

## Impact of the trucker's strike on inflation is dissipating

### Overview

- **June consumer inflation bounces back from the highs recorded following the truck drivers' strike.** The IPCA rose 0.33% in July, compared to 1.26% recorded in June. Although the result was slightly above our forecast and the market median (due to surprises in gasoline, electricity and restaurant meals), the measures of core inflation continued to follow a positive trend, indicating that the components more sensitive to economic activity remain contained. We believe that inflation will follow a decompression trend for the next few disclosures, with core inflation showing slight acceleration, but still at comfortable levels in line with our base scenario. The major risks for this scenario are the effects of the shipping price table on prices, the passthrough of BRL depreciation and the pass-through of the spike in wholesale industrial prices to consumer prices.
- **The pressure on industrial goods wholesale prices pulled back, but remains high.** The July IGP-DI closed at 0.44%, compared to 1.48% recorded in the previous month. This strong deceleration is also explained by the rebound of increases recorded by agricultural prices in wholesale following the truck drivers' strike. The slowdown in industrial goods was much more modest, and the core for industrial goods prices in wholesale fell from 1.62% in June to 1.36% in July, remaining at a high level.
- **June retail performance fell short of expectations.** Retail sales fell 0.3% in June, while May was revised to -1.2% (compared to -0.6% released earlier). Sales of furniture, appliances, electronics and textiles recovered, but supermarket sales dropped sharply and ultimately pulled the headline indicator down. However, it is important to note that this drop reflects the end of stockpiling by consumers in May, also a result of the truck drivers' strike. Finally, Anfavea vehicle production fell 6.5% at the margin (seasonally adjusted) and may impact industrial production. Data released this week still points to a gradual recovery.
- **Finally, the Central Bank of Brazil continued to signal that the policy rate will remain at 6.5% in the coming months.** The main message remains that the Central Bank will only react to second-order effects of the recent shocks and that the current scenario calls for a stimulative monetary policy. As in the statement, the committee acknowledged that inflation suffered temporary highs, but that core measurements remain low. However, the Central Bank continued to emphasize the need to monitor the possible effects of these shocks on the inflation outlook.
- **Trade and geopolitical tensions worsened this week and emerging countries experienced losses for assets.** Renewed escalation in the geopolitical tensions between the U.S. and Russia, following new American sanctions announced against Moscow, resulted in strong depreciation of the Russian ruble. The Turkish lira also dropped sharply in the week both due to diplomatic tensions with the USA and the reaction to the announcement of a new macroeconomic plan. Economic data released during the week was not significant in determining market prices, U.S. inflation data followed expectations, and the Chinese trade balance was surprisingly positive with rising imports and exports showing a more modest decline.

### Weekly outlook

- **Highlights in Brazil include the IBC-BR and service research.** This data should reinforce a gradual recovery pace for the domestic economy.
- **Geopolitical and trade tensions should stay on the radar.** July economic data for China and the U.S. will also be disclosed, which will be important in identifying the effects of the trade war, especially on industry in these two countries.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 08/13</b>				
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
23:00	China	Fixed Assets Investments (Jul)	6.0% (YoY)	
23:00	China	Industrial Production (Jul)	6.6% (YoY)	
<b>Tuesday 08/14</b>				
09:00	Brazil	IBGE: Services Sector Volume (PMS) (Jun)		3.0% (MoM)
03:00	Germany	GDP (2Q - P)		
03:00	Germany	CPI (Jul - F)	0.3% (MoM)	
06:00	Germany	ZEW Survey Expectations (Aug)	▲ -20.0	
06:00	Eurozone	Industrial Production (Jun)	2.6% (YoY)	
06:00	Eurozone	GDP (2Q - P)	0.3% (QoQ)	0.4% (QoQ)
<b>Wednesday 08/15</b>				
08:00	Brazil	FGV: IGP-10 (Aug)		0.49% (MoM)
08:30	Brazil	BCB: Economic Activity Index (Jun)		3.0% (MoM)
12:30	Brazil	BCB: Currency Flows (weekly)		
09:30	USA	Índice Empire Manufacturing de atividade (Aug)	▲ 20.0	
10:15	USA	Industrial Production (Jul)	0.4% (MoM)	
13:00	Colombia	GDP (2Q)		2.6% (YoY)
<b>Thursday 08/16</b>				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
09:00	Brazil	IBGE: Quartely employment survey (2Q)		
09:30	USA	Fed Philadelphia Outlook (Aug)	▲ 22.0	
09:30	USA	Initial Jobless Claims - Weekly		
<b>Friday 08/17</b>				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:00	Brazil	FGV: IGP-M (2st preview) (Aug)		
06:00	Eurozone	CPI (Jul)	0.3% (MoM)	
11:00	USA	University of Michigan Sentiment (Aug - P)	▲ 97.9	

	2016	2017	2018	2019
Consumer inflation - IPCA (%)	6.29	2.95	4.11	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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