

GDP growth forecast for the third quarter raised to 0.5%.

Overview

- **After another round of surprisingly positive economic results, we raised our forecast for GDP growth in the third quarter from 0.3% to 0.5% q/q.** Both retail and the services sector also outgrew expectations in August. The volume of household and corporate services grew by 1.6% year-over-year. Despite the industry's lukewarm performance, the IBC-Br index (monthly GDP proxy) rose 0.47% at the margin. These results point toward a stronger trend than expected last quarter, but still in line with our GDP growth forecast of 1.1% in 2018 as a whole.
- **The recent dynamics of Brazil's currency offset the inflation risk balance.** Inflation risks had been asymmetrically rising in recent months. Although current figures are still under some pressure, the outlook seems more balanced. The IGP-10 index rose 1.43% in October and, although the index is still very high, it has already shown some signs of a slowdown (considering the previous upsurge of 1.79%). We believe that the Brazilian real's recent appreciation should take some of the pressure off prices in the next few months. For fuels alone, we estimate a gap between the prices of domestic gas (at the refinery) and international gas (in BRL) of approximately 10%. If the domestic fuel price is cut to close this gap, we estimate that the IGP would fall back around 15bps and the IPCA would recede 20bps in the next months. When added to other factors, such as (i) increased rainfall, marginally reducing hydrology risks for the next few months; (ii) a milder impact of higher freight costs; and (iii) anchored expectations, this points to a leveled risk balance for inflation. Our forecasts for IPCA inflation of 4.4% in 2018 and 4.25% in 2019 remain unchanged.
- **The FOMC adopted a more hawkish tone in its latest minutes.** The document once again paints a more optimistic picture regarding U.S. growth and points out that the inflation outlook is around the target. However, there was also a warning regarding some evidence of pressure on prices, due to the heated economy and high import tariffs. In addition, the FOMC underlined that the worsened risk perception regarding emerging economies (particularly Argentina and Turkey) could affect the U.S. economy. On the other hand, industrial production results in September and the first PMIs in October still point to a robust expansion. We believe the Federal Reserve will continue to gradually tighten monetary policy in the U.S. and forecast the next increase in the base rate in December, with two more in 2019.
- **The global scenario remains challenging for emerging countries, as the outlook for Chinese growth continues to deteriorate, despite policy efforts to halt the slide.** China's GDP grew 6.5% in the third quarter, below market expectations (6.6%). Credit slowed down, industry lost momentum, and infrastructure investment dropped despite the stimulus measures adopted since the beginning of the second quarter. In Europe, the noise regarding Italy's budget continued to generate volatility.

Weekly outlook

- **The IPCA-15 for October is the main highlight in the domestic agenda next week.** We expect the index to rise 0.63%, with gradual acceleration in core inflation. The Central Bank will publish data on the balance of payments, credit and the fiscal accounts. Finally, October's preliminary corporate confidence indicators will likely show an improvement, reflecting the improvement in financial conditions.
- **U.S. GDP and the ECB policy meeting are the main highlights in the international agenda.** We estimate U.S. growth in the third quarter to rise to 3.5%. In Europe, meanwhile, we believe that the ECB will not signal any changes to the policy but interest may turn to any details regarding the end of the asset purchases program as well as any comments regarding the noise generated by Italy's budget negotiations with the E.U.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 10/22				
08:00	Brazil	FGV: Industrial Confidence (Oct - P)		
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
Tuesday 10/23				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
08:00	Brazil	IBGE: Consumer Price Index (IPCA-15) (Oct)		0.63% (MoM)
-	Brazil	CNI: Industrial Confidence (Sep)		
Wednesday 10/24				
08:00	Brazil	FGV: Consumer Confidence (Oct)		
12:30	Brazil	BCB: Currency Flows (weekly)		
04:30	Germany	Markit: Composite PMI (Oct - P)	55.0	
05:00	Eurozone	Markit: Composite PMI (Oct - P)	54.0	
15:00	USA	Fed: Beige Book		
Thursday 10/25				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		0.57%
08:00	Brazil	FGV: Retail Confidence (Oct)		
10:30	Brazil	BCB: Current Account Balance (Sep)		
10:30	Brazil	BCB: Foreign Direct Investment (Sep)		
05:00	Germany	Ifo Business Climate (Oct)	103.2	
08:45	Eurozone	Central bank meeting		0.0%
09:30	USA	Initial Jobless Claims - Weekly		
Friday 10/26				
08:00	Brazil	FGV: Construction Confidence (Oct)		
08:00	Brazil	FGV: Construction Costs (Oct)		
09:00	Brazil	IBGE: PPI (Sep)		
10:30	Brazil	BCB: Press Release - Monetary Policy (Sep)		
-	Brazil	Central Govt Budget Balance (Sep)		-30,0 billions
-	Brazil	Federal Debt Total (Sep)		
-	Brazil	CNI: Construction Confidence (Sep)		
-	Brazil	Aneel: Tariff range		
09:30	USA	GDP (3Q - P)	3.3% (QoQ)	3.5% (QoQ)
11:00	USA	University of Michigan Sentiment (Oct - F)	98.6	
	Colombia	Central bank meeting	4.25%	4.25%
During the week				
-	Brazil	Tax Collections (Sep)		R\$ 112,0 billions
-	Brazil	Caged: Formal Job Creation Total (Sep)		96k

	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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