



MACRO OUTLOOK

Fernanda Guardado
Chief Economist

December 2019

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» BRAZIL: FASTER GROWTH CONSOLIDATES

» GLOBAL: GROWTH STABILIZES

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»» GLOBAL: GROWTH STABILIZES

FASTER GROWTH CONSOLIDATES

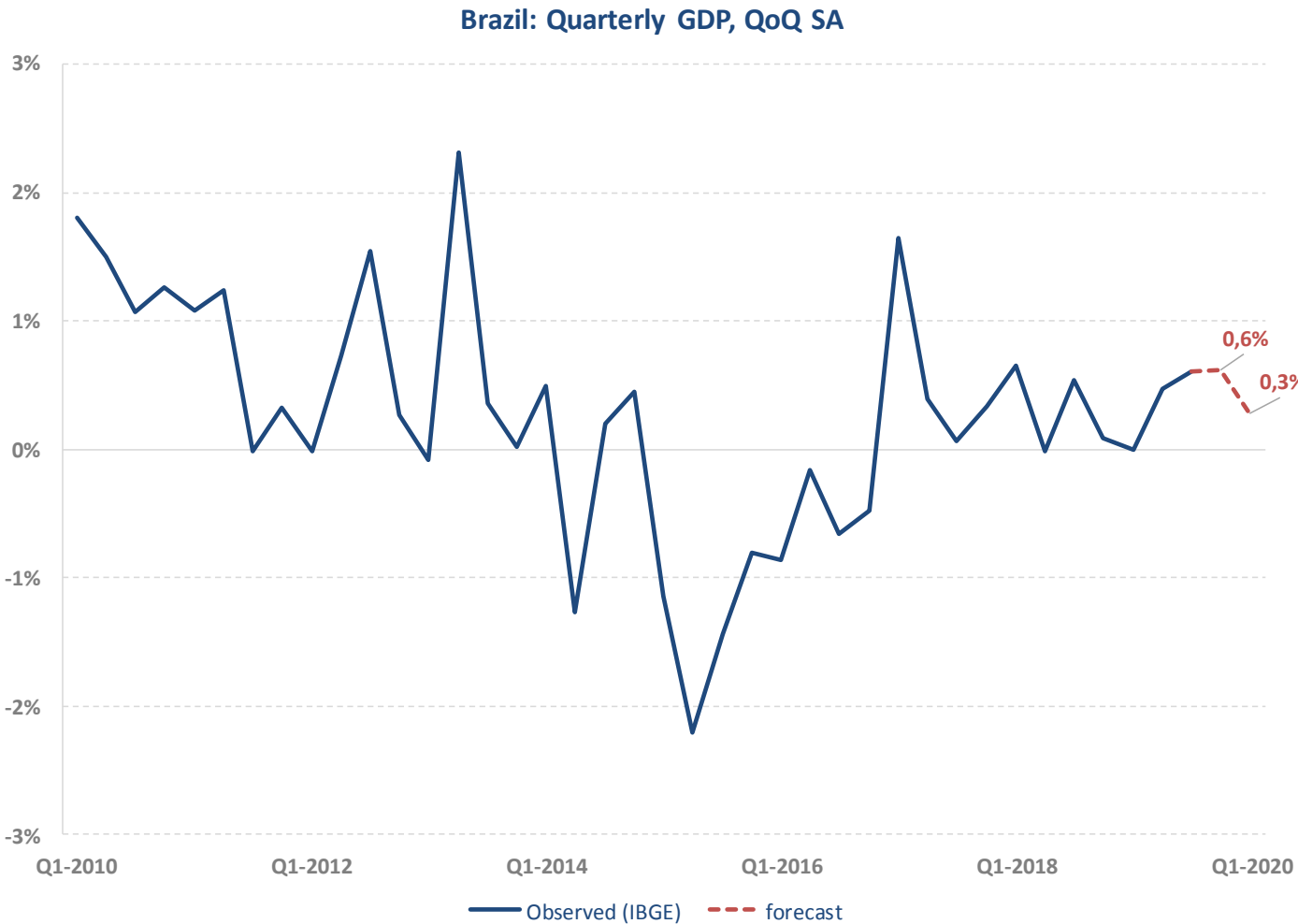
- » Q3 GDP confirms faster growth rate over first semester; we review our 2019 growth forecast to 1.2%; 2020 forecast rises to 2.1%
- » Inflation and its core measures should remain at low levels for the next couple of years
- » We maintain our forecast for 2020 Selic at 4.25%
- » Ambitious reform agenda is a positive sign, but approval is uncertain

BRAZIL: FORECASTS

ECONOMIC FORECASTS	2013	2014	2015	2016	2017	2018	2019 F	2020F
GDP Growth (%)	3,0%	0,5%	-3,5%	-3,3%	1,3%	1,3%	1,2%	2,1%
Inflation (%)	5,9%	6,4%	10,7%	6,3%	2,9%	3,7%	3,7%	3,6%
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%	10,9%
Trade Balance (US\$ bn)	3	-4	20	48	67	53	42	35
Current Account Balance (US\$ bn)	-75	-104	-59	-23	-10	-42	-52	-50
Current Account Balance (% of GDP)	-3,0%	-4,3%	-3,3%	-1,3%	-0,7%	-2,2%	-3,1%	-3,0%
Fiscal Primary Balance (% of GDP)	1,7%	-0,6%	-1,9%	-2,5%	-1,8%	-1,6%	-1,5%	-0,9%
Government Gross Debt (% of GDP)	51,7%	57,2%	66,2%	69,4%	74,0%	76,7%	78,3%	79,3%

BRAZIL: GDP

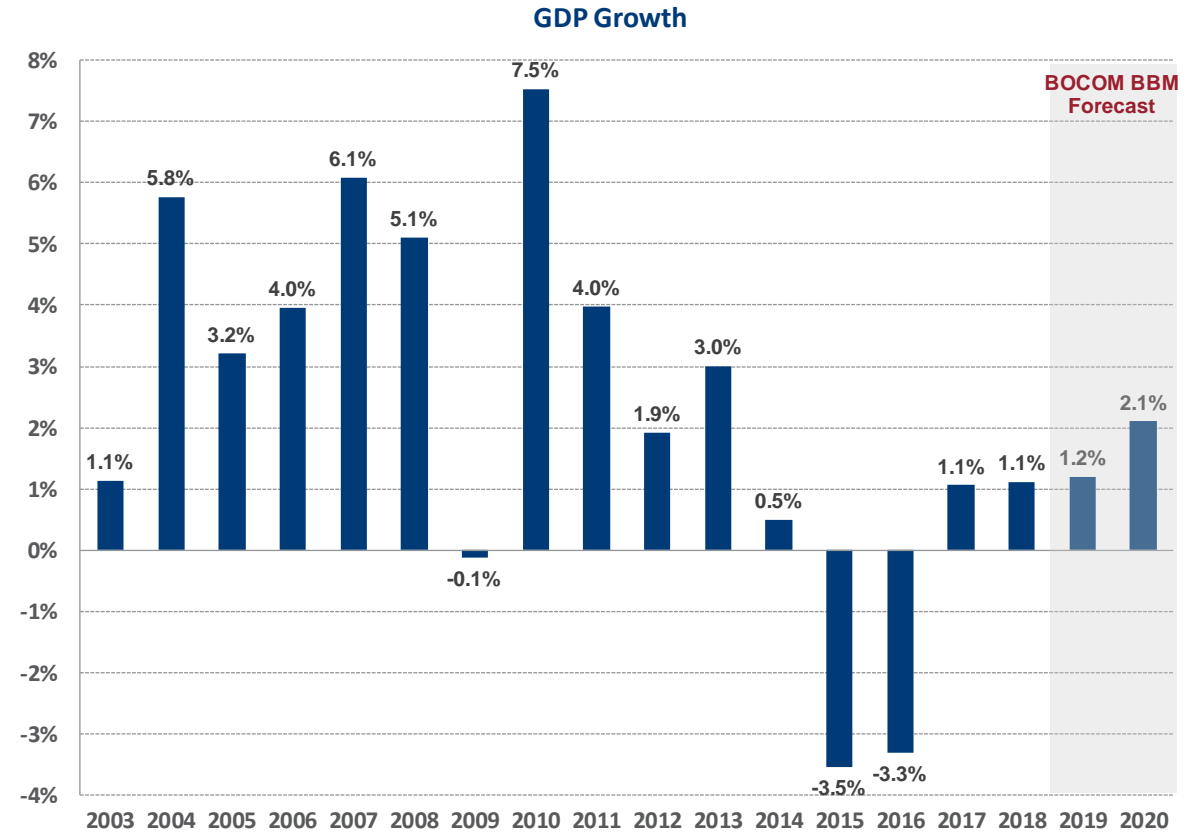
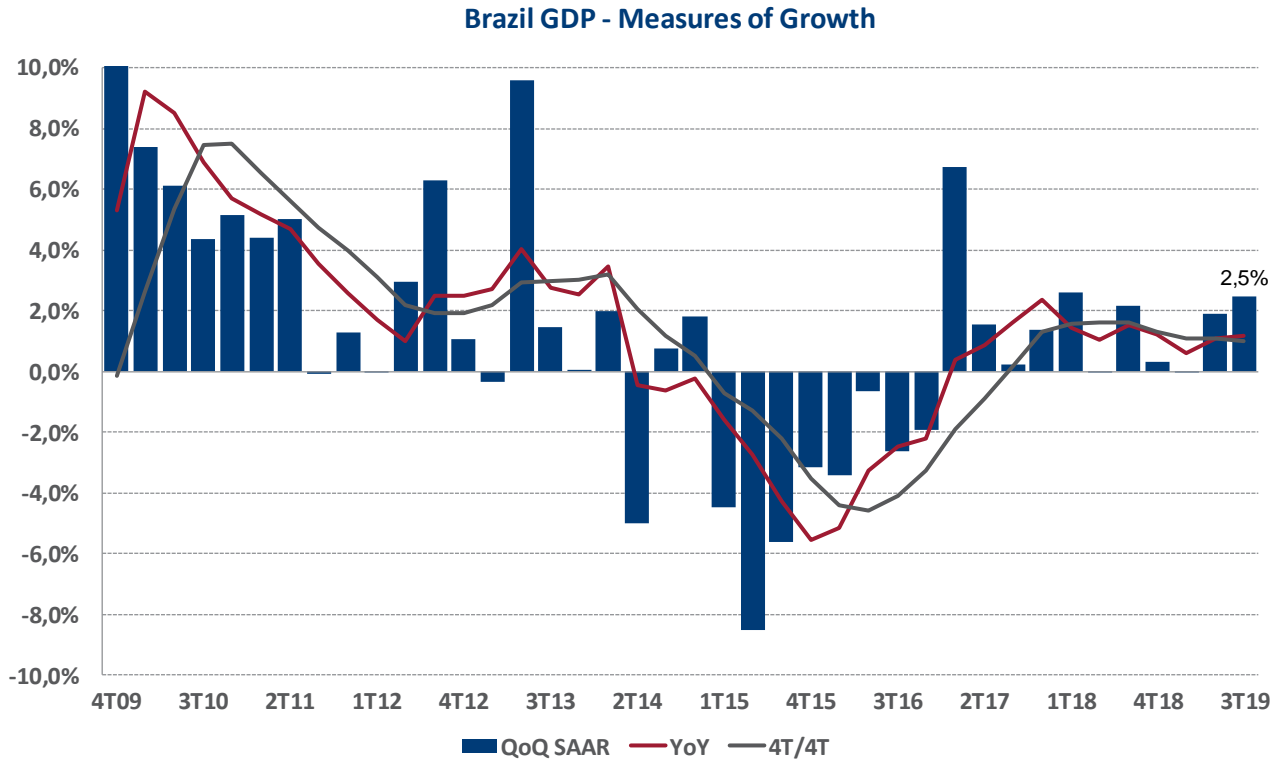
» We reviewed our GDP growth in 2019 to 1.2%; 2020 to 2.1%



Sensitivity analysis: 2020 growth

		Avg. QoQ Growth 2020			
		0	0,25	0,44	0,6
Q4 QoQ	0	0,4%	1,1%	1,5%	2,0%
	0,3	0,7%	1,3%	1,8%	2,2%
	0,6	0,9%	1,5%	2,0%	2,4%
	0,8	1,0%	1,7%	2,2%	2,6%

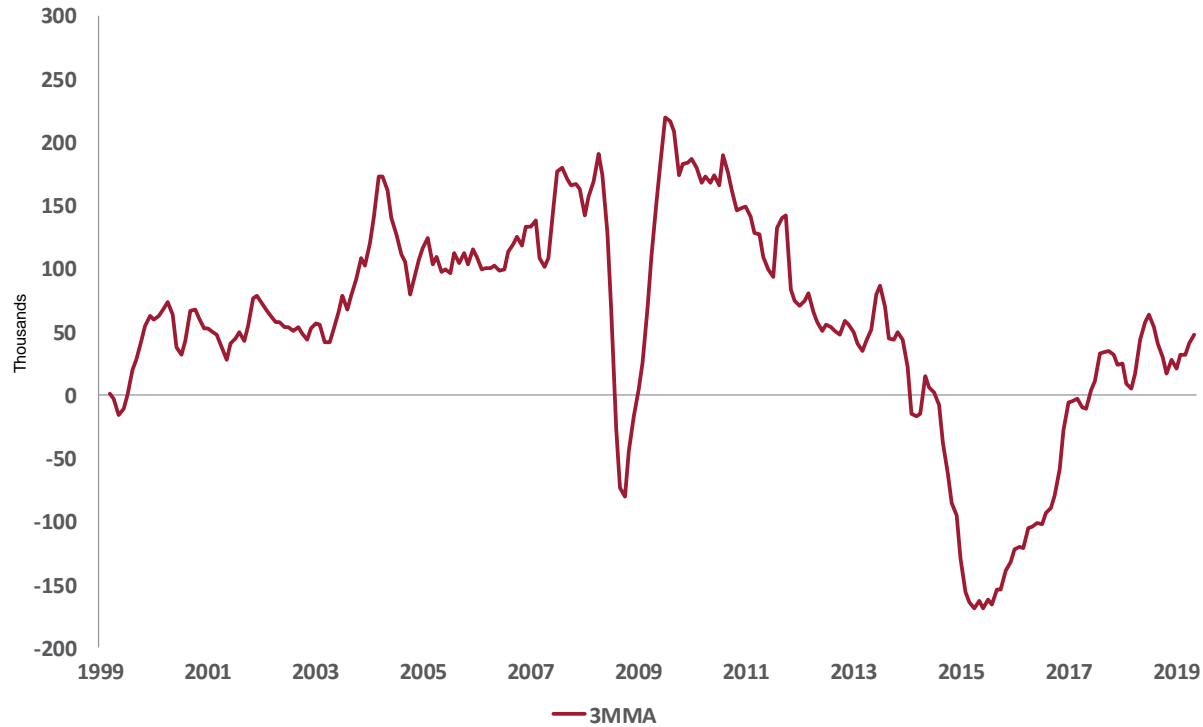
» Q3 GDP confirms faster growth rate over first semester



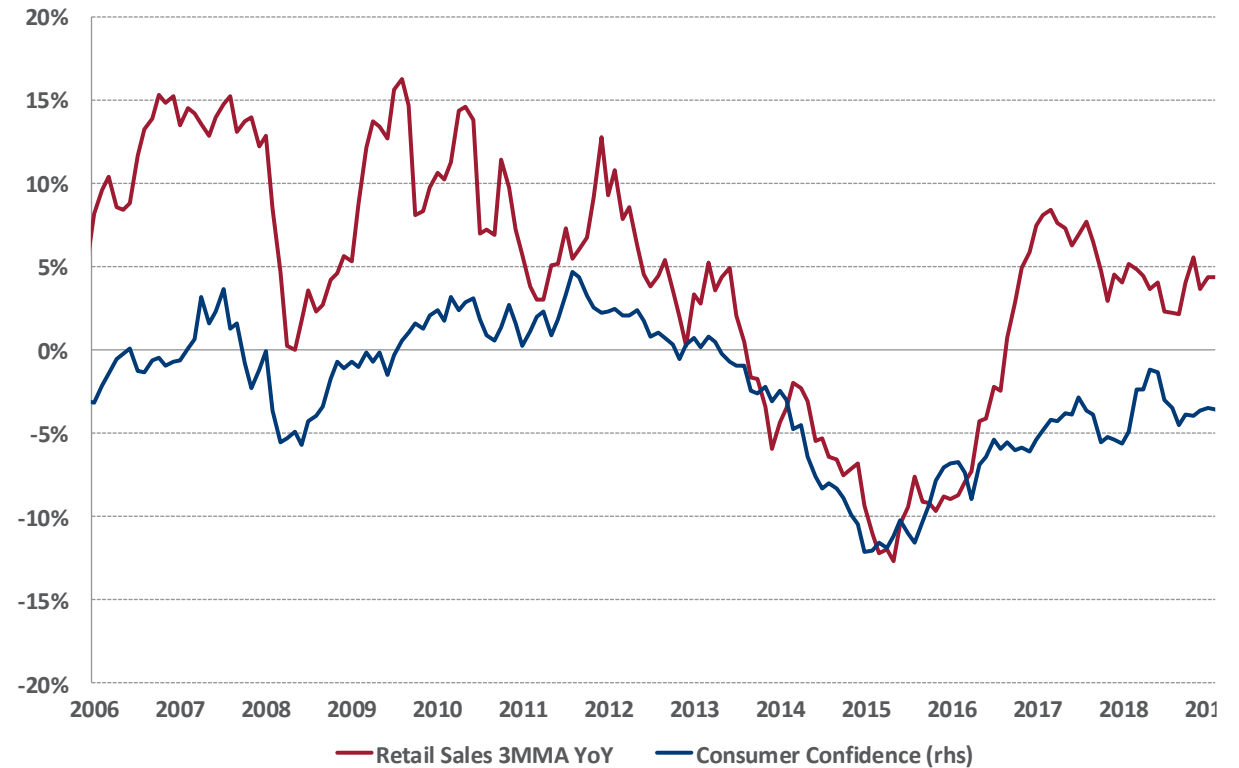
BRAZIL: ACTIVITY

»» The recovery consolidates over the Q3, even in the formal job market

Caged Net Payroll Job Creation - SA



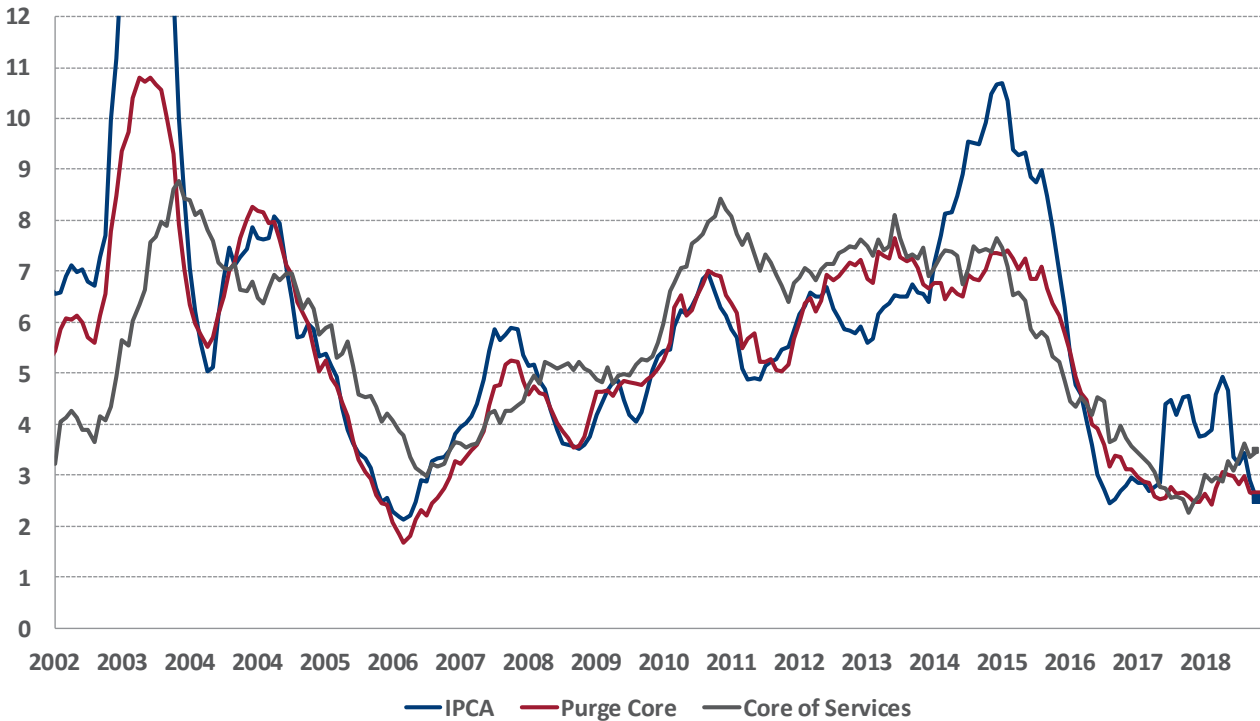
Extended Retail Sales and Consumer Confidence



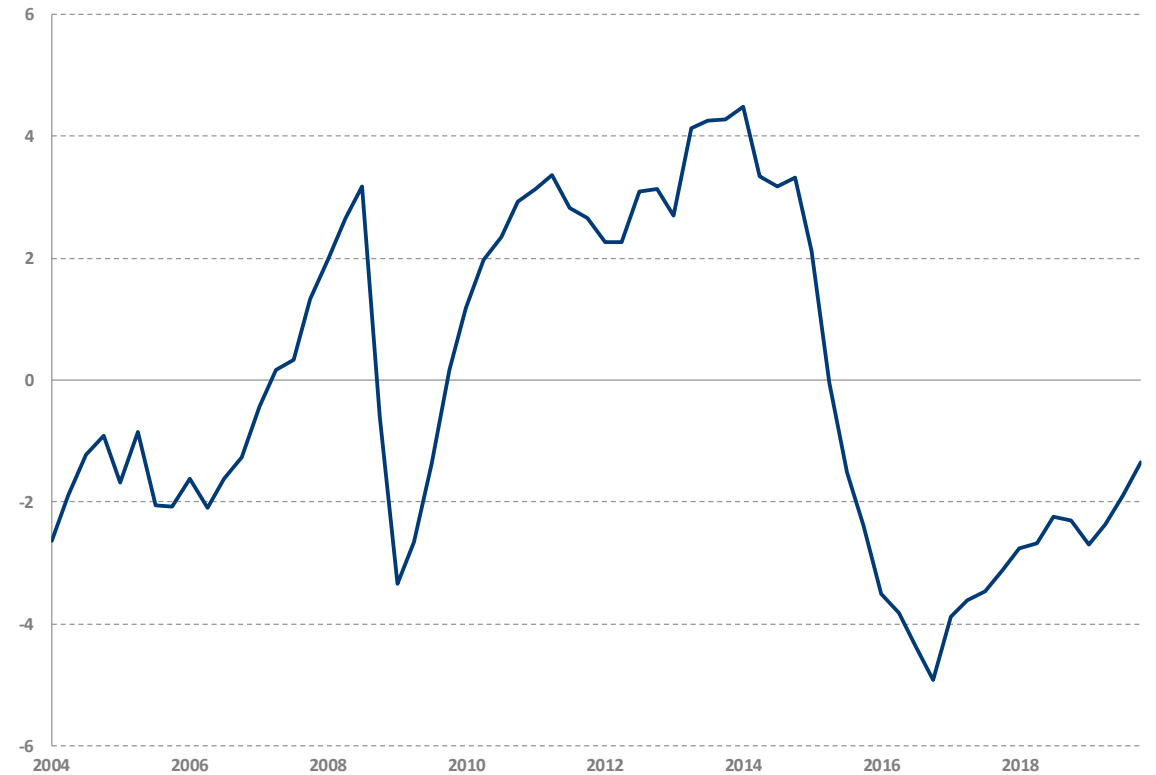
» Inflation and its core measures should remain at low levels for the next couple of years

» Output gap still sizeable, but diminishing

IPCA - Cores YoY



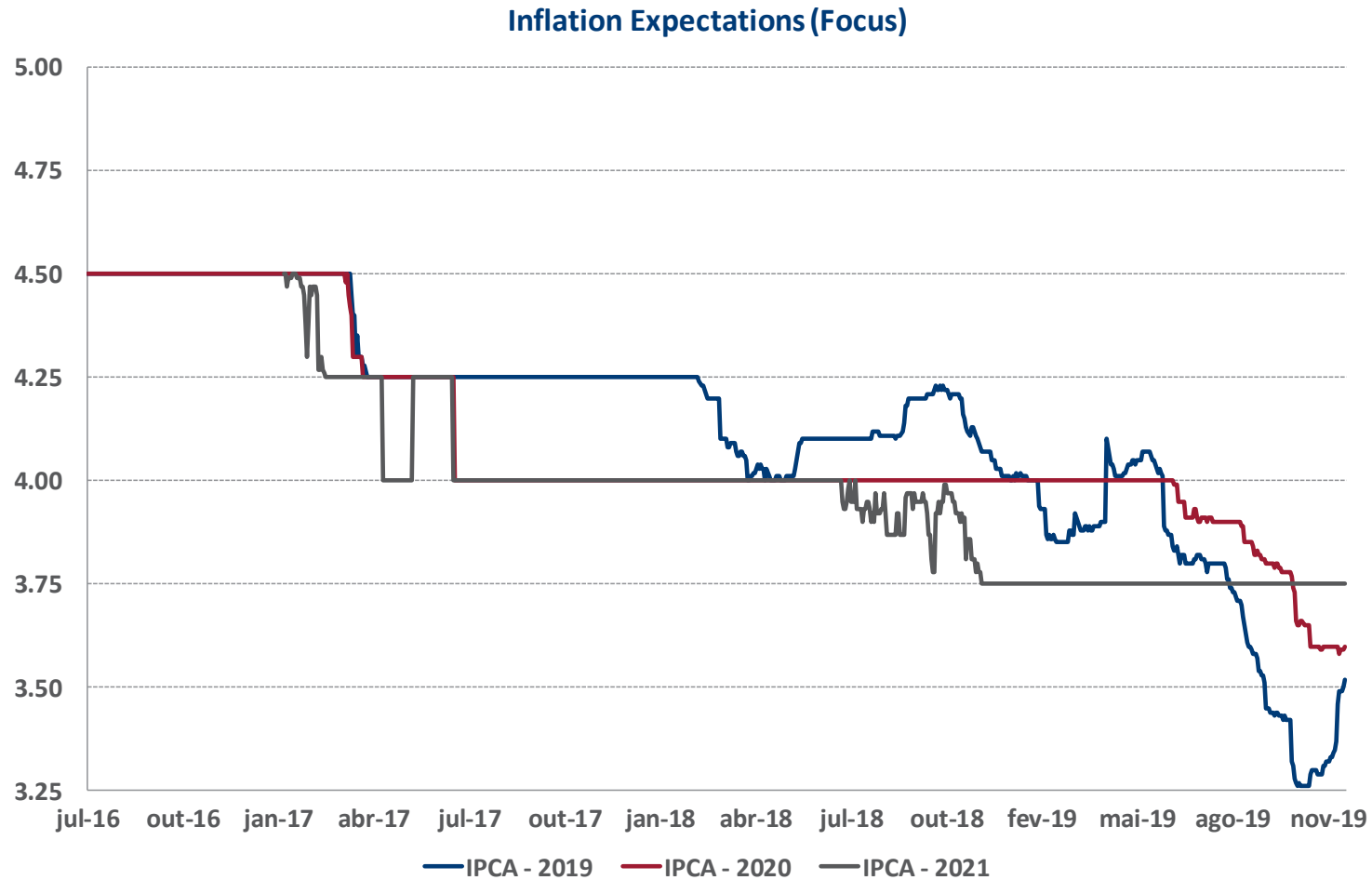
Output Gap - % of Potential GDP (BOCOM BBM measure)



BRAZIL: INFLATION

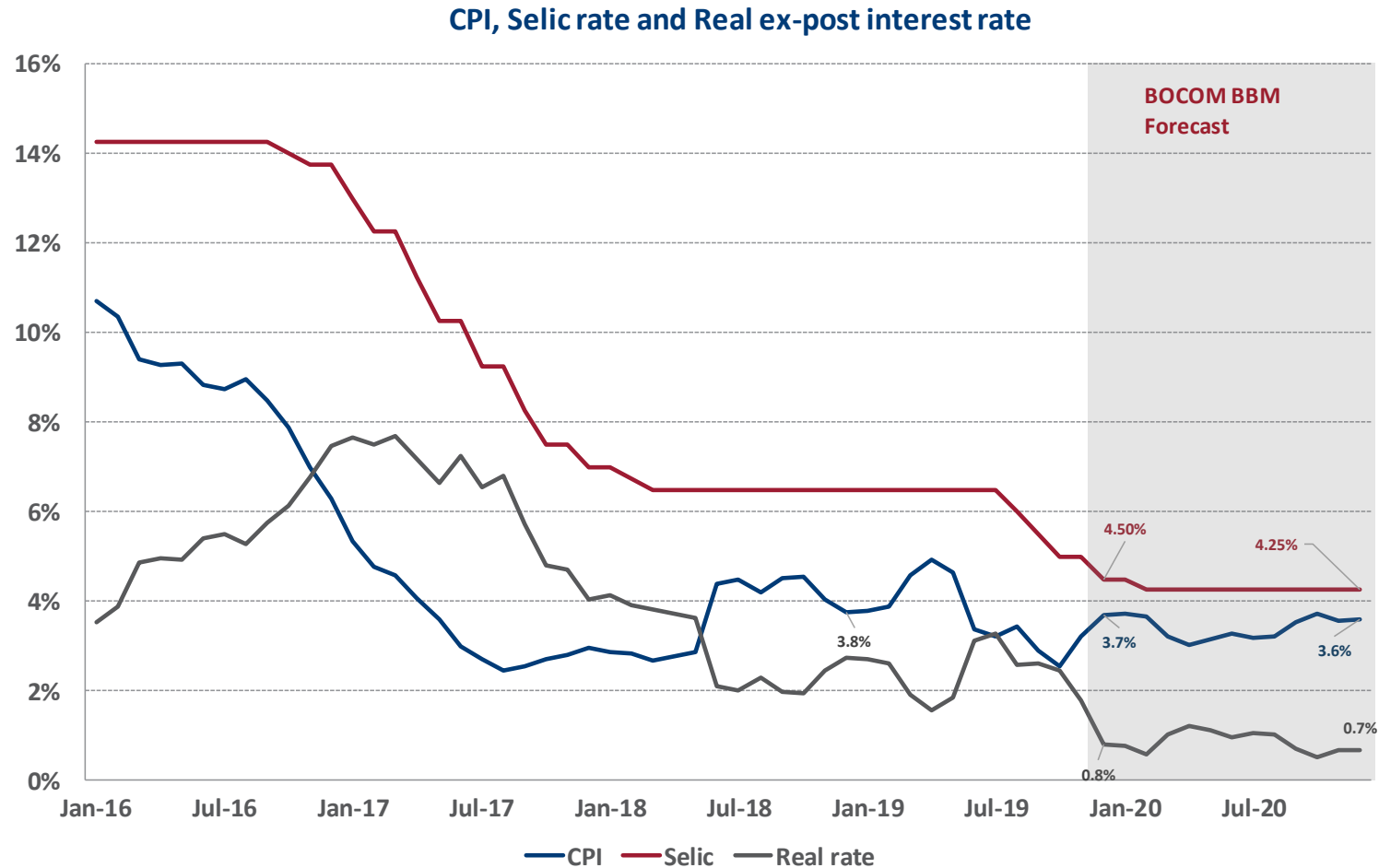
Baseline Scenario									
Exchange rate of 4.00 in 2019 and 2020									
Selic: 4.5% in Dec/19 and 4.25% in Dec/20									
	IPCA	Non-Regulated (74.7%)	Regulated (25.3%)	Core Inflation (59.0%)	Tradables Ex-Food (20.2%)	Services (35.8%)	Core of Services-BBM (16.7%)	Food at Home (15.7%)	GDP
1T16	9.4%	9.0%	10.8%	7.3%	6.6%	7.5%	6.5%	15.3%	-4.4%
2T16	8.8%	8.5%	9.9%	6.8%	6.9%	7.0%	5.9%	14.7%	-4.5%
3T16	8.5%	8.7%	7.9%	6.7%	6.2%	7.0%	5.7%	16.1%	-4.1%
4T16	6.3%	6.6%	5.5%	5.8%	5.2%	6.5%	4.8%	9.4%	-3.3%
1T17	4.6%	4.3%	5.6%	4.6%	3.2%	6.0%	4.5%	3.0%	-2.0%
2T17	3.0%	2.9%	3.3%	3.9%	1.5%	5.7%	4.5%	-0.6%	-1.0%
3T17	2.5%	1.4%	6.1%	3.4%	1.0%	5.0%	3.7%	-5.3%	-0.1%
4T17	2.9%	1.3%	8.0%	3.1%	0.9%	4.5%	3.6%	-4.9%	1.3%
1T18	2.7%	1.3%	7.1%	2.8%	0.6%	3.9%	3.2%	-4.3%	1.3%
2T18	4.4%	2.0%	11.8%	2.6%	0.8%	3.1%	2.8%	0.1%	1.4%
3T18	4.5%	2.6%	10.4%	2.7%	1.4%	3.2%	2.5%	2.2%	1.4%
4T18	3.7%	2.9%	6.2%	2.5%	1.1%	3.3%	2.6%	4.5%	1.3%
1T19	4.6%	4.0%	6.3%	2.7%	1.4%	3.6%	3.0%	8.7%	0.9%
2T19	3.4%	3.3%	3.8%	3.1%	1.7%	4.0%	3.1%	4.1%	1.0%
3T19	2.9%	3.0%	2.9%	2.7%	1.2%	3.5%	3.4%	3.8%	1.2%
4T19	3.7%	3.1%	5.5%	2.8%	1.0%	3.7%	3.5%	4.1%	1.8%
1T20	3.4%	2.7%	5.2%	2.8%	0.8%	4.0%	3.1%	2.6%	2.0%
2T20	3.5%	3.2%	4.0%	2.7%	0.6%	4.1%	3.0%	5.0%	2.1%
3T20	3.8%	3.6%	3.9%	2.9%	1.1%	4.1%	2.8%	6.4%	2.2%
4T20	3.6%	3.5%	3.8%	2.9%	1.5%	3.9%	2.5%	5.7%	2.2%

» Inflation expectations for 2019 and 2020 remain low and anchored



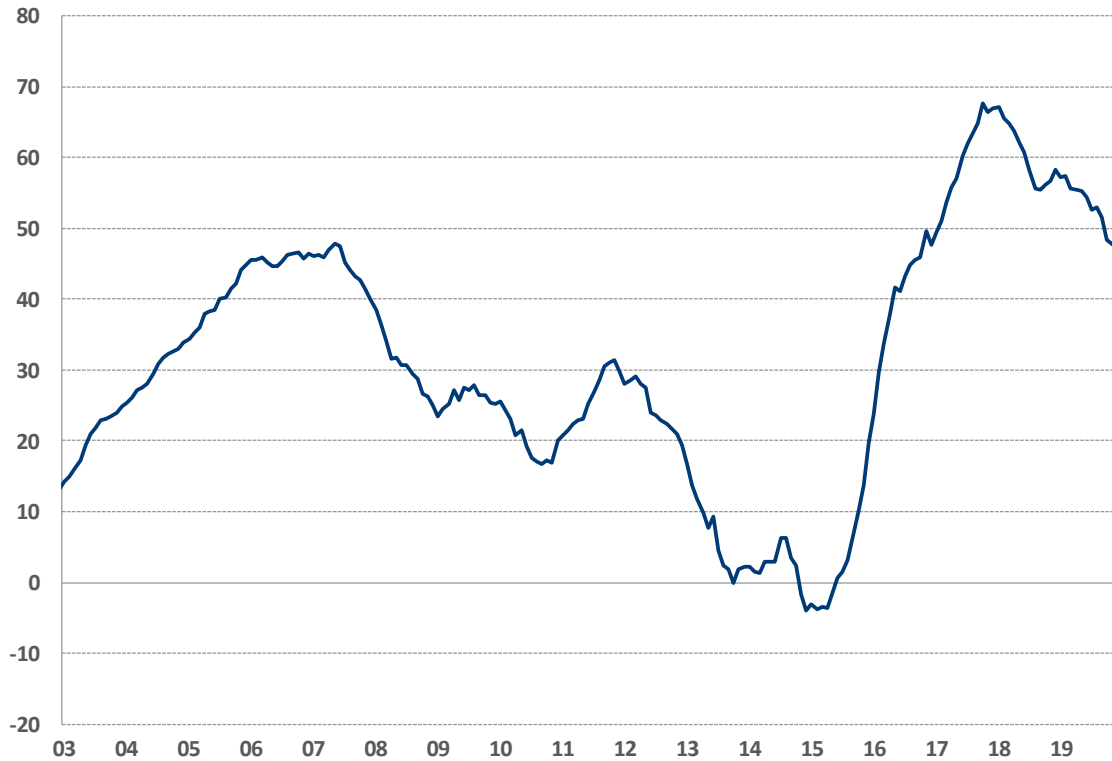
BRAZIL: MONETARY POLICY

» The BCB has signaled another cut in the last 2019 meeting, bringing interest rates to 4.50%. We maintain our forecast for 2020 Selic at 4.25%

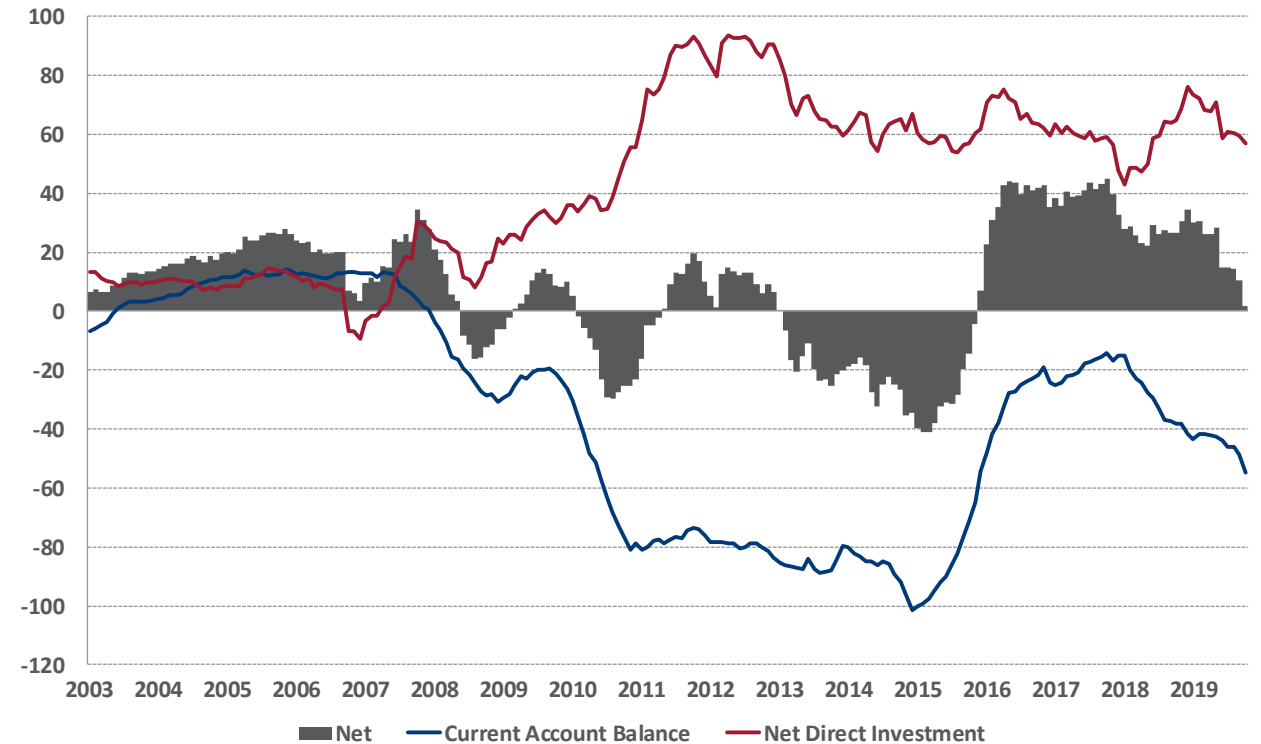


» Trade surplus remains large and FDI continues to overfinance the current account deficit

Trade Balance - US\$ Billion in 12m

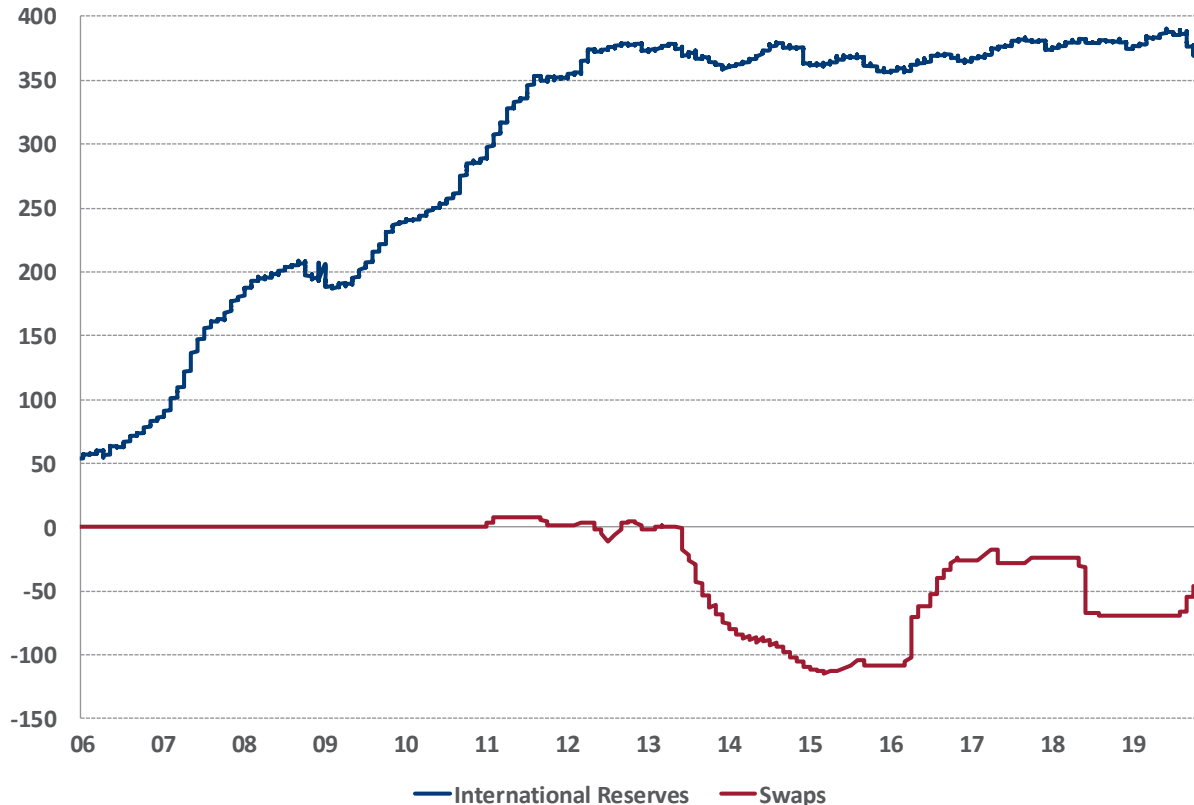


Current Account vs Net Direct Investment - US\$ Billion in 12m



» Central Bank holds substantial international reserves.

Brazil: Central Bank Assets in US\$ Bn

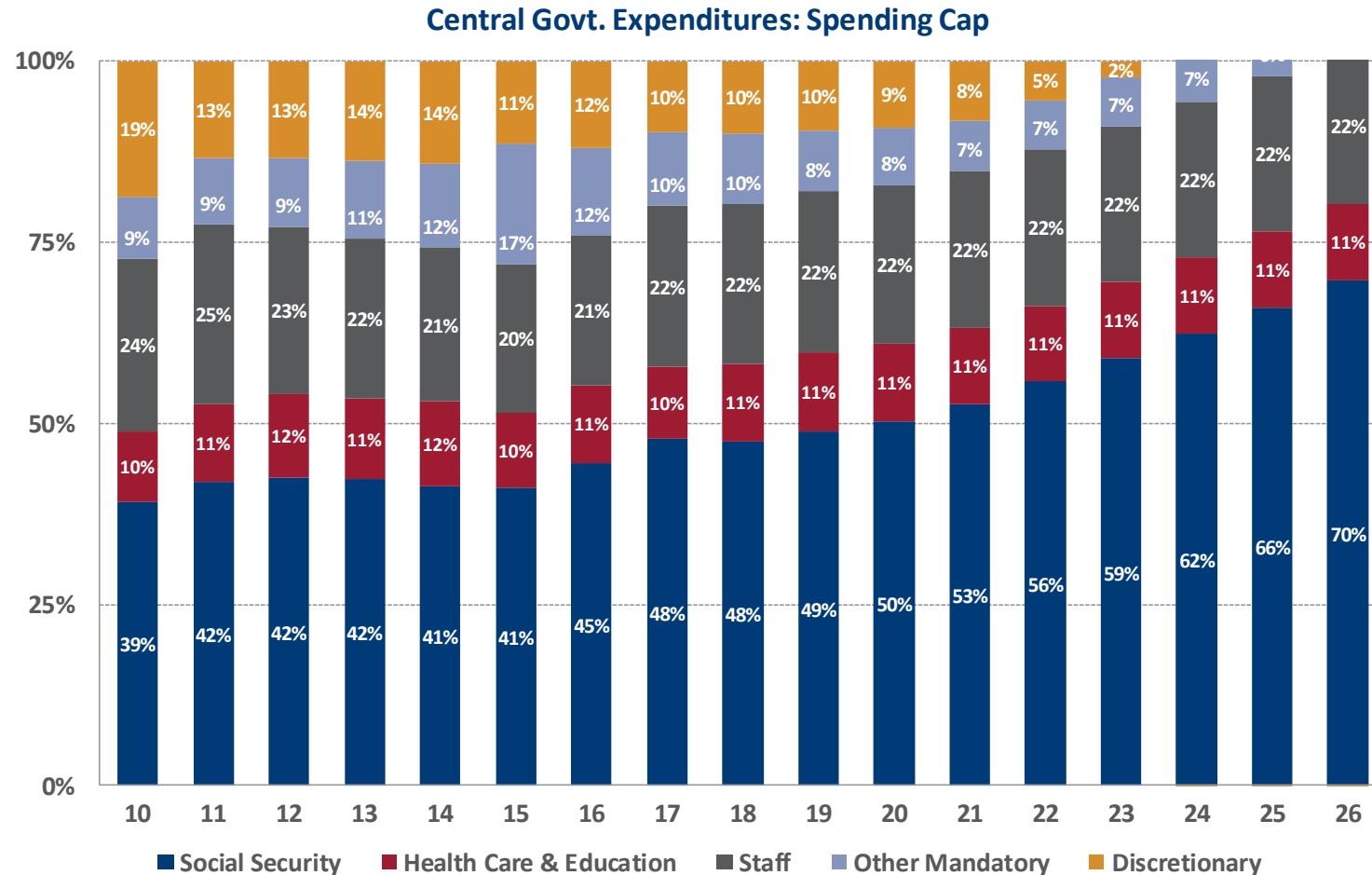


» Government domestic debt exposure to foreign investors continues to fall.

Non-resident participation in Local Currency Government Bond Markets



»» 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 was approved 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	

» Ministry of Economy sent 3 new PECs to the Senate in November:

1. **“Emergency PEC”**: establishes thresholds and rules that trigger the freezing or cut of public employees when both federal or state governments breach certain benchmarks, allowing the decrease in expenditures
 2. **Federative Pact**: redistribution of revenue between the Federal and Local Govts (R\$ 400 bn); creation of a Fiscal Council; uniformization in budget standards for local administrations; overview of subsidies; No more federal backing to local govts debt, (and more...)
 3. **Earmarked Funds**: proposal to end the earmarking of revenue to several state funds, unfreezing around R\$ 220 bn of public money unused
- » “Emergency PEC” is the most relevant in the short run, and equivalent to a Constitutional amendment being appreciated by the House

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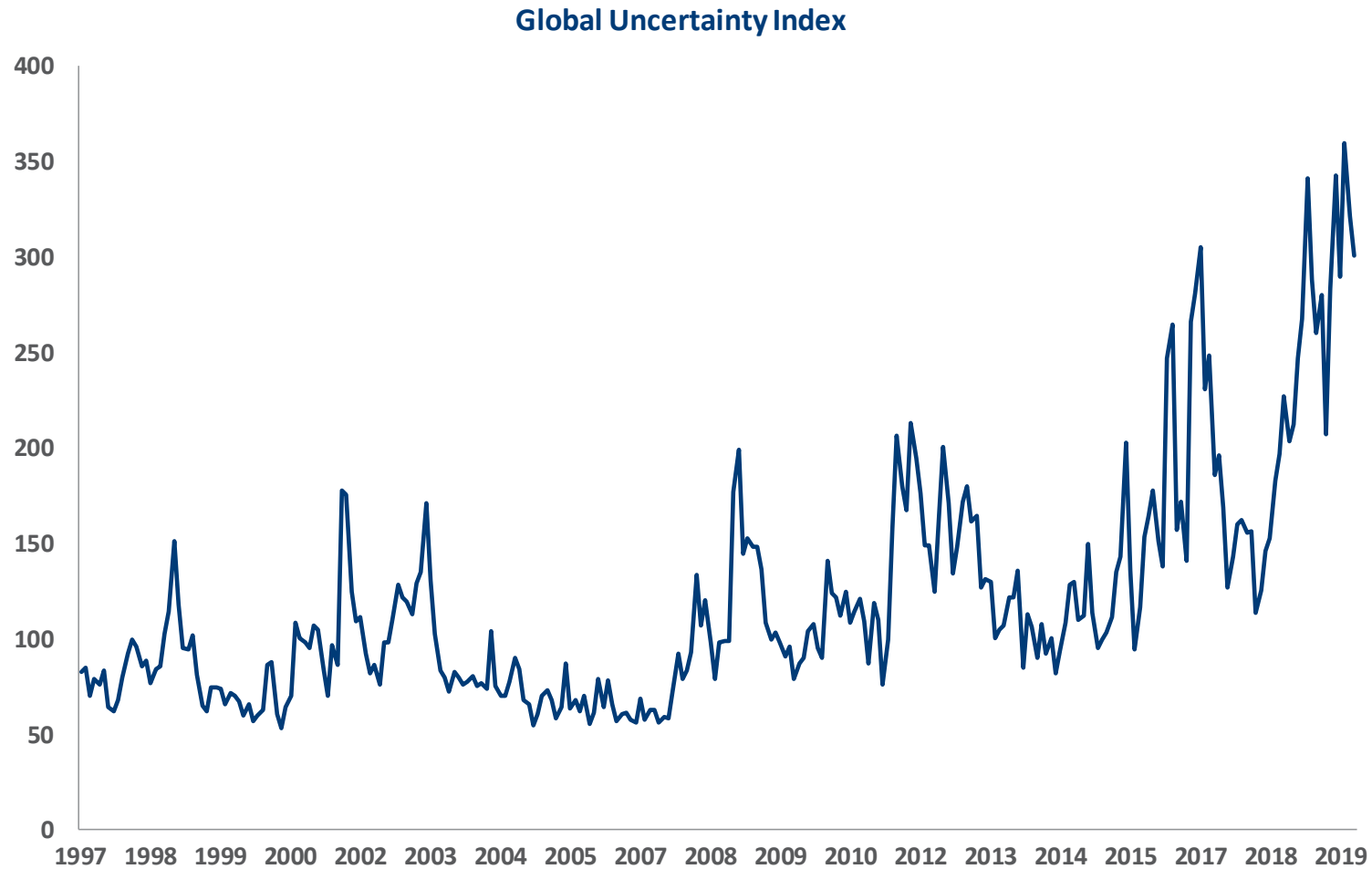
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GROWTH STABILIZES

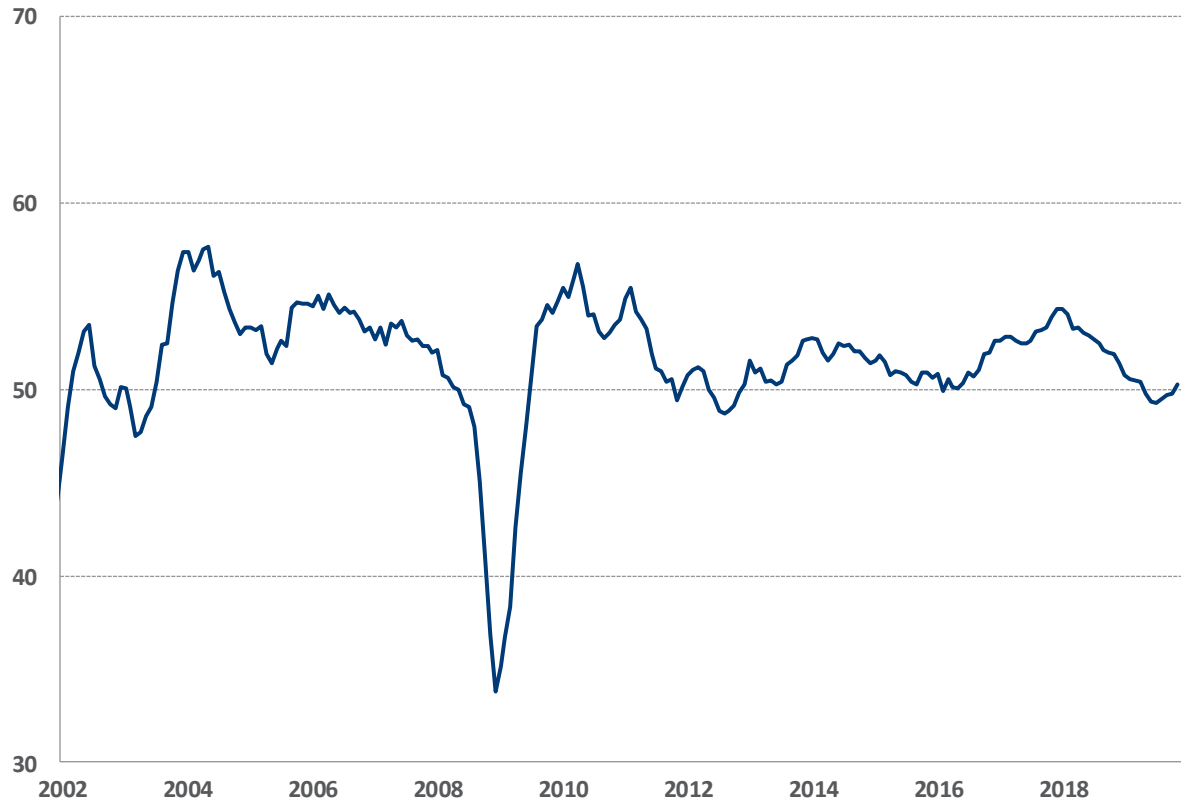
- » High global economic uncertainty has weighed on global sentiment and activity, but is falling at the margin
- » Global growth seems to be stabilizing
- » Global interest rates remain on historically low levels
- » Phase 1 deal between China and US still not signed, but some rollback in tariffs is expected

» Global economic uncertainty recedes from highs

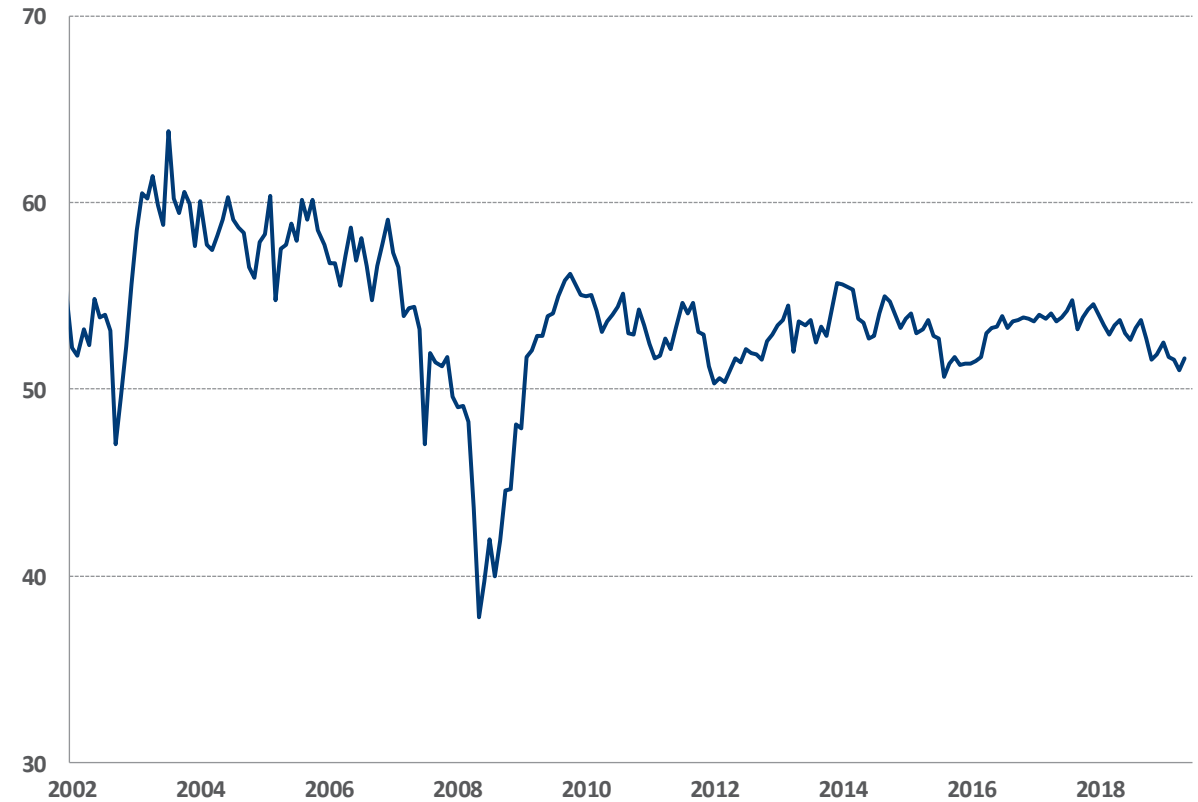


»» Global growth seems to be stabilizing

Global Industrial PMI



Global Services PMI

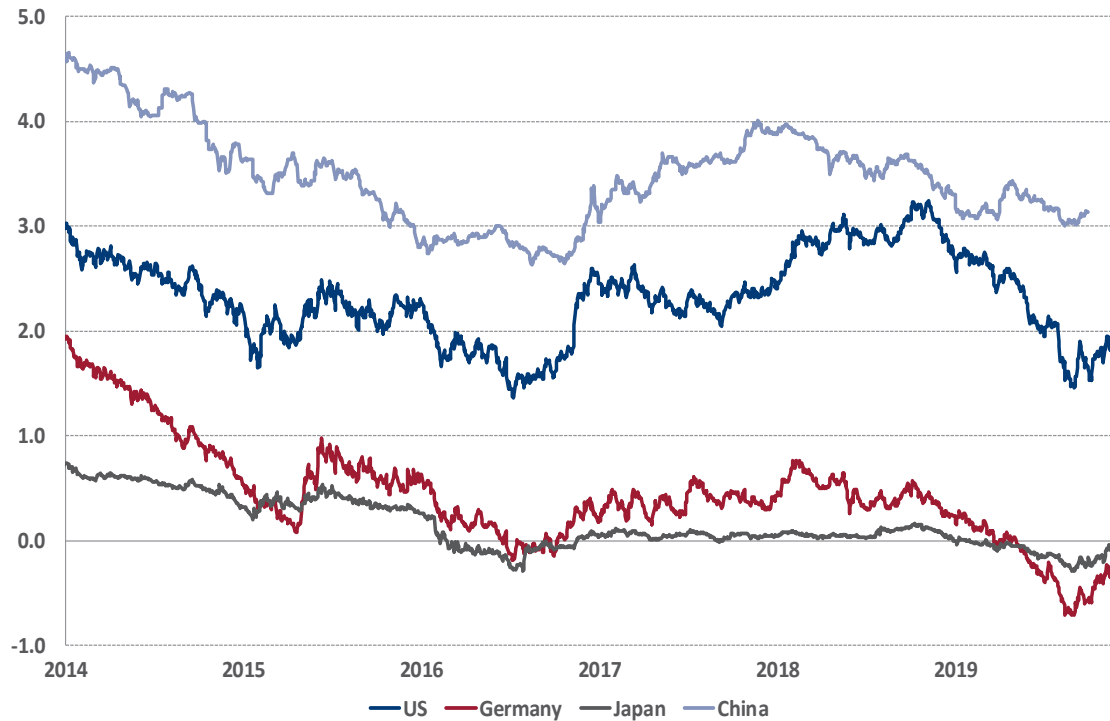


» De-escalation of China-US tensions in trade for now, but confrontation is here to stay; Phase 1 deal still not signed



»» Global interest rates remain on historically low levels

10 Year Interest Rates



Global Negative Yielding Debt - Market Value
US\$ Trillion



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ADDRESSES

Rio de Janeiro, RJ

Avenida Barão de Tefé, 34 – 20th and 21st floors
Zip Code 20220-460
Tel.: +55 (21) 2514-8448
Fax: +55 (21) 2514-8293

Salvador, BA

Rua Miguel Calmon, 398 – 2nd floor
Zip Code 40015-010
Tel.: +55 (71) 3326-4721 +55 (71) 3326-5583
Fax: +55 (71) 3254-2703

São Paulo, SP

Av. Brigadeiro Faria Lima, 3311 – 15th floor
Zip Code 04538-133
Tel.: +55 (11) 3704-0667 +55 (11) 4064-4867
Fax: +55 (11) 3704-0502

Nassau, Bahamas

Shirley House | Shirley House Street, 50, 2nd floor
P.O. N-7507
Tel.: (1) (242) 356-6584
Fax: (1) (242) 356-6015

www.bocombbm.com.br

Ombudsman | Phone.: 0800 724 8448 | Fax: 0800 724 8449
E-mail: ouvidoria@bocombbm.com.br