

Brazil Pros and Cons

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King's College London

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BRL | ADVISORY

Independent Advisory for Business in Brazil

www.brladvisory.com

Agenda

- Main changes since the end of last year
- Change in numbers
- Pros and Cons

Main changes since last year

- Market conditions
- Election Outlook

Market Conditions

External to Brazil

- US
 - Fiscal stimulus, higher growth, employment → inflation in the US
 - Change in the pace of monetary normalization by the FED
 - Correction in Oil prices
 - Geopolitical issues still to be resolved (North Korea)
 - Trade war US and China

Market Conditions

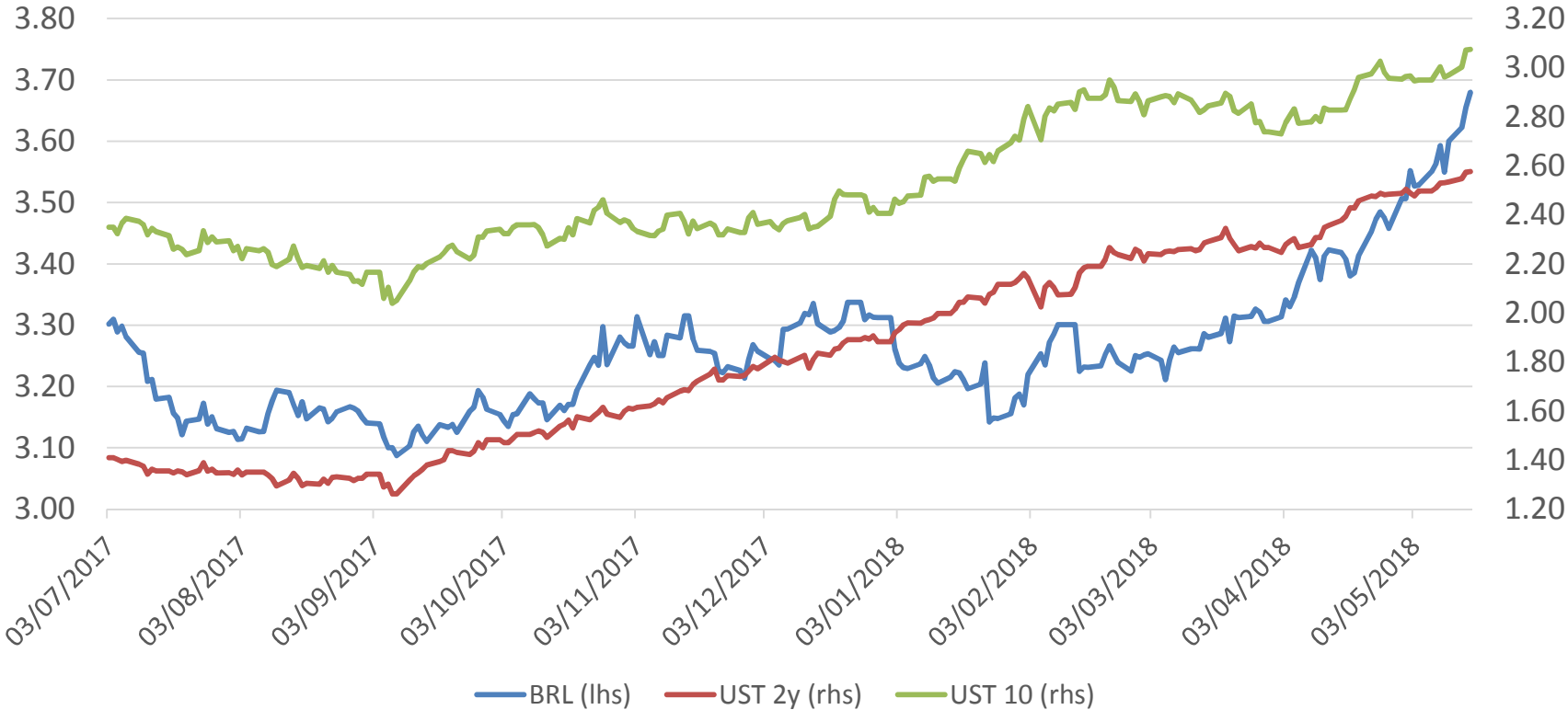
Internally (Brazil)

- Postponement of the Pension Reform (voting)
- Lack of confidence/ slow recovery of employment
- Disappointing activity numbers, especially in Q1
- Continuous revision of inflation expectations and the SELIC
- Elections

Market Conditions

Record low interest rate differential + vulnerabilities, pressure on the BRL

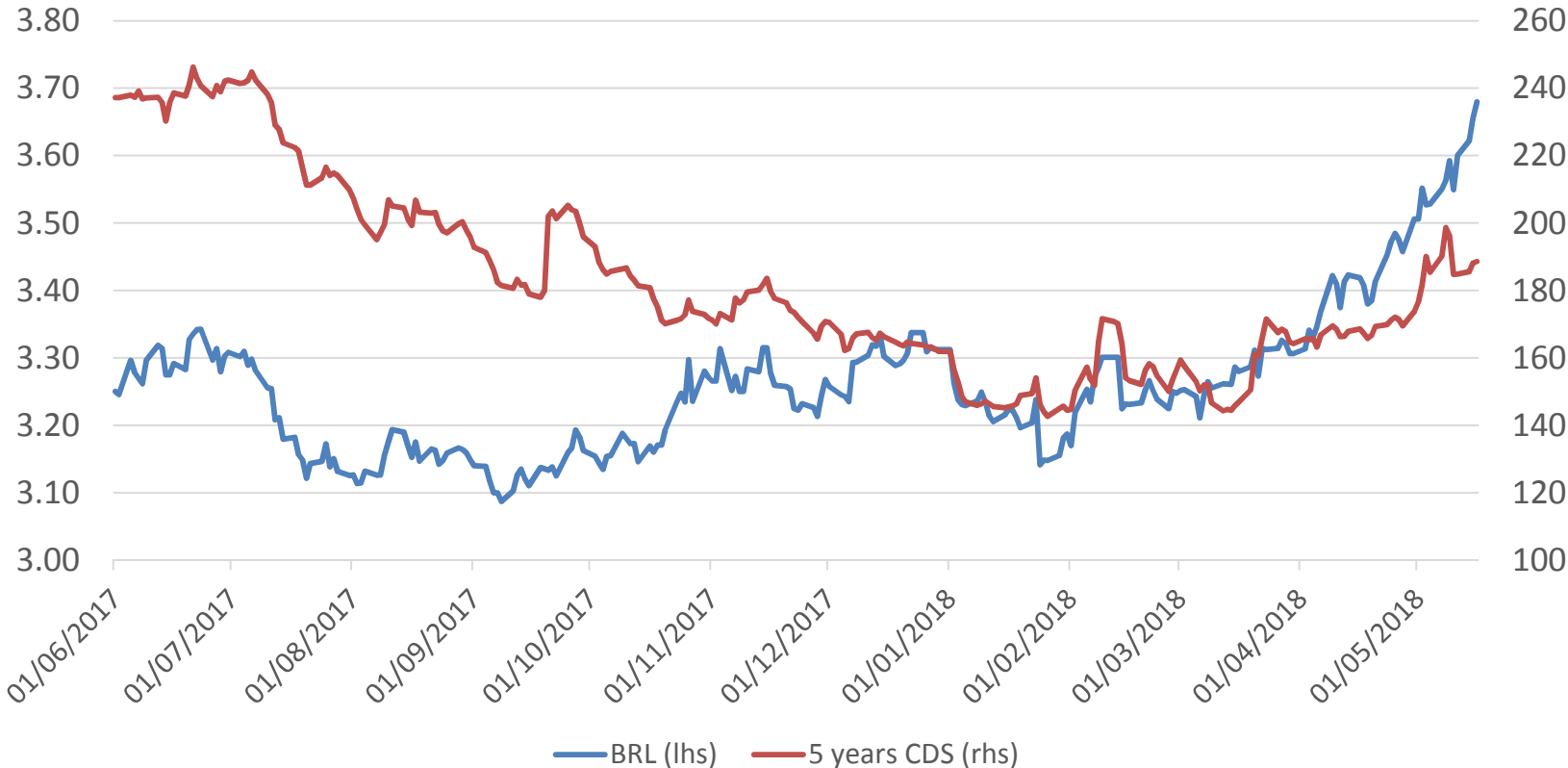
BRL and US Treasuries 2 and 10 year



Market Conditions

BRL and CDS prices went up

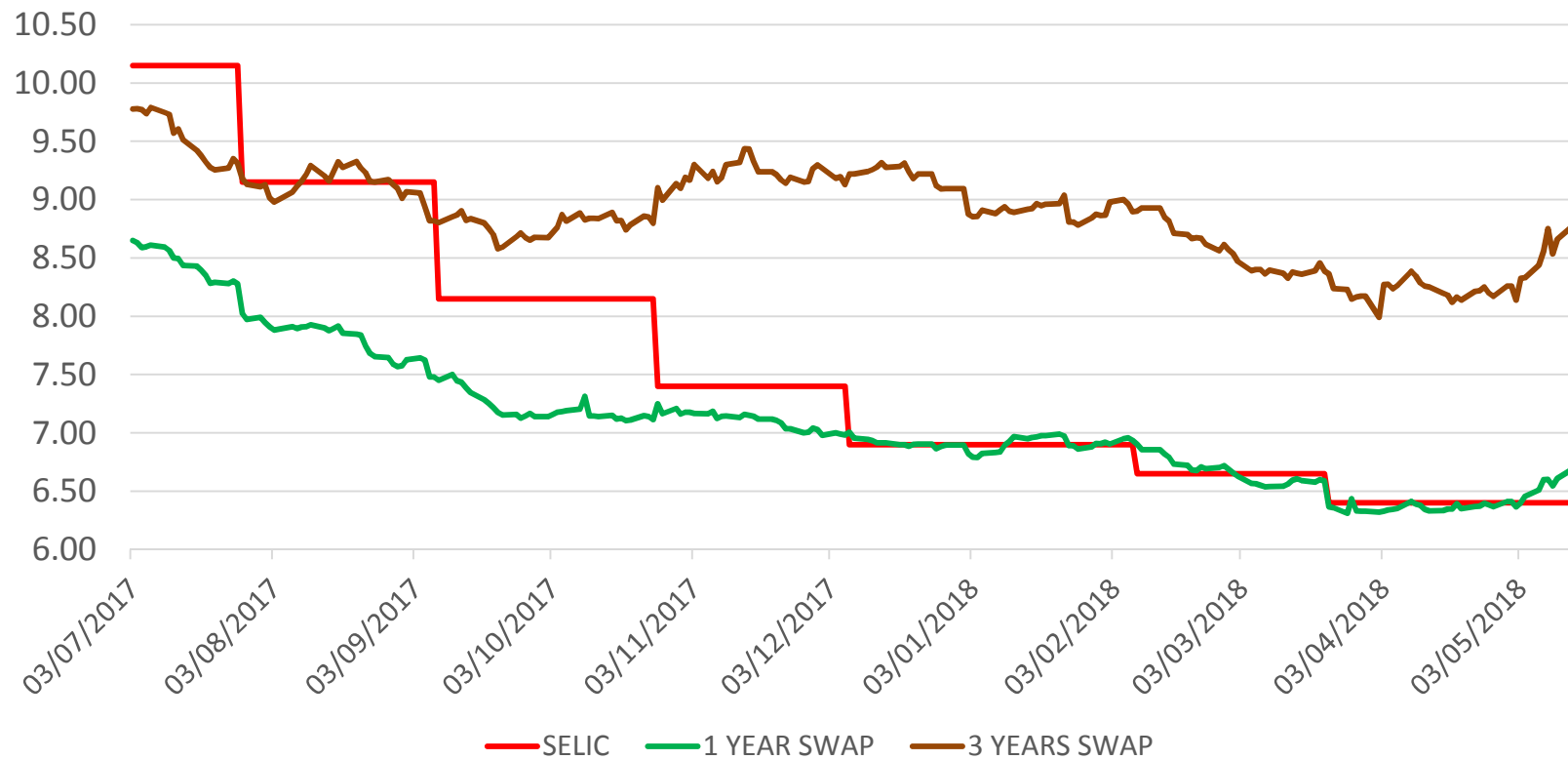
BRL and CDS 5 years



Market Conditions

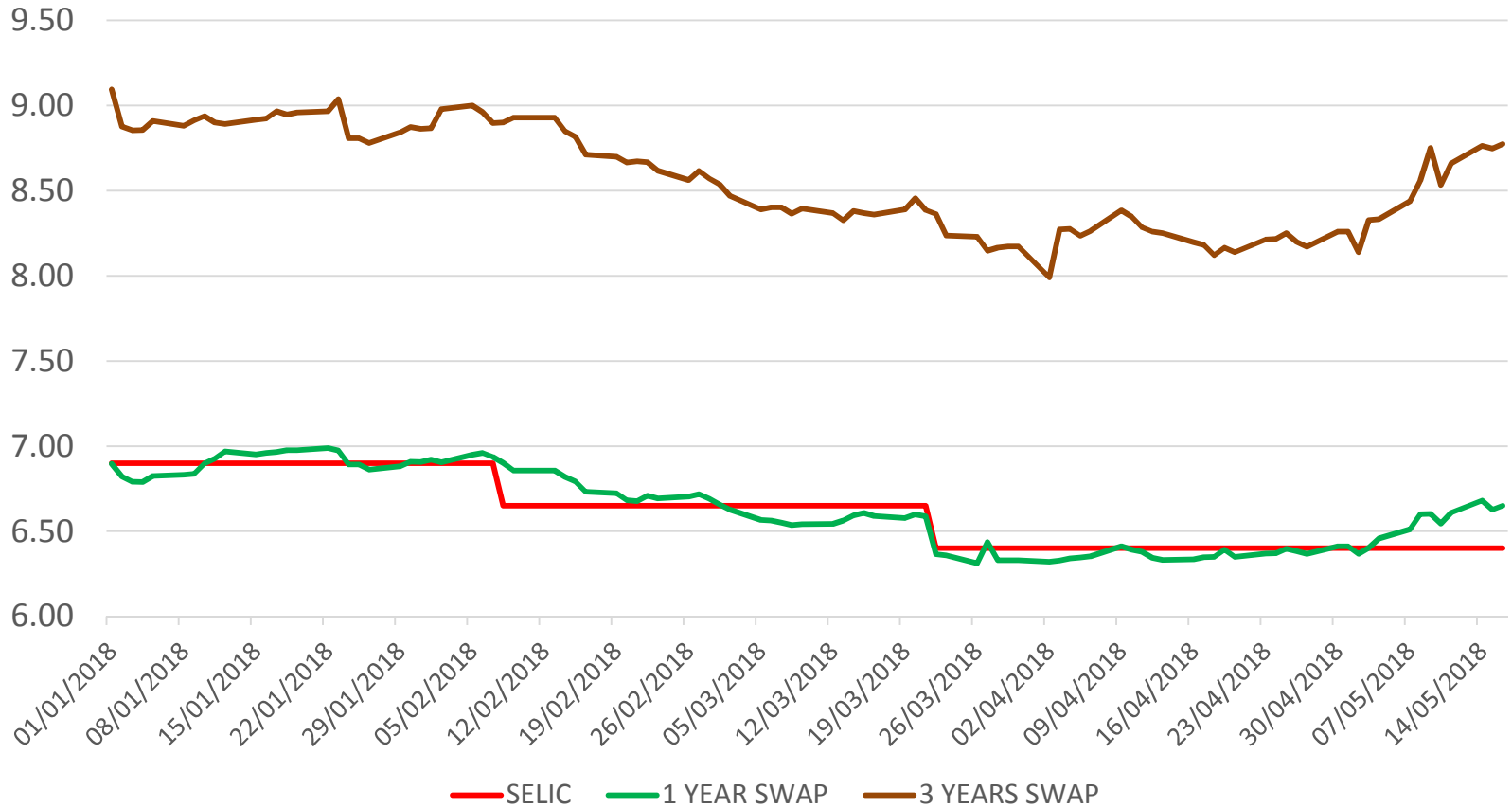
Easing cycle apparently stopped at 6,5%

BRL Interest Rates



Market Conditions

BRL Interest Rates



Market Conditions

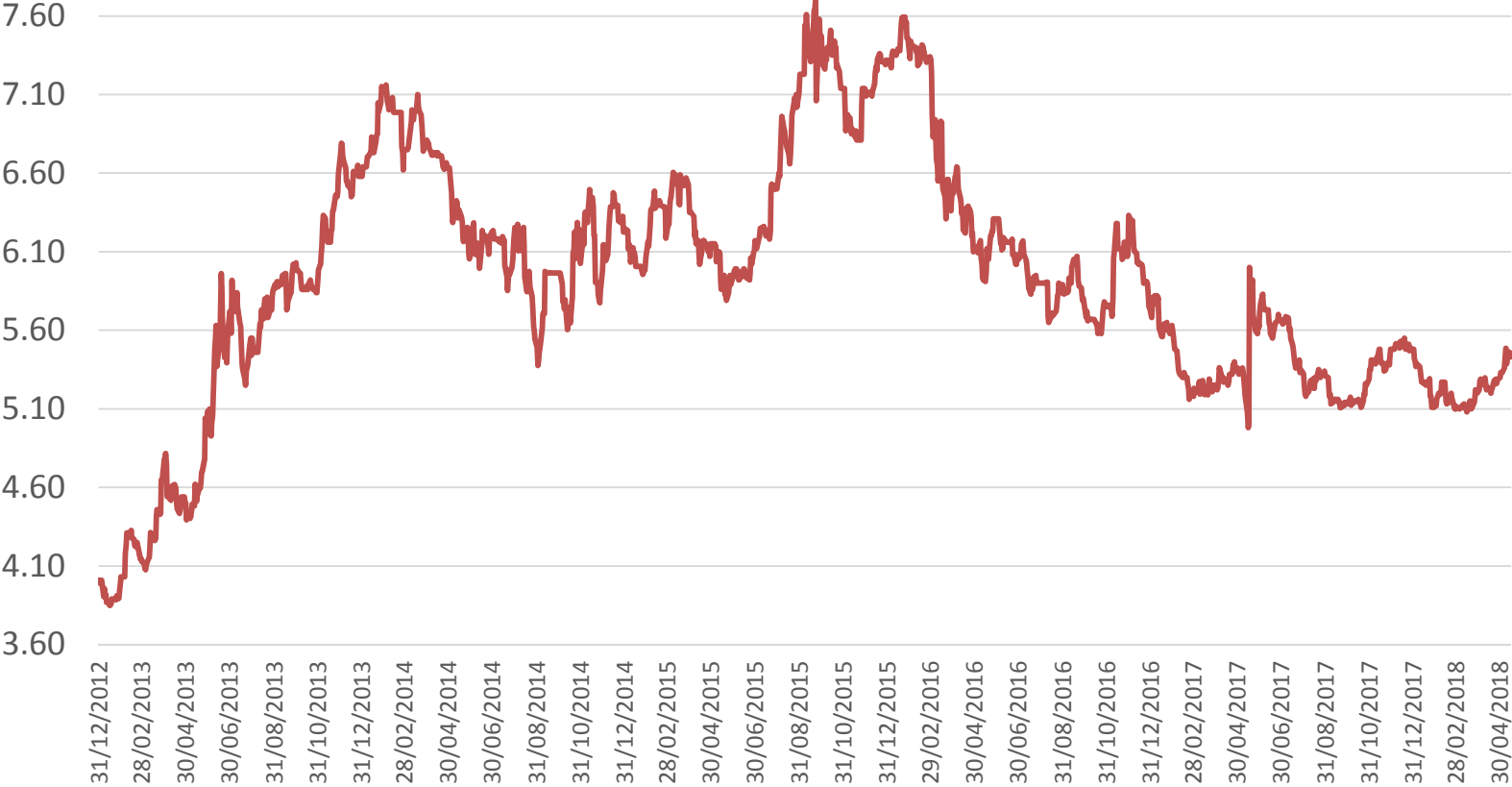
1 and 3 years swap - BRL



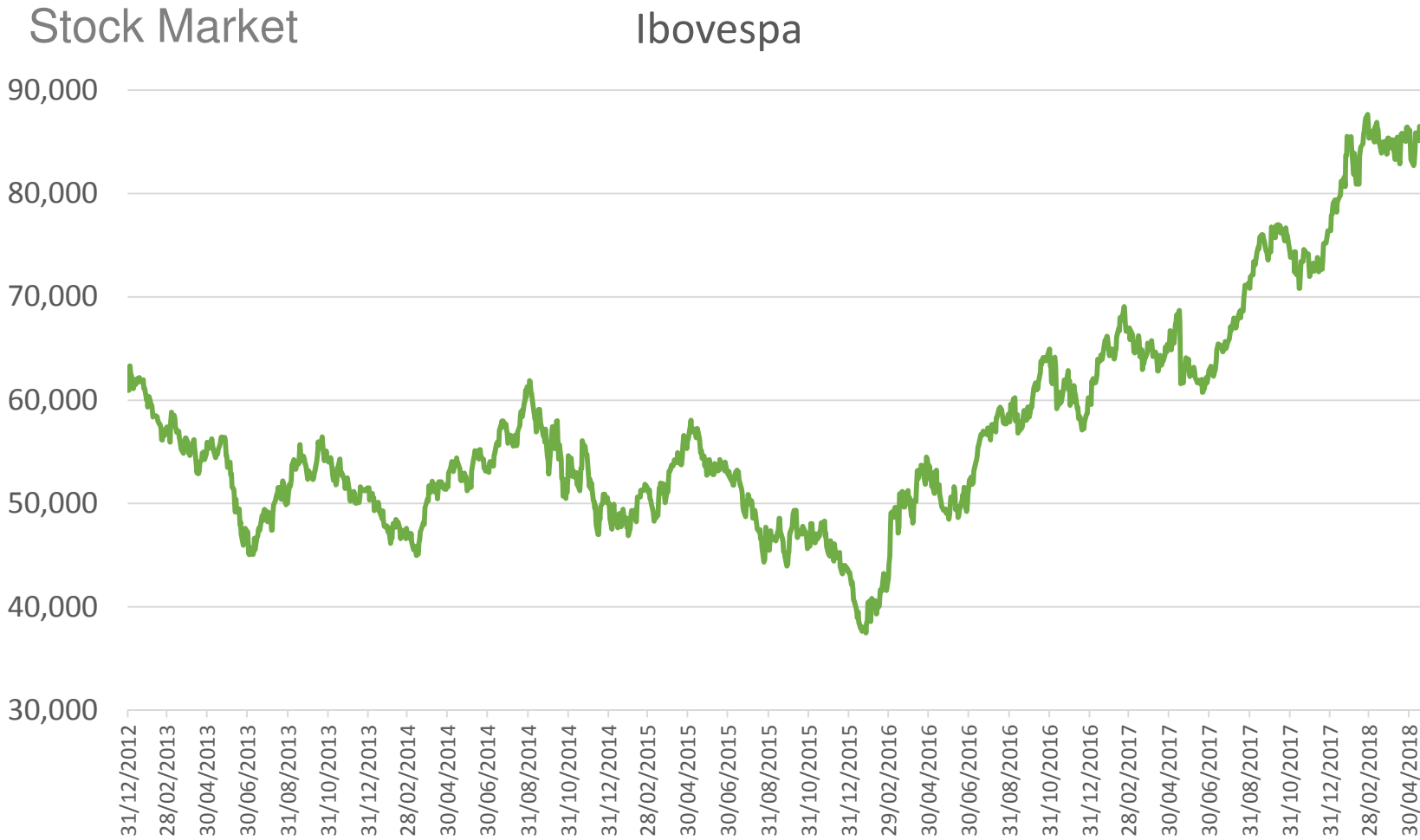
Market Conditions

Real interest rates remain high

NTN - B 50



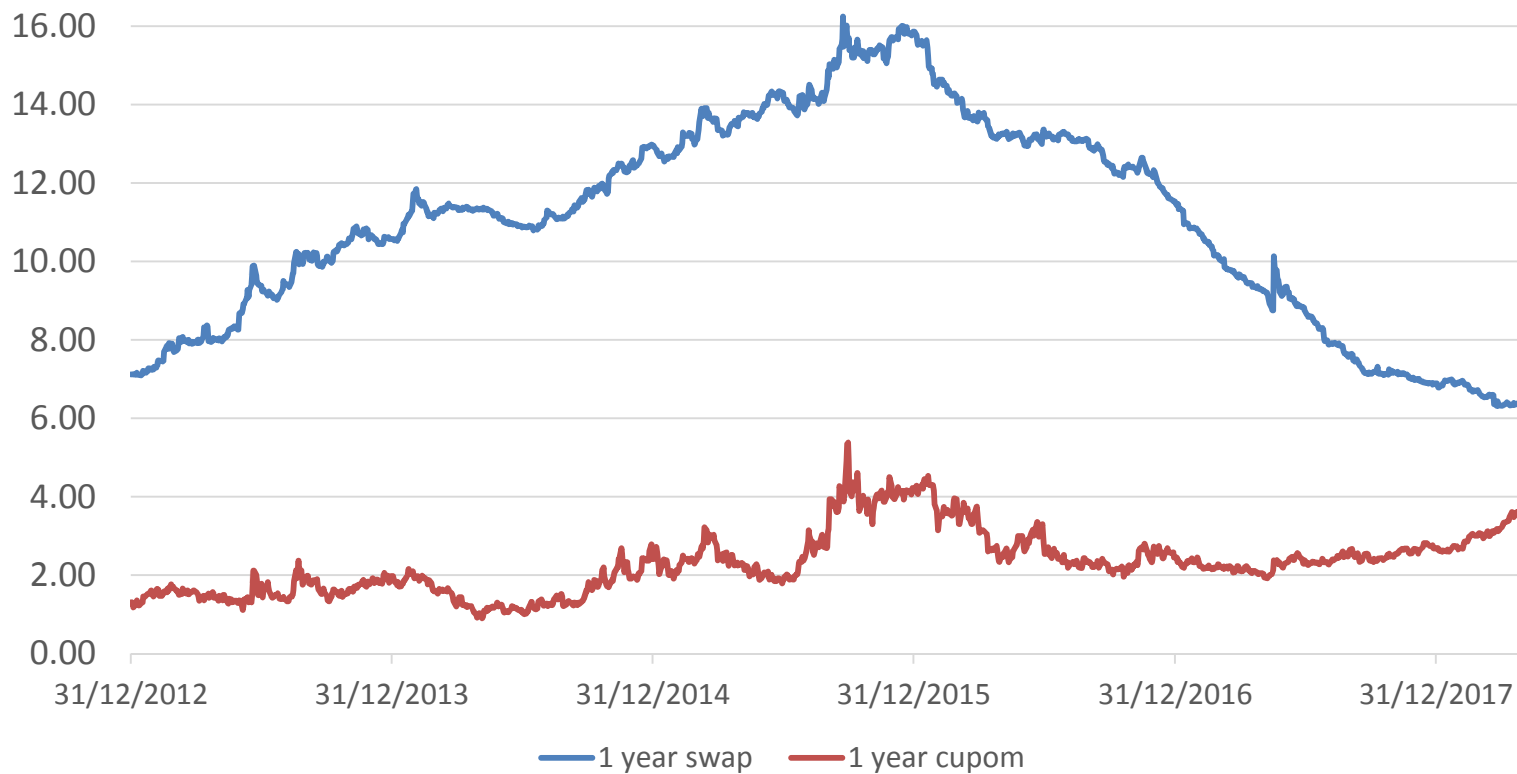
Market Conditions



Market Conditions

Cost of Hedging – long USD, short BRL

Cupom vs 1 year swap



Election Outlook for Presidency

- Lula's conviction and no clear substitute in PT
- Poor performance from the "center" – Alckmin and the "new names"
- Higher chance of a run-off between "right" vs "left"
 - Right: Bolsonaro (adapting)
 - Left: Marina Silva or Ciro Gomes (adapting?)
- Who is really committed push for reforms?
 - Pensions, Privatizations, Tax, Political.....

Elections – Calendar

7th of April: last day for changing political party and for candidates to leave public office jobs: previously elected or not. Except for the President

15th of August: last day for registration of candidates and coalitions

31st of August: propaganda and time on TV (*) begins

7th of October: first round: Congress (State and Federal), Governor, Senate and President

12th of October: 2nd round propaganda and time on TV (*) time resumes

28th of October: second round for Governor and President (if there was no majority on valid votes)

() just for open TV stations*

Change in numbers

			23/11/2017	24/05/2018
Market projections	2016	2017	2018	2018
IPCA (%)	6,3	3,09	4,03	3,50
Selic Rate (%)	13,75	7	7	6,50
BRL	3,26	3,25	3,3	3,43
GDP %	-3,6	0,73	2,51	2,50
Current account (% GDP)	-1,3	-0,7	-1,6	-1,2
Trade Balance (bn)	48	65	50	60
Direct Investments (% GDP)	4,4	3,8	4	3,8

Change in numbers - outlook

BRL levels should be trading in higher levels

Cost of protection should remain low in the short term

Volatility will continue

There is a wide range of scenarios for the Selic

Cons (or challenges...)

- Fiscal situation (Can it be an opportunity?)
- Critical reforms
 - Pensions, Privatizations, Tax, Political.....
- Loss of human capital (living conditions in Brazil)

Pros

- Investigations over corruption (Lava Jato)
- Labor market reform
- Cap on spending
- BNDES new orientation vs CB monetary policy
- Credit bureau/ Agenda BC+
- New players – fintech's and investors

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