

## Inflation in Brazil and the United States reflecting the effects of the war in the Middle East

### Highlights

**In Brazil, the week was marked by the release of inflation and activity data amid a backdrop of increasing political tensions.** The first relevant indicator was April's IPCA, which came in line with market consensus but with a qualitatively less favorable composition than expected. Despite some relief in administered prices, particularly gasoline, core services showed stronger pressure, especially personal services, pushing core inflation measures higher. In food, fresh products continued to decelerate, but at a slower pace than projected, maintaining a still-pressured dynamic and increasing concerns for the remainder of the year, particularly given the potential second-round effects from higher fuel prices. Overall, the print was qualitatively worse than the IPCA-15, although still without clear signs of a consistent and broad-based reacceleration in underlying inflation components.

**On activity, the indicators also delivered mixed signals.** Retail sales grew in line with our expectations, but above market consensus, supported by the resilience of the labor market, rising wage mass, and stronger momentum in the fuel segment amid the onset of the war. As a result, the sector posted 1.2% growth in the first quarter, reinforcing our expectation of GDP growth of the same magnitude for the period. On the other hand, the Monthly Services Survey (PMS) painted a different picture, with a 1.2% decline in March and a 0.7% contraction in the first quarter. The services sector, especially household-related services, remains the main source of slowdown in activity, reflecting the difficulty in offsetting the effects of high household indebtedness. In addition, some segments have begun to feel the impact of the war more intensely, such as transportation, which, unlike the fuel segment in the PMC, saw weaker demand and greater difficulty passing through costs. Thus, the data continue to point to a more uncertain environment, with greater spillovers from the war in Iran onto the domestic economy, reinforcing the Central Bank's cautious stance.

Another highlight of the week was the political backdrop: the release of an audio recording involving presidential candidate Flávio Bolsonaro and banker Daniel Vorcaro added new concerns to the political environment and interrupted part of the opposition's recent momentum. As the electoral process approaches, political developments — even when often perceived merely as noise — are likely to play an increasingly important role in the pricing of domestic assets.

**In the United States, the week was also eventful, with the release of inflation and activity data alongside Donald Trump's visit to China.** Regarding the data, both consumer and producer prices reflected the impact of the oil and fuel shock, resulting in a more pressured headline inflation reading. In CPI, the data reinforced that the impact of oil remains relevant but still concentrated in energy and mobility- and housing-related services, without clear signs of broader contamination across other core components. In PPI, however, April's release showed broader impacts, although with still-limited pass-through along the production chain. For the Fed, the inflation outlook continues to require caution and close monitoring of second-round effects from the energy shock on prices and expectations. On activity, retail sales showed that consumption remains resilient, although growing at a more gradual pace and with a less favorable

composition for goods, consistent with an environment still pressured by high interest rates and persistent services inflation.

**Nevertheless, the main highlight remains geopolitics and the developments surrounding the war in Iran.** Donald Trump's visit to China appears to have contributed to softening the tone of his remarks regarding Iran, possibly reflecting a more cautious stance during the trip. Although Trump stated that Xi Jinping had offered assistance in the diplomatic process, signals from the media indicate that Beijing intends to maintain its traditionally diplomatic posture, without clear prospects for more direct intervention in the conflict. As a result, uncertainty remains elevated regarding both the duration of the war and the next steps by the United States. Still, there was meaningful convergence between both countries in reaffirming that Iran should not develop nuclear weapons and that maritime flows through the Strait of Hormuz should not be restricted. Attention was also drawn to Trump's statement suggesting that only the United States or China could receive the enriched uranium transferred by Iran, indicating that Beijing could potentially act as custodian under a future agreement. Although it still seems unlikely that Iran would agree to relinquish this material, the signal may marginally facilitate negotiations in the short term.

## Economic Calendar

In **Brazil**, the week's highlight will be the release of March's IBC-Br, which closes the first quarter of the year. We expect a 0.1% m/m decline.

In the **International Scenario**, attention will focus on the minutes from the latest FOMC meeting. In the Euro Area, the main highlight will be April consumer inflation data.

Date	Country	Event	Period	Buysidebrazil	Prior
<b>05/18/26</b>	<b>Monday</b>				
8:00	Brazil	IGP-10 (MoM)	mai/26		2,94%
8:25	Brazil	Central Bank Weekly Economist Survey (Focus)	mai/26		-
9:00	Brazil	<b>Economic Activity Index (MoM)</b>	mar/26	-0,1%	0,60%
9:30	US	NY Services Sector Activity Index	mai/26		-14
11:00	US	Builder Confidence Index	mai/26		34
15:00	Brazil	Weekly Trade Balance	mai/26		-
<b>05/19/26</b>	<b>Tuesday</b>				
5:00	Brazil	CPI - FIPE	mai/26		-
9:00	Brazil	Quarterly Livestock Slaughter Survey: Preliminary Results	mar/26		-
20:00	US	Speech by A. Paulson (Fed Philadelphia)			
<b>05/20/26</b>	<b>Wednesday</b>				
6:00	Eurozone	CPI (YoY)	abr/26		3,0%
6:00	Eurozone	Core CPI (YoY)	abr/26		2,2%
11:30	US	Crude Oil Inventories	mai/26		-
14:30	Brazil	Weekly FX Flow	mai/26		-
15:00	US	<b>FOMC Minutes</b>	abr/26		-
<b>05/21/26</b>	<b>Thursday</b>				
4:30	Germany	PMI Composite	mai/26		48,4
5:00	Eurozone	PMI Composite	mai/26		48,8
9:30	US	Initial Jobless Claims	mai/26		-
9:30	US	Philadelphia Fed Manufacturing Survey	mai/26		26,7
10:45	US	<b>PMI Composite</b>	mai/26		51,7
11:00	Eurozone	Consumer Confidence	mai/26		-20,6
12:00	US	Kansas City Fed Manufacturing Survey	mai/26		10
<b>05/22/26</b>	<b>Friday</b>				
3:00	Germany	GDP (QoQ)	mar/26		0,30%
5:00	Germany	Business Climate	mai/26		84,4
11:00	US	Consumer Confidence	mai/26		48,2
11:00	US	1yr Inflation Expectations	mai/26		4,50%
11:00	US	5-10yr Inflation Expectations	mai/26		3,40%
12:00	US	Kansas Services Activity Index	mai/26		3

**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	<b>1,8</b>
Unemployment Rate (average, %)	12,0	13,8	13,2	9,3	8,0	6,6	5,6	<b>5,5</b>
IPCA (Consumer Price Index) (%)	4,3	4,5	10,1	5,8	4,6	4,8	4,3	<b>4,7</b>
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	12,25	15,00	<b>13,0</b>
Exchange Rate (end of period, R\$/US\$)	4,03	5,20	5,58	5,22	4,84	6,19	5,50	<b>5,15</b>
Current Account Transactions (US\$ billion)	-68,0	-28,2	-46,4	-53,6	-28,6	-66,2	-68,8	<b>-52,9</b>
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	-3,0	-3,0	<b>-2,3</b>
Trade Balance - BCB (US\$ billion)	26,5	32,4	36,4	44,2	80,5	66,2	60,0	<b>78,0</b>
Foreign Direct Investment (US\$ billion)	69,2	37,8	46,4	87,2	62,0	71,1	77,7	<b>75,0</b>
Foreign Direct Investment (% of GDP)	3,7	2,6	2,8	4,5	2,8	3,2	3,4	<b>3,3</b>
Primary Result of the Central Government (% of GDP)	-1,3	-9,8	-0,4	0,5	-2,3	-0,4	-0,4	<b>-0,2</b>
Gross Public Debt (% of GDP)	74,4	86,9	77,3	71,7	74,3	76,1	78,7	<b>83,7</b>
United States - GDP (%)	2,5	-2,2	6,1	2,5	2,9	2,8	2,2	<b>2,4</b>
United States - PCE (%)	1,4	1,1	4,1	6,6	3,8	2,5	2,9	<b>2,9</b>
United States - Fed Funds Rate (end of period, %)	1,8	0,3	0,3	4,0	5,5	4,5	3,75	<b>3,8</b>

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