

Brazil Flash

The week ahead: GDP, COPOM minutes and inflation

We expect GDP to grow 0.2%q/q in Q3 after growing around 1%q/q in the first two quarters of the year. The COPOM minutes should show that the focus of the monetary authority remains on the external front. Inflation to drop from 7.0%/y/y in October to 6.6%/y/y in November.

- **GDP to decelerate significantly; a negative growth should not be ruled out (Dec. 6th).**
We expect both private consumption and investments to slowdown and drive GDP growth down to 0.2%q/q (1.2%q/q in Q1 and 0.8%q/q in Q2). Our forecast is slightly higher than market consensus (0.0%q/q). The weakness of recent high-frequency activity data suggests, however, that a negative growth should not be seen with surprise. In any case we expect activity to show a mild rebound in the end of Q4 due to industrial inventory rebuilding, some (limited) improvement of confidence and recently announced tax cuts. All in all, GDP is forecasted to grow 3.2% in 2011.
- **COPOM to focus on global risks and, secondarily, on domestic moderation (Dec. 8th).**
On Thursday the CB will release the minutes of last week's monetary policy meeting in which the SELIC rate was cut to 11.0%. The Monetary Policy Committee (COPOM) is expected to keep its dovish tone, showing concerns with the global environment and with the recent signs of domestic deceleration. We also expect the COPOM to analyze the impact on growth/inflation/monetary policy of both the reversal of some macro-prudential measures announced some weeks ago and last week's tax reductions. It will also be interesting to see whether the monetary authority will refer to the re-weighting of the IPCA to be implemented in January (this re-weighting could imply some downward revision of 2012 inflation). We expect the minutes to support at least two additional 50bps cuts of the benchmark rate in the first quarter of 2012.
- **Declining, but still high inflation (Dec. 9th).**
We forecast inflation to drop to 6.6%/y/y in November from 7.0%/y/y in October. In monthly terms, inflation should reach 0.45%m/m in comparison to 0.43%m/m in October. Stripping out seasonal factors, monthly inflation would, according to our forecasts, move down to 0.38%m/m from 0.41%m/m in October and around 0.56%m/m in August and September. Looking forward, we expect inflation to reach 6.4%/y/y (0.45%m/m) in December. Although the moderation of the economy will help inflation to continue trending down in 2012, we do not expect it to converge to the 4.5% target (not even if the re-weighting of the IPCA proves to support lower inflation). More precisely, we see inflation around 5.4%/y/y at the end of 2012.

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