



Brazil Macroeconomic Report



Macroeconomic Thesis:

After reviewing various lagging, coincidental, and leading economic indicators, I conclude that Brazil's position is right-of-trough in the current business cycle. My outlook for the future is bullish, being that Brazil has been able to report modest but positive growth in recent quarters and is positioned to do well in the environment of a global market recovery.

Brazil, like India, provides an interesting insight to the performance of developing nations, distinct from the more modernized China and the emerging markets of Africa and Asia. Likewise, Brazil is one of the world's largest producers of raw materials and industrial goods, which provides context by which to measure international industrial growth. Brazil is heavy industry's canary in the coalmine, so to speak.

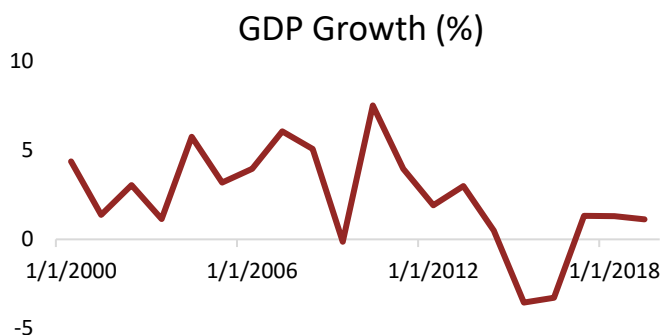
The accompanying metrics support this conclusion, those being government bond yield, total industry production, GDP growth, and unemployment. While the metrics for this year pose a modest recovery or a concerning status (especially unemployment), they are far better than what I believe was Brazil's trough in 2014. For that reason, I believe Brazil is concretely right of trough. The researched metrics provide insight to what the economy will do in the near future, that is, they signal a sluggish but positive recovery. Such metrics (such as unemployment) support this conclusion, and we should see improvements as a result of long-awaited fiscal response from the federal government. Furthermore, it is worth mentioning that Brazil's economy is greatly exposed to the sensitive industrial and commodity markets, which caused their recession of 2014. Being that we are seeing a modest recovery in Asia and Europe, it can be argued that demand for Brazil's goods will strengthen along with a broader global recovery, and their economy should follow suit.

Economic Profile

Country	Brazil
Currency	Real
Population	211 Million
Economy	Mixed Developing
GDP	\$1.84 trillion
GDP per capita	\$8,717.19.00
Largest Trading Partner	China

Economic Outlook

Current Position	Right-of-Trough
Outlook	Bullish



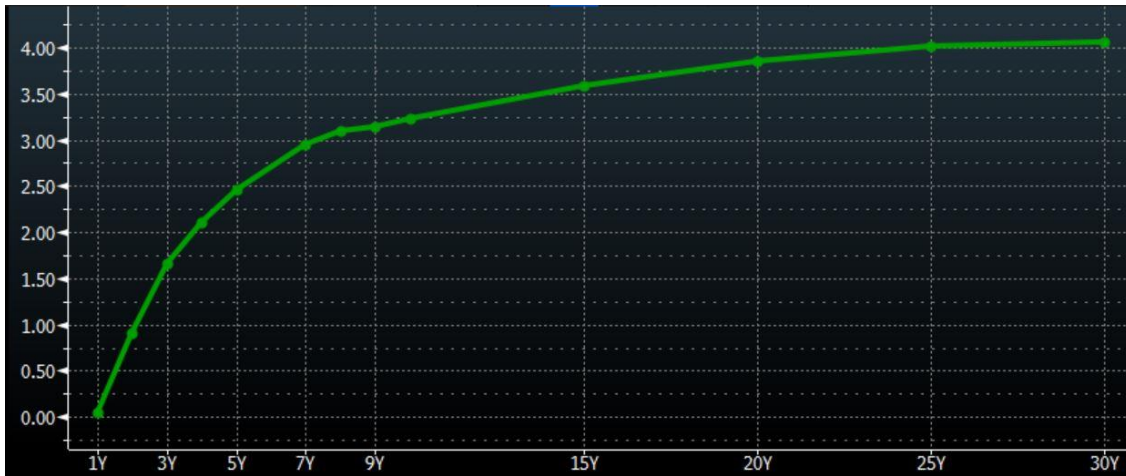
Source: International Monetary Fund



Economic Indicators

Yield Curve

A country's government bond yield curve serves as a good leading indicator of general market conditions and sentiment. Having a normal (upward-sloping) yield curve bodes well for Brazil's competition with international government bond market, though it may suggest an increase in the risk of corporate bonds, depending on yield fluctuation for a particular bond. The fifteen-year government bond, for instance, has attained a record yield of 7.71%, up from 6.65% a year ago – an unprecedented increase in yield.

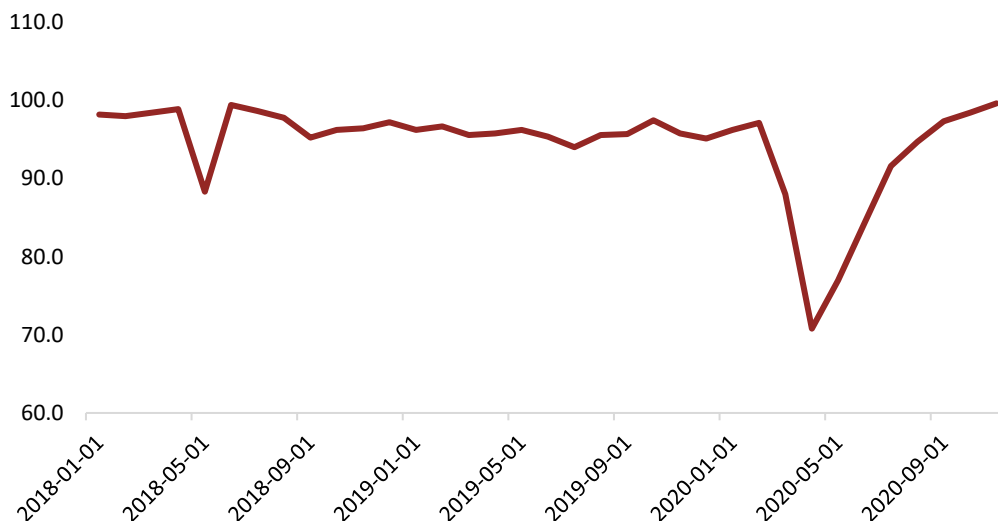


Source: Bloomberg Finance L.P. 2021

Industrial Growth

Being that Brazil is a developing nation, a significant portion of its economy is industry and manufacturing. Such industrial metrics provide an insight into the broader market conditions of the Brazilian economy. Several pieces of data (PMI Index, Total Production, Durable Goods) should be accounted for, as they can provide information both as leading and coincidental indicators. The graph below corroborates with trends found in PMI and Durable Goods orders; that is, an initially robust but slowing recovery.

Production of Total Industry



Source: St. Louis Federal Reserve 2021 (FRED)



Economic Indicators

GDP Growth

Brazil, in recent years, has seen a drastic slowdown in economic growth, down from record GDP growth of nearly eight percent after the 2008 recession. For the last decade, however, Brazil has seen a rapid slowdown in economic growth, culminating in the 2014 recession caused by commodity price shocks, political uncertainty, and failed fiscal policy. Consequently, Brazil has been stuck in the “middle income trap”, or wage stagnation, and faces higher-than-normal unemployment.



Source: St. Louis Federal Reserve 2021

Unemployment

Brazil has reported an astounding increase in unemployed individuals both as a result of the 2014 recession and recent COVID-19 recession. Brazil has not yet recovered from its 2014 economic downturn, with unemployment hovering north of ten percent since the end of 2015. At the end of 2019, the rate was 12.08%, the highest level since 2008. These rates are all indicative of a broader market slowdown for Brazil, and the constant rates demonstrate a sluggish recovery.



Source: World Bank “Brazil Unemployment Data”



Geopolitical Factors

Corruption

Not uncommon with developing nations, corruption serves primarily as a hinderance on investor confidence in both the private and public markets. Brazil (and many countries in South America) are rife with corruption at all levels of government. The most recent corruption investigation in Brazil, Operation Car Wash, exposed this reality. The investigation began in March of 2014, and generally concluded in 2019 – it exposed corruption at all levels of government, resulting in the issuing of over two-thousand arrest warrants for politicians from Brazil’s largest political parties (including presidents of the republic), state senators, governors, and businessmen. This investigation found the companies Odebrecht and Petrobras, a construction firm and an oil conglomerate, respectively, guilty of corruption and money laundering. Brazil’s current president, Jair Bolsonaro, has done much to curb corruption. He has sought to try two of Brazil’s former presidents (Dilma Rousseff and Lula de Silva), reduce corruption through the 2014 Clean Company bill, and enact further legislation to combat money laundering and election fraud. Ironically, the Bolsonaro family as a whole have been scrutinized over accusations of corruption at all levels, going even as far as bribing congressmen and congresswomen to ensure his stability in office. Furthermore, both he and his son Carlos have engaged in a “salary-splitting” scheme, collecting paychecks from nonexistent government employees. On the local level, Bolsonaro’s key allies and his son Eduardo have run propaganda campaigns to mislead voters.

Commodity Prices

Brazil’s economic downturn in 2014 was mostly due to a downturn in global commodity prices, tied mainly to the slowdown in the Chinese economy and the associated slump in demand for commodities. Being that a large share of Brazil’s economy is rooted in manufacturing and agriculture, the nation still has a large exposure to commodity and heavy industry price shocks. The commodity price slump of 2013, what caused the 2014 recession, was due mostly in part to sluggish Chinese demand. With major nations reporting a modest recovery from 2020, the commodity market could see a leveling-out of prices and ensuing stability. With the Chinese economy reporting modest but positive growth we could see a new, surging demand of materials fueled by an explosion in Chinese real estate development, which Brazil produces many materials for.

COVID-19

The COVID-19 pandemic provides a much-needed reality check in terms of a broader economic recovery. The virus is taking an increasingly deadly toll on the population despite the development and distribution of vaccines. The public sentiment towards social safety measures (such as mask wearing, social distancing, limited groups etc) is a largely negative one, spurred by the rhetoric of Brazil’s president, Jair Bolsonaro. Bolsonaro, a climate science denier and vaccine skeptic, has provided a spotty at best and dangerous at worst response towards containing the spread of the virus. Consequently, Brazil is a nation still grappling with incredibly high death and hospitalization rates, hamstringing any significant economic recovery.