

## Scenario evolution had a bullish impact on our currency, interest rates, and inflation forecasts

### Highlights

- » **The Copom minutes brought a more hawkish tone, counterbalancing the market's dovish interpretation of the statement.** In last week's decision, some points from the committee allowed for an understanding of the Central Bank's risk of leniency. However, this week, officials made it clear that they would not hesitate to raise interest rates to ensure the convergence of inflation to the target if deemed appropriate. Similarly, Director Galípolo—a candidate for the Central Bank presidency next year—emphasized the institution's commitment and reinforced that even in the alternative scenario, inflation remains above the 3.0% target (in line with paragraph 7 of the minutes). According to him, inflation around the target would be 3.1%, not 3.2%—in the scenario where the Central Bank keeps the Selic rate at 10.50% until the first quarter of 2026. **This set of factors resulted in a BRL appreciation by about 4% compared to the previous week's close and confirmed our view that the Brazilian currency should end 2024 at R\$/US\$ 5.50 (versus R\$/US\$ 5.40 in our previous base scenario). For 2025, the revision kept the same magnitude—from R\$/US\$ 5.30 to R\$/US\$ 5.40.** On one hand, this stance by Copom ensures lower internal risk aversion prospectively—which was responsible for the significant BRL depreciation since June. However, external accounts indicators and the international scenario (highlighting the fall in commodity prices) point to a more depreciated exchange rate than previously forecast by us.
- » **Moreover, we also revised our base scenario for the terminal Selic rate in 2025—from 10.00% to 10.50%.** Besides the Central Bank's stance mentioned above, the July IPCA brought an upward surprise (0.38% MoM vs. consensus of 0.35%) with an unfavorable composition. The main drivers of this increased pressure came from industrial goods, possibly already reflecting the initial impacts of recent exchange rate depreciation. However, underlying services also came in above expectations, despite several relevant items repeating the IPCA-15 change, such as voluntary vehicle insurance and condominium fees, which had already recorded stronger figures in the previous release. This result aligns with Copom's comment that the labor market has been consistently surprising to the upside—since the predominant impact of higher incomes lies on services. Therefore, last month's IPCA result further increases the likelihood of interest rates being kept unchanged for a more extended period.
- » **Given this, we revised our forecast for consumer inflation in 2024 and 2025, from 4.4% to 4.5% and from 3.7% to 3.8%, respectively.** This year, the upward effect of the FX rate revision more than offset the prospect of weaker food prices at home, although the majority effect of the BRL depreciation tends to appear in 2025—considering the lag in price pass-through, especially for industrial goods. However, the more restrictive monetary policy in 2025 will offset part of this impact.
- » **Finally, it is worth noting the significant movements in U.S. assets this week, amid fears of a recession in the U.S.** Since the FOMC meeting, the market has been able to glimpse a scenario of economic slowdown in the country—further reinforced by weaker payrolls and a rise in the unemployment rate. These labor market data, in turn, added to the BoJ's decision to raise interest rates—which led to a significant appreciation of the Japanese yen and contributed to the generalized risk-off movement. Today, several metrics point to a possible recessionary scenario in the United States; however, over the week, other data eased investor perceptions—such as the upside surprise in the ISM Services Index and weaker-than-expected unemployment claims. Additionally, we believe that a soft landing still has a majority chance, considering the available information and the post-pandemic context. In any case, the probability of greater-than-expected monetary easing (from two 0.25% cuts in September and December) this year has increased, which is subject to the next CPI result, given that the Fed has a dual mandate (inflation and employment).



## Economic Calendar

» Next week, **Brazil's** economic calendar will be lighter, but the results of the June **PMC and PMS** will be released. The focus will be on the services sector, for which we expect a 0.8% increase in the margin.

» Internationally, the **U.S.** inflation data will be a highlight, along with activity hard data. Additionally, the monthly batch of **Chinese** activity data will be released, which should impact commodity prices.

Date	Country	Event	Period	Survey	Prior
<b>8/12/2024 Monday</b>					
8:25 AM	Brazil	Focus (Central Bank Weekly Economist Survey)	-	-	-
3:00 PM	Brazil	Trade Balance Weekly	-	-	\$1493m
3:00 PM	USA	<b>Monthly Budget Statement</b>	Jul	<b>-\$242.0b</b>	<b>-\$66.0b</b>
<b>8/13/2024 Tuesday</b>					
7:00 AM	USA	NFIB Small Business Optimism	Jul	91.5	91.5
9:00 AM	Brazil	<b>IBGE Services Volume (MoM)</b>	Jun	-	<b>0.0%</b>
9:30 AM	USA	<b>PPI (MoM)</b>	Jul	<b>0.2%</b>	<b>0.2%</b>
		<b>Core (MoM)</b>		<b>0.2%</b>	<b>0.4%</b>
2:15 PM	USA	R. Bostic Speech	-	-	-
<b>8/14/2024 Wednesday</b>					
6:00 AM	Eurozone	<b>GDP (QoQ)</b>	2Q (P)	<b>0.3%</b>	<b>0.3%</b>
6:00 AM	Eurozone	<b>Employment (YoY)</b>	2Q (P)	-	<b>1.0%</b>
6:00 AM	Eurozone	<b>Industrial Production (MoM)</b>	Jun	<b>0.5%</b>	<b>-0.6%</b>
9:00 AM	Brazil	<b>Retail Sales Broad (MoM)</b>	Jun	-	<b>0.8%</b>
9:00 AM	Brazil	<b>Retail Sales (MoM)</b>		-	<b>1.2%</b>
9:30 AM	USA	<b>CPI (MoM)</b>	Jul	<b>0.2%</b>	<b>-0.1%</b>
9:30 AM	USA	<b>Core (MoM)</b>		<b>0.2%</b>	<b>0.1%</b>
10:20 PM	China	1-Yr Medium-Term Lending Facility Rate	-	2.3%	2.3%
10:20 PM	China	1-Yr Medium-Term Lending Facilities Volume	-	275.0b	200.0b
10:30 PM	China	<b>New Home Prices (MoM)</b>	Jul	-	<b>-0.67%</b>
11:00 PM	China	<b>Used Home Prices (MoM)</b>	Jul	<b>5.5%</b>	<b>5.3%</b>
11:00 PM	China	<b>Retail Sales (YoY)</b>	Jul	<b>2.7%</b>	<b>2.0%</b>
11:00 PM	China	<b>Industrial Production (YoY)</b>	Jul	<b>5.2%</b>	<b>5.3%</b>
11:00 PM	China	<b>Fixed Assets Ex-Rural (YoY)</b>	Jul	<b>3.9%</b>	<b>3.9%</b>
11:00 PM	China	<b>Property Investment (YoY)</b>	Jul	<b>-9.7%</b>	<b>-10.1%</b>
11:00 PM	China	<b>New Home Prices (MoM)</b>	Jul	-	<b>-26.9%</b>
11:00 PM	China	<b>Unemployment Rate</b>	Jul	<b>0.05</b>	<b>5.0%</b>
<b>8/15/2024 Thursday</b>					
9:30 AM	USA	Empire Manufacturing	Aug	-6.0	-6.6
9:30 AM	USA	<b>Retail Sales (MoM)</b>	Jul	<b>0.4%</b>	<b>0.0%</b>
9:30 AM	USA	Initial Jobless Claims	-	235k	233k
10:10 AM	USA	A. Musalem Speech	-	-	-
10:15 AM	USA	<b>Industrial Production (MoM)</b>	Jul	<b>-0.2%</b>	<b>0.6%</b>
11:00 AM	USA	NAHB Housing Market Index	Aug	42	42
2:10 PM	USA	P. Harker Speech	-	-	-
2:30 PM	Brazil	Foreign Exchange Flow Weekly	-	-	-
<b>8/16/2024 Friday</b>					
6:00 AM	Eurozone	<b>Trade Balance</b>	Jun	-	<b>12.3b</b>
8:00 AM	Brazil	IGP-10	Aug	-	0.45%
9:00 AM	Brazil	<b>Economic Activity (MoM)</b>	Jun	-	<b>0.25%</b>
9:30 AM	USA	Building Permits	Jul	1440k	1446k
9:30 AM	USA	Housing Starts	Jul	1333k	1353k
9:30 AM	USA	New York Fed Services Business Activity	Aug	-	-4.5
11:00 AM	USA	Conf. Board Consumer Confidence	Aug (P)	67.0	66.4
2:25 PM	USA	Speech A. Goolsbee	-	-	-



## 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>4,5</b>	<b>3,8</b>
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	<b>10,50</b>	<b>10,50</b>
Exchange Rate (end of period, R\$/US\$)	4,03	5,20	5,58	5,22	4,86	<b>5,50</b>	<b>5,40</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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