

## Copom expected to acknowledge that balance of risks to inflation has improved

### Overview

- **The Brazilian economy began the second quarter at a slower than expected pace, with GDP growth projected to reach just 0.2% for the period (down from our previous forecast, of 0.4%).** In April, retail sales fell 0.6%, service volume rose 0.3%, and the IBC-Br was down 0.5%. Meanwhile, coincident indicators for May have suggested that industrial production will reverse the previous month's slight gains.
- **The balance of risks to domestic inflation continues to improve, and we expect the Central Bank's model to show lower inflation levels.** The Brazilian real's strengthening continued over the past week, as it followed the trend of other emerging market currencies. At the same time, the forecasts for the record-setting Brazilian grain crop in 2019 have been revised upwards yet again, easing concerns over the late planting for corn in the United States. The decline in international oil prices has been transmitted to the domestic market. This improvement occurs in an environment marked by weak economic activity and anchored inflation expectations, as well as reduced uncertainties with the reform package.
- **There was important progress in the economic agenda this week, with Congress releasing BRL 249 billion in supplementary credit for the Federal Government and the pension reform report being presented to the Special House Committee that is reviewing the proposal.** The reform is initially expected to generate BRL 913.4 billion in savings over 10 years, a considerable amount that should help the government close some of its fiscal gaps over the medium term. It is worth noting that there is now a possibility of the reform reaching the floor before Congress goes on recess in mid-July.
- **Since a formal deal between the US and China at the G20 meeting at the end of the month seems unlikely, trade tensions exert a contractionary effect on global growth.** Economic activity data for the world's biggest economies continue to show a slowing trend in the second quarter. In China, in particular, the local government announced new stimuli for infrastructure, in order to minimize the impacts of reduced exports.

### The week ahead

- **The meeting of the Monetary Policy Committee (Copom) is the main highlight on the domestic calendar for the week ahead, when it is expected to keep interest rates unchanged.** However, the Committee could adjust its communications to indicate that the balance of risks to inflation is tilted downwards, which could be the first step towards rate cuts in the future, as we expect will happen.
- **Internationally, the FOMC meeting will be important to anchor expectations for interest rate cuts in the United States.** That's because the latest activity data has shown the economy on a slowing trend, inflation cores are cooling and the Fed Chairman has suggested that it will respond "as needed" to keep the U.S. economy growing. We expect the FOMC to keep rates unchanged at this meeting, before slashing them in July.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 06/17</b>				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
-	Brazil	MDIC: Trade Balance (weekly)		
08:25	Brazil	BCB: Focus Survey		
09:30	USA	Índice Empire Manufacturing de atividade (Jun)	12.0	
<b>Tuesday 06/18</b>				
08:00	Brazil	FGV: IGP-M (2st preview) (Jun)		
06:00	Germany	ZEW Survey Expectations (Jun)		
06:00	Eurozone	CPI (May)		
<b>Wednesday 06/19</b>				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:00	Brazil	FGV: Industrial Confidence (month - P)		
10:00	Brazil	CNI: Industrial Confidence (month)		
12:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	BCB: Central bank meeting	6.50%	6.50%
15:00	USA	Central bank meeting	2.50%	2.50%
16:00	Argentina	GDP (1Q)		
-	Japan	Central bank meeting		
<b>Thursday 06/20</b>				
-	Brazil	National Holiday - Closed markets		
08:00	United Kingdom	Central bank meeting		
09:30	USA	Initial Jobless Claims - Weekly		
09:30	USA	Fed Philadelphia Outlook (Jun)	10,5	
<b>Friday 06/21</b>				
04:30	Germany	Markit: Composite PMI (Jun - P)		
05:00	Eurozone	Markit: Composite PMI (Jun - P)		
-	Colombia	Central bank meeting	4.25%	

	2017	2018	2019
Consumer inflation - IPCA (%)	2.95	3.75	3.80
GDP growth (%)	1.1	1.1	0.8
Industrial Production (%)	2.5	1.1	0.6
Retail Sales (%)	4.0	5.0	4.5
Job Creation (in thousands)	264	1316	368
Unemployment Rate (% of labor force, avg)	12.7	12.3	12.9
Outstanding Credit Growth (%)	-0.5	5.0	7.5
Trade Balance (USD bn)	64.0	53.6	55.9
Current Account (USD bn)	-7.2	-14.5	-14.0
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	-131
Gross Debt (% of GDP)	74.1	76.7	77.8

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