

## Stronger activity and still high inflation build up challenges faced by BC

### Overview

- **Federal revenue remains positively impacted by economic recovery.** Revenues totaled BRL 137.1 billion in June, accounting for a 46.8% increase year over year, in real terms. In addition to a weaker comparison basis, the strong upsurge in revenue reflects mainly nominal growth, driven by the economy's recovery trend. In addition, foreign exchange and commodity prices – still at high levels – have led to a massive upturn in tax collection over foreign trade. According to our estimates, even if we disregard deferred income and tax exemptions arising from the pandemic, as well as extraordinary revenues, collection indicators have pointed to a growth rate above the one suggested by the IBC-Br.
- **Meanwhile, inflation remains high, reinforcing the challenges of the monetary policy.** Despite the recent decompression in agricultural prices, the second preview of July's IGP-M still shows a significant increase. The IPCA-15 for July, in turn, rose 0.72%, above the median of forecasts (0.65%). Despite the slowdown compared to June (0.83%), the indicator has risen 8.59% in twelve months. The bearish surprise seen in regulated prices was more than offset by the upsurge in industrial goods and services. Core inflation continued to accelerate, suggesting unfavorable dynamics. We estimate that, in the short term, monitored items and food products should continue pressuring inflation, while for the rest of the year, a stronger economic recovery and buildup in service prices brings in an added bullish risk for our scenario.
- **The rise in coronavirus cases related to the delta variant is concerning, despite still not having any impact on the economic activity.** Amidst a blank economic agenda scenario, global markets saw some improvement over the week, following the strong downturn on Monday. Caution is still imperative, particularly before the FOMC meeting next week, while also keeping a close eye on new Covid cases. Preliminary PMI results in July showed that the European industry is still recovering, albeit still with some regional differences. The Eurozone indicator rose from 59.5 to 60.6 – its highest level since mid 2000. Naturally, this scenario could change depending on how the pandemic evolves, with some countries in the region studying a potential halt in the economic reopening process.

### The week ahead

**In a week with massive data disclosures, indicators on economic activity, job market and inflation stand out.** FGV's surveys should confirm the overall perception of a stronger economic activity in July. The unemployment rate in May should show a slight drop. The IGP-M for July should show some decompression, despite remaining high. All of these indicators will be crucial for the next steps of the monetary policy, which will be decided in the first week of August. The Central Bank of Brazil, in turn, will release its press notes for the current account, credit and fiscal policy.

**The main highlights abroad are the FOMC meeting and China's PMI.** There should be no surprises in the decision of the Fed's monetary policy committee. Attention will turn to the post meeting press conference, which could bring clearer signs of the beginning of stimuli withdrawal actions. The Chinese government's official PMI, in turn, should reveal growth in the beginning of the third quarter.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 07/26</b>				
08:00	Brazil	FGV: Consumer Confidence (Jul)		
08:25	Brazil	BCB: Focus Survey (weekly)		
15:00	Brazil	Secex: Trade Balance (weekly)		
05:00	Germany	IFO Business Climate (Jul)		
<b>Tuesday 07/27</b>				
05:00	Brazil	FIPE: Consumer Price Index (weekly)	0.91%	
08:00	Brazil	FGV: Construction Costs (Jul)		
08:00	Brazil	FGV: Construction Confidence (Jul)		
09:30	Brazil	BCB: Current Account Balance (Jun)		US\$ 3.1 bn
11:00	USA	Consumer Confidence (Jul)	124.0	
<b>Wednesday 07/28</b>				
08:00	Brazil	FGV: Industrial Confidence (Jul)		
09:00	Brazil	IBGE: PPI Manufacturing (Jun)		
09:30	Brazil	BCB: Press Release - Monetary Policy (Jun)		16.4% (a/a)
14:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	Caged: Formal Job Creation Total (Jun)	273k	306k
-	Brazil	Federal Debt Total (Jun)		
15:00	USA	Central bank meeting	0.25%	
<b>Thursday 07/29</b>				
08:00	Brazil	FGV: IGP-M (Jul)	0.18%	0.62%
08:00	Brazil	FGV: Retail Confidence (Jul)		
08:00	Brazil	FGV: Services Confidence (Jul)		
-	Brazil	Central Govt Budget Balance (Jun)		-R\$ 194.7 bn
09:00	Germany	CPI (Jul - P)		
09:30	USA	GDP (2Q - P)	8.0% (QoQ)	10.0% (QoQ)
09:30	USA	Initial Jobless Claims - Weekly		
<b>Friday 07/30</b>				
09:00	Brazil	IBGE: Unemployment Change (May)	14.6%	14.5%
09:30	Brazil	BCB: Press Release - Fiscal Policy (Jun)	60.3%	
-	Brazil	Aneel: Electricity tariff range (Aug)		
05:00	Germany	GDP (2Q - P)		
06:00	Eurozone	GDP (2Q - P)		1.6% (QoQ)
06:00	Eurozone	CPI (Jul - P)		
08:00	Mexico	GDP (2Q - P)		18.1% (YoY)
09:30	USA	Personal Spending (Jun)	0.6% (MoM)	
09:30	USA	Personal Income (Jun)	-0.7% (MoM)	
11:00	USA	University of Michigan Sentiment (Jul - F)	80.8	
15:00	Colombia	Central bank meeting	1.75%	1.75%
22:00	China	Manufacturing PMI (Jul)	51.0	

	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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