



MACRO OUTLOOK

Cecilia Machado
Chief Economist

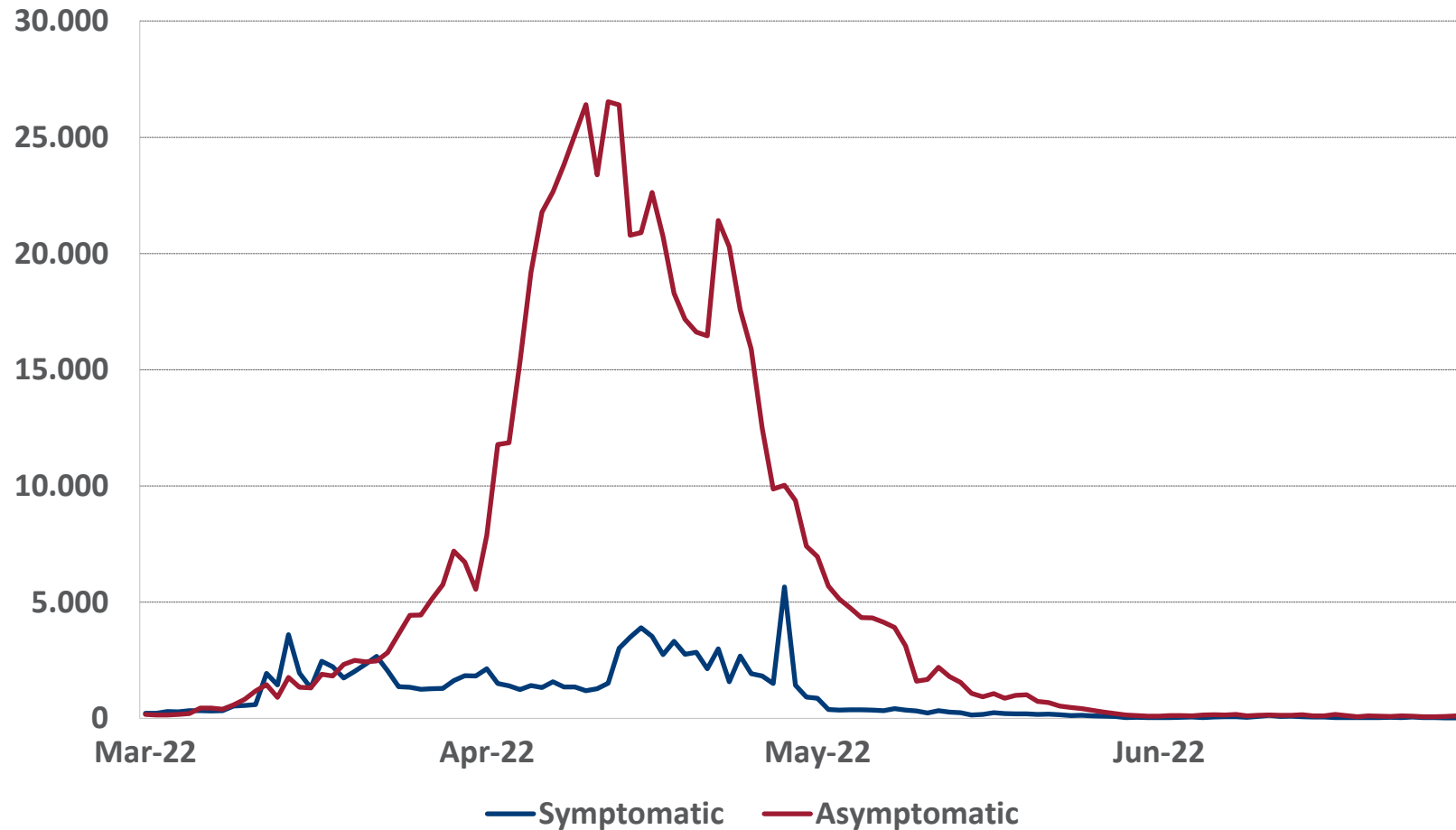
July 2022

- » 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 keep commodities prices pressured;
- » High frequency data on activity showed improvement in the last month. Industrial production was in line with expectations in april, posting the third consecutive gain on a monthly basis. Services continued growing, but presented mixed signals, with only two subsectors out of five presenting positive numbers. The labor Market continues very strong, with unemployment rate decreasing to 9,8% (NSA) in May;
- » Our growth forecast for 2022 is 1.4%. The projection considers the carry-over effect of some activities, the recovery of labor market, which should continue to help activity in the short term, and the recovery of some services that are still below their pre-pandemic level;
- » Our inflation forecast is at 7.2% in 2022 and incorporates the federal and state tax cuts passed by Congress, as well as lower electric energy adjustments. In 2023, our projection is 5.6% with the return of federal fuel taxes and a tighter GDP gap due to the strength of the labor market;
- » Our projection for the Selic rate is 13.75% by the end of 2022, and 11.75% by the end of 2023, reflecting the Central Bank's plan to keep the monetary policy rate in contractionary territory for longer;
- » The fiscal results have improved continuously with the increase in tax collection and the decrease in the Debt/GDP ratio. The results of local governments (states and municipalities) continue to contribute positively to this result. However, the changes approved by Congress are expected to have a high impact on revenues. Other fiscal measures under discussion should increase expenditure and worsen the fiscal trajectory.

China: Covid - 19

- » China's outbreak of Covid-19 continues to subside;
- » China is reporting the lowest number of new cases since early February;

China: Covid - Daily New Confirmed Cases



China: Activity

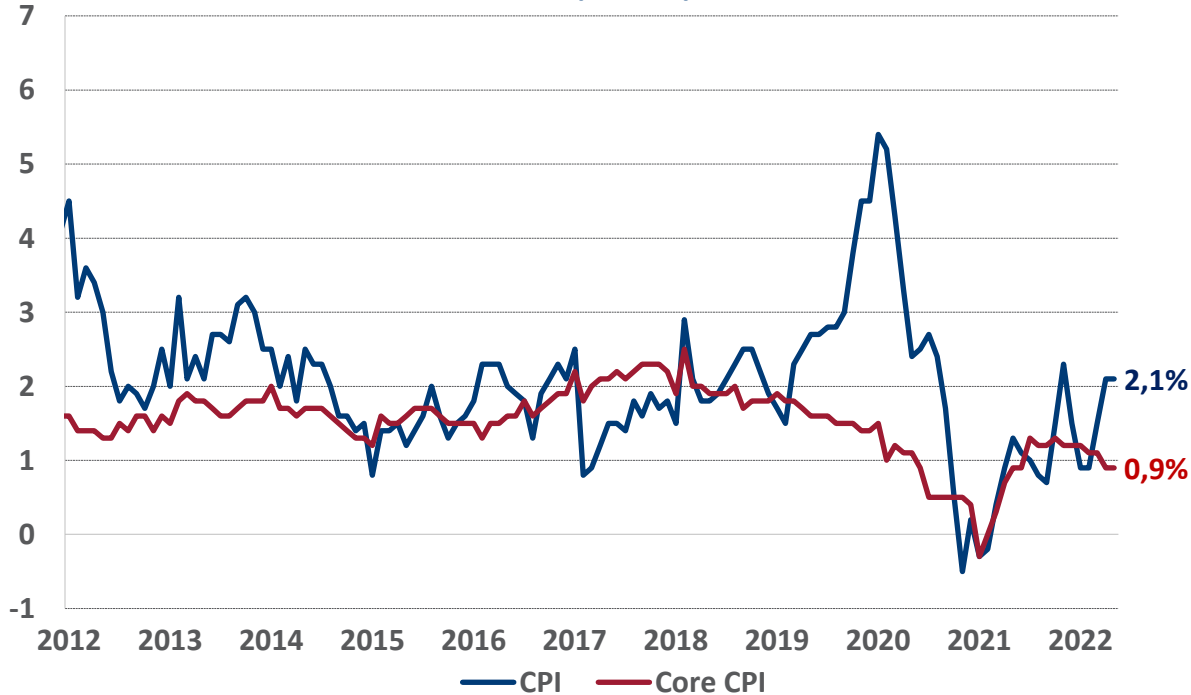
- » May activity data improved and beat market expectations;
 - » Due to an easing in Covid restrictions, fewer supply chain disruptions and incrementally more stimulus to the economy;
- » **Industrial Production:** significant improvement in automobile and electric machinery production;
- » **Retail Sales:** better automobile sales and online goods sales;
- » **Fixed Asset Investment:** infrastructure investment on the back of more policy support.



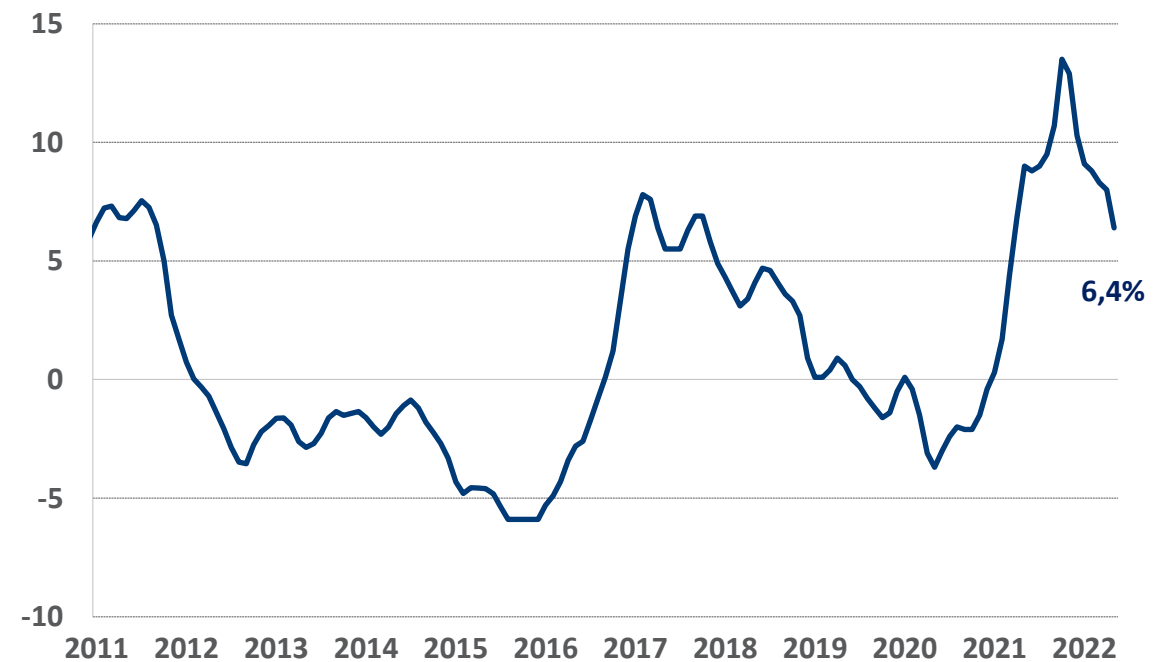
China: Inflation

- » CPI inflation edged down to 2.1% YoY in May, largely in line with expectations and Core CPI remained low at 0.9% YoY;
 - » With Food price inflation picking up to 2.3% YoY and non-food inflation moderating to 2.1% YoY;
- » PPI eased further to 6.4% YoY.

China: CPI (YoY, %)

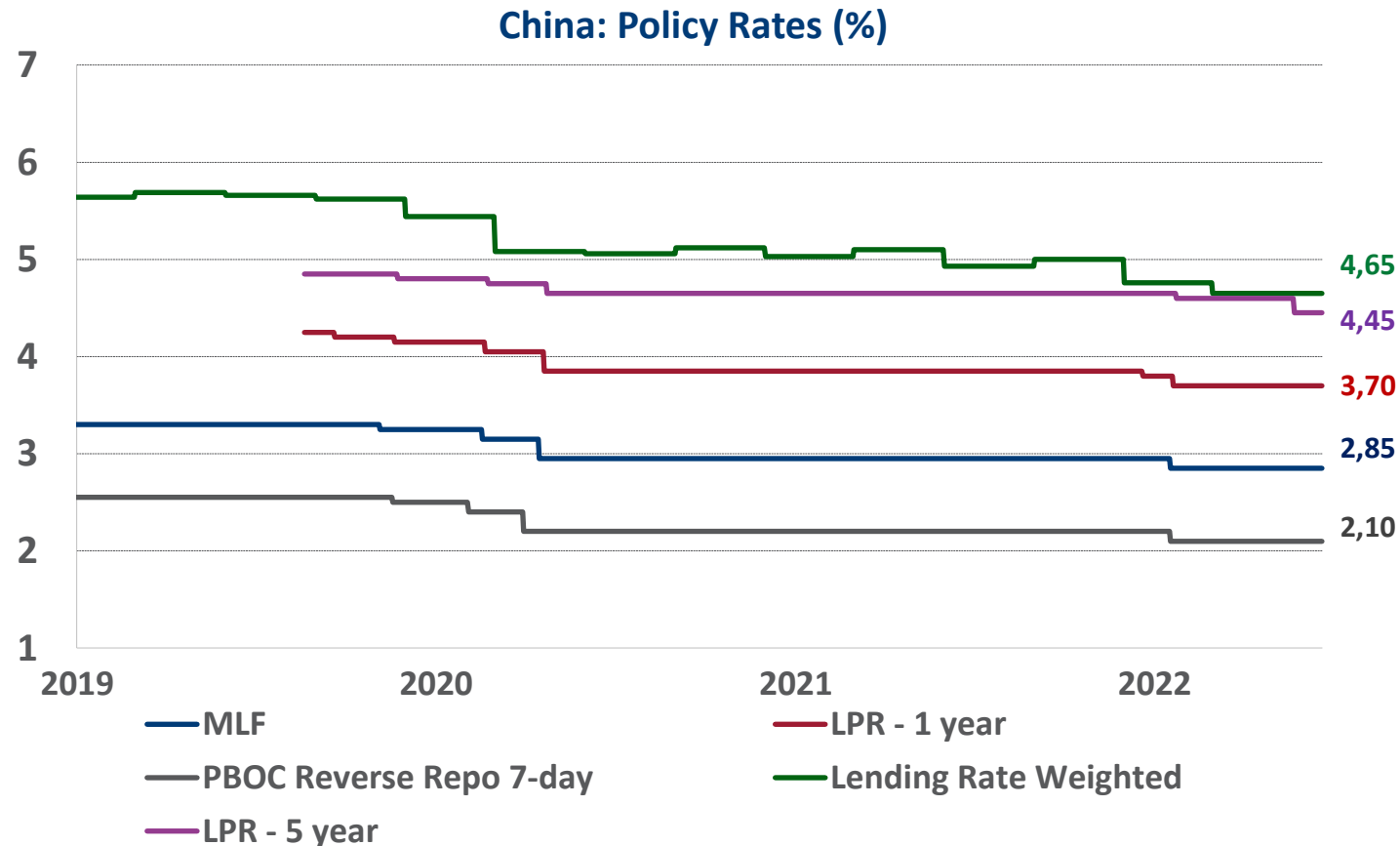


China: Producer Price Index (YoY, %)



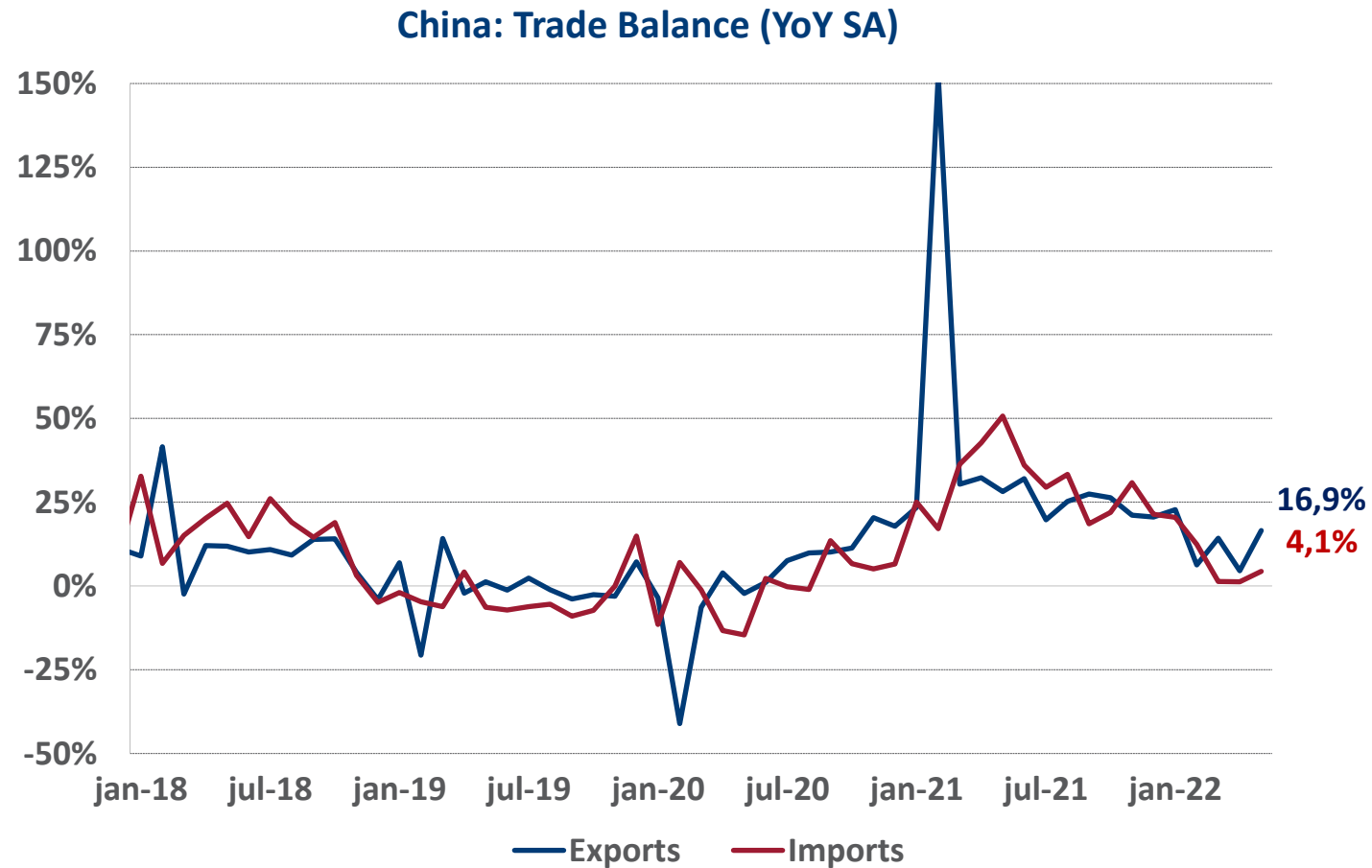
China: Monetary Policy

- » Chinese banks kept their main lending rates unchanged;
- » Due to the start of a gradual economic recovery from Covid lockdowns and tighter monetary policy in the rest of the world clouding the outlook for more central bank stimulus.



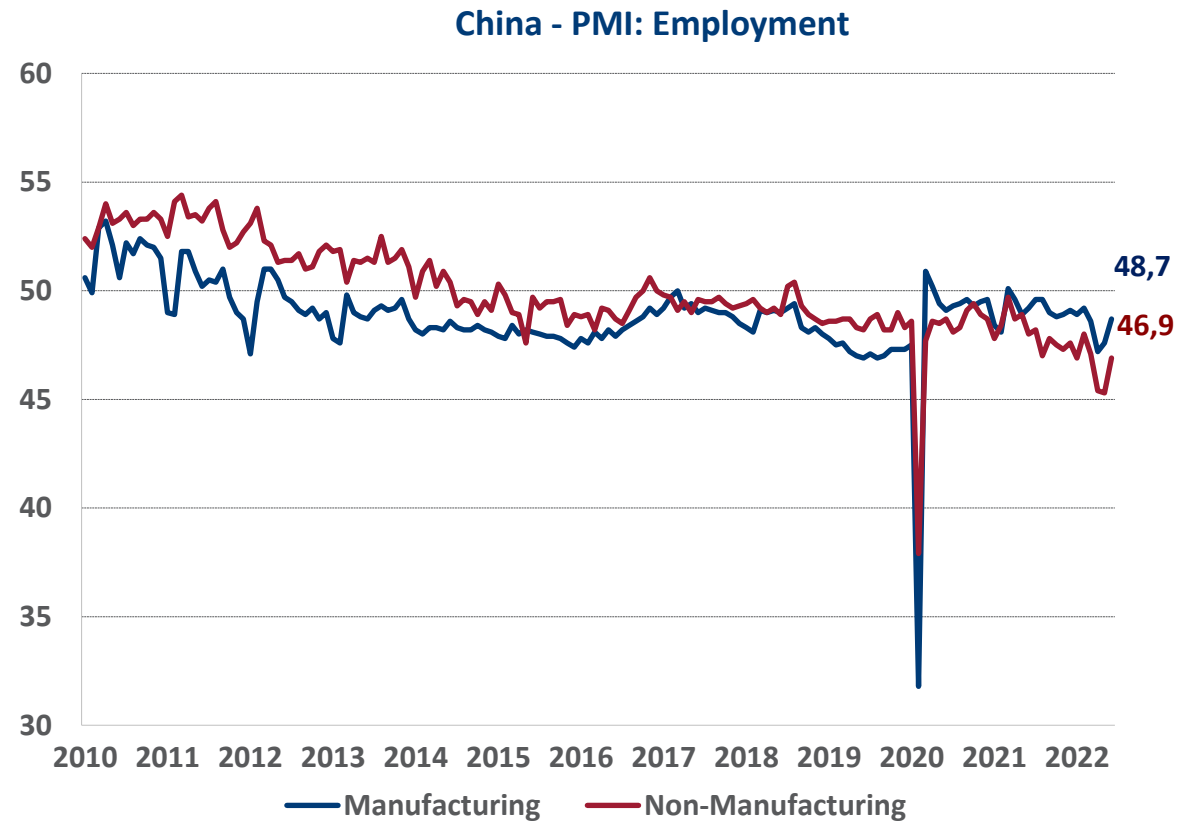
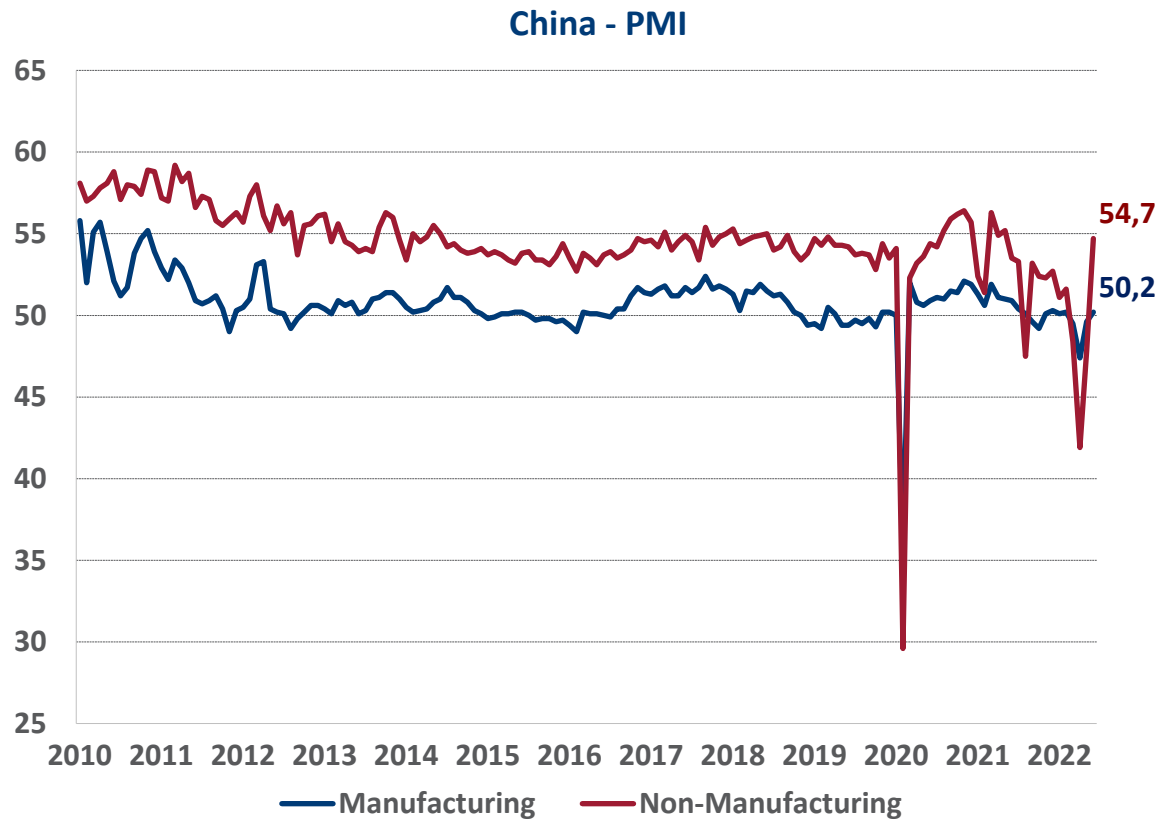
China: Trade Balance

- » Export growth accelerated significantly to 16.9% YoY in May (3.9% YoY in April), against the consensus of 8.0% YoY;
- » Imports growth rose to 4.1% YoY in May.



China: PMI

- » Manufacturing PMI rose to 54.7 in June, on resumption of production as Covid cases dropped and restrictions eased;
- » Non-manufacturing PMI increased to 50.2 in June from 47.8 in May.



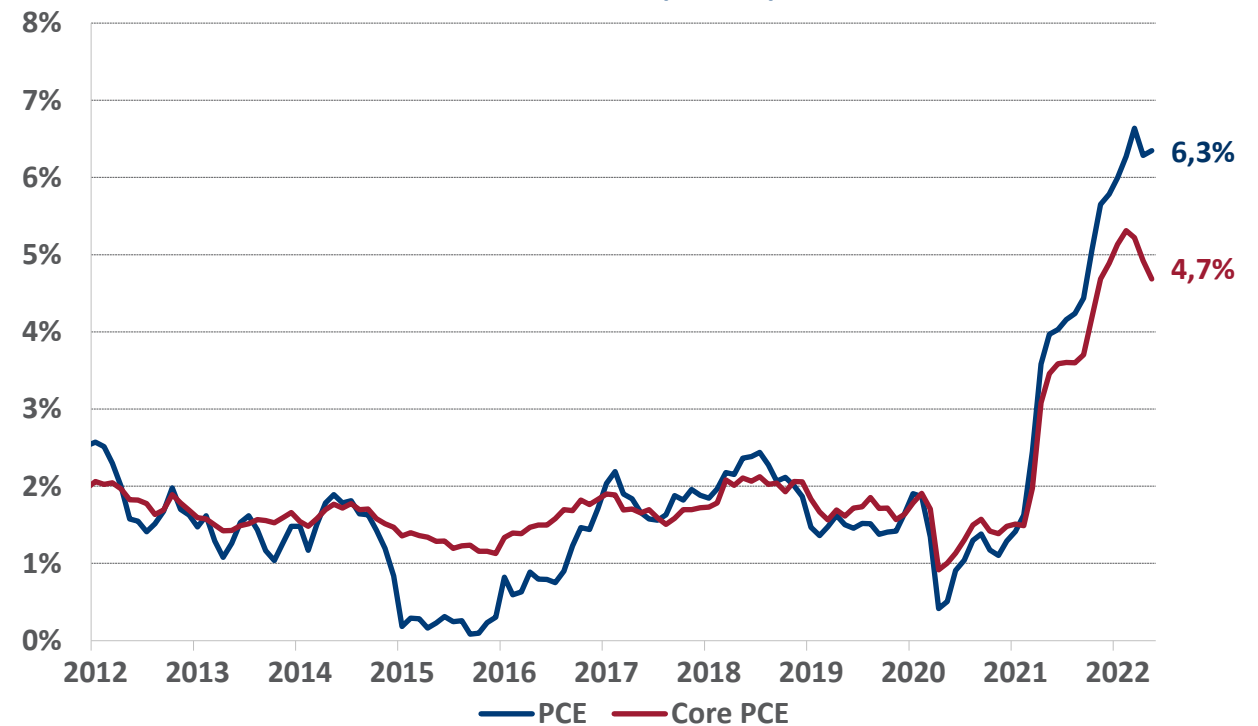
USA: Inflation

- » Inflation in the US picks up again coming from 8.2% to 8.5% YoY, after showing signs of cooling;
- » Thus, the FED intensified the pace of monetary tightening and reaffirms its commitment to reducing inflation to the 2% target.

US: CPI SA (YoY, %)



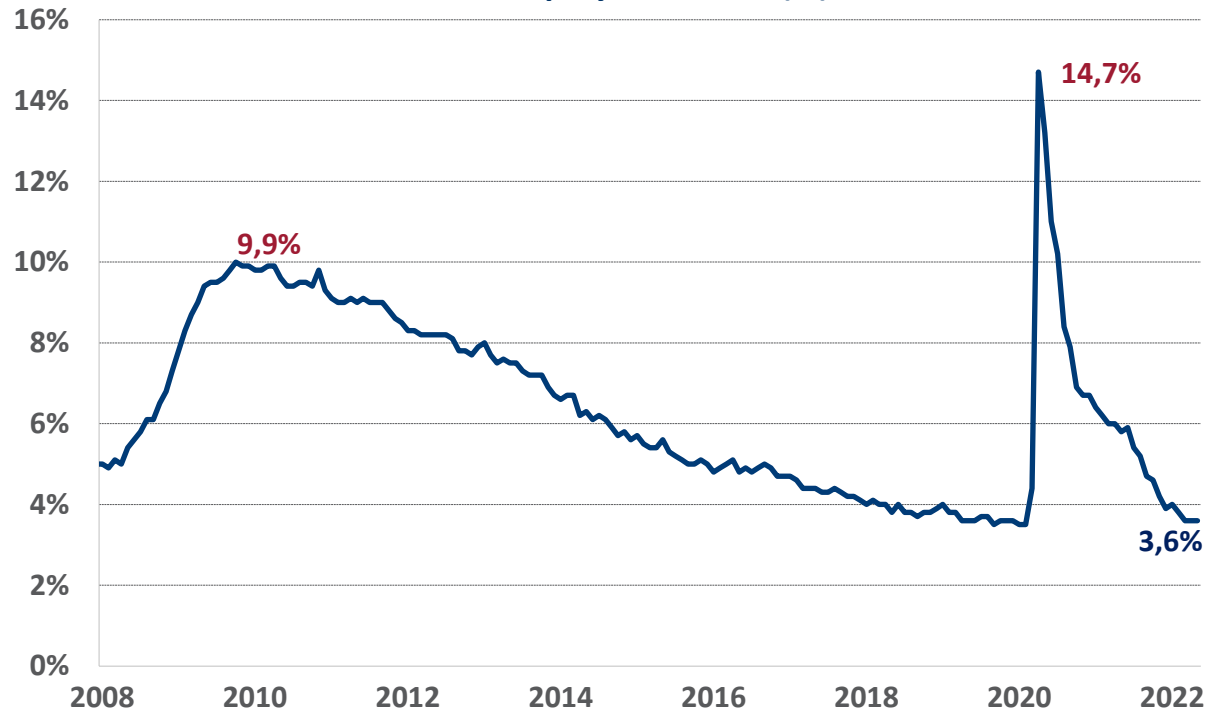
US: PCE SA (YoY, %)



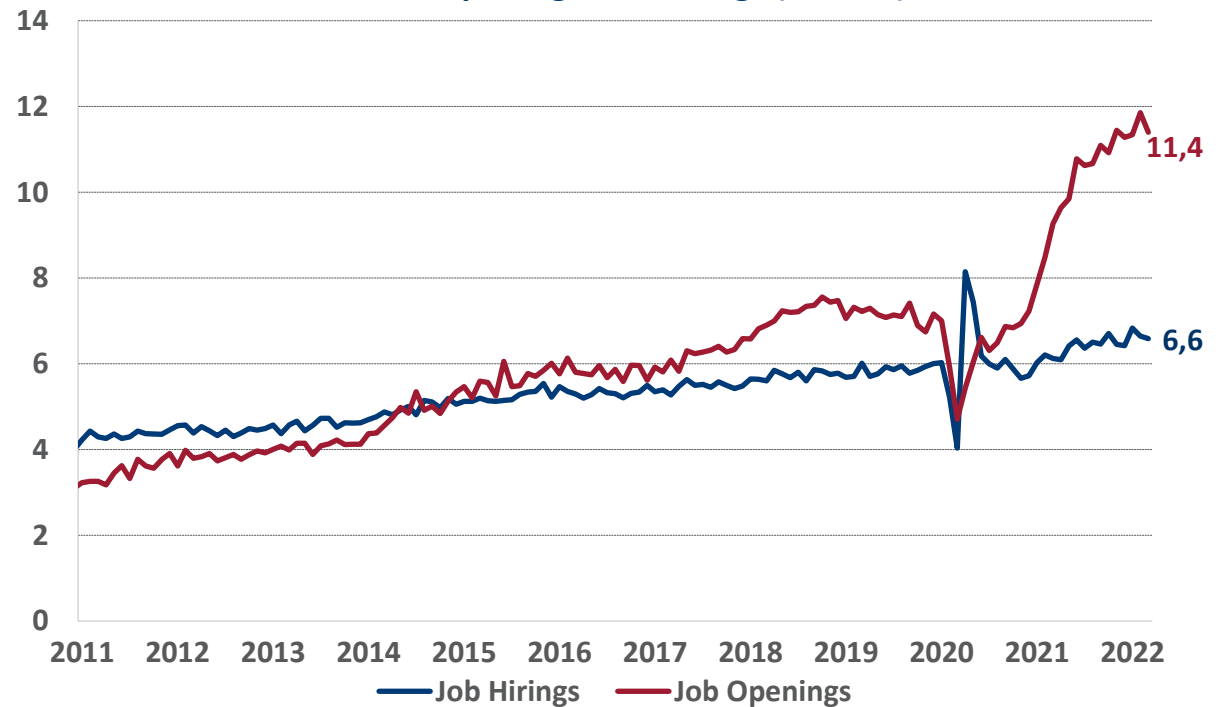
USA: Labor Market

- » 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

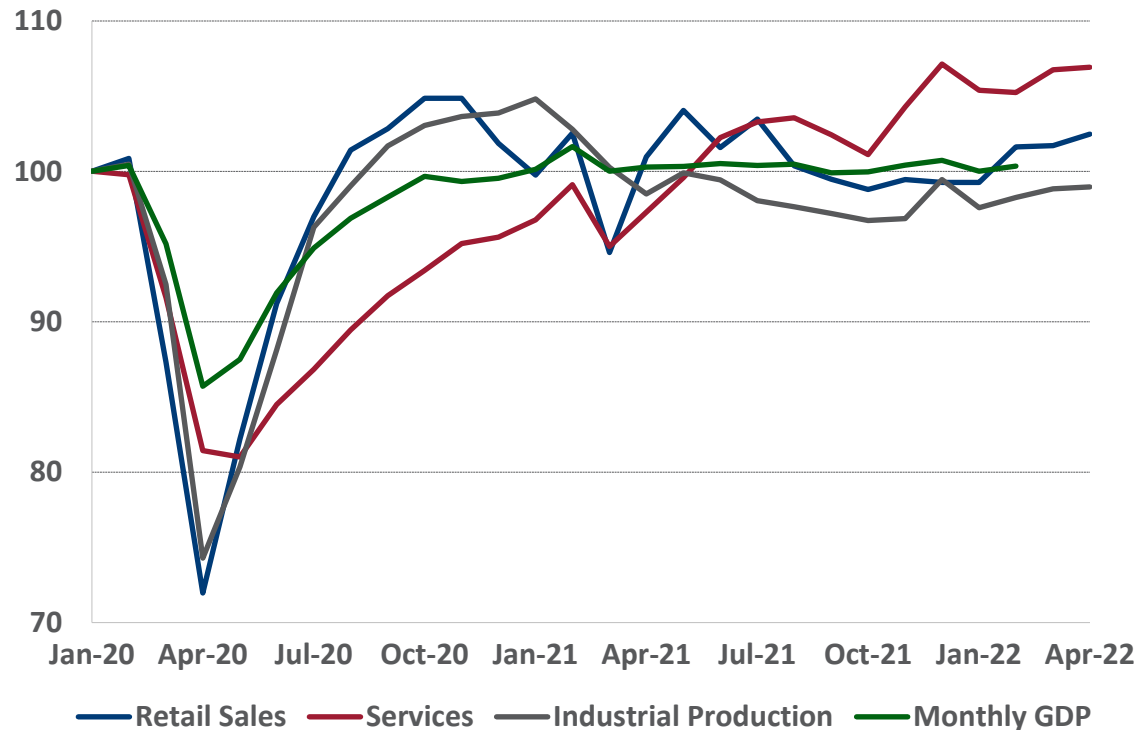
ECONOMIC FORECASTS	2019	2020	2021	2022F	2023F
GDP Growth (%)	1,1%	-3,9%	4,6%	1,4%	0,5%
Inflation (%)	4,3%	4,5%	10,1%	7,2%	5,6%
Unemployment Rate (eoy ,%)	11,7%	13,9%	11,1%	9,8%	10,3%
Policy Rate (eoy, %)	4,5%	2,0%	9,3%	13,75%	11,75%
External Accounts					
Trade Balance (US\$ bn)	48	32	36	68	45
Current 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%	-0,5%
Government Gross Debt (% of GDP)	74,3%	88,8%	80,3%	78,1%	81,7%

Brazil: Activity

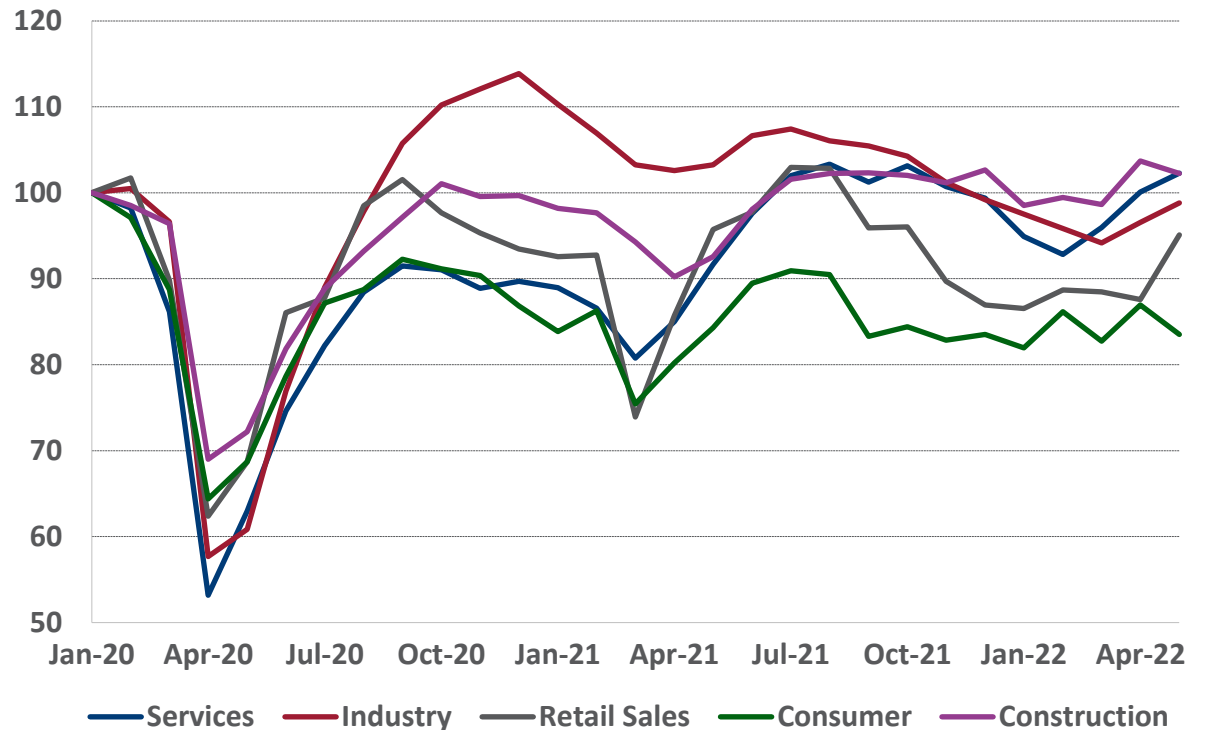
» Activity high frequency data showed a solid start to 2Q22:

- » normalization of the labor market;
- » elevated real disposable income levels due to government transfers (e.g., Auxílio Brasil and FGTS);
- » high confidence levels in the services sector;
- » booming commodity prices, boosting export sectors.

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

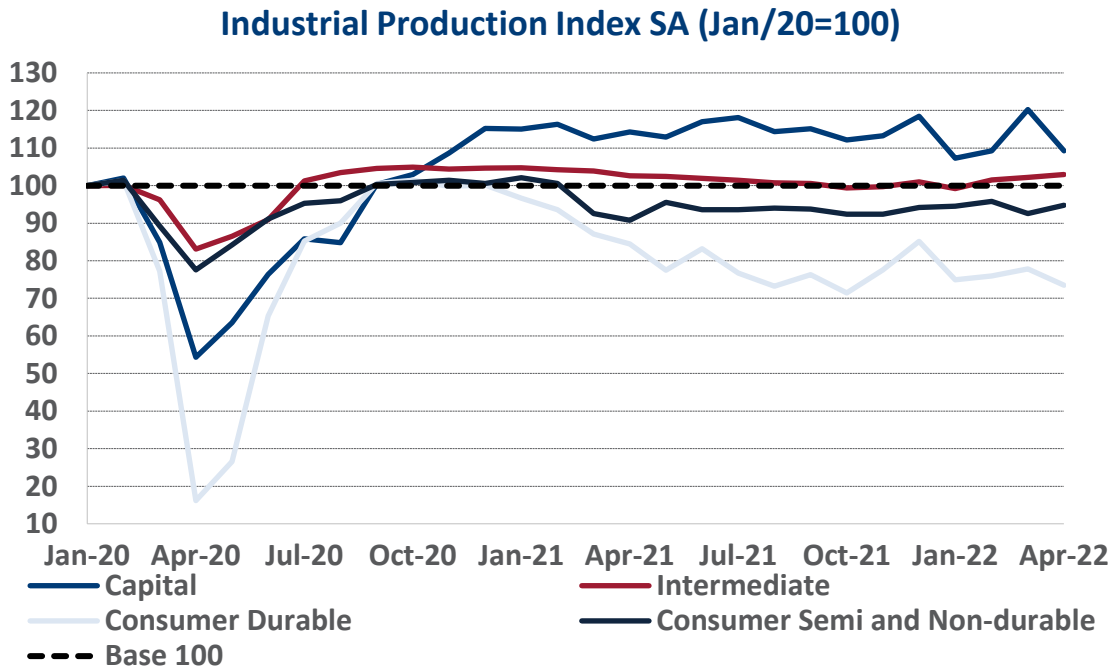


Brazil - Economic Confidence Index (Jan/20 = 100)

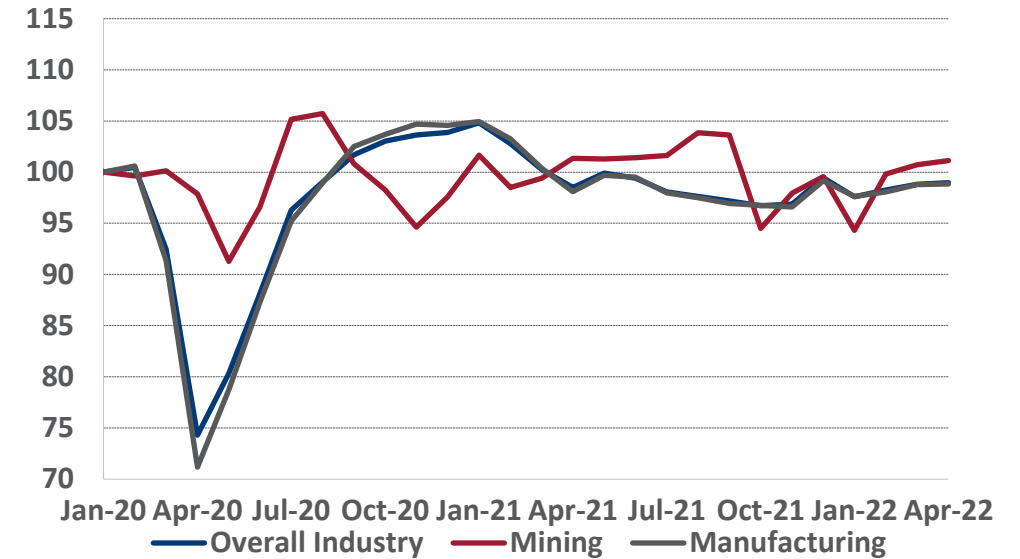


Brazil: Industrial Production

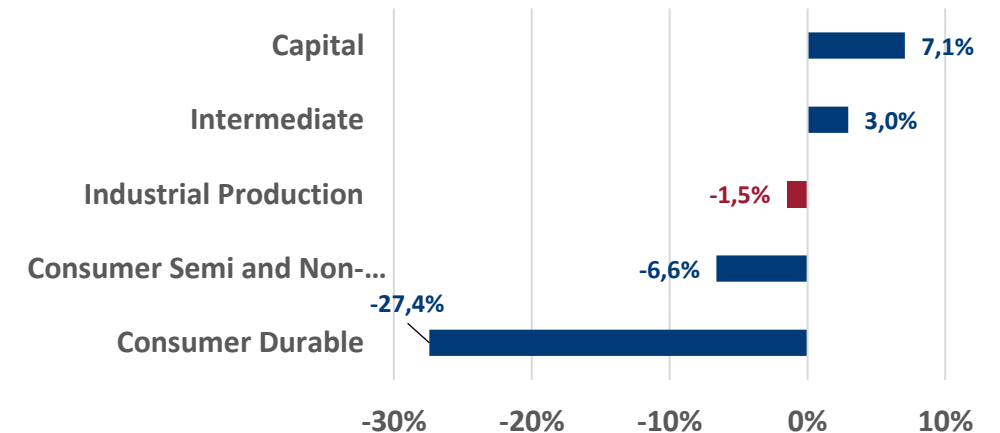
- » Industrial production rose by 0.1% MoM in April: the major contribution came from consumer semi durable goods (2.3% MoM) while the most negatively affected was capital goods (-9.2% MoM);
- » It's worth mentioning the sector is facing hardships:
 - » Supply side: global inputs shortages and higher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



Industrial Production Index SA (Jan/20=100)

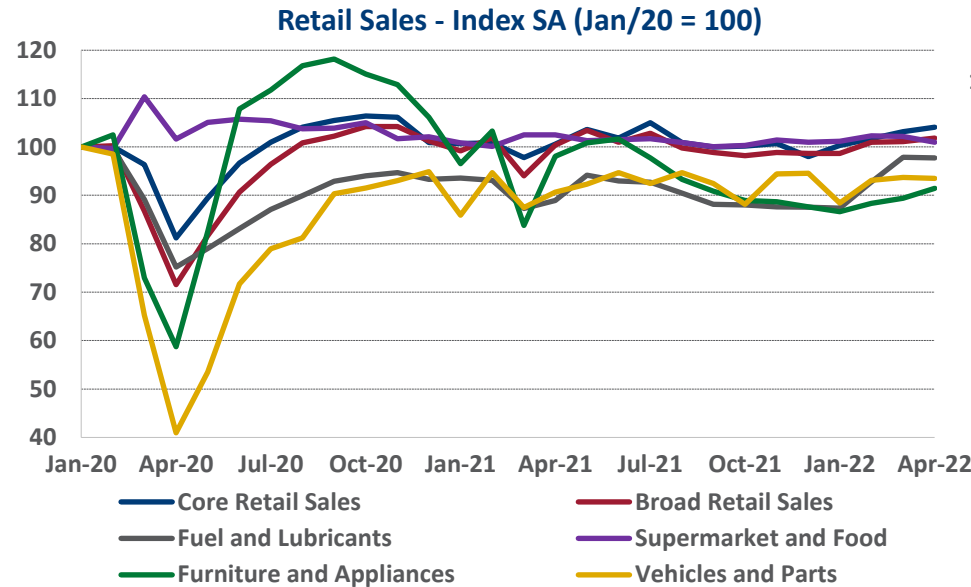


Industrial Production - Distance to pre-pandemic (Apr/22)

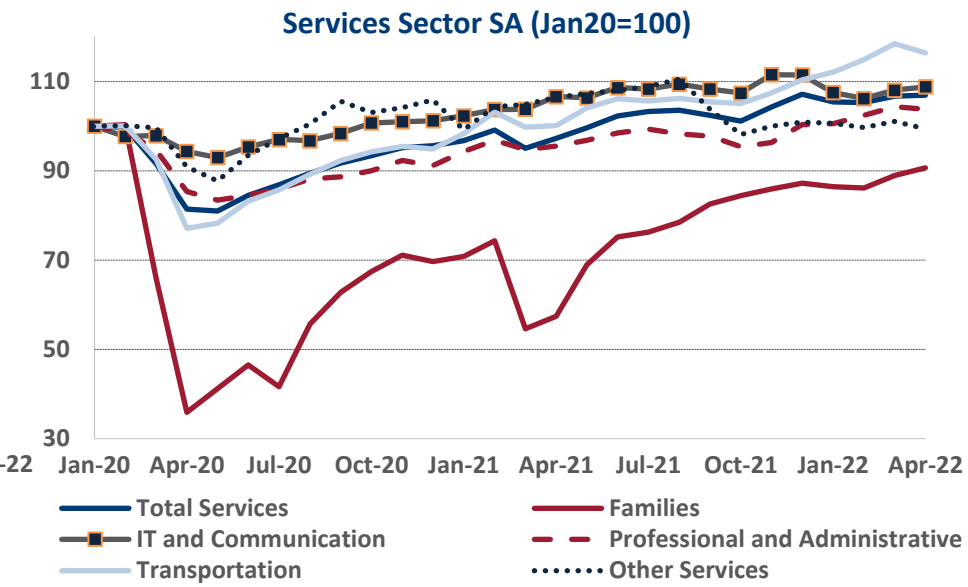
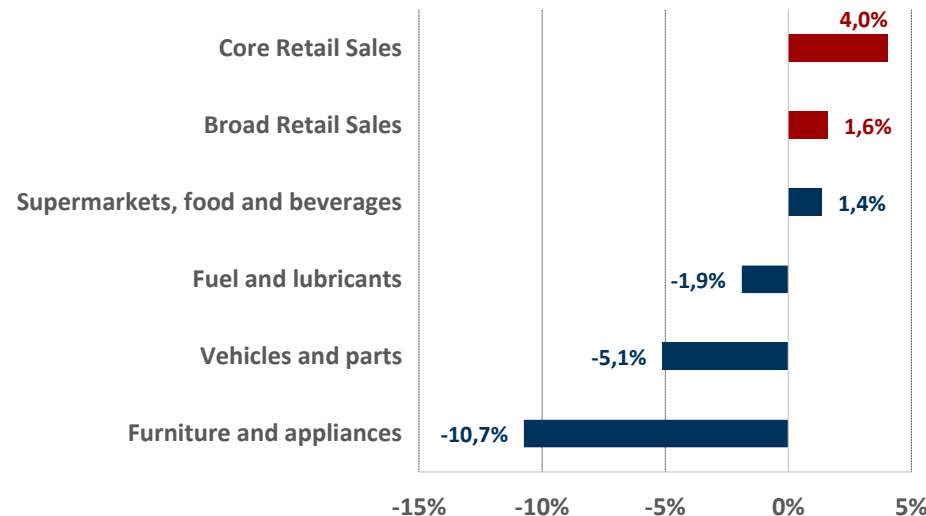


Brazil: Retail Sales and Services Sector

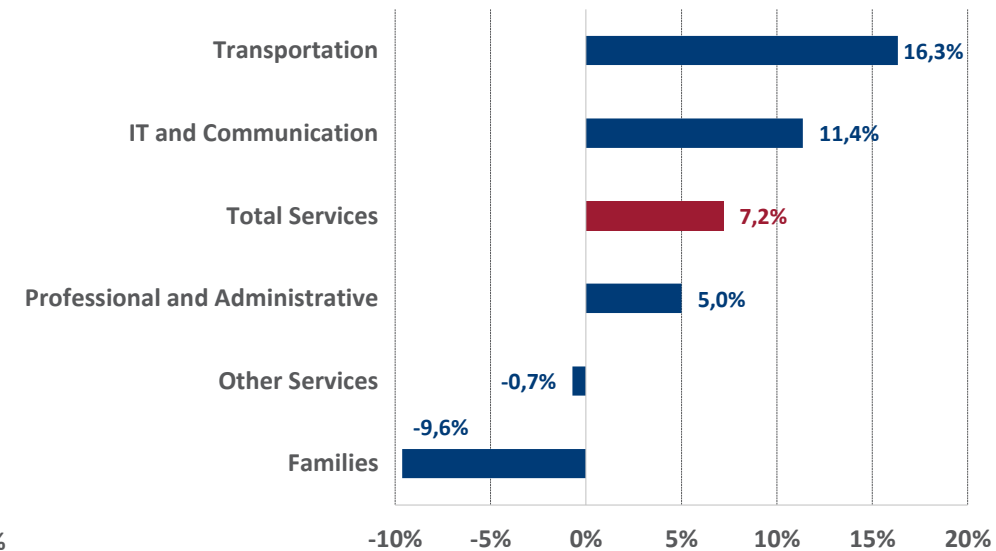
- » In April, broad retail sales increased by 0.7% MoM;
- » The services sector remained stable with a increase of 0.2% MoM;
- » Both sectors have recovered and are now above their pre-pandemic levels by 1.6% and 7.2%, respectively.



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



Services Sector - Distance to pre-pandemic level (Apr/22)

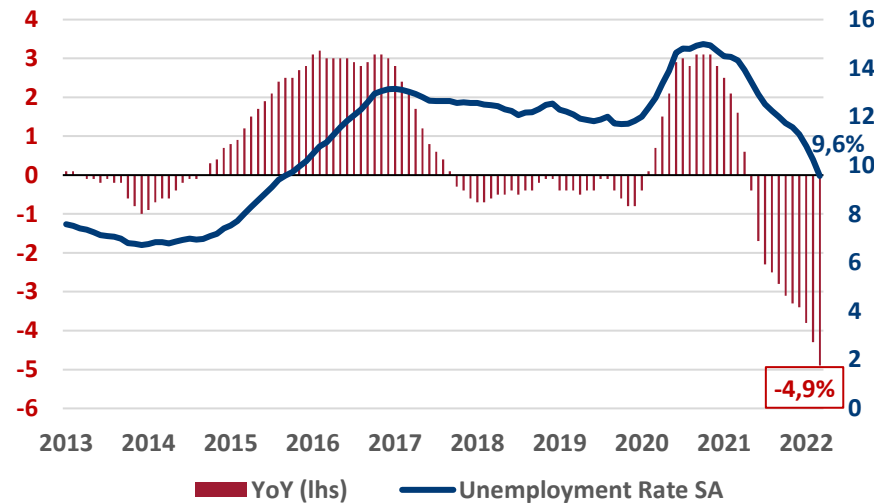


Brazil: Labor Market

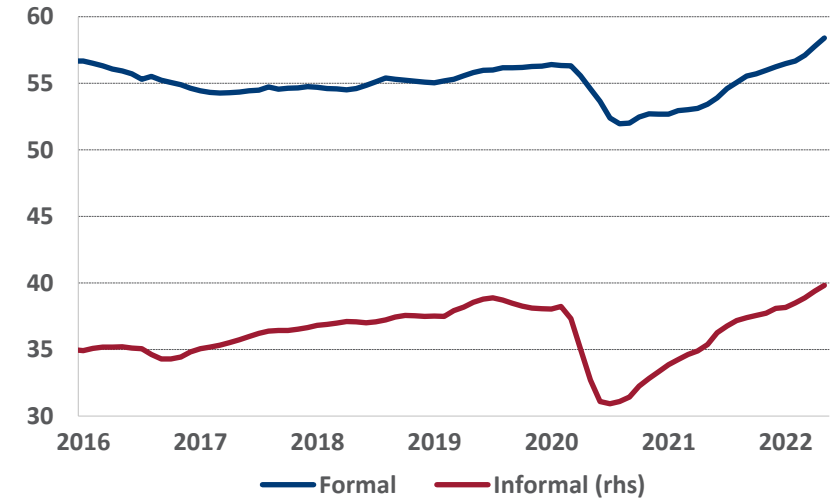
» The labor market kept improving in May on the heels of the normalization process:

- » The unemployment rate fell to 9.6% (9.8% NSA) with the recovery of both formal and informal jobs;
- » The underutilization of labor force is at 21.8%, below its pre-pandemic level;
- » Real wage bill still on low levels, however with a strong upward trend due to the increase of the employed population.

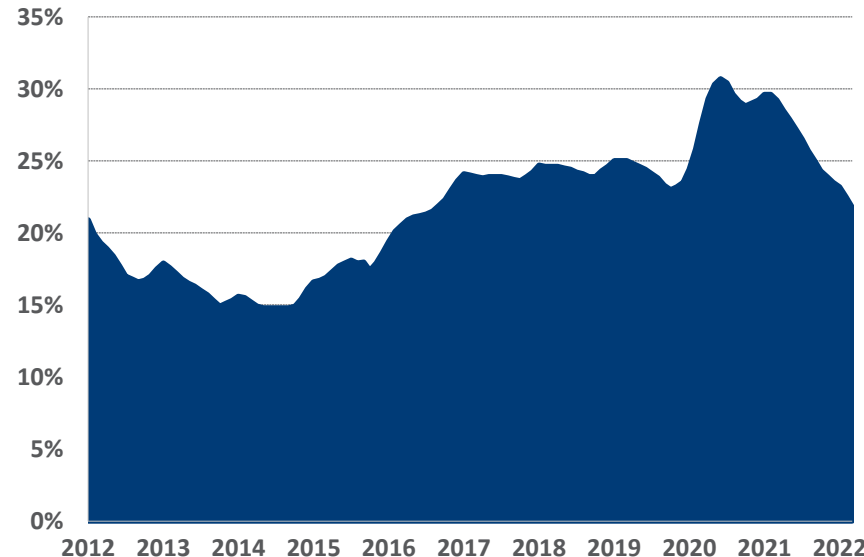
Brazil - Unemployment Rate



Formal and Informal Employment SA (Millions)



Brazil - Underutilization of Labor Force



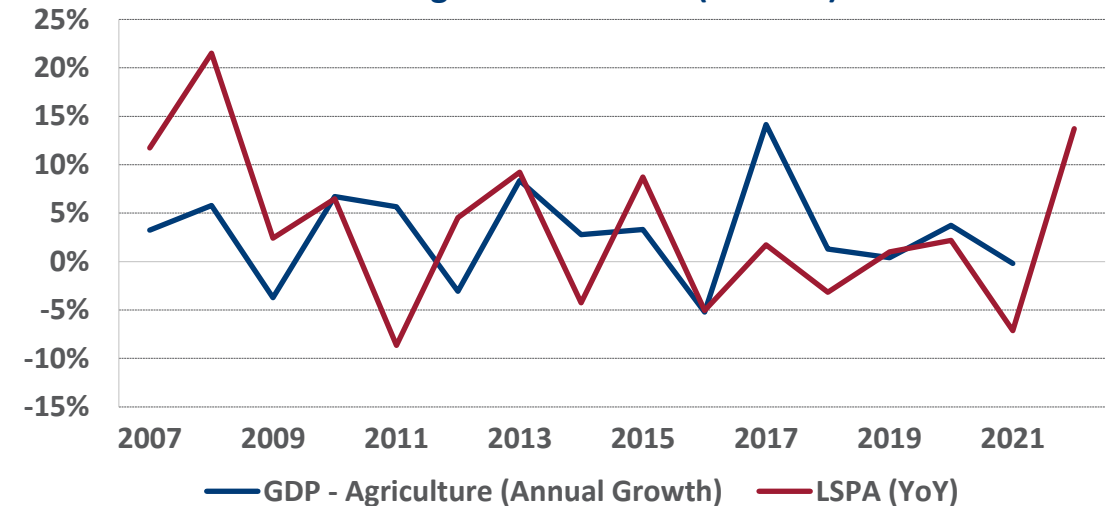
Real Wage Bill SA (R\$ billion)



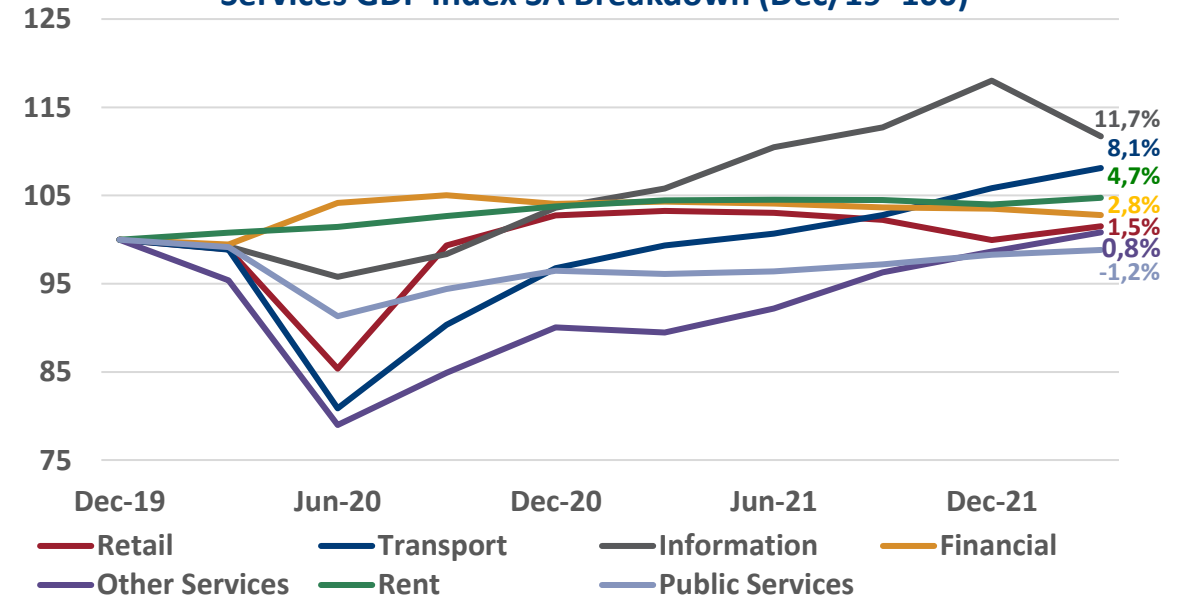
Brazil: 2022 GDP Scenario

- » 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:
 - » There have been some improvements regarding the supply chain bottlenecks, however with a slower than expected speed;
 - » 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 and due to the high carry-over effect of 2.3% in 1Q22;
 - » low unemployment and fiscal stimulus also translates to stronger activity and households consumption for 2Q22
 - » It's expected that domestic demand loses strength in 2H22: global and domestic uncertainty, interest rate hike cycle, high household indebtedness, rising delinquency rate, a soft consumer confidence index and the dissipation of the economic reopening positive effects.

GDP - Agriculture x LSPA (Harvest)



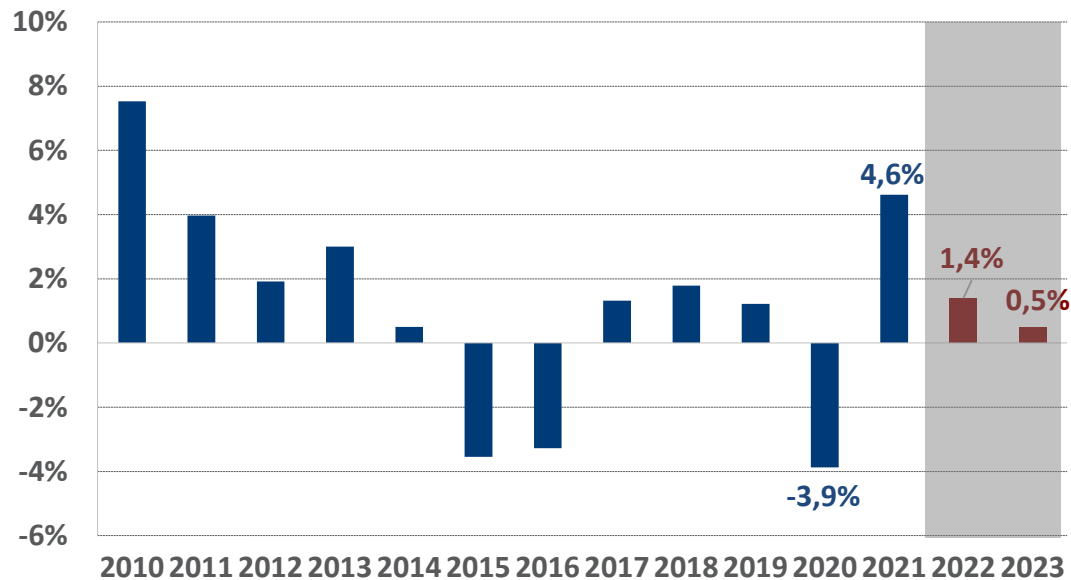
Services GDP Index SA Breakdown (Dec/19=100)



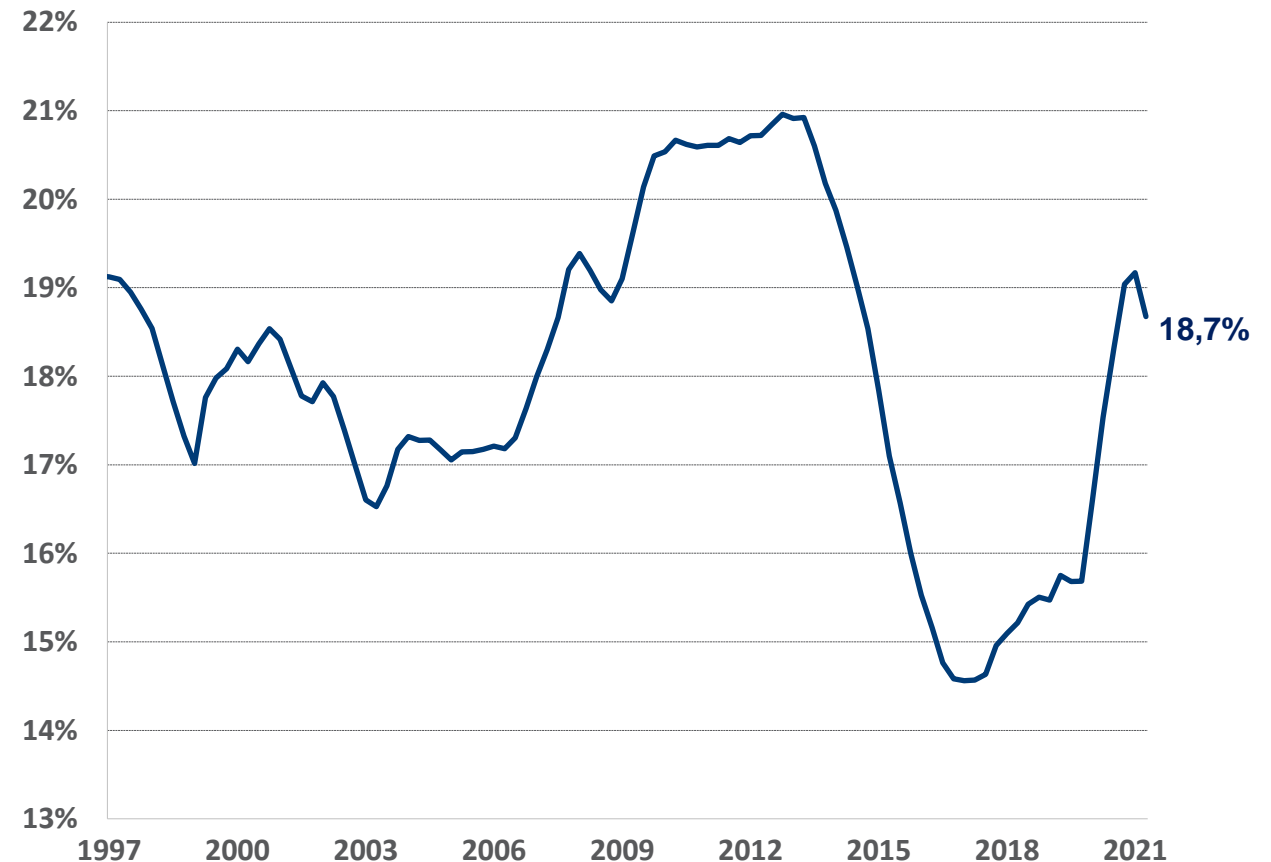
Brazil: GDP Scenario

- » **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

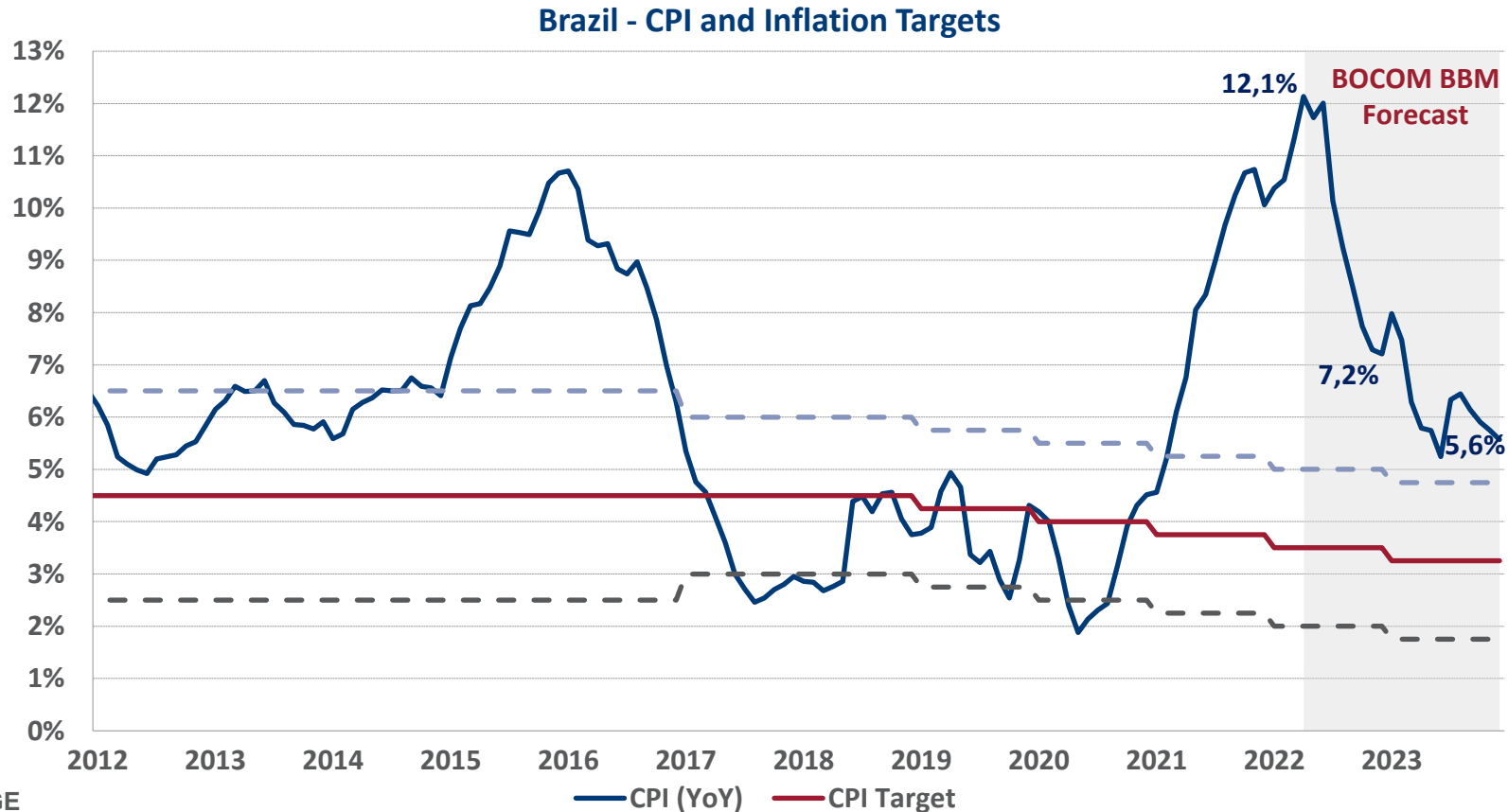
Brazil: Inflation

- » In 2022, the pressure over inflation comes mainly from free prices, since federal and state tax reduction reduces regulated items inflation. Food at home accelerated with the commodities rally seen in first quarter as well as the weather shocks in the beginning of the year. Industrial goods continue pressured due to longer supply chain bottlenecks. Services accelerated in line with the mobility recovery;
- » 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. Industrial goods and food at home inflation should be lower due to the base effect and the expectation that commodities prices will not rise further.

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	12,0%	12,4%	12,0%	8,6%	16,6%	13,7%
22 Q3	8,5%	2,9%	10,6%	8,0%	14,1%	12,1%
22 Q4	7,2%	0,6%	9,8%	7,8%	13,7%	9,9%
23 Q1	6,3%	2,1%	7,8%	7,7%	8,9%	7,2%
23 Q2	5,2%	3,5%	5,9%	6,4%	6,2%	4,9%
23 Q3	6,1%	9,5%	5,0%	6,3%	4,0%	3,7%
23 Q4	5,6%	8,6%	4,5%	5,7%	4,5%	2,7%

Brazil: Inflation

- » Our 7.2% 2022 CPI projection takes into account reduced PIS/Cofins tax credits for electric energy readjustments, federal and state tax cuts, 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 5.6%, above the target's upper limit, considering return of fuels federal tax, 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 7.2% projection takes into consideration the impact of PLP 18/22, which limited ICMS tax on electric energy, telecommunications and fuels at 17% and exempted fuels from federal taxes until december. On the other hand, high inertia in services inflation, high inflation expectations and the impact of Russia-Ukraine war, that has caused the increase in several commodities prices, still justify a very elevated CPI. Further risks to 2022 CPI are:

Upside risks:

1. The high prices of fertilizers and the BRL depreciation could increase even more inflation in 2022 and 2023;
2. Continued risk of government's fiscal policy to continue decreasing effect of monetary policy and inflation to continue high for longer;
3. In 2023, inertia could be higher than estimated and make the disinflation process more difficult;
4. The PLP 18/22 impact may be overestimated, since there is a possibility that its measures will be judicialized, which could prevent them from being applied.

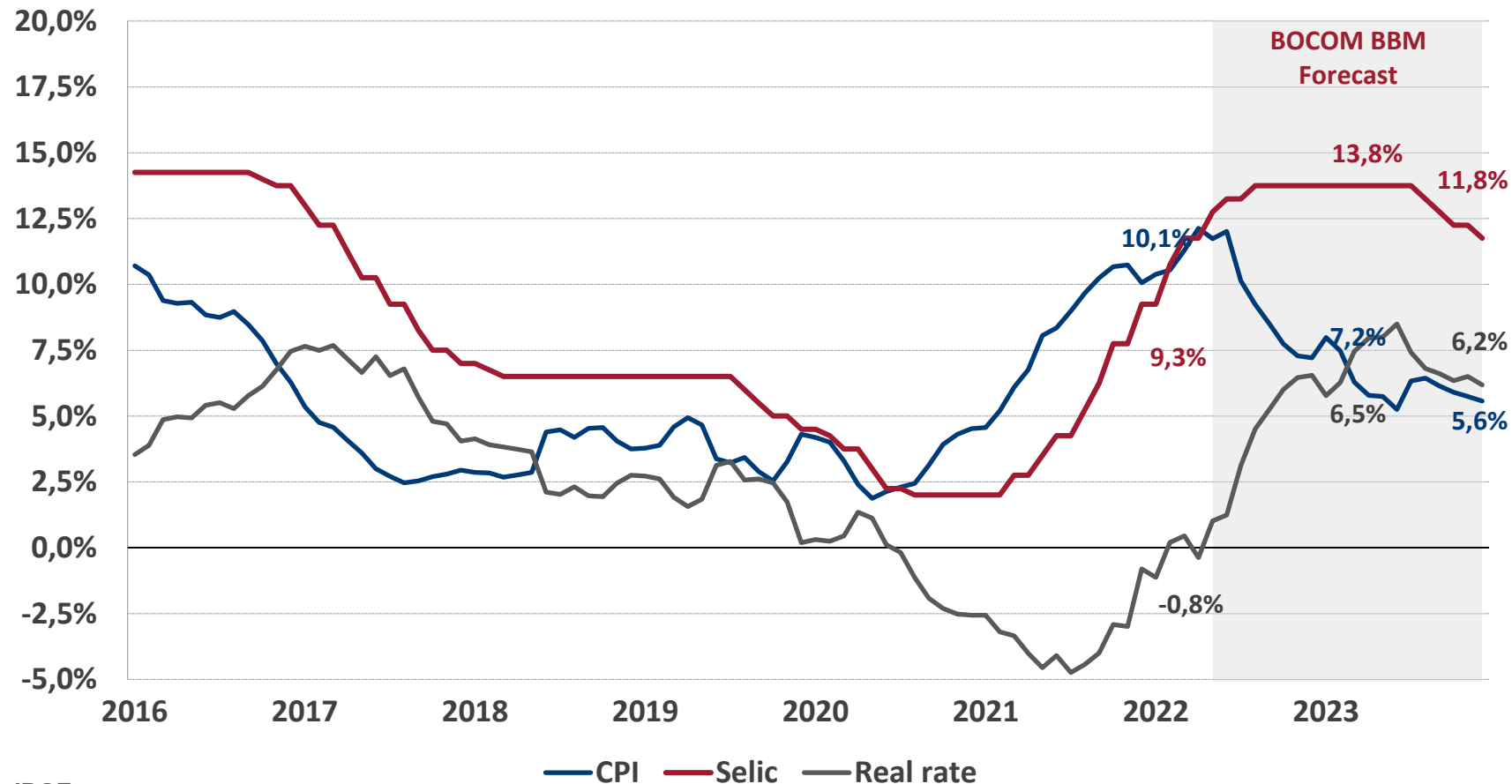
Downside risks:

1. The rapid return of electric energy tax credits on PIS/Cofins could also help reduce CPI by opening space to extraordinary revisions for the already given readjustments in 2022;
- » In 2023, the above target upper ceiling forecast of 5.6% considers the return of federal taxes to fuels prices, the high inertia of services, high inflation expectations, regulated items readjustments will be impacted by the high inflation and by the effort of reducing some readjustments this year. Besides, the above expectations strength of the labor Market is reducing the GDP gap, showing that demand remains resilient.

Brazil: Interest rates

- » Scenario: Copom hikes Selic by 50 bps in August, finishing the hike cycle with 13.75%;
- » The Central Bank also signaled its preference for a long period with a stable high rate instead of continuing its tightening cycle.

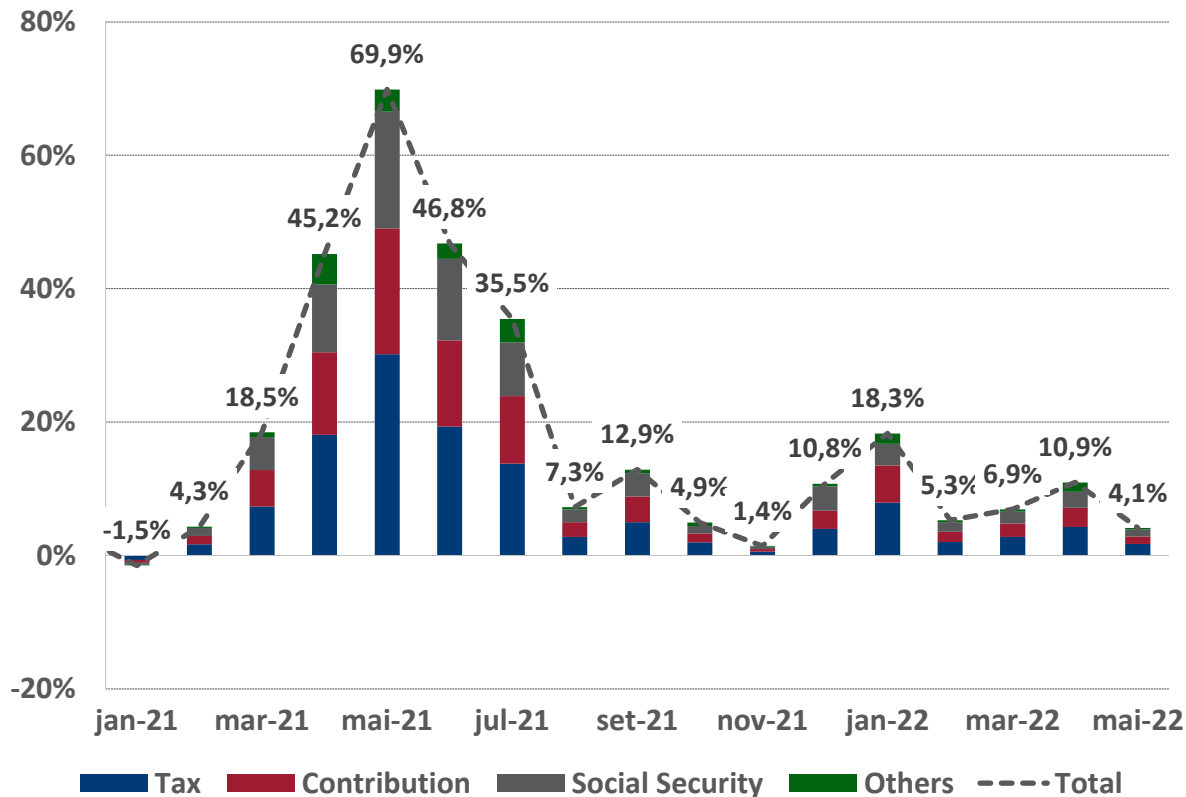
Brazil - CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)



Fiscal: Central Gov't Tax Collection

- » The May tax collection decelerated from 10.9% to 4.1% YoY (adjusted by inflation);
- » The result represents a record for both the month of May and the accumulated result for the year;
- » Revenue from taxes rose 0.3% and Social Security 1.9%.

Brazil - Real Tax Collection (YoY)



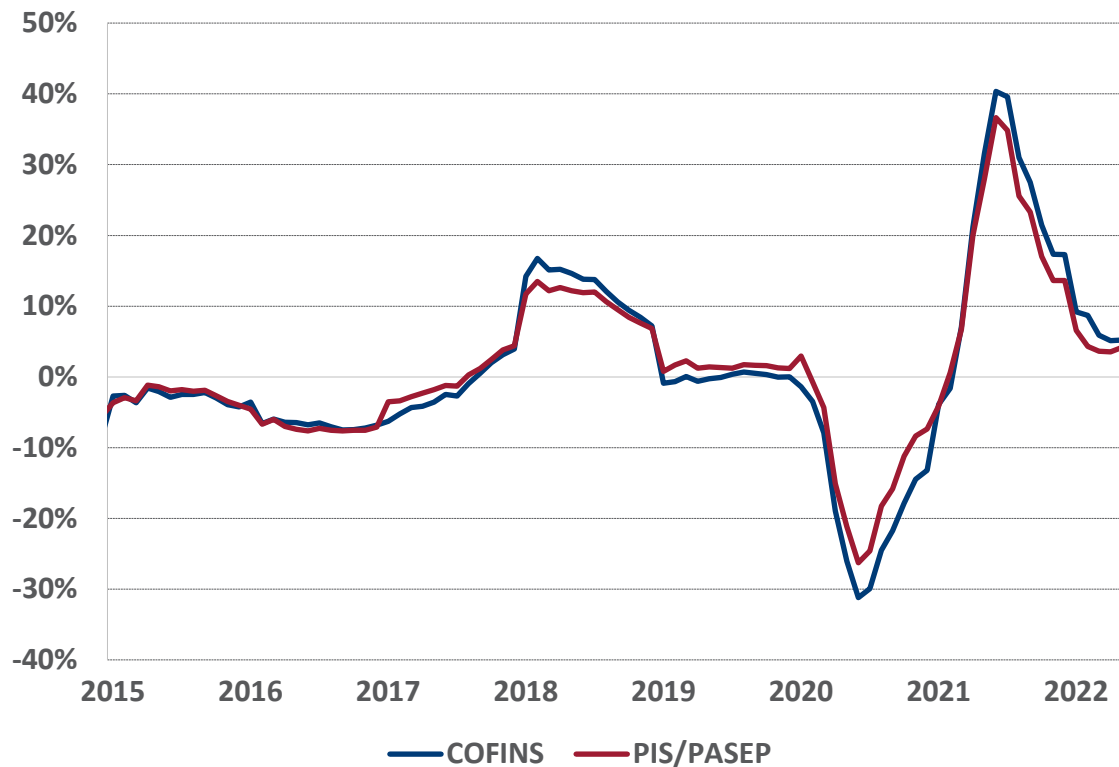
Brazil - Total Recurring Revenue (% GDP 12M)



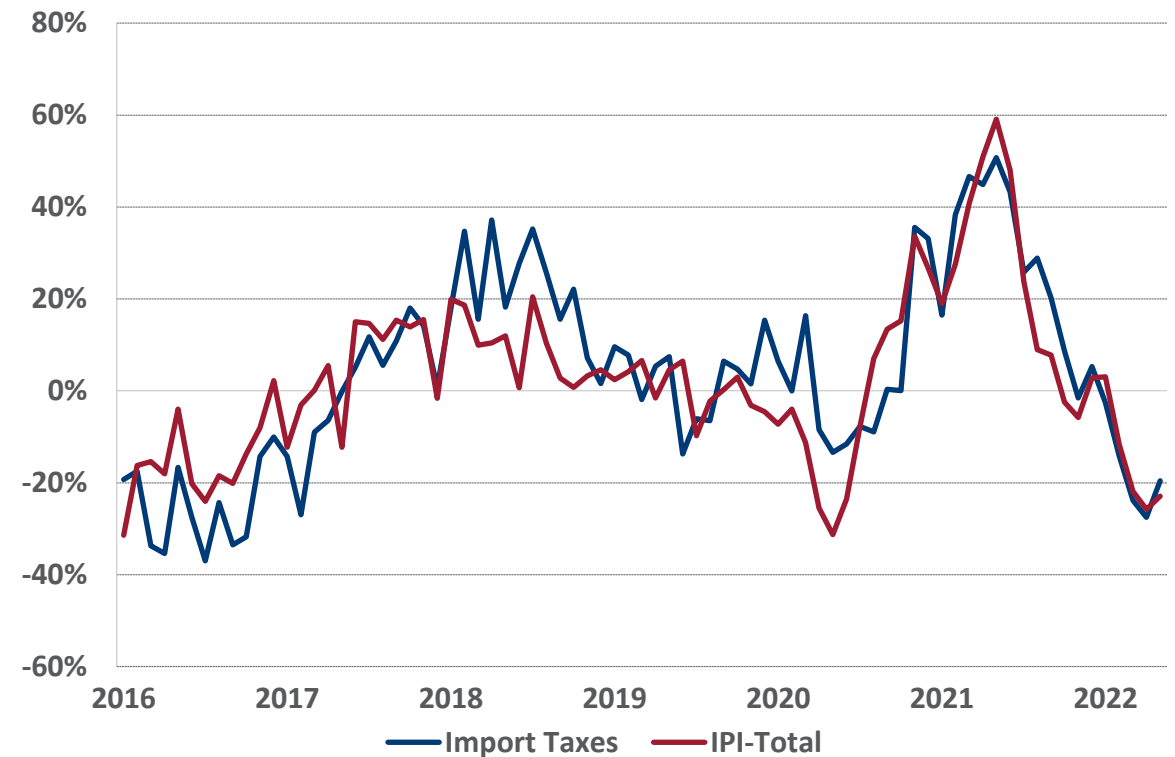
Fiscal: Central Gov't Tax Collection

- » PIS/PASEP and Cofins raised 5,8% thanks to a growth in sales and services;
- » Fall in revenue from import taxes (-19.6%) and IPI (-22.9%), already reflecting the reductions announced by the government throughout the year.

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



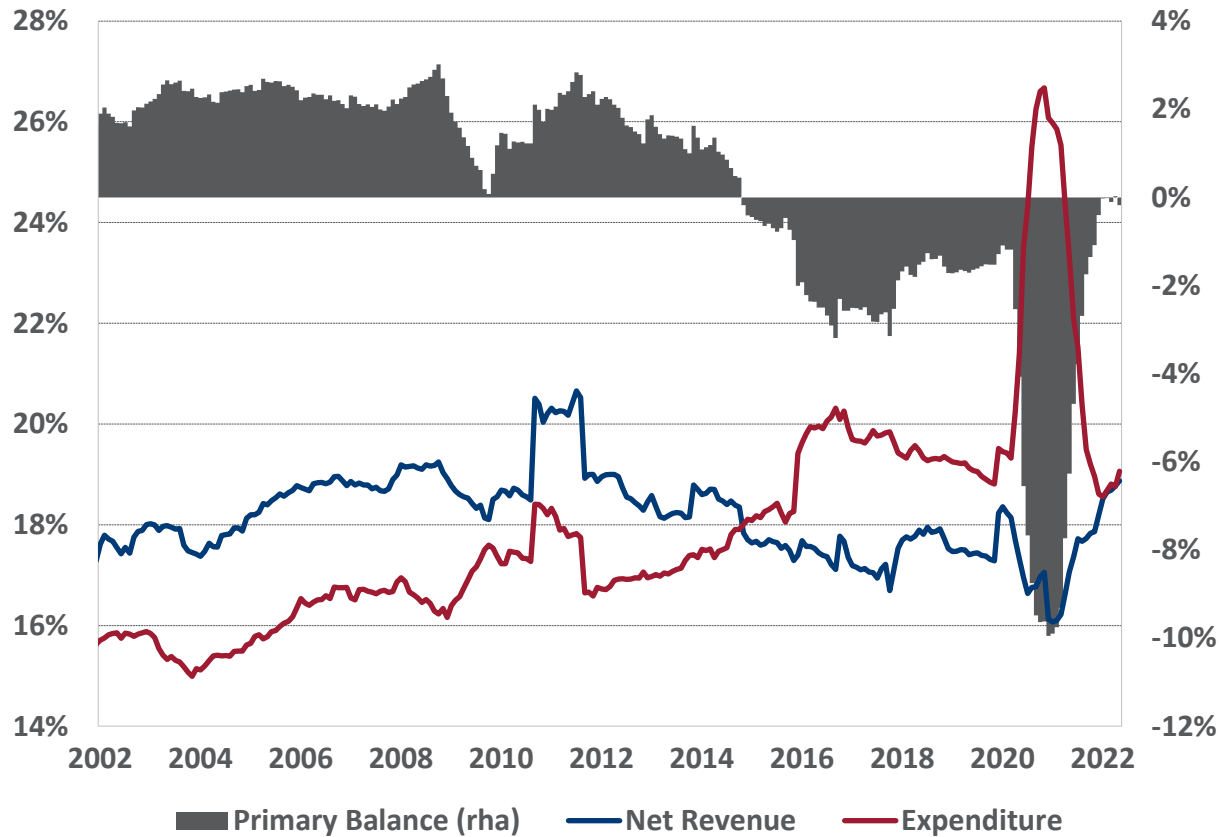
Brazil - Import Taxes vs IPI-Total (YoY, %)



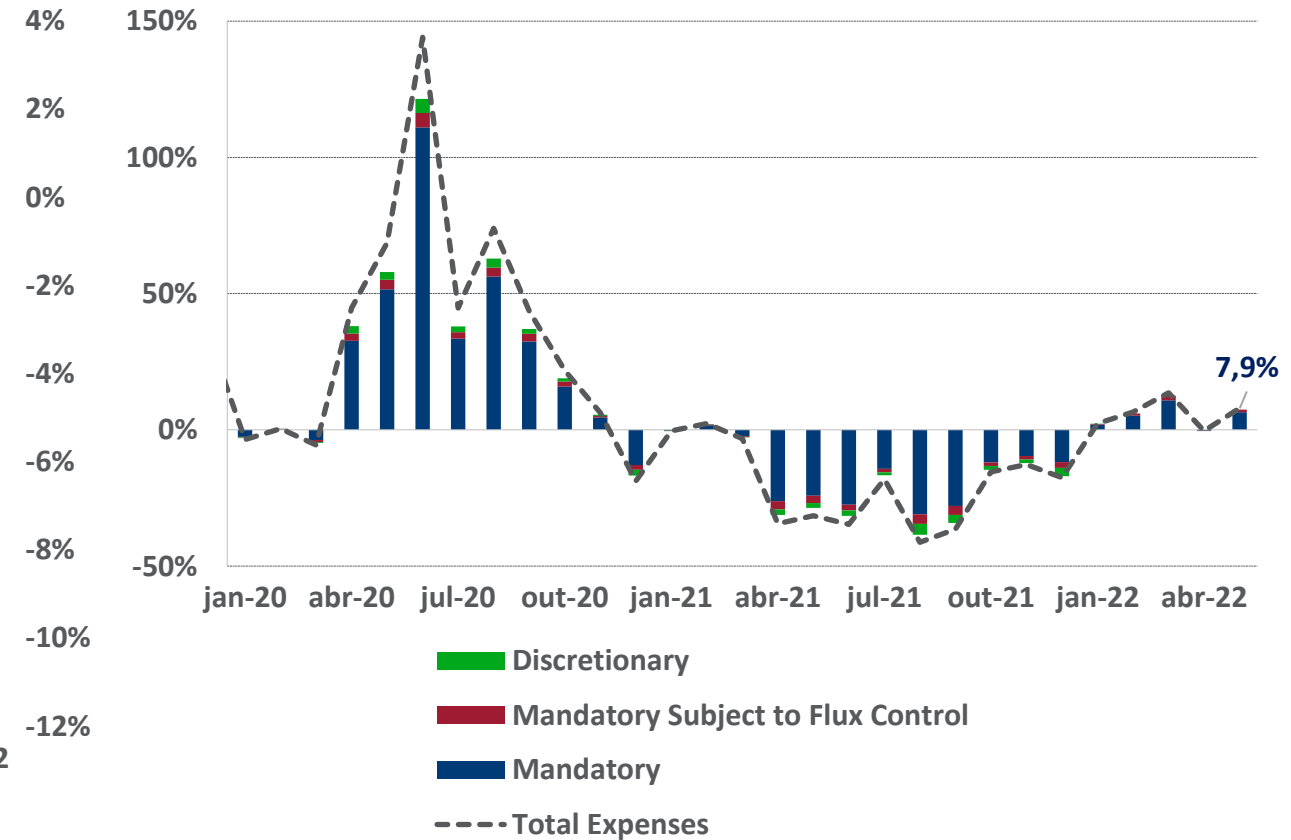
Fiscal: Central Government's Primary Result

- » Central government registered a primary deficit of - BRL 39.4 billion (Consensus: BRL -39.9 billion);
- » Expenses: increased 7.9% in the same comparison, reaching R\$ 161.3 billion in May.

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



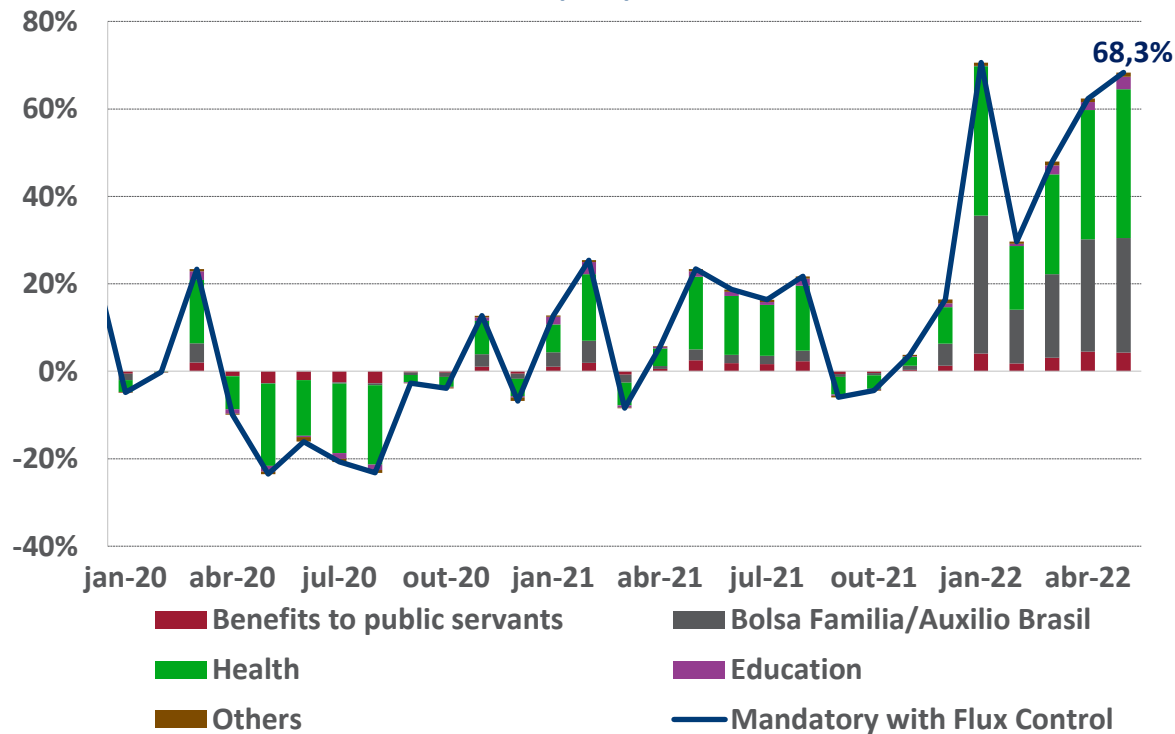
Central Government Real Expenses (YoY)



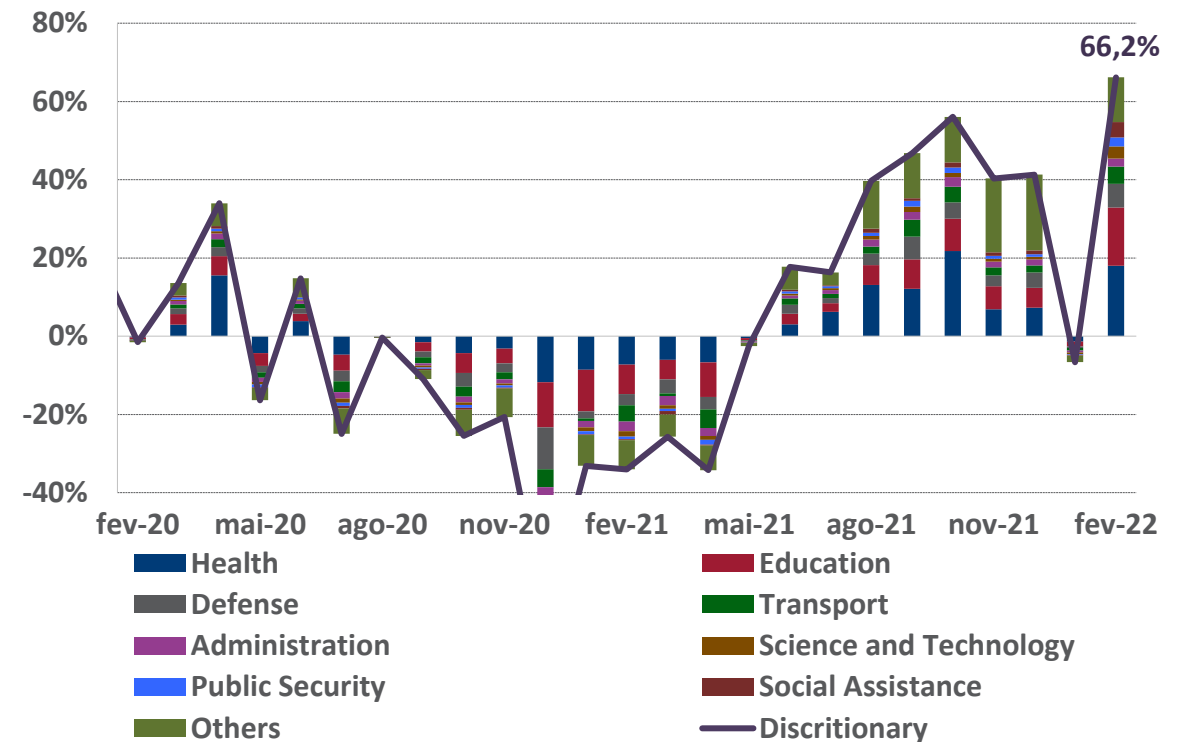
Fiscal: Central Government's Primary Result

- » **Discretionary Expenses:** +66.2% YoY, due to the increase in health and education expenses;
- » **Mandatory Expenses:** +68.3% YoY, due to the increase of R\$6.0 billion from the payment of benefits and aids from the Auxílio Brasil Program in May 2022.

Brazil - Real Mandatory Expenses Subject to Flux Control (YoY)



Brazil - Real Discretionary Expenses Subject to Flux Control (YoY)



»» Biofuels PEC (PEC 15):

- »» Chamber of Deputies' CCJ approved admissibility of the PEC - text will still go through the **special commission before going to the plenary** in two votes;
- »» Creates conditions for complementary laws to be approved to give tax "privilege" to biofuels;
 - »» The PEC would be a **complement to PLP 18**;

»» Fuels PEC:

- »» PEC 16/22 appended to PEC 1/22;
- »» Forwarded to the Chamber of Deputies;
- »» Financial compensation to states that grant ICMS tax credits to ethanol producers and distributors;
- »» **PEC 1/22:**
 - »» Institution of the state of emergency;
 - »» Increase of the value of the Auxílio Brasil (from BRL 400 to BRL 600) and zeroing of the waiting line;
 - »» Increase of the vale-gas - doubled value;
 - »» Aid for truck drivers – BRL 1000;
 - »» Gasoline aid for taxi drivers;
 - »» Budgetary supplementation of the Alimenta Brasil program;
 - »» **Impact on public accounts:** BRL 41.25 billion - an amount that will remain outside the spending cap;
 - »» Measures valid until the end of 2022;

» PLP 18/22:

- » President Jair Bolsonaro **sanctioned** PLP 18/22 with some vetoes;
- » Limits ICMS on fuel, energy, transport and telecommunications at 17%, which became **essential goods**;
- » Reduction to zero of the rates of Cide-Fuels, PIS/Cofins on gasoline until December 31, 2022.
- » Compensation owed by Union to states calculated month by month, for each of the goods and services affected, in case of a revenue drop of more than 5%;

» ICMS collection:

- » Minister of the Supreme Court, André Mendonça, determined that states start **ICMS uniform collection as of July 1**, according to LC 192/22 for **all fuels**;
 - » states must follow the above transition of art. 7 of LC 192/22 - **average prices of the last 5 years**;
 - » states must appeal the minister's injunction, as law pertains only diesel (not all fuels).

»» Fiscal Monitor:

Description	Stage	Impact 2022 (BRL Billion)
Revenues		31,7
Gasoline Exemption	Approved	15,1
Diesel Exemption	Approved	16,6
Expenses		41,25
ICMS 17% fuel, eletric energy and communications*.	Approved	-
Expansion of Alimenta Brasil Program*	Sent to Chamber of Deputies	0,5
Subsidy for free public transportation*	Sent to Chamber of Deputies	2,5
Ethanol Subsidy*	Sent to Chamber of Deputies	3,8
Expansion of the gas voucher*	Sent to Chamber of Deputies	1,05
Aid for truck drivers*	Sent to Chamber of Deputies	5,4
Expansion of Auxílio Brasil and zeroing of the waiting line*	Sent to Chamber of Deputies	26
Aid for taxi drivers*	Sent to Chamber of Deputies	2
Total		72,9

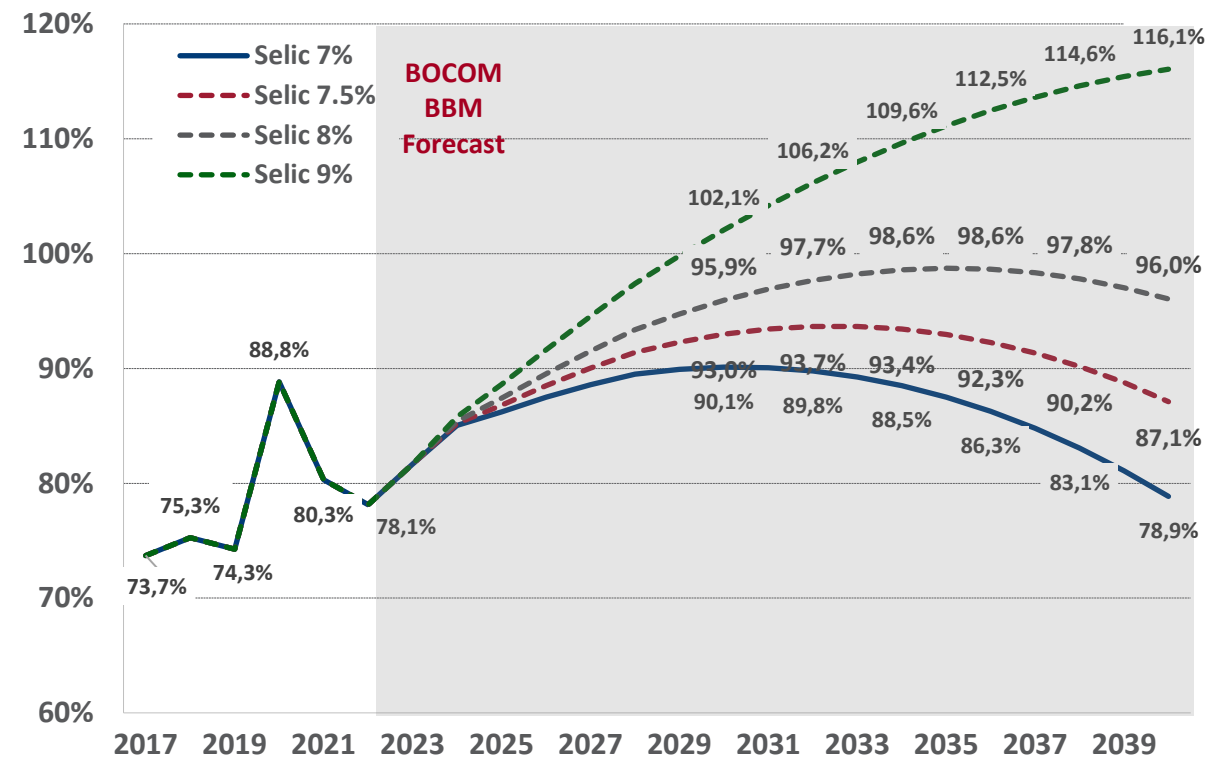
*Federal Government/National Congress estimates

Fiscal: Debt to GDP

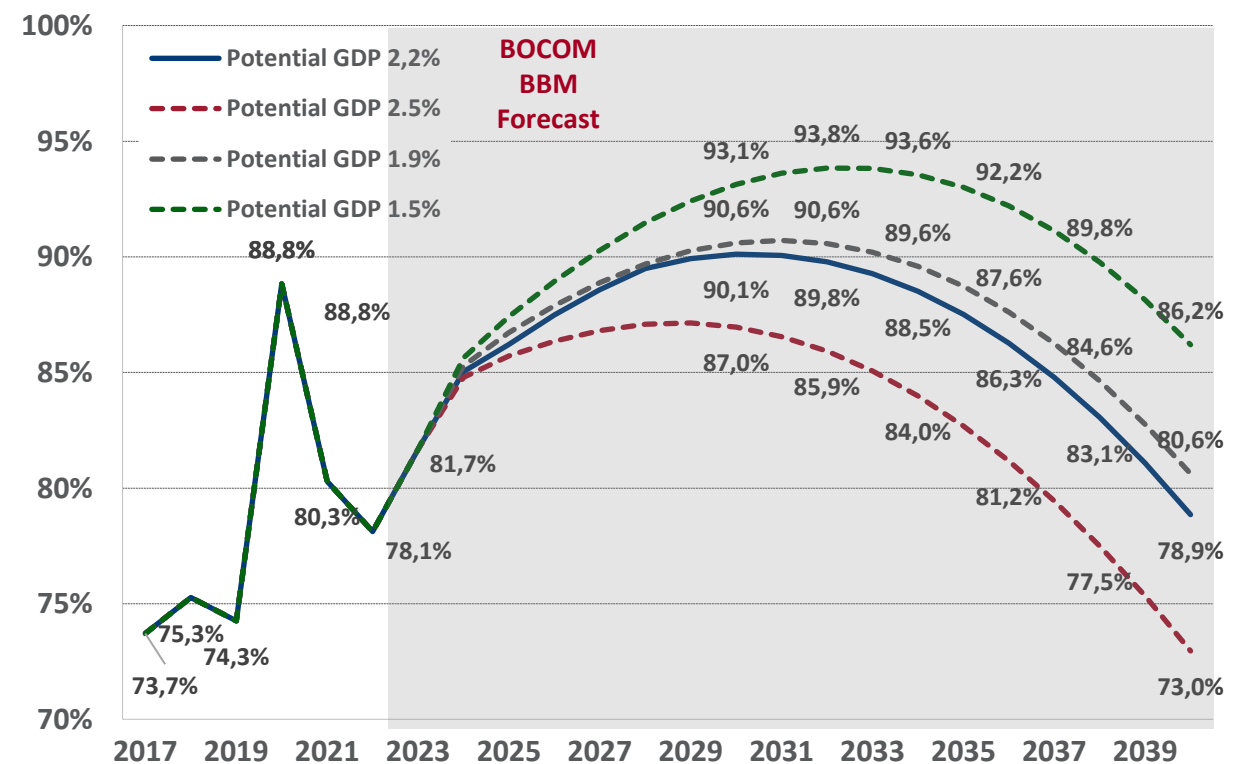
- » In our base scenario, we currently expect a 78.1% result for the debt to GDP ratio in 2022;
- » The trajectory of the debt changes depending on the potential GDP and Selic scenarios.

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



Brazil: External Sector

- » The price of the main commodities exported by Brazil continues is a relevant factor for the BRL, but the uncertainty about global growth and fiscal risk offset this force.

Commodities Prices (01/jan/12=100)



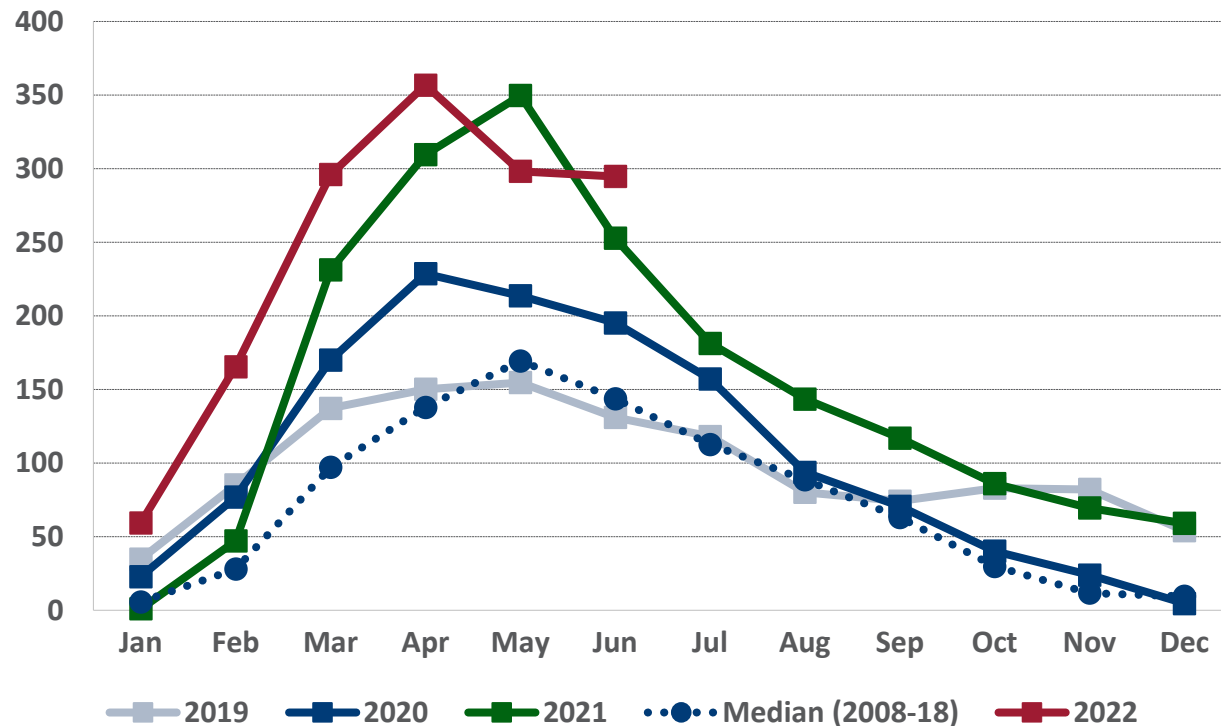
Commodities Index x BRL



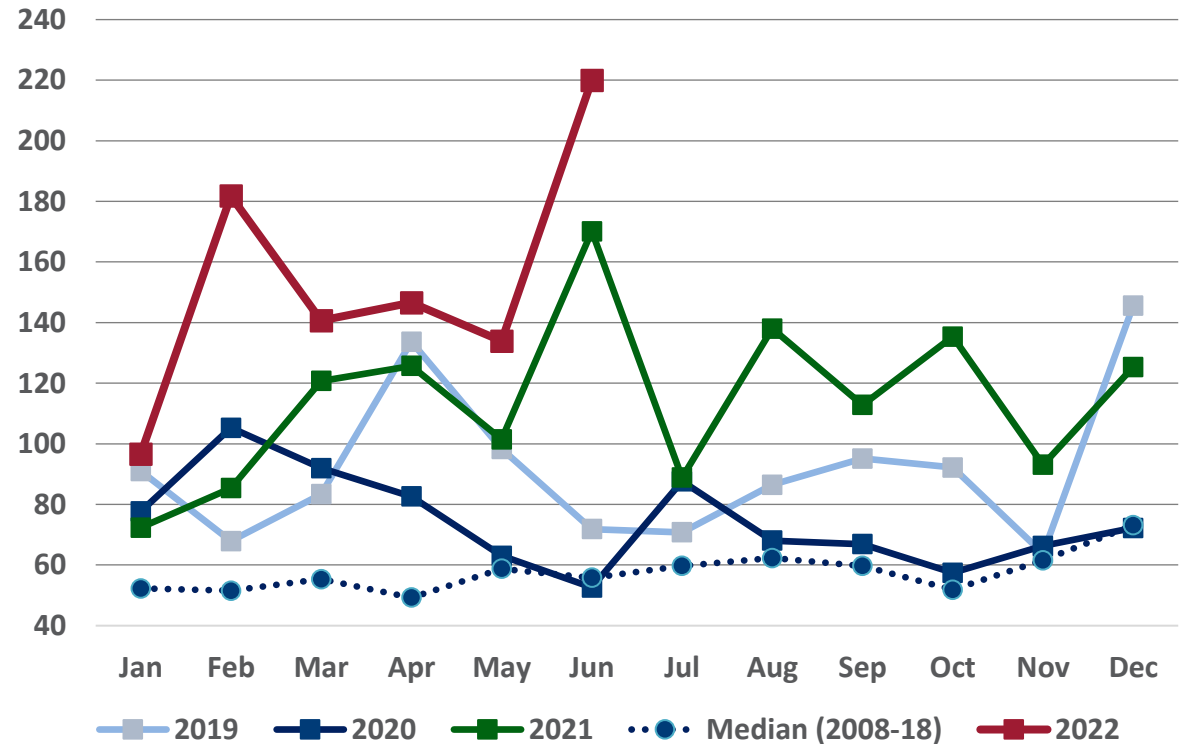
Brazil: External Sector

- » Trade balance continues to be favored by high prices of commodities that should keep the country's exports high in the coming months;
- » The slowdown in soybeans exports is seasonal as it tends to decrease in the coming months.

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



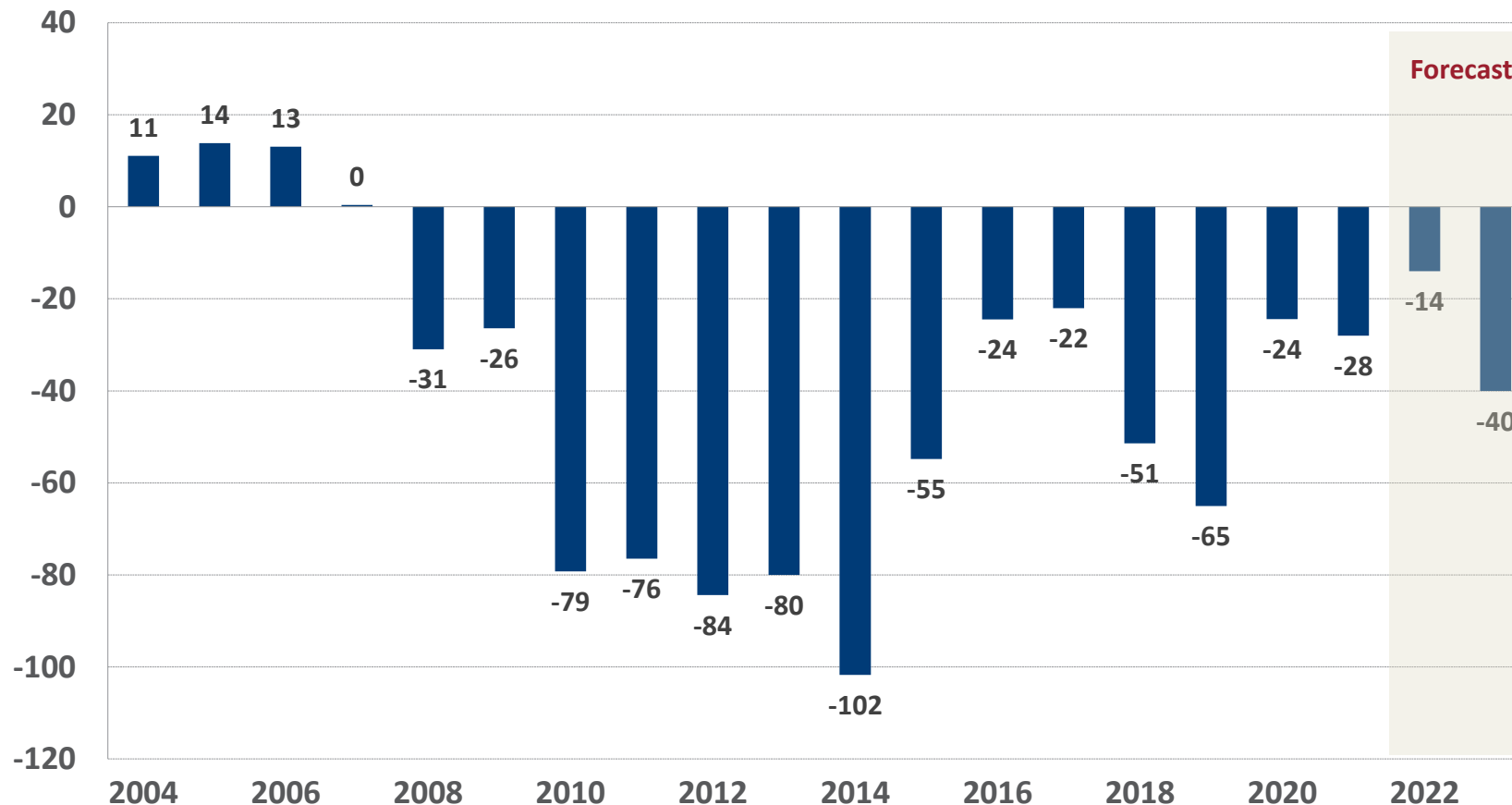
Brazil - Crude Oil Exports (US\$ Million Daily Average)



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 USD -14 billion in 2022, guided by the solid results of the trade balance and of Brazilian exports this year.

Current Account Balance - USD Billion

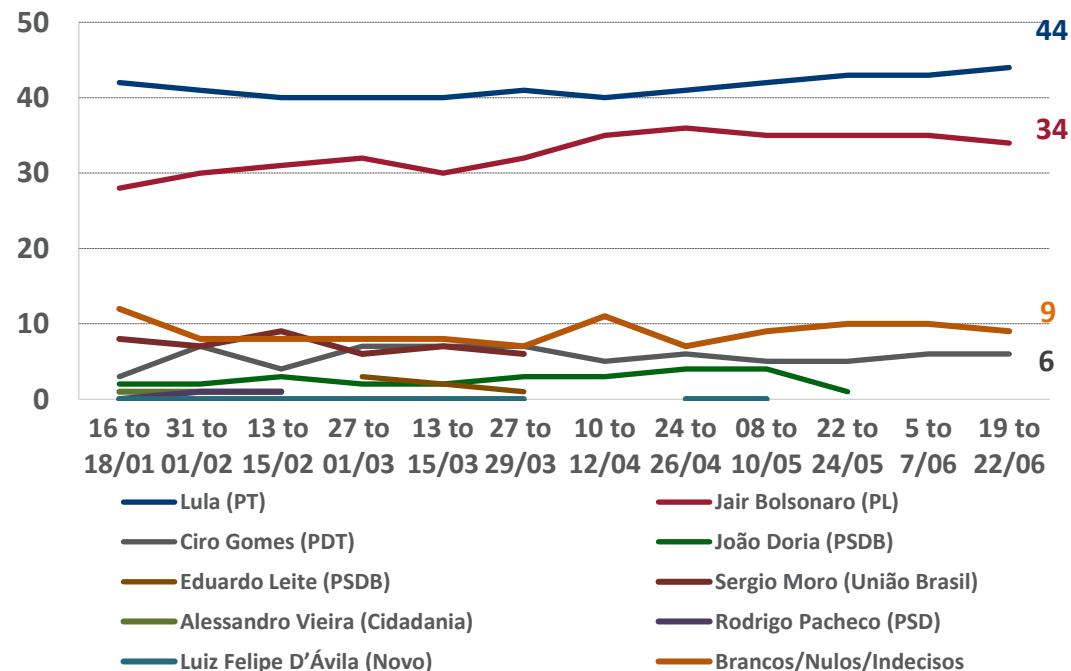


Brazil: Presidential Elections

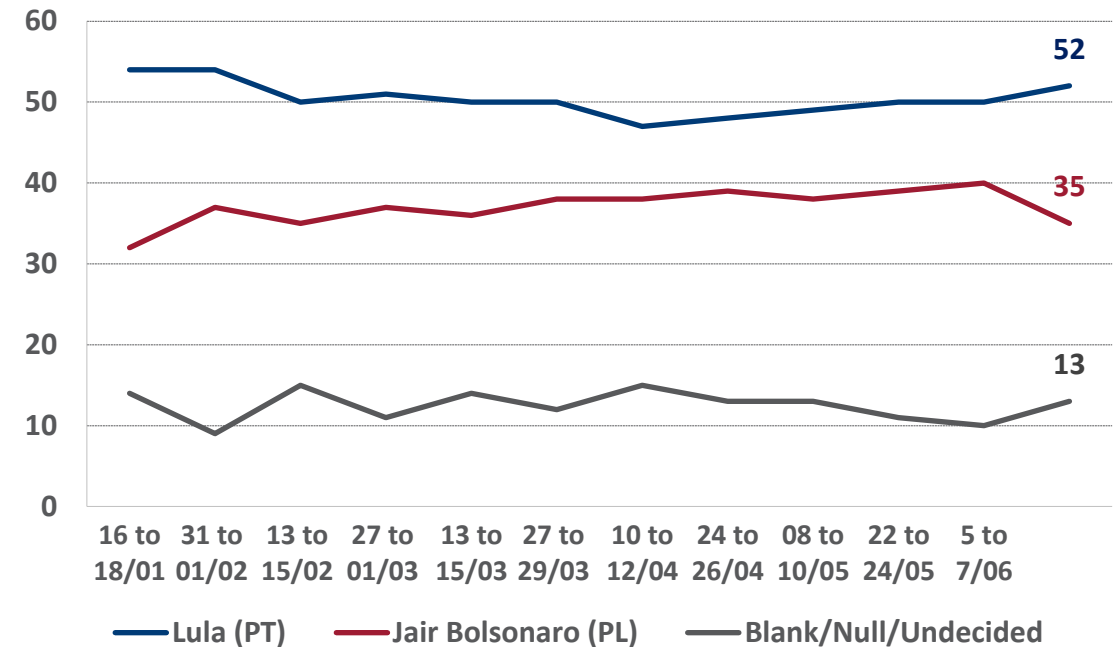
» PoderData:

- » Luiz Inácio Lula da Silva (PT) has extended his lead over Jair Bolsonaro (PL) in an eventual runoff;
 - » The distance is now 17 percentage points;
 - » In relation to the last month, Lula (PT) moved 2 points up, while Bolsonaro (PL) moved 4 points down;
- » The scenario for the first turn remained stable.

Voting Intention - Evolution (%)



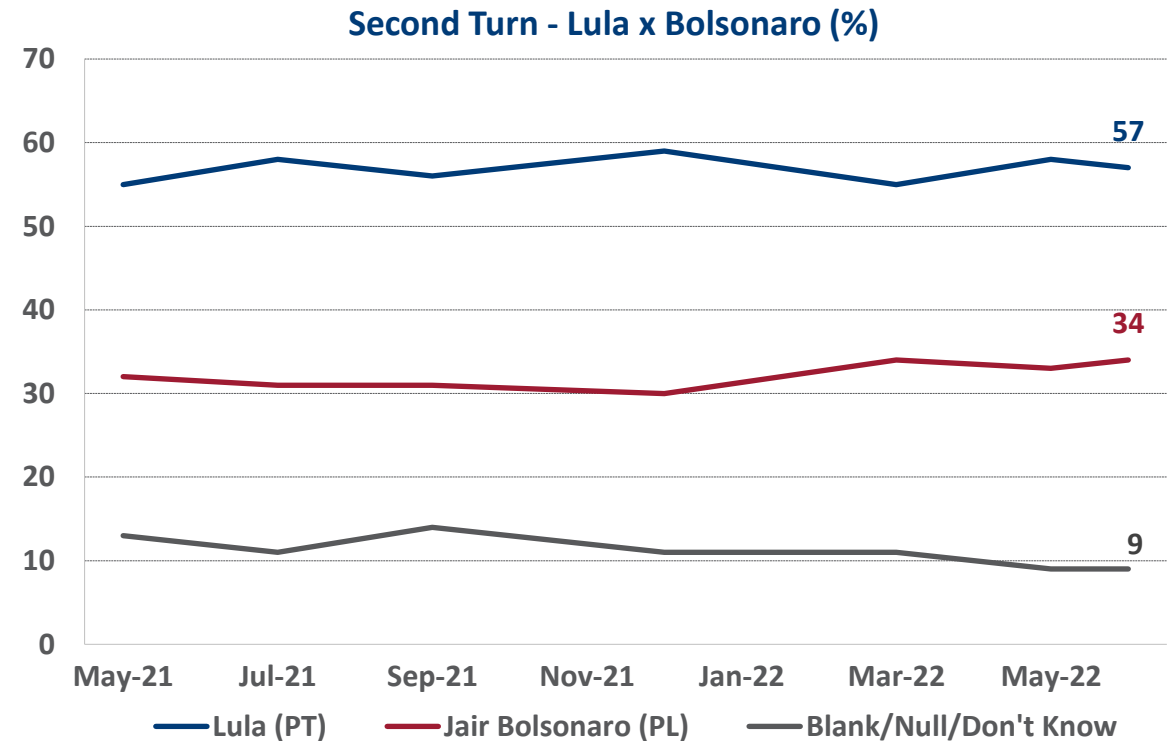
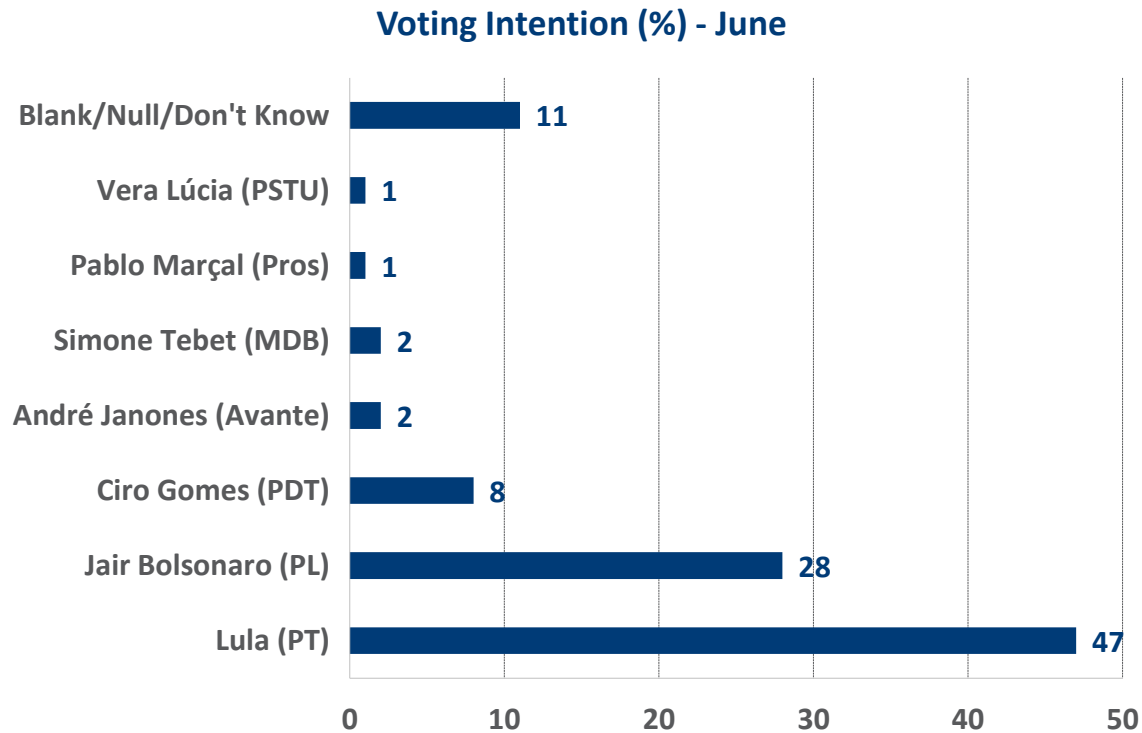
Second Turn - Lula x Bolsonaro (%)



Brazil: Presidential Elections

» DataFolha:

- » Luiz Inácio Lula da Silva (PT) has a 19-points lead over the president, scoring 47% of voting intentions in the first turn;
- » Former President Luiz Inácio Lula da Silva (PT) would defeat his main opponent in Datafolha's second turn simulation by a considerable margin.

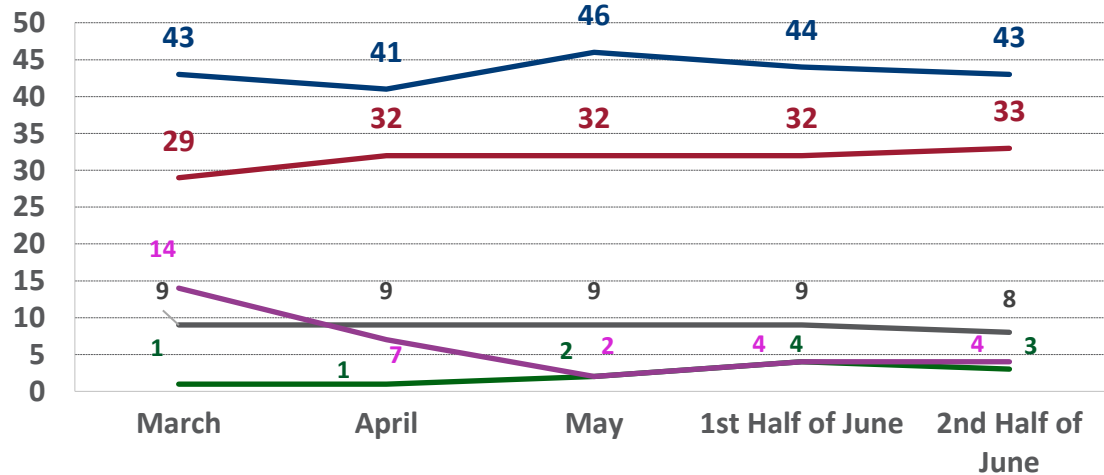


Brazil: Presidential Elections

» BTG/FSB:

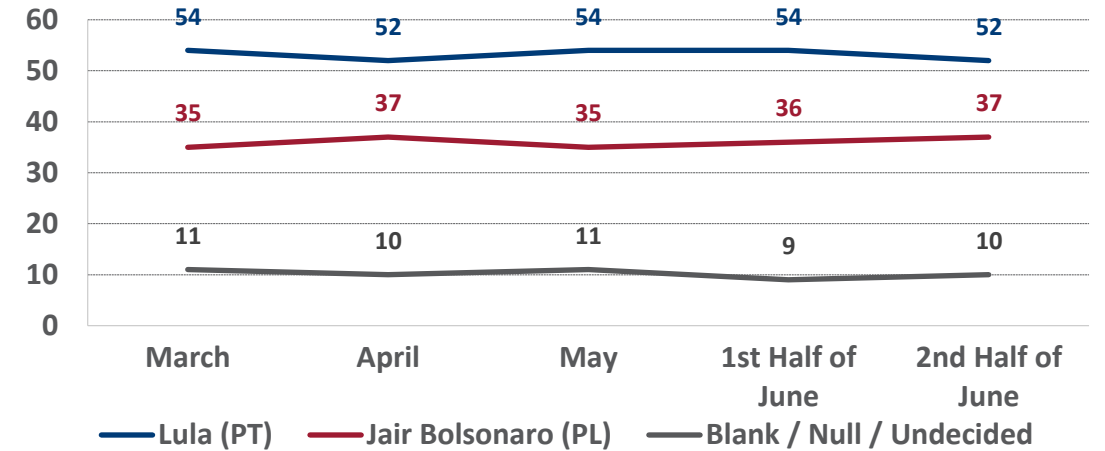
- » Over the last 30 days, Lula has oscillated from 46% (in May) to 43% of voting intentions in the first turn;
- » Bolsonaro, on the other hand, remained stable in the latest polls, going from 32% to 33%;

Voting Intention - Evolution (%)

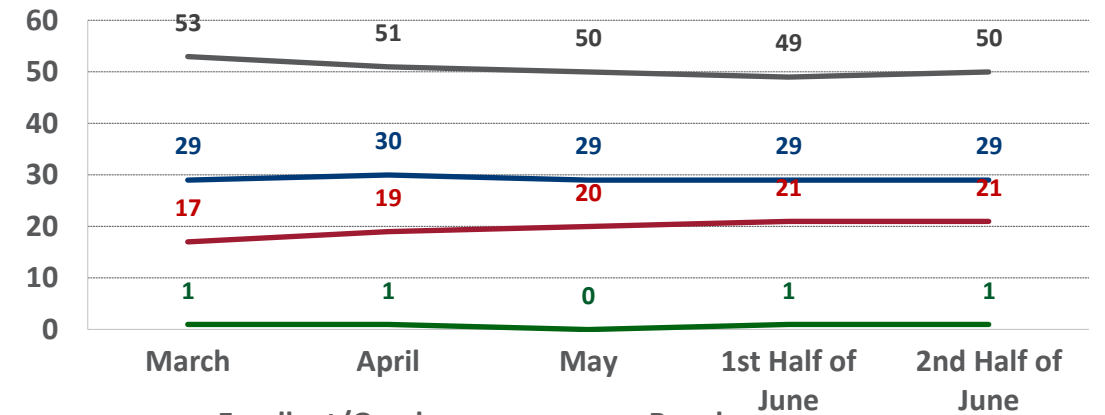


— Lula (PT) — Jair Bolsonaro (PL) — Simone Tebet (MDB) — Others

Second Turn - Lula x Bolsonaro (%)



Evaluation of Bolsonaro's Government (%)



— Excellent/Good — Regular — Bad/Terrible — Don't Know/Didn't Answer

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