

Consumer inflation ended 2018 below the center of the target

Overview

- **Recent activity indicators reinforce our 0.1% fourth-quarter GDP forecast.** Brazil's industrial production grew just 0.1% in November and is expected to shrink 0.5% to 1.0% in December. In fact, coincident indicators, including auto manufacturing (Anfavea) and toll-paying traffic (ABCR), point to a loss of momentum in the industrial sector. Despite ending the year with 6.7% growth, auto manufacturing (excluding agricultural machinery) was down 6.5% from November; likewise, toll-paying traffic decreased 2.1% in the month. The slow pace of recovery for the industrial sector led us to maintain our forecast for moderate GDP growth in the fourth quarter.
- **Consumer inflation ended 2018 below the midpoint of the Central Bank's target range.** Coming in at 0.15% in December, the Broad Consumer Price Index (IPCA) closed the year at 3.75%. The favorable reading was driven by anchored inflation expectations, a gradual economic recovery and subdued wage increases over the course of 2018 – and, more recently, by substantially lower pressure on fuel prices. In the coming months, consumer inflation is expected to continue to benefit from the remaining slack in the economy, as well as from expectations of a large grain harvest, which will continue to keep food prices in check.
- **Talks aimed at defusing trade tensions and the Fed's announcement that it continues to favor a gradual approach to monetary policy were the week's highlights.** More details have yet to be released on the latest round of negotiations between the U.S. and China, but the market was boosted by what it sees as increased understanding of the complexity surrounding the issue, and by the mutual commitment to keep talks going. In his latest public statements, given after job numbers and the FOMC minutes were released, Fed chairman Jerome Powell expressed optimism towards the U.S. economy, but concerns over the global growth outlook, which has resulted in a subdued inflation outlook. The statements helped reaffirm expectations for less interest rate hikes in the U.S. for 2019. In fact, we have downgraded our forecast of Fed Funds rate hikes from two to one. In Europe, Germany's and France's industrial production came in below expectations, sparking questions over Eurozone growth in the fourth quarter of 2018 and reigniting fears over slowing global growth. Brexit also remains on the radar, with measures that give the British parliament increased autonomy in addressing the issue, if a plan B is needed, and removing some of Prime Minister Theresa May's powers to negotiate the agreement.

Weekly Outlook

- **Retail sales and service sector numbers will round out the assessment of economic activity for November.** We expect the broad retail industry to remain above the average for other segments, with 0.5% growth in November. We expect service sector revenues to remain flat for the month. Based on these results and industrial production numbers, the IBC-Br (proxy for the GDP, released by the Central Bank) is likely to have come in at 0.4% in November.
- **In the international calendar, the highlights are China's balance of trade and U.S. activity indicators.** In the U.S., December's retail sales and industrial production numbers will be released, in addition to the first indicators for January: manufacturing surveys by the regional Federal Reserve banks. In China, the market will keep a close eye on the balance of trade: exports are expected to begin to reflect the impact of U.S. tariff hikes, and imported volume will help estimate the magnitude of the Chinese economy's slowdown. In Europe, the Eurozone's industrial production for November to confirm the slowdown already apparent in the German and French data.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 01/14				
08:25	Brazil	BCB: Focus Survey		
-	Brazil	MDIC: Trade Balance (weekly)		
08:00	Eurozone	Industrial Production (Nov)	-1.4% (YoY)	
-	China	Trade Balance (Dec)*	US\$ 50 b	

*The indicator will be released on January, 13th

Tuesday 01/15				
09:00	Brazil	IBGE: Retail sales (PMC) (Nov)		0.4% (MoM)
-	Brazil	CNI: Capacity Utilization (Dec)		
07:00	Germany	GDP 2018 - 1p	1.5% (YoY)	
11:30	USA	Índice Empire Manufacturing de atividade (Jan)	12.0	

Wednesday 01/16				
08:00	Brazil	FGV: IGP-10 (Jan)		-0.07% (MoM)
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
09:00	Brazil	IBGE: Services Sector Volume (PMS) (Nov)		0.0% (MoM)
12:30	Brazil	BCB: Currency Flows (weekly)		
05:00	Germany	CPI (Dec - F)	0.1% (MoM)	
17:00	USA	Fed: Beige Book		

Thursday 01/17				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		0.23% (MoM)
08:30	Brazil	BCB: Economic Activity Index (Nov)		0.4% (MoM)
08:00	Eurozone	CPI (Dec)	0.0% (MoM)	
11:30	USA	Initial Jobless Claims - Weekly		
11:30	USA	Fed Philadelphia Outlook (Jan)	10.0	

Friday 01/18				
08:00	Brazil	FGV: IGP-M (2st preview) (Jan)		
12:15	USA	Industrial Production (Dec)	0.2% (MoM)	
13:00	USA	University of Michigan Sentiment (Jan - P)	96.4	

	2017	2018	2019
Consumer inflation - IPCA (%)	2.95	3.75	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	-116.9	-93.3

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