

**Brazil Macro Compass****A New Minimum Wage Adjustment Rule?**

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

**Political Agenda: 2020 Budget Draft**

**The government must send to Congress by April 15 the 2020 Budget Guidelines Bill (LDO), the first draft of next year's federal budget.** The bill is expected to include a new proposal for the adjustment of the national minimum wage, replacing the indexation rule to past nominal GDP growth that expired in January. In addition to the impact on the cost of labor, the minimum wage serves as a benchmark for a large proportion of pensions and other social benefits, and thus has a considerable impact on expected government spending. We expect the government to propose an adjustment only by past CPI inflation, hence keeping the real value of the current minimum wage. According to calculations by Ipea, the government-led think-tank for economic research, that change would create around BRL 87 billion in total savings between 2020 and 2023 (using the old rule as a baseline). In our view, those savings should be instrumental in keeping government spending below the constitutional cap in the next few years without risking a government shutdown. The target for the primary deficit, also to be announced on Monday, should be of secondary importance, in our opinion, as the budget cannot realistically incorporate spending control measures that are still pending votes in Congress, such as the pension reform and asset sales.

**Lower House's Constitutional Committee (CCJ) may conclude the voting on the pension reform draft next week.** That will depend on an agreement between some center parties, who want the committee to vote first on the new rules for budget execution, and the committee's head, who is from President Bolsonaro's party. So far, the timeline we suggested in our report *Pension Reform – The Moment of Truth: From Intentions to Bargaining* (March 28, 2019) still holds, implying a first floor vote in the Lower House by late August.

**President Bolsonaro sent to Congress a new central bank autonomy bill.** The executive's proposal will be attached to the other bill authored by Rodrigo Maia that has been discussed by the Lower House since 2003. The two proposals do not differ much in content, establishing a fixed tenure for the governor and deputy governors, not coincident with the presidential term.

**What's New: Higher Than Expected March Inflation**

**March CPI inflation came in at 0.75% m/m, 10 bps higher than our forecast.** With that result, 12-month inflation jumped to 4.58% (from 3.89%). About two-thirds of the divergence can be explained by foodstuff prices, with stronger seasonal effects than we were anticipating. However, we believe most of this surprise will be reversed in the dry season that began this month, as has been the norm in past years. More importantly, services inflation and core measures remained well-behaved, running at around 2.5% y/y at the margin, adjusting for seasonal effects. We maintain our view that yearly inflation will end 2019 at 3.5%, comfortably below the target midpoint.

**Upcoming Data: February IBC-Br**

The Brazil Central Bank will release next week its monthly GDP proxy (IBC-Br) for February. We expect a 0.4% m/m contraction, which translates into a 3.1% y/y expansion. If our estimates are right, we believe that the trend of downward revisions to 2019 GDP forecasts will continue – a flat March result would imply a 0.4% contraction in IBC-Br for 1Q19, which, in our view, points also to a slow start to the year in terms of GDP. Despite that, we expect the economy to gain steam during 2019, especially following a loosening in financial conditions and an expected boost in confidence after the approval of the pension reform, which we anticipate for August (first approval in the Lower House).

**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.

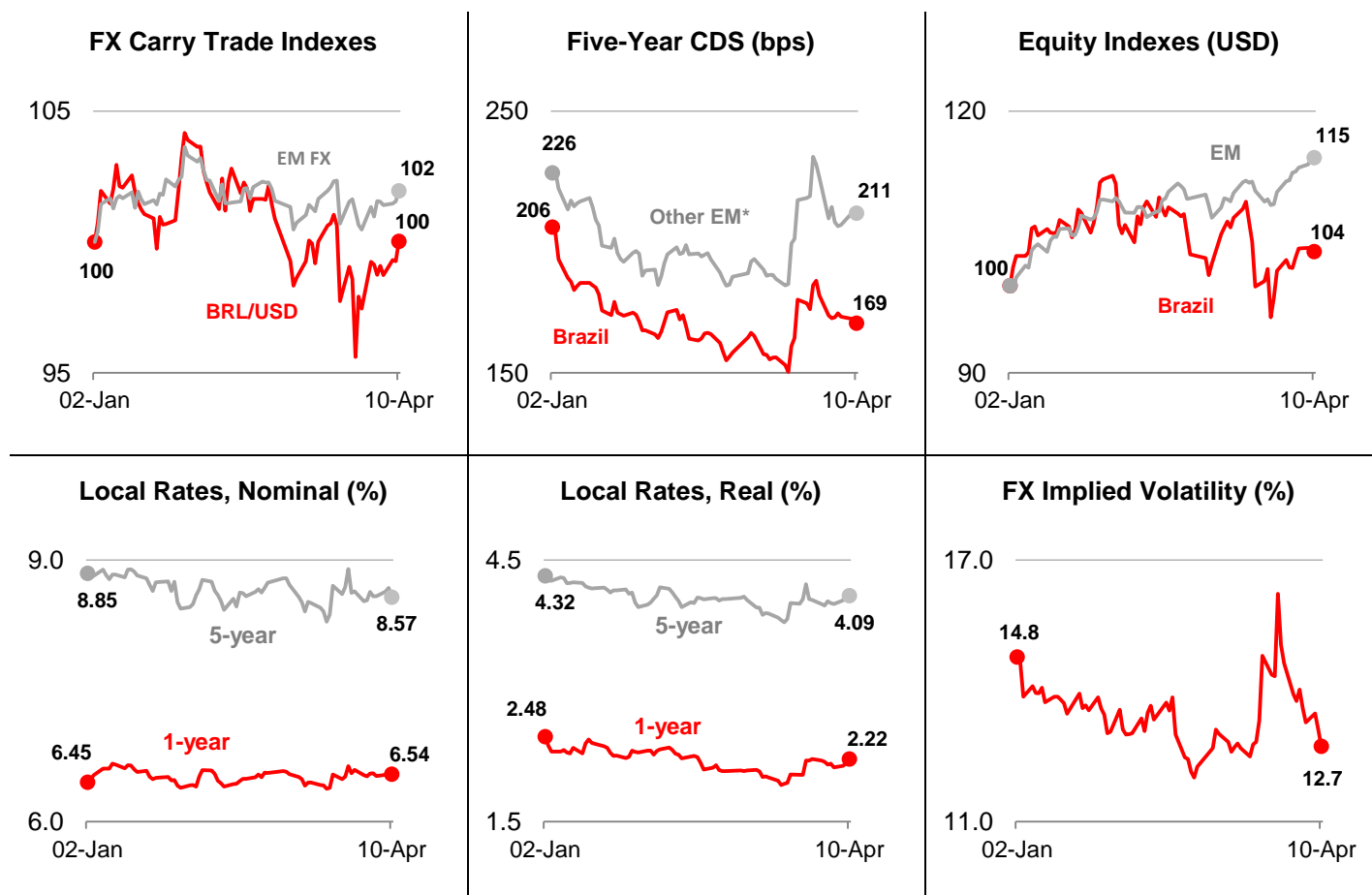
\* Employed by a non-US affiliate of Santander Investment Securities Inc. and is not registered/qualified as a research analyst under FINRA rules, is not an associated person of the member firm, and therefore may not be subject to FINRA Rules 2241 and 2242 and incorporated NYSE Rule 472 restrictions



## Charts of the Week: 100 Days of Markets with Bolsonaro

Our “Chart of the Week” tracks the performance of some key market indicators during the first 100 days of Jair Bolsonaro’s presidential term, from January 2 to April 10. Gains in the period were concentrated in the fixed income markets, with tightening external spreads (outperforming other EM peers) and domestic rates, both real and nominal. Brazilian equities followed the global euphoria until mid-March, but corrected more heavily and had a weaker recovery thereafter. Finally, BRL also underperformed, with the interest rate differential offsetting a small currency depreciation in the period.

### Brazil—Selected Market Variables—January 2, 2019 to April 10, 2019



EM FX Carry Trade Index: Bloomberg Cumulative FX Carry Trade for 8 EM Currencies. \*Other EM include Russia, Mexico, South Africa, and Turkey. Equity indexes: MSCI Brazil and EM. FX Implied Volatility: USDBRL 1 Month ATM Implied Volatility. Sources: Bloomberg, Anbima.

### Number of the Week

**BRL**  
**14.5**  
**bn**

As of April 2019, fines applied by the *Lava Jato* probe add up to BRL 14.5 billion, according to data compiled by *The Economist* (see “What We’ve Been Reading” below).

### Quote of the Week

“Who has the majority determines the agenda.”

— **Representative Arthur Lira**, addressing the head of the Lower House’s Constitutional Committee, Felipe Francischini, amid the conflict to determine the voting order for the pension reform and budget execution bills next week.



## What We've Been Reading

- “Brazil's biggest anti-corruption investigation is at a turning point,” by Sarah Esther Maslin (*The Economist*, April 11, 2019) and “Lava Jato's Biggest Failure,” by Roberto Simon (*Americas Quarterly*, April 10, 2019). Two good reappraisals of the Car Wash operation.
- “Latin America's Decade-Long Hangover,” by Brian Winter (*Americas Quarterly*, April 9, 2019). How the region wasted a promising beginning to the 2010s.
- “Emerging Risks for Emerging Economies” by Barry Eichengreen (*Project Syndicate*, April 10, 2019). A US recession is the current major risk for emerging economies, in Eichengreen's view.
- “The great disinflation in emerging and developing economies,” by Jongrim Ha, M. Ayhan Kose, and Franziska Ohnsorge (*Vox EU*, April 11, 2019). Trade and financial integration, and better macroeconomic policies, were the drivers behind the last great wave of disinflation in emerging countries. Both factors are risking a reversal, argue the authors.
- “A local's guide to Rio de Janeiro: 10 top tips,” by Dom Phillips (*The Guardian*, April 5, 2019). How to take advantage of the first low-cost connection between London and Rio.

## Recent Publications (Available on Our Website)

- *Will Credit Be Enough to Revive Consumption?* (April 1, 2019)
- *Monetary Policy: Low for (Much) Longer* (March 29, 2019)
- *Pension Reform – The Moment of Truth: From Intentions to Bargaining* (March 28, 2019)
- *Is Monetary Policy Stimulative for Consumption?* (March 6, 2019)
- *Lower Inflation Forecast for 2019* (February 28, 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@santander.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	598-1747-6805

### 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@santander.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@santander.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

### Electronic Media

Bloomberg	SIEQ <GO>
Reuters	Pages SISEMA through SISEMZ

This report has been prepared by Santander Investment Securities Inc. ("SIS"; SIS is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. "Santander"), on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This document must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. ("Santander Investment Bolsa"), and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. SIS, Santander London and Santander Investment Bolsa are members of Grupo Santander.

**ANALYST CERTIFICATION:** The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: Luciano Sobral\*.

\*Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2242 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

The information contained herein has been compiled from sources believed to be reliable, but, although all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading, we make no representation that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included herein constitute our judgment as at the date of this report and are subject to change without notice.

Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with SIS, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States.

© 2019 by Santander Investment Securities Inc. All Rights Reserved.

