

Copom statement indicates that balance of risks to inflation has improved

Overview

- **The Monetary Policy Committee (Copom) kept the benchmark Selic rate unchanged at 6.5%, but there has been a shift in its communication.** At the first meeting under the new Central Bank administration, the committee's statement acknowledged that the domestic economy is growing at a "slower-than-expected pace", in an environment in which the risks resulting from a global slowdown "are increasing." It is certainly a more dovish tone than the one adopted in the previous statement. Also, the balance of risks to inflation is now considered to be neutral (it was previously tilted upwards), an opinion we share. Another change concerns the committee's view that it is important to look at the economy with less uncertainty and free from the impact of the various shocks that took place last year. However, the Copom itself recognizes that this will take some time, and will not be possible in the "short term" – which suggests that, for now, the committee plans to keep the interest rates unchanged at its next meeting (scheduled for May 7 and 8). Our base forecast scenario has the benchmark Selic rate staying at its current level throughout 2019, but we recognize that there is a growing chance that it may be slashed at some point during the year – a chance that could materialize if the economy continues to underperform expectations and inflation remains low.
- **Current data continue to point to a weak performance by the Brazilian economy in the beginning of 2019.** The IBC-Br, a monthly GDP proxy, fell 0.4% on the margin in January, providing more evidence of Brazil's economic slowdown in recent months. With the latest reading, the quarterly moving average for the IBC-Br fell from 1.7% in September to 0.2% in January, reinforcing expectations for a very weak performance in this first quarter – when we expect GDP growth to remain flat. The period will also see a negative impact from factors such as key crop failures and the partial stoppage of mining activities in the state of Minas Gerais. It is still possible for the economy to pick up its pace in the next few months, but the level of uncertainty has increased due to a weaker short-term outlook.
- **On the international front, the FOMC did not surprise the market and kept the benchmark interest rate unchanged. However, the committee has shifted to an even softer tone, which is likely to generate a positive impact on international liquidity.** All of the points made in the statement reinforce the perception that the Fed will halt rate hikes, such as: (i) a downward revision to GDP and inflation forecasts for 2019 and 2020; and (ii) the median interest rate forecast moved lower, and now points to the rate staying flat in 2019 and rising 0.25% in 2020 (the previous median called for two hikes in 2019 and one in 2020). The prospect of less monetary tightening in the U.S., which is likely to be replicated by other central banks, tends to improve liquidity conditions for emerging economies, with positive impacts on the prices of domestic assets, including their currencies, in the absence of further shocks.

Weekly Outlook

- **The highlights on the domestic calendar are the statement by the new Central Bank administration, the Monetary Policy Committee (Copom) minutes and the Quarterly Inflation Report, as well as the mid-month consumer inflation reading (IPCA-15) and labor market data.** The focus for the Quarterly Inflation Report is on the GDP (expected to be revised downwards from 2.4%) and inflation forecasts for 2019; the latter could already incorporate this week's announcement by the Brazilian Energy Agency of projected cost cuts for this year, which could lower electricity prices across the country. We expect the IPCA-15 and the IGP-M to go up 0.52% and 1.25% in March, respectively. Despite some pressure from agricultural products, core prices are likely to remain muted. This week also brings labor market data for the month of February (Continuous Pnad and Caged), which is expected to confirm weak conditions – though the Carnival holiday may have sped up the hiring process for some companies –, as well business climate surveys. Finally, the Central Bank will release its external sector, credit and fiscal policy statements for February.
- **U.S. inflation (PCE) and the final GDP for the fourth quarter, as well as Brexit, are on the international radar.** In the U.S., current activity and inflation data become even more important now that the Fed signaled that it will end the rate hike cycle, while the final GDP reading for the fourth quarter is expected to show very strong growth. In Europe, the Brexit saga will drag on next week, especially with discussions on the March 29 deadline for the UK's departure from the EU. Theresa May is expected to make one more attempt to push her exit plan through Parliament, but chances of an extension have increased.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 03/25				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)	0.48%	
08:00	Brazil	FGV: Industrial Confidence (Mar - P)		
08:25	Brazil	BCB: Focus Survey		
10:30	Brazil	BCB: Current Account Balance (Feb)		- US\$ 1.3 b
10:30	Brazil	BCB: Foreign Direct Investment (Feb)		US\$ 7.0 b
15:00	Brazil	MDIC: Trade Balance (weekly)		
-	Brazil	CNI: Industrial Confidence (Feb)		
06:00	Germany	IFO Business Climate (Mar)	98,5	
Tuesday 03/26				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		0.60% (MoM)
08:00	Brazil	FGV: Construction Costs (Mar)		
08:00	Brazil	BCB: Copom minutes		
09:00	Brazil	IBGE: Consumer Price Index (IPCA-15) (Mar)	0.39% (MoM)	0.52% (MoM)
11:00	USA	Consumer Confidence (Mar)	132.0	
Wednesday 03/27				
08:00	Brazil	FGV: Construction Costs (Mar)		
08:00	Brazil	FGV: Construction Confidence (Mar)		
08:00	Brazil	FGV: Consumer Confidence (Mar)		
10:30	Brazil	BCB: Press Release - Monetary Policy (Feb)		
12:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	CNI: Construction Confidence (Feb)		
-	Brazil	Federal Debt Total (Feb)		
Thursday 03/28				
08:00	Brazil	FGV: Retail Confidence (Mar)		
08:00	Brazil	BCB: Inflation report		
08:00	Brazil	FGV: IGP-M (Mar)	1.20% (MoM)	1.25% (MoM)
-	Brazil	Central Govt Budget Balance (Feb)		
09:30	USA	GDP (4Q - F)	2.4% (QoQ)	2.3% (QoQ)
09:30	USA	Initial Jobless Claims - Weekly		
10:00	Germany	CPI (Mar - P)		
16:00	Mexico	Central bank meeting	8.25%	
Friday 03/29				
08:00	Brazil	FGV: Industrial Confidence (Mar)		
08:00	Brazil	FGV: Services Confidence (Mar)		
09:00	Brazil	IBGE: Unemployment Change (Feb)	12.4%	12.4%
10:30	Brazil	BCB: Press Release - Fiscal Policy (Feb)		
06:30	United Kingdom	GDP (4Q - P)		
09:30	USA	Personal Income (Feb)	0.3% (MoM)	
09:30	USA	Personal Spending (Jan)	0.3% (MoM)	
11:00	USA	University of Michigan Sentiment (Mar - F)	97.8	
18:00	Chile	Central bank meeting		
During the week				
-	Brazil	Caged: Formal Job Creation Total (Jan)	78k	105k

	2017	2018	2019
Consumer inflation - IPCA (%)	2.95	3.75	3.80
GDP growth (%)	1.1	1.1	2.4
Industrial Production (%)	2.5	1.1	2.0
Retail Sales (%)	4.0	5.0	5.0
Job Creation (in thousands)	263.5	1316.1	1103.6
Unemployment Rate (% of labor force, avg)	12.7	12.3	12.1
Outstanding Credit Growth (%)	-0.5	5.1	8.9
Trade Balance (USD bn)	64.0	53.6	53.4
Current Account (USD bn)	-9.8	-14.5	-16.1
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	-97.4

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