



MACRO OUTLOOK

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- » GLOBAL: GROWTH WORRIES PERSIST, BUT FINANCIAL CONDITIONS CONTINUE TO EASE
- » MARKETS: RECENT TRENDS

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» GLOBAL: GROWTH WORRIES PERSIST, BUT FINANCIAL CONDITIONS CONTINUE TO EASE

» MARKETS: RECENT TRENDS

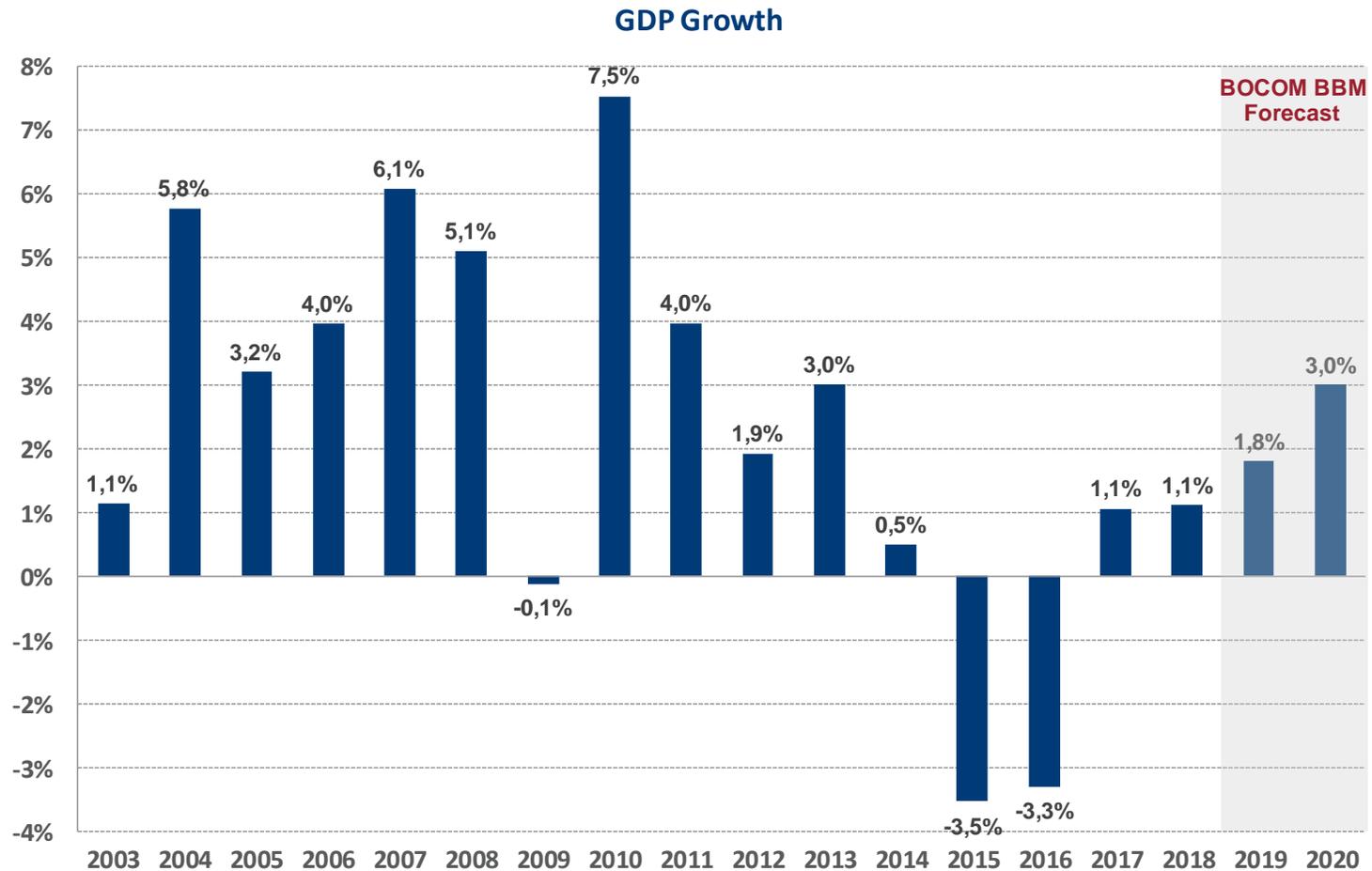
PENSION REFORM FACES ITS FIRST CHALLENGES

- »» The government has put forward an ambitious pension reform, but political coordination difficulties increase uncertainty about its approval.
- »» The recovery has been slower than anticipated and until the prospects for pension reform become clear we are unlikely to see a faster pace of economic growth.
- »» The inflation outlook is benign, but additional interest rate cuts are unlikely out for now.
- »» Downside risks remain if the reform agenda stalls.

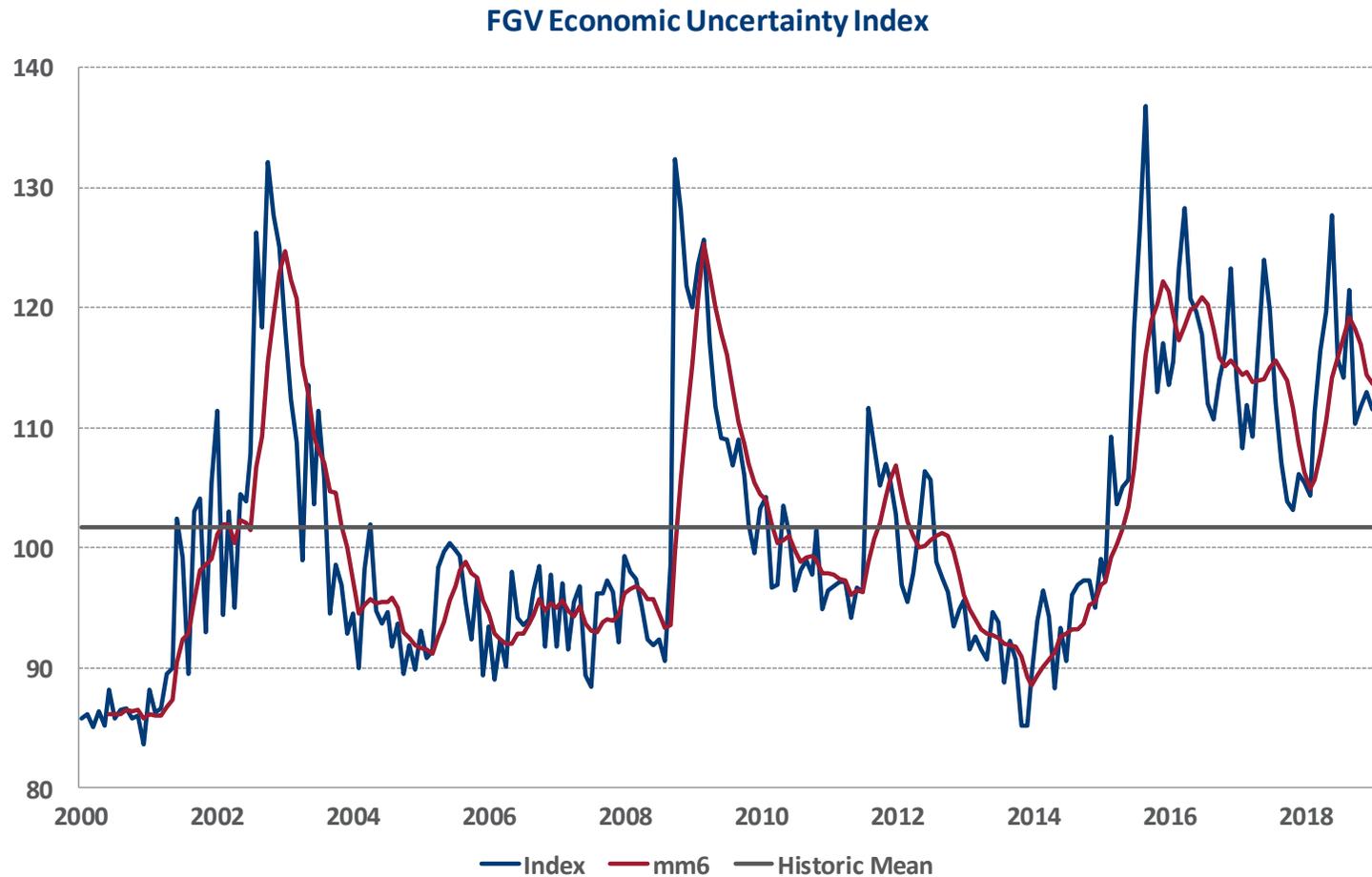
BRAZIL: FORECASTS

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%	1,8%	3,0%
Inflation (%)	5,9%	6,4%	10,7%	6,3%	2,9%	3,7%	3,9%	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%	77,8%	78,7%

»» The recovery has been slower than anticipated and until the prospects for pension reform become clear we are unlikely to see a faster pace of economic growth.



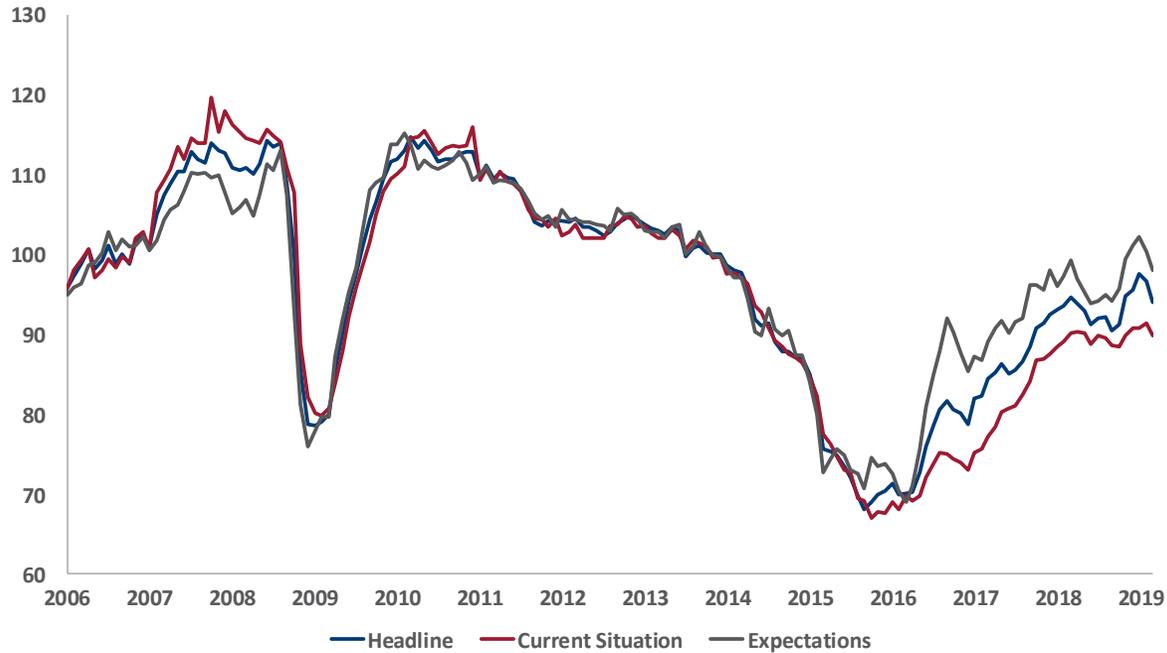
» The lack of clarity about the prospects for pension reform has kept economic uncertainty high, therefore restraining growth.



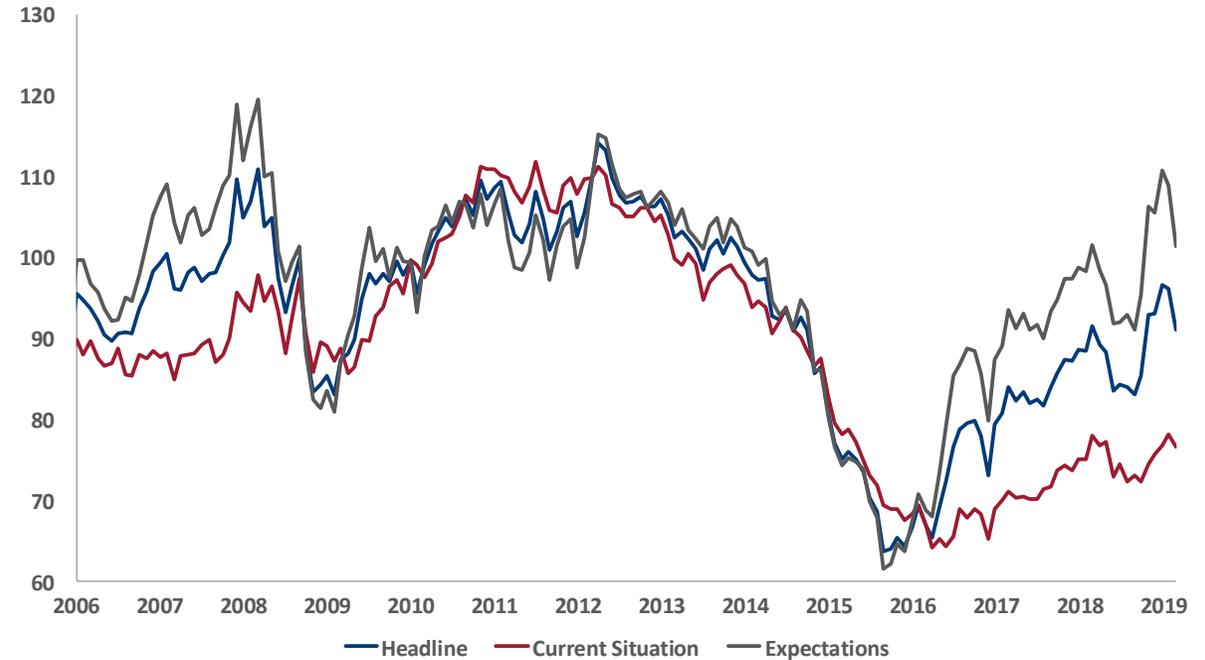
BRAZIL: ACTIVITY

»» Business and consumer confidence improved after the election, but has lost steam in the past few months.

Business Confidence (FGV)

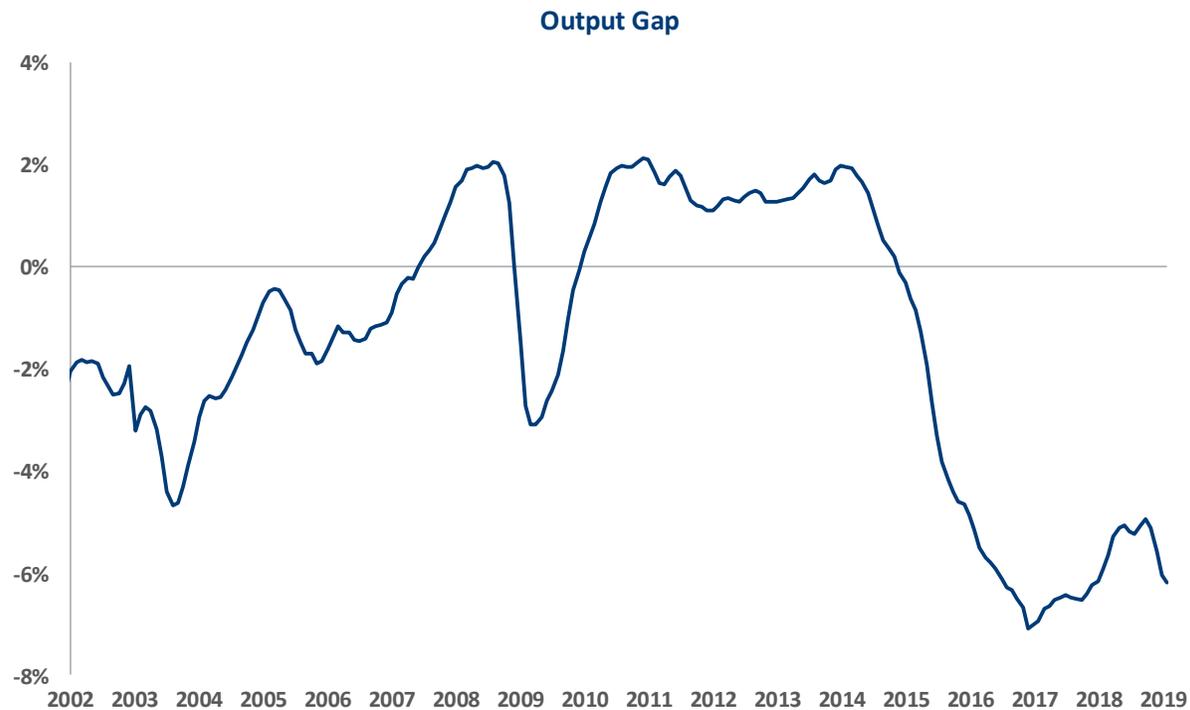


Consumer Confidence (FGV)

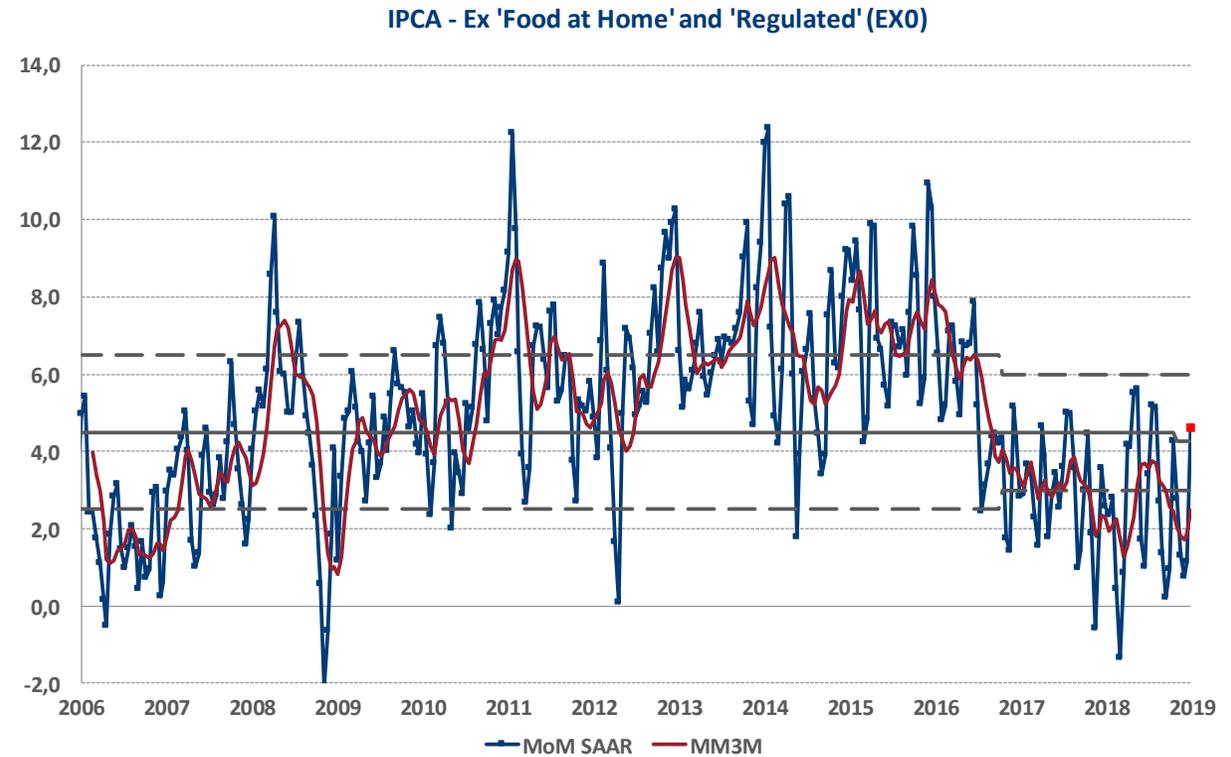


BRAZIL: INFLATION

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



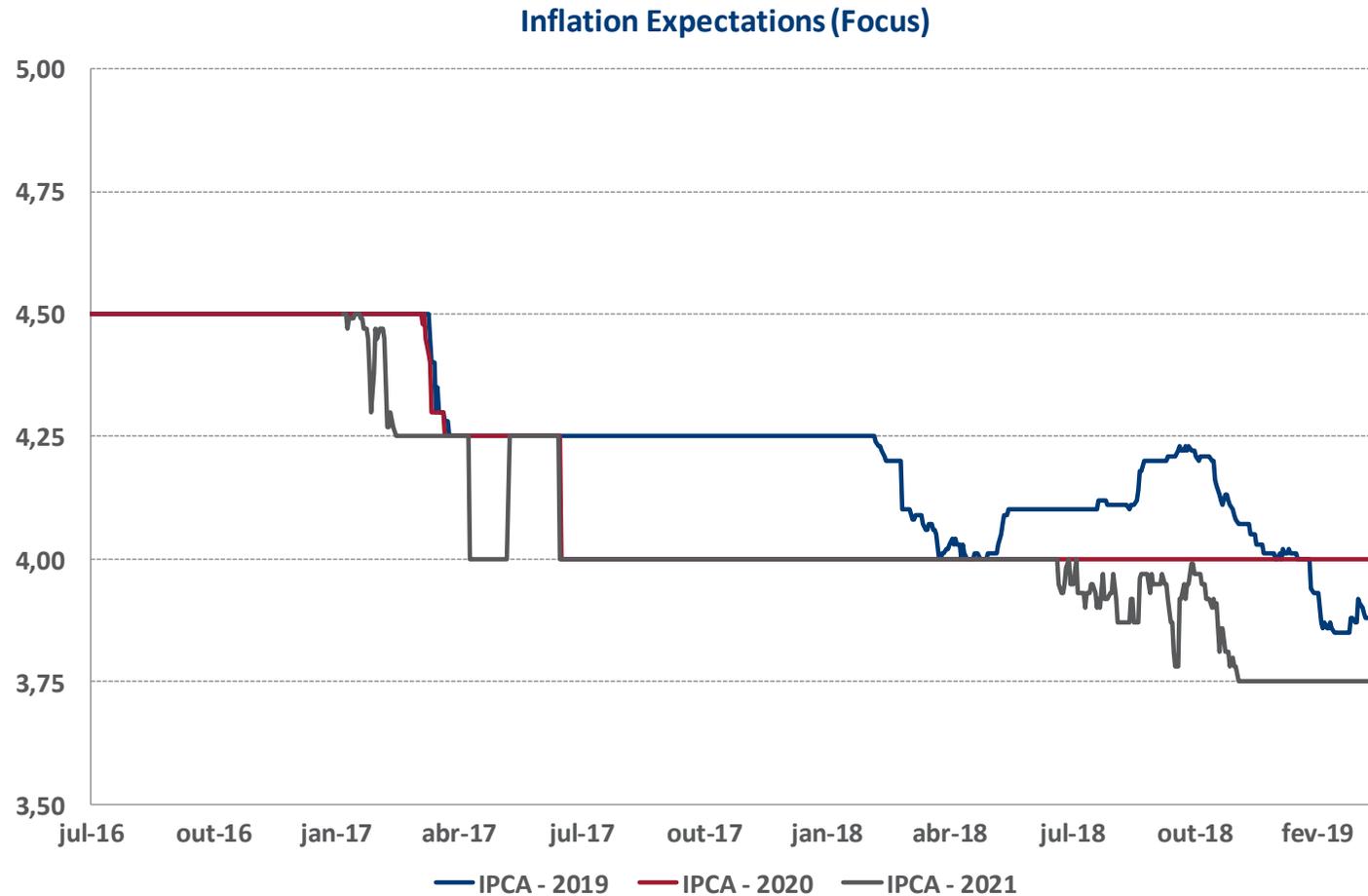
» Core inflation has been running at very low levels.



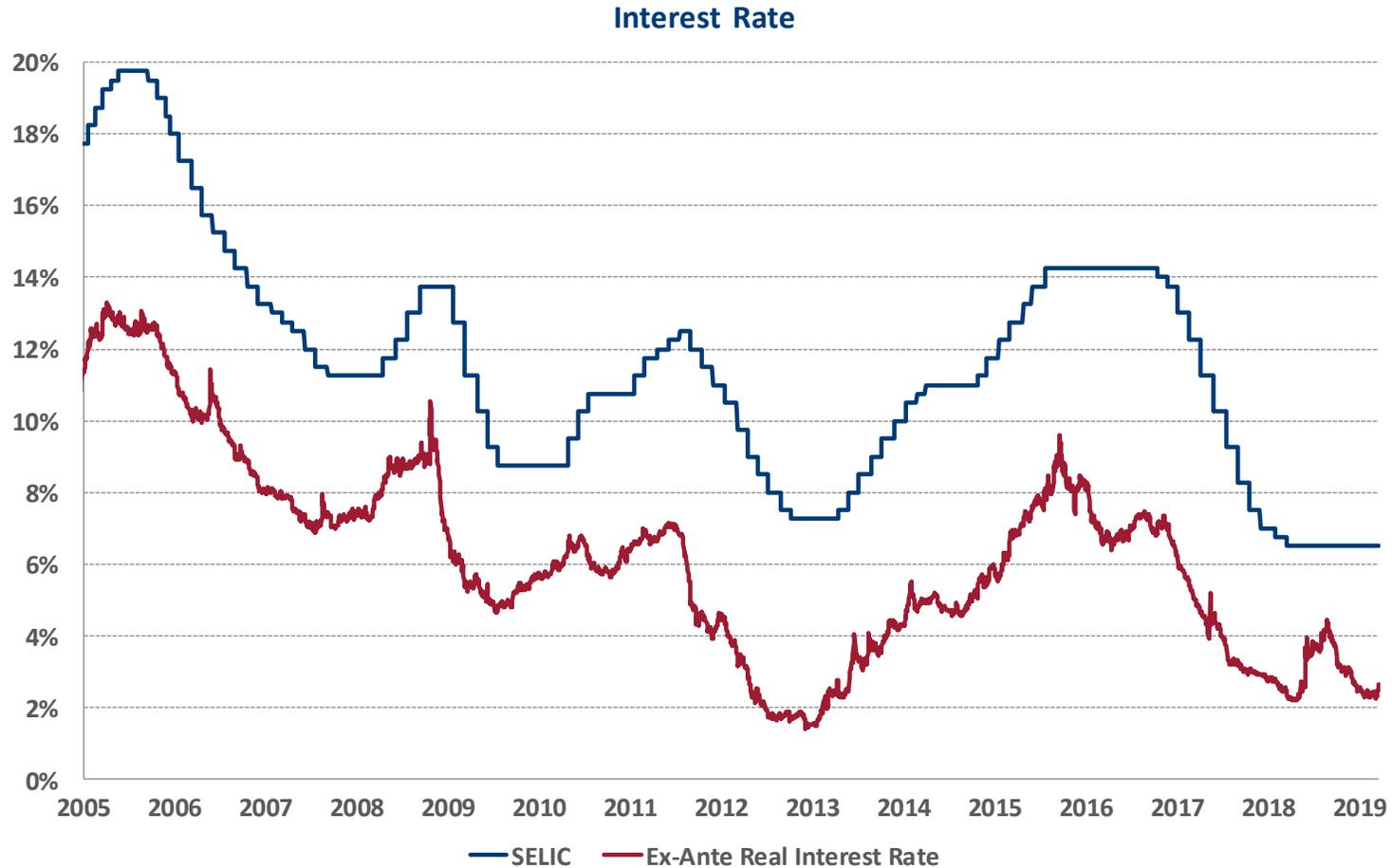
BRAZIL: INFLATION

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	4,27%	3,70%	5,96%	2,69%	1,50%	3,57%	2,80%	7,78%	-5,4%	1,1%	6,50%
2T19	3,40%	3,43%	3,29%	2,82%	1,12%	4,13%	2,68%	5,93%	-5,0%	1,2%	6,50%
3T19	3,25%	3,38%	2,88%	2,36%	0,58%	3,73%	2,59%	7,34%	-4,4%	1,4%	6,50%
4T19	3,89%	3,42%	5,24%	2,50%	0,89%	3,82%	2,57%	7,18%	-3,7%	1,8%	6,50%
1T20	3,91%	3,33%	5,57%	2,55%	0,59%	4,09%	2,61%	6,46%	-3,3%	2,3%	6,50%
2T20	3,83%	3,55%	4,63%	2,77%	0,71%	4,20%	2,98%	6,53%	-2,8%	2,8%	6,50%
3T20	3,66%	3,55%	3,95%	2,89%	0,52%	4,27%	3,17%	6,14%	-2,5%	3,0%	6,50%
4T20	3,70%	3,65%	3,84%	2,86%	0,20%	4,23%	3,18%	6,42%	-2,2%	3,0%	6,50%

» Inflation expectations have fallen below 4.0% in 2019 and remained anchored at the target in following years.



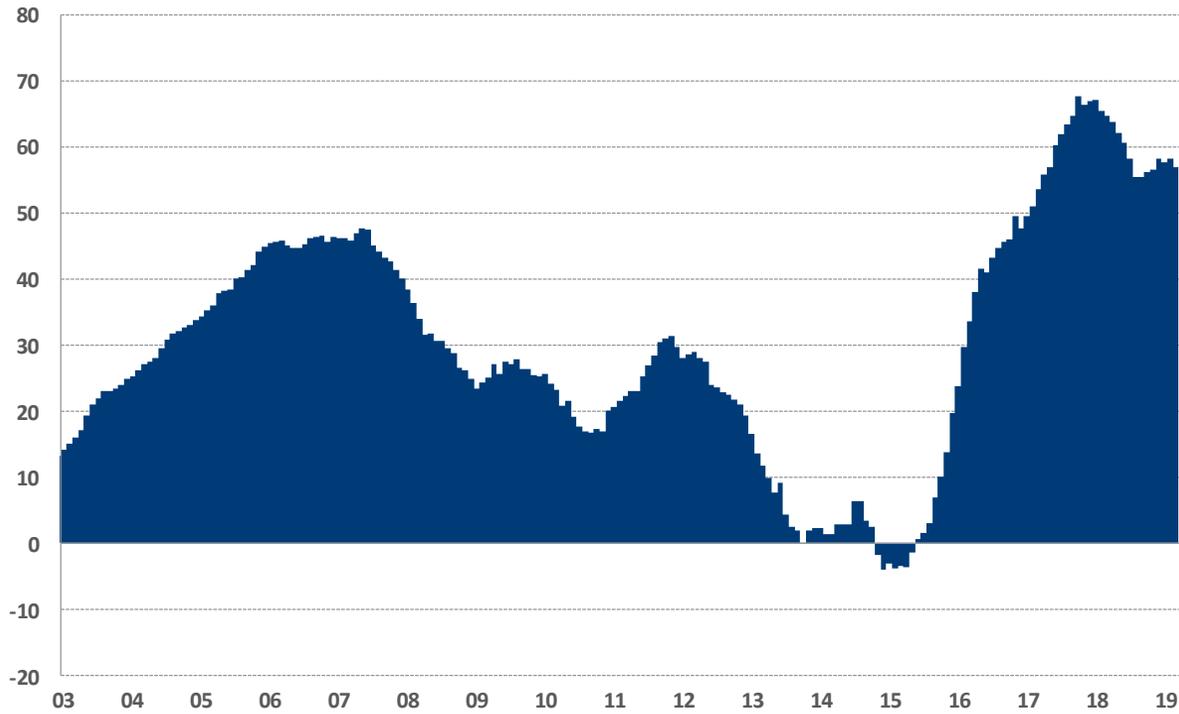
» The SELIC rate will remain stable throughout 2019 and additional interest rate cuts are unlikely for now.



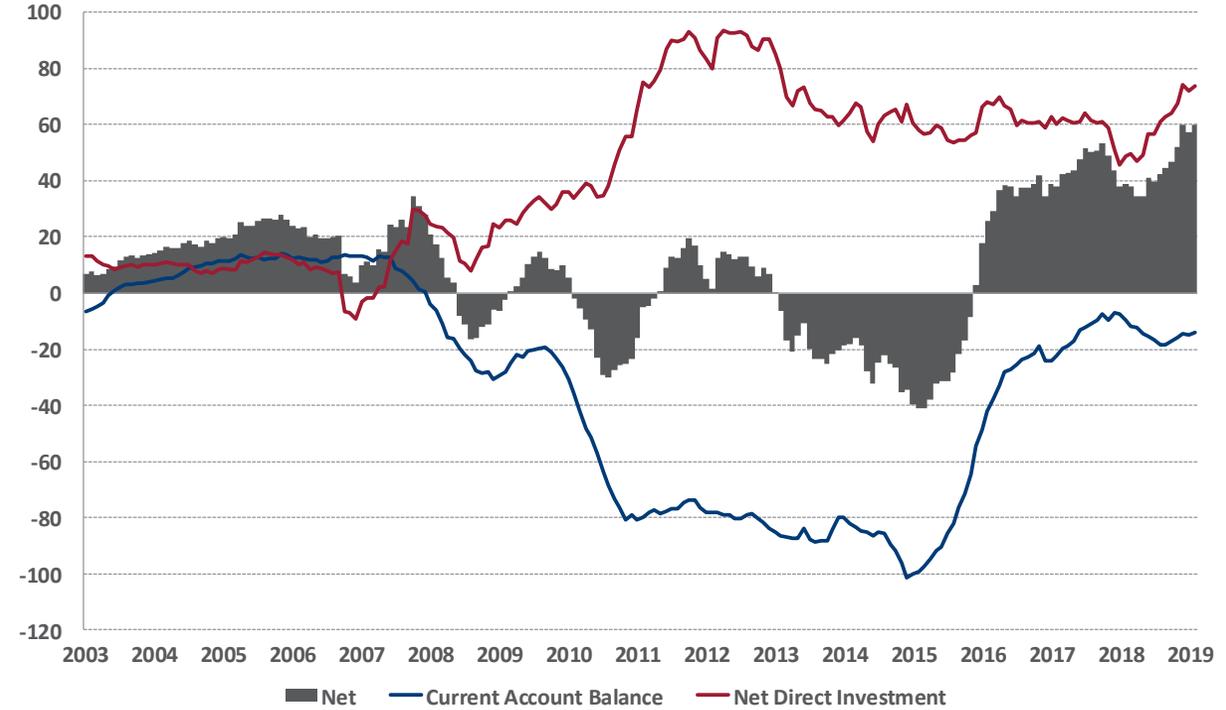
BRAZIL: EXTERNAL

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

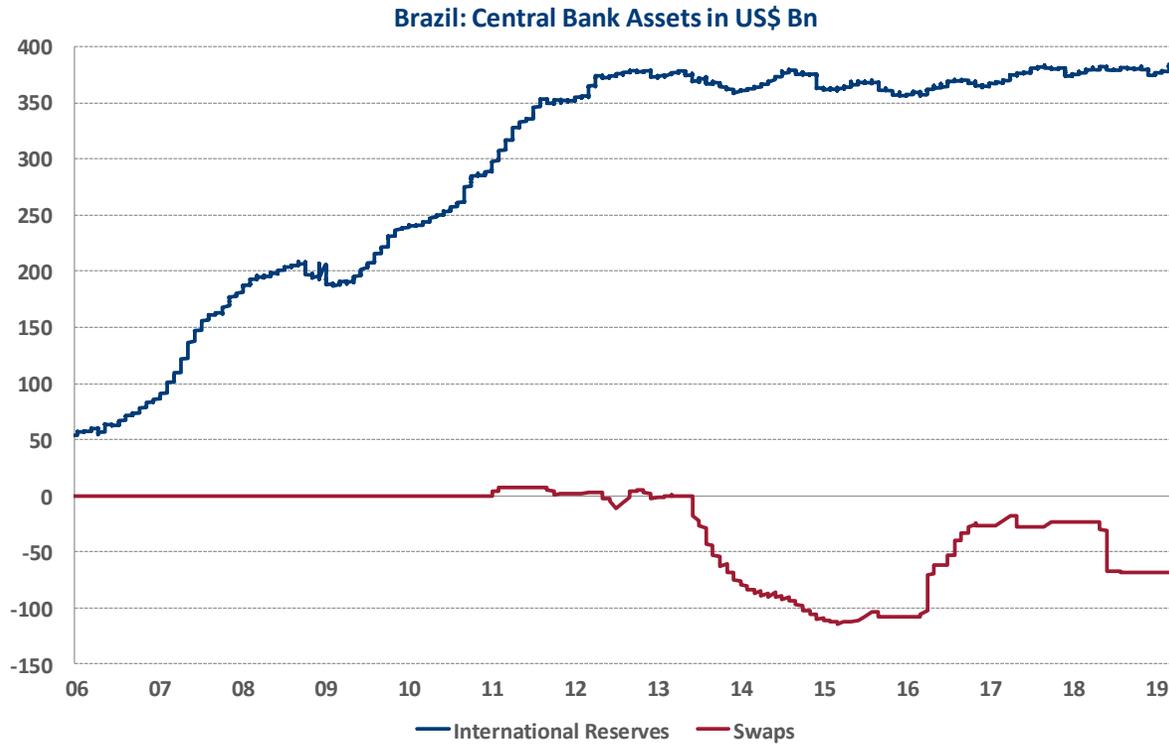
Trade Balance - US\$ Billion in 12m



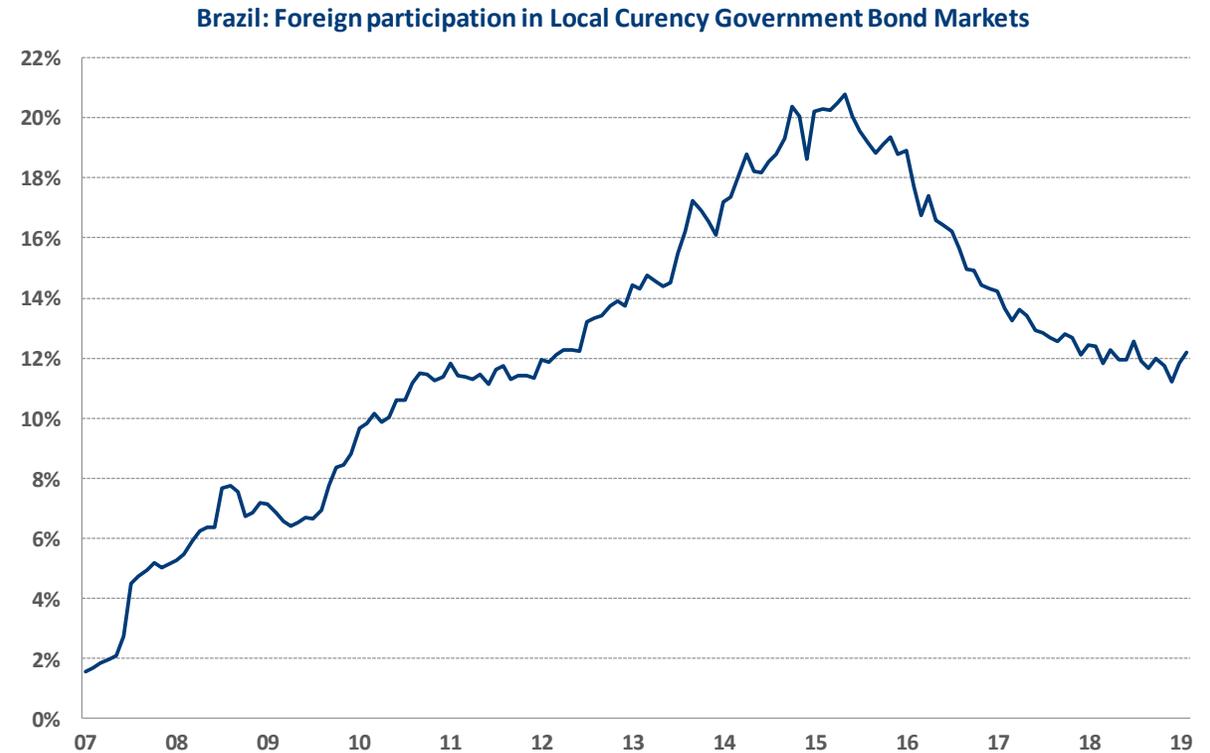
Current Account vs Net Direct Investment - US\$ Billion in 12m



»» Central Bank holds substantial international reserves.



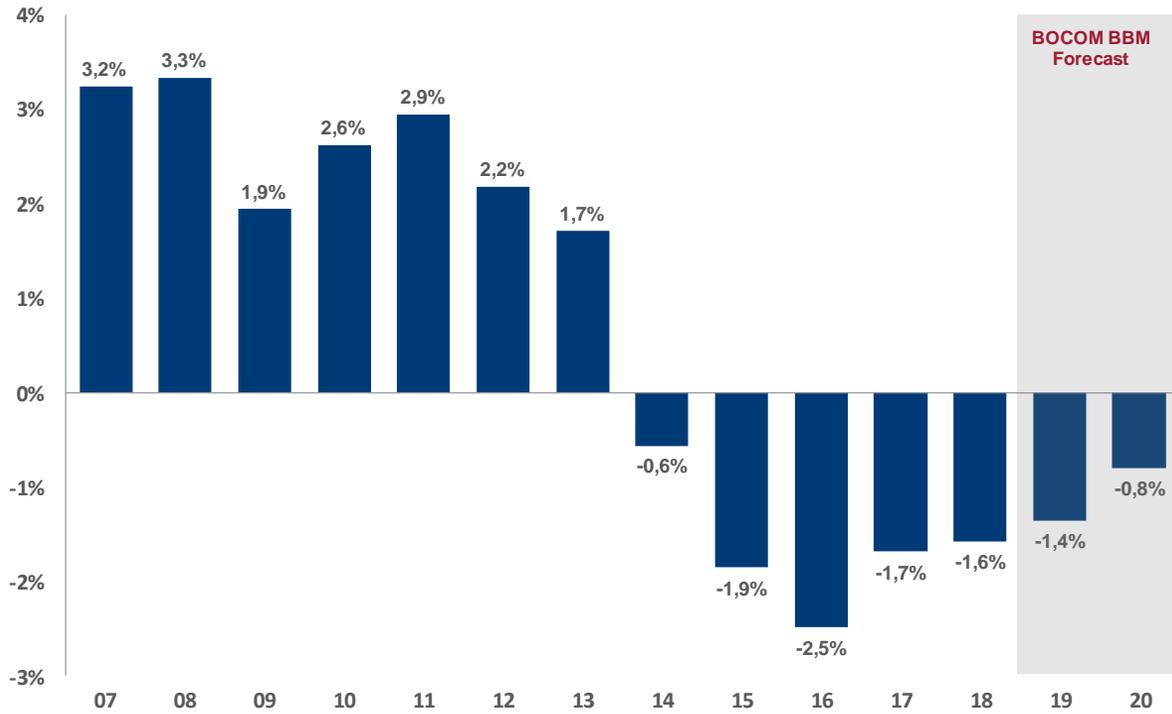
»» Government domestic debt exposure to foreign investors continues to fall.



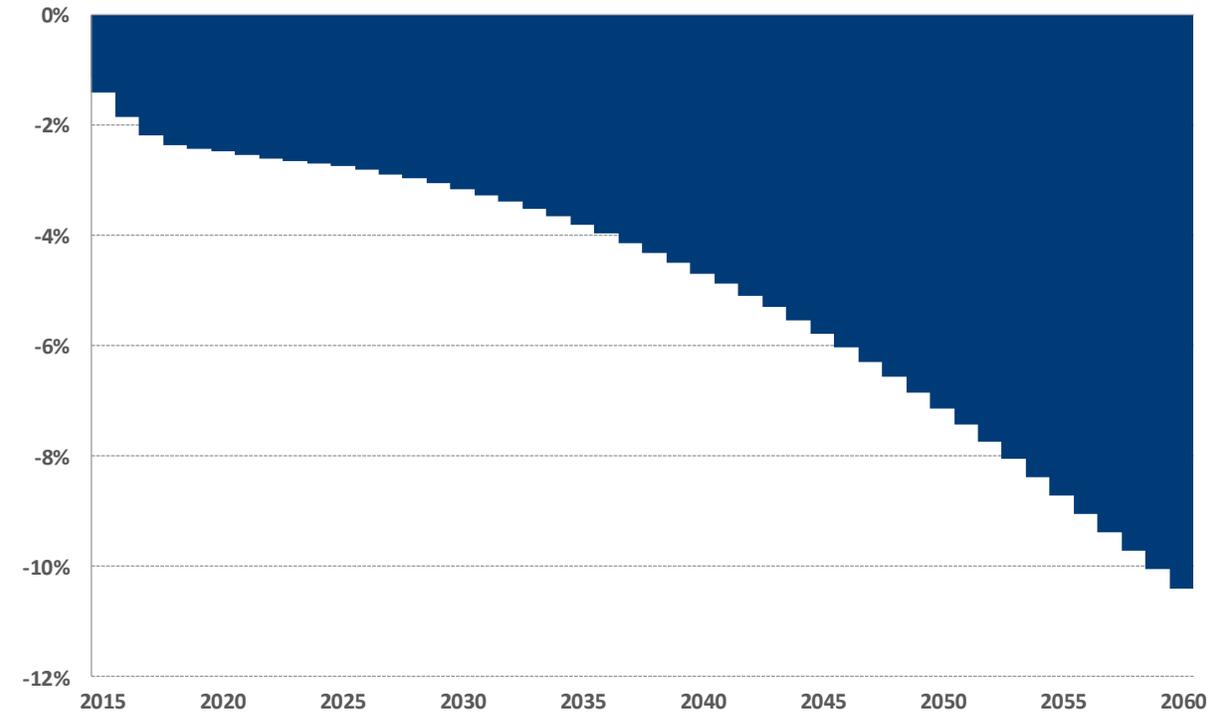
» Fiscal policy remains the main challenge: the country has run a primary deficit for 5 years.

» Social security deficit (RGPS) is rapidly increasing.

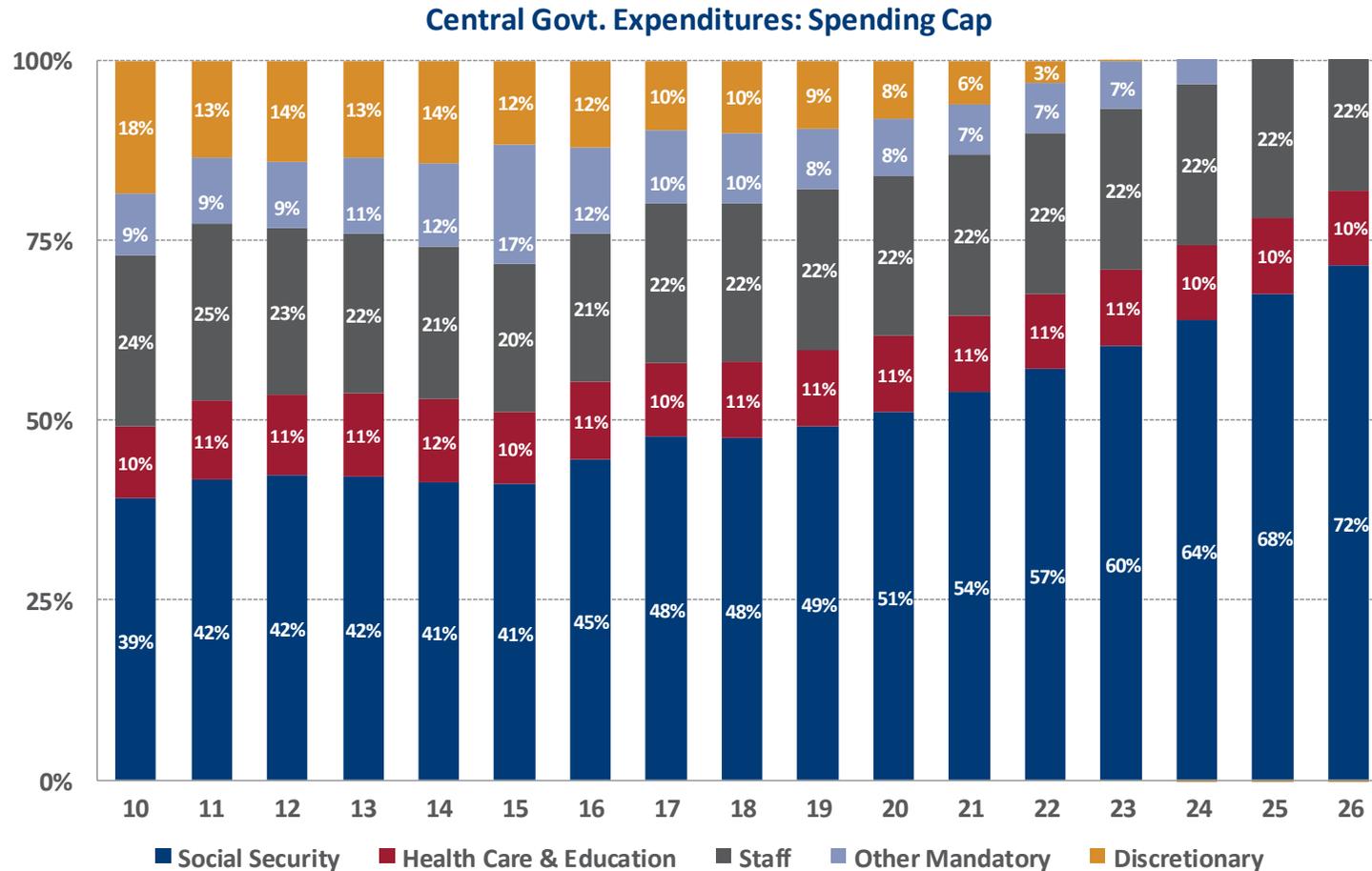
Public Sector Primary Balance - % GDP



Social Security Balance - % of GDP

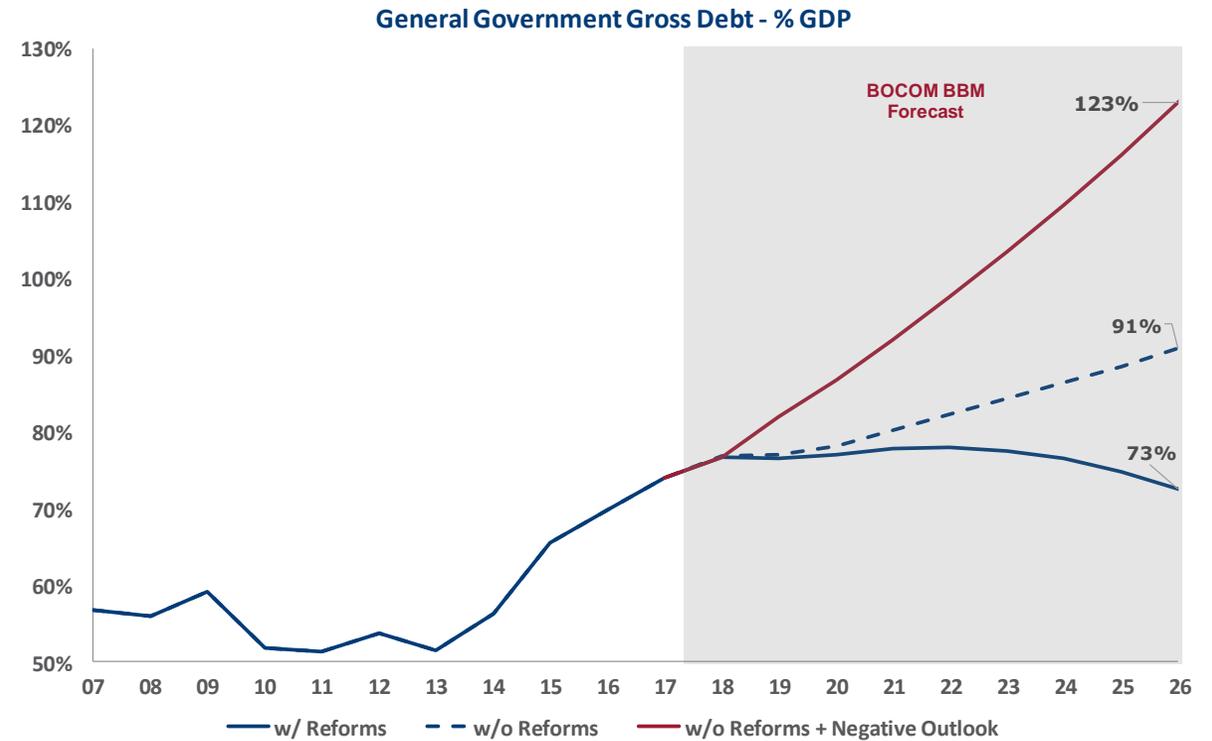
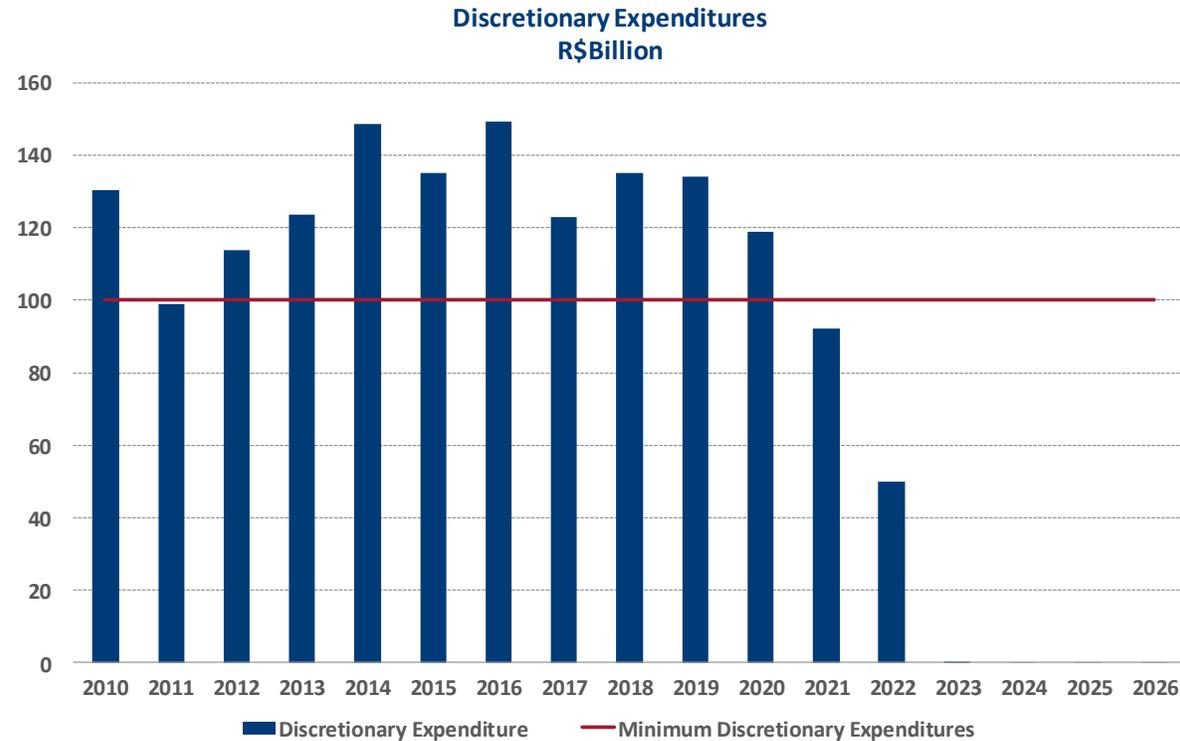


» The government spends 50% of its budget with social security and 90% of it with mandatory spending. Without reforms, the spending cap becomes unsustainable in 2023.



» The spending cap will be hard to sustain already in 2020.

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



» Political coordination difficulties have delayed the pension reform calendar and increased uncertainty about its approval.

CCJ		
Event	Date	
CCJ rapporteur designation	21-Mar	28-Mar
Guedes attends the CCJ	26-Mar	03-Apr
CCJ rapporteur presents his report on pension reform	27-Mar	09-Apr
Report on pension reform is voted in the CCJ	11-Apr	17-Apr

Special Commission	
Event	Date
Special Commission formation	End of April
Presentation of proposal in the Special Commission	Beginning of May
Discussion and voting in the Special Commission	End of May

Lower House	
Event	Date
Vote	June – July
Recess period	18/07 – 31/07

Senate	
Event	Date
Vote	August – September

» Pension reform has already been dehydrated and a long road still lies ahead.

Measures		Current Temer's Proposal		Original Bolsonaro's Proposal		Modified 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		1,51%	611	2,88%	1165	2,43%	985
Capitalization	Constitutional amendment	-	-	Sim	-	Sim	-
Public sector (Military)	Complementary law	-	-	0,23%	92	0,03%	10
Public servants (Federal)	Constitutional amendment	0,22%	90	0,50%	203	0,50%	203
Private Sector	Constitutional amendment/Simple law	1,29%	521	2,15%	870	1,90%	771
Changes		-	-	-	-	-0,45%	-181
Rural Retirement (26/03)		-	-	-	-	-0,17%	-70
BPC (26/03)		-	-	-	-	-0,07%	-29
Military (20/03)		-	-	-	-	-0,20%	-82

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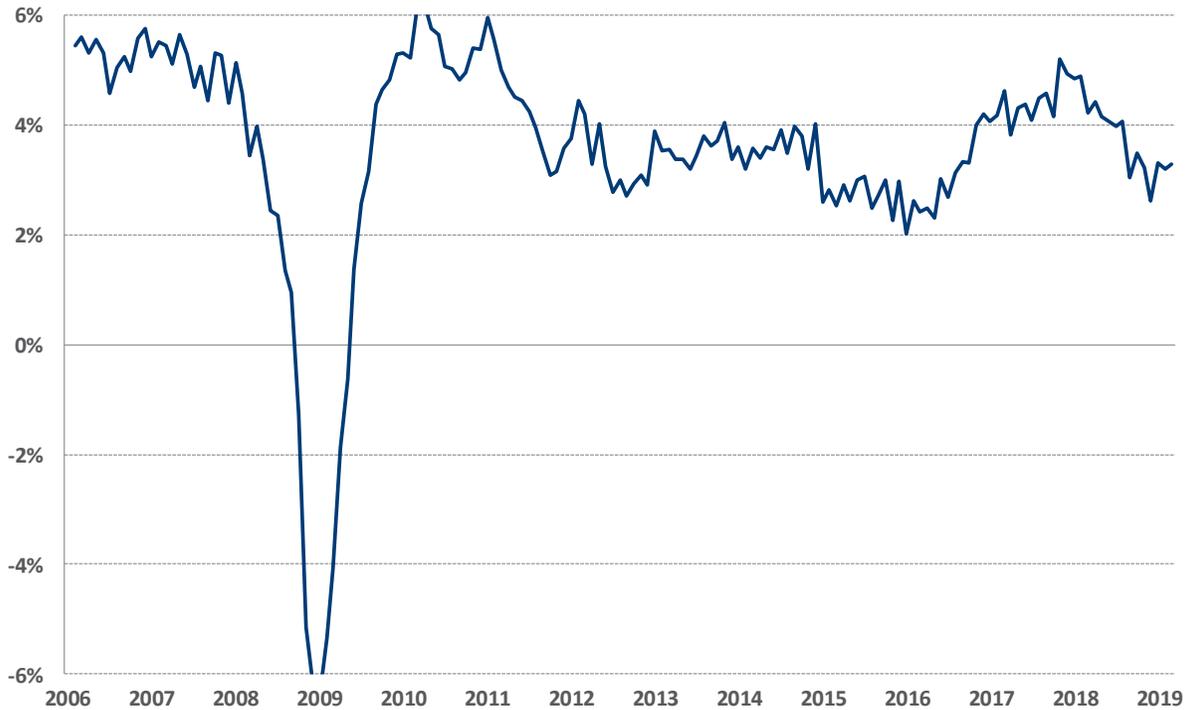
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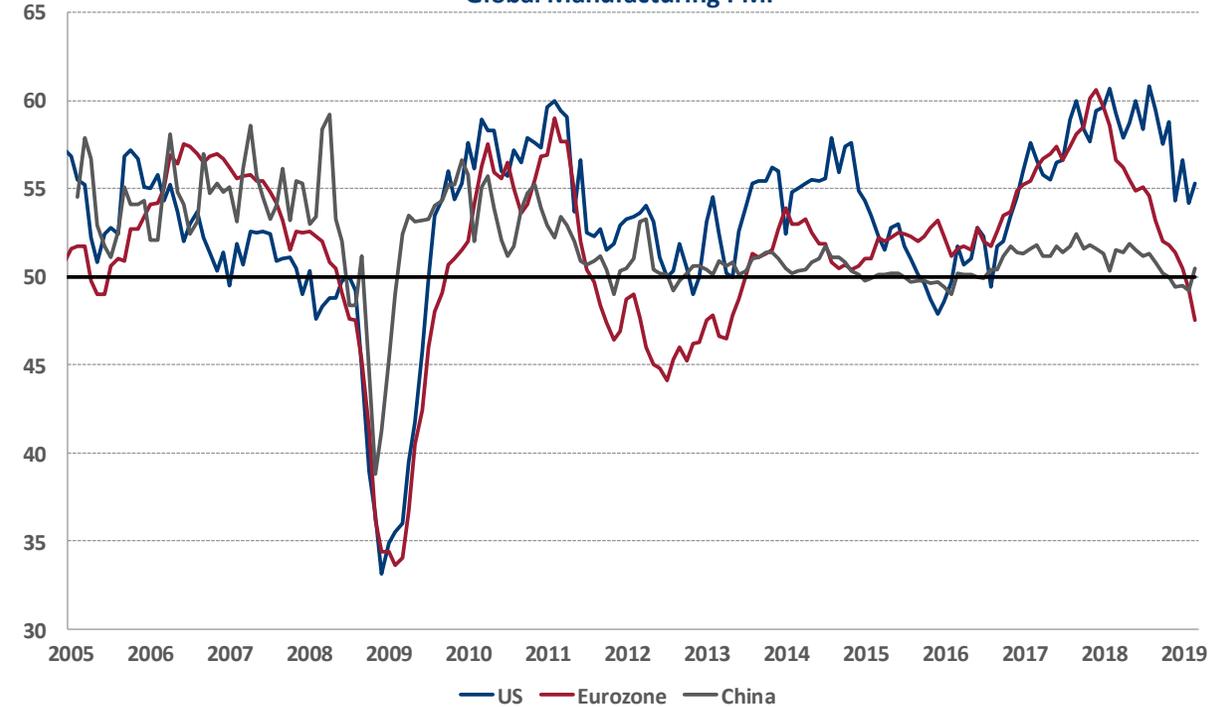
»» MARKETS: RECENT TRENDS

» Global growth worries persist: there is some sign of stabilization in the US and China, but Europe continues to slowdown.

World Current Activity Indicator (GS)

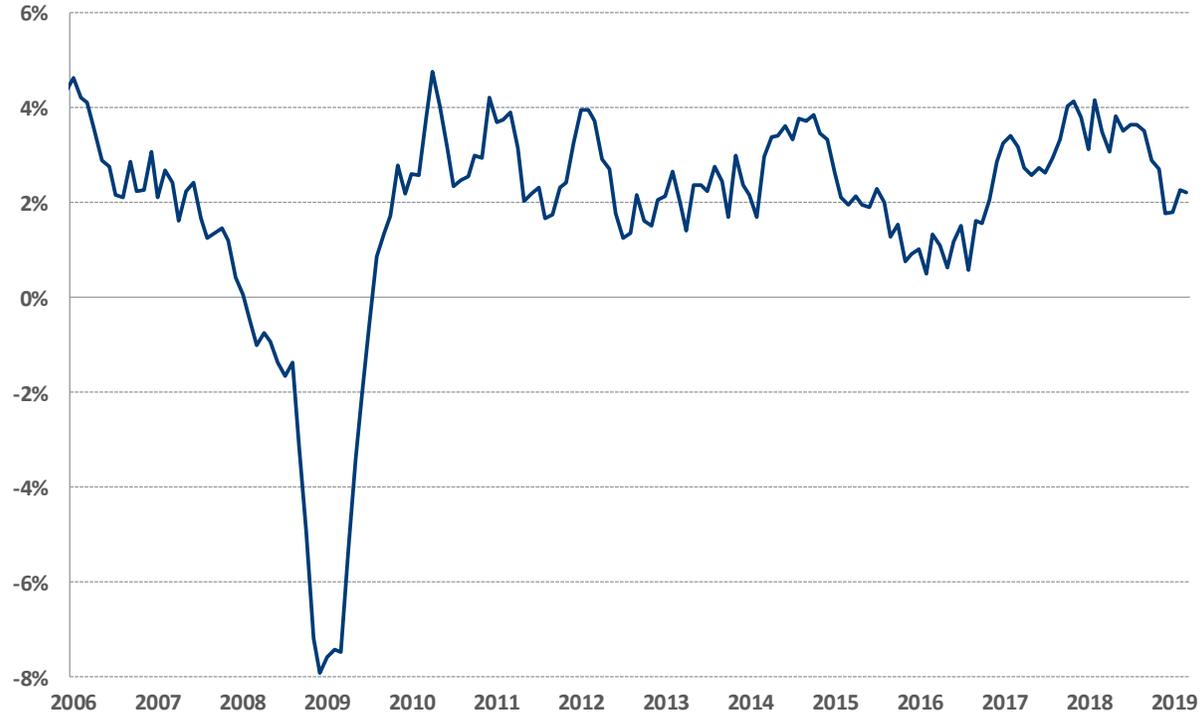


Global Manufacturing PMI



»» US growth has stabilized at 2.0% and financial conditions continue to recover.

US Current Activity Indicator (GS)

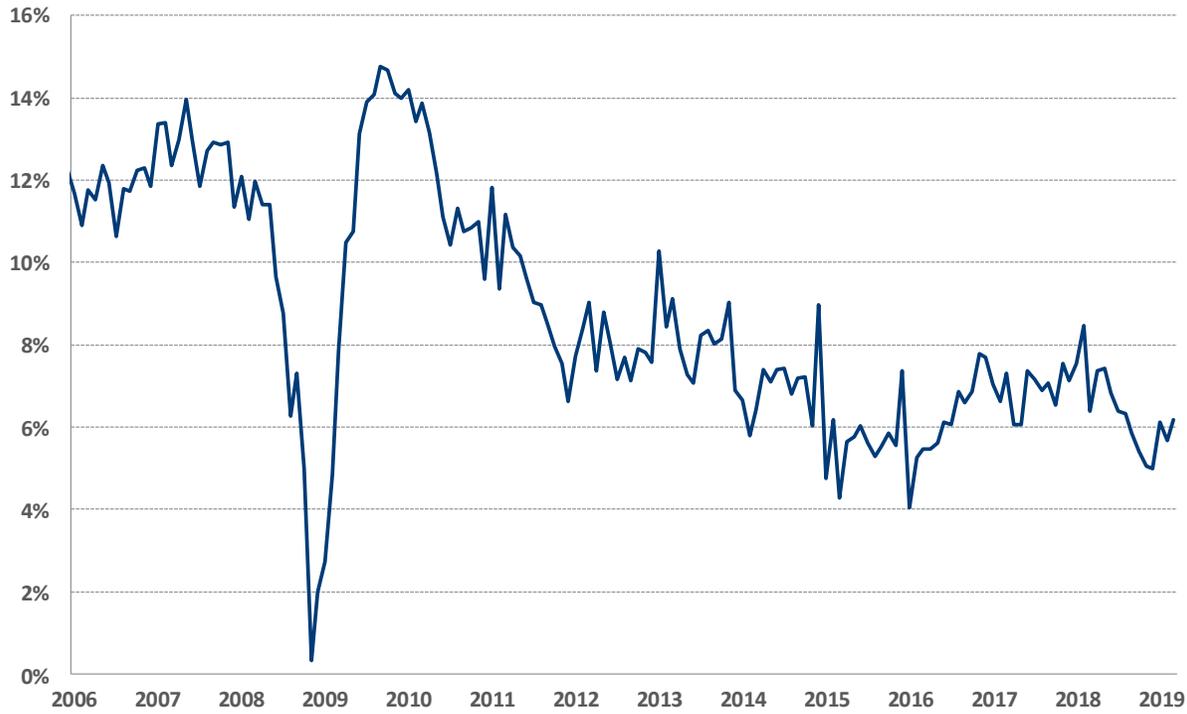


US: GS Financial Condition Index



» China also shows signs of stabilization and trade negotiations appear to be moving towards a resolution.

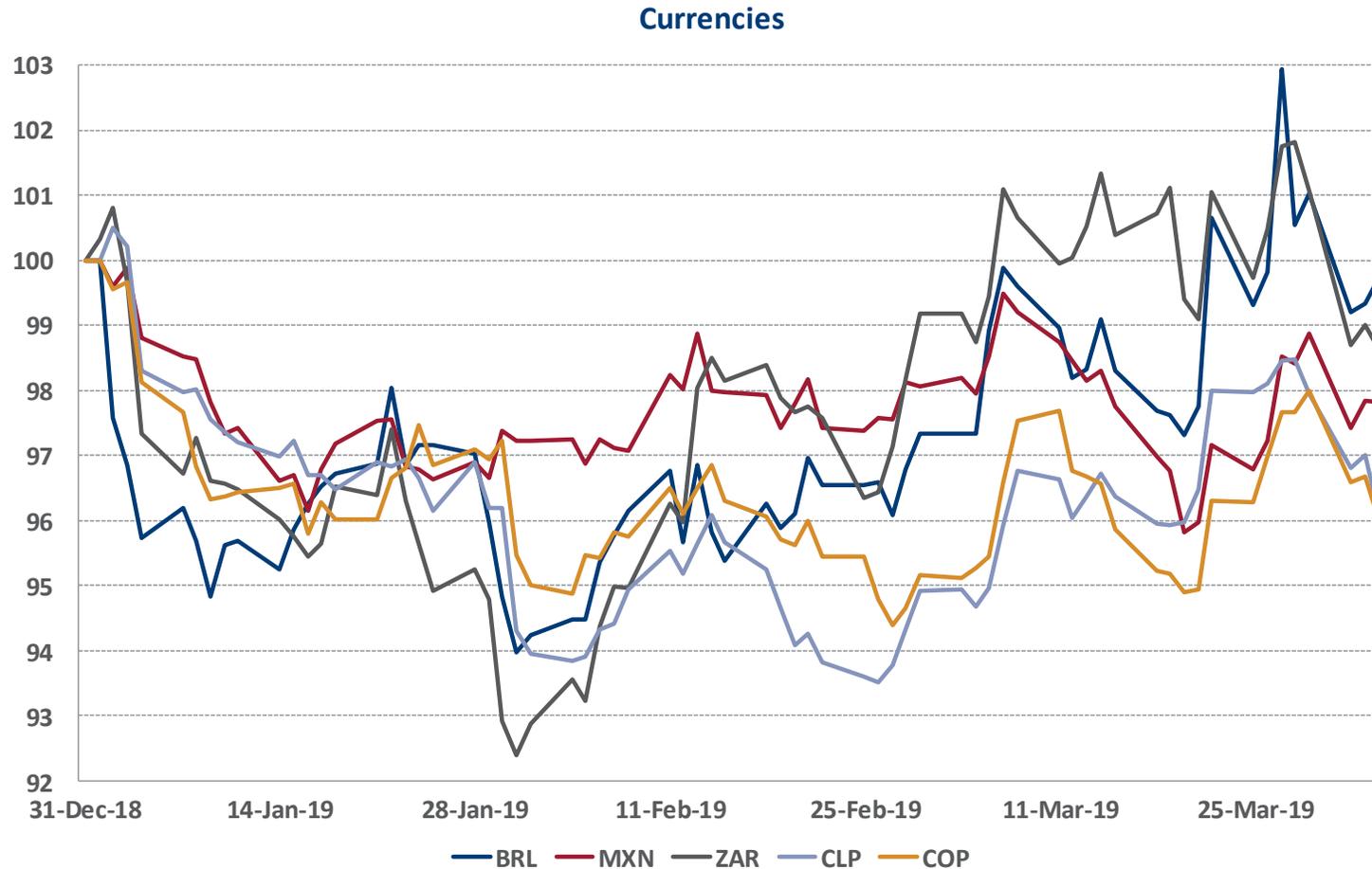
China Current Activity Indicator (GS)



CNY x Shanghai Stock Exchange



» Easier global financial conditions support emerging markets, but global growth worries have generated volatility.



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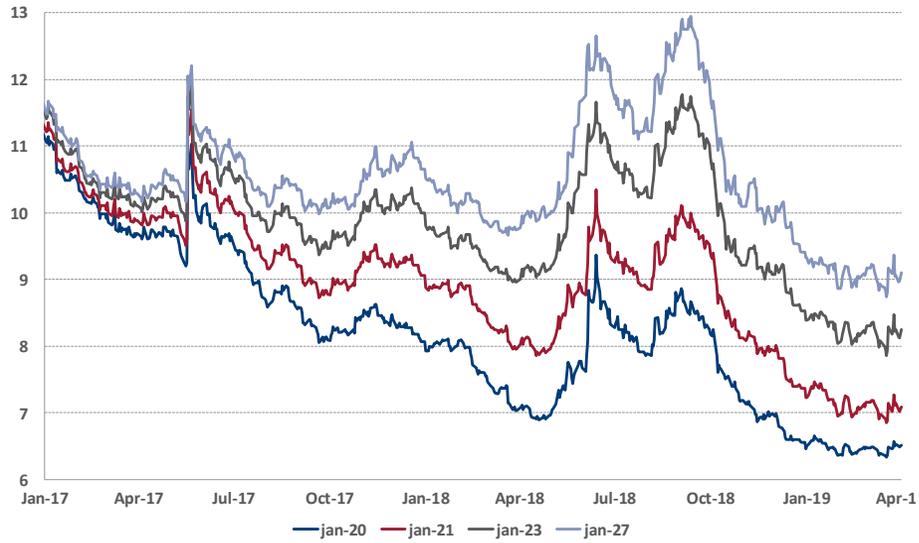
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BRAZIL: MARKETS

Spot Nominal Interest Rate (DI Curve)



Ibovespa



BRL Currency



CDS 5 Years

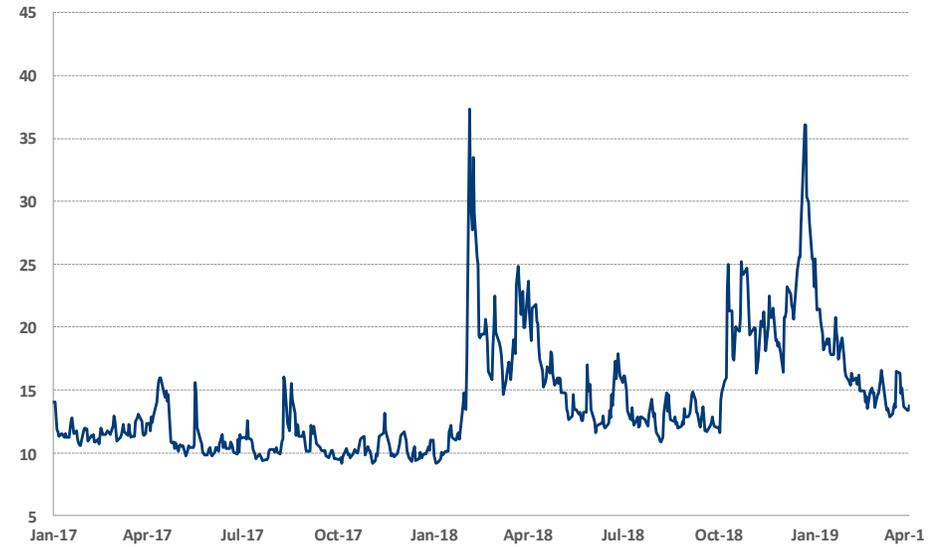


GLOBAL: MARKETS

SPX Index



VIX Index



CDX High Yield Spread



Nominal Dollar Trade Weighted (FED)



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