

Downside inflation surprise strengthens expectations of further rate cuts

The week in review

- **Inflation data once more surprised to the downside, reinforcing market expectations that the Central Bank will continue to ease monetary policy after last month's interest rate cut.** In line with inflation readings of the last few months, headline August IPCA-15 inflation (measuring consumer inflation in the 30-day period ending August 15) was lower than the center of the inflation target, while core inflation remained subdued. Low inflation and the very gradual recovery of the economy suggest there is room for further rate cuts, and if the backdrop persists, we could see the Central Bank easing its policy rate to below our year-end forecast of 5%.
- **The slowdown of the global economy remains an important headwind for domestic growth.** August manufacturing PMI indices for the Eurozone and for the U.S. were reported below the waterline of 50, indicating a contraction in business activity. Although economic conditions in the U.S. manufacturing are weakening, overall, the U.S. economy continued to outpace other developed economies, which helps explain USD strength in recent weeks. In Brazil, the consequences of BRL weakness on inflation have been offset by: (i) lower international commodity prices; (2) the modest recovery and soft job market conditions, which have helped keep passthrough low.
- **Against the backdrop of global weakness, Central Bank in the developed economies have continued to indicate they are willing to provide stimulus to support growth.** Both the U.S. Federal Reserve and the European Central Bank (ECB) have signaled they consider further easing. At its last meeting, the Fed even considered a 50bps rate cut before deciding for the 25bps move. The ECB, in the meantime, considered a new asset purchase program. Fed Governor Powell's speech at the Jackson Hole Symposium reaffirmed the Fed's concerns with the global economy, but fell short of signaling more aggressive rate cuts going forward. Developments since the last policy meetings by both Central Banks have been generally negative (including the latest round of U.S. tariffs and China's retaliation, the growing risk of hard Brexit and the dissolution of the Italian government), suggesting that Central Banks will maintain their accommodative policy stance, with several EM Central Banks following suit.

Weekly Outlook

- **We estimate 2Q2019 Brazil GDP growth at 0.2% q/q, with the services sector outpacing manufacturing.** In addition, we are looking for July data to confirm the gradual recovery of job market conditions, which we forecast to persist at least through the end of the year.
- **Externally, the main highlights will be July inflation and consumption indicators in the U.S.** The most recent retail sales data point to stronger consumption in the period, while core inflation have likely continued to recede. Finally, China, the Eurozone and the U.S. will all release further survey data.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 08/26				
08:00	Brazil	FGV: Industrial Confidence (Aug)		
08:25	Brazil	BCB: Focus Survey		
10:30	Brazil	BCB: Current Account Balance (Jul)		
15:00	Brazil	MDIC: Trade Balance (weekly)		
05:00	Germany	IFO Business Climate (Aug)		
Tuesday 08/27				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		0.31% (MoM)
08:00	Brazil	FGV: Construction Confidence (Aug)		
03:00	Germany	GDP (2Q)	-0.1% (QoQ)	-0.1% (QoQ)
Wednesday 08/28				
08:00	Brazil	FGV: Services Confidence (Aug)		
10:30	Brazil	BCB: Press Release - Monetary Policy (Jul)		
-	Brazil	Federal Debt Total (Jul)		
Thursday 08/29				
08:00	Brazil	FGV: IGP-M (Aug)	-0.55% (MoM)	-0.72% (MoM)
09:00	Brazil	GDP (2Q)	0.1% (QoQ)	0.2% (QoQ)
09:00	Brazil	IBGE: PPI (Jul)		
14:30	Brazil	Central Govt Budget Balance (Jul)		R\$ 190 b
09:30	USA	GDP (2Q)	2.0% (QoQ)	2.0% (QoQ)
Friday 08/30				
08:00	Brazil	FGV: Business Confidence (Nov)		
09:00	Brazil	IBGE: Unemployment Change (Jul)	11.8%	11.9%
10:30	Brazil	BCB: Press Release - Fiscal Policy (Jul)		R\$ 2.6 b
-	Brazil	Aneel: Tariff range		
06:00	Eurozone	CPI		
-	China	Manufacturing PMI (Aug)		

	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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