

Copom to cut interest rate by 0.25 p.p. next week

Overview

- **As the Monetary Policy Committee (Copom) meeting approaches, the market places its bets on the intensity of the initial cut.** In our scenario, we estimate a first move on the order of 0.25 p.p. and a total budget of 1.0 p.p. We believe that uncertainties regarding the impact of passing the Pension Reform (first round in the House) and the effects of releasing the FGTS and PIS/Pasep funds on economic activity will lead the Central Bank to be more cautious early in the cycle.
- **The economic recovery rate over the coming months will be critical in determining the extent of the cycle.** In the event of frustrated economic resumption, we estimate that Copom may increase the intensity of the adjustment as well as the total monetary easing budget.
- **Current inflation remains well behaved and the economy continued to show gradual recovery.** Confidence indicators showed slight improvement in the July preview, but remain at low levels. Along the same lines, 48,000 formal jobs were created last month, but the rate is still compatible with rising unemployment. The IPCA-15, in turn, rose 0.09% in June, showing benign core inflation readings (up 2.8% in the last twelve months).
- **Recent international data is once again suggesting a certain degree of detachment of the U.S. economy from the rest of the world.** Annualized U.S. GDP rose 2.1% in the second quarter, with consumption providing a strong contribution (4.3%). Durable goods orders and the July service PMI preview followed the same trend and were surprisingly positive. In addition, the approval to increase the U.S. debt ceiling should generate an additional fiscal boost for economic activity in the coming years.
- **On the other hand, activity in the rest of the world remains sluggish.** Preliminary exports from South Korea and the qualitative economic indices in the Eurozone showed continued deceleration of the GDP early in Q3. This environment has strengthened the U.S. currency in the last few days, dampening the appreciation trend in emerging countries.
- **The ECB voiced its concerns about the economic slowdown and indicated that it should expand stimuli in September.** The Eurozone monetary policy committee acknowledged the worsening activity in recent quarters. In addition, it indicated a deterioration of the balance of risks, mainly due to trade and geopolitical tensions, aside from a possible departure of the United Kingdom from the European Union without an agreement.

The week ahead

- **On the domestic agenda, all eyes will be focused on the Copom meeting.** We expect a 0.25 p.p. cut and a statement that will condition future decisions on the evolution of economic data. We will also have the June industrial production and unemployment rate data (we estimate -0.5% and 12.1%, respectively) and the July IGP-M, for which we estimate a high of 0.54%.
- **The highlight of the international agenda will be the monetary policy decision in the U.S.** We expect a 0.25 p.p. cut and a statement suggesting caution in the next steps. We will also have: (i) inflation (PCE), which should show slight core acceleration and (ii) job market data, which should continue to indicate a heated environment. In Europe, the data should reinforce the reading of a weak economic scenario (second quarter GDP and unemployment rate) and well-behaved inflation.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 07/29				
08:00	Brazil	FGV: Industrial Confidence (Jul)		
08:25	Brazil	BCB: Focus Survey		
10:30	Brazil	BCB: Press Release - Fiscal Policy (Jun)		-R\$ 6.0 b
-	Brazil	MDIC: Trade Balance (weekly)		
Tuesday 07/30				
08:00	Brazil	FGV: Services Confidence (Jul)		
08:00	Brazil	FGV: IGP-M (Jul)		0.55% (MoM)
09:00	Germany	CPI (Jul - P)	0.3% (MoM)	
09:30	USA	Personal Spending (Jun)	0.3% (MoM)	
09:30	USA	Personal Income (Jun)	0.3% (MoM)	
11:00	USA	Consumer Confidence (Jul)	124.2	
22:00	China	Manufacturing PMI (Jul)	49.7	
-	Japan	Central bank meeting		-0.1%
Wednesday 07/31				
09:00	Brazil	IBGE: Unemployment Change (Jun)		12.1%
09:00	Brazil	IBGE: PPI Manufacturing (Jun)		
12:30	Brazil	BCB: Currency Flows (weekly)		
18:00	Brazil	BCB: Central bank meeting	6.25%	6.25%
06:00	Eurozone	GDP (2Q - P)	0.2% (QoQ)	
08:00	Mexico	GDP (2Q - P)		
09:15	USA	Employment Change (ADP) (Jul)	145k	
15:00	USA	Central bank meeting	2.25%	2.25%
Thursday 08/01				
09:00	Brazil	IBGE: Industrial Production (PIM) (Jun)		-0.5% (MoM)
10:00	Brazil	Markit: PMI Manufacturing (Jul)		
10:00	Brazil	CNI: Capacity Utilization (Jun)		
15:00	Brazil	MDIC: Trade Balance - monthly (Jul)		
04:55	Germany	Markit: Manufacturing PMI (Jul - F)		
05:00	Eurozone	Markit: Manufacturing PMI (Jul - F)		
05:30	United Kingdom	Markit: Manufacturing PMI (Jul)	48.0	
08:00	United Kingdom	Central bank meeting	0.75%	0.75%
09:30	USA	Initial Jobless Claims - Weekly		
11:00	USA	ISM Manufacturing (Jul)	52.1	
Friday 08/02				
05:00	Brazil	FIPE: Consumer Price Index - monthly (Jul)		
-	Brazil	Fenabreve: Vehicle sales (Jul)		
09:30	USA	Change in Nonfarm Payrolls (Jul)	160k	
09:30	USA	Unemployment Rate (Jul)	3.6%	
11:00	USA	University of Michigan Sentiment (Jul - F)	98.5	

	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	54,5
Current Account (USD bn)	-7,2	-14,5	-16,0
Exchange Rate (BRL/USD, eop)	3,31	3,87	3,80
Selic Rate (% eop)	7,00	6,50	5,50
Primary Balance (BRL bn)	-111	-108,3	-130
Gross Debt (% of GDP)	74,1	76,7	77,8

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