

## Economic growth moderates in the third quarter

### Overview

- **The Brazilian real (BRL) has strengthened this week, as it moved closer in line with its emerging peers.** We believe that the BRL will continue to appreciate, and subsequently hit BRL 4.00/USD by the end of the year. The slowdown in global growth and the ramifications of the trade dispute between the U.S. and China will keep the currency from appreciating in 2019.
- **Inflation remains muted, and we do not see the devaluation having a significant impact on prices, given that it has been largely offset by a fall in commodity prices.** The IPCA for August came in at 0.10% and core prices continue to hover around 2.5%, reinforcing our assessment.
- **The Brazilian economy has failed to build on its momentum this quarter. The first figures announced for the period point to a still sluggish growth rate of 0.1%.** The industrial sector contracted again in July, this time by 0.3%, while auto manufacturing fell 6.5% in August. There is still a lot of room for new interest rate cuts, considering the inflation and economic activity outlooks, and the Selic rate is expected to drop to 4.75% before the end of the year, and to stay at that level through 2020.
- **Some global risks appeared to have eased this week.** While the U.S. and China seem unlikely to reverse their recent tariff hikes, the willingness by both sides to trade with one another appears to keep escalations in check. On Brexit, the British Prime Minister lost the autonomy to lead the process without Parliament approval, which lowers the odds of a no-deal exit.
- **Nonetheless, the world economy continues to lose steam.** The ISM Manufacturing in the US fell to 49.1 in August from 51.2 in the previous month, while the ISM Services rose from 53.7 in July to 56.4 this past month. The labor market continues to hold strong, with 130,000 jobs created in August after 159,000 jobs were added in July. The industrial sector's numbers reinforce the concern about the slowdown of the U.S. economy, which should lead to an additional 125 b.p. cut to the interest rate until next year. In any case, the U.S. continues to be more resilient than the rest of the world.

### The week ahead

- **In Brazil, retail and services figures are the highlights for next week.** We expect retail to show a 0.2% pickup while services will rise 0.5%, both in line with our GDP growth estimate of 0.1% for the quarter.
- **Internationally, all eyes will be on the ECB's monetary policy meeting.** We expect the deposit rate to fall 0.1% and the Quantitative Easing program to be expanded. The ECB is trying to counter the sharp slowdown of the Eurozone economy, but has little ammunition to do so, as the interest rate is already very close to zero. Inflation data from China and the U.S. are also scheduled to be announced over the course of the week.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 09/09</b>				
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
22:30	China	CPI (Aug)		
22:30	China	PPI (Aug)		
<b>Tuesday 09/10</b>				
08:00	Brazil	FGV: IGP-M (1st preview) (Set)		
09:00	Brazil	IBGE: Industrial Production - Regional (Jul)		
09:00	Brazil	IBGE: Agricultural production Survey (Aug)		
09:00	Brazil	Conab: 12th Grains crop survey 2018/2019		
<b>Wednesday 09/11</b>				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
09:00	Brazil	IBGE: Retail sales (PMC) (Jul)		0.2% (MoM)
14:30	Brazil	BCB: Currency Flows (weekly)		
09:30	USA	PPI (Aug)		
<b>Thursday 09/12</b>				
09:00	Brazil	IBGE: Services Sector Volume (PMS) (Jul)		0.7% (YoY)
03:00	Germany	CPI (Aug)		
06:00	Eurozone	Industrial Production (Jul)		
08:45	Eurozone	ECB: Main refinancing rate	0.00%	0.00%
08:45	Eurozone	ECB: Depository facility rate	-0.50%	-0.50%
09:30	USA	CPI (Aug)		
20:00	Peru	Central bank meeting		
-	USA	USDA: World Agricultural Supply and Demand Estimates		
<b>Friday 09/13</b>				
09:00	Brazil	BCB: Economic Activity Index (Jul)		
11:00	USA	University of Michigan Sentiment Index (Sep)		
<b>During the week</b>				
-	Brazil	Tax Collections (Aug)		
-	China	Trade Balance (Aug)		

	2017	2018	2019	2020
Consumer inflation - IPCA (%)	2.95	3.75	3.50	3.9
GDP growth (%)	1.1	1.1	0.8	1.9
Industrial Production (%)	2.5	1.1	0.6	1.8
Retail Sales (%)	4.0	5.0	4.0	4.5
Job Creation (in thousands)	1899	966	742	1066
Unemployment Rate (% of labor force, avg)	12.7	12.3	12.5	12.3
Outstanding Credit Growth (%)	-0.5	5.0	7.5	9.4
Trade Balance (USD bn)	64.0	53.1	48.1	54.1
Current Account (USD bn)	-7.2	-15.0	-28.5	-34.3
Exchange Rate (BRL/USD, eop)	3.31	3.87	4.00	3.80
Selic Rate (% eop)	7.00	6.50	4.75	4.75
Primary Balance (BRL bn)	-111	-108.3	-135	-100.0
Gross Debt (% of GDP)	74.1	76.7	77.8	79.4

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