交通銀行 BANK OF COMMUNICATIONS BBM

Macro Monthly Letter

December 2020

A clearer horizon

Fernanda Guardado
Chief Economist

Serge de Valk
Economist

Anna Saraiva
Intern

Giovanni Machado
Intern

Pedro Alves
Intern

November came with a good amount of positive news, and a reduction of uncertainties, that benefited both global markets and Brazil. The unfolding and subsequent resolution of the American election, as well as the good results regarding several vaccines, moderated two important uncertainties that clouded the horizon of the global economy. However, the second wave of infections in both Europe and the US, and that now seems to manifest itself in Brazil also, is likely to have a negative impact on economic data on December 2020 and early 2021.

The American election confirmed Joe Biden's favoritism. Notwithstanding Trump's reluctance to recognize his defeat, the transition process has already started, thereby removing the possibility of a delayed outcome. Going into 2021, a bipartisan agreement for a new stimulus package to sustain the economy´s recovery is expected. Negotiations have dragged on since August, recent discussions indicate that a new package around U$ 900 billion will be enacted early next year. More fiscal support has been a recurring request of the FED's governors in the context of an already high monetary stimulus and doubts about its ability to sustain a recovery in consumption over the next quarters.

Even though a second wave of covid-19 infections was underway in both Europe and the US, where national Covid hospitalization numbers are reaching new records, headlines were dominated by the perspective of a vaccination process being implemented before year end. Pfizer is asking for emergency approval of its vaccine on the 10th of December in the USA, allowing it to effectively start vaccinations on the next day. Moderna, whose vaccine also showed promising results, is looking for approval this month in both the USA and Europe. Although em masse vaccination is still a long way off, the prospect of normalization in the services' sector, thanks to the availability of vaccines, has boosted financial markets and helped improve global activity forecasts.

In Brazil, the economy should end the year with inflation above 4% and a 4% dip in economic activity. The third quarter recovery exceeded expectations and recent signals still point towards a robust fourth quarter. This in turn suggests a better economic performance then what was expected a few months ago, especially thanks to programs by the federal government to stimulate credit and maintain jobs and income. The upside surprise has come from the consumption of goods while there was only a modest recovery in the services' sector. The Industrial sector is going through an inventory cycle while still facing robust consumer demand. We expect a 3.5% growth of GDP for next year that is the result of a modest marginal increase in activity and an important base-year statistical effect.

On a less positive note, inflation for next year has been consistently revised upwards. As previously mentioned, we expect the CPI to increase by 4.3% in 2020 and 3.5%

in 2021. Inflationary surprises, that were until recently limited to the price of food stuff and gasoline have now started to include residential electricity fares (to which the maximum allowed increment in the “flag system” has been added in December) and a more widespread recovery of services prices. These developments have translated into an earlier than expected recovery of core inflation measures. We expect inflation to exceed 6% oya around May before coming back to 3.5% by year end, close to the 3.75% target, as current pressures on prices are excluded from the 12-month statistics.

We therefore maintain our expectation of the Central Bank starting to normalize its monetary policy in August and ending the year with a SELIC rate of 3.5%, as inflation expectations converge to the target for the relevant forecast horizon. We continue to anticipate some potential upside risks with regards to our inflation scenario for the coming quarters, making our current scenario asymmetrical. Nevertheless, we believe that the Central Bank will remain patient and keep its forward guidance for the next two months as it evaluates the state of the economic recovery as fiscal support is removed, especially in the labor market.

ECONOMIC FORECASTS	2014	2015	2016	2017	2018	2019	2020F	2021F
GDP Growth (%)	0.5%	-3.5%	-3.3%	1.3%	1.3%	1.1%	-4.4%	3.6%
Inflation (%)	6.4%	10.7%	6.3%	2.9%	3.7%	4.3%	4.3%	3.5%
Unemployment Rate, SA (%)	7.1%	9.6%	12.6%	12.4%	12.2%	11.7%	15.5%	14.3%
Policy Rate (%)	11.8%	14.3%	13.8%	7.0%	6.5%	4.5%	2.0%	3.5%
External Accounts								
Trade Balance (US$ bn)	-4	20	48	67	53	39	61	58
Current Account Balance (US$ bn)	-104	-59	-23	-10	-42	-51	11	2
Current Account Balance (% of GDP)	-4.3%	-3.3%	-1.3%	-0.7%	-2.2%	-2.8%	0.8%	0.1%
Fiscal Policy								
Fiscal Primary Balance (% of GDP)	-0.6%	-1.9%	-2.5%	-1.7%	-1.7%	-1.2%	-11.3%	-2.8%
Government Gross Debt (% of GDP)	57.2%	66.2%	69.4%	73.7%	75.3%	74.3%	90.0%	92.0%