December 16, 2021

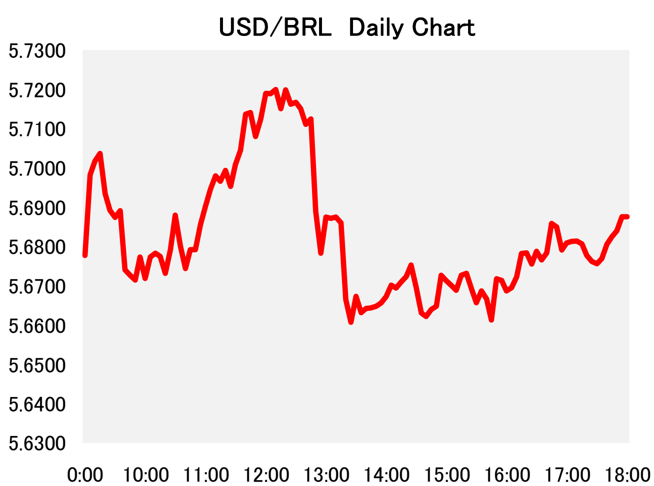
Banco MUFG Brasil S.A.
Treasury & Markets
Av. Paulista, 1274 – Bela Vista
São Paulo, SP – 01310-925

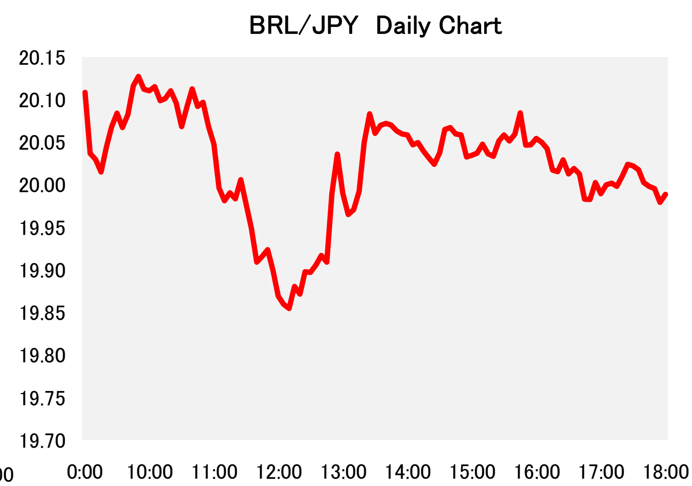
1. Market Rates

			10-Dec	13-Dec	14-Dec	15-Dec	16-Dec	Net Chg
FX	USD/BRL	Spot	5.6090	5.6760	5.6900	5.6850	**5.6880**	+0.0030
	BRL/JPY	Spot	20.230	20.014	20.00	20.06	**19.99**	-0.07
	EUR/USD	Spot	1.1320	1.1290	1.1260	1.1290	**1.1330**	+0.0040
	USD/JPY	Spot	113.44	113.59	113.85	114.06	**113.66**	-0.40
Rates	Brazil DI Future	6MTH(p.a.)	10.766	10.802	10.842	10.905	**10.964**	+0.059
		1Year(p.a.)	11.413	11.428	11.428	11.524	**11.683**	+0.159
	On-shore USD	6MTH(p.a.)	0.968	0.922	0.922	0.893	**0.876**	-0.016
		1Year(p.a.)	1.103	1.094	1.094	1.077	**1.067**	-0.010
Equity	Bovespa Index		107,698.90	107,804.30	106,777.20	107,431.20	**108,199.40**	+768.20
CDS	CDS Brazil 5y		222.81	224.09	226.26	228.03	**224.750**	-3.28
Commodity	CRB Index		225.909	225.352	224.326	223.819	**227.239**	+3.42

Source: Bloomberg

* The rates above are end of the day market price/ rate and used for your reference only





Source: Bloomberg

2. Topics

- USDBRL opened at 5.6716 in a very volatile session, with a lot of ups and downs. Market opened in the middle of a positive external environment and reacting to the still hawkish tone of the querterly inflation report released by the Central Bank before the opening. It also reacts to the enactment of the precatório bill and the cabotage bill. Behind this environment, it remains the eyarend demand for USD. After some volatility in the firts hours of the morning session, USD moved to the highest level at 5.7231. Then the Central Bank stepped in and it sold USD 830 million at the spot, aparently to attend a higher demand of spot as of dividend remittances. USDBRL erase al loses and it moved to the highest level at 5.6599. USDBRL closed at 5.6880.
- The tone of the Inflation Report was quite similar to the Copom minutes and communiqué, thus showing a hawkish tone. One of the major drivers for this tone is the higher risk of inflation breaching the target ceiling of 5% for next year (probability of 41% versus previous 17%) and CB concerns about the following years, once the median of market expectation is slightly above the central targets of 3.25% for 2023 and 3.00% for 2024. At the same time, CB expectation for GDP growth of 1% is higher than market expectation of +0.5% and our call of +0.8%, being driven by agriculture and services. The latter due to the expectation of higher mobility amid better control of pandemic. So, this more favourable activity scenario also reinforces the concern of potential impact on inflation partially driven by demand. So, in order to anchor inflation expectation, we keep our expectation of 150 bps rate hike to 10.75% in February, followed by 100 bps in March and 50 bps in May, when the Selic policy rate might reach 12.25%. And, keep at this level until the end the year.

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