



MACRO OUTLOOK

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Chief Economist

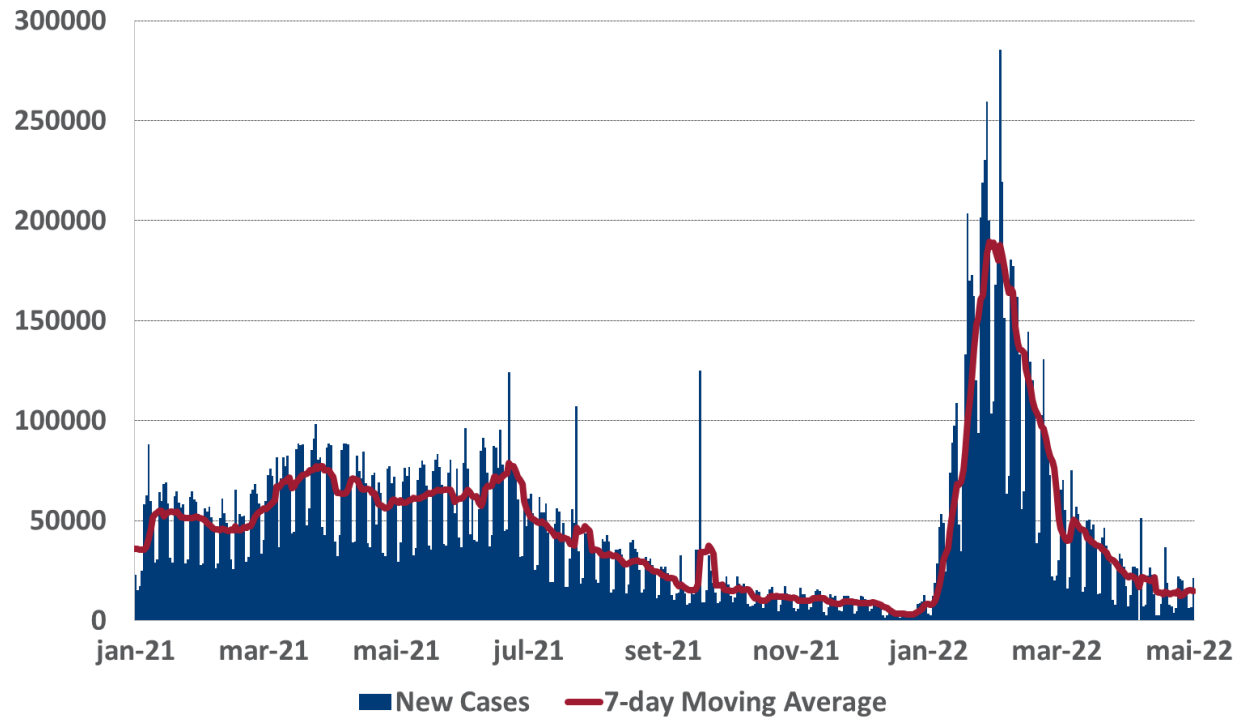
May 2022

- » The war in Europe led commodities prices up and the worst Covid wave so far in China has increased the supply chain bottlenecks. Both effect continue to pressure world inflation amid a lower growth scenario;
- » High frequency activity shows improvements for the industry, particularly in the production of capital goods. Retail sales have surprised to the upside showing strong growth. The service sector was roughly stable, but the labor market has posted a solid recovery;
- » Our growth forecast for 2022 increased to 0.9%. The projection considers the high carry over effect of some activities, stemming from the upside surprises in 2021 GDP, as well as the recovery of some services that are still below their pre pandemic level;
- » Our inflation forecast is at 8.5% in 2022, considers services inflation inertia, expectations deterioration, higher electric energy readjustments and partially another readjustment in fuels. In 2023, our projection is at 4.2%, and considers a high inertia of services inflation;
- » Our Selic rate projection is at 13.25% at the end of 2022 and at 9.0% at the end of 2023;
- » Fiscal results have continually improved with the better outlook for government revenues and the high inflation that has decreased debt to GDP. Local government (state and municipalities) continue surprising on the upside.

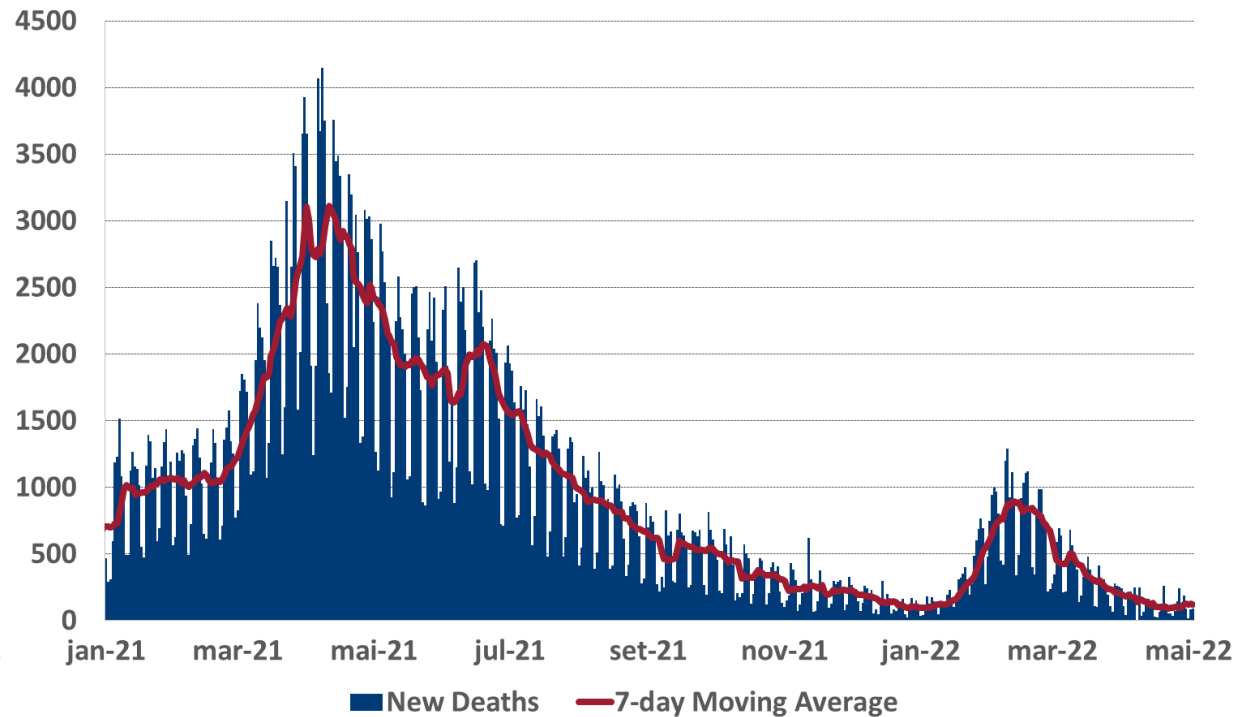
Brazil: COVID-19

- » The Covid-19 pandemic in Brazil continues to show a stable trend in deaths and cases resulting from the disease, with moving average numbers of cases lower than the beginning of January 2022;
- » This stabilization has enabled fewer restrictions by Brazilian states;

Daily new cases - Brazil



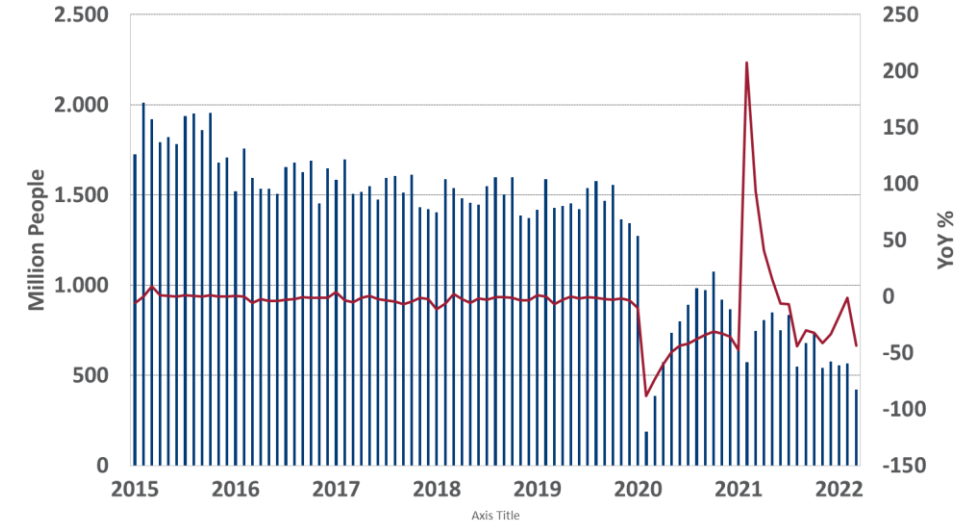
Daily new deaths - Brazil



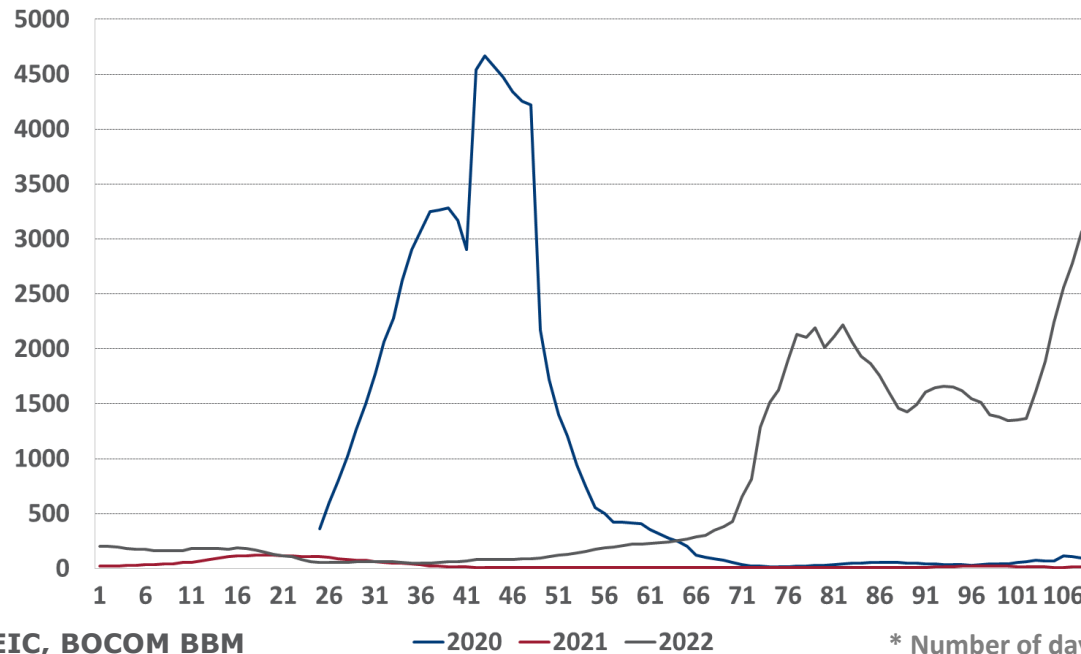
China: COVID-19

- » Worst-ever covid wave, with Shanghai at the epicentre:
 - » reached over 25,000 new daily local cases in April;
 - » half of China's biggest 50 cities imposed some types of lockdown.
- » Traffic in China:
 - » airlines and railway have massively reduced services;
 - » intracity traffic in many areas has plummeted;
 - » daily subway passengers fell sharply in March and April;
 - » Truck traffic has fallen in nationwide (-29% YoY);

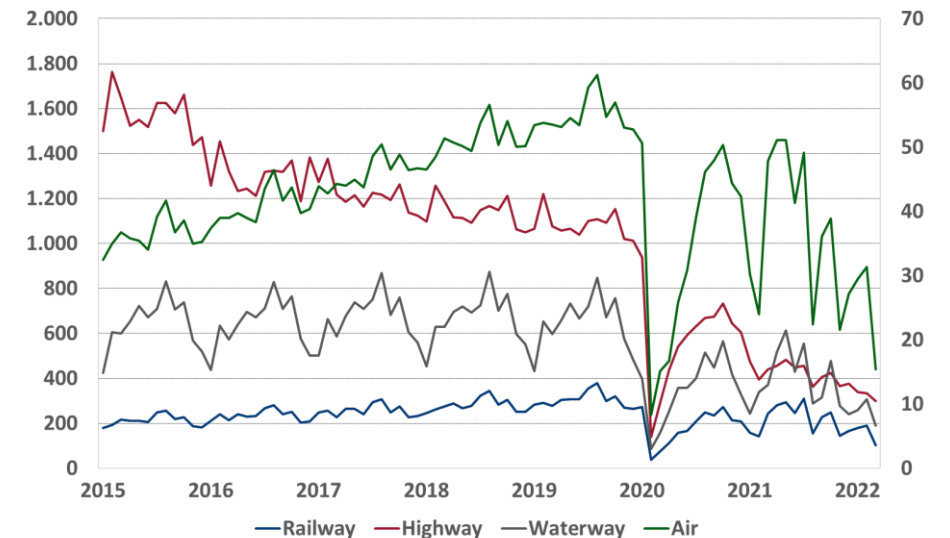
China: Passenger Traffic



COVID - 19: New cases (YTD, 7dma)

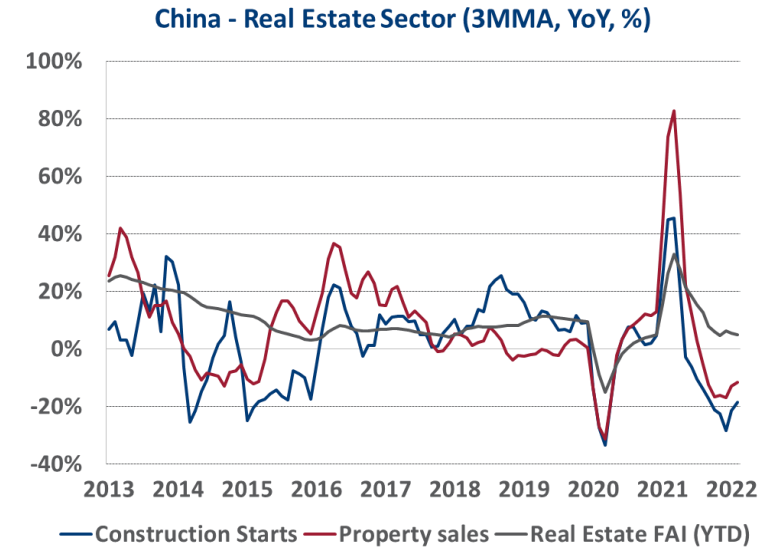
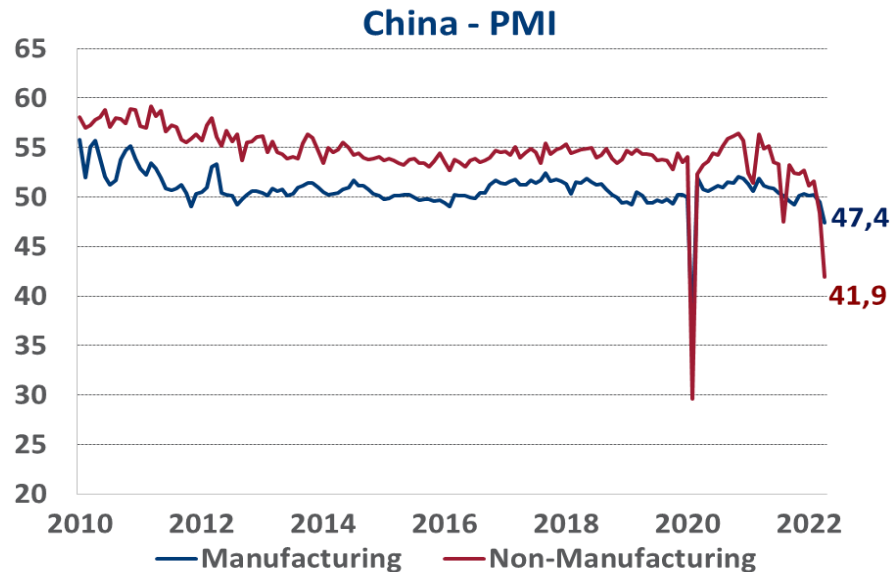


China: Passenger Traffic (Million People)



China: Activity

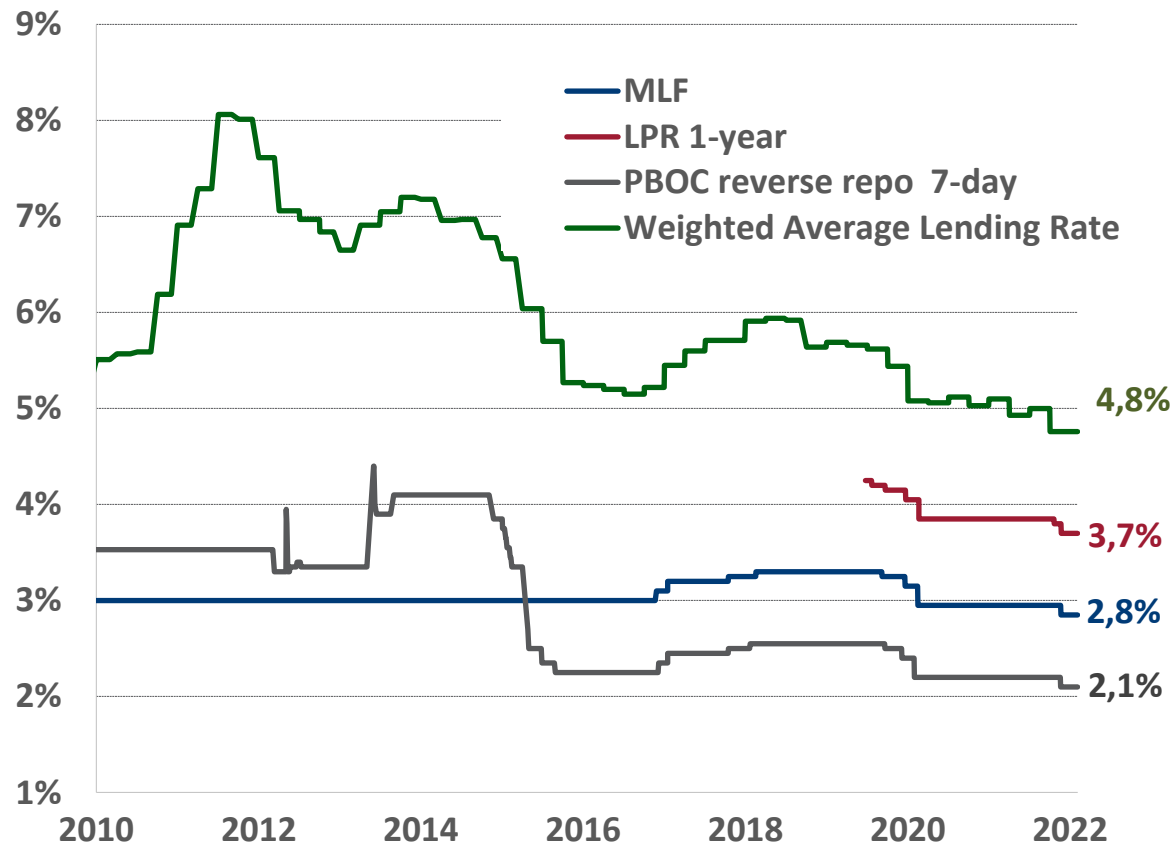
- » Real state sector is in contraction:
 - » contracted sales by the 100 largest property developers fell 52.7% YoY in March;
- » China's activity data points to deceleration:
 - » retail sales weakened as expected, due to asymmetric impact of worsened Covid situation and escalated restrictive measures on different sectors.
- » Manufacturing PMI fell to 47.4, and Non-manufacturing PMI fell to 41.9 in March.



China: Monetary Policy

- » China's central bank refrained from cutting interest rates and injecting liquidity into the economy;
- » 25-basis-point (bp) cut to banks' reserve requirement ratio (RRR), to support industries and firms affected by surging COVID-19 cases;
- » Regarding inflation, CPI inflation rose to +1,5% YoY in March and PPI inflation eased to +8,3% YoY.

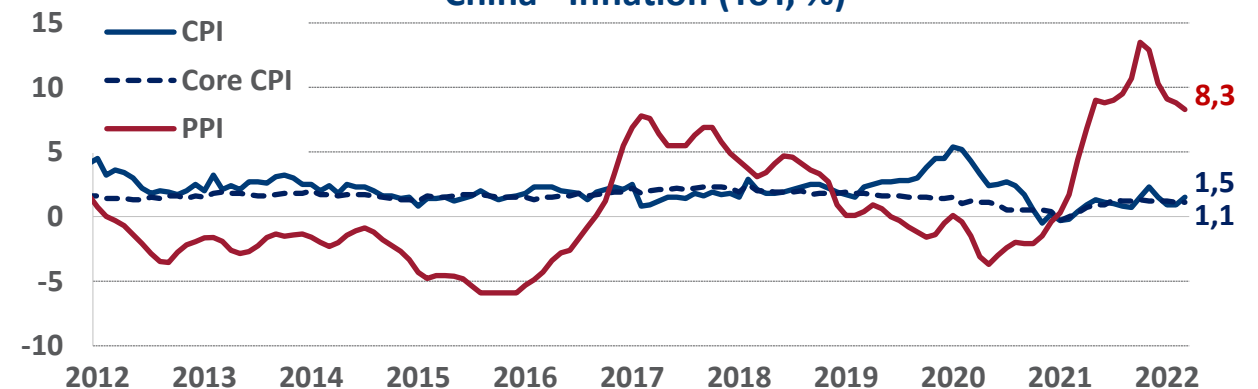
China - Policy Rates



China - Reserve Requirement Ratio

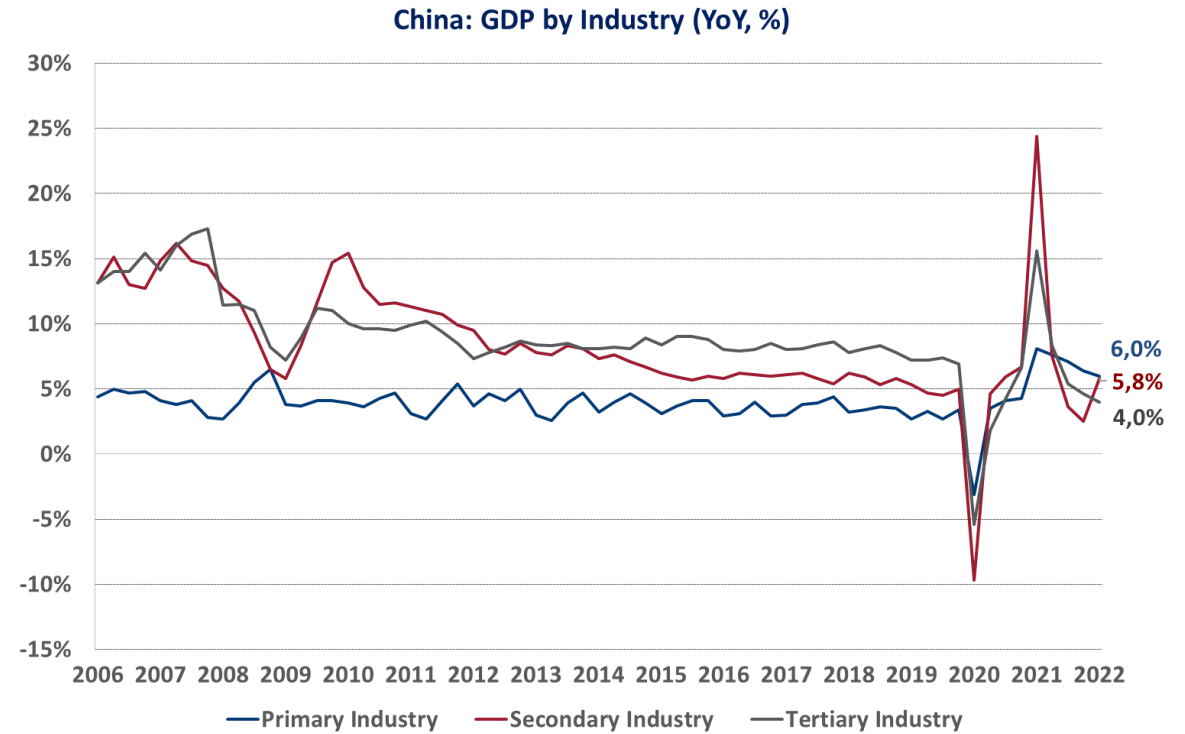


China - Inflation (YoY, %)



China: GDP

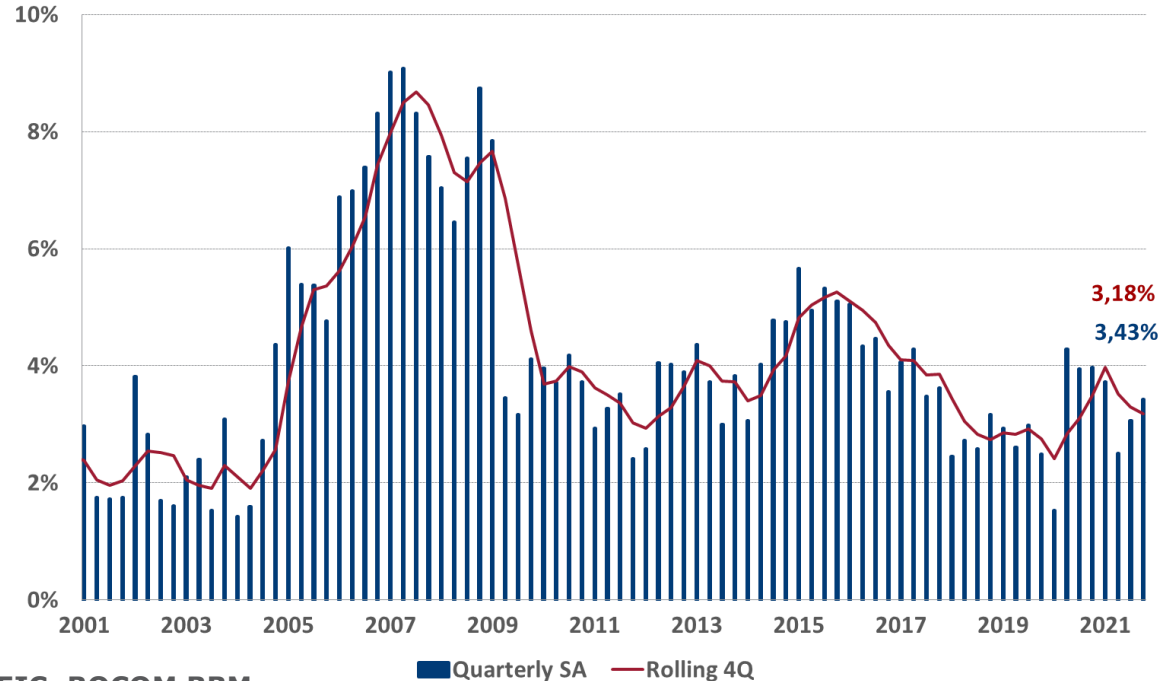
- » 1Q22 GDP China: 4.8% YoY (vs. 4.0% in 4Q21)
- » Secondary industry improved notably to 5.8%, while primary and services industries edged down to 6.0% and 4.0% respectively
- » Govm't pledged to boost stimulus to spur the economy as the coronavirus pandemic threatens growth, according to a meeting of the Communist Party's Politburo;



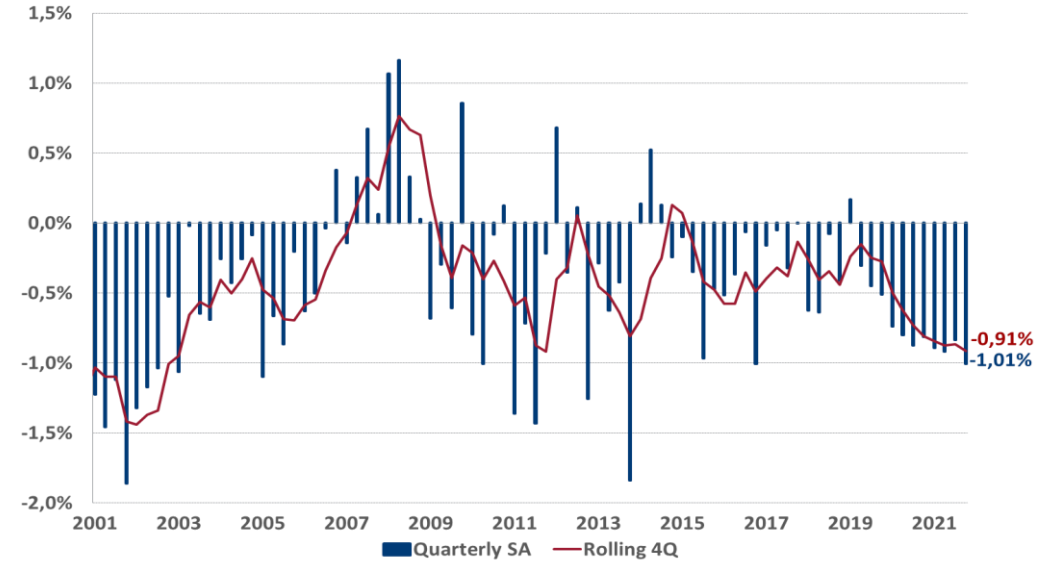
China: External Sector

- » The only factor that is currently helping RMB is China's current account which includes a surplus of USD 562.7 bln under trade in goods and a deficit of USD 99.9 bln under trade in services;
- » The growing foreign direct and portfolio investments lifted China's primary income deficit to a record high of USD 162 bln in 2021, exceeding the service deficit (USD 100 bln) for the first time on record;

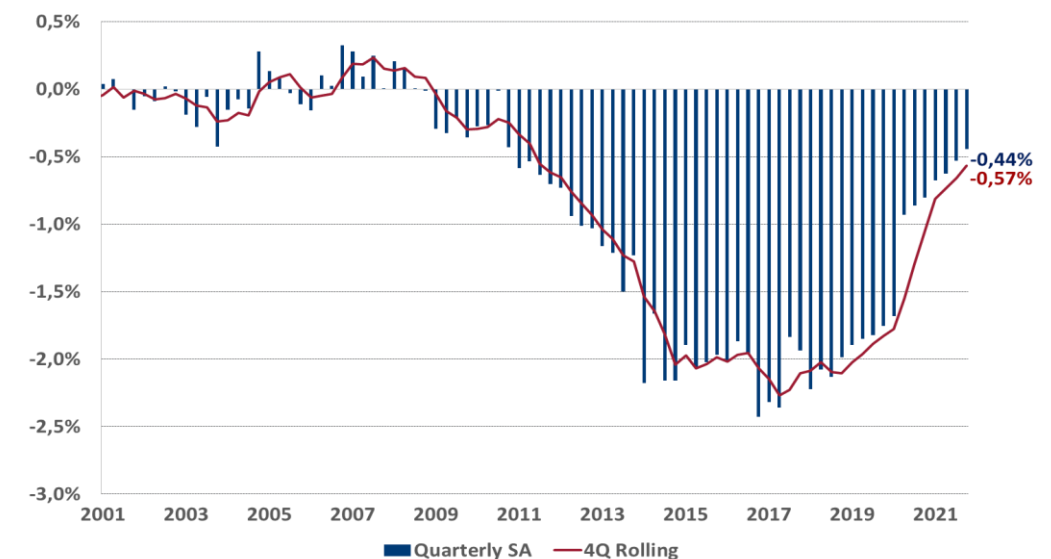
China BoP: Trade Balance (% GDP)



China BoP: Income (% GDP)

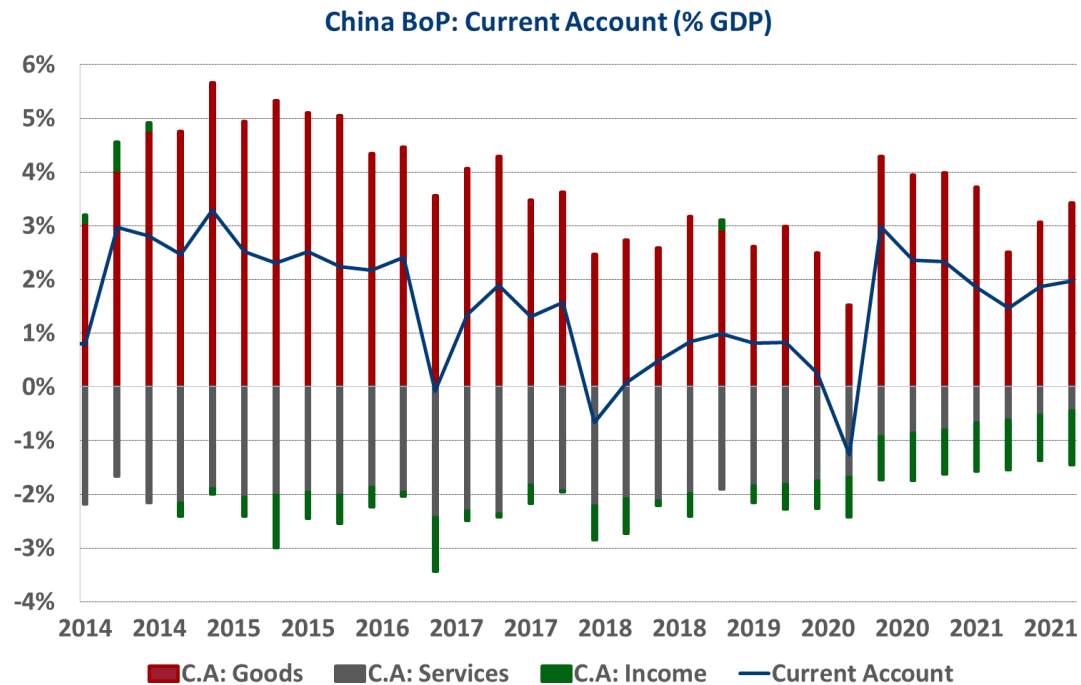


China BoP: Services (% GDP)



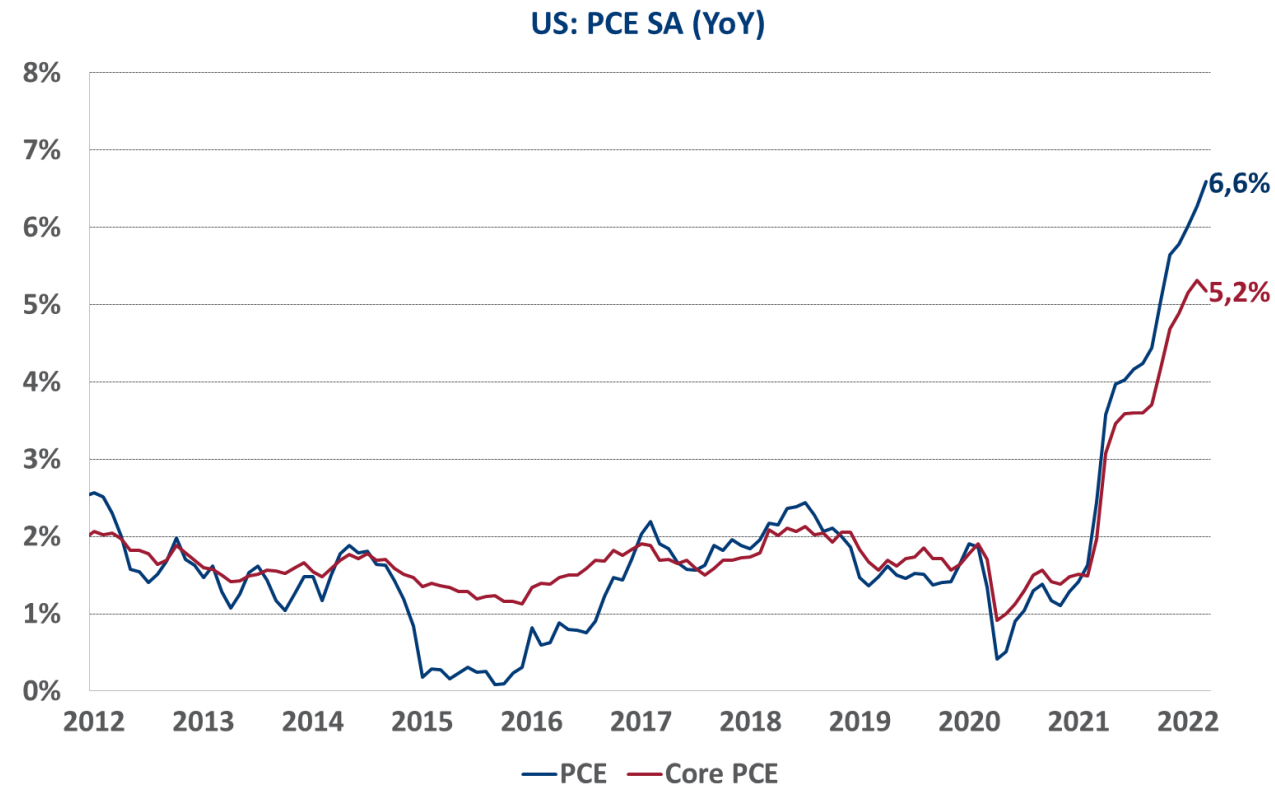
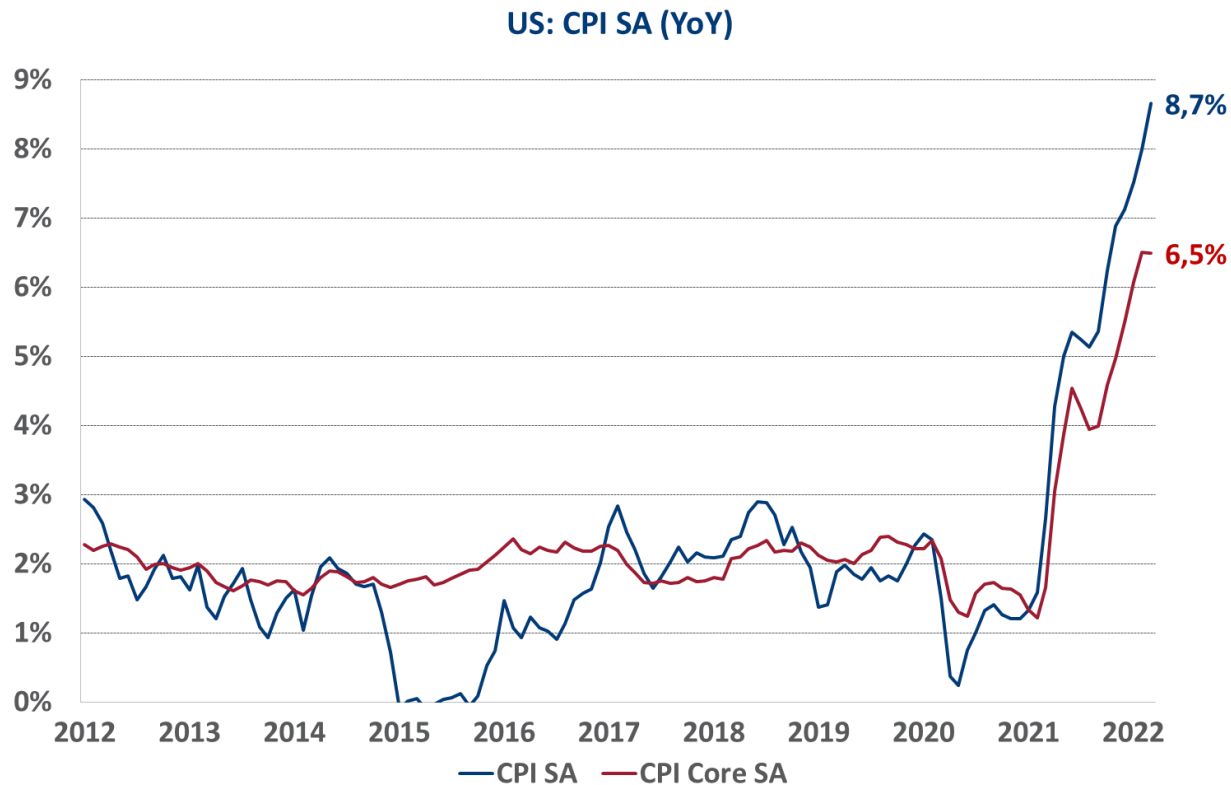
China: External Sector

- » Current account results should be driven by goods trade, as China's outbound tourism is unlikely to rebound this year;
- » On the export side, China will lose some of its supply chain advantages, because of tight lockdown measures. Rising commodity and energy prices will lift China's import bills. Therefore, a smaller trade surplus is expected in 2022.



USA: Inflation

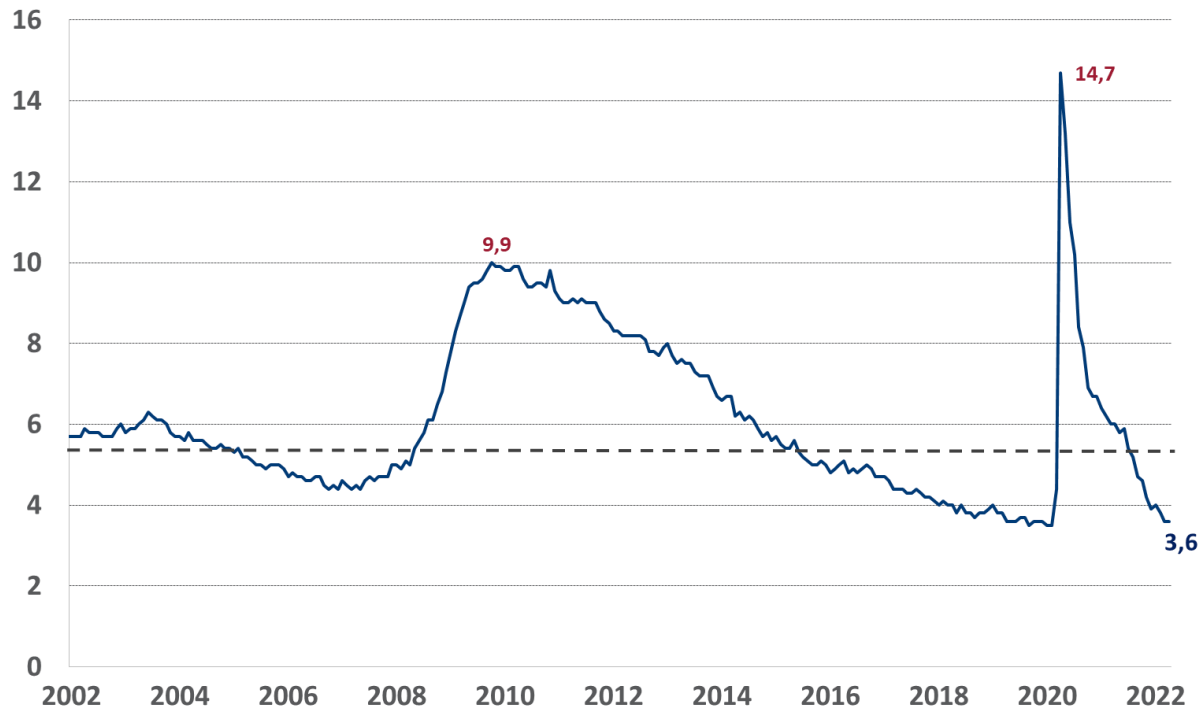
- » US inflation accelerated reaching its highest level at 8.7% YoY, much above the 2% target;
- » Prices have been driven up by bottlenecked supply chains, robust consumer demand and disruptions to global food and energy markets worsened by Russia's war against Ukraine;
- » High inflation keeps setting stage for the FED's hiking cycle alongside with the reduction of its balance sheet.



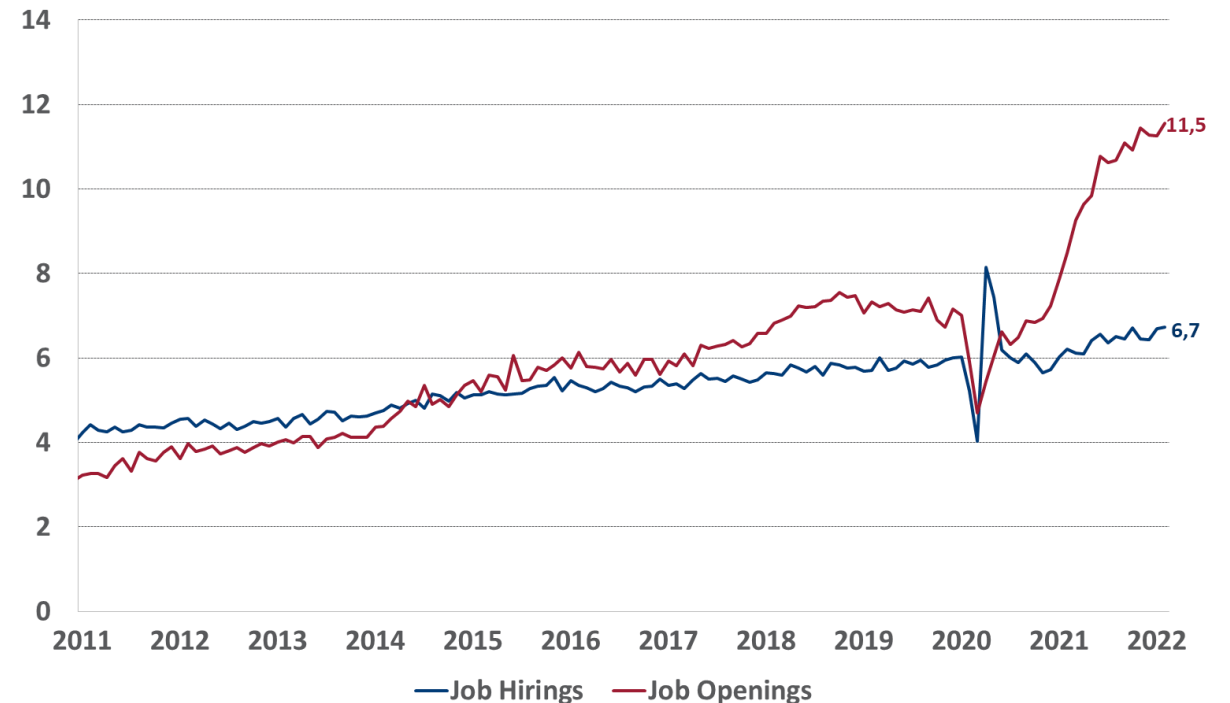
USA: Labor Market

- » Labor market data point to a resilient U.S. economy, with the unemployment rate at a low level (3.6%) amid reduced case numbers and easing restrictions;
- » The number of job openings remained high, reinforcing the misalignment between labor demand and labor supply. This increased tightness suggests that strong wage growth will persist until improvements in labor supply and normalization of job openings bring the labor market back into balance;

US: Unemployment Rate (%)



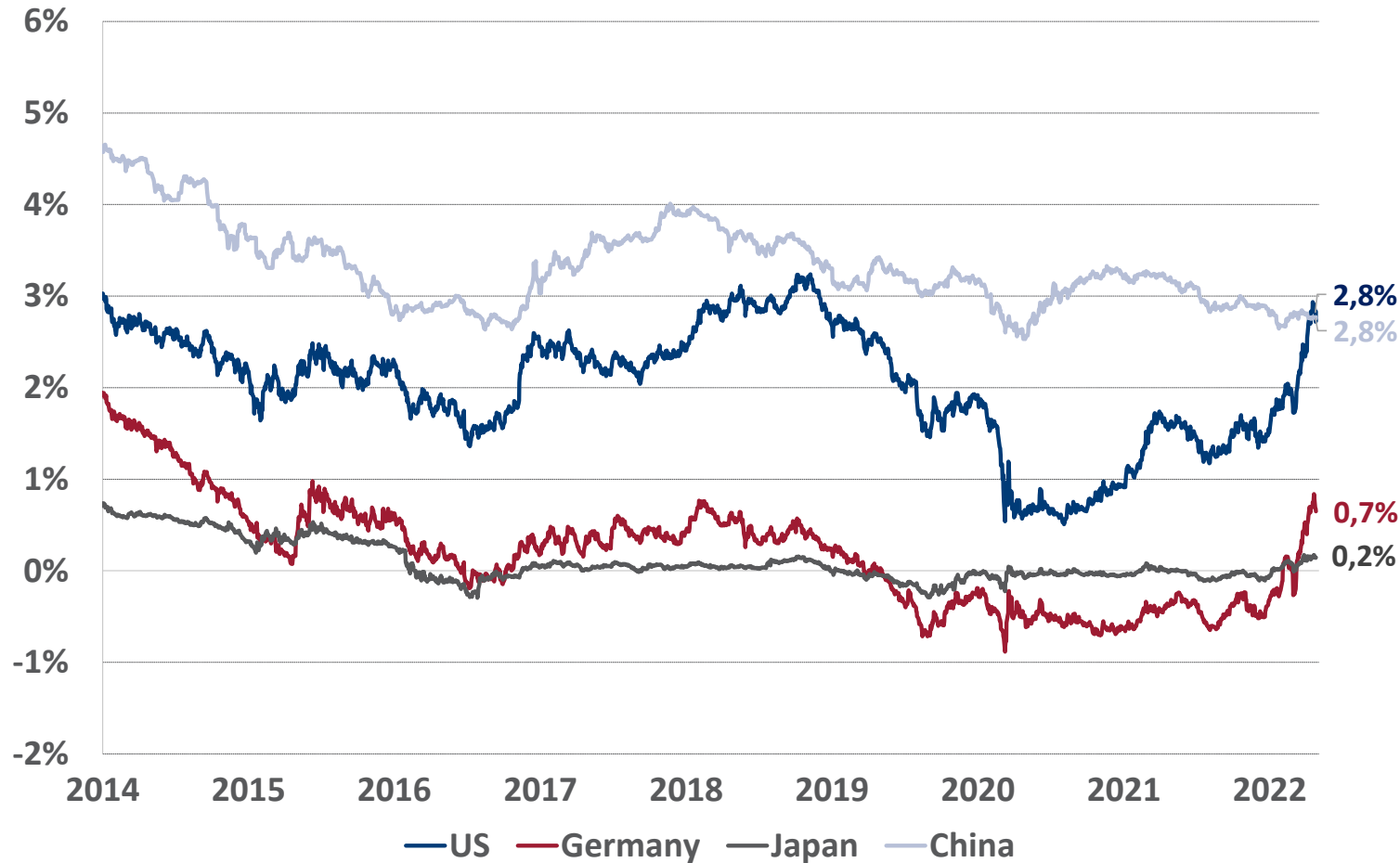
US: Job Openings and Hirings (Million)



Global: Interest Rates

- » Long-term interest rates of some major developed countries presented an upward trend due to expectations of monetary policy normalization amid a high inflation scenario.

10 Year Interest Rates



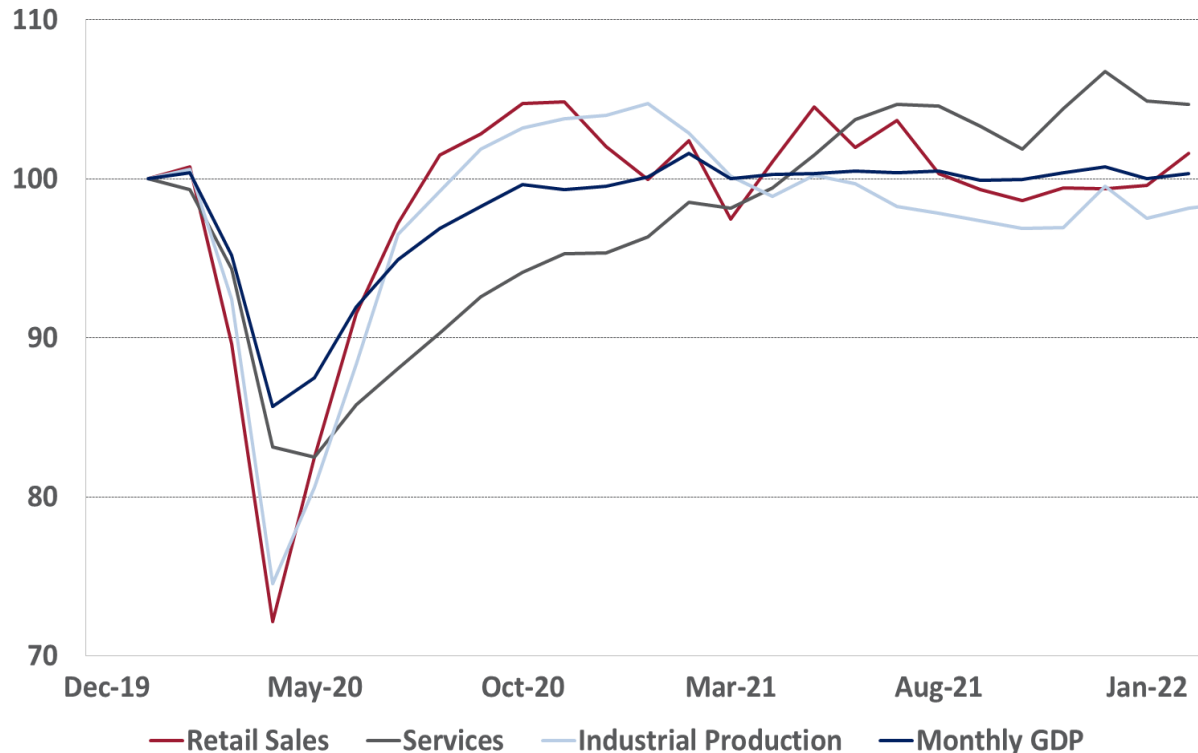
Brazil: Forecasts

ECONOMIC FORECASTS	2019	2020	2021	2022F	2023F
GDP Growth (%)	1,1%	-4,1%	4,6%	0,9%	0,5%
Inflation (%)	4,3%	4,5%	10,1%	8,5%	4,2%
Unemployment Rate (eoy ,%)	11,7%	13,9%	11,1%	11,8%	11,6%
Policy Rate (eoy, %)	4,5%	2,0%	9,3%	13,3%	9,0%
External Accounts					
Trade Balance (US\$ bn)	48	32	36	68	45
Current Account Balance (US\$ bn)	-65	-24	-28	-14	-40
Current Account Balance (% of GDP)	-2,8%	-0,9%	-1,8%	-0,8%	-2,6%
Fiscal Policy					
Central Government Primary Balance (% of GDP)	-1,2%	-10,0%	-0,4%	-0,4%	-0,6%
Government Gross Debt (% of GDP)	74,3%	88,8%	80,3%	77,8%	81,7%

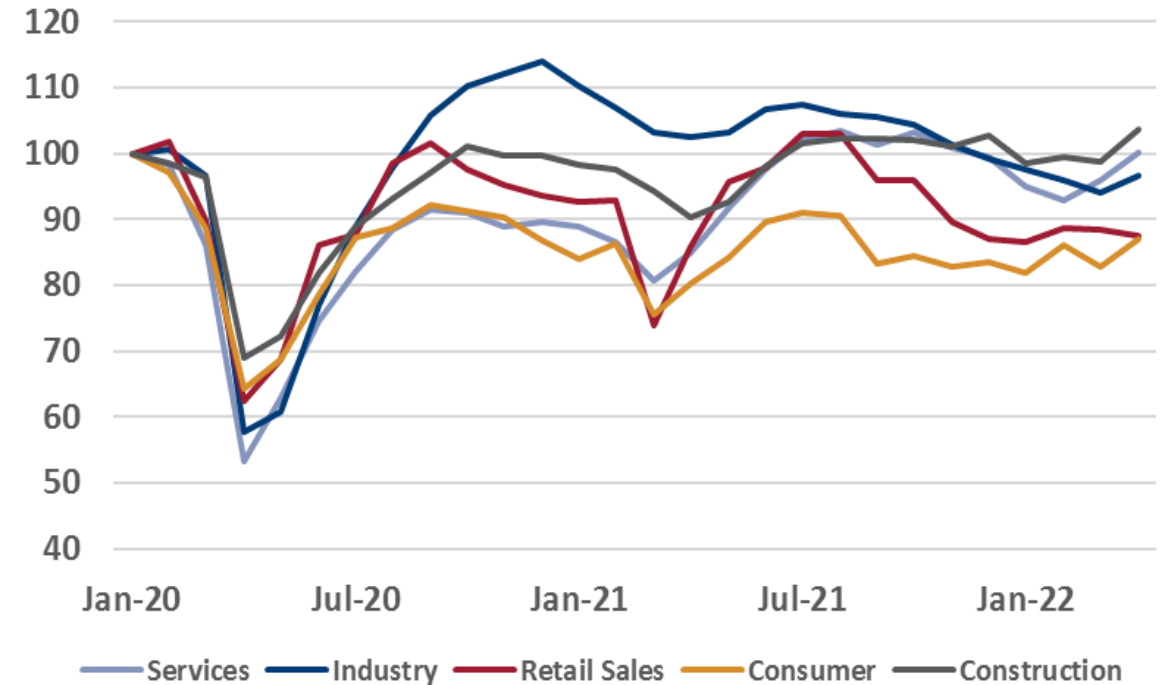
Brazil: Activity

- » Broad activity data showed a weak start of the 1Q22, however recent high frequency data showed resiliency:
- » normalization of the labor market;
 - » high confidence levels in the services sector;
 - » booming commodity prices, boosting export sectors.

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

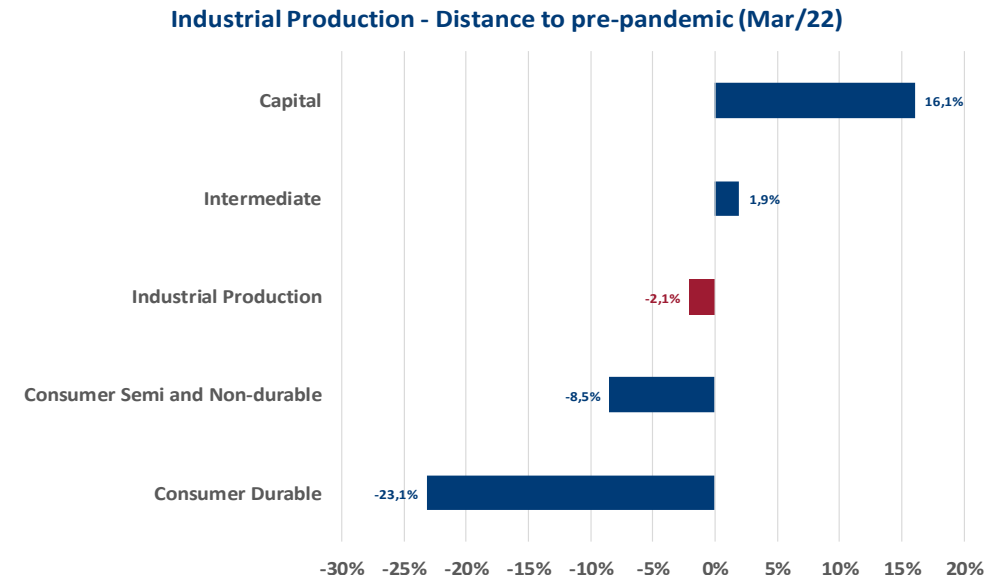
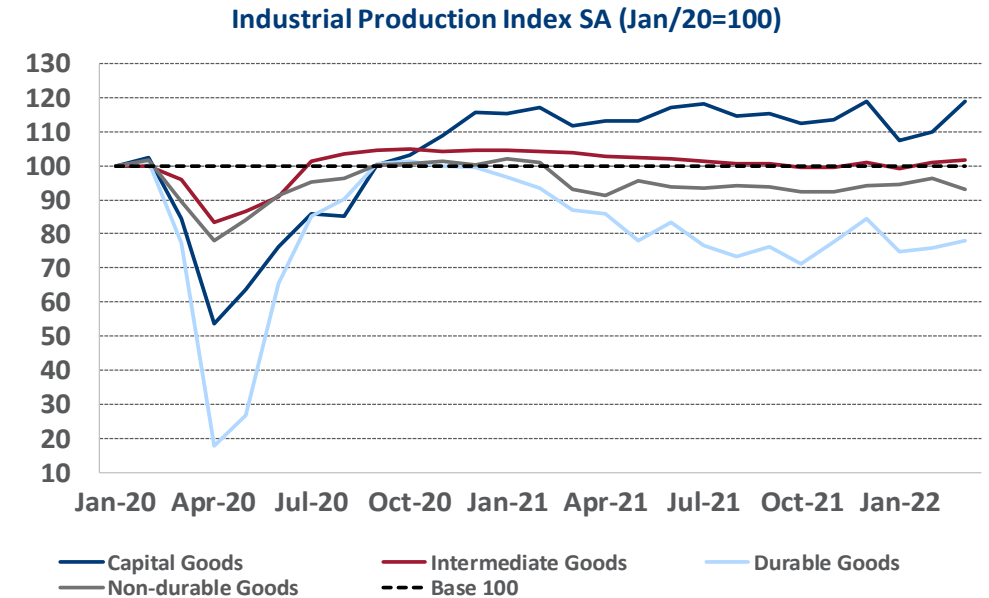
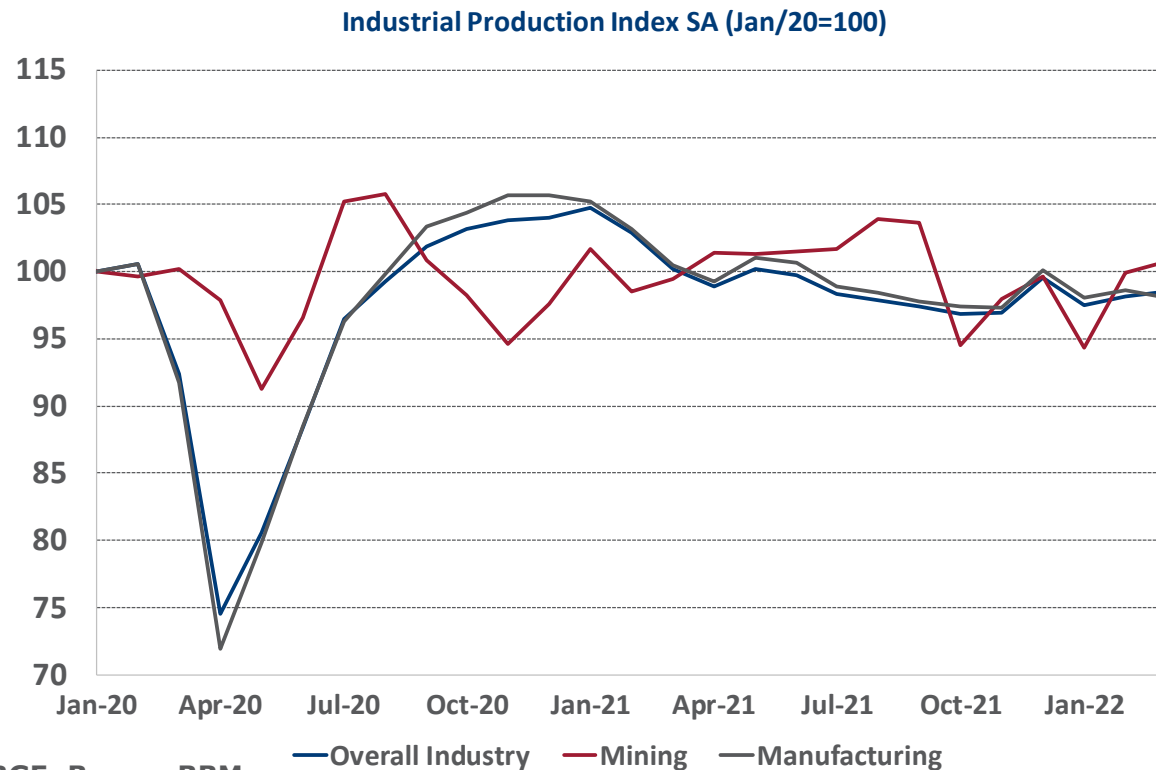


Brazil - Economic Confidence Index (Jan/20 = 100)



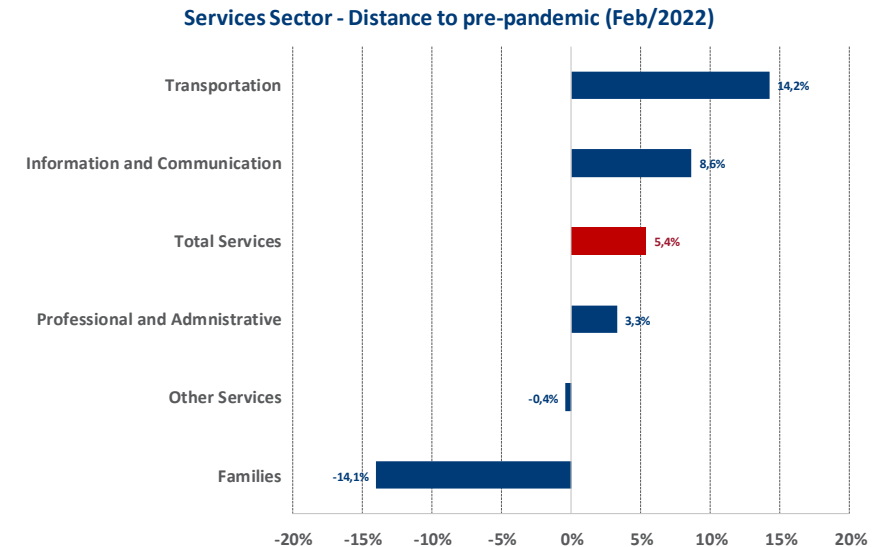
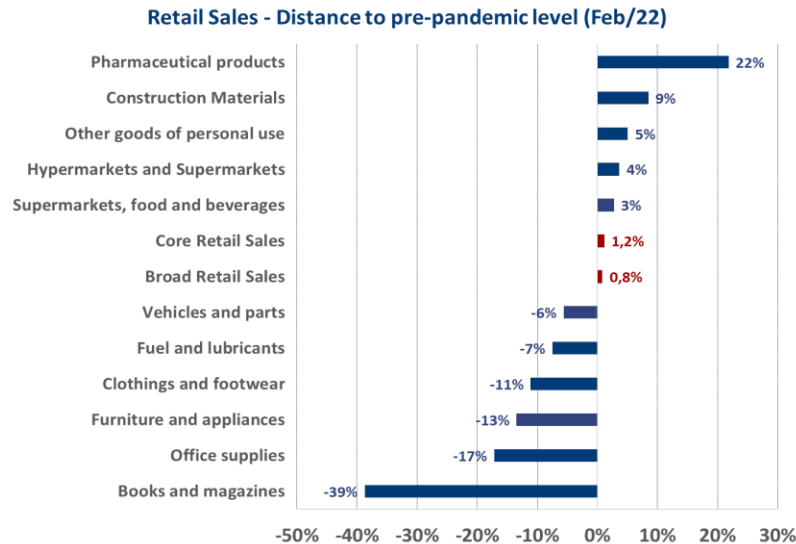
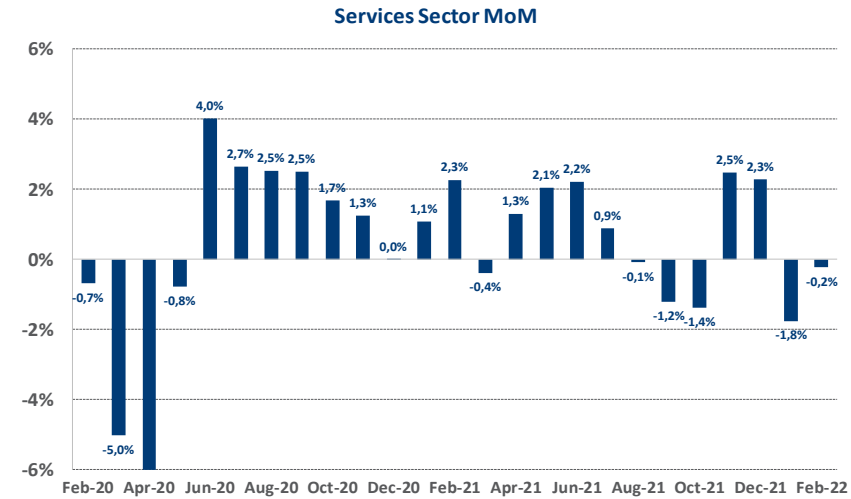
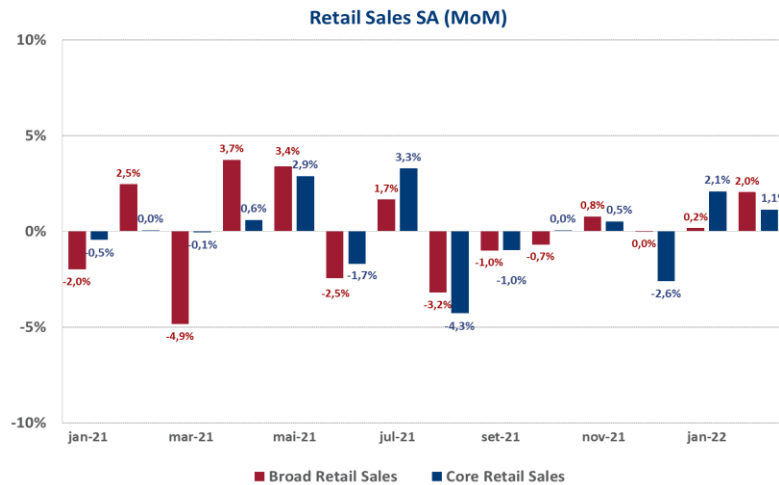
Brazil: Industrial Production

- » Industrial production rose by 0.3% MoM in March: leading contributions were capital (8% MoM) and consumer durable goods (2.5% MoM);
- » However, it's worth mentioning the sector is facing hardships:
 - » Supply side: global inputs shortages, high volatility in energy prices and higher interest rates;
 - » Demand side: consumption from goods to services



Brazil: Retail Sales and Services Sector

- » In February, retail sales increased by 1.1% MoM while the Services sector decreased by -0.2% MoM;
- » Both sectors have recovered and are now above their pre-pandemic levels.



Brazil: Labor Market

» The labor market keeps improving on the heels of the normalization process:

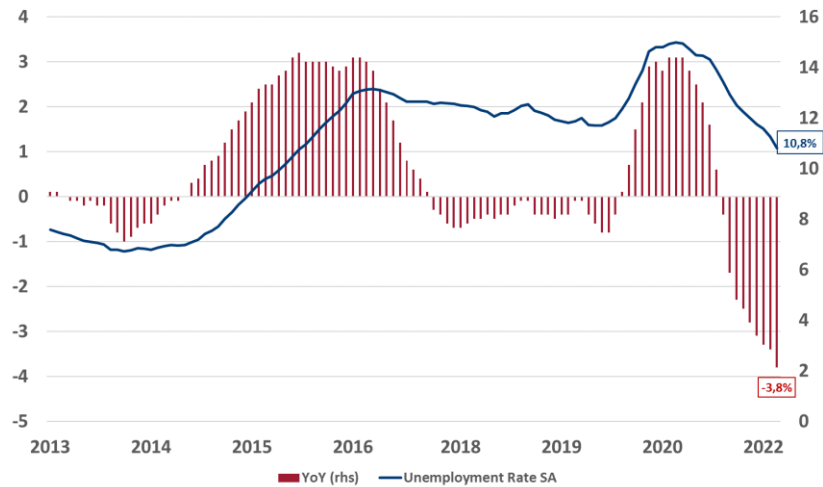
» The unemployment rate fell to 10.8% (11.1% NSA) with the recovery of both formal and informal jobs;

» The underutilization of labor force reached its pre-pandemic level at 23.2%;

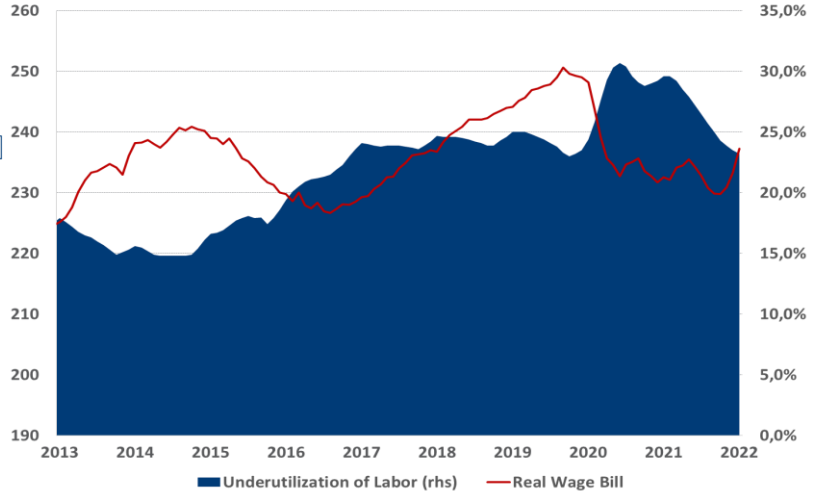
» Upward trend on the real wage bill, even though it still remains in low levels due to inflation;

» Positive net job creation of 136k in March having the services sector as its main driver.

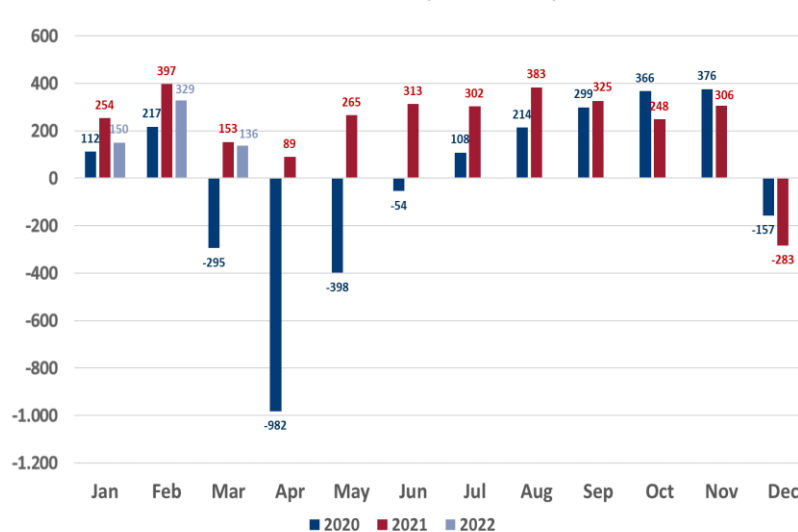
Brazil - Unemployment Rate



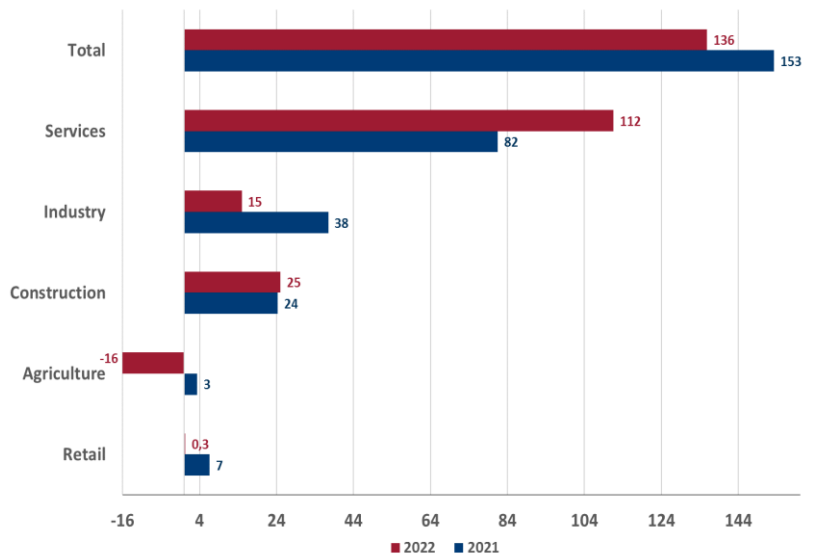
Real Wage Bill SA (R\$ billion) x Underutilization of Labor Force



Net Job Creation (Thousands)

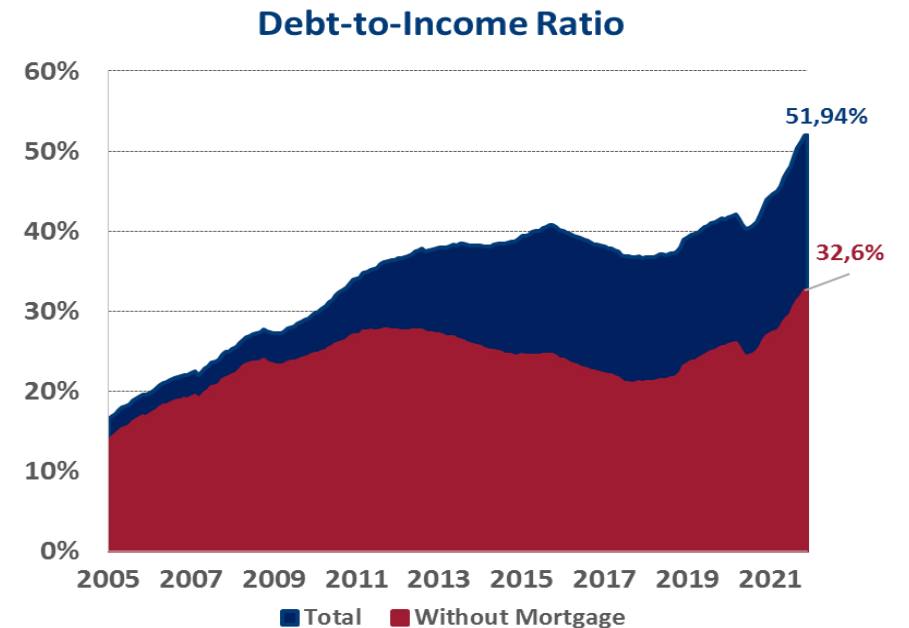
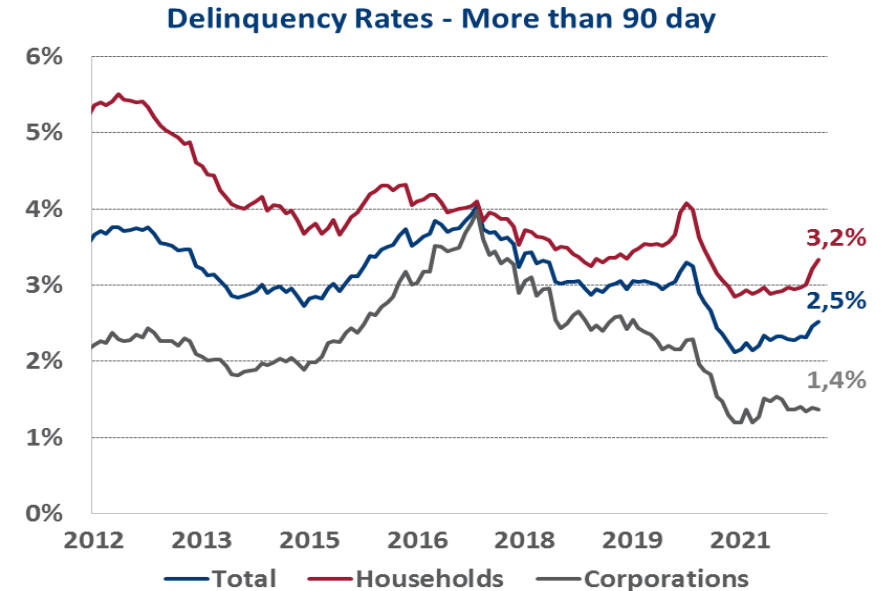
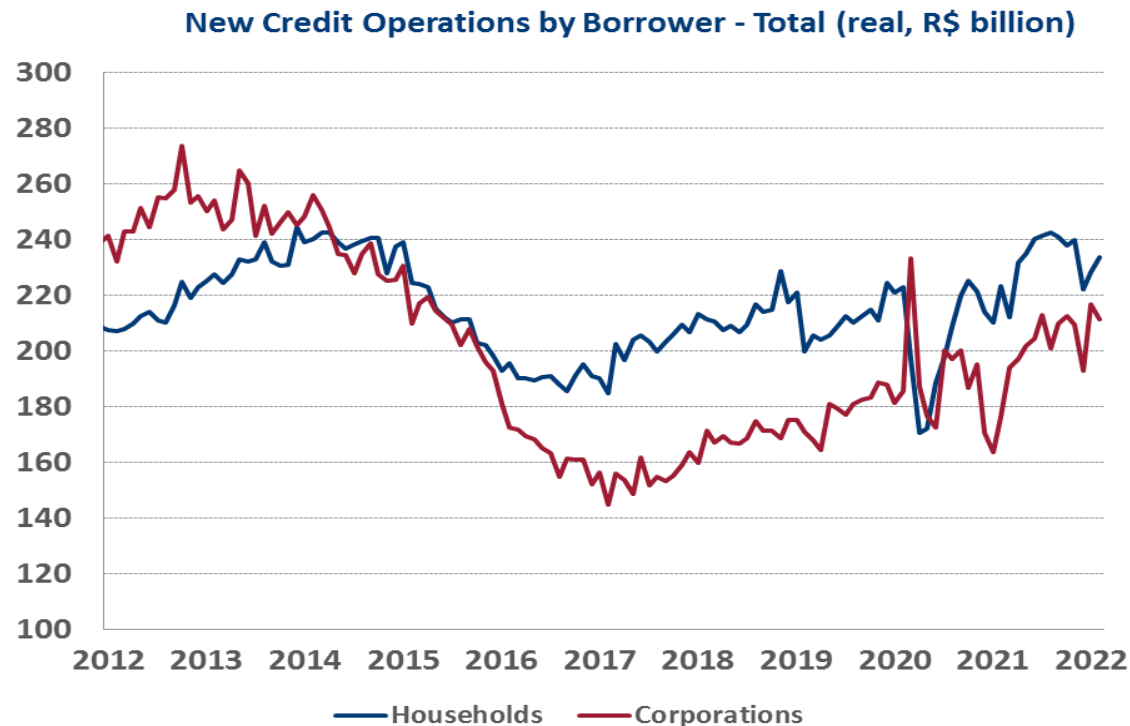


Net Job Creation by Sector SA - Mar/22 (Thousands)



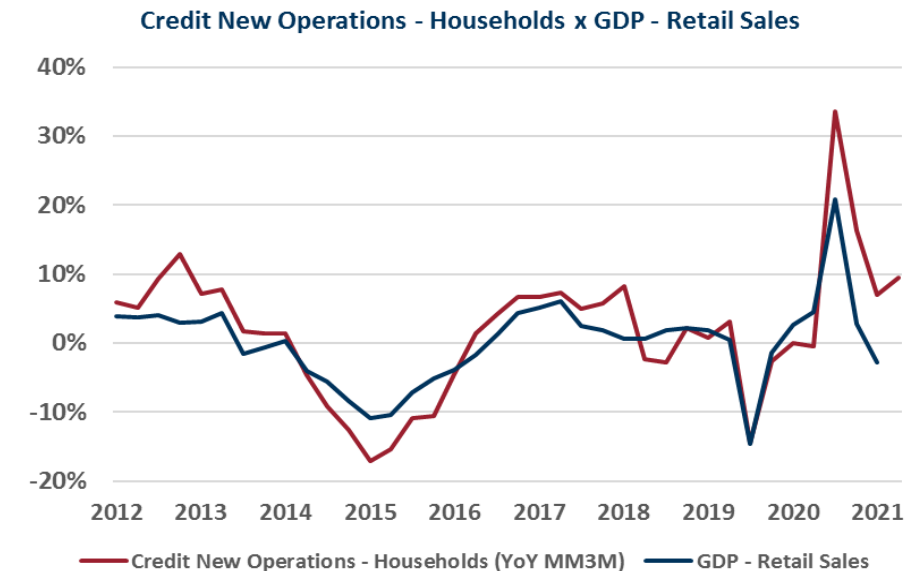
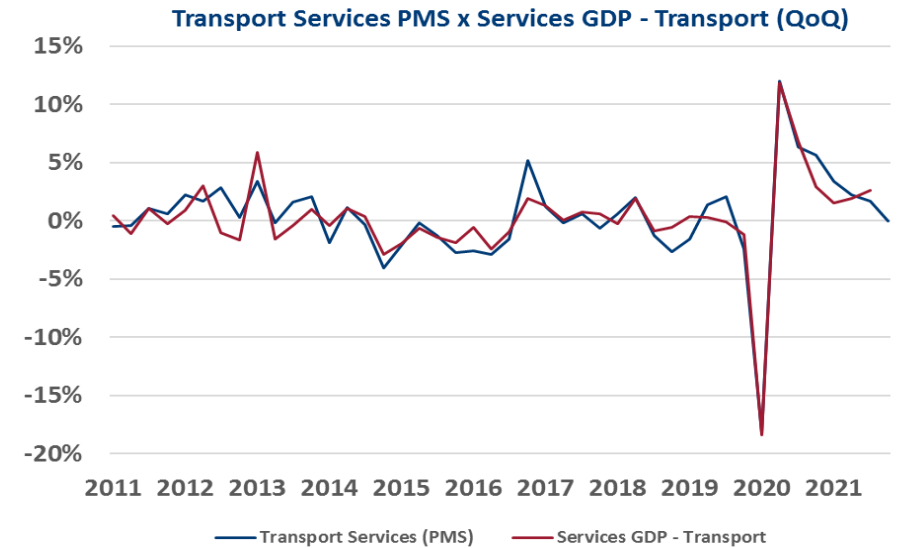
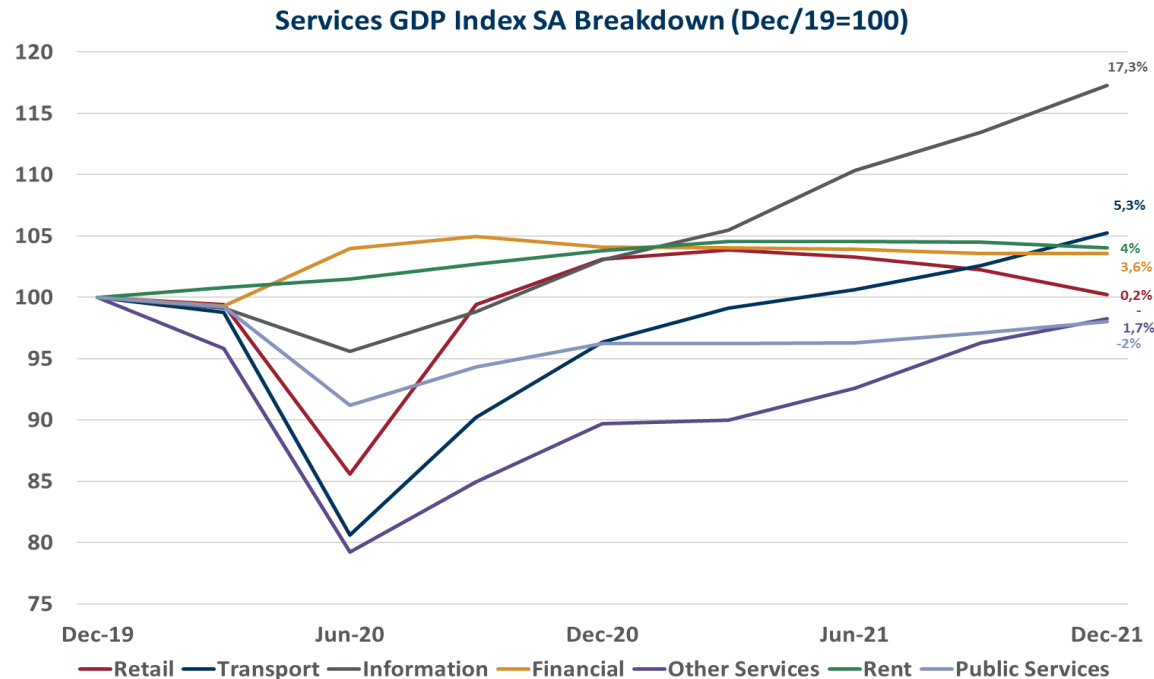
Brazil: Credit

- » **New credit operations show stability** with corporate slightly pointing down by 1.4% MoM and households up by 3.4% MoM → leading contributions form vehicles financing and credit card
- » Delinquency rates still low but trending up: tight monetary policies and increased family's indebtedness.



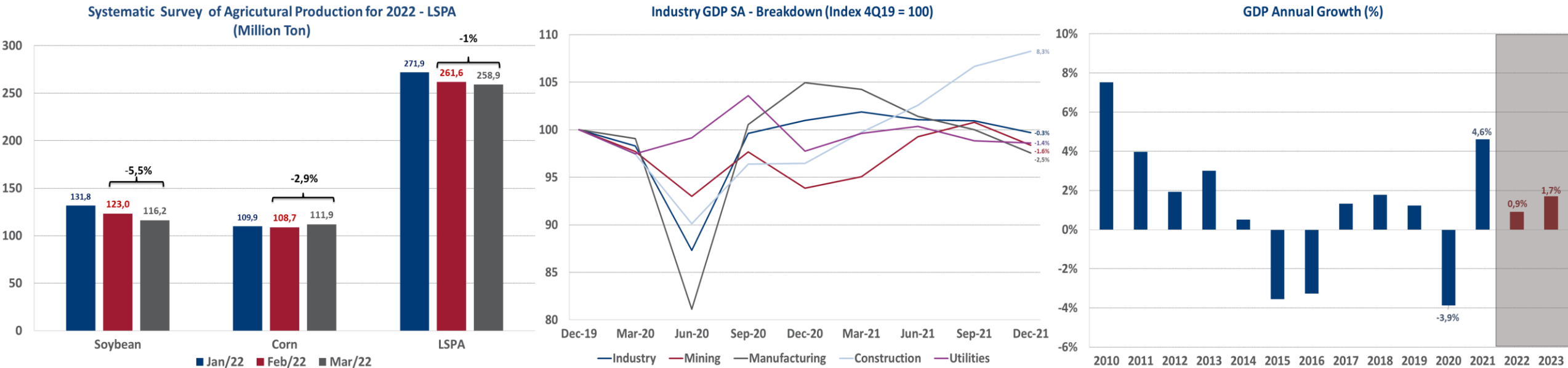
Brazil: GDP Scenario 2022

- » **We expect services output to grow**, with the recovery of public services and other services, which are below their 4Q19 level;
- » Transport and information services GDP growth in 4Q21 have exceeded expectations, increasing the carry over effect in both sectors (5.1% and 3.3% respectively);
- » Retail sales is a limiting factor for the services GDP: interest rate hike cycle, tighter financial conditions, high household indebtedness, rising delinquency rate and a soft consumer confidence index, should compromise the sector's performance



Brazil: GDP Scenario 2022

- » **We expect a positive contribution from agriculture**, despite the revision in crop's production LSPA (bad climatic conditions in southern states): booming commodities prices due to the Russia-Ukraine war;
- » **Industry remains the main drag of the economic activity** with the manufacturing industry being compromised by elevated costs, weak demand and supply chain bottlenecks;
- » Our projection for 2022 GDP growth is at 0.9% and for 2023 growth at 1.7%, considering that the negative impact of the tight monetary policy should be seen in the 2H22.



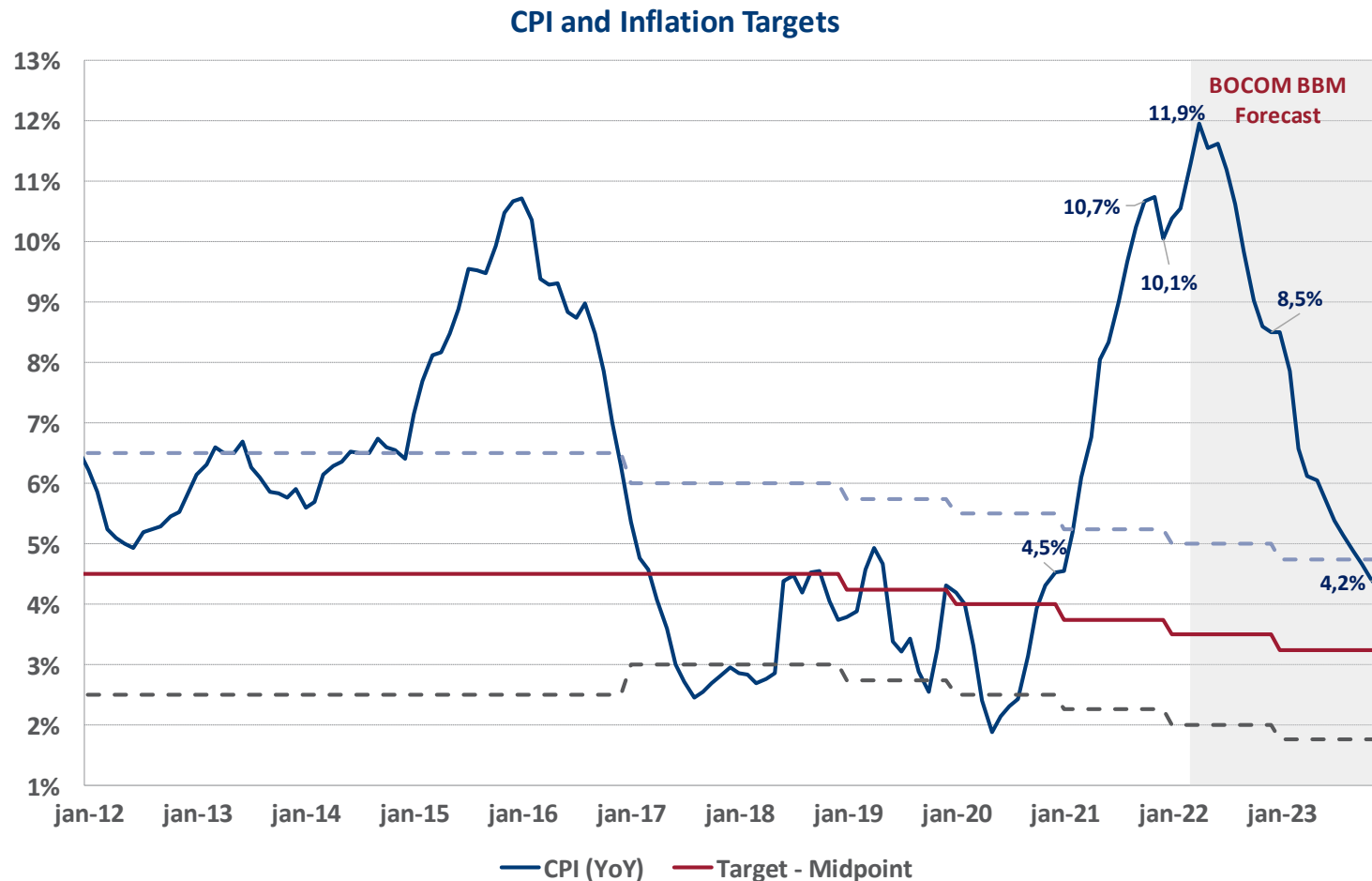
Brazil: Inflation

- » The CPI peak should be reached in April, when the hydrological scarcity flag ended. But the peak will not be followed by a steep decrease, but something more like a plateau. The risks remain tilted to the upside as the probability of a new readjustment of fuel prices might be made in May;
- » The 2022 projection presents a high number due to the persistence of services inflation and the impacts of the war, that have increased industrial goods and food at home projections;
- » In 2023, regulated items readjustments and services inflation inertia will bring inflation above the target of 3.3%.

Baseline Scenario (YoY)						
	IPCA	Regulated	Non-Regulated	Services	Food-at-Home	Industrial Products
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	10,1%	17,0%	7,8%	4,7%	8,2%	12,0%
22 Q1	11,3%	14,8%	10,1%	6,3%	13,7%	13,4%
22 Q2	11,6%	12,8%	11,3%	8,0%	16,2%	12,7%
22 Q3	9,8%	11,1%	9,4%	7,6%	11,2%	10,8%
22 Q4	8,5%	8,9%	8,4%	7,2%	10,8%	8,4%
23 Q1	6,6%	7,8%	6,1%	6,7%	5,9%	5,4%
23 Q2	5,7%	8,5%	4,7%	5,8%	3,4%	4,0%
23 Q3	4,9%	6,6%	4,3%	5,4%	3,5%	3,1%
23 Q4	4,2%	5,4%	3,8%	4,8%	4,0%	2,2%

Brazil: Inflation

- » Our 8.5% 2022 CPI projection takes into account a high persistence of services inflation, an increase in electric tariff readjustments and green flag to electric energy at the end of the year;
- » In 2023, CPI forecast at 4.2%, above the target, considering the secondary effects of the shock, the deterioration of expectations and the persistence of services inflation.



» In 2022, the 8.5% projection is mainly caused by high inertia in services inflation, high inflation expectations and the impact of Russia-Ukraine war, phenomena that brings uncertainty to projections. Further risks to 2022 CPI are:

Upside risks:

1. The electric energy adjustments above expectation might induce inflation of this item to be revised up again;
2. The increase in Brent prices and the BRL depreciation should generate more fuels inflation in the next months;
3. The supply chain bottlenecks could last longer and have higher impact than expected;
4. The high prices of fertilizers and the BRL depreciation could increase even more inflation in 2022 and 2023.

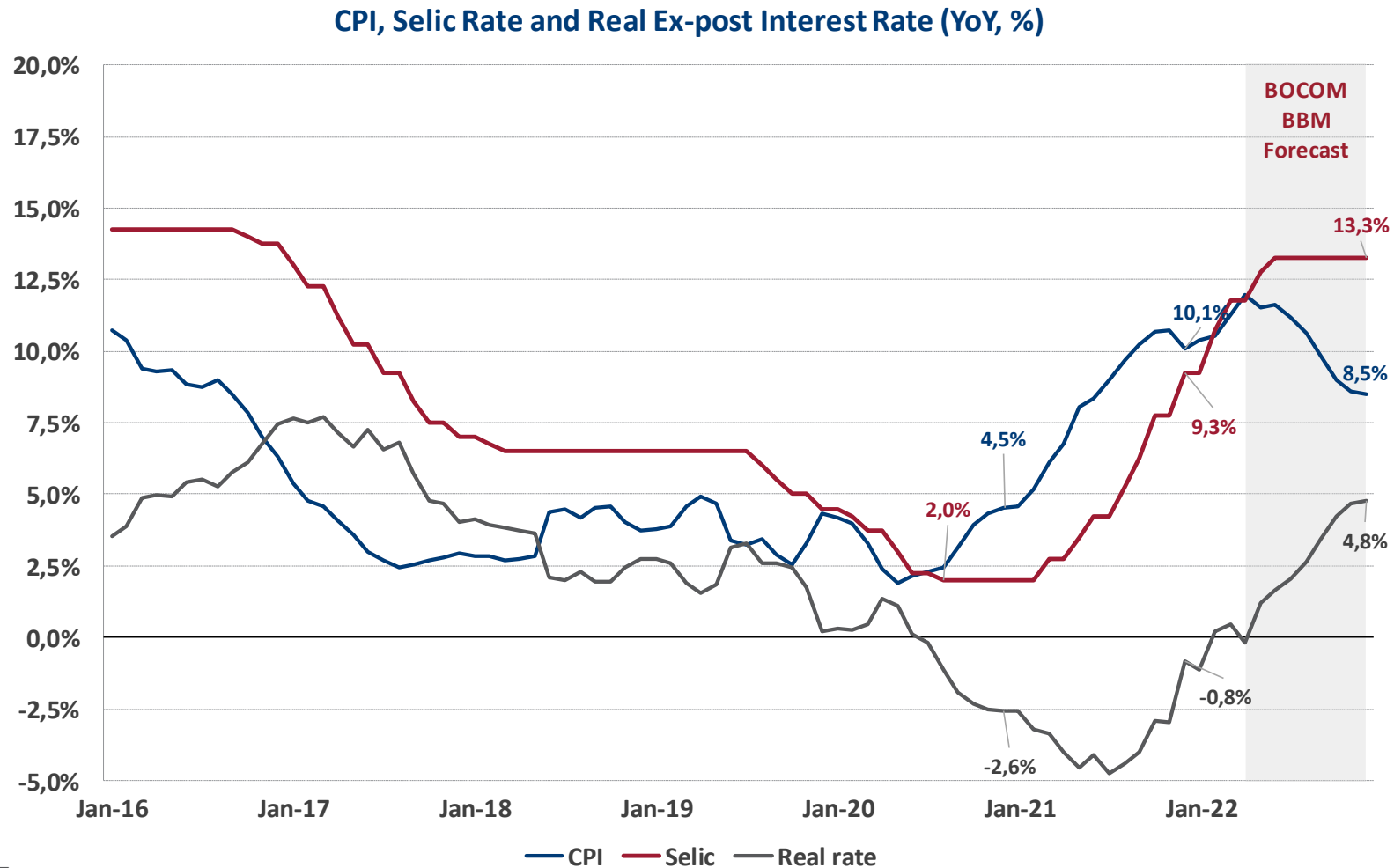
Downside risks:

1. One new risk for 2022 is the suspension of electric tariff readjustments, which could decrease CPI by 1% in this year. But if Congress really approve this measure, this represents a considerable upside risk to 2023 and electric tariffs could be readjusted by more than 30% in 2023;
2. BRL appreciating again could impact the production costs of industrial goods and food stuff inputs;
3. Activity decline and high unemployment start playing a larger role due to the high interest rate.

» In 2023, we expect that secondary effects of the shock continue to impact the economy. Some regulated items readjustments will be impacted by the higher oil price this year and the high inflation. Besides, it is expected that services inflation will show persistence in 2023 in line with higher inflation expectations.

Brazil: Interest rates

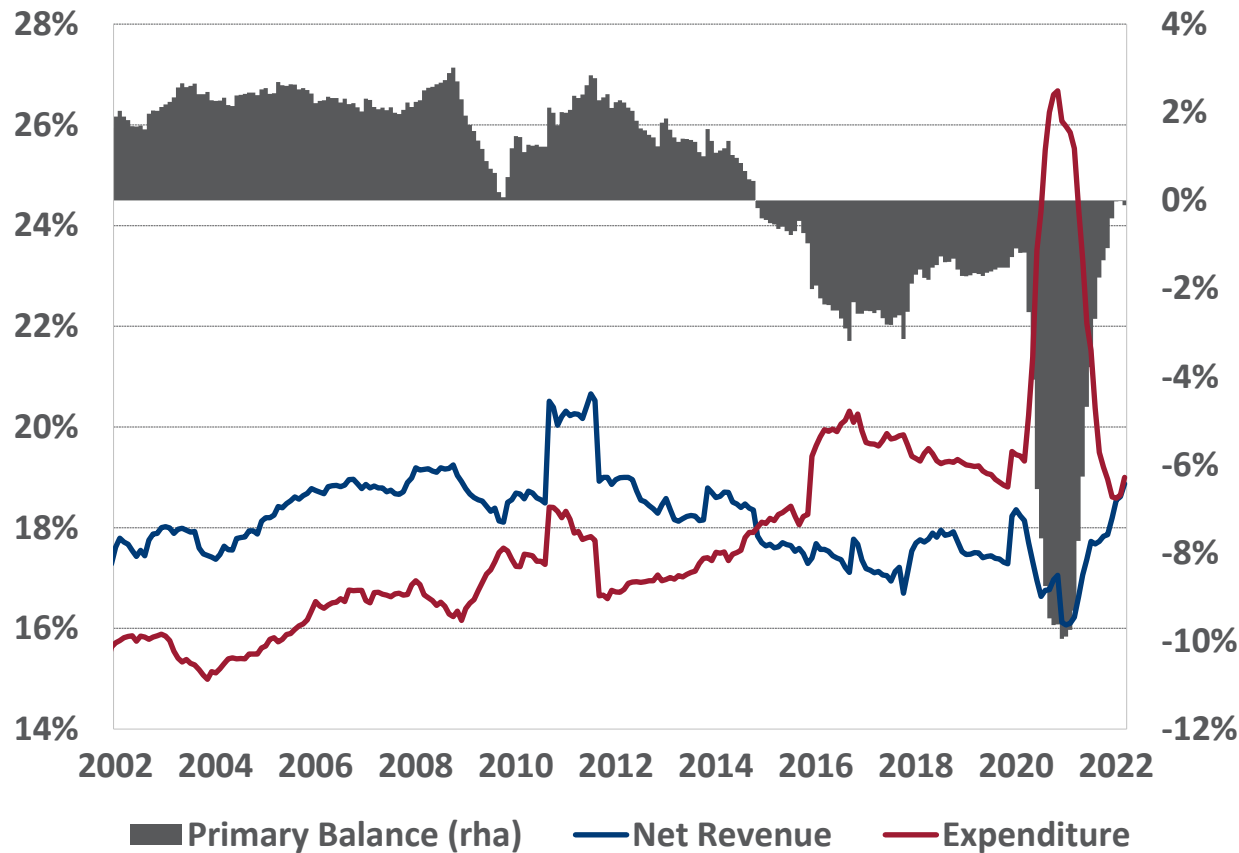
- » Scenario: Copom hikes Selic by 50 bps in June, finishing the hike cycle with 13.25%;
- » The last Copom statement has left an open door for an extension in the hiking cycle.



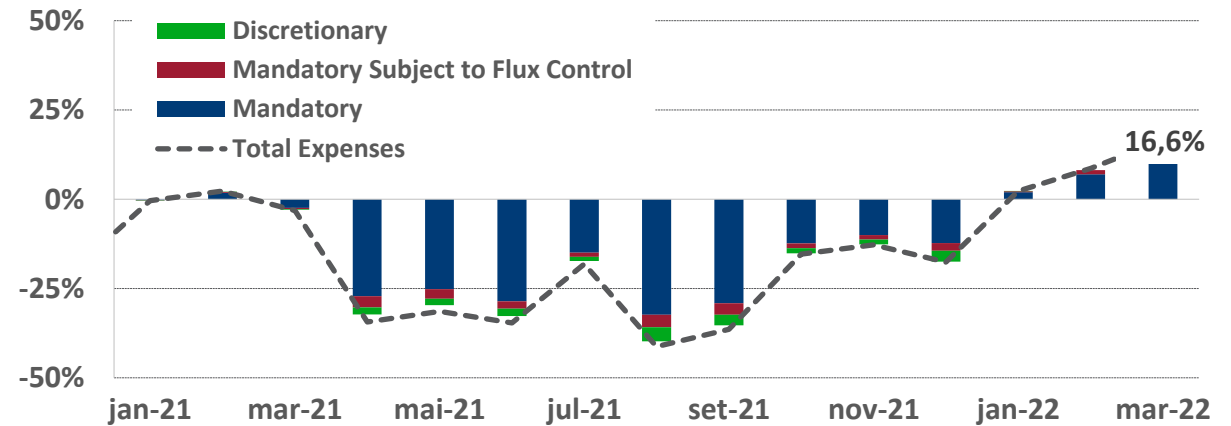
Fiscal Scenario: Central Government

- » Central Government's Primary result registered a **BRL -6.3 bn (March)**;
- » Tax collection reached BRL 164.1 billion: IRPJ/CSLL and PIS/COFINS were among its main drivers;

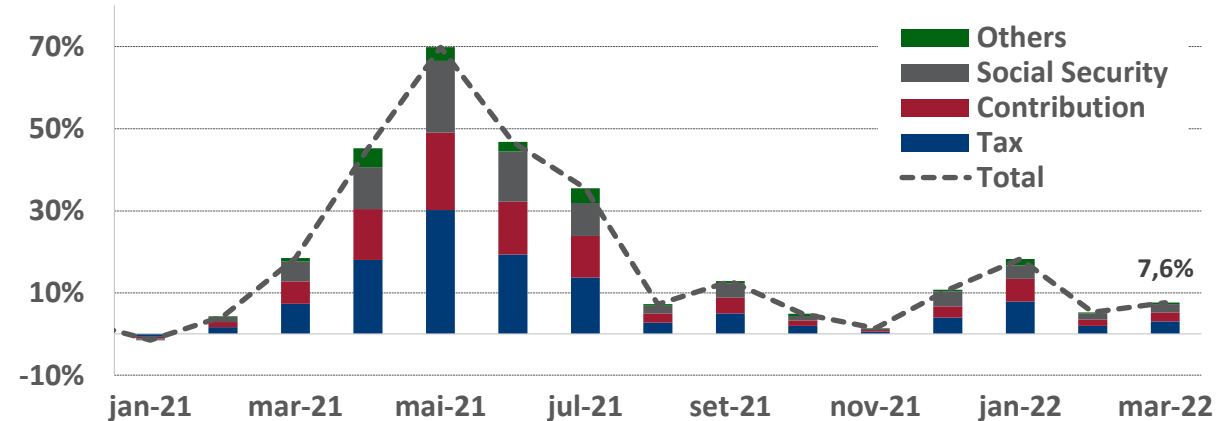
Brazil: Net Revenue and Expenditure (% GDP 12M)



Central Government Real Expenses (YoY)

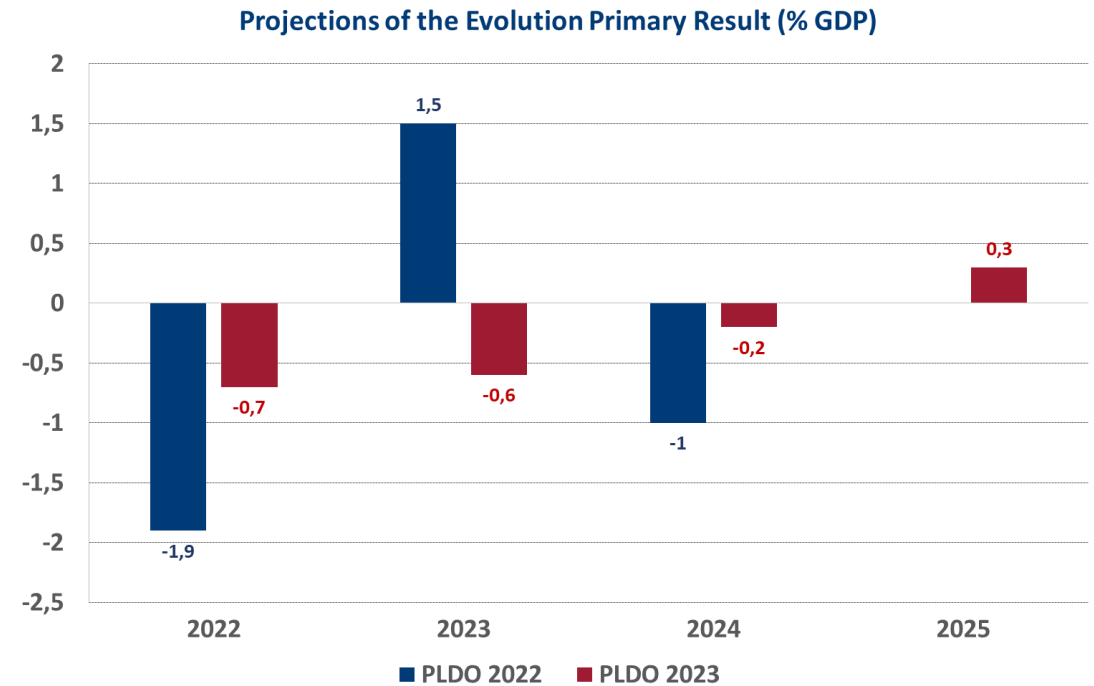
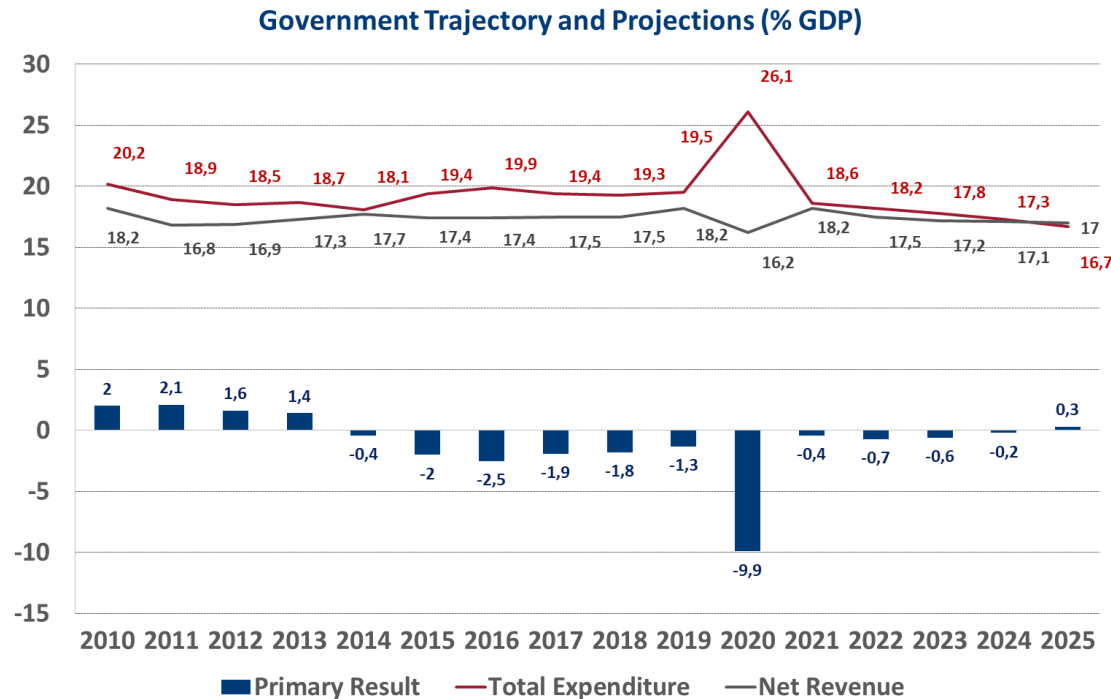


Brazil - Real Tax Collection (YoY)



Fiscal: PLDO 2023

- » Government projects a primary surplus only in 2025;
- » Mandatory spending will reach 95% of total Executive spending in 2024;
- » For 2023: BRL 11.77 billion allocated to wage readjustments & BRL 43.5 billion for federal investments.



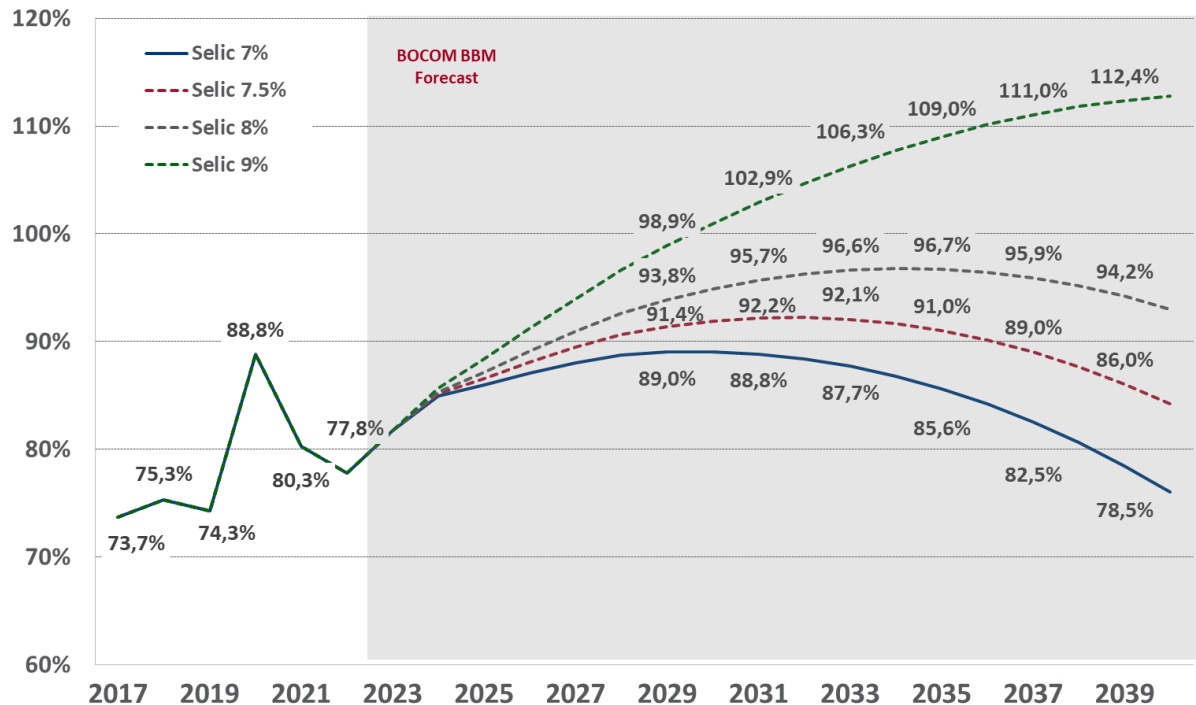
Fiscal: Debt to GDP

- » In our base scenario, we currently expect a 78.7% result for the debt to GDP ratio in 2022;
- » The trajectory of the debt changes depending on the potential GDP and Selic scenarios;

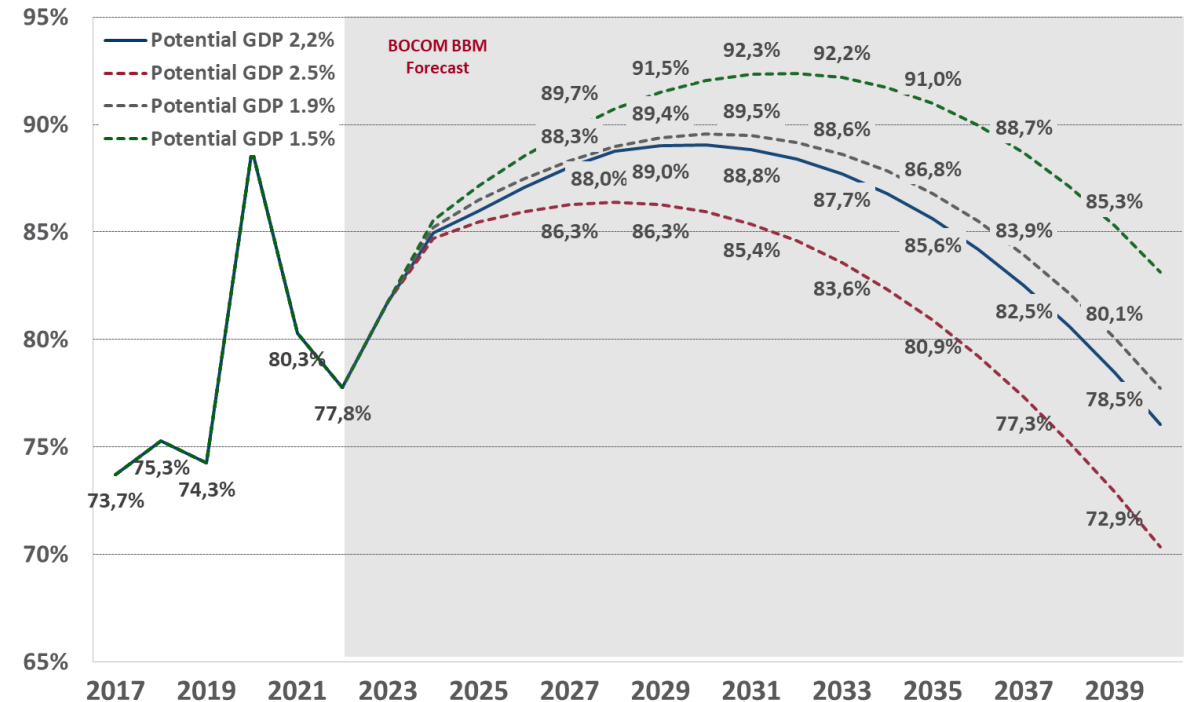
Other Hypothesis:

Long Term Selic Rate	7%
Implicit Selic Rate	7.75%
GDP Deflator	3.5
Long Term CPI	3%
Potential GDP Growth	2.2%

Debt to GDP Ratio - Different Selic Scenarios



Debt to GDP Ratio - Different Potential GDPs



»» IPI reduction:

- »» Increase of a linear cut, from 25% to 35%;
- »» fiscal impact: BRL 15.2 billion losses in revenue in 2022.

»» ICMS collection:

- »» Increase for banks and financial institutions from 20% to 21% and from 15% to 16%, respectively.

»» Public Servant Readjustment:

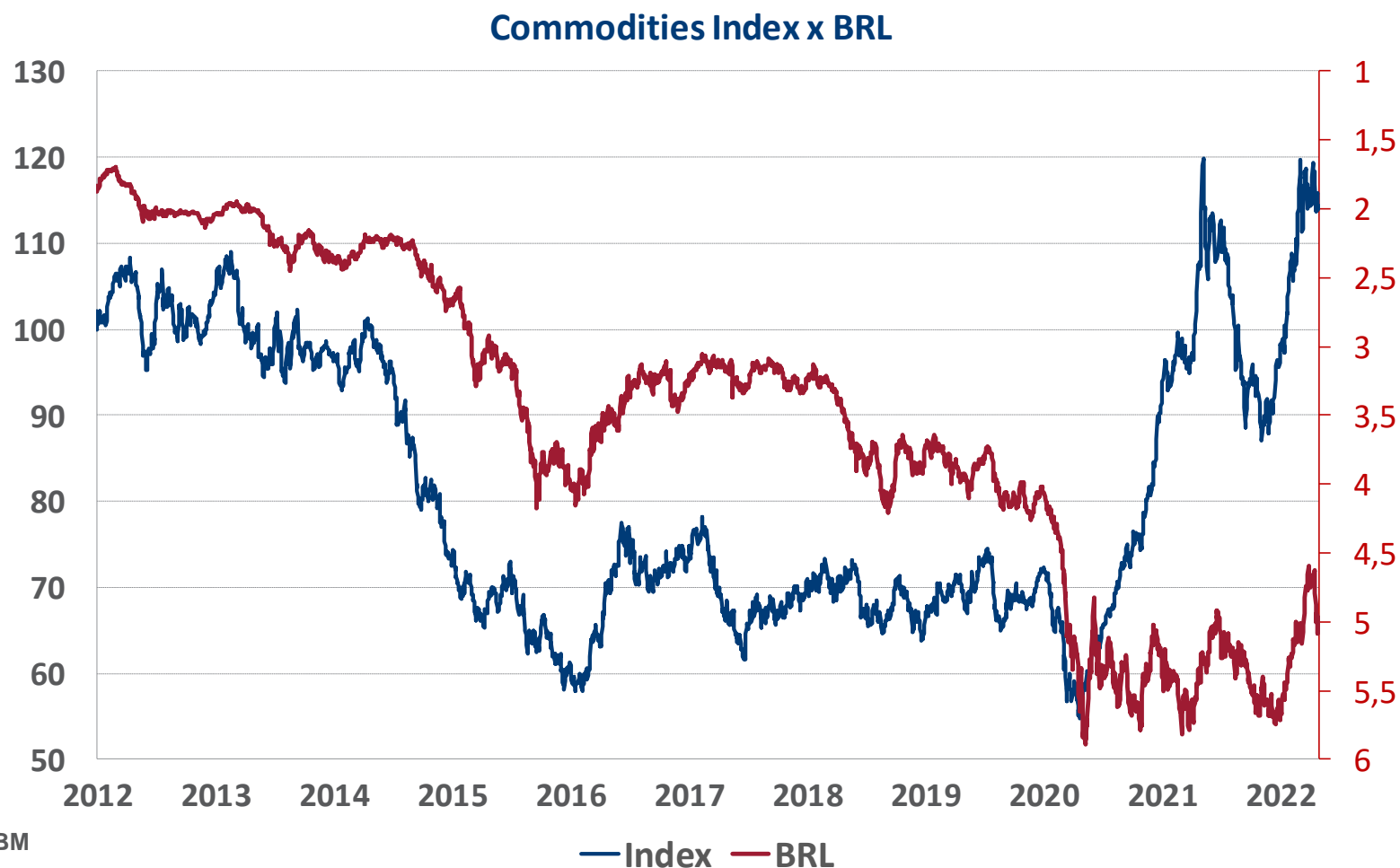
- »» Granting a 5% salary increase for all federal civil servants;
- »» Costs: BRL 6 billion in 2022
- »» The 2022 Budget allocates only R\$1.7 billion for salary adjustments for public servants or career restructuring plans.
- »» The measure, if approved, will lead to a reduction in the budget of other areas.

»» Blockage of BRL 1.7 billion:

- »» Block on the amendments of the Budget rapporteur (totaling BRL 16.5 billion);
- »» Objective: To avoid breaching the spending cap.

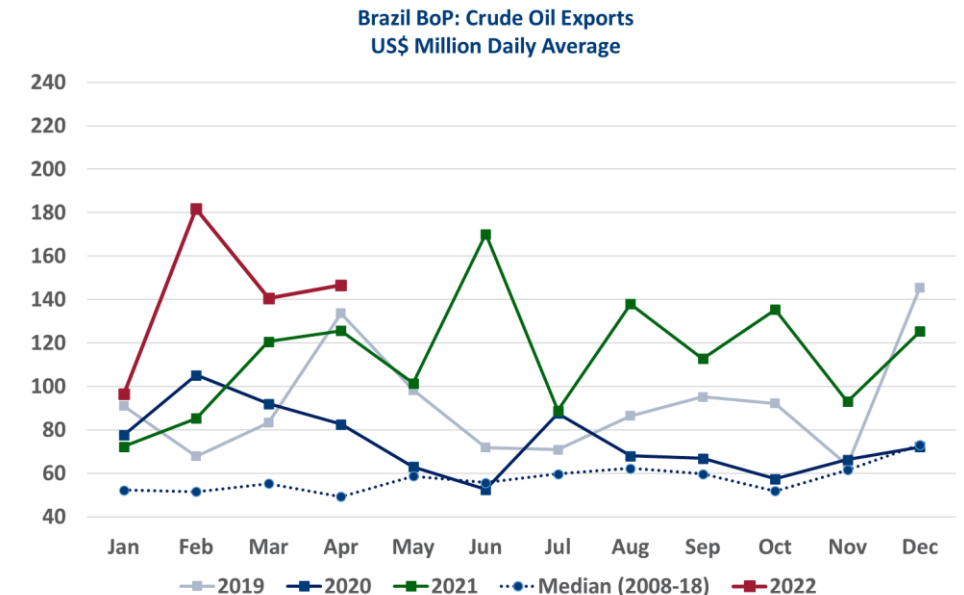
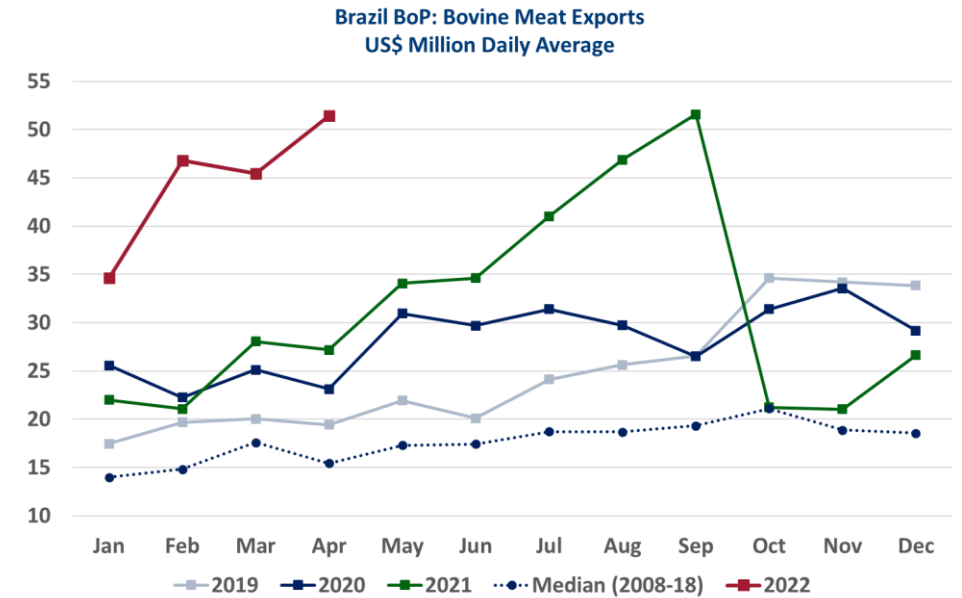
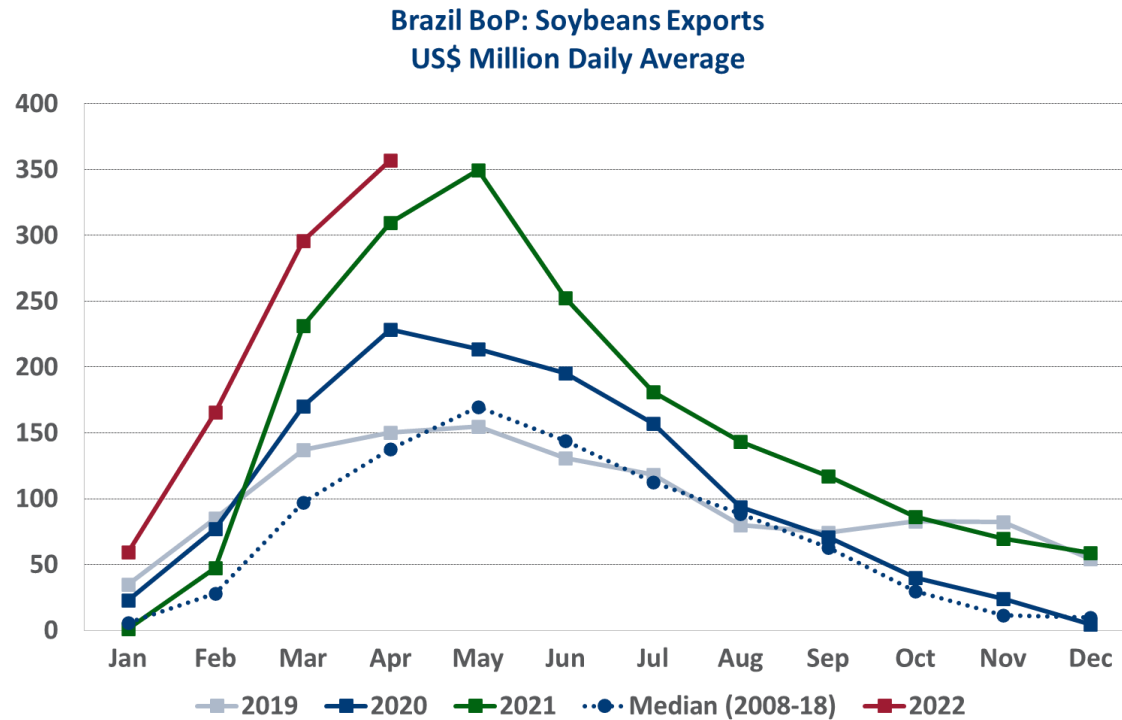
Brazil: External Sector

- » The commodity index persists at a very elevated level as the war goes on and continues impacting prices;
- » The BRL, which reached R\$ 4,60 due to this increase in prices, is now hovering around R\$5,00 as Fed turns hawkish and uncertainty continues;



Brazil: Trade Balance

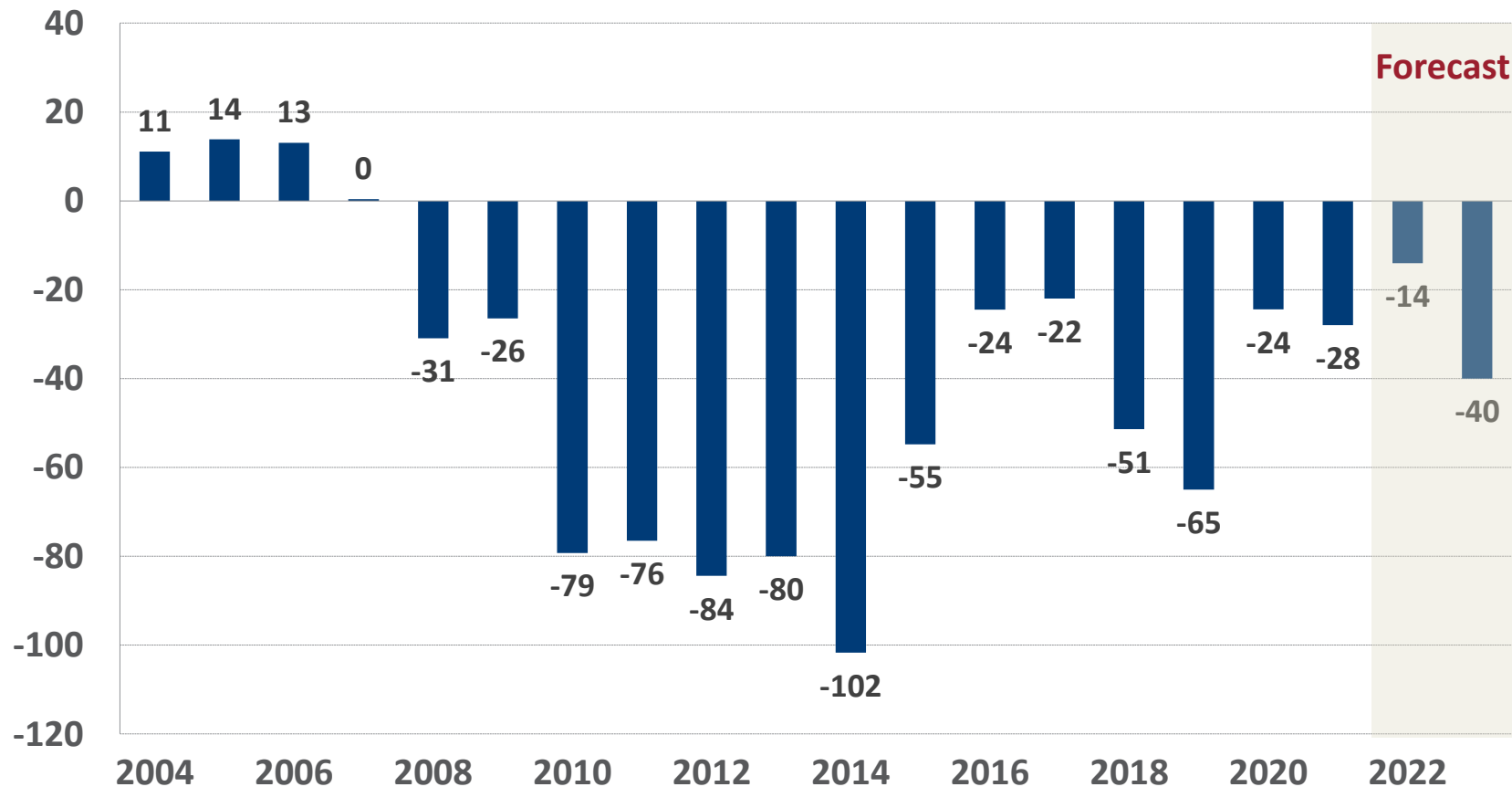
» The surge in global commodity prices continues to drive up the Brazilian exports, as its value was a record for the months of April;



Brazil: Balance of Payments

- » The 2022 current account expectation is that the improvement in comparison to 2019 and 2018 will continue due to the elevated prices of commodities, that have increased even further after the beginning of the war;
- » We revised our current account forecast to -14 billion in 2022, since we expect a better outlook to the trade balance with Brazilian exports registering a sound result this year.

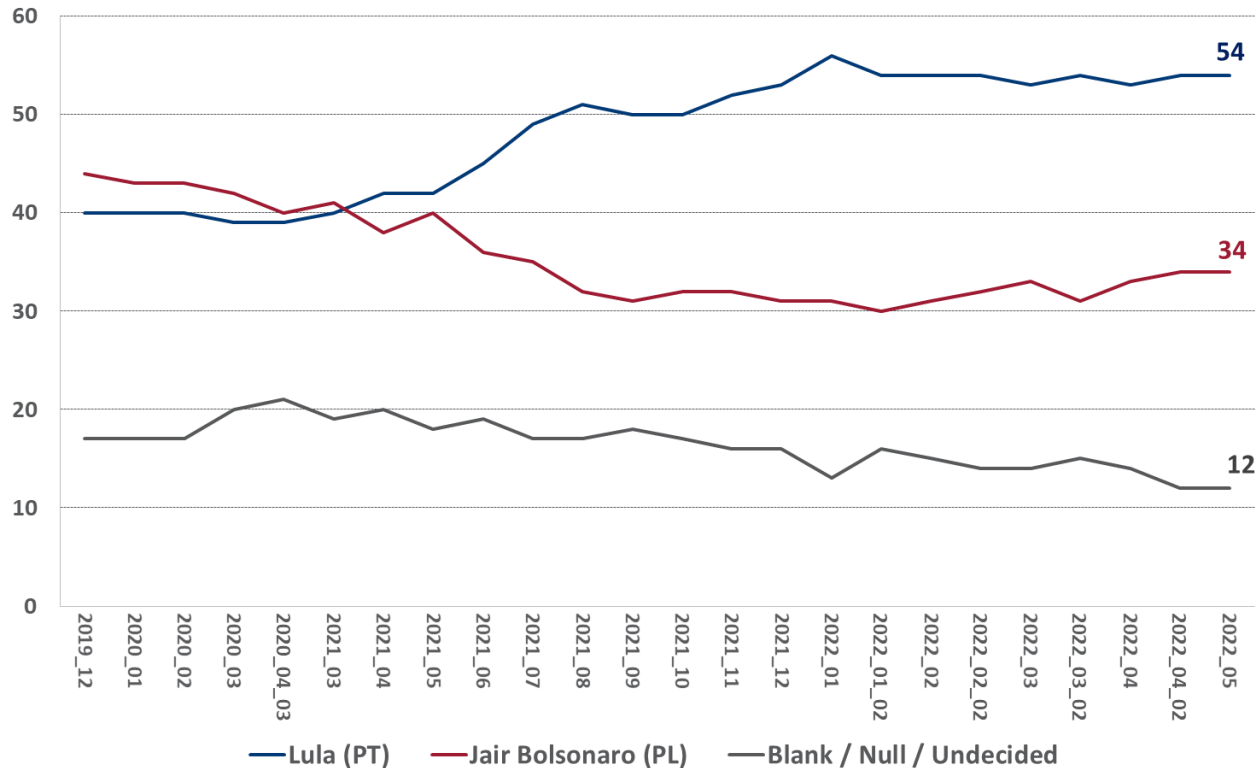
Current Account Balance - USD Billion



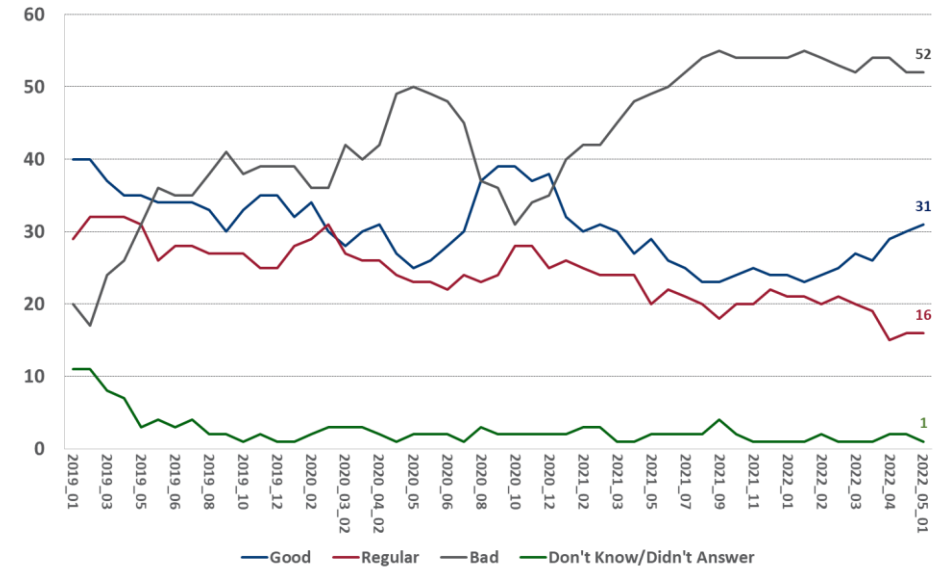
Brazil: Presidential Elections

- » Bolsonaro has been growing in recent polls, but is still behind former president Lula;
- » Evaluation of the president's government also indicates a higher percentage of "bad"
- » "Third way" only has 15% of voting intentions

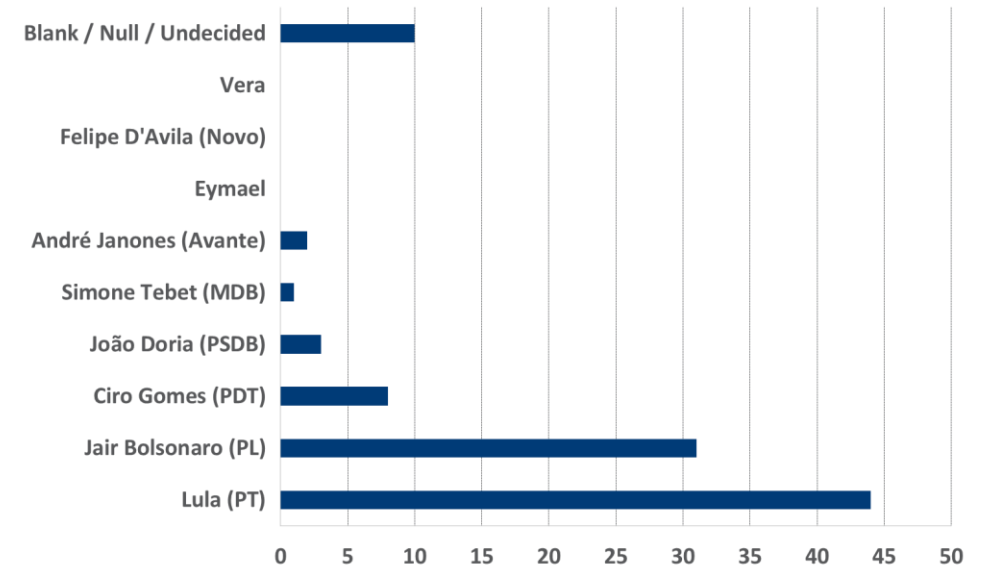
Second Turn: Bolsonaro x Lula (%)



Assesmet of Bolsonaro's Government (%)



Voting Intention: May - 1st Half (%)



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