

The worst moment of the crisis may have been left behind

Overview

- **Better-than-expected economic indicators in Brazil suggest that the worst moment of the crisis was back in April.** Manufacturing output rose 7% month-over-month in May and confidence readings point to widespread improvement. The job market also surprised on the upside as May printed a lower rate of job destruction. The decline in unemployment claims in the first half of June points to a sustained recovery ahead. Automotive sales were up in June, suggesting that retail may also have left the worst behind.
- **Despite the improved short-term performance, the economy was hit with a sizable shock.** Economic activity is expected to drop close to 10% in the quarter and unemployment is still expected to grow, as people get back into the job hunt. In this context, the government announced that it will extend the emergency aid payments for a few more months while also extending the jobs support program. We also believe that the benchmark Selic rate will remain unchanged at 2.25% for an extended period.
- **The global economy has also been showing stronger numbers overall.** Manufacturing PMI readings are suggesting economic expansion in the majority of countries and have already rebounded close to pre-pandemic levels. U.S. job creation was better than expected for the second straight month in June, with 4.8 million new jobs created, while unemployment fell to 11.1% (against 14.7% in April). Extending the current stimulus measures, or even adopting new monetary and fiscal stimuli, helps sustain a strong economic recovery in this initial phase.
- **However, there is some lingering concern over the pandemic.** The rise in the number of new cases and hospitalizations in some U.S. states has led to a new round of restrictions, causing the economic reopening process to take a few steps back. For now, a widespread and synchronized closing of different economies remains unlikely, although restrictions can be implemented locally. This process can contribute to delay or even hold back economic recovery, dampening market sentiments.

The week ahead

- **Activity numbers for May highlight the domestic calendar.** Retail and service surveys will be the last indicators releases for May, and are expected to reinforce signs of some economic recovery. Consumer Inflation for June will be important to help monitor the signs of one-off inflationary pressures, along with the rate of economic recovery and a yet volatile exchange rate.
- **Abroad, all eyes on the last surveys released for June.** The Service PMI and ISM readings are expected to provide more proof – at least for now – of the U.S. economy's strong recovery in June. June inflation numbers for the U.S. and China will also be released.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 07/06				
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
-	Brazil	Anfavea: Vehicle Production (Jun)		
11:00	USA	ISM Services (Jun)	50.0	
Tuesday 07/07				
08:00	Brazil	FGV: Employment Indicators (Jun)		
03:00	Germany	Industrial Production (May)	-21.2% (y/y)	
Wednesday 07/08				
08:00	Brazil	FGV: IGP-DI (Jun)	1.48%	
09:00	Brazil	IBGE: Retail sales (PMC) (May)		
09:00	Brazil	IBGE: Agricultural production Survey		
09:00	Brazil	Conab: 10th Grains crop survey 2019/2020		
09:00	Brazil	IBGE: Industrial Production - regional (May)		
14:30	Brazil	BCB: Currency Flows (weekly)		
22:30	China	CPI (Jun)	2.6% (y/y)	
Thursday 07/09				
09:30	USA	Initial Jobless Claims - Weekly		
20:00	Peru	Central bank meeting	0.25%	0.25%
Friday 07/10				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:00	Brazil	FGV: IGP-M (1st preview) (Jul)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA) (Jun)	0.29%	
09:00	Brazil	IBGE: Services Sector Volume (PMS)		
-	USA	USDA: World Agricultural Supply and Demand Estimates		

	2017	2018	2019	2020
GDP growth (%)	1,3	1,3	1,1	-5,9
Consumer inflation - IPCA (%)	2,95	3,75	4,31	1,7
Wholesale inflation - IGP-M (%)	-0,5	7,5	7,3	5,5
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	-8,0
Job Creation (in thousands)	1899	966	1816	-1796
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	-61,9	-915
Gross Debt (% of GDP)	74,1	76,5	75,8	95,7

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