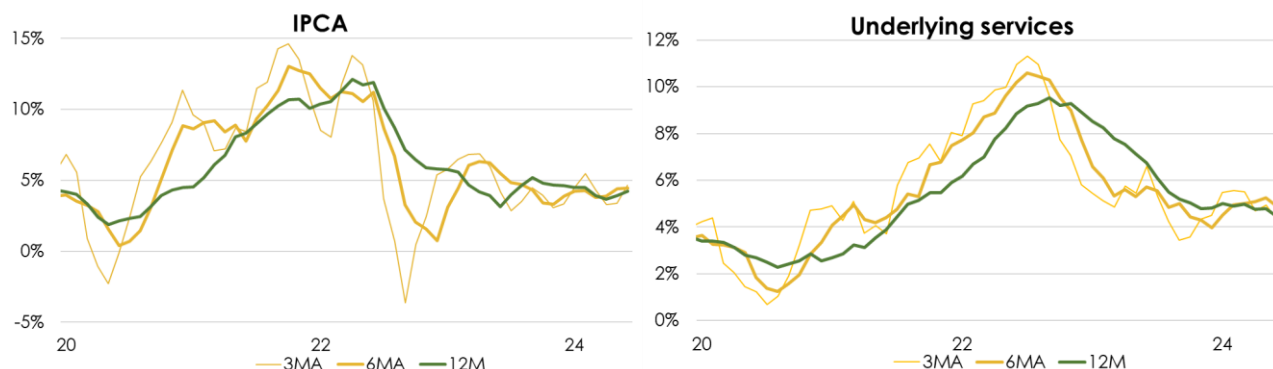


Effects of the Rio Grande do Sul rains lose strength in inflation and activity data

Highlights

- **June data shows the current inflation trajectory is more positive, although underlying services remain high.** The final IPCA registered a 0.21% MoM increase, below our forecast (0.28%) and the market median (0.32%). Compared to our figure, the main downward influence was concentrated in food at home, with fresh products dissipating more rapidly from the shocks caused by the rains in Rio Grande do Sul. Conversely, the reversal of gasoline deflation seen in the last IPCA-15 boosted regulated price changes in a week marked by Petrobras' adjustment of R\$0.20 per liter of fuel and a 9.8% increase in bottled gas prices. Incorporating the readjustment, the impact on our short-term forecasts would be around 20 bps – already considering indirect influences on other items – although the downward surprise in food inflation helps to offset the effect on upcoming headlines. In the underlying services metric, the modest marginal cooling reinforces the view of a slower disinflation process, corroborating our scenario of keeping the current interest rate level until the end of 2024.
- **In economic activity, the effect of donations more than compensates for the declines in Rio Grande do Sul trade.** The restricted PMC advanced 1.2% MoM in May, while the broad reading increased 0.8% MoM, both above market expectations. Hypermarkets and supermarket sales were the main drivers of the increase, consistent with the national mobilization to collect basic needs items for the state. Thus, in conjunction with the stability of the PMS in May against expectations of a 0.8% MoM decline, the lesser impact of floods in the south of the country places an upward bias on Brazilian consumption in the short term, with economic activity remaining resilient.
- **Finally, on the international front, more constructive US inflation data increase the likelihood of Fed Funds rate cuts as early as September.** The June CPI registered a 0.1% MoM deflation, with cores running at 0.06% MoM and the continued cooling in services. In this release, the highlight was the deceleration of Shelter, along with a further marginal drop in airline tickets. On the wholesale side, the upward surprise in the PPI headline (0.2% MoM; est 0.1%) was offset by a more positive composition, with a one-time pressure on Trade Services while goods remained in deflationary territory. Overall, both data align with the more optimistic speeches of FED President Jerome Powell throughout the week, emphasizing the current disinflation process. At the same time, concerns about the labor market inflationary impact seem to be easing. Although the more dovish tone raises expectations of earlier cuts, for now, we keep our expectation of easing only in December.



Economic Calendar

» In Brazil, the less busy schedule will highlight the release of the **IBC-Br and GDP Monitor** activity data, while in inflation there will be **the first wholesale result for July**.

» **Internationally**, the highlights are **Retail Sales and Industrial Production** in the United States, while the June CPI will be released in the Eurozone. In the United Kingdom, the focus will be on the monetary policy decision.

| Date | Country | Event | Period | Survey | Prior |
|----------------------------|-----------------|--|----------------|--------------|--------------|
| 7/15/2024 Monday | | | | | |
| 6:00 AM | Eurozone | Industrial Production (MoM) | May | -0.8% | -0.1% |
| 8:25 AM | Brazil | Focus (Central Bank Weekly Economist Survey) | - | - | - |
| 9:00 AM | Brazil | Economic Activity (MoM) | May | - | 0.01% |
| 9:30 AM | USA | Empire Manufacturing | Jul | -8.0 | -6.0 |
| 1:00 PM | USA | J. Powell Speech | - | - | - |
| 3:00 PM | Brazil | Trade Balance Weekly | 0 | - | \$2465m |
| 5:35 PM | USA | M. Daly Speech | - | - | - |
| 7/16/2024 Tuesday | | | | | |
| 9:30 AM | USA | New York Fed Services Business Activity | Jul | - | -4.7 |
| 9:30 AM | USA | Retail Sales (MoM) | Jun | -0.2% | 0.1% |
| 10:15 AM | Brazil | GDP Monitor (FGV) | May | - | -0.1% |
| 11:00 AM | USA | NAHB Housing Market Index | Jul | 43 | 43 |
| 3:45 PM | USA | A. Kugler Speech | - | - | - |
| 7/17/2024 Wednesday | | | | | |
| 5:00 AM | Brazil | FIPE CPI (MoM) | - | - | - |
| 6:00 AM | Eurozone | CPI (MoM) | Jun (F) | 0.2% | 0.2% |
| 8:00 AM | Brazil | IGP-10 (PPI MoM) | Jul | - | 0.83% |
| 9:30 AM | USA | Housing Starts | Jun | 1300k | 1277k |
| 10:15 AM | USA | Industrial Production (MoM) | Jun | 0.3% | 0.9% |
| 3:00 PM | USA | Federal Reserve Releases Beige Book | - | - | - |
| 7/18/2024 Thursday | | | | | |
| 9:15 AM | Eurozone | ECB Mayn Refinancing Rate | - | 3.75% | 3.75% |
| 9:30 AM | USA | Initial Jobless Claims | - | - | 222k |
| 9:30 AM | USA | Philadelphia Fed Business Outlook | Jul | 2.9 | 1.3 |
| 11:00 AM | USA | Leading Index | Jun | -0.3% | -0.5% |
| 2:45 PM | USA | L. Logan Speech | - | - | - |
| 7:05 PM | USA | M. Daly Speech | - | - | - |
| 8:15 PM | USA | M. Bowman Speech | - | - | - |
| 7/19/2024 Friday | | | | | |
| 8:00 AM | Brazil | IGP-M (MoM) | Jul | - | - |
| 11:40 AM | USA | Speech J. Williams (Fed New York) | - | - | - |
| 2:00 PM | USA | R. Bostic Speech | - | - | - |



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 | 4,3 | 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 | -75,4 | -54,5 |
| Primary Result of the Central Government (% of GDP) | -1,3 | -9,8 | -0,4 | 0,5 | -2,3 | -0,5 | -0,4 |
| 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 |

Our team

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

Chief economist and CEO
 Research Coordinator and partner
 Economist and partner
 Economist and partner
 Economist
 Economist
 Economist
 Macroeconomic analyst
 Macroeconomic analyst

andrea@buysidebrazil.com
mirella@buysidebrazil.com
gustavo@buysidebrazil.com
thais@buysidebrazil.com
rita@buysidebrazil.com
italo@buysidebrazil.com
rafaela@buysidebrazil.com
adamtasca@buysidebrazil.com
pedro@buysidebrazil.com

