

## Fed slashes interest rate amid coronavirus uncertainty

### Overview

- **Indicators suggest a global economic slowdown in February, due to the effects of the coronavirus epidemic.** China's PMI fell sharply last month, but daily data indicate an economic recovery is underway in March, in line with the decline in new cases. On the other hand, the epidemic continued to spread in other countries. So far, global indicators have shown that the effects were concentrated in China in February. The Eurozone and the U.S. printed growth in economic activity over the same period, but we believe that the supply shock from China will have a major impact on global manufacturing in March and April.
- **Uncertainties surrounding the actual impact on the economy led the Fed to act preemptively and slash interest rates.** At an emergency meeting, officials voted to cut the U.S. interest rate by 0.5 p.p., lowering it to the 1.00%-1.25% range. In the announcement, the FOMC said that the coronavirus poses a risk to global activity, although its overall effects remain very uncertain. So far, the US economy remains at a strong pace, with the creation of 273,000 jobs in February, above expectations.
- **In Brazil, shortly after the Fed's decision, the Central Bank issued a statement in which it said it was committed to monitoring the effects of Covid-2019 on economic activity and asset prices over the next two weeks, until the next meeting of the Monetary Policy Committee.** As a result, markets have already priced in new cuts to the Selic rate, which would reduce the interest rate differential between Brazil and the rest of the world, causing the BRL to lose ground against the dollar and emerging market currencies.
- **The effects of the coronavirus on domestic activity should take place through the global slowdown.** For now, our exports and imports have not been affected by China's economic downturn. However, in the coming weeks we expect a temporary decline in exports to China (and the rest of the world) and in imports of Chinese goods.
- **The GDP growth of 1.1% in 2019 was driven by household consumption.** In the last quarter of the year, the GDP grew 0.5% on the margin. Indicators released earlier this year point to a more moderate growth in economic activity, which will still be impacted by the global slowdown.

### The week ahead

- **The highlights next week include the February IPCA, along with January activity indicators.** We expect the IPCA to come in at 0.15%, with the 12-month change in core prices at under 3.0%. Also on the radar is January's manufacturing output, which we expect to come in at +0.4%, confirming the moderating trend seen at the beginning of the year. Finally, net formal job creation for January is expected to come in at 74,000 jobs.
- **On the foreign front, the focus will continue to be on the number of new coronavirus cases and on Eurozone monetary policy.** The ECB is expected to keep interest rates unchanged, but it may signal that it is more willing to expand the stimulus programs, should the European economy see any additional slowdown due to the coronavirus.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 03/09</b>				
08:00	Brazil	FGV: IGP-DI (Feb)		-0.11 (MoM)
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
04:00	Germany	Industrial Production (Jan)	-3.8% (YoY)	
22:30	China	CPI (Feb)	5.2% (YoY)	
20:50	Japan	GDP (4Q - P)*	-1.7% (QoQ)	
*The indicator will be released on March, 8th				
<b>Tuesday 03/10</b>				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
09:00	Brazil	Conab: 6th Grains crop survey 2019/2020 (Mar)		
09:00	Brazil	IBGE: Industrial Production (PIM) (Jan)		0.4% (MoM)
09:00	Brazil	IBGE: Agricultural production Survey (Feb)		
07:00	Eurozone	GDP (4Q - P)	0.1% (QoQ)	
-	USA	USDA: World Agricultural Supply and Demand Estimates		
<b>Wednesday 03/11</b>				
08:00	Brazil	FGV: IGP-M (1st preview) (Mar)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA) (Feb)		0.15% (MoM)
14:30	Brazil	BCB: Currency Flows (weekly)		
09:30	USA	CPI (Feb)	0% (MoM)	
<b>Thursday 03/12</b>				
09:00	Brazil	IBGE: Industrial Production - regional (Jan)		
07:00	Eurozone	Industrial Production (Jan)	-3.1% (YoY)	
09:30	USA	Initial Jobless Claims - Weekly	218k	
09:45	Eurozone	Central bank meeting	0%	0%
20:20	Peru	Central bank meeting		2.25%
<b>Friday 03/13</b>				
04:00	Germany	CPI (Feb - F)	0.4% (MoM)	
11:00	USA	University of Michigan Sentiment (Mar - P)	95	
<b>During the week</b>				
-	Brazil	Caged: Formal Job Creation Total (Jan)	77.5k	74k

	2017	2018	2019	2020
<b>GDP growth (%)</b>	1.3	1.3	1.1	2.5
<b>Consumer inflation - IPCA (%)</b>	2.95	3.75	4.3	3.6
<b>Wholesale inflation - IGP-M (%)</b>	-0.5	7.5	7.3	4.5
<b>Selic Rate (% eop)</b>	7.00	6.50	4.50	4.25
<b>Exchange Rate (BRL/USD, eop)</b>	3.31	3.87	4.03	4.00
<b>Industrial Production (%)</b>	2.5	1.0	-1.1	2.0
<b>Retail Sales (%)</b>	4.0	5.0	3.9	3.7
<b>Job Creation (in thousands)</b>	1899	966	1816	1536
<b>Unemployment Rate (% of labor force, avg)</b>	12.7	12.3	11.9	11.2
<b>Outstanding Credit Growth (%)</b>	-0.5	5.0	6.5	9.4
<b>Trade Balance (USD bn)</b>	64.0	53.0	39.4	36.1
<b>Current Account (USD bn)</b>	-15.0	-41.5	-50.8	-55.3
<b>Primary Balance (BRL bn)</b>	-111	-108.3	-62	-91
<b>Gross Debt (% of GDP)</b>	74.1	76.5	75.8	74.3

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