



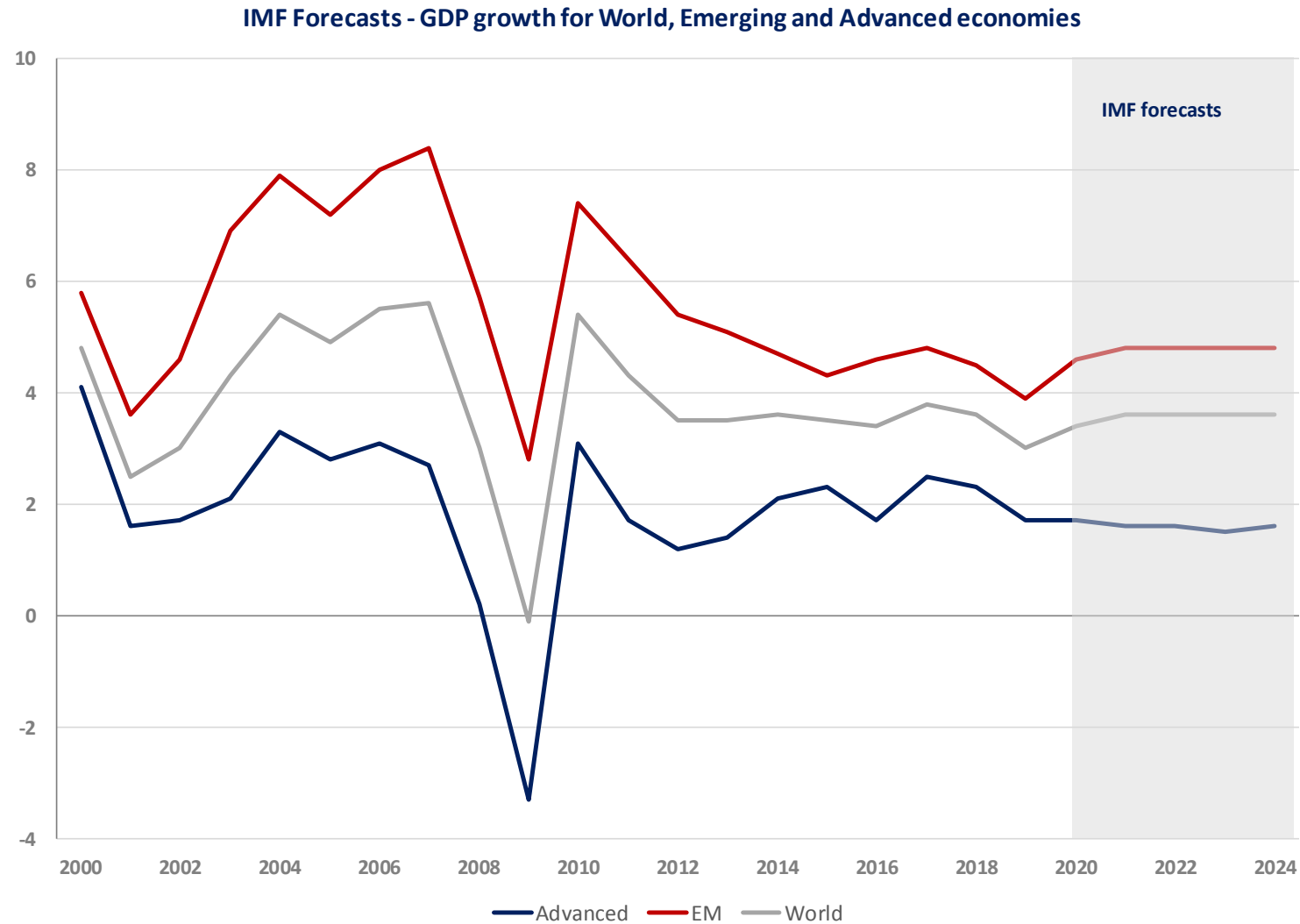
MACRO OUTLOOK

Fernanda Guardado
Chief-Economist

- »» Global growth improvement due to better performance of emerging markets (ex-China); But the Coronavirus outbreak will weigh negatively on Q1 activity
- »» Brazil: Moderate growth amid unprecedented monetary stimulus; Investment should be an important growth driver
- »» Uncertainties remain around the rate of potential growth, implying caution on the part of monetary policy going forward
- »» We believe that the Copom will be normalizing rates by the end of the year

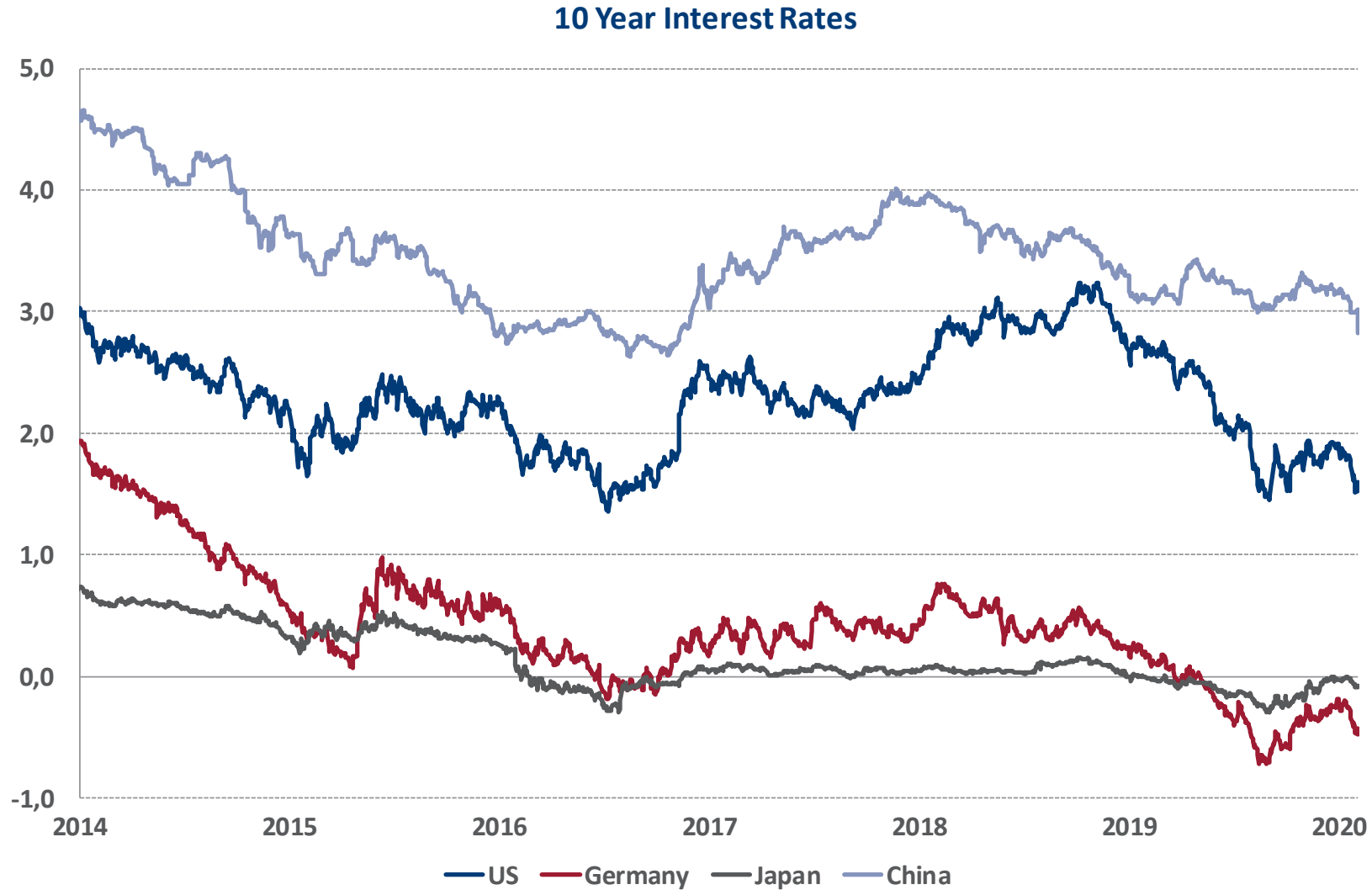
GLOBAL GROWTH: FORECASTS

»» Global growth should improve on the back of better EM growth

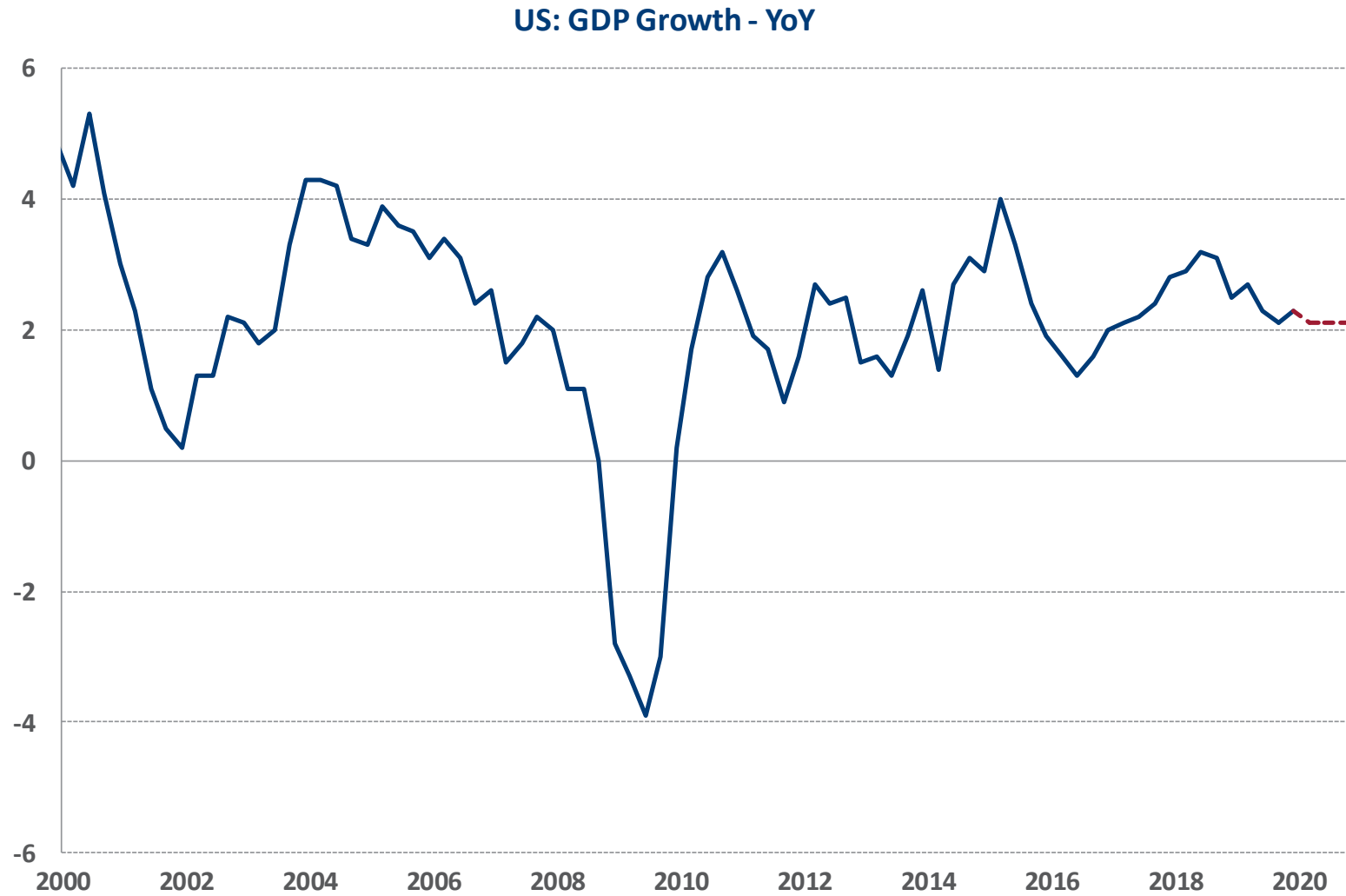


GLOBAL INTEREST RATES

»» Global interest rates should remain low



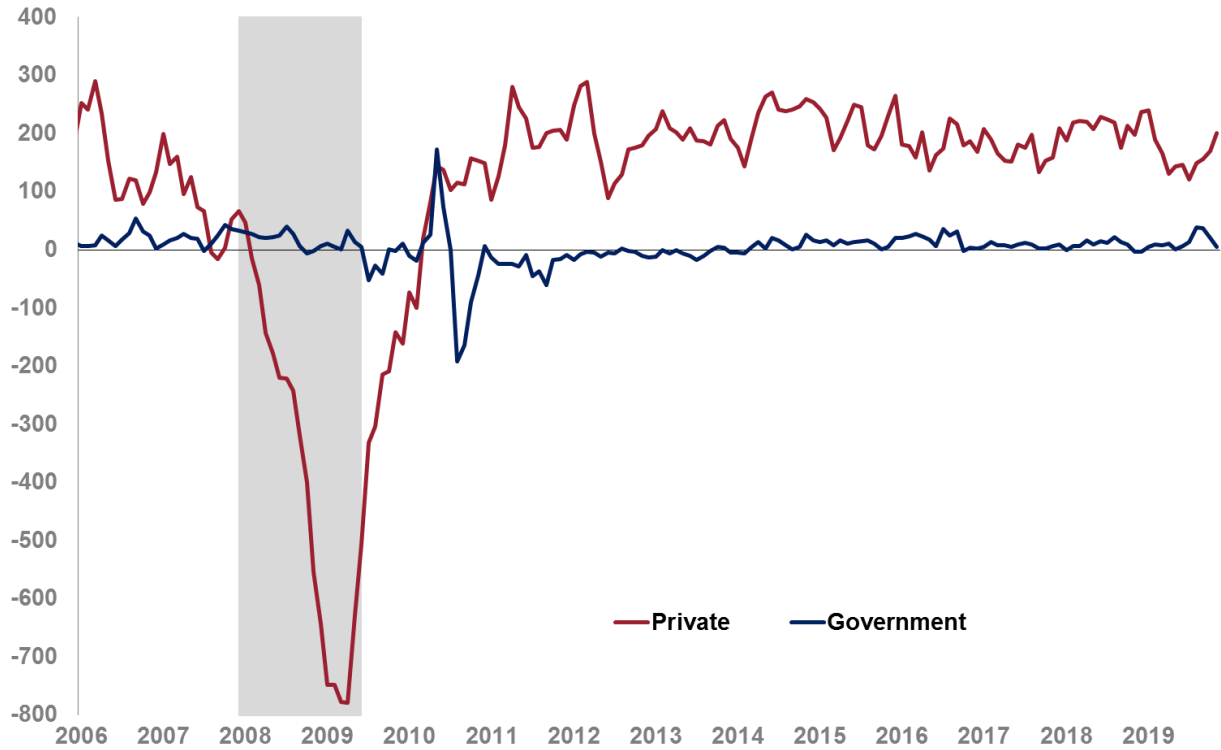
»» Benchmark scenario of moderate, but consistent growth



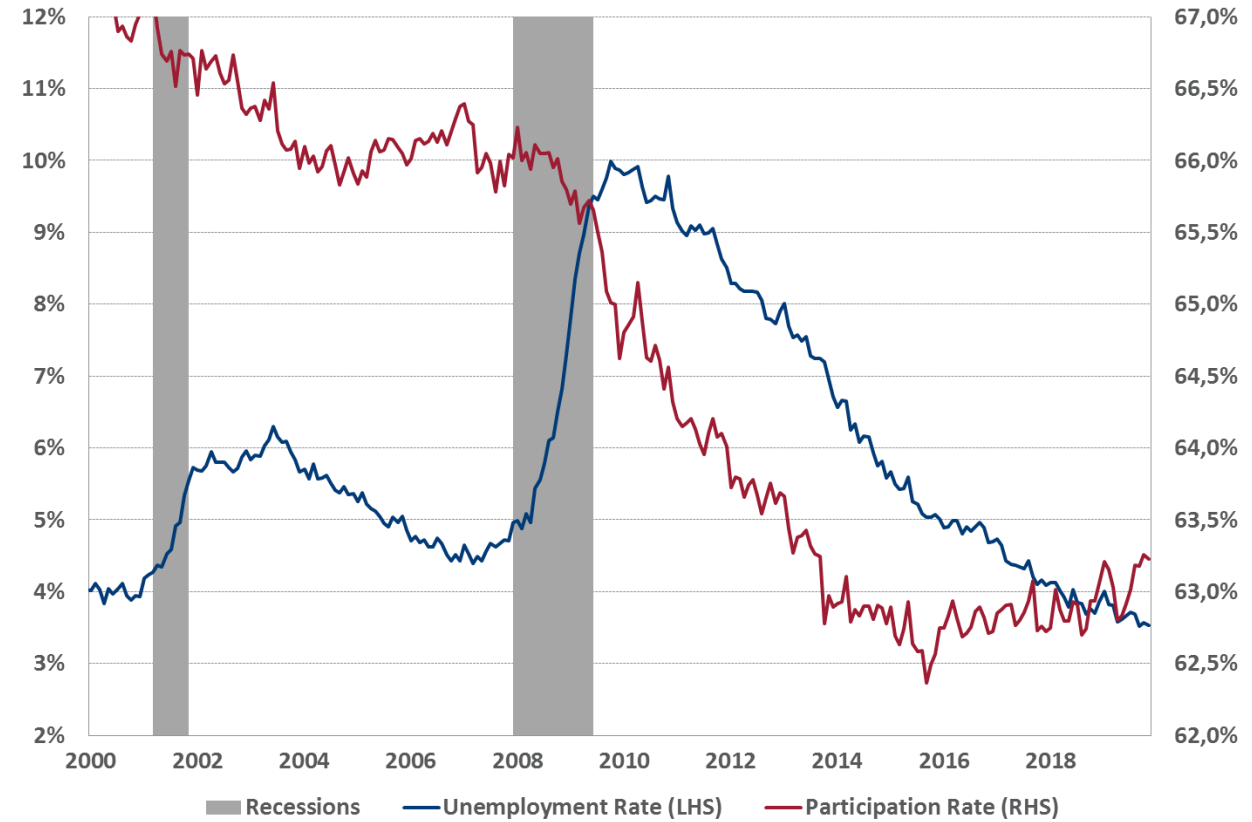
US: LABOR MARKET

»» Labor market remains strong

US Nonfarm Payroll: Total, 3 Months MA S.A., in thousands



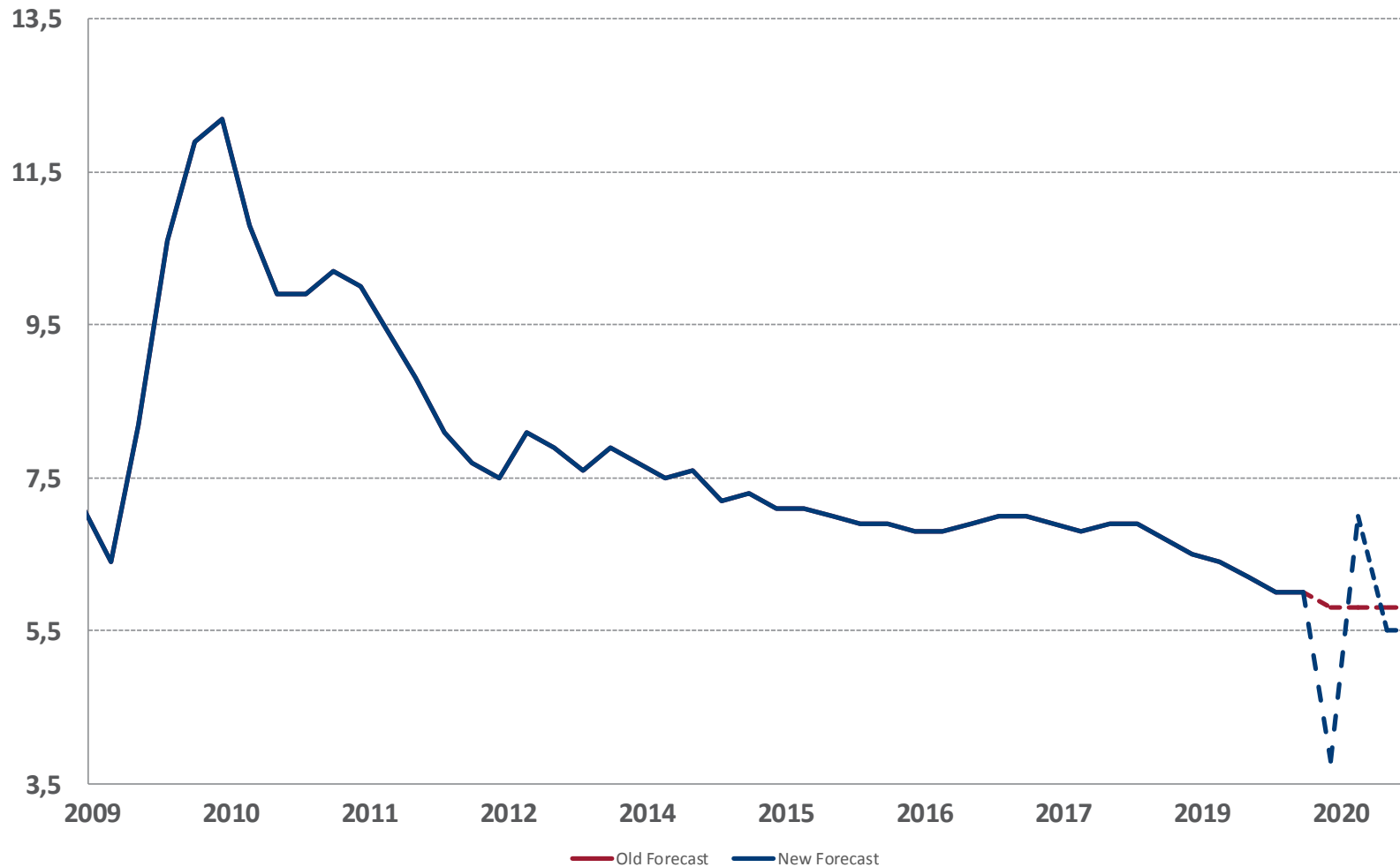
US: Unemployment x Participation Rate



CHINA: GDP

» Slower but sustainable growth; Coronavirus will weigh negatively on Q1 activity

China: GDP Growth - YoY



» As long as jobs are plentiful, conter-cyclical policies should be moderate



BRAZIL: FORECASTS

ECONOMIC FORECASTS	2014	2015	2016	2017	2018	2019	2020F	2021F
GDP Growth (%)	0,5%	-3,5%	-3,3%	1,3%	1,3%	1,2%	2,1%	2,5%
Inflation (%)	6,4%	10,7%	6,3%	2,9%	3,7%	4,3%	3,7%	3,7%
Unemployment Rate, SA (%)	7,1%	9,6%	12,6%	12,4%	12,2%	11,7%	11,0%	10,7%
Policy Rate (%)	11,8%	14,3%	13,8%	7,0%	6,5%	4,5%	4,75%	6,5%
External Accounts								
Trade Balance (US\$ bn)	-4	20	48	67	53	39	37	40
Current Account Balance (US\$ bn)	-104	-59	-23	-10	-42	-51	-61	-60
Current Account Balance (% of GDP)	-4,3%	-3,3%	-1,3%	-0,7%	-2,2%	-2,8%	-3,2%	-2,5%
Fiscal Policy								
Fiscal Primary Balance (% of GDP)	-0,6%	-1,9%	-2,5%	-1,8%	-1,6%	-0,9%	-1,5%	-0,9%
Government Gross Debt (% of GDP)	57,2%	66,2%	69,4%	73,7%	77,2%	75,8%	77,0%	76,0%

BRAZIL: ACTIVITY

» We expect GDP growth in 2019 of 1.2%; accelerating into 2020 to 2.1%



BRAZIL: ACTIVITY

»» Investments should be an important growth vector

Household Consumption - YoY



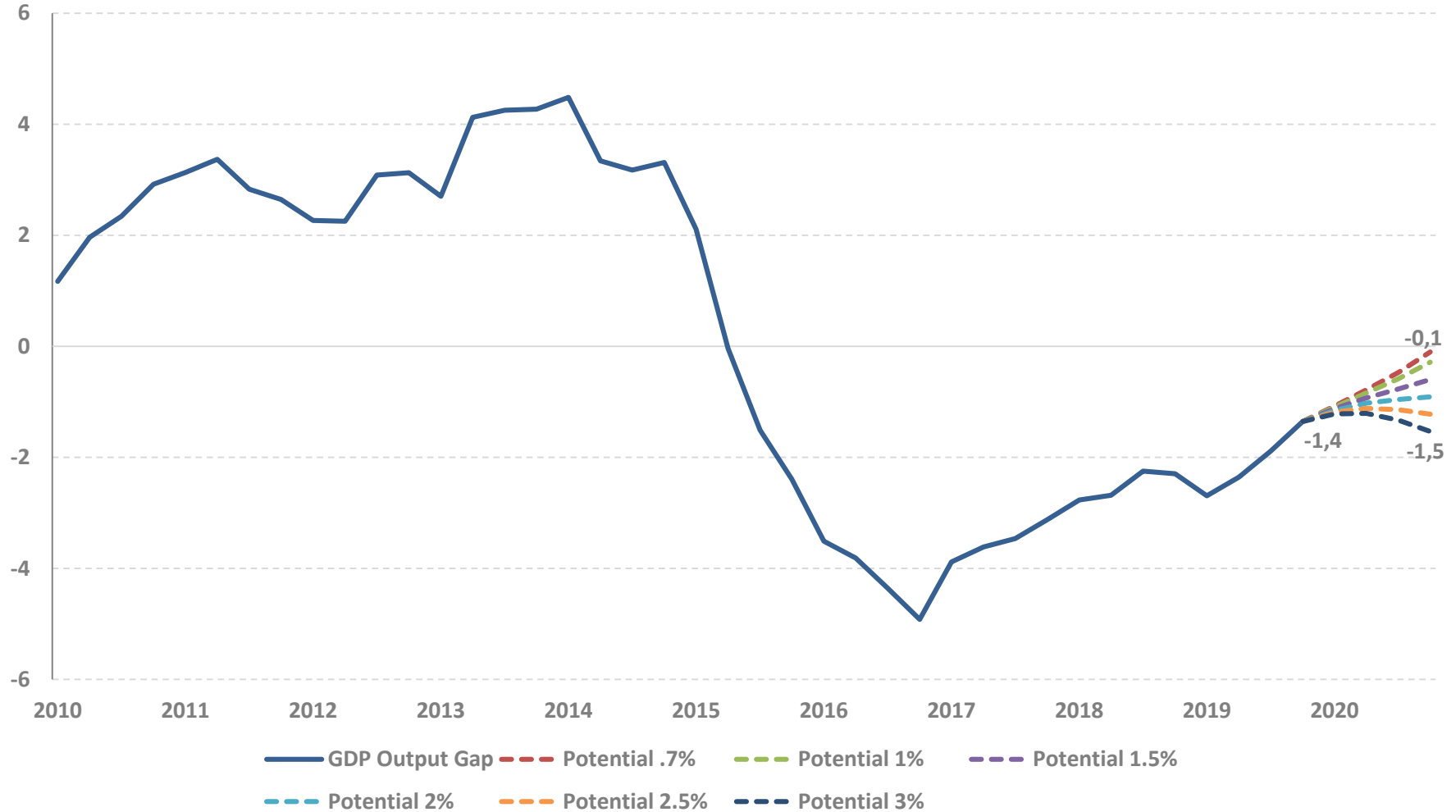
Capital Formation - YoY



BRAZIL: OUTPUT GAP

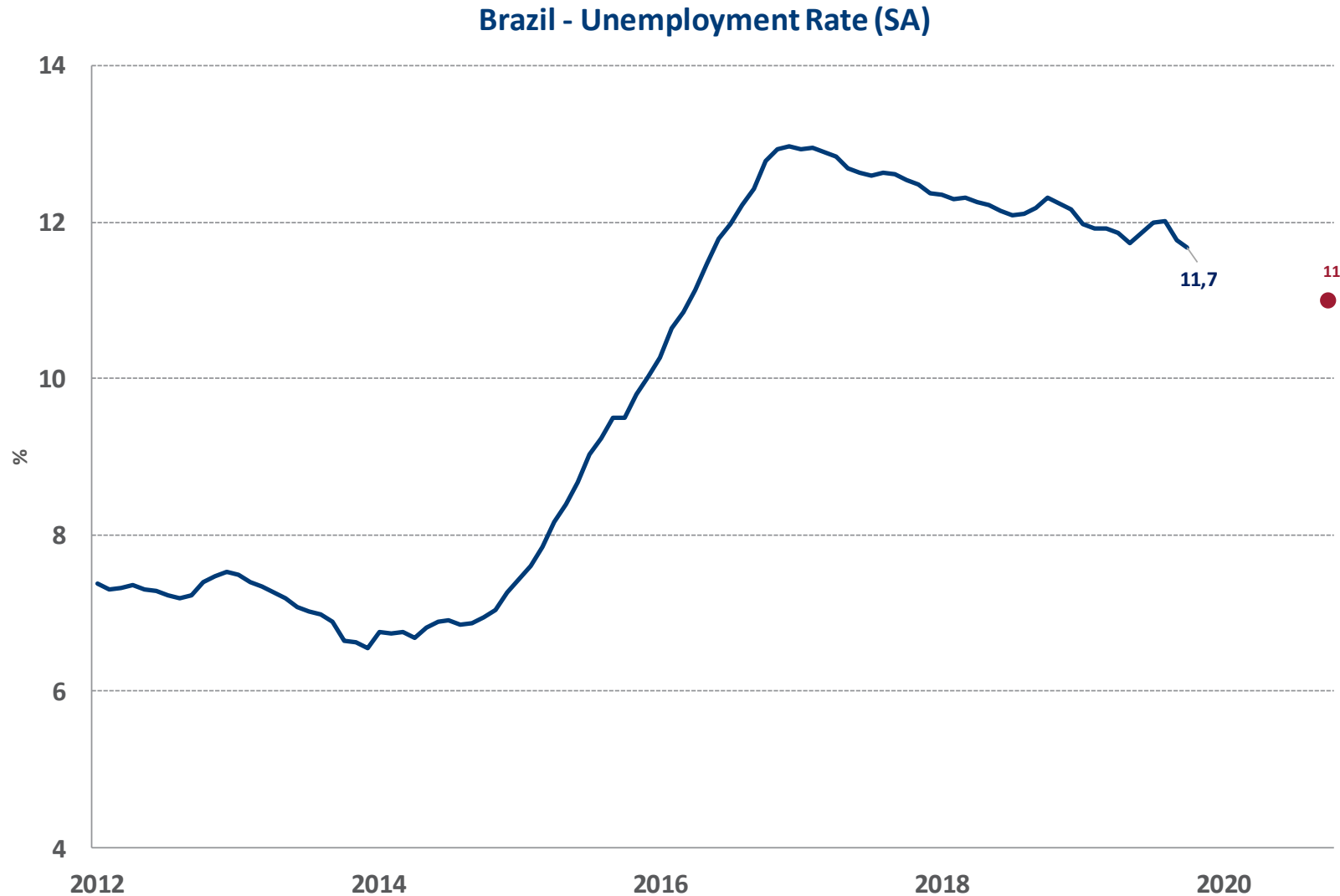
» Moderate growth implies substantial closing of Output gap

Brazil - Output Gaps and Forecasts



BRAZIL: LABOR MARKET

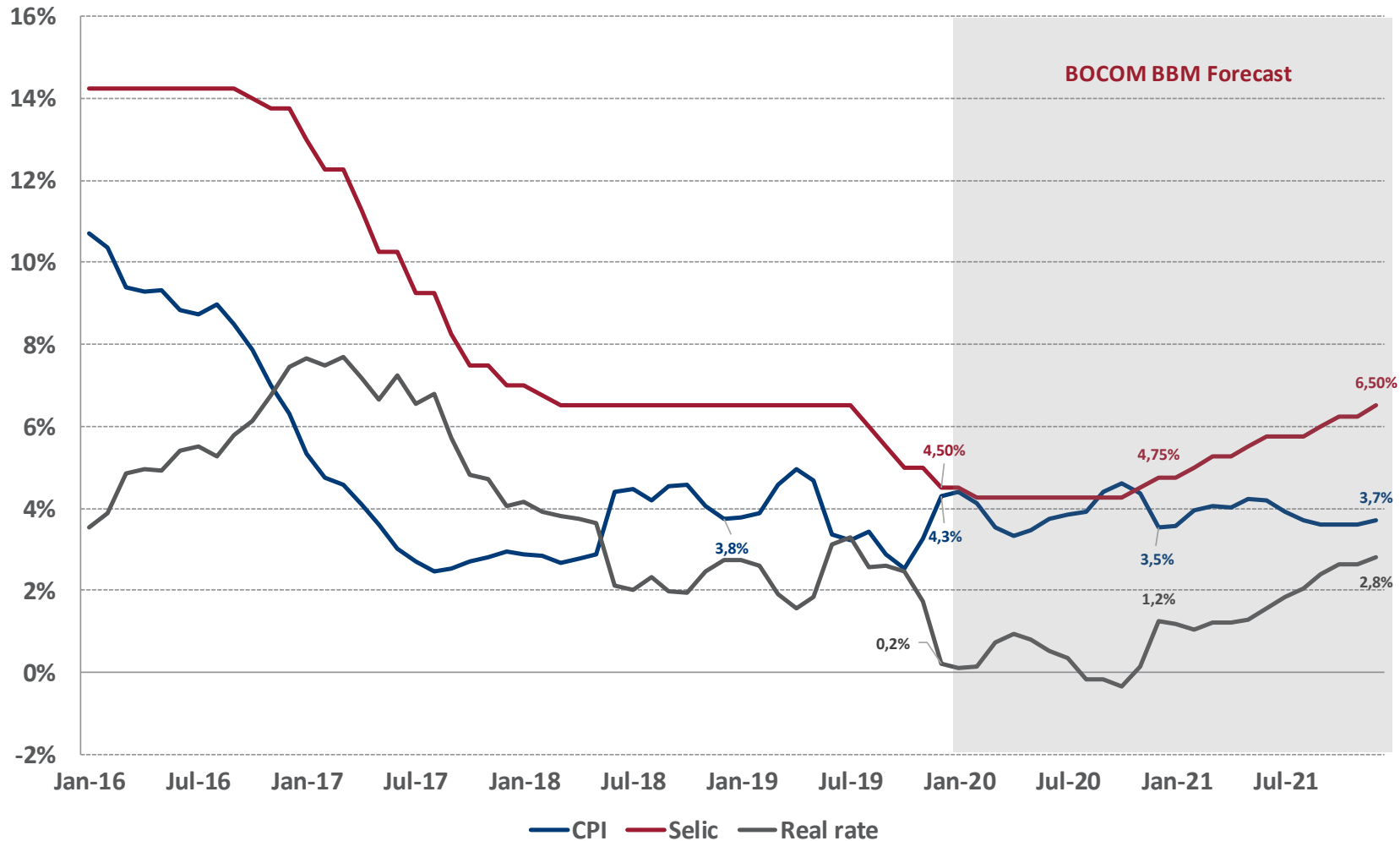
»» Unemployment rate might decrease slowly despite improvement in formal job market



BRAZIL: MONETARY POLICY

» Interest rates should begin to be normalized by the end of 2020

CPI, Selic rate and Real ex-post interest rate



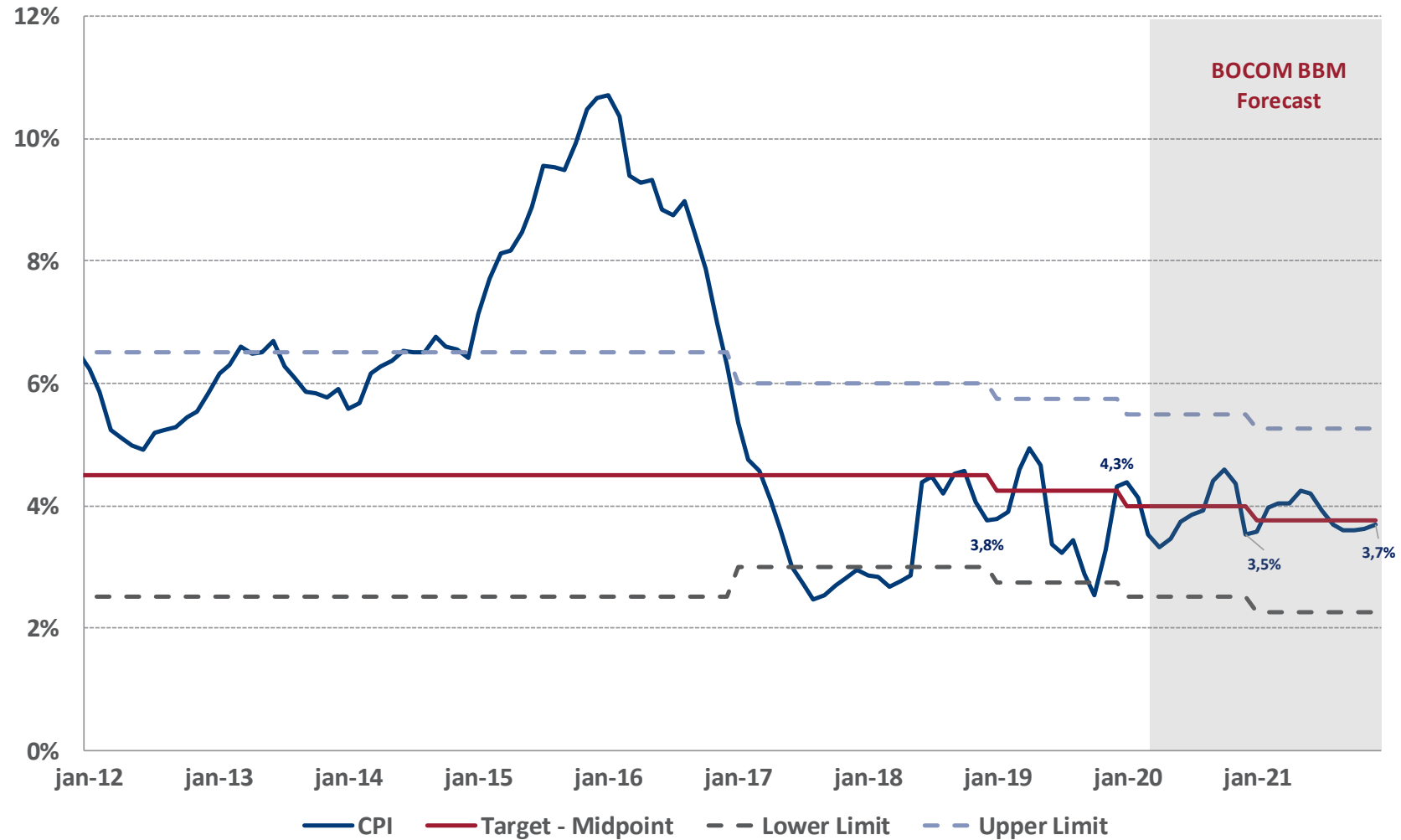
BRAZIL: INFLATION

»» New weights and still high unemployment should contain inflation below the target's midpoint

Baseline Scenario							
USD/BRL: 4.1 in 2020 4.0 in 2021							
GDP Growth: 2.1% in 2020, 2.5% in 2021							
Potential GDP Growth: 1% in 2020 e 1.5% in 2021							
	IPCA	Administred	Non-Regulated	Services	Food-at-Home	Industrial Products	Output-Gap
17 Q1	4,6%	5,6%	4,3%	6,1%	3,0%	2,5%	-3,7%
17 Q2	3,0%	3,3%	2,9%	5,7%	-0,6%	1,3%	-3,4%
17 Q3	2,5%	6,1%	1,4%	5,0%	-5,3%	1,0%	-3,3%
17 Q4	2,9%	8,0%	1,3%	4,5%	-4,9%	1,0%	-2,9%
18 Q1	2,7%	7,1%	1,3%	3,9%	-4,3%	1,2%	-2,5%
18 Q2	4,4%	11,8%	2,0%	3,2%	0,1%	1,7%	-2,4%
18 Q3	4,5%	10,4%	2,6%	3,2%	2,2%	1,8%	-2,0%
18 Q4	3,7%	6,2%	2,9%	3,3%	4,5%	1,2%	-2,0%
19 Q1	4,6%	6,3%	4,0%	3,6%	8,7%	1,4%	-2,4%
19 Q2	3,4%	3,7%	3,2%	4,0%	4,1%	1,5%	-2,0%
19 Q3	2,9%	2,9%	2,9%	3,6%	3,8%	1,2%	-1,6%
19 Q4	4,3%	5,5%	3,9%	3,5%	7,8%	1,7%	-1,2%
20 Q1	3,5%	4,5%	3,2%	3,7%	4,1%	1,7%	-1,1%
20 Q2	3,7%	3,3%	3,9%	3,9%	6,2%	2,2%	-0,9%
20 Q3	4,4%	3,4%	4,8%	4,1%	9,3%	2,8%	-0,7%
20 Q4	3,5%	3,0%	3,7%	4,1%	3,4%	3,1%	-0,5%
21 Q1	4,0%	4,0%	4,1%	4,3%	4,8%	3,2%	-0,3%
21 Q2	4,2%	4,6%	4,0%	4,3%	5,0%	3,0%	-0,1%
21 Q3	3,6%	4,3%	3,3%	4,3%	2,1%	2,6%	0,2%
21 Q4	3,7%	3,8%	3,7%	4,3%	3,9%	2,7%	0,4%

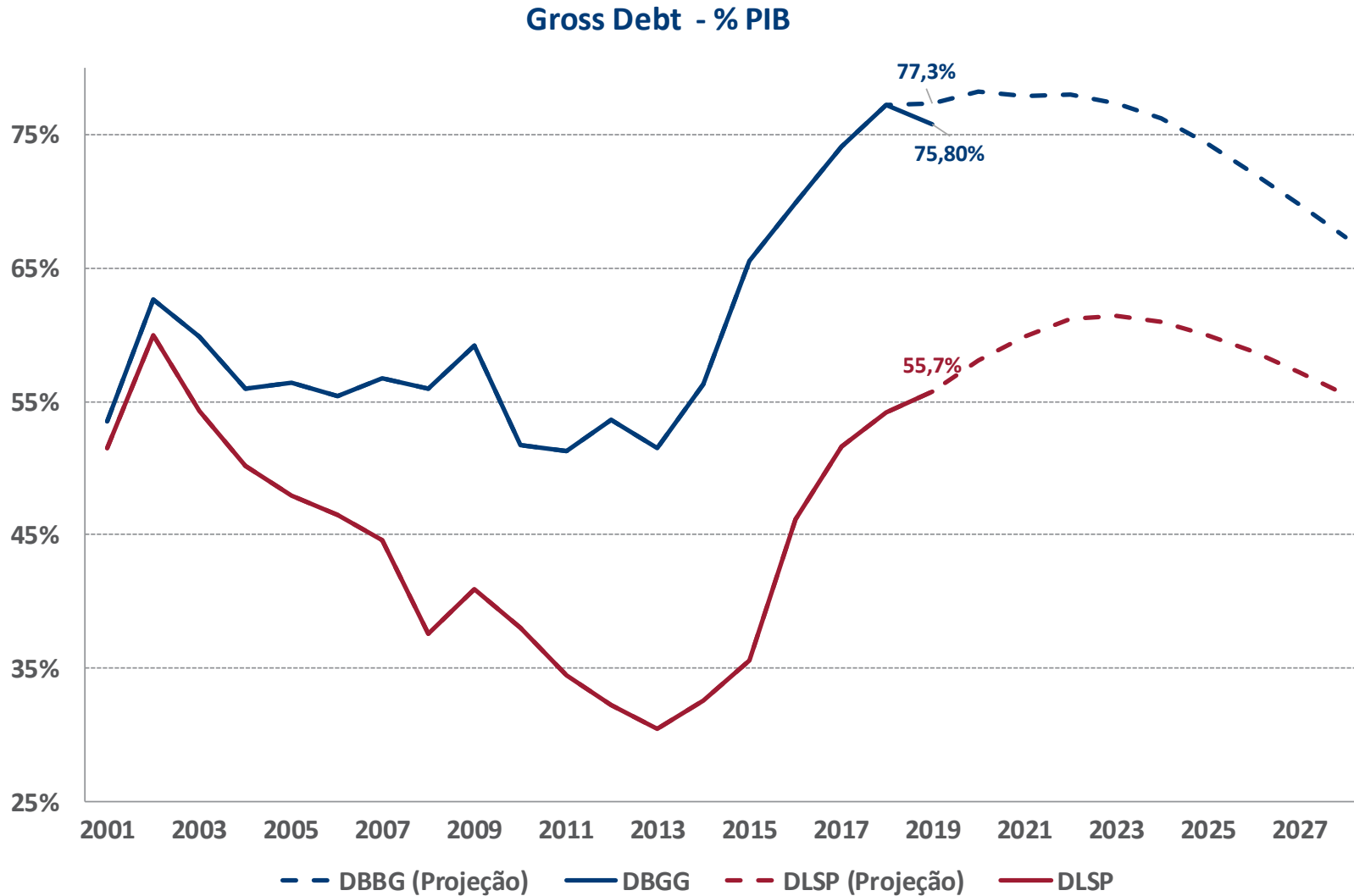
BRAZIL: MONETARY POLICY

CPI and Inflation Targets



BRAZIL: DEBT DYNAMICS

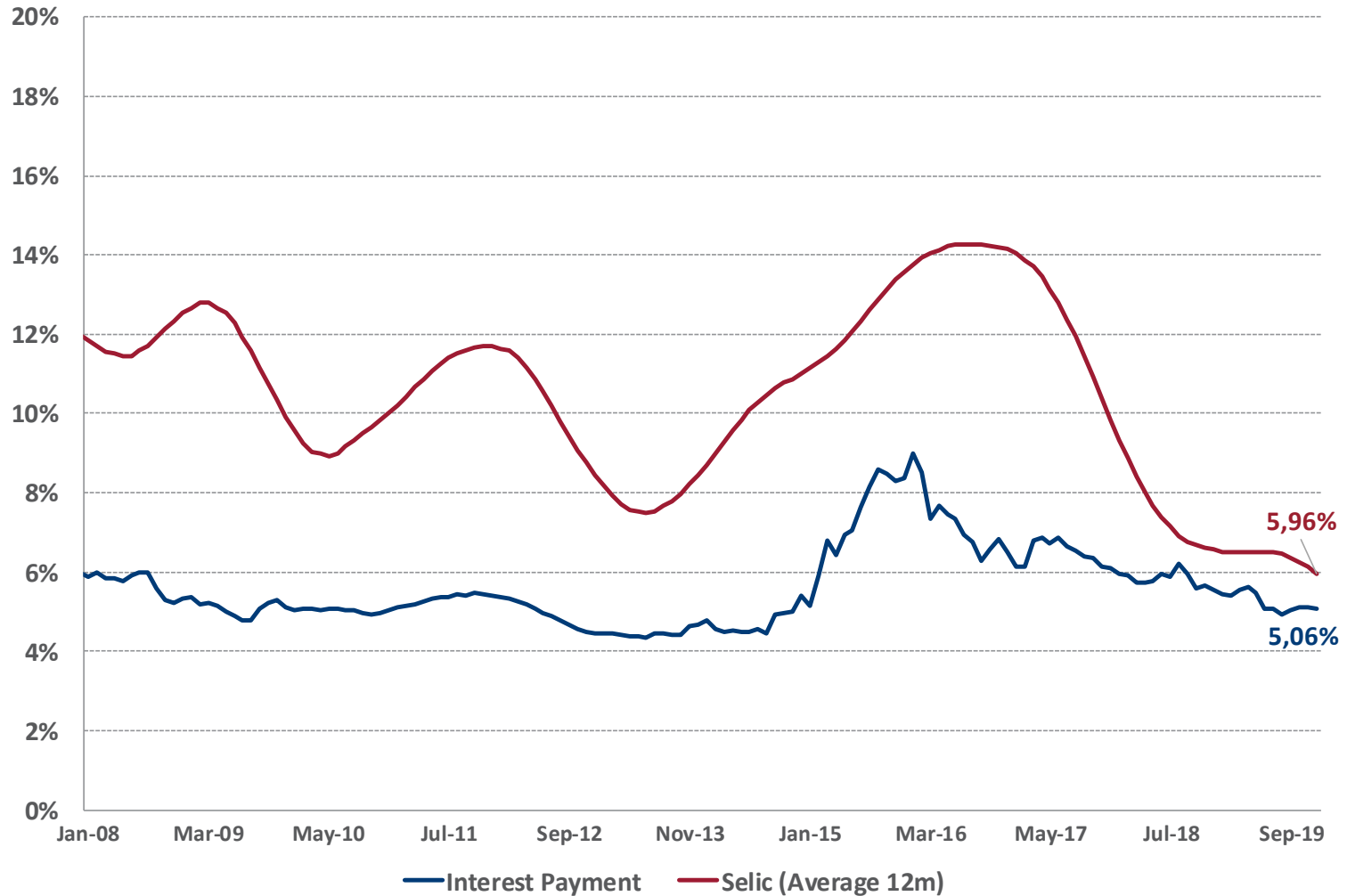
»» Better debt dynamics, but debt/GDP still high



BRAZIL: DEBT DYNAMICS

»» Decline in interest rates a big driver of prospective improvement

Interest Payment (12m % GDP)



- » **Ministry of Economy sent 3 new Constitutional Amendments 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
- » Measures are needed to make the Expenditure cap viable and make budget administration easier and more effective

BRAZIL: RATING

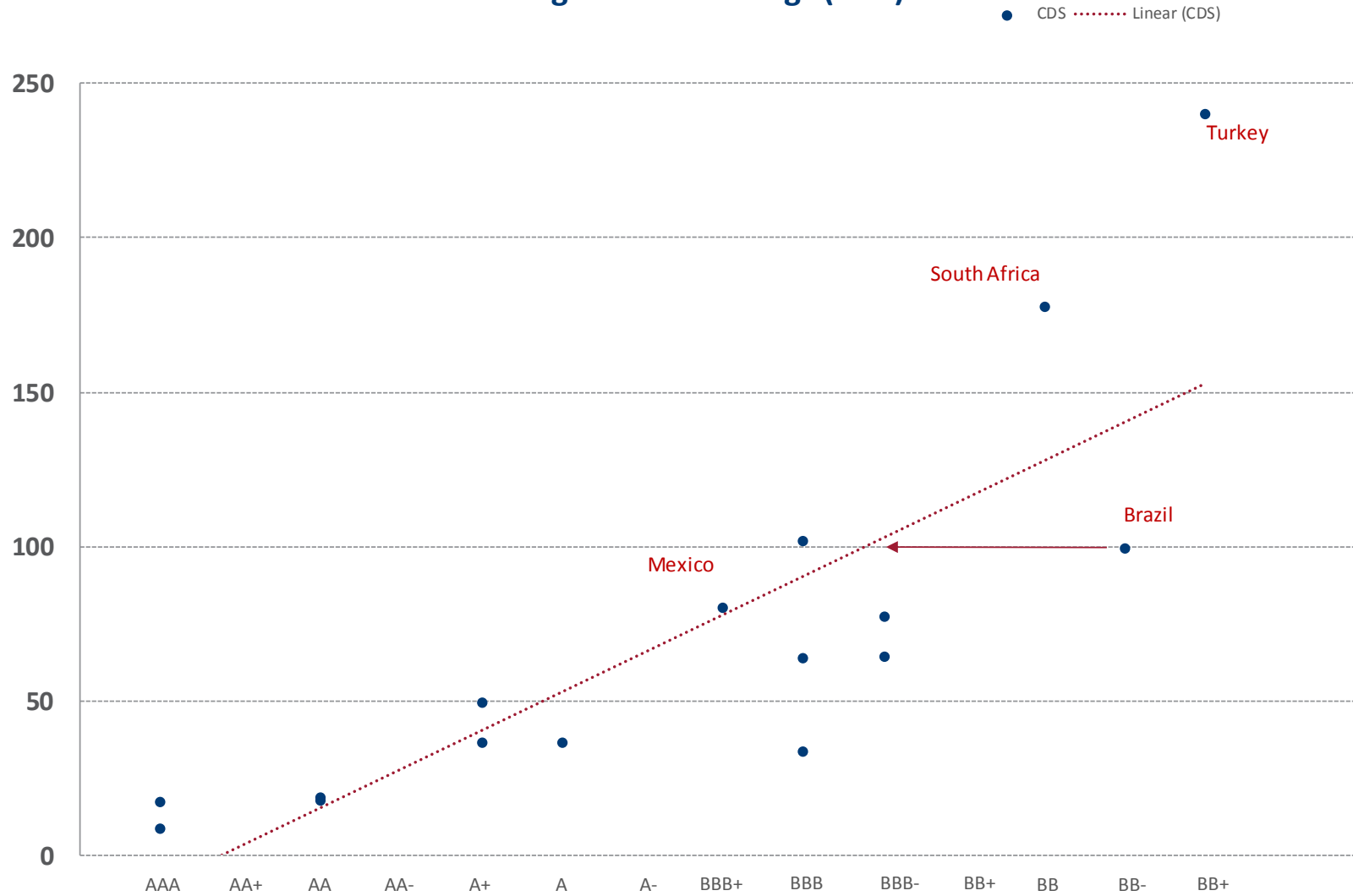
» Upgrade probable in 2020; Market pricing already as *Investment grade*

Brazil: CDS 5 Years



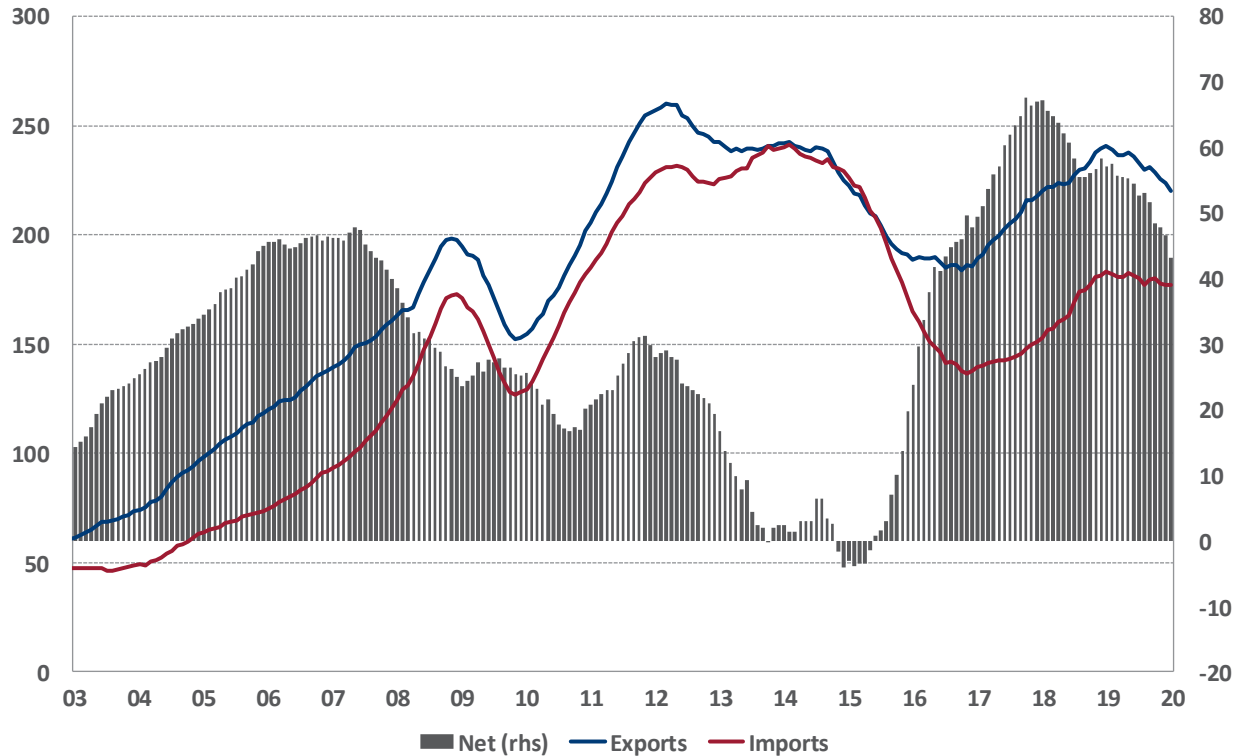
	Current	Outlook	Agency's First Investment Grade	Steps until IG
S&P	BB-	Positive	BBB-	3
Moody's	Ba2	Stable	Baa3	2
Fitch	BB-	Stable	BBB-	3

Sovereign CDS and Ratings (S&P)

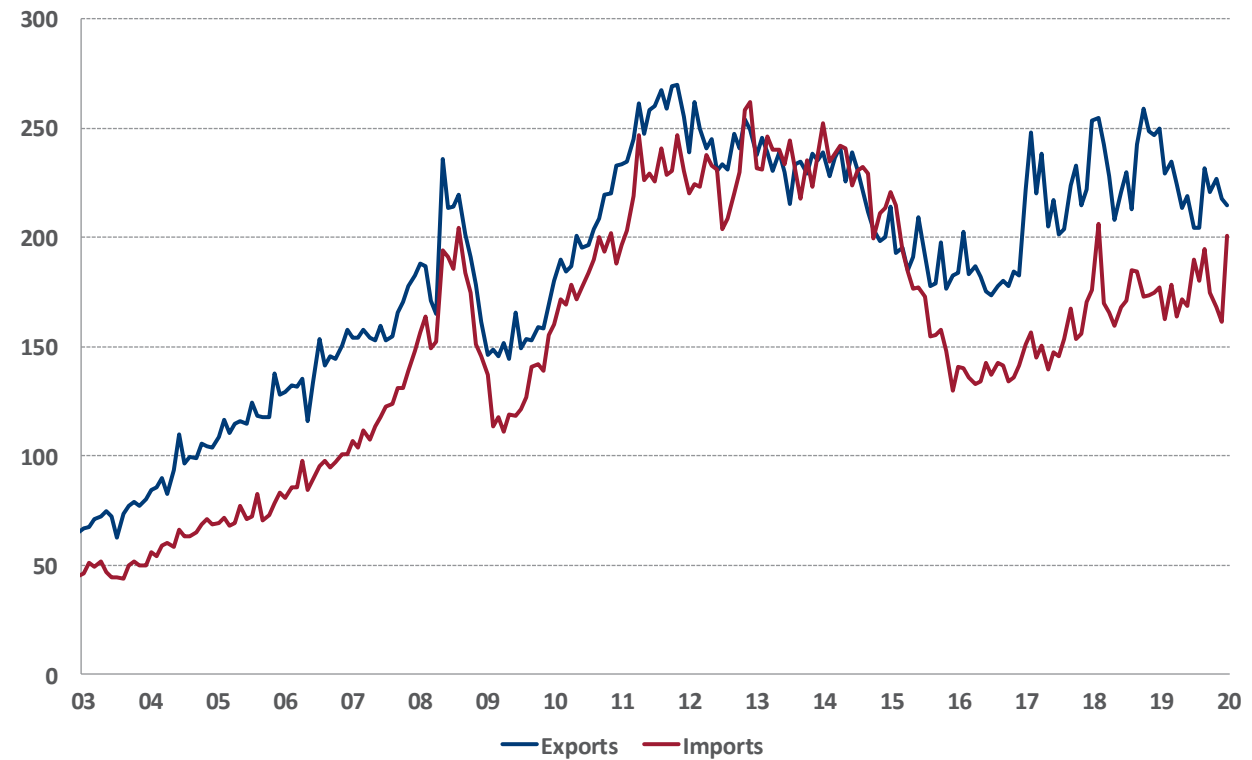


BRAZIL: Trade Balance

Trade Balance - US\$ Billion in 12m

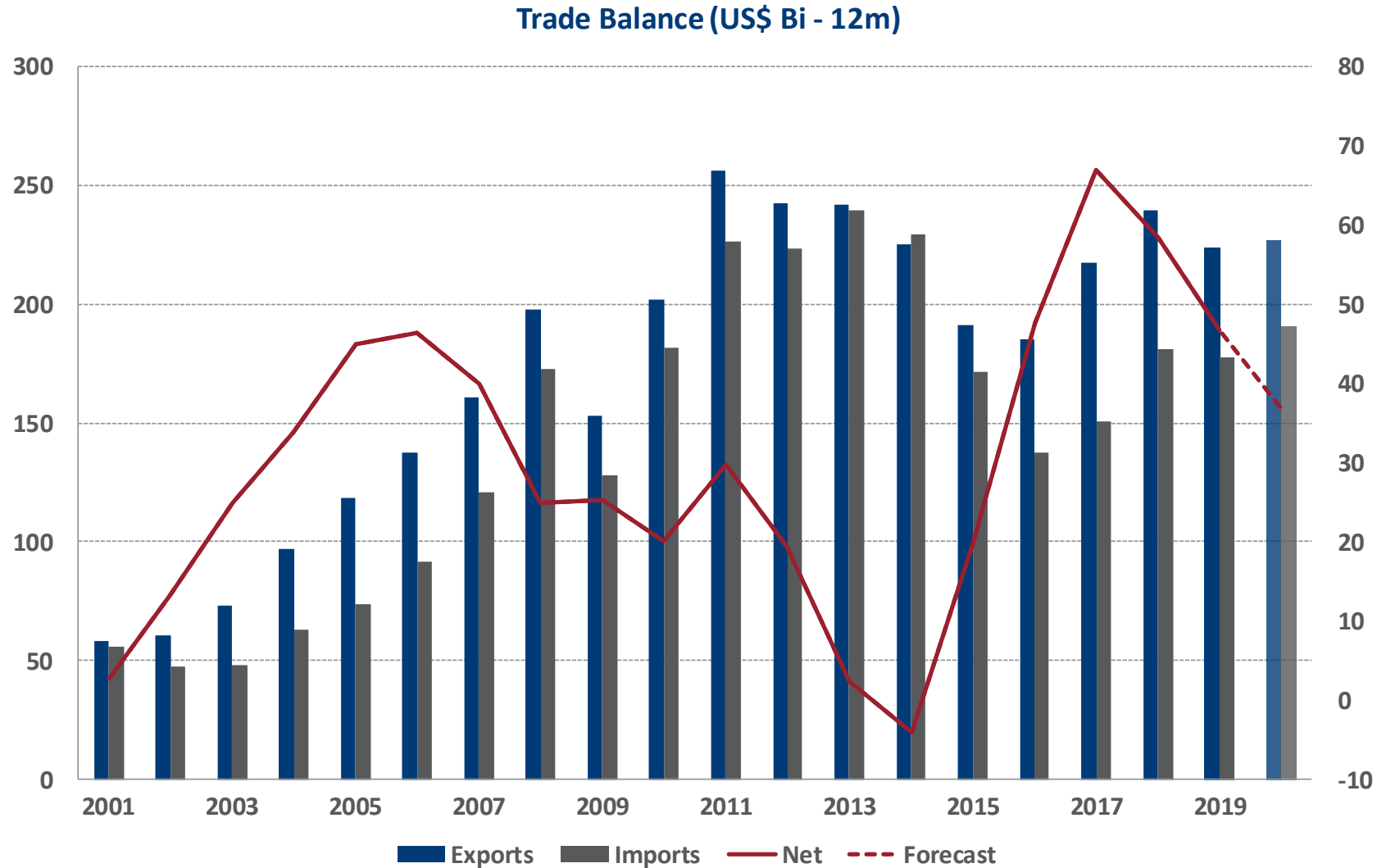


Brazil: Trade Balance - US\$ Billion, SAA



BRAZIL: TRADE

» Trade balance will should continue to feel the negative impacts from decelerating trade partners



»» Current account deficit to increase, but portfolio investment could be an additional support

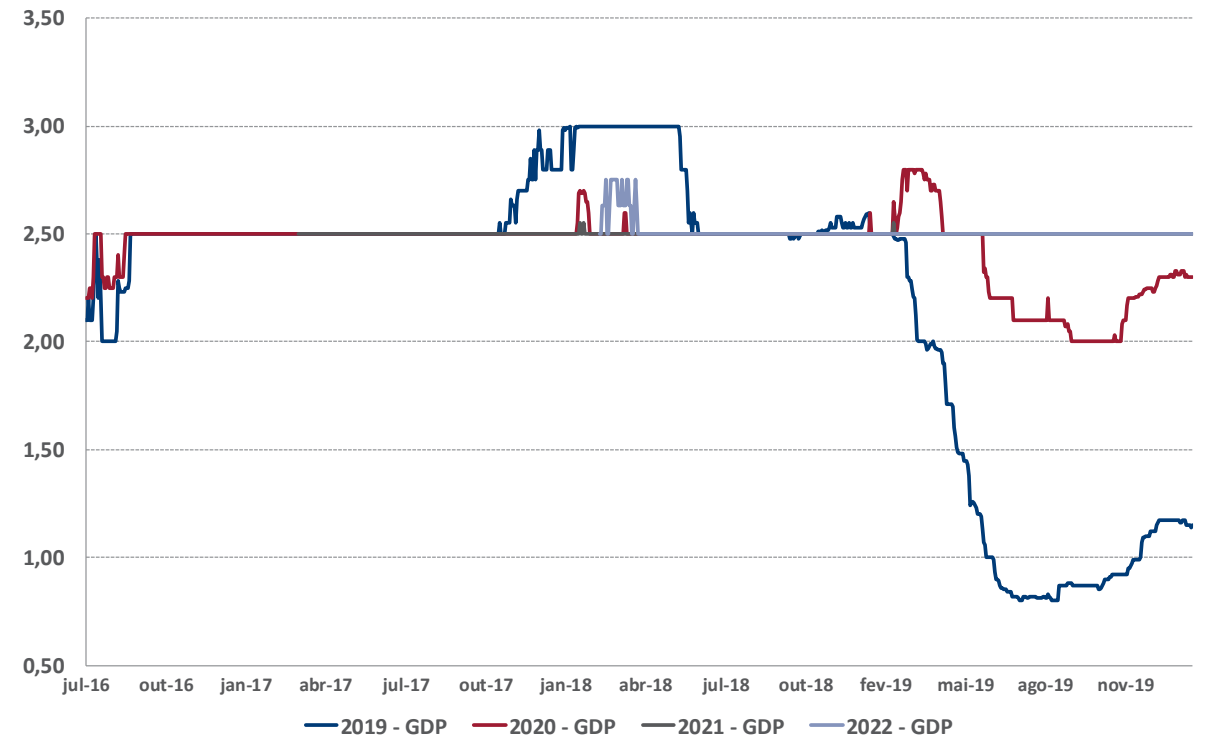
Balance of Payments - US\$ Billion				
	2017	2018	2019	2020
CURRENT ACCOUNT	-15,0	-41,5	-50,8	-61,3
%GDP	-0,7%	-2,2%	-2,8%	-3,1%
Trade Balance	64,0	53,0	53,0	37,0
Services	-37,9	-35,7	-35,1	-40,0
Income	-43,2	-58,8	-56,0	-60,0
Transfers	2,1	0,0	1,0	1,7
CAPITAL ACCOUNT	0,38	0,44	0,37	0,40
FINANCIAL ACCOUNT	9,2	42,4	27,0	57,0
Net Direct Investment	68,8	78,2	78,5	80,0
Net Portfolio Investment*		-9,4	-11,0	0,0

BRAZIL: MARKET FORECASTS

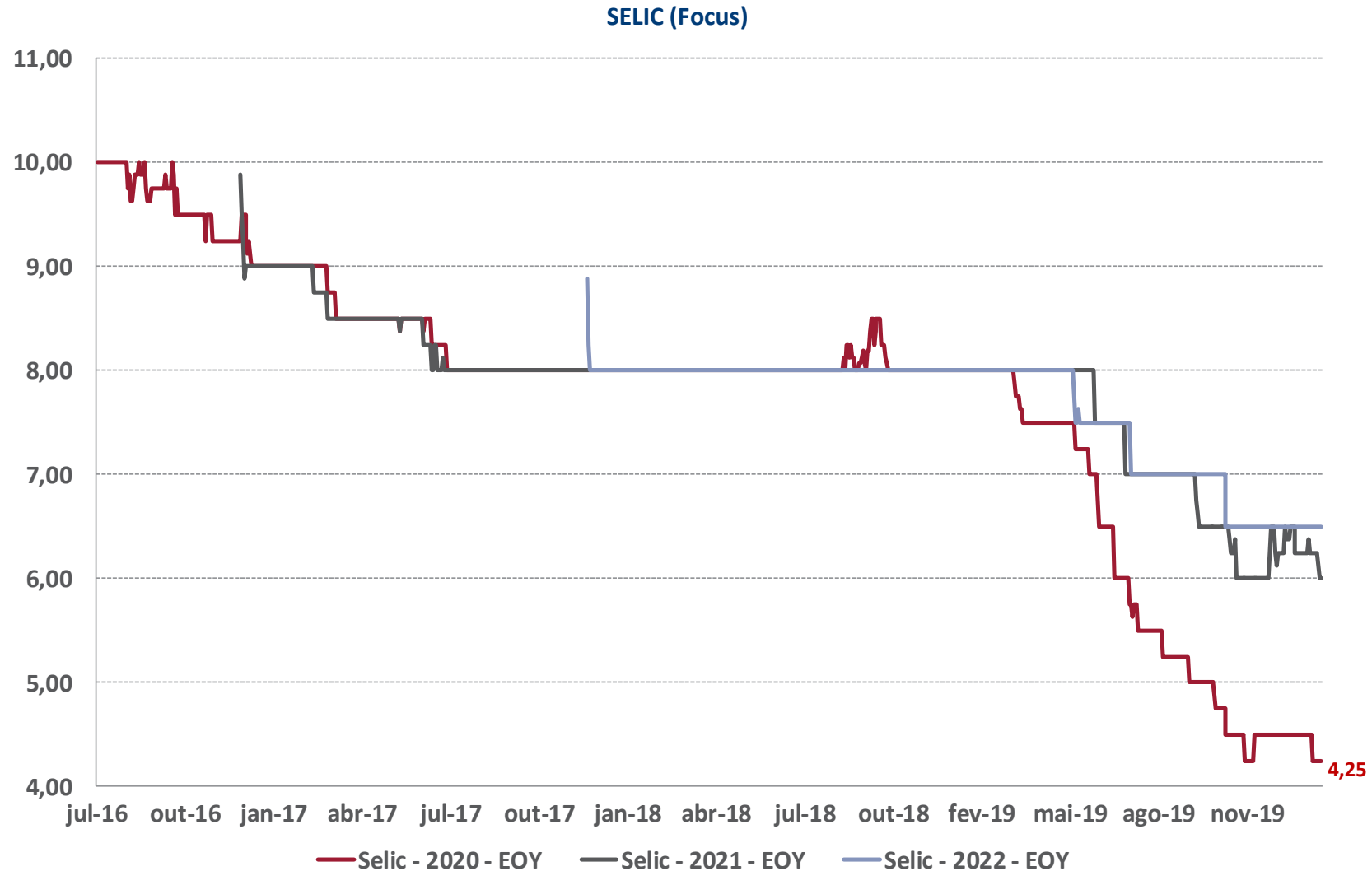
Expectativas de Inflação (Focus)



GDP Growth (Focus)



BRAZIL: MARKET FORECASTS



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