Copom maintained interest at 6.5%

Overview

- **As expected, the Monetary Policy Committee (Copom) maintained the Selic rate at 6.5%, a level which we believe will be kept until the end of the year.** In the statement, the Central Bank of Brazil acknowledged that economic recovery following the strike has been more gradual than expected. In addition, the Central Bank's assessment is that the effects of the strike on inflation are proving to be temporary. The statement reinforced the message that monetary policy should only be used to respond to second-order effects, and the Central Bank's models point to inflation below the center of the target whether assuming the market's consensus for the exchange-rate and the policy rate or assuming these variables to remain constant over time. In light of the modest recovery and the fact that core inflation remains well below the center of the inflation target, we maintain our forecast that the policy rate will remain unchanged at 6.5% through the end of the year.
- **The economy's recovery from the trucker's strike has been slower than expected.** The effects of the strike are dissipating and although data suggests that the effect of the strike may have been weaker than initially feared, the effects of structural factors have been more persistent and suggest a slower recovery ahead. In this context, June industrial production grew 13.1%, slightly below our expectations (14.1%) and the market consensus (14.0%), but the average production level for May-June was well below the pre-strike period. With respect to the more permanent effects, confidence indicators and the job market lost traction in recent months. The July confidence indicators show that businesses are still wary of the coming months. In the same sense, the unemployment rate showed moderate improvement in jobs for June, even with the drop in the rate compared to May (down 0.1 p.p., reaching 12.3% in the month). The downward trend in the formal employment of private workers stood out, in line with that observed in Caged data. We expect GDP stability in the second quarter and an extremely gradual recovery pace in the third quarter.
- **Wholesale prices for industrial goods remain under pressur.** The IGP-M slowed to 0.51% in July (consensus in 0.49%). Nevertheless, industrial products continue to be pressured by exchange rate depreciation, with the core at a higher level than those recorded in recent years. The historical lag between the pressures on the producer and the pass-through to final consumer prices still precludes an evaluation on how low levels of capacity utilization will limit pass-through to retail prices. We expect the IGP-M to close the year at 7.7%.
- **The rate of global GDP growth continues to show signs of slowing, with the exception of the United States.** July PMI activity indicators released this week reported a loss of steam in the global economy. The United States is the exception, where July job market data showed the creation of 157,000 jobs, causing the unemployment rate to remain at a low level (3.9%). In this context of a strong economy and inflation close to the target, the Fed maintained its reading on the economy, reinforcing our scenario of two more interest rate hikes in 2018. On the other hand, the GDP for the Eurozone, which expanded 0.3% in the second quarter, has showed signs of a slower growth rate for the region. The same goes for economic data in China, where the government continues to intervene in an attempt to reduce the impacts of trade tensions on the country's GDP.

Weekly outlook

- **Highlights in Brazil include the Copom minutes, inflation and retail.** July inflation data may reinforce the recent dynamics, underlying consumer inflation indicators with benign behavior and pressured industrial wholesale prices (core). We expect an IPCA increase of 0.27% in July and 0.36% in the IGP-DI. We expect no surprises from the Copom minutes with respect to the statement already issued.
- **The July balance of trade indicators in China may bring new insights into the initial shocks of trade tensions on the Chinese GDP.** We will also receive the U.S. wholesale (PPI) and retail (CPI) inflation indicators, which should still indicate gradual acceleration.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 08/06				
08:25	Brazil	BCB: Focus Survey		
11:20	Brazil	Anfavea: Vehicle Production (Jul)		
15:00	Brazil	MDIC: Trade Balance (weekly)		
-	Brazil	Serasa experian: Retail Activity Index (Jul)		
Tuesday 08/07				
08:00	Brazil	FGV: Employment Indicators (Jul)		
08:00	Brazil	BCB: Copom minutes		
03:00	Germany	Industrial Production (Jun)	3.0% (YoY)	
17:00	Argentina	Central bank meeting	40.00%	40.00%
Wednesday 08/08				
08:00	Brazil	FGV: IGP-DI (Jul)	0.51%	0.36%
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA) (Jul)	0.28%	0.27%
12:30	Brazil	BCB: Currency Flows (weekly)		
22:30	China	CPI (Jul)	0.2% (YoY)	
Thursday 08/09				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
09:00	Brazil	IBGE: Agricultural production Survey (Jul)		
09:00	Brazil	Conab: 11th Grains crop survey 2017/2018		
09:00	Brazil	IBGE: Industrial Production - regional (Jun)		
09:30	USA	Initial Jobless Claims - Weekly		
20:00	Peru	Central bank meeting	2.75%	2.75%
20:50	Japan	GDP (2Q - P)	0.3% (QoQ)	
Friday 08/10				
08:00	Brazil	FGV: IGP-M (1st preview) (Aug)		
09:00	Brazil	IBGE: Retail sales (PMC) (Jun)		0.5% (MoM)
05:30	United Kingdom	GDP (2Q - P)	0.4% (QoQ)	
09:30	USA	CPI (Jul)	0.2% (MoM)	
During the week				
-	China	Trade Balance (Jul)	US$ 3.905 b	

	2016	2017	2018	2019
Consumer inflation - IPCA (%)	6.29	2.95	4.10	4.25
GDP growth (%)	-3.6	1.0	1.1	2.5
Industrial Production (%)	-6.4	2.5	1.5	2.7
Retail Sales (%)	-8.7	4.0	5.0	4.5
Unemployment Rate (% of labor force, avg)	11.5	12.7	12.5	12.3
Outstanding Credit Growth (%)	-3.5	-0.5	4.0	8.3
Trade Balance (USD bn)	45.0	64.0	60.4	61.1
Current Account (USD bn)	-23.5	-9.8	-9.9	-8.5
Exchange Rate (BRL/USD, eop)	3.26	3.31	3.60	3.60
Selic Rate (%, eop)	13.75	7.00	6.50	8.00
Primary Balance (BRL bn)	-155.8	-111	-157.9	-111.0
Gross Debt (% of GDP)	70.0	74.0	75.2	76.5

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