

# LCA Weekly Macro View

Tuesday, July 25, 2017

## Weekly Macro View

### Global Trends: US Dollar expected to stabilize in global currency markets

The USD Index is nearly 10% below its post-election peak and almost 4% below pre-election levels (Figure 1). Two main factors, which had been weighing in favor of the US Dollar until the end of last year, have started to weigh against the US Dollar.

**Figure 1. USD Index, cumulative % change since Trump election (08/Nov)**

Source: Bloomberg.



The first factor is related to growth expectations. While many economies are gaining steam – especially the Eurozone and Canada –, the US economy seems to be stuck in lackluster growth. Indeed, at the World Economic Outlook Update, released this week (<https://www.imf.org/en/Publications/WEO/Issues/2017/07/07/world-economic-outlook-update-july-2017>), the IMF slashed its forecast for the US GDP growth for the 2017-18 biennium, assuming that “fiscal policy will be less expansionary than previously assumed” (once president Trump is facing many difficulties in implementing his “pro-growth” agenda). On the other hand, growth forecasts for other advanced economies have been upgraded (Figure 2).

The second factor behind the USD recent weakness is related to monetary policy in the main advanced economies. Many FED officials have adopted a dovish rhetoric lately, as US inflation continues to slow and is now firmly under the FED’s 2% target. In contrast, other central banks are becoming more hawkish: ECB and BoE have hinted that policy stimulus will begin to be removed in the Euro Area and the UK before year-end; and the Bank of Canada has raised its benchmark interest rate for the first time in seven years. Figure 3 is an example of how the USD Index is highly correlated to the interest rate differential trends (Figure 3).

Publicação produzida pela LCA exclusivamente para clientes. Reprodução proibida.

Este relatório foi preparado com informações de acesso público, analisadas rigorosamente pela LCA. O usuário deste material assume integralmente a responsabilidade pelas consequências da sua utilização.

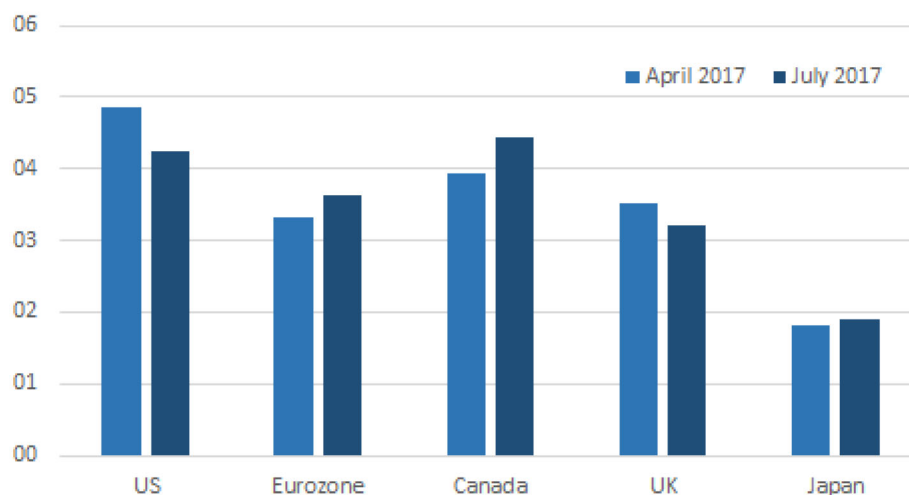
Rua Cardeal Arcoverde, nº 2450 | Conjunto 301 ao 309 | Bairro Pinheiros | CEP 05408-003 | São Paulo – SP | Tel + 55 11 3879-3760 | fax 3879-3737 | [contato@lcaconsultores.com.br](mailto:contato@lcaconsultores.com.br) | [www.lcaconsultores.com.br](http://www.lcaconsultores.com.br)

Caso queira atualizar um endereço eletrônico ou parar de receber nossas publicações, [clique aqui](#)

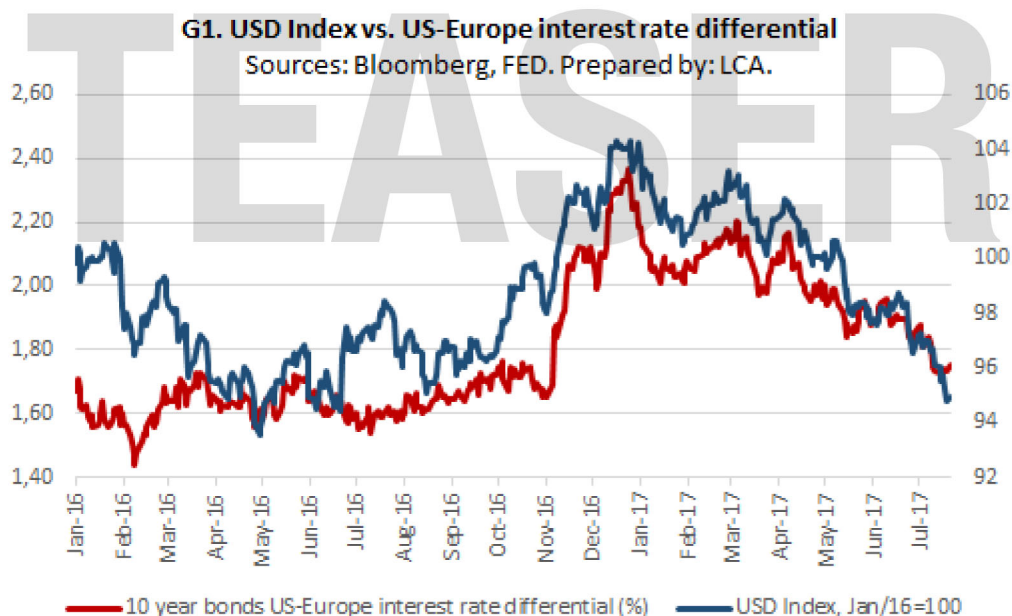


**Figure 2. IMF Forecast, 2017-18 cumulative GDP growth (%)**

Source: IMF, WEO Update, July 2017.



In our view, the currency markets are close to being adjusted to the revisions that have been implemented on market interest rate and economic growth expectations for the main economies. In this context, the US Dollar is expected to soon stabilize against other major currencies. This prospect is also backed by some evidence that president Trump seems to be regathering support in Congress – once the bill to repeal Obamacare was approved by the Senate this Tuesday – renewing expectations that fiscal stimulus and tax reform can be positive drivers for the US growth ahead.



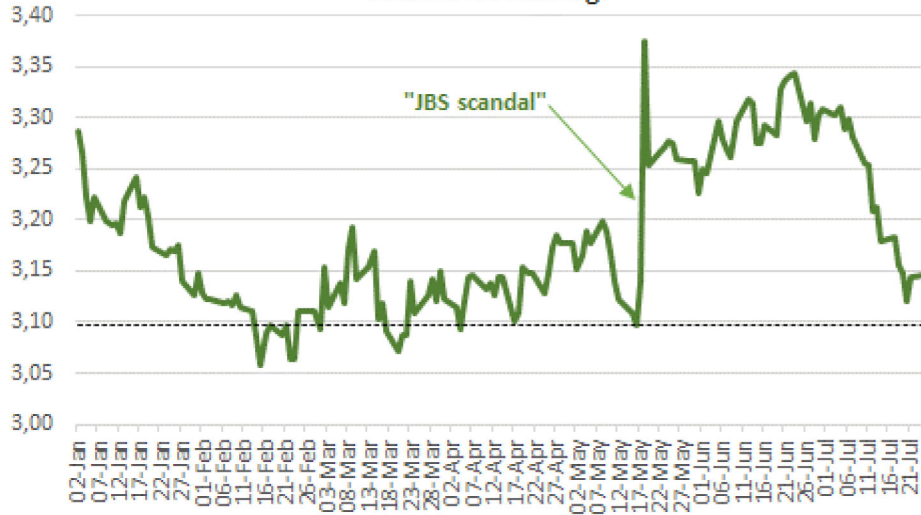
## Brazil: Copom has ample room to further ease monetary policy this week

USD weakness, as well as China's favorable economic data for Q2, delivered last week, have been a positive for emerging markets. This favorable global environment has helped to offset the impacts of the ongoing political turmoil in Brazil. The exchange rate versus the USD has almost returned to levels prior to the mid-May's political scandal involving president Temer (Figure 4), when the approval of the pension reform was a near certainty.

But domestic factors have also contributed, albeit to a lesser extent, to the recent appreciation of our exchange rate. The approval of the labor reform by the Senate last week helped to reinforce the perception that the political weakening of the Temer government after the JBS scandal, while hindering further advances in reforms (especially the pension reform), did not cause major breakdowns to the economy or to the economic policy guidelines.

**Figure 4. Brazil, exchange rate (BRL USD)**

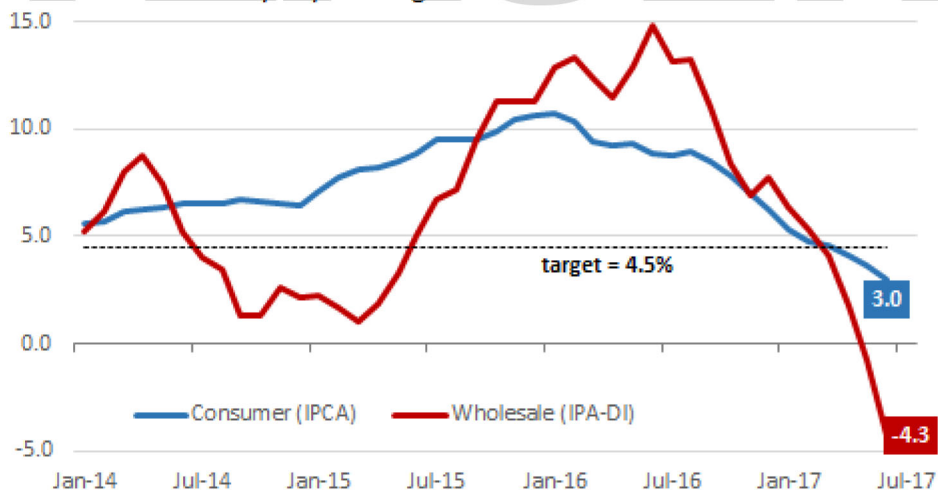
Source: Bloomberg.



Indeed, the economic activity continued to show some signs of improvement during the turbulent Q2. Inflation and inflation expectations remained subdued, running well below target (Figure 5), thus leaving ample room for further monetary policy easing. The recent hike in fuel prices, due to higher taxation, doesn't represent a risk to inflation trend and reinforces the government's commitment to a sound fiscal policy.

**Figure 5. Brazil, consumer and wholesale price inflation**

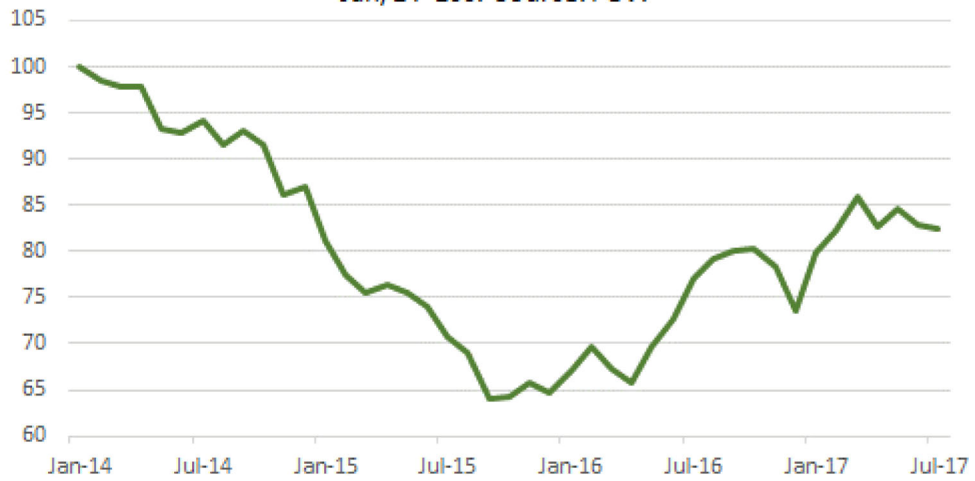
y-o-y % change. Sources: IBGE e FGV.



In these circumstances, we expect the monetary policy committee (Copom) of the Central Bank of Brazil (BCB) to cut the benchmark interest rate (Selic) by 100 basis points this week, to 9.25%. We still expect the benchmark interest rate (Selic) to be lowered to 8.5% in the current easing cycle. But an even lower rate is not out of question. Monetary easing should help to cement the nascent recovery – that, nevertheless, is expected to be lackluster due to political uncertainties (consumer confidence recovery, for instance, has stalled recently, as illustrated in Figure 6).

**Figure 6. Brazil, index of consumer confidence**

Jan/14=100. Source: FGV.



TEASER

# Forecasts

## Annual forecasts – Brazil

Indicator	Measure	2015	2016	Last data		Forecasts	
						2017	2018
TOTAL GDP	USD Billion (cumulative in 4 quarters, current prices)	1,797	1,799	1,991	1Q17	2,049	2,129
TOTAL GDP	BRL Billion (cumulative in 4 quarters, current prices)	6,001	6,267	6,363	1Q17	6,665	7,255
GDP per capita	USD Billion (cumulative in 4 quarters, current prices)	8,791	8,730	-	-	9,867	10,179
GDP per capita	BRL Billion (cumulative in 4 quarters, current prices)	29,350	30,410	-	-	32,098	34,684
TOTAL GDP	4-quarter growth rate (%)	-3.8	-3.6	-2.3	1Q17	0.5	2.3
Crop and Livestock	4-quarter growth rate (%)	3.6	-6.6	0.3	1Q17	9.5	1.5
Industry	4-quarter growth rate (%)	-6.3	-3.8	-2.4	1Q17	0.4	2.9
Services	4-quarter growth rate (%)	-2.7	-2.7	-2.3	1Q17	-0.1	2.2
Private Consumption	4-quarter growth rate (%)	-3.9	-4.2	-3.3	1Q17	0.7	3.3
Government Consumption	4-quarter growth rate (%)	-1.1	-0.6	-0.7	1Q17	-0.5	1.8
Gross Fixed Capital Formation	4-quarter growth rate (%)	-13.9	-10.2	-6.7	1Q17	-2.3	2.5
Exports of goods and services	4-quarter growth rate (%)	6.3	1.9	-0.4	1Q17	3.0	5.2
Imports of goods and services	4-quarter growth rate (%)	-14.1	-10.3	-2.7	1Q17	1.4	3.2
Investment (GFCF as % of PIB)	% of GDP, cumulative in 4 quarters (2014 constant prices)	17.8	16.6	16.1	1Q17	16.1	16.1
Industrial Production (PIM-PF)	Annual growth rate (%)	-8.2	-6.5	-2.4	May-17	0.9	2.9
Retail Sales (restricted concept)	Volume, annual growth rate (%)	-4.3	-6.3	-3.6	May-17	0.5	3.1
Unemployment Rate (PNADC)	% of Labor Force, 12-month rolling average	8.5	11.5	12.4	May-17	13.3	13.7
CAGED (formal job creation)	Net admitted and dismissed employees (thous, 12-month)	-1,626	-1,371	-787	Jun-17	-51	813
Minimum wage	BRL current prices, end-of-period	788	880	936	Jun-17	937	975
Capacity Utilization (FGV)	12-month rolling average, seasonally adjusted (%)	76.4	73.9	74.5	Jun-17	75.1	77.4
IPCA	12-month rate (%)	10.67	6.29	3.0	Jun-17	3.7	4.4
IGP-M	12-month rate (%)	10.54	7.17	-0.8	Jun-17	-0.2	4.3
IPC-FIPE	12-month rate (%)	11.07	6.54	2.5	Jun-17	3.7	4.4
BRL / USD	end-of-period	3.90	3.26	3.15	24-Jul-17	3.35	3.50
BRL / USD	average	3.34	3.48	3.30	Jun-17	3.25	3.41
Policy interest rate (Selic)	annualized - end-of-period (%)	14.25	13.75	10.25	24-Jul-17	8.50	8.50
Policy interest rate (Selic)	annualized - 12-month rolling average (%)	13.58	14.15	12.79	Jun-17	10.17	8.50
Ex ante real interest rate	annualized - 12-month rolling average (%)	14.22	13.25	11.2	Jun-17	9.3	8.8
Long Term Interest Rate (TJLP)	annualized - end-of-period (%)	7.00	7.50	7.00	Jun-17	6.50	6.00
Country Risk (Embi+)	bps - end-of-period	523	328	270	24-Jul-17	290	252
Country Risk (Embi+)	bps - average	346	383	289	Jun-17	287	285
Ibovespa	points, end-of-period	43,350	60,227	65,100	24-Jul-17	64,662	66,647
Current Account (BPM6)	USD Billion (12-month cumulative)	-58.9	-23.5	-14.3	Jun-17	-14.5	-24.0
Current Account (BPM6)	% of GDP (12-month cumulative)	-3.3	-1.3	-0.8	Jun-17	-0.7	-1.1
Trade balance (FOB, MDIC)	USD Billion (12-month cumulative)	19.7	47.7	60.3	Jul-17	65.4	52.2
Merchandise Exports	USD Billion (12-month cumulative)	191.1	185.3	200.2	Jul-17	205.5	192.4
Merchandise Imports	USD Billion (12-month cumulative)	171.5	137.6	140.0	Jul-17	140.1	140.3
Foreign Direct Investment (BPM6)	USD Billion (12-month cumulative)	74.5	78.9	80.6	Jun-17	71.2	73.7
Int. Reserves (liquidity concept)	USD Billion - end-of-period	368.7	372.2	380.2	21-Jul-17	388.3	431.7
Net Total External Debt	USD Billion	334.7	321.3	314.2	Mar-17	349.9	387.3
Primary Fiscal Result	% of GDP (12-month cumulative)	-1.9	-2.5	-2.5	May-17	-1.7	-0.3
Nominal Result	% of GDP (12-month cumulative)	10.6	9.4	9.2	May-17	9.8	7.7
General Govt Gross Debt	% of GDP (12-month cumulative)	65.5	69.9	72.5	May-17	74.6	75.7

Source: LCA Consultores

## Monthly forecasts – Brazil

	IPCA (monthly chg, %)	IGP-M (monthly chg, %)	BRL / USD (monthly avg)	Selic (% yearly)* (end-of-period)	Country-Risk (monthly avg, bps)
Jan-17	0.38	0.64	3.20	13.00	297
Feb-17	0.33	0.08	3.10	12.25	278
Mar-17	0.25	0.01	3.13	12.25	278
Apr-17	0.14	-1.10	3.14	11.25	269
May-17	0.31	-0.93	3.21	10.25	269
Jun-17	-0.23	-0.67	3.30	10.25	289
Jul-17	<b>0.19</b>	<b>-0.60</b>	<b>3.30</b>	<b>9.25</b>	<b>297</b>
Aug-17	<b>0.45</b>	<b>0.26</b>	<b>3.31</b>	<b>9.25</b>	<b>297</b>
Sep-17	<b>0.41</b>	<b>0.41</b>	<b>3.35</b>	<b>8.75</b>	<b>297</b>
Oct-17	<b>0.40</b>	<b>0.56</b>	<b>3.31</b>	<b>8.50</b>	<b>290</b>
Nov-17	<b>0.43</b>	<b>0.63</b>	<b>3.35</b>	<b>8.50</b>	<b>290</b>
Dec-17	<b>0.59</b>	<b>0.50</b>	<b>3.35</b>	<b>8.50</b>	<b>290</b>
Jan-18	<b>0.56</b>	<b>0.42</b>	<b>3.34</b>	<b>8.50</b>	<b>303</b>
Feb-18	<b>0.58</b>	<b>0.23</b>	<b>3.36</b>	<b>8.50</b>	<b>303</b>
Mar-18	<b>0.34</b>	<b>0.27</b>	<b>3.41</b>	<b>8.50</b>	<b>303</b>
Apr-18	<b>0.33</b>	<b>0.20</b>	<b>3.35</b>	<b>8.50</b>	<b>305</b>
May-18	<b>0.22</b>	<b>-0.05</b>	<b>3.38</b>	<b>8.50</b>	<b>305</b>
Jun-18	<b>0.19</b>	<b>0.25</b>	<b>3.42</b>	<b>8.50</b>	<b>305</b>
Jul-18	<b>0.22</b>	<b>0.30</b>	<b>3.35</b>	<b>8.50</b>	<b>278</b>

\* Interest rate decisions are taken by Copom, The Central Bank of Brazil's Monetary Policy Committee

## International macro forecasts

Indicator	Measure	2015	2016	Last data		Forecasts		
						2017	2018	
<b>GDP</b>	World (IMF concept)	4-quarter growth rate (%)	3.4	3.1	-	-	<b>3.3</b>	<b>3.5</b>
	U.S.	4-quarter growth rate (%)	2.6	1.6	1.7	1Q17	<b>2.1</b>	<b>2.2</b>
	Japan	4-quarter growth rate (%)	1.1	1.0	1.3	1Q17	<b>1.4</b>	<b>1.0</b>
	Europe	4-quarter growth rate (%)	1.9	1.7	1.8	1Q17	<b>1.6</b>	<b>1.2</b>
	China	4-quarter growth rate (%)	6.9	6.7	6.9	2Q17	<b>6.7</b>	<b>6.1</b>
	Argentina	4-quarter growth rate (%)	2.6	-2.2	-2.3	1Q17	<b>3.0</b>	<b>3.2</b>
<b>Consumer Prices</b>	U.S. (CPI)	12-month rate (%)	0.66	2.09	1.6	Jun-17	<b>1.6</b>	<b>2.5</b>
	U.S. (core CPI)	12-month rate (%)	2.10	2.22	1.7	Jun-17	<b>1.7</b>	<b>2.1</b>
<b>Interest rate</b>	Fed Funds Rate	% yearly (end-of-period)	0.19	0.32	1.25	24-Jul-17	<b>0.8</b>	<b>2.1</b>
	T-Note (10 year)	% yearly (end-of-period)	2.14	1.84	2.26	24-Jul-17	<b>2.4</b>	<b>2.9</b>
	ECB benchmark rate	% yearly (end-of-period)	0.05	0.00	0.00	24-Jul-17	<b>0.3</b>	<b>1.3</b>
	Libor (6 month USD)	12-month avg (%)	0.49	1.06	1.31	Jun-17	<b>1.2</b>	<b>1.7</b>
<b>Commodities</b>	Oil Prices (WTI)	USD - 12-month avg	48.8	43.4	48.6	Jun-17	<b>49.1</b>	<b>52.4</b>
	CRB Spot	Index - 12-month avg	410	405	421	Jun-17	<b>422</b>	<b>409</b>