29/05/2026

Persistent inflation and geopolitical risks keep caution around rates

Highlights

Brazilian inflation surprised to the upside again in May's IPCA-15, rising 0.62% MoM, above the market median of 0.56%, bringing the 12-month rate to 4.64%. Despite the headline surprise, the composition, by itself, did not show enough deterioration to catalyze a new scenario recalibration, as the additional pressure was concentrated in more volatile items. Still, the balance of risks for inflation remains asymmetric, with oil and freight costs sensitive to a prolonged conflict between the United States and Iran, as well as climate risks associated with El Niño, which could add pressure to food prices over the coming months. On activity, first-quarter GDP came in line with expectations, with agribusiness standing out, advancing despite a high comparison base, alongside the recovery in industry during the period. For the coming quarters, however, we expect weaker momentum, with a slowdown in commerce and stagnation in industry, both affected by a higher-for-longer interest rate environment and high household indebtedness, factors that add to a potentially weaker labor market. April Caged came in below market expectations and below the post-pandemic average, meaning that the upside surprise in the first quarter only partially offset the weaker result for the month. Together with the moderation in wage gains observed in April's PNAD, we understand that, despite a historically low unemployment rate, the recent information set points to an incipient slowdown in the labor market.

On the fiscal front, the central government posted a primary surplus of BRL 25.2 billion in April, BRL 7.4 billion above the Prisma median, with net revenue growing 5.8% YoY in real terms. The short-term result remains supported by robust tax collection, largely associated with the labor market, oil-related revenues and the recent creation of new taxes. The weakness remains in expenditure dynamics, with spending excluding court-ordered payments growing 3.6% YoY in real terms. Thus, even with strong revenue growth, at a pace that is unsustainable in the long run, the fiscal framework still does not provide sufficient signs of public debt stabilization, which keeps a high floor for interest rates in the country. In politics, the Lower House approved the constitutional amendment ending the 6x1 work schedule, with a maximum workweek of 40 hours over five days and wage preservation. The bill now goes to the Senate, and final approval, if confirmed, tends to have effects that are difficult to measure, with a bias toward greater pressure on costs and services inflation in the short term, as well as a risk of a later adjustment through employment, given the high rigidity of Brazil's labor market. In this environment, the Central Bank's communication remained tough. Director Nilton David said the BCB would not allow higher inflation expectations to turn into actual inflation, reinforcing the perception that the easing cycle tends to be limited and dependent on clearer improvement in current inflation, expectations and the balance of risks.

Internationally, the week's data reinforced the perception of still-resistant inflation in the main economies, largely due to the energy shock. In the United States, PCE rose 0.4% MoM in April, below the market median of 0.5%, while the core measure slowed to 0.2% MoM, also below expectations of 0.3%. Even so, the 12-month readings remained elevated, with headline inflation at 3.8% and core inflation at 3.3%, both well above the target. Initial jobless claims remained stable and at a low level, around 215,000, supporting the view of a still-firm labor market. In this context, markets are pricing a 35% chance of another rate hike by December, with Kevin Warsh already at the helm of the Federal Reserve. In Europe, the bloc's inflation closed April at 3.0%, the highest level since September 2023, with energy rising around 10.8%. This environment increased expectations of a more precautionary ECB rate hike in June, amid concerns about second-round effects. In the United Kingdom, the Bank of England kept rates unchanged and said it continues to monitor risks, with the next decision scheduled for June 18. In Japan, Tokyo CPI for May slowed again, with the headline at 1.4% and the core below 2%. Even so, the Bank of Japan maintained a tough stance, raised its inflation forecasts and signaled willingness to raise rates given the upside risks associated with the conflict.

In the Middle East, the week was dominated by a sequence of developments around the ceasefire between the United States and Iran. Between Monday and Thursday, negotiators reached the outline of an agreement, but both sides continued exchanging attacks, with the United States striking Iranian drones and a launch site near Hormuz, while Iran fired at a U.S. base in Kuwait in an attack that was intercepted. By the end of Thursday, negotiators had reached a 60-day memorandum of understanding to extend the ceasefire and open negotiations on the nuclear program, with guaranteed passage through the Strait of Hormuz and the removal of mines by Iran within 30 days. The understanding still depended on Trump's approval, while he announced new sanctions on Iranian oil and said he was not satisfied with the terms. On Friday, without having signed the agreement, Trump publicly listed, in a social media post, the points he said had already been agreed. These included a commitment that Iran would never have a nuclear weapon, the immediate opening of the Strait of Hormuz, with no fees and free two-way traffic, and the removal of mines, accompanied by the lifting of the U.S. naval blockade. Iran's state news agency Fars responded by describing the claims as a mixture of truths and lies, aimed at staging a false victory, and added that the agreement was still in the ratification phase in the country. The most sensitive point in the current negotiations is Iran's objection to the clause on free, fee-free transit through the Strait of Hormuz, since this point anchors the case for relief in oil prices.

Economic Calendar

Date	Country	Event	Period	Buysidebrazil	Prior
05/25/26	**Monday**				
4:55	Germany	PMI Manufacturing	mai/26		49,9
5:00	Eurozone	PMI Manufacturing	mai/26		51,4
6:00	Eurozone	Unemployment Rate	abr/26		6,2
8:25	Brazil	Central Bank Weekly Economist Survey (Focus)	mai/26		-
10:45	US	PMI Manufacturing	mai/26		-
11:00	US	ISM Manufacturing	mai/26		52,7
05/26/26	**Tuesday**				
5:00	Brazil	IPC-Fipe (MoM)	mai/26		0,4
6:00	Eurozone	CPI (YoY)	mai/26		3
6:00	Eurozone	Core CPI (YoY)	mai/26		2,2
9:30	US	Speech by B. Hammack (Fed Cleveland)	-		-
11:00	US	**JOLTS**	abr/26		6,866
22:45	China	PMI Composite	mai/26		53,1
22:45	China	PMI Services	mai/26		52,6
05/27/26	**Wednesday**				
4:55	Germany	PMI Composite	mai/26		48,6
5:00	Eurozone	PMI Composite	mai/26		47,5
6:00	Eurozone	PPI (YoY)	abr/26		2,10%
9:00	Brazil	**Industrial Production (MoM)**	abr/26	0,7%	0,10%
9:15	US	**ADP**	mai/26		109
10:45	US	**PMI Composite**	mai/26		51,7
11:00	US	**ISM Services**	mai/26		53,6
14:30	Brazil	Weekly FX Flow	mai/26		
14:30	Brazil	IC-Br (MoM)	mai/26		-0,63%
15:00	Brazil	**Monthly Trade Balance**	mai/26		10,537
15:00	US	**Beige Book**	-		-
05/28/26	**Thursday**				
-	Brazil	**National Holiday**	-		-
6:00	Eurozone	Retail Sales (MoM)	abr/26		-0,1
9:30	US	Initial Jobless Claims	mai/26		-
14:10	US	Speech by M. Daly (Fed S. Francisco)	-		-
05/29/26	**Friday**				
6:00	Eurozone	PIB (QoQ)	mar/26		0,1
9:30	US	**Payroll**	mai/26		115
9:30	US	Average Hourly Earning (MoM)	mai/26		0,2
9:30	US	Unemployment Rate	mai/26		4,3
16:00	US	Consumer Credit	abr/26		24,855

Macroeconomic projections

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

Our team

Andrea Bastos Damico
Chief Economist and CEO
andrea@buysidebrazil.com

Rafaela de Sousa
Economist
rafaela@buysidebrazil.com

Marcelo Alonso
Economist
marcelo@buysidebrazil.com

Mirella Hirakawa
Research Coordinator and Partner
mirella@buysidebrazil.com

Rita Milani
Economist
rita@buysidebrazil.com

Henrique Miareli
Economist
henrique@buysidebrazil.com