



MACRO OUTLOOK

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Chief-Economist

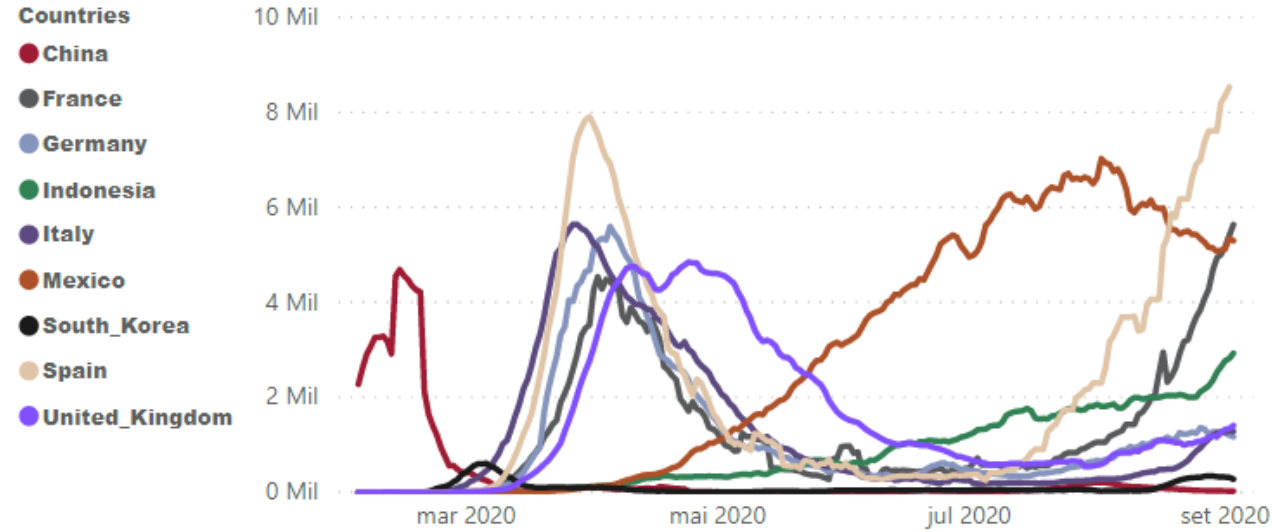
September 2020

- »» Covid epidemic starts to recede in Brazil and the US
- »» Global recovery advances
- »» Brazil: We now expect GDP to decline by 5.0% in 2020, followed by 3.3% growth in 2021
- »» Brazil: end of year inflation at 1.8%, below the target's lower bound
- »» Interest rates should remain low in a recovery marked by controlled inflation

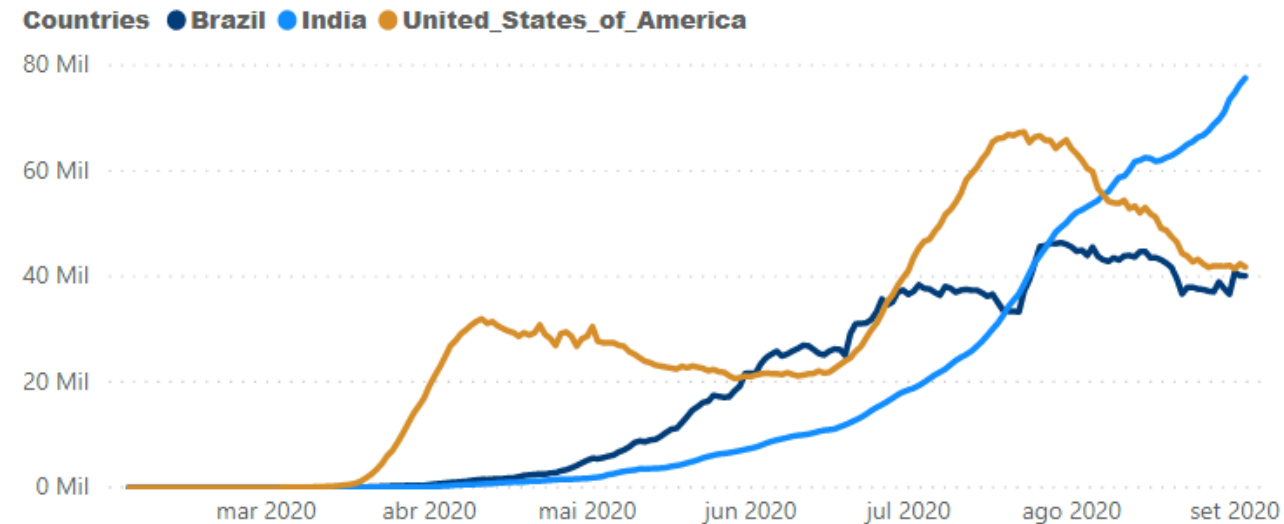
Covid-19 Pandemic

- » Second wave of infections accelerates in Europe, with limited social distancing measures so far
- » ... but decelerates in the US

World – Cases (Moving Average 7 Days)



World – Cases (Moving Average 7 Days)



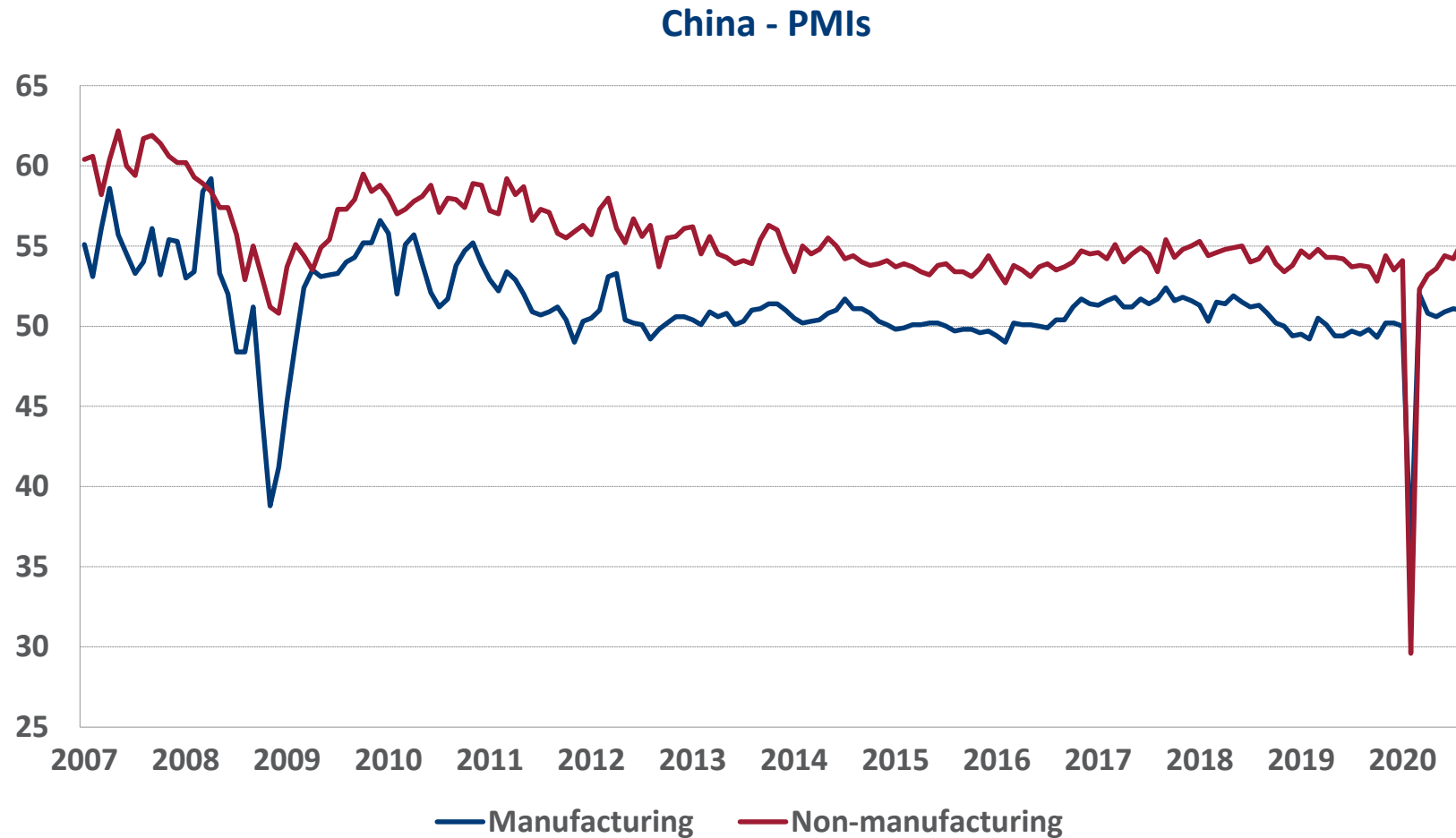
Global: Activity

»» Global economy enters recession, but rebounds fast



China: Activity

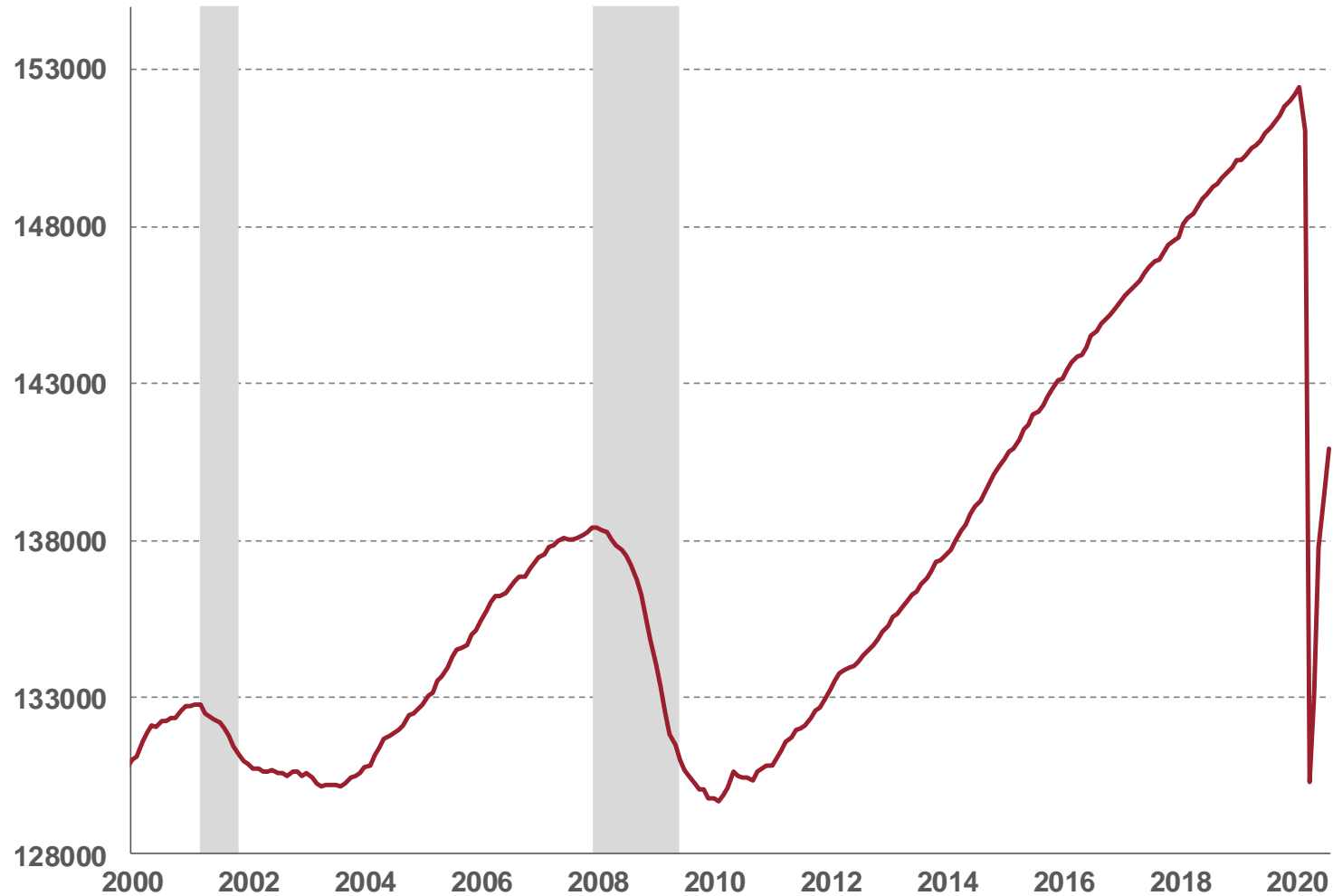
» Chinese economy shows recovery, with a stronger pick-up in the non-manufacturing sector



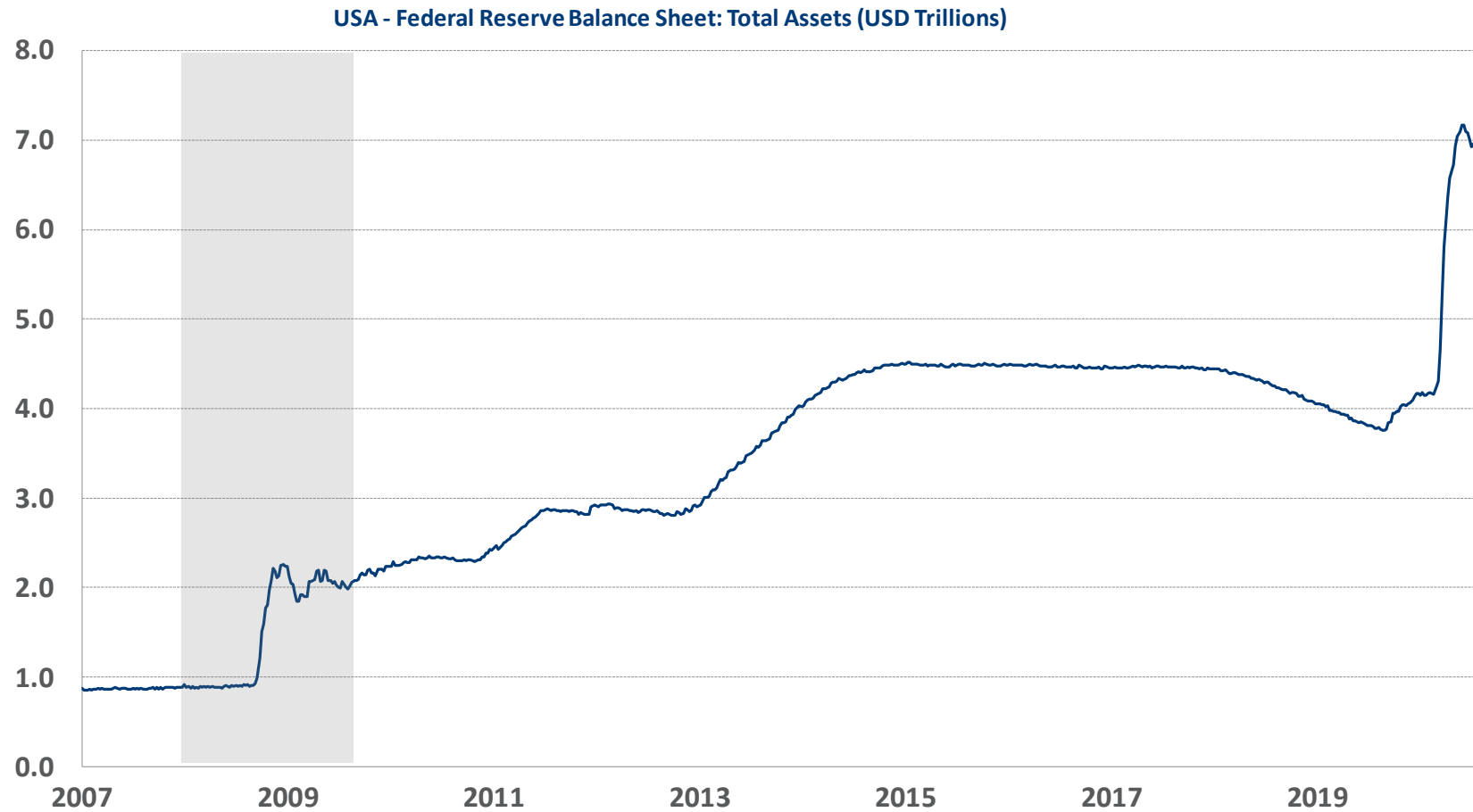
US: Labor Market

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

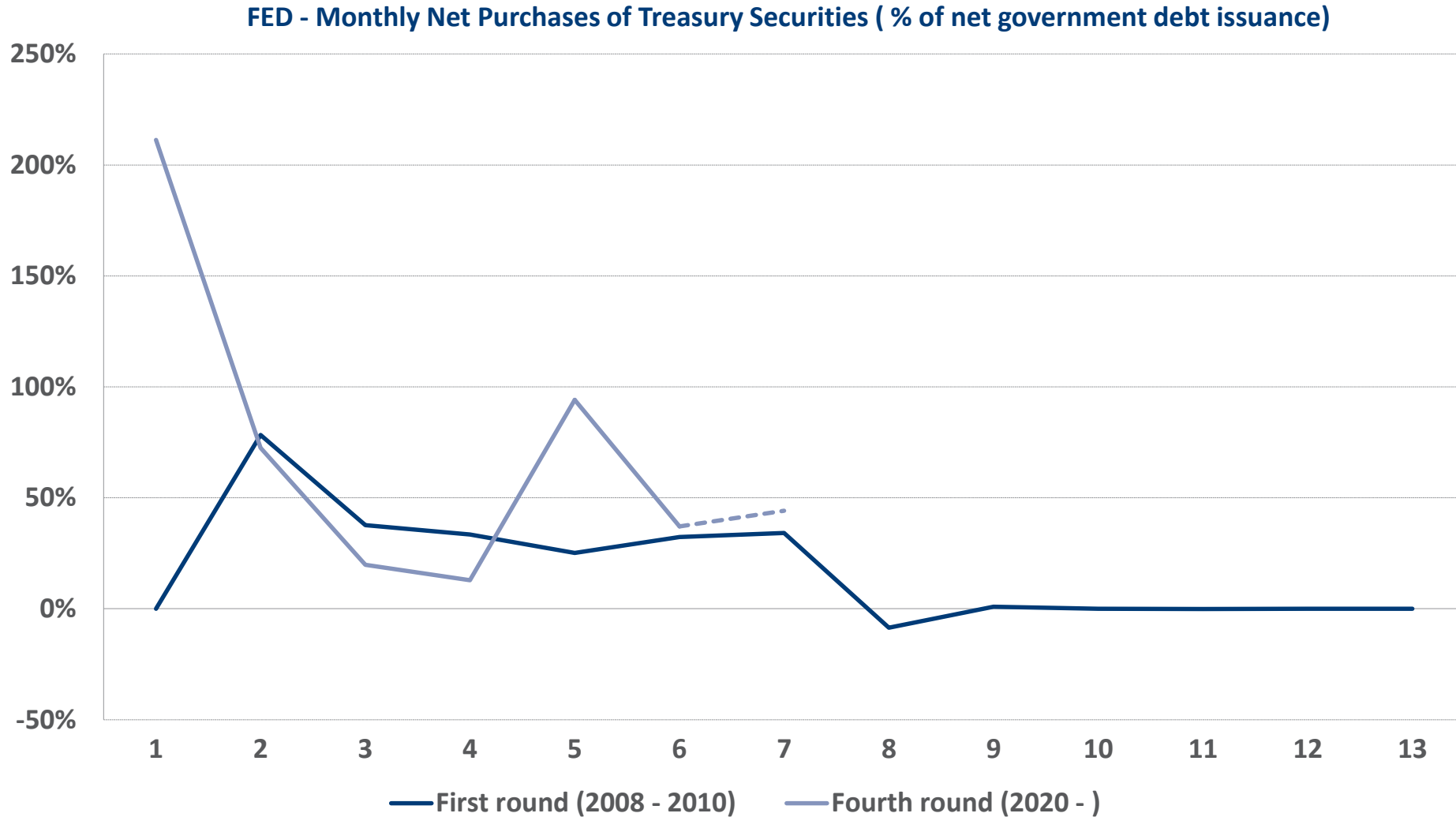
US -Total Nonfarm Payroll (Thousands)



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

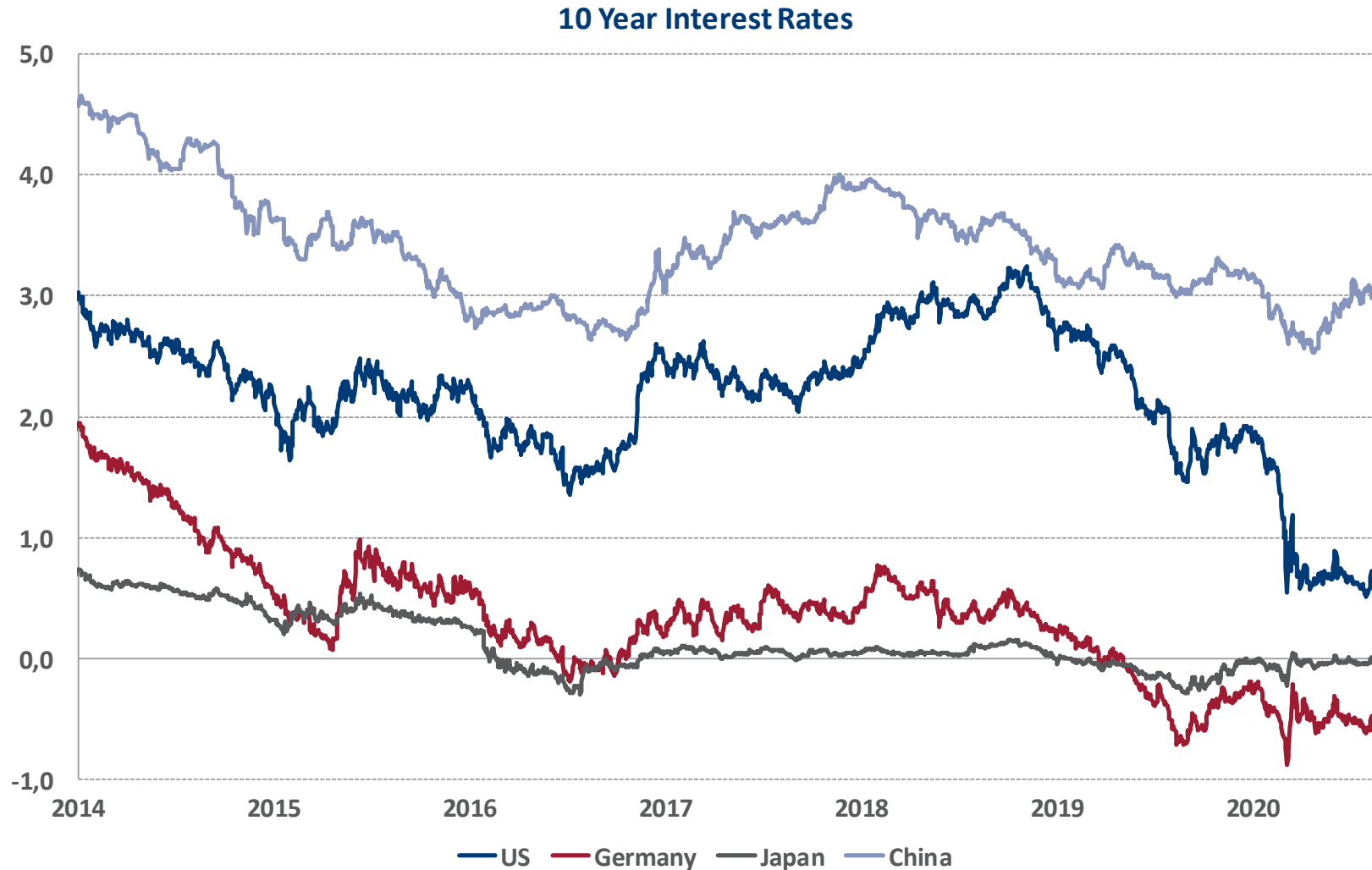


» Purchases of government securities by the FED absorbed the equivalent of 37% of net issuance by the treasury

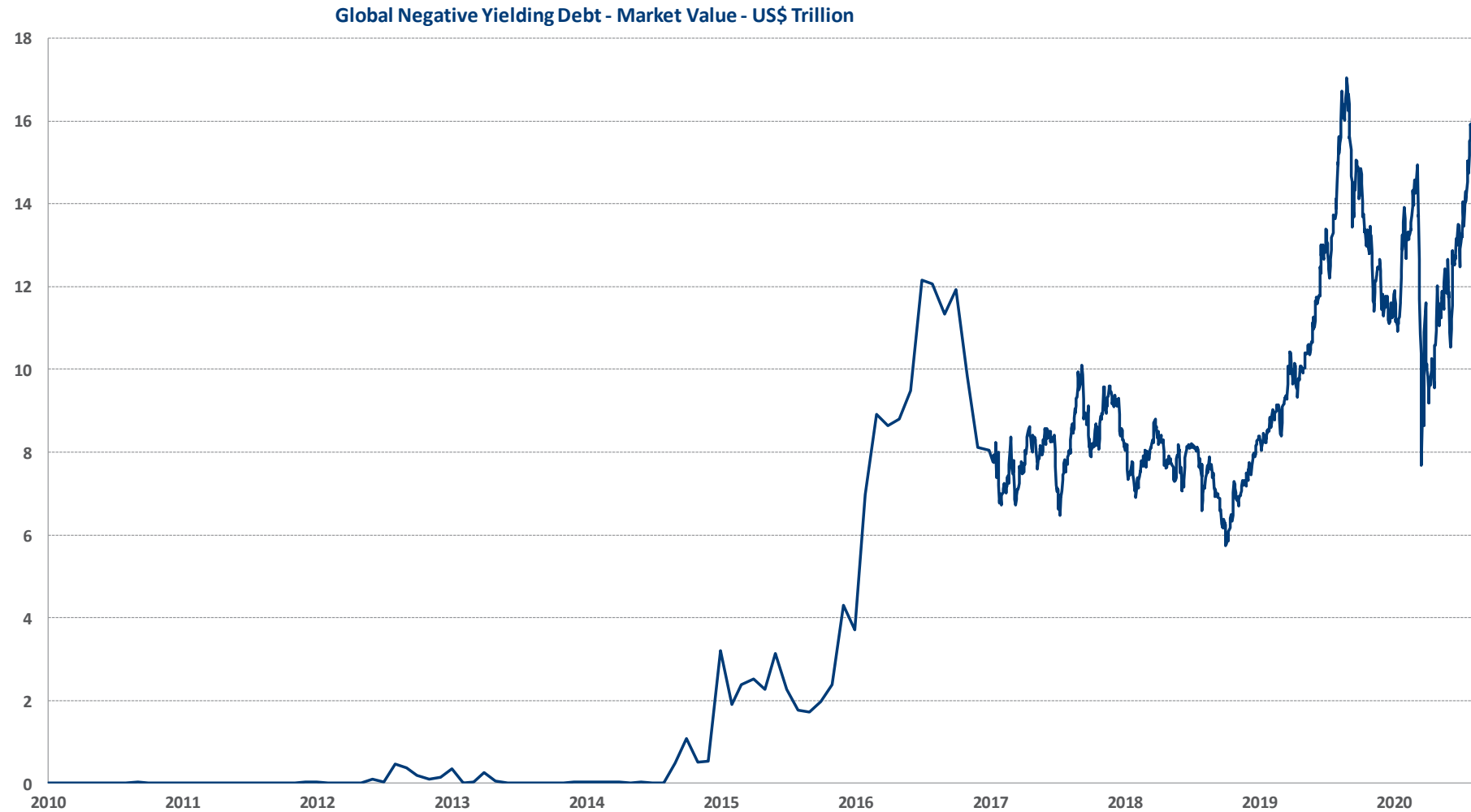


Global Interest Rates

- » Interest rates on investment grade government securities should remain at extremely low levels for a considerable time



Global: Sovereign Debt

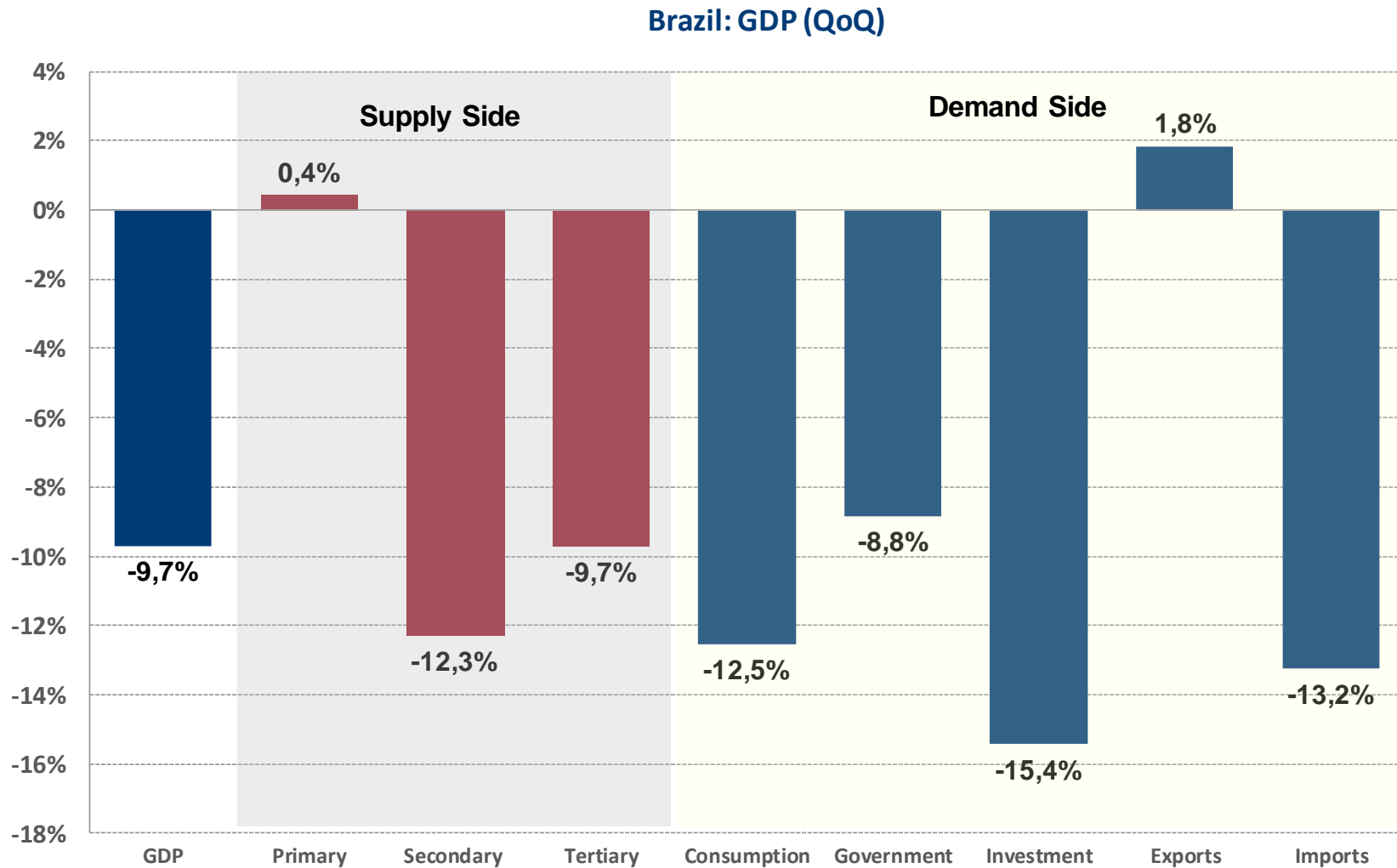


Brazil: Forecasts

ECONOMIC FORECASTS	2016	2017	2018	2019	2020F	2021F
GDP Growth (%)	-3.3%	1.3%	1.3%	1.1%	-5.0%	3.3%
Inflation (%)	6.3%	2.9%	3.7%	4.3%	1.8%	3.1%
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	43
Current Account Balance (US\$ bn)	-23	-10	-42	-51	5	-16
Current Account Balance (% of GDP)	-1.3%	-0.7%	-2.2%	-2.8%	0.4%	-1.0%
Fiscal Policy						
Fiscal Primary Balance (% of GDP)	-2.5%	-1.8%	-1.6%	-0.9%	-12.2%	-3.0%
Government Gross Debt (% of GDP)	69.4%	73.7%	77.2%	75.9%	94.5%	95.5%

Brazil: Activity

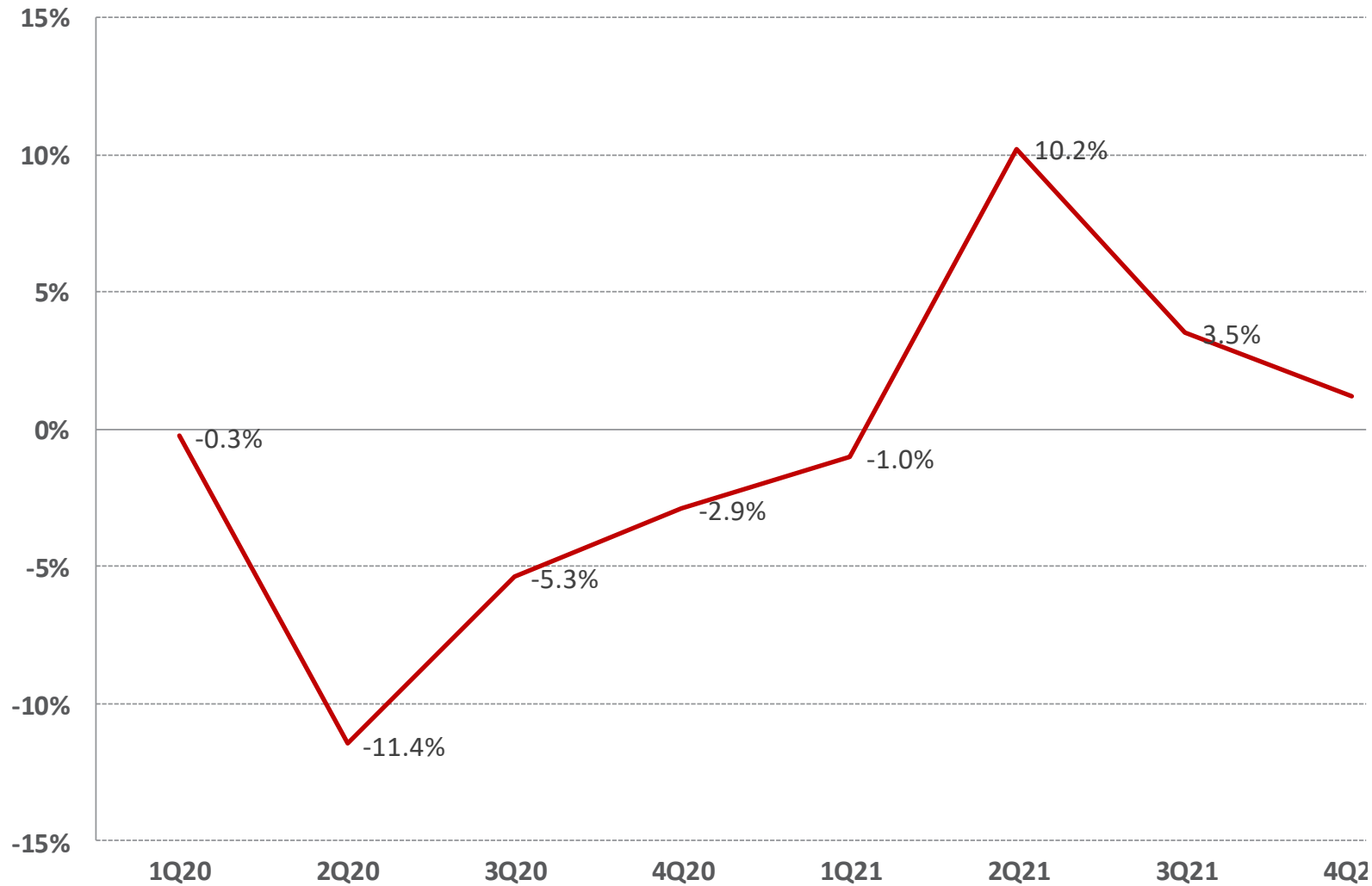
» Q2 GDP posts a historic drop, with only Agriculture contributing positively



Brazil: 2020 Growth

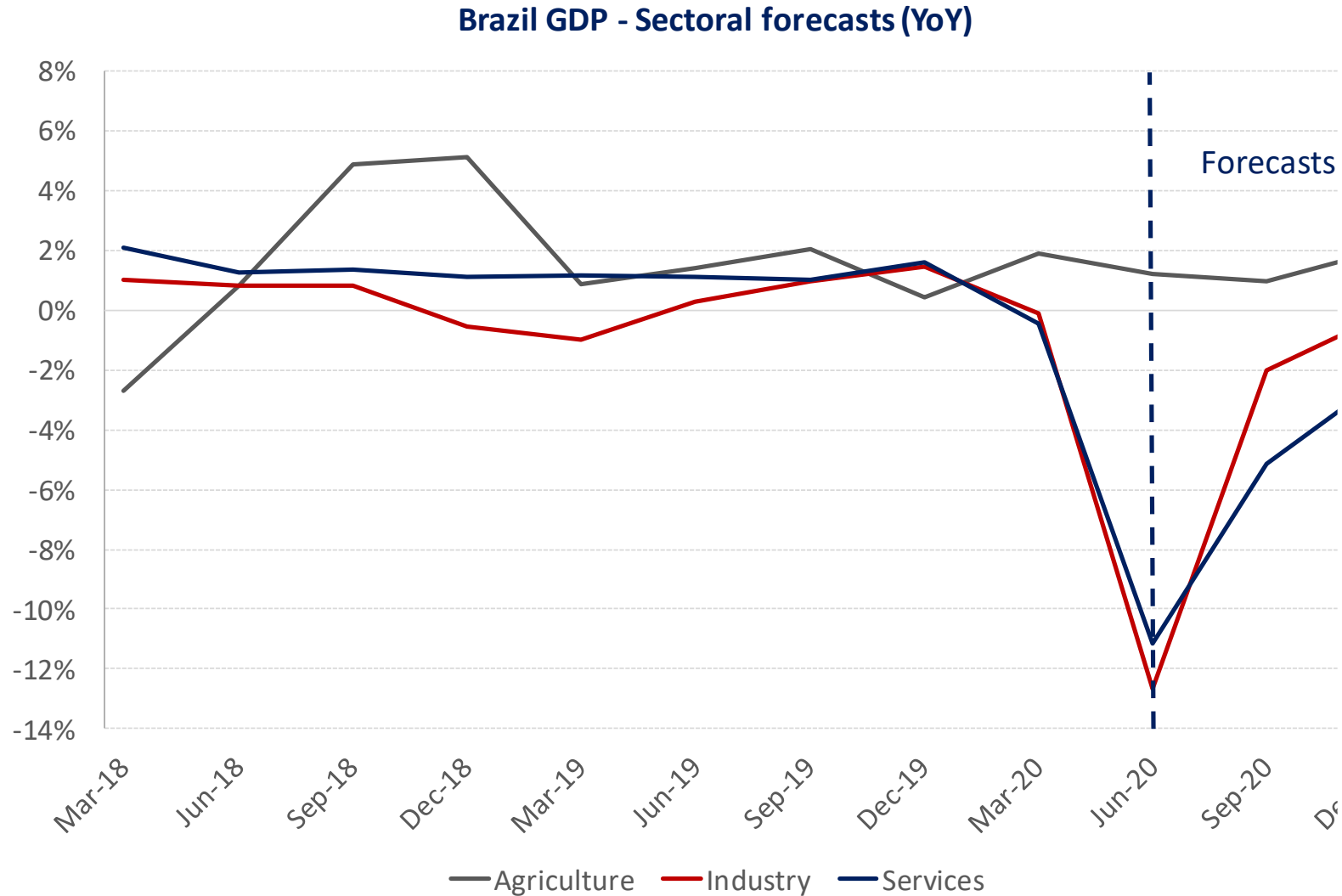
» Q2 will have been the through for activity

Brazil GDP - 2020 Forecast (YoY)



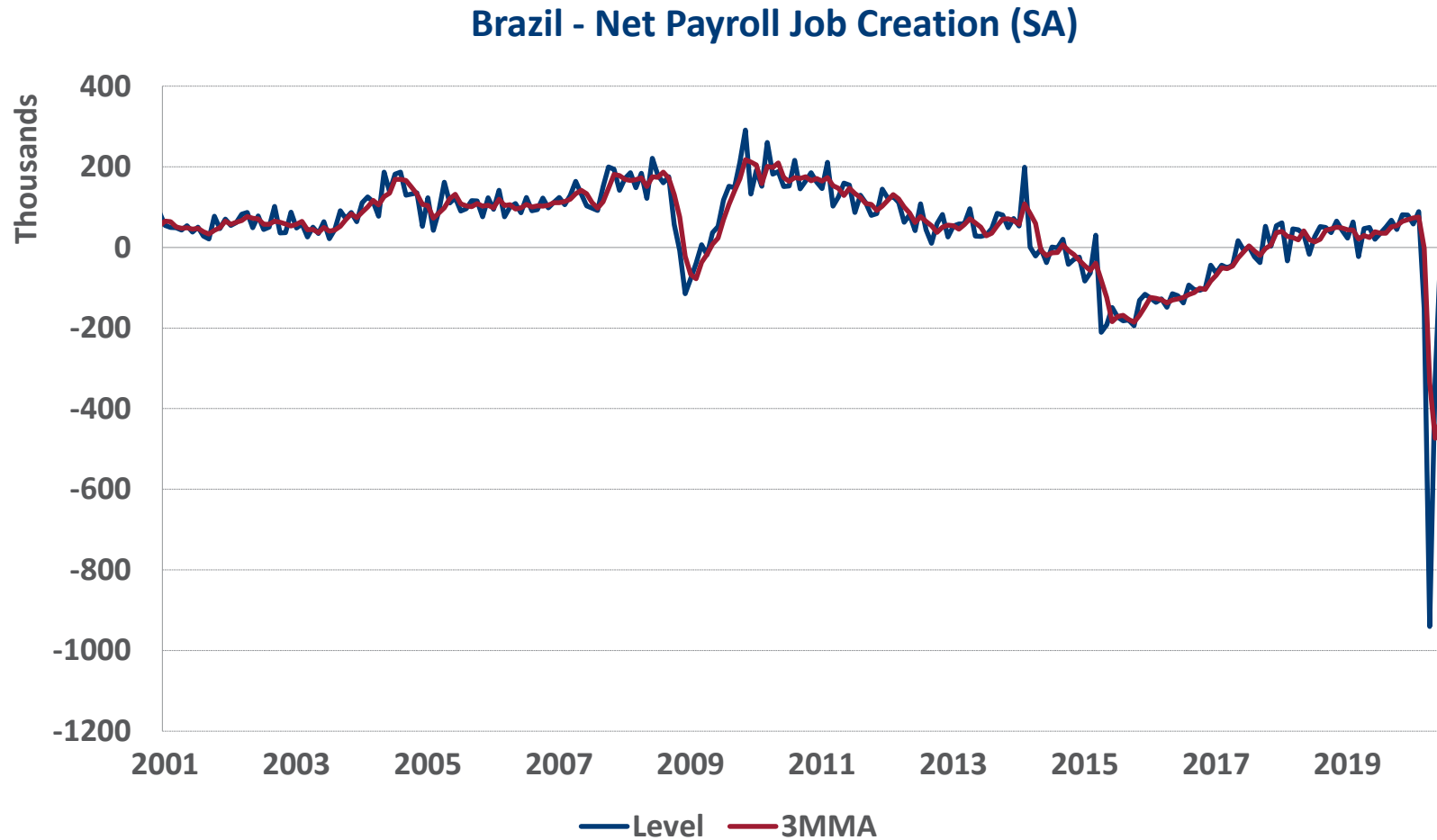
Brazil: 2020 Growth

» We expect services to recover more slowly than industrial production



Brazil: Activity

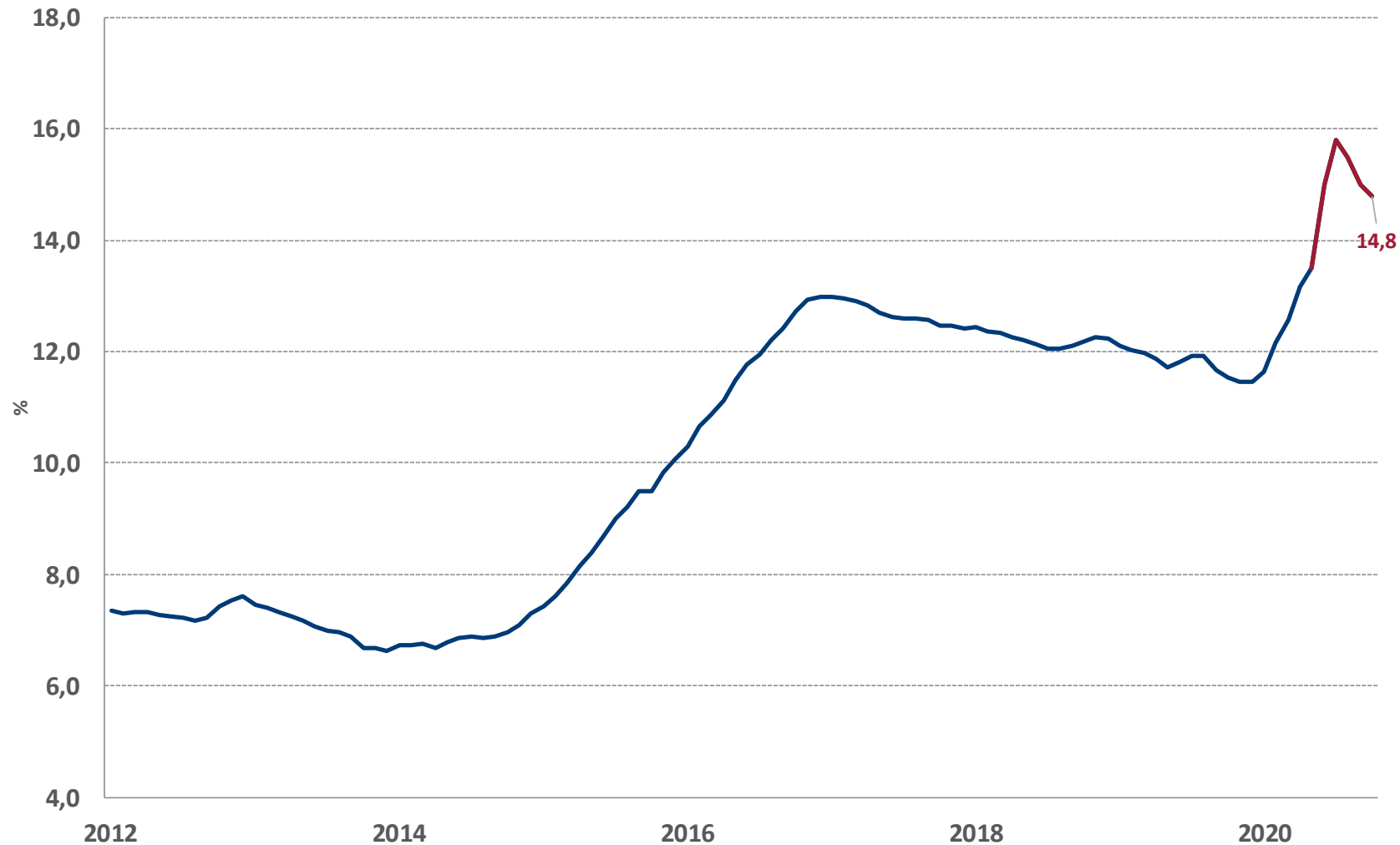
» Stronger than expected recovery in formal jobs led by manufacturing, retail, and construction



Brazil: Labor Market

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

Brazil - Unemployment Rate (SA)



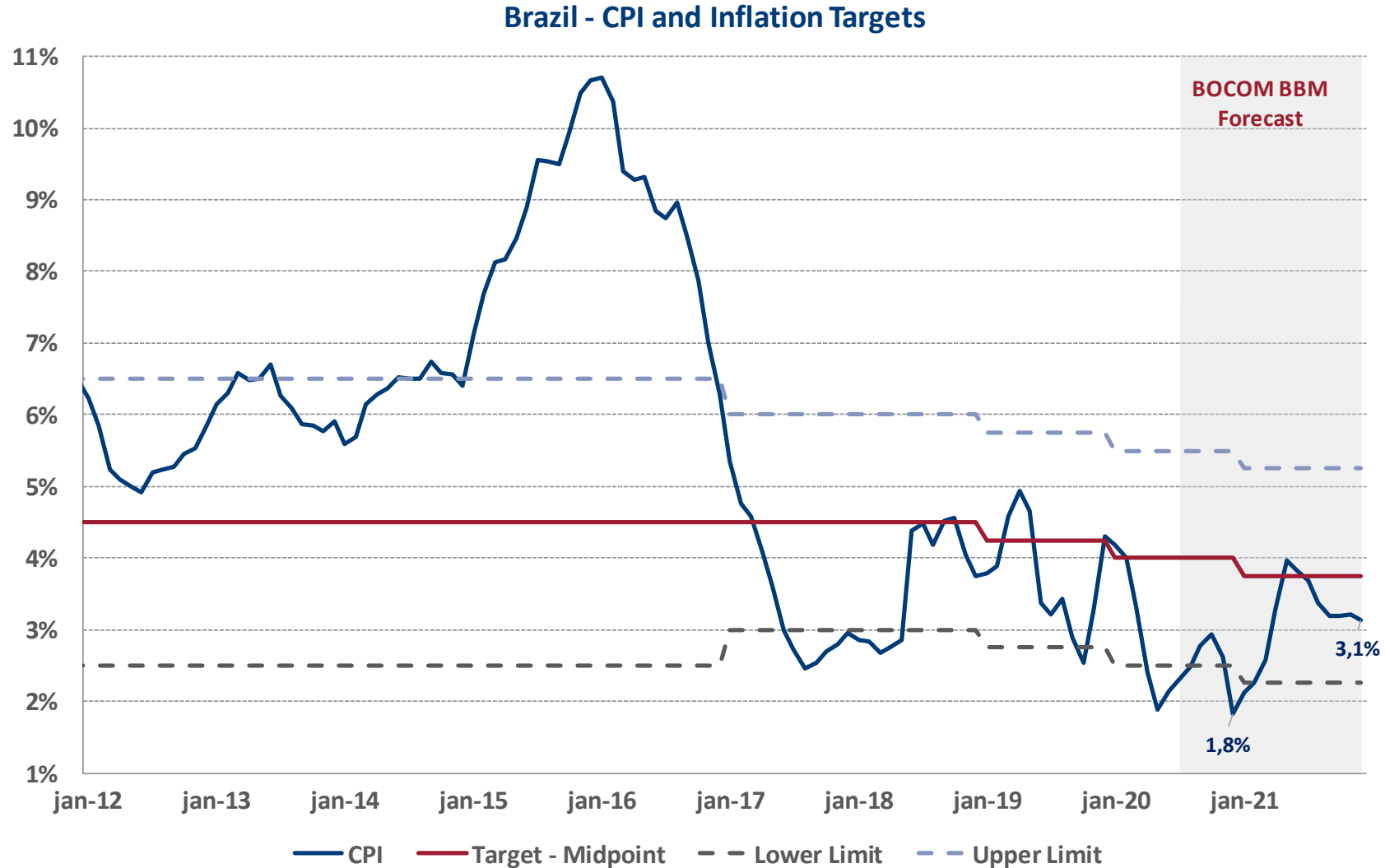
Brazil: Inflation

- » Recent pressure on food prices; services have continued to slide and price adjustments of some regulated items have been postponed to next year

Baseline Scenario						
	IPCA	Regulated	Non-Regulated	Services	Food-at-Home	Industrial Products
19 Q4	4.3%	5.5%	3.9%	3.5%	7.8%	1.7%
20 Q1	3.3%	4.8%	2.9%	3.1%	5.1%	1.2%
20 Q2	2.1%	0.1%	2.8%	2.1%	9.0%	0.4%
20 Q3	2.8%	1.3%	3.3%	1.1%	12.6%	1.2%
20 Q4	1.8%	0.2%	2.5%	0.8%	8.5%	1.5%
21 Q1	2.6%	1.2%	3.1%	1.3%	10.0%	1.8%
21 Q2	3.8%	4.9%	3.5%	2.4%	8.3%	2.2%
21 Q3	3.2%	3.9%	3.0%	3.4%	5.0%	1.0%
21 Q4	3.1%	4.0%	2.8%	3.6%	5.0%	0.3%

Brazil: Inflation

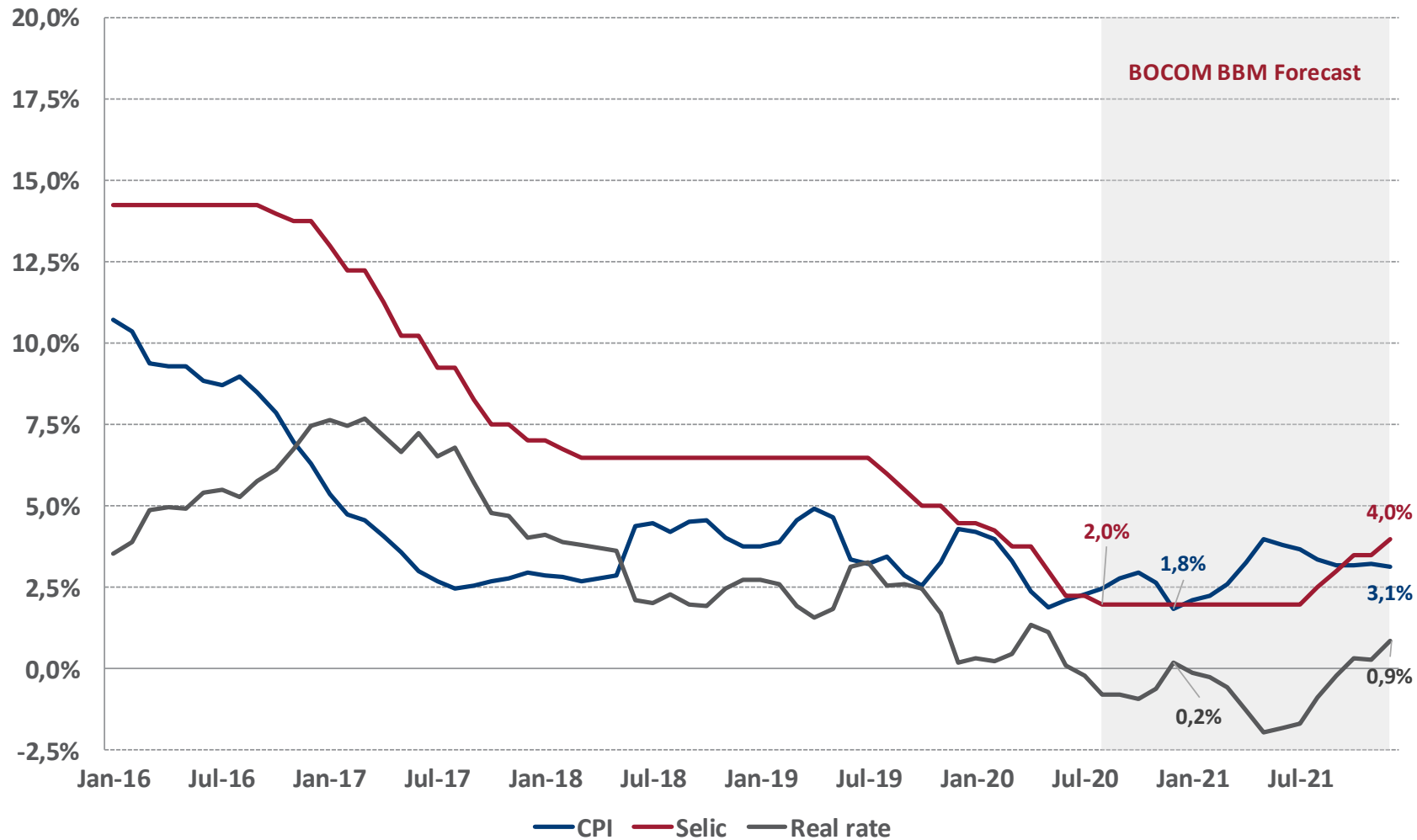
» Inflation should remain below the target's midpoint, leaving space for low interest rate levels



BRAZIL: MONETARY POLICY

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

Brazil - CPI, Selic Rate and Real Ex-post Interest Rate

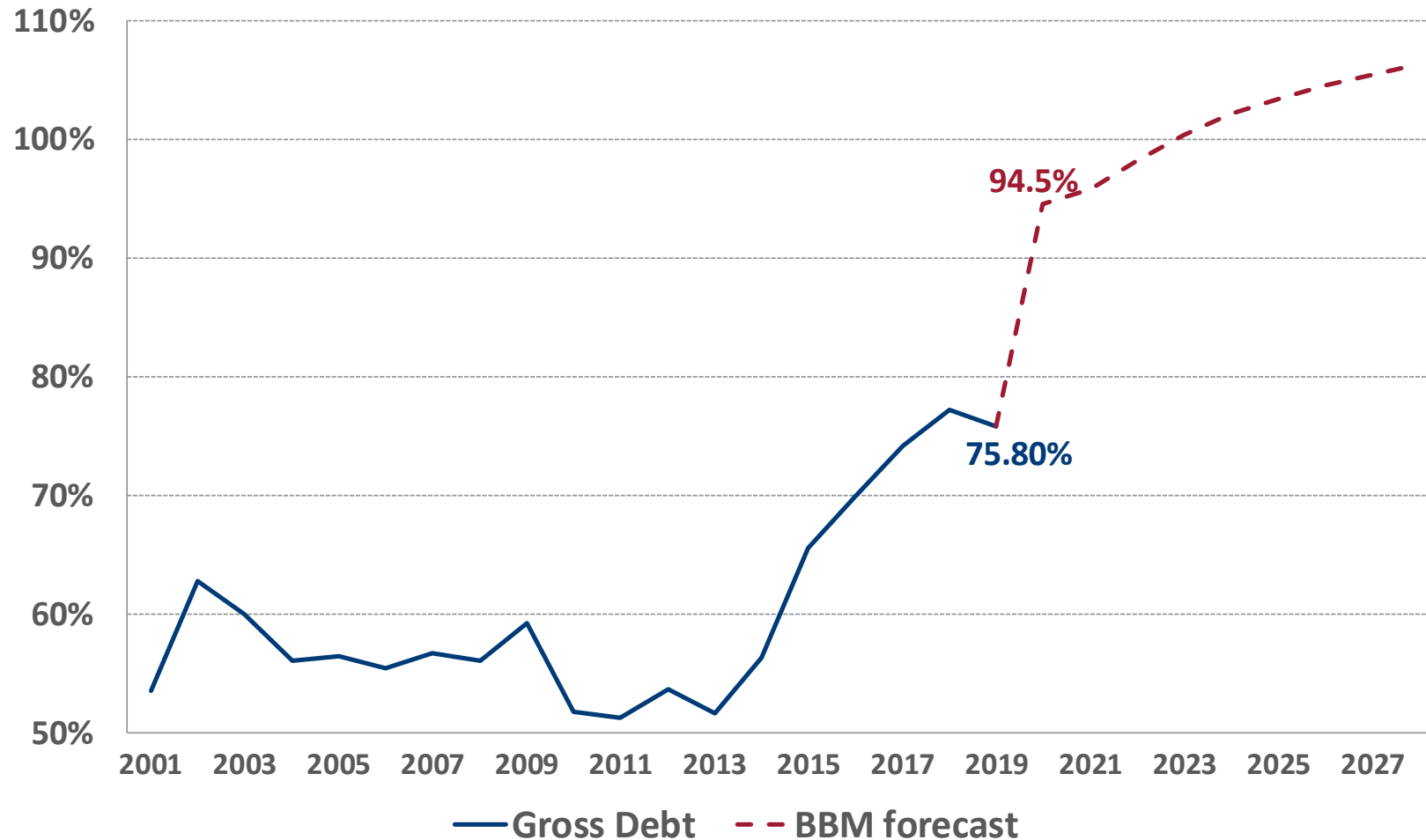


- » Measures to mitigate economic impacts from the pandemic should result in a primary deficit above 12% of GDP in 2020, returning to around 3% of GDP in 2021 if the spending cap remains in place

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%

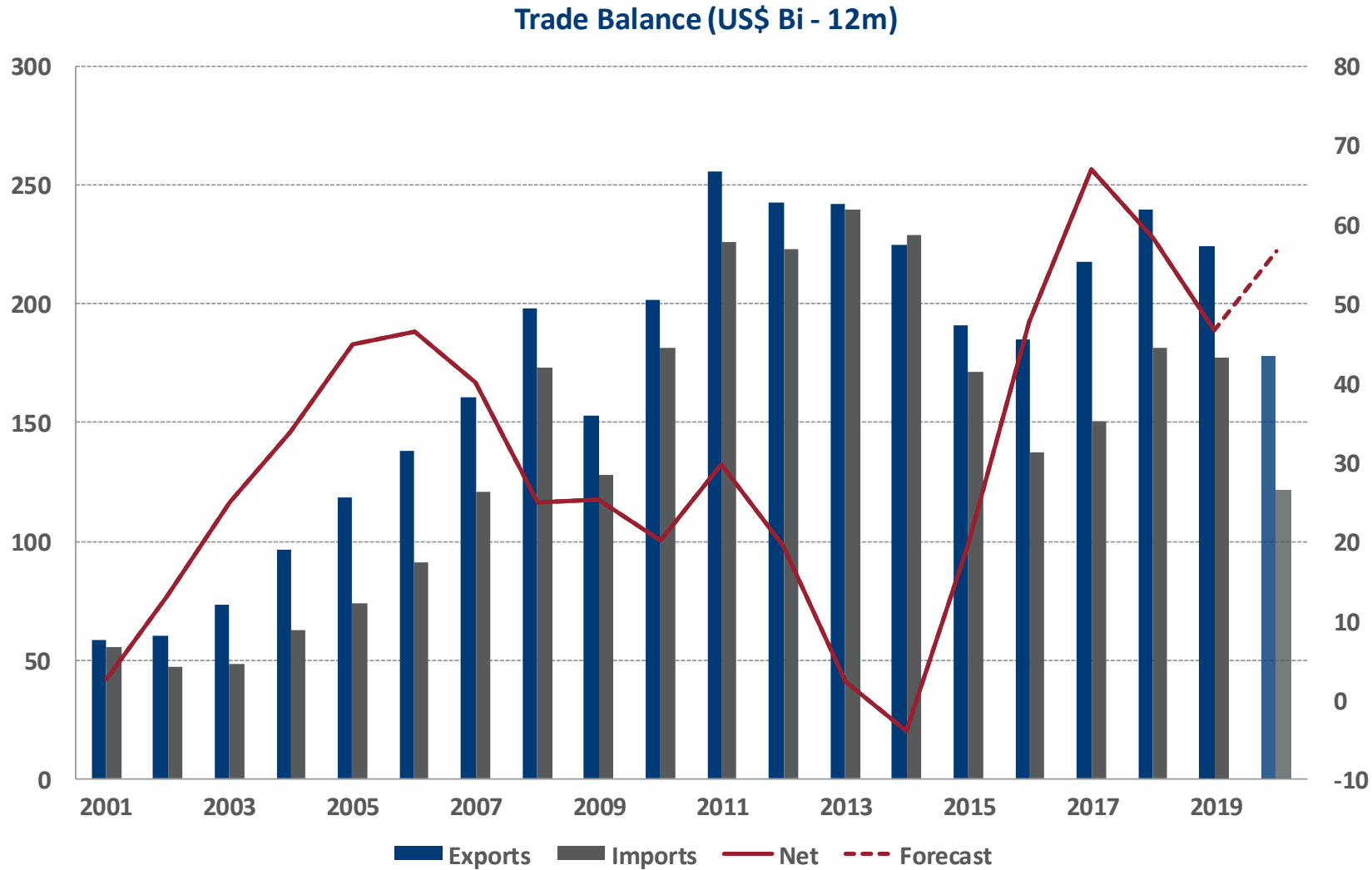
- » Fiscal measures to mitigate economic fallout will result in a sharp rise in the Debt/GDP ratio
- » Emergency voucher of 300 Reais until year end in line with our expectations

Brazil - Gross Debt as share of GDP



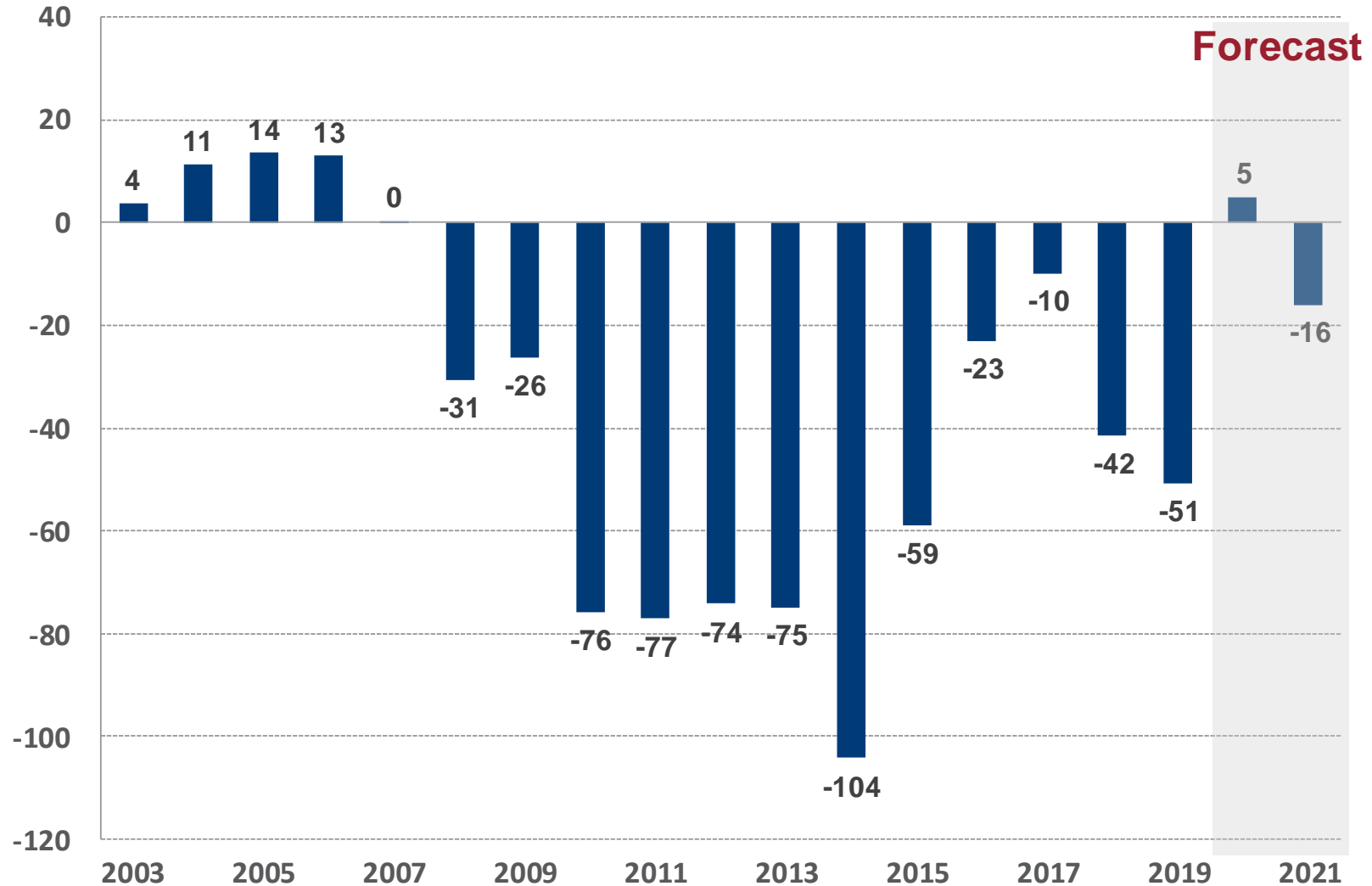
Brazil: Trade Balance

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



»» Leading to reversal of the current account deficit

Current Account Balance - USD Billion



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