Bundle | 1 June 2018

In case you missed it: Brave new world

The political shake-up in Italy and Spain begins to cool down, the threat of a global trade-war heats up as allies retaliate and the US unemployment rate hits a new post-crisis low which President Trump was 'looking forward' to

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Brazil's chief challenge is its unsustainable fiscal trajectory, which can only be addressed with the election of a new administration committed to...

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Although a 5SM-League government will be announced later today, we take a step back and outline four potential scenarios from the benign to severe and...

Navigating Italian political risks: Four scenarios for the future of Italy

	Italian political environment	Eurozone growth implications	ECB monetary policy stance	Financial market implications
1 **European dream** Italian political risk recedes and pro-EU sentiment drives market sentiment	**EU-friendly** Broad support for populists decline and euro-friendly government forms	**Steady growth** Economic risks fade & Eurozone GDP bounces back from recent soft patch	**Gradual QE taper adjustment** ECB extends QE until Dec 2018	10Y BTP-BUND spread: **100-200bp** 10Y US yield: **3.50%** Markit Europe CDS index: **60bp** EUR/USD: **1.20-1.30**
2 **Muddling through** (ING baseline) Risks stemming from Italian politics remain idiosyncratic	**EU co-operative** Populists gain in opinion polls but keen to co-operate	**Soft patch** Recovery not over but slower growth dynamics continue	**Prolonged QE** ECB extends QE at least until Dec 2018	10Y BTP-BUND spread: **200-300bp** 10Y US yield: **3.25%** Markit Europe CDS index: **80bp** EUR/USD: **1.15-1.25**
3 **Contagion creeps in** Italian political risk starts to feed through to the Eurozone economy & signs of contagion	**EU-sceptic** Mainstream parties struggle; populists set political agenda	**Italy GDP risks** Hit to Italian GDP significant enough to impact EZ GDP	**Lower for longer QE purchases** ECB extends QE at least until Sep 2019	10Y BTP-BUND spread: **300-400bp** 10Y US yield: **2.50%** Markit Europe CDS index: **150bp** EUR/USD: **1.05-1.15**
4 **'Quitaly' in sight** Heightened political risk feeds through to Eurozone growth and broad-based contagion	**'Italy first'** Mainstream parties wiped out & 'Italy first' populist govt	**Broad slowdown** Eurozone growth overall slows down substantially	**QE extended** ECB extends QE even further and in higher amounts	10Y BTP-BUND spread: **400-1000bp** 10Y US yield: **1.50%** Markit Europe CDS index: **300bp** EUR/USD: **0.85-1.00**

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Source: ING Global Research

Italy's populist Five Star Movement and the far-right League have sent jitters across markets with their proposals to form a government on an openly euro-sceptic agenda. The President's veto of a proposed Euro-sceptic finance minister at one point threatened a constitutional crisis.

Concerns over mini-BOTs

Concerns that populists might consider the idea of issuing mini-BOTs, a short-term debt instrument often described as a disguised parallel currency, have especially fanned investor fears over Italy, where support for the EU is relatively low.

Fresh elections early next year?

So far a crash in Italian debt markets have pulled populists back from the brink, and at present, their leaders are trying to form a less confrontational government. Yet, the prospect of fresh elections early next year remains.

Brussels' stance matters

The degree to which financial market discipline curtails populist policies – and Brussel's stance to draw the string from populist support – will be key in determining Italy's political path.

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Article | 1 June 2018 **Spain**

Spain: Enter another minority government

Pedro Sanchez, the leader of the socialist party PSOE, is the new prime minister of Spain after his no-confidence vote against Mariano Rajoy passed in...

Spanish Prime Minister Pedro Sanchez, leader of the Socialist Workers' Party (PSOE)

Weak government raises odds of snap election

Sanchez said he wants to keep the 2018 budget and to continue to follow the stability programme presented by the previous government under the European semester, at least for this year. He will try to pass the 2019 budget and he does not want new elections.

The just-ousted government, led by Rajoy, was also a minority government with 134 seats in a parliament of 350 and governing was already difficult. As the PSOE only has 84 seats and there is no talk of a formal coalition, it will be even more difficult to govern. Officially, new elections are planned in 2020. But given the weakness of the new government, a snap election in the coming months is more likely.

These developments, of course, introduce some uncertainty into the economy. But we expect the overall impact to be low. As Sanchez will carry on with the fiscal policy decided by the previous government, financial markets should not worry about a spending surge by the new government for now, as in Italy. Admittedly, Sanchez could try to go for larger fiscal stimulus in the 2019 budget, but it remains to be seen if he will succeed in getting that budget through parliament.

Economic activity is strong

There are two further reasons why Spain is not really a threat to economic stability:

- First, support for Europe is firm in Spain. The Eurobarometer of November 2017 showed that 21% of Spaniards think their country would fare better outside the EU, while the EU28 average was 31%. In Italy this was 46%.
- Second, current economic activity continues to be great. Yesterday, GDP growth in 1Q was confirmed at 0.7% quarter-on-quarter, while the year-on-year growth rate was revised upwards by 0.1 percentage points to 3.0%. Exports also grew faster compared to 4Q 2017 and so Spanish activity does not seem to be affected by the Eurozone slowdown in 1Q. Here too, this is in contrast to the Italian economic performance of 0.3% quarter-on-quarter growth in 1Q.

The Spanish-German bond spread rose only a few basis points after the announcement and is still close to 50bp lower compared to Monday on the back of more favourable recent political developments in Italy.

Snap | 1 June 2018 United States

Solid US jobs report keeps the Fed on track for a June hike

Rising employment and an above-consensus wage growth figure will reinforce expectations for a rate rise in a couple of weeks, although Fed voters will...

Source: Shutterstock

President Trump said shortly before today's US jobs report that he was "looking forward" to seeing the numbers. And with the economy having added 223k jobs in May, he is likely to be fairly chuffed.

The unemployment rate fell to 3.8%, a new post-crisis low, and in fact, came within spitting distance of 3.7% once rounding is taken into consideration. This decline came as almost 300,000 job hunters found employment in May, according to the household survey.

But for the Fed, the key positive in this month's report is that wage growth beat estimates, taking the year-on-year rate back up to 2.7%. This comes as firms appear to be finding it harder to fill positions. The proportion of small businesses finding it hard to fill job openings continues to flirt with all-time highs, while it's taking around twice as long to fill vacancies than it did during the depths of the financial crisis. We think wage growth could test 3% again this year as these skill shortages gradually filter through to the official numbers.

We think wage growth could test 3% again this year

All of this means that a rate hike is still highly likely from the Fed in a couple of weeks' time. Our base case is that the committee will hike a further two times after that in 2018, although of course there's no doubt that Fed officials will be keeping a firm eye on the brewing global trade war, and this is the main risk to our view.

As far as the jobs numbers are concerned, we suspect it is probably too early to see the effect of Trump's metal tariffs in this month's data, but things could start to look a little more concerning over coming months.

There are reportedly only around 300,000 workers directly employed in both the steel and aluminium production industries. By comparison, some estimates have put the number of jobs in companies reliant on steel/aluminium inputs at around 6.5 million – in industries covering aircraft to beer cans. On this basis, the risks stemming from the metals tariffs are likely to be a net negative for the overall jobs market.

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Article | 21 June 2018 United States

US-EU trade war: Time's running out

The EU is set to retaliate against US tariffs on steel and aluminium by imposing tariffs of its own on Friday. Even though the economic impact of these...

Source: Shutterstock

Economic damage of tariffs will be limited

The EU will retaliate by imposing tariffs on 185 US export, according to a list already published.

These measures would hurt the economy on both sides of the ocean only a little. The direct impact of the steel and aluminium tariffs on the European economy are limited because exports of steel and aluminium to the US make up no more than 0.3% of worldwide goods exports by the EU and represent 0.05% of the EU's GDP. And some of that will be lost anyway due to lower US demand as prices increase due to higher tariffs.

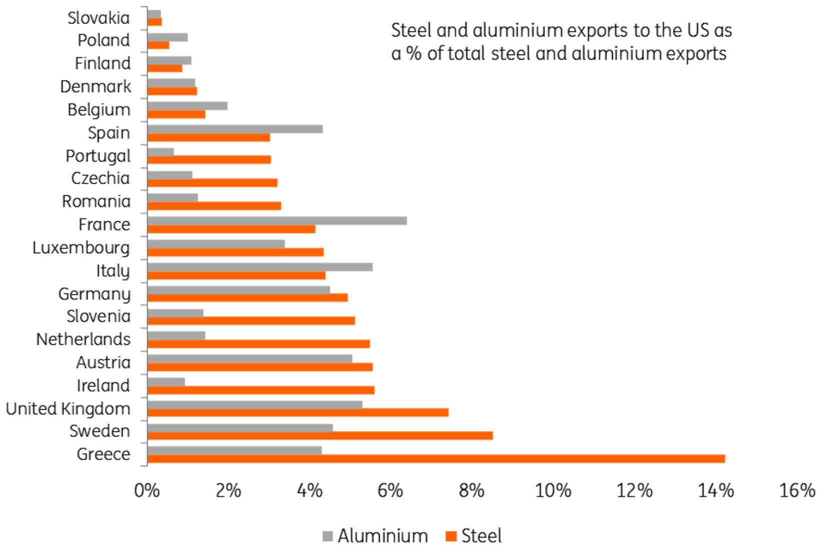
The effect of the retaliation on the US economy is negligible too. Most of the products on the list seem to be politically motivated because they target the constituency of important American politicians. For example, bourbon comes from Kentucky which is the home state of senator Mike McConnell. The total value of products charged with the tax is small: $2.8 bn which represents only 0.1% of US exports worldwide. Nevertheless, the targeted industries will feel the pain.

For the EU the damage will be concentrated in steel and aluminium industries. The exact effect will depend on US price sensitivity for EU steel and aluminium. That depends on the homogeneity of the EU steel and aluminium. In other words: can it easily be substituted by steel and aluminium from domestic US suppliers or by foreign suppliers that aren't subject to higher tariffs? To our knowledge, this type of information is unavailable at such a disaggregated product level.

But the damage will be contained because 88% of EU exports of steel have other destinations than the US. On the national level, steel industries in Sweden, UK and Greece have the most exposure to the US, but the German, Italian and Dutch exposure are the largest in absolute value (see Fig. 1).

For aluminium, the French, Italian, Austrian and UK industries stand out as prime victims of the US tariffs. But also for aluminium holds that the lion's share of EU exports goes to other countries than the US. France is most dependant on American demand with around 6% of its aluminium exports going to the US.

Exposure to steel and aluminium differs largely by country

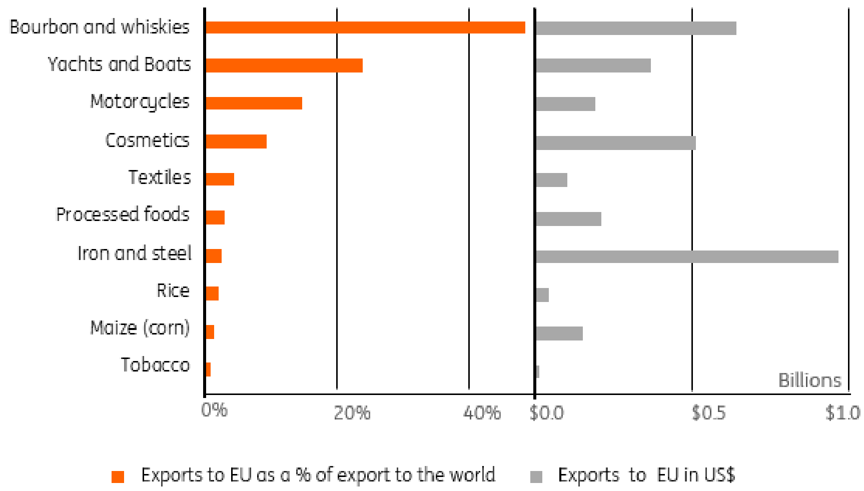


Source: UNCTAD, ING Research

In the US, the damage can be aggregated into ten groups.

The figure below shows that as a share of total exports, the largest negative influence will be on the bourbon and whiskey industry, followed by yachts and boats and then motorcycles. Cosmetics and iron and steel industries will also be hurt significantly if we look at the nominal values that would be exposed to EU tariffs. But, because the share of their exports to the EU is not so large, these sector will suffer less, when looking at total export revenues.

Bourbon and yachts have the highest exposure to the European market



Source: Eurostat & UN Comtrade Statistics

Spiraling into an all-out trade war

President Trump has already said that a tariff of 25% would counter any retaliation by the EU on the imports of European cars. With his announcement in May, the US government will see if imports of foreign cars is at odds with national security, which makes it seem that President Trump has started preparations for the extension of the trade war.

If the European auto industry were to be levied with a 25% tax, the impact on the European economy would be much more significant. In case of such a trade battle the amount of exports hit by tariffs would be five-times larger than the tariffs to be imposed on steel and aluminium. This is because the export to the US by the automotive sector, which amounted to $32 billion worth of cars in 2017, is five-time as large as European steel and aluminium exports the US.

If the EU in response, retaliates again, an all-out trade war could emerge. If we assume the various tariff increases would result in an average increase of 10% on both sides of the ocean, the economic damage would be approximately 0.3% of GDP for the EU and 0.4% for the US.

Why a trade war between the Eu and US is a lose-lose situation

Detrimental side effects

For the time being, the immediate trade impact won't be the most damaging for both the US and EU economies; the second rounds are likely to have a much larger and lasting impact.

Since trade concerns have sparked, confidence measures for both businesses and consumers in the Eurozone have fallen. The decline has been limited so far, but the longer trade concerns carry on, the more lasting the impact on confidence will be. This can have a more significant impact on the economy as businesses and consumers may postpone investment and consumption, and if measures get implemented, they will still not have that large of an impact although businesses could suffer from lower profit margins as they take on some of the tariffs not to lose market share.

The higher inflation due to tariffs negatively impacts real wage growth, and economic uncertainty may have broader effects on the economy. Again, the losers still outnumber the winners.

Blow for free trade

The more worrying thing is the structural damage a trade war would bring to the principle of free trade. In the eyes of many, the US has already crossed the line by using national security as a justification for tariffs on steel and aluminium. But using this loophole to dodge WTO- rules for possible restrictions on the import of cars is a clear abuse of the rule-based system of international trade that the US itself has helped to build after World War II.

With this abuse, the US has opened the door for other WTO members to break the rules too and Korea and Brazil have already done so. The 'voluntary' restraints that Korea and Brazil imposed on their steel and aluminium exports to the US are not allowed according to WTO rules. Other countries will be tempted to break the rules as well to avoid tariffs that the US threatens them with. The impact of the current talks and possible tariffs could, therefore, be far larger than the direct effects of the measures themselves.

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Why we're forecasting the yuan to depreciate

Even though concerns about depleting foreign exchange reserves could limit the extent of yuan weakening, a depreciation trend is more likely than before....

Source: Shutterstock

Why China will be more willing to take advantage of a stronger dollar

Trade war escalations between China and the US along with rising political risks in Italy and Spain have formed a strong dollar trend, and this is the key reason why we're revising our yuan forecast.

A strong dollar is likely to create headaches for the US administration as this won't help narrow its trade deficit with China. As the greenback strengthens against most major currencies, China should be willing to allow a weaker yuan as it sends a signal to the US that the exchange rate movements are largely a result of a steep dollar rather than any manipulation by China.

In other words, this means China is being passive ending up with a weaker yuan against the dollar. This passive influence by the strong dollar makes us think a slight depreciation of the yuan against the dollar is more likely than we previously believed, even though we thought this was unlikely.

But the central bank won't want capital outflows

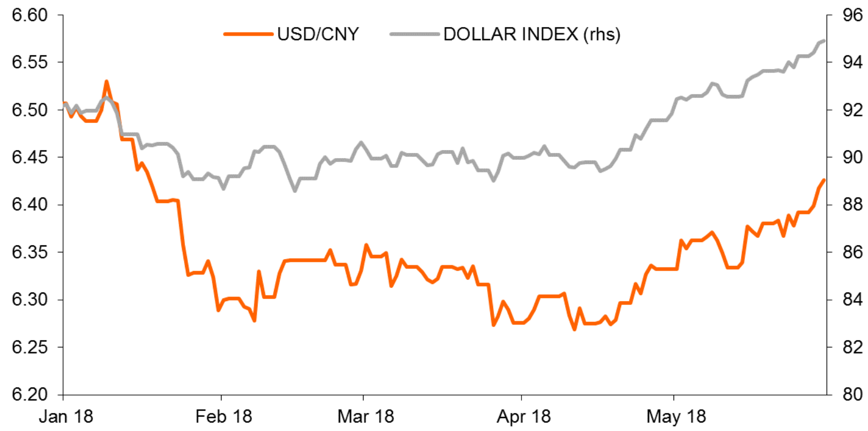
But a steep yuan depreciation is not our call.

The dollar index has strengthened more than 1.7% year to date, and the yuan against the dollar has also appreciated by around 1.2% which implies that the yuan still has some room to weaken, especially if the dollar keeps strengthening.

The contradictory movements of appreciation of both the dollar index and the yuan at the same time show the Chinese central bank is unlikely to allow a longstanding yuan depreciation against the dollar. The People's Bank of China (PBoC) will try to prevent the yuan weakening to a level that attracts massive capital outflows and lead to depletion of foreign exchange reserves. It probably wants to avoid a repeat of mid-2014 and 2016 when reserves fell too quickly.

We think if foreign exchange reserves fall below the $2.5trillion level, the weakening yuan will start to stabilise to avoid further capital outflows.

Yuan still appreciating against the dollar YTD even though the dollar has been stronger



Source: ING, Bloomberg

Capital inflows are coming but might not be enough to offset outflows

The central bank could get some capital inflows from China's open-up policy in the financial sector and A shares' inclusion into MSCI. These would offset some of the value effects on China's foreign exchange reserves from a strong dollar (i.e. non-dollar asset values come down in dollar terms).

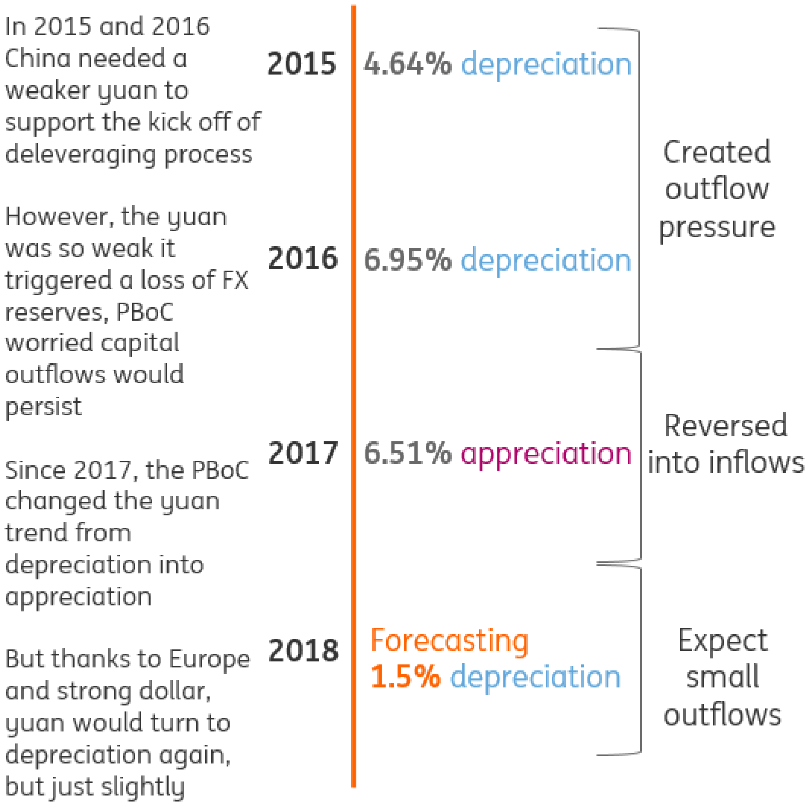
Another way to avoid capital outflows would be to increase interest rates in China to widen the interest rate gap between China and the US. Currently, interest rate spreads have narrowed, which triggers a capital outflow worries.

To reverse the recent trend and increase interest rate spread, China needs to tighten liquidity further and/or raise the 7D policy rate by more than five basis points each time when it follows the Fed's hike. However, by doing so, the interest costs will increase in China. The central bank may be hesitant to do this now as there are increasing default risks from local government related credits, and the timing is nearer to half-year end when liquidity is usually tighter.

In short, creating a wider interest rate spread between China and the US by the Chinese central bank is quite unlikely, at least for now. This makes attracting capital inflows and retaining potential outflows more difficult.

It is also likely that the capital control regulator, SAFE, may start to slow down outflows via administrative measures. This was the main tool used in 2016 and could again be a handy tool now.

Yuan and capital flows are intertwined



Source: ING, Bloomberg

Revising yuan forecast

Considering all these factors, we revise our USD/CNY forecasts to 6.60 from 6.33 for 2018. In other words, we expect 1.5% yuan depreciation against the dollar in 2018.

Between now and the end of 2018, there are chances that the dollar strengthens very quickly, which could originate from escalating risks in Europe and USD/CNY could surpass our year-end forecast.

However, we expect that rapid capital outflows (even with administrative measures in place, similar to the scenario in 2016) would then begin, and could trigger falling foreign exchange reserves to the $2.5 trillion level. By then the central bank is likely to stabilise the yuan to stop foreign reserves from continuously falling. So the chance of USD/CNY surpassing 6.60 for a prolonged period is quite small.

Article | 30 May 2018 China

China’s Xi speaks, Trump reacts

Tensions over a US-China trade war are far from over. On 28 May- before the US announced possible tariffs on Chinese imports and a control list on...

The timing of President Xi's speech plays an important role in forthcoming trade negotiations

President Xi Jinping’s speech on 28 May emphasises building a self-sustained high-tech industry. We think the speech plays an important role in the China-US trade war.

- First, the speech was made by President Xi himself, suggesting the objective of building a self-reliant high-tech economy is concrete with a high chance of success given Xi's power of execution.
- Second, the timing of the speech is significant. It was given before the US administration announced a list of tariffs on Chinese goods (on 15 June) and a list of investment and export controls on high-tech products into China (before 30 June).

US reaction to Xi's speech

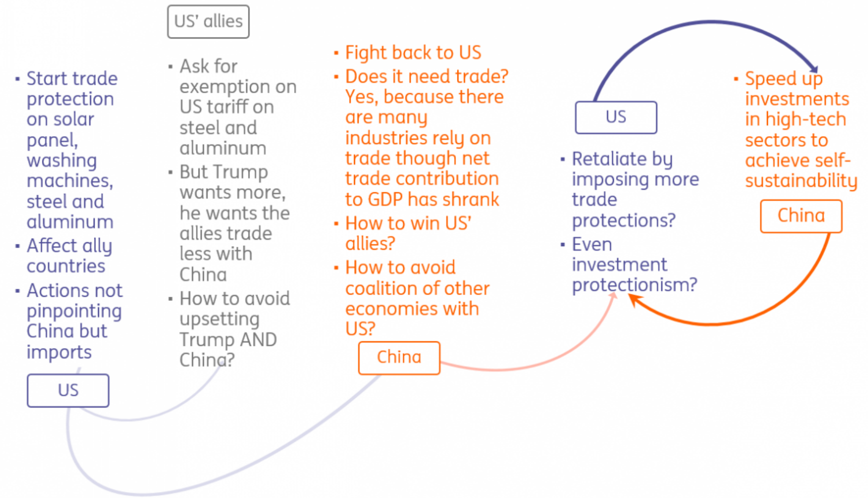
President Xi's speech likely hit a nerve in the US administration. We expect the US to try to interrupt China's Made in China 2025 plan by imposing controls, especially through investments and exports of high-tech goods and services to China.

Xi would have known that the US would react to his speech. We believe, therefore, that China is prepared to put sizeable investments into the high-tech sector to achieve its target so it doesn't need to depend on US tech products. Still, it's impossible to yield any positive results from these investments before the end of June.

The forthcoming announcements of the two lists by the US administration are crucial to future trade and investments of China and the US. The Trump administration's latest move suggests that its claim of putting the trade war "on hold" after the latest round of negotiations is not binding.

Trade war? Investment war?

Start from US trade tariff on steel and aluminum but may not end at soybean



Source: ING

China could lower tariffs to the rest of the world, as well as to the US

As a buffer to trade tension, China may import more consumer goods by lowering tariffs for the rest of the world, in addition to the US. These may include health-related products, baby products and cosmetics, which are sought after by Chinese tourists when they shop abroad. Though the value of these goods would not change the trade of goods' deficit situation of some economies with China it would at least calm trade tensions.

However, from China's current account point of view, this may not create a big change. The Chinese will likely spend more money at home on domestic imports rather than shopping overseas, so it could be that some imports of services move to imports of goods. Though the pie of imports of consumer goods would become bigger with a growing middle class, this growth would likely be gradual.

We should be aware that it is difficult for China to give in more than this, especially as this is about China-US bilateral trade, which is still under negotiation.

China investment will focus on high-tech R&D and talent pool

This is not the first time that President Xi has emphasised that China needs its own technology to survive in the future. The government is aiming to achieve more self-sustained technology by

2020.

This is an aggressive and challenging target. But it is not impossible because China is on a strong growth path, which makes it easier to spare more investment for a particular objective that the government believes is vital to its future growth. Inevitably, before there is any positive result from these investments, China's debt, particularly government debt, will grow.

President Xi's speech also emphasises that China will achieve its goal by growing its talent pool in the high-tech sector. We expect that talent from around the world will be attracted by this opportunity. However, this is not without challenges. The rest of the world may not be willing to export its talent to China. We believe that another war is coming, a war for talent.

Investment will be the new growth driver

Investment growth driven by the high-tech sector is likely to increase before any change in tariffs slows down Chinese export growth.

But trade tensions will delay business investment decisions and could disrupt the future supply chain of the semiconductor industry, which will partially offset the contribution of investment growth to GDP.

Given that China will invest more in high-tech, the job market should be stable and support current growth in consumption.

The combined effect means that our China GPD forecasts of 6.8% in 2018 still holds, although the forecast has an upside risk from fast and sizeable investments in high-tech sectors.

Brazil: Strike weakens, but fiscal worries deepen

Brazil's chief challenge is its unsustainable fiscal trajectory, which can only be addressed with the election of a new administration committed to...

Source: Shutterstock

The truckers' strike appears to be winding down amid mounting economic losses and growing questions about its legitimacy. The deterioration in economic activity and inflation should be short-lived, while domestic financial assets should stabilise with the support of market intervention by the Treasury and the Central Bank. But the fiscal impact should be lasting, complicating Brazil's already challenging fiscal and political outlook.

Strike reveals the weakness of the political establishment

The truckers' strike that has paralyzed Brazil for more than one week now is not over yet, but it is winding down, with the more energetic police presence helping decrease the number of roadblocks. Domestic trade normalization may take a while to normalize however, amid mounting losses across many sectors in the economy, notably perishables and livestock.

Higher prices and weaker economic activity indicators should be the most noticeable near-term impact of the strike. Any inflationary spike should be short-lived but the weakness in economic activity could linger, as the full impact of the extensive monetary easing seen in recent quarters should be partially compromised by the rise in risk premium levels and the greater caution on the part of borrowers and lenders.

The greater volatility in local markets also stood out, with the Brazilian Real and local debt trading under considerable pressure. But continued central bank intervention in the FX market, with US$750m in FX swaps (net) being offered daily, and Treasury debt buybacks have helped stabilize local markets.

> *The most lasting impact of the strike is, however, fiscal and political in nature.*

On the fiscal side, the government agreed to provide fiscal support to truckers in the form of tax cuts and subsidies on diesel prices, among other benefits for the sector. The fiscal cost is estimated at more than BRL13bn until year-end, or almost 0.5% of GDP annually, if the program remains in place permanently. That cost is expected to be partially covered by an effective increase in payroll taxes, affecting some sectors in the economy that currently benefit from a lower tax rate.

In political terms, the surprising resilience of the strike, which was clearly underestimated in Brasília, also vividly illustrated the political weakness of the administration, with barely veiled calls among the strikers and in social media for the president to step down and for the military to take over. Fears of an institutional crisis, along with the heavy economic losses, have helped intensify calls for the end of the strike, amid growing questions about its legitimacy, following the considerable concessions already granted by the government. But it is undeniable that the Temer administration, and Congress, should emerge from this crisis further diminished.

The strike, the October elections and beyond

The combination of a politically weak government, a discredited political class, still-high unemployment and widespread social dissatisfaction should continue to pose considerable challenges for Brazil's macro outlook.

In fact, we believe the strike has been highly instructive for the two key dynamics that will define Brazil's medium-term outlook: the October presidential election, and the fiscal policy adopted by the new administration in 2019.

Regarding the elections, what stood out from the strike was the deeply felt popular disapproval of the political class and the strong anti-establishment sentiment, which confirms what opinion electoral polls already suggest: Presidential candidates not seen as part of the establishment should have a considerable advantage over candidates seen as part of the establishment, not unlike electoral dynamics seen in Colombia and, especially, in Mexico.

Regarding fiscal policy, the truckers' demands and the resulting action by Congress and the Temer administration plainly illustrated the conflicts of fiscal redistribution that will mark 2019.

The new administration will take over facing considerable fiscal challenges.

Difficult decisions regarding the compensation of public sector employees, retirees, and benefits accruing to other special interest groups, suggest a high number of conflicts, that only a highly committed and politically able new administration would be able to navigate without giving up on a commitment to re-anchor fiscal accounts.

In addition, the episode also revealed that despite the impressive improvement seen over the past couple of years, and the introduction of important shields protecting the governance structure of state-owned enterprises and Petrobras (including the *Lei das Estatais* and the *TCU* court), these companies remain vulnerable to political interference, further raising the stakes for the upcoming presidential election.

Overall, the current fiscal framework is unlikely to survive intact, which could cause much market volatility next year. The so-called "gold rule", which limits the ability of the Treasury to issue debt and creates the possibility of a public sector shutdown, is likely to be effectively abandoned by Congress, due to the extreme difficulties of meeting it next year.

The spending ceiling, which is the most important aspect of the fiscal framework, can survive 2019, but with considerable difficulty. The current assessment is that Congress would need to cut mandatory spending by about BRL40bn, in order to keep discretionary spending at current levels (at about BRL120bn annually), which is seen as the minimum necessary to keep most government activities functioning adequately.

Intense market focus on how congress changes the fiscal framework suggests that market volatility could stay high throughout 1H19. In order to ensure the sustainability of the spending ceiling, the new administration will take power having to ably navigate opposing interests by several powerful special interest groups. The need to implement a change in the way the minimum wage is calculated, limiting annual adjustments to inflation, by mid-April 2019, and the urgency to approve a robust social security reform could be particularly controversial.

BRL sell-off is unlikely to trigger rate hikes, for now

Despite the strike-induced rise in inflation and the weaker BRL, Brazil's inflation outlook remains broadly benign, trending near the target until 2019. Central bank officials have, as a result, signalled a preference for keeping the SELIC policy rate stable at 6.5% in the foreseeable future, while also signalling a resistance to raising the policy rate in an effort to stabilize FX dynamics. The bank is likely to continue to consider direct FX market intervention as the optimal tool to address excessive FX market instability.

The central bank continues to have considerable ammunition to intervene through direct spot USD sales, the auction of FX credit lines and/or FX swaps. But we still believe that the relatively cheap cost of hedging (due to the relatively low interest rate differential vs the USD) along with exacerbated political risks has made the BRL vulnerable. As a result, despite the existence of considerable ammunition to intervene (eg, at least about USD 80bn in FX swaps), we suspect the current monetary policy guidance underestimates the eventual need to tighten the SELIC rate a bit sooner than expected, in large part to support of the BRL.

> *Even though we had recently adjusted our BRL forecast path to incorporate a weaker path for the currency ahead of the October elections, reaching an average of 3.70 during 3Q, that trajectory now seems conservative.*

We continue to expect the BRL sell-off to be orderly, thanks in large part to more aggressive FX intervention by the central bank and robust external trade inflows, but should current electoral trends consolidate over the next couple of months, demand for hedge should intensify while asset prices should gradually incorporate a high likelihood of stress scenarios, with the BRL weakening towards all-time highs, near 4.0.