



MACRO OUTLOOK

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- »» Covid epidemic reaccelerates in Europe, but recedes in Brazil
- »» Global recovery advances
- »» Brazil: We expect GDP to decline by 5.0% in 2020, followed by 3.3% growth in 2021
- »» Interest rates should remain low in a recovery marked by controlled inflation, but fiscal outlook remains relevant risk to the domestic scenario
- »» External accounts improve substantially

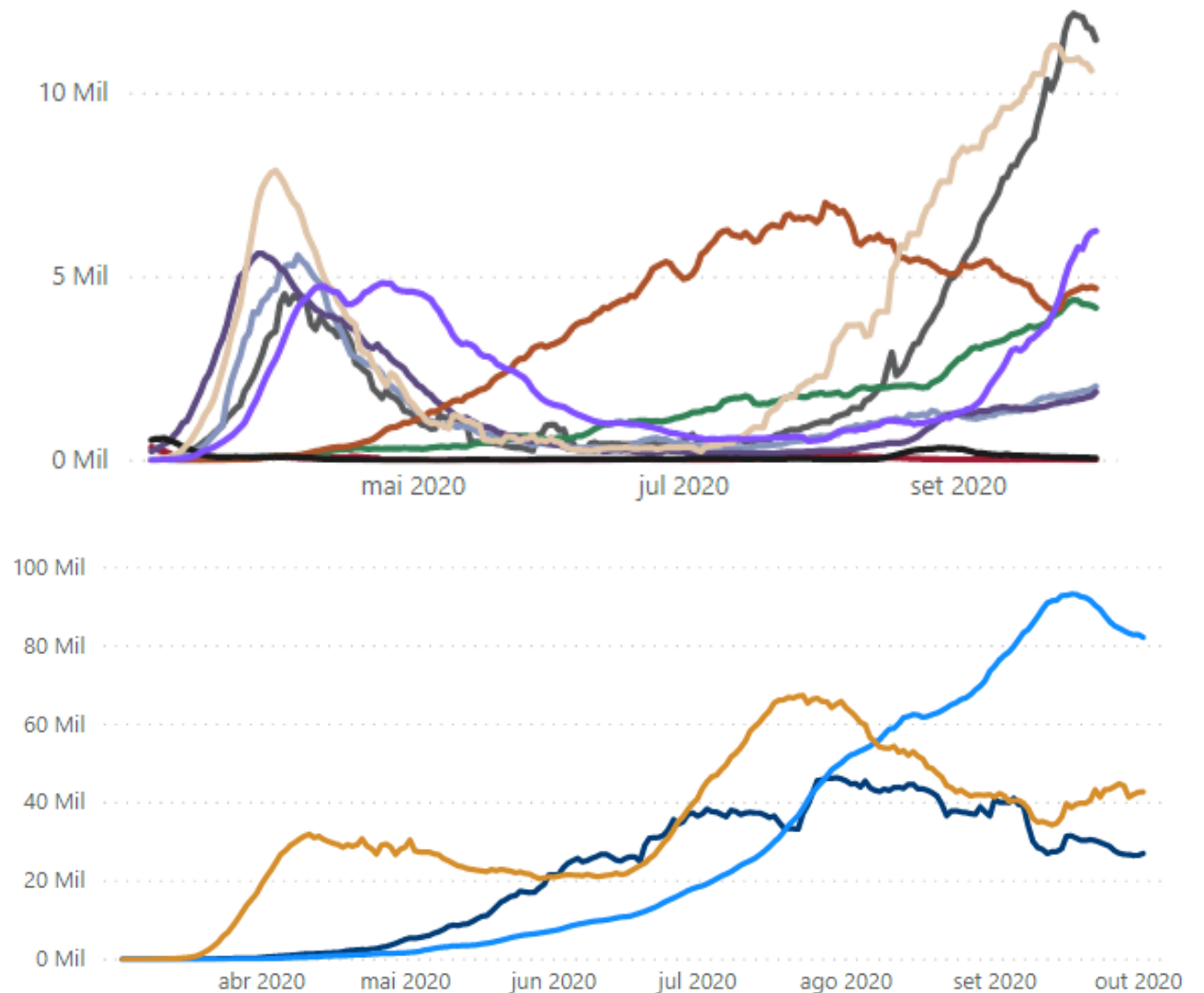
Covid-19

- » Second wave of infections accelerates in Europe, increasing the possibility of restrictive containment measures
- » New cases in Brazil continue on a downward trend

Countries:



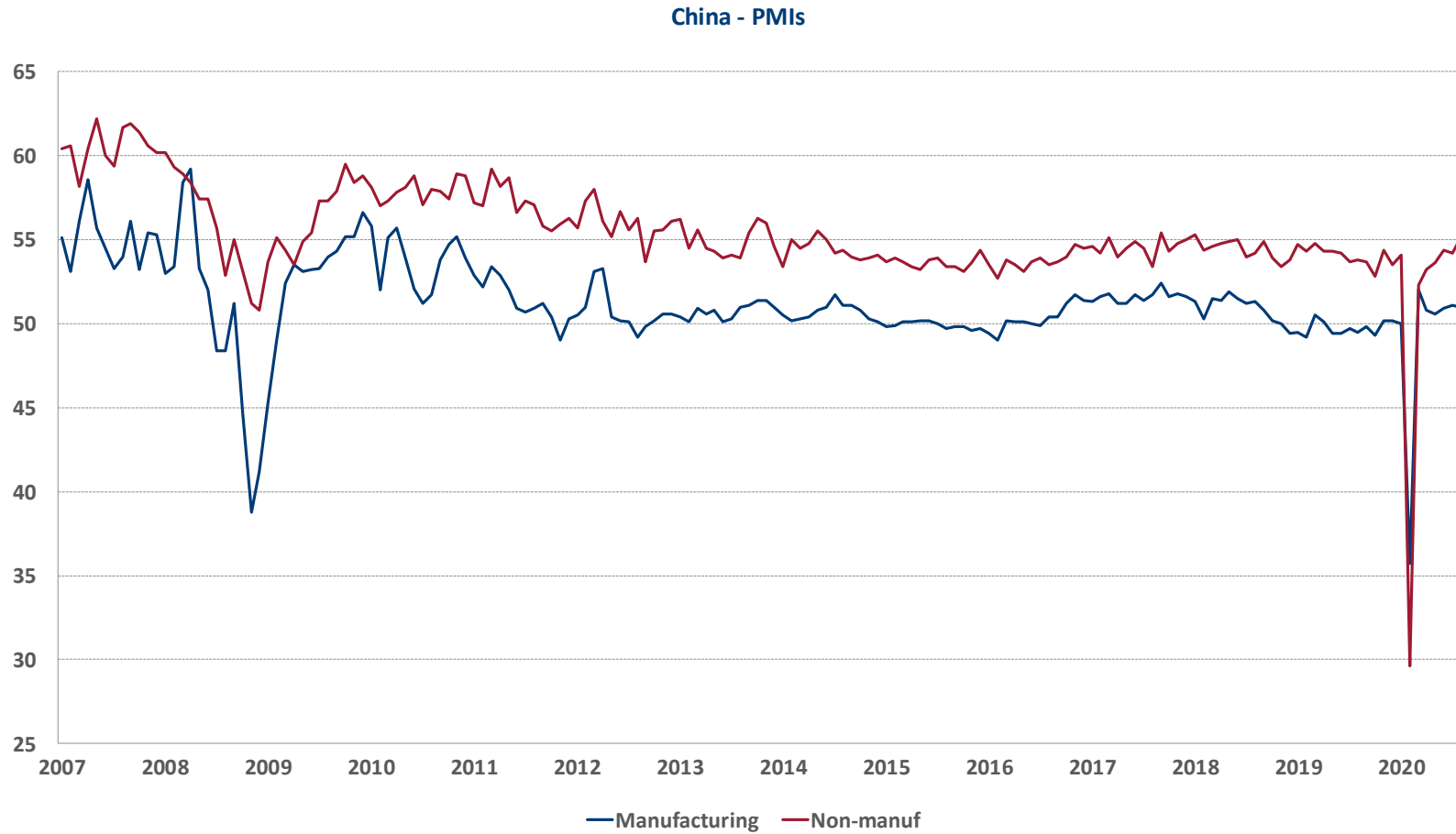
World - Cases, 7 days moving average



»» Global economy enters recession, but rebounds fast

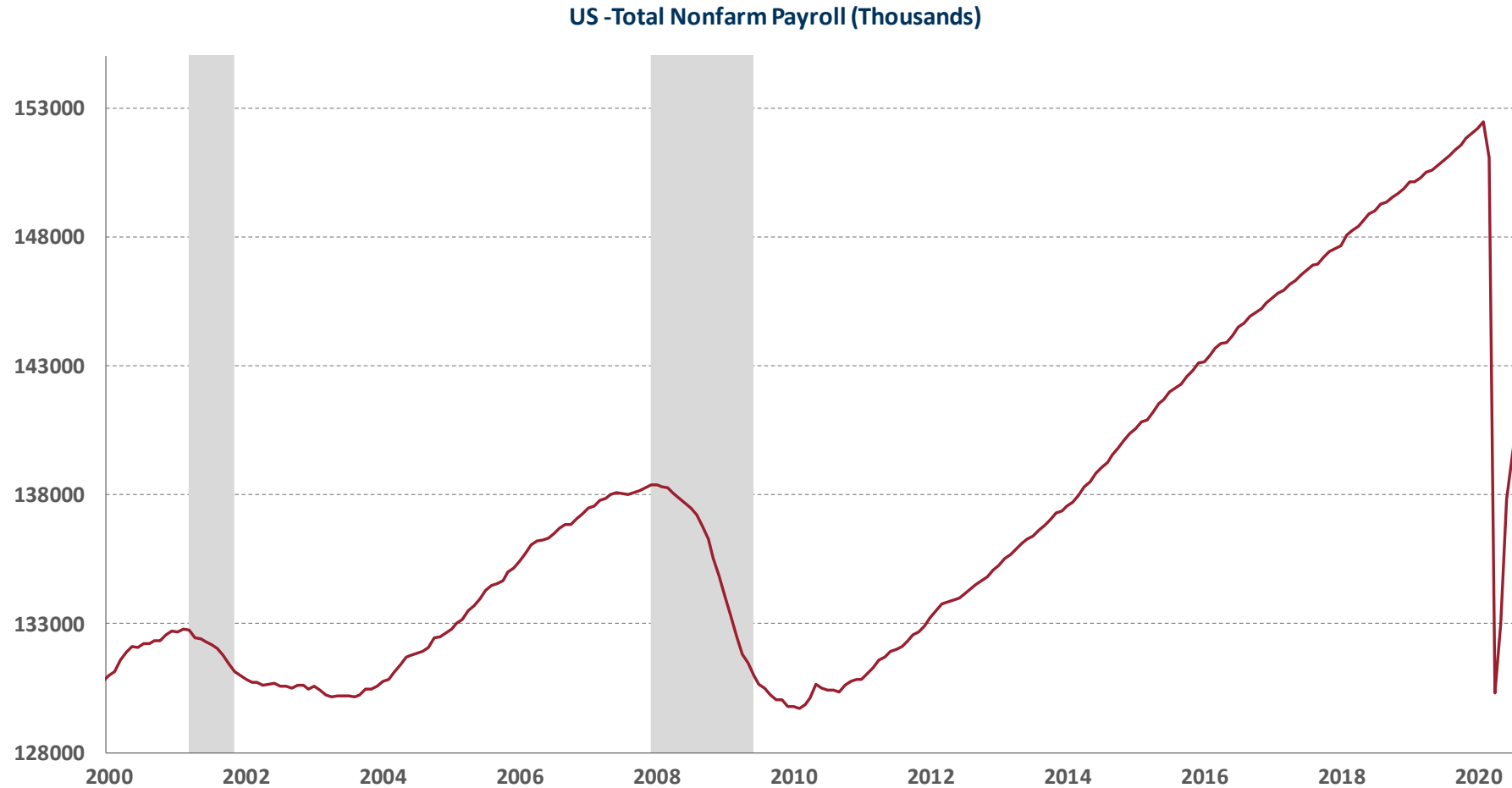


» Chinese economy recovers fast, with services gaining pace over the third quarter

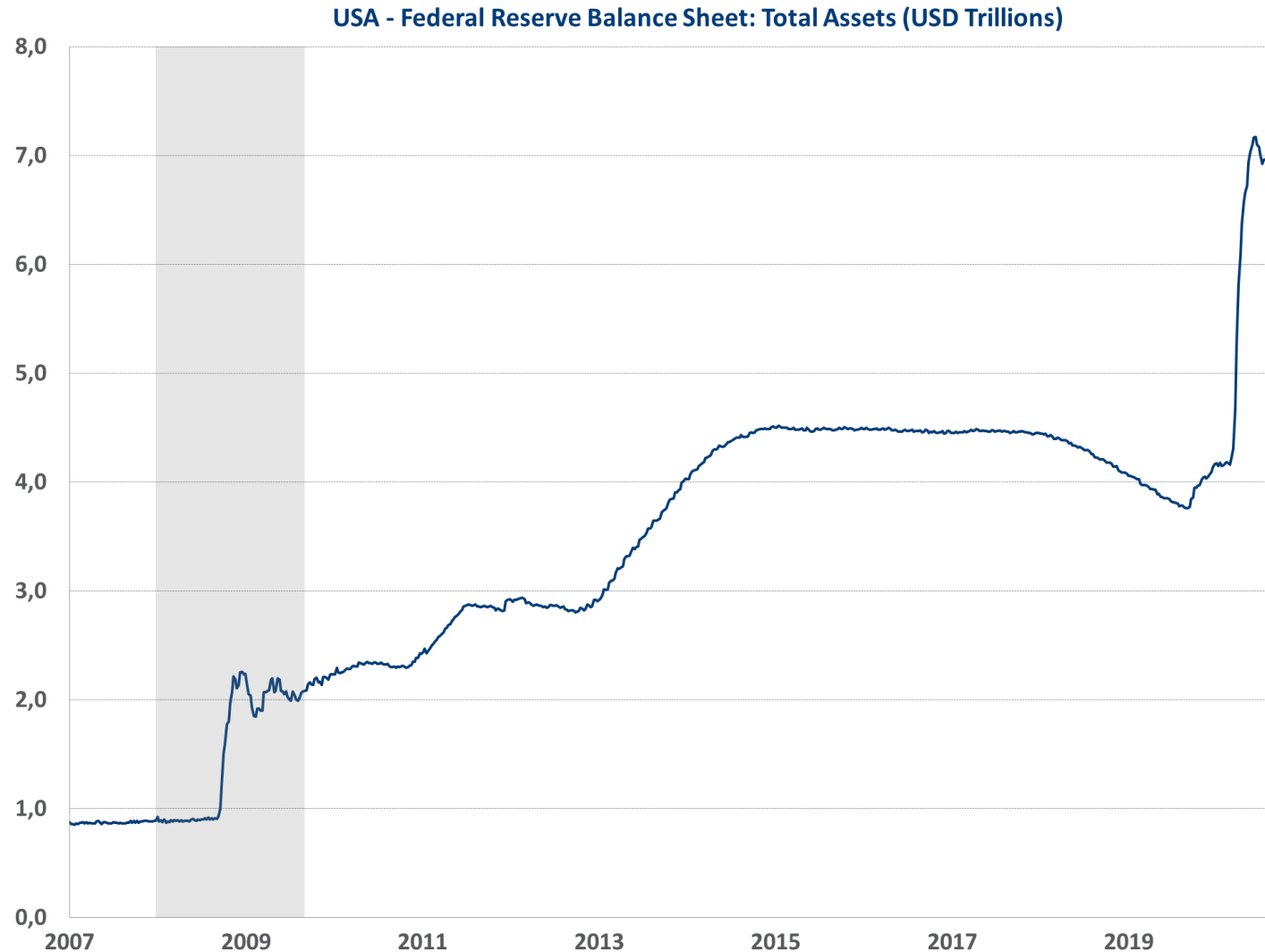


US: Labor Market

»» Labor market recovering, but the number of lost jobs remains high

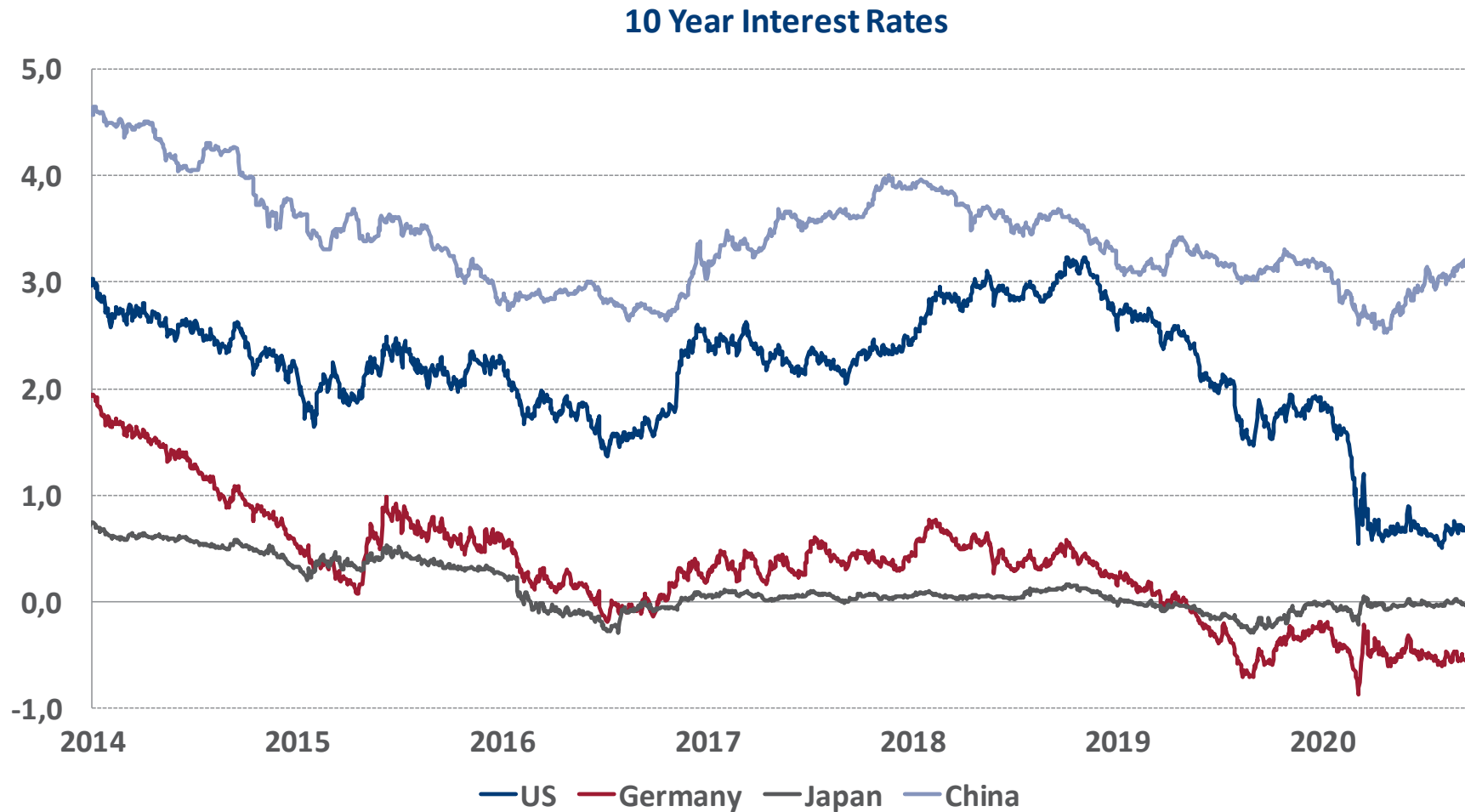


» FED's balance sheet expansion sharper than post-GFC



Global Interest Rates

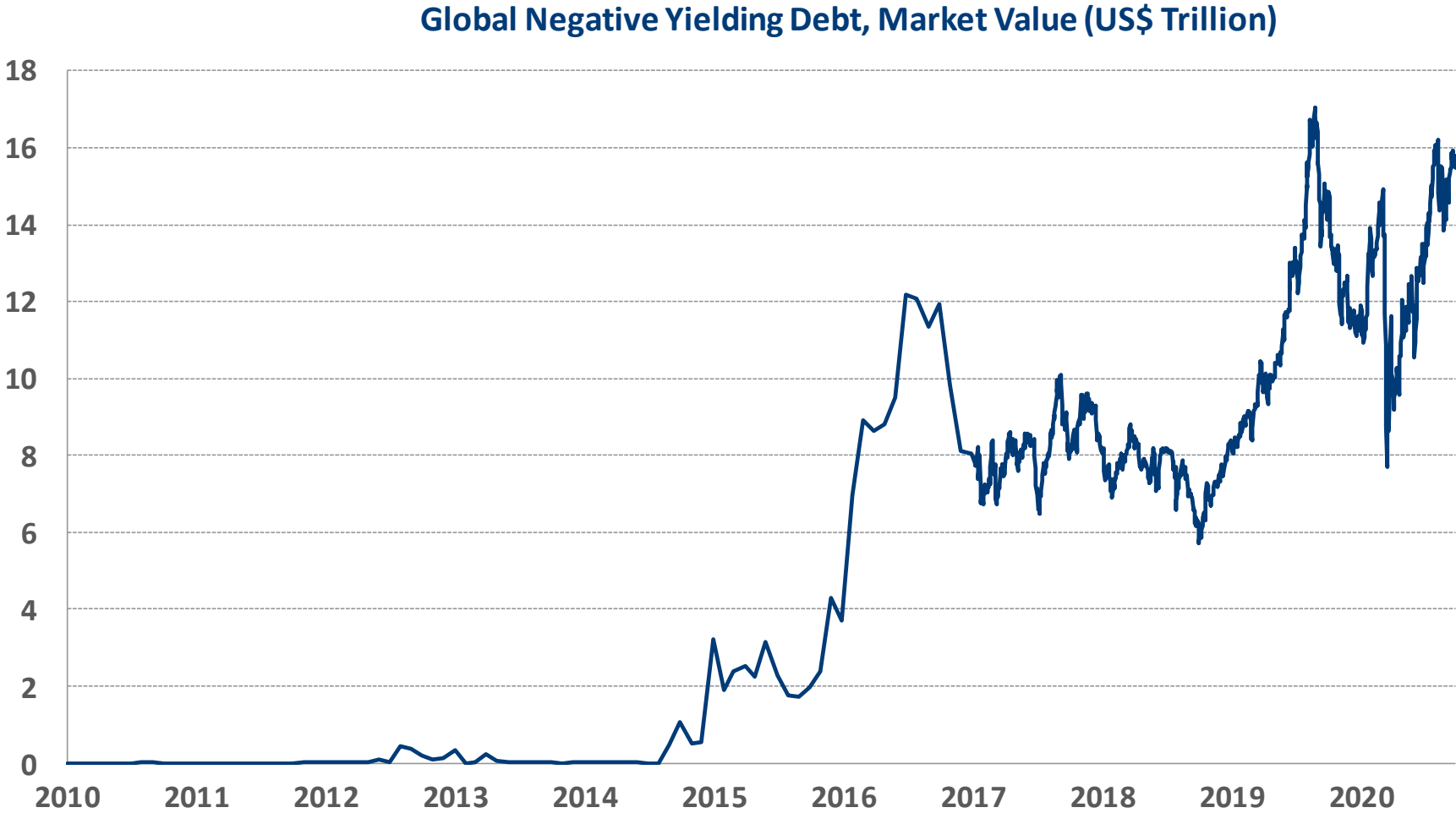
» Interest rates should remain at extremely low levels for a considerable time



Global Interest Rates

» Latin America stands out with historically low rates as well

Country	Rate in Jan/2020	Curent Rate	Last move
Turkey	11,25	8,25	Pause
China (loan prime 5y)	4,80	4,65	Pause
Mexico	7,25	4,25	Easing
Russia	6,25	4,25	Pause
India	5,15	4,00	Pause
Indonesia	5,00	4,00	Pause
China (loan prime 1y)	4,15	3,85	Pause
South Africa	6,25	3,50	Pause
Phillipines	4,00	2,25	Pause
Brazil	4,50	2,00	Pause
Colombia	4,25	1,75	Easing
Malasya	3,00	1,75	Pause
Chile	1,75	0,50	Pause
Peru	2,25	0,25	Pause
Poland	1,50	0,10	Pause

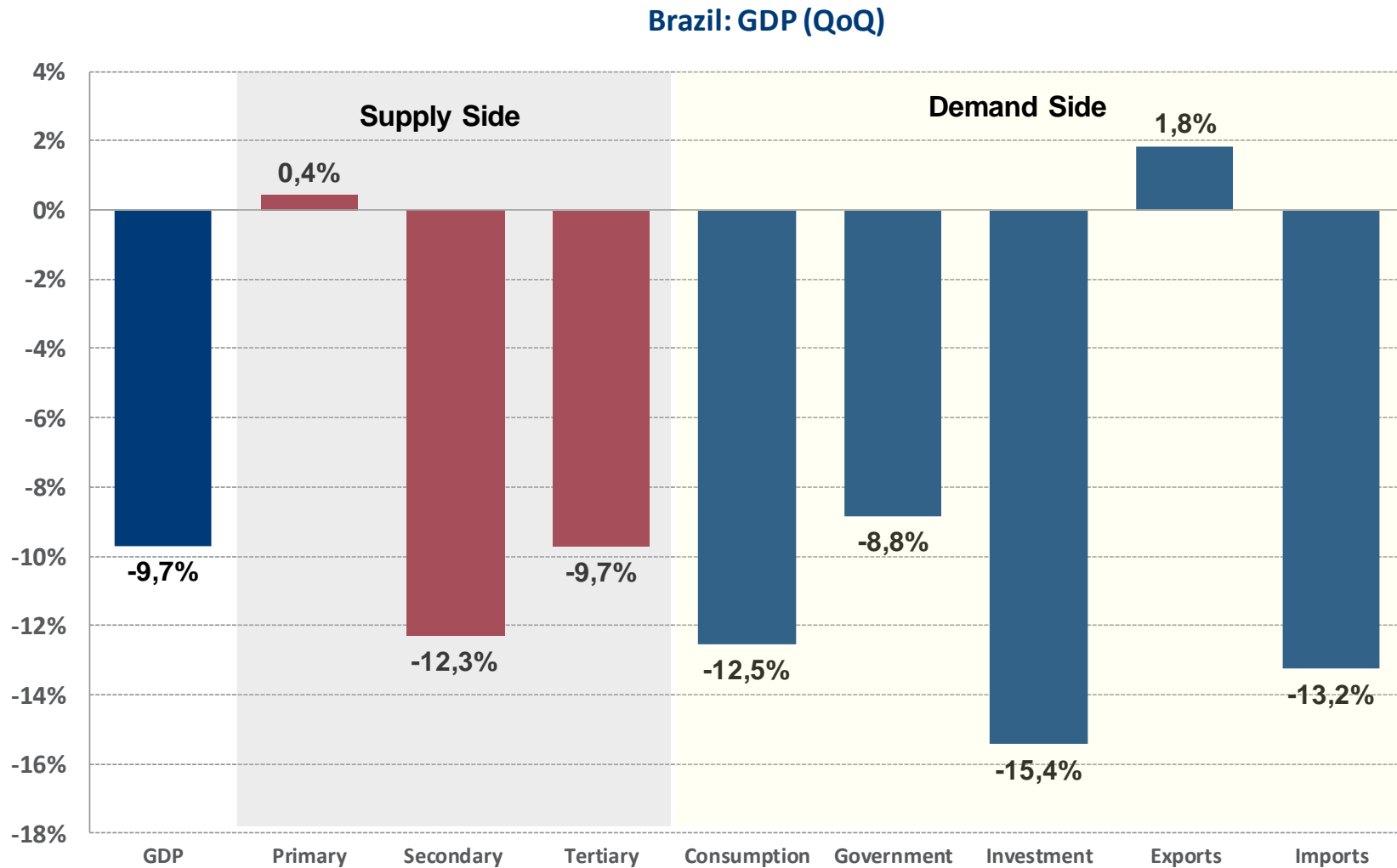


Brazil: Forecasts

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%	2.5%	3.2%
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%	3.5%
External Accounts						
Trade Balance (US\$ bn)	48	67	53	39	61	58
Current Account Balance (US\$ bn)	-23	-10	-42	-51	11	2
Current Account Balance (% of GDP)	-1.3%	-0.7%	-2.2%	-2.8%	0.8%	0.1%
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%

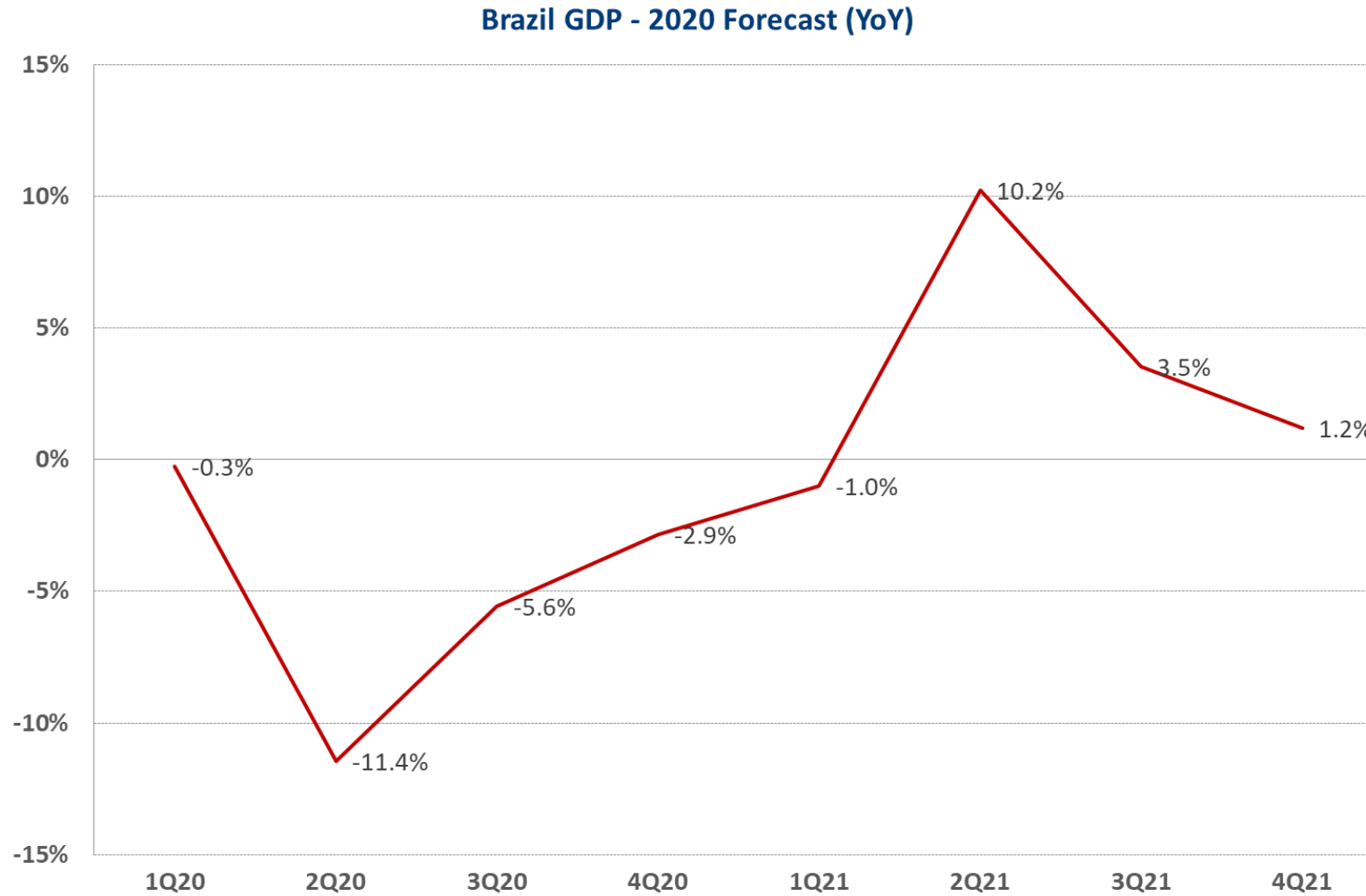
Brazil: Activity

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



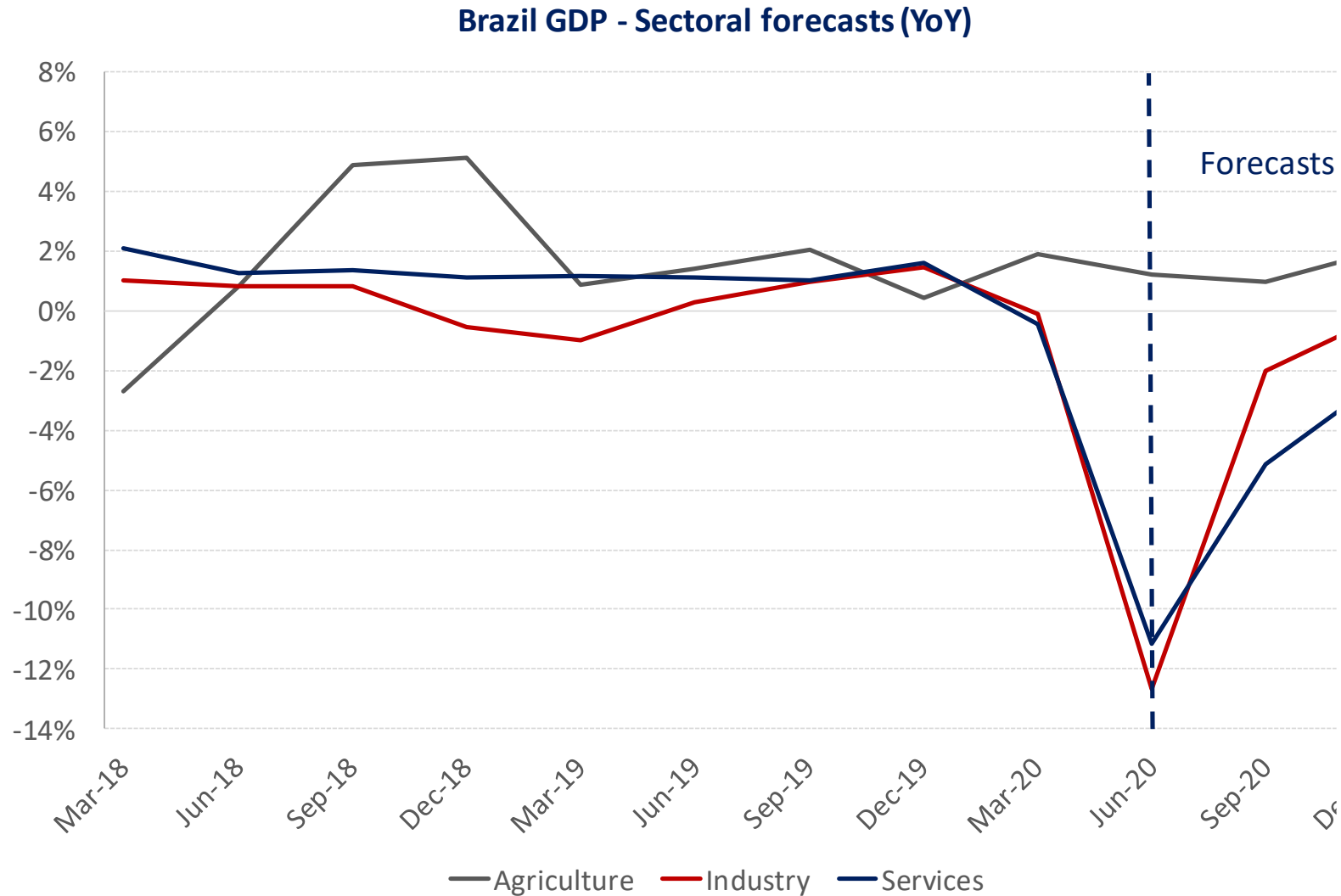
Brazil: 2020 Growth

» Q2 will have been the through for activity



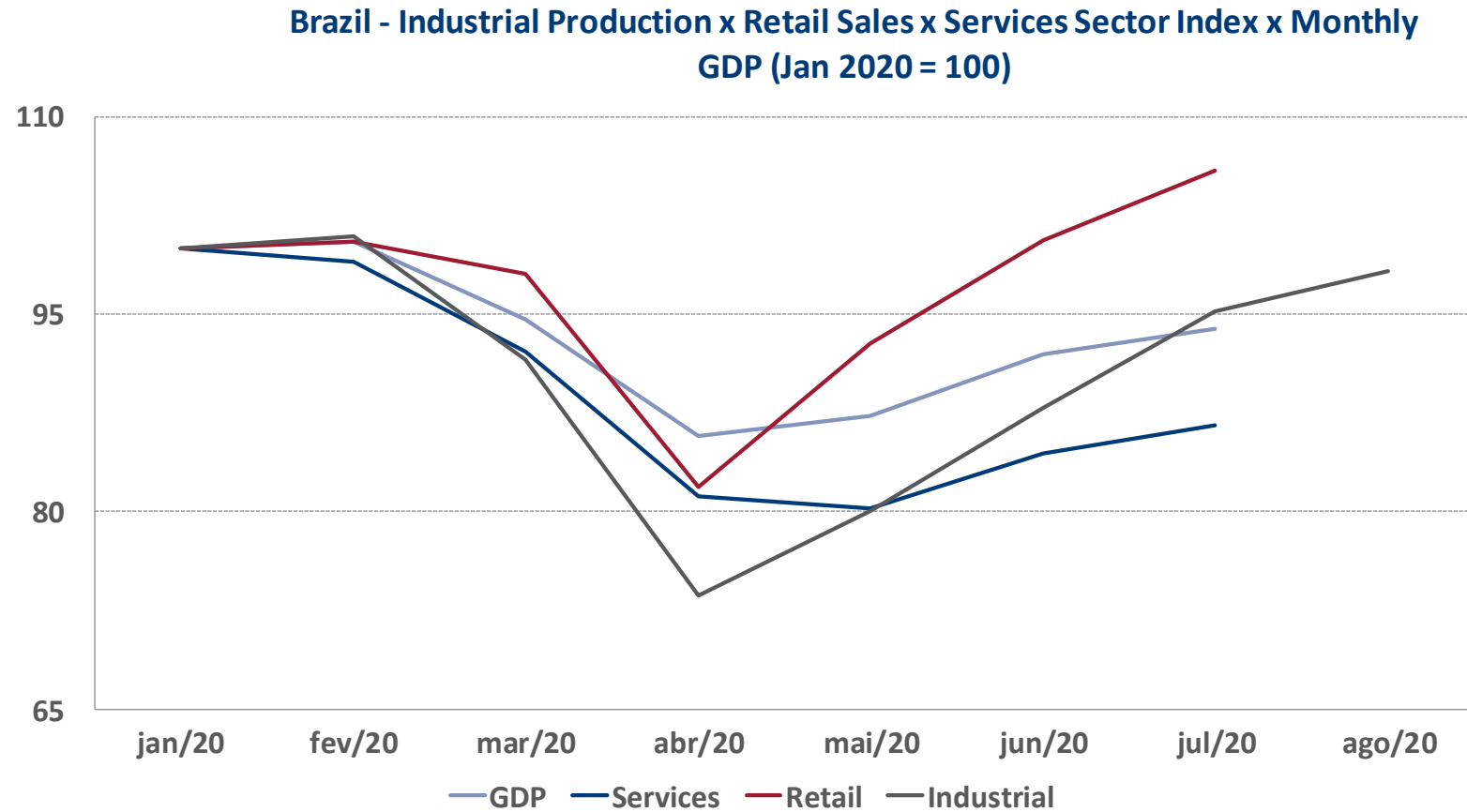
Brazil: 2020 Growth

» We expect services to recover more slowly than industrial production



Brazil: Activity

» Industrial recovery driven by higher consumption of goods; Services lag behind



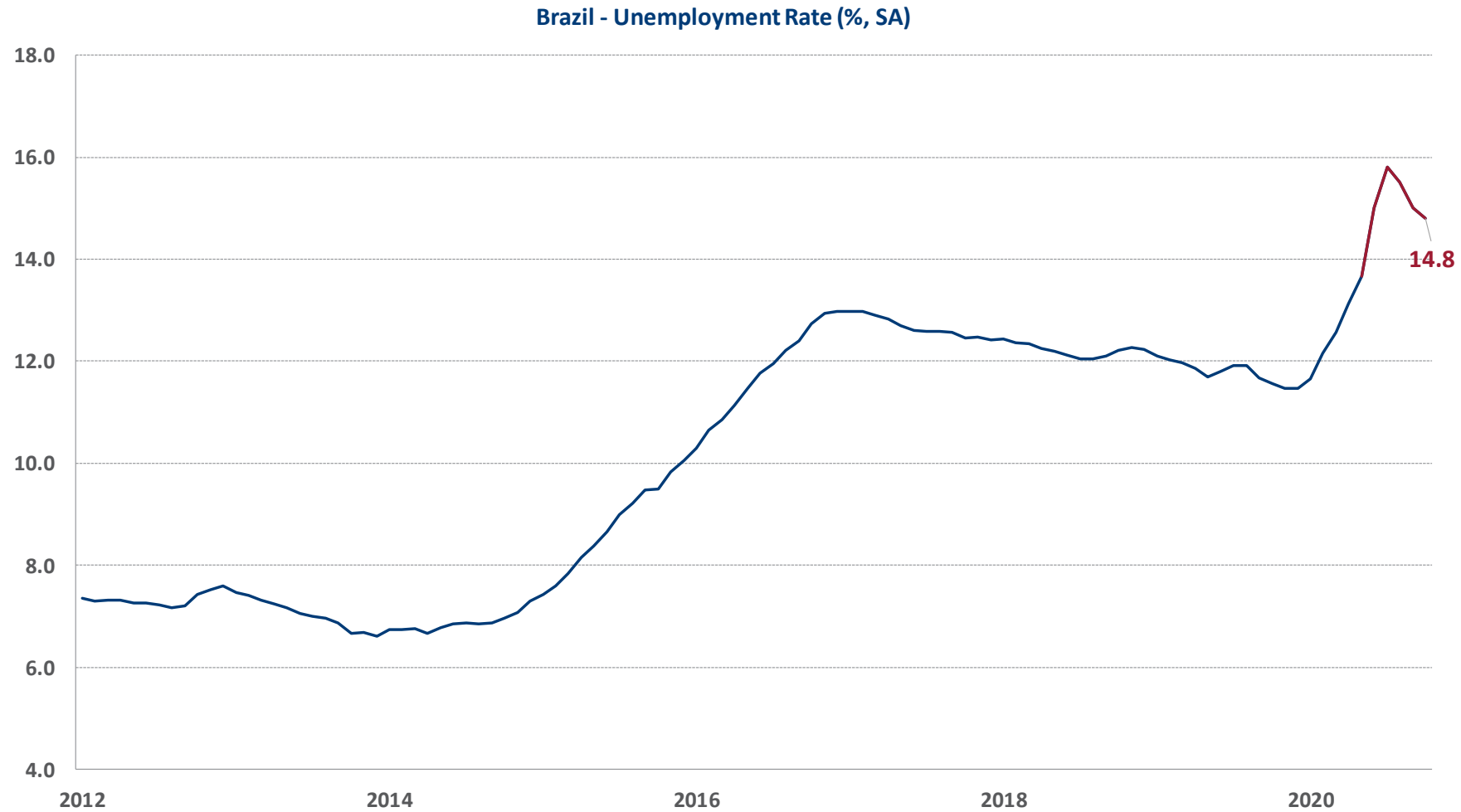
Brazil: Activity

» 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



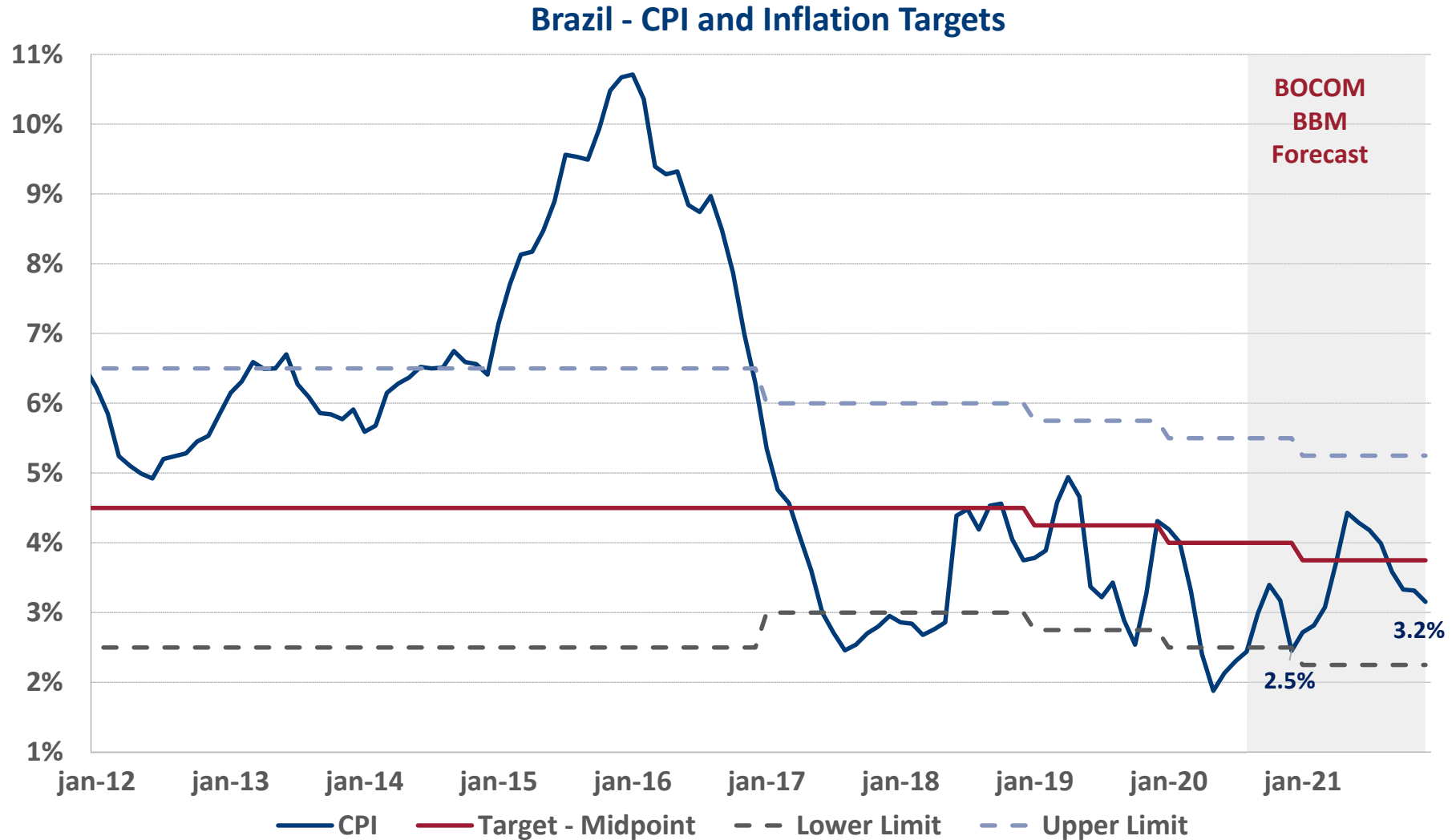
Brazil: Inflation

» Recent price pressures on food prices; services will serve as disinflationary force

Baseline Scenario (YoY)						
	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	3.0%	1.2%	3.7%	1.0%	14.9%	1.1%
20 Q4	2.5%	0.2%	3.4%	1.0%	13.1%	1.1%
21 Q1	3.1%	1.4%	3.9%	1.5%	13.4%	1.5%
21 Q2	4.3%	5.2%	4.0%	2.4%	11.1%	2.1%
21 Q3	3.6%	4.4%	3.3%	3.5%	6.4%	1.1%
21 Q4	3.2%	4.5%	2.7%	3.2%	4.3%	0.9%

Brazil: Inflation

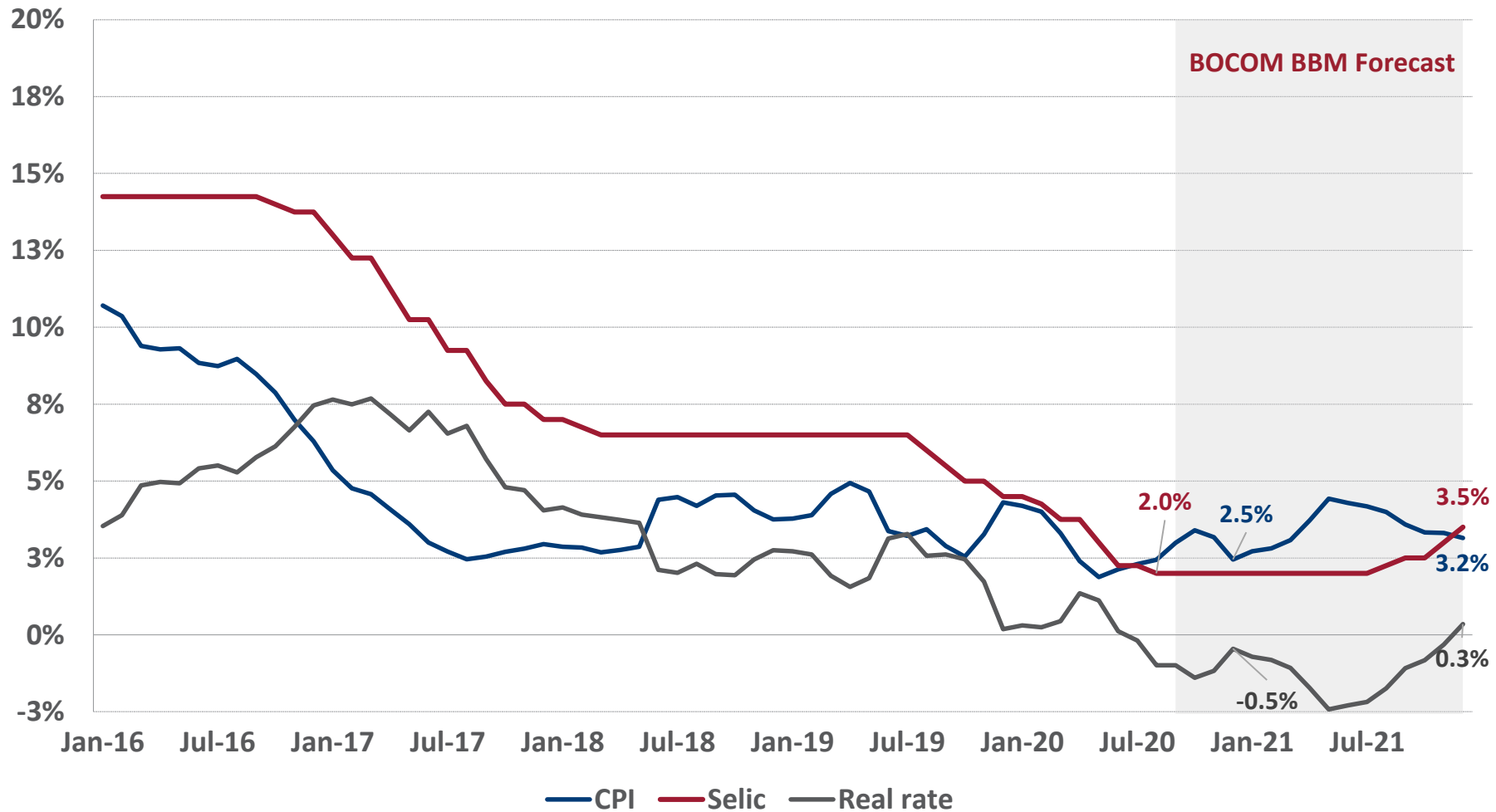
» Inflation should remain below the target's midpoint, leaving space for low interest rate levels



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

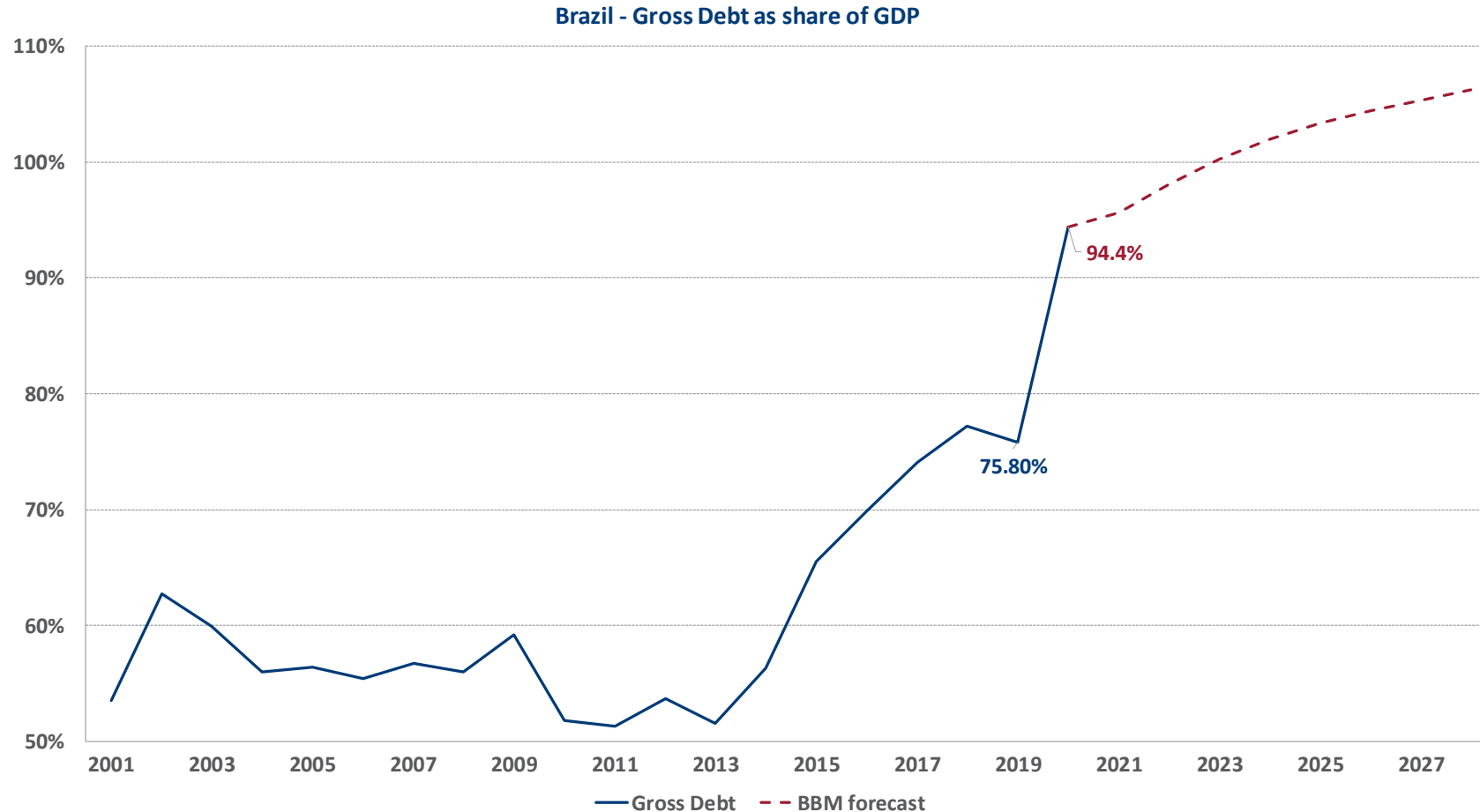


- » Measures to mitigate economic impacts from the pandemic should result in a primary deficit around 12% of GDP in 2020, returning to 3% of GDP in 2021 if the spending cap remains in place

Covid-19 Policy Response	R\$ Bilions	%GDP
Federal Government		
Taxes Defferal	359	5.0%
Emergencial aid for the vulnerable population	180	2.5%
Healthcare	28	0.4%
Emergencial aid for states and municipalities	171	2.4%
Labor support	417	5.8%
Total	1155	16.0%
Total ex-taxes defferal	796	11.0%
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%

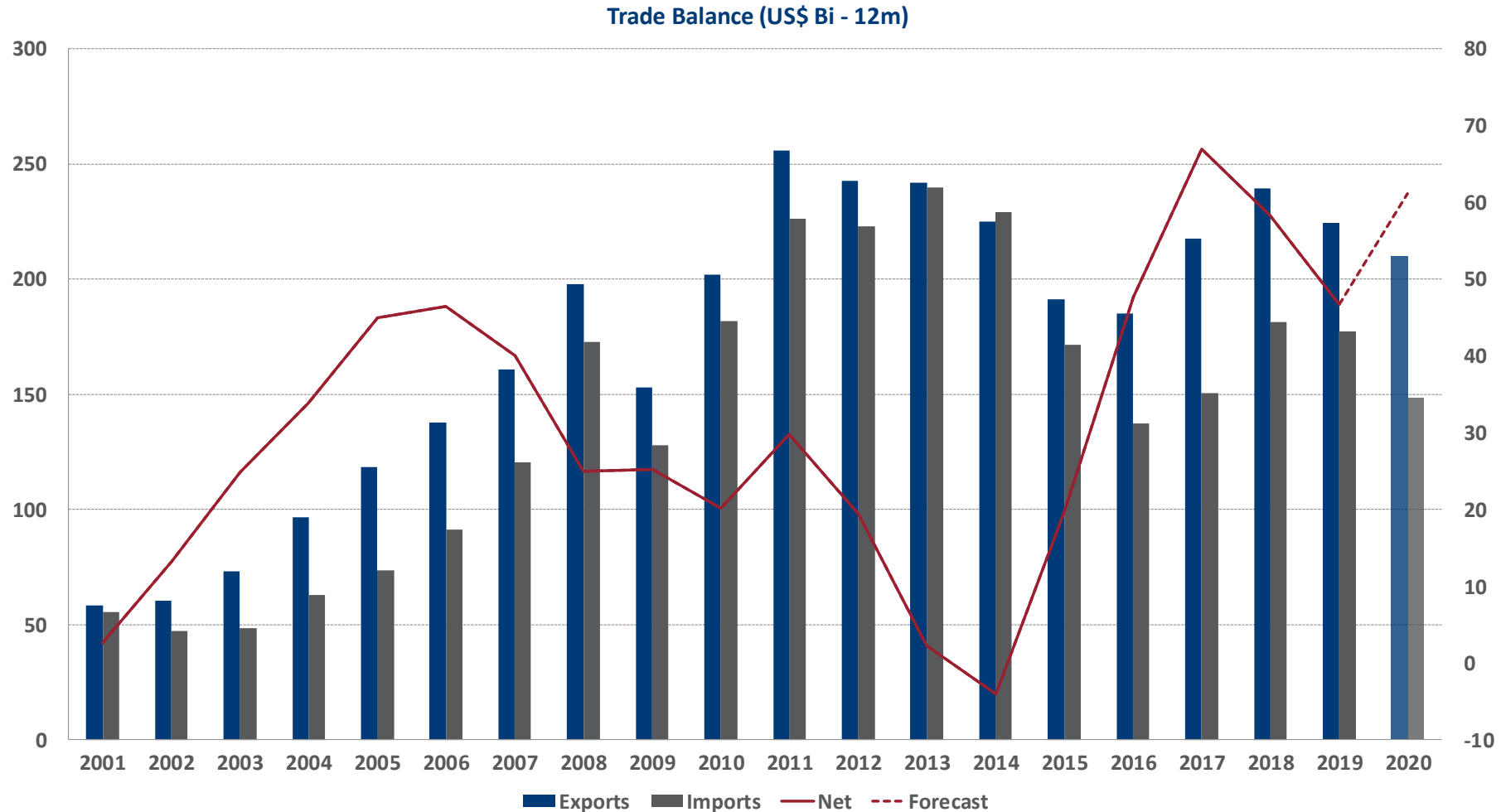
Brazil: Fiscal

- » Fiscal measures to mitigate economic fallout will result in a sharp rise in the Debt/GDP ratio
- » Important to keep the fiscal deterioration contained to 2020 and keep to the spending ceiling in 2021

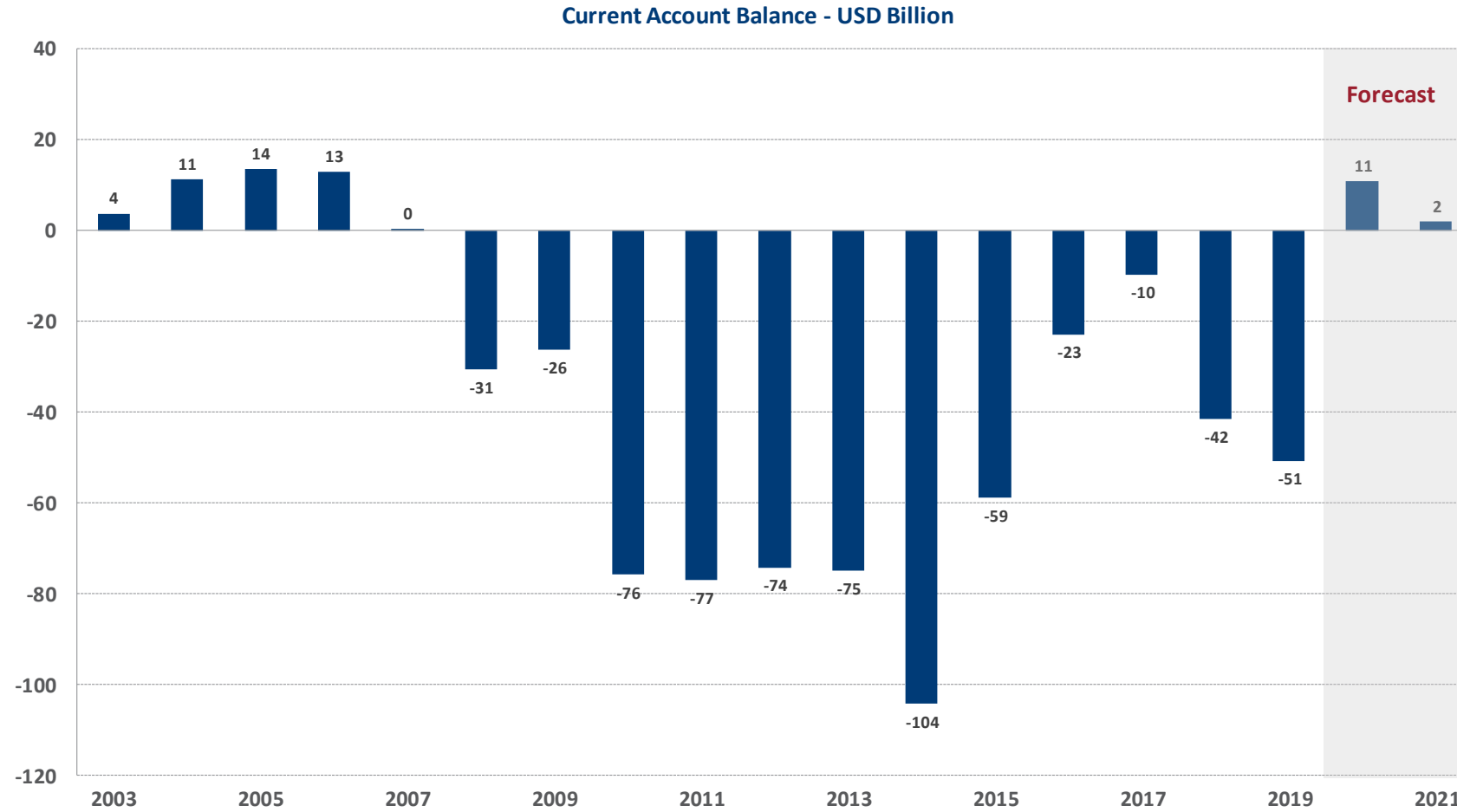


Brazil: Trade Balance

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



» Leading to reversal of the current account deficit



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