Weekly Report • 93

12/06/2024

Next week, the Copom is expected to accelerate the pace of the ongoing monetary tightening in response to the deterioration of inflation expectations

Highlights

- **Since the last Copom meeting, the scenario has deteriorated for the Central Bank, particularly due to the sharp currency depreciation accompanying the increased risk in the domestic environment.**

In its last decision, the committee emphasized, in a more stringent tone, the importance of "presenting and implementing structural measures for the fiscal budget," which would contribute to anchoring inflation expectations and reducing risk premiums. However, market disappointment in this regard—following the presentation of the government's spending adjustment package alongside income tax reform—resulted in an additional round of unanchored expectations, in line with the significant currency depreciation that drove the real to the R$6.00 level. Even with increasingly higher interest rate expectations, as reflected in the Focus survey, the Central Bank's modeling simulations indicate that its projections will remain under pressure across the relevant horizon. Added to this is the worsening of current inflation, as evidenced by the deterioration in the average of core and underlying service inflation in seasonally adjusted and annualized quarterly metrics, comparing October's and November's IPCA-15 figures. Thus, the institution's risk balance, already asymmetrical to the upside, faces additional worrying factors, justifying an accelerated pace of interest rate hikes. We, therefore, anticipate a more hawkish stance, with a 100-basis-point increase in the Selic rate. In our view, the structural change in long-term investor perception is likely to continue introducing uncertainties and volatility into the market, preventing inflation expectations from being anchored.

- **Economic Activity Data Adds to Central Bank Concerns**

Third-quarter GDP grew 0.9% QoQ, exceeding our forecasts and market median expectations. The composition showed a sharp increase in the services sector, raising concerns about the future inflation trajectory. On the demand side, domestic absorption saw strong growth, driven by robust household consumption—reflecting improvements in labor and credit markets—and investments, which remain strong despite worsening financial conditions. In the labor market, historically low unemployment rates combined with continued average income growth in October raise concerns about activity's impact on service inflation. These latest results suggest that Brazil's economic activity remains robust, with an upward bias for annual growth projections, even as a moderation is expected in Q4. Consequently, we revise our 2024 GDP growth projection from 3.1% to 3.4%, with a slowdown to 1.9% in 2025. It is worth noting that the bias for next year is also upward, especially considering the recovery in the agricultural sector based on 2025 harvest estimates, despite more contractionary interest rates and a weaker currency. As a result, there may be a new upward revision of the Central Bank's output gap estimates, although to a lesser extent than indicated in the last Quarterly Inflation Report (RTI).

- **Finally, it is worth noting that the dollar has strengthened over the past 45 days, despite some improvement observed during the week—maintaining a challenging and uncertain external environment, primarily due to the economic conditions in the United States.**

This week, the ISM services index surprised to the downside (52.1% vs. consensus of 55.7%), but remained at an elevated level, above the quarter ending in September. Most subcomponents decelerated marginally but at a gradual pace. Conversely, prices and imports rose, possibly reflecting anticipatory effects of potential tariffs by Trump. Meanwhile, the Payroll report showed 227,000 jobs added in November, almost in line with expectations. This result reflected employment recovery after October's weak performance, influenced by hurricanes and strikes. Wages, however, showed a more pressured trend, reaching 4.0% year-over-year. Thus, we maintain our expectation for a 25bps rate cut in the Fed's next decision. However, it is essential to highlight that the overall data consistently points toward greater inflationary pressures, as the persistent strength of U.S. activity could exacerbate inflation from next year onward.

06/12/2024

Economic Calendar

- The domestic agenda will be full of relevant economic indicators, such as the **IPCA**—we expect a 0.33% m/m variation for November—and activity data, with the highlight being the **Copom decision** on Wednesday.

- The international agenda will be relatively light, but the **U.S.** and **China** will release **CPI** and **PPI** results for November.

Date	Country	Event	Period	Survey	Prior
12/8/2024	**Sunday**				
10:30 PM	**China**	**PPI (YoY)**	**Nov**	**-2.8%**	**-2.9%**
10:30 PM	**China**	**CPI (YoY)**	**Nov**	**0.4%**	**0.3%**
12/9/2024	**Monday**				
8:25 AM	Brazil	Central Bank Weekly Economist Survey (Focus)	-	-	-
3:00 PM	Brazil	Weekly Trade Balance	-	-	-
12/10/2024	**Tuesday**				
5:00 AM	Brazil	IPC-Fipe (MoM)	1st Dec	-	1.15%
8:00 AM	Brazil	IGP-M - 1st Preview (MoM)	Dec	-	-
8:00 AM	US	NFIB Small Business Optimism	Nov	94.1	93.7
9:00 AM	**Brazil**	**IPCA (MoM)**	**Nov**	**0.35%**	**0.56%**
10:30 AM	US	Nonfarm Productivity (QoQ)	3Q24 (F)	2.2%	2.2%
10:30 AM	US	Unit Labor Costs (QoQ)	3Q24 (F)	1.4%	1.9%
12/11/2024	**Wednesday**				
9:00 AM	**Brazil**	**PMS - Services Volume (MoM)**	**Oct**		**1.0%**
10:30 AM	**US**	**CPI (MoM)**	**Nov**		
		Total		0.3%	0.2%
		Core		0.3%	0.3%
4:00 PM	US	Federal Budget Balance	Nov	-	$ -257.5 bn
6:30 PM	**Brazil**	**Selic Rate**	**-**	**12.00%**	**11.25%**
12/12/2024	**Thursday**				
9:00 AM	**Brazil**	**PMC - Retail Sales (MoM)**	**Oct**		
		Restricted		-	0.5%
		Broad		-	1.8%
10:15 AM	**Eurozone**	**ECB Deposit Facility Rate**	**-**	**3.00%**	**3.25%**
10:30 AM	**US**	**PPI (MoM)**	**Nov**		
		Total		0.3%	0.2%
		Core		0.2%	0.0%
10:30 AM	US	Initial Jobless Claims	-	-	224k
2:00 PM	US	Household Change in Net Worth	3Q24	-	$ 2760 bn
12/13/2024	**Friday**				
7:00 AM	**Eurozone**	**Industrial Production (MoM)**	**Oct**	**-0.1%**	**-2.0%**
8:00 AM	Brazil	IGP-10 (MoM)	Dec	-	1.45%
9:00 AM	**Brazil**	**Economic Activity (MoM)**	**Oct**	**-**	**0.80%**
10:30 AM	US	Import Price Index (MoM)	Nov	-0.3%	0.3%
In the week					
-	China	New Loans (YTD)	Nov	CNY 17.5 tn	CNY 16.5 tn
-	China	Aggregate Financing (YTD)	Nov	CNY 29.7 tn	CNY 27.1 tn
-	**China**	**Monthly Trade Balance**	**Nov**	**$ 93.90 bn**	**$ 95.72 bn**
		Exports (YoY)		8.9%	12.7%
		Imports (YoY)		0.7%	-2.3%

Macroeconomic projections	2019	2020	2021	2022	2023	2024	2025
GDP (%)	1,2	-3,3	4,8	3,0	2,9	**3,4**	**1,9**
Unemployment Rate (average, %)	12,0	13,8	13,2	9,3	8,0	**6,9**	**7,3**
IPCA (Consumer Price Index) (%)	4,3	4,5	10,1	5,8	4,6	**4,7**	**4,3**
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	**12,25**	**13,75**
Exchange Rate (end of period, R$/US$)	4,03	5,20	5,58	5,22	4,86	**5,90**	**5,90**
Current Account Transactions (US$ billion)	-68,0	-28,2	-46,4	-53,6	-28,6	**-66,2**	**-74,6**
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	**-2,9**	**-3,2**
Trade Balance - BCB (US$ billion)	26,5	32,4	36,4	44,2	80,5	**60,3**	**45,3**
Foreign Direct Investment (US$ billion)	69,2	37,8	46,4	87,2	62,0	**70,0**	**73,0**
Foreign Direct Investment (% of GDP)	3,7	2,6	2,8	4,5	2,8	**3,1**	**3,2**
Primary Result of the Central Government (R$ billion)	-95,1	-743,3	-35,1	54,1	-249,1	**-60,8**	**-58,7**
Primary Result of the Central Government (% of GDP)	-1,3	-9,8	-0,4	0,5	-2,3	**-0,5**	**-0,5**
Primary Result of the Public Sector (R$ billion)	-61,9	-703,0	64,7	126,0	-249,1	**-58,8**	**-55,6**
Primary Result of the Public Sector (% of GDP)	-0,8	-9,2	0,7	1,3	-2,3	**-0,5**	**-0,5**
Gross Public Debt (% of GDP)	74,4	86,9	77,3	71,7	74,3	**78,5**	**82,5**

Our team

Andrea Bastos Damico
Chief Economist and CEO
andrea@buysidebrazil.com

Mirella Hirakawa
Research Coordinator and Partner
mirella@buysidebrazil.com

Gustavo Rostelato
Economist and Partner
gustavo@buysidebrazil.com

Thaís Rodrigues
Economist and Partner
thais@buysidebrazil.com

Rita Milani
Economist
rita@buysidebrazil.com

Ítalo Faviano
Economist
italo@buysidebrazil.com

Rafaela de Sousa
Economist
rafaela@buysidebrazil.com

Pedro Tempel
Macroresearch Analyst
pedro@buysidebrazil.com

Vitor Rodrigues
Intern
vitor@buysidebrazil.com