



MACRO OUTLOOK

Cecilia Machado
Chief Economist

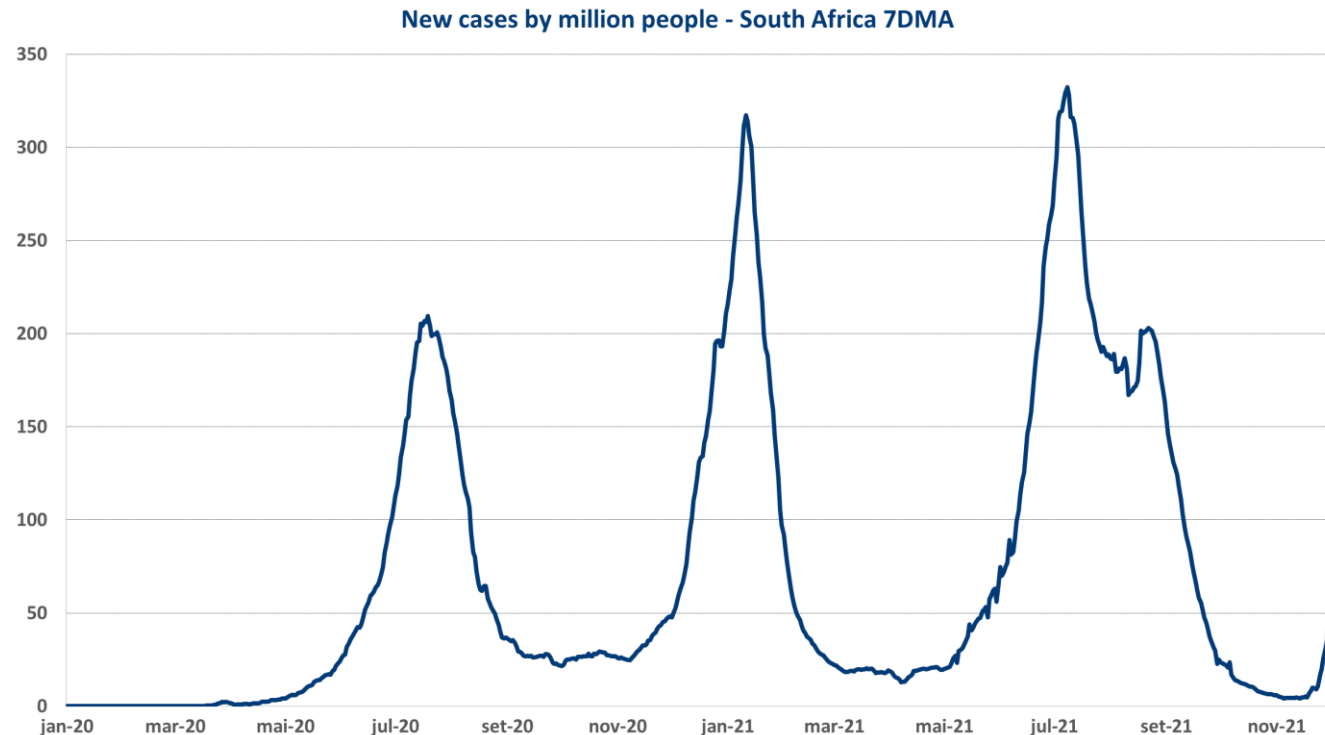
December 2021

- » In Brazil, the number of cases and death dropped considerably, and measures are being taken to control the spread of the new variant;
- » The 3Q21 GDP contracted -0,1% QoQ, confirming the slowdown of the economic activity;
- » The agriculture output had a weak performance, and the industry is still compromised by input shortages;
- » Services sector continue to strengthen, with the recovery of the labor market;
- » We changed our GDP forecast to 4.7% this year and to 0.7% in 2022 due to interest rate hike cycle;
- » Our inflation forecast increased to 10.2% in 2021 due to gasoline prices and strong services inflation. In 2022, we raised our inflation forecast to 5% due to the hypothesis of worsening expectations and currency, after movements against the spending cap were made;
- » Our Selic rate projection was revised to 9.25% at the end of 2021 and to 12% at the end of 2022;
- » A higher nominal GDP and a higher tax collection have contributed to a lower debt-to-GDP ratio in 2021;
- » The casuistic change in spending cap rule compromises the credibility of the fiscal policy and raises concerns about possible fiscal deterioration from 2022 onwards.

- »» What is known about the Omicron variant:
 - »» It is the most mutated variant so far;
 - »» Mutations in protein *spike* are the most concerning as they can undermine vaccine efficacy;
 - »» Apparently substitutes other variants at a much higher rate than Delta or Gamma did;
 - »» Apparently has a higher risk of reinfection.
- »» Nevertheless, very little is known about this variant, and it is still uncertain whether it can:
 - »» Undermine vaccine efficacy;
 - »» Be more contagious;
 - »» Generate more severe cases.

COVID-19 World - Omicron

- » South Africa, where it was first detected, is experiencing an increase in cases. Its origin is also unknown, but it is likely to have originated in Southern Africa;
- » South African data are not as unsatisfactory as previously thought; testing numbers are relatively high.

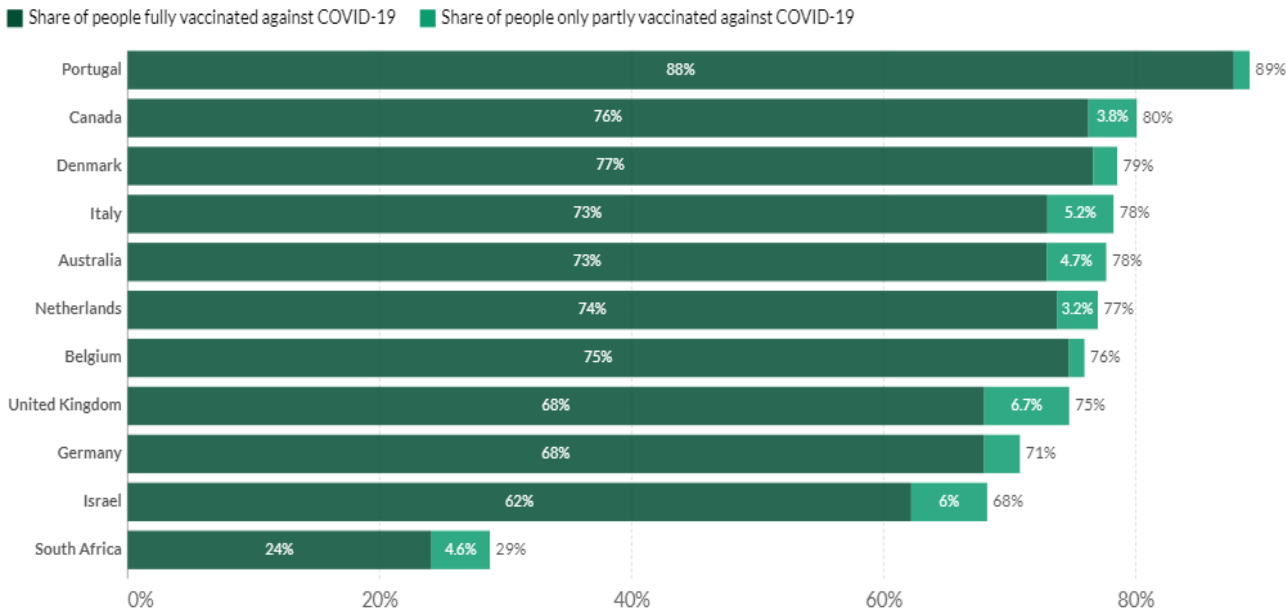


Covid-19 Tests by thousand people	
Country	Value
United Kingdom	4711,4
United States	1963,8
Chile	1295,3
Poland	627,0
Argentina	554,1
India	454,6
South Africa	318,3
Brazil	304,6
Japan	208,8
Indonesia	128,0
Mexico	85,6

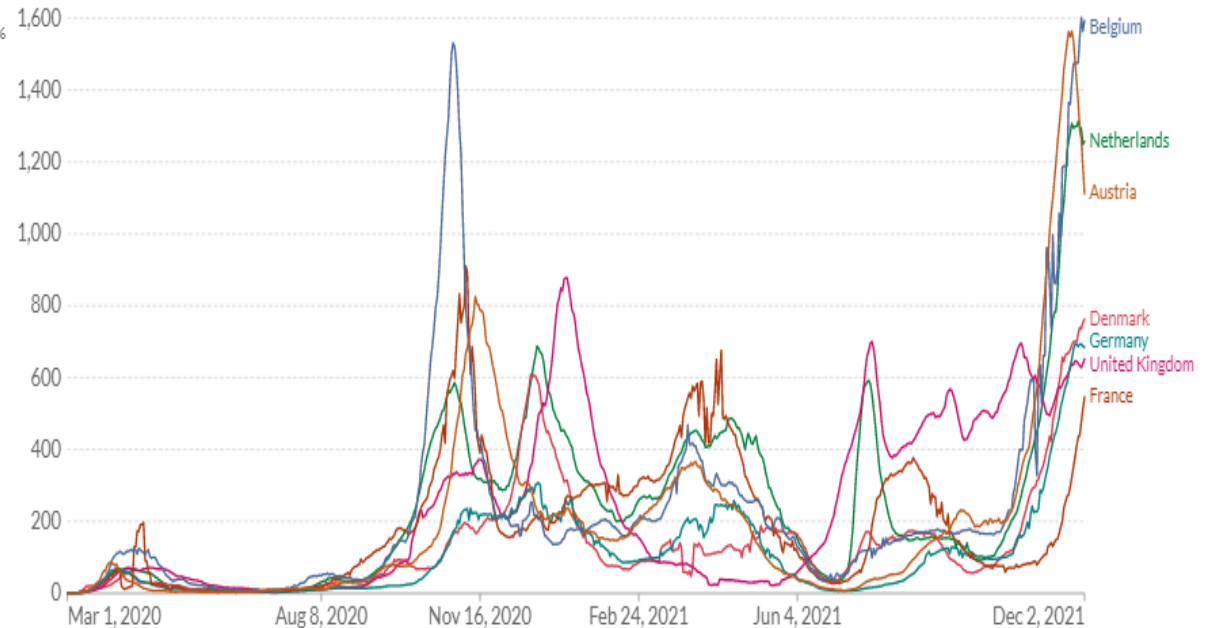
COVID-19 World - Omicron

- » Other countries in Southern Africa present a considerable number of cases. The variant has also spread to several other countries where there's already evidence of local transmission;
- » In Europe, where another wave is taking place, it is possible that the situation gets worse;
- » Countries have backgrounds, vaccination level and pandemic histories very different, so the behavior of the variant may differ substantively.

Share of people vaccinated against COVID-19



Daily new cases Europe - 7DMA

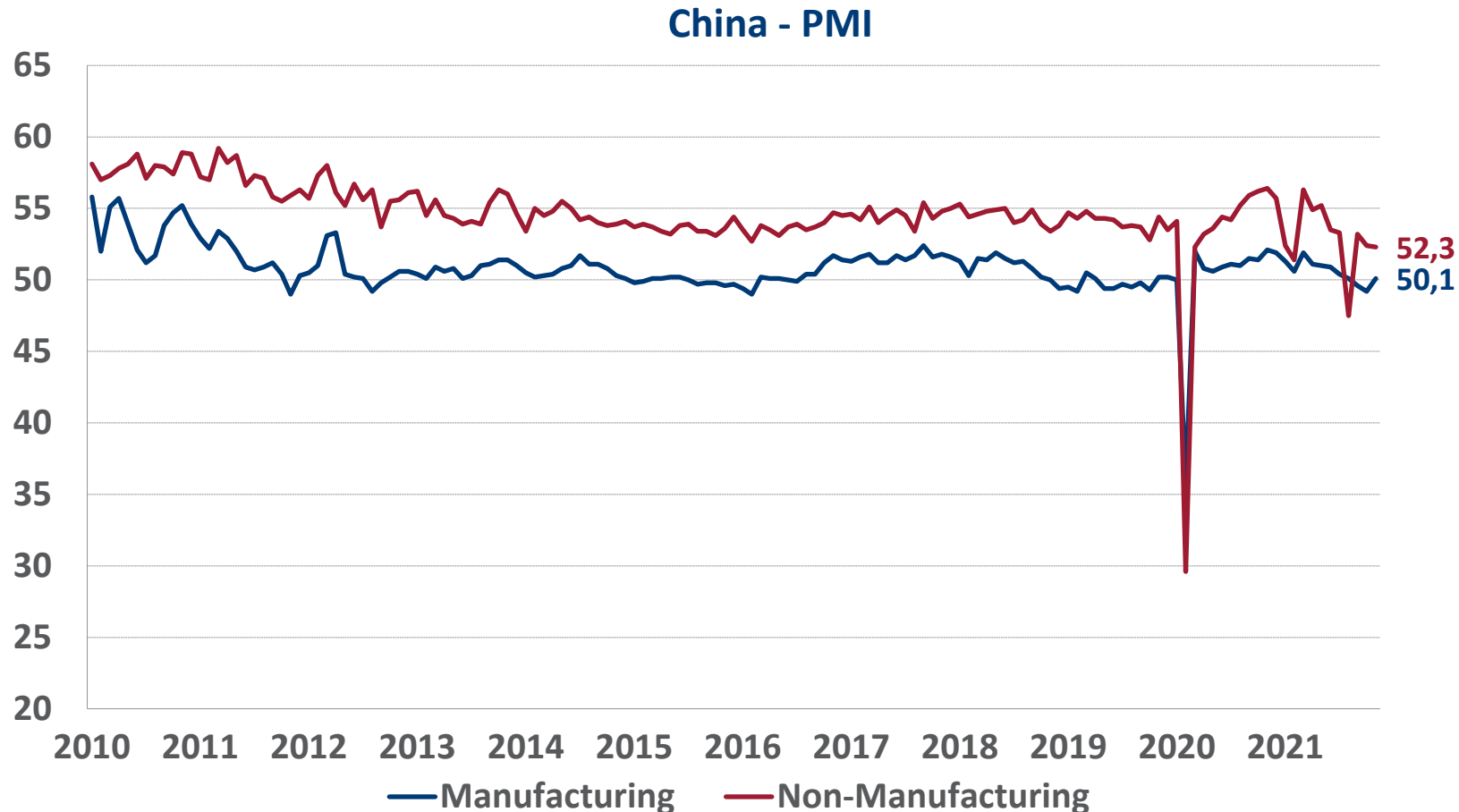


- »» October's data showed the industrial sector started to recover from supply-side shocks and energy crises, but retail sales decelerated due to a weak domestic demand.



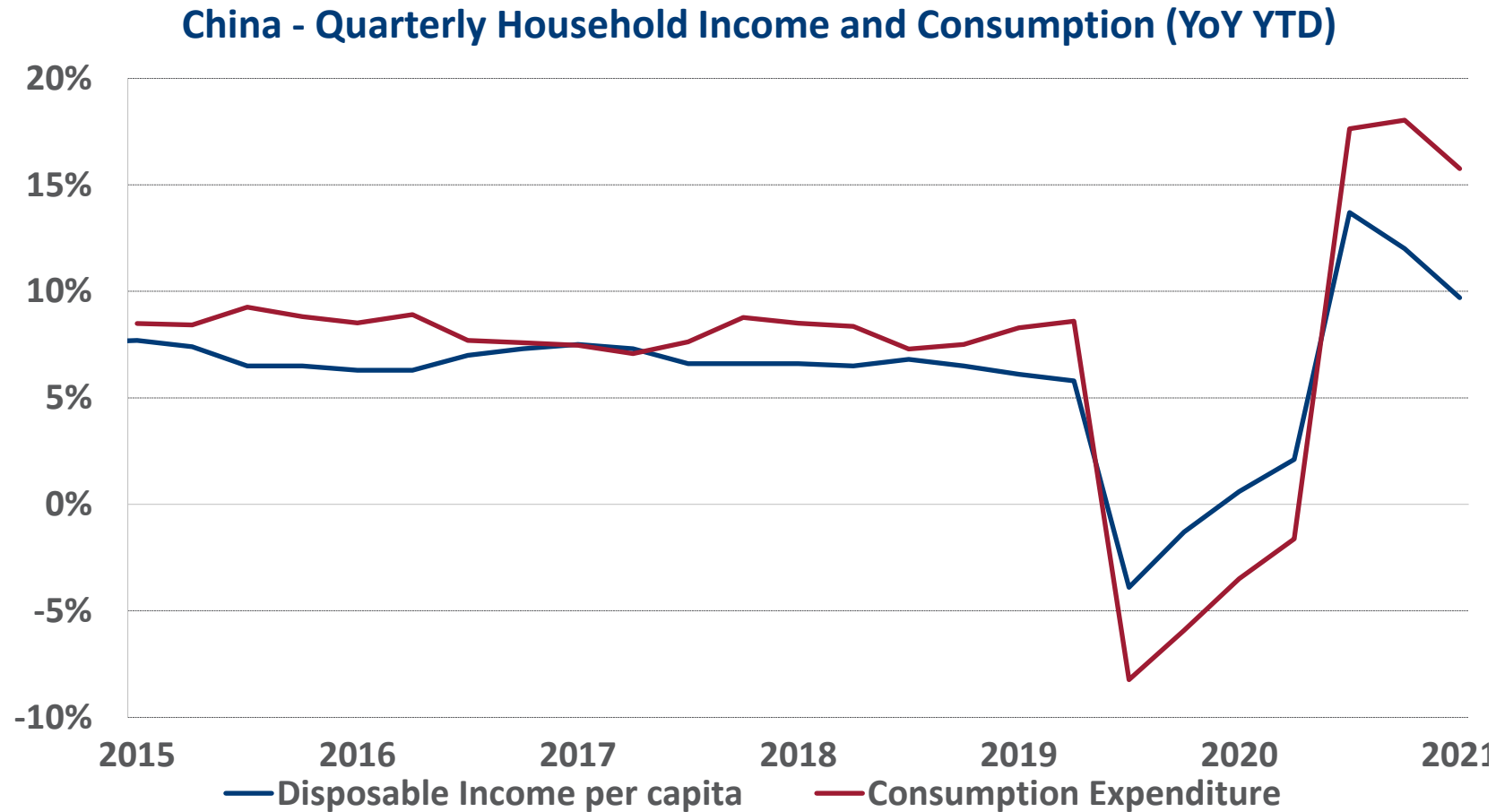
China: PMI

- » November manufacturing PMI data suggested greater relief related to supply shock and energy shortages, while demand conditions have improved at margin;
- » Non-manufacturing PMI fell modestly, suggesting a persistent impact of Covid-19 on the domestic scene.



China: Consumption

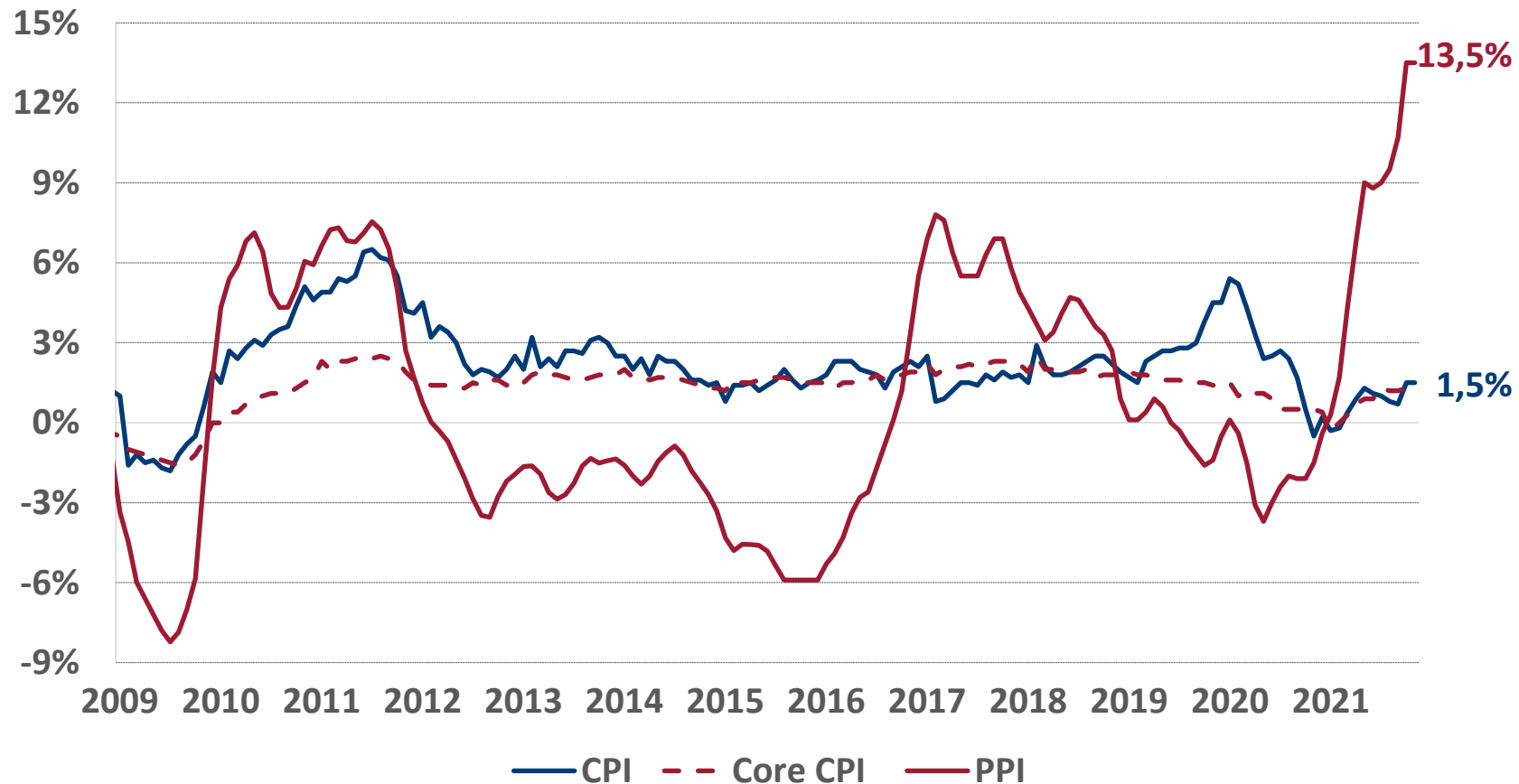
- » Household income and consumption growth both slowed in Q3 amid mobility restrictions, the zero-tolerance policy toward the covid-19 and changes in consumption patterns.



China: Inflation

- » The PPI kept its upward trend, pushed by higher energy costs and tighter supply of raw materials;
- » In October, the CPI increased slightly and brought concerns about the pass-through to the final consumer.

China - Inflation (YoY)



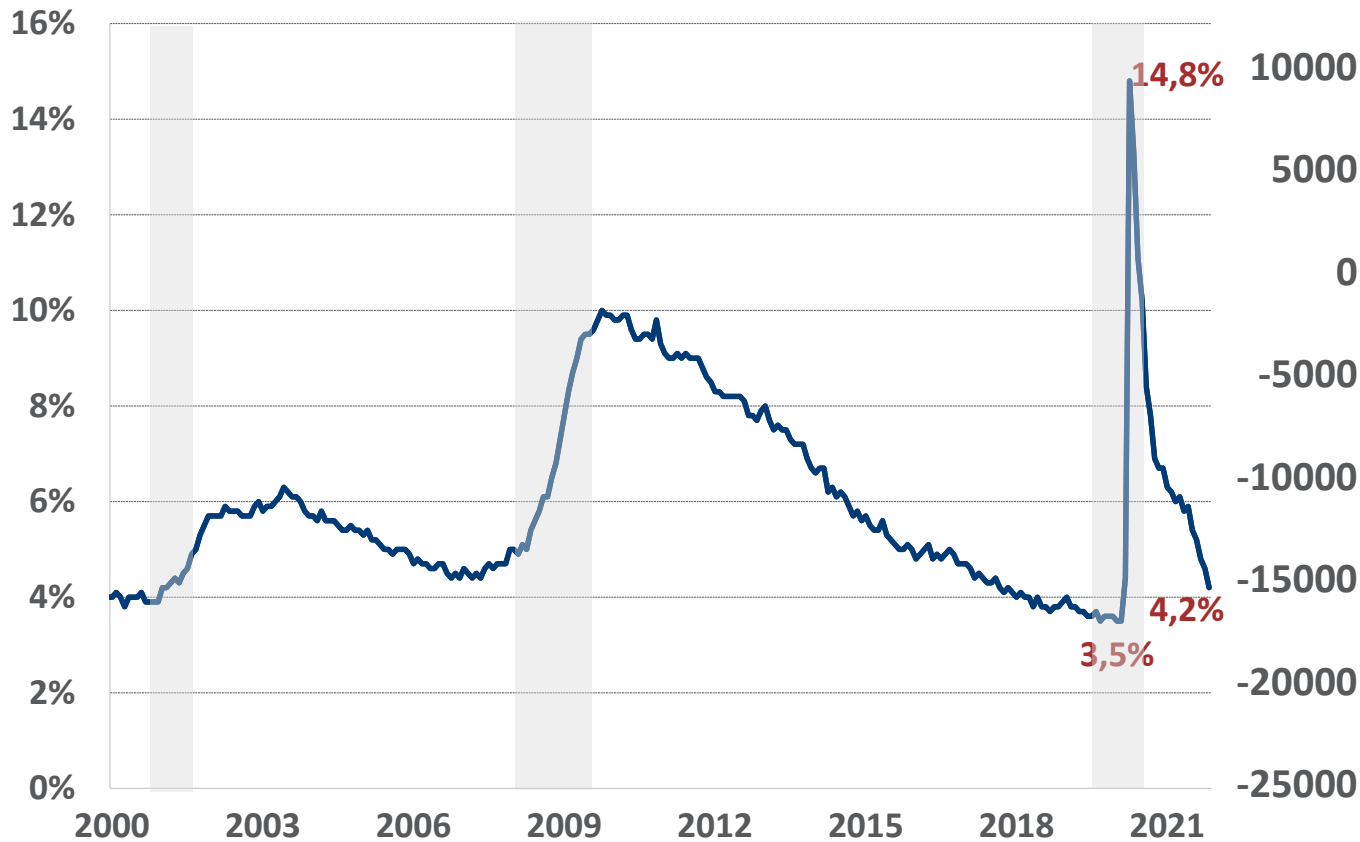
- » China's trade balance registered a record monthly surplus in October as exports increased despite the global supply-chain disruptions.



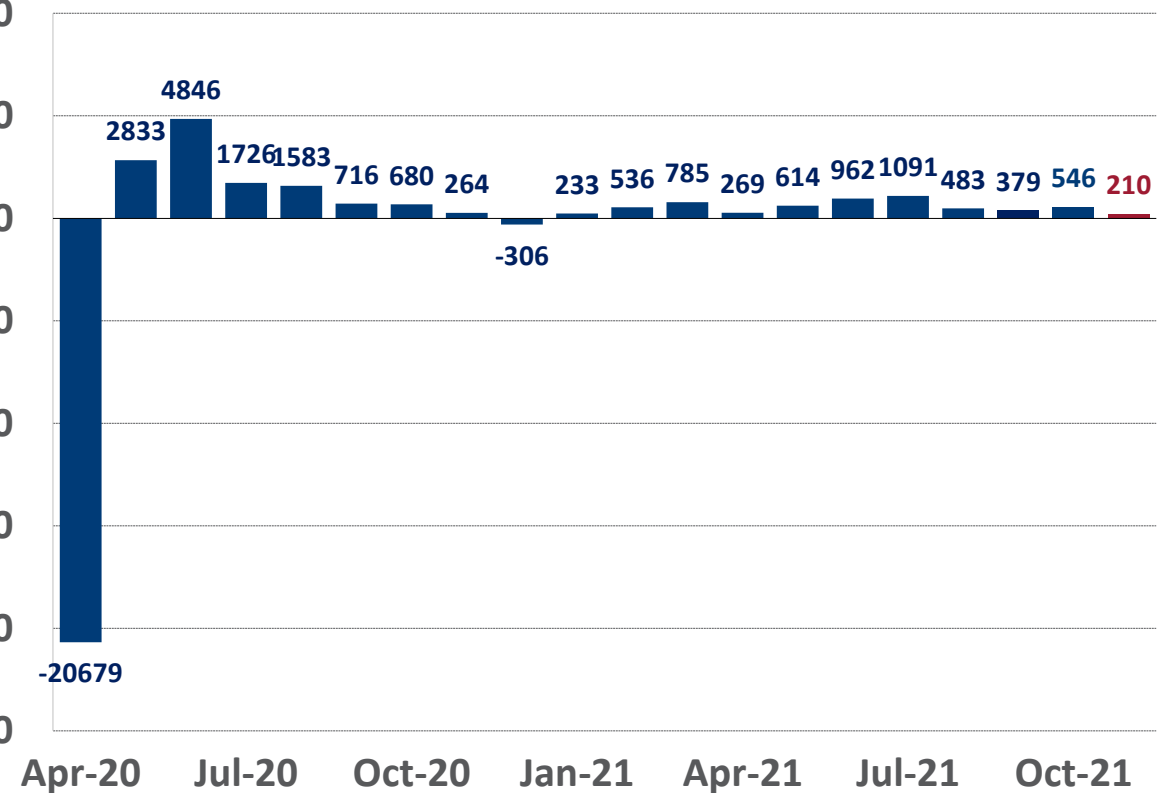
US: Payroll

» In November, the unemployment rate fell from 4,6% to 4,2%, confirming the labor market recovery. However, jobs created were below expectations.

US - Unemployment Rate SA



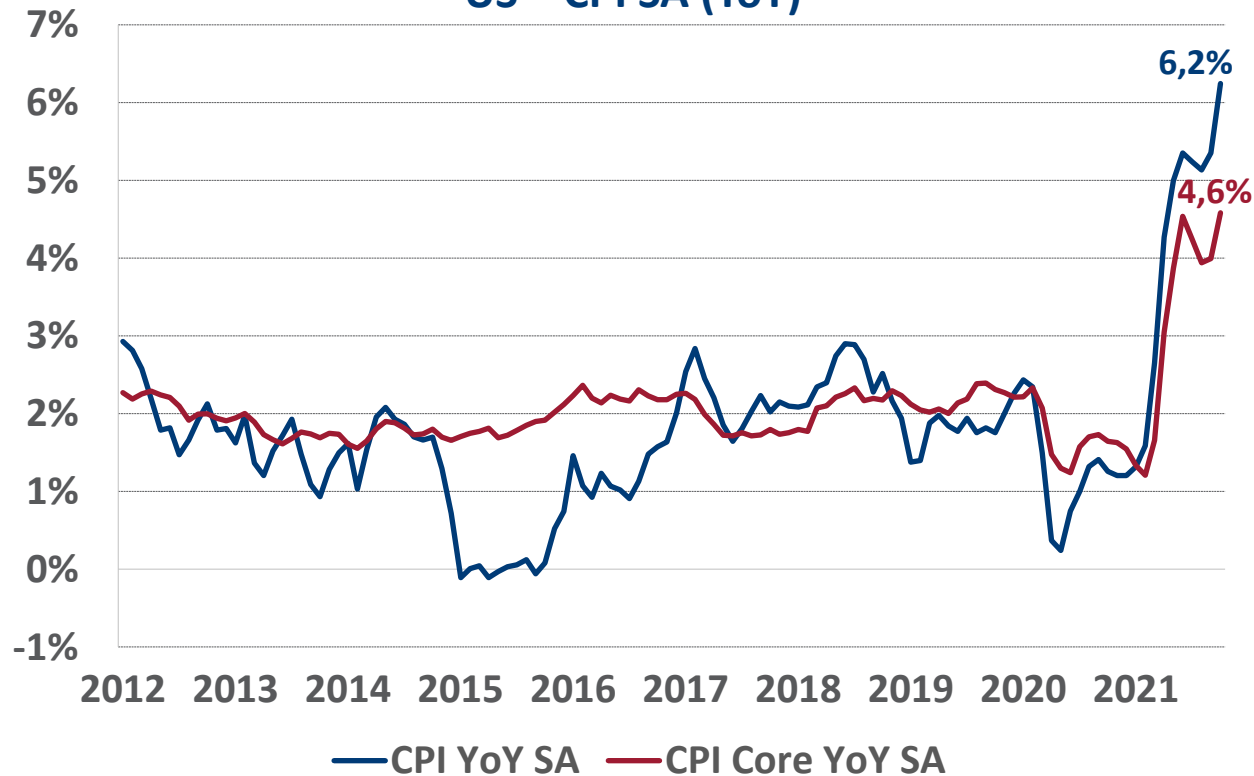
US - Nonfarm Payroll SA (Thousands)
change from previous month



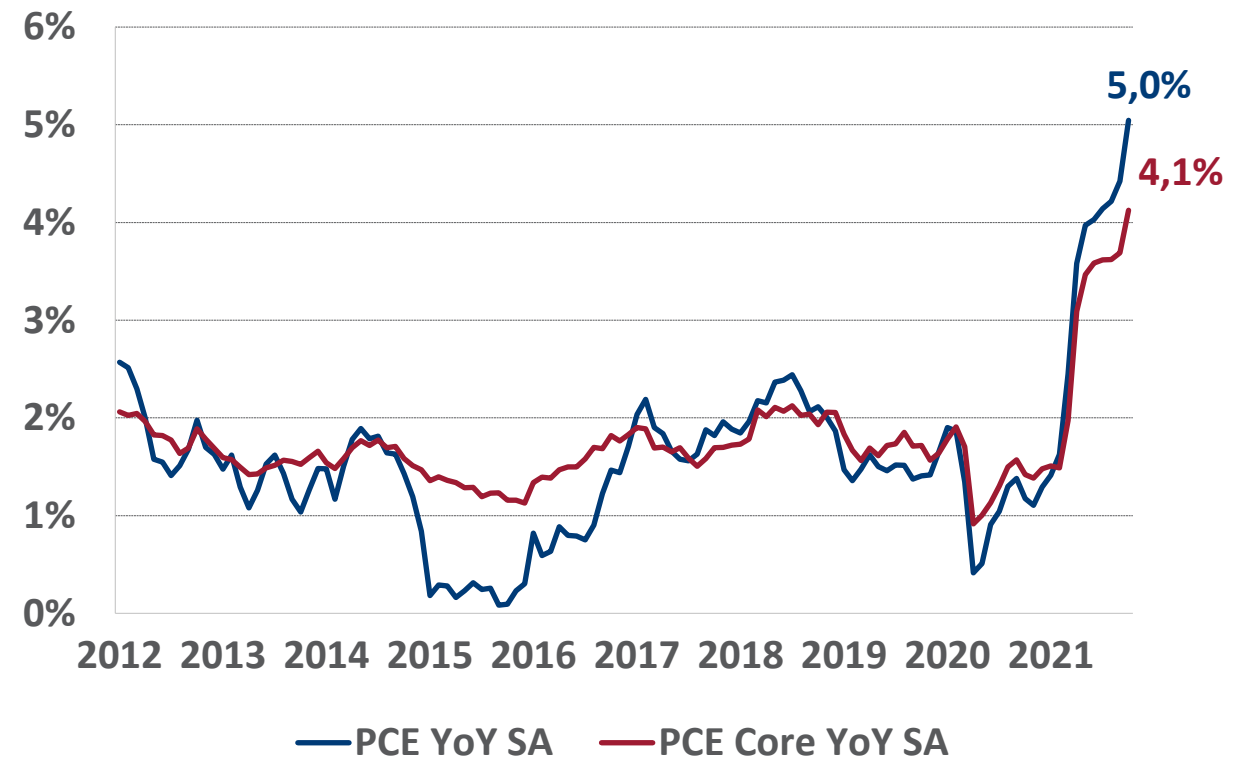
USA: Inflation

- » US inflation accelerated alongside a jump in salaries and pushed the FED to start tapering bonds purchases;
- » Discussions about adjusting the pace of tapering are expected in the next FOMC meeting.

US – CPI SA (YoY)

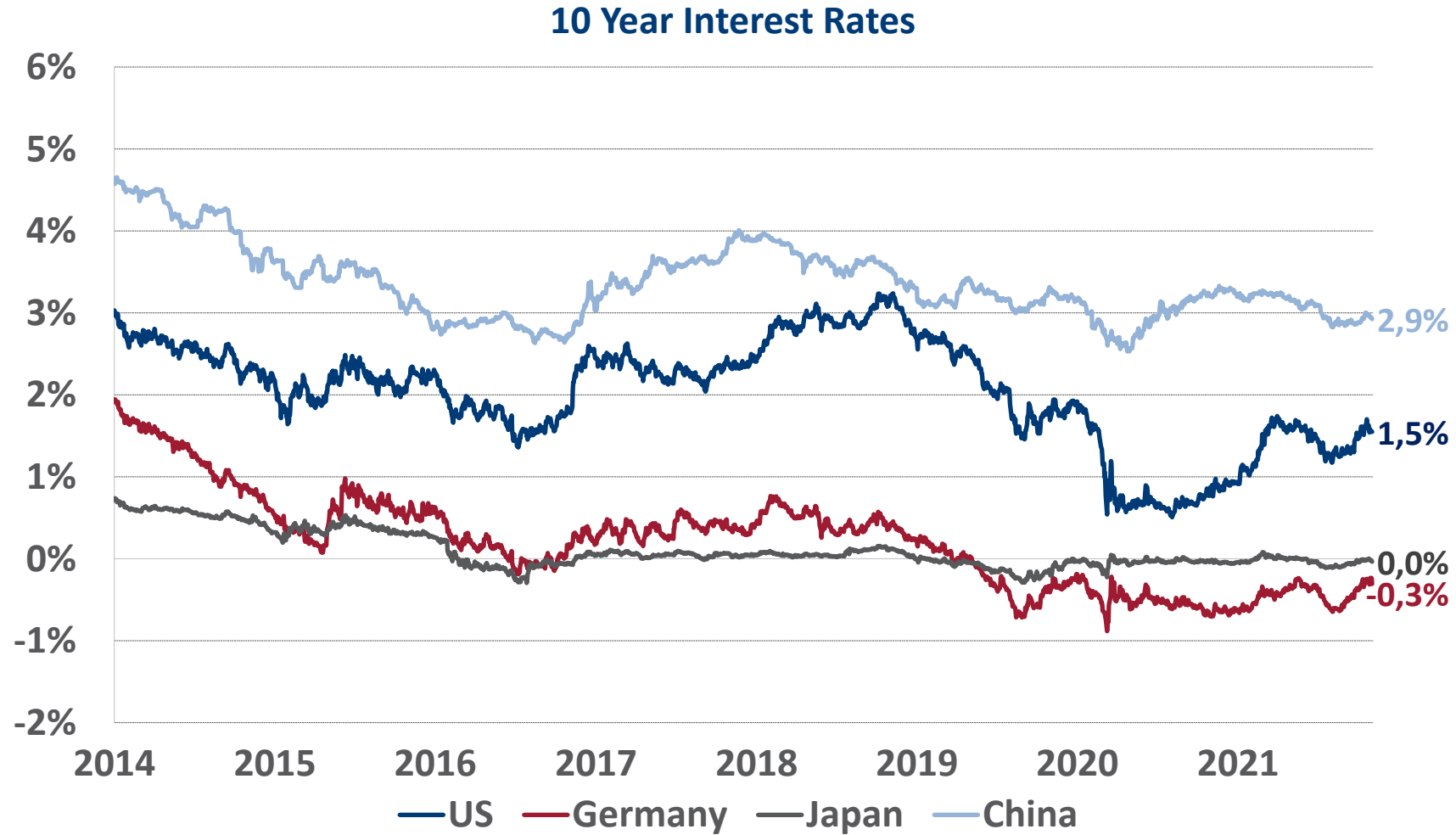


US – PCE SA (YoY)



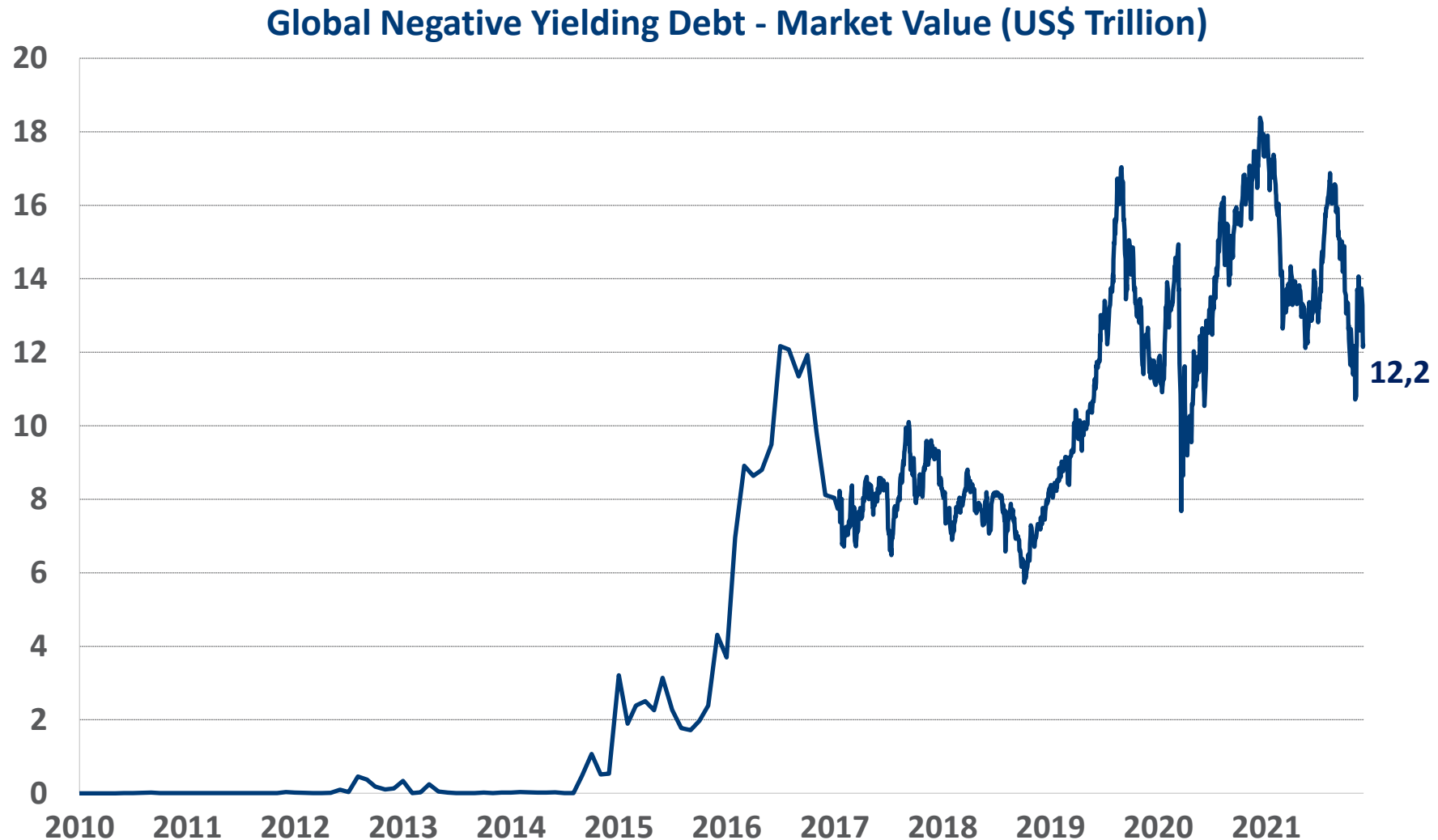
Global Interest Rates

» Changes in monetary policy of the principal Central Banks affect long term interest rates, increasing it.



Global: Negative Interest Rates

» The volume of negative-yielding debt kept its downward trend with a gradual reduction of monetary stimulus.

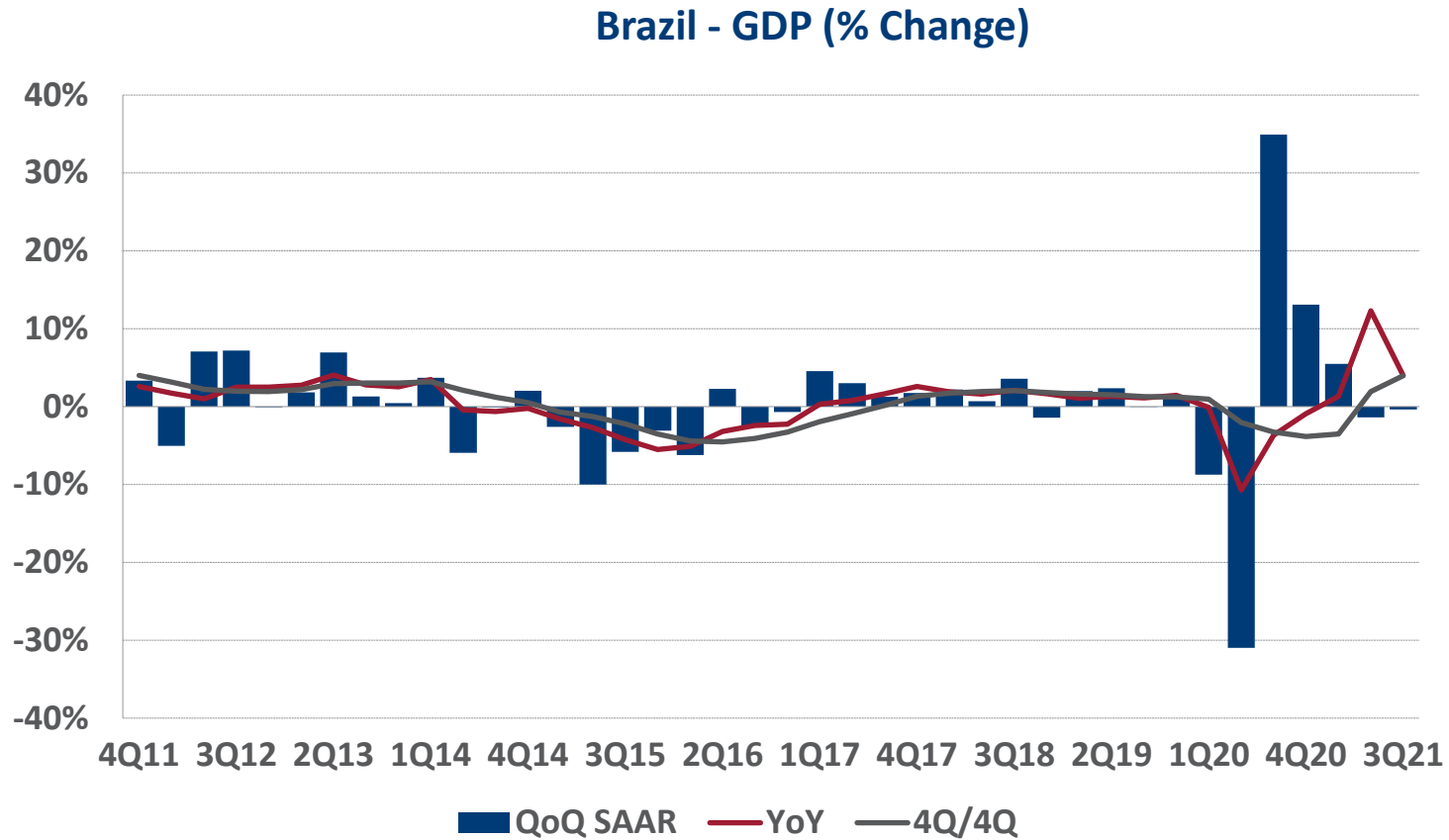


Brazil: Forecasts

ECONOMIC FORECASTS	2018	2019	2020	2021F	2022F
GDP Growth (%)	1,3%	1,1%	-4,1%	4,7%	0,7%
Inflation (%)	3,7%	4,3%	4,5%	10,3%	5,0%
Unemployment Rate, SA (eoy ,%)	12,2%	11,7%	13,9%	12,5%	12,0%
Policy Rate (eoy, %)	6,50%	4,50%	2,00%	9,25%	11,5%
External Accounts					
Trade Balance (US\$ bn)	53	48	51	39	46
Current Account Balance (US\$ bn)	-51	-65	-24	-20	-20
Current Account Balance (% of GDP)	-2,2%	-2,8%	-0,9%	-0,9%	-0,9%
Fiscal Policy					
Fiscal Primary Balance (% of GDP)	-1,7%	-1,2%	-10,0%	-1,1%	-1,3%
Government Gross Debt (% of GDP)	75,3%	74,3%	88,8%	79,8%	82,9%

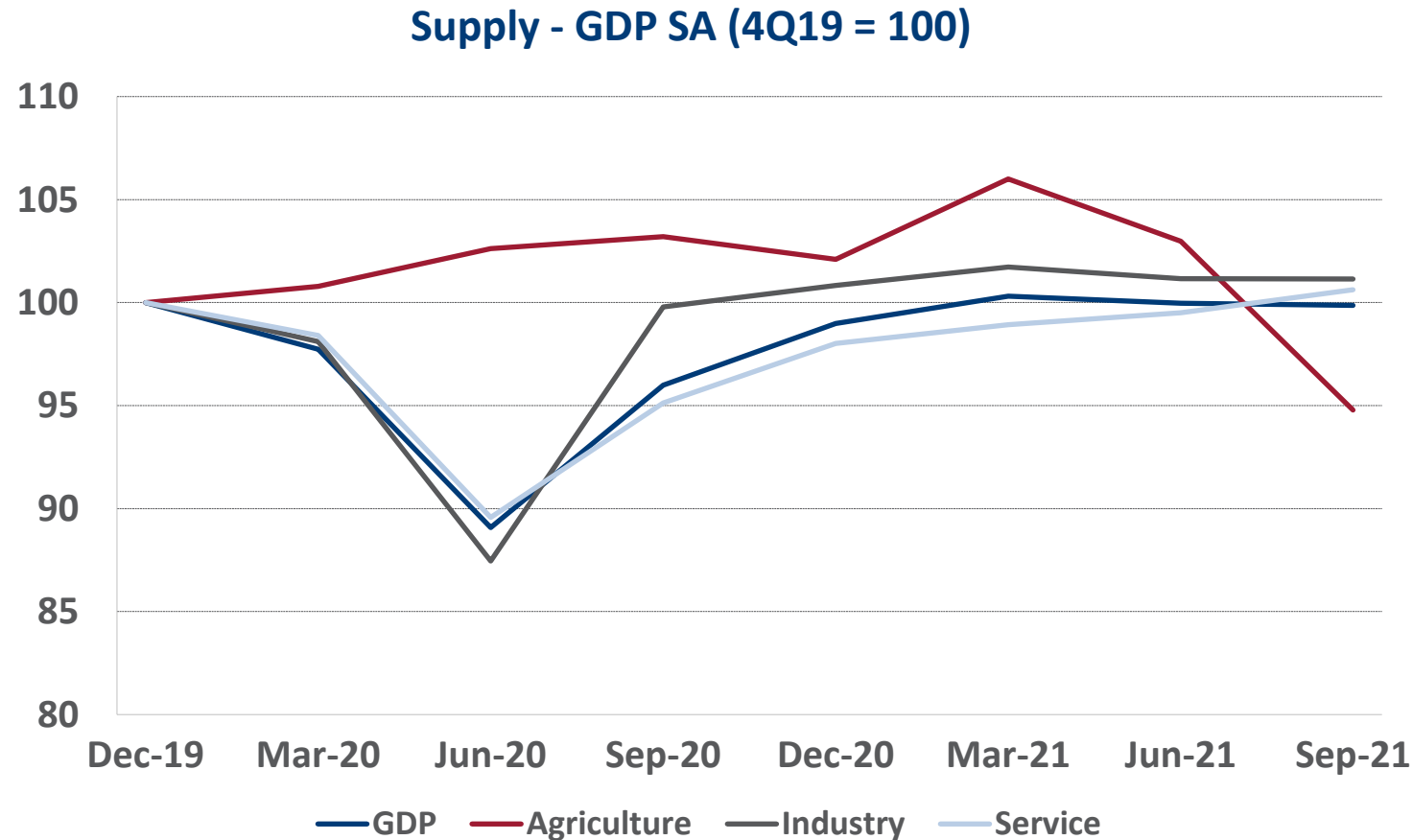
Brazil: GDP

» The Brazil's economy contracted -0,1% QoQ (4,0% YoY) in 3Q21, slightly below market consensus.



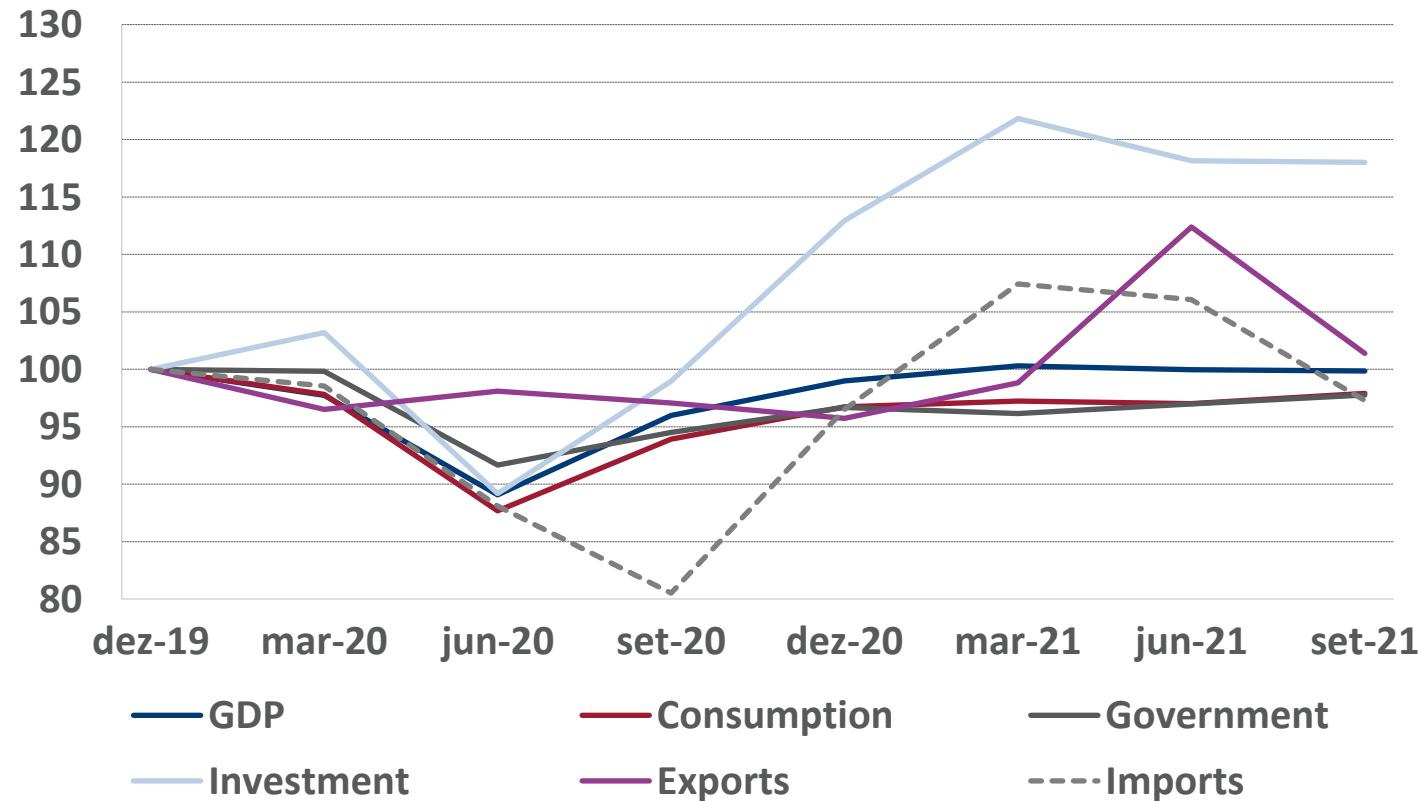
Brazil: GDP

- » On the supply side, the agriculture output dropped sharply while the industry remained steady in 3Q21;
- » The services sector posted a 1,1% QoQ growth in the wake of economic reopening and advancing vaccination.



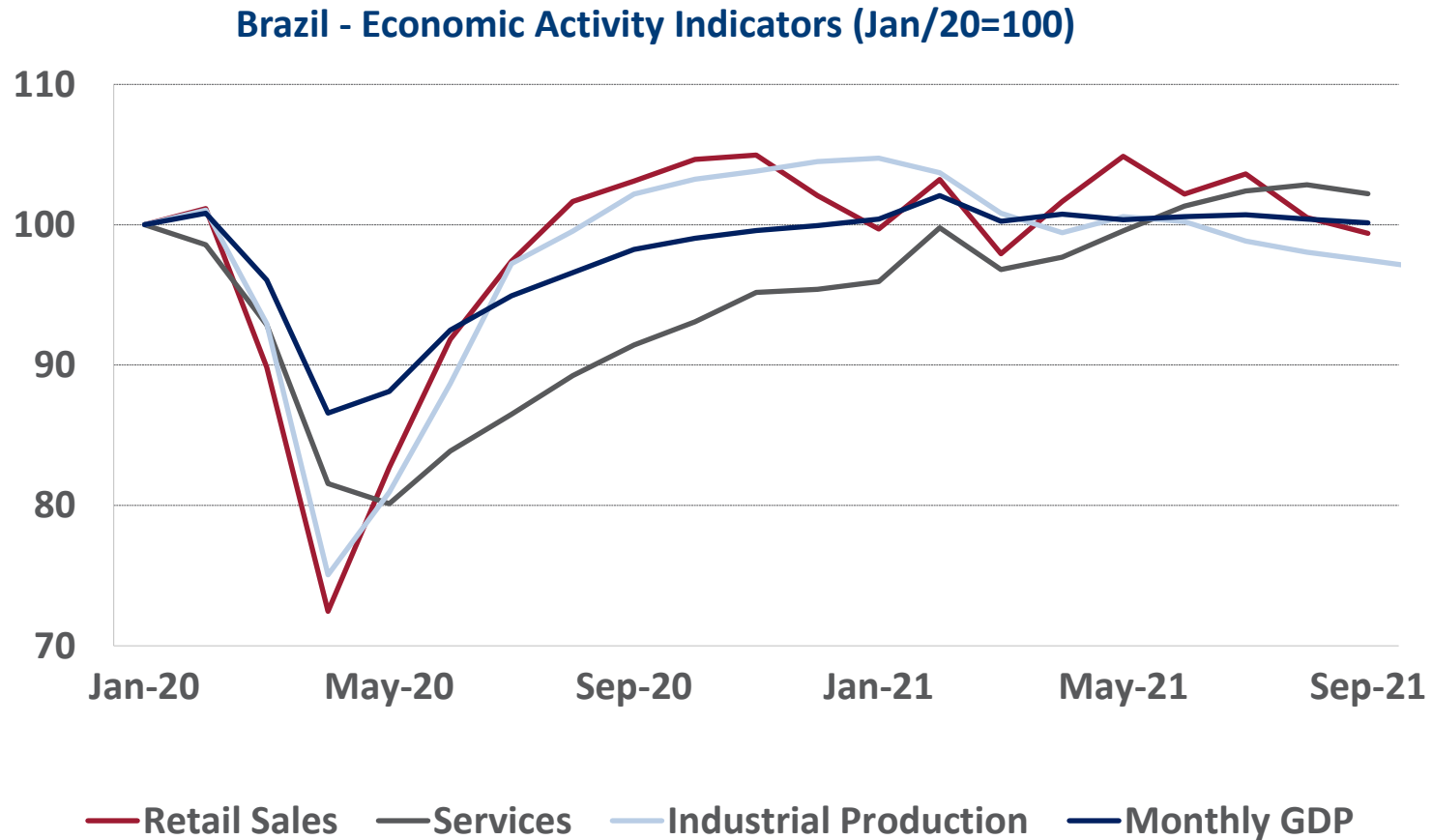
- » Consumption increased on the back of credit expansion, labor market improvement while government expenditure benefited from the normalization of public services;
- » The external sector contributed negatively to 3rd GDP growth.

Demand - GDP SA (4Q19 = 100)



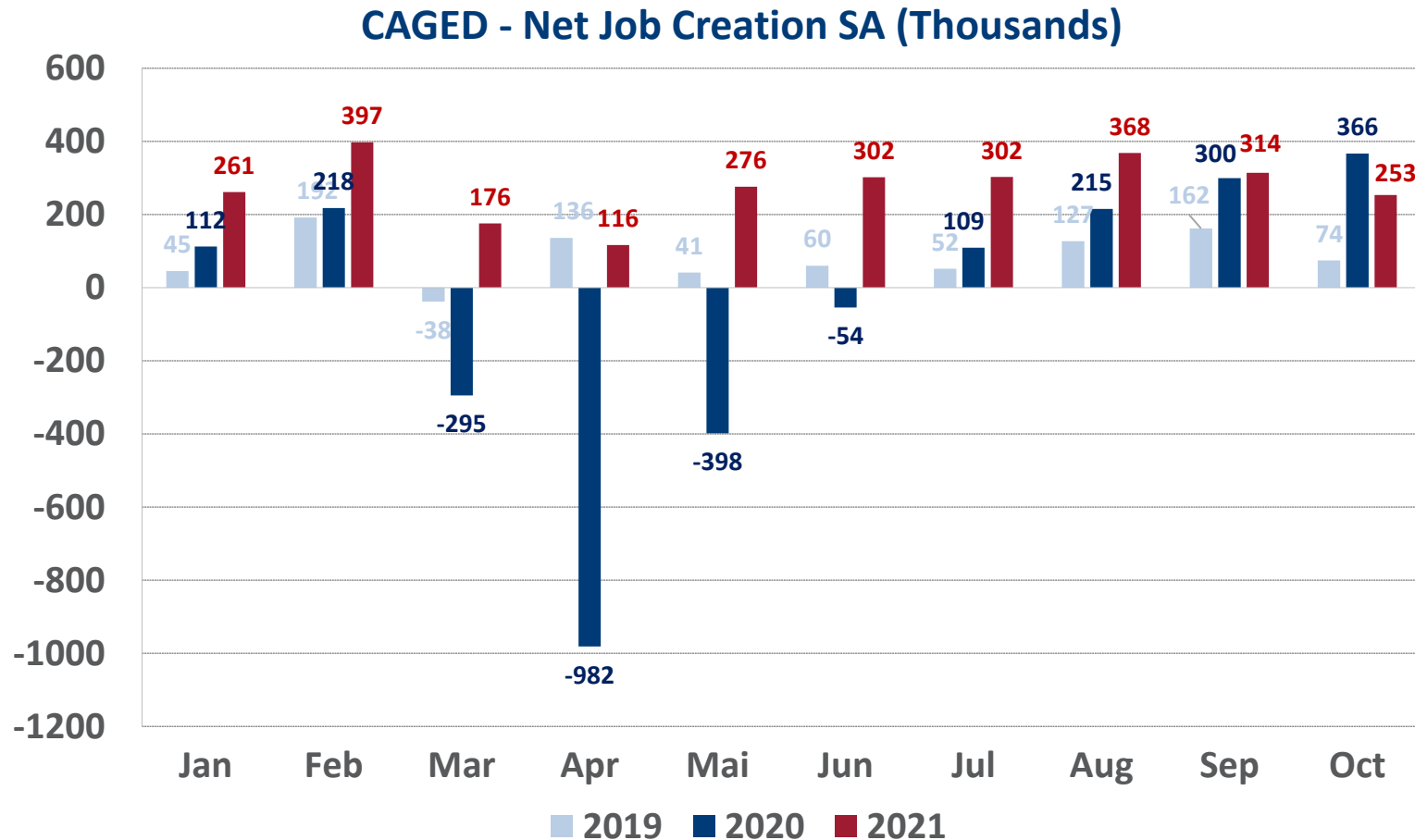
Brazil: Activity

- » High Frequency data showed that the economic is losing momentum as supply bottlenecks affect the industry and inflation compromises demand.



Brazil : Labor Market (Caged)

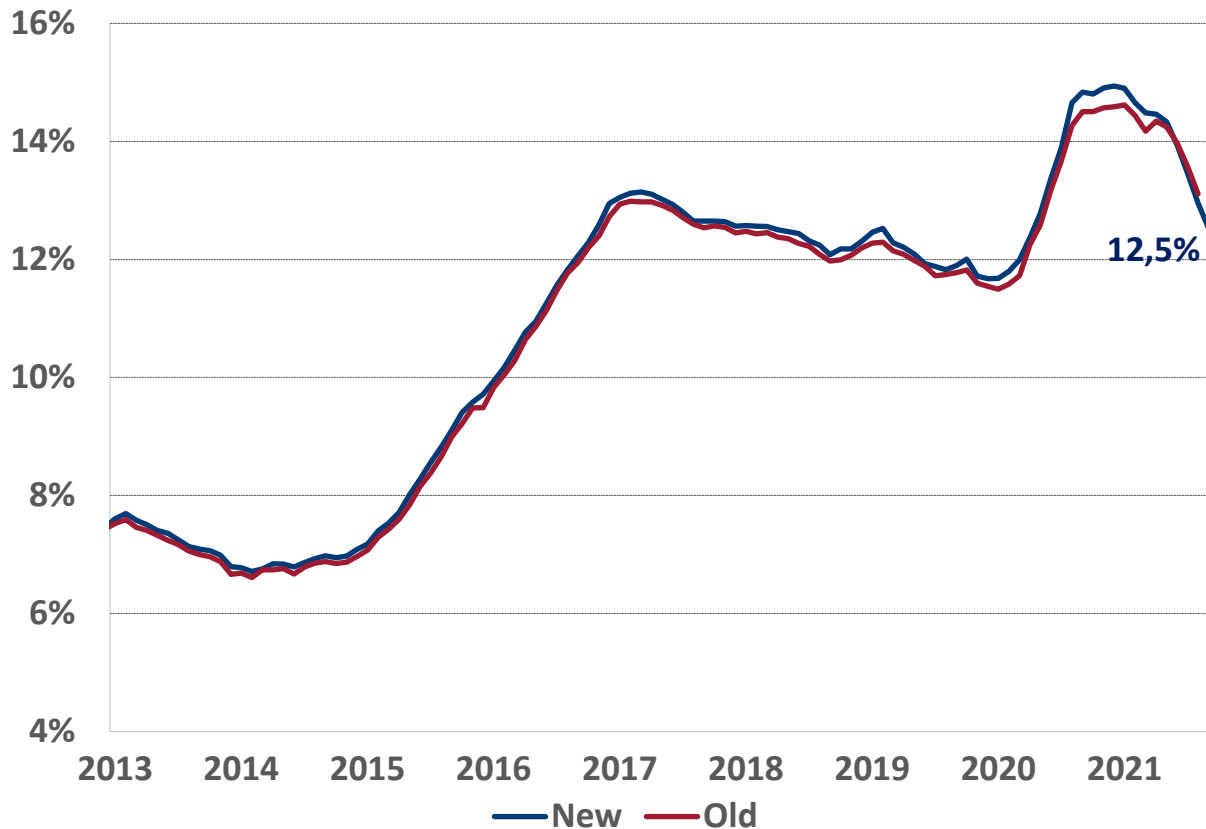
- » Net job creation was positive in October, but the result presented a slowdown as it tends to normalize;
- » Last figures showed signs of stabilization in dismissals while Hiring is trending down.



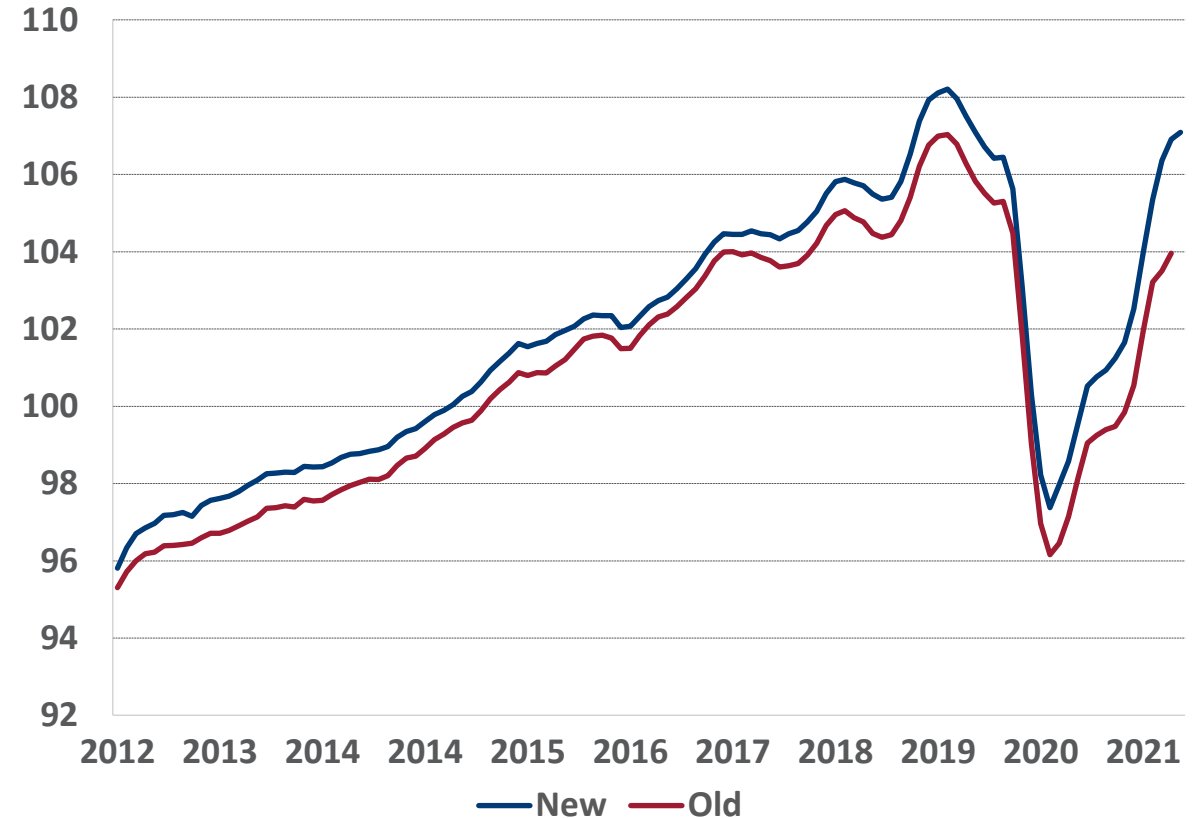
Brazil: Labor Market (Pnadc)

» The revision in PNAD survey indicated a better perspective of the labor market with a fast decrease of the unemployment rate from 13,0% to 12,5% and an upward impact over the labor force.

Brazil - Unemployment Rate SA



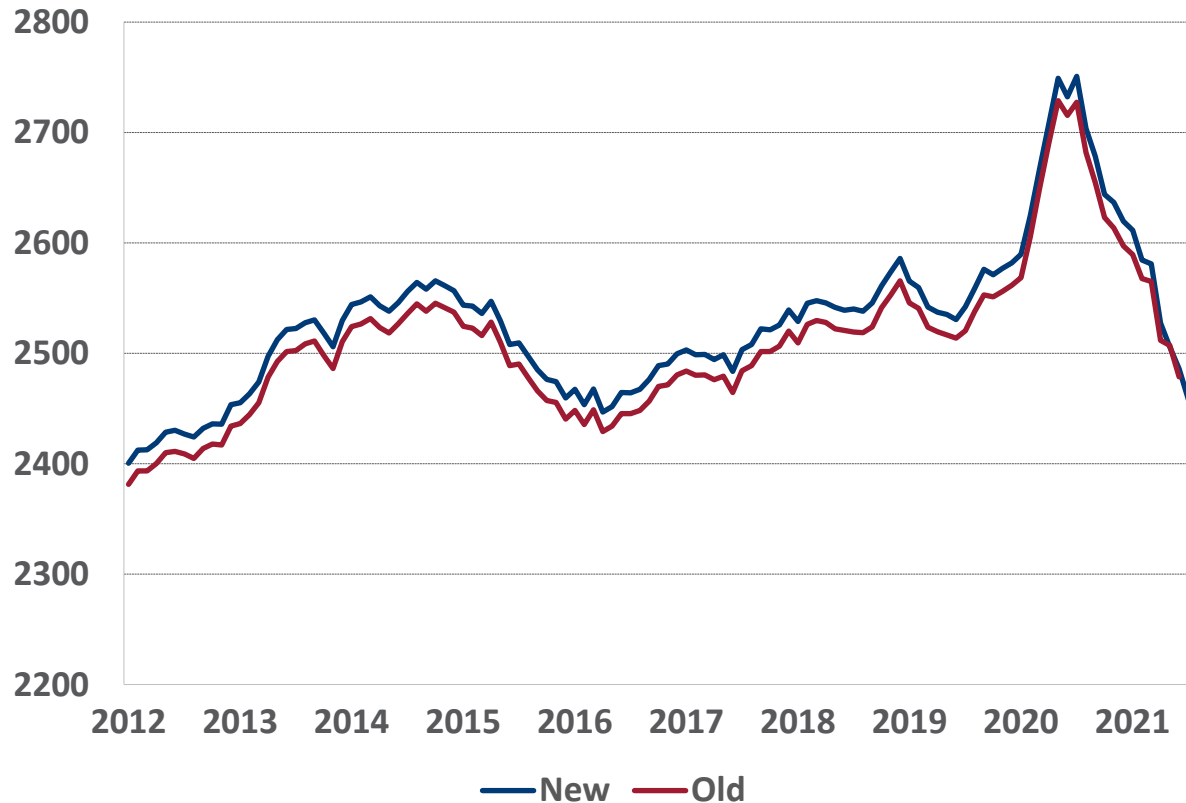
Brazil - Labor Force SA (Thousands)



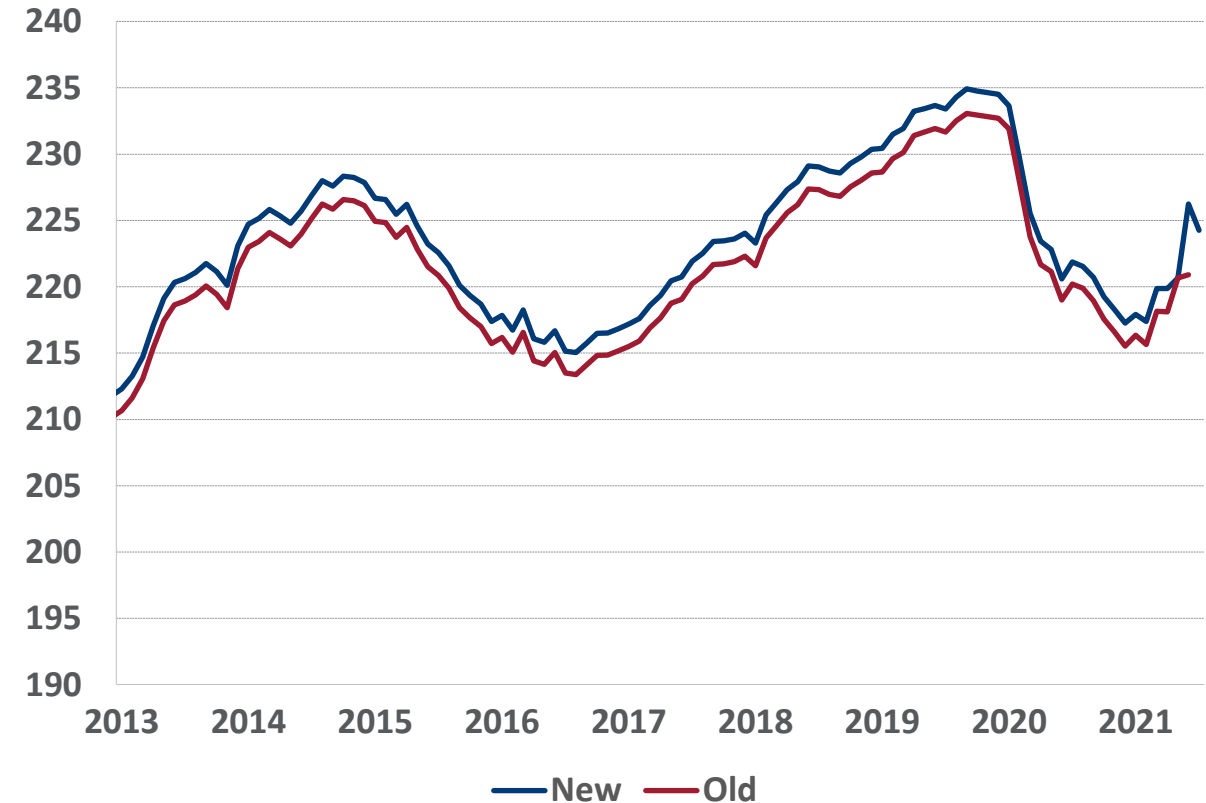
Brazil: Labor Market (Pnadc)

- » Despite the updated weights, the average real income kept falling, affected by a higher inflation;
- » The real wage bill improved but decline in September.

Brazil - Average Real Income SA



Brazil - Real Wage Bill SA (R\$ billion)



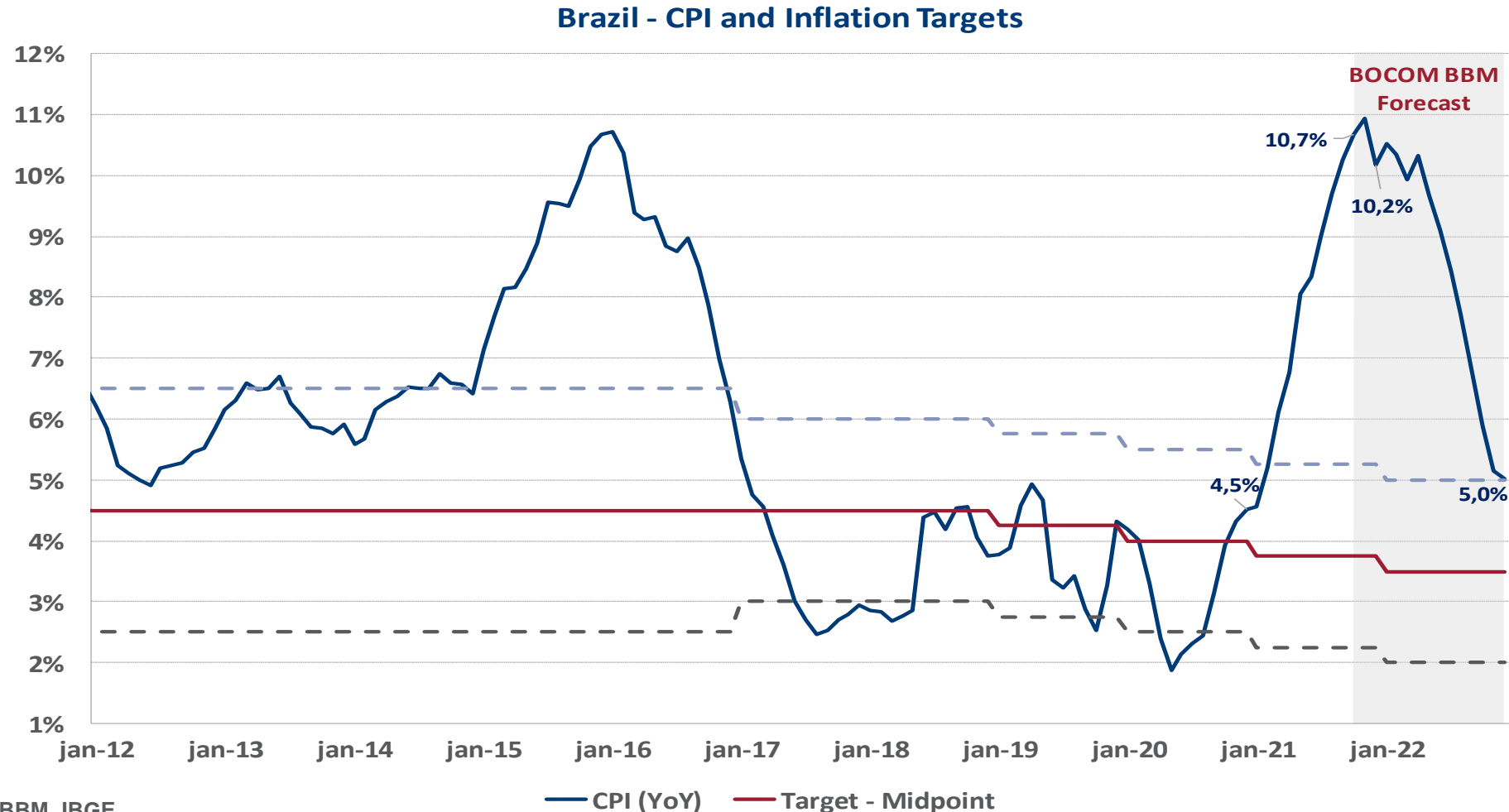
Brazil: Inflation

- » The industrial goods inflation shock, stronger services, non processed food inflation, new electric energy flag tariffs, gasoline and other fuels added pressure to 2021 CPI.
- » Inflation in 2021 will reach its peak in November.

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	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	10,2%	15,8%	8,5%	4,4%	14,7%	10,6%
21 Q4	10,3%	17,2%	7,9%	4,9%	8,5%	12,1%
22 Q1	10,0%	13,7%	8,7%	6,4%	9,4%	11,8%
22 Q2	9,2%	10,2%	8,8%	7,3%	9,3%	10,8%
22 Q3	6,9%	7,2%	6,8%	6,4%	4,8%	8,6%
22 Q4	5,0%	4,7%	5,1%	5,1%	4,6%	5,5%

Brazil: Inflation

- » 2021 CPI forecast at 10.2% with maximum point in November;
- » 2022 CPI forecast at 5% due to persistence of services inflation and inflationary shocks, and most importantly due to deterioration of expectations after the government changed the fiscal rule.



» **Inflation forecast is at 10.3% and the principal factors accountable for the CPI above upper limit are:**

1. Wholesale inflation passthrough to industrial goods still very elevated;
2. Stronger recovery of the services sector;
3. Fuels inflation;
4. Hydrological scarcity flag in December.

» **In 2022, the 5% projection is mainly caused by the casuistic change in the ceiling cap rule, which impacted expectations. Further risks to 2022 CPI are:**

Upside risks:

1. Wholesale inflation passthrough to industrial goods elevated until the end of the year;
2. Higher persistence of services inflation due to expectations and inertia;
3. Another commodities rally with the BRL still depreciated, with fuels and food at home prices increasing;

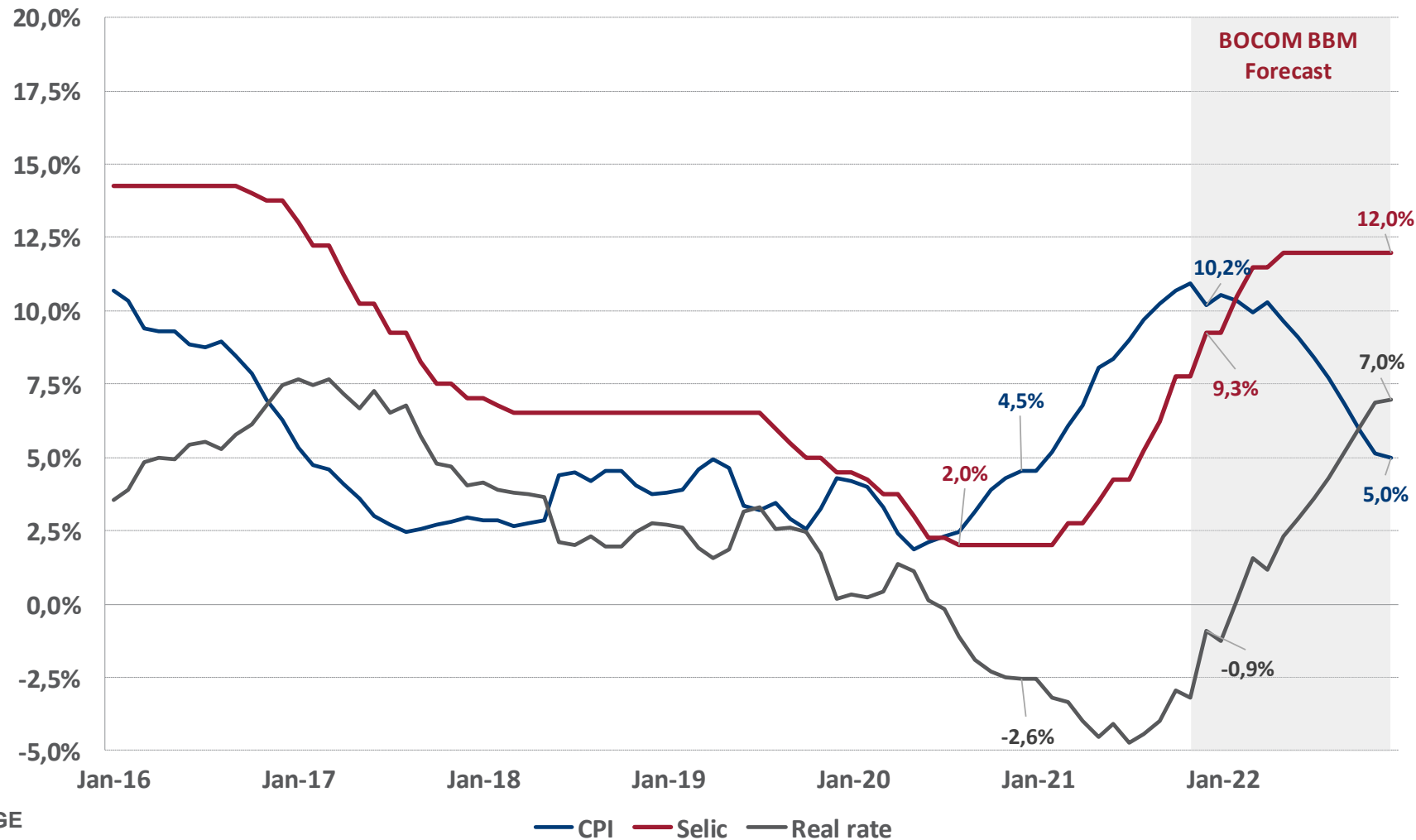
Downside risks:

1. Activity decline and high unemployment start playing a larger role due to the high interest rate;
2. Hydrological crisis finished with green flag in December 2022;
3. Lower ICMS to electric energy and telecommunications already in 2022;
4. End of supply chain disruption before expectations.

Brazil: Interest rates

- » Scenario: Copom hikes Selic by 150 bps in the next meeting and 125 bps in the first meeting of 2022
- » In 2022, we think the central bank will finish the hiking cycle with 12%, being the last hike in May.

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



» PEC dos Precatórios (PEC 23/2021): Opens fiscal space for more spending in 2022

» **sub-cap:** limit to court-ordered debts (2016 inflation corrected values)

» **outside the cap:** many possible solutions

» **spending cap calculation:** change in index period

» The PEC was approved at the House of Representatives and at the Senate

→ **back to the House for evaluation of changes made by senators**

» main changes proposed at the Senate:

» linking the fiscal space opened to specific areas (social spending)

» *Precatórios do Fundef*: removed from the cap and paid in 3 installments (40%, 30%, 30%)

» *Auxílio Brasil* does not need to meet the Fiscal Responsibility Law requirements in 2022

Fiscal Update: Fiscal space and inflation

- » We updated our projections for the fiscal space opened in 2022 based on our new inflation numbers;
- » The bigger the IPCA, the bigger the fiscal space; and the bigger the INPC, the bigger the adjustment in expenditures indexed by the inflation.

IPCA	Spending cap
9.5	1,669
10.2	1,679
10.5	1,684

INPC	Extra expenditures
8.3	17
9.5	26
10.5	34

BRL 89 bn in court-ordered debts due to 2022

		BRL Billions
Original spending cap	[A]	1,610
Expenditures subject to spending cap	[B]	1,603
Original fiscal space (6.2% INPC)	[C = A - B]	7
New spending cap	[D]	1,679
Court-ordered debts payment limit	[E]	42.24
Expenditures w/ court-ordered debts adj	[F = B - 89 + E]	1,556
New fiscal space (6.2% INPC)	[G = D - F]	123
Net new fiscal space (6.2% INPC)	[H = G - C]	116
Impact of INPC 10.5% in expenditures	[I]	34
Original fiscal space (10.5% INPC)	[J = C - I]	-27
New fiscal space (10.5% INPC)	[K = G - I]	90
Net new fiscal space (10.5% INPC)	[L = K - C]	82

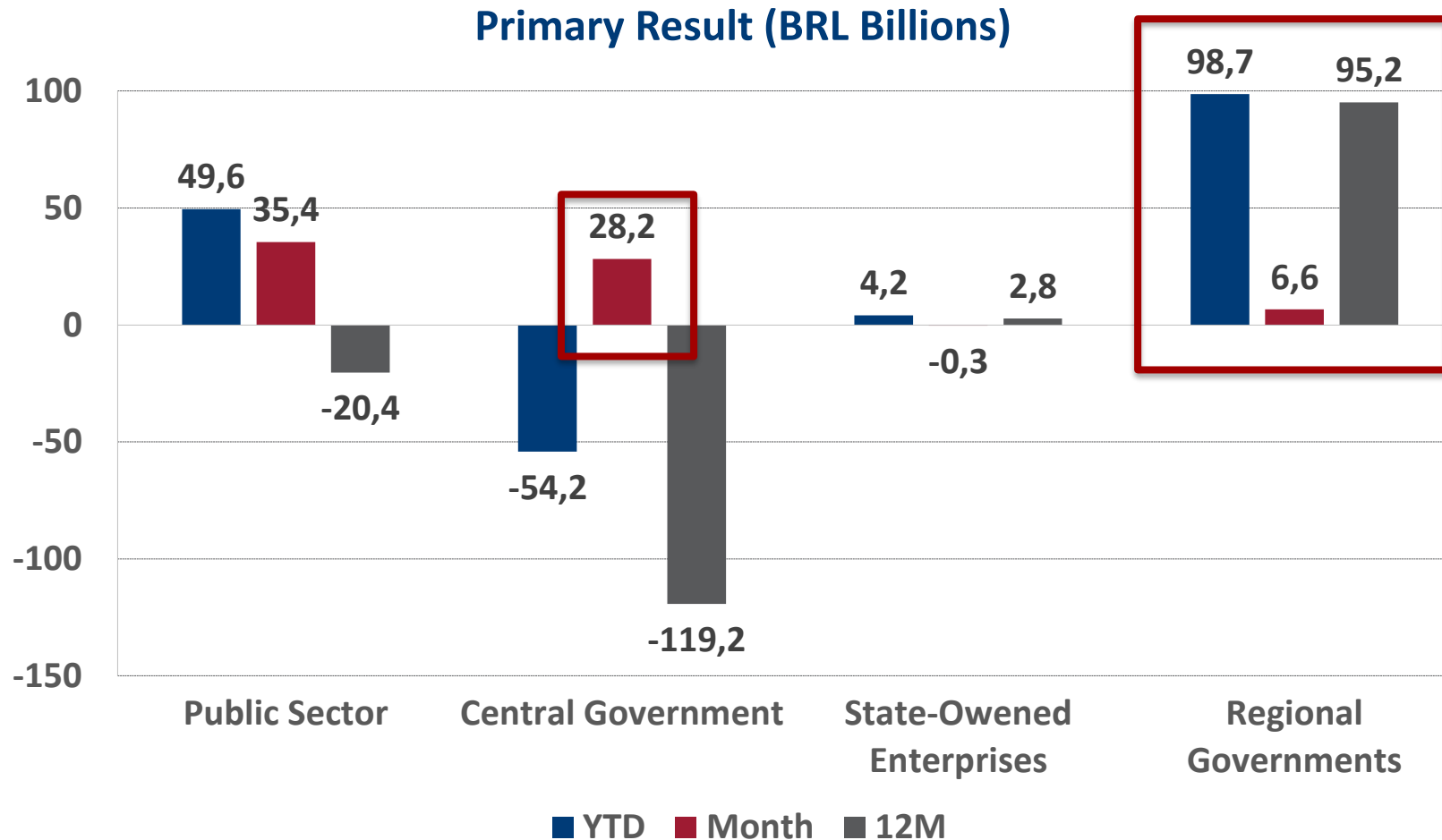
Fiscal: Central Govt Tax Collection

» In October, total tax collection was above market consensus (BRL 178.7 bn against BRL 176.5 bn), influenced by a weak basis from 2020, the economic recovery and high commodity prices.

Central Government Tax Revenue	BRL	YoY	YDT YoY
Oct-21	Billions	Real	Real
Import taxes	5.3	8.7%	31.2%
IPI-Total	6.5	-2.5%	24.8%
Individual Income Taxation (IRPF)	4.3	7.2%	31.4%
Corporate Income Taxation (IRPJ)	30.1	29.1%	36.2%
Withholding Income taxes (IRRF)	19.6	-3.0%	4.7%
IOF	4.8	350.5%	91.0%
ITR	0.2	-0.7%	13.4%
COFINS	24.4	-14.7%	21.4%
PIS/PASEP	6.7	-19.9%	17.0%
CSLL	14.7	22.6%	32.1%
CIDE	0.2	-4.0%	-9.4%
PSS	3.1	-12.0%	-3.7%
Other Taxes Administered by the Central Govt	2.3	12.9%	20.7%
Social security	39.7	-14.6%	8.8%
Administered by the Central Government [A]	162.0	0.2%	18.8%
Administered Ex Social Security	122.3	6.2%	22.7%
Administered by Other Entities [B]	16.7	92.0%	50.3%
TOTAL [A + B]	178.7	4.9%	20.1%

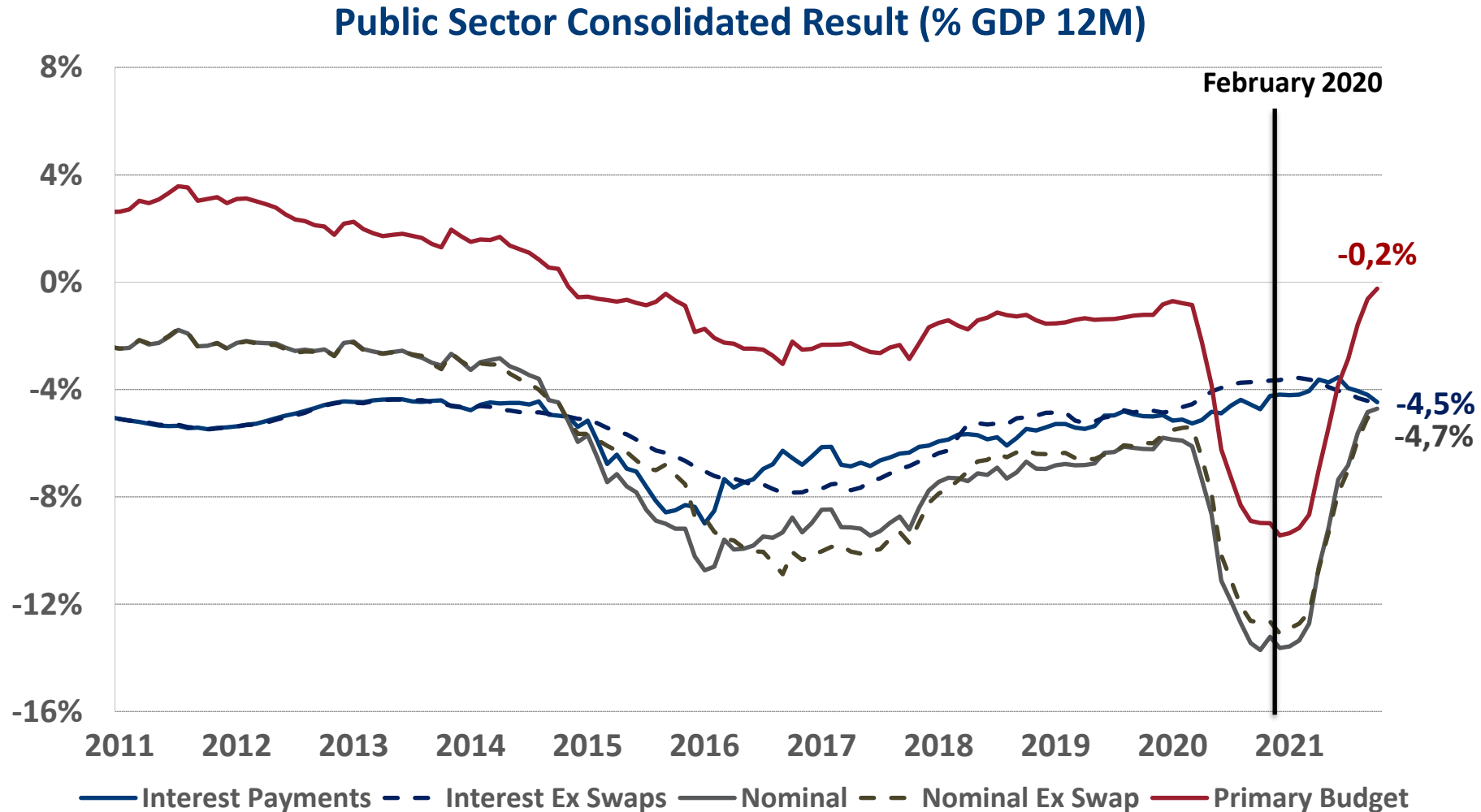
Fiscal: Public Sector Primary Budget

- » The primary budget was boosted by Central Government's good tax collection numbers in October;
- » In YTD and 12-month terms, the primary budget was driven by good regional governments' performance.



Fiscal: Public Sector Primary Budget

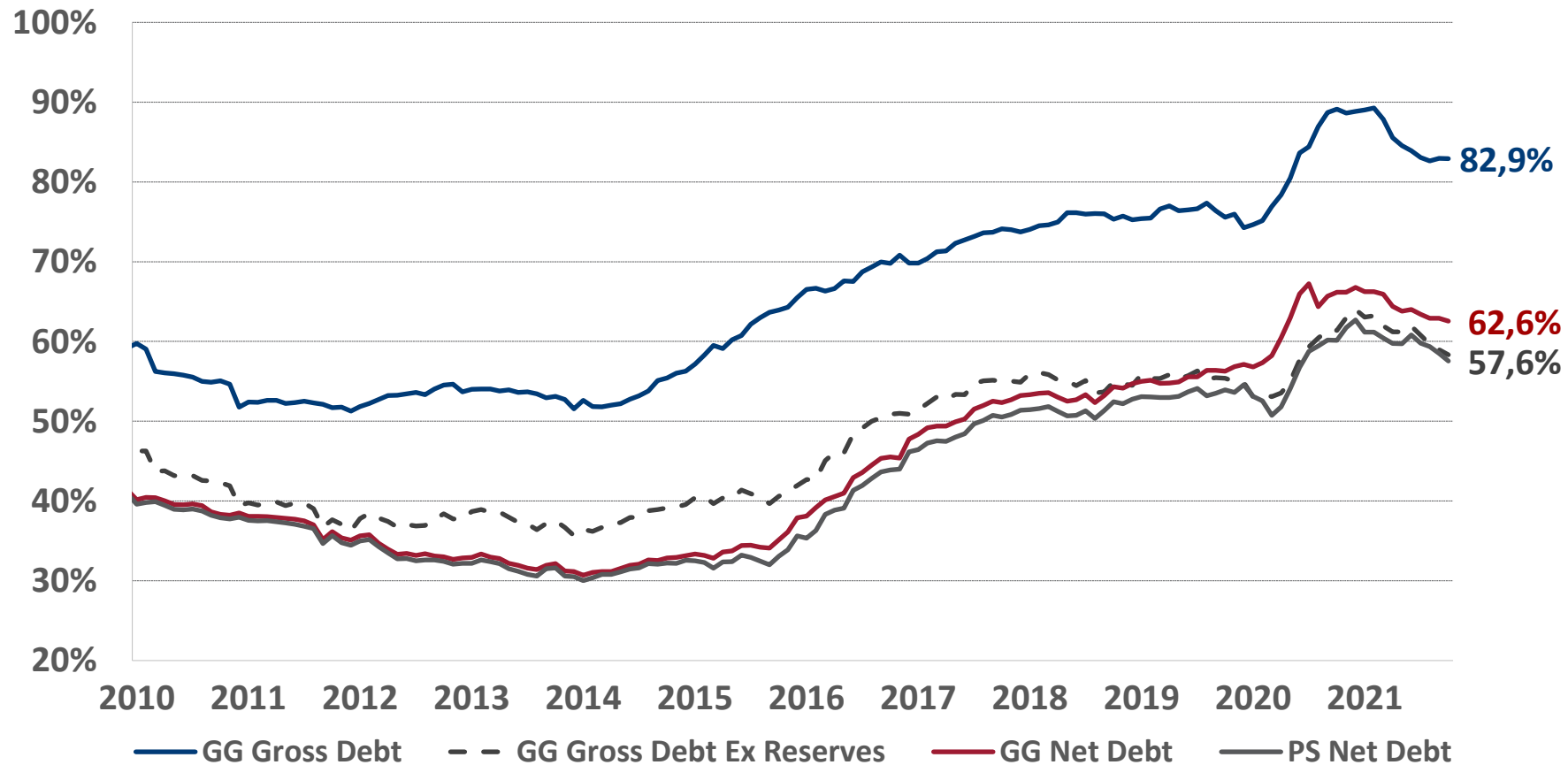
» In 12-month terms, the primary budget as percentage of GDP is above pre-pandemic level.



Fiscal: Public Deficit

- » Public debt measures showed positive results in debt behavior in October;
- » General Government Gross Debt remained stable at 82,9%.

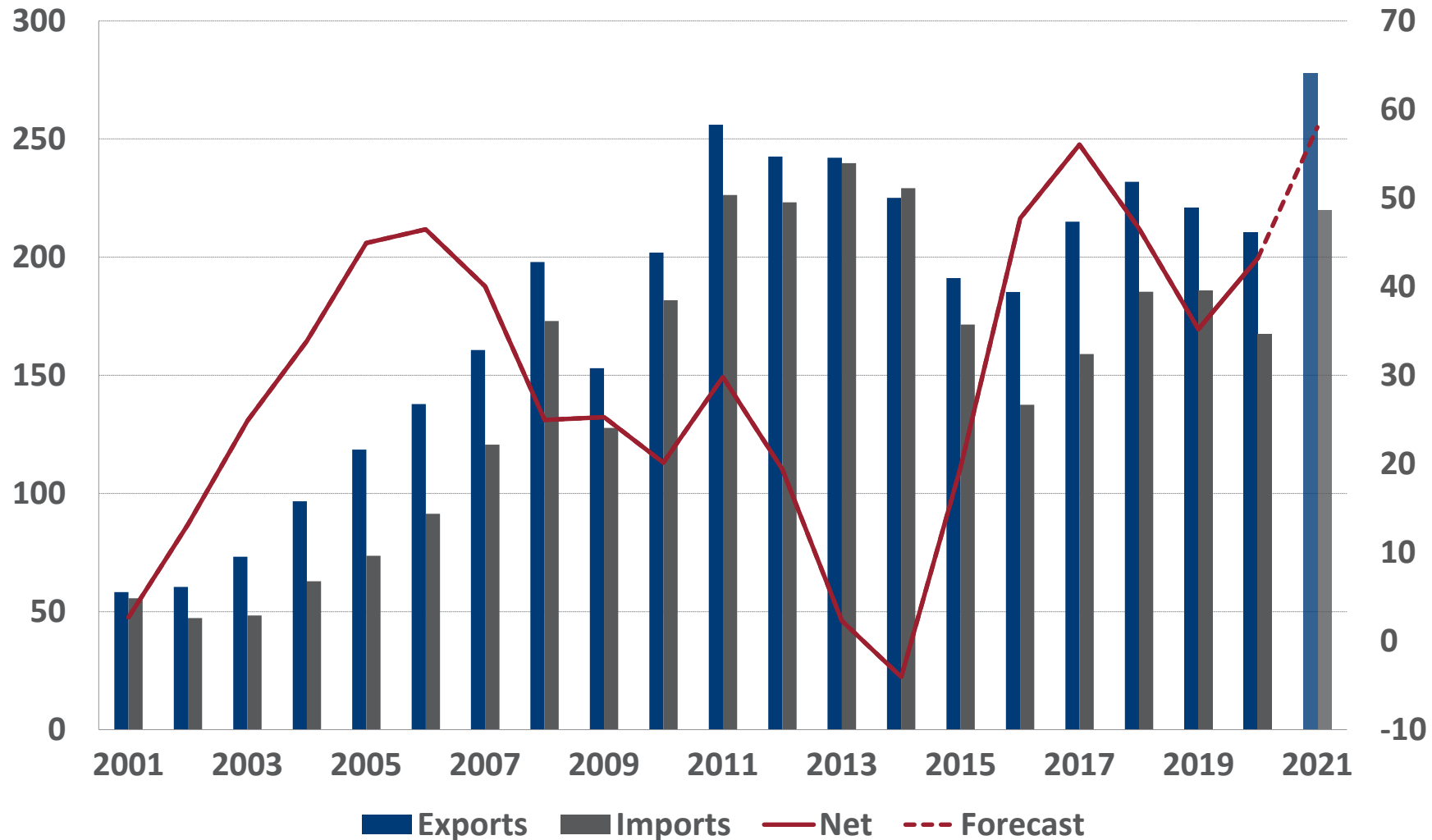
Different Public Debt Measures (% GDP)



Brazil: Trade Balance

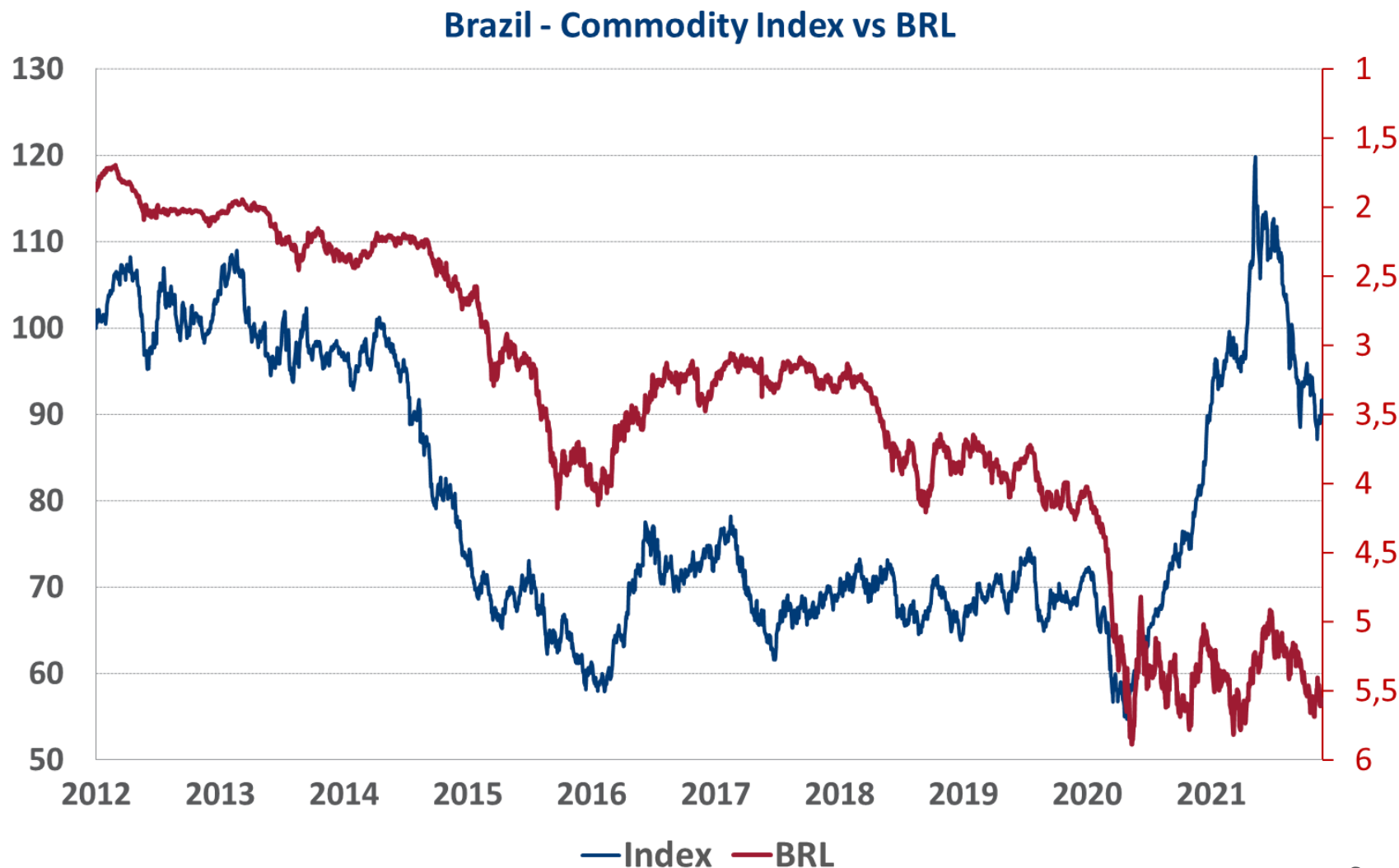
- » In November, the trade balance which was already losing momentum in the last months registered the first deficit since January.

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



Brazil: External Sector

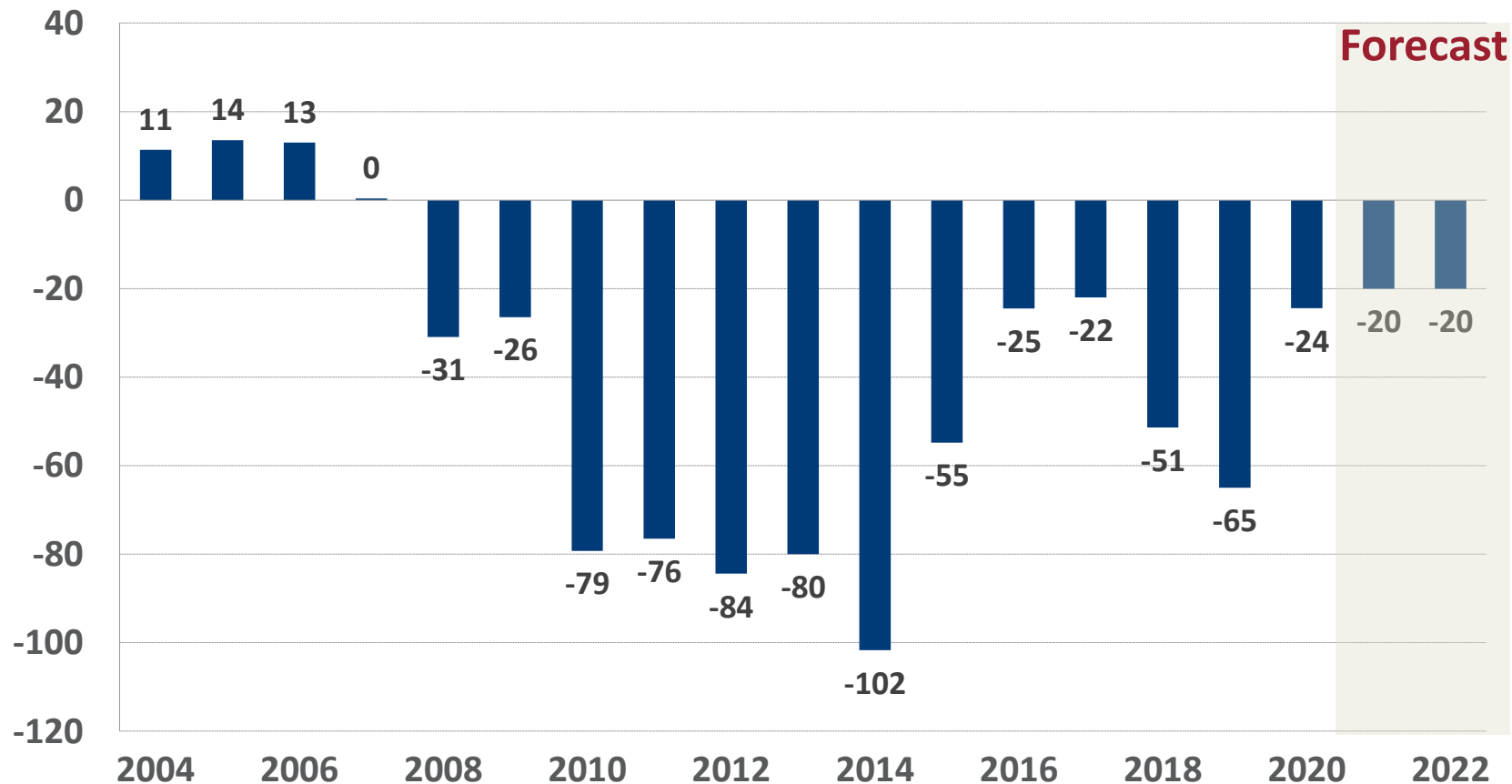
- »» Commodity index dropped with the omicron variant, while the BRL remains relatively stable at depreciated level.



Brazil: Balance of Payments

- » The trade balance is the main driver of the current account improvement in 2021, but Repetro operations and downfall of some commodities prices and exports pushed the value down.
- » The 2022 expectation is that the improvement in comparison to 2019 and 2018 will continue due to still elevated prices of commodities and a depreciated BRL, but mainly because of a weak economic growth expected to 2022.

Current Account Balance - USD Billion



This presentation was prepared by Banco BOCOM BBM. The information contained herein should not be interpreted as investment advice or recommendation. Although the information contained herein was prepared with utmost care and diligence, in order to reflect the data at the time in which they were collected, Banco BOCOM BBM cannot guarantee the accuracy thereof. Banco BOCOM BBM cannot be held responsible for any loss directly or indirectly derived from the use of this presentation or its contents. This report cannot be reproduced, distributed or published by the recipient or used for any purpose whatsoever without the prior written consent of Banco BOCOM BBM.

ADDRESSES

Rio de Janeiro, RJ

Avenida Barão de Tefé, 34 – 20th and 21st floors
Zip Code 20220-460
Tel.: +55 (21) 2514-8448
Fax: +55 (21) 2514-8293

Salvador, BA

Rua Miguel Calmon, 398 – 2nd floor
Zip Code 40015-010
Tel.: +55 (71) 3326-4721 +55 (71) 3326-5583
Fax: +55 (71) 3254-2703

São Paulo, SP

Av. Brigadeiro Faria Lima, 3311 – 15th floor
Zip Code 04538-133
Tel.: +55 (11) 3704-0667 +55 (11) 4064-4867
Fax: +55 (11) 3704-0502

Nassau, Bahamas

Shirley House | Shirley House Street, 50, 2nd floor
P.O. N-7507
Tel.: (1) (242) 356-6584
Fax: (1) (242) 356-6015

www.bocombbm.com.br

Ombudsman | Phone.: 0800 724 8448 | Fax: 0800 724 8449
E-mail: ouvidoria@bocombbm.com.br