

# Fixed Income & Economics Daily

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## FX & RATES STRATEGY RESEARCH

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### STRATEGY

- **Brazil: IPCA-15 March Preview & Lula Prison Sentence Suspended Temporarily**

### ECONOMICS

- **Poland: Negligible Correction of Business Sentiment**

#### **BRAZIL: IPCA-15 March Preview & Lula Prison Sentence Suspended Temporarily**

- Today, the Statistical Institute (IBGE) will publish the IPCA-15 figure for March. Our local economists expect headline inflation to increase 0.08% (0.11% consensus) during the period, reducing the annual inflation figure to 2.78% from 2.86% in February.
- The results, however, should have a limited impact on the market, given that the Central Bank, in its communique on Wednesday, reduced its inflation forecasts for 2018 and 2019 to 3.8% and 4.1%, respectively, vs. 4.2% for each year, and signaled an additional cut in its next meeting scheduled for May.
- In other news, last night the Supreme Court granted an injunction to suspend former President Lula's prison sentence until there is a ruling on his petition for habeas corpus. This means that if the appeals court (TRF-4) upholds his conviction on Monday (March 26), Lula will not be arrested until the Supreme Court discusses his habeas corpus request on April 4. Today, we expect some volatility as the market reacts to this news.

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# CEE ECONOMICS

## POLAND

### ECONOMICS

#### Negligible Correction of Business Sentiment

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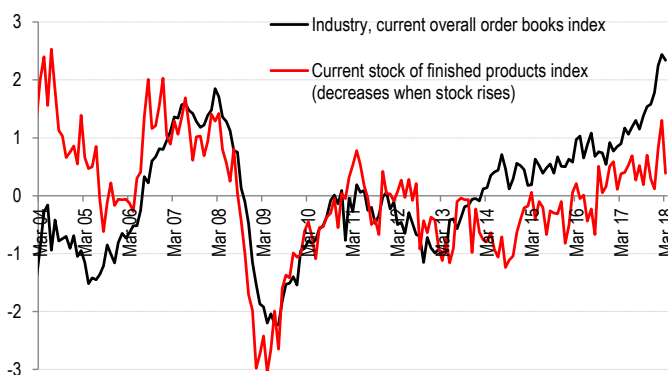
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While Stats Office business sentiment indicators have recently reached record highs, the March print saw a slight correction. However, the decline was much less pronounced than the decline of manufacturing PMIs for Poland (in January and February) and the euro zone (the flash March reading for the latter was the third consecutive larger-than-expected decline). We believe that economic momentum is strong enough to drive another c5% y/y GDP print in 1Q, even if there seems to be some (so far negligible) moderation of business optimism.

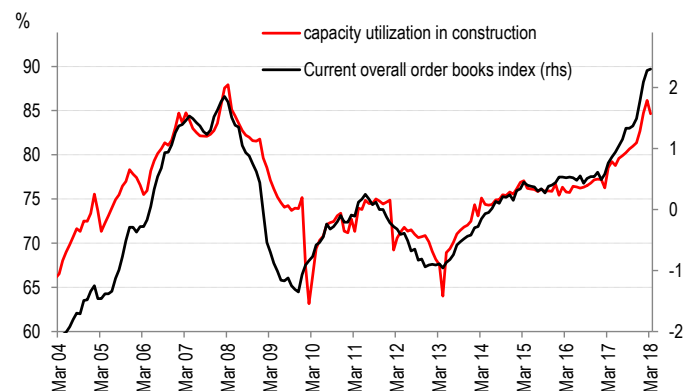
What worsened in m/m terms, although remaining historically high, were the confidence indicators for industry, from 1.38 to 1.05 pts (the weakest year-to-date) and for retail trade, from 1.11 to 0.96 pts (the lowest since September). Industrial sentiment declined as a result of the Stats Office methodology in which the replenishment of finished goods inventories that occurred in March enters the calculations of the confidence indicator with a negative sign, despite potentially supporting March output. The retail sector reported lower sales of goods and saw a correction in its expectations regarding future sales.

The description of barriers to current business activity points to an accumulation of pro-inflationary tension. The problem that intensified the most in March was the shortage of both skilled and unskilled labor. At the same time businesses were less concerned about the broad economic environment and mentioned less frequently pressure from competition (potentially allowing for price increases) as a barrier to activity. The share of respondents pointing to insufficient demand also decreased, which is confirmed by near-record-high inflows of new orders in industry and construction. The level of seasonally-adjusted capacity utilization in construction decreased in March from 86.2% to 84.6%, but was still near the historical highs that were only seen during several months of 2008.

**Industrial business sentiment components (pts)**



**New business vs. capacity of the construction sector**



Source: Poland Central Statistics Office, BZ WBK.



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