



MACRO OUTLOOK

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March 2019

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» BRAZIL: AN AMBITIOUS PENSION REFORM

» GLOBAL: LOWER RISKS AND EASIER FINANCIAL CONDITIONS

» MARKETS: RECENT TRENDS

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» BRAZIL: AN AMBITIOUS PENSION REFORM

» GLOBAL: LOWER RISKS AND EASIER FINANCIAL CONDITIONS

» MARKETS: RECENT TRENDS

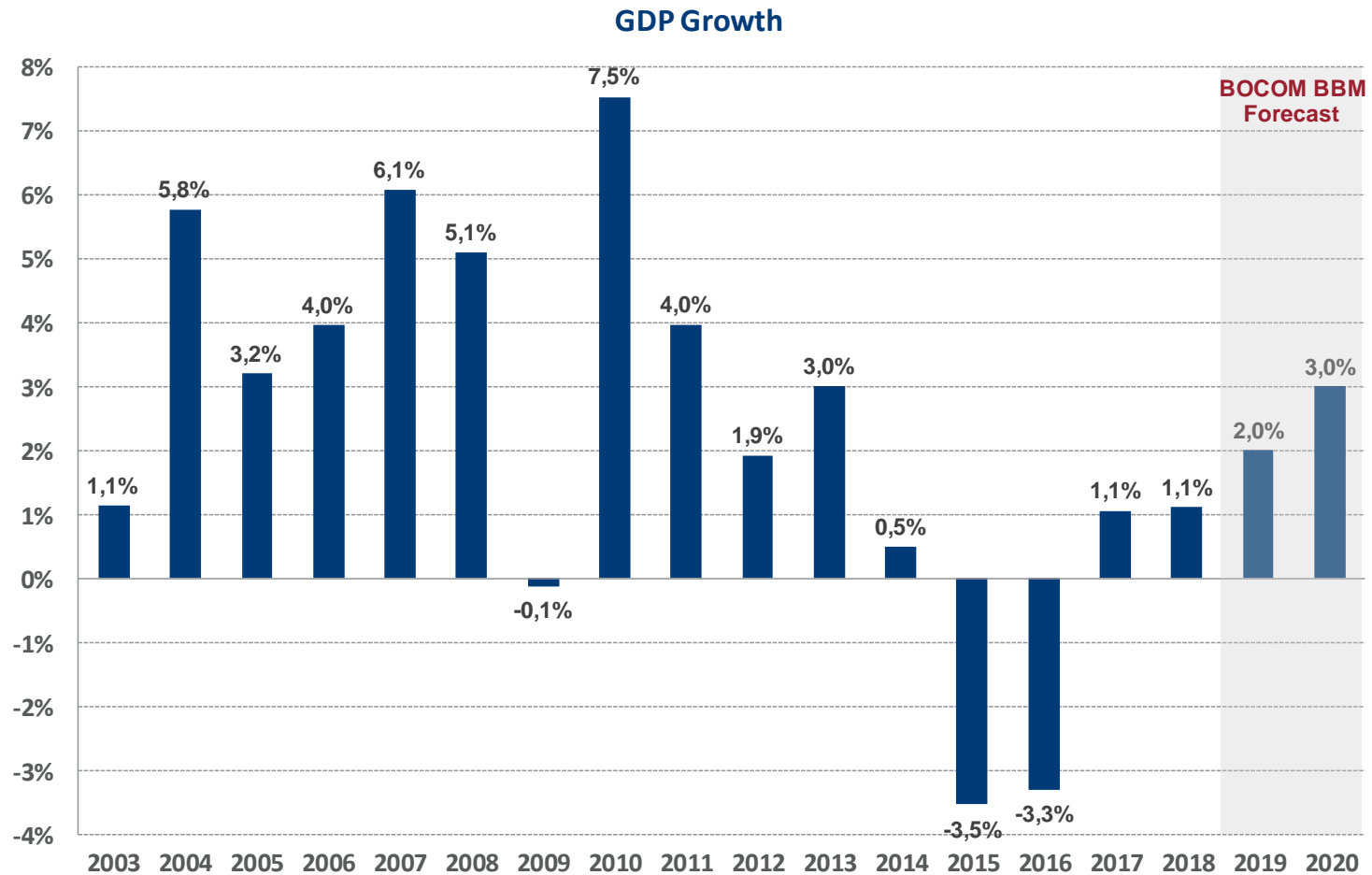
AN AMBITIOUS PENSION REFORM

- »» The government has put forward an ambitious pension reform.
- »» Questions remain about political coordination to approve the reform agenda: the government has not yet congressional support.
- »» The recovery has been slower than anticipated, but growth should strengthen as the reform agenda moves forward.
- »» The inflation outlook is benign and additional interest rate cuts cannot be rule out.
- »» Downside risks remain if the reform agenda stalls.

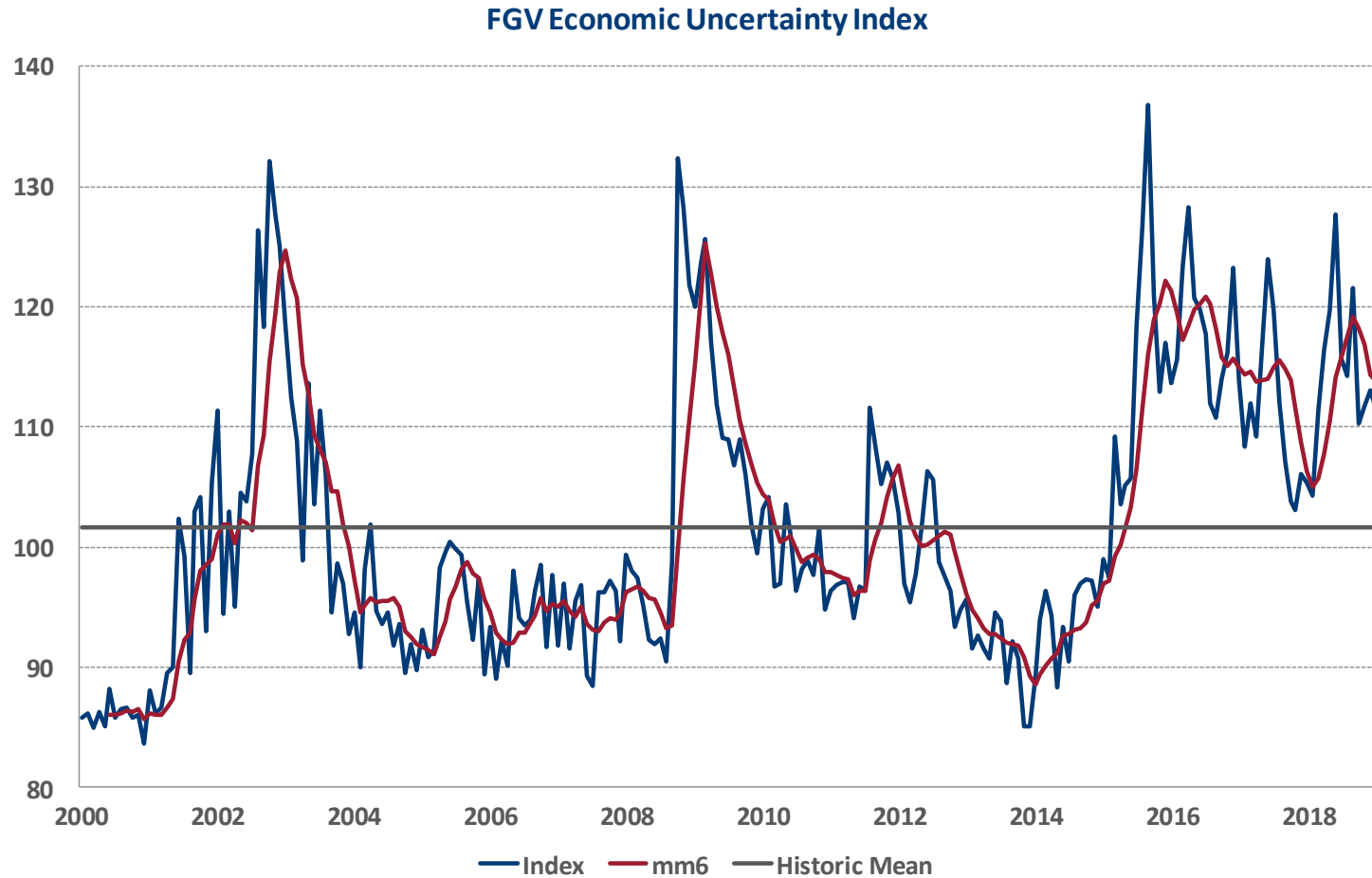
BRAZIL: FORECASTS

ECONOMIC FORECASTS	2013	2014	2015	2016	2017	2018	2019 F	2020F
GDP Growth (%)	3,0%	0,5%	-3,5%	-3,3%	1,1%	1,1%	2,0%	3,0%
Inflation (%)	5,9%	6,4%	10,7%	6,3%	2,9%	3,7%	3,7%	3,7%
Policy Rate (%)	10,00%	11,75%	14,25%	13,75%	7,00%	6,50%	6,50%	6,50%
Unemployment Rate (%)	6,8%	7,1%	9,6%	12,6%	12,4%	12,2%	11,0%	10,0%
Trade Balance (US\$ bn)	3	-4	20	48	67	58	56	44
Current Account Balance (US\$ bn)	-75	-104	-59	-23	-10	-13	-21	-38
Current Account Balance (% of GDP)	-3,0%	-4,3%	-3,3%	-1,3%	-0,5%	-0,8%	-1,0%	-1,7%
Fiscal Primary Balance (% of GDP)	1,7%	-0,6%	-1,9%	-2,5%	-1,8%	-1,6%	-1,4%	-0,8%
Government Gross Debt (% of GDP)	51,7%	57,2%	66,2%	69,4%	74,0%	76,7%	77,4%	77,7%

»» The recovery has been slower than anticipated, but growth should strengthen as the reform agenda moves forward.

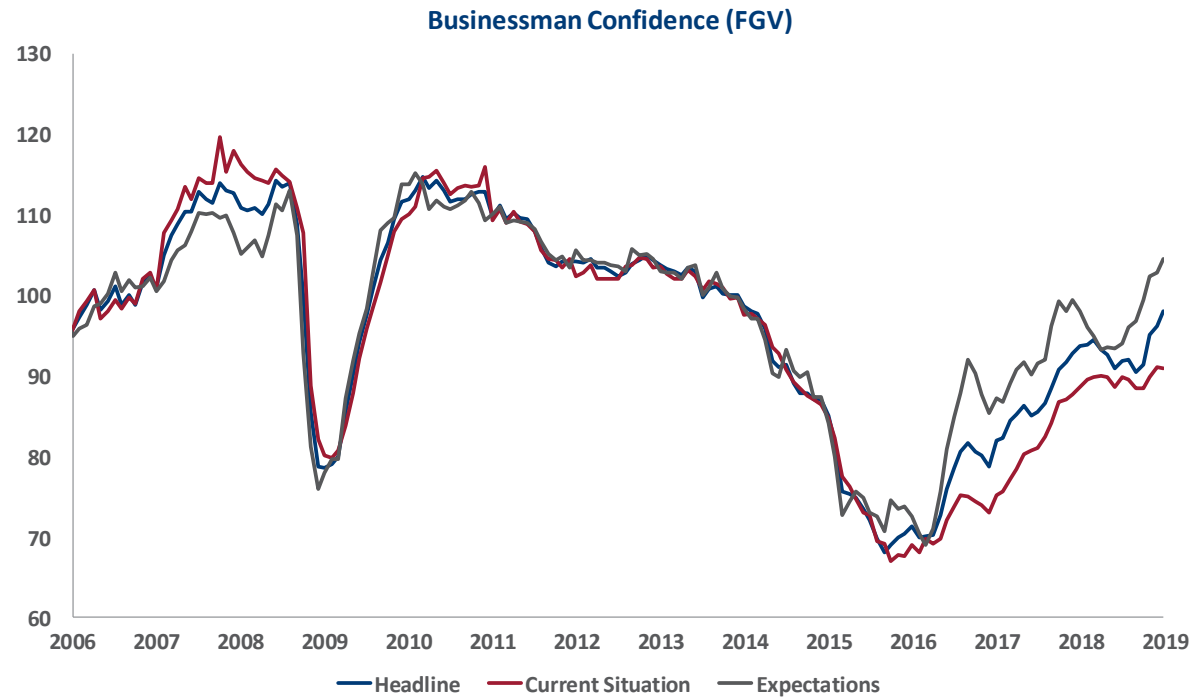


» Higher economic uncertainty has restrained growth since 2015. It should slowly decline as the reform agenda moves forward, supporting growth in 2019 and 2020.

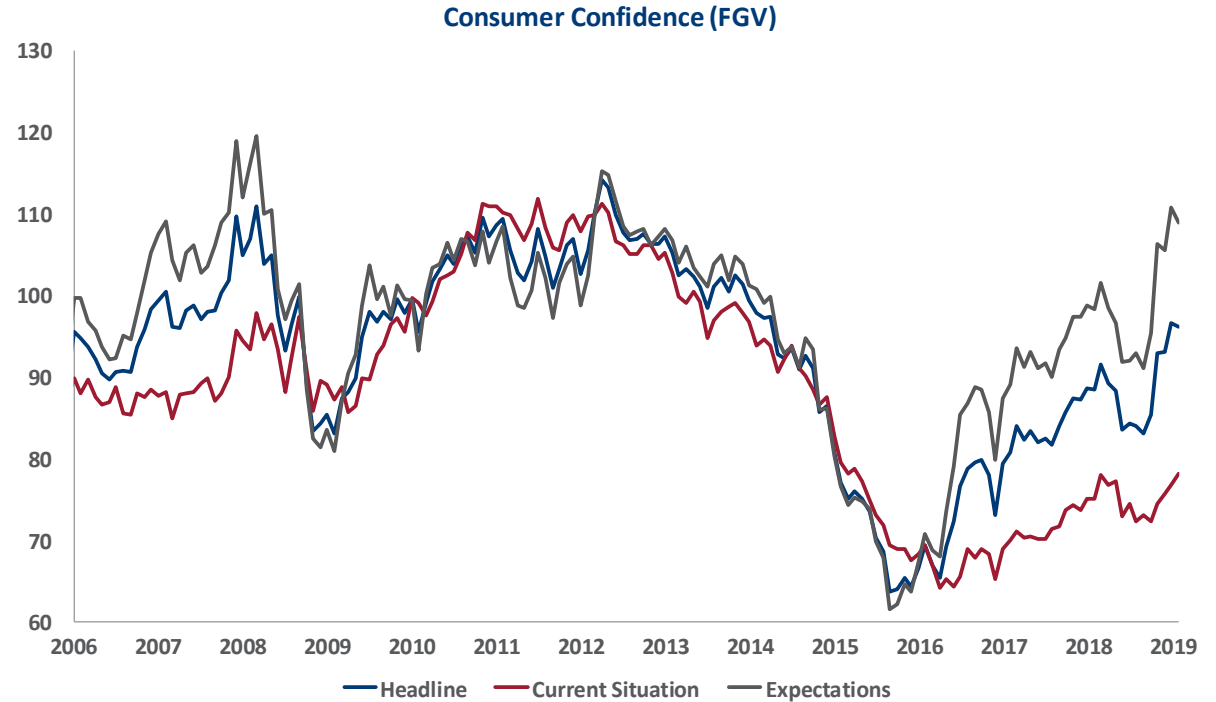


BRAZIL: ACTIVITY

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

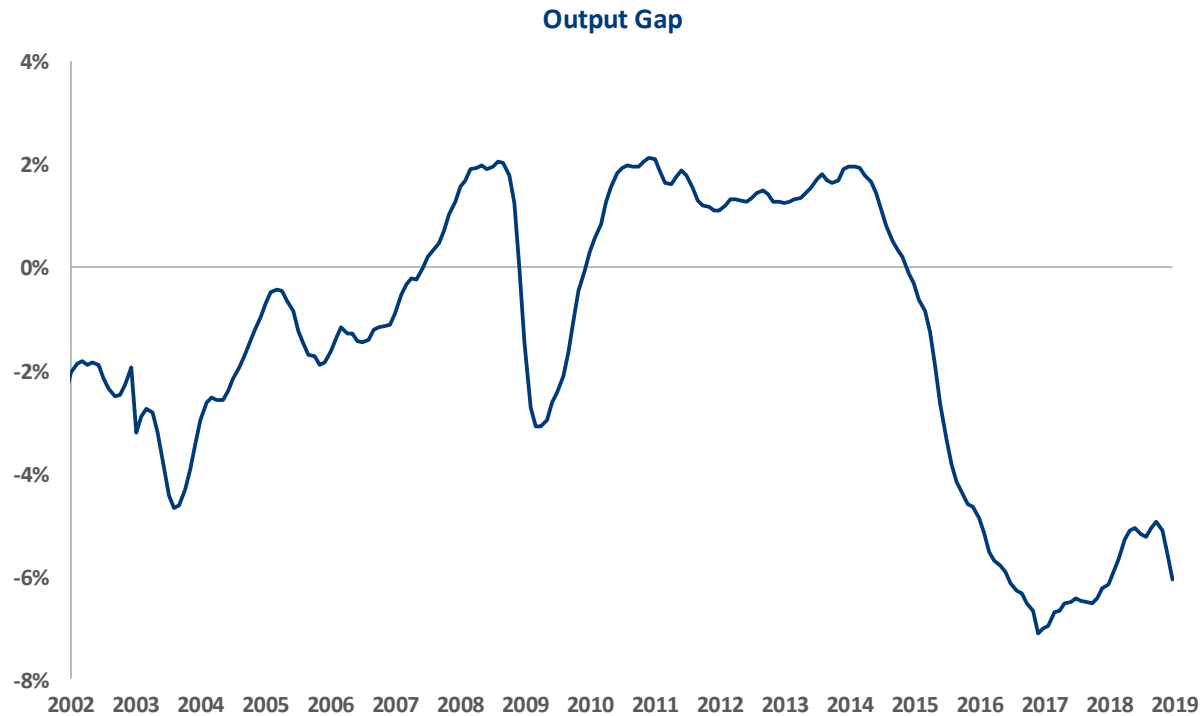


»» Consumers are becoming more optimistic about the future.

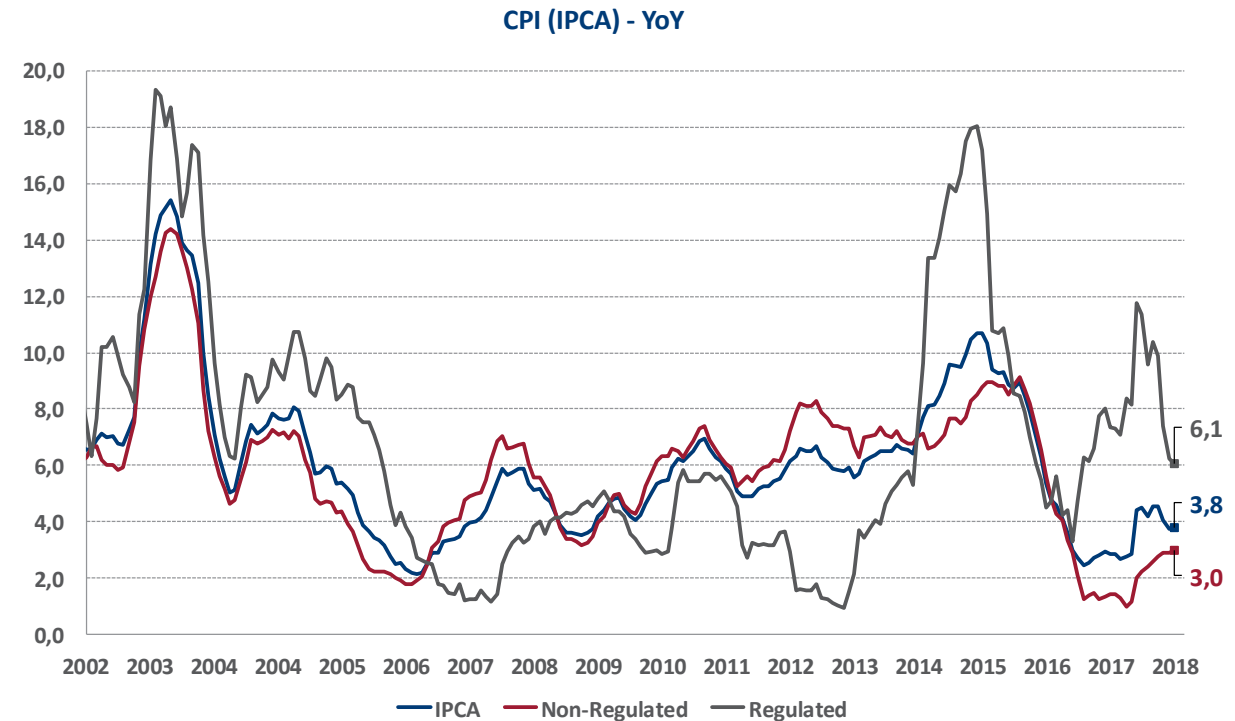


BRAZIL: INFLATION

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



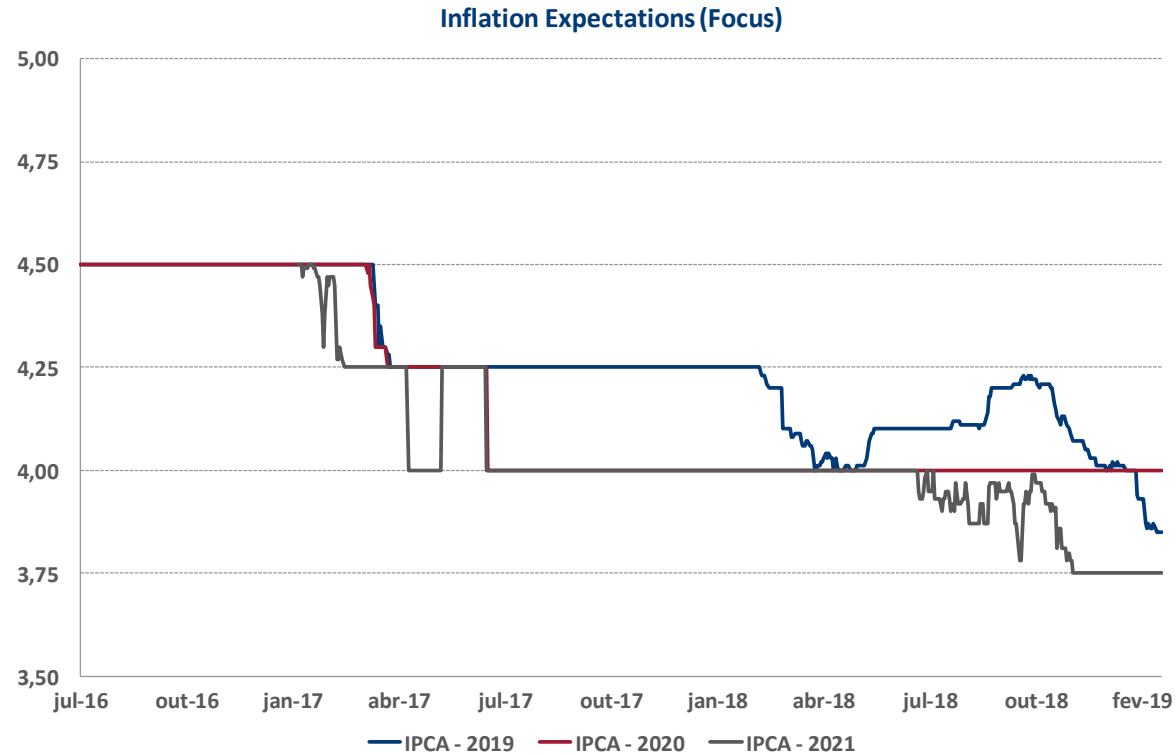
» Non-regulate prices are running close to the inflation target floor.



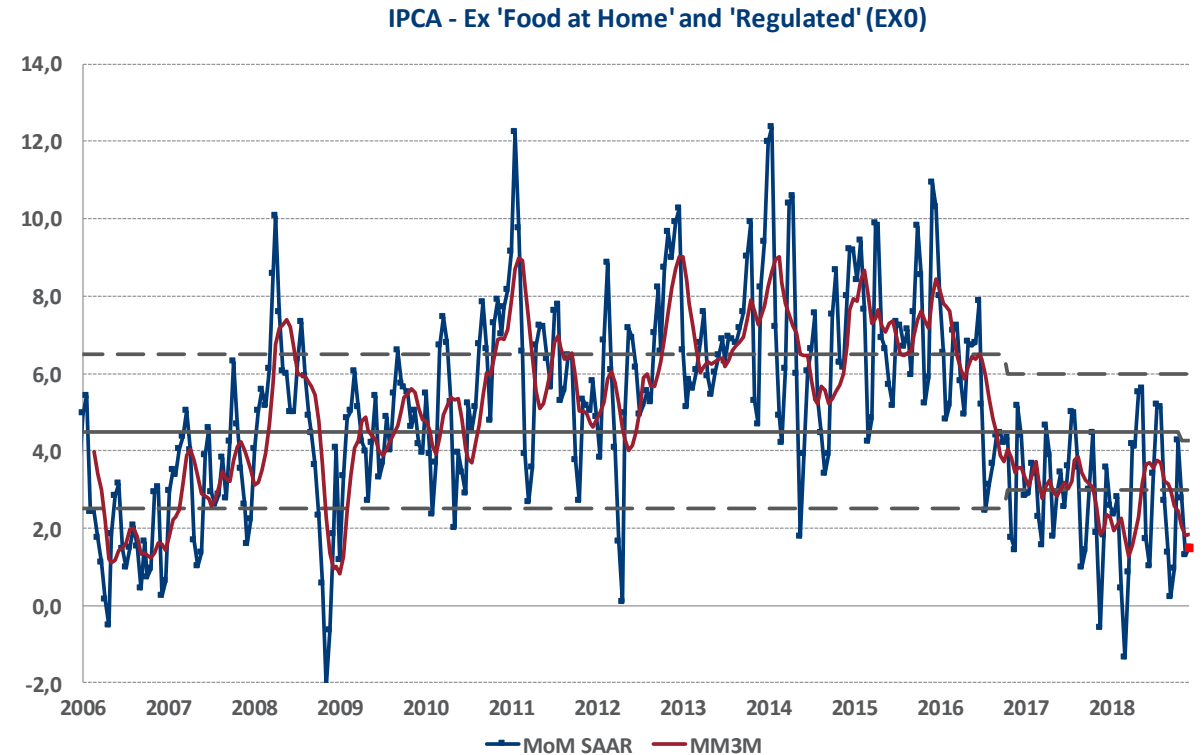
BRAZIL: INFLATION

Baseline Scenario											
Exchange rate of 3.70 in 2019 and 2020											
Selic: 6.50% in Dec/18, Dec/19 and 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%	-4,4%	14,25%
2T16	8,84%	8,52%	9,91%	6,85%	6,87%	7,03%	5,86%	14,67%	-5,9%	-4,5%	14,25%
3T16	8,48%	8,68%	7,88%	6,67%	6,25%	7,03%	5,70%	16,14%	-6,3%	-4,1%	14,25%
4T16	6,29%	6,55%	5,49%	5,78%	5,24%	6,47%	4,84%	9,36%	-7,1%	-3,3%	13,75%
1T17	4,57%	4,26%	5,59%	4,62%	3,18%	6,04%	4,52%	3,00%	-6,7%	-2,0%	12,25%
2T17	3,00%	2,89%	3,30%	3,91%	1,52%	5,72%	4,52%	-0,57%	-6,5%	-1,0%	10,25%
3T17	2,54%	1,40%	6,13%	3,37%	0,98%	4,99%	3,71%	-5,33%	-6,5%	-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%	1,3%	6,50%
2T18	4,39%	2,02%	11,78%	2,55%	0,80%	3,14%	2,75%	0,11%	-5,1%	1,4%	6,50%
3T18	4,53%	2,57%	10,38%	2,66%	1,38%	3,22%	2,54%	2,23%	-5,1%	1,4%	6,50%
4T18	3,75%	2,90%	6,22%	2,47%	1,11%	3,35%	2,61%	4,52%	-5,6%	1,1%	6,50%
1T19	3,88%	3,24%	5,73%	2,71%	1,35%	3,89%	2,99%	5,53%	-5,4%	1,1%	6,50%
2T19	2,98%	2,99%	2,96%	2,81%	1,02%	4,40%	2,98%	3,91%	-4,7%	1,3%	6,50%
3T19	2,92%	3,05%	2,57%	2,40%	0,40%	4,06%	2,91%	5,55%	-4,1%	1,5%	6,50%
4T19	3,65%	3,19%	4,94%	2,65%	0,65%	4,21%	2,91%	5,52%	-3,6%	2,0%	6,50%
1T20	4,07%	3,57%	5,50%	2,69%	0,48%	4,15%	2,77%	7,08%	-3,2%	2,5%	6,50%
2T20	4,01%	3,77%	4,68%	2,99%	0,61%	4,37%	3,04%	6,98%	-2,7%	2,9%	6,50%
3T20	3,73%	3,65%	3,96%	3,03%	0,38%	4,40%	3,23%	6,37%	-2,3%	3,1%	6,50%
4T20	3,69%	3,63%	3,84%	2,93%	0,15%	4,35%	3,26%	6,54%	-2,0%	3,0%	6,50%

» Inflation expectations have fallen below 4.0% in 2019.

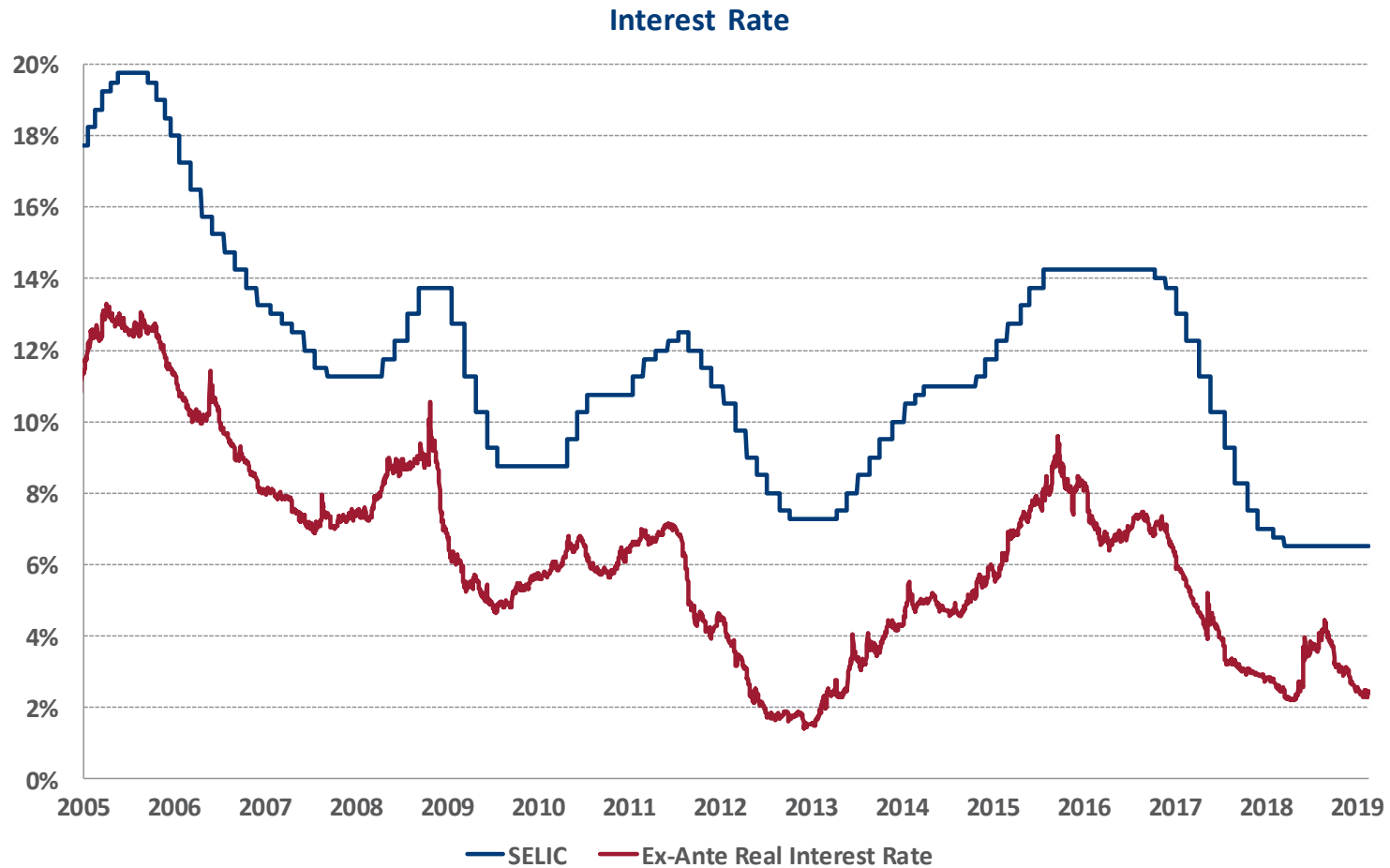


» Core inflation has been running at very low levels.



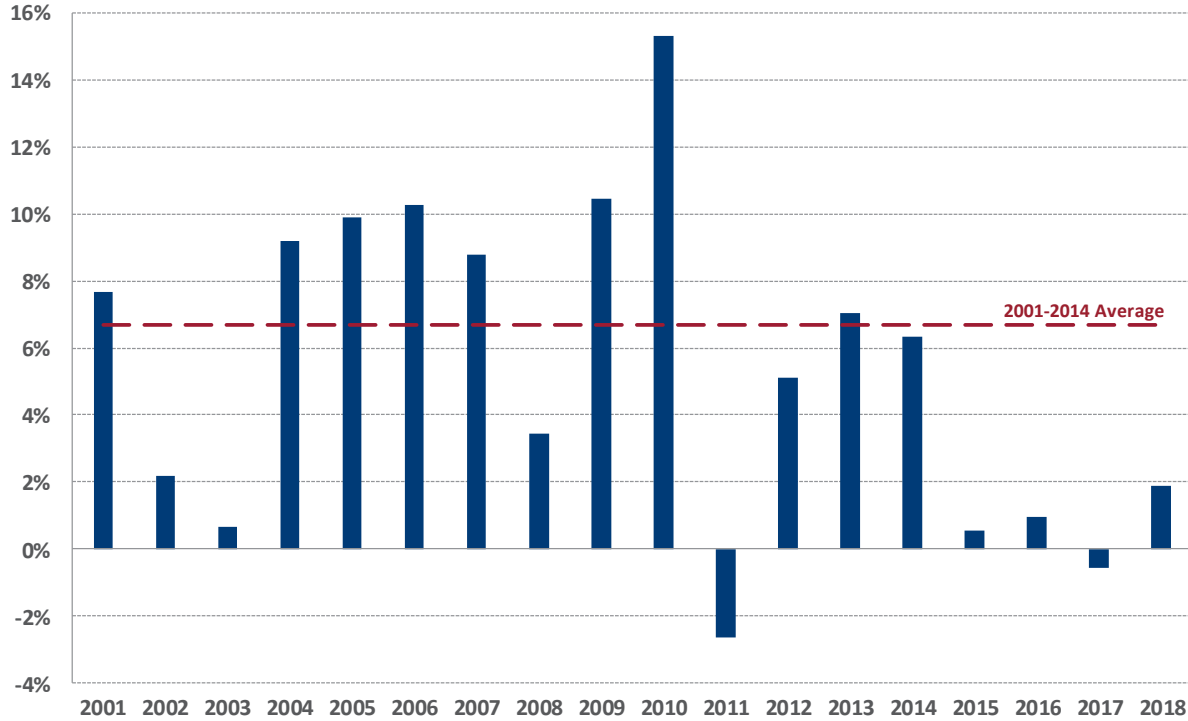
BRAZIL: MONETARY POLICY

- » The SELIC rate will remain stable throughout 2019, but additional interest rate cuts cannot be rule out.

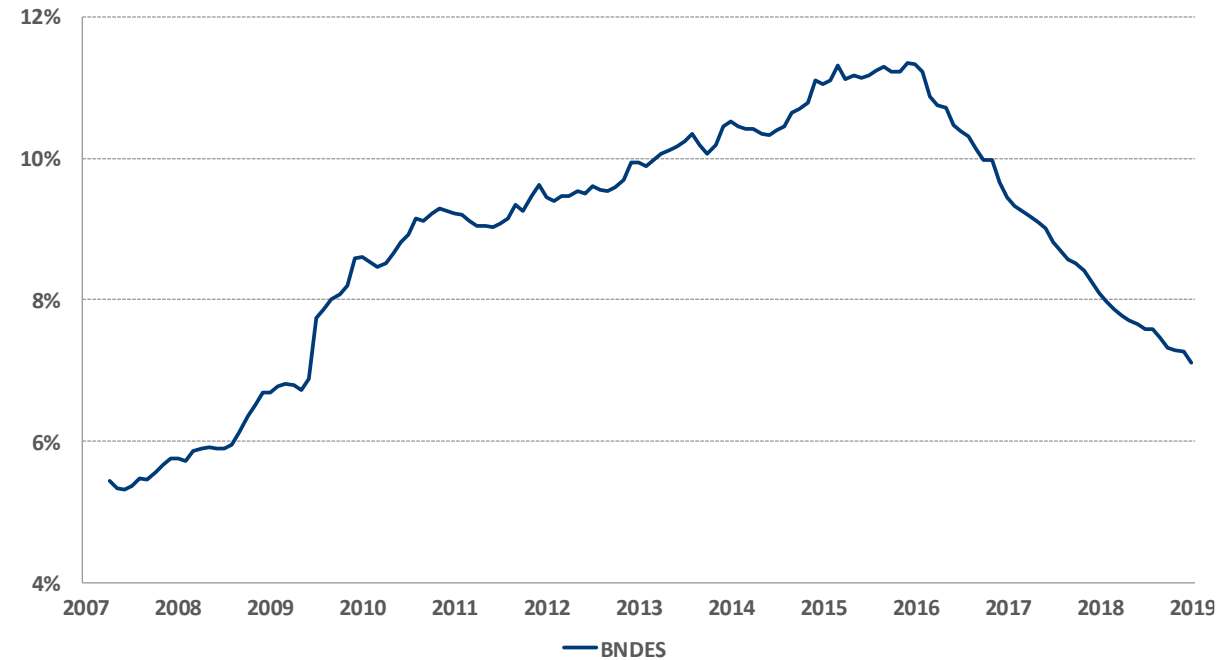


» Real government spending has stabilized for the first time, BNDES continues to retrench and TLP was approved: how far have those factors reduced the neutral interest rate?

Government Expenditures - Real Annual Growth



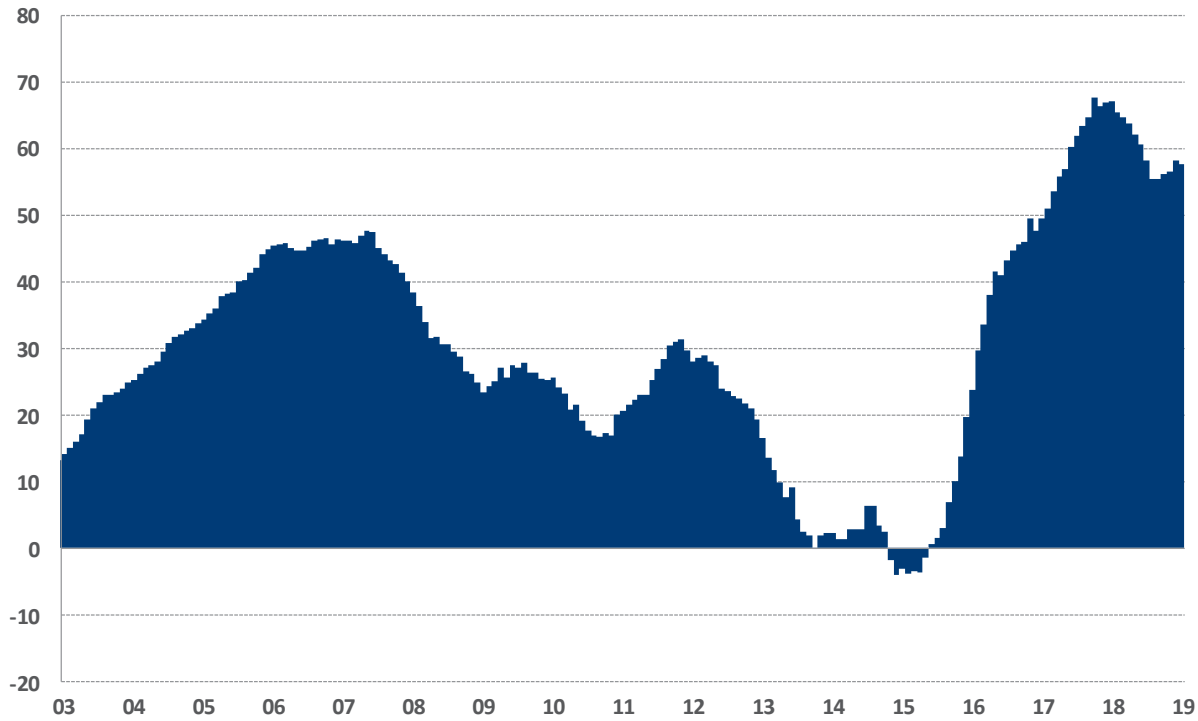
BNDES Credit Stock - % of GDP



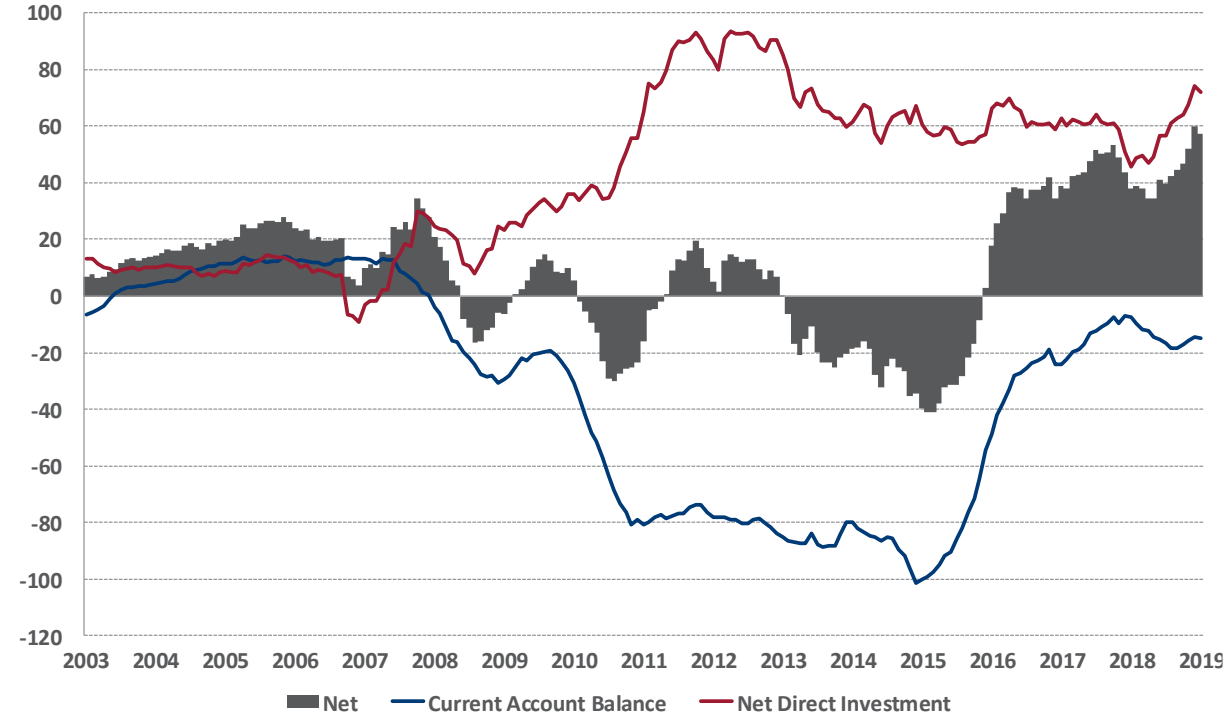
BRAZIL: EXTERNAL

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

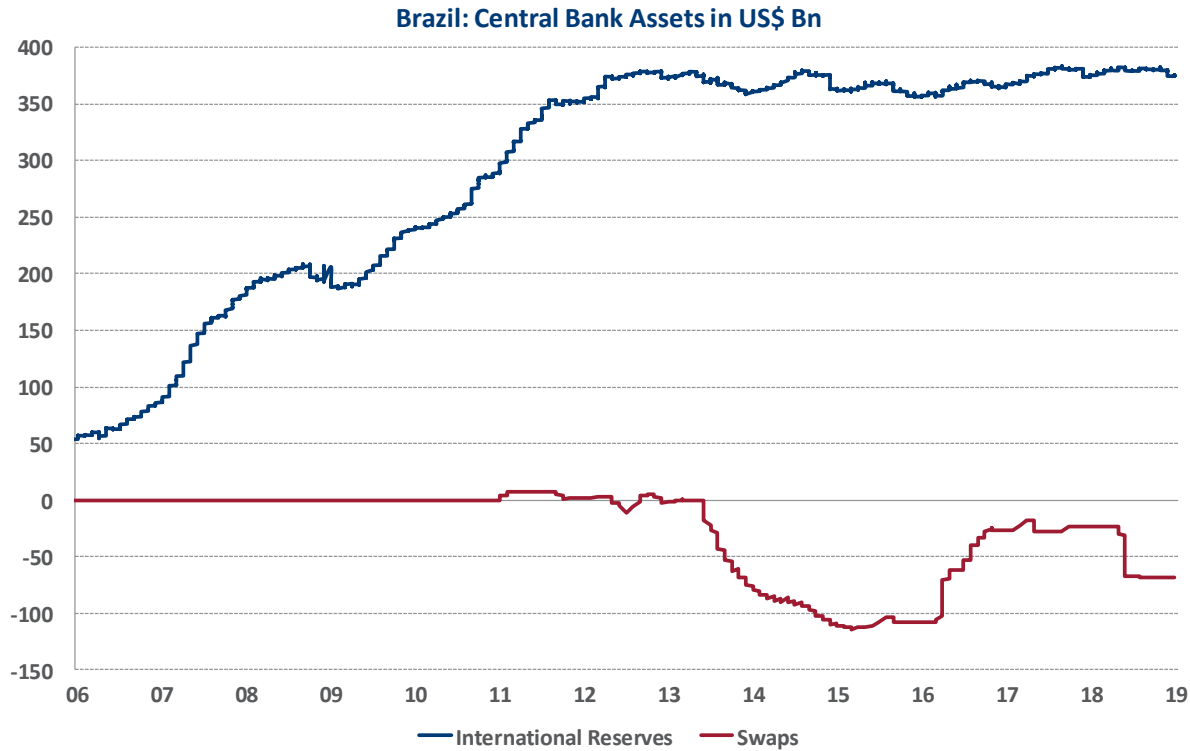
Trade Balance - US\$ Billion in 12m



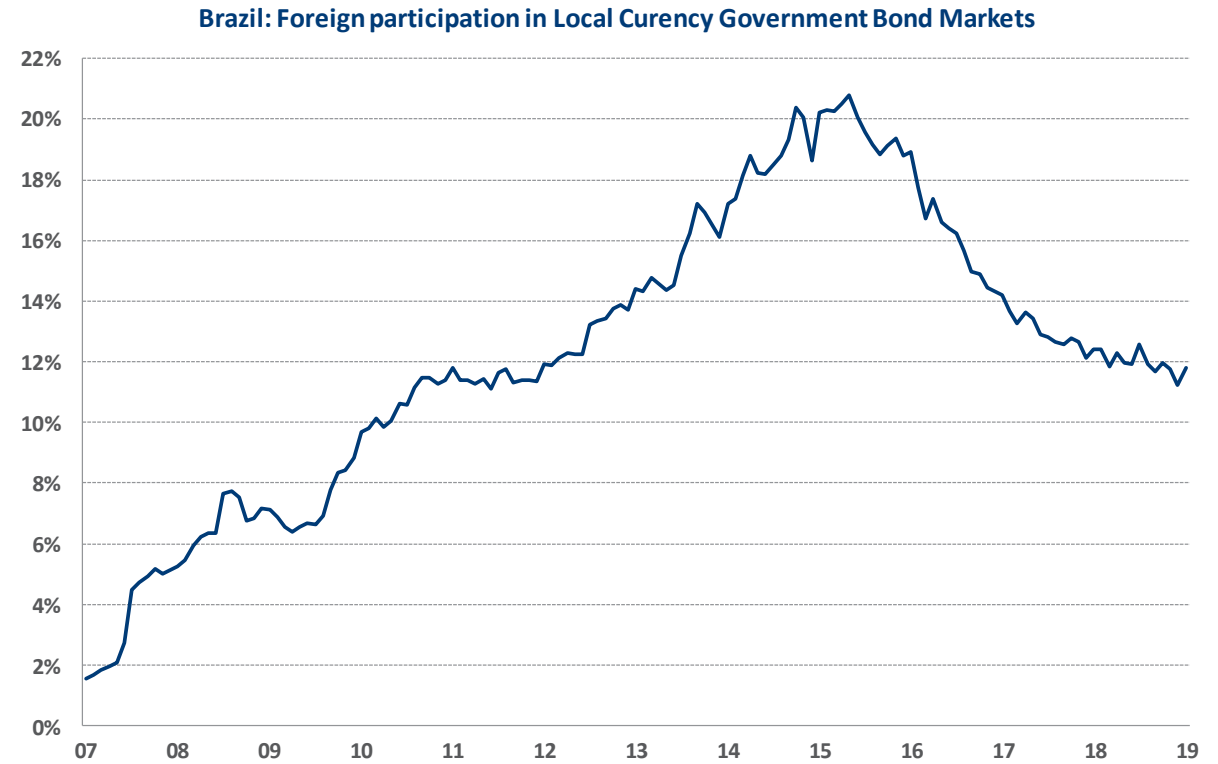
Current Account vs Net Direct Investment - US\$ Billion in 12m



» Central Bank holds substantial international reserves.



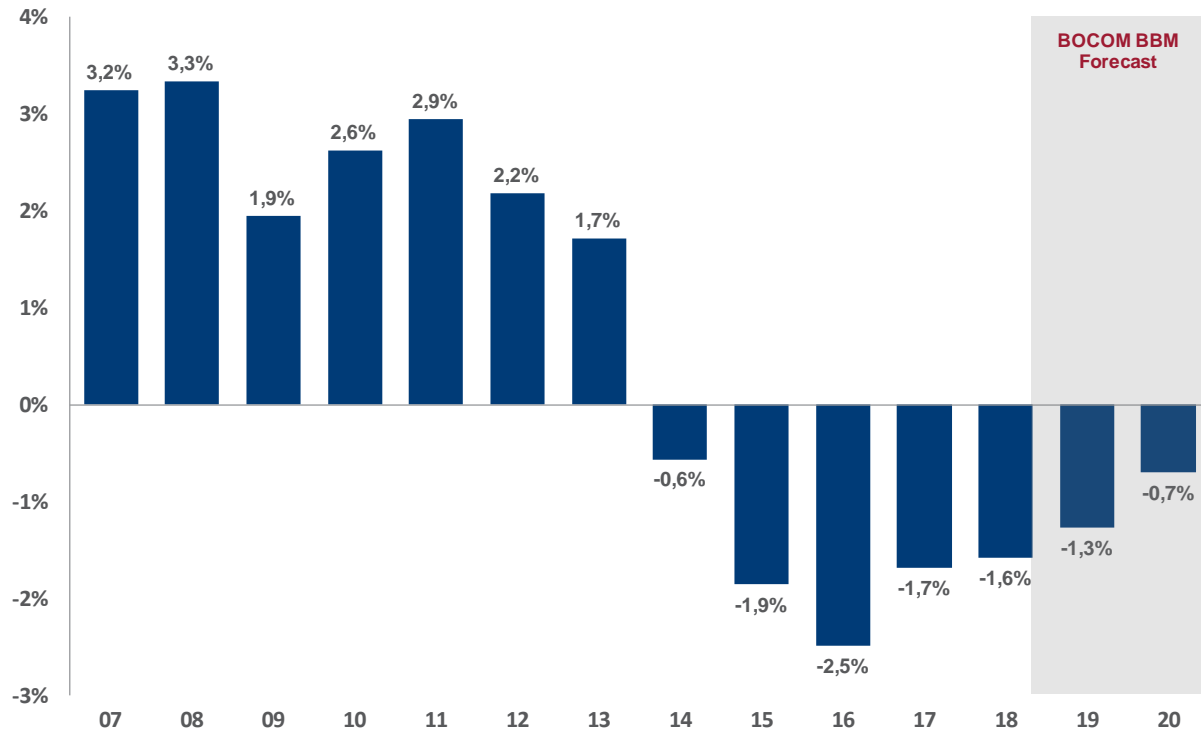
» Government domestic debt exposure to foreign investors continues to fall.



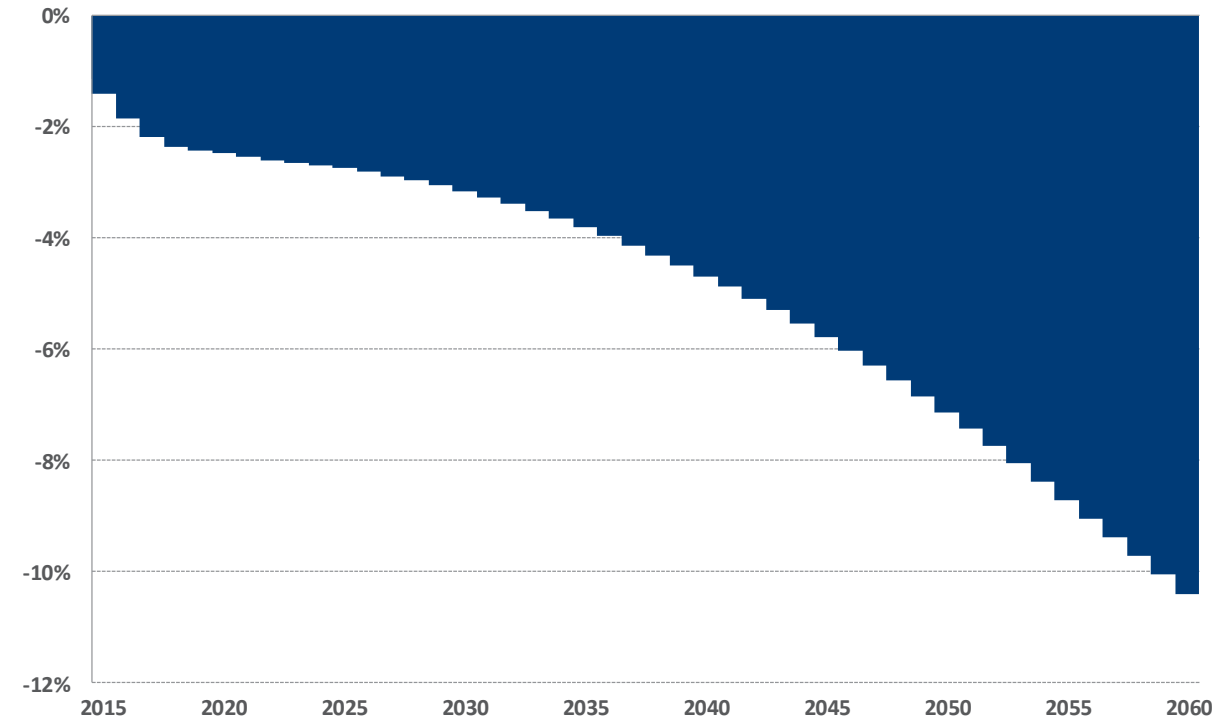
» Fiscal policy remains the main challenge: the country has run a primary deficit for 5 years.

» Social security deficit (RGPS) is rapidly increasing.

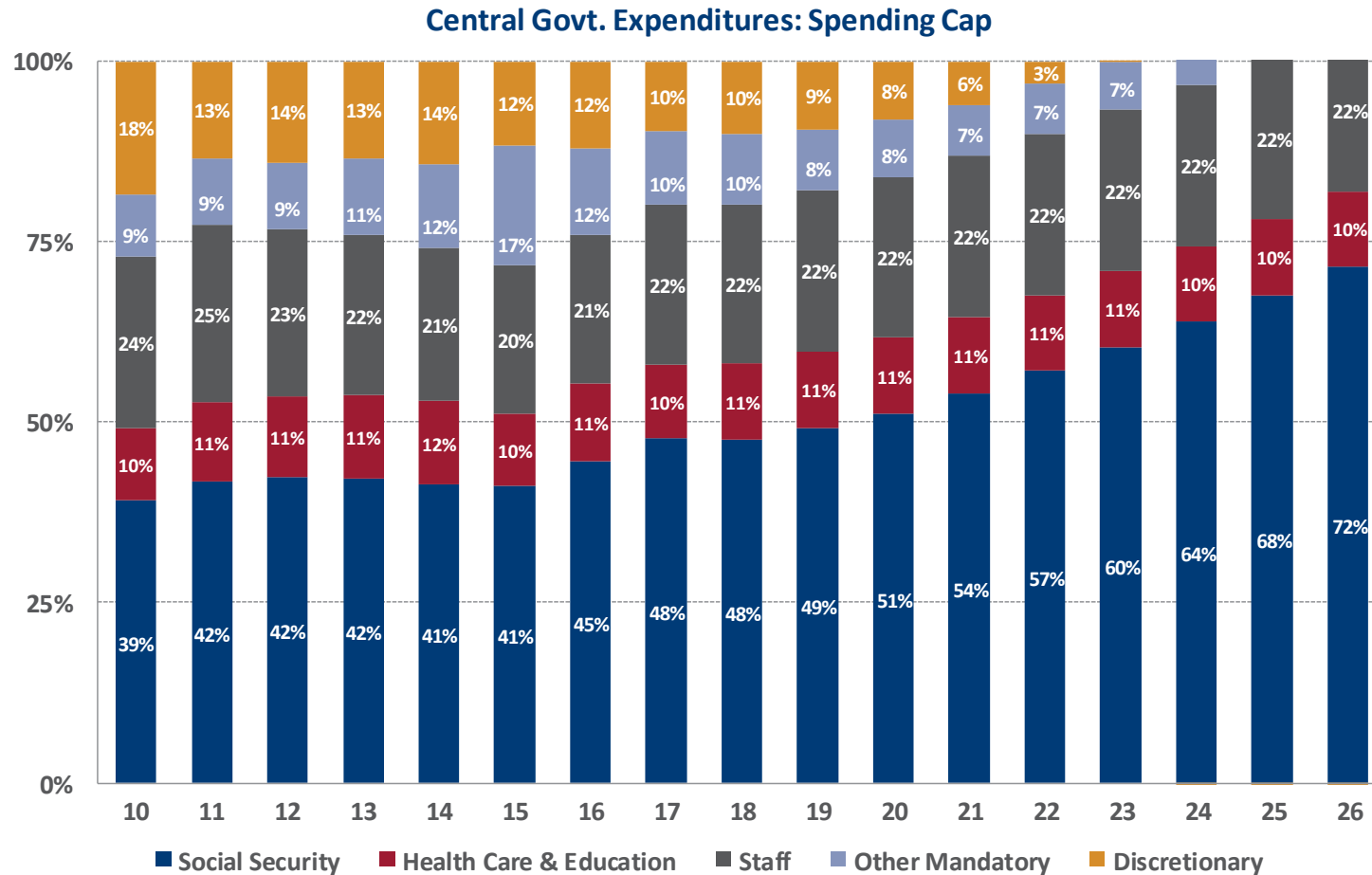
Public Sector Primary Balance - % GDP



Social Security Balance - % of GDP

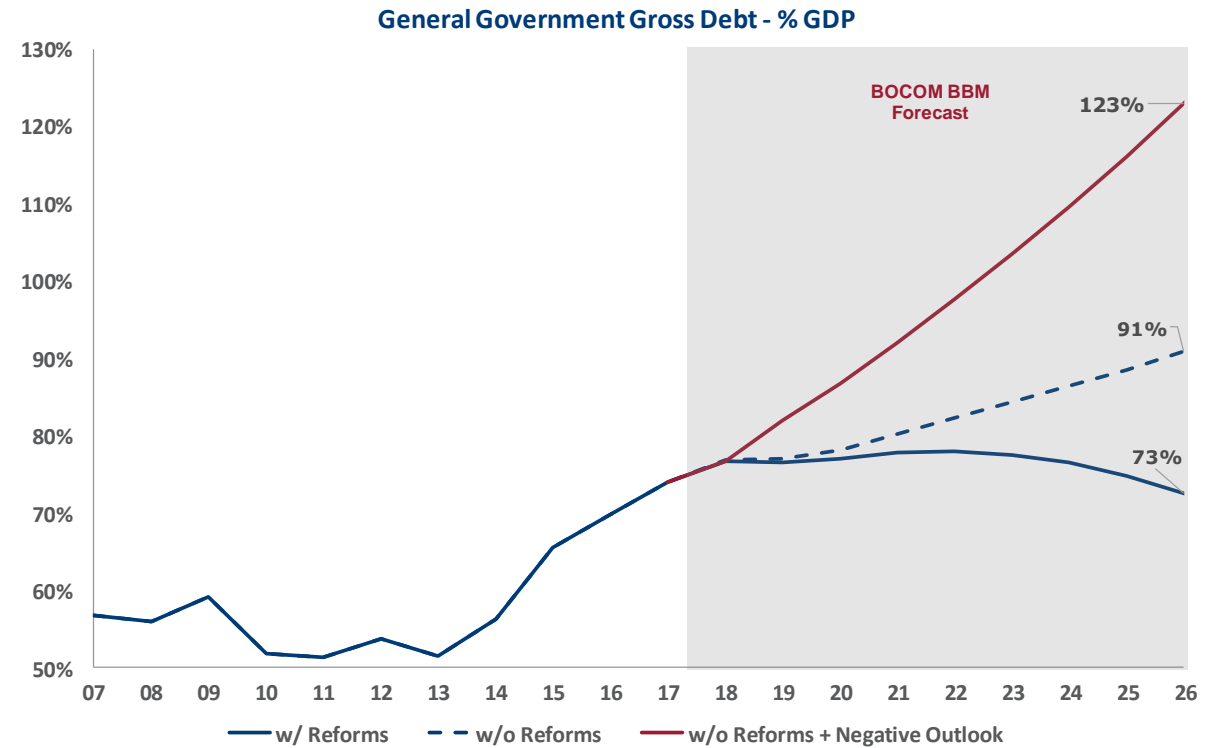
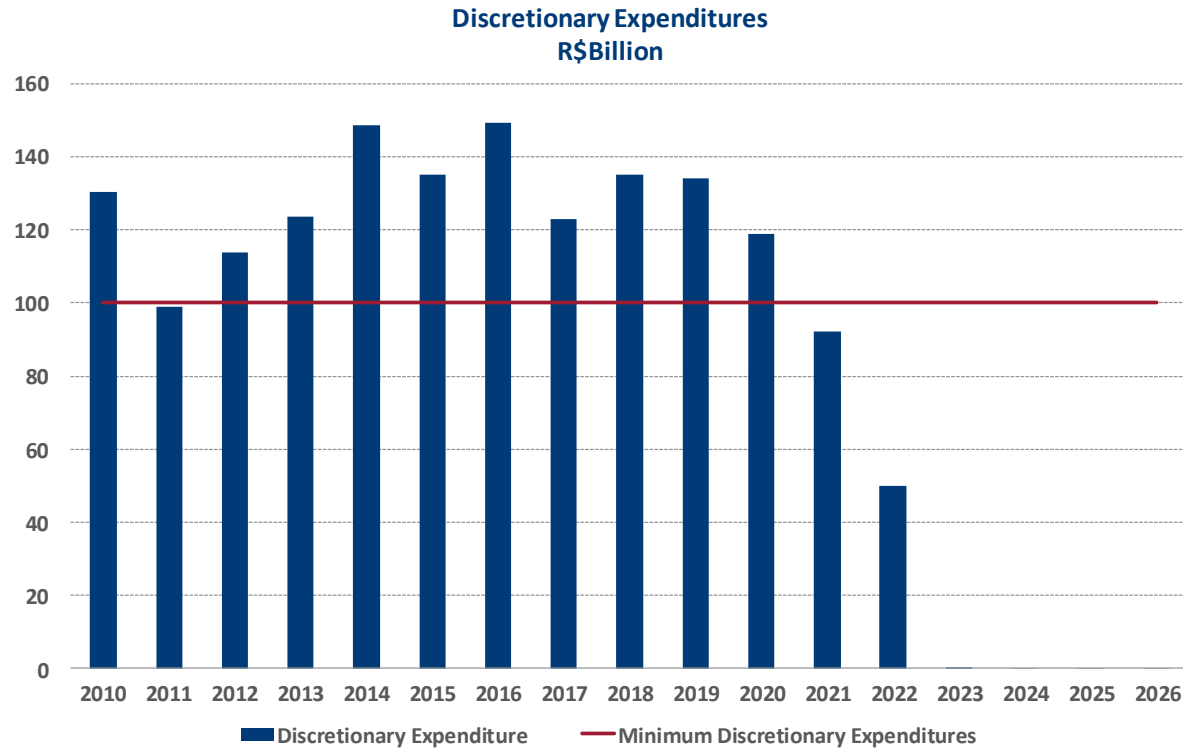


»» The government spends 50% of its budget with social security and 90% of it with mandatory spending. Without reforms, the spending cap becomes unsustainable in 2023.



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

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

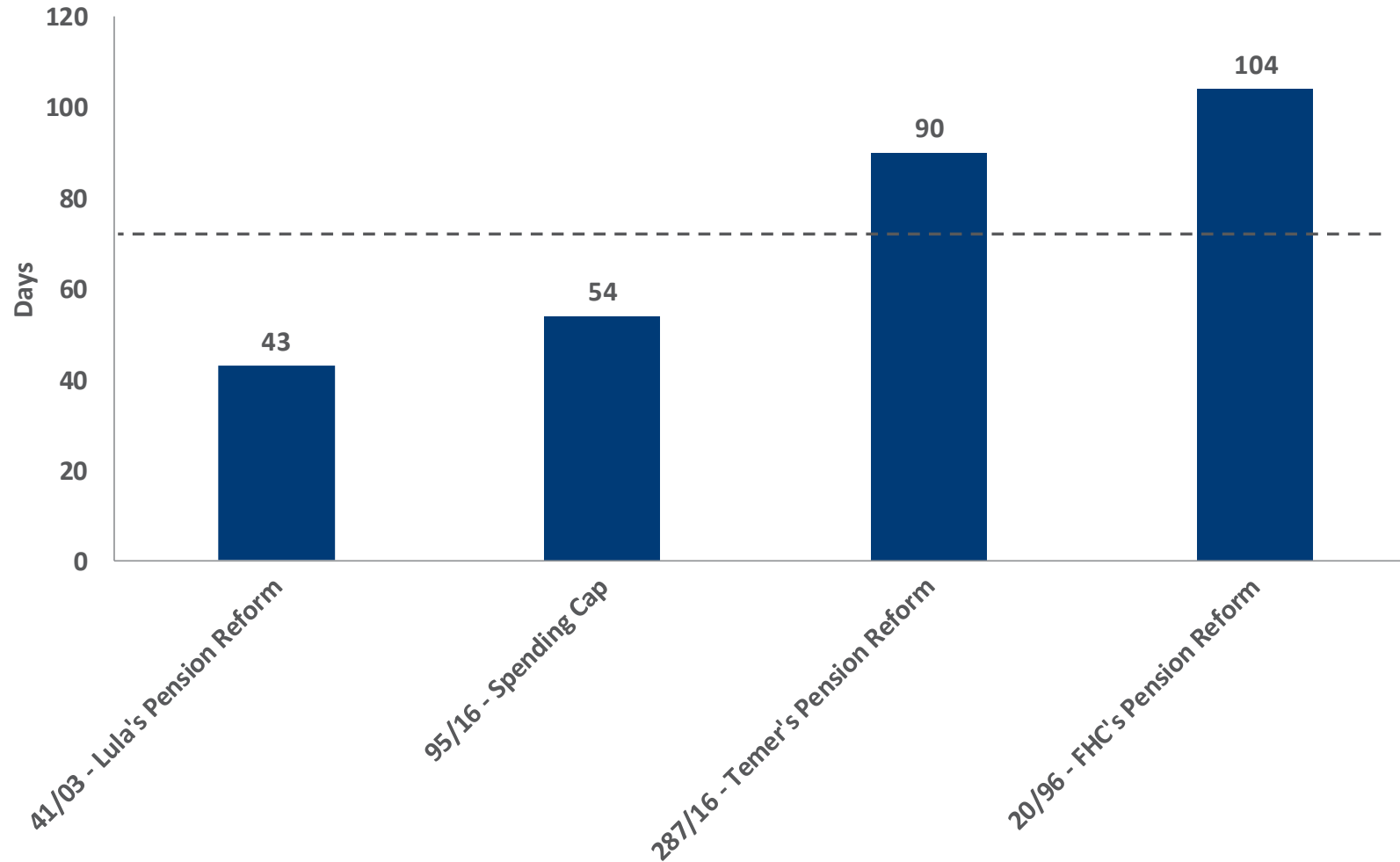


PENSION REFORM

- »» Ambitious proposal: estimated savings of R\$ 1,2 tn (2,9% of GDP) in 10 years.
- »» Minimum retirement age of 65 years for men and 62 years for women.
- »» 12 years transition to the new regime.
- »» Focus in equity and social justice.
- »» Similar rules for both public and private sector.
- »» Progressive contribution rates.
- »» Alternative capitalization system.

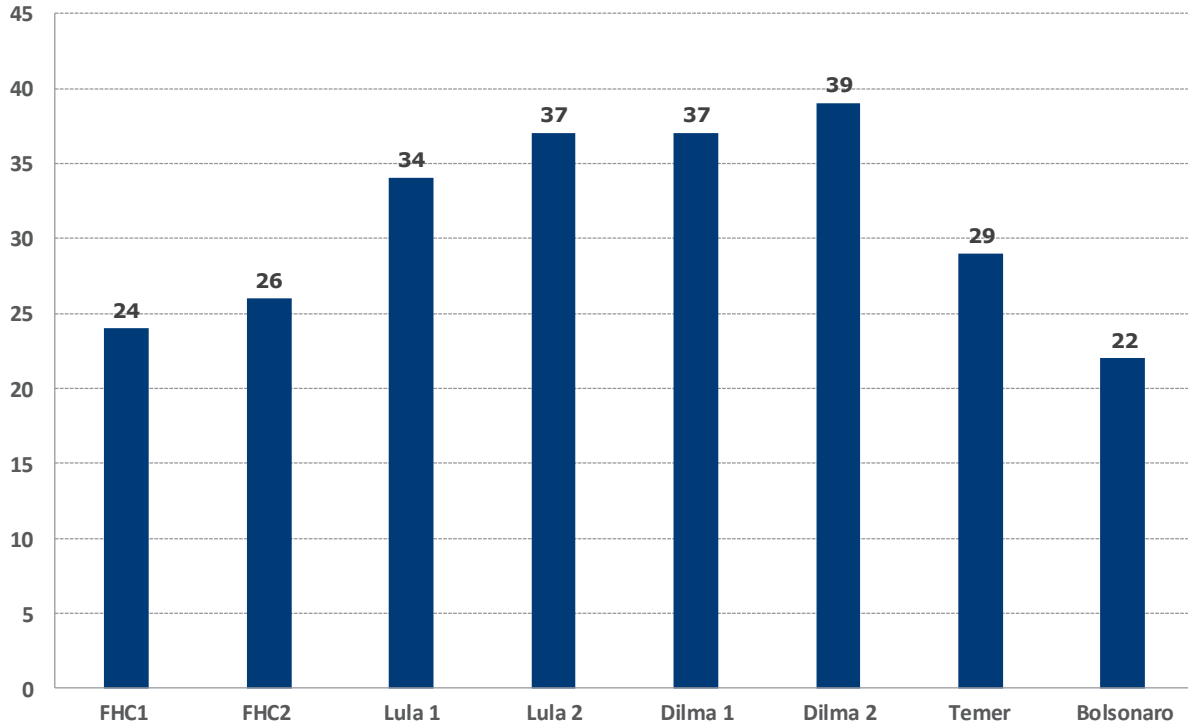
Measures		Original Temer's Proposal		Current Temer's Proposal		Bolsonaro's Proposal	
		% of GDP in 2027	BRL bn saved in 10y	% of GDP in 2027	BRL bn saved in 10y	% of GDP in 2027	BRL bn saved in 10y
Total		1,98%	802	1,51%	611	2,88%	1165
Capitalization	Constitutional amendment	-	-	-	-	Yes	-
Public sector (Military)	Complementary law	-	-	-	-	0,23%	92
Public servants (Federal)	Constitutional amendment	-	-	0,22%	90	0,50%	203
Private sector	Constitutional amendment/Simple law	-	-	1,29%	521	2,15%	870

Time required to approve Constitutional Amendments in Special Comissions

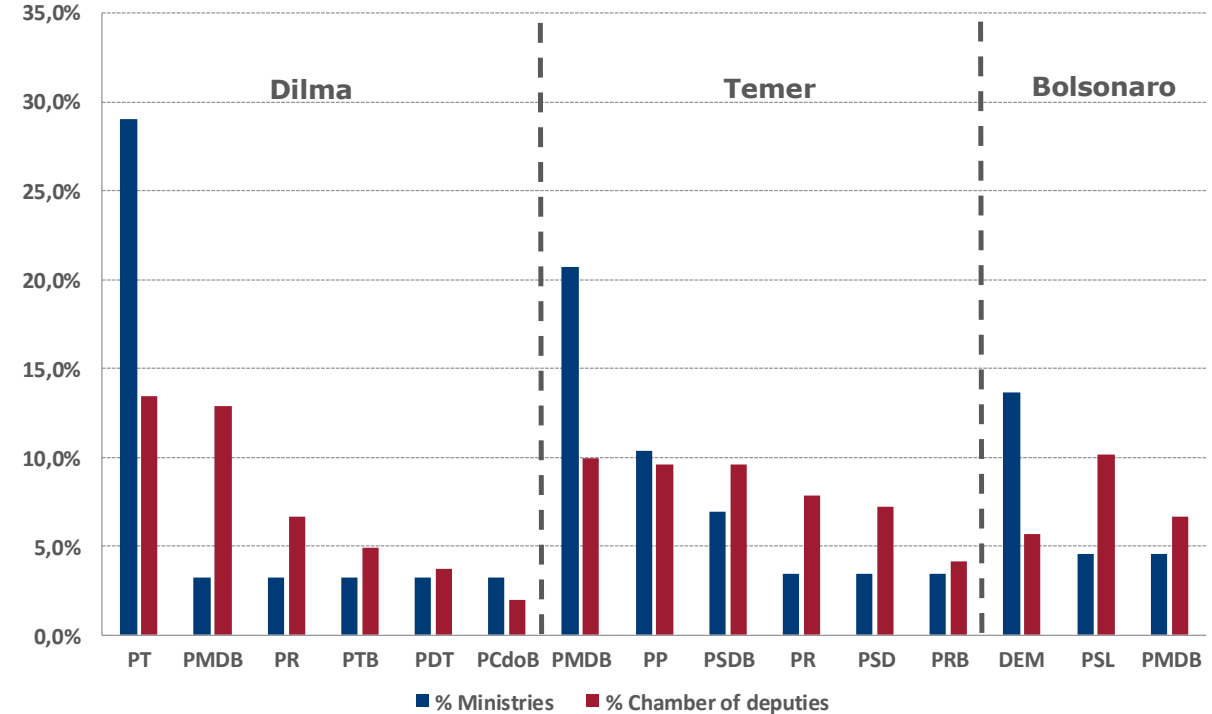


» Questions remain about political coordination to approve the reform agenda: the government has not yet congressional support.

Number of Ministries



Cabinet Composition



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» GLOBAL: LOWER RISKS AND EASIER FINANCIAL CONDITIONS

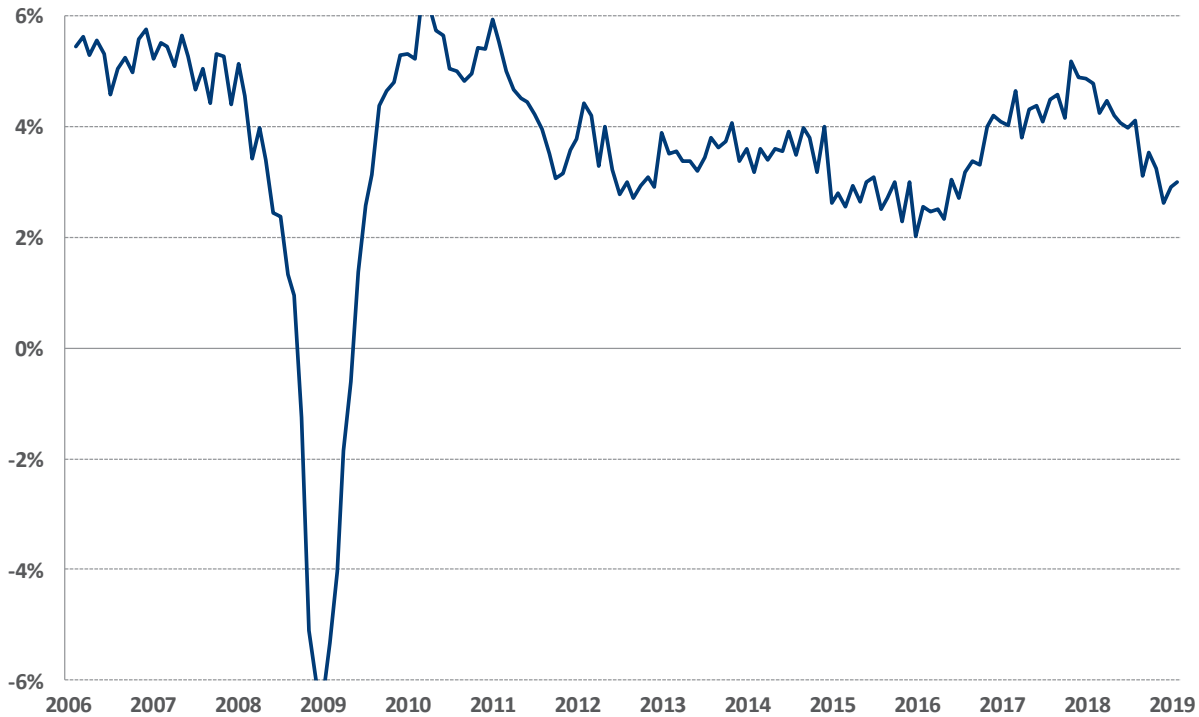
» MARKETS: RECENT TRENDS

LOWER RISKS AND EASIER FINANCIAL CONDITIONS

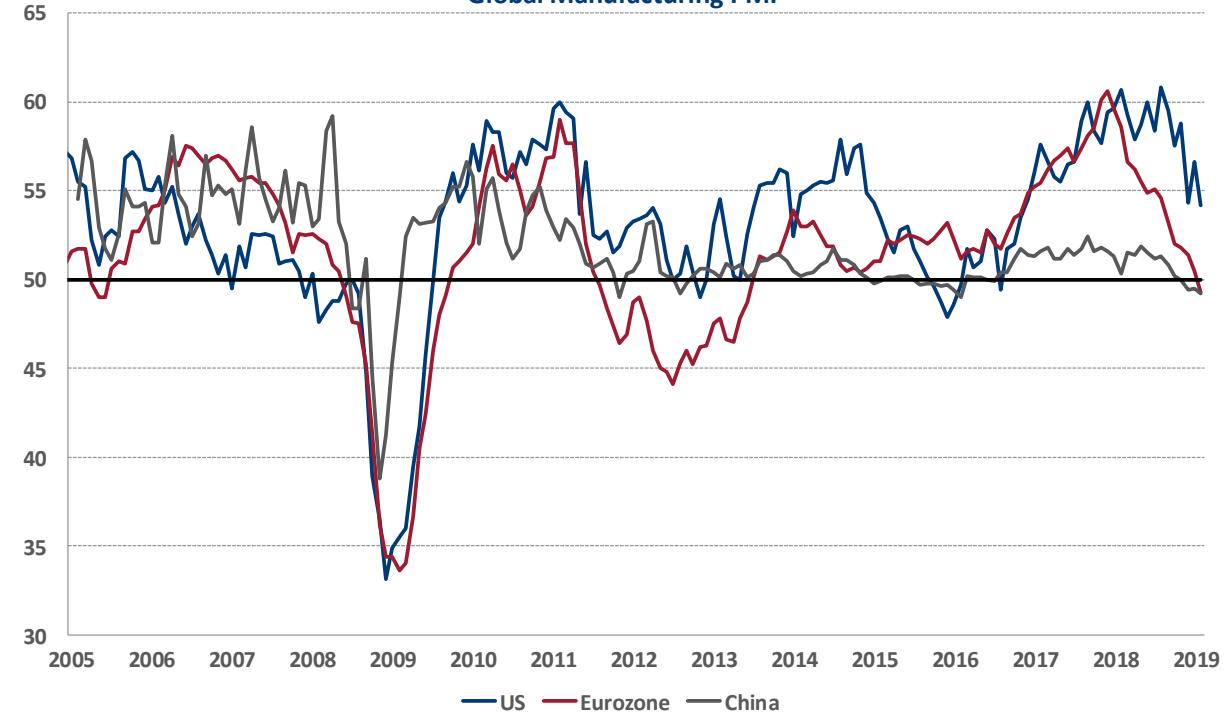
- »» Global growth is slowing down, but risks have fallen (US government shutdown, escalation of trade tensions and “hard Brexit”).
- »» US: Growth has slowed to 2.0%, but there is no sign of a recession in the horizon and financial conditions have recovered.
- »» China: Activity remains weak in the short term, but monetary and fiscal policy has become more proactive and trade tensions have eased.
- »» EM: Easier global financial conditions and weaker dollar are supporting emerging markets.

» Global growth is slowing down, but risks have fallen (US government shutdown, escalation of trade tensions and “hard Brexit”).

World Current Activity Indicator (GS)

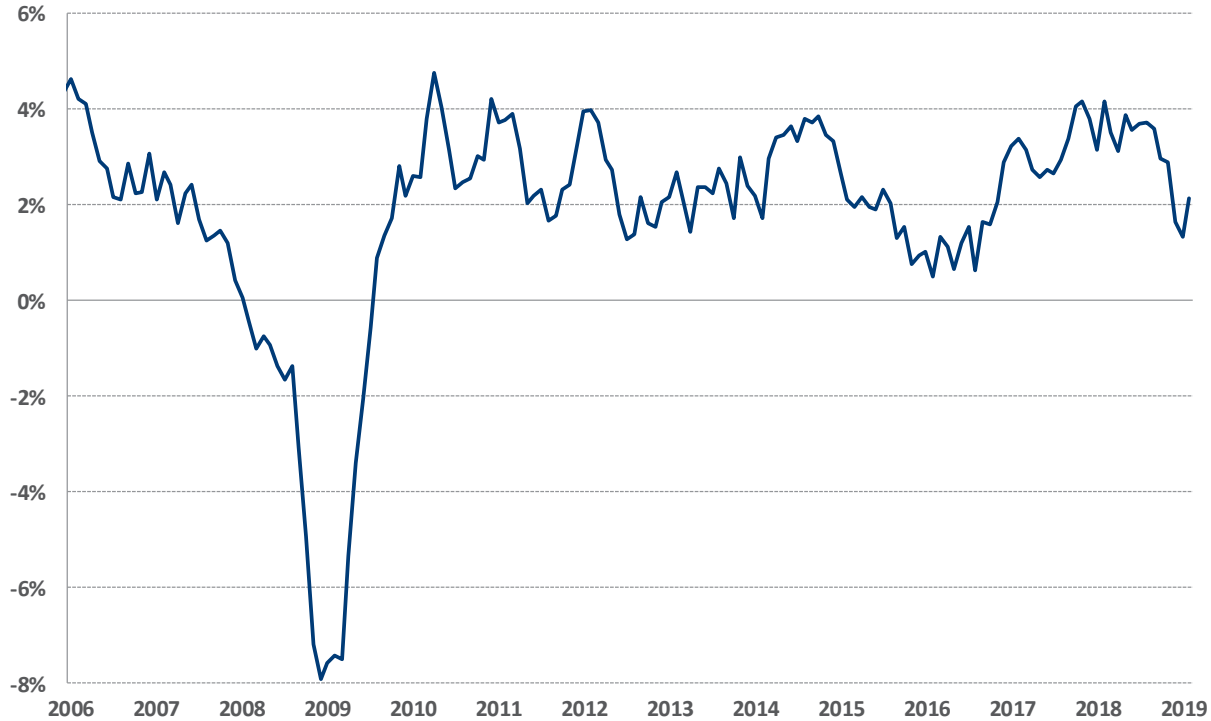


Global Manufacturing PMI



» US growth has slowed to 2.0%, but there is no sign of a recession in the horizon and financial conditions have recovered.

US Current Activity Indicator (GS)



US: GS Financial Condition Index

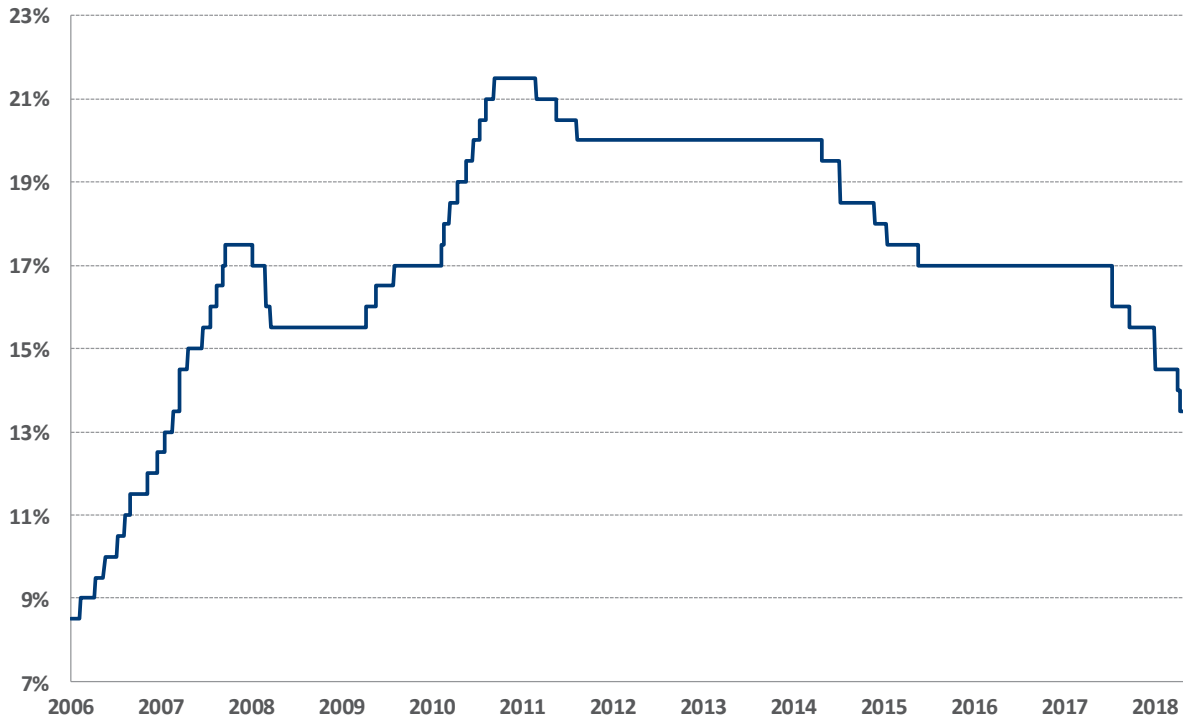


» GDP growth has been trending down in recent years and recent data points to a slowdown to below 6.0% in the short term.

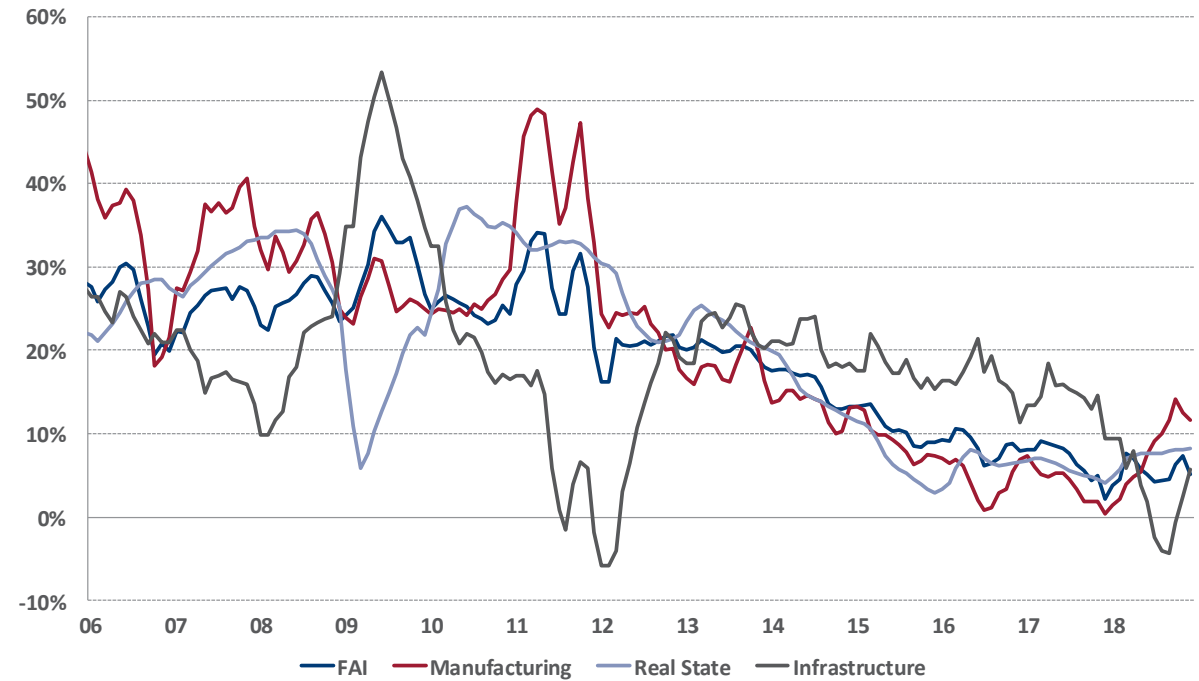


» Monetary and fiscal policy have become more proactive and will support growth in the second half of the year.

Reserve Requirements



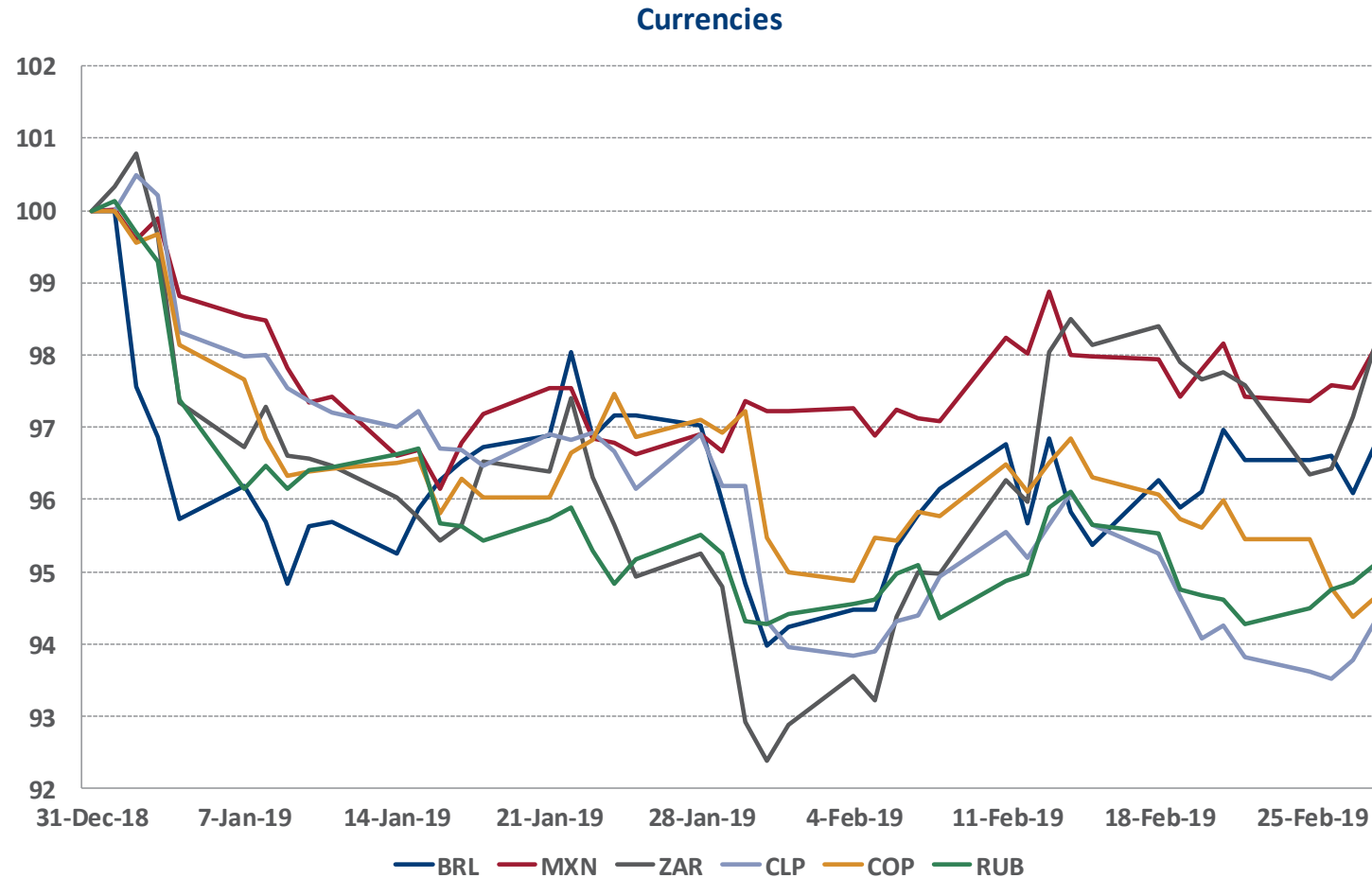
Fixed Asset Investments by Industry
% change in nominal terms, YoY 3mma



» Markets are optimistic about trade negotiations and higher liquidity.



» Easier global financial conditions and weaker dollar are supporting emerging markets.



CONTENT

»» BRAZIL: AN AMBITIOUS PENSION REFORM

»» GLOBAL: A SLOWDOWN IS UNDER WAY

»» MARKETS: RECENT TRENDS

BRAZIL: MARKETS

Spot Nominal Interest Rate (DI Curve)



Ibovespa



BRL Currency



CDS 5 Years

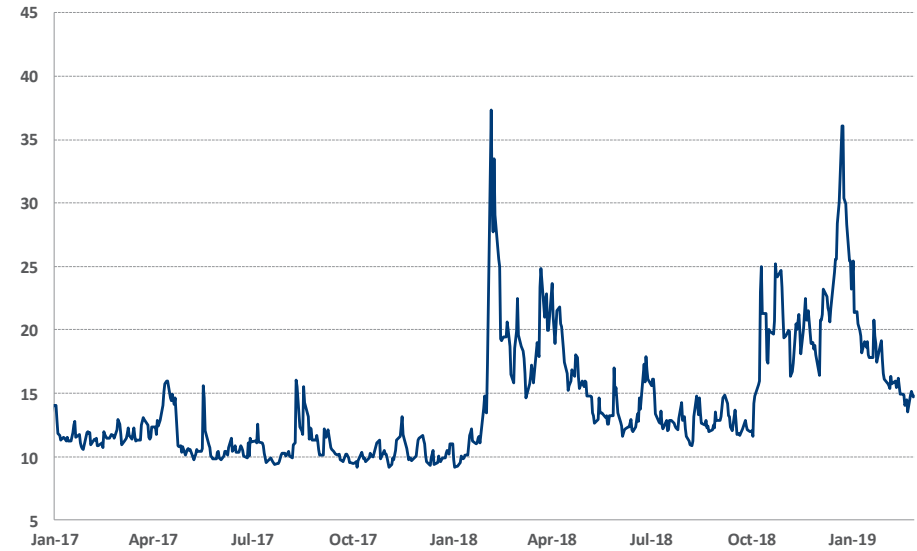


GLOBAL: MARKETS

SPX Index



VIX Index



CDX High Yield Spread



Nominal Dollar Trade Weighted (FED)



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