

Tougher and louder communication with a significant increase in inflation projections from the Central Bank's model suggests a more aggressive cycle of interest rate hikes.

Highlights

- » **The committee recognized the external environment as challenging in a week marked by monetary policy decisions.** Hours before the COPOM meeting, the FED began its rate-cutting cycle with a 50bps cut, acknowledging increased confidence in the disinflation process. While this decision could have been interpreted alone as dovish, the dots revision for two more 25bps cuts in 2024 and a terminal rate of 3.4% in 2025 made it clear that the board expects a gradual reduction in rates, with the initial cut in September merely advancing the cycle. Chairman J. Powell reinforced this view in a speech, where he emphasized that decisions will be made at each meeting and that data will dictate the direction of future steps. Thus, COPOM's reading of the FOMC decision was that the current slowdown in U.S. activity and inflation still raises doubts about the FED's stance, keeping the external environment complex.
- » **In the domestic scenario, the greater dynamism in economic activity led the Central Bank to revise the output gap into positive territory.** Although the revision magnitude was not explicitly mentioned in the statement, the committee placed greater weight on the metric, especially considering the resilience of service inflation. Additionally, the Central Bank highlighted that both headline and core inflation remained above the target in recent releases, removing sections that previously showed a slight disinflationary trend. Importantly, the committee acknowledged the upside risk asymmetry in the balance of risks for future inflation, removing the cautionary note about the persistence of market variables and inflation expectations. In this context, incorporating the 100bps rate hike expectation in the Selic from Focus, the Central Bank's inflation forecasts settled at 3.5% for the relevant horizon of March 2026 (compared to 3.4% in the July meeting), while 2024 and 2025 saw upward revisions to 4.3% and 3.7%, respectively. Reaffirming its fundamental commitment to meeting the target and anchoring expectations, the committee unanimously decided to raise the interest rate by 25bps to 10.75%, with the total magnitude of the cycle dependent on economic data.
- » **Although no guidance was provided, the tougher communication from the Central Bank hinted that the cycle would be larger than what was incorporated into market expectations.** With inflation remaining above target in the relevant horizon, the indication is that the current Focus rate hike cycle is not enough for inflation convergence, requiring a more restrictive rate. Thus, although some gradualism was expected in upcoming meetings, the more hawkish tone of the statement strengthened the outlook for more intense hikes by the end of the year. Given this panorama, we revised our Selic forecast for 2024 from 10.50% to 11.75%, with two more 50bps hikes in the November and December meetings and a continuation of 25bps in the first meeting of 2025, reaching 12%.
- » **It is important to note that this scenario adjustment takes into account only the information from the COPOM statement.** Next week, with the meeting minutes and the Quarterly Inflation Report releases, the Central Bank's informational set will be complete, providing details on the committee's decision basis. Thus, we do not rule out further upward revisions to the Selic cycle depending on the assumptions used in the baseline scenario and their respective impacts on other macroeconomic variables.



Economic Calendar

» In addition to the COPOM reports, the domestic agenda will be marked by the release of the **September IPCA-15**, for which we expect a 0.31% increase, along with the August labor market data.

» Abroad, highlights include the release of the **August PCE** and the revision of the **second quarter GDP in the United States**, as well as economic activity data in the Eurozone.

Date	Country	Event	Period	Survey	Prior
9/23/2024 Monday					
5:00 AM	Eurozone	PMI	Sep (P)		
		Manufacturing		45.7	45.8
		Services		52.3	52.9
		Composite		50.5	51.0
8:25 AM	Brazil	Focus (Central Bank Weekly Economist Survey)	-	-	-
9:00 AM	USA	R. Bostic Speech	-	-	-
9:30 AM	USA	ChicAug Fed Nat Activity Index	Aug	-0.20	-0.34
10:45 AM	USA	PMI	Sep (P)		
		Manufacturing		48.6	47.9
		Services		55.3	55.7
		Composite		54.7	54.6
11:15 AM	USA	Speech A. Goolsbee	-	-	-
2:00 PM	USA	N. Kashkari Speech	-	-	-
3:00 PM	Brazil	Trade Balance Weekly	-	-	\$1338m
9/24/2024 Tuesday					
8:00 AM	Brazil	Central Bank Meeting Minutes	-	-	-
8:00 AM	Brazil	Consumer Confidence	Sep	-	93.2
9:30 AM	USA	Services Confidence	Sep	-	-25.1
10:00 AM	USA	House Price Index (MoM)	Jul	0.40%	0.42%
11:00 AM	USA	Conf. Board Consumer Confidence	Sep	103.5	103.3
11:00 AM	USA	Richmond Fed Manufact. Index	Sep	-	-19
11:00 AM	USA	Richmond Fed Business Conditions	Sep	-	-13
9/25/2024 Wednesday					
5:00 AM	Brazil	IPC-Fipe Weekly (MoM)	-	-	0.10%
8:00 AM	Brazil	FGV Construction Costs (MoM)	Sep	-	0.64%
8:00 AM	Brazil	Construction Confidence	Sep	-	-
8:30 AM	Brazil	Current Account	Aug	-	-\$5.162b
8:30 AM	Brazil	Foreign direct investment	Aug	-	\$7.258b
9:00 AM	Brazil	IPCA-15 (MoM)	Sep	-	0.19%
11:00 AM	USA	New Homes Sales (MoM)	Aug	-5.9%	10.6%
9/26/2024 Thursday					
8:00 AM	Brazil	BCB Inflation Report	-	-	-
8:00 AM	Brazil	Industry Confidence	Sep	-	-
9:30 AM	USA	GDP (QoQ)	2Q T	2.9%	3.0%
9:30 AM	USA	Durable Goods Orders	Aug (P)	-2.9%	9.8%
9:30 AM	USA	Initial Jobless Claims	-	225k	219k
10:10 AM	USA	S. Collins Speech	-	-	-
10:20 AM	USA	J. Powell Speech	-	-	-
10:25 AM	USA	Speech J. Williams (Fed New York)	-	-	-
11:00 AM	USA	Pending Home Sales (MoM)	Aug	0.4%	-5.5%
11:30 AM	USA	S. Barr Speech	-	-	-
12:00 PM	USA	Manufacturing Confidence	Sep	-	-3
2:00 PM	USA	N. Kashkari Speech	-	-	-
10:30 PM	China	Chinese Industrial profit (YoY)	Aug	-	4.1%
-	Brazil	Formal Job Creation Total	Aug	260000	188021
-	Brazil	Federal Debt Total	Aug	-	7140b
9/27/2024 Friday					
6:00 AM	Eurozone	Economic Confidence	Sep	96.5	96.6
8:00 AM	Brazil	FGV Inflation IGP-M (MoM)	Sep	-	0.29%
8:00 AM	Brazil	Commerce Confidence	Sep	-	-
8:00 AM	Brazil	Services Confidence	Sep	-	-
8:30 AM	Brazil	Total Outstanding Loans	Aug	-	0.2%
9:00 AM	Brazil	National Unemployment Rate	Aug	-	6.8%
9:30 AM	USA	Personal Income (MoM)	Aug	0.4%	0.3%
9:30 AM	USA	Personal Spending	Aug	0.3%	0.5%
9:30 AM	USA	PCE Deflator (MoM)	Aug	0.1%	0.2%
9:30 AM	USA	PCE Core Deflator (MoM)	Aug	0.2%	0.2%
11:00 AM	USA	Conf. Board Consumer Confidence - Michigan	Sep (F)	69.3	69.0
12:00 PM	USA	Kansas City Fed Services Activity	Sep	-	5
-	Brazil	Central Govt Budget Balance	Aug	-	-9.3b



Macroeconomic projections

	2019	2020	2021	2022	2023	2024	2025
GDP (%)	1,2	-3,3	4,8	3,0	2,9	2,9	1,8
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	4,6	3,7
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	11,75	12,00
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

