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**Subject:** Fw: Fwd: Brazil Daily Update  
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From: Isin Sumengen-Ziel (DEUTSCHE BANK AG, LO) [mailto:sumeisi.lndb@bloomberg.net]  
Sent: Friday, March 13, 2015 06:15 PM  
To: Daniel Sabba  
Subject: Fwd: Brazil Daily Update

Political turbulence continues to rattle local markets

Brazilian markets had another volatile session on Friday, as the BRL sank to new lows amid negative political news. Labor unions organized demonstrations in some cities defending the preservation of labor benefits (and therefore protesting against Finance Minister Joaquim Levy's spending cuts), but also protesting against a potential "rupture in democracy," thus essentially supporting President Dilma Rousseff and rejecting calls for her impeachment. Demonstrations in favor of Rousseff's impeachment are scheduled for Sunday, showing a growing divide in Brazilian society. Separately, according to the Agência Estado newswire service, Finance Minister Joaquim Levy threatened to resign during the tough negotiation that he reportedly held with Senate Speaker Renan Calheiros on Wednesday night in order to prevent Congress from overriding Rousseff's veto on the extension of electricity subsidies until 2042. Furthermore, newspaper Folha de S.Paulo claimed that Petrobras was negotiating with its creditors a six-month delay for the publication of its audited results, which the company denied during the day.

The BRL depreciation intensified as Bloomberg News reported that, according to unnamed government sources, the authorities would not act to prevent the BRL from weakening further. In our view, the decision to let the BRL depreciate can be justified by the global environment (overall USD strengthening) and need to adjust the current account deficit. Nevertheless, in order for the nominal depreciation to be translated into real depreciation, inflation must remain under control, which will likely demand additional monetary tightening by the BCB, further impairing the economic growth outlook for 2015 and 2016 and potentially creating more political difficulties for the government.

Stronger-than-expected retail sales in January do not indicate recovery

Retail sales rose 0.8% MoM in January after falling 2.6% MoM in December, much better than the market consensus of -0.5% and our forecast of -0.2% MoM. Sales of durable goods (home appliances and furniture) climbed 2.4% MoM after plunging 9.2% MoM in December, while apparel sales rose 1.3% after dropping 7.2% MoM in the previous month. Supermarket sales rose 0.3% MoM (versus -0.2% MoM), and fuel sales were flat. On a year-on-year comparison, sales climbed 0.6% YoY. The "broad retail sales index" (which also includes cars and construction materials) climbed 0.6% MoM, even though car sales fell 0.5% MoM. The broad index still fell 4.9% YoY. We see the increase in retail sales in January mainly as a payback to the sharp drop in December, and do not expect the recovery to continue given the steep decline in consumer confidence, rise in unemployment, and tightening of credit conditions.

Week ahead:

Demonstrations against President Dilma Rousseff's government are scheduled for Sunday in several cities and, if successful, could aggravate the ongoing political crisis. On Monday, the BCB will release its Focus survey of

market participants and we expect another increase in the consensus forecast for 2015 inflation. The BCB will release its IBC-Br monthly GDP proxy for January, and we expect 0.2% MoM, mainly due to the rebound in industrial production in that month. FGV will release its weekly IPC-S consumer price index, and we expect 1.40%, up from 1.26% in the previous week, mainly due to higher electricity prices. On Tuesday, IBGE will release the IGP-10 inflation index for March, and we project 0.90%, up from 0.43% in February, mainly due to a rebound in wholesale prices. On Wednesday, the BCB could release the FX flows for the second week of March. On Thursday, FGV will release the second March preview of the IGP-M inflation index, and we project 0.80%, up from 0.74% in the first preview. FIPE will publish the second March preview of São Paulo's inflation index, and we expect 1.05%. On Friday, IBGE will publish the IPCA-15 consumer price index for March, and we expect 1.20%, only slightly down from 1.33% in February, as a sharp increase in electricity prices probably offset a seasonal deceleration in education costs.

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