交通银行 BANK OF COMMUNICATIONS BBM

Macro Monthly Letter

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Recovery Mode

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The month of February further underscored the perspectives of a strong global recovery in 2021 with the advance of vaccination campaigns in an environment of loose monetary and fiscal policies. Nevertheless, this optimistic perception of the economy resulted in the increase of long interest rates, which may leave emerging countries even more vulnerable. In Brazil, the uncertainties regarding activity in the first semester of the year grow along with the new wave of Covid-19 infections and with the shortages in vaccines supply.

The Democrat's proposal of a new US$1.9 trillion fiscal package continues to move forward in the American Congress. Even though not all of the package's proposals may survive the Senate vote, the injection of new resources will still be considerable and will boost even further the American economy in this year of recovery. A smaller package of US$ 1.5 trillion added to the US$ 900 bn package approved in December implies a fiscal injection of 11% of the American GDP throughout the year. Together with the expectation that Fed Funds will be kept at zero until 2023, this fiscal stimulus has caused a wave of positive revisions for 2021 and 2022 GDP growth. The projected growth for the current year is now expected to be between 6 and 6.5% after a decline of 3.5% in 2020. There is still the intention in the Biden Administration to present an investments incentive package - focused on renewable energies – until the year's end, with probable impact on activity from 2022 onwards.

The upside revisions in American growth together with expectations of China growing 9% and a synched recovery of Asian economies has led in the course of this month to an increase in the American and in global long rates. Throughout February 10 years Treasury rates advanced more than 40 bps and reached 1.5% aa. The vigorous global recovery comes together with higher inflation expectations in the world, which are driven by increasing commodities prices, temporary production imbalances and the service sector acceleration after economies are reopened. Although the increase in interest rates was motivated by a more positive economic perception, the sustainability of high levels of sovereign and corporative indebtedness acquired during the pandemics becomes more challenging, especially for emerging countries.

In Brazil, despite the advance in the vaccination campaign, vaccines supply remains a short term setback, with delays in the delivery of promised doses to February and inventory exhaustion in great cities. At the same time, the national number of cases and deaths continues to accelerate. In March's first week, Brazil presented its highest levels of deaths since the beginning of the pandemic. Several States adopted new restraining measures in order to impede the overload of their health systems and contain the high number of severe cases. The new measures will most certainly have a negative impact in the Brazilian economic recovery in course. Amid a still considerably high rate of unemployment and the pandemics acceleration scenario, the just approved emergency aid must help to partially sustain the consumption level in the next months. We project a 3,8% GDP growth in 2021, especially reflecting a large basis effect, with sequential modest growth in the next quarters.

With the materialization of continued increase in commodities prices in Dollar and a still depreciated Real, the inflation forecast for 2020 keeps being revised upwards and we project now an increase in prices of 4,2%, above the 3,75% target. Amid still high fiscal risks and expectations around the target, we believe that the Central Bank will increase in 50bps the Selic rate in March's meeting, keeping this pace until reaching 4,5% in August.

ECONOMIC FORECASTS	2016	2017	2018	2019	2020	2021F
GDP Growth (%)	-3,3%	1,3%	1,3%	1,1%	-4,1%	3,8%
Inflation (%)	6,3%	2,9%	3,7%	4,3%	4,5%	4,2%
Unemployment Rate, SA (eoy ,%)	12,6%	12,4%	12,2%	11,7%	13,9%	13,6%
Policy Rate (eoy, %)	13,8%	7,0%	6,5%	4,5%	2,0%	4,5%
External Accounts						
Trade Balance (US$ bn)	48	67	53	48	51	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%	88,8%	86,0%