NOVEMBER - 2019

MONTHLY STATEMENT

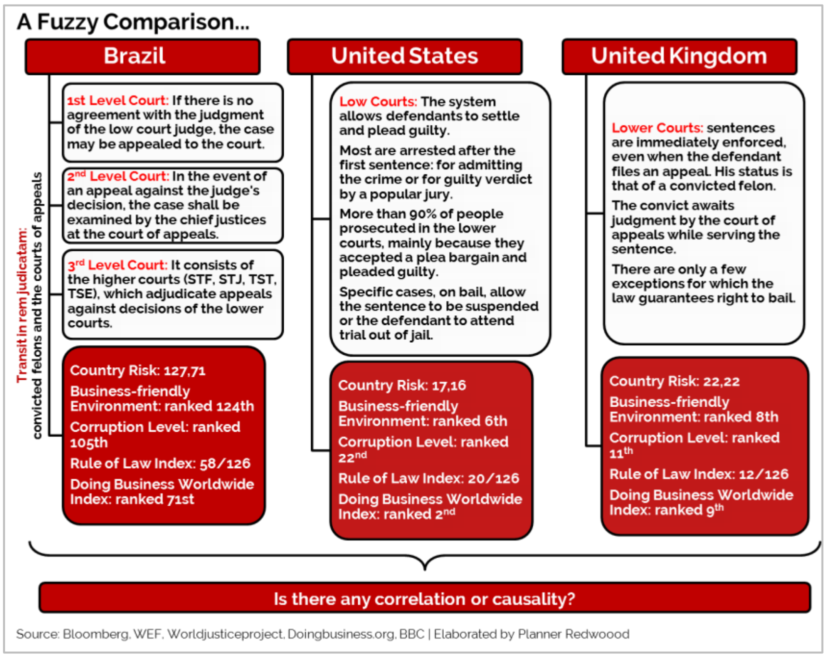
PLANNER REDWOOD ASSET MANAGEMENT

planner Redwood

"Inflation cripples but the exchange rate is fatal!"

Mário Henrique Simonsen – Brazilian Economist and former Treasury Secretary for Brazil.

This month the Supreme Court overturned the resolution to incarcerate convicted felons after trialed by the appeals court. Much more than releasing bad guys of all kinds, the measure has impacts on various segments of society, besides hurting the financial market and the Brazil's image to the world. The immediate assessment and direct consequence is that impunity is back, which feeds into expectations of great volatility, of regime change, and this instability creates huge problems.

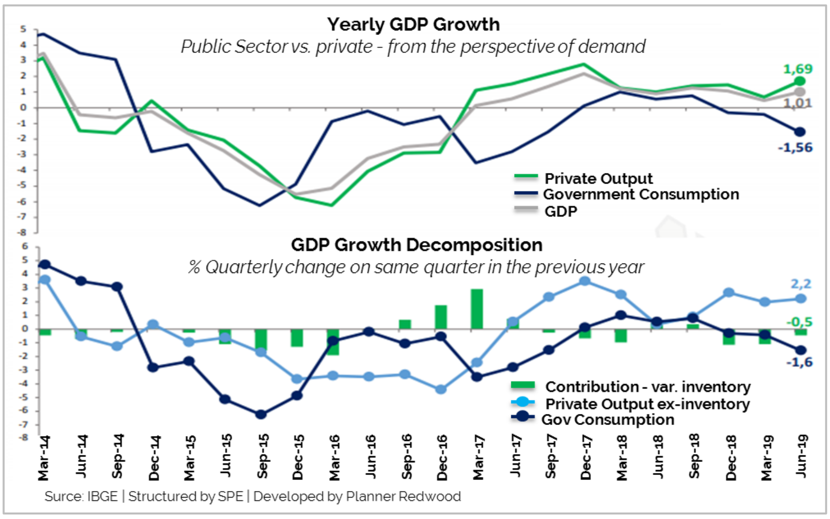


Unpredictability is a major factor in any attempt at planning ahead, thus limiting and sometimes eliminating every initiative, whether economic or not. In the economic realm, investors love risk but hate uncertainty. This is why we so much need the so-called regulatory frameworks, an independent central bank, an autonomous economic policy, etc. Thus be it in the legal or in the legislative realms, or even the statements by authorities, actions and opinions impact markets quite strongly; and, as a rule, it takes time to 'adjust' to them.

The recent Supreme Court ruling (launching of process) requires "adjustments" be made quickly by Deputies or Senators - in one house or another, it doesn't matter. More than in an uncomfortable situation with the international community, Brazil will witness loss in investment appetite here with such attitudes and tantrums. Worse, the timing is crucial for us to make reforms and attract investment now. Under these messy affairs, the agenda and approvals of projects and reforms are blocked, which undermines the healthy drive, disrupts momentum while arousing diffuse interests. What's more, the chances of the window of opportunity closing are huge, and missing this opportunity at this time can be a wait for many years to come.

On the other hand - and also important - is the need for moderation in the statements of the authorities. Not only were the president and his children so active on social media (with some retreat this month, quite true), ministers and other officials need to align and coordinate words and opinions. This past month, Minister Guedes once again brought dysfunctionality to the Dollar market with his statements. Guedes looks tired and cranky. Reactions were immediate and the Central Bank itself could not "honor" the slightest much-vaunted intervention - even by its own chairman! A disaster - for the second time! It would do us much good if the Minister were not to comment on the Dollar... Speaking of BACEN, this latter has decided to put a cap on interest rate charged by banks on overdraft accounts. Rationale: inelastic demand, price formation disconnected from marginal cost and, who pays more is who has lower income... how liberal of them! The country is "starting" to get back on track, economic recovery seems to be on the way, we need to strengthen confidence indices... without stumbling and unconditionally!

Markets are tuned in with political stress and frustrations in the pace of reforms, presenting setbacks throughout the month, with significant variations in each segment. The Ibovespa closed slightly up at 0.95% in the month, advancing to 23.15% in the accumulated of 2019. Interest rates DI1F20 and DI1F25, in turn, have varied -0.10 and +0.47 points, respectively, closing the month at 4.658% for DI1F20 and 6.51% for DI1F25. In fact, the whole extent of the yield curve (except DI1F20) showed positive displacement throughout the month. The Brazil risk, measured by the 5-year CDS, also moved in the opposite direction last month and increased 4 points in the month, with a low of 115 points and a high of 129 points, ending the month at 125.18 points. The Dollar (Ptax), the "leading" variable of the month, ended at BRL 4,224, an important increase of 5.49% within the month, breaking the "psychological" spread of BRL 4.05 - BRL 4.20... a floating range that seemed not to "bother" the Central Bank.



Economic activity indeed seems to show "consistent" signs of recovery, even beyond market expectations. It is important to highlight, however, that this growth comes from the private sector (as expected and planned by the government), with the opening of some room for the expansion of private initiative, with increased investment spending. There are numerous government measures to eliminate market barriers to efficient resource allocation in the economy. Although still timid, the labor market is recovering, and in this aspect also the private and the public sector overlap. With a more dynamic economy and a smaller-state philosophy, the private sector shows positive variations in job creation, while the public sector downsizes its staff.

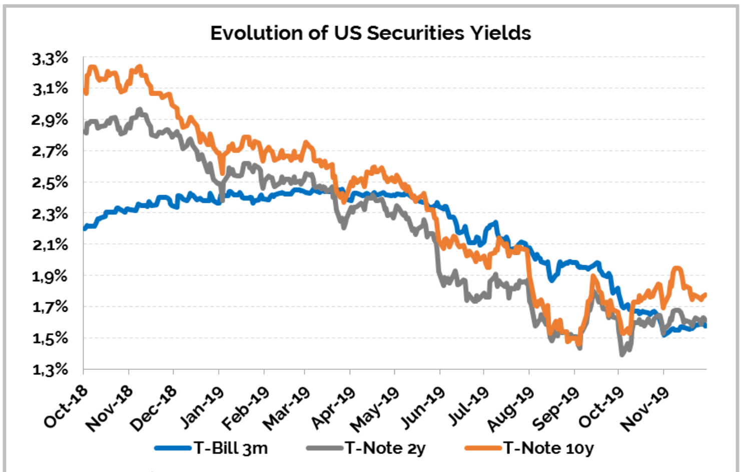
However, caution prevails in the investment decision-making process in Brazil, especially by foreigners. There is still huge investor insecurity, especially when faced with a volatile "political environment". It is very scary. The uneasiness stems from the concrete possibility that the *status quo* could change rapidly and, combined with the instability of neighboring countries and possible contamination, the risks do not look too rewarding. We need to continue on the path of reform and regulatory revamping, and only then will we overcome this stigma... it is the work of all branches of government, not just the executive. Unfortunately, the option at this time has been just the opposite, that is, we have decided that the economic dimension must "succumb" to politics. It is estimated that the political timing for approval of reforms in the face of Latin American (AL) turmoil and a former president stirring the masses have slowed the pace of reform. It is but a colossal temerity to do "arbitrage" on this timing in the face of everything else involved.

Indeed, the balance of this equation seems to lie in the objective pragmatism that the changes are intended to implement. To this end, there should be coordination to foster an environment in which proposals could be submitted and technically assessed, but with the necessary political intelligence. The risks around us require immediate political action to reduce policy-related uncertainties so that there is a logical ordering that promotes transparency and encourages investments. This political action, which we advocate so much, is one of the crucial missing points (from the outset) in this government, and it would certainly work as a trigger to increase confidence and encourage the recovery of activity. This communication "failure" has prevented further progress, especially in materializing investments. Entrepreneurs are optimistic and confidence levels are better, but that has not been enough to generate many jobs - although this is one of the last variables to react. It is quite possible that with what has been done so far, had we seen strong government coordination and political articulation, the results would be far better.

Monetary policy that seemed much more in line with market expectations than our forecasts now seems to at least cool down in its intensity. The president of the Central Bank even mentioned that if he has to adjust the exchange rate, he will do so through monetary policy, which sparked market warnings that Selic is doomed as successive cuts in the economy's basic interest rates are widely expected. Yes, they are gaining strength and many bets are now in line with our 4.5% Selic forecast at the end of the monetary easing cycle. This sounds great to us in many ways, and fundamentally infuses rationality into the process.

On the fiscal front, numerous actions launched last month are costly and take too long to implement, but they are the essence of bringing us to a new and better mode of control and use of our public resources at the various levels of the federation. This is certainly the way, and the results will soon come to fruition. The primary deficit projected for this year is much smaller today than we had imagined. The public debt composition may evolve further now with lower interest and inflation. Continuing with the promises set by the economic team, we projected (contrary to the market) primary surplus by the end of 2021. Improvement of public finances (with the extension of the PEC of pension reform for the state governments) will completely change the current picture. We will enter a virtuous circle, albeit today the situation is still quite challenging... any hesitation in the pursuit of this goal can lead to far-reaching collapse.

The good moment of the financial market evidenced in recent times "took a break" this month. Nothing that changes the trajectory drawn so far, but it puts clear boundaries and redoubled attention. After all, consistency is still flimsy when assessing all factors that involve and influence markets. The country risk level (CDS 5 years), the yield curve and the Stock Exchange (Ibovespa) have evolved positively so far this year. The performance of all these indicators has been consistent with the changes and expectations surrounding the promised advances. However, the financial market does not move linearly, and "re-prices" it whenever new information (true or otherwise) is made available. Thus, there is often an overreaction in the short term, but there is a tendency for a "mean reverse" and the long-term effects of economic policy. The interaction of politics, markets and economics goes far beyond simple correlations and direct and obvious impacts. This process has hard-to-measure psychosocial roots, with important reflexes.



Source: Bloomberg | Elaborated by Planner Redwood

Overseas, expectations for Chinese economic growth continue trend downwards. Thus, it is quite possible that Chinese authorities take, as last year, measures of macroeconomic stimulus and even more. On the other hand, the United States displays greater resilience in its economic indicators, although the country also "suffers" from the trade war (especially with China). Reversing the curves on the adjacent chart (now "adjusted") was not really a good predictor of the performance of the US economy. In Europe, as in the rest of the developed economies, the diagnosis is hardly any different. Rising tensions in trade policies – namely, BREXIT, etc. - affect confidence and investment as well as political uncertainty. Finally, in LA, the protests in Chile, the confusion in Bolivia and the elections in Uruguay amount to significant changes, whose outcomes are not yet definitive. Anyway, it's a moment of extreme opportunity for Brazil... we should seize it!

DISCLAIMER

This material has been prepared by Planner Redwood Asset Management Administração de Recursos LTDA. (Redwood) and is for information purposes only and does not constitute a recommendation for investment, offer or solicitation of an offer to acquire securities or any financial instrument. The information, opinions, estimates and projections refer to the present date and may contain information about future events and these projections / estimates are subject to risks and uncertainties related to factors that exceed our ability to control or estimate accurately, such as market competitive environment, fluctuations of currency value and inflation, changes in regulatory and governmental entities, as well as other aspects that may differ materially from those projected without prior notice. The information herein contained is based on the best available information collected from public, official or credible sources, which we believe to be reliable and of good faith. However, they have not been independently verified and, neither express nor implied warrant is given as regards their accuracy. We are not responsible for any omissions or errors, and even as we have taken all precautions to ensure that the information contained herein is not false or misleading, Redwood is not responsible for its accuracy or completeness. The opinions expressed solely reflect our opinions at the moment. We reserve the right at any time to buy or sell such securities. These projections and estimates should not be construed as a guarantee of future performance. Redwood undertakes no obligation to publish any revisions or update such projections and estimates in light of events or circumstances that may occur after the date of this document. This material is provided for the exclusive use of its recipients and its contents may not be reproduced, redistributed, published or copied in any form, in whole or in part, without the express permission of Redwood.

planner Redwood

Avenida Brigadeiro Faria Lima, 3900 – 10º andar
São Paulo – SP | CEP 04538-132
+55 (11) 2172.2600
planner.com.br