

Slowing economic activity and a tightening presidential race in Brazil, while inflation remains elevated in the US

Highlights

In Brazil, economic activity data released during the week reinforced the ongoing slowdown in the Brazilian economy. August's sectoral indicators came in predominantly below expectations, with retail sales increasing by just 0.1% m/m, while services volume declined by 0.1% and industrial production contracted by 0.6%. In retail, the composition was relatively unfavorable, with declines in segments more sensitive to income and credit conditions, reinforcing signs of weakening household consumption amid still restrictive financial conditions. In services, the monthly decline was accompanied by slower year-over-year growth, with weaker results in relevant segments such as transportation and administrative services, despite positive performance in services provided to households. In contrast, the IBC-Br rose by 0.3% in August, above expectations, driven mainly by industrial activity, which expanded in the Central Bank's indicator despite the contraction reported in the IBGE survey. Despite this divergence, the positive surprise in the IBC-Br does not change the broader assessment of weakening economic momentum, particularly given the softness in sectoral indicators and the moderation observed in cumulative measures. Taken together, the results suggest that the lagged effects of restrictive monetary policy continue to feed through to the economy, against a backdrop of weaker consumption momentum and a labor market with increasingly limited room to sustain income growth.

On the political front, the presidential race became more competitive over the week, with a substantial narrowing of the gap between the candidates in voting intention polls. Following Flávio Bolsonaro's first-round victory and his relatively comfortable lead in the initial second-round polls, President Lula has regained ground in recent days, amid intensified mobilization among his supporters and a series of government initiatives. The recovery in the polls comes as the government steps up its agenda of electorally appealing measures, particularly targeting workers, lower-income households, and small business owners. Among these measures, the Senate's approval of the constitutional amendment proposal to eliminate the six-day workweek followed by one day off (6x1), reducing weekly working hours without wage cuts, stands out. Other initiatives include an increase in Bolsa Família benefits, the creation of Pix MEI, an increase in the revenue threshold for classification as an individual microentrepreneur, and new rounds of debt renegotiation through Desenrola PF 3.0 and Desenrola MEI. Proposals such as tax debt forgiveness for microentrepreneurs, the elimination of sports betting, and the introduction of fare-free public transportation on weekends and holidays have also gained traction. Taken together, these initiatives highlight the government's strategy of strengthening its electoral position through measures targeting different segments of the electorate. With approximately ten days remaining until the second round, the race remains open, and the presidential debate scheduled for Sunday is likely to become increasingly relevant to the candidates' performance in the final stretch of the campaign.

In the United States, inflation data reinforced the persistence of price pressures. September CPI inflation accelerated to 0.60% m/m, mainly reflecting a sharp increase in energy prices, while core inflation rose by 0.33%, above market expectations. The composition of the index also showed stronger pressures on goods, particularly new and used vehicles, alongside an acceleration in services inflation, especially shelter components. Similarly, the PPI posted a substantial 1.34% monthly increase, accompanied by an acceleration in core producer prices and more widespread pressures throughout the production chain. Although the energy shock was the main driver, services also recorded relevant increases, particularly in trade margins and transportation and warehousing costs, pointing to potential additional effects on consumer prices in the coming months. Rising logistics costs associated with higher fuel prices reinforce the risks of the energy shock spilling over into other inflation components, while accelerating prices at intermediate stages of production suggest greater persistence of these pressures. Despite this backdrop, Kevin Warsh's remarks during the IMF meeting in Bangkok were interpreted by markets as signaling support for keeping interest rates unchanged at the October FOMC meeting, contributing to an easing at the short end of the US Treasury yield curve. Overall, the combination of stronger inflation readings and relatively neutral Fed communication reinforces the outlook for a cautious approach to monetary policy, with the evolution of inflationary pressures remaining central to upcoming decisions.

Economic Calendar

In Brazil, the main highlight of the week's economic calendar will be the release of October's IPCA-15 inflation report on Friday, which is expected to draw market attention amid recent inflation developments. Other releases include weekly trade balance and FX flow data, as well as the Focus Survey.

In the United States, the main highlights will be October's PMIs, regional activity indicators, housing market data, and consumer confidence, including inflation expectations. In Europe, attention will focus on October's PMIs for the Eurozone and Germany, alongside confidence and economic expectations indicators.

Time	Country	Event	Reference	Mediana	Previous
19/10/26	Monday				
8:25	Brazil	Focus Survey	out/26		
15:00	Brazil	Weekly Trade Balance	out/26		
11:00	US	Homebuilder Confidence	out/26	31	32
20/10/26	Tuesday				
6:00	Germany	Expectations Index	out/26		34,7
9:30	US	Philadelphia Fed Services Activity Index	out/26		-22
11:00	US	Pending Home Sales	set/26	-0,5	0,3
11:30	Brazil	LFT and NTN-B Auction	-		
21/10/26	Wednesday				
11:30	US	Crude Oil Inventories	out/26		
14:00	US	20-Year Treasury Bond Auction	-		
14:30	Brazil	Weekly FX Flow	out/26		
22/10/26	Thursday				
11:00	Euro Area	Consumer Confidence	out/26		-16,5
9:30	US	Initial Jobless Claims	out/26	200k	
11:00	US	Leading Indicators	set/26		-0,1
11:30	Brazil	NTN-F and LTN Auction	-		
12:00	US	Kansas City Fed Manufacturing Survey	out/26		14
23/10/26	Friday				
9:00	Brazil	IPCA-15 (MoM)	out/26		0,7
4:30	Germany	Composite PMI	out/26		53,8
5:00	Euro Area	Composite PMI	out/26		53,1
10:45	US	Composite PMI	out/26	57,6	58,4
11:00	US	Consumer Confidence	out/26	46,3	46,3
11:00	US	1-Year Inflation Expectations	out/26		
11:00	US	5-10-Year Inflation Expectations	out/26		
12:00	US	Kansas City Fed Services Activity Index	out/26		0

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	5,1	3,9
Selic Rate (end of period, %)	2,00	9,25	13,75	11,75	12,25	15,00	13,25	11,00
Exchange Rate (end of period, R\$/US\$)	5,20	5,58	5,22	4,84	6,19	5,50	4,90	4,90
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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