

Copom reinforced its intention to raise the Selic above the neutral level

Overview

- **Consumer inflation recorded a sharp advance in July.** Although in line with market expectations, the IPCA rose 0.96% in the month and 9% over the last 12 months. Service prices followed the economic reopening process and continued to accelerate, putting pressure on core measures. In addition, the unfavorable weather conditions of recent weeks pressured fresh food prices and may still impact the index in the upcoming disclosures. Wholesale inflation also regained momentum in the last month, influenced by recovering international commodity prices, which should also contribute to maintaining pressure on consumer prices.
- **In turn, economic activity continues to recover, with emphasis on the advance of services.** Driven by the reopening and improvement of mobility, service sector revenue expanded 1.7% in June, in real terms. Initially more affected by the pandemic, services continue to grow above average. The result offset the drop in retail and the weak dynamics of industry in the month, leading to economic growth of 1.1% in June, according to the monthly GDP calculated by the Central Bank. Looking ahead, the recovery of the services sector is a central premise for strong economic performance in the 2nd half of the year and for the year as a whole.
- **In this context of high inflation and economic recovery, Copom confirmed its willingness to position the Selic at a contractionary level.** In the last meeting's minutes, the committee acknowledged the persistence of consumer inflation and assessed that, amid the reopening of the services sector, the worsening of the inertial components of price indices could cause a further deterioration in expectations for 2022. To combat this effect and ensure the convergence of inflation next year, the Central Bank understands that a timely monetary policy adjustment is necessary and signaled another 1 p.p. increase at the September meeting. For now, we maintain our expectation that the Selic will end the year at 7.00%.
- **U.S. consumer inflation also continued to accelerate over the past 12 months, but showed some decompression in June.** The Consumer Price Index climbed 0.5% in July (compared to 0.9% in June) and accumulated an increase of 5.4% with respect to July 2020. Although the resumption of economic activity and supply restrictions maintain bullish inflation risks on the radar, the slowdown observed in June reduces the chance that the Fed will prematurely signal a reduction in its asset purchases. The evolution of the pandemic and the high degree of contagion of the delta variant still remain a source of concern for the performance of the global economy in the second half of the year.

The week ahead

- **The release of more inflation indicators will be the focus of the agenda.** In a relatively empty week, attention turns to wholesale inflation. The preliminary IGP readings will help estimate consumer inflation in the coming months.
- **Emphasis is on activity data in the global scenario.** July retail and industry data will be released in both the U.S. and China. Indicators should continue to show advances in economic activity in the third quarter, although with signs of accommodation, especially in the case of the Chinese economy.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 08/16				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
08:25	Brazil	BCB: Focus Survey (weekly)		
15:00	Brazil	Secex: Trade Balance (weekly)		
09:30	USA	Empire State Manufacturing Index (Aug)	25.7	
23:00	China	Industrial Production (Jul)*	7.9% (YoY)	
23:00	China	Fixed Assets Investments (Jul)*	11.3% (YoY)	
*The indicator will be released on Aug, 15th				
Tuesday 08/17				
05:00	Brazil	FIPE: Consumer Price Index (weekly)	0.98% (MoM)	
08:00	Brazil	FGV: IGP-10 (Aug)		
06:00	Eurozone	GDP (2Q - P)	2,0% (QoQ)	
10:15	USA	Industrial Production (Jul)	0.6% (MoM)	
13:00	Colombia	GDP (2Q)		
Wednesday 08/18				
14:30	Brazil	BCB: Currency Flows (weekly)		
06:00	Eurozone	CPI (Jul - F)	-0.1% (MoM)	
09:30	Chile	GDP (2Q)		
15:00	USA	Fed Minutes		
Thursday 08/19				
08:00	Brazil	FGV: IGP-M (2nd preview) (Aug)		
-	Brazil	CNI: Industrial Confidence (Aug)		
09:30	USA	Initial Jobless Claims - Weekly		
09:30	USA	Fed Philadelphia Outlook (Aug)	24.2	
-	Peru	GDP (2Q)		
Friday 08/20				
During the week				
-	Brazil	Tax Collections (Jul)		

	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

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