

Below-expected activity data and Copom minutes reinforce our expectation of a halt in interest rates in June

Highlights

The Copom minutes confirmed the message in the statement that the committee prefers to postpone interest rate cuts, rather than hike them further.

On Tuesday, the Brazilian Central Bank indicated that restrictive interest rates have already impacted economic activity, as seen in the credit market and business surveys. Furthermore, for the committee, short-term upward surprises should not prevent the slowdown from continuing in the coming quarters – even with the incorporation of private payroll loans in its baseline scenario. In this sense, it highlighted the inherent time lags in monetary policy mechanisms, the effects of which should deepen throughout the year. Despite this, the BC acknowledges the high level of inflation expectations and current inflation, the latter explained by demand pressures. In fact, in its own forecast, the inflation expected for the relevant horizon was slightly revised downwards in relation to March (from 3.7% to 3.6%), remaining above the target. In addition, the scenario of greater uncertainty brought risks to inflationary dynamics, but the institution understands that the balance of risks is less asymmetrical than at the previous meeting. As a result, we maintained our expectation of maintaining the Selic rate at the June meeting, at 14.75%.

In March, trade and services negatively surprised the consensus of market forecasts, but the economy is still buoyant.

The restricted retail sales data increased 0.8% m/m and the abroad increased 1.9% m/m in March, both below expectations (1.0% and 2.1%, respectively). On the margin, the growth in retail was quite widespread, especially in the metrics most associated with income, as well as in the latest releases. A specific highlight was the dynamics of books and magazines this month, which in previous years showed greater momentum in February. In the quarter, the data consolidates the growth in trade at the turn of the year, mainly due to the more favorable scenario of family income, according to labor market data. Meanwhile, services volume advanced 0.3% m/m in March, also below market expectations (0.5%). Additionally, the February figure was revised downwards, moving from 0.8% to 0.9% m/m. The increase was mainly explained by a more constructive dynamic in transportation services, driven by the flow of vehicles during Carnival. Also impacted by the holiday, services provided to families accelerated again at the margin, especially due to the opening of accommodations. With all the hard data released, the message is that the signs of economic slowdown are still in their early stages, so the first quarter continues to show growth in ex-agricultural components, although not at the same levels as 2024.

In the political arena, domestic news was a relevant vector for domestic risk premiums.

The news indicated that the federal government was supposedly evaluating a package of measures with social and fiscal appeals to try to boost its popularity – which was denied by Haddad. The Finance Minister stated that he would only present specific measures to ensure compliance with the primary target and denied moves to increase the Bolsa Família budget. In addition, the government began discussions on the reinclusion of court-ordered debts in the fiscal target as of 2027, when the STF authorization that allows the payment of these debts outside the budget rules expires. One idea under study would make the fiscal target for the year more flexible according to the amount of court-ordered debts to be paid, which would require a bill scheduled for the second half of the year. Finally, in Congress, the Income Tax reform is also the focus of attention, with the Speaker of the House advocating a broader and more structured approach. However, members of Congress express skepticism about the sufficiency of the fiscal compensation proposed by the government.

In the US data, there are significant reflections of the new trade situation, which should keep the Fed cautious in its monetary policy decisions.

The CPI rose 0.22% m/m in April, below expectations (0.3%), influenced by the US tariff policy – mainly in sectors that stockpiled products in previous months. In the same sense, the PPI was negative at 0.5% m/m, slowing down compared to March (0.0%) and below expectations (0.2%). In this indicator, there was an upward revision for the data from the previous month, due to the pressure from tariffs, while the data for April showed a slowdown in relation to the revised data. Retail, in turn, rose 0.06% m/m in April, in line with expectations, while the data for March were revised upward (from 1.4% to 1.7%). Once again, the narrative that there was stronger consumption in March, in anticipation of the effects of the trade policy announced later, is reinforced. Finally, it is worth mentioning the preliminary result of Michigan's consumer confidence, which surprised on the downside (50, vs. est. 53.5), both due to the current situation and expectations. On the other hand, the 1-year and 5- to 10-year inflation expectations of this index were above expectations, at 7.3% and 4.6%, respectively. However, it is worth noting that there is a significant discrepancy between Democratic and Republican respondents, with the former having more pessimistic expectations. Given this scenario, the Fed should maintain its cautious stance and we maintained the scenario of only one interest rate cut in 2025.

Economic Calendar

In **Brazil**, the agenda will focus on the release of the **Bimonthly Primary Revenue and Expenditure Assessment Report**, in addition to data from the **Economic Activity** and the **GDP Monitor** for March.

On the international scene, the agenda is more empty of relevant economic indicators, with only the **Flash PMIs** in the **US** and the **Eurozone** standing out.

Date	Country	Event	Period	Survey	Buysidebrazil	Prior
05/19/25 Monday						
5:00 AM	Brazil	IPC-Fipe (MoM)	May (2P)	-	-	0.42%
6:00 AM	Eurozone	CPI (MoM)	Apr (F)	0.6%	-	0.6%
8:25 AM	Brazil	Central Bank Weekly Economist Survey (Focus)	-	-	-	-
9:00 AM	Brazil	Economic Activity (MoM)	Mar	0.30%	0.40%	0.44%
9:30 AM	USA	R. Bostic' Speech (Fed Atlanta)	-	-	-	-
9:45 AM	USA	P. Jefferson' Speech (Conselho do Fed)	-	-	-	-
10:15 AM	Brazil	GDP Monitor	Mar	-	-	0.0%
11:00 AM	USA	Leading Index	Apr	-0.9%	-	-0.7%
2:15 PM	USA	L. Logan' Speech (Fed Dallas)	-	-	-	-
3:00 PM	Brazil	Weekly Trade Balance	-	-	-	-
10:00 PM	China	Loan Prime Rate	-	-	-	-
		1Y		3.00%	-	3.10%
		5Y		3.50%	-	3.60%
05/20/25 Tuesday						
3:00 AM	Germany	PPI (MoM)	Apr	-0.3%	-	-0.7%
8:00 AM	Brazil	IGP-M (MoM)	May (2P)	-	-	-0.04%
9:30 AM	USA	Philadelphia Fed Non-Manufacturing Activity	May	-	-	-42.7
10:00 AM	USA	R. Bostic' Speech (Fed Atlanta)	-	-	-	-
11:00 AM	Eurozone	Consumer Confidence	May (P)	-16.0	-	-16.7
8:00 PM	USA	B. Hammack' Speech (Fed Cleveland)	-	-	-	-
05/21/25 Wednesday						
2:30 PM	Brazil	Foreign Exchange Transactions	-	-	-	-
05/22/25 Thursday						
5:00 AM	Eurozone	PMI	May (P)			
		Manufacturing		49.3	-	49.0
		Services		50.5	-	50.1
		Composite		50.8	-	50.4
5:00 AM	Germany	IFO - Business Climate	May	87.4	-	86.9
9:30 AM	USA	Initial Jobless Claims	-	228k	-	229k
9:30 AM	USA	Chicago Fed National Activity Index	Apr	-	-	-0.03
10:45 AM	USA	PMI	May (P)			
		Manufacturing		49.8	-	50.2
		Services		51.1	-	50.8
		Composite		-	-	50.6
11:00 AM	USA	Existing Home Sales	Apr	4.13m	-	4.02m
12:00 PM	USA	Kansas City Fed Manufacturing Activity	May	-	-	-4
2:30 PM	Brazil	Quarterly Credit Conditions Survey Report	1T25	-	-	-
-	Brazil	National Monetary Council Meeting	-	-	-	-
-	Brazil	Bi-monthly Primary Revenue and Expenditure Assessment Report	2Q25	-	-	-
05/23/25 Friday						
11:00 AM	USA	New Home Sales	Apr	690k	-	724k
12:00 PM	USA	Kansas City Fed Services Activity	May	-	-	3

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	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	-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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