

US-China tensions escalating again

Overview

- **After a period of rapprochement between the United States and China, during which trade tensions seemed to ease, new tariff threats by the US could be carried out soon, while China has indicated that it would retaliate.** The re-emergence of this risk factor is relevant for a global growth outlook, as it would affect asset prices worldwide, potentially impacting equities and most commodities. With that in mind, and given the growth disparity between the US and the rest of the world, a stronger dollar trend remains present.
- **In Brazil, the House of Representative's Special Committee began to discuss the Social Security reform bill this week, kicking off a new and important phase of debates that should last several months.** The political relationship between the President's staff and Congress members seems to have improved, while economic cabinet members have reaffirmed their commitment to the proposed spending cuts – and both of these developments help mitigate the risks coming from a more volatile global environment.
- **The changes in the tone of the communications of the Monetary Policy Committee (Copom) were minor, but they seem to leave the door open to new interest rate cuts.** Even though it reiterated that it would make a short-term assessment of whether the shocks to the Brazilian economy have faded, the Central Bank recognized that the economy is turning weaker, while inflation cores remain muted. The numbers released after the meeting only reinforce this perception. Retail sales grew just 0.3% in March, far below expectations, which led us to revise our first-quarter GDP growth forecast down from -0.1% to -0.2% on the margin. For the year, we expect the Brazilian economy to grow 1.1%. Meanwhile, the Broad Consumer Inflation Index (IPCA) for April rose 0.57%, driven by some inflationary pressure from fuel prices but without any pressure from core prices.
- **We have revised our outlook, and now expect three 25-bps cuts to the interest rate in the second quarter.** As a result, the benchmark Selic rate should come down to 5.75% at the end of the year, as the economy struggles to pick up pace and inflation remains muted.

The week ahead

- **Highlights on the domestic calendar include the Monetary Policy Committee (Copom) minutes and economic activity indicators.** The minutes should confirm the view that there is some room for interest rate cuts, despite the cautionary tone that has been repeatedly adopted in the past few months. Service sales volume and the IBC-Br are the last indicators which are relevant for the first-quarter GDP. We expect a 0.8% decline and a 0.2% increase, respectively, when compared to previous month figures.
- **Internationally, all eyes will be on global economic activity data, which are expected to continue to show the U.S. economy growing at a faster pace than the rest of the world.** After the positive U.S. GDP reading and as the labor market have beat expectations, the market will be paying even closer attention to indicators for the month of May, such as regional manufacturing output. China will announce manufacturing output and investment figures for the month of April. In the Eurozone, Germany will release its economic confidence indicator (the "Zew") for May.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 05/13				
08:25	Brazil	BCB: Focus Survey		
-	Brazil	MDIC: Trade Balance (weekly)		
Tuesday 05/14				
08:00	Brazil	BCB: Copom minutes		
09:00	Brazil	IBGE: Services Sector Volume (PMS) (Mar)		-2.6% (YoY)
06:00	Germany	ZEW Survey Expectations (May)		
06:00	Eurozone	Industrial Production (Mar)		
23:00	China	Industrial Production (Apr)	6.4% (YoY)	
23:00	China	Fixed Assets Investments (Apr)	6.4%	
Wednesday 05/15				
8:30	Brazil	BCB: Economic Activity Index (Mar)		0.2% (MoM)
12:30	Brazil	BCB: Currency Flows (weekly)		
03:00	Germany	GDP (1Q - P)		
06:00	Eurozone	GDP (1Q - P)		
09:30	USA	Índice Empire Manufacturing de atividade (May)	8.0	
10:15	USA	Industrial Production (Apr)	0.1% (MoM)	
13:00	Colombia	GDP (1Q - P)		
Thursday 05/16				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
08:00	Brazil	FGV: IGP-10 (May)		0.76% (MoM)
09:00	Brazil	IBGE: Quartely employment survey (1ºQ)		
11:00	Brazil	Fiesp/Ciesp: Industrial Employment Index (Apr)		
09:30	USA	Initial Jobless Claims - Weekly		
09:30	USA	Fed Philadelphia Outlook (May)	10.0	
15:00	Mexico	Central bank meeting	8.25%	8.25%
Friday 05/17				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		0.14% (MoM)
06:00	Eurozone	CPI (Apr)		
11:00	USA	University of Michigan Sentiment (May - P)	97.5	

	2017	2018	2019
Consumer inflation - IPCA (%)	2.95	3.75	4.00
GDP growth (%)	1.1	1.1	1.1
Industrial Production (%)	2.5	1.1	1.0
Retail Sales (%)	4.0	5.0	5.0
Job Creation (in thousands)	264	1316	506
Unemployment Rate (% of labor force, avg)	12.7	12.3	12.7
Outstanding Credit Growth (%)	-0.5	5.0	7.5
Trade Balance (USD bn)	64.0	53.6	55.8
Current Account (USD bn)	-7.2	-14.5	-15.4
Exchange Rate (BRL/USD, eop)	3.31	3.87	3.80
Selic Rate (% eop)	7.00	6.50	5.75
Primary Balance (BRL bn)	-111	-108.3	-125
Gross Debt (% of GDP)	74.1	76.7	77.8

Technical Staff

Department of Economic Research and Studies Fernando Honorato Barbosa

Economists

Andréa Bastos Damico / Ariana Stephanie Zerbinatti / Constantin Jancsó / Ellen Regina Steter
Hanna Farath / Fabiana D'Atri / Igor Velecico / Leandro Câmara Negrão / Mariana Silva de Freitas/
Myriã Tatiany Neves Bast / Priscila Pacheco Trigo / Rafael Martins Murrer / Renan Bassoli Diniz /
Robson Rodrigues Pereira / Thiago Coraucci de Angelis / Thomas Henrique Schreurs Pires

Interns

Ana Beatriz Moreira dos Santos / Camila Medeiros Tanomaru / Daniel Funari Fouto / Gustavo
Rostelato de Miranda / Isabel Cristina Elias de Souza Oliveira / Lucas Maia Campos / 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).