

**Brazil Macro Compass****Mixed Data Ahead of First Copom Meeting Under Campos**

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**What's New: February Inflation, January Industry and Retail**

**February IPCA came in at 0.43% m/m, above our forecast (0.39% m/m).** 12-month inflation moved to 3.89% (from 3.78% in the previous month). The main surprise came from food inflation (+1.2% m/m), with a strong increase in produce prices, affected by heavy rainfall during the month. We expect this movement to be reversed during the dry season, starting in April. On the other hand, inflation for services was below expectations, decelerating from 0.51% m/m in January to 0.39%, with school tuition fees, the usual main driver of February inflation, decelerating from a year ago. Also noteworthy, core inflation has remained subdued, hovering around 2.5% y/y, which reinforces our view of well-behaved inflation until the end of the year (we expect 12-month inflation at 3.5% by year end).

**On the economic activity front, we had mixed indicators.** January industrial production contracted 0.8% m/m, below our forecast of 0.3% m/m. The decrease in production was widespread, reflecting the still sluggish recovery and implying downside risks to our 2019 GDP forecast (2.3% growth). However, we had some good news with headline retail sales growing 1.0% m/m in January, slightly above our forecast of 0.8% m/m.

**Upcoming Data: Copom Meeting**

Next week Roberto Campos Neto will chair his first monetary policy committee (Copom) meeting as Brazil's Central Bank governor. We expect the Central Bank to keep the Selic rate at the historical low of 6.5%, reinforcing its statement following the decision that the committee should maintain "caution, serenity, and perseverance" for the next meetings, a wording used in the previous statement and repeated by Campos Neto during his Senate confirmation hearings. The new board may make some changes in its communication style and in the committee's reaction function, but we should see this unfolding throughout the rest of the year. However, in our view, a rate change seems unlikely in 2019 (despite the recent reduction in growth and inflation forecasts, risks associated to the reform agenda command caution, in our view), unless market conditions change substantially.

**Political Agenda: Pension Reform Starts to Be Debated in the Lower House**

**The Lower House elected this week its Constitutional Committee (CCJ), responsible for examining the constitutionality of the pension reform bill.** Rodrigo Maia, the Speaker of the House, said in an interview that he expects the Committee's report on the pension reform proposal to be presented on March 26 and with a vote held soon thereafter. The draft will then be sent to a Special Committee, which has yet to be formed.

**According to Rogério Marinho, the Special Secretary for Social Security and Labor, the proposal for changing the pension system for military officers will be sent to Congress on March 20.** The bill, according to Leonardo Rolim, Marinho's peer in the Ministry of Economy, will include increasing the contribution to the system to 10.5%, from 7.5% for active personnel and 0% for retired officers, and extending the contribution period from 30 years to 35 years. Deputy Felipe Francischini, the newly elected head of the CCJ, mentioned that he is waiting for the military draft to be sent to Congress before nominating the rapporteur of the reform at the CCJ.

**Valor Econômico, Brazil's biggest financial newspaper, released its "Termômetro da Previdência", a daily tracking on how Lower House representatives are planning to vote on the government's pension reform proposal.** According to the first issue of the survey, 144 deputies oppose the reform, 95 fully support it, 54 support it partially and a majority (220 representatives) still have no clear position. The proposed constitutional amendment requires three-fifths of total Lower House votes (308 votes) to be approved. Updates can be followed on *Valor's*

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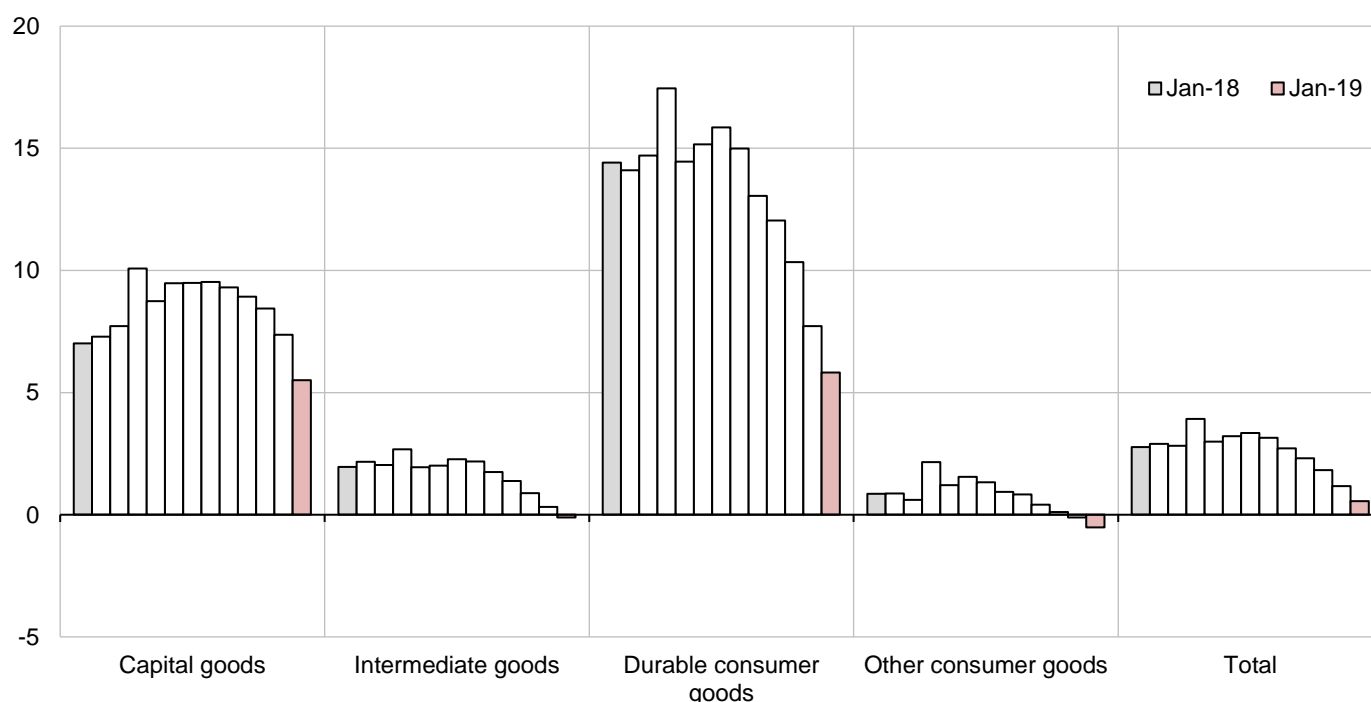
website.

**President Bolsonaro will be visiting President Donald Trump in Washington, D.C. next week** (see “What We’ve Been Reading on page 3 of this report).

### Chart of the Week: Decelerating Industrial Production

In our “Chart of the Week,” we look at the industrial production performance in Brazil across categories over the past twelve months, using recently released data by IBGE (see “What’s New” on page 1 of this report). Since the growth peak in April 18, activity has been decelerating across the board. After reaching double-digit growth rates, 12-month average monthly production growth of capital goods and durable consumer goods decelerated to close to 5% y/y. In the same comparison, the headline index decelerated to a meager 0.6% y/y (from 2.8%) and the production of intermediate goods and non-durable consumer goods started to contract.

**Brazil Industrial Production, 12m/12m Average Growth Rate (%)**



Sources: IBGE, Santander.

### Number of the Week

# 27

Felipe Francischini, the newly elected head of the Lower House’s Constitutional Committee, is 27 years-old (born in October 1991).

### Quote of the Week

*“The government is prisoner of campaign rhetoric that it will have to abandon. It’s an anchor pulling the government down on political coordination. This anchor is tied to the foot of the government. Either they cut the anchor, or they will not have a coalition.”*

— **Romero Jucá**, former MDB senator, in an interview with *Folha de S. Paulo* (March 12, 2019).



## What We've Been Reading

- “What to Expect When Bolsonaro Meets Trump,” by Oliver Stuenkel (*Americas Quarterly*, March 14, 2019). Venezuela, China, OECD membership, and aerospace industry are among the possible topics to be discussed, according to Stuenkel.
- “How Chinese Investment in Latin America Is Changing,” by Otaviano Canuto (*Americas Quarterly*, March 12, 2019). Chinese investment in the region has been shifting from infrastructure and energy to services, argues Canuto.
- *Foreign Exchange Intervention in Inflation Targeters in Latin America*, edited by Marcos Chamon, David Hofman, Nicolás E. Magud, and Alejandro Werner. A new IMF book on how central banks have been intervening in currency markets in the region.

## 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)



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### Electronic Media

Bloomberg	SIEQ <GO>
Reuters	Pages SISEMA through SISEMZ

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