



MACRO OUTLOOK

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- » GLOBAL: RISKS AND UNCERTAINTY ON THE RISE

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» BRAZIL: SLOW RECOVERY AMID LOW INFLATION AND FALLING INTEREST RATES

» GLOBAL: RISKS AND UNCERTAINTY ON THE RISE

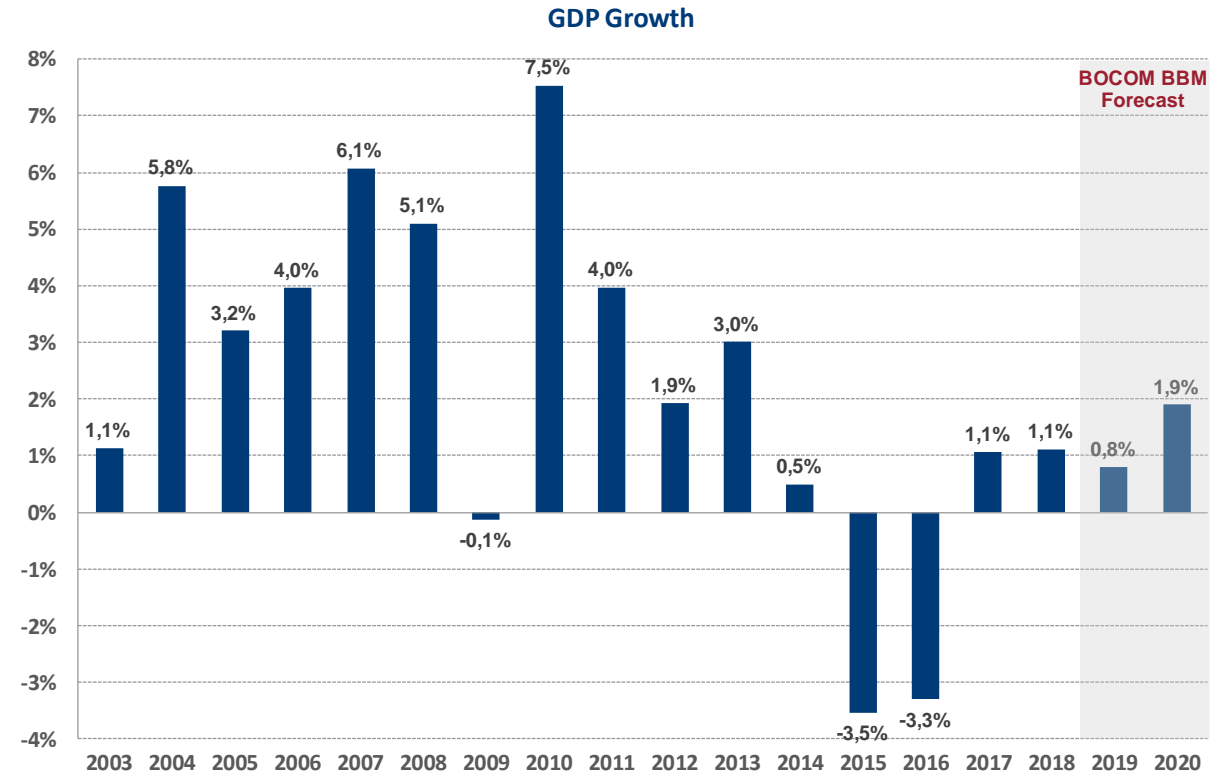
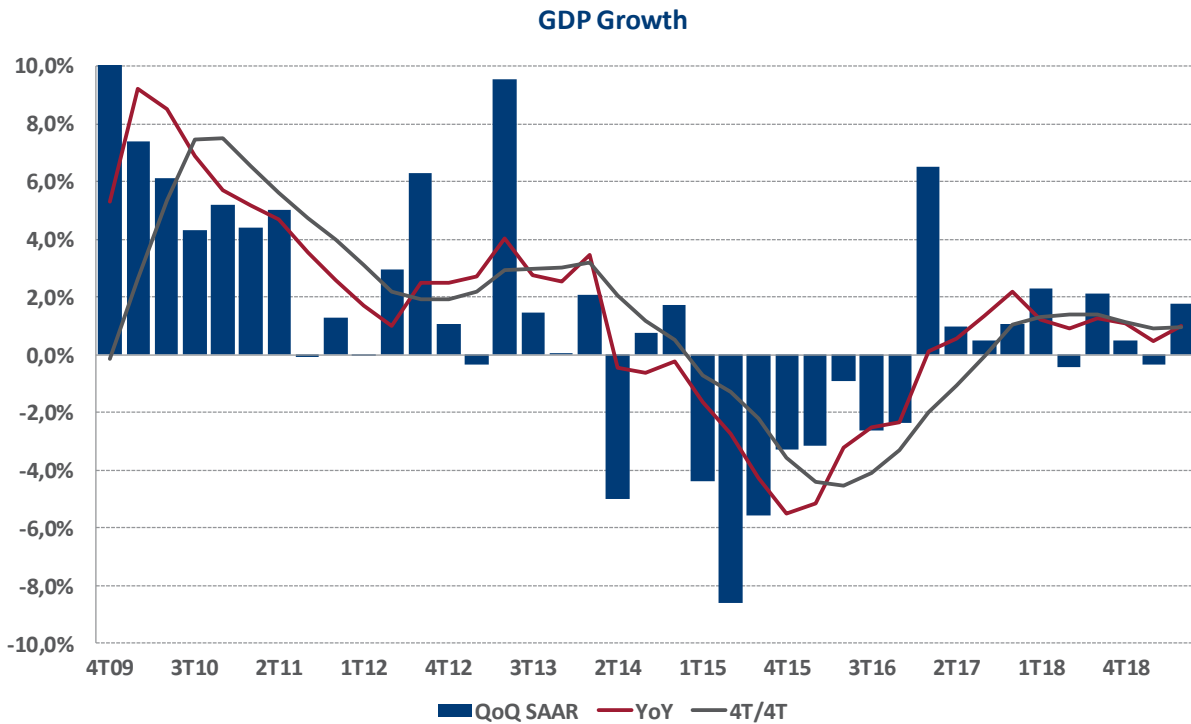
SLOW RECOVERY AMID LOW INFLATION AND FALLING INTEREST RATES

- » The recovery remains weak: GDP advanced +0.4% in the 2Q19 and +1.0% from the same quarter of the previous year.
- » Inflation and its core measures have been running at low levels and the output gap remains large.
- » The Central Bank lowered its policy rate (Selic) to 6.0% from 6.5% and indicated that it sees leeway for more cuts in the coming months. We maintain our 5.0% forecast for the end of the year.
- » The reform agenda advances: Pension Reform will be approved by the Senate until October and the Lower House is debating tax reform.

BRAZIL: FORECASTS

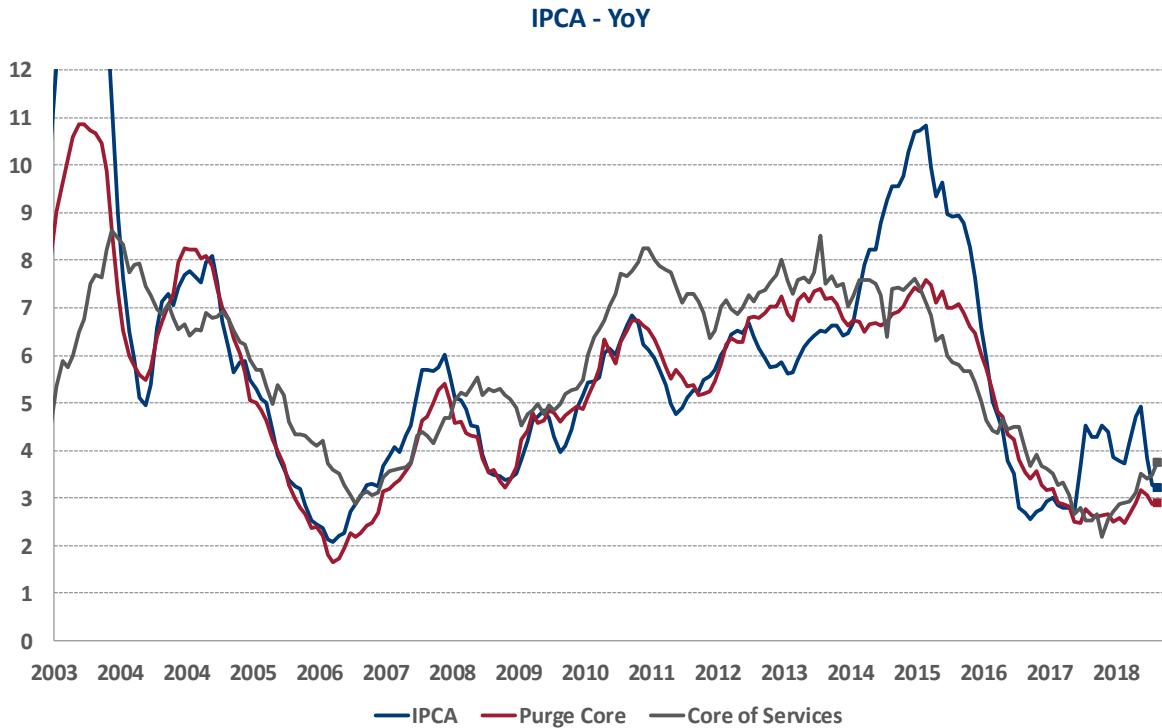
ECONOMIC FORECASTS	2013	2014	2015	2016	2017	2018	2019 F	2020F
GDP Growth (%)	3,0%	0,5%	-3,5%	-3,3%	1,1%	1,1%	0,8%	1,9%
Inflation (%)	5,9%	6,4%	10,7%	6,3%	2,9%	3,7%	3,6%	3,6%
Policy Rate (%)	10,00%	11,75%	14,25%	13,75%	7,00%	6,50%	5,00%	5,00%
Unemployment Rate (%)	6,8%	7,1%	9,6%	12,6%	12,4%	12,2%	11,4%	10,7%
Trade Balance (US\$ bn)	3	-4	20	48	67	58	49	43
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%	-1,6%	-0,9%
Government Gross Debt (% of GDP)	51,7%	57,2%	66,2%	69,4%	74,0%	76,7%	78,3%	79,3%

» The recovery remains weak: GDP advanced +0.4% in the 2Q19 and +1.0% from the same quarter of the previous year.

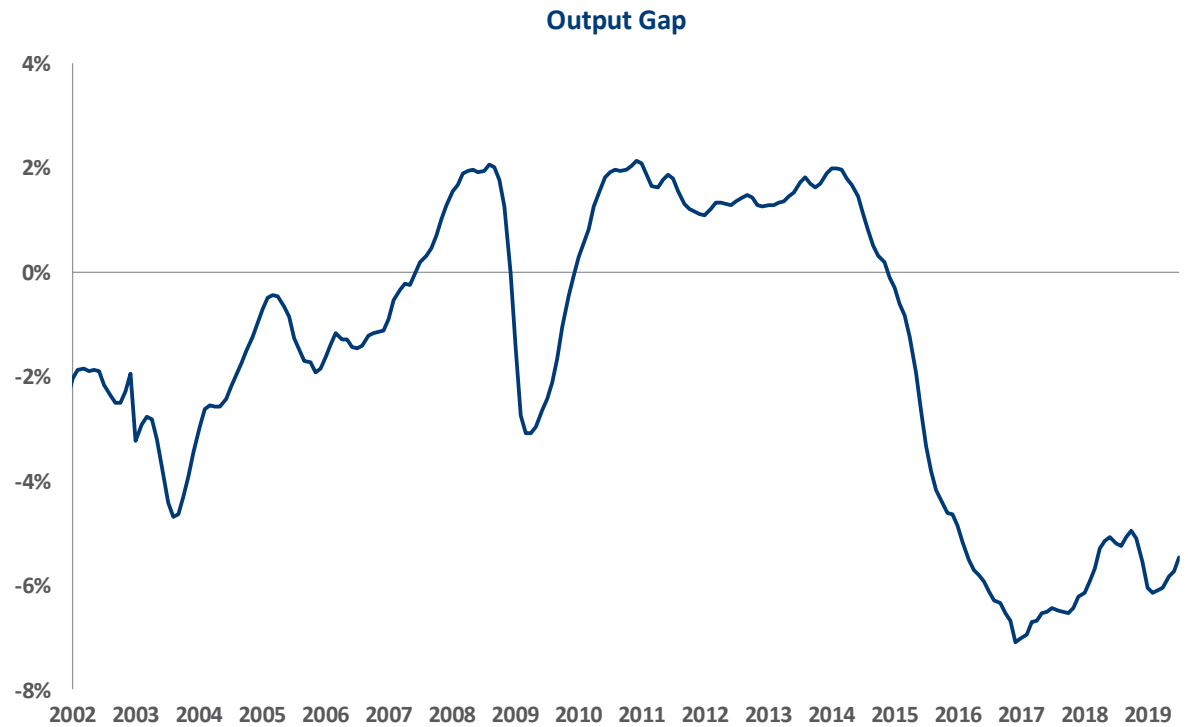


BRAZIL: INFLATION

» Inflation and its core measures have been running at low levels.



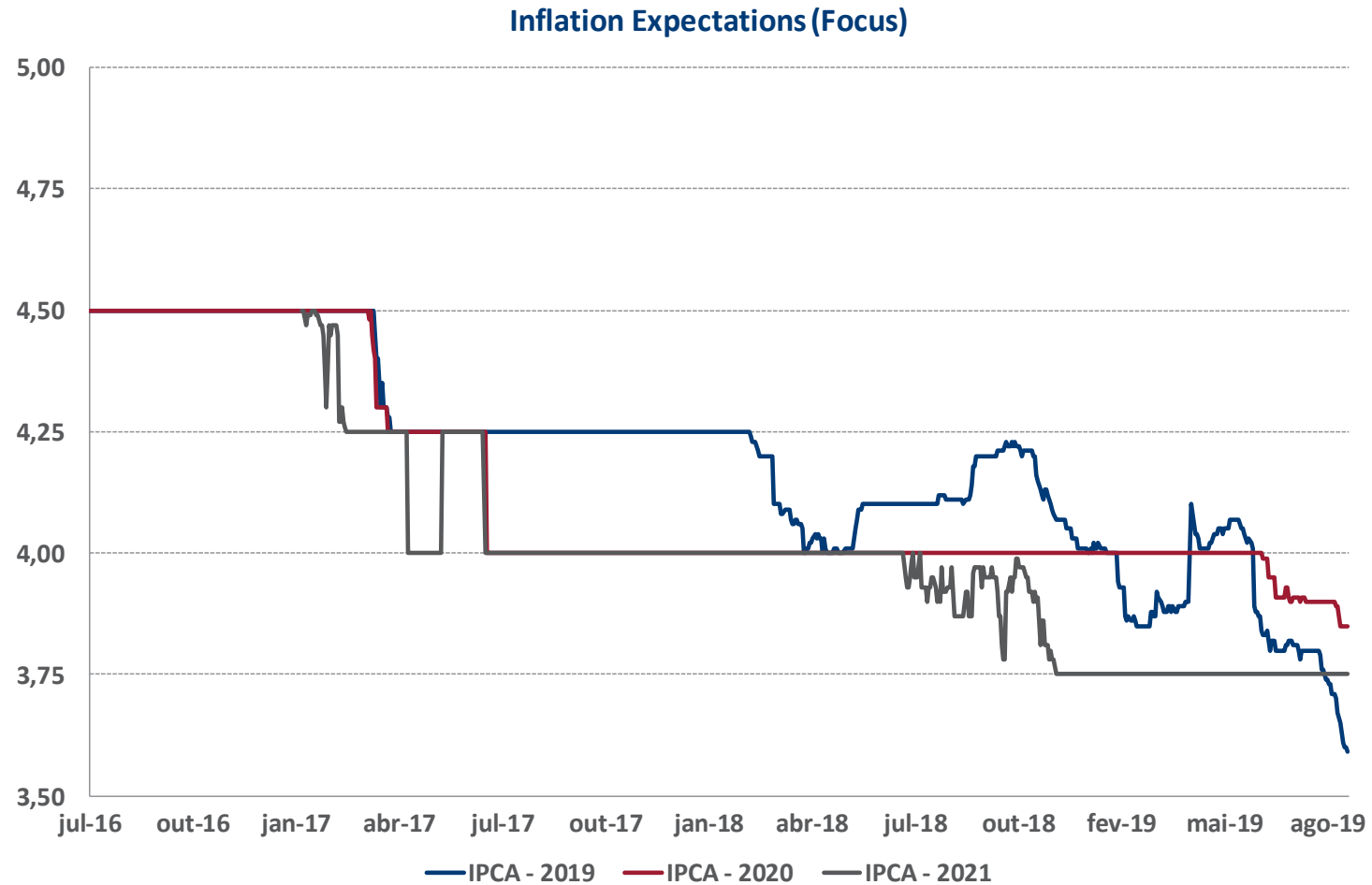
» Growth has been insufficient to reduce the output gap.



BRAZIL: INFLATION

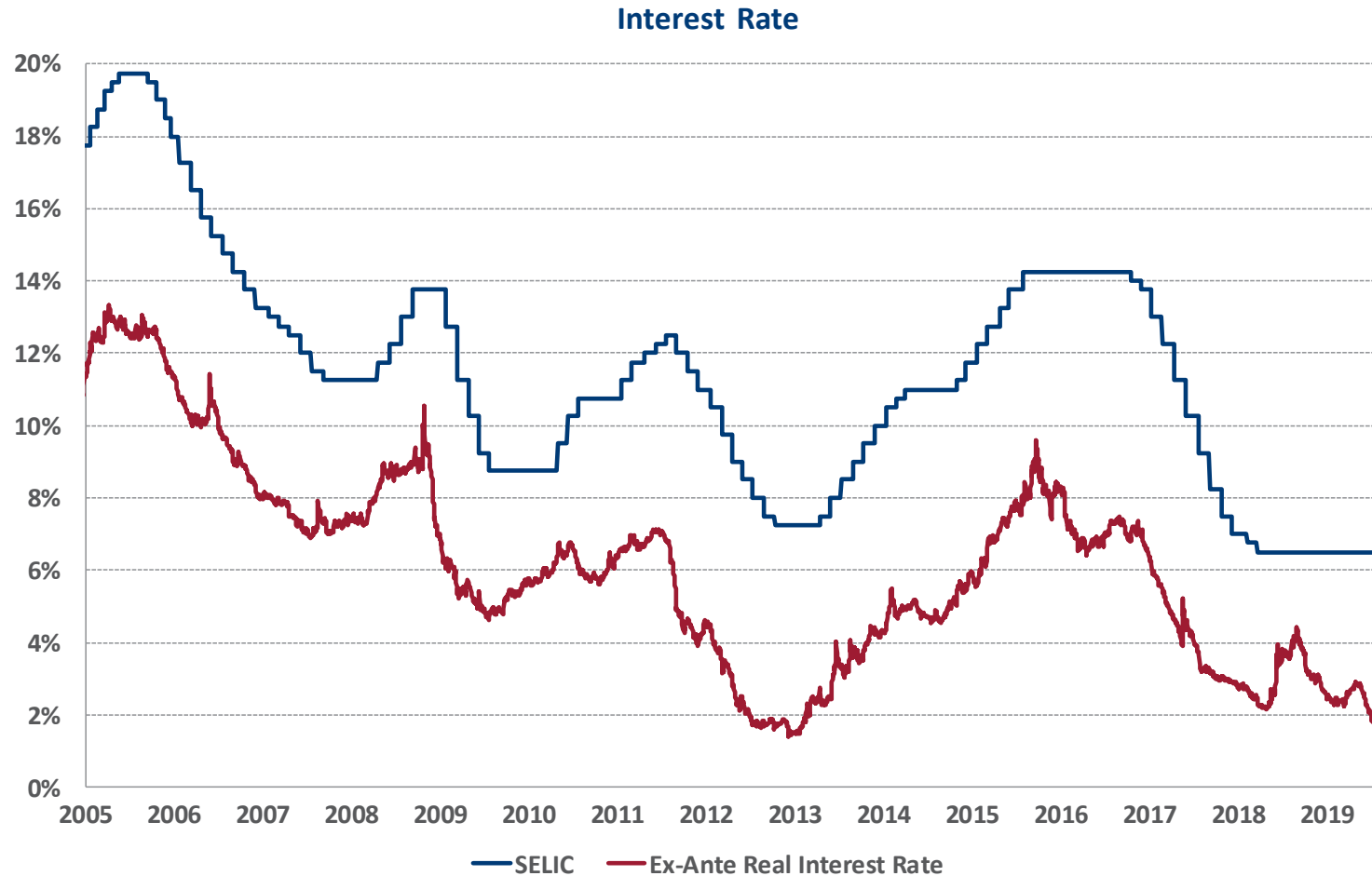
Baseline Scenario											
Exchange rate of 4.00 in 2019 and 2020											
Selic: 5.00% in Dec/19 and in Dec/20											
	IPCA	Non-Regulated (74.7%)	Regulated (25.3%)	Core Inflation (59.0%)	Tradables Ex-Food (20.2%)	Services (35.8%)	Core of Services-BBM (16.7%)	Food at Home (15.7%)	Output Gap	GDP	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%
4T16	6,3%	6,6%	5,5%	5,8%	5,2%	6,5%	4,8%	9,4%	-7,1%	-3,3%	13,8%
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%
4T17	2,9%	1,3%	8,0%	3,1%	0,9%	4,5%	3,6%	-4,9%	-6,2%	1,1%	7,0%
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%
4T18	3,7%	2,9%	6,2%	2,5%	1,1%	3,3%	2,6%	4,5%	-5,6%	1,1%	6,5%
1T19	4,6%	4,0%	6,3%	2,7%	1,4%	3,6%	3,0%	8,7%	-6,1%	0,9%	6,5%
2T19	3,4%	3,2%	3,8%	3,0%	1,7%	4,0%	3,1%	4,1%	-5,7%	1,0%	6,5%
3T19	3,0%	3,0%	2,9%	2,9%	1,4%	3,8%	3,6%	3,8%	-5,6%	0,8%	5,5%
4T19	3,6%	3,1%	4,8%	3,0%	1,4%	3,9%	3,2%	4,1%	-5,2%	0,8%	5,0%
1T20	3,3%	2,8%	4,8%	3,0%	1,2%	4,1%	2,8%	2,5%	-4,8%	1,2%	5,0%
2T20	3,4%	3,3%	3,8%	3,0%	1,0%	4,3%	2,8%	4,9%	-4,4%	1,4%	5,0%
3T20	3,5%	3,6%	3,4%	3,0%	1,2%	4,0%	2,3%	6,2%	-4,2%	1,7%	5,0%
4T20	3,6%	3,6%	3,8%	3,1%	1,6%	3,9%	2,6%	5,7%	-3,9%	1,9%	5,0%

» Inflation expectations for 2019 and 2020 are below the target.



BRAZIL: MONETARY POLICY

» The Central Bank lowered its policy rate (Selic) to 6.0% from 6.5% and indicated that it sees leeway for more cuts in the coming months. We maintain our 5.0% forecast for the end of the year.



» The reform agenda advances: Pension Reform will be approved by the Senate until October and the Lower House is debating tax reform.

Measure	BRL bn saved in 10y (2020 - 2029)	Baseline
Private sector	900	638 (71%)
Retirement by age	128	111 (86%)
Retirement by contribution time	433	385
Contribution time	363	325 (90%)
Teachers' regime	12	7 (58%)
Special regimes	58	53 (91%)
Bereavement payment	112	92 (82%)
Retirement by disability	79	79
Rural retirement	92	0 (0%)
Taxation on rural exports	84	0 (0%)
Progressive contribution rates	-28	-28
Social assistance	204	100 (49%)
Salary Allowance	169	76 (45%)
BPC	35	23 (67%)
Public servants (Federal)	225	165 (73%)
Restriction in access, parity and integrality / Transition rules	197	137 (70%)
Progressive contribution rates	28	28
Public sector (Military)	10	10
Pension reform	97	97
Career restructuring	-87	-87
Total	1253	913
Total in % GDP	2,5%	1,8%
CSLL		20
Total with CSLL		933
Total with CSLL in % of GDP		1,9%

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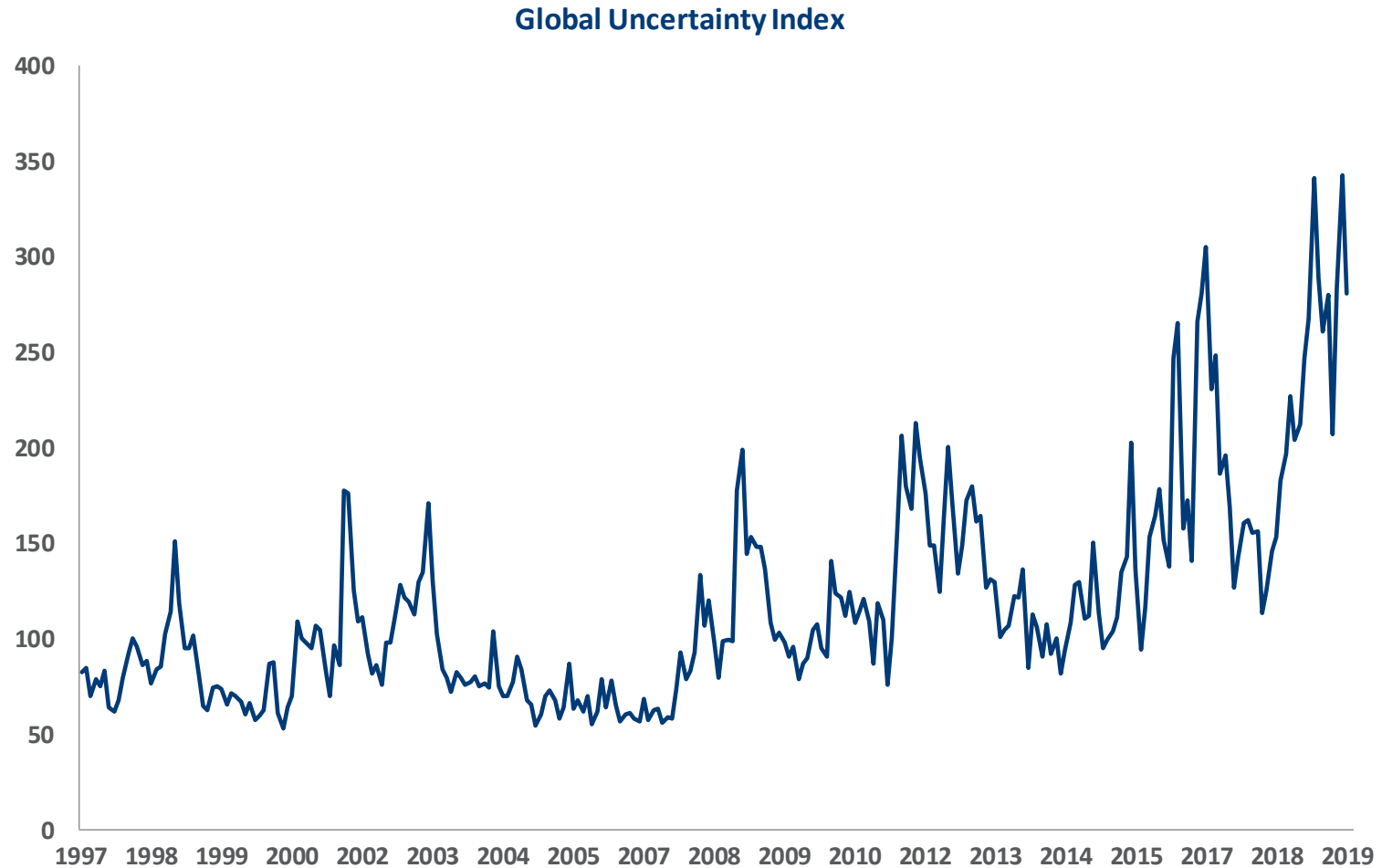
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» GLOBAL: RISKS AND UNCERTAINTY ON THE RISE

RISK AND UNCERTAINTY ON THE RISE

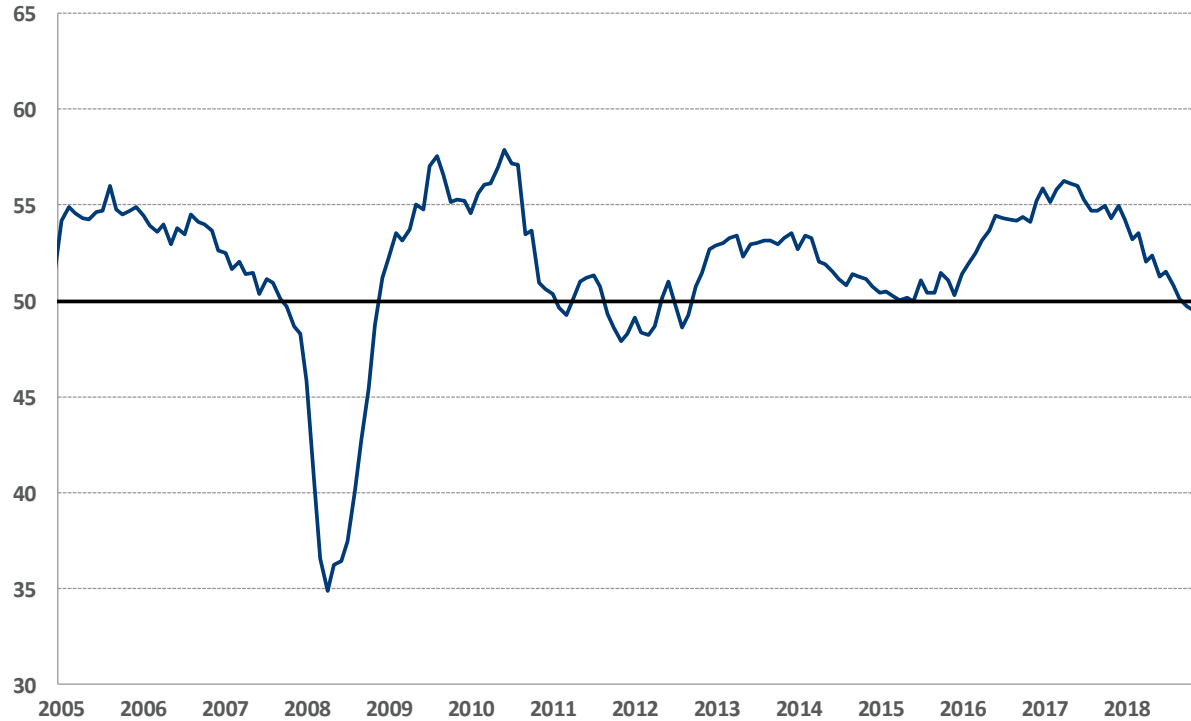
- » Signs of a broader slowdown intensify.
- » The US-China trade war escalation represents an important risk to the global economy.
- » No deal Brexit also represents a risk.
- » Central Banks continue to increase monetary stimulus, pushing global interest rates down.

» Risks and uncertainty on the rise.

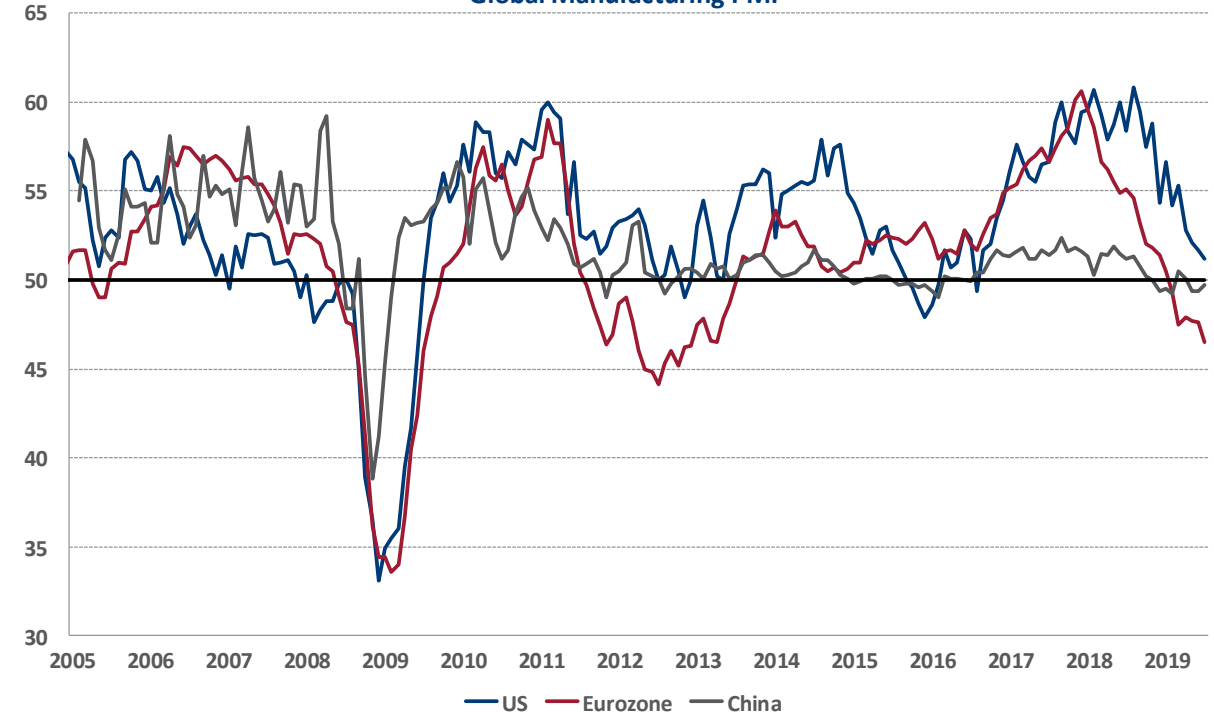


»» Signs of a broader slowdown intensify

Global Manufacturing PMI



Global Manufacturing PMI

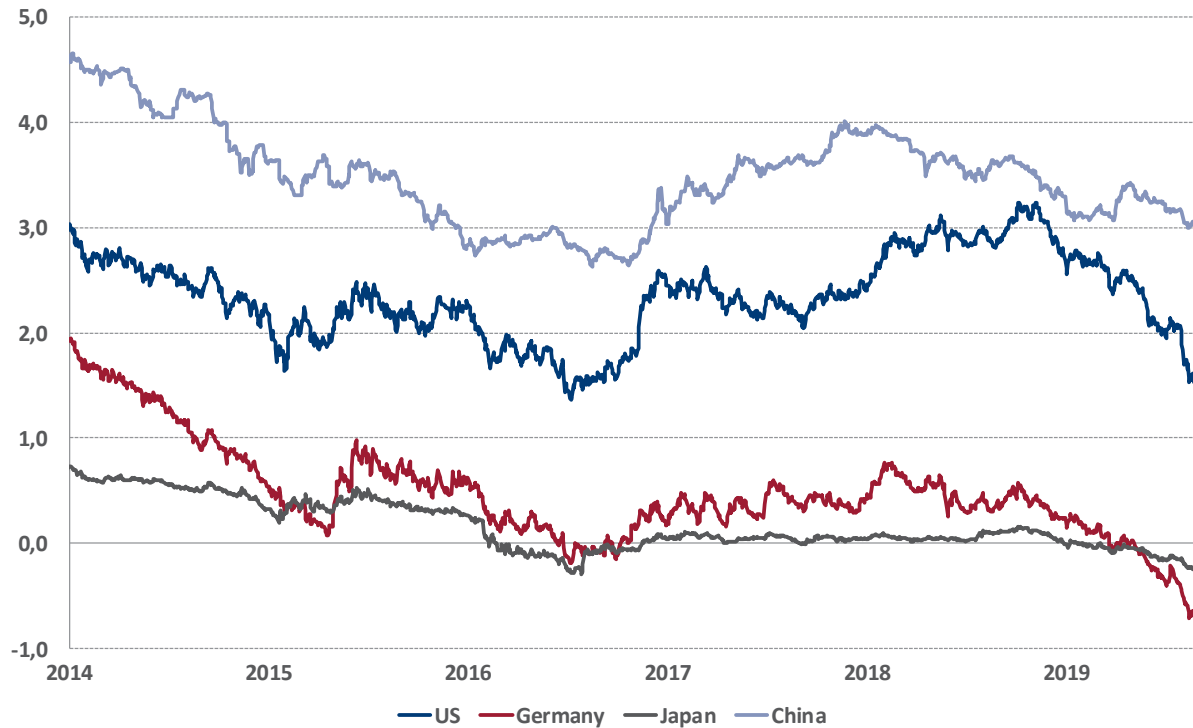


» The US-China trade war escalation represents an important risk to the global economy.



» Central Banks continue to increase monetary stimulus, pushing global interest rates down.

10 Year Interest Rates



Global Negative Yielding Debt - Market Value
US\$ Trillion



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