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Inflation sends mixed signals in Brazil and the United States

Highlights

In Brazil, this week's data provided a more cautious reading of current inflation, while activity indicators continued to point to a gradual loss of economic momentum. July IPCA remained low, but its composition was qualitatively less favorable than in recent months, with the upside surprise concentrated in underlying inflation components. The main pressures came from services, particularly ride-hailing fares and vehicle repair services, leading the average of core inflation measures to interrupt its recent improving trend. In the opposite direction, continued food deflation helped contain headline inflation. In our view, the result was less constructive at the margin and increases the importance of upcoming releases in assessing the persistence of these pressures, although it does not yet reverse the improvement in current inflation accumulated over recent months. On the activity front, June data continued to show an economy losing momentum. The services sector was broadly stable, with declines across most major activities, while retail data sent mixed signals. Despite the positive surprise in core retail sales, more cyclical segments, particularly those more sensitive to income and credit conditions, performed more weakly. The quarterly figures point in the same direction, with retail activity losing steam and services posting more moderate growth. Overall, the data remain consistent with our scenario of a gradual slowdown in domestic activity over the second half of the year. In the Copom minutes, the Committee maintained a cautious and data-dependent communication. Its assessment of economic activity was expanded, highlighting the broad-based moderation in growth and the cumulative effects of restrictive monetary policy on both activity and the disinflation process. At the same time, the Committee maintained its concerns over the de-anchoring of inflation expectations and reiterated the need to maintain a restrictive policy stance. The removal of the discussion on alternative Selic rate paths made the communication more concise, with no forward guidance regarding the magnitude or pace of the next steps. In our view, despite the less favorable composition of July IPCA, the overall backdrop remains consistent with a gradual continuation of the easing cycle. We therefore maintain our expectation of another 25 bp rate cut at the next meeting.

In the United States, this week's inflation data remained relatively benign, despite some acceleration in core components at the margin. July CPI came in broadly in line with expectations, with energy prices once again helping to contain the headline index, still reflecting a partial reversal of the recent oil price shock. Among underlying components, there was some acceleration in both goods and services inflation. Goods price increases became somewhat more broad-based, particularly in apparel and vehicles, although annual goods inflation remains relatively subdued. Services inflation saw greater pressure from airfares, shelter and medical care services, even as the 12-month rate continued to decline. Therefore, despite a marginally less favorable composition, the release showed no signs of a broad-based resurgence in inflationary pressures. The PPI reinforced this assessment by showing continued moderation in cost pressures. Energy remained an important drag on producer prices, while core inflation lost momentum and 12-month measures continued to decelerate. Within services, lower trade margins and transportation costs offset stronger pressures in some components more closely linked to final demand. Across the production pipeline, price pressures remain weaker at earlier stages, although these lower costs have not yet been fully passed through to producers closer to the final consumer.

Taken together, CPI and PPI suggest that inflationary pressures remain contained, although developments in underlying components continue to warrant close monitoring. Combined with recent signs of weakening in the labor market, this week's data strengthened market expectations that the Federal Reserve will keep interest rates unchanged in September. In our view, the overall set of releases reduces the need for a more restrictive policy stance, although the Committee is still likely to wait for clearer evidence of sustained disinflation before considering its next move.

Economic Calendar

In Brazil, the lighter data calendar will be highlighted by the release of the June IBC-Br, for which we expect a 0.4% m/m decline, concluding the batch of activity indicators for the second quarter.

On the international front, the main highlights will be the release of the FOMC minutes and industrial production data in the United States, as well as inflation data in the Euro Area and Japan.

Date	Country	Event	Period	Survey	Buysidebrazil	Prior
17/08/26	**Monday**					
8:25	Brazil	Central Bank Weekly Economist Survey (Focus)	-	-		-
9:00	Brazil	**Economic Activity Index IBC-Br (MoM)**	jun/26	-0,55	-0,4	0.1
9:30	USA	NY Empire State Manufacturing Index	ago/26	12		15.6
10:15	Brazil	**GDP Monitor FGV (MoM)**	jun/26	-		-
11:00	USA	NAHB Housing Market Index	ago/26	34		34
18/08/26	**Tuesday**					
6:00	Euroarea	ZEW Economic Sentiment Index	ago/26	20		23.4
10:15	USA	**Industrial Production (MoM)**	jul/26	0.2		0.1
10:15	USA	Capacity Utilization	jul/26	76.2		76.1
19/08/26	**Wednesday**					
6:00	Euroarea	Core Inflation Rate (YoY)	jul/26	2.5		2.4
6:00	Euroarea	Inflation Rate (YoY)	jul/26	2.9		2.8
11:30	USA	EIA Crude Oil Stocks Change	ago/26	-		
15:00	USA	**FOMC Minutes**	-	-		
20:50	Japan	Balance of Trade	jul/26	-		¥-406.9B
22:15	China	Loan Prime Rate 1Y	ago/26	3.0		3.0
22:15	China	Loan Prime Rate 5Y	ago/26	3.5		3.5
20/08/26	**Thursday**					
3:00	Germany	PPI (MoM)	jul/26	0.5		-0.3
9:30	USA	Initial Jobless Claims	ago/26	201k		-
9:30	USA	Philadelphia Fed Manufacturing Index	ago/26	25		41.4
20:30	Japan	Inflation Rate (YoY)	jul/26	-		1.7
20:30	Japan	Core Inflation Rate (YoY)	jul/26	-		1.6
21:30	Japan	Manufacturing PMI Flash	ago/26	-		54.5
21:30	Japan	Services PMI Flash	ago/26	-		51.2
21/08/26	**Friday**					
4:30	Germany	Composite PMI Flash	ago/26	50.7		51.3
5:00	Euroarea	Composite PMI Flash	ago/26	51.6		52.0
10:45	USA	Composite PMI Flash	ago/26	53.2		54.5
11:00	Euroarea	Consumer Confidence (Flash)	ago/26	-16.7		-15.9

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	**13,75**
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	**2,3**
United States - PCE (%)	1,4	1,1	4,1	6,6	3,8	2,5	2,9	**3,1**
United States - Fed Funds Rate (end of period, %)	1,8	0,3	0,3	4,0	5,5	4,5	3,75	**3,8**

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