

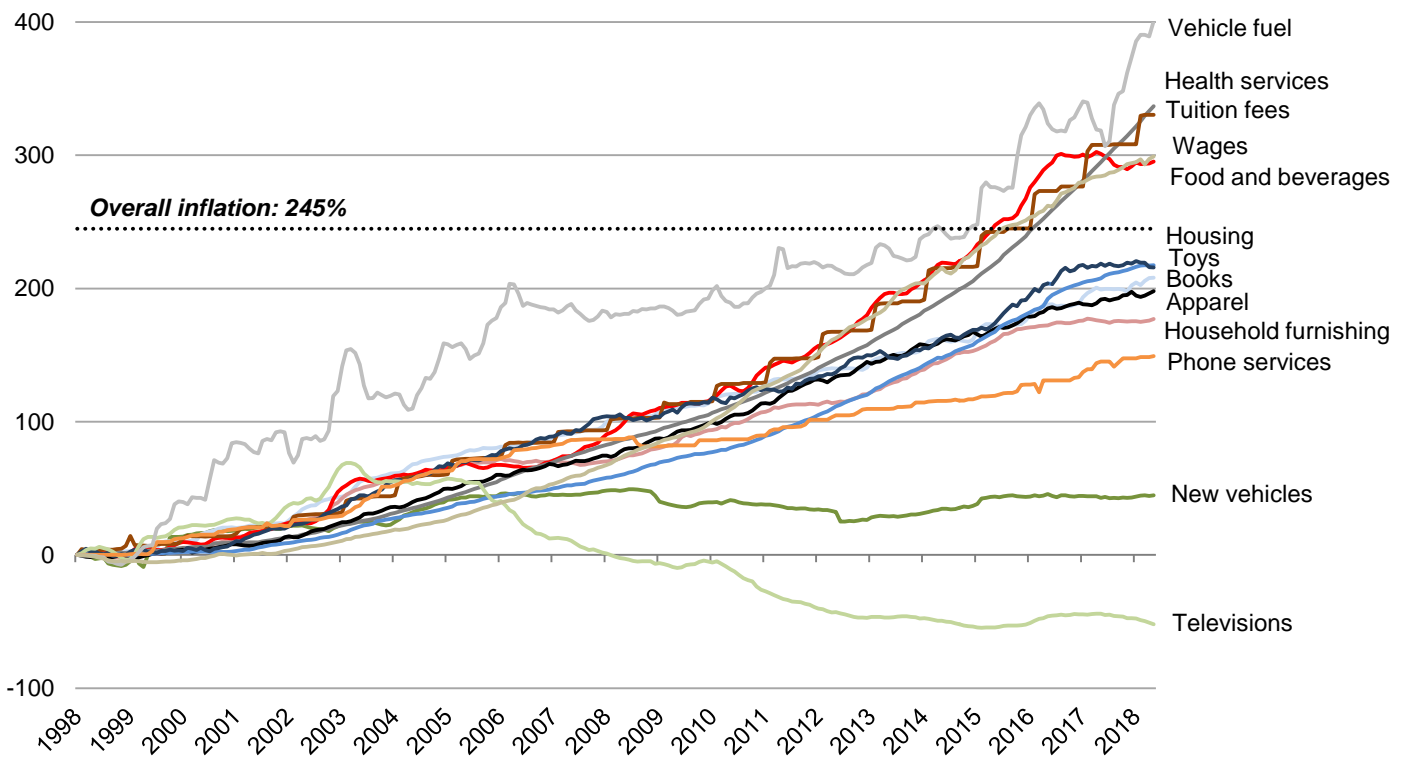
### Brazil Macro Compass

#### “Chart of the Century”, Brazilian Version

Luciano Sobral\*  
 lusobral@santander.com.br  
 +5511 3553 3753

#### Chart of the Week: Relative Prices Through Time

##### Brazil – Changes in Wages and the Prices of Selected Goods and Services Since 1998



Wages: labor income from the national household survey (PNAD). Groups of goods and services from IPCA (Phone Services: cell phone services from August 1999). Sources: IBGE, Santander.

A chart created by University of Michigan’s Mark J. Perry, splitting some components of CPI inflation in the United States over the past 20 years, was called “the chart of the century” in the press and, reportedly, made the rounds at the Federal Reserve<sup>1</sup>. In the chart above, we tried to replicate Perry’s analysis using data from Brazil’s IPCA. In the period, as in the U.S., health services and tuition fees rose significantly above inflation. Wages also had substantial real gains, compensating for generally high inflation across price groups. Competition probably played a role in tradable prices, which, except for food and beverages, rose less than the inflation rate since 1998 (in the U.S., most of those items’ prices fell outright). Finally, vehicles became more affordable, and TV set prices practically halved.

<sup>1</sup> “Chart of the Century Gives Powell Gloomy Glimpse of Trade-War World”, by Rich Miller and Vince Golle (*Bloomberg*, July 10, 2018).

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U.S. investors’ inquiries should be directed to Santander Investment at (212) 350-0707.

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## Political Agenda: Fight for Alliances Continue

As we mentioned last week (*Combine and Conquer: Time for Political Alliances*, July 13, 2018), the period for party conventions for the October general elections starts today, and speculations around the possible coalitions are likely to dominate the political news flow until August 5. Most of the parties decided to set their conventions at the end of the period (see the table below), and even by then, some will probably only decide on whether or not to launch their own presidential candidacy, leaving the definition of which alliance to join for the candidate registration deadline, on August 15. However, the most expected definition may happen as early as next week, as the press has been reporting<sup>2</sup> that the “Big Block” formed by DEM, PP, PR, PRB, and SDD is about to announce an alliance with Alckmin’s PSDB. In any case, as we have been mentioning (see *Mind the Gap: Following the Truckers’ Strike, a Double-Digit Drop in Industrial Production*, June 29, 2018), we expect no major shifts in vote intention until the definition of the candidacies and the official kick off of the campaign (on August 16).

### Brazil – Main Parties Convention Dates

Party (current Lower House seats)	Convention expected date	Pre-candidate	TV Time (seconds)*
PT (61)	4-Aug	Lula	95
MDB (51)	2-Aug	Henrique Meirelles	86
PP (49)	2-Aug	—	50
PSDB (49)	4-Aug	Geraldo Alckmin	79
DEM (43)	2-Aug	—	28
PR (40)	4-Aug	—	45
PSD (38)	27-Jul	—	55
PSB (26)	5-Aug	—	45
PRB (21)	1-Aug	—	28
PDT (19)	20-Jul	Ciro Gomes	33
PODE (16)	4-Aug	Alvaro Dias	12
PTB (15)	28-Jul	—	33
PROS (11)	TBD	—	13
SD (11)	28-Jul	—	20
PCdoB (10)	1-Aug	Manuela D’Ávila	13
PSC (9)	20-Jul	Paulo Rabello de Castro	24
PPS (8)	4-Aug	—	16
PSL (8)	22-Jul	Jair Bolsonaro	8
REDE (2)	4-Aug	Marina Silva	12

\*Estimated time in each daily block of 12min30s, may vary depending on the final number of candidates and coalitions. Sources: Reuters, Lower House, Folha de S. Paulo, Santander.

<sup>2</sup> See, for example, “Centrão desiste de Ciro Gomes, apoia Alckmin e dá fôlego eleitoral a tucano” (*Folha de S. Paulo*, July 19, 2018).



## In-Depth Research: Credit for Individuals Recovering

In our latest standalone report, *It's Not for a Lack of Credit – Part I: Individuals* (July 18, 2018), we look at recent credit concession data from the Central Bank, which show that the picture of credit for individuals is quite favorable: loans have been growing at a pace compatible with the expansion in retail sales, demand for loans is heating up, and loan quality has been evolving favorably. We conclude that credit is unlikely to be constraining household consumption demand, and that the credit recovery should continue to be a favorable driver for economic activity recovery throughout 2H18.

## What's New: A May-to-Be-Forgotten in Economic Activity

IBC-Br, Brazil's Central Bank monthly GDP proxy, confirmed the strong contraction in economic activity in May as already suggested by other indicators. The index shrank 3.3% m/m (-2.9% y/y). Even though we are expecting a rebound in June, growth in 2Q18 should be slow, at 0.2% q/q according to our estimates (consistent with our 2% growth forecast for full-year 2018).

On the inflation side, July IPCA-15 inflation came in at 0.64% m/m (4.5% y/y), slightly below market consensus (0.73% m/m). Electricity prices and foodstuff contributed to most of the headline inflation, which is decelerating from the general May supply shock. We expect 12-month inflation to decelerate from August, finishing the year below the target midpoint (4.5%).

## Upcoming Data: External Sector

Next week's most relevant data is from the external sector. We expect a narrow current account deficit in June (around USD100 million), bringing the 12-month rolling deficit close to 0.7% of GDP. Foreign direct investment should add to USD64 billion in 12 months, covering more than four times the shortfall in the current account during the same period. Abundant external funding continues to be one of Brazil's main comparative economic strengths: long-term hard currency inflows have been enough to compensate for occasional portfolio outflows, making it easier for the Central Bank to curb short-term BRL volatility.

## Number of the Week

1/2

If confirmed, the alliance between PSDB and the parties from the "Big Block" could give Geraldo Alckmin's candidacy about half of the total time on TV advertising spots for the presidential election. The broadcasts start on August 16. More in the "Political Agenda" on page 2.

## Quote of the Week

*The Letter to the Brazilian People was to calm down the market, now it's not anti-market; it's in favor of the people, of the majority.*

— Rui Falcão, PT's national president, talking about the party's agenda in an interview with *Folha* (July 17, 2018).

## What We've Been Reading

- "Fiscal Risk into the Elections," by Sergi Lanau, Martín Castellano, and Tariq Khan (*IIF Economic Views*, July 18, 2018). IIF highlights the challenging debt dynamics that Brazil's next president will have to revert.
- "It's a Lula Election in Brazil. Again.," by Brian Winter (*Americas Quarterly*, July 16, 2018). A very good assessment of Lula's potential influence in the upcoming elections.
- "Brazil's Mercurial Courts Undermine Democracy," by Mac Margolis (*Bloomberg Opinion*, July 15, 2018). How Brazilian courts, especially the Supreme Court, have been adding to juridical uncertainty in the country.
- Bloomberg's *Brazil Election Coverage*. A great dashboard with the latest news and numbers on the October elections.



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## Recent Publications (Available on Our Website)

- *It's Not for a Lack of Credit – Part I: Individuals* (July 18, 2018)
- *“Lethal Weapon”: How Far Can the BCB Go with Swaps?* (June 15, 2018)
- *Rely on Fundamentals and Carry On* (June 8, 2018)
- *Truck Strike: A Preliminary Assessment* (May 29, 2018)
- *Copom Capitulates to Changing Balance of Risks* (May 16, 2018)



## CONTACTS / IMPORTANT DISCLOSURES

### Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@bzwbk.pl	48-22-534-1888
Sergio Galván*	Economist – Argentina	sgalvan@santanderrio.com.ar	54-11-4341-1728
Maurício Molan*	Economist – Brazil	mmolan@santander.com.br	5511-3012-5724
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Diana Ayala	Economist - Colombia	diana.ayala@santander.us	212-350-0979
Tatiana Pinheiro*	Economist – Peru	tatiana.pinheiro@santander.com.br	5511-3012-5179
Piotr Bielski*	Economist – Poland	piotr.bielski@bzwbk.pl	48-22-534-1888
Marcela Bensión*	Economist – Uruguay	mbension@santander.com.uy	5982-1747-5537

### Fixed Income Research

Diana Ayala	Macro, Rates & FX Strategy – Latin America	diana.ayala@santander.us	212-407-0979
Juan Arranz*	Chief Rates & FX Strategist – Argentina	jarranz@santanderrio.com.ar	5411-4341-1065
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778
David Franco*	Macro, Rates & FX Strategy – Latin America	david.franco@santander.gcb.com	44-207-756-6633
Aaron Holsberg	Head of Credit Research	aholsberg@santander.us	212-407-0978

### Equity Research

Christian Audi	Head LatAm Equity Research	caudi@santander.us	212-350-3991
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Nicolas Schild*	Head, Chile	nschild@santander.cl	5622-336-3361
Valder Nogueira*	Head, Brazil	jvalder@santander.com.br	5511-3012-5747
Pedro Balcao Reis*	Head, Mexico	pbalcao@santander.com.mx	5255-5269-2264

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