

Monetary Easing Cycle in the United States Expected to Begin in September, with Consecutive Cuts Until the End of the Year

Highlights

- » **Given the recent data on the labor market, inflation, and activity, we believe the U.S. economy is set for a soft landing without triggering a recession.** This week, the 1.0% MoM (est. 0.4%) growth in June retail sales strengthened the narrative of resilient goods consumption, with positive performance spread across categories. On the inflation side, the 0.2% MoM increase in June's CPI came with a less constructive composition, with a deterioration in services on the margin. However, goods continued to contribute to deflation. However, this service deterioration was expected to reverse the declines in the previous two months, keeping the annualized inflation trajectory benign. Thus, along with the cooling labor market in recent weeks, we believe that the FED's baseline scenario has strengthened, boosting members' confidence in starting the monetary easing cycle at the next meeting. Consequently, **we revised our expectation from 2 to 3 FED Funds rate cuts by the end of the year, starting in September at a pace of 25 bps and continuing at the same magnitude in the November and December meetings, ending the year at 4.75%. For 2025, we expect a terminal rate of 3.5%.**
- » **In Brazil, June's activity data positively surprised, reinforcing the narrative of a resilient economy in the second quarter of the year.** The PMS (Monthly Service Survey) recorded a 1.7% MoM increase, with widespread gains across all categories, especially in information and transport services. Although both the restricted and broad readings of the PMC (Monthly Trade Survey) came in below market expectations, the composition showed that declines were concentrated in hypermarkets and personal items, which had been significantly boosted in May due to donations for the victims of the tragedy in Rio Grande do Sul. Therefore, the reversal of this effect was expected, as was the recovery in categories linked to credit, such as furniture and household appliances and construction materials, primarily directed towards the reconstruction of the state. Finally, the June IBC-Br, a monthly proxy for GDP, advanced by 1.4% on the margin, with upward revisions to data from previous months. Thus, together with labor market data continuing to record historic levels, the outlook for economic activity this year is positive, adding an upward bias to growth projections, although there is a slowdown expected in the second half of the year.
- » **From a monetary policy perspective, hawkish remarks from Central Bank members are well received by the market.** During the week, directors reinforced the tougher tone adopted in the minutes and emphasized that they would do whatever was necessary to meet the inflation target. The members acknowledged the discomfort with inflation expectations and highlighted the stronger-than-expected dynamism of economic activity, as well as its possible impacts on service prices, especially regarding the labor market. The directors stressed the need for vigilance and diligent monitoring, indicating they would remain data-dependent in evaluating the best strategy for monetary policy. **For now, we keep our scenario of a steady Selic rate at 10.50% until the end of 2025.**



Economic Calendar

» In **Brazil**, next week's economic agenda will be lighter, with a highlight on the **Federal Revenue** data, for which we project a total of **R\$ 215.9 billion** in July.

» Internationally, the focus will be on the **FOMC minutes**, the **Jackson Hole** symposium, and **PMI data in the United States**. In the **Eurozone**, the release of July's **CPI and PMI** data will be the key events.

Date	Country	Event	Period	Survey	Prior
8/19/2024 Monday					
5:00 AM	Brazil	FIPE CPI (MoM)	-	-	0.14%
8:25 AM	Brazil	Focus (Central Bank Weekly Economist Survey)	-	-	-
11:00 AM	USA	Leading Index	Jul	-0.3%	-0.2%
3:00 PM	Brazil	Trade Balance Weekly	-	-	\$1855m
10:00 PM	China	5-Year Loan Prime Rate	-	3.85%	3.85%
10:00 PM	China	1-Yr Medium-Term Lending Facility Rate	-	3.35%	3.35%
8/20/2024 Tuesday					
6:00 AM	Eurozone	CPI (MoM) Core (MoM)	Jul (F)	0.0% -0.2%	0.0% 0.4%
8:00 AM	Brazil	IGP-M (MoM)	Ago	-	-
9:30 AM	USA	Services Confidence	Ago	-	-19.1
2:35 PM	USA	R. Bostic Speech	-	-	-
8/21/2024 Wednesday					
2:30 PM	Brazil	Foreign Exchange Flow Weekly	-	-	-
3:00 PM	USA	FOMC Meeting Minutes	-	-	-
8/22/2024 Thursday					
5:00 AM	Eurozone	PMI Manufacturing Services Composite	Ago (P)	45.8 51.7 50.2	45.8 51.9 50.2
9:00 AM	USA	Jackson Hole Symposium	-	-	-
9:30 AM	USA	Chicago Fed Nat Activity Index	Jul	-	0.05
9:30 AM	USA	Initial Jobless Claims	-	-	227k
10:45 AM	USA	PMI Manufacturing Services Composite	Ago (P)	- - -	49.6 55.0 54.3
11:00 AM	USA	Existing Home Sales	Jul	3.90m	3.89m
12:00 PM	USA	Manufacturing Conficende	Ago	-	-13
8/23/2024 Friday					
11:00 AM	USA	New Home Sales	Jul	631k	617k
12:00 PM	USA	Kansas City Fed Services Activity	Ago	-	-4
TBA					
-	Brazil	Tax Collections	Jul	231800m	208844m



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