

Pension reform moving forward in the Senate

Overview

- **The pension reform proposal was approved in the Senate in a first round voting.** Part of the expected savings was cut with the withdrawal of changes to salary bonuses. Regardless, the savings with the reform is relevant – around BRL 800 billion – and will contribute to meeting the spending cap and the country's fiscal consolidation as a result. Gross debt reached 79.8% of the GDP in August, reinforcing the need for these pension changes and other adjustments to public finances. There is still one more vote in the Senate, which should take place by the end of this month. In addition to passing the bill itself, overcoming this phase is important for other items of the agenda, such as the tax reform, the federative pact, and privatization/concessions, all of which are relevant to the country's growth.
- **Industry improvement in August is another favorable indicator of the third quarter.** Growth of 0.8% in the period was another positive surprise, driving us to calibrate our expectation of expanding the GDP from 0.1% to 0.2% in Q3. In addition to the stronger formal job creation, industry and credit results, we expect retail trade to pick up the pace, including the effect of releasing FGTS funds.
- **The global economic slowdown has become more widespread, impacting the United States.** While signs of a slowdown have been apparent in Europe for a while now, U.S. data is now beginning to indicate that the country's economy is already heading towards a sharper cooling. Industry ISM dropped from 49 to 47.8 points, reinforcing the strong deceleration trend in industrial activity. This worsening also seems to impact the service sector, whose ISM dropped from 56 to 52.6 points – still above neutral (50). In addition, while the US job market continues at a robust pace with 136,000 new jobs in September, a slowdown in earnings – from an annual increase of 3.2% in August to 2.9% last month – reinforces our view of a more widespread cooling of economic activity in the US.
- **Market prices responded to these concerns about world growth, accentuated by weaker U.S. data.** If the U.S. economy begins to lose steam, the U.S. dollar is likely to depreciate, which may be positive for emerging markets. However, financial flows to these countries also depend on risk conditions. In other words, if faced with a global recession or lack of monetary policy instruments to stimulate advanced economies, risk aversion can be a major constraint for the appreciation of emerging market currencies.

The week ahead

- **All eyes will be on September retail and IPCA data next week in Brazil.** After the positive retail surprise we had in July, we expect a slight drop of 0.1% in August. This result is compatible with our forecast of +0.2% of the GDP in the third quarter. For the IPCA, we expect a deflation of 0.03%, which emphasizes a very controlled current inflation environment.
- **The highlight of the agenda abroad will be the FOMC minutes and the chairman of the Fed's speech.** With increasingly clearer signs of global slowdown, Jerome Powell's speech becomes more relevant, and it's worth remembering that in the last decision he reinforced the importance of monitoring the contagion of international activity for the U.S. economy. It will also be important to track how scheduled US-China talks develop throughout next week.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 10/07				
08:00	Brazil	FGV: Employment Indicators (Sep)		
08:25	Brazil	BCB: Focus Survey		
10:00	Brazil	Anfavea: Vehicle Production (Sep)		
15:00	Brazil	MDIC: Trade Balance (weekly)		
Tuesday 10/08				
08:00	Brazil	FGV: IGP-DI (Sep)	0.31% (MoM)	0.49% (MoM)
09:00	Brazil	IBGE: Industrial Production - regional (Aug)		
03:00	Germany	Industrial Production (Aug)	4.2% (YoY)	
15:30	USA	Fed: J. Powell's speech at Denver		
Wednesday 10/09				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA) (Sep)	0.03% (MoM)	-0.03% (MoM)
15:30	USA	Fed: J. Powell's speech		
14:30	Brazil	BCB: Currency Flows (weekly)		
15:00	USA	Fed Minutes		
Thursday 10/10				
08:00	Brazil	FGV: IGP-M (1st preview) (Oct)		
09:00	Brazil	Conab: 1st Grains crop survey 2019/2020 (Oct)		
09:00	Brazil	IBGE: Retail sales (PMC) (Aug)		0,3% (m/m)
09:30	USA	Initial Jobless Claims - Weekly	215k	
09:30	USA	CPI (Sep)	0.1% (MoM)	
20:00	Peru	Central bank meeting		2.25%
	USA	USDA: World Agricultural Supply and Demand Estimates		
Friday 10/11				
03:00	Germany	CPI (Sep - F)	0% (MoM)	
11:00	USA	University of Michigan Sentiment (Oct - P)	92.0	
09:00	Brazil	IBGE: Services Sector Volume (PMS) (Aug)		-0.3% (YoY)
09:00	Brazil	IBGE: New IPCA weight		

	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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