

Trade tensions raise concerns on global growth

Overview

- **Global growth forecasts have taken a turn for the worse following recent news on trade tensions.** Forecasts of a weaker demand depreciated emerging currencies and led to significant drops in commodities based on economic performance, such as oil and ore. Asset prices experienced some relief as interest rates continue to fall in several countries, while the Fed has signaled a further cut in the U.S. rate.
- **The European economy is suffering from the effects of the global slowdown and continues at a sluggish pace.** The final reading of the July surveys in the Eurozone suggests very moderate dynamics for economic activity at the beginning of this quarter. Current levels indicate a practically stable GDP in the period, while German industry performed poorly in the last available reading (June). This evidence causes a downward bias in our projections for the year. For now, we continue to estimate expansion of 1.0% for the Eurozone GDP in 2019.
- **In Brazil, the Monetary Policy Committee (Copom) minutes reaffirmed the need for stimulating monetary policy and introduced discussions on the structural interest rate.** Given a more favorable balance of risks, the Committee stated that it will continue to assess the appropriate level for the Selic rate at each meeting and stressed that the pension reform contributes to reducing the structural interest rate. The Central Bank stressed that the risk of frustration with reforms is still prevalent, but acknowledged that progress was made on the agenda. The reform was approved this week in its second round in the House, without changes. The proposal will now continue to the Senate, where it should remain for about 60 days.
- **Recent data corroborate the Central Bank's assessment of a continuing slow economy.** Retail and service volumes confirmed the perception of low growth in June. Weak economic performance – in a context of inflation cores at comfortable levels, as reinforced by the July IPCA – and better fiscal prospects with the pension reform progress should make room for additional interest rate cuts. We expect a Selic rate of 5.0% at the end of 2019, remaining at this level throughout 2020.

The week ahead

- **On the domestic agenda, all eyes will be focused on the monthly GDP proxy.** With few events on the agenda, the June IBC-Br will be the latest important data point for Q2 GDP estimates. We continue to expect a 0.2% growth over the first quarter.
- **Next week's highlights will include economic indicators for major economies.** With no expected change in sight for U.S.-China negotiations, July economic activity data for both countries should set the tone for economic performance early in the third quarter. Still unhindered by the effects of the recent tariff hike announcement, U.S. inflation data in July will also be important to monitor the Fed's next steps. Also with respect to 2nd quarter data, another preview of the Eurozone GDP will be disclosed.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 08/12				
08:00	Brazil	FGV: IGP-M (1st preview) (Aug)		
08:25	Brazil	BCB: Focus Survey		
08:30	Brazil	BCB: Economic Activity Index (Jun)		0.0% (MoM)
15:00	Brazil	MDIC: Trade Balance (weekly)		
-	USA	USDA: World Agricultural Supply and Demand Estimates		
Tuesday 08/13				
03:00	Germany	CPI (Jul - F)	0.5% (MoM)	
06:00	Germany	ZEW Survey Expectations (Aug)	-26	
09:30	USA	CPI (Jul)	0.3% (MoM)	
23:00	China	Industrial Production (Jul)	6.0% (YoY)	
23:00	China	Fixed Assets Investments (Jul)	5.9% (YoY)	
Wednesday 08/14				
12:30	Brazil	BCB: Currency Flows (weekly)		
03:00	Germany	GDP (2Q - P)	0.0% (QoQ)	
06:00	Eurozone	Industrial Production (Jun)	-1.2% (YoY)	
06:00	Eurozone	GDP (2Q - P)	0.2% (QoQ)	
Thursday 08/15				
08:00	Brazil	FGV: IGP-10 (Aug)		-0.3% (MoM)
09:00	Brazil	IBGE: Quartely employment survey (2ºQ)		
09:30	USA	Initial Jobless Claims - Weekly		
09:30	USA	Índice Empire Manufacturing de atividade (Aug)	2	
09:30	USA	Fed Philadelphia Outlook (Aug)	10	
10:15	USA	Industrial Production (Jul)	0.2% (MoM)	
13:00	Colombia	GDP (2Q)		
15:00	Mexico	Central bank meeting	8%	8%
Friday 08/16				
11:00	USA	University of Michigan Sentiment (Aug - P)	97.6	

	2017	2018	2019
Consumer inflation - IPCA (%)	2.95	3.75	3.50
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	51.7
Current Account (USD bn)	-7.2	-14.5	-22.1
Exchange Rate (BRL/USD, eop)	3.31	3.87	3.80
Selic Rate (% eop)	7.00	6.50	5.00
Primary Balance (BRL bn)	-111	-108.3	-130
Gross Debt (% of GDP)	74.1	76.7	77.8

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