

Central Bank keeps interest rates at 6.5% and signals gradual rate hikes, depending on balance of risks

Overview

- **The Monetary Policy Committee (Copom) kept the benchmark Selic rate unchanged at 6.5%.** In its statement, the Central Bank acknowledged that the pace of economic recovery has been more gradual than expected and that core inflation prices are at appropriate levels (previously, there was talk of “low levels”), including those components most sensitive to the economic cycle. The Committee also announced upward revisions to prospective inflation, while still keeping it within the target range for 2018. For 2019, only the scenario that is based on the exchange rate and the Selic rate remaining at current levels suggested a Broad Consumer Price Index (IPCA) of 4.5%, slightly above next year’s target of 4.25%. The release emphasized that emerging economies continue to face a challenging environment, with normalization of interest rates in developed economies and uncertainty in global trade. Finally, although it continues to point out that the scenario calls for the maintenance of a stimulating monetary policy, the committee added that “this stimulus will begin to be phased out if the inflation outlook over the policy horizon and/or its balance of risks worsen”. We believe the Selic rate will remain stable at 6.5% until the end of 2018, gradually rising in 2019 to 8.0%.
- **The Central Bank’s Economic Activity Index (IBC-Br) delivered a positive surprise, while inflation came in below expectations.** The IBC-Br, a proxy for monthly GDP, rose 0.6% m/m in July, beating expectations (0.2%). On the other hand, manufacturing confidence remained below the neutral level in September. Meanwhile, the mid-month consumer inflation index (IPCA-15) for September provided a downward surprise at 0.09% (expectations were at 0.18%). The deviation from our forecast was diffuse. Core prices continued their upward trend, but results also came in below expectations, in line with the views signaled by the Central Bank last week.
- **We continued to see policy reactions in emerging economies over the week, which provided a boost to their currencies.** Turkey announced a new plan with more stringent fiscal targets and cuts to infrastructure spending, and also presented new – and more realistic – inflation and GDP forecasts for the next few years. The Turkish government committed to a primary surplus of 0.1% of the GDP in 2018, 0.8% in 2019 and 1% in 2020 – a considerable fiscal effort, given the previous expectations of a primary deficit of approximately 1% of the GDP over this horizon. Meanwhile, South Africa’s central bank kept its benchmark rate at 6.5%, but adopted a more hawkish tone in its statement. Not only was its monetary policy committee unable to reach a unanimous decision (3 directors voted to raise the policy rate by 25bps), it also acknowledged that “with risks and uncertainties at higher levels, the MPC will continue to be vigilant and will not hesitate to act should it become necessary.” For developed economies, the first activity indicators for the month showed: (i) mixed data for US manufacturing, but the numbers still compatible with an annual growth of around 3.0% in the third quarter; (ii) a decline in the composite Eurozone PMI (Purchasing Manager’s Index), which nonetheless indicates an annual GDP growth rate of approximately 1.8% between July and September.

Weekly outlook

- **Highlights on the domestic calendar include the Monetary Policy Committee (Copom) minutes and the Inflation Report.** On Tuesday, the minutes could provide additional details on the circumstances that could lead to a gradual tightening of monetary policy. On Thursday, the Inflation Report should provide more details on the inflation forecast, with a mixed scenario (steady exchange rates and interest rate hikes, according to Focus), as well as a revised growth forecast for 2018. We will also keep an eye on the release of fiscal data, which are expected to benefit from the collection of oil royalties, as well as foreign sector accounts, which will again show a balanced position.
- **The Fed is expected to tighten its policy rate by 25 bps and signal the continuation of the gradual tightening cycle** on Wednesday. We will pay special attention to how the Fed reacts to recent pointing to wages rising 2.9% y/y. Other highlights include U.S. personal spending, the Michigan and Conference Board confidence indexes, as well as Chinese PMI.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 09/24				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
08:00	Brazil	FGV: Consumer Confidence (Sep)		
08:25	Brazil	BCB: Focus Survey		
10:30	Brazil	BCB: Current Account Balance (Aug)		US\$ -1.45 b
10:30	Brazil	BCB: Foreign Direct Investment (Aug)		US\$ 9.10 b
15:00	Brazil	MDIC: Trade Balance (weekly)		
-	Brazil	CNI: Industrial Confidence (Aug)		
-	Brazil	Federal Debt Total (Aug)		
05:00	Germany	IFO Business Climate (Sep)	103.0	
Tuesday 09/25				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:00	Brazil	BCB: Copom minutes		
08:00	Brazil	FGV: Construction Costs (Sep)		
08:00	Brazil	FGV: Construction Confidence (Sep)		
11:00	USA	Consumer Confidence (Sep)	131.0	
Wednesday 09/26				
08:00	Brazil	FGV: Retail Confidence (Sep)		
10:30	Brazil	BCB: Press Release - Monetary Policy (Aug)		
12:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	CNI: Construction Confidence (Aug)		
15:00	USA	Central bank meeting	2.25%	2.25%
Thursday 09/27				
08:00	Brazil	FGV: IGP-M (Sep)		
08:00	Brazil	FGV: Industrial Confidence (Sep)		
08:30	Brazil	BCB: Inflation report		
09:00	Brazil	IBGE: PPI Manufacturing (Aug)		
-	Brazil	Central Govt Budget Balance (Aug)		-14.4 b
09:00	Germany	CPI (Sep - P)	0.1% (MoM)	
09:30	USA	GDP (2Q - P)	4.3% (QoQ)	
09:30	USA	Initial Jobless Claims - Weekly		
Friday 09/28				
08:00	Brazil	FGV: Services Confidence (Sep)		
09:00	Brazil	IBGE: Unemployment Change (Aug)		12.4%
10:30	Brazil	BCB: Press Release - Fiscal Policy (Aug)		
-	Brazil	CNI: Consumer Confidence (Sep)		
-	Brazil	Aneel: Tariff range		
05:30	United Kingdom	GDP (2Q - F)	0.4% (QoQ)	
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)	100.1	
-	Colombia	Central bank meeting	4.25%	4.25%

	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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