



Economic Report

January 2021

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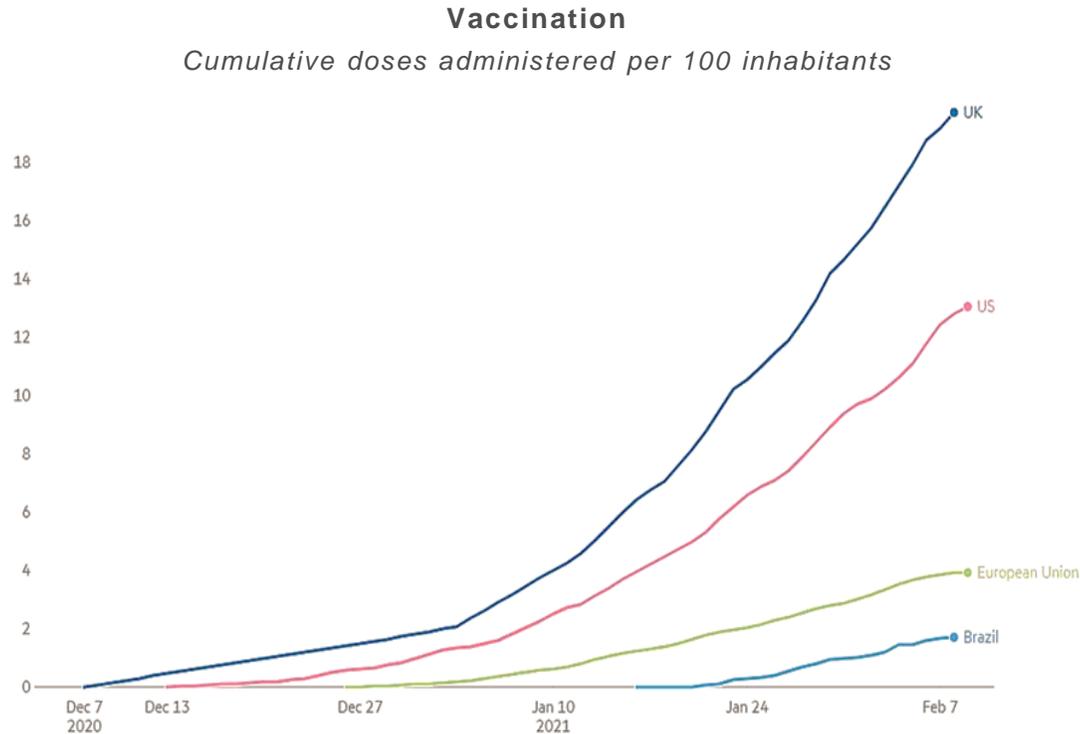


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Coronavirus: Dissimilarities in speed of vaccination

Global Economy



We are starting to see the vaccination process in a number of countries in 2021 being administered in different speeds, as shown in the graph on the left. The positive highlights among the larger economies are the UK and the US and this should reflect in a faster recovery for these economies in the short term. On the other hand, the process has been slower in the Euro Zone, and the same goes for Brazil.



US: Signs in January suggest no big impact from Covid's new wave

Global Economy

Institute of Supply Management (ISM) Non-Manufacturing Index
Economic Activity Index



Although there has been a loss of momentum in the American economy since December, particularly in the labor market, some of the key signs for January are more encouraging. In particular, the services sector survey (ISM Non-Manufacturing – see accompanying graph) brought a positive surprise this month, even as the number of new Covid-19 cases accelerated. The broad fiscal and monetary support and the recent moderation in the number of new cases should give the U.S. economy a further boost in the coming months.

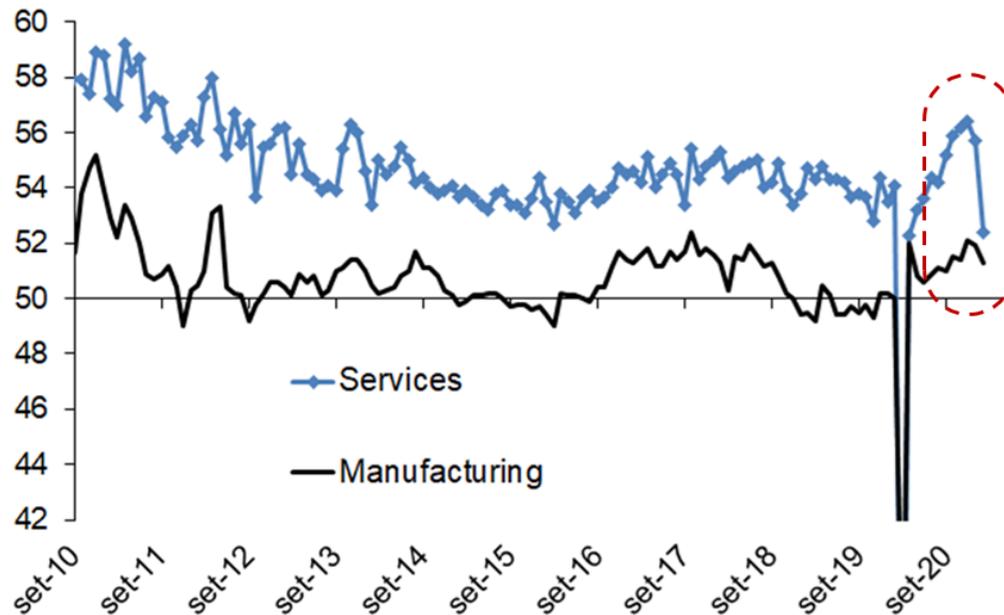


China: Virus' resurgence impacts activity in the short term

Global Economy

China: Purchasing Managers Index (PMI)

National Bureau of Statistics (NBS)



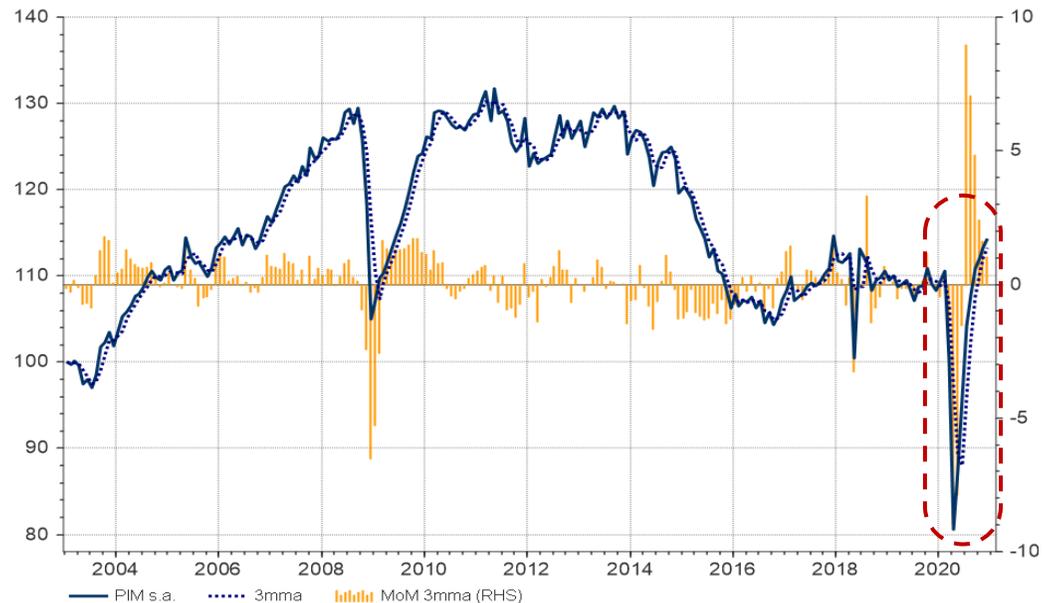
The resurgence of the virus in the Chinese economy triggered new restrictive measures that impacted the economic data in January. While the manufacturing sector (black line in the accompanying graph) showed a more modest correction, the loss of momentum in the services sector (blue line in the graph) was more significant, as was to be expected. However, it is worth noting that the pace of activity still remains strong in both segments and the correction should be temporary.



Activity: Industrial Sector continues its V-shaped recovery

Brazilian Economy

Industrial Production
Seasonally-adjusted

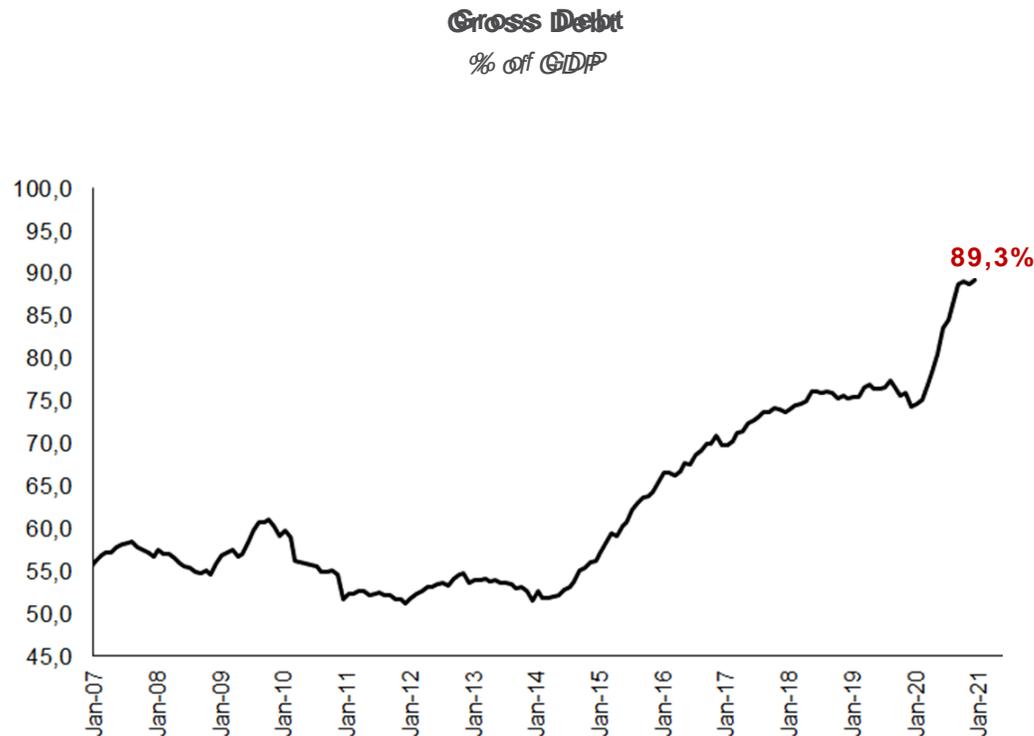


Like other economies, the Brazilian industrial sector showed a V-shaped recovery during the second half of 2020. A combination of stronger demand for goods (a reflection of the pandemic, where relatively fewer services were consumed, and the emergency relief) and the rebuilding of inventories was the source of support. There still seems to be some room to move forward in the latter case.



Fiscal: Gross debt/GDP ratio comes to 89.3% at end of 2020

Brazilian Economy



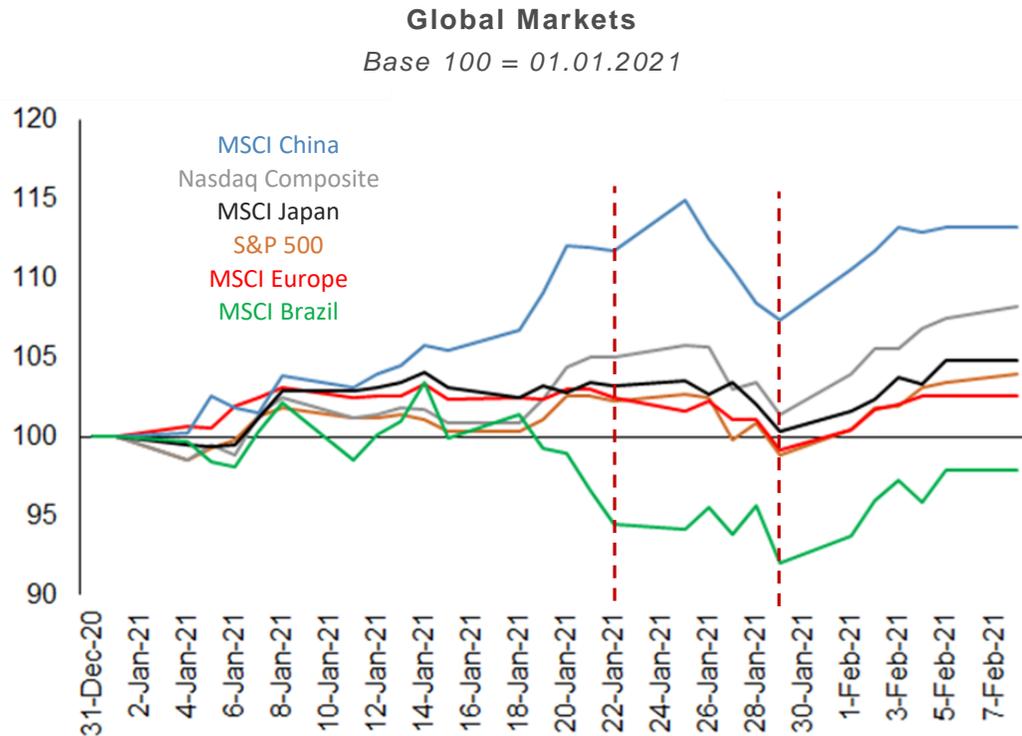
Brazil's gross debt/GDP ratio came to 89.3% at the end of 2020, a big jump in the year but well below expectations of 95%-100% a few months earlier. Factors affecting the positive result were the better-than-expected performance of GDP, a more austere fiscal implementation of pandemic-related spending in the final months of the year and accelerating inflation, that helped raise nominal GDP, which is the denominator of the debt-to-GDP ratio.

Despite the better result, the level is extremely high for an emerging economy and the fiscal situation remains the country's main weak point.



Shares: Volatility and correction concentrated in the last week of the month

Markets



The strong volatility and correction of global risk assets in January was concentrated in the last week, spurred by the short squeeze* movement coordinated by social networks in specific shares. As some hedge funds had significant short positions in some of these shares, the flow of buy orders from retail investors created an upward pressure which, in turn, forced the funds to cover short positions, thereby boosting these shares even further.

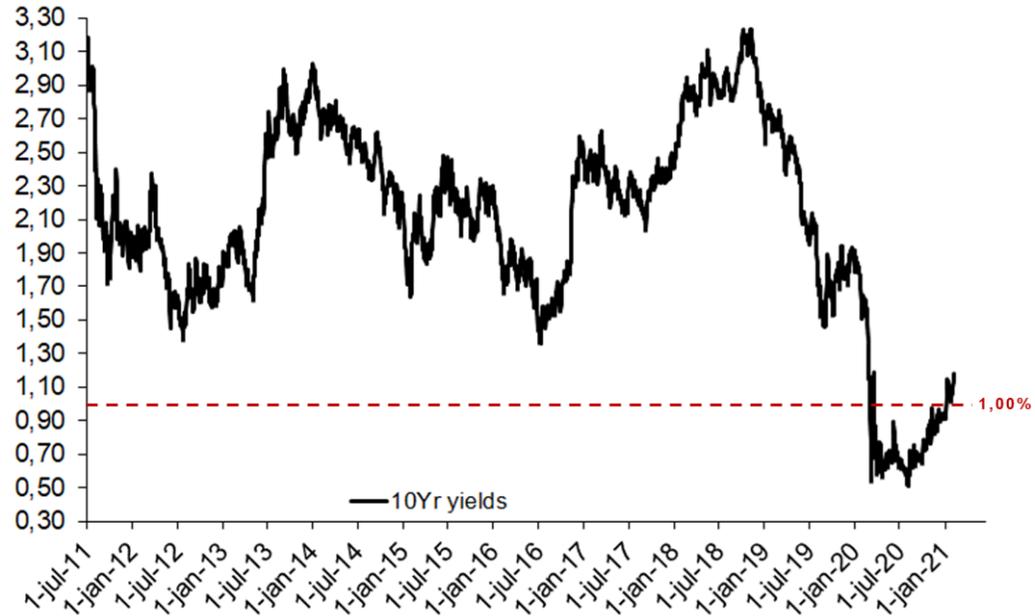
*Short squeeze is a market movement that happens when the price of an asset rises sharply - causing investors who expected it to fall to buy it quickly to avoid further losses.



Interest rates: US 10-year rate stabilizing above 1%

Markets

US: 10-year Treasury rate



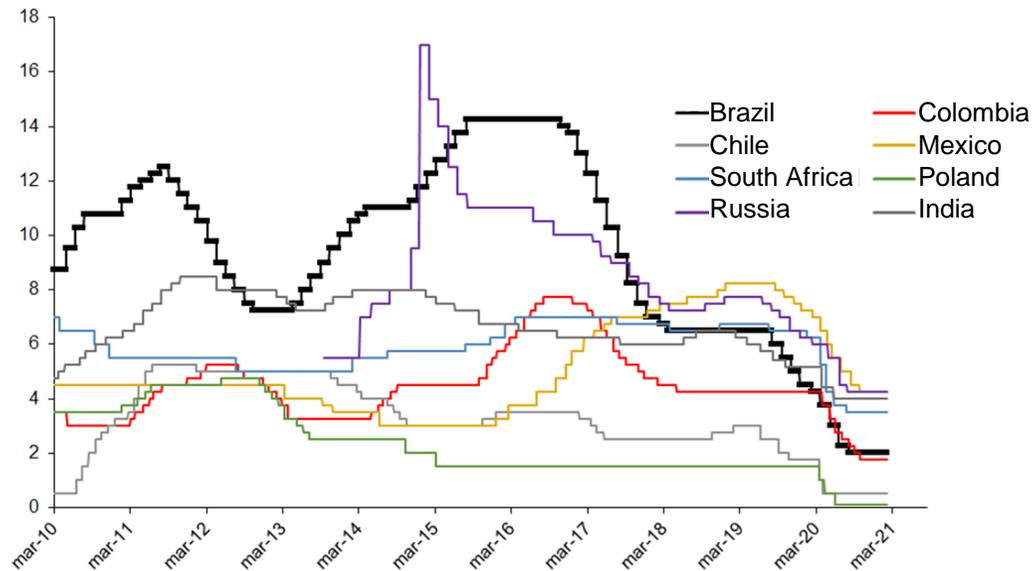
The market remains optimistic about the chances of another strong fiscal package being passed in the US. With the faster progress of the vaccination program in the US pointing to a speedier resumption of activity in the coming months, particularly in the most sensitive sectors (services), the inflation implicit in the American yield curve remains well sustained. This has been enough to push the 10-year interest rate above 1.0%.



Exchange rate: Will the BRL cease being a low yielder?

Markets

Interest rates: Emerging markets



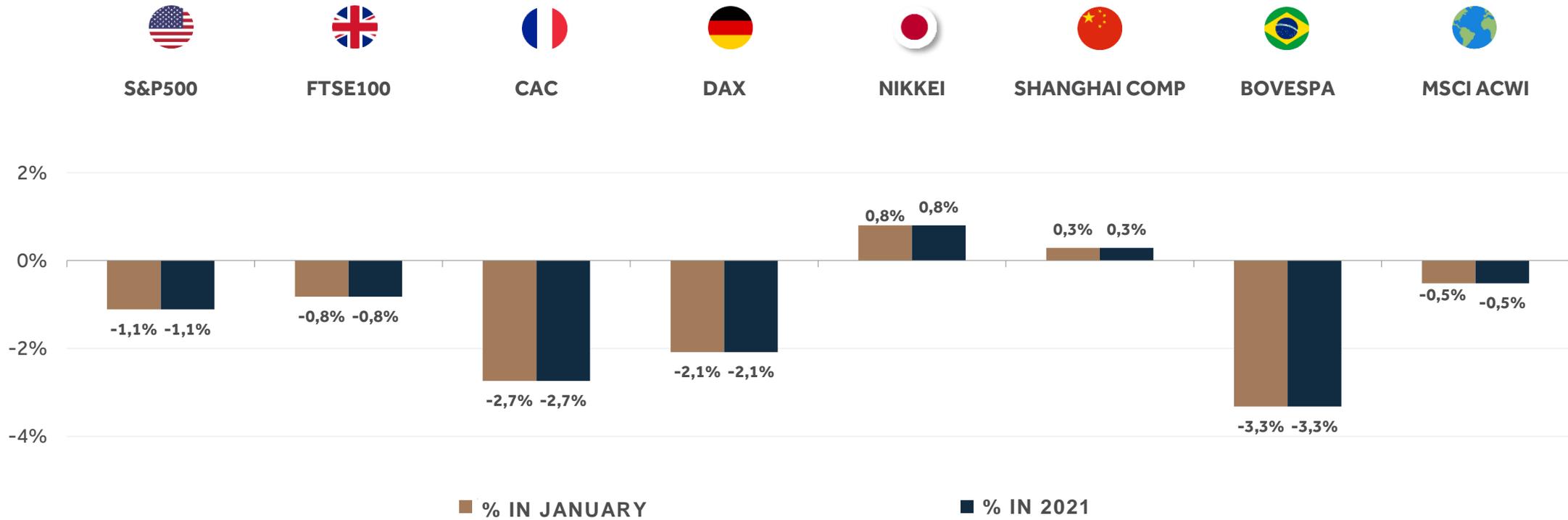
The Brazilian Central Bank indicated in a recent statement that it intended to start the process of normalizing the Selic rate (base interest rate) shortly and would begin to remove the extraordinary accommodative level (Selic at 2.0%).

The Focus survey currently foresees the Selic at 3.5% at the end of 2021 but with the possibility of reaching higher levels. In a scenario in which the Selic reaches 4.0%-5.0% and bearing in mind the expectations of relative stability in the interest rates of the other emerging economies, this means the Brazilian currency would no longer be regarded as a low yield currency. We believe this could point to an appreciation of the currency, all things being constant.



Stock Markets

Markets





Indexes

Values and Results presented in local currency

	% IN JANUARY	VALUE AT 31.01.2021	% IN 2021	% 12 MONTHS
COMMODITIES				
OIL	7,6%	52,2	7,6%	-2,1%
GOLD	-2,7%	1.847,65	-2,7%	17,2%
MOEDAS (EM RELAÇÃO AO US\$)				
EURO	-0,7%	1,2136	-0,7%	10,2%
LIBRA	0,3%	1,3708	0,3%	5,3%
YEN	-1,4%	104,68	-1,4%	4,1%
REAL	-5,0%	5,4717	-5,0%	-22,8%
ÍNDICES				
S&P500	-1,1%	3.714,24	-1,1%	13,5%
FTSE100	-0,8%	6.407,46	-0,8%	-14,4%
CAC	-2,7%	5.399,21	-2,7%	-9,3%
DAX	-2,1%	13.432,87	-2,1%	0,7%
NIKKEI	0,8%	27.663,39	0,8%	18,3%
SHANGHAI COMP	0,3%	3.483,07	0,3%	17,0%
BOVESPA	-3,3%	115.067,60	-3,3%	-0,3%
MSCI ACWI	-0,5%	642,91	-0,5%	13,3%



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