

The economy is gaining traction, without generating inflationary pressures

Overview

- **Domestic activity has been showing continued signs of improvement.** Figures announced this week for the auto manufacturing and retail sales suggest that third-quarter GDP growth (+0.3%) will come in higher than we expected months ago. The fourth quarter is expected to receive a boost from the release of FGTS funds and from the effects of interest rate cuts, which are becoming more pronounced.
- **Inflation remains muted despite the recovery.** The IPCA came in at -0.04% in September, helped by falling food prices. Core prices are still in check, with the 12-month rate at less than 3.0%. As a result, we have trimmed our IPCA forecast to 3.1% in 2019 and 3.7% in 2020. Furthermore, IBGE released its most recent Household Budget Survey containing the new weights for the consumer price index from 2020 onwards. We highlight the lower share of food items and a higher share for the transportation group. Overall, this new structure has the potential to reduce next year's inflation by 0.11 pp. All things considered, there is room for more cuts to the benchmark Selic rate, which is expected to reach 4.5% in December and stay unchanged throughout 2020.
- **On the international front, global risks remain on the radar.** Talks of a possible U.S.-China trade deal led to significant volatility in the markets during the week. A partial agreement is speculated, with the implementation of a currency pact and the suspension of US tariff increases on Chinese goods, which were scheduled to take place before the end of the year.
- **We expect U.S. interest rates to continue to fall in 2019.** The FOMC meeting minutes and Jerome Powell's statements have been seen as signs that the door is open for more cuts. The Fed recognizes that the U.S. economy has been losing traction. Meanwhile, the inflation outlook has been asymmetrical downwards. In fact, the consumer price index for September released this week came in at 1.7%, falling below market expectations.

The week ahead

- **The IBC-Br for August, which will be released next week, is expected to show that the economy improved in the third quarter.** We believe that the index will come in 0.2% higher than in July.
- **In the international arena, we will get activity indicators for both the U.S. and China.** China is scheduled to release its third-quarter GDP growth figures, which is expected to have slowed to 6.1%. For the U.S., we will get the leading indicators for October and industrial production in September, which could confirm that the American economy is losing some steam. Brexit will also be on the radar over the next week, as Boris Johnson is set to submit a formal proposal to the European Union.

| Time | Country | Event | Forecast (Bloomberg) | Forecast (Depec) |
|--|----------|--|----------------------|------------------|
| Monday 10/14 | | | | |
| 08:25 | Brazil | BCB: Focus Survey | | |
| 09:00 | Brazil | BCB: Economic Activity Index (Aug) | -0.15% (MoM) | -0.2% (MoM) |
| 15:00 | Brazil | MDIC: Trade Balance (weekly) | | |
| 06:00 | Eurozone | Industrial Production (Aug) | -2.6% (YoY) | |
| 22:30 | China | CPI (Sep) | 2.9% (YoY) | |
| - | China | Trade Balance (Sep)* | US\$ 35 b | |
| - | USA | National Holiday - Closed markets | | |
| *The indicator will be released on October, 13th | | | | |
| Tuesday 10/15 | | | | |
| 05:25 | USA | Fed St. Louis: J. Bullard's speech in London | | |
| 06:00 | Germany | ZEW Survey Expectations (Oct) | -25.0 | |
| 09:30 | USA | Índice Empire Manufacturing de atividade (Oct) | 2.3 | |
| Wednesday 10/16 | | | | |
| 08:00 | Brazil | FGV: IGP-10 (Oct) | | 0.75% (MoM) |
| 11:00 | Brazil | Fiesp/Ciesp: Industrial Employment Index (Sep) | | |
| 14:30 | Brazil | BCB: Currency Flows (weekly) | | |
| 06:00 | Eurozone | CPI (Sep) | 0.2% (MoM) | |
| 11:45 | USA | Fed Chicago: C. Evans's speech | | |
| 15:00 | USA | Fed: Beige Book | | |
| Thursday 10/17 | | | | |
| 05:00 | Brazil | FIPE: Consumer Price Index (weekly) | | |
| 09:30 | USA | Fed Philadelphia Outlook (Oct) | 9.1 | |
| 09:30 | USA | Initial Jobless Claims - Weekly | | |
| 10:15 | USA | Industrial Production (Sep) | -0.1% (MoM) | |
| 15:00 | USA | Fed Chicago: C. Evans takes part in event in Chicago | | |
| 17:20 | USA | Fed NY: J. Williams's speech | | |
| 23:00 | China | GDP (3Q - P) | 6.1% (YoY) | |
| 23:00 | China | Fixed Assets Investments (Sep) | 5.5% (YoY) | |
| 23:00 | China | Industrial Production (Sep) | 5.5% (YoY) | |
| Friday 10/18 | | | | |
| 08:00 | Brazil | FGV: IGP-M (2nd preview) (Oct) | 0.16% (MoM) | |
| 10:00 | Brazil | CNI: Industrial Confidence (Oct) | | |

| | 2017 | 2018 | 2019 | 2020 |
|---|------|--------|-------|-------|
| Consumer inflation - IPCA (%) | 2.95 | 3.75 | 3.10 | 3.70 |
| 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 | 42.0 | 51.4 |
| Current Account (USD bn) | -7.2 | -15.0 | -41.0 | -43.3 |
| Exchange Rate (BRL/USD, eop) | 3.31 | 3.87 | 4.00 | 3.80 |
| Selic Rate (% eop) | 7.00 | 6.50 | 4.50 | 4.50 |
| 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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