

Government strives to advance on the reform agenda in Brazil

Overview

- **The reform agenda could move forward with new fiscal measures.** Following the pension reform and continuing the fiscal consolidation effort, the Government forwarded three Constitutional Amendment Proposals (PECs) to the Senate. The set of measures includes automatic spending cut triggers in the event of noncompliance with tax rules, proposals for budget deindexation and allocation of unused resources in public funds for debt relief. The proposals will be processed simultaneously, but the PEC for the triggers is probably going to gain priority, since it makes room in the budget and expands government flexibility, respecting the spending cap.
- **On the monetary policy side, the Copom minutes set a cautious tone for Selic rate cuts beyond the 50 b.p. expected in December.** Despite projections consistent with IPCA below the center of the target and a benign inflation scenario, the minutes pointed out that there is no parallel in Brazilian history for the current degree of monetary stimulus – especially when considering advances in the reform agenda and fiscal adjustment. The current framework of anchored expectations and well-behaved core inflation tends to prevail, reinforced by the October IPCA, making room for an additional 25 b.p. cut in February. A context of still sluggish economic resumption throughout 2020 may drive the Selic below our current expectation for closing at 4.25% next year.
- **In the global economy, early data for the quarter and prospects for a partial trade deal avert the risks of a more intense slowdown.** Positive surprises with October surveys in the U.S. and Europe point to a better transition to the fourth quarter in developed countries. In particular, the U.S. service sector ISM advanced more than 2 points to 54.7 points and is compatible with the break in the interest rate cutting cycle suggested by the Fed in the December meeting. If the expectation is confirmed that China and the U.S. will begin a simultaneous and gradual process of tariff removal on imported products, more consistent signs of a resumption of the global economy should appear, increasing the chances of global growth above our forecast of 2.8% in 2020 for now.

The week ahead

- **Domestic agenda highlights will be the last data points for the third quarter GDP.** Data on retail sales, service volumes and the monthly GDP proxy calculated by the Central Bank will be released throughout the week. Following upward revisions over the past few weeks, we project GDP growth of 0.3% in the third quarter.
- **The foreign agenda will be full in a week marked by speeches.** Several members of the Fed will speak, offering more details about the change in the FOMC forward guidance. Economic data for the month of October may attest to the Chinese economy's slowdown in the beginning of the fourth quarter, as well as new surveys in the Eurozone, already providing indications for November.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 11/11				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:00	Brazil	FGV: IGP-M (1st preview) (Nov)		
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
06:30	United Kingdom	GDP (3Q - P)	0.4% (QoQ)	
10:15	USA	Fed Boston: E. Rosengren's speech		
-	USA	National Holiday - Closed markets		
Tuesday 11/12				
09:00	Brazil	IBGE: Services Sector Volume (PMS) (Sep)		0.7% (YoY)
07:00	Germany	ZEW Survey Expectations (Nov)		
14:55	USA	Fed Philadelphia: P. Harker's speech		
20:00	USA	Fed Minneapolis: N. Kashkari's speech		
Wednesday 11/13				
08:00	Brazil	Conab: 2nd Grains crop survey 2019/2020		
09:00	Brazil	IBGE: Retail sales (PMC) (Sep)		0.5% (MoM)
04:00	Germany	CPI (Oct - F)		
07:00	Eurozone	Industrial Production (Sep)		
10:30	USA	CPI (Oct)	0.3% (MoM)	
12:00	USA	Fed: J. Powell speech		
20:50	Japan	GDP (3Q - P)	0.2% (QoQ)	
23:00	China	Industrial Production (Oct)	5.6% (YoY)	
23:00	China	Fixed Assets Investments (Oct)	5.4% (YoY)	
Thursday 11/14				
08:00	Brazil	FGV: IGP-10 (Nov)		0.35% (MoM)
09:00	Brazil	BCB: Economic Activity Index (Sep)		0.3% (MoM)
11:00	Brazil	Fiesp/Ciesp: Industrial Employment Index (Oct)		
04:00	Germany	GDP (3Q - P)		-0.1% (QoQ)
07:00	Eurozone	GDP (3Q - P)	0.2% (QoQ)	0.2% (QoQ)
10:30	USA	Initial Jobless Claims - Weekly		
12:00	USA	Fed: J. Powell speech		
16:00	Mexico	Central bank meeting	7.5%	7.5%
Friday 11/15				
-	Brazil	National Holiday - Closed markets		
07:00	Eurozone	CPI (Oct - F)	0.2% (MoM)	
10:30	USA	Índice Empire Manufacturing de atividade (Nov)	5.5	
11:15	USA	Industrial Production (Oct)	-0.3% (MoM)	
14:00	Colombia	GDP (3Q - P)		3.5% (YoY)

	2017	2018	2019	2020
Consumer inflation - IPCA (%)	2.95	3.75	3.24	3.60
GDP growth (%)	1.1	1.1	0.9	2.2
Industrial Production (%)	2.5	1.1	-0.5	1.8
Retail Sales (%)	4.0	5.0	4.0	4.5
Job Creation (in thousands)	1899	966	1298	1345
Unemployment Rate (% of labor force, avg)	12.7	12.3	11.9	11.4
Outstanding Credit Growth (%)	-0.5	5.0	5.5	9.4
Trade Balance (USD bn)	64.0	53.0	34.4	31.8
Current Account (USD bn)	-7.2	-21.9	-47.5	-50.5
Exchange Rate (BRL/USD, eop)	3.31	3.87	4.00	3.80
Selic Rate (% eop)	7.00	6.50	4.50	4.25
Primary Balance (BRL bn)	-111	-108.3	-85	-105
Gross Debt (% of GDP)	74.1	76.7	77.8	79.4

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