

Central Bank acknowledges improvement in balance of risks of inflation

Overview

- **At its last meeting, the Monetary Policy Committee (Copom) kept the benchmark Selic rate at 6.5%, and acknowledged that the balance of risks to inflation improved.** In its statement, the Central Bank acknowledged that the economy is still recovering gradually, and that core inflation rates remain at appropriate levels. The Committee also released updated inflation forecasts. The scenario in which the exchange rate and the benchmark interest rate remain at current levels has IPCA inflation at 4.2% in 2019 and 4.1% in 2020, both of which are within the center of the target for these years. The statement reaffirmed the Copom's view that emerging economies continue to face a challenging environment, with normalization of interest rates in developed economies and uncertainty in global trade. Lastly, it pointed to an improvement in the balance of risks and that the scenario calls for the Central Bank staying the course with a simulative monetary policy. At the same time, the committee once again noted that "this stimulus could be phased out if the inflation outlook in a horizon relevant to monetary policy and/or its balance of risks deteriorates," mentioning potential frustrations with the reform agenda as one of these risks. We believe the Selic rate will rise gradually in 2019, to 8.0%.
- **Activity indicators reinforce expectations for a gradual growth recovery in the third quarter.** Manufacturing output fell 1.8% in September, a third straight monthly decline. When we take into account the positive dynamics of the latest numbers from the retail and services sectors, we continue to expect GDP to grow 0.5% in the third quarter, at the margin. In the same vein, we have already seen an improvement in business confidence in October, suggesting that this indicator will continue to recover as we enter the fourth quarter.
- **Wholesale prices remain pressured, but are starting to show signs of slowing down.** The General Market Price Index (IGP-M) rose 0.89% in October. Despite this significant increase, however, the index remained on a downward overall trajectory: previous data had indicated a 1.52% increase. The recent appreciation of the BRL, the fall in international oil prices and a slowdown in agricultural prices are expected to provide some relief to wholesale prices in the coming months. This is another factor that suggests an improved balance of risks to the inflation outlook, despite lingering concerns over the fact that industrial wholesale prices remain under pressure.
- **The global environment continued to show signs of a more widespread slowdown in activity.** The Eurozone GDP reading was a negative surprise, showing 0.2% growth for the third quarter (against expectations for 0.4% growth). The reading was dragged down by a downward surprise from Italy, which has had trouble getting its budget approved by the European Union, and whose GDP growth was flat for the quarter. Asian economic activity has also been falling below expectations, as confirmed by South Korea's manufacturing output numbers for September and China's activity PMI for October.
- **In the U.S., meanwhile, activity indicators remain robust and inflation is picking gradually.** September's Core PCE rose 0.2% for the month as the 12-month rate reached 2.0%, while nominal consumption was up 0.4% on the margin. Payroll numbers for October will be released on Friday, and are expected to show that the labor market remains on a strong footing. This global environment continues to be a challenging one for emerging market assets.

Weekly outlook

- **The IPCA-15 for October is the main highlight in the domestic agenda next week.** We expect the index to rise 0.55%, with gradual acceleration in the cores. The Monetary Policy Committee (Copom) will release the minutes for its latest meeting, which will provide additional details on the balance of risks in the Central Bank's scenario. October's IGP-DI should show wholesale prices continuing to ease; we expect the index to come in at 0.37%.
- **The FOMC meeting and U.S. economic activity indicators are in focus.** The FOMC is expected to keep interest rates steady at 2.25%, but should continue to indicate a more optimistic view on growth and to state that inflation expectations are consistent with the target – with some reservations. Meanwhile, we expect composite PMIs (manufacturing and services) to show a more widespread slowdown for the world's major economies.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 11/05				
05:00	Brazil	FIPE: Consumer Price Index - monthly (Oct)		
08:25	Brazil	BCB: Focus Survey		
07:30	United Kingdom	Markit: Manufacturing PMI (Oct)		
13:00	USA	ISM Services (Oct)	59.5	
Tuesday 11/06				
08:00	Brazil	BCB: Copom minutes		
10:00	Brazil	Markit: Composite PMI (Oct)		
-	Brazil	Serasa experian: Retail Activity Index (Oct)		
06:55	Germany	Markit: Composite PMI (Oct - F)	52.7	
07:00	Eurozone	Markit: Composite PMI (Oct - F)	52.7	
Wednesday 11/07				
08:00	Brazil	FGV: IGP-DI (Oct)		0.33% (MoM)
09:00	Brazil	IBGE: Consumer Price Index (IPCA) (Oct)		0.55% (MoM)
11:40	Brazil	Anfavea: Vehicle Production (Oct)		
12:30	Brazil	BCB: Currency Flows (weekly)		
12:30	Brazil	BCB: Commodity Price Index (Oct)		
05:00	Germany	Industrial Production (Sep)		
Thursday 11/08				
08:00	Brazil	FGV: Employment Indicators (Oct)		
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
09:00	Brazil	IBGE: Agricultural production Survey (Oct)		
09:00	Brazil	Conab: 2nd Grains crop survey 2018/2019		
11:30	USA	Initial Jobless Claims - Weekly		
17:00	USA	Central bank meeting	2.25%	2.25%
21:00	Peru	Central bank meeting	2.75%	2.75%
23:30	China	CPI (Oct)		
-	USA	USDA: World Agricultural Supply and Demand Estimates		
Friday 11/09				
08:00	Brazil	FGV: IGP-M (1st preview) (Nov)		
09:00	Brazil	IBGE: Industrial Production - regional (Sep)		
07:30	United Kingdom	GDP (3Q - P)	0.6% (QoQ)	
13:00	USA	University of Michigan Sentiment (Nov - P)	97.9	
During the week				
	China	Trade Balance (Oct)		

	2016	2017	2018	2019
Consumer inflation - IPCA (%)	6.29	2.95	4.40	4.25
GDP growth (%)	-3.6	1.0	1.1	2.8
Industrial Production (%)	-6.4	2.5	1.5	3.0
Retail Sales (%)	-8.7	4.0	5.5	5.5
Unemployment Rate (% of labor force, avg)	11.5	12.7	12.3	11.9
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	-118.0	-94.7
Gross Debt (% of GDP)	70.0	74.0	75.7	76.5

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