



MACRO OUTLOOK

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November 2019

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» BRAZIL: FALLING INTEREST RATES AND SIGNS OF FIRMER GROWTH

» GLOBAL: UNCERTAINTY DIMINISHES , GROWTH STABILIZES

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FALLING INTEREST RATES AND SIGNS OF FIRMER GROWTH

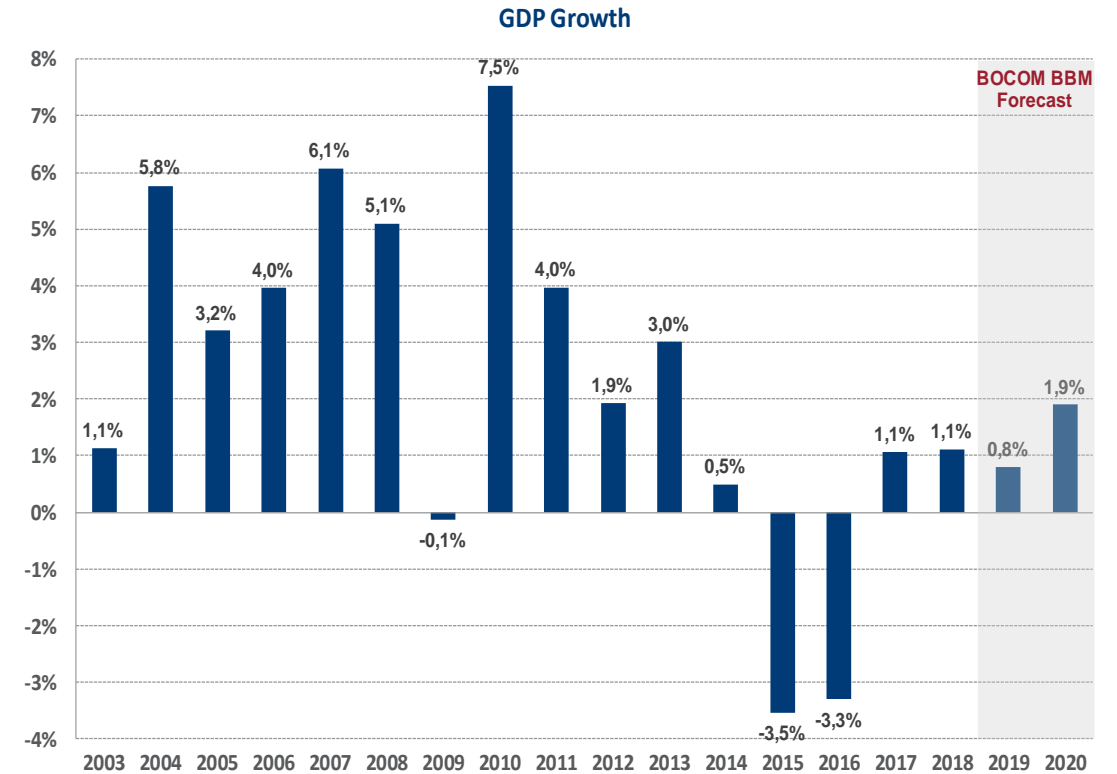
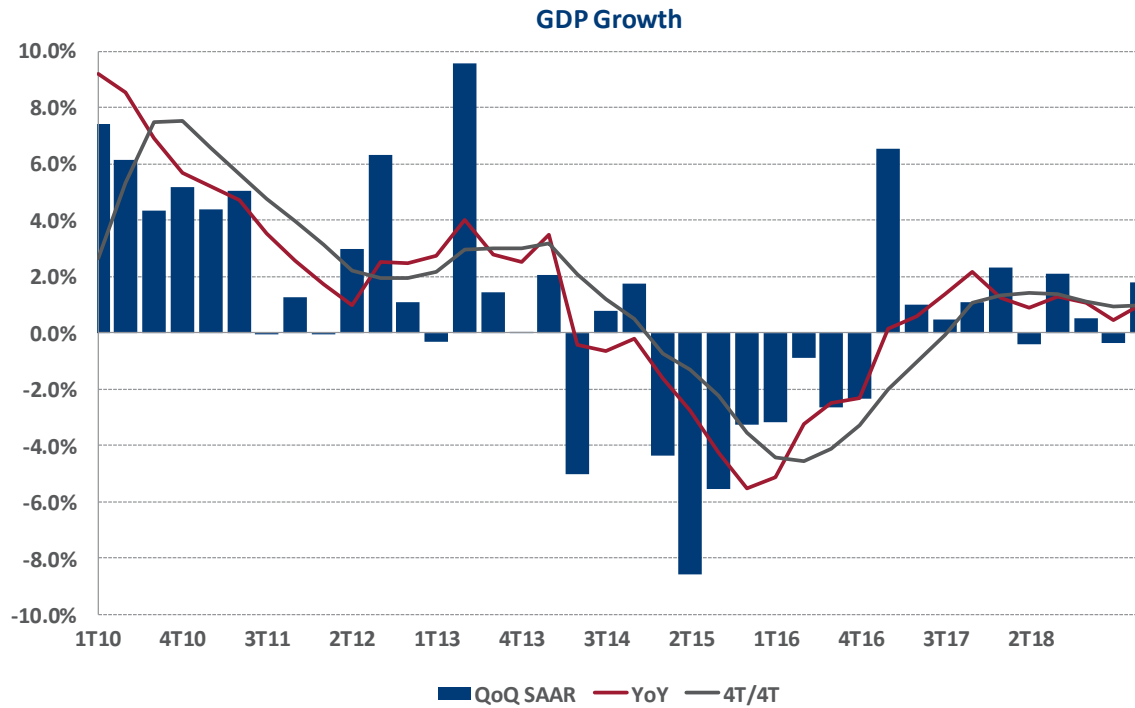
- »» The recovery seems to have gained momentum over the Q3
- »» Inflation and its core measures should remain at low levels for the next couple of years
- »» The Central Bank lowered its policy rate (Selic) to 5.0% and suggested caution after the next 50 bps cut in December. We revised downwards our forecast for the end of year Selic to 4.25%
- »» The reform agenda advances: Pension Reform was finally approved; next steps are reforms of the Government and 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%	3.3%	3.5%
Policy Rate (%)	10.00%	11.75%	14.25%	13.75%	7.00%	6.50%	4.50%	4.25%
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	53	37	30
Current Account Balance (US\$ bn)	-75	-104	-59	-23	-15	-22	-35	-40
Current Account Balance (% of GDP)	-3.0%	-4.3%	-3.3%	-1.3%	-0.7%	-1.2%	-1.7%	-1.9%
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%

BRAZIL: ACTIVITY

» After a weak first half, we expect growth to pick up from Q3 on



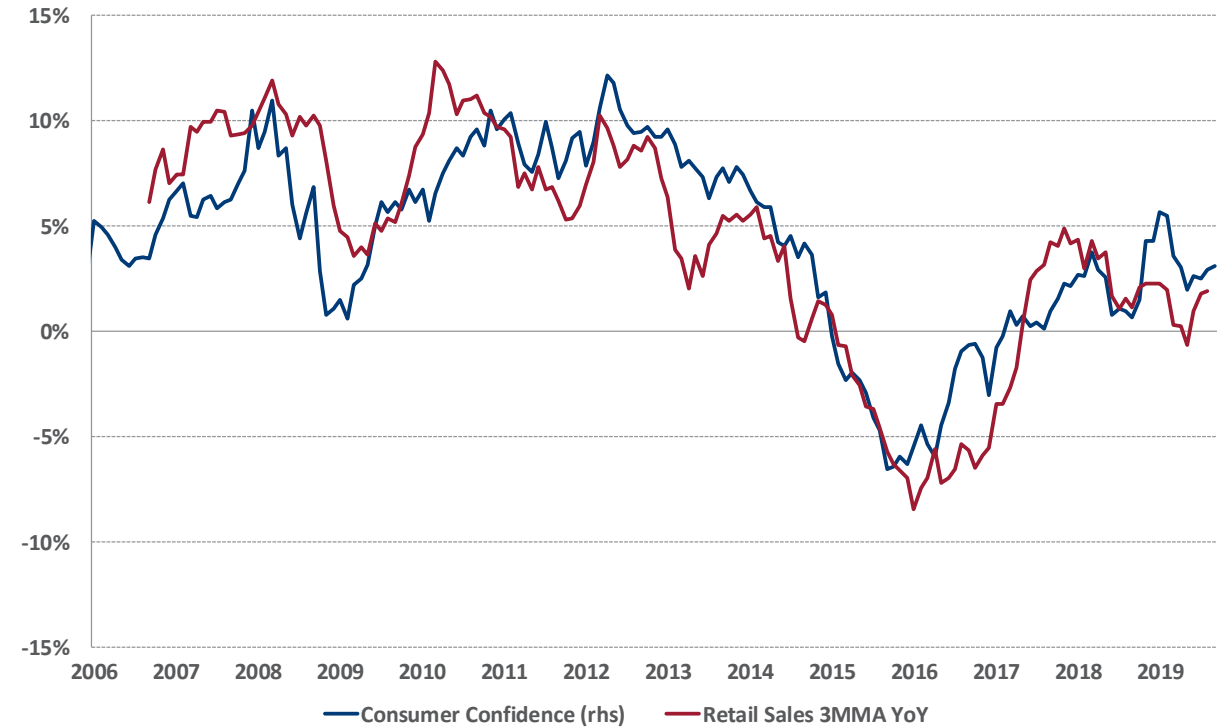
BRAZIL: ACTIVITY

» The are initial signs of a pick-up in the pace of growth, and in the job market

Caged Net Payroll Job Creation - SA

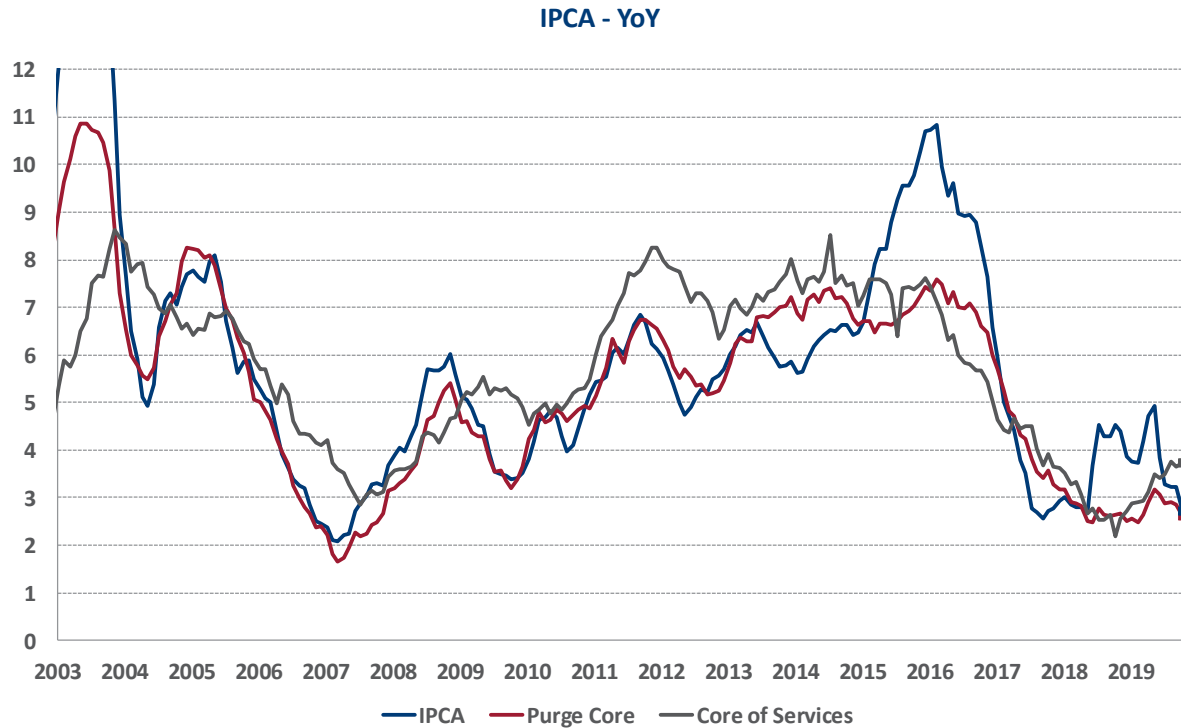


Retail Sales and Consumer Confidence

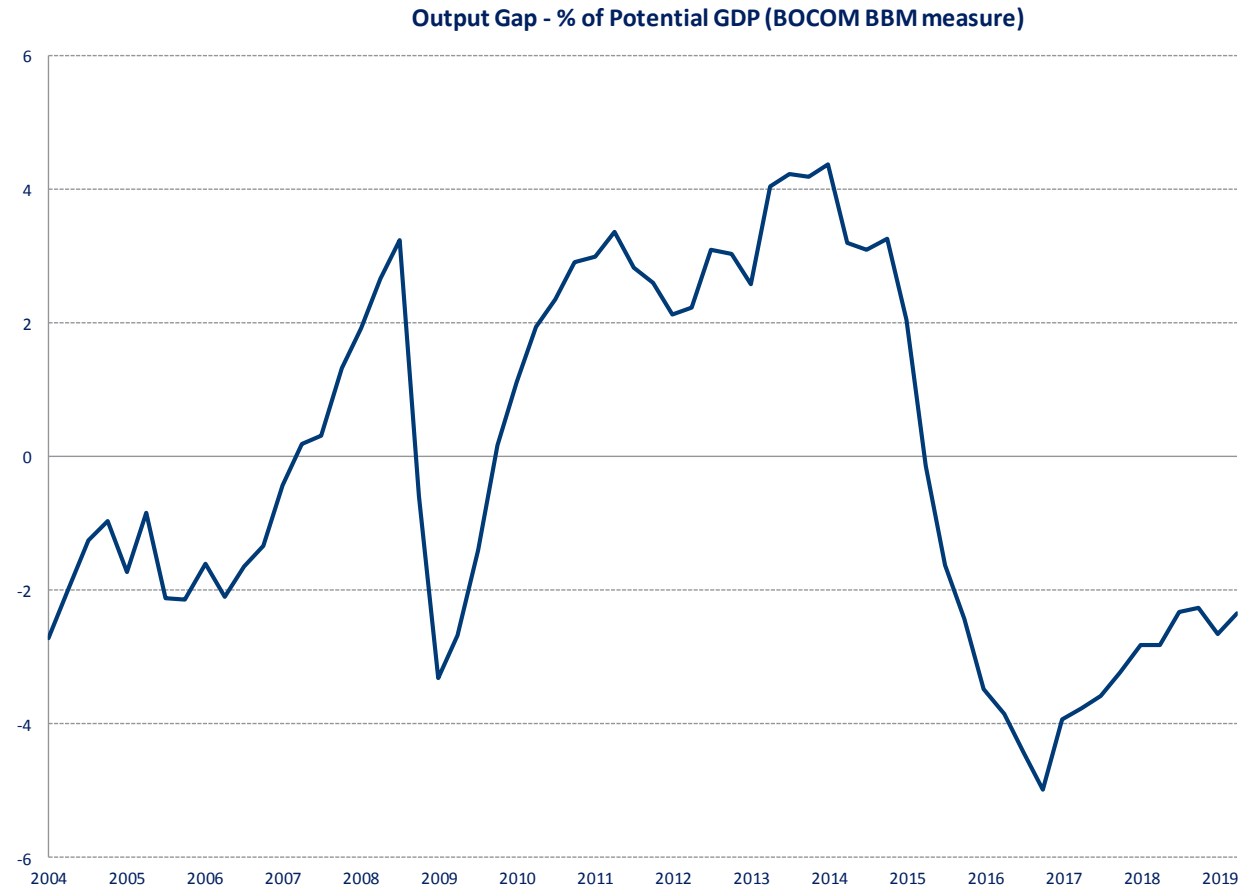


BRAZIL: INFLATION

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



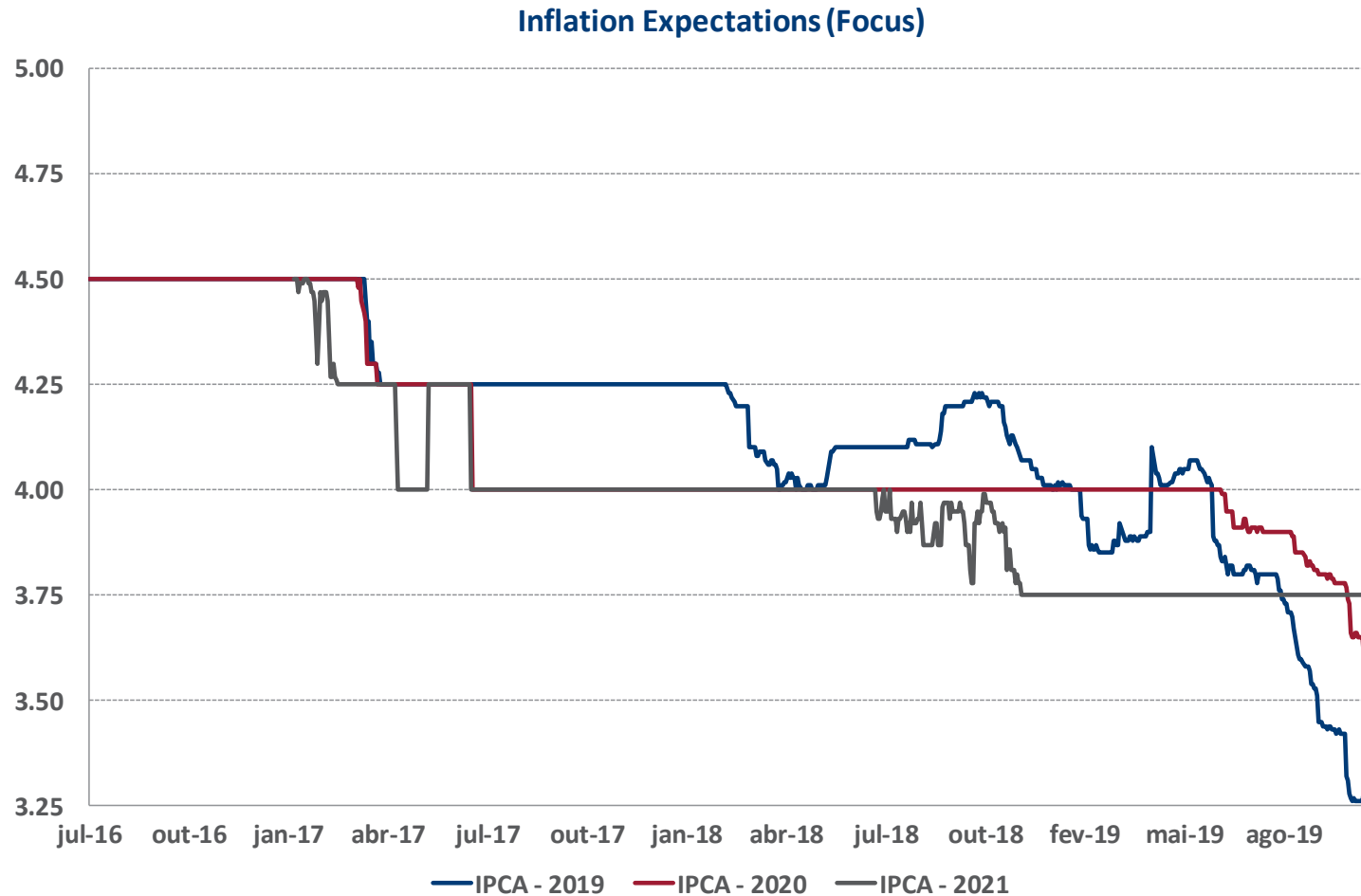
» Output gap still sizeable, but diminishing



BRAZIL: INFLATION

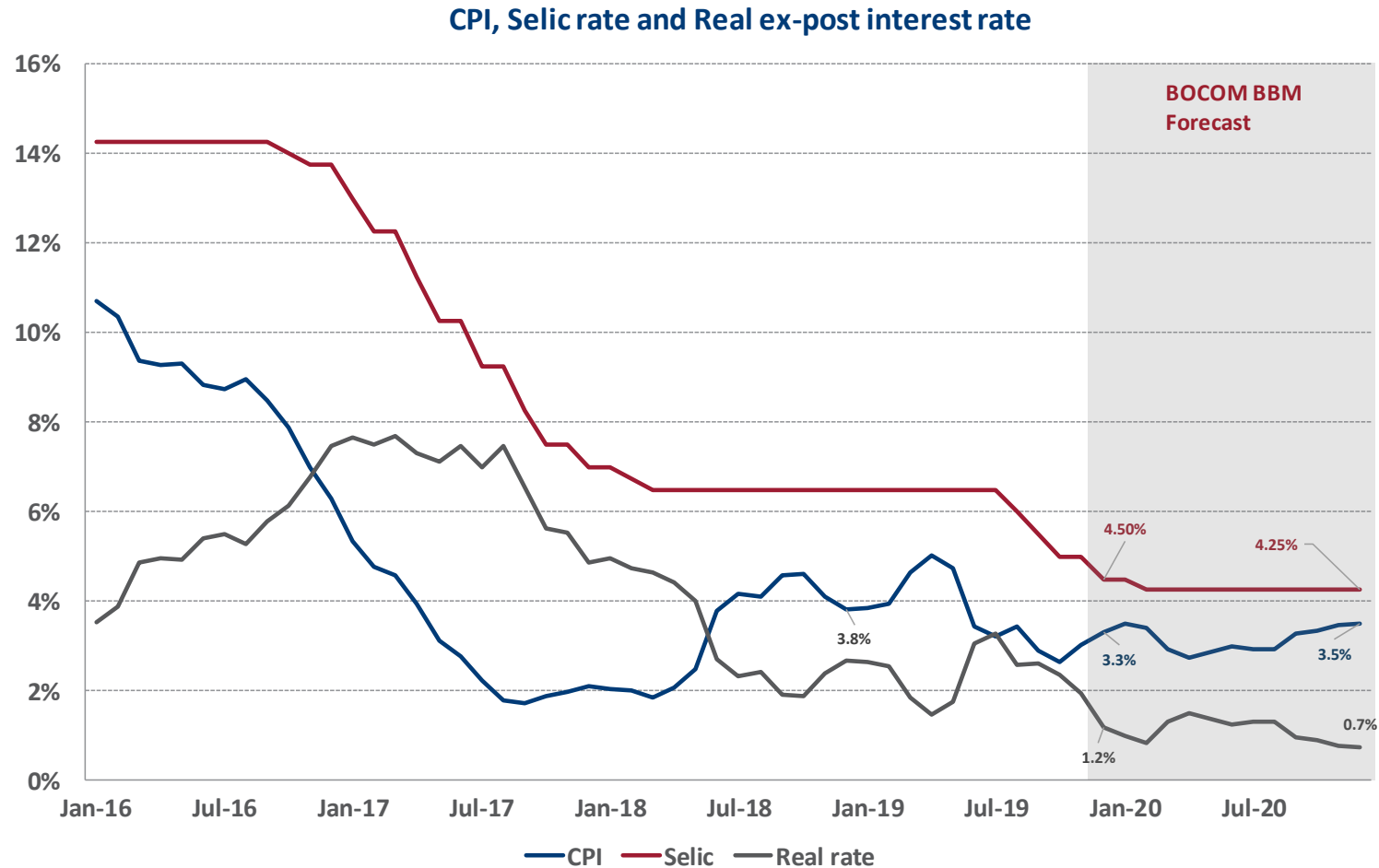
Baseline Scenario											
Exchange rate of 4.00 in 2019 and 2020											
Selic: 4.5% in Dec/19 and in 4.25% Dec/20											
	IPCA	Non-Regulated (74.7%)	Regulated (25.3%)	Core Inflation (59.0%)	Tradables Ex-Food (20.2%)	Services (35.8%)	Core of Services-BBM (16.7%)	Food at Home (15.7%)	Output 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%	3.3%	3.8%	3.1%	1.7%	4.0%	3.1%	4.1%	-5.7%	1.0%	6.5%
3T19	2.9%	3.0%	2.9%	2.7%	1.2%	3.5%	3.4%	3.8%	-5.3%	0.9%	5.5%
4T19	3.4%	2.9%	4.6%	2.6%	0.7%	3.5%	3.0%	4.1%	-5.1%	0.9%	4.50%
1T20	3.0%	2.5%	4.4%	2.5%	0.4%	3.7%	2.6%	2.6%	-4.7%	1.3%	4.25%
2T20	3.0%	2.9%	3.2%	2.4%	0.1%	3.8%	2.5%	5.0%	-4.3%	1.5%	4.25%
3T20	3.3%	3.3%	3.1%	2.6%	0.6%	3.8%	2.3%	6.4%	-4.1%	1.7%	4.25%
4T20	3.5%	3.4%	3.8%	2.8%	1.3%	3.8%	2.5%	5.7%	-3.9%	1.9%	4.25%

» Inflation expectations for 2019 and 2020 remain low and anchored



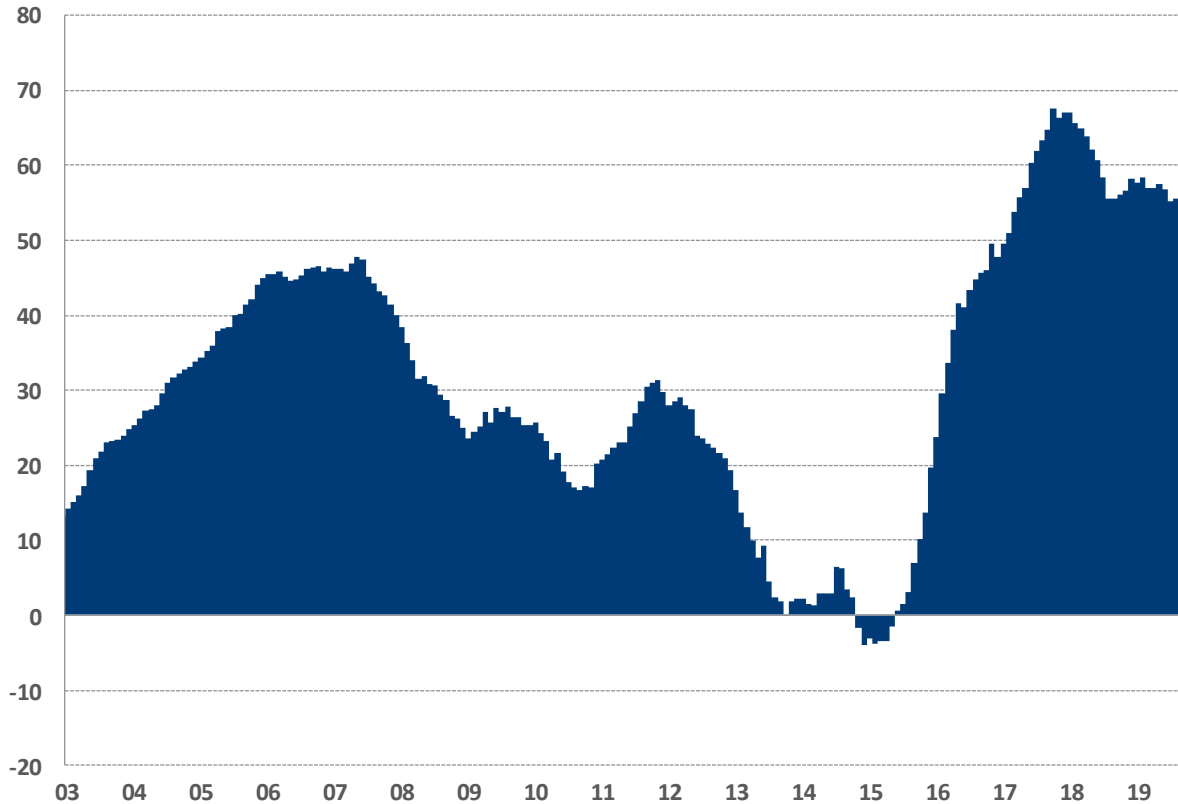
BRAZIL: MONETARY POLICY

» The Central Bank lowered its policy rate (Selic) to 5.0% and suggested caution after the next 50 bps cut in December. We revised downwards our forecast for the end of year Selic to 4.25%

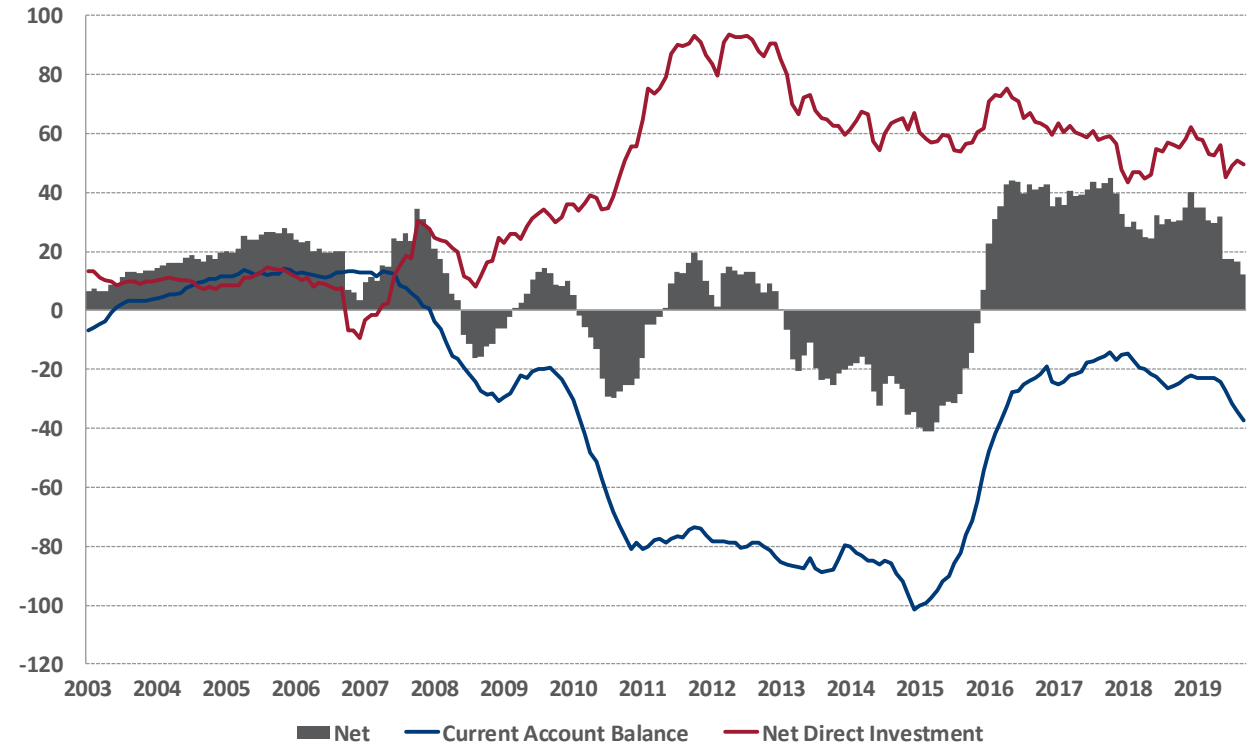


» Trade surplus remains large and FDI continues to overfinance the current account deficit

Trade Balance - US\$ Billion in 12m

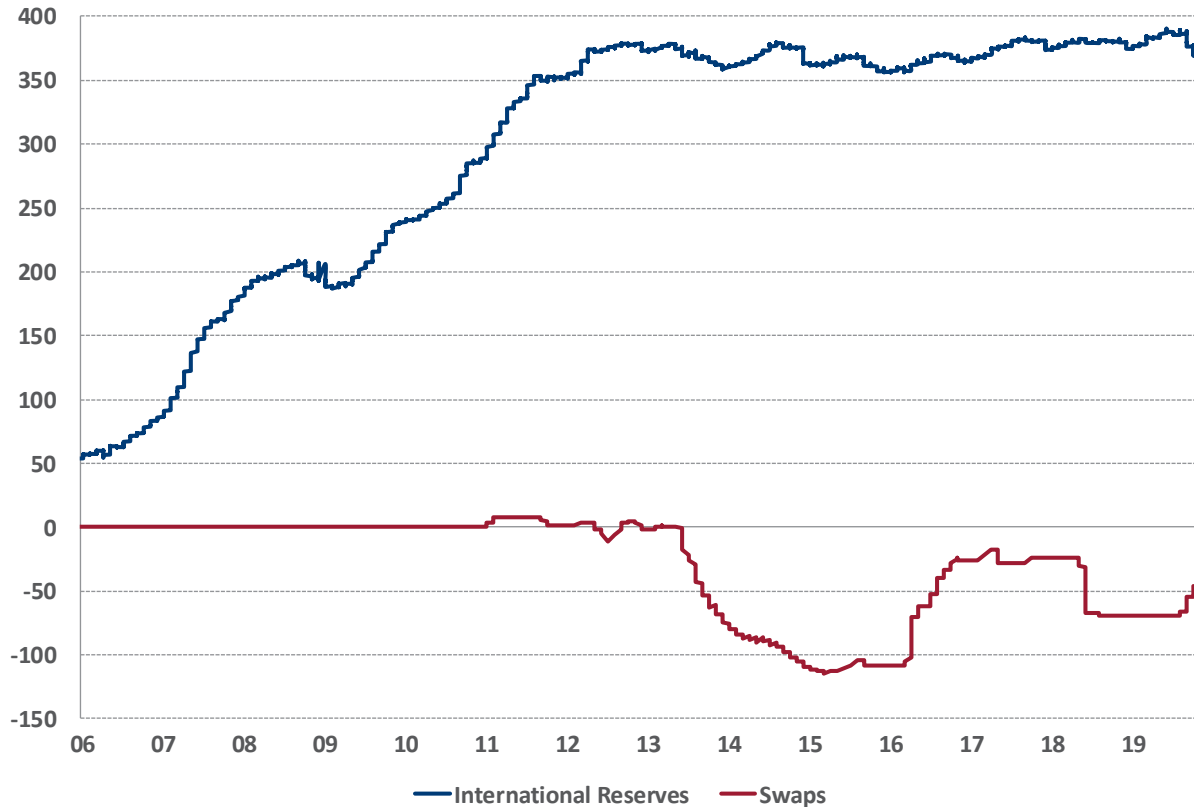


Current Account vs Net Direct Investment - US\$ Billion in 12m



»» Central Bank holds substantial international reserves.

Brazil: Central Bank Assets in US\$ Bn

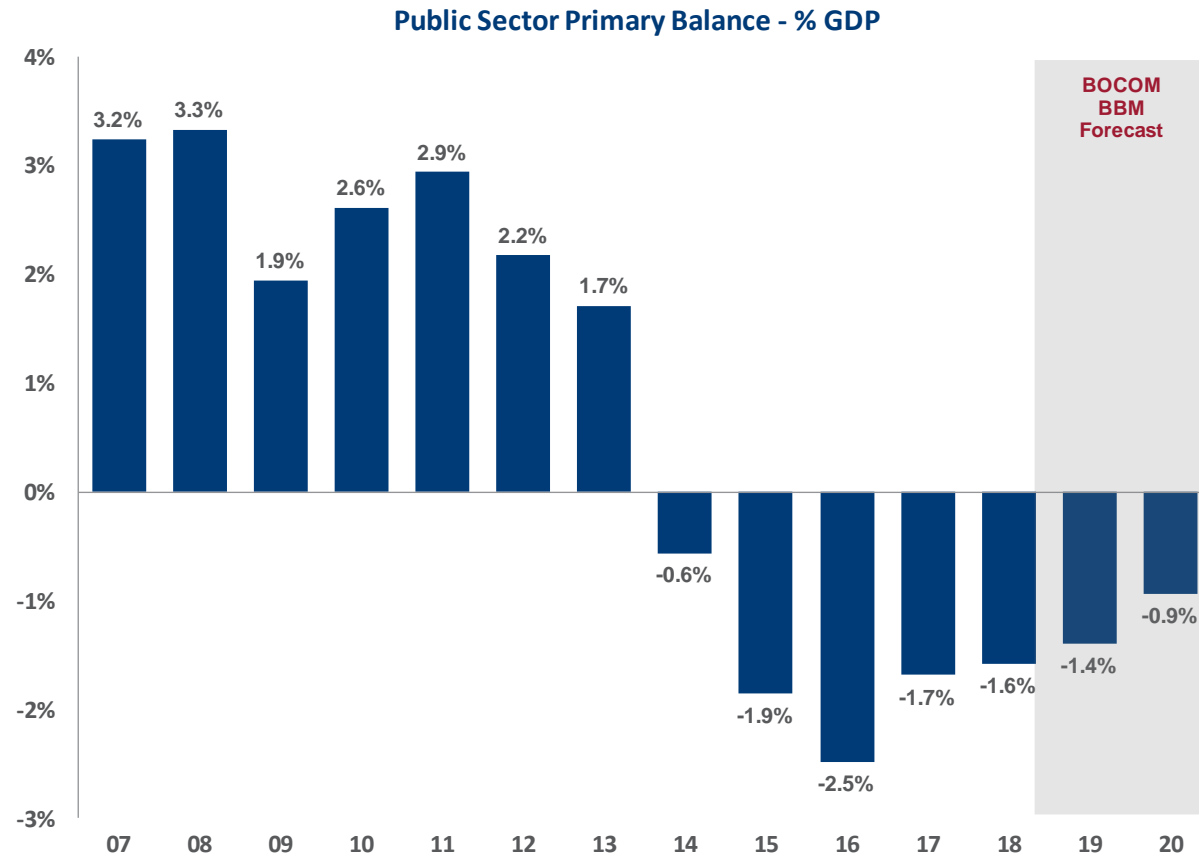


»» Government domestic debt exposure to foreign investors continues to fall.

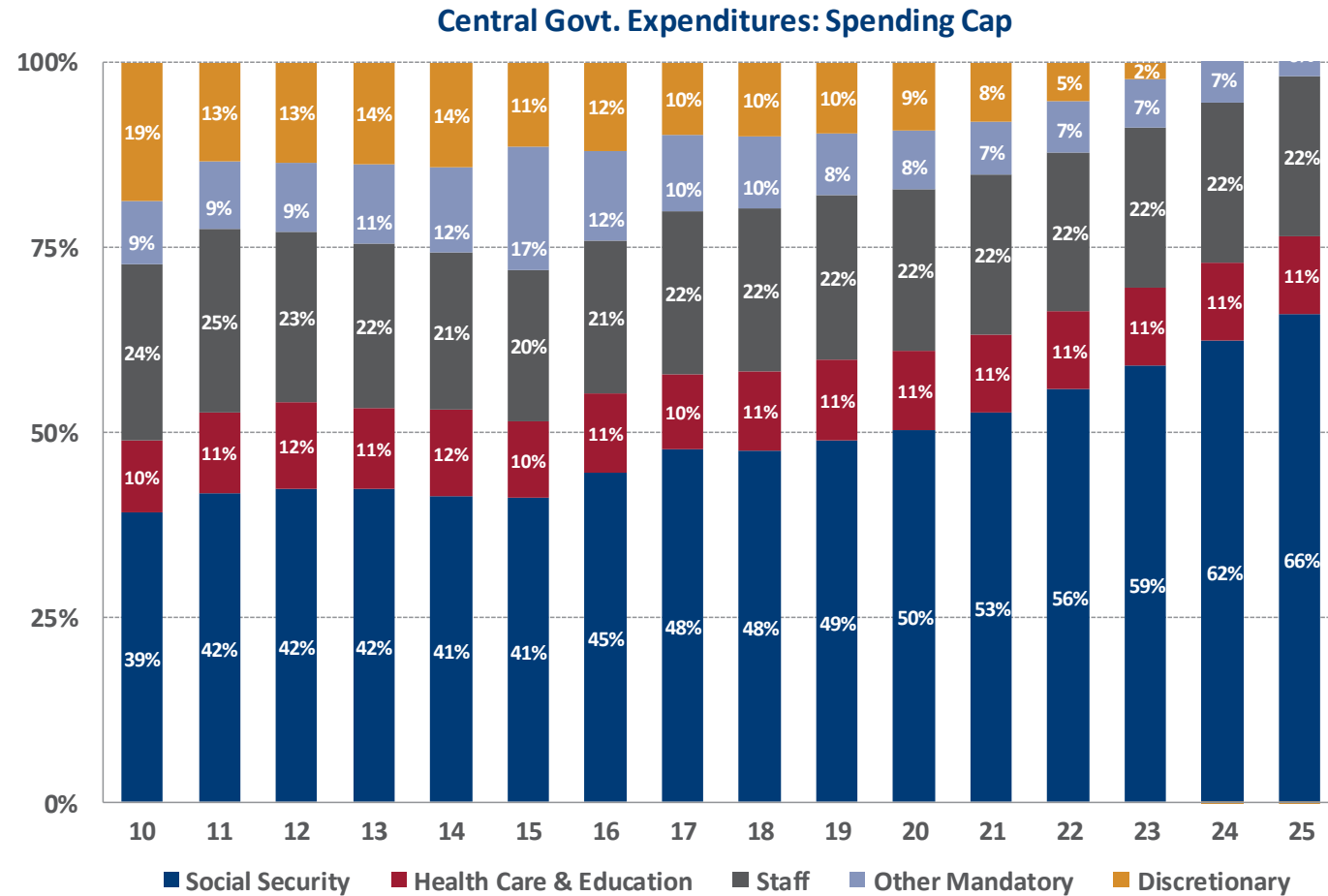
Non-resident participation in Local Currency Government Bond Markets



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



» The government spends 50% of its budget with social security and 90% of it with mandatory spending. Without additional reforms, the spending cap becomes unsustainable in 2022



- » 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)
Private sector	682
Retirement by age	119
Retirement by contribution time	406
Bereavement payment	111
Retirement by disability	69
Rural retirement	0
Progressive contribution rates	-30
Social assistance	0
Salary Allowance	0
BPC	0
Public servants (Federal)	113
Progressive contribution rates	23
Total	788
Total in % GDP	1.6%
CSLL	
Total with CSLL	
Total with CSLL in % of GDP	

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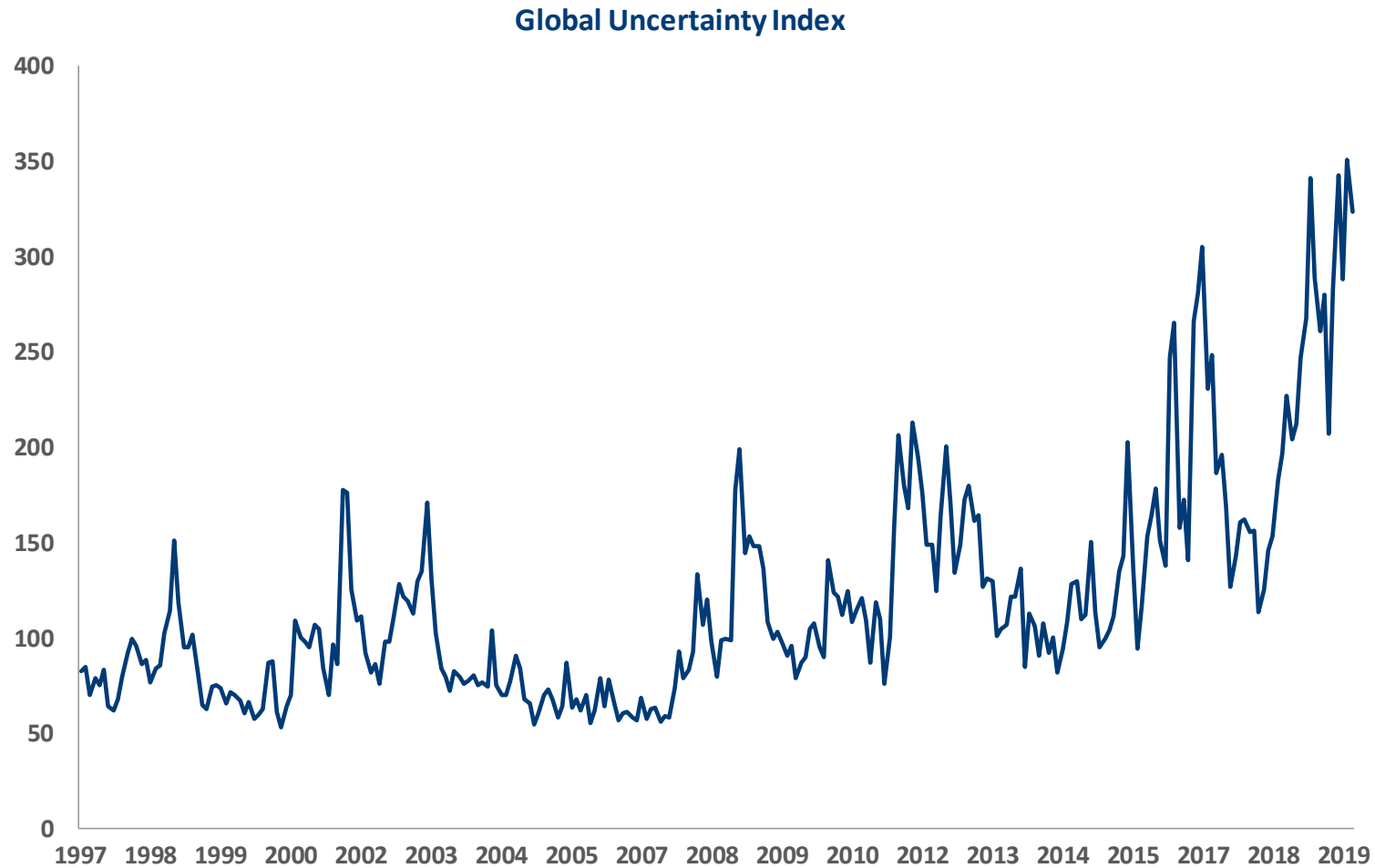
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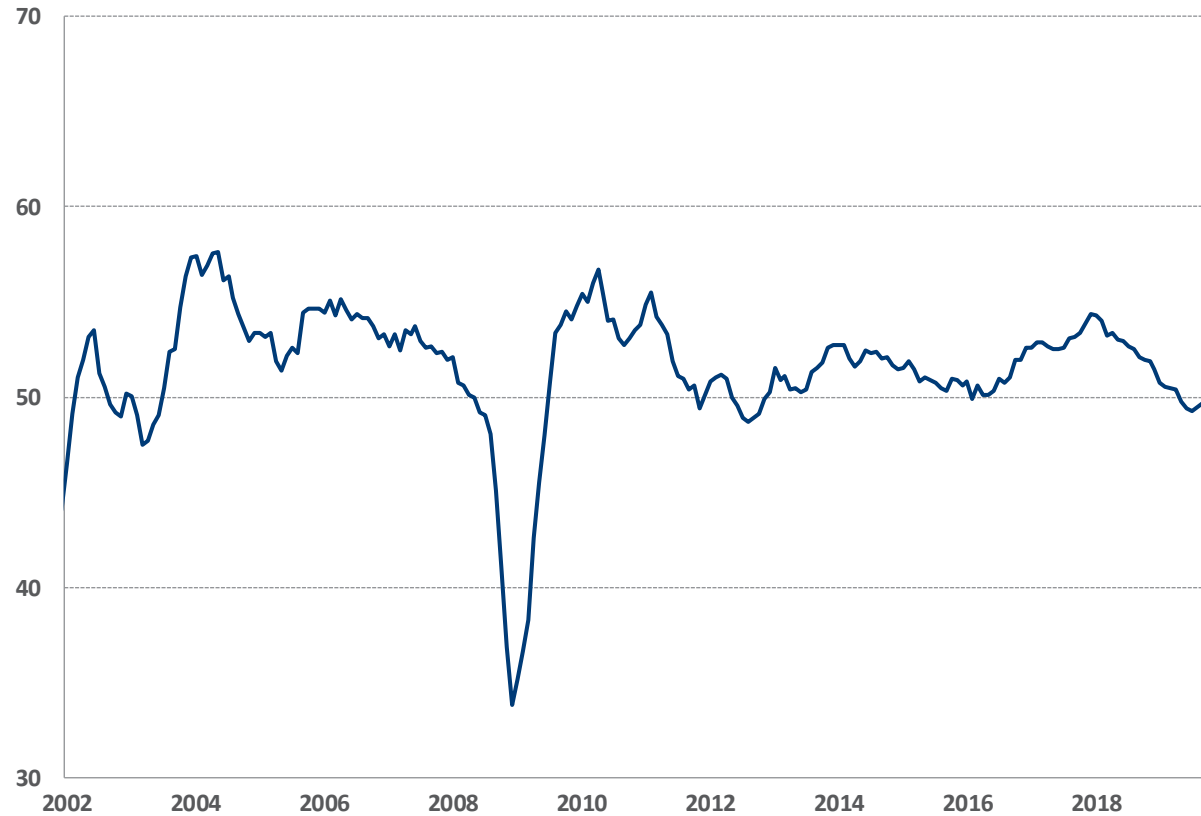
- » High global economic uncertainty has weighed on global sentiment and activity
- » But the global economy seems to be stabilizing
- » Central Banks continue to increase monetary stimulus, pushing global interest rates down
- » De-escalation of China-US tensions in trade for now, but confrontation is here to stay

» High global economic uncertainty has weighed on global sentiment and activity

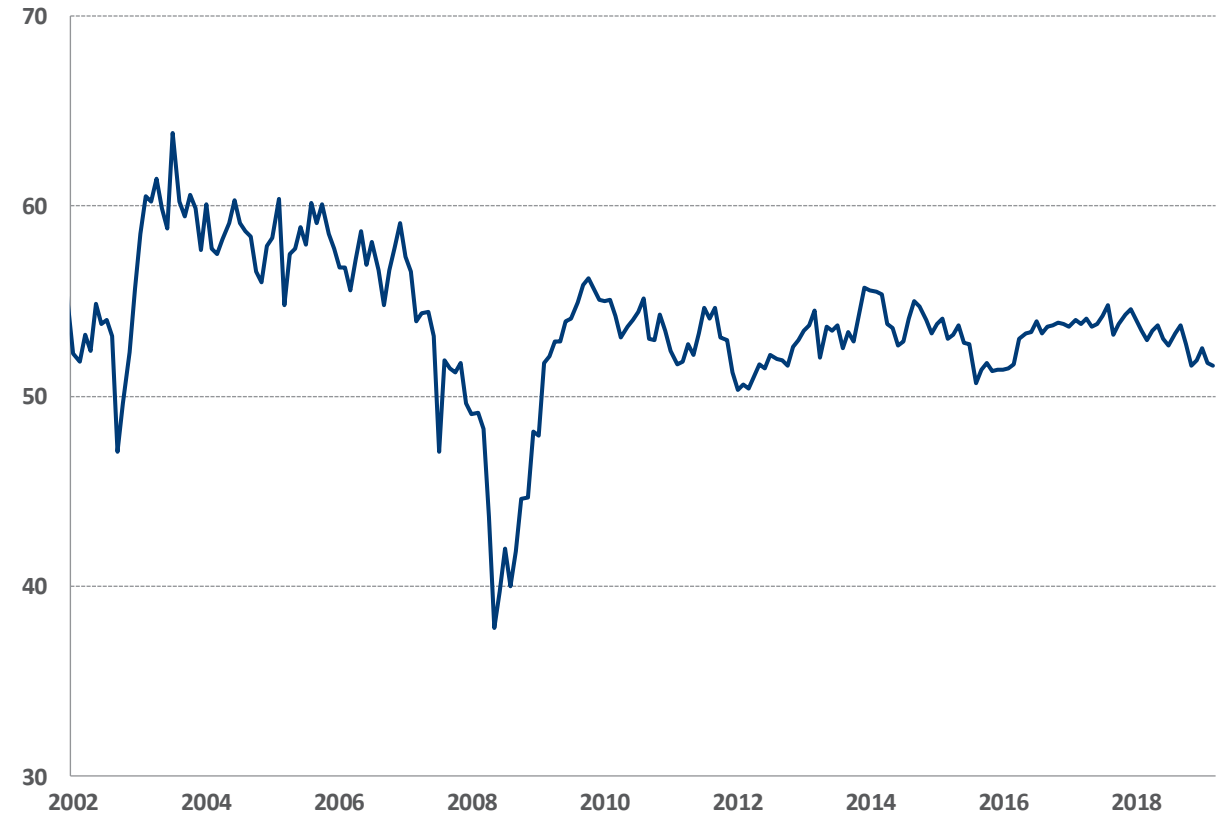


»» Global deceleration in growth seems to have stabilized

Global Industrial PMI



Global Services PMI

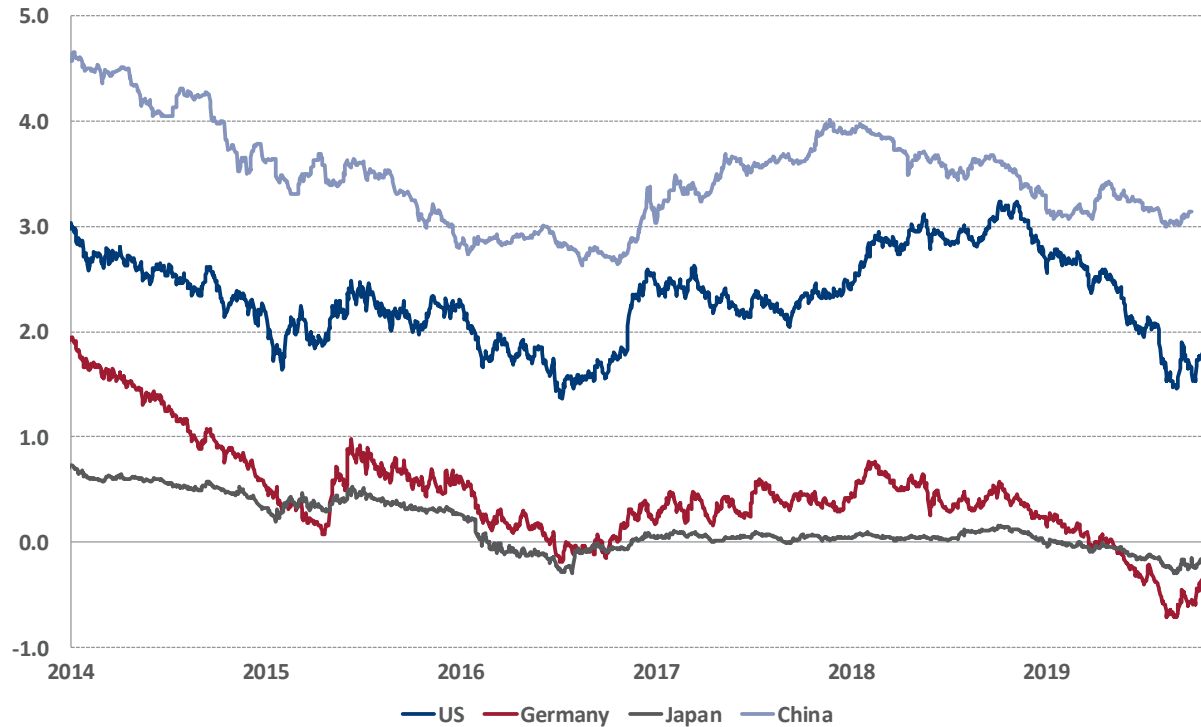


» De-escalation of China-US tensions in trade for now, but confrontation is here to stay



» 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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