



Latin America and the Global Economy

Cyclical Adjustments and Opportunities Ahead 2014-2015

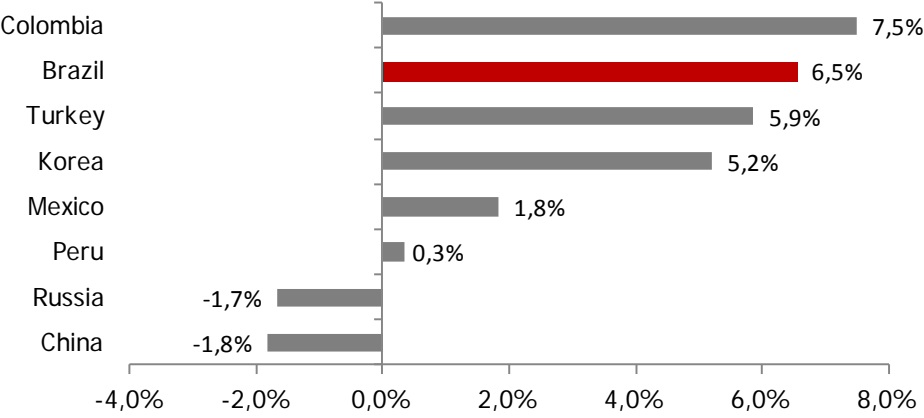
August 2014

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Superintendente Executivo

**GLOBAL LIQUIDITY IS STILL HIGH,
BUT THE GLOBAL ECONOMY WILL
WITNESSES THE START OF THE
NORMALIZATION IN INTEREST
RATES IN THE NEXT 18 MONTHS**

Under excessive global liquidity investors should be cautious in leaning against “the trend” but prices seem stretched everywhere

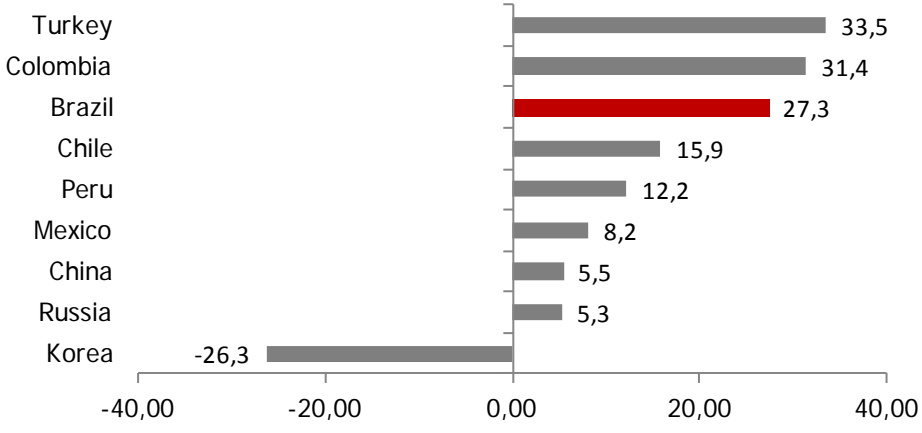
Currencies
(Change since 02/03/2014)



*Updated 08/05/2014

Source: Bloomberg

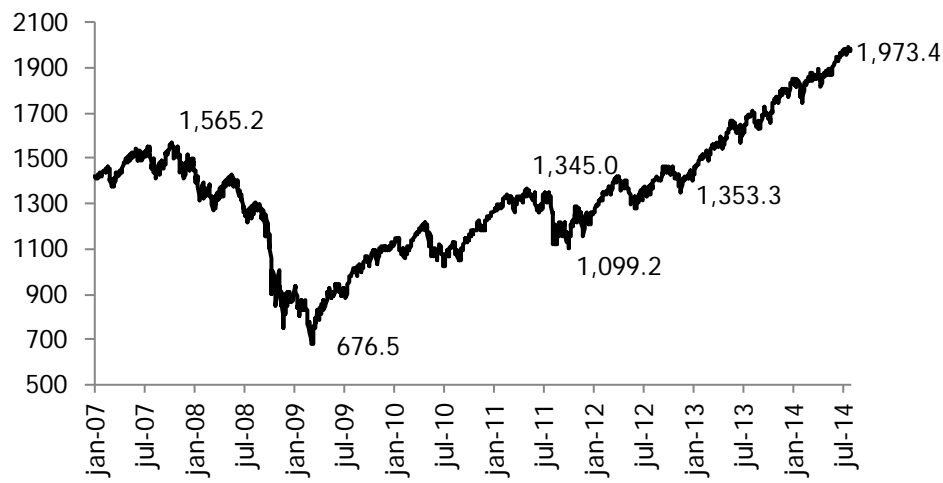
Stocks
(Change since 02/03/2014)



*Updated 08/05/2014

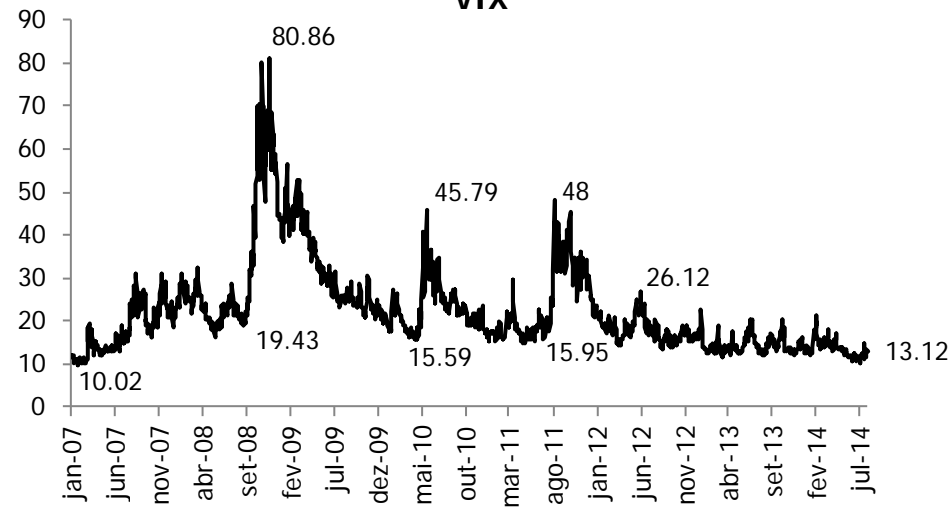
Source: Bloomberg

S&P Index



Source: Bloomberg

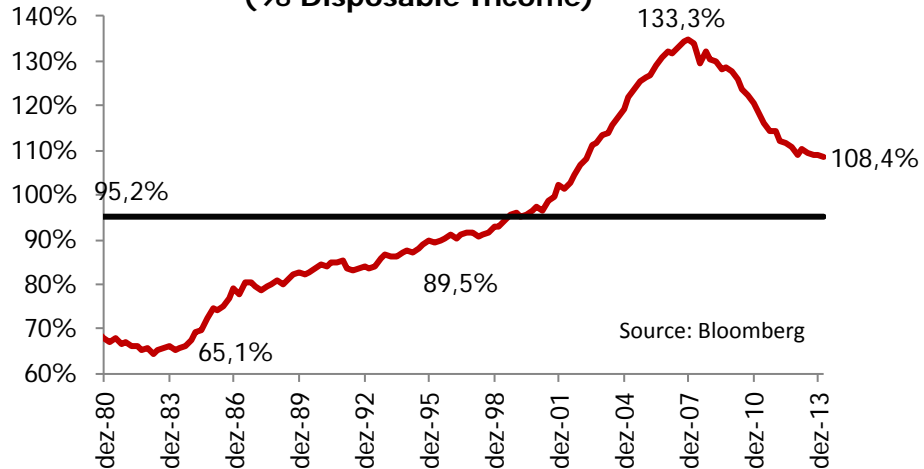
VIX



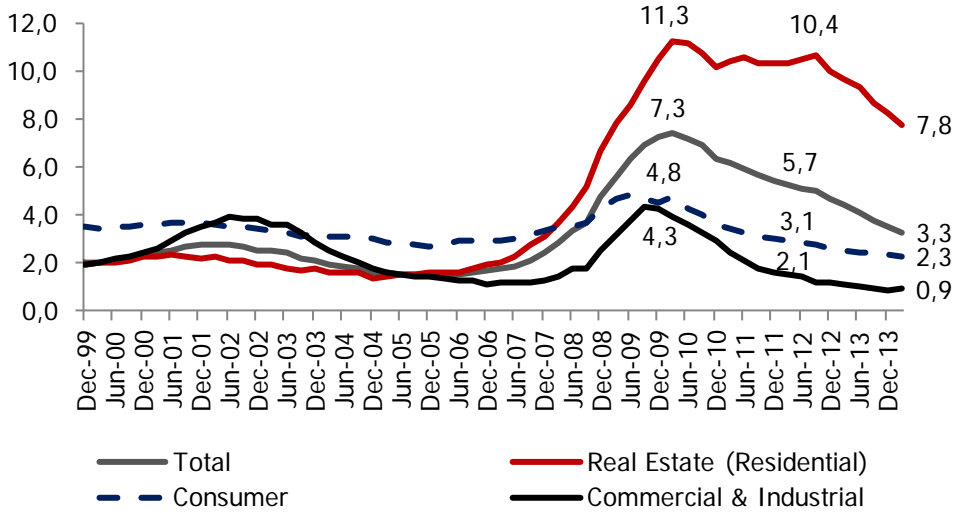
Source: Bloomberg

But the US economy has reduced its weaknesses and is already recovering

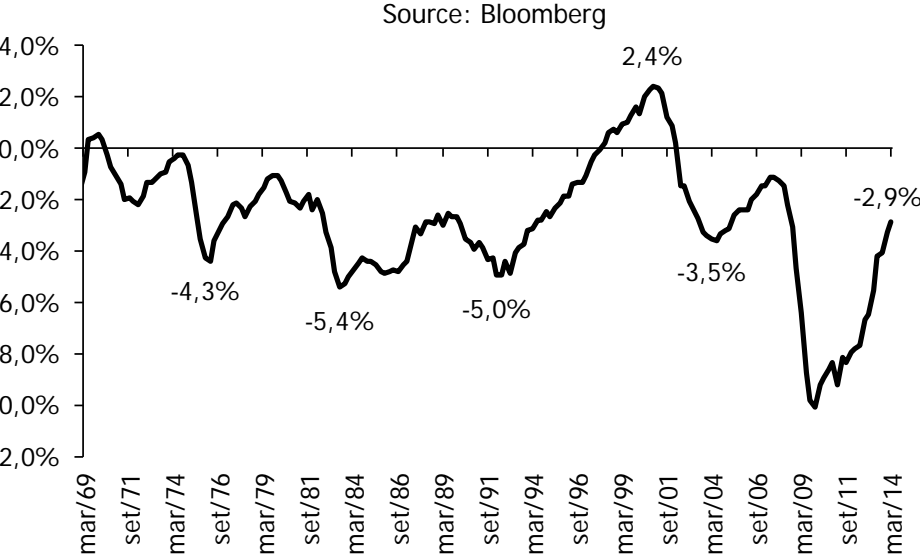
Household Indebtedness (% Disposable Income)



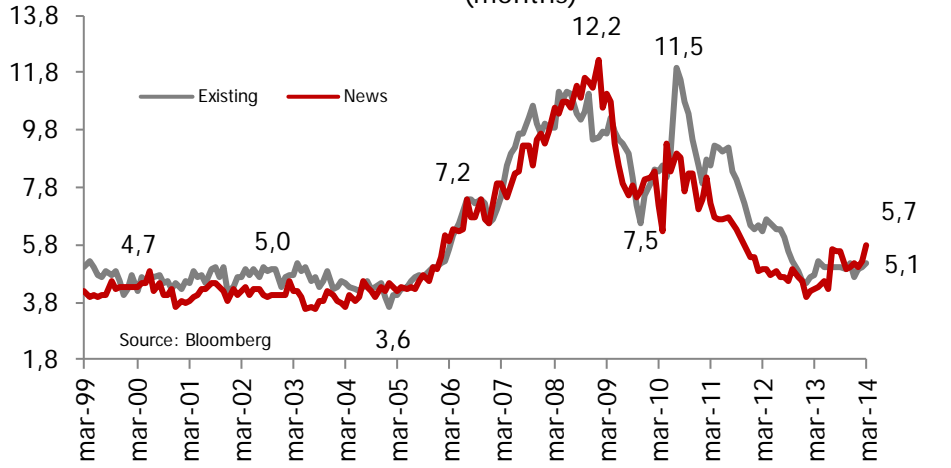
Delinquency in USA



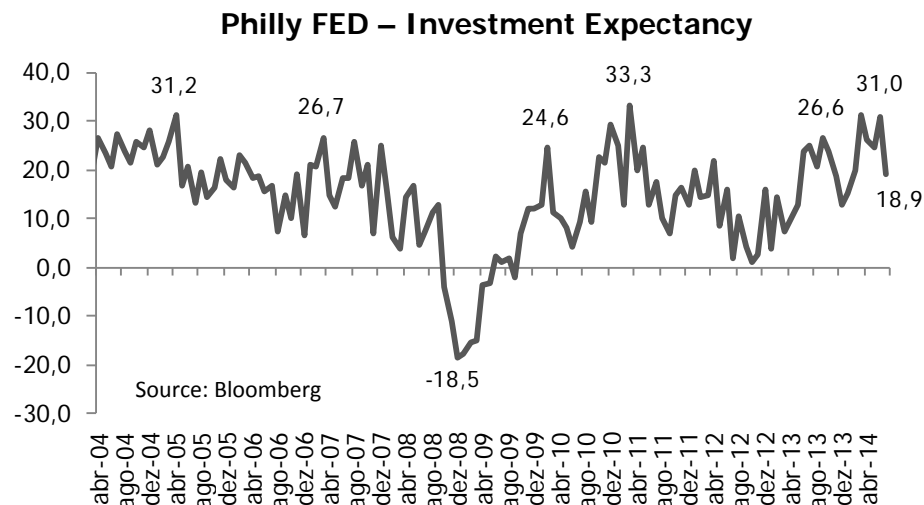
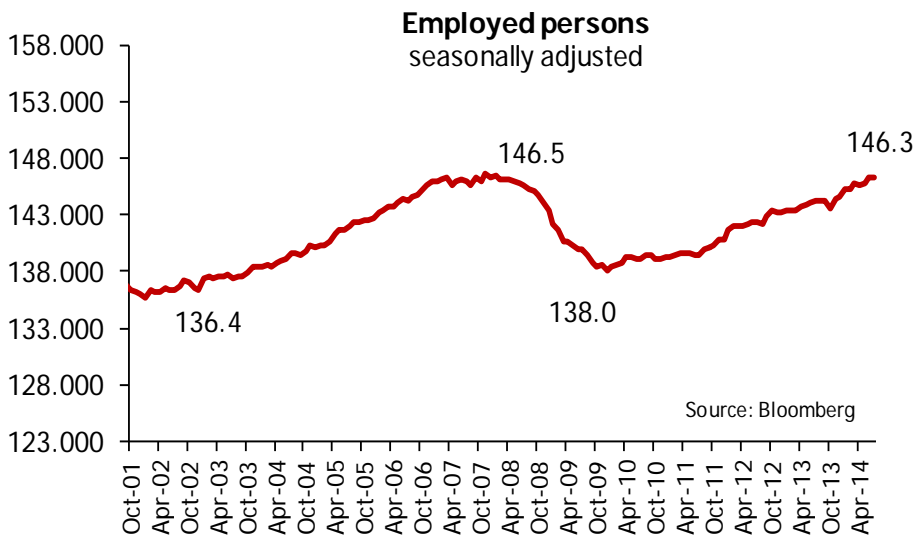
US Fiscal Balance (%GDP)



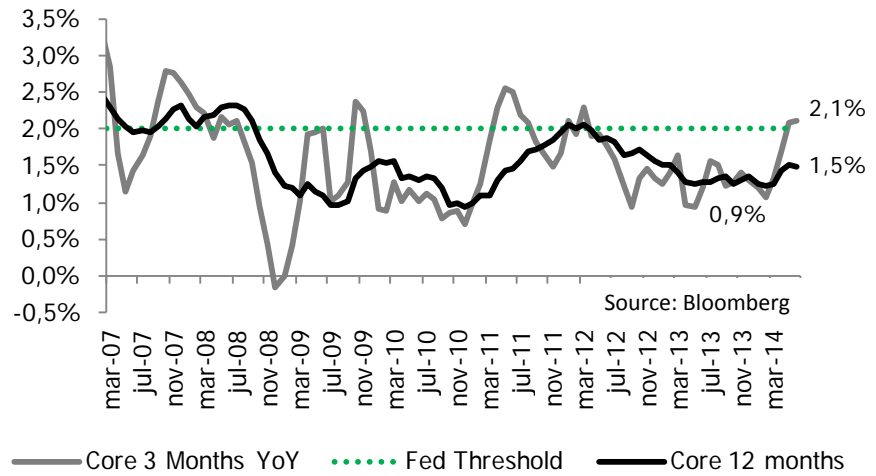
Inventory of properties (News and Existing) (months)



With the rebound, interest rates in US will probably start to rise in 2015



Core PCE Inflation - 3MMA (YoY%)



Real interest rates - USA

Period	Average real interest rates
1948-2014	1,10%
1955-2014	1,40%
Excluding post II World War, era pre and post Volcker, sep/11 and the financial crisis (2008-2014) periods	1,60%

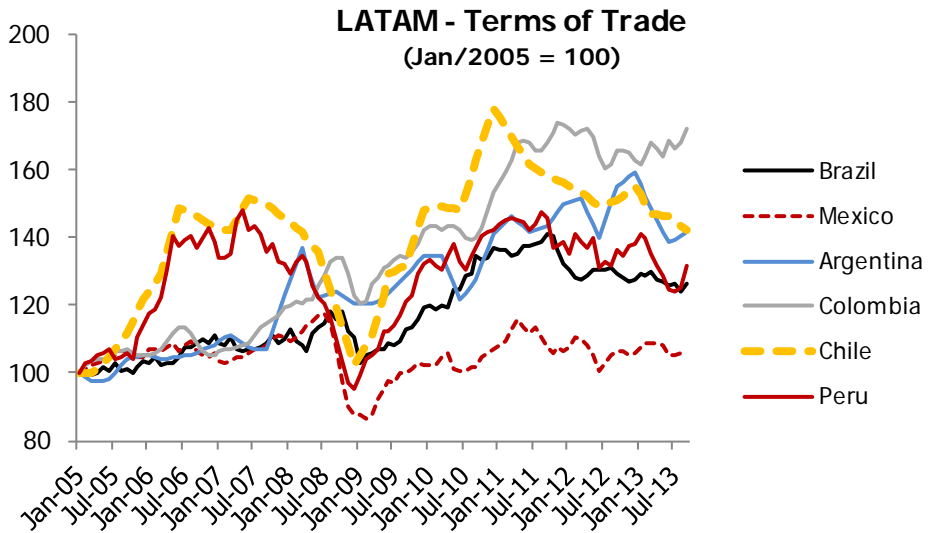
China: moving toward a slower, but more balanced growth. Beware metals short term, but food consumption should rise above trend



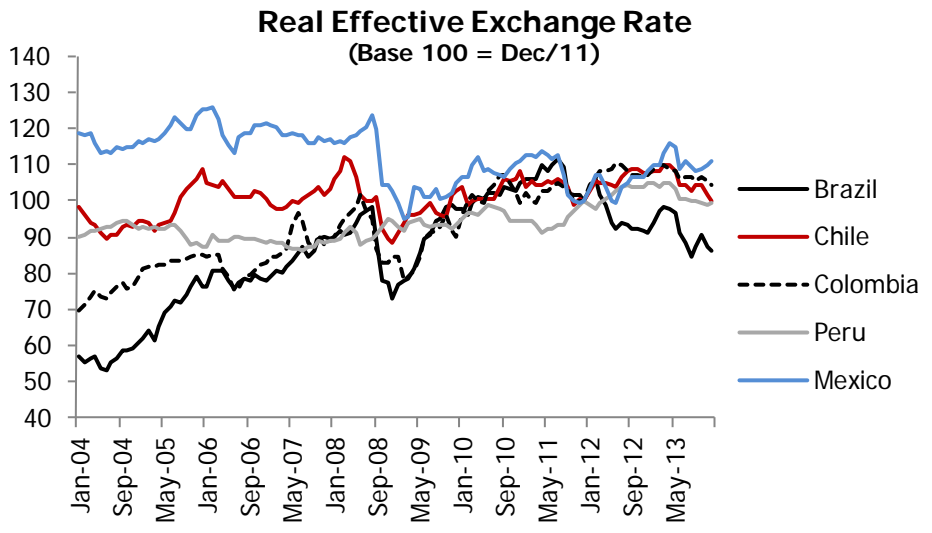
**LATIN AMERICA WILL BE AFFECTED BY
RISING US RATES, BUT THE
CONSEQUENCES ARE MUCH SOFTER
THAN IN THE PAST**



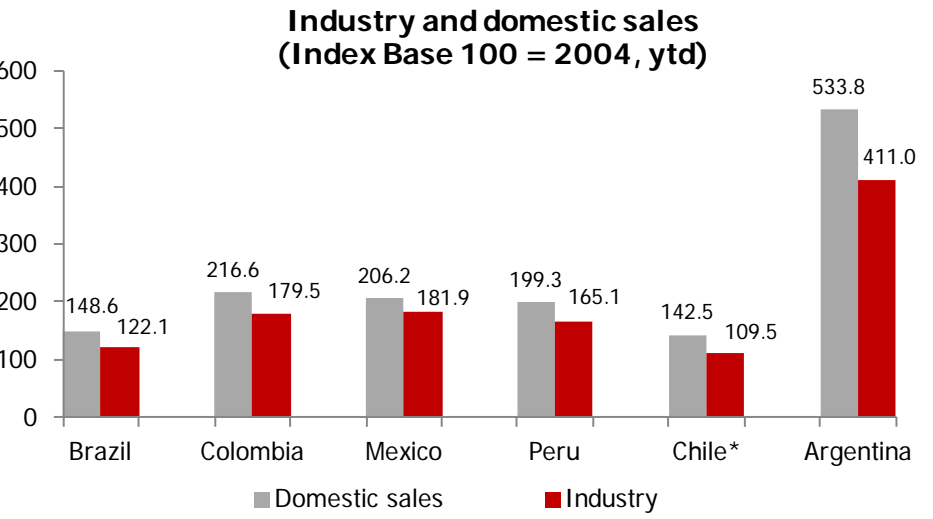
Focus on domestic demand has created a challenging environment for the manufacturing industry and contributed to a widening current account deficit



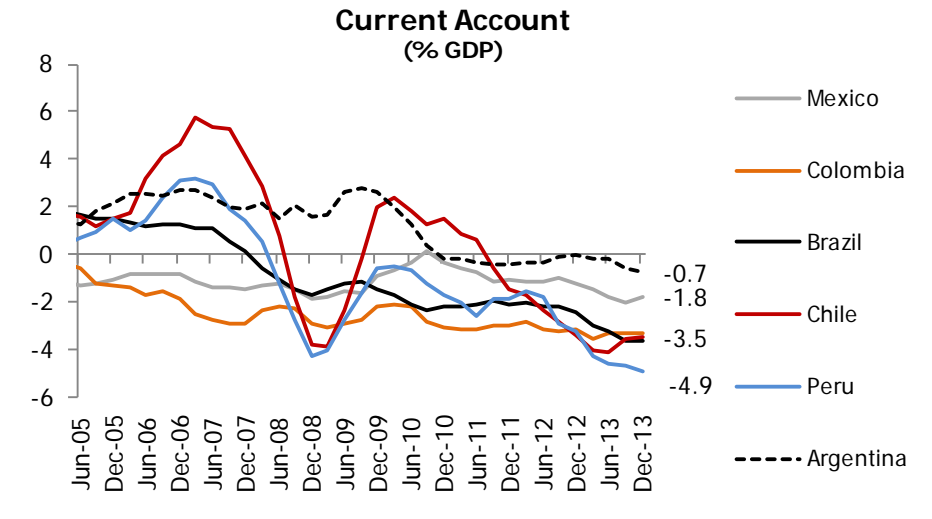
Source: JP Morgan



Source: BIS



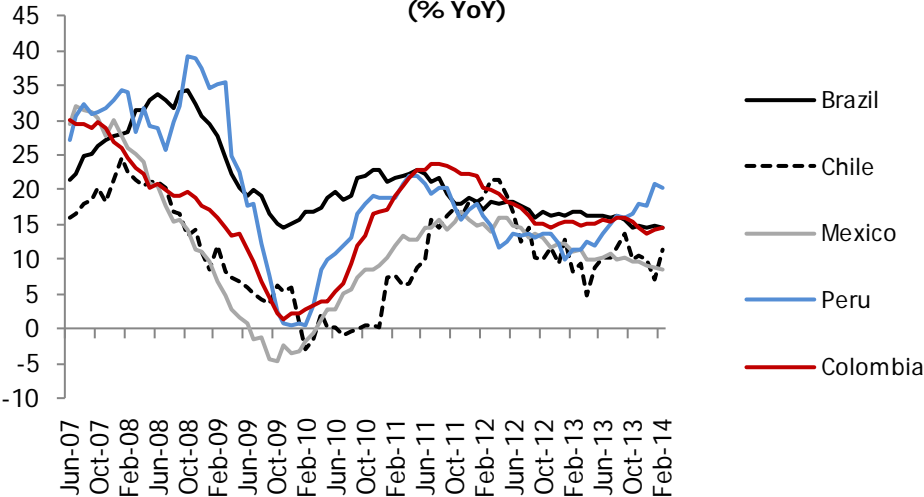
Source: Bloomberg, BRAM. * Base 100 = 2008



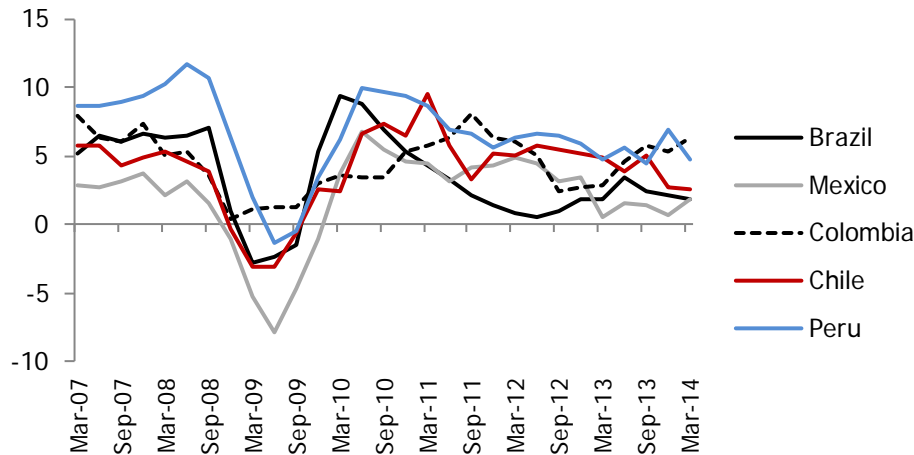
Source: Bloomberg

To some extent, the growth story is already adjusting, but normalization will have to take place in interest rates.

Credit growth (% YoY)



GDP (% growth)



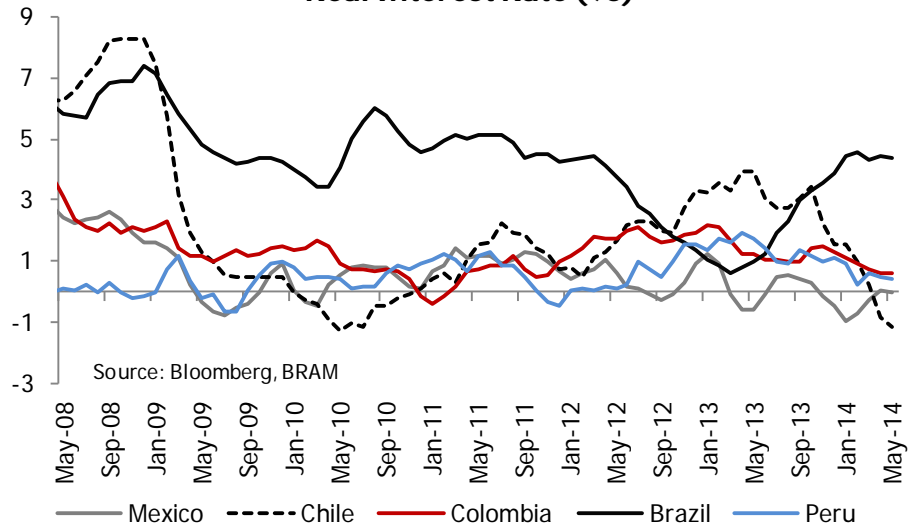
Source: Bloomberg

CPI and Target

	CPI (% YoY) Last data	Deviation of CPI relative to target ceiling (p.p)
Brazil	6,5%	0,0
Chile	4,3%	0,3
Peru	3,5%	0,5
Mexico	3,8%	-0,2
Colombia	2,8%	-1,2

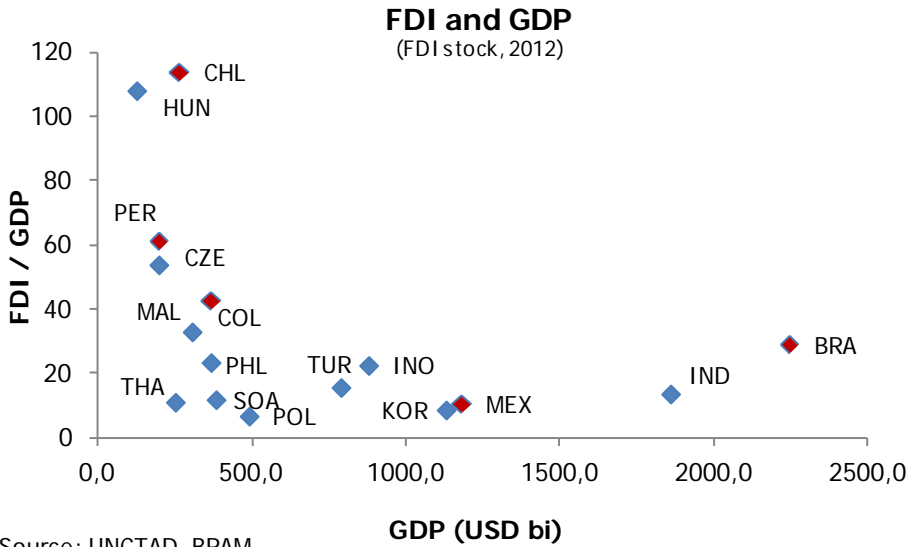
Source: Bloomberg

Real Interest Rate (%)

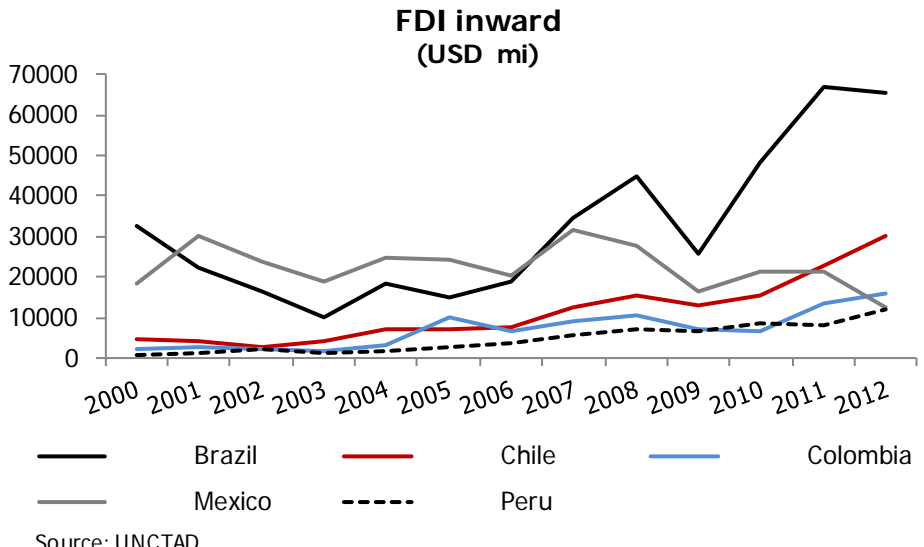


Source: Bloomberg, BRAM

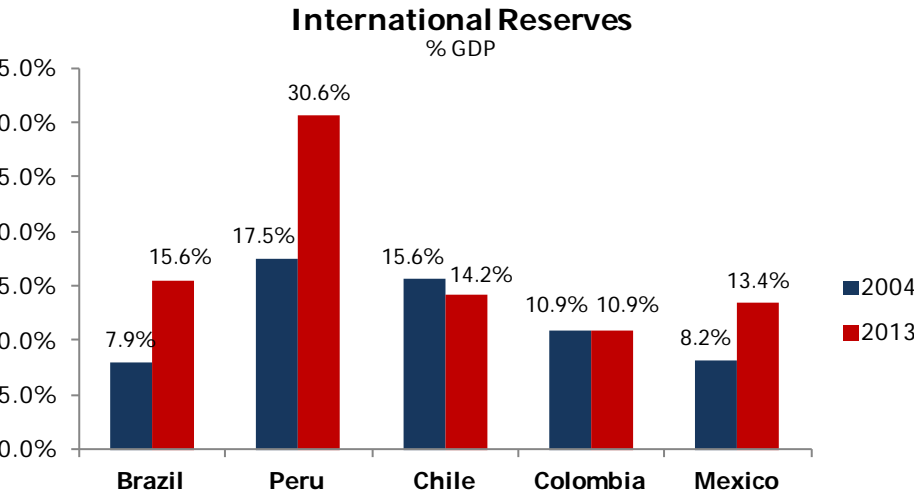
Overall, foreign direct investment is key for the region, international reserves are a safeguard and, on a relative basis, the CAD is not that wide.



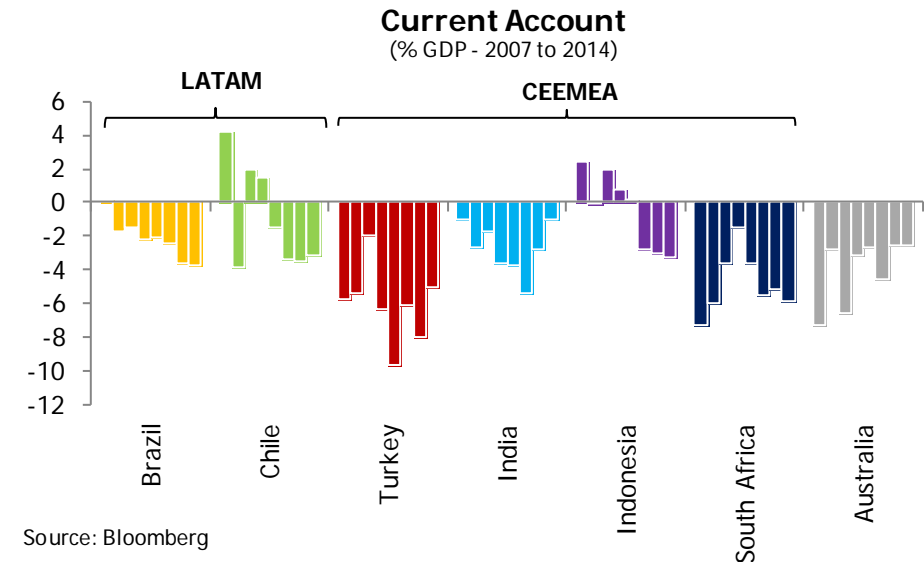
Source: UNCTAD, BRAM



Source: UNCTAD



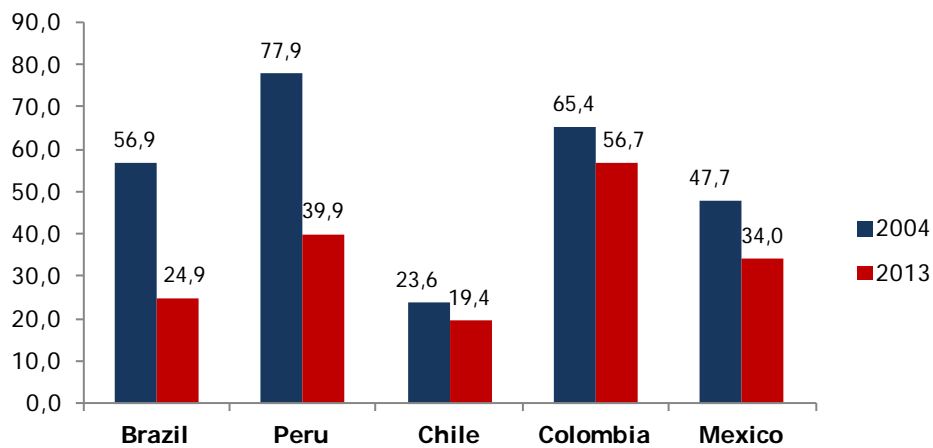
Source: Moody's



Source: Bloomberg

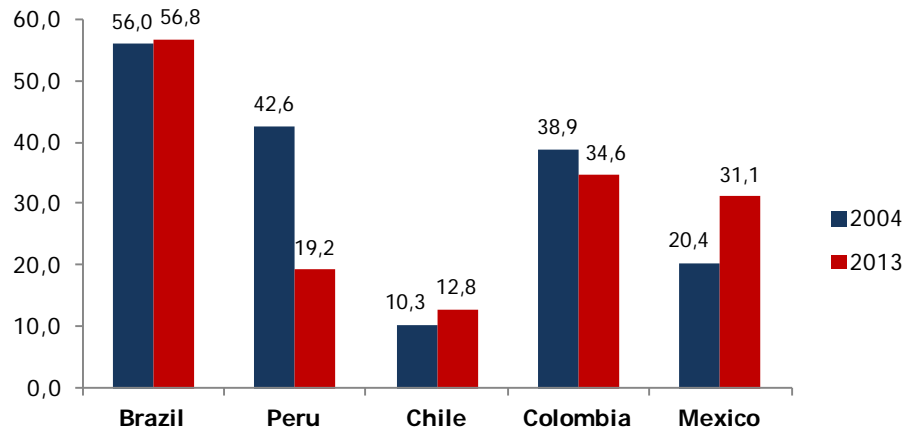
Latin America's solvency and social ratios improved substantially recently, what means that this is not a credit crisis, but a regular business cycle adjustment

Share of public sector in total external debt



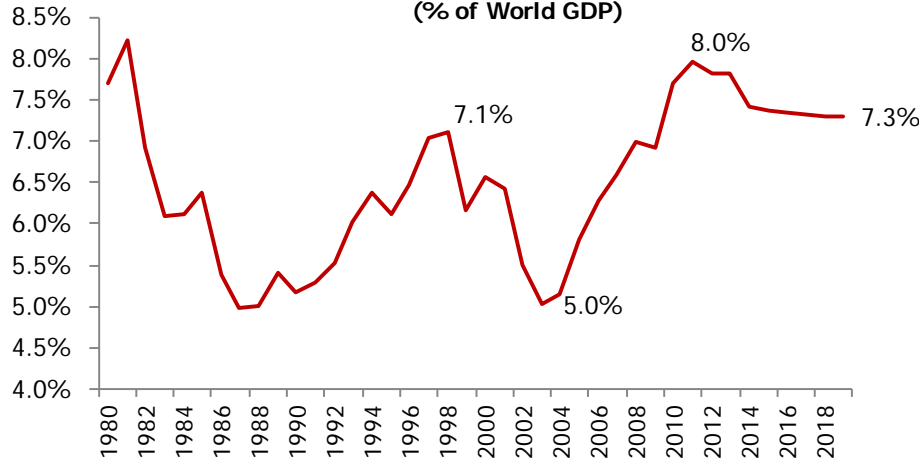
Source: Moody's

General Government Debt / GDP



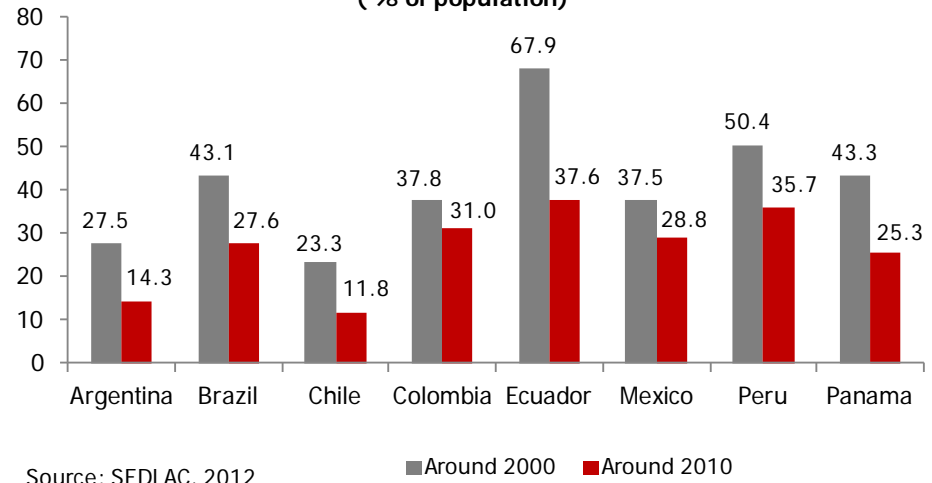
Source: Moody's

LAC GDP (% of World GDP)



Source: IMF, BRAM

Poverty - People living less than USD 4 per day (% of population)

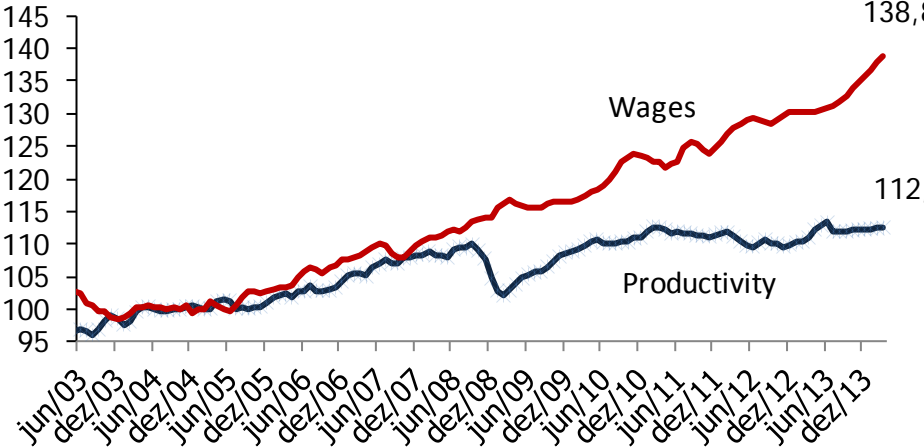


Source: SEDLAC, 2012

**BRAZIL: CYCLICAL ADJUSTMENTS
DON'T CLOUD THE GREAT
OPPORTUNITIES AHEAD**

What about Brazil? Brazil has a myriad of opportunities and problems due to two big issues: CONSUMPTION AND INVESTMENT

Wages and Productivity
(Average 2004=100)



Investment and Saving rate
(% of GDP)

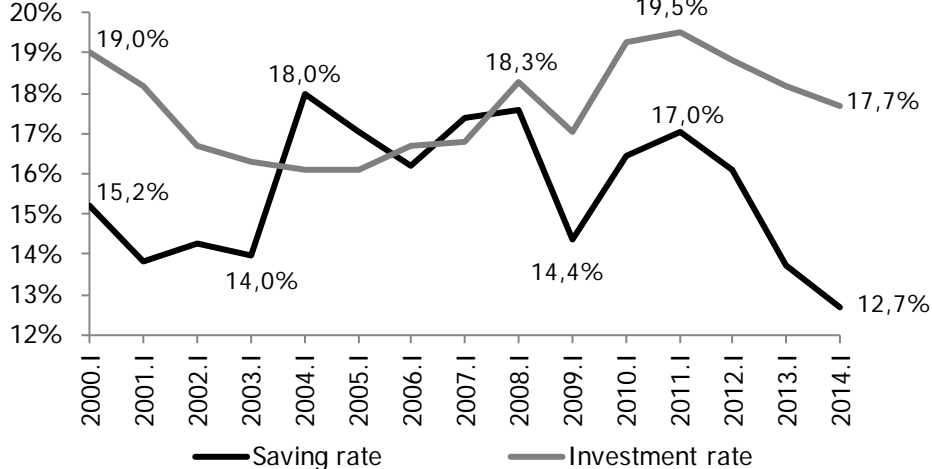
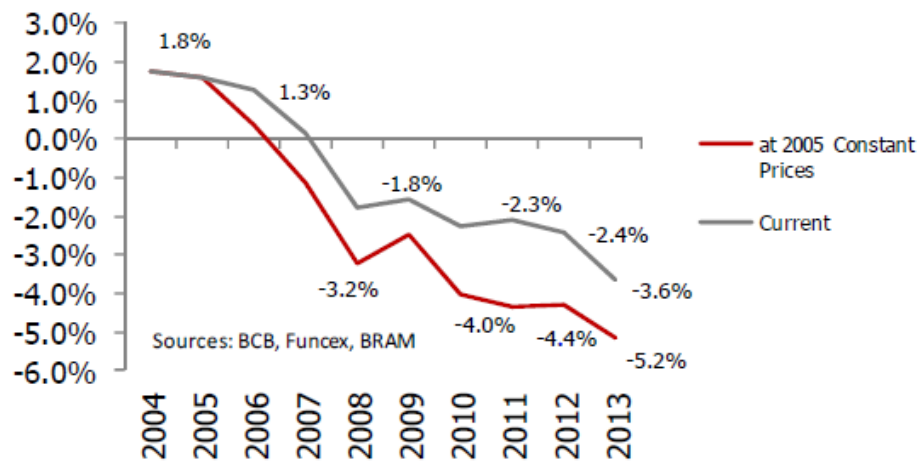
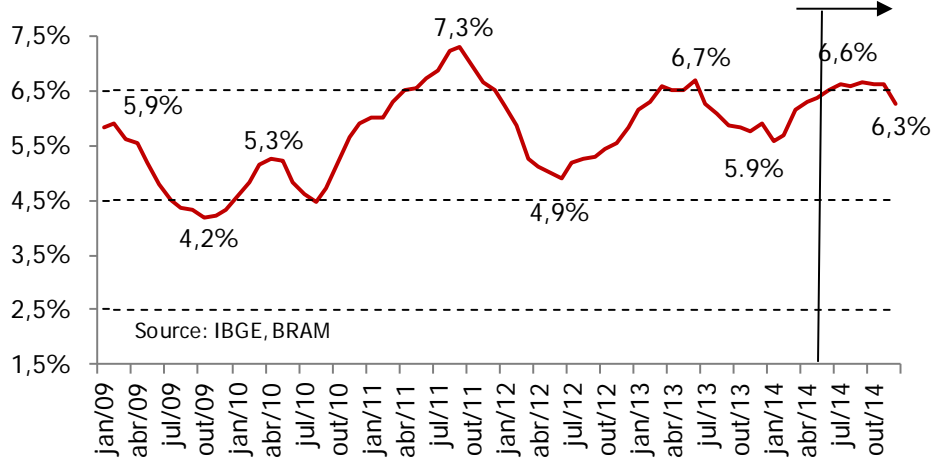


Chart 2: Current Account Result
(% GDP)



CPI: IPCA
YoY (%)



Deterioration in external accounts and the level of the real exchange rate indicates that the currency should depreciate in coming months

Brazilian Terms of Trade (Jan/97=100)

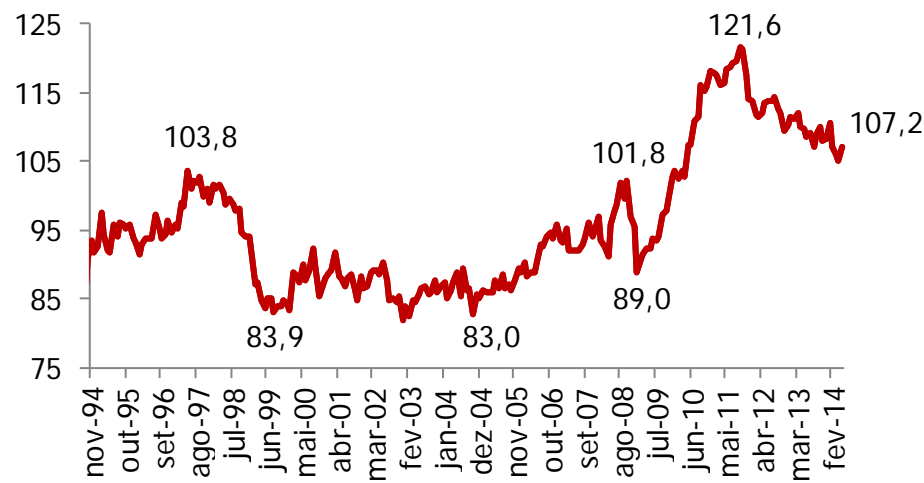
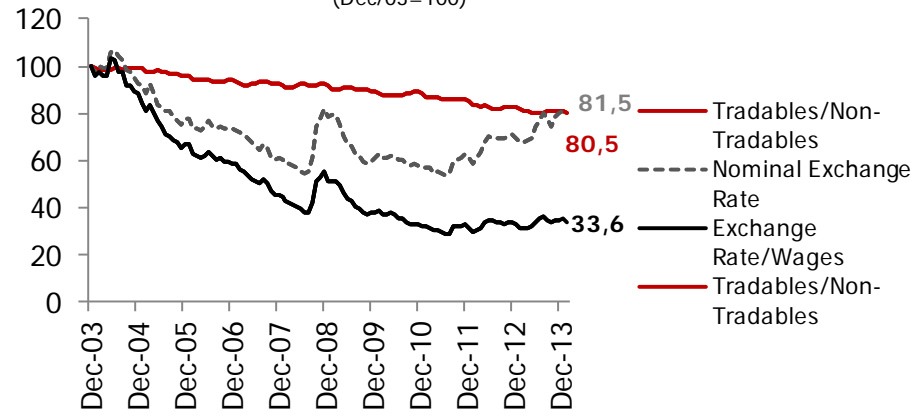
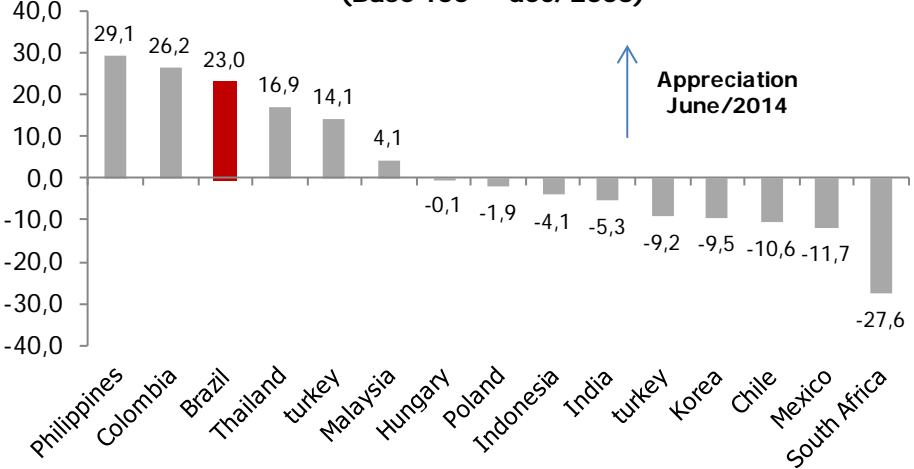


Chart 4: Exchange Rate, Wages and Tradables/Non-Tradables (Dec/03=100)



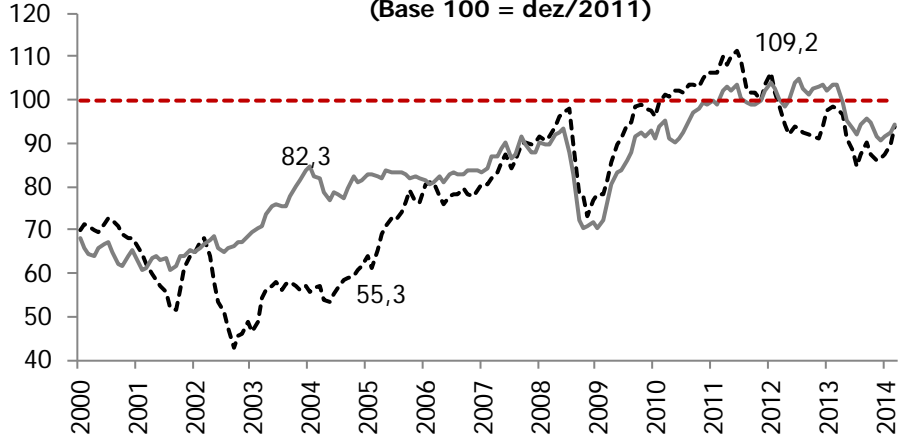
Sources: IBGE, BCB

Real Effective Exchange Rate (Base 100 = dec/2005)



Source: BIS

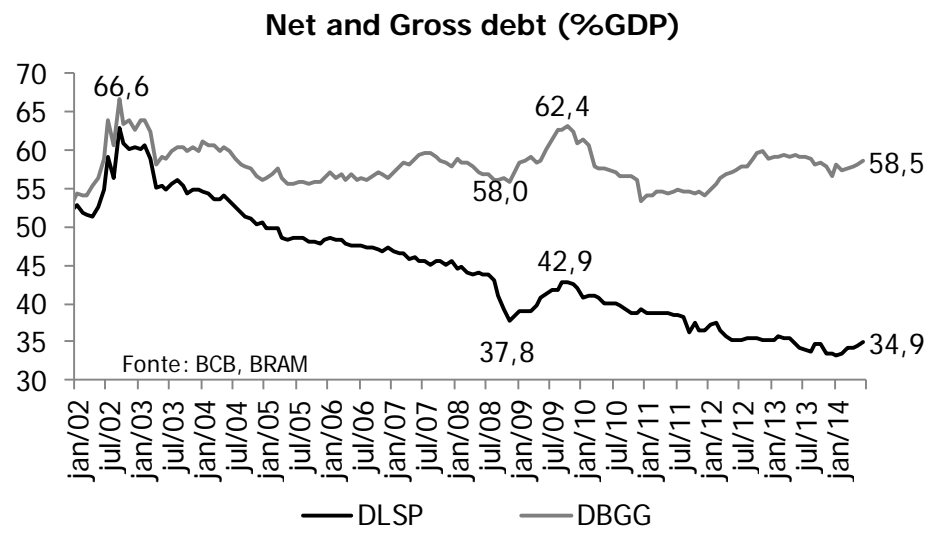
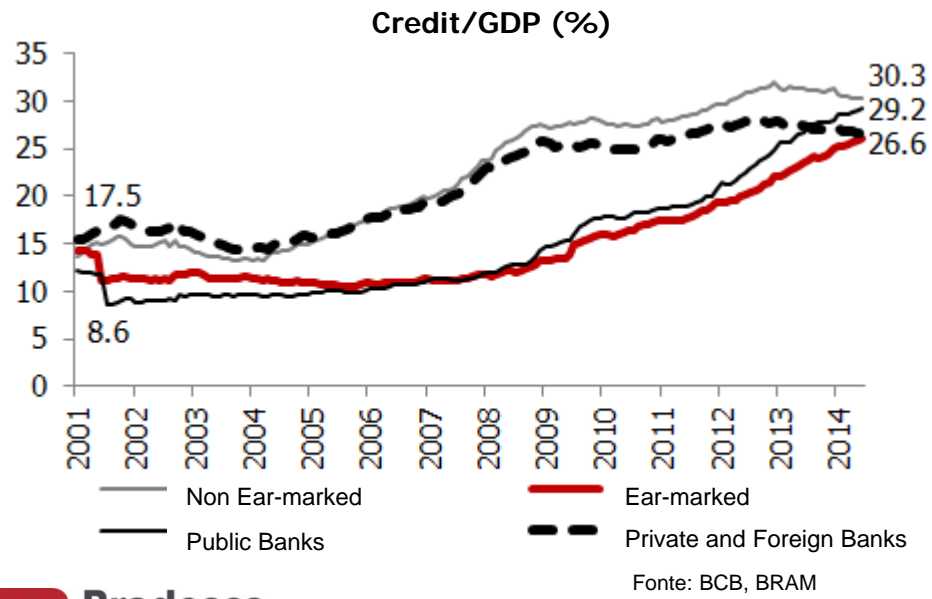
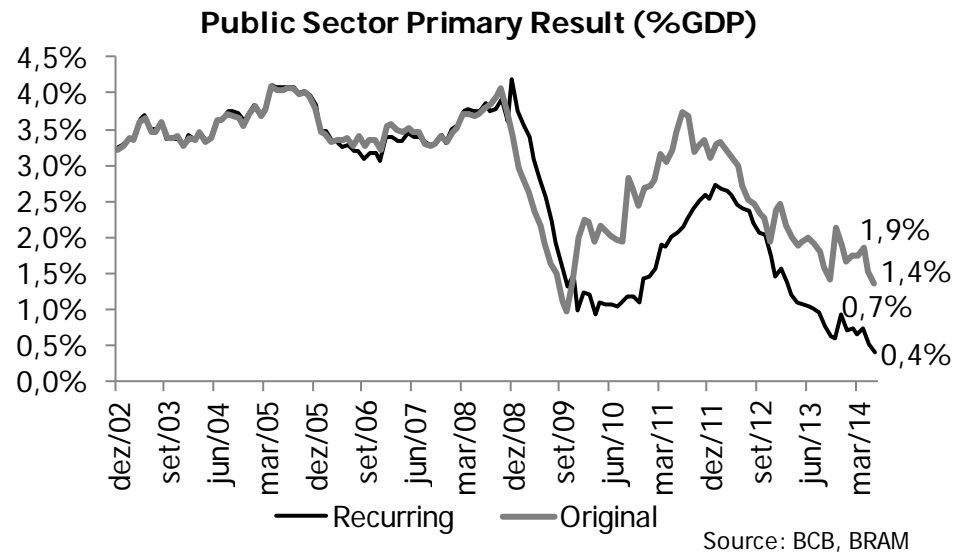
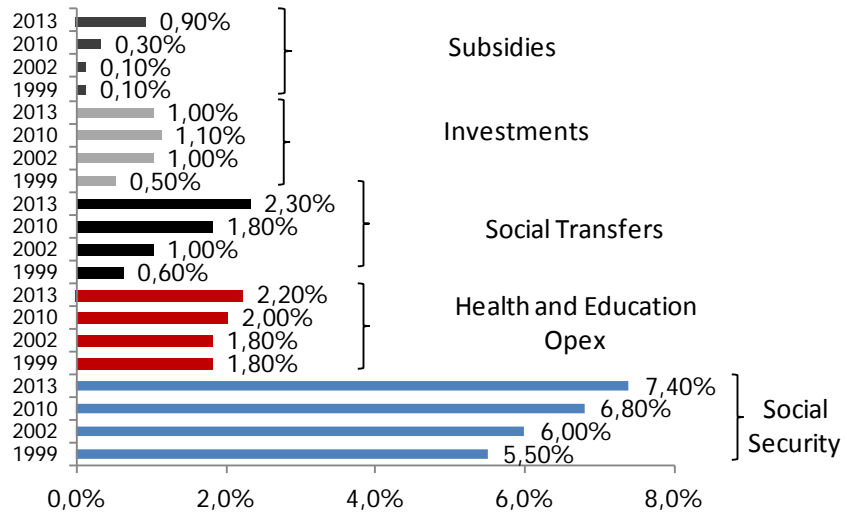
Real Effective Exchange Rate (Base 100 = dez/2011)



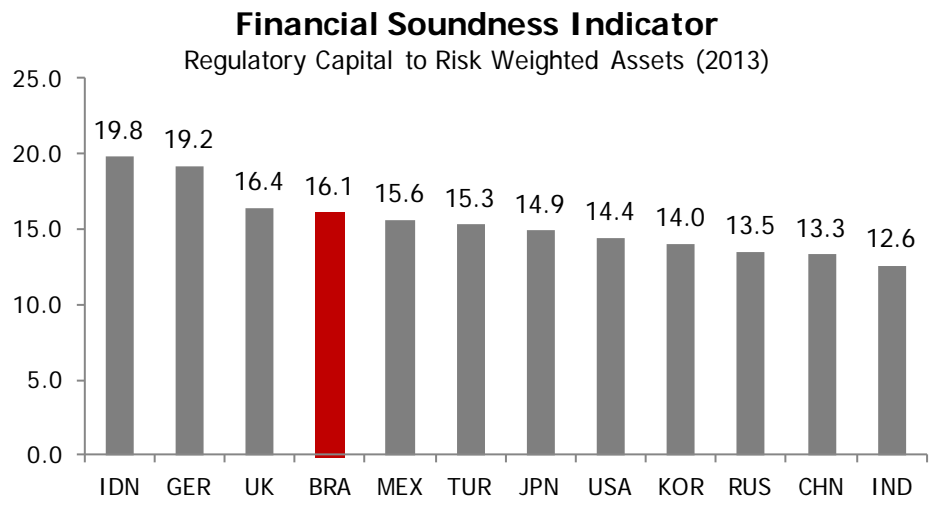
--- Brazil — Australia

Source: BIS, BRAM

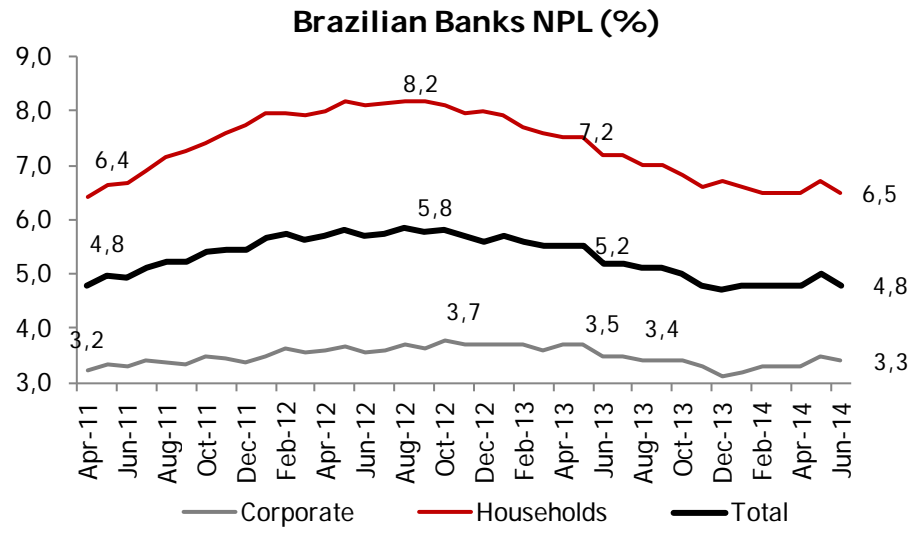
On the fiscal side, challenges account for a larger government saving and a change in credit composition



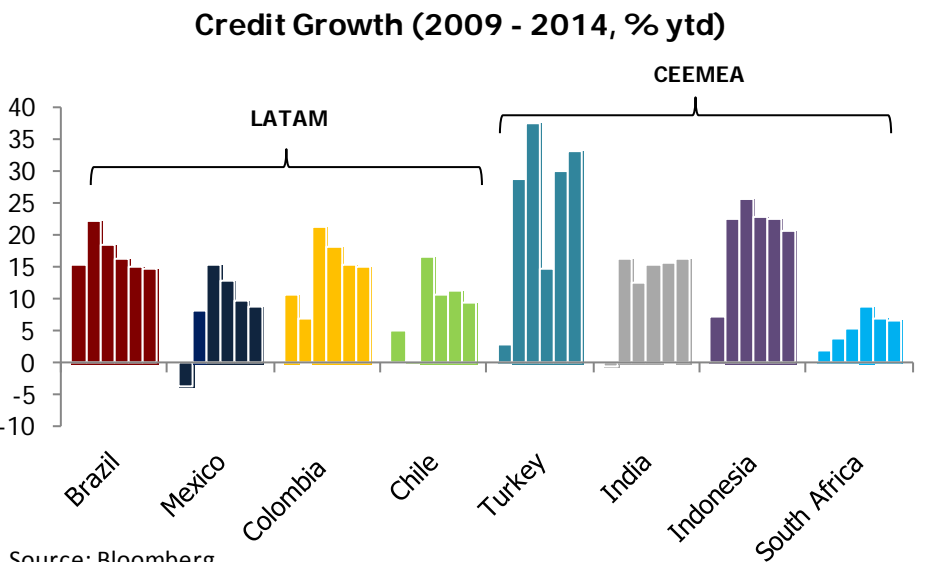
But moderation in credit growth is already in place and keeps the financial sector sound and solid in Brazil



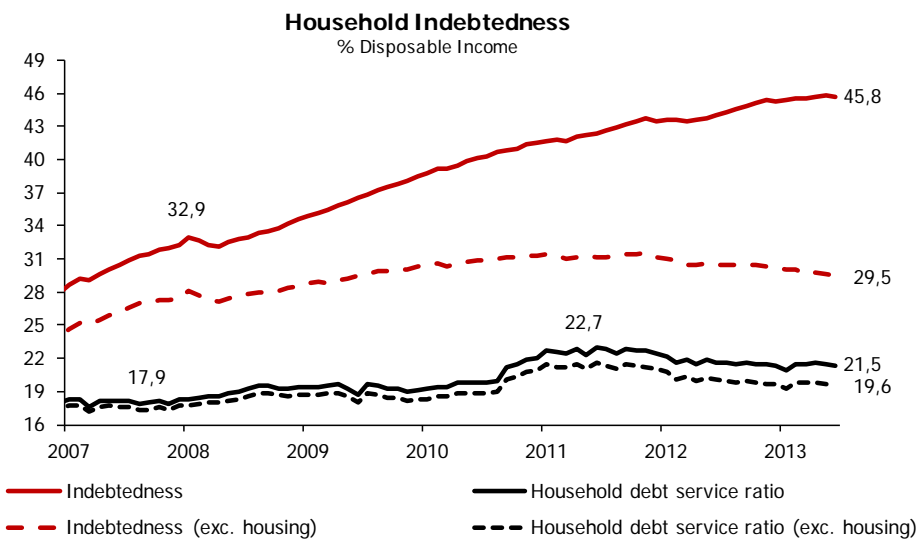
Source: IMF



Source: BCB, BRAM

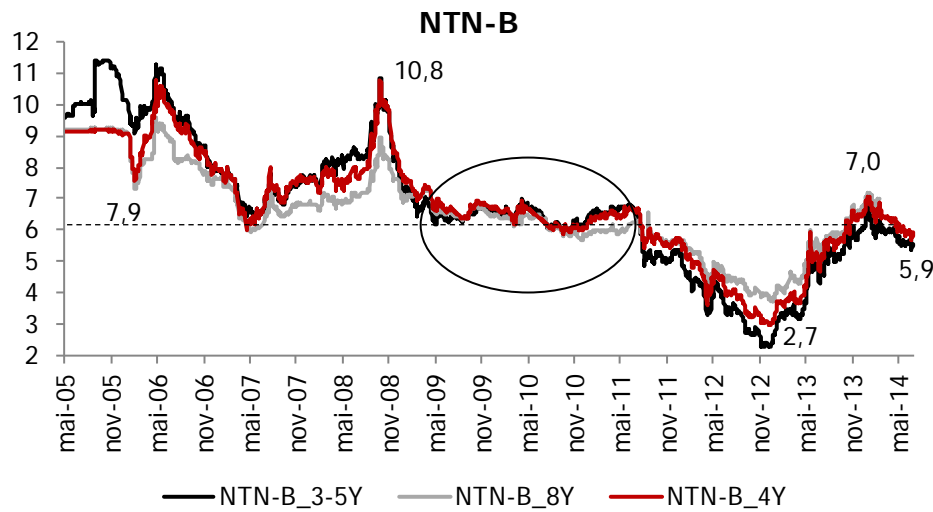
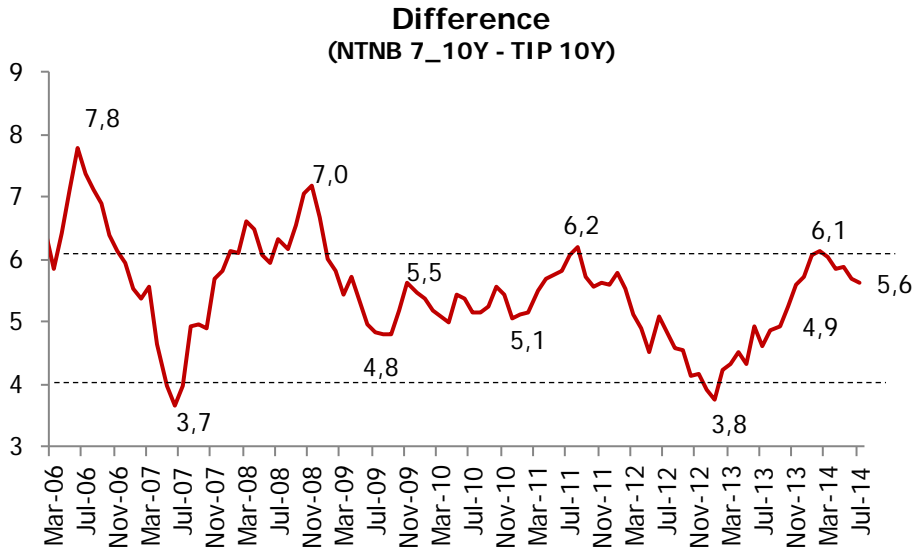


Source: Bloomberg

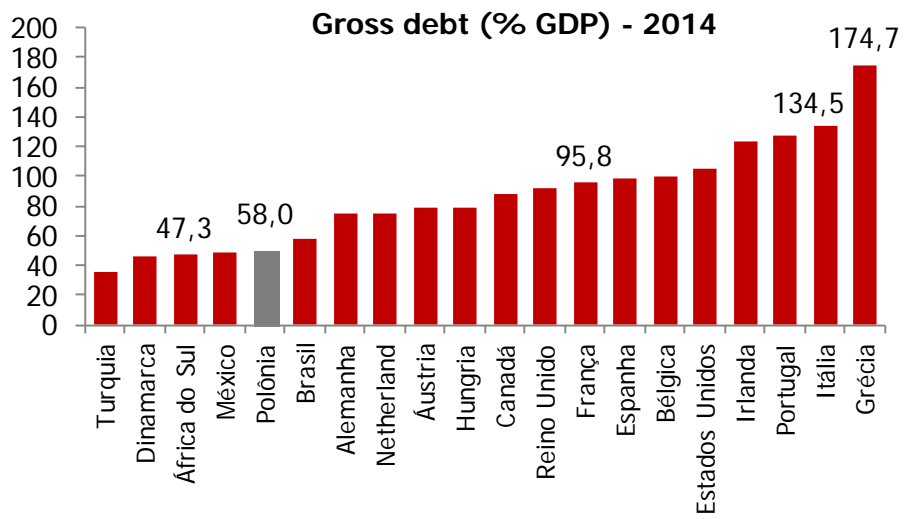


Source: BCB, BRAM

Real Yields in Brazil offer a very attractive investment opportunity and they should persist between 5% and 7% in coming years



Source: Bloomberg, BRAM

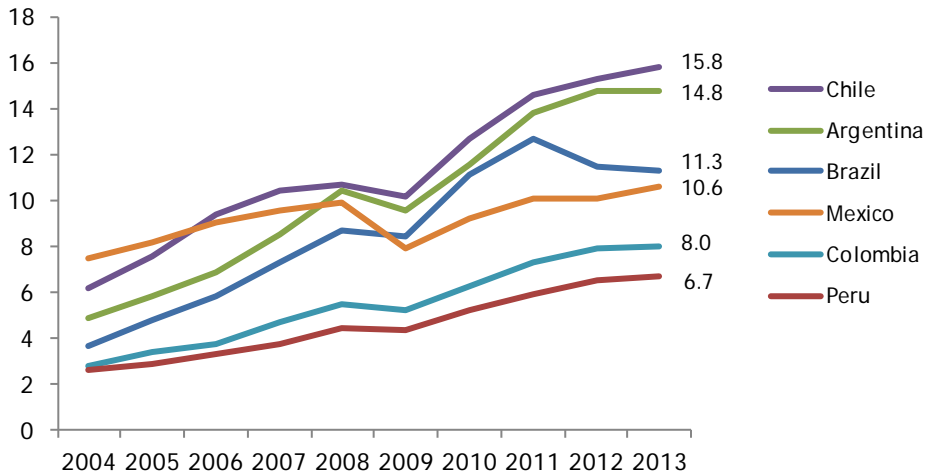


Fonte: FMI, BRAM

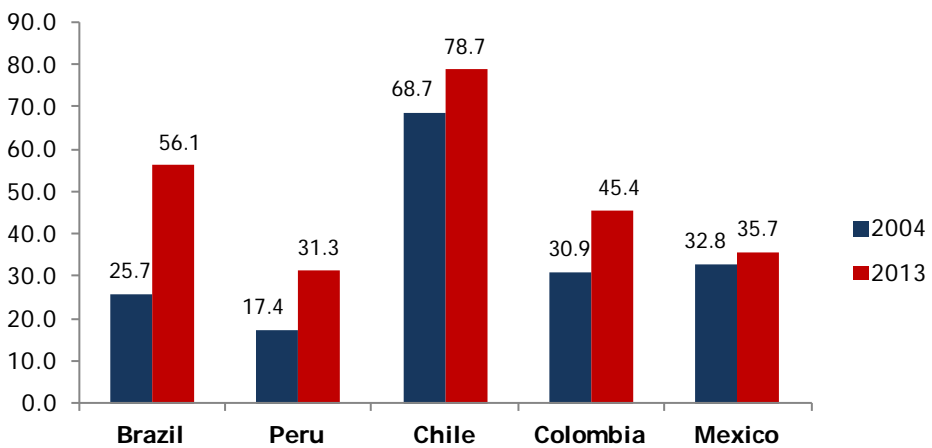
WHERE ARE THE OPPORTUNITIES?

There's room for a convergence in per capita income in the Region, boosting trade, credit and reforms

GDP per capita
(Thousand US\$)

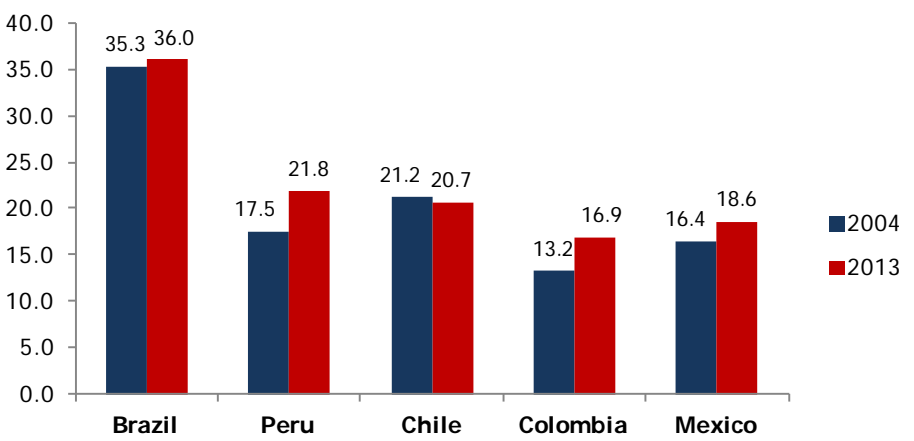


Domestic Credit / GDP



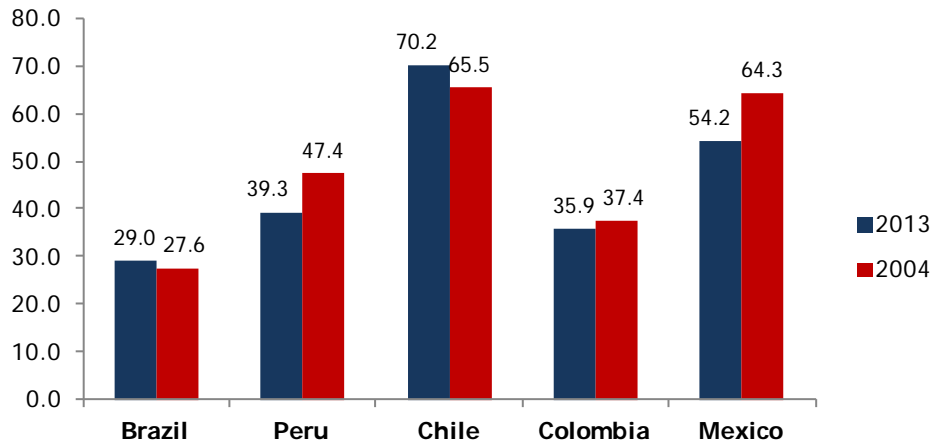
Source: Moody's

Tax Burden



Source: Moody's

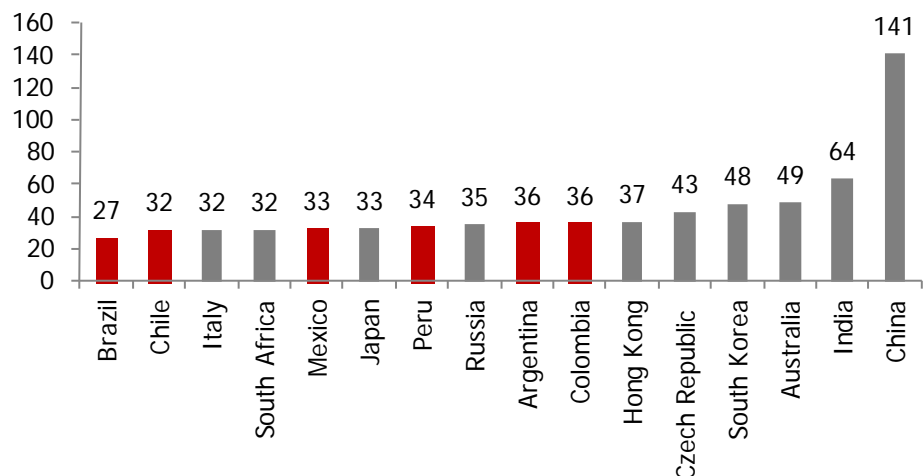
Trade Openness / GDP



Source: Moody's

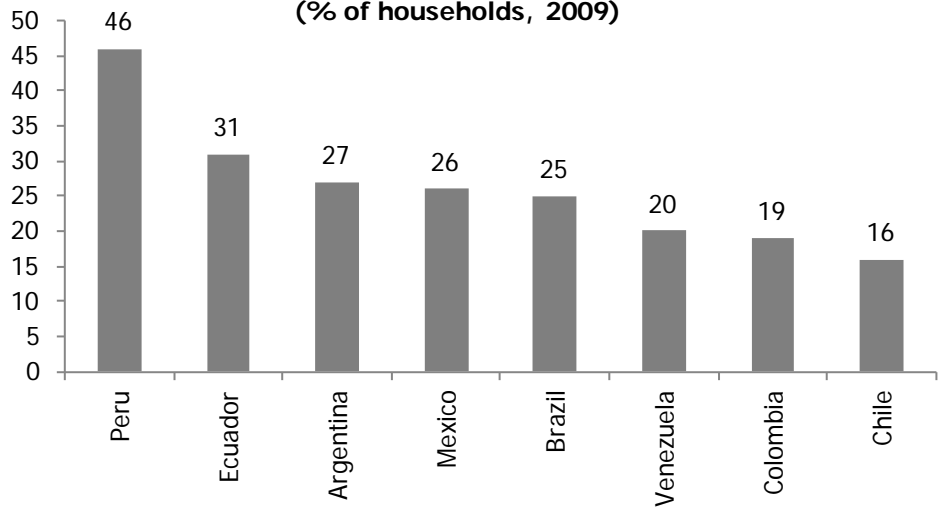
Infrastructure is a key opportunity everywhere

Investment - to - Consumption ratios



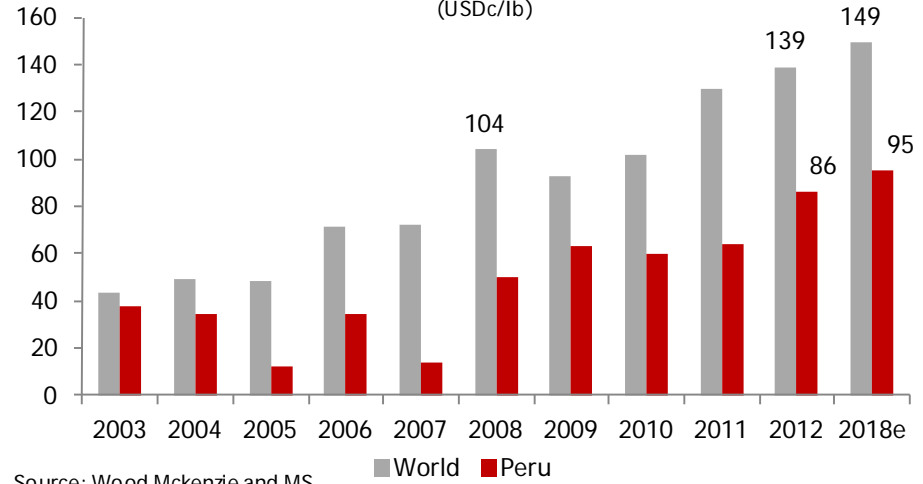
Source: The Economist, Pocket World in figures, 2012

Urban Household Deficit (% of households, 2009)



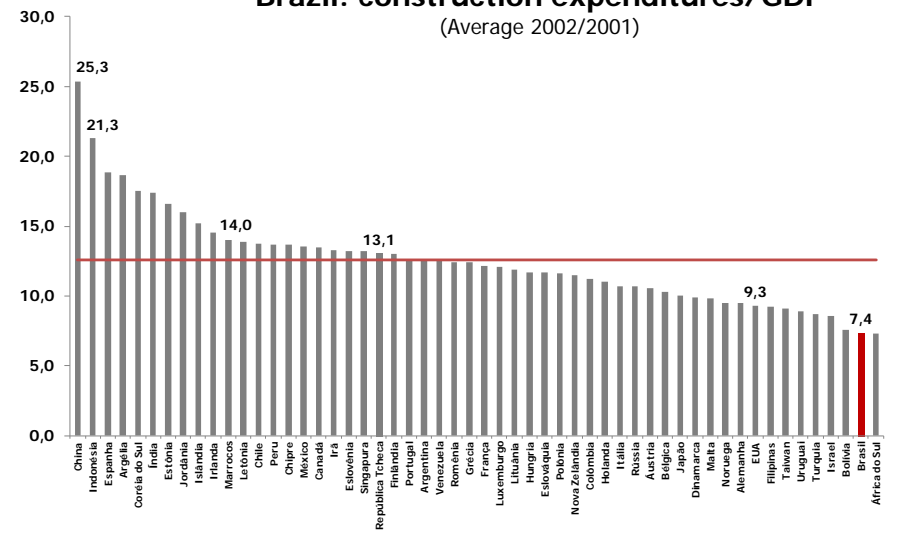
Source: BID, 2009

Peru: Copper Cash Cost (USDc/lb)



Source: Wood Mckenzie and MS

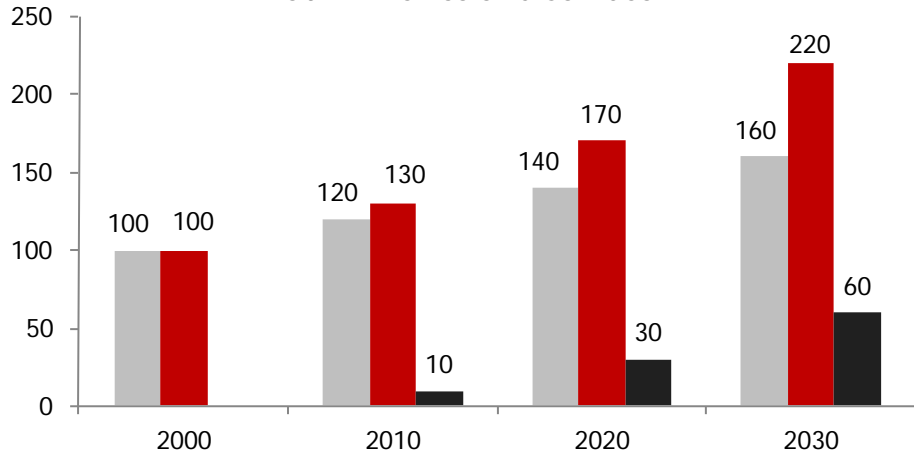
Brazil: construction expenditures/GDP (Average 2002/2001)



Fonte: Instituto de Estatística Oficial, LCA; * Marrocos (00/07); Noruega (00/08); Japao (01/11); Jordania (02/09); Mexico (03/11); Russia e India (04/10); Austria, Irlanda, Portugal e Romania (00/10)

Latin America's food industry will also play a key role in the global landscape

Latin America and Caribbean

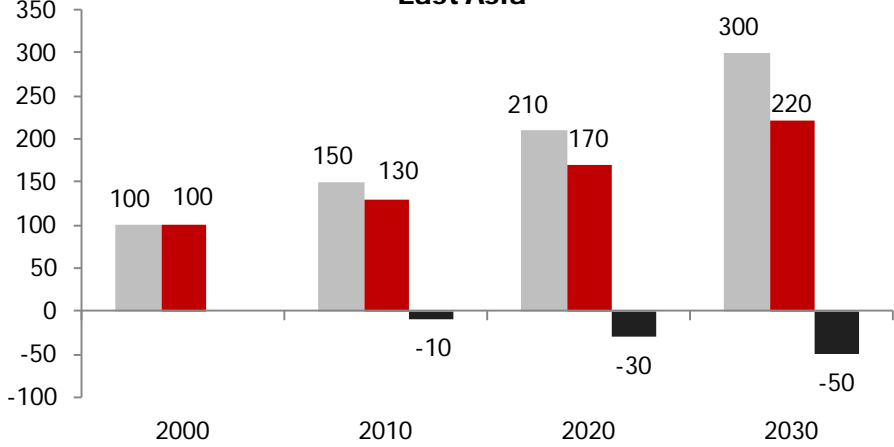


Source: Global Harvest Initiative, 2013 GAP Report (Global Agricultural Productivity Report), www.globalharvestinitiative.org

***TFP measures the efficiency with which all the components of production are used, rather than relying on land expansion or increased use of irrigation, fertilizer, pesticides, and machinery.**

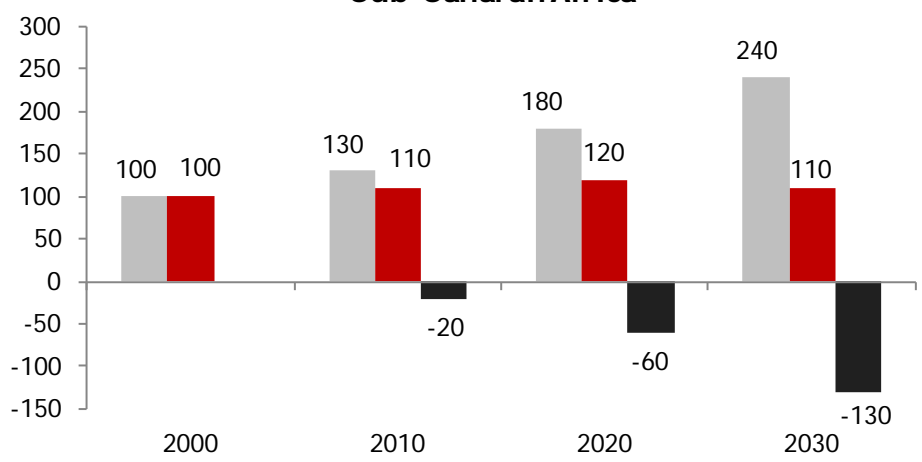
■ Food demand Index ■ Agricultural output from TPF* growth ■ GAP

East Asia



■ Food demand Index ■ Agricultural Output from TPF* ■ GAP

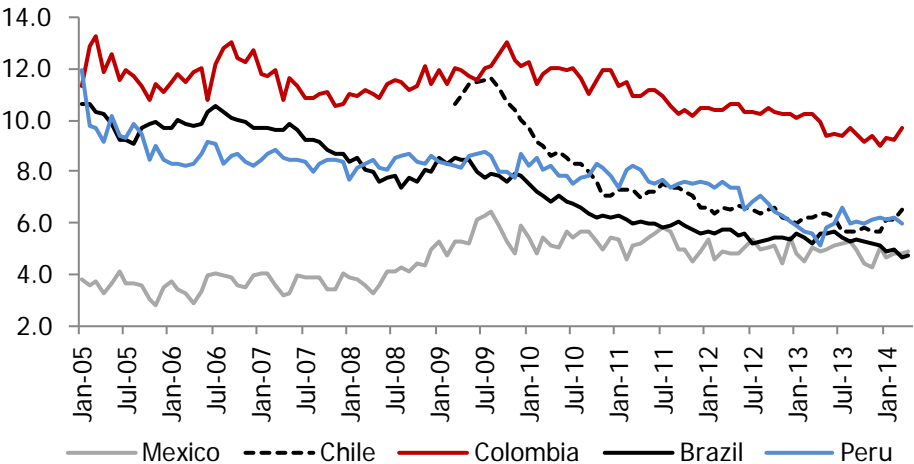
Sub-Saharan Africa



■ Food demand Index ■ Agricultural Output from TPF* ■ GAP

Growth forecast for EM weakened, but job creation and the consumption market is still very important

Unemployment Rate (%)



Source: Bloomberg

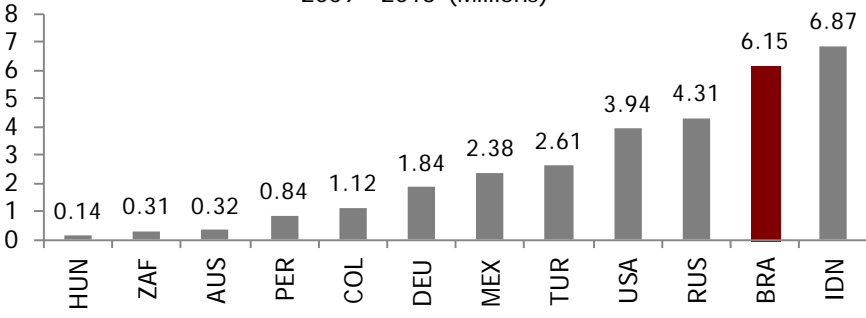
Change in Unemployment Rate (2008 / 2013)

	2008	2013	Change (p.p.)	Labor Force (millions)
Turkey	12,7	9,6	-3,1	36,0
Brazil	6,8	4,3	-2,5	98,5
Russia	7,8	5,6	-2,2	65,4
Peru	7,8	5,7	-2,1	12,9
Indonesia	8,1	6,3	-1,8	111,3
Colombia	10,9	9,7	-1,2	20,4
Germany	7,7	6,8	-0,9	34,7
Mexico	4,3	4,3	-0,1	51,5
Hungary	8,0	9,1	1,1	4,3
Australia	4,6	5,9	1,3	9,8
SA	5,8	7,4	1,6	136,4
South Africa	21,9	24,1	2,2	20,6

Source: Bloomberg, BRAM calculations

Job Creation Estimates

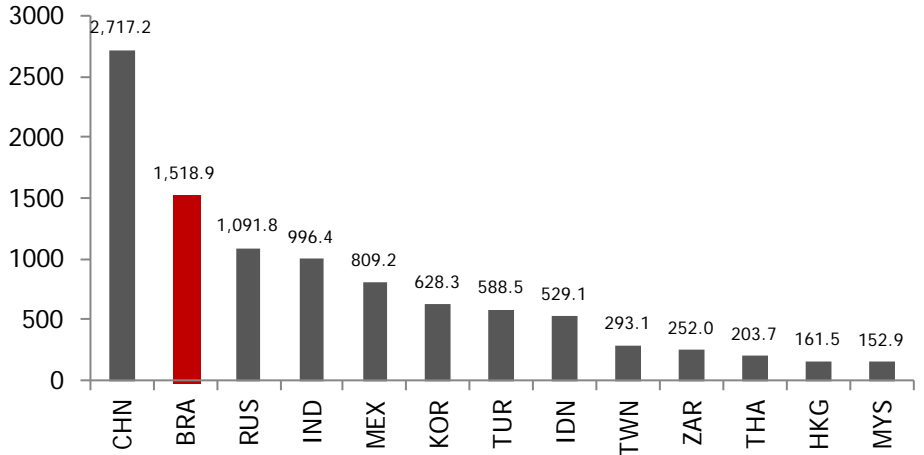
2009 - 2013 (Millions)



Source: Bloomberg, BRAM

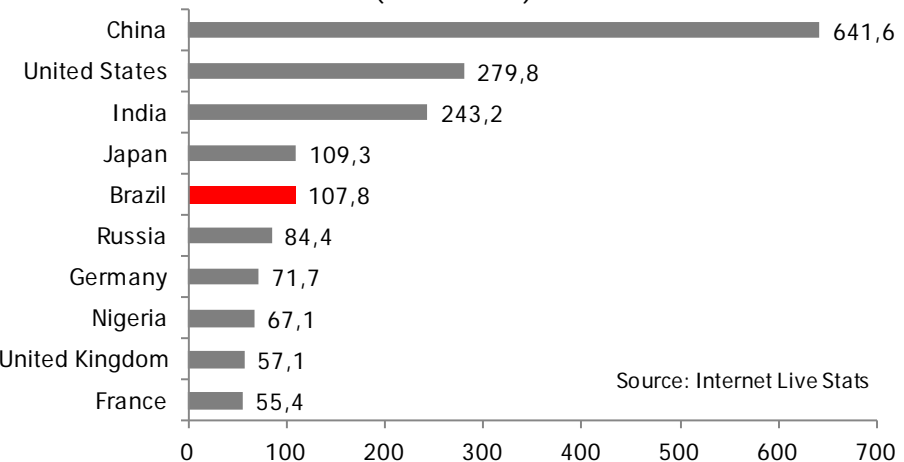
Consumption - Emerging Markets

2012 (US\$ Billions)

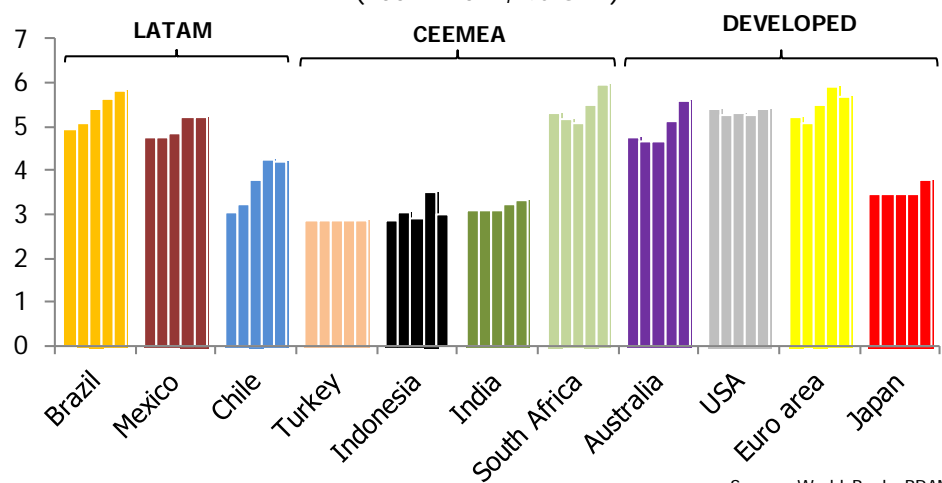


Social improvements brought a lasting transformation of the Brazilian economy, but quality of education and health (improving efficiency) is key

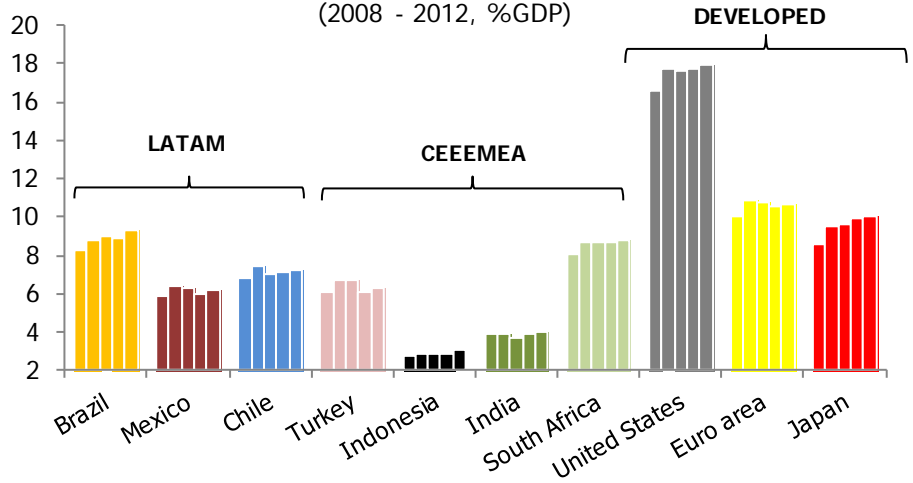
Internet Users
(Million users)



Education Expenditure
(2007 - 2011, % GDP)



Health Expenditure
(2008 - 2012, %GDP)



Thank You



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