Prospects remain favorable for the robust reform agenda in Brazil, despite an unstable global environment

Overview

- **President Jair Bolsonaro was sworn in on Tuesday and his ministers began to announce the first measures and priorities of thee new administration this week**. The new Minister of the Economy, Paulo Guedes, indicated that on economic issues, there would be three priorities: social security reform, tax simplification and privatization. The latest news regarding social security reform suggests the government would seek a minimum age of 65, which would be reached after a 20-year transition period. The Minister also spoke on reviewing the social security rules and registrations, which could generate significant savings in the coming years. Currently, about 48% of all federal spending is destined to pay for social security (INSS), a number that will continue to rise with the aging population. The reform may ease some pressure from this spending item and allow adjustments to the fiscal accounts, reducing the high gross debt as a proportion of the GDP in the coming years. Guedes also emphasized tax simplification and a reduction in the number of Government-owned companies as key objectives, but did provide any details. The approval of a strong reform agenda would contribute to expectations for sustained growth in the medium term, including the maintenance of interest rates at lower levels.
- **The trade balance closed 2018 at +USD 58.3 billion, with strong exports.** Imports still reflected the gradual pace of economic recovery and reached USD 181.2 billion in the period. We expect imports to accelerate this year as growth recovery takes a turn for the better. A 10% rise in exports already shows very strong performance, totaling USD 239.5 billion. Even with a 15% drop in exports to Argentina last year and uncertainties on the effects of the trade war on world trade, practically stable shipments of commodities and the terms of trade in the year explain the good result.
- **Strong volatility marked yet another week in the global scenario, with uncertainties on the slowing of the world economy.** Deceleration in China has been more intense than expected, as indicated by the December PMI, which fell below the 50 points water-line. This increased volatility in the financial markets this week and caused a downward review of expected profits for several companies throughout the world. We actually expect a slowdown in the Chinese GDP from 6.5% in 2018 to 6.0% in 2019, already assuming that the stimuli will remain, but without abandoning structural adjustments. At the same time, the U.S. economy shows signs of accommodation, as polls and leading indicators have shown more intense moderation than indicated by actual data. The ISM index fell from 59.3 to 54.1 between November and December, while non-farm payrolls grew by 312k in December, with hourly wages rising 3.2% y/y. The final vector for emerging countries is still uncertain: a slowdown in global growth tends to reduce commodity prices and negatively affect currency; on the other hand, a softer cooling reduces the intensity of interest tightening in developed countries, redirecting flows that may benefit emerging economies.

Weekly Outlook

- **Highlights next week include the results for November industrial production and the 2018 IPCA.** Industry recovery has been much more moderate than trade, which may limit the growth resumption rate. We projected an industry decline of 0.3% in November, in line with GDP growth of 0.1% in 4Q18. The IPCA should have closed last year with a high of 3.67%, once again below the center of the target and with very favorable dynamics, with cores rising around 3% in the last 6 months.
- **On the international agenda, markets will remain focused on the U.S. agenda (consumer inflation and the minutes of the FOMC's last monetary policy decision).** All eyes will be on detailing the decision that raised the interest rate in December and the Fed's view on the possible effects of the worsening of some financial assets on the U.S. economy. Given the recent slowdown in some indicators, credit and the balance of trade data in China are also worth highlighting. Finally, the Brexit will be discussed once again by the United Kingdom's Parliament on January 9.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 01/07				
08:25	Brazil	BCB: Focus Survey (weekly)		
15:00	Brazil	MDIC: Trade Balance (weekly)		
13:00	USA	ISM Services (Dec)	59.4	
Tuesday 01/08				
08:00	Brazil	FGV: IGP-DI (Dec)		-0.68% (MoM)
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		0.20%
09:00	Brazil	IBGE: Industrial Production (PIM) (Nov)		-0.3% (MoM)
11:20	Brazil	Anfavea: Vehicle Production (Dec)		
05:00	Germany	Industrial Production (Nov)		
Wednesday 01/09				
08:00	Brazil	FGV: Employment Indicators (Dec)		
12:30	Brazil	BCB: Currency Flows (weekly)		
17:00	USA	Fed Minutes		
23:30	China	PPI (Dec)	2.1% (YoY)	
Thursday 01/10				
08:00	Brazil	FGV: IGP-M (1st preview) (Jan)		
09:00	Brazil	IBGE: Agricultural production Survey (Dec)		
09:00	Brazil	Conab: 4th Grains crop survey 2018/2019		
11:30	USA	Initial Jobless Claims - Weekly		
-	Peru	Central bank meeting		
Friday 01/11				
09:00	Brazil	IBGE: Consumer Price Index (IPCA) (Dec)		0.07% (MoM)
09:00	Brazil	IBGE: Industrial Production - regional (Nov)		
-	USA	USDA: World Agricultural Supply and Demand Estimates		
11:30	USA	CPI (Dec)	-0.1% (MoM)	

	2017	2018	2019
Consumer inflation - IPCA (%)	2.95	3.67	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	3.89	3.70
Selic Rate (%, eop)	7.00	6.50	7.25
Primary Balance (BRL bn)	-111	-116.8	-93.3

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