

Central Bank to resume easing monetary policy this month

Overview

- **Economic conditions remain consistent with more rate cuts, and we forecast the Selic policy rate to decline to 5.5% by year-end, and remain at that level through the end of 2020.** Slow growth will likely keep inflation below the target throughout this period, creating room for more monetary stimulus. In addition, the imminent approval of the social security reform will lead to an improvement in the fiscal sustainability and opens the door for even more rate cuts, depending on the economy and whether the government unveils additional stimulus measures.
- **There still aren't any signs that the economy is rebounding: so far, the data suggests that GDP expanded by no more than 0.2% in the second quarter.** Industrial production remains practically flat, with no clear signs of acceleration through May. And leading indicators for the month of June – especially a 9% decline in auto manufacturing – do not suggest an improvement at the end of the quarter. On the other hand, retail sales have performed more positively, posting 10.5% growth over the same period.
- **The pension reform proposal is making its way through the Lower House.** So far, the reform has not been significantly watered down and will continue to generate savings (now, of about BRL 900 billion over ten years) close to the administration's initial target. After being approved by the House Special Committee, the reform will not be submitted to a first-round floor vote in the coming weeks. Progress on the reforms and expectations of a swift approval have helped strengthen the BRL and bull-flatten the yield curve.
- **The G-20 meetings helped ease trade tensions between the U.S. and China, but there are lingering uncertainties regarding a definitive deal between the nations.** The sides agreed to a truce on tariff increases, but do not appear to be closer to a permanent deal. Persisting uncertainty on this issue will likely continue to weigh on growth. In the U.S., non-farm payrolls grew by a stronger-than-expected 224k in June. Despite the positive surprise, we believe that evidence that the U.S. economy is slowing down may lead the Federal Reserve to cut rates at its meeting at the end of this month.

The week ahead

- **The most important data releases in Brazil will be May retail sales and the services sector survey, in addition to June IPCA consumer inflation.** We expect economic activity data to remain on a very gradual recovery trajectory, despite significant year-over-year increases resulting from the depressed comparison base due to last year's truck drivers' strike. We expect a 0.6% increase for retail and 0.2% for sales. The IPCA will remain on a slowing trajectory, with core price inflation at under 3%.
- **U.S. inflation and China's credit data next week's highlights in the international calendar.** Speeches by Fed board members suggest they believe that low inflation is not a temporary phenomenon, and the inflation numbers this week (both wholesale and consumer inflation) could increase their sense of urgency on taking action. In China, meanwhile, investors will be looking for some credit growth in response to government stimulus following the slowdown in growth observed in recent months.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 07/08				
08:00	Brazil	FGV: IGP-DI (Jun)	0.79% (MoM)	0.73% (MoM)
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
03:00	Germany	Industrial Production (May)		
Tuesday 07/09				
08:00	Brazil	FGV: Employment Indicators (Jun)		
22:30	China	CPI (Jun)	2.7% (YoY)	
Wednesday 07/10				
08:00	Brazil	FGV: IGP-M (1st preview) (Jul)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA) (Jun)	-0.02% (MoM)	-0.03% (MoM)
12:30	Brazil	BCB: Currency Flows (weekly)		
15:00	USA	Fed Minutes		
Thursday 07/11				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
09:00	Brazil	IBGE: Retail sales (PMC) (May)		0.6% (MoM)
09:00	Brazil	IBGE: Agricultural production Survey		
03:00	Germany	CPI (Jun - F)		
09:30	USA	Initial Jobless Claims - Weekly		
09:30	USA	CPI (Jun)	0.0% (MoM)	
20:00	Peru	Central bank meeting	2.75%	2.75%
-	USA	USDA: World Agricultural Supply and Demand Estimates		
Friday 07/12				
09:00	Brazil	IBGE: Industrial Production - regional		
09:00	Brazil	IBGE: Services Sector Volume (PMS)		3.7% (YoY)
06:00	Eurozone	Industrial Production (May)		
During the week				
-	China	Trade Balance (Jun)	US\$ 45 b	

	2017	2018	2019
Consumer inflation - IPCA (%)	2.95	3.75	3.80
GDP growth (%)	1.1	1.1	0.8
Industrial Production (%)	2.5	1.1	0.6
Retail Sales (%)	4.0	5.0	4.5
Job Creation (in thousands)	264	1316	368
Unemployment Rate (% of labor force, avg)	12.7	12.3	12.9
Outstanding Credit Growth (%)	-0.5	5.0	7.5
Trade Balance (USD bn)	64.0	53.6	54.5
Current Account (USD bn)	-7.2	-14.5	-16.0
Exchange Rate (BRL/USD, eop)	3.31	3.87	3.80
Selic Rate (% eop)	7.00	6.50	5.50
Primary Balance (BRL bn)	-111	-108.3	-130
Gross Debt (% of GDP)	74.1	76.7	77.8

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