

## Central Bank leaves door open for interest rate cuts in the next meetings

### Overview

- **The case for interest rate cuts is growing stronger. In its latest communications, the Monetary Policy Committee reaffirmed its view that the Brazilian economy recovery has halted, and recognized that the recent shocks to the economy have faded.** According to the Central Bank, uncertainties surrounding fiscal sustainability and a global economic slowdown may be hampering growth, which led the monetary authority to cut its 2019 GDP growth forecast from 2.0% down to 0.8%. Given this backdrop of weak activity, the balance of risks to inflation have tilted to the positive side, with models suggesting that the consumer inflation will come in below the center of the target in 2019 and 2020 – even when already considering the benchmark Selic rate at 5.75% by the end of 2019.
- **Current data confirms an environment of well-behaved inflation and sluggish economic activity.** The mid-month IPCA-15 report shows that core prices have risen approximately 3% in the last 12 months, reaffirming our expectation that the index will slide into deflation terrain at the end of June. Net formal jobs created came in well under expectations in May, which confirms that the economy continues to lose momentum. Most confidence indexes remain at below their levels of the beginning of the year.
- **However, the Central Bank’s communications continue to put the passing of pension reform as a precondition to cutting the Selic benchmark rate.** There are indications that the Special Committee will vote on the Pension Reform Bill soon, which means that the bill could reach the floor between July and August.
- **Recent data from Europe and the U.S. continue to point to a slowdown in global GDP in the second quarter.** Confidence surveys and indexes from the Eurozone fell more than expected, indicating both that the region’s economy has been largely flat this quarter, and that the transition to the third quarter may also be weak. In the U.S., a weak durable goods report for May suggests that investments are likely to shrink in the second quarter, in line with our view that the U.S. economy is on a slowing trend when compared with the beginning of 2019.

### The week ahead

- **In Brazil, the most important announcements are from the industrial sector.** Industrial output is expected to have fallen month-to-month in May. In addition, auto production numbers for June will be an important indicator for the industrial sector at the end of this quarter.
- **A meeting between the U.S. and Chinese presidents could signal a restart of trade talks between both countries.** Markets will be keeping a close eye on the Donald Trump-Xi Ling meeting scheduled for the weekend, as a possible deal may ease the slowdown in activity not only in Asia and Europe, but also more recently in the U.S. Over the course of the week, U.S. labor market data will indicate whether the cooling trend seen in May will continue into June.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 07/01</b>				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
08:25	Brazil	BCB: Focus Survey		
10:00	Brazil	Markit: PMI Manufacturing (Jun)		
15:00	Brazil	MDIC: Trade Balance - monthly (Jun)		US\$ 5.4 b
-	Brazil	CNI: Capacity Utilization (May)		
04:55	Germany	Markit: Manufacturing PMI (Jun - F)		
05:00	Eurozone	Markit: Manufacturing PMI (Jun - F)	47.8	
05:30	United Kingdom	Markit: Manufacturing PMI (Jun)	49.2	
11:00	USA	ISM Manufacturing (Jun)	51.4	
<b>Tuesday 07/02</b>				
09:00	Brazil	IBGE: Industrial Production (PIM) (May)		-0.4% (MoM)
-	Brazil	Fenabreve: Vehicle sales (Jun)		
<b>Wednesday 07/03</b>				
05:00	Brazil	FIPE: Consumer Price Index - monthly (Jun)		
09:00	Brazil	IBGE: PPI (May)		
10:00	Brazil	Markit: Composite PMI		
12:30	Brazil	BCB: Currency Flows (weekly)		
04:55	Germany	Markit: Composite PMI (Jun - F)		
05:00	Eurozone	Markit: Composite PMI (Jun - F)		
05:30	United Kingdom	Markit: Composite PMI (Jun)		
09:15	USA	Employment Change (ADP) (Jun)	140k	
09:30	USA	Initial Jobless Claims - Weekly		
11:00	USA	ISM Services (Jun)	56.0	
<b>Thursday 07/04</b>				
-	Brazil	Anfavea: Vehicle Production (Jun)		
-	USA	National Holiday - Closed markets		
<b>Friday 07/05</b>				
09:30	USA	Unemployment Rate (Jun)	3.6%	
09:30	USA	Change in Nonfarm Payrolls (Jun)	163k	

	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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