

## Multiple vectors clout the dynamics of Brazil's currency

### Overview

- **A big part of the Brazilian real's recent depreciation reflects domestic vectors:** such as evidence that external financing conditions could be more challenging next year after the Central Bank unveiled revisions to the balance of payments data for 2019, or concern regarding the concentration of inflation shocks at the end of the year. In addition, other EM currencies (and in particular, LatAm currencies) lost growth this week, and the BRL was no different.
- **The economy continues to recover, driven by consumption.** According to data published by the Central Bank, credit growth was concentrated in products linked to consumption. The unemployment rate remained stable at 12,0%, but showed an improvement in job quality, with growth in formal payrolls growth. Business and consumer confidence indicators for November, meanwhile, suggest an overall improvement in economic conditions, but with moderate growth for the coming months.
- **Short-term inflation has been pushed by isolated factors, without contaminating core inflation, which remains well-behaved.** The IGP-M rose 0.30% in November, driven by a steep upsurge in protein prices, including both fresh (agriculture) and processed (industrial) protein. Even allowing for BRL depreciation, industrial wholesale prices remain well behaved, rising 1.0% in twelve months. Consumer prices have also followed this trend, allowing the Central Bank of Brazil to continue with the easing cycle. It is also important to note that beef prices have retreated over the last few days, in line with our view that the spike in beef prices was an isolated event.
- **Although the outlook for the global economy improved (particularly with regards to the U.S.), uncertainty persists regarding U.S.-China trade negotiations.** The U.S. economy remains resilient and inflation remains low: (i) Q3 GDP growth was revised to 2.1% (from 1.9%); (ii) qualitative industry indicators point towards an improvement in in November; and (iii) core inflation is up by just 1.6% y/y.

### The week ahead

- **Next week's indicators should confirm the ongoing recovery of Brazil's economy, revealing positive prospects for core inflation.** On the side of activity, we will have: i) Q3 GDP, which is expected to have grown 0.3% in the margin and 1.0% year over year; and ii) industrial output results for October, for which we forecast a 1.0% increase. Regarding inflation, the highlight will be the November IPCA, expected to increase by 0.48% – driven by protein prices.
- **Overseas, the market's attention will turn to U.S. job market data and multiple quality indicators from November.** The payroll should confirm the positive dynamics of the U.S. job market, and the PMI indexes should reveal a halt to the global industry's downturn.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 12/02</b>				
08:25	Brazil	BCB: Focus Survey		
09:00	Brazil	Markit: PMI Manufacturing (Nov)		
10:00	Brazil	CNI: Capacity Utilization (Oct)		
14:00	Brazil	MDIC: Trade Balance - monthly (Nov)		
-	Brazil	Fenabrave: Vehicle sales (Nov)		
05:55	Germany	Markit: Manufacturing PMI (Nov - F)		
06:00	Eurozone	Markit: Manufacturing PMI (Nov - F)		
06:30	United Kingdom	Markit: Manufacturing PMI (Nov - F)		
11:00	Área do Euro	ECB President Lagarde Speaks		
12:00	USA	ISM Manufacturing (Nov)	49.4	
<b>Tuesday 12/03</b>				
08:00	Brazil	IBGE: GDP (3Q - P)	0.4% (QoQ)	0.3% (QoQ)
<b>Wednesday 12/04</b>				
05:00	Brazil	FIPE: Consumer Price Index - monthly (Nov)		0.6% (MoM)
09:00	Brazil	IBGE: Industrial Production (PIM) (Oct)	0.4% (MoM)	1.0% (MoM)
09:00	Brazil	Markit: Composite PMI (Nov)		
14:30	Brazil	BCB: Commodity Price Index (Nov)		
05:55	Germany	Markit: Composite PMI (Nov - F)		
06:00	Eurozone	Markit: Composite PMI (Nov - F)		
06:30	United Kingdom	Markit: Composite PMI (Nov - F)		
10:15	USA	Employment Change (ADP) (Nov)	140k	
12:00	USA	ISM Services (Nov)	54.5	
18:00	Chile	Central bank meeting	1.5%	1.5%
<b>Thursday 12/05</b>				
10:00	Brazil	Anfavea: Vehicle Production (Nov)		
07:00	Eurozone	GDP (3Q - P)		
10:30	USA	Initial Jobless Claims - Weekly		
<b>Friday 12/06</b>				
09:00	Brazil	IBGE: Consumer Price Index (IPCA) (Nov)	0.36% (MoM)	0.48% (MoM)
04:00	Germany	Industrial Production (Oct)		
10:30	USA	Unemployment Rate (Nov)	3.6%	
10:30	USA	Change in Nonfarm Payrolls (Nov)	190k	190k
12:00	USA	University of Michigan Sentiment (Dec - P)	97	

	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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