

Copom expected to cut the Selic to a new historical low of 4.5%

Overview

- **Economic recovery activity has been more evident in the second half of the year.** The 0.6% growth of the GDP in the third quarter was a positive surprise, leading to revaluations for the year's growth. The main contribution on the demand side came from consumption, which benefits from wage bill and credit expansion. At the same time, fourth quarter data suggest continuity of this process, as shown by new vehicle sales in November and first anecdotes from Black Friday sales. We revised our 2019 GDP expansion forecast from 0.9% to 1.2%.
- **Industry is also showing economic recovery.** The 0.8% October advance in industrial production was slightly underwhelming, but does not change our vision of traction gains for this sector. Considering the manufacturing industry alone, there was an accumulated increase of 2.5% in the three months ended in October, compared to the contraction of 1.8% in the three months ended in July. Looking ahead, the outlook is positive for manufacturing output: inventories are balanced, domestic demand has been improving, and risks to global growth have been reduced.
- **This recovery, which seems sustainable, should not prevent another Selic cut next week.** The November IPCA increase of 0.51% was explained by pressure vectors in the period, in particular increased beef prices, lottery readjustments and electricity costs revision. However, annualized core inflation remains quite low and comfortable, around 2.5% to 3.0%. To that end, we believe that the Copom will have room for an additional interest rate cut to 4.5% at next week's meeting.
- **Despite the Trump government's more protectionist rhetoric recently, the latest data reinforces a reduction of risks to global growth.** In Europe, the November manufacturing PMI index continued to show regional differences, but remained above its forecast, including in Germany. Job creation in the U.S. amounted to 266,000 in November. This is a very strong result, even if we disregard the volatility caused by the effect of a recent strike in the local automotive sector. The robustness of the U.S. economy also tends to keep the dollar stronger, dampening any exchange rate appreciation movement in emerging countries. Such movement will increasingly depend on each country's individual context.

The week ahead

- **With the previous signaling from the Central Bank of a 0.5 p.p. Selic cut this month, all eyes will be on the Copom statement next week.** The Committee's projections should incorporate exchange rate movement since the last meeting. We believe that the announcement tends to make future decisions increasingly data-dependent. Other economic activity data for October will be disclosed, such as retail and service surveys, as well as the IBC-Br.
- **Highlights overseas will include monetary policy decisions in the U.S. and the Eurozone.** The Fed is expected to maintain interest rates, recognizing reduced risks to domestic growth. The ECB's decision should also come as no surprise, with attentions focused on Christine Lagarde's communication style, who will hold her first monetary policy meeting since assuming the reins of the institution.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 12/09				
08:00	Brazil	FGV: IGP-DI (Nov)	0.48% (MoM)	
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
22:30	China	CPI (Nov)	4.2% (YoY)	
-	Japan	GDP (3Q - P)*	0.2% (QoQ)	
*The indicator will be released on December, 8th				
Tuesday 12/10				
08:00	Brazil	FGV: Employment Indicators (Nov)		
09:00	Brazil	IBGE: Industrial Production - regional (Oct)		
09:00	Brazil	IBGE: Agricultural production Survey (Nov)		
09:00	Brazil	Conab: 3rd Grains crop survey 2019/2020 (Dec)		
07:00	Germany	ZEW Survey Expectations (Dec)	3.5	
-	USA	USDA: World Agricultural Supply and Demand Estimates		
Wednesday 12/11				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:00	Brazil	FGV: IGP-M (1st preview) (Dec)		
09:00	Brazil	IBGE: Retail sales (PMC) (Oct)		0.5% (MoM)
14:00	Brazil	BCB: Currency Flows (weekly)		
18:20	Brazil	BCB: Central bank meeting	4.5%	
10:30	USA	CPI (Nov)	0.2% (MoM)	
16:00	USA	Central bank meeting	1.75%	1.75%
Thursday 12/12				
09:00	Brazil	IBGE: Services Sector Volume (PMS) (Oct)		1.6% (YoY)
04:00	Germany	CPI (Nov - F)	-0.8% (MoM)	
07:00	Eurozone	Industrial Production (Oct)	-2.3% (YoY)	
09:45	Eurozone	Central bank meeting	0%	0%
10:30	USA	Initial Jobless Claims - Weekly		
20:00	Peru	Central bank meeting	2.25	2.25
Friday 12/13				
09:00	Brazil	BCB: Economic Activity Index (Oct)		
During the week				
-	China	Trade Balance (Nov)*	US\$ 44.3 b	

	2017	2018	2019	2020
Consumer inflation - IPCA (%)	2.95	3.75	3.6	3.6
GDP growth (%)	1.3	1.3	1.2	2.5
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	1528
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	39.0	34.6
Current Account (USD bn)	-15.0	-41.5	-53.2	-59.7
Exchange Rate (BRL/USD, eop)	3.31	3.87	4.15	4.00
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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