

## Amid lower IPCA forecasts, Copom paves the way for additional interest rate cuts

### Overview

- **The Selic rate reached 5.5% and all signs from the Central Bank point to continuing the interest rate cutting cycle.** Highlights in the decision's announcement include a downward revision of its inflation forecasts, indicating that the IPCA will fall below the center of the target in 2019 and 2020, even considering a Selic rate of 5.0% and exchange rate of BRL/USD 4.05. The gradual economic recovery, partly explained by the accentuated global economic slowdown, coupled with well-behaved inflation and the passing of the reform agenda, should lead the Selic to 4.75% by the end of 2019, with the possibility of dropping even lower at the end of this year under certain conditions. The behavior of the Brazilian real is mostly responsible for the constraint on this scenario of more aggressive cuts. For now, the fundamentals do not suggest a large depreciation ahead.
- **Oil prices were more volatile as production dropped in Saudi Arabia, the commodity's main supplier.** Drone attacks over the weekend affected about 5% of the world supply, raising prices from last week. The magnitude and duration of the price impact will depend on the speed of production normalization. For now, the impact on inflation has been bullish, explained by rising oil prices and the depreciation of the Brazilian real. Despite this one-off factor, the inflation scenario will remain comfortable for both this year and next, given the more moderate recovery of the economy, which limits price pass-through.
- **The FOMC has also cut interest rates, but the next steps of the U.S. central bank are contingent on risk factors.** In a new preemptive cut, the Fed downplayed bullish surprises with current economic and inflation data and emphasized the scenario of uncertainty and slowdown in the world economy, which has affected investments and exports. Dissent in the decision and the dispersion of Fed members' forecasts signal that continuity in the downward trend for U.S. interest rates mainly depends on the evolution of trade tensions and external growth.
- **While U.S. growth remains steady, the Chinese economy continued to decelerate in this third quarter.** Industrial production, retail sales and fixed asset investment data in August frustrated market expectations, ultimately displaying the economy's loss of traction in light of the trade tensions. The U.S. growth differential when compared to the rest of the world should continue as one of the vectors for keeping the U.S. dollar stronger in the short term.

### The week ahead

- **The market will remain focused on Copom's next steps. The meeting's minutes and Inflation Report will be released next week.** In addition, the September IPCA-15 and August job market data should reiterate the scenario of low inflation and gradual economic recovery, making room for further Selic cuts.
- **Highlights of the international agenda will include last month's U.S. consumption and inflation data and September PMI reports.** Overall, the results should show that the U.S. economy remains slightly stronger than that of other countries, especially compared to developed countries.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 09/23</b>				
08:00	Brazil	FGV: Consumer Confidence (Sep)		
08:25	Brazil	BCB: Focus Survey		
10:00	Brazil	CNI: Industrial Confidence (Aug)		
10:30	Brazil	BCB: Current Account Balance (Aug)		
10:30	Brazil	BCB: Foreign Direct Investment (Aug)		
-	Brazil	MDIC: Trade Balance (weekly)		
04:30	Germany	Markit: Composite PMI (Sep - P)		
05:00	Eurozone	Markit: Composite PMI (Sep - P)		
-	Colombia	Central bank meeting	4.25 %	4.25 %
-	Eurozone	ECB: Mario Draghi Testifies at European Parliament		
<b>Tuesday 09/24</b>				
08:00	Brazil	BCB: Copom minutes		
08:00	Brazil	FGV: Retail Confidence (Sep)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA-15) (Sep)		0.07% (MoM)
10:00	Brazil	CNI: Construction Confidence (Aug)		
05:00	Germany	IFO Business Climate (Sep)	94.8	
11:00	USA	Consumer Confidence (Sep)		
<b>Wednesday 09/25</b>				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:00	Brazil	FGV: Construction Confidence (Sep)		
08:00	Brazil	FGV: Construction Costs (Sep)		
09:00	Brazil	IBGE: PPI (Aug)		
10:30	Brazil	BCB: Press Release - Monetary Policy (Aug)		
14:30	Brazil	BCB: Currency Flows (weekly)		
<b>Thursday 09/26</b>				
08:00	Brazil	BCB: Inflation report		
08:00	Brazil	FGV: Industrial Confidence (Sep)		
-	Brazil	Federal Debt Total (Aug)		
09:30	USA	GDP (2Q - P)	2.0% (QoQ)	2.0% (QoQ)
09:30	USA	Initial Jobless Claims - Weekly		
15:00	Mexico	Central bank meeting		7.75%
<b>Friday 09/27</b>				
08:00	Brazil	FGV: Services Confidence (Sep)		
08:00	Brazil	FGV: IGP-M (Sep)		-0.08% (MoM)
09:00	Brazil	IBGE: Unemployment Change (Aug)		11.7%
10:00	Brazil	CNI: Consumer Confidence (Sep)		
14:30	Brazil	Central Govt Budget Balance (Aug)		R\$ -12.9 b
-	Brazil	Aneel: Tariff range		
09:30	USA	Personal Income (Aug)	0.4% (MoM)	
09:30	USA	Personal Spending (Aug)	0.3% (MoM)	
11:00	USA	University of Michigan Sentiment (Sep - F)	92.1	
<b>During the week</b>				
-	Brazil	Caged: Formal Job Creation Total (Aug)	98.2k	97.0k
-	Brazil	Tax Collections (Aug)	R\$ 118.7 b	R\$ 122 b

	2017	2018	2019	2020
Consumer inflation - IPCA (%)	2.95	3.75	3.50	3.9
GDP growth (%)	1.1	1.1	0.8	1.9
Industrial Production (%)	2.5	1.1	0.6	1.8
Retail Sales (%)	4.0	5.0	4.0	4.5
Job Creation (in thousands)	1899	966	742	1066
Unemployment Rate (% of labor force, avg)	12.7	12.3	12.5	12.3
Outstanding Credit Growth (%)	-0.5	5.0	7.5	9.4
Trade Balance (USD bn)	64.0	53.1	48.1	54.1
Current Account (USD bn)	-7.2	-15.0	-28.5	-34.3
Exchange Rate (BRL/USD, eop)	3.31	3.87	4.00	3.80
Selic Rate (% eop)	7.00	6.50	4.75	4.75
Primary Balance (BRL bn)	-111	-108.3	-135	-100.0
Gross Debt (% of GDP)	74.1	76.7	77.8	79.4

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