

Fixed Income & Economics Daily

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FX & RATES STRATEGY RESEARCH

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ECONOMICS

- **BRAZIL: Macro Compass: Economic Activity Is Warming Up**

ECONOMICS

Brazil Macro Compass

Economic Activity Is Warming Up

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Upcoming Releases

2Q17 GDP growth will be released on September 1; our forecasts are 0% q/q and -0.1% y/y. According our estimate, the highlight will be the household consumption growth of 1.1% q/q, after 9 quarters in a row of contraction (thanks to increased disposable income, lower indebtedness, and a positive impact from FGTS transference). **Such an outcome would reinforce our call of a resumption in economic growth.**

July unemployment rate to be released: we forecast a slight decrease in the seasonally adjusted unemployment rate, to 12.9% from the 13.0% registered in June, indicating, in our view, that the worst of poor labor market momentum is behind of us (unemployment peaked in the second quarter of this year).

July Central government and total public sector primary balance is set be announced. We forecast a deficit of BRL21 billion for the central government and a deficit of BRL17.5 billion (2.68% of GDP) for the total public sector. Assuming our forecasts prove accurate, the primary balance would accumulate BRL171.8 billion in the 12 months up to July, above the primary target of BRL 163 billion. Thus, a fiscal effort is needed in order to meet the fiscal target this year. We see a steady upward trend for net debt and gross debt ratio-to GDP: we forecast 49.0% and 73.5%, respectively.

Political Agenda

Up until the beginning of September, Congress will focus on political reform. The two proposals approved by the Lower Houses' Special Commission now have to be voted on by the floor (the approval requires 308 votes in two voting sessions). The proposals' main points are: (1) the creation of campaign funding, with limits and prohibitions for private donations and the establishment of a public fund for electoral campaigns of approximately BRL3.6 billion; (2) a change in the election system (for legislative representatives); (3) the establishment of a performance clause, limiting access to public resources, TV time and other rights to broad and national voting parties; and (4) the end of party coalitions in legislative elections.

MP 777 (which creates the TLP, a long-term interest rate, reducing the implicit subsidy on BNDES loans, and has an approval deadline of September 7) was approved by the Lower House and is scheduled for a Tuesday to start to be discussed in the Senate.

What is going on?

August IPCA-15 came in at 0.35% m/m (2.68% y/y), below market expectations and still in-line with the ongoing disinflation process. More importantly, inflation is well below the 4.5% target and in the lower bound of 3.0%, which reinforces our view that the monetary authority will maintain the pace of cutting 100 bps in the next Copom meeting (scheduled for September 6).

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE ATTACHED.

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In-Depth Research: Long term interest rate (TLP)

The long-term rate (TLP) will be the new benchmark rate for long-term BNDES loans (TLP will replace the TJLP, with an aim to eliminate subsidies) from 2018 onward. The TLP will be set based on inflation expectation for the upcoming 12 months and the quarterly average of the NTN-B yield (inflation-linked bond), five-year maturity. There will be a transition period of five years, between 2018 and 2022, to renew all loans contracts from TJLP to TLP. A reduction factor on the NTN-B bond yield will be applied in order that the TLP be at an NTN-B 5-year yield plus inflation in 2023.

Most Recent Publications

- *Unusually Low Risk Aversion Triggers a More Bullish Scenario in the Short Term* (August 17, 2017)
 - *Fiscal Policy: 2017-2020 Long Range Fiscal Targets* (August 16, 2017)
 - *Fiscal Policy: 2019 - Time to Bite the Bullet II* (July 17, 2017)
 - *Improving External Conditions, Less So at Home* (July 13, 2017)
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