

Selic rate is expected to remain unchanged at 4.25% throughout 2020

Overview

- **As expected, the Monetary Policy Committee (Copom) trimmed the benchmark Selic rate to 4.25%, signaling the end of the loosening process.** Acknowledging increased uncertainty in the global environment, the Central Bank maintained its outlook for a continuing, gradual recovery in the economy. Meanwhile, forecasting models suggest that the inflation rate will come in within the target range in 2021, even if the exchange and Selic rates remain close to current levels. In this sense, while additional rate cuts are unlikely, we also do not expect any hikes anytime soon.
- **Despite explicitly mentioning the end of the loosening cycle, the Central Bank's statement also mentioned that any future moves will depend on the data.** The committee could resume the rate-cutting cycle if activity falls well short of expectations, if there are any major changes in the global economy (such as any effects from the coronavirus outbreak) or if inflation shows a substantial slowdown. Our scenario has the policy rate remaining unchanged at 4.25% throughout 2020.
- **The latest activity data put a downward bias on our 4Q 2019 GDP forecast, currently at 0.7%.** Manufacturing output failed to meet expectations, coming in at 0.7% in December, reversing the 2.4% increase in between August and October. Looking ahead, we continue to see some key growth drivers present in the economy. As a result, we have maintained our 2020 growth forecast unchanged at 2.5%. On the inflation side, January IPCA came in well below expectations at 0.21%, reflecting easing pressure from food prices and muted core inflation. That reading reinforces the idea that all upward pressure seen in late 2019 was a one-off event.
- **Economic activity indicators in the world's largest economies also point towards stability.** In January, PMI readings for the U.S. and Eurozone pointed towards a recovery of the manufacturing sector, once the risks stemming from trade tensions and Brexit have been lifted. The payroll added 225,000 jobs last month, adding to evidence that the U.S. job market is red hot. In turn, China's PMI reading fell in January, but remains above the neutral mark. However, upcoming data from China is likely to show the effects of the coronavirus shock.
- **With higher global uncertainty and heightening risks, it raises the odds of more monetary stimulus.** This past week, the Central Bank of China announced that it would inject more liquidity into local markets. In addition to Brazil, monetary authorities in Russia, Thailand and the Philippines also cut interest rates, citing concerns over growth risks.

The week ahead

- **The Monetary Policy Committee (Copom) minutes and December's economic activity data are next week's highlights.** Most eyes will be on the Central Bank's document, as the market will look for the reasoning behind its latest decision. December's retail and service surveys, as well as the IBC-Br, will help provide a clearer view of fourth-quarter GDP.
- **On the international calendar, the focus will be on US activity and inflation data,** which are expected to continue showing strong activity and tame inflation readings.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 02/10				
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
17:15	USA	Fed Filad.: P. Harker's speech		
-	China	CPI (Jan)*	4.9% (YoY)	
*The indicator will be released on February, 9th				
Tuesday 02/11				
05:00	Brazil	FIPE: Consumer Price Index (weekly)	0.28% (MoM)	
08:00	Brazil	BCB: Copom minutes		
08:00	Brazil	FGV: IGP-M (1st preview) (Feb)	0.27% (MoM)	
09:00	Brazil	Conab: Xth Grains crop survey 20XX/20XX (Feb)		
09:00	Brazil	IBGE: Agricultural production Survey (Jan)		
09:00	Brazil	IBGE: Industrial Production - regional (Dec)		
06:30	United Kingdom	GDP (4Q - P)	-0.1% (QoQ)	
15:30	USA	Fed St. Louis: J. Bullard's speech		
16:15	USA	Fed Minneapolis: N. Kashkari's speech		
-	USA	USDA: World Agricultural Supply and Demand Estimates		
Wednesday 02/12				
09:00	Brazil	IBGE: Retail sales (PMC) (Dec)		
14:30	Brazil	BCB: Currency Flows (weekly)		
07:00	Eurozone	Industrial Production (Dec)	-0.7% (YoY)	
10:30	USA	Fed Filad.: P. Harker's speech		
12:00	USA	Fed: J. Powell's speech		
Thursday 02/13				
09:00	Brazil	IBGE: Services Sector Volume (PMS) (Dec)		1.9% (YoY)
04:00	Germany	CPI (Jan - F)	-0.6% (MoM)	
10:30	USA	Initial Jobless Claims - Weekly		
10:30	USA	CPI (Jan)	0.2% (MoM)	
16:00	Mexico	Central bank meeting	7%	7%
20:00	Peru	Central bank meeting		2.25%
Friday 02/14				
08:00	Brazil	FGV: IGP-10 (Feb)		
09:00	Brazil	IBGE: Quartely employment survey (4Q)		
09:00	Brazil	BCB: Economic Activity Index (Dec)		
04:00	Germany	GDP (4Q - P)	0.1% (QoQ)	
07:00	Eurozone	GDP (4Q - P)	0.1% (QoQ)	
11:15	USA	Industrial Production (Jan)	-0.3% (MoM)	
12:00	USA	University of Michigan Sentiment (Feb - P)	98.9	
13:00	Colombia	GDP (4Q - P)		
13:45	USA	Fed Cleveland: L. Mester's speech		

	2017	2018	2019	2020
GDP growth (%)	1,3	1,3	1,2	2,5
Consumer inflation - IPCA (%)	2,95	3,75	4,3	3,6
Wholesale inflation - IGP-M (%)	-0,5	7,5	7,3	4,5
Selic Rate (% eop)	7,00	6,50	4,50	4,25
Exchange Rate (BRL/USD, eop)	3,31	3,87	4,03	4,00
Industrial Production (%)	2,5	1,0	-1,1	2,0
Retail Sales (%)	4,0	5,0	4,4	4,5
Job Creation (in thousands)	1899	966	1816	1536
Unemployment Rate (% of labor force, avg)	12,7	12,3	11,9	11,2
Outstanding Credit Growth (%)	-0,5	5,0	6,5	9,4
Trade Balance (USD bn)	64,0	53,0	39,4	36,1
Current Account (USD bn)	-15,0	-41,5	-50,8	-55,3
Primary Balance (BRL bn)	-111	-108,3	-62	-91
Gross Debt (% of GDP)	74,1	76,7	75,8	78,4

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