



MACRO OUTLOOK

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Chief Economist

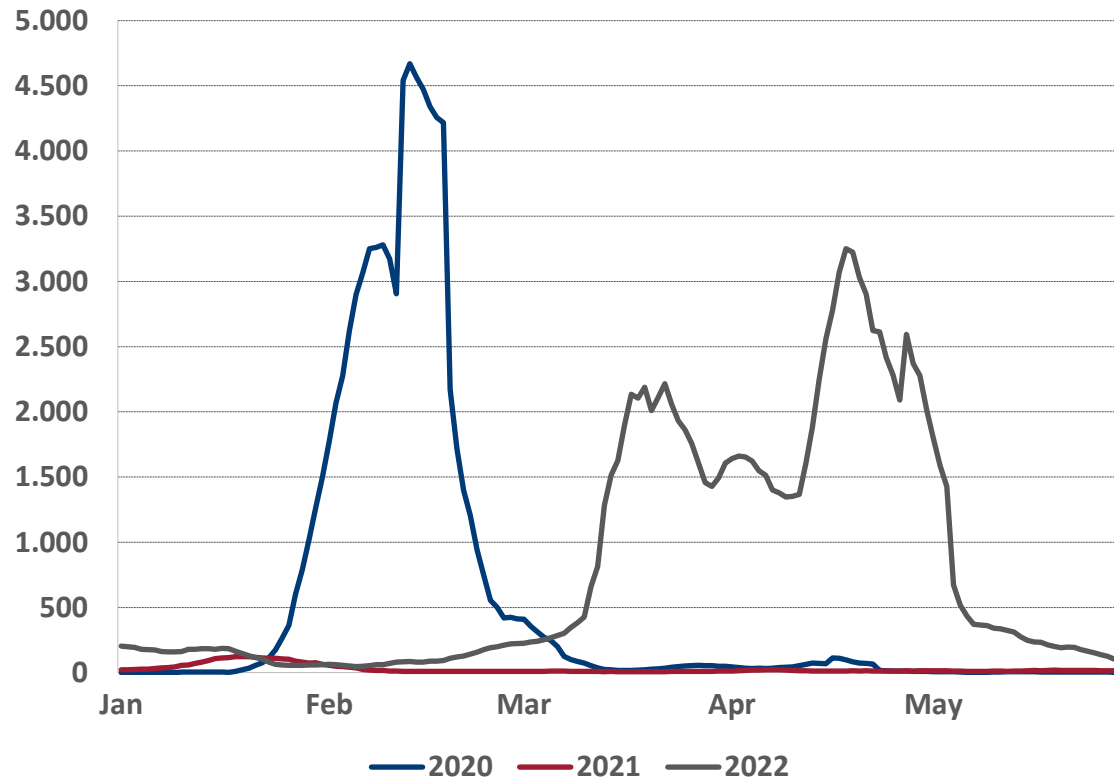
June 2022

- » Tight monetary policies in developed economies are starting to showcase effects, as real time data indicates activity is slowing down alongside the change in goods to services consumption. On the other hand, we see China starting to recover from the Covid wave, which should pressure commodities prices further;
- » The GDP data for the 1Q22 were below expectations. On the supply side, the negative surprise came from agriculture, which posted a -8% YoY growth due to the unfavorable weather in the beginning of the year. Services see continued improvement. On the demand side, investment decreased strongly, impacting long run growth perspectives;
- » High frequency data on activity showed improvement in the last month. Industrial production was in line with expectations, posting the third consecutive gain on a monthly basis. Services to families are picking up. The same pattern is seen in the labor market, with unemployment rate decreasing to 10.5% (NSA) in April;
- » Our growth forecast for 2022 increased to 1.4%. The projection considers the carry over effect of some activities, the recovery of the labor market, and the recovery of some services that are still below their pre pandemic level;
- » Our inflation forecast is at 9.4% in 2022 and it considers services inflation inertia and expectations deterioration. In 2022, there is a major downside risk stemming from the cap to ICMS that is being discussed on the senate and could reduce CPI by 170 bps. In 2023, our projection is at 5% due to the inertia of services inflation. However, we consider industrial goods inflation in 2023 will be considerably lower;
- » Our Selic rate projection is at 13.5% by the end of 2022 and at 9.0% by the end of 2023;
- » Fiscal results have continually improved with the better outlook with increases in tax collection and a lower debt to GDP ratio. Local governments (states and municipalities) continue surprising on the upside. We expect the public sector in all its spheres to post a surplus in 2022;

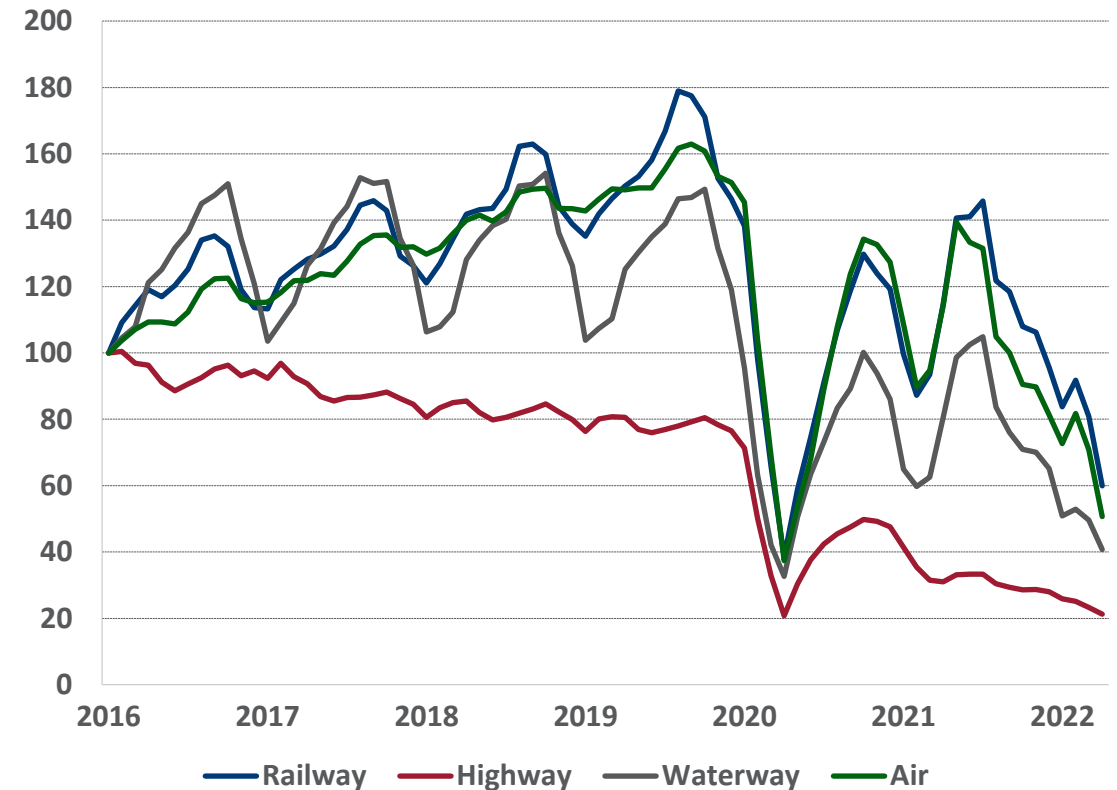
China: Covid - 19

- » After 2 months, the isolation measures in Shanghai were lifted as scheduled on June 1;
- » In Beijing, several establishments reopened;

China: Covid - Daily New Confirmed Cases (YTD 7mda)

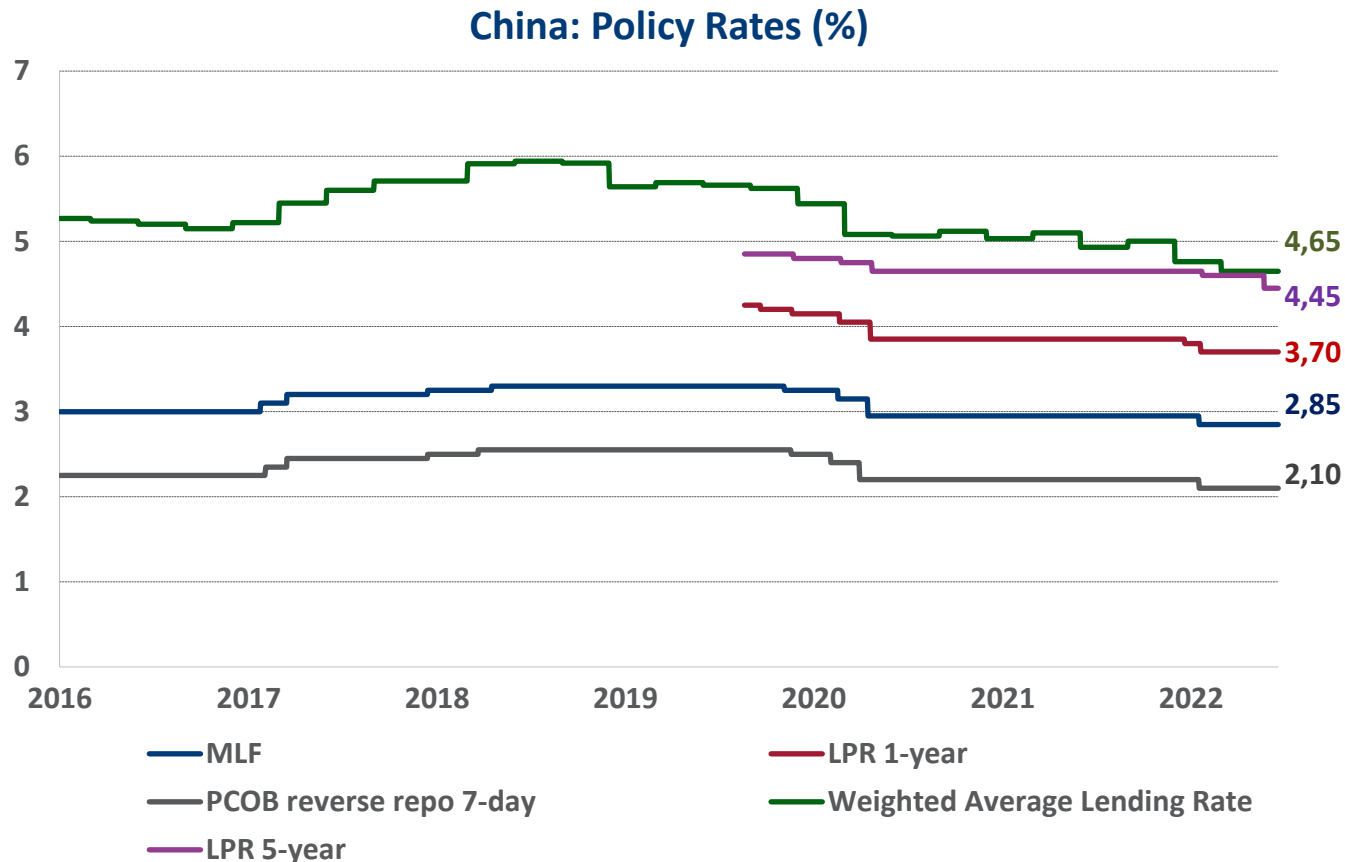


China: Passenger Traffic 3MMA (Jan/16=100)



China: Policy Rates

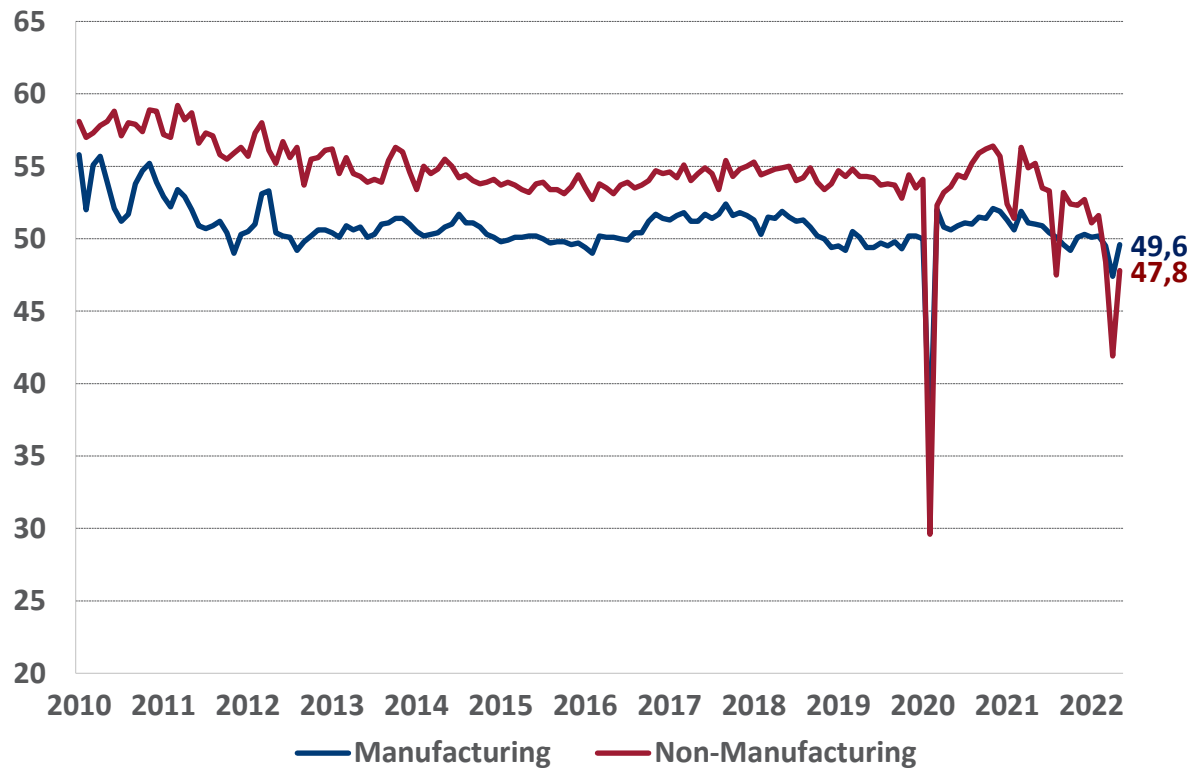
- » 5-year LPR (long-term borrowing reference rate) decreased by 15bps, reaching 4.45%;
- » First-home mortgage rate floor was lowered to 10-bps below 5-year LPR, reaching 4.25%;
- » Local governments have further relaxed rules on the housing market;



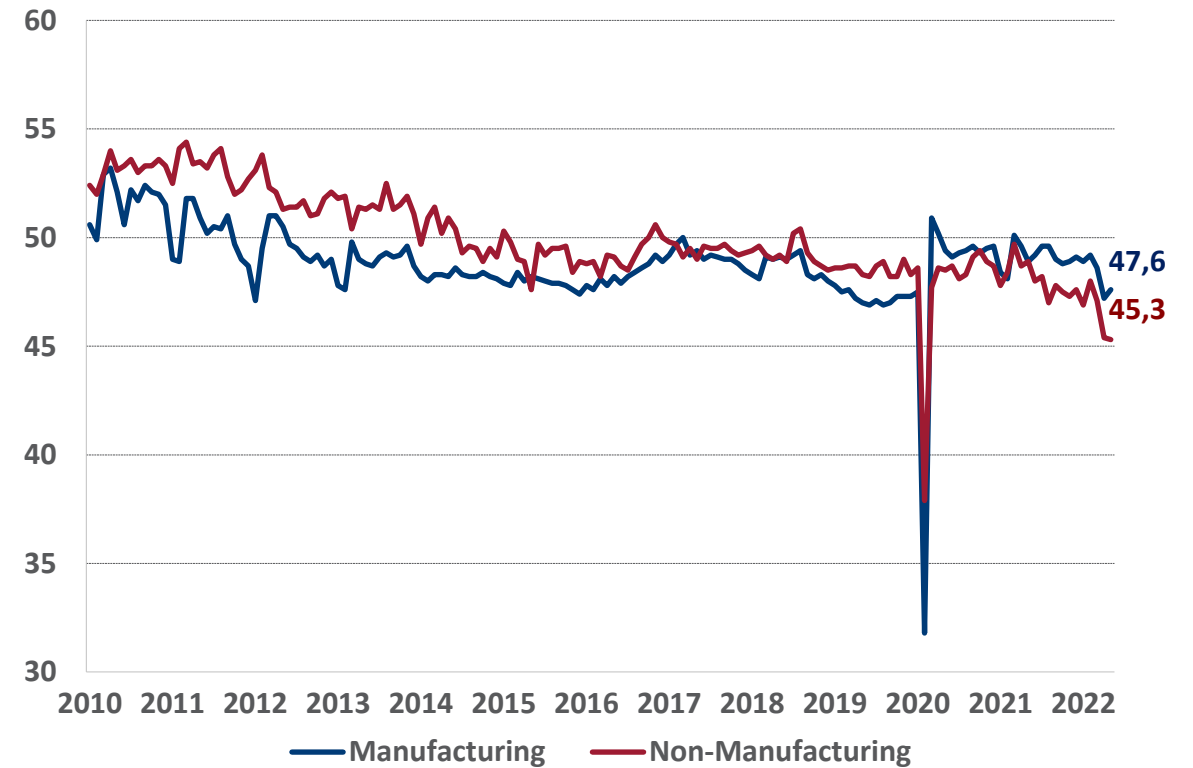
China: PMI

- » Manufacturing PMI rose to 49.6 in May, due to resumption of production in provinces where Covid-19 cases dropped, and restrictions eased;
- » Non-manufacturing PMI increased to 47.8 in May from 41.9 in April, driven by the services sector rebound;

China - PMI



China - PMI: Employment



USA: Inflation

- » US inflation show signs of easing, decreased from its highest level of 8.7% to 8.2% YoY;
- » While prices are still rising, the pace has slowed down in comparison to the previous month;
- » The FED continues to raise interest rates, and will begin to reduce its asset balance in June;

US: CPI SA (YoY)



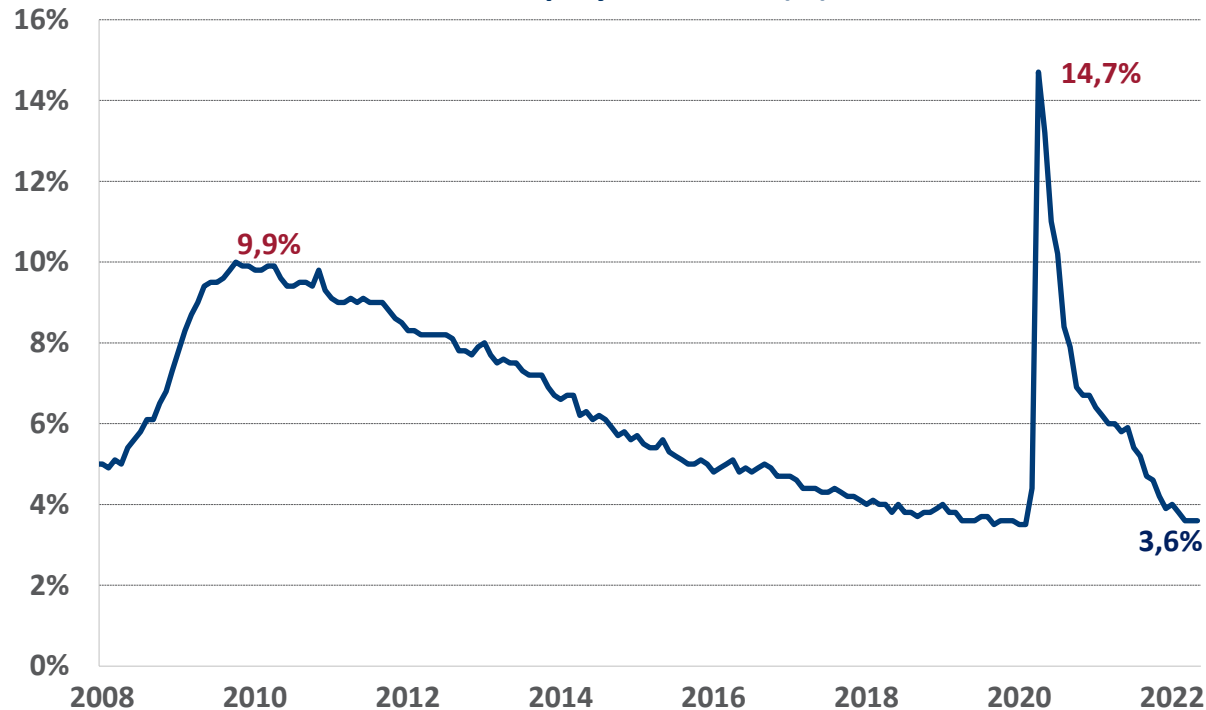
US: PCE SA (YoY)



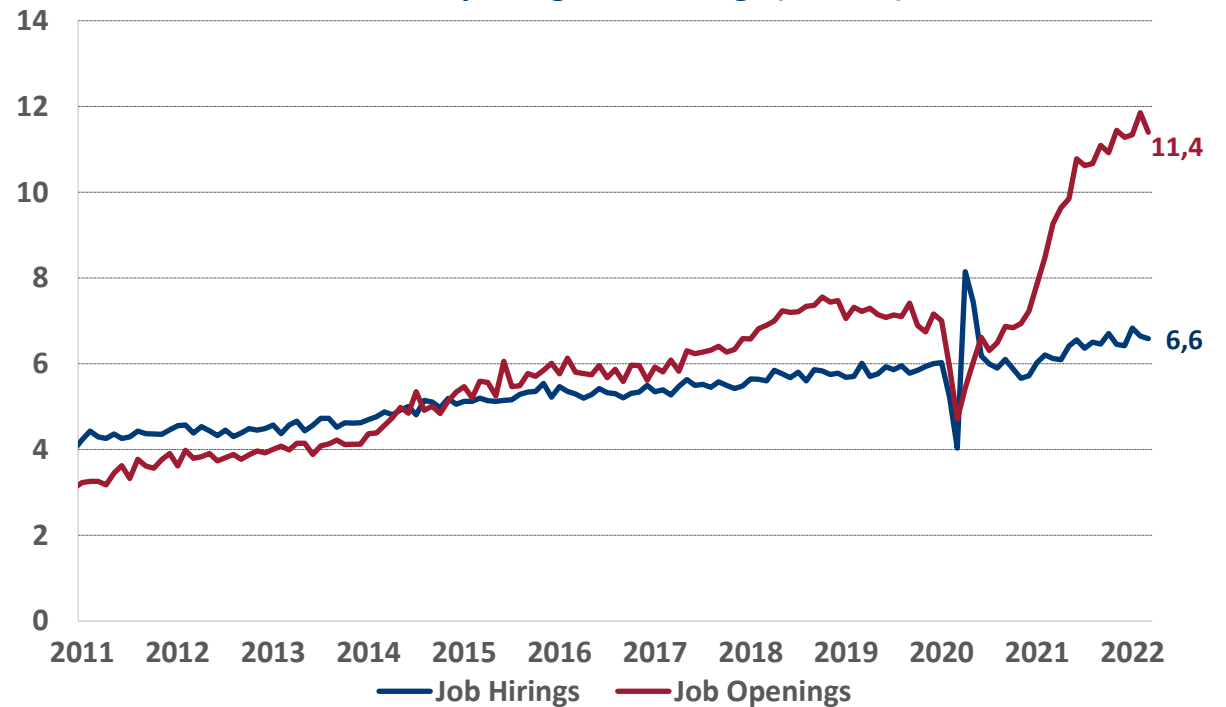
USA: Labor Market

- » Unemployment data came in line with expectations in May, while the Jolts report came slightly above expectations;
- » The unemployment rate remains at a very low level (3.6%);
- » The number of job openings fell slightly from the record level announced in April. In any case, we still see a mismatch between the number of hirings and openings, suggesting little relief for employers struggling to attract and retain workers;

US: Unemployment Rate (%)

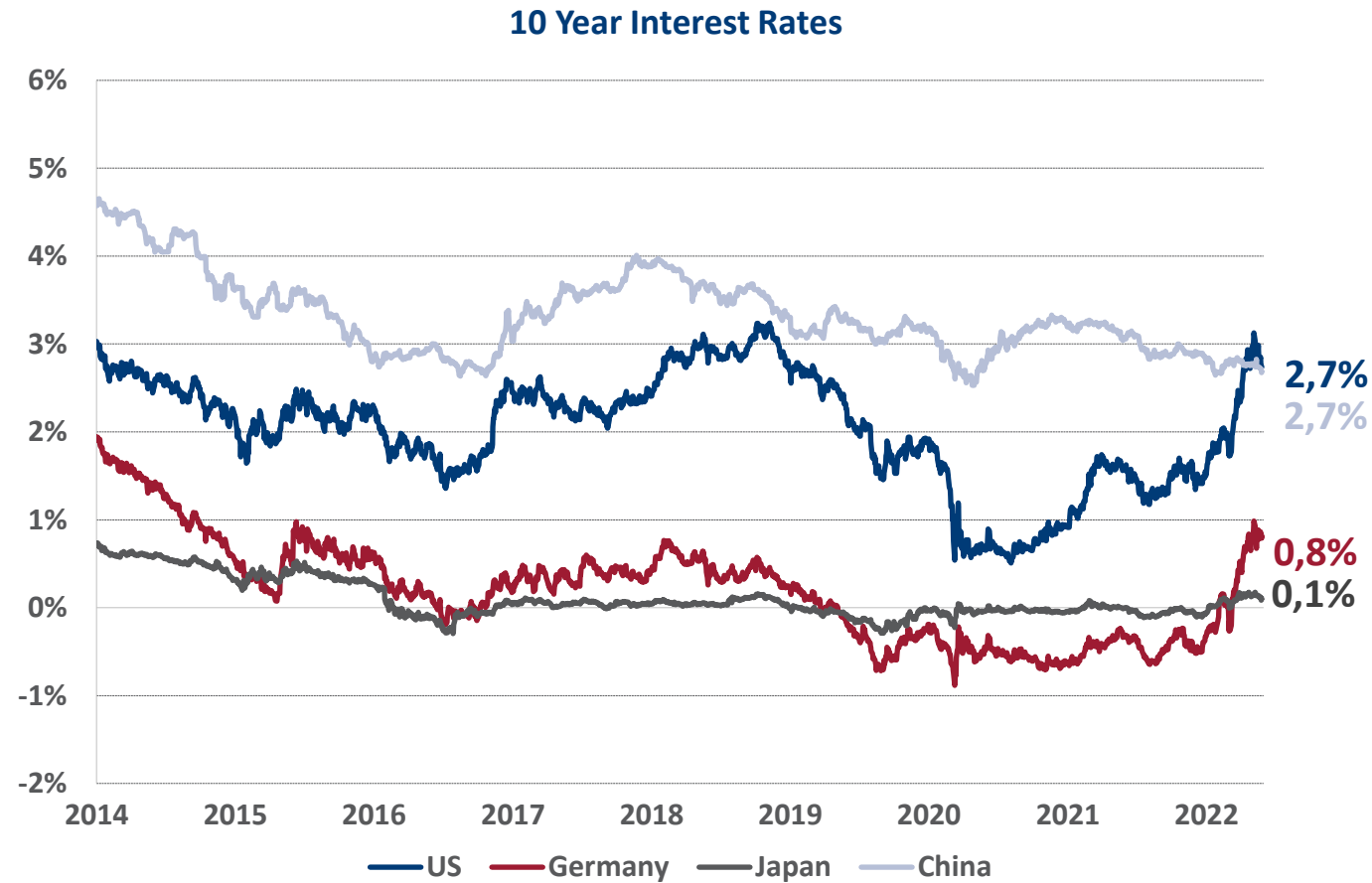


US: Job Openings and Hirings (Million)



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.



Brazil: Forecasts

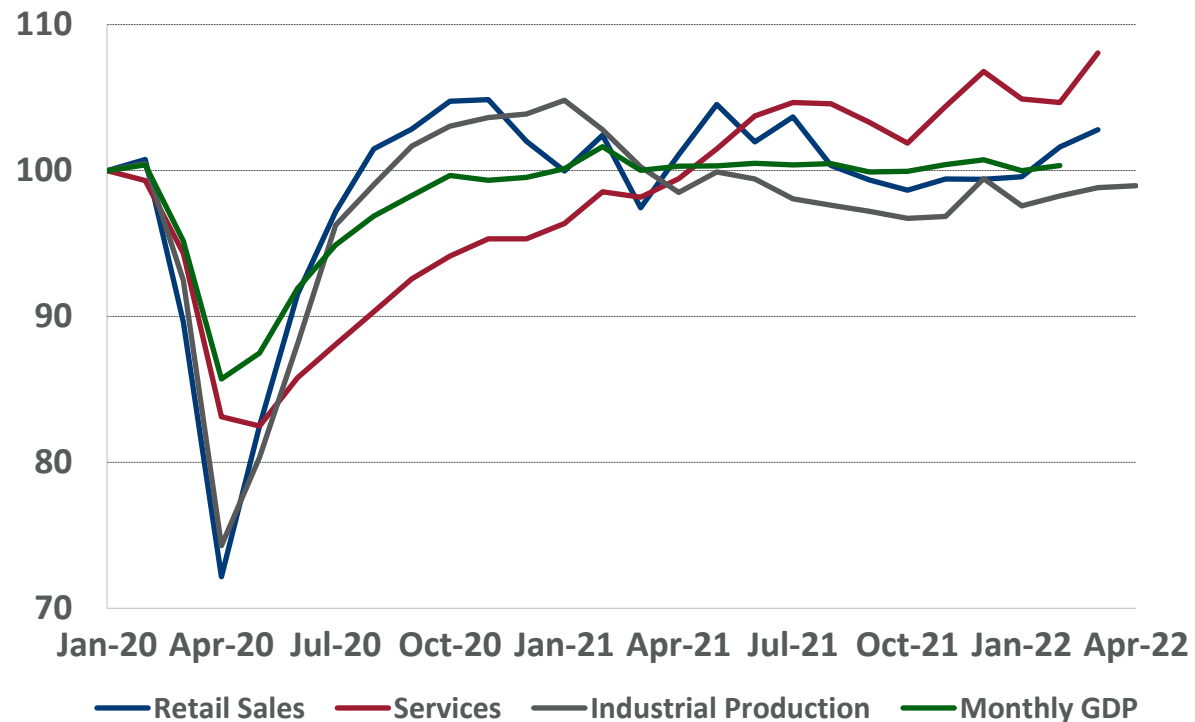
ECONOMIC FORECASTS	2019	2020	2021	2022F	2023F
GDP Growth (%)	1,1%	-3,9%	4,6%	1,4%	0,5%
Inflation (%)	4,3%	4,5%	10,1%	9,4%	5,0%
Unemployment Rate (eoy ,%)	11,7%	13,9%	11,1%	10,8%	11,6%
Policy Rate (eoy, %)	4,5%	2,0%	9,3%	13,5%	9,0%
External Accounts					
Trade Balance (US\$ bn)	48	32	36	68	45
Current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

Brazil: Activity

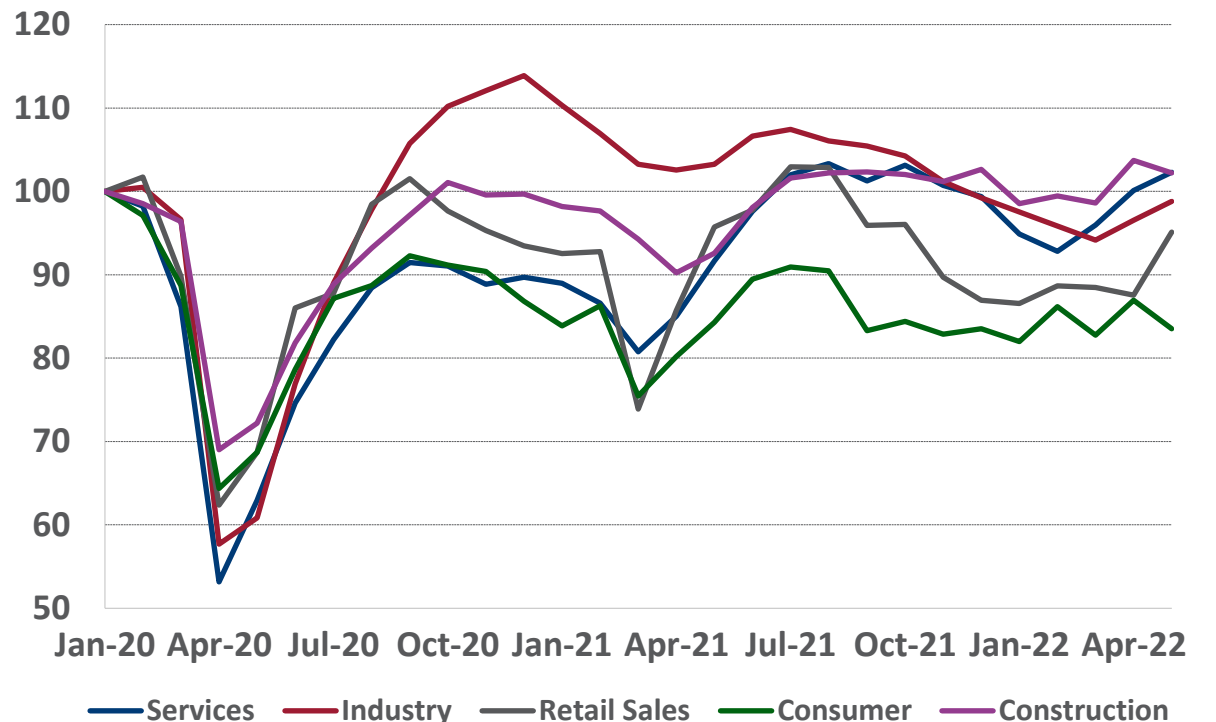
» 1Q22 had a good start with positive results for services GDP (1% QoQ) and stability in industry (0.1% QoQ) due to:

- » 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)

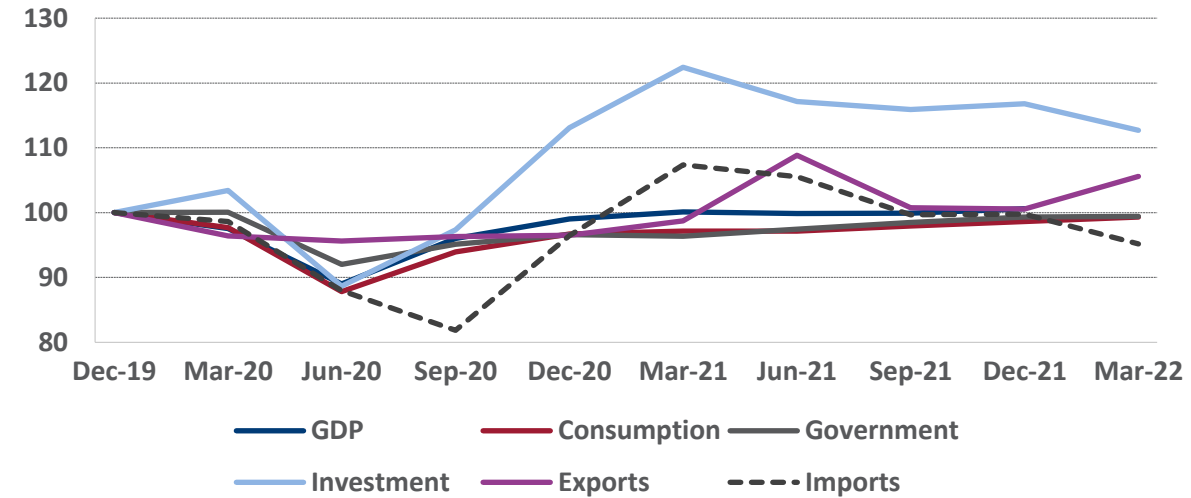


Brazil: 1Q22 GDP

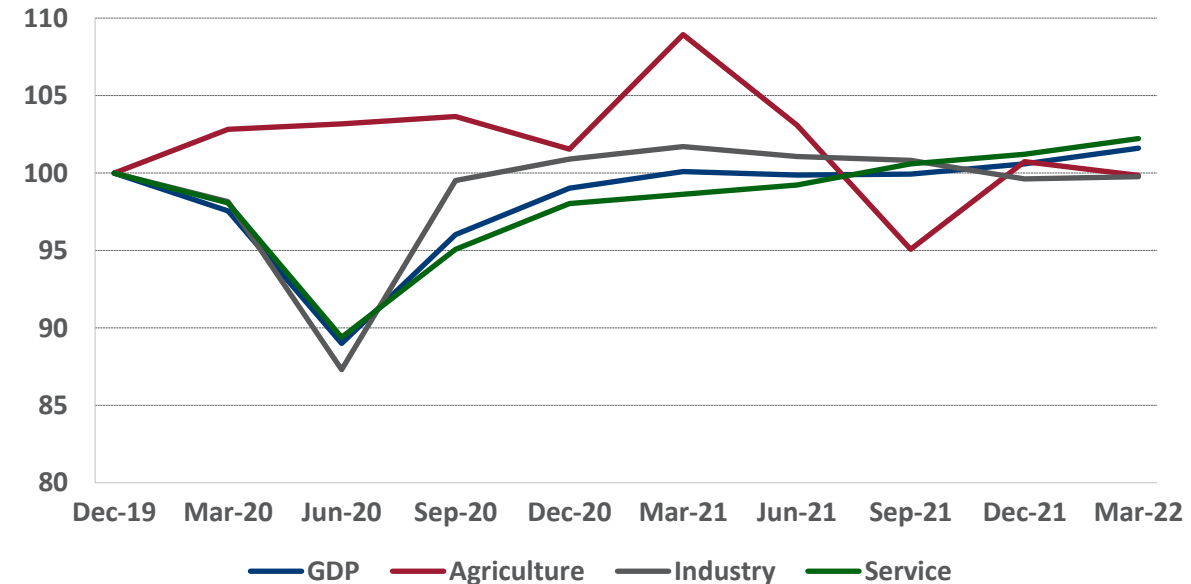
- » Brazil's GDP increased by 1% QoQ and 1.7% YoY in 1Q22;
- » Demand side: the largest contribution came from households' consumption, increasing by 0.7% QoQ and 2.2% YoY;
- » Supply side: the largest contribution came from services which increased by 1% QoQ and 3.7% YoY;

GDP Breakdown	QoQ SA	YoY
Agriculture	-0,9%	-8,0%
Industry	0,1%	-1,5%
Mining	-3,4%	-2,4%
Manufacturing	1,4%	-4,7%
Construction	0,8%	9,0%
Electricity and gas, water, sewage and waste management	6,6%	7,6%
Services	1,0%	3,7%
Retail	1,6%	-1,5%
Transportation	2,2%	9,4%
Communication	-5,3%	5,5%
Finance	-0,7%	-1,6%
Other services	2,2%	12,6%
Rent	0,7%	0,3%
Public services	0,5%	2,9%
Taxes	0,0%	0,5%
GDP	1,0%	1,7%
Household consumption	0,7%	2,2%
Government expenditure	0,1%	3,3%
Investment	-3,5%	-7,2%
Exports (+)	5,0%	8,1%
Imports(-)	-4,6%	-11,0%

Demand - GDP SA (4Q19 = 100)

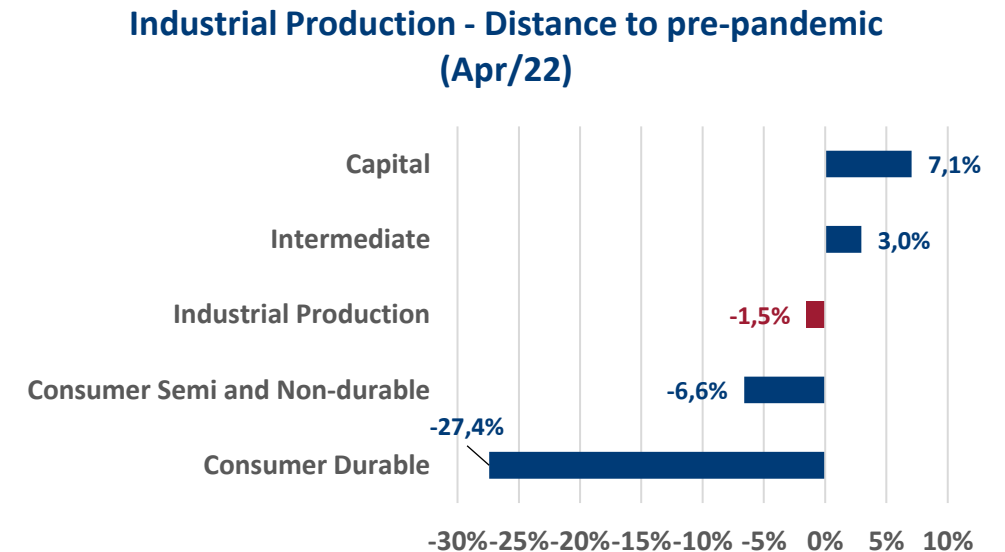
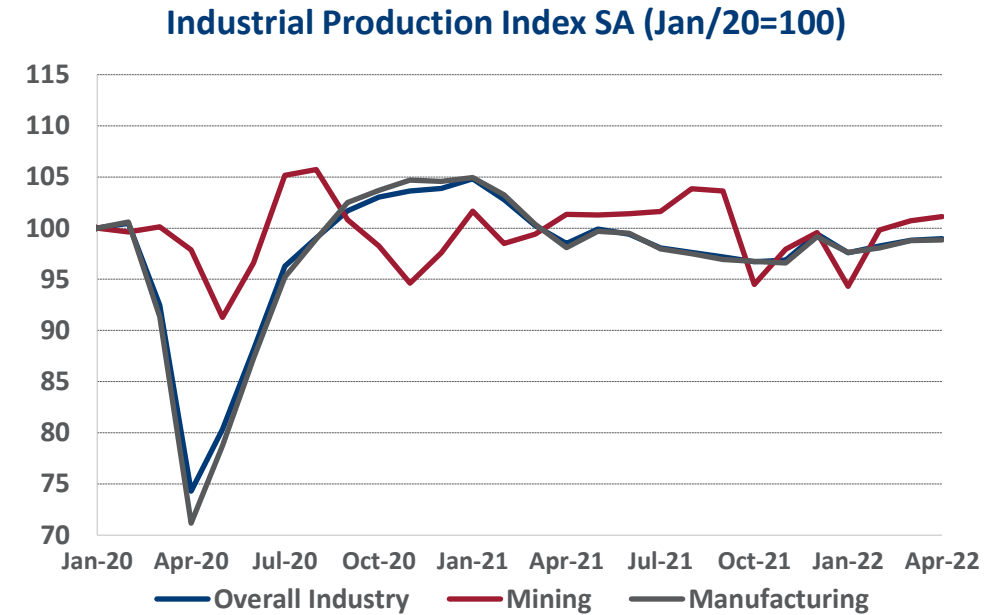
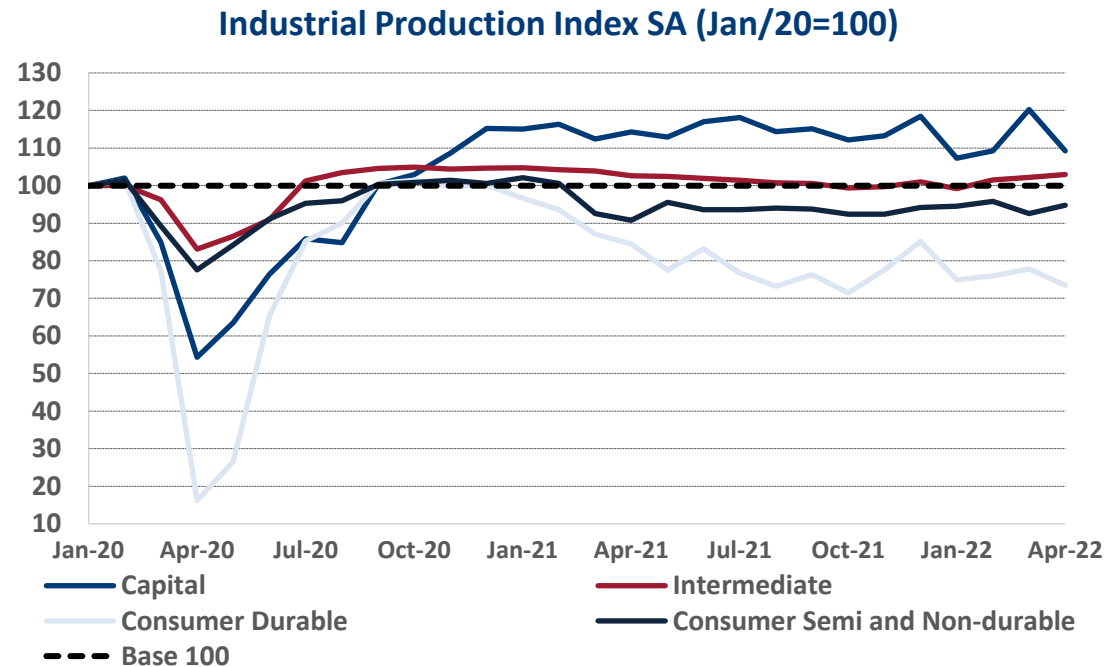


Supply - GDP SA (4Q19 = 100)



Brazil: Industrial Production

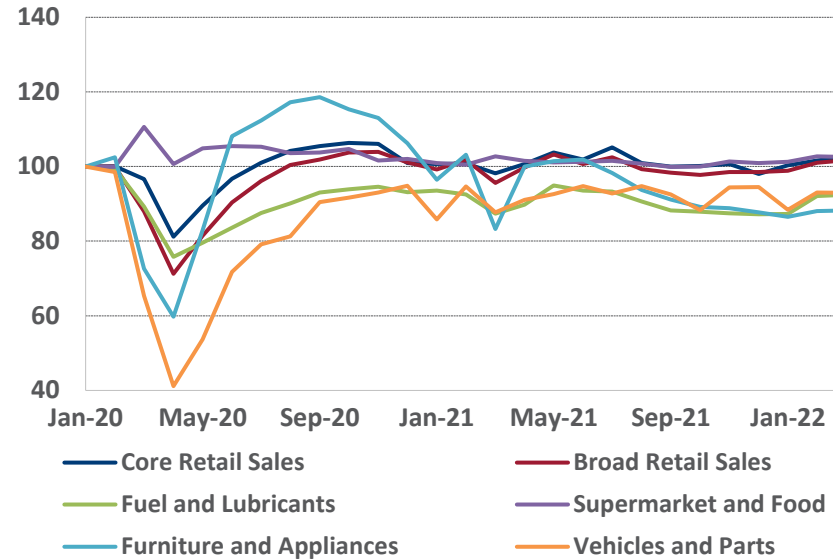
- » Industrial production rose by 0.1% MoM in April: the major contribution came from consumer semi durable goods (2.3% MoM) while the most negatively affected was capital goods (-9.2% MoM);
- » It's worth mentioning the sector is facing hardships:
 - » Supply side: global inputs shortages and higher interest rates;
 - » Demand side: consumption from goods to services and low families income levels.



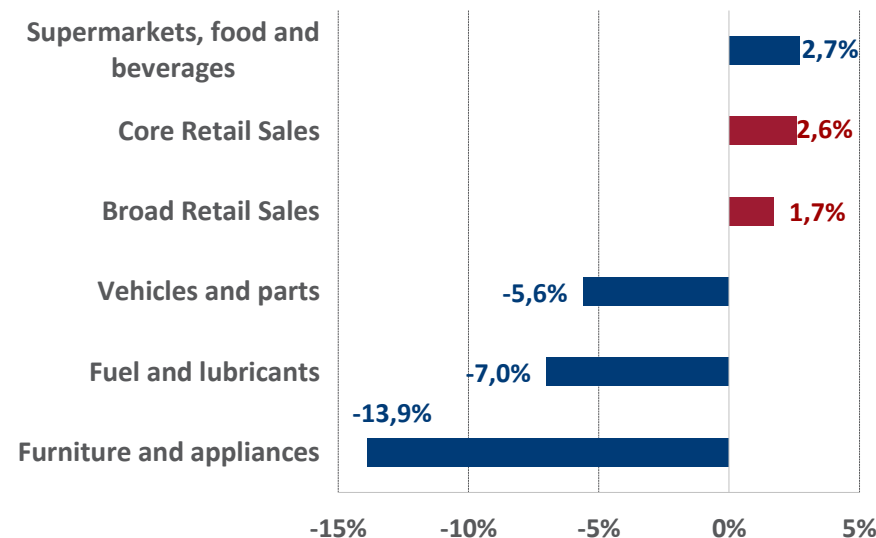
Brazil: Retail Sales and Services Sector

- » In March, retail sales increased by 0.7% MoM;
- » The services sector increased by 1.7% MoM;
- » Both sectors have recovered and are now above their pre-pandemic levels by 2.6% and 7.2%, respectively.

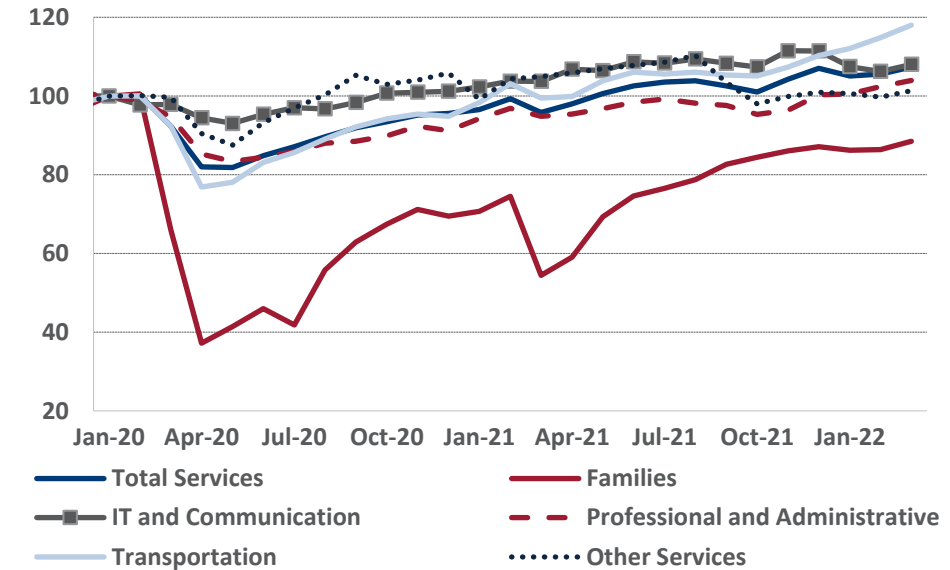
Retail Sales - Index SA (Jan/20 = 100)



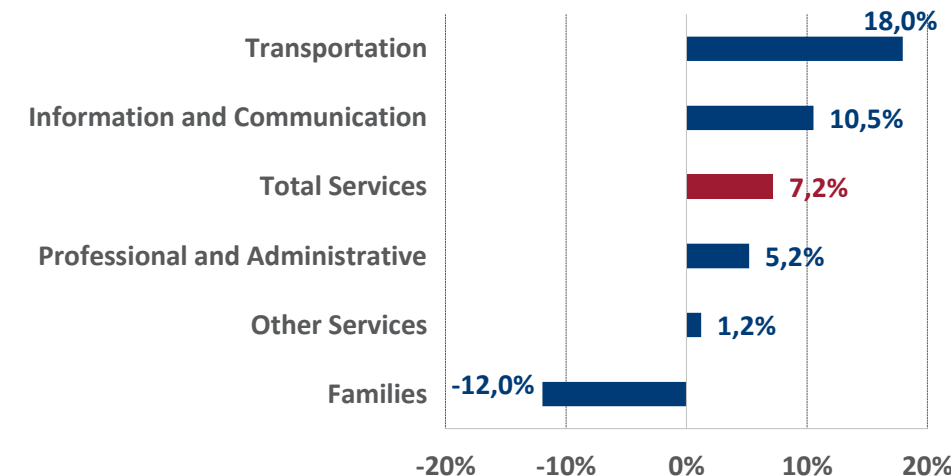
Retail Sales - Distance to pre-pandemic level (Mar/22)



Services Sector SA (Jan20=100)



Services Sector - Distance to pre-pandemic (Mar/2022)



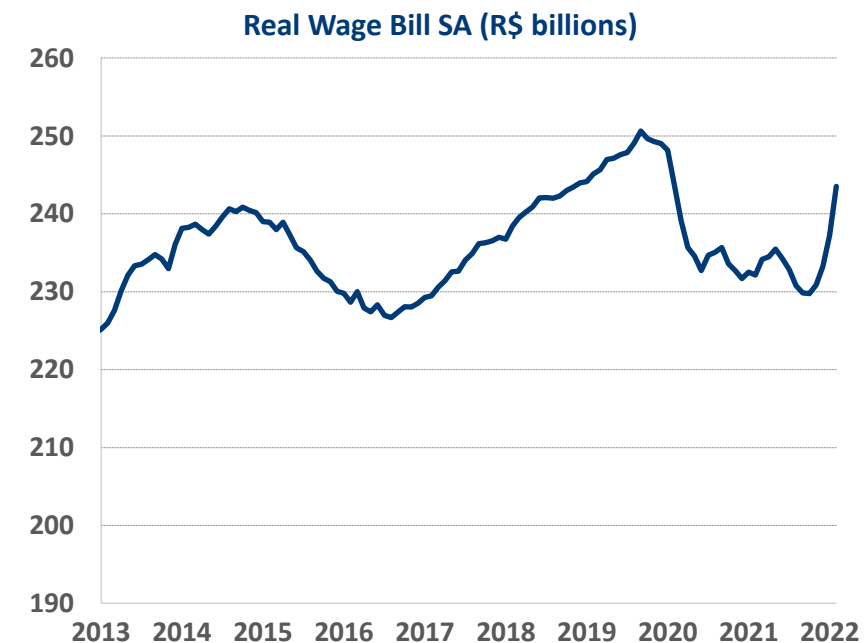
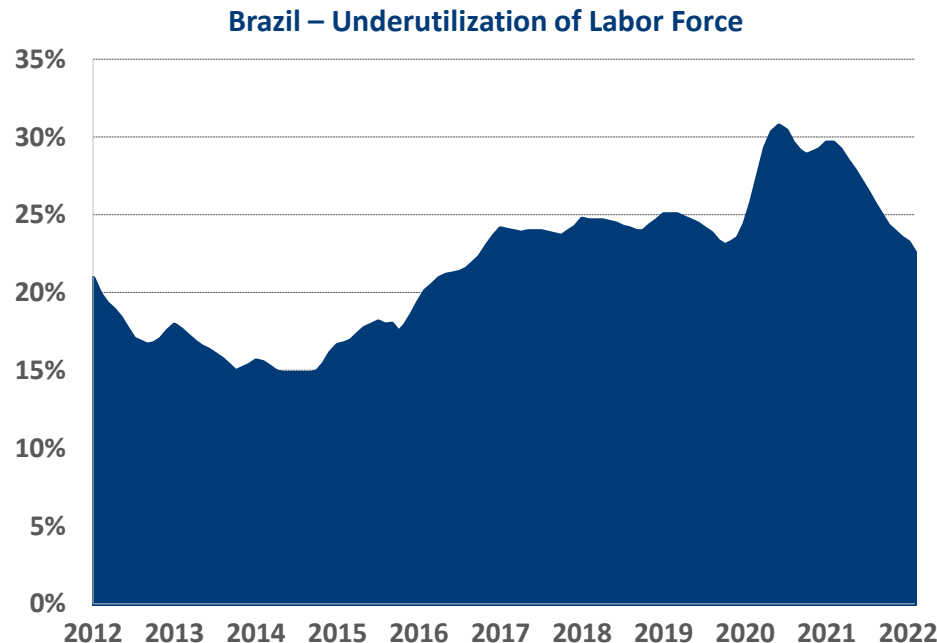
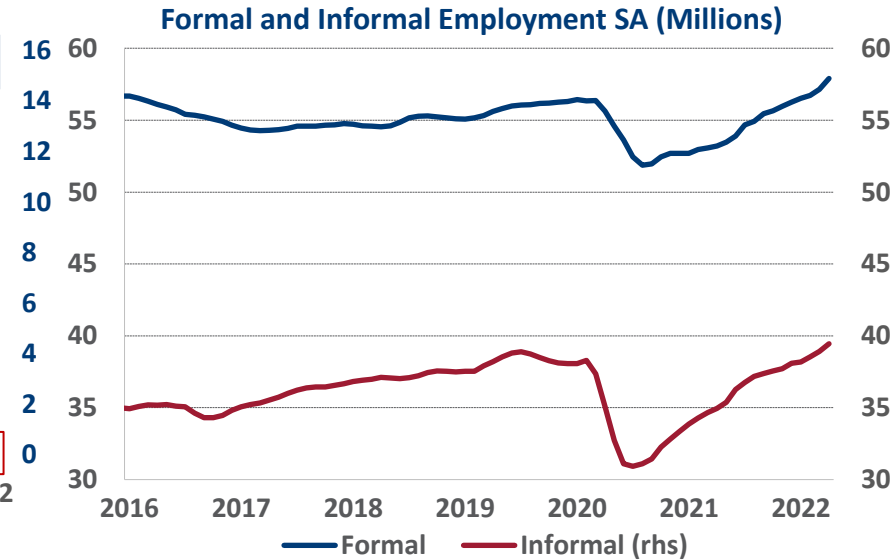
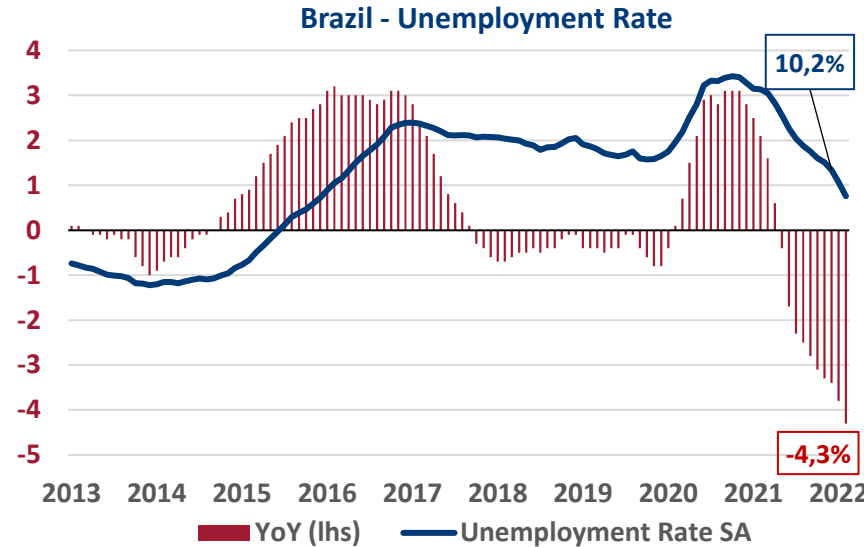
Brazil: Labor Market

» The labor market kept improving in April on the heels of the normalization process:

» The unemployment rate fell to 10.2% (10.5% NSA) with the recovery of both formal and informal jobs;

» The underutilization of labor force is at 22.5%, below it's pre-pandemic levels;

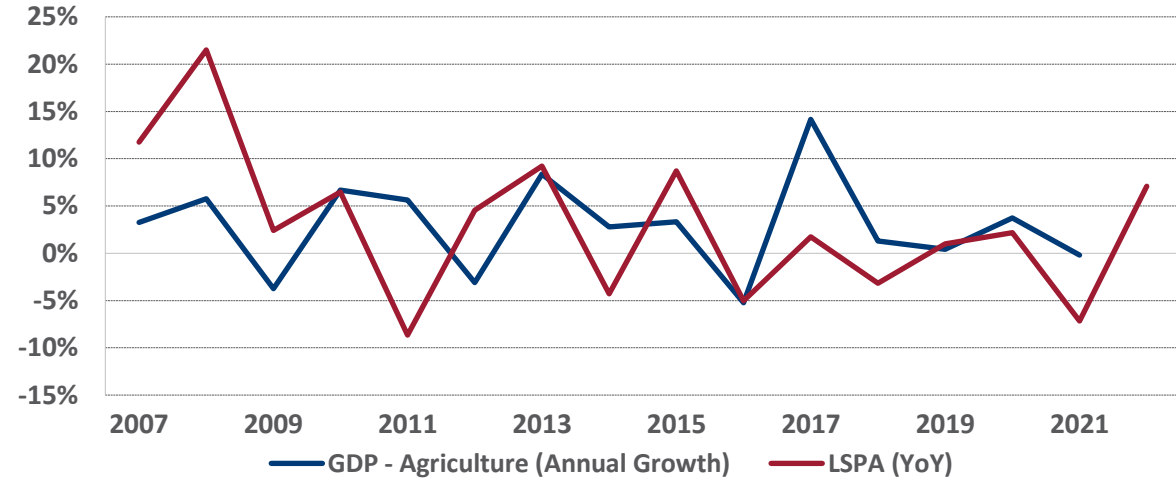
» Real wage bill still on low levels, however with a strong upward trend due to the increase of the employed population;



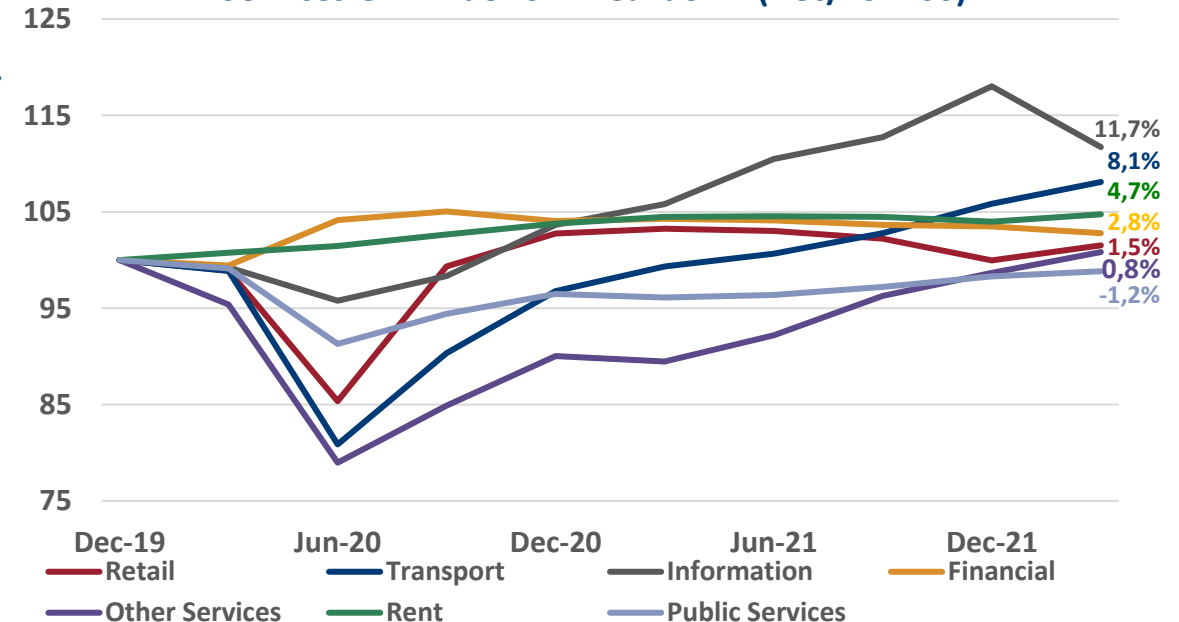
Brazil: 2022 GDP Scenario

- » We expect a **positive contribution of the agriculture output** in the 2022 GDP, with a better outlook to production forecasts;
- » **Industry remains the main drag of the economic activity** with the manufacturing industry being compromised by elevated cost, supply chain bottlenecks and different consumption composition:
 - » After the fast recovery of the sector between 3Q20-3Q21, it's expected that industrial activity slows down;
 - » upsides for construction and utility output due to stable hydric scenario and increasing occupation in the construction sector;
 - » With the recovery of services, consumption is transitioning from goods to services, compromising industry demand.
- » **We expect services output to grow**, with the recovery of public services, which are below their 4Q19 level (as highlighted in the chart);
 - » 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;
 - » low unemployment and fiscal stimulus also means stronger activity in the first half of 2022

GDP - Agriculture x LSPA (Harvest)



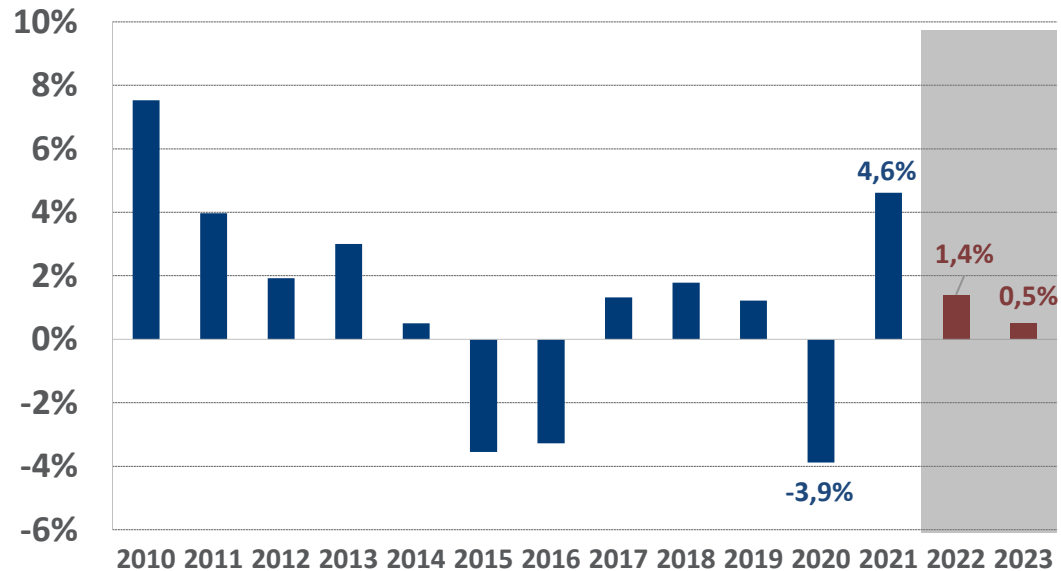
Services GDP Index SA Breakdown (Dec/19=100)



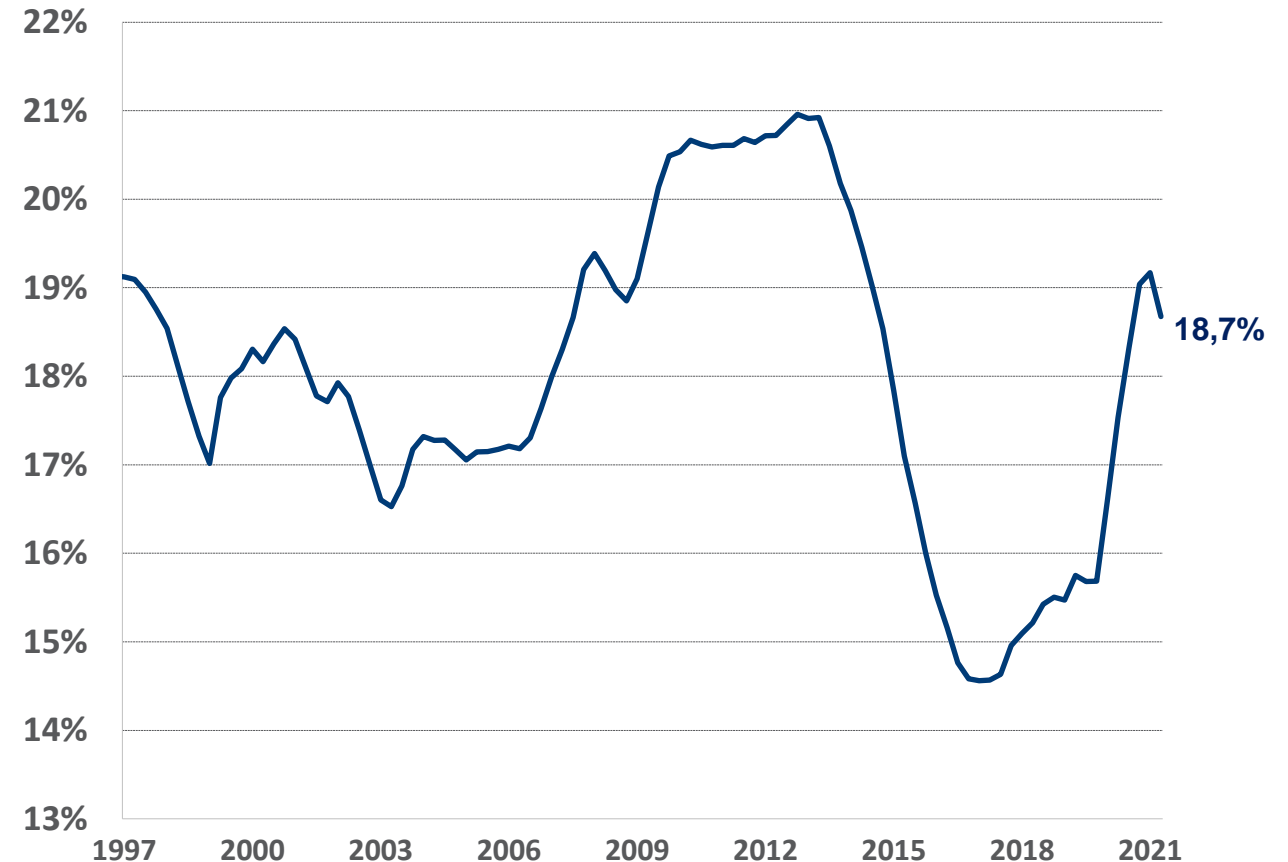
Brazil: GDP Scenario

- » **Our 2022 GDP projection is at 1.4%:** positive contribution of the services sector and agriculture
 - » the negative impact of the tight monetary policy should be seen in the 2H22
- » **Our 2023 GDP projection is at 0.5%:** tight monetary policy over next year, but high investment rate should support growth.

GDP Annual Growth (%)



Brazil – Investment Rate (%GDP)



GDP Projections 2022					
GDP Breakdown	Weights(%)	2019	2020	2021	2022
Agriculture	6,9	0,4	3,8	-0,2	2,0
Industry	18,9	-0,7	-3,4	4,5	-1,8
Services	59,4	1,5	-4,3	4,7	2,3
Total GDP		1,2	-3,9	4,6	1,4

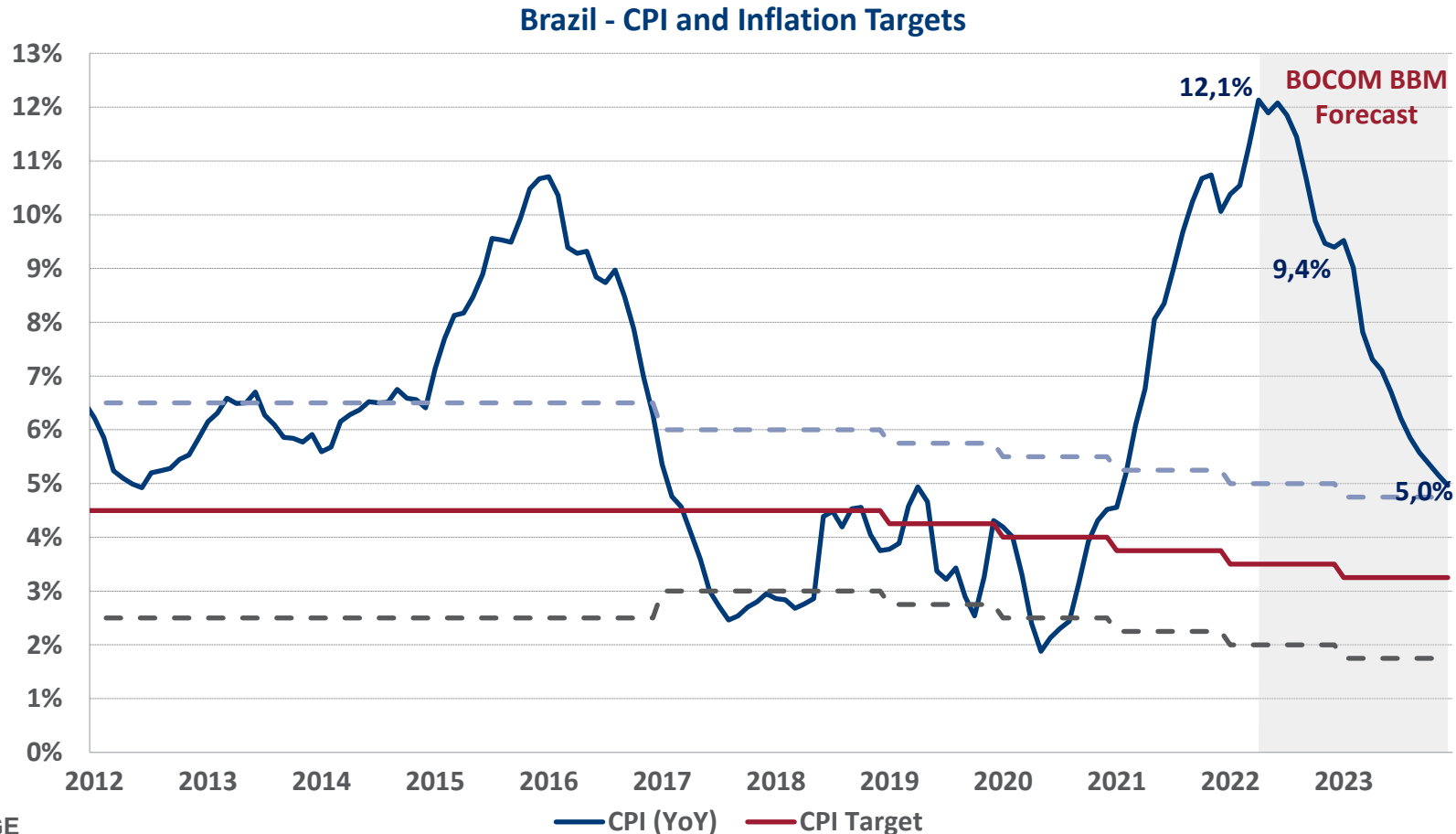
Brazil: Inflation

- » The CPI peak should be reached in June. But the peak will not be followed by a steep decrease, but something like a plateau;
- » 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, services inflation inertia and the smaller GDP gap in line with the recovery of the labor market will bring inflation above the target's upper limit.

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	12,1%	12,4%	12,1%	8,6%	16,6%	14,1%
22 Q3	10,7%	10,6%	10,8%	8,9%	12,0%	12,7%
22 Q4	9,4%	8,3%	9,8%	8,6%	11,6%	10,5%
23 Q1	7,8%	7,4%	8,0%	8,6%	6,9%	7,8%
23 Q2	6,7%	8,5%	6,1%	7,5%	4,2%	5,1%
23 Q3	5,6%	6,7%	5,2%	6,7%	4,0%	3,7%
23 Q4	5,0%	5,6%	4,7%	6,2%	4,5%	2,7%

Brazil: Inflation

- » Our 9.4% 2022 CPI projection takes into account a high persistence of services inflation, high food stuff and industrial goods inflation due to effects of the war, and green flag to electric energy at the end of the year;
- » In 2023, CPI forecast at 5%, above the target's upper limit, considering the secondary effects of the shock, the deterioration of expectations, the persistence of services inflation and considering the GDP gap almost closing in 2022 due to the strength of labor market.



» In 2022, the 9.4% projection is mainly caused by high inertia in services inflation, high inflation expectations and the impact of Russia-Ukraine war, that has caused the increase in several commodities prices and extended the supply chain disruption. Further risks to 2022 CPI are:

Upside risks:

1. The supply chain bottlenecks could last longer and have higher impact than expected;
2. The high prices of fertilizers and the BRL depreciation could increase even more inflation in 2022 and 2023;
3. Continued risk of government's fiscal policy to continue decreasing effect of monetary policy and inflation to continue high for longer;
4. In 2023, inertia could be higher than estimated and make the disinflation process more difficult.

Downside risks:

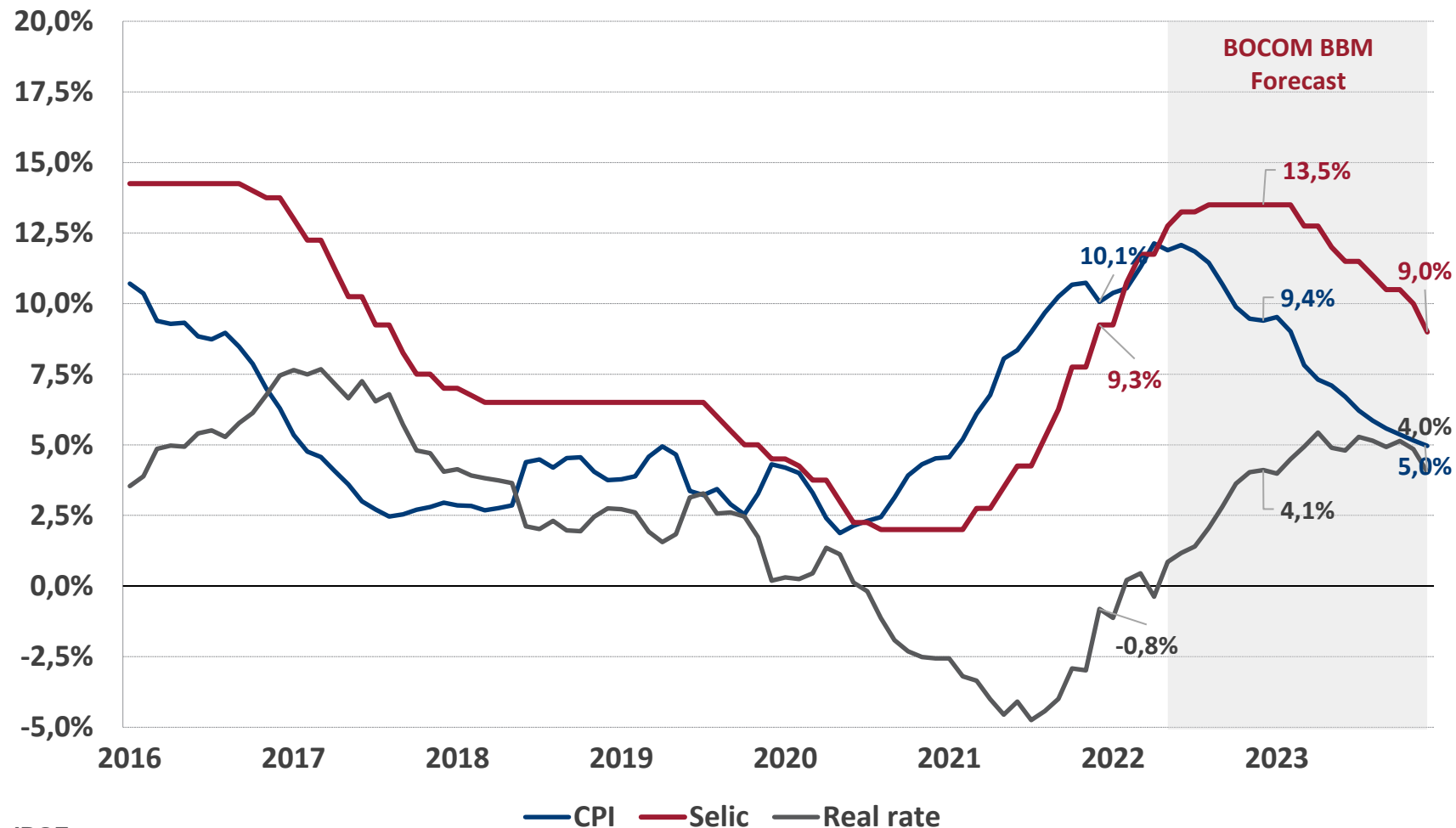
1. Law project that establishes ceiling to fuels, electric energy and communication services ICMS (state tax) could decrease CPI in 1.7% in 2022;
2. Project that forces enterprises to fully return electric energy tax credits of ICMS on PIS/Cofins could also help reduce CPI and open space to extraordinary revisions for the already allowed readjustments. The impact is uncertain since it depends on when the tax credits are going to be compensated;
3. 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;

» In 2023, we expect that secondary effects of the shock continue to impact the economy. Some regulated items readjustments will be impacted by the high inflation. Besides, the above expectations strength of the labor Market is reducing the GDP gap and 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 and 25 bps in August, finishing the hike cycle with 13.5%;
- » The last Copom statement has left an open door for an extension in the hiking cycle.

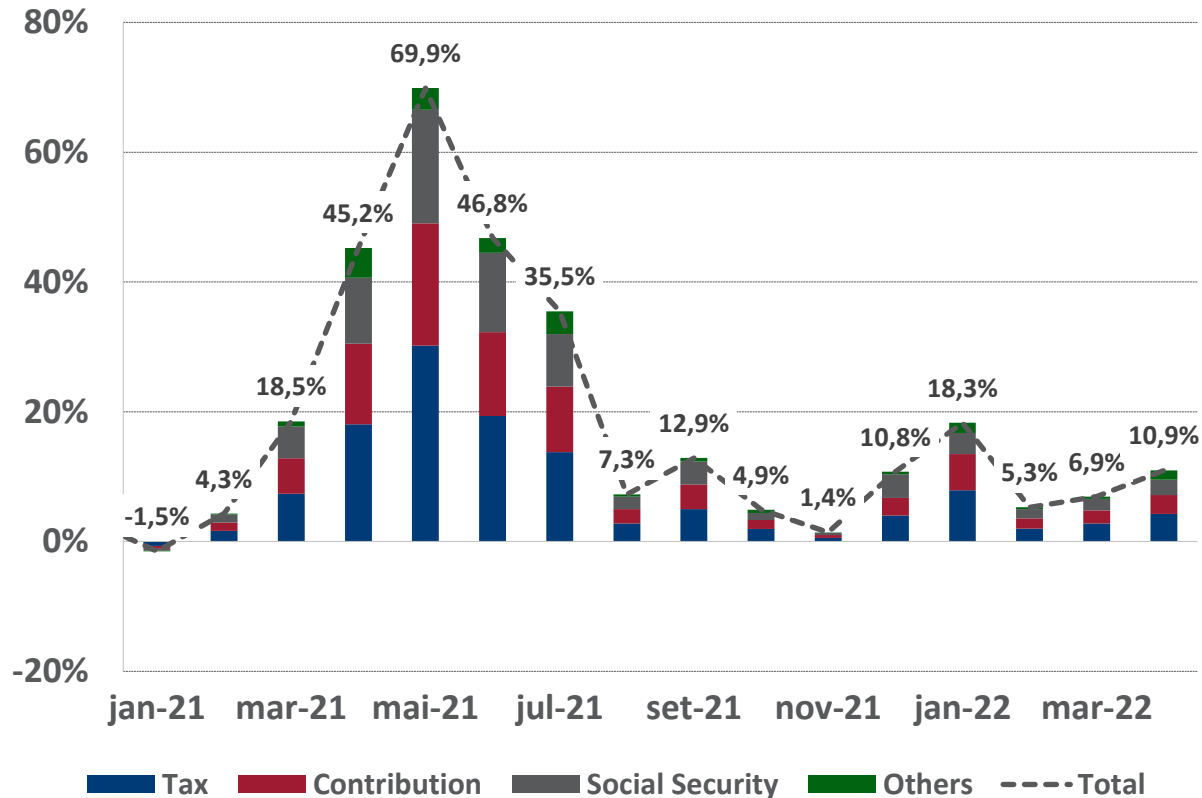
Brazil - CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)



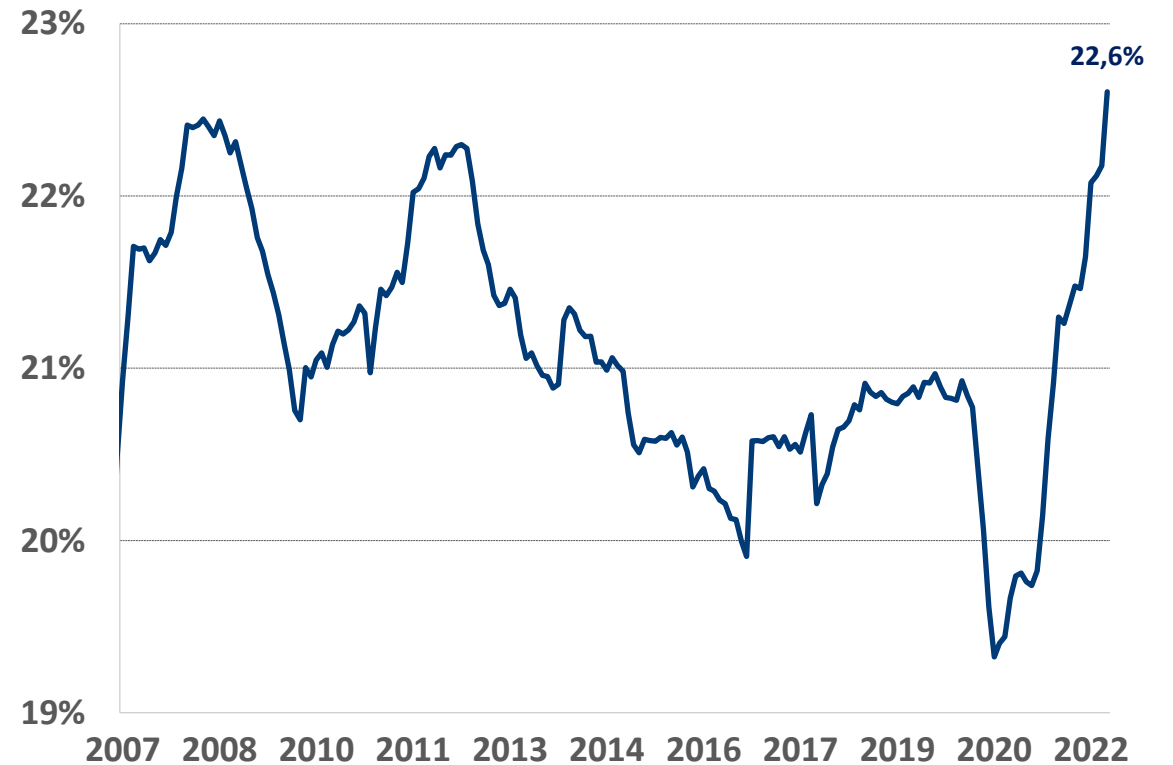
Fiscal: Central Govt Tax Collection

- » The April tax collection expanded by 10.9% YoY (adjusted by inflation);
- » Social Security collection increased in the wake of the recovery of formal employment.

Brazil: Real Tax Collection (YoY)



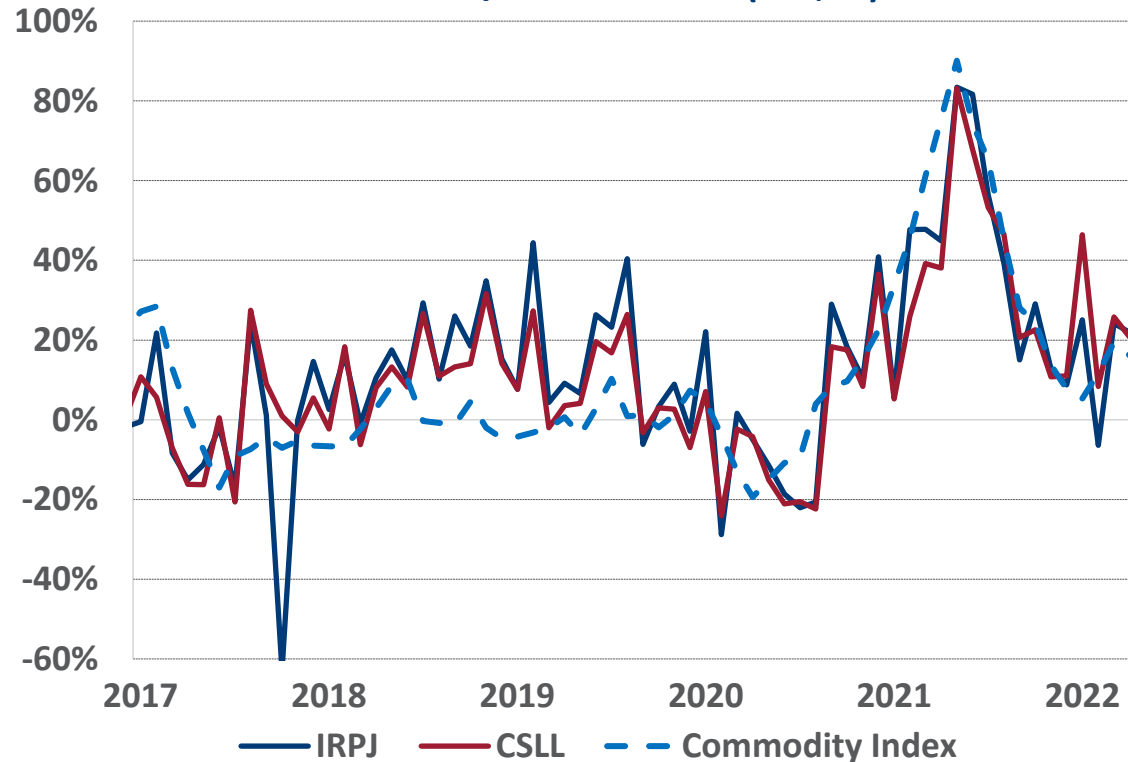
Brazil: Total Tax Revenue (% GDP 12M)



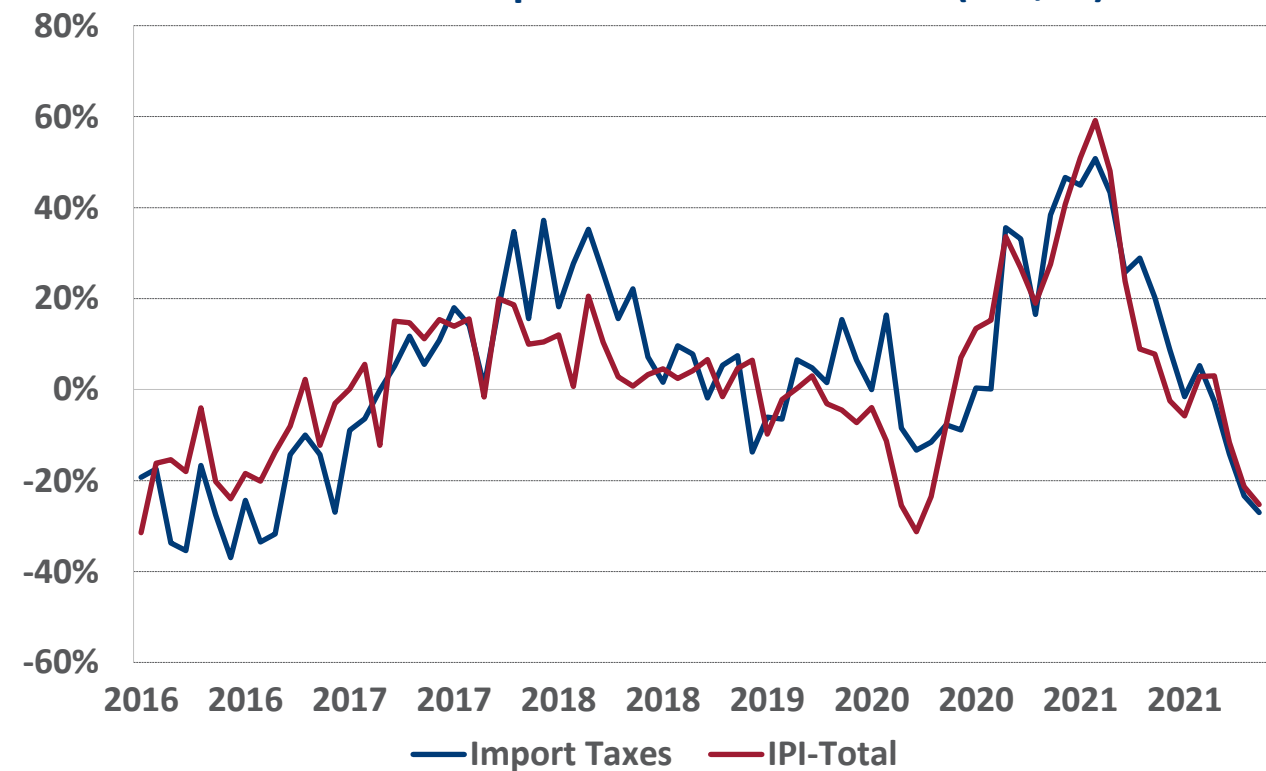
Fiscal: Central Gov't Tax Collection

- » April's highlights were IRPJ and CSLL, which climbed 21.5% MoM in real terms;
 - » due to annual income tax adjustment statement and atypical collection (BRL 3 billion).
- » Import tax and industrial production tax fell 27.5% and 25.8%, respectively;
 - » due to BRL appreciation and tax rate cuts.

Brazil: IRPJ/CSLL vs. IC-Br (YoY, %)



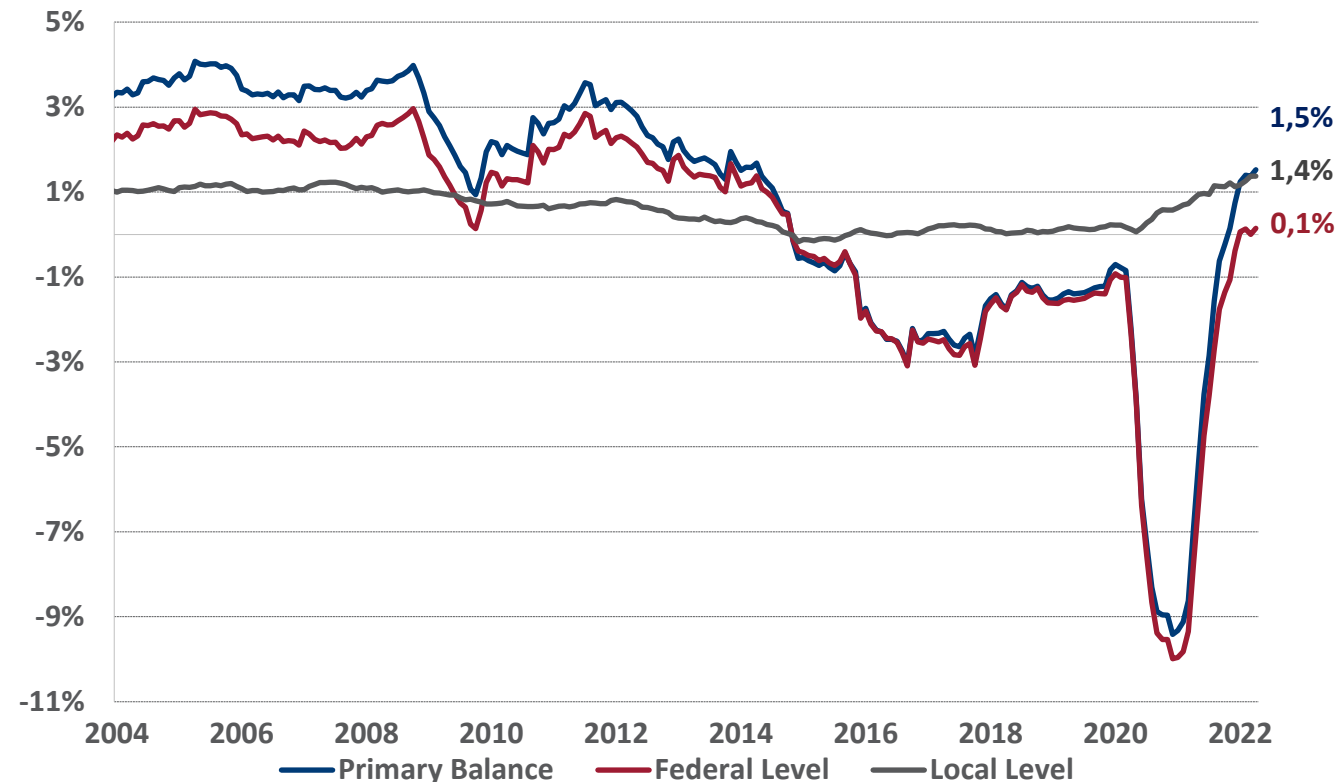
Brazil: Import Taxes vs IPI-Total (YoY, %)



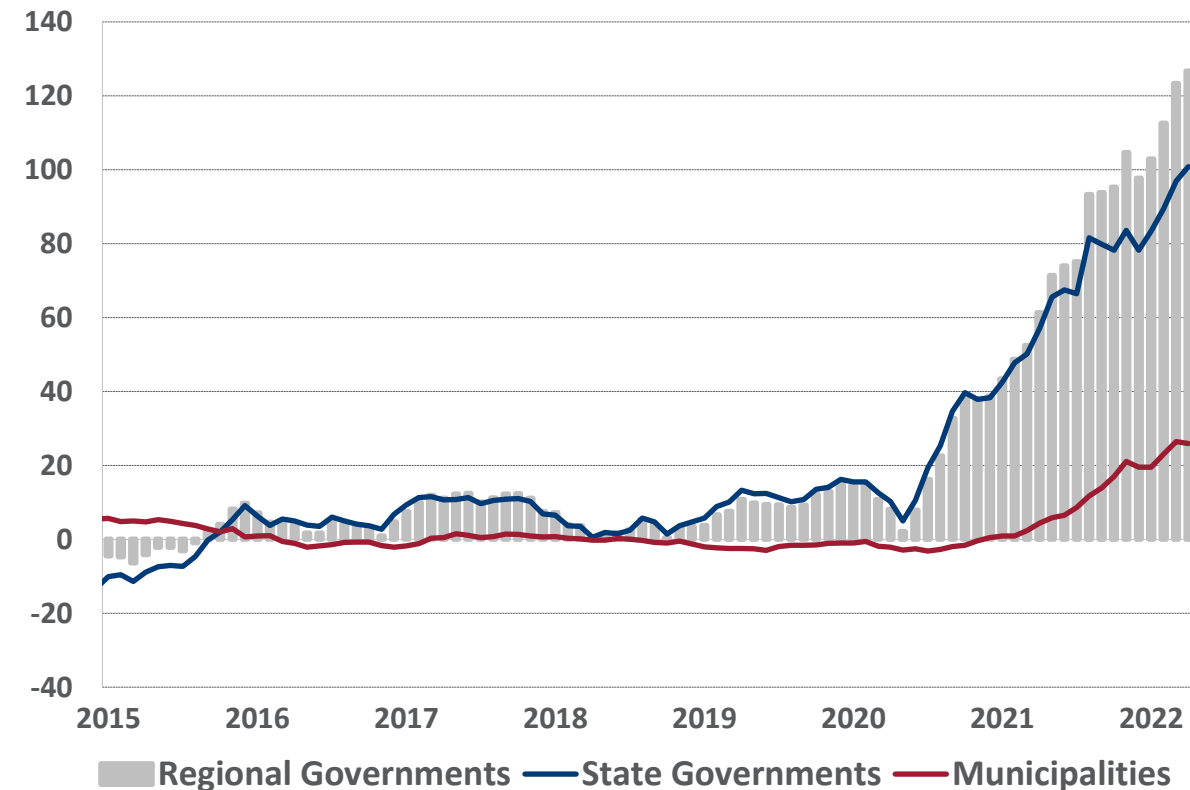
Fiscal: Public Sector Primary Budget Balance

- » The consolidated public sector registered a primary surplus of BRL 38.9 bn in April;
 - » above market consensus (BRL 30.1 bn) and last year's April result (BRL 24.3 bn);
- » The breakdown shows that Central and Regional Governments had a surplus of BRL 29.6 bn and 10.3 bn, respectively, while state-owned enterprises had a deficit of BRL 1.0 bn.

Brazil: Public Sector Primary Result (% GDP 12M)



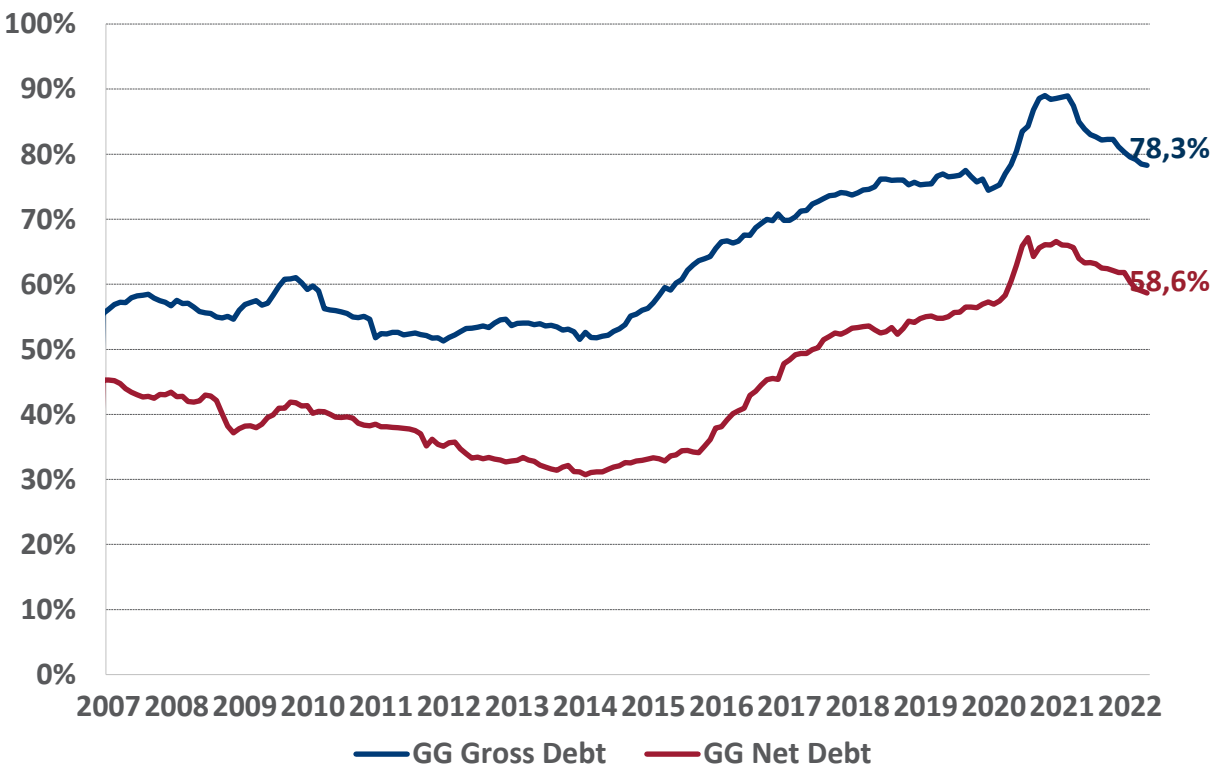
Brazil: Regional Governments' Primary Result (12M, BRL Billion)



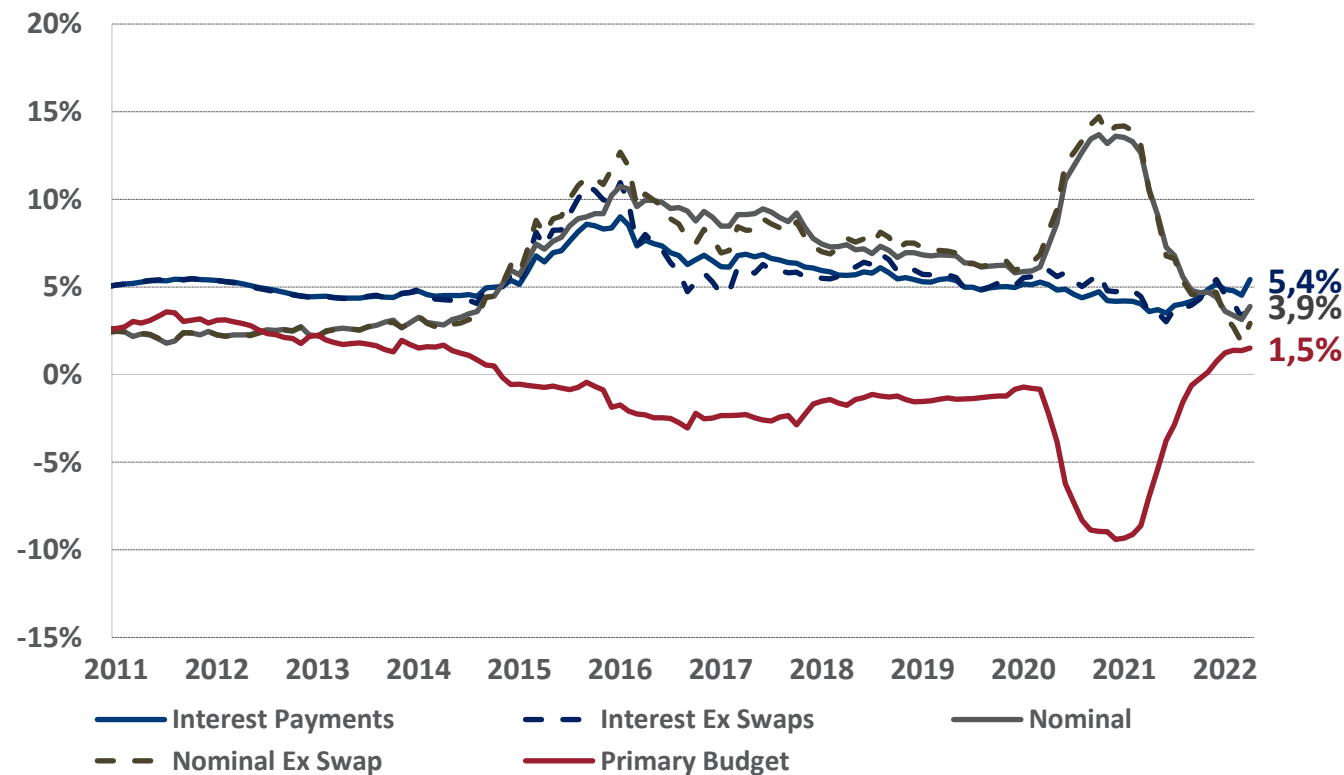
Fiscal: Public Sector Primary Budget Balance

- » The General Government Gross Debt reached 78.3% of GDP in April (from 78.5% in March) thanks to nominal GDP growth and net issuances;
- » In 12 months, nominal interest payments reached BRL 489.4 bn (5.4% of GDP).

Brazil: General Government Debt (% GDP 12M)



Brazil: Public Sector Consolidated Result (% GDP 12M)

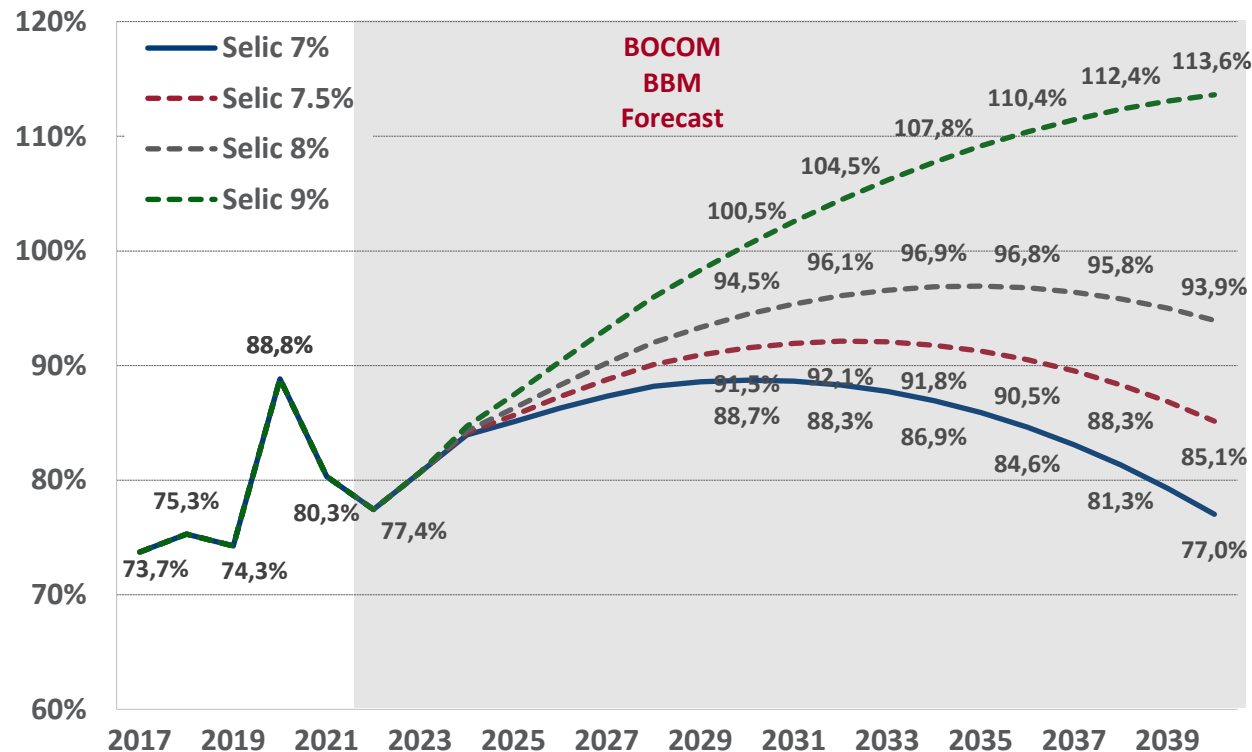


Fiscal: Debt to GDP

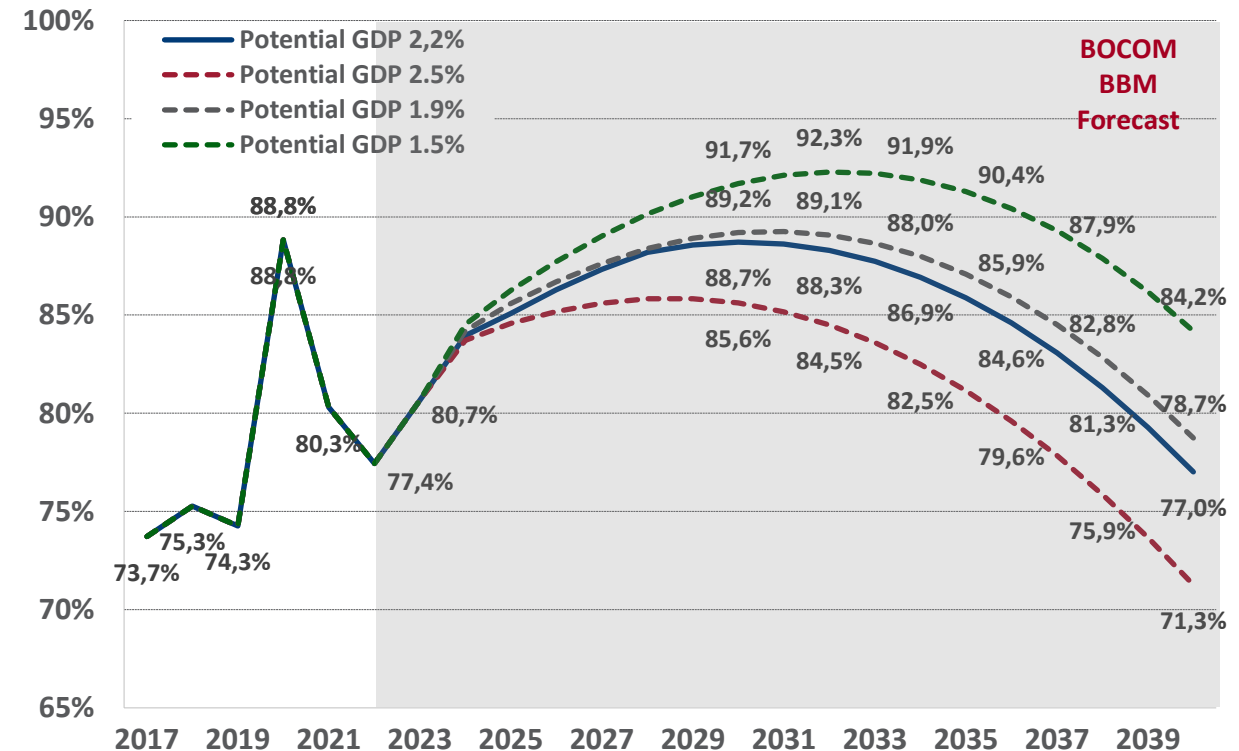
- » In our base scenario, we currently expect a 77.4% result for the debt to GDP ratio in 2022;
- » The trajectory of the debt changes depending on the potential GDP and Selic scenarios;

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



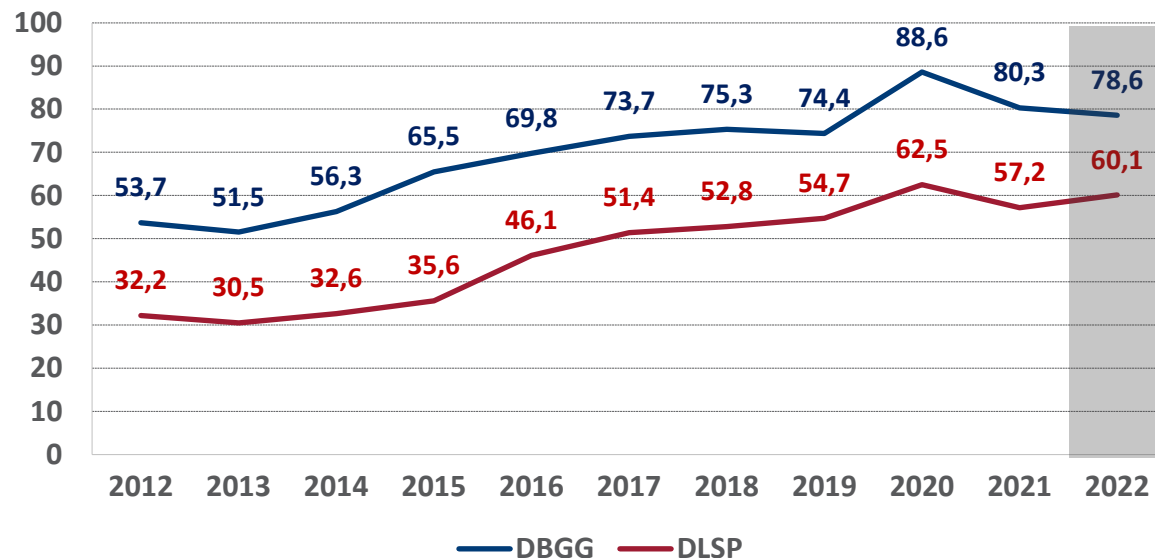
Debt to GDP Ratio - Different Potential GDPs



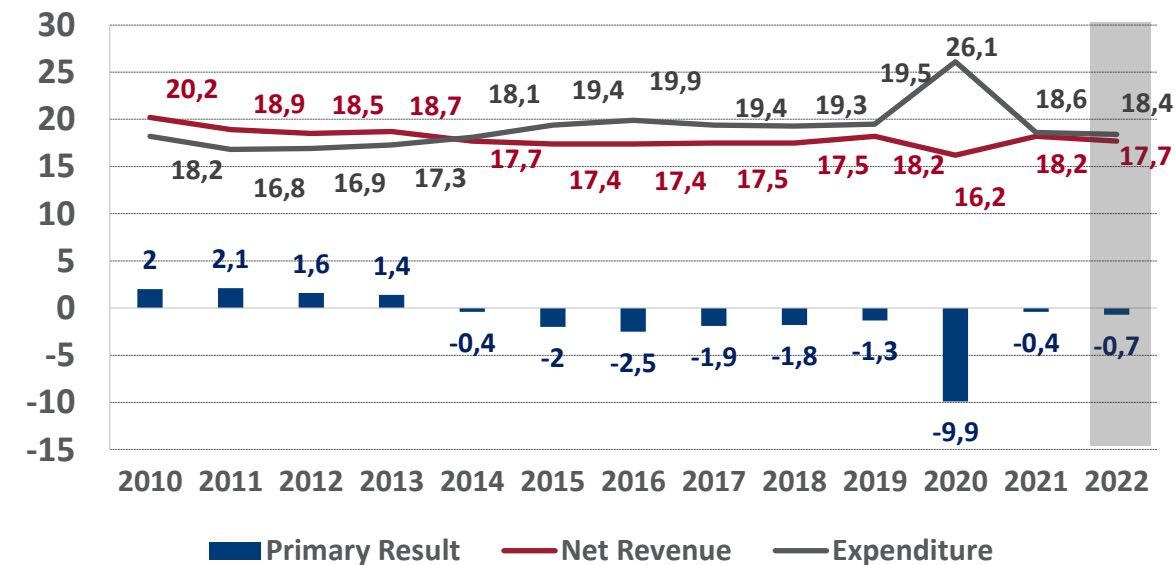
Fiscal: Assessment of Primary Revenue and Expenditures

- » The government projection of gross debt shows a reduction in 2022;
- » Primary result projection of the central government still negative for this year;

Debt Evolution (% GDP)



Fiscal Environment (% of GDP)



Parameters	1st Bimester Assessment	2nd Bimester Assessment	Difference
Real GDP (%)	1,5	1,5	0
Nominal GDP (R\$ Billion)	9647,3	9710,9	-63,6
Accumulated IPCA (%)	6,5	7,9	-1,4
Accumulated INPC (%)	6,7	8,1	-1,4
Accumulated IGP-DI (%)	10	11,4	-1,4
Selic Average (%)	11,6	12,2	-0,6
Average Exchange Rate (R\$/US\$)	5,4	5	0,4
Average Oil Price (US\$/Barrel)	103,4	102,8	0,6
Minimum Wage (R\$)	1212	1212	0
Nominal Wage Mass (%)	15,4	16,3	-0,9

Fiscal: Updates

- » **ICMS:** complementary bill (PLC) 18/22 is under discussion, which unburdens energy, fuels, telecommunications and transportation tariffs to 17%:
 - » currently the tax rates vary by state;
 - » the measure also aims to curb inflation.

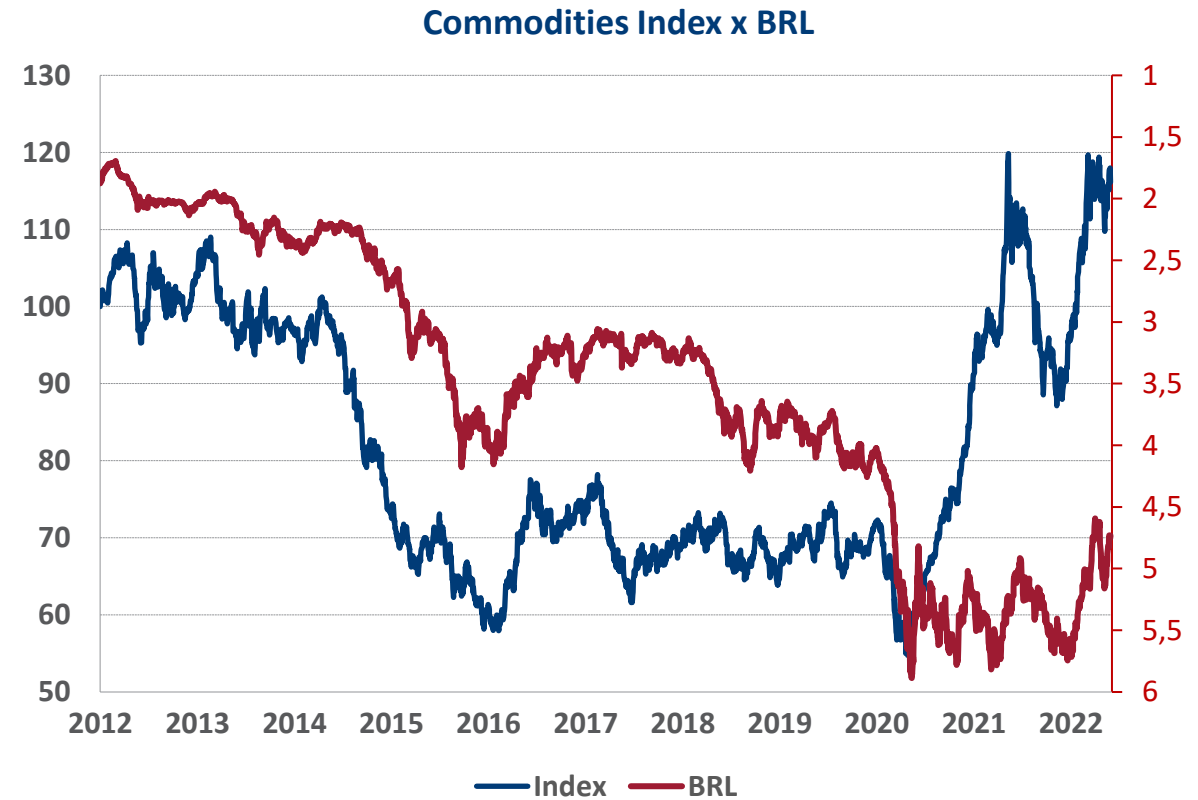
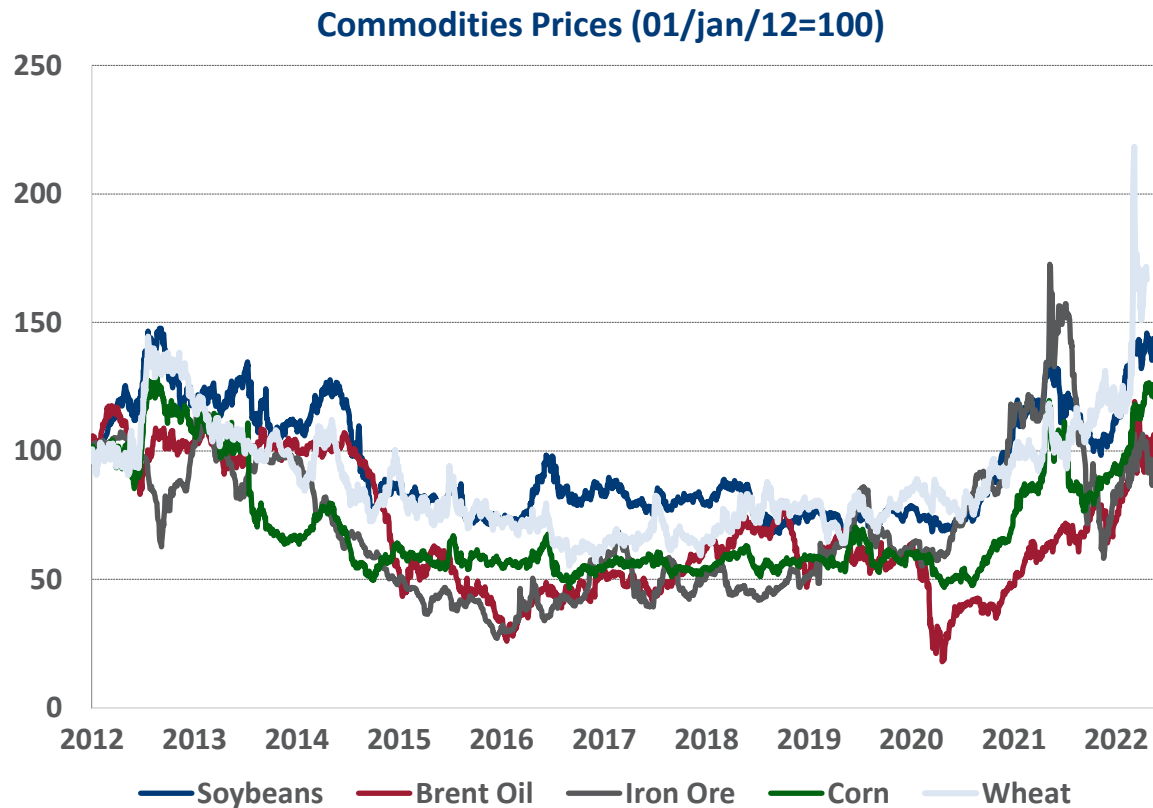
ICMS Reduction 2022 (BRL Billion)			
	Before	Cut to 17%	Result
Communication Services (1)	27,6	20,7	-6,9
Energy (2)	69,3	24,3	-45,0
TUST, TUSD and charges (2.1)	36,9	0,0	-36,9
Fuels (3)	121,8	85,8	-36,0
Total (1 + 2 + 3)	218,7	130,8	-87,9
Total tax collection (States)	891,4	803,5	-87,9
<small>*12M March 2022 data used for estimates</small>			
Fiscal impact (% of total tax collection)		-9,86%	

- » **Budget cut:**
 - » Cut of BRL 8.2 billion;
 - » Does not consider 5% readjustment for civil service;
 - » additional blockage of about BRL 5 billion in July is needed.

Budget Cut	
Sentences	BRL Billion
RPVS (Small Value Requisitions)	4,8
Reopening Plano Safra 21/22	1,1
Launch of Plano Safra 22/23	1,2
Increase of Proagro funding	2
Reduction and Others Variations	-0,9
Total	8,2

Brazil: External Sector

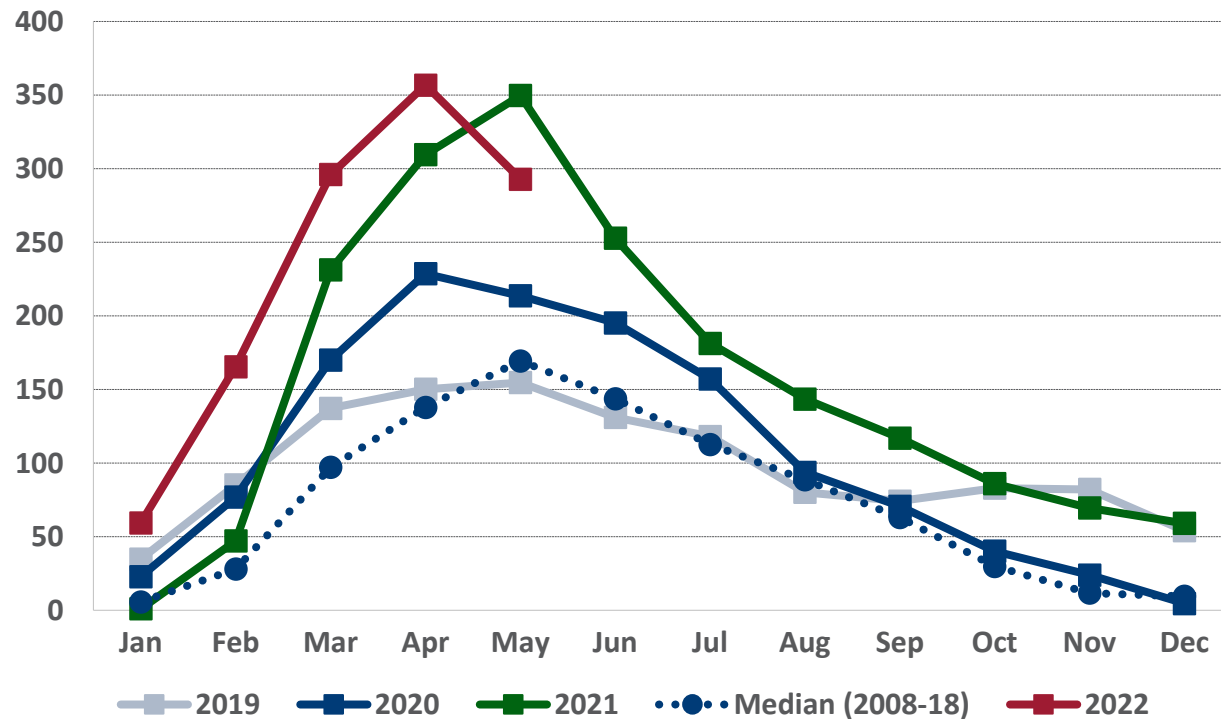
- » The price of the main commodities exported by Brazil have increased considerably since 2020;
- » This remains as an important driver for BRL appreciation as uncertainty persists.



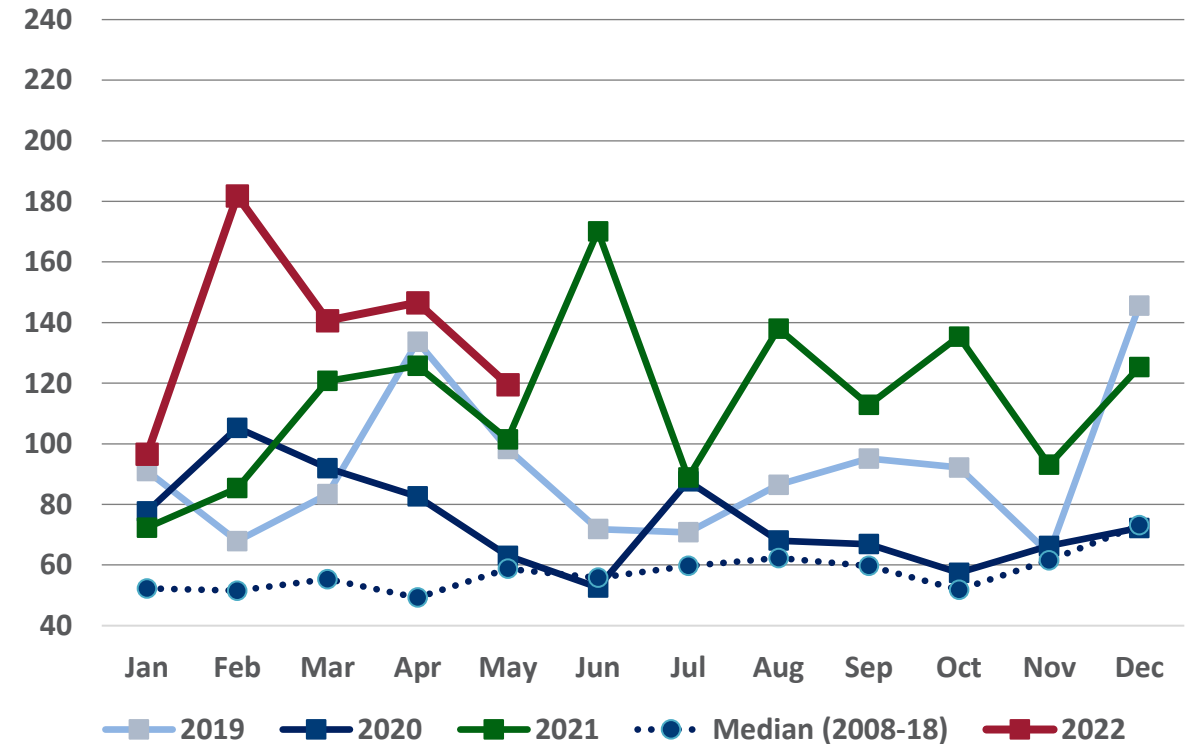
Brazil: External Sector

- » Trade balance favored by an increase of almost 20% in the price of products exported by the country, especially commodities, such as soybeans and crude oil.

Brazil: Soybeans Exports (US\$ Million Daily Average)



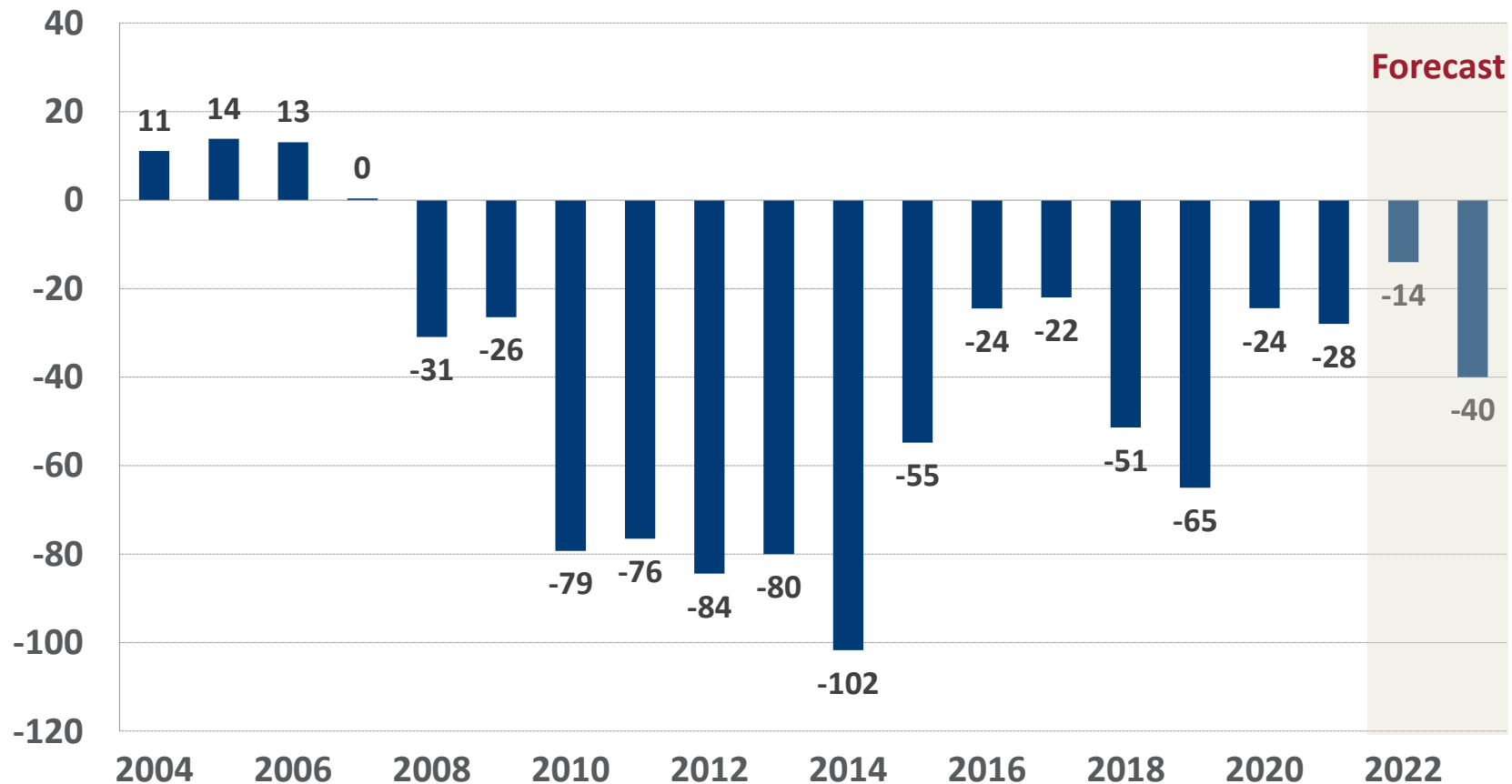
Brazil: Crude Oil Exports (US\$ Million Daily Average)



Brazil: Balance of Payments

- » Current account is expected to display similar results as in 2020 and 2021, considering still elevated commodity prices;
- » Our current account forecast remains at -14 billion in 2022, guided by the solid results of the trade balance and of Brazilian exports this year.

Current Account Balance - USD Billion

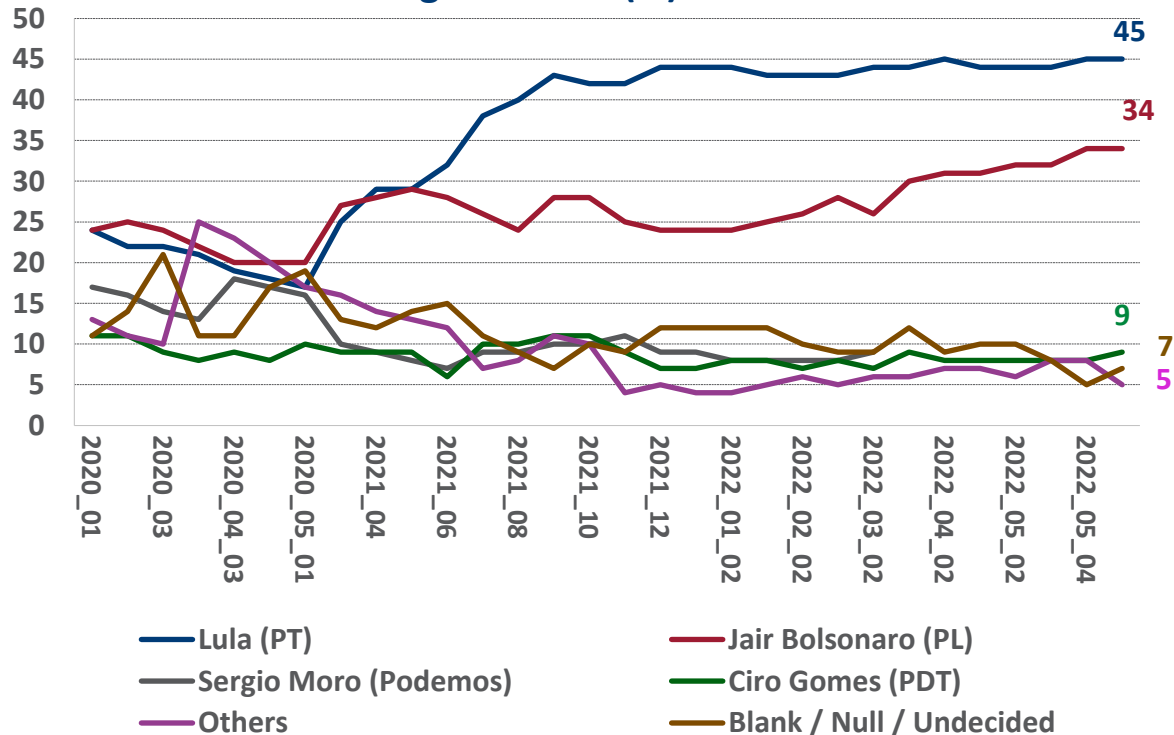


Brazil: Presidential Election

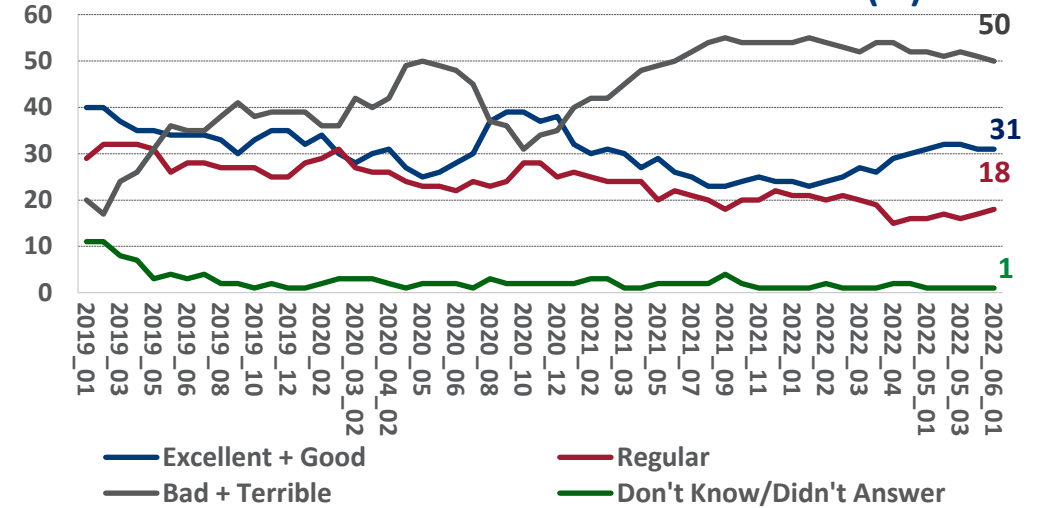
» XP/IPESPE:

- » difference between Lula and Bolsonaro vote intentions drops to 11 percentage points, the lowest of the entire series, which started in January 2020;
- » Bolsonaro's growth trend continues, a phenomenon that started in January of this year.

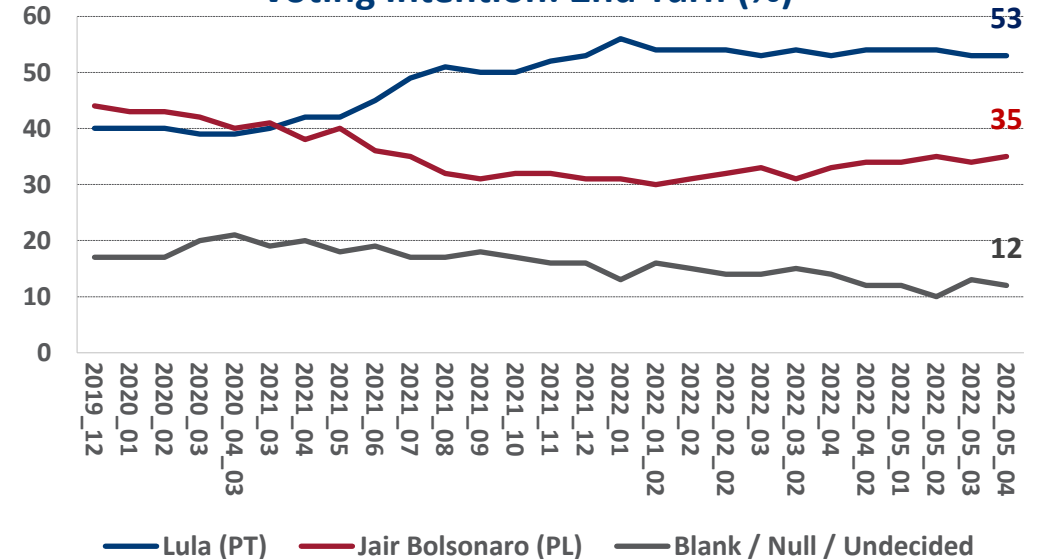
Voting Intention (%): Evolution



Evaluation of Bolsonaro's Government (%)



Voting Intention: 2nd Turn (%)

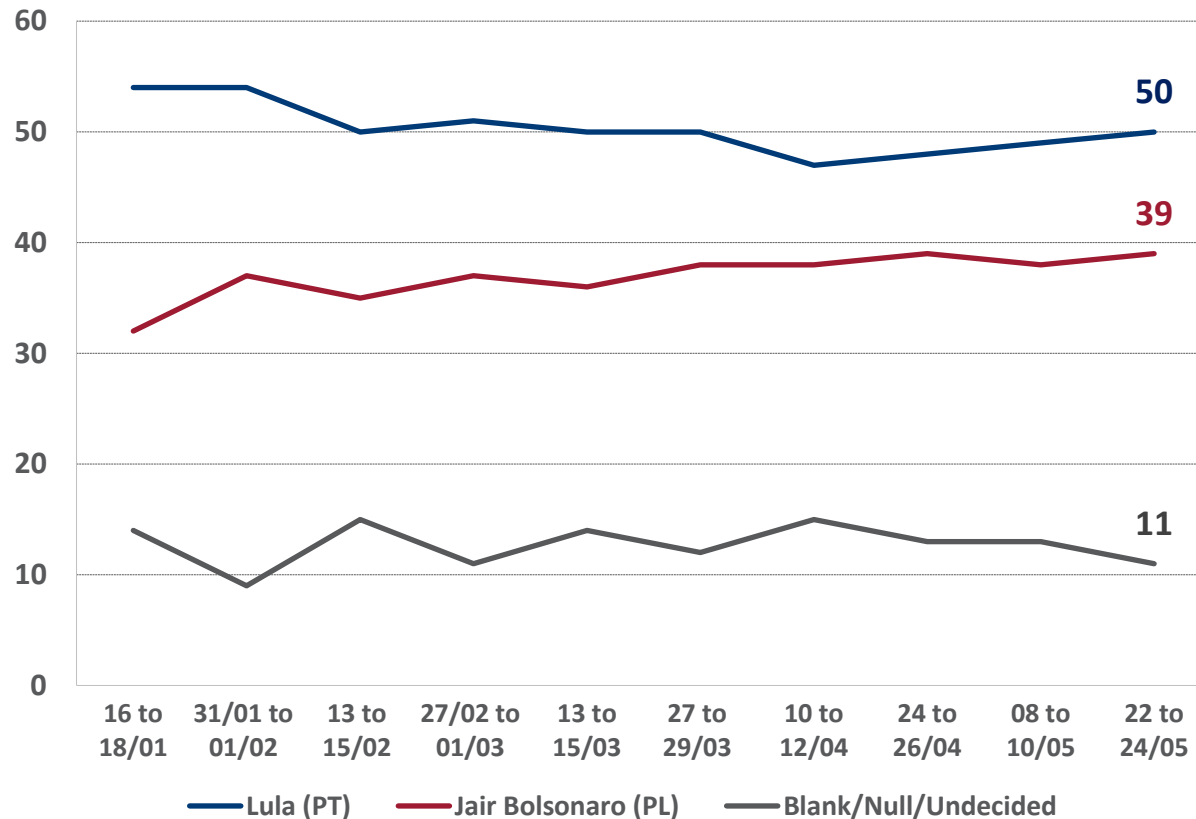


Brazil: Presidential Elections

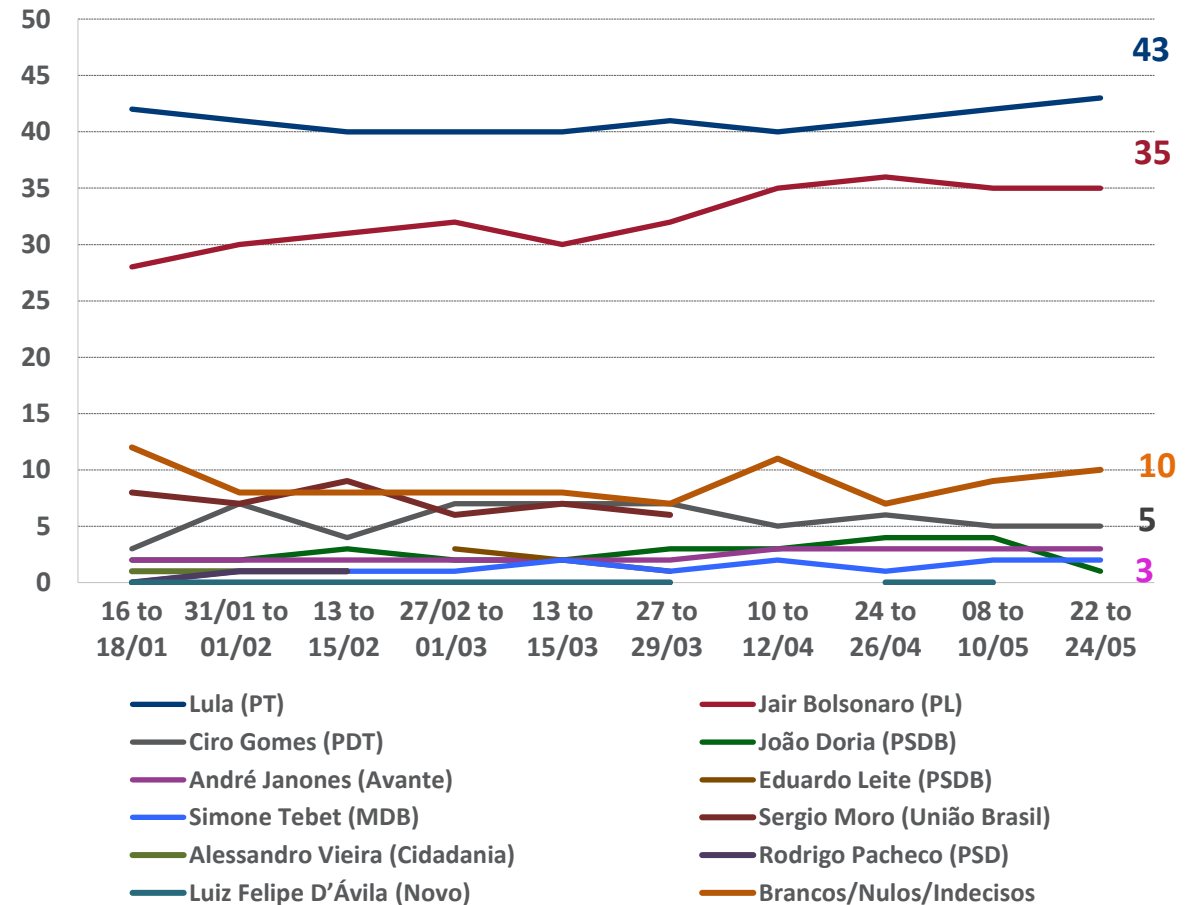
» PoderData:

- » estimated poll, 3,000 interviews in 288 municipalities of 27 states;
- » distance between Lula (PT) and Bolsonaro (PL) for the second round is 11 percentage points.

Voting Intentions: Second Round (%)



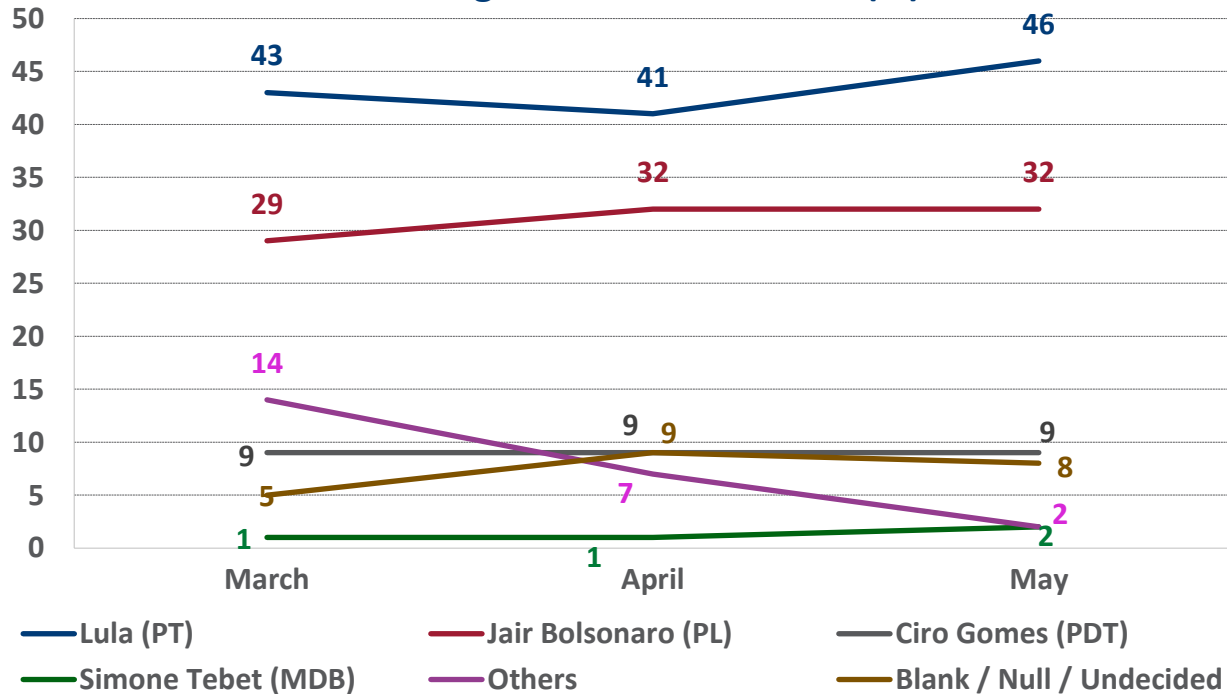
Voting Intention: Evolution (%)



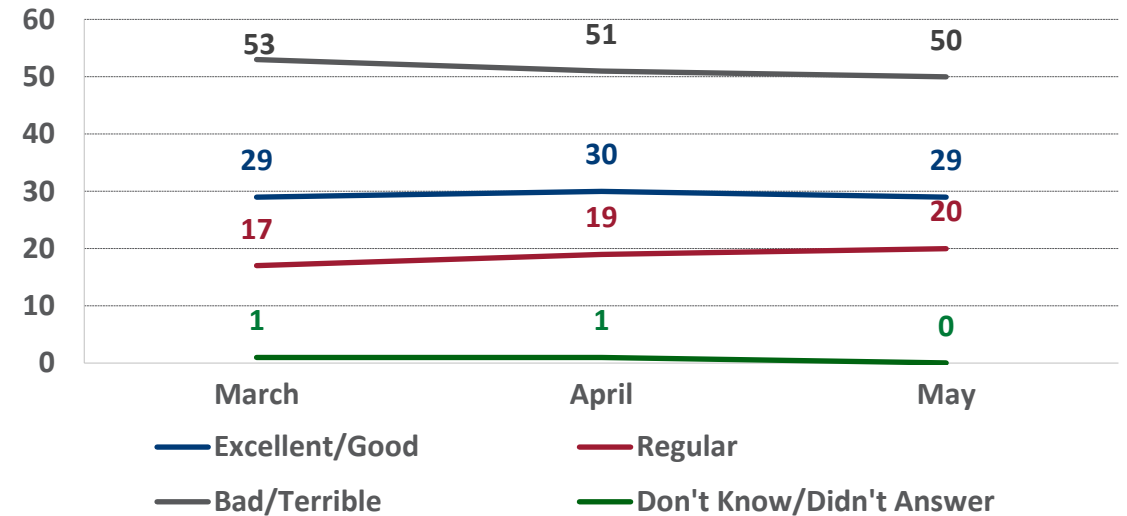
Brazil: Presidential Election

- » **BTG/FSB:**
- » phone survey with 2,000 people;
- » Bolsonaro's vote intention is stable at 32%, whereas Lula's vote intentions grew from 41% to 46%;
- » vote intentions for remaining candidates decreased to 13%;
- » withdrawal from the so-called 3rd way candidates has reinforced the polarization between Lula and Bolsonaro.

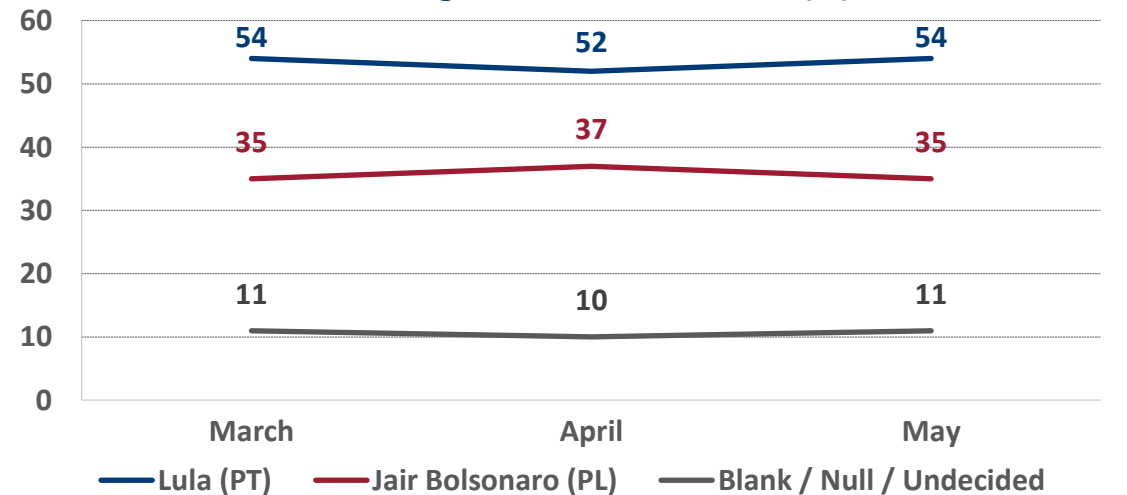
Voting Intention: Evolution (%)



Evaluation of Bolsonaro's Government (%)



Voting Intention: 2nd Round (%)



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