

Wholesale inflation starts to slow down

Overview

- **Following the sharp upturn in recent months, wholesale inflation slowed down in June.** The IGP-M index rose 0.60% in June, following a deflation of agricultural and livestock products and the exchange rate appreciation seen in recent weeks. Looking ahead, the drop in commodity prices could push inflation down over the next few months. However, this trend must be closely monitored, since agricultural commodity prices started picking up the pace again over the week, reflecting the USDA's forecast for U.S. crop numbers.
- **Economic activity signs for the second quarter remain positive.** After the slowdown witnessed in April, CAGED data in May confirmed a positive scenario for formal employment, with the creation of 280,000 jobs. Business confidence indicators also rose in June, suggesting a stronger recovery, particularly in the service sector. Industry, in turn, rose 1.4% between April and May. The sector still struggles with the lack of supplies, which could curb a stronger economic activity recovery this year.
- **Economic performance has also improved fiscal prospects.** Reflecting both the recovery in economic activity and the impact of inflation and exchange rate on tax bases, public finances have been steadily improving. In May, federal revenues grew 70% YoY in real terms, and the government's gross debt dropped from 85.6% to 84.5% of the GDP. We expect a primary deficit of 1.1% of the GDP this year, and indebtedness should continue to drop down to 82.1% to the GDP by the end of 2021.
- **The U.S. job market is also advancing at a good pace.** In June, the U.S. created 850,000 jobs, slightly above expectations. Uncertainties are still focused around supply restrictions and the evolution of wages from now on, as the economy recovers. For now, the Fed has indicated that it will wait until it has more data on the recovery of the job market and inflation evolution before committing to reducing the monetary stimulus.
- **Surveys suggest steady global industrial activity progress in June.** The industry's PMI index rose from 63.1 to 63.4 points in the Eurozone, in line with the advance of the block's economy in the second quarter, benefitted by the faster vaccination rollout and subsequent reopening. In China, the index remained virtually stable, from 51.0 to 50.9 points. We expect a moderate expansion in activity over the next few months, as the gradual normalization of the monetary policy should lead to an additional accommodation of growth to approximately 5-6%.

The week ahead

- **Inflation in June is the highlight of the domestic agenda next week.** Following a variation slightly below expectation in the IPCA-15, attention now turns to the consolidated result for June and its implications for the monetary policy. Retail performance data in May will also be important to gauge the economic activity in the second quarter.
- **Abroad, all eyes turn to the release of the FOMC minutes.** Amidst changes in forecasts made by members of the Fed in the announcement on the 16th, analysts will scan the meeting minutes for clues on the next steps of the U.S. monetary policy. China's inflation data are also on the radar.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 07/05				
08:25	Brazil	BCB: Focus Survey		
10:00	Brazil	Markit: Composite PMI (Jun)		
10:00	Brazil	Markit: PMI Services (Jun)		
15:00	Brazil	Secex: Trade Balance (Weekly)		
04:55	Germany	Markit: Composite PMI (Jun - F)		
05:00	Eurozone	Markit: Composite PMI (Jun - F)		
05:30	United Kingdom	Markit: Composite PMI (Jun - F)		
Tuesday 07/06				
06:00	Germany	ZEW Survey Expectations (Jul)		
11:00	USA	ISM Services (Jun)	63.9	
Wednesday 07/07				
09:00	Brazil	Anfavea: Vehicle Production (Jun)		
09:00	Brazil	IBGE: Retail sales (PMC) (May)		
14:30	Brazil	BCB: Commodity Price Index (Jun)		
14:30	Brazil	BCB: Currency Flows (weekly)		
03:00	Germany	Industrial Production (May)		
15:00	USA	Fed Minutes		
Thursday 07/08				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
08:00	Brazil	FGV: IGP-DI (Jun)		0.13% (MoM)
09:00	Brazil	Conab: 10th Grains crop survey 2020/2021 (Jul)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA) (Jun)		0.58% (MoM)
09:00	Brazil	IBGE: Agricultural production Survey (Jun)		
09:00	Brazil	IBGE: Industrial Production - regional (May)		
09:30	USA	Initial Jobless Claims - Weekly		
20:00	Peru	Central bank meeting		
22:30	China	CPI (Jun)		
Friday 07/09				
08:00	Brazil	FGV: IGP-M (1st preview) (Jul)		
During the week				
-	China	Trade Balance (Jun)		

	2019	2020	2021	2022
GDP growth (%)	1,4	-4,1	5,2	2,2
Consumer inflation - IPCA (%)	4,3	4,5	6,4	3,3
Wholesale inflation - IGP-M (%)	7,3	23,1	17,7	4,0
Selic Rate (% eop)	4,50	2,00	6,50	6,50
Exchange Rate (BRL/USD, eop)	4,03	5,20	4,70	5,30
Industrial Production (%)	-1,1	-4,5	6,0	2,5
Retail Sales (%)	3,9	-1,5	6,3	3,6
Job Creation (in thousands)	1816	-6619	2615	898
Unemployment Rate (% of labor force, avg)	11,9	13,2	13,8	12,8
Outstanding Credit Growth (%)	6,5	15,6	11,0	9,3
Trade Balance (USD bn)	40,5	43,2	75,5	60,5
Current Account (USD bn)	-50,7	-12,5	8,3	-16,0
Primary Balance (BRL bn)	-61,9	-703,0	-146	-97
Gross Debt (% of GDP)	74,3	88,8	82,1	83,1

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