

Brazil's elections enter the final stretch as a weaker U.S. labor market marks the week

Highlights

Brazil's elections entered their final stretch and dominated attention throughout the week. The latest polls continue to point to a tight race between Lula and Flávio Bolsonaro, with Lula maintaining a lead in the first round but failing to gain consistent momentum in the final days of the campaign. In potential runoff scenarios, the race remains even tighter, with only narrow gaps between the two candidates. Against this backdrop, the first-round result, particularly the margin between Lula and Flávio, will be important for reassessing the electoral outlook and is likely to remain a key focus for markets at the beginning of next week.

On the macroeconomic front, the main highlight was the labor market, which continued to show resilience, although broader indicators point to some moderation. August Caged data surprised to the upside, with 165.8 thousand net formal jobs created, above expectations and a sharp rebound from July's particularly weak result. The composition, however, was less broad-based, with the improvement concentrated mainly in Services, while Commerce remained below its seasonal pattern for the second consecutive month. Moreover, despite the positive surprise in August, cumulative net job creation between January and August remains around 25% below the level recorded over the same period in 2025, reinforcing the view that formal job creation has been losing momentum throughout the year. The PNAD survey, in turn, continued to point to a resilient labor market. The unemployment rate remained broadly stable at 5.3%, close to historical lows, while employment gained some momentum at the margin and the real wage bill accelerated. Income dynamics, however, remain more moderate than at the beginning of the year, suggesting a gradual reduction in the labor market's support to consumption. Taken together, the data do not yet point to a meaningful deterioration in employment conditions, but remain consistent with a gradual slowdown in economic activity over the second half of the year.

In the United States, this week's data pointed to still-resilient activity, while inflation and the labor market showed signs of moderation at the margin. The national accounts revision reinforced the strength of domestic demand, with second-quarter GDP revised higher from 1.5% to 2.2% annualized. The composition was also positive, supported by household consumption and investment, particularly nonresidential investment, while private domestic demand expanded at a faster pace than aggregate GDP. On inflation, August PCE came in below expectations, with both headline and core inflation slowing. Part of the improvement, however, reflected a methodological revision by the BEA, which also lowered previously reported rates. Even so, the reading was more favorable at the margin, particularly for goods, while services continued to show greater pressure. At the same time, real consumption accelerated during the month, reinforcing the view that activity remains relatively firm despite the high level of interest rates.

Inflation worsened at the margin, but the upside surprise in September's IPCA-15 remained concentrated mainly in more volatile components. The index came in above expectations, with food-at-home, particularly fresh products, and gasoline standing out on the upside, with gasoline returning to positive territory. Among core measures, upside surprises were concentrated in airfares, voluntary vehicle insurance, ride-hailing services and cigarettes, the latter still normalizing after the price adjustments observed in August. Therefore, while the composition was weaker at the margin and the average of core measures also surprised to the upside, the surprises do not appear to reflect, for now, a broad-based deterioration in underlying inflation components.

On the fiscal side, the RARDP showed a relevant change in the composition of budget restraint, with lower expenditure blocking but a greater need for contingency measures to meet the fiscal target. The blocked amount fell from R\$17.9 billion to R\$2.4 billion, but the government began to impose R\$13.6 billion in contingency measures, bringing total restraint to R\$16.1 billion. The change occurred because the projected primary balance after exclusions moved from a R\$10.8 billion surplus to a R\$13.6 billion deficit, consuming the margin available in the previous report. Without exclusions, the headline primary result moved from a R\$52.0 billion deficit to an R\$80.9 billion deficit. Therefore, the reduction in expenditure blocking does not represent an equivalent improvement in the fiscal outlook, but rather mainly reflects a change in the composition of the restraint.

Economic Calendar

In Brazil, attention will be focused on the first round of the general elections, which takes place on Sunday and is expected to dominate the domestic agenda throughout the week. On a lighter economic calendar, the main highlights will be the release of September's final IPCA reading and the consolidated monthly trade balance data.

In the United States, the main highlights will be services activity data and the release of the minutes from the latest FOMC meeting. In Europe, the calendar will be relatively light, with September PMIs and Eurozone retail sales standing out.

Time	Country	Event	Reference	Mediana	Previous
05/10/26	Monday				
4:55	Germany	Composite PMI	set/26	-	53,8
5:00	Euro Area	Composite PMI	set/26	-	53,1
6:00	Euro Area	PPI (MoM)	ago/26	-	1,6
8:25	Brazil	Focus Survey	out/26	-	-
10:45	US	Services PMI	set/26	58,7	58,4
11:00	US	ISM Services	set/26	55,4	55,4
06/10/26	Tuesday				
3:00	Germany	Factory Orders (MoM)	ago/26	-	2,5
6:00	Euro Area	Retail Sales (YoY)	ago/26	-	0,6
9:30	US	Trade Balance	ago/26	-83,8	-88,6
15:00	Brazil	Monthly Trade Balance	set/26	7,1	7,394
07/10/26	Wednesday				
11:30	US	Crude Oil Inventories	out/26	-	-
14:30	Brazil	Weekly FX Flow	out/26	-	-
15:00	US	FOMC Minutes	set/26	-	-
16:00	US	Consumer Credit	ago/26	15	18,062
08/10/26	Thursday				
9:30	US	Initial Jobless Claims	out/26	-	-
14:00	US	30-Year Bond Auction		-	-
09/10/26	Friday				
9:00	Brazil	IPCA (MoM %)	set/26	0,74	-0,32
11:00	US	Consumer Sentiment	out/26	48	48,1
11:00	US	1-Year Inflation Expectations	out/26	-	4,6
11:00	US	5-10 Year Inflation Expectations	out/26	-	3,4

Macroeconomic projections

	2020	2021	2022	2023	2024	2025	2026	2027
Brazil GDP (%)	-3,3	4,8	3,0	2,9	3,4	2,3	1,8	1,3
Unemployment Rate (average, %)	13,8	13,2	9,3	8,0	6,6	5,6	5,5	6,0
IPCA (Consumer Price Index) (%)	4,5	10,1	5,8	4,6	4,8	4,3	5,0	5,0
Selic Rate (end of period, %)	2,00	9,25	13,75	11,75	12,25	15,00	13,25	12,00
Exchange Rate (end of period, R\$/US\$)	5,20	5,58	5,22	4,84	6,19	5,50	5,20	5,30
Current Account Transactions (US\$ billion)	-28,2	-46,4	-53,6	-28,6	-66,2	-68,8	-53,3	-52,0
Current Account Transactions (% of GDP)	-1,7	-2,9	-2,8	-1,4	-3,0	-3,0	-2,0	-1,9
Trade Balance - BCB (US\$ billion)	32,4	36,4	44,2	80,5	66,2	60,0	83,8	85,0
Foreign Direct Investment (US\$ billion)	37,8	46,4	87,2	62,0	71,1	77,7	85,0	80,0
Foreign Direct Investment (% of GDP)	2,6	2,8	4,5	2,8	3,2	3,4	3,2	3,0
Primary Result of the Central Government (% of GDP)	-9,8	-0,4	0,5	-2,3	-0,4	-0,4	-0,4	-0,4
Gross Public Debt (% of GDP)	86,9	77,3	71,7	74,3	76,1	78,7	83,7	87,3
United States - GDP (%)	-2,2	6,1	2,5	2,9	2,8	2,2	2,2	2,1
United States - PCE (%)	1,1	4,1	6,6	3,8	2,5	2,9	3,6	2,6
United States - Fed Funds Rate (end of period, %)	0,3	0,3	4,0	5,5	4,5	3,75	4,25	4,50

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