

Economy outperforms expectations in the beginning of the third quarter

Overview

- **At the start of the third quarter, all evidence shows that the economy remains on a recovery trend.** This week, FGV's industry and consumer confidence indicators continued a recovery trend started in May. Cielo's weekly nominal revenue indicator confirmed this trend, although the service sector is seeing a slower pace of recovery. With the economy rebounding faster than anticipated, third-quarter GDP should pick up sharply.
- **The government has delivered its tax reform proposal, in a first attempt to shift the focus back to the structural reform agenda.** This is the first step of a broader proposal for changes to the tax code, with other parts of the plan expected to be announced in the near future. The proposal to combine two federal consumption taxes (*PIS* and *Cofins*) into a single 12% tax will be discussed along with the reform bill currently before Congress, which also deals with other issues. The government's delivery of its proposal brought the debate back to the tax reform, which should be on the forefront in this second semester. It also helped boost the Brazilian real this week, which also benefitted from the weakening of the dollar against other currencies and a few technical moves.
- **Inflation remains well behaved.** The mid-month Broad Consumer Inflation Index (IPCA-15) for July came in at 0.30%, slightly higher than the 0.26% reading at the end of June. The uptick was explained by the behavior of regulated prices for items such as electricity and fuel. On the other hand, core prices remain muted, reflecting the high levels of slack in the economy and well-anchored expectations. We expect these conditions to stay in place, thus absorbing some of the wholesale price pressures.
- **A string of positive news on vaccine development run in contrast to increased tensions between the U.S. and China.** Despite this geopolitical stress, the global economic recovery has been better than expected, a trend that was confirmed by preliminary PMI data for July. The indicator rose from 48.5 to 54.8 points between June and the preliminary reading for the current month. In Europe, EU leaders have reached an agreement on a joint recovery fund, pushing the euro up. Of the €750 billion package, €390 billion will be handed out to the hardest-hit member states.

The week ahead

- **Job market data and Central Bank press releases are front and center this week.** The Continuous PNAD Survey is expected to show that the unemployment rate rose to 13.0% in June. Meanwhile, the Central Bank will release its three press releases, all of them based on data for June. These publications are expected to reinforce the trend towards improving external accounts, show strong demand for corporate loans, largely facilitated by the Pronampe program, and that public deficit and public debt continue to rise, reflecting an increase in spending and a reduction in tax revenues.
- **On the international front, all eyes will be on the FOMC meeting.** We expect the Fed to keep signaling that it intends to extend the current stimulus programs. Markets will also keep a close watch on whether the FOMC release or the press conference will provide any details on the new monetary policy framework.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 07/27				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:00	Brazil	FGV: Retail Confidence (Jul)		
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
05:00	Germany	IFO Business Climate (Jul)		
Tuesday 07/28				
08:00	Brazil	FGV: Construction Costs (Jul)		
08:00	Brazil	FGV: Construction Confidence (Jul)		
10:30	Brazil	BCB: Current Account Balance (Jun)		+US\$ 3.9 bn
--	Brazil	Caged: Formal Job Creation Total (Jun)		-160 k
11:00	USA	Consumer Confidence (Jul)	95.0	
Wednesday 07/29				
08:00	Brazil	FGV: Industrial Confidence (Jul)		
09:00	Brazil	IBGE: Unemployment Change (Jun)		
09:30	Brazil	BCB: Press Release - Monetary Policy (Jun)		
14:30	Brazil	BCB: Currency Flows (weekly)		
--	Brazil	Federal Debt Total (Jun)		
15:00	USA	Central bank meeting	0.25%	0.25%
Thursday 07/30				
08:00	Brazil	FGV: IGP-M (Jul)		
08:00	Brazil	FGV: Services Confidence (Jul)		
--	Brazil	Central Govt Budget Balance (Jun)		
03:00	Germany	GDP (2Q - P)		
08:00	Mexico	GDP (2Q - P)		-12% (y/y)
09:00	Germany	CPI (Jul - P)		
09:30	USA	GDP (2Q - P)	-34.0% (q/q)	-35.0% (q/q)
09:30	USA	Initial Jobless Claims - Weekly		
22:00	China	Manufacturing PMI (Jul)		
Friday 07/31				
09:00	Brazil	IBGE: PPI Manufacturing (Jun)		
10:30	Brazil	BCB: Press Release - Fiscal Policy (Jun)		
06:00	Eurozone	CPI (Jul - P)		
06:00	Eurozone	GDP (2Q - P)	-10.7% (q/q)	
09:30	USA	Personal Income (Jun)	-0.3% (m/m)	
09:30	USA	Personal Spending (Jun)	5.8% (m/m)	
11:00	USA	University of Michigan Sentiment (Jul - F)	73.3	
--	Colombia	Central bank meeting	2.25%	2.25%

	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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