

## Copom Minutes Confirmed Our Forecast for the Selic Rate, but Impacts from RS Altered Our Growth and Inflation Projections

### Highlight

- » **In the minutes, the Central Bank’s more hawkish tone eased the risk aversion seen last week when Copom made a significant dissension decision to cut rates by 25 basis points.** This divergence was justified by the forward guidance from the previous decision, which anticipated another cut of the same magnitude (0.5pp) this month. The members who voted for a 50 basis point cut did so to keep the institution’s reputation and communication. However, they acknowledged that the baseline scenario has changed since the last meeting, and the committee unanimously expressed concern about the external environment and the resilience of domestic economic activity. While reiterating that there is no mechanical relationship between U.S. and domestic monetary policies, they clarified that the market’s repricing of the Fed’s rate-cutting cycle impacts the domestic curve. Internally, attention to the unanchoring of expectations, which prevents meeting the inflation target – supports the technical argument for dissent. Thus, we understand that this alignment indicates there will be another 0.25pp cut in the next decision, even though the guidance was removed, confirming our expectations.
- » **As for the 2024 GDP, we reduced our projection from 2.1% to 1.9% following the atypical rains in Rio Grande do Sul.** The economic effects of the floods are expected to concentrate mainly on the agricultural sector, manufacturing industry, and a significant part of services – those provided to families, linked to retail and transportation. The latter, in turn, is likely to have a more lasting impact, especially considering the logistics related to winter harvests, whose volume will be affected by soil conditions in the region. Accordingly, we also raised our projection for food at home, from 3.8% to 4.6% this year. The revision focused mainly on rice and fresh produce prices. Although there is no shortage of rice, the waterlogged soil is expected to harm the next crop, which may keep prices under pressure. Thus, our expectation of 3.8% for this year’s IPCA was maintained, as we removed a gasoline price hike from the baseline scenario, offsetting this upward effect. For growth, our calibration already includes efforts for family recovery and direct government transfers, which should boost the construction sector and commerce in Rio Grande do Sul in the coming months.
- » **Finally, highlight the recent U.S. data showing a slowdown in activity and contributing to the perspective of inflation converging to the target. Retail sales were flat in April, while the market consensus expected a 0.4% increase.** Although the breakdown of food services and drinking places showed recovery, the downward revisions in previous months and weaker vehicle and nonstore retailers’ sales numbers softened the interpretation of an overheating economy. Last month’s CPI rose 0.3% MoM, surprising the median expectation of 0.4%. There was a cooling in services (excluding food and energy), which dropped from 0.52% to 0.41% MoM, and in the supercore of services, which excludes housing (from 0.65% to 0.42% MoM). Additionally, industrial production results corroborated a benign dynamic for goods. Thus, a rate cut in the U.S. became more probable, as indicated by assets – both the DXY and Treasuries declined in recent days. However, our expectation remains conditioned on the data in the coming months, which will indicate whether this trend will be confirmed. For now, we continue to foresee unchanged Fed Funds in 2024.

PMS



US - CPI YoY



Source: IBGE, Bloomberg, Buysidebrazil.



## Economic Calendar

» Resuming the Central Bank's internal agenda, we will have the release of the **External Sector Note for April**. We expect a current account deficit of \$1.7 billion for the month, with emphasis on the robust performance of the goods trade balance.

» **Abroad**, highlight the FOMC minutes in the U.S., as well as the preliminary PMIs. And, despite a lighter economic calendar, many speeches will be made by Fed officials – which tends to impact prices in the current context of monetary tightening.

Date	Country	Event	Period	Survey	Prior
<b>5/20/2024 Monday</b>					
8:00 AM	Brazil	IGP-M (MoM)	May	-	-
8:25 AM	Brazil	Focus (Central Bank Weekly Economist Survey)	-	-	-
9:45 AM	USA	R. Bostic Speech	-	-	-
10:00 AM	USA	S. Barr Speech	-	-	-
3:00 PM	Brazil	Trade Balance Weekly	-	-	\$1738m
8:00 PM	USA	R. Bostic Speech	-	-	-
<b>5/21/2024 Tuesday</b>					
6:00 AM	Eurozone	Trade Balance	Mar	20.0b	17.9b
9:30 AM	USA	Services Confidence	May	-	-12.4
10:00 AM	USA	Speech T. Barkin (Fed Richmond)	-	-	-
10:00 AM	USA	J. Waller Speech	-	-	-
10:05 AM	USA	Speech J. Williams (Fed New York)	-	-	-
10:10 AM	USA	R. Bostic Speech	-	-	-
8:00 PM	USA	R. Bostic Speech	-	-	-
<b>5/22/2024 Wednesday</b>					
11:00 AM	USA	Existing Home Sales (MoM)	Apr	0.5%	-4.3%
2:30 PM	Brazil	Foreign Exchange Flow Weekly	-	-	-
<b>3:00 PM</b>	<b>USA</b>	<b>FOMC Meeting Minutes</b>	-	-	-
<b>5/23/2024 Thursday</b>					
<b>5:00 AM</b>	<b>Eurozone</b>	<b>PMI</b>	<b>May (P)</b>		
		<b>Manufacturing</b>		<b>46.1</b>	<b>45.7</b>
		<b>Services</b>		<b>53.6</b>	<b>53.3</b>
		<b>Composite</b>		<b>52.0</b>	<b>51.7</b>
9:30 AM	USA	Initial Jobless Claims	-	220k	222k
9:30 AM	USA	Chicago Fed Nat Activity Index	Apr	-	0.15
<b>10:45 AM</b>	<b>USA</b>	<b>PMI</b>	<b>May (P)</b>		
		<b>Manufacturing</b>		<b>50.1</b>	<b>50.0</b>
		<b>Services</b>		<b>51.5</b>	<b>51.3</b>
		<b>Composite</b>		<b>-</b>	<b>51.3</b>
11:00 AM	USA	New Homes Sales (MoM)	Apr	-2.6%	8.8%
11:00 AM	Eurozone	Conf. Board Consumer Confidence	May (P)	-14.3	-14.7
12:00 PM	USA	Manufacturing Confidence	May	-7	-8
4:00 PM	USA	R. Bostic Speech	-	-	-
<b>5/24/2024 Friday</b>					
8:00 AM	Brazil	Consumer Confidence	May	-	93.2
<b>8:30 AM</b>	<b>Brazil</b>	<b>Current Account</b>	<b>Apr</b>	<b>-</b>	<b>-\$4579m</b>
<b>8:30 AM</b>	<b>Brazil</b>	<b>Foreign direct investment</b>	<b>Apr</b>	<b>-</b>	<b>\$9591m</b>
9:30 AM	USA	Durable Goods Orders	Apr (P)	-0.6%	2.6%
11:00 AM	USA	Conf. Board Consumer Confidence	May (F)	67.6	67.4
12:00 PM	USA	Kansas City Fed Services Activity	May	-	9
<b>TBA</b>					
-	<b>Brazil</b>	<b>Tax Collections</b>	<b>Apr</b>	<b>228878m</b>	<b>190611m</b>



## Macroeconomic projections

	2019	2020	2021	2022	2023	2024	2025
GDP (%)	1,2	-3,3	4,8	3,0	2,9	<b>1,9</b>	<b>2,0</b>
Unemployment Rate (average, %)	12,0	13,8	13,2	9,3	8,0	<b>7,6</b>	<b>7,8</b>
IPCA (Consumer Price Index) (%)	4,3	4,5	10,1	5,8	4,6	<b>3,8</b>	<b>3,5</b>
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	<b>10,25</b>	<b>9,25</b>
Exchange Rate (end of period, R\$/US\$)	4,03	5,20	5,58	5,22	4,86	<b>5,20</b>	<b>5,10</b>
Current Account Transactions (US\$ billion)	-68,0	-28,2	-46,4	-53,6	-28,6	<b>-36,0</b>	<b>-24,6</b>
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	<b>-1,9</b>	<b>-1,2</b>
Trade Balance - BCB (US\$ billion)	26,5	32,4	36,4	44,2	80,5	<b>78,0</b>	<b>84,1</b>
Foreign Direct Investment (US\$ billion)	69,2	37,8	46,4	87,2	62,0	<b>68,0</b>	<b>72,0</b>
Foreign Direct Investment (% of GDP)	3,7	2,6	2,8	4,5	2,8	<b>3,5</b>	<b>3,6</b>
Primary Result of the Central Government (R\$ billion)	-95,1	-743,3	-35,1	54,1	-249,1	<b>-61,9</b>	<b>-90,5</b>
Primary Result of the Central Government (% of GDP)	-1,3	-9,8	-0,4	0,5	-2,3	<b>-0,5</b>	<b>-0,7</b>
Primary Result of the Public Sector (R\$ billion)	-61,9	-703,0	64,7	126,0	-249,1	<b>-53,4</b>	<b>-70,5</b>
Primary Result of the Public Sector (% of GDP)	-0,8	-9,2	0,7	1,3	-2,3	<b>-0,5</b>	<b>-0,6</b>
Gross Public Debt (% of GDP)	74,4	86,9	77,3	71,7	74,3	<b>77,1</b>	<b>79,7</b>

## Our team

Andrea Bastos Damico  
Mirella Hirakawa  
Gustavo Rostelato  
Thaís Rodrigues  
Rita Milani  
Ítalo Faviano  
Rafaela de Sousa  
Adam Tasca  
Pedro Tempel  
Adam Mountout

Chief economist and CEO  
Coordinating Economist and Partner  
Economist and partner  
Economist and partner  
Economist  
Economist  
Economist  
Macroeconomic analyst  
Intern  
Management sales

[andrea@buysidebrazil.com](mailto:andrea@buysidebrazil.com)  
[mirella@buysidebrazil.com](mailto:mirella@buysidebrazil.com)  
[gustavo@buysidebrazil.com](mailto:gustavo@buysidebrazil.com)  
[thais@buysidebrazil.com](mailto:thais@buysidebrazil.com)  
[rita@buysidebrazil.com](mailto:rita@buysidebrazil.com)  
[italo@buysidebrazil.com](mailto:italo@buysidebrazil.com)  
[rafaela@buysidebrazil.com](mailto:rafaela@buysidebrazil.com)  
[adamtasca@buysidebrazil.com](mailto:adamtasca@buysidebrazil.com)  
[pedro@buysidebrazil.com](mailto:pedro@buysidebrazil.com)  
[adam@buysidebrazil.com](mailto:adam@buysidebrazil.com)

