

Passing of the pension reform makes room for additional advances in the structural agenda

Overview

- **The pension reform was passed this week in the second round in the Senate, paving the way for further advances in the economy's structural agenda.** The expected savings over the next ten years, estimated at around BRL 800 billion, and the maintenance of the spending cap will be key factors in reducing long-term fiscal risks, with potentially positive impacts on domestic asset prices.
- **The appreciation of the Brazilian currency was particularly significant and tends to continue on course with more evident signs of recovery for the Brazilian economy.** This trend could be intensified with further advances in the reform agenda, in a scenario of reduced space for strengthening of the U.S. dollar. This assumption for the U.S. currency is associated with the synchronized slowdown of the global economy, including that of the United States, while the Brazilian GDP is expected to pick up speed between this year and next.
- **The reduction in the trade balance may dampen, but not reverse, the exchange rate appreciation trend.** This mainly results from lower external demand, which has been pressuring our external accounts. Regardless, foreign direct investments continue to finance the current account deficit without difficulty. September data indicated a net inflow of USD 6.3 billion from these investments, a very strong result given the USD 3.5 billion current account deficit in the period.
- **Copom will continue to see room for interest rates to drop, given the benign inflation scenario.** Core inflation is still well behaved despite the surprise with the October IPCA-15, which rose 0.09%. In addition, the recent exchange rate appreciation contributes to reducing the prospective risks to inflation. Along these lines, a 0.5 p.p. Selic cut is expected next week.
- **With no further monetary easing, the European Central Bank continued to signal its willingness to minimize risks of a recession as the region's economic slowdown intensified.** At his last meeting as president of the institution, Mario Draghi reinforced his call for an expansionist policy in economies with fiscal space, such as Germany.

The week ahead

- **The Copom meeting will be the highlight in Brazil, with all eyes on prospective interest rate signaling.** We expect the Selic to be reduced to 5.0%. We will also have the FGV business surveys (October) and job market data (September), which are expected to show a gradual recovery in this second half of the year.
- **The FOMC meeting will be the highlight in the international market.** We expect a 0.25 p.p. cut in the benchmark interest rate for a range between 1.50% and 1.75%. Despite the disagreement at the previous meeting, the Fed is expected to continue its preventive monetary policy. Although recent advances have been made in negotiations between the U.S. and China and between the United Kingdom and the European Union, the risks arising from the global scenario remain asymmetrical and downwards, especially for U.S. industry.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 10/28				
08:00	Brazil	FGV: Construction Confidence (Oct)		
08:00	Brazil	FGV: Construction Costs (Oct)		
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
Tuesday 10/29				
08:00	Brazil	FGV: Industrial Confidence (Oct)		
-	Brazil	Federal Debt Total (Sep)		
11:00	USA	Consumer Confidence (Oct)	127.9	
Wednesday 10/30				
08:00	Brazil	FGV: Services Confidence (Oct)		
08:00	Brazil	FGV: IGP-M (Oct)	0.63% (MoM)	0.72% (MoM)
14:30	Brazil	Central Govt Budget Balance (Sep)		R\$ -23.9 b
14:30	Brazil	BCB: Currency Flows (weekly)		
18:00	Brazil	BCB: Central bank meeting	5.00%	5.00%
09:00	Mexico	GDP (3Q - P)		
09:15	USA	Employment Change (ADP) (Oct)	132k	
09:30	USA	GDP (3Q - P)	1.6% (QoQ)	1.7% (QoQ)
10:00	Germany	CPI (Oct - P)	0.1% (MoM)	
15:00	USA	Central bank meeting	2.00%	1.75%
22:00	China	Composite PMI (Oct)	49.7	
Thursday 10/31				
09:00	Brazil	IBGE: Unemployment Change (Sep)		11.6%
09:30	Brazil	BCB: Press Release - Fiscal Policy (Sep)		R\$ -22.4 b
07:00	Eurozone	CPI (Oct - P)	0.1% (MoM)	
07:00	Eurozone	GDP (3Q - P)	0.1% (QoQ)	0.2% (QoQ)
09:30	USA	Initial Jobless Claims - Weekly		
09:30	USA	Personal Spending (Sep)	0.3% (MoM)	
09:30	USA	Personal Income (Sep)	0.3% (MoM)	
-	Colombia	Central bank meeting	4.25%	4.25%
-	Japan	Central bank meeting		-0.1%
Friday 11/01				
09:00	Brazil	IBGE: Industrial Production (PIM) (Sep)		1.0% (MoM)
10:00	Brazil	Markit: PMI Manufacturing (Oct)		
10:00	Brazil	CNI: Capacity Utilization (Sep)		
11:00	Brazil	Fiesp: Capacity Utilization (Sep)		
15:00	Brazil	MDIC: Trade Balance - monthly (Oct)		
-	Brazil	Fenabreve: Vehicle sales (Oct)		
06:30	United Kingdom	Markit: Manufacturing PMI (Oct)	48.6	
09:30	USA	Unemployment Rate (Oct)	3.6%	
09:30	USA	Change in Nonfarm Payrolls (Oct)	93000	
11:00	USA	ISM Manufacturing (Oct)	49	
14:00	USA	Fed: R. Clarida speaks in New York		

	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	53.0	42.0	51.4
Current Account (USD bn)	-7.2	-21.9	-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

Technical Staff

Department of Economic Research and Studies Fernando Honorato Barbosa

Economists Andréa Bastos Damico / Ariana Stephanie Zerbini / Constantin Jancsó / Fabiana D'Atri / Igor Velecico / Leandro Câmara Negrão / Mariana Silva de Freitas / Myriã Tatiany Neves Bast / Priscila Pacheco Trigo / Rafael Martins Murrer / Renan Bassoli Diniz / Robson Rodrigues Pereira / Thiago Coraucci de Angelis / Thomas Henrique Schreurs Pires

Interns Ana Beatriz Moreira dos Santos / Daniel Funari Fouto / Gustavo Rostelato de Miranda / Lucas Oliveira Costa da Silva

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