

February IPCA-15 bolsters a benign inflation scenario

Overview

- **The February IPCA-15 strengthened the benign inflation scenario for the beginning of this year, with well-behaved cores.** There was some concern late last year about the possible contagion of the meat price hikes on the cores, which did not play out. Some metrics even show a slowdown of these indicators. Our scenario considers a significant deceleration in the IPCA between February and March, from 3.9% to 3.2%, in the 12-month accumulation.
- **February surveys showed mixed signals regarding economic activity.** If, on the one hand, there was an improvement in the confidence of industry and commerce, there was a drop among consumers and in the civil construction sector, possibly reflecting the dissipation of the FGTS effects in the case of individuals. As a whole, the data suggest a slowdown in the first quarter GDP.
- **The downturn in growth of new cases of the coronavirus brought some relief to markets this week.** The announcement of a reduction in Chinese interest rates and signals of further stimuli also contributed to the environment of lower risk aversion. Despite this scenario, the resumption of economic activity in the country has been gradual, suggesting a lower growth in this first quarter, which may have a contractionary impact on global and domestic activity. In fact, the first Asian indicators suggest weakness in the region's economy, while preliminary readings of the PMI indices currently point to some acceleration of European activity in February.
- **Despite the environment of lower risk aversion, the U.S. dollar continued to appreciate, driven by favorable U.S. economic data.** The first February surveys were surprisingly high, even though the flash PMIs suggest some deceleration. Overall, this positive performance reflects better financial conditions in the country, with a drop in interest rates and a strong stock market performance. In this context, the Brazilian real lost ground again this week, at about 2.5%.

The week ahead

- **Labor market and inflation data will be the highlights on the domestic calendar.** The unemployment rate most likely maintained its gradual decline in January, with an increase in employment. In the same sense, Caged formal employment data should show an upswing in job generation for the period. This month's IGP-M, for which we expect a decrease of 0.03%, should reflect deflation in wholesale agricultural prices and a well-behaved IPA industrial core.
- **Abroad, the January U.S. consumption and inflation data deserve attention, while the market will continue to monitor the effects of the coronavirus.** Household consumption is expected to remain robust, reinforced by the strong performance of the labor market, without inflationary pressures.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 02/24				
-	Brazil	National Holiday - Closed markets		
06:00	Germany	IFO Business Climate (Feb)	95	
17:00	USA	Fed Cleveland: L. Mester's speech		
Tuesday 02/25				
-	Brazil	National Holiday - Closed markets		
04:00	Germany	GDP (4Q - P)	0% (QoQ)	
09:00	Mexico	GDP (4Q - P)	-0.1% (QoQ)	
12:00	USA	Consumer Confidence (Feb)	132.5	
17:15	USA	Fed: R. Clarida's speech		
Wednesday 02/26				
12:00	Brazil	BCB: Focus Survey		
14:30	Brazil	BCB: Currency Flows (weekly)		
Thursday 02/27				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:00	Brazil	FGV: IGP-M (Feb)	-0.02% (MoM)	-0.03% (MoM)
09:30	Brazil	BCB: Press Release - Monetary Policy (Jan)		
14:30	Brazil	Central Govt Budget Balance (Jan)		R\$ 47.8 b
15:00	Brazil	MDIC: Trade Balance (weekly)		
-	Brazil	Federal Debt Total (Jan)		
10:30	USA	Initial Jobless Claims - Weekly		
10:30	USA	GDP (4Q)	2.2% (QoQ)	
13:30	USA	Fed Chicago: C. Evans's speech		
Friday 02/28				
08:00	Brazil	FGV: Services Confidence (Feb)		
08:00	Brazil	FGV: Industrial Confidence (Feb)		
09:00	Brazil	IBGE: Unemployment Change (Jan)	11.3%	11.3%
09:30	Brazil	BCB: Press Release - Fiscal Policy (Jan)		R\$ 58.3 b
-	Brazil	Aneel: Tariff range (Mar)		
07:00	Eurozone	CPI (Feb - P)		
10:00	Germany	CPI (Feb - P)	0.3% (MoM)	
10:30	USA	Personal Income (Jan)	0.3% (MoM)	
10:30	USA	Personal Spending (Jan)	0.3% (MoM)	
11:15	USA	Fed St. Louis: J. Bullard's speech		
12:00	USA	University of Michigan Sentiment (Feb - F)	100.5	
22:00	China	Composite PMI (Feb)	46	
During the week				
-	Brazil	Caged: Formal Job Creation Total (Jan)		74k

	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	1,0	-1,1	2,0
Retail Sales (%)	4,0	5,0	3,9	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	76,5	75,8	74,3

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