



MACRO OUTLOOK

Leandro Rothmuller
Chief Economist

February 2019

CONTENT

»» BRAZIL: BATTLE FOR PENSION REFORM IS ABOUT TO START

»» GLOBAL: A SLOWDOWN IS UNDER WAY

»» MARKETS: RECENT TRENDS

CONTENT

»» BRAZIL: BATTLE FOR PENSION REFORM IS ABOUT TO START

»» GLOBAL: A SLOWDOWN IS UNDER WAY

»» MARKETS: RECENT TRENDS

BATTLE FOR PENSION REFORM IS ABOUT TO START

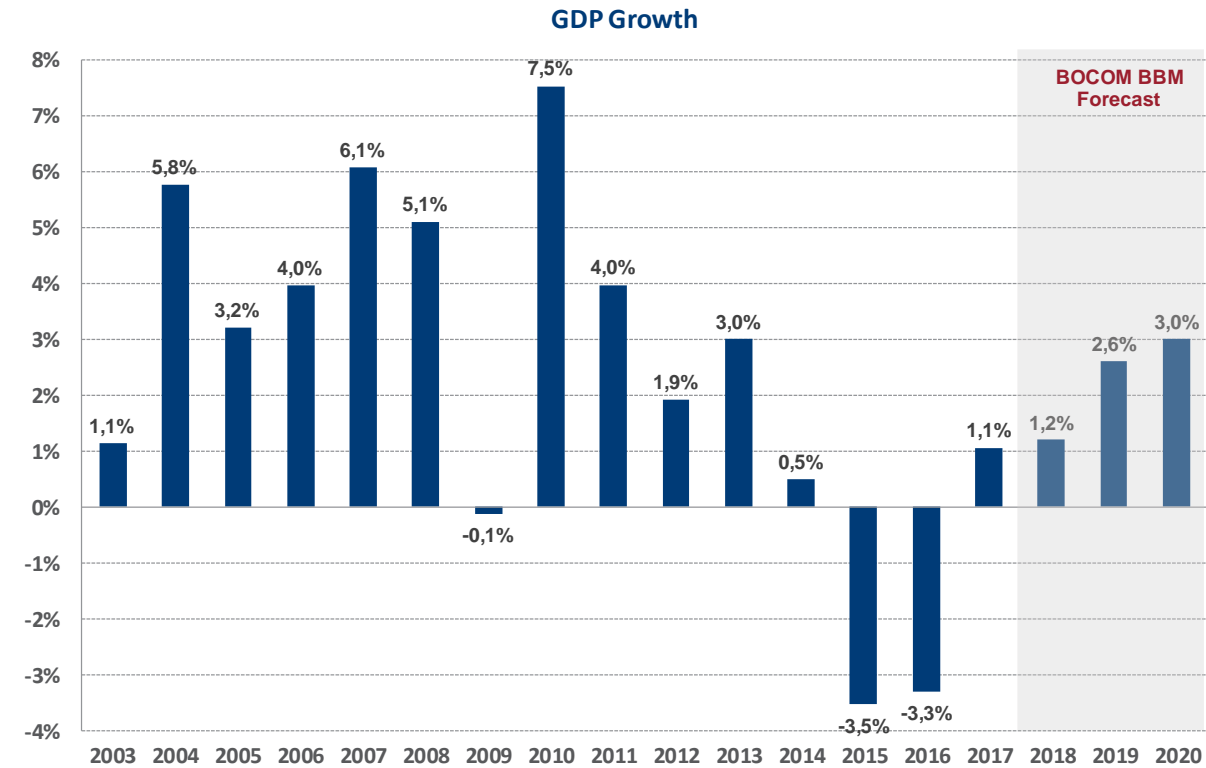
- » Benign outlook: growth should pick up with low inflation and stable Selic rate.
- » Outlook is dependent on the fiscal adjustment, which remains incomplete: pension reform is urgent for the government to comply with the spending cap and stabilize public debt.
- » Paulo Guedes will propose an ample and ambitious pension reform, but main challenge is policy implementation.
- » There are questions about political coordination to approve the reform agenda, but Rodrigo Maia's reelection as lower house president is positive.
- » Downside risks remain if the reform agenda stalls.

BRAZIL: FORECASTS

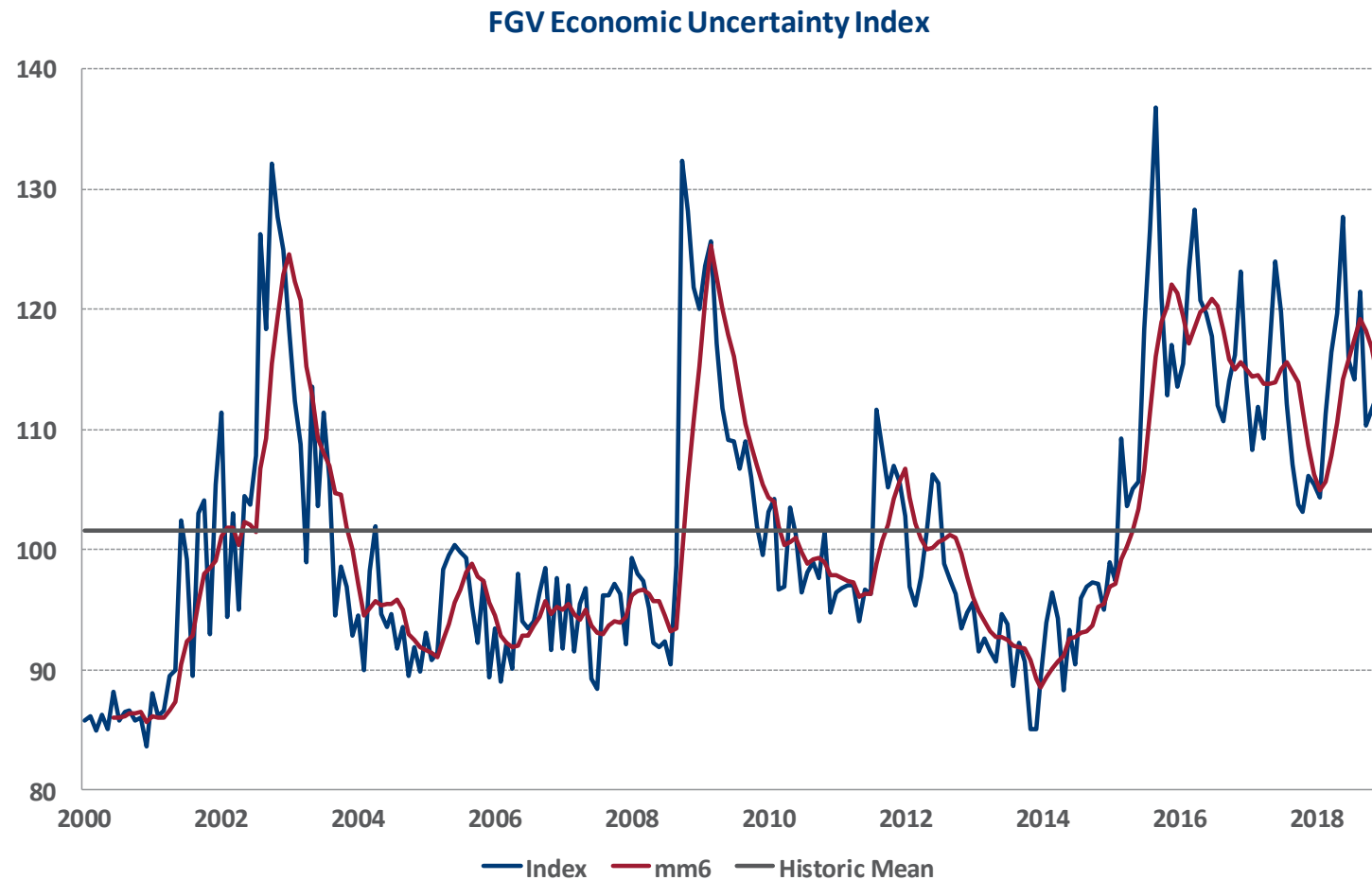
ECONOMIC FORECASTS	2013	2014	2015	2016	2017	2018	2019 F	2020F
GDP Growth (%)	3,0%	0,5%	-3,5%	-3,3%	1,1%	1,2%	2,6%	3,0%
Inflation (%)	5,9%	6,4%	10,7%	6,3%	2,9%	3,7%	3,8%	4,0%
Policy Rate (%)	10,00%	11,75%	14,25%	13,75%	7,00%	6,50%	6,50%	8,00%
Unemployment Rate (%)	6,8%	7,1%	9,6%	12,6%	12,4%	12,2%	10,7%	9,9%
Trade Balance (US\$ bn)	3	-4	20	48	67	58	51	39
Current Account Balance (US\$ bn)	-75	-104	-59	-23	-10	-13	-22	-39
Current Account Balance (% of GDP)	-3,0%	-4,3%	-3,3%	-1,3%	-0,5%	-0,8%	-1,1%	-1,7%
Fiscal Primary Balance (% of GDP)	1,7%	-0,6%	-1,9%	-2,5%	-1,8%	-1,6%	-1,1%	-0,6%
Government Gross Debt (% of GDP)	51,7%	57,2%	66,2%	69,4%	74,0%	76,7%	76,5%	76,9%

» Growth should pick up to 2.6% in 2019 and 3.0% in 2020:

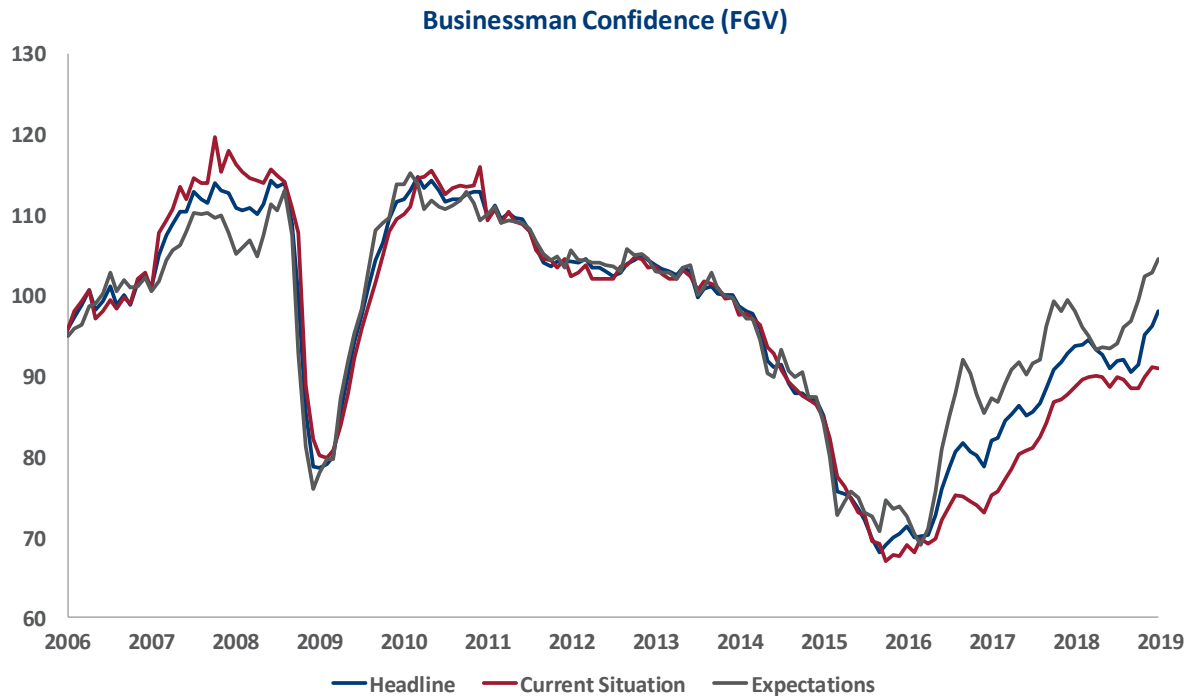
- » Headwinds are dissipating and economic uncertainty will decline
- » Confidence and labor market are improving
- » Monetary policy remains accommodative and credit conditions are improving
- » No domestic or foreign constraints to growth



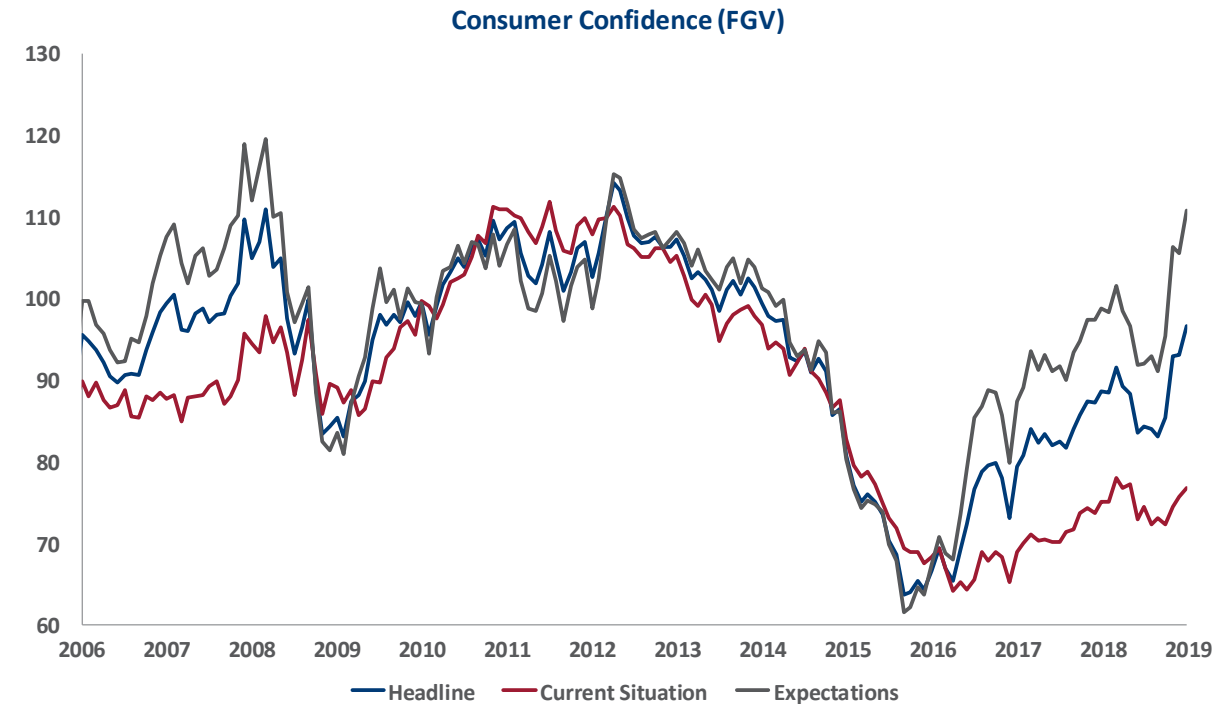
- » Higher economic uncertainty has restrained growth since 2015. It should slowly decline as the reform agenda moves forward, supporting growth in 2019 and 2020.



» Business confidence is starting to improve after pausing in 2018.



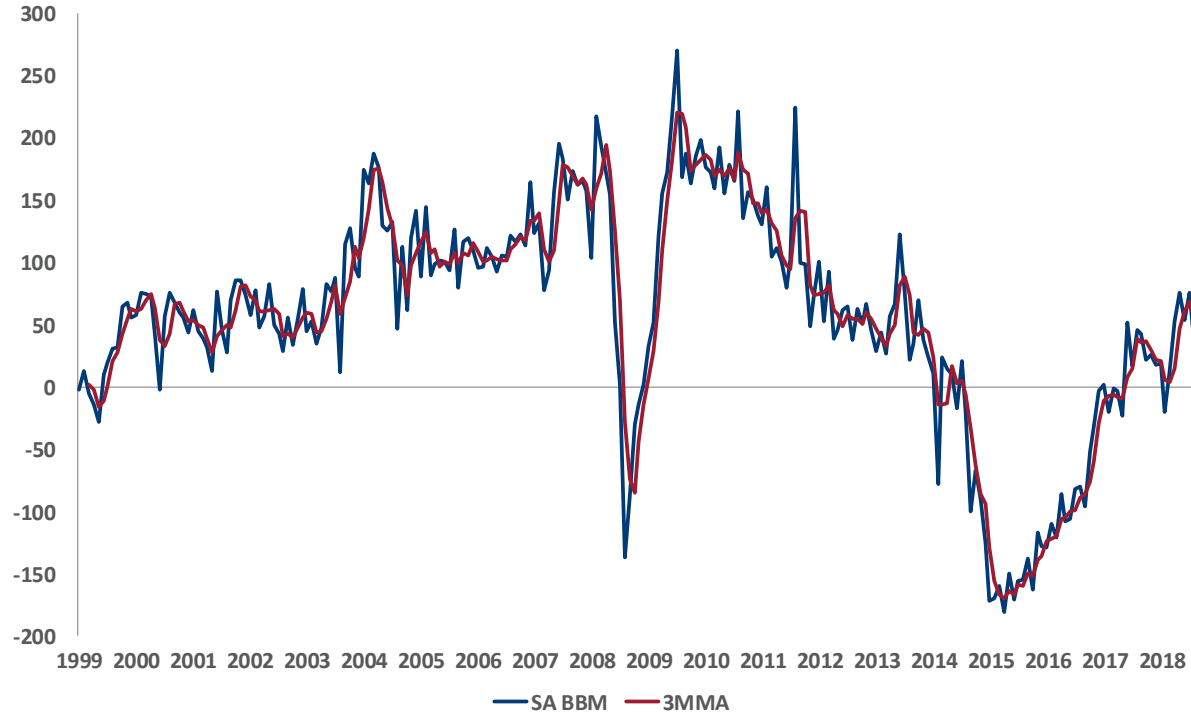
» Consumers are becoming more optimistic about the future.



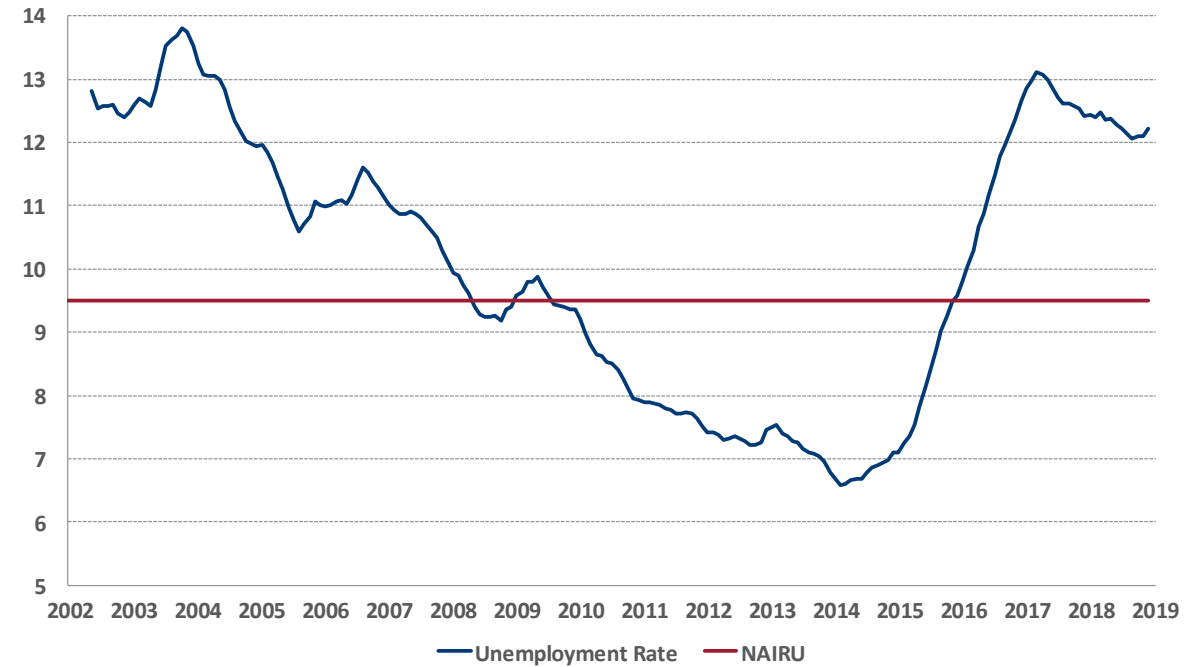
» Formal job creation is picking up and should strengthen in 2019.

» Unemployment rate has room to decline further.

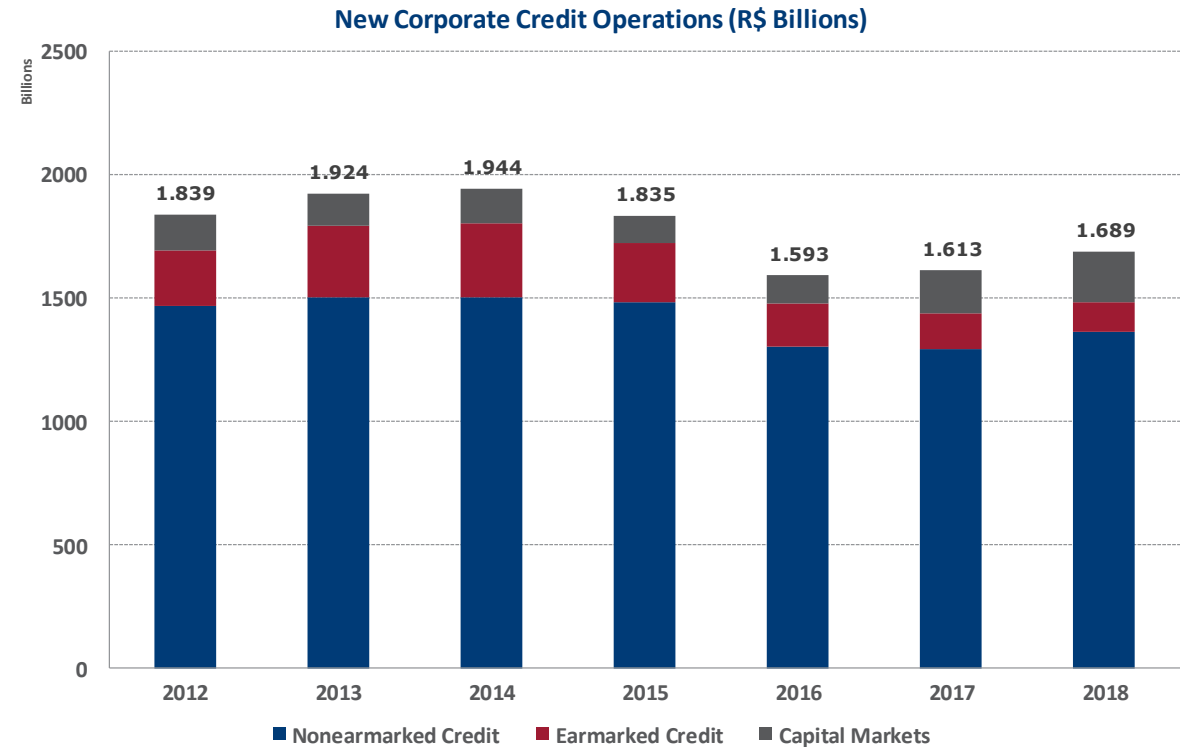
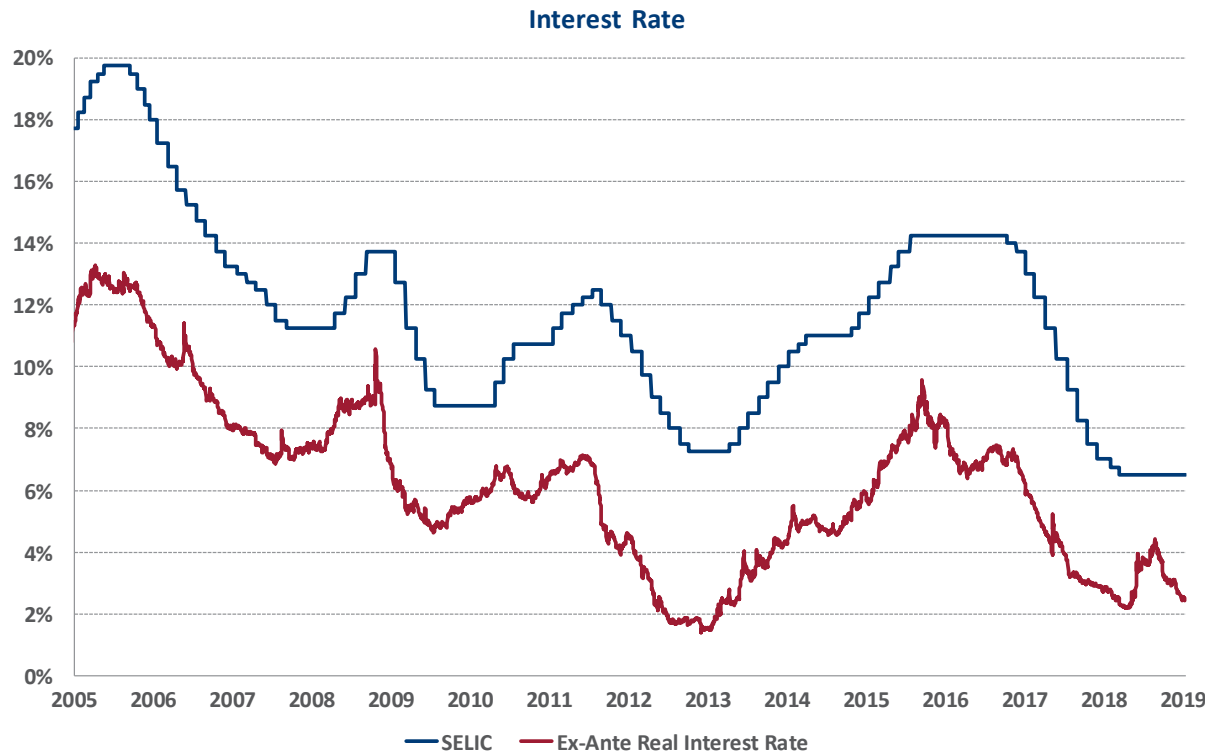
Caged Net Payroll Job Creation



Unemployment Rate

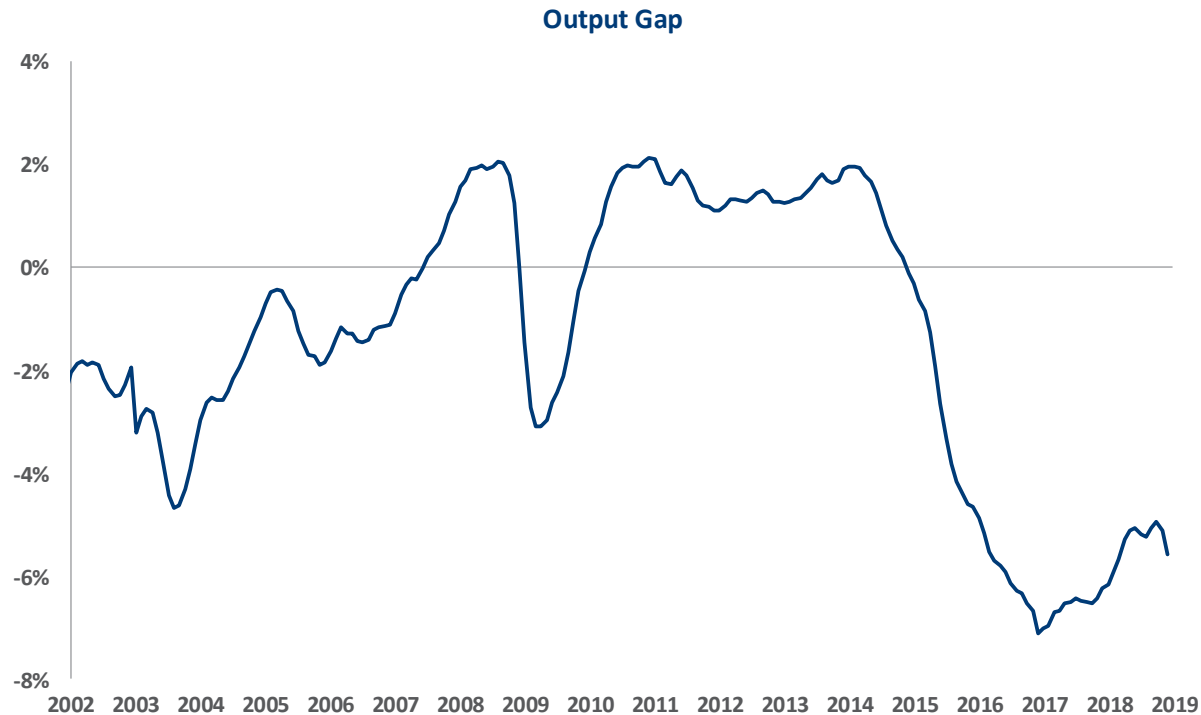


» Monetary policy remains accommodative and credit conditions are improving (banks and capital markets).

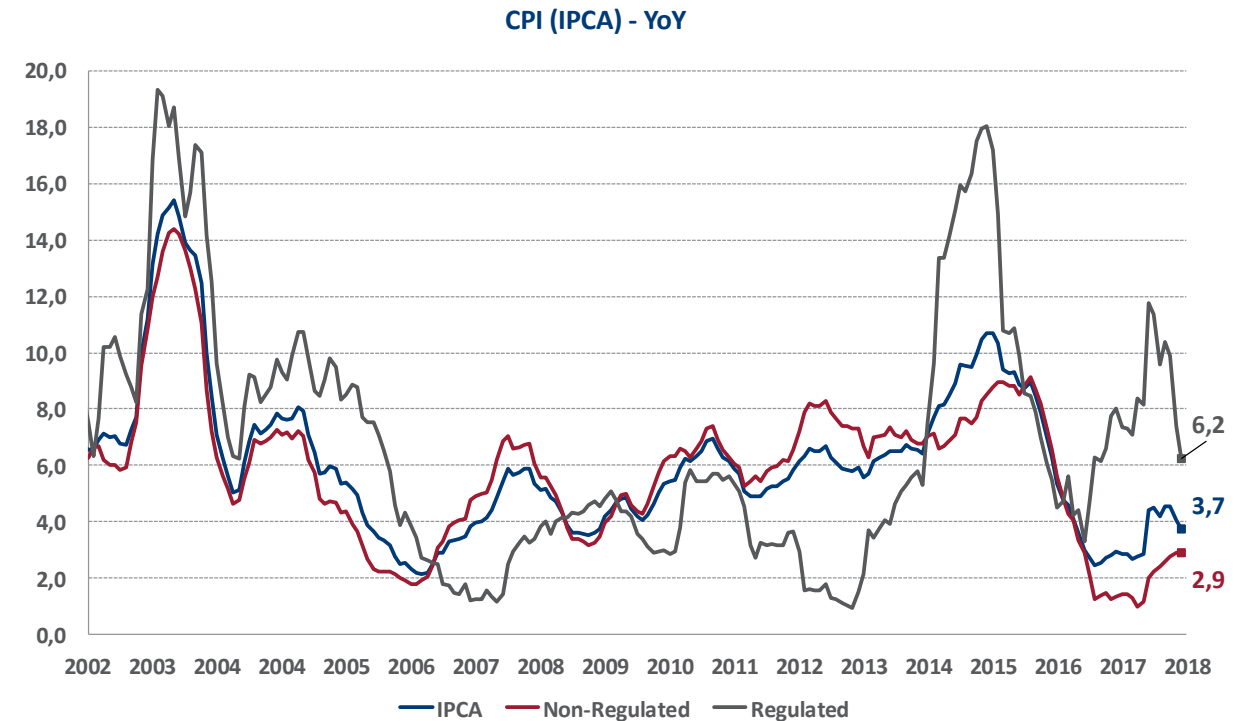


BRAZIL: INFLATION

» Output gap remains large and continues to put downward pressure on inflation.



» Non-regulate prices are running close to the inflation target floor.

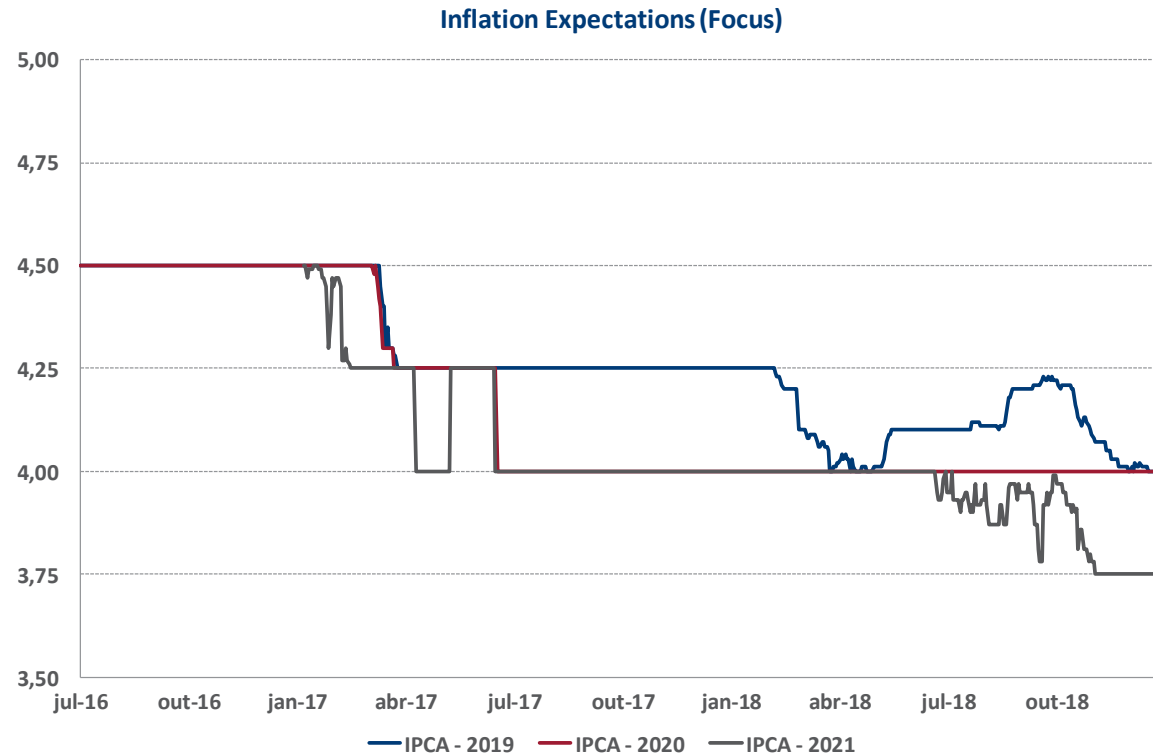


BRAZIL: INFLATION

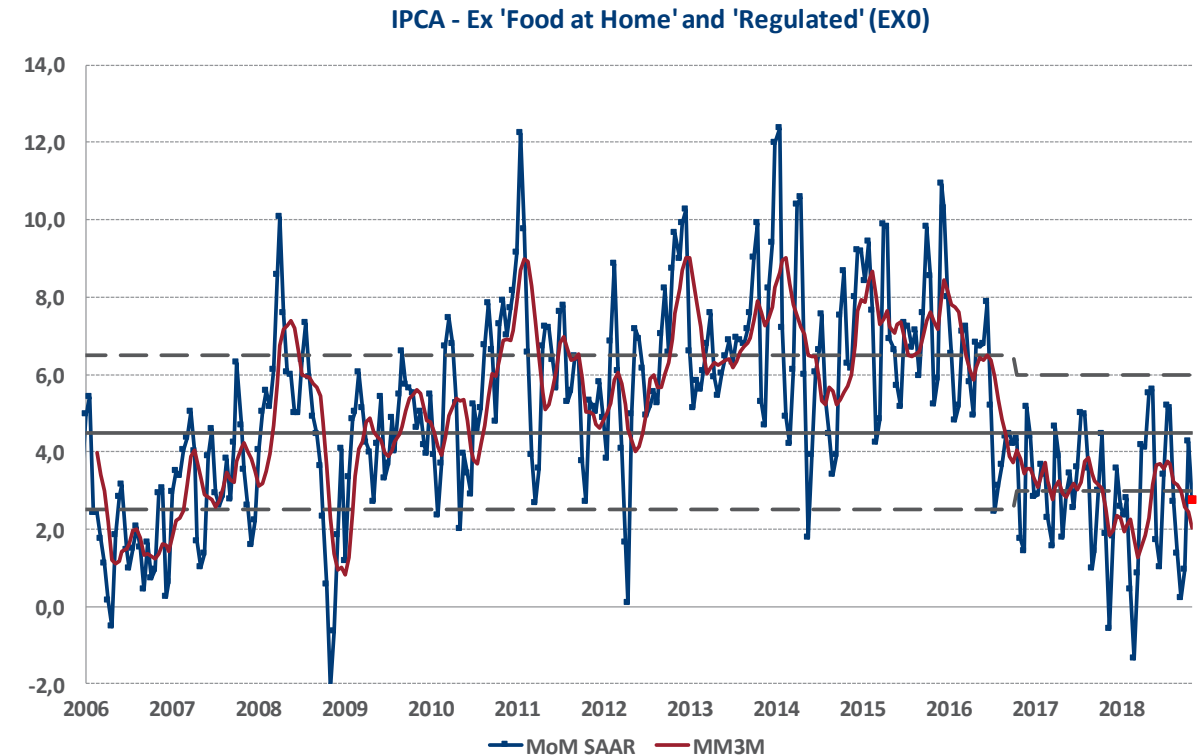
Baseline Scenario											
Exchange rate of 3.80 in 2018, 2019 and 2020											
Selic: 6.50% in Dec/18 and Dec/19; 8% in Dec/20											
	IPCA	Non-Regulated (74.7%)	Regulated (25.3%)	Core Inflation (59.0%)	Tradables Ex-Food (20.2%)	Services (35.8%)	Core of Services-BBM (16.7%)	Food at Home (15.7%)	Output Gap	GDP	Selic
1T16	9,39%	8,96%	10,79%	7,26%	6,61%	7,50%	6,54%	15,31%	-5,5%	-4,5%	14,25%
2T16	8,84%	8,52%	9,91%	6,85%	6,87%	7,03%	5,86%	14,67%	-5,9%	-4,7%	14,25%
3T16	8,48%	8,68%	7,88%	6,67%	6,25%	7,03%	5,70%	16,14%	-6,3%	-4,2%	14,25%
4T16	6,29%	6,55%	5,49%	5,78%	5,24%	6,47%	4,84%	9,36%	-7,0%	-3,3%	13,75%
1T17	4,57%	4,26%	5,59%	4,62%	3,18%	6,04%	4,52%	3,00%	-6,8%	-1,9%	12,25%
2T17	3,00%	2,89%	3,30%	3,91%	1,52%	5,72%	4,52%	-0,57%	-6,6%	-1,0%	10,25%
3T17	2,54%	1,40%	6,13%	3,37%	0,98%	4,99%	3,71%	-5,33%	-6,6%	0,1%	8,25%
4T17	2,95%	1,35%	8,00%	3,12%	0,93%	4,52%	3,58%	-4,86%	-6,2%	1,1%	7,00%
1T18	2,68%	1,27%	7,06%	2,84%	0,65%	3,93%	3,21%	-4,29%	-5,7%	1,4%	6,50%
2T18	4,39%	2,02%	11,78%	2,55%	0,80%	3,14%	2,75%	0,11%	-5,0%	1,5%	6,50%
3T18	4,53%	2,57%	10,38%	2,66%	1,38%	3,22%	2,54%	2,23%	-5,0%	1,4%	6,50%
4T18	3,75%	2,90%	6,22%	2,47%	1,11%	3,35%	2,61%	4,52%	-5,4%	1,16%	6,50%
1T19	4,07%	3,27%	6,41%	2,41%	0,93%	3,55%	2,91%	6,56%	-5,2%	1,3%	6,50%
2T19	3,20%	3,18%	3,26%	2,82%	0,98%	4,18%	3,01%	4,47%	-4,5%	1,7%	6,50%
3T19	3,03%	3,15%	2,71%	2,55%	0,42%	3,83%	3,06%	5,19%	-3,7%	2,0%	6,50%
4T19	3,80%	3,29%	5,26%	2,91%	0,79%	3,99%	3,21%	4,49%	-3,0%	2,6%	6,50%
1T20	4,12%	3,70%	5,30%	3,32%	0,99%	4,34%	3,17%	4,91%	-2,6%	3,1%	7,50%
2T20	4,06%	3,76%	4,92%	3,30%	0,71%	4,44%	3,40%	5,13%	-2,3%	3,4%	8,00%
3T20	3,92%	3,76%	4,37%	3,26%	0,46%	4,51%	3,52%	5,38%	-2,0%	3,4%	8,00%
4T20	3,96%	3,91%	4,11%	3,11%	0,18%	4,44%	3,43%	6,44%	-1,8%	3,0%	8,00%

BRAZIL: INFLATION

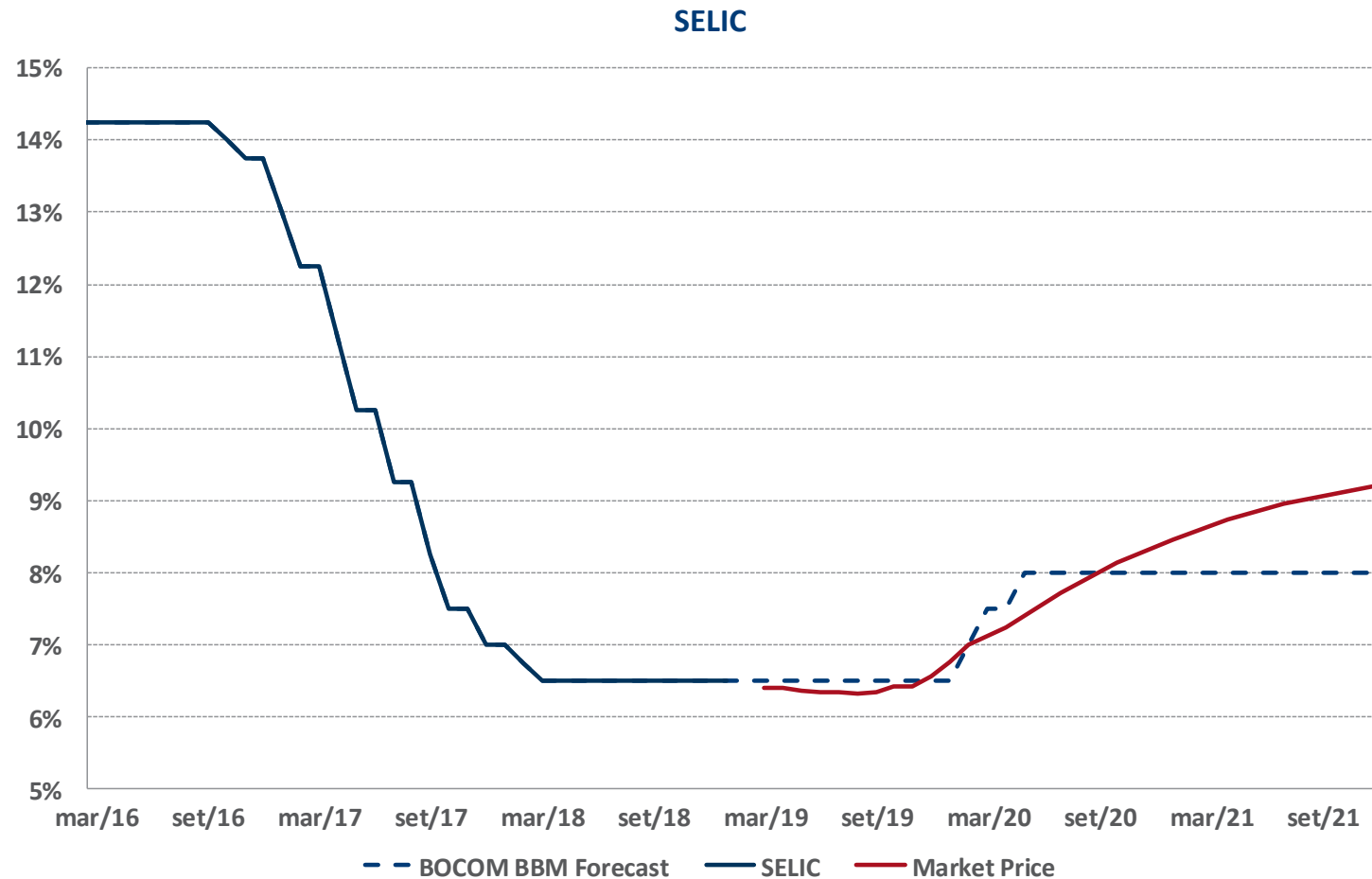
» Inflation expectations below target in 2019 and anchored thereafter.



» Core inflation has been running at very low levels.

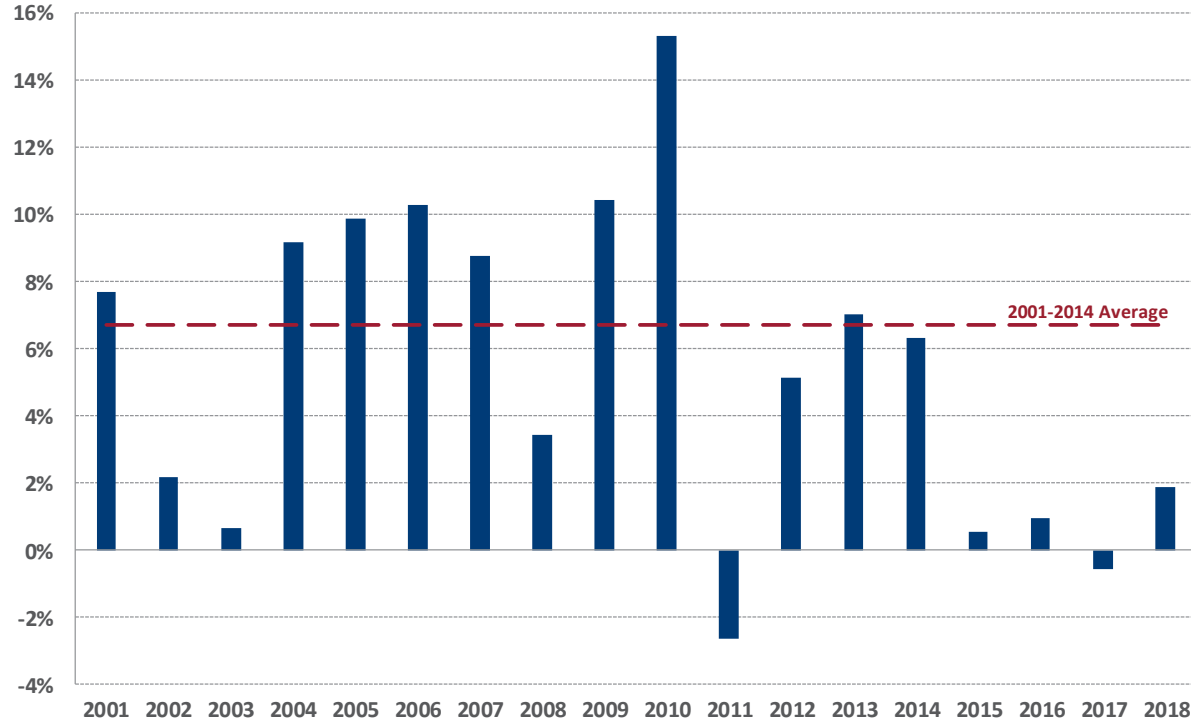


- »» The SELIC rate will remain stable throughout 2019 and an additional reduction cannot be rule out if the reform agenda moves forward.

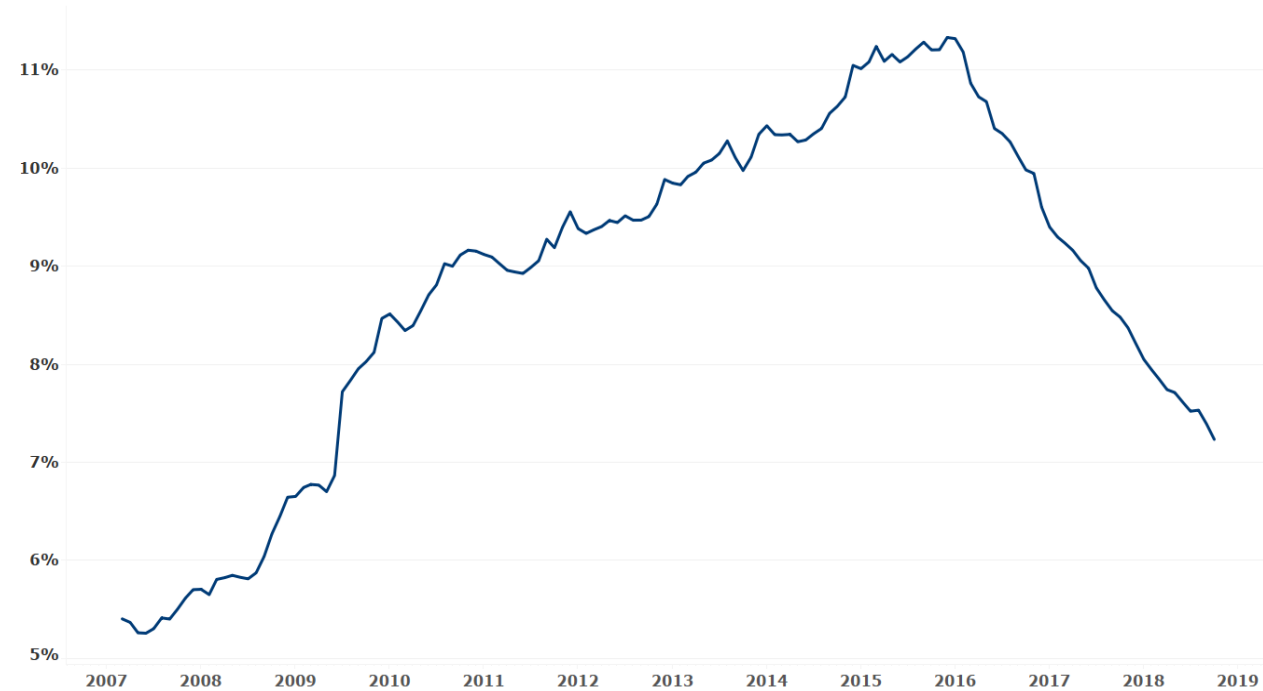


» Real government spending has stabilized for the first time, BNDES continues to retrench and TLP was approved: how far have those factors reduced the neutral interest rate?

Government Expenditures - Real Annual Growth

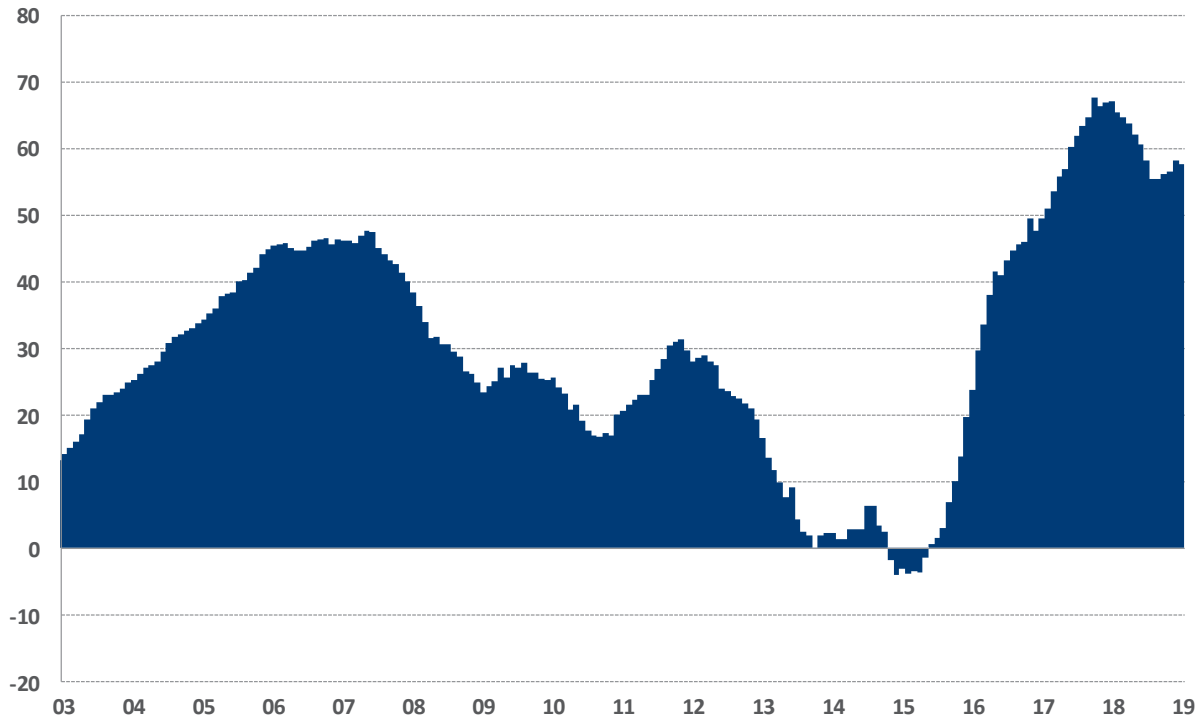


BNDES Credit Stock - % of GDP

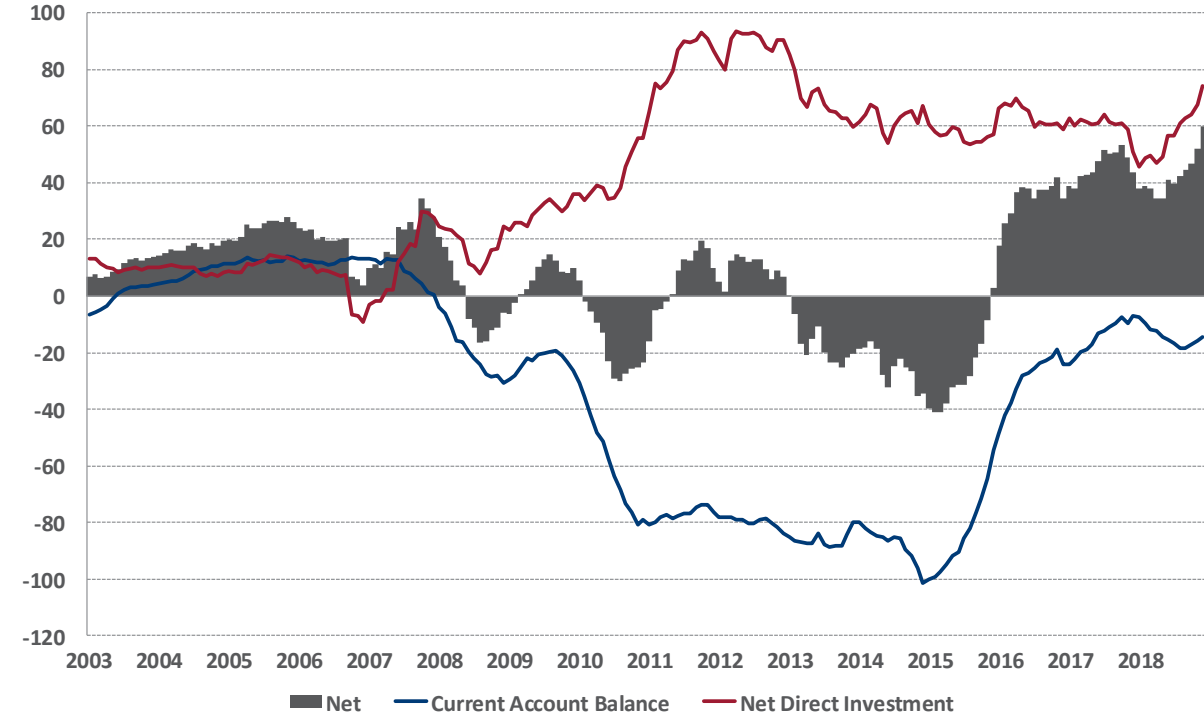


» Country has no external vulnerability: trade surplus remains large and FDI continues to overfinance the current account deficit.

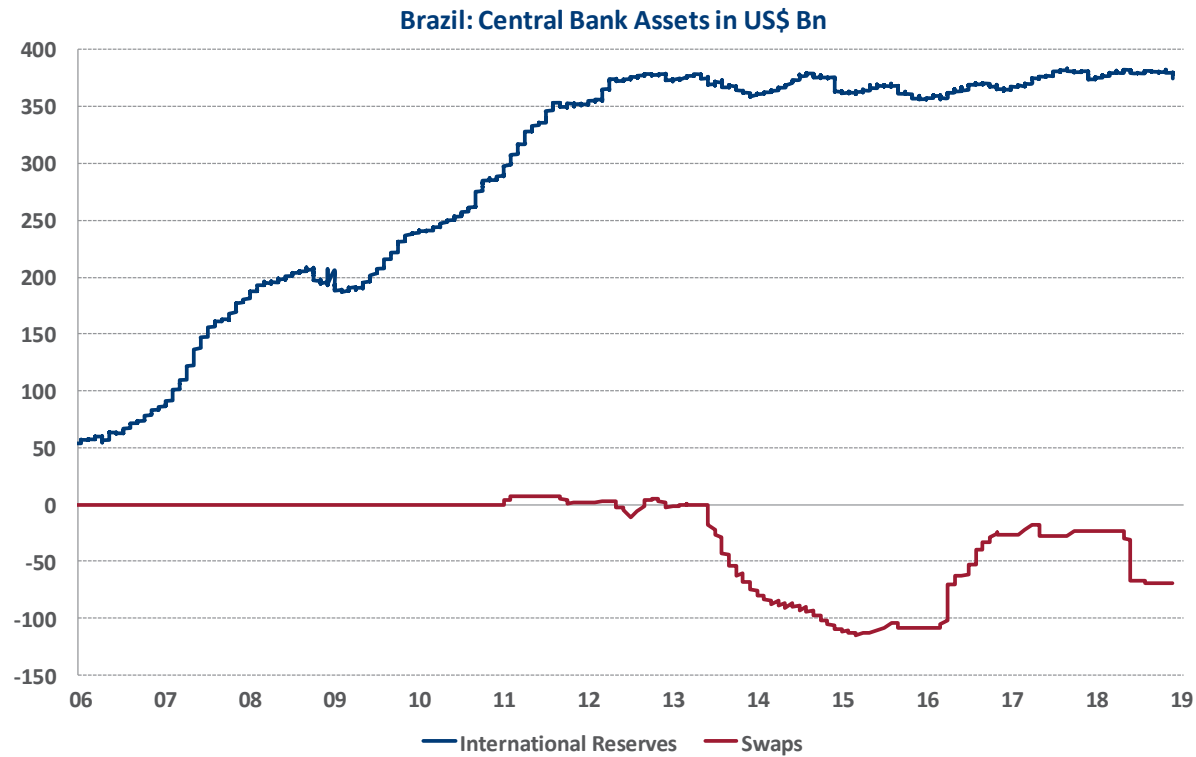
Balança Comercial - US\$ Bilhões em 12m



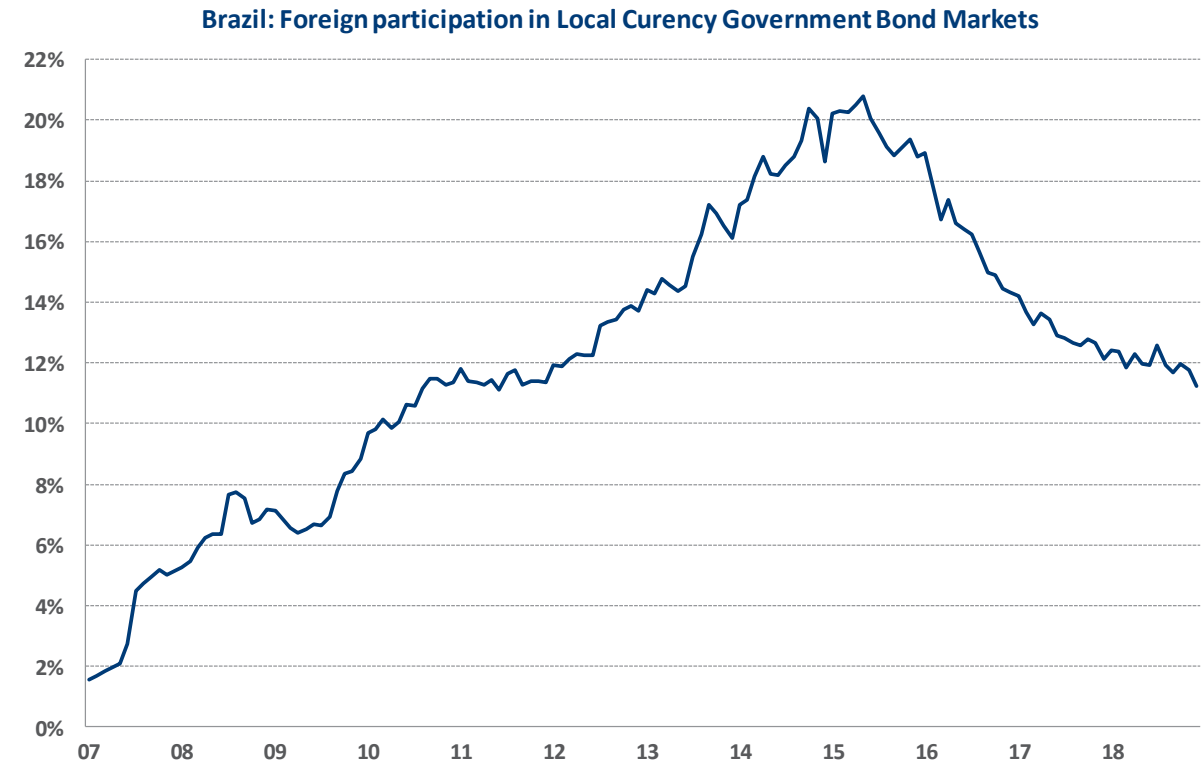
Current Account vs Net Direct Investment - US\$ Billion in 12m



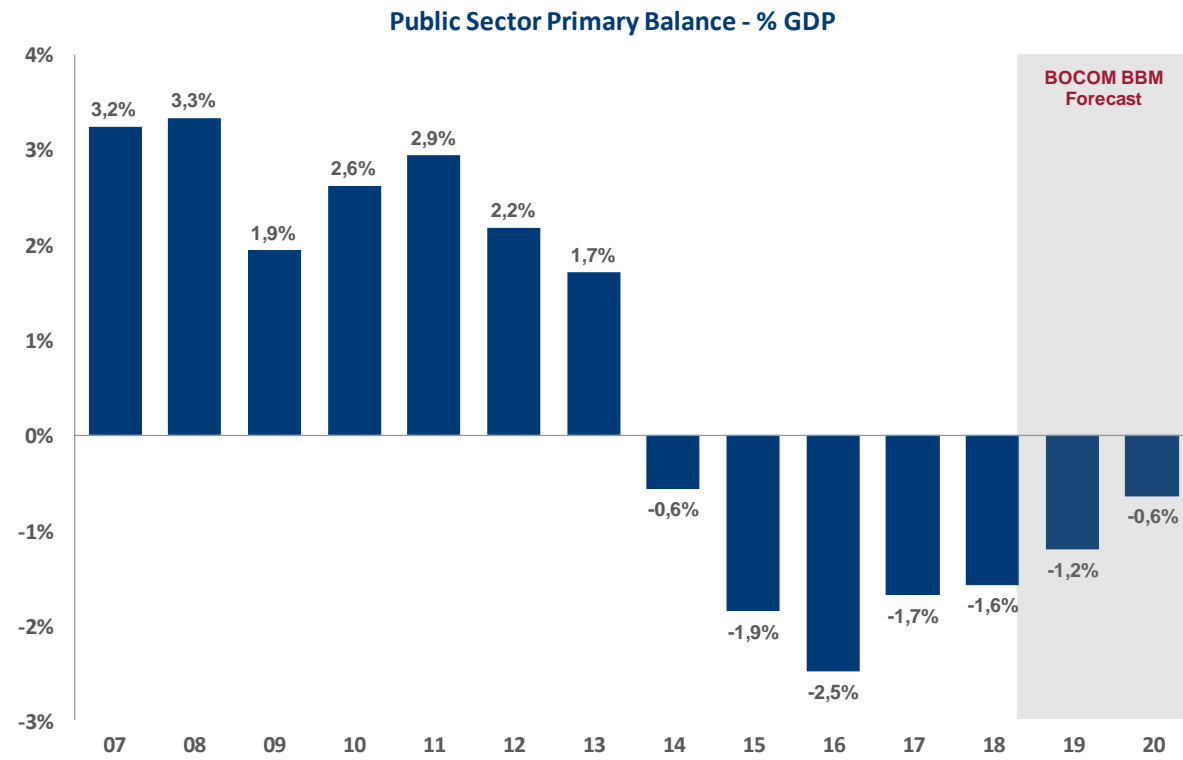
» Central Bank holds substantial international reserves.



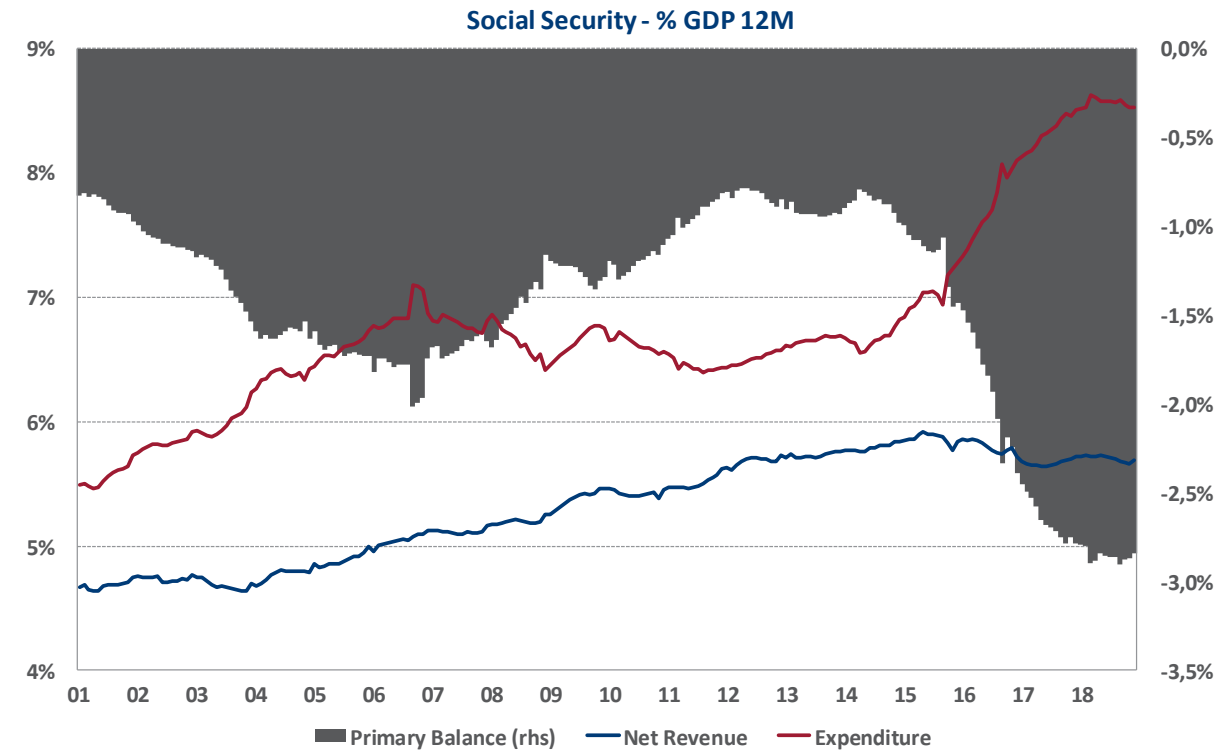
» Government domestic debt exposure to foreign investors continues to fall.



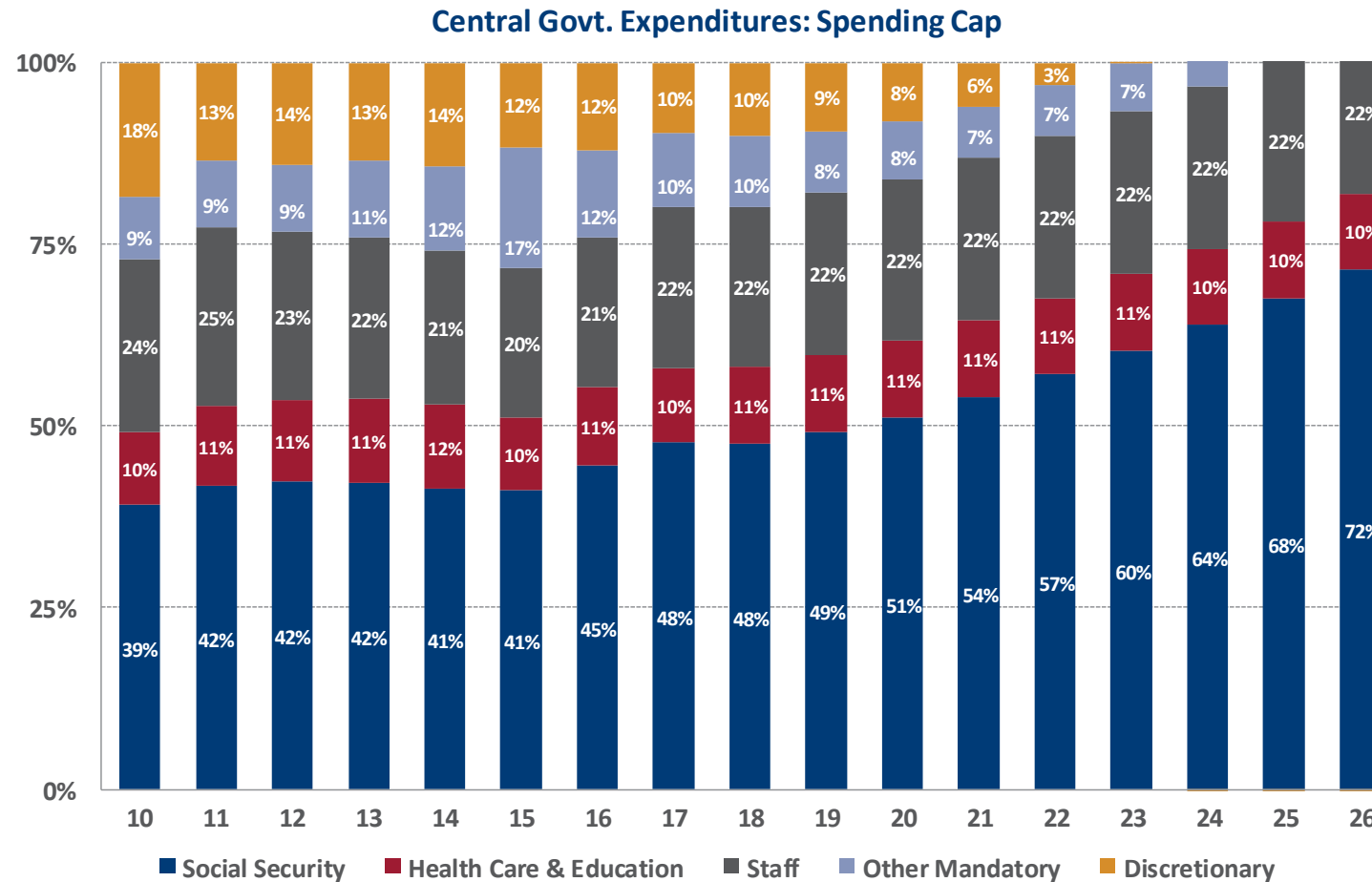
» Fiscal policy remains the main challenge: the country has run a primary deficit for 5 years.



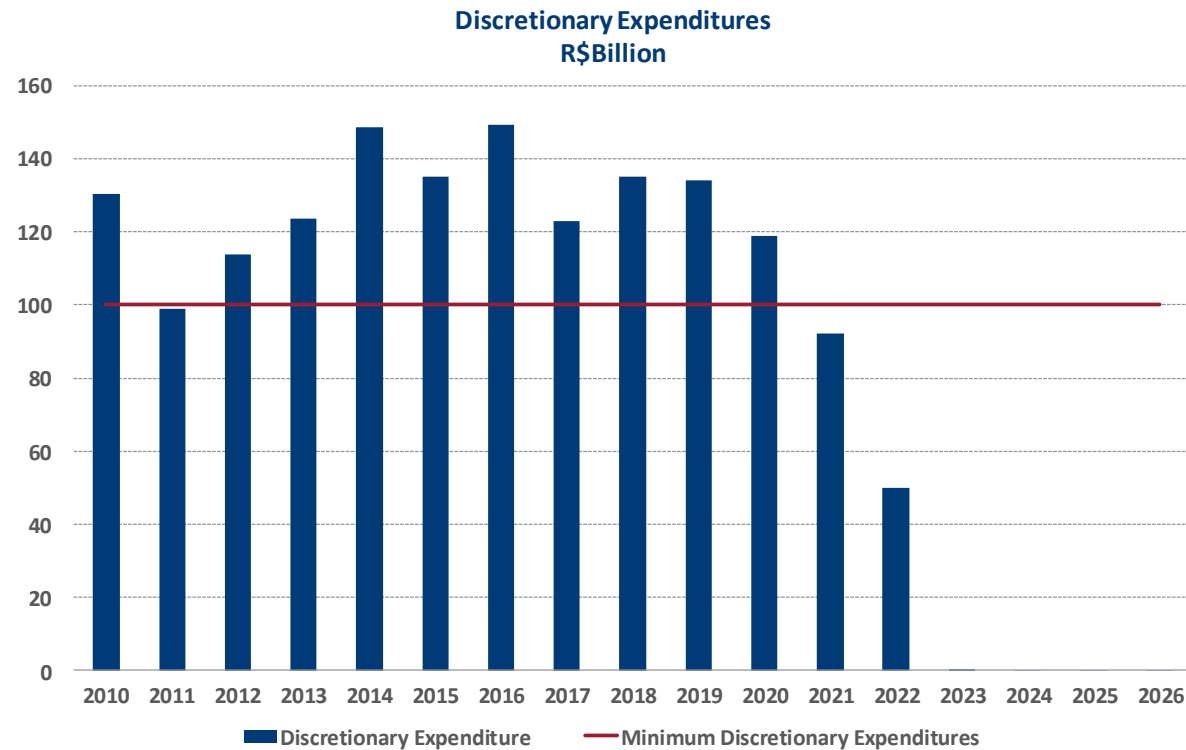
» Social security deficit (RGPS) is rapidly increasing.



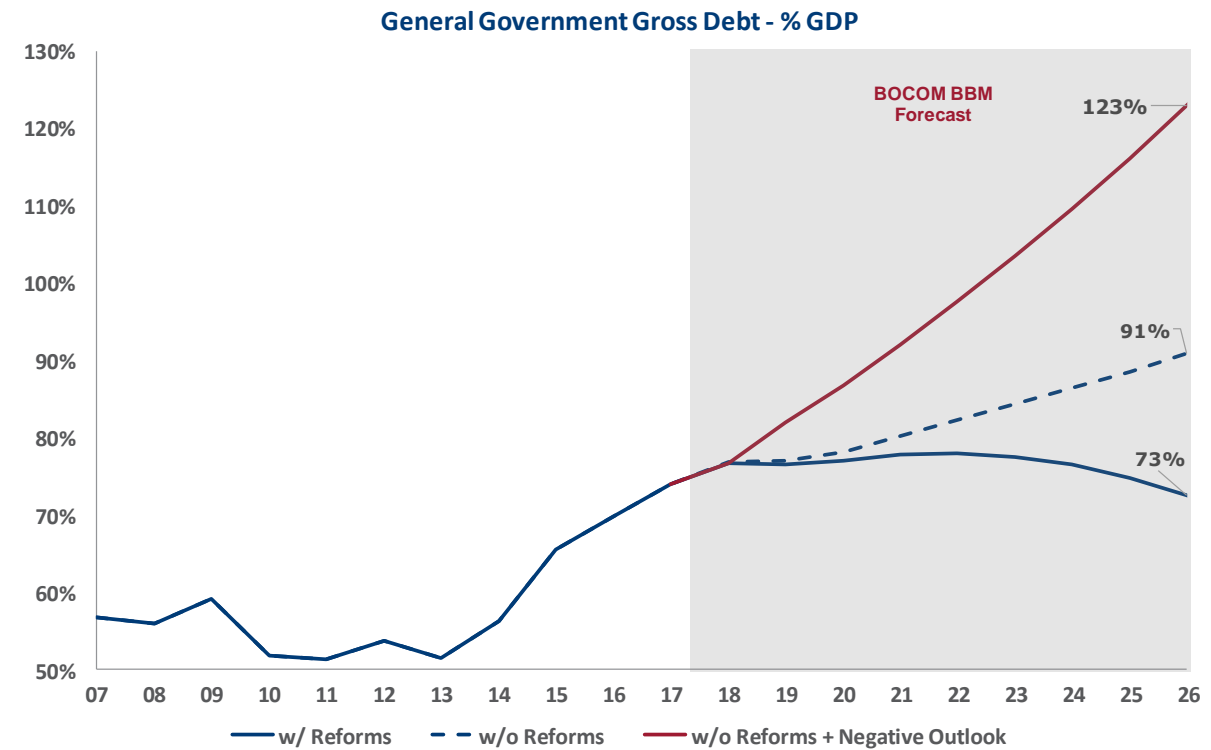
» The government spends 50% of its budget with social security and 90% of it with mandatory spending. Without reforms, the spending cap becomes unsustainable in 2023.



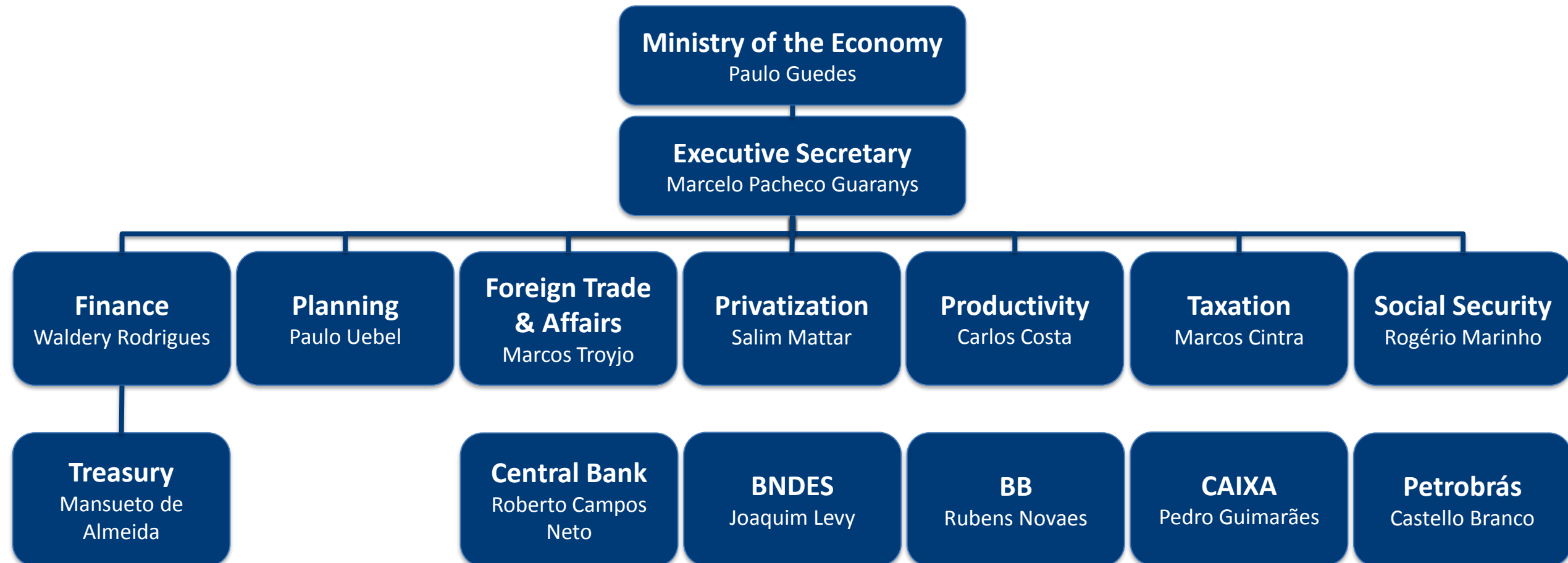
» The spending cap will be hard to sustain already in 2021.



» Without reforms, government debt will reach more than 100% of GDP by 2026.

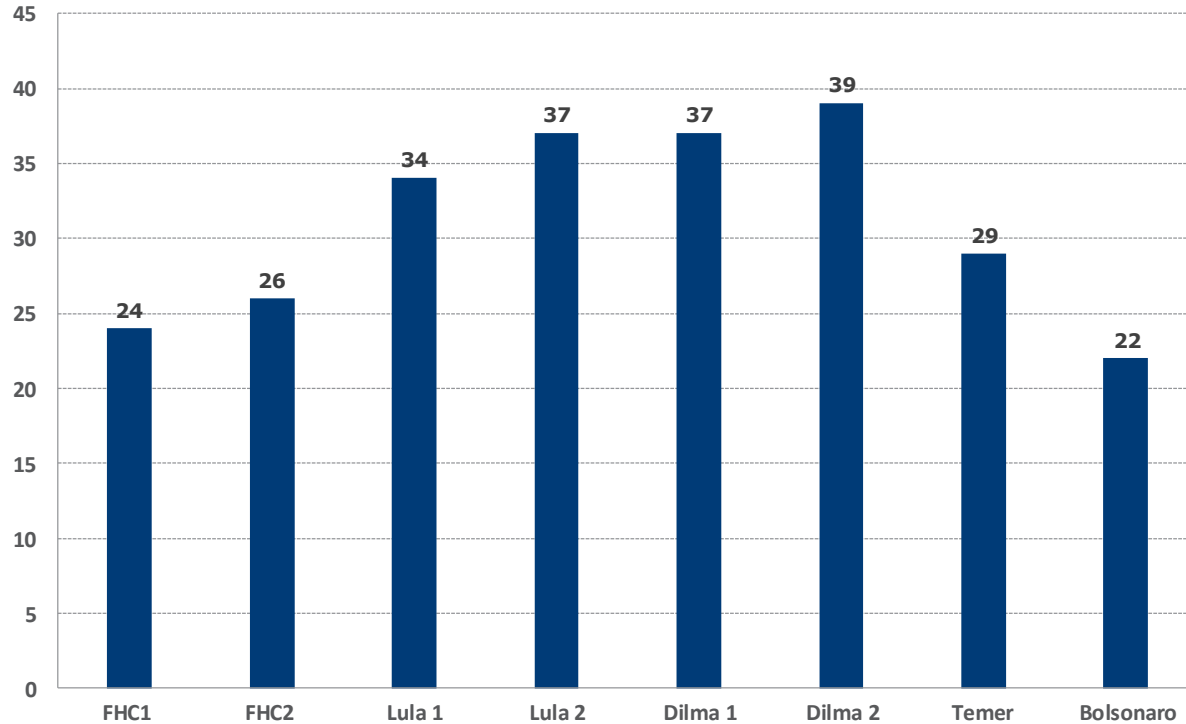


- » Policy direction is clear: Paulo Guedes and his team will propose an ample and ambitious pension reform. Main challenge is policy implementation.

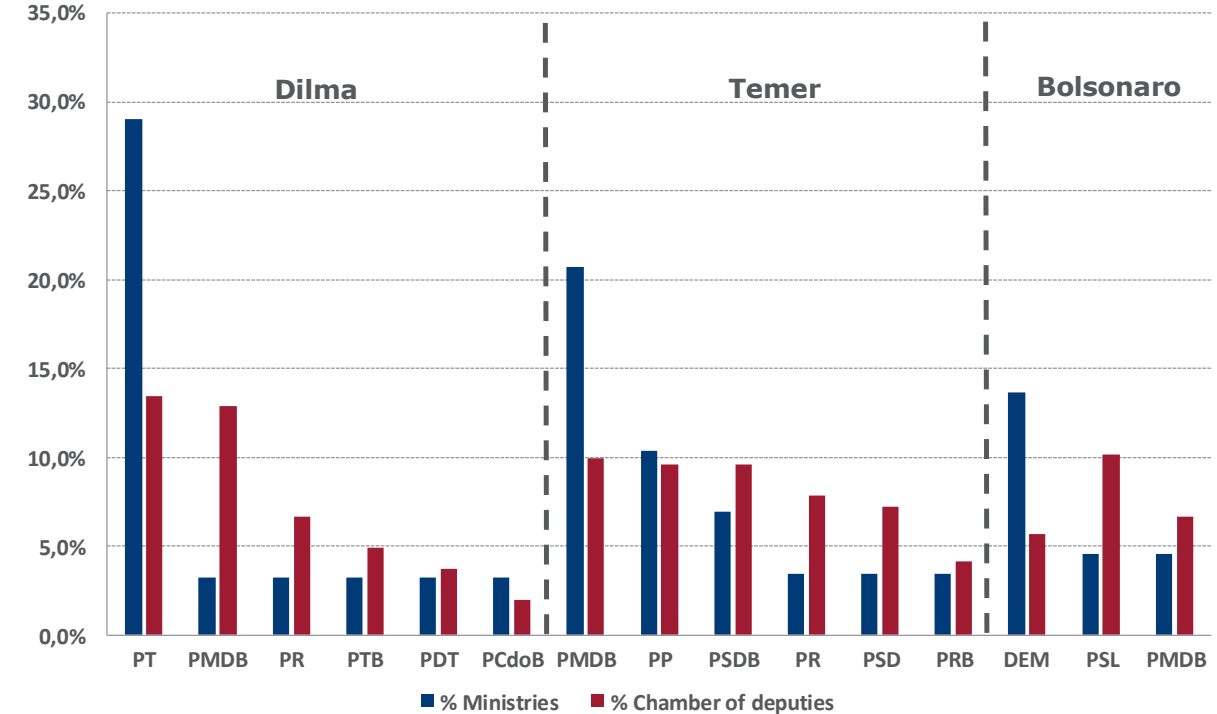


» There are questions about political coordination to approve the reform agenda: cabinet will only have 22 ministries and has little intersection with the political forces represented in Congress.

Number of Ministries



Cabinet Composition



BATTLE FOR PENSION REFORM IS ABOUT TO START

- » Paulo Guedes will propose an ample and ambitious pension reform, but main challenge is policy implementation.
- » There are questions about political coordination to approve the reform agenda, but Rodrigo Maia's reelection as lower house president is positive.
- » Growth should pick up with low inflation and stable Selic rate, but downside risks remain if the reform agenda stalls.

CONTENT

»» BRAZIL: BATTLE FOR PENSION REFORM IS ABOUT TO START

»» GLOBAL: A SLOWDOWN IS UNDER WAY

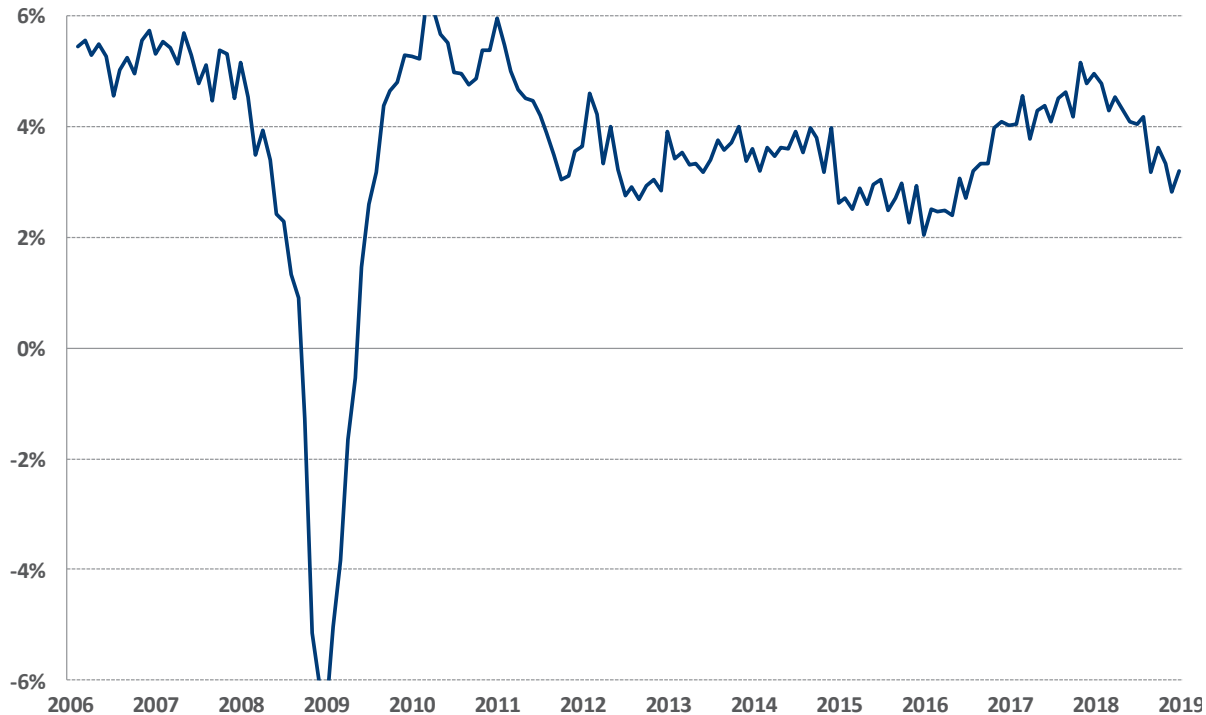
»» MARKETS: RECENT TRENDS

GLOBAL OUTLOOK: A SLOWDOWN IS UNDER WAY

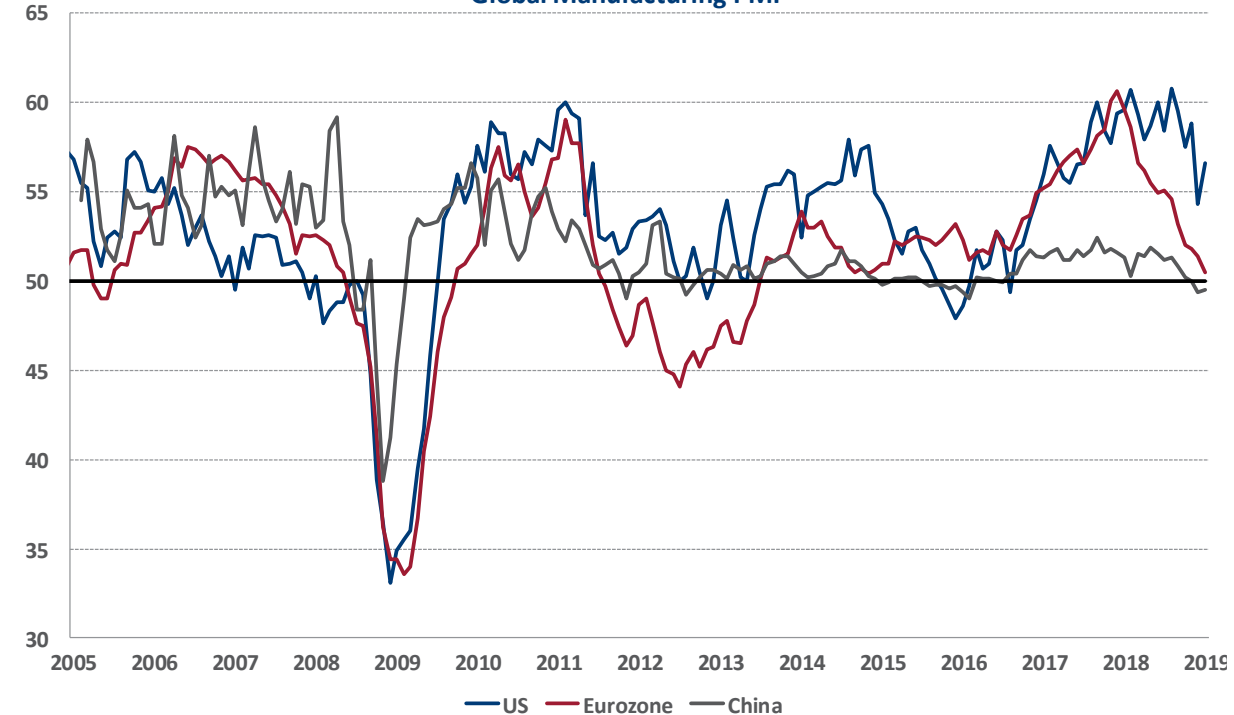
- » US: Growth is slowing down to 2.0% as the fiscal stimulus loses steam and tighter financial conditions begin to bite.
- » Europe: Brexit remains a source of uncertainty and growth has slowdown in many economies due to several shocks.
- » China: The economy decelerated at the end of the year and will slow further towards 6.0% in 2019.
- » EM: Slower global growth is negative for emerging countries, but financial conditions have improved since the FED changed its communication.

» Global growth is slowing down again and several downside risks remain: escalation of trade tensions, a greater-than-envisaged slowdown in China and hard Brexit.

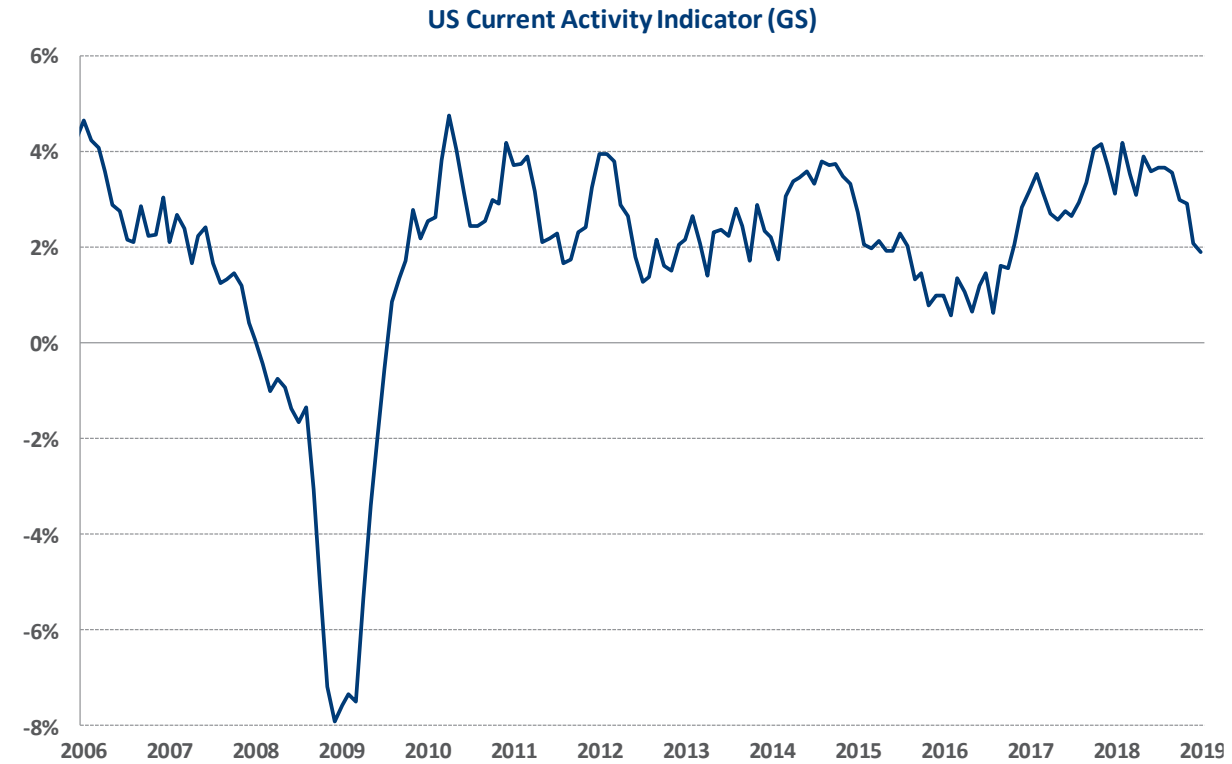
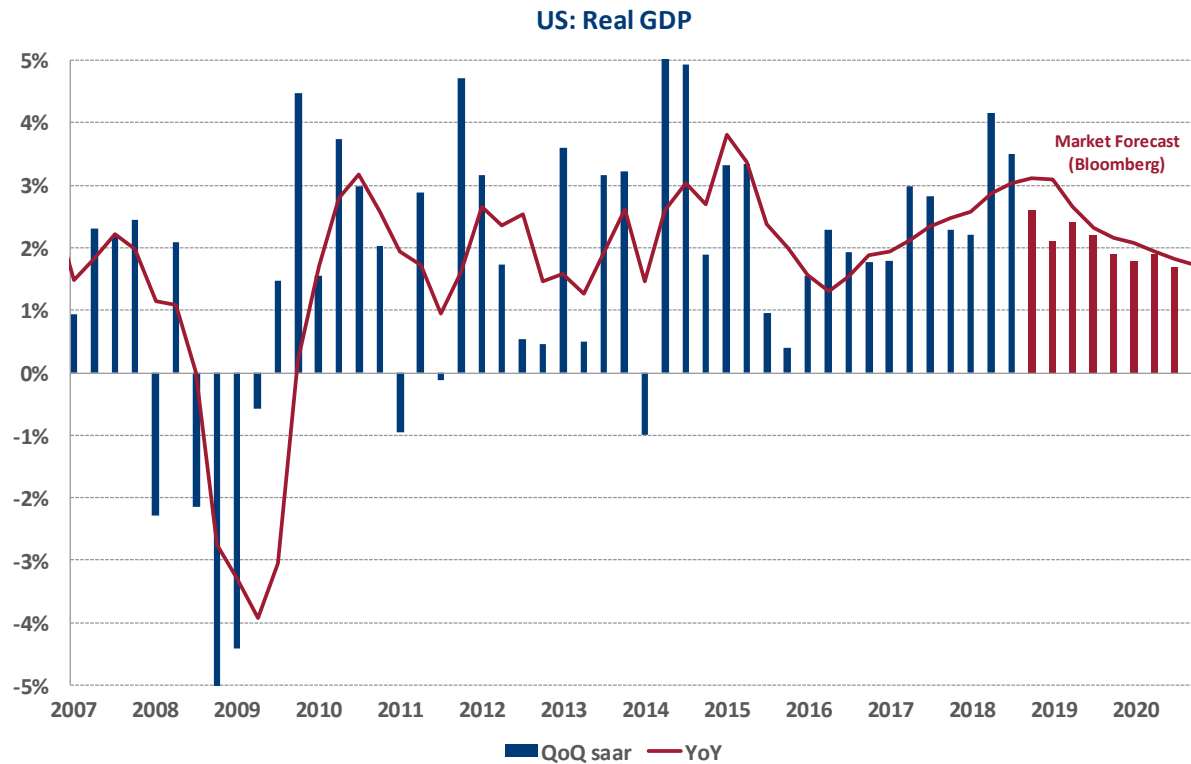
World Current Activity Indicator (GS)



Global Manufacturing PMI



» US growth is slowing down to 2.0% as the fiscal stimulus loses steam and tighter financial conditions begin to bite.



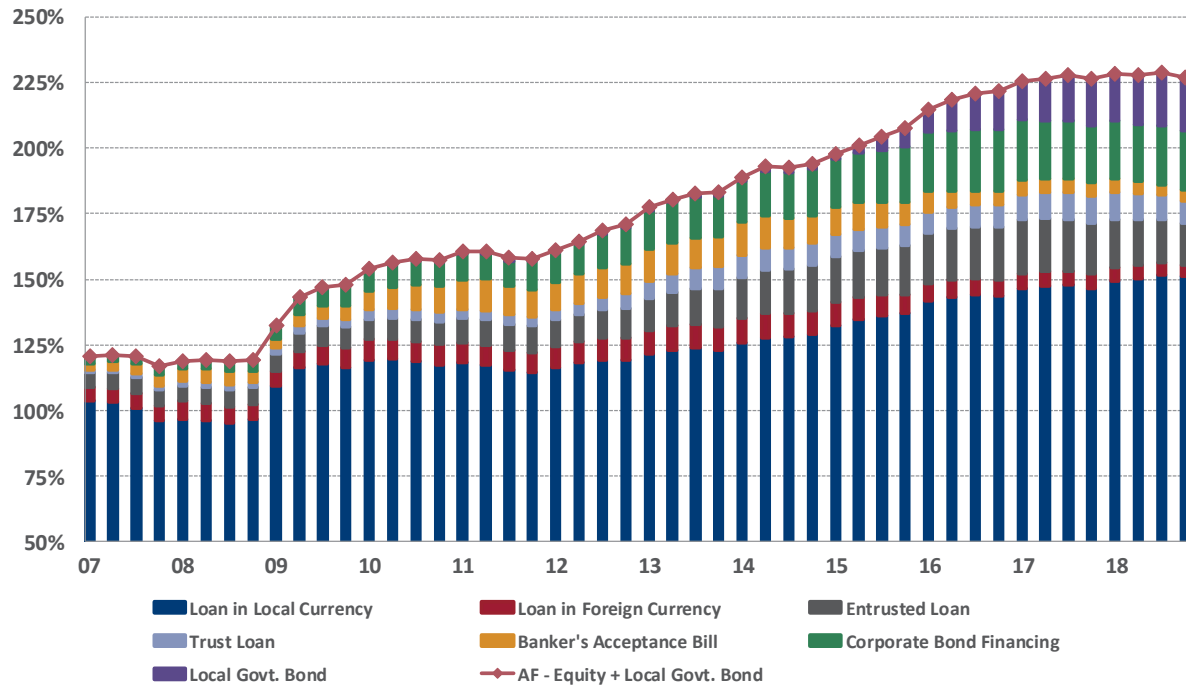
» GDP growth has been trending down in recent years and recent data points to a slowdown to below 6.0% in the short term.



» China's government has pushed for tighter financial regulation to stabilize debt.

» Shadow banking has slowed significantly, but banks continue to expand their portfolio.

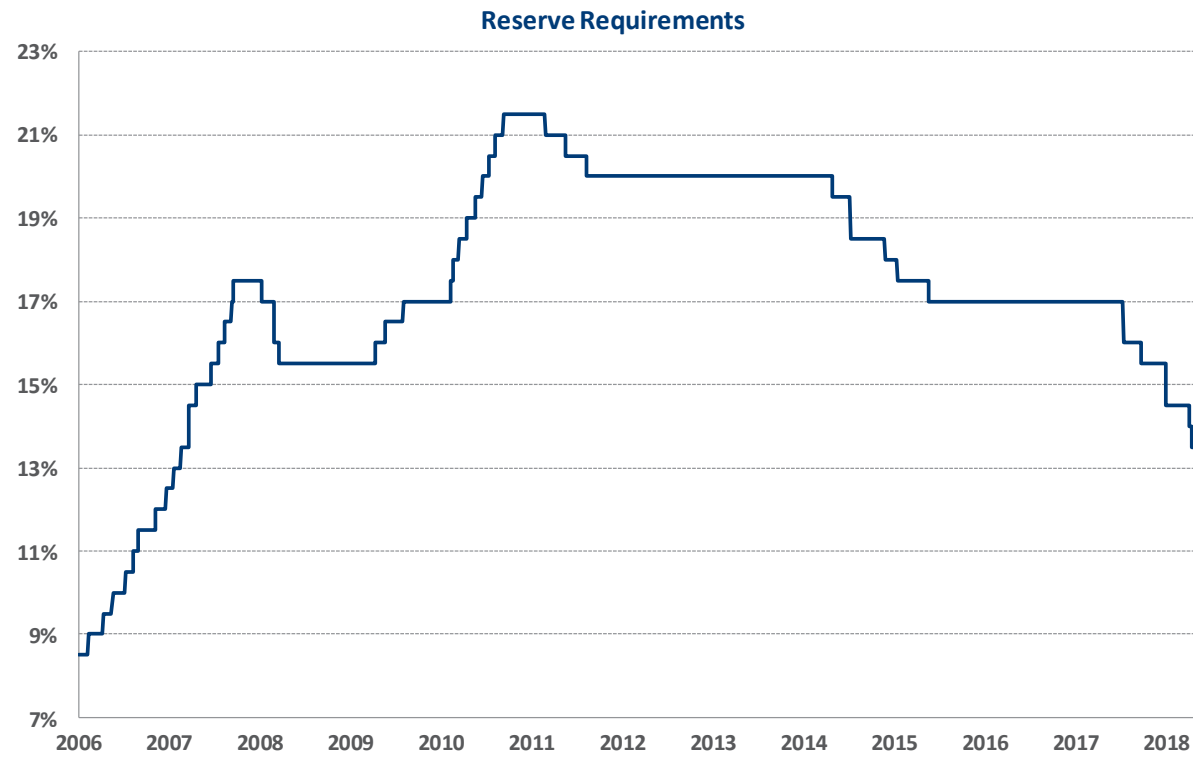
Aggregate Financing (AF) - Equity + Local Govt. Bond
% gdp, accumulated 4q



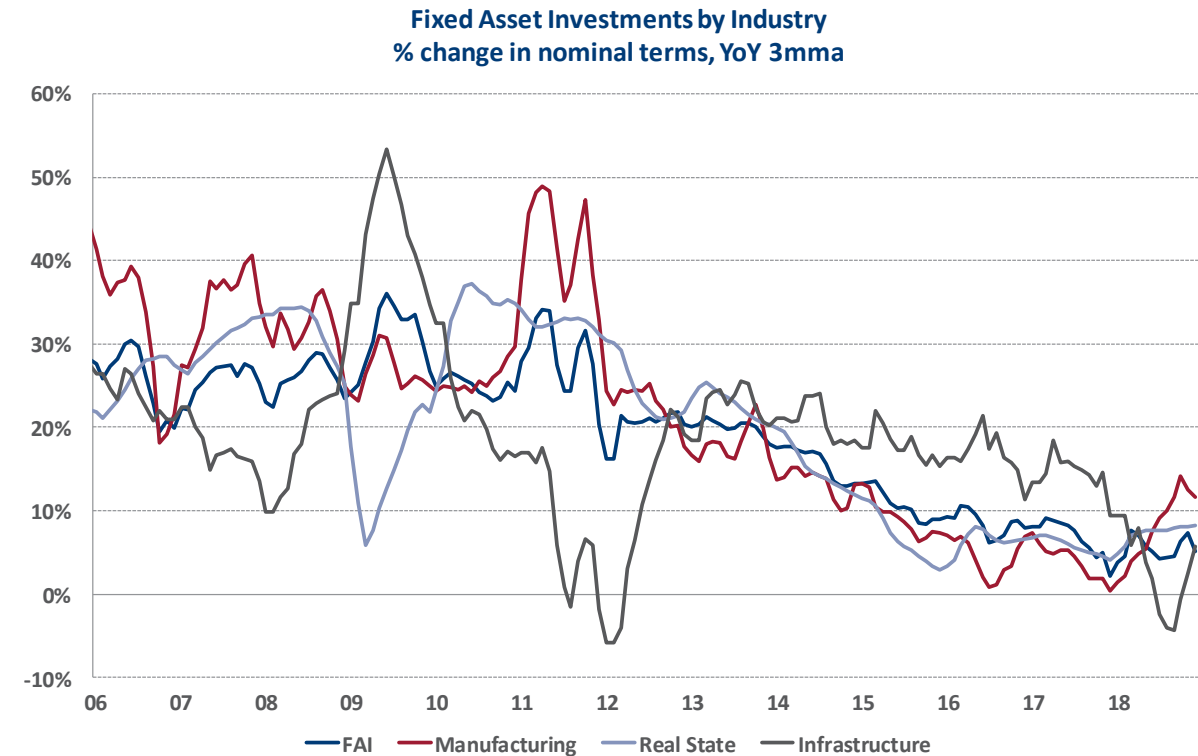
Aggregate Financing
% change in nominal terms, YoY



» Slower growth has pushed the government to increase liquidity provision.



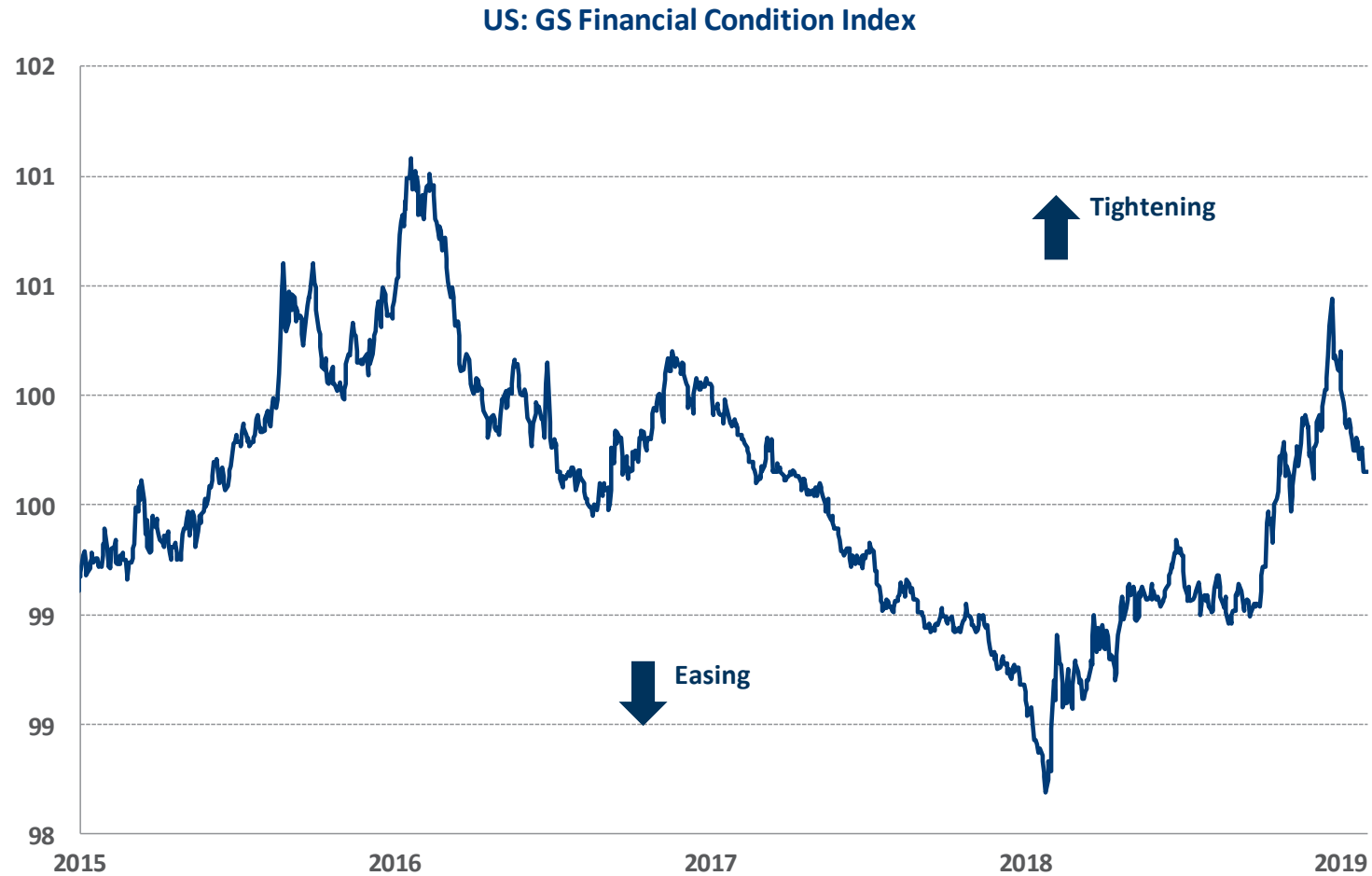
» Fiscal policy is also turning more proactive through higher infrastructure spending.



- » Will the US-China reach a deal?
 - » December 1: Trump and Xi agreed on truce.
 - » December 11: China reduces import tariffs on U.S. autos to 15% from 40%.
 - » January 7-9: Talks in Beijing.
 - » January 30-31: Talks in Washington.
 - » March 1: Deadline for a deal.



- » EM: Slower global growth is negative for emerging countries, but financial conditions have improved since the FED changed its communication.



CONTENT

»» BRAZIL: BATTLE FOR PENSION REFORM IS ABOUT TO START

»» GLOBAL: A SLOWDOWN IS UNDER WAY

»» MARKETS: RECENT TRENDS

BRAZIL: MARKETS

Spot Nominal Interest Rate (DI Curve)



Ibovespa

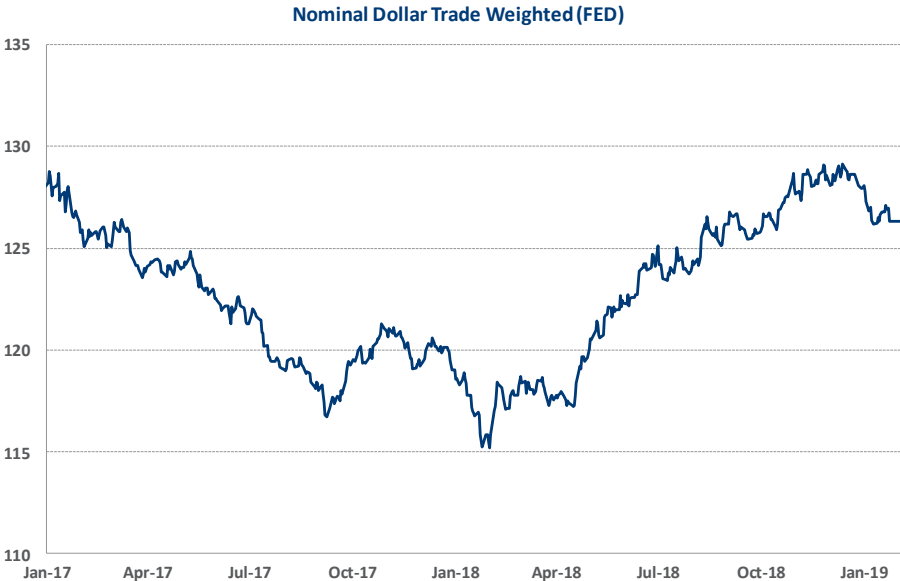
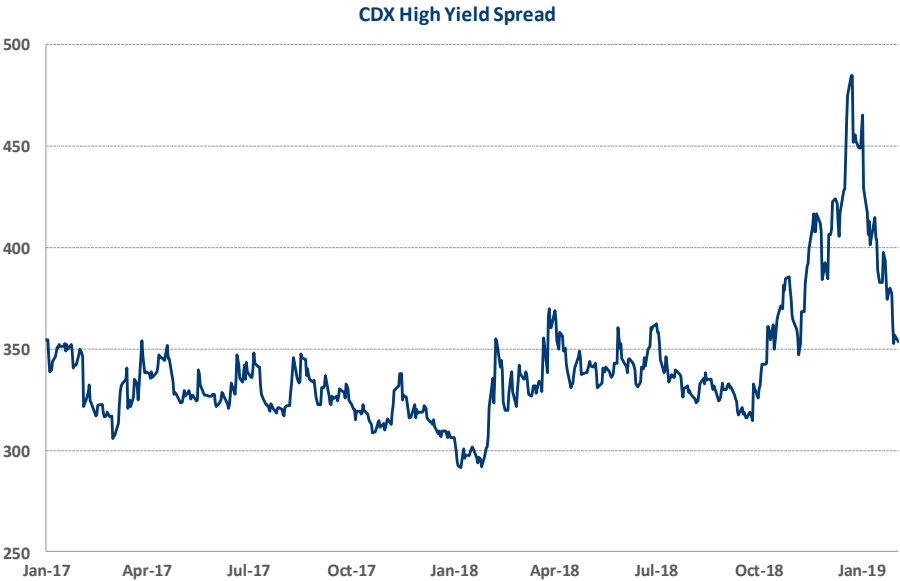


BRL Currency



CDS 5 Years





This presentation was prepared by Banco BOCOM BBM. The information contained herein should not be interpreted as investment advice or recommendation. Although the information contained herein was prepared with utmost care and diligence, in order to reflect the data at the time in which they were collected, Banco BOCOM BBM cannot guarantee the accuracy thereof. Banco BOCOM BBM cannot be held responsible for any loss directly or indirectly derived from the use of this presentation or its contents. This report cannot be reproduced, distributed or published by the recipient or used for any purpose whatsoever without the prior written consent of Banco BOCOM BBM.

ADDRESSES

Rio de Janeiro, RJ

Praça Pio X, 98 – 5º, 6º, 7º e 12th floors
Zip Code 20091-040
Tel.: +55 (21) 2514-8448
Fax: +55 (21) 2514-8293

Salvador, BA

Rua Miguel Calmon, 398 – 2nd floor
Zip Code 40015-010
Tel.: +55 (71) 3326-4721 +55 (71) 3326-5583
Fax: +55 (71) 3254-2703

São Paulo, SP

Av. Brigadeiro Faria Lima, 3311 – 15th floor
Zip Code 04538-133
Tel.: +55 (11) 3704-0667 +55 (11) 4064-4867
Fax: +55 (11) 3704-0502

Nassau, Bahamas

Shirley House | Shirley House Street, 50, 2nd floor
P.O. N-7507
Tel.: (1) (242) 356-6584
Fax: (1) (242) 356-6015

www.bocombbm.com.br

Ombudsman | Phone.: 0800 724 8448 | Fax: 0800 724 8449
E-mail: ouvidoria@bocombbm.com.br