



## MACRO OUTLOOK

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July 2019

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- » BRAZIL: LOWER INTEREST RATES ON THE HORIZON
- » GLOBAL: CENTRAL BANKS INCREASE MONETARY STIMULUS
- » MARKETS: RECENT TRENDS

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» BRAZIL: LOWER INTEREST RATES ON THE HORIZON

» GLOBAL: CENTRAL BANKS INCREASE MONETARY STIMULUS

» MARKETS: RECENT TRENDS

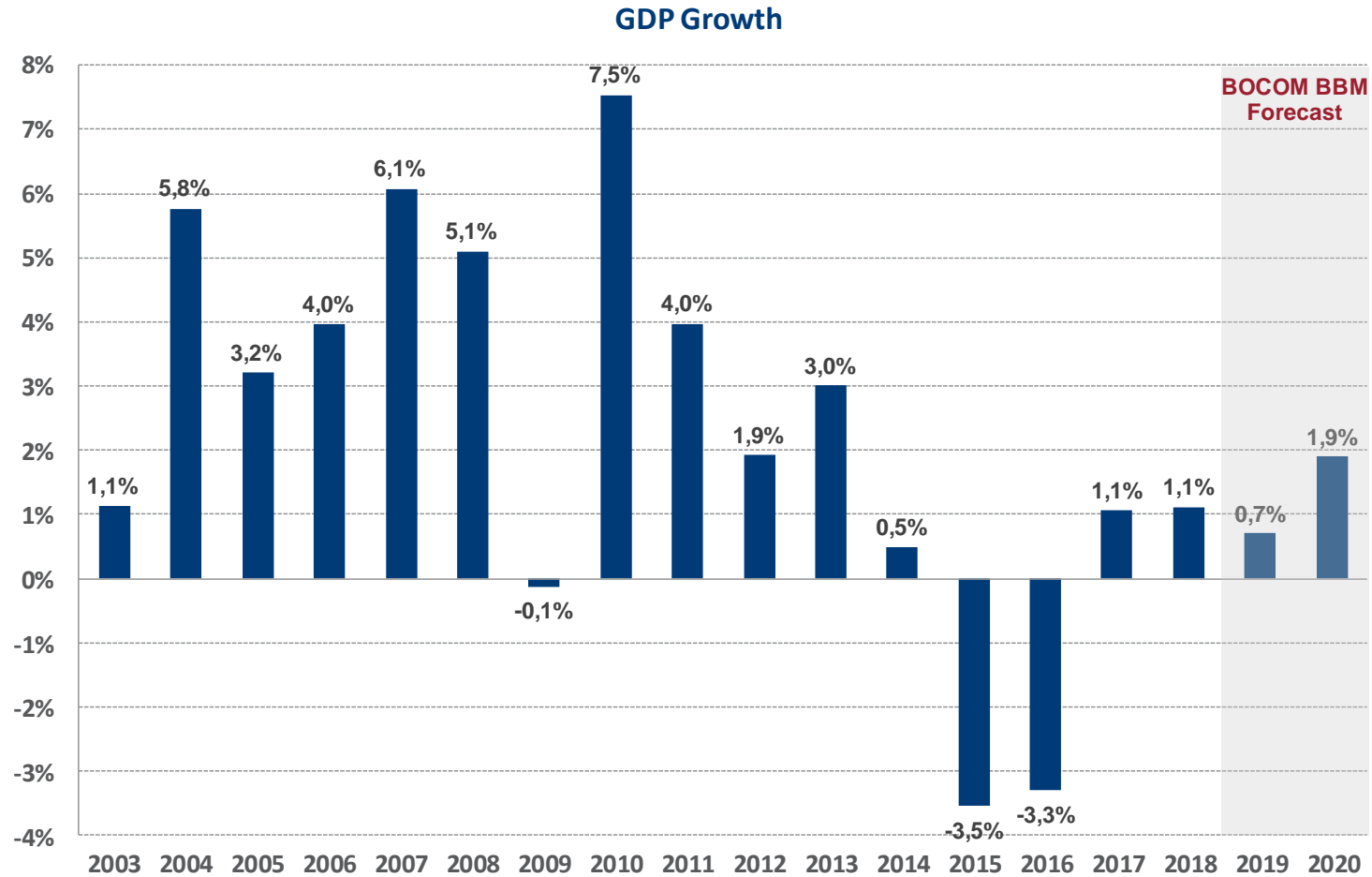
## LOWER INTEREST RATES ON THE HORIZON

- »» The economy stalled in the first half of the year and we forecast +0.7% growth in 2019.
- »» The inflation outlook remains favorable, with forecasts below the target for 2019 and 2020.
- »» Lower neutral rate indicates that monetary policy is not as stimulative, which opens the door for the Central Bank to reduce interest rates to 5,0% in the second semester.
- »» The Central Bank has conditioned rate cuts to Pension Reform, which still represents an important risk for monetary policy.
- »» Pension Reform proceedings are moving towards a positive outcome: the reform may be voted in the Lower House before the recess and generate savings of around BRL1 trillion in 10 years.

# BRAZIL: FORECASTS

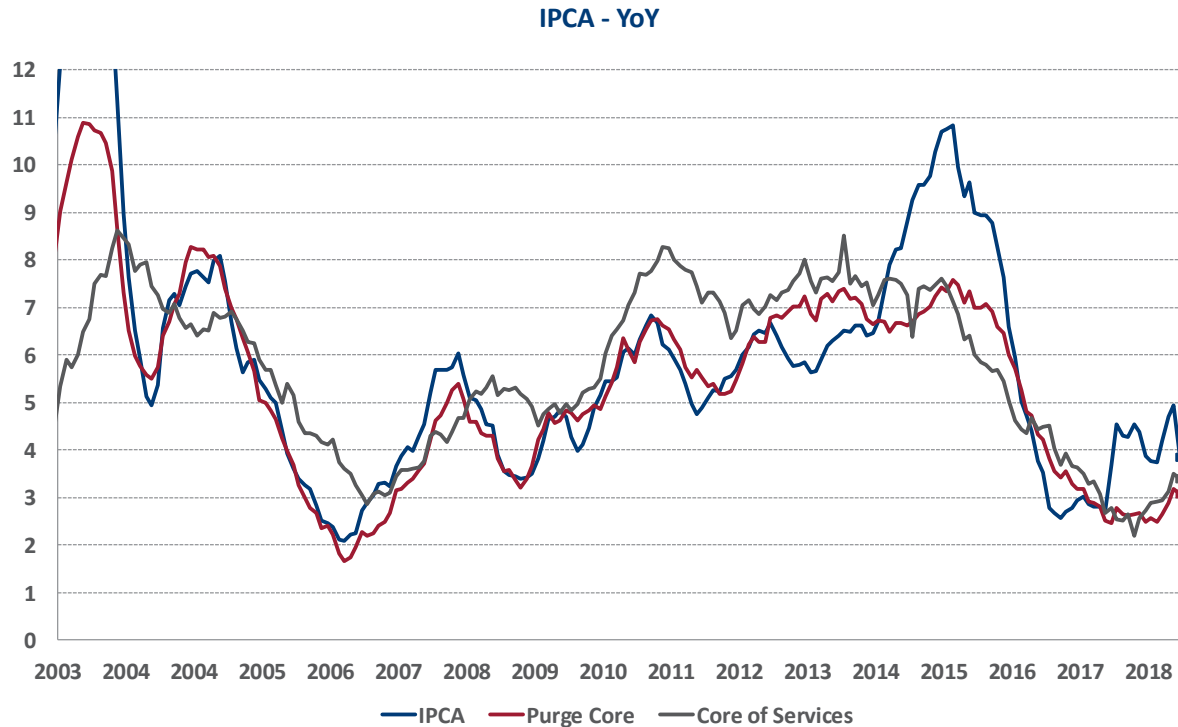
<b>ECONOMIC FORECASTS</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019 F</b>	<b>2020F</b>
GDP Growth (%)	3,0%	0,5%	-3,5%	-3,3%	1,1%	1,1%	<b>0,7%</b>	<b>1,9%</b>
Inflation (%)	5,9%	6,4%	10,7%	6,3%	2,9%	3,7%	<b>3,9%</b>	<b>3,9%</b>
Policy Rate (%)	10,00%	11,75%	14,25%	13,75%	7,00%	6,50%	<b>5,50%</b>	<b>5,50%</b>
Unemployment Rate (%)	6,8%	7,1%	9,6%	12,6%	12,4%	12,2%	<b>11,7%</b>	<b>10,8%</b>
Trade Balance (US\$ bn)	3	-4	20	48	67	58	<b>56</b>	<b>44</b>
Current Account Balance (US\$ bn)	-75	-104	-59	-23	-10	-13	<b>-21</b>	<b>-38</b>
Current Account Balance (% of GDP)	-3,0%	-4,3%	-3,3%	-1,3%	-0,5%	-0,8%	<b>-1,0%</b>	<b>-1,7%</b>
Fiscal Primary Balance (% of GDP)	1,7%	-0,6%	-1,9%	-2,5%	-1,8%	-1,6%	<b>-1,5%</b>	<b>-1,2%</b>
Government Gross Debt (% of GDP)	51,7%	57,2%	66,2%	69,4%	74,0%	76,7%	<b>78,2%</b>	<b>79,5%</b>

»» The economy stalled in the first half of the year and we forecast 0.7% growth in 2019.

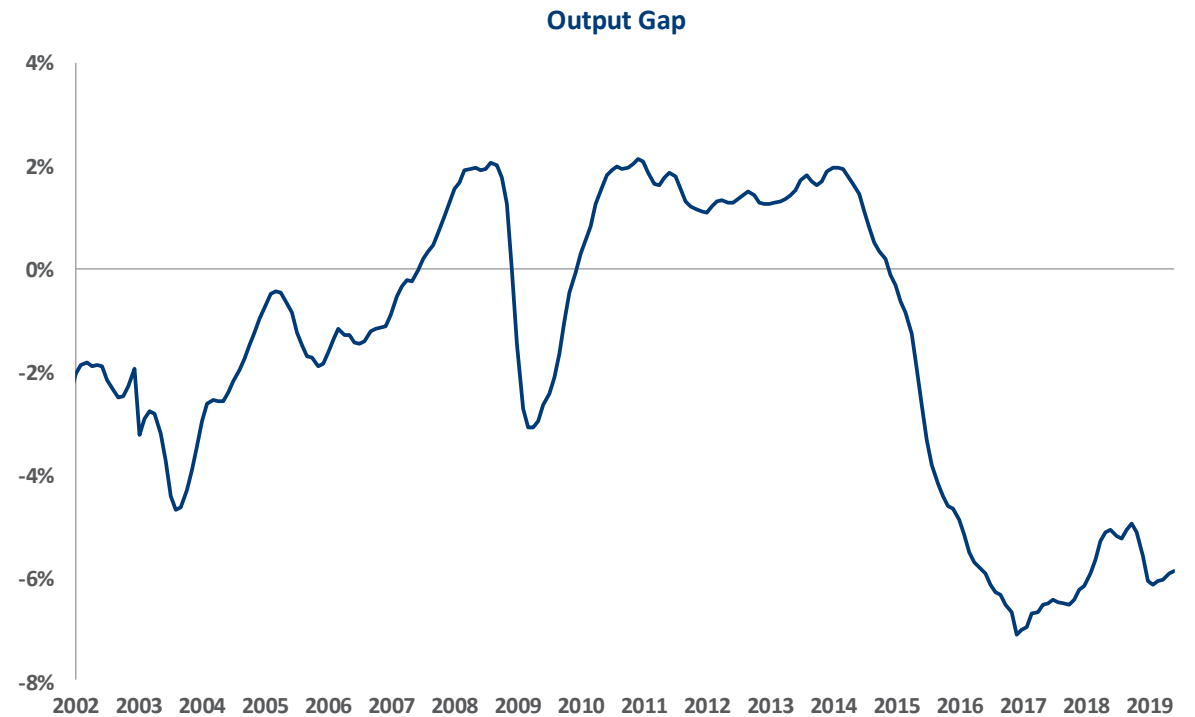


# BRAZIL: INFLATION

» Core inflation measures have been running at low levels.



» Growth has been insufficient to reduce the output gap.

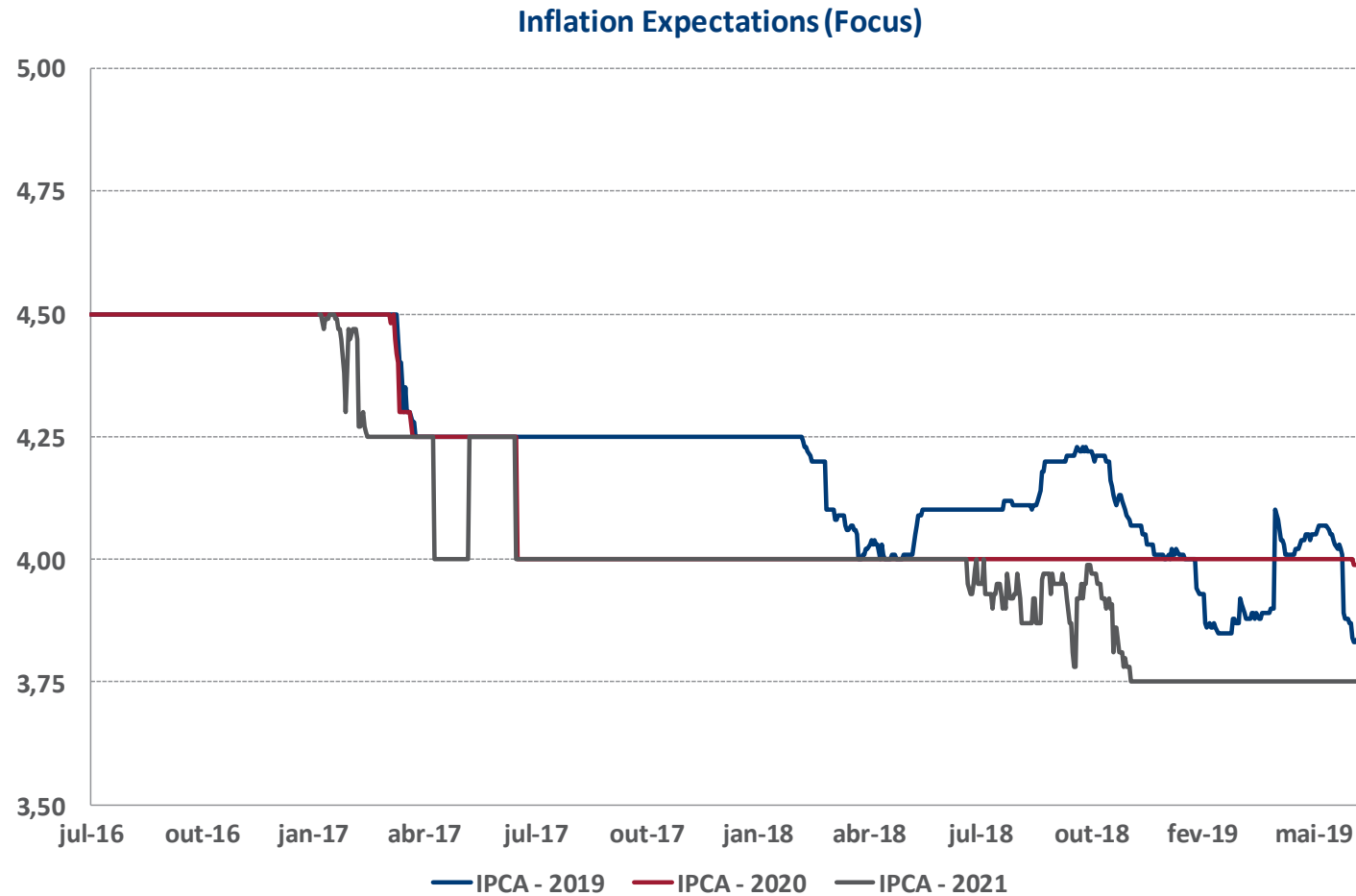


# BRAZIL: INFLATION

Baseline Scenario											
Exchange rate of 3.90 in 2019 and 2020											
Selic: 5.00% in 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	9,4%	9,0%	10,8%	7,3%	6,6%	7,5%	6,5%	15,3%	-5,5%	-4,4%	14,3%
2T16	8,8%	8,5%	9,9%	6,8%	6,9%	7,0%	5,9%	14,7%	-5,9%	-4,5%	14,3%
3T16	8,5%	8,7%	7,9%	6,7%	6,2%	7,0%	5,7%	16,1%	-6,3%	-4,1%	14,3%
<b>4T16</b>	<b>6,3%</b>	<b>6,6%</b>	<b>5,5%</b>	<b>5,8%</b>	<b>5,2%</b>	<b>6,5%</b>	<b>4,8%</b>	<b>9,4%</b>	<b>-7,1%</b>	<b>-3,3%</b>	<b>13,8%</b>
1T17	4,6%	4,3%	5,6%	4,6%	3,2%	6,0%	4,5%	3,0%	-6,7%	-2,0%	12,3%
2T17	3,0%	2,9%	3,3%	3,9%	1,5%	5,7%	4,5%	-0,6%	-6,5%	-1,0%	10,3%
3T17	2,5%	1,4%	6,1%	3,4%	1,0%	5,0%	3,7%	-5,3%	-6,5%	-0,1%	8,3%
<b>4T17</b>	<b>2,9%</b>	<b>1,3%</b>	<b>8,0%</b>	<b>3,1%</b>	<b>0,9%</b>	<b>4,5%</b>	<b>3,6%</b>	<b>-4,9%</b>	<b>-6,2%</b>	<b>1,1%</b>	<b>7,0%</b>
1T18	2,7%	1,3%	7,1%	2,8%	0,6%	3,9%	3,2%	-4,3%	-5,7%	1,3%	6,5%
2T18	4,4%	2,0%	11,8%	2,6%	0,8%	3,1%	2,8%	0,1%	-5,1%	1,4%	6,5%
3T18	4,5%	2,6%	10,4%	2,7%	1,4%	3,2%	2,5%	2,2%	-5,1%	1,4%	6,5%
<b>4T18</b>	<b>3,7%</b>	<b>2,9%</b>	<b>6,2%</b>	<b>2,5%</b>	<b>1,1%</b>	<b>3,3%</b>	<b>2,6%</b>	<b>4,5%</b>	<b>-5,6%</b>	<b>1,1%</b>	<b>6,5%</b>
1T19	4,6%	4,0%	6,3%	2,7%	1,4%	3,6%	3,0%	8,7%	-6,1%	0,9%	6,5%
<b>2T19</b>	<b>3,3%</b>	<b>3,2%</b>	<b>3,8%</b>	<b>3,0%</b>	<b>1,6%</b>	<b>4,0%</b>	<b>3,1%</b>	<b>3,7%</b>	<b>-6,1%</b>	<b>0,9%</b>	<b>6,5%</b>
3T19	3,2%	3,1%	3,4%	2,5%	1,1%	3,5%	3,0%	5,1%	-5,6%	0,7%	5,5%
<b>4T19</b>	<b>3,7%</b>	<b>3,1%</b>	<b>5,6%</b>	<b>2,7%</b>	<b>1,4%</b>	<b>3,6%</b>	<b>2,8%</b>	<b>4,6%</b>	<b>-5,3%</b>	<b>0,7%</b>	<b>5,0%</b>
1T20	3,6%	2,8%	6,0%	2,7%	1,0%	3,8%	2,5%	3,1%	-5,0%	1,0%	5,0%
2T20	4,0%	3,5%	5,2%	2,7%	0,9%	3,8%	2,4%	6,3%	-4,6%	1,3%	5,0%
3T20	3,8%	3,5%	4,6%	2,9%	1,1%	3,8%	2,6%	5,8%	-4,2%	1,7%	5,0%
<b>4T20</b>	<b>3,8%</b>	<b>3,5%</b>	<b>4,7%</b>	<b>2,8%</b>	<b>0,8%</b>	<b>3,8%</b>	<b>2,6%</b>	<b>6,0%</b>	<b>-3,9%</b>	<b>1,9%</b>	<b>5,0%</b>

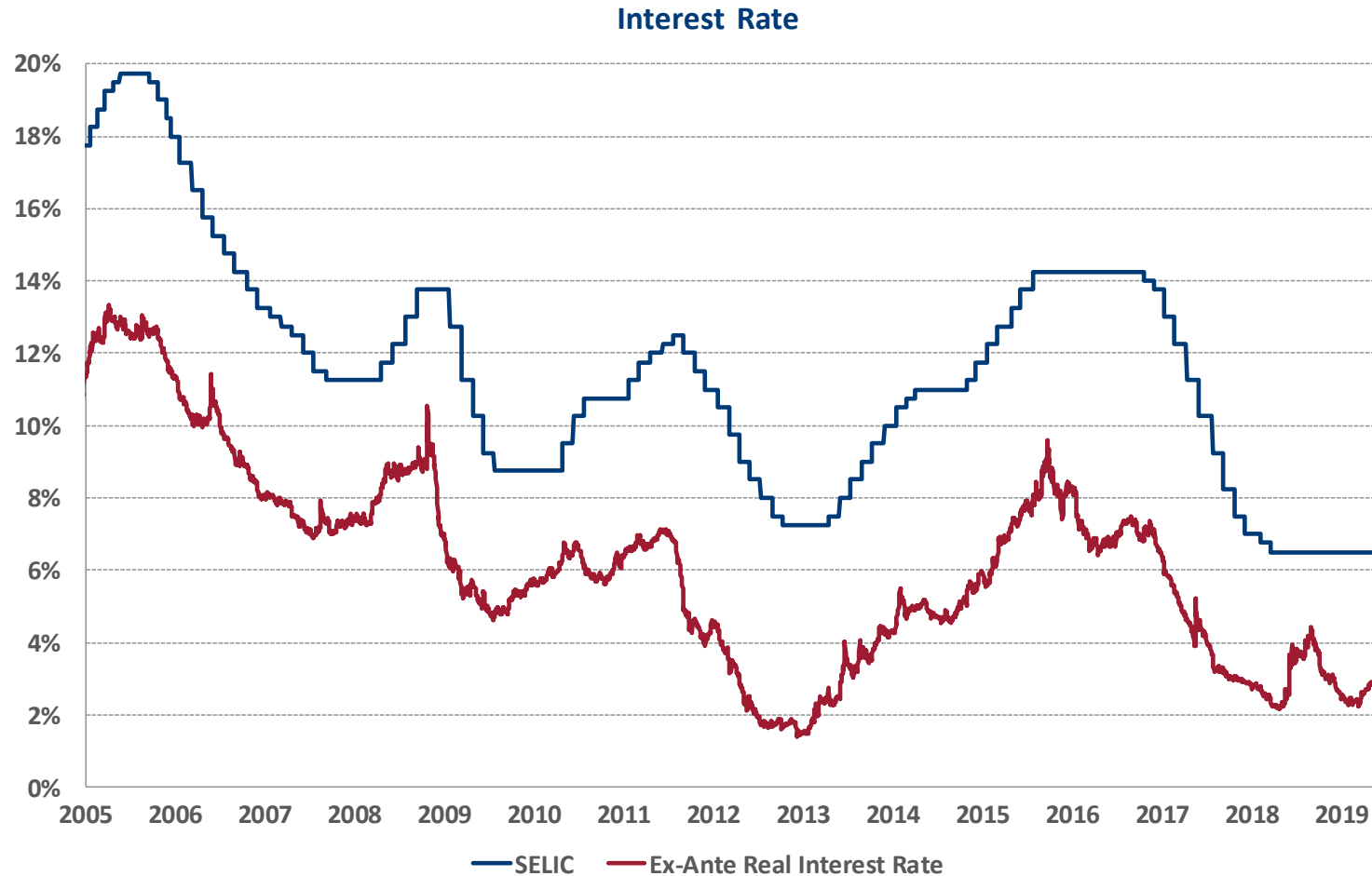


» Inflation expectations for 2020 are de-anchoring to below the target.



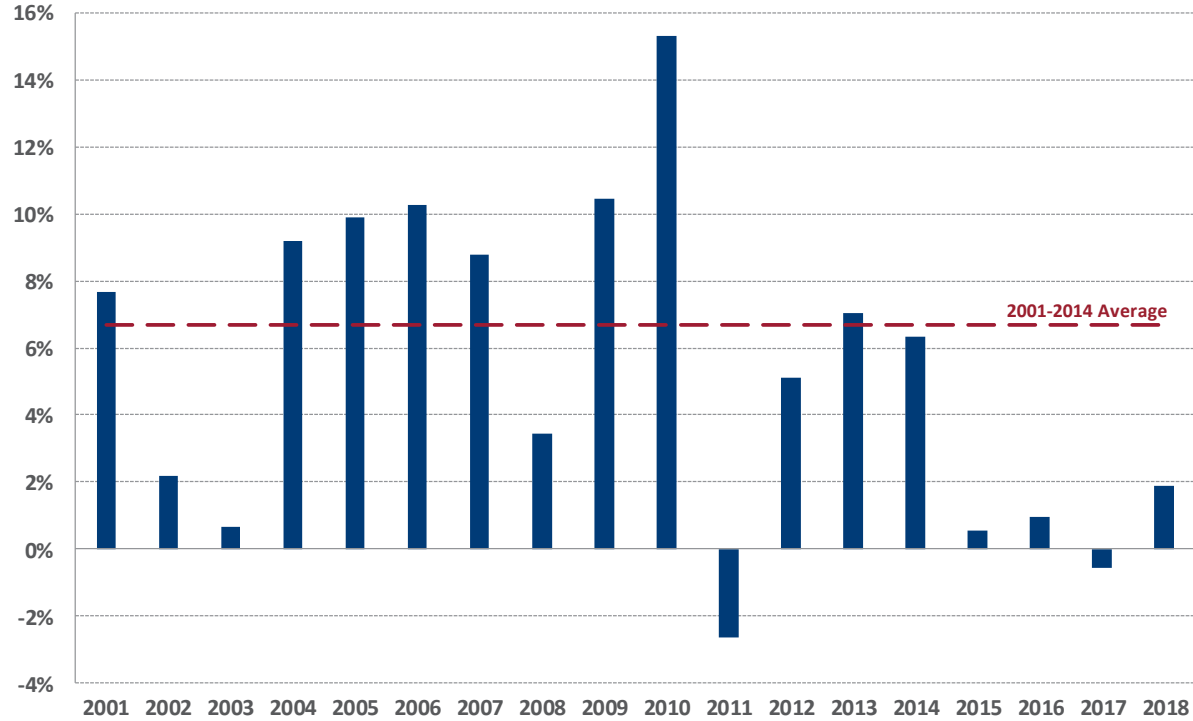
# BRAZIL: MONETARY POLICY

- » Lower neutral rate indicates that monetary policy is not as stimulative, which opens the door for the Central Bank to reduce interest rates to 5,0% in the second semester.

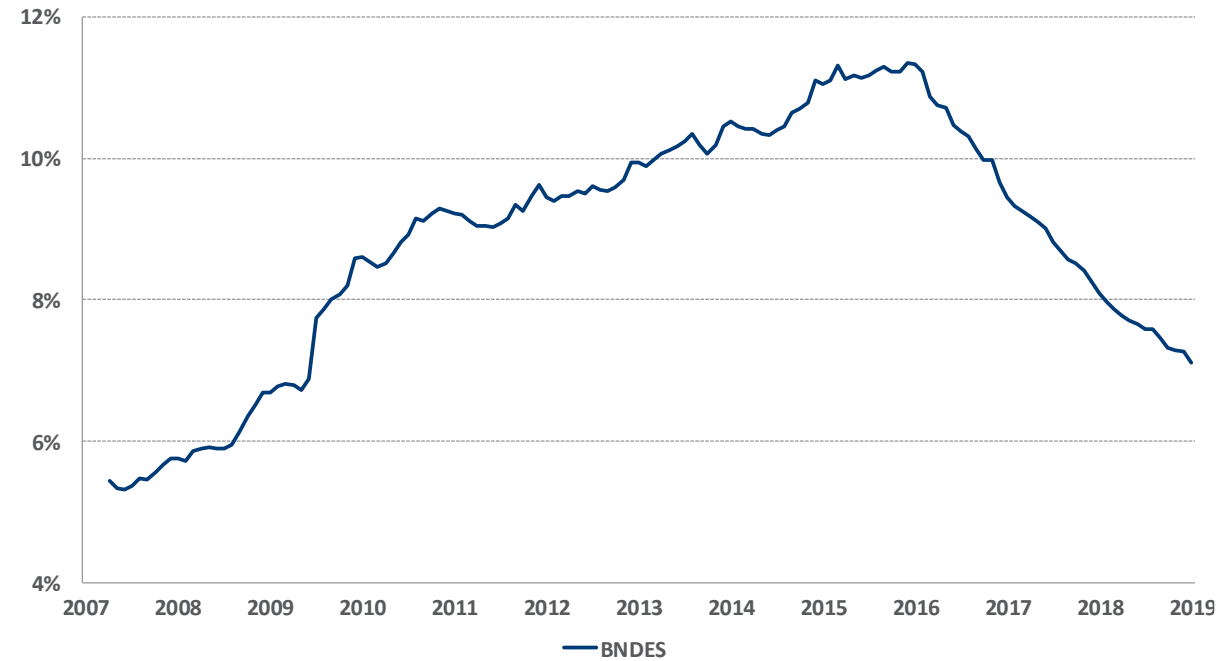


» Several factors could be pushing the neutral rate lower.

Government Expenditures - Real Annual Growth



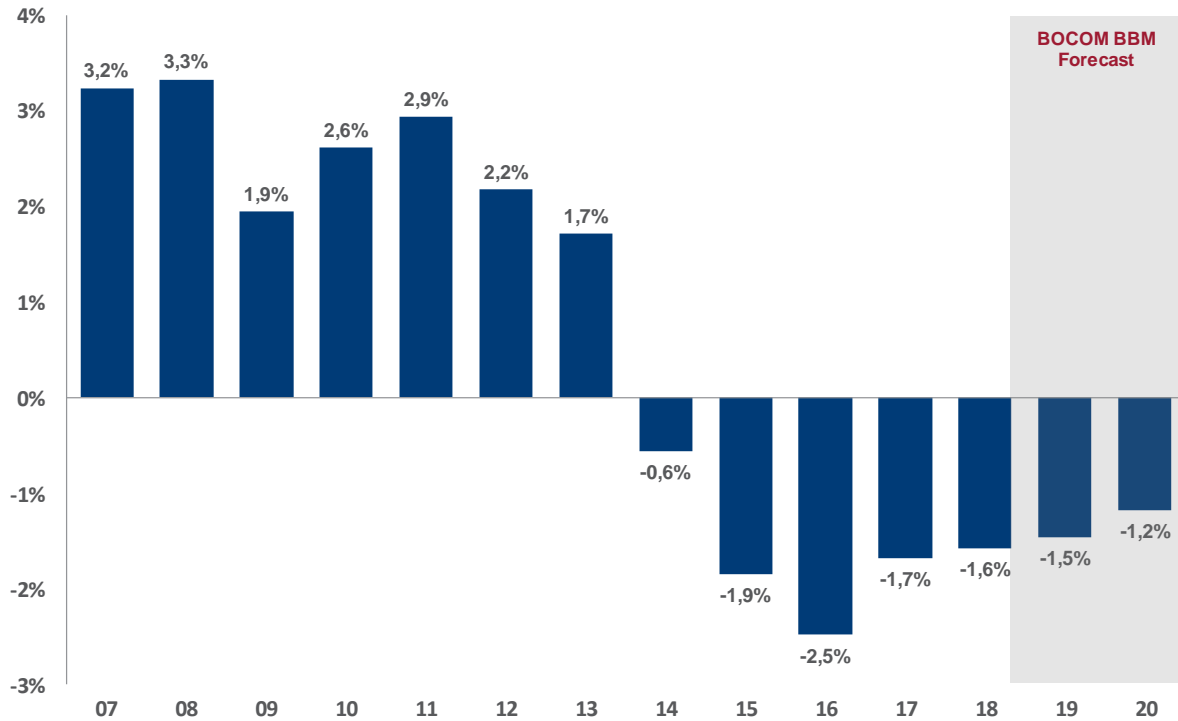
BNDES Credit Stock - % of GDP



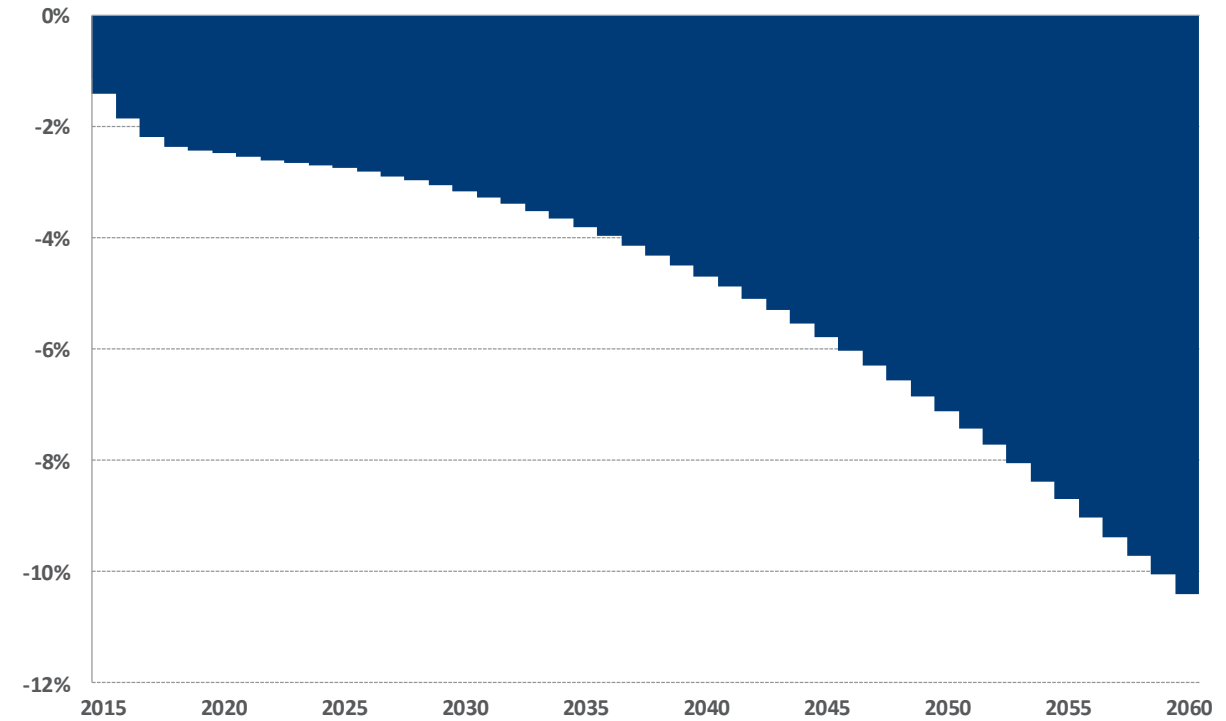
» Fiscal policy remains the main challenge: the country has run a primary deficit for 6 years.

» Social security deficit (RGPS) is rapidly increasing.

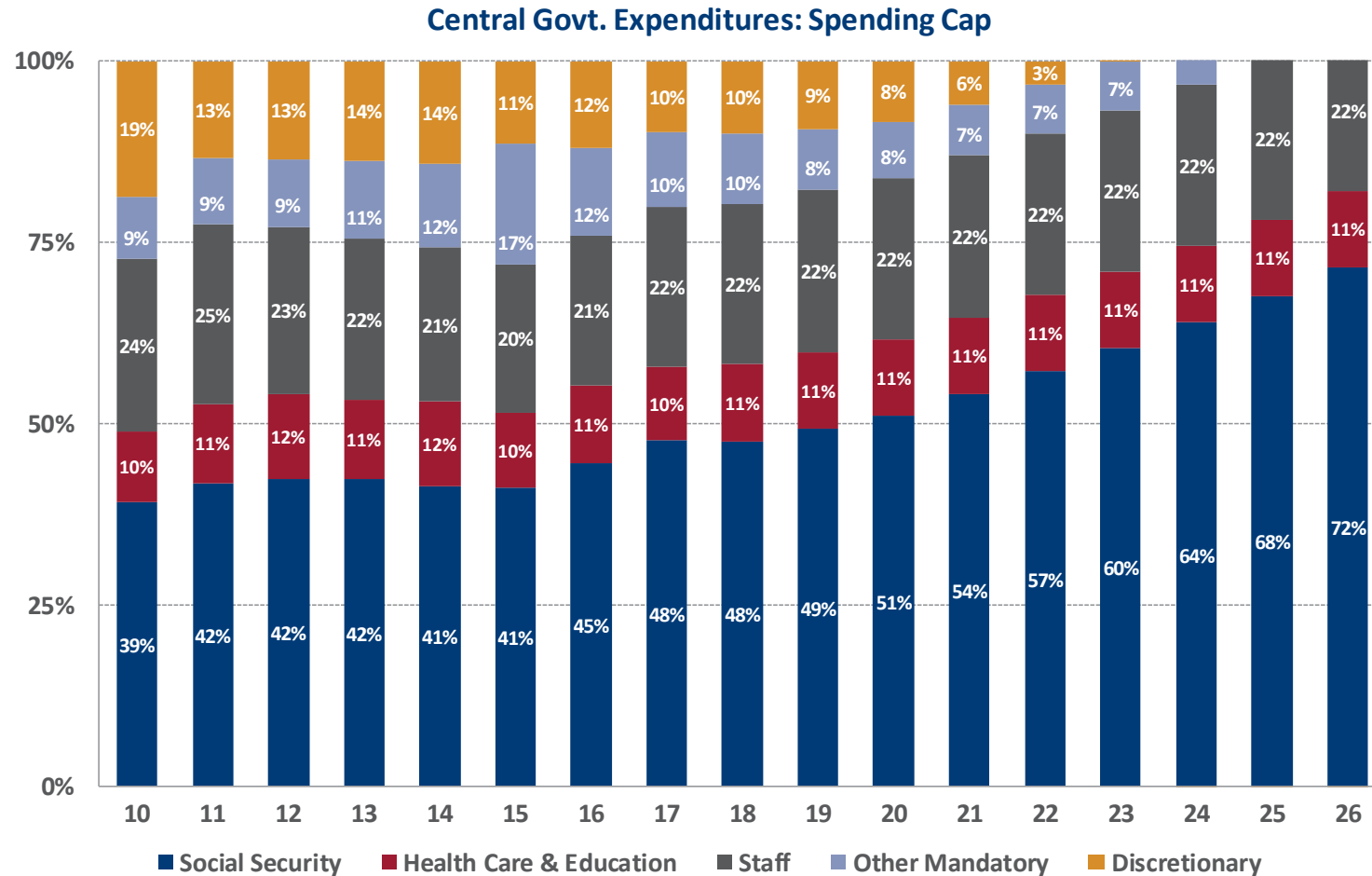
Public Sector Primary Balance - % GDP



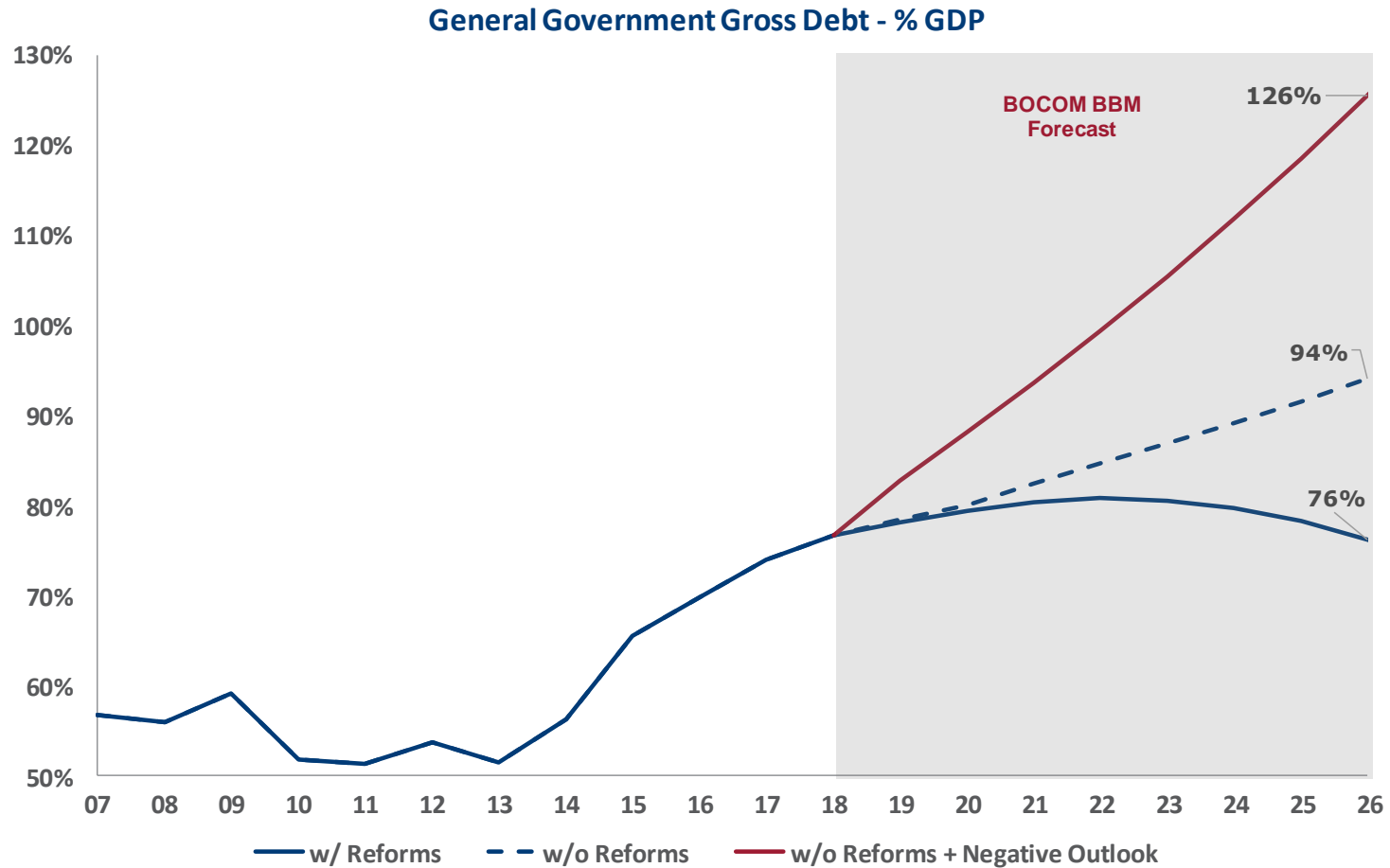
Social Security Balance - % of GDP



»» 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.



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



## SPECIAL COMMISSION'S PENSION REFORM CALENDAR

- »» May 07: First session
- »» May 30: Amendments' deadline
- »» June 13: Rapporteur Moreira presents his preliminary report
- »» July 03: Rapporteur Moreira reads his final report
- »» July 04: Special Commission approves the rapporteur's report
- »» July 10: 1<sup>st</sup> vote on the Lower House
- »» July 19: Recess

» Pension Reform proceedings are moving towards a positive outcome: the reform may be voted in the Lower House before the recess and generate savings of around BRL 1trillion in 10 years.

Measure	BRL bn saved in 10y (2020 - 2029)	Special Commission Report
<b>Private sector</b>	<b>900</b>	<b>615 (68%)</b>
Retirement by age	128	128
Retirement by contribution time	433	335
Contribution time	363	277 (76%)
Teachers' regime	12	0 (0%)
Special regimes	58	58
Bereavement payment	112	101 (90%)
Retirement by disability	79	79
Rural retirement	92	0 (0%)
Taxation on rural exports	84	0 (0%)
Progressive contribution rates	-28	-28
<b>Social assistance</b>	<b>204</b>	<b>89 (44%)</b>
Salary Allowance	169	89 (53%)
BPC	35	0 (0%)
<b>Public servants (Federal)</b>	<b>225</b>	<b>175 (78%)</b>
Restriction in access, parity and integrality / Transition rules	197	147 (75%)
Progressive contribution rates	28	28
<b>Public sector (Military)</b>	<b>10</b>	<b>10</b>
Pension reform	97	97
Career restructuring	-87	-87
<b>Total</b>	<b>1339</b>	<b>889 (66%)</b>
<b>Total in % GDP</b>	<b>2,7%</b>	<b>1,8%</b>
<b>CSLL</b>		<b>60</b>
<b>Total with CSLL</b>		<b>949</b>
<b>Total with CSLL in % of GDP</b>		<b>1,9%</b>



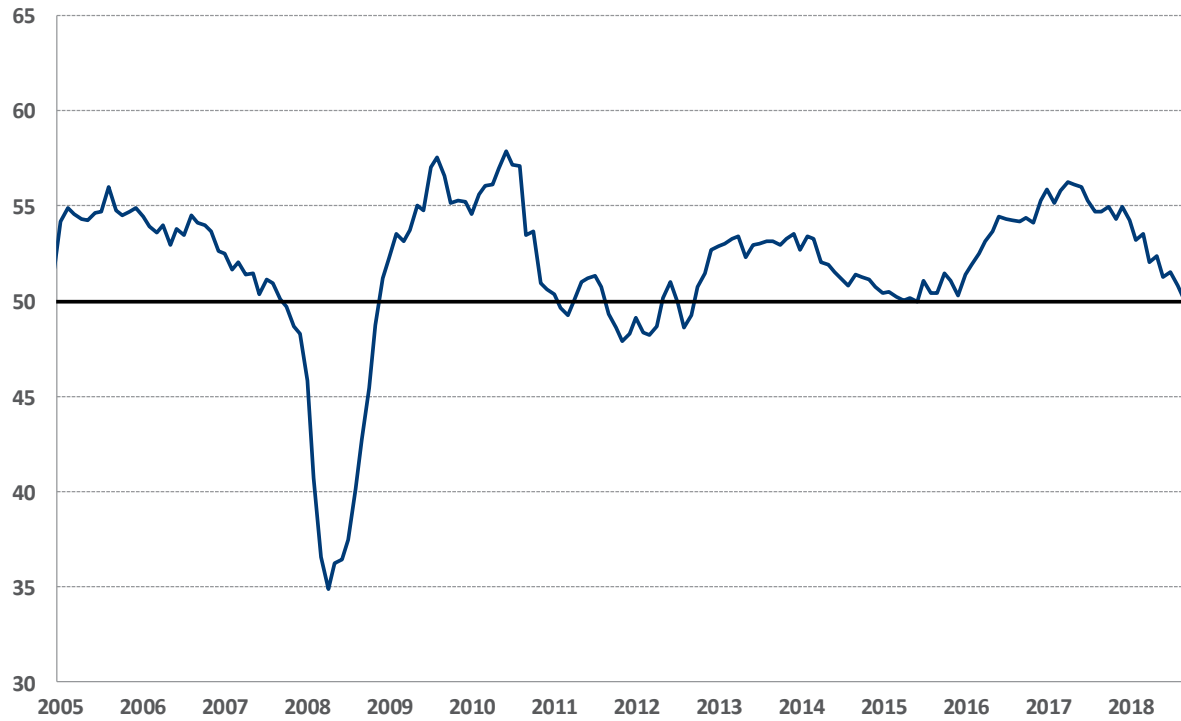
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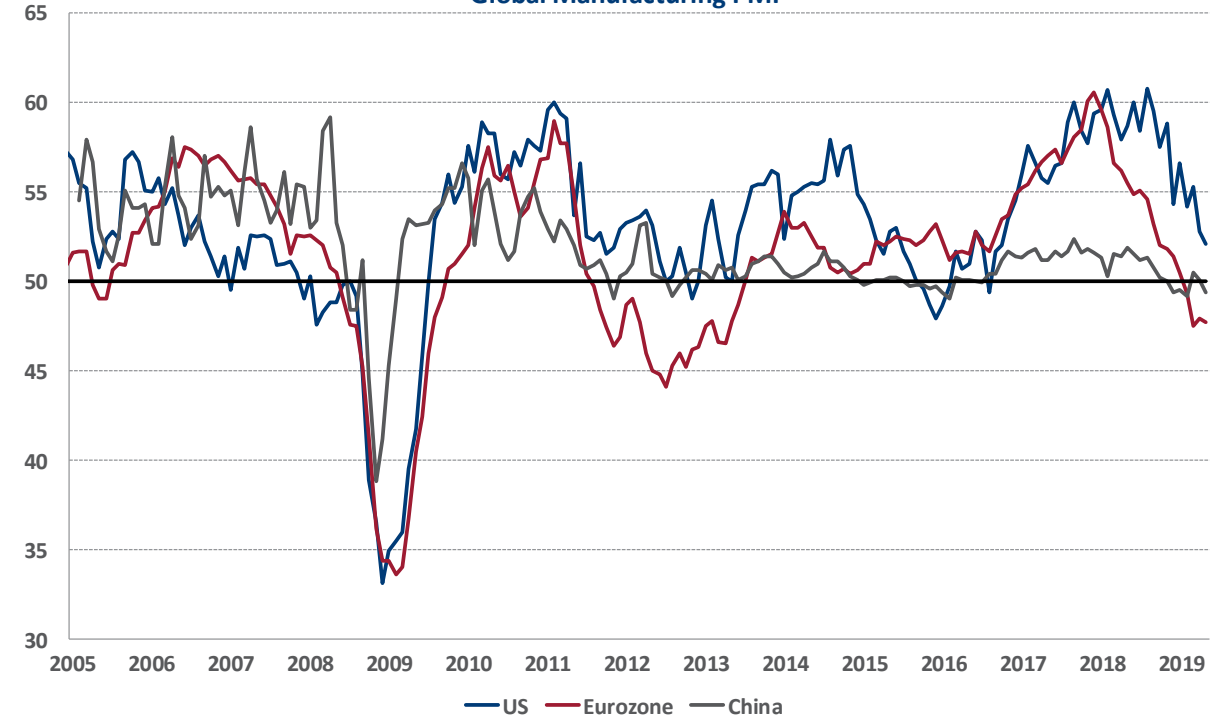
# GLOBAL: TRADE WARS

» US and China announced a truce at the G20 meeting, but the global economy continues to slowdown.

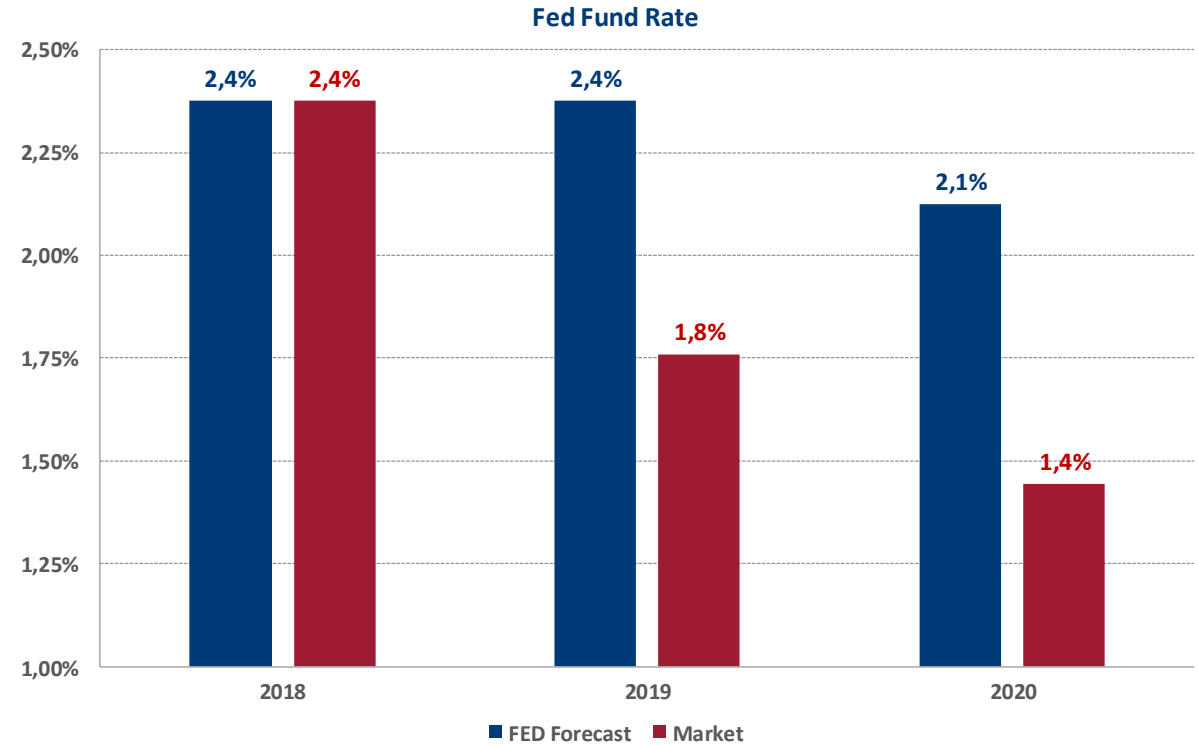
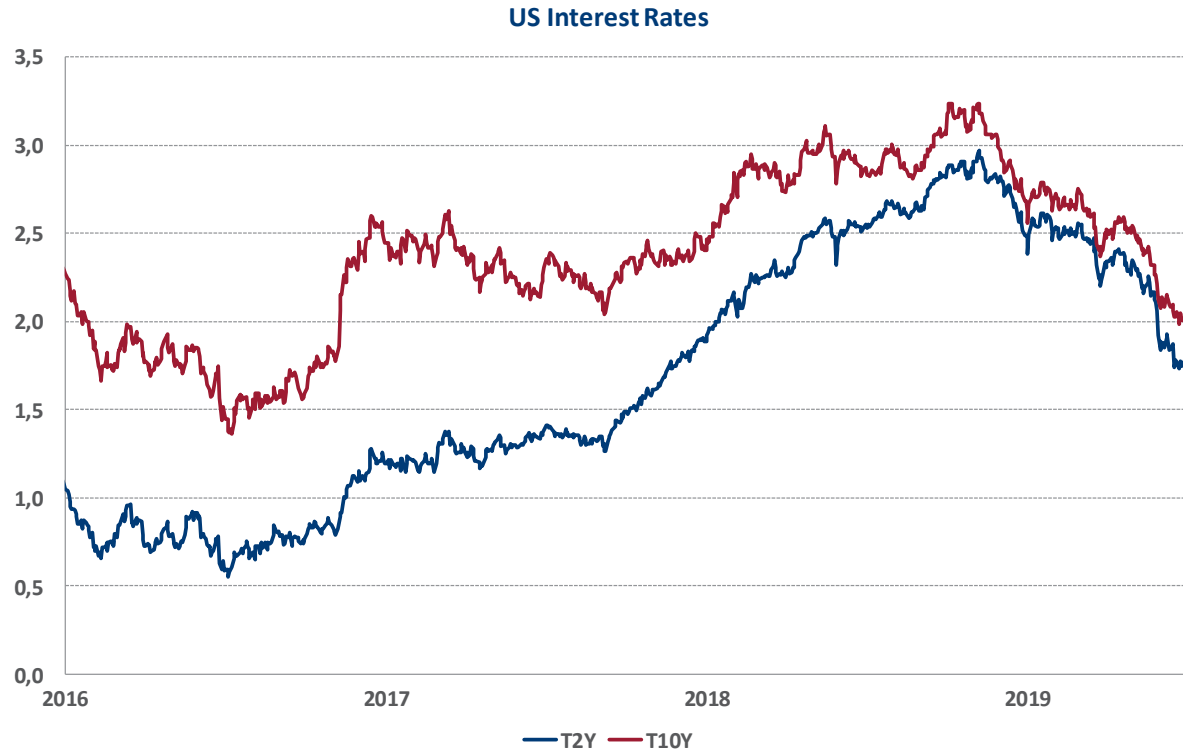
Global Manufacturing PMI



Global Manufacturing PMI



»» US interest rates are falling and the FED will deliver a cut the next FOMC meeting.

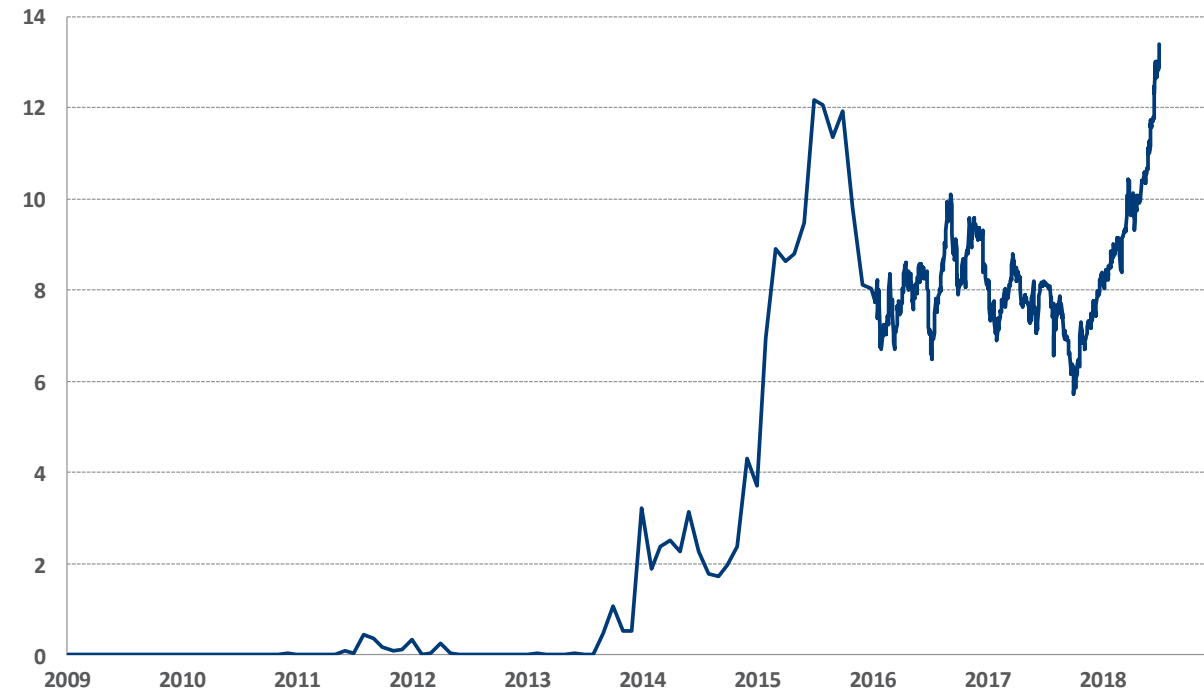


» Several Central Banks have announced additional monetary stimulus, pushing global interest rates down.

10 Year Interest Rates



Negative-Yield Sovereign Bonds  
US\$ Trillion



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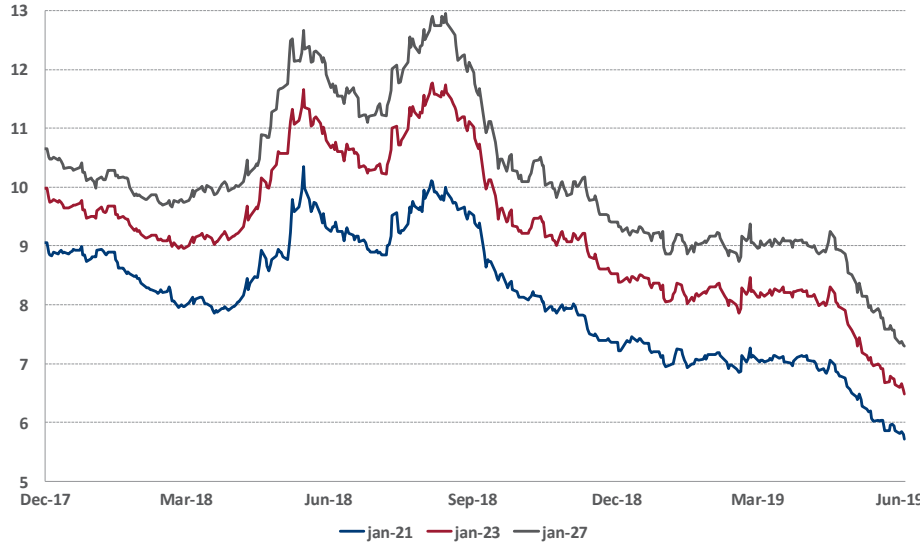
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# BRAZIL: MARKETS

Spot Nominal Interest Rate (DI Curve)



Inflation Linked Bonds (NTNB)

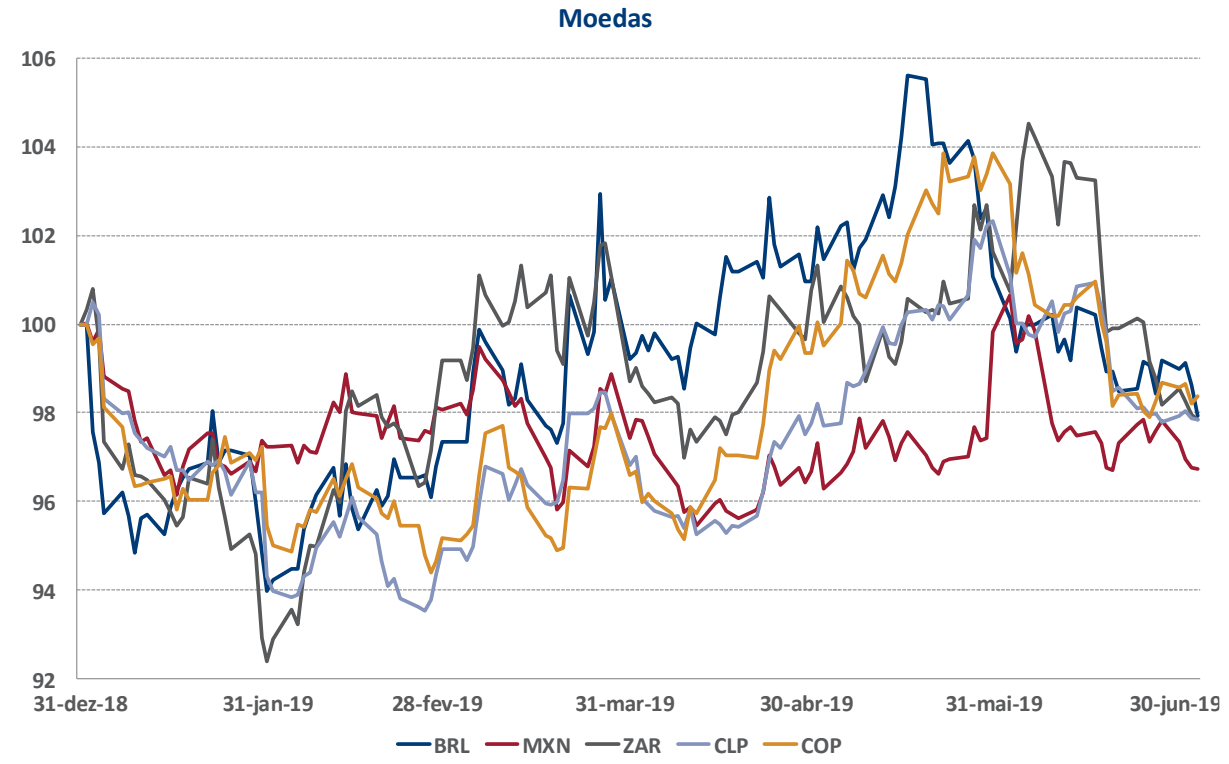


Ibovespa



CDS 5 Years





# GLOBAL: MARKETS

SPX Index



VIX Index



CDX High Yield Spread



Nominal Dollar Trade Weighted (FED)





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