

Central Bank raises tone compared to the last COPOM but disappoints market expectations

Highlights

- » **The maintenance of the interest rate at 10.50% p.a. was widely expected by market institutions, with divergences concentrated on expectations of a clearer signal of a possible rate hike resumption, given the recent worsening of the domestic scenario.** In the statement, the Central Bank hardened its communication tone compared to the last COPOM in June, acknowledging the need for greater vigilance if inflationary effects due to the deterioration of market variables and inflation expectations prove permanent, especially through the FX market channel. Thus, although it recognized the increased risks with the recent exchange rate depreciation alongside the cooling of the disinflation process, the maintenance of the alternative scenario section of constant Selic was read by the market as dovish, as inflation projections in the relevant horizon, now encompassing the first quarter of 2026, would be very close to meeting the target (3.2%), not requiring an increase in the current interest rate level, even though the IPCA projections for the calendar years of 2024 and 2025 have undergone upward revisions (4.2% and 3.4%, respectively).
- » **It is important to highlight that the committee did not rule out the possibility of resuming the rate hike cycle, but by not explicitly stating this need, the reading was of a less harsh statement, generating reactions in the market.** The signal from the statement is, for now, a preference for keeping the interest rate until the end of 2025 vis-à-vis the resumption of the rate hike cycle. Thus, we maintain our expectation of keeping the current Selic level until the end of the year, with cuts resumption only in 2025. Concurrently, we expect that the meeting minutes, which will be released next Tuesday, will bring more details on the committee's perception of the current external and internal economic situation and its respective impacts on the Central Bank's base scenario.
- » **Regarding inflation, we revised our forecast for 2024 from 4.3% to 4.4%, incorporating the increase in taxation on cigarettes.** In a decree announced on August 1st, the government raised the Tax on Industrialized Products (IPI) on the item, with the "twenty units" of cigarettes moving from R\$5.00 to R\$6.50, in addition to increasing the tax rate on packs and boxes from R\$1.50 to R\$2.50. The measures will take effect starting in September and November, respectively, and are expected to put pressure on the overall IPCA change during this period. On the revenue side, we estimate that the measure will generate R\$3.1 billion in revenue for the public coffers, divided between the years 2024 and 2025, with the latter year being the most beneficial.
- » **Finally, in the United States, the July FOMC makes the prospect of rate cuts in the FED Funds in September more prevalent.** Although the decision was unanimous, the FED chairman explicitly stated in a speech that the possibility of a cut was discussed at the July meeting, but he conditioned the cut on the continued improvement of inflation and labor market data in the country. In the statement, by keeping the sections related to prices unchanged, the committee showed greater concern about the labor market, with a slowdown being necessary to consolidate members' confidence at the beginning of the easing cycle. In this same direction, the creation of 114 thousand jobs in the July Payroll, below the market expectation (175k), strengthened this narrative, along with the increase in the unemployment rate from 4.1% to 4.3%. **Thus, with a more favorable scenario for the FED, we migrated our expectation to 2 cuts in the FED Funds this year, starting in September and continuing in December.**



Economic Calendar

» Next week, the focus will be on the release of the **COPOM Minutes on Tuesday**, as well as the consolidated trade balance data and the July IPCA, for which we project a **0.32% MoM** increase.

» Abroad, highlights include the **ISM Services and PPI data for July in the US**, while in the Eurozone, the release of PPI and Retail Sales data will be in focus. In China, attention will be on the July inflation data.

Date	Country	Event	Period	Survey	Prior
8/5/2024 Monday					
5:00 AM	Eurozone	PMI Services Composite	Jul (F)	51.9 50.1	51.9 50.1
6:00 AM	Eurozone	PPI (MoM)	Jun	0.5%	-0.2%
8:25 AM	Brazil	Focus (Central Bank Weekly Economist Survey)	-	-	-
10:45 AM	USA	PMI Services Composite	Jul (F) Jul (F)	56 -	56 55
11:00 AM	USA	ISM Services Index	Jul	51.3	48.8
6:00 PM	USA	M. Daly Speech	-	-	-
8/6/2024 Tuesday					
6:00 AM	Eurozone	Retail Sales (MoM)	Jun	-0.1%	0.1%
8:00 AM	Brazil	Central Bank Meeting Minutes	-	-	-
9:30 AM	USA	Trade Balance Monthly	Jun	-\$72.5b	-\$75.1b
3:00 PM	Brazil	Trade Balance Monthly	Jul	-	\$6711m
8/7/2024 Wednesday					
8:00 AM	Brazil	FGV Inflation IGP-DI (MoM)	Jul	-	0.50%
2:30 PM	Brazil	IC-Br (MoM)	Jul	-	-
4:00 PM	USA	Consumer Credit	Jun	\$10.000b	\$11.354b
-	China	Trade Balance Monthly	Jul	\$100.10b	\$99.05b
8/8/2024 Thursday					
9:30 AM	USA	Initial Jobless Claims	-	242k	249k
4:00 PM	USA	Speech T. Barkin (Fed Richmond)	-	-	-
10:30 PM	China	PPI (YoY)	Jul	-0.9%	-0.8%
10:30 PM	China	CPI (YoY)	Jul	0.3%	0.2%
8/9/2024 Friday					
5:00 AM	Brazil	FIPE CPI Weekly	-	-	0.01%
8:00 AM	Brazil	IGP-M (MoM)	Aug	-	-
9:00 AM	Brazil	IBGE Inflation IPCA MoM	Jul	-	0.21%



Macroeconomic projections

	2019	2020	2021	2022	2023	2024	2025
GDP (%)	1,2	-3,3	4,8	3,0	2,9	2,1	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	4,4	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

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