

Monthly Macroeconomic Letter NOVEMBER 2019

Changing gears

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With the beginning of the last quarter of 2019, the resolution of some uncertainties starts to make more evident the trends that should prevail over the coming months. Regarding the global economy, demonstrations of good will by the Chinese and American governments towards a short-term deal that brakes the escalation of the "trade war" alleviates the uncertainties surrounding the dispute between the two countries – despite the growing perception that this confrontation is bound to last for a long time. Central banks continued pumping monetary stimulus both in advanced and emerging economies. And global activity – especially in the US – seems to have stabilized over the quarter, suggesting that a moderation of growth, rather than recession, continues to be the base case. In the domestic front, the recovery of growth starts to take shape, while the Central Bank eyes the end of the current easing cycle.

The global economic data for September and confidence indexes for October point to a deceleration centered in the industrial sector, particularly in the US, China and the EU, as a result of trade tensions and the reshaping of global production chains that resulted from it. On the other hand, consumption and services sector data remain relatively resilient, sustaining growth in these economies. It is particularly notable the robustness of the American job market, where the unemployment rate is hovering around 3,6% - the lowest since the end of the 60's – with healthy growth of wages. In this context, the Federal Reserve delivered the expected 25 bps cut in its October meeting, bringing the Fed funds rate to the 1.50%-1.75% range, but suggested no further cut in the short term. The Chinese economy also shows signs of stabilization in its growth, albeit at a lower range (5.5%-6%), as we have been discussing recently.

The Brazilian economy seems to be in the opposite path of the main world economies. The much expected acceleration of output growth seems to be finally taking hold, with the improvement in consumer confidence and services sector activity. Industrial production remains weak but shows some slight gain in momentum over the third quarter. The creation of new formal jobs registered by CAGED has picked up pace, and the improving consumer sentiment has sustained the increase in retail sales over the quarter. The final approval of the Social Security Reform and the benign inflation scenario, with the CPI around 3.5% over the next several quarters, underscore the expectation of a more protracted and predictable growth cycle.

In this context, the Central Bank proceeded with its monetary easing cycle, lowering the Selic rate to 5.0%. In the post-meeting statement, the Copom hinted at an additional cut "of the same magnitude", in its next meeting. We believe the BCB will opt for two more rate cuts: the suggested 50 bps at the December meeting followed

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by a final 25 bps cut on February 2020, taking the Selic to 4.25%. We believe that the "Brainard Principle"- which states that, under uncertainty regarding the parameters of the economy and its reaction to monetary policy – supports an additional, but smaller last cut given the historically low rates and the uncertainty surrounding the level of the output gap.

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%	3,3%	3,5%
Policy Rate (%)	10,00%	11,75%	14,25%	13,75%	7,00%	6,50%	4,50%	4,25%
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	53	37	30
Current Account Balance (US\$ bn)	-75	-104	-59	-23	-15	-22	-35	-40
Current Account Balance (% of GDP)	-3,0%	-4,3%	-3,3%	-1,3%	-0,7%	-1,2%	-1,7%	-1,9%
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%