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U.S. Labor Market in the spotlight, while IOF developments stay on Brazil's radar

Highlights

Following mixed data throughout the week, the U.S. Nonfarm Payrolls report surprised to the upside, reinforcing the view of a still resilient labor market.

In May, the Payrolls report showed the creation of 139,000 jobs, exceeding market expectations (126k) but decelerating from April's revised figure (147k). It's worth noting that April's numbers were downwardly revised from 177k, bringing the three-month moving average to 135k. The breakdown revealed a slowdown in private sector job creation, particularly in goods-producing industries, while the services segment accelerated, supported by stronger numbers in leisure and financial activities. On the wage side, earnings doubled at the margin, rising 0.4% MoM, indicating increasing wage pressures compared to previous months. Thus, in contrast to the weaker ADP data released on Wednesday (37k; est. 114k), the Payrolls supported the narrative of a labor market decelerating at a more moderate pace, strengthening the case for potential Fed Funds rate cuts starting in September. Another relevant event this week was the U.S. administration's announcement to double tariffs on steel and aluminum imports from 25% to 50%, justified as a protective measure for national industry and security. The decision added to trade uncertainties, especially with the negotiation deadline set for July 9. Ongoing talks resulted in the United Kingdom being exempt from the new measures, while Mexico and China condemned the tariff hike. These actions also impact Brazil — one of the U.S.'s largest steel trade partners — which may now seek to negotiate an exemption or compensatory measures. On the geopolitical front, U.S.–China relations saw modest progress, with a meeting between trade teams from both countries expected in the coming week. The environment remains uncertain, especially after sensitive comments from former President Trump directed at China. Still, negotiations are expected to continue without raising the current 30% tariff rates.

In Brazil, the week was marked by political negotiations surrounding alternatives to the IOF tax increase, which are set to be discussed by party leaders this Sunday.

On Tuesday, the Ministry of Finance had initially planned to unveil a package of compensatory measures for the IOF hike. However, the announcement was postponed, as the presidents of the House and Senate opted to wait for alignment with party leadership due to the sensitive nature of the measures. Sources close to the administration cited potential short-term options, including: auctions of excess oil production, taxation on cryptocurrency transactions, higher tax rates on betting activities, and progress on pre-existing proposals such as military pension reform and the "super salaries" bill. On the structural side, the proposals under discussion include an annual reduction of up to BRL 30 billion in tax expenditures, tighter access rules for the Continuous Cash Benefit (BPC), and the introduction of a constitutional amendment (PEC) to cap the growth of Fundeb expenditures while setting minimum spending floors for health and education.

However, recent public opinion polls have shown a consistent decline in government approval — driven by the IOF issue and, more notably, the INSS scandal. In response, the government has announced new quasi-fiscal initiatives. In a press conference, President Lula unveiled new credit lines for motorcycle purchases and home renovations, as well as a renewed “Vale Gás” (gas voucher) program, among other ongoing programs. This approach reinforced Moody’s recent revision of Brazil’s sovereign rating outlook from positive to stable, reflecting slower-than-expected progress in establishing fiscal policy credibility and spending discipline. The agency now projects public debt to stabilize around 88% of GDP over the next five years — higher than the previously estimated 82%.

External sector data for May reinforced the perception that full-year numbers may fall short of market expectations.

According to the Ministry of Development, Industry, Trade, and Services (MDIC), Brazil’s trade balance posted a surplus of USD 7.2 billion in May, below market consensus and down from April. On seasonally adjusted terms, both exports and imports declined, though import volumes remained elevated. After weaker trade performance in January and February—due to logistical disruptions in soybean exports—the physical trade balance rebounded as logistics normalized. Nonetheless, even with high export volumes, supported by expectations for a record 2025 soybean harvest, low commodity prices have prevented stronger export values. At the same time, resilient domestic activity—as evidenced by labor market data—has kept import demand high. For these reasons, we expect the Central Bank’s goods trade surplus to reach around USD 58 billion in 2025—well below the USD 75 billion projected in the Focus survey. Moreover, foreign exchange inflows have not fully materialized. According to Central Bank data, the gap between contracted and physical trade flows stood at -USD 0.8 billion in May (accumulating -USD 3.0 billion YTD). Combined with a strongly negative financial account balance (USD -7.7 billion in May and USD -32.2 billion from January to May), this trend supports our expectation for BRL depreciation to 5.85/USD in 2025 (vs. 5.80 in the Focus survey).

Economic Calendar

In **Brazil**, the highlight of the week will be the release of **May IPCA inflation data**, which we expect a 0.35% MoM increase. Additionally, **April's Monthly Survey data on retail and service sector activity** will also be published.

On the **international front**, the focus will be on **May inflation data—both consumer and producer—in the United States and China**. In the Eurozone, attention will turn to April's industrial production figures.

Date	Country	Event	Period	Survey	Buysidebrazil	Prior
06/08/25	**Sunday**					
10:30 PM	**China**	**PPI (YoY)**	**May**	**-3.1%**	**-**	**-2.7%**
10:30 PM	**China**	**CPI (YoY)**	**May**	**-0.2%**	**-**	**-0.1%**
06/09/25	**Monday**					
8:25 AM	Brazil	Central Bank Weekly Economist Survey (Focus)	-	-	-	-
3:00 PM	Brazil	Weekly Trade Balance	-	-	-	-
06/10/25	**Tuesday**					
5:00 AM	Brazil	IPC-Fipe (MoM)	Jun (1P)	-	-	0.38%
7:00 AM	USA	NFIB Small Business Optimism	May	95.8	-	95.8
8:00 AM	Brazil	IGP-M (MoM)	Jun (1P)	-	-	0.18%
9:00 AM	**Brazil**	**IPCA (MoM)**	**May**	**0.32%**	**0.35%**	**0.43%**
11:30 AM	Brazil	LFT and NTN-B Auction	-	-	-	-
06/11/25	**Wednesday**					
9:00 AM	Brazil	Quarterly Animal Slaughter Surveys	1T25	-	-	-
9:30 AM	**USA**	**CPI (MoM)**	**May**			
		Total		0.2%	-	0.2%
		Core		0.3%	-	0.2%
2:00 PM	USA	10-Year Treasury Auction	-	-	-	-
2:30 PM	Brazil	Foreign Exchange Transactions	-	-	-	-
3:00 PM	USA	Federal Budget Balance	May	-	-	$258.4b
06/12/25	**Thursday**					
9:00 AM	**Brazil**	**PMC - Retail Sales (MoM)**	**Apr**			
		Restrict		-	-	0.8%
		Broad		-	-	1.9%
9:00 AM	Brazil	Systematic Survey of Agricultural Production	May	-	-	-
9:30 AM	**USA**	**PPI (MoM)**	**May**			
		Total		0.2%	-	-0.5%
		Core		0.3%	-	-0.4%
9:30 AM	USA	Initial Jobless Claims	-	241k	-	247k
11:30 AM	Brazil	NTN-F and LTN Auction	-	-	-	-
1:00 PM	USA	Flow of Funds	1T25	-	-	-
2:00 PM	USA	30-Year Treasury Auction	-	-	-	-
06/13/25	**Friday**					
6:00 AM	**Eurozone**	**Industrial Production (MoM)**	**Apr**	**-1.6%**	**-**	**2.6%**
6:00 AM	Eurozone	Trade Balance (SA)	Apr	$20.0b	-	$27.9b
9:00 AM	**Brazil**	**PMS - Services Volume (MoM)**	**Apr**	**-**	**-**	**0.3%**
11:00 AM	**USA**	**U. of michigan Sentiment**	**Jun (P)**	**52.4**	**-**	**52.2**
		Expectations - 1Y Inflation		6.5%	-	6.6%
		Expectations - 5-10Y Inflation		4.2%	-	4.2%

Macroeconomic projections

Macroeconomic projections	2019	2020	2021	2022	2023	2024	2025	2026
Brazil GDP (%)	1,2	-3,3	4,8	3,0	2,9	3,4	**2,3**	**1,8**
Unemployment Rate (average, %)	12,0	13,8	13,2	9,3	8,0	6,6	**6,9**	**7,3**
IPCA (Consumer Price Index) (%)	4,3	4,5	10,1	5,8	4,6	4,8	**5,4**	**4,6**
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	12,25	**14,75**	**12,75**
Exchange Rate (end of period, R$/US$)	4,03	5,20	5,58	5,22	4,84	6,19	**5,85**	**5,95**
Current Account Transactions (US$ billion)	-68,0	-28,2	-46,4	-53,6	-28,6	-56,0	**-67,4**	**-69,4**
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	-2,6	**-3,1**	**-3,0**
Trade Balance - BCB (US$ billion)	26,5	32,4	36,4	44,2	80,5	66,2	**58,1**	**57,9**
Foreign Direct Investment (US$ billion)	69,2	37,8	46,4	87,2	62,0	71,1	**72,0**	**75,0**
Foreign Direct Investment (% of GDP)	3,7	2,6	2,8	4,5	2,8	3,2	**3,3**	**3,3**
Primary Result of the Central Government (R$ billion)	-95,1	-743,3	-35,1	54,1	-249,1	-43,0	**-61,0**	**-51,0**
Primary Result of the Central Government (% of GDP)	-1,3	-9,8	-0,4	0,5	-2,3	-0,4	**-0,5**	**-0,4**
Primary Result of the Public Sector (R$ billion)	-61,9	-703,0	64,7	126,0	-249,1	-47,6	**-52,3**	**-50,0**
Primary Result of the Public Sector (% of GDP)	-0,8	-9,2	0,7	1,3	-2,3	-0,4	**-0,4**	**-0,4**
Gross Public Debt (% of GDP)	74,4	86,9	77,3	71,7	74,3	76,1	**80,0**	**84,4**
United States - GDP (%)	2,5	-2,2	6,1	2,5	2,9	2,8	**1,7**	**2,0**
United States - PCE (%)	1,4	1,1	4,1	6,6	3,8	2,5	**3,5**	**2,8**
United States - Fed Funds Rate (end of period, %)	1,8	0,3	0,3	4,0	5,5	4,5	**4,3**	**3,8**

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