

## Well-behaved inflation makes room for further Selic rate cuts

### Overview

- **The inflation outlook remains benign, despite the occasional inflationary pressures from food prices.** The mid-month consumer price index (IPCA-15) came in at 0.14% in November, bringing the 12-month rate to 2.7%, with core inflation remaining tame. Meat prices rose sharply, however, as African swine fever continues to impact global supplies and major markets have resumed imports of Brazilian beef. Meat prices are expected to remain pressured over the next few months, with price increases driven by seasonal factors. Despite these occasional pressures, core inflation remains well-behaved, which allows the Central Bank to slash the interest rate at its next two meetings scheduled for December and February. As a result, the benchmark Selic rate is set to reach 4.25% next year.
- **The pace of formal job creation already points to a drop in the unemployment rate.** According to data from the Caged employment report, approximately 71,000 formal jobs were created in October. After adjusting for seasonal factors, 74,000 jobs were created last month. Therefore, the quarterly moving average rose from 55,000 to 62,000 jobs created per month. According to our estimates, the net creation of approximately 50,000 formal jobs per month would be enough to stabilize the unemployment rate. Therefore, the current numbers from the Caged report suggest that unemployment is on a downward path.
- **In the global environment, the twists and turns in the negotiations between the U.S. and China have been keeping market volatility high.** This week's news has cast doubt on whether a "phase 1" trade deal between the two countries will be signed. Risk aversion in the markets led to a strengthening of the U.S. dollar against other currencies, including the Brazilian real, which has traded at weaker levels in recent weeks.
- **The Fed and the ECB have hinted at keeping interest rates unchanged and maintaining the stimulus package.** The FOMC minutes confirmed that U.S. interest rates should remain stable over the next few months. The labor market and consumer spending remain strong, while prospective risks have eased, despite the negative effects of trade tensions on manufacturing and investment. Likewise, the ECB's minutes recognized that the stimulus package announced in September was substantial, but also signaled that the bank is willing to adopt new stimulus measures if needed. On the other hand, the Chinese central bank continued to reduce the benchmark interest rate, albeit prudently and gradually.

### The week ahead

- **With the ongoing recovery, the domestic calendar is dominated by November's survey results,** which are expected to show improving consumer and business confidence levels.
- **Internationally, markets will be watching for activity indicators and the progress of trade negotiations between the US and China.** As the December 15 deadline for new tariffs on Chinese imports draws near, the market will continue to keep a watchful eye on the issue. Other important numbers due out next week include both U.S. economic activity and Eurozone's labor market indicators.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 11/25</b>				
08:00	Brazil	FGV: Consumer Confidence (Nov)		
08:25	Brazil	BCB: Focus Survey		
09:30	Brazil	BCB: Current Account Balance (Oct)		- US\$ 5.3 b
09:30	Brazil	BCB: Foreign Direct Investment (Oct)		US\$ 7.2 b
10:00	Brazil	CNI: Construction Confidence (Nov)		
15:00	Brazil	MDIC: Trade Balance (weekly)		
06:00	Germany	IFO Business Climate (Nov)	95	
09:00	Mexico	GDP (3Q - P)		
21:00	USA	Fed: J. Powell's speech		
<b>Tuesday 11/26</b>				
08:00	Brazil	FGV: Construction Costs (Nov)		
08:00	Brazil	FGV: Construction Confidence (Nov)		
-	Brazil	Federal Debt Total (Oct)		
12:00	USA	Consumer Confidence (Nov)	126.5	
<b>Wednesday 11/27</b>				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:00	Brazil	FGV: Retail Confidence (Nov)		
09:30	Brazil	BCB: Press Release - Monetary Policy (Oct)		
14:30	Brazil	BCB: Currency Flows (weekly)		
10:30	USA	Initial Jobless Claims - Weekly		
10:30	USA	GDP (3Q)	1.9% (QoQ)	
12:00	USA	Personal Spending (Oct)	0.3% (MoM)	
12:00	USA	Personal Income (Oct)	0.3% (MoM)	
16:00	USA	Fed: Beige Book		
<b>Thursday 11/28</b>				
08:00	Brazil	FGV: Industrial Confidence (Nov)		
08:00	Brazil	FGV: IGP-M (Nov)	0.22% (MoM)	0.16% (MoM)
14:30	Brazil	Central Govt Budget Balance (Oct)		R\$ 1.9b
10:00	Germany	CPI (Nov - P)	-0.7% (MoM)	
-	USA	National Holiday - Closed markets		
<b>Friday 11/29</b>				
08:00	Brazil	FGV: Services Confidence (Nov)		
09:00	Brazil	IBGE: Unemployment Change (Oct)	11.5%	11.6%
09:00	Brazil	IBGE: PPI Manufacturing (Oct)		
09:30	Brazil	BCB: Press Release - Fiscal Policy (Oct)		R\$ 1.7b
11:00	Brazil	Fiesp: Capacity Utilization (Oct)		
-	Brazil	Aneel: Tariff range (Dec)		
07:00	Eurozone	CPI (Nov - P)	-0.4% (MoM)	
22:00	China	Composite PMI (Nov)	49.6	
<b>During the week</b>				
-	Brazil	Tax Collections (Oct)	R\$ 138.9 b	R\$ 134.8b

	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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