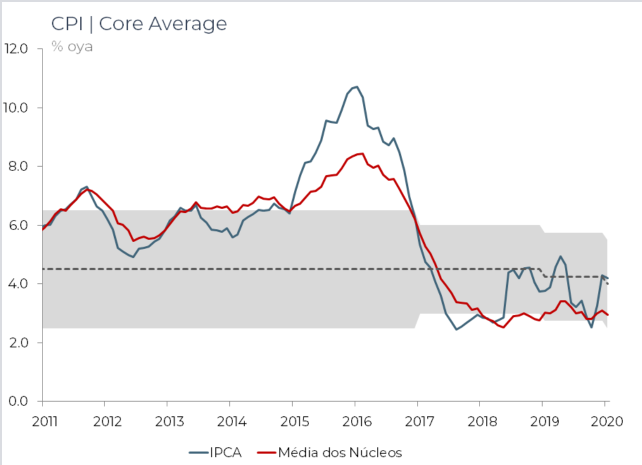
BlueLine
ASSET MANAGEMENT

Blue Notes | Weekly | February 7, 2020

Volatile rates amid cautious BC and weak data. Markets remained volatile this week. While external risks seem lower, local factors kicked in as a source of noise. Copom's meeting delivered the expected 25bps cut in the Selic rate, but it surprised markets by announcing a halt to the easing cycle. Economic data, however, came in opening room for further cuts, with a very weak print for the December's industrial production and core inflation moving further away from the target (downwards). We expect no more rate cuts. With downward bias on growth coming from the Coronavirus, we see the chances of a rate hike in the near future getting smaller.

Copom interrupts the cycle, IPCA is low and industrial production weak. After cutting the Selic rate to 4.25%, the lowest level in the recent history, the Copom said it is interrupting the easing cycle, highlighting the uncertainty regarding the current stance of the monetary policy that can lead to "higher than expected inflation". The communiqué was not explicit when mentioning recessive risks coming from the Coronavirus, which have been leading analysts to revise down their growth forecasts for Brazil and the world. Contrary to Copom's concern, January inflation printed to the downside, decelerating to 4.19%oya from 4.31% in December. Core inflation stood at 2.96%. In the local activity front, short-term data showed mixed signals, with industrial production falling 0.7%m/m sa in December but demand-side data – job creation, credit and retail sales that will be released next week – hinting a gradual economic recovery.



Inflation surprised to the downside in Latam, except in Chile. This week showed January inflation prints for the biggest countries in Latin America. The highlight was for the acceleration in Chile (more than expected) and in Mexico (less than expected) and the deceleration in Brazil and Colombia, both surprising expectations to the downside. It is worth mentioning that despite the acceleration in Chile, core inflation is below the target, differently from Mexico where core has been printing consistently above target.

In the US, solid growth and Fed readiness hint resilience amid negative shocks. At the beginning of the week the ISM manufacturing registered a good advance from 47.8 to 50.9, above the expansionary threshold for the first time in 6 months. The non-manufacturing component also increased from 54.9 to 55.5. Both were better than expected by markets. At the end of the week labor market data showed a solid above consensus result with nonfarm payroll rising 225k and wage growth ticking up, which is consistent with a robust labor market that can continue to drive consumption in 2020. From a market perspective, the positive set of data on top of an attentive FOMC to downside risks coming from the coronavirus, indicate that the US economy is solid enough to absorb negative shocks.