



## MACRO OUTLOOK

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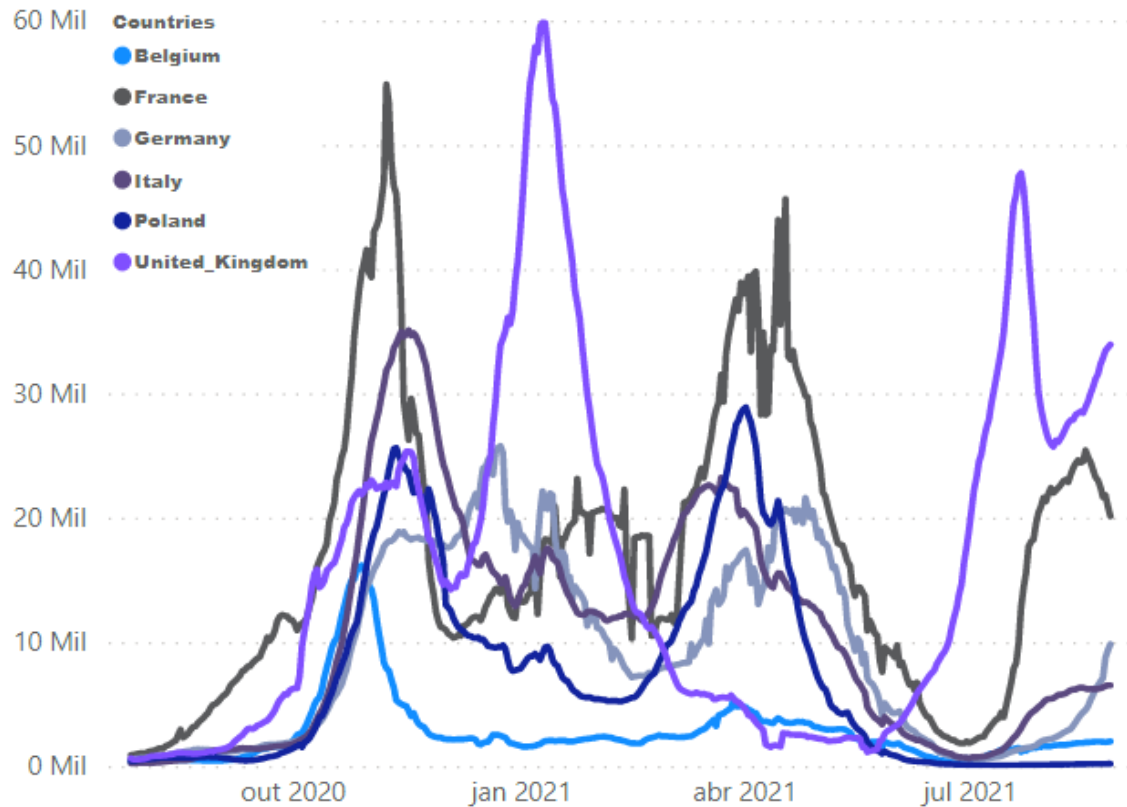
September 2021

- » Covid-19 vaccination campaigns advance in several countries, global activity being revised up, but delta variant and the energy crisis represent a risk;
- » In Brazil, the pandemics situation improved considerably, with decreases in cases, deaths and hospitalization rates, while vaccination is keeping up a faster pace;
- » In the 2<sup>nd</sup> quarter, Brazilian GDP frustrated expectations but the economic activity continues its recovery driven by the services sector;
- » We forecast a GDP growth of 5.2% this year;
- » We revised up our inflation forecast to 7.8% due the electric energy crisis and to the production costs pressure;
- » We kept our Selic rate projection at 7.5% at the end of 2021; but updated the rate to 8% at the end of 2022;
- » A higher nominal GDP and a more bening fiscal outlook have contributed to a lower debt-to-GDP ratio.

# Covid-19

- » In United Kingdom, France and United States there have been surges in cases due to Delta variant.
- » In United States, however, the hospitalization number increased dramatically because of the uneven vaccination of its population, whereas in France and the UK hospitalizations increased far less.

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



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



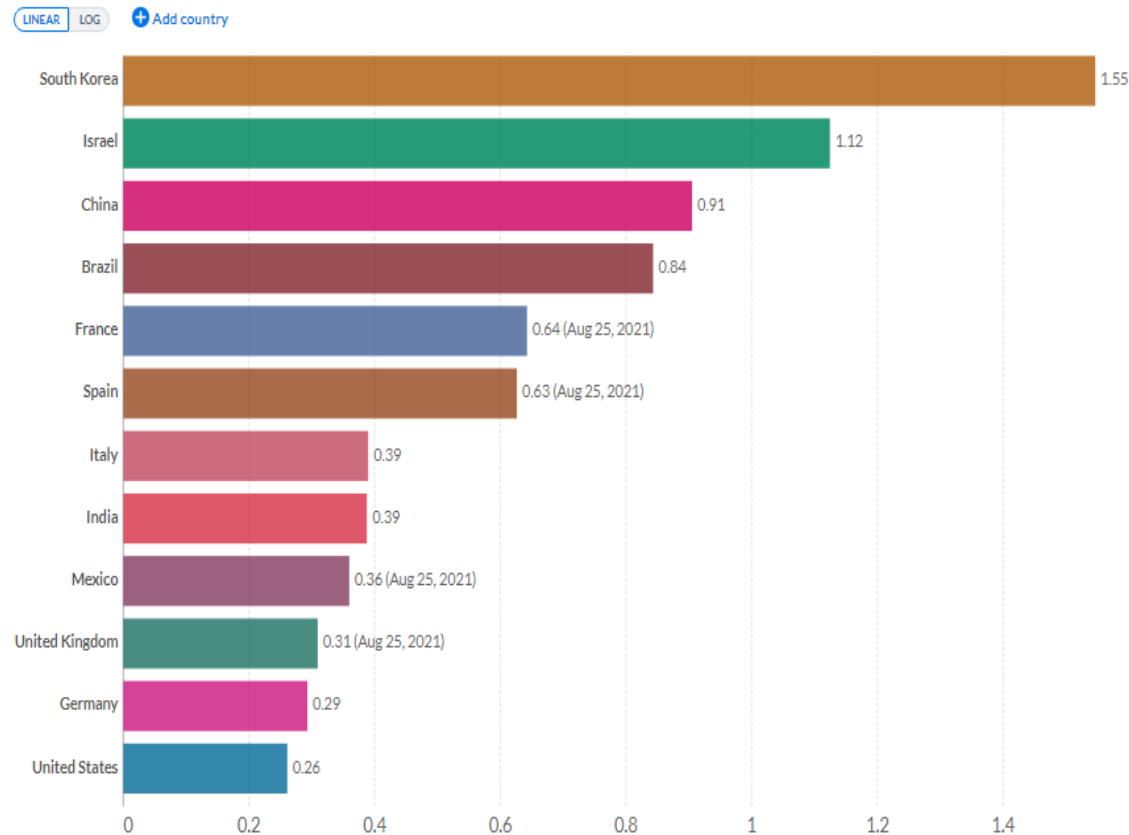


# Covid-19

- » Vaccination advanced in China and Europe. There was also acceleration in vaccination programs from developing countries such as Brazil and Mexico, specially in the end of the month.
- » In USA, vaccination pace remained slow.

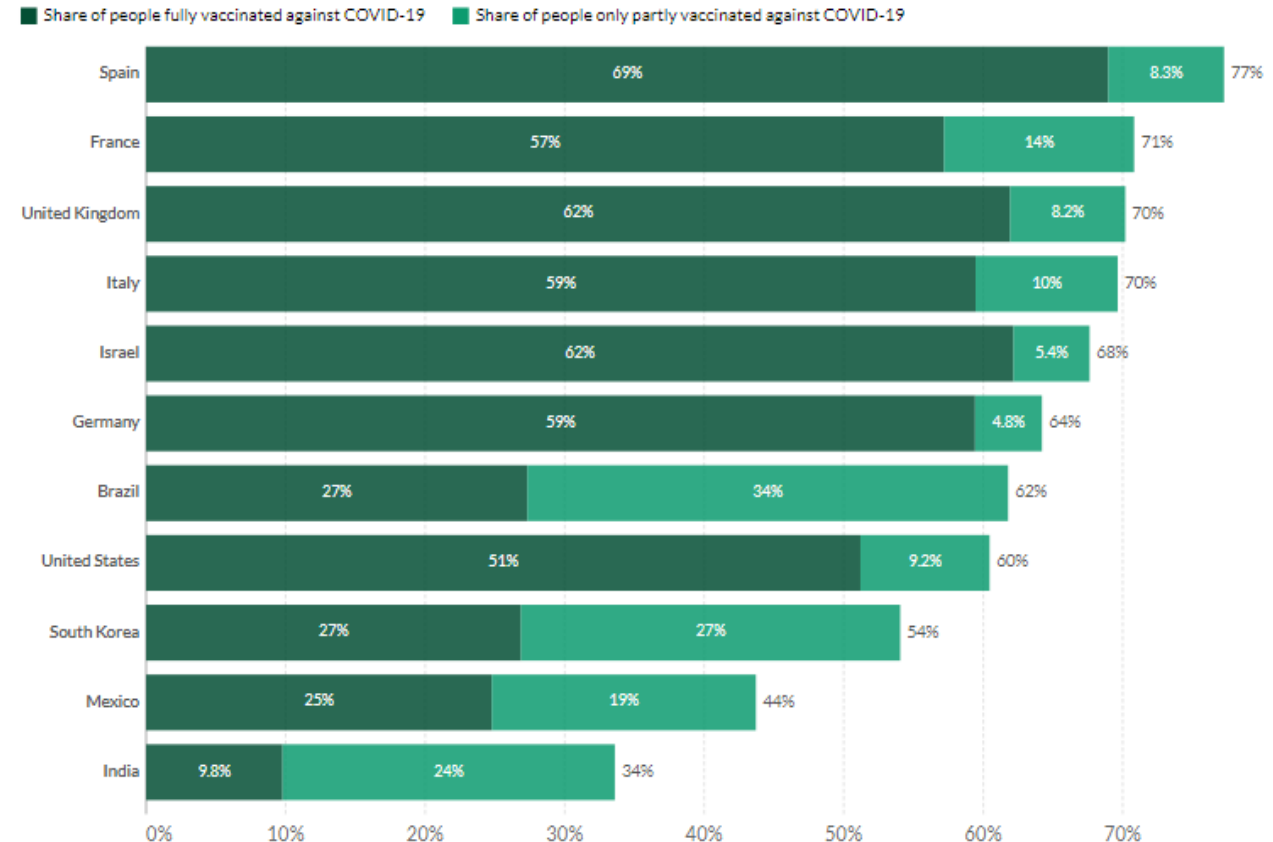
Daily COVID-19 vaccine doses administered per 100 people, Aug 26, 2021  
Shown is the rolling 7-day average per 100 people in the total population. For vaccines that require multiple doses, each individual dose is counted.

Our World  
in Data



Share of people vaccinated against COVID-19, Aug 26, 2021

Our World  
in Data

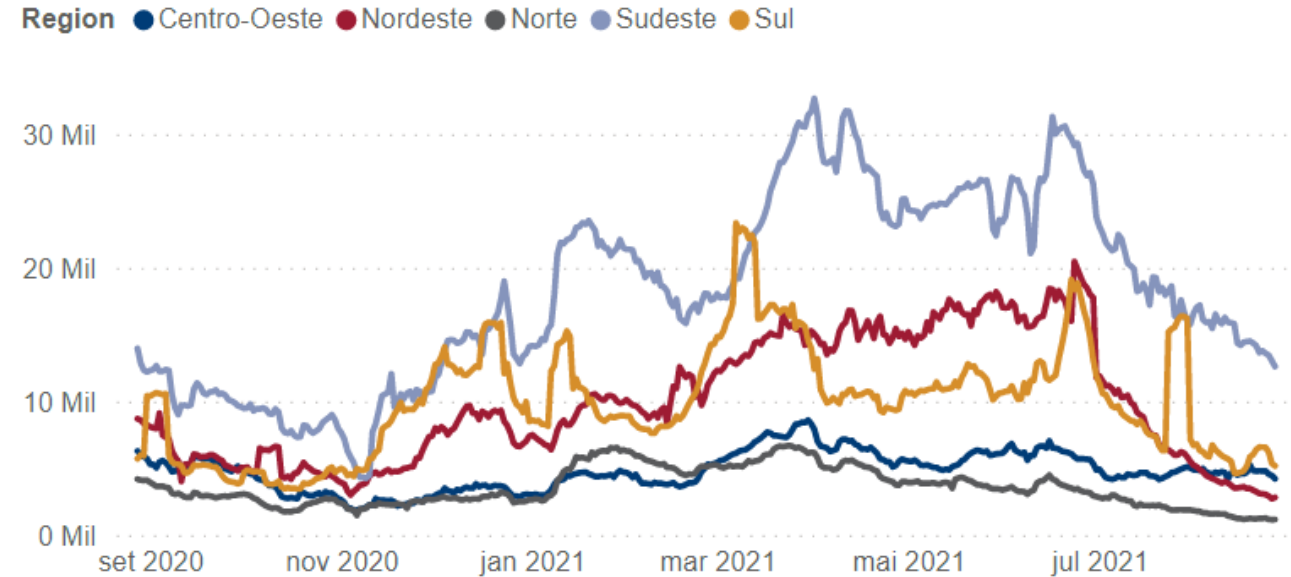


» In Brazil the number of cases, deaths and hospitalization continued to decrease in August.

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



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



# Global: GDP Growth

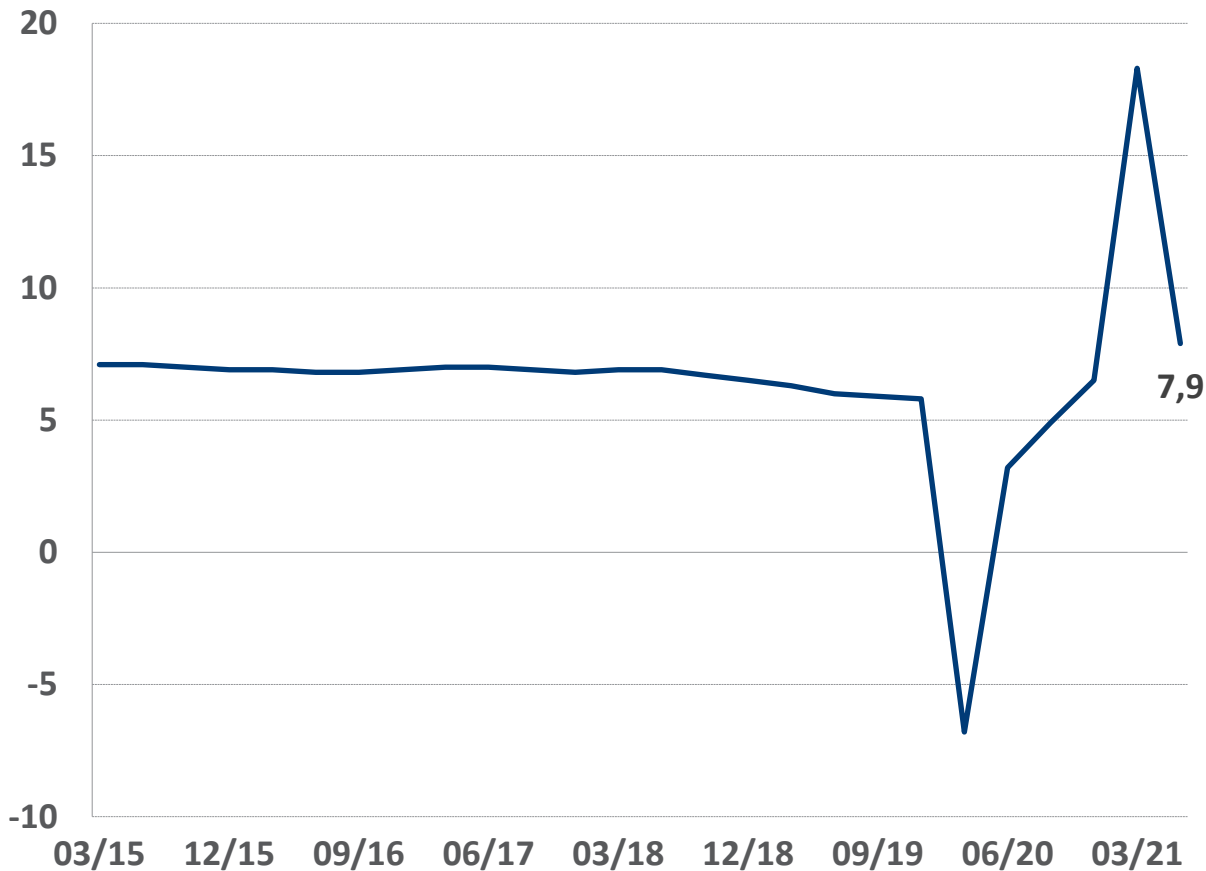
»» Global economy should post strong recovery in 2021.



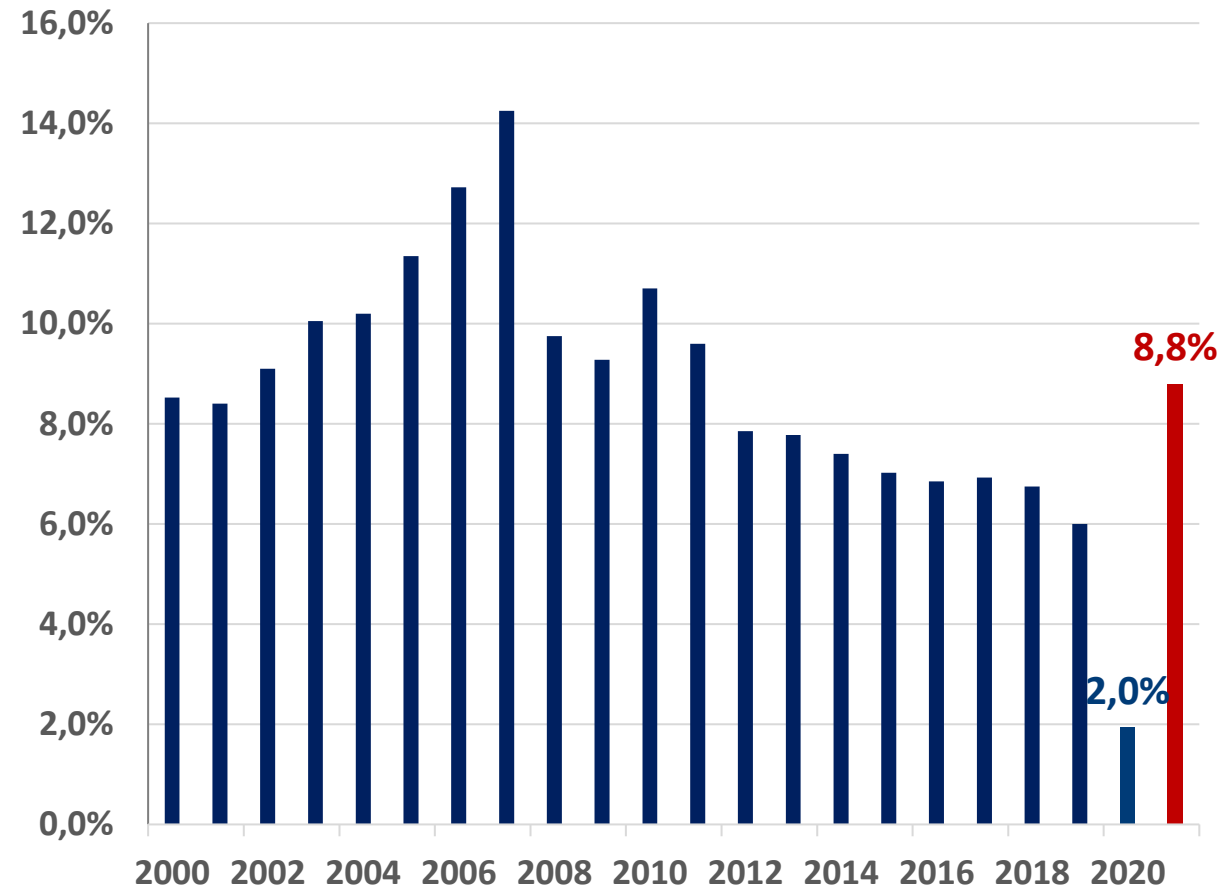
# China: Activity

» Chinese economy recovery slowed down with decrease of the base effect.

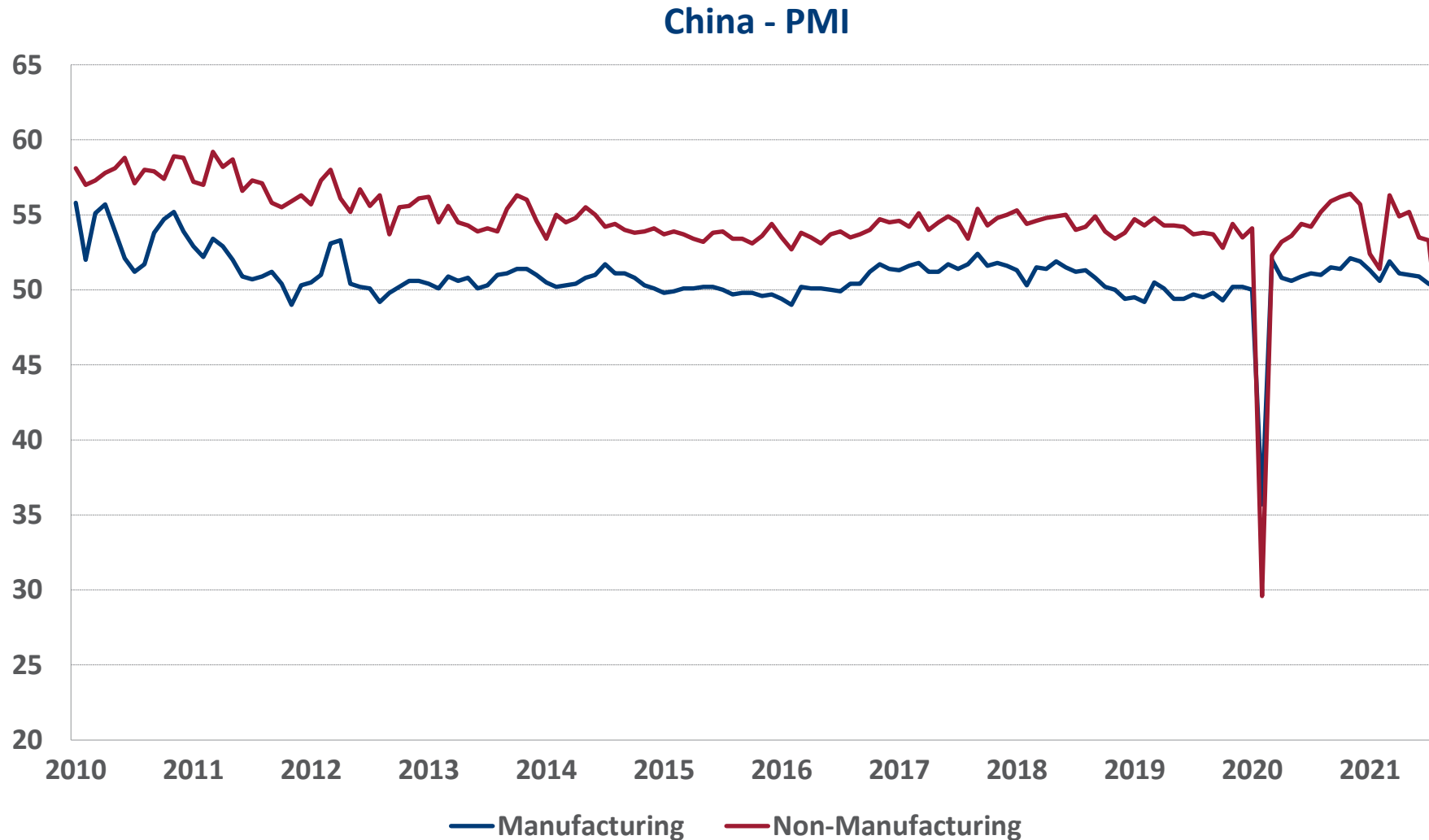
China - Real GDP Growth (% YoY)



China - GDP, Yearly growth



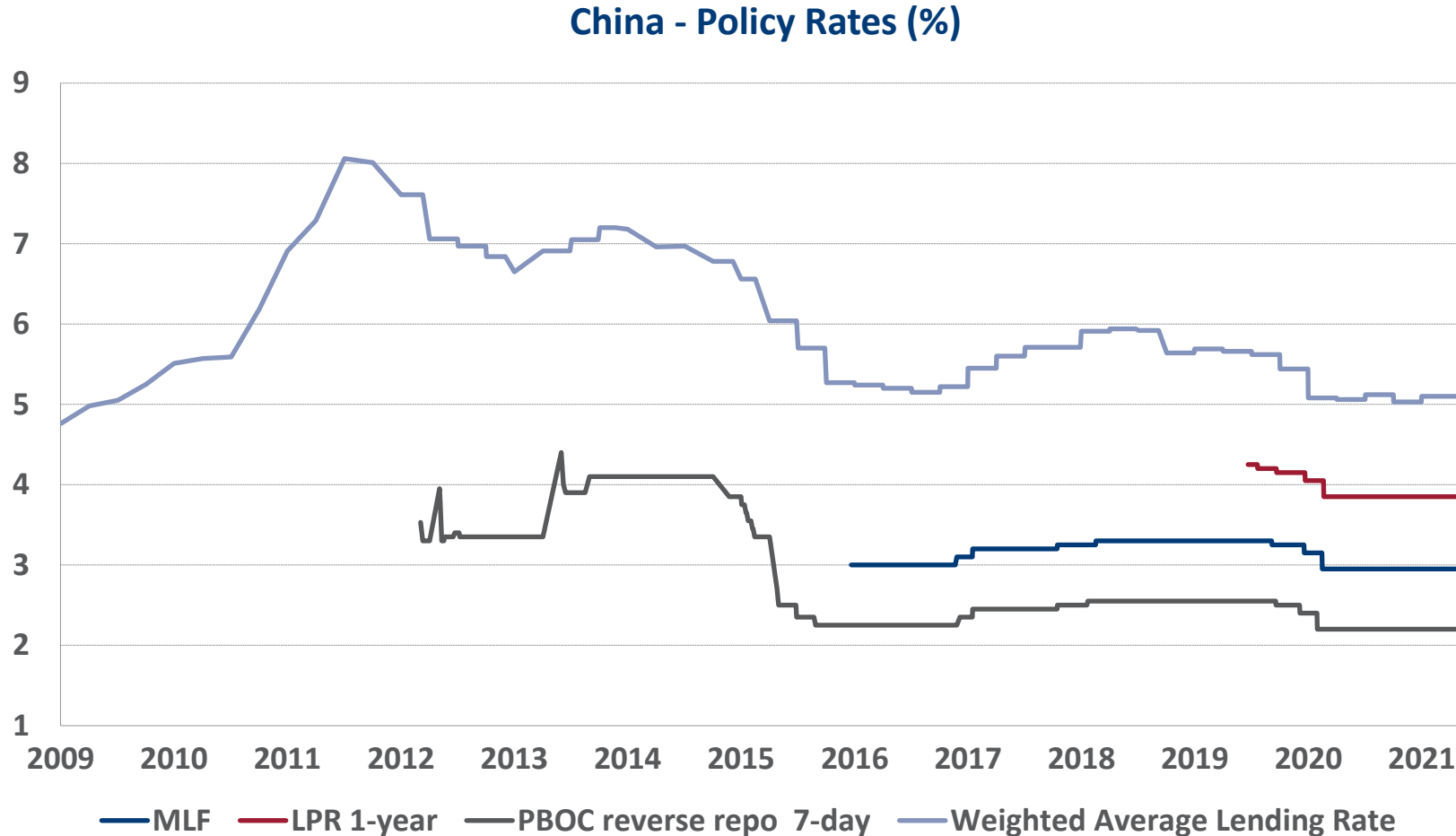
» PMIs suggest a slowdown in August. The weakening demand is the main reason the PMIs declined.





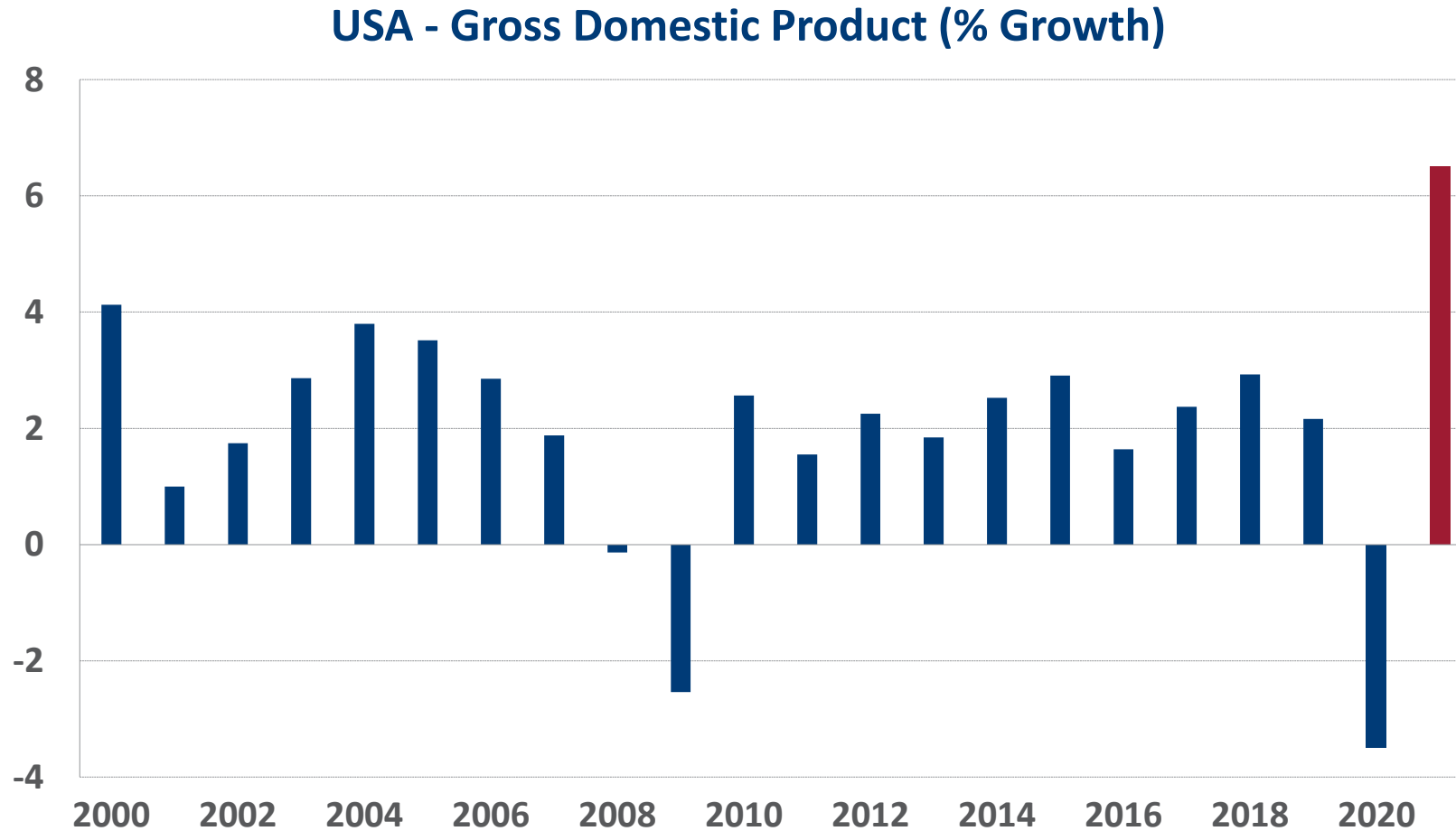
# China: Monetary Policy

- » Activity slowdown increases risk of lowering interest rates, but probably other tools will be used before the decision to cut rates.



# US: 2021 Outlook

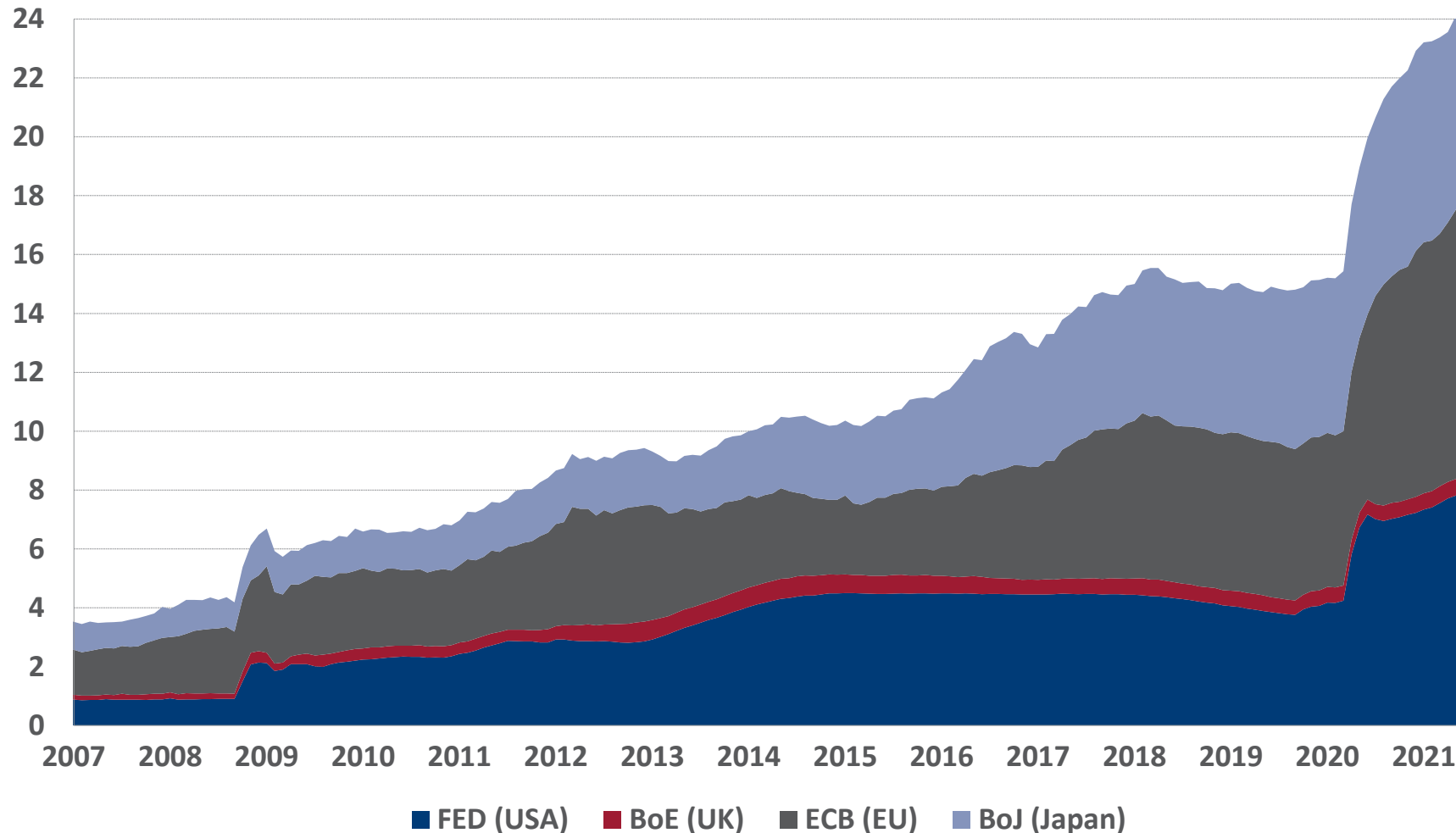
- » On the back of the reopening process and the effects of increased spending, the US GDP growth should pick up this year.



# Global: Monetary Expansion

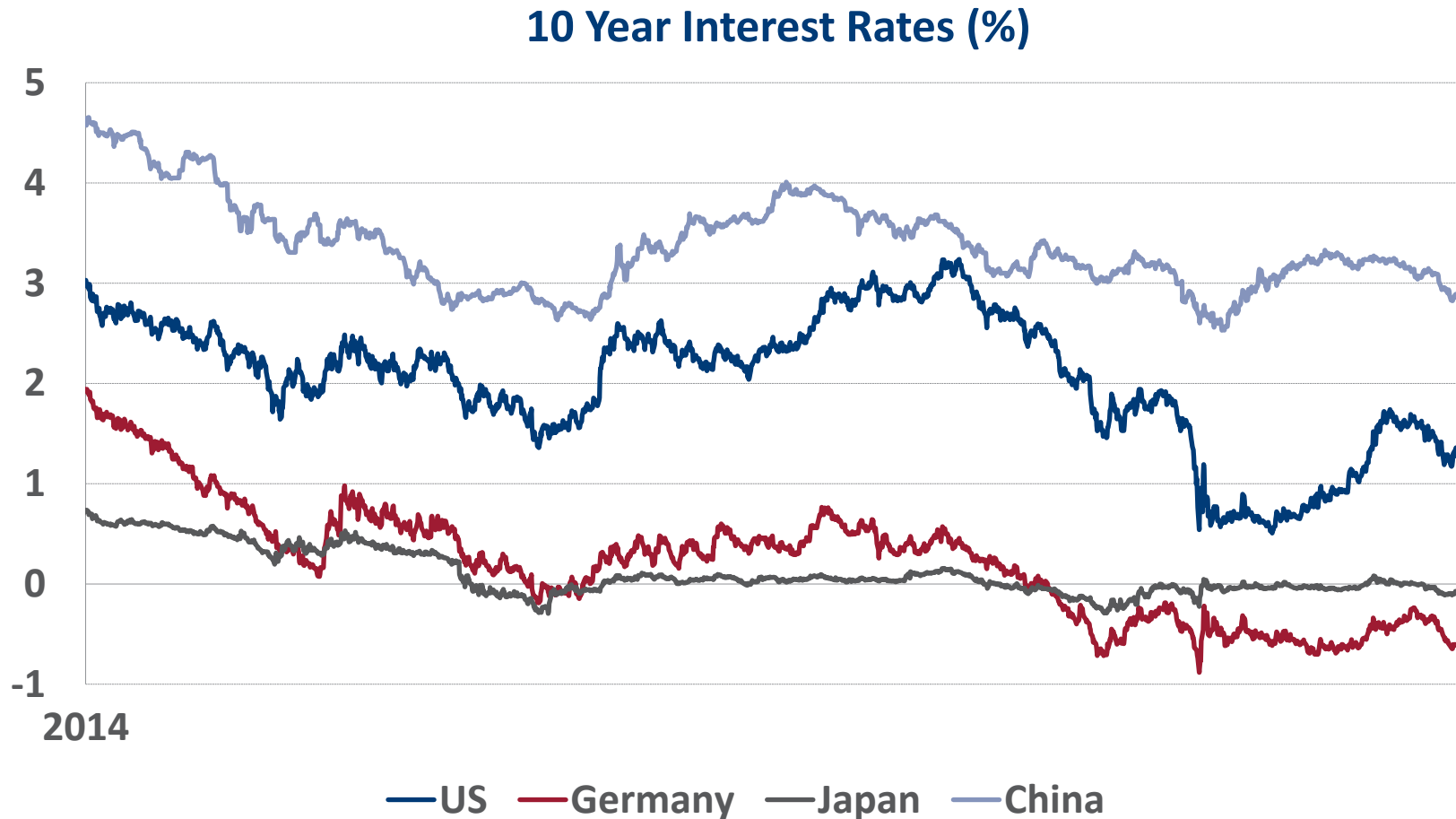
- » Balance of G10 Central Banks will continue expanding in 2021, sustaining the elevated global liquidity environment.

Central Bank Balance Sheet (US\$ trillion)



# Global Interest Rates

- » The interest rates operate with an upward bias, expecting a reduction in the assets purchases by central banks.



# Global: Negative Interest Rates

» The volume of negative yielding sovereign debt continue to be high.

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





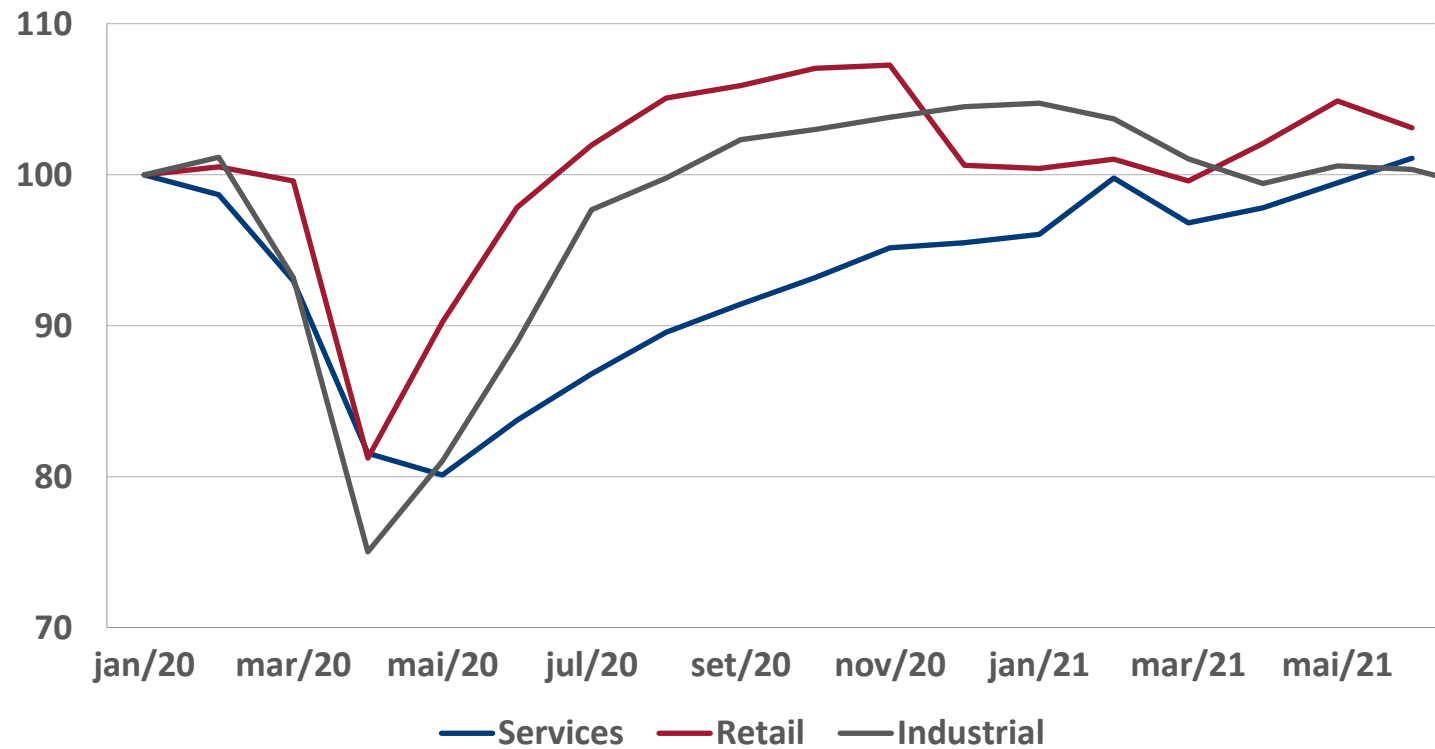
# Brazil: Forecasts

ECONOMIC FORECASTS	2018	2019	2020	2021F	2022F
GDP Growth (%)	1,3%	1,1%	-4,1%	5,2%	2,0%
Inflation (%)	3,7%	4,3%	4,5%	7,8%	3,8%
Unemployment Rate, SA (dec ,%)	12,2%	11,7%	13,9%	13,5%	13,0%
Policy Rate (dec, %)	6,5%	4,5%	2,0%	7,5%	8,0%
External Accounts					
Trade Balance (US\$ bn)	53	48	51	69	46
Current Account Balance (US\$ bn)	-42	-51	-13	-2	-15
Current Account Balance (% of GDP)	-2,2%	-2,8%	-0,9%	-0,1%	-0,9%
Fiscal Policy					
Fiscal Primary Balance (% of GDP)	-1,7%	-1,2%	-10,0%	-1,9%	-1,1%
Government Gross Debt (% of GDP)	75,3%	74,3%	88,8%	81,3%	82,1%

# Brazil: Activity

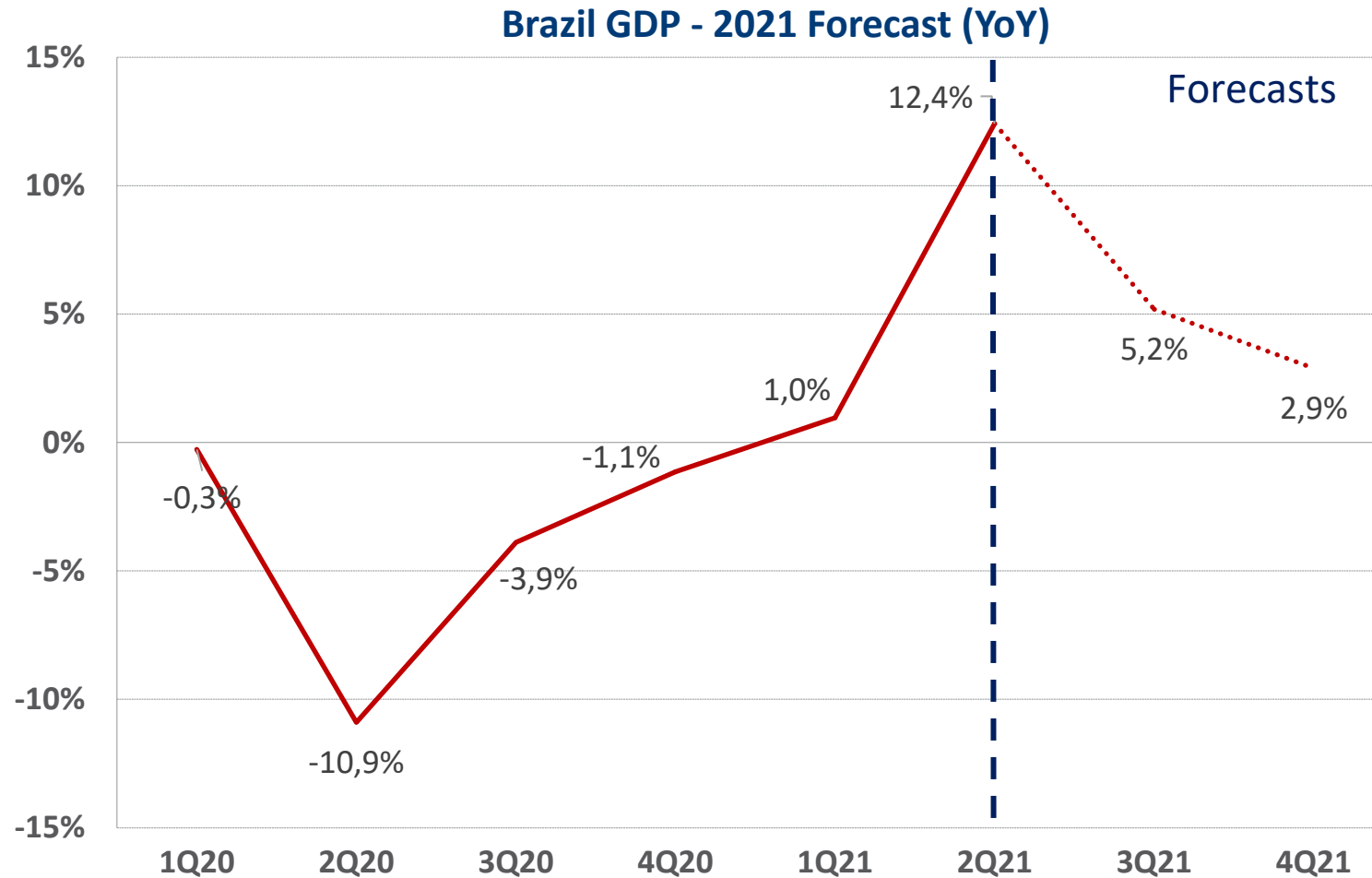
- » Although the decline in the industrial production and the retail sales, the economic activity is driven by the services sector.

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



# Brazil: Activity

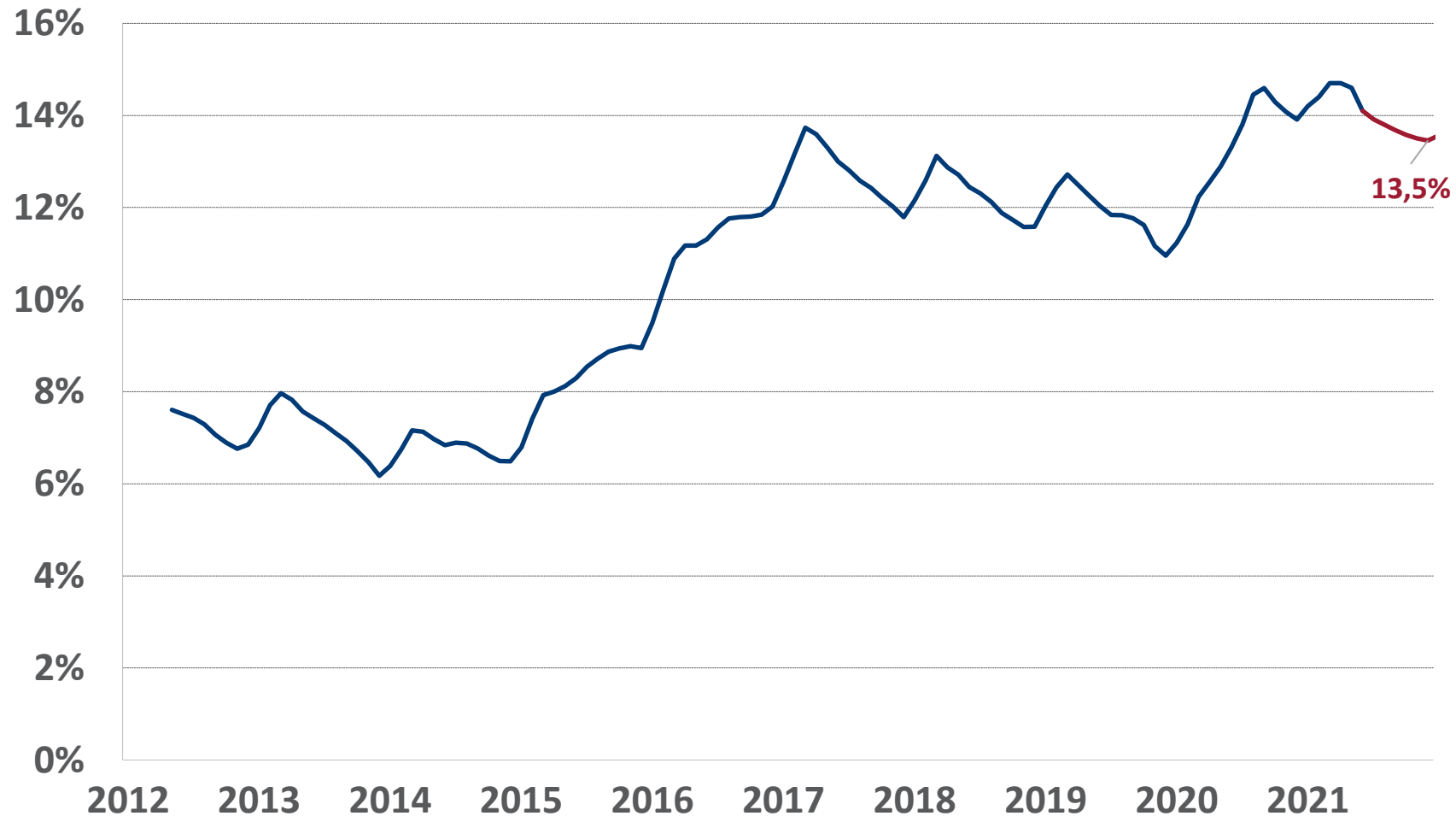
- » For 2021, we forecast a GDP growth of 5,2%;
- » The reopening of the economy should allow a consistent recovery of the service sector in the second half of the year.



# Brazil: Labor Market

» The unemployment rate remains elevated, but it will decrease throughout 2021 as the service sector recovers.

Brazil - Unemployment Rate SA (%)



# Brazil: Inflation

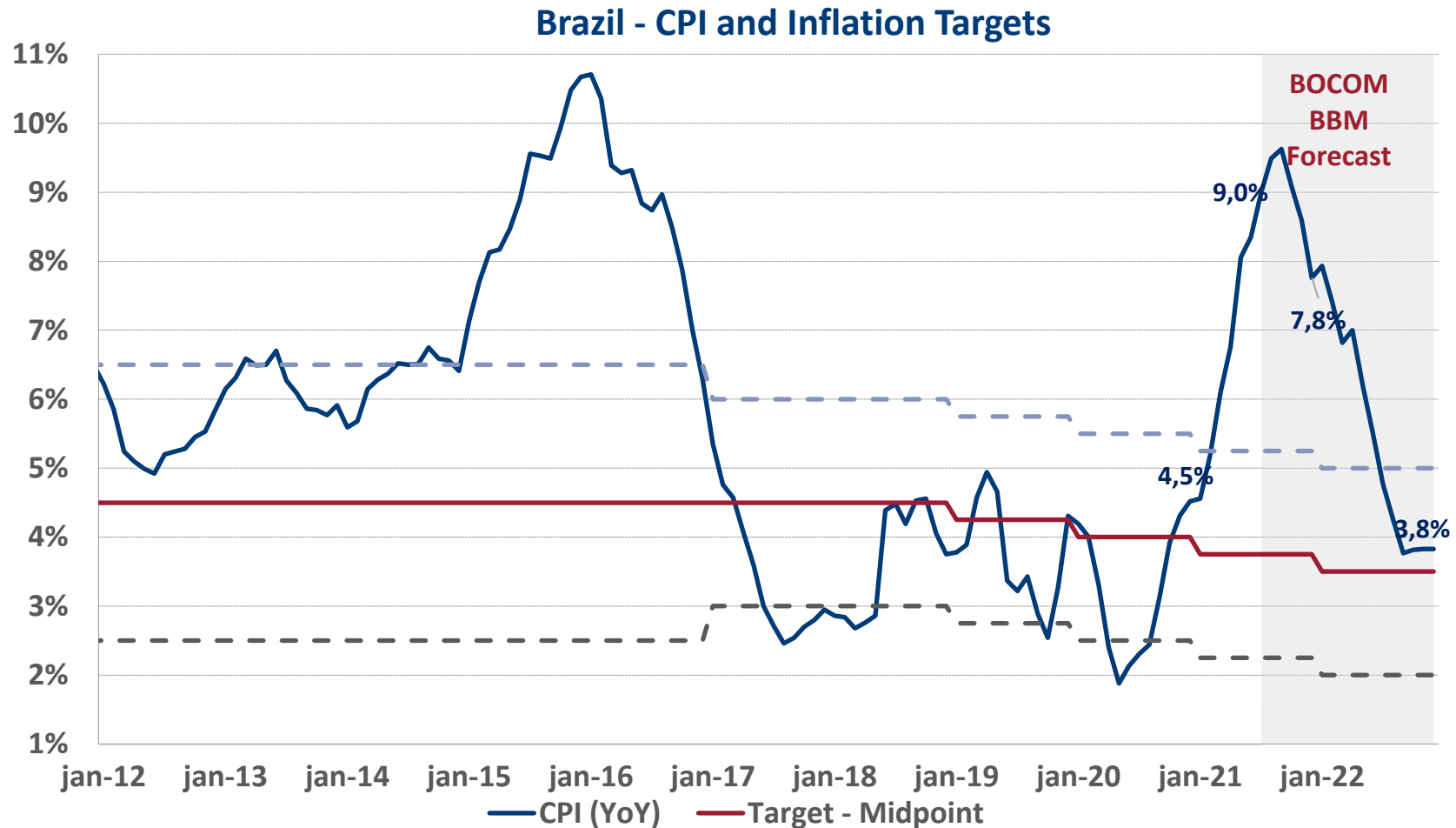
- » Stronger services and non processed food inflation and new electric energy flag tariffs are adding pressure to 2021 CPI;
- » Inflation in 2021 to reach 9,6% in September.

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>	4,5%	2,6%	5,5%	1,7%	18,2%	3,2%
21 Q1	6,1%	7,0%	6,1%	1,6%	17,6%	5,5%
21 Q2	8,3%	13,0%	7,0%	2,2%	15,3%	8,8%
21 Q3	9,6%	14,9%	7,9%	4,2%	13,5%	10,1%
<b>21 Q4</b>	7,8%	12,6%	6,2%	3,8%	8,2%	8,4%
22 Q1	6,9%	9,0%	6,1%	4,7%	8,4%	6,8%
22 Q2	5,6%	5,1%	5,7%	5,3%	8,4%	4,6%
22 Q3	3,8%	3,0%	4,1%	4,6%	5,2%	2,7%
<b>22 Q4</b>	3,8%	3,8%	3,8%	4,3%	4,4%	2,8%



# Brazil: Inflation

» Inflation forecast revised to 7.8% in 2021, considerably above the target's upper limit.



» Inflation forecast is at 7.8% and the principal factors accountable for the cpi above upper limit are:

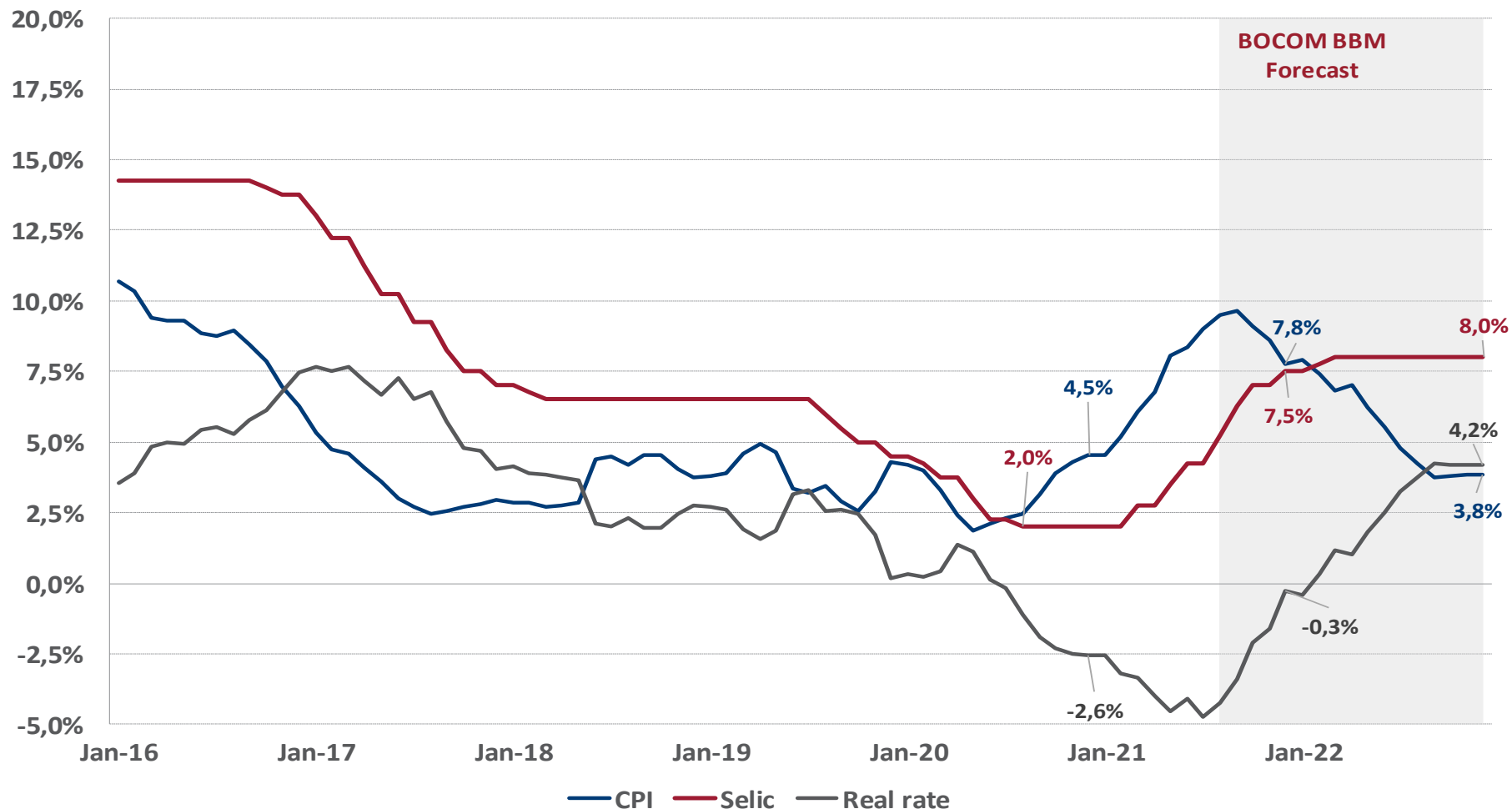
1. Wholesale inflation passthrough to industrial goods;
2. Non processed food inflation increased with frosts;
3. Stronger recovery of the service sector;
4. New hydrological scarcity flag in December.

» New hydrological scarcity flag in December 2021 is a downward force for 2022 CPI, but this increase in energy prices should entail increases in prices of the economy. We have also increased our forecast for tariff readjustments of the energy distributors companies.

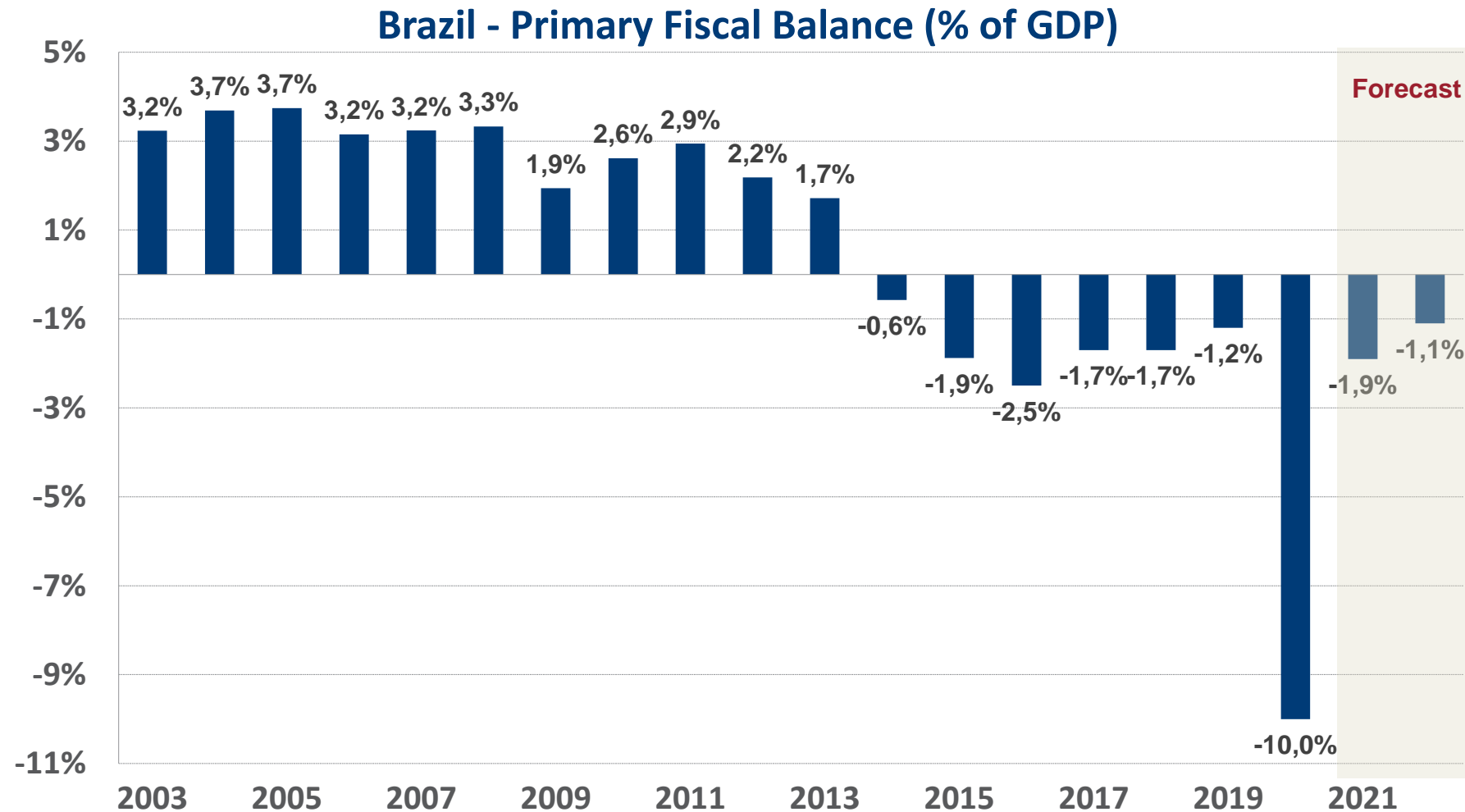
# BRAZIL: MONETARY POLICY

- » We revised our Selic rate projection to 7.5% at the end of 2021 with the cycle's end in December;
- » The pace of increase will be of 1% in the next meeting, followed by one hike of 0.75% and another of 0.5%;
- » In 2022, we expect in the first two meeting two 25 bps hikes, reaching 8%.

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



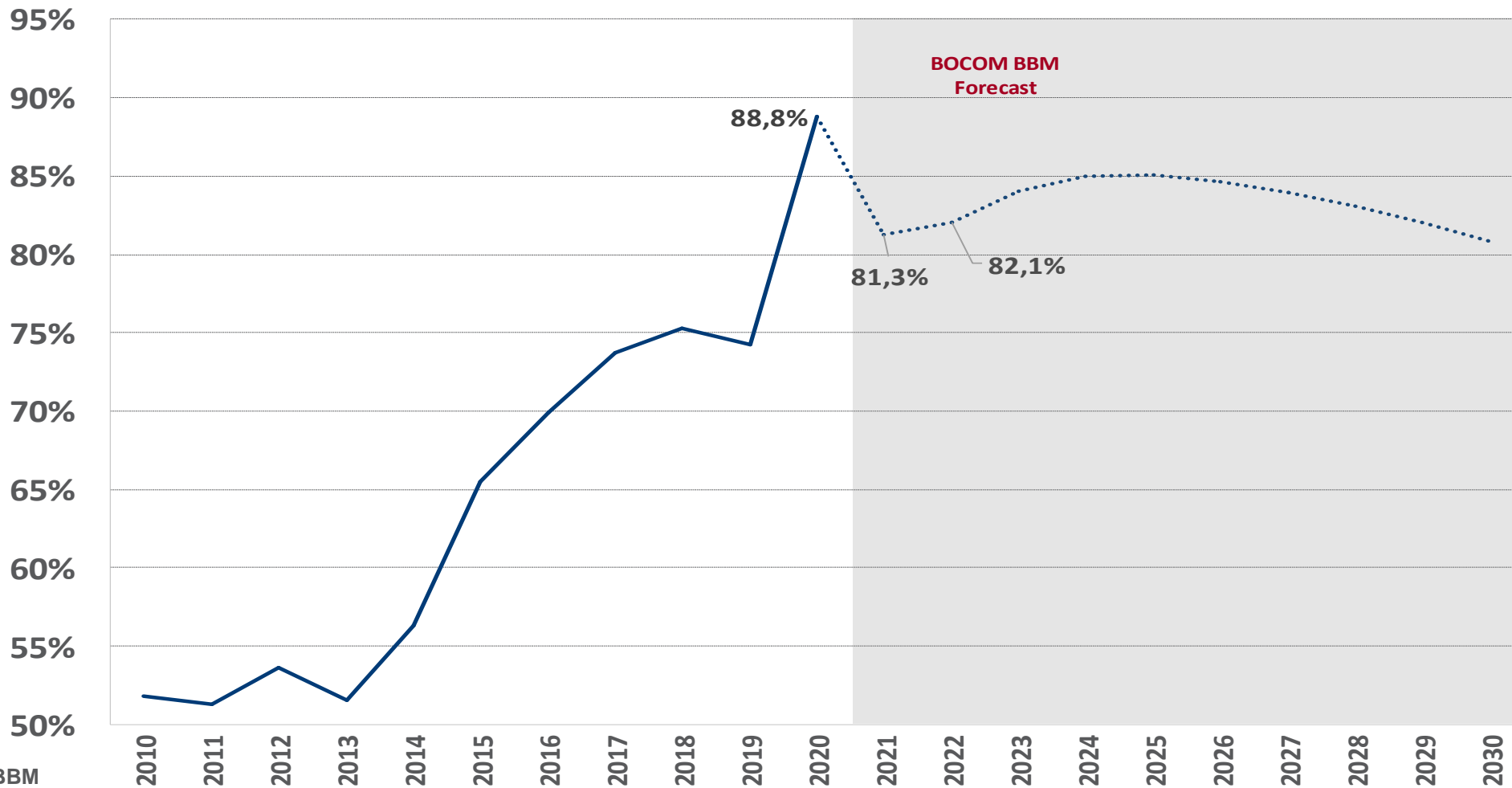
- » Measures to mitigate economic impacts from the pandemic elevated the primary deficit in 2020;
- » This year, with the stronger growth in tax collection, the primary deficit should return to 2,0% of GDP.



# Brazil: Fiscal

- » The smaller fiscal deficit, but also a higher GDP deflator, will decrease the debt-to-GDP ratio this year;
- » But it is important to continue pursuing fiscal consolidation to reduce the elevated public debt.

**Brazil - Gross Public Debt-to-GDP**

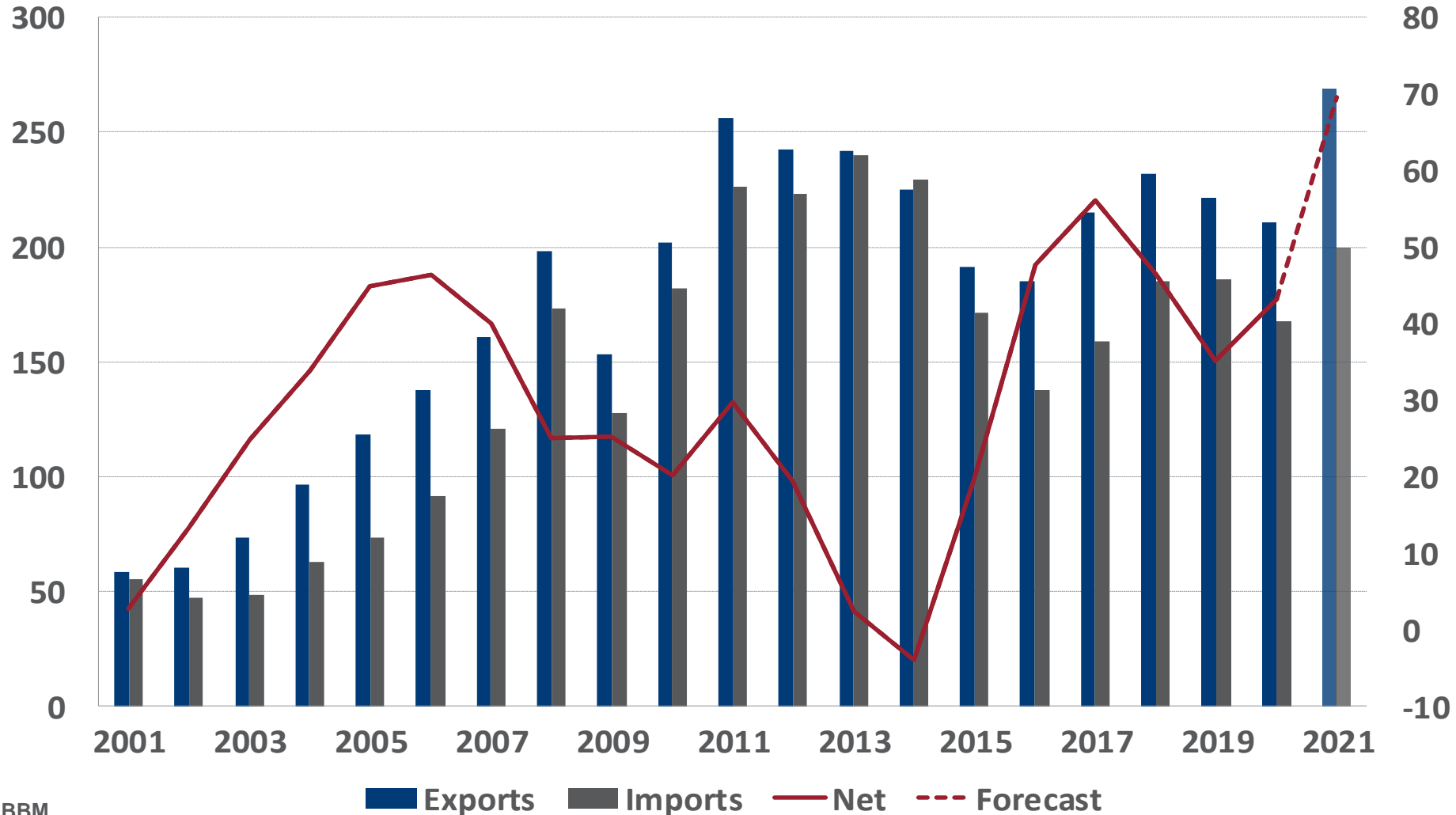




# Brazil: Trade Balance

» In August, the trade balance remained strong and registered one of the largest monthly surplus in the series.

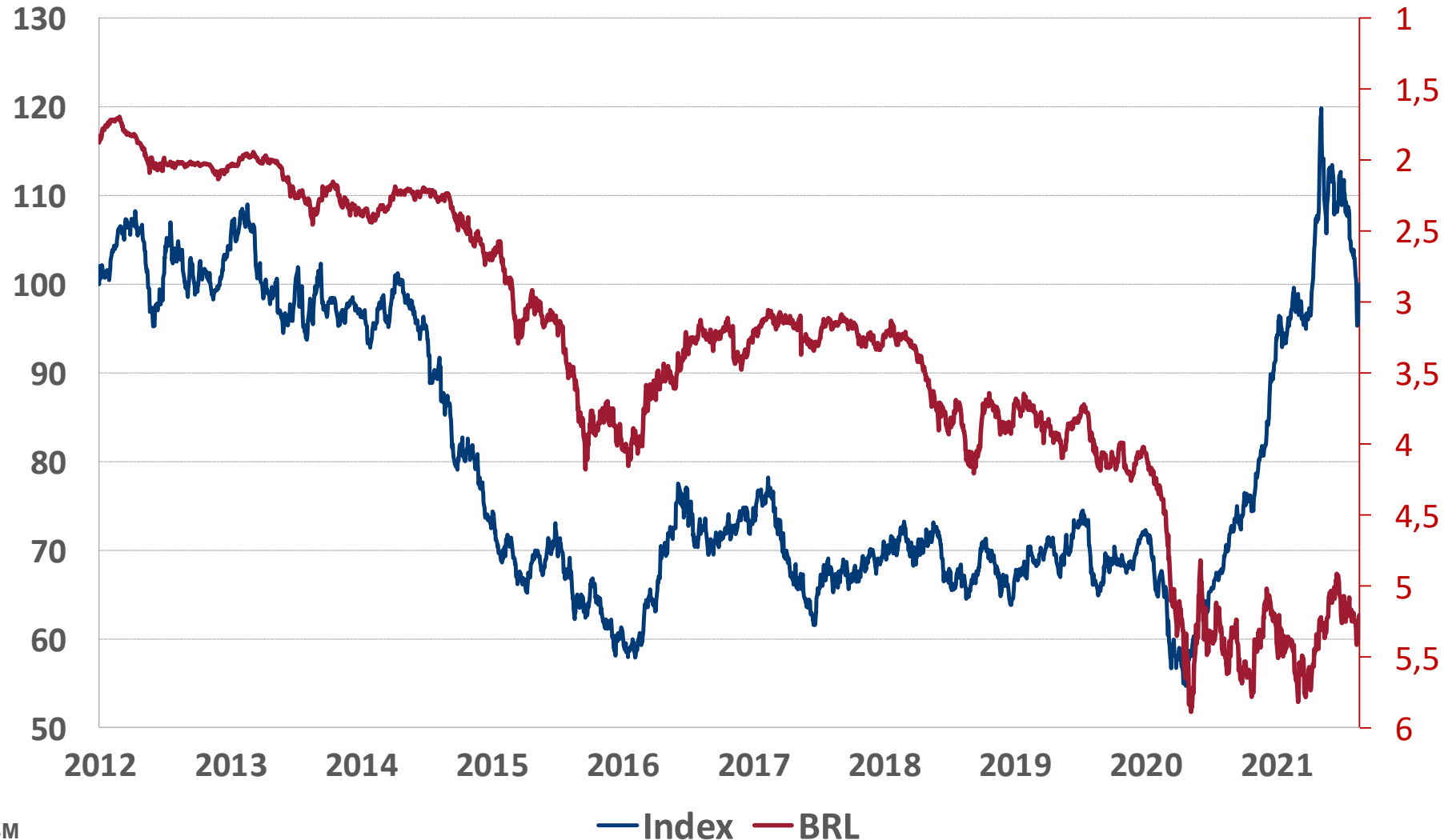
Brazil - Trade Balance (US\$ Bi - 12m)



# Brazil: Trade Balance

- » BRL appreciated slightly in August, returning to levels close to R\$ 5,20 and still distant from what the commodities index points.

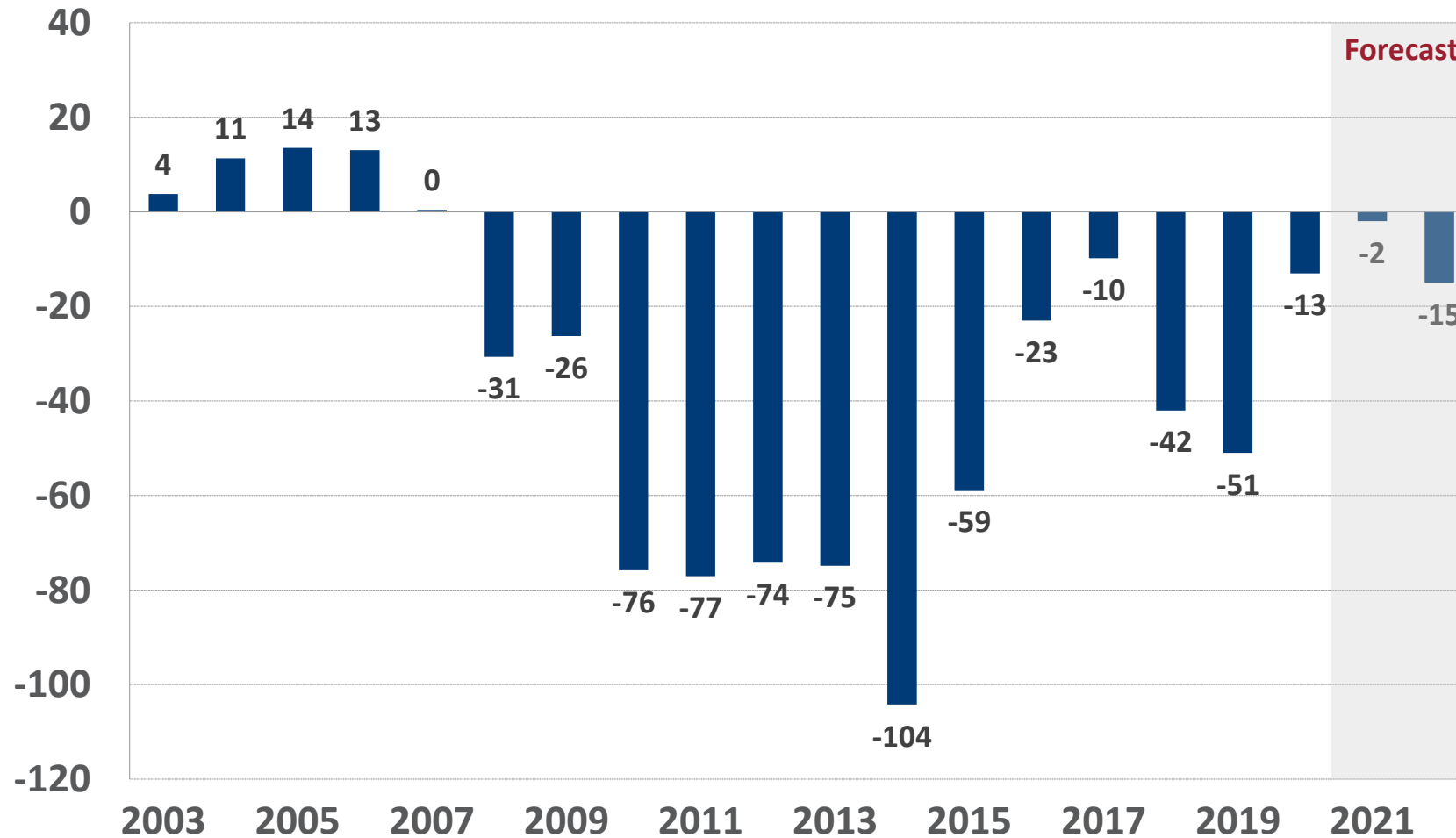
**Brazil - Commodity Index vs BRL**



# Brazil: Balance of Payments

» The trade balance is the main driver of the current account improvement.

Current Account Balance - USD Billion



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