

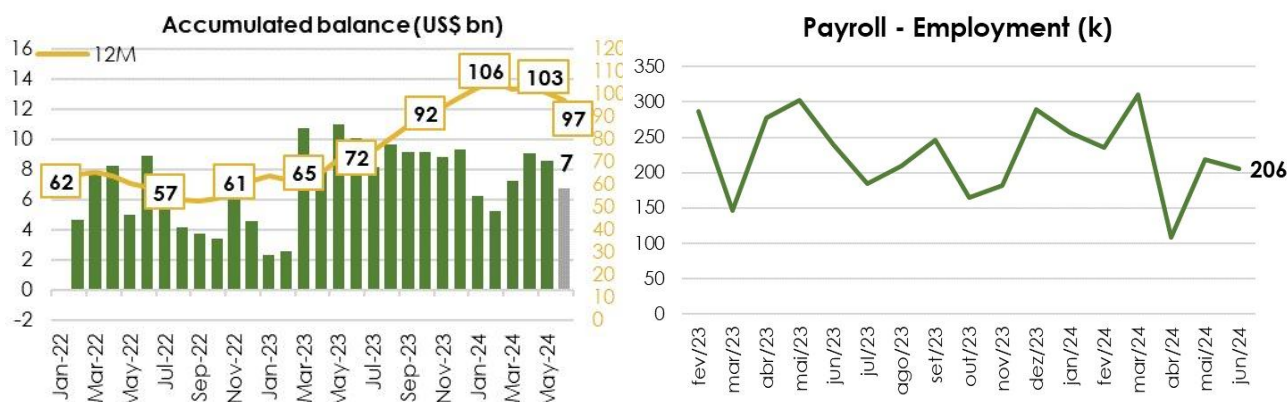
Spending cuts announcement for 2025 partially alleviates fiscal concerns

Highlights

» In a week marked by the exchange rate reaching highs close to R\$ 5.70, President Lula's approval of the reduction in expenditures for the next year was well received by the market. So far, the reduction of R\$ 25.9 billion in mandatory spending in 2025 will be achieved through a "fine-tooth comb" approach to government spending on social benefits, eliminating payments that have been made erroneously. Although the announcement was positive in terms of minimizing noise and reinforcing fiscal responsibility, the disclosed amount is understood as a floor, and new spending adjustment measures will be necessary to comply with the framework, especially regarding constitutional floors and social security benefits. For 2024, expectations are focused on the announcement of spending contingencies in the next bi-monthly revenue and expenditure report, to be released on July 22. After a meeting with President Lula, Finance Minister Fernando Haddad emphasized that the current goal of the economic team is to preserve the fiscal target at any cost, not only for the current year but also for future years. Thus, the government reinforced its commitment to zero the public accounts deficit, regardless of the amount needed to be cut to achieve it, leaving no room for potential changes to the current fiscal regime.

» On the economic data side, the June trade balance result positively surprised expectations. The surplus of US\$ 6.7 billion came in above the market's expected US\$ 5.5 billion, with the marginal decline in exports being more moderate than expected. In the first half of the year, the trade balance accumulated US\$ 42 billion, slightly below the figure recorded in 2023, but with a notable continuous increase in the quantum of imports in recent months. Thus, combined with the cooling of exports, the data reinforce that the physical trade balance contribution will have less impact on the structural exchange rate, aligned with our scenario of the BRL at R\$ 5.40 by the end of the year.

» On the international scenario, job creation in the United States slowed in June, although remaining at a high level. Payroll registered the creation of 206,000 new jobs, above the market median expectation of 190,000. The marginal deceleration was accompanied by downward revisions of previous data, with a decrease of 111,000 jobs over the last two months. The result contributes to the view of a slowdown in U.S. economic activity, in line with the results of the ADP and ISM services, despite the JOLTS upside surprise during the week. In terms of monetary policy, FED members recognized in the FOMC minutes the short-term worsening of employment data but foresee a slowdown in wage growth, which would be beneficial for service inflation. Thus, the committee should remain cautious about the start of interest rate easing until the disinflation process is confirmed.



Source: MDIC, BLS, Buysidebrazil



Economic Calendar

» In Brazil, the highlight of the week will be the release of the **final IPCA for June**, which we project will rise by **0.28% MoM**. Additionally, the monthly **Retail Sales and Services Volume** for May will be published.

» **Internationally**, the highlight will be the release of **June inflation data in the United States**, both at the retail and wholesale levels. In China, besides price data, the monthly trade balance for June will also be released.

Date	Country	Event	Period	Survey	Prior
7/8/2024	Monday				
8:00 AM	Brazil	FGV Inflation IGP-DI MoM	Jun	0.64%	0.87%
8:25 AM	Brazil	Focus (Central Bank Weekly Economist Survey)	-	-	-
3:00 PM	Brazil	Trade Balance Weekly	-	-	\$756m
4:00 PM	USA	Consumer Credit	May	\$11.000b	\$6.403b
7/9/2024	Tuesday				
7:00 AM	USA	NFIB Small Business Optimism	Jun	89.0	90.5
11:00 AM	USA	J. Powell Speech	-	-	-
10:30 PM	China	PPI (YoY)	Jun	-0.8%	-1.4%
10:30 PM	China	CPI (YoY)	Jun	0.4%	0.3%
7/10/2024	Wednesday				
8:00 AM	Brazil	IGP-M (MoM)	Jul	-	-
9:00 AM	Brazil	IBGE Inflation IPCA MoM	Jun	0.31%	0.46%
2:30 PM	Brazil	IC-Br (MoM)	Jun	-	-0.85%
2:30 PM	Brazil	Foreign Exchange Flow Weekly	-	-	-
3:30 PM	USA	Speech A. Goolsbee	-	-	-
7/11/2024	Thursday				
9:00 AM	Brazil	Retail Sales (MoM)	May	-	0.9%
9:00 AM	Brazil	Retail Sales Broad (MoM)	May	-	-1.0%
9:30 AM	USA	CPI (MoM)	Jun	0.1%	0.0%
9:30 AM	USA	CPI Core (MoM)	Jun	0.2%	0.2%
9:30 AM	USA	Initial Jobless Claims	-	-	238k
12:30 PM	USA	R. Bostic Speech	-	-	-
2:00 PM	USA	A. Musalem Speech	-	-	-
3:00 PM	USA	Monthly Budget Statement	Jun	-	-\$347.1b
7/12/2024	Friday				
9:00 AM	Brazil	IBGE Services Volume (MoM)	May	-	0.5%
9:30 AM	USA	PPI (MoM)	Jun	0.1%	-0.2%
9:30 AM	USA	PPI: Core (MoM)		0.1%	0.0%
11:00 AM	USA	Conf. Board Consumer Confidence	Jul (P)	67.0	68.2
11:00 AM	USA	U. of Mich. 1 Yr Inflation	Jul (P)	-	3.0%
11:00 AM	USA	U. of Mich. 5-10 Yr Inflation	Jul (P)	-	3.0%
-	China	Trade Balance Monthly	Jun	\$85.05b	\$82.62b



Macroeconomic projections

	2019	2020	2021	2022	2023	2024	2025
GDP (%)	1,2	-3,3	4,8	3,0	2,9	1,9	2,0
Unemployment Rate (average, %)	12,0	13,8	13,2	9,3	8,0	7,6	7,8
IPCA (Consumer Price Index) (%)	4,3	4,5	10,1	5,8	4,6	4,1	3,7
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	10,50	10,00
Exchange Rate (end of period, R\$/US\$)	4,03	5,20	5,58	5,22	4,86	5,40	5,30
Current Account Transactions (US\$ billion)	-68,0	-28,2	-46,4	-53,6	-28,6	-46,5	-47,5
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	-2,0	-2,0
Trade Balance - BCB (US\$ billion)	26,5	32,4	36,4	44,2	80,5	69,0	65,7
Foreign Direct Investment (US\$ billion)	69,2	37,8	46,4	87,2	62,0	71,5	73,0
Foreign Direct Investment (% of GDP)	3,7	2,6	2,8	4,5	2,8	3,1	3,1
Primary Result of the Central Government (R\$ billion)	-95,1	-743,3	-35,1	54,1	-249,1	-61,9	-90,5
Primary Result of the Central Government (% of GDP)	-1,3	-9,8	-0,4	0,5	-2,3	-0,5	-0,7
Primary Result of the Public Sector (R\$ billion)	-61,9	-703,0	64,7	126,0	-249,1	-53,4	-70,5
Primary Result of the Public Sector (% of GDP)	-0,8	-9,2	0,7	1,3	-2,3	-0,5	-0,6
Gross Public Debt (% of GDP)	74,4	86,9	77,3	71,7	74,3	77,1	79,7

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