

Domestic and international scenarios remain challenging for conducting monetary policy

Highlights

This week, data reinforced the resilience of domestic economic activity, with inflation and the labor market still showing strength

The IPCA-15 rose 1.23% MoM in February, below expectations (1.36%), with an increase in electricity, after the Itaipu bonus discount was applied to tariffs in January (which resulted in an increase in February), and in education, in line with the seasonality of school adjustments. The surprise came mainly from airfares, which showed significant deflation in the month (-20% MoM), and which have been quite volatile. However, inflation in underlying services and industrial goods showed upward pressure, remaining above the consensus projections – suggesting future challenges in bringing inflation closer to the target. In the same sense, the labor market remained robust. Caged showed a positive balance of 137 thousand formal jobs in January, significantly exceeding estimates (70 thousand). The surprises came from the agricultural and industrial sectors, traditionally less volatile. The unemployment rate, reported by the Continuous PNAD, was 6.5% in the quarter ending in January (vs. est. 6.6%), with increases in income in both the original and seasonally adjusted series. Thus, the Central Bank tends to remain cautious. Finally, it is worth mentioning that the External Sector Note for January continued to indicate a worsening of external accounts. The Current Account deficit has already reached the level of 3% of GDP, while foreign portfolio investments in Fixed Income remained negative, despite the high interest rate differential.

In addition, assets continue to react to the unstable political and fiscal environment in Brazil

The suspension of loans from the Safra Plan, motivated by the lack of resources and the delay in the approval of the 2025 Budget, generated criticism and uncertainty, especially after the announcement of extraordinary credits to resolve this issue. According to the Primary Result of the Central Government in January, the real growth of net revenue recorded was 3.6% YoY, while expenses grew by 4.4% Y/Y. However, the growth in expenses was only mitigated due to the restriction on budget execution, due to the non-approval of the Budget – until February, the Central Government is operating with 1/18 of what was proposed in the Budget Bill, sent to Congress in September of last year. In the political sphere, the crisis of parliamentary amendments and the volatility caused by speculation about ministerial migrations also increased risk aversion. The ministerial reform has added instability, while fiscal management faces challenges with the increase in primary expenditures and suspicions of fraud in programs such as the BPC (Continuous Benefit Payment). Finally, signals to contain food inflation, in the current scenario of high disapproval of the government, have increased pressure on the market, resulting in an environment of greater pessimism and distrust in the short term.

On the international front, uncertainty remains, reflected in continued volatility and a strong dollar

The US GDP's second estimate for Q4 2024 showed a significant rise in the price index, from 2.2% to 2.4% QoQ SAAR, with core inflation accelerating from 2.5% to 2.7%, reinforcing expectations that interest rates will remain elevated for an extended period. This was a key driver behind the dollar's strength, which was further supported by the surprise increase in January Personal Income (0.9% MoM vs. 0.4% expected). The US news continued to impact risk premiums. On Tuesday, the US House passed a budget plan that includes \$4.5 trillion in tax cuts, \$2 trillion in spending reductions, increased defense and security spending, and a \$4 trillion debt ceiling increase. The measure was narrowly approved and will face changes in the Senate, but its potential impact deepens concerns about the US deficit and a government shutdown, with critical deadlines approaching and a possible temporary agreement in March. Lastly, Trump made contradictory statements regarding tariffs on Canada, Mexico, and the EU, while escalating measures against China, increasing trade tensions with new semiconductor industry restrictions and pressuring allies to impose stricter limits on the sector.

Economic Calendar

Despite reduced liquidity due to the Carnival holiday, which will close the market on Monday and Tuesday, Brazilian assets are expected to react to the Q4 2024 **GDP** results at the end of the week.

On the international front, several key indicators will be released. In the **US**, attention will be on the February Payroll, along with the ISMs and other labor market data. In the **Eurozone**, the unemployment rate, PPI, retail sales, and ECB deposit rate will be announced. Finally, in **China**, the Caixin PMI will be released.

Date	Country	Event	Period	Survey	Prior
03/03/25 Monday					
6:00 AM	Eurozone	PMI Manufacturing	Feb	47.3	47.3
7:00 AM	Eurozone	CPI	Feb (P)		
		Total (MoM)		0.4%	-0.3%
		Core (YoY)		2.5%	2.7%
11:45 AM	USA	PMI Manufacturing	Feb (F)	51.6	51.6
12:00 PM	USA	Construction Spending (MoM)	Jan	-0.1%	0.5%
12:00 PM	USA	ISM Manufacturing	Feb	50.5	50.9
-	Brazil	Closed Markets	-	-	-
03/04/25 Tuesday					
7:00 AM	Eurozone	Unemployment Rate	Jan	6.3%	6.3%
10:45 PM	China	PMI Caixin	Feb		
		Composite		-	51.1
		Services		50.8	51.0
-	Brazil	Closed Markets	-	-	-
03/05/25 Wednesday					
6:00 AM	Eurozone	PMI	Feb (F)		
		Services		50.7	50.7
		Composite		50.2	50.2
7:00 AM	Eurozone	PPI (MoM)	Jan	0.3%	0.4%
10:15 AM	USA	ADP	Feb	145k	183k
11:45 AM	USA	PMI	Feb (F)		
		Services		49.7	49.7
		Composite		-	50.4
12:00 PM	USA	Factory Orders (MoM)	Jan	1.6%	-0.9%
12:00 PM	USA	ISM Services	Feb	53.0	52.8
2:00 PM	Brazil	Central Bank Weekly Economist Survey (Focus)	-	-	-
4:00 PM	USA	Beige Book	-	-	-
03/06/25 Thursday					
5:00 AM	Brazil	IPC-Fipe (MoM)	Feb	-	0.24%
7:00 AM	Eurozone	Retail Sales (MoM)	Jan	0.1%	-0.2%
10:15 AM	Eurozone	ECB Deposit Facility Rate	-	2.50%	2.75%
10:30 AM	USA	Trade Balance	Jan	-\$92.8b	-\$98.4b
10:30 AM	USA	Nonfarm Productivity (QoQ)	4T (F)	1.2%	1.2%
10:30 AM	USA	Unit Labor Costs (QoQ)	4T (F)	3.0%	3.0%
10:30 AM	USA	Initial Jobless Claims	Feb	235k	242k
12:30 PM	Brazil	Foreign Exchange Transactions	-	-	-
03/07/25 Friday					
7:00 AM	Eurozone	GDP (YoY)	4T (F)	0.9%	0.9%
9:00 AM	Brazil	GDP	4T		
		4Q Accumulated		3.5%	3.1%
		QoQ		0.4%	0.9%
		YoY		4.1%	4.0%
10:30 AM	USA	Payroll	Feb	155k	143k
10:30 AM	USA	Average Hourly Earnings (MoM)	Feb	0.3%	0.5%
10:30 AM	USA	Unemployment Rate (%)	Feb	4.0%	4.0%
3:00 PM	Brazil	Monthly Trade Balance	Feb	\$2.2b	\$2.2b
5:00 PM	USA	Consumer Credit	Jan	\$14.5b	\$40.8b

Macroeconomic projections

	2020	2021	2022	2023	2024	2025	2026
GDP (%)	-3,3	4,8	3,0	2,9	3,4	1,8	1,7
Unemployment Rate (average, %)	13,8	13,2	9,3	8,0	6,6	7,1	7,5
IPCA (Consumer Price Index) (%)	4,5	10,1	5,8	4,6	4,8	5,2	4,4
Selic Rate (end of period, %)	2,00	9,25	13,75	11,75	12,25	15,50	11,75
Exchange Rate (end of period, R\$/US\$)	5,20	5,58	5,22	4,84	6,19	6,10	6,00
Current Account Transactions (US\$ billion)	-28,2	-46,4	-53,6	-28,6	-56,0	-62,8	-63,7
Current Account Transactions (% of GDP)	-1,7	-2,9	-2,8	-1,4	-2,6	-3,0	-2,8
Trade Balance - BCB (US\$ billion)	32,4	36,4	44,2	80,5	66,2	60,1	63,4
Foreign Direct Investment (US\$ billion)	37,8	46,4	87,2	62,0	71,1	72,0	75,0
Foreign Direct Investment (% of GDP)	2,6	2,8	4,5	2,8	3,2	3,5	3,3
Primary Result of the Central Government (R\$ billion)	-743,3	-35,1	54,1	-249,1	-43,0	-54,7	-57,0
Primary Result of the Central Government (% of GDP)	-9,8	-0,4	0,5	-2,3	-0,4	-0,5	-0,5
Primary Result of the Public Sector (R\$ billion)	-703,0	64,7	126,0	-249,1	-47,6	-45,7	-50,0
Primary Result of the Public Sector (% of GDP)	-9,2	0,7	1,3	-2,3	-0,4	-0,4	-0,4
Gross Public Debt (% of GDP)	86,9	77,3	71,7	74,3	76,1	78,5	80,8

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