

Dataflow to determine additional Selic rate cuts

Overview

- **Economic recovery advances in the fourth quarter.** November saw an upsurge of 99,000 new formal jobs, strengthening the ongoing economic recovery. Wage growth remains stable, linking the high inflation at year-end to isolated shocks, rather than demand pressures. The limited growth of core inflation in December IPCA-15, despite the headline whopping increase of 1.05% month-over-month, confirms our prospects of a benign inflation scenario. In our view, short-term inflation pressures should fade away early on next year.
- **In this context, the Central Bank of Brazil (BC) confirmed that it's next steps will be conditioned to how this scenario plays out.** The Monetary Policy Committee (Copom) maintained a cautious tone, recognizing that economic activity gained momentum and the credit market has become more efficient, which could reduce idleness faster than expected. However, inflation forecasts remain below the center of the target until late 2021 across all interest and exchange rate scenarios. In our opinion, as the year-end shocks fade away and the economy continues to gradually recover, there will be room for a 0.25-p.p. cut in next February's meeting. In any case, inflation performance in December and January will be crucial for this decision.
- **Indicators show signs of recovering global growth.** The U.S. economy grew in November both in retail – aligned to the positive job market performance – and in industry, with a widespread improvement across different sectors. In the same period, China's economy also yielded better results, with the industry and retail sectors maintaining the economic activity pace – expected to grow around 6% in 2019. Even the European economy has been posting signs of stability as the region's surveys have been pointing towards an expansion in the fourth quarter, compared to the third quarter.
- **In addition, global risks have been dropping significantly.** The announcement of a US-China deal (phase 1) and prospects of a positive outcome for Brexit, explain the lower risk aversion seen in recent weeks. This scenario of lower uncertainty and signs of recovery lead to much more optimistic prospects for the global economy in the next few quarters.

The week ahead

- **Last surveys of the year stand out in the domestic agenda.** Confidence indicators in retail, industry and services for December should confirm a positive quarter for the economy. We expect a growth rate of 0.7% in 4Q19.
- **The international agenda is left only with U.S. economic indicators.** The preliminary indicator of durable goods orders and the Richmond FED industrial survey will be the main highlights overseas, painting a clearer picture of the U.S. economy's growth in the fourth quarter.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 12/23				
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
Tuesday 12/24				
-	No events			
Wednesday 12/25				
-	Brazil	National Holiday - Closed markets		
-	USA	National Holiday - Closed markets		
Thursday 12/26				
08:00	Brazil	FGV: Retail Confidence (Dec)		
08:00	Brazil	FGV: Services Confidence (Dec)		
14:30	Brazil	BCB: Currency Flows (weekly)		
10:30	USA	Initial Jobless Claims - Weekly		
Friday 12/27				
08:00	Brazil	FGV: Industrial Confidence (Dec)		
08:00	Brazil	FGV: IGP-M (Dec)	2.05% (MoM)	2.12% (MoM)
09:00	Brazil	IBGE: Unemployment Change (Nov)	11.3%	11.4%
09:30	Brazil	BCB: Press Release - Monetary Policy (Nov)		
14:30	Brazil	Central Govt Budget Balance (Nov)		- R\$ 19.2 B

	2017	2018	2019	2020
GDP growth (%)	1.3	1.3	1.2	2.5
Consumer inflation - IPCA (%)	2.95	3.75	3.6	3.6
Wholesale inflation - IGP-M (%)	-0.5	7.5	7.2	4.5
Selic Rate (% eop)	7.00	6.50	4.50	4.25
Exchange Rate (BRL/USD, eop)	3.31	3.87	4.15	4.00
Industrial Production (%)	2.5	1.1	-0.5	2.0
Retail Sales (%)	4.0	5.0	4.0	4.5
Job Creation (in thousands)	1899	966	1298	1528
Unemployment Rate (% of labor force, a)	12.7	12.3	11.9	11.2
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
Primary Balance (BRL bn)	-111	-108.3	-85	-105

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