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Copom and Fed to adopt cautious tone next week

Highlights

Next week, the Central Bank is expected to slow down the pace of monetary tightening, but with a still tough tone, given the persistent unanchoring of inflation. Since the last Copom meeting in March, asset pricing has changed significantly, following the announcement of reciprocal tariffs by the US in early April. In the metric used by the Central Bank, there was a 1.7% appreciation of the Brazilian currency, which accompanied the weakening of the dollar during this period. In addition, the drop in commodity prices, especially Brent oil – whose variation makes the greatest downward contribution to the inflation outlook in the Central Bank's modeling – is noteworthy. Despite this, market projections remained practically unchanged, both for inflation and interest rates, indicating that the current level of the Selic rate is still not sufficient for inflation to converge to the target. In this sense, more recent speeches by the president of the Central Bank reinforced a tougher tone, after other members of the institution raised doubts among agents regarding the next steps in monetary policy. Its main message is that the committee is in the process of measuring how contractionary interest rates need to be – which corroborates our expectation of a 0.50pp increase at this meeting and a final 0.25pp increase in June, also considering that current inflation remains at a high level, with an increase in the headline and core average in the 3-month average SAAR, in the last 45 days.

In this sense, the labor market data released this week reinforced the perception that consumption should remain resilient, although economic activity shows a gradual slowdown.
The unemployment rate was in line with expectations (7.0%), according to data from the PNAD Contínua for March, accelerating in relation to February (6.8%). However, from the perspective of income, the data remain unfavorable, with increases in the original and seasonally adjusted data. Highlight to the mass of income, which already shows an increase of 6.6% in the year and, therefore, signals possible inflationary pressures ahead. In turn, the Caged index fell below expectations, with a balance of 72,000 formal jobs, against the consensus of 190,000 – due to the Carnival holiday in March, the bias was indeed weaker for this release, after the strong momentum recorded in the previous month. However, hiring salaries recorded a new increase in the margin. It is worth noting that the credit statistics for the aforementioned month also showed an increase of 0.6% m/m. According to the BC note, the default rate remained stable (at 3.2%), while household debt showed a slight deceleration in the margin (to 48.2%). Therefore, we reinforce our view that Copom should adopt a more hawkish and data-dependent stance, despite acknowledging that a terminal Selic rate below our base scenario (15.00%) has gained probability, mainly due to the external scenario.

Still in Brazil, external accounts and fiscal data brought more negative signals, despite not showing major discrepancies in relation to the consensus of market expectations.

In March, Current Accounts showed a deficit of US$ 2.2 billion, corresponding to -3.2% of GDP in 12 months. The better result compared to previous months was due to the improvement in the balance of goods, with a decline in the level of imports, while exports increased on the margin due to the normalization of soybean outflows. On the other hand, the Financial Account saw a drop in foreign direct investment (FDI) compared to February, and a decline in the foreign portfolio, both in fixed income and in stocks and funds. It is also worth mentioning the low rollover rate, at 65% in the month. Thus, we reinforce our expectation of a still high external deficit as a proportion of GDP for 2025, together with an exchange rate of R$ 5.85, due to this more negative financial flow. Finally, in the fiscal sphere, the highlight was the release of the Central Government's Primary Result (R$1.1 billion vs. est. R$1.3 billion), which brought better figures for the first quarter compared to last year, but reflecting the slower pace of payment of court orders and a slower evolution of mandatory expenses. Thus, the growth of expenses remains a concern for the government and, in the view of the Treasury Secretary, since the changes in the BPC rules were not fully approved last year, it is not yet possible to make the spending trajectory compatible with the Fiscal Framework.

Finally, in the external environment, the highlight was the results of the US labor market and GDP, which brought mixed signals.

Starting off the week's releases, the JOLTS showed a lower-than-expected job opening in March (7192k vs. est. 7500k), with a downward revision in February and a lower ratio between job openings and unemployed people. In the same vein, net ADP creation surprised sharply on the downside in April (62k vs. est. 115k), with a sharp slowdown in the services sector, pointing to a moderation in the labor market pace. GDP also fell sharply in the quarter (-0.3% q/q annualized), with a majority contribution from the increase in imports and inventories, in anticipation of Trump's trade tariffs. The drop in government spending also contributed to this movement, albeit to a lesser extent. In turn, consumption, despite being positive, lost momentum in the first quarter due to the loss of consumer confidence. Thus, we foresee a Fed Funds cut this year, but only in September, considering the bullish surprise in April's Payroll (177k, vs. est. 138k). This number resulted in an increase in the 3-month moving average, indicating a still dynamic market, despite the other indicators. As a result, next week's FOMC decision (which will keep interest rates unchanged) is likely to be accompanied by a cautious tone, as there is more uncertainty regarding the impacts of tariff policies.

Economic Calendar

In **Brazil**, the agenda will focus on the Copom Decision on Wednesday and the release of the IPCA for April on Friday.

On the **international scene**, the US monetary policy will also be highlighted, with the FOMC Decision, in addition to the ISM Services result. In addition, in the Eurozone, the PPI and Retail Sales results will be released, while in China the highlights will be the Inflation data and the Caixin PMI.

Date	Country	Event	Period	Survey	Buysidebrazil	Prior
05/05/25	**Monday**					
5:00 AM	Brazil	IPC-Fipe (MoM)	Apr	-	-	0.62%
5:30 AM	Eurozone	Sentix Investor Confidence	May	-11.5	-	-19.5
8:25 AM	Brazil	Central Bank Weekly Economist Survey (Focus)	-	-	-	-
10:45 AM	USA	PMI	Apr (F)			
		Services		51.4	-	51.4
		Composite		-	-	51.2
11:00 AM	**USA**	**ISM Services**	**Apr**	**50.2**	**-**	**50.8**
10:45 PM	**China**	**PMI Caixin**	**Apr**			
		Services		51.8	-	51.9
		Composite		-	-	51.8
05/06/25	**Tuesday**					
5:00 AM	Eurozone	PMI	Apr (F)			
		Services		49.7	-	49.7
		Composite		50.1	-	50.1
6:00 AM	**Eurozone**	**PPI (MoM)**	**Mar**	**-1.4%**	**-**	**0.2%**
9:30 AM	USA	Trade Balance	Mar	-$124.8b	-	-$122.7b
05/07/25	**Wednesday**					
6:00 AM	**Eurozone**	**Retail Sales (MoM)**	**Mar**	**-0.1%**	**-**	**0.3%**
9:00 AM	**Brazil**	**Industrial Production (MoM)**	**Mar**	**0.5%**	**-**	**-0.1%**
2:30 PM	Brazil	Commodity Index - Brazil (MoM)	Apr	-	-	-
2:30 PM	Brazil	Foreign Exchange Transactions	-	-	-	-
3:00 PM	Brazil	Monthly Trade Balance	Apr	-	$8.3b	$8.2b
3:00 PM	**USA**	**FOMC**	**-**	**4.50%**	**4.50%**	**4.50%**
3:30 PM	**USA**	**Jerome Powell Interview**	**-**	**-**	**-**	**-**
4:00 PM	USA	Consumer Credit	Mar	$10.0b	-	-$0.81b
6:30 PM	**Brazil**	**Copom**	**-**	**14.75%**	**14.75%**	**14.25%**
05/08/25	**Thursday**					
8:00 AM	Brazil	IGP-DI (MoM)	Apr	-	-	-0.50%
8:00 AM	**UK**	**BoE Decision**	**-**	**4.25%**	**-**	**4.50%**
9:30 AM	USA	Labor Productivity (QoQ)	1T (P)	-0.5%	-	1.5%
9:30 AM	USA	Unit Labor Cost (QoQ)	1T (P)	5.4%	-	2.2%
9:30 AM	USA	Initial Jobless Claims	-	-	-	241k
05/09/25	**Friday**					
7:15 AM	USA	J. Williams' Speech (New York Fed)	-	-	-	-
9:00 AM	**Brazil**	**IPCA (MoM)**	**Apr**	**0.45%**	**0.41%**	**0.56%**
9:00 AM	USA	A. Kugler' Speech (Fed Governor)	-	-	-	-
11:40 AM	USA	S. Barr' Speech (Fed Governor)	-	-	-	-
12:30 PM	USA	J. Williams' Speech (New York Fed)	-	-	-	-
8:45 PM	USA	A. Musalem' Speech (St. Louis Fed)	-	-	-	-
10:30 PM	**China**	**PPI (YoY)**	**Apr**	**-**	**-**	**-2.5%**
10:30 PM	**China**	**CPI (YoY)**	**Apr**	**-**	**-**	**-0.1%**

Macroeconomic projections	2019	2020	2021	2022	2023	2024	2025	2026
GDP (%)	1,2	-3,3	4,8	3,0	2,9	3,4	**1,9**	**1,6**
Unemployment Rate (average, %)	12,0	13,8	13,2	9,3	8,0	6,6	**7,1**	**7,5**
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	**15,00**	**13,00**
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	**-65,1**	**-69,4**
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	-2,6	**-2,9**	**-3,0**
Trade Balance - BCB (US$ billion)	26,5	32,4	36,4	44,2	80,5	66,2	**60,2**	**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	**3,2**	**3,2**
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**

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