

Moody's upgrades Brazil's rating amid market uncertainties over public accounts

Highlights

- » **After improving Brazil's rating outlook in May, the credit rating agency Moody's raised the country's credit rating from Ba2 to Ba1, one level below investment grade.** According to the agency, the rating upgrade reflected improvements in metrics especially tied to economic growth, emphasizing the GDP performance supported by more robust investments and economic and fiscal reforms, such as the tax reform, which helped strengthen the resilience of the credit profile. In addition to the rating upgrade, the agency kept a positive outlook for the country, which could mean another rating upgrade in future reports. This assessment was received with surprise by market analysts, particularly during a period marked by doubts about meeting the fiscal target. Initially, the justification of stronger growth due to structural factors can be partially countered by the impact of fiscal expansion and government spending on activity. On the other hand, regarding the mentioned reforms, the non-implementation of the tax reform combined with constant exceptions created to the fiscal framework weakens this argument, especially regarding the government's credibility in meeting fiscal targets. Similarly, the latest signals from the bi-monthly revenue and expenditure report disappointed market expectations, raising the perception of a lesser commitment to public accounts. Thus, although achieving the primary target is still possible depending on future budget cuts and contingencies, the current picture of the fiscal scenario makes the credit rating upgrade somewhat surprising.
- » **Still, in the fiscal realm, August's primary result registered a deficit of R\$22 billion, totaling R\$100 billion so far this year.** On the revenue side, the strong labor market, the fuel re-taxation with PIS/Cofins, and import taxes remained as key drivers for record tax collection, sustaining real growth of around 10% this year. On the expenditure side, pension expenses, temporary benefits, and continued provision of benefits, in addition to constitutional minimums, continued to pressure mandatory expenditures, leading public accounts to a fiscal deficit. Thus, to achieve the year's projections, according to RARDP, a surplus of nearly R\$40 billion would be necessary in the coming months. From the public sector results' perspective, the Central Government remained a highlight. In the July report, regional governments showed a surge in the state's deficit and municipalities' accounts, mainly due to pre-election spending. However, we do not observe the persistence of this type of expense, so the primary result of state-owned companies and regional governments remained normal for the rest of the year.
- » **In the United States, stronger labor market data distances the recession narrative in the country.** After upside surprises in the JOLTS and ADP data throughout the week, the Payroll report showed the creation of 254,000 jobs in September, far above market expectations (150,000) and with a positive revision of previous data. The main highlight was job creation in services (202,000), especially in leisure and hospitality activities, as well as an advance in goods sector jobs. With wage increases on the margin and the unemployment rate falling, the data point to a heating up of the U.S. labor market, reinforcing the soft landing narrative and dissipating recession debates in the country. Thus, in terms of monetary policy, the FED is expected to opt for a gradual reduction in U.S. interest rates, with two more cuts of 25bps in the November and December meetings, as already outlined in the FOMC's dots and recent speeches by Chairman J. Powell, reaching a level of 4.50% in 2024. For next year, we expect the cycle to end at 3.25%.



Economic Calendar

» Next week, the domestic agenda will be marked by the release of the **September IPCA**, which we expect to rise by 0.39%, along with the data from **August's monthly trade and services surveys**.

» Abroad, the focus will be on **September's inflation data in the United States**, as well as the release of the FOMC minutes. Additionally, China's CPI and retail data from the Eurozone will also be released.

Date	Country	Event	Period	Survey	Prior
10/7/2024 Monday					
6:00 AM	Eurozone	Retail Sales (MoM)	Aug	0.2%	0.1%
8:00 AM	Brazil	FGV Inflation IGP-DI (MoM)	Sep	0.85%	0.12%
8:25 AM	Brazil	Focus (Central Bank Weekly Economist Survey)	-	-	-
2:50 PM	USA	N. Kashkari Speech	-	-	-
3:00 PM	Brazil	Trade Balance Weekly	-	-	-
4:00 PM	USA	Consumer Credit	Aug	\$12.000b	\$25.452b
7:00 PM	USA	R. Bostic Speech	-	-	-
7:30 PM	USA	A. Musalem Speech	-	-	-
10/8/2024 Tuesday					
4:00 AM	USA	A. Kugler Speech	-	-	-
7:00 AM	USA	NFIB Small Business Optimism	Sep	91.9	91.2
9:30 AM	USA	Trade Balance	Aug	-\$70.5b	-\$78.8b
1:45 PM	USA	R. Bostic Speech	-	-	-
5:00 PM	USA	S. Collins Speech	-	-	-
10/9/2024 Wednesday					
5:00 AM	Brazil	FIPE CPI Weekly	-	-	0.15%
8:00 AM	Brazil	IGP-M (MoM)	Oct	-	-
9:00 AM	Brazil	IBGE Inflation IPCA (MoM)	Sep	0.47%	-0.02%
9:00 AM	USA	R. Bostic Speech	-	-	-
10:15 AM	USA	L. Logan Speech	-	-	-
11:30 AM	USA	Speech A. Goolsbee	-	-	-
2:30 PM	Brazil	Foreign Exchange Flow Weekly	-	-	-
3:00 PM	USA	FOMC Meeting Minutes	-	-	-
6:00 PM	USA	S. Collins Speech	-	-	-
7:00 PM	USA	M. Daly Speech	-	-	-
10/10/2024 Thursday					
9:00 AM	Brazil	Retail Sales (MoM)	Aug	-0.5%	0.6%
		Broad (MoM)		0.3%	0.1%
9:30 AM	USA	CPI (MoM)	Sep	0.1%	0.2%
		Core (MoM)		0.2%	0.3%
9:30 AM	USA	Initial Jobless Claims	-	229k	225k
12:00 PM	USA	Speech J. Williams (Fed New York)	-	-	-
10/11/2024 Friday					
9:00 AM	Brazil	IBGE Services Volume (MoM)	Aug	-0.2%	1.2%
9:30 AM	USA	PPI (MoM)	Sep	0.1%	0.2%
		Core (MoM)		0.2%	0.3%
10:45 AM	USA	Speech A. Goolsbee	-	-	-
11:00 AM	USA	Conf. Board Consumer Confidence - Michigan	Oct (P)	70.8	70.1
11:45 AM	USA	L. Logan Speech	-	-	-
TBA					
10:30 PM	China	PPI (YoY)	Sep	-2.5%	-1.8%
10:30 PM	China	CPI (YoY)	Sep	0.6%	0.6%



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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