

## Uncertainties surrounding coronavirus continue to pressure markets

### Overview

- **Coronavirus cases continue to spread across the world.** Despite the decrease in the number of new cases in China and a slow, but consistent recovery in activities, the epidemic continued to spread rapidly across other countries. This ultimately prompted the World Health Organization to classify the outbreak as a pandemic this week. The markets reacted by intensifying the trends seen in recent weeks: stock markets and stocks in emerging markets continued to drop sharply and currencies have depreciated against the U.S. dollar. The oil price war between Saudi Arabia and Russia also took a toll on the markets, placing the *commodity* at lower levels (around USD 30/barrel);
- **Countries also reacted strongly amidst uncertainties and volatility of the markets, which should mitigate the economic impacts caused by the pandemic.** The Fed triggered USD 1.5 trillion in repo operations to provide liquidity and the well functioning of the U.S. financial system. The Bank of England cut the interest rate by 0.50 p.p. and the European Central Bank expanded its quantitative programs, despite keeping interest rates unchanged. In addition, many countries have announced support lines and programs for corporations. Besides releasing and injecting funds, governments have also suggested the cancellation of trips, crowding situations, and temporarily closing schools.
- **We maintain our prospect that the coronavirus shock on the economic activity will be temporary, since cases will begin to stabilize, as it has been the case in China and other Asian countries.** Nonetheless, the risks to the global economy are present, given all the interruption measures implemented in the past week.
- **In Brazil, despite the surprisingly positive industrial output result in January, its breakdown still point to a moderate recovery pace.** The 0.9% increase over December was driven by capital goods, which reverted previous drops. Results from other openings were more modest and did not reveal any shift in course. In the external scenario, the industry should maintain moderate dynamics over the next few months.
- **The IPCA was up 0.25% in February, with well-behaved core inflation.** There was an isolated pressure on hygiene items. The cores, which reflect inflation's underlying trend, continue to fluctuate between 2.5% and 3%, in annual rates – a still comfortable level.

### The week ahead

- **Decision regarding interest in Brazil will be the domestic agenda's highlight next Wednesday.** The combination of commodity prices, the exchange rate and the slope of the yield curve will determine how deep the Central Bank can go in cutting the Selic rate. For now, we expect it to be at 3.75% by yearend. Other highlights of the agenda include formal job creation in January and the preliminary industrial survey from March.
- **Overseas, decisions regarding monetary policy in the U.S. and Japan will be the highlights.** The Fed will most likely maintain interest rate cuts (after the emergency cut of 0.50 p.p. last week) and, if necessary, may also deploy other tools to mitigate the impacts caused by the coronavirus in the U.S. The preliminary PMI index results from March will also be released.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 03/16</b>				
08:00	Brazil	FGV: IGP-10 (Mar)		
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
09:30	USA	Índice Empire Manufacturing de atividade (Mar)	5.1	
-	China	Industrial Production (Feb)*	-3% (YoY)	
-	China	Fixed Assets Investments (Feb)*	-2% (YoY)	
*The indicator will be released on March, 15th				
<b>Tuesday 03/17</b>				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
07:00	Germany	ZEW Survey Expectations (Mar)		
10:15	USA	Industrial Production (Feb)	0.4% (MoM)	
-	USA	Democratic Primaries		
<b>Wednesday 03/18</b>				
08:00	Brazil	FGV: IGP-M (2nd preview) (Mar)		
14:30	Brazil	BCB: Currency Flows (weekly)		
15:00	Brazil	CNI: Industrial Confidence (Mar)		
-	Brazil	BCB: Central bank meeting	4%	
07:00	Eurozone	CPI (Feb - F)		
08:30	Chile	GDP (4Q - P)		
15:00	USA	Central bank meeting	0.75%	
-	Japan	Central bank meeting		
<b>Thursday 03/19</b>				
09:30	USA	Fed Philadelphia Outlook (Mar)	10	
09:30	USA	Initial Jobless Claims - Weekly		
<b>Friday 03/20</b>				
08:00	Brazil	FGV: Industrial Confidence (Mar - P)		
-	Brazil	National treasure: Revenues and expenses report (1st bimester)		
-	Brazil	CNI: Industrial Confidence (Jan)		
<b>During the week</b>				
-	Brazil	Caged: Formal Job Creation Total (Jan)		74k
-	Brazil	Tax Collections (Feb)		

	2017	2018	2019	2020
<b>GDP growth (%)</b>	1,3	1,3	1,1	2,0
<b>Consumer inflation - IPCA (%)</b>	2,95	3,75	4,3	3,3
<b>Wholesale inflation - IGP-M (%)</b>	-0,5	7,5	7,3	4,5
<b>Selic Rate (% eop)</b>	7,00	6,50	4,50	3,75
<b>Exchange Rate (BRL/USD, eop)</b>	3,31	3,87	4,03	4,30
<b>Industrial Production (%)</b>	2,5	1,0	-1,1	0,5
<b>Retail Sales (%)</b>	4,0	5,0	3,9	3,7
<b>Job Creation (in thousands)</b>	1899	966	1816	1229
<b>Unemployment Rate (% of labor force, avg)</b>	12,7	12,3	12,1	11,3
<b>Outstanding Credit Growth (%)</b>	-0,5	5,0	6,5	9,4
<b>Trade Balance (USD bn)</b>	64,0	53,0	39,4	35,6
<b>Current Account (USD bn)</b>	-15,0	-41,5	-50,8	-56,0
<b>Primary Balance (BRL bn)</b>	-111	-108,3	-62	-106
<b>Gross Debt (% of GDP)</b>	74,1	76,5	75,8	74,3

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