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MONTHLY STATEMENT

PLANNER REDWOOD ASSET MANAGEMENT

"Brazil, without empty pride, has a marvelous future that eludes our sights."

Oswaldo Aranha – Brazilian politician, diplomat and attorney-at-law.

Beyond any doubt, the most important moment of the month, in every way, was President Bolsonaro's speech at the UN. The organization, over 70 years old now, reserves to Brazil, by tradition, the first speech of the General Assembly. Many Brazilians made a difference in the UN, but none stood out, so highly above others, as did Oswaldo Aranha, a key player in the creation of the State of Israel.

This prominent "isolated leadership" is over. Bolsonaro gave a "historical" speech. The problem is that, although the perception is the same in terms of impacts, these are controversial, for some found it the worst and most shameful speech ever given, while for others saw in it a Statesman's statement. In fact, Bolsonaro was himself, with everything we have grown used to (but we refuse to accept!) since his campaign for president and these first nine months in office. Thus, the president does not make much distinction from the former Bolsonaro and the "institution" he sees himself to have become.

THE FOUR MAIN OBJECTIVES OF THE UNITED NATIONS ORGANIZATION

1. Maintain international peace and security;
2. Develop friendly relations among nations;
3. Achieve international cooperation in solving international problems;
4. Harmonizing the action of peoples to achieve these common ends.

SUCCESSES	CRITICISM	FAILURES
• Aid in food supply;	• Loss of main focus: Peace and Security;	• Rwanda Mission of 1994;
• Assistance for refugees;	• Broadening the range of global concerns;	• Cholera outbreak on mission in Haiti;
• International Missions for Peace;	• Breaking of boundaries established with organizations;	• Misuse of resources in the Oil for Food Program (Iraq);
• Fight to minimize climate change;	• Ineffectiveness in promoting globalization;	• Allegations of sexual abuse in the Republic of Congo, Haiti and others;
• Assistance in countries' electoral processes;	• Support for provocative policies;	• Crisis in the peacekeeping mission in South Sudan.
• Human rights protection.	• Benefits to selected countries;	
	• Increase in financial expenses.	

Source: https://www.history.com/topics/world-war-ii/united-nations | Elaborated and adjusted by Planner Redwood

The possible reflexes of a speech such as the one delivered by Bolsonaro share opinions, but on one point everyone agrees: it was a paradigm shift. Among those who consider the president's speech a disaster in form and content, they find no parallel in history, and say it was "anti-diplomacy" at work. They anticipate immediate consequences in the form of a deficit in friendly dialogue (agreements, deals, etc.) and the prestige of our proactive diplomacy. On the other hand, there are those who applaud the use of the world's leading tribune for, in particular, defend the country from attacks on our sovereignty in the Amazon, and also for a radical change in our politics and economy, to present the new environment in which we operate nowadays.

In fact, the speech was a break from what we usually hear from our representatives at the UN. Direct and straightforward, the tone sounded aggressive. True and proud, the message sounded pedantic in stating that Brazil has qualified people ready to solve and present the solutions to our problems. Assertive and timely, it was also deeply disturbing when it called for respect and trust to Brazil by addressing and committing to issues such as sovereignty, freedom, democracy, economic openness, fighting corruption, protecting the Amazon and, of course, focusing opportunities for the development of the Brazilian population.

Did the tone muddle the substance of the message? Perhaps. Soon we will find out. In a world shrouded in radical change and a UN that needs to strengthen its purposes, face criticism to the institution and dispel its recent failures, Bolsonaro's speech was anything but hypocritical. Unfortunately, as with the president's position in Brazil, Bolsonaro's speech at the UN seems to divide and inflame the country even further, thus undermining the nation's immense future, meaning some may feel more hatred for the president than love for Brazil.

In markets, the indicators presented "satisfactory" performance for each segment. The Ibovespa closed up at 3.57% in the month, reaching 19.18% in the accumulated of 2019. Interest rates vertices DI1F20 and DI1F25 were representative of the overall downward shift of the yield curve, closing the month at 5.07% and 6.68%, respectively. Brazil risk, measured by the 5-year CDS, varied 2.64 points in the month, with lows at 117 points and ending the month at 136.5 points. The Dollar (Ptax) ended the month at BRL 4.1644 at 0.63%, a much more timid increase than last month - the Real remains one of the most undervalued currencies in recent months.

Economic activity persists at a slow and gradual pace, and seems to be couched, contrary to previous years, on more solid foundations in this government. This is because the long-dreamed reforms begin to take shape, although surprises (dehydration) are not ruled out until its final approval. The components of the Brazilian GDP on the demand and supply side, for both 2019 and 2020, indicate little fluctuation in relation to our latest projections. For 2019, growth will be just below 1% and for 2020 just above 2%. Both projections are far from our GDP potential growth, but the last quarter of 2019 seems to indicate that the worst is behind us.

CAGED	August 2019	July 2019	June 2019	May 2019	August 2018	August 2019/2018
Total	121,387	43,820	48,436	32,140	110,431	10%
Oil and Mining	1,235	1,049	565	627	467	164%
Manufacturing	19,517	5,391	-10,988	-6,136	15,764	24%
Utilities	-77	494	2,525	-415	1,240	-106%
Construction	17,306	18,721	13,136	8,459	11,800	47%
Retail	23,626	4,887	-3,007	-11,305	17,859	32%
Services	61,730	8,948	23,020	2,533	66,256	-7%
Public Admin	1,391	-315	483	1,004	394	253%
Agriculture	-3,341	4,645	22,702	37,373	-3,349	0%

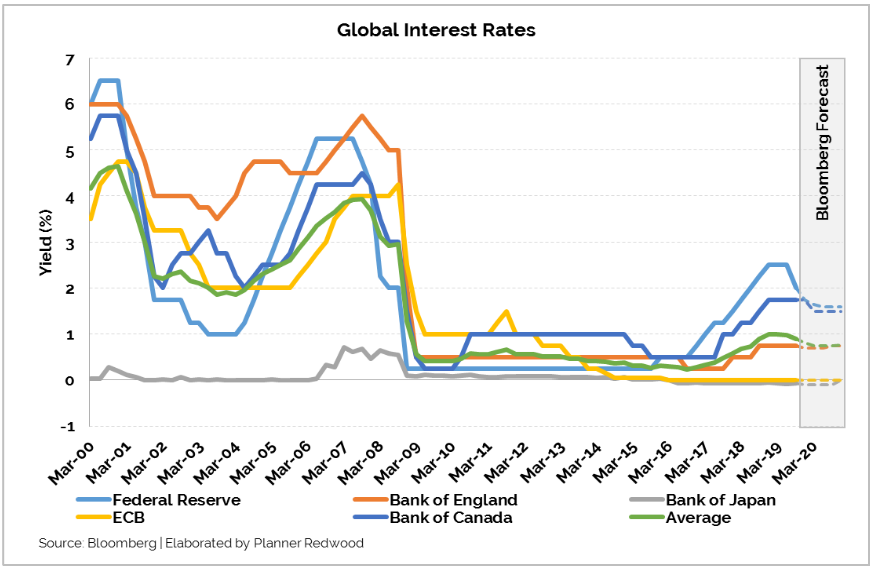
Source: MTE | Elaborated by Planner Redwood

Obviously, this perspective is conditional on the scenario of ongoing structural reforms and other microeconomic adjustments, increased productivity, efficiency gains, greater economic flexibility and improved business environment. Not least, although beyond the realms of our will and action lies the work of various Central Banks around the world. Yes, the adoption of successive monetary stimuli in major economies has helped to maintain a relatively favorable environment for emerging economies – Brazil among them. We now have huge comparative advantages over our peers, just by continuing our "homework" to attract part of the trillions of dollars in search of profitable investments.

In line with some dose of optimism (though contained, as it should be), the CAGED framework says a lot. While it may take some time for Continuous PNAD to point in the same direction (methodological and temporal differences impact but should not change the trend), both statistics should indicate, albeit gradual, improvement in employment scores. For CAGED, the expectation was for 100 thousand newly created jobs, a drop in projections compared to August 2018. Despite the seasonality of this month, this was a higher figure than projected and the month itself, a pleasant surprise - with important highlights for some sectors. The unemployment rate, however, remains high at 11.8% (Continuous PNAD).

Monetary policy clearly seems to be heading for further reductions in the SELIC base rate. That's because with anchored inflation expectations, and the high degree of idleness in the economy, BACEN will place interest rates below the neutral interest rate. The measure follows the elementary concepts of economics, as it would exert stimulus into the economy. Ok, the problem is that this rate is not observable, so it depends on continual evaluation of countless variables to judge whether or not it is at an adequate level - it is roughly an interactive trial-and-error process of approximations. After all, the direction (in this case, reduction) is followed by the decision on intensity. At this point, we at Redwood are quite misaligned with much of the market projecting a 4.5% to 4.75% SELIC by the end of this year. In addition to the uncertainties of reforms, the strong appreciation component of the US currency appears to impose limits on stronger SELIC reductions. We trust that BACEN will be able to continue its monetary easing in the next meetings, but much more conservatively than the market expects.

On the fiscal side, the government's cash position pointed to a primary deficit of BRL 16.9 billion in August, reflecting the best performance in the month since 2017. Up to August, the deficit amounts to BRL 52.1 billion, while in the same period last year the result was a larger deficit of approximately BRL 58.7 billion. The result is important because in 2018 the government registered some non-recurring revenues. With the prospect of closing the year 2019 at BRL 20 billion short of the targeted primary deficit of BRL 139 billion, the news sounds good, but not so much. Primary deficits have built up for over five years now, and until we have surpluses, the situation will not improve significantly. Another way of looking at this situation is by assessing the Federal Public Debt - the one issued by the National Treasury to finance the government's financial gap (expenses higher than revenues from tax collection) – which, for the first time, has exceeded the level of BRL 4 tri. From any angle, a mountain of money, which should reach BRL 4.3 tri by the end of 2019.



Source: Bloomberg | Elaborated by Planner Redwood

In financial markets, the main indicators showed a good return, contrasting with last month. The entire yield curve of pre-fixed interest rate maturities showed a reduction, in line with our recent observations that last month could have been a "technical" stop, and no further change in our future outlook for the segment. This scenario is already starting to have a stronger impact on the management fee collection by investment funds, in particular DIs and Fixed Income, as their performance is proportionally more affected in a lower interest rate/return environment with the same management fee.

In the stock market, Ibovespa ended the month with the best performance in the year (3.57%) after January (10.82%) and June (4.86%), accumulating 19.18% within the year. It is quite reasonable to expect better returns in the stock market in a lower interest rate environment - it will come as no surprise if this movement continues.

The foreign exchange market this month was also much more "well-behaved", oscillating 0.63% closing at BRL 4,1644. At any rate, the Real remains one of the worst performing currencies among the emerging ones. The 5-year CDS, the main country-risk thermometer, has recently hit lows but, mainly for external reasons of internal impacts, it has picked up with significant hikes at the end of the month - significant volatility as it started the month at 134 points, made the 117 low, 138 high, and ended at 136.5 points - a setback to identify investors may be more confident investing here.

Around the world, markets keep signaling global recession and, in this wave, follow strong criticism about the performance of Central Banks. Standing out from this global recession is the US economy, which grew 2 percent from the annualized rate in Q2, strong enough to scare away the specter of recession. However, whereas the US economic fundamentals are strong, financial market show some disturbing signs, given the Fed's interventions in the market this month. In Europe despair is far greater: Helicopter Money and Modern Monetary Theory are already conversation topics - both stimulating, but with practical impediments on that continent. In Asia, Central Banks will not be left behind, and monetary easing is on its way. Finally, on the political side, the American Democratic Party has initiated Trump's impeachment process. A shot in their own feet!

DISCLAIMER

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Redwood

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