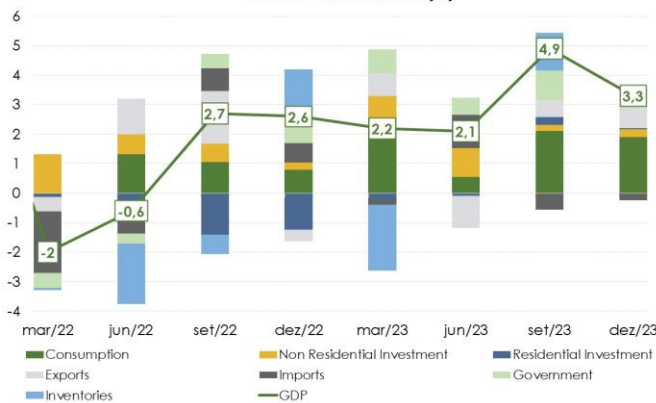


We expect the Selic rate to end the year at 8.75%

Highlights

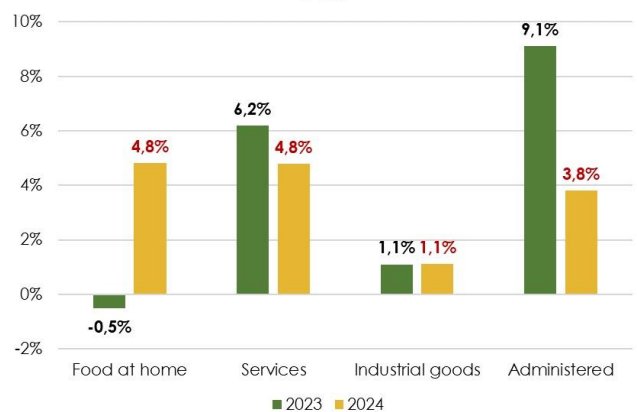
- **The evolution of the data suggests that the magnitude of the Selic rate cuts should remain at 50 points.** Despite the fall in agricultural commodity prices, other vectors have brought inflationary pressure since the last Central Bank meeting - especially the depreciation of the exchange rate. The benign outlook, however, remains unchanged. Expectations for the IPCA over the next few quarters have fallen, according to the Focus survey, and the real should be favored this semester (i) by the robust trade balance, (ii) by the still high-interest rate differential and (iii) by the expected weakening of the dollar, with the start of monetary easing in the US.
- **Therefore, we continue to project a terminal interest rate of 8.75%, with a downward bias on our 2024 inflation estimate (revised from 3.8% to 3.7%).** However, we believe that, in the short term, the Central Bank should maintain its more cautious tone, given that underlying services inflation has ceased to bring bearish surprises and the external scenario is still uncertain. At the moment, in addition to the geopolitical conflicts already present in December, the cost of freight has become a threat to global trade chains due to tensions in the Red Sea - the deviation in maritime transport could cause some disruption to the ongoing disinflationary dynamics of goods.
- **Treasuries, on the other hand, continued to cool due to the prospect of US inflation settling down, along with the resilience of activity.** This week's highlight was the release of US GDP for the fourth quarter (3.3% QoQ, vs. estimates of 2.0%). The indicator showed consumption was still hot, reflecting the strength of the labor market, but the core PCE was in line with expectations, rising 2.0% QoQ in the period. In addition, the FOMC is expected to signal a reduction in its Quantitative Tightening next week. Thus, our scenario for the start of Fed Funds cuts in May remains mostly likely - which tends to favor risk-on in the coming months.
- **Domestically, the downward surprise of the January IPCA-15 (0.31% MoM vs. estimates of 0.47%) should be highlighted, which should push inflation expectations even lower.** Although underlying services remained at the same level as in the last release, in the seasonally adjusted metric, there was a significant drop in the average of the cores due to the more intense deflation in fares (-15.2% MoM). In addition, vehicle plates and licenses (-0.11% MoM) was the main driver of our revision for the year. So, even with political noise on the radar and fiscal risks still present (especially considering the signals coming from the new industrial policy announced), the outlook remains predominantly positive for domestic prices.

US GDP Contributions (%)



Source: BEA, Buysidebrazil

IPCA



Source: IBGE, Buysidebrazil



Economic Calendar

» The main highlights of the week will be the **monetary policy decisions** here and abroad. But assets are also likely to be heavily impacted by **US labor market data**, with **Payroll** being the most relevant on Friday, given the resilience of the US economy reflected in the latest indicators.

» In addition, there will be December results from **domestic activity** - such as the unemployment rate (**PNAD Continuous**) and the Monthly Industry Survey (**PIM**). The domestic economy is more likely to remain accommodative, albeit at a moderate pace.

Calendar

| Date | Country | Event | Period | Survey | Prior |
|----------------------------|-----------------|--|----------------|----------------|---------------|
| 1/29/2024 Monday | | | | | |
| 8:00 AM | Brazil | Industry Confidence | Jan | - | 95.3 |
| 11:00 AM | Brazil | Central Govt Budget Balance | Dec | | -39.4b |
| 11:30 AM | USA | Dallas Fed Manf. Activity | Jan | - | -9.3 |
| 3:00 PM | Brazil | Trade Balance Weekly | - | - | \$1013m |
| 1/30/2024 Tuesday | | | | | |
| 7:00 AM | Eurozone | Economic Confidence | Jan | 96.3 | 96.4 |
| 7:00 AM | Eurozone | GDP (QoQ) | 4Q A | -0.1% | -0.1% |
| 8:00 AM | Brazil | Services Confidence | Jan | - | 92.0 |
| 8:00 AM | Brazil | Commerce Confidence | Jan | - | 86.7 |
| 8:00 AM | Brazil | FGV Inflation IGP-M MoM | Jan | 0.34% | 0.74% |
| 8:25 AM | Brazil | Focus (Central Bank Weekly Economist Survey) | - | - | - |
| 11:00 AM | USA | House Price Index (MoM) | Nov | 0.40% | 0.64% |
| 12:00 PM | USA | Conf. Board Consumer Confidence | Jan | 113.0 | 110.7 |
| 12:00 PM | USA | JOLTs Job Openings | Dec | 8700k | 8790k |
| 12:30 PM | USA | Texas Services Sector Outlook | Jan | - | -8.7 |
| 10:30 PM | China | PMI | Jan | | |
| | | Manufacturing | | 49.2 | 49.0 |
| | | Non-manufacturing | | 50.6 | 50.4 |
| | | Composite | | - | 50.3 |
| 1/31/2024 Wednesday | | | | | |
| 9:00 AM | Brazil | National Unemployment Rate | Dec | 7.6% | 7.5% |
| 10:15 AM | USA | ADP Employment Change | Jan | 143k | 164k |
| 10:30 AM | USA | Employment Cost Index | 4Q | 1.0% | 1.1% |
| 4:00 PM | USA | FOMC Rate Decision | - | 5.50% | 5.50% |
| 4:30 PM | USA | J. Powell Speech | - | - | - |
| 6:30 PM | Brazil | Selic Rate | - | 11.25% | 11.75% |
| 10:45 PM | China | Caixin Manufacturing PMI | Jan | 50.9 | 50.8 |
| 2/1/2024 Thursday | | | | | |
| 6:00 AM | Eurozone | Manufacturing PMI | Jan (F) | 46.6 | 46.6 |
| 7:00 AM | Eurozone | CPI MoM | Jan (P) | -0.4% | 0.2% |
| 7:00 AM | Eurozone | Unemployment Rate | Dec | 6.4% | 6.4% |
| 9:00 AM | UK | Bank of England Bank Rate | - | 5.25% | 5.25% |
| 10:30 AM | USA | Nonfarm Productivity | 4Q P | 2.1% | 5.2% |
| 10:30 AM | USA | Unit Labor Costs | 4Q P | 1.8% | -1.2% |
| 10:30 AM | USA | Initial Jobless Claims | - | 210k | 214k |
| 11:45 AM | USA | Manufacturing PMI | Jan (F) | - | 50.3 |
| 12:00 PM | USA | ISM Manufacturing | Jan | 47.3 | 47.4 |
| 2/2/2024 Friday | | | | | |
| 5:00 AM | Brazil | FIPE CPI MoM | Jan | - | 0.38% |
| 9:00 AM | Brazil | Industrial Production | Dec | - | 0.5% |
| 10:30 AM | USA | Nonfarm Payrolls | Jan | 178k | 216k |
| 10:30 AM | USA | Unemployment Rate | Jan | 3.8% | 3.7% |
| 10:30 AM | USA | Average Hourly Earnings MoM | Jan | 0.3% | 0.4% |
| 12:00 PM | USA | Conf. Board Consumer Confidence | Jan (F) | 78.8 | 78.8 |
| 12:00 PM | USA | Factory Orders (MoM) | Dec | 0.3% | 2.6% |
| TBA | | | | | |
| | Brazil | Formal Job Creation Total | Dec | -370000 | 130097 |

| MACROECONOMIC FORECASTS | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|--|-------|--------|-------|-------|--------|-------|
| GDP (%) | 1,2 | -3,3 | 4,8 | 3,0 | 2,9 | 1,6 |
| Unemployment rate (average, %) | 12,0 | 13,8 | 13,2 | 9,3 | 8,0 | 8,1 |
| IPCA (CPI, %) | 4,3 | 4,5 | 10,1 | 5,8 | 4,6 | 3,7 |
| Selic Rate (eop, %) | 4,50 | 2,00 | 9,25 | 13,75 | 11,75 | 8,75 |
| USDBRL (eop) | 4.03 | 5.20 | 5.58 | 5.22 | 4.86 | 4.80 |
| Current Account Balance (USD bn) | -65,0 | -28,2 | -46,4 | 53,6 | -29,4 | -36,1 |
| Current Account Balance (% GDP) | -3,5 | -1,9 | -2,8 | -2,8 | -1,5 | -1,3 |
| Trade Balance - BCB (USD bn) | 26,5 | 32,4 | 36,4 | 44,2 | 81,2 | 82,0 |
| Foreign Direct Investment (USD bn) | 69,2 | 37,8 | 46,4 | 87,2 | 58,7 | 65,0 |
| Foreign Direct Investment (% GDP) | 3,7 | 2,6 | 2,8 | 4,5 | 3,0 | 3,3 |
| Central Government Primary Result (BRL bn) | -95,1 | -743,3 | -35,1 | 54,1 | -216,9 | -70,2 |
| Central Government Primary Result (%GDP) | -1,3 | -9,8 | -0,4 | 0,5 | -2,0 | -0,6 |
| Public Sector Primary Result (BRL bn) | -61,9 | -703,0 | 64,7 | 126,0 | -236,9 | -61,7 |
| Public Sector Primary Result (% GDP) | -0,8 | -9,2 | 0,7 | 1,3 | -2,2 | -0,5 |
| Gross Public Debt (% GDP) | 74,4 | 86,9 | 77,3 | 71,7 | 73,9 | 76,5 |

OUR TEAM

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