

## Copom reinforces cautious and patient approach to monetary policy, expected to keep benchmark Selic rate at 6.5% until the end of 2019

### Overview

- **The Monetary Policy Committee (Copom) reinforced a cautious and patient approach to monetary policy, and is expected to keep the benchmark Selic rate at 6.5% until the end of year.** In its minutes, the Committee adopted the same tone as in its previous decision, noting that current inflation is at comfortable levels and that the models suggest that inflation will come in just below the center of the target in 2019 and around the target in 2020. Despite acknowledging that economic growth remains moderate, the Central Bank understands that the best strategy is to adopt a cautious, restrained and persistent approach to monetary policy, since it sees heightened risks from the international environment and to the approval of fiscal reforms in Brazil. In our view, the pace of the economic recovery is slower than expected but is likely to pick up over the course of 2019, especially if the fiscal reforms are approved. We do not see any upward pressure to inflation, which gives the Central Bank room to keep the benchmark rate at 6.5% until the end of the year.
- **The government began to discuss details of its plans for social security reform.** The minimum age for retirement is expected to be 62 for women and 65 for men after a transitional period of 12 years. Additional details should be released next week, but the reform is projected to generate significant savings over a 10-year period, allowing the government to stay under the spending cap, and ultimately reduce the country's debt-to-GDP ratio.
- **Recovery was weak in December, setting the stage for sluggish growth in the beginning of 2019.** The latest readings confirmed the slow pace of recovery at the end of last year, reinforcing our expectations of 0.1% growth in the fourth quarter and 1.1% in 2018. Retail sales dipped 2.2% in December, dragged by negative performances from both the furniture and appliances and clothing segments, which compensated some of the Black Friday gains from November. The service sector grew 0.2% in volume in December, ending the year basically flat since the beginning of 2018. Thus, the IBC-Br (a monthly GDP proxy) rose 0.2% in December. For 2019, we expect a rebound in new loans and credit conditions, an improvement in confidence levels and some recovery in the formal labor market, all of which should help spur faster economic growth.
- **Even though the trade war shows signs of abating, actual data show that a global slowdown is under way.** As U.S. and China remain engaged in negotiations, we believe that tensions are likely to fade. Nevertheless, worldwide data for December have confirmed the negative impact of the trade conflict on the global economy, as confidence indicators had already suggested. In the U.S., retail sales showed a major decline in December, while the shutdown will likely have a negative impact on first-quarter activity data. The reaction by central banks and trade negotiations have been aimed at keeping these negative effects to a minimum, and should mitigate the slowdown. It is also worth noting that China's trade balance numbers were better than expected, suggesting that the country's economy may be stabilizing. Still, we cannot overlook the impact of the Chinese New Year holiday on these numbers.

### Weekly Outlook

- **In Brazil, the focus will be on the mid-month consumer inflation reading (IPCA-15) for February, and formal job creation numbers for January.** The IPCA-15 is expected to come in at 0.34%, and its highlight will be the annual price adjustments for the education segment, which should be at the same level as last year. Average core inflation, considered to be at comfortable levels by the Central Bank, will likely remain close to 3%. No date has been set yet, but the General Register of Employed and Unemployed Persons (Caged) is expected to show that 70,000 new formal jobs were created last month, which would keep the job market on a gradual recovery path.
- **On the international front, the Fed will release the minutes of its last meeting and the first PMI readings for February will be released.** In addition to the minutes from the decision, there will be a Q&A session with Chairman Jerome Powell, during which more details on the Federal Reserve's next steps for monetary policy will be announced. We don't expect any changes to U.S. interest rates in 2019, given the projected slowdown and the absence of any signs of heightened inflationary pressures. The week also will bring the first Eurozone and U.S. PMI readings for February.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 02/18</b>				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
-	USA	National Holiday - Closed markets		
<b>Tuesday 02/19</b>				
08:00	Brazil	FGV: IGP-M (2st preview) (Feb)		
07:00	Germany	ZEW Survey Expectations (Feb)		
-	Peru	GDP (4Q - P)		
<b>Wednesday 02/20</b>				
08:00	Brazil	FGV: Industrial Confidence (Feb - P)		
12:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	CNI: Industrial Confidence (Feb)		
16:00	USA	Fed Minutes		
<b>Thursday 02/21</b>				
09:00	Brazil	IBGE: Consumer Price Index (IPCA-15) (Feb)		0.34% (MoM)
04:00	Germany	CPI (Jan - F)		
05:30	Germany	Markit: Composite PMI (Feb - P)		
06:00	Eurozone	Markit: Composite PMI (Feb - P)		
10:30	USA	Fed Philadelphia Outlook (Feb)	13.3	
10:30	USA	Initial Jobless Claims - Weekly		
<b>Friday 02/22</b>				
08:00	Brazil	FGV: Consumer Confidence (Feb)		
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
09:00	Brazil	IBGE: Quartely employment survey (4Q)		
-	Brazil	CNI: Industrial Confidence (Jan)		
-	Brazil	Aneel: Tariff range		
04:00	Germany	GDP (4Q - P)		
06:00	Germany	IFO Business Climate (Feb)		
07:00	Eurozone	CPI (Jan)	-1,1% (MoM)	
<b>During the week</b>				
-	Brazil	Caged: Formal Job Creation Total (Jan)		70k
-	Brazil	Tax Collections (Jan)		R\$ 156 billions

	2017	2018	2019
Consumer inflation - IPCA (%)	2.95	3.75	3.80
GDP growth (%)	1.1	1.1	2.8
Industrial Production (%)	2.5	1.1	3.0
Retail Sales (%)	4.0	5.0	5.5
Job Creation (in thousands)	263.5	1316.1	1287.5
Unemployment Rate (% of labor force, avg)	12.7	12.3	11.9
Outstanding Credit Growth (%)	-0.5	5.5	8.9
Trade Balance (USD bn)	64.0	53.6	56.1
Current Account (USD bn)	-9.8	-14.5	-13.5
Exchange Rate (BRL/USD, eop)	3.31	3.87	3.70
Selic Rate (% eop)	7.00	6.50	6.50
Primary Balance (BRL bn)	-111	-108.3	-95.3

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