THE PEAK, AT LAST?

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- The BRL is no longer the best-performing currency against the USD in year-to-date terms (as the RUB has taken the first spot). In the rolling week ended May 5, once again the BRL stood among the worst performers in a basket with the 31 most liquid currencies in the world, with the USD/BRL pair closing the period at 5.03 (a 1.8% loss). The move took place despite an intervention carried out by the Brazil Central Bank (BCB) in the local FX market, the FOMC Chairman, Jerome Powell, ruling out an even faster tightening, and signals of an extension of the tightening cycle by the COPOM. In our view, poor Chinese activity data also helped keep global markets in a bad mood, with increased fears of a major slowdown in the world economy. We believe all these factors weighed on the BRL, which is once again displaying its high-beta pattern.
- In an eventful week for monetary policy decisions, local nominal yields sold off with a similar intensity all across the curve. The front end reflected mainly the signals of another rate hike by the COPOM in June, as the market estimated a 35% probability of a no-hike outcome at the next meeting. The back end took its cue from the widening of global yield, as the 10-year US Treasury yield crossed above the 3% mark for the first time since 2018.
- Commodity prices climbed for the week, led by the energy complex, as developments related to the war in Eastern Europe (read: new sanctions against Russia) added more risk for the global supply-demand balance in the oil market. The Bloomberg Commodity Aggregate Index in BRL increased 4.3% from April 28-May 5, as the BRL selloff continued. In USD terms, the index increased 2.5%, with the Agriculture Subindex falling 1.5%, the Energy Subindex gaining a hefty 11.1%, and the Industrial Metals Subindex retreating 5.2%.
- On May 2, the BCB unveiled the consolidated public sector's fiscal balance for February (which had been delayed due to the strike of federal workers). The data showed a positive primary result, driven by regional governments. Nominal interest payments were pressured downwards by the positive result in BCB's FX swap operations in the period, owing to the BRL's appreciation. Gross debt dropped to 79.2% of GDP in February, compared to 79.6% in the previous month, also with some influence from the FX rate.
- The USD8.1 billion trade surplus seen in April 2022 fell short of our estimate (+USD10.0 billion) due to larger-than-anticipated and atypical imports outlays (USD20.8 billion vs. USD19.2 billion). Exports revenue was roughly in line with our estimate (USD28.9 billion vs. USD29.1 billion). These numbers translated into a USD63.3 billion surplus on a 12-month basis. With commodity prices favoring exports, we estimate an annualized trend trade surplus of ~USD 89 billion in recent months, which still lags our expectation of a USD73.5 billion trade surplus in 2022 (2021: USD61.7 billion).
- As widely expected, the COPOM hiked the Selic policy rate by 100 bps, taking it to 12.75%, the highest level since 1Q17. According to the BCB's own scenario and calculations, an additional hike of 50 bps or a bit more in this cycle is needed to achieve its objective (i.e., convergence to the mid-target of 3.25% for 2023, the policy horizon now). Thus, now the BCB "foresees as likely an extension of the cycle, with an adjustment of lower magnitude for the next meeting", in contrast with the previous plan to end the cycle at 12.75%. In our view, the COPOM statement implies certain upside risk to our call for a final hike of 50 bps in June and a terminal Selic of 13.25% in the cycle.

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U.S. investors' inquiries should be directed to Santander Investment Securities Inc. at (212) 583-4629 / (212) 350-3918.
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- The BCB released bank lending data for February (also late due to the strike), showing a real growth in total outstanding loans of 5.4% YoY. In the non-earmarked segment, new loans rose 4.6% MoM-sa for households and fell 3.3% MoM-sa for companies in February. Importantly, December household debt-to-income reached the highest level in the series (started in 2005), at 52.6%. We see this as a risk for NPLs (and the pace of lending) going forward.
- In the realm of activity, the BCB's monthly GDP proxy (IBC-Br) gained 0.34% MoM-sa in February, but that was not enough to fully offset January's contraction. The index is now virtually at the same level as before the pandemic. Industrial production topped expectations in March, edging up 0.4% MoM-sa and marking the first non-negative quarterly figure (+0.3% QoQ-sa) since 4Q20. Our tracking for IBC-Br in March was updated to +0.6% MoM-sa (from +0.5%), with no defined date of release yet. Our 1Q22 GDP growth tracking remains at +0.5% QoQ-sa.
- In the coming week, IBGE will release the tertiary sector data for March. Broad retail sales are due out on Tuesday (May 10), and we expect a slight 0.4% MoM-sa contraction. Moreover, services' real revenue is due out on Thursday (May 12), and we expect healthy 1.2% growth MoM-sa. Both numbers are expected to cap a positive performance in the first quarter.
- On inflation, the April IPCA comes out on Wednesday (May 11), and we look for a gain of 0.94% MoM. This is a notably high print in seasonal terms, pushing the trend to a hefty ~15% 3MMA-saar reading. In YoY terms, we expect the headline to accelerate to +11.99%, the highest level since late 2003. While we estimate this will be the peak for the IPCA in this cycle, we remain worried about the potential for a sluggish disinflation process in coming months (and years).

Most of the information in this report is up to the end of Thursday, May 5, 2022.

Figure 1. Brazil Macro Agenda for the Week of May 9 to May 13, 2022

Indicators / Events	Source	Reference	Date	Santander Estimate	Prior
COPOM minutes	**BCB**	**May/22**	**Tue, 10-May**	**-**	**-**
Core Retail Sales (% MoM)	IBGE	Mar/22	Tue, 10-May	0.4	1.1
Core Retail Sales (% YoY)	IBGE	Mar/22	Tue, 10-May	2.0	1.3
Broad Retail Sales (% MoM)	**IBGE**	**Mar/22**	**Tue, 10-May**	**-0.4**	**2.0**
Broad Retail Sales (% YoY)	**IBGE**	**Mar/22**	**Tue, 10-May**	**2.5**	**0.3**
IPCA Inflation (% MoM)	**IBGE**	**Apr/22**	**Wed, 11-May**	**0.94**	**1.62**
IPCA Inflation (% YoY)	**IBGE**	**Apr/22**	**Wed, 11-May**	**11.99**	**11.30**
Services Volume (% MoM)	**IBGE**	**Mar/22**	**Thu, 12-May**	**1.2**	**-0.2**
Services Volume (% YoY)	IBGE	Mar/22	Thu, 12-May	10.4	7.4
Bank Lending Report	BCB	Mar/22	n.a.*	-	471.1
Current Account Balance (USD billion)	BCB	Mar/22	n.a.*	-	-2.4
Foreign Direct Investment (USD billion)	BCB	Mar/22	n.a.*	-	11.8
Net Debt (% GDP)	BCB	Mar/22	n.a.*	56.7	57.1
Primary Budget Balance (BRL billion)	BCB	Mar/22	n.a.*	6.5	3.5

* Owing to a strike of federal workers, these data releases have been postponed with no specific publication date scheduled for now.

Sources: Bloomberg, IBGE, Santander.

For details on Santander's economic forecasts for Brazil, please refer to our last Scenario Update[1].

[1] **Santander Brazil – Scenario Update: *"Surfing an Extended Commodity Wave"* –** April 14, 2022- Available on: https://bit.ly/Std-scenupdate-apr22

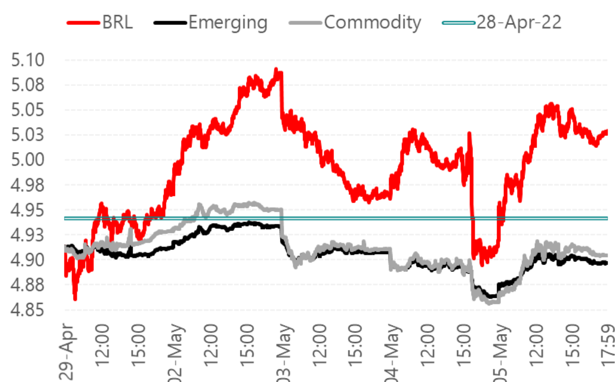
LOCAL MARKETS—FX

The BRL is no longer the best-performing currency against the USD in year-to-date terms (as the RUB has taken the first spot). In the rolling week ended May 5, once again the BRL stood among the worst performers in a basket with the 31 most liquid currencies in the world, with the USD/BRL pair closing the period at 5.03 (a 1.8% loss). In our view, the move had to do with poor economic activity readings in China (PMI indices have registered the lowest figures since the beginning of the pandemic in 2020) and the continued conflict between Russia and Ukraine, which have kept markets in a risk-off mode amid mounting fears of a major global economic slowdown. All these circumstances hit the BRL, which is once again displaying its high-beta pattern. Not even the intervention carried out by the BCB in the FX market with USD swaps (US$1.0 billion), combined with the signals of further hikes in Brazil and a less rapid than feared pace of rate tightening in the U.S., was able to prevent another round of profit-taking in the BRL. The BRL's weekly move also contrasted with rising commodity prices in the period, although this increase in commodities stemmed chiefly from geopolitical factors affecting mainly oil prices, following new sanctions against Russia (i.e., an embargo on Russia oil) and the announcement by the U.S. government that it intends to replenish its strategic reserves in the future after having used part of them to cool off inflationary pressures recently. In sum, we continue to see the interest rate differential as BRL-supportive, but it is clear that it will not prevent the currency from following a highly volatile trajectory in the near future, given the fluid conditions global and locally.

LOCAL MARKETS—Rates

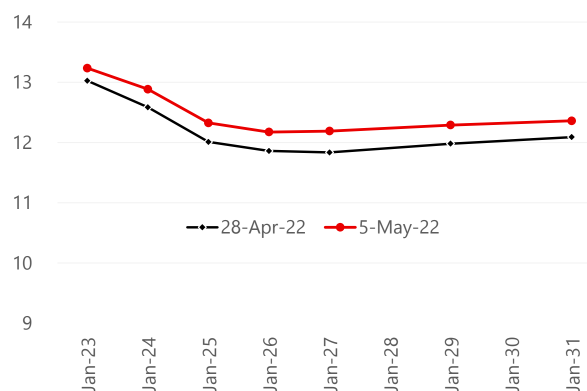
In an eventful week in terms of monetary policy decisions, local nominal yields sold off in a similar pattern all across the curve. Since last Thursday (April 28), the front end of the curve (Jan-24 DI future) rose 30 bps, to 12.89%, while the back end of the curve (Jan-27 DI future) gained 35 bps to 12.19%. The curve's steepness in this segment barely changed, increasing the inversion (by 5 bps) to -70 bps. At the front end, the main driver was the COPOM statement, which did not signal the end of the hiking cycle. This was already the market's consensus call, but prices—as per the options market—embedded a 35% chance of no-hike outcome at the next meeting, which has been adjusted to 12% after the statement. Our own call already accounted for a last 50-bp hike in June, with the Selic ending the cycle at 13.25%, so the statement did not change our view (see details in the "Monetary Policy" section). Another source of upward pressure in the yield curve is commodities prices in BRL terms, particularly the price of oil, as the gap between international and domestic gasoline prices is now at almost 30%, suggesting a risk of price adjustment that would push inflation higher in the short term. At the long end, domestic yields took their cue from the widening of the 10-year US Treasury yield. After the FOMC's statement, that tenor rose almost 30 bps, crossing above the 3% mark for the first time since 2018. These new developments push back a bit further the steepening we expect in the yield curve in the medium term, after the BCB stops hiking and the IPCA reaches a peak in annual terms.

Figure 2. USD/BRL Intraday Trends



Sources: Bloomberg, Santander.
Note 1: As of the close on Thursday, May 5, 2022.
Note 2: For other currencies, we use USDBRL values as a base-index.

Figure 3. Brazilian Domestic Yield Curve (% p.a.)



Sources: Bloomberg, Santander.
Note: As of the close on Thursday, May 5, 2022.

COMMODITIES

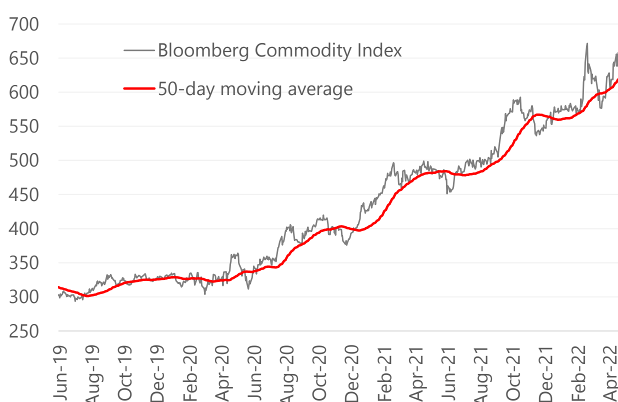
Commodity prices climbed in the week, led by the energy complex, as developments related to the war in Eastern Europe (read: new sanctions against Russia) continue to add risk to global supply. The Bloomberg Commodity Aggregate Index in BRL terms increased 4.3% over April 28-May 5, as the BRL selloff continued. In USD terms, the index increased 2.5%, with the Agriculture Subindex falling 1.5%, the Energy Subindex gaining a hefty 11.1%, and the Industrial Metals Subindex retreating 5.2%.

Oil and natural gas rallied after the EU proposed a plan to phase out Russian crude oil imports. The latest round of sanctions will include a complete ban on all Russian oil, covering both crude and refined products, and affecting seaborne and pipeline shipments. The bloc expects to wean itself off Russian crude by the end of 2022, though Hungary and Slovakia will reportedly be granted a longer timeframe (until the end of 2023) to cut purchases. The bloc relies on Russia for 25% of its oil. While natural gas is not a target for restrictions (at least for now), its prices followed the movement, as it is an alternative to oil for many uses (i.e., substitution effect). The week also saw reports[2] that the U.S. will institute a long-term plan to refill its Strategic Petroleum Reserves and that OPEC+ will increase its June oil production quota (+432k bpd), though recent data show that the organization has consistently failed to meet this figure.

Worldwide weather uncertainties mount for the coming crops. Trade flows in grain markets are already disrupted by the war in Ukraine, with fewer exports (grains and fertilizers) from key countries resulting in a tightening of global supplies. Regarding U.S. weather, the May forecast is seen as mixed: heavy showers are expected across the Midwest, but that could delay sowing even further. Elsewhere, dry weather is threatening to slash Brazilian corn output (winter harvest) as important states saw poor rains in April. In India, wheat fields are suffering from a heat wave that will likely take a toll on crop yields. The government of the South Asian nation (the eighth largest global wheat supplier) was said to be considering limiting wheat exports in an attempt to safeguard domestic supplies, only to have the top official at the food ministry deny the reports later the same day. We note that last week Indonesia enforced a ban on crude palm oil exports, in a similar move to tame domestic prices. All in all, the perception of a tight global supply balance remains, so that any crop issues could prompt further moves in prices. The USDA WASDE report is due to be released next week (May 12).

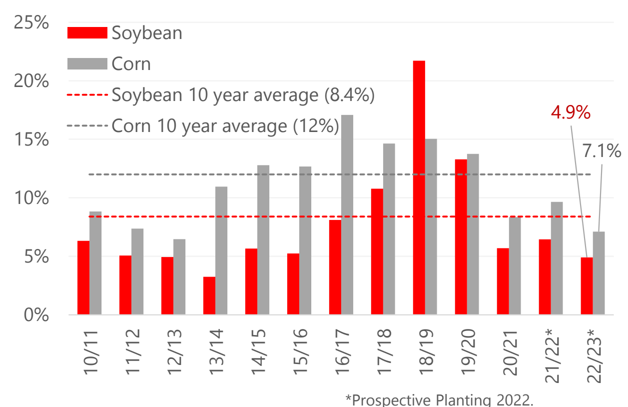
Mixed week for metals as markets assess China's lockdowns and the Fed's decision. Copper, aluminum, and zinc prices declined, while iron ore gained as fears that COVID-19 lockdowns in China could weigh on demand. The country's economic activity contracted in April as a result of closed factories and curbed spending. The government has vowed to increase infrastructure spending, and the PBoC pledged to step up monetary policy support, which eased markets' concerns somewhat. Meanwhile, the Federal Reserve's rate decision was perceived as less hawkish than expected, providing some support for the demand outlook for industrial metals.

Figure 4. Bloomberg Commodity Index in BRL



Sources: Bloomberg, Santander.

Figure 5. US: Stock-to-Use Ratio in Grains - %



Sources: USDA, Santander.

[2] https://edition.cnn.com/2022/05/05/energy/spr-biden/index.html

FISCAL POLICY AND LEGISLATION

On May 2, the BCB unveiled the consolidated public sector's fiscal balance for February (previously scheduled for release March 31), thanks to a pause in the federal workers' strike. In February, the public sector posted a primary surplus of BRL3.5 billion, significantly better than our forecast (-BRL8.6 billion) and the market's median estimate (-BRL8.3 billion). This was the best result for the month in the historical series. In 12 months, the public sector reached a primary surplus of BRL123.4 billion (1.4% of GDP), compared to BRL64.7 billion (0.75% of GDP) in December 2021.

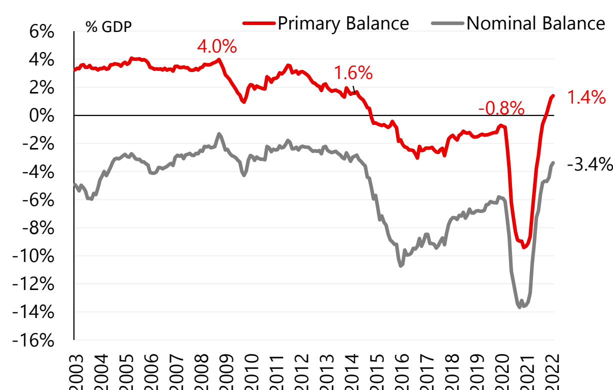
In February, regional governments' primary result (BRL20.2 billion) was again the main surprise relative to our fiscal forecast (BRL12.4 billion). In the 12-month reading, regional governments' surplus reached an impressive BRL112.5 billion (1.3% of GDP). In 2021, the subnational entities' primary fiscal surplus was BRL97.7 billion (1.1% of GDP), the all-time high both as a percentage of GDP and in terms of real values in the full year result. In 2020, there was a surplus of BRL38.7 billion (0.5% of GDP) owing to the fiscal stimulus (BRL78.2 billion in direct federal transfers to mitigate the pandemic's effects) and the activity recovery. In 2019, there was a surplus of BRL15.2 billion (0.2% of GDP). In our view, subnational entities should continue to present positive results in the short term. For 2022 we forecast a surplus of BRL45 billion (0.5% of GDP), though this projection is highly dependent on the duration of the price shock effect. February's result adds a positive bias to our estimate. In addition, interest payments reached BRL26 billion in February, compared to BRL29.2 billion in February 2021. The result of FX swap operations in the period contributed to this reduction (gain of BRL28.4 billion in February 2022 compared to a loss of BRL5.1 billion in February 2021). The nominal budget balance reached BRL299.1 billion (3.4% of GDP), compared with BRL383 billion (4.4% of GDP) in December 2021. In light of this, adding central and regional government estimates for this year, we forecast a balanced public sector result in 2022, considering an increase in expenditures and some softening in revenue growth—although a more lasting price shock effect on revenue could add a positive bias for the deficit estimate.

Regarding debt statistics, gross debt dropped to 79.2% of GDP in February, compared to 79.6% in the previous month. The result was affected by the positive primary surplus in the month and an increase in nominal GDP. Meanwhile, net debt reached 57.1% of GDP, compared to 56.7% of GDP in January. Our 2022 gross-debt to GDP forecast is currently at 80.6%, virtually stable compared to 2021. See details in the link[3].

The release by the BCB of the consolidated public sector data for March, previously scheduled for April 29, was postponed (with no new date for release as yet) when federal workers went back on strike. We look for a surplus of BRL6.5 billion, leading to the best primary result for Q1 in the historical series.

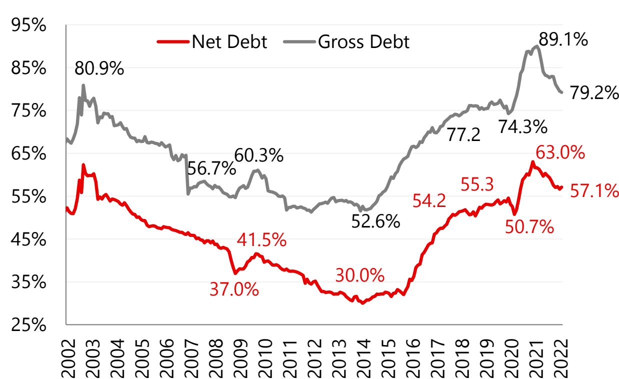
For details on Santander's fiscal policy outlook, please refer to our last chartbook[4].

Figure 6. Consolidated Public Sector (12m)



Sources: Brazilian Central Bank, Santander.

Figure 7. Public Sector Debt (12m % GDP)



Sources: Brazilian Central Bank, Santander.

[3] **Santander Brazil Fiscal Policy:** ***"Positive Primary Result Driven by Regional Governments"*** **–** May 02, 2022 – Available on: https://bit.ly/Std-fiscal-050222
[4] **Santander Brazil Fiscal Policy:** ***"Better Short Term, Still Challenging Outlook"*** **–** April 27, 2022 – Available on: https://bit.ly/Std-chart-fiscal-apr22

TRADE BALANCE

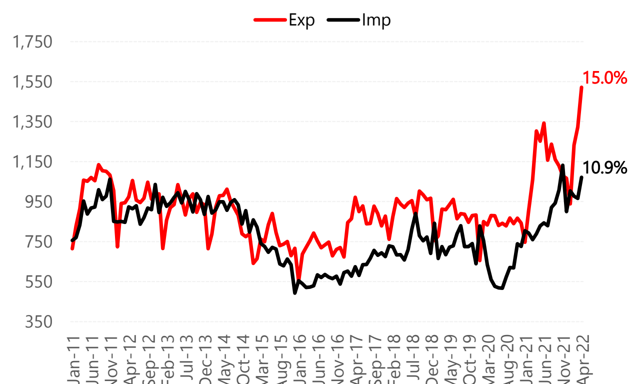
The USD8.1 billion trade surplus seen in April 2022 fell short of our estimate (+USD10.0 billion) due to larger-than-anticipated import outlays (USD20.8 billion vs. USD19.2 billion). Export revenue was roughly in line with our estimate (USD28.9 billion vs. USD29.1 billion). This translated into a USD63.3 billion surplus on a 12-month basis, which still lags our expectation of a USD73.5 billion trade surplus in 2022 but tops the USD61.7 billion surplus registered in 2021.

In our view, the strong acceleration in imports outlays in the last week of April may be related to a reduction in the backlog of operations that had been affected by strikes in certain areas of the federal service. Given our expectation of an economic slowdown in the coming months, stemming from the lagged impact of interest rate hikes, we expect imports to lose momentum throughout 2022.

Adjusting figures by their seasonal factors and the number of business days, export revenue increased 15.0% MoM and import outlays increased 10.9% MoM, thus leading the 3MMA-saar gauge to imply a USD89.2 billion surplus in annualized terms—higher than our forecast for this year—which reinforces our perception that Brazilian foreign trade should help the country's current account deficit to continue running at low levels by historical standards.

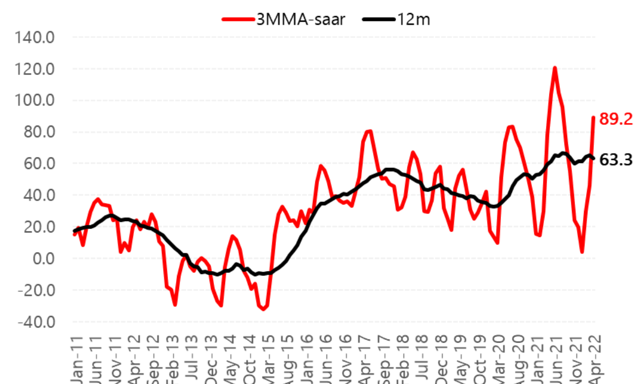
All in all, despite the lower-than-anticipated result, April's trade balance adds to a constructive perception about the soundness of the Brazilian external position.

Figure 8. Trade Balance Components (USD million per business day, sa)



Sources: SECINT, Santander.

Figure 9. Trade Surplus Trends (USD billion, annual figures)



Sources: SECINT, Santander.

MONETARY POLICY

As widely expected, this week the COPOM hiked the Selic policy rate by 100 bps, taking it to 12.75%, the highest level since 1Q17.

The BCB's inflation forecast now points to IPCA of 7.3% for 2022 (+1.0 p.p. from the BCB's last publication) and 3.4% for 2023 (+0.3 p.p. from the last publication). The simulations continue to use a slightly different-than-usual scenario, judged more likely by the BCB since the last meeting (when it was called "alternative"). This scenario assumes oil prices at USD100/bbl at YE2022 and stable in real terms afterward, as well as the FX rate at USD/BRL 4.95 (and subsequently moving in accordance with purchasing power parity). It also takes the Selic rate to 13.25% for YE2022 and 9.25% for YE2023.

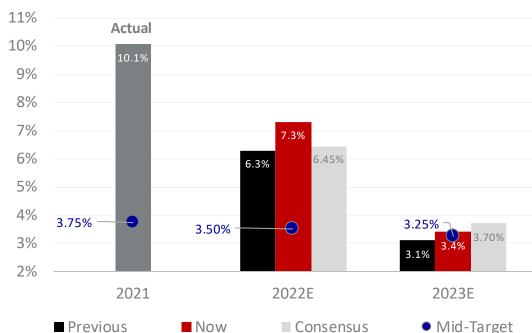
According to the BCB's own scenario and calculations, an additional hike of 50 bps (or a bit more) in this cycle is needed to achieve its objective (i.e., convergence to the mid-target of 3.25% for 2023, the policy horizon now). No wonder that now the BCB "foresees as likely an extension of the cycle, with an adjustment of lower magnitude for the next meeting", in contrast with the previous plan to end the cycle at 12.75%.

The authority mentions that the "uncertainty in its assumptions and projections is higher than usual". The COPOM also highlights that "the heightened uncertainty of the current scenario, the advanced stage of the current monetary policy cycle, and its impacts yet to be observed require additional caution in its actions". We interpret these words of caution as an indication that the BCB might seek to avoid what the board could possibly see as "overreacting" in terms of the terminal Selic level projected for this cycle. Yet, we also note that the BCB was not highly emphatic about ending the tightening cycle soon.

In our view, the COPOM statement implies a small amount of upside risk to our call for a final hike of 50 bps in June and a terminal Selic of 13.25% in the cycle. We continue to think that the cycle is near completion and do not foresee rate hikes in 2H22 for now. Yet we recognize that this will hinge on the evolution of the inflation outlook, and mainly on inflation expectations for 2023. See details in the link[5].

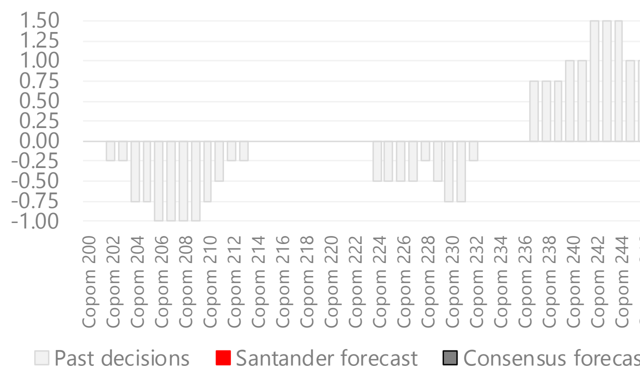
On Tuesday (May 10), the BCB will publish the Copom minutes, which may provide more details about the monetary authority's flight plan.

Figure 10. BCB's Inflation Simulation (% annual)



Sources: Brazilian Central Bank, Santander.
Note: IPCA simulations assume Selic rate from the Focus survey and USD/BRL starting at 4.95 (as per the week before the COPOM meeting) and evolving according to purchase power parity. Assumes oil price at USD 100 and a 2% change per year afterwards.

Figure 11. Selic Moves: History, Forecast (in percentage points)



Sources: Brazilian Central Bank, Santander.

[5] **Santander Brazil Monetary Policy: "*Recalculating the Route*"** – May 05, 2022 – Available on: https://bit.ly/Std-COPOM-may22

CREDIT

In February, total outstanding loans in the National Financial System (SFN, in the Portuguese acronym) posted inflation-adjusted growth of 5.4% YoY to BRL4.7 trillion. For households, loans were up 9.85% YoY; for non-financial corporations, they were down 0.2% YoY. See details in the link[6].

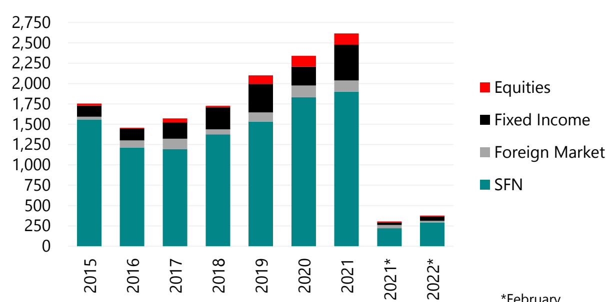
New loans adjusted for inflation and seasonality recorded a decrease of 1.1% in February from January's figure (+12% MoM-sa in January 2022). For households, the non-earmarked segment posted an increase of 4.6% MoM-sa. Despite the increase overall, we highlight the declines in total personal credit (-9.7% MoM), which was the sixth decline in a row, and in credit cards (-2.6% MoM), which posted the second decline in 2022. In the earmarked segment, new loans for households posted a substantial decrease, -17.8% MoM-sa, compared to January's figure (+15.4% MoM-sa). Real estate financing and rural credit also fell (-1% MoM and -37.3% MoM, respectively), but Others showed a positive variation (11.2% MoM).

For companies, there was a decrease of 3.3% MoM-sa in February in the non-earmarked new loans segment, with total working capital showing a negative variation (-4.4% MoM). The earmarked segment kept accelerating, showing a significant increase of 55.6% MoM-sa after January's increase of 29.9% MoM-sa, with new operations in BNDES Funds presenting a significant increase of 130.6% MoM.

Considering total corporate financing YTD through February 2022 (new loans in the SFN, debt and equity issues in the capital markets) vs. the year-ago period, issuances in the capital markets were 42% higher, with SFN concessions up 31.3%. As a result, total corporate financing was up 23.1% compared to the year-ago period.

Still regarding non-earmarked loans, the seasonally adjusted default rate (% of 90-day past-due loans) continued to rise, to 4.7% for households, while for corporates it was 1.5% (-0.1 p.p. from January 2022). Importantly, household debt-to-income ended 2021 by reaching the highest point in the series since 2005, 52.6% in December (+0.6 p.p. from November 2021); excluding real estate financing, household debt-to-income was 33%. In addition, the debt service ratio remained at 27.9% in December (for the third month in a row); excluding real estate financing, the debt service ratio was 25.6%. We see these figures as a risk for delinquency ahead. **For details on Santander's credit outlook, please refer to our last chartbook[7].**

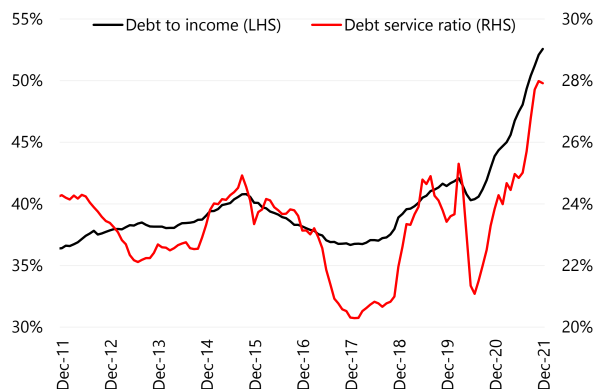
Figure 12. Total Corporate Financing (BRL billion, inflation adjusted)



SFN - exclude *conta garantida, cheque especial* (overdraft) and credit card.
Foreign Market - bonus, MTNs and securities.
Fixed Income - Debentures, commercial papers, LFs, CRAs, CRIs e FIDCs.
Equity - IPO and follow-on.

Sources: Brazilian Central Bank, Anbima, Santander.

Figure 13. Household Debt-to-Income and Debt Service Ratio (%)



Sources: Brazilian Central Bank, Santander.

[6] **Santander Brazil Credit: "*Delinquencies Still Not Slowing Credit*"** – April 28, 2022 – Available on: https://bit.ly/Std-credit-feb22
[7] **Santander Brazil "Credit Chartbook – April 2022"** May 04, 2022 – Available on: https://bit.ly/Std-chart-credit-apr22

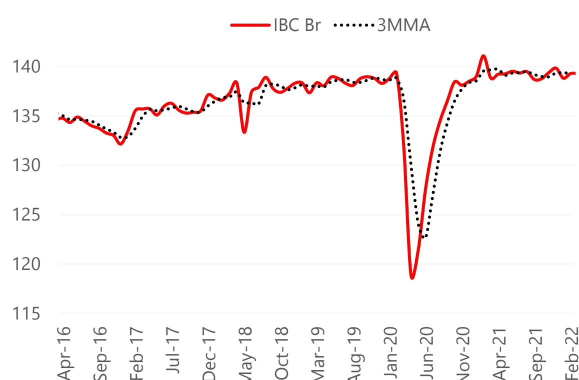
ECONOMIC ACTIVITY

Broad activity partially recovered in February after a January drop. The IBC-Br (a proxy for monthly GDP) rose 0.34% MoM-sa (0.66% YoY) in February, slightly below our call of +0.6% MoM-sa (+0.7% YoY) and in line with market consensus of +0.4% MoM-sa (+0.5% YoY), but not enough to fully offset January's contraction (-0.73%). February's print placed broad activity virtually at the same level seen at the pre-pandemic mark (February 2020), mainly reflecting the positive performance in goods-related sectors in the month: broad retail sales and industrial output inched up 2.1% MoM-sa and 0.7% MoM-sa, respectively. We also consider that health and education services (not integrally captured by timely activity indexes) may have contributed positively, partially recovering after January's drop (which took place amid the Omicron variant outbreak) and in line with the employed population recovery seen in the period. See details in the link[8].

A better-than-expected headline gain for domestic industry in March. Industrial output surprised our expectations, edging up 0.4% MoM-sa and beating our estimate (-0.2% MoM-sa) as well as market consensus (+0.2% MoM-sa). Despite the positive headline result, the breakdown suggests caution is warranted: manufacturing inched down 0.6% MoM-sa (-2.4% YoY), while mining inched up 0.9% MoM-sa (+1.0% YoY). In quarterly terms, March's print led to 0.3% QoQ-sa growth, the first non-negative print since 4Q20. The diffusion index decelerated and reached 54% (vs. 62%), with 14 of 26 industrial activities surveyed posting positive figures at the margin. Our tracking of IBC-Br in March was updated to +0.6% MoM-sa (from +0.5%). We are maintaining our GDP growth tracking at 0.5% QoQ-sa. See details in the link[9].

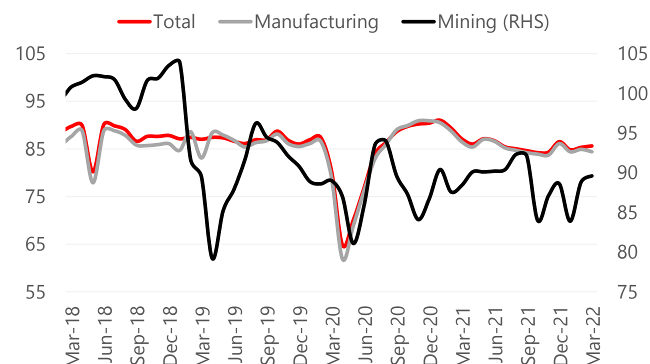
In the coming week, IBGE will release the tertiary sector data for March. Broad retail sales are due out on Tuesday (May 10), and we expect a slight 0.4% MoM-sa contraction, but not enough to prevent a 1.7% QoQ-sa gain in 1Q22 (after a string of two negative quarterly results). Moreover, services' real revenue is due out on Thursday (May 12), and we expect healthy 1.2% growth MoM-sa, breaking a sequence of two declines in a row and implying 0.8% QoQ-sa growth for 1Q22. These numbers are consistent with GDP growth of 0.5% QoQ-sa in 1Q22. For full year 2022, we forecast GDP growth of 0.7%. **For details on Santander's activity outlook, please refer to our last chartbook[10].**

Figure 14. Monthly GDP Proxy (2003=100, sa)



Sources: Brazilian Central Bank, Santander

Figure 15. Industrial output (2012=100, sa)



Sources: IBGE, Santander.

[8] **Santander Brazil Economic Activity: "*Broad Activity Partially Bounces Back After January's Drop*"** – May 02, 2022 – Available on: https://bit.ly/Std-econact-050222

[9] **Santander Brazil Economic Activity: "*Headline Topped Expectations, But Manufacturing Shrank at the Margin*"** – May 03, 2022 – Available on: https://bit.ly/Std-econact-050322

[10] **Santander Brazil Economic Activity: *"Resilience in 2022, but with Concerns Regarding 2023"* –** April 19, 2022 – Available on: https://bit.ly/Std-chart-Econact-apr22

INFLATION

We expect April IPCA (due on Wednesday, May 11) to rise +0.94% MoM. This is a notably high print in seasonal terms, pushing the trend to a hefty ~15% 3MMA-saar reading. In YoY terms, we expect the headline to accelerate to +11.99%, the highest level since late 2003. We estimate this will be the peak for the IPCA in this cycle.

Compared to March IPCA (+1.62% MoM), we expect the headline to decelerate in monthly terms, driven by regulated prices (+0.46% MoM vs. +2.65% last month). In the realm of administered prices, we expect gasoline (+2.50% MoM vs. +6.95% in March) to contribute almost half of the relief—as the latest price hike starts to fade in this reading—and for electricity (-6.22% MoM vs. +1.08% in March) to account for the other half, as the change in the tariff flag (to "Green", the cheapest tariff bracket) starts to kick in in this reading.

Market-set prices should also cool down a bit, in our view, mainly driven by a small moderation in food inflation (2.33% MoM vs. 3.09% last month) and also by some cooling in industrial goods inflation (1.05% MoM vs. 1.21% in March). Finally, on the negative side, we expect services to accelerate a bit, reaching 0.62% MoM (vs. 0.45% last month).

As for the broad underlying inflation measures, we estimate the EX3 core is likely to rise 0.87% MoM, meaning the trend could remain relatively stable at ~13% 3MMA-saar. If correct, April would be the 19th consecutive month in which the EX3 core has run above the BCB's mid-target in 3MMA-saar terms (headline CPI target is 3.50% for 2022 and 3.25% for 2023).

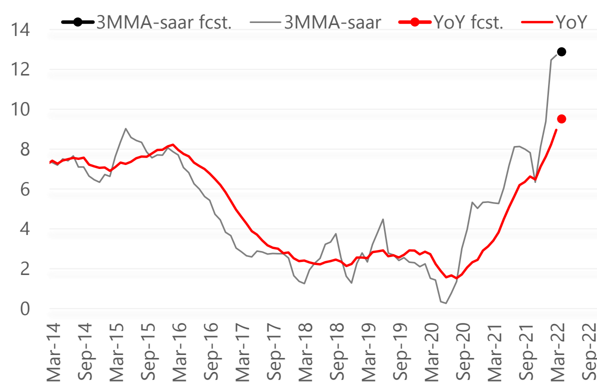
We still project a deceleration of inflation in YoY terms from May onward, but the level and composition of recent IPCA readings have been worrisome, as the latest shock from commodities prices implies additional risks that further tilt the balance of risks to the upside, for both 2022 and 2023. In other words, we see the main risk here as a sluggish disinflation process for the foreseeable future.

Figure 16. April's IPCA Details (% annual)

	MoM		YoY	
	Apr-22	Contrib.	Mar-22	Apr-22
IPCA	0.94	0.94	11.3	12.0
Administered	0.46	0.12	14.8	14.9
Free	1.11	0.81	10.0	10.9
Food-at-home	2.33	0.35	13.7	15.8
Industrial goods	1.05	0.24	13.4	14.0
Services	0.62	0.21	6.3	6.9
EX3 Core	0.87	0.31	9.0	9.5

Sources: IBGE, Santander.

Figure 17. Core Inflation IPCA EX3 (% annual)



Sources: IBGE, Santander.

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