

Noisy domestic environment negatively reverberates in the market and intensifies uncertainties regarding fiscal target compliance

Highlights

- » **In a week relatively lacking in domestic economic data, the attention was focused on fiscal issues, at a time when the government is seeking to reduce expenses and promote structural spending cuts.** Initially, last week, the proposal to exempt income tax for those earning up to R\$ 5,000 per month would result in a billion-dollar fiscal waiver, given that the number of taxpayers in this bracket exceeds 60% of IRPF declarations. Even if compensation came through implementing a rate for the population earning above R\$ 1 million, the amount collected from millionaires would probably not be enough to cover the exemption. This week, the proposal to remove state-owned companies from the Federal Budget sparked narratives of fiscal maneuvering by the government. The project sent to Congress seeks to remove state-owned companies from traditional accounting and categorize their expenses as independent institutions, which would open up space in the Budget for new expenses. Finance Minister Fernando Haddad needed to clarify that state-owned companies would not be removed from the framework and that the proposal aimed to make these companies less dependent on the Treasury, which would be positive for public accounts. However, it is first necessary for these state-owned companies to find other ways to finance themselves. Finally, in an interview with the press, President Lula reiterated his commitment to spending on education and health, as he considers their investments. Again, this statement contrasted with the Ministers of Finance and Planning positions, who try to reaffirm their fiscal commitment and expect the end of the electoral period to announce a review of structural spending.
- » **In the United States, retail data still supports the soft landing view.** Retail sales recorded a 0.4% MoM increase in September, above market expectations. In terms of composition, except for household items and electronics, all other categories showed growth at the margin, with highlights in clothing, beauty, and food, which rose to 1.05% in the reading. So far, the economic data released in this period between FOMCs have not been very supportive of monetary policy conduct, with the probability of a possible pause in cuts at the next meeting. Thus, the October Payroll is expected to gain even more relevance in determining the next steps by the Fed.
- » **In China, the announcement of fiscal stimulus, although positive, raised doubts about the amount to be implemented.** The Ministry of Finance's press conference was constructive in emphasizing the room for increased Central Government bond issuances, helping to ease local government debt and supporting property purchases. Additionally, the Ministry of Housing briefing highlighted increased resources for the completion of sold properties and housing renovation plans; however, the absence of amounts for property acquisitions, essential for increasing sales, frustrated market agents and was a key factor in the negative performance of the stock market and commodities during the week. As a result, the BRL was negatively impacted, continuing its depreciation trend. The external movement combined with domestic uncertainties has led to a risk-off sentiment in the currency—even with the increasing interest rate differential due to internal monetary tightening alongside the Fed's interest rate cuts. Although the commercial and financial sectors showed positive results in last week's foreign exchange flow, seasonality itself indicates less positive results ahead. On the goods side, the highlight remains the continued strength of imports, while the financial flow is expected to remain quite negative for the year (US\$ -45.3 billion), deepening outflows in December.



Economic Calendar

» Next week, the relatively light domestic agenda will be marked by the release of the **October IPCA-15**, for which we expect a 0.59% increase at the margin. Additionally, fiscal data such as the **Federal Revenue** for September is scheduled to be released.

» Lá Abroad, the focus will be on the October **PMIs** from the **United States**, as well as the **Beige Book**, which should provide qualitative data on the Fed's outlook. In the Eurozone, the highlight will also be the PMIs along with consumer confidence..

| Date | Country | Event | Period | Survey | Prior |
|-----------------------------|---------------|---|----------------|-----------------|------------------|
| 10/21/2024 Monday | | | | | |
| 8:00 AM | Brazil | IGP-M (MoM) | Out | - | - |
| 8:25 AM | Brazil | Focus (Central Bank Weekly Economist Survey) | - | - | - |
| 9:55 AM | USA | L. Logan Speech | - | - | - |
| 11:00 AM | USA | Leading Index | Set | -0.3% | -0.2% |
| 2:00 PM | USA | N. Kashkari Speech | - | - | - |
| 3:00 PM | Brazil | Trade Balance Weekly | - | - | \$1428m |
| 6:05 PM | USA | J. Schmid Speech | - | - | - |
| 10/22/2024 Tuesday | | | | | |
| 9:30 AM | USA | Services Confidence | Out | - | -6.1 |
| 11:00 AM | USA | P. Harker Speech | - | - | - |
| 11:00 AM | USA | Richmond Fed Manufact. Index | Out | - | -21.0 |
| 11:00 AM | USA | Richmond Fed Business Conditions | Out | - | -3.0 |
| 10/23/2024 Wednesday | | | | | |
| 10:00 AM | USA | M. Bowman Speech | - | - | - |
| 11:00 AM | Eurozone | Conf. Board Consumer Confidence | Out (P) | - | -12.9 |
| 11:00 AM | USA | Existing Home Sales (MoM) | Set | 1.0% | -2.5% |
| 2:30 PM | Brazil | Foreign Exchange Flow Weekly | - | - | - |
| 3:00 PM | USA | Federal Reserve Releases Beige Book | - | - | - |
| 10/24/2024 Thursday | | | | | |
| 5:00 AM | Eurozone | PMI | Out (P) | | |
| | | Manufacturing | | 45.2 | 45.0 |
| | | Non-manufacturing | | 51.5 | 51.4 |
| | | Composite | | 49.7 | 49.6 |
| 9:00 AM | Brazil | IPCA-15 (MoM) | Out | - | 0.13% |
| 9:30 AM | USA | Chicago Fed Nat Activity Index | Set | - | 0.12 |
| 9:30 AM | USA | Initial Jobless Claims | - | - | 241k |
| 9:45 AM | USA | B. Hammack Speech | - | - | - |
| 10:45 AM | USA | PMI | Out (P) | | |
| | | Manufacturing | | - | 47.3 |
| | | Non-manufacturing | | - | 55.2 |
| | | Composite PMI | | - | 54.0 |
| 11:00 AM | USA | New Homes Sales (MoM) | Set | -0.4% | -4.7% |
| 12:00 PM | USA | Kansas City Fed Manf. Activity | Out | - | -8.0 |
| 10/25/2024 Friday | | | | | |
| 5:00 AM | Brazil | Fipe CPI Weekly (MoM) | - | - | - |
| 8:00 AM | Brazil | Consumer Confidence | Out | - | 93.7 |
| 9:30 AM | USA | Durable Goods Orders | Set (P) | -1.0% | 0.0% |
| 11:00 AM | USA | Conf. Board Consumer Confidence | Out (F) | 69.5 | 68.9 |
| 11:00 AM | USA | U. of Mich. 1 Yr Inflation | Out (F) | - | 2.9% |
| 11:00 AM | USA | U. of Mich. 5-10 Yr Inflation | Out (F) | - | 3.0% |
| 12:00 PM | USA | Kansas City Fed Services Activity | Out | - | -2.0 |
| - | Brazil | Federal Debt Total | Set | - | 7036b |
| TBA | | | | | |
| - | Brazil | Tax Collections | Set | 199.004b | 201.622b |
| - | USA | Monthly Budget Statement | Set | \$37.5b | -\$380.1b |
| - | Chiina | 1-Yr Medium-Term Lending Facility Rate | - | 2.0% | 2.0% |
| - | Chiina | 1-Yr Medium-Term Lending Facilities Volume | - | 600.0b | 300.0b |



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 | 4,4 | 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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