

Brazil and the U.S. begin a monetary easing cycle

Overview

- **Without reassessing the balance of risks, the Monetary Policy Committee (Copom) lowered the Selic rate to 6.0%, signaling room for further cuts.** A determining factor for this movement was the recognition that economic activity is weak and core inflation is at comfortable levels. The Central Bank clearly stated that it is incorporating interest rate cuts made in other countries, but still warns of the risks of a global economic slowdown.
- **The Central Bank confirmed that there is room for further interest rate adjustments, such that another 0.50 p.p. cut in September is likely.** We are waiting for the meeting minutes to be released next Tuesday to reassess our Selic forecast for the end of 2019, currently at 5.50%. We believe there is room for a total budget of over 100 basis points (bps) if our scenario plays out with gradual recovery and core inflation around 3.0%.
- **The Fed confirmed expectations of a 0.25 p.p. cut in the base rate, but signaled that the easing cycle will not be very long.** Although the decision was not unanimous, the rate cut was accompanied by signs that the FOMC will act to sustain economic expansion. On the other hand, the U.S. Central Bank announced that it will shift the composition of its balance sheet by selling riskier securities and buying treasuries. This operation will occur gradually and may generate additional downward impacts on long-term interest rates. Finally, chairman of the Fed Jerome Powell indicated that the downward interest rate cycle will not last long. We expect another 0.25 p.p. cut. The U.S. monetary easing tends to be favorable for currencies and emerging countries, but the perception of a shorter cycle should limit stronger currency appreciation.
- **The end of the trade truce tends to raise concerns on global growth.** The U.S. government announced the imposition of a 10% tariff on USD 300 billion in imports from China. This trade tension renewal occurs just as July economic data shows that growth challenges in major economies are still high. In the U.S., 164,000 jobs were generated last month, confirming a less heated job market.

The week ahead

- **On the domestic agenda, all eyes will be on the resumption of legislative work, Copom minutes, inflation and economic activity.** The second-round pension reform vote may occur in the Lower House. The Copom minutes may signal the size of the Selic rate adjustment cycle. We will also have the July IPCA, for which we estimate 0.23%, with cores at comfortable levels. In addition, June retail (PMC) and services (SMP) surveys will be relevant to set the tone for the second quarter GDP estimates.
- **China's balance of trade and inflation indicators will be next week's highlights.** July trade balance data will be relevant to weight the impact of the U.S.-China truce agreed at the G-20 meeting in late June. Last month's inflation, in turn, will be closely monitored to help gauge the agents' expectations of new stimuli in the country, as trade tensions return.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 08/05				
08:25	Brazil	BCB: Focus Survey		
10:00	Brazil	Markit: Composite PMI (Jul)		
04:55	Germany	Markit: Composite PMI (Jul - F)	51.4	
05:00	Eurozone	Markit: Composite PMI (Jul - F)		
05:30	United Kingdom	Markit: Composite PMI (Jul)		
11:00	USA	ISM Services (Jul)	55.5	
Tuesday 08/06				
08:00	Brazil	FGV: Employment Indicators (Jul)		
08:00	Brazil	BCB: Copom minutes		
10:00	Brazil	Anfavea: Vehicle Production (Jul)		
13:00	USA	Fed's Bullard Speaks on U.S. Economy in Washington		
Wednesday 08/07				
09:00	Brazil	IBGE: Industrial Production - regional (Jun)		
09:00	Brazil	IBGE: Retail sales (PMC) (Jun)		0.4% (MoM)
12:30	Brazil	BCB: Currency Flows (weekly)		
12:30	Brazil	BCB: Commodity Price Index (Jul)		
03:00	Germany	Industrial Production (Jun)		
-	USA	Fed's Evans Holds Media Breakfast in Chicago		
Thursday 08/08				
08:00	Brazil	FGV: IGP-DI (Jul)	0,4% (MoM)	0,3% (MoM)
09:00	Brazil	IBGE: Agricultural production Survey (Jul)		
09:00	Brazil	Conab: 11th Grains crop survey 2018/2019 (Aug)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA) (Jul)	0.18% (MoM)	0.23% (MoM)
09:30	USA	Initial Jobless Claims - Weekly		
20:50	Japan	GDP (2Q - P)	0.2% (QoQ)	
22:30	China	CPI (Jul)	2.7% (YoY)	
Friday 08/09				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
09:00	Brazil	IBGE: Services Sector Volume (PMS) (Jun)		-2.5% (YoY)
05:30	United Kingdom	GDP (2Q - P)	0% (QoQ)	
20:00	Peru	Central bank meeting		
During the week				
-	China	Trade Balance (Jul)	US\$ 37 b	