

## Global risks, but Brazil's economy shows resilience

### Overview

- **In addition to current inflation coming in below expectations, the balance of risks has seen some improvement.** October's mid-month consumer inflation index (IPCA-15) stood at 0.58%, with food and service prices rising less than expected in the period. Even though core price readings show a 4% inflation rate for the last 3 months, current inflation numbers continue to suggest a favorable inflation trend. The balance of risks improved because: (i) the primary shock resulting from the risk of the exchange rate stabilizing at BRL/USD 4.20 has subsided; (ii) this currency relief has a direct impact on fuel prices, which should be reflected in upcoming reports; and (iii) the water levels in reservoirs that feed some of the country's hydroelectric power plants have improved, which could lead to short-term relief if electricity prices are lowered in December (from a red-flag to a yellow-flag surcharge). On the other hand, there is still a high risk that higher wholesale costs will be passed to final consumer prices.
- **External accounts remain in good shape, and the formal labor market is creating new jobs.** The 12-month current account deficit stands at USD 14.5 billion (-0.75% of GDP). The foreign direct investment balance for the last 12 months reached USD 70.8 billion, well above the level needed to cover the current account deficit. Therefore, the external sector is not currently seen as a source of vulnerability to the Brazilian economy. However, the same cannot be said for the fiscal situation, which requires adjustments on the expenditure side – particularly when it comes to the social security system – in order for the government to stay under the spending cap. On the activity side, the formal labor market is back to recording net job creation, as 49,000 new jobs were created in the 3 months ending in September – enough to maintain a stable unemployment rate. The still incipient recovery was driven mostly by gains in the service industry. Wages remain muted, due to the amount of slack in the labor market.
- **It was another negative week for international stock markets, which, in our view, reflect imbalances in global economic policy.** While the U.S. continues to see very robust growth, other advanced and emerging economies have shown signs of slowing – including China, which is now expected to experience a downturn. Trade tensions are already having a significant impact on world exports, particularly in countries that are more reliant on trade, such as South Korea. Growth in the U.S. is even expected to slow down as the positive effects from the tax cuts dissipate. As a result, the international environment remains quite challenging, with recent adjustments in asset prices and increased noise in the data over time.

### Weekly outlook

- **Brazil will elect its next president in the weekend and the Monetary Policy Committee (Copom) will announce its decision.** The newly-elected president is expected to start announcing names of the likely members of his cabinet, as well as top items on his agenda. We expect Copom to keep interest rates unchanged, as it should acknowledge improvements to the balance of risks and to inflation scenarios for the foreseeable future. Manufacturing activity and unemployment numbers for September will also be released.
- **On the international front, highlights include Eurozone Q3 GDP, U.S. job figures, and October's preliminary economic data for China and the U.S.** U.S. job figures and manufacturing activity data are expected to confirm the current trend of strong growth, and we will keep a close eye on consumer inflation and wage numbers that will be released throughout the week. In Europe, we expect the GDP to pick up from the second quarter, registering growth of approximately 0.6%. Finally, downward surprises with the latest data from China and other Asian countries have heightened awareness for October's figures.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 10/29</b>				
08:00	Brazil	FGV: Industrial Confidence (Oct)		
08:00	Brazil	FGV: Services Confidence (Oct)		
08:25	Brazil	BCB: Focus Survey (weekly)		
10:30	Brazil	BCB: Press Release - Fiscal Policy (Sep)		
15:00	Brazil	MDIC: Trade Balance (weekly)		
09:30	USA	Personal Income (Sep)	0.4% (MoM)	
09:30	USA	Personal Spending (Sep)	0.4% (MoM)	
<b>Tuesday 10/30</b>				
08:00	Brazil	FGV: IGP-M (Oct)		
09:00	Brazil	IBGE: Unemployment Change		12.00%
07:00	Eurozone	GDP (3Q - P)	0.4% (QoQ)	0.6% (QoQ)
10:00	Germany	CPI (Oct - P)	0.1% (MoM)	
11:00	USA	Consumer Confidence (Oct)	135.9	
11:00	Mexico	GDP (3Q - P)		
22:00	China	Composite PMI (Oct)	50.9	
-	Japan	Central bank meeting		
<b>Wednesday 10/31</b>				
12:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	BCB: Central bank meeting		6.50%
-	Brazil	CNI: Consumer Confidence (Oct)		
09:15	USA	Employment Change (ADP) (Oct)	190 k	
<b>Thursday 11/01</b>				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
09:00	Brazil	IBGE: Industrial Production (PIM) (Sep)		-1.1% (MoM)
10:00	Brazil	Markit: PMI Manufacturing (Oct)		
15:00	Brazil	MDIC: Trade Balance - monthly (Oct)		US\$ 6.6 b
-	Brazil	CNI: Capacity Utilization (Sep)		
-	Brazil	Fenabreve: Vehicle sales (Oct)		
06:30	United Kingdom	Markit: Manufacturing PMI (Oct)	53.0	
09:00	United Kingdom	Central bank meeting	0.75%	0.75%
09:30	USA	Initial Jobless Claims (weekly)		
11:00	USA	ISM Manufacturing (Oct)	59.5	
<b>Friday 11/02</b>				
-	Brazil	National Holiday - Closed markets		
05:55	Germany	Markit: Manufacturing PMI (Oct - F)		
06:00	Eurozone	Markit: Manufacturing PMI (Oct - F)		
09:30	USA	Unemployment Rate (Oct)	3.7%	
09:30	USA	Change in Nonfarm Payrolls (Oct)	190 k	

	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

## Technical Staff

**Department of Economic Research and Studies** Fernando Honorato Barbosa

### Economists

Andréa Bastos Damico / Constantin Jancsó / Ellen Regina Steter Hanna Farath / Estevão Augusto Oller Scripilliti / Fabiana D'Atri / Igor Velecico / Leandro Câmara Negrão / Mariana Silva de Freitas / Myriã Tatiany Neves Bast / Priscila Pacheco Trigo / Rafael Martins Murrer / Robson Rodrigues Pereira / Thomas Henrique Schreurs Pires

### Interns

Ana Beatriz Moreira dos Santos / Camila Medeiros Tanomaru / Daniel Funari Fouto / Felipe Yamamoto Ricardo da Silva / Isabel Cristina Elias de Souza Oliveira / Lucas Maia Campos / Renan Bassoli Diniz / Thaís Rodrigues da Silva

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