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NEWSLETTER

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August 3, 2021

LOYALTY PROGRAM USES AGRICULTURE CRYPTO

As of Monday, the AgroVantagens loyalty program, aimed at the agricultural sector, will offer benefits through its cryptocurrency, the AgroBonus, with bonuses equivalent to R$400 million. The initiative will undergo tests until the end of August.

During this period, 35,000 pre-registered customers on the platform, who are part of the Association of Investors in Cryptoactives (Assic), will be served. Part of the group is made up of rural producers, who will be able to use digital currency to buy items such as agricultural inputs and machinery, as well as products from partner companies of the project.

The starting value of each AgroBonus will be readjusted to accompany the sector's progress, since it will be backed by production, land or financial instruments such as the Rural Producer Certificate (CPR), says the CEO of AgroVantagens, Jean Carbonera. According to him, this makes the AgroVantagens' crypto "safer and more inflation-proof" than other digital currencies, such as bitcoin.

Mr. Carbonera says that the idea of creating a specific digital currency for the Brazilian agribusiness arose from two perceptions: the difficulty that producers have in accessing rural credit — either because of the limited supply of resources in the market or because of the excessive bureaucracy involved — and the disparity between the growth of the sector's Gross Domestic Product (GDP) and the devaluation of the real, which limits the purchasing power of rural producers.

The agricultural GDP grew 24.31% in 2020, reaching almost R$2 trillion, according to data from the Center for Advanced Studies on Applied Economics (Cepea) and the Brazilian Confederation of Agriculture and Livestock (CNA). With the AgroBonus, Mr. Carbonera argues, it is possible to invest in agribusiness without necessarily having a farm.

Rural producers will be crypto's initial focus — for now, the currency will only be used to purchase products from partner companies. In the future, the AgroBonus should be listed on a digital trading platform.

Mr. Carbonera prefers not to reveal the names of partners who are already part of the benefits program — agreements with companies that will accept payment with the AgroBonus and with those that will offer crypto as a reward (or cashback) are in progress. The executive estimates that, within five years, the cryptocurrency will move around R$5 billion, with 50,000 customers.

Digital currencies have been gaining ground in the agribusiness sector recently. In early July, cooperative Minasul launched the Coffee Coin. Each unit of the crypto is equivalent to one kilo of green coffee at the company's stockpile, which is regularly audited. In April, Argentine startup Agrotoken launched Soya, backed by tonnes of soybean delivered to partner trading warehouses.

Source*: Valor International*
https://valorinternational.globo.com/

August 3, 2021

NEW RULES WILL INCREASE REQUIREMENTS FOR FINTECHS

A new round of adjustments of the financial system regulation, this time affecting some of the largest Brazilian fintechs, is expected to start to take effect in the coming weeks. After conducting a public consultation, the Central Bank is expected to change the prudential treatment of conglomerates led by payment institutions, such as Stone, PagSeguros and Nubank.

The change may reduce what banks call regulatory asymmetry between incumbent banks and new competitors. At a time of wide-ranging transformations in the financial sector, regulatory changes are anxiously awaited by companies.

The discussion about regulatory asymmetry is not exactly new, but it has been heating up in recent months as more competitors emerge and gain space and size in a market historically dominated by few big ones. The "BC# agenda", a set of measures by the Central Bank aimed at the development of the financial market, also fosters competition.

On the one hand, the so-called incumbent banks have publicly expressed their discomfort with the perception that new companies now have several regulatory advantages.

Among the points observed are the requirement of compulsory deposits for banks, the obligation to offer some services free of charge for some services – such as transfers' limits, maintenance of direct deposit accounts or service for customers of other banks, which ends up weighing more on the institutions that maintain physical branches and capital requirement.

“What is sought with this transparent and legitimate debate is to avoid unbalanced regulatory requirements between actors who have similar size and risks, provide the same activity, but are subject to different rules,” says the president of the Brazilian Federation of Banks (Febraban), Isaac Sydney. “We understand that, once again, the Central Bank will find a solution to address any distortions.”

The representatives of the wide universe of fintechs, on the other hand, defend the principle of proportional regulation, arguing that the requirements should, in fact, be heavier according to the size of the institution and the risk it offers to the system. Only in this way, they say, will it be possible to really reduce banking concentration.

The payment methods sector is a gateway for many fintechs operating in the country and, therefore, it is the target of the Central Bank’s attention now. A good example is Nubank, already the fourth most valuable financial institution in the country, almost matching Banco do Brasil in terms of number of clients.

“Many players started with the ‘fintech’ hat and are now competitors. With this evolution, they start incurring other risks,” explains Leonardo Cruz, partner at law firm Pinheiro Neto. Mr. Cruz, who considers appropriate the change in the payment methods sector’s regulation, from Public Consultation No. 78 onwards, explains that the BC’s movement seeks to harmonize the rules.

The central point is that the way the regulations treat institutions that are part of a financial conglomerate is stricter in terms of minimum capital requirements in comparison to payment services. For him, as many of the payment institutions that are outside these conglomerates have grown, they now carry more risk, and so it is natural that the requirements for them should reflect that. “In the beginning, it could not require the same rules from the small ones. But at some point, the Central Bank saw imbalances and decided to make these adjustments,” he says.

The proposal submitted for public consultation – which has already been concluded and should turn into new rules to be implemented soon – divides the institutions into three major groups: controlled by a financial institution; controlled by a payment institution and not integrated by a financial institution; and those controlled by a PI but integrated by a financial institution.

A scale of requirements was created for each group, to be implemented by 2025. The second group, which includes PagSeguros, Stone and Cielo, for example, will have a higher capital requirement, from 2% to up to 4.5%. The percentage will depend on the profile of each institution, which, in turn, will be defined based on criteria such as transaction volume and assets.

Bruno Magrani, president of Zetta – an organization created last March to represent institutions such as Nubank, Mercado Pago, Moville and Inter – says he supports the changes proposed because they respect the principle of proportionality of rules. However, he rebuts the arguments that fintechs have privileges. “Regulatory asymmetry is a term coined by the big banks,” he says. “What the Central Bank adopted in the law that created payment institutions, in 2013, was to adopt the criteria of proportional regulation, which was correct,” he says.

Another point raised by fintechs is that the payment institution does not offer long-term credit and, therefore, there is no mismatch of maturities between assets and liabilities as happens in banks, which is a source of risk in a scenario of wave of redemptions. In other words, PIs would not have the same systemic or “run” risk.

After focusing on the means of payment segment – in which even big techs already operate – the next frontier should be credit, experts predict. And open banking will only enhance this debate. This data sharing system will make available to new institutions information that was previously in the hands of large banks exclusively, including the credit rating of customers, built after years of relationships. This will make it easier for fintechs to compete and increase competition in this concentrated sector.

However, there is no guarantee that those who are arriving in the credit market will be efficient in granting loans, say experts. “No doubt it’s a great advantage, but the ability to grant credit and have a good portfolio does not depend only on this information,” says an analyst.

Source*: Valor International*
https://valorinternational.globo.com/

August 4, 2021

FARM LOANS HAVE RECORD-BREAKING MONTH AGAIN

The 2021/22 Crop Plan (the so-called Plano Safra), a federal farm credit program, has started with a record-breaking volume of loans in the first month of the season. In July alone, agricultural producers raised nearly R$27 billion in loans. The amount is 15% higher than the R$ 23.3 billion borrowed in the same period last year. In comparison with the 2017/18 season, four years ago, the volume released increased almost 2.8 times. The total amount, available until June of next year, is R$251.2 billion.

The main sources of farm loan sought so far have been those with government-controlled interest rates, with and without subsidy. Mandatory resources, raised by demand deposits and which are not equalized, lead the ranking with R$8.8 billion in loans. Next is rural savings, with rates equalized by the National Treasury, with R$5.9 billion.

The first month of the Crop Plan usually has a strong demand for credit, but this year it was more intense. In the 2020/21 season, the government suspended operations with federal subsidized rates for almost a month due to the budget cut for reconciliation, which dampened part of the demand. In addition, some proposals submitted before July and that were open were also concluded with the launching of the new program.

Among the lines with market rates, the sources that most fueled these financings were free rural savings, free resources and Agricultural Credit Bills (LCAs). Agricultural producers kept a strong pace in the search of funds for investments. Loans for this purpose rose to R$6.8 billion this year from R$4.9 billion in July 2020, an increase of 38%. Moderfrota, line for machinery acquisitions, and Inovagro, for technological innovations in production, had the highest performances, with R$1.1 billion and R$ 314 million, respectively.

At the Brazilian Development Bank (BNDES), the resources to finance the construction and expansion of warehouses through its specific program, with interest of 7% per year for units with a capacity of up to 6,000 tonnes, showed signs of exhaustion before the end of the first month of the season.

Funding was the destination of the largest volume loaned in July, with R$ 16.4 billion, an increase of 12% compared to last year. Commercialization and industrialization maintained its pace, with R$1.7 billion and R$1.9 billion, respectively.

State-owned banks continue to lead the agricultural credit market, led by Banco do Brasil, with nearly R$10.5 billion in loans. Caixa, new to the operation of equalized resources, almost doubled its performance, to R$837.1 million in July.

Source: *Valor international*
https://valorinternational.globo.com/.

August 5, 2021

REAL ESTATE MARKET BOOM REACHES OTHER COUNTRIES

The Brazilian real estate market boom seen in the midst of the pandemic has crossed borders. Buyers with an investment profile have been looking for alternatives in familiar regions such as Florida, in the United States, and destinations in Portugal, as well as in less trivial locations such as the United Arab Emirates or the Silicon Valley.

The identification of this demand has stimulated this type of offer in Brazil. Two examples are the representation of BTI Partners, from Fort Lauderdale, Florida, in the country, and the inclusion of properties located in Dubai on platform Apto, which connects buyers of new properties to builders and developers, in partnership with YMK, an intermediation group of real estate, investments and credit. Fab Homes, which produces sustainable homes in the Silicon Valley, also sees greater interest from local investors in its projects: 85% of them are Brazilian.

It is a public that already has real estate in Brazil in its portfolio and that seeks diversification in hard currency, aiming income or capital gain. Another way to get into the real estate market outside Brazil is real estate funds. At B3 there are already a few dozen Brazilian Depositary Receipts (BDRs) that represent the real estate investment trusts (REIT) segment listed on the stock exchange. But there are also portfolios of residential mortgages in the U.S. with Brazilian participation, such as YellowFi Management, which has former CEO of BB Americas Cassio Segura as vice-president.

It is not new that Brazil occupies a prominent position among foreign buyers of real estate in the metropolitan area of Orlando. A report published at the end of 2020 by Florida Realtors showed that between August 2019 and July 2020, Brazil ranked second among foreign buyers, negotiating the equivalent of $1.4 billion of a $15.6 billion total. On average, the properties cost $300,600.

In the Orlando metropolitan area, Latin American investors represented 47% of acquisitions, with Europeans following, with a share of 19%. By country, Brazilians were responsible for 24% of purchases as a whole.

The expansion of the south terminal at the Orlando airport and the high-speed train connecting Miami to the city expected to start operating in 2022, passing through the Disney complex, are elements that have caught the attention of Brazilians, says Rodolfo Milanez, sales director at BTI Partners. The reopening of the parks and the return to a certain normality in the post-pandemic has also been attractive factors.

“Brazilians are tuned in and are familiar with the destination. The investment potential creates this environment with companies such as BTI setting up structures with other Florida developers. They are anticipating it and creating a base in Brazil because most of the buyers in Latin America come from here,” says Mr. Milanez.

According to him, the most affluent Brazilian families already have a portion of their equity in real estate outside Brazil. A trend that has gained traction with the pandemic is the type of property with the potential to generate rental income and which can also be used during vacation periods.

One project in Mr. Milanez's portfolio is The Grove Resort & Water Park, in Orlando, a condominium that brings together furnished apartments and resort conveniences, such as leisure areas, bars and restaurants, located in the "Disney backyard," says Mr. Milanez. It comprises three towers, totaling 878 properties. The units under construction cost from $200,000 and the finished ones start at the range of $400,000.

The buyer normally finances 60% of the amount, with rates starting at 3.87% per year for foreigners. For qualified investors who have money in BB Américas funds, the rate drops to 2% per year, outside the traditional real estate financing.

"Depending on the period, the investor can use the net return to help with leverage. It uses profitability to pay taxes, condominium expenses, insurance and the costs linked to the property," says Mr. Milanez. Administration is centralized at Paramount Hospitality. The rent return is estimated at 5% to 7% per year. The management fee is 45%, which includes hotel services, state taxes, commissioning of rental channels such as Hotels.com or Booking, condominium fee, TV subscriptions, Wi-Fi, security, water and electricity.

In 2020, when the parks were closed most of the year, the average occupancy was 40%, with a return of 2.5% and 3% on invested capital. Now, in the June and July season, with daily rates of US$250 on average, the occupancy rate has already reached 100%, a level that was only expected for 2023 or 2024, says Mr. Milanez. The flow of tourists has been mostly domestic and the expectation is that the return will improve as foreigners return.

Founded by André Magozo about four years ago, the real estate developer Fab Home found a gap in the housing supply in the so-called "Stanford circle," which encompasses communities such as Palo Alto, Los Altos, Los Altos Hills, Atherton, Menlo Park, Woodside & Portola Valley. This surrounds Stanford University and is one of the most highly valued regions in the United States, a real estate market of $8 billion a year for fewer than 300,000 residents.

Mr. Magozo says that in this market a sale takes about 25 days, there is little supply, and a 200-square-meter property costs $3.5 million. "People from Silicon Valley are very attracted by this area because of the technology startups," he says. "And there is a big asymmetry between liquidity, price, and quality. They pay a lot for houses of tawdry standard."

Fab Home is buying old or small houses for the land they occupy in places with greater constructive potential. The bet is on the development of authorial and sustainable residential projects. The next premium homes, for example, are signed by Thiago Bernardes, grandson of the famous modernist architect Sérgio Bernardes. The company also has another partnership is with Studio Arthur Casas.

The structure of the houses is made of wood, the only material capable of capturing carbon throughout its useful life, says Mr. Magozo, who was an executive at Estre Ambiental, Telefónica Brasil, and ALL. The projects are modular, with prefabricated panels for assembly on the ground, with low waste generation and water reuse systems, solar power, and charging stations for electric cars.

In each venture he sets up a Limited Liability Company (LLC) and seeks capitalist investors, who come in with a 25% stake. He says there is a commitment for investments of $25 million. “The low Selic [policy interest] rate has been a very relevant trigger for Brazilians seeking international diversification. There is a great acceptance,” says Mr. Magozo. The estimated return is 15% per year. Half of the investors enter leveraged, raising bank resources against their assets, with costs starting at 2.5% a year.

The next step is to consolidate the projects into investment structures as if they were real estate funds, albeit under the LLC structure. From contribution to divestment the cycle lasts at least two years. Even with the pandemic, the demand for residences in the target region has not fallen, says Mr. Magozo, although prices have dropped between 12% and 13%. The executive says he is looking for a margin of at least 20% to stomach any market fluctuations.

Platform Apto saw the number of searches for properties in the U.S., in cities like Miami and Orlando, grow 54% between the last quarter of 2020 and the first of 2021. The search for properties in Portugal, with options in Porto, Estoril and Miraflores, increased 24%. With a general sales value (VGV) estimated at R$640 million, including local and foreign alternatives, options to investors now include three projects in Dubai.

Although the real estate market in Dubai is known for the sale of mansions, at a cost of around $2.7 million, there is now more emphasis on exploring the region’s tourism potential, says Apto CEO Alex Fraschetta. According to him, as Abu Dhabi included in the Formula 1 calendar and with the World Cup in Qatar, in 2022, there is an effort by the governments of the United Arab Emirates to reduce economic dependence on oil production. “They are opening up for companies, because when there is only one source of income, it is a big risk for the city,” he says.

He says that the inclusions of properties follow the locations seen by Brazilians as having potential for expansion for housing or investments. “When I launched Apto, I never imagined that one day I would have properties in Portugal,” he says. He claims that Brazilians have a conservative profile and are looking for projects with liquidity potential. The YMK group helps in this internationalization, being present in three continents and having partnerships with 400 construction companies and 75 financial firms.

At YellowFi, Brazilians account for 70% of the funds managed this year, according to Mr. Segura. The company works mainly in origination to finance properties between $300,000 and $500,000. In all, the company has $200 million under management to this end. YellowFi also created a proprietary fund with nearly $22 million, a 41% growth in the first half.

According to Mr.Segura, this funding will be used to expand operations. The company is authorized to work with financing in 50 states in the U.S., but today operates only in 10.

The originated credits are sold in the secondary market to other managers – such as Leste, owned by former -BTG Emanuel Herman — or insurance companies. The investor's return comes from this type of transaction and also from the receivables in the portfolio. The estimated return is 7% per year, with a minimum ticket size of $ 50,000.

Mr. Segura points out that by not using any kind of leverage and not running the risk of incorporation, volatility is low and debt even dropped during the pandemic — from 5% to 3% in delinquency up to 60 days, and from 2% to 0 .5% in 120 days. "It was the safe place to stay, everyone wanted to preserve the house."

And with more money in the economy from emergency aid programs, the increase in home values ended up improving the collateral structure, to 140% from 130% of property values.

There is still a long way to go to become a Reit, which would require around $100 million. For now, the Brickell Bay Mortgage fund is on Pershing's platform. "Buying real estate directly is complex. You have to come here, and for those who stay in Brazil most of the time there is a high fixed cost to carry," Mr. Segura said.

Source: *Valor international*
https://valorinternational.globo.com/.

August 5, 2021

BRAZILIAN FRUIT GROWS IN THE BRITISH MARKET

Agrícola Famosa – Brazil's largest fruit exporter – has opened a new company in the United Kingdom, Melon&Co, to improve its services to a market that accounts for 35% of its shipments. Exports represent 70% of Famosa's R$720 million revenues in 2020 and are expected to grow to R$850 million this year.

At this very start, Melon&Co now holds between 65% and 70% of the melon and watermelon market share in the UK, with direct sales to supermarkets and other outlets previously supplied by Fesa UK. “We already sold directly to some chains, but half of the supply went through this partner company,” Famosa CEO Carlo Porro told Valor.

The team chosen to lead Melon&Co, including CEO Justin Szymborski, was formed with executives and employees from Fesa UK, with whom Famosa has had commercial relations for 25 years.

The goal of Famosa’s new company is to serve the English market, which currently receives 3,300 containers of fruit per crop, along the 12 months of the year. To this end, Melon&Co is establishing partnerships with producers in Central America and Spain. This is because the Brazilian harvest runs from August to March, the Central American harvest is from February to May, and the Spanish harvest is from June to August.

“The British fruit market is the best in Europe, due to the demand for quality, schedule, volumes and price. That is why we will start our internationalization push there,” said Mr. Porro.

According to the business plan, the UK will generate a turnover of £50 million (R$364 million) in two years, half of which will come from the melon and watermelon trade from Brazil. Another £10 million (R$72.8 million) will come from sales of mango, a fruit that will be included in Melon&Co’s list.

In March, the Spanish Citri&Co, Europe’s largest citrus fruit producer, bought a minority stake in Famosa to begin its global expansion. Citri&Co, which was born in 2017 from the integration of the operations of Empresas Martinavarro and Río Tinto, has approximately €500 million in annual revenues.

Famosa also wants to expand its portfolio and explore newly conquered markets, such as the United States and China. The U.S., a market opened to Brazil in 2019, received 200 containers of fruit from the company last year. The expectation is to reach up to 500 containers in the harvest that begins this month. China will also start receiving fruit this new season.

According to Mr. Porro, the production perspectives are very good, because the drought, which affects the whole country, improves the productivity of melons and watermelons. In the last cycle, 200,000 tonnes of these fruits were produced in a cultivation area of 10,000 hectares. In total, Famosa runs 30,000 hectares.

The only hindrance of the expansion expected by him is the transportation costs. With the shortage of containers and the high prices of international freight, there has been an increase of 20% to 25%

for general routes and up to 80% to the U.S. “This is one more reason to sell directly to the customer. Middlemen drive up costs for us and for consumers,” says Mr. Porro.

Source: *Valor international*
https://valorinternational.globo.com/.

August 11, 2021

SOFTBANK TO FURTHER INCREASE PRESENCE IN LATIN AMERICA

For those who thought Softbank has become big in Latin America, CEO Masayoshi Son gives a subtle indication that there may still be a lot to come. Last quarter, Softbank had dedicated one slide to Latin America in its results presentation, but on the second quarter results published on Tuesday, the region was for the first time treated as a business unit – a sign that it is gaining prominence.

Of the $5 billion reserved in September 2019 for Latin America, Softbank has already invested $3.5 billion and transformed it into $6.9 billion considering the current value of assets, including the appreciation of listed companies and new valuations of private companies in new rounds of investment. Of the 48 companies in the portfolio (four have not yet become public), 65% are Brazilian. “Our IRR [internal rate of return] has been 104% since we started,” says Alex Szapiro, head of Softbank in Brazil.

While it has around $1.5 billion, the Japanese conglomerate is preparing a new fund, not yet formalized, of another $5 billion for the region. “I cannot comment on another fund, but today we have a frenetic pace in the region, almost every week we approve new companies in the investment committee,” says the executive. “When I wasn’t at Softfbank, I [heard] some criticisms about the volume of resources for Latin America, which was disproportionate to what was done in the region until then. Looking at the market today, we see that the fund was visionary in allocating this capital to growth here”, he adds, noting that Sotfbank has two thirds of the Brazilian unicorns in its portfolio.

Mr. Szapiro, who spent the last nine years leading Amazon in Brazil and has been at Softbank for four months, runs the business side, while the selection of investments continues in the hands of the regional team. The executive is hiring about 15 people dedicated to the operational support of the invested companies – with experience in technology, administration, consulting, governance, risks.

“What we do is help the company to develop an HR policy, how and where to look for the best talent, what profile it needs and how to retain them, if the path drawn in the expansion plan of stores or warehouses makes sense, how to integrate technologies,” said the executive, adding that Softbank has teams with great experience in M&A to help entrepreneurs. “Of course, there are companies that don’t want and don’t need [our help], considering that we are not the controllers, but we have this presence for those who need it.”

For Mr. Szapiro, his job at Amazon was not much different than what he does now at Softbank. “My role was to look at what Amazon was doing in the rest of the world and could be applied here and what we weren’t doing anywhere and would make sense. It’s very similar to the way entrepreneurs operate, looking at global innovations, models of business already proven elsewhere in the world that they adopt or innovate.”

In recent months, Softbank has been looking more at the universe of publicly held companies and those about to go public, which was off the radar before. The market expectation is that this strategy will be intensified. “We don’t have a playbook to only do growth or early stage or publicly-held companies, but rather [investment] theses that make sense, that the team is good at and that if we allocate capital, we will help this company to accelerate and bring returns,” says Mr. Szapiro. “When you look at the more traditional VC [venture capital] market, investments like we did at Banco Inter, Afya and Dotz don’t happen, but for us there is no such thing as one size fits all.”

He avoids commenting on the strategy and results in China, where Softbank has felt the impact of recent regulatory pressures. But he believes that this can have an impact on the visibility of other regions, through the relocation of capital. “I’m not the best person to talk about this, but the 5.5 times greater inflow of venture capital resources in Latin America in the quarterly comparison is a confluence of several factors, including the China effect. What we see today in Asia will accelerate this process of greater visibility for the region of Latin America, combined with good [investment] theses here, good entrepreneurs, opportunities to bring efficiencies,” Mr. Szapiro says.

Source: *Valor international*
https://valorinternational.globo.com/.

August 12, 2021

FORTUNES IN PRIVATE BANKING GROW ACROSS BRAZIL TO R$1.8TRI

The volume of Brazilian fortunes in private banking grew 8.8%, to R$1.768 trillion, between January and June this year, despite the pandemic.

According to data from the Brazilian Financial and Capital Markets Association (Anbima), the expansion was 35.4% in 12 months. The sale of companies and agricultural properties, in addition to secondary offerings of shares less concentrated in the financial centers, have contributed to expanding the stake beyond the traditional Rio-São Paulo axis.

According to Anbima, in the Central-West region private banking grew 7.8%, to R$40.4 billion, while in the Northeast it reached R$80.8 billion, with an increase of 12%. However, the relative shares are still small, 2.28% and 4.57% of the total, respectively. São Paulo, which expanded 10.2% (R$1.1 trillion), and Rio, 14.1% (R$225.6 billion), continue being the dominant markets.

Bradesco private banking director José Augusto Ramalho Miranda says that the growth of families in private banking grew 37% compared to 2020. “We reached the peak of new relationships in 2021”, he says. In the first half of the year, funding from new customers was close to R$15 billion.

Itaú Unibanco, the largest Brazilian private banking firm, with R$670 billion, grew 13.4% in the first half, a rate above the market, says Felipe Nabuco, head of the division in Brazil. The volume of BTG Pactual’s wealth management grew 47% in the first half, compared to December, and practically doubled in comparison to June 2020.

Citi’s private banking assets in Brazil grew 27% in the first half, says Eduardo Ventura, head of the bank. “The investor realized the ability to monetize assets not only in the small world of fixed income in Brazil.”

For the second half, sector executives consider that the positive environment should prevail, even with rising interest rates in the economy and the anticipated electoral debate. The assessment is that the financing path through the capital market will not close.

Source: *Valor international*
[https://valorinternational.globo.com/.](https://valorinternational.globo.com/)

August 12, 2021

AGRIBUSINESS EXPORTS HAVE RECORD-BREAKING JULY

Brazilian agribusiness exports had a record-breaking performance in July, reaching $11.29 billion, 15.8% up in comparison with the same month in 2020. Since the beginning of the historical series, in 1997, shipments in the period had never reached $10 billion.

The growth is directly linked to the increase in prices of exported products, according to a Ministry of Agriculture’s press release, as the volume shipped dropped by 9.9% compared to July last year.

The price index of exported items had an increase of 28.5% in the period. The rise was driven by the effects of the weather in regions that produce cereals and meat, and by the Chinese demand for imports. Sugar, on the other hand, was influenced by uncertainties about the impact of the recent frosts in Brazil and the maintenance of crude oil prices.

The sector's share of the country's total exports dropped to 44.2% from 50.2% in July 2020. The main destination continues to be China, responsible for the purchase of 35.2% of agribusiness exports last month, with $3.97 billion purchased from Brazil in the period.

Agribusiness imports also increased 25.8% in June, to $1.24 billion from $982.8 million in the same month in 2020. The trade surplus in July reached R$10.05 billion, an increase of 14.7% in comparison to the same month last year.

The value of exports of the soybean complex (grain, meal, and oil) grew 21.6% in July and reached $5.01 billion, a record for the month. "Even with the drop in the exported quantity of soybeans in grain (to 8.7 million tonnes in July 2021 from approximately 10 million tonnes in July 2020), the increase in the average export price of the Brazilian oilseed by 32.5 % made the exported value reach around $4 billion", said the ministry.

The volume of soybean exports was affected by the decline in imports from China. "With large stocks of soybeans available and markets offering lower prices for shipments in the last quarter of 2021, lower global shipments of soybeans are expected in the next three months", points out the note. "This scenario caused China to reduce Brazilian soybean purchases to 5.8 million tonnes in July 2021 from 7.5 million tonnes in July 2020 (-22.6%)."

As for soybean meal, there was an increase in volume and revenue, driven by sales to the European Union. Soybean oil recorded an increase in revenue, but a drop in the volume shipped.

Sales of meat reached an unprecedented performance for July, with $2.03 billion, driven by the increase of 24% in average export prices and 8.8% in the volume shipped. Beef exports reached $1.01 billion, 30% higher than that registered in July 2020, thanks to an increase of almost 32% in prices, influenced by the lower offer in producing countries, such as Brazil and the United States.

Shipments of chicken meat grew 48.9%, reaching $698.2 million, a record amount for all months of the historical series, according to the ministry. United Arab Emirates, Mexico, and the Philippines increased purchases significantly and the devaluation of the real against the dollar kept the Brazilian products competitive even with the rise in corn prices.

Pork also had record-breaking sales in July, with an increase of 21% in exported value ($232 million) and 2.9% in volume, to 93,000 tonnes. “The strong Chinese demand, responsible for 54.7% of the exported value, together with the costs for preparing the feed, justify the increase in prices and exported values”, says the statement.

Forest products also had a strong performance in July, with exports of $1.3 billion, an increase of 41.4% compared to the same month last year. The sugar and alcohol sector suffered a 10.5% drop in sales values, to $930.06 million, influenced by the decrease in sugar shipments.

In the total result for the year, Brazilian agribusiness exports had an increase of 19.9%, with $72.7 billion in business, the highest value ever. Imports also grew 21% from January to July and reached $8.74 billion.

The agribusiness trade surplus was $63.96 billion in the first seven months of the year, 19.7% higher than in the same period in 2020. The results are driven by exports of the soybean complex, which increased 24.4%, reaching $34.18 billion. Following are meats, with shipments 13.2% higher, reaching $11.07 billion.

China was the destination of 38.4% of agribusiness exports from January to July, according to the Ministry of Agriculture.

Source: *Valor international*
https://valorinternational.globo.com/.

August 13, 2021

PETROBRAS PROFITS MORE THAN INTERNATIONAL PEERS

Boosted by higher oil prices, major international oil companies closed the second quarter of 2021 with financial statements in full recovery. A survey by Valor Data shows that all the companies that make up the group of the so-called Big Oil – ExxonMobil, BP, Shell, Chevron, Total and Eni – showed significant improvement in their financial indicators, but that none of them profited more than Petrobras. Close to its debt reduction target, the Brazilian state-run company stands out as one of the best dividend payers among its peers.

Adding the results of all Big Oil companies plus Petrobras, the accumulated profit in the second quarter was $29.1 billion, reversing a combined loss of $26.6 billion. Petrobras alone reported a gain of $8.1 billion.

This recovery has a simple reason: the increase in the price of oil. The average Brent barrel, a global benchmark, more than doubled compared to the second quarter of 2020, peak of the global demand contraction during the pandemic. Between April and June this year, the barrel was traded at an average of $68.8, an increase of 135% compared to the same period last year.

Together, the seven companies analyzed had revenues of $281.3 billion, double the result of the second quarter of 2020, even though most oil companies had drops in production in the period.

The oil companies are also demonstrating other solid financial indicators, such as earnings before interest, taxes, depreciation and amortization (Ebitda) and expanding free cash flows – which have allowed companies, increasingly pressured by investors averse to fossil fuels, seek ways to increase shareholder remuneration.

After reporting strong second-quarter earnings, some companies took the opportunity to announce share buyback programs, such as BP ($1.4 billion), Chevron ($2 billion to $3 billion a year) and Shell ($2 billion), in addition to dividends.

Petrobras is going in the same direction and emerges as a major payer of resources to investors. By announcing last week that it will anticipate R$31.6 billion ($6 billion) to shareholders in the fiscal year of 2021 –almost triple the average in the three previous years – the Brazilian state-owned company will deliver a dividend yield of 9%, according to UBS BB. The number places the company in the first quartile among the 21 oil companies monitored by the bank, with the indicator only lower than the Russian companies Gazprom (13%) and Lukoil (12%).

UBS predicts that Petrobras will distribute another $15 billion next year and that, in 2022 and 2023, the company's dividend yield could reach 14%, the highest in the sector. The optimism with Petrobras' dividend yield is shared by Safra, which also sees the state-owned company's indicator reach double digits in 2022.

The dividend yield is a ratio between the dividends paid by a company in a given period and the individual share price. The indicator measures the company's performance according to the earnings paid to shareholders. Petrobras' good positioning among international peers, in this case, is due not only to the expectations of an increase in dividends but also to the fact that the Brazilian company shares are less valued than of the giants in the sector.

The belief that Petrobras will pay more dividends in the coming years is partly anchored in divestments. With a leaner asset portfolio, the oil company currently consumes less cash with investments and operating expenses in lower-yielding assets.

The increase in dividends also reflects the intense work of deleveraging the company in recent years, after a financial crisis in 2014 amid the drop in oil prices and Petrobras' involvement in the corruption scandal known as Car Wash Operation. The asset sale program and strong cash generation in recent years allowed the company to cut debt.

The state-run company ended the second quarter with a gross debt of $63.7 billion, close to the target of $60 billion, initially set for 2022 but now anticipated for this year. The target works as a trigger for the new shareholder remuneration formula, which provides for the distribution of 60% of the difference between operating cash flow and investments.

Although Petrobras' numbers are still high, it is undeniable that the Brazilian company has advanced in debt management. Since 2014, when it had one of the largest corporate debts in the world, Petrobras cut its net debt practically in half, to R$54.3 billion.

The state-owned company's leverage, measured by the ratio between net debt and Ebitda, dropped to 1.49 times, the lowest level in ten years.

Along with the high returns, however, the investment thesis at Petrobras is accompanied by high risks. This is the analysis of Credit Suisse, which, in a recent report highlighted that, close to reaching the goal of reducing gross debt to $60 billion, the company can now distribute all free cash generated in the coming quarters. This means that Petrobras may have, in addition to the $ 6 billion distribution announced last week, another $4 billion more to pay in 2021.

However, according to Credit, there are "significant risks on the horizon," although they are outweighed by a combination of a heavily discounted valuation and high dividend returns. The Swiss bank cites the 2022 presidential elections and potential government intervention in pricing policy, in addition to the risks associated with an increase in the volume of investments — an element that directly competes with dividends, within a company's capital allocation strategy. In Credit's assessment, it may be difficult for the oil company's management to resist pressure to increase capital expenditures, especially at a time when the state-owned company has high free cash generation and falling debt.

In the bank's assessment, the increase in investments is not necessarily bad, but the risk is that additional capital could be allocated to projects with lower returns. Credit forecasts an increase in investment in Petrobras' next business plan, by $2 billion in 2022 and $4 billion starting in 2023, compared to the previous plan.

Last week, commenting on the results for the second quarter, Petrobras' CFO Rodrigo Araújo said that the company may increase the volume of investments in its next business plan (2022-2026), although "substantial growth" is not expected". The current business plan foresees investments of $55 billion between 2021 and 2025, of which 84% are directed to oil and gas exploration and production projects with a focus, although not exclusively, on deepwater drilling.

***Source**: Valor International*
https://valorinternational.globo.com/

August 16, 2021

SALES BREAK RECORD AND STEEL INDUSTRY RESUMES INVESTMENTS IN THE COUNTRY

The steel industry in Brazil, the ninth-largest in the world, is facing a better picture this semester, with demand at its highest level in eight years. There are companies already announcing investments in expansion and others reopening factories that had been idle since 2014. The problems caused by the covid-19 pandemic, which led to the shutdown of furnaces, blast furnaces and product lines, were overcome.

"Supply is normalized, with steelmakers producing at a higher rate than that before the start of the pandemic. In an interview with Valor, the use of installed capacity in the sector is at 73.5%", Marco Polo de Mello Lopes, president of Instituto Aço Brasil, which represents steelmakers.

According to Mr. Lopes, the sector has plans to invest $8 billion within five years to meet the expansion of consumption in the country.

Last week, the Gerdau group announced investments of R$6 million in plants in Minas Gerais. Two months ago, the group announced the reactivation of a unit in Paraná and another special steels unit in São Paulo. Usiminas is studying installing a galvanized steel line in Cubatão (São Paulo). The Mexican group Simec said it plans to double the rebar and wire rod plant in Pindamonhangaba (São Paulo) and is expanding the one in Cariacica (Espírito Santo) — a total of $350 million. In March, ArcelorMittal resumed a $350 million expansion project in Santa Catarina and in January it will start operations in a long steel rolling mill in João Monlevade (Minas Gerais), ready since 2015, but idle due to lack of market.

Valor: After more than a year of pandemic, has the steel industry in the country already overcome the problem of supplying the consumption chain?

Marco Polo de Mello Lopes: In April of last year, at the height of the demand crisis caused by the necessary social isolation to face the pandemic, the steel sector operated with 45% of its installed capacity. Orders for steel products by civil construction, machinery and equipment and automotive sectors had a sharp drop at that time. These three sectors represent 82.2% of consumption in Brazil. Fortunately, from May 2020 there was a vigorous recovery in demand and, currently, the sector operates with 73.5% of the installed capacity. Supply is normalized, with steelmakers producing at a higher rate than that seen in the period before the start of the covid-19 pandemic in the country.

Valor: How are production, sales in the domestic market and apparent consumption of steel in the country?

Lopes: The first half was positive for the sector. Production expanded 24% compared to the same period in 2020. Domestic sales reached 12.1 million tonnes, an increase of 43.9%. The numbers show a fully supplied market, with apparent consumption of 14 million tonnes in six months — an increase of 48.9% compared to the same period in 2020.

Valor: The industry has revised upwards the numbers for 2021. What was the reason for this decision?

Lopes: Steel production is expected to grow 14% (35.8 million tonnes), while sales should rise 18.5% (23.1 million) and apparent consumption, 24.1%, with 26.6 million tonnes. The strong growth projected for internal sales, added to the expectations of investments in infrastructure, indicates a path of recovery. If it materializes, crude steel production will be the largest in history. Apparent consumption and internal sales, the largest since 2013.

Valor: The construction and equipment sectors are still complaining about the lack of steel and rising prices.

Lopes: The Brazilian steel industry is serving its customers in volumes above those verified before the pandemic, when there were no complaints regarding supply or price. The imbalance that occurred in the chain as a whole due to the strong recovery in demand, together with the replacement of stocks and even the creation of speculative or defensive stocks against market volatility, has already been solved. If there is still a problem in the market, it is a one-off one.

Valor: Why have steel prices soared in the last year?

Lopes: Price volatility was caused by the commodity boom in the world. Almost all inputs and raw materials in the sector increased in prices, causing a strong impact on production costs in the steel industry. Iron ore and scrap, strategic raw materials, for example, had their prices increased from January 2020 to June 2021 by 172.7% and 157.7%, respectively. This phenomenon occurred all over the world. In Brazil, it was no different.

Valor: The price of rebar is pointed out as the one with the greatest weight in the construction materials basket.

Lopes: This has been the narrative of some civil construction representatives, but, in fact, steel is the seventh item in the overall sales value of this sector, with only 5% of the property's sales value, according to information from various entities, among them the Construction Industry Union in São Paulo (SINDUSCON-SP). Contrary to what has been propagated, that the price of steel would be preventing its growth, the reality is quite different. Property launches grew 167.5% from January to May; sales, 53.2%. The sector had a record for job creation in a year and real estate financing rose 160% from January to May.

Valor: Did steel mills shut down blast furnaces and rolling mills aiming price speculation?

Lopes: All the equipment that was shut down at the beginning of the pandemic due to absolute lack of demand was back in operation as soon as the orders resumed. With higher demand, the companies drastically reduced exports, giving priority to domestic sales. Already in June 2020, they were higher than in January of that year, before the pandemic. It doesn't make sense that the Brazilian Chamber for the Construction Industry (CBIC), in September of 2020, made a notification to the Ministry of Economy saying that steel companies were delaying the re-starting of blast furnaces so to elevate exports exponentially and reduce supply in order to raise prices in the domestic market. This is not true.

Valor: What about the request to reduce taxes on imports for some time until supply in the country was balanced?

Lopes: It does not make any sense. Imports are being carried out normally, reflecting the free market conditions. In the first half of 2021, more than 1.9 million tonnes of laminated steel products were imported. There is no exceptional situation in the market that justifies an extreme decision to reduce the importation rates of steel products. CBIC celebrated and widely made known the arrival, in early July, of 20,000 tonnes of rebar, imported in partnership with a cooperative, which proves the viability of imports without the need for artificial measures. Prices have indeed risen, but not due to speculation, but rather by the increase in prices of raw materials and inputs used in steel production.

Valor: Brazil's per capita consumption of steel has been stuck at 100 kilos per capita per year for decades. Other countries have evolved. What is the reason for this gap?

Lopes: GDP and steel consumption go together. They are inseparable. The fact that steel consumption per capita has remained at the same level for years shows that the country has been moving sideways in recent decades. We understand that the low investment in infrastructure by the various governments is one of the reasons why the country has not had sustained economic growth. China is an example of a country with a high degree of investment in infrastructure that has driven economic growth continuously. That country has increased the amount of per capita consumption of steel products from 32 kg/inhabitant in 1980 to 691 kg/per capita in 2020. The world average per capita consumption went from 128 kg/h to 227 kg/h in the same period.

Valor: The sector has held talks with the federal government. What are the demands?

Lopes: The Brazilian steel industry advocates and works for the resumption of sustained economic growth, the recovery of the industry's systemic competitiveness and a trade opening in tune with the reduction of the so-called Brazil Cost. We have been working on this agenda together with the CNI, the organizations that make up the Industry Coalition, the government, and Congress. The priority items of this agenda are Brazil, Tax Reform and reduction of the Brazil Cost.

Valor: Which economic indicators will the sector work with in 2021?

Lopes: There is no unanimity regarding these forecasts, but in general the sector follows the market forecasts – dollar at R$5.10, inflation at 6% and GDP above 5%.

Valor: What are the main stumbling blocks for the Brazilian economy and the transformation industry?

Lopes: At the moment, the great challenge is the advancement of tax reform due to the various interests that exist in the country. For the industry, it is extremely crucial to advance in the approval of a broad reform that effectively ends the accumulation of taxes, unburdens investments and brings justice through the balance of the inter-sectorial tax burden. Its approval is a priority.

***Source**: Valor International*
https://valorinternational.globo.com/

August 17, 2021

BRAZILIAN COMPANIES HAVE RECORD OF IPOS IN THE U.S.

Brazilian companies are setting a record number of initial public offerings not only on the local stock exchange but abroad too.

With Zenvia and Vtex's offerings in July, added to Pátria and Vinci's offerings in January, the year already has a record number of IPOs by Brazilian companies in the United States. With five more Brazilian companies with plans to debut on Nasdaq or Nyse in coming months, the year may still be a historic one in terms of financial volume.

In the last five years, Brazilian companies have raised almost $9 billion in IPOs in the U.S., in 13 operations — therefore, operations of companies that were already listed in other markets and made their subsequent debut in New York are not included in this account.

It is still very little in relation to that American market or even the volume of transactions in Brazil, but it has been increasing gradually.

This year, $1.44 billion have already been raised. The final value will depend on whether all companies are able to execute their plans and at the desired prices, but it could rise to a historic $5.8 billion in technology-related deals. In recent years, the largest volume was in 2018, with $3.72 billion in three IPOs.

The appetite for Brazilian stocks is reinforced by profitability. A survey by Economatica shows that, of 16 IPOs of Latin American companies in the last decade in the U.S., only nine have accumulated positive performance since their debut — and seven of them are Brazilian.

So, with an upcoming list of offerings at Brazilian-based exchange B3 rated by investors as "unattractive", the focus in coming months promise to in the American market, according to executives interviewed by Valor.

Information technology company CI&T wants to raise between $300 million and $500, sources say, in an operation led by Citi and Goldman Sachs, which also includes J.P. Morgan, Morgan Stanley, Bank of America, Itaú BBA and Bradesco BBI.

Digital platform Hotmart has a slightly higher range, between $400 million and $600 million, under the coordination of Goldman, J.P. Morgan and Morgan Stanley.

The volume of banking-as-a-service software platform Conductor, whose IPO will have Goldman Sachs, J.P. Morgan, Bank of America and Credit Suisse coordinating, may be above that.

Credit card brand Elo is expected to make its launch at the end of the quarter, for effective listing between October and November. Owned by Bradesco, Banco do Brasil and Caixa, it targets Nasdaq to raise between $1.2 billion and $2 billion, a source said. Morgan Stanley, J.P. Morgan and Goldman Sachs make up the syndicate with the shareholder banks.

There are some similarities in these transactions, except for Elo. They are companies with private equity or venture capital funds in their shareholder base, which explains the need to provide liquidity to investors, and that already have international operations or are accelerating this strategy.

Nubank's noisy IPO is also expected later this year. The digital bank has already engaged the first-tier banks for the offering, with Morgan Stanley, Citi and Goldman at the forefront – in a deal expected to reach few billion dollars. As a private firm, Nubank is already worth more than $30 billion.

Payment processor Ebanx (another Advent investee, as CI&T by the way) was expected to launch its offering this quarter, but the company has not yet closed a full syndicate, according to two sources. The firm also has funds like FTV Capital and Endeavor in its shareholder base.

At secured loans fintech Creditas, which has also started working with an offering timeline, the latest talks point to 2022.

This does not mean that technology companies, in general, have once again stopped considering operations on the Brazilian stock exchange. But it depends on size and also on the composition of revenue, say executives close to the operations. "In general, for companies with a market capitalization below $1 billion and basically operating in the Brazilian market, it will continue to make more sense to be listed in Brazil. Those that have a regional operation in Latin America tend to look for the American market," a source says.

***Source**: Valor International*
https://valorinternational.globo.com/

August 17, 2021

CRYPTO ASSETS ATTRACT PLATFORM INVESTORS

Crypto assets, with Bitcoin at the forefront, are already the third type of investment chosen by Brazilians who invest via platforms. A portion of 27.78% of these investors say they have this asset type in their portfolios.

The segment of digital assets is second only to stocks (72.05%) and private fixed income bonds, such as CDB (40.45%). It is ahead of traditional assets such as Treasury notes (18.92%), commodities (18.06%), foreign currencies (exchange; 13.19%) and savings (1.74%).

The data are from a pioneering survey on the profile of crypto assets investment in Brazil, whose first of three parts is disclosed exclusively by Valor. The study is led by the Fundação Getulio Vargas's

São Paulo School of Economics (FGV EESP) and by the crypto assets fund manager Hashdex, known for having listed the first ETF on the Brazilian stock exchange, HASH11.

The survey analyzes a group of 576 people, including crypto assets investors and others who have never invested in these assets, included in the client base of independent managers Monte Bravo Investimentos, Blu3 Investimentos, Acqua-Vero Investimentos, One Investimentos and Renova Invest.

The sample´s profile contrasts with that of the Brazilian investor in general. According to data from the Brazilian Financial and Capital Markets Association (Anbima), savings are still the national preference, used by 29% of the total.

The research is supported by the University Blockchain Research Initiative, led by the institution behind the blockchain technology Ripple, from the cryptocurrency with the same name. The objectives, according to the entities, are “to map the profile of investors, understand their systematic differences and test behavioral finance hypotheses”.

The study does not quantify the amount invested in each modality — that is, cryptos are the third most frequent asset in the responses, but not necessarily the third-largest financial volume.

The survey also reveals that knowledge about cryptocurrencies and interest in this segment are greater among those who are more pessimistic about the prospects for the Brazilian economy. In this group, with a predominance of people aged between 30 and 39, there are investors in corporate securities, foreign exchange and cryptoassets.

“Knowing the profile of investors interested in crypto-assets and their level of knowledge about this market is extremely important for us to develop targeted educational actions”, says Hashdex CEO Marcelo Sampaio.

Jéfferson Colombo, professor at FGV EESP and coordinator of the research, adds that, despite the boom of the crypto-assets market, very little is known about the characteristics and perceptions of Brazilians about this class of investments.

Interviews were carried out between February and March. There were 446 answers from men and 130 from women.

According to the survey, people up to 29 years old are the most knowledgeable about crypto assets, and they are also the public most likely to tolerate risks in their investments.

Bitcoin and crypto assets have more resonance among investors who claim to have an aggressive investment profile, and among people with a higher degree in finance.

The study also showed that Bitcoin is the main driver of popularity for crypto assets in general. Participants needed to identify acronyms that designate cryptocurrencies Bitcoin, Ethereum and Ripple (BTC, ETH and XRP), included in a list with other assets. Of the total, 36.8% identified only Bitcoin. Another 24.1% identified Bitcoin and Ethereum, while 23% did not recognize any acronym. Only 15.8% demonstrated to know all of them.

Source*: Valor International*
https://valorinternational.globo.com/

August 19, 2021

BRAZILIAN COMPANIES SHOW STRONG RECOVERY IN 2Q

Public companies continued their accelerated recovery in the second quarter, not only compared to a low base of comparison last year, when the first wave of the pandemic hit results hard, but also for the second quarter of 2019. Pressure on margins resulting from rising costs and interest rates, however, affected results in industries as diverse as construction, technology, retail, and pulp and paper.

A survey by Valor Data of 311 listed non-financial companies shows that the results of this corporate elite continue to be surprising – which exposes, at a time when the stock market is testing the bottom, an eloquent mismatch between results and the stock market. Under normal conditions, profits would be the mainstay of a good stock performance, as has been happening in the United States, but external factors, such as the perception of greater fiscal and political risk, have been weighing on asset valuations.

The figures show that the net income of these companies soared 1,413.6% year over year to R$161 billion, or a 223.8% increase over the second quarter of 2019. Net revenue, meanwhile, advanced 50.8% over 2020, to R$830.6 billion, and 51.6% over 2019. Excluding Petrobras and Vale, due to the direct exposure of the two to commodities, which had strong expansion in prices between April and June, net income rose 868.2% year over year, to R$78 billion, 149.9% over 2019, while net revenue grew 37.6%, to R$632 billion, and 40.9% over 2019.

One highlight of the earnings season, according to Bank of America, was higher-than-expected store reopening, including those by retailers Lojas Renner, Petz and Vivara. Revenues took the companies to levels similar to those seen in the second quarter of 2019, before the pandemic hit Brazil.

David Beker, head of strategy at Bofa, says that positive surprises outweighed negative ones in the last quarter. The executive points out that the gradual reopening starting in April boosted revenues in sectors such as retail, although the services sector still posted a weak result.

“We had many more results above than below expectations, which is an indicator of market sentiment,” he told Valor. Despite the spread of the Delta variant around the world, Mr. Beker points out that optimism about vaccination should remain in the third quarter of this year.

Another factor that partly encouraged good results of benchmark stock index Ibovespa in the period was the rise in commodity prices. Exporting companies have been benefited by the high demand in the foreign market and by the exchange rate effect in the last months. Mr. Beker says, however, that “probably the peak of global growth has already been reached,” which may lead to eventual downgrades in forecasts, especially in relation to the markets of the United States and China.

Despite the companies’ upbeat tone during the season, some topics became recurrent, notably the rise in costs sustained mainly by strong increases in inputs both in the domestic and foreign markets. Mining giant Vale had a realized iron ore price of $182.8 a tonne, more than double the $88.2 a tonne seen a year earlier, driven by heated Chinese demand.

The strong demand for steel boosted the price of the input both in the domestic and foreign market, with major producers like Companhia Siderúrgica Nacional (CSN), Gerdau and Usiminas implementing almost monthly adjustments during the quarter to grab market opportunities. This creates cost pressure for local companies that need the material, such as WEG and Tupy, which highlighted cost increases in their results.

Motor maker WEG saw its cost of goods sold (COGS) increase 15.8% compared to the first three months of the year and 41.3% year over year in the second quarter of 2021, as a reflection of the higher prices of the main raw materials. Tupy saw the cost of raw materials rise 90% in some cases in the last 12 months, and 10% compared to the period between January and March. Both saw an impact on margins due to higher prices.

Another crisis, the global shortage of semiconductors, reflected at the end of the production chain. Car rental company Localiza highlighted the impact of the “low level of vehicle production in the country” in the fleet management segment. Although the segment’s net revenue has seen a 13% year-over-year growth, to R$296 million, car delivery times are above historical averages, which slows growth.

Positivo Tecnologia saw the impact of shortages in its production line. During a conference call, CEO Helio Rotenberg said deliveries of some inputs were delayed by three to four weeks, which forced the company to change suppliers or adapt products to other inputs to mitigate the crisis.

The shortage of materials was not limited to companies directly linked to the industrial sector. In the case of Irani, the papers used as raw material for packaging accounted for 42% of all the company's paper production cost in the second quarter. These papers are used in most boxes and cardboard packaging sheets.

According to the company, the segment suffers "variations related to the population's consumption," considering the collection of used boxes by retailers and the demand for recycled paper. Between April and June, the average price of papers used as raw material for packaging jumped 173.5%, to R$1,700 per tonne.

Builders and developers also suffered with cost inflation this quarter. With inputs on the rise since the beginning of the year, the companies saw margins being pressured despite record operational performances. Companies like MRV and Tenda, which work directly with the housing program Green Yellow House – and, because of that, have little room to pass on increases to customers – reported margins below expectations.

MRV CEO Rafael Menin said that in the model of transferring the receivables from customers to banks, the price of units is no longer adjusted by the National Index of Construction Cost (INCC) as soon as the transaction is concluded, because the customer starts to be financed by the bank and not by the developer anymore. With this, the inflationary pressure on margins is greater than if the properties were passed on only when the keys are delivered.

The company's gross margin was 25.3% in the second quarter, while BofA estimated 28%. The expected net margin was 8.3%, 0.4 percentage points higher than reported by MRV. The only indicator to exceed BofA's projections was the EBITDA margin, of 11.3%, against the 11.1% forecast.

Tenda, another developer, reduced its adjusted gross margin projection for the year 2021 to a range between 28% and 30%. The company previously predicted between 30% and 32% of adjusted gross margin. In the American bank's assessment, the new estimate is in the middle of analysts' projection for the year, showing the persistence of high construction input costs.

For the head of strategy at BofA, however, the pressure on margins still does not represent a great risk for construction companies. Mr. Beker points out that lower margins did not occur at a level proportional to the increase in sales in the period, suggesting that companies' growth is sustainable.

Another potential obstacle for the construction sector is higher interest rates. The successive cuts in the Selic policy interest rate had pushed interest rates for real estate financing to historically low levels, which boosted the contracting of credit for the acquisition of real estate. The recent scenario of increases in the Selic, according to some market players, could slow down housing credit.

Mr. Beker, with Bofa, believes that the impact of the higher Selic rate for construction companies should be limited. According to the executive, the higher interest rates may reflect negatively in the entire stock market, with a greater volume of investments directed to fixed income, despite the specific impacts in each sector. Mr. Beker highlights that the future interest rate curve already points to a double-digit level.

“The concern with the Selic is not about the immediate impact on the corporate sector, but how it affects stock market flows. Banks could benefit from higher interest rates, for example, but being above the market average does not mean that the performance is good,” he said.

The crisis caused by the coronavirus pandemic also brought an unprecedented instrument in 2020, as companies could reduce salaries and working hours of their workers as a way to preserve cash. In 2021, this did not occur, creating another pressure factor on companies, with personnel costs helping to reduce margins.

Roberto Fulcherberguer, CEO of retailer Via, said that the amounts paid in rent and employee salaries were reduced in part of last year, and these costs have returned this year. “The EBITDA margin of 6.2% is not our recurring margin, this margin is more in the 7%, 7.5% range. It was an impact of closed stores – we barely operated in April – and the effect of some expenses.”

***Source**: Valor International*
https://valorinternational.globo.com/

August 24, 2021

REAL INTEREST RATES REACH HIGHEST LEVEL IN THREE YEARS

The jump in market rates in the face of concerns surrounding the fiscal situation and continued inflationary pressures gave a boost to the real interest rate, which reached the highest level since October 2018. Valor Data calculations from 360-day interest swap contracts and one-year inflation expectations point out that the ex-ante real interest rate rose to 3.61%.

This comes in the wake of soaring market interest rates, which strengthened the assessment that the Selic policy interest rate will have to rise even more in view of higher fiscal risks, which leave the balance of risks even more asymmetric for inflation. The Focus survey of the Central Bank brought projections for the Selic rate unchanged at 7.5% at the end of this year and 2022, but showed a deterioration in the expected path for inflation, as the median estimate for the Extended Consumer Price Index (IPCA) in 2022 went to 3.93% from 3.90%.

“The Copom’s [Central Bank’s Monetary Policy Committee] message was very clear and important in the sense that it signaled its commitment to the inflation target. This was the big change compared with the other meetings. The Copom changed its communication and stopped sending signals about what the rate will be, and is focusing more on the unequivocal commitment to make inflation converge to the target instead,” said Paulo Val, chief economist at Occam.

For him, the consequence of this process is a restrictive interest rate at the end of the cycle. As Occam’s projections point to inflation of 4.3% in 2022, Mr. Val notes that the Selic at 7.5% would be at the neutral level. “Since it will be necessary to take it into the restrictive territory, we are talking about a Selic of 8.5% at the end of the cycle,” the economist said. Occam thus expects two 100-basis-point hikes, followed by a 75 bp hike in December and a 50 bp increase in the first meeting of 2022.

Mr. Val notes that his projections do not incorporate a change in the estimate for the neutral real interest rate. “This worse fiscal assessment puts, without a doubt, an upward tendency on the neutral interest rate projection, but this is not yet incorporated in our numbers. The risk, in our view, is that political noises and fiscal risks will bring higher interest rates. In the end, we would end up with slower growth, higher interest rates and faster inflation,” he said.

With the Selic at 8.5%, Occam expects a 1.7% growth in GDP in 2022, after an expansion of 5.4% projected for this year. Mr. Val believes that the worsening fiscal picture and political turmoil partly contribute to a lower growth. “When we put this scenario together with a restrictive Selic, which is necessary because of inflation, this justifies our projection of 1.7% for the 2022 GDP and adds a downward bias,” he said.

The economists at Itaú Asset Management have a similar view. They point out that the contractionary monetary policy, greater uncertainties related to elections and the political environment should weigh on economic activity in 2022. As a result, the asset manager reduced its projection for next year’s GDP to 1.4% from 2.5%.

This revision came in the wake of expectations of an even higher Selic, since Itaú Asset raised the projection for the basic interest rate at the end of this year to 7.75% from 7.25% and now expects the cycle to end with the Selic at 8% in 2022. “The recent communication from the Central Bank indicates the monetary authority’s concern with fiscal risk and inflation. The current environment of uncertainty, worsening expectations dynamics and high current inflation should pressure the Central Bank to make further monetary adjustments," the team led by economist Diogo Guillen said.

***Source**: Valor International*
https://valorinternational.globo.com/

August 27, 2021

SUPREME COURT CONFIRMS CENTRAL BANK'S AUTONOMY

The Supreme Federal Court (STF) voted 8-2 on Thursday to keep valid the law that instituted the autonomy of the Central Bank (BC). For most justices, there was no formal defect in the way the bill was passed by Congress.

The votes of justices Luís Roberto Barroso, Dias Toffoli, Nunes Marques, Alexandre de Moraes, Edson Fachin, Carmen Lúcia, Gilmar Mendes and Luiz Fux prevailed. The rapporteur, Justice Ricardo Lewandowski, and Justice Rosa Weber were defeated. The STF has one less member since the retirement of Marco Aurélio Mello.

The controversy lies in the fact that the bill initiated by the federal government — which would have exclusive competence for this type of regulation, according to opposition parties — was joined to a similar one, authored by Congress, and only the latter was voted by the Legislative.

Justices Lewandowski and Weber understood that, by keeping valid a law that was not properly processed, a dangerous precedent would be created, possibly provoking an "undesirable turmoil" in the management of public administration, which would be subject to the "changing moods" of parliamentarians.

The rapporteur, who voted in the Wednesday session, limited himself to pointing out the formal unconstitutionalities that he considers having occurred in the processing of the bill, without addressing the merit of the effects of the Central Bank's autonomy for the country's economy.

On Thursday, in the continuity of the trial, only the deputy chief of the court followed his vote. For Justice Rosa Weber, the matter "is, indeed, of the exclusive initiative of the president." Therefore, the bill by senator Plínio Valério (Brazilian Social Democracy Party, PSDB, of Amazonas) could not have been signed in law.

However, the majority defended that the bill made its way through Congress in a regular way and that the version signed in law in February by President Jair Bolsonaro is constitutional. There were specific differences between them, but the general conclusion was the same.

For Messrs. Barroso, Toffoli, Marques, Fux and Mendes, for example, the matter was not the exclusive competence of the President of the Republic, since the law does not deal with the legal regime for civil servants, nor with the creation or extinction of public bodies.

Justices Moraes, Fachin and Lúcia disagreed on this point but stated that the defect of the initiative was overcome by the fact that Mr. Bolsonaro had sent to Congress a bill practically identical to the one that was already underway, which reveals his political interest in the topic.

Furthermore, for justices who voted for the confirmation, the way Congress interprets and applies its internal regulations and rules is not subject to interference by the Judiciary and although the issue is controversial, that is a political choice made by Congress, which the court must defer to.

Although the debate was mainly about formal issues, some justices spoke about the importance of the Central Bank functioning with a fixed four-year term for its president and directors.

One of them was Justice Marques, for whom the measure is a “requirement for confidence in international relations” and a “strong indication of transparency, accountability, and governance,” fundamental to maintaining “a stable economic environment favorable to the country’s growth.”

Citing the example of the United States and European countries, he added: “This will attract investment and, therefore, greater economic development to society. The autonomy generated by the existence of fixed mandates is analyzed internationally as an essential factor for the economic development of democracies in the world.”

Chief Justice Luiz Fux, the last one to vote, was succinct in his manifestation for the validity of the law. Before the session, however, during an event promoted by XP Investimentos, he gave a “spoiler” on how he would position himself: he stated that the alleged defect of the initiative was “a defect of minor importance.”

“Central Bank deals with monetary and financial policy and must have a transnational vision and act with total independence. This is a fair demand of the market today, and, in my view, one that should be met,” he says.

The lawsuit had been filed in February by the Workers’ Party (PT) and the Socialism and Freedom Party (PSOL), for whom the autonomy of the Central Bank could harm the economy in the face of a lack of coordination of monetary and fiscal policies.

In a rare disagreement within the government, the Attorney General, Augusto Aras, defended that the law had formal defects capable of bringing legal insecurity and harming the market.

Federal Attorney General Bruno Bianco said it was not possible to talk about defect of the initiative because Mr. Bolsonaro was actually “co-author” of the approved bill.

***Source**: Valor International*
https://valorinternational.globo.com/

August 27, 2021

BRAZIL TO OPEN NEW DIPLOMATIC MISSIONS

After several years of freezing or shrinking Brazil’s diplomatic missions abroad, with the closing of embassies opened during the Workers’ Party (PT) administrations, Brazil’s Foreign Ministry, known as Itamaraty, plans to expand its network again. The plan is to open three or four consulates-general and consular offices in 2022.

To make new missions possible, Foreign Minister Carlos França asked the economic team for a budget of almost R$2.3 billion for the next year. This year, the Itamaraty has R$ 1.7 billion – not counting mandatory expenses, such as salaries. About 90% of this budget is executed in dollars.

Two new consulates are to be created in the United States and China, in cities known as technological development and innovation hubs where important companies are based.

One will open its doors in Chengdu, in Sichuan Province, one of the high-tech regions of the Asian country. Today, besides the embassy in Beijing, Brazil has consulates in Shanghai and Guangzhou.

In the United States, although the final decision has not yet been made, Seattle has the best chances of receiving the new diplomatic mission for being home to industrial and technological heavyweights like Microsoft, Amazon, Boeing and Expedia.

According to Foreign Ministry’s aides, the choices reflect more pragmatic diplomacy, focused on attracting investments and economic partnerships. They see no relation with the fast opening of missions abroad seen during Luiz Inácio Lula da Silva and Dilma Rousseff administrations (2003 to 2016).

At the peak of these previous administrations, Brazil had a network of 223 diplomatic missions – including embassies, consulates, offices and missions in international organizations. During the period, there was a significant expansion of diplomatic missions in Africa and the Caribbean.

This wider network was seen as key not only to support the internationalization of Brazilian companies and to strengthen commercial ties, but also to increase the chances of success in the country’s campaigns abroad, which could range from the election to head multilateral entities (such as WTO and FAO) to the dispute to host the Summer Olympic Games. Brazil also had as a priority getting a permanent seat on the United Nations Security Council.

The Bolsonaro administration closed eight missions, including seven embassies. Five of them were located in the Caribbean (Saint Kitts and Nevis, Saint Vincent and the Grenadines, Antigua and Barbuda, Dominica, and Grenada) and two in Africa (Sierra Leone and Liberia). The consulate-general in Mexico City was also closed down, and now operates jointly with the embassy in the country.

In the new expansion plan, besides Chengdu and probably Seattle, two consular offices (with leaner structures and without the same degree of autonomy of the consulates-general) should be opened. One is planned for Orlando, Florida, in order to relieve the burden on the consulate in Miami and speed up services to Brazilian citizens facing loss of passports and immigration problems, for example.

The other office would be in Jerusalem, where evangelical tourism had been skyrocketing before the pandemic, generating this same type of demand. In addition, the opening of the mission would support the government narrative that the embassy in Tel Aviv has not yet been transferred to Jerusalem, as Mr. Bolsonaro promised in the 2018 presidential campaign to please his voters, but some steps are being taken. The Brazilian Trade and Investment Promotion Agency has already set up a commercial office in the city.

If Mr. Bolsonaro is reelected, Minister França plans to open other missions starting in 2023. On the list is a new consulate in the United Kingdom as all activities are now concentrated at the embassy in London and the Brazilian community has grown in the country.

The construction of a new Brazilian embassy in Beijing is also in the plans. The current building, inaugurated as a diplomatic mission in 1974, is located in an older area of embassies in the Chinese capital and far from where the missions of the United States, Canada and European countries are located today. “It looks more like a house that used to be big and had some small buildings added on to become an embassy,” one diplomat says.

Source*: Valor International*

https://valorinternational.globo.com/

August 30, 2021

ECONOMY GROWS IN ALL REGIONS, SURVEY SAYS

The Brazilian economy grew across the five regions in the second quarter, according to figures from the Central Bank's Regional Economic Activity Index (IBCR) surveyed by Valor using the historical series of the monetary authority. The comparison is made with the first three months of the year, in the seasonally adjusted series. The Central Bank officially releases this Thursday the numbers for the second quarter in the Regional Bulletin.

In the period from April to June, the strongest increase in the IBCR was seen in the North region, with a growth of 2.36%, followed by the Central-West (1.88%), Southeast (0.69%), Northeast (0.54%) and South (0.16%).

"Trading and services were the main driver of the regions' economic performance," said Paulo Eduardo Pereira, analyst at 4E Consultoria.

He points out that the North was the only region in which there was a drop in economic activity in the first quarter of this year compared with the last three months of 2020.

"The base of comparison was low," he said, highlighting that several municipalities in the region were hit hard at the beginning of the year by the pandemic, which forced a large number of stores and services to suspend activities.

New emergency aid payments were another factor that boosted economic activity in both North and Northeast during the second quarter, says Mr. Pereira.

The Southeast, Brazil's most populous and wealthiest region, saw its economy negatively impacted by the agribusiness performance "below the expected" caused by climatic factors. According to the analyst, the tendency is that these factors will continue to damage the economy of the Southeast in the third and fourth quarters, harming mainly the coffee, sugarcane, cotton and orange crops – all "very important for the region."

For the second half, Mr. Pereira expects that the five regions will benefit economically from the advance of vaccination. The analyst points out that, unlike 2020, services should be boosted by immunization, while sales should lose prominence. Last week, 4E Consulting revised upwards its projection for the growth of GDP this year, to 5.3% from 4.5%.

Source*: Valor International*

https://valorinternational.globo.com/