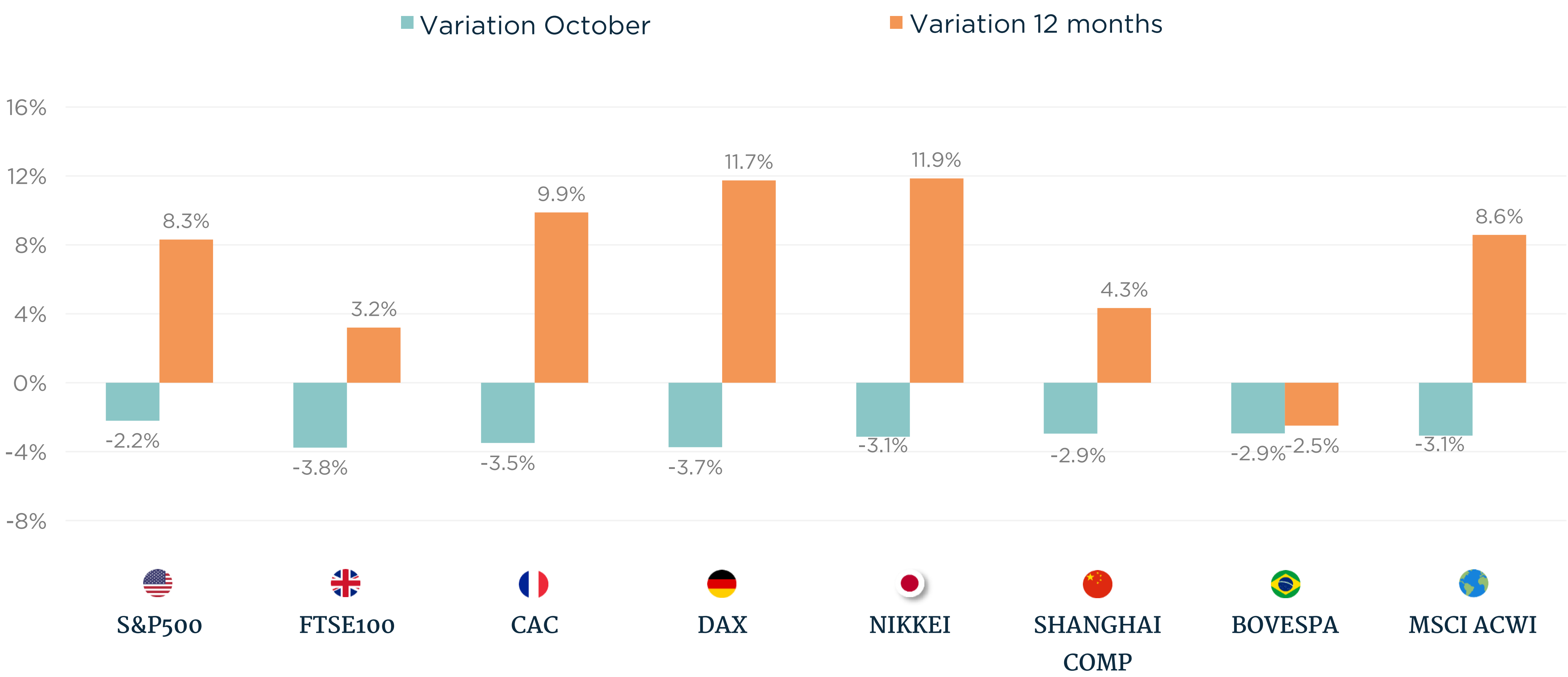


Another highlight is the relative stability of the local market despite the emergence of new fiscal risks, as the 2024 primary result target (established in the framework implemented this year) has been called into question. It is still unclear how this change can be made and how large the adjustment will be but it is clear that the government wants to avoid contingency spending next year.

Source: Bloomberg, Turim

Stock Markets

Markets



Indexes

	Variation October	Value on 31/10/2023	Variation on 2023	Variation 12 months
COMMODITIES				
OIL WTI	-10.8%	81.02	0.9%	-6.4%
GOLD	7.3%	1,983.88	8.8%	21.4%
CURRENCIES (IN RELATION TO THE US$)				
EURO	0.0%	1.06	-1.2%	7.0%
GBP	-0.4%	1.22	0.6%	6.0%
YEN	-1.5%	151.68	-13.6%	-2.0%
REAL	-0.1%	5.04	4.8%	2.8%
INDEXES				
S&P500	-2.2%	4,193.80	9.2%	8.3%
FTSE100	-3.8%	7,321.72	-1.7%	3.2%
CAC	-3.5%	6,885.65	6.4%	9.9%
DAX	-3.7%	14,810.34	6.4%	117%
NIKKEI	-3.1%	30,858.85	18.3%	11.9%
SHANGHAI COMP	-2.9%	3,018.77	-2.3%	4.3%
BOVESPA	-2.9%	113,143.67	3.1%	-2.5%
MSCI ACWI	-3.1%	636.65	5.2%	8.6%

*Amounts and Results in local currency

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