

Rising global risks and uncertainty

Fernanda Guardado
Chief Economist
fernandaguardado@bocombbm.com.br

August's main topic was an increase in global uncertainty and economic risk. On the first day of the month, President Donald Trump announced the imposition from September 1st of a 10% tariff on USD300 billion in goods imported by the US from China. He later retreated somewhat, postponing implementation of the measure until December for just over half the total. The US-China trade war took on even more alarming dimensions when the Chinese government announced retaliatory tariffs on USD75 billion, and the US government reacted by increasing the tariffs announced at the start of the month. Although at the end of the month Beijing postponed implementation of the tariffs announced a week earlier, possibly as a goodwill gesture, Washington pressed on with its tariff hikes at the start of September.

As the protectionist rhetoric intensified, the global economy began to show signs of decelerating. Chinese growth in particular appeared set to come in slightly under 6% in the third quarter. The US economy continued to grow at a healthy pace but evidence could now be seen that the trade disputes were starting to have a negative impact on current activity. Generally speaking, global growth projections were revised down in response to the high level of uncertainty fueled by the US-China dispute.

While the world's top two economies dispute raged, other dramas unfolded in parallel. The risk of a hard exit from the European Union by the United Kingdom rose because of the first moves of the new prime minister Boris Johnson, who announced a plan to close Parliament under a procedure called prorogation. According to critics, his aim was to avoid parliamentary scrutiny of Brexit and prevent the passage of legislation that would prohibit leaving the EU without a deal on 31 October.

In the eurozone, there were clear signs of a slowdown in the German economy, the region's largest. In this context, we expect additional monetary stimulus from the world's central banks, especially the ECB in Europe and the Fed in the US. The ECB has already indicated a new accommodative package for its September meeting, which is likely to lower rates even deeper into negative territory and announce fresh asset purchases. In the US, the cut of 25 bps decided at the last meeting is likely to be followed by more cuts despite resistance to political pressure on the Fed. Fiscal and monetary stimulus measures are also expected in China in the coming weeks, as a partial offset to the negative effects of the trade war.

The Central Bank of Brazil began a new monetary easing cycle at the turn of the month, lowering its Selic policy rate by 50 bps to 6%. Given the still anemic recovery, with inflation controlled and on target in the relevant horizon, we believe this move will be followed by two more cuts of 50 bps each at the next two meetings. We expect

inflation to remain in the 3.6% range in 2019 and 2020, giving the Central Bank comfort to pursue this strategy. Although second-quarter GDP, announced at the end of the month, was slightly better than expected, the Brazilian economy continues to grow at about 1% per year with no sign of acceleration.

ECONOMIC FORECASTS	2013	2014	2015	2016	2017	2018	2019 F	2020F
GDP Growth (%)	3,0%	0,5%	-3,5%	-3,3%	1,1%	1,1%	0,8%	1,9%
Inflation (%)	5,9%	6,4%	10,7%	6,3%	2,9%	3,7%	3,6%	3,6%
Policy Rate (%)	10,00%	11,75%	14,25%	13,75%	7,00%	6,50%	5,00%	5,00%
Unemployment Rate (%)	6,8%	7,1%	9,6%	12,6%	12,4%	12,2%	11,4%	10,7%
Trade Balance (US\$ bn)	3	-4	20	48	67	58	49	43
Current Account Balance (US\$ bn)	-75	-104	-59	-23	-10	-13	-21	-38
Current Account Balance (% of GDP)	-3,0%	-4,3%	-3,3%	-1,3%	-0,5%	-0,8%	-1,0%	-1,7%
Fiscal Primary Balance (% of GDP)	1,7%	-0,6%	-1,9%	-2,5%	-1,8%	-1,6%	-1,6%	-0,9%
Government Gross Debt (% of GDP)	51,7%	57,2%	66,2%	69,4%	74,0%	76,7%	78,3%	79,3%

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