

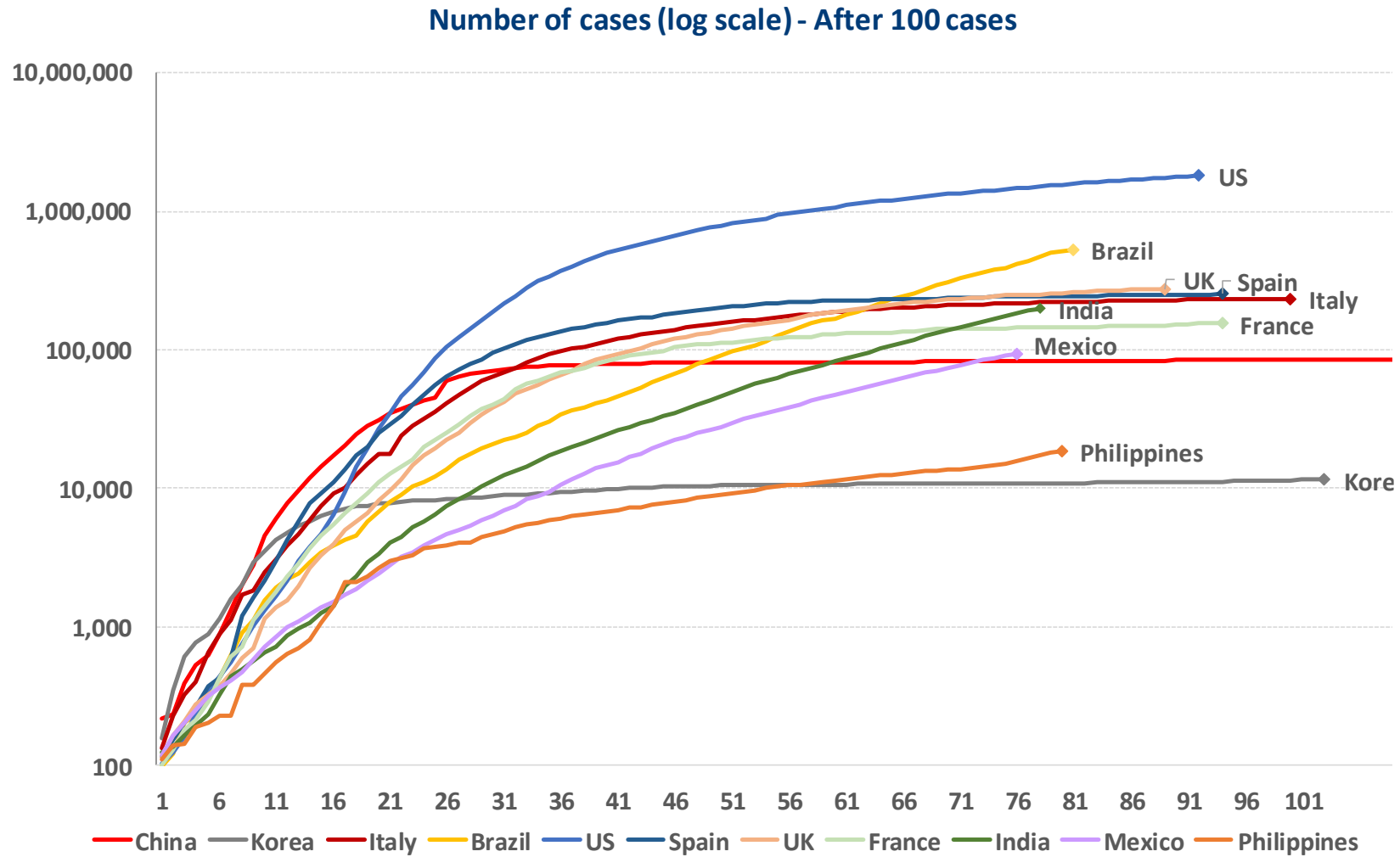


MACRO OUTLOOK

Fernanda Guardado
Chief-Economist

- »» Pandemic subdues in the Northern Hemisphere and countries start removing restrictive measures
- »» Chinese economy shows signs of recovery with a pick-up that is slower in consumption and services
- »» Governments deepen fiscal expansions to reduce the economic costs of the pandemic
- »» Brazil: GDP could fall close to 6%; end of year inflation below the target's lower-bound
- »» Interest rates will remain low in a recovery marked by controlled inflation

» Epidemic advances in Brazil



Covid-19: Global Growth

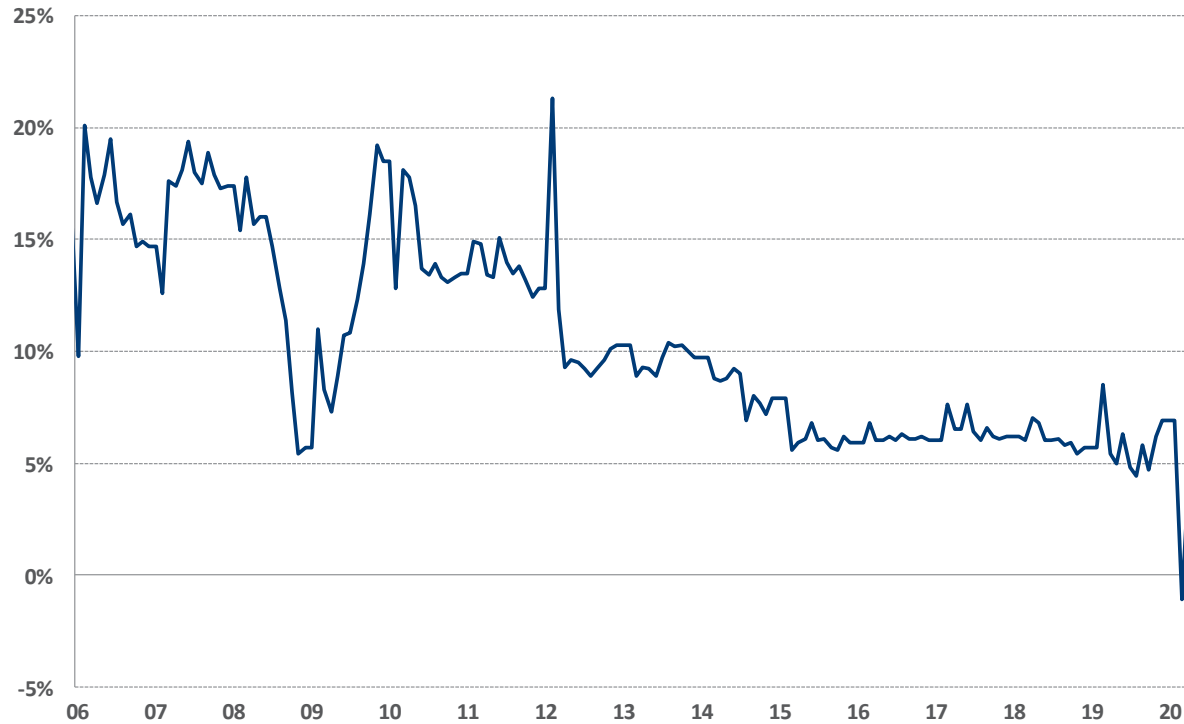
»» Global economy enters a recession



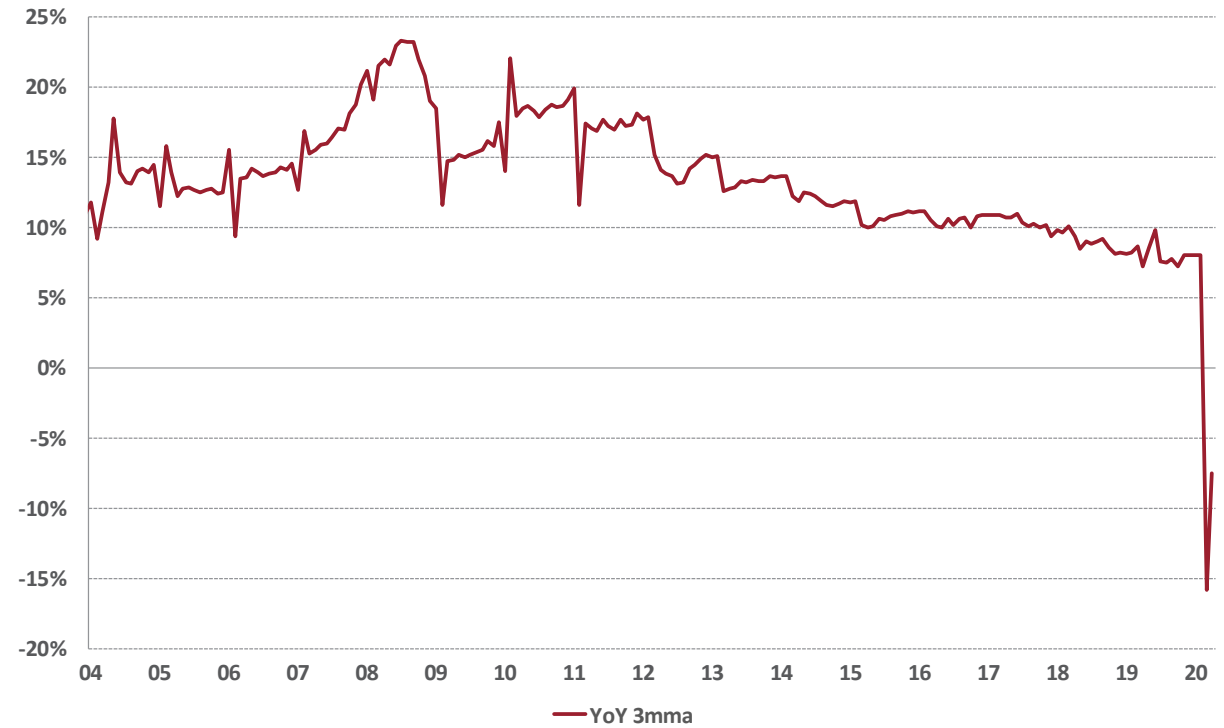
Covid-19: China

»» Activity shows recovery, with a pick-up that is slower in consumption and services

Industrial Production, YoY

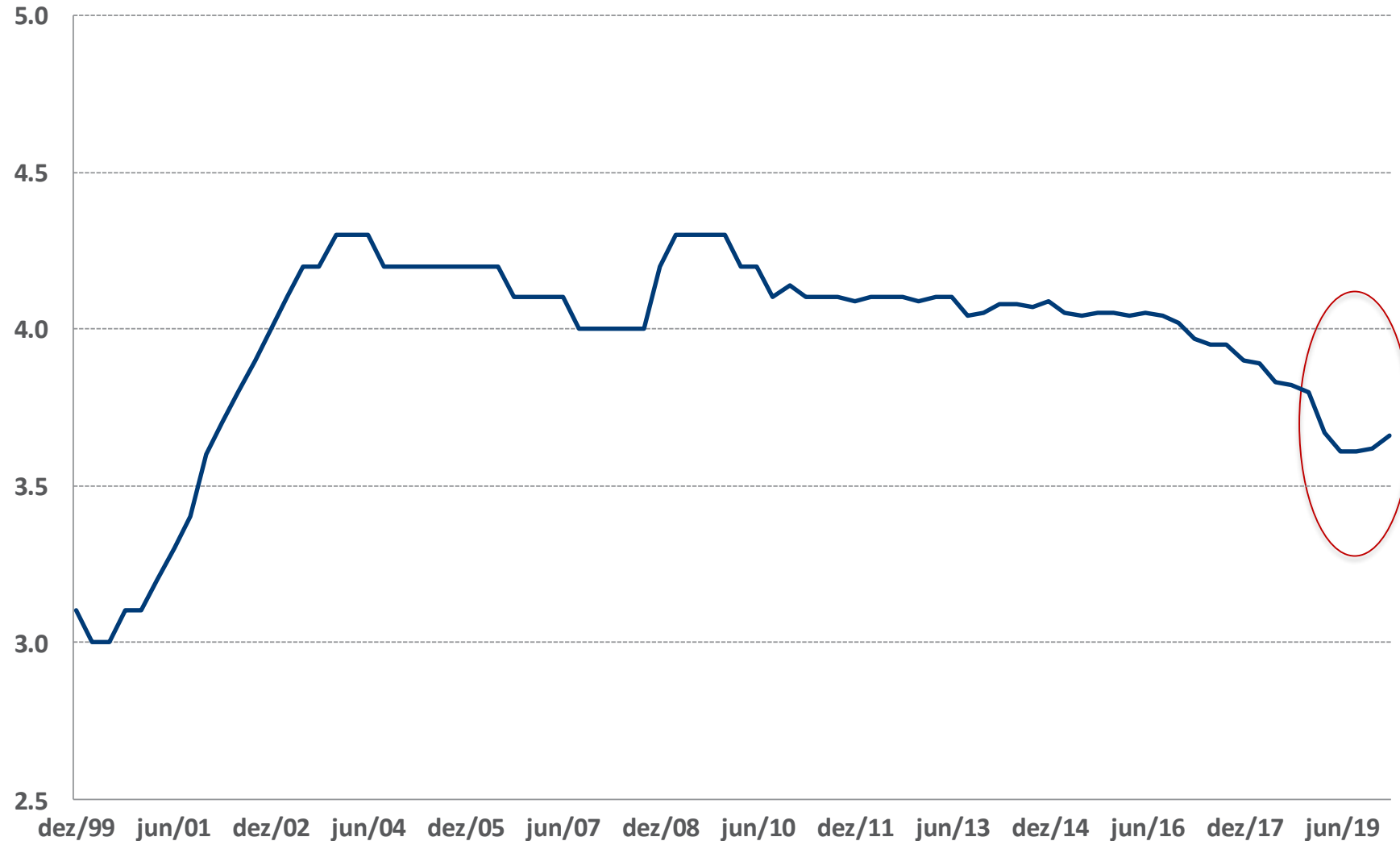


Retail Sales - Nominal Terms, YoY change

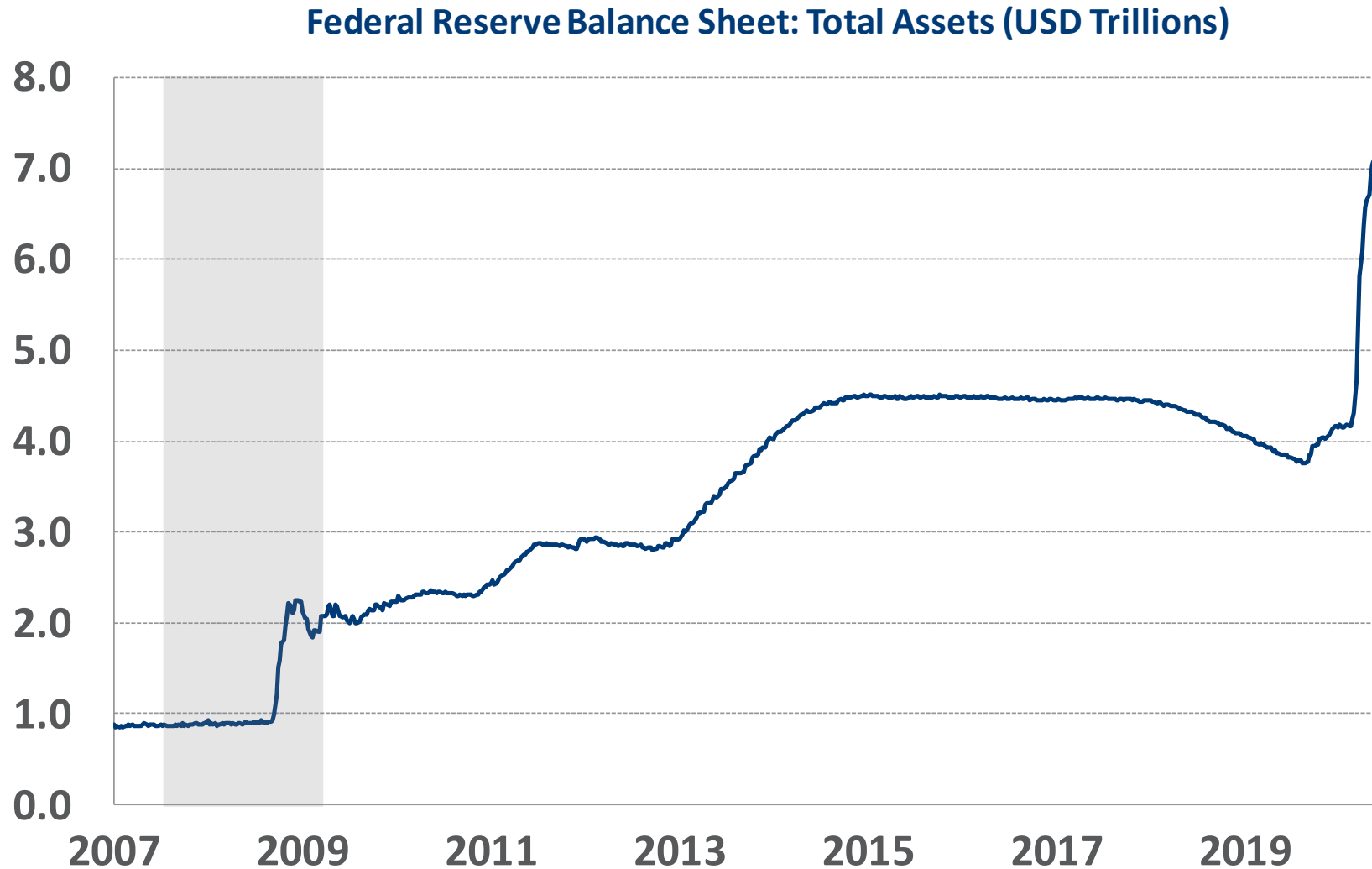


»» Unemployment rates show increase, foreshadowing even more stimulus to contain economic damage

China - Registered Unemployment Rate

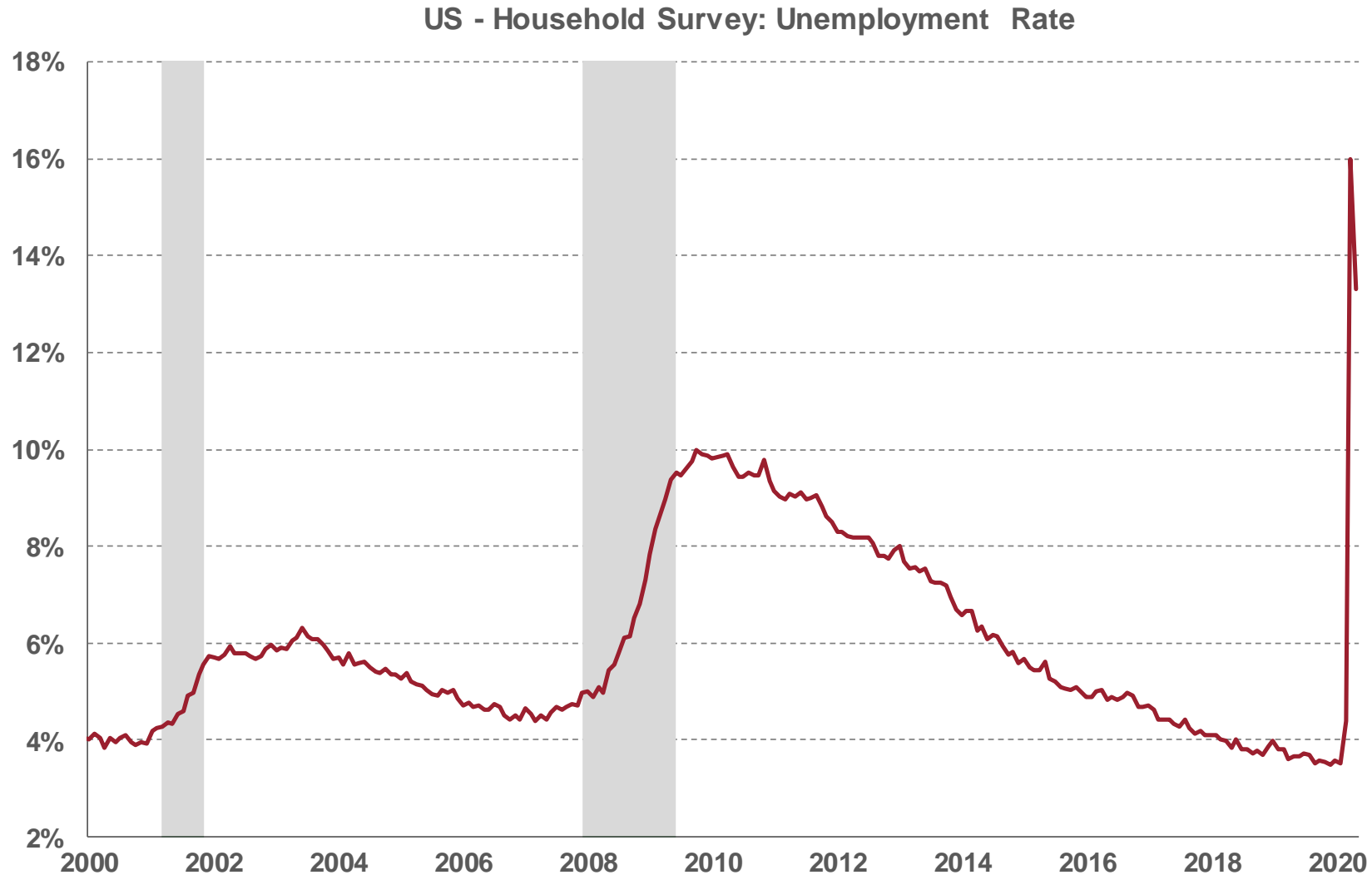


»» FED's asset buying surpasses 2008-09 pace



Covid-19: USA

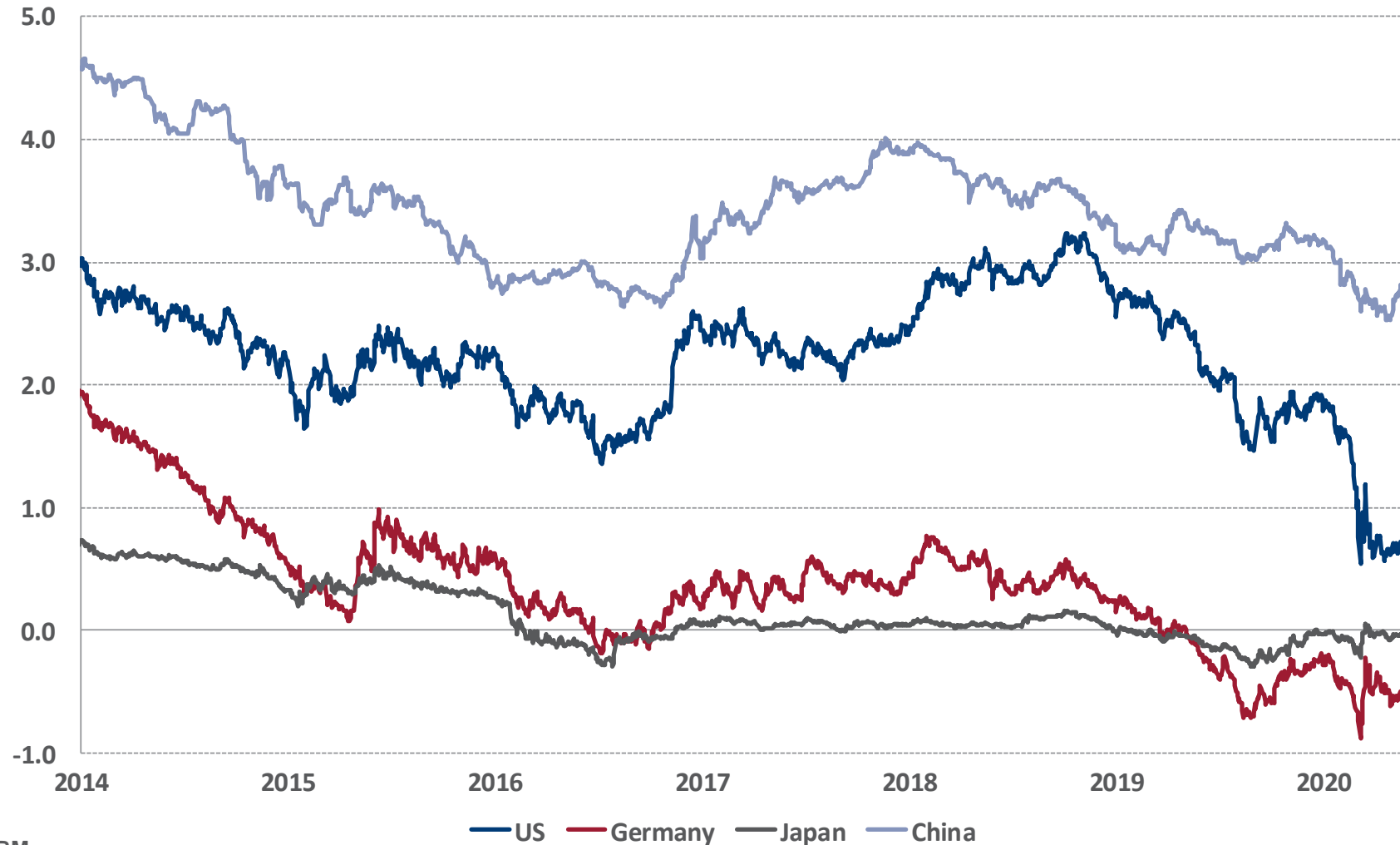
»» Labor market shows some improvement in May, but unemployment rate remains high



Global Interest Rates

»» Interest rates will remain at extremely low levels for the coming quarters

10 Year Interest Rates

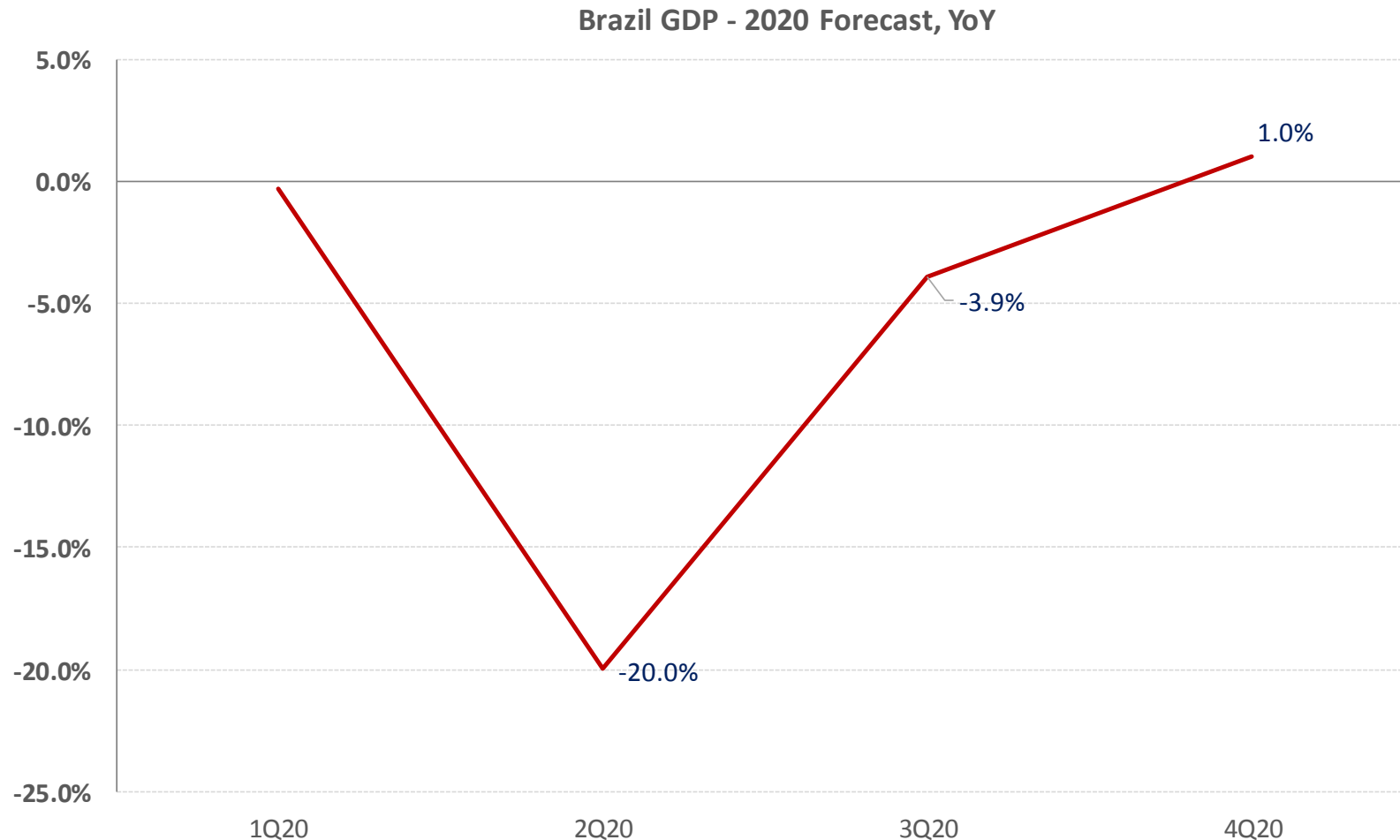


Brazil: Forecasts

ECONOMIC FORECASTS	2016	2017	2018	2019	2020F	2021F
GDP Growth (%)	-3.3%	1.3%	1.3%	1.1%	-5.8%	3.8%
Inflation (%)	6.3%	2.9%	3.7%	4.3%	1.6%	3.0%
Unemployment Rate, SA (eoy, %)	12.6%	12.4%	12.2%	11.7%	14.8%	12.5%
Policy Rate (eoy, %)	13.8%	7.0%	6.5%	4.5%	2.3%	5.0%
External Accounts						
Trade Balance (US\$ bn)	48	67	53	39	45	34
Current Account Balance (US\$ bn)	-23	-10	-42	-51	-10	-34
Current Account Balance (% of GDP)	-1.3%	-0.7%	-2.2%	-2.8%	-0.9%	-2.2%
Fiscal Policy						
Fiscal Primary Balance (% of GDP)	-2.5%	-1.8%	-1.6%	-0.9%	-10.6%	-2.5%
Government Gross Debt (% of GDP)	69.4%	73.7%	77.2%	75.9%	94.0%	94.0%

Brazil: Growth scenarios

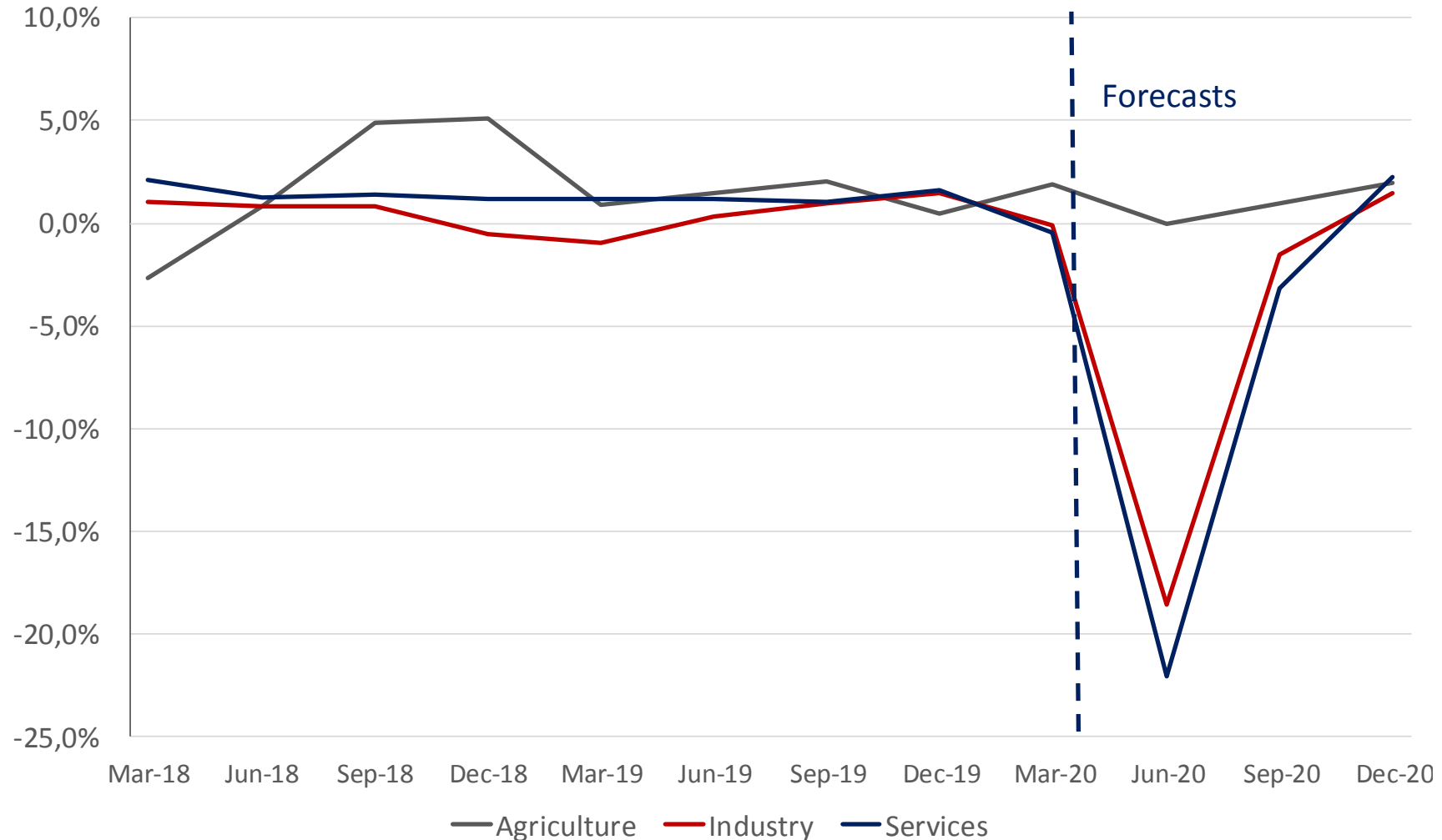
» Growth revised downwards; but great uncertainty remains with regards to the recuperation in consumption and new infection waves



Brazil: Growth scenarios

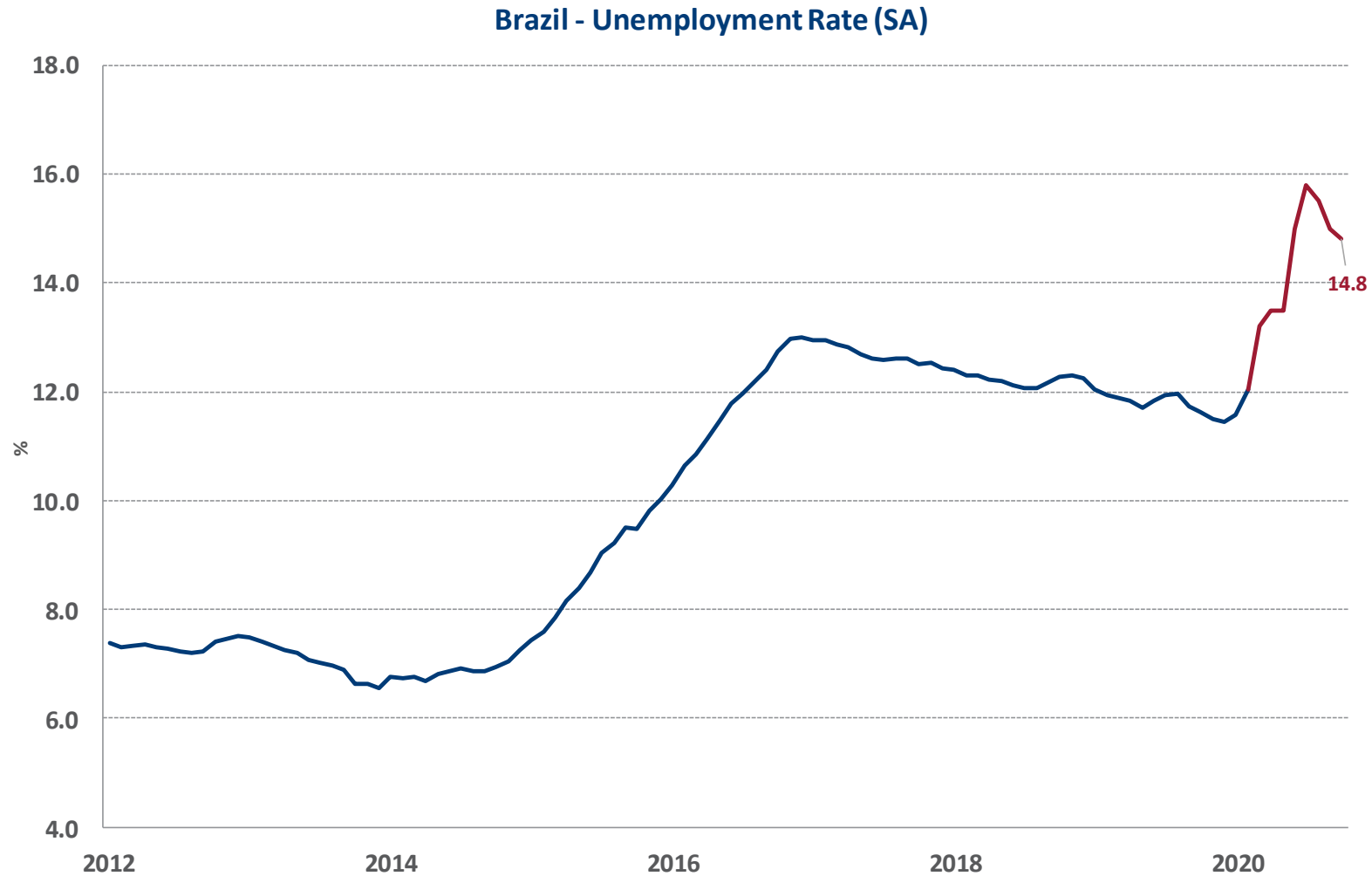
» Growth revised downwards; but great uncertainty remains with regards to the recuperation in consumption and new infection waves

Brazil GDP - Supply side forecasts, YoY



Brazil: Labor Market

» Unemployment rate will go up, but could revert part of the increase throughout the last quarter



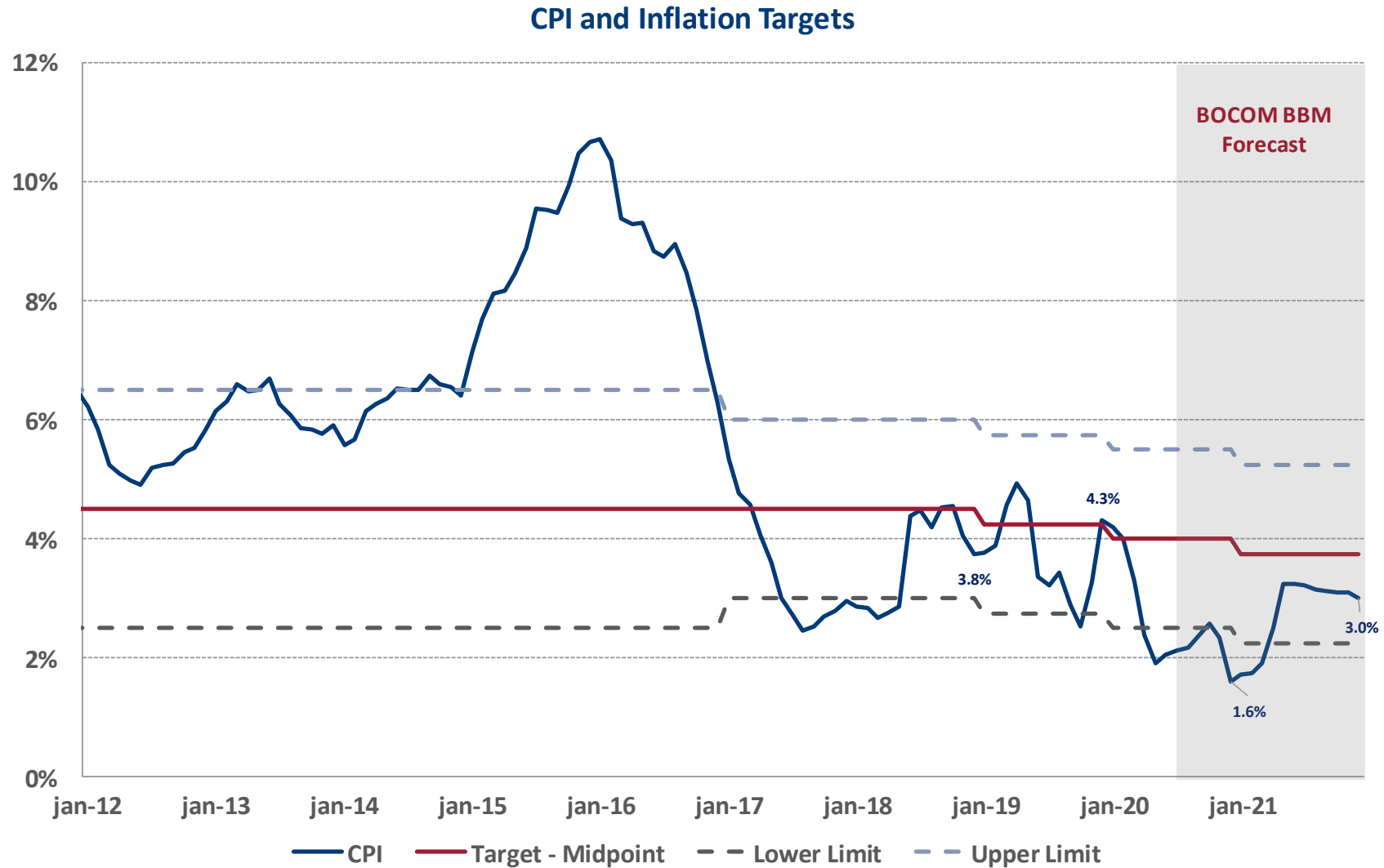
Brazil: Inflation

» Pressure from falling gasoline prices in the short term reinforces deflationary bias of the shock

Baseline Scenario			
	CPI	Regulated	Non-Regulated
19 Q1	4.6%	6.3%	4.0%
19 Q2	3.4%	3.8%	3.2%
19 Q3	2.9%	2.9%	2.9%
19 Q4	4.3%	5.5%	3.9%
20 Q1	3.3%	4.8%	2.9%
20 Q2	2.0%	-1.0%	3.0%
20 Q3	2.4%	0.0%	3.3%
20 Q4	1.6%	0.3%	2.0%
21 Q1	1.9%	1.3%	2.1%
21 Q2	3.3%	6.6%	2.2%
21 Q3	3.1%	6.0%	2.1%
21 Q4	3.0%	4.9%	2.4%

Brazil: Inflation

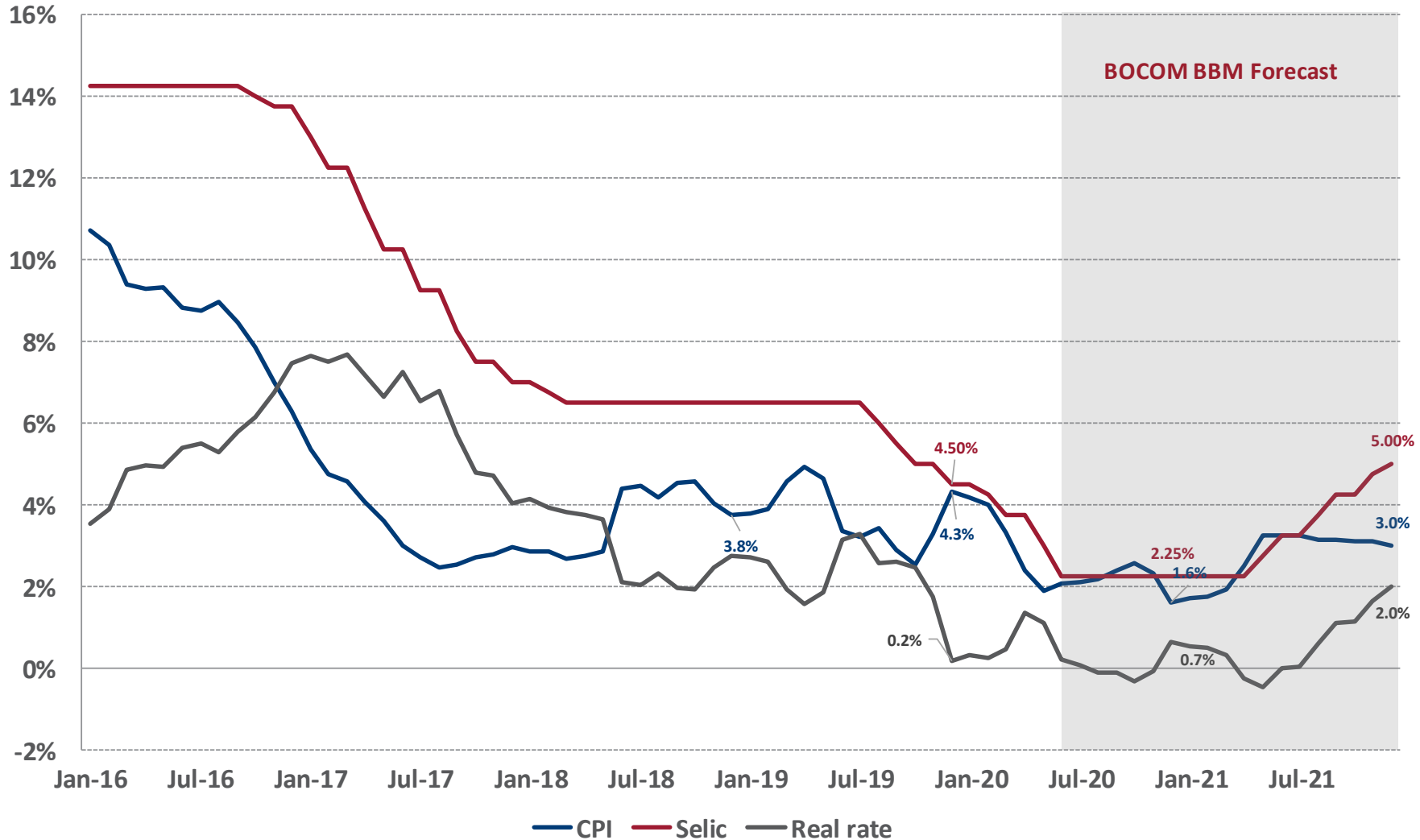
» Inflation should remain below the target's midpoint, leaving space for low interest rate levels



BRAZIL: MONETARY POLICY

» Selic rate should remain at 2.25% until the end of the year, with normalization starting in mid 2021

CPI, Selic rate and Real ex-post interest rate



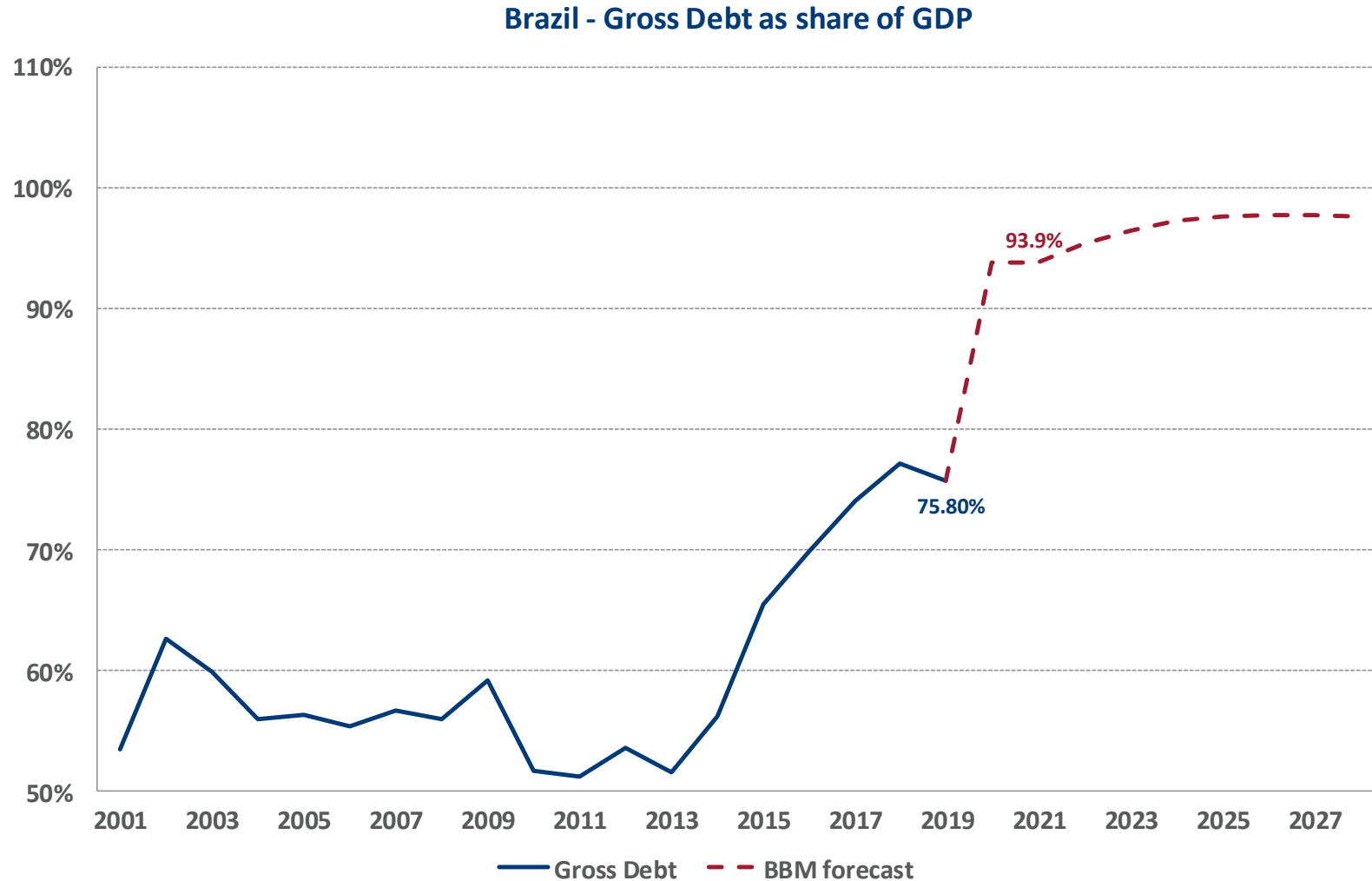
Brazil: Fiscal

- »» Fiscal policies to mitigate the impacts of the crisis above 8% of GDP
- »» Primary deficit should be above 10% of GDP in 2020, returning to around 2.5% of GDP in 2021 if the Spending cap remains in place

Covid-19 Policy Response	R\$ Bilions	%GDP
Federal Government		
Taxes Defferal	352	4,9%
Emergencial aid for the vulnerable population	180	2,5%
Healthcare	28	0,4%
Emergencial aid for states and municipalities	171	2,4%
Labor support	245	3,4%
Total	976	13,5%
Total ex-taxes defferal	624	8,6%
BCB		
Liquidity Support	1216	-
Capital Support	1157	-
Special Credit Line for small and medium-sized companies (40	-
Federal Public Banks		
BNDES	82	1,1%
CAIXA	111	1,5%

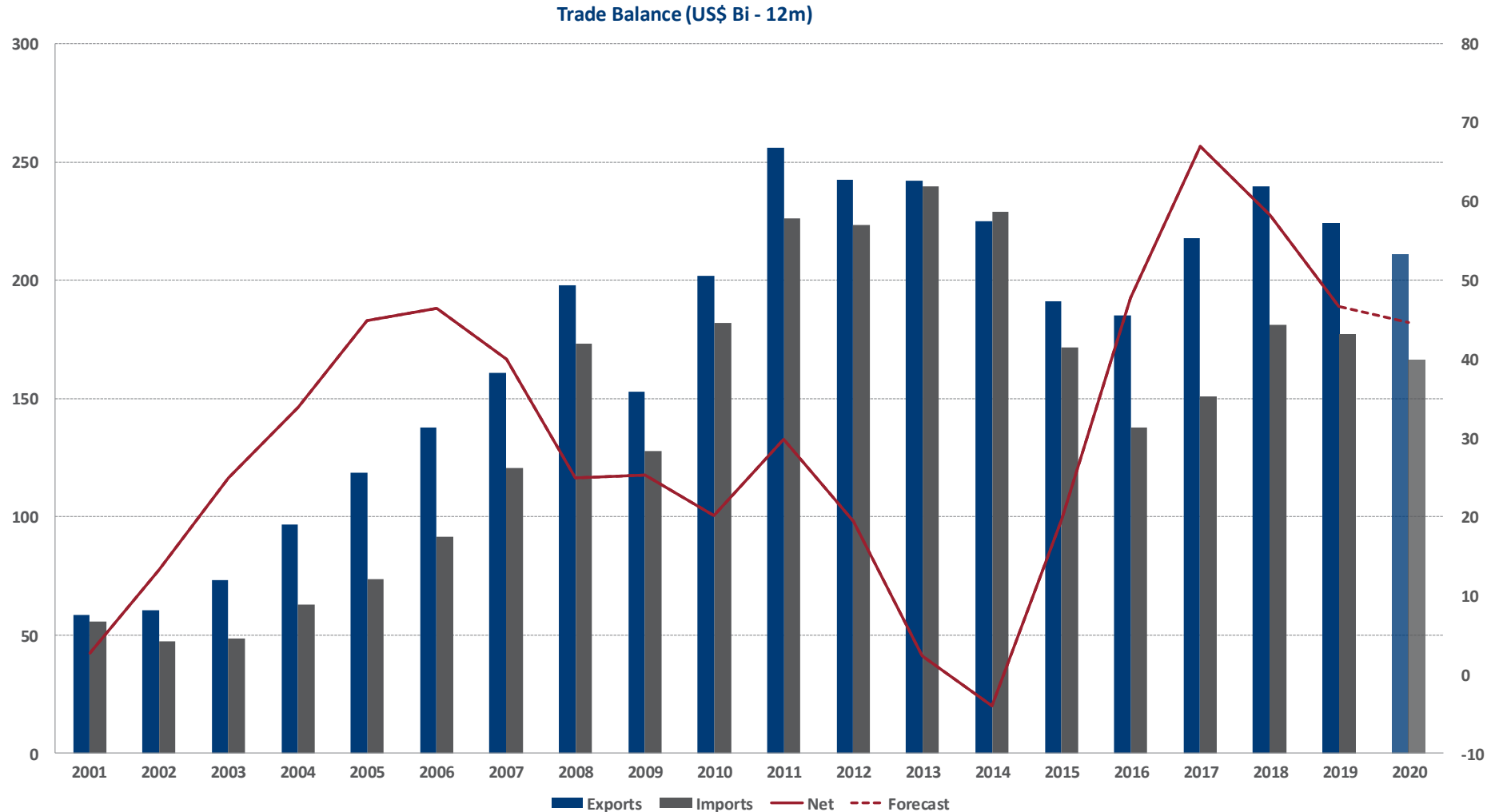
Brazil: Fiscal

- » Fiscal measures to mitigate economic fallout will induce a sharp rise in the Debt/GDP ratio
- » It is essential to keep the fiscal deterioration contained to 2020



Brazil: Trade Balance

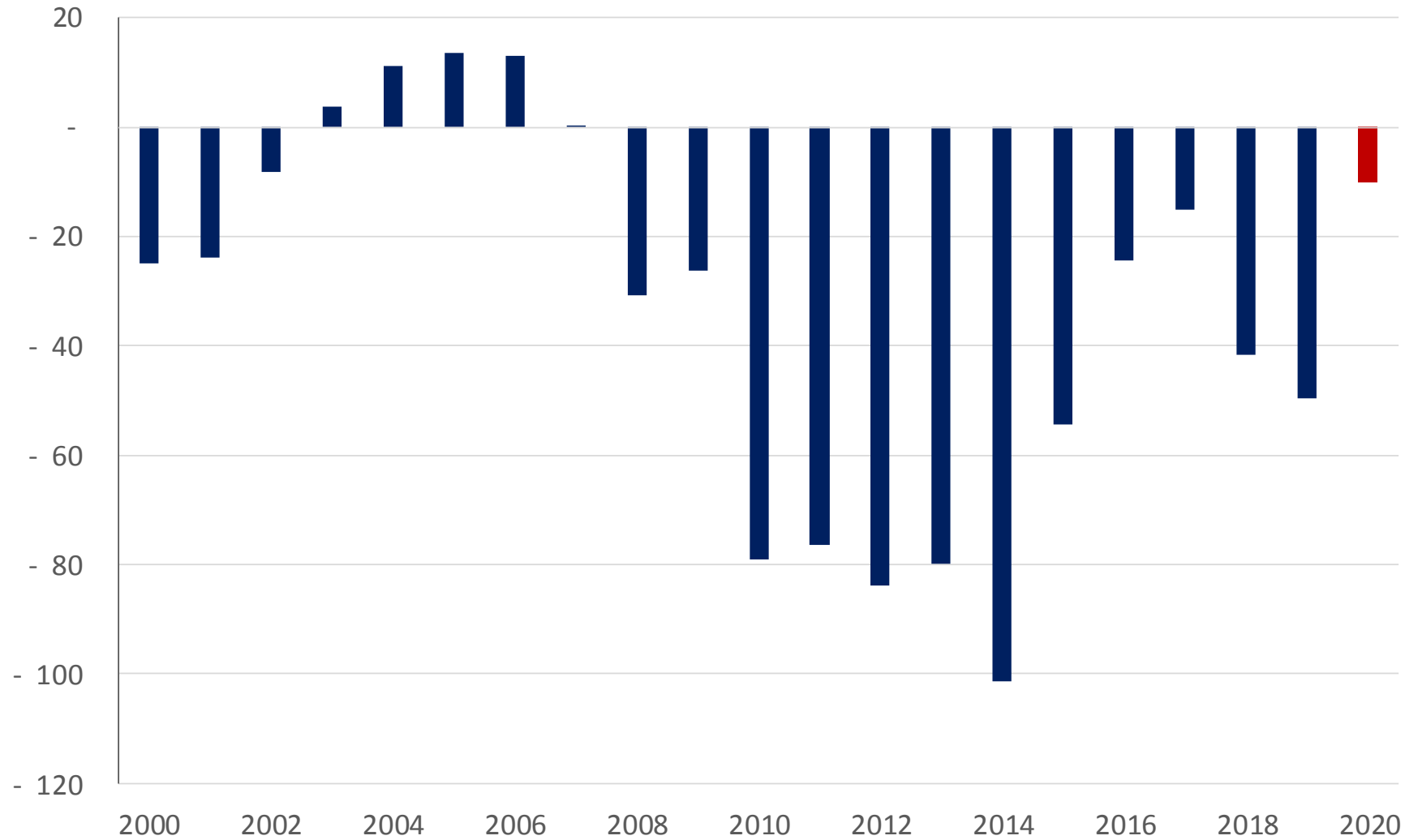
» The trade balance will continue to suffer from the impacts of deceleration of commercial partners and from the decrease in commodity prices



Brazil: Trade Balance

» Nevertheless the current account deficit will shrink significantly

Brazil - Current Account flows, US\$ bn



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