

Powell's Jackson Hole speech reaffirms bets on U.S. rate cuts, while Lula regains popularity in national polls

Highlights

Following the release of the now-dated July FOMC minutes, Jerome Powell's speech at Jackson Hole signaled the beginning of rate cuts as early as September.

The FOMC minutes indicated that the U.S. economy was losing momentum, with consumption moderating, residential investment declining, and more evident signs of labor market cooling, even as conditions remained relatively balanced overall. Inflation was stable between 2.5% and 2.7%, but the impact of tariffs heightened perceived inflation risks. Several members assessed that prices could remain above target for longer and that a de-anchoring of expectations was a tangible risk. Against this backdrop, although two members advocated for an immediate 25bp cut, the majority opted to keep rates unchanged, emphasizing that inflation risks outweighed those from slowing activity and employment. The tone reinforced the view that inflation remained the predominant risk, cooling bets for a September rate cut. However, Powell's Jackson Hole remarks marked a turning point. He acknowledged that the labor market slowdown was far sharper than previously estimated, with payroll growth falling from an average of 168k in 2024 to just 35k over the past three months, and he warned that downside risks could materialize rapidly. Importantly, Powell announced the end of the Fed's "makeup" strategy, meaning the tolerance for inflation above the 2% target for prolonged periods as compensation for earlier undershooting. He admitted that the approach had not worked and reaffirmed that the Fed's goal is now to strictly maintain inflation at 2%, without extended deviations. This strengthens policy credibility and reduces communication ambiguity. As a result, while the FOMC minutes initially dampened expectations for September easing, Powell's Jackson Hole speech, particularly his recognition of labor market weakness, reversed market sentiment. Rate-cut bets became dominant, with markets now pricing in the first cut at the September meeting. We therefore reaffirm our baseline scenario of two Fed Funds cuts in 2025, beginning in September and followed by another in December.

In domestic politics, Lula's popularity recovers amid lower food inflation and Trump's tariff shock.

The week's highlight was the Genial/Quaest poll showing a rebound in President Lula's approval, which rose from 43% to 46%, while disapproval fell from 53% to 51%. The improvement is largely attributed to better economic perceptions and Lula's firm stance in response to U.S. tariffs. Survey data showed a sharp decline in the share of the population reporting rising prices and improved expectations for the economy. Comparisons with the Bolsonaro administration shifted back in Lula's favor, especially among politically unaligned voters. The poll also indicated that a majority of Brazilians view Trump's tariffs as misguided and see Lula as defending the country, while Jair and Eduardo Bolsonaro registered the most negative evaluations for their handling of the episode.

In the 2026 presidential race, Lula widened his advantage in second-round scenarios after previously showing a technical tie with São Paulo Governor Tarcísio de Freitas. He now leads by 43% to 35% and maintains favorable margins against all other tested opponents, including members of the Bolsonaro family, Romeu Zema, and Ratinho Júnior, with gaps ranging from 10 to 16 points. This shift reflects both the erosion of Bolsonarism in the wake of Trump's tariff shock and perceptions of economic recovery and Lula's leadership. The rebound in popularity gains further relevance against the backdrop of corruption scandals surrounding the former president, which are damaging his allies' image.

In inflation, we revised our IPCA projections to 4.7% in 2025 and 4.2% in 2026.

This week, Paraná Governor Ratinho Júnior announced a cut in the state vehicle tax (IPVA), from 3.5% in 2025 to 1.9% in 2026, benefiting 3.4 million vehicle owners. We estimate this move will deliver a meaningful disinflationary impact on the national CPI, equivalent to roughly -12bps in 2026 IPCA. Consequently, we revised our forecast for the "Registration and licensing" subcomponent from +3.0% to -1.5% YoY in 2026. At the same time, the measure implies that the average IPVA nationwide, weighted in the CPI basket, will fall from 3.5% in 2025 to 3.4% in 2026. Additional downward pressures stem from falling car prices, reflecting IPI tax cuts on compact cars, which reinforce the disinflationary outlook for this group. As a result, we revised our headline IPCA forecast for 2025 to 4.7% (from 4.8%) and for 2026 to 4.2% (from 4.3%). These revisions support our scenario of the Central Bank beginning its easing cycle in January 2026.

Economic Calendar

In **Brazil**, the main highlight of the agenda will be the release of the **August IPCA-15**, for which we project a **deflation of -0.22% MoM**, alongside the publication of the **Central Bank's Economic and Financial Notes for July**. In addition, the fiscal data of the Central Government will also be released.

On the **international front**, attention will turn to the **Q2 GDP revision in the United States**, together with the **July PCE data**. Furthermore, China's PMI figures will be released at the end of the week.

Date	Country	Event	Period	Survey	Buysidebrazil	Prior
08/25/25 Monday						
5:00 AM	Germany	Business Climate - IFO	Aug	88.8	-	88.6
8:00 AM	Brazil	Consumer Confidence	Aug	-	-	86.7
8:25 AM	Brazil	Central Bank Weekly Economist Survey (Focus)	-	-	-	-
9:30 AM	USA	National Activity Index (CFNAI)	Jul	-	-	-0.1
11:00 AM	USA	New Home Sales	Jul	635k	-	627k
11:30 AM	USA	Dallas Industrial Survey	Aug	-	-	0.9
3:00 PM	Brazil	Weekly Trade Balance	-	-	-	-
4:15 PM	USA	L. Logan' Speech (Fed Dallas)	-	-	-	-
8:15 PM	USA	J. Williams' Speech (Fed Board)	-	-	-	-
08/26/25 Tuesday						
5:00 AM	Brazil	IPC-Fipe (MoM)	Aug (3P)	-	-	0.09%
8:00 AM	Brazil	Construction Survey	Aug	-	-	-
8:30 AM	Brazil	External Sector Statistics	Jul			
		Current Account		-	-\$6.6b	-\$5.1b
		FDI		-	\$5.8b	\$2.8b
9:00 AM	Brazil	IPCA-15 (MoM)	Aug		-0.22%	0.33%
9:30 AM	USA	Durable Goods Orders (MoM)	Jul (P)	-4.00%	-	-9.4%
9:30 AM	USA	Philadelphia Service Sector Activity Index	Aug	-	-	-
10:00 AM	USA	Preços Residenciais (MoM)	Jun	-	-	-0.34%
11:00 AM	USA	Richmond Industrial Survey	Aug	-	-	-20
11:00 AM	USA	Consumer Confidence	Aug	96.2	-	97.2
11:30 AM	USA	Dallas Service Sector Activity Index	Aug	-	-	-
10:30 PM	China	Total Industry Profits (YoY)	Jul	-	-	-4.3%
08/27/25 Wednesday						
8:00 AM	Brazil	Industry Survey	Aug	-	-	-
8:30 AM	Brazil	Credit Statistics	Jul	-	-	-
2:30 PM	Brazil	Foreign Exchange Transactions	-	-	-	-
2:30 PM	Brazil	Monthly Federal Public Debt Report	Jul	-	-	R\$7.9t
08/28/25 Thursday						
6:00 AM	Eurozone	Economic Confidence	Aug	96.0	-	95.8
8:00 AM	Brazil	IGP-M (MoM)	Aug	-	-	-0.77%
8:00 AM	Brazil	Retail Survey	Aug	-	-	87.1
8:00 AM	Brazil	Services Survey	Aug	-	-	89.7
9:30 AM	USA	GDP (QoQ an.)	2Q (S)	3.1%	-	3.0%
9:30 AM	USA	Initial Jobless Claims	-	210k	-	-
11:00 AM	USA	Pending Home Sales (MoM)	Jul	-0.2%	-	-0.8%
12:00 PM	USA	Kansas Industrial Survey	Aug	-	-	1.0
2:30 PM	Brazil	Central Government Primary Result	Jul	-	-	-R\$44.3b
7:00 PM	USA	J. Waller' Speech (Fed St. Louis)	-	-	-	-
-	Brazil	Caged (Formal Employment)	Jul	-	130k	167k
-	Brazil	Meeting of the National Monetary Council	-	-	-	-
08/29/25 Friday						
8:30 AM	Brazil	Fiscal Statistics (Primary Result)	Jul	-	-	-R\$47.1b
9:30 AM	USA	PCE Deflator (MoM)	Jul			
		Total		0.2%	-	0.3%
		Core		0.3%	-	0.3%
9:30 AM	USA	Personal Income (MoM)	Jul	0.4%	-	0.3%
9:30 AM	USA	Personal Spending (MoM)	Jul	0.5%	-	0.3%
9:30 AM	USA	Trade Balance	Jul	-\$90b	-	-\$86b
11:00 AM	USA	U. of Michigan Sentiment	Aug (F)	58.6	-	58.6
		Inflation Expectations 1Y		-	-	4.9%
		Inflation Expectations 5-10Y		-	-	3.9%
12:00 PM	USA	Kansas Service Sector Activity Index	Aug	-	-	-50
-	Brazil	Definition of the electricity tariff flag	Sep	-	Red 2	Red 2
08/30/25 Saturday						
10:30 PM	China	PMI (NBS)	Aug			
		Manufacturing		49.3	-	49.3
		Services		50.1	-	50.1
		Composite		-	-	50.2

Macroeconomic projections

	2019	2020	2021	2022	2023	2024	2025	2026
Brazil GDP (%)	1,2	-3,3	4,8	3,0	2,9	3,4	2,1	1,8
Unemployment Rate (average, %)	12,0	13,8	13,2	9,3	8,0	6,6	6,3	6,7
IPCA (Consumer Price Index) (%)	4,3	4,5	10,1	5,8	4,6	4,8	4,7	4,2
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	12,25	15,00	12,75
Exchange Rate (end of period, R\$/US\$)	4,03	5,20	5,58	5,22	4,84	6,19	5,65	5,70
Current Account Transactions (US\$ billion)	-68,0	-28,2	-46,4	-53,6	-28,6	-56,0	-76,3	-74,9
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	-2,6	-3,5	-3,3
Trade Balance - BCB (US\$ billion)	26,5	32,4	36,4	44,2	80,5	66,2	52,6	53,6
Foreign Direct Investment (US\$ billion)	69,2	37,8	46,4	87,2	62,0	71,1	66,8	75,0
Foreign Direct Investment (% of GDP)	3,7	2,6	2,8	4,5	2,8	3,2	3,1	3,3
Primary Result of the Central Government (R\$ billion)	-95,1	-743,3	-35,1	54,1	-249,1	-43,0	-73,9	-67,8
Primary Result of the Central Government (% of GDP)	-1,3	-9,8	-0,4	0,5	-2,3	-0,4	-0,6	-0,5
Primary Result of the Public Sector (R\$ billion)	-61,9	-703,0	64,7	126,0	-249,1	-47,6	-42,5	-37,8
Primary Result of the Public Sector (% of GDP)	-0,8	-9,2	0,7	1,3	-2,3	-0,4	-0,3	-0,3
Gross Public Debt (% of GDP)	74,4	86,9	77,3	71,7	74,3	76,1	79,4	83,7
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	4,0	3,50

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