Flash Note:
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Brazil - The british magazine Global Markets chooses Guedes as the world's best minister. Why?

Economics & the beginning of the growth cycle

- Regarding GDP growth forecasts, 2020 number has been improving since the end of 2019 and is now fixed above the 2.30% y/y.
- The impact on the real economy from the recent reform agenda (and contention in inflation) is starting to be felt as evidenced by the boost in key sectors such as real estate and a recovery in the extractive industry, which contributes to raise confidence in the rest of retail segments.
- Other industrial sectors are also expected to see a moderate jump in 2020 if, as we expect, the fiscal anchor guarantees that the historically low interest rate remain in place.
- The Brazilian Institute of Geography and Statistics (IGBE) released data showing that the economy has accelerated 0.6 percent after the approval of the pension reform. This has had an impact on citizens' perceptions, as they show themselves more confident in an economic recovery than they were in previous months.
- Inflation remains well anchored: The latest Focus report brought a scenario of calmness in terms of long term inflation expectations. Despite the uptick at the end of 2019, a consensus for future horizons didn't t deteriorate. 2020 consensus is around 3.56-3.58%.
- On the negative side, maintenance of high unemployment rate may bring some social frustration, although we do not see this risk unfolding in 2020. The unemployment rate stands at 11.2%, and although it has been improving since 2017 (when it stood at 14%), it is still above its 10-year average (9%).

Has Bolsonaro's First Year Been a Success or Failure?

- After a long and gradual decline, Bolsonaro's poll numbers have stabilized at about 40 percent approval, due mostly to the slow but continuing improvements in Brazil's economy. Especially encouraging has been Congress' surprisingly passage of a substantial pension reform, reinforced by modest upticks in growth and employment.
- Business leaders and foreign investors appear increasingly confident that economic revival is in sight. However, although homicides and other violent crimes, according to official statistics, have fallen dramatically this year, there has also been a steep rise in murders by police. Nonetheless,

Bolsonaro's hardline approach to crime has the support of many Brazilians, fed up with unbridled violence.

- Many Brazilians oppose Bolsonaro for his extreme, confrontational agenda on ideological issues, but these have attracted the loyalty of most of Brazil's evangelicals, some 30 percent of all Brazilians.
- Bolsonaro has managed to maintain solid economic ties with his two largest commercial partners, China and the United States.
- Municipal elections this fall will offer a good measure of Bolsonaro's standing nationally. Polls show Lula (who cannot run for office) as the only serious challenge to Bolsonaro, indicating the frailty of the president's opposition.
- Despite his many critics and a record of poor judgment and offensive statements, Bolsonaro today stands as a strong contender for re-election in 2022.

Outlook: New momentum for additional reforms in 2020 is supportive for this economy and assets

- In a recent interview, Minister Paulo Guedes guaranteed that Administrative reform and tax reform should be sent to Congress by the beginning of February.
- The willingness to continue supporting the reform agenda prevails in Congress.
- Nevertheless, the general assessment is that almost everything will be approved by 2021 as the October municipal election is expected to interfere with the schedule. Starting in May, the pace of voting will be significantly reduced.

Financial market outlook

- Equities – IBOV: MARKETWEIGHT-OW (Target 116,437 Exit 122,259)
- Bonds – Gov. 10y Local: OVERWEIGHT (Target 7.0%. Spread 500)
- Bonds – Gov. 10y USD: OVERWEIGHT (Target 4% Spread 200)
- FX – BRL/USD: OVERWEIGHT (Mid-term target 4.10)