



## MACRO OUTLOOK

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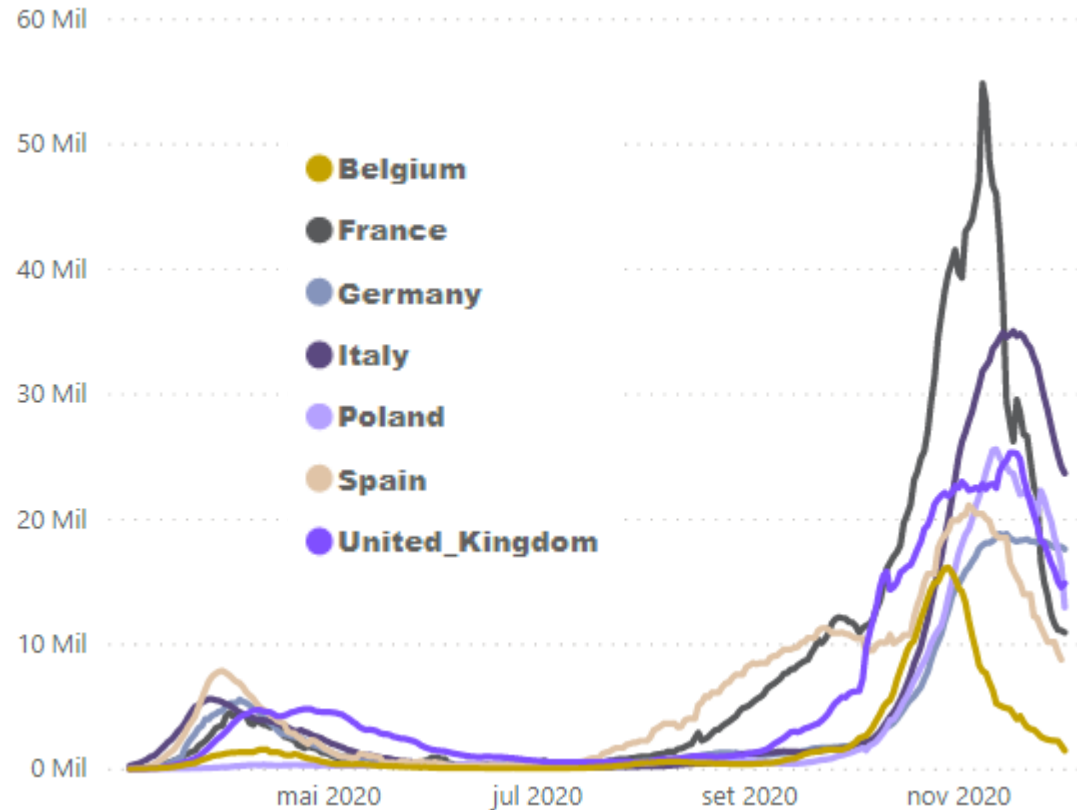
December 2020

- »» 2021 will kick-off with the expectations of a vaccine
- »» Global activity advances on the recovery path
- »» Brazil: Modest recovery in 2021 that will benefit from the base-effect from 2020
- »» Short term inflation surprises in the short term to the upside taking the IPCA to 4,3% EOY, upside risks remain for the 2021 forecast of 3,5%
- »» Normalization of interest rates should start in August in the context of a recovery marked by controlled inflation. Nevertheless, fiscal consolidation remains an important risk on the horizon
- »» External accounts improve substantially

# Covid-19

- » Second wave receding in Europe, allowing a gradual removal of restrictive measures
- » New wave of infections in the USA, but vaccines expectation dominates headlines

## World –Covid-19 Cases, 7-day moving average



## USA –Covid-19 Cases, 7-day moving average





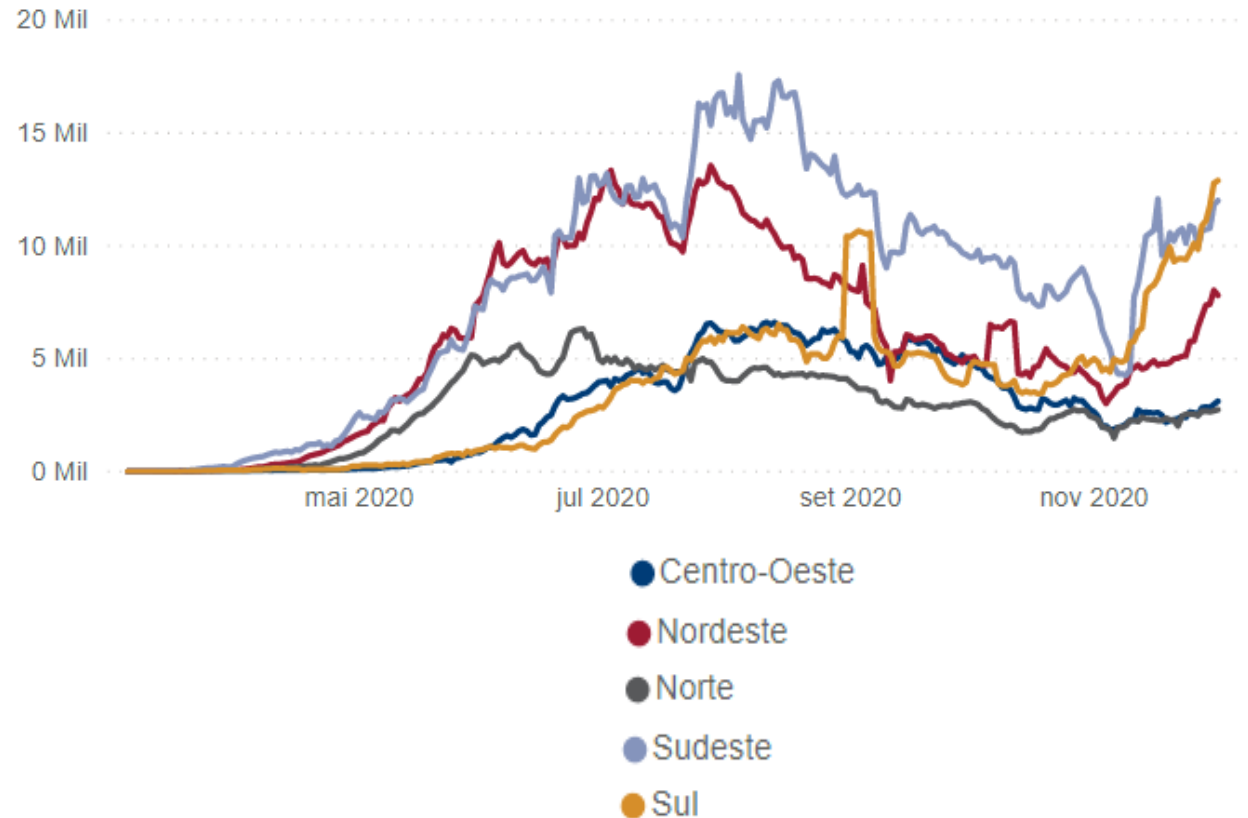
# Covid-19

»» Brazil suffering from a second wave in the North-East, South, and South-East

## Brazil – Covid-19 Cases, 7-day moving average



## Brazil – Covid-19 Cases, 7-day moving average



»» Global economy enters recession, but rebounds fast

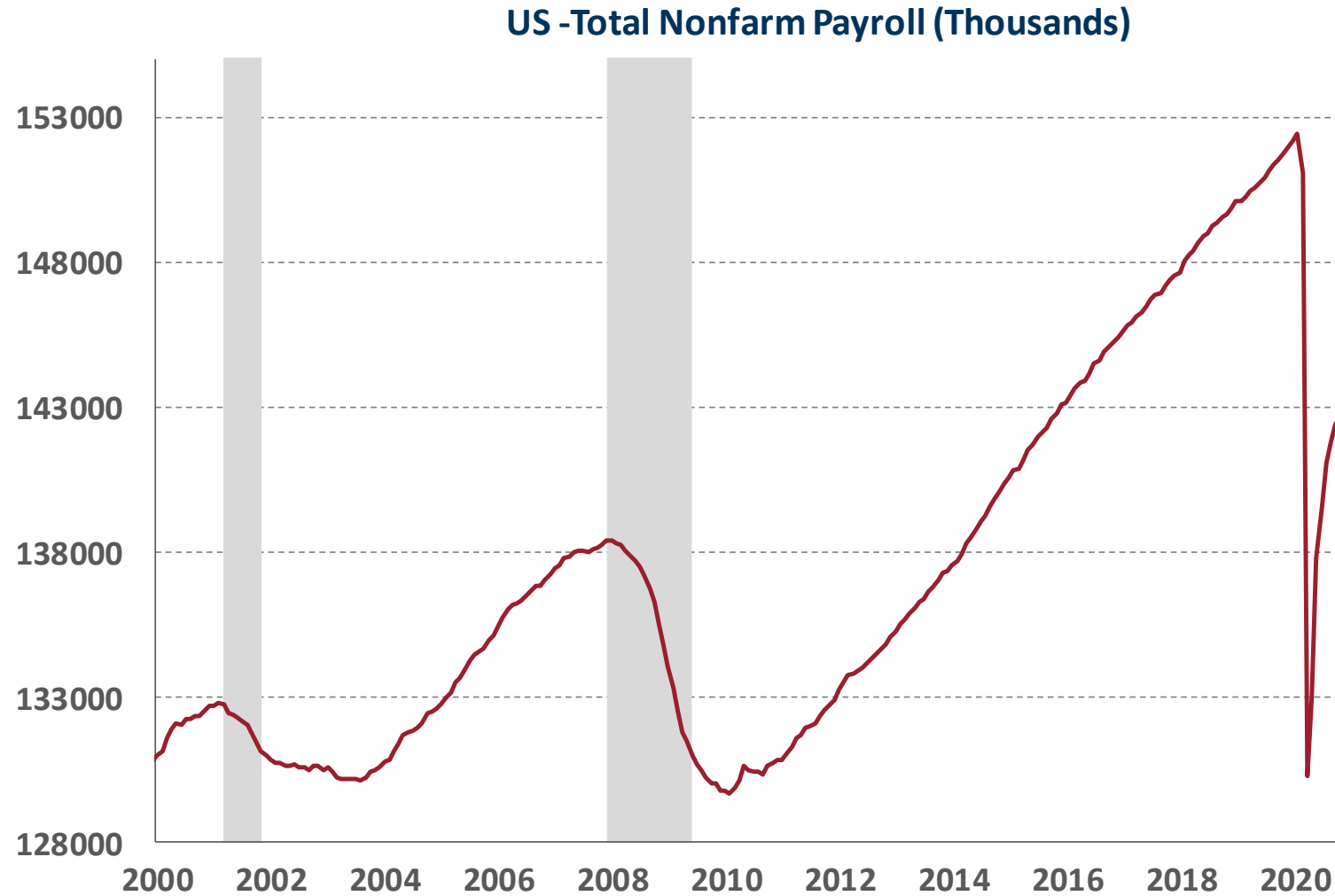


» Chinese economy recovers fast, with services gaining pace over the third quarter



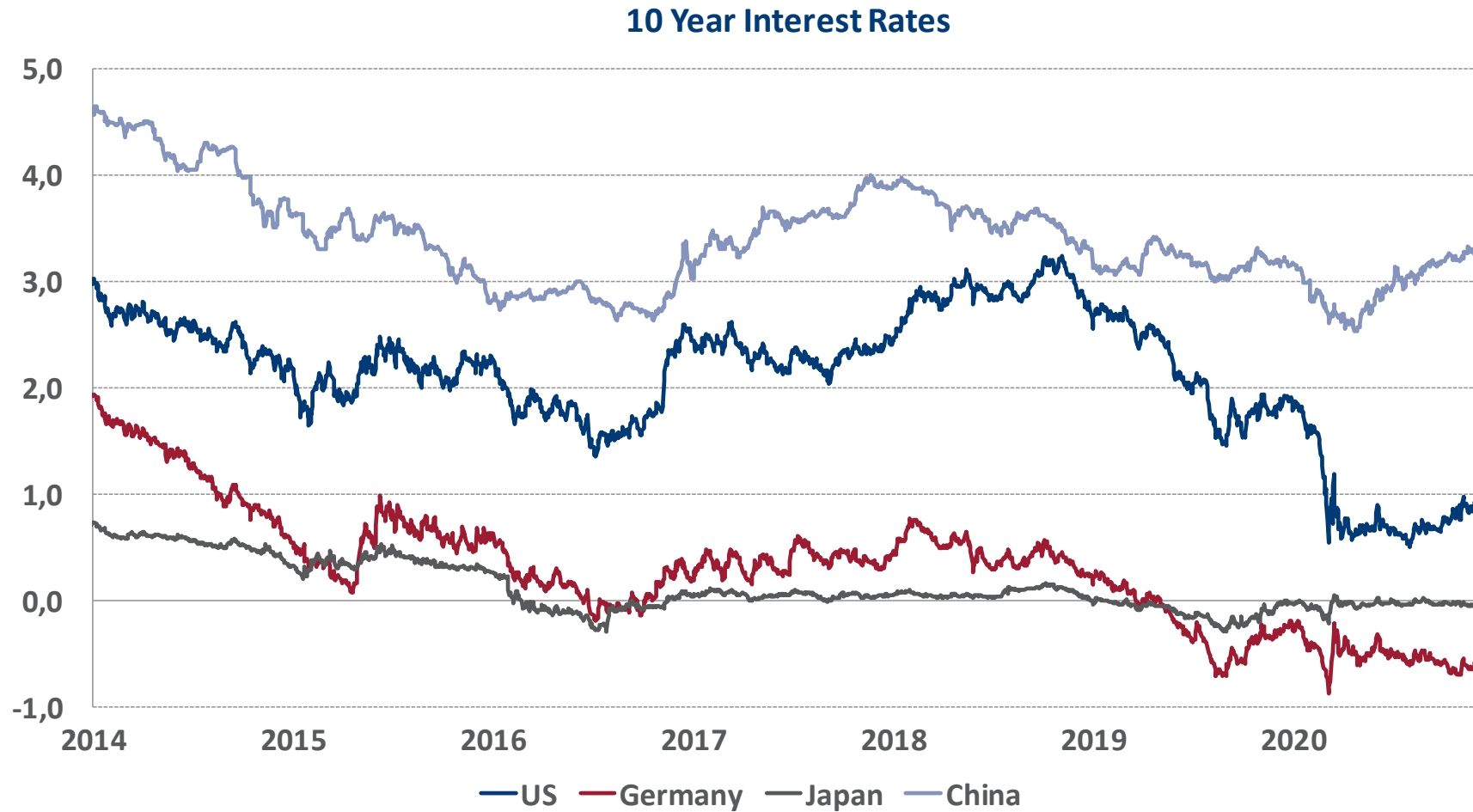
# US: Labor Market

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



# Global Interest Rates

» Interest rates should remain at extremely low levels for the next few years



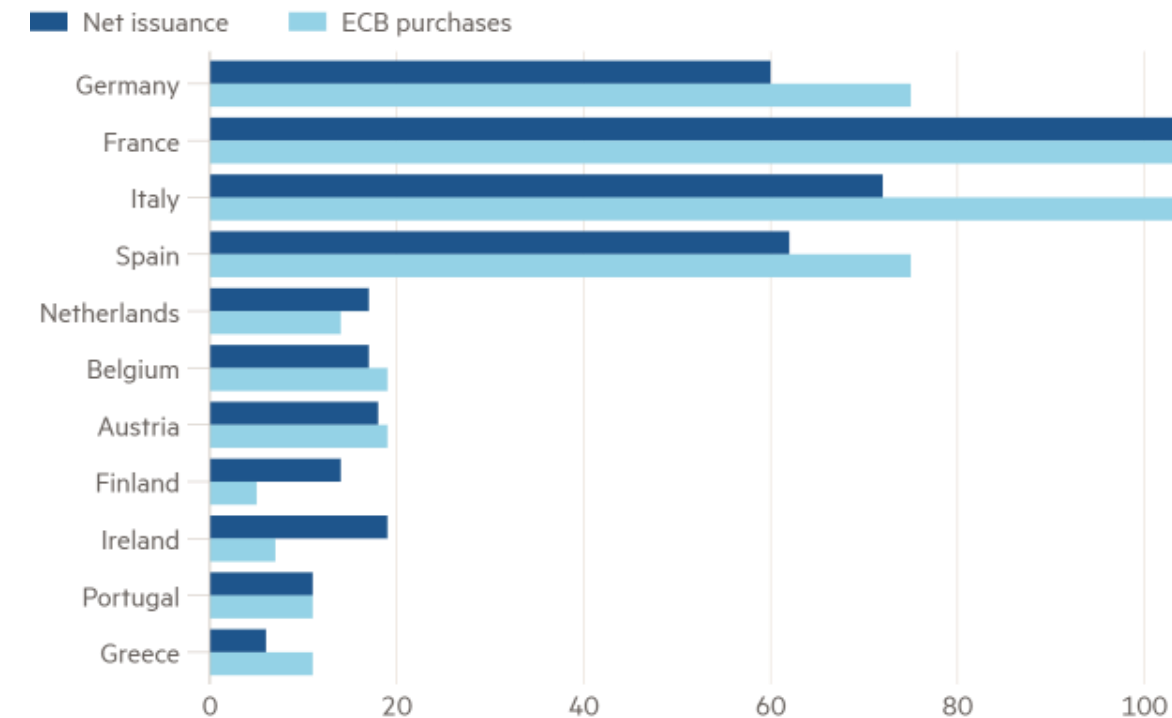


# Europe: Fiscal

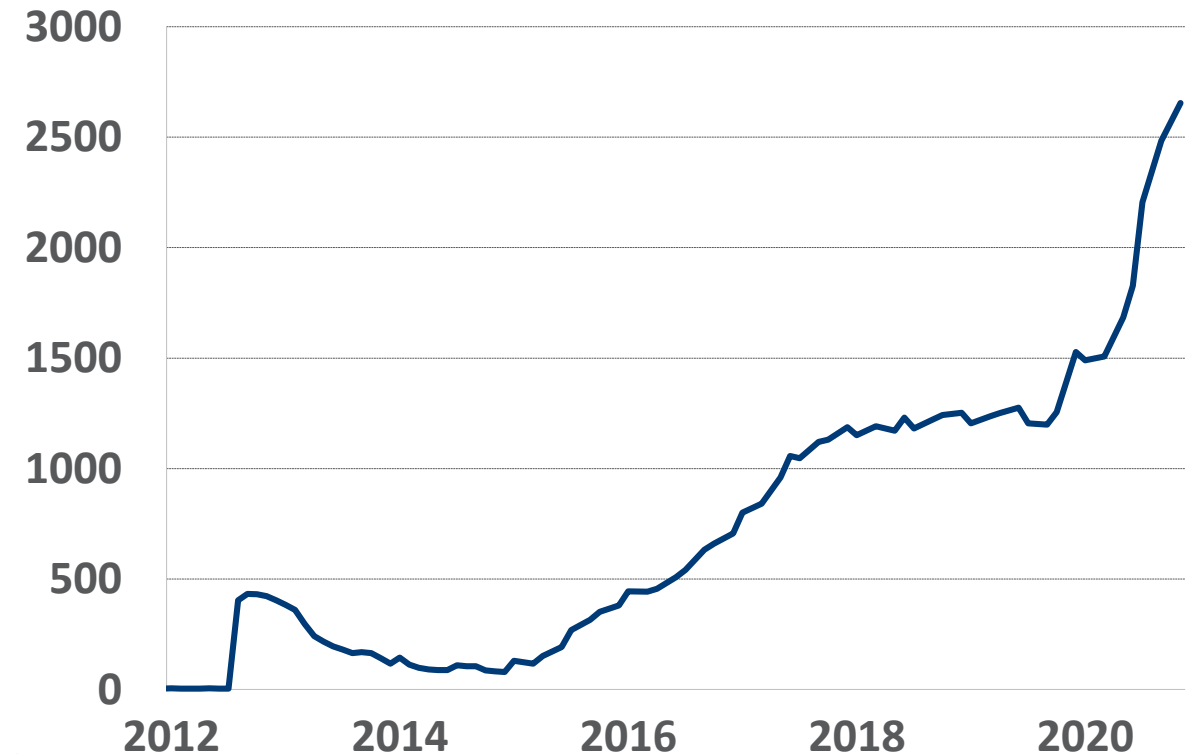
- » Possible negative net issuance in 2021 as ECB gobbles up more debt
- » Recovery Fund agreement makes EU horizon more stable and lower longer term rates

The ECB is expected to buy up all the new government bonds

Citi forecasts for 2021 (€bn)



## European Central Bank - Excess Reserves (billions of euros)



# Global: Sovereign Debt

» Keeping the negative yielding debt volume at its highs

Global Negative Yielding Debt, Market Value (US\$ Trillion)



# Global Interest Rates

» Latin America stands out with historically low rates

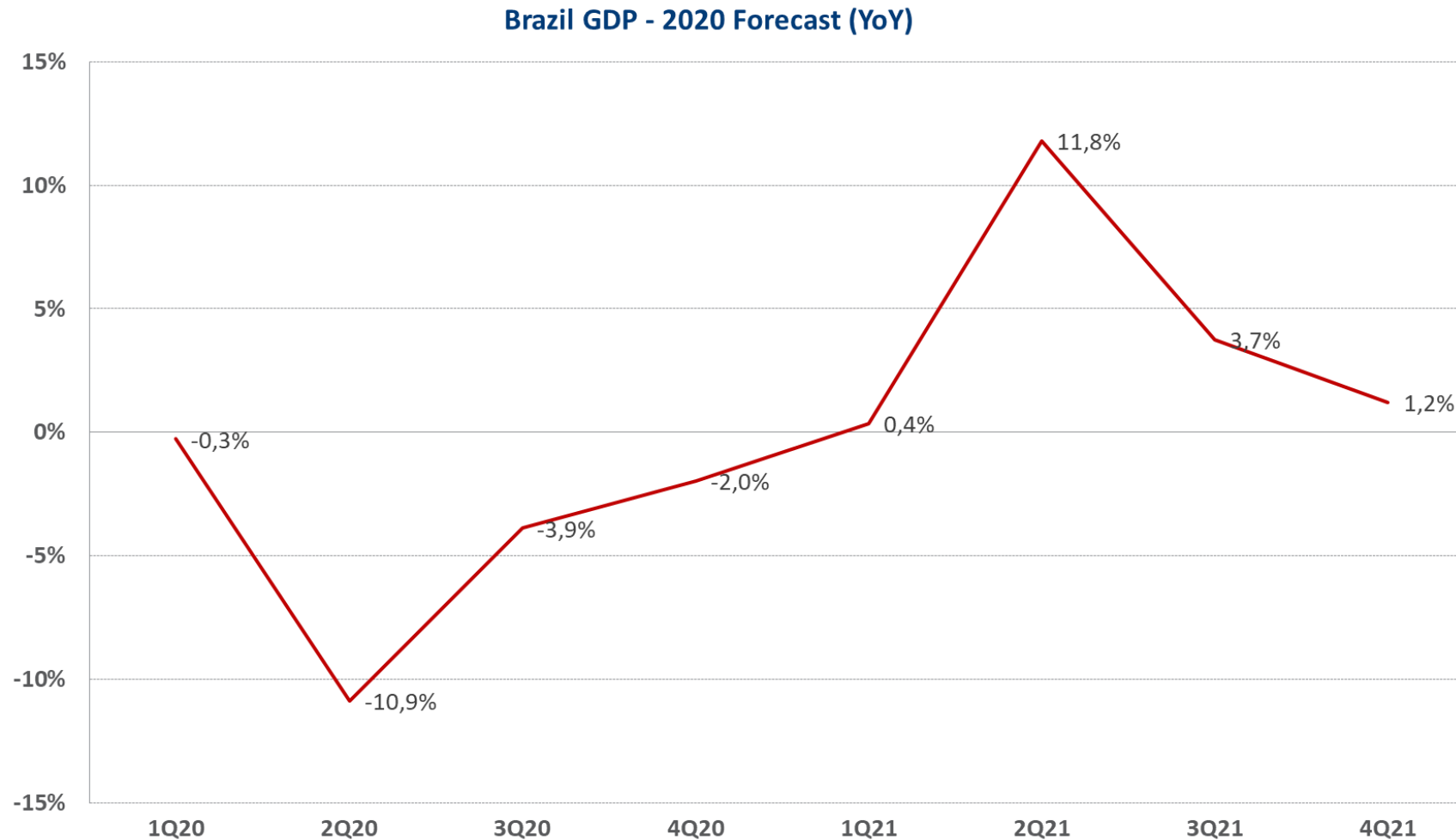
Country	Rate in Jan/2020	Curent Rate	Last move
Turkey	11,25	15,00	Increase
China (loan prime 5y)	4,80	4,65	Pause
Mexico	7,25	4,25	Pause
Russia	6,25	4,25	Pause
India	5,15	4,00	Pause
Indonesia	5,00	3,75	Easing
China (loan prime 1y)	4,15	3,85	Pause
South Africa	6,25	3,50	Pause
Philippines	4,00	2,00	Easing
Brazil	4,50	2,00	Pause
Colombia	4,25	1,75	Pause
Malaysia	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	2014	2015	2016	2017	2018	2019	2020F	2021F
GDP Growth (%)	0,5%	-3,5%	-3,3%	1,3%	1,3%	1,1%	-4,4%	3,6%
Inflation (%)	6,4%	10,7%	6,3%	2,9%	3,7%	4,3%	4,3%	3,5%
Unemployment Rate, SA (%)	7,1%	9,6%	12,6%	12,4%	12,2%	11,7%	15,5%	14,3%
Policy Rate (%)	11,8%	14,3%	13,8%	7,0%	6,5%	4,5%	2,0%	3,5%
External Accounts								
Trade Balance (US\$ bn)	-4	20	48	67	53	39	61	58
Current Account Balance (US\$ bn)	-104	-59	-23	-10	-42	-51	11	2
Current Account Balance (% of GDP)	-4,3%	-3,3%	-1,3%	-0,7%	-2,2%	-2,8%	0,8%	0,1%
Fiscal Policy								
Fiscal Primary Balance (% of GDP)	-0,6%	-1,9%	-2,5%	-1,7%	-1,7%	-1,2%	-11,3%	-2,8%
Government Gross Debt (% of GDP)	57,2%	66,2%	69,4%	73,7%	75,3%	74,3%	90,0%	92,0%

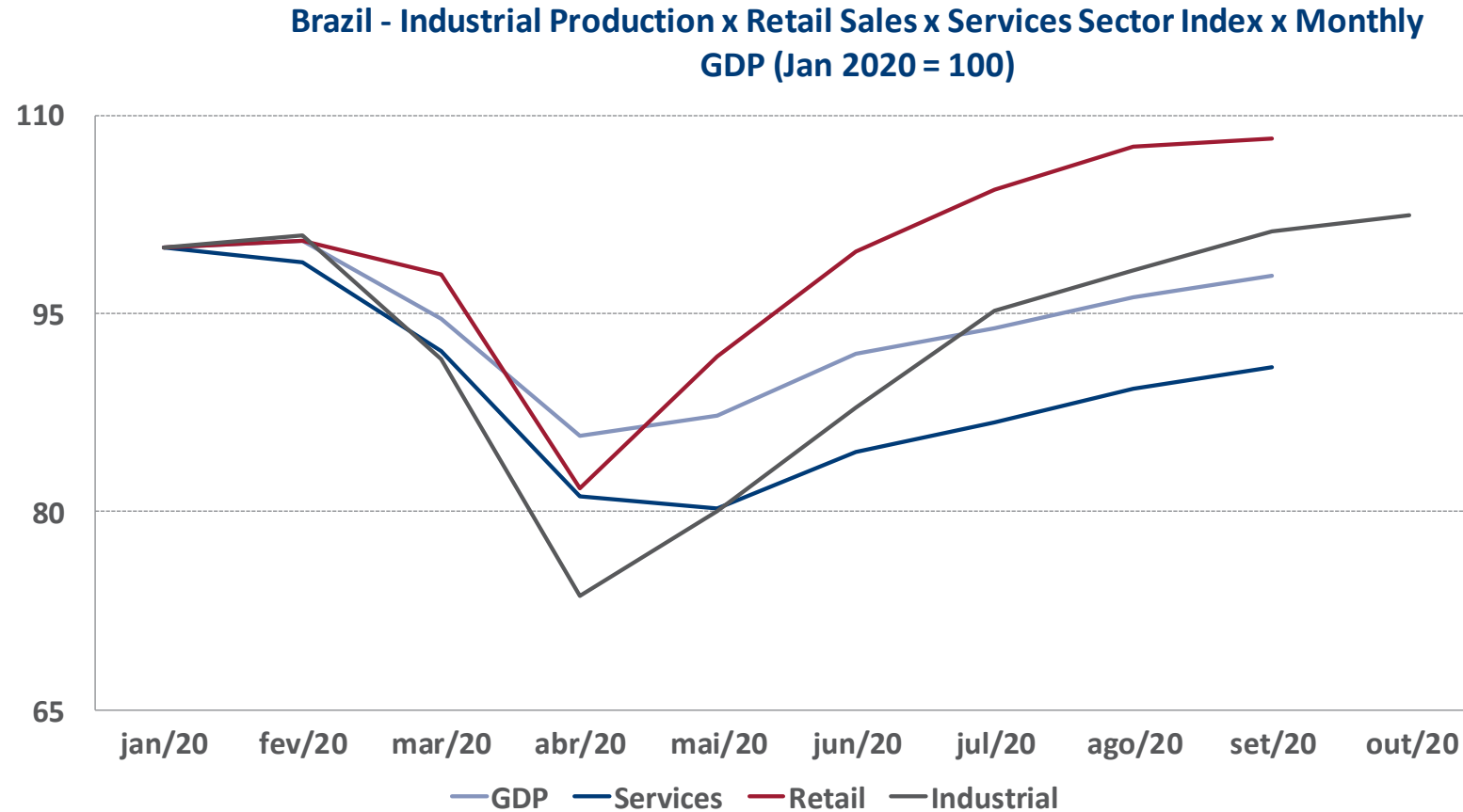
# Brazil: GDP

- » Activity valleyed in Q2
- » Services will recover more slowly, yet a vaccine may accelerate growth



# Brazil: Activity

» Industrial recovery driven by higher consumption of goods; Services recover slowly

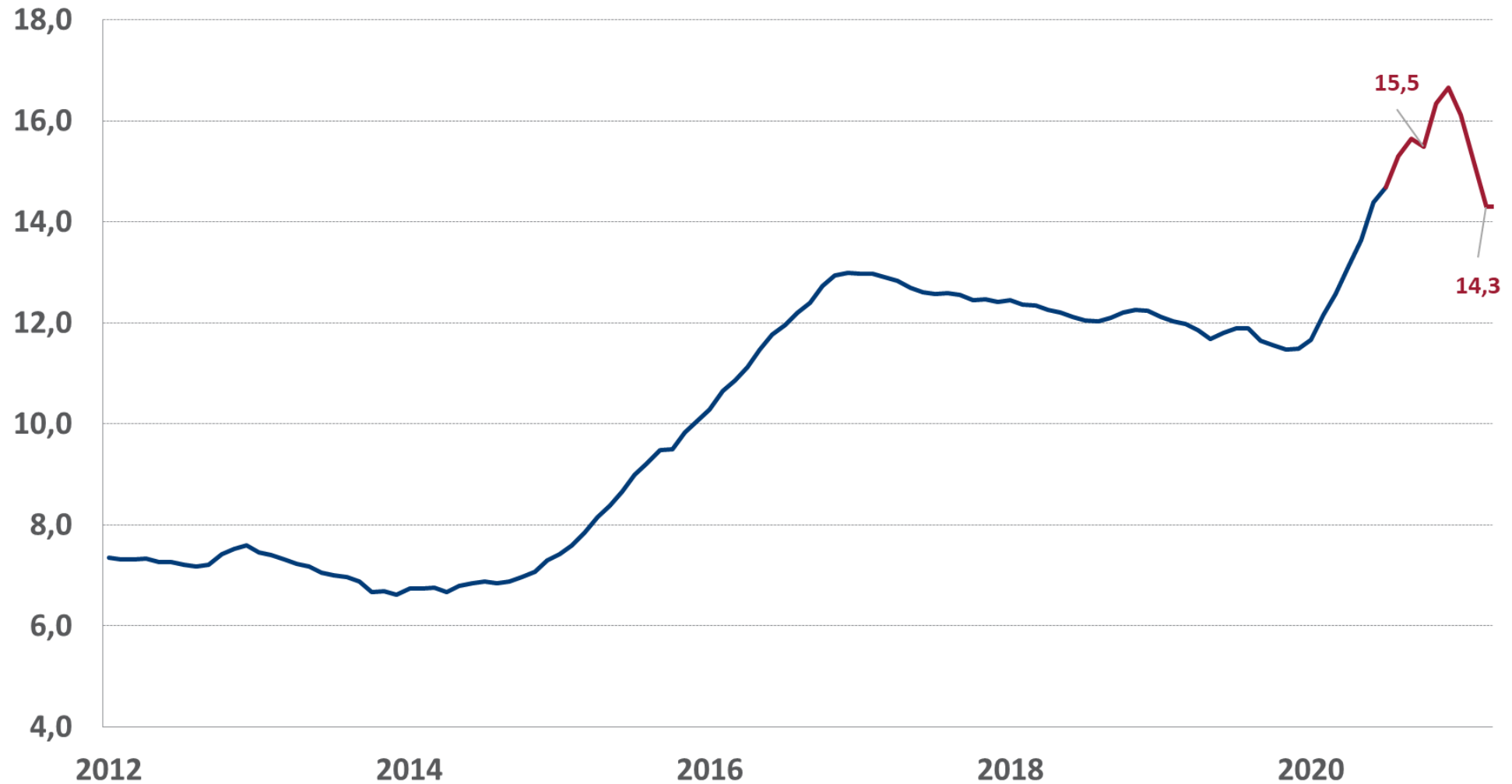




# Brazil: Labor Market

» Unemployment rate should increase over the next months as more people look for jobs

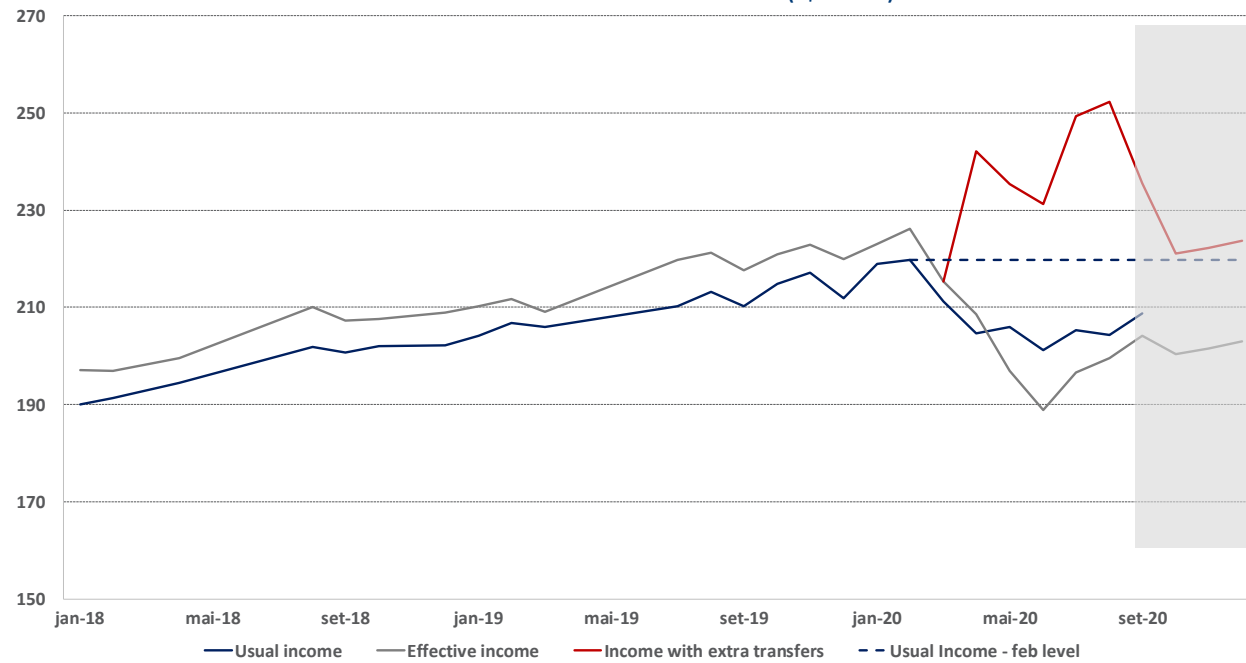
**Brazil - Unemployment Rate (% SA)**



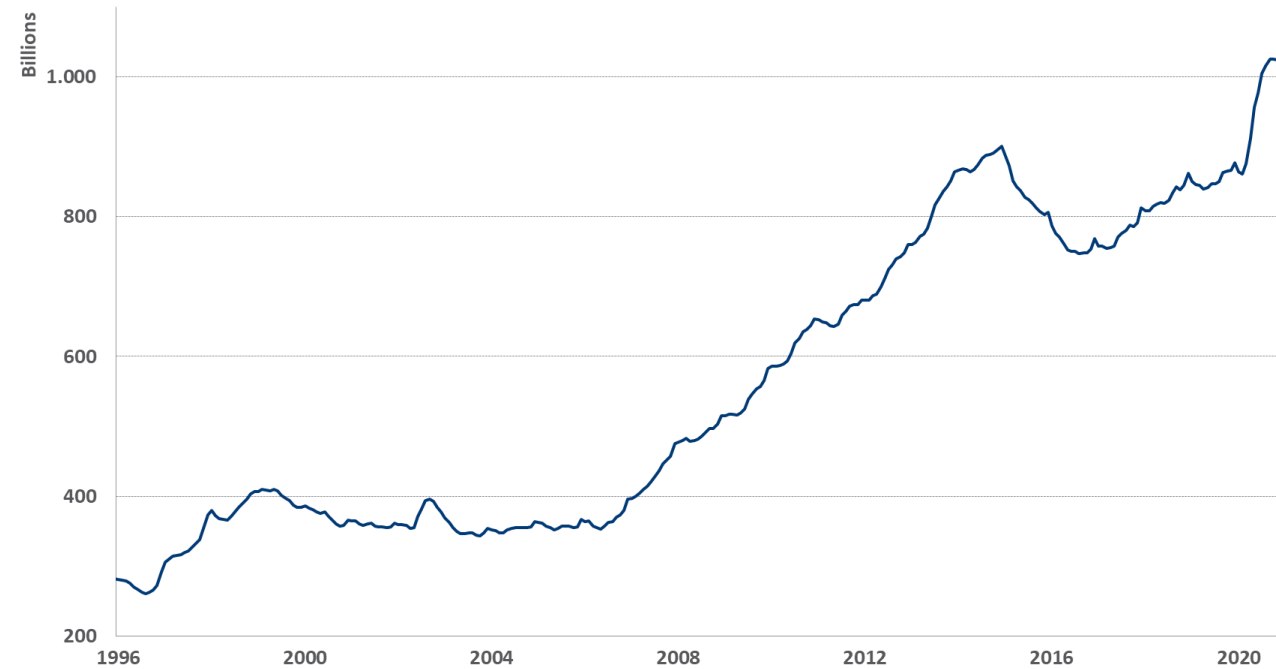
# Brazil: Job Market

» Revenues will have received important support during the pandemic, leaving savings higher going into 2021

Brazil - Labor Income and Transfers (R\$ Billions)



Brazil - Stock Savings Accounts Real



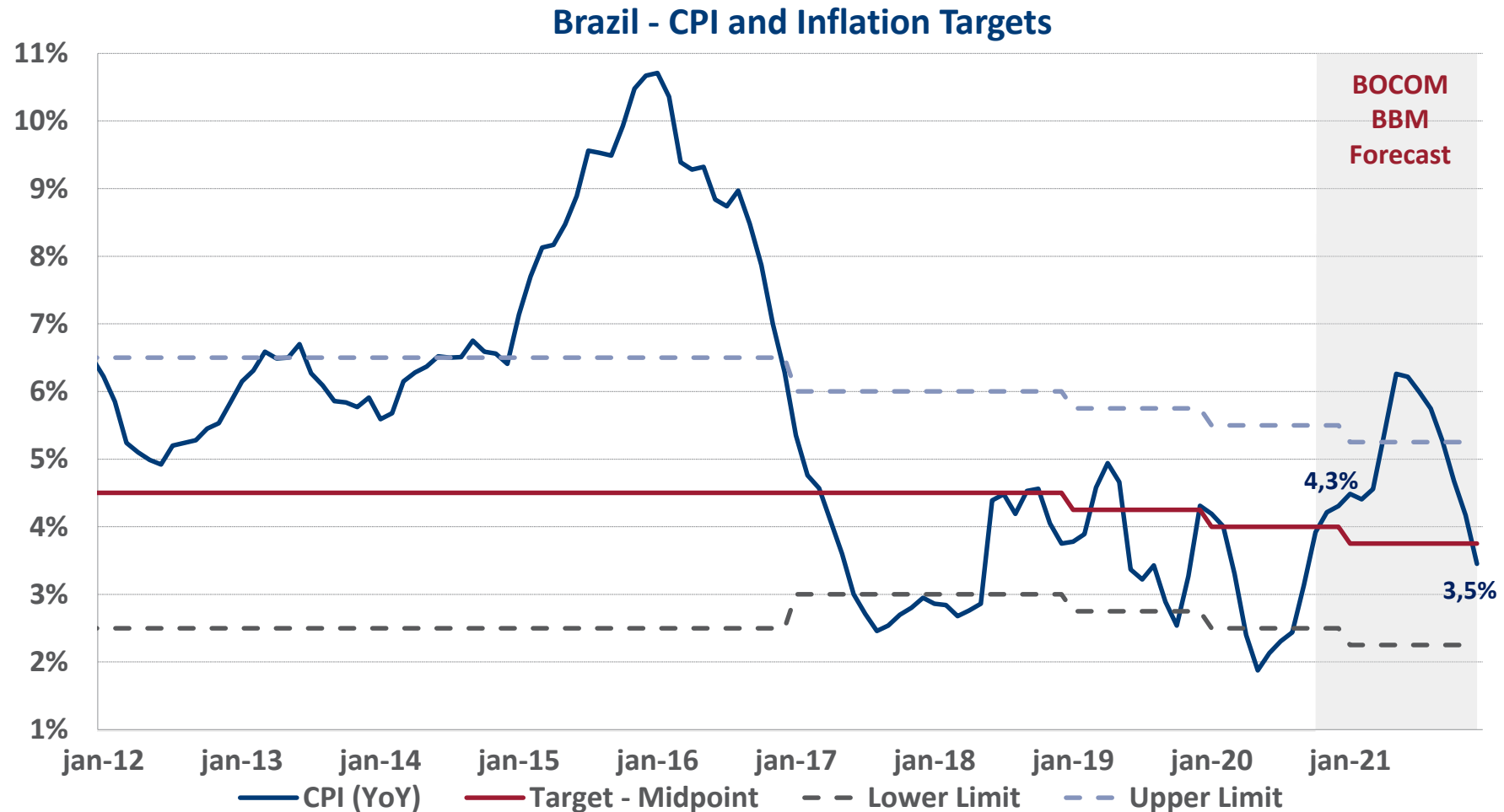
# Brazil: Inflation

- » Second semester pressure on inflation push the CPI above 4% in 2020
- » 12-month CPI will exceed 6% during the second quarter and will bring discomfort to the Central Bank

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	3.1%	1.1%	3.9%	1.1%	15.4%	1.3%
20 Q4	4.3%	2.6%	5.2%	2.1%	16.1%	3.0%
21 Q1	4.6%	2.1%	5.7%	2.7%	16.0%	3.6%
21 Q2	6.2%	7.4%	5.9%	3.7%	13.5%	4.5%
21 Q3	5.3%	6.1%	5.0%	4.7%	8.3%	3.3%
21 Q4	3.5%	4.6%	3.1%	3.5%	4.2%	1.6%

# Brazil: Inflation

» Inflation will converge to the target's midpoint only during the last quarter of 2021



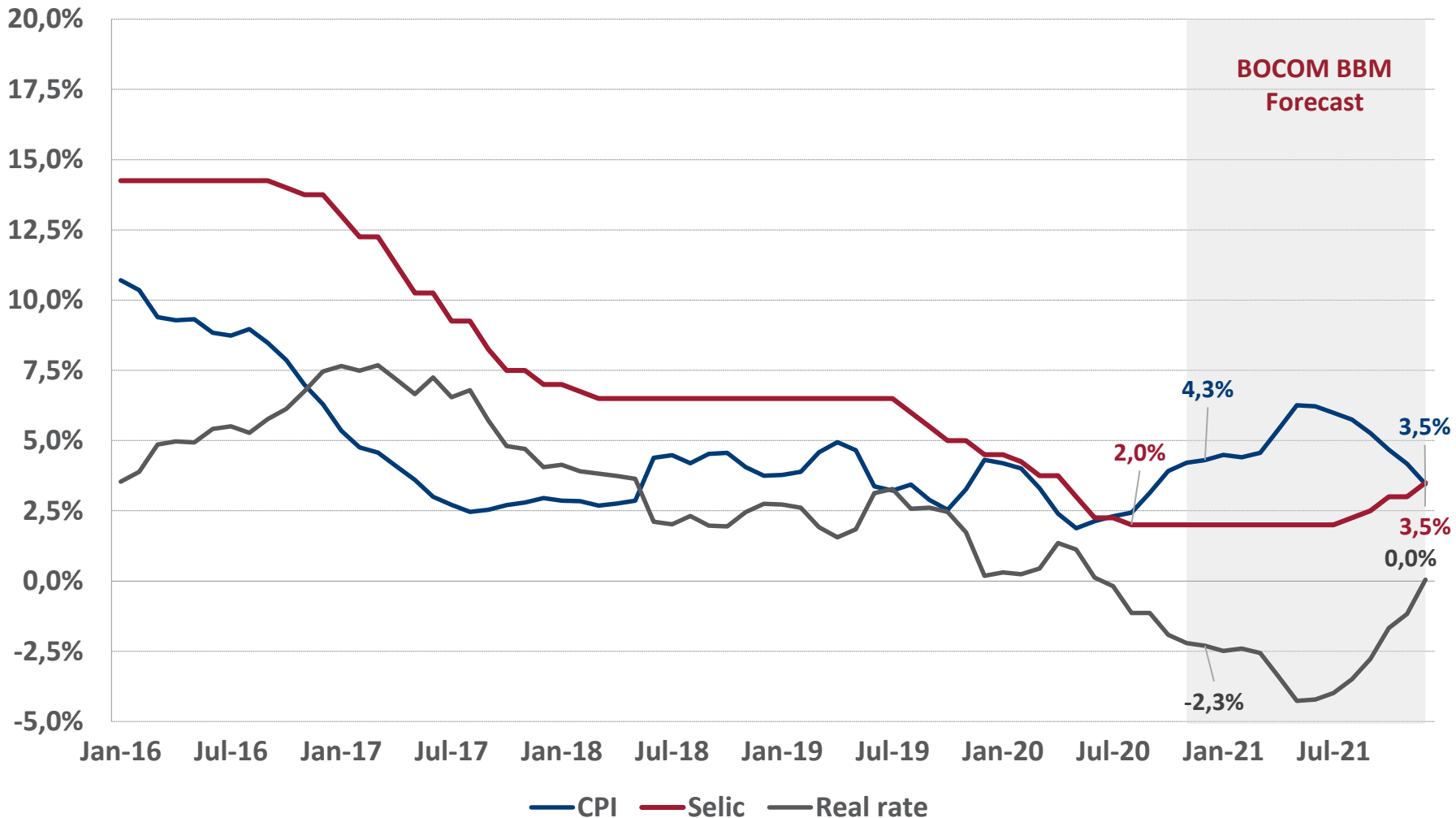
» Notwithstanding the benign inflationary path around the target, we see several upside risks in a situation where downside pressures have already been incorporated in the forecasts:

1. Further foreign exchange passthrough to industrial goods
2. Faster recovery of the service sector and consequently of the labor market
3. Additional pressure from commodities
4. Additional pressure from regulated prices

# BRAZIL: MONETARY POLICY

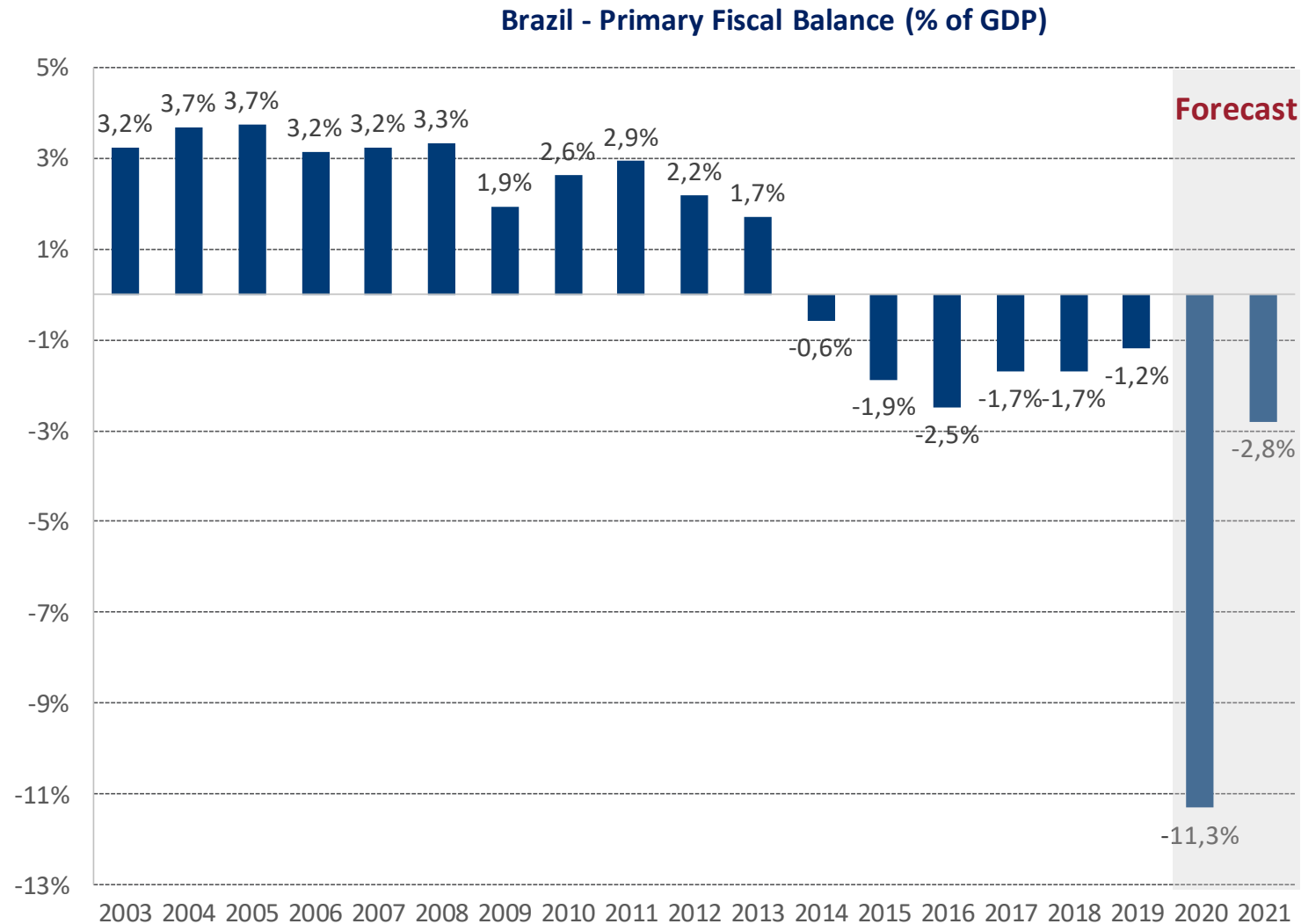
- » Inflation around the target will trigger a normalization of monetary policy in August, but the strategy may face risks

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



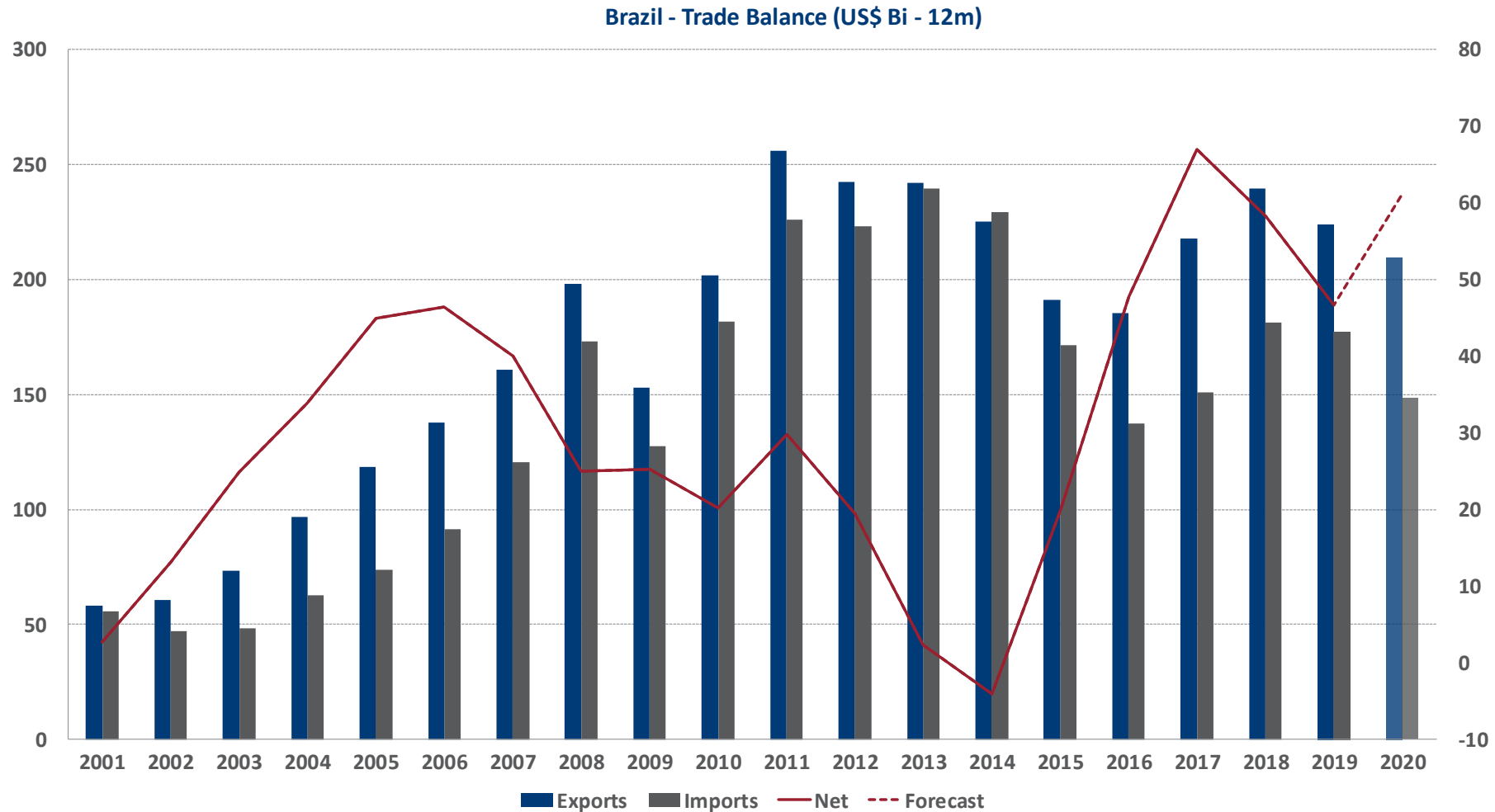


- » Measures to mitigate economic impacts from the pandemic should result in a primary deficit around 12% of GDP in 2020, returning to 3% of GDP in 2021 if the spending cap remains in place



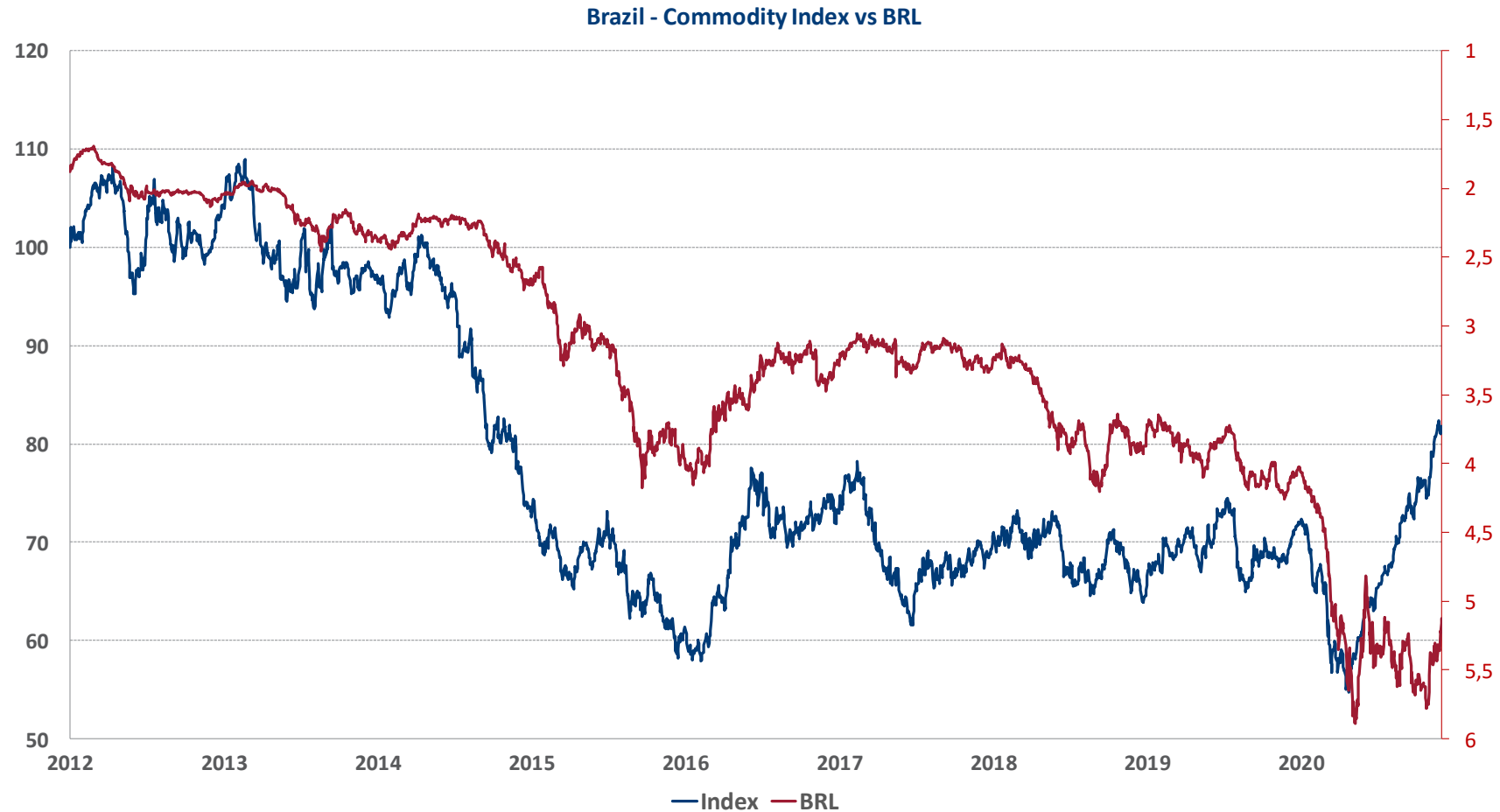
# Brazil: Trade Balance

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



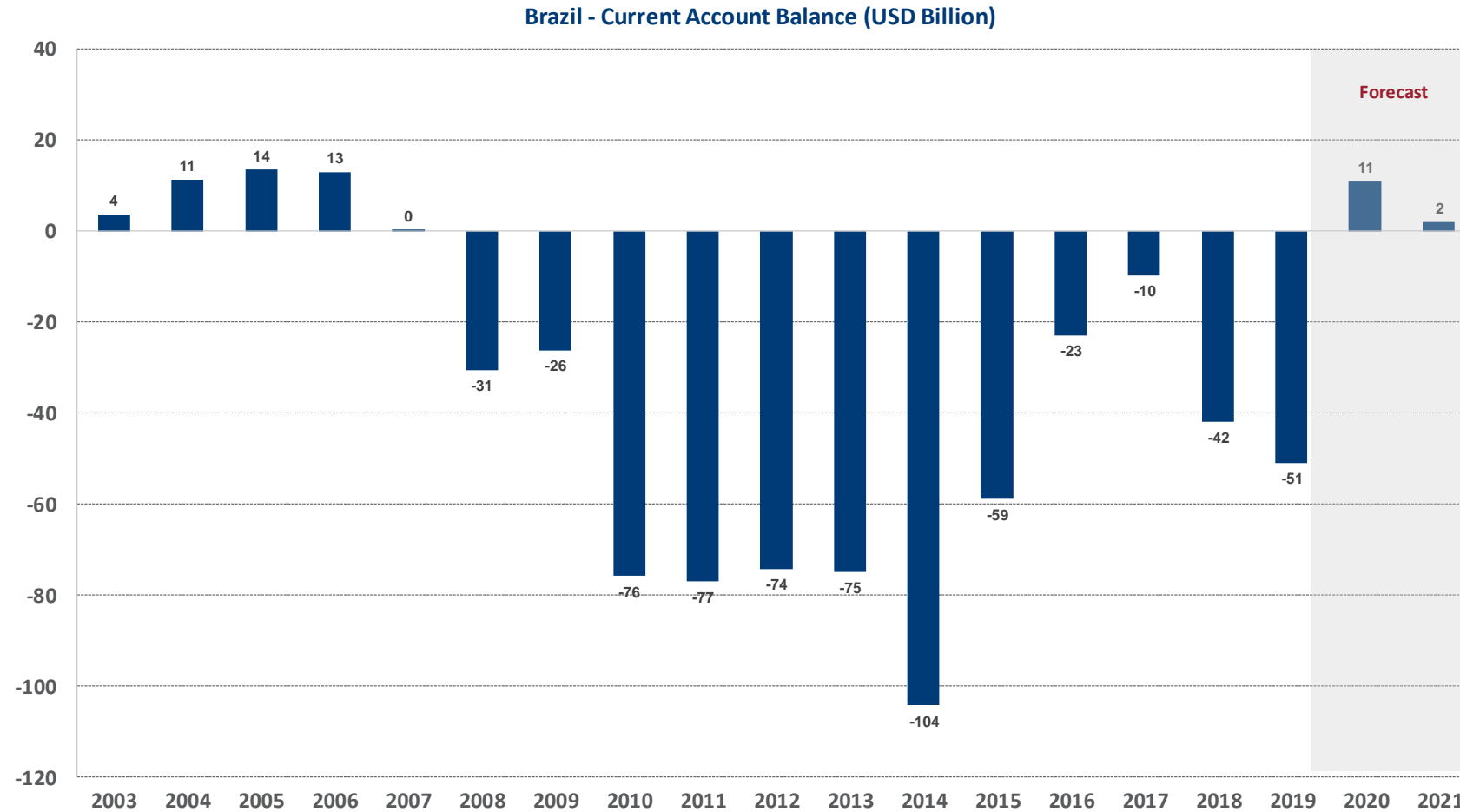
# Brazil: Trade Balance

»» Appreciation of commodity prices has not yet translated into a more appreciated Real



# Brazil: Balance of Payments

» Trade balance helping a reversal of the current account deficit for both 2020 and 2021



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