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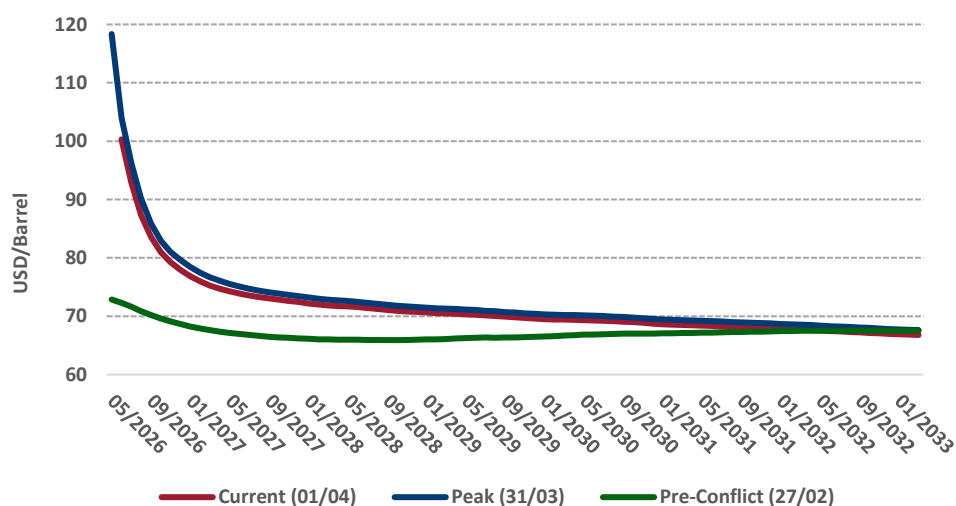
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At the start of the attacks on Iran by the United States and Israel, oil prices (Brent crude) reached USD120 per barrel, up 70% from the level prevailing before the conflict began (Figure 1). The surge in fuel prices will not only impact inflation directly but will also have disruptive effects on supply chains relating to costs and physical scarcity of inputs, jeopardizing production and distribution of goods, and hampering growth as a result. The duration and extent of the conflict increases the risk of global stagflation, although the impact on each country will vary in accordance to its dependence on oil.

Figure 1: Brent Crude Oil Futures Curve

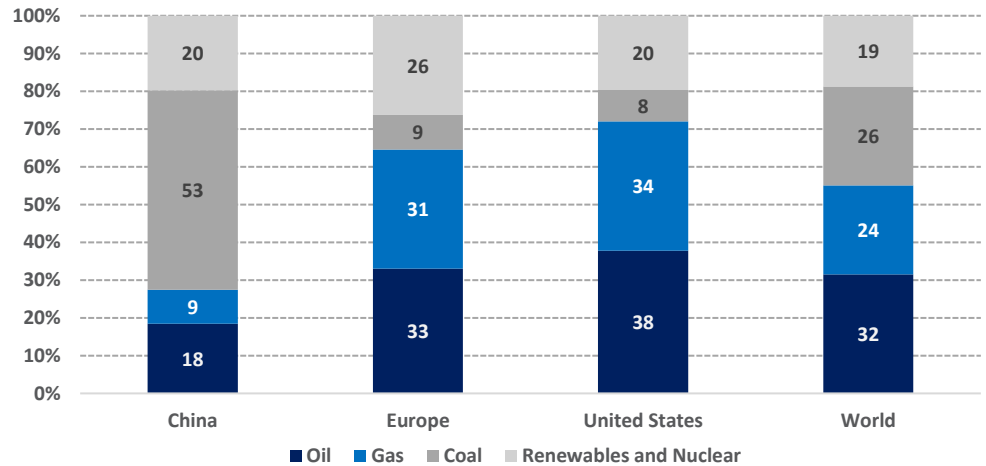


Source: BOCOM BBM, Bloomberg

Asia is the region most exposed to the conflict, as most of the crude oil and petroleum products shipped via the Strait of Hormuz are destined for Asian countries. Many of these economies are energy-intensive and depend above all on imported oil and gas. Oil plays a less prominent role in China's energy mix (Figure 2). In addition, China has significant strategic reserves of oil and gas, reducing its exposure to the shock in comparison with other Asian countries. Europe suffers both from high energy dependence (reliance on imported oil and gas) and a high risk of disruption to several value chains, including the aluminum and helium produced in the Middle East that are key inputs for the semiconductors (chips) used in many manufactured products.

The impact of the oil shock on the US economy is less evident. The US is now a net exporter of oil and gas, and its economy has become steadily less oil-intensive and less dependent on imports from the Middle East. Even so, a price shock could affect it via a reduction in consumer purchasing power and tighter financial conditions.

Figure 2: Energy Consumption by Source

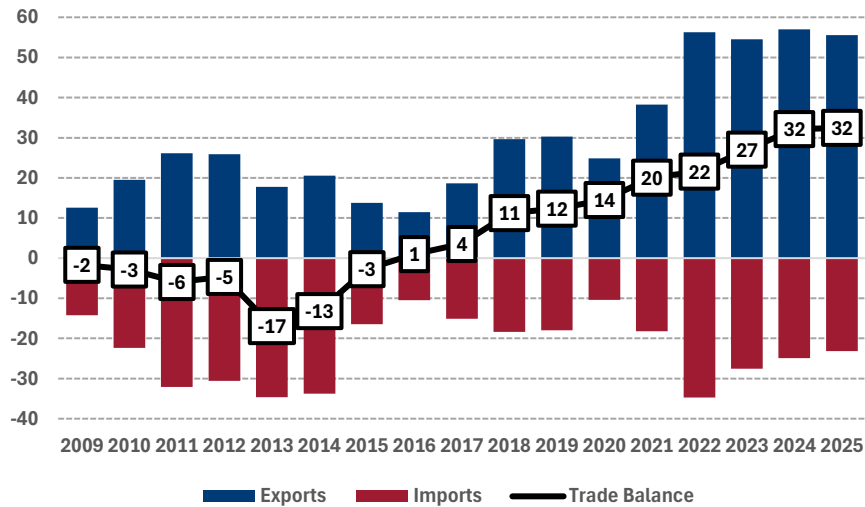


Source: BOCOM BBM, Energy Institute - Statistical Review of World Energy (2025)

In Brazil, the oil price spike affects the trade balance, fiscal balance, and inflation. Crude is one of Brazil's main exports, accounting for 13% of the total, and surging prices and demand for Brazilian oil will boost the trade surplus (Figure 3). On the other hand, Brazil is not self-sufficient in refining, and rising prices of imported petroleum products will drive up domestic inflation, although the impact on inflation will be mitigated by measures the government has already implemented (such as introducing a diesel subsidy and waiving PIS/Cofins tax on diesel), as well as others it is considering (e.g. persuading state governors to waive ICMS sales tax on diesel, subsidizing cooking gas, and lowering the tax on jet fuel).

In the fiscal sphere, natural resource extraction and dividends from Petrobras are expected to bolster tax revenue, alongside an increase in corporate income tax (IRPJ and CSLL) from oil companies. However, a reduction in the primary deficit will depend on the extent to which this additional revenue is used to contain the rise in consumer prices.

Figure 3: Brazil - Oil and Distillates Trade Balance (US\$bn)



Source: BOCOM BBM, Trade Ministry

Global interest rates have risen in response to the shock, reflecting concerns about its secondary and inertial effects on the dynamics of inflation in the longer term. Nevertheless, the Central Bank of Brazil (BCB) embarked on a monetary easing cycle in March, based on the view that recent events had not changed the need for monetary policy calibration. The slowdown in economic activity at the end of last year, deteriorating credit indicators, and a rise in household debt in the context of strongly contractionary rates were the main grounds for the decision to lower BCB's policy rate (Selic) by 25 bps. Risks remain on the horizon, however. Labor market resilience, new fiscal stimulus measures, and the volatility typical of election years could present significant challenges. The historically high level of domestic rates suggests there is scope for more cuts, although the pace of the easing process will probably be dictated by global geopolitics.

ECONOMIC FORECASTS	2020	2021	2022	2023	2024	2025	2026F	2027F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	3.4%	2.3%	2.0%	1.5%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	4.8%	4.3%	4.3%	3.6%
Unemployment Rate (eoy, %)	14.2%	11.1%	7.9%	7.4%	6.2%	5.1%	5.5%	6.2%
Policy Rate (eoy, %)	2.0%	9.3%	13.8%	11.75%	12.3%	15.0%	12.5%	10.50%
External Accounts								
Trade Balance (US\$ bn)	36	42	52	92	66	60	70	71
Current Account Balance (US\$ bn)	-25	-40	-42	-28	-66	-69	-60	-57
Current Account Balance (% of GDP)	-1.7%	-2.4%	-2.2%	-1.3%	-3.0%	-3.0%	-2.5%	-2.2%
Fiscal Policy								
Central Government Primary Balance (% of GDP)	-9.8%	-0.4%	0.5%	-2.1%	-0.4%	-0.5%	-0.4%	-0.7%
Government Gross Debt (% of GDP)	86.9%	77.3%	71.7%	74.4%	76.1%	78.7%	82.2%	86.3%

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