Macro scenario - Global

October 10, 2025

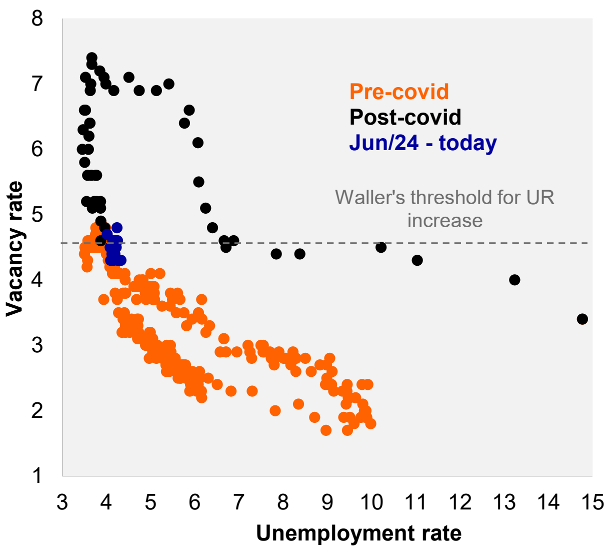
Divergence between growth and employment in the US

- **US**: We improved our growth forecasts to 2.0% in 2025 (from 1.7%) and 2.0% in 2026 (from 1.5%) due to upside surprises in the 2Q revision and strong tracking in 3Q, but we continue to expect three more Fed cuts, sequentially until the January 2026 meeting, aiming to contain the weakening of the labor market.
- **Europe**: Economic activity remains the key parameter to monitor for future ECB decisions. We expect growth of 1.1% in 2025 and 1.2% in 2026.
- **China**: We maintain our growth forecast of 4.7% for this year, conditional on the implementation of targeted fiscal stimulus, and 4.0% for 2026.
- **Latin America:** Growth, inflation, and monetary policy forecasts largely unchanged this month.

Strong growth, but weak employment still leads to rate cuts; institutional risk continues to weight on the dollar

US growth remains strong despite the slowdown and risks of job losses. 2Q GDP was revised up (from 3.3% to 3.8% annualized) driven by domestic demand (consumption was revised from 1.7% to 2.5%), while the 3Q tracking also saw a significant upward revision (from around 2.0% to 3.2% currently), indicating only a moderate slowdown and still strong domestic demand. As a result, **we revised our GDP projections for 2025 to 2.0% (from 1.7%) and for 2026 to 2.0% (from 1.5%).** Despite this, the labor market continued to weaken. The pace of payroll hiring slowed to 29k in the 3-month moving average (from 83k in the first half average), while other metrics even showed negative prints like the September ADP, and the Beveridge Curve shows employment well balanced and back to pre-covid levels since last June (see chart).

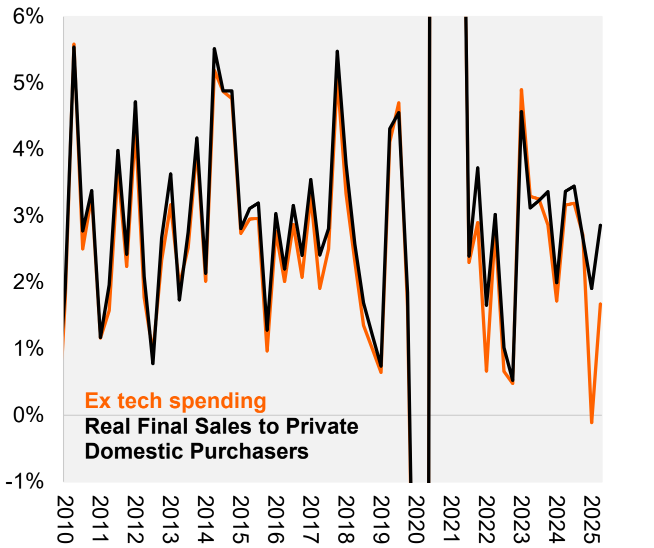
Beveridge Curve



Source: Haver, Itaú

Possible explanations for the disconnect between current activity and the labor market could be the impact of AI, restrictions on immigration and uncertainties in the economy. Domestic demand show a much weaker growth pace when excluding the lines most correlated with technology, which highlights the possible positive impact of AI. This positive impact of AI on growth via productivity gains without generating additional employment could be an important explanation for the disconnect between the two metrics. Other possible causes could be the reduction in immigration, which constrains labor supply and is responsible for the slowdown in Payrolls, and greater business uncertainty, which limits hiring, but the former would also lower potential GDP and the latter would also result in a decline in investment, which does not seem to be the case so far.

GDP growth and tech related (%q/q saar)



Source: Haver, Itaú

Inflation remains elevated, although with only a moderate impact from tariffs. Core inflation measures show signs of persistence above target: core CPI is at 3.1% in August on a year-over-year basis, while core PCE is at 2.9% with a monthly pace of 0.20-0.26% from May to August this year.

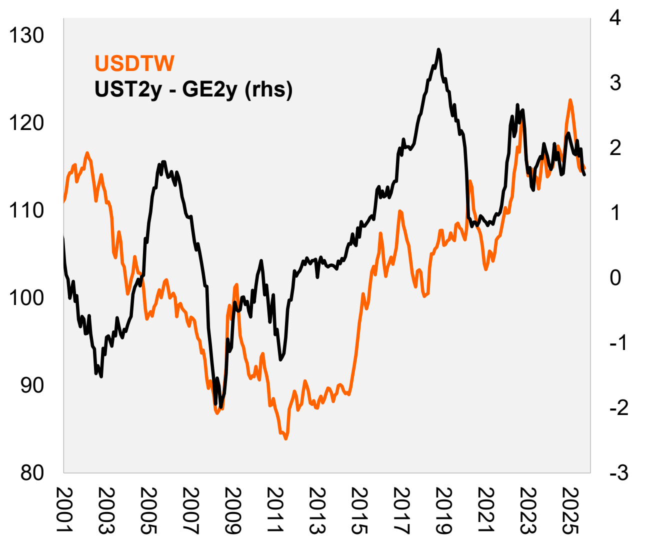
We continue to expect rate cuts at the October and December meetings this year, and the end of the cycle in January next year, with a terminal rate of 3.25-3.50%. At the September meeting, the Fed showed a more dovish view in its reaction function, projecting two more cuts this year even with upward revisions to inflation and downward revisions to next year's unemployment. Although we expect employment to stabilize and inflation to persist at elevated levels, the more dovish FOMC indication points to a willingness to bring rates closer to neutral.

In the case of the Europe, economic activity remains the main parameter to be monitored to assess the future decisions of the ECB. Activity is surprising upwards in 3Q with the September Composite PMI at 51.2. Inflation remains in line with ECB models, signaling convergence towards the 2% target. We maintain our view that the ECB has already ended its rate-cutting cycle. On the political front, the focus has shifted back to France with the resignation of another prime-minister amid difficulties in reaching a consensus on the 2026 budget, increasing the likelihood of new parliamentary elections. We assess that the main consequence is that fiscal adjustment in the country will not occur in the short term, raising France's long-term interest rates, without necessarily affecting the euro.

For China, we maintain our growth forecast of 4.7% this year, conditional on the implementation of targeted fiscal stimulus, and 4.0% for 2026. We expect stimulus aimed at the services and infrastructure sectors to be announced in October, with an estimated amount of 0.5 to 1.0 trillion RMB, which would represent approximately 0.5% of China's GDP. Without such measures, 2025 growth would be considerably below the official target of "around 5%". Monetary stimulus should also occur, but to a lesser extent, with only 10-bp or 20-bp additional cuts. The Chinese government will also announce the 15th Five-Year Plan, which will detail the strategic direction for economic growth over the next five years, including 2026. In our assessment, for China to sustain high growth rates, it will be crucial to strengthen domestic consumption, ideally through enhancements to social security, which would boost household confidence and stimulate domestic demand. Thus, China's economic performance in the coming years will depend on the government's ability to diagnose the economy and calibrate economic policies in a way that sustains domestic confidence.

We continue to expect further weakening of the dollar ahead. The real broad dollar has remained relatively stable since July, after the sharp depreciation that began in February, following the exceptionally strong level recorded in January. On one hand, the Fed's interest rate differential versus the rest of the world points to a stable dollar ahead, which suggests little room for further depreciation if we consider that our scenario has a bit less Fed cuts than market pricing (terminal around 3.0%, versus our scenario of 3.4%) and close to what the market is pricing for the ECB (terminal around 2.0%). However, we consider that the US institutional risk perception factor is an important component that may continue to pull the dollar to lower levels ahead, a risk that could be amplified in the discussion of the succession to the Fed's presidency. We expect the Euro at 1.20 and, for the DXY, we expect a decline to 95.9 by the end of this year, versus the current level around 98.

USD vs Rates differential (US - GE)



Source: BBG, Itaú

Latin America: forecasts largely unchanged this month.

Positive spillovers from higher US growth. **Positive spillovers from higher US growth**. We revised our 2026 GDP growth forecast up in Mexico, to 1.5% from 1.2%, driven by an upward revision to our US growth forecast, stronger fiscal spending, and lower rates. At the margin, following the activity contraction in the quarter ending in July (0.4% QoQ/SAAR), leading indicators for the rest of 3Q suggest a more positive outlook, leading us to leave our 2025 GDP growth forecast at 0.6%. We also slightly raised our 2025 growth forecast in Peru to 3.0%, from 2.9%, mainly because of better-than-expected prints at the margin, as terms-of-trade continue to provide an important tailwind.

Elsewhere, we kept our growth forecasts unchanged. In Chile, we are looking through the recent mining-related activity disappointment that took place in August and maintained our 2025 GDP growth forecast at 2.5% and at 2.2% in 2026. Strong capital imports growth, improving household and business sentiment, along with a gradual positive swing in commercial credit suggest the non-mining investment recovery may gain further steam towards next year. In Colombia, we left our 2025 GDP growth forecast at 2.7% and 2.8% in 2026, with activity remaining resilient at the margin and the labor market tight, despite monetary policy well within contractionary territory.

Inflation remains a concern in several economies of the region, as we flagged last month. In Colombia, we raised our year-end CPI forecasts to 5.2% from 5.1% in 2025 and to 4.2% from 4.0% in 2026, as upside risks we had flagged in previous months have begun to materialize, including unfavorable food price dynamics. Medium-term survey-based inflation expectations continue to drift further from the 3% target, posing risks of greater inflation inertia and an erosion of the target's credibility. In Mexico, even though core inflation dynamics improved recently, we kept our CPI forecasts at 4.1% in 2025, and 3.7% in 2026. Despite some negative base effects, the balance of risks to our forecast is skewed to the downside due to weak economic activity and a strong peso. Similarly, we kept our CPI forecasts in Chile at 3.9% and 3.0% in 2025, and 2026 respectively.

In a class of its own. The outlier is Peru, in which we revised our yearend inflation forecast down to 1.8%, from 2.0%, due to persistent downside inflation surprises, stable PEN performance, and lower oil prices. For 2026, we expect CPI to rise towards the BCRP's 2% inflation target. Inflation expectations have remained within the target range since 4Q23 – the BCRP continues to stand out in terms of inflation control.

Terminal rates unchanged. As expected, Banxico cut the policy rate again by 25-bps to 7.5% in the last meeting and kept the forward guidance unchanged. Barring any shocks, if the current dynamics (strong MXN and overall declining CPI trajectory) remain in place, and in the context of a widening negative output gap, Banxico is likely to maintain its forward guidance (further cuts, in plural) in November, pointing towards an extension of the cycle into 2026. We maintained our year-end forecast for the monetary policy rate at 7.0% in 2025 and 6.5% in 2026, and we continue to expect consecutive cuts. In Chile and Peru, we kept our policy rate forecasts unchanged, ending the respective cycles at neutral levels (4.25% and 4.0%, respectively). In Colombia, concerning inflation dynamics and resilient activity lead us to envisage BanRep staying on hold for longer, with the policy rate at 9.25% through yearend and the first half of 2026. We see an easing cycle, with continuous moves, starting in the second half of 2026 to end at 8.25%.

Never a dull moment in Argentina. The last few weeks have certainly been eventful, with persistent financial volatility, an unprecedented announcement of support from the US and an ongoing contraction of the economy. Leading indicators also point to continued economic weakness, while national midterm elections are scheduled for 26 October. Although support from the US Treasury should reduce pressure on the currency, we expect a weaker ARS by the end of the year, in order to encourage USD purchases and reserve accumulation. Assuming a limited pass-through for the remainder of the year, we foresee inflation reaching 30.5% by YE25, up from 29.5% previously.

Global | Forecasts and Data

	2020	2021	2022	2023	2024	2025F		2026P	
						Current	Previous	Current	Previous
GDP Growth									
World GDP growth - %	-2.8	6.3	3.5	3.2	3.2	**3.1**	3.0	**3.0**	2.8
USA - %	-2.1	6.2	2.5	2.9	2.8	**2.0**	1.7	**2.0**	1.5
Euro Area - %	-6.2	6.3	3.6	0.7	0.9	**1.1**	1.1	**1.2**	1.2
China - %	2.0	7.7	3.0	5.4	5.0	**4.7**	4.7	**4.0**	4.0
Inflation									
U.S. Core CPI - %, eop	1.6	5.5	5.7	3.9	3.2	**3.5**	3.5	**3.0**	3.0
Interest rates and currencies									
Fed Funds - %, eop	0.13	0.13	4.15	5.38	4.52	**3.63**	3.63	**3.38**	3.38
U.S. 10 Year Treasury - %, eop	0.93	1.47	3.88	3.88	4.58	**4.10**	4.10	**4.00**	4.00
USD/EUR - eop	1.22	1.13	1.07	1.10	1.04	**1.20**	1.20	**1.20**	1.20
CNY/USD - eop	6.54	6.37	6.92	7.13	7.30	**7.15**	7.15	**7.15**	7.15
DXY Index* - eop	89.9	95.7	103.5	101.3	108.5	**95.8**	95.8	**95.4**	95.4

Source: IMF, Bloomberg and Itaú

* The DXY is a leading benchmark for the international value of the U.S. dollar, measuring its performance against a basket of currencies that includes the euro, yen, pound, Canadian dollar, Swiss franc and Swedish krona.

Compared scenario

World

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**3.1**	3.0	**3.0**	2.8

Latin America and Caribbean

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**2.4**	2.4	**2.2**	2.1

Brazil

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**2.2**	2.2	**1.5**	1.5
BRL / USD (eop)	**5.35**	5.35	**5.50**	5.50
Monetary Policy Rate (eop,%)	**15.00**	15.00	**12.75**	12.75
IPCA (%)	**4.7**	5.0	**4.3**	4.4

Mexico

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**0.6**	0.6	**1.5**	1.2
MXN / USD (eop)	**19.0**	19.0	**19.5**	19.5
Monetary Policy Rate (eop,%)	**7.00**	7.00	**6.50**	6.50
CPI (%)	**4.1**	4.1	**3.7**	3.7

Argentina

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**3.8**	3.8	**2.5**	2.5
ARS / USD (eop)	**1600**	1500	**1900**	1800
Reference rate (eop,%)	**45.0**	45.0	**35.0**	35.0
CPI (%)	**30.5**	29.5	**20.0**	20.0

Chile

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**2.5**	2.5	**2.2**	2.2
CLP / USD (eop)	**930.0**	930.0	**880.0**	880.0
Monetary Policy Rate (eop,%)	**4.50**	4.50	**4.25**	4.25
CPI (%)	**3.9**	3.9	**3.0**	3.0

Colombia

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**2.7**	2.7	**2.8**	2.8
COP / USD (eop)	**4000**	4000	**4000**	4000
Monetary Policy Rate (eop,%)	**9.25**	9.25	**8.25**	8.25
CPI (%)	**5.2**	5.1	**4.2**	4.0

Peru

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**3.0**	2.9	**2.7**	2.7
PEN / USD (eop)	**3.50**	3.50	**3.50**	3.50
Monetary Policy Rate (eop,%)	**4.00**	4.00	**4.00**	4.00
CPI (%)	**1.8**	2.0	**2.0**	2.0

Paraguay

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**5.0**	4.3	**4.0**	3.5
PYG / USD (eop)	**7150**	7400	**7200**	7450
Monetary Policy Rate (eop,%)	**6.00**	6.00	**6.00**	6.00
CPI (%)	**4.2**	4.2	**3.5**	3.5

Uruguay

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**2.3**	2.3	**1.8**	1.8
UYU / USD (eop)	**40.5**	40.5	**41.0**	41.0
Monetary Policy Rate (eop,%)	**7.75**	8.00	**7.25**	7.25
CPI (%)	**3.6**	3.6	**4.5**	4.5

Source: Itau

Commodities

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
Brent Oil (USD/bbl)	50	75	82	77	73	**65**	65	**60**	60
Iron Ore (USD/tonne)	153	116	110	135	103	**95**	95	**85**	85
Copper (USD/tonne)	7788	9525	8402	8489	9030	**9900**	9400	**10150**	9650
Corn (Usd/bu)	437	592	656	480	444	**415**	415	**415**	415
Soy (Usd/bu)	1207	1290	1474	1311	984	**1030**	1030	**1070**	1070
Wheat (Usd/bu)	604	790	749	619	548	**550**	550	**600**	600
Sugar (Usd/lb)	15	19	20	22	20	**16**	16	**16**	16
Coffee (Usd/lb)	123	235	166	188	321	**350**	350	**300**	300

Source: BBG, Itaú

Macro Research – Itaú

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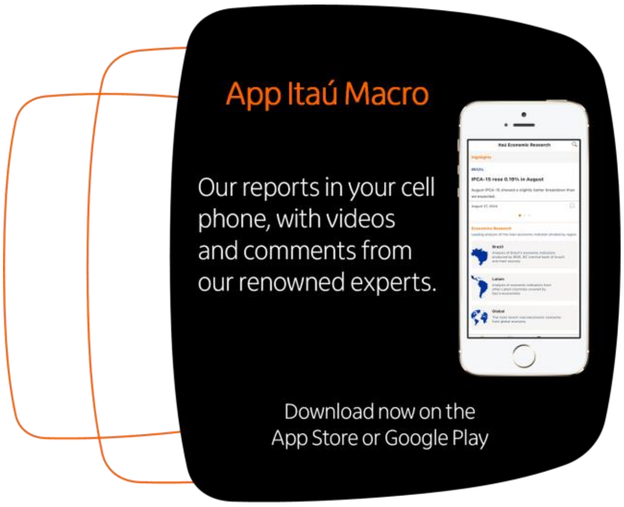

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