

## Tame inflation data give Central Bank of Brazil more time before it starts raising interest rates in 2019

### Overview

- **The IPCA consumer price index fell 0.21% in November, and consumer inflation is now expected to end the year at 3.8%.** Recent data have shows that BRL depreciation in the middle of the year is being passed through to final prices slower than the historical norm, mostly due to anchored inflation expectations and a significant amount of slack in the economy. In addition, downside inflation risks have decreased, with increased rainfall, falling fuel prices and the appreciation of the Brazilian real in recent months. Thus, the risk of primary shocks on inflation has been gradually fading, and we noticed that there was no contagion from the previous shock. Thus, we have revised our inflation forecast for 2018 from 4.4% to 3.8%. For 2019, we expect a more dynamic economy and a more favorable balance of risks, and we have adjusted our IPCA projections from 4.25% to 4.00%.
- **Manufacturing output came in under expectations, growing just 0.2% in October, but conditions are in place for stronger growth in 2019.** The industry continues to face a slow recovery, particularly when it comes to production more closely associated with investments. The downward surprise led us to revise our fourth-quarter GDP growth forecast, from 0.3% to 0.1%. We expect growth to pick up to 2.8% in 2019, on the back of improved business and consumer confidence, low interest and inflation rates, and progress in structural reforms. Even though we expect growth to accelerate, the downward inflation surprise caused us to revise our benchmark Selic rate forecast for year-end 2019, from 8.00% to 7.25%. Tame inflation gives the Central Bank time to assess the effects of growth recovery on inflation and make gradual adjustments in the second semester, as it starts to set its focus on 2020.
- **The G-20 signaled that trade tensions may be easing, but U.S.-China relations faced new strains later in the week, which also saw a sharp drop in oil prices.** In our assessment, the end result of the conflict continues to be a global economic slowdown caused by the instability in trade relationships. Although the U.S. economy continues to grow at a solid pace, inflation remains muted and wage increases under control. In addition, the prospects of dwindling global growth and a domestic slowdown as the effects of the fiscal stimulus fade, the Fed has already signaled that it can make even more gradual adjustments to the interest rate. While this may be good news for emerging market flows, there are still questions about the magnitude of the slowdown in global growth, and, therefore, on what will be the final vector for emerging countries such as Brazil.

### Weekly Outlook

- **The highlights of the week include a Monetary Policy Committee (Copom) decision and activity data for October.** While the Central Bank is expected to keep interest rates at 6.5%, market focus will be on the balance of risks for inflation – which could be more even, as opposed to the upward tilt reflected in the last official statement by the committee. For October's activity data, we expect growth to slow down slightly in the service sector (+0.4%), while retail sales will post a small decline (-0.1%).
- **Internationally, markets will be on the lookout for U.S. inflation and Chinese activity numbers.** The U.S. will also release retail sales and inflation indicators for November, which are expected to show that growth is still robust, with no significant inflationary pressure. In the Eurozone, the ECB has a meeting scheduled for the upcoming week, but we do not expect any changes to monetary policy. Finally, China will announced several indicators for November, which should confirm the ongoing economic downturn, which can be accentuated by the trade restrictions imposed in the past few months.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 12/10</b>				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
<b>Tuesday 12/11</b>				
05:00	Brazil	FIPE: Consumer Price Index (Nov)		0.04% (MoM)
08:00	Brazil	FGV: IGP-M (1st preview) (Dec)		
09:00	Brazil	Conab: 3th Grains crop survey 2018/2019		
09:00	Brazil	IBGE: Agricultural production Survey (Nov)		
08:00	Germany	ZEW Survey Expectations (Dec)		
-	USA	USDA: World Agricultural Supply and Demand Estimates		
<b>Wednesday 12/12</b>				
12:30	Brazil	BCB: Currency Flows (weekly)		
18:20	Brazil	BCB: Central bank meeting	6.50%	6.50%
08:00	Eurozone	Industrial Production (Oct)		
11:30	USA	CPI (Nov)	0.0% (MoM)	
<b>Thursday 12/13</b>				
09:00	Brazil	IBGE: Retail sales (PMC) (Oct)		-0.1% (MoM)
05:00	Germany	CPI (Nov - F)		
10:45	Eurozone	Central bank meeting		0.00%
11:30	USA	Initial Jobless Claims - Weekly		
21:00	Peru	Central bank meeting		2.75%
<b>Friday 12/14</b>				
08:00	Brazil	FGV: IGP-10 (Dec)		-1.14% (MoM)
09:00	Brazil	IBGE: Services Sector Volume (PMS) (Oct)		0.4% (MoM)
11:00	Brazil	Fiesp/Ciesp: Industrial Employment Index (Nov)		
00:00	China	Industrial Production (Nov)		
00:00	China	Fixed Assets Investments (Nov)	5.8%	
06:30	Germany	Markit: Composite PMI (Dec - P)		
06:30	Eurozone	Markit: Composite PMI (Dec - P)		
12:15	USA	Industrial Production (Nov)	0.4% (MoM)	
<b>During the week</b>				
-	China	Trade Balance (Nov)		
-	Japan	GDP (3Q - P)		-0.5% (QoQ)

	2017	2018	2019
Consumer inflation - IPCA (%)	2.95	3.80	4.00
GDP growth (%)	1.1	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	3.80	3.70
Selic Rate (% eop)	7.00	6.50	7.25
Primary Balance (BRL bn)	-111	-116.9	-93.4
Gross Debt (% of GDP)	74.0	76.0	77.1

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