



MACRO OUTLOOK

Cecilia Machado
Chief Economist

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- » Recession narratives have spread throughout markets in July. Activity continues to slowdown and US GDP printed its 2nd negative reading in a row amid the change from goods to services consumption. On the other hand, we see China recovering from the latest Covid wave with minor surges being fought with restriction measures;
- » High frequency data shows activity remains resilient. Industrial production was in line with expectations in June, posting a negative print after four consecutive monthly gains. Services surprised with another above expectations figure. The labor market continues very strong, with unemployment rate decreasing to 9,3% (NSA) in June;
- » Our growth forecast for 2022 is 2.1%. The projection considers the carry-over effect of some activities, the recovery of labor market, together with government cash-transfers which increases families' disposable income and thus their consumption;
- » 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 and expenditure.

China: Covid – 19

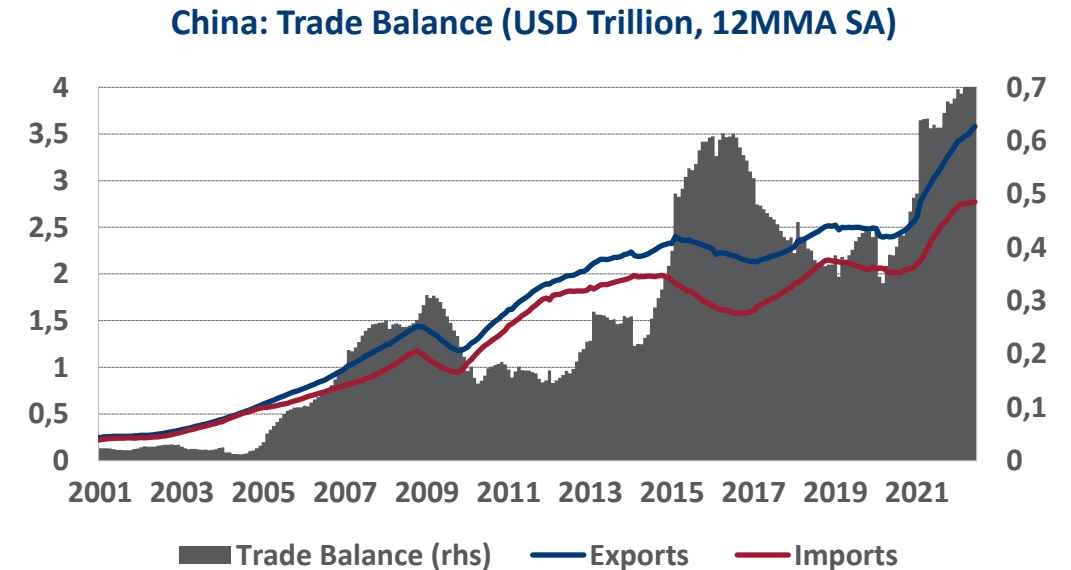
- » Despite the increase of the number of cases in mid-July, a reduction is seen by the end of the month;
- » July Politburo meeting reiterated that policymakers would stick to the "Dynamic Zero Covid" policy stance;

China: Covid - New Daily Domestic Cases



China: Economic Scenario

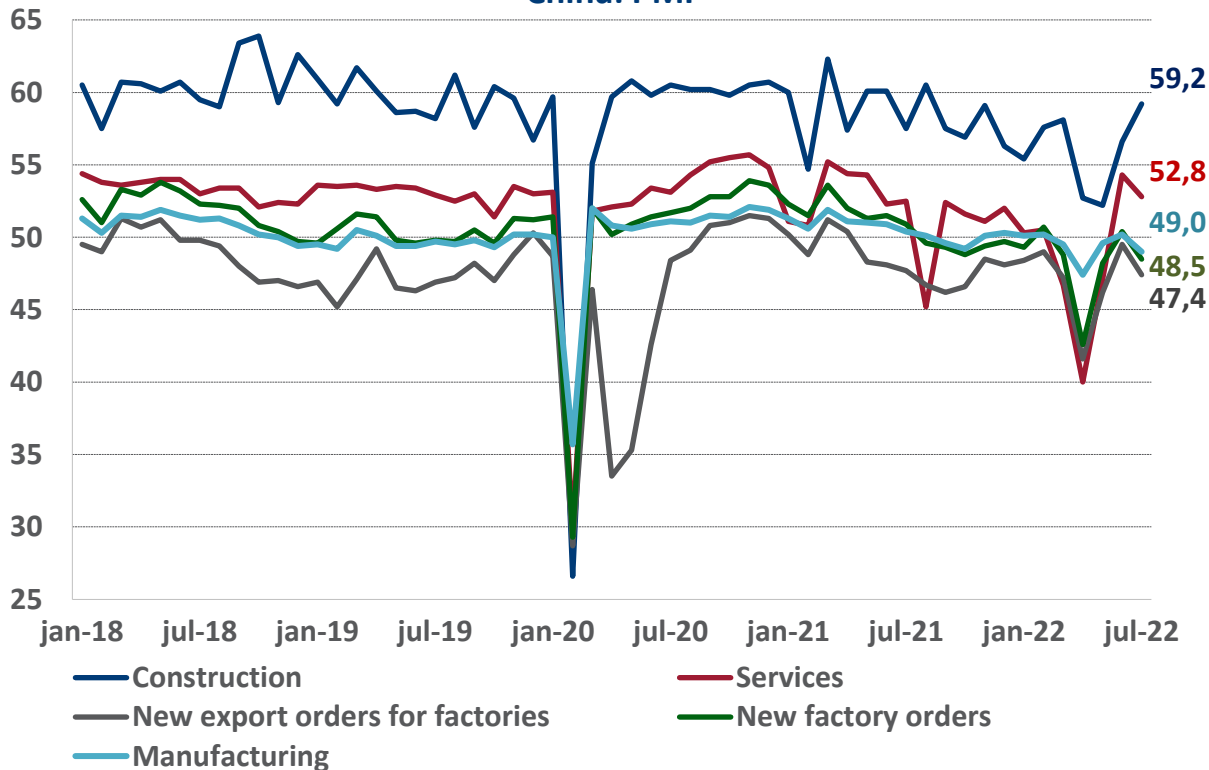
- » China's 2Q real GDP growth decelerated notably to 0.4% YoY;
 - » as a result of the COVID wave and lockdowns since late March;
- » June activity data showed broad-based improvement;
 - » highlights: industrial production and retail sales;
- » Export resilient growth in June while imports remained sluggish;
 - » normalization in supply chains after Omicron shock



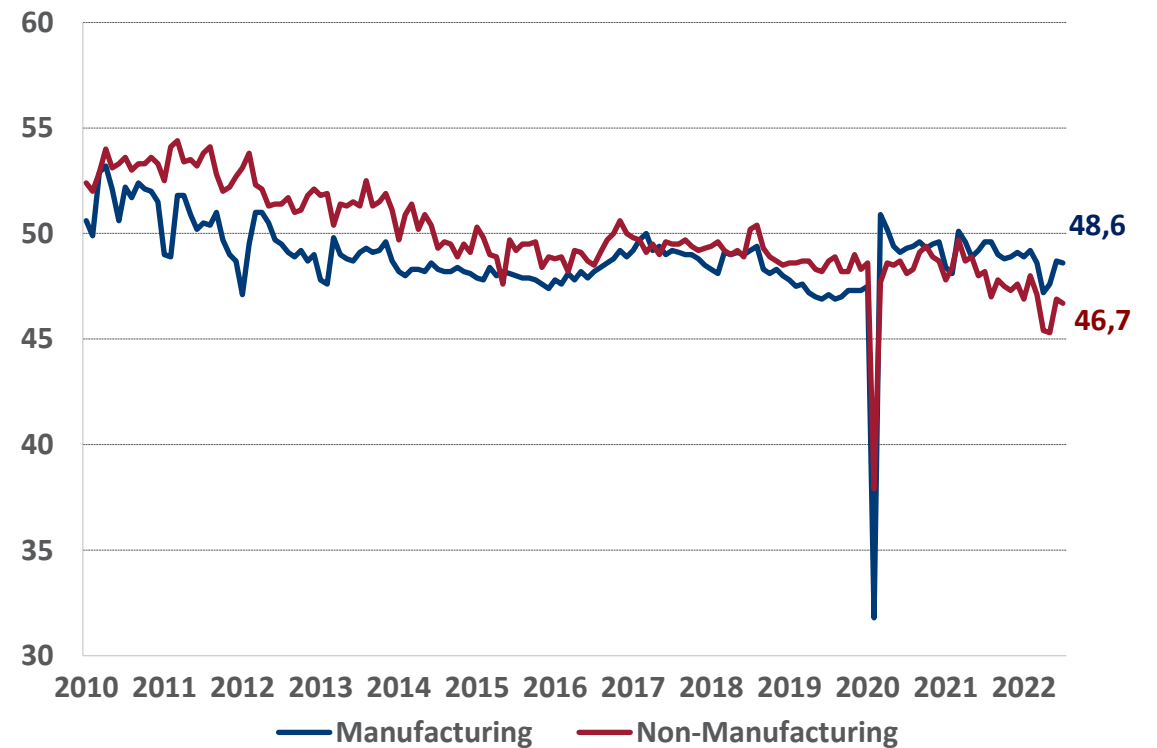
China: PMI

- » Since May the PMI data was growing, but in July, unexpectedly contracted;
- » the result was led by production and new orders, signaling disruptions to supply and unstable domestic demand recovery;

China: PMI



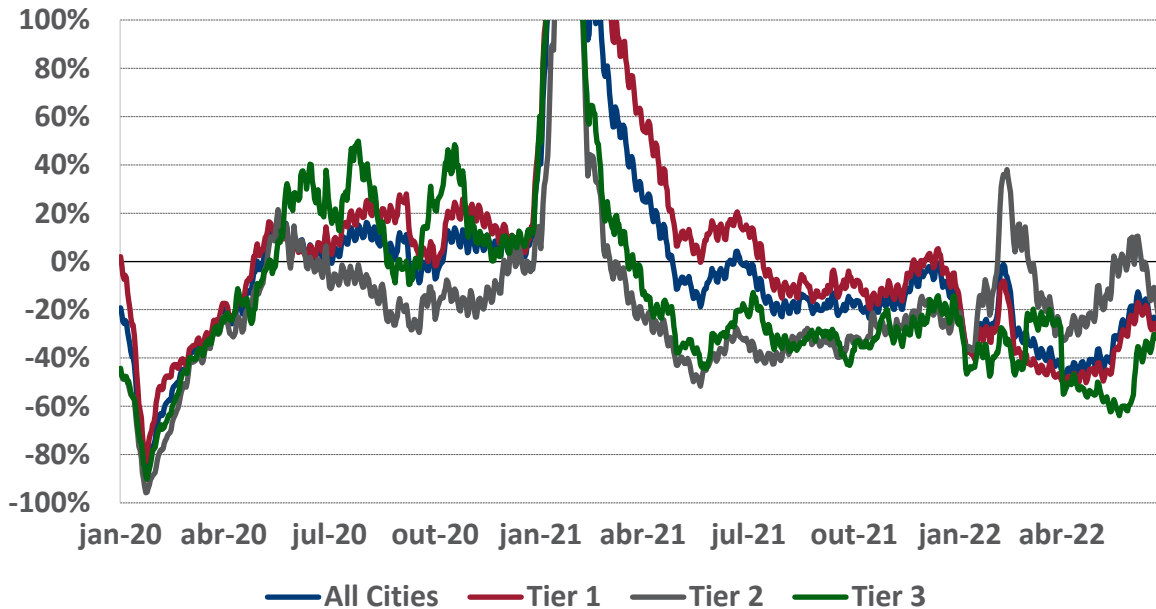
China: PMI - Employment



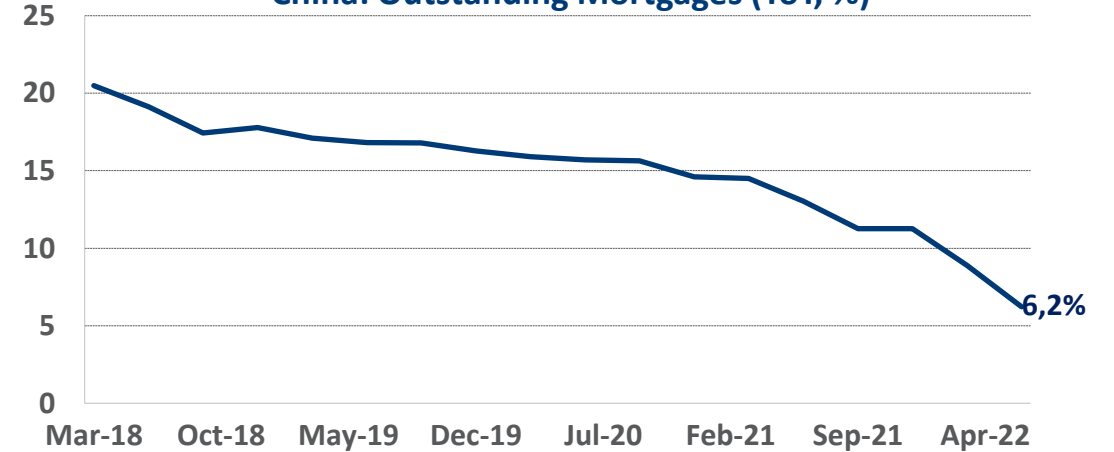
China: Real Estate Crisis

- » The real estate sector is still struggling: recent wave of mortgage suspensions, due to delayed home delivery;
- » Construction starts have not recovered;
- » The government is considering various measures to improve the scenario, but little has materialized so far;

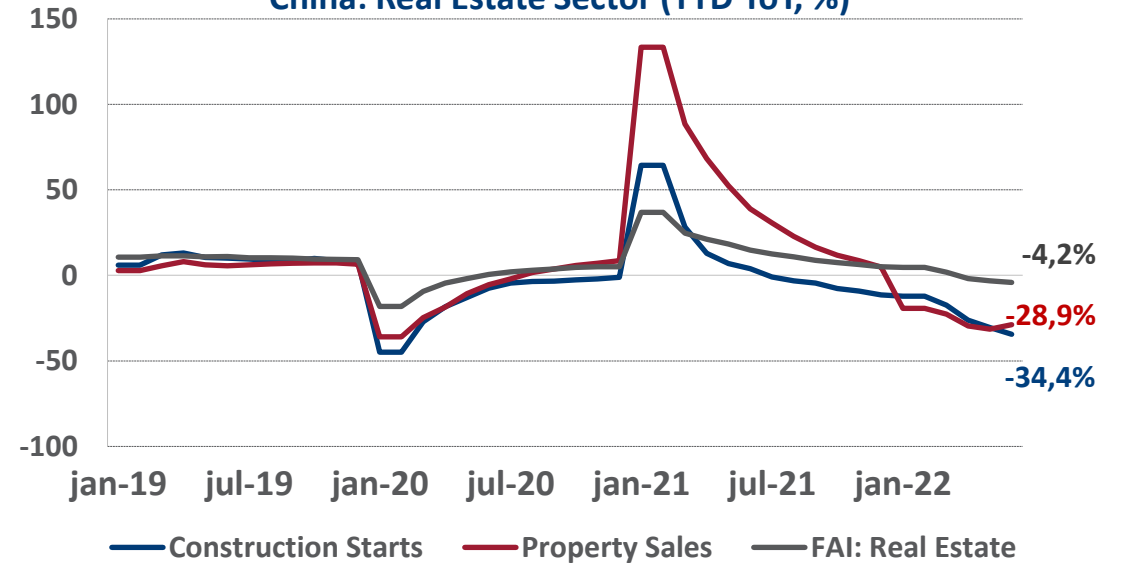
China: Real Estate Sales per Square Meter (YoY, %)



China: Outstanding Mortgages (YoY, %)

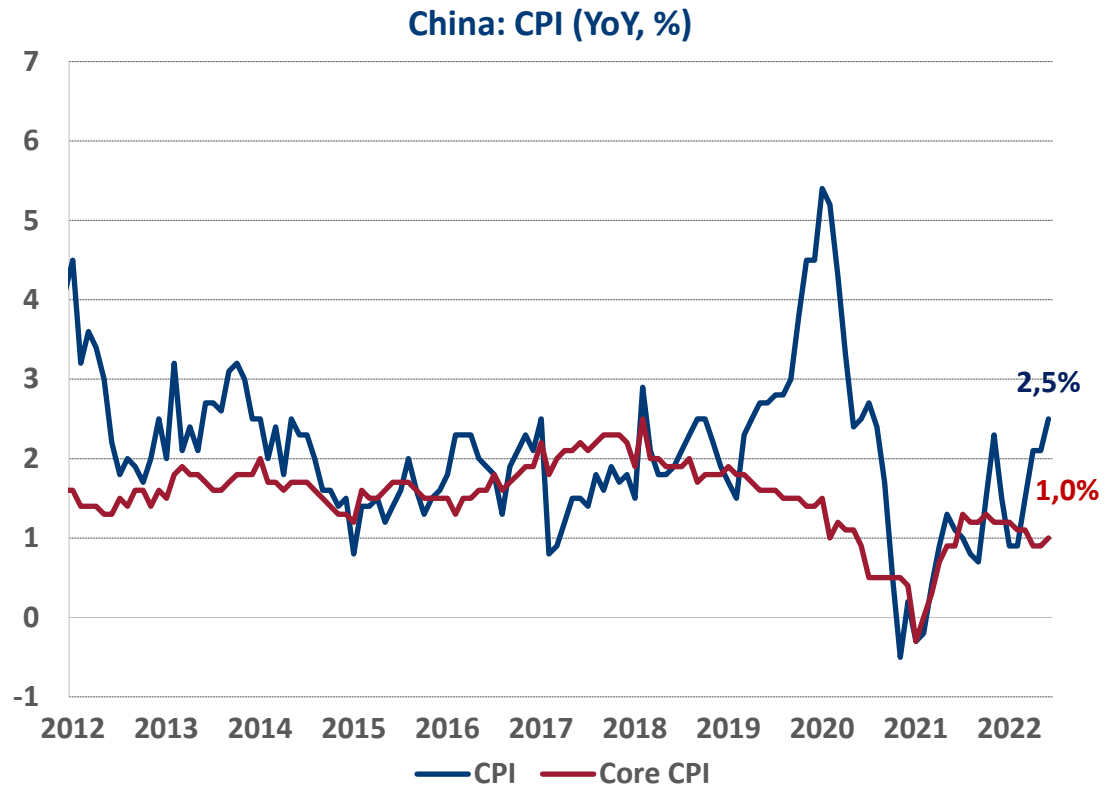


China: Real Estate Sector (YTD YoY, %)



China: Inflation

- » CPI inflation rose 2.5% YoY in June, up from a rise of 2.1% in May - above expectations;
 - » led by food prices (+2.9% YoY)
- » PPI grew by 6.1% YoY in June, decreasing from 6.4% in May;



China: CPI - Food (YoY, %)



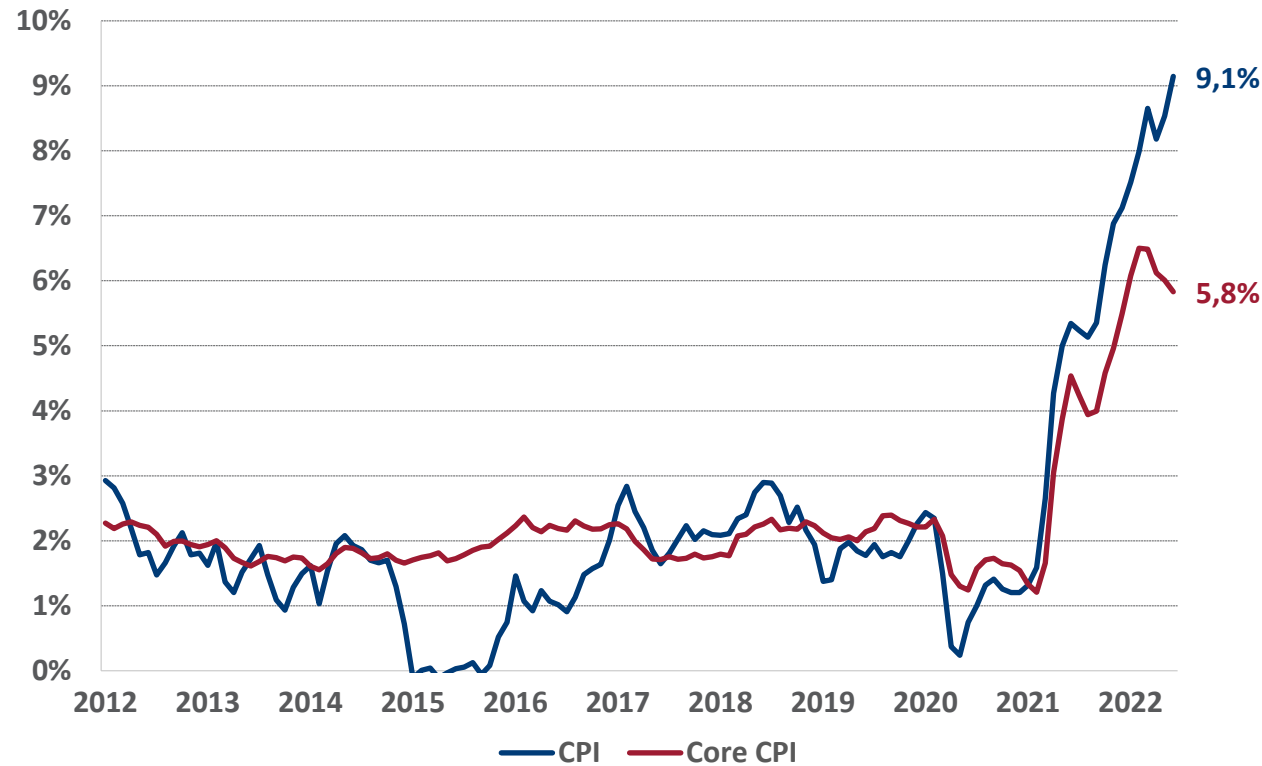
China: Producer Price Index (YoY, %)



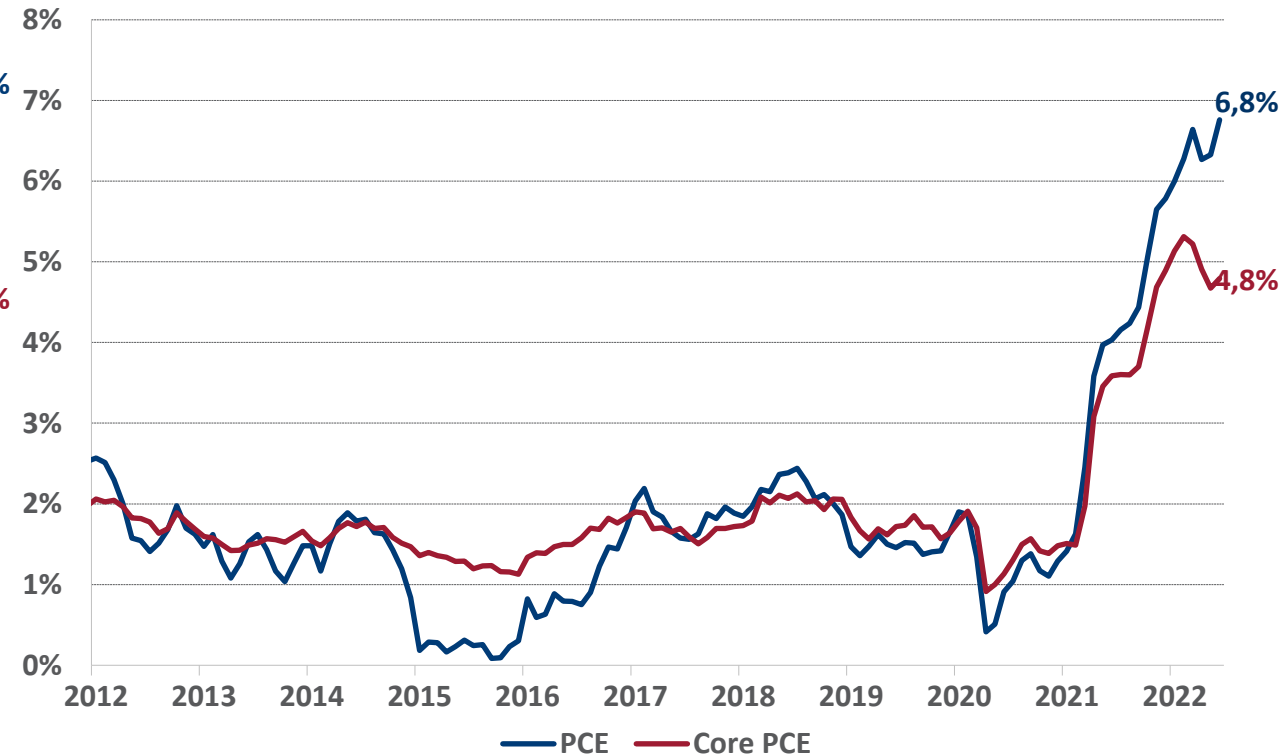
USA: Inflation

- » Inflation in the US picks up again coming to 9.1% YoY, after it showed signs of cooling down;
- » On the other hand, inflation cores are already running below their peaks.

US: CPI SA (YoY, %)



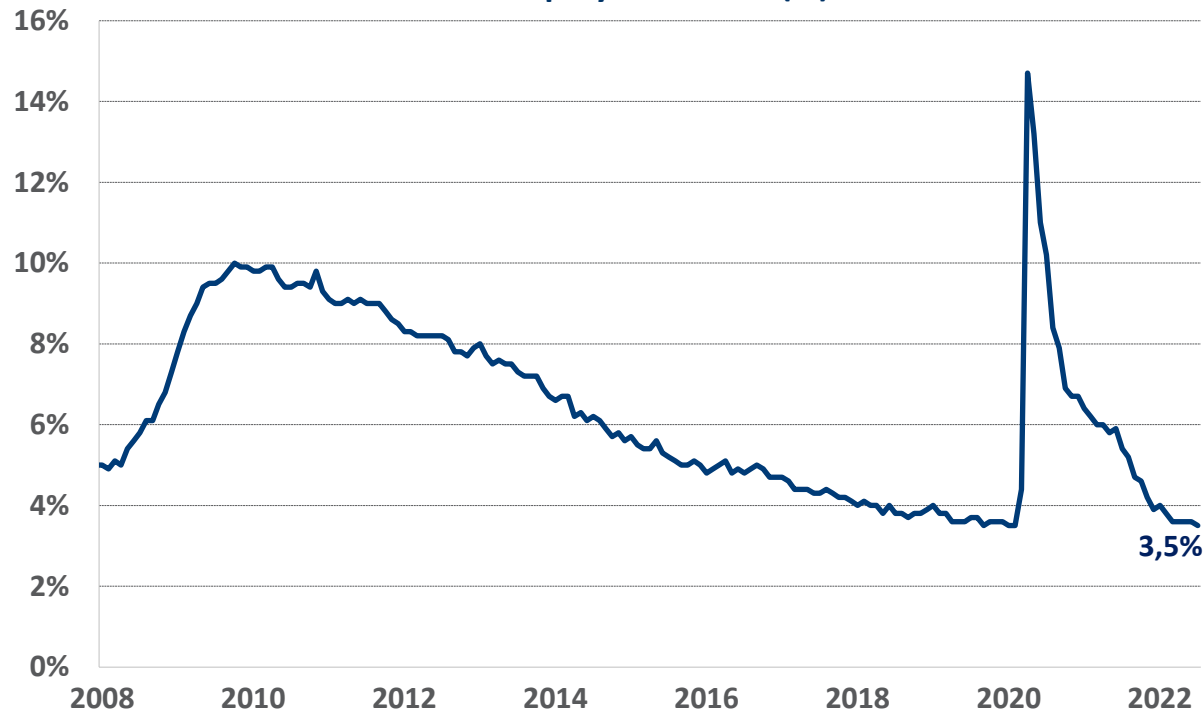
US: PCE SA (YoY, %)



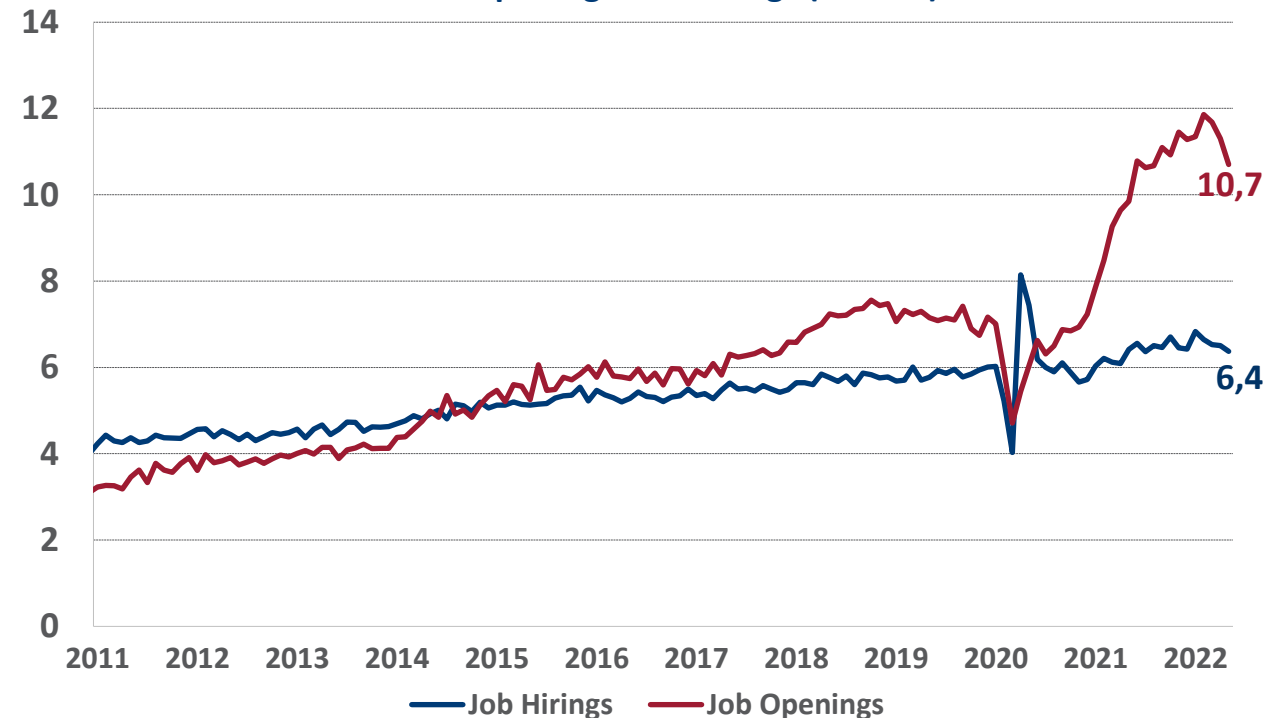
USA: Labor Market

- » Unemployment data came much above expectations in July, with +528k jobs created;
- » The unemployment rate decreased from 3.6% to 3.5%;
- » 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 (%)

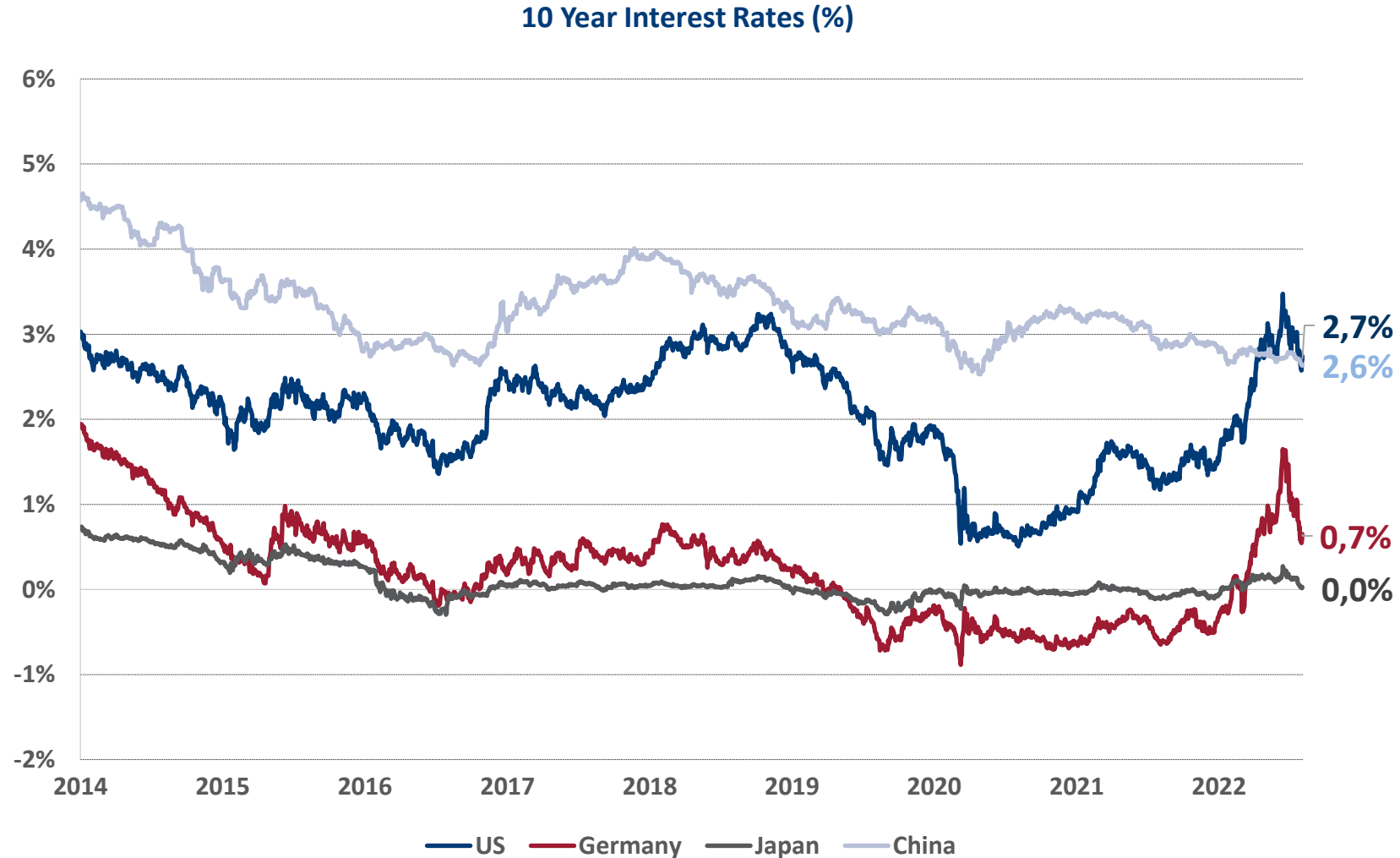


US: Job Openings and Hirings (Million)



Global: Interest Rates

- » Long-term interest rates of some major developed countries have gone down after recession narratives and activity slowdown started to be dominant.



Brazil: Forecasts

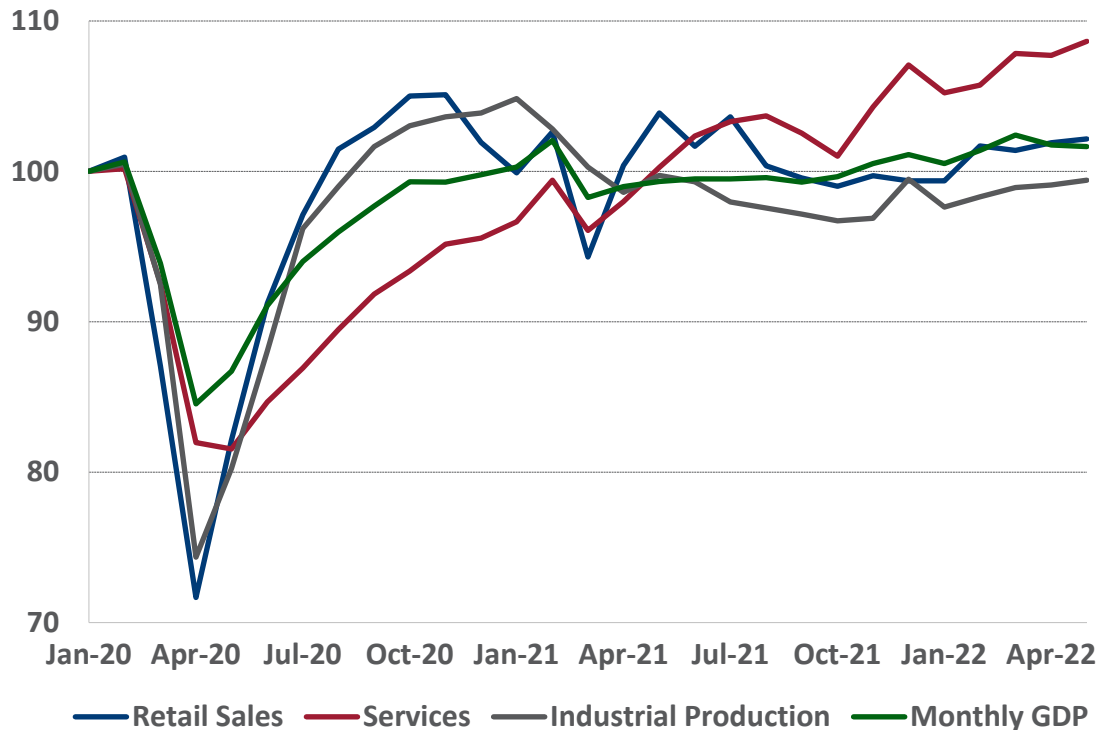
ECONOMIC FORECASTS	2019	2020	2021	2022F	2023F
GDP Growth (%)	1,1%	-3,9%	4,6%	2,1%	0,1%
Inflation (%)	4,3%	4,5%	10,1%	7,2%	5,6%
Unemployment Rate (eoy ,%)	11,7%	13,9%	11,1%	9,0%	9,5%
Policy Rate (eoy, %)	4,5%	2,0%	9,3%	13,75%	11,75%
External Accounts					
Trade Balance (US\$ bn)	48	32	36	68	45
Current 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%	-0,6%	-0,6%
Government Gross Debt (% of GDP)	74,3%	88,8%	80,3%	78,2%	82,6%

Brazil: Activity

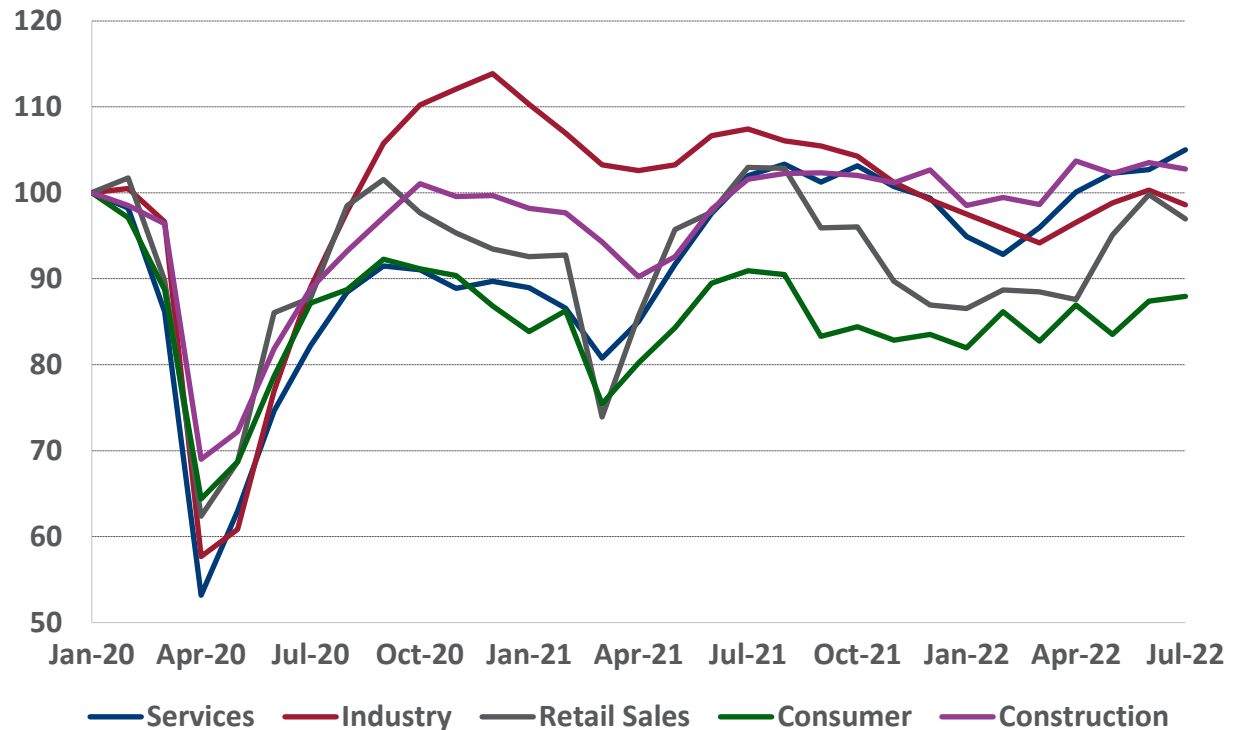
» Activity high frequency data showed mixed signals to 2Q22:

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

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

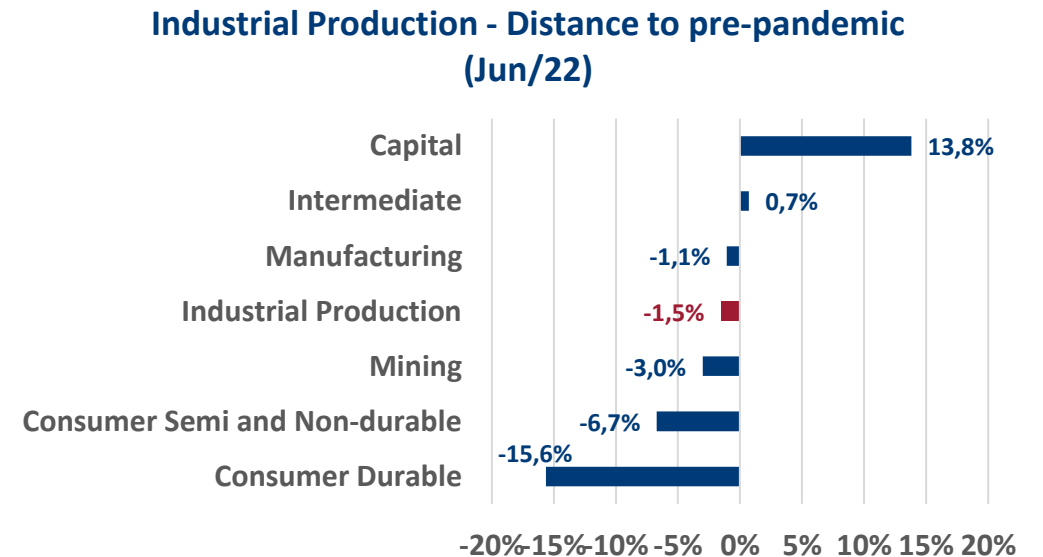
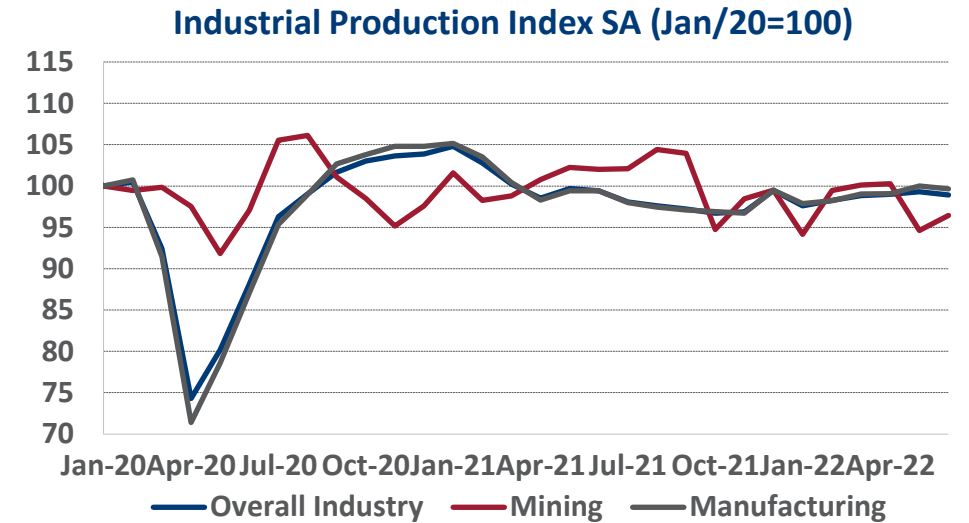
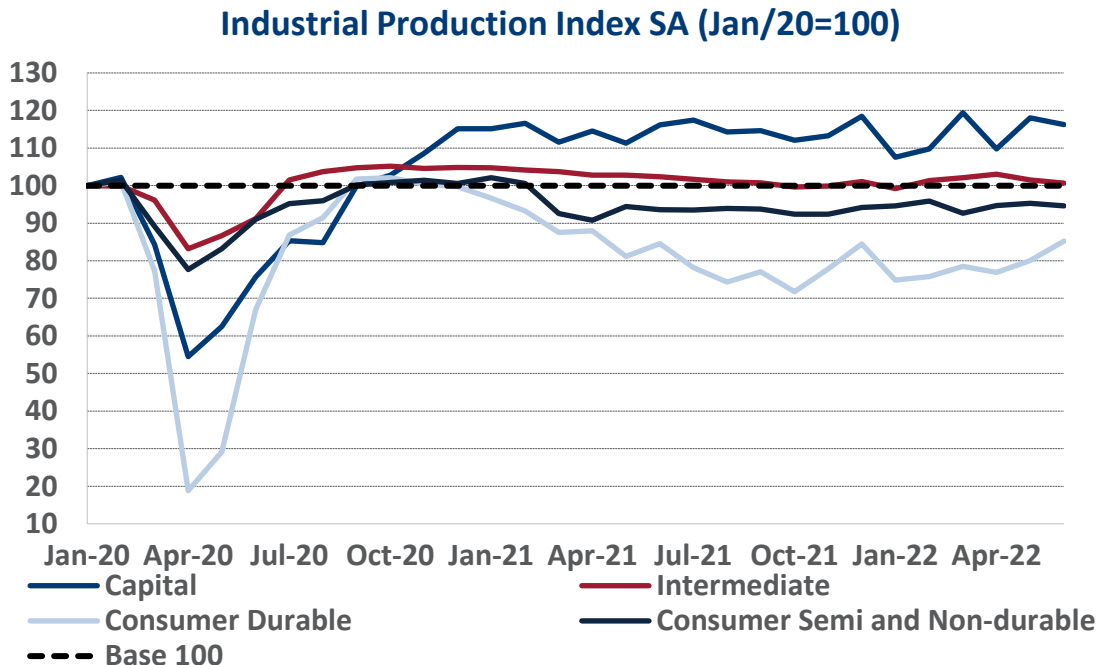


Brazil - Economic Confidence Index (Jan/20 = 100)



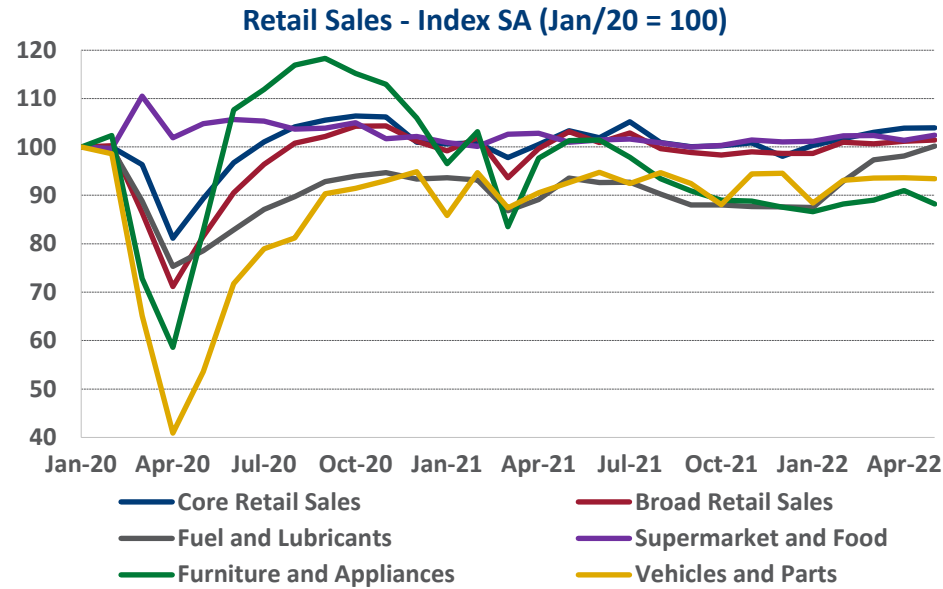
Brazil: Industrial Production

- » Industrial production decreased by 0.4% MoM in June: the major contribution came from consumer durable goods (6.4% MoM), which was boosted by vehicles production;
- » It's worth mentioning the sector is facing hardships:
 - » Supply side: global inputs shortages, higher interest rates
 - » Demand side: consumption transitioning from goods to services

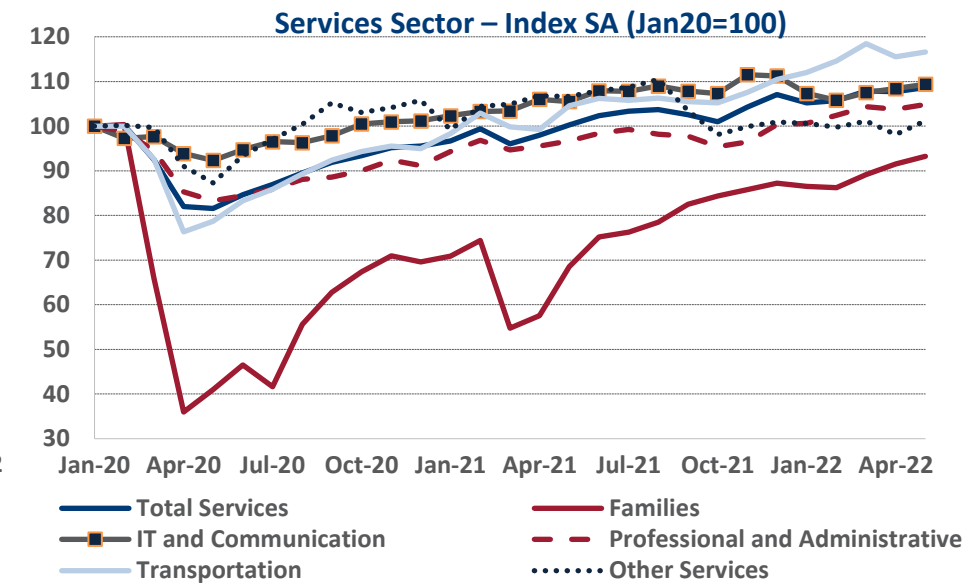
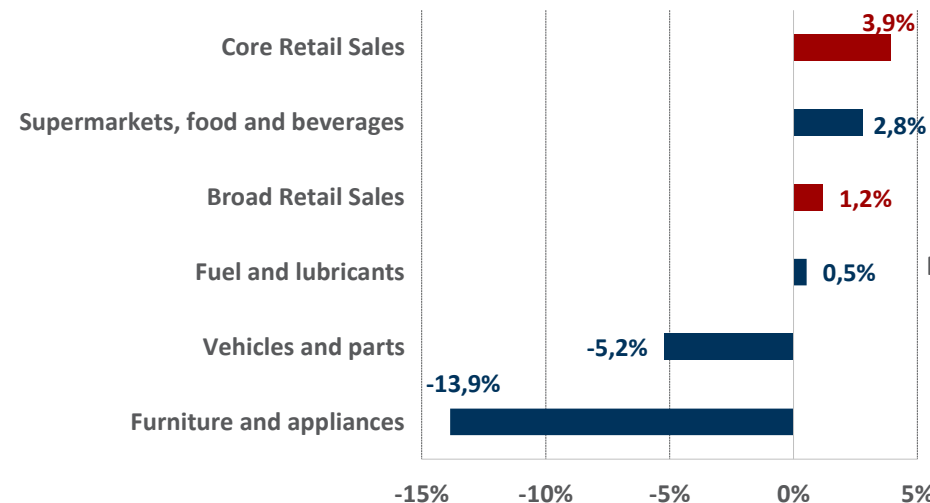


Brazil: Retail Sales and Services Sector

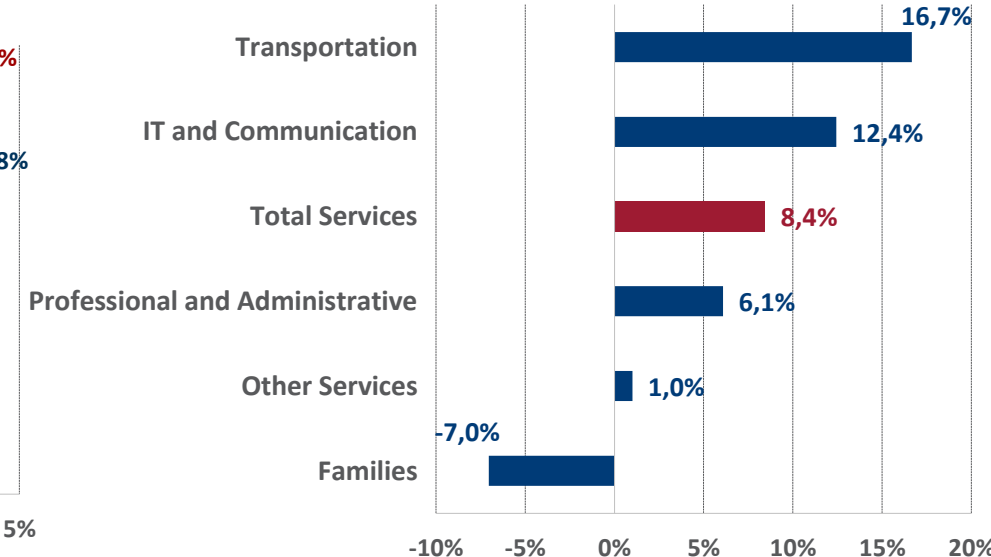
- » In May, broad retail sales remained roughly stable with a 0.1% MoM result (expectations was of 1% MoM);
- » The services sector posted a surprisingly positive result of 0.9% MoM (market expectations was 0.1%);
- » Both sectors have recovered and are now above their pre-pandemic levels by 1.2% and 8.4%, respectively.



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



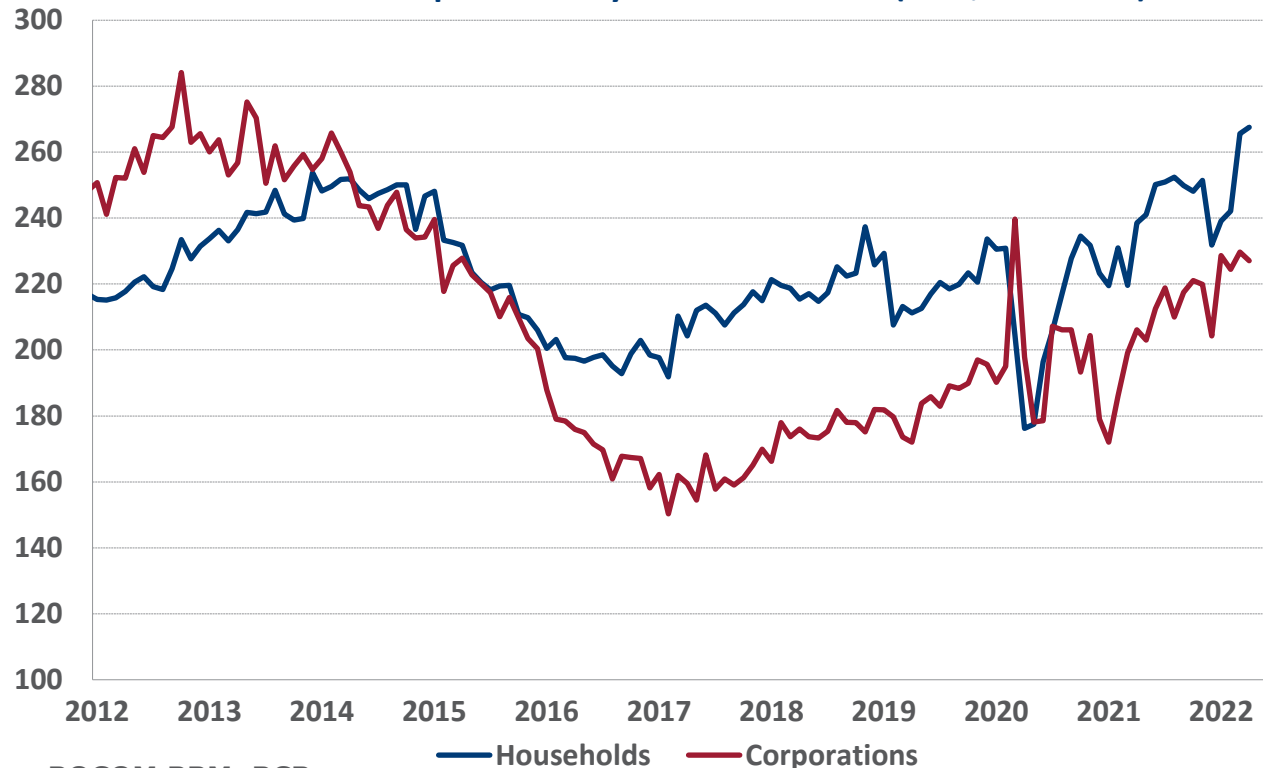
Services Sector - Distance to pre-pandemic level (May/22)



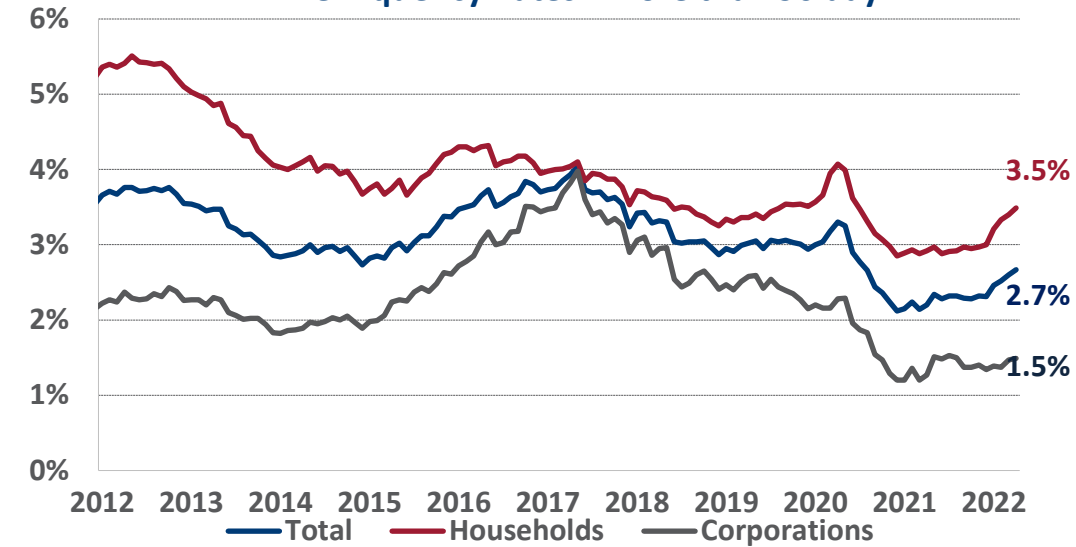
Brazil: Credit

- » In April, new credit operations decreased 1.3% with corporate pointing down by -1.1% MoM and households up by 0.7% MoM
- » Delinquency rates still low but trending up: tight monetary policies and increased family's indebtedness.

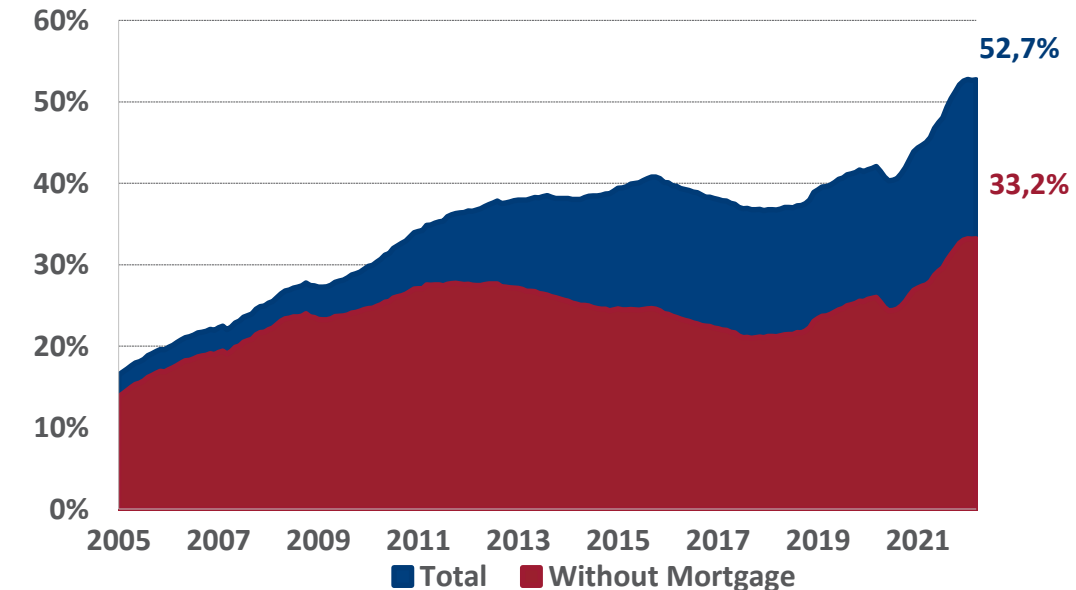
New Credit Operations by Borrower - Total (Real, R\$ Billion)



Delinquency Rates - More than 90 day



Debt-to-Income Ratio



Brazil: Labor Market

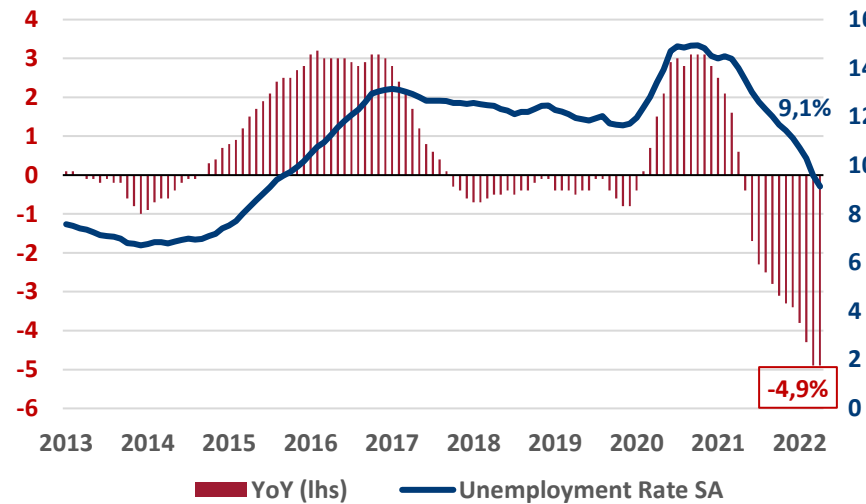
» The labor market kept improving in May, on the heels of the normalization process:

» The unemployment rate fell from 9.3% to 9.1% (9.8% to 9.3% NSA) with the recovery of both formal and informal jobs;

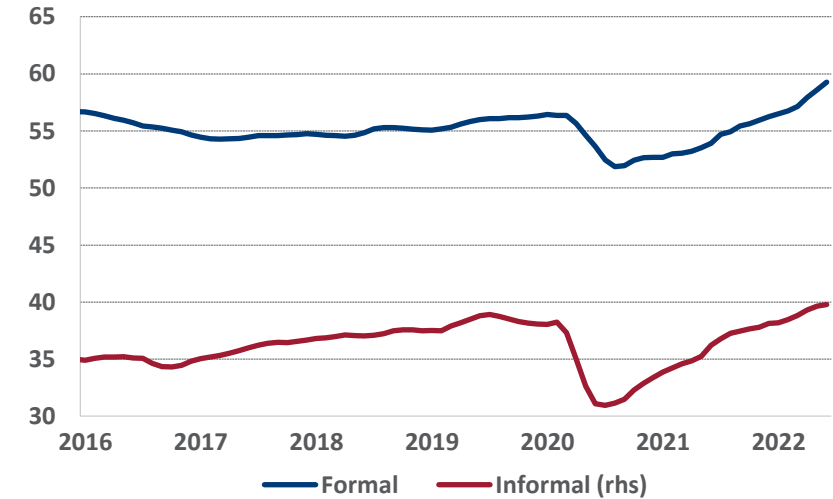
» The underutilization of labor force is at 21.2%, below its pre-pandemic level;

» Real wage bill still on low levels, however with a strong upward trend due to the increase of the employed population and the relief in short-term inflationary pressures.

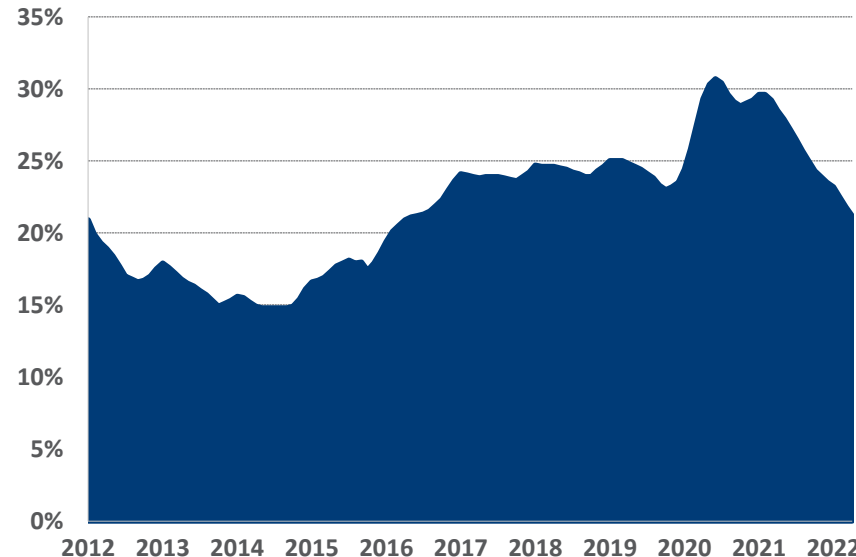
Brazil - Unemployment Rate



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;

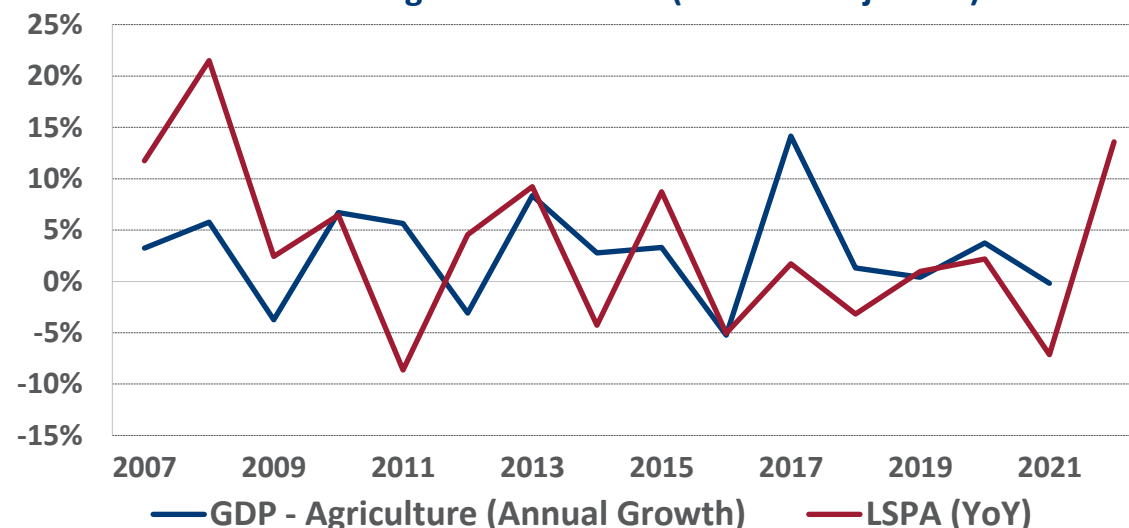
» **Industry remains the main drag of the economic activity** with the manufacturing industry being compromised by elevated cost, high interest rates, supply chain bottlenecks and different consumption composition:

- » There have been some improvements regarding the supply chain bottlenecks, however with a slower than expected speed;
- » On the other hand, we recognize there's an upside risk regarding the Civil Construction and Utilities sectors which present high carry-over effect in 1Q22 (4.4% and 6.7%, respectively).

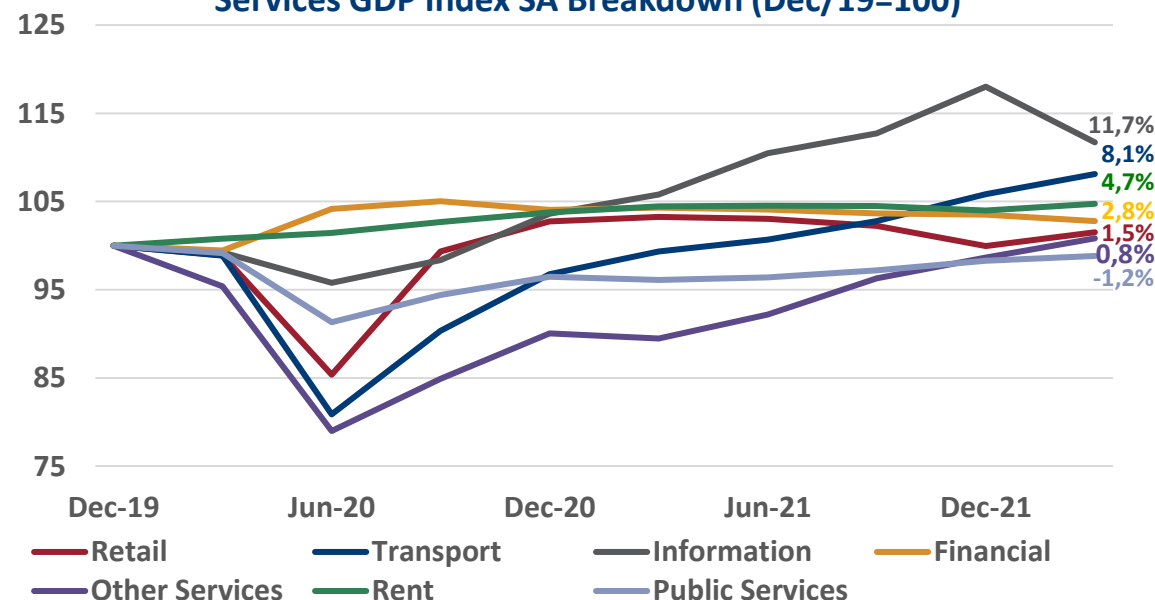
» **We expect services output to continue increasing**, due to the improvements in labor market conditions, increased government cash-transfers and the use of circumstantial savings that rose during the pandemic;

- » low unemployment and fiscal stimulus translates to stronger household disposable income, which also increase household consumption;
- » It's expected that activity loses strength in 2H22: global and domestic uncertainty, elevated interest rates, mounting fiscal risks, 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 Projection)



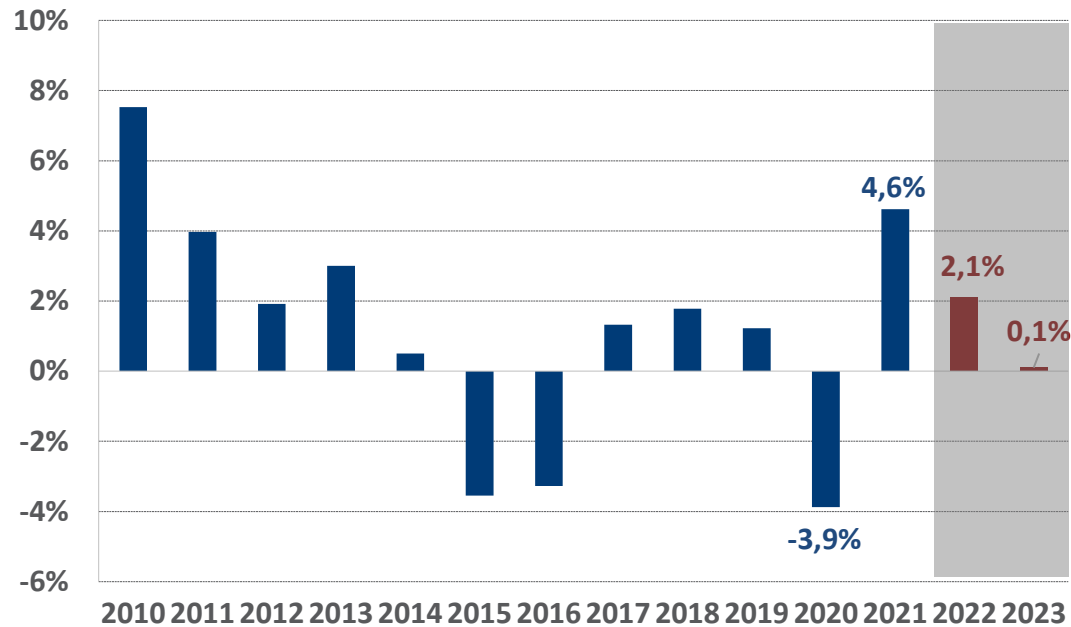
Services GDP Index SA Breakdown (Dec/19=100)



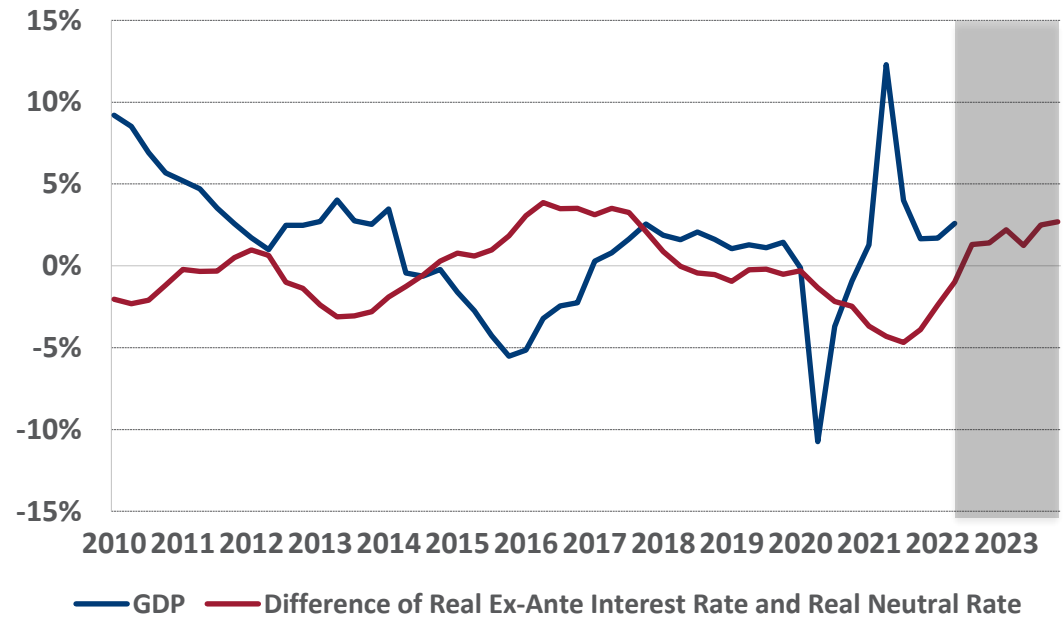
Brazil: GDP Scenario

- » **Our 2022 GDP projection is at 2.1%:** 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 0.1%:**
 - » Restrictive monetary and fiscal policies + labor market stabilization + global recession decreasing commodities prices;

GDP Annual Growth (%)



GDP x Monetary Policy Stance - YoY



GDP Projections 2022							
GDP Breakdown	Weights	2019	2020	2021	2Q22		2022
					QoQ	YoY	Annual Growth
Agriculture	6,9	0,4	3,8	-0,2	3,1	2,0	2,0
Industry	18,9	-0,7	-3,4	4,5	0,5	-0,2	-0,6
Services	59,4	1,5	-4,3	4,7	0,2	3,3	3,2
Total GDP		1,2	-3,9	4,6	0,9	2,6	2,1

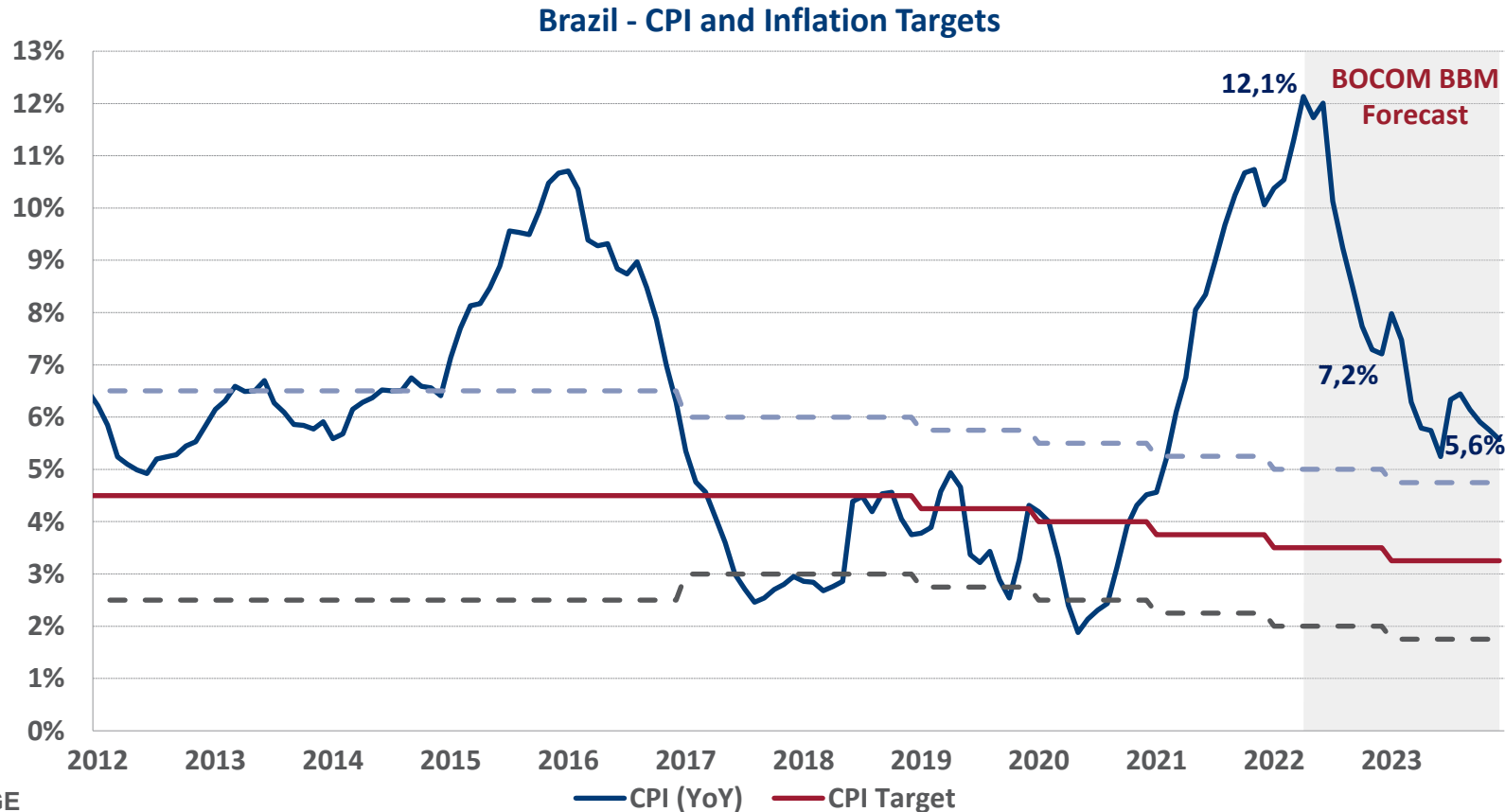
Brazil: Inflation

- » 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 and services accelerated in line with the mobility recovery;
- » In 2023, regulated items readjustments, services inflation inertia and the already positive 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 remain lower.

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	11,9%	11,7%	12,0%	8,7%	16,7%	13,7%
22 Q3	8,4%	1,1%	11,2%	9,0%	15,6%	11,6%
22 Q4	7,2%	-1,2%	10,4%	8,8%	15,3%	9,4%
23 Q1	6,4%	0,3%	8,6%	9,1%	10,4%	6,8%
23 Q2	5,6%	2,2%	6,8%	8,0%	7,6%	4,5%
23 Q3	6,3%	9,5%	5,3%	7,2%	4,1%	3,3%
23 Q4	5,6%	8,6%	4,6%	6,7%	4,3%	1,8%

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 higher electricity readjustments, 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, communications, and fuels at 17% and exempted fuels from federal taxes until december. On the other hand, we do not consider a big impact from communications in CPI and still think that strong activity will keep services inflation high. Further risks to 2022 CPI are:

Upside risks:

1. Continued risk of government's fiscal policy to continue decreasing effect of monetary policy on inflation;
2. In 2023, inertia could be higher than estimated and make the disinflation process more difficult;

Downside risks:

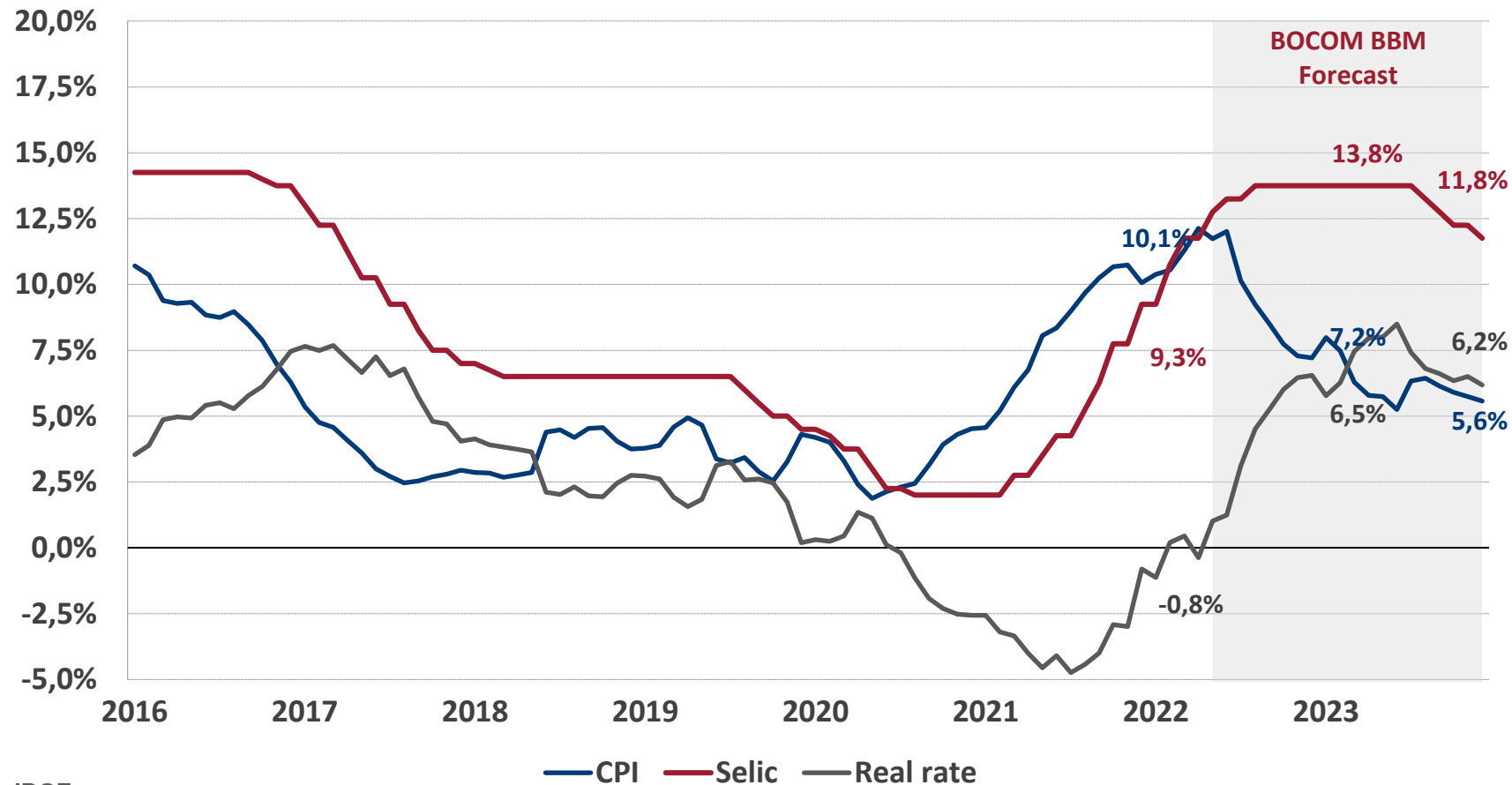
1. Downfall of commodities prices could continue for a long period, having impact in prices of gasoline, diesel, industrial goods and food;
2. Telecommunications deflation could be larger than what we consider in our scenario.

- » 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 has turned the GDP gap positive, showing that demand remains resilient.

Brazil: Interest rates

- » Scenario: Copom could hike further, but has indicated that 2024 inflation projections have become relevant;
- » Decision will be data-dependent, but interest will likely be kept at 13.75%.

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



Brazil: Bimonthly Evaluation Report

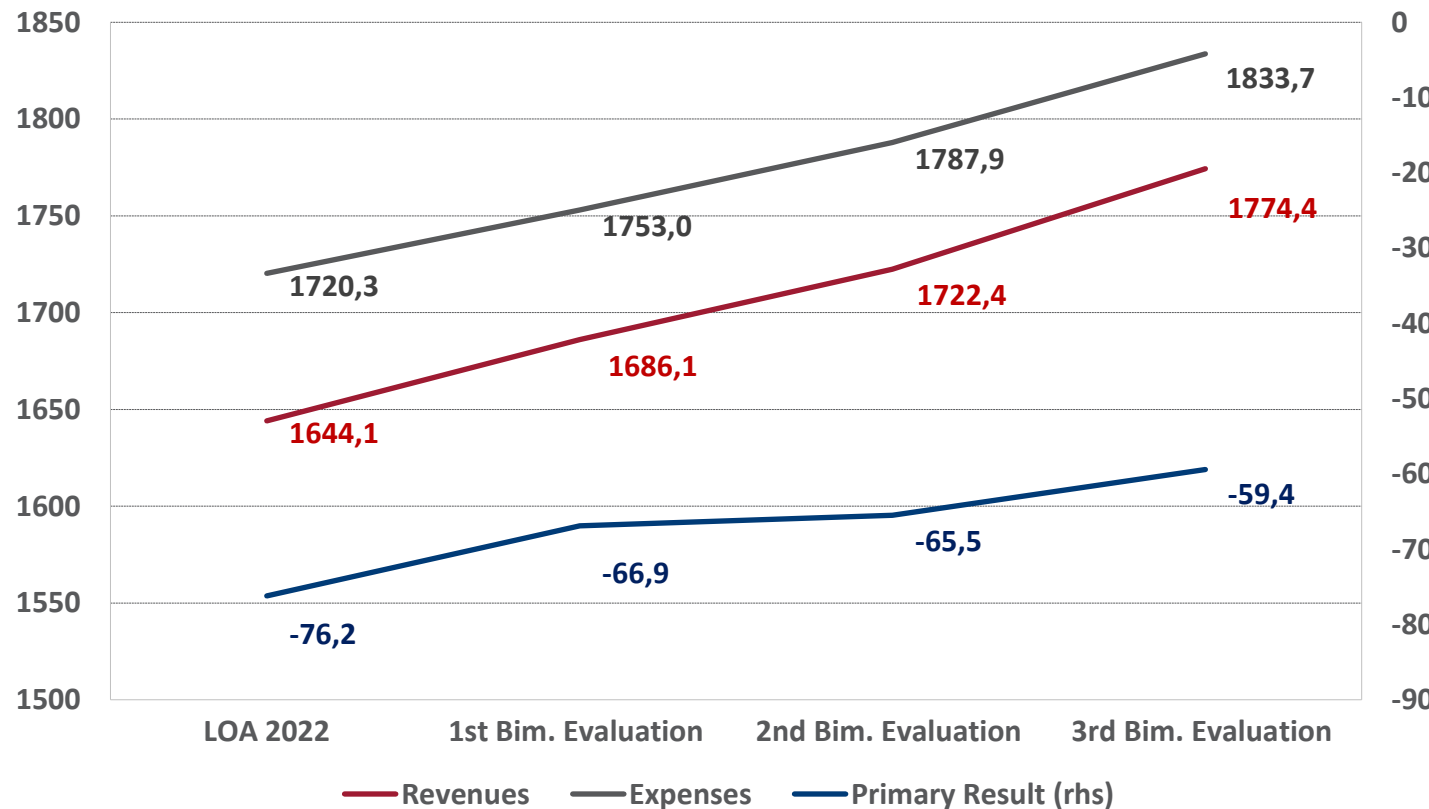
» Evolution:

» **Primary Result:** From BRL -76 billions to BRL -59 billions;

» **Revenues:** From BRL 1.64 trillion to 1.77 trillion;

» **Expenses:** From BRL 1.72 trillion to 1.83 trillion;

Evolution of Fiscal Projections (BRL, Billion)

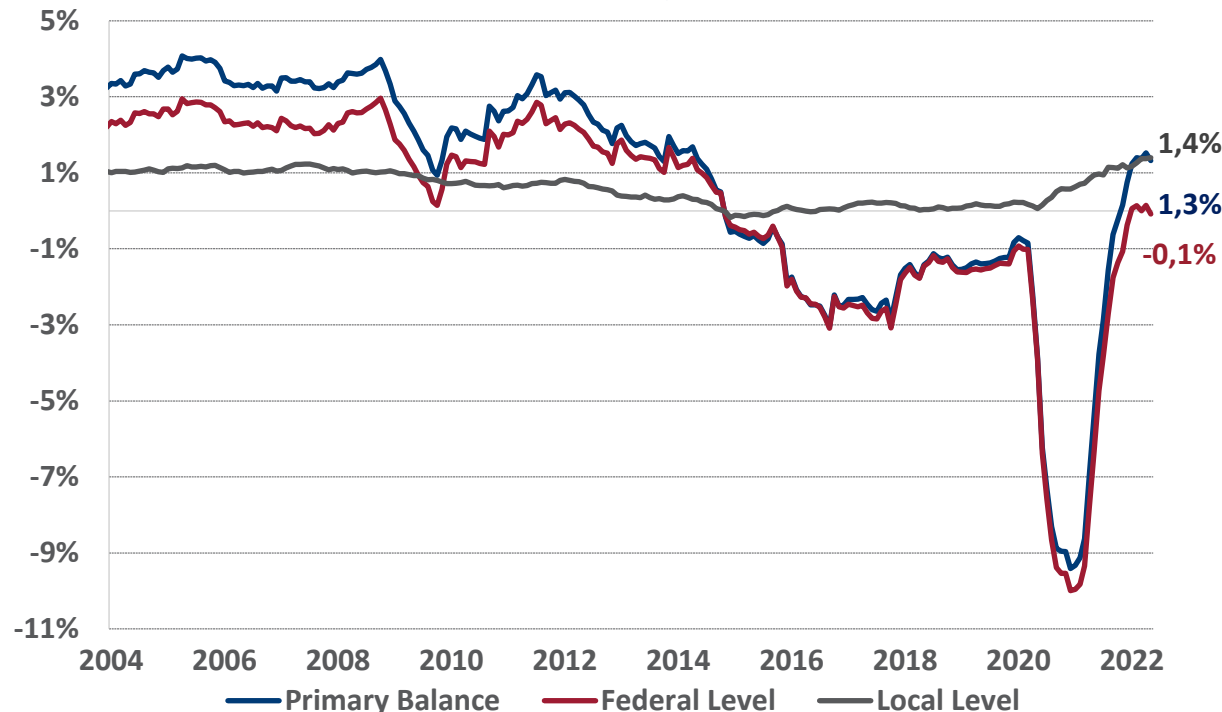


Parameters	LOA 2022	2nd Bim. Evaluation	3rd Bim. Evaluation
Real GDP (%)	2,10	1,50	2,00
Nominal GDP (BRL Billion)	9539,01	9710,92	9725,00
Accumulated IPCA	4,70	7,90	7,20
Accumulated INPC	4,25	8,10	7,41
IGP-DI accumulated	5,42	11,40	11,51
SELIC - Year-to-date (%)	10,68	12,15	12,35
Average Exchange Rate (BRL/USD)	5,53	5,02	5,13
Average Oil Price (USD/barrel)	77,37	102,78	107,45
Minimum Wage (BRL 1,00)	1211,00	1212,00	1212,00
Nominal Wage Mass (%)	12,59	16,32	18,09

Brazil: Fiscal Results

- » Fiscal readings have been improving in the last months due to higher commodity prices, inflation and GDP;
 - » It has been offset, to some extent, by the performance of tax collection;
 - » But the recent government initiatives could mean a reversal in the current trend;
- » In June, the central government's primary result was a surplus of BRL 14.4 billion;

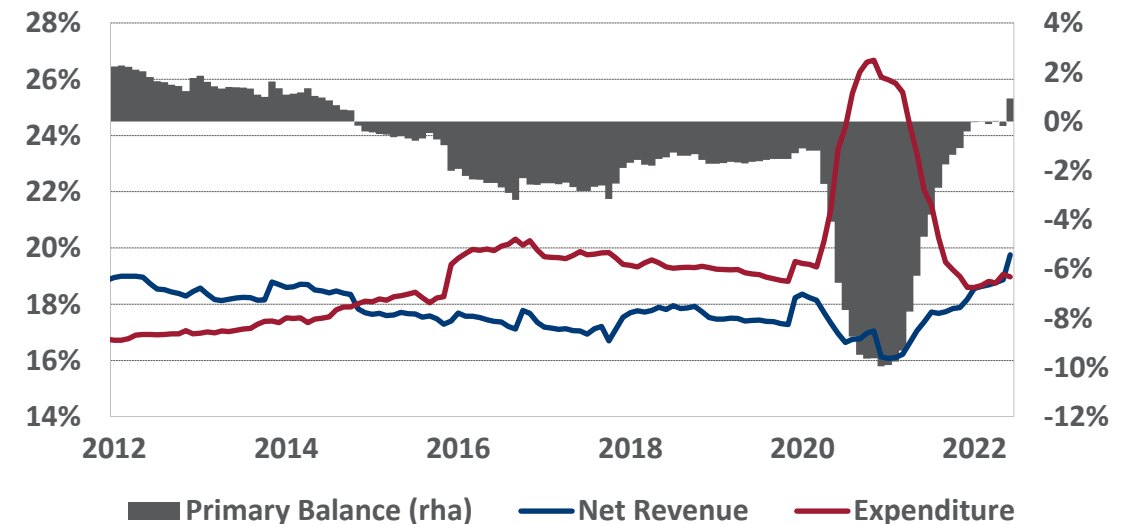
Brazil: Public Sector Primary Result (% GDP 12M)



Brazil: Tax Collection (% GDP 12M)



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



Brazil: Fiscal Recent News

» PEC 1/22:

- » PEC 15/22 and PEC 16/22 appended to PEC 1/22;
- » Approved in the Plenary of the House of Representatives, after voting in two rounds;
 - » with no changes in relation to the text that came from the Senate;
- » Govm't expects that the new benefits will be paid as of August;

» Joint Session of National Congress:

- » **Aldir Blanc 2 Bill:** Presidential veto overturned;
 - » Fiscal impact: BRL 3.8 billion;
- » **Paulo Gustavo Law:** veto overturned;
 - » Fiscal impact: BRL 3 billion;
- » **Eletrobrás privatization:** veto upheld;

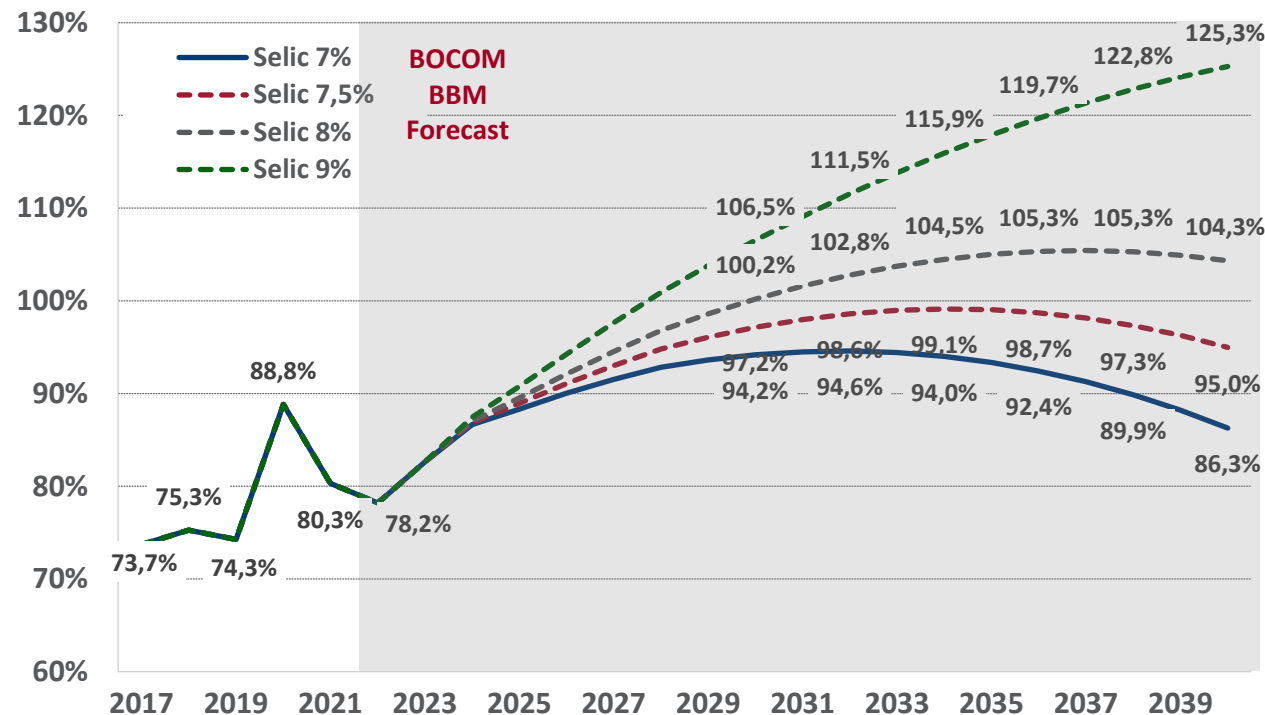
Measures of May - July (BRL Billion)	Fiscal Impact (6m)	Fiscal Impact (12m)
Total (w/ PEC 1)	-107	-210
Total PLP 18/22 (States)	-53	-106
Electric Energy	-22	-43
Essential ICMS (from 23% to 17/18%)	-9	-19
Non-incident TUSD/TUST	-12	-24
Telecommunications (from 27% to 17/18%)	-6	-12
Fuels	-25	-51
Gasoline (base ma60 months) + (rate from 28% to 17/18%)	-17	-34
Gasoline (base ma60 months)	0	0
Gasoline (rate from 28% to 17/18%)	0	0
Ethanol (base ma60 months) + (rate from 28% to 17/18%)	-3	-6
Ethanol (base ma60 months)	-	-
Ethanol (base rate from 19% to 17/18%)	-	-
Diesel (base ma60 months) + (rate from 14% to 11%)	-6	-11
Zero Federal taxes (gasoline and ethanol) (PLP 18/22)	-17	-34
Gasoline (PIS/COFINS at R\$0.79 and Cide at R\$0.10)	-14	-28
Ethanol (PIS/COFINS at R\$0.24)	-3	-6
PEC 1	-37	-70
Vale gás average 6M of the value of LPG every two months	-1	-2
Voucher for truck drivers of R\$1000 per month	-3	0
Increase of Auxílio Brasil to R\$600	-18	-43
Zero queue of Auxílio Brasil	-8	-18
Subsidy for free public transportation	-3	-6
Ethanol producer tax credits (R\$ 0.45)	-4	0
Taxi driver aid	-1	0

Fiscal: Debt to GDP

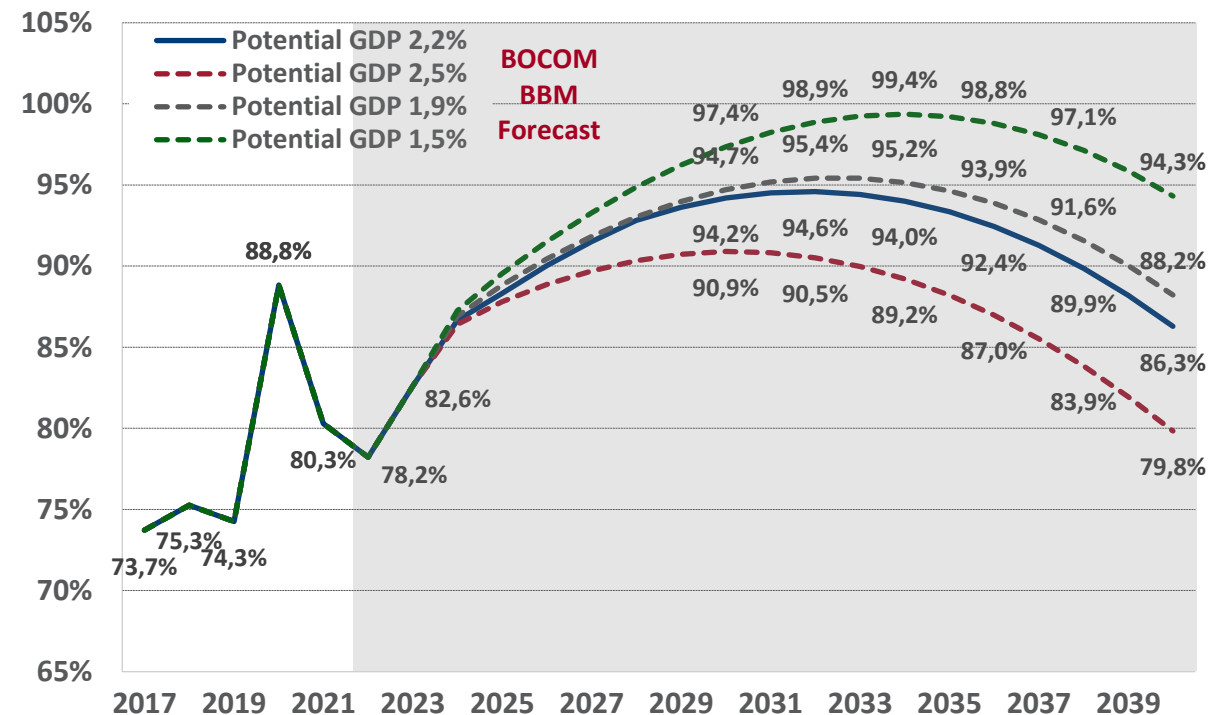
- » In our base scenario, we currently expect a 78.2% result for the debt to GDP ratio in 2022;
- » The trajectory of the debt changes depending on the potential GDP and Selic scenarios.

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



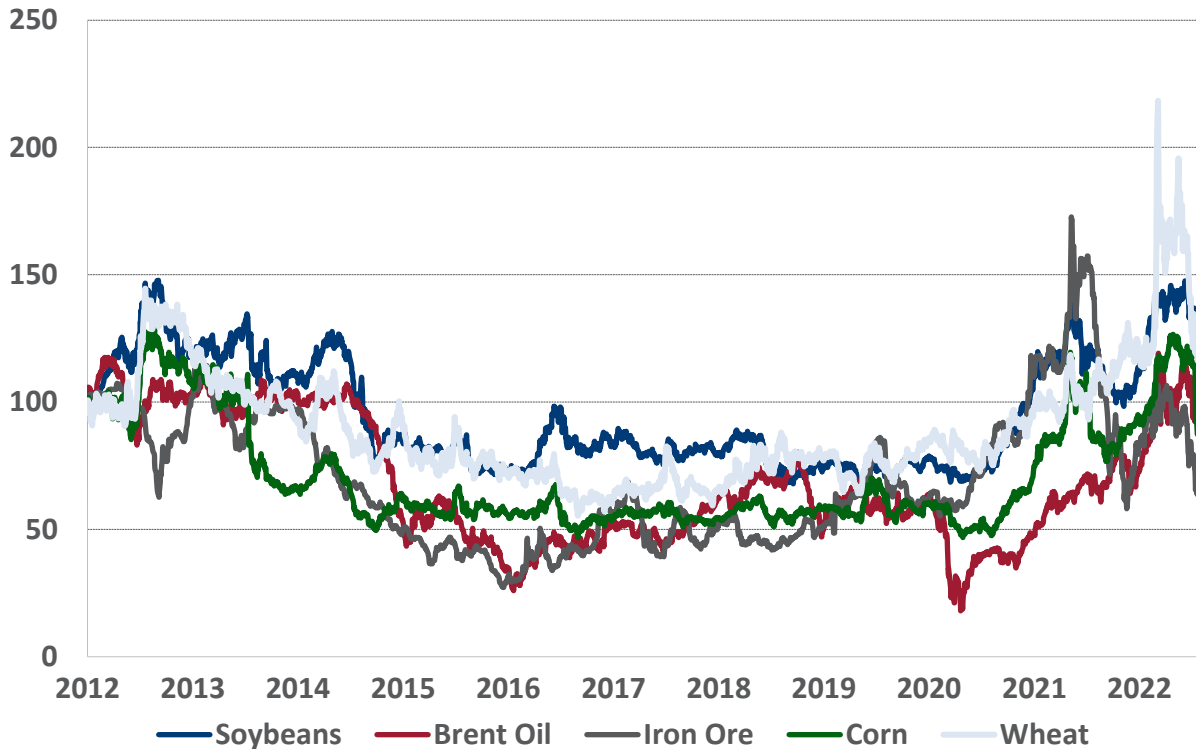
Debt to GDP Ratio - Different Potential GDPs



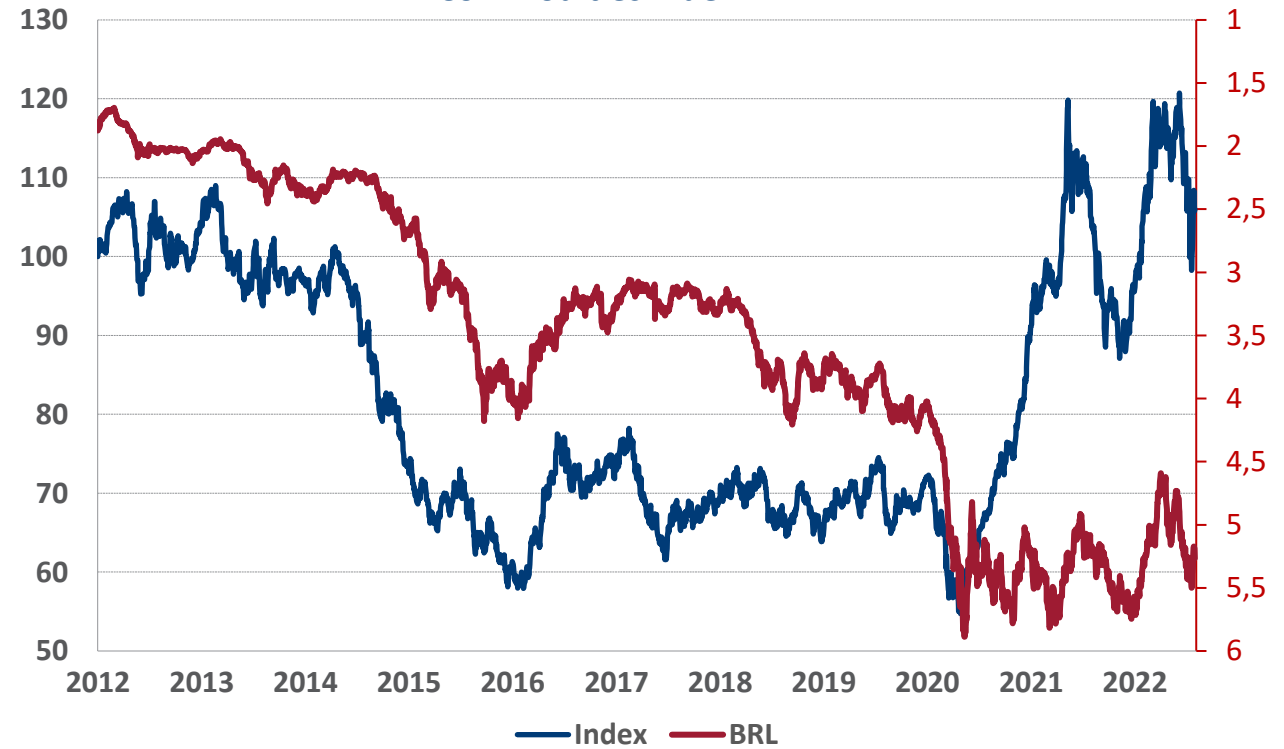
Brazil: External Sector

- » 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)



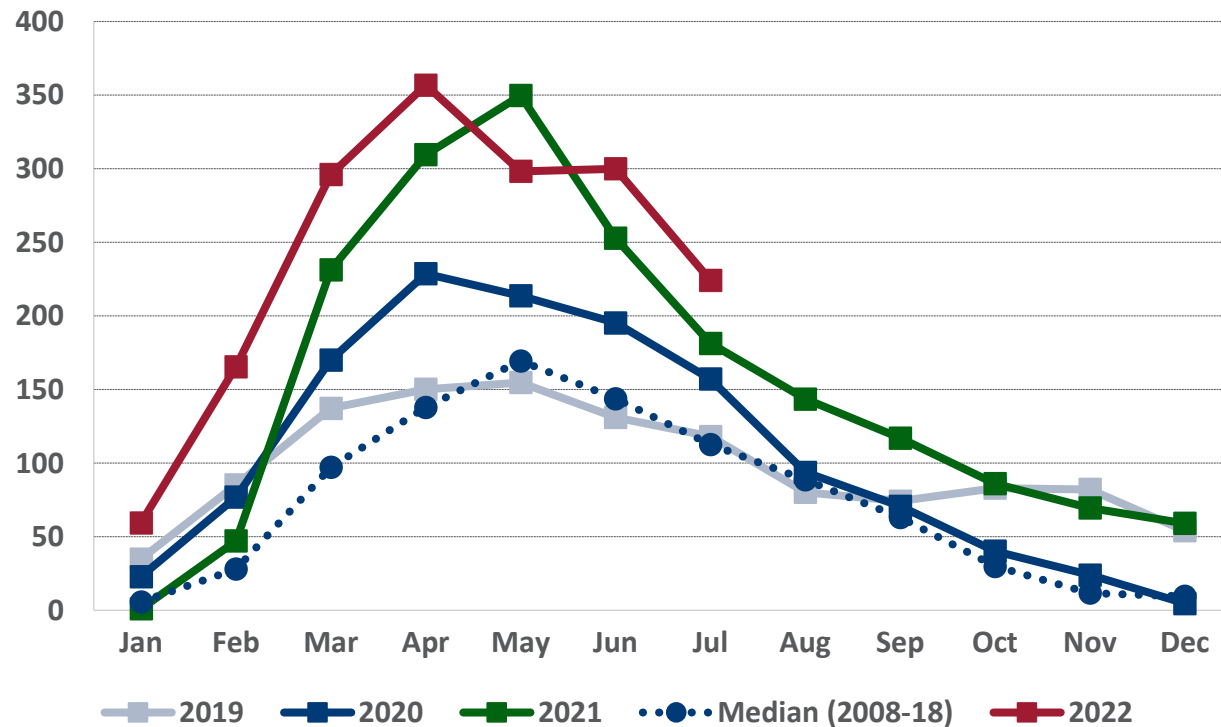
Commodities Index x BRL



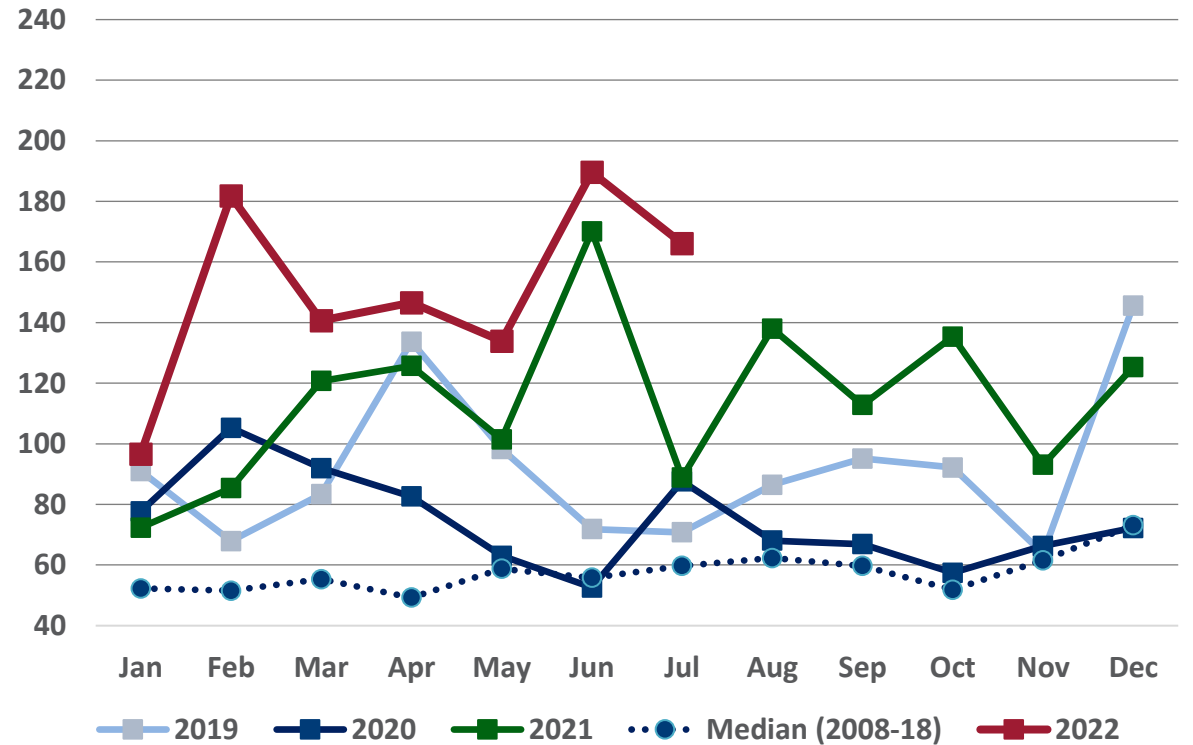
Brazil: External Sector

- » Trade balance continues to be favored by high prices of commodities that should keep the country's exports high in the coming months;

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

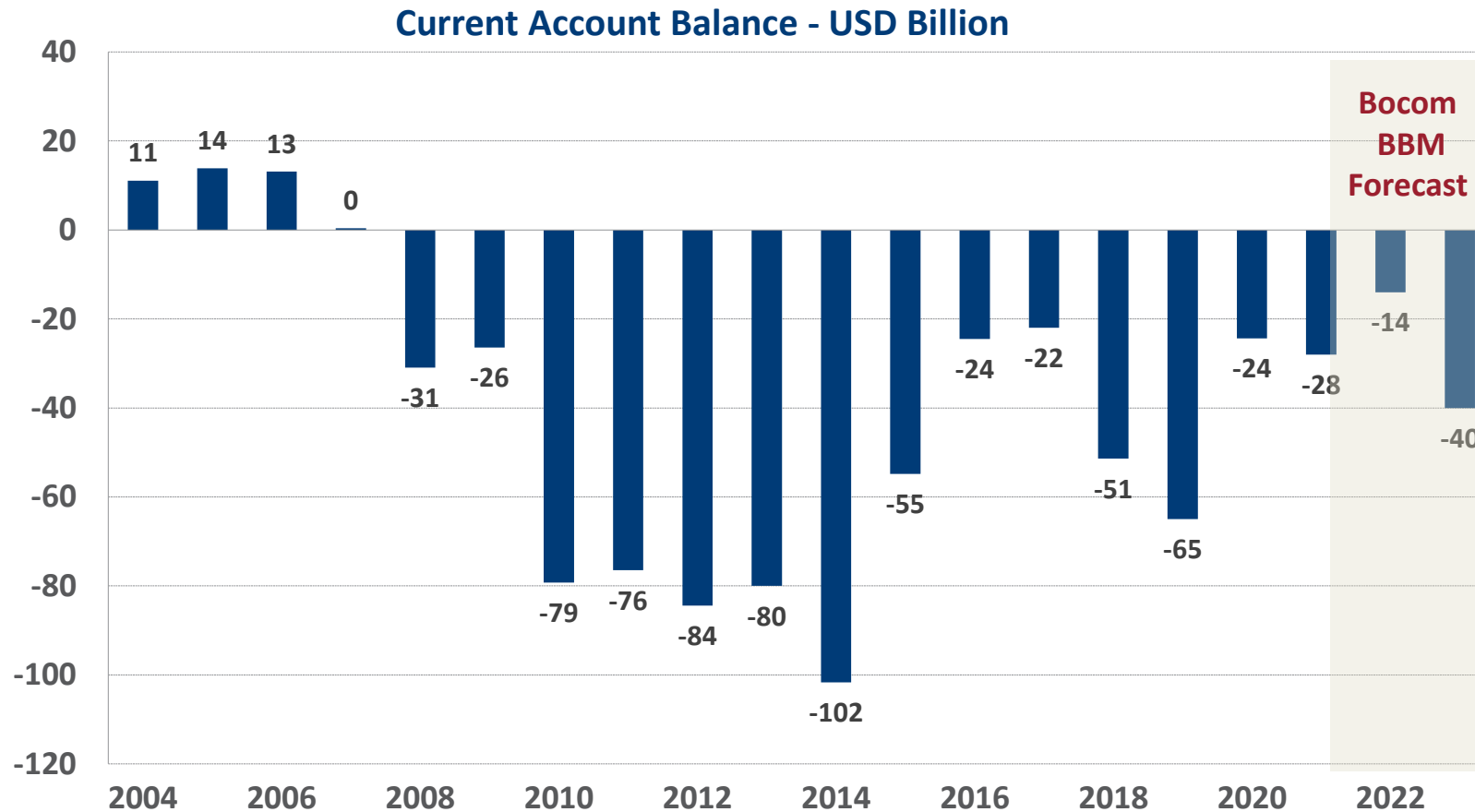


Brazil - Crude Oil Exports (US\$ Million Daily Average)



Brazil: Balance of Payments

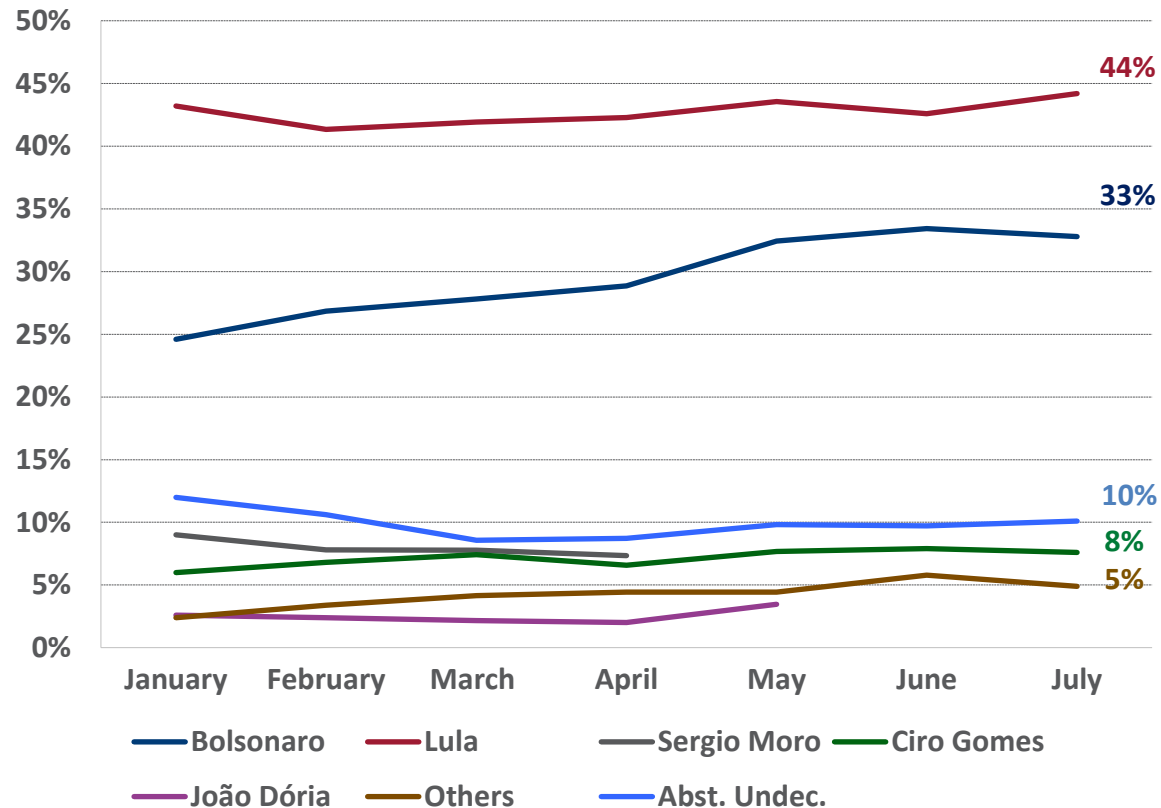
- » Current account is expected to display similar results as in 2020 and 2021, considering still elevated commodity prices;
- » Our current account forecast remains at USD -14 billion in 2022, guided by the solid results of the trade balance and of Brazilian exports this year.



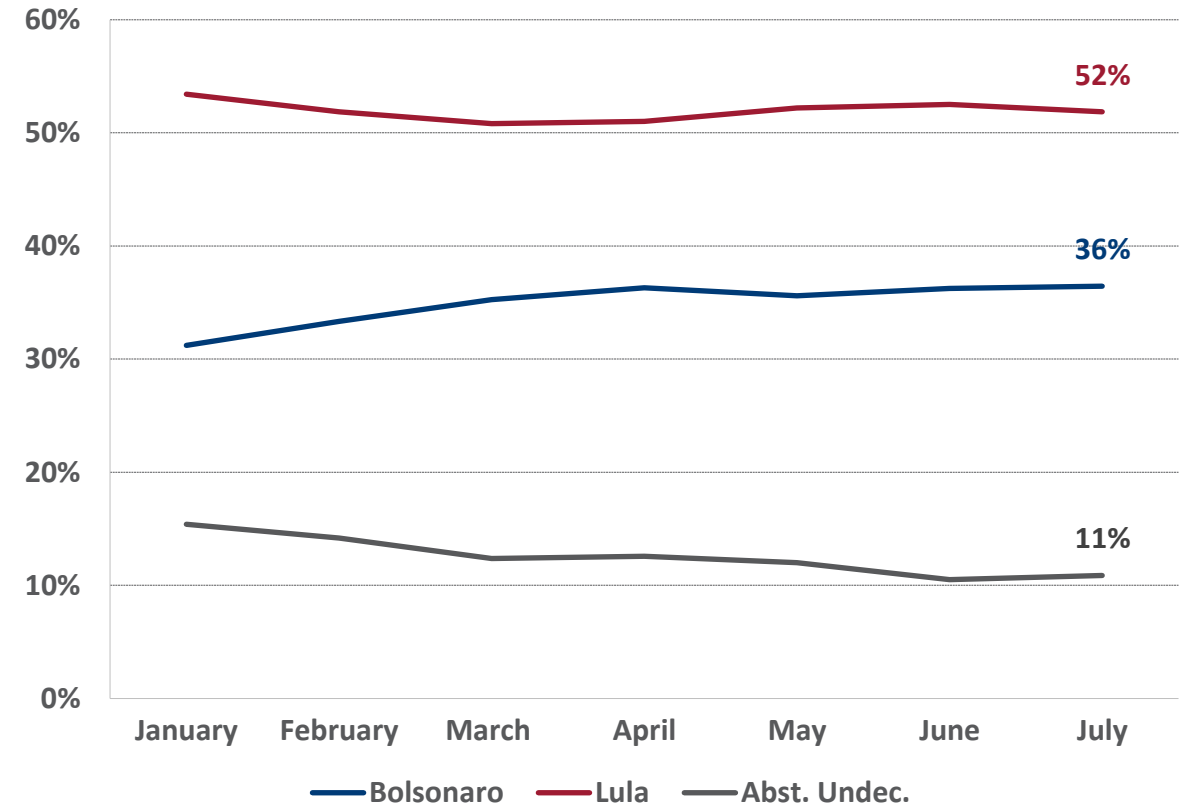
Brazil: Presidential Elections

- » Despite the improvement in Bolsonaro's voting intentions, Lula is still in the lead;
 - » fiscal expansion recently enacted by the Bolsonaro's government could change vote intentions in next polls.

Voting Intentions - Polling Aggregation (%)



Voting Intentions - Second Round Polling Aggregation (%)



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ADDRESSES

Rio de Janeiro, RJ

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

Salvador, BA

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

São Paulo, SP

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

Nassau, Bahamas

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

www.bocombbm.com.br

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