



MACRO OUTLOOK

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Chief Economist

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- » Recession narratives have spread throughout markets in August. 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. Regarding China, we continue to see weakness in economic data due to lower mobility and the worrisome situation in Chinese housing market;
- » Leading economic activity indicators point to a heterogeneous scenario in 3Q22. On the one hand, the service sector signals resilience, but retail sales showed signs of weakness in July and industry began to slow down in August. The labor market remains strong, with the unemployment rate decreasing to 8.9% (NSA) in August;
- » Our growth forecast for 2022 is at 2.8%. The projection considers the statistical carry-over of some activities, the recovery of the labor market and the expansion of Auxílio Brasil, which increase households disposable income and, consequently, their consumption;
- » Our inflation forecast was reduced to 5.4% in 2022. Tax cuts and the drop in oil prices in the international market contributed strongly to the inflation reduction. Food at home also began to show strong relief. Industrial goods inflation has been surprising to the downside in the short term, benefiting from the relief in global supply bottlenecks. Services, on the other hand, should remain under pressure for some time. In 2023, our forecast is 4.7% with the maintenance of federal tax exemption on fuels and lower inertia after successive revisions of 2022 inflation downwards;
- » Our projection for the Selic rate is 13.75% by the end of 2022, and 11.25% 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 future of the fiscal framework remains highly uncertain;
- » The elections result showed a more competitive scenario than expected by the polls, which significantly underestimated Bolsonaro's votes. The result will be decided in the second round, on October 30th. There is still a lot of uncertainty in the scenario. On the one hand, Bolsonaro's surprising results and his allied base make him come out stronger in the second round. Alliances in the Southeast could be decisive. On the other hand, the number of additional votes that Lula needs to convert in his favor is low.

China: Economic Scenario

» Activity:

- » August's good numbers also come from low base effect of last year: on a month-over-month basis, retail sales were still down 0.05%, the second straight monthly decline;

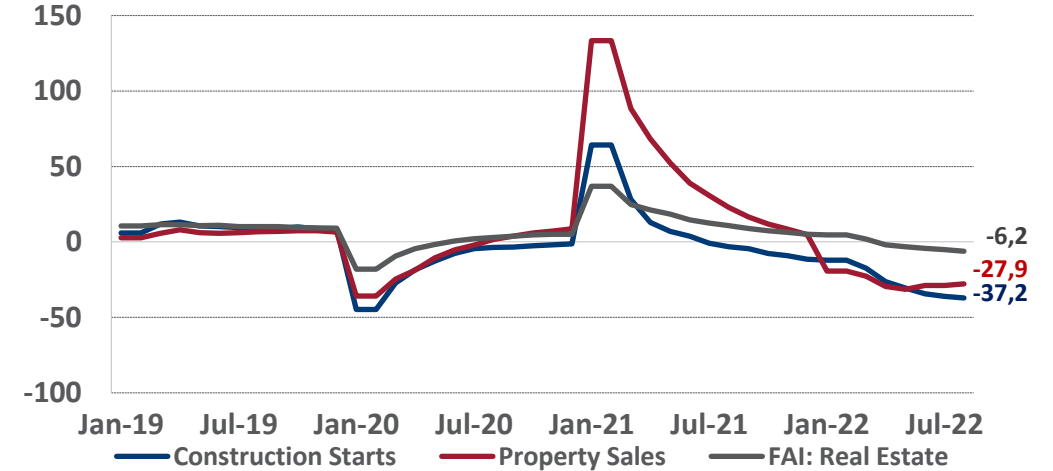
» Real Estate:

- » China's central government offered a rare tax incentive for residential purchases, ramping up support for the country's embattled real estate sector.

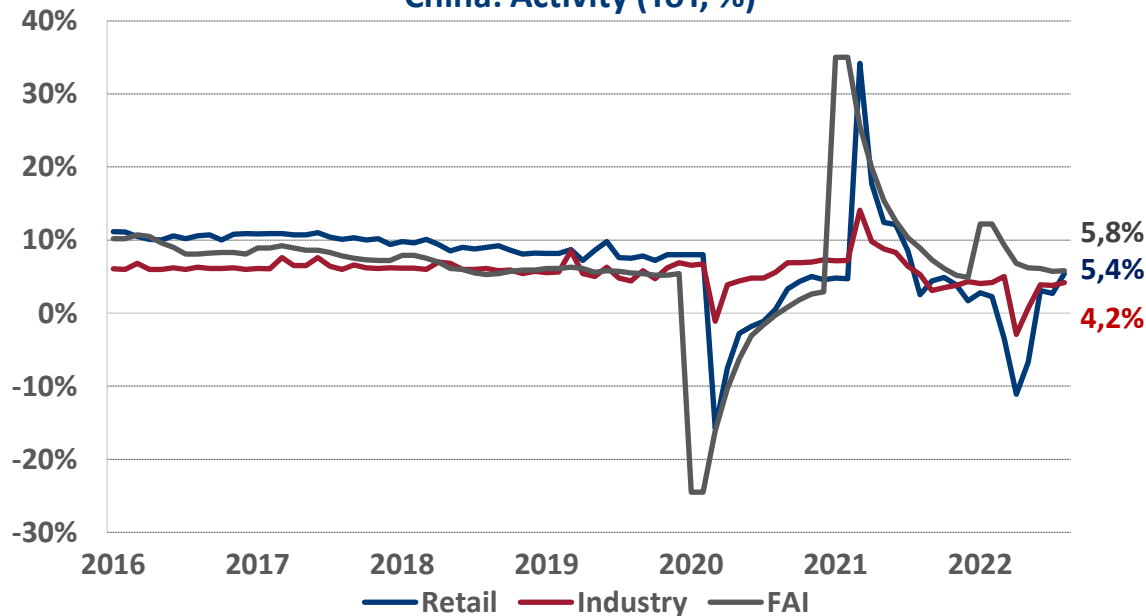
» Trade Balance:

- » Exports grew by only 7.1% in August with sluggish manufacturing and COVID-related disruptions;

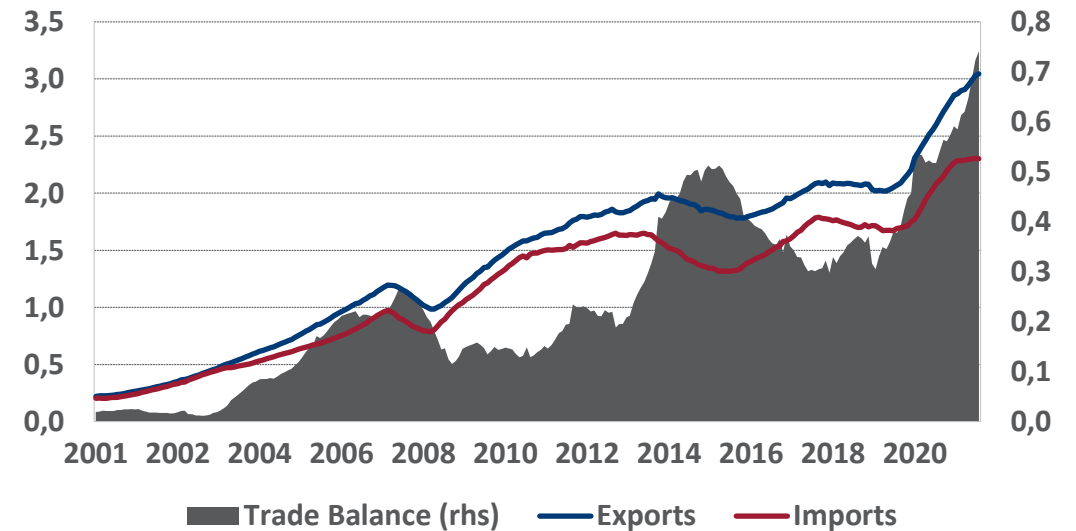
China: Real Estate Sector (TYD YoY, %)



China: Activity (YoY, %)

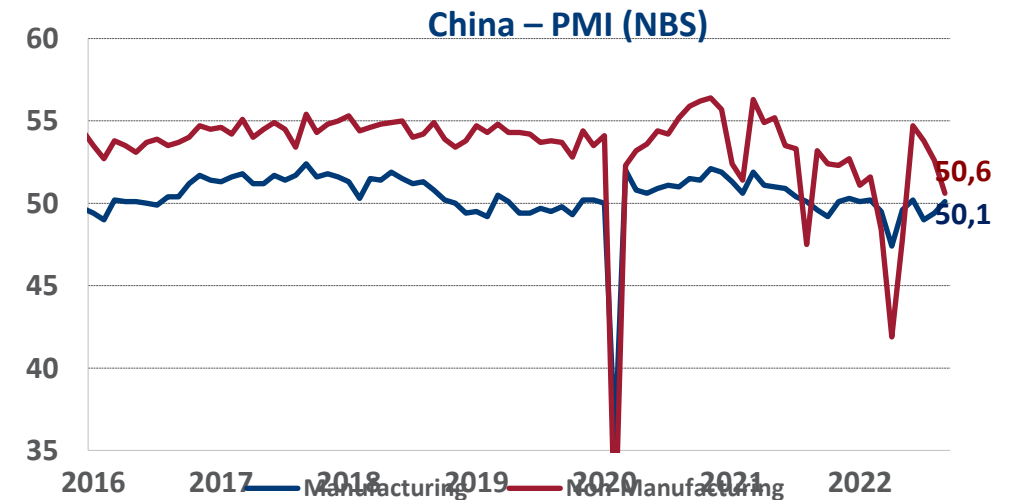
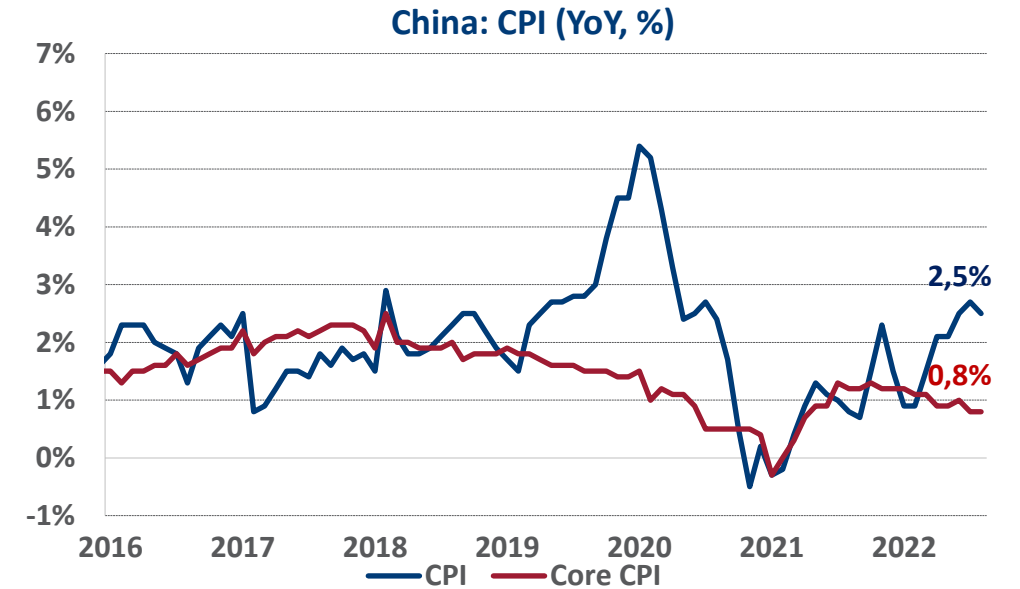
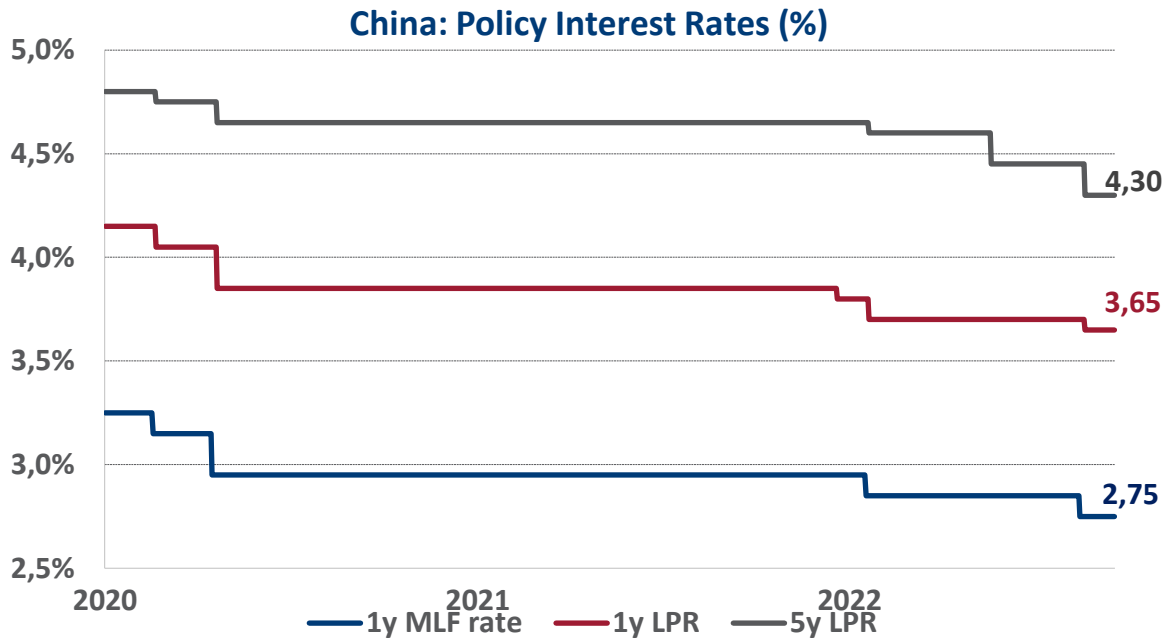


China: Trade Balance (USD Trillion, 12MMA)



China: Economic Scenario

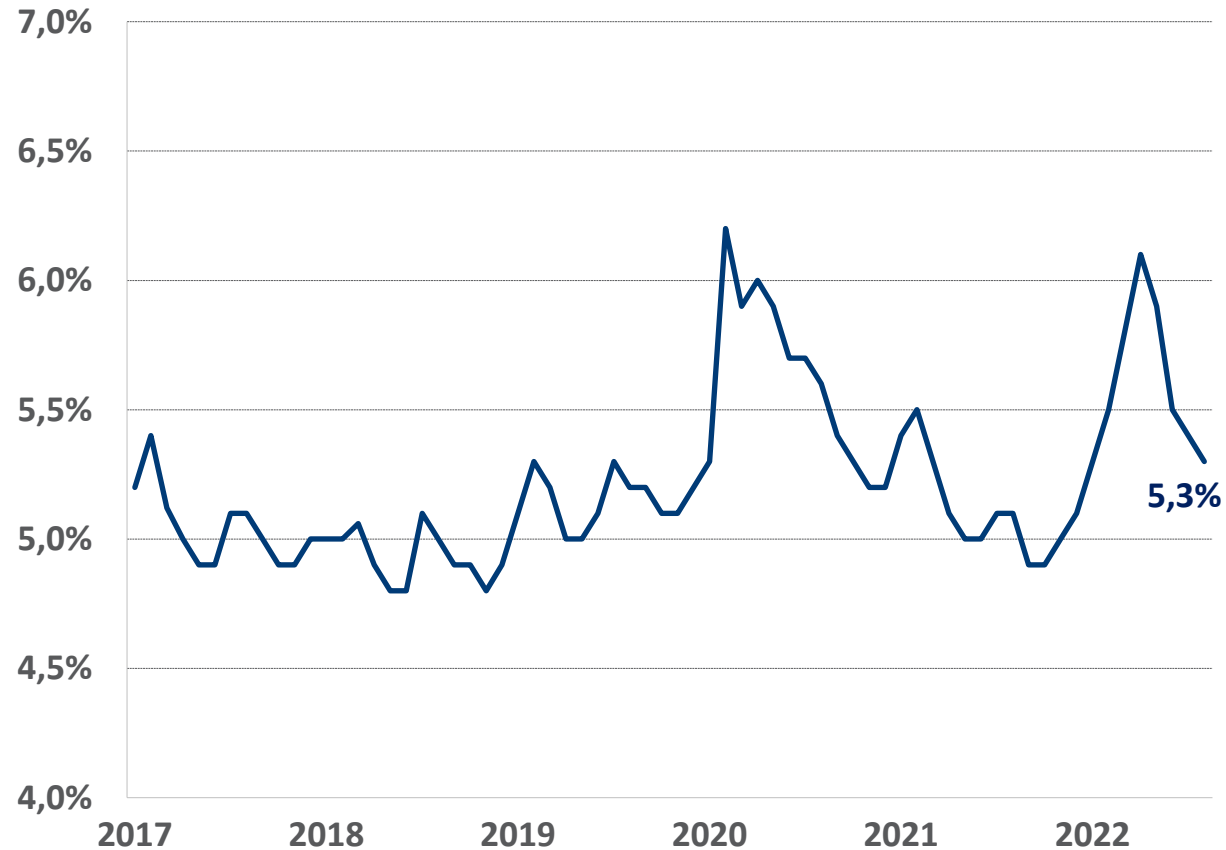
- » PMI:
 - » The NBS manufacturing PMI increased to 50.1 in September from 49.4 in August - recovery of all levels of industries;
- » Policy Interest Rates:
 - » PBOC kept 1Y MLF, 1Y and 5Y Loan prime rate stable;
- » CPI:
 - » CPI inflation surprised to the downside in August on lower commodity prices;



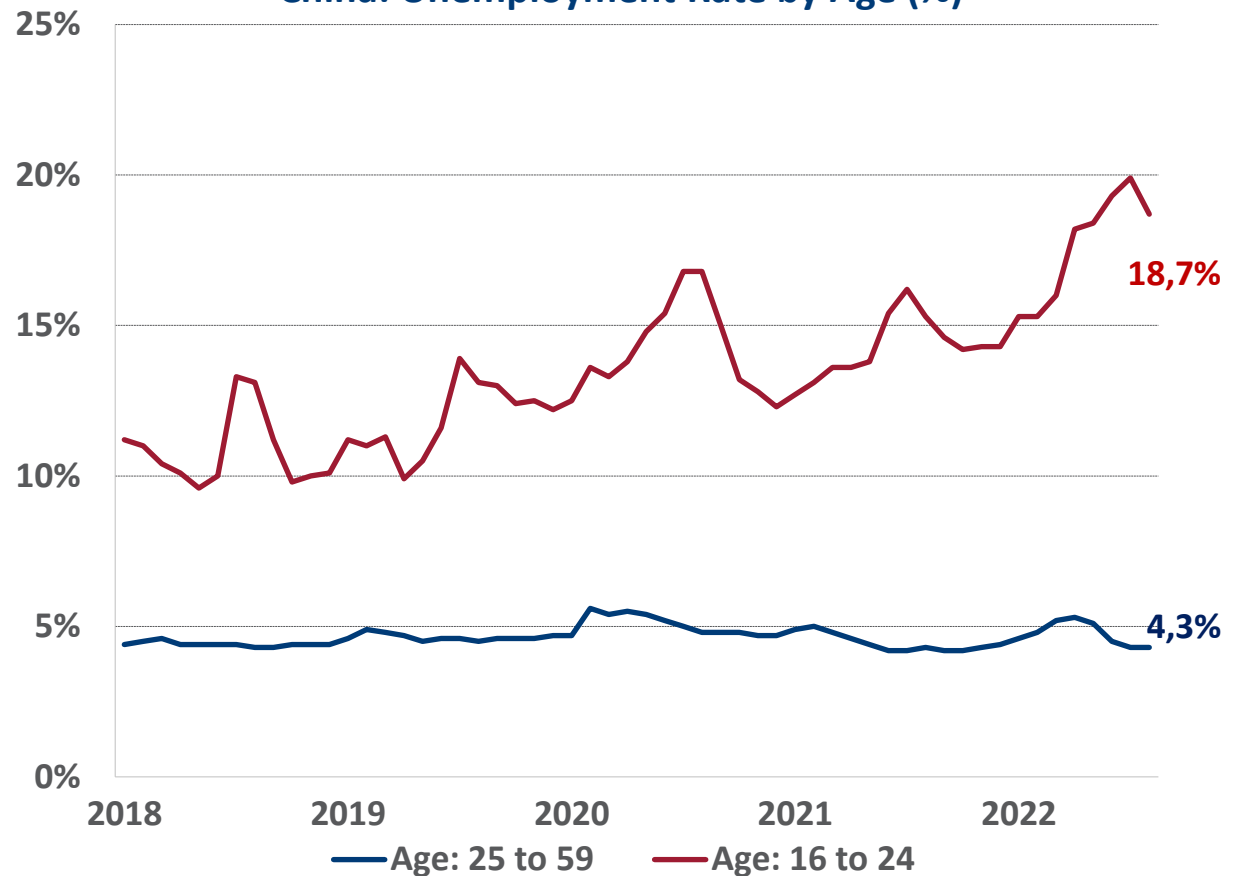
China: Unemployment

- » China has seen some recovery in labor market and the unemployment rate slid to 5.3% in August, which is still above pre pandemics;
- » Youth unemployment rate (16 to 24 years) fell from a record high - the first decrease in 10 months. But unemployment rate among young people remains high at 18.7%.

China: Unemployment Rate (%)



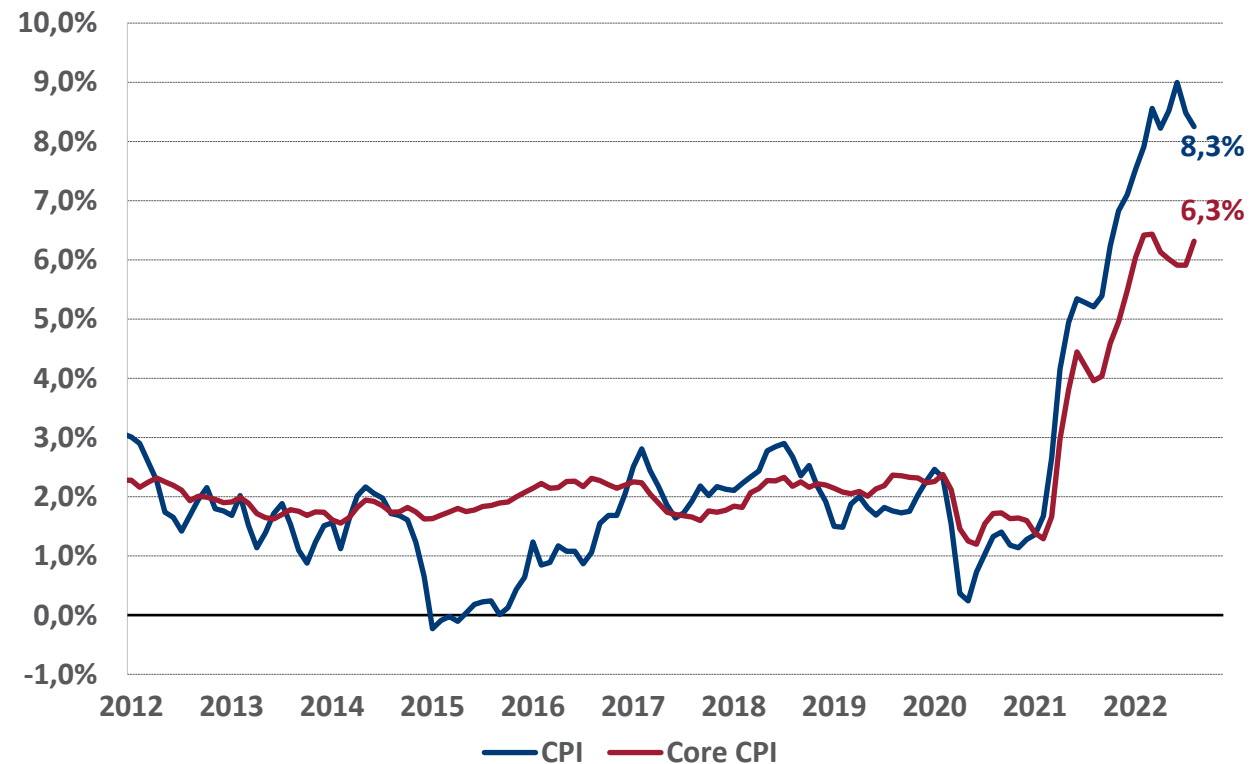
China: Unemployment Rate by Age (%)



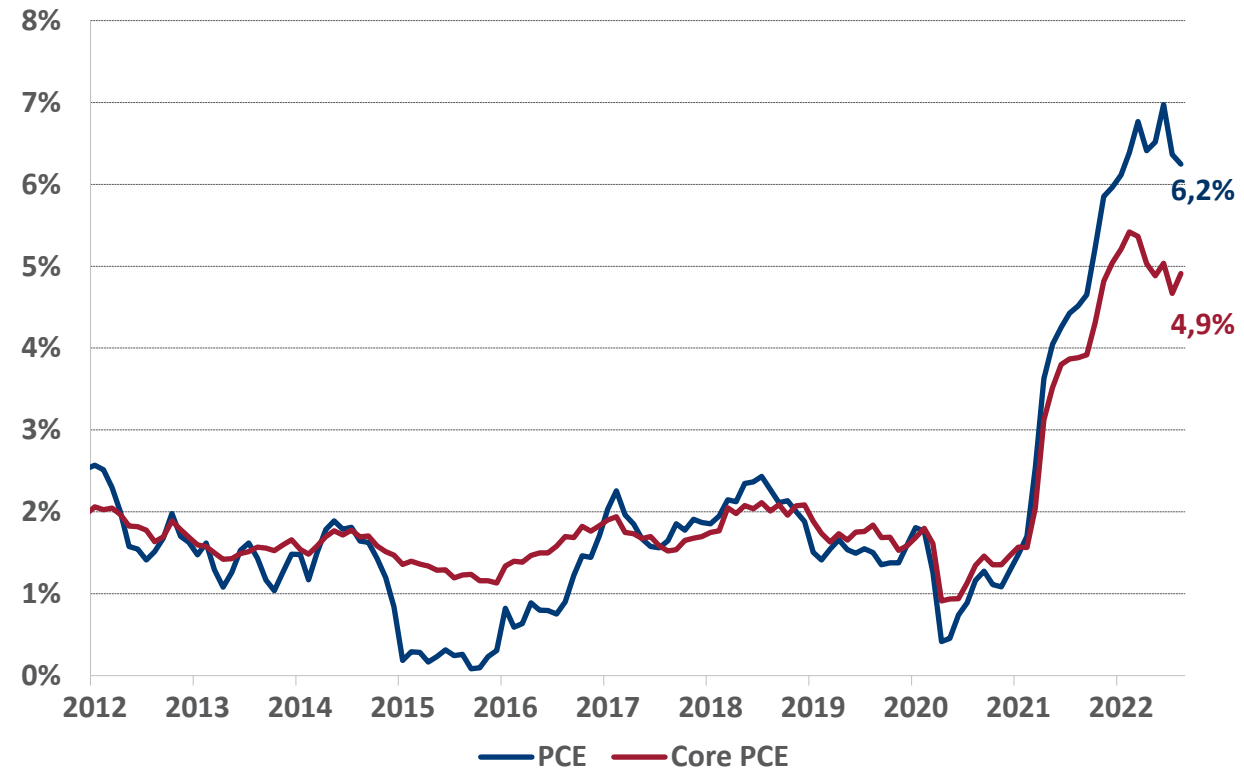
USA: Inflation

- » Inflation in the US decreased to **8.3%** YoY. Gasoline and other fuels have helped to bring the headline down;
- » Core CPI, on the other hand increased to **6.3%** YoY, with new vehicles inflation rising as well as services;
- » Core PCE has risen to **4.9%**.

US: CPI SA (YoY, %)



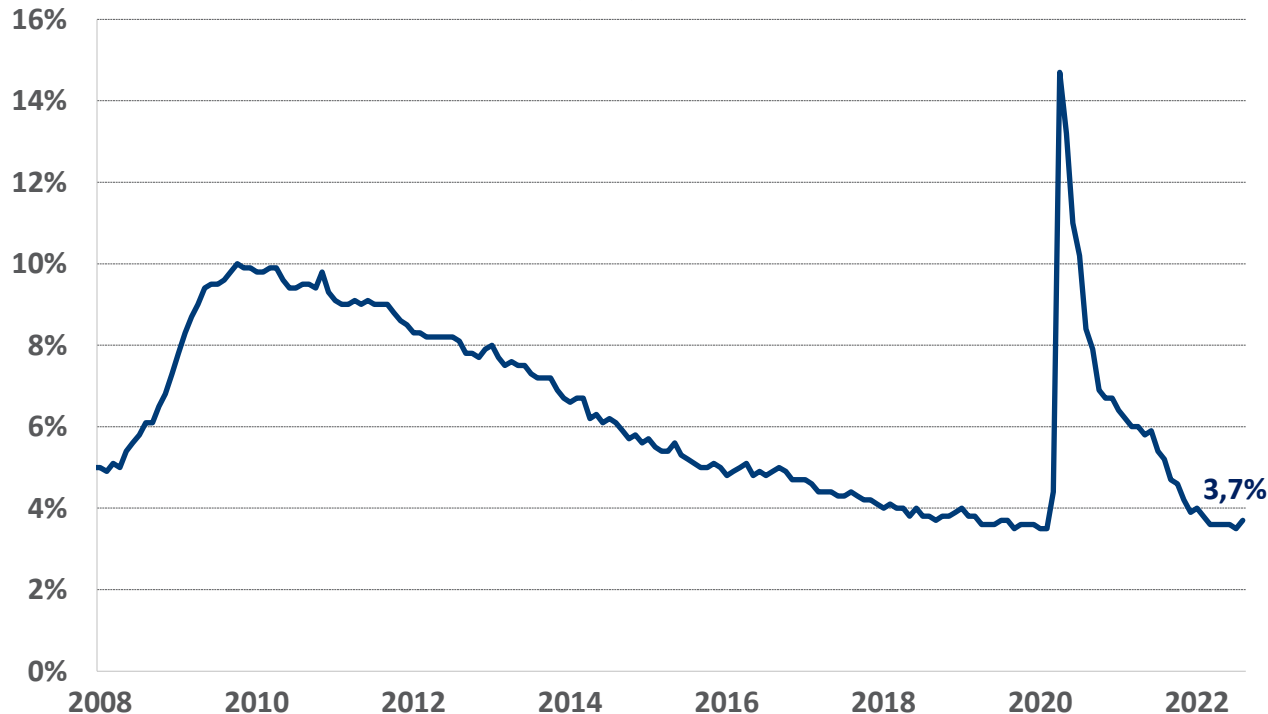
US: PCE SA (YoY, %)



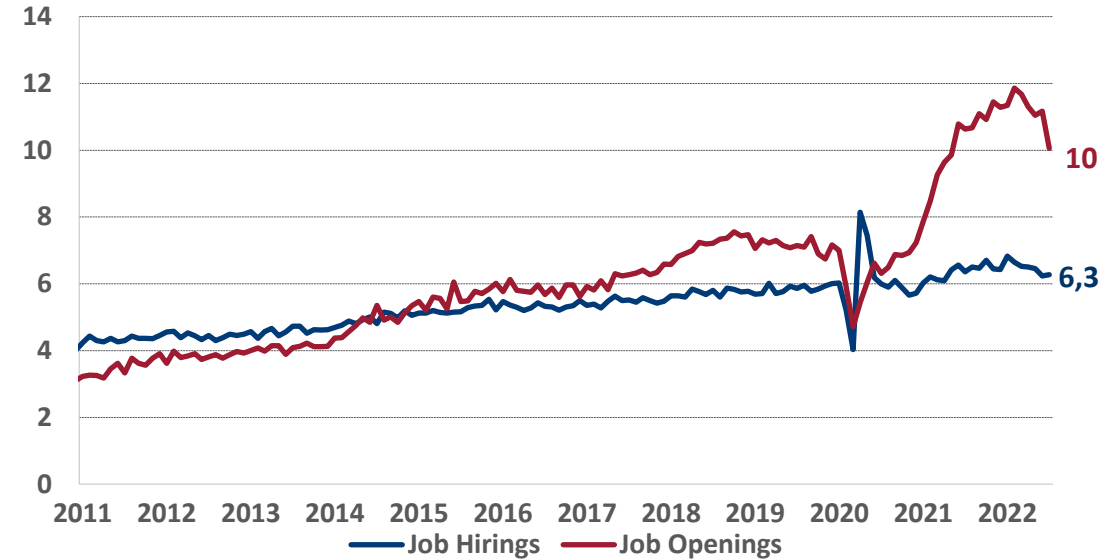
USA: Labor Market

- » In August, **315k** jobs were created;
- » However, the unemployment rate increased from 3.5% to **3.7%**, due to the increase in participation rate from 62.1% to **62.4%**;
- » The number of job openings declined much more than expectations: 11.170k in July to **10.053k** in August (1.117k decrease);
 - » The median of market expectations was of 11.088k (82k decrease).

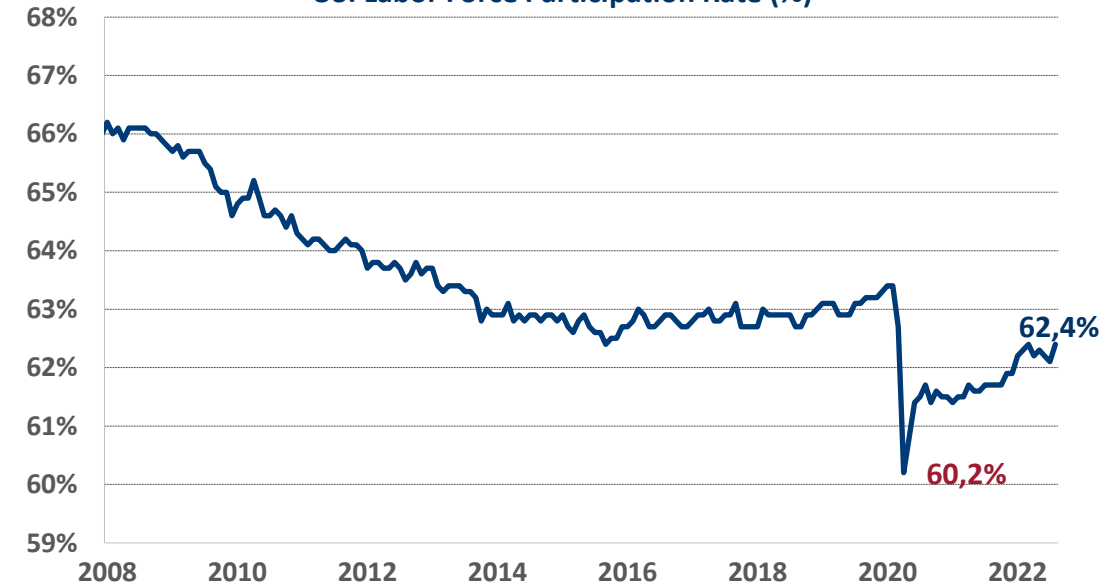
US: Unemployment Rate (%)



US: Job Openings and Hirings (Million)

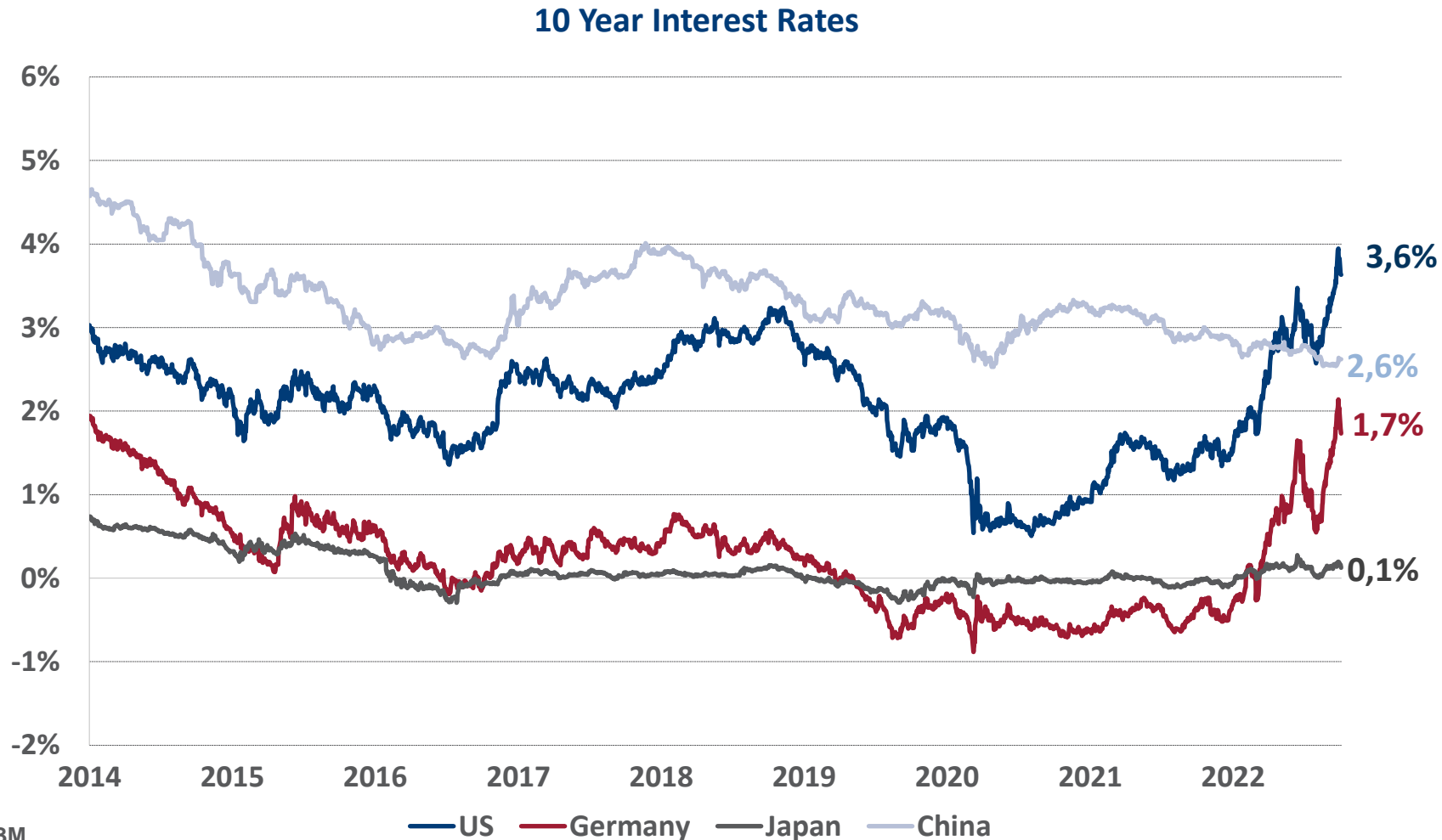


US: Labor Force Participation Rate (%)



Global: Interest Rates

- » Long-term interest rates of some major developed countries have increased considerably to help deliver inflation convergence to its target. As a result, World GDP growth forecasts from many institutions for 2023 is being reduced when compared to forecasts for 2022.



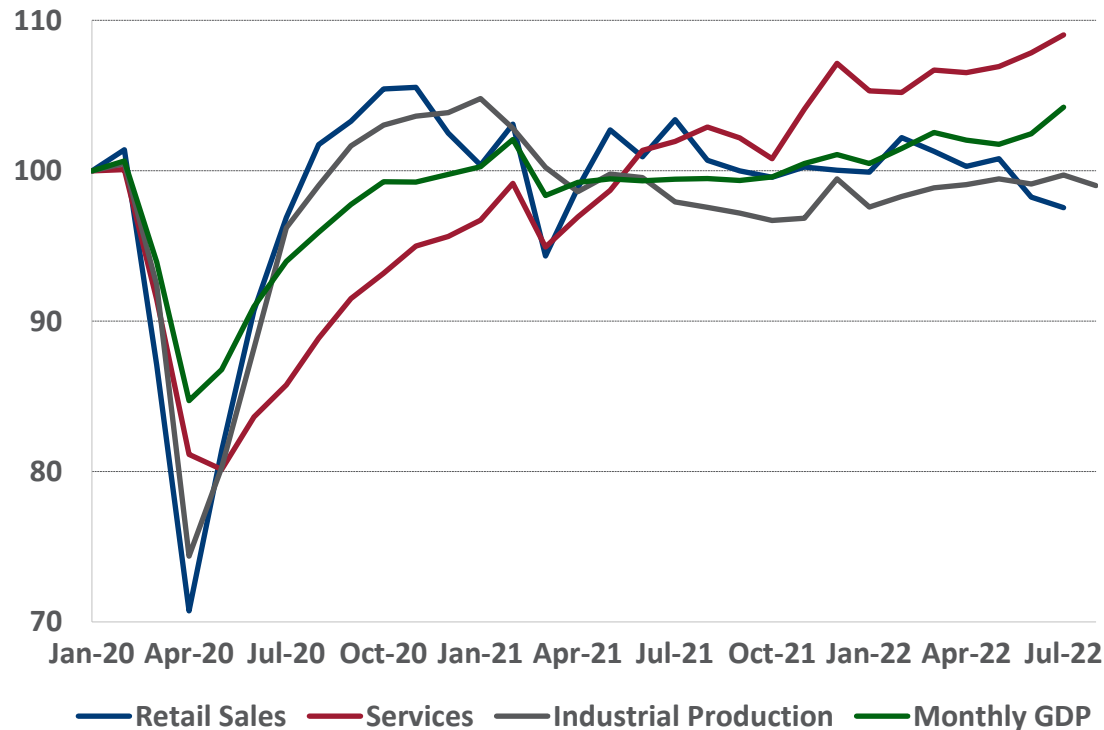
Brazil: Forecasts

ECONOMIC FORECASTS	2019	2020	2021	2022F	2023F
GDP Growth (%)	1.1%	-3.9%	4.6%	2.8%	0.7%
Inflation (%)	4.3%	4.5%	10.1%	5.4%	4.7%
Unemployment Rate (eoy, %)	11.7%	13.9%	11.1%	8.7%	8.5%
Policy Rate (eoy, %)	4.5%	2.0%	9.3%	13.75%	11.25%
External Accounts					
Trade Balance (US\$ bn)	48	32	36	44	50
Current Account Balance (US\$ bn)	-65	-24	-28	-41	-40
Current Account Balance (% of GDP)	-2.8%	-0.9%	-1.8%	-2.2%	-2.0%
Fiscal Policy					
Central Government Primary Balance (% of GDP)	-1.2%	-10.0%	-0.4%	0.8%	-0.8%
Government Gross Debt (% of GDP)	74.3%	88.8%	80.3%	77.7%	82.9%

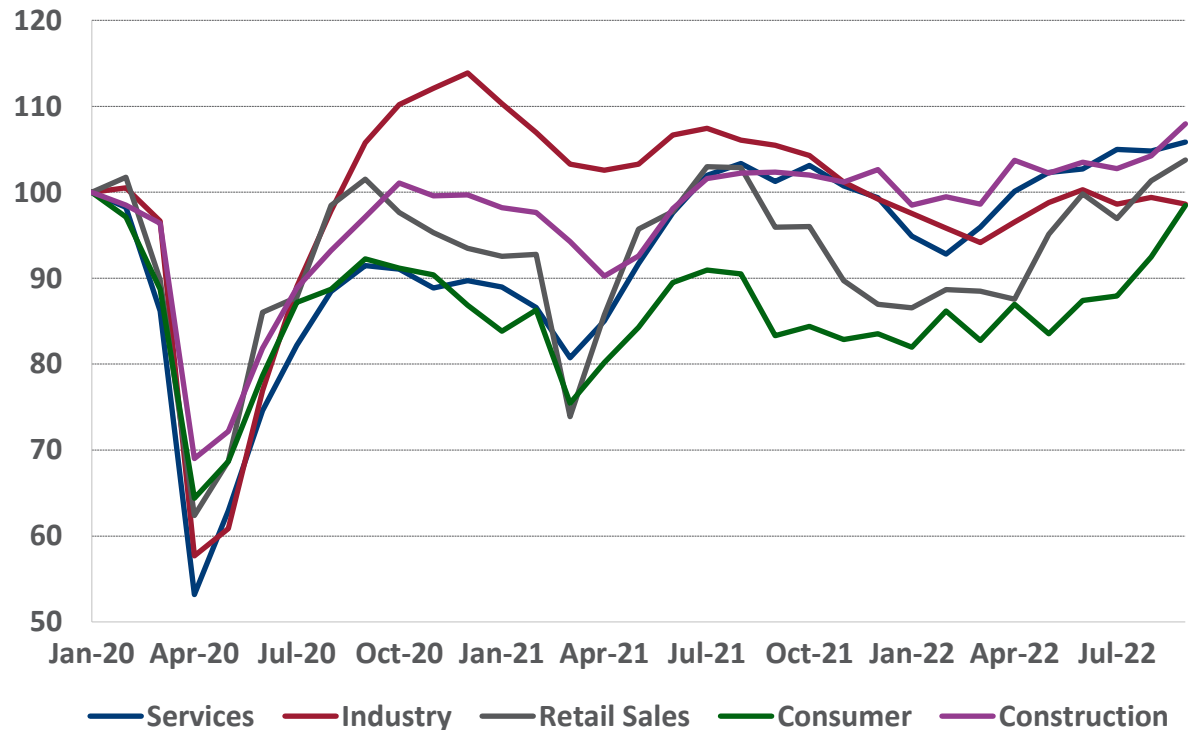
Brazil: Activity

- » Leading indicators of economic activity continue to show mixed signals for 3Q22:
 - » In July, the services and industrial sectors remained resilient, but retail trade continued to weaken. In August, the industrial sector began to show a slowdown;
 - » The level of consumer confidence increased strongly in August and September, possibly influenced by the inflation deceleration, which improves consumption expectations;
 - » Business confidence levels rose in almost all sectors in September, driven by both the current situation and better expectations;
 - » Only the industry survey dropped in September, reflecting tight monetary policy and a perception of lower demand for goods.

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

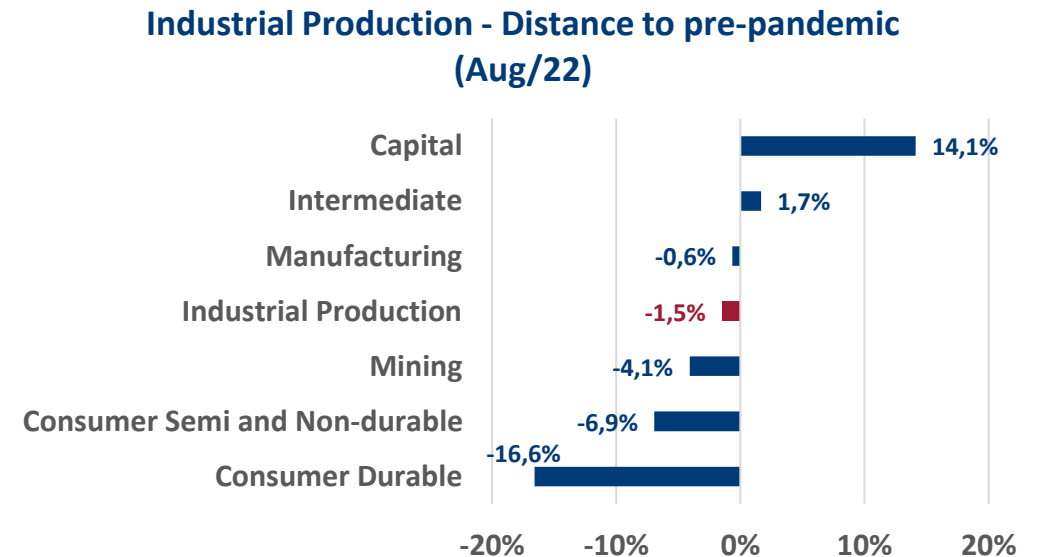
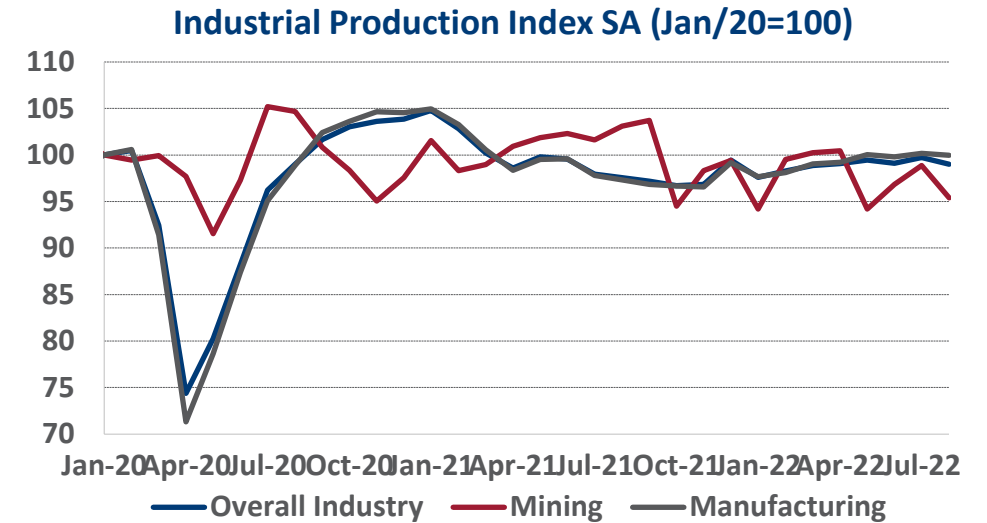
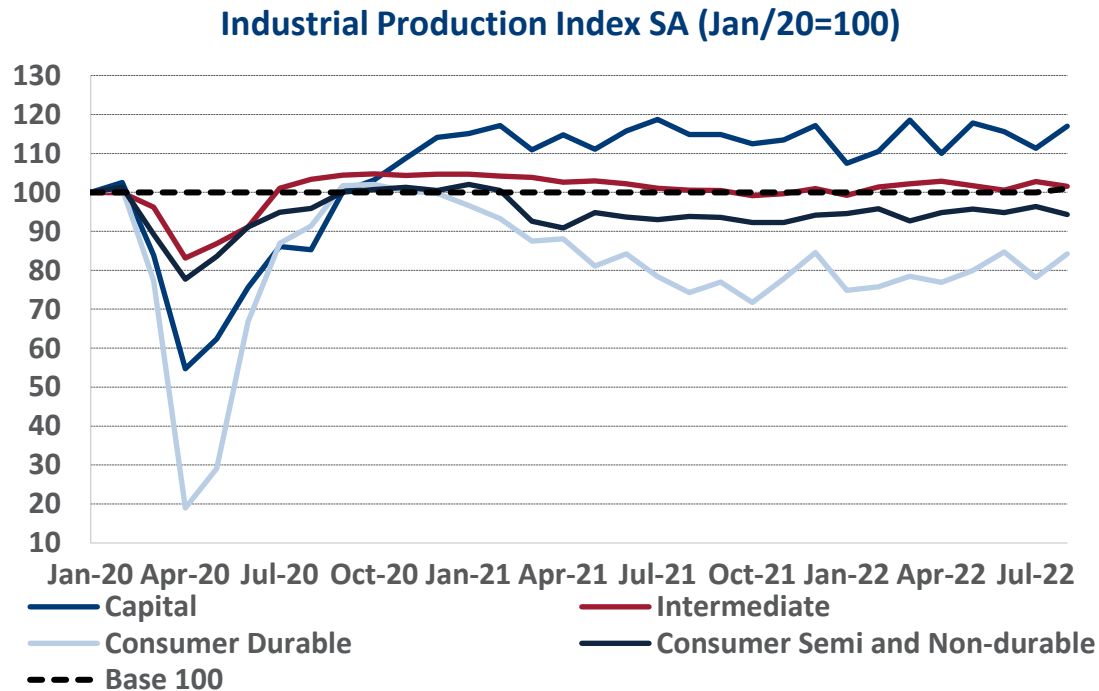


Brazil - Economic Confidence Index (Jan/20 = 100)



Brazil: Industrial Production

- » Industrial production dropped 0.6% MoM in August: positive contributions came from capital goods and consumer durable goods, signaling improvement in global supply bottlenecks. All other categories fell in relation to July;
- » However, the sector still faces difficulties, given the prospect of high interest rates for a long time and the higher consumption of services, in detriment of goods.



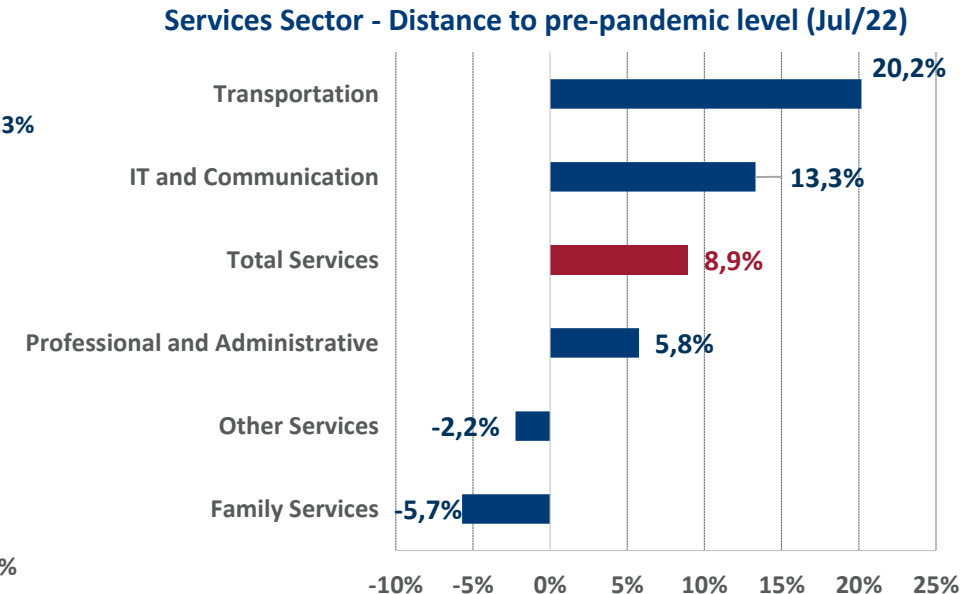
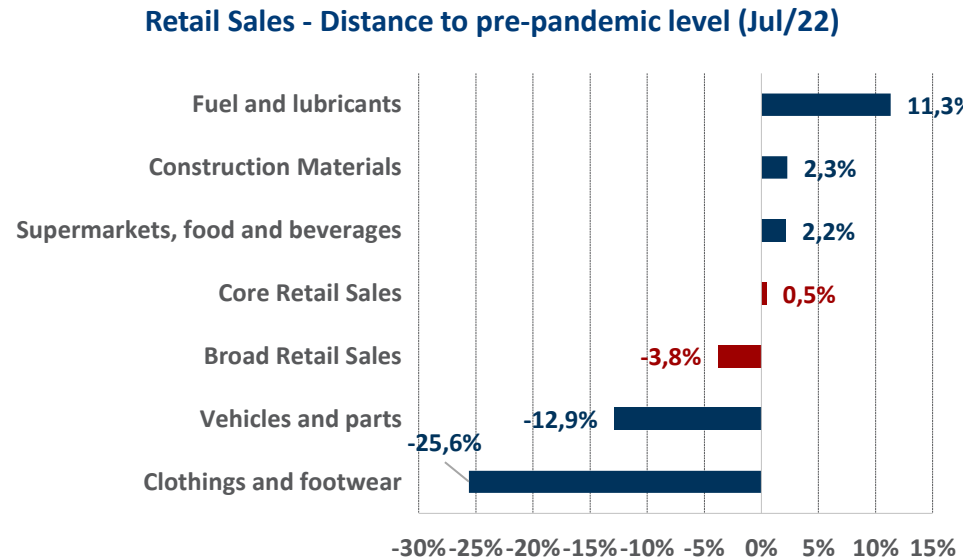
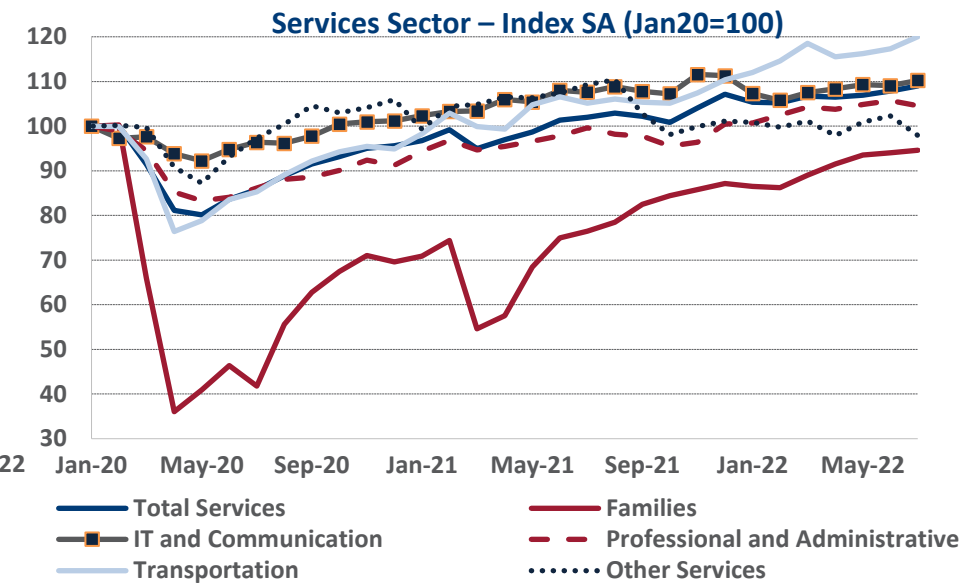
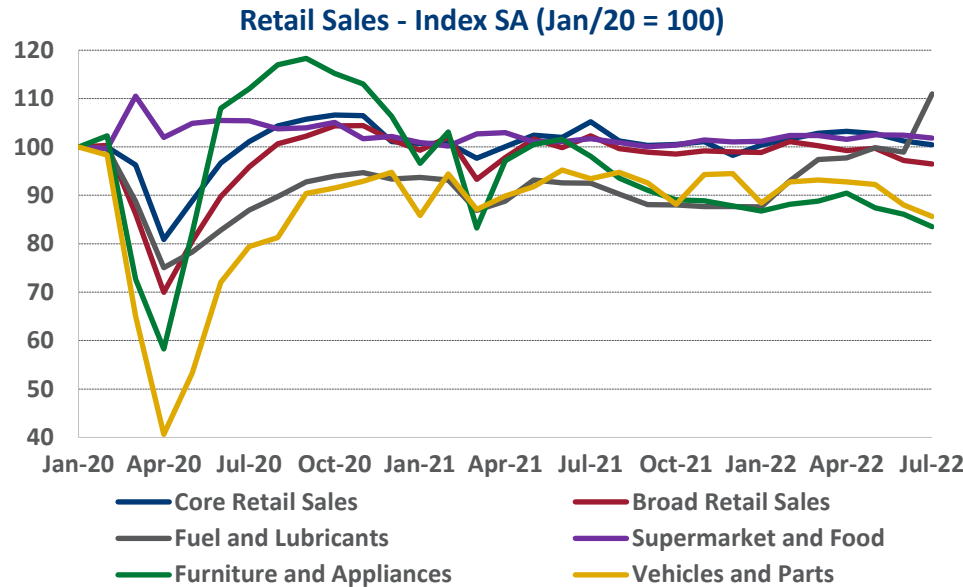
Brazil: Retail Sales and Services Sector

» In July, **broad retail sales** decreased by **-0.7%** MoM, with every activity on the negative side, except for fuel and lubricants sales which were benefited by tax exemptions;

» The **services** sector increased **1.1%** MoM (higher than market expectations of 0.5%)...

» ...with this result the sector is at its highest level since November 2014;

» The services sector is now 8.9% above pre-pandemic levels, while broad retail sales is 3.8% below.



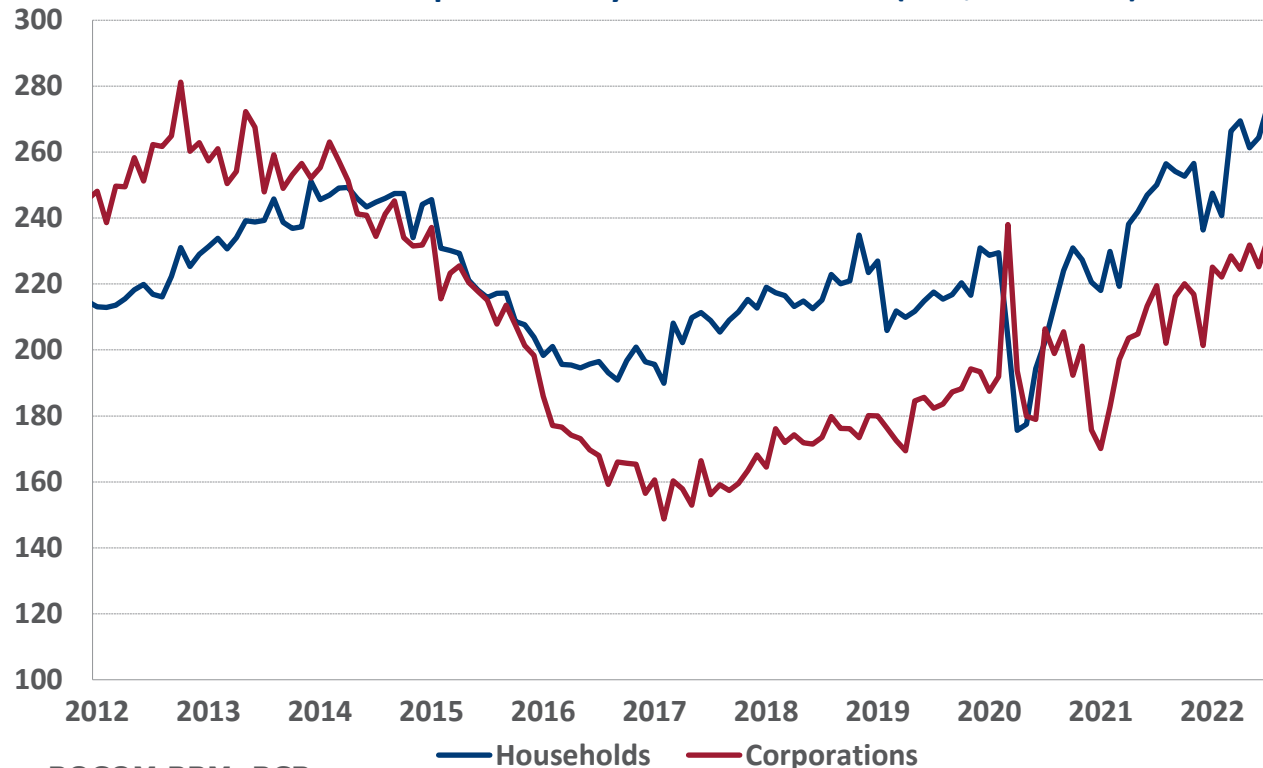
Brazil: Credit

» In August, new credit operations increased 2.1% with corporate pointing up by 2.7% MoM and households down by -2.3% MoM

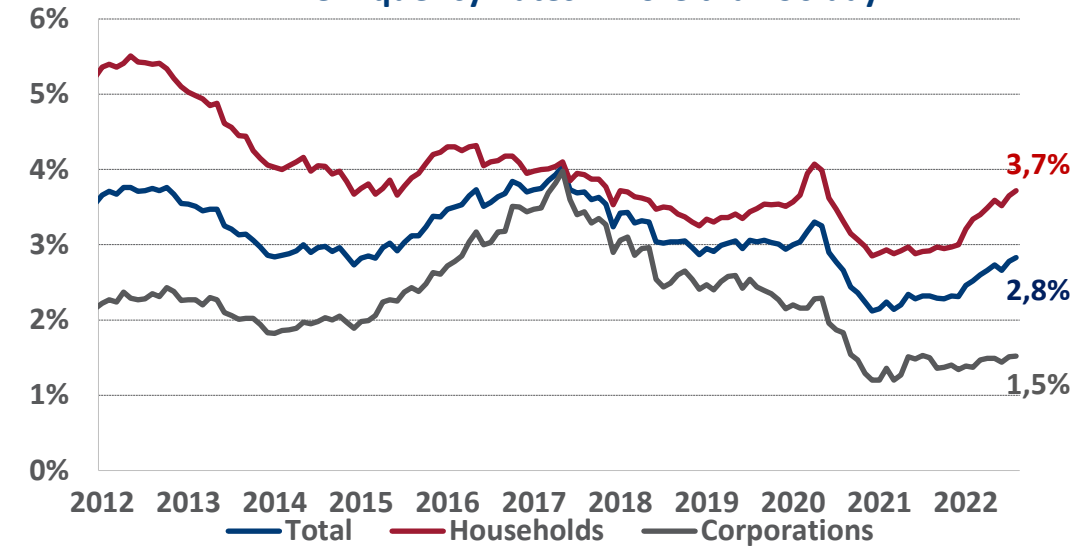
» Delinquency rates still low but trending up quickly: tight monetary policy and increasing household indebtedness

» The level of household indebtedness remains a concern for economic activity in 2022 and 2023

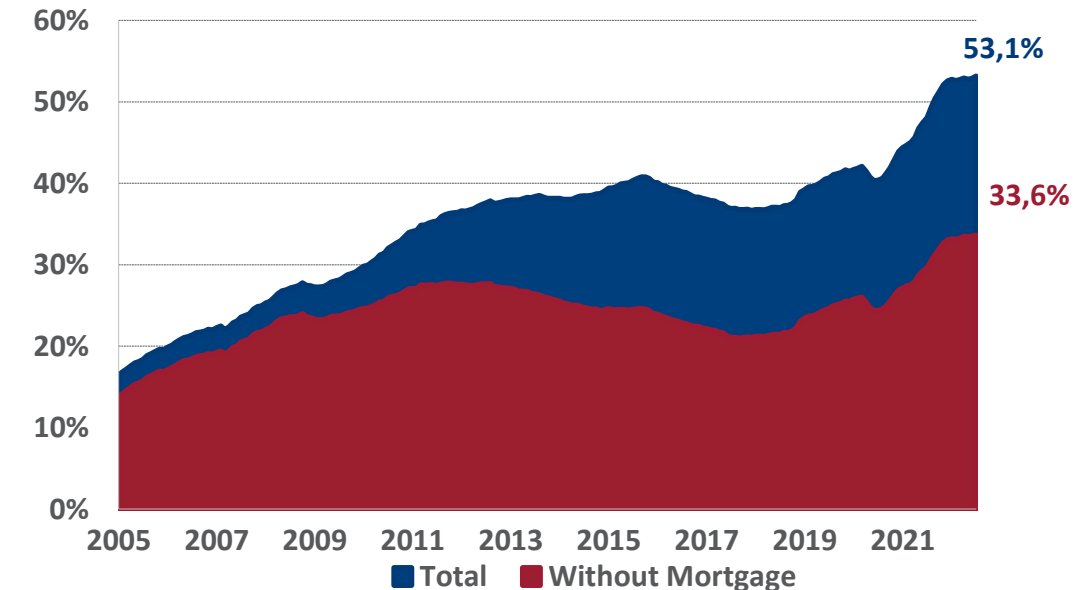
New Credit Operations by Borrower - Total (real, R\$ billion)



Delinquency Rates - More than 90 day



Debt-to-Income Ratio

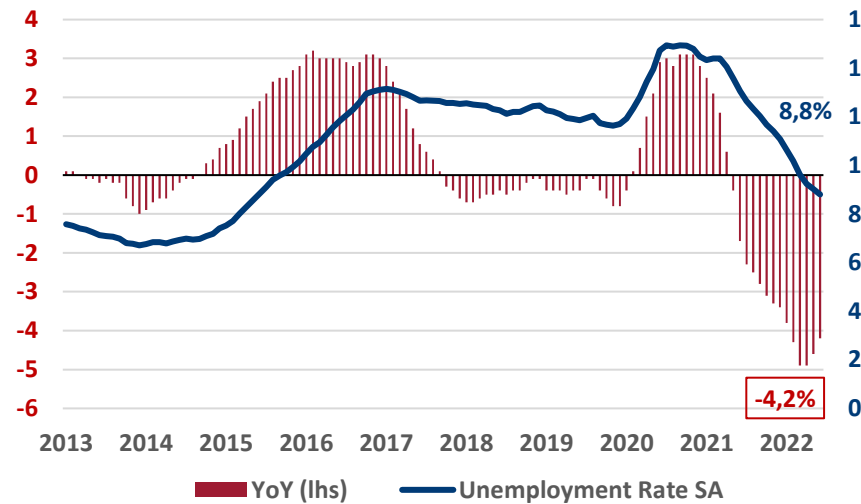


Brazil: Labor Market

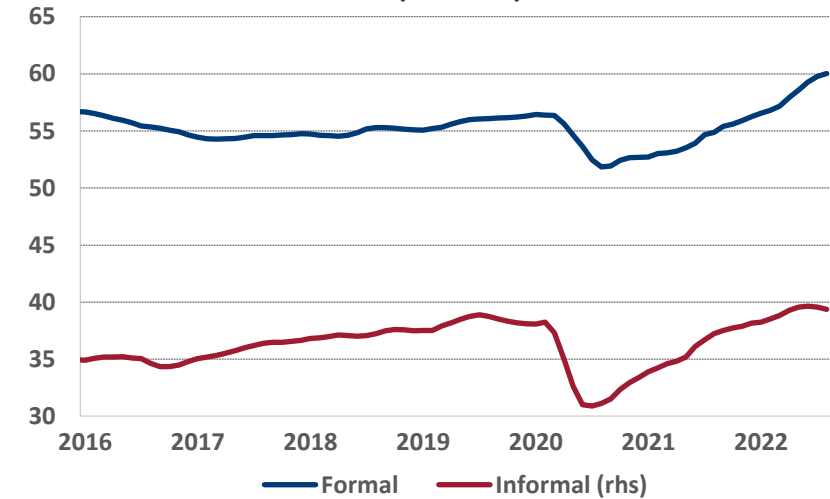
» The labor market kept improving in August:

- » The unemployment rate fell from 8.9% to **8.8%** (9.1% to **8.9%** NSA) with an increase in formal jobs, but a decrease in informal ones;
- » The underutilization of labor force continues to fall and is now at **20.5%**;
- » Real wage bill is quickly picking up due to the increasing number of employed population, however the average real wage remains at very low levels.
 - » Real wage bill finally reached it's pre-pandemic levels;

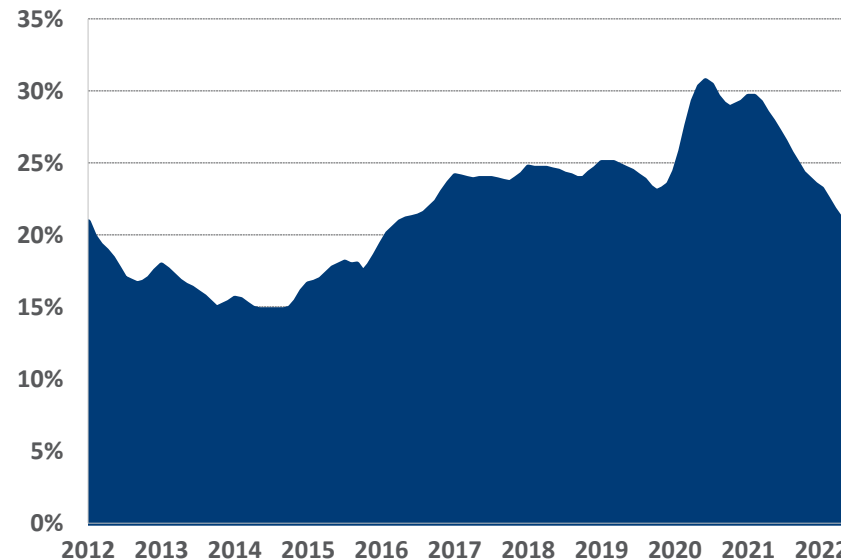
Brazil - Unemployment Rate



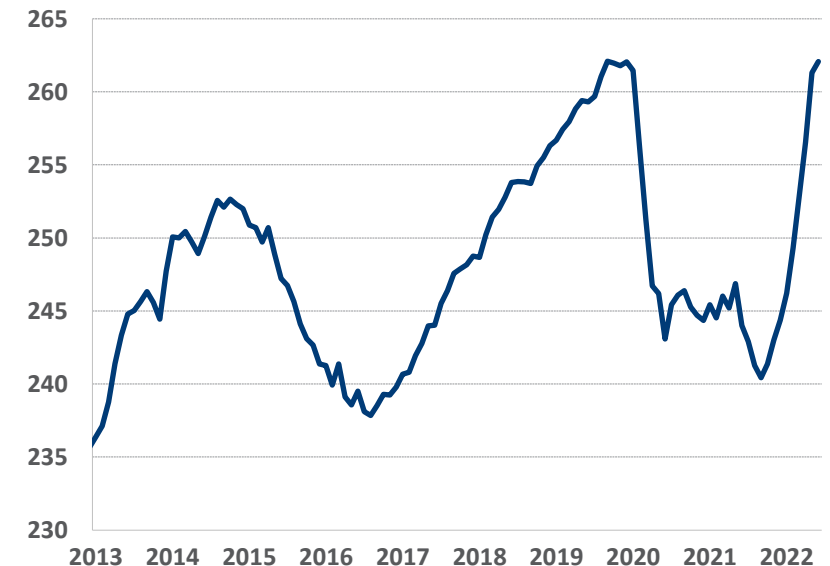
Brazil - Formal and Informal Employment SA (Millions)



Brazil - Underutilization of Labor Force



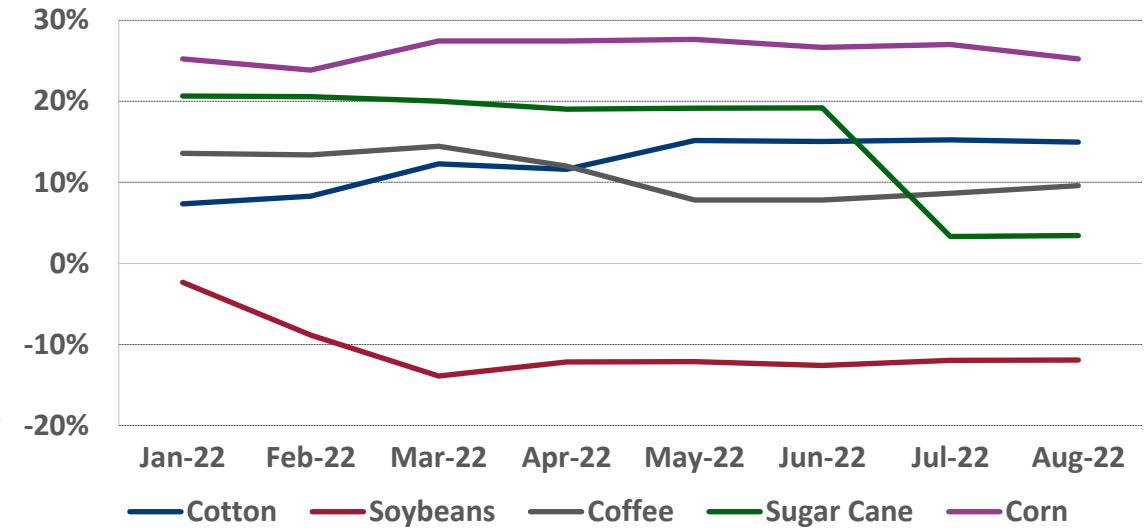
Brazil - Real Wage Bill SA (R\$ Billion)



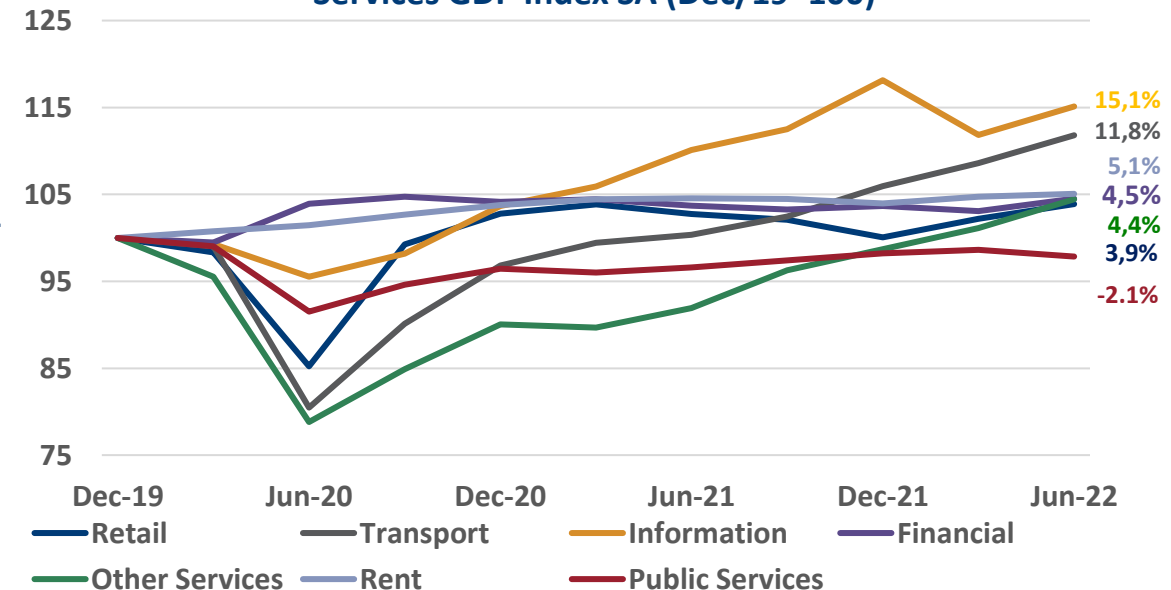
Brazil: 2022 GDP Scenario

- » We expect a **negative contribution of the agriculture output** in the 2022 GDP, due to the reduced-size of this year's crops projection (LSPA) for soybeans (-12.0%) and the downward revision for sugar cane crops (19.2% increase in June to 3.4% in August);
- » **We revised up our industry GDP projections** due to a better-than-expected 2Q22 result which pushed its carry-over effect to 1.3%:
 - » There have been improvements regarding the supply chain bottlenecks;
 - » On the other hand, we recognize there's a downside risk regarding a different demand composition, which favors services consumption rather than goods, and the impact of the tight monetary policy.
- » **We expect services output to continue increasing**, due to the heated labor market, 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 and 2023: global and domestic uncertainty, elevated interest rates, mounting fiscal risks, high household indebtedness, rising delinquency rate, a still recovering consumer confidence index and the dissipation of the economic reopening positive effects.

Harvest projection for 2022 (LSPA) vs 2021 production

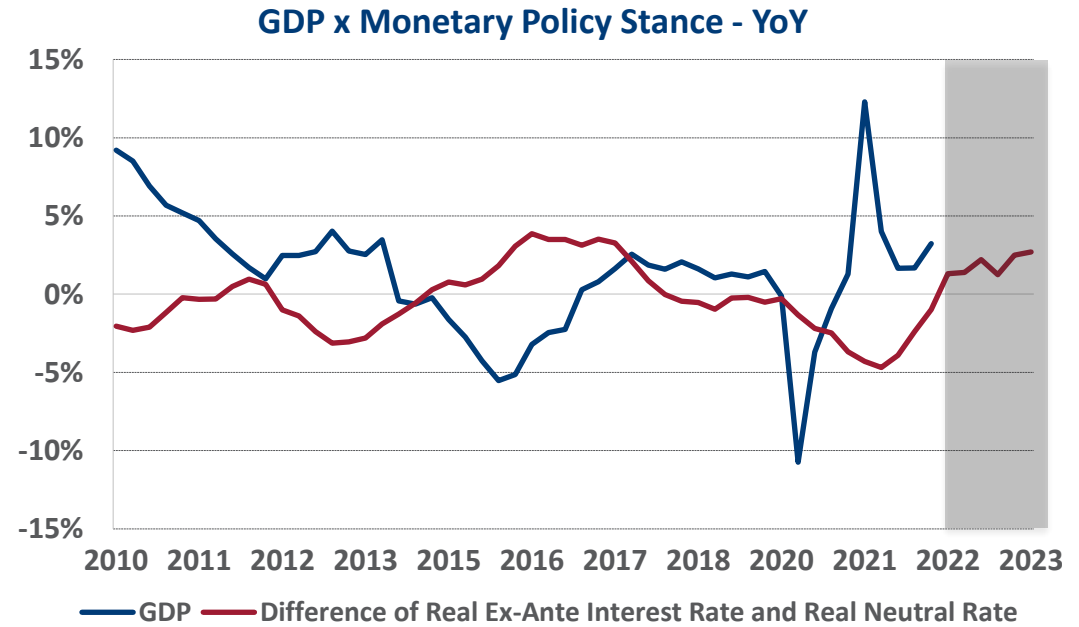
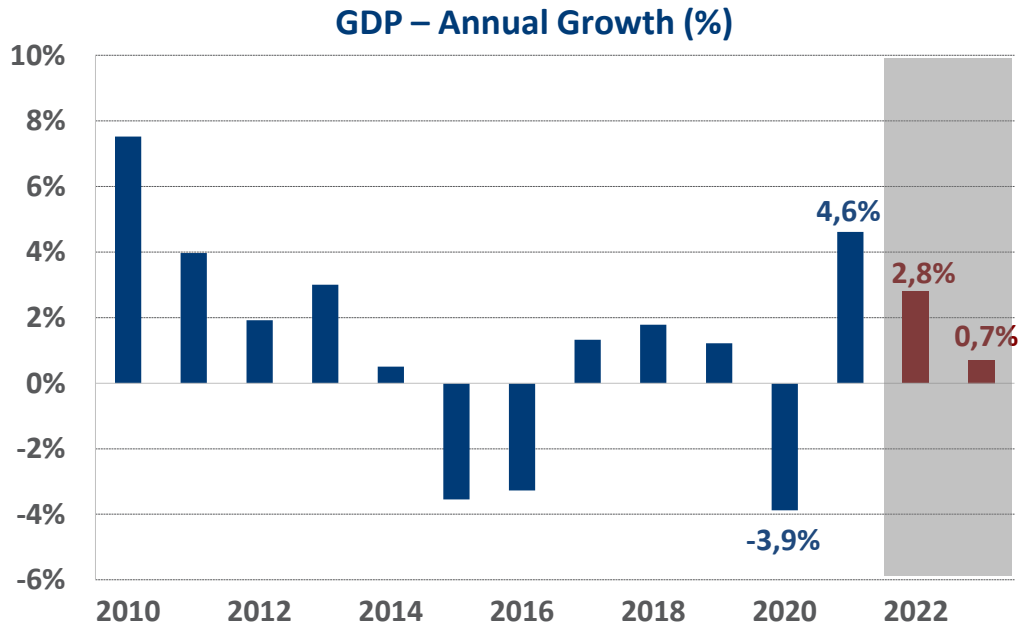


Services GDP Index SA (Dec/19=100)



Brazil: GDP Scenario

- » **Our 2022 GDP projection is now at 2.8%:** positive contribution from services and industry sectors;
 - » the negative impact of the tight monetary policy should be seen in the 2H22, but the high carry-over effect should dampen this slowdown;
- » **We maintained our 2023 GDP projection at 0.7%:**
 - » The better outlook for 2022 GDP pushed the carry-over effect for 2023 to 0.6%;
 - » However, some factors limit further GDP growth in 2023: Restrictive monetary and fiscal policies + labor market stabilization + global recession decreasing commodities prices;



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

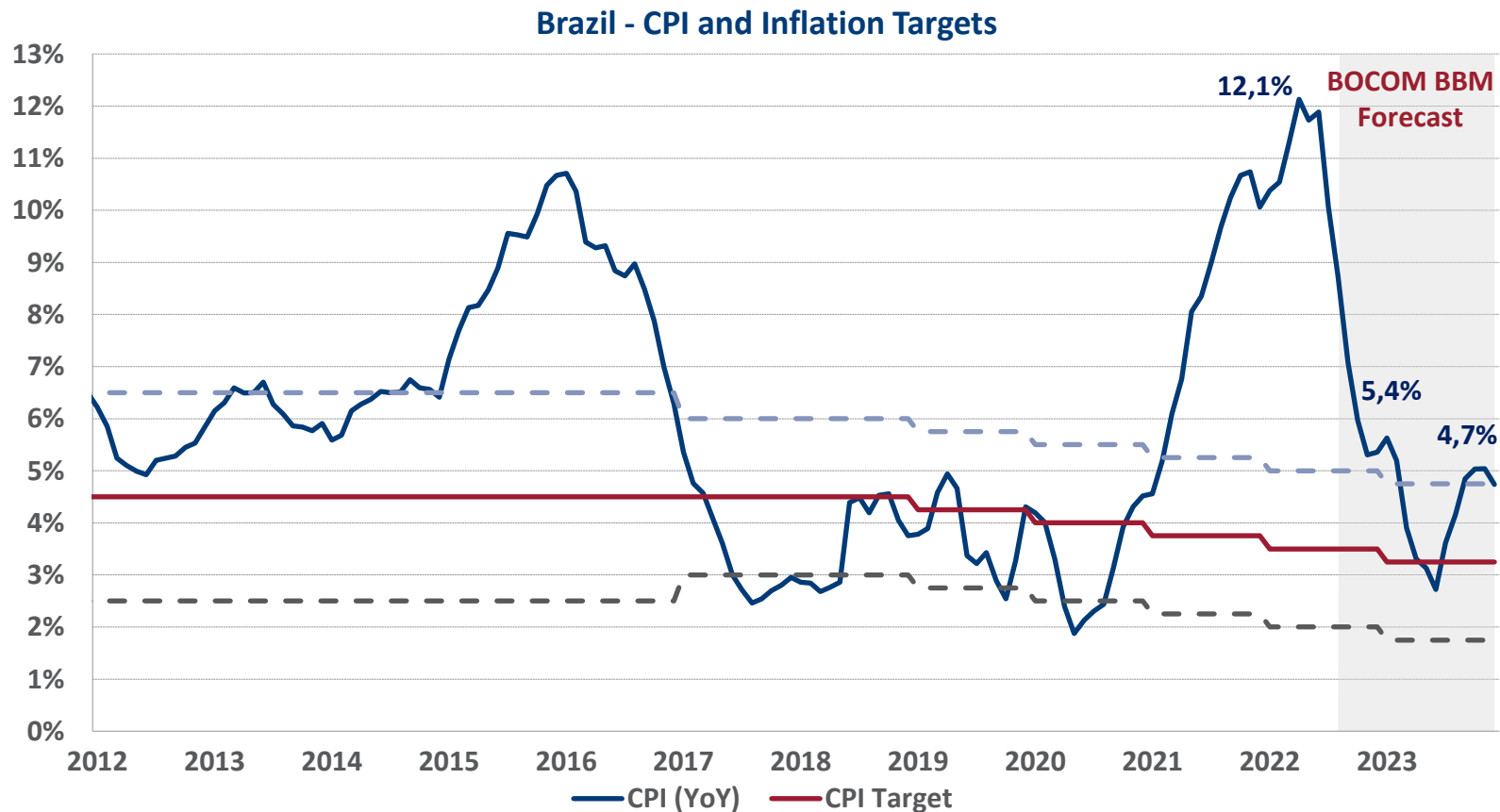
Brazil: Inflation

- » In 2022, federal and state tax cuts on fuel, electricity and telecommunications and the drop of oil prices in the international market contributed strongly to the slowdown in inflation expectations, which reached 10% a few months ago. The strong deflation of monitored items is the main explanation for the reduction of expectations to 5.4%. In addition, food at home, which was under great pressure in the first half of the year, began to show strong relief. Industrial goods inflation has also been surprising to the downside in the short term, given the easing of global supply bottlenecks. Services, on the other hand, should remain under pressure for some time, given the increase in demand both for the normalization of mobility and for the increase in household disposable income, due to the heated labor market and increase in government transfers;
- » For 2023, more resilient economic activity and labor market should keep services inflation at a higher level, causing inflation to stay above target. However, industrial goods and food should experience less inflationary pressures due to the base effect and accommodation in commodity prices. The lower inertia arising from 2022, after successive downward revisions, is also a factor that helps to moderate expectations for 2023.

Baseline Scenario (YoY)						
	IPCA	Regulated	Non-regulated	Services	Food at home	Industrial Products
20 Q4	4.5%	2.6%	5.2%	1.7%	18.2%	3.2%
21 Q1	6.1%	7.0%	5.8%	1.6%	17.6%	5.5%
21 Q2	8.3%	13.0%	6.7%	2.2%	15.3%	8.7%
21 Q3	10.2%	15.7%	8.3%	4.4%	14.7%	10.6%
21 Q4	10.1%	16.9%	7.7%	4.8%	8.2%	11.9%
22 Q1	11.3%	14.9%	10.0%	6.3%	13.7%	13.4%
22 Q2	11.9%	11.7%	11.9%	8.7%	16.7%	13.6%
22 Q3	7.1%	-2.0%	10.4%	8.5%	13.3%	11.3%
22 Q4	5.4%	-5.7%	9.3%	8.3%	11.8%	9.2%
23 Q1	3.9%	-5.6%	7.2%	8.0%	6.9%	6.4%
23 Q2	2.7%	-4.4%	5.2%	6.3%	4.1%	4.3%
23 Q3	4.8%	4.8%	4.8%	5.6%	3.7%	4.0%
23 Q4	4.7%	5.6%	4.5%	5.0%	4.7%	3.2%

Brazil: Inflation

- » Our 5.4% forecast for 2022 takes into account the impact of PIS/Cofins tax credits on electricity readjustments, federal and state tax cuts and the green flag for electricity;
- » In 2023, the forecast is 4.7%, above the target. On the one hand, we see the deterioration of expectations, the persistence of services inflation and less idleness in the economy due to the strength of the labor market. On the other hand, we see less inertia from 2022, the maintenance of federal tax exemptions on fuel and better-behaved industrial inflation;



»» The main risks in the scenario for inflation are:

Upside risks:

1. The government's fiscal policy may continue to boost demand and lessen the effect of contractionary monetary policy;
2. The discussion about the new fiscal rule that will replace the spending cap tends to bring volatility to the markets and put pressure on the exchange rate;
3. In 2023, labor market resilience could put pressure on services inflation and make the disinflation process even more difficult;
4. Warmer and drier weather in the northern hemisphere could harm next year's crops, increasing demand for Brazilian food. In addition, the high cost of natural gas in Europe could put pressure on fertilizer prices.

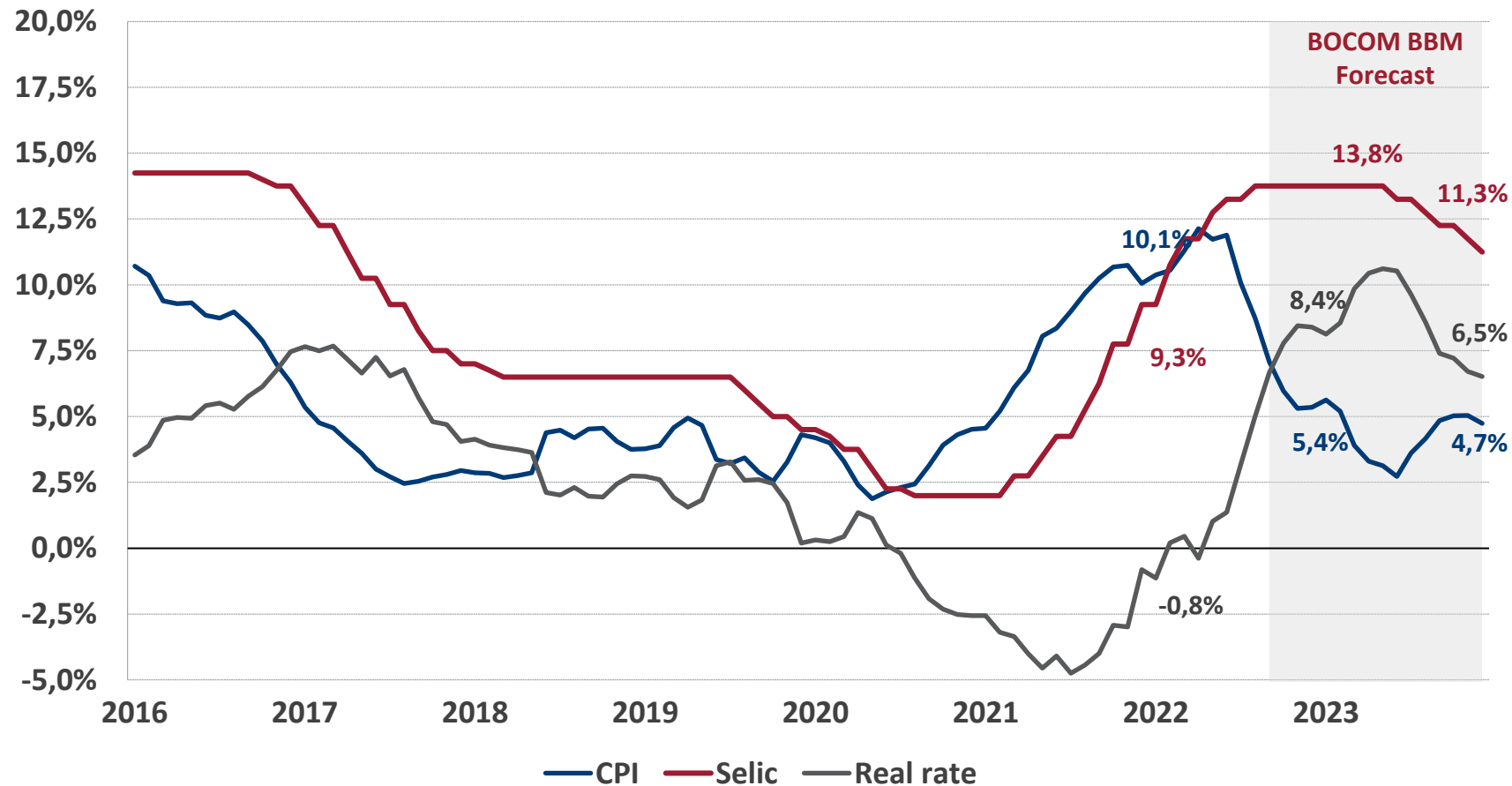
Downside Risks:

1. Commodity price declines may continue for a long time, impacting gasoline, diesel, industrial goods and food prices;
2. Lower inflation in 2022 could significantly reduce inertia for 2023;
3. The strong improvement in the global supply bottlenecks can further reduce industrial goods inflation;
4. Monetary policy may have become more powerful after the structural reforms implemented since Temer government, impacting prices in the next year more than expected.

Brazil: Interest rates

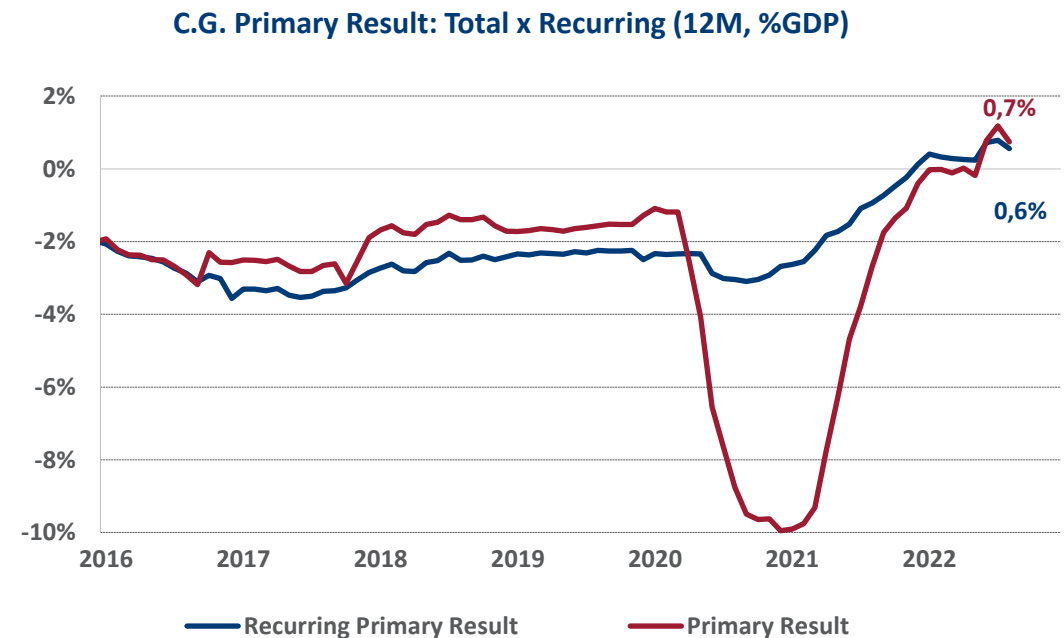
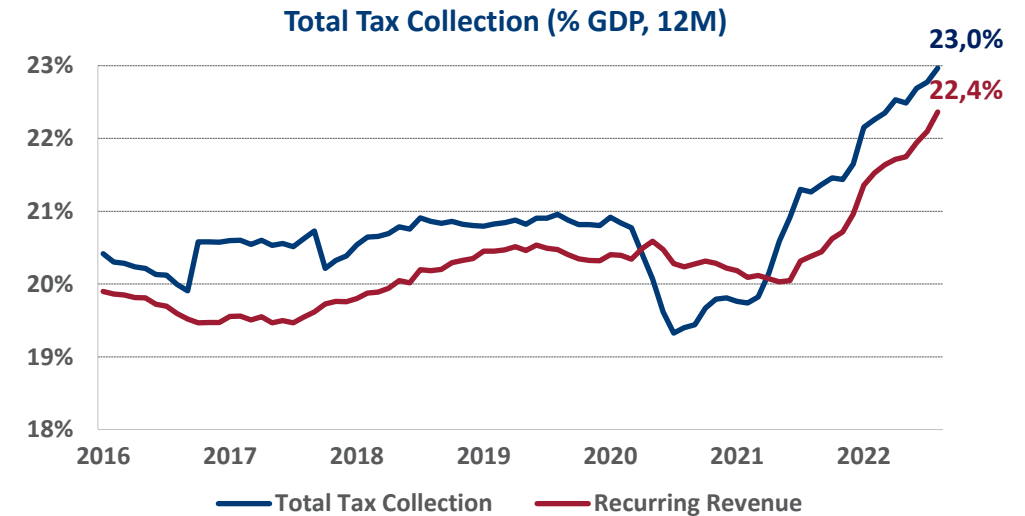
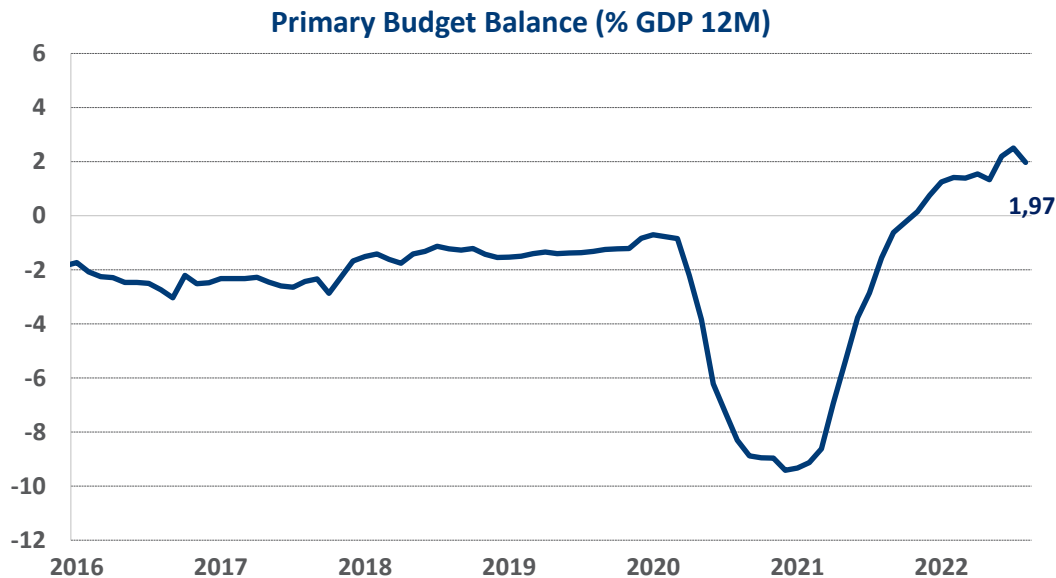
- » Copom ended the hiking cycle at the September meeting, keeping Selic at 13.75%. However, the committee reinforced the vigilance message by saying that monetary policy can further adjust should inflation prove more persistent than expected. However, given the rapid process of disinflation in force, we understand that new hikes are unlikely to occur. We project that Selic cuts will start in mid-2023, ending the year at 11.25%.

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



Brazil: Fiscal Results

- » Total federal tax collections reached BRL 172.3 bn in August, **slightly above market consensus**;
 - » It reached 8.2% YoY and 10.2% YTD in real terms
- » The consolidated public sector reached a primary deficit of BRL 30.3 bn in August and the General Government Gross Debt reached 77.6% of GDP;
- » Central government registered a primary deficit of BRL 50 bn (consensus -BRL 49.1);
 - » pressured by the concentration of judicial sentences and precatórios (R\$ 25.3 billion) and the payment of the Campo de Marte settlement in São Paulo (R\$ 23.9 billion);



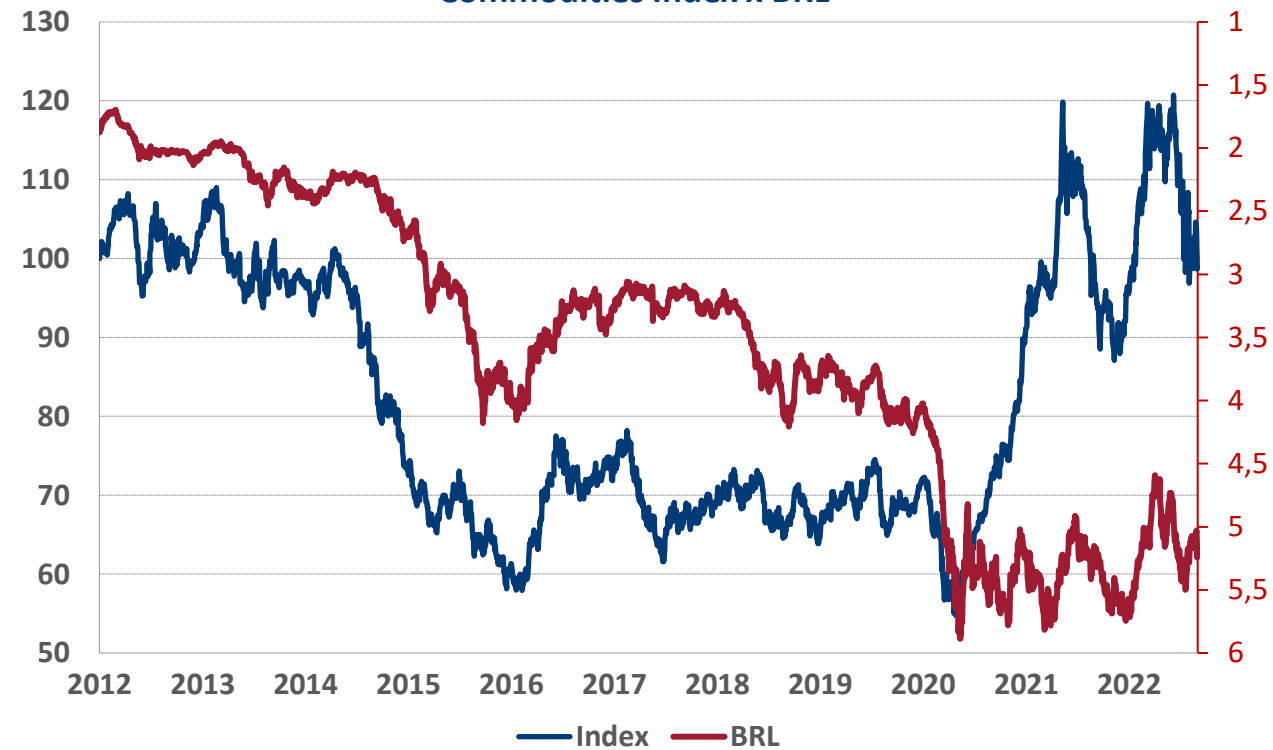
Brazil: External Sector

- » We are seeing a drop in the main commodities prices exported by Brazil, which together with uncertainty about global growth and fiscal risks in Brazil limit stronger appreciation of the exchange rate further.

Commodities Prices (01/jan/12=100)



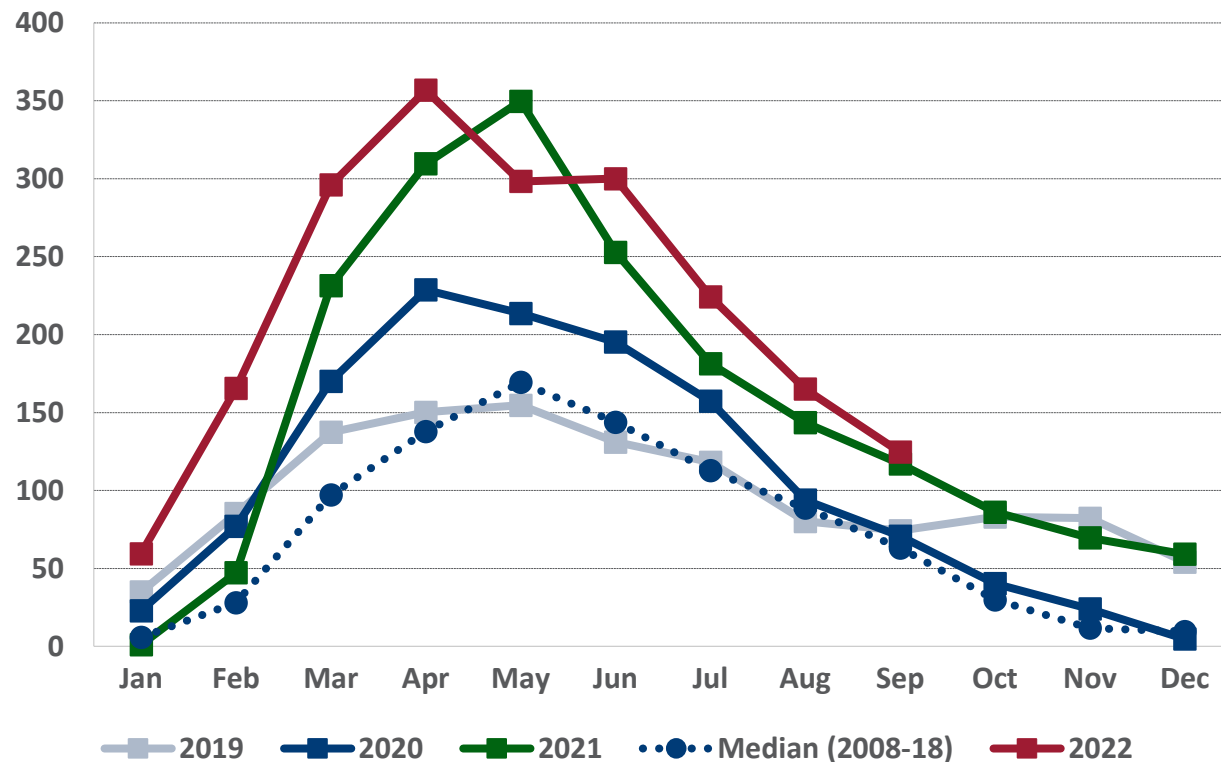
Commodities Index x BRL



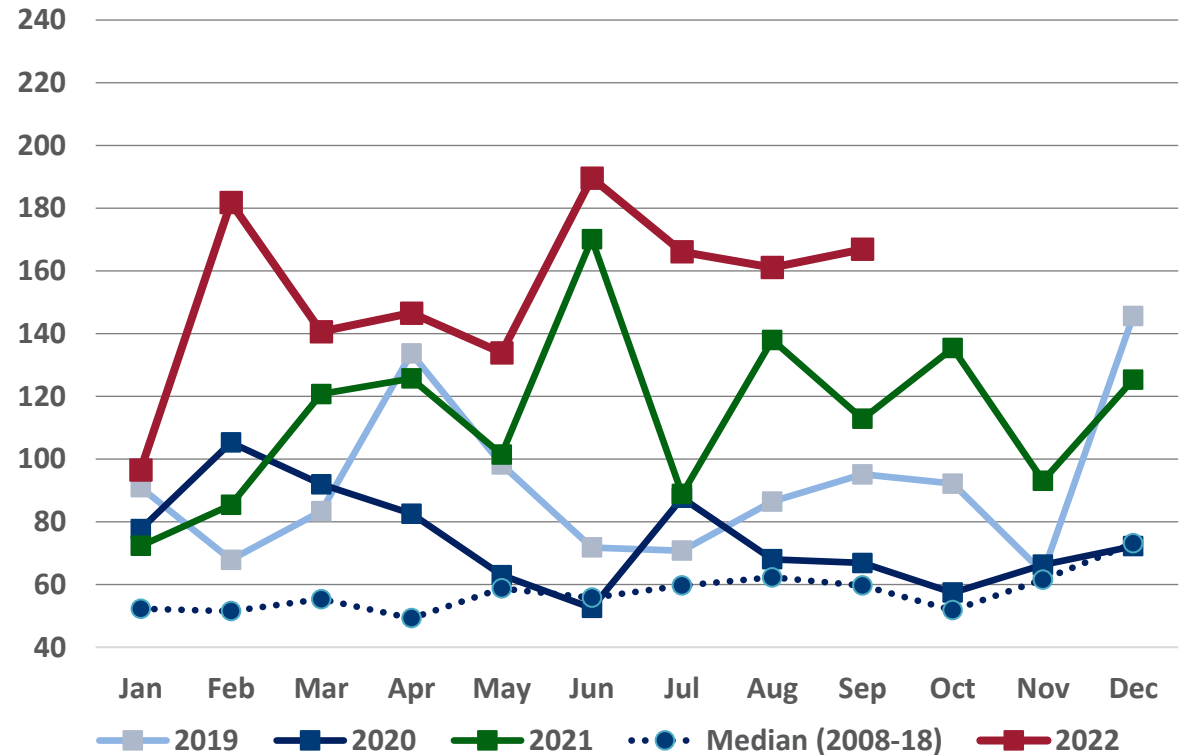
Brazil: External Sector

- » The trade balance remains strong, favored by high global demand and still high prices, despite the recent drop. The prospective scenario remains very favorable, given the expectation of excellent harvests and an increase in oil production next year.

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

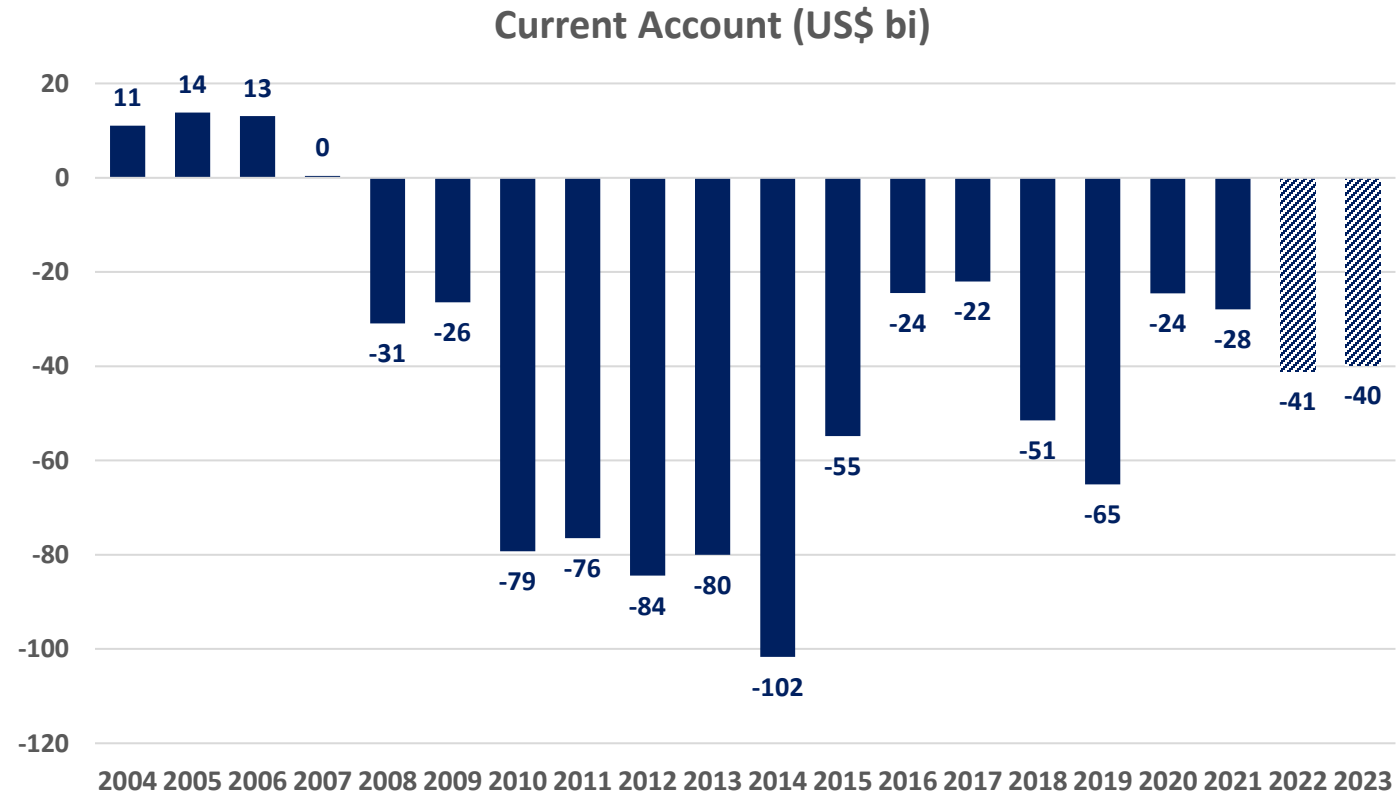


Brazil - Crude Oil Exports (US\$ Million Daily Average)



Brazil: Balance of Payments

- » For 2022, we expect a deficit of US\$ 41 billion in the current account. The strong surplus in the trade balance was more than offset by significant remittances of profits and dividends abroad and a higher deficit in the services balance, due to the return of mobility and stronger domestic demand;
- » Our forecast for 2023 is -US\$40 billion. Although we expect the exported quantities to continue increasing, the fall in commodity prices should have a negative impact on the value of exports. In addition, we expect a reduction in the remittance of profits and dividends abroad, which was driven this year by record dividend distributions by state-owned companies.



Brazil: Presidential Elections

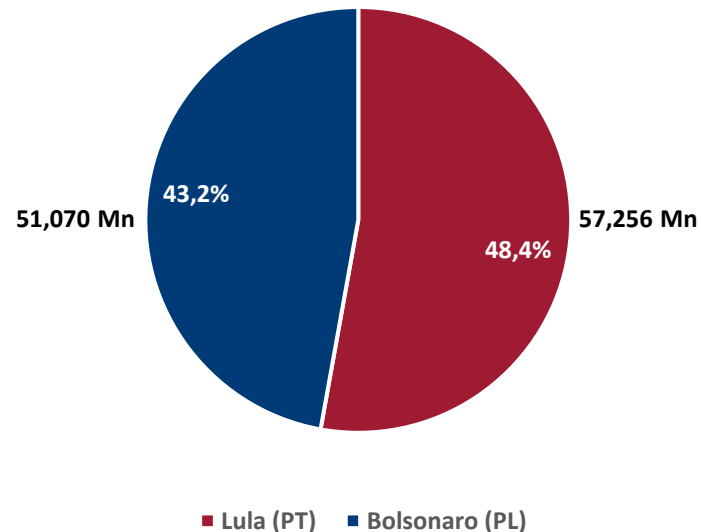
- » The election result showed a more competitive scenario than expected by the polls, which significantly underestimated support for Bolsonaro (which reached 43.2% of the votes, while the polls showed only 38.2%).
- » Lula got more votes in the Northeast and North regions, as expected
- » Bolsonaro got more votes in the Southeast, South and Midwest regions
- » The election will be decided in the second round on October 30th

	Average of all major polls*	Average of all published polls**	1st round result
Lula	48,2	47	48,4
Bolsonaro	38,2	39,6	43,2
Ciro Gomes	5,9	5,9	3
Tebet	5,4	5,3	4,2
Thronicke	0,9	0,9	0,5
D'Avila	0,6	0,6	0,5
Kelmon	0,2	0,3	0,1

*includes Ipec, Ipspe, Genial/Quaest; BTG/FSB, Exame/Ideia, Atlas, ModalMais, PoderData, Datafolha, CNT/MDA, Paraná

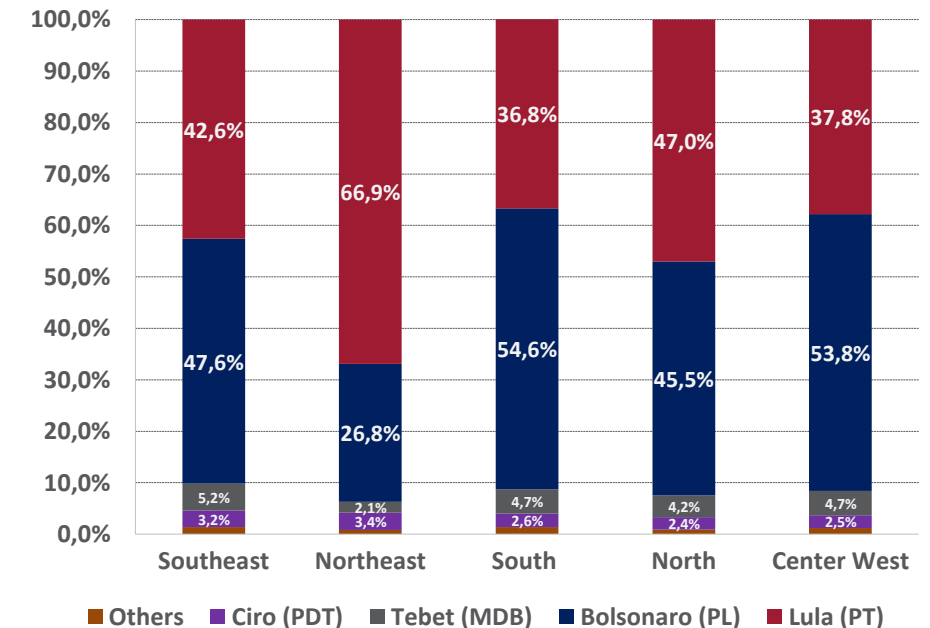
**includes all above plus Verita e Brasmarket

Presidential Elections: First Round Result



Lula (PT)	48,43%
Bolsonaro (PL)	43,20%
Simone Tebet (MDB)	4,16%
Ciro Gomes (PDT)	3,04%
Soraya Thronicke (União)	0,51%
Felipe D'Avila (NOVO)	0,47%
Padre Kelmon (PTB)	0,07%
Leo Péricles (UP)	0,05%
Sofia Manzano (PCB)	0,04%
Vera (PSTU)	0,02%
Constituinte Eymael (DC)	0,01%

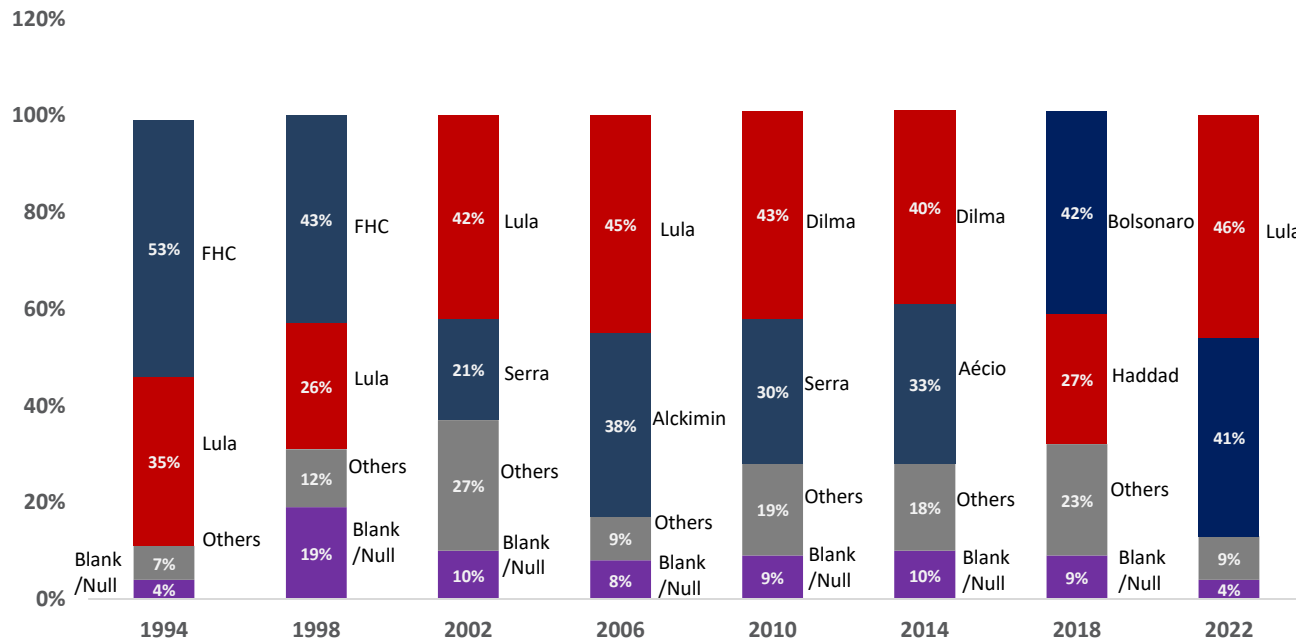
Presidential Elections: First Round Result by



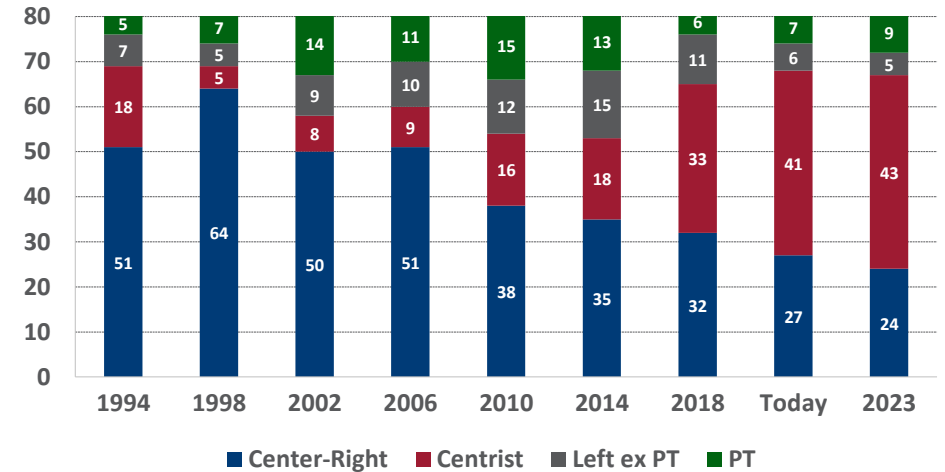
Brazil: Presidential Elections

- Historically, Lula reached the highest level of percentage of votes in an election, while Bolsonaro has remained relatively stable compared to 2018;
- The new congress composition has a more center/right positioning. Bolsonaro's party, PL, ended the elections as the largest party in the lower house and in the Senate. Therefore, if Bolsonaro is elected, he will have greater support, but if Lula is elected, this composition will be quite challenging.

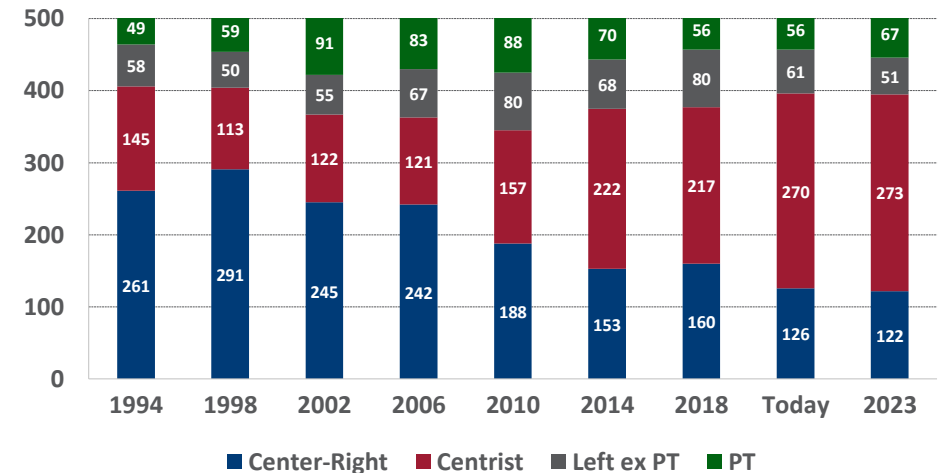
History of the first Round



History of Senate Composition



History of Lower House Composition



- » The prospective for the second round is still very undefined;
- » On the one hand, Bolsonaro's surprising results and his allied base in congress and in the gubernatorial elections make him come out stronger in the second round. Alliances in the Southeast, especially in Minas Gerais and São Paulo, could be decisive;
- » On the other hand, Lula needs to grow just a little to put him at a level above 50%;
- » Therefore, until the second round many moves can occur in an extremely competitive election.

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