

Brazil and global economy still in recovery mode

Overview

- **The Brazilian economy continues to gain traction.** The IBC-Br rose 1.3% in May. That figure was below the market's forecast and reinforces expectations for a GDP contraction in the second quarter, largely driven by a sharp decline in April. On the other hand, the first indicators released for this quarter show the economy continuing its recovery trend of the past few months. FGV's confidence indexes continued to climb in the first half of July for all sectors, as did new vehicle sales.
- **Rising wholesale prices have not translated into higher consumer prices.** The IGP-10 was up 1.9% in July, reflecting upward pressures from iron ore, oil and animal protein. The next IGP readings will continue to show upward pressure, as agricultural goods and oil derivatives prices accelerate. However, the pass-through from wholesale to final consumers is likely to remain low amid a low-growth environment.
- **The global economy continued to beat expectations.** China's GDP grew 3.2% year-over-year in the second quarter. The 11.5% growth on the margin offset the 9.8% decline recorded in the first quarter. Several indicators for June, such as manufacturing output, exports, imports and fixed investments, point to continued improvement in the economy. In the U.S., industrial production and retail sales for June reinforced the recovery trend, with retail readings coming in well above expectations. The U.S. job market also showed improvement, as initial jobless claims fell slightly, now to the level of 1.3 million.
- **The second-half outlook still holds some uncertainty over the evolution of the pandemic and tensions between China and the U.S., which continue to announce new sanctions.** For now, the risks of a second wave of infections are concentrated in a few areas of the U.S., with some local governments already ramping up restrictions. We do not expect to see widespread closings as was the case during the first wave, but an increase in restrictions – even if they are "localized" – could slow down recovery in the months ahead, until an effective vaccine and/or treatment are developed.

The week ahead

- **The mid-month consumer inflation report (IPCA-15) is the highlight on the domestic calendar.** We expect the index to pick up from June to come in at 0.49%, led by fuel, electricity and medicine prices. However, core measures are expected to remain muted, with the 12-month rate around 2.1%, while the 3- and 6-month rates are closer to 1.2%. The calendar also features manufacturing (preliminary reading) and consumer surveys.
- **Abroad, all eyes will be on activity data from the Eurozone and U.S. economies.** Eurozone and U.S. preliminary PMI readings for July are expected to sustain positive trend in the beginning of the third quarter. In the U.S., the indicator will be important to assess whether the regional closings ended up translating into slower growth.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 07/20				
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
Tuesday 07/21				
09:30	Hungary	Central bank meeting		
09:30	USA	Chicago Fed Nat. Activity Index (CFNAI) (Jun)		
Wednesday 07/22				
08:00	Brazil	FGV: Industrial Confidence (Jul - P)		
14:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	National treasure: Revenues and expenses report		
-	Brazil	CNI: Industrial Confidence (Jun)		
Thursday 07/23				
09:30	USA	Initial Jobless Claims - Weekly		
Friday 07/24				
08:00	Brazil	FGV: Consumer Confidence (Jul)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA-15) (Jul)		
-	Brazil	CNI: Construction Confidence (Jun)		
04:30	Brazil	Markit: Composite PMI (Jul - P)	48.7	
05:00	Eurozone	Markit: Composite PMI (Jul - P)	50.5	
05:30	United Kingdom	Markit: Composite PMI (Jul - P)	51.0	
During the week				
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	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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