

Global economy on track for a major contraction in the second quarter

Overview

- **The global economy is expected to see a sharp contraction in the second quarter of 2020 amid widespread business closures.** Early PMI data suggest a reduction of 7%-10% across the Eurozone, the U.S. and Japan. Additionally, U.S. unemployment claims reached 4.4 million last week, topping 25 million in the past five weeks.
- **Some easing of social distancing restrictions have been announced due to the decrease in the number of new cases.** There is still risk of new waves of infections, which could lead to a gradual reopening. Each country has drawn up different plans to restart the economy. In general, they include massive testing, face mask requirements and a staggered approach.
- **To mitigate negative economic impacts, new stimulus measures have been announced.** China has cut its benchmark and medium-term interest rates. Mexico's central bank slashed the interest rate by 0.50 p.p. in an extraordinary meeting; Russia also announced a 0.50 p.p. cut. In the U.S., lawmakers approved a USD 480 billion package to help small businesses. South Africa announced a stimulus package worth 10% of its GDP.
- **Oil prices fell sharply earlier in the week, especially for WTI.** The global recession led to a sharp decline in global demand for oil that has not been offset by production cuts (which will take effect on May 1). As a result, the lack of storage capacity in the U.S. caused WTI prices to plunge.
- **In Brazil, the few indicators released this week showed a dramatic drop in activity for the month of April.** So far, the preliminary industry confidence reading, daily energy consumption data and retail indicators suggest that Brazil's GDP will shrink 8.5% in the second quarter. The downward trend in new COVID-19 cases, combined with concerns about the economy, has caused some states to plan to ease social distancing restrictions by the middle of next month.
- **Meanwhile, emergency proposals continue to make their way through Congress.** The Senate passed a bill that expands the BRL 600 emergency aid payment to more categories, at an estimated cost of BRL 10 billion.

The week ahead

- **The focus of economic data this week is on the mid-month consumer inflation index (IPCA-15).** We expect the index to record a 0.03% reading, with core prices muted, close to the lower end of the target band. The week will also feature labor market indicators for March, which are likely to show a downturn in employment figures. Finally, we expect confidence surveys to add to the picture of a decline in economic activity in April.
- **The international calendar features monetary policy meetings in the U.S., the Eurozone and Japan, as well as activity indicators.** After large interest rate cuts, asset purchase programs and liquidity injection, among other measures, we do not expect any major announcements to come out of these meetings. First-quarter GDP for the Eurozone will also be released, and is expected to show a slowdown in activity. And China, the first country to restart its economy following the pandemic, will announce its PMI reading for April.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 04/27				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:00	Brazil	FGV: Construction Costs (Apr)		
08:00	Brazil	FGV: Consumer Confidence (Abr)		
08:00	Brazil	FGV: Construction Confidence (Apr)		
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
Tuesday 04/28				
08:00	Brazil	FGV: Retail Confidence (Apr)		
08:00	Brazil	FGV: Services Confidence (Apr)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA-15) (Apr)		0.03% (MoM)
09:30	Brazil	BCB: Press Release - Monetary Policy (Mar)		9.8% (YoY)
--	Brazil	Federal Debt Total (Mar)		
11:00	USA	Consumer Confidence (Apr)	90.0	
Wednesday 04/29				
08:00	Brazil	FGV: IGP-M (Apr)		0.75% (MoM)
08:00	Brazil	FGV: Industrial Confidence (Apr -F)		
14:30	Brazil	Central Govt Budget Balance (Mar)		-R\$ 25.2 b
14:30	Brazil	BCB: Currency Flows (weekly)		
09:00	Germany	CPI (Apr - P)		
09:30	USA	GDP (1Q - P)	-4.0% (QoQ)	
15:00	USA	Central bank meeting	0.25%	0.25%
22:00	China	Manufacturing PMI (Apr)	51.0	
Thursday 04/30				
08:00	Brazil	IBGE: PPI Manufacturing (Mar)		
08:00	Brazil	IBGE: Unemployment Change (Mar)		12.2%
08:30	Brazil	BCB: Press Release - Fiscal Policy (Mar)		
05:00	Eurozone	GDP (1Q - P)	-4.2% (QoQ)	-5.0% (QoQ)
05:00	Eurozone	CPI (Apr - P)		
07:00	Mexico	GDP (1Q - P)		-1.5% (YoY)
07:45	Eurozone	Central bank meeting		
08:30	USA	Personal Income (Mar)	-2.0% (MoM)	
08:30	USA	Personal Spending (Mar)	-4.5% (MoM)	
08:30	USA	Initial Jobless Claims (weekly)		
--	Colombia	Central bank meeting	3.25%	3.25%
Friday 05/01				
-	Brazil	National Holiday - Closed markets		
04:30	United Kingdom	Markit: Manufacturing PMI (Apr - F)		
10:00	USA	ISM Manufacturing (Apr)	36.4	
During the week				

	2017	2018	2019	2020
GDP growth (%)	1.3	1.3	1.1	-1.0
Consumer inflation - IPCA (%)	2.95	3.75	4.3	3.0
Wholesale inflation - IGP-M (%)	-0.5	7.5	7.3	4.9
Selic Rate (% eop)	7.00	6.50	4.50	3.00
Exchange Rate (BRL/USD, eop)	3.31	3.87	4.03	4.70
Industrial Production (%)	2.5	1.0	-1.1	-0.8
Retail Sales (%)	4.0	5.0	3.9	-1.7
Job Creation (in thousands)	1899	966	1816	-189
Unemployment Rate (% of labor force, avg)	12.7	12.3	12.1	13.3
Outstanding Credit Growth (%)	-0.5	5.1	6.5	4.0
Trade Balance (USD bn)	64.0	53.0	39.4	46.2
Current Account (USD bn)	-15.0	-41.5	-50.8	-30.1
Primary Balance (BRL bn)	-111	-108.3	-62	-350
Gross Debt (% of GDP)	74.1	76.5	75.8	85.8

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