

Copom signals that interest rates will remain unchanged in the coming months

Overview

- **Buoyed by an improved balance of risks, the Monetary Policy Committee (Copom) decided this week to keep the benchmark interest rate at 6.50%.** In its statement, the committee acknowledged that current inflation is on a benign trend, while core prices remain at “appropriate or comfortable” levels. The most important point in the document was the recognition that the balance of risks improved since the last meeting, as the intense upward risks associated with the uncertainty over the progress of economic reforms have subsided, while the downward risks related to the slack in the economy have increased. According to the statement, the CB inflation forecasts receded since the last meeting, and are now below the center of the target through the end of 2019 before reaching the target in 2020. The latest communication also dropped the phrase warning that a reduction in monetary stimuli would be appropriate if the balance of risks deteriorated. Considering our base scenario (which does not foresee any new shocks that could tilt the balance of risks to inflation) and the statement issued by Copom, we expect the benchmark Selic rate to remain unchanged throughout the entire first half of 2019, with a gradual tightening cycle in the second half of the year, bringing the policy rate to 7.25% by the end of the year.
- **In October, economic activity indicators were somewhat weaker than expected, but the economy remains on a gradual recovery path.** Retail sales and data on the services sector were both below-consensus in October. For retail, which posted a second straight decline, restricted sales fell 0.4% on the margin. We believe that some of the retraction was due to consumers postponing their purchases to take advantage of Black Friday sales, the impact of which will be reflected in the numbers for November. This assessment is supported by the fact that the formal job market and consumer confidence both remain on a steady recovery track. As for services, the 0.1% increase from September offset some of the previous month’s decline (0.3%), but also failed to meet expectations. Thus, we expect fourth-quarter GDP to grow 0.1% against the third quarter, before picking up in the coming quarters.
- **U.S. inflation cools and Chinese economy slows down.** U.S. inflation was flat in November as oil prices declined. However, this short-term price relief is not likely to result in a change of course for the Federal Reserve, which is expected to raise the benchmark interest rate next week on the back of strong economic growth and a heated job market. In China, the year-on-year growth rates for manufacturing output (5.4%) and retail sales (8.1%) came in below expectations in November, reinforcing the ongoing slowdown that has been evident in recent foreign trade indicators. Therefore, we expect the Chinese economy to continue to face significant challenges, which will need to be addressed with new stimuli in the coming months. Despite recent signs that China is willing to make concessions and that the U.S. is starting to soften its tone, there is still some lingering uncertainty over trade tensions.

Weekly Outlook

- **Copom minutes, the inflation report and the Central Bank’s economic activity index (IBC-BR) are the highlights on the domestic calendar.** We expect the October IBC-BR to come in flat from September, once again reinforcing the moderate pace of growth in the Brazilian economy. The Copom minutes (Tuesday) and the Inflation Report (Thursday) should provide more detailed information on the improvement to the balance of risks and to the inflation forecasts issued by the Central Bank.
- **On the international calendar, the focus will be on third-quarter GDP figures for the U.S. and the Fed’s monetary policy decision.** We expect third-quarter GDP numbers to confirm that the U.S. economy remains on a strong growth trajectory. We do not expect any surprises from the year’s last meeting of the FOMC, which should announce a 0.25% interest rate hike. More importantly, however, will be the Fed’s tone about its upcoming moves, especially if we consider the softer tone adopted in previous announcements, and the fact that its chairman and directors have been sounding more dovish.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 12/17				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
08:25	Brazil	BCB: Focus Survey		
08:30	Brazil	BCB: Economic Activity Index (Oct)		0.0% (MoM)
15:00	Brazil	MDIC: Trade Balance (weekly)		
-	Brazil	CNI: Industrial Confidence (Dec)		
08:00	Eurozone	CPI (Nov)		
11:30	USA	Índice Empire Manufacturing de atividade (Dec)	20.0	
Tuesday 12/18				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		0.10% (MoM)
08:00	Brazil	FGV: IGP-M (2nd preview) (Dec)		
08:00	Brazil	BCB: Copom minutes		
-	Brazil	CNI: Consumer Confidence (Dec)		
07:00	Germany	Ifo Business Climate (Dec)		
17:00	Argentina	GDP (3Q - P)		-3.5% (YoY)
Wednesday 12/19				
12:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	CNI: Industrial Confidence (Nov)		
-	Brazil	CNI: Construction Confidence (Nov)		
17:00	USA	Central bank meeting	2.50%	2.50%
Thursday 12/20				
08:00	Brazil	BCB: Inflation report		
8:00	Brazil	FGV: Industrial Confidence (Dec - P)		
10:00	United Kingdom	Central bank meeting		0.75%
11:30	USA	Fed Philadelphia Outlook (Dec)	15.0	
11:30	USA	Initial Jobless Claims - Weekly		
17:00	Mexico	Central bank meeting		8.25%
Friday 12/21				
08:00	Brazil	FGV: Industrial Confidence (Dec - P)		
08:00	Brazil	FGV: Construction Costs (Dez)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA-15) (Dec)		-0.06%
10:30	Brazil	BCB: Current Account Balance		
-	Brazil	Federal Debt Total (Nov)		
07:30	United Kingdom	GDP (3Q - P)		0.6% (QoQ)
11:30	USA	GDP (3Q - F)	3.5% (QoQ)	3.5% (QoQ)
13:00	USA	University of Michigan Sentiment (Dec - F)	97.5	
13:00	USA	Personal Income (Nov)	0.3% (MoM)	
13:00	USA	Personal Spending (Nov)	0.3% (MoM)	
-	Colombia	Central bank meeting	4.25%	4.25%
During the week				
-	Brazil	Caged: Formal Job Creation Total (Nov)		30 mil
-	Brazil	Tax Collections (Nov)		R\$ 112.6 b
-	Japan	Central bank meeting		0.10%

	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
Job Creation (in thousands)	263.5	1359.7	1288.1
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

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 Scipilliti / 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 / Thiago Coraucci de Angelis / Thomas Henrique Schreurs Pires

Interns

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

economiaemdia.com.br

DEPEC – BRADESCO is not responsible for any acts/decisions made based on the information disclosed in its publications and projections. All data or opinions contained in the information herein is carefully checked and prepared by fully qualified professionals, but should not be taken, under any circumstances, as a basis, support, guidance or standard for any document, assessment, judgment or decision-making, of a formal or informal nature. Thus, we emphasize that all consequences and responsibility for the use of any data or analysis of this publication are assumed solely by the user, exempting BRADESCO from all actions resulting from the use of this material. We also point out that access to this information implies acceptance of this term of responsibility and usage. The total or partial reproduction of this publication is strictly prohibited, except with authorization from Banco BRADESCO or full citation of the source (naming the authors, the publication and Banco BRADESCO).