

Clearer signs of growth in the second half of the year

Overview

- **Both retail and the service sector outgrew expectations in September**, reinforcing a gradual GDP growth in the third quarter of 0.3%. There will also be an additional stimulus in retail with the release of BRL 45 billion in FGTS funds, which is one of the drivers behind the expected upsurge in growth to 0.7% in the last quarter of the year. Even the services sector, which is more dependent on income, has shown better results across the segments.
- These results are indicative of moderate growth. In order to secure a stronger growth rate, the next results must reveal a rising trend. We expect impacts on the activity from the current monetary flexibilization and additional interest rate cuts to 4.25%, in addition to the effects of reforms passing in Congress. On this topic, the government has presented a plan to boost first employment, featuring measures that also cover other reforms in the job market, in order to cut down on red tape and court expenses.
- **While core inflation remains low, there are significant supply risks in the horizon, especially in the livestock sector.** The IGP-10 rose 0.19% in November, but the main highlight was the upsurge in proteins in the month – surpassing 5%. This increase stems from the swine fever shortage in China, which is a market that Brazil has just recently started to access after the certification of meatpackers. In fact, beef exports to China virtually doubled in the last few months, pushing domestic prices earlier than expected. Our estimates for 2020 already consider an 11% increase in the livestock chain for final consumers.
- **In the global scenario, the week was marked by ambiguous signs coming from the Trade War.** In a speech, Trump confirmed the advancement of Phase 1 negotiations with China, but did not assume any commitment regarding deadlines or tariff reductions, indicating that the process should linger on over the next few weeks. The president of the Fed also gave a speech, underlining the positive signs of the economy and reinforcing that he does not believe any additional stimuli/negative interest are necessary.
- **The highlight in the economic agenda was the U.S. CPI in October, which rose 1.8%.** The result was driven by energy and automobiles – the latter affected by methodological changes. Still, the core dropped to 2.3%, which is a comfortable rate according to the Fed. We still expect a stability in interest rates in the next FOMC meeting. New cuts should only happen if we see weaker data in the next few months, which is increasingly unlikely as Phase 1 of the trade deal pushes forward.

The week ahead

- **The domestic agenda's highlight will be the IPCA-15 in November, which should rise 0.14%.** Besides confirming a still low level of inflation, attention now turns to an eventual rollover of beef prices to final consumers.
- **Abroad, the agenda includes the minutes of the last FOMC meeting and multiple preliminary economic indicators in November.** The Fed will release the minutes of its latest meeting, satisfied with the size of the interest cut cycle, especially amidst signs of reasonable resilience coming from U.S. economy. Preliminary indicators in November could confirm this trend.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 11/18				
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
08:30	Chile	GDP (3Q - P)		3.3% (YoY)
14:00	USA	Fed Cleveland: L. Mester's speech		
Tuesday 11/19				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:00	Brazil	FGV: IGP-M (2nd preview) (Nov)		
09:00	Brazil	IBGE: Quarterly employment survey (3Q)		
11:00	USA	Fed NY: J. Williams's speech		
Wednesday 11/20				
10:00	Brazil	CNI: Industrial Confidence (Nov)		
-	Brazil	SP Holiday - Closed markets		
16:00	USA	Fed Minutes		
Thursday 11/21				
10:30	USA	Fed Philadelphia Outlook	6.0	
10:30	USA	Initial Jobless Claims - Weekly		
10:30	USA	Fed Cleveland: L. Mester's speech		
12:10	USA	Fed Minneapolis: N. Kashkari's speech		
-	Peru	GDP (3Q - P)		3.0% (YoY)
Friday 11/22				
08:00	Brazil	FGV: Industrial Confidence (Nov - P)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA-15) (Nov)		
04:00	Germany	GDP (3Q - P)		
05:00	Eurozone	ECB: C. Lagarde's speech		
05:30	Germany	Markit: Composite PMI (Nov - P)		
06:00	Eurozone	Markit: Composite PMI (Nov - P)		
12:00	USA	University of Michigan Sentiment (Nov - F)	95.8	
During the week				
-	Brazil	Caged: Formal Job Creation Total (Oct)		65 k
-	Brazil	Tax Collections (Oct)		R\$ 134 b

	2017	2018	2019	2020
Consumer inflation - IPCA (%)	2.95	3.75	3.2	3.6
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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