

Global environment remained challenging for emerging economies

Overview

- **Economic activity remains on a sluggish trend.** After manufacturing activity experienced a milder contraction in July compared to June, retail sales and the service sector followed the same trend. Real retail sales – including vehicles and construction materials – fell 0.4% in the month, reversing some of the growth posted in June (2.5%), which was largely due to a rebound after the truck drivers' strike in May. The service sector was down 0.3% compared to July 2017, and 2.2% lower on the margin. In light of this information, we reiterate our estimate for very gradual growth: we expect the GDP to grow 0.2% in the third quarter.
- **A more positive outlook for the 2018-2019 global grain harvest eased pressure on international prices of major agricultural commodities.** The latest USDA report offered a bullish outlook for the next soybean harvest, forecasting yields – and therefore total production – at high levels. Thus, the stocks-to-use ratio for the grain will rise from 28% this year to 31% in 2019 (above the historical average of around 24%). Meanwhile, the supply of corn is expected to remain tight, with the stocks-to-use ratio close to 14%, below the historical average of 18%. Nevertheless, it should be noted that corn yield estimates were up from August levels. That helped ease prices a little, even if momentarily. As for the Brazilian harvest, the first Conab forecast for the 2018/2019 crop will not be released until next month. The expectations are for another excellent harvest.
- **Several Central Banks held policy meetings in a challenging week for global markets, especially for emerging economies.** Turkey's Central Bank surprised the market by raising the benchmark interest rate from 17.75% to 24.00%, emphasizing that the recent price increases – which resulted largely from a depreciated currency – add risk to inflation expectations. The Bank of England and the ECB adopted a more cautious stance and did not change their monetary guidelines, as both authorities acknowledged the presence of volatility in emerging markets and more moderate local dynamics. Meanwhile, according to the Beige Book, the U.S. economy continued to show moderate growth and gradual price increases. In addition, data compiled between August and the beginning of September revealed a positive outlook for activity, reinforcing the view that the labor market remains strong. As for China, August figures did not show any major changes from the trend observed in recent months: there are signs of slowdown and expectations that exports will start to dip, affected by U.S. tariffs. Nonetheless, we believe that the stimuli could offset part of the loss of activity resulting from the probable decline in foreign sales.

Weekly outlook

- **On the domestic calendar, the spotlight is on monetary policy announcements and consumer inflation.** Despite the exchange rate depreciation seen in the past few weeks, which was largely triggered by a more challenging global environment, inflation expectations remained anchored and activity data remained soft. Therefore, we expect the Central Bank to maintain the benchmark rate (Selic) unchanged at 6.5% over the next week. We expect the mid-month consumer inflation index (IPCA-15) to come in at 0.18%, as core prices continue to pick up. Brazil's Economic Activity Index (IBC-Br) will also be released in the week ahead, and should post a slight month over month growth of 0.2%. Another highlight this week is the formal labor market numbers for August (date yet to be confirmed), which we believe will show a net loss of 70,000 jobs.
- **Internationally, all eyes will be on the advance PMI readings for Europe and the United States.** In addition to emerging markets, early September activity indicators will be released next week. The U.S. will also release its Empire Manufacturing Survey, the Philadelphia Fed Industrial Index and the manufacturing PMI. In the Eurozone, the focus will be on the service and manufacturing PMIs, both for Germany and the EU as a whole. These results could confirm the asynchronous growth of different economies, with most countries facing a slowdown while the U.S. continues its robust expansion.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 09/17				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
08:25	Brazil	BCB: Focus Survey		
08:30	Brazil	BCB: Economic Activity Index (Jul)		0.2% (MoM)
15:00	Brazil	MDIC: Trade Balance (weekly)		
06:00	Eurozone	CPI (Aug)	0.2% (MoM)	
09:30	USA	Índice Empire Manufacturing de atividade (Sep)	23.1	
Tuesday 09/18				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		0.36%
08:00	Brazil	FGV: IGP-M (2st preview) (Sep)		
-	Japan	Central bank meeting	-0.10%	-0.10%
Wednesday 09/19				
12:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	BCB: Central bank meeting	6.50%	6.50%
16:00	Argentina	GDP (2Q)		
Thursday 09/20				
-	Brazil	CNI: Industrial Confidence (Sep)		
09:30	USA	Initial Jobless Claims - Weekly		
09:30	USA	Fed Philadelphia Outlook (Sep)	15.5	
Friday 09/21				
08:00	Brazil	FGV: Industrial Confidence (Sep - P)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA-15) (Sep)		0.18%
04:30	Germany	Markit: Composite PMI (Sep - P)	55.0	
05:00	Eurozone	Markit: Composite PMI (Sep - P)	54.4	
During the week				
-	Brazil	Caged: Formal Job Creation Total (Aug)		70k

	2016	2017	2018	2019
Consumer inflation - IPCA (%)	6.29	2.95	4.40	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	3.90	3.80
Selic Rate (% eop)	13.75	7.00	6.50	8.00
Primary Balance (BRL bn)	-155.8	-111	-132.7	-94.9
Gross Debt (% of GDP)	70.0	74.0	75.7	76.5

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