

Inflation shocks start to dissipate

Overview

- **Domestic activity continues to recover at a gradual pace, with some underwhelming figures released for November 2019.** Retail remains the economy's most dynamic sector, despite having posted a lower than expected increase. Meanwhile, the services sector posted a slight decline. Combined with a slowdown in manufacturing, these numbers resulted in a very modest increase in the IBC-Br activity index. We maintain our Q4 2019 GDP forecast at +0.7%, and expect it to slow down to 0.5% in 1Q 2020, as the effects of the FGTS funds release wane.
- **The beef price shock is starting to dissipate in the first weeks of the year.** The current scenario does not raise concerns for core prices in 2020, which is consistent with the year-end inflation (IPCA) forecast of 3.6%. The fact that the spike seen in December inflation has not been passed through to other prices is an important evidence to anchored inflation expectations.
- **A decrease in trade tensions should provide a boost to global economic activity.** The Phase 1 deal between the U.S. and China was made official this week. The deal halts the escalation of import tariffs imposed by the U.S. on Chinese products. At the same time, China is expected to buy more U.S. goods and services and has pledged to adjust U.S. demands on technology transfer and intellectual property. The U.S. government will maintain the tariffs already imposed, but will consider a rollback in Phase 2, which could take place only after the U.S. presidential election. The agreement eases trade tensions, but one needs to keep an eye at whether targets are being met at the meetings scheduled between both countries.
- **China's economy began growing at a stronger pace at the end of 2019, easing concerns over weak growth for 2020.** China's GDP grew 6.0% in the last quarter of 2019, in further signs that the economy is stabilizing as suggested by monthly indicators. We reiterate that, despite the ease in trade tensions, the tariffs imposed by Washington on USD 360 billion worth of Chinese goods will stay in place, and should have a negative impact on Chinese exports in 2020. Meanwhile, U.S. data continues to suggest that consumer spending is the major growth driver of the American economy, even though the first readings of the manufacturing industry this year point to an improvement in the sector in January.

The week ahead

- **Inflation and economic activity will remain on the radar next week.** We expect the mid-month inflation report (IPCA-15) to show the first signs of the meat price shock wearing off, while core prices remain muted. Activity data could confirm the gradual pace of recovery between late 2019 and early 2020. The first surveys for January (consumer spending and the preliminary reading for manufacturing) are due out next week. Formal job creation for December (traditionally a down month) may also be released.
- **The international calendar features activity indicators and the monetary policy decision from the Eurozone.** Also due this week are the Eurozone's PMIs, which might signal stabilization and highlight the need to keep monetary stimulus in place for some time.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 01/20				
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
-	Japan	Central bank meeting	0%	-0.1%
-	USA	National Holiday - Closed markets		
Tuesday 01/21				
08:00	Brazil	FGV: IGP-M (2nd preview) (Jan)		
07:00	Germany	ZEW Survey Expectations (Jan)	13.0	
Wednesday 01/22				
08:00	Brazil	FGV: Industrial Confidence (Jan - P)		
14:30	Brazil	BCB: Currency Flows (weekly)		
Thursday 01/23				
09:00	Brazil	IBGE: Consumer Price Index (IPCA-15) (Jan)		0.5 (MoM)
10:00	Brazil	CNI: Industrial Confidence (Jan)		
-	Brazil	Federal Debt Total (Dec)		
09:45	Eurozone	Central bank meeting	0.0%	0.0%
10:30	USA	Initial Jobless Claims - Weekly		
Friday 01/24				
08:00	Brazil	FGV: Consumer Confidence (Jan)		
05:30	Germany	Markit: Composite PMI (Jan - P)	50.5	
06:00	Eurozone	Markit: Composite PMI (Jan - P)	51.0	
06:30	United Kingdom	Markit: Composite PMI (Jan - P)	50.3	
During the week				
-	Brazil	Tax Collections (Dec)		R\$ 154 b
-	Brazil	Caged: Formal Job Creation Total (Dec)		- 338 k

	2017	2018	2019	2020
GDP growth (%)	1.3	1.3	1.2	2.5
Consumer inflation - IPCA (%)	2.95	3.75	4.3	3.6
Wholesale inflation - IGP-M (%)	-0.5	7.5	7.3	4.5
Selic Rate (% eop)	7.00	6.50	4.50	4.25
Exchange Rate (BRL/USD, eop)	3.31	3.87	4.03	4.00
Industrial Production (%)	2.5	1.1	-1.0	2.0
Retail Sales (%)	4.0	5.0	4.4	4.5
Job Creation (in thousands)	1899	966	1298	1528
Unemployment Rate (% of labor force, avg)	12.7	12.3	11.9	11.2
Outstanding Credit Growth (%)	-0.5	5.0	5.9	9.4
Trade Balance (USD bn)	64.0	53.0	39.6	36.1
Current Account (USD bn)	-15.0	-41.5	-49.7	-55.3
Primary Balance (BRL bn)	-111	-108.3	-81	-91
Gross Debt (% of GDP)	74.1	76.7	77.8	78.4

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