

Potentially deeper global slowdown raises concerns

Overview

- **The risk of a deeper slowdown in the global economy rose this week, taking a toll on the prices of financial assets.** The underwhelming indicators of several countries, coupled with the unexpected results in Argentina's preliminary election ballots ultimately led to an increase in risk aversion. The currencies of emerging countries devaluated against the dollar and stock markets plummeted. Even the postponement of additional U.S. tariff hikes on some Chinese products (which were pushed from September to December) was not enough to flip the cloudy scenario.
- **The scenario of a stronger U.S. economy gained momentum early on in the third quarter, which explains the dollar's stronger performance.** In China, economic activity data from July came as a negative surprise, revealing the lingering downward trend even after some rounds of monetary and tax stimuli. The same is true for the Eurozone GDP, which rose 0.2% in the period. On the other hand, the U.S. economy improved. Data from July and preliminary results for August indicate that the country could print higher GDP figures than originally expected for this quarter.
- **Even with the recent depreciation of the Brazilian real, we still consider the current environment to be deflationary.** The prospect of a global downturn has lowered the prices of the main commodities, mitigating the effect of foreign exchange depreciation on Brazil's inflation. In addition, a weaker global economy negatively affects Brazil's GDP, which should remain sluggish over the next few months. Finally, the increased dollar supply in the market to correct some distortions – announced by the Central Bank of Brazil this week – tends to limit the BRL depreciation in the short term.
- **Brazil's GDP is expected to have grown only 0.2% in the second quarter.** The IBC-Br, monthly GDP proxy, rose 0.3% in June, and FGV's GDP monitor indicated a 0.2% increase in the second quarter – matching our forecast. There are no signs of this trend being reversed early on in the quarter, suggesting that this year's growth rate could fall below our current forecast of 0.8%. As inflation remains steady and the dynamics of some growth drivers should remain unchanged – public spending and global growth –, all that is left for the short term is a boost via monetary easing. The Central Bank should continue to cut the interest rate and it could fall below our current scenario of 5.0% should current growth and inflation scenarios linger on.

Prospects for next week

- **In the domestic agenda, the attention turns to the IPCA-15 in August.** We expect a 0.09% increase. The index should reinforce the positive inflation scenario, especially among the core measures. We will also have access to FGV's survey preliminary results – first important indicators regarding August. We forecast 25,000 new formal jobs in July (no announcement date has been set so far).
- **FOMC minutes and preliminary antecedent indicators in August are the highlights in the international agenda.** August's PMI indexes should show a still slow global activity growth, as well as an improvement in U.S. performance. The FOMC minutes should share more insights into the committee's last decision regarding interest rate cuts, prior to the recent escalation in trade tensions.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 08/19				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		0.14% (MoM)
08:00	Brazil	FGV: IGP-M (2nd preview) (Aug)		
08:25	Brazil	BCB: Focus Survey (weekly)		
15:00	Brazil	MDIC: Trade Balance (weekly)		
06:00	Eurozone	CPI (Aug - F)		
09:30	Chile	GDP (2Q)		
Tuesday 08/20				
08:00	Brazil	FGV: Industrial Confidence (Aug - P)		
03:00	Germany	PPI (Jul)		
Wednesday 08/21				
14:30	Brazil	BCB: Currency Flows (weekly)		
15:00	USA	Fed Minutes		
Thursday 08/22				
08:00	Brazil	FGV: Consumer Confidence (Aug)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA-15) (Aug)		0.09% (MoM)
04:30	Germany	Markit: Composite PMI (Aug - P)	51.0	
05:00	Eurozone	Markit: Composite PMI (Aug - P)	51.2	
10:45	USA	Markit: Composite PMI (Aug - P)		
-	Peru	GDP (2Q)		
Friday 08/23				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
08:00	Brazil	FGV: Retail Confidence (Aug)		
08:00	Mexico	GDP (2Q - F)	-0.7% (YoY)	
During the week				
-	Brazil	CNI: Industrial Confidence (Aug)		
-	Brazil	Caged: Formal Job Creation Total (Jul)	41k	25k
-	Brazil	Tax Collections (Jul)		RS 140 b

	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)	1899	966	371
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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