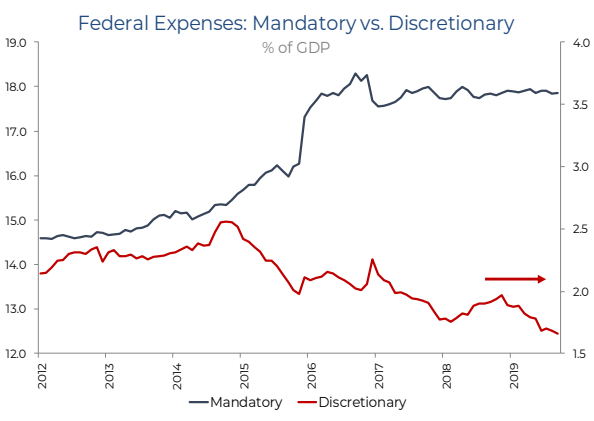
BlueLine
ASSET MANAGEMENT

# Blue Notes | Weekly | November 8, 2019

**Bold reform agenda ahead; oil auctions disappoint markets.** Even after the social security reform, the government keeps its focus on its reform agenda presenting three new proposals focusing on structural changes in Brazil's fiscal accounts, especially on the spending side. The oil auctions that happened this week were not as favorable as the market initially expected and frustration with respect to foreigner investors on the bids affected the BRL. On the external side, the US and China trade discussions seem to be improving, but Trump's declarations this Friday add some caution to market's expectations.

**Focus on emergency Constitutional Amendment Proposal (PEC, for the Portuguese acronym).** Among the three measures that were announced ("emergency" PEC, federative pact and public funds), the emergency PEC is the one that may have more short-term effect and therefore the one that has the most potential to affect markets. The proposal aims to provide instruments for elected politicians to cut down expenditures, helping to solve the rigidity problem caused by the high level of mandatory spending in Brazil.

**Menu of reforms is extensive; risk is Congress congestion.** The fact that the government delivered a set of excellent initiatives should not change the macroeconomic scenario. Our view is that the long list of constitutional measures and complex solutions may require discussion time that the Congress doesn't have, given the municipal elections in 2020. The coordination between the federal and legislative powers, as well as the public opinion should be even more important in this second round of reforms.




**Economic activity recovers and inflation is under control.** After important political and economic events (social security approval, oil auctions) the market will focus on economic dynamics in Brazil. October IPCA inflation released this week printed above expectations (0.10%m/m vs 0.07%), but details show inflation is well under control. The 12-month inflation should accelerate from the current 2.54% levels to around 3.3% in December, still below the mid-point of the target range (4.25%). On the activity front, next week activity numbers should confirm the recovery of economic acidity with September's retail and services surveys and the monthly GDP proxy.

**Trade war discussions seem to be moving forward and global growth is stabilizing.** Market's mood has improved with the possibility that the US-China trade new discussions may result in the removal of tariffs that were implemented. At the same time, business confidence is now stabilizing, reducing the chances of a recession. While no agreement between the US and China is not settle (expectations are set towards an agreement in December), markets are vulnerable to further speculation and news flows, which have been optimistic by most of this week but can flip at any time.