

Brazil Macro Compass

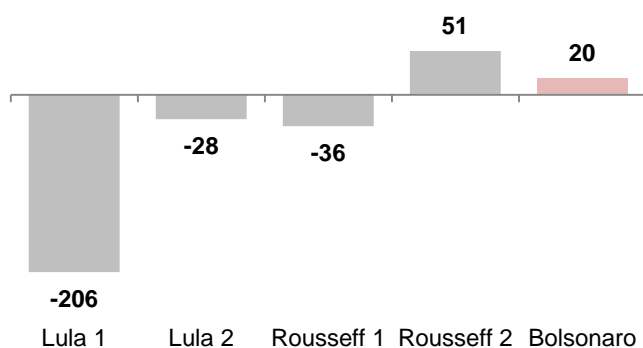
Honeymoon Payoffs

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

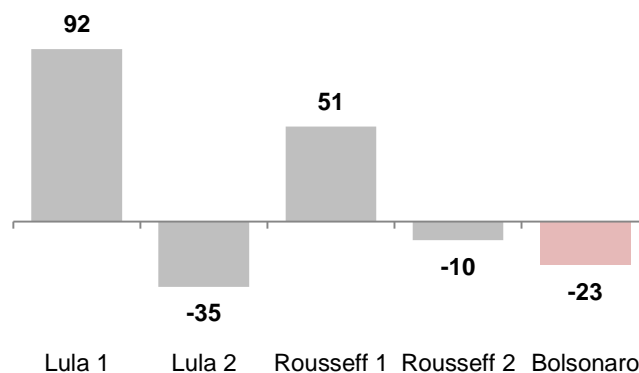
Chart of the Week: Markets During Presidential Honeymoons

In our “Chart of the Week,” we examine how Brazilian assets fared during periods of “presidential honeymoon,” defined as the two first months into the beginning of elected presidents’ terms. At a first glance (and with the limitation of the small sample), there is no evidence of that period being especially good for such assets, as performances were mixed across asset classes and different presidents. That said, the most recent honeymoon was mostly a good period for Brazil bulls: despite the underperformance in external sovereign spreads (Brazil credit spread widened 20 bps more than the emerging market index), local rates compressed significantly, and both the stock market and the currency delivered excess returns over respective benchmarks.

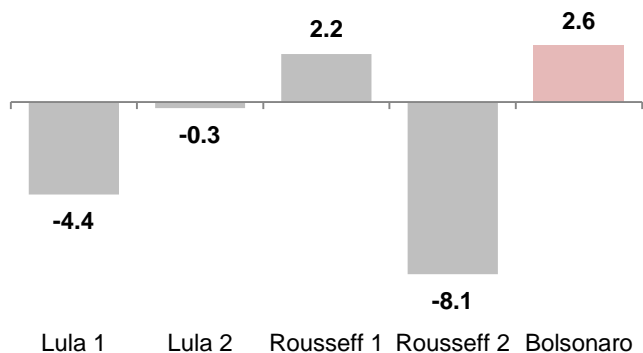
External Sovereign Spreads (Over EM Index, bps)



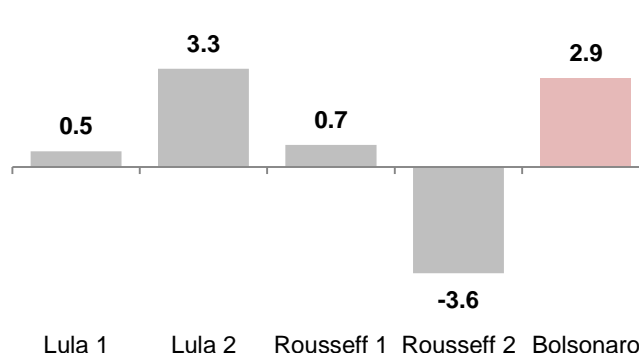
Five-Year Local Nominal Rates (bps)



Stock Index (Over EM Index, pp)



FX Total Return (Over EM Index, pp)



External sovereign spreads: EMBI Brasil vs. EMBI+ Global. 5-year rates: Pré vs. DI swap rates. Stock index: MSCI Brazil vs. MSCI EM. FX Total return: BRL vs. Bloomberg FX Carry Trade Index for EM Currencies, returns consider interest rate differentials versus the USD plus changes in currency valuation. Sources: Bloomberg, Anbima, Santander estimates.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE “IMPORTANT DISCLOSURES” SECTION OF THIS REPORT.

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

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Political Agenda: What to Expect in Lower House Committees

The elections for the Lower House permanent committees should be the key events next week. More specifically, we will be watching closely the composition of the Constitutional Committee (CCJ), the first to examine the government's pension reform proposal. The informal agreement among parties that elected Rodrigo Maia as the speaker of the house included delivering the leadership of CCJ to PSL, President Bolsonaro's party, but a name has yet to be picked among the representatives. Following the election, the period of five legislative sessions for the committee to analyze the proposal's adherence to the Constitution and vote on a report can start to be counted. After that, the government's next battle would be in a special committee, still to be constituted, which will have up to 40 legislative sessions to work on the reform proposal.

Upcoming Data: February Inflation

February CPI data will be released on March 12. We expect monthly inflation at 0.39% (3.77% y/y), relatively stable from January. We believe services inflation will be at 0.49% m/m, driven by school tenure readjustments that, according to IBGE's methodology, are concentrated in that month. The other seasonal component to add to February inflation should be foodstuff prices, at 0.69% m/m. We believe core inflation will remain well contained, running at the margin (three-month seasonally adjusted annualized rate) at around 2.5%.

In-Depth Research: Consumption and Monetary Policy

In *Is Monetary Policy Stimulative for Consumption?* (March 6, 2019), we show that the latest household consumption growth data can be adequately explained by a simple model using debt burden and consumer confidence as independent variables, which suggest that two of the most relevant monetary policy channels are not clogged. We believe that an easing in financial conditions following advances in the pension reform process will exclude the necessity of further monetary easing to stimulate economic growth.

Number of the Week

**US\$175
bn**

The wealth of Brazil's 58 billionaires adds up to USD 175 billion, according to the newly released Forbes' Billionaires List. 18 new billionaires from the country are debuting in the list this year.

Quote of the Week

"In a dark room you move with tiny steps. You don't run but you do move."

— **Mario Draghi**, European Central Bank governor in the press conference following this week's dovish monetary policy decision (March 7, 2019).

What We've Been Reading

- "Investors Brace for a Bumpy Road as Brazil Starts Pension Reform Talks," by Vinicius Andrade and Aline Oyamada (*Bloomberg*, March 7, 2019). The honeymoon of markets with Bolsonaro's government seems to be close to an end.
- "Brazil Bounces Back with a Slew of New Billionaires," by Anderson Antunes (*Forbes*, March 5, 2019). The latest edition of the famous list of world billionaires suggests that times have not been so bad for Brazilian tycoons.
- "From Microeconomic Favouritism to Macroeconomic Populism," by Gilles Saint-Paul (*VoxEU*, March 7, 2019). Saint-Paul research finds that certain social groups support macroeconomic populism, expecting to be favored during the following adjustment process.



Recent Publications (Available on Our Website)

- *Is Monetary Policy Stimulative for Consumption?* (March 6, 2019)
- *Lower Inflation Forecast for 2019* (February 28, 2019)
- *Economic Activity: Is The Glass Half Empty or Half Full?* (February 27, 2019)
- *It's Show Time: The Battle for Social Security Reform* (February 20, 2019)
- *Economic Activity: Economic Derby—Rivals or Teammates?* (February 19, 2019)



CONTACTS / IMPORTANT DISCLOSURES

Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.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, Peru	diana.ayala@santander.us	212-407-0979
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888
Marcela Bensi3n*	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@santanderCIB.co.uk	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
Cecilia Jimenez*	Head, Mexico	mcjimenez@santander.com.mx	5255-5269-2228

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