

## Consumer inflation still under pressure as wholesale loses steam

### Overview

- **IPCA rise in June underpins pressure on consumer prices** The 0.53% hike was focused on regulated items (electricity and fuels), followed by an acceleration in the cores of both industrial goods and the service sector. The IGP-DI, in turn, showed a significant decompression (0.11% rise in June), amidst a decline in wholesale prices, particularly with deflation of the agriculture segment. This movement reflected the drop in international commodity prices and the exchange rate appreciation from previous weeks. However, there seems to be a turnaround in this scenario, with the depreciation of the Brazilian real and acceleration in oil prices, mainly. A close eye must be kept on this trend, since it limits the expected relief on consumer prices in the months ahead.
- **Data suggest stable growth in the second quarter.** Retail sales in May were more moderate than expected. Among the top performing segments are clothing and footwear, and fuels, driven by the reopening of activities. In turn, vehicle production dropped 5.5% between May and June, according to ANFAVEA. This is linked to a shortage in electronic components and the shutdown of several factories last month, limiting the industry's expansion. For the third quarter, the replenishment of industrial stocks, the extension of the emergency aid until October, and the accelerated vaccination rollout suggest a growth trend.
- **Abroad, the FOMC minutes reinforced that monetary stimuli withdrawal could begin in the following months, albeit not immediately.** The document confirmed the onset of discussions among directors to withdraw stimuli, but the current scenario still doesn't allow any immediate action in this sense. The risk balance is pending towards higher inflation, including the possibility of supply bottlenecks – due to the shortage of supplies – generating inflation next year, even if temporarily. Finally, despite a stricter tone and signs of inflationary risks, the evolution of activity and inflation from now on will be crucial for the timing of stimulus withdrawal.
- **Concerns with novel coronavirus variants raised overall volatility this week.** The potential negative impact of the delta variant on the economy's reopening trend increased risk perceptions worldwide. For now, the PMI indexes in Europe and the ISM index in the U.S. for June showed a high level of activity. The advance of vaccination rollout could mitigate the impact of new variants and keep the scenario particularly favorable for the service sector.

### The week ahead

- **Economic data are the main highlight of the domestic agenda.** The IBC-Br for May and results regarding the service sector's performance will be released next week. Both are expected to increase as activities begin to reopen. We will also know the IGP-10 for July, which should keep the slower pace printed in June. The week may also bring federal revenue data for June.
- **The main highlights abroad include U.S. inflation results and economic data from China.** Consumer and producer inflation in the U.S. should continue to show some pressure by the economy's reopening process. In China, the GDP for the second quarter should be lower year-over-year, based on the higher comparison. The numbers already reflect a slowdown in the industry and retail in June, and this data will also be released next week.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 07/12</b>				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	Secex: Trade Balance (weekly)		
-	USA	USDA: World Agricultural Supply and Demand Estimates		
<b>Tuesday 07/13</b>				
09:00	Brazil	IBGE: Services Sector Volume (PMS) (May)		0.6% (MoM)
03:00	Germany	CPI (Jun - F)		
09:30	USA	CPI (Jun)	0.5% (MoM)	
<b>Wednesday 07/14</b>				
09:00	Brazil	BCB: Economic Activity Index (May)		1.2% (MoM)
14:30	Brazil	BCB: Currency Flows (weekly)		
06:00	Eurozone	Industrial Production (May)		
15:00	USA	Fed: Beige Book		
19:00	Chile	Central bank meeting		
23:00	China	Industrial Production (Jun)	16.0% (YoY)	
23:00	China	Fixed Assets Investments (Jun)	12.1% (YoY)	
23:00	China	GDP (2Q)	8.0% (YoY)	
<b>Thursday 07/15</b>				
09:30	USA	Índice Empire Manufacturing de atividade (Jul)	19.0	
09:30	USA	Fed Philadelphia Outlook (Jul)	29.4	
09:30	USA	Initial Jobless Claims - Weekly		
10:15	USA	Industrial Production (Jun)	0.6% (MoM)	
<b>Friday 07/16</b>				
08:00	Brazil	FGV: IGP-10 (Jul)		-0.09% (MoM)
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
06:00	Eurozone	CPI (Jun - F)		
11:00	USA	University of Michigan Sentiment (Jul - P)	86.5	
<b>During the week</b>				
-	China	Trade Balance (Jun)	US\$ 44.9 bn	
-	Japan	Central bank meeting		

	2019	2020	2021	2022
<b>GDP growth (%)</b>	1.4	-4.1	5.2	2.2
<b>Consumer inflation - IPCA (%)</b>	4.3	4.5	6.4	3.3
<b>Wholesale inflation - IGP-M (%)</b>	7.3	23.1	17.7	4.0
<b>Selic Rate (% eop)</b>	4.50	2.00	6.50	6.50
<b>Exchange Rate (BRL/USD, eop)</b>	4.03	5.20	4.70	5.30
<b>Industrial Production (%)</b>	-1.1	-4.5	6.0	2.5
<b>Retail Sales (%)</b>	3.9	-1.5	6.3	3.6
<b>Job Creation (in thousands)</b>	1816	-6619	2615	898
<b>Unemployment Rate (% of labor force, avg)</b>	11.9	13.2	13.8	12.8
<b>Outstanding Credit Growth (%)</b>	6.5	15.6	11.0	9.3
<b>Trade Balance (USD bn)</b>	40.5	43.2	75.5	60.5
<b>Current Account (USD bn)</b>	-50.7	-12.5	8.3	-16.0
<b>Primary Balance (BRL bn)</b>	-61.9	-703.0	-146	-97
<b>Gross Debt (% of GDP)</b>	74.3	88.8	82.1	83.1

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