

# Fixed Income & Economics Daily

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## FX & RATES STRATEGY RESEARCH

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- BRAZIL: BCB sees inflation around the target until 2020**

### **BRAZIL: BCB sees inflation around the target until 2020**

- The Central Bank of Brazil (BCB) published yesterday its Quarterly Inflation Report (QIR) for 3Q17. The report reiterated the message of a gradual end to the easing cycle reported in the last COPOM meeting and its corresponding minutes.
- The short-term forecasts were revised down from the September COPOM minutes, to 3.2% from 3.3% for 2017 and to 4.3% from 4.4% for 2018.
- Moreover, the CB reported for the first time its forecasts for 2019 and 2020. Using the Focus Survey interest rate and exchange rate forecasts for the baseline scenario, the BCB estimated that inflation in 2019 will end at 4.2%, below the 4.25% target and in 2020 at 4.1%, slightly above the corresponding 4.0% inflation target. In all projected scenarios, inflation is around the target and our Economists believe that this reinforces the monetary policy scenario already priced by the market.
- The latest focus group reveals that the participants expect the Selic to end at 7.0% in 2017 and have revised down the Selic forecast for end-2018 to 7.00% from 7.25%, previously.
- BCB reiterated that under the baseline scenario, it would be adequate to moderate the pace of easing, thus reinforcing the market expectation of a 75-bp cut in the October MPC meeting.
- The Central Bank also revised up its GDP forecasts for 2017 to 0.7% yoy from 0.5%, and it expects 2018 to grow 2.2% yoy.

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## ECONOMICS

### ARGENTINA

#### ECONOMICS

### GDP Expanded 2.7% Annually in 2Q17

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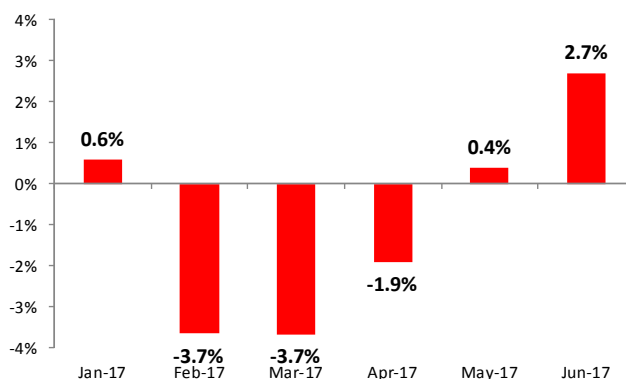
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The INDEC published the national accounts data for 2Q17, showing GDP growth of 2.7% y/y, in line with our expectations. This constitutes the highest GDP growth since 4Q15. Investment expanded 7.7% y/y, private consumption added 3.8% y/y and public consumption 2.9% y/y. The external sector had a negative contribution to GDP growth: imported volumes increased 9.1% y/y while exports declined 1.2% y/y.

The economic sectors with the highest activity expansion were fishing (+19.5% y/y), construction (+9.7% y/y) and the agricultural sector (+4.9% y/y). Approximately 81% of the sectors are exhibiting expanding activity in annual terms.

Leading indicators suggest that economic activity will accelerate to 4.4% annual growth in 3Q17.

#### Activity expanding faster in 2Q17



GDP annual growth. Sources: INDEC and Santander.

### BRAZIL

#### ECONOMICS

### New 2017 Inflation Forecasts

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September IPCA-15 increased 0.11% m/m (Santander: 0.17% m/m, consensus: 0.13% m/m, previous: 0.35% m/m); 2.56% y/y (previous: 2.68% y/y). Inflation came in below both our forecast and market consensus, and still in-line with the ongoing disinflation process — well below the 4.5% target and the lower bound of 3.0%.

The components most sensitive to economic activity, such as the Brazilian Central Bank core services and industrial goods (excluding ethanol and foodstuff), continue to show declining inflation. Brazilian Central Bank core services inflation decreased to 4.1% yoy from 4.4% yoy and Industrial goods (excluding ethanol and foodstuff inflation) decreased to 0.9% yoy from 1.3% yoy registered in August.



The main surprise in the headline index came from Airfare Tickets, which increased by 21.3% m/m, below our expectation of 40.0% m/m (it is roughly -6bps for IPCA September as this item repeats for both indexes).

With the latest surprises from Food at Home and Service, we revised down our inflation expectation for 2017 to 3.2% y/y from 3.8% y/y. Regulated prices were revised up due to our expectation of a Red Flag II for the electricity tariff for October, which we expect to be used until the end of 2017 due to the La Niña phenomenon that might last until the first quarter of 2018.

### 2017 CPI Inflation Forecasts — Breakdown

	Weight	Santander 2017 IPCA		Contribution IPCA		Change
		Old	New	Old	New	
<b>IPCA</b>	<b>100</b>	<b>3.8</b>	<b>3.2</b>	<b>3.8</b>	<b>3.2</b>	<b>-0.6</b>
<b>Regulated Prices</b>	<b>25</b>	<b>6.8</b>	<b>7.3</b>	<b>1.7</b>	<b>1.8</b>	<b>0.1</b>
<b>Market Prices</b>	<b>75</b>	<b>2.8</b>	<b>1.8</b>	<b>2.1</b>	<b>1.4</b>	<b>-0.7</b>
Industrial Ex Foodstuff	23	1.8	1.4	0.4	0.3	-0.1
Services	36	5.4	4.7	1.9	1.7	-0.3
Food at home	16	-1.2	-3.5	-0.2	-0.5	-0.4

Sources: IBGE, Santander.



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