



Economic Report

August 2024

São Paulo

Rio de Janeiro

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Global Economy 03

Brazilian Economy 07

Markets 09

Indices 14

Inflation:

June PCE consolidates moderation in the 2nd quarter of 2024

Global

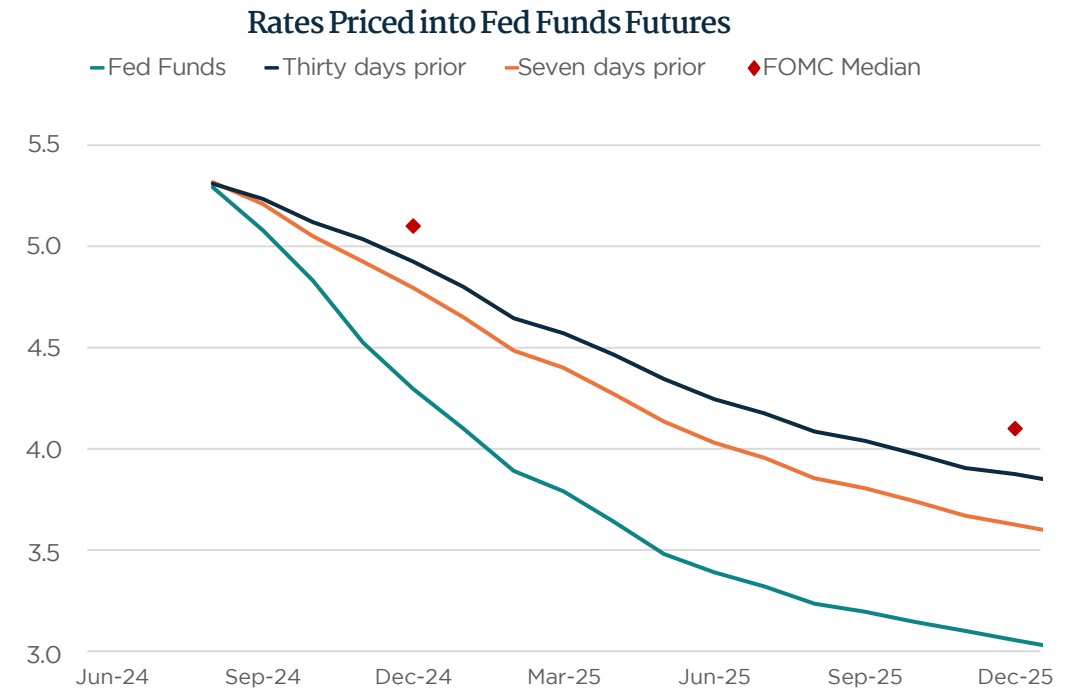
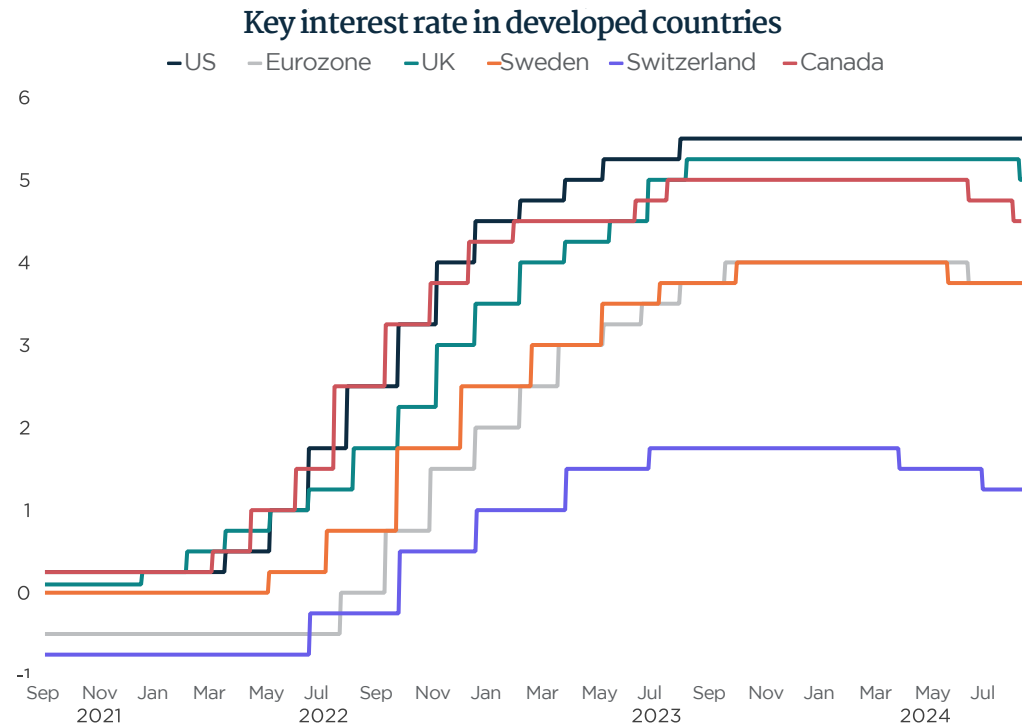
Category	Jul/23	Aug/23	Sep/23	Oct/23	Nov/23	Dec/23	Jan/24	Feb/24	Mar/24	Apr/24	May/24	Jun/24
CPI	2,12	3,77	4,39	3,87	2,42	1,91	2,83	3,99	4,60	4,63	2,82	1,05
Core CPI (ex-food and energy)	3,18	2,64	3,15	3,20	3,52	3,34	3,97	4,18	4,53	4,11	3,30	2,10
Core Sticky CPI	3,59	3,85	4,45	4,53	4,24	3,98	4,82	5,12	5,42	4,72	4,00	3,08
Core Flexible CPI	0,72	-3,60	-3,41	-3,38	-1,23	0,27	-0,75	-0,38	-1,52	-0,08	-1,23	-3,02
Core Sticky CPI Ex-Shelter	1,07	1,95	3,04	3,47	2,71	2,50	3,82	4,58	5,13	4,21	2,81	1,66
Trimmed Mean CPI	2,81	2,99	3,45	3,51	3,44	3,17	4,12	4,36	4,48	3,64	2,89	2,27
Average of Core Measures	2,27	1,57	2,13	2,27	2,54	2,65	3,20	3,57	3,61	3,32	2,36	1,22
PCE	1,61	2,64	3,53	3,15	1,64	0,60	2,18	3,58	4,47	3,80	2,57	1,51
Core PCE (ex-food and energy)	2,35	1,57	2,21	2,31	2,27	1,55	3,03	3,72	4,48	3,46	2,93	2,31
Market Based Core PCE	2,20	1,25	2,24	2,55	2,68	1,75	2,47	3,01	3,81	2,91	2,45	1,89
Median PCE	2,62	2,74	3,45	3,59	3,46	2,56	3,62	4,31	4,31	3,49	3,60	3,59
Cyclical Core PCE	5,35	4,94	5,27	4,66	5,05	4,07	5,11	4,95	5,01	4,66	4,89	4,19
Acyclical Core PCE	0,58	-0,41	0,42	0,94	0,64	0,07	1,80	3,01	4,20	2,77	1,77	1,18
Trimmed Mean PCE	2,74	2,53	2,92	2,91	2,66	2,05	3,05	3,53	4,01	3,07	2,87	2,33
Average of Core Measures	2,64	2,10	2,75	2,82	2,80	2,01	3,18	3,68	4,30	3,39	3,08	2,58

The inflation measured by the PCE (Personal Consumption Expenditures) deflator came in as expected in June, consolidating a significant slowdown in the second quarter, after the bumps seen during the first three months of the year. The heatmap above shows the evolution of the three-month variation, annualized and seasonally adjusted, across a series of U.S. consumer inflation metrics.

Monetary Policy:

BoE implements the first rate cut, and FED signals possibility of cuts starting in September

Global



The Bank of England (BoE) cut its interest rate by 25 basis points (bps), lowering it to 5.0% per year and linking future decisions to data evolution. This was the first rate cut since 2020, following other developed economies that began their rate-cutting cycles this year, as shown in the graph to the left. The Federal Reserve, in turn, maintained its rate steady, as expected, but signaled that it could start cutting rates from the next committee meeting, owing to the improved balance between the central bank's mandates: inflation at target and full employment.

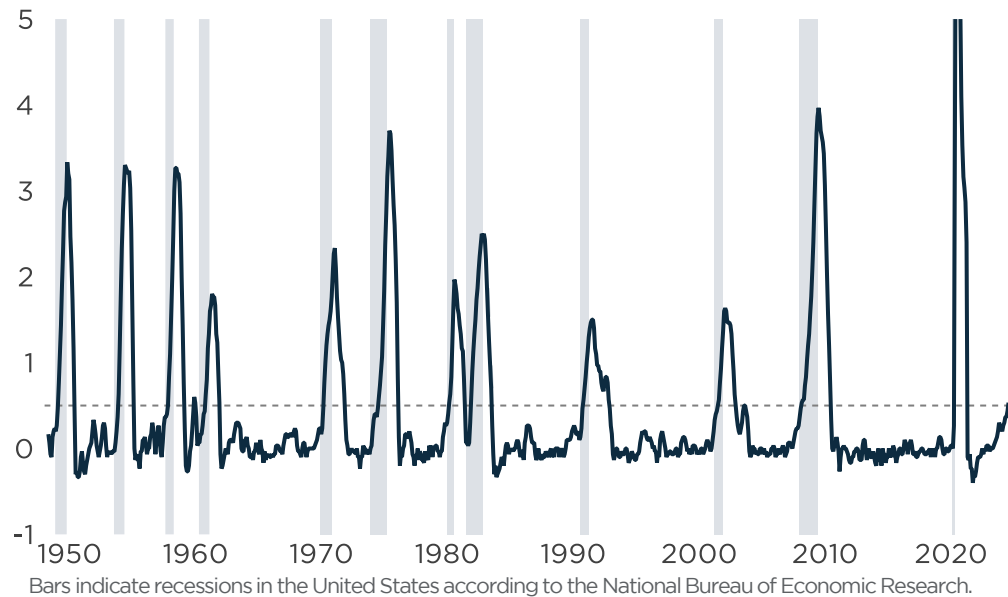
Employment:

Rising unemployment indicates recession risk, but composition is crucial

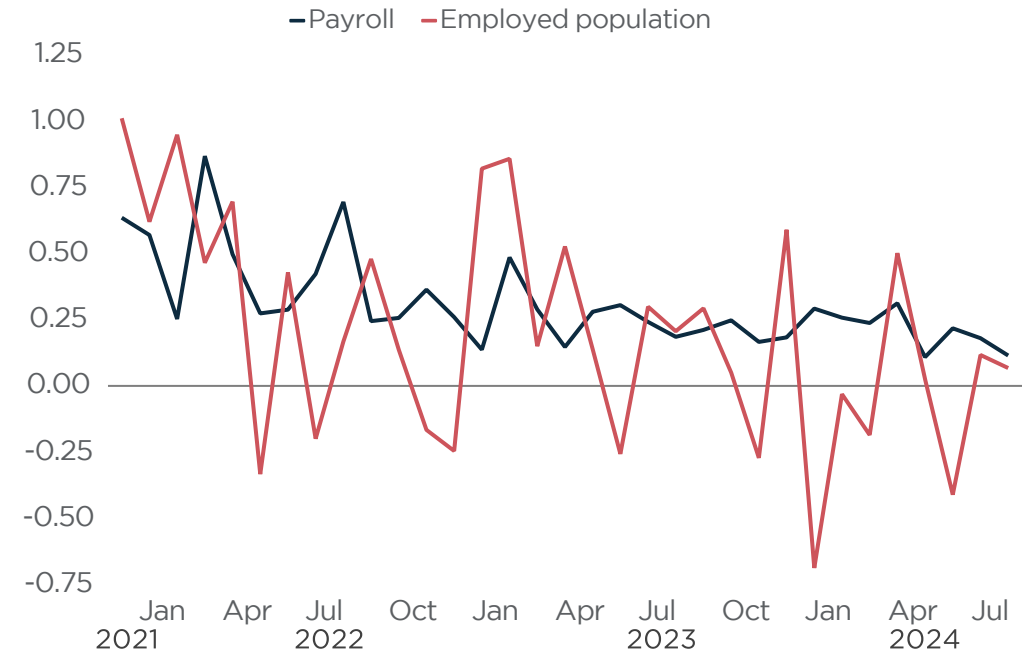
Global

The Sahm Rule

“A recession is inevitable when the 3-month moving average of the unemployment rate rises by 0.5 percentage points or more from the 12-month low.”



Net change in the employed population

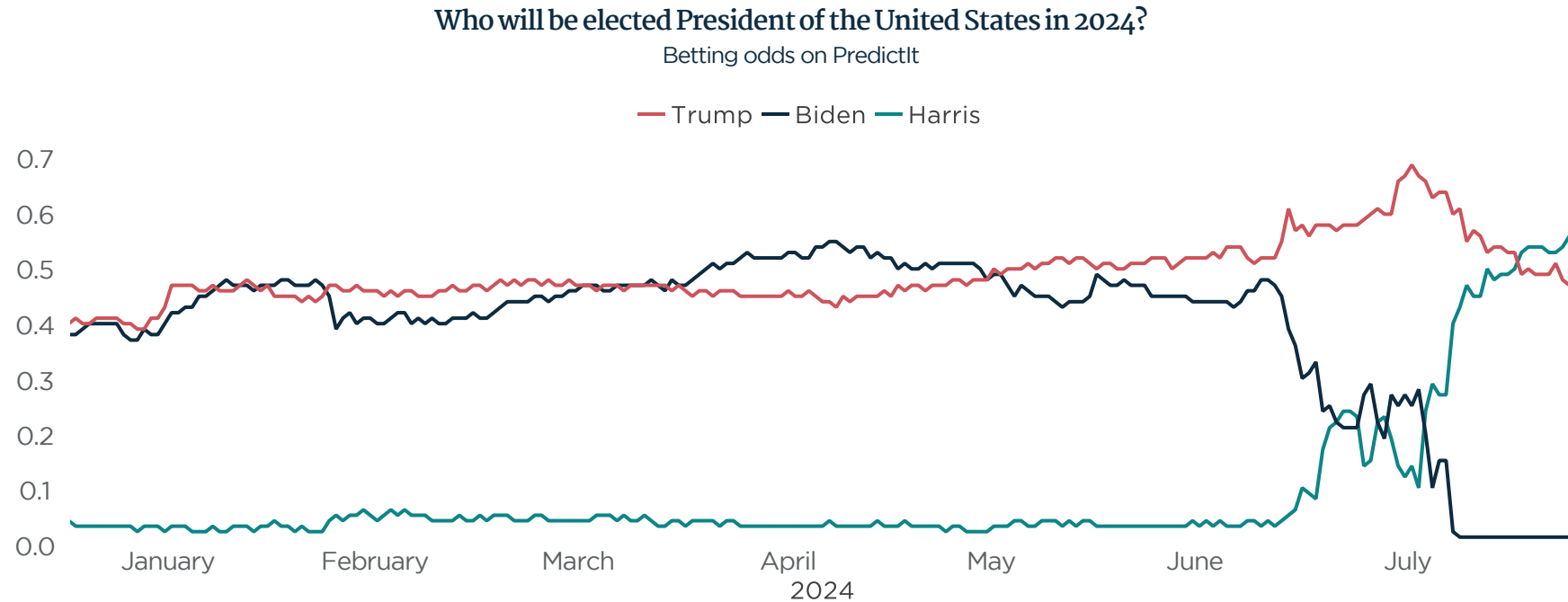


The U.S. labor market showed signs of slowing down in July, with a 20 basis point (bps) increase (or 0.01%) in the unemployment rate, contrary to the median expectations, which indicated stability. This movement triggered the “Sahm Rule,” a rule of thumb (as detailed in the graph to the left) that indicates a recession when the unemployment rate rises quickly. However, it is important to note that the increase in the rate for the month was exclusively caused by an increase in the number of people looking for work and not by new layoffs, as shown in the graph to the right, which represents the net monthly job creation based on major national employment surveys.

Elections:

Harris assumes position as Democratic representative

Global

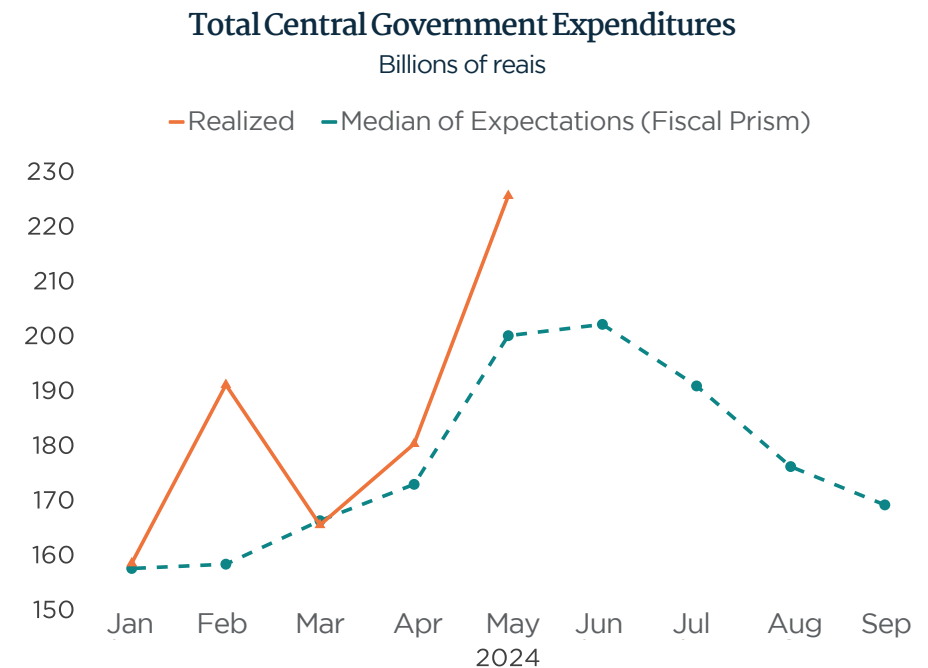
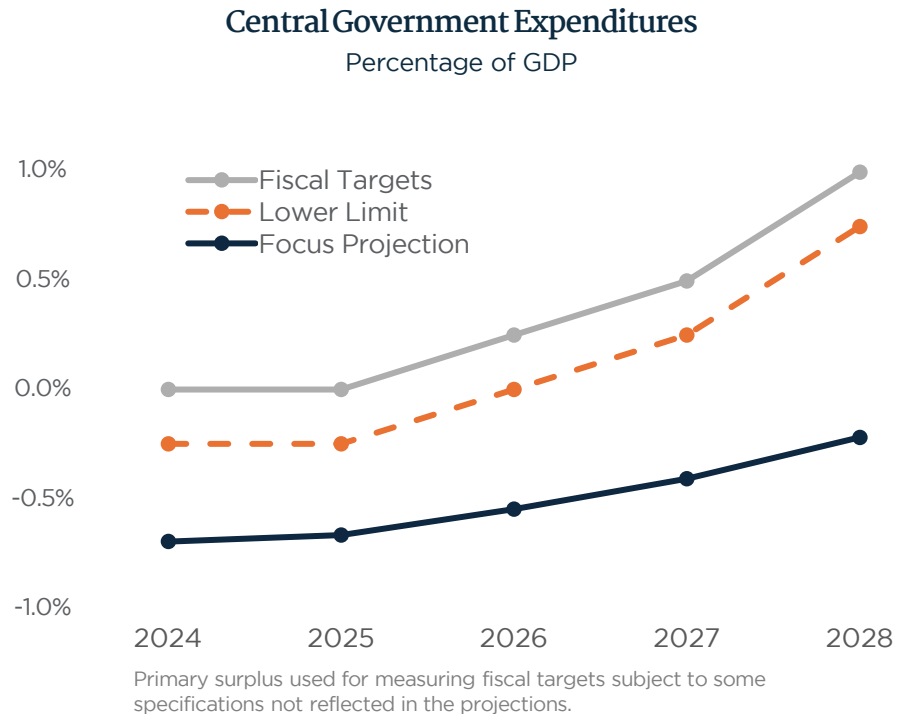


Kamala Harris emerged as the leading Democratic candidate in the presidential race after Joe Biden's exit and is already nearly tied with Donald Trump in the polls. Some surveys already show Harris ahead of the Republican rival in several "swing states" (states where no party has a clear majority and the election results can fluctuate). Not surprisingly, betting odds are already pointing to a much tighter race, as shown in the graph above.

Fiscal:

Expenses growing above the projected levels for the year

Brazil



The main challenge for Brazil remains the fiscal situation, with the market still skeptical about the government's ability to achieve its primary surplus targets (the balance of public accounts, excluding debt interest expenses), as shown in the graph on the left. Despite revenue growth, government expenditures continue to rise at a faster pace than projected (as seen in the graph on the right). In response, the economic team has focused on reducing spending on social benefits, as options for increasing revenue seem scarce.

COPOM: "Dovish" statement, compensated by a stricter stance in the minutes

Brazil

Risk Balance

"There are still risk factors in both directions, but "several members emphasize the asymmetry of the risk balance."

High Risks

Discouragement of inflation expectations for a more prolonged period.

Greater resilience in service inflation than projected due to a tighter output gap.

A combination of external and internal economic policies that could impact inflation, for example, through a **persistently more depreciated exchange rate**.

Greater persistence of **global inflationary pressures**.

Low Risks

More pronounced **global economic slowdown** than projected.

The **impacts of synchronized monetary tightening** on global disinflation have proven stronger than expected.

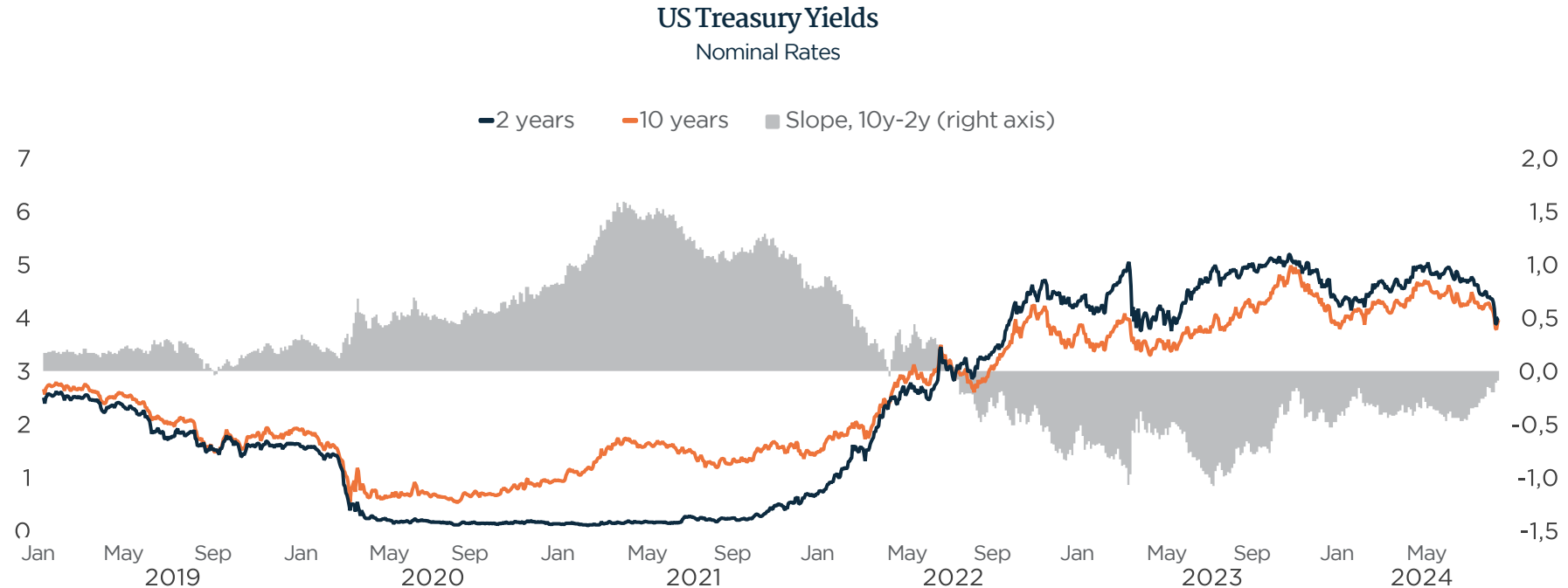
*"...the Committee, unanimously, reinforced that it will **not hesitate to raise the interest rate** to ensure inflation convergence to the target if deemed appropriate."*

COPOM Minutes, 06/08/2024

The Monetary Policy Committee (COPOM) of the Central Bank kept the interest rate stable at 10.50% per year for the second consecutive meeting in July, delivering modest adjustments in the decision statement. On the other hand, the meeting minutes (a document that details the committee's discussion) brought more clarity on the deterioration of the economic outlook, clarifying that "several members emphasized the asymmetry of the risk balance" and opening the door to the possibility of new interest rate hikes.

Interest Rates: Recession risk dominating asset performance

Markets

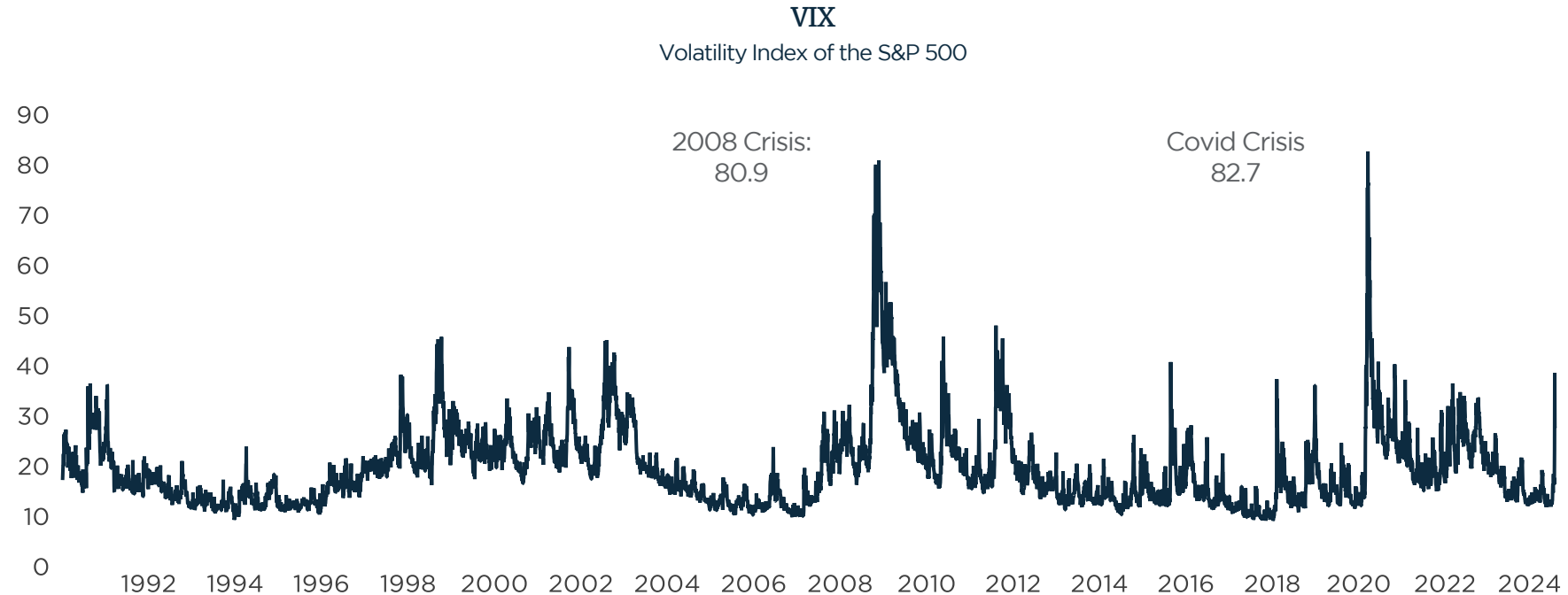


Global interest rates experienced a rapid decline at the beginning of August, mainly due to the increasing risk of a sharp downturn in U.S. economic activity. This was reflected across different maturities (from short to long-term bonds) but with varying magnitudes. As a result, the slope of the yield curve between the 2-year and 10-year maturities (longer-term rate minus shorter-term rate) has returned to nearly zero, after more than two years in negative territory. Historically, this type of movement has preceded periods of recession.

Equities:

Volatility rises after a prolonged period of calm

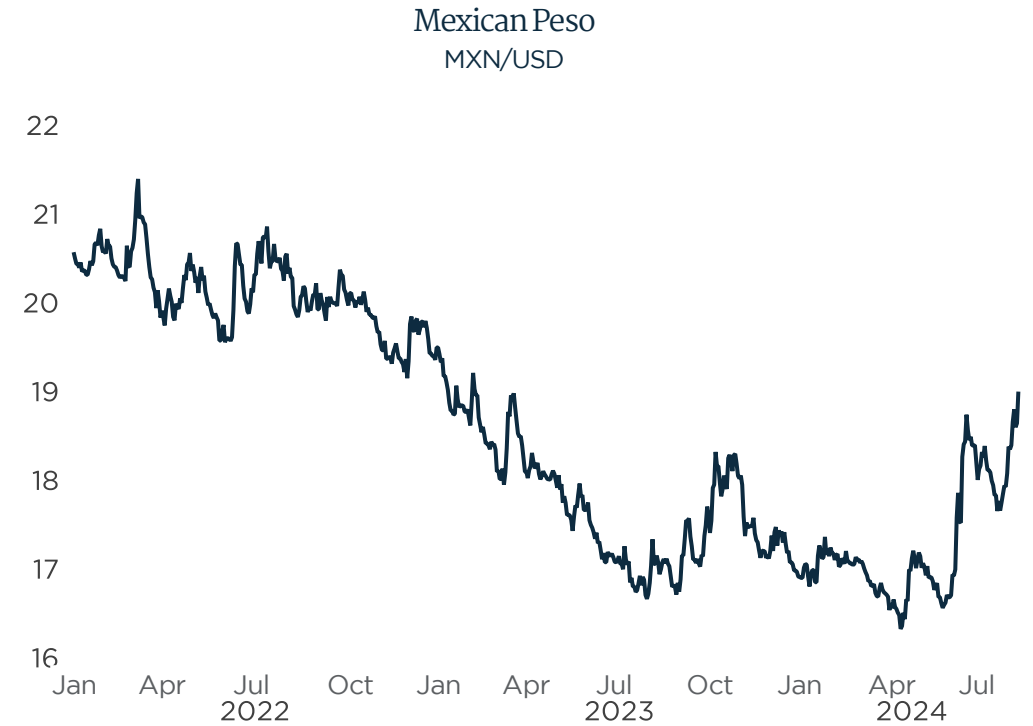
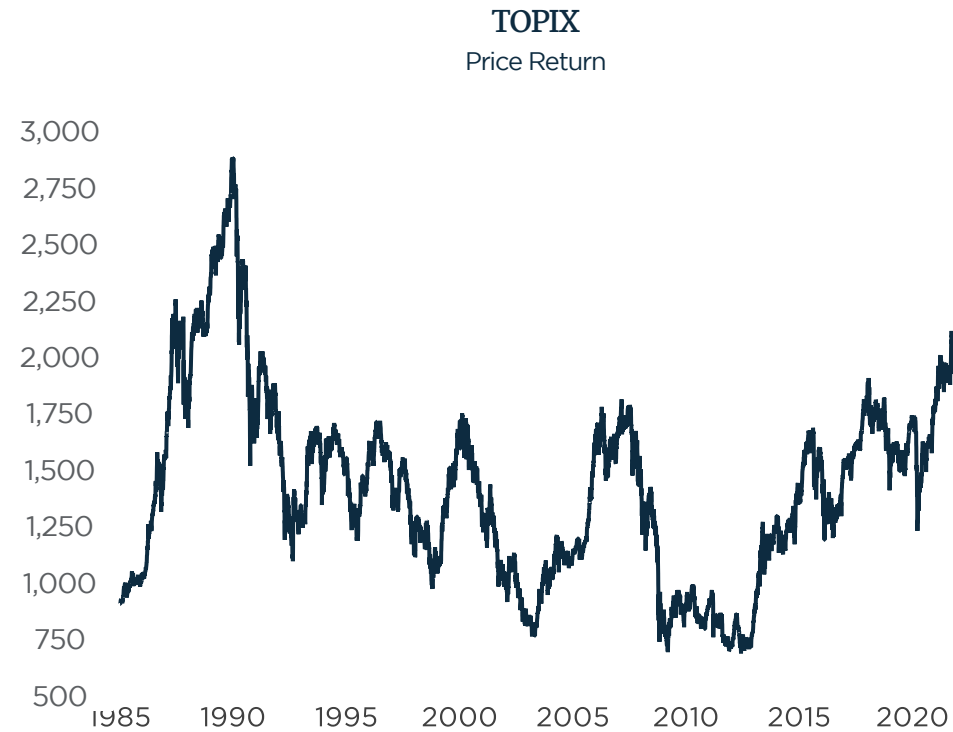
Markets



The U.S. stock market has also been impacted by increased economic risks. An emblematic sign of this phenomenon was the rapid rise in the volatility of the S&P 500, represented by the Chicago Board Options Exchange Volatility Index (VIX). The chart shows that the index rose from a level close to its historical lows to levels comparable to past crises. On the trading day of August 5th, the VIX reached levels similar to the highs observed during the 2008 and 2020 crises.

Japan: Market reacts to BoJ decision

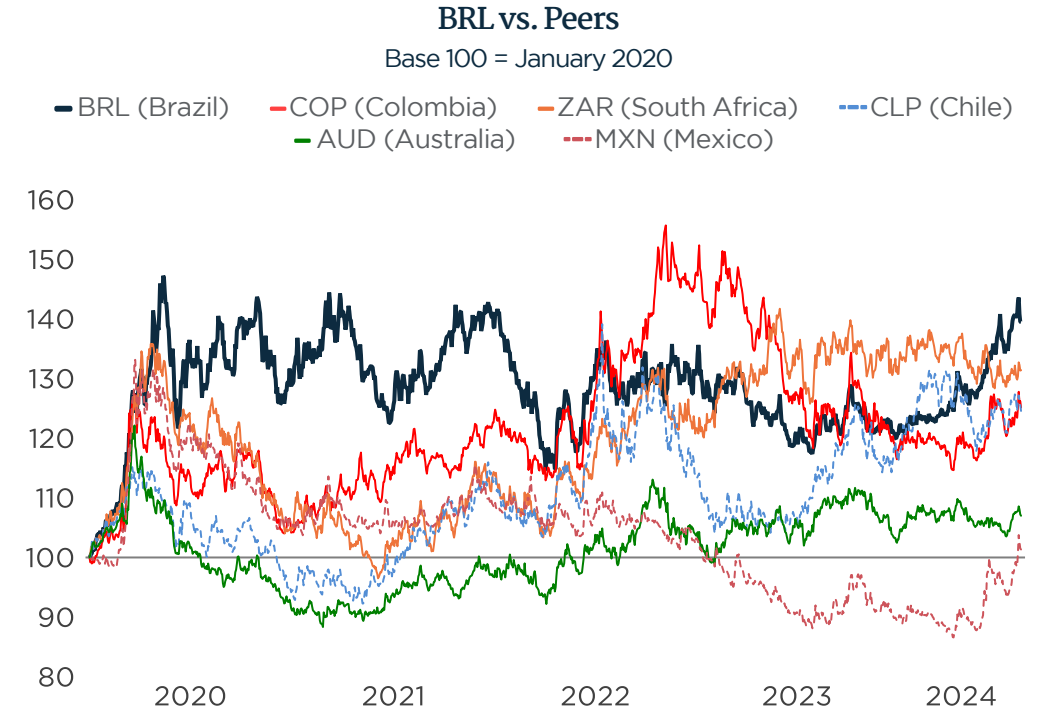
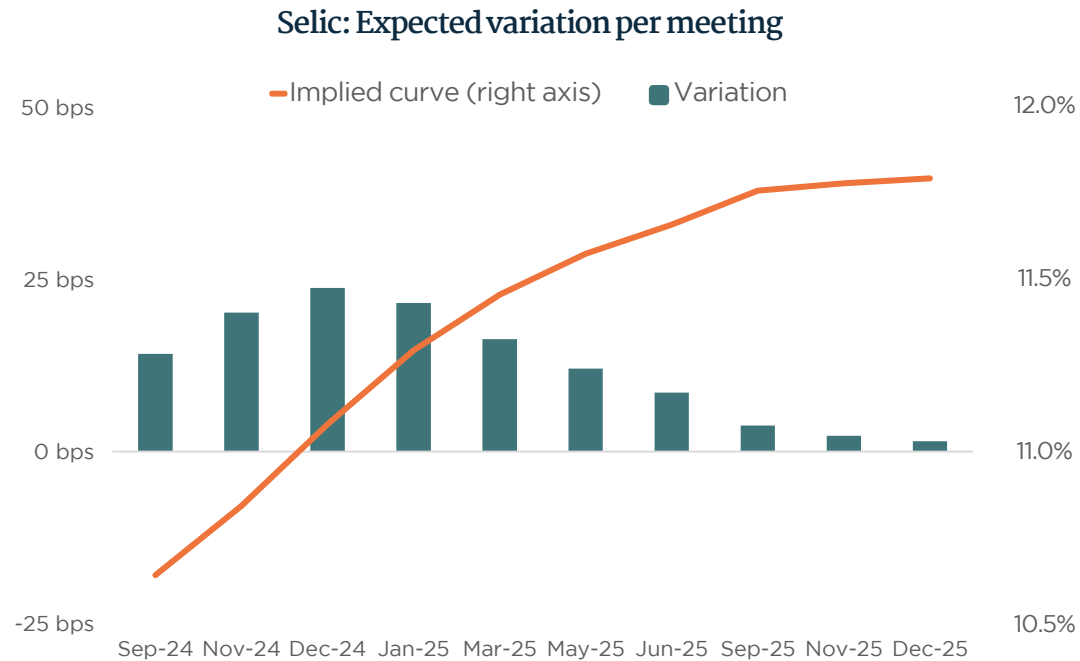
Markets



The Bank of Japan (BoJ) continued with the "normalization" of its monetary policy, making the second interest rate hike of the year, which raised the country's base rate to 0.25% per year, the highest level since 2008. The decision helped catalyze the general worsening of the market observed at the beginning of August, particularly due to its impact on the local stock market (TOPIX) and currencies typically operated in "carry-trade" strategies, such as the Mexican Peso.

Interest Rates and Exchange Rates: The local market remains under pressure Markets

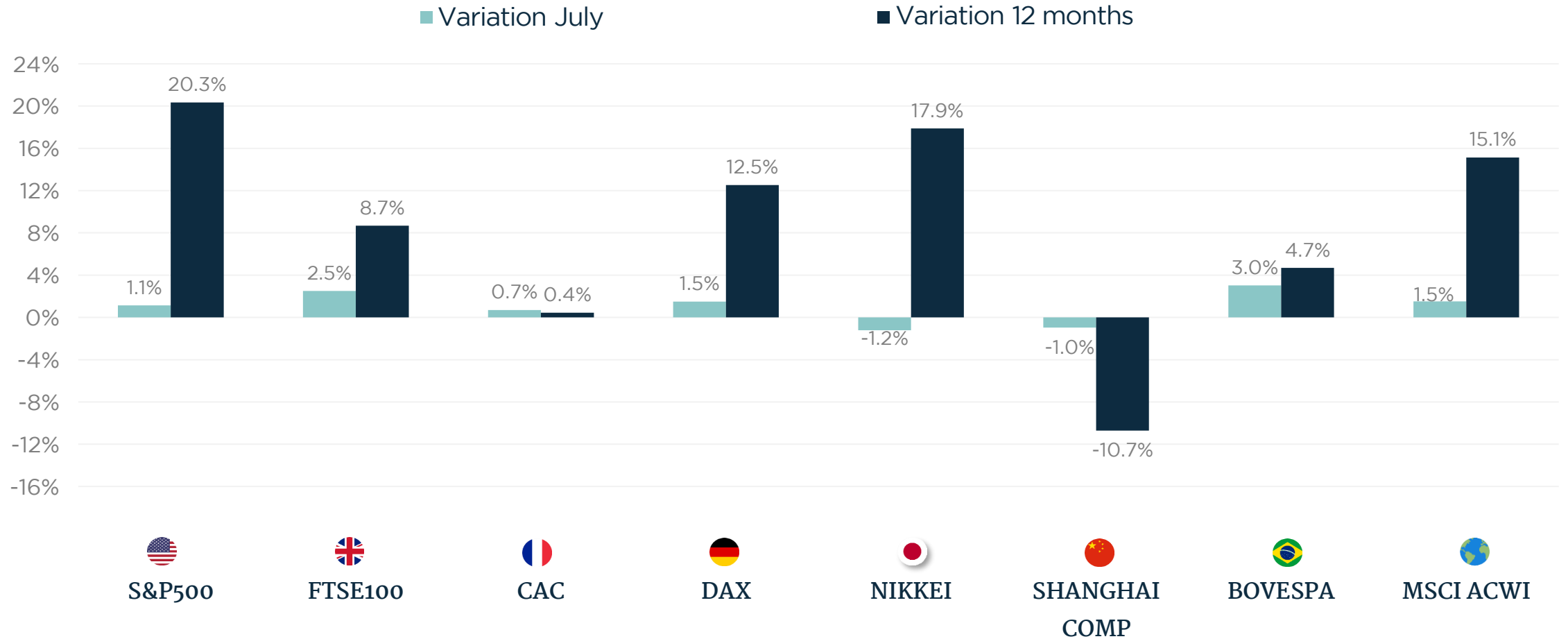
Markets



The local market continues to be pressured, especially with regard to interest rates (left graph) and the exchange rate (right graph). It can be observed that the market is anticipating a rate hike cycle to begin at the next meeting, contrary to the global trend. Meanwhile, the exchange rate remains on a depreciation path, also showing worse performance compared to other similar currencies.

Stock Markets

Mercados



Indices

	Variation July	Value in 31/07/2024	Variation in 2024	Variation 12 meses
COMMODITIES				
OIL WTI	-4.5%	77.91	8.7%	-4.8%
GOLD	5.2%	2,447.60	18.6%	24.6%
CURRENCIES (IN RELATION TO THE US\$)				
EURO	1.1%	1.08	-1.9%	-1.6%
LIBRA	1.7%	1.29	1.0%	0.2%
YEN	7.3%	149.98	-6.0%	-5.1%
REAL	-1.0%	5.65	-14.0%	-16.4%
ÍNDICES				
S&P500	1.1%	5,522.30	15.8%	20.3%
FTSE100	2.5%	8,367.98	8.2%	8.7%
CAC	0.7%	7,531.49	-0.2%	0.4%
DAX	1.5%	18,508.65	10.5%	12.5%
NIKKEI	-1.2%	39,101.82	16.8%	17.9%
SHANGHAI COMP	-1.0%	2,938.75	-1.2%	-10.7%
BOVESPA	3.0%	127,651.81	-4.9%	4.7%
MSCI ACWI	1.5%	814.16	12.0%	15.1%

*Amounts and results in local currency



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