

Brazil's Central Bank signaled another 50bps rate cut in December

Overview

- **The Central Bank's Copom statement published after last week's policy meeting indicated another 50 bps interest rate cut at the next meeting, which if confirmed, will bring the Selic policy rate to 4.5%.** Central Bank models point to inflation below the center of the target across the forecast horizon, suggesting that there is room for further interest rate cuts. However, the Committee included a caveat in its assessment of the balance of risks that has to do with the lags of monetary policy, indicating some caution regarding the outlook for inflation and interest rates over longer period of times. In light of this, we believe that growth and the inflation outlook will be key in the Central Bank's decisions about additional easing. The statement is consistent with our forecast that the current easing cycle will end with the Selic policy rate at 4.5%, but leaves the door open for additional easing in 2020.
- **Economic activity continues to recover, with further advances in industrial production.** The 0.3% increase in industrial production in September was driven by stronger performance of manufacturing, especially durable goods. These results, along with favorable signs from the credit market, consumption and formal job creation, support our forecast of 0.3% Q/Q GDP growth in 4Q2019.
- **In the U.S., the Fed signaled that it will not cut interest rates again in December if current conditions persist.** The FOMC recognized an improvement in risk factors (trade tensions and Brexit) and highlighted that the economy continues to grow, with a strengthened job market and resilient consumption. In fact, the third quarter GDP results exceeded market expectations, advancing at an annualized rate of 1.9%, and job creation was also higher than expected in October (payroll growth of 128k). Furthermore, the discussion regarding the lags in monetary policy also seems consistent with at least a pause in the easing cycle.
- **On the other hand, growth in the rest of the world remains quite subdued.** The October PMI index for China was weaker than expected, while 3Q19 GDP was flat. Overall, uncertainty in these regions still weigh on global growth expectations.

The week ahead

- **The Copom Minutes may provide additional information regarding the Central Bank's next steps on monetary policy.** Both inflation and the Central Bank's inflation forecasts will likely remain below the center of the inflation target. Anfavea will publish vehicle production and sales for the month of October, providing a first glimpse on the state of the economy last month.
- **The external agenda is relatively light.** The main highlights are U.S. and Eurozone PMI indices and China trade balance, all for the month of October.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 11/04				
04:00	Brazil	FIPE: Consumer Price Index - monthly (Oct)		0.19% (MoM)
08:25	Brazil	BCB: Focus Survey		
05:55	Germany	Markit: Manufacturing PMI (Oct - F)	41.9	
06:00	Área do Euro	Markit: Manufacturing PMI (Oct - F)	45.7	
15:30	Área do Euro	ECB President Lagarde Speaks in Berlin		
Tuesday 11/05				
08:00	Brazil	BCB: Copom minutes		
09:00	Brazil	IBGE: PPI (Sep)		
10:00	Brazil	Markit: Composite PMI (Oct)		
06:30	United Kingdom	Markit: Composite PMI (Oct)		
12:00	USA	ISM Services (Oct)	53.4	
14:40	USA	Fed Dallas: R. Kaplan's speech		
20:00	USA	Fed Minneap.: N. Kashkari's speech		
Wednesday 11/06				
14:30	Brazil	BCB: Currency Flows (weekly)		
14:30	Brazil	BCB: Commodity Price Index (Oct)		
-	Brazil	Anfavea: Vehicle Production (Oct)		
05:55	Germany	Markit: Composite PMI (Oct - F)	48.6	
06:00	Eurozone	Markit: Composite PMI (Oct - F)	50.2	
10:00	USA	Fed Chicago: C. Evans's speech		
11:30	USA	Fed NY: J. Williams's speech		
17:15	USA	Fed Filad.: P. Harker's speech		
Thursday 11/07				
08:00	Brazil	FGV: IGP-DI (Oct)	0.58% (MoM)	0.32% (MoM)
09:00	Brazil	IBGE: Consumer Price Index (IPCA) (Oct)	0.09% (MoM)	0.04% (MoM)
04:00	Germany	Industrial Production (Sep)	-4.5% (YoY)	
09:00	United Kingdom	Central bank meeting	0.75%	0.75%
10:30	USA	Initial Jobless Claims - Weekly		
15:05	USA	Fed Dallas: R. Kaplan's speech		
20:00	Peru	Central bank meeting	2.50%	2.50%
Friday 11/08				
08:00	Brazil	FGV: Employment Indicators		
09:00	Brazil	IBGE: Industrial Production - regional		
-	USA	USDA: World Agricultural Supply and Demand Estimates		
12:00	USA	University of Michigan Sentiment (Nov - P)	96	
22:30	China	CPI (Oct)	3.0% (YoY)	
During the week				
11/08	China	Trade Balance (Oct)	US\$ 40 b	

	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

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