

Uncertainty in China offsets cyclical improvement. Markets remain pressured by uncertainty related to the spreading of the Coronavirus, despite signs of economic activity rebound. Most analysts still perceive the growth damage coming from the virus issue as only temporary. However, it seems now that the short-term negative impact will be more pronounced than initially thought and this has led to downward revisions in growth rates, mostly in Asia. In Brazil, the stock and fx markets have been the most affected by the crisis. Rates remained roughly stable, supported by the expectation that the Copom should cut rates to 4.25% next week, leaving the door opened to more cuts.

Copom should cut rates amid positive local growth and global uncertainty. Next Wednesday, we expect the Copom to deliver the last cut in the monetary easing cycle that started last July. In this cycle, the Selic rate should fall to 4.25% from the 6.5% level that prevailed when the BCB resumed the rate cut. Economic rebound has been gaining traction, in line with the BCB communication, which was confirmed by credit and labor market data this week. The committee should analyze the new risk coming from the Coronavirus that, despite the impact on the fx rate, we see as disinflationary. Although we see this as the last rate cut, remaining uncertainty should make the Copom to leave the door open for additional rate cuts ahead.

Flat rates in Chile and Colombia, but opposite bias looking ahead. In Latin America, we had the meeting of two central banks, in Chile and Colombia. The former kept rates at 1.75% amid inflationary pressures coming from a depreciated fx and supply restrictions and recessive effects from protests and social and political uncertainty. BCCH should leave rates stable in the short term, focusing on the financial stability of the country and on the effects of expansionary fiscal policy. In Colombia, inflation stickiness that is above the mid-point of the target range, a current account deficit that is above 4% of GDP and still robust local growth leave upside bias for the interest rate, but not in the short term.

In the US, monetary policy is “in a good place”. As highly anticipated by the markets, the Fed left rates unchanged, indicating that changes in interest rates for any direction seem unlikely. The communiqué, however, brought two relevant changes. The first hinted some discomfort with the current level of inflation which is below the 2% target. The second was the addition of a new risk for global growth coming from the Coronavirus. These risks indicate that the bias, if any, is to lower rates. On the activity front, the 4Q19 GDP grew by the robust level of 2.1%, in line with expectations. The breakdown, however, was less benign, showing some moderation in consumption, still weak investment and with some moderation in imports that supported the result.

Virus outbreak keep risk aversion on. The Coronavirus widespread with still no sign of stabilization, amid the measures taken by the Chinese government to tame the disease especially in industries that affect the usual business of economic activity, led to a revision of the expected impact of the disease in the 1Q20 growth. Markets still expect the disease to be tamed relatively fast, making it a temporary and regional shock to the economy with no major impacts for the global economic growth this year. However, uncertainty remains high and the risk aversion remains on.