

Domestic inflation shocks have started to fade

Overview

- **Without a demand-side boost, the economy remains sluggish, mired in a negative cycle of low confidence among both consumers and businesses (in all segments).** The labor market has not been performing as we expected. In April, the economy added approximately 43,000 new formal jobs (seasonally adjusted), above expectations. However, this level still remains below the 50,000 jobs needed to keep the unemployment rate stable.
- **Inflationary pressures remain quite subdued. The 12-month Consumer Price Index (IPCA) stood at 4.95%.** The mid-month inflation reading for May came in at 0.35%. Core prices, which tend to indicate the medium-term trend, have stayed at approximately 3%, a very comfortable level that is well below the center of the target range. The shocks that affected prices earlier in the year have already started to fade, and have not contaminated the trend. The slow pace of economic recovery should keep core prices subdued throughout the year. The change in the methodology used to calculate electricity rate tiers is expected to shave as much as 0.1% off the IPCA this year.
- **The government appeared to make some progress on its legislative agenda this week, making it more likely that Congress will pass the social security reform bill sometime in the next few months.** This led to a more positive week for domestic markets, with strengthening of the BRL and lower market interest rates. If we continue to see a brighter outlook for reforms, a gradual economic recovery and the shocks that affected the Brazilian economy prove to have been temporary, our expectations for Selic rate cuts in the second half of the year will be boosted.
- **We continue to see a growth gap between the U.S. and the rest of the world, amid downward revisions to global GDP.** The Fed maintained its prudent and patient stance as the U.S. economy continues to see strong growth and no inflationary pressure, and indicated that it is likely to hold off on interest rate hikes until next year. However, the escalation of trade tensions is already leading to global GDP forecasts being revised downwards, even though some slowing economies (particularly Europe and China) have signaled that they will implement additional stimulus measures. This slower growth outlook was reflected by the nearly 7% decline in oil prices this week. Despite an increase in risk aversion and a dimming global outlook, currencies remained practically unchanged this past week.

Weekly Report

- **The highlight of the domestic calendar is the announcement of the 1st-quarter GDP, which is expected to have shrunk by 0.2%.** If that reading turns out to be correct, the market is likely to start cutting its forecasts, in line with the downward trend we have seen in the past few weeks. In addition, we will get April's employment numbers, fiscal indicators, external accounts and credit data.
- **The international calendar will be lighter. In the U.S., the focus will shift to personal spending and inflation data.** Meanwhile, with Theresa May announcing that she will step down in June, attentions in the U.K. turn to the next potential prime minister and what consequences that will have for Brexit. Also, the Chinese PMI will be announced next week.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 05/27				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		0.10% (MoM)
08:00	Brazil	FGV: Construction Costs (May)		
08:00	Brazil	FGV: Construction Confidence (May)		
08:25	Brazil	BCB: Focus Survey		
10:30	Brazil	BCB: Current Account Balance (Apr)		R\$ 0.47 b
10:30	Brazil	BCB: Foreign Direct Investment (Apr)		R\$ 6 b
-	Brazil	MDIC: Trade Balance (weekly)		
-	USA	National Holiday - Closed markets		
Tuesday 05/28				
08:00	Brazil	FGV: Industrial Confidence (May)		
-	Brazil	Federal Debt Total (Apr)		
11:00	USA	Consumer Confidence (May)	130.0	
Wednesday 05/29				
08:00	Brazil	FGV: Services Confidence (May)		
09:00	Brazil	IBGE: PPI Manufacturing (Apr)		
10:30	Brazil	BCB: Press Release - Monetary Policy (Apr)		
12:30	Brazil	BCB: Currency Flows (weekly)		
Thursday 05/30				
08:00	Brazil	FGV: IGP-M (May)		0.53% (MoM)
09:00	Brazil	IBGE: GDP (1Q)		-0.2% (QoQ)
11:00	Brazil	Fiesp: Capacity Utilization (Apr)		
-	Brazil	Central Govt Budget Balance (Apr)		R\$ 10.4 b
09:30	USA	Initial Jobless Claims - Weekly		
09:30	USA	GDP (1Q - P)	3.1% (QoQ)	
22:00	China	Manufacturing PMI (May)	50.0	
Friday 05/31				
09:00	Brazil	IBGE: Unemployment Change (Apr)		12.6%
10:30	Brazil	BCB: Press Release - Fiscal Policy (Apr)		R\$ 11.8 b
-	Brazil	Aneel: Tariff range (May)		
09:00	Germany	CPI (May - P)	0.3% (MoM)	
09:30	USA	Personal Income (Apr)	0.3% (MoM)	
09:30	USA	Personal Spending (Apr)	0.2% (MoM)	
11:00	USA	University of Michigan Sentiment (May - F)	101.5	

	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	-105
Gross Debt (% of GDP)	74.1	76.7	77.8

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