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# NEWSLETTER

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## **BRAZIL ENDS 2022 WITH RECORD TRADE SURPLUS**

***In December alone, country's trade balance totaled \$4.8bn***

Brazil's trade balance in December meant a surplus of \$4.779 billion. The number was released Tuesday by the Foreign Trade Secretariat (Secex) of the Ministry of Development, Industry and Trade (MDIC). The value is 24.5% higher than in the same period of the previous year, calculated by the daily average criteria.

With this, the balance was positive at \$62.3 billion in 2022, up 1.5% year-over-year, and also the highest since records began.

Exports totaled \$26.6 billion in December, up 14%. Imports reached \$21.8 billion, up 12%.

In 2022, imports totaled \$272.7 billion, up 24.3% and the highest since records began. Exports, meanwhile, totaled \$335 billion, up 19.3% and also a record. In turn, the total trade (sum of exports and imports) reached \$607.7 billion, up 21.5% and also a record.

The better-than-expected positive balance of trade in 2022 "is explained by higher growth in exports and lower growth in imports compared to the estimated," Secex said in a note.

In its most recent projection, Secex had calculated a \$55.4 billion surplus, the result of \$330.3 billion in exports and \$274.9 billion in imports. In this case, the total trade would be \$605.2 billion.

"The higher-than-expected total trade figure is explained by the higher growth of exports compared to the estimated one," said Secex.

As for exports, the sector with the highest growth last year was agriculture, "mainly due to higher prices."

In addition, "growth in value was seen to Brazil's main trading partners in 2022," such as China, the European Union, the United States, and Argentina.

Last year, agricultural exports grew 36.11% year-over-year, while the extractive industry saw an increase of 4.64%, and the manufacturing industry posted an increase of 26.18%.

Sales to China rose by 1.46%, while those to Asia increased by 7.54%. Exports to North America grew 19.86%, those to South America climbed 29.03%, and exports to Europe rose 31.39% year-over-year.

As for imports, there was an increase of 6.31% in agricultural purchases, an increase of 69.8% in the extractive industry, and a 22.89% advance in the manufacturing industry.

Regarding imports, the price was also "a determining factor for the increase in value" in 2022. In addition, "an increase in the value imported is noted in all categories" last year, formed by capital goods, intermediate goods, consumer goods, and fuels.

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Finally, the “main suppliers of goods to Brazil” in 2022 were China, the European Union, the United States, and Argentina.

Source: Valor International  
<https://valorinternational.globo.com/>

01/04/2023

**SOLAR TOPS WIND POWER, BECOMES SECOND SOURCE IN BRAZIL’S GENERATION MIX**  
***Source is only behind hydro power one decade after first projects***

Solar power became the second-largest source in Brazil's generation mix, only behind hydroelectric plants, from a virtually non-existent installed capacity a decade ago. The source has just topped wind power and hit 23.9 gigawatts, considering large plants and small photovoltaic systems of self-generation on roofs, facades, and small plots of land.

The amount accounts for 11.2% of the country's power generation mix. Since 2012, investments have totaled R\$120.8 billion, according to the Brazilian Solar Energy Association (Absolar). Technological improvement, market evolution in Brazil, cost reduction, and good insolation quality have created ideal conditions for the source to grow.

A strong state policy of incentives for renewable sources also drives growth, according to the Economics of Energy Innovation and System Transition (EEIST) project.

Absolar's head Rodrigo Sauaia told Valor that Brazil is among the 10 largest markets in the world in this segment and is still gaining ground. “The first solar power contract with the federal government was signed in 2014. Only in 2017 Brazil hit one gigawatt. The first auction of the wind power industry, on the other hand, was held a decade earlier,” said the executive.

Last year was unique in this trajectory: the sector overcame the challenges of exchange rate oscillation, high freight rates, the collapse of China's supply chains, congestion in ports, inflation caused by high global demand, and the pandemic. Even so, Brazil added 9 GW of power. In the last 150 days alone, the rate of growth has been more than 1 GW per month.

With this, the power generated from photovoltaic panels has been the fastest-growing segment in the electrical sector by associating the growing search for clean and renewable power with the appeal of low cost.

Yet, the solar source is expected to keep growing strongly. Bloomberg projects that the solar source will be the most important in the power generation mix by 2050, surpassing hydroelectric plants, which total 110 GW in operation, according to the Brazilian Electricity Regulatory Agency (Aneel).

“This path can be traced in a more or less agile manner, according to public policies developed and the use of these technologies in government programs,” said Mr. Sauaia.

It is worth pointing out that the solar source is significant in Brazil's power generation mix because of distributed generation, a type of energy production generated mainly with solar panels near consumers with a limit of up to 5 MW.

Guilherme Chrispim, head of the Brazilian Association of Distributed Generation (ABGD), recalled that in this historical context, wind power took longer to reach the same level. Furthermore, the growth of solar was key for the social, economic, and environmental development of Brazil, at a time when the consumer became more empowered, including with the option to generate their own energy.

“Distributed generation for small consumers made solar power the second-largest source in Brazil's generation mix,” he said. “This shows democratization in this source. Plus, there is no lack of sunny areas in Brazil.”

Not surprisingly, distributed generation is the model that added the most power in the system – 7.7 GW, compared to 4.6 GW in 2021 – and is expected to be the source that will inject the most capacity in the system.

Absolar forecasts that the source will add more 10 gigawatts of capacity in the electrical system this year, raising the total to 34 GW. Of this amount, 21.6 GW will come from small and medium-sized systems installed by consumers in homes, small businesses, rural properties, and public buildings.

The sector's path is still long. Technological development is a challenge since a good part of the solar panels installed in residences has low efficiency. The crystalline silicon cells had 13% efficiency 10 years ago, compared with up to 26% now. As technology advances, costs are falling.

"As of 2020, solar power is the generation source with the best cost-benefit ratio in places where more than 60% of the world's population lives. Cheaper than coal-fired, wind-fired, and hydro sources," said Mr. Sauaia when referring to large power plants. According to the International Energy Agency's forecast, the source is expected to surpass power production from coal by 2027.

Smaller solar systems have also seen their costs reduced. A study by consultancy Greener with companies in the sector found that, in Brazil, a residential photovoltaic system that cost an average of R\$35,000 in 2016 can currently be purchased for R\$19,500.

Even with the substantial drop in equipment prices, it is still expensive for low-income households. Camila Ramos, director and founder of the consultancy Clean Energy Latin America (Cela), stressed that even with the high interest rates in Brazil, the demand for financing solar panels has increased because of the growing rise in electricity bills in recent years.

According to the executive, the segment's financing lines have increased in the last year. The sector calls for more access to credit in social programs to bring this technology to the whole society in a more democratic way.

The source's growth is not restricted to Brazil. The whole world has been advancing at a record pace, not only because countries are driving the expansion of renewable power, but also to achieve their climate and energy security goals. China, for example, has more than 306 GW. The United States is at more than 123 GW, according to 2021 data. Compared to some countries, Brazil is still taking its first steps.

Source: Valor International  
<https://valorinternational.globo.com/>

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01/09/2023

## **FOREIGNERS INCREASE CAUTION WITH LOCAL ASSETS**

### ***Foreign banks show signs of concern with directions pointed by new government***

After the noises emitted by the new government provoked days of high tension among local market players, foreign banks have now started to send messages of greater caution with the directions indicated by the Lula administration, worsening their projections for the trajectory of Brazilian assets.

Besides increasing the uncertainties about the performance of the local market, the move seems to give strength to the thesis that foreign players take a little more time to react to domestic political news.

For Morgan Stanley, the context of fiscal worsening and uncertainties about the framework that will discipline public spending in the coming years was translated into a worsening of the prospects for Brazilian assets. The American bank even cited in a recent report "echoes of the fiscal deterioration experienced in 2015 and 2016" in local markets.

"We reaffirm that, from the exchange rate point of view, the attractive spread [i.e., high-interest rates] will not be sufficient to avoid more significant depreciations if external accounts and the fiscal outlook continue to deteriorate," stated the report. The bank's strategy team reaffirms a pessimistic view of the real. "We believe that the BRL [real] should underperform emerging market peers due to the risks of political uncertainty and we have opened a short position against the South African rand."

As for interest rates, the institution considers a process of falling rates unlikely, preferring to adopt a trend which gains from rising local rates. “We remain very focused on inflation expectations for 2024 and 2025, as further de-anchoring may lead markets to price a resumption of the high cycle in 2023 — which is not the base scenario, for now,” they assess.

The higher interest rates for longer are expected to undermine the story of apparently attractive valuation for local stocks. “If we are correct in our assessment, the next few years should not be good for domestic stocks,” said the Morgan Stanley analysts, who maintained a “neutral” recommendation for local stocks.

In the first week of the new administration, Commerzbank sent its clients a note asking, “what does Lula represent for the real?” In response, the German bank said “probably nothing positive.” According to Antje Praefcke, Commerzbank’s senior foreign exchange analyst, Brazil’s fiscal scenario and the sustainability of public debt has been a stumbling block for investors for some time. Now the situation is likely to get worse, as the government plans adjustments to the spending cap to facilitate the increase in social spending it promised during its election campaign.

“Lula will have to manage to improve it [the debt], either with the help of spending cuts or revenue increases. No easy task in times of high inflation and deep political division. The prospect of higher spending will probably make investors even more skeptical and may drive them away completely.”

For the analyst, two questions will be decisive for the Brazilian currency over 2023. The first is whether Mr. Lula will manage to control the fiscal situation or whether it will deteriorate with adjustment to the spending cap. The second is how the Central Bank will react to the evolution of the budget and whether the monetary authority will continue to be an anchor for the stability of the real. “It is likely that times will get tough for the real. If investors question Mr. Lula’s budget policy and the Central Bank’s monetary policy, the currency is likely to depreciate rapidly, with the biggest risk probably being fiscal policy.”

Another foreign institution to raise concerns about the new government’s early directions was Wells Fargo. “With Lula now officially sworn in, the fiscal fears that have pre-emptively shaken investors are beginning to materialize and further affecting market participants’ confidence,” the institution said in a report.

Wells Fargo calls attention to the fiscal expansion already approved in the Transition PEC, while there is the prospect of using state-owned banks to leverage economic activity. “We believe that this new direction of fiscal policy will end up being inflationary, and we now believe that the CB will delay monetary policy easing until the third quarter of 2023,” said the bank report.

Thus, Wells Fargo recognizes that its projection made at the beginning of the year, that the dollar would end the first quarter trading in the R\$5.30 range, runs the risk of not materializing. “Should future policy decisions indicate further erosion of fiscal responsibility, we will adjust our USD/BRL outlook to reflect likely pending capital outflows that would put depreciation pressure on the currency,” he said.

For Eirini Tsekeridou, Julius Baer’s fixed income analyst, the announced extension of the tax exemption on fuel prices not only affects tax collection but was also a “rug-pulling of Minister [Fernando] Haddad,” who was against the measure, weakening his credibility and also the country’s commitment to fiscal responsibility.

“There is still no clarity regarding Brazil’s fiscal structure, including the replacement of the spending cap, so until we have more visibility on Lula’s strategy, the real will likely remain volatile and affected by news flow,” Ms. Tsekeridou told Valor.

The Oxford Economics consultancy was another institution that revised its scenario for the country. As pointed out by Regis Chatellier, director and emerging markets strategist, Brazil’s fiscal outlook has deteriorated following the recent increase in the spending cap and Mr. Lula’s post-election speech. “In this context, inflation should remain relatively high and the CB’s interest rate cuts will be much slower than anticipated. We believe risk premiums will remain high, with strong investor positioning also limiting the appreciation of Brazilian bonds,” he said.

Mr. Chatellier says that premiums on Brazilian bonds are relatively high, which ends up being a buffer for risks. “However, we believe that risk premiums embedded in LTNs and NTN-Fs will remain elevated given the deteriorating fiscal outlook and slower normalization of monetary policy,” he added. “We cut our recommendation for exposure to local Brazilian bonds to ‘neutral’ from the above market average.”

Source: Valor International  
<https://valorinternational.globo.com/>

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01/11/2023

### **CLIMATE CHANGE IS GREATEST RISK TO AGRIBUSINESS, SURVEY SHOWS**

#### ***Infrastructure hurdles are second greatest risk; low-carbon agriculture comes in third place***

An EY survey with agribusiness executives in Brazil, Argentina, and Chile showed that climate change and its short and long-term impacts are the main risks they see for their businesses. The study listed the top ten risks and opportunities that agribusiness executives face in their businesses.

According to the survey, 47% of the executives and investors consulted might reconsider their investments based on climate risks. And for 82% of those consulted, climate change represents a “high” risk to their businesses.

EY divided the risks to agribusiness associated with climate change into six types, with different weights. Contrary to what many industry leaders say, reputational risk is one of the lowest, accounting for 12% of the risks related to the problem. The biggest risk in the list is “acute,” such as abrupt changes in precipitation and temperatures, and extreme weather such as droughts and storms.

EY survey sees political and legal risks at 19% of the total risk. They relate to enhanced disclosure obligations for greenhouse gas emissions, exposure to litigation, rising emissions prices, and existing product mandates or regulations. At the same level (19%) are technology risks, which involve the costs of transitioning to a lower emissions model of production and services, and unsuccessful investments in new technologies.

Difficulties in accessing markets were seen as 15% of the risks related to climate change. They involve changing consumer behavior, increasingly unwilling to consume products with high emissions footprint, as well as rising costs of raw materials with higher carbon footprint and uncertainties in market signals.

Reputational risks are seen as 15% of climate change-related risks, as are chronic risks (15%) involving long-term changes in average precipitation levels and temperatures, biodiversity loss, and sea level rise.

After climate change, respondents from agribusiness companies understand that the second greatest risk is infrastructure hurdles, with inadequate roads, concentration on road transport, and static capacity limitations.

The third most cited aspect by respondents is an opportunity: low-carbon agriculture.

Next, were cited issues related to increasing productivity, cost management, and asset management; restrictions on the use of agrochemicals and pesticides; issues of ethics, compliance, and control; government interventions, regulatory changes, and reforms; shortage of skilled labor and implementation of an agile and innovative culture; financial profitability, currency volatility management, and margins; and finally, professionalization and evolution of the governance and succession model.

Source: Valor International  
<https://valorinternational.globo.com/>

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01/11/2023

### **INFLATION SLOWS DOWN TO 5.8% IN 2022**

#### ***Last months were marked by consistent deceleration of price hikes***

Inflation has surprised once again to the upside at the end of 2022, raising the full result for the year. The benchmark inflation index IPCA rose by 0.62% in December, above the 0.61% ceiling of the projections gathered by Valor Data — the median was 0.45%. Thus, last year closed with an inflation of 5.8%, against a market expectation of 5.6%.

According to economists' evaluation, inflation is still high, although it represents a significant slowdown considering the 10.1% reported in 2021 and the peak of 12.13% reached in the 12 months until April. Despite that, for the second year in a row, the Central Bank will need to write a letter to the finance minister justifying why the IPCA missed the target, which was 3.5% in 2022, with a tolerance of up to 5%.

The last months of last year saw a deceleration in 12 months, but the IPCA remained at double-digit levels between September 2021 (10.25%) and July 2022 (10.07%). The projection for last year's inflation was much higher than what was actually observed, had it not been for the government's intervention at the time. Amid the electoral race, then-President Jair Bolsonaro cut taxes on important items.

Considering deflations in fuel (-23.9%, after a 49.02% high in 2021), electricity (-19.01%), and internet services (-12.09%), this "hand of the government" reduced inflation by 2.16 percentage points, said Luis Otávio de Souza Leal, chief economist at Banco Alfa.

Gasoline alone fell 25.78% in 2022, after a high of 47.49% in 2021, exerting the greatest individual impact (-1.7 percentage points) on holding down the IPCA for 2022. Besides the effect of the lower ICMS, there was also the influence of falling fuel prices at refineries, set by Petrobras throughout the year.

"Excluding the gasoline and electricity sub-items from the inflation calculation, the IPCA would have been 9.56%," said André Filipe Guedes, an analyst at the statistics agency IBGE.

Administered prices (those regulated by contract or public agency) saw a deflation of 3.83% in 2022 after rising almost 17% in 2021, according to MCM Consultores. Free prices, on the other hand, had accelerated to 9.39% from 7.7%.

Among the main influences for the IPCA's rise are items related to automobiles — be it taxes, services, or the vehicle itself. The automotive industry was one of those that most felt the effects of the disorganization of the production chain brought about by the pandemic, with more expensive inputs and a lack of raw materials. As the prices of taxes and services follow the variation in car prices, they are also affected.

The behavior of industrial goods, however, ended up affecting the average of the measures that try to soften the effect of more volatile items and are closely monitored by the Central Bank, which went to 0.66% in December from 0.33% in November.

Source: Valor International  
<https://valorinternational.globo.com/>

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01/12/2023

## **RGE BUYS OL PAPÉIS, EXPANDS TISSUE BUSINESS IN BRAZIL**

***Bahia-based company produces more than 50,000 tonnes of tissue paper per year***

The Asian group Royal Golden Eagle (RGE) did not give up after losing the competition for Kimberly-Clark's assets in Brazil to Suzano. Interested in expanding in the tissue segment in Brazil, it finally found an M&A deal in the country. RGE has just agreed to buy Bahia-based OL Papéis, sources told Valor's business website Pipeline.

In Brazil, RGE operates through Bracell, one of the world's largest pulp makers, which has production units in Bahia and São Paulo. The acquisition of OL brings forward by one year the Asian company's entry into Brazil's tissue market in relation to the organic investment schedule. The reason is that the company announced last year the construction of a tissue paper mill in Lençóis Paulista, with operations expected to start in the second quarter of 2024.

OL has three factories in Bahia and Pernambuco, which produce 50,000 tonnes of toilet paper per year, under Velud, Familiar and Absoluto brands, in addition to paper towels and tissues, and more than 30 million diapers per month under its own Fofura Baby brand.

The OL operation, based in Feira de Santana, began in 2007 and has expanded its scope in recent years, taking advantage of the demographics in the region and less local competition. The market estimates that the company now holds 20% of the Northeast region's toilet paper market.

The transaction gave OL an enterprise value (equity and debt) of R\$500 million.

Sources close to the companies say that RGE was advised by Bradesco BBI and OL Papéis by Fortezza.

The original story in Portuguese was first published on Valor's business website Pipeline.

Source: Valor International  
<https://valorinternational.globo.com/>

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01/12/2023

**BRAZIL POLITICAL CRISIS, PERSISTENT INFLATION IN DAVOS' AGENDA**  
***Greatest global threat for next two years is cost-of-living crisis, says World Economic Forum survey***

The World Economic Forum launches every year a Global Risks Report ahead of the Davos meeting, which this year will take place next week in the Swiss Alps.

This time, the greatest planetary threat pointed out for the next two years is the cost-of-living crisis. In turn, climate and environmental risks are the central focus of global risk perception in the next decade.

The forum also summarizes the top five risks identified separately in different countries. The survey was conducted last year, between September 7th and October 5th, therefore well before the action of the extremist followers of former President Jair Bolsonaro in the Three Powers Square in Brasília.

Thus, in the survey with international executives, the threats to Brazil are rapid and/or persistent inflation; what they coyly call "proliferation of illicit economic activity," as well as geopolitical confrontation, severe commodity price shock, and job/subsistence crisis.

It is clear that extremism by Mr. Bolsonaro's supporters now poses questions about political stability in the country. This will lead Economy Minister Fernando Haddad and Environment Minister Marina Silva to talk a lot about the political situation alongside their respective agendas next week.

Globally, inflation management remains a strong concern, as the Davos survey shows.

"Rapid and/or persistent inflation" appears as the biggest threat in several G20 countries, including Brazil, South Korea, and Mexico. The rate has passed 80% in Argentina and Turkey, and in Zimbabwe, Venezuela, Lebanon, Syria, and Sudan it reaches triple-digit levels.

In most of the world, the fiasco to stabilize the price trajectory is evident. The strong concern continues over how to control inflation and protect the population from the cost-of-living crisis, without triggering a deep or prolonged recession that worsens the situation.

The risks involve pressures on food and energy supplies, which may persist for longer. The debt crisis and lasting economic slowdown lengthen the list of top 10 threats for the next two years.

Geopolitical conflicts, erosion of social cohesion, and polarization of society are persistent risks, now compounded by widespread cybercrime, cyber insecurity, and large-scale involuntary migration.

This situation affects efforts to combat other long-term threats involving climate change and biodiversity.

As Carolina Klint, with Marsh McLennan company, summarizes, 2023 is expected to be marked by risks related to food, energy, raw materials, and cybersecurity, causing further disruption in supply chains, and impacting investment decisions.

And attention is turning even more now to the unfolding situation in Latin America's largest economy.

Source: Valor International  
<https://valorinternational.globo.com/>

01/13/2023

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**GRANJA FARIA KEEPS ACQUISITIONS ON RADAR**  
*In strong expansion, the egg company estimates revenues of R\$2bn this year*

After investing more than R\$1.5 billion in 15 acquisitions since it was created, in 2006, by businessman Ricardo Faria in Nova Mutum, Mato Grosso, Granja Faria is preparing to take the lead in the Brazilian commercial eggs market this year, with an expected revenue of R\$2 billion, compared to R\$1.3 billion in 2022.

The leap will be guaranteed mainly by the purchase of BL Ovos, announced in December and closed for R\$290 million. But it also includes organic growth and the effective entry into the commercial phase of a new business field – the production of organomineral fertilizers.

In the meantime, however, new purchases may be announced. “We are prospecting,” said CEO Denilson Dorigoni. The executive explains that the total injection from the beginning includes assets and improvements and adjustments made after the incorporation.

Granja Faria is waiting for the green light from CADE, the antitrust regulator, to take over BL Ovos's operations, and the company's farms will also be improved with new technologies. The antitrust agency's approval is expected to come in the coming weeks.

With the acquisition of BL, which has units in Espírito Santo and Goiás and posted revenues of R\$300 million last year, Granja Faria expands its production and geographic presence. The brand is likely to be maintained because the egg market is still very regionalized.

“We have 22 units, all with their production and commercial areas. And with BL we will start serving Espírito Santo and Bahia, where we were not present,” said Mr. Dorigoni.

With headquarters and commercial egg production in Santa Catarina, and units in Rio Grande do Sul, Paraná, Minas Gerais, Goiás, and Tocantins, Granja Faria is focused on establishing itself in the Northeast region.

The fertile eggs are produced in units in Rio Grande do Sul, Santa Catarina, Paraná, Goiás, and Mato Grosso. In this division, 50% of the production is exported.

As the commercial eggs area was a natural consequence of the fertile eggs business, a large part of the company's hens are free-range — about 1.5 million, out of a total that will reach 13 million, including the 3 million that will come with BL Ovos and the 4 million of the fertile egg division.

Mr. Dorigoni calculates, the total number of birds is around 200 million, and about 5 million of these are free-range.

Still in the egg segment, Granja Faria also has a processing industry that manufactures liquid and powdered products, sold to companies in the pasta and bakery segments, among others. This business accounts for nearly 5% of the company's revenues.

Another area in which the company has been operating since 2021 is organomineral fertilizers. And for this one, the perspectives are for a strong advance in 2023, when production will start to take off in two plants, in Tocantins and Minas Gerais. The turnover was marginal in 2022 but is likely to reach R\$200 million this year, according to the CEO.

Source: Valor International  
<https://valorinternational.globo.com/>

01/13/2023

### **AFTER RISING EMPLOYMENT, INCOME RECOVERY IS CHALLENGE FOR 2023**

***Analysts predict that labor market will calm down and average income will evolve slowly***

Unlike what most economists expected, the recovery of the Brazilian labor market started in 2021 maintained steam in 2022 — not only recovering from the losses caused by the Covid-19 crisis but also bringing down the unemployment rate to levels not seen since 2014. However, even in the face of signs of red-hot hiring — which weakened at the end of the year, the real average income of workers grew more slowly and has not yet returned to pre-pandemic levels. Economists estimate that this process may come to an end only in 2023 or even in the following years.

According to the latest Continuous National Household Sample Survey (Pnad Contínua), the average real income of Brazilians reached R\$2,629 in the October quarter, up 4.7% compared to the same period in 2021. Still, it is between 2% and 3% below the pre-pandemic period, depending on the seasonal adjustment applied.

Unlike the recovery in employment, which took place gradually between 2021 and 2022, the flattening of income has been slow to reverse itself. At first, after the pandemic hit, many Brazilians ended up accepting lower wages or lower job positions to get back into the market. This situation led the average real income of workers to drop 8.9% in December 2021, when compared to the levels seen in February 2020, according to calculations by LCA Consultoria.

“During the pandemic, the ample idleness of the market put the bargaining power in the hand of companies and employers,” says Rodolfo Margato, with XP Investimentos. “Now, with current unemployment even below the Nairu [rate below which the labor market begins to impact inflation], the situation has reversed and the bargaining power would be more on the side of employees,” he adds. Mr. Margato ponders that the situation varies a lot depending on the industry and the region — in Santa Catarina, the unemployment rate is around 5%, while in states of the Northeast it reaches 12%.

Another factor that “delayed” this convergence was inflation, whose variation in 12 months reached double-digit levels between September 2021 and July this year, which ended up eroding the purchasing power of the adjustments, even in the face of strong nominal increases.

With the expected deceleration of inflation in the coming months and a labor market still heated, the real income is expected to continue recovering, said Mr. Margato. XP calculates that this indicator is still 3% below the pre-pandemic level and that this hole will only be closed in the second half of 2023.

For Gabriel Couto, an economist at Santander, another factor that helps to slow down the recovery of the real income was the lack of adjustment for civil servants in the last two years. “A faster recovery, in this sense, would depend on movements to replace the losses of this segment of workers,” he says.

Mr. Couto evaluates that this movement will be slow in the short term, in the wake of a more restrained labor market. Santander estimates that the average annual unemployment rate may grow slightly again in the next two years, to 10.1% in 2024 from 9.5% in 2022. Accordingly, it says, the average real effective income — a metric that considers the usual income and also extraordinary or occasional variations, such as bonuses —, is not likely to fully recover until 2025 or stay until 2026.

In the calculations of Bruno Imaizumi, an economist at LCA Consultores, the return to the pre-pandemic level may only happen in the first half of 2026. Contributing to this very gradual scenario is a still significant contingent of the population with informal jobs and the cooling of employment dynamics.

Another way to measure the loss of purchasing power of workers, he says, is to use the basic food basket as a proportion of the average nominal income. Using prices practiced in São Paulo, Mr. Imaizumi calculates that, on average, workers spent 22% of their income to buy the basket in February 2020. The proportion reached 31.3% in April 2022 before dropping back to 27.7% in October.

“What I want to highlight is that income may improve, but perhaps not at the same speed as the variation of important prices for some groups, such as food,” he says. He estimates that the basic food basket would be 25.2% of income at the end of 2024. Mr. Imaizumi’s scenario also contemplates a relatively stable labor market, with the average unemployment rate dropping to 8.8% in 2023 from 9.2% in 2022.

A final factor that may help delay this movement is the slowdown in the generation of formal jobs — which generally pay better salaries. After consistently exceeding expectations in the first half of the year, the creation of formal jobs has lost momentum. In October, 159,000 jobs were created, according to the General Register of Employed and Unemployed Workers (Caged), against expectations of 210,000.

“Some studies are starting to show that, given the slowdown in the economy, informality is gaining some steam again,” says Rodolpho Tobler, an economist with the Brazilian Institute of Economics (Ibre), of Fundação Getulio Vargas. He ponders, however, that he hardly sees this rate surpassing 40%. In August, informality was a record 39.1%, but it has slightly decreased since then.

Source: Valor International  
<https://valorinternational.globo.com/>

01/16/2023

### **MILLS BET ON SUGAR AS ETHANOL LOSES STEAM AMID POLITICAL UNCERTAINTY**

***Some companies even consider making investments to ensure greater sugar production in the next harvest***

Uncertainties about what the Lula administration’s policies for fiscal balance, monetary policy, fuel pricing policy, and fuel tax policy will look like, in addition to doubts about the direction of the foreign exchange rate, are causing concern among sugarcane mills. As these factors tend to impact the ethanol market more immediately, sugarcane mills are already indicating that they could prioritize sugar production as a safe haven three months into the new harvest (2023/24).

According to Willian Hernandez, partner at Ribeirão Preto-based consultancy FG/A, there are even mills considering making investments to ensure greater sugar production capacity already in the next harvest, if necessary. “This [political] indecision is bad for [business] decisions. In this current tax scenario, making adjustments for sugar production to become larger is eminent,” he said.

An investment like this, however, can only be translated into effective production increase in at least six months — that is, if an investment decision is made now, it will only be reflected in increased sugar production from July on, at least, according to Ricardo Pinto, a partner at consultancy RPA.

As there are still many mills with idle capacity, this capacity may be filled by directing the largest supply of cane to sugar. But the capacity to reduce the ethanol supply is limited, says the consultant. “It is difficult to have big changes in volume only with mix adjustments.”

The record sugar production in the South-Central region was 38 million tonnes in the 2020/21 harvest, when the pandemic broke out, hitting the fuel market hard. At the time, the mills ended up directing all their production to sugar, for which there was still some demand. The two following harvests were shaken by drought and frost, but the consultants expect a resumption of the cane harvest in 2023/24.

The climate of uncertainty grew after the government published the provisional measure 1,157/2023, which postponed for two months the federal tax relief on fuels to allow time for reviewing the pricing policy. It is not known whether, after these two months, ethanol will recover the same special rate compared to gasoline as before the tax changes — as foreseen in the constitutional amendment approved last year — nor if and what will be the level of gasoline price control by Petrobras under future CEO Jean-Paul Prates.

The biggest fear of the mills is a repeat of what happened under President Dilma Rousseff, when domestic gasoline prices were kept well below international levels, which were high at the time, making it difficult for hydrous ethanol to compete at the pumps — and even affecting the sugar market because of the preference of mills to produce more of the sweetener.

An executive from one of the largest companies in the sector, however, told Valor on condition of anonymity that there may be an intermediation with Mr. Prates's proposal for a price stabilization account. The alternative, however, still holds uncertainties and is expected to take a while to consolidate, creating a cloudy horizon in the first months of the harvest.

The mills are still studying whether to file a lawsuit against the federal government in case the tax relief is extended. But a normalization of the tax policy is not likely to change the scenario either. "Even if taxes on gasoline are resumed, ethanol price is unlikely to be higher than sugar price," said Tiago Medeiros, director of the trading company Czarnikow.

The uncertainty is also causing caution in hedging, which is within the historical rate for this time of year. At Czarnikow, 65% of sugar exports for the next harvest are hedged, and 10% of exports for the 2024/25 harvest as well.

"The hedge, as much as it is a protection, brings uncertainties related to the cost, to the total return of the business, considering an ethanol scenario maybe less interesting with price controls put in place by Petrobras. The result is inaction," said Mr. Medeiros.

The demerara sugar future contracts traded on the New York Stock Exchange that foresee deliveries during the harvest period in South-Central Brazil (for July and October) have also shown less attractive prices than the mid-crop contracts expired last year.

Source: Valor International  
<https://valorinternational.globo.com/>

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01/19/2023

**BANCO INTER UNVEILS PLAN TO REACH 60M CLIENTS IN 5 YEARS**  
**Also, CEO announced plans for better efficiency index than Brazil's large banks**

Banco Inter wants to reach 60 million clients by 2027, CEO João Vitor Menin said on Wednesday during the company's Investor Day. The bank outlined in the event a five-year plan with three goals, named 60-30-30. In addition to gaining new clients, Inter wants to increase the return on equity (ROE) and efficiency index to 30%. Mr. Menin believes that the goals are challenging but feasible.

In order to have 60 million clients in five years, compared with 25 million today, Inter would have to gain about 7 million per year, a little less than the 8 million per year it has gained in the last two years. The efficiency ratio – the lower, the better – would have to fall by more than 30 percentage points and would be better than the average of the large incumbents, which is around 35%.

The ROE of 30% would come with a profit of R\$5 billion per year, with a loan portfolio of R\$100 billion. In the third quarter, the portfolio totaled R\$22 billion, there was a net loss of R\$30 million (or adjusted profit of R\$23 million), and ROE was negative 1.7%.

"By balancing investments in technology with growth and profitability, going far beyond banking services, Inter has become the first Super App in the Americas. We have built a set of offerings from our digital account that are unmatched in the market," said Mr. Menin.

In his view, the bank is in its early stages of evolution, but the positive results show that it is time to take Inter to the next level. "We are confident that we have the right strategy, solutions, and team to execute our plan, pursue our goals and deliver sustainable growth."

According to Mr. Menin, as Inter grows its customer base and improves monetization, he expects the efficiency rate to be higher than its peers over time, not least because, unlike incumbent banks, it does not have legacy

systems and a branch network. “Our metrics and performance indicators will also continue to grow as we continue our expansion,” he said, adding that Inter brings together the best of both worlds, banking, and technology, creating a better customer experience that generates better returns for all stakeholders.

Source: Valor International  
<https://valorinternational.globo.com/>

01/19/2023

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Source: Valor International  
<https://valorinternational.globo.com/>

01/20/2023

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### **VTEX SEEKS SUPPORT OF U.S. COMPANIES TO EXPAND GLOBAL PRESENCE**

***Step is necessary before growing in Europe and Asia, says executive***

After speeding up online sales during the Covid-19 pandemic, navigating through high interest rates and inflation, Brazil’s retailers are now seeking efficiency instead of accelerated growth. Representatives of these companies visited the pavilions of the NRF 2023 retail conference, in New York, this week, in search of answers to pragmatic questions through technology instead of futuristic trends.

“It’s no use talking about metaverse if I can’t integrate my stock with the online operation, for example,” said Rafael Forte, CEO of Vtex, a Brazilian multinational software-as-a-service company for online sales, which joined the list of Brazilian unicorns in September 2020 and went public in the New York Stock Exchange (NYSE) in July 2021.

Brazil's retail results with the last Black Friday, which came below 2021 in gross sales, do not mean that the industry has not raised its margins in the period, said the executive. "The first thing that changed [in retail since last year] is that the game now is profitability and it is not made only with sales increase. You need to have margin and streamline the operations," said Mr. Forte.

Working with leaner inventories, in reduced spaces or inside stores, as U.S.-based Macy's has done in 35 stores over the past few years; betting on salespeople who attend customers in a customized way through WhatsApp, as fashion retailer C&A has done; or integrating the items on the shelf to the online sales inventory, as Carrefour has done, are some strategies in the search for efficiency shared by these companies during the NRF 2023.

For Vtex, which was born as an e-commerce platform and expanded its operations into software for managing other fronts of the sales chain, gaining the trust of U.S. companies is the focus before expanding operations in Europe and Asia, said the executive.

In September, the company opened an office in a prime area of Manhattan, where 40 people work. "If you build credibility here [in the U.S.], the global market respects it, so we need to have that focus," he said.

Vtex has 2,400 clients in 38 countries. In the U.S., it has local contracts with AB Inbev, Motorola, Stanley, Black & Decker, and Whirlpool. Brazilian clients currently generate 53% of the company's revenue, and Latin American clients, more than 90%.

Before building a base in one of the most expensive square meters in the world, however, Vtex had to lay off employees, an adjustment measure that almost no unicorn – technology-based companies valued at over \$1 billion – could avoid since last year.

The team of 1,850 people in February has dropped to 1,400 now. "We hired a lot of people, since 2020, when we had 400 people, to meet demand from retail, which was under pressure [in the pandemic] and then needed to streamline operations," said the executive. "When you grow very fast like that, it is inevitable to lose efficiency, so we had to look inward and search for that again."

The measure reflects greater investor caution in the face of the slowdown in the U.S. and global economy, causing technology companies to also seek efficiency. "Just as retail has been looking for efficiency, so have we."

In the third quarter of 2022, Vtex's revenue totaled \$38.8 million in the first quarter of 2022 – of which \$36.5 million in software-as-a-service subscriptions –, up 21.6% year-over-year. The net loss of \$11.5 million in the September quarter was 47.7% lower than a year earlier.

(The reporter's travel costs were covered by Vtex.)

Source: Valor International  
<https://valorinternational.globo.com/>

01/25/2023

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### **HUGHES EXPANDS ALLIANCE WITH ONEWEB TO SERVE BRAZIL** ***Partnership provides for use of new satellite for corporate market***

U.S.-based Hughes will team up with British company OneWeb to offer a low-latency satellite communications service in Brazil, targeting the corporate market, starting in the second half of the year. The technology to be used is the same as that used by billionaire Elon Musk's Starlink: a constellation of low-orbit satellites. This is a group of satellites that orbit the Earth in sync. The technology makes it possible, for example, to offer mobile services via satellite, which in practice means Internet access on planes, ships, and buses.

Hughes was a founding investor in OneWeb and continues to hold a stake in the company. Other OneWeb's shareholders include the British government, Japan's SoftBank, and French satellite operator Eutelsat.

Hughes has been in Brazil for 55 years and uses three geostationary satellites to provide services in the country. This type of satellite rotates in the same direction and at the same speed as the Earth. Therefore, although it is in

motion, it appears to remain stationary in an orbit 36,000 kilometers above the Earth's surface. This distance causes the communication signal to take almost 0.5 seconds to travel to the satellite and back to Earth. It may not seem like much, but this time lapse is a deterrent to providing some types of services in the banking industry, for example.

Low-orbit satellites, on the other hand, are 600 kilometers away from Earth and therefore have a response time comparable to that of fiber optics, said Rafael Guimarães, CEO of Hughes do Brasil. "The OneWeb constellation will be complete and operational by the second half of the year," the executive said. Last year, Hughes and OneWeb signed an initial partnership to serve the Indian market. And now, in a second phase, they have signed an agreement to provide service across the Americas, from Canada to Tierra del Fuego, Argentina.

Unlike Starlink, which offers Internet access plans for individuals, Hughes will focus its commercial efforts on businesses and governments. "We have no plans to use our constellation to serve individuals," said Mr. Guimaraes. The executive said it would be "wasteful" to use the network to provide broadband access to residential customers, as it is prepared to meet the requirements and specifics of the enterprise market.

Since 2016, Hughes has offered a satellite broadband service for end users (B2C) in Brazil, but its customer base in this segment has been shrinking. At the end of November last year, the operator had 208,300 subscribers in this category (individuals), according to data from the National Telecommunications Agency (Anatel), down 26% from November 2020, when it had 281,700 subscribers.

"We reached our maximum capacity very early on. In order to continue providing this service with quality, we reduced the number of subscribers," said Mr. Guimarães, adding that each satellite has a fixed data transmission capacity. Broadband users, in general, tend to consume more and more data.

To continue growing in this segment, Hughes expected to launch Jupiter 3, the fourth satellite to help serve the Brazilian market, last year. The invasion of Ukraine in February 2022 caused the launch to be postponed. This is because the U.S. government now has priority in the launches.

Now Jupiter 3 is expected to be in space by the middle of this year. The satellite will have a total capacity of 600 gigabits per second to serve the Americas. Mr. Guimarães does not reveal how much of that capacity will be dedicated to Brazil. "It will be a big chunk," the executive said.

Source: Valor International  
<https://valorinternational.globo.com/>

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01/26/2023

## **SOLUBLE COFFEE EXPORTS BRING RECORD REVENUE DESPITE WAR IN UKRAINE**

***Revenues reached an all-time high, but number of bags shipped decreased 9% year-over-year, to 3.7 million***

Brazilian soluble coffee exports reached record revenues last year, but volumes declined due to problems affecting global logistics, including the consequences of the war in Ukraine. Brazil exported 3.7 million 60-kilo bags to 100 countries in 2022, down 9% from 2021, according to the Brazilian Soluble Coffee Industry Association (Abics).

Revenue from shipments reached a record of \$705.7 million, up 24.5% year-over-year, thanks to higher prices.

"The decrease in volume reflects the global economic scenario, which was affected by the Covid-19 pandemic, logistical hurdles, high logistics costs, high raw material prices in Brazil, and the impact caused by the Russia-Ukraine war," said Aguinaldo Lima, director of institutional relations at Abics, in a statement.

Eastern European countries are important consumers of this type of coffee. Purchases from Russia, which has been at war with Ukraine since last February, fell 64% in 2022, and the country imported just over 135,000 bags. The Russian market fell from second to eighth place in the ranking of the largest buyers of Brazilian soluble coffee, according to Abics. Ukraine, which was the seventh largest importer, was not even among the top 15 buyers in 2022.

Among the top importers is the United States, with purchases of 770,000 bags, up 8.4% from 2021. This is followed by Argentina with 303,000 bags (-14.6%); Indonesia with 269,000 bags (-3.3%); and Japan with 188,000 bags (-30.3%).

The high prices do not mean more income for the segment, said Mr. Lima. “The raw material – Arabica and Robusta coffees – reached prices never seen before, and at certain moments the values in Brazil were much higher than international prices,” he said. As a result, competing countries took the market share left by Brazilian exporters.

The Brazilian domestic market, on the other hand, consumed nearly 998,000 bags last year, up 1.4% year-over-year. According to Mr. Lima, this is the highest historical level of sales. He recalled that the industries have expanded their plants and diversified their products to attract Brazilian consumers.

Source: Valor International  
<https://valorinternational.globo.com/>

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01/27/2023

### **DRUGMAKERS ASK SÃO PAULO GOVERNMENT TO REVIEW MEDICINE PRICE RISES** ***Several pharmaceutical groups warn about distortions resulting from new price list of different drugs***

Brazilian drugmakers, including those focused on generic medicines, asked the government of São Paulo to suspend the ordinance that raised medicine prices amid a risk of “occasional shortages” of certain treatments.

In letters sent Thursday to the state’s revenue service, FarmaBrasil – a trade group that represents large companies like Aché, Biolab, EMS, Eurofarma, Hypera, and Libbs) – and the PróGenéricos and Alanac organizations warned about distortions arising from the new list of Weighted Average Price to the Final Consumer (PMPF) of different products, and ask the authorities that the ordinance, which will come into force on February 1, be suspended until the “inconsistencies” are clarified.

Several states announced higher sales tax ICMS rates for medicines at the end of last year, which will be reflected in price increases as of February.

In São Paulo, there was no increase in the rate, but there was in the PMPF, with an impact on prices.

In a letter, FarmaBrasil points out that even the revised list of PMPFs in São Paulo, after warnings to Sindusfarma, maintained distortions and the average weighted price of certain drugs reaches 100% of the maximum price to the consumer imposed by the Chamber for Drug Market Regulation (CMED), the federal agency that regulates the market, after the change in rules.

“Such measure, if not reviewed, will make the commercialization of several drugs unfeasible, which may become commercially unviable and even cause specific shortages,” the trade association said in the letter.

PróGenéricos and Alanac, in turn, asked for the maintenance of the previous ordinance and immediate suspension of the new one at least until the meeting scheduled for January 31, when such distortions are expected to be discussed.

In a note, the Secretariat of Finance and Planning recalled that it extended by five months the application of the new PMPFs, which should have occurred in August. The secretariat “will maintain contacts with the sector, upon request, to address specific cases in which some reference prices may have exceeded the maximum price to the consumer set by the Chamber for Drug Market Regulation,” says the note, adding that the ordinance “already provides for the treatment for these cases, which will be duly clarified to representatives of the sector.

Source: Valor International  
<https://valorinternational.globo.com/>

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30/01/2023

### **PRICE OF FARMLAND FOR CEREAL GRAINS RISE 45% YOY IN 2022**

***Strong investor demand and positive profitability of agricultural production were key factors, says global report***

Prices for farmland dedicated to cereal grains in Brazil rose by an average of 45% year-on-year in 2022. The average value per hectare of soybean and corn plantations, for example, rose to R\$53,300 from R\$36,700, driven by strong investor demand in this market and the positive profitability of agricultural production, despite high costs, according to the most recent report by S&P Commodity Insights.

In three years, the appreciation of the country's farmland has reached 127.4%. In 2019, the average value of a hectare dedicated to grain production was R\$23,400. During the same period, sugarcane plantations also became more expensive (93.3%, going to R\$46,300 from R\$23,900), pastureland (60.6%, to R\$13,200 from R\$8,200), coffee (132.1%, to R\$44,000 from R\$18,900) and planted forests (53.8%, to R\$18,000 from R\$11,700).

A more moderate market is expected in 2023, with prices rising at a slower pace. Those in the industry believe that there will be a window of opportunity for investors with liquidity to acquire land from the second half of the year.

Mario Lewandowski, head of new business at AGBI, believes that the maintenance of high costs in the rural areas, with the high interest rates, will come back to haunt some producers who have not planned well and have relied on leverage. The option for some, he said, will be to sell the land.

"Many farmers will find it difficult to pay last year's installments and to get good loans this year, especially those who financed with more expensive money. Six months from now, with the increase in interest rates and costs, the farmer who did not make the right calculation will have to sell a piece of land," Mr. Lewandowski told Valor.

In recent years, interest rates in the country have risen to 13.75% a year from as low as 2% in March 2021, with no signs of a sharp drop in the short term. "If there is a sharp fall in interest rates in the coming months, farmers will reorganize. Our understanding is that this is a good time to be liquid because opportunities will appear," he added. AGBI is an investment manager focused on farmland and real assets.

Mr. Lewandowski argued that the price of land is not "good to buy" and that the indexes will not fall, as they are linked to the quotation of agricultural products and have the values constantly adjusted by inflation. However, there should be an adjustment while the market adjusts to the new conditions of interest rates and input costs. According to him, some prices on the market today are not "sustainable" and do not reflect the real value of the land.

This is what the market refers to as a wide price range. The S&P Global report shows that in Brazil's Central-West region, the average land price in the last quarter of 2022 was R\$26,700 per hectare. The survey identified areas priced at R\$1,000 and others at R\$124,000. In the South, the most consolidated and most highly valued region, land was valued at R\$212,000 per hectare. The average price of land in Paraná, Santa Catarina and Rio Grande do Sul from October to December last year was R\$56,800. The lowest price recorded for productive land in the country was in Pará, at R\$300 per hectare.

AGBI's first farm was purchased in 2013 for R\$9,000 per usable hectare of pasture. In 2020, the same area was sold for R\$50,000 after being converted to crops. Mr. Lewandowski says that there has been a change in prices and that it is unlikely that the management company will again be able to pay investors returns of 500%. "We will never again find land at R\$9,000, but if we find it close to R\$30,000 and sell it for R\$60,000, we can double our capital just by playing it safe. We are confident that we can, at least, double it," he predicted.

According to a report by S&P Global Commodity Insights, the market became more "subdued" in the last quarter of 2022 "due to high land prices, a contraction in some commodity indicators, and market sensitivity to the new federal administration." Uncertainty over fiscal policy in Brasília, with potential implications for taxes, interest rates, and prices, can affect production costs and impact land prices, it says.

The international environment is also having an impact on the market, particularly with lower growth or a slowdown of Brazil's main trading partners. "However, with the prospect of increased agricultural production in the

country and consequent increase in domestic stocks, we could see some pressure on prices, which was not the case in last year's crop, when stocks were limited," says the report.

Source: Valor International  
<https://valorinternational.globo.com/>

01/30/2023

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## **MARKET SEES SELIC UNCHANGED FOR A WHILE** ***On the eve of the Copom meeting, de-anchored inflation worries agents***

The recent criticism the current administration has made of inflation targets and the persistence of fiscal uncertainties have translated into a movement of de-anchoring of inflation expectations. That is happening in a scenario that increasingly detaches market agents from the prospect that the Central Bank's Monetary Policy Committee (Copom) begins the cycle of interest rate cuts.

Despite that, the improvement in current inflation and signs of a turnaround in the trend of rising prices around the world are likely to oppose local noises and guarantee that Copom's balance of risks remains symmetrical in Wednesday's decision — even though the collegiate may use a harsher tone when addressing the detachment of expectations.

According to a survey conducted by Valor with 106 institutions, there is unanimity among the agents about the key interest rate Selic remaining stationary at 13.75% on Wednesday. For the end of the year, however, the projections range from cuts in the rate to 10.5% to a rise to 14.5% — the chance of an interest rate increase, however, is projected by only one institution.

However, the projections for the Selic have contemplated fewer and fewer cuts. While the median of the last survey carried out by Valor, in December, indicated the Selic at 12% at the end of this year, the number has jumped to 12.50% now.

At the same time that it expects a less intense monetary loosening cycle, the market has raised its inflation projections. The median of 102 estimates for inflation at the end of 2023 rose to 5.7% from 5.2% in December. For 2024, the midpoint of the projections jumped to 4% from 3.7%.

In the context of worsening inflationary expectations, financial agents expect the collegiate to harden the tone of communication, but not to change the balance of risks significantly yet.

"Given this very evident movement of unanchoring that is expected to continue, I wouldn't be surprised if the committee stressed this issue," says the chief economist for Brazil at BTG Pactual, Claudio Ferraz. He also reminds us that, in December, Copom has already demonstrated concern with expectations, when it pointed to the average of the benchmark inflation index IPCA projections for 2024.

A similar view is adopted by the chief economist at Truxt Investimentos, Arthur Carvalho. "By analyzing the communication from the Central Bank, it is possible to see that, little by little, it has been raising the tone a bit concerning fiscal policy and the potential effects on monetary policy. This was very clear in the letter about the 2022 target, which was not met, when the Central Bank shows that the more expansionary fiscal policy was part of the problem. And now, despite well-behaved current inflation and signs of a slowdown in the economy, the only explanation for the unanchoring of expectations is a fiscal environment that accommodates higher spending growth and makes the 3% inflation target not very credible."

Mr. Carvalho says he has a feeling that Copom will, again, raise the tone regarding fiscal policy. "If we hadn't seen this lack of support, Copom would probably be signaling the beginning of a process of loosening interest rates. I think the Central Bank will harden its tone, but despite that, the balance of risks will remain symmetrical," he says. Truxt expects three 50 basis-points cuts in interest rates this year but emphasizes the uncertainty present in the scenario.

Claudio Ferraz, from BTG, observes that the recent movements induce the impression that the beginning of the Selic cuts "are more distant, smaller and, depending on decisions about the fiscal framework, perhaps the

“terminal number” of the Selic will be higher. In an environment of de-anchoring of expectations, the space is exhausted.”

Without seeing significant changes that justify a change in the BC’s flight plan, XP’s chief economist Caio Megale believes that Copom should indicate that there are positive elements in the scenario but emphasize that “the concerns described in the past meeting have intensified.” “If Copom comes with a very different tone, it would be a surprise,” he says.

From now on, for Mr. Megale, the behavior of inflation projections for 2024 should be monitored. “When expectations rise, the Central Bank’s model has to incorporate a longer interest rate stop in order to achieve convergence. We believe that, up to the 4.5% level [for the IPCA of 2024], the Central Bank would manage to bring inflation to the target only with interest rates unchanged for a longer time. But if expectations exceed the top of the band, the scenario would be more difficult.”

And it is in the face of higher inflationary expectations and fiscal uncertainty that the chief economist at Garde Asset, Daniel Weeks, believes that Copom may change the balance of risks. “After the approval of the PEC, the fiscal risk increased and, more recently, we have seen communication by the Treasury and the president about inflation targeting, which affects the credibility of the CB and unanchoring expectations.”

For him, Copom should reinforce the message of maintaining a contractionary monetary policy for a prolonged time. “I think the Central Bank should have already changed the balance of risks in December, when there was already a worsening because of fiscal risk. I don’t know if it will change now, but it should, because, from the last Copom to here, we saw the approval, in fact, of the PEC [proposal to amend the Constitution] and, now, a worsening of expectations and pressure on the Central Bank itself.”

When simulating the Central Bank models, EQI Asset’s chief economist, Stephan Kautz, expects the projection for the IPCA of 2023 to rise to 5.2% from 5% and that the estimate for the IPCA of 2024 will go to 2.9% from 3%. “This is because, concerning the last Copom, there was an improvement in the exchange rate and the trajectory of the Selic in 2023 went to 12.5% from 11.75%. The lower exchange rate and higher interest rates offset the shock in expectations and the projections may move little,” he says.

Mr. Kautz believes, however, that the members of Copom may seek to convey a slightly more cautious message about the de-anchoring of expectations and reminds us that part of the Central Bank’s credibility depends on the anchoring of inflation over the medium term.

Source: Valor International  
<https://valorinternational.globo.com/>

01/31/2023

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### **NATURA’S LUXURY BRAND AESOP ATTRACTS INTERESTED BUYERS AT \$2BN** ***LVHM, L’Oréal, and Shiseido are among those interested in buying business***

Natura has started receiving preliminary consultations for the purchase of a stake in Aesop, a luxury brand of the Brazilian cosmetics giant, sources say. Bloomberg reported earlier that French group LVMH, L’Oréal, and Japan’s Shiseido were among those interested in a transaction that would value Aesop at around \$2 billion.

Sources familiar with the matter heard by Valor confirmed the interest of competitors in the Brazilian company’s brand and said that L’Occitane and private equity funds, such as CVC Partners, were also interested in the financial data of Aesop, a brand founded in Australia and acquired by Natura in 2013. The Brazilian company is exploring the sale of a stake or 100% of the brand, depending on the proposals on the table.

Aesop’s market capitalization of \$2 billion is higher than expected, according to a report by Citi. The bank’s analysts say this value implies a multiple of 16.5 times EBITDA, which would be positive for Natura if the stake were sold at this price. The bank points out that the sale of a 25% stake on these terms would reduce the company’s leverage to a ratio of 2 times net debt-to-EBITDA from 2.9 times.

Citi has a neutral recommendation on Natura &Co, with a price target of \$13. On Monday, Natura shares closed up 5.49% at R\$13.65, driven by the interest of competitors in Aesop. Over the year, the shares have gained 17.5%. Over 12 months, however, the shares fell 36.1%, according to Valor Data. Natura has a market capitalization of R\$18.8 billion.

There is still no formal proposal for the business, people familiar with the matter say. Initially, Natura intended to do the brand split or even an IPO. Market conditions are not yet favorable for going public.

The Brazilian company is being advised by Bank of America and Morgan Stanley. The banks are exploring what should be the best financial arrangement to give greater liquidity to the Brazilian company, which announced last year a broad restructuring of its business.

In June last year, Natura changed the command of the group to turn around its business after reporting bad results and see stocks plummet during the pandemic. Fábio Barbosa, an executive who was already a member of the board of directors, has replaced Roberto Marques as CEO of Natura & Co.

Invited by the main stockholders of the group, Mr. Barbosa has taken the mission to simplify the holding structure, improve the margins and the company's results, and reposition the brands Aesop, Avon, Natura, and The Body Shop.

In the third quarter, the company's net revenue totaled R\$9 billion, down 5.7% year-over-year. In the period, the holding company reported a loss attributable to the controlling shareholders of R\$560 million, reversing the profit of R\$273 million in the third quarter of last year. The Aesop brand's invoicing grew 21.5%, ending the third quarter at R\$602.6 million.

In a recent interview with the Financial Times, Mr. Barbosa said that the company will focus on margins and cash generation rather than sales growth. The group's expansion movement has also ceased. The management has been reviewing Natura's business model and its presence in underperforming markets.

The company is working to make the integration of Natura and Avon in Latin America, a movement that was already demanded by the financial market.

Natura, LVMH, L'Oréal, and Shiseido declined to comment on the matter. CVC Partners and L'Occitane did not immediately reply to requests for comment.

Source: Valor International  
<https://valorinternational.globo.com/>

01/31/2023

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## **DELINQUENCY RATES CLOUD LARGE BANKS' RESULTS**

### ***Analysts predict that Brazil's four largest banks will report divergent performances***

Bank's earnings season starting Thursday is expected to show an even stronger growth of credit portfolios in the fourth quarter of 2022 and batter financial margins. The big unknown factor is the impact of the court-supervised reorganization of retail giant Americanas on the delinquency rate and profits.

According to a survey of eight banks by Valor, the four largest publicly-traded banks – Itaú Unibanco, Bradesco, Santander, and Banco do Brasil (BB) – are likely to post a combined profit of R\$23.3 billion, down 6.1% compared with the second quarter and 1.4% compared with the third quarter of last year. This figure, however, may turn out to be very different depending on the strategy that each bank adopts to provision for credit losses with the Americanas case. Not all analysts in the sample included this impact in their projections.

The lenders can make provisions in the balance sheets for the fourth quarter of 2022 or the first quarter of 2023, since the case broke out in early January. Some banks have already signaled that they intend to make the adjustment in last year's results. There is no rule for this, but it is customary in the market to build a reserve of at least 50% of exposure to a client with a distressed loan.

Until the Americanas debacle, the banks' financial statements were expected to show a slight increase in the delinquency rates. The delays had already been rising especially in the segments of individuals, in lines such as credit cards and overdrafts, and micro, small, and medium-sized companies. In the portfolios of large companies, the rates were close to zero, but the case of the retailer may change this.

The earnings season, which starts with Santander on Thursday, is also likely to show diverging results. Analysts expect Bradesco and Santander to see a sharp drop in profits, as they are more affected by the rise in defaults than their competitors. The perspective for Itaú and Banco do Brasil is much more positive, and they could set new records. BB is expected to post a 40% annual rise in profits.

Another factor that analysts will be watching closely is the guidance for 2023. Goldman Sachs said the scenario for Brazilian banks remains relatively positive, despite macroeconomic risks and asset quality. "However, political noise and an uncertain trajectory for interest rates may justify more conservative assumptions. Portfolio growth is likely to slow down, as indicated by the Brazilian Federation of Banks (Febraban) latest expectations of an 8% increase in 2023," the U.S.-based bank told its clients in a report.

The Central Bank expects the stock of credit to grow 8.3% this year after a 14% advance in 2022 – the third year with a double-digit expansion.

According to J.P. Morgan, even if portfolio growth slows down, net interest income from customers is expected to remain resilient and grow faster than volumes, at least in the short term. "Banks are indeed becoming more risk averse and focusing on safer lines with lower spreads, but we believe this will be an issue for the bottom line over 2023 and will not impact Q4 2022 numbers."

For Citi, the higher-than-expected margin in Q4 could make the metric outperform the portfolios this year, although some compression can be seen in Santander and Bradesco. The margin with the market, especially in the case of these two banks, should remain under pressure. "We expect this effect to continue in the coming quarters," says XP.

Credit Suisse had already released a report stating that 2023 will be the year of the "great divergence" among the four largest listed banks. BB and Itaú are expected to do well, with a return on equity (ROE) of almost 20%, benefiting from high interest rates and good asset quality. Bradesco and Santander, on the other hand, are expected to disappoint, with returns of close to 15%, hurt by their margin with the market and greater exposure to retail, which tends to see higher delinquency rates.

According to Credit Suisse, the Americanas accounting scandal does not represent a systemic risk and Brazilian companies in general are still in good shape. Even so, the Americanas case is likely to represent the end of banks' "honeymoon" with companies, where defaults remain very close to historic lows.

As Valor showed last week, the collapse of the retailer after the disclosure of a R\$20 billion hole in its financial report will have an impact on the results of large banks. The effect may be comparable to what the institutions faced in the first quarter of 2020, the beginning of the pandemic, when they were forced to make strong provisioning. Industry sources say the Americanas case may match other large court-supervised reorganizations, such as phone carrier Oi and mining company Samarco.

Bank of America surveyed local and global investors and found that their biggest concern with Brazilian banks' financial reports is asset quality (30% of mentions), followed by guidance disclosure (19%), provisions not related to Americanas (19%), margin with the market (10%) and margin with clients (9%). The retailer case appears only in seventh place, with 5% of the answers. "Investors expect BB to unveil the most optimistic guidance, while Bradesco is likely to be the most conservative. For 65% of respondents, the risk of greater political interference in BB is already reflected in its valuation," says the survey.

Citi also points out that the new mark-to-market rule is likely to affect the banks' fixed income securities portfolios. The impact will probably not affect the quarterly results, being reflected only in the financial reports.

According to analysts, the best result of the quarter will come from Banco do Brasil, which is now headed by Tarciana Medeiros in the new administration. "We see BB (less exposed to Americanas than private peers) recording the best fourth quarter and providing constructive guidance for 2023 ... The new CEO made a good impression, the vice president nominations were positive, and BB confirmed a 40% payout in 2023," says BTG.

Itaú's financial margin is likely to continue benefiting from higher spreads, although portfolio expansion is expected to remain relatively stable after the bank's decision to slow down supply. "We expect treasury results to remain unremarkable, reaching R\$551 million. All this should lead to annual profit growth of 13%," Santander analysts wrote.

Santander and Bradesco face the opposite situation. Both are expected to continue to suffer from negative market margin results, higher delinquency rates, and an increase in administrative costs. "We expect Santander Brasil's profits to fall sharply in the fourth quarter, due to a combination of weak margins, still high provisioning charges, a negative treasury result and higher operating expenses (including higher tax rates)," said UBS BB.

However, the most negative expectations fall on Bradesco, which besides the unfavorable context is the bank with the greatest exposure to Americanas. "We see another blow to the bank's earnings power for 2023," Credit Suisse said. "The bank will not generate excess returns over its cost of capital until the second half of 2024."

Source: Valor International  
<https://valorinternational.globo.com/>

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