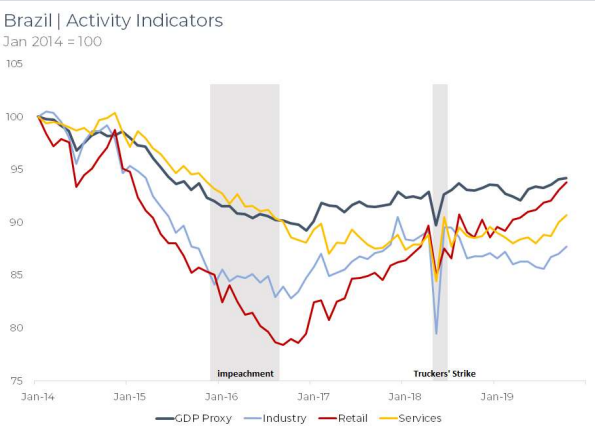
BlueLine
ASSET MANAGEMENT

Blue Notes | Weekly | December 13, 2019

Markets remain with a positive tone in December. The FED and the COPOM meetings confirmed markets expectations, with unchanged rates in the US and a 50bps cut being delivered in Brazil. Although decisions were in line with expectations, both central banks still provided important signals regarding the next steps of monetary policy, with the FED indicating as unlikely a rate hike and the COPOM showing inflation forecasts that hinted additional cuts. Looking ahead, monetary policy should be conducted with caution, since economic recovery is gaining traction, with activity indicators such as industrial production, retail sales and services volumes of October improving. In this environment of growth recovery, S&P revised Brazil´s sovereign rating outlook to positive.

COPOM cut rates to 4.5% and hints there is room for more. In its communiqué, the BCB signaled a cautious approach to the next monetary policy decision, which will take place on February 5. The dataflow until the next meeting will continue to indicate better economic growth and higher short-term inflation, which should leave markets divided regarding the next steps of the monetary policy. We believe that still below-target inflation forecasts indicate another 25bps rate cut.

Economic recovery gaining traction. Following a stronger than expected 3Q19 GDP report, the dataflow continues to suggest consistent recovery in the industrial, retail and services sector (chart). The IBC-Br, our monthly proxy for GDP, increased 0.2% in October, supporting our call for a 1.2% GDP increase in 2019.



FED indicates rates won´t increase any time soon. The FED´s decision last Wednesday was in line with expectations with rates being left at the 1.5-1.75% range and the bulk of the board, 13 out of 17 directors, foreseeing flat rates in the 2020 horizon. In the press conference that followed the decision, Jerome Powell adopted a more dovish speech, emphasizing the need of persistent and significative moves of inflation to the upside before the FED considers any rate hike. The perception that rates won´t increase anytime sooner brought enthusiasm to global markets before details of the trade deal between the US and China were released.

Phase 1 of US-China trade agreement is complete, but technical details and signing off still missing. Intellectual property and Chinese purchases of agricultural products were part of the deal. As a result, Trump announced the suspension of tariffs that were set for Sunday and the reduction of tariffs in roughly USD 110bn of Chinese goods from 15% to 7.5%, a reduction of 10% of the total that has been applied. After two years of tariff increases, this first reduction is a positive sign for the global economy, despite remaining uncertainty that remains high.