

January IPCA-15 showed dissipating food shocks

Overview

- **Protein prices backed down and the IPCA-15 recorded an increase of 0.71% in January.** Food at home rose 2.3%, falling against a 4.7% IPCA increase in December. On the other hand, inflation cores were surprisingly high in this reading with an average variation 0.41% (0.44% in December), reflecting acceleration of food services, recreation and rentals. Our view is that there was a seasonal acceleration in services early this year, which will possibly be reversed in the coming months. We now forecast an increase of 0.34% for the final IPCA in January.
- **Industry confidence continued to rise in January, which should drive the sector's recovery.** The industry confidence index advanced 1.1 points this month explained by increased expectations and despite a drop in the current situation component, according to a preliminary reading released by FGV. The industry sector was also the driver of the positive surprise seen in the formal job creation data in December. On the whole, the economy added around 70 thousand jobs, excluding seasonal effects.
- **Central banks around the world maintain accommodative monetary policies, given the expectation of a very slow recovery in the world economy.** The Bank of Japan started the week maintaining interest rates and its quantitative easing program, but reinforced that it may provide new stimuli if needed. In addition to maintaining interest and the securities purchase program, the European Central Bank also announced that it will review its monetary policy strategies later this year. The purpose of this change in the current framework is to reduce the loss of conventional monetary policy power when interest rates are low (currently negative). In the wake of this announcement, some central banks in emerging countries cut interest rates in recent days, such as Malaysia and South Africa. The strong results of Germany's Zew indicator are also worth highlighting, which registered a high in both the current situation and expectations, suggesting some degree of recovery for the European economy in this first quarter.
- **Global markets reacted to the spread of coronavirus with drops in stock prices and the price of oil.** Especially in China, the number of those infected has grown in the last few days, which may be accentuated during the period of Chinese New Year celebrations, which start this weekend (when circulation of people in the country increases). For now, the effects are mostly limited to the Chinese economy, which should lose steam in the coming months, especially in segments such as retail and tourism. Nevertheless, the effects on the Asian economy and markets for episodes of similar epidemics in the past were temporary.

The week ahead

- **Highlights of the local agenda include fiscal and external accounts and credit data.** The balance of payments data gained relevance and are expected to show a high current account deficit in December. The January IGP-M will also be released, for which we forecast an increase of 0.5%.
- **The international agenda will feature interest rate decisions in the UK and the USA, in addition to American economic and inflation data.** The U.S. interest rate is expected to remain unchanged, given the indication already made by the Fed, but the rate will likely fall in England. The PCE consumer inflation index is expected to show well-behaved inflation and the U.S. GDP will show that the economy remains resilient, growing at around 2% in 4Q19.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 01/27				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:00	Brazil	FGV: Retail Confidence (Jan)		
08:25	Brazil	BCB: Focus Survey		
09:30	Brazil	BCB: Current Account Balance (Dec)		- US\$ 4,6 b
09:30	Brazil	BCB: Foreign Direct Investment (Dec)		US\$ 11,2 b
15:00	Brazil	MDIC: Trade Balance (weekly)		
-	Brazil	CNI: Industrial Confidence (Nov)		
06:00	Germany	IFO Business Climate (Jan)	97	
Tuesday 01/28				
08:00	Brazil	FGV: Construction Confidence (Jan)		
08:00	Brazil	FGV: Construction Costs (Jan)		
-	Brazil	Federal Debt Total (Dec)		
12:00	USA	Consumer Confidence (Jan)	128	
Wednesday 01/29				
08:00	Brazil	FGV: Industrial Confidence (Jan)		
09:30	Brazil	BCB: Press Release - Monetary Policy (Dec)		6.1% (YoY)
14:30	Brazil	BCB: Currency Flows (weekly)		
16:00	USA	Central bank meeting	1.75%	1.75%
18:00	Chile	Central bank meeting	1.75%	1.75%
Thursday 01/30				
08:00	Brazil	FGV: Services Confidence (Jan)		
08:00	Brazil	FGV: IGP-M (Jan)		0,50%
14:30	Brazil	Central Govt Budget Balance (Dec)		R\$ 622 m
09:00	Mexico	GDP (4Q - P)		
09:00	United Kingdom	Central bank meeting	0.75%	0.75%
10:00	Germany	CPI (Jan - P)	-0.7% (MoM)	
10:30	USA	GDP (4Q - P)	2.2% (QoQ)	2.0% (QoQ)
10:30	USA	Initial Jobless Claims - Weekly		
22:00	China	Manufacturing PMI (Jan)	50.1	
Friday 01/31				
09:00	Brazil	IBGE: Unemployment Change (Dec)		11.0%
09:00	Brazil	IBGE: PPI (Dec)		
09:30	Brazil	BCB: Press Release - Fiscal Policy (Dec)		R\$ 845 m
-	Brazil	Aneel: Tariff range (Feb)		
07:00	Eurozone	GDP (4Q - P)	0.2% (QoQ)	0.2% (QoQ)
07:00	Eurozone	CPI (Jan - P)		
10:30	USA	Personal Spending (Dec)	0.3% (MoM)	
10:30	USA	Personal Income (Dec)	0.3% (MoM)	
12:00	USA	University of Michigan Sentiment (Jan - F)	99	
-	Colombia	Central bank meeting	4.25%	4.25%

	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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