

Markets still being impacted by coronavirus outbreak

Overview

- **Rising coronavirus cases continue to take a toll on global markets, raising growth concerns.** Despite the low mortality rate, the quickly rising number of infected people has made investors wary, affecting riskier assets. The extension of economic impacts are still unclear and still concentrated mainly in China, for now. Still, this would throw a wrench in global activity, which has been showing signs of stability since late last year.
- **Economic indicators point to a stable global economy at the end of last year, but still show a sluggish recovery pace.** The U.S. GDP rose 2.1% between the third and fourth quarters (annual rate). The Eurozone GDP rose 0.1% in the last quarter of 2019, compared to 0.3% in the previous year. The global monetary policy maintains a stimulative bias, given the steady behavior of inflation and risks of a frustrating recovery. In this week's announcement, the Fed revealed a greater concern with low inflation in the country and confirmed that it will change its monetary policy framework in the second semester.
- **In Brazil, the balance of payments showed a deficit worse than expected in December, ending 2019 at USD 50.8 billion.** The performance of capital flow to Brazil remains a major reason behind the downturn in external accounts, confirming signs of funds being reallocated amidst lower interest rates. Throughout the year, the economy's recovery could help offset some of this trend.
- **Confidence indicators continued to improve in January, driven by the expectation component.** On the other hand, indexes gauging current economic conditions revealed slightly milder results. Credit data showed a good performance in December, especially in non-earmarked loans. Therefore, credit remains an important driver for Brazil's economic recovery, based on household consumption. The job market is another driver of consumption and the unemployment rate dropped from 11.7% to 11.6% between November and December, discounting seasonal effects.
- **Inflation shocks continue to dissipate, maintaining a positive outlook for the IPCA.** The IGP-M rose 0.48% in January, but showed a major deflation in wholesale meat prices. This price drop should reach consumers during the first quarter of 2020.

The week ahead

- **Inflation and activity are next week's highlights.** We expect the IPCA to rise 0.34% in January. The figure should still show a slowdown in food prices and some core decompression. We forecast a slight drop of 0.1% in industrial output in December, at the margin.
- **In the international agenda, the highlights are China's trade balance and the U.S. jobs report.** Job creation in the U.S. should maintain a positive performance, while China's trade balance is an important gauge to assess the country's activity early this year.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 02/03				
08:25	Brazil	BCB: Focus Survey		
10:00	Brazil	Markit: PMI Manufacturing (Jan)		
15:00	Brazil	MDIC: Trade Balance - monthly (Jan)		
-	Brazil	Fenabreve: Vehicle sales (Jan)		
05:55	Germany	Markit: Manufacturing PMI (Jan - F)		
06:00	Eurozone	Markit: Manufacturing PMI (Jan - F)		
06:30	United Kingdom	Markit: Manufacturing PMI (Jan - F)		
12:00	USA	ISM Manufacturing (Jan)	48.3	
Tuesday 02/04				
05:00	Brazil	FIPE: Consumer Price Index - monthly (Jan)		0.3% (MoM)
09:00	Brazil	IBGE: Industrial Production (PIM) (Dec)		-0.2% (MoM)
Wednesday 02/05				
10:00	Brazil	Markit: Composite PMI (Jan)		
14:30	Brazil	BCB: Commodity Price Index (Jan)		
14:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	BCB: Central bank meeting	4.38%	4.25%
05:55	Germany	Markit: Composite PMI (Jan - F)		
06:00	Eurozone	Markit: Composite PMI (Jan - F)		
06:30	United Kingdom	Markit: Composite PMI (Jan - F)		
10:15	USA	Employment Change (ADP) (Jan)	155k	
12:00	USA	ISM Services (Jan)	55.0	
Thursday 02/06				
08:00	Brazil	FGV: Employment Indicators (Jan)		
11:30	Brazil	Anfavea: Vehicle Production (Jan)		
05:20	Área do Euro	ECB President Lagarde Speaks		
10:30	USA	Initial Jobless Claims - Weekly		
Friday 02/07				
08:00	Brazil	FGV: IGP-DI (Jan)		0.47% (MoM)
09:00	Brazil	IBGE: Consumer Price Index (IPCA) (Jan)		0.34% (MoM)
04:00	Germany	Industrial Production (Dec)		
10:30	USA	Change in Nonfarm Payrolls (Jan)	153k	
10:30	USA	Unemployment Rate (Jan)	3.5%	
During the week				
-	China	Trade Balance (Jan)		

	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	1816	1536
Unemployment Rate (% of labor force, avg)	12.7	12.3	11.9	11.2
Outstanding Credit Growth (%)	-0.5	5.0	6.5	9.4
Trade Balance (USD bn)	64.0	53.0	39.4	36.1
Current Account (USD bn)	-15.0	-41.5	-50.8	-55.3
Primary Balance (BRL bn)	-111	-108.3	-62	-91
Gross Debt (% of GDP)	74.1	76.7	75.8	78.4

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