

Lower interest rates in coming months in several countries

Overview

- **Amidst a scenario of widespread economic downturn – triggered by rising tensions between the U.S. and China – and low inflation, several Central Banks seem more prone to cut interest rates in the coming months.**
- **In Brazil, as indicated by the Monetary Policy Committee (Copom) this week, the interest rate cut is tied to an eventual concrete progress in the reform agenda.** Despite keeping the Selic stable at 6.5%, the Central Bank acknowledged the weaker domestic economy and the fading inflation shocks, which led its models to show an IPCA variation below the target for this year and the next. Nonetheless, the committee pointed that the reform agenda's progress is crucial to avoid an upsurge in inflation expectations.
- **As the Brazilian Pension Reform bill advances through congress, as well as signs of a moderate economic recovery in the second quarter, this reinforces our Selic forecast of 5.75% by late 2019.** In fact, the reform could be voted by the Special Commission next week, which means that it could be voted in the plenary session between July and August. In addition, industry confidence continued to fall this month, reinforcing prospects of a sluggish economic recovery.
- **Indications that the Fed and ECB are willing to cut interest rates this year, as well as the moderate global activity should have deflationary impacts for Brazil.** Last month, the growth gap between the U.S. and the rest of the world strengthened the U.S. dollar among other currencies, including the Brazilian real. However, after the latest U.S. economic data revealed a slowdown, the Fed adjusted its tone and suggested an interest rate cut in 2019. Similarly, the president of the ECB indicated willingness to cut interest rates or bolster the bond purchase program, if necessary. Therefore, lower interest rates across the main economies would mean higher liquidity for emerging markets, which could ultimately appreciate Brazil's currency.

The week ahead

- **Copom minutes and Inflation Report should bring more information on the committee's last meeting, as well as possible signs regarding interest rate cuts ahead.** In addition, the IPCA-15 for June and job market data from May should confirm a scenario of controlled inflation and weak economic activity.
- **U.S. and China could resume negotiations during the G-20 meeting.** An agreement between them would mean more positive prospects for global trade and confidence, potentially mitigating the current global downturn, which should be confirmed by leading indicators of the U.S. and Europe in June.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 06/24				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
08:25	Brazil	BCB: Focus Survey		
10:30	Brazil	BCB: Current Account Balance (May)	R\$ 0.5 b	R\$ 0.7 b
10:30	Brazil	BCB: Foreign Direct Investment (May)		R\$ 8.0 b
-	Brazil	MDIC: Trade Balance (weekly)		
05:00	Germany	IFO Business Climate (Jun)	98	
Tuesday 06/25				
08:00	Brazil	BCB: Copom minutes		
08:00	Brazil	FGV: Consumer Confidence (Jun)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA-15) (Jun)	0.04% (MoM)	0.11% (MoM)
-	Brazil	CNI: Industrial Confidence (May)		
11:00	USA	Consumer Confidence (Jun)	132	
Wednesday 06/26				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		0.14% (MoM)
08:00	Brazil	FGV: Construction Confidence (Jun)		
08:00	Brazil	FGV: Retail Confidence (Jun)		
08:00	Brazil	FGV: Construction Costs (Jun)		
10:30	Brazil	BCB: Press Release - Monetary Policy (May)		
12:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	Federal Debt Total (May)		
-	Brazil	Central Govt Budget Balance (May)		-R\$ 15.0 b
-	Brazil	CNI: Construction Confidence (May)		
Thursday 06/27				
08:00	Brazil	BCB: Inflation report		
08:00	Brazil	FGV: Industrial Confidence (Jun)		
08:00	Brazil	FGV: IGP-M (Jun)		0.7% (MoM)
09:00	Germany	CPI (Jun - P)	0.2% (MoM)	
09:30	USA	Initial Jobless Claims (weekly)	220 k	
09:30	USA	GDP (1Q - P)	3.2% (QoQ)	
15:00	Mexico	Central bank meeting	8.25%	8.25%
Friday 06/28				
08:00	Brazil	FGV: Services Confidence (Jun)		
09:00	Brazil	IBGE: Unemployment Change (May)		12.2%
10:30	Brazil	BCB: Press Release - Fiscal Policy (May)		-R\$ 16.0 b
-	Brazil	CNI: Consumer Confidence (Jun)		
05:30	United Kingdom	GDP (1Q - P)	0.5% (QoQ)	
09:30	USA	Personal Spending (May)	0.5% (MoM)	
09:30	USA	Personal Income (May)	0.3% (MoM)	
11:00	USA	University of Michigan Sentiment (Jun - F)	97.0	
During the week				
-	Brazil	Caged: Formal Job Creation Total (May)	66 k	65 k
-	Brazil	Tax Collections (May)	R\$ 115 b	R\$ 114 b
-	China	Manufacturing PMI (Jun)	49.6	

	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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