

Rebound surprises to the upside in Brazil and the world

Overview

- **Economic activity remains underwhelming despite positive surprises in the indicators released this week.** The drop in industrial production was not as sharp as expected in April. Even so, all categories showed a strong retraction compared to March, especially durable and capital goods. Initial data for May already point to a gradual recovery, in line with the economic reopening in some states: automotive sales rose from April to May. In addition, the positive trade balance in May reflected the increase in exports (driven by soy and meat shipments to China) and the downturn in imports (following more sluggish economic activity and currency depreciation). For now, even incorporating this improvement, we forecast a 10.6% drop in this quarter's GDP.
- **Global indicators point to a stronger recovery in May, making the markets optimistic.** The final readings for the May PMI indices in China, the Eurozone and the U.S. exceeded expectations, especially in the services sector. The results are in addition to the more positive signals coming from the gradual and successful easing of social distancing of many countries, especially in Europe. With the exception of China, however, the indicators are still below the neutral level (50), compatible with recession this quarter. Data on the US labor market were also surprising: 2.5 million jobs were created in May and the unemployment rate fell from 14.7% to 13.3% (against an expectation that unemployment would reach 19%).
- **New stimulus packages were announced in Europe.** The European Central Bank extended the duration of the Pandemic Emergency Purchase Program until at least June 2021 with an additional volume of EUR 600 billion, totaling EUR 1.35 trillion since its creation. Just this week, Germany approved a EUR 130 billion fiscal package to alleviate the negative impacts of the pandemic.
- **With a focus on the recovery scenario and a certain accommodation of tensions between the U.S. and China, markets have been seeking risky assets.** The week was marked by rising stock markets and commodity prices and the weakening of the dollar against most currencies. Following the external trend, the Brazilian real returned to levels closer to BRL/USD 5.10. The recent appreciation of the real compensates for the increase in international commodity prices, lending relief to the inflation scenario in the coming months and keeping space open for Selic rate cuts.

The week ahead

- **The domestic agenda will be focused on the IPCA.** We expect the IPCA to deflate 0.45% in May. The result reflects the drop in fuel and industrial goods prices, in addition to the deceleration in service prices. As a result, core inflation will likely remain low, at about 2% y/y.
- **The FOMC decision is the main highlight abroad.** No policy changes are expected, but investors will play close attention to board member's forecasts, comments regarding the latest data and Chairman Powell's interview. In the U.S., wholesale and consumer inflation data will be announced. China will publish inflation, trade and credit data, which will likely reinforce the upbeat expectations regarding economic recovery.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 06/08				
08:00	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
03:00	Germany	Industrial Production (Apr)	-2.47% (y/y)	
Terça-Feira 09/06				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:00	Brazil	FGV: IGP-M (1st preview) (Jun)		
8:00	Brazil	FGV: Employment Indicators (May)		
9:00	Brazil	IBGE: Agricultural production Survey		
9:00	Brazil	Conab: 9th Grains crop survey 2019/2020		
9:00	Brazil	IBGE: Industrial Production - regional (Apr)		
06:00	Eurozone	GDP (1Q - F)	-3.8% (q/q)	
22:30	China	CPI (May)	2.6% (y/y)	
Wednesday 06/10				
09:00	Brazil	IBGE: Consumer Price Index (IPCA) (May)		
14:30	Brazil	BCB: Currency Flows (weekly)		
09:30	USA	CPI (May)	0.3% (y/y)	
15:00	USA	Central bank meeting	0.25%	0.25%
Thursday 06/11				
-	Brazil	National Holiday - Closed markets		
09:30	USA	Initial Jobless Claims - Weekly		
20:00	Peru	Central bank meeting		0.25%
-	USA	USDA: World Agricultural Supply and Demand Estimates		
Friday 06/12				
06:00	Eurozone	Industrial Production (Apr)	-30.0% (y/y)	
11:00	USA	University of Michigan Sentiment (Jun - P)	75	

	2017	2018	2019	2020
GDP growth (%)	1.3	1.3	1.1	-5.9
Consumer inflation - IPCA (%)	2.95	3.75	4.3	1.5
Wholesale inflation - IGP-M (%)	-0.5	7.5	7.3	5.1
Selic Rate (% eop)	7.00	6.50	4.50	2.25
Exchange Rate (BRL/USD, eop)	3.31	3.87	4.03	5.10
Industrial Production (%)	2.5	1.0	-1.1	-7.5
Retail Sales (%)	4.0	5.0	3.9	-6.5
Job Creation (in thousands)	1899	966	1816	-1418
Unemployment Rate (% of labor force, avg)	12.7	12.3	12.1	14.0
Outstanding Credit Growth (%)	-0.4	5.1	6.5	5.0
Trade Balance (USD bn)	64.0	53.0	39.4	50.5
Current Account (USD bn)	-15.0	-41.5	-50.8	-7.2
Primary Balance (BRL bn)	-111	-108.3	-62	-750
Gross Debt (% of GDP)	74.1	76.5	75.8	93.8

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