

## Current inflation data gives more time to Copom assess changes in balance of risks

### Overview

- **October's inflation reading at benign levels.** The Consumer Price Index (IPCA) came in at 0.45% in October, below our forecast (0.55%) and median expectations (0.56%). The downward surprise was due to price stability in both food and core items (especially services). In fact, service prices remain at appropriate levels and below the center of the central bank target (at shorter horizons such as 3 and 6 months). It is worth noting that the next reading is very likely to show deflation (our current forecast stands at -0.06%). The expected deflation reflects both a likely decrease in consumer fuel prices and an improved rainfall forecast, which would increase the water levels in the country's hydropower plant reservoirs. In other words, despite the risk of wholesale price pressures (industrial products) passing through to retail, the recent exchange rate appreciation, the fall in international oil prices and improved water levels at hydropower plant reservoirs will help keep inflation at benign levels in the coming months, which gives the Monetary Policy Committee (Copom) time to assess any changes to the balance of risks to prices.
- **The Copom meeting minutes reinforced expectations that the Selic benchmark rate will be kept unchanged at the next few meetings, as long as inflation expectations do not become unanchored and the balance of risks does not tilt to the upside.** The committee reiterated its previous views that monetary policy normalization will only take place in case of a significant downturn in the outlook for inflation and its balance of risks, and that any rate increases are likely to be gradual. The inflation forecasts contained in the document are very close to medium-term targets, suggesting a relatively benign picture for price changes. In addition, the Committee also announced that core readings have moved from "low" to "appropriate" levels, but consistent with inflation targets. The Central Bank noted that the degree of asymmetry in the balance of risks, which is compatible with the maintenance of a easy monetary policy. Given our base scenario and the signals from the Copom, we believe that the interest rate will remain stable at 6.50% through 2018, and will end 2019 at 8.00%.
- **Eurozone PMIs confirmed the slowing momentum of the European economy.** The composite Eurozone PMI fell 1.0 point month-to-month in October, down to 53.1 points. Looking at the individual countries in the region, both the German and Italian composite indices fell, while France's remained practically flat. In the U.S., the Service ISM index was also down for the month, but remains at a high level (60.3 points) – which indicates that the U.S. economy will remain on a strong growth trajectory.
- **The FOMC met expectations and reinforced signals that it will continue the gradual tightening of interest rates.** In a statement that featured a neutral tone and very marginal changes when compared to its previous communication, the Fed's monetary policy committee noted some improvement in the labor market and moderation in business investment. In our view, these changes suggest that the balance of risks did not change, which still translates into the continued tightening of interest rates at a very gradual pace.

### Weekly outlook

- **Domestically, the focus is on the September IBC-Br, which is expected to post a decline.** We expect the IBC-Br (a monthly proxy for the GDP) to decrease 0.6% on the margin in September. We believe that both the volume of retail sales excluding automobiles and construction material (PMC) and the volume of services (PMS) will see a 0.4% decline on the margin. If they turn out to be accurate, these numbers will be consistent with a gradual economic recovery in 2018 (and 1.1% GDP growth for the year). For 2019, the recovery is expected to pick up.
- **Internationally, U.S. inflation, industry and retail data are in the spotlight.** September's industry and retail numbers are expected to reaffirm the continued strong growth of the U.S. economy. On the other hand, we expect to see renewed upward pressure on headline inflation, while core readings should remain within target. We will also keep an eye on the Eurozone and China's activity data, which could confirm the slowing trend suggested by the latest indicators.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 11/12</b>				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		0.45%
8:25	Brazil	BCB: Focus Survey (weekly)		
15:00	Brazil	MDIC: Trade Balance (weekly)		
-	USA	National Holiday - Closed markets		
<b>Tuesday 11/13</b>				
09:00	Brazil	IBGE: Retail sales (PMC) (Sep)	0.1% (MoM)	-0.4% (MoM)
05:00	Germany	CPI (Oct - F)	0.2% (MoM)	
08:00	Germany	ZEW Survey Expectations (Nov)	-25.9	
21:50	Japan	GDP (3Q - P)	-0.3% (QoQ)	
<b>Wednesday 11/14</b>				
08:00	Brazil	FGV: IGP-10 (Nov)		-0.24%
9:00	Brazil	IBGE: Quartely employment survey (3Q)		
9:00	Brazil	IBGE: Services Sector Volume (PMS) (Sep)		-0.4% (MoM)
12:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	Fiesp/Ciesp: Industrial Employment Index (Oct)		
00:00	China	Fixed Assets Investments (Oct)	5.5%	
00:00	China	Industrial Production (Oct)	6.3% (YoY)	
05:00	Germany	GDP (3Q - P)	-0.1% (QoQ)	
08:00	Eurozone	GDP (3Q - P)	0.2% (QoQ)	
08:00	Eurozone	Industrial Production (Sep)	0.3% (YoY)	
11:30	USA	CPI (Oct)	0.3% (MoM)	
21:05	USA	Fed: J. Powell's speech		
<b>Thursday 11/15</b>				
-	Brazil	National Holiday - Closed markets		
11:30	USA	Fed Philadelphia Outlook (Nov)	21.0	
11:30	USA	Initial Jobless Claims - Weekly		
11:30	USA	Índice Empire Manufacturing de atividade (Nov)	19.5	
14:00	Colombia	GDP (3Q - P)	0.4%(QoQ)	
17:00	Mexico	Central bank meeting	8.00%	8.00%
<b>Friday 11/16</b>				
08:30	Brazil	BCB: Economic Activity Index (Sep)		-0.6% (MoM)
08:00	Eurozone	CPI (Oct)	0.2% (MoM)	
12:15	USA	Industrial Production (Oct)	0.2% (MoM)	

	2017	2018	2019
Consumer inflation - IPCA (%)	2.95	4.40	4.25
GDP growth (%)	1.0	1.1	2.8
Industrial Production (%)	2.5	1.5	3.0
Retail Sales (%)	4.0	5.5	5.5
Unemployment Rate (% of labor force, avg)	12.7	12.3	11.9
Outstanding Credit Growth (%)	-0.5	4.0	8.3
Trade Balance (USD bn)	64.0	57.1	56.1
Current Account (USD bn)	-9.8	-13.2	-13.5
Exchange Rate (BRL/USD, eop)	3.31	3.70	3.70
Selic Rate (% eop)	7.00	6.50	8.00
Primary Balance (BRL bn)	-111	-117.9	-94.7
Gross Debt (% of GDP)	74.0	75.7	76.5

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