



MACRO OUTLOOK

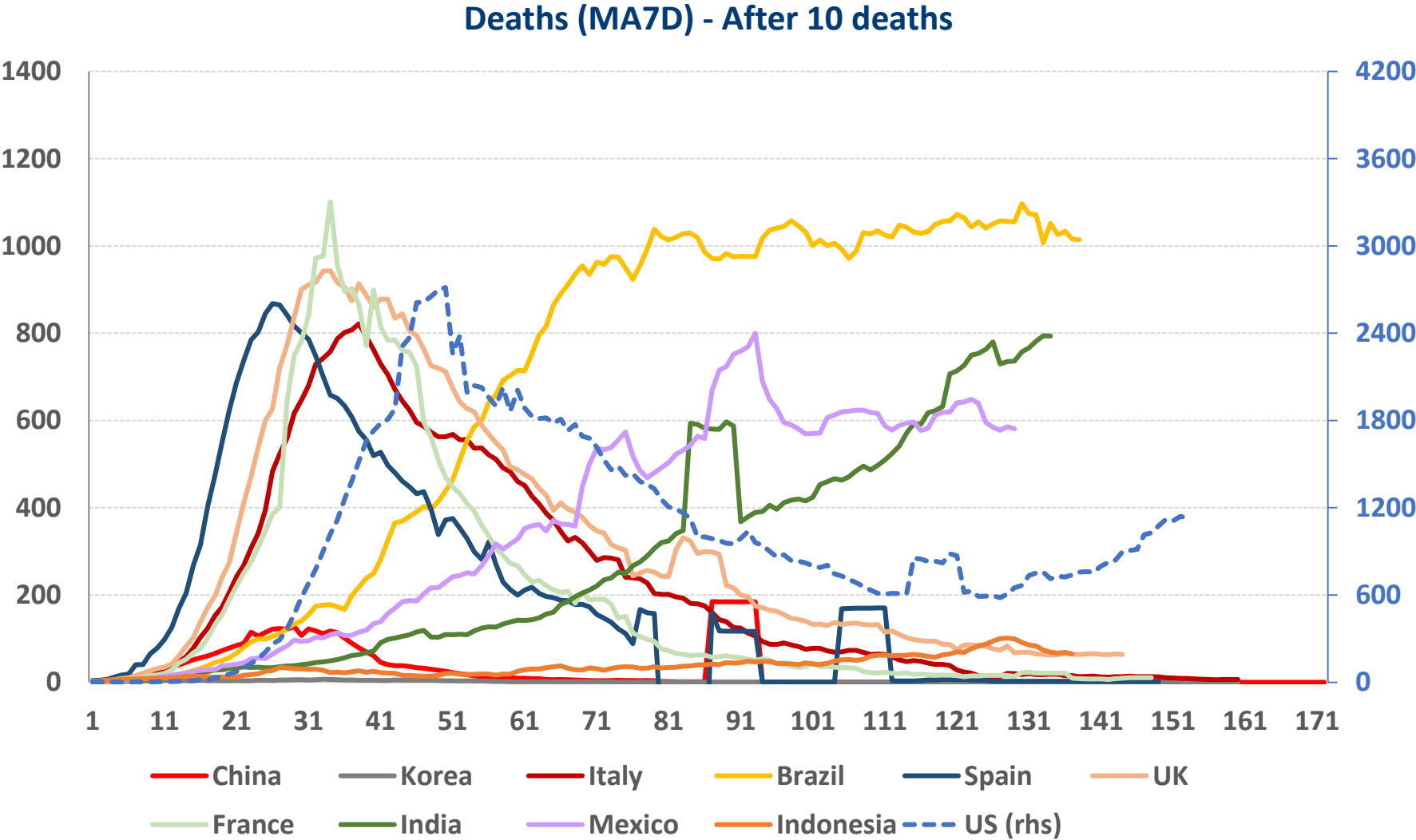
Fernanda Guardado
Chief-Economist



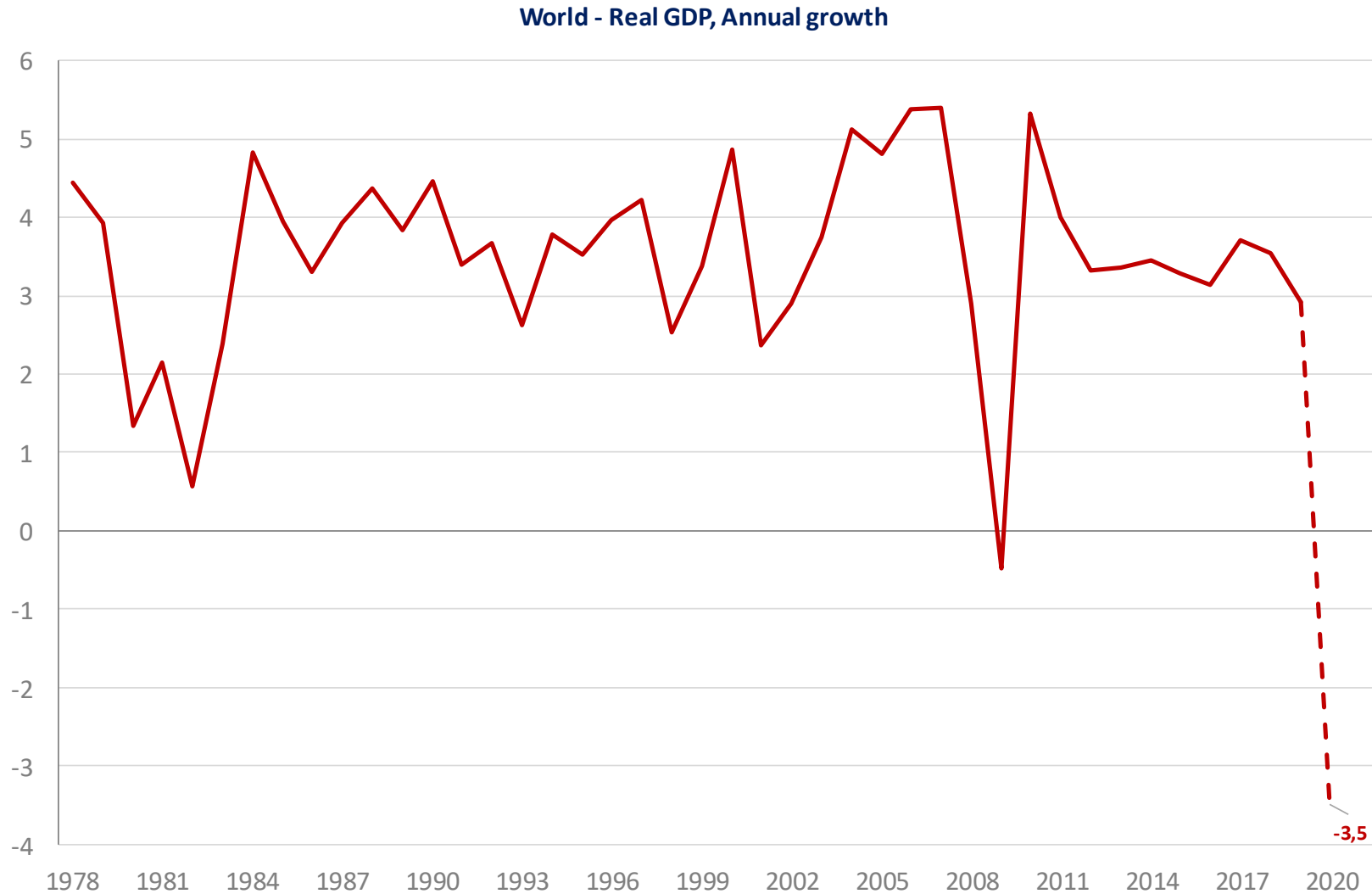
August 2020

- » Covid epidemic continues to spread in Latin America and the USA
- » Global economy embarks on recovery as economies reopen
- » Governments deepen fiscal and monetary 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 should remain low in a recovery marked by controlled inflation

» Epidemic advances in Brazil

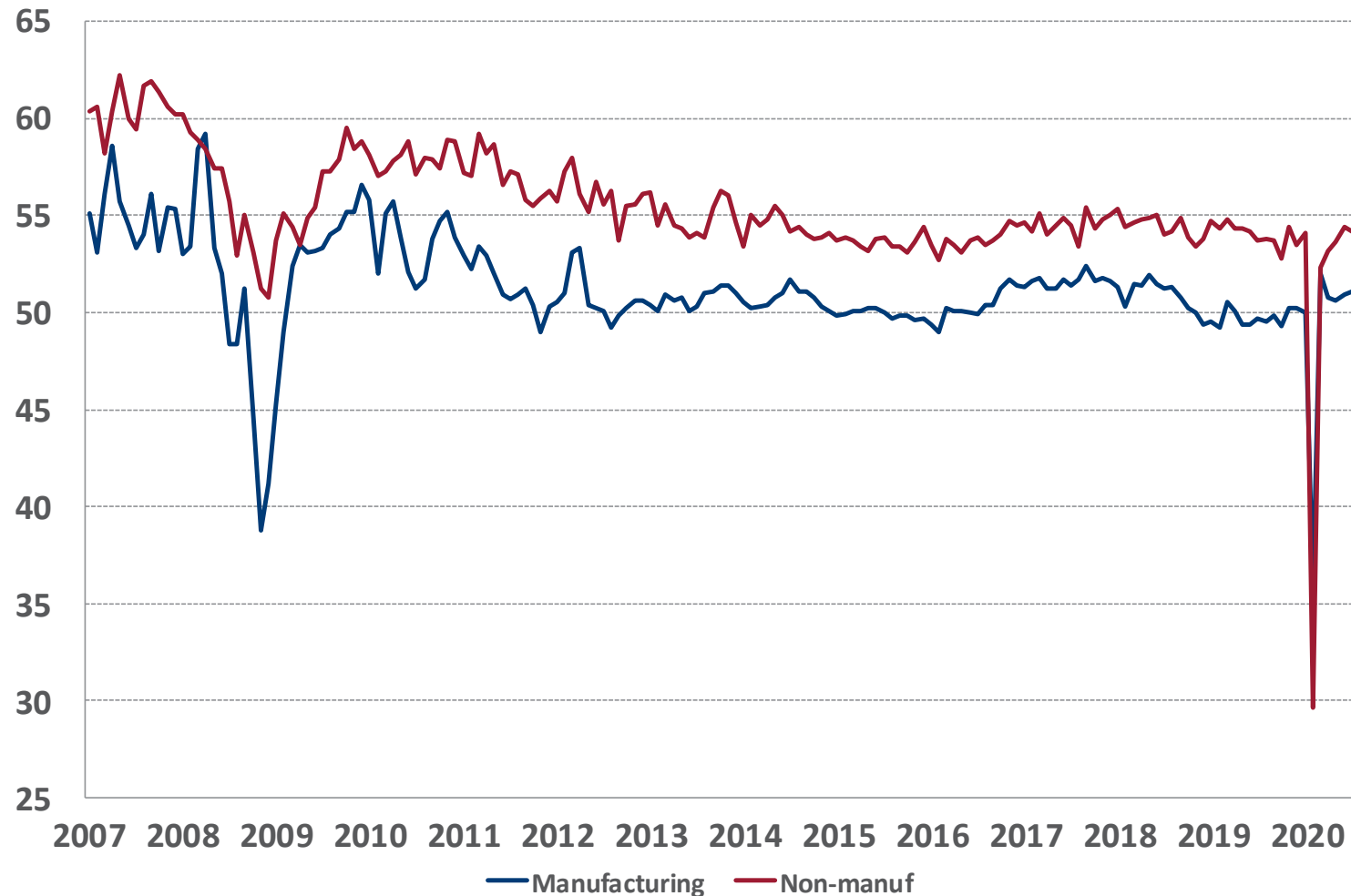


»» Global economy enters a recession



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

China - PMIs



US: Activity

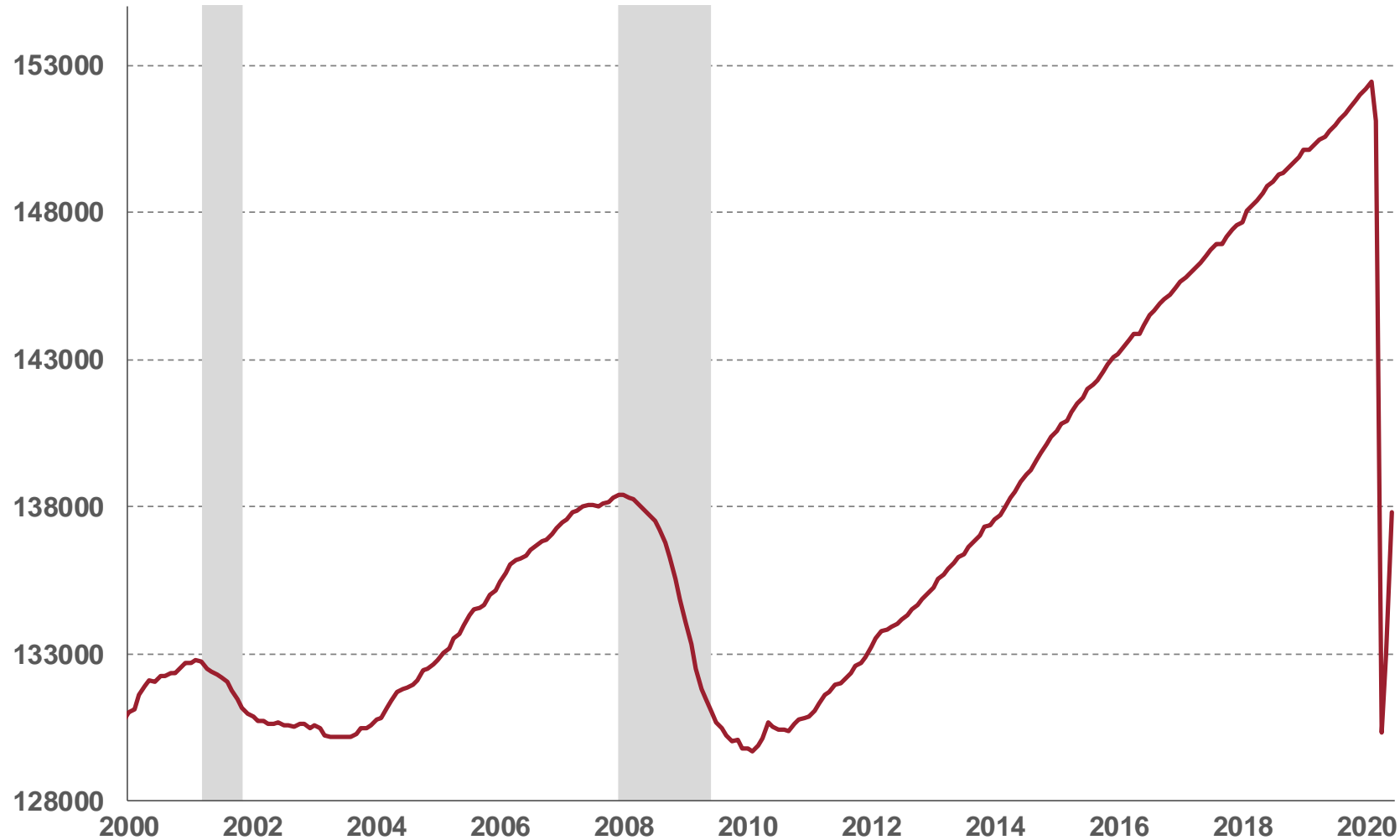
» American GDP suffers steepest decline in post-war history



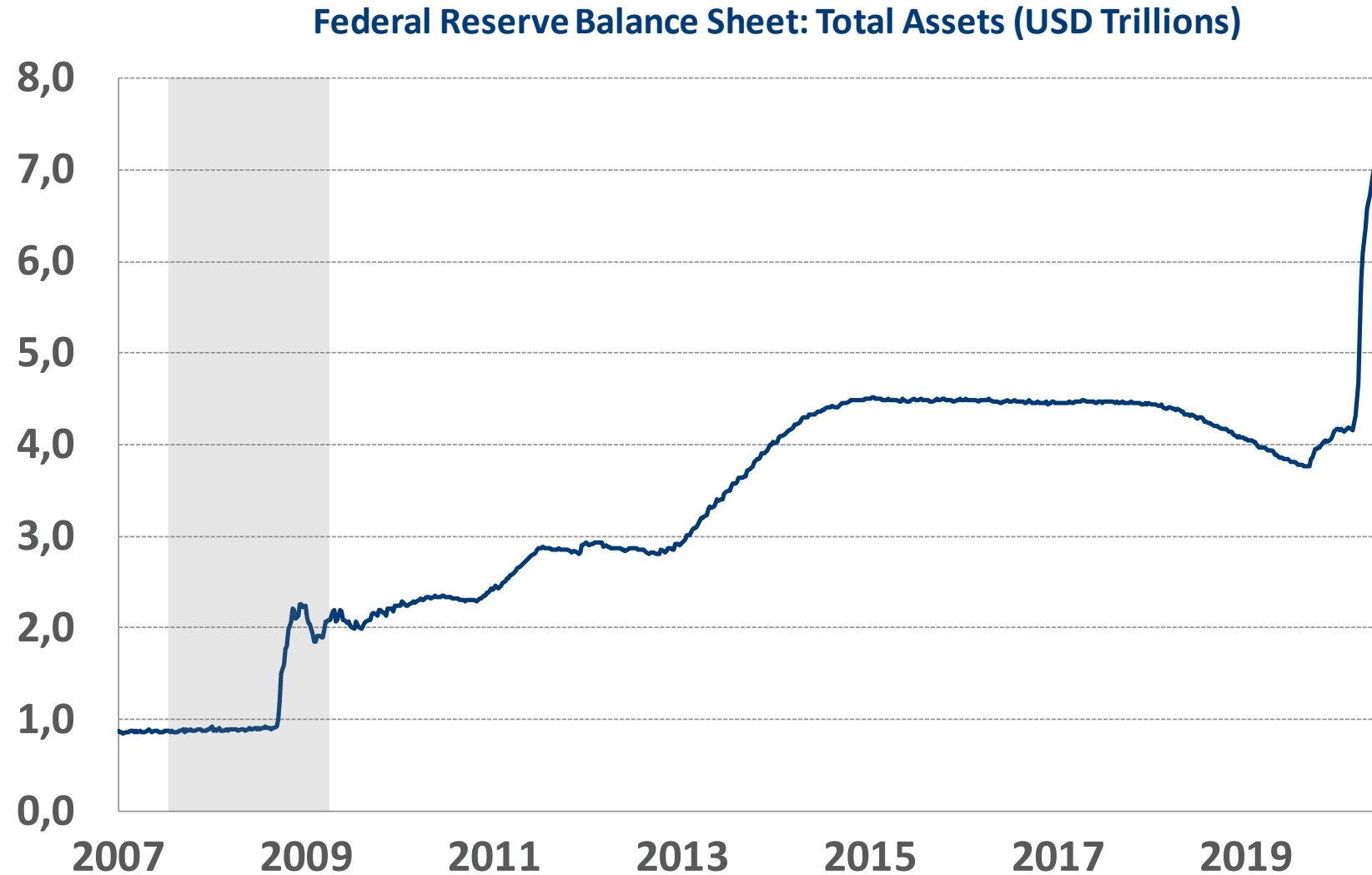
US: Labor Market

» Labor market shows a faster than expected recovery, but the number of lost jobs remains high

US -Total Nonfarm Payroll (Thousands)

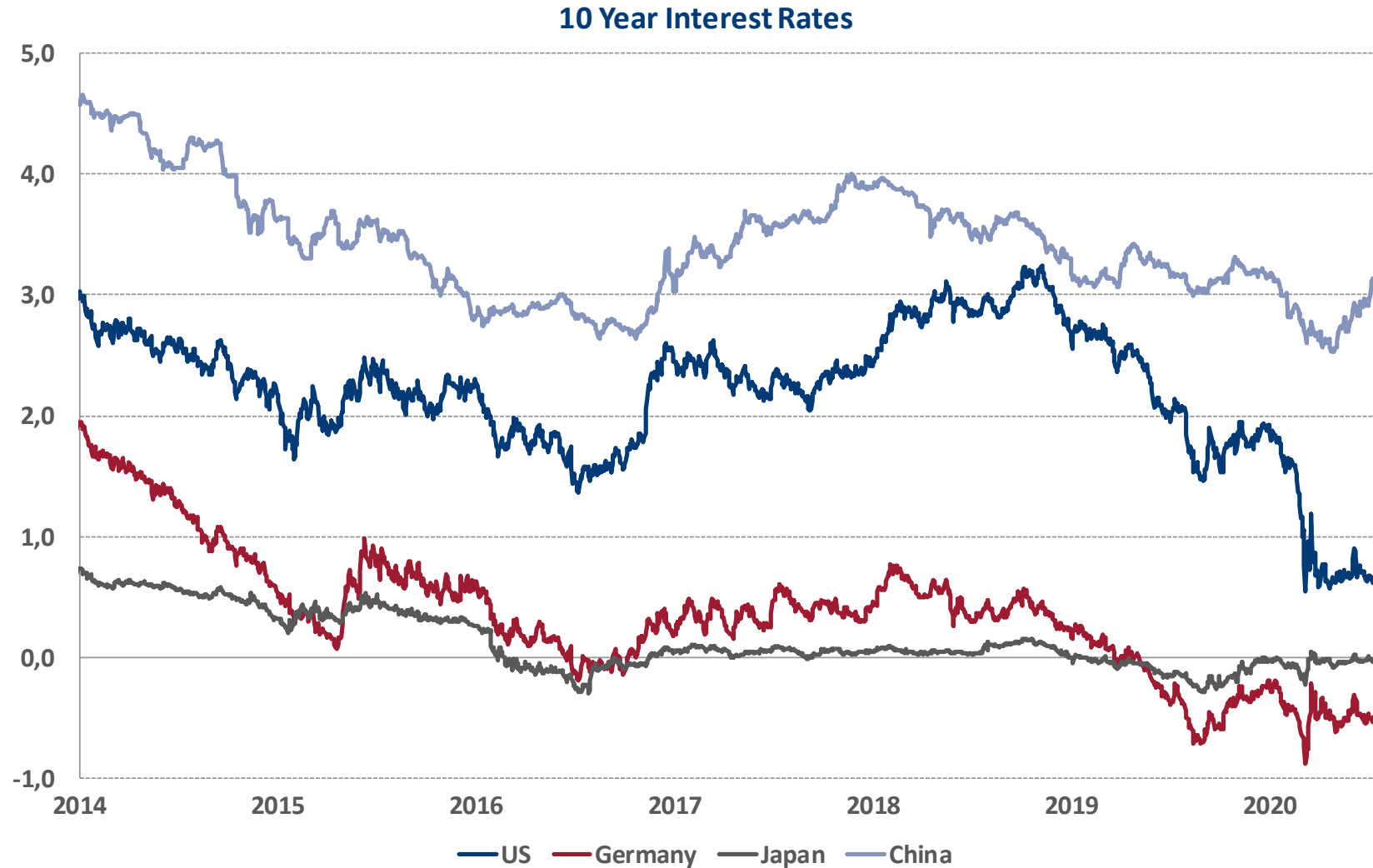


» FED's balance sheet expansion sharper than post-GFC



Global Interest Rates

» Interest rates should remain at extremely low levels for a considerable time



Global Negative Yielding Debt - Market Value - US\$ Trillion

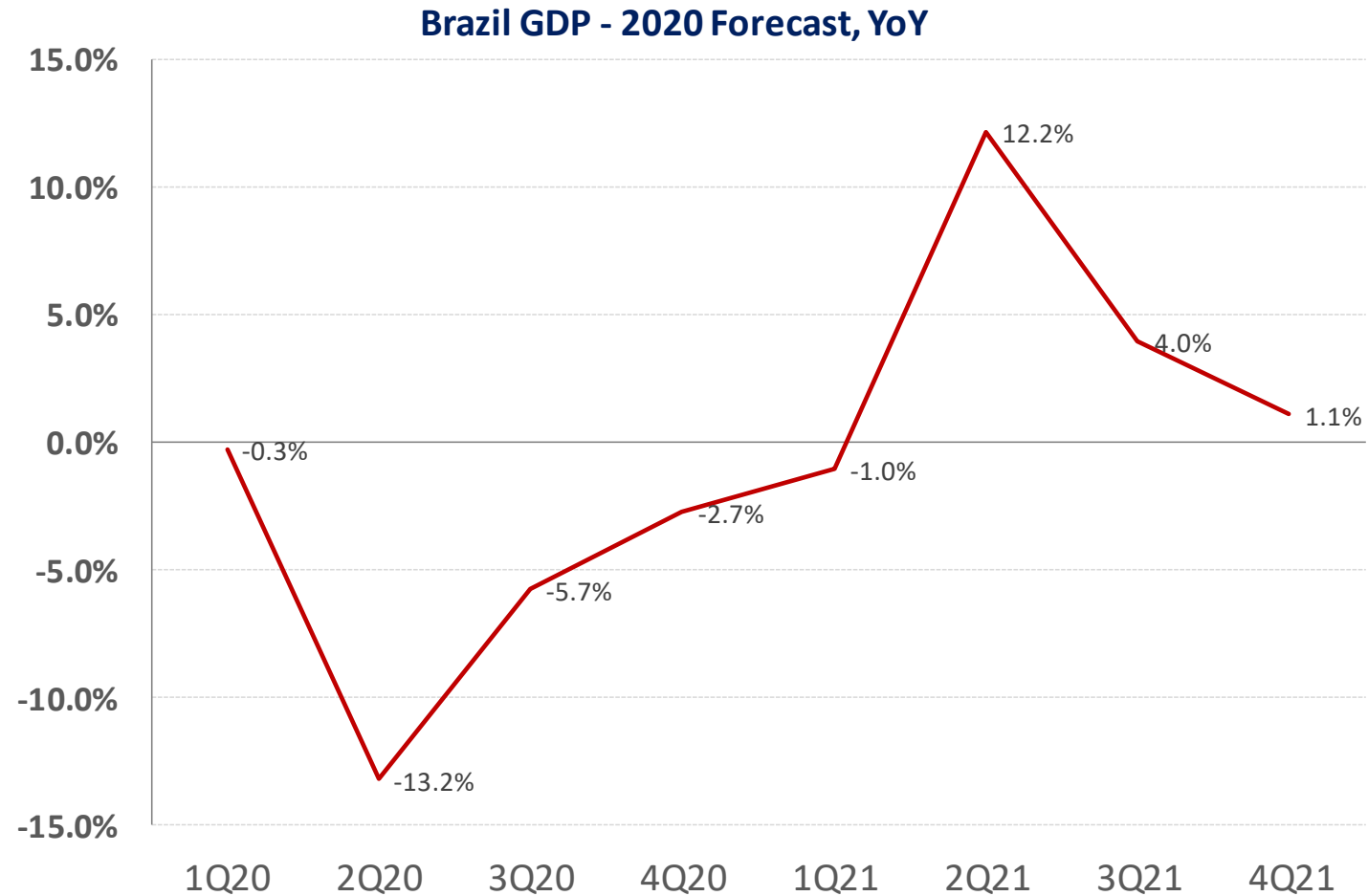


Brazil: Forecasts

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%	1.8%	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%	2.0%	4.0%
External Accounts						
Trade Balance (US\$ bn)	48	67	53	39	56	34
Current Account Balance (US\$ bn)	-23	-10	-42	-51	1	-19
Current Account Balance (% of GDP)	-1.3%	-0.7%	-2.2%	-2.8%	0.1%	-1.3%
Fiscal Policy						
Fiscal Primary Balance (% of GDP)	-2.5%	-1.8%	-1.6%	-0.9%	-11.5%	-3.1%
Government Gross Debt (% of GDP)	69.4%	73.7%	77.2%	75.9%	95.0%	95.0%

Brazil: Growth

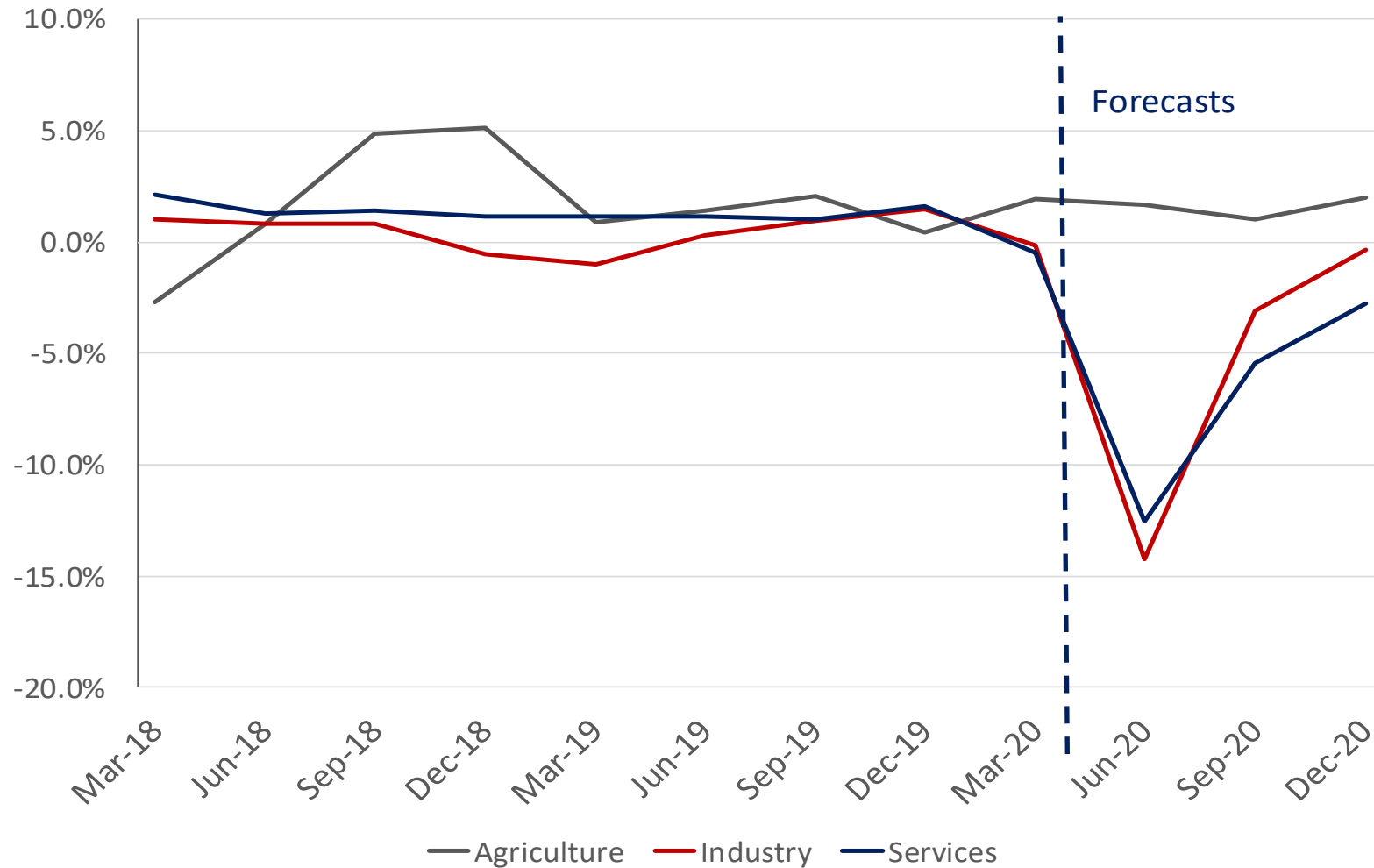
- » Activity seems to have bottomed in April; but great uncertainty remains, mainly with regards to the recovery in consumption and new infection waves



Brazil: Growth

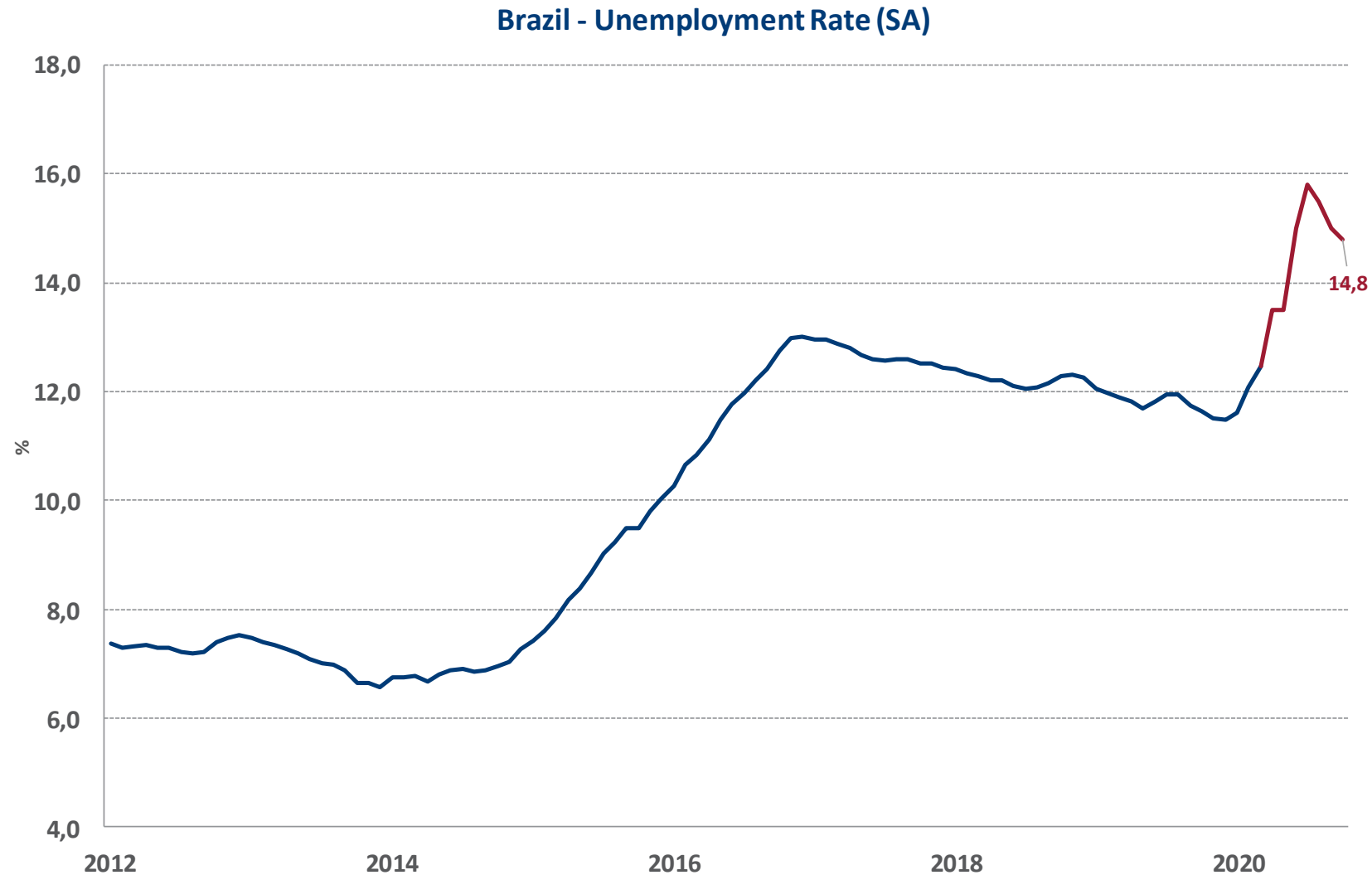
» Services will recover more slowly

Brazil GDP - Supply side forecasts, YoY



Brazil: Labor Market

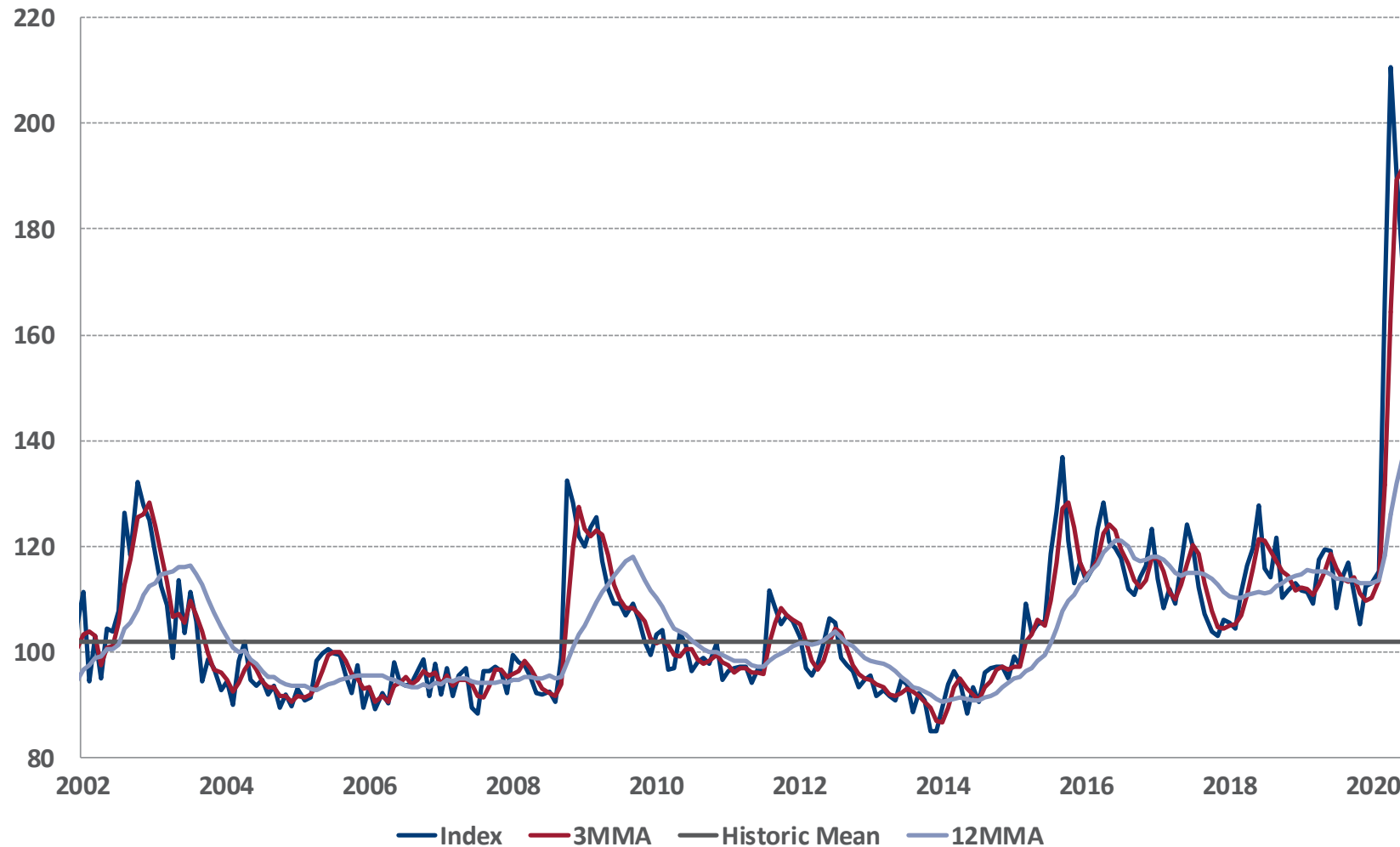
» Unemployment rate should go up, but will revert part of the increase throughout the last quarter



Brazil: Uncertainty

»» Uncertainty diminished but remains well above norm

Brazil - Economic Uncertainty Index



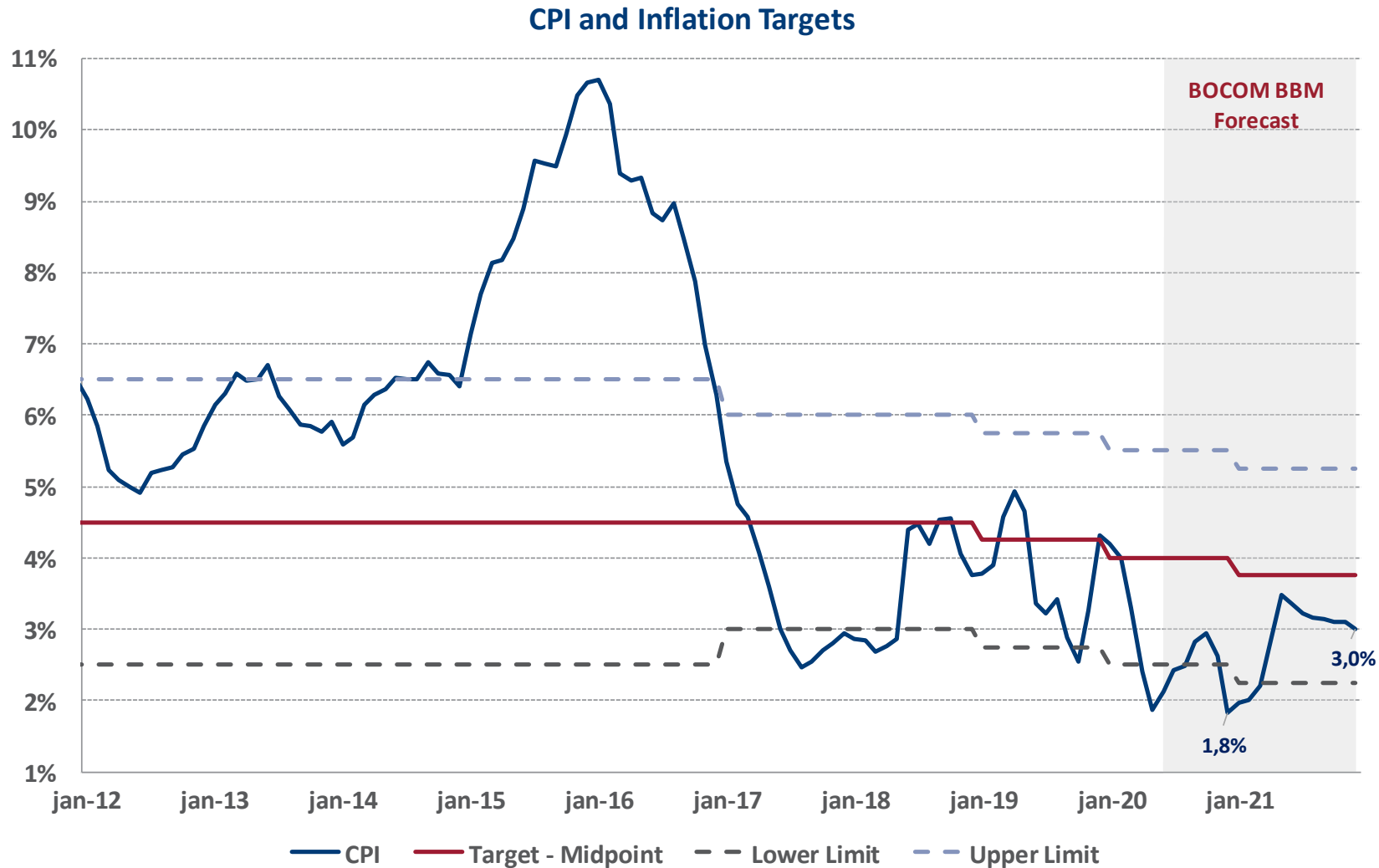
Brazil: Inflation

» Deflationary bias in the short term, even with recovery of gasoline prices

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	2,1%	0,1%	2,8%
20 Q3	2,7%	1,4%	3,1%
20 Q4	1,8%	0,8%	2,2%
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

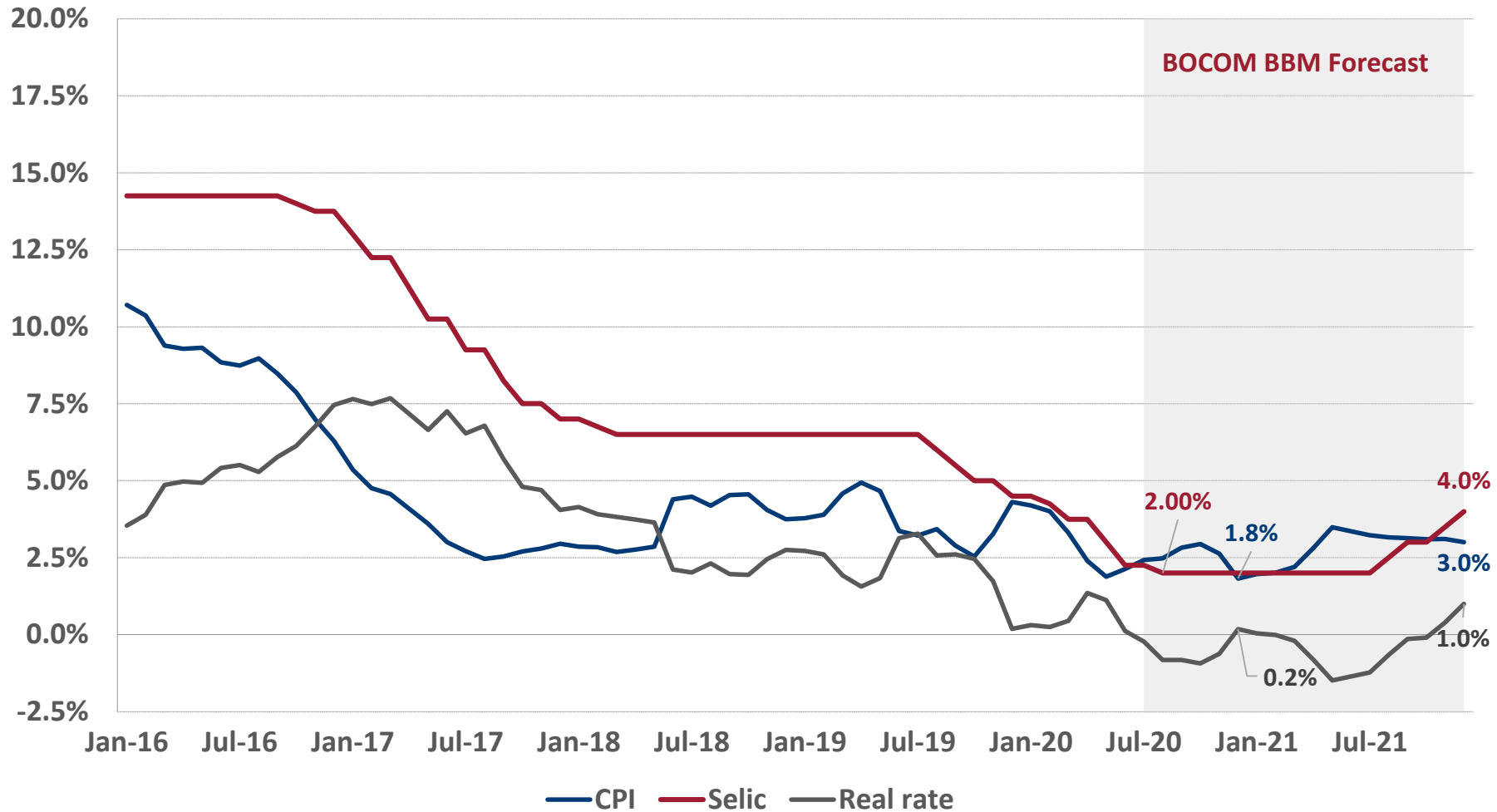
» Inflation should remain below the target's midpoint, leaving space for low interest rate levels



BRAZIL: MONETARY POLICY

» Selic rate should remain at 2% until the end of the year, with normalization starting in mid 2021

CPI, Selic Rate and Real Ex-post Interest Rate

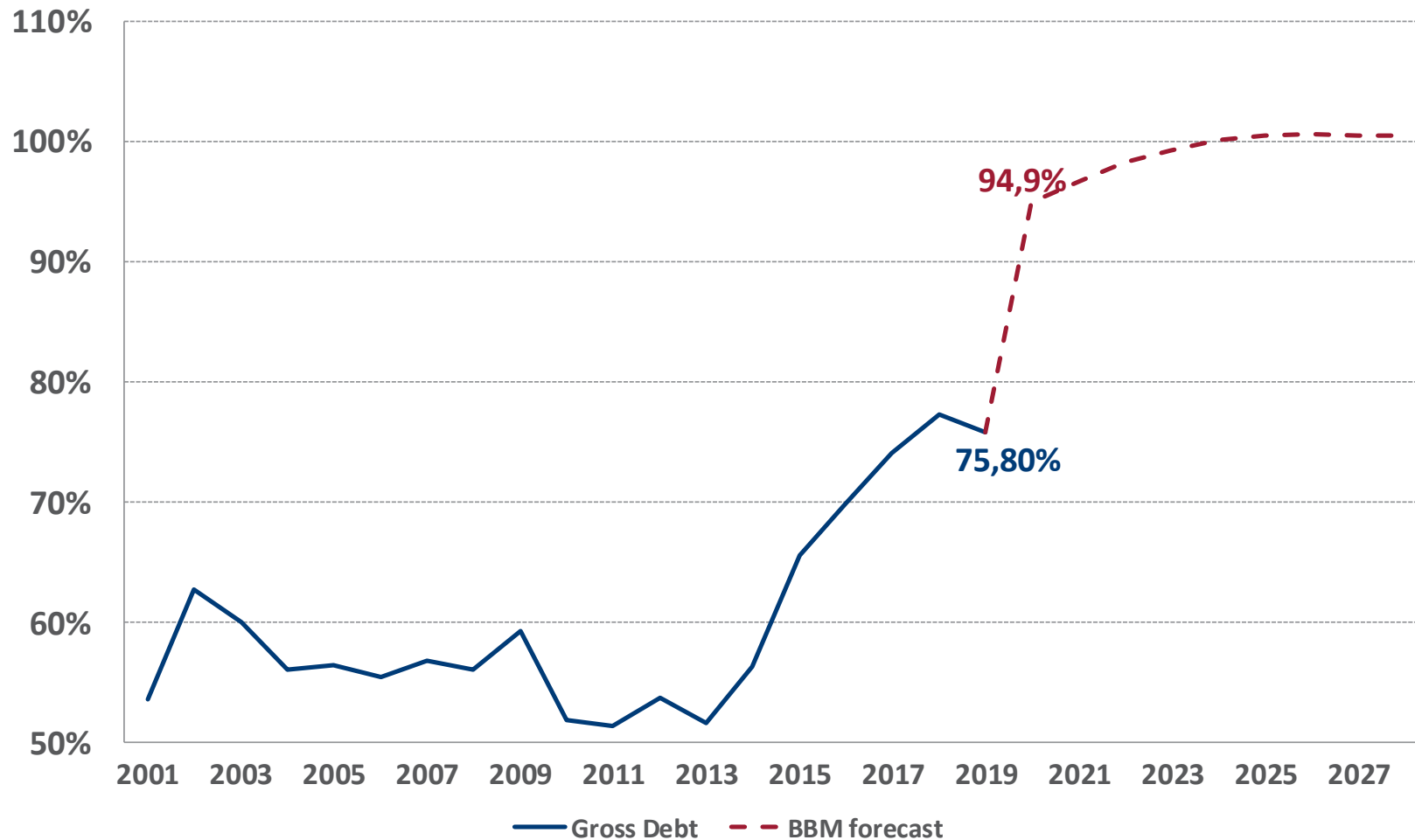


- » Measures to mitigate economic impacts from the pandemic should result in a primary deficit above 11% of GDP in 2020, returning to around 3% of GDP in 2021 if the spending cap remains in place

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	350	4,8%
Total	1080	15,0%
Total ex-taxes defferal	729	10,1%
BCB		
Liquidity Support	1216	-
Capital Support	1157	-
Special Credit Line for small and medium-sized companies (40	-
Federal Public Banks		
BNDES	86	1,2%
CAIXA	111	1,5%

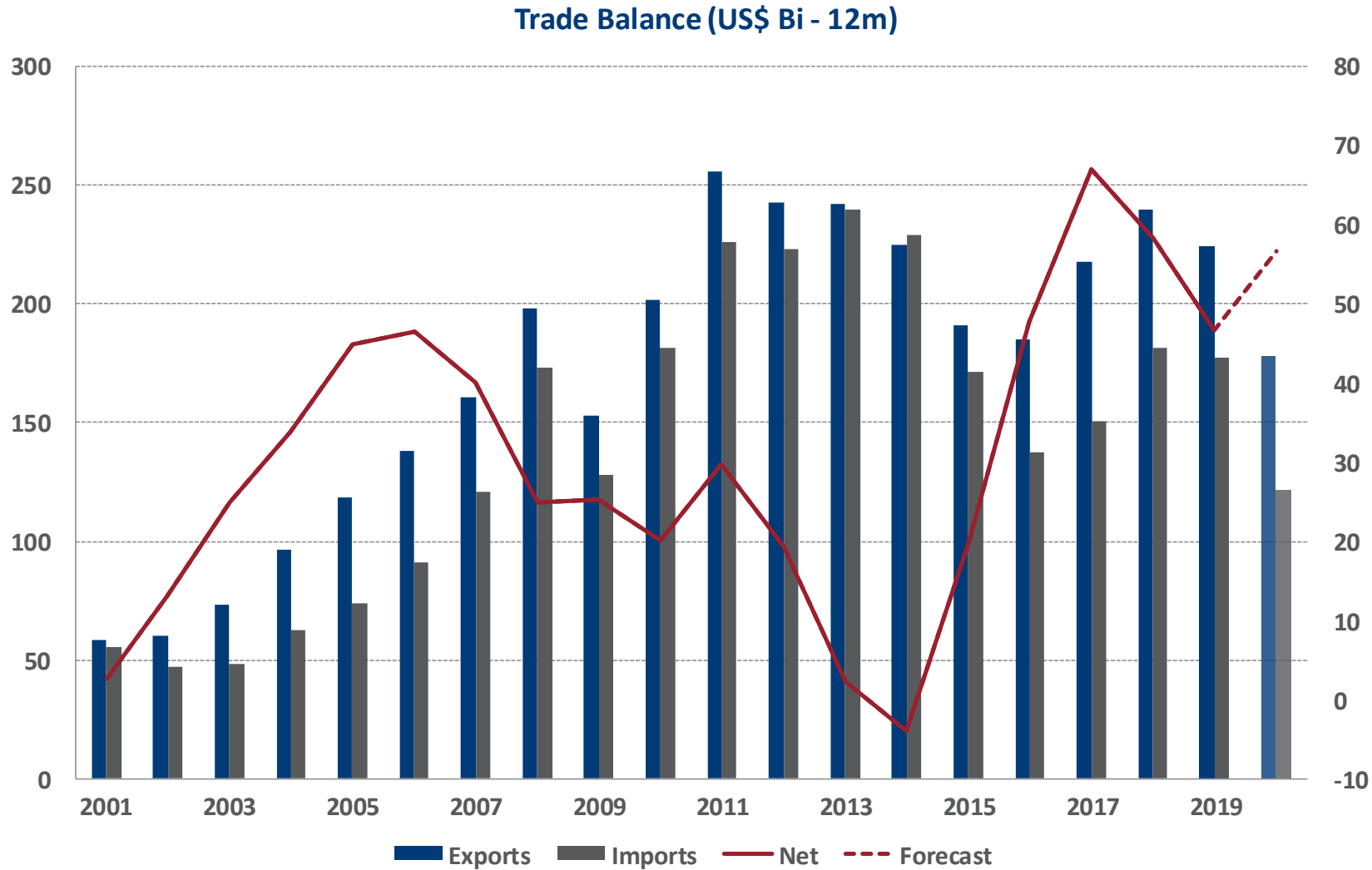
- » Fiscal measures to mitigate economic fallout will result in a sharp rise in the Debt/GDP ratio
- » It is essential to keep the fiscal deterioration contained to 2020

Brazil - Gross Debt as share of GDP



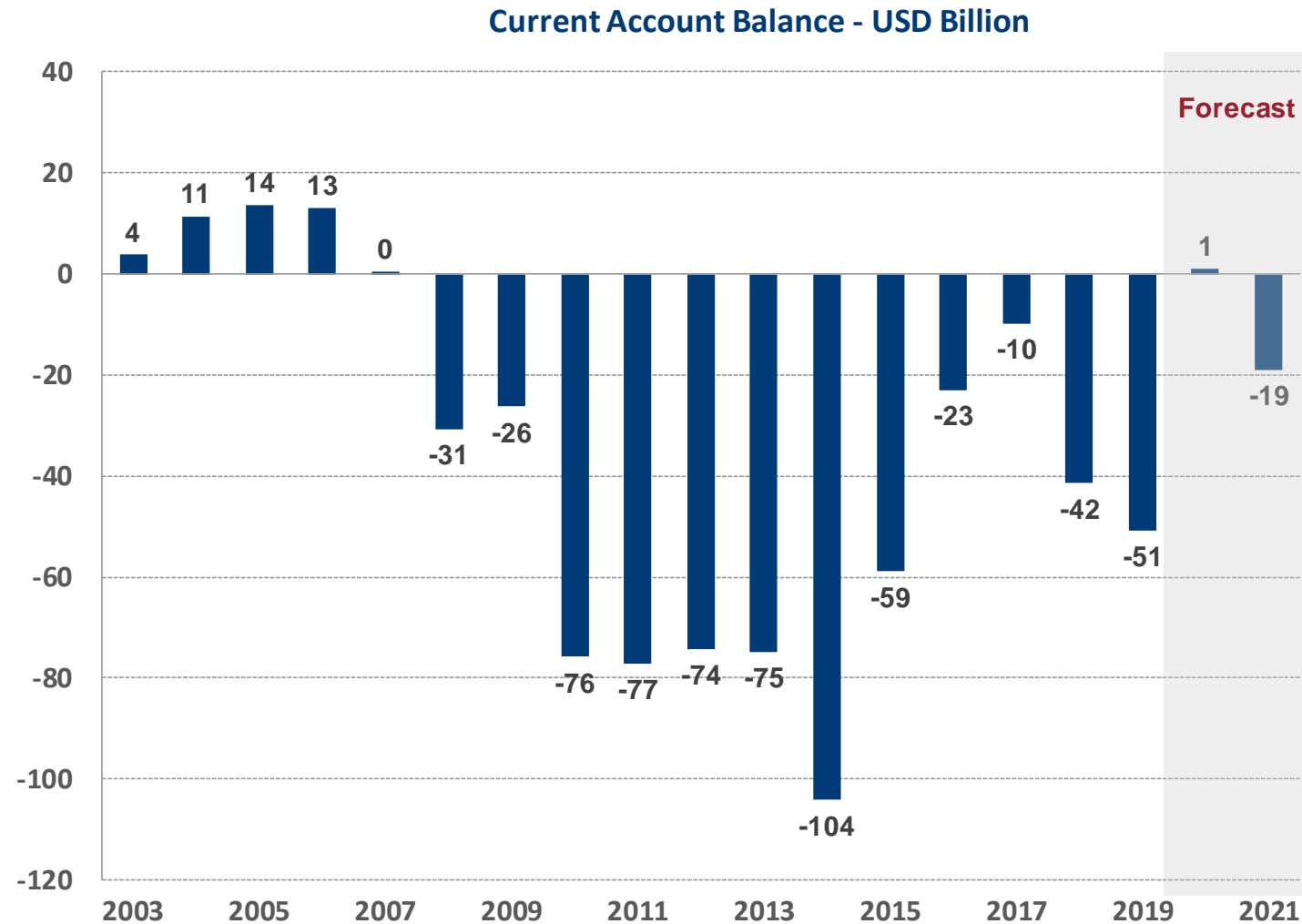
Brazil: Trade Balance

»» Trade balance surprises upward with stronger exports to Asia and sharp decline in imports



Brazil: Trade Balance

» Leading to reversal of the current account deficit



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