



MACRO OUTLOOK

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Chief-Economist

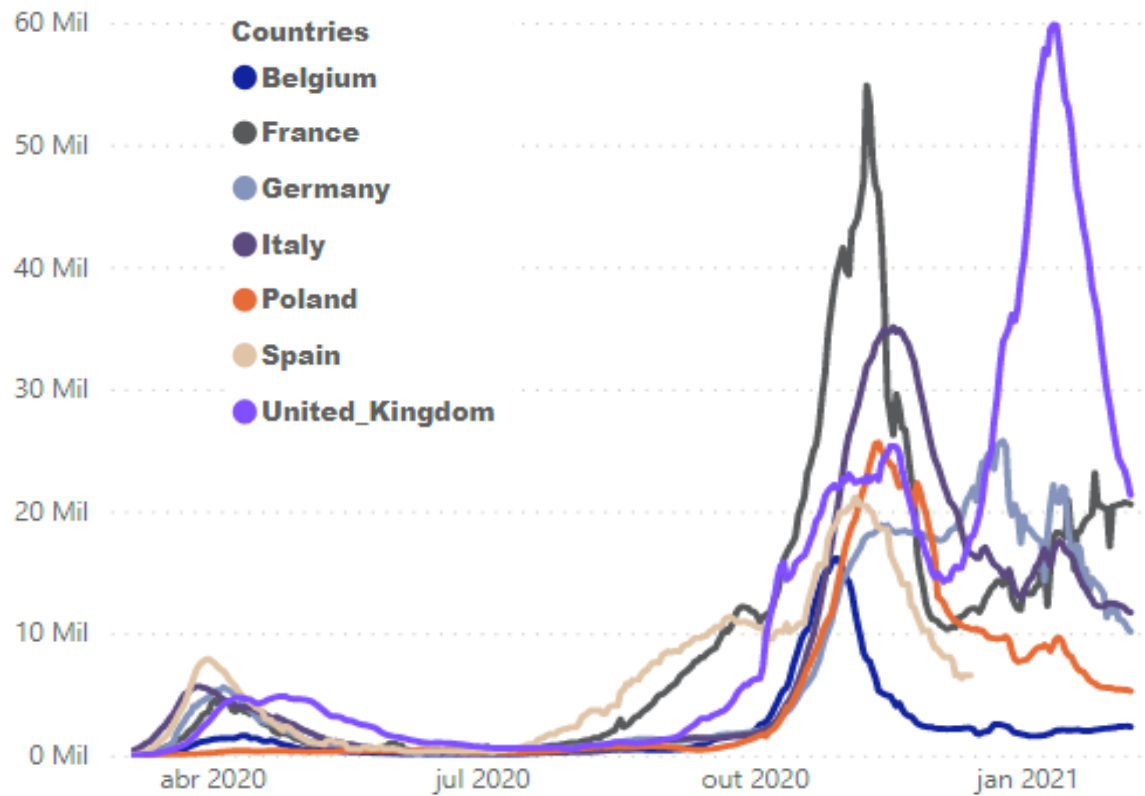
February 2021

- »» Covid-19 vaccination campaigns advance 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 3,7% forecast in 2021
- »» Our Selic rate projection was revised to 4,0% in the end of the year with the cycle beginning in May
- »» External accounts improve substantially and are source of support for the currency

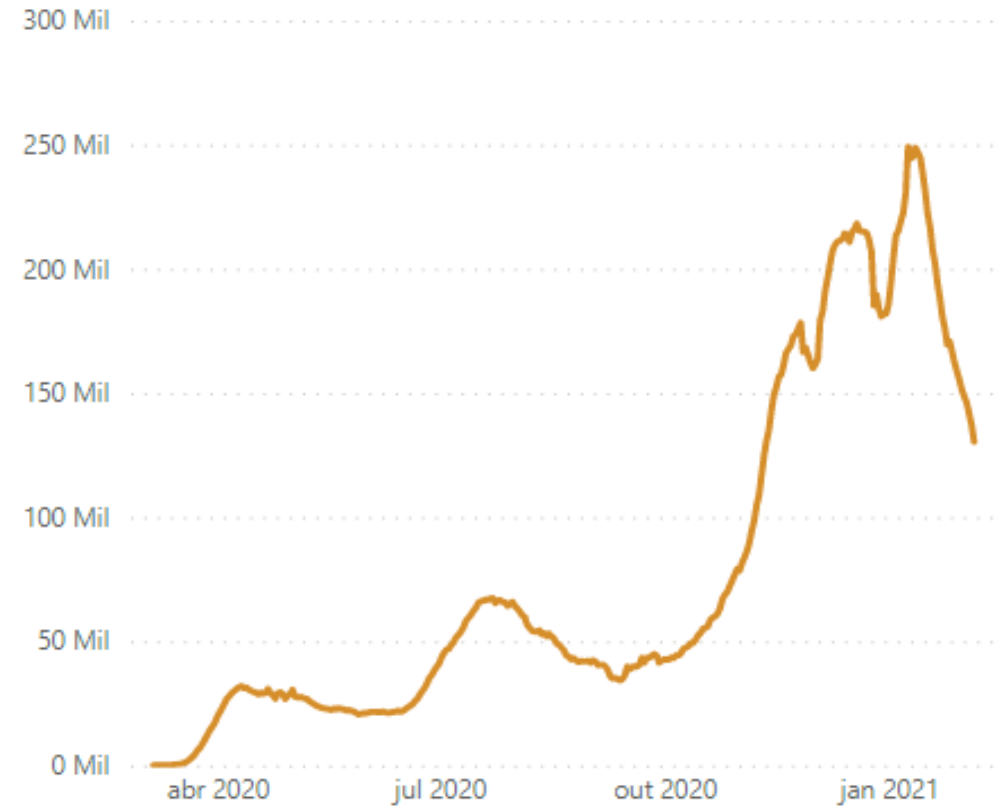
Covid-19

» Second wave recedes resonating restraining and vaccination measures

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



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

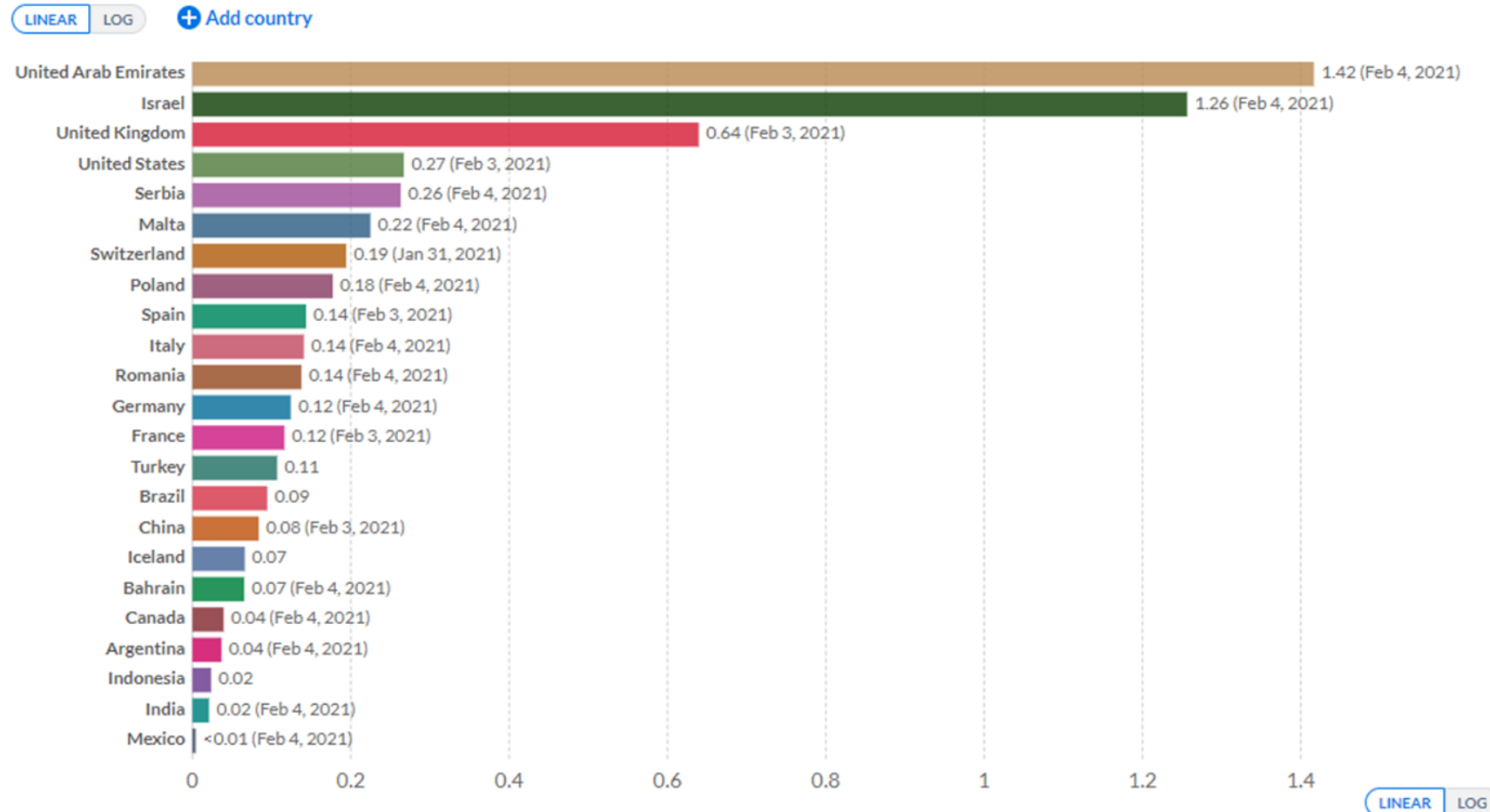


» USA and UK hospitalization data shows improvement as vaccination advances

Daily COVID-19 vaccine doses administered per 100 people, Feb 5, 2021

Shown is the rolling 7-day average per 100 people in the total population. This is counted as a single dose, and may not equal the total number of people vaccinated, depending on the specific dose regime (e.g. people receive multiple doses).

Our World
in Data



Source: Official data collated by Our World in Data - Last updated 5 February, 15:30 (London time)

OurWorldInData.org/coronavirus • CC BY

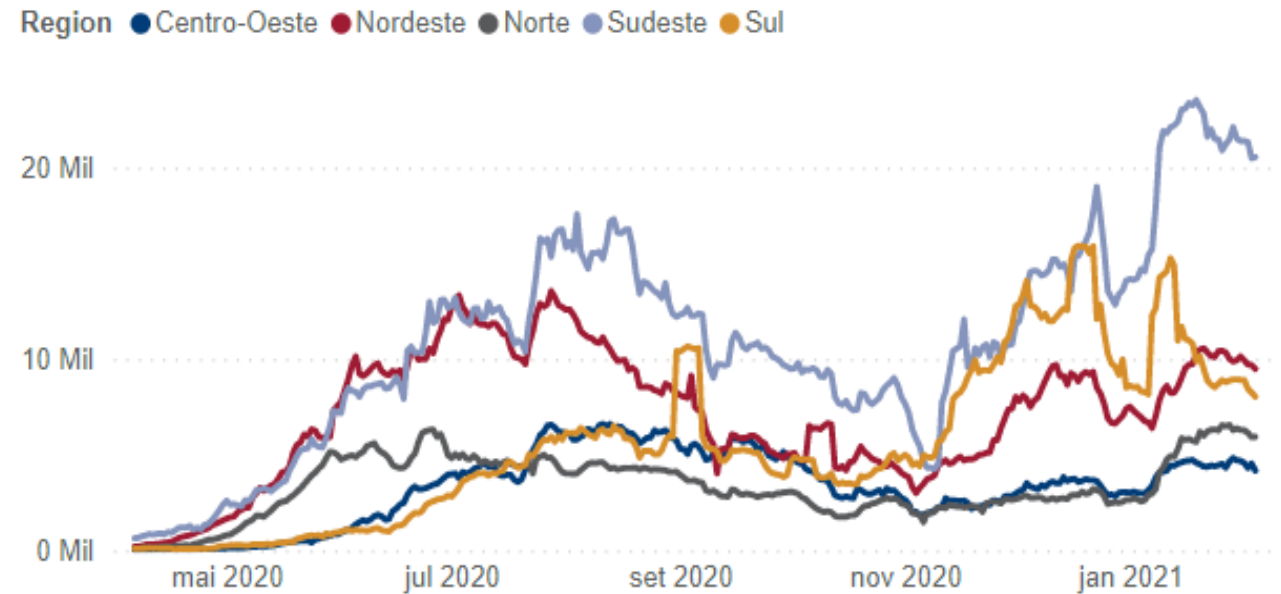
Covid-19

» Deaths and cases remain high in Brazil

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

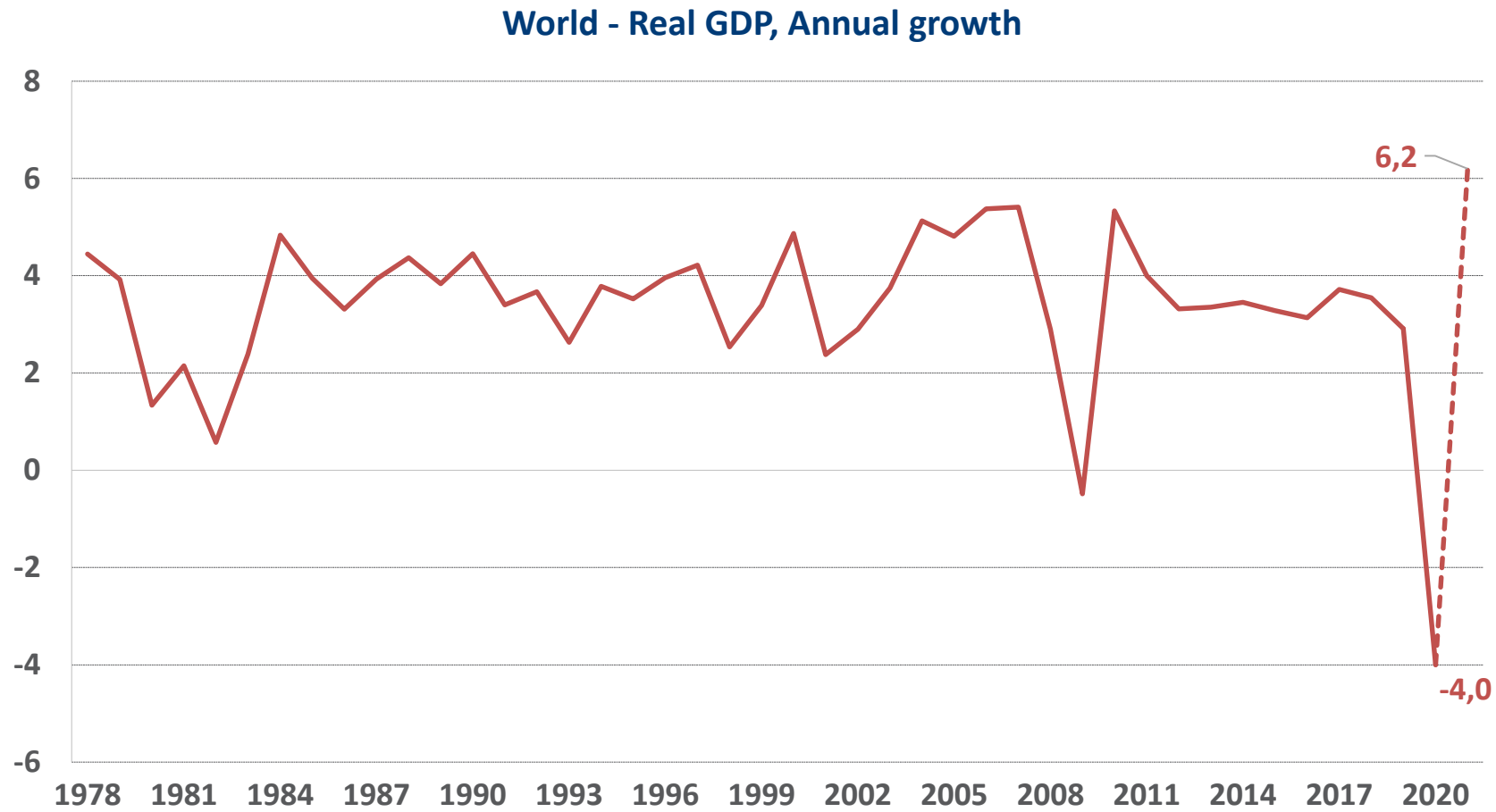


Brazil – Covid-19 Cases, 7-day moving average



Global: GDP Growth

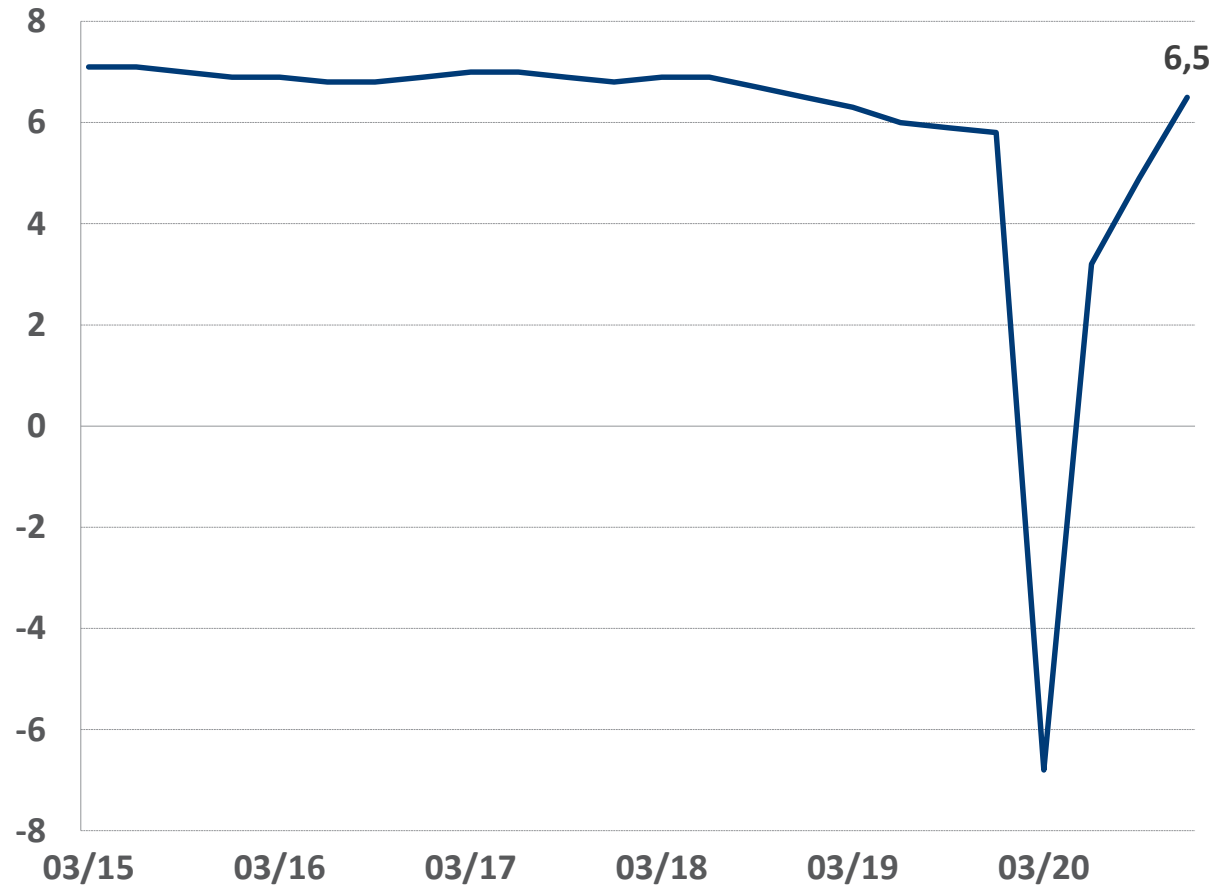
»» Global should post strong recovery in 2021



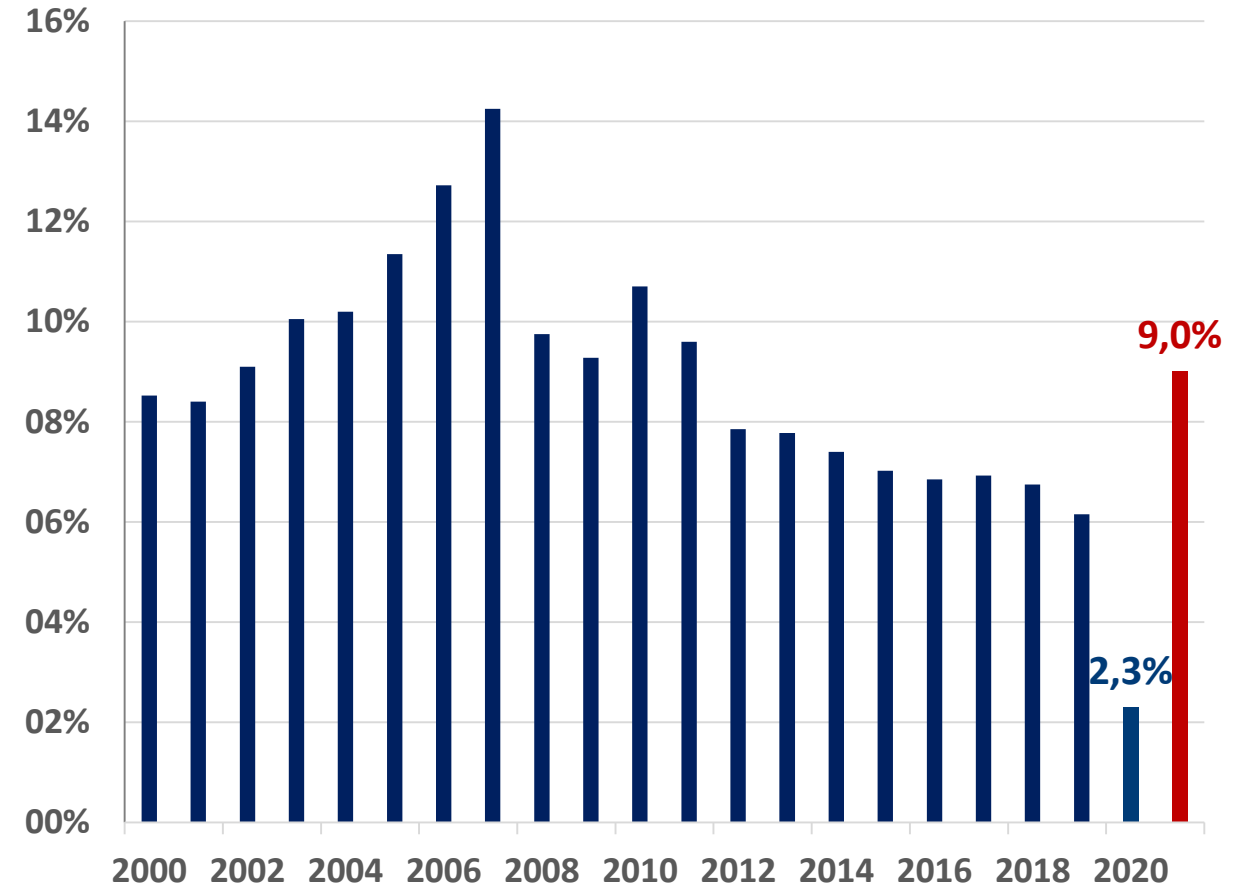
China: Activity

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

China - Real GDP Growth (% YoY)

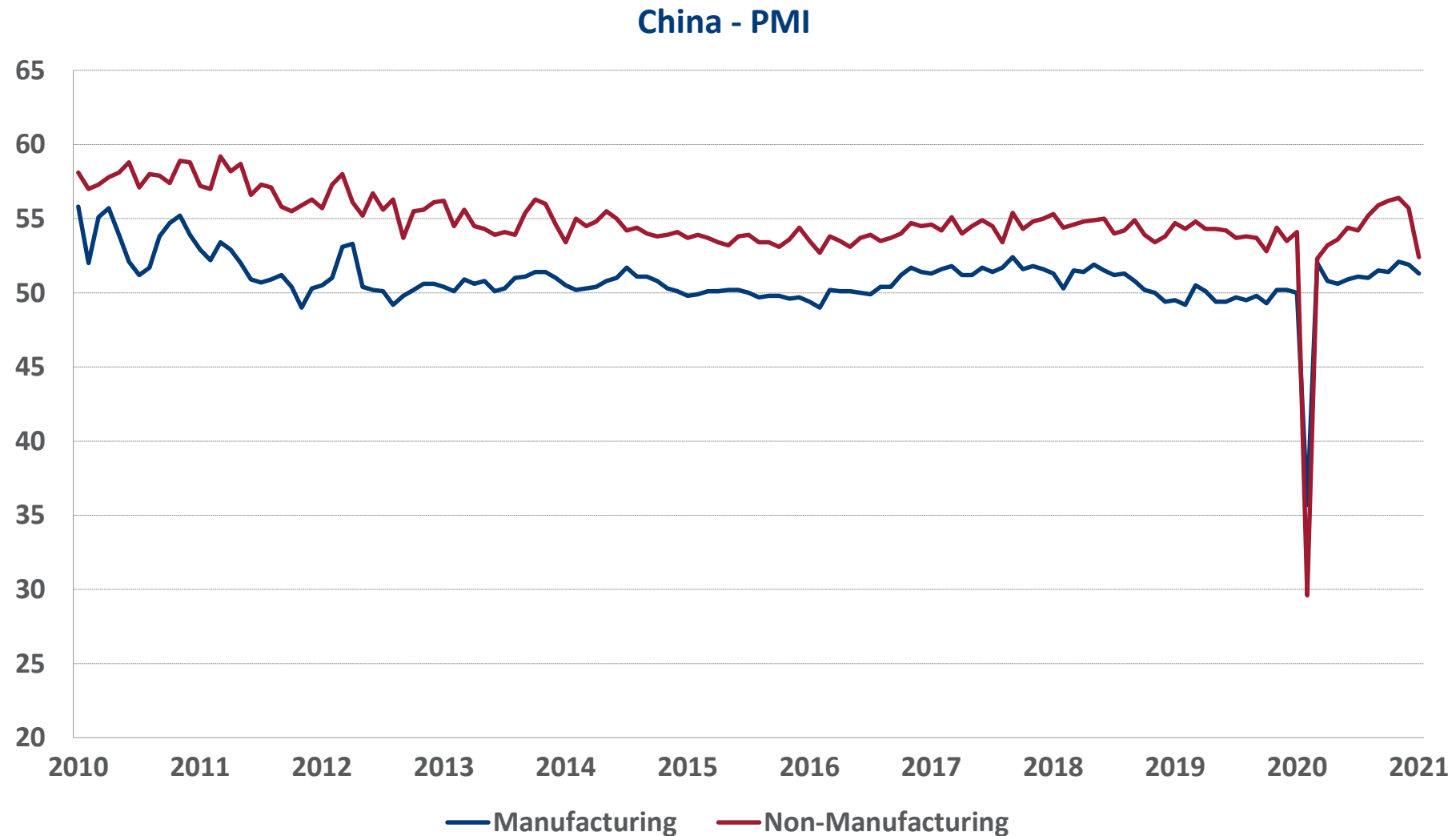


China - GDP, Yearly growth



China: PMI

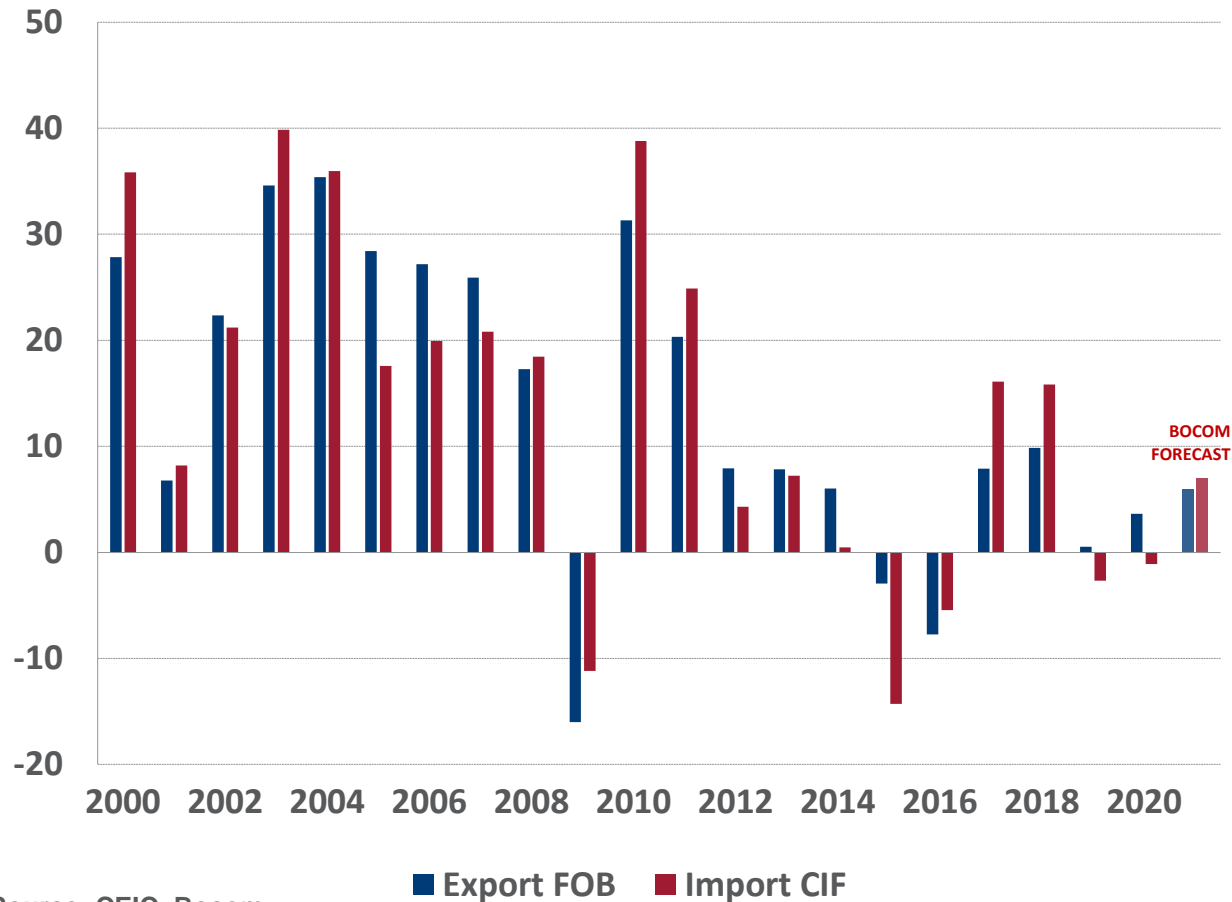
» But PMIs suggest a slowdown in the beginning of 2021



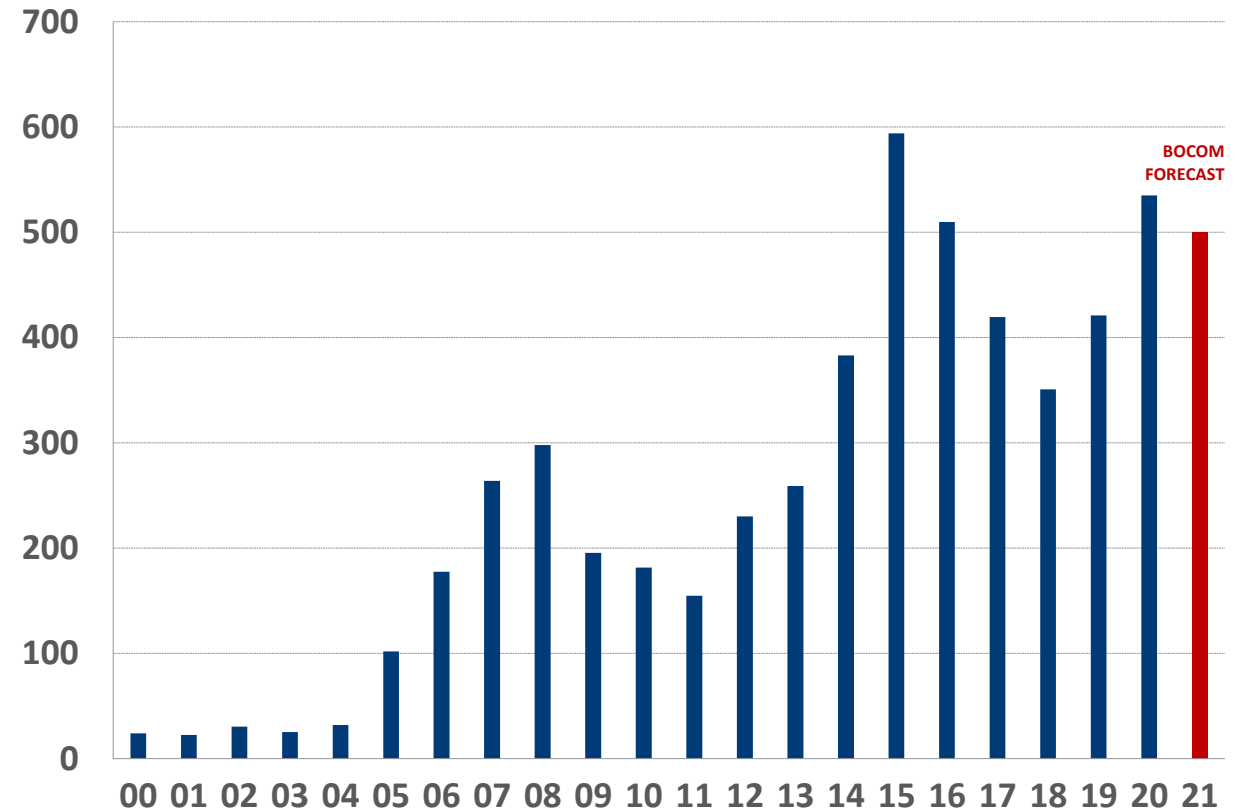
China: Trade

» Imports will accelerate, but trade balance will remain elevated

China - Foreign Trade (% YoY)

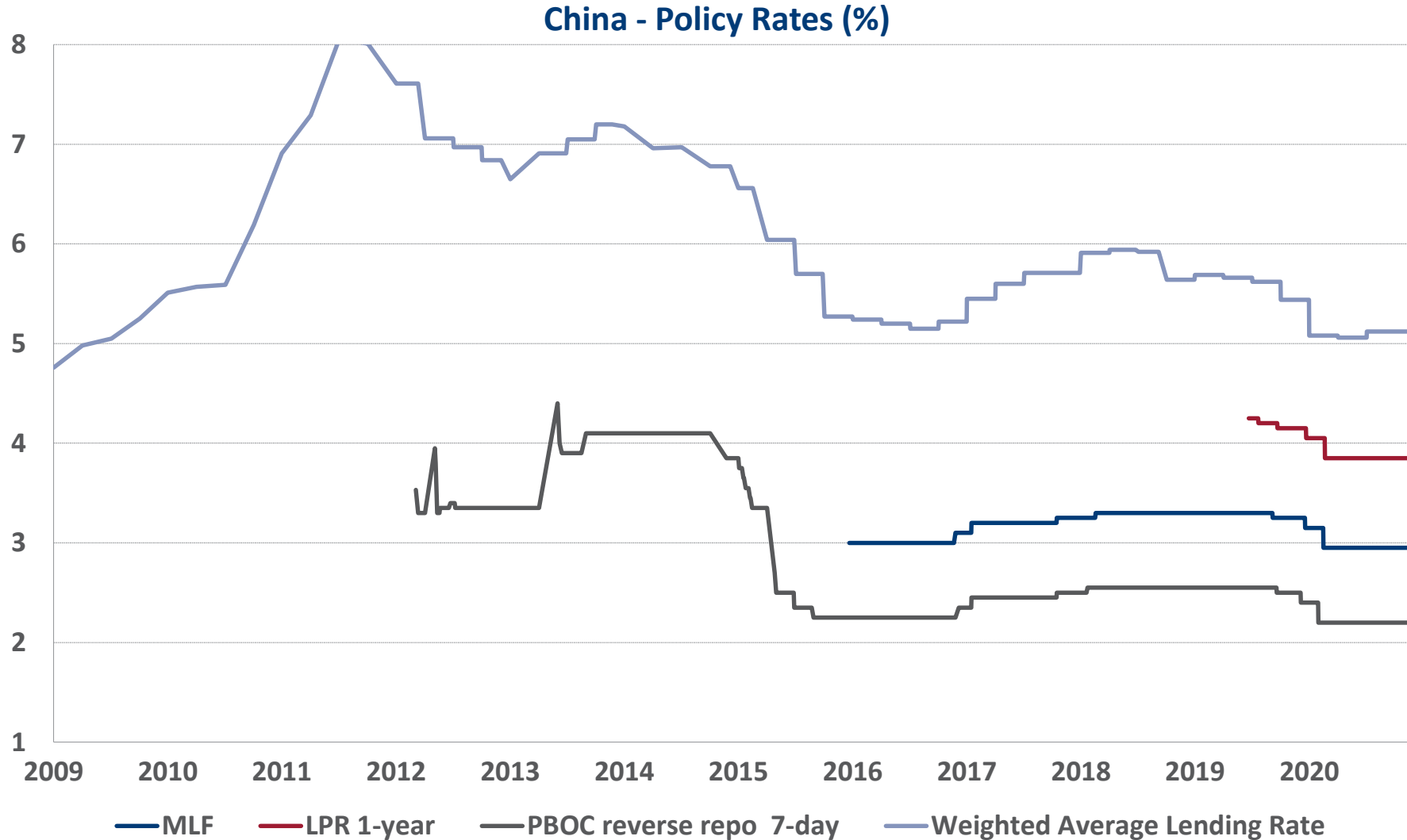


China - Trade Balance (USD Billions)



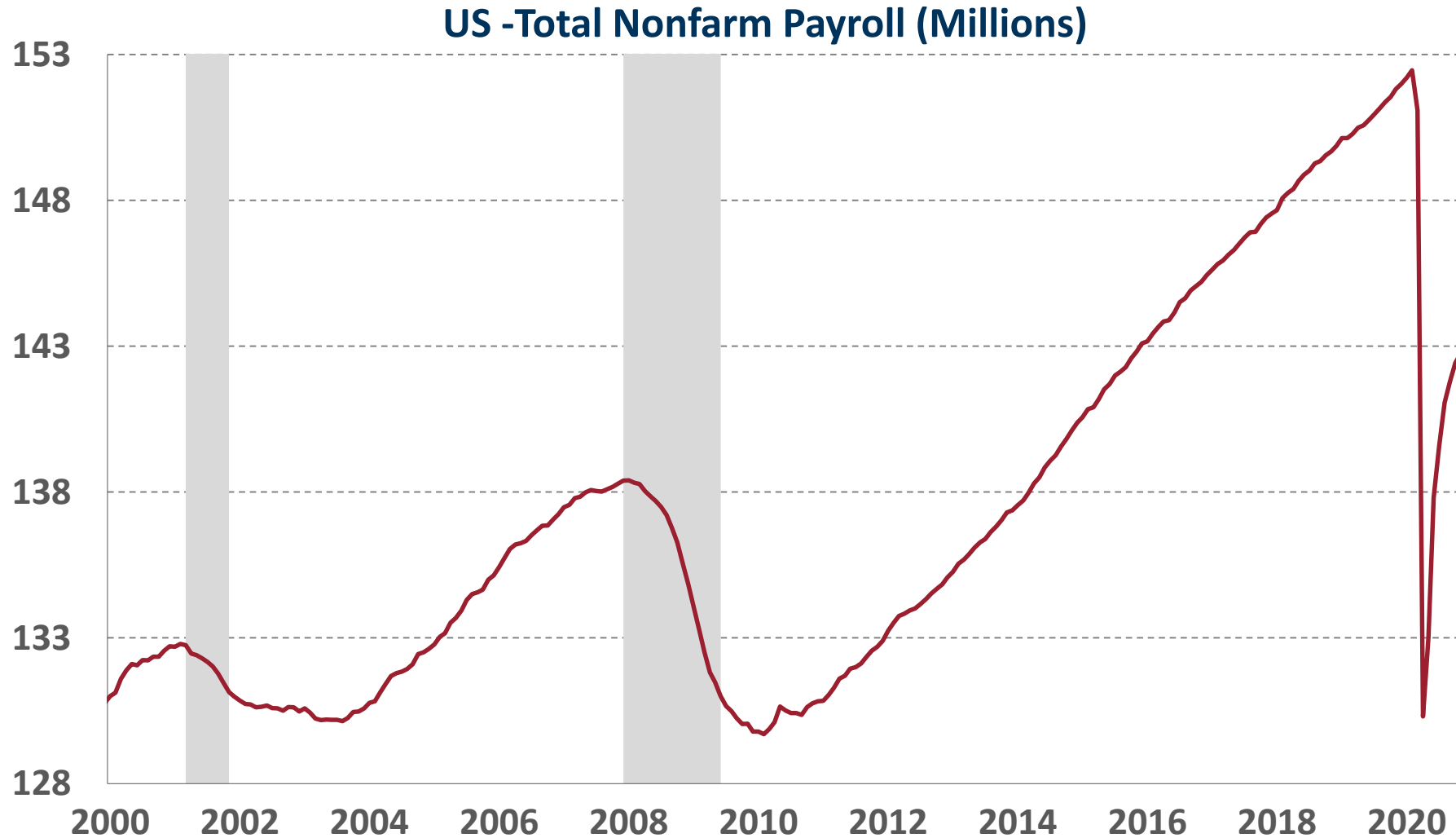
China: Monetary Policy

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



US: Labor Market

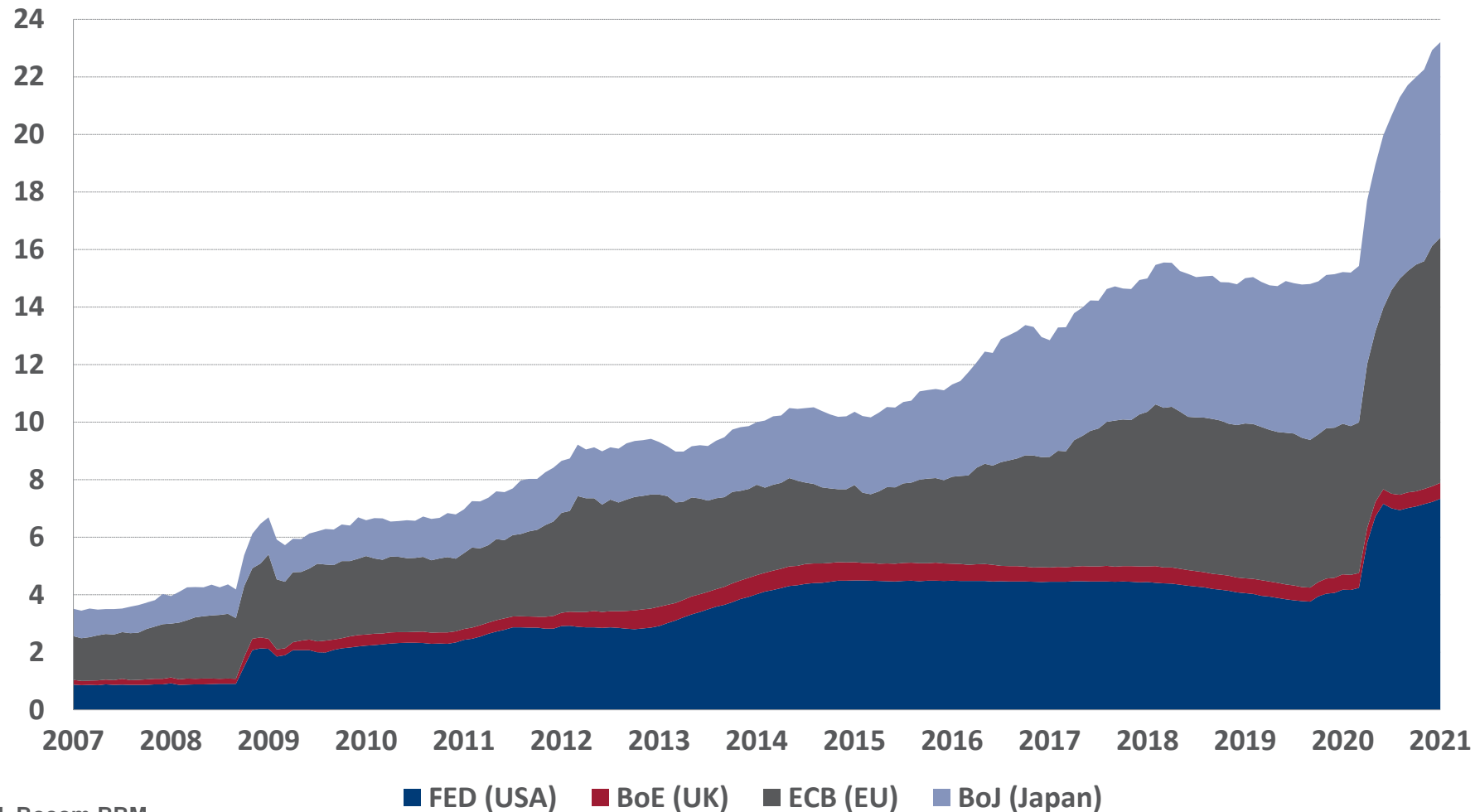
» Labor market recovering, but the number of jobs lost remains high



Global: Monetary Expansion

- » Balance of G10 Central Banks will continue expanding in 2021, sustaining the elevated global 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 Negative Yielding Debt, Market Value (US\$ Trillion)



Global Interest Rates

»» Brazil could be the first relevant EM to hike rates this year

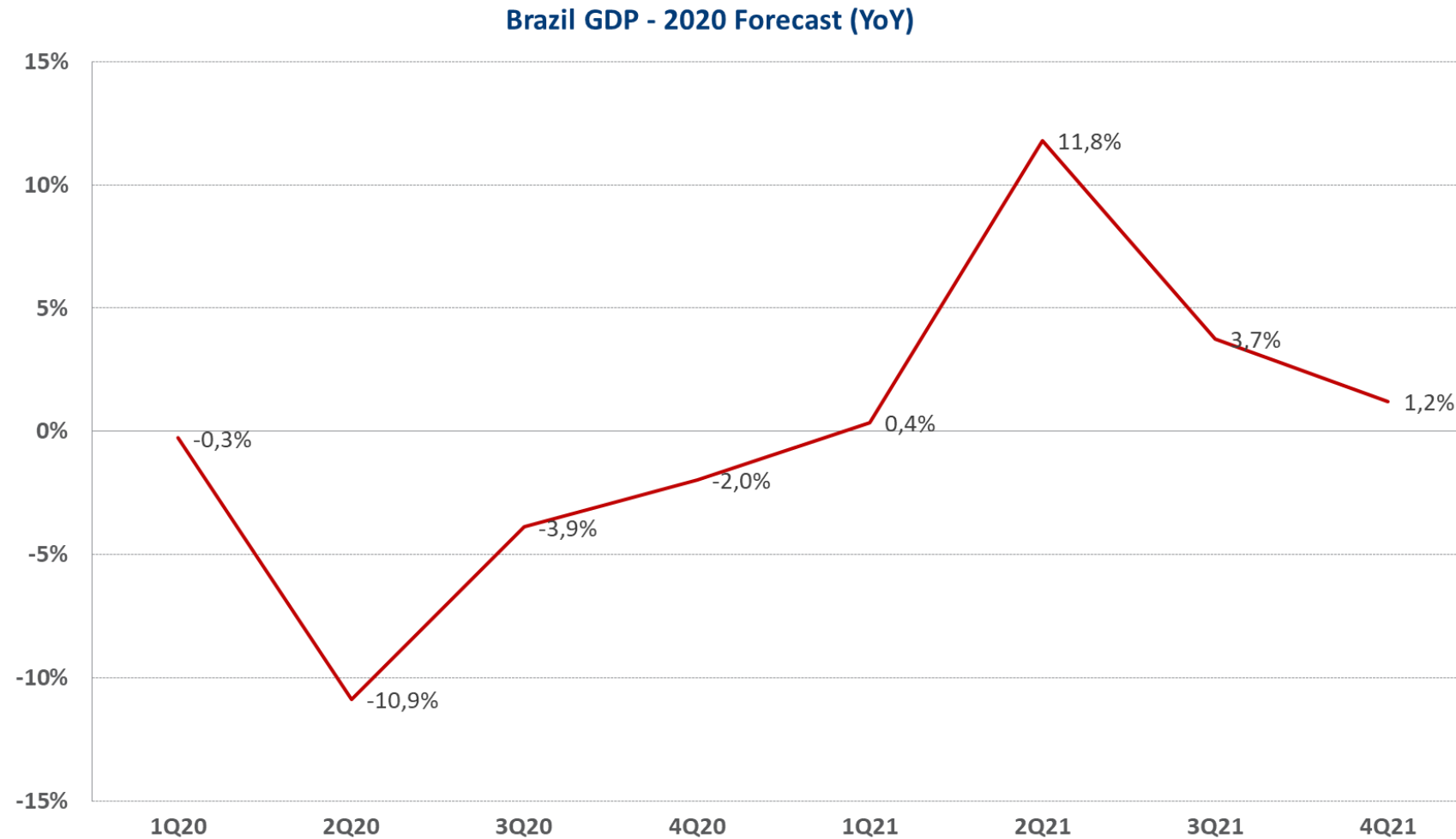
Country	Rate in Jan/2020	Curent Rate	Last move	Forecasts (eoy, % pa)
Turkey	11.25	17.00	Pause	13
Mexico	7.25	4.25	Pause	3.5
Russia	6.25	4.25	Pause	4.25
India	5.15	4.00	Pause	4
Indonesia	5.00	3.75	Pause	3.5
South Africa	6.25	3.50	Pause	3.5
Philippines	4.00	2.00	Pause	2
Malaysia	3.00	1.75	Pause	1.75
Brazil	4.50	2.00	Pause	4
Colombia	4.25	1.75	Pause	2.5
Chile	1.75	0.50	Pause	0.75
Peru	2.25	0.25	Pause	0.5
Poland	1.50	0.10	Pause	0.1

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%	4.5%	3.7%
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%	4.0%
External Accounts						
Trade Balance (US\$ bn)	48	67	53	48	43	58
Current Account Balance (US\$ bn)	-23	-10	-42	-51	-13	1
Current Account Balance (% of GDP)	-1.3%	-0.7%	-2.2%	-2.8%	-0.9%	0.1%
Fiscal Policy						
Fiscal Primary Balance (% of GDP)	-2.5%	-1.7%	-1.7%	-1.2%	-9.5%	-2.8%
Government Gross Debt (% of GDP)	69.4%	73.7%	75.3%	74.3%	89.3%	90.0%

Brazil: GDP

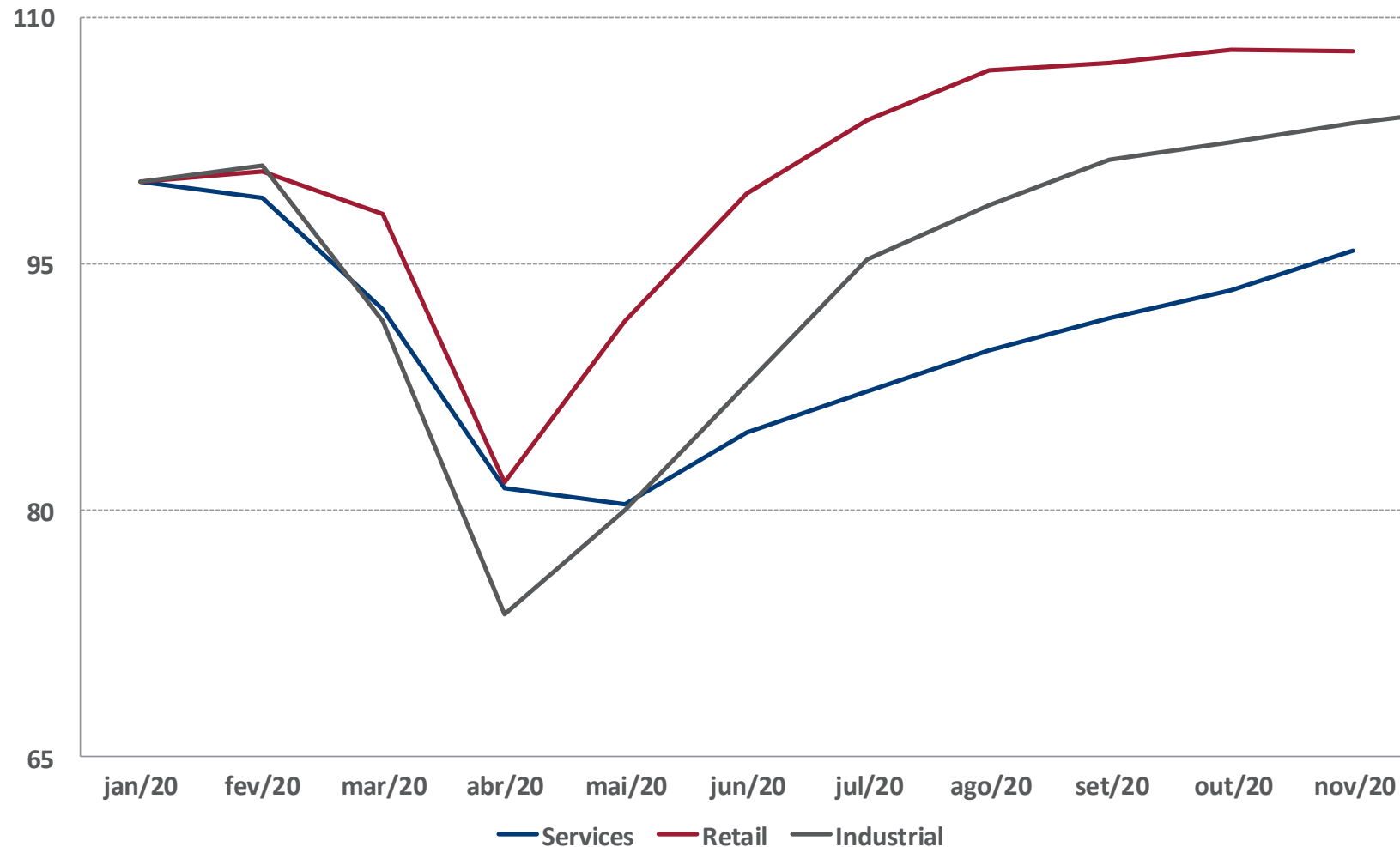
» Activity valleyed in Q2



Brazil: Activity

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

Brazil - Retail Sales x Industrial Production x Services Sector Index (Jan 2020 = 100)



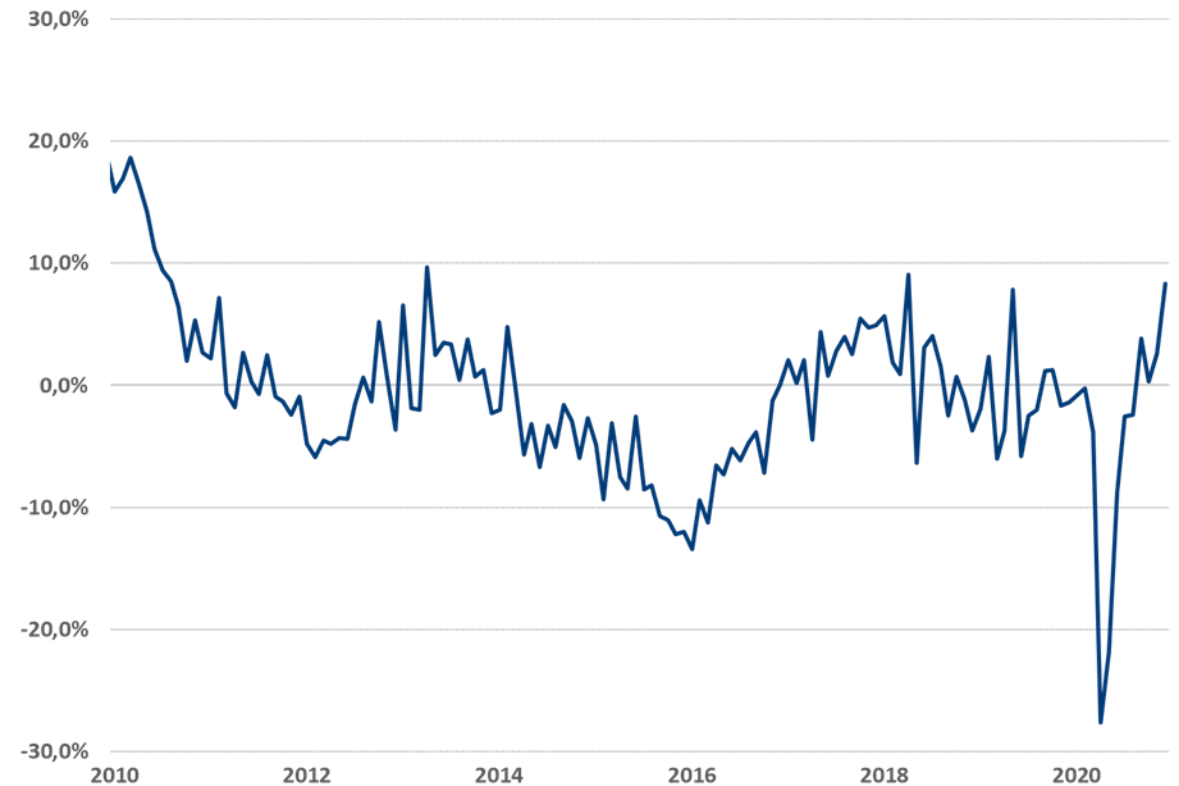
Brazil: Activity

- » Industry ends the year with an average 4.5% decline, but last quarter posts +3.4% yoy growth
- » Capacity utilization still up into 2021

Brazil - Industrial Production (SA)



Brazil - Industrial Production (YoY)



Brazil: Labor Market

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

Brazil - Unemployment Rate (% , SA)



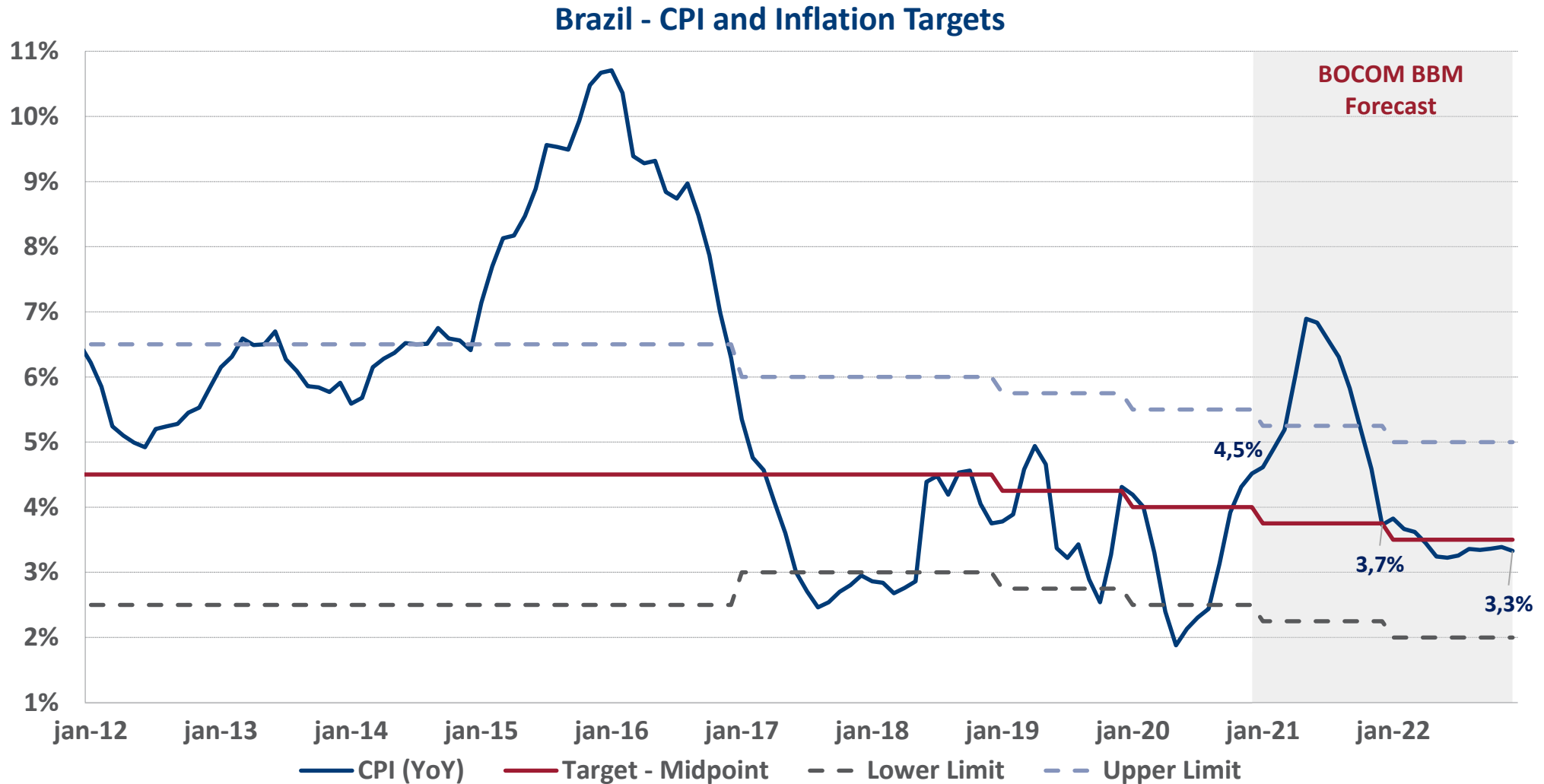
Brazil: Inflation

- » 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
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%	2,6%	2,8%	2,1%	9,0%	0,2%
20 Q3	3,1%	2,1%	3,8%	1,1%	15,4%	1,3%
20 Q4	4,5%	2,6%	5,5%	1,7%	18,2%	3,2%
21 Q1	5,1%	3,2%	6,2%	2,1%	19,2%	3,9%
21 Q2	6,8%	8,4%	6,4%	3,1%	16,8%	4,7%
21 Q3	5,8%	7,2%	5,4%	4,1%	11,2%	3,4%
21 Q4	3,7%	5,8%	2,9%	3,2%	4,8%	1,3%
22 Q1	3,6%	6,1%	2,8%	3,4%	4,2%	0,9%
22 Q2	3,2%	4,4%	2,9%	3,5%	4,3%	0,9%
22 Q3	3,3%	4,3%	3,0%	3,6%	4,7%	1,0%
22 Q4	3,3%	3,6%	3,2%	3,8%	5,1%	1,1%

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:

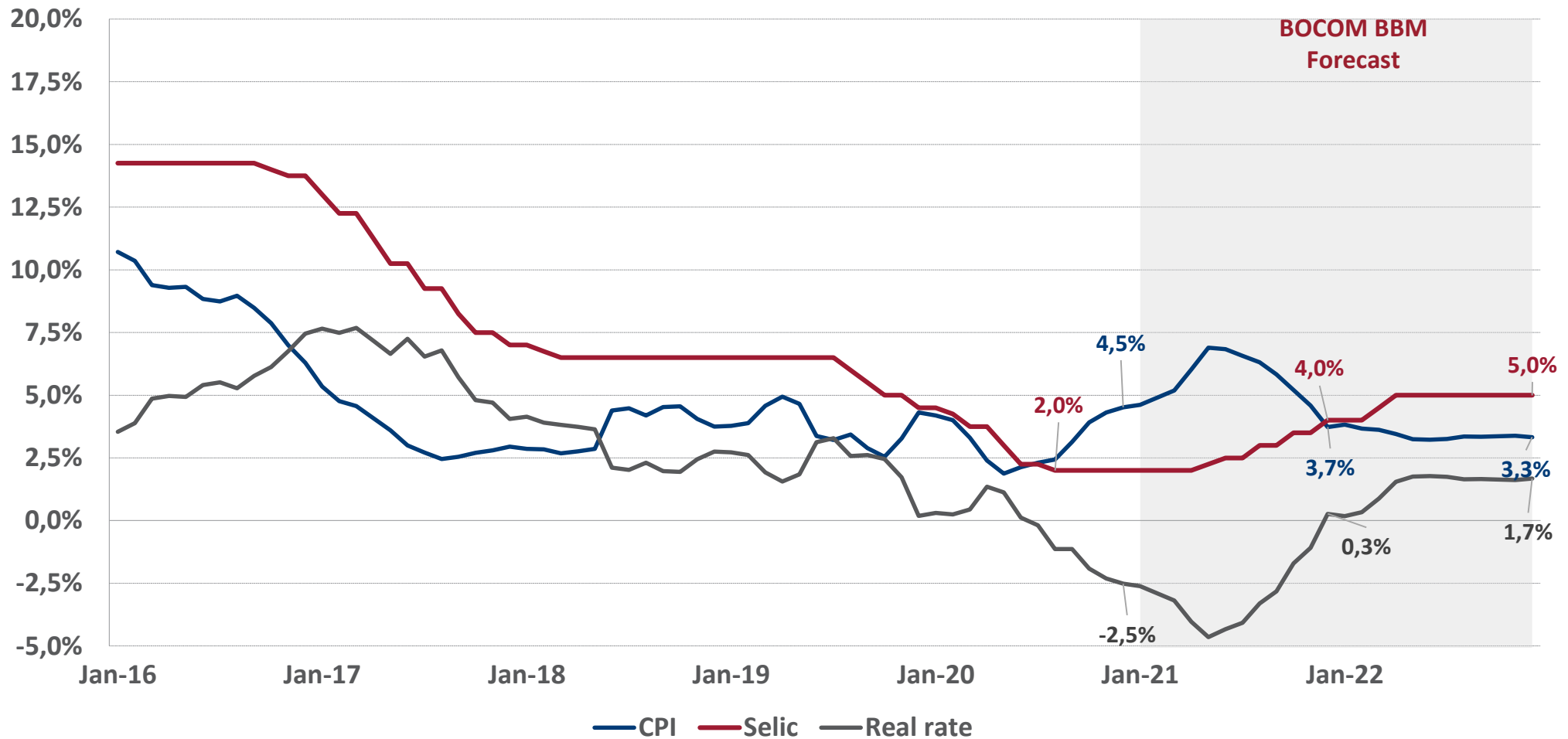
1. Further foreign exchange passthrough to industrial goods
2. Faster recovery of the service sector and consequently of the labor market
3. Additional pressure from commodities
4. Additional pressure from regulated prices

» However, a cycle of foreign exchange rate appreciation could mitigate these pressures

BRAZIL: MONETARY POLICY

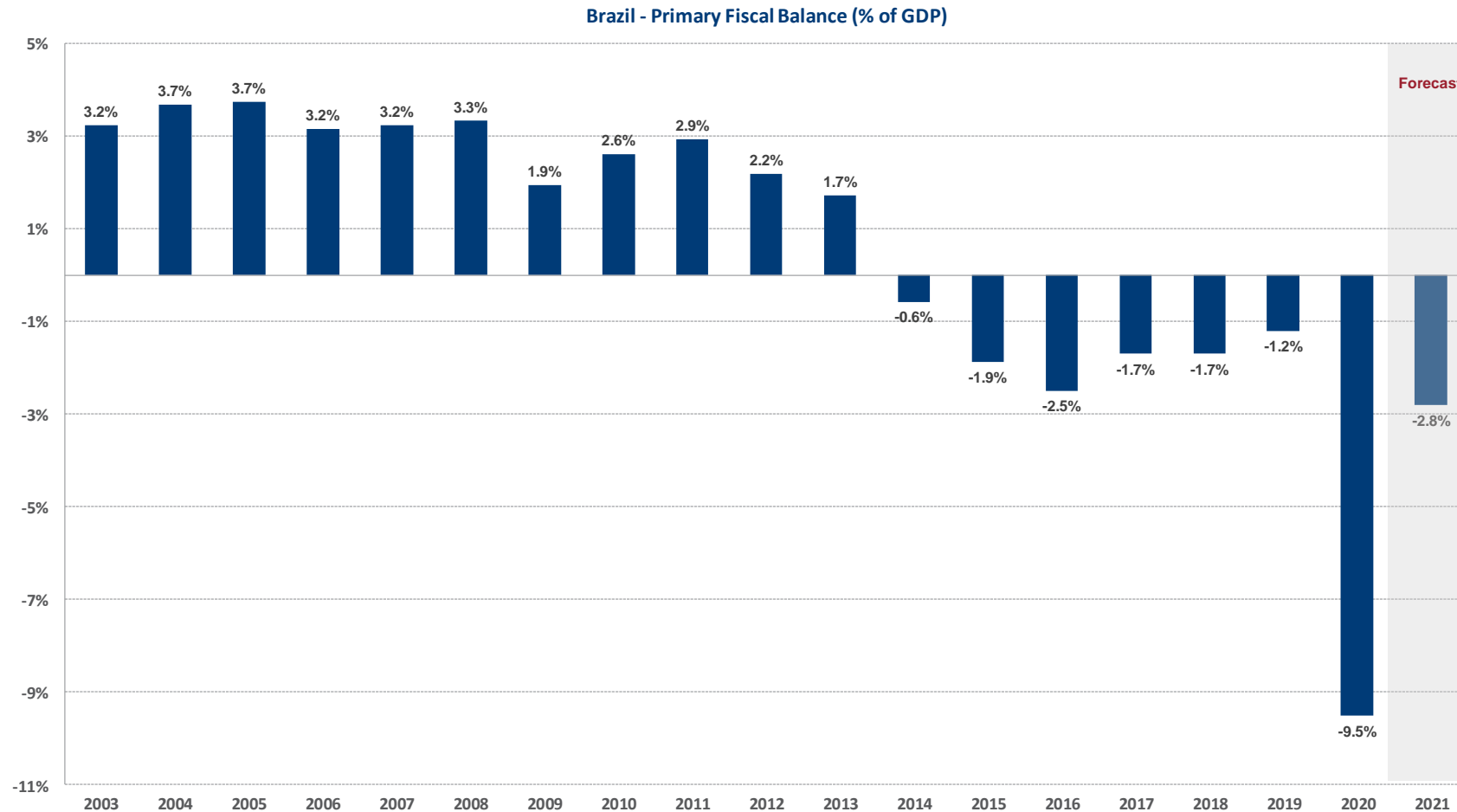
» Our Selic rate projection was revised to 4,0% in the end of the year with the cycle beginning in May

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



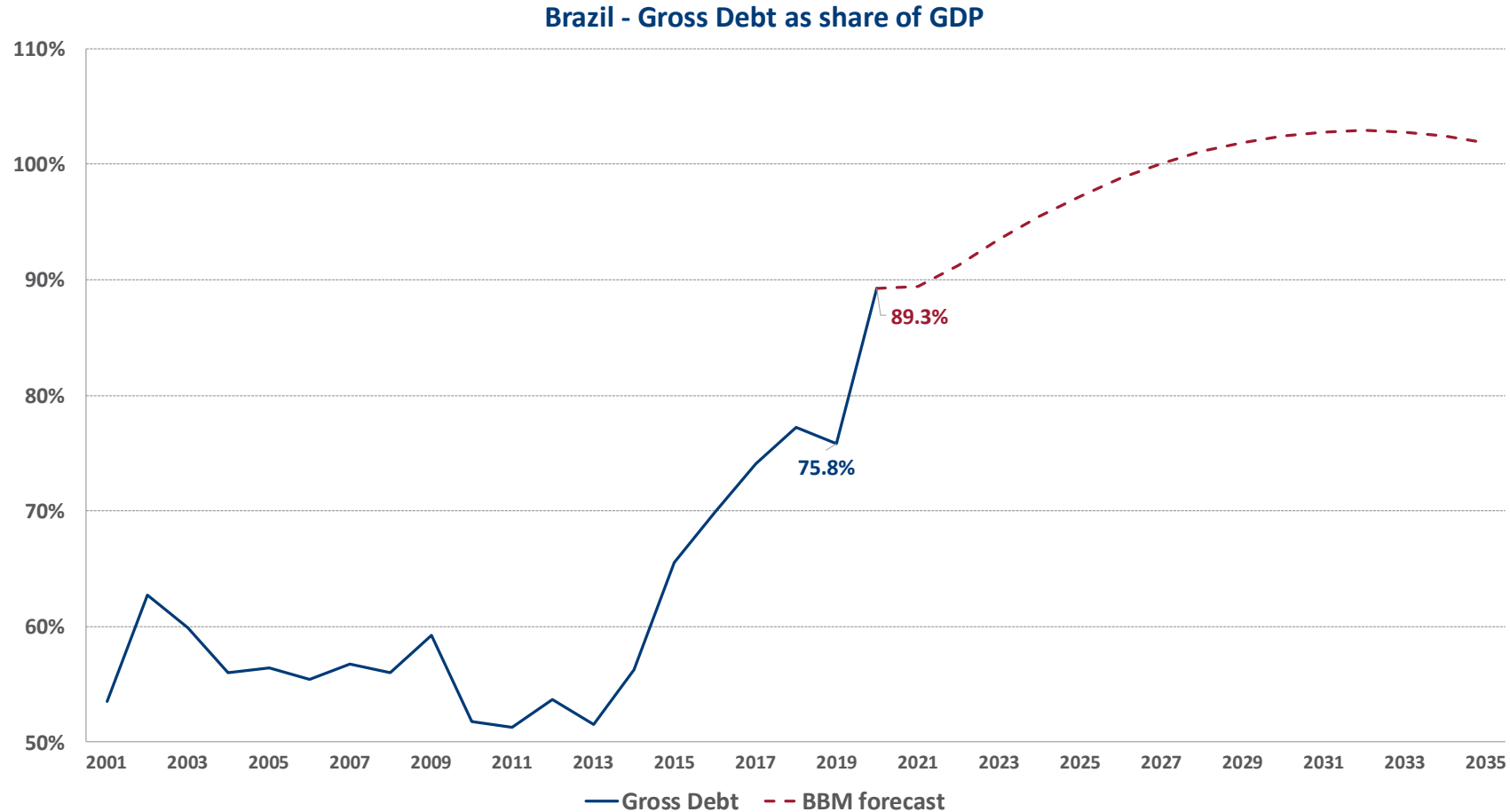
Brazil: Fiscal

- » Measures to mitigate economic impacts from the pandemic elevated the primary deficit in 2020, but deficits should return to 3% of GDP in 2021 as the spending cap remains in place



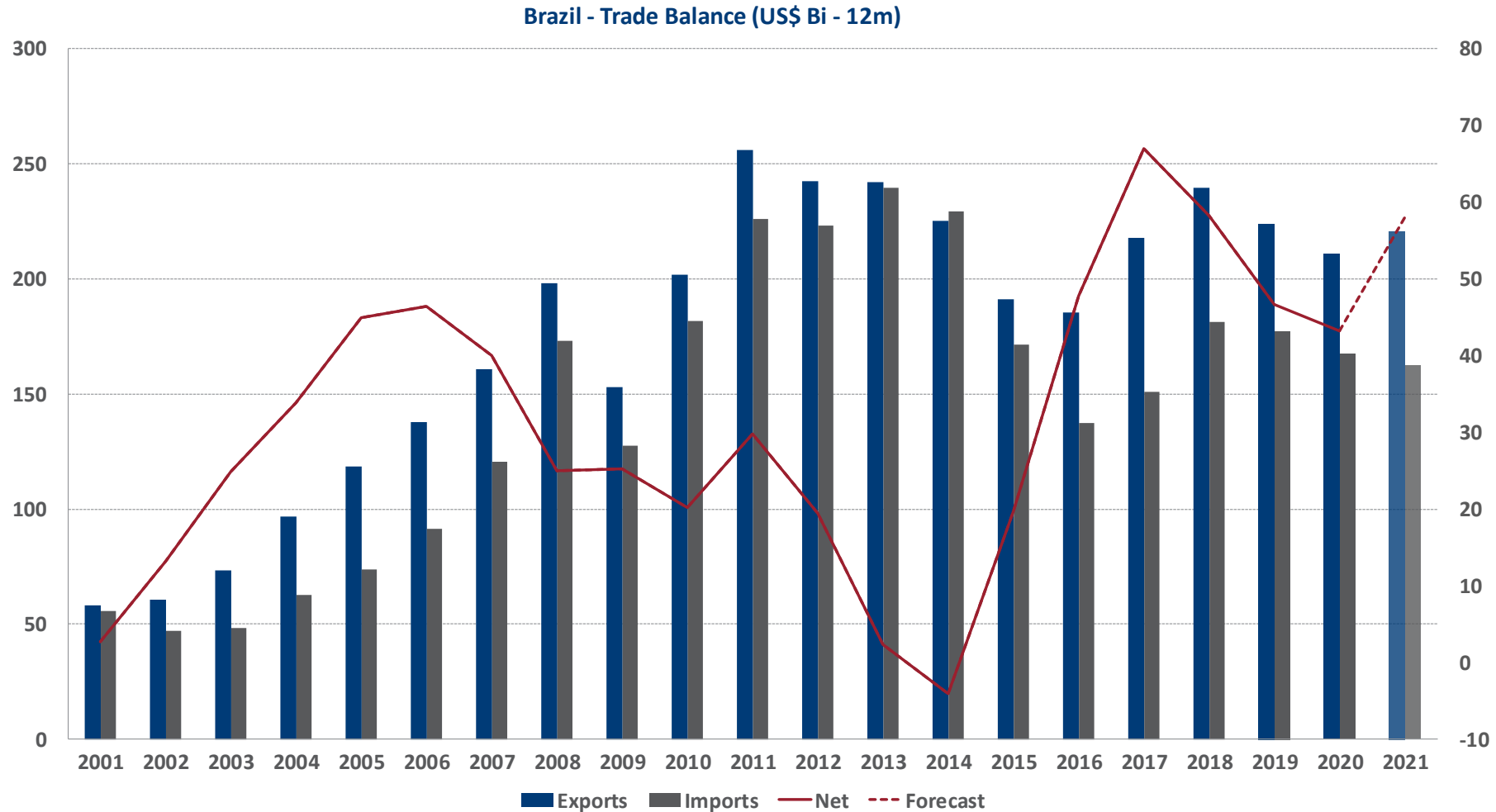
Brazil: Fiscal

- » 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 adhere to the spending ceiling in 2021



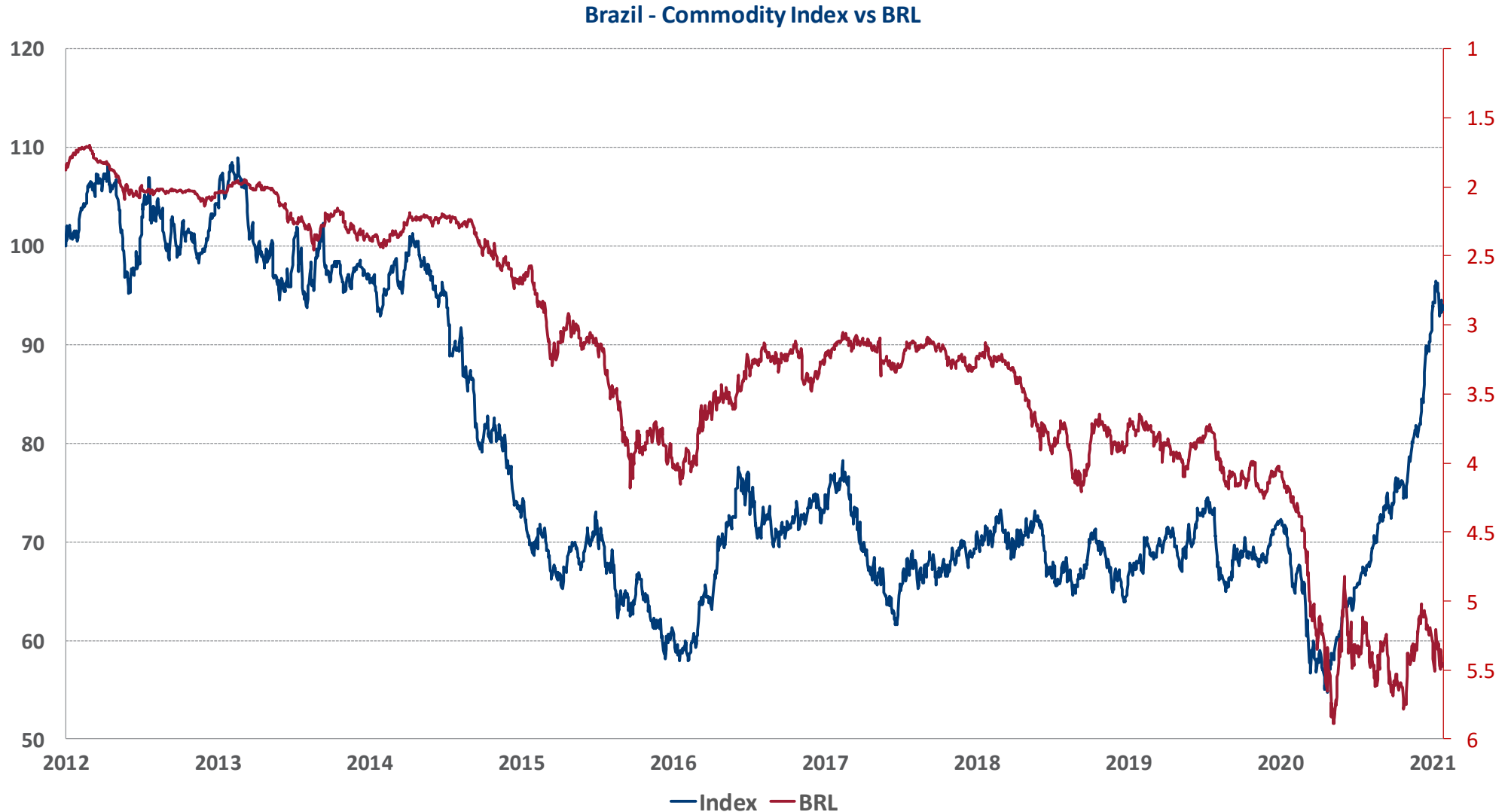
Brazil: Trade Balance

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



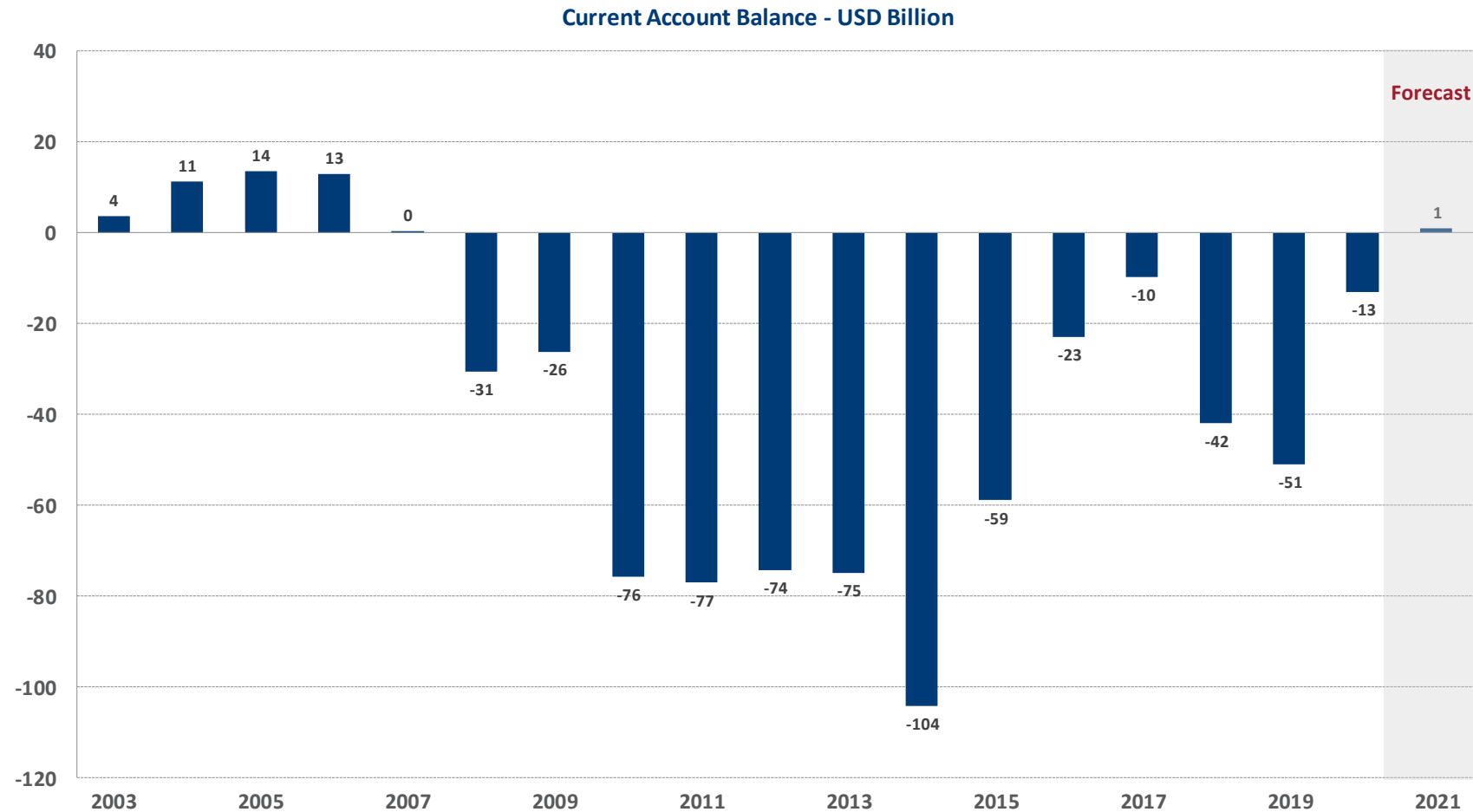
Brazil: Trade Balance

»» 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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