

## The Fed is expected to cut rates while the Copom preserves a cautious tone

### Highlights

**We expect the FOMC to announce a 25bps cut at the next meeting, reflecting rising concerns about labor market conditions.**

The August Payroll report came in significantly weaker and added to downward revisions in previous months, reinforcing the view that the slowdown is broader and more consistent. This scenario confirms Powell's assessment at the Jackson Hole Symposium, when he highlighted that risks to the maximum employment mandate had been intensifying and required greater attention from monetary policy. On the inflation side, the most recent data suggest contained pressures without signs of meaningful acceleration. The PCE remains above target but with relatively stable core measures. Wholesale indices came in below expectations, pointing to limited tariff pass-through so far, partly due to inventory pre-accumulation and corporate caution in fully passing on costs. As a result, the balance of risks has shifted, with inflation still above target but not accelerating, while the labor market shows rapid and broad-based deterioration. We therefore maintain our view of a 25bps cut in September, followed by consecutive cuts in October and December, compared with a previous expectation of only two cuts this year.

**In line with this new outlook for US monetary policy, we have revised our domestic scenario, with particular focus on the exchange rate.**

The prospect of faster Fed easing implies a globally weaker dollar, leading us to revise our DXY projection to 97. In Brazil, risk perception remains relatively stable, with no new fiscal shocks or political instability episodes warranting additional risk premia. We therefore calibrate our CDS projection to 140bps, which together with a weaker DXY led us to revise the exchange rate to 5.50 reais per dollar, compared with previous estimates of 5.65 in 2025 and 5.70 in 2026. Despite the usual seasonal deterioration in external accounts and FX flows toward year-end, we believe the global dollar weakening will remain the dominant driver, alongside an interest rate differential that should increase in the coming months. Consequently, a stronger currency has positive effects on inflation, particularly in industrial goods, prompting a downward revision of our IPCA forecast to 4.6 percent in 2025 and 4.1 percent in 2026, compared with 4.7 and 4.2 percent previously.

**In terms of monetary policy, we expect the Copom to keep the Selic at 15.0 percent at the upcoming meeting, reinforcing a hawkish tone even in a more benign inflation environment.**

Recent communication has reiterated a preference for maintaining high interest rates for an extended period until greater confidence is achieved regarding convergence of inflation to target. The assessment is that, although expectations have declined in recent weeks, full anchoring has not yet been achieved and remains central to the reaction function. On the inflation front, recent data have been mixed. The IPCA surprised to the downside in July and to the upside in August, both influenced by volatile items. Core services remain pressured and should accelerate in September, with expectations of moderation over the year in line with the average of core measures.

Activity indicators show signs of moderation without an abrupt slowdown, while the labor market remains more dynamic than expected, with real wages still high although likely to lose momentum in the coming quarters. The Central Bank's projections should be eased by currency appreciation and lower expectations, opening room for downward revisions. Nevertheless, maintaining a hawkish stance is justified by the need to consolidate re-anchoring, by the expansionary bias of fiscal policy that supports domestic demand, and by an adverse external environment, particularly in the United States. In this context, the Copom is likely to acknowledge progress on inflation but maintain the strategy of elevated rates until stronger conviction is reached regarding sustained convergence and full anchoring of expectations. We therefore maintain our view that the easing cycle should only begin in December 2025.

## Economic Calendar

In **Brazil**, the domestic agenda will be highlighted by the release of the July IBC-Br and PNAD figures, alongside the Copom monetary policy decision, where we expect rates to be maintained at 15 percent.

On **the international front**, focus will be on the FOMC monetary policy decision and the release of the Fed's updated projections. In addition, sectoral survey data for August in the United States will also be published.

Date	Country	Event	Period	Survey	Prior
<b>09/08/25 Monday</b>					
8:25	Brasil	Central Bank Weekly Economist Survey (Focus)	-	-	-
9:00	Brasil	<b>Economic Activity Index (MoM)</b>	Jul	-0.5%	-0.1%
9:30	EUA	Empire Manufacturing	Set	4.8	11.9
15:00	Brasil	Weekly Trade Balance	-	-	-
<b>09/09/25 Tuesday</b>					
6:00	Z. do Euro	Industrial Production (MoM)	Jul	0.3%	-1.3%
9:00	Brasil	<b>Unemployment Rate</b>	Jul	5.7%	5.8%
9:30	EUA	Retail Sales (MoM)	Ago	0.2%	0.5%
9:30	EUA	New York Fed Services Business Activity	Set	-	-11.7
10:15	EUA	Industrial Production (MoM)	Ago	-0.1%	-0.1%
<b>09/10/25 Wednesday</b>					
6:00	Z. do Euro	CPI (YoY)	Ago	2.1%	2.1%
5:00	Brasil	IPC-FIPE (MoM)	2ª q	-	0.15%
8:00	Brasil	<b>IGP-10 (MoM)</b>	Set	-	0.16%
14:30	Brasil	Foreign Exchange Transactions	-	-	-
15:00	EUA	<b>Monetary Policy Decision</b>	Set	4.25%	4.5%
15:30	EUA	Jerome Powell Speech	-	-	-
18:30	Brasil	<b>Monetary Policy Decision</b>	Set	15,00%	15,00%
<b>09/11/25 Thursday</b>					
8:00	R. Unido	Monetary Policy Decision	Set	4,0%	4,0%
9:30	EUA	Initial Jobless Claims	-	245k	-
9:30	EUA	Sondagem Industrial - Filadélfia	Set	1.5	-0.3
11:00	EUA	Leading Index MoM	Ago	-0.1%	-0.1%
<b>09/12/25 Friday</b>					
8:00	Brasil	IGP-M 2nd Preview	Set	-	0.27%
	Japão	<b>Monetary Policy Decision</b>	Set	0.5%	0.5%

**Macroeconomic projections**

	2019	2020	2021	2022	2023	2024	2025	2026
Brazil GDP (%)	1,2	-3,3	4,8	3,0	2,9	3,4	<b>2,1</b>	<b>1,8</b>
Unemployment Rate (average, %)	12,0	13,8	13,2	9,3	8,0	6,6	<b>6,3</b>	<b>6,7</b>
IPCA (Consumer Price Index) (%)	4,3	4,5	10,1	5,8	4,6	4,8	<b>4,6</b>	<b>4,1</b>
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	12,25	<b>14,75</b>	<b>12,25</b>
Exchange Rate (end of period, R\$/US\$)	4,03	5,20	5,58	5,22	4,84	6,19	<b>5,50</b>	<b>5,50</b>
Current Account Transactions (US\$ billion)	-68,0	-28,2	-46,4	-53,6	-28,6	-56,0	<b>-76,3</b>	<b>-74,9</b>
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	-2,6	<b>-3,5</b>	<b>-3,3</b>
Trade Balance - BCB (US\$ billion)	26,5	32,4	36,4	44,2	80,5	66,2	<b>52,6</b>	<b>53,6</b>
Foreign Direct Investment (US\$ billion)	69,2	37,8	46,4	87,2	62,0	71,1	<b>66,8</b>	<b>75,0</b>
Foreign Direct Investment (% of GDP)	3,7	2,6	2,8	4,5	2,8	3,2	<b>3,1</b>	<b>3,3</b>
Primary Result of the Central Government (R\$ billion)	-95,1	-743,3	-35,1	54,1	-249,1	-43,0	<b>-73,9</b>	<b>-67,8</b>
Primary Result of the Central Government (% of GDP)	-1,3	-9,8	-0,4	0,5	-2,3	-0,4	<b>-0,6</b>	<b>-0,5</b>
Primary Result of the Public Sector (R\$ billion)	-61,9	-703,0	64,7	126,0	-249,1	-47,6	<b>-42,5</b>	<b>-37,8</b>
Primary Result of the Public Sector (% of GDP)	-0,8	-9,2	0,7	1,3	-2,3	-0,4	<b>-0,3</b>	<b>-0,3</b>
Gross Public Debt (% of GDP)	74,4	86,9	77,3	71,7	74,3	76,1	<b>79,4</b>	<b>83,7</b>
United States - GDP (%)	2,5	-2,2	6,1	2,5	2,9	2,8	<b>1,7</b>	<b>2,0</b>
United States - PCE (%)	1,4	1,1	4,1	6,6	3,8	2,5	<b>3,5</b>	<b>2,8</b>
United States - Fed Funds Rate (end of period, %)	1,8	0,3	0,3	4,0	5,5	4,5	<b>3,75</b>	<b>3,00</b>

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