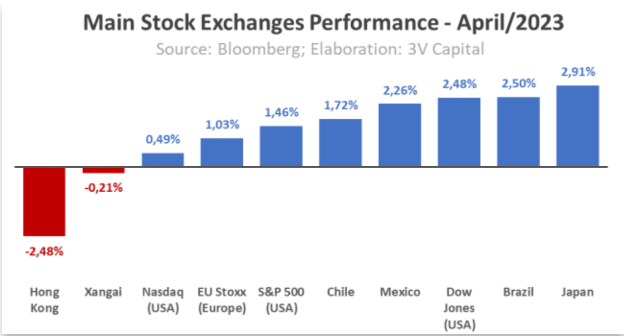
Economic Letter

April/2023

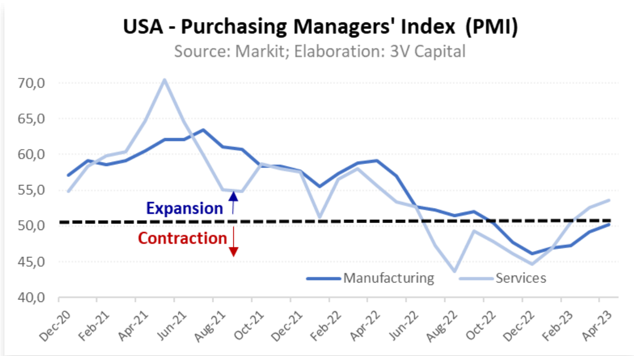
3V capital
Gestão de Recursos

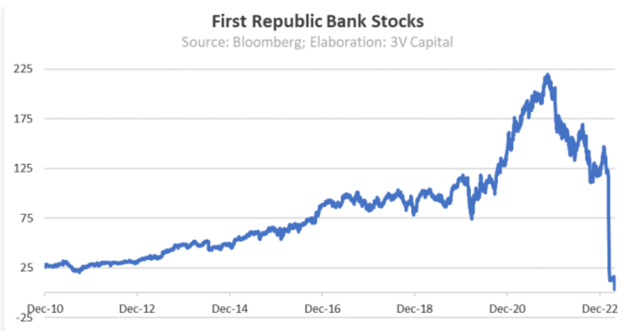
External Scenario

The month of April was characterized by a recovery in the main international stock markets, benefiting from the expectation that the US monetary tightening cycle is nearing its end and signs of greater vitality in the Chinese economy, which could offset the expected slowdown in more developed countries.

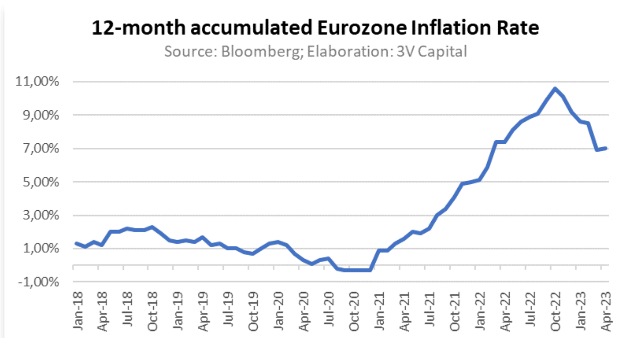


In the United States, the banking sector continued to attract market attention due to the near-collapse of First Republic Bank, which culminated in its acquisition by JPMorgan. To give an idea of the risk, the accumulated value of assets of the three banks that failed this year has already surpassed the total assets of the 25 financial institutions that went bankrupt in the subprime crisis in 2008. Additionally, the US economy presented GDP data below expectations, leading agents to price in a more dovish[1] Fed, with a fed funds terminal rate between 5.00% and 5.25%.





On the other hand, the banking situation in Europe improved after the acquisition of Credit Suisse by UBS, although the region was surprised by the latest GDP and inflation data, with activity growing only half as much as expected and price indices well above the desired level. This scenario of apparent stagflation in the Old Continent strengthens the perspective that the ECB and the BoE will need to maintain more prolonged restrictive interest rate policies than the Fed.



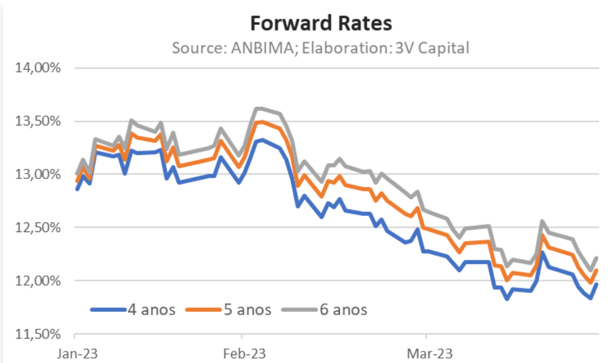
Meanwhile, the Chinese economy continues to recover. The consumer sector is advancing continuously alongside the country's exports, which significantly supports a more robust growth in 2023, although the corporate investment sectors and the real estate market continue to lack traction.

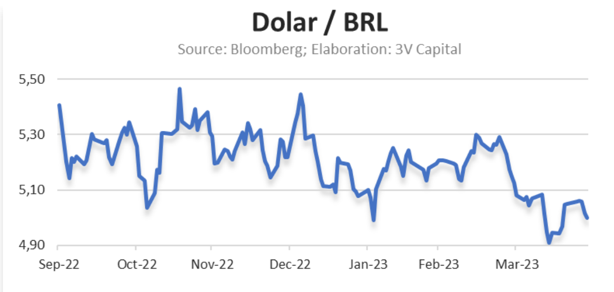
In summary, there was a slight perception of stabilization in the global scenario, but economies still have a long way to go to reach their respective inflation targets, and major central banks maintain a strict monetary policy in order to bring inflation back within the target, no matter the cost. Therefore, it is essential that inflationary pressures be cooled more intensively, leading to greater anchoring of inflation expectations, even if it negatively impacts the level of activity and employment.

[1]*dovish: a term used to refer to a less strict bias of a particular central bank, whose intention is to keep interest rates low*

Domestic Scenario

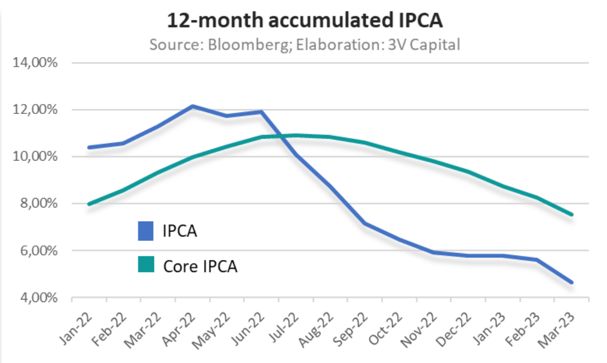
In addition to more favorable external winds with the more pronounced Chinese economic recovery and the perception that the end of US monetary tightening is near, the submission of the final text of the new fiscal framework to Congress and some more encouraging signs of domestic inflation brought some relief to Brazilian assets in April, opening room for a reduction in premiums on forward rates and appreciation of the Real.



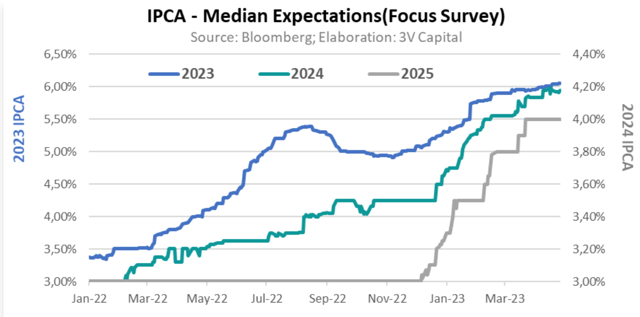


On the fiscal side, although the general lines of the new framework had already reduced the risk of a sharp deterioration in the trajectory of public debt in the short term, the final text sent to Congress did not bring major improvements. While on the one hand, Minister Haddad was able to include the capitalization of public banks within the rule that limits expenses, as well as all spheres of power (Executive, Legislative, and Judiciary), nonfinancial federal state-owned enterprises were left out. Not least, the exemption from liability for authorities in the event of non-compliance with fiscal rules was received with suspicion. Finally, the text also reinforced the initial understanding that the success of the plan will be conditioned on new recurring tax revenues.

Regarding the price dynamics, the positive surprise of the IPCA in March made the indicator drop from 5.60% to 4.65% in the 12-month accumulated period, simply the lowest rate since January 2021 and below the ceiling of this year's target, which is 4.75%



However, despite acknowledging the government's efforts to reduce fiscal risk and the current inflation decline, the Central Bank maintained a cautious tone, without giving any indication of the start of a cycle of interest rate cuts, as even though the headline IPCA is falling, the core measures remain pressured and inflation expectations are unanchored. Under strong government pressure, Campos Neto has argued that a reduction in the Selic rate would not necessarily increase lending volume (as it is long-term rates that really matter), and that Central Bank actions must be carried out with credibility, so that the effect is not the opposite.



Looking ahead, there is positive expectation from the government and market for the Supreme Court's confirmation regarding the STJ's decision authorizing the collection of IRPJ and CSLL on ICMS tax benefits - the reoneration will bring R$90 billion to public coffers, of which R$70 billion will go to the Union, which represents a good part of what the government needs to meet this year's fiscal target. However, there are still many uncertainties regarding other initiatives to increase revenue that are yet to come, as there are political and legal challenges to their execution (the government's own backtracking on the proposal to tax small international purchases is a very clear example of the existing obstacles). Nevertheless, it is also important to closely monitor the evolution of the Parliamentary Inquiry Committees (CPIs) that will be installed in Congress throughout May and their impact on the progress of the economic agenda, especially the new fiscal framework and tax reform.

Indicators - returns (%)				
Rate/Index	Mar-23	Apr-23	2023	Last 12 m
CDI	1,17%	0,92%	4,36%	13,40%
Dólar (Ptax-V)	-2,45%	-1,57%	-3,97%	0,03%
Ibovespa	-2,91%	2,50%	-6,89%	-5,69%
IMA-B	2,66%	2,02%	6,73%	8,87%
IPCA	0,71%	0,55%	2,72%	4,12%
IRF-M	2,15%	1,10%	5,66%	13,49%
S&P 500	3,51%	1,46%	5,77%	-5,56%
Euro Stoxx	1,81%	1,03%	13,01%	15,09%
MSCI Emerging	2,73%	-1,34%	2,09%	-8,22%

*IPCA of April refers to Anbima's forecast