

Copom steps up the pace and signals interest rate above the neutral level

Overview

- **The Central Bank raised the Selic rate to 5.25% p.a., accelerating monetary policy normalization and indicating interest rates above the neutral level.** In the statement, the committee assessed that the latest inflation data showed a more unfavorable composition, with an increase in core measures. The committee also left out the assessment that the shocks are temporary, ensuring a harsher tone in the consumer inflation readings. According to its model estimates, the IPCA should show an upswing of 6.50% in 2021, 3.5% in 2022 and 3.2% in 2023, in the scenario with the Selic rate at 7.0% p.a. from the end of this year to the end of 2022. Considering the base scenario and the asymmetric balance of risks towards higher inflation, the committee assessed that the interest rate adjustment should be timely, accelerating the pace to 1 p.p. and signaling another hike of the same magnitude at the September meeting, which could be reassessed according to the evolution of domestic activity, the balance of risks and inflation projections and expectations. Copom also signaled that it will raise interest rates above the neutral level in the current monetary policy cycle. Therefore, we maintain our Selic scenario at 7.0% p.a. at the end of this year, a scenario compatible with the convergence of inflation in 2022.
- **Industrial production was stable in June, reflecting the shortage of parts and inputs in some sectors.** The durable goods industry, especially vehicles, was the most affected by the lack of raw materials, registering the seventh consecutive drop. In the same sense, the intermediate goods industry contracted in June for the third time in a row on the margin. On the positive side, capital goods production continued to expand. The stoppages in the automotive industry in July and August reveal the sector's growth challenges in the short term, limiting the advance of third quarter production. In the medium term, however, inventory restocking should favor the industry's performance, once supply restrictions are overcome.
- **Economic data abroad continue to show expansion, supported by economic reopening.** Eurozone composite PMIs accelerated between June and July, driven by the services sector. On the one hand, industry showed a loss of steam, but still on the positive side. Lack of inputs and cost pressure continue to be reported. On the other hand, the services sector showed acceleration, favored by the reopening of the European economy. In China, the composite PMI index was surprisingly positive, also being driven by the services sector, while the manufacturing PMI points to a slowdown in the expansion rate. Despite the positive data for the week, the market remained attentive to the advance of the Delta variant, especially in Asia, whose vaccinated population still represents a small fraction of the total. Finally, 943,000 jobs were created in the U.S. in July, behavior that reinforces the scenario of economic recovery in the country.

The week ahead

- **The focal point of the agenda will be the release of inflation and domestic activity indicators.** We expect a 0.99% rise in the July IPCA, reflecting pressure from electricity, fuel and, to a lesser extent, food items. The result will still point to acceleration of core inflation. On the wholesale side, the IGP-DI should print an increase of 1.46% in the same period, showing acceleration when compared to June. Agricultural prices tend to continue to pressure the index, being only partially offset by the drop in iron ore prices. Regarding economic activity, data on retail and services should keep expanding in June, favored by the economic reopening. As a result, the IBC-Br should be slightly positive in the month.
- **The highlight in the global scenario is U.S. inflation in July.** After the payroll shows continued recovery of the U.S. economy, inflation data will be important for the Fed's monetary policy decisions.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 08/09				
08:00	Brazil	FGV: IGP-DI (Jul)	1.17% (MoM)	1.46% (MoM)
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
08:25	Brazil	BCB: Focus Survey (weekly)		
15:00	Brazil	Secex: Trade Balance (weekly)		
Tuesday 08/10				
05:00	Brazil	FIPE: Consumer Price Index (weekly)	0.91%	
09:00	Brazil	IBGE: Consumer Price Index (IPCA) (Jul)	0.93% (MoM)	0.99% (MoM)
09:00	Brazil	IBGE: Agricultural production Survey (Jul)		
09:00	Brazil	Conab: 11th Grains crop survey 2020/2021 (Aug)		
06:00	Germany	ZEW Survey Expectations (Aug)		
Wednesday 08/11				
08:00	Brazil	FGV: IGP-M (1st preview) (Aug)		
09:00	Brazil	IBGE: Retail sales (PMC) (Jun)	0.1% (MoM)	1.2% (MoM)
09:00	Brazil	IBGE: Industrial Production - regional (Jun)		
14:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	CNI: Industrial Confidence (Aug)		
03:00	Germany	CPI (Jul - F)		
09:30	USA	CPI (Jul)	0.5% (MoM)	
Thursday 08/12				
09:00	Brazil	IBGE: Services Sector Volume (PMS) (Jun)		0.2% (MoM)
03:00	United Kingdom	GDP (2Q - P)		
06:00	Eurozone	Industrial Production (Jun)		
09:30	USA	Initial Jobless Claims - Weekly		
15:00	Mexico	Central bank meeting		
20:00	Peru	Central bank meeting		
-	USA	USDA: World Agricultural Supply and Demand Estimates		
Friday 08/13				
09:00	Brazil	BCB: Economic Activity Index (Jun)	1.15% (MoM)	0.4% (MoM)
11:00	USA	University of Michigan Sentiment (Aug - P)	81.2	
During the week				
20:50	Japan	GDP (2Q - P)	0.2% (QoQ)	

	2019	2020	2021	2022
GDP growth (%)	1.4	-4.1	5.2	2.2
Consumer inflation - IPCA (%)	4.3	4.5	7.1	3.3
Wholesale inflation - IGP-M (%)	7.3	23.1	20.2	4.0
Selic Rate (% eop)	4.50	2.00	7.00	7.00
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	12.4
Outstanding Credit Growth (%)	6.5	15.6	12.0	9.3
Trade Balance (USD bn)	40.5	43.2	76.2	74.3
Current Account (USD bn)	-50.7	-12.5	11.6	-1.7
Primary Balance (BRL bn)	-61.9	-703.0	-131	-87
Gross Debt (% of GDP)	74.3	88.8	81.8	82.7

Technical Staff

Director of Economic Research and Studies

Fernando Honorato Barbosa

Economists

Ana Beatriz Moreira dos Santos / Constantin Jancsó / Ederson Luiz Schumanski / Fabiana D'Atri / Felipe Wajskop França / Myriã Tatiany Neves Bast / Priscila Pacheco Trigo / Renan Bassoli Diniz / Robson Rodrigues Pereira / Thiago Coraucci de Angelis / Thomas Henrique Schreurs Pires

Interns

Bruna Andreata Valentino / Henrique Monteiro de Souza Rangel / Lorena Pires Sene / Lucas Daniel Duarte / Rafaela de Sousa Silva

economiaemdia.com.br

DEPEC – BRADESCO may not be held liable for any acts/decisions taken on the basis of the information available through its publications and projections. The information and opinions provided herein are carefully checked and prepared by fully qualified professionals, but should not be taken as a basis, support, guidance or standard for any document, assessment, judgment or decision of formal or informal nature, under any circumstances. Therefore, the user hereby undertakes sole responsibility for all consequences arising from the use of the data or analyses hereof, hereby exempting BRADESCO from all claims thereof. Upon accessing the information hereof, users hereby accept these terms of use and responsibility. Total or partial reproduction of this publication is strictly prohibited, except upon due authorization from Banco BRADESCO or full citation of the source (including the authors, the publication, and Banco BRADESCO).