

Incorporating the revision of the Central Bank's output gap, Selic is expected to reach 12.50% at the end of the monetary tightening cycle

Highlights

- » **In the September Quarterly Inflation Report, the Central Bank highlighted the strong performance of economic activity in the first half of the year and revised the output gap curve into positive territory.** For the second and third quarters of the year, the committee revised the current gap estimate to 0.5%, while for the last quarter of 2024, the expectation is 0.3%, above the previously projected -0.4% in the June QIR. Additionally, due to the latest GDP surprise, the Central Bank revised its growth forecast for the year from 2.3% to 3.2%, particularly emphasizing the performance of the services and industry sectors. For next year, the 2.0% forecast incorporates a reduction in government spending and a weaker labor market, as well as a more restrictive monetary policy impacting investment levels. Thus, although the committee has not disclosed the 2025 gap, the expected slowdown in activity indicates a closing curve trajectory throughout next year, with the gap turning negative at -0.3% in the first quarter of 2026. In terms of modeling, the gap increase offsets the negative effect of rising interest rate expectations, with the current 100-point cycle incorporated in Focus proving insufficient to anchor expectations, which remain above the target until the first quarter of 2027. **Given this scenario and considering our exchange rate forecast of R\$ 5.50 for 2024, we revised our terminal rate from 12% to 12.50% at the end of the monetary tightening cycle, incorporating three more 50-point hikes in upcoming meetings, with a final 25-point adjustment in March 2025.**
- » **On the inflation side, we revised our expectation for the IPCA from 4.5% to 4.3% in 2024.** The 0.13% rise in September's IPCA-15 surprised market expectations (0.28%) and brought a more constructive composition, with widespread improvement, particularly in service metrics. In underlying inflation, closely monitored by the Central Bank, sharper declines in cinema and voluntary vehicle insurance were the main drivers of stability at the margin, although exercises excluding these items showed that other components also presented more benign results. Thus, in addition to incorporating the downward surprises from the latest data, our projection for the year includes the expectation of a red tariff flag 1 in December 2024 and a gasoline price adjustment over the next month. For 2025, especially with the expectation of an improved hydrological scenario, ending the year with a green flag, **we revised our IPCA estimate from 3.7% to 3.5%.**
- » **On the fiscal front, the bi-monthly revenue and expenditure report disappointed market expectations.** Despite coherent forecasts for revenue reduction due to the CARF and an increase in pension expenditure forecasts, the report was marked by the reversal of a R\$3.8 billion spending freeze, along with a contingency of around R\$2 billion — when R\$5 billion was expected — also interpreted as a lesser government commitment to public finances. It is worth noting that in the QIR, although keeping the primary target compliance perspective, the need for fiscal policy transparency to meet the framework was reinforced as a relevant factor for anchoring inflation expectations.
- » **Finally, in the United States, we revised our 2024 Fed Funds projection to 4.25%.** In the latest FOMC, the start of monetary easing with a 50bps cut signaled a frontload process in the conduct of U.S. interest rates, especially amid discussions about a possible recession in the country. Thus, although the committee reiterated data dependence for the discussion of the next steps, we understand that to mitigate recessionary noise, the Fed should opt for a more timely cycle initially, with a slower pace of magnitude reductions postponed to next year. Therefore, for the next meetings, we expect another 0.50 p.p cut in November and a 0.25 p.p cut in December, bringing the 2024 rate to 4.25%. **In 2025, we expect the Fed Funds to reach 3.0%.**



Economic Calendar

» Next week, the lighter agenda will highlight the release of **fiscal data** for August, as well as the release of the **consolidated trade balance** and **industrial production** data.

» Abroad, the focus will be on **U.S. labor market** data, especially the **Payroll**. In the Eurozone, attention will be on inflation data and the unemployment rate for August.

Date	Country	Event	Period	Survey	Prior
9/30/2024 Monday					
8:25 AM	Brazil	Focus (Central Bank Weekly Economist Survey)	-	-	-
8:30 AM	Brazil	Primary Budget Balance	Aug	-21.0b	-21.3b
11:30 AM	USA	Dallas Fed Manf. Activity	Sep	-10.6	-9.7
2:00 PM	USA	J. Powell Speech	-	-	-
6:00 PM	Brazil	Federal Debt Total	Aug	7210b	7140b
10/1/2024 Tuesday					
5:00 AM	Eurozone	Manufacturing PMI	Sep (F)	44.8	44.8
6:00 AM	Eurozone	CPI (MoM)	Sep (P)	0.0%	0.1%
10:45 AM	USA	Manufacturing PMI	Sep (F)	47.0	47.0
11:00 AM	USA	Construction Spending (MoM)	Aug	0.1%	-0.3%
11:00 AM	USA	JOLTs Job Openings	Aug	7693k	7673k
11:00 AM	USA	ISM Manufacturing	Sep	47.7	47.2
11:30 AM	USA	Texas Services Sector Outlook	Sep	-	-7.7
12:00 PM	USA	R. Bostic Speech	-	-	-
12:10 PM	USA	L. Cook Speech	-	-	-
7:15 PM	USA	Speech T. Barkin (Fed Richmond)	-	-	-
10/2/2024 Wednesday					
5:00 AM	Brazil	FIPE CPI	Sep	-	0.18%
6:00 AM	Eurozone	Unemployment Rate	Aug	6.4%	6.4%
9:00 AM	Brazil	Industrial Production	Aug	-	-1.4%
9:15 AM	USA	ADP Employment Change	Sep	120k	99k
10:00 AM	USA	B. Hammack Speech	-	-	-
11:05 AM	USA	A. Musalem Speech	-	-	-
12:00 PM	USA	M. Bowman Speech	-	-	-
2:30 PM	Brazil	Foreign Exchange Flow Weekly	-	-	-
10/3/2024 Thursday					
5:00 AM	Eurozone	PMI Services Composite	Sep (F)	- 50.5 48.9	- 50.5 48.9
6:00 AM	Eurozone	PPI (MoM)	Aug	0.4%	0.8%
9:30 AM	USA	Initial Jobless Claims	-	-	218k
10:45 AM	USA	PMI Services Composite	Sep (F)	- - -	55.4 54.4
11:00 AM	USA	Factory Orders (MoM)	Aug	0.1%	5.0%
11:00 AM	USA	ISM Services Index	Sep	51.5	51.5
2:00 PM	Brazil	Central Govt Budge Balance	Aug	-22.8b	-9.3b
10/4/2024 Friday					
9:30 AM	USA	Nonfarm Payrolls	Sep	130k	142k
9:30 AM	USA	Unemployment Rate	Sep	4.2%	4.2%
9:30 AM	USA	Average Hourly Earnings (MoM)	Sep	0.3%	0.4%
3:00 PM	Brazil	Trade Balance Monthly	Sep	-	\$4828m



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	4,3	3,5
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	11,75	12,50
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	-54,1	-47,6
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	-2,4	-2,0
Trade Balance - BCB (US\$ billion)	26,5	32,4	36,4	44,2	80,5	69,0	65,6
Foreign Direct Investment (US\$ billion)	69,2	37,8	46,4	87,2	62,0	74,6	73,0
Foreign Direct Investment (% of GDP)	3,7	2,6	2,8	4,5	2,8	3,3	3,1
Primary Result of the Central Government (R\$ billion)	-95,1	-743,3	-35,1	54,1	-249,1	-79,5	-54,5
Primary Result of the Central Government (% of GDP)	-1,3	-9,8	-0,4	0,5	-2,3	-0,6	-0,4
Primary Result of the Public Sector (R\$ billion)	-61,9	-703,0	64,7	126,0	-249,1	-67,5	-55,6
Primary Result of the Public Sector (% of GDP)	-0,8	-9,2	0,7	1,3	-2,3	-0,5	-0,5
Gross Public Debt (% of GDP)	74,4	86,9	77,3	71,7	74,3	77,8	78,3

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