



## MACRO OUTLOOK

**Cecilia Machado**  
Chief Economist

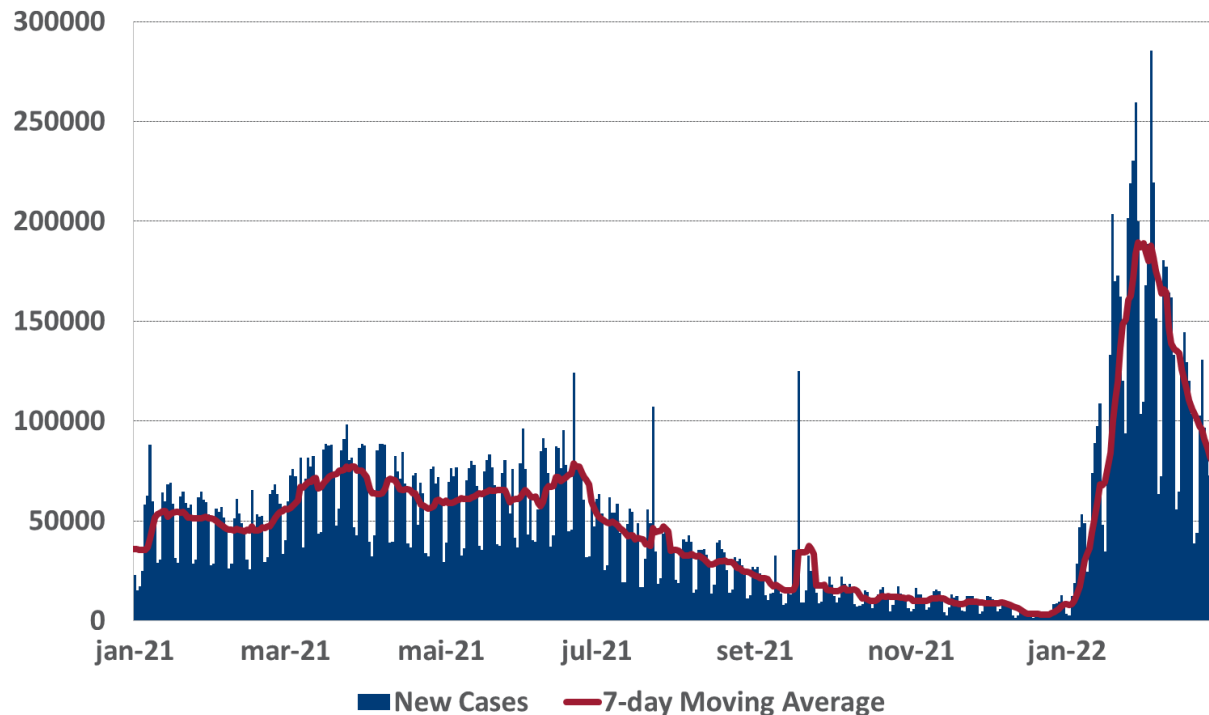
March 2022

- » The geopolitical risk increased with the recent invasion of Russia in Ukraine, tumbling European markets and driving up commodities prices, especially Brent oil and wheat. Further development of the conflict can compromise the global activity and pressure inflation further;
- » The epidemiological situation in Brazil remained under control as the number of people infected and death kept falling;
- » High frequency data printed positive results in the last two months of 2021, with the services sector in the spotlight driven by mobility-related segments. However, confidence indicators already point to lower dynamism in the 1Q22;
- » The Brazilian economy expanded 0,5% QoQ (1,65% YoY) in 4Q21, in line with the recovery signaled by the sectorial high frequency data. In 2021, growth was of 4,6% - in line with our forecast. For 2022, we expect a 0.3% increase, due to interest rate hike cycle and considering the electoral uncertainty;
- » Our inflation forecast is at 6.2% in 2022 due to the inertia of services inflation and including, partially, the Russia-Ukraine war shock. Nevertheless, new revisions will be necessary due to the elevated degree of uncertainty. In 2023, our projection is at 3.3%;
- » Our Selic rate projection remains at 12.25% at the end of 2022 and at 8.0% at the end of 2023;
- » Fiscal result's expectations have benefited from good revenue numbers in the latest data releases. In comparison to 2021, the result will worsen due to increased expenditures and the risk of reducing revenues, not only because of the lower growth expected for the year, but also by the emergence of proposals for tax cuts that can have a considerable impact on government revenue.

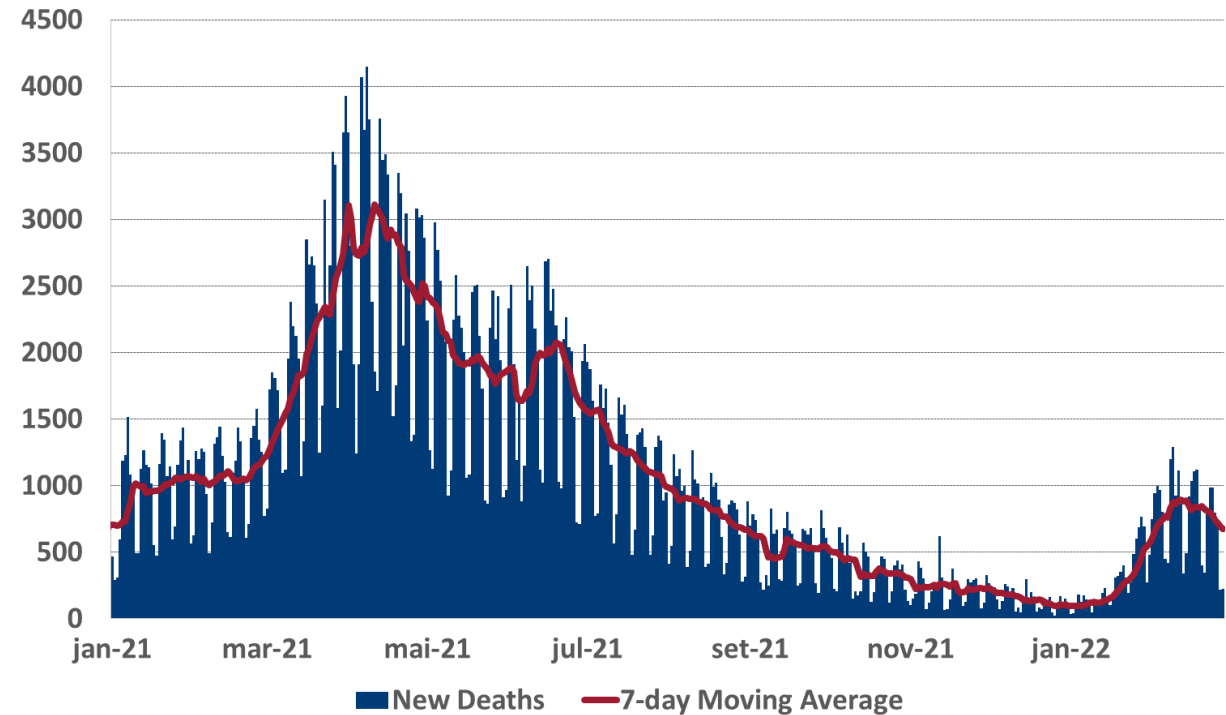
# COVID-19 Brazil - Omicron

- » The Covid-19 pandemic in Brazil, which registered record numbers of infections in its moving average, already shows a downward trend;
- » The number of deaths showed relatively moderate growth and is already showing a positive reduction.

Daily new cases - Brazil

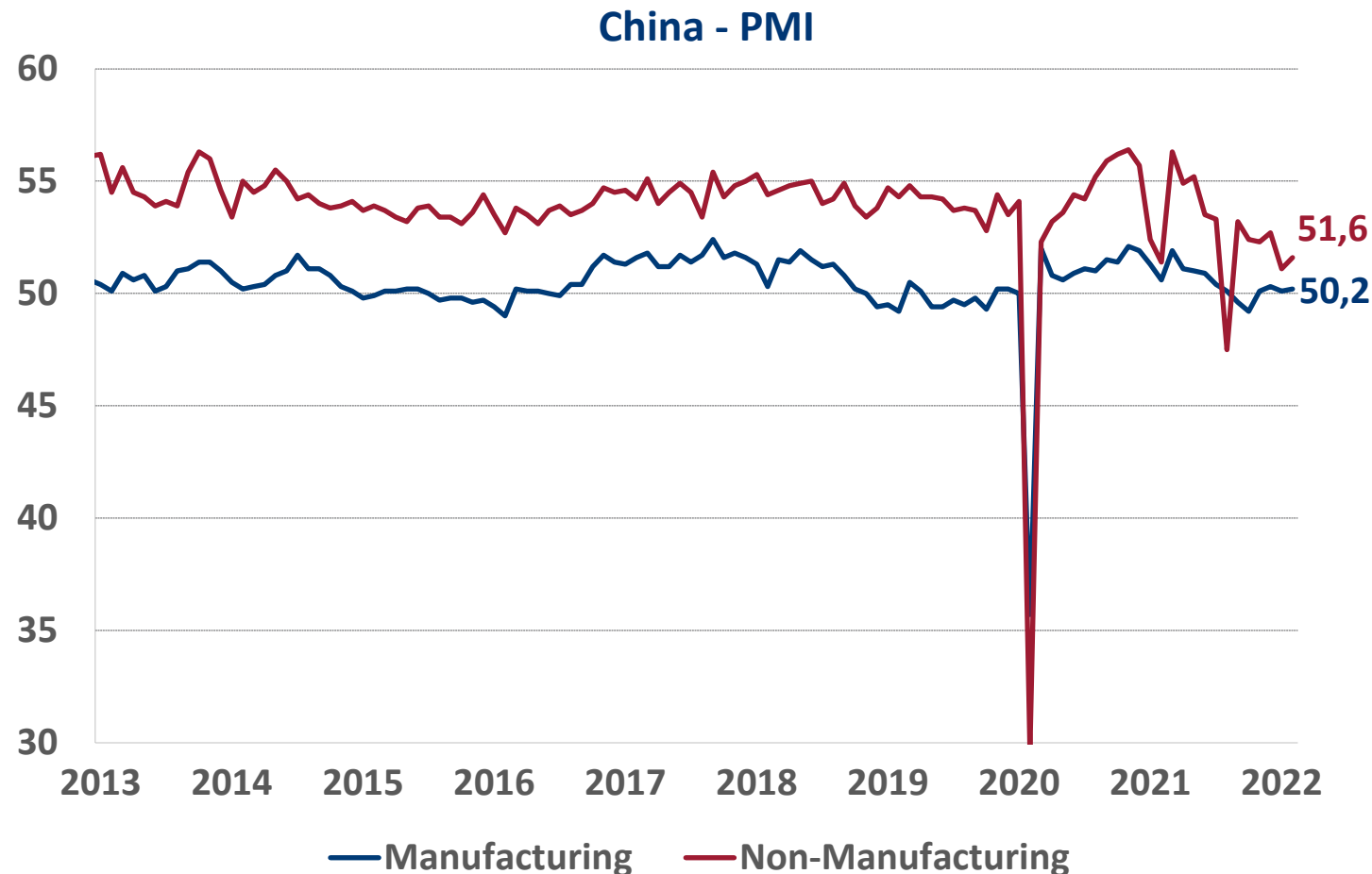


Daily new deaths - Brazil





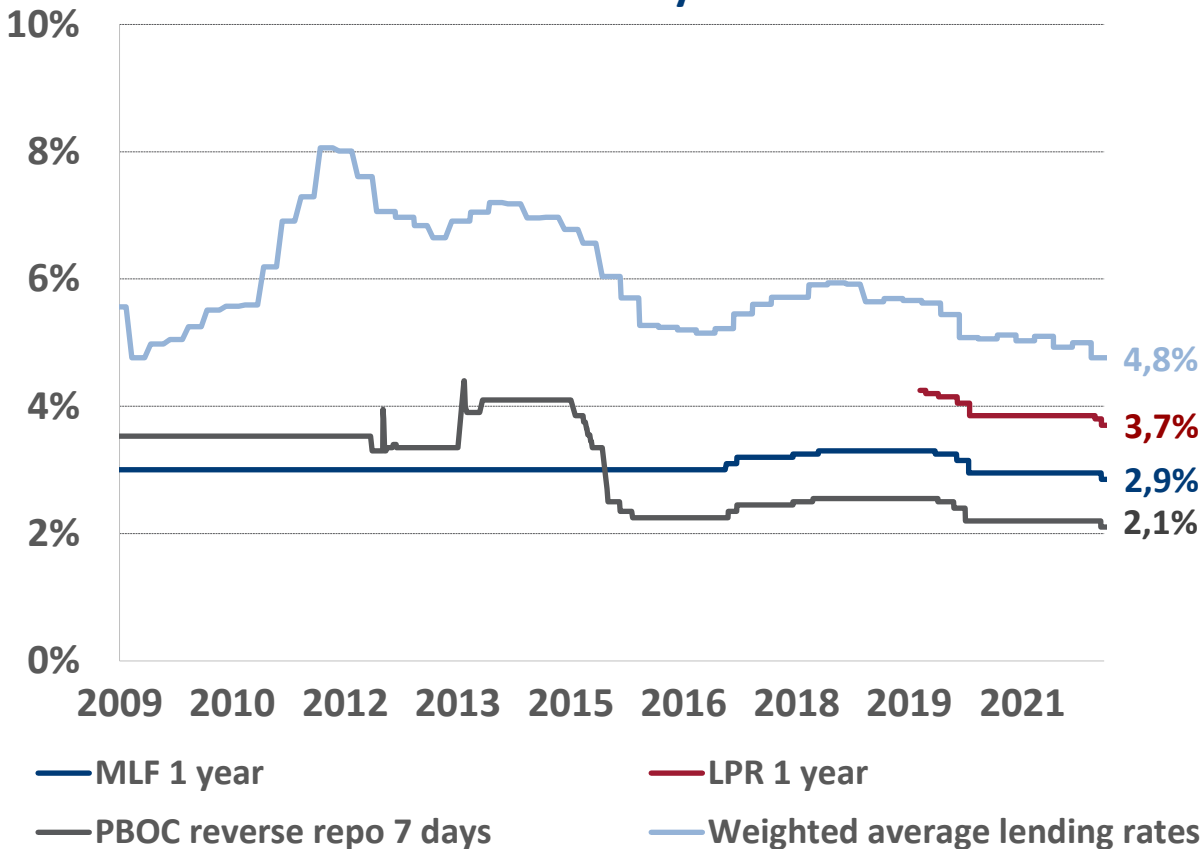
- » China's February PMIs suggest modest improvement in the economy's near-term growth momentum;
- » Non-manufacturing PMI rose as construction activities recovered - likely reflecting the recent policy support on infrastructure FAI - and Manufacturing PMI edged up due to improving demand.



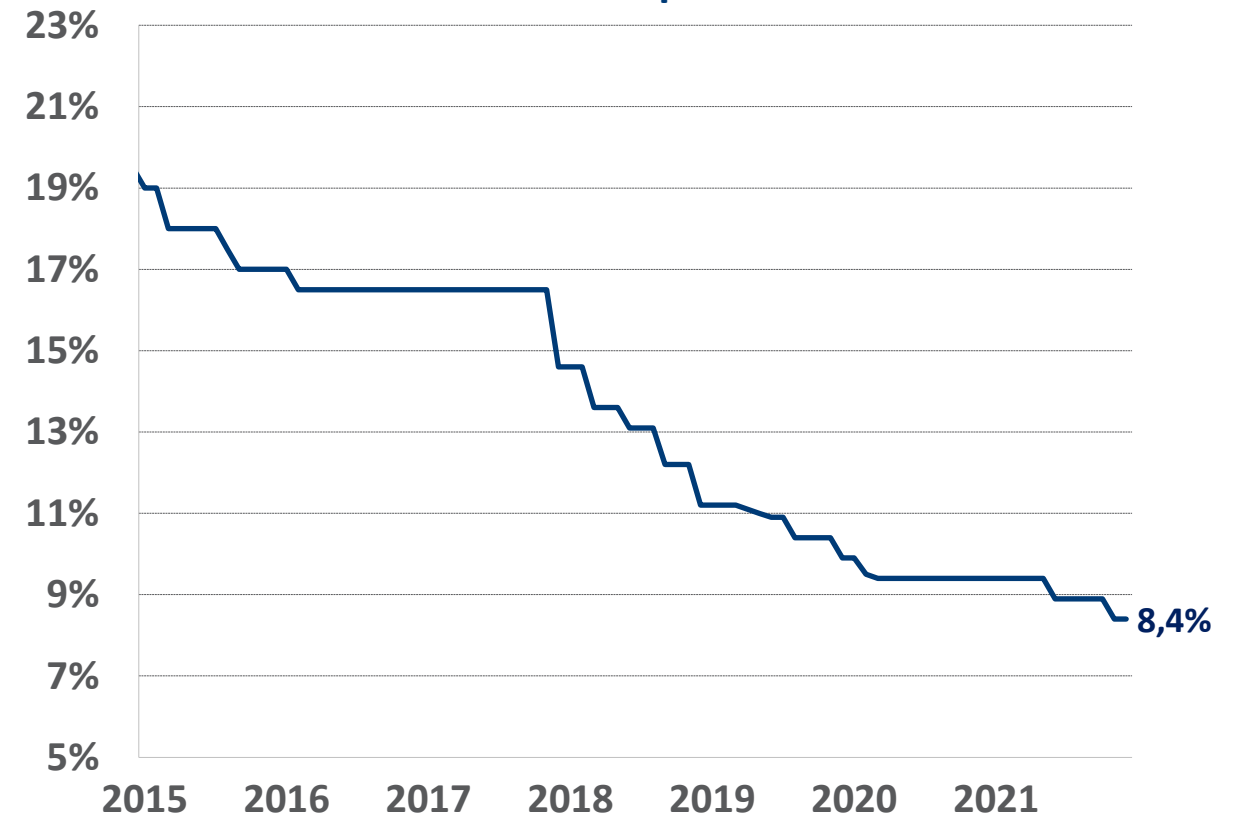
# China: Monetary Policy

- » Throughout February, the Chinese Central Bank left policy rates unchanged amid strong credit growth at the start of the year. Nevertheless, the PBOC injected RMB 300bn via the MLF and, in its quarterly monetary policy report, the bank stated that “the price is much more important than the volume”.

## China - Policy Rates



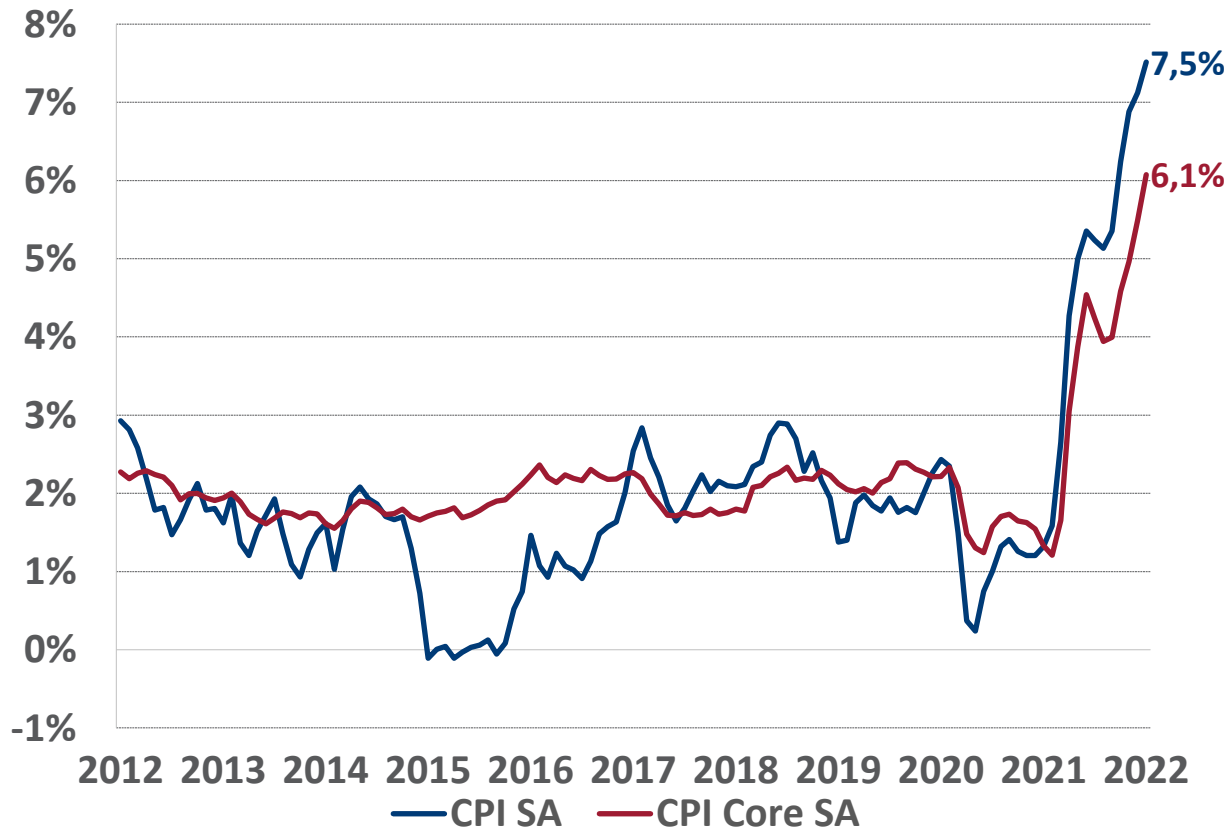
## China - Reserve Requirement Ratio



# USA: Inflation

- » US inflation continues to accelerate and reached its highest level through most of 2021, above the FED long-term price stability target of 2%;
- » The high inflation keeps setting stage for the FED to start raising interest rates and accelerating the pace of reducing its asset balance sheet considering the persistence of the inflationary process.

US - CPI SA (YoY)



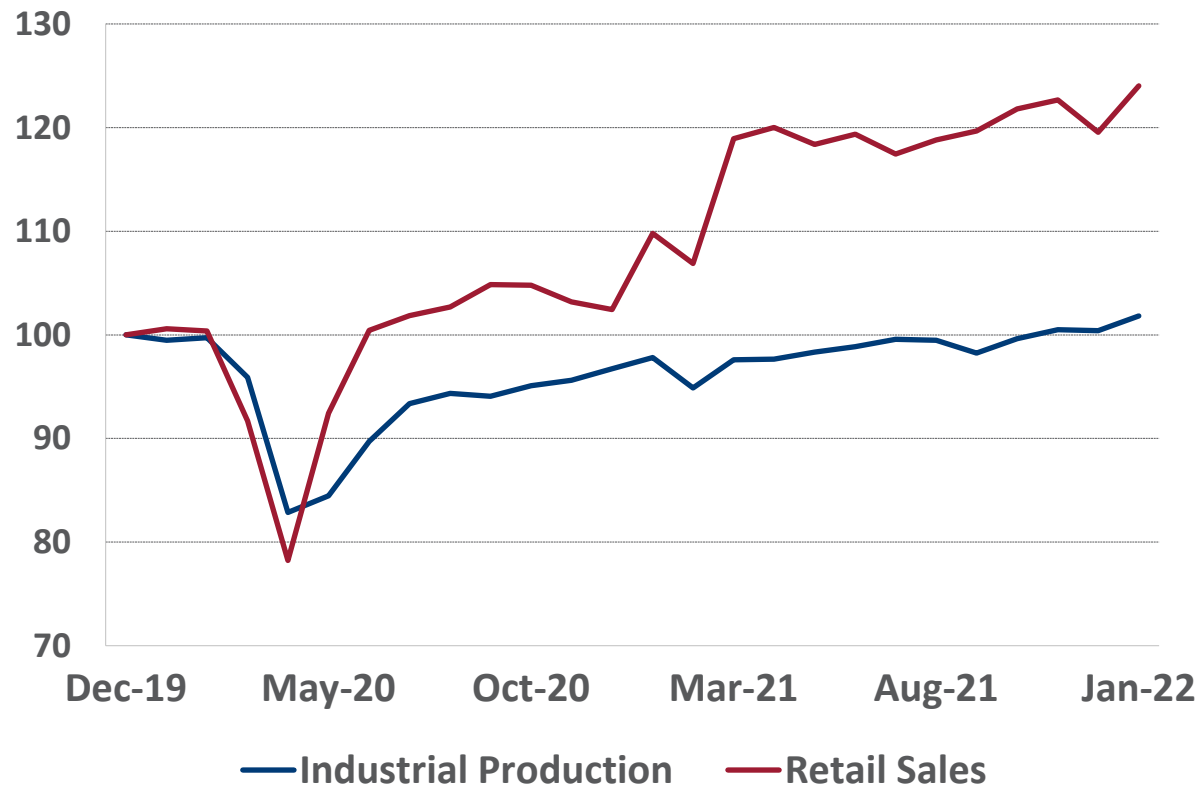
US - PCE SA (YoY)



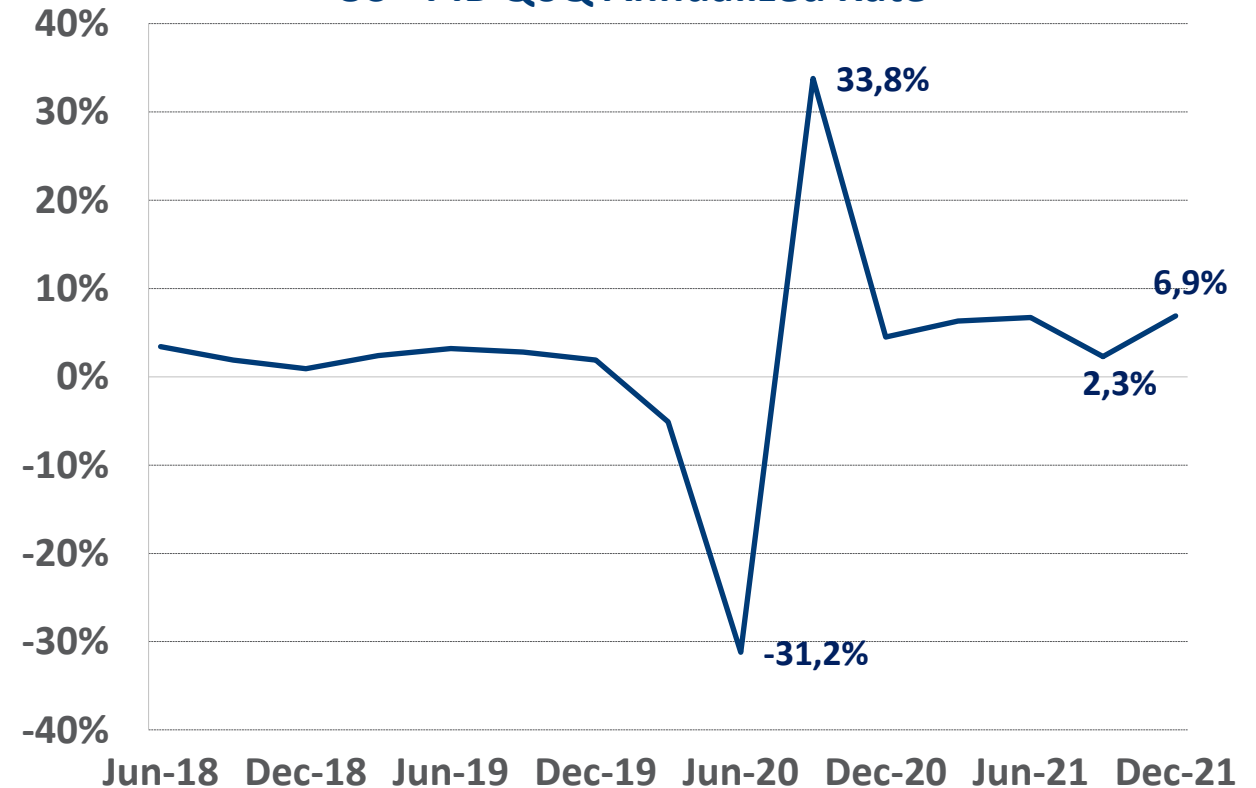
# USA: Activity

- » Sectoral indicators registered positive results and continue pointing to lower impact of the new variant on the pace of growth of the sectors;
- » US GDP surprised by growing 6.9% at the annualized rate in 4Q21 despite the resurgence of the pandemic. The result was driven by the good performance of private investments and personal consumption.

**US - Industrial Production and Retail Sales**  
(Dec/19=100)



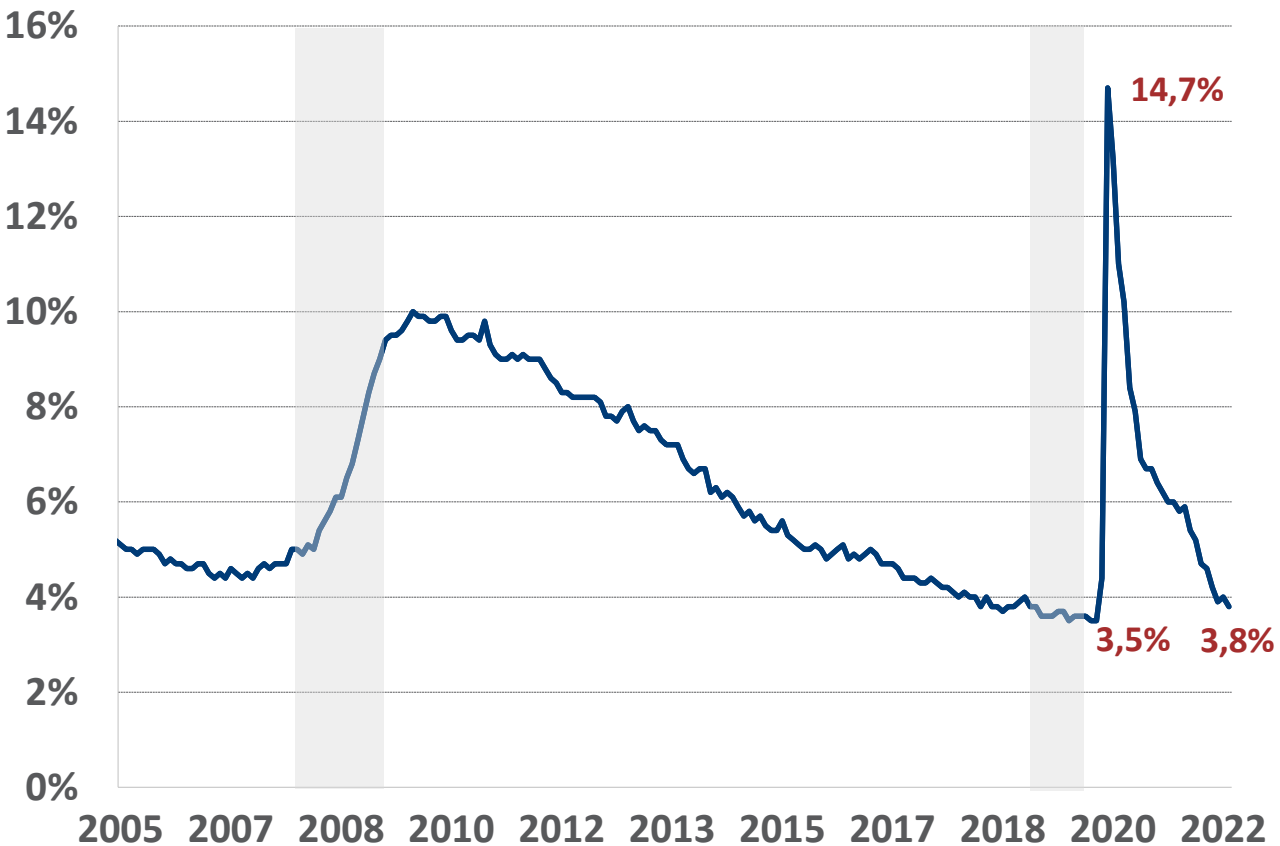
**US - PIB QoQ Annualized Rate**



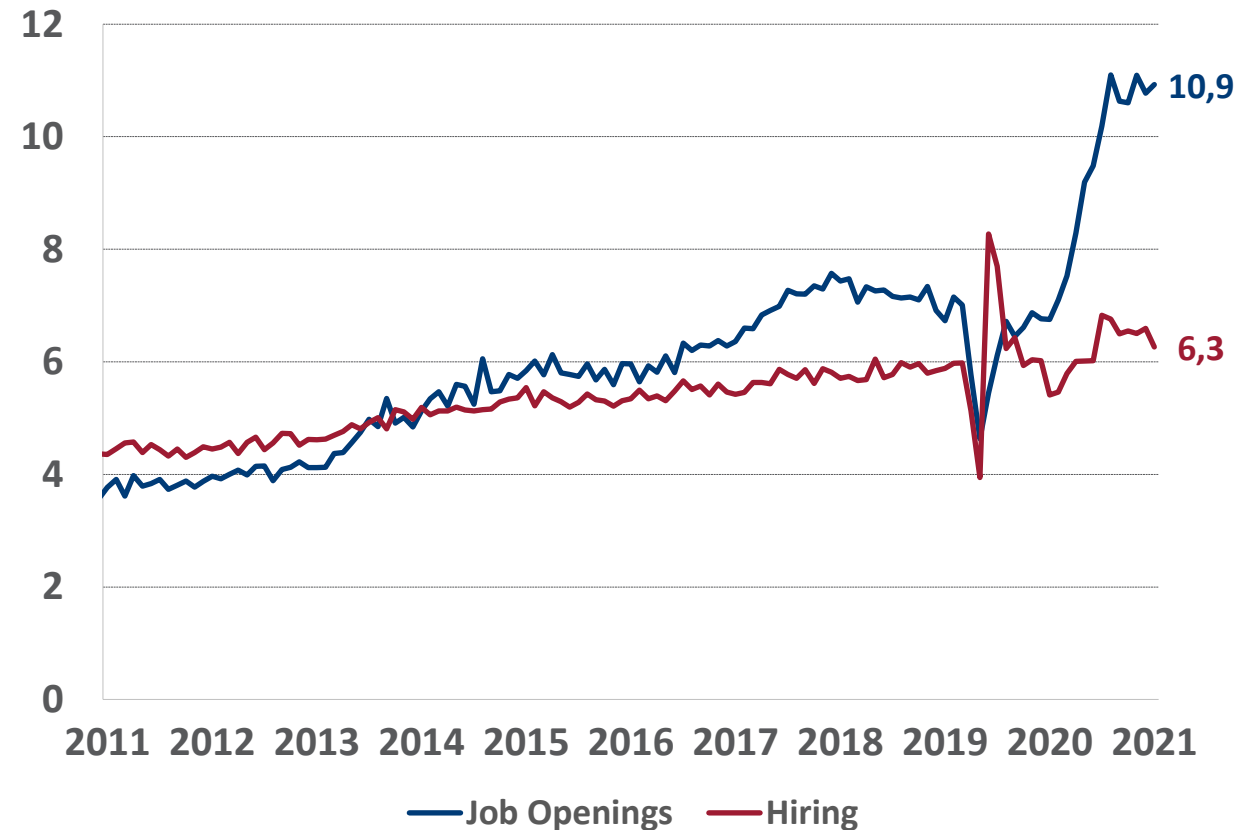
# USA: Labor Market

- » Labor market data point to a resilient U.S. economy, with the unemployment rate at a low level (3.8%) amid reduced case numbers and easing restrictions;
- » The number of job openings remained high, reinforcing the mismatch between demand and supply for work.

US - Unemployment Rate SA (%)



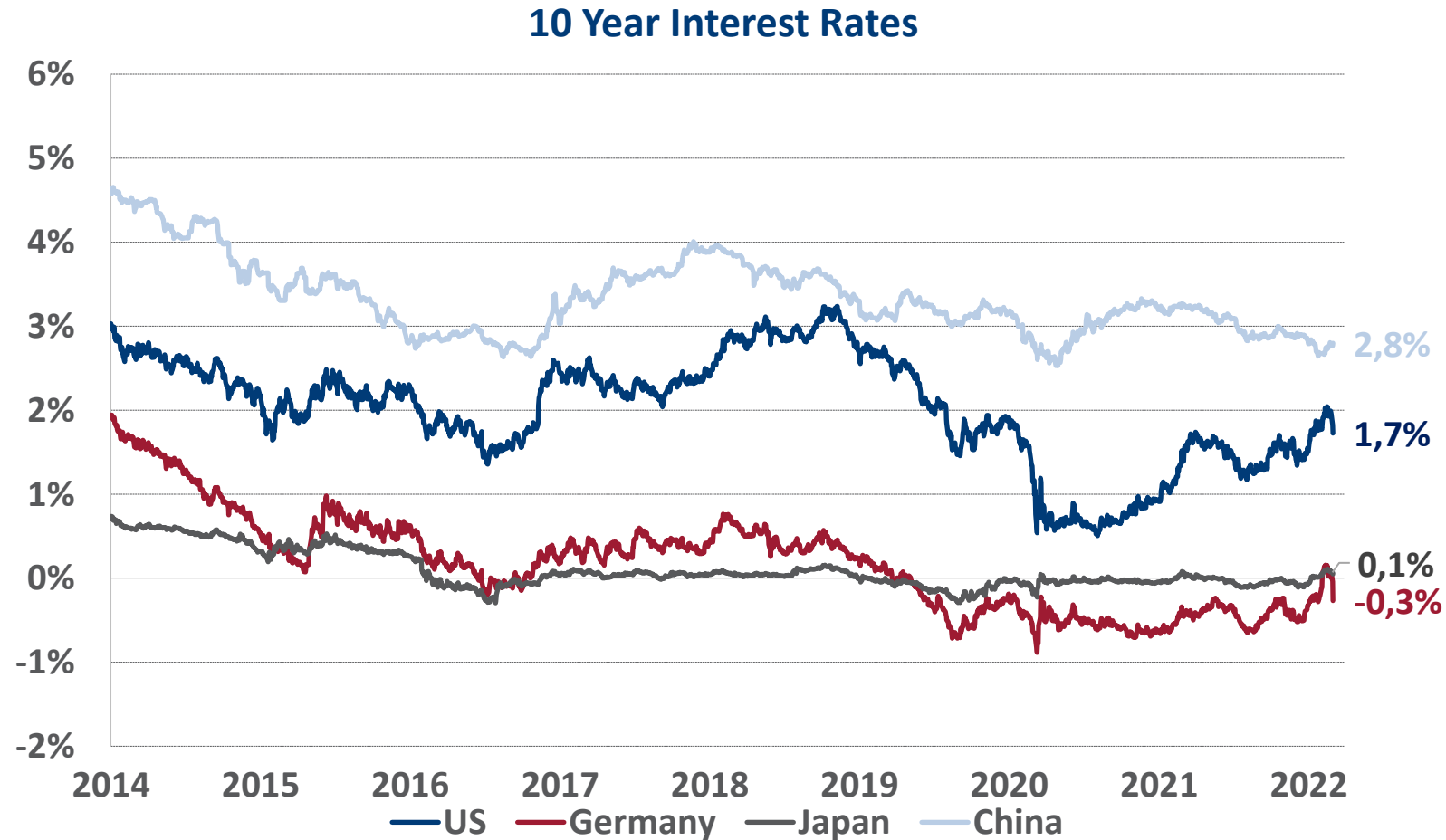
Job Openings and Hiring (Million)





# Global: Interest Rates

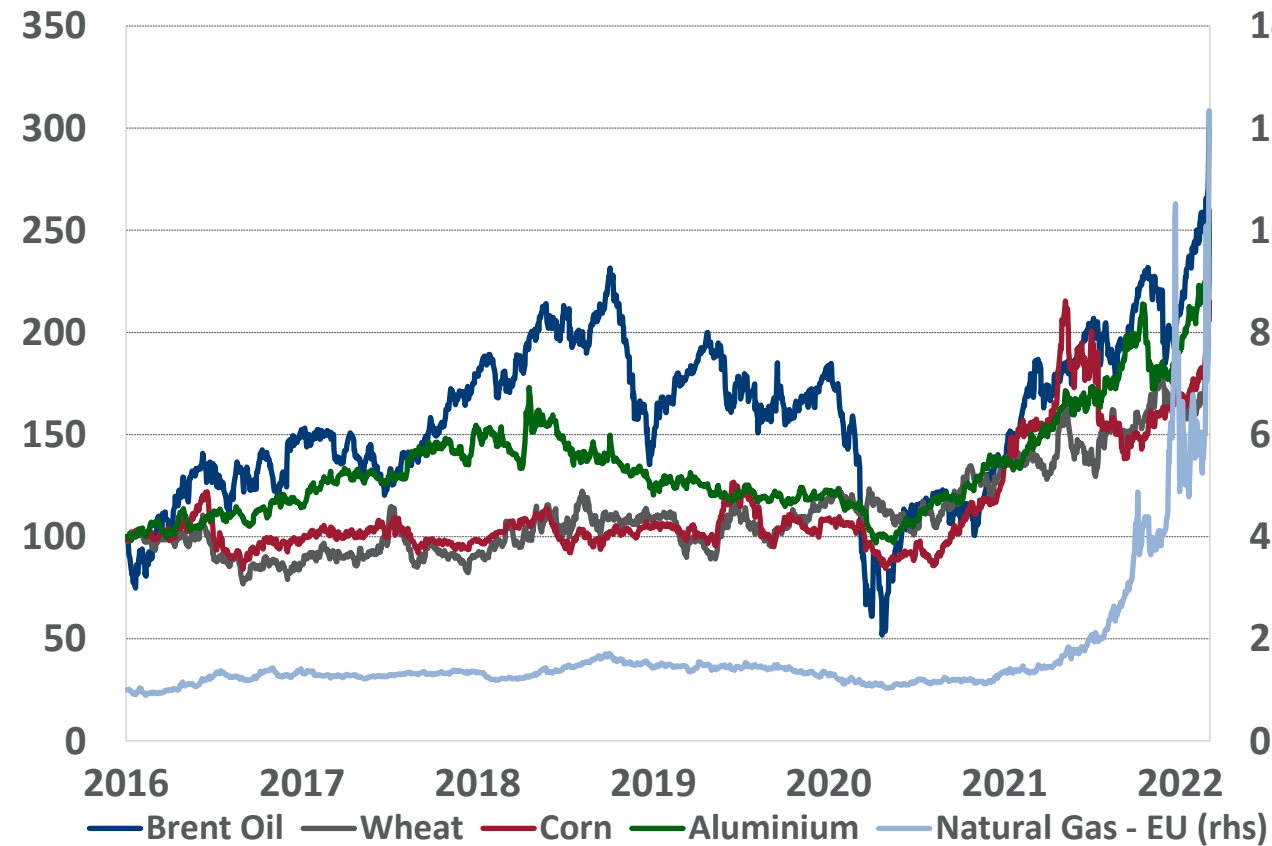
- » Long-term interest rates of some major developed countries reversed recently its upward trend amid intensifying Russian-Ukraine conflict.



# Global: Commodities and Currencies

- »» Commodity prices increased substantially amid rising geopolitical tension, with wheat and natural gas hitting new records;
- »» The Russian Ruble weakened against the dollar after Russia was sanctioned for invading Ukraine.

Commodities Prices (Jan/16=100)



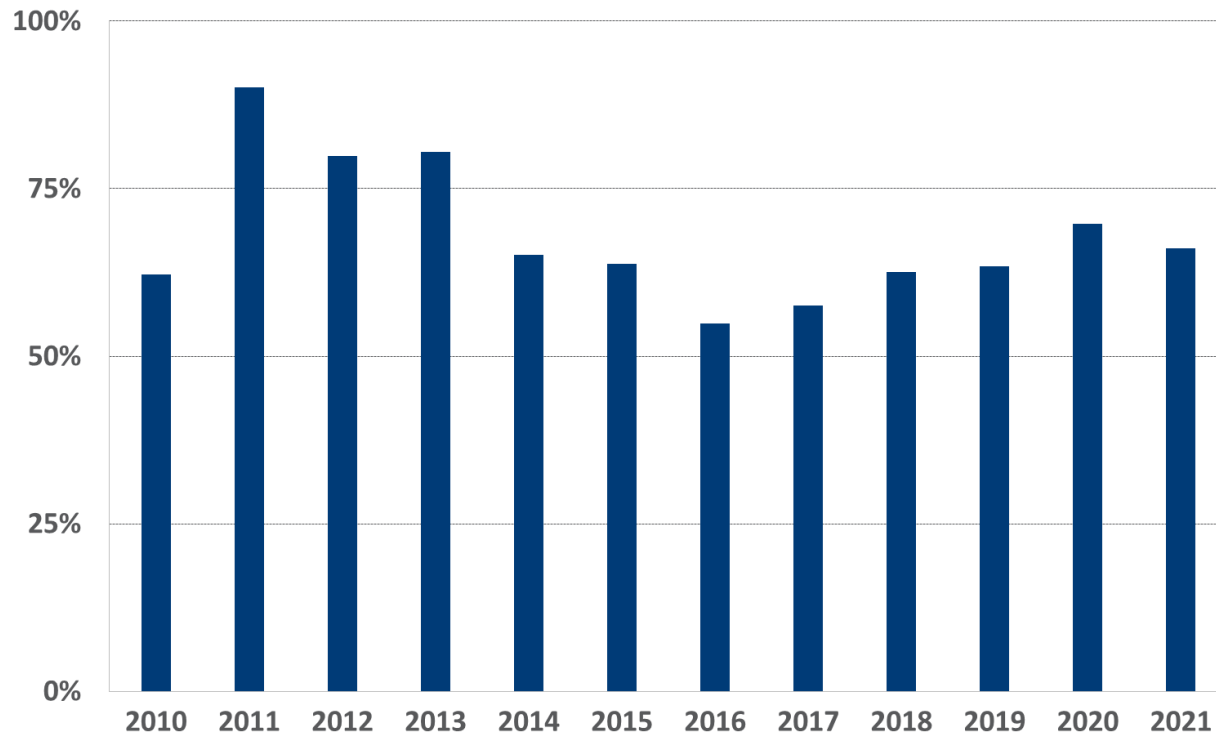
Currencies (31/Dez/18=100)



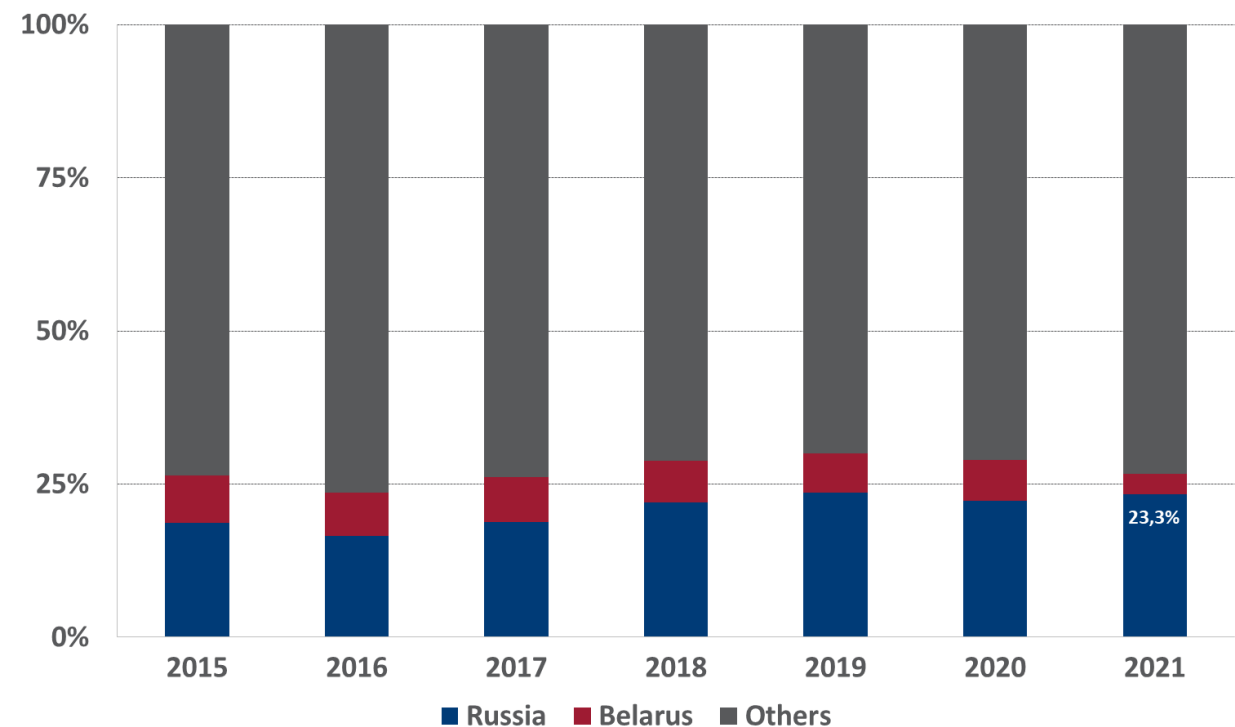
# Global: Ukraine Crisis

- » Brazil is not dependent on the Russian fertilizer market. The fertilizer imports from Russia and Belarus sum up to not much more than 25%;
- » With the war and the sanctions related to it, fertilizer prices should continue to increase, presenting impact in food prices.

Fertilizer in Total Imports from Russia

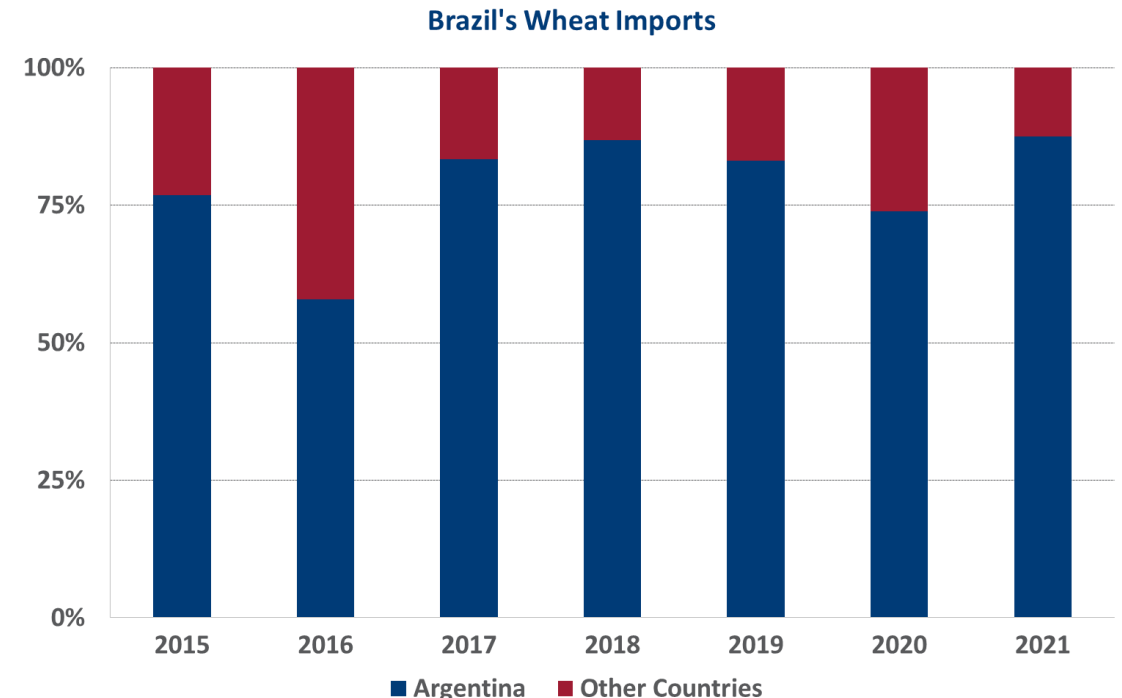
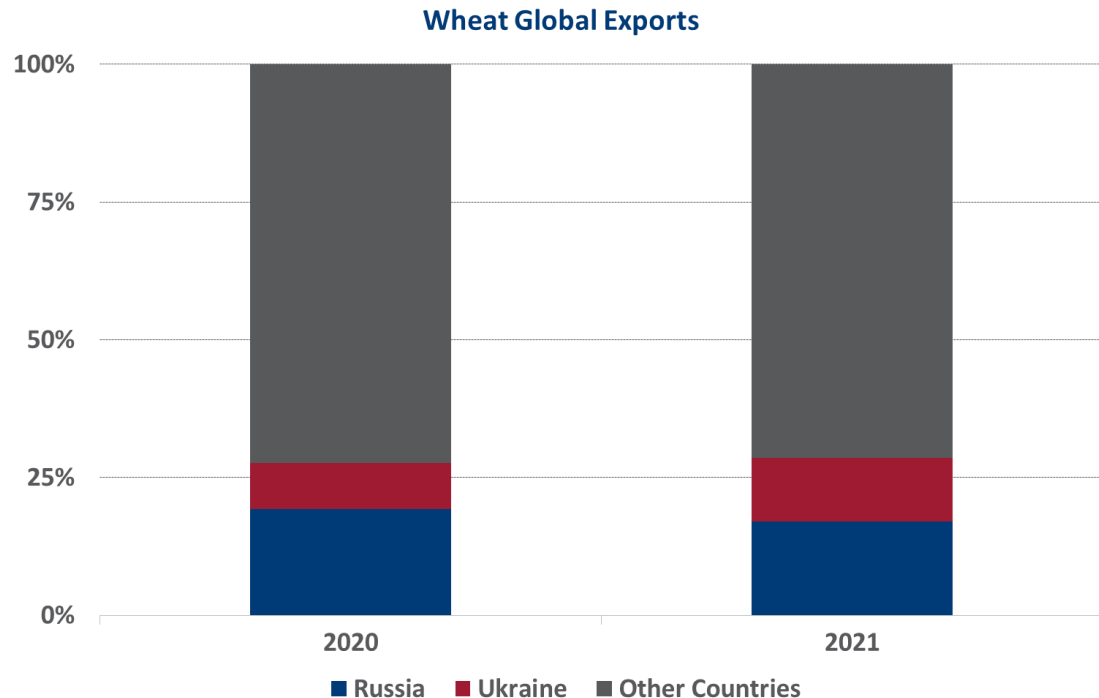


Total Fertilizer Imports



# Global: Ukraine Crisis

- » Russia is the world's fourth largest wheat producer and largest exporter. Ukraine is the seventh largest producer and among the four largest in shipments. Together, the two countries account for about 30 percent of world wheat exports;
- » The main foreign supplier of wheat to Brazil is Argentina, which accounts for more than half the volume processed in Brazilian mills. With the shortage of wheat from Russia and Ukraine, Argentina must join the United States and Australia in supplying the world.



# Brazil: Forecasts

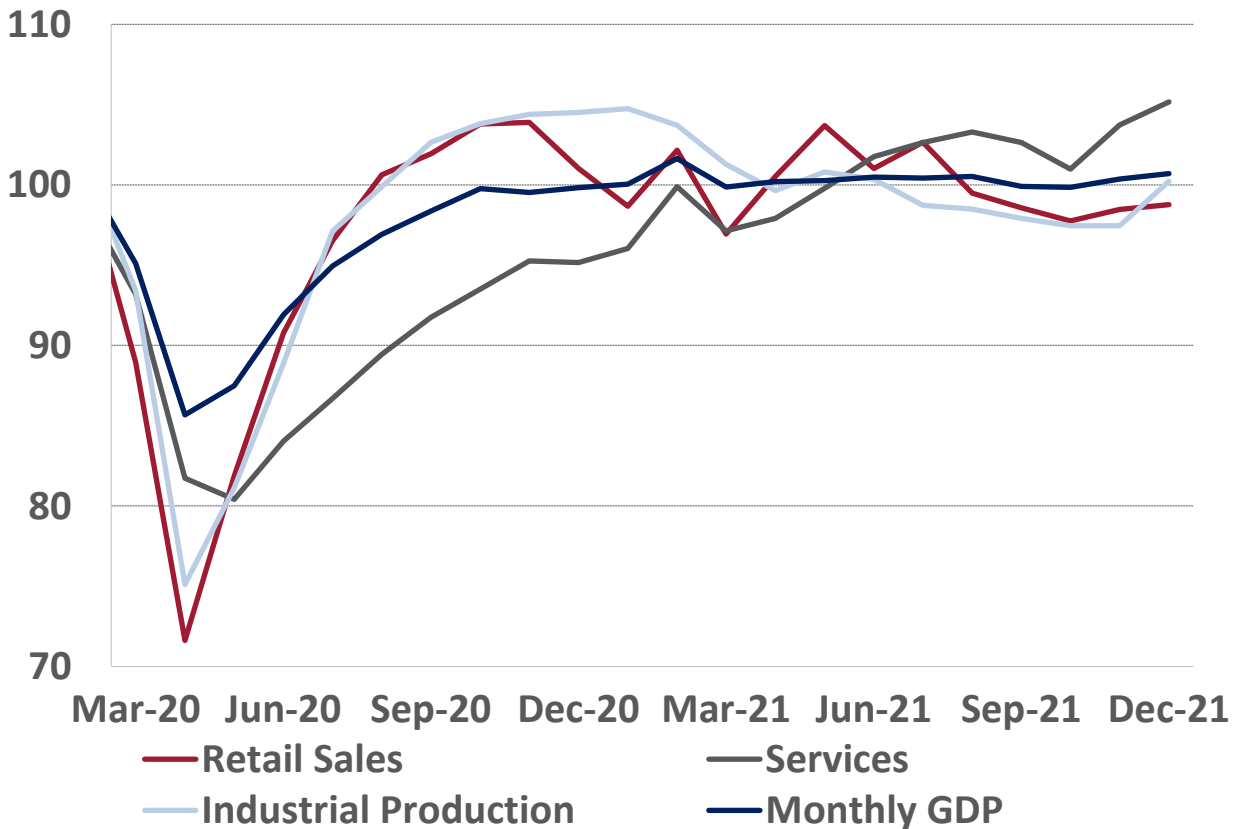
ECONOMIC FORECASTS	2019	2020	2021	2022F	2023F
GDP Growth (%)	1,1%	-4,1%	4,6%	0,3%	1,7%
Inflation (%)	4,3%	4,5%	10,1%	6,2%	3,3%
Unemployment Rate (eoy, %)	11,7%	13,9%	11,1%	13,2%	13,0%
Policy Rate (eoy, %)	4,50%	2,00%	9,25%	12,25%	8,00%
External Accounts					
Trade Balance (US\$ bn)	48	32	36	49	40
Current Account Balance (US\$ bn)	-65	-24	-28	-23	-43
Current Account Balance (% of GDP)	-2,8%	-0,9%	-1,8%	-1,3%	-2,6%
Fiscal Policy					
Central Government Primary Balance (% of GDP)	-1,2%	-10,0%	-0,4%	-0,9%	-0,9%
Government Gross Debt (% of GDP)	74,3%	88,8%	80,3%	81,5%	86,4%



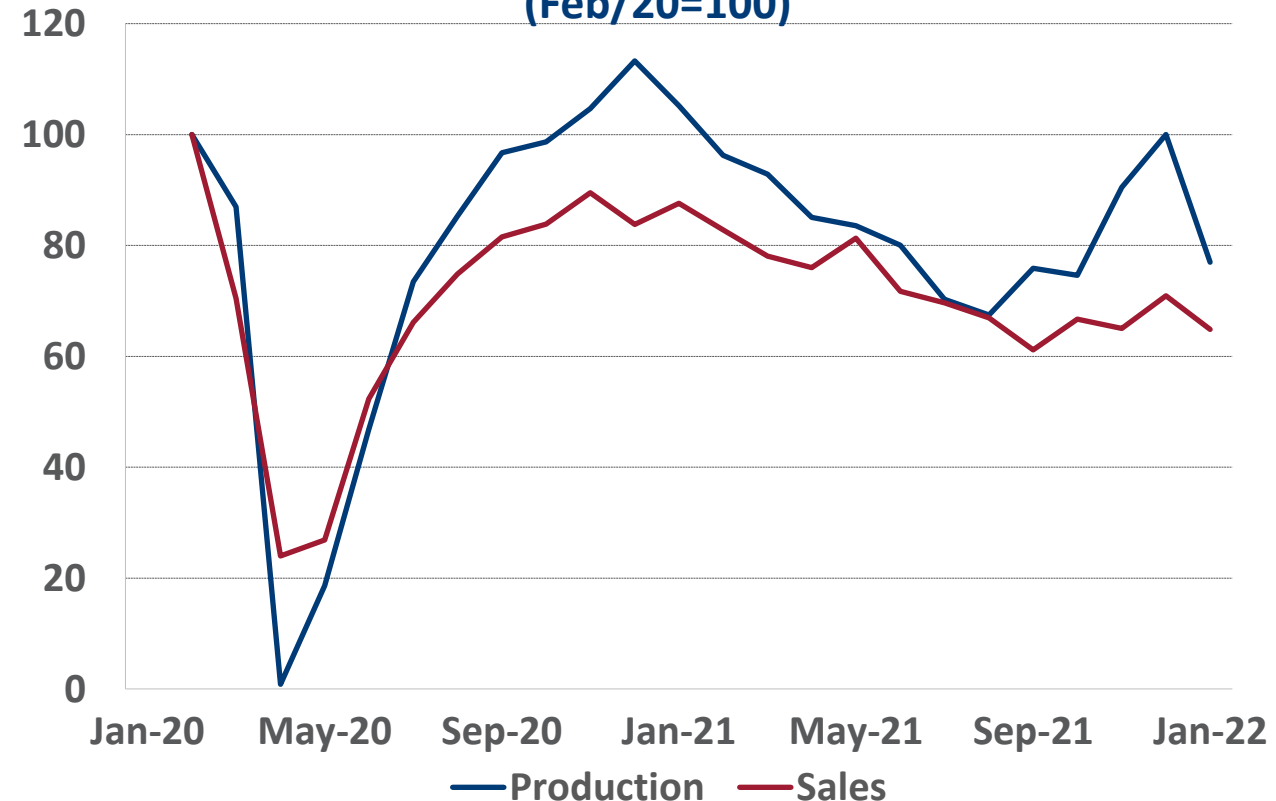
# Brazil: Activity

- » High frequency data surprisingly printed positive results in the last two months of 2021, with the services sector in the spotlight as mobility-related segment drove the climb;
- » The good performance of industry stemmed from easing logistical bottlenecks and inventories replenishment in vehicle production last quarter.

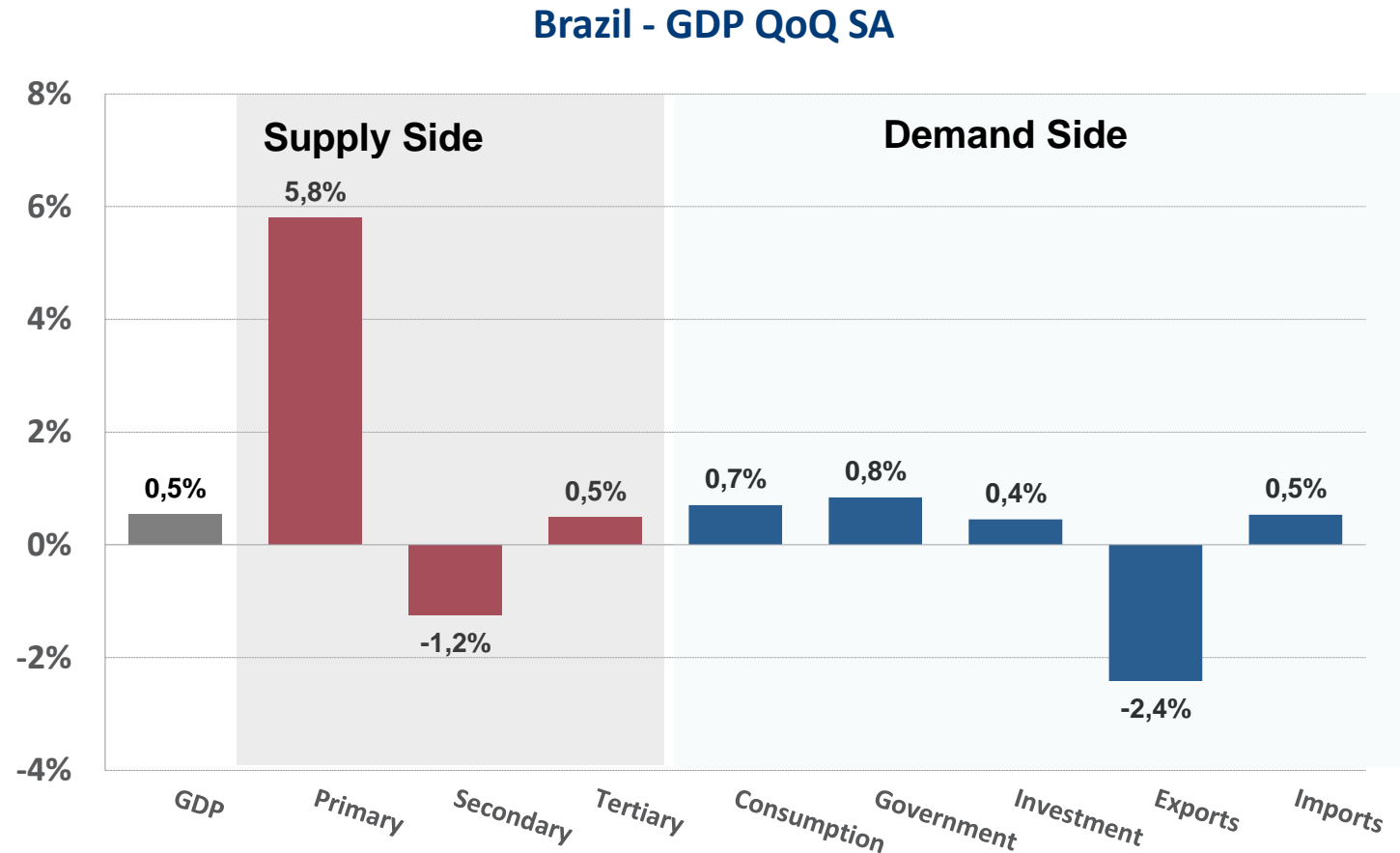
Brazil - Economic Activity Indicators (Jan/20=100)



Brazil - Vehicle Production and Sales SA Index (Feb/20=100)



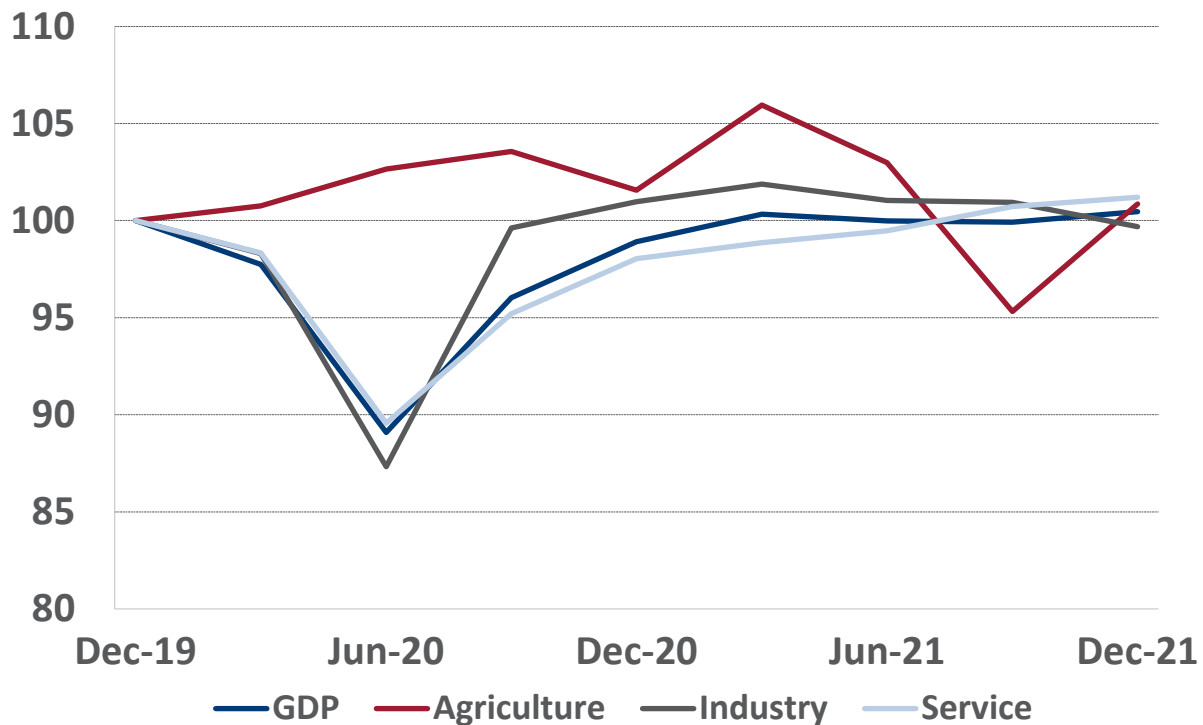
- » The Brazilian economy expanded 0,5% QoQ (1,65% YoY) in 4Q21, in line with the recovery signaled by the sectoral high frequency data in the last of two months of 2021.



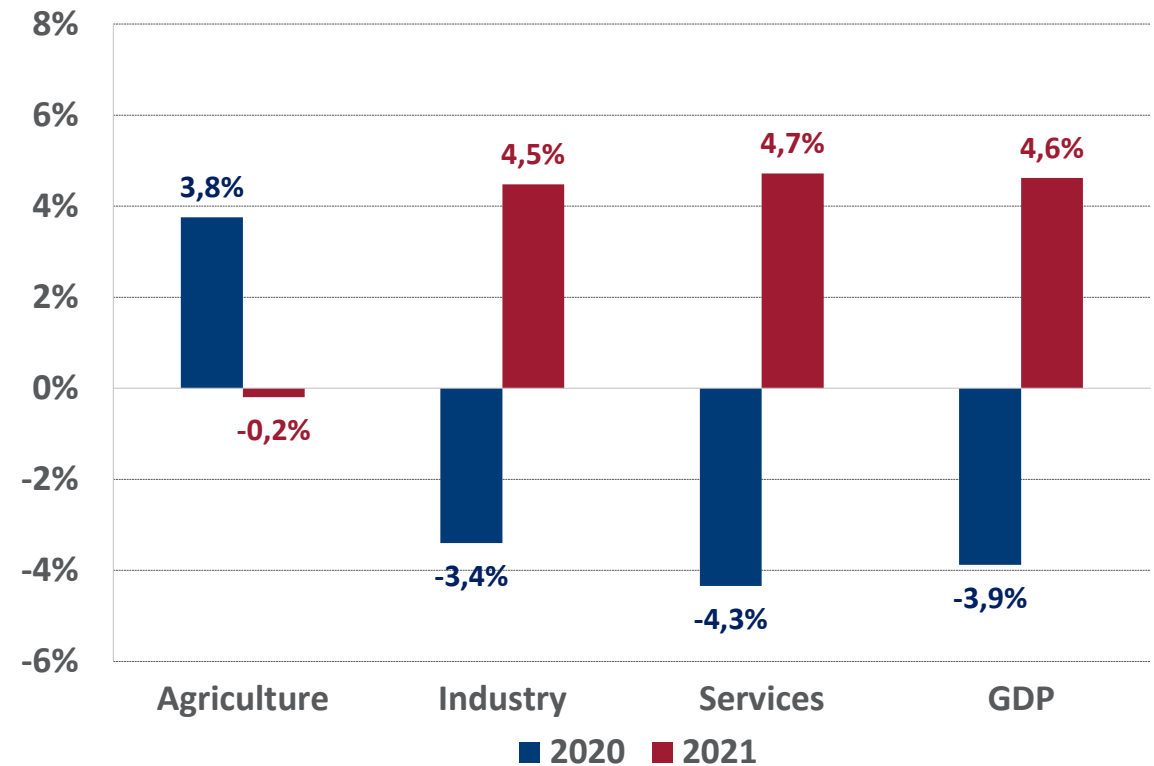
# Brazil: GDP

- » On the supply side, the agriculture output increased 5,8% QoQ, partly recovering from its previous drop while industry intensified its downward trend by decreasing -1,2% QoQ driven by the manufacturing sector;
- » In 2021, the services output drove the recovery as expected by growing 4,7% while agriculture's performance was influenced by bad climatic conditions.

Supply - GDP SA (Index 4Q19 = 100)



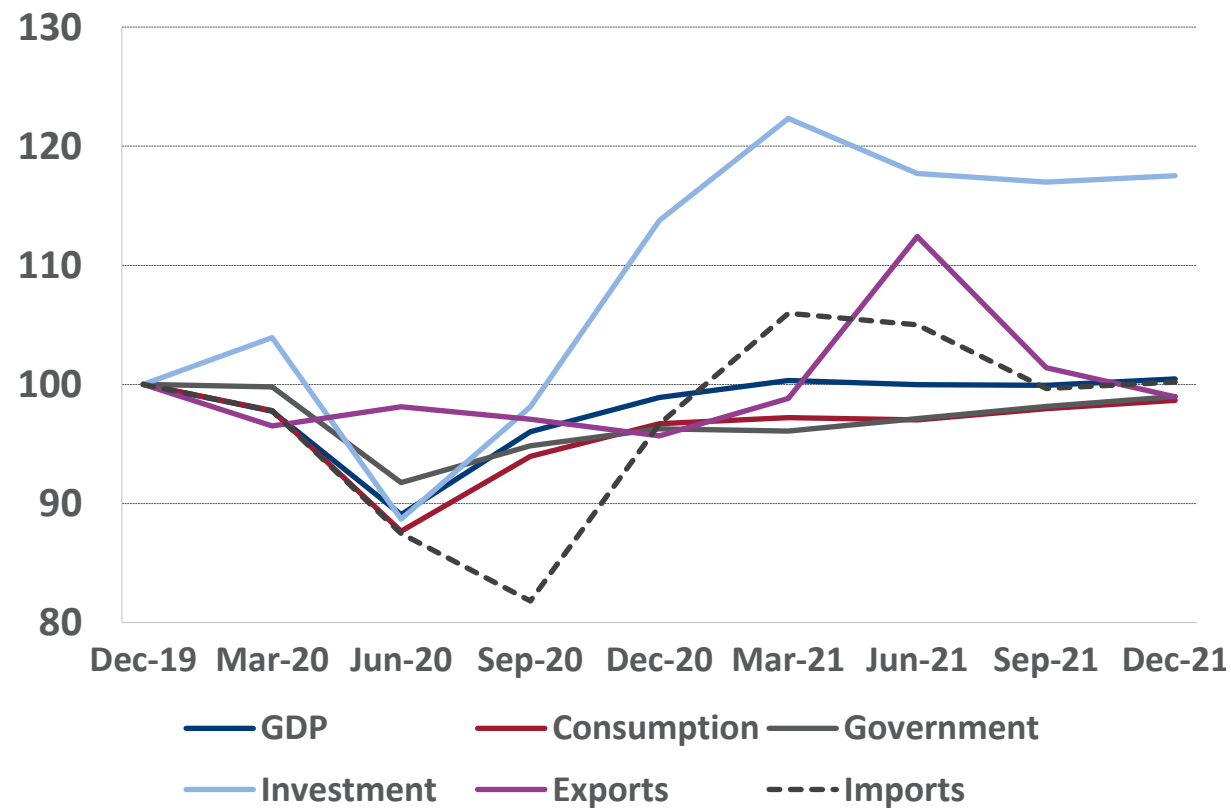
Supply - GDP Annual Growth (%)



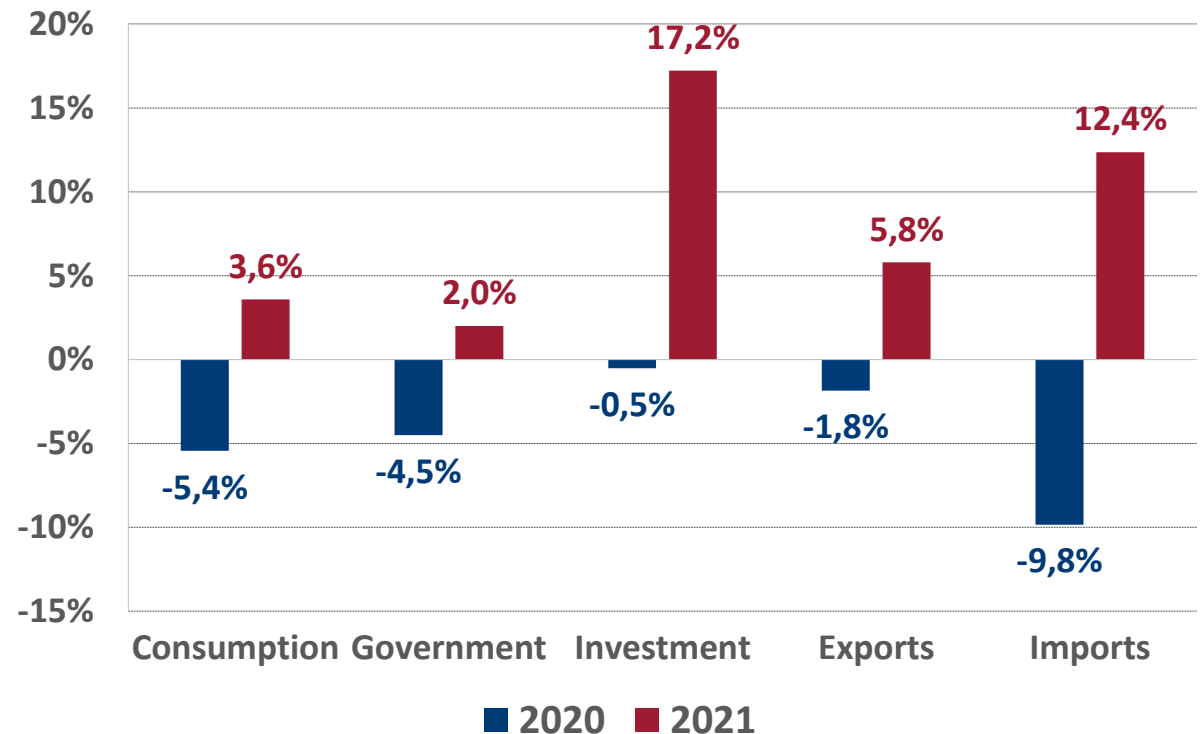
# Brazil: GDP

- » On the back of the recovery of the labor market, consumption increased 0,7% in 4Q21 while government spending benefited from normalization of public services;
- » In 2021, all demand side components increased with a sharp rebound of the investment.

**Demand - GDP SA (4Q19 = 100)**



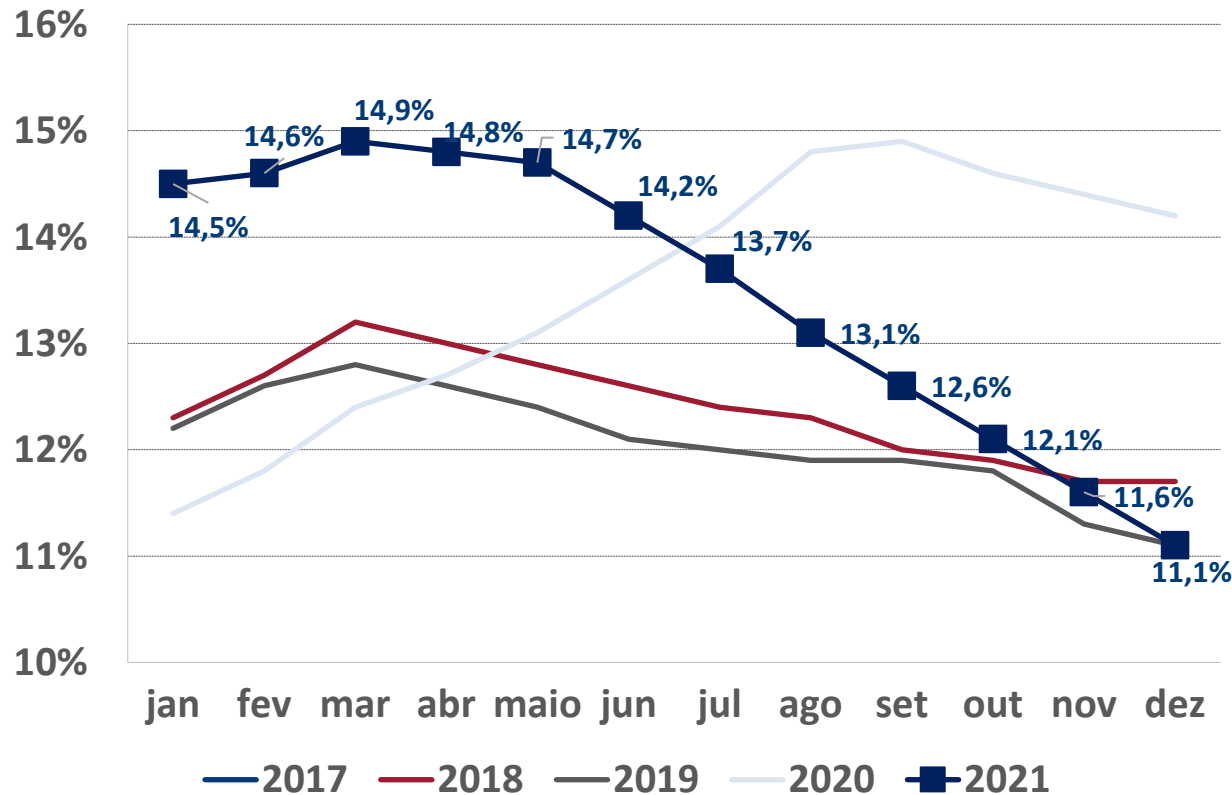
**Demand - GDP Annual Growth (%)**



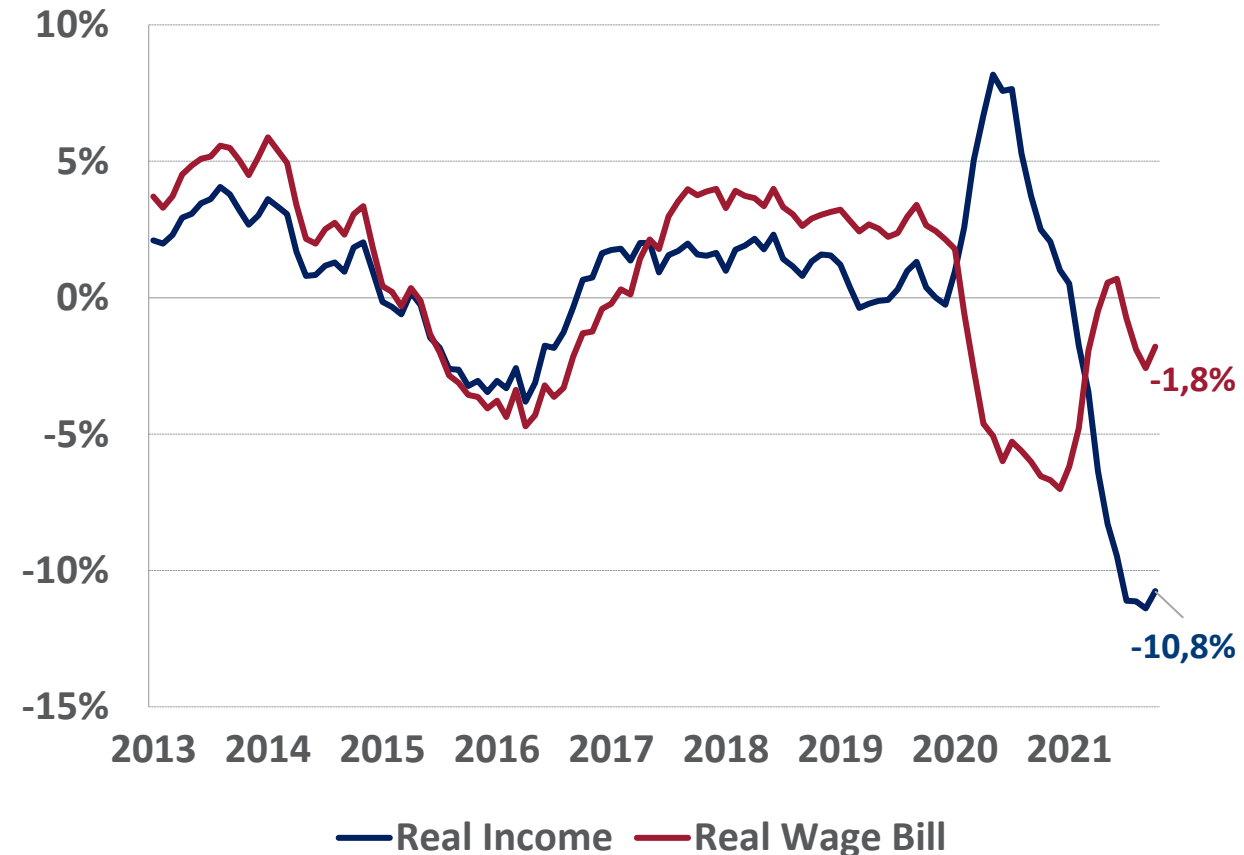
# Brazil: Labor Market (PNADC)

- » The unemployment rate fell substantially to 11,1% in 2021, on the back of normalization process and advanced vaccination campaign which favored informal and formal employment;
- » Nevertheless, income indicators remained in lower level due to labor market composition effect and inflation pressure.

## Brazil - Unemployment Rate NSA



## Brazil - Real Labor Income and Wage (YoY)





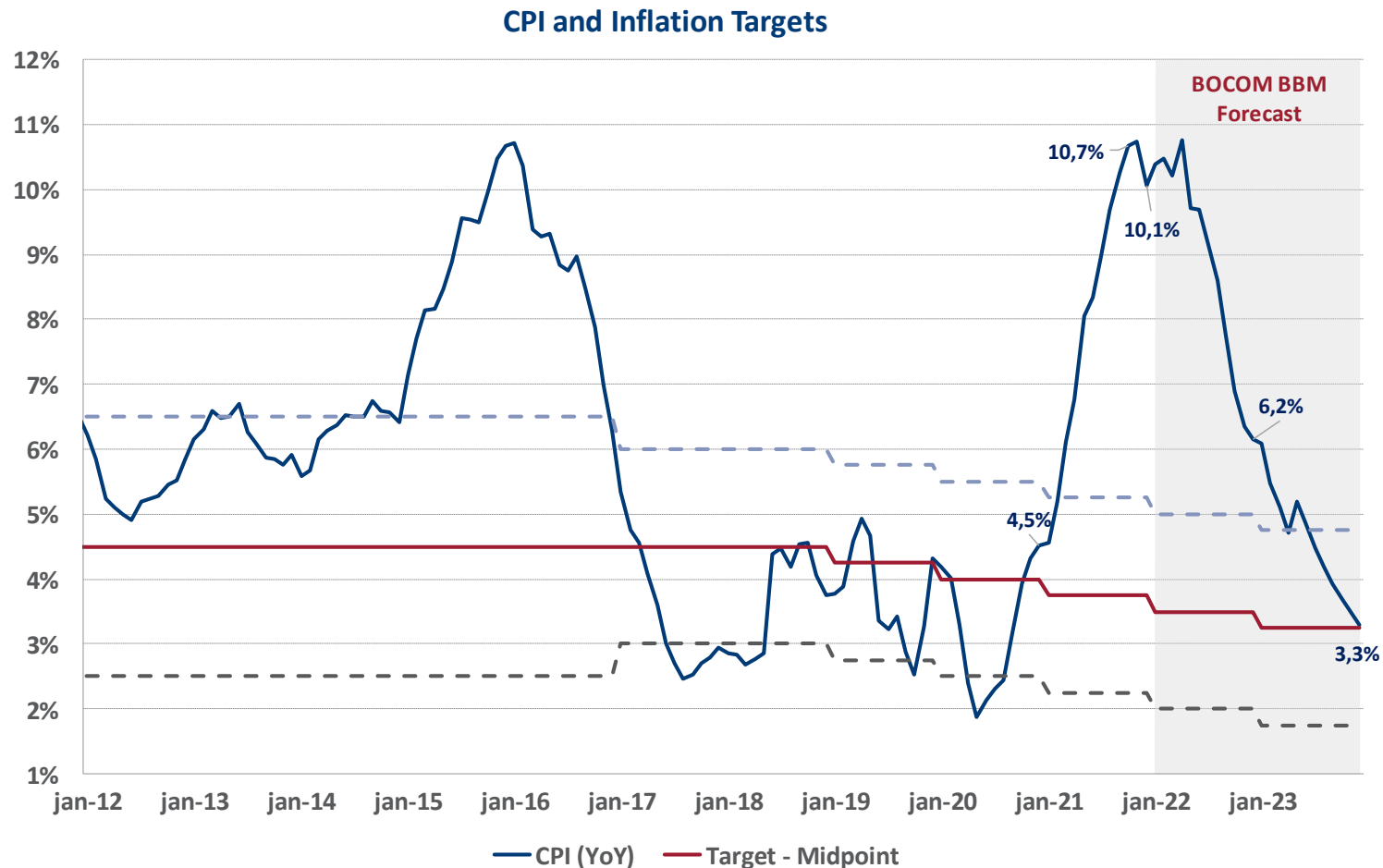
# Brazil: Inflation

- » In 2022, the CPI will float around 10% until April, when the Hydrological Scarcity Flag will end. The 2022 projection presents high number due to the persistence of services inflation and, partially, the new increase in commodities prices;
- » The tendency is that 2022 projections continue to be revised up after the start of the war due to the great price correction occurred, the worsening in the supply chain and the high uncertainty.

Baseline Scenario (YoY)						
	IPCA	Regulated	Non-Regulated	Services	Food-at-Home	Industrial Products
<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	10,2%	15,8%	8,5%	4,4%	14,7%	10,6%
<b>21 Q4</b>	10,1%	17,0%	7,8%	4,7%	8,2%	12,0%
22 Q1	10,2%	12,7%	9,4%	6,4%	11,7%	12,3%
22 Q2	9,7%	9,7%	9,7%	7,7%	12,3%	10,8%
22 Q3	7,7%	7,4%	7,8%	7,3%	7,4%	8,8%
<b>22 Q4</b>	6,2%	5,5%	6,4%	6,4%	7,2%	5,8%
23 Q1	5,1%	6,2%	4,7%	5,6%	4,5%	3,6%
23 Q2	4,9%	7,8%	3,8%	4,9%	3,6%	2,4%
23 Q3	3,9%	6,1%	3,1%	4,1%	3,7%	1,4%
<b>23 Q4</b>	3,3%	4,7%	2,8%	3,8%	3,7%	0,8%

# Brazil: Inflation

- » Our 2022 CPI projection takes into consideration Brent prices of US\$ 125 at the end of the year, the USDBRL pair finishing the year in 5.1, higher services inflation persistence, 20 bps impact of the IPI tax rate cut and electric energy yellow flag in Dec/2022;
- » In 2023, CPI forecast at 3.3% in line with the target.



» In 2022, the 6.2% projection is mainly caused by high inertia in services inflation, high inflation expectations and a new commodities rally. But, it still does not account for all the consequences of the war, which will bring high uncertainty and upside risks to forecasts. Further risks to 2022 CPI are:

## Upside risks:

1. The Russia-Ukraine war has brought upon us the scenario of another commodities rally. This will clearly bring upside revisions to inflation numbers. The difficulty to measure the inflation in such a volatile environment will probably lead to revisions throughout the year with the consequences of the war;
2. Another upside pressure will probably come from the continued supply chain disruption due to the war in Eastern Europe, which will add pressure to CPI;
3. The BRL recent appreciation could be reverted with the uncertainty triggered by the war and enlarge the upside revisions.

## Downside risks:

1. The IPI tax rate cut impact on inflation could be underestimated and industrial goods inflation could decrease;
2. Activity decline and high unemployment start playing a larger role due to the high interest rate;
3. Hydrological crisis finished with green flag in December 2022.

» In 2023, we expect industrial goods CPI close to 1% with the normalization of supply chains. The high level of interest in 2022 will have a relevant impact in 2023 inflation.

# Brazil: Inflation

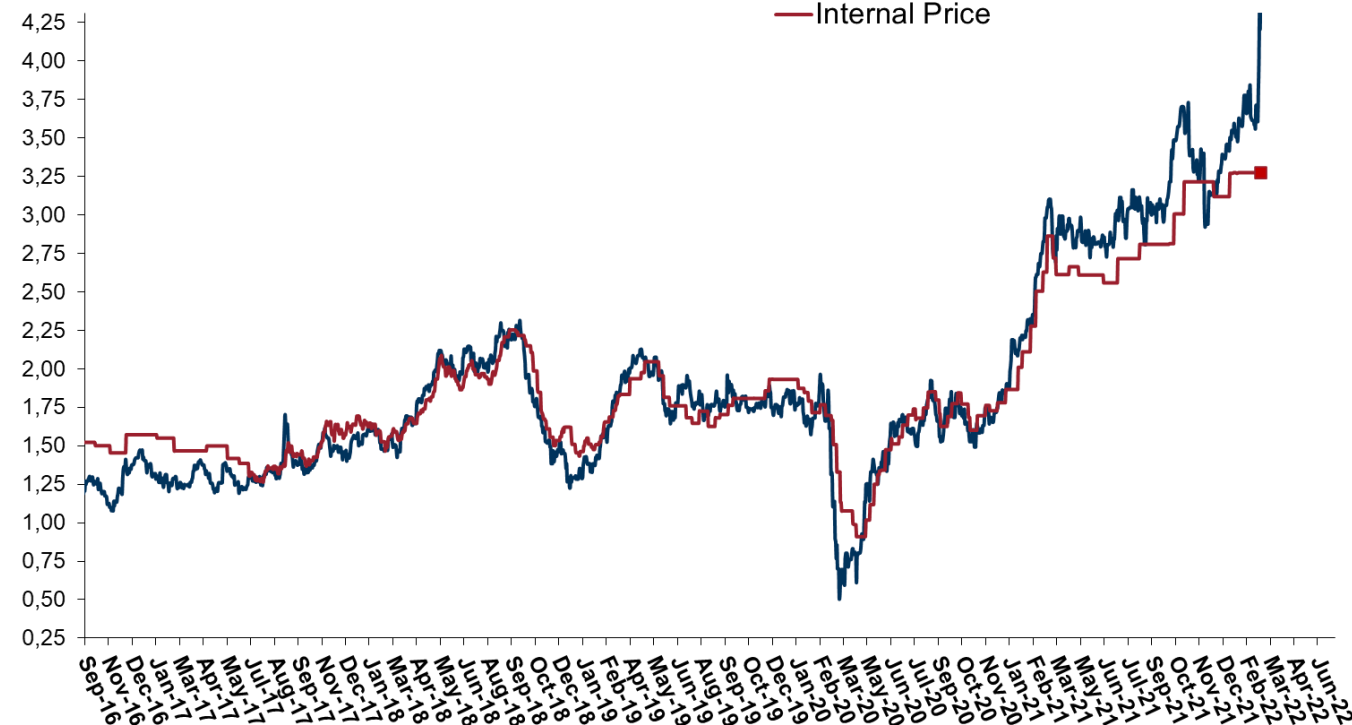
- » Brent Oil reached over US\$ 120 and the internal x external gasoline price gap reached 40,9%, creating upside risks to short term inflation;
- » The table on the right shows different inflation scenarios for different BRL and Brent Oil prices at the end of the year (the circled one is the baseline currently).

## Gasoline - Daily

R\$/Liter

— External Price  
— Internal Price

Relation Internal/External:  
Difference in 04/mar: -40,9%



		BRL				
		4,80	5,00	5,10	5,20	5,50
Brent	100,0	5,6%	5,8%	5,8%	5,9%	6,0%
	112,5	5,8%	6,0%	6,0%	6,1%	6,2%
	125,0	6,0%	6,1%	6,2%	6,2%	6,4%
	150,0	6,3%	6,4%	6,5%	6,6%	6,7%
	175,0	6,6%	6,7%	6,8%	7,0%	7,0%
	200,0	6,8%	7,0%	7,0%	7,1%	7,3%

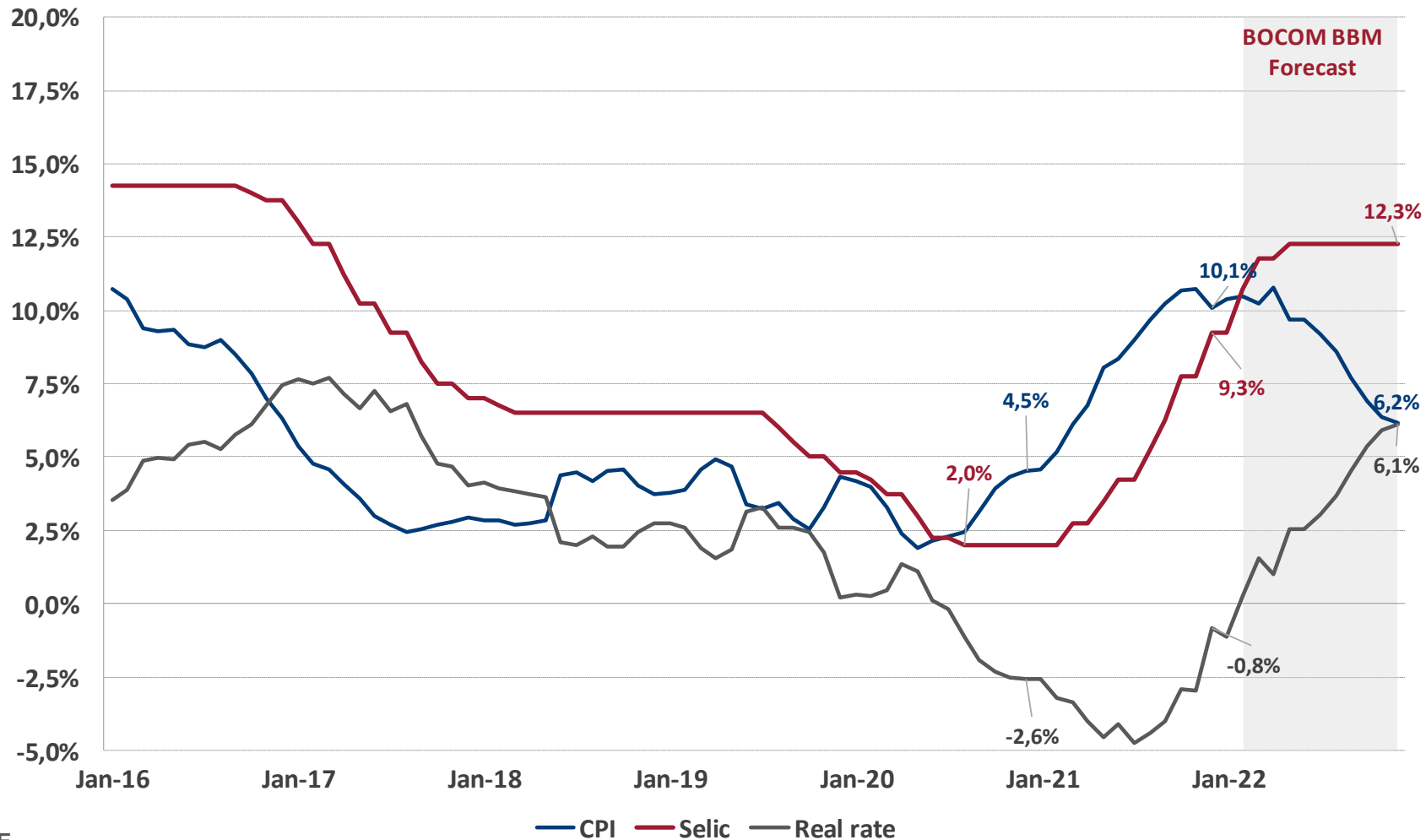
## Brent Oil - US\$



# Brazil: Interest rates

- » Scenario: Copom hikes Selic by 150 bps in 100 bps in March, finishing the hike cycle with one last 50 bps hike in May, and reaching 12.25%.

Brazil: CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

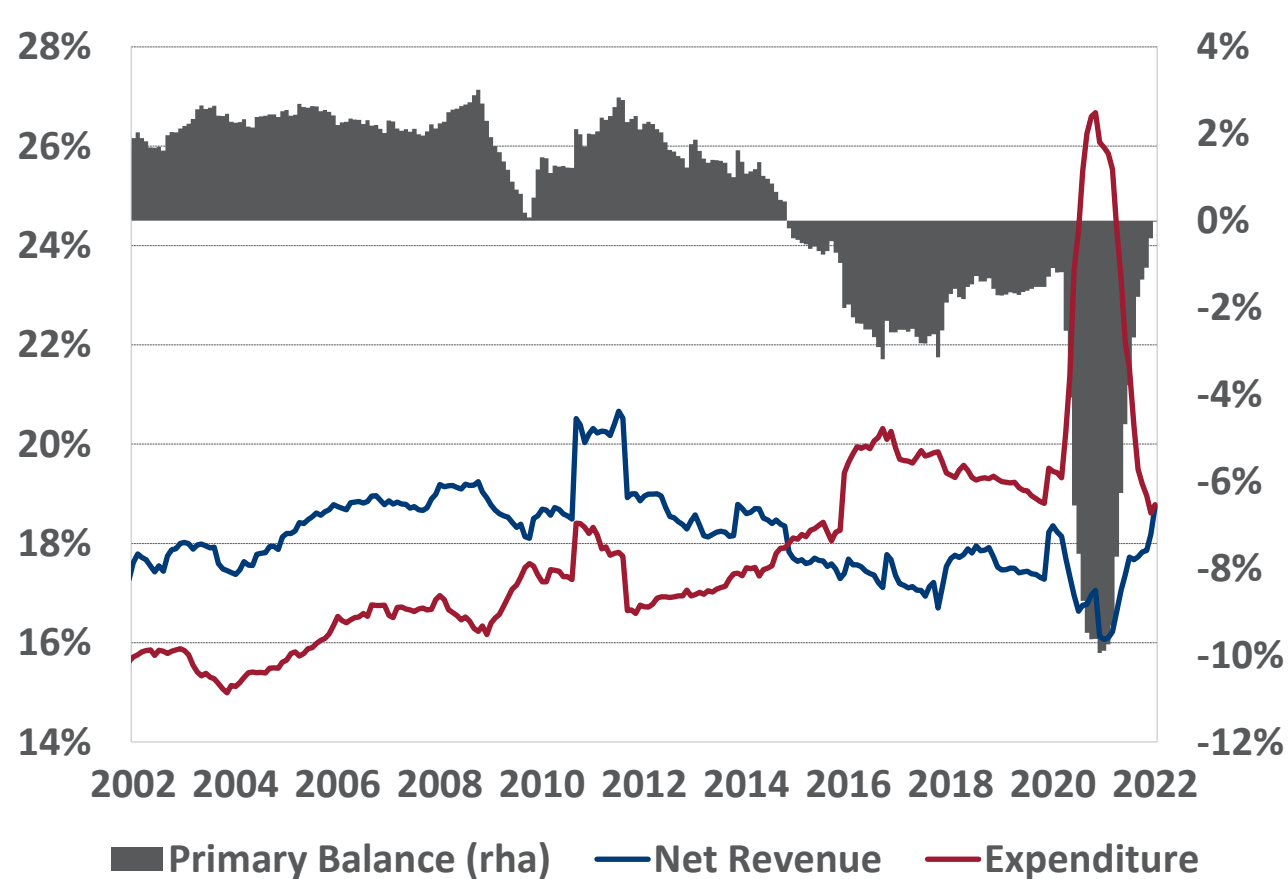




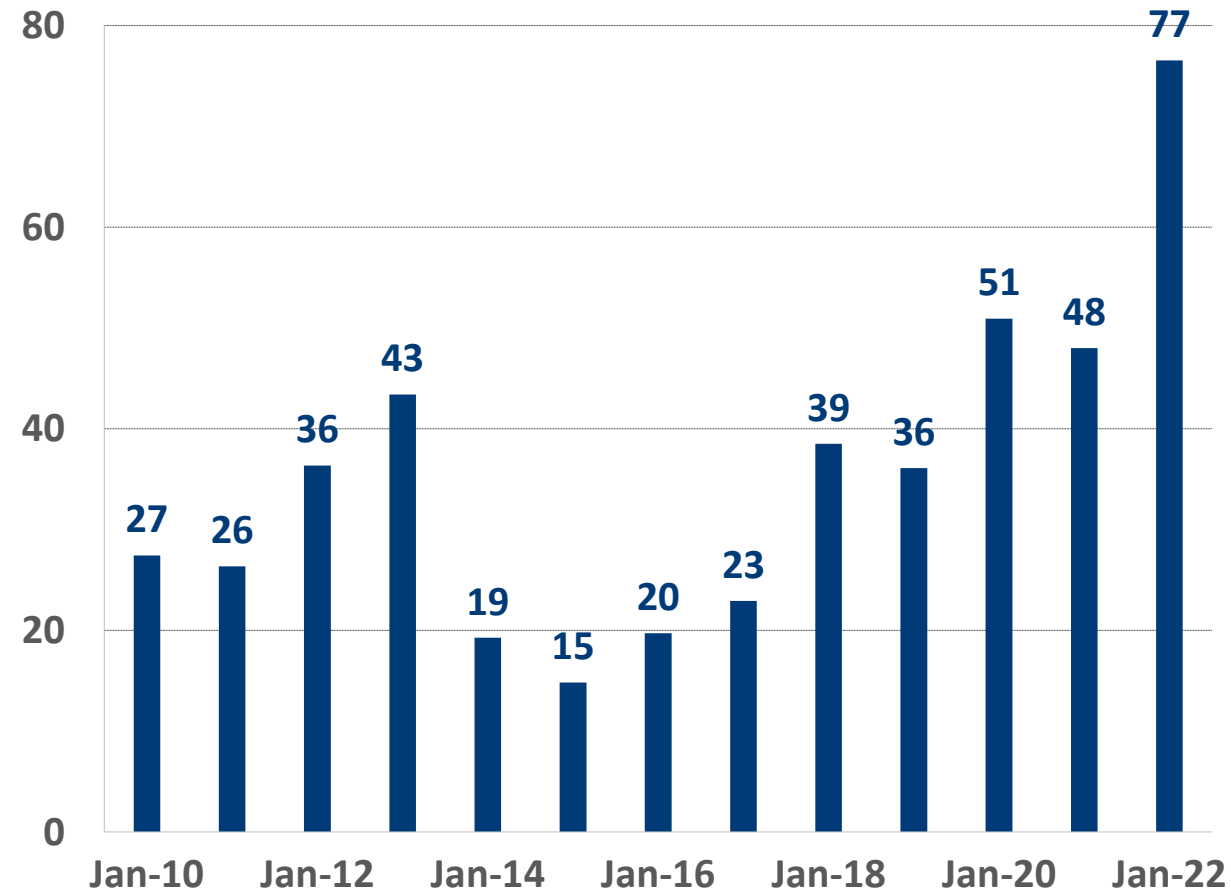
# Fiscal: Central Government Primary Budget

- » The Central Government's surplus in January was the highest for the month in the historical series (BRL77 Bn), with total revenues having grown 18,3% in real terms and expenditures 12,9%, also in real terms.

## Net Revenue and Expenditure (% GDP 12M)



## Central Govmt Primary Budget (Real BRL Bn)

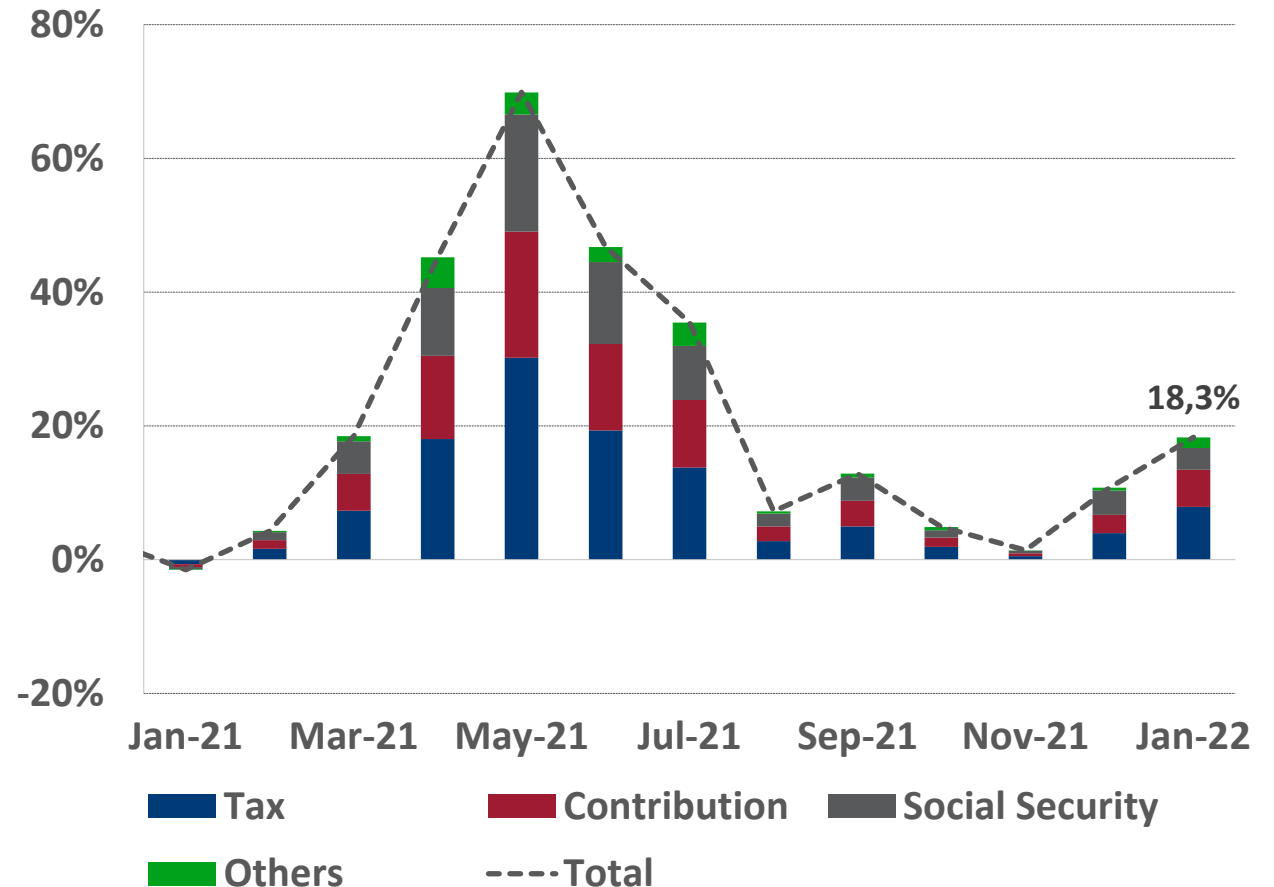


# Fiscal: Central Gov Tax Collection

- » In January, tax collection registered a real growth of 18,3% YoY, totaling R\$ 235,3 billion;
- » IRPJ and CSLL continue to be the main drivers of revenue growth. In particular, R\$ 12 billion in atypical taxes related to companies were collected.

Central Government Tax Revenue Jan-22	BRL Billions	YoY Real
Import taxes	5.4	-2.6%
IPI-Total	6.8	3.0%
Individual Income Taxation (IRPF)	2.7	-29.9%
Corporate Income Taxation (IRPJ)	52.3	25.1%
Withholding Income taxes (IRRF)	29.9	7.1%
IOF	4.6	92.0%
ITR	0.0	27.9%
COFINS	28.5	9.2%
PIS/PASEP	8.0	6.6%
CSLL	31.9	46.4%
CIDE	0.2	475.8%
PSS	3.1	-10.7%
Other Taxes Administered by the Central Govt	2.4	-12.2%
Social security	41.7	4.2%
<b>Administered by the Central Government [A]</b>	<b>217.4</b>	<b>14.7%</b>
Administered Ex Social Security	175.7	17.5%
<b>Administered by Other Entities [B]</b>	<b>17.9</b>	<b>92.5%</b>
<b>TOTAL [A + B]</b>	<b>235.3</b>	<b>18.3%</b>

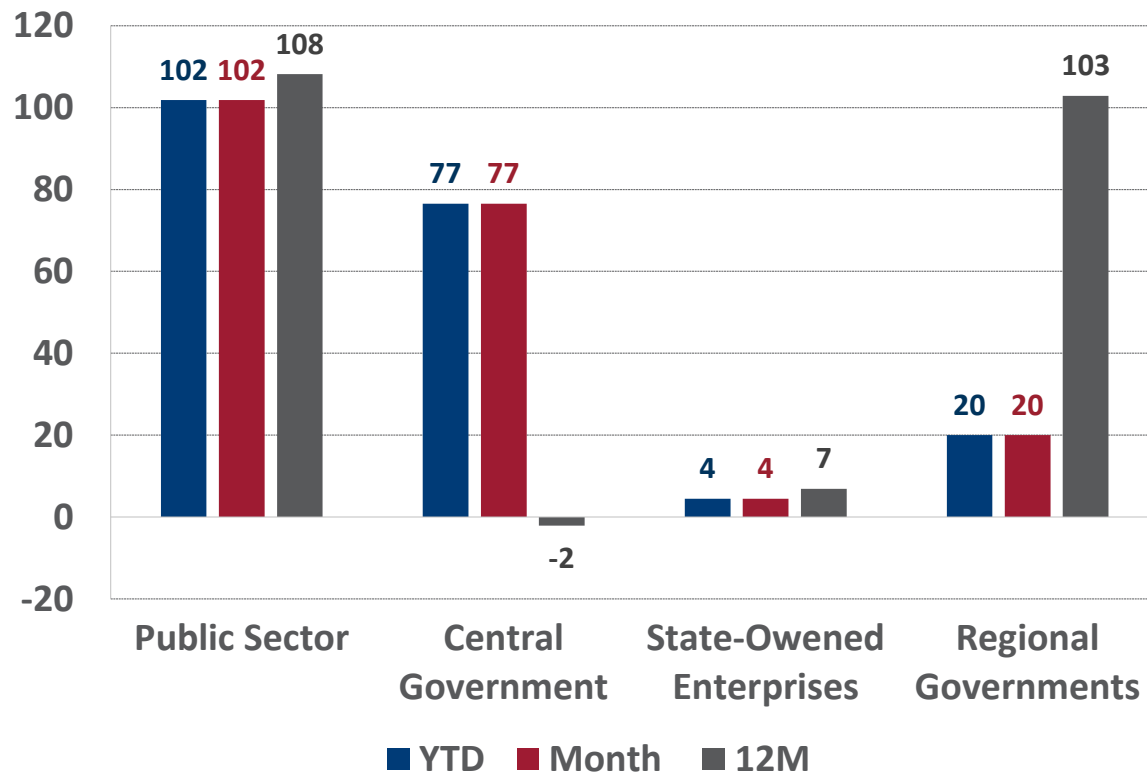
Brazil - Real Tax Collection (YoY)



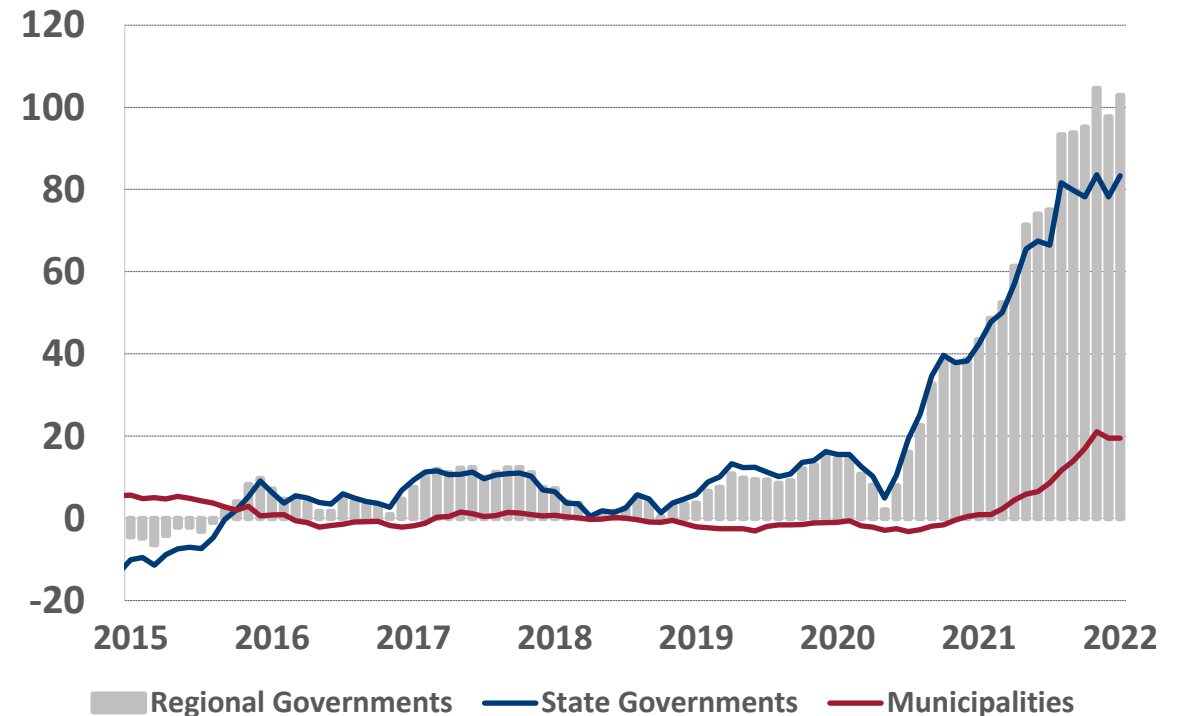
# Fiscal: Public Sector Primary Budget

- » The primary result of the public sector was BRL 101.8 billion, above the market consensus of BRL 81.0 billion. This January was the month that presented the best results since 1997 for the month, with a positive contribution of the central government's result;
- » The central government's result was driven by the good performance of January's revenue.

## Primary Result - January (BRL Billions)

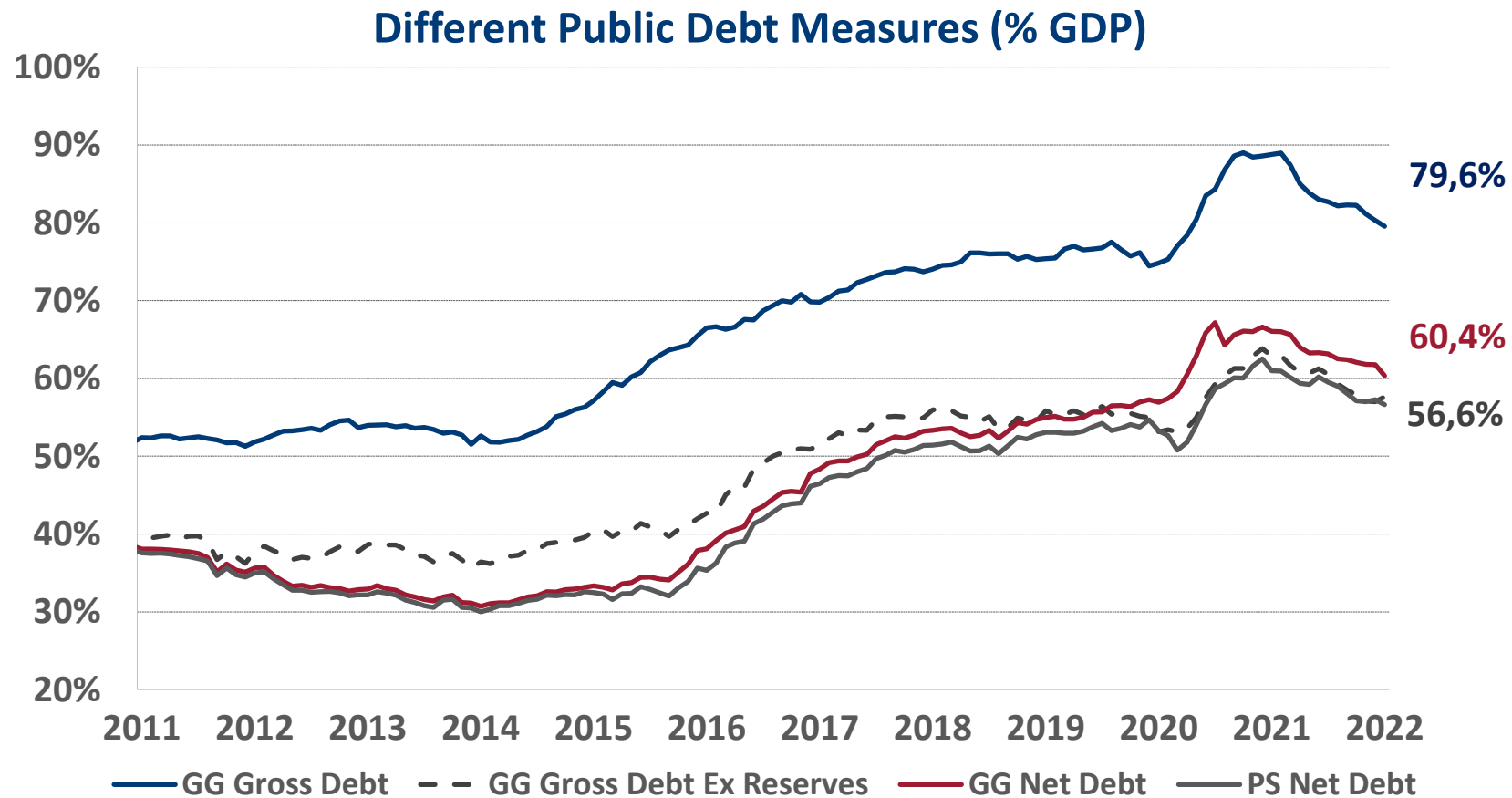


## Regional Governments' Primary Result (12M, BRL Billion)



# Fiscal: Public Deficit

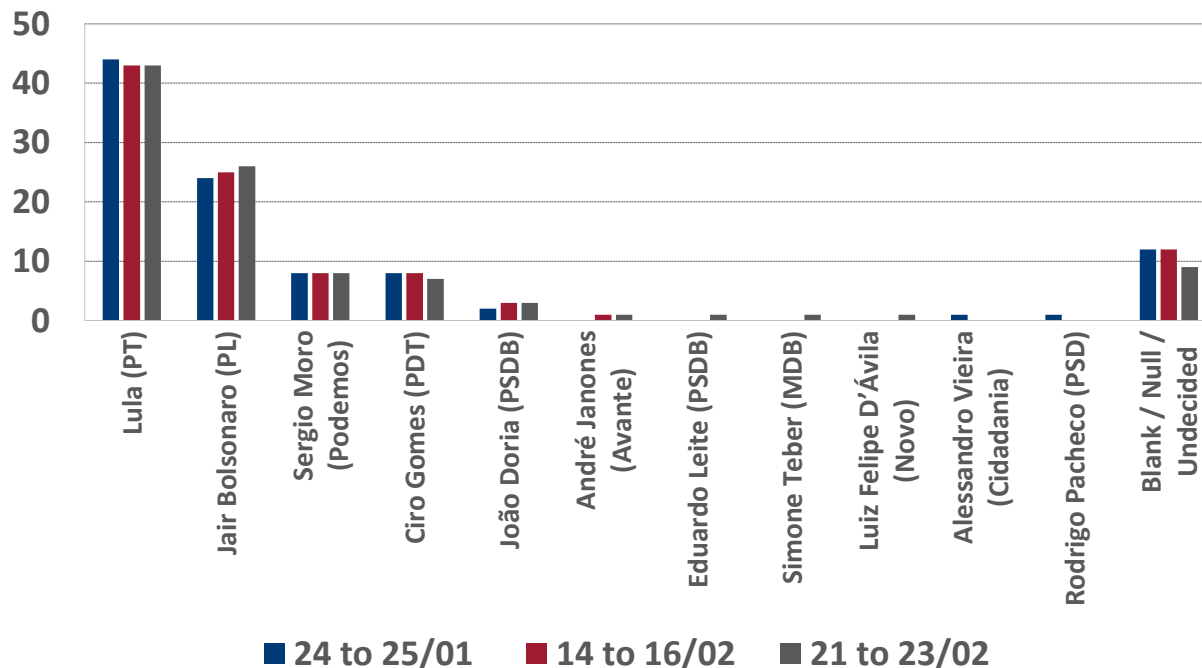
- » The Gross Public Debt fell to 79.6% of GDP, lower than the level observed in January 2021 which was 88,8% of GDP. The fiscal result was boosted by higher commodities prices and the recovery of the economic activity;
- » We expect a deterioration of the debt indicator ahead alongside with the increase in interest rate and low growth.



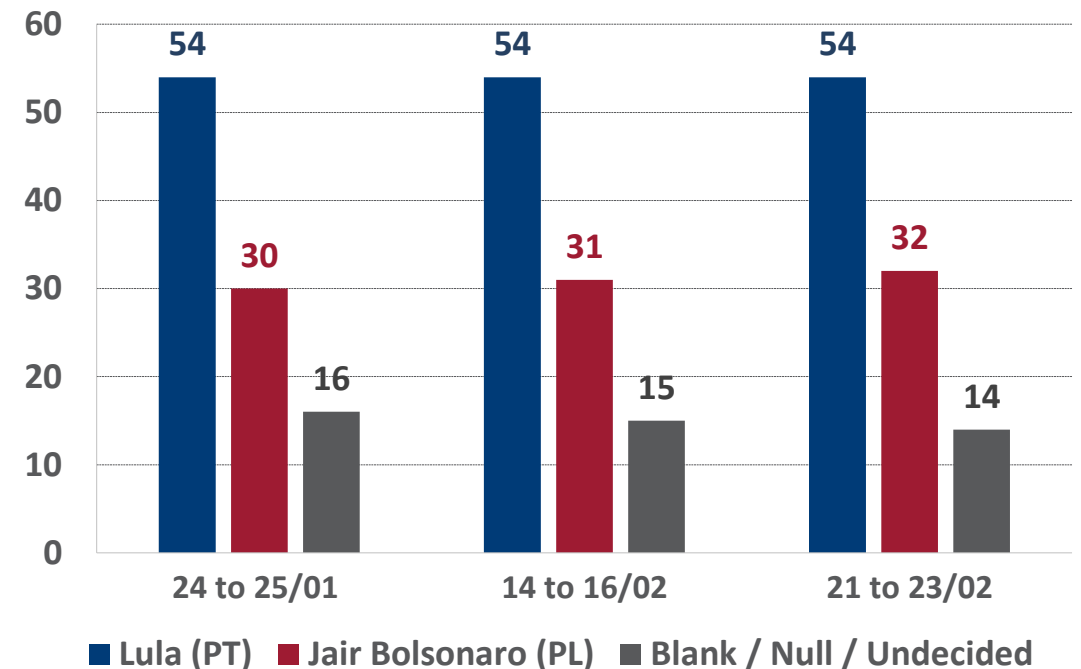
# Brazil: Presidential Election

- » According to the latest IPESPE poll, the polarization between the current president, Jair Bolsonaro, and the ex-president, Lula, is well consolidated.
- » Candidate Bolsonaro has been slowly recovering, with a 2% growth in the last 30 days.
- » The entry of Eduardo Leite (PSDB), who is expected to join the PSD, has not provided leverage for the third way. Sergio Moro (Podemos) and Ciro Gomes (PDT) are leading the polls in the third way.

Voting Intention: Ipespe



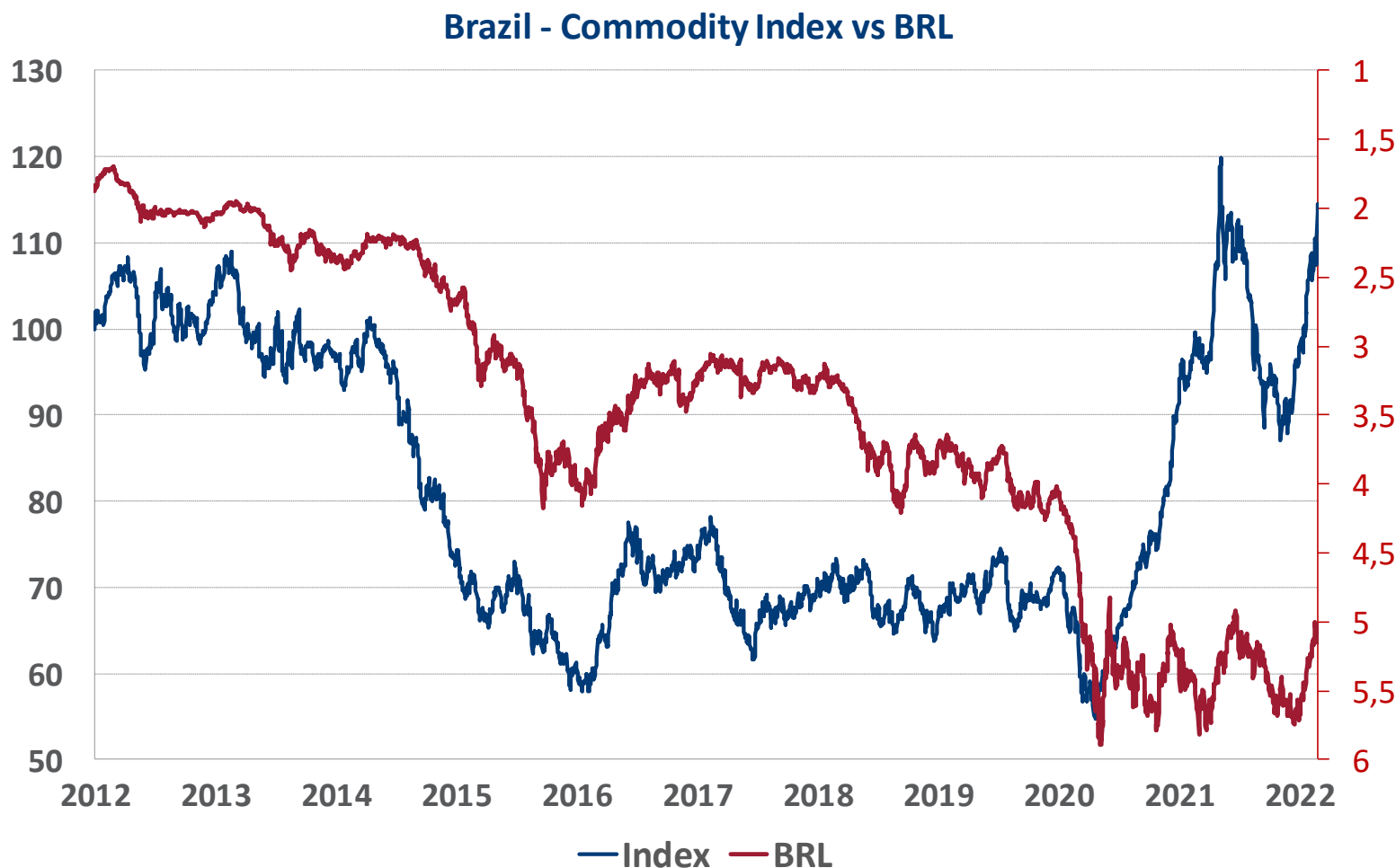
Voting Intention: Lula x Bolsonaro





# Brazil: External Sector

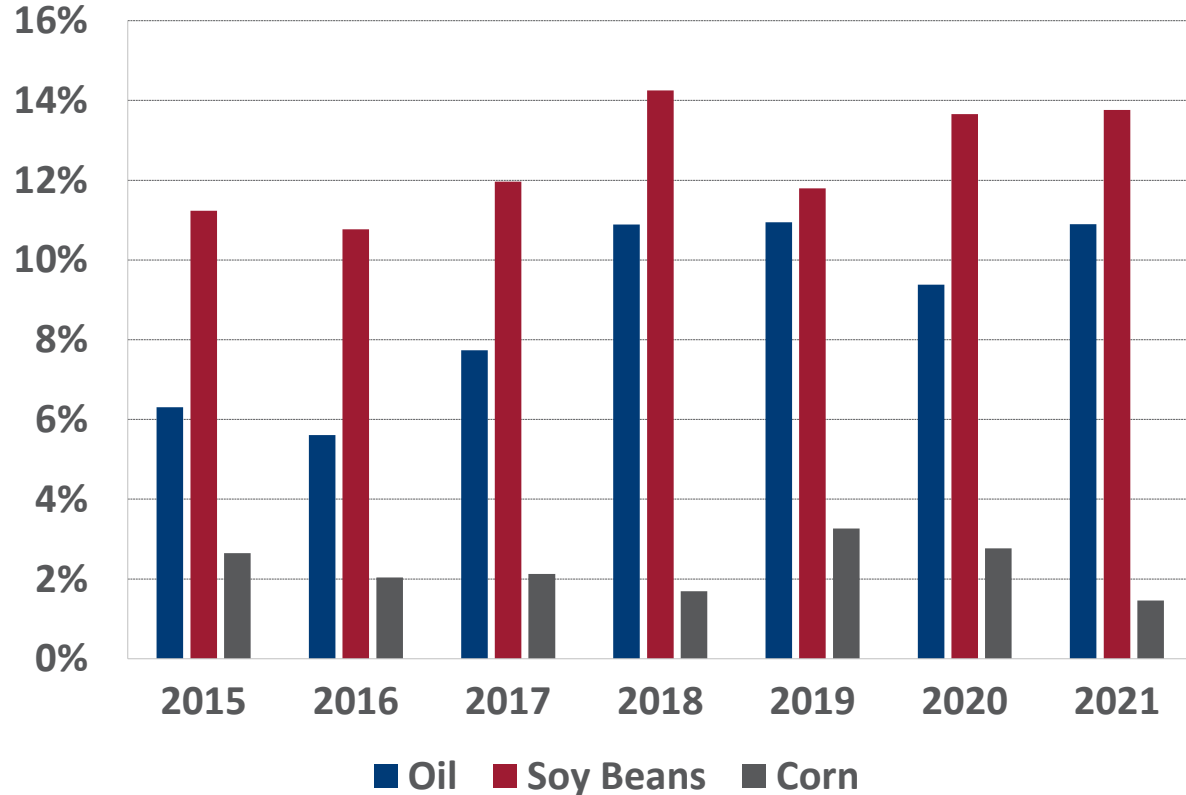
- » The commodity Index has reversed the trend seen at the second semester of the last year and returned to a growth path, that was accelerated with the beginning of the war;
- » The BRL also appreciated strongly in the last months.



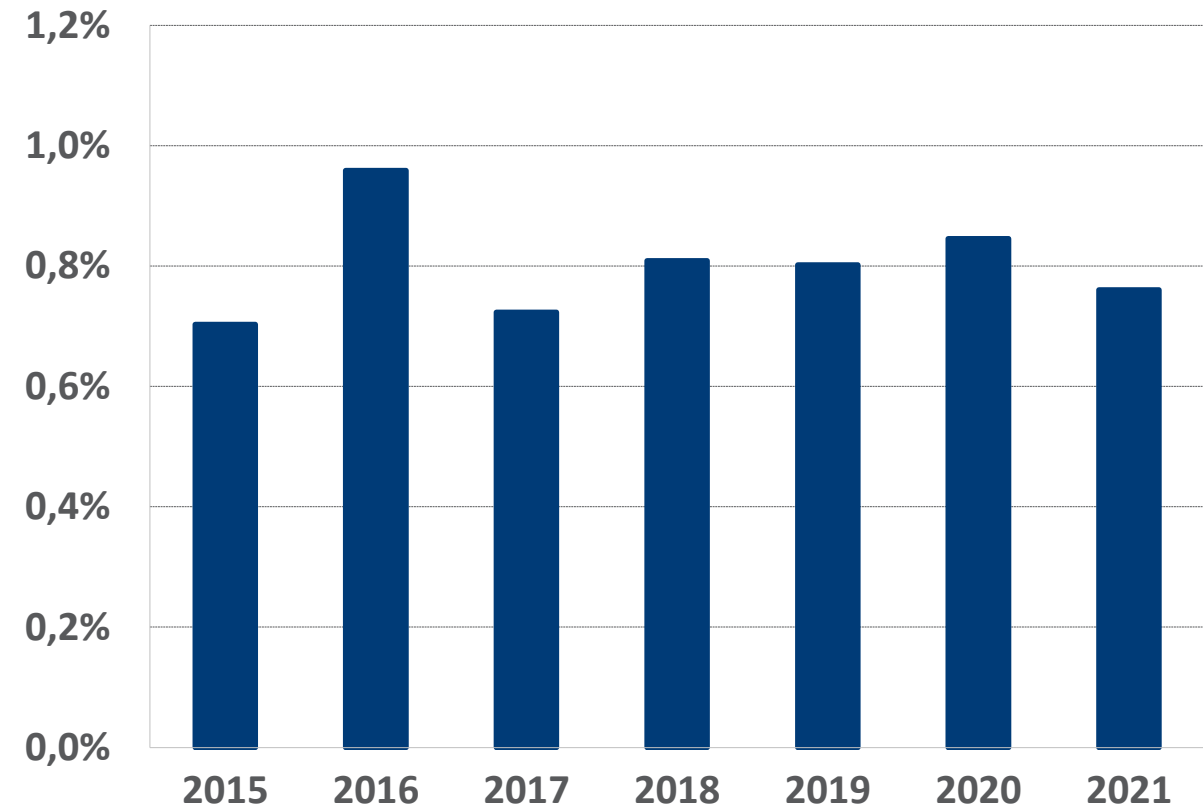
# Brazil: Balance of Payments

- » The trade balance will be boosted with the increase in commodities prices. Oil, Soybeans (specifically Soybean Oil) and Corn have seen increases in their prices and they are among the most exported items in Brazil;
- » On the imports side, wheat prices have increased considerably, but its relative importance is low on the trade balance.

## Participation in Brazilian Exports



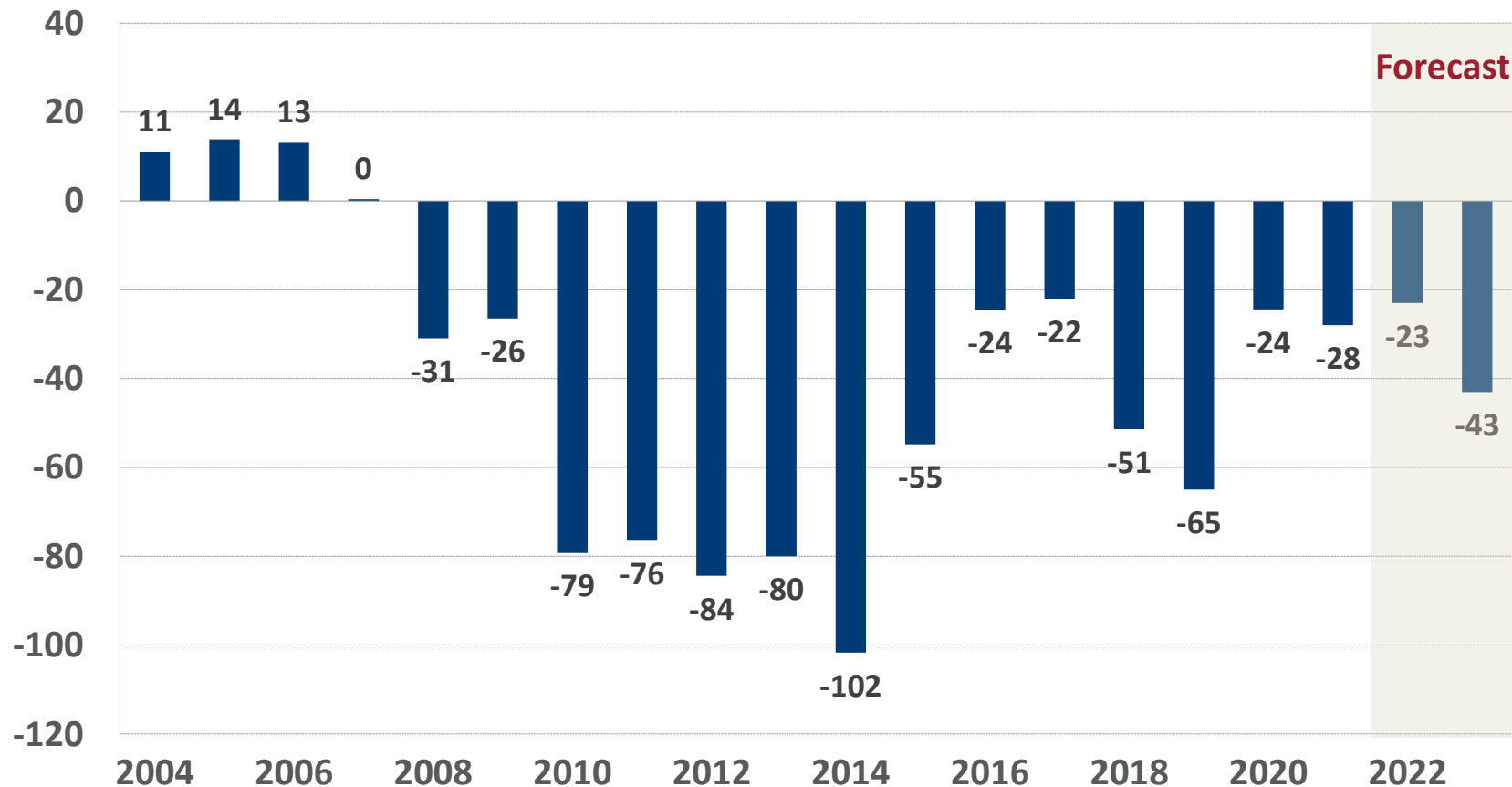
## Wheat Participation in Brazilian Imports



# Brazil: Balance of Payments

- » The 2022 current account expectation is that the improvement in comparison to 2019 and 2018 will continue due to still elevated prices of commodities, a depreciated BRL, weak economic growth in Brazil expected to 2022;
- » The Russia Ukraine war has a clear impact in commodities prices, but there are still several uncertainties related to the war.

Current Account Balance - USD Billion



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