



## MACRO OUTLOOK

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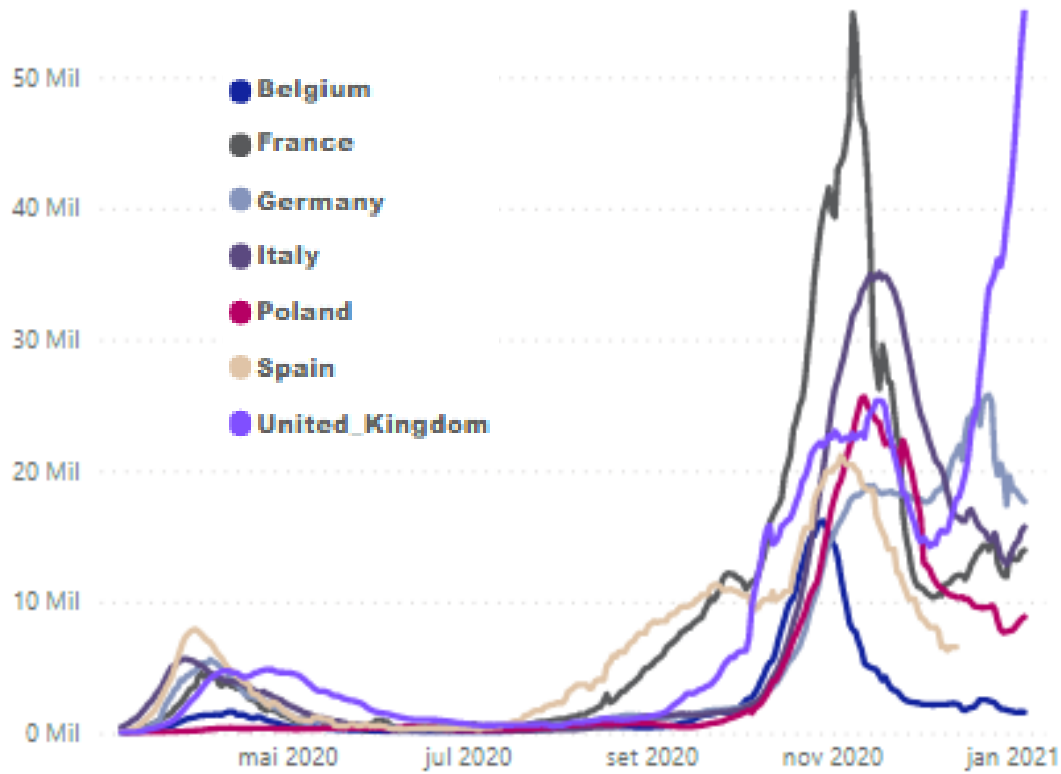
January 2021

- »» 2021 will kick-off with the expectations of vaccination campaigns in several countries
- »» Global activity advances on the recovery path
- »» Brazil: Modest recovery in 2021 that will benefit from the base-effect from 2020
- »» Inflation will abate in the second half of the year, but upside risks remain to our 3,3% forecast
- »» 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 and are source of support for the currency

# Covid-19

- » Second wave remains concerning in Europe
- » Cases in the UK accelerating, and new virus strain identified
- » New wave of infections in the USA, but expectation of vaccine dominates headlines

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



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



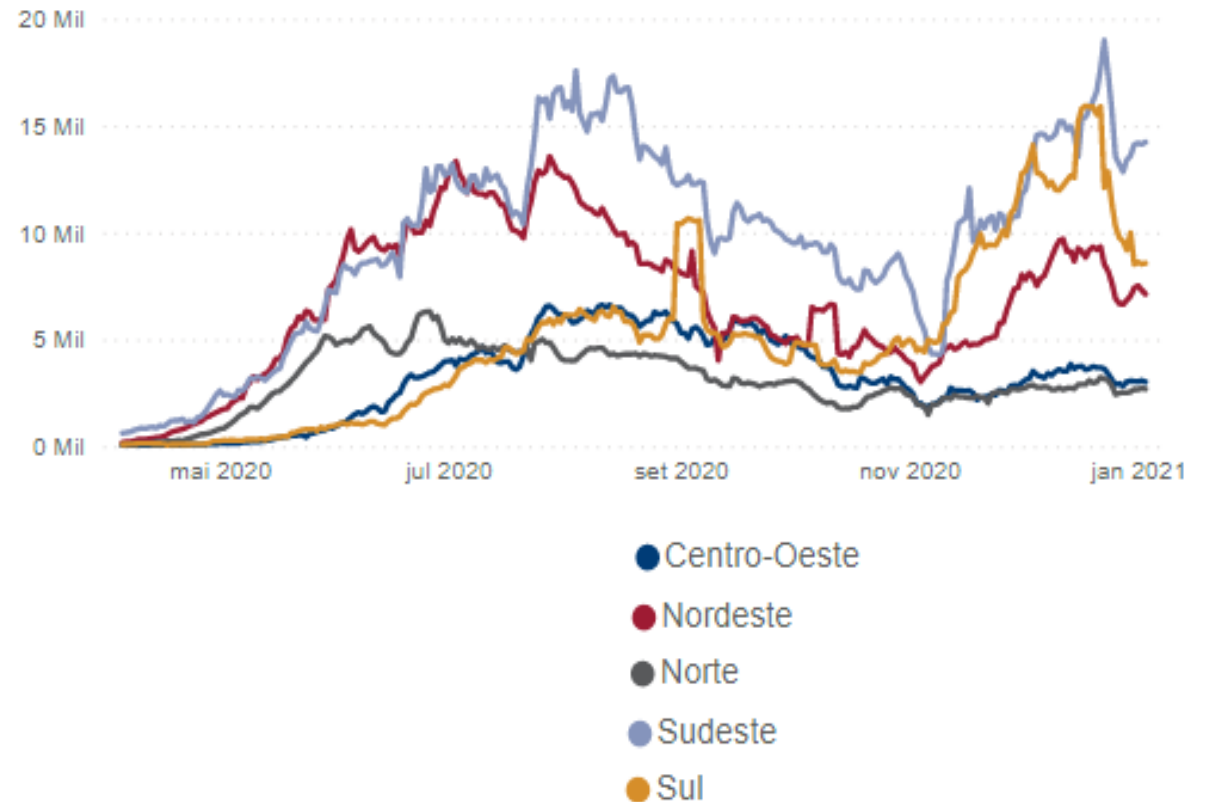
# Covid-19

»» Brazil suffering from still high level of cases

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



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



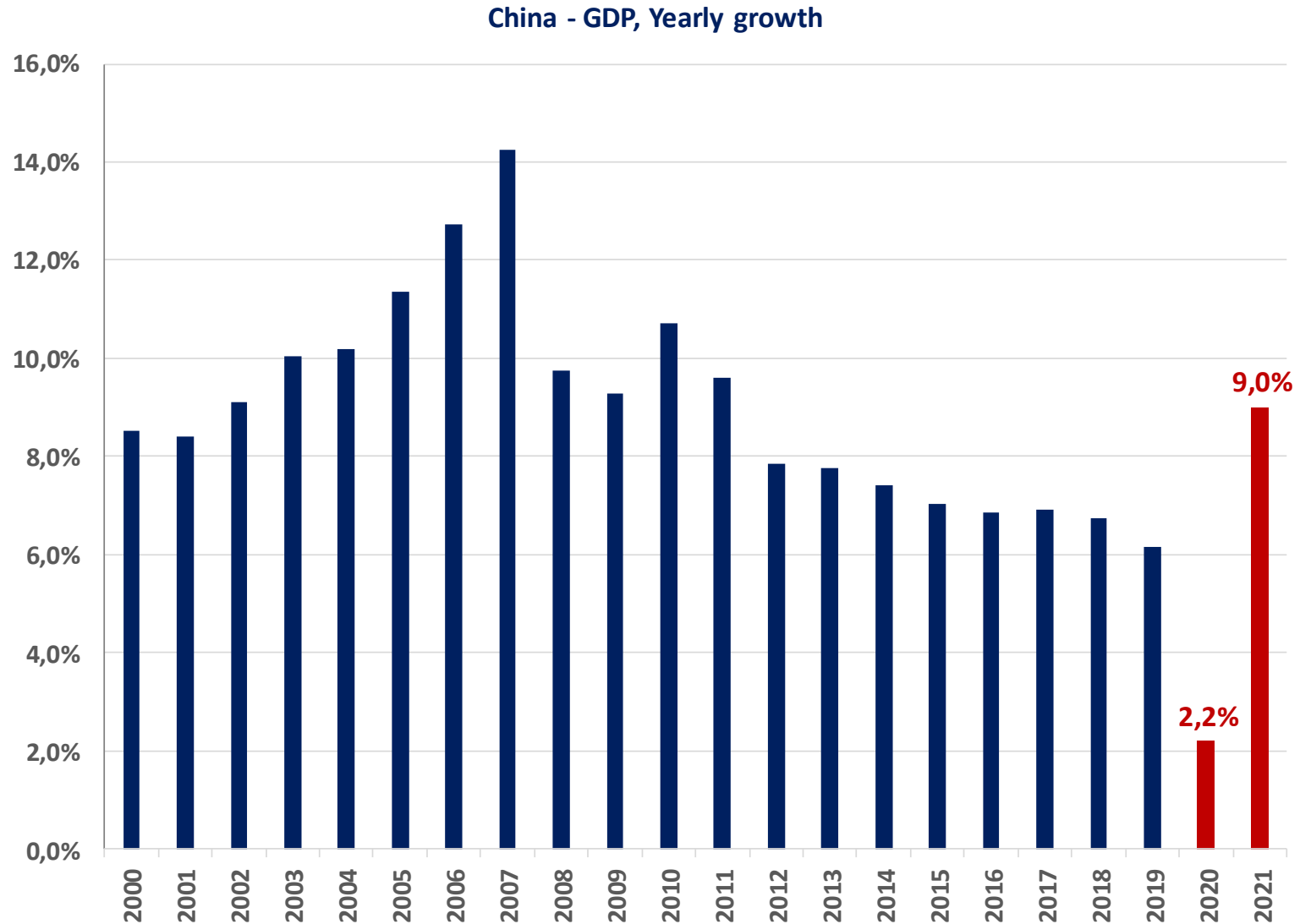
# Global: GDP Growth

»» Global economy enters recession in 2020, but rebounds relatively fast



# China: Activity

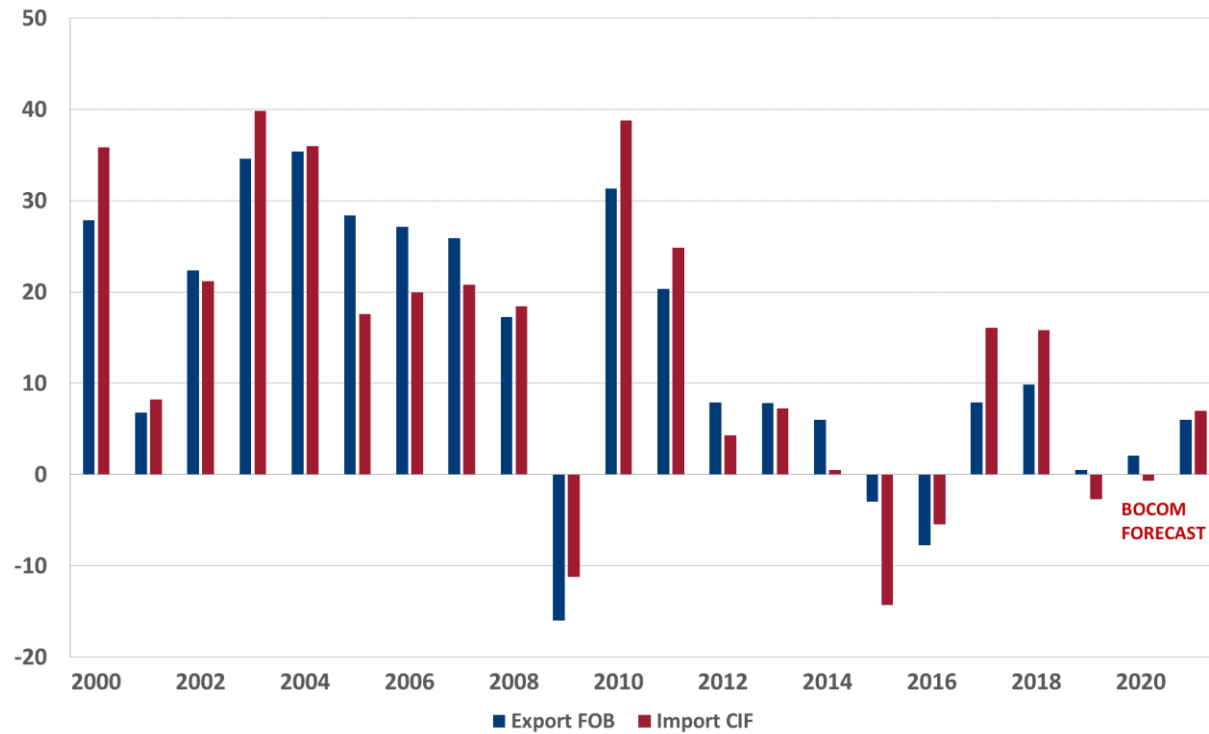
» Chinese economy recovers fast, with services gaining pace over the third quarter



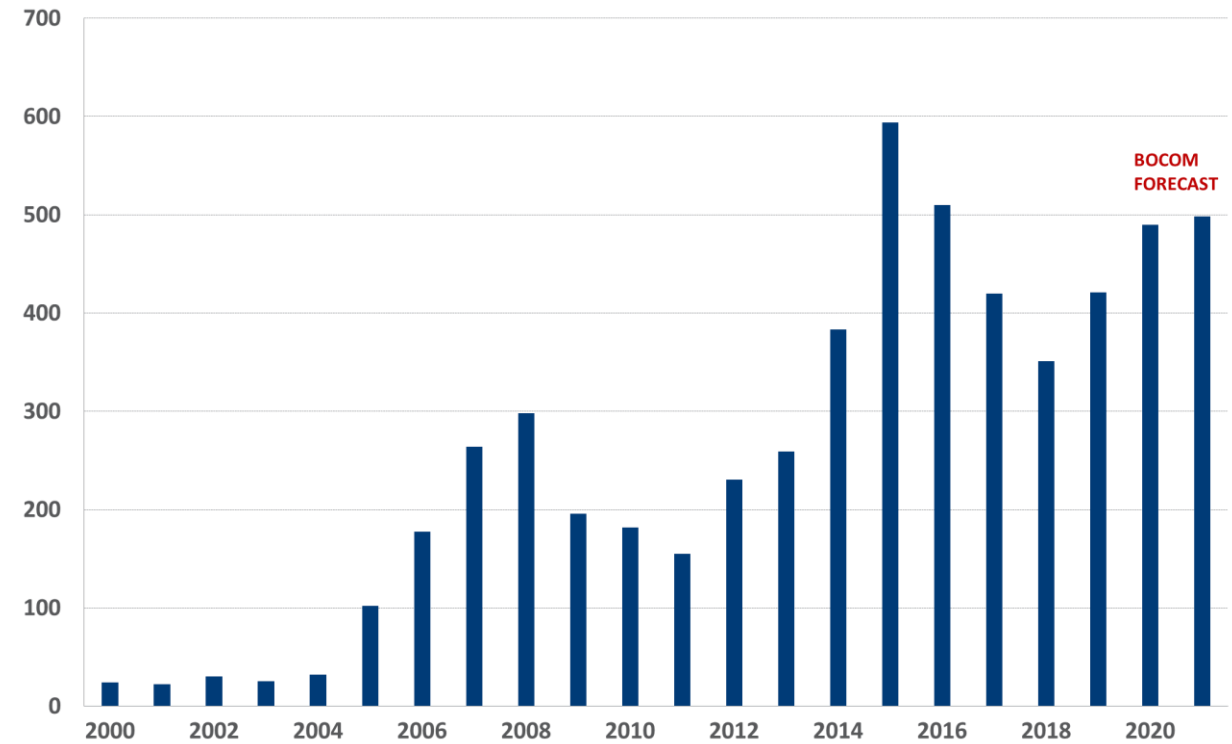
# China: Trade

» Imports will accelerate, but trade balance will remain elevated

China - Foreign Trade ( % YoY )

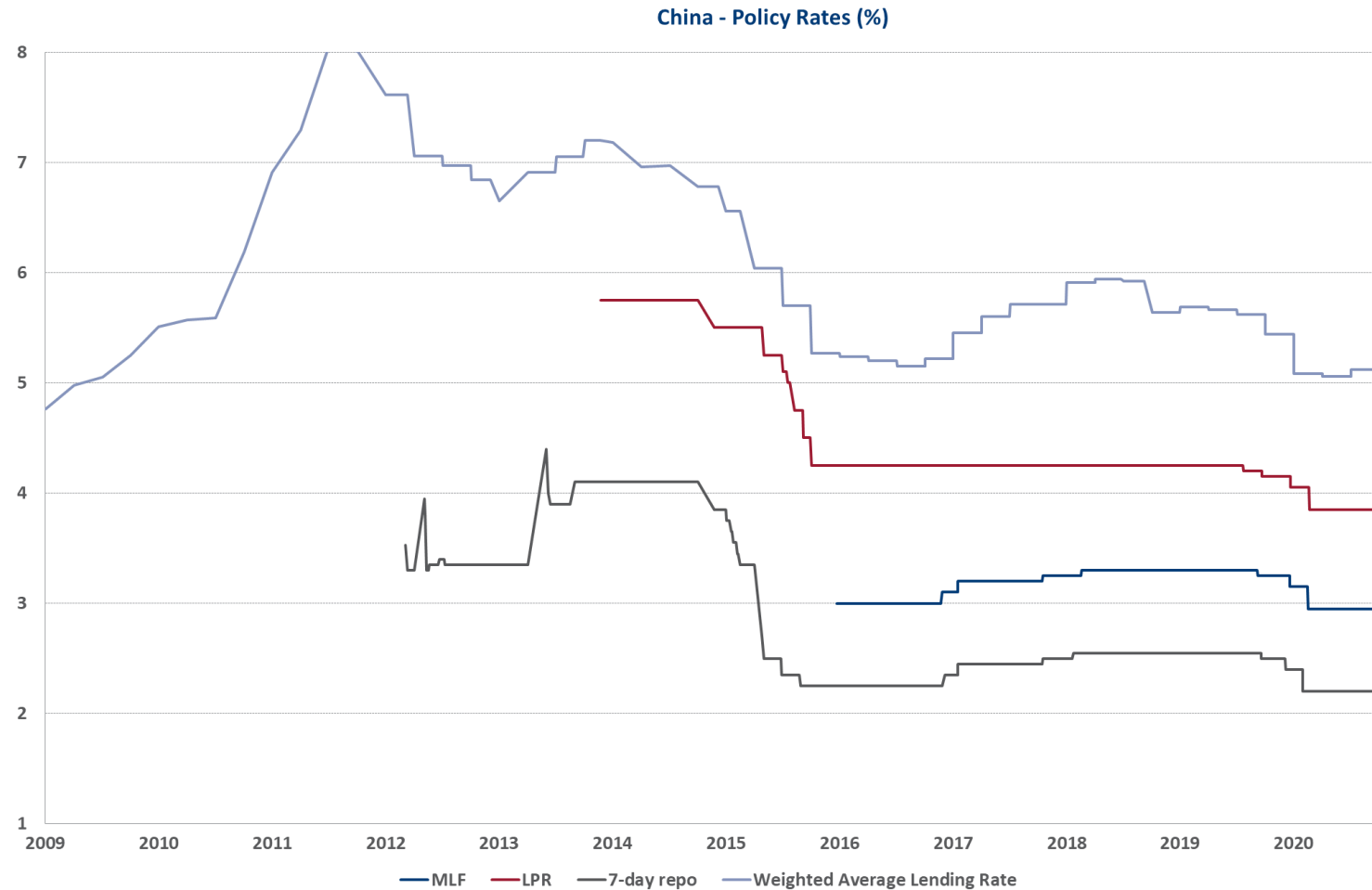


China - Trade Balance (USD bn)



# China: Monetary Policy

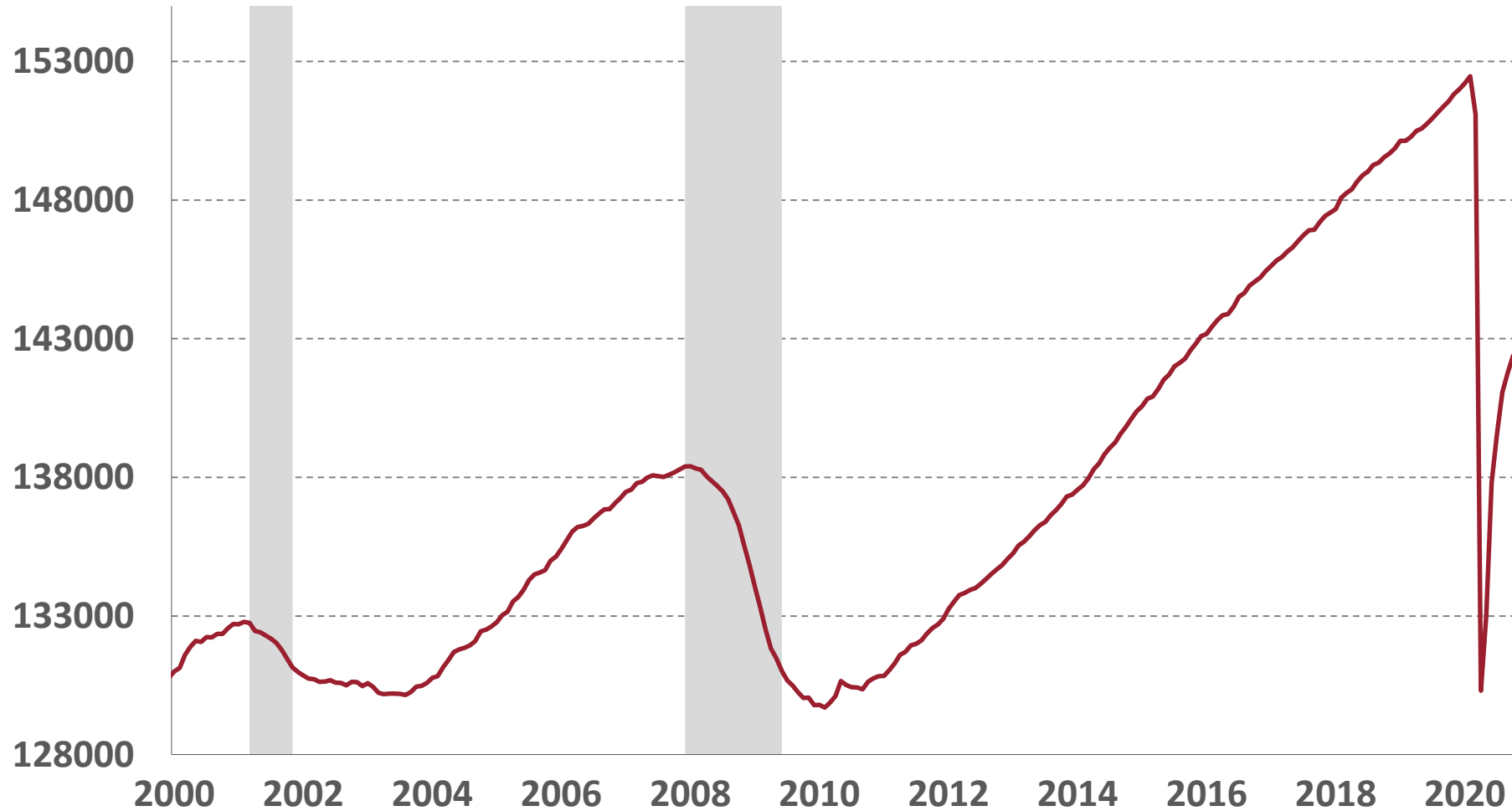
» Monetary policy will remain “prudent, precise and flexible” in the coming year; no rate hikes in sight



# US: Labor Market

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

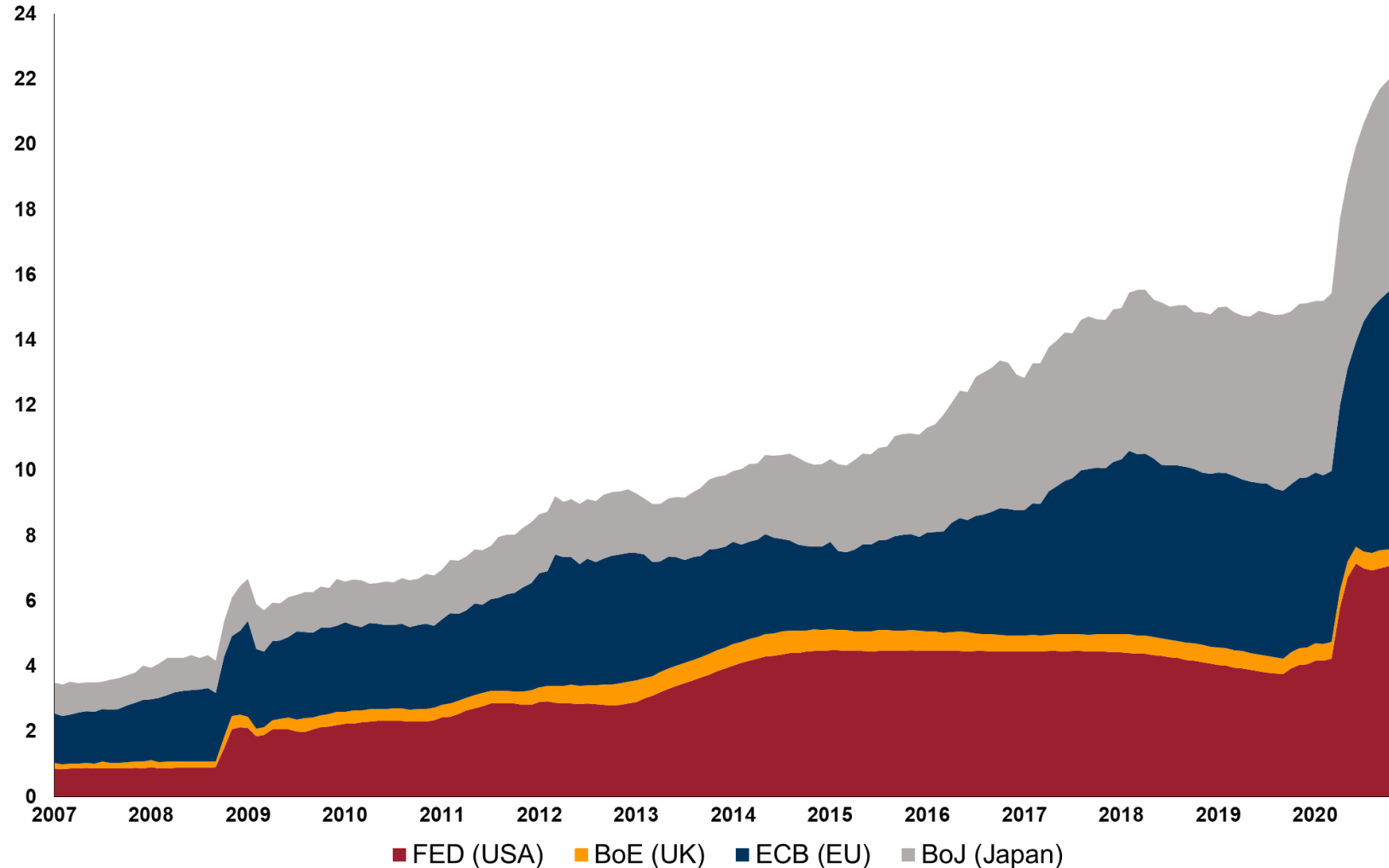
US -Total Nonfarm Payroll (Thousands)



# Global: Monetary Expansion

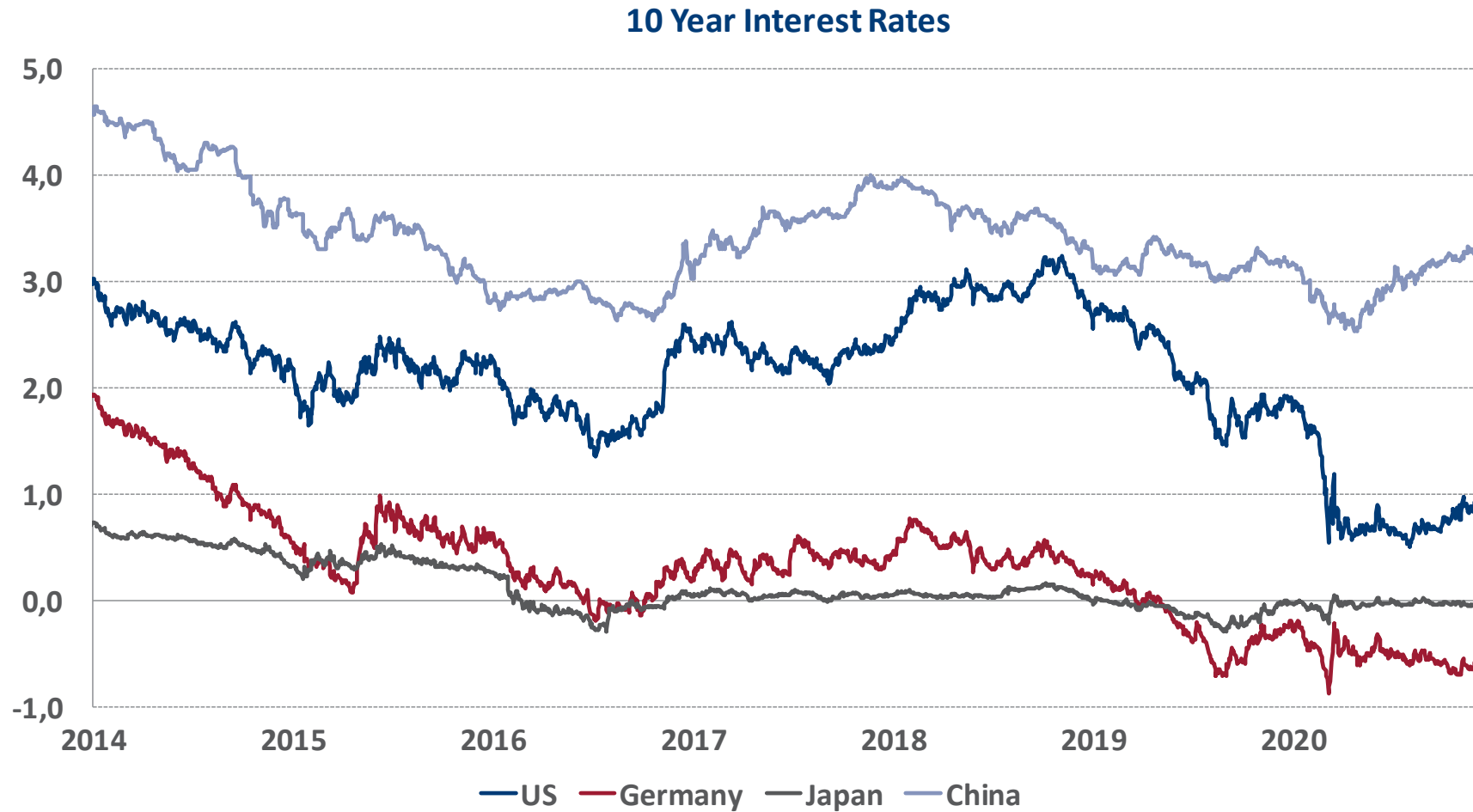
» Balance of G10 Central Banks will continue expansion in 2021, sustaining the global elevated liquidity environment

Central Bank Balance Sheet (US\$ trillion)



# Global Interest Rates

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



# Global: Negative Interest Rates

» Driving the volume of negative yielding sovereign debt to new highs



# Global Interest Rates

» Latin America stands out with historically low rates

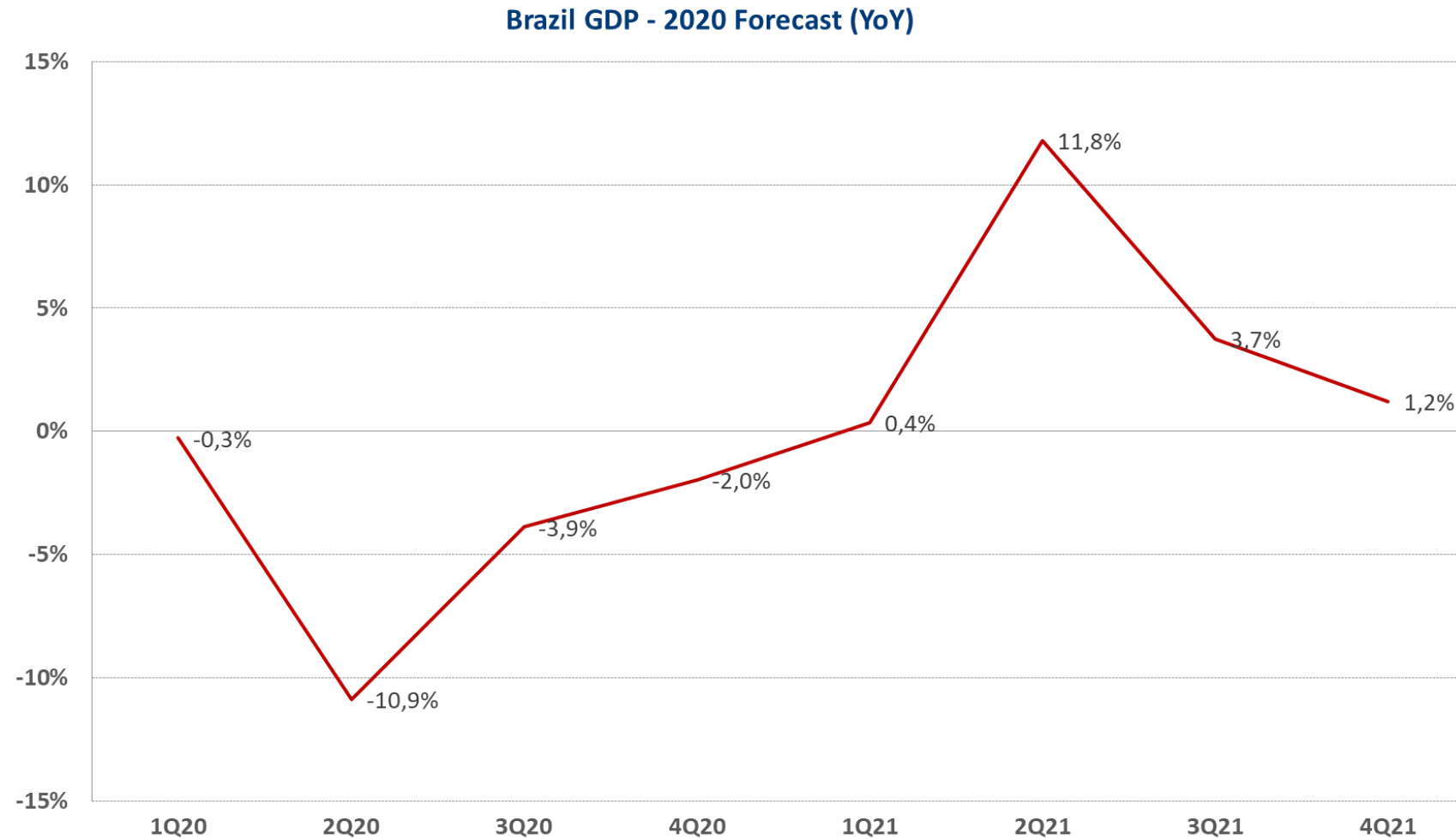
Country	Rate in Jan/2020	Curent Rate	Last move
Turkey	11.25	17.00	Increase
China (loan prime 5y)	4.80	4.65	Pause
Mexico	7.25	4.25	Pause
Russia	6.25	4.25	Pause
India	5.15	4.00	Pause
Indonesia	5.00	3.75	Pause
China (loan prime 1y)	4.15	3.85	Pause
South Africa	6.25	3.50	Pause
Philippines	4.00	2.00	Pause
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	2016	2017	2018	2019	2020F	2021F
GDP Growth (%)	-3,3%	1,3%	1,3%	1,1%	-4,4%	3,6%
Inflation (%)	6,3%	2,9%	3,7%	4,3%	4,4%	3,3%
Unemployment Rate, SA (eoy ,%)	12,6%	12,4%	12,2%	11,7%	14,5%	13,6%
Policy Rate (eoy, %)	13,8%	7,0%	6,5%	4,5%	2,0%	3,5%
External Accounts						
Trade Balance (US\$ bn)	48	67	53	48	51	58
Current Account Balance (US\$ bn)	-23	-10	-42	-51	4	1
Current Account Balance (% of GDP)	-1,3%	-0,7%	-2,2%	-2,8%	0,4%	0,1%
Fiscal Policy						
Fiscal Primary Balance (% of GDP)	-2,5%	-1,7%	-1,7%	-1,2%	-11,3%	-2,8%
Government Gross Debt (% of GDP)	69,4%	73,7%	75,3%	74,3%	90,0%	90,0%

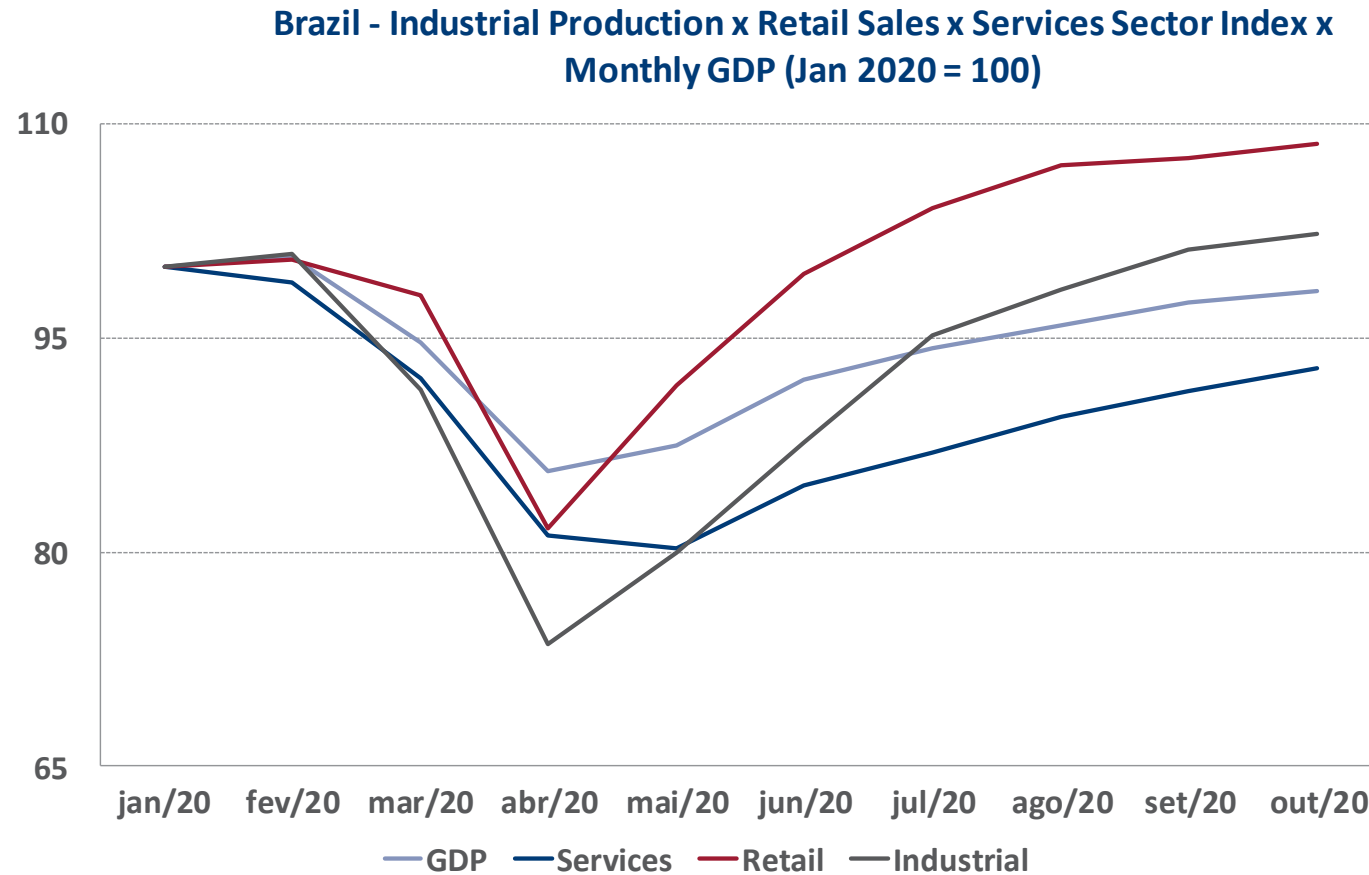
# Brazil: GDP

» Activity valleyed in Q2



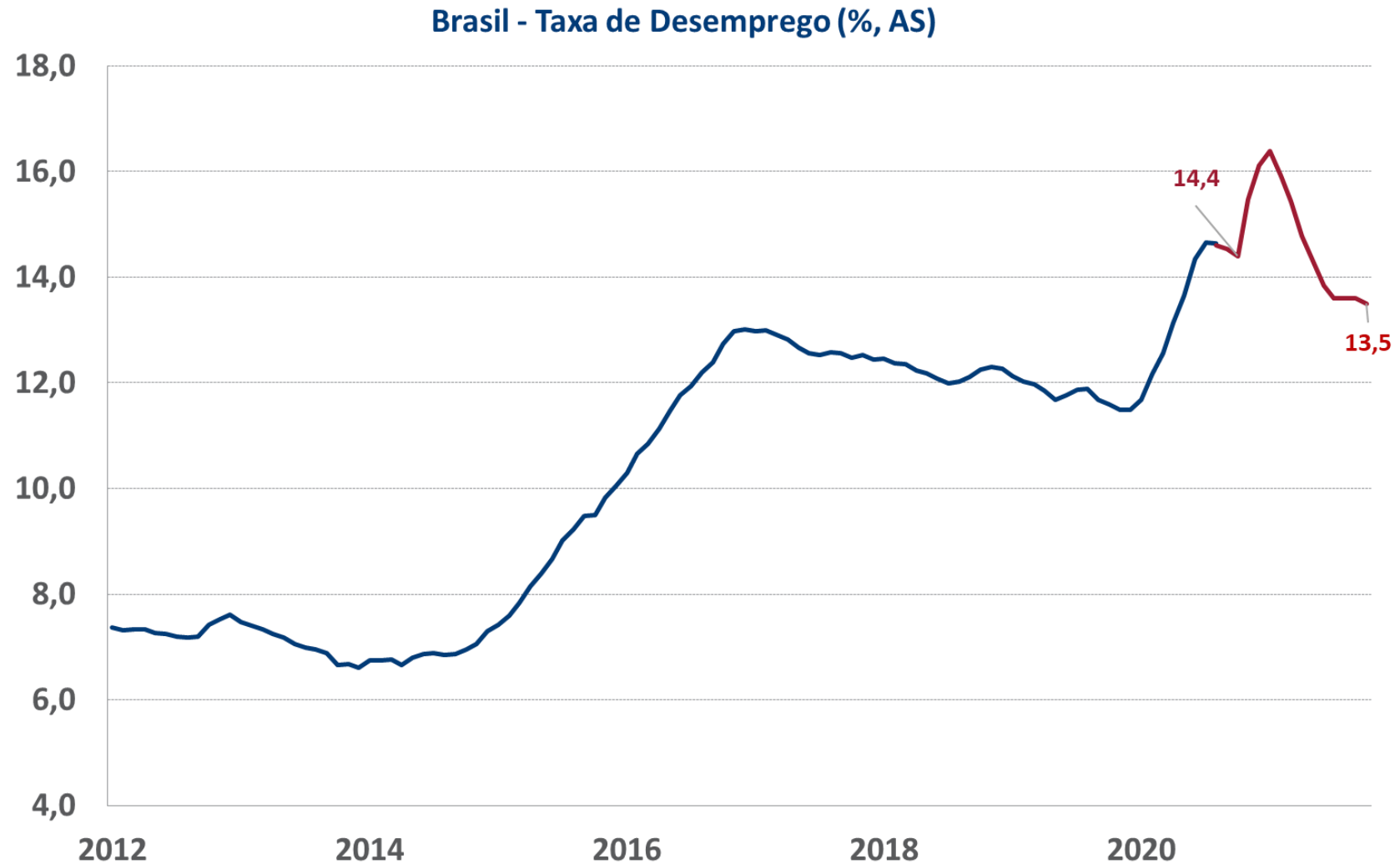
# Brazil: Activity

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



# Brazil: Labor Market

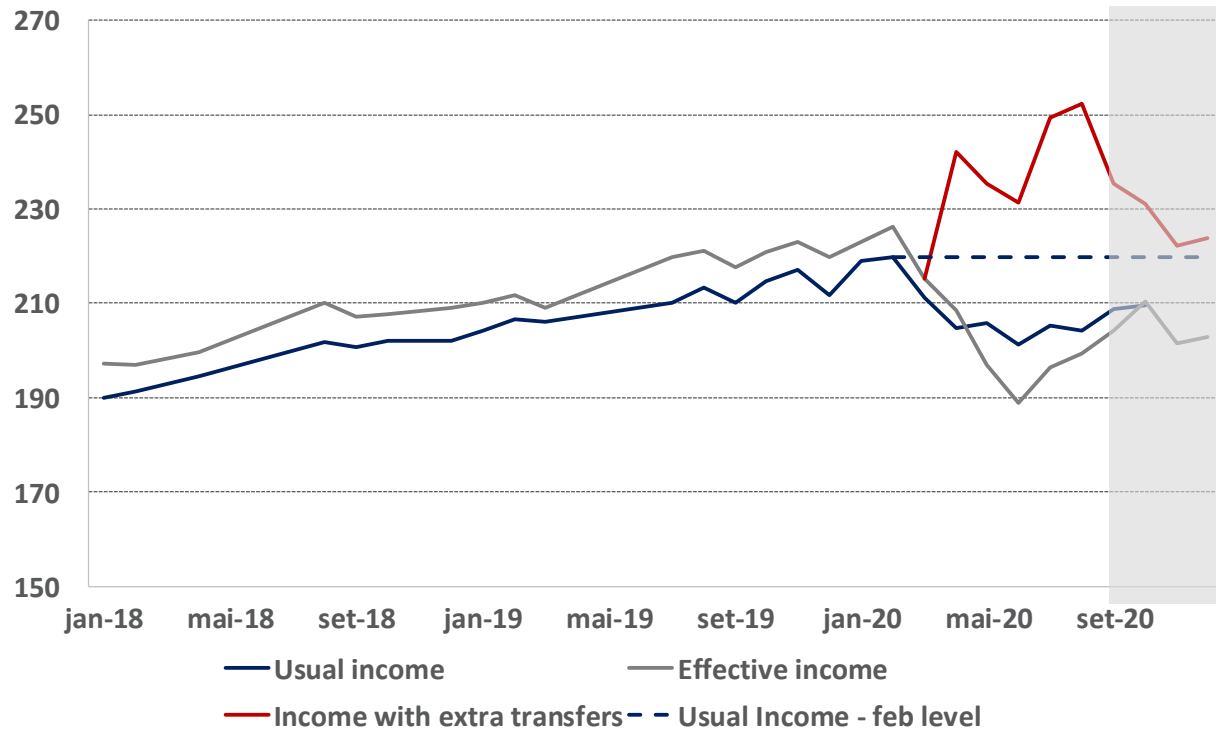
- » Unemployment rate should increase over the next months as more people look for jobs, but will decrease throughout 2021



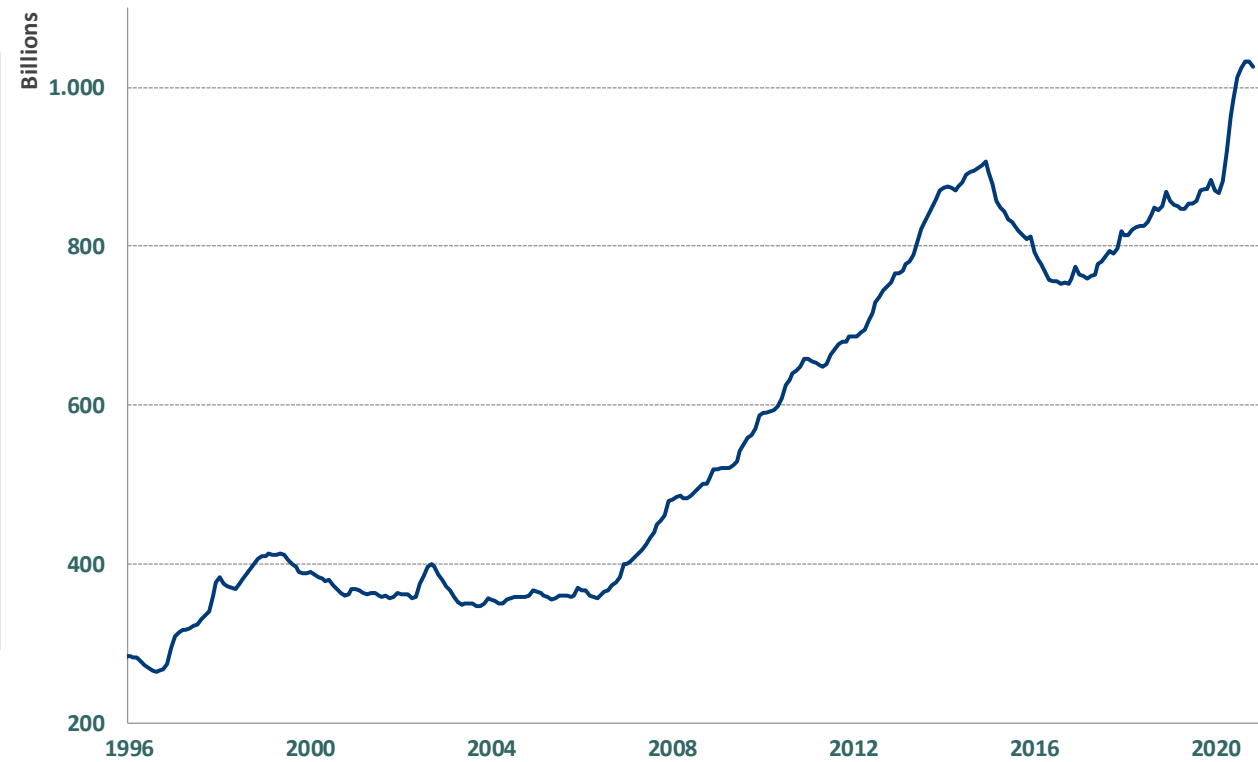
# Brazil: Job Market

» 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



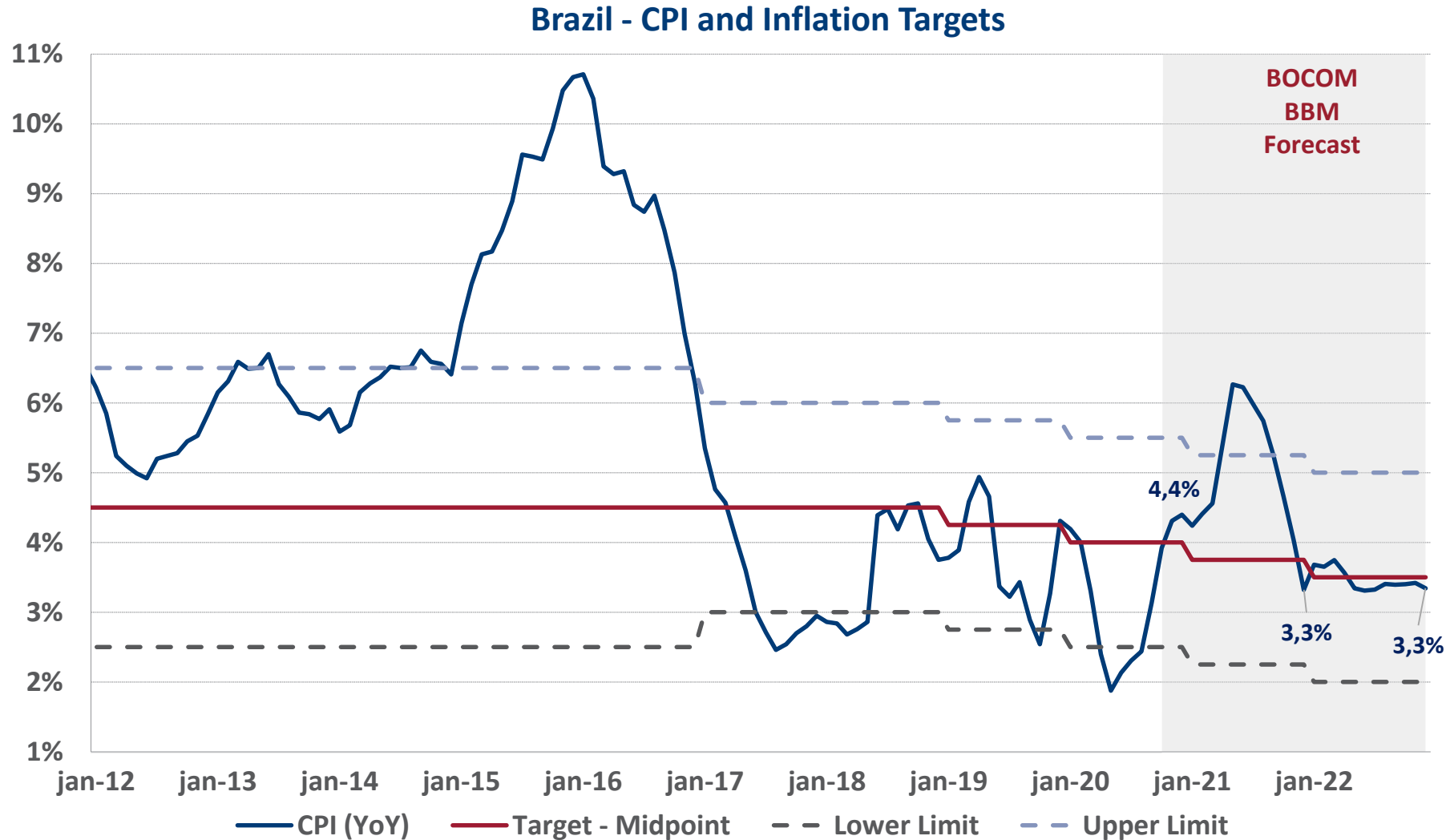
# Brazil: Inflation

- » Base effect will lead to sharp decrease on 12-month inflation in second half of the year
- » 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
<b>19 Q4</b>	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%	2.6%	2.8%	2.1%	9.0%	0.2%
20 Q3	3.1%	2.1%	3.8%	1.1%	15.4%	1.3%
<b>20 Q4</b>	4.4%	2.7%	5.3%	1.6%	18.2%	2.7%
21 Q1	4.6%	2.4%	5.6%	2.1%	17.4%	3.4%
21 Q2	6.2%	7.7%	5.9%	3.2%	14.9%	4.2%
21 Q3	5.3%	6.4%	4.9%	4.3%	9.6%	2.9%
<b>21 Q4</b>	3.3%	4.8%	2.8%	3.5%	3.4%	1.3%
22 Q1	3.7%	6.0%	3.0%	3.7%	4.4%	1.0%
22 Q2	3.3%	4.1%	3.1%	3.7%	4.6%	1.0%
22 Q3	3.4%	4.1%	3.2%	3.7%	4.7%	1.2%
<b>22 Q4</b>	3.3%	3.5%	3.3%	3.9%	4.9%	1.3%

# Brazil: Inflation

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

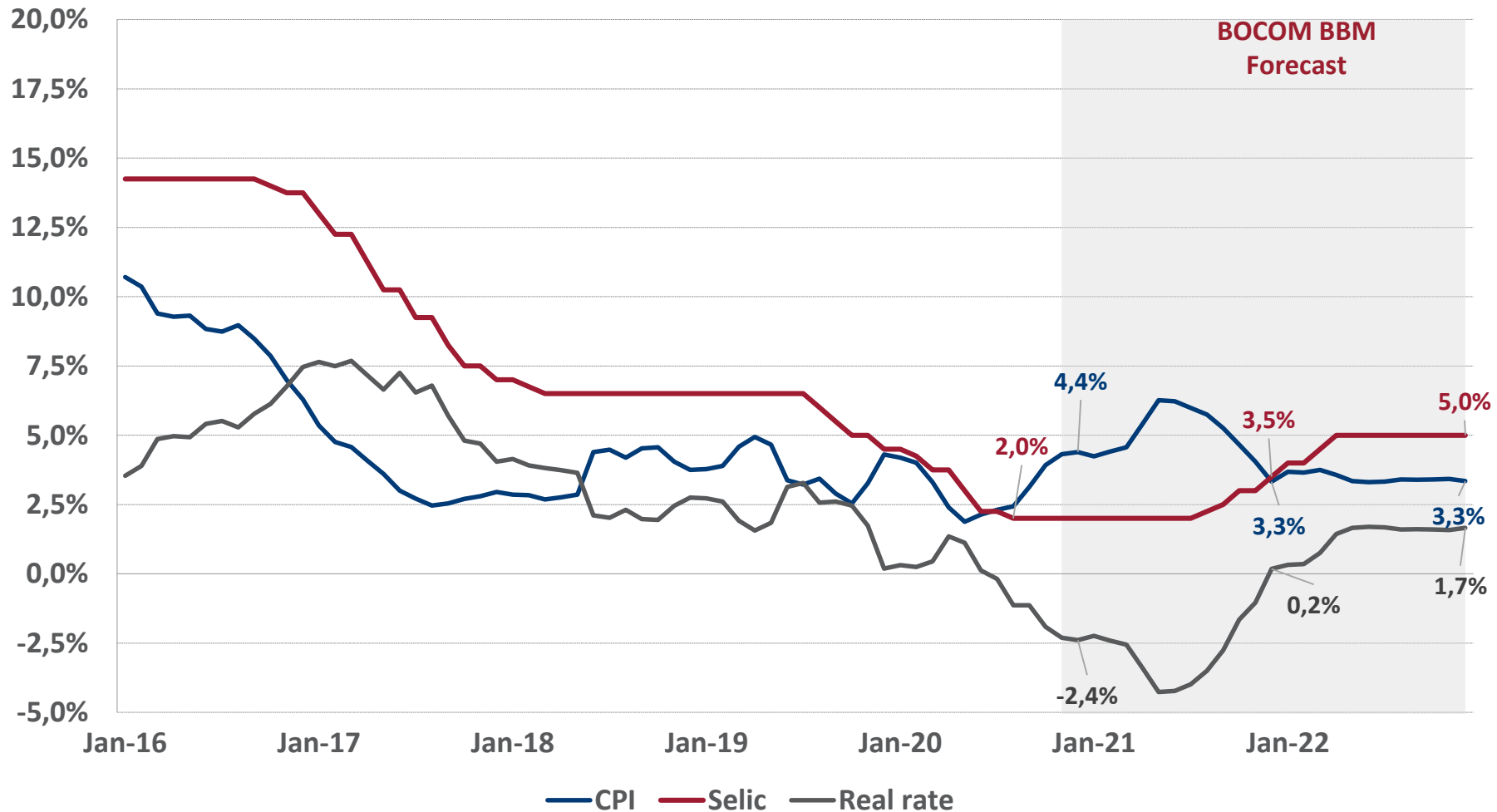


- » Notwithstanding the benign inflationary path around the target, we see several upside risks in a situation where downside pressures have already been incorporated in the forecasts:
  1. Further foreign exchange passthrough to industrial goods
  2. Faster recovery of the service sector and consequently of the labor market
  3. Additional pressure from commodities
  4. Additional pressure from regulated prices
- » However, a cycle of foreign exchange rate appreciation could mitigate these pressures

# BRAZIL: MONETARY POLICY

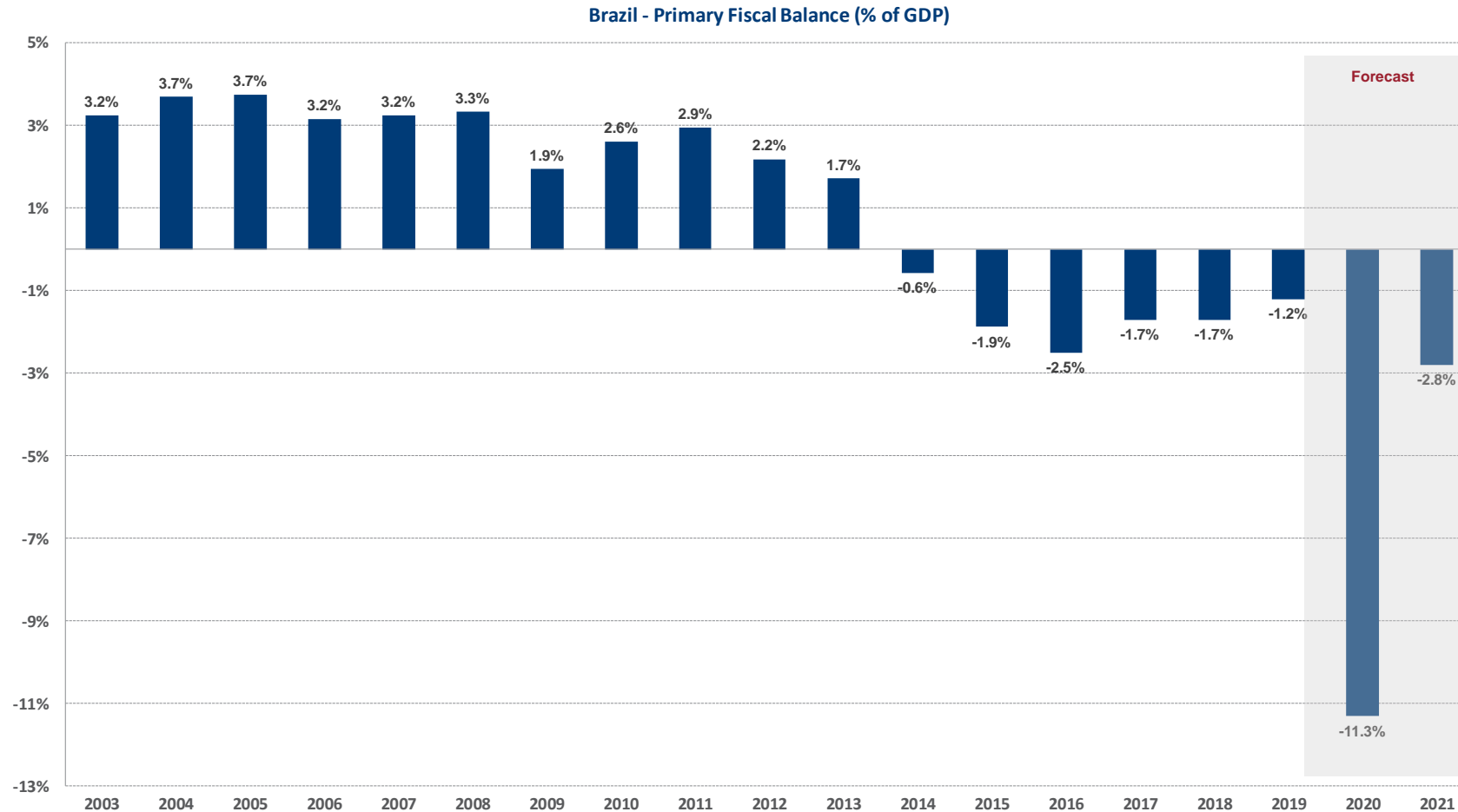
» Inflation around the target will trigger a normalization of monetary policy in August

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

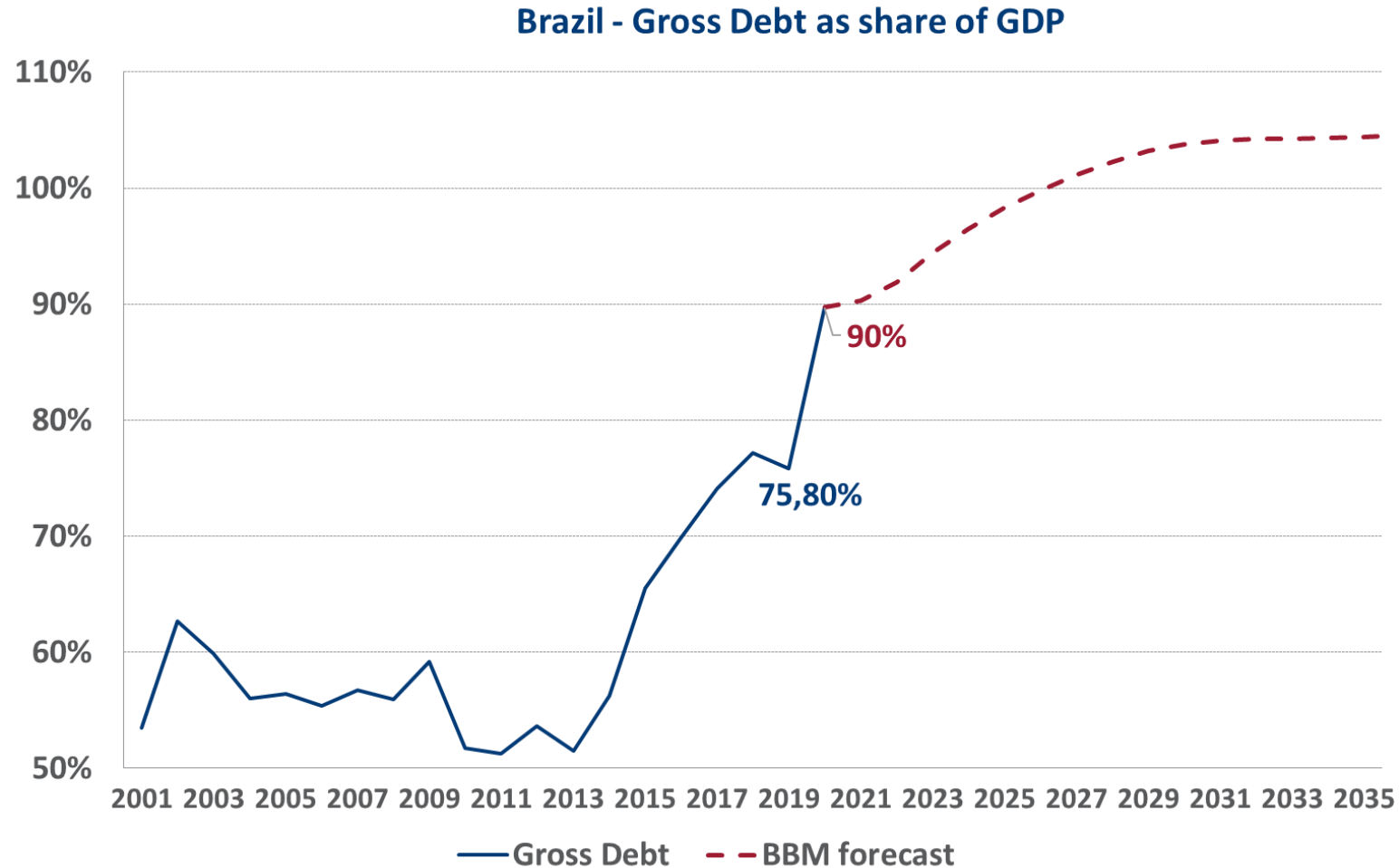


# Brazil: Fiscal

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

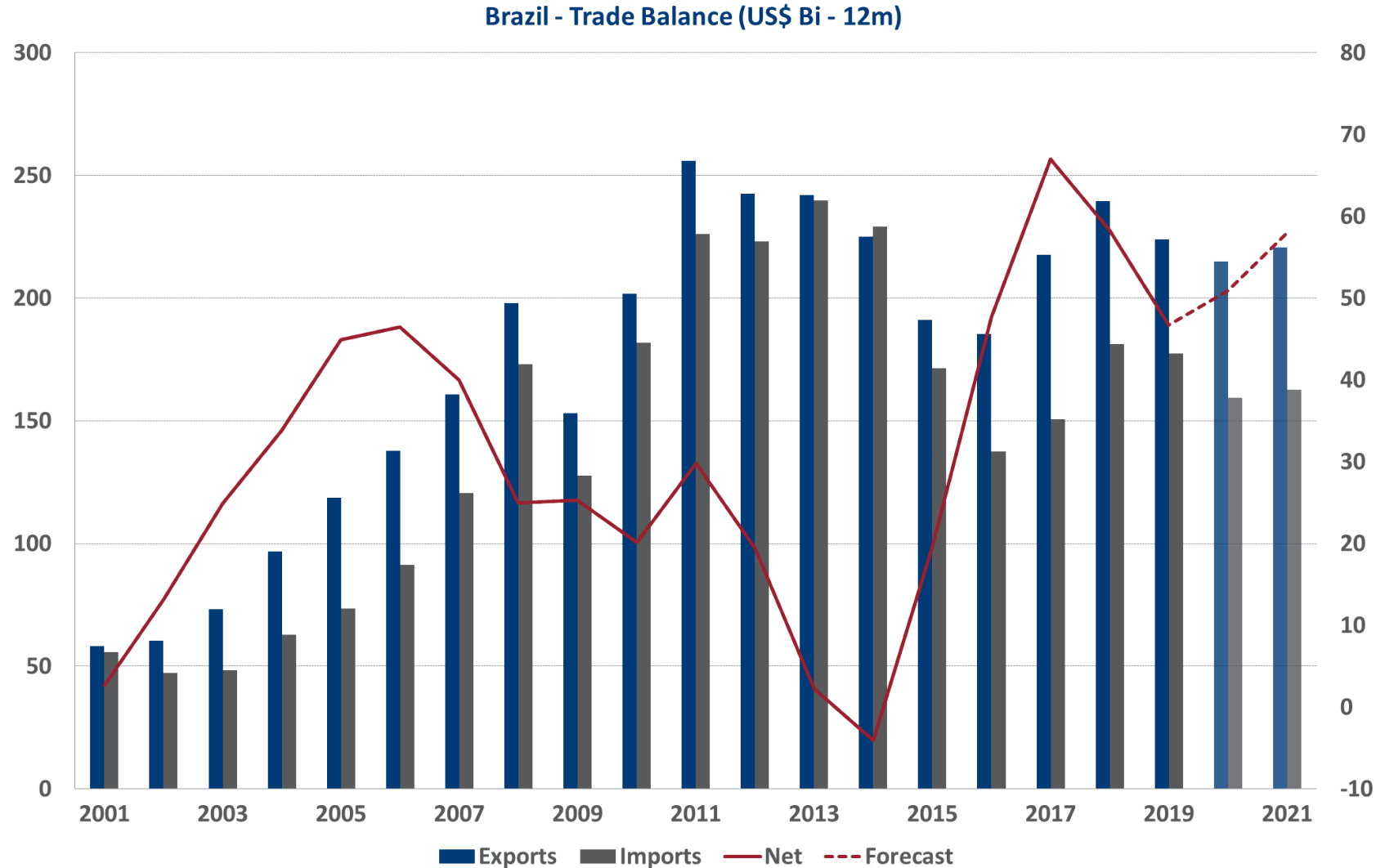


- » Fiscal measures to mitigate economic fallout will result in a sharp rise in the Debt/GDP ratio
- » Important to keep the fiscal deterioration contained to 2020 and adhere to the spending ceiling in 2021



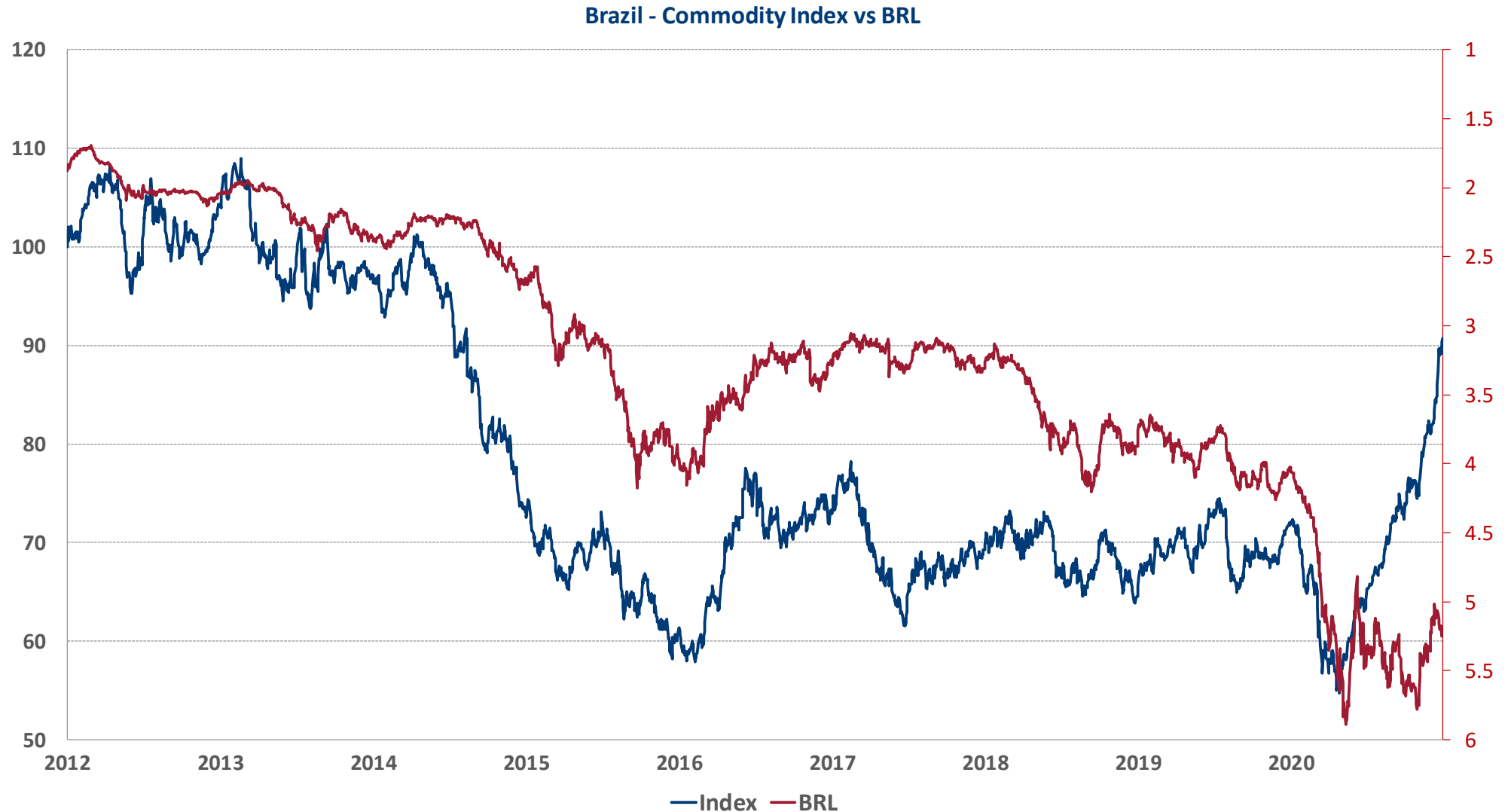
# Brazil: Trade Balance

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



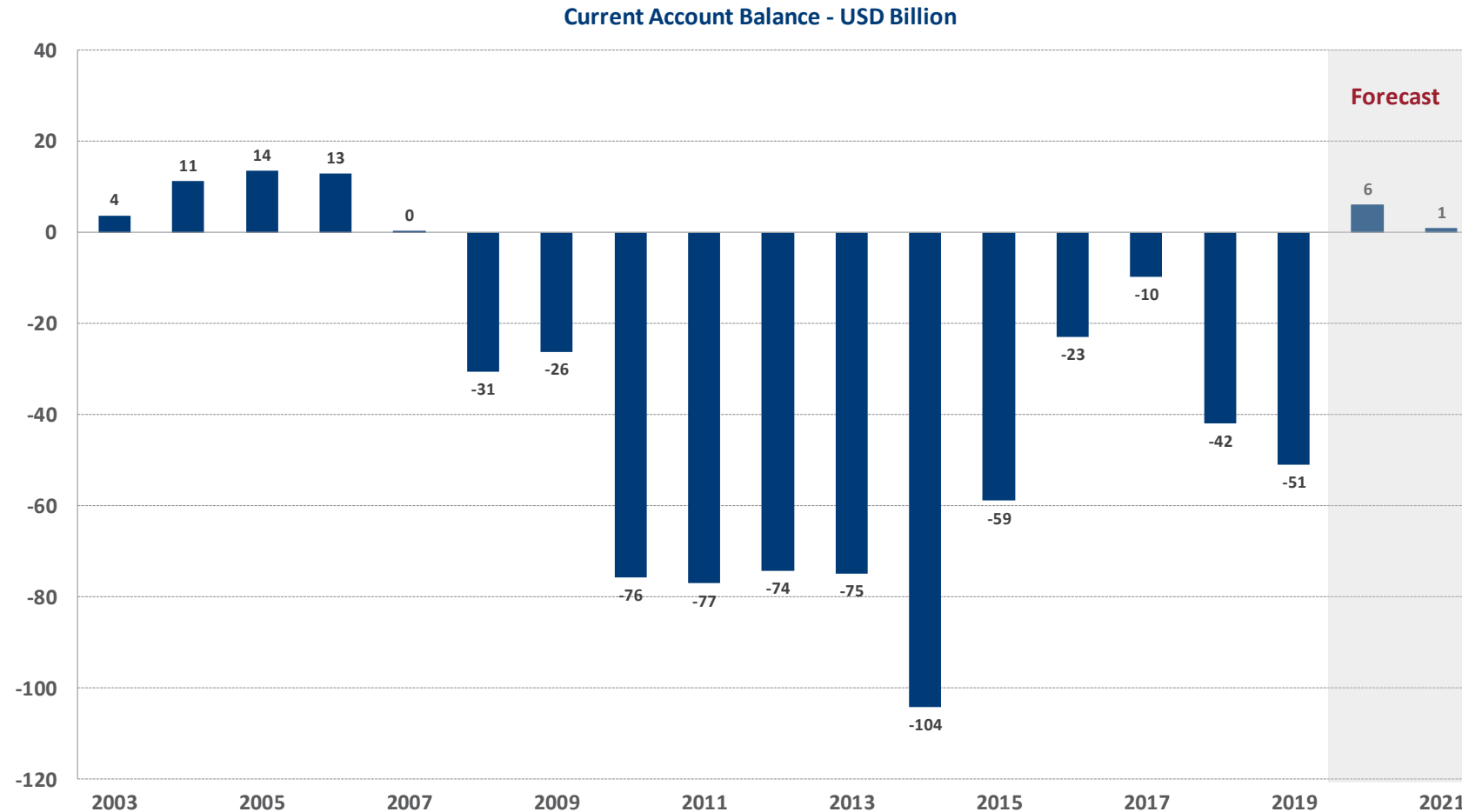
# Brazil: Trade Balance

»» 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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