

## Central Bank inflation forecasts show room for additional Selic rate cuts

### Overview

- **Inflation forecasts below the target in a longer horizon reinforce the scenario that there is still room for more interest rate cuts.** Based on the forecasts reported in the minutes of the Monetary Policy Committee (Copom) and the Inflation Report, the Central Bank confirmed that the inflation's prospective scenario remains quite favorable, with forecasts below the center of the target at least by late 2021 in all scenarios. We expect this controlled inflation scenario – confirmed by preliminary CPI results in September, with core inflation running at around 3% in the last 12 months, and PPI deflation – to allow the Central Bank to drive the Selic rate to 4.75% by late 2019.
- **Multiple indicators have confirmed a scenario of recovering economy throughout the third quarter.** Job market data suggest an improvement in August, with net formal job creation above expectations and a still contained wage gains, without weighing on inflation. Credit grew 5.1% last month, driven by individual credit lines, supporting our forecast of an upsurge in demand. Confidence among consumers and the service sector also improved in September, reflecting more favorable expectations, despite the industry, retail and construction surveys revealing stability or drops. For now, we maintain a moderate GDP growth estimate for the third quarter (+0.1%) followed by an accelerated growth thereafter.
- **New risks posed by political rattling coming from the U.S. increase the external scenario's volatility.** The impeachment inquiry initiated against U.S. President Donald Trump ushered in yet another risk vector within an environment that remains volatile with uncertainties surrounding Brexit and concerns regarding global growth. The week was also marked by trade tensions cooling off, among optimistic statements from the U.S. President on a potential deal, corresponded by China's refreshed willingness to buy more American commodities. Regarding the economic indicators, preliminary data from the main surveys are still in line with the U.S. growth gap compared to the rest of the world, which helps keep the U.S. dollar ahead of most currencies.

### The week ahead

- **Economic data will be the domestic agenda's highlight in a somewhat quiet week.** Industrial output in August should reveal some growth after three consecutive months dropping, and new vehicle registrations in September will help set the tone of the economic activity by the end of the third quarter.
- **Overseas, U.S. payroll and global activity will be the main indicators of the agenda.** Final industry and service PMI in the U.S., Eurozone and China should still point towards a growth gap favoring the U.S. in September. The persistence of the U.S. job market's growth trend will also be assessed for the same period.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 09/30</b>				
08:25	Brazil	BCB: Focus Survey		
10:30	Brazil	BCB: Press Release - Fiscal Policy (Aug)		R\$ -11,0 b
15:00	Brazil	MDIC: Trade Balance (weekly)		
05:30	United Kingdom	GDP (2Q - F)	-0.2% (QoQ)	
09:00	Germany	CPI (Sep - P)	0.1% (MoM)	
-	China	Composite PMI (Sep)*	49.6	
*The indicator will be released on September, 29th				
<b>Tuesday 10/01</b>				
09:00	Brazil	IBGE: Industrial Production (PIM) (Aug)		0,8% (MoM)
10:00	Brazil	Markit: PMI Manufacturing (Sep)		
10:00	Brazil	CNI: Capacity Utilization (Aug)		
15:00	Brazil	MDIC: Trade Balance - monthly (Sep)		R\$ 2.9 b
-	Brazil	Fenabreve: Vehicle sales (Sep)		
04:55	Germany	Markit: Manufacturing PMI (Sep - F)	41.4	
05:00	Eurozone	Markit: Manufacturing PMI (Sep - F)	45.6	
11:00	USA	ISM Manufacturing (Sep)	50.5	
<b>Wednesday 10/02</b>				
05:00	Brazil	FIPE: Consumer Price Index - monthly (Sep)		
14:30	Brazil	BCB: Commodity Price Index (Sep)		
14:30	Brazil	BCB: Currency Flows (weekly)		
09:15	USA	Employment Change (ADP) (Sep)	140k	
<b>Thursday 10/03</b>				
10:00	Brazil	Markit: Composite PMI (Sep)		
04:55	Germany	Markit: Composite PMI (Sep - F)	49.1	
05:00	Eurozone	Markit: Composite PMI (Sep - F)	50.4	
09:30	USA	Initial Jobless Claims - Weekly		
11:00	USA	ISM Services (Sep)	55.2	
<b>Friday 10/04</b>				
-	Brazil	Anfavea: Vehicle Production (Sep)		
09:30	USA	Unemployment Rate (Sep)	3.7%	
09:30	USA	Change in Nonfarm Payrolls (Sep)	140k	

	2017	2018	2019	2020
Consumer inflation - IPCA (%)	2.95	3.75	3.50	3.90
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
Gross Debt (% of GDP)	74.1	76.7	77.8	79.4

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