

## Current inflation reaccelerating with unanchored expectations in the week before the Copom monetary policy decision

### Highlights

- » **Since the last meeting, the variables observed by the Central Bank have mostly shown negative signs, especially the exchange rate.** There was an over 4% depreciation during the period, more than offsetting the increase in interest rate expectations and the fall in oil prices. Additionally, the latest IPCA-15 result, released on Thursday (25), brought an upward surprise with unfavorable composition. The 0.30% MoM increase in July (against the median of 0.22%) reflected more pressured numbers of volatile items, such as airfare and gasoline, but also underlying services, mainly voluntary vehicle insurance. For now, we keep our forecast for 2024 (4.3%), as this effect may be dissipated in the next releases and the dynamics of food at home are more benign. In any case, the Committee will have a worse current inflation input, along with the continued unanchoring of inflation expectations recorded in the Focus survey – which tends to persist in the following weeks.
- » **Therefore, we believe the Committee may adopt a slightly tougher tone in this statement while remaining data-dependent.** On the fiscal policy front, federal revenue reinforced the perception of a robust labor market, with a highlight on the revenue growth via imports, which increased 46% in real terms year-on-year. At the same time, however, the government acknowledged its frustration with revenues in the Bi-monthly Revenue and Expenditure Evaluation Report (RARDP), as the upward surprise with taxes was not enough to cover the absence of resources derived from CARF agreements – around R\$ 50 billion was expected from this source. Additionally, along with the report, there was also the announcement of spending freezes (of R\$ 15 billion) due to the increase in excess expenses this year. Even indicating the pursuit of compliance with the Fiscal Framework rules, this set of factors highlights the high uncertainty regarding public accounts, besides consumption showing no signs of weakening – which should keep the risk aversion in the internal environment.
- » **In the US, the signals remain mixed for monetary policy.** This week, the second-quarter GDP brought a positive surprise (2.8% QoQ against the consensus expectation of 2.0%, annualized), with a significant contribution from consumption, and goods advancing again. On the other hand, the upward surprise regarding this data's price level was not confirmed in the June PCE deflator release. The core advanced 0.2%, MoM, in line with expectations, indicating that the increase in the quarterly data was explained by revisions of previous results. Thus, investors will be attentive to next week's FOMC, when the Fed is expected to provide signals about its next steps. However, it is worth noting that in the last 45 days, there has been a significant cooling of the 2 and 5-year Treasuries, as well as the DXY, with the resumption of the soft landing discussion for the American economy. Even so, this external improvement did not translate into lower risk premiums in the Brazilian market, which confirms our expectation of stability for the Selic rate accompanied by hawkish signaling.

|        | Jun-24   | Today    |              |               |       |             |         |         |        |
|--------|----------|----------|--------------|---------------|-------|-------------|---------|---------|--------|
|        | IPCA BCB | IPCA BCB | Δ IPCA Focus | Δ Selic Focus | Δ BRL | Δ GDP Focus | Δ Brent | Δ Metal | Δ Agri |
| Sep-24 | 4,10     | 4,21     | 6            | 0             | 12    | 1           | -8      | -1      | 2      |
| Dec-24 | 4,00     | 4,16     | 4            | 0             | 23    | 0           | -14     | -1      | 3      |
| Mar-25 | 3,80     | 3,92     | 5            | -9            | 30    | 0           | -15     | -1      | 4      |
| Jun-25 | 3,30     | 3,50     | 7            | -6            | 36    | -2          | -18     | -1      | 4      |
| Sep-25 | 3,40     | 3,58     | 5            | -5            | 29    | -1          | -12     | -1      | 3      |
| Dec-25 | 3,40     | 3,55     | 0            | 0             | 22    | 0           | -9      | -1      | 2      |

Source: BCB, Buysidebrazil.



## Economic Calendar

» Next week, on Wednesday, we will have monetary policy decisions from six countries, including **Brazil and the United States**. Additionally, activity data will also be released, with a highlight on the **PNAD (Unemployment Rate)**, which will indicate the dynamics of the labor market and earnings.

» Abroad, in addition to Central Bank meetings, US labor market data will be released, with a focus on the **July Payroll**. In the **Eurozone**, the second-quarter GDP result will be released on Tuesday.

| Date                       | Country         | Event  | Period         | Survey        | Prior         |
|----------------------------|-----------------|--|----------------|---------------|---------------|
| <b>7/29/2024 Monday</b>    |                 |  |                |               |               |
| 8:00 AM                    | Brazil          | Industry Confidence                          | Jul            | -             | -             |
| 8:25 AM                    | Brazil          | Focus (Central Bank Weekly Economist Survey) | -              | -             | -             |
| <b>8:30 AM</b>             | <b>Brazil</b>   | <b>Budget Surplus</b>                        | <b>Jun</b>     | <b>-37.8b</b> | <b>-63.9b</b> |
| 11:30 AM                   | USA             | Dallas Fed Manf. Activity                    | Jul            | -14.2         | -15.1         |
| 3:00 PM                    | Brazil          | Trade Balance Weekly                         | -              | -             | \$1555m       |
| <b>7/30/2024 Tuesday</b>   |                 |  |                |               |               |
| 6:00 AM                    | Eurozone        | Services Confidence                          | Jul            | 5.9           | 6.5           |
| 6:00 AM                    | Eurozone        | Industrial Confidence                        | Jul            | -10.9         | -10.1         |
| 6:00 AM                    | Eurozone        | Economic Confidence                          | Jul            | 95.3          | 95.9          |
| <b>6:00 AM</b>             | <b>Eurozone</b> | <b>GDP (QoQ)</b>                             | <b>2Q (A)</b>  | <b>0.2%</b>   | <b>0.3%</b>   |
| 8:00 AM                    | Brazil          | FGV Inflation IGP-M MoM                      | Jul            | -             | 0.81%         |
| 8:00 AM                    | Brazil          | Services Confidence                          | Jul            | -             | -             |
| 8:00 AM                    | Brazil          | Commerce Confidence                          | Jul            | -             | -             |
| 10:00 AM                   | USA             | House Price Index (MoM)                      | Mai            | -             | 0.38%         |
| <b>11:00 AM</b>            | <b>USA</b>      | <b>JOLTs Job Openings</b>                    | <b>Jun</b>     | <b>-</b>      | <b>8140k</b>  |
| 11:00 AM                   | USA             | Conf. Board Consumer Confidence              | Jul            | 99.7          | 100.4         |
| 11:30 AM                   | USA             | Texas Services Sector Outlook                | Jul            | -             | -4.1          |
| <b>10:30 PM</b>            | <b>China</b>    | <b>PMI</b>                                   | <b>Jul</b>     | <b>-</b>      | <b>50.5</b>   |
| -                          | -               | <b>Composite</b>                             | -              | <b>-</b>      | <b>50.5</b>   |
| -                          | -               | <b>Manufacturing</b>                         | -              | <b>49.3</b>   | <b>49.5</b>   |
| -                          | -               | <b>Services</b>                              | -              | <b>50.2</b>   | <b>50.5</b>   |
| -                          | <b>Brazil</b>   | <b>Formal Job Creation Total</b>             | <b>Jun</b>     | <b>165000</b> | <b>131811</b> |
| <b>7/31/2024 Wednesday</b> |                 |  |                |               |               |
| <b>1:00 AM</b>             | <b>Japan</b>    | <b>BOJ Target Rate</b>                       | <b>-</b>       | <b>0.10%</b>  | <b>0.10%</b>  |
| <b>6:00 AM</b>             | <b>Eurozone</b> | <b>CPI MoM</b>                               | <b>Jul (P)</b> | <b>-0.1%</b>  | <b>0.2%</b>   |
| <b>9:00 AM</b>             | <b>Brazil</b>   | <b>National Unemployment Rate</b>            | <b>Jun</b>     | <b>6.9%</b>   | <b>7.1%</b>   |
| <b>9:15 AM</b>             | <b>USA</b>      | <b>ADP Employment Change</b>                 | <b>Jul</b>     | <b>168k</b>   | <b>150k</b>   |
| 10:15 AM                   | Brazil          | #N/D   | Jul            | -             | 110.6         |
| 2:30 PM                    | Brazil          | Foreign Exchange Flow Weekly                 | -              | -             | -             |
| <b>3:00 PM</b>             | <b>USA</b>      | <b>FOMC Rate Decision</b>                    | <b>-</b>       | <b>5.50%</b>  | <b>5.50%</b>  |
| 3:30 PM                    | USA             | J. Powell Speech                             | -              | -             | -             |
| <b>6:30 PM</b>             | <b>Brazil</b>   | <b>Selic Rate</b>                            | <b>-</b>       | <b>10.50%</b> | <b>10.50%</b> |
| <b>10:45 PM</b>            | <b>China</b>    | <b>Manufacturing PMI</b>                     | <b>Jul</b>     | <b>51.5</b>   | <b>51.8</b>   |
| <b>8/1/2024 Thursday</b>   |                 |  |                |               |               |
| 5:00 AM                    | Eurozone        | Manufacturing PMI                            | Jul (F)        | 45.6          | 45.6          |
| <b>6:00 AM</b>             | <b>Eurozone</b> | <b>Unemployment Rate</b>                     | <b>Jun</b>     | <b>6.4%</b>   | <b>6.4%</b>   |
| 8:00 AM                    | UK              | Bank of England Bank Rate                    | -              | <b>5.0%</b>   | <b>5.25%</b>  |
| 9:30 AM                    | USA             | Nonfarm Productivity                         | 2Q P           | 1.6%          | 0.2%          |
| 9:30 AM                    | USA             | Initial Jobless Claims                       | -              | -             | 235k          |
| 10:45 AM                   | USA             | Manufacturing PMI                            | Jul (F)        | -             | 49.5          |
| 11:00 AM                   | USA             | Construction Spending (MoM)                  | Jun            | 0.2%          | -0.1%         |
| <b>11:00 AM</b>            | <b>USA</b>      | <b>ISM Manufacturing</b>                     | <b>Jul</b>     | <b>49.0</b>   | <b>48.5</b>   |
| <b>8/2/2024 Friday</b>     |                 |  |                |               |               |
| <b>9:00 AM</b>             | <b>Brazil</b>   | <b>Industrial Production</b>                 | <b>Jun</b>     | <b>2.5%</b>   | <b>-0.9%</b>  |
| <b>9:30 AM</b>             | <b>USA</b>      | <b>Nonfarm Payrolls</b>                      | <b>Jul</b>     | <b>175k</b>   | <b>206k</b>   |
| <b>9:30 AM</b>             | <b>USA</b>      | <b>Unemployment Rate</b>                     | <b>Jul</b>     | <b>4.1%</b>   | <b>4.1%</b>   |
| 9:30 AM                    | USA             | Average Hourly Earnings MoM                  | Jul            | 0.3%          | 0.3%          |
| 11:00 AM                   | USA             | Factory Orders (MoM)                         | Jun            | 0.5%          | -0.5%         |



## Macroeconomic projections

|  | 2019  | 2020   | 2021  | 2022  | 2023   | 2024         | 2025         |
|--|-------|--------|-------|-------|--------|--------------|--------------|
| GDP (%)  | 1,2   | -3,3   | 4,8   | 3,0   | 2,9    | <b>2,1</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>4,3</b>   | <b>3,7</b>   |
| Selic Rate (end of period, %)                          | 4,50  | 2,00   | 9,25  | 13,75 | 11,75  | <b>10,50</b> | <b>10,00</b> |
| Exchange Rate (end of period, R\$/US\$)                | 4,03  | 5,20   | 5,58  | 5,22  | 4,86   | <b>5,40</b>  | <b>5,30</b>  |
| Current Account Transactions (US\$ billion)            | -68,0 | -28,2  | -46,4 | -53,6 | -28,6  | <b>-46,5</b> | <b>-47,5</b> |
| Current Account Transactions (% of GDP)                | -3,6  | -1,7   | -2,9  | -2,8  | -1,4   | <b>-2,0</b>  | <b>-2,0</b>  |
| Trade Balance - BCB (US\$ billion)                     | 26,5  | 32,4   | 36,4  | 44,2  | 80,5   | <b>69,0</b>  | <b>65,7</b>  |
| Foreign Direct Investment (US\$ billion)               | 69,2  | 37,8   | 46,4  | 87,2  | 62,0   | <b>71,5</b>  | <b>73,0</b>  |
| Foreign Direct Investment (% of GDP)                   | 3,7   | 2,6    | 2,8   | 4,5   | 2,8    | <b>3,1</b>   | <b>3,1</b>   |
| Primary Result of the Central Government (R\$ billion) | -95,1 | -743,3 | -35,1 | 54,1  | -249,1 | <b>-75,4</b> | <b>-54,5</b> |
| Primary Result of the Central Government (% of GDP)    | -1,3  | -9,8   | -0,4  | 0,5   | -2,3   | <b>-0,5</b>  | <b>-0,4</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

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