

Data will determine whether benchmark Selic rate will go below 2.25%

Overview

- **For now, we are maintaining our Selic forecast unchanged at 2.25% p.a. But we recognize that upcoming interest-rate decisions will be increasingly data dependent.** When slashing the interest rate, the Monetary Policy Committee (Copom) noted that the size of the stimulus measures already enacted seems compatible with the economic impacts of the pandemic. However, the Central Bank has not ruled out new interest rate cuts, even though it pointed out that any future cuts are uncertain and will be “residual.”
- **In fact, if recovery is slower than expected and there is no foreign exchange pressure, the Copom may find additional room to move forward with monetary easing.** The Central Bank’s own inflation forecast – currently below its medium-term targets – and the failure to mention a lower bound for the Selic rate – as included in the previous statement – indicates that the door is not closed to new cuts.
- **Retail and service sector surveys and the IBC-Br for April suggest a deeper-than-expected recession for the second quarter.** However, the preliminary FGV survey readings for June suggested that the country is continuing the recovery that began in May. On the other hand, the labor market continues to deteriorate.
- **The possibility of a second wave of infections increases uncertainty over the pace of the global economic recovery.** New cases of COVID-19 have re-emerged in China and in some U.S. states. Business and consumer surveys in the world’s major economies continue to show recovery as early as May, but this perception still needs to be confirmed by actual data. Following in the Fed’s footsteps, other central banks continue to show caution about the extent and speed of recovery, signaling that stimulus measures will not only continue to be rolled out, but may become more aggressive. Lastly, geopolitical tensions in Asia could slow global economic recovery.

The week ahead

- **The Central Bank’s statement is the highlight on the domestic calendar.** Copom meeting minutes and the Inflation Report may provide additional clues about what to expect for the benchmark Selic rate. FGV surveys for June are expected to confirm recovery trend indicated by preliminary readings. The external report for May is likely to confirm the positive current account trend. Finally, the mid-month inflation report (IPCA-15) for June should confirm the end of the deflationary period, but with still muted inflation.
- **Preliminary PMI readings for June are expected to reinforce the perception that the worst of the global economic plunge is over.** However, second-quarter numbers are still expected to show a sharp recession.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 06/22				
08:00	Brazil	FGV: Industrial Confidence (Jun - P)		
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
Tuesday 23/06				
08:00	Brazil	BCB: Copom minutes		
04:30	Germany	Markit: Composite PMI (Jun - P)		
05:00	Eurozone	Markit: Composite PMI (Jun - P)		
05:30	United Kingdom	Markit: Composite PMI (Jun - P)		
16:00	Argentina	GDP (1Q)		-4.8% (QoQ)
Wednesday 06/24				
08:00	Brazil	FGV: Consumer Confidence (Jun)		
09:30	Brazil	BCB: Current Account Balance (May)		
14:30	Brazil	BCB: Currency Flows (weekly)		
--	Brazil	Federal Debt Total (May)		
05:00	Germany	IFO Business Climate (Jun)		
Thursday 06/25				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:00	Brazil	BCB: Inflation report		
08:00	Brazil	FGV: Construction Confidence		
08:00	Brazil	FGV: Construction Costs		
09:00	Brazil	IBGE: Consumer Price Index (IPCA-15) (Jun)		
--	Brazil	BCB: National Monetary Council meeting		
09:30	USA	Initial Jobless Claims - Weekly		
09:30	USA	GDP (1Q - P)	-5.0% (QoQ)	
15:00	Mexico	Central bank meeting	5.00%	5.00%
Friday 06/26				
08:00	Brazil	FGV: Retail Confidence (Jun)		
09:30	Brazil	BCB: Press Release - Monetary Policy (May)		
09:30	USA	Personal Income (May)	-5.5% (MoM)	
09:30	USA	Personal Spending (May)	5.2% (MoM)	
11:00	USA	University of Michigan Sentiment (Jun - F)	--	
During the week				
--	Brazil	Tax Collections (May)		R\$ 77.6 b

	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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