

Interest rates to remain low in Brazil and around the world

Overview

- **Monetary policy decisions in Brazil and across developed economies were the week's highlights.** Although the monetary easing cycles are coming to an end around the world, interest rates will likely remain low next year, against a backdrop of stable inflation in most countries, which should help support global growth in 2020.
- **In Brazil, the Monetary Policy Committee (Copom) lowered the Selic rate from 5.00% to 4.50%, conditioning future moves developments in the coming weeks.** While the economy has shown clearer signs of a recovery, the Central Bank of Brazil's inflation forecasts are still under the center of the target in 2020 and 2021, despite the stronger exchange rate depreciation (BRL/USD 4.20). Based on our scenario, we believe the Central Bank will have enough room to make an additional Selic rate cut early next year, lowering the interest rate to 4.25%.
- **The retail and service sectors' positive performance in October reinforces perceptions that the economic recovery is gaining momentum.** The evidence is that the recovery is becoming more broad-based, with the latest data suggesting that the recovery is spreading from the retail sector to the services sector as a whole and to manufacturing. In addition, economic growth is becoming more broad-based: in the service sector, for instance, four of the five components rose in October. This scenario reinforces our 0.7% GDP growth estimate for the fourth quarter.
- **Global uncertainties eased after the announcement of a deal between the U.S. and China as well as the outcome of the UK election.** After months of negotiations, the U.S. and China reached a deal. China pledged to purchase approximately USD 50 billion in U.S. agricultural products, and the U.S. lifted the new import tariffs scheduled to be applied this Sunday, besides reducing other existing tariffs. In the UK, the Conservative Party's victory means it will have to votes to implement the Brexit deal reached with the EU last year.
- **The Fed and the ECB kept their policies unchanged, indicating stable interest rates in the coming months.** The Fed stated it would want to see inflation persistently above the target before raising interest rates. The ECB reinforced a very restrained stance, recognizing some stabilization in the Eurozone and inflation below the target. Moreover, Governor Lagarde said that the ECB will begin reassessing its monetary policy strategy in January.

The week ahead

- **Copom minutes and the Inflation Report should confirm the notion that the next monetary policy decision will be data-dependent.** In this context, one of the highlights is the IPCA-15 in December, which will likely show persistent pressure on animal protein prices, but steady core inflation. Confidence indicators for business owners and consumers will also be released in December.
- **Abroad, the main highlights will be Chinese manufacturing and retail sales data for November.** We expect this data, along with preliminary readings of the PMI indexes in December, to confirm a global stabilization this quarter. In addition, the U.S. consumer data from November will likely continue to point to a robust economy.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 12/16				
08:00	Brazil	FGV: IGP-10 (Dec)		1.69% (MoM)
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
06:00	Eurozone	Markit: Composite PMI (Dec - P)	50.6	
06:30	United Kingdom	Markit: Composite PMI (Dec - P)		
10:30	USA	Índice Empire Manufacturing de atividade (Dec)	5	
-	China	Industrial Production (Nov)*	5.5% (YoY)	
-	China	Fixed Assets Investments (Nov)*	5.2% (YoY)	
*The indicator will be released on December, 15th				
Tuesday 12/17				
08:00	Brazil	BCB: Copom minutes		
11:00	Brazil	Fiesp/Ciesp: Industrial Employment Index (Nov)		
11:15	USA	Industrial Production (Nov)	0.8% (MoM)	
14:30	USA	Fed NY: J. Williams's speech		
15:00	USA	Fed Boston: E. Rosengren's speech		
16:00	Argentina	GDP (3Q - P)		0.2% (QoQ)
Wednesday 12/18				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:00	Brazil	FGV: IGP-M (2nd preview) (Dec)		
10:00	Brazil	CNI: Industrial Confidence (Dec)		
06:00	Germany	Ifo Business Climate (Dec)	95.4	
07:00	Eurozone	CPI (Nov - F)		
14:40	USA	Fed Chicago: C. Evans's speech		
Thursday 12/19				
08:00	Brazil	BCB: Inflation report (4Q)		
08:00	Brazil	FGV: Industrial Confidence (Dec - P)		
09:00	United Kingdom	Central bank meeting	0.75%	
10:30	USA	Initial Jobless Claims - Weekly		
10:30	USA	Fed Philadelphia Outlook (Dec)	9	
16:00	Mexico	Central bank meeting	7.25%	7.25%
-	Japan	Central bank meeting		
Friday 12/20				
08:00	Brazil	FGV: Construction Costs (Dec)		
08:00	Brazil	FGV: Consumer Confidence (Dec)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA-15) (Dec)	0.71% (MoM)	1.02% (MoM)
09:30	Brazil	BCB: Current Account Balance (Nov)		
09:30	Brazil	BCB: Foreign Direct Investment (Nov)		
-	Brazil	Federal Debt Total (Nov)		
06:30	United Kingdom	GDP (3Q - P)	0.3% (QoQ)	
10:30	USA	GDP (3Q - F)	2.1% (QoQ)	
12:00	USA	Personal Spending (Nov)	0.4% (MoM)	
12:00	USA	Personal Income (Nov)	0.3% (MoM)	
12:00	USA	University of Michigan Sentiment (Dec - F)		
-	Colombia	Central bank meeting	4.25%	4.25%
During the week				
-	Brazil	Tax Collections (Nov)		R\$ 122.4 B
-	Brazil	Caged: Formal Job Creation Total (Nov)		65k

	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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