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EXECUTIVE SUMMARY

1. Government
- ✓ No change in the presidential race
- ✓ Fiscal situation might not be a problem this year
- ✓ But the new administration might continue committed to the reforms

2. Economic Activity
- ✓ GDP posted 1.0% in the 1Q22 and former quarters were revised up
- ✓ This good start made us revise up 2022 GDP growth to 1.7% and next year to 0.8%
- ✓ The second half might be more problematic because of the inflation affecting the purchasing power, the impact of the Selic rate hikes and the election environment

3. Monetary Policy
- ✓ The Central Bank raised the Selic policy rate by 100bps to 12.75%
- ✓ And let the door open for another hike in June
- ✓ We expect a final 75bps to 13.50%

4. External Sector
- ✓ The external environment improved in May and BRL appreciated
- ✓ But, we consider that BRL might consolidate levels weaker than 5.0 along the second half
- ✓ Our call is a 2022 yearend rate at 5.6

1. FISCAL POLICY IN THE SPOTLIGHT

The last movements in the political arena didn't change the presidential election scenario of polarization between former president Lula and president Bolsonaro. Former São Paulo State governor João Doria quit being candidate, while MDB party launched Senator Simone Tebet to run for presidency and PSL party put his president Luciano Bivar in the race. These new names come from important political parties at the Congress, but they are unable to change the electoral picture.

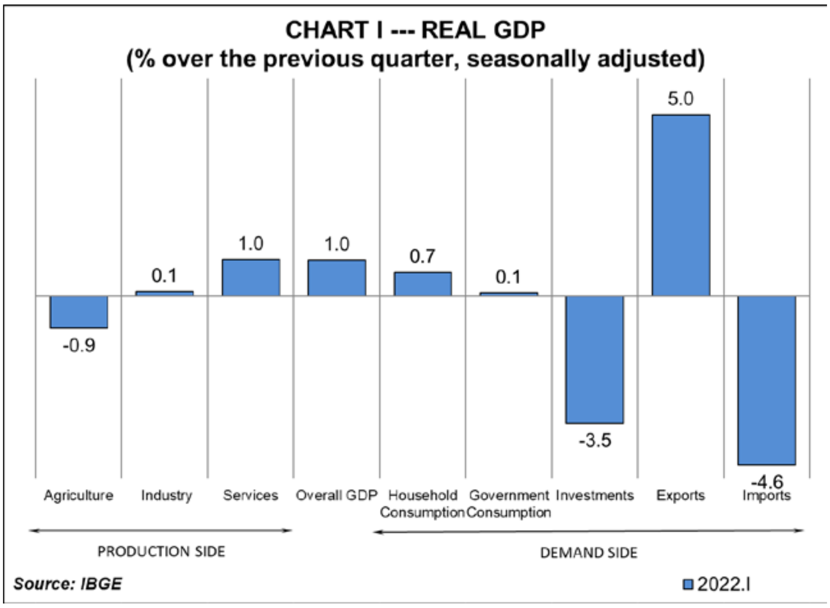
At this point, the fiscal situation gains importance. For example, the frontrunner Lula has already declared that he intends to abolish the expenditure cap in order to allow more social expenditures. Of course, such kind of comments that at this point are not coming in details raise a yellow flag. For now, as this is not an official program of the candidate and the external market favors EM currencies, it seems that market is not pricing this risk at this moment, maybe waiting for further details of his whole economic policy.

Another source of concern is what the incumbent might do to improve his performance in the polls, specially if he would try to increase the public spending. Recently, some government actions totaling around 1.5% of GDP caught attention. They were initiatives like public wage readjustment, FGTS severance fund withdrawals, anticipation of 13th wage for retirees and loans for selected segments. One important point is that none of them are off-budget expenditures. Much to the contrary, they are included in the federal budget, like the 13th wage anticipation, or the government is reallocating expenditures, reducing other ones, in order not to breach the spending cap. For spending above the cap without running the risk of the president being impeached, it is necessary the declaration of calamity or approval an extra-credit at the Congress. None of these options are being discussed.

In sum, it seems that the fiscal situation is manageable for 2022, not only by the government control on expenditures, but by the mounting inflation that increases the nominal GDP, resulting in controlled debt/GDP ratio, as explained in the former issue. And, this result has been obtained without major fiscal reforms. So, the fiscal situation continues difficult and the scenario might continue challenging from 2023 on no matter who wins the presidential election.

2. BETTER-THAN-EXPECTED 1Q GDP

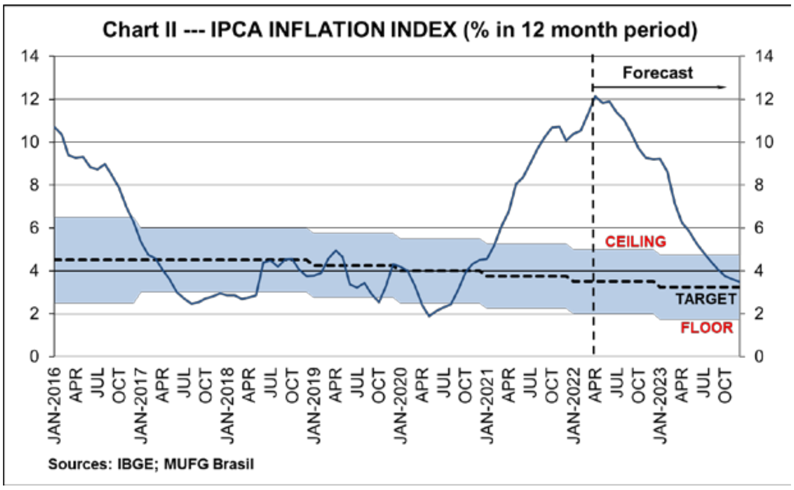
In the 1Q22, real GDP growth posted 1.0% over the 4Q21, seasonally adjusted. On the production side, the result was driven by services (1.0%), followed by a small growth of industry (0.1%), while agriculture showed retraction of 0.9%. High frequency data had already been showing better-than-expected figures and a strong result in the first quarter. The main reason behind this outcome is the growth of services sector driven by household services which is the segment lagging behind in the recovery of the pre-pandemic level. The wealth effect provoked by the strong readjustment of the minimum wage and the higher benefit paid from aid program Auxílio Brasil in comparison with the previous Bolsa Família had its strongest impact in the first quarter. But the current high inflation is reducing the purchasing power and, consequently, its impact on the economy. Indeed, household services grew 1.3% in the first quarter. But, the broader reopening of the economy, with almost no restriction and increasing the circulation of people, impacted positively on other services segments like transport&mail (+2.1%). Even industry showed positive figures in public utilities (+6.6%) and manufacturing (+1.4%). The result can be considered even better taking into consideration the revision up of most of 2021 quarters in the seasonally adjusted time series.



The strong result of the first quarter made us revise our call for the 2021 to 1.7% from our previous expectation of 0.8%. Despite the big difference, it is a number not to be celebrated once the carry-over of the first quarter is 1.5%, what means poorer performances in the coming quarters. Indeed, this figure incorporates a growth of 0.5% in the 2Q22, followed by a retraction of 0.3% in the 3Q and null growth in the last quarter. Besides the vanish of the wealth effect commented in the former paragraph, the following quarters might be influenced by the tightening monetary policy, a more challenging external environment and the usual uncertainty during the election, this latter one affecting mainly investments. For 2023, our call is 0.8%, but this scenario considers that whoever wins the presidential election will not change meaningfully the guidelines of the economic policy.

3. MONETARY TIGHTENING IS ALMOST DONE

On May 04th, the Central Bank (CB) decided unanimously to increase the Selic policy rate by 100bps to 12.75%. The Central Bank statement didn't bring surprise and it let the door open for another rate hike, once it needs to guide inflation expectation for this and next years, especially amid the context of inflated risks due to the impacts caused by the conflict between Russia and Ukraine on commodity prices, as well as the impact of covid-related lockdowns in China exacerbating supply chain disruptions. Taking into consideration that the focus of the monetary authority is 2023 inflation, the next year inflation forecast continues to increase and it is currently around 4.0%-4.2% according to the market, in between the 3.25% target and the 4.75% ceiling. Although we assume a gradual easing of the Russia-Ukraine conflict and the reduction of Covid cases in China in the coming months, we assess that inflation might not recede markedly once commodities and industrial prices tends to keep at higher levels than earlier this year. On the local side, we highlight the maintenance of high fiscal risks ahead in this electoral year also adding upward pressure on inflation in the medium to long-run. The congress is discussing several bills that might reduce the price of some utilities, mainly electricity tariffs, and also gasoline, what may reduce inflation this year from our 9.2% call to a number closer to 8%, but this year inflation is almost not influenced by the monetary policy actions anymore.

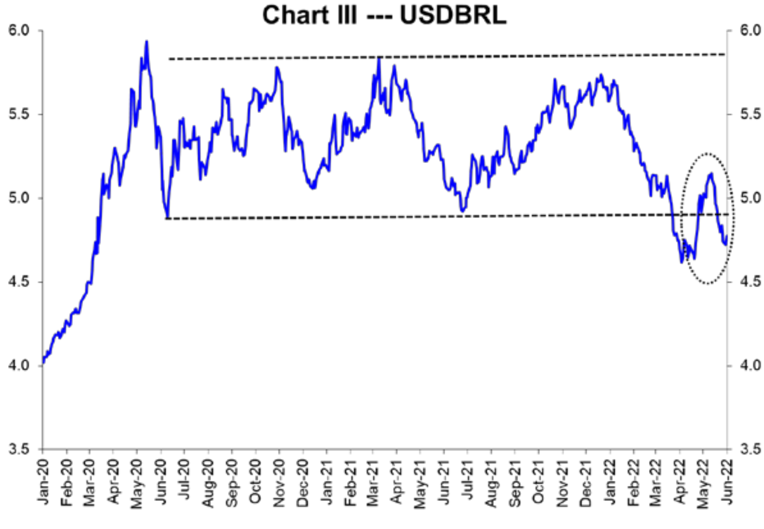


As for the next monetary policy steps, we expect a final 75bps hike to 13.50% in June. We assess that Selic might be kept at this level at least until the end of the year. If the Central Bank is not able to coordinate inflation perspective, then a prolonged maintenance of the Selic rate at the peak would be expected than further rate hikes. From early next year on, assuming no big supply shock that could affect items such as food and energy, and assuming that next government will not promote any radical measures that could lead to sharper fiscal imbalances, there is room for a gradual cut of Selic rate.

4. STRONG BRL IN THE SHORT RUN, BUT NOT IN THE MEDIUM RUN

In April, BRL breached the 5.00 level driven by the concerns that FED and other Central Banks would speed up the monetary tightening given the raise of inflation worldwide. However, as the odds of a more hawkish monetary policy in the US reduced along May, EM currencies resumed the appreciation trend. USD/BRL moved back to a more appreciated level driven basically by the external environment. Here, the Central Bank signals to be close to the end of the monetary tightening, but the level of the Selic policy rate, presently at 12.75% and market expecting to end by 13.25%-14.00%, means that even after the pause, the differential to the external interest rate will continue attractive for carry-trade operations for several months. Thus, we may continue seeing favorable conditions for BRL strengthening in the short run. However, as we enter in the second half, the conditions may change here and abroad. FED might have advanced the normalization of the monetary policy, reducing the interest rate differential, plus the reduction of its balance sheet, while ECB may also be raising the policy rate. This normalization of monetary policy in advanced economies is making market revise down global growth, what may reverse somewhat the current stressed commodity market. China will play a key role as commodity price maker, especially because the country has already been affected by the lockdowns imposed as of the resurgence of Covid cases. In the domestic market, tension might grow given the usual uncertainty of the election outcome and how the new administration will tackle the fiscal imbalance. Such environment might provoke some foreign capital outflow, specially from foreign investors that would reallocate their portfolio given the uncertainties. In sum, USD/BRL might consolidate in a weaker level than 5.00 along the second half. Our call continues being 5.60 at the end of the year.

Chart III --- USDBRL



Source: Central Bank

MACROECONOMIC DATA FORECAST

	actual data											forecast	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
real GDP growth (%)	4.0	1.9	3.0	0.5	-3.5	- 3.3	1.3	1.3	1.1	-3.9	4.6	1.7	0.8
exchange rate (USDBRL -- yearend)	1.88	2.04	2.34	2.66	3.90	3.26	3.31	3.87	4.03	5.20	5.58	5.60	5.50
(% change)	12.6	8.9	14.6	13.4	47.0	-16.5	1.5	17.1	4.1	29.0	7.3	0.4	-1.8
exchange rate (USDBRL -- average)	1.67	1.96	2.16	2.35	3.33	3.49	3.19	3.65	3.95	5.15	5.39	5.20	5.55
(% change)	-4.8	16.7	10.5	9.0	41.5	4.8	-8.6	14.5	8.1	30.4	4.7	-3.5	6.7
IPCA (%)	6.5	5.8	5.9	6.4	10.7	6.3	2.9	3.8	4.3	4.5	10.1	9.2	3.5
Selic policy rate (% per annum -- yearend)	11.00	7.25	10.00	11.75	14.25	13.75	7.00	6.50	4.50	2.00	9.25	13.50	9.50
Real rate (Selic/IPCA)	4.2	1.4	3.9	5.0	3.2	7.0	4.0	2.6	0.2	-2.4	-0.8	3.9	5.8

Sources: IBGE; Central Bank; Own Forecast

KEY ECONOMIC AND FINANCIAL INDICATORS

	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan/22	Feb	Mar	Apr	Year-to-Date
01- GDP Growth (%)													
Quarter over the previous quarter (seasonally adjusted)		-0.2			0.1			0.7			1.0		--x--
Quarter over the same quarter of the previous year		12.3			4.0			1.6			1.7		--x--
Last 12 months		1.9			3.9			4.6			4.7		--x--
02 - Central Bank's Economic Activity Index													
% change over the previous month (seasonally adjusted)	0.04	0.18	-0.12	0.10	-0.57	0.05	0.45	0.32	-0.73	0.34			0.44
03 - Industrial Production													
% change over the previous month (seasonally adjusted)	1.3	-0.5	-1.4	-0.5	-0.5	-0.5	0.1	2.7	-2.0	0.7	0.3		-4.47
04 - Vehicle Production (1,000 units -- excluding CKD's)	192.8	167.5	164.2	165.3	174.1	179.0	205.7	210.9	145.4	165.9	184.8	185.4	681.6
Domestic Sale (1,000 units)	169.2	158.1	151.0	149.5	133.2	140.4	148.3	177.9	108.4	117.1	129.1	145.4	499.9
Export (1,000 units -- excluding CKD's)	37.0	33.5	23.8	29.4	23.6	29.8	28.0	41.6	27.7	41.4	38.9	44.8	152.9
Import (1,000 units)	19.4	24.4	24.5	23.3	21.9	22.0	24.7	29.2	18.1	15.2	17.8	18.8	69.9
05 - Retail Sales (% change over the previous month -- seasonally adjusted)	3.0	-1.8	3.1	-4.0	-0.9	0.1	0.6	-2.6	2.3	1.3	1.0		1.3
06 - Services Survey (% change over the previous month -- seasonally adjusted)	2.6	1.9	0.9	0.3	-1.2	-1.5	3.2	2.6	-1.8	0.4	1.7		9.4
07 - National Unemployment Rate (%)	14.7	14.2	13.7	13.1	12.6	12.1	11.6	11.1	11.2	11.2	11.1	10.5	--x--
08 - Inflation (%)													
IPCA (Brazil Consumer Price Index)	0.83	0.53	0.96	0.87	1.16	1.25	0.95	0.73	0.54	1.01	1.62	1.06	3.20
FIPE (São Paulo City Consumer Price Index)	0.41	0.81	1.02	1.44	1.13	1.00	0.72	0.57	0.74	0.90	1.28	1.62	2.95
IGP-DI (General Price Index)	3.40	0.11	1.45	-0.14	-0.55	1.60	-0.58	1.25	2.01	1.50	2.37	0.41	6.00
IPA-DI (Wholesale Price Index)	4.20	-0.26	1.65	-0.42	-1.17	1.90	-1.16	1.54	2.57	1.94	2.80	0.19	7.69
09 - Overnight (effective % per annum)													
SELIC rate	3.29	3.76	4.15	5.01	5.43	6.30	7.65	8.76	9.15	10.49	11.15	11.65	3.38
CDI (Interbank)	3.29	3.76	4.15	5.01	5.43	6.30	7.65	8.76	9.15	10.49	11.15	11.65	3.38
10 - São Paulo Stock Market Index (% Change)	6.16	0.46	-3.94	-2.48	-6.57	-6.74	-1.53	2.85	6.98	0.89	6.06	-10.10	-9.27
11 - Exchange Rate (BRL/USD) - End of Period; Selling Rate	5.2322	5.0022	5.1216	5.1433	5.4394	5.6430	5.6199	5.5805	5.3574	5.1394	4.7378	4.7289	--x--
Devaluation (positive) / Appreciation (negative) -- %	-3.17	-4.40	2.39	0.42	5.76	3.74	-0.41	-0.70	-4.00	-4.07	-7.81	-0.19	-15.26
12 - SISBACEN Exchange Transactions (USD mio)													
Foreign Trade - Net	2,268	1,805	2,740	1,132	2,805	-2,353	-7,174	-691	-4,118	2,993	6,854		5,729
Financial - Net	-4,089	2,644	-1,909	2,577	-3,975	3,119	3,776	-9,255	5,611	3,347	-4,004		4,954
Overall Balance - Net	-1,821	4,449	831	3,709	-1,170	766	-3,398	-9,946	1,493	6,340	2,851		10,684
13 - Foreign Reserve -- international liquidity concept (USD bio)	356.2	354.4	356.6	371.3	368.9	367.9	367.8	363.7	359.9	358.2	353.7		--x--

Sources and Notes: 01 -- IBGE; 02 -- Central Bank, 03 -- IBGE, Year-to-Date: Cumulative data in the year over the same period of the former year; 04 -- Anfavea
05 -- IBGE, Year-to-date: same note of item 03; 06 -- IBGE, Year-to-date: same note of item 03; 07 -- IBGE/PNAD survey (3-month moving average)
08 -- IBGE, FIPE, FGV -- IGP-M is composed by 60% of IPA (Wholesale Price Index); 30% of IPC (Consumer Price Index) and 10% of INCC (National Civil Construction Index)
09 -- Central Bank, Cetip, Year-to-Date: effective rate in the period; 10 -- Bovespa; 11, 12, 13 -- Central Bank

KEY ECONOMIC AND FINANCIAL INDICATORS

	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan/22	Feb	Mar	Apr	Year-to-Date
14 - Foreign Trade Balance (USD mio)	8,610	10,437	7,389	7,638	4,310	1,999	-1,307	3,948	-131	4,581	7,348	8,087	19,886
Export	26,259	28,281	25,522	27,184	24,272	22,518	20,296	24,366	19,734	23,490	29,338	28,845	101,407
Import	17,648	17,844	18,133	19,547	19,962	20,519	21,603	20,418	19,865	18,909	21,711	20,758	81,243
15 - Current Account Balance (USD mio)	2,501	2,035	-1,175	318	-1,921	-4,368	-6,389	-5,813	-8,065	-2,414			-10,479
16 - Domestic Public Security Debt in the market (USD bio)	944.2	1,020.2	1,006.5	1,018.3	953.4	904.8	931.1	958.5	1,001.8	1,068.3	1,129.7		--x--
17 - Monetary Base (USD bio)	77.1	84.4	83.6	79.0	74.2	70.2	73.5	73.3	78.0	84.9			--x--
M1 -- Money Supply (USD bio)	111.9	123.4	120.9	119.7	111.7	106.3	106.8	113.0	110.9	125.1			--x--
Saving Passbook Accounts (1)	195.9	361.0	204.0	203.0	191.3	183.5	182.3	185.9	191.6	215.7			--x--
Private bonds (2)	445.6	477.4	472.8	477.3	464.9	447.8	451.8	471.1	485.2	552.1			--x--
M2 (M1+1+2) (USD bio)	753.4	961.8	797.7	800.1	767.9	737.7	741.0	770.1	787.6	892.9			--x--
Fixed Income Mutual Fund (3)	768.4	807.8	795.9	802.7	759.0	728.3	754.6	753.6	794.2	885.3			--x--
Repo Operations with Federal Bill/Bond (4)	33.9	35.5	35.6	36.0	37.3	34.8	34.8	37.6	38.9	44.4			--x--
Repo Operations with Private Bill/Bond (5)	11.6	13.0	15.2	13.9	12.5	11.9	12.0	14.3	15.6	14.0			--x--
M3 (M2+3+4+5) (USD bio)	1,567.3	1,818.1	1,644.3	1,652.6	1,576.6	1,512.7	1,542.4	1,575.6	1,636.2	1,836.6			--x--
T Bill/Bond (6)	105.9	111.9	102.0	102.4	120.4	134.0	131.2	132.7	139.7	170.1			--x--
M4 (M3+6) (USD bio)	1,673.3	1,930.0	1,746.3	1,754.9	1,697.0	1,646.7	1,673.6	1,708.2	1,775.9	2,006.7			--x--
18 - Fiscal Balance (% of GDP -- Last 12 Months)													
Nominal Concept	-9.09	-7.27	-6.79	-5.59	-4.80	-4.69	-4.71	-4.42	-3.62	-3.38	-3.15	-3.90	--x--
Federal Government and Central Bank	-9.52	-7.73	-7.23	-6.25	-5.48	-5.37	-5.48	-5.11	-4.37	-4.23	-4.08	-4.79	--x--
State and Municipalities	0.45	0.47	0.48	0.69	0.70	0.71	0.80	0.71	0.73	0.80	0.88	0.87	--x--
Public Owned Companies	-0.03	-0.02	-0.04	-0.03	-0.01	-0.03	-0.03	-0.03	0.02	0.05	0.05	0.02	--x--
Primary Concept	-5.38	-3.77	-2.85	-1.56	-0.63	-0.24	0.15	0.75	1.23	1.40	1.37	1.52	--x--
Federal Government and Central Bank	-6.32	-4.73	-3.79	-2.72	-1.79	-1.39	-1.10	-0.41	-0.02	0.02	-0.11	0.04	--x--
State and Municipalities	0.90	0.91	0.91	1.12	1.11	1.12	1.22	1.13	1.17	1.27	1.38	1.40	--x--
Public Owned Companies	0.04	0.05	0.03	0.03	0.05	0.03	0.03	0.03	0.08	0.10	0.10	0.08	--x--

Sources and Notes: **14 -- Development, Industry and Foreign Trade Ministry; 15, 16, 17 -- Central Bank**
18 -- Central Bank -- The Nominal Concept includes all financial cost and the primary concept doesn't

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