Macro scenario - Global

July 14, 2025

Declining attractiveness of US assets, weaker USD

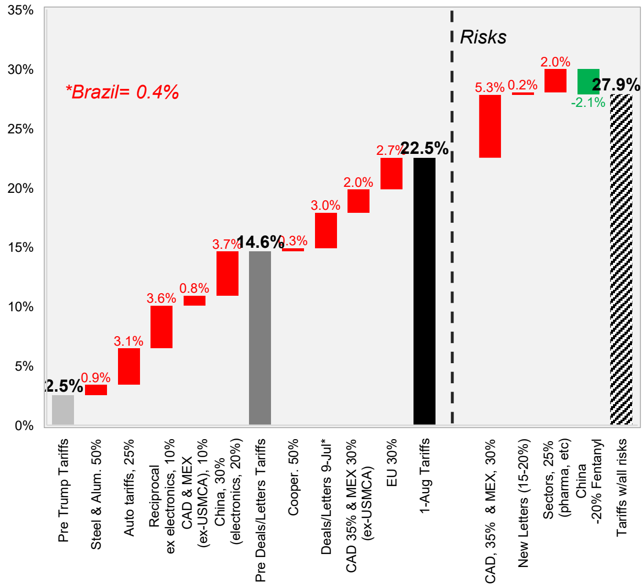
- **The weak U.S. dollar trend is likely to persist.** This movement stems from both structural and cyclical factors, such as the worsening US fiscal outlook, erratic trade policy, geopolitical risks, and attacks on the Fed's independence; all while growth in the rest of the world remains stable. We now forecast the EUR at 1.20 (previously 1.12) and the CNY at 7.15 (from 7.20). However, the impact may differ for each country.
- **U.S.:** We continue to expect only one Fed rate cut this year (in December), given the still-resilient labor market and uncertainty over the inflationary impact of the tariff shock.
- **Europe**: We expect growth of 0.8% in 2025 and have lowered our 2026 forecast to 1.2% (from 1.5%), reflecting expectations of a slower implementation of German defense spending.
- **China**: We maintain our growth forecasts at 4.5% for 2025 and 4.0% for 2026. Resilient activity, supported by exports excluding the U.S. and the implementation of the already announced fiscal package, reduces the need for additional stimulus.
- **Latin America:** Tariff uncertainty looms.

High uncertainty amid new round of tariff threats

The Trump administration postponed the deadline for the reinstatement of reciprocal tariffs from July 9th to August 1st, while simultaneously notifying several countries of its intention to increase tariffs to levels, on average, close to those promised in April, in addition to a 50% tariff on copper imports. The new round of threats, even if ultimately not implemented, keeps uncertainty at high levels and should contribute to a cautious approach by the Fed in assessing the impacts and the outlook for inflation and economic activity (see more below). Progress in reaching final trade agreements remains limited, and, going forward, it will be important to monitor tariffs for the United States' key trading partners, such as Europe, Canada and Mexico, which have also faced new threats of tariff increases, while China's deadline is August 12. So far, Brazil was impacted with the largest tariff increase in comparison with April's announcement, which tends to impact the risk perception of local assets.

Looking ahead, there are risks of higher tariffs, driven by the challenges of negotiating comprehensive trade agreements and the potential for sector-specific tariffs, which are expected to be discussed later this year. We forecast that the current average tariff rate would rise from 14.6% to 22.5% (see chart) if the tariff increases notified to countries so far are implemented and could reach 27.9% if the risks of sector-specific tariffs and a hike in reciprocal tariffs on the rest of the world materialize. **Considering the ratio between tariff revenues and imports, the implied tariff rate in the US is currently estimated at 10%.**

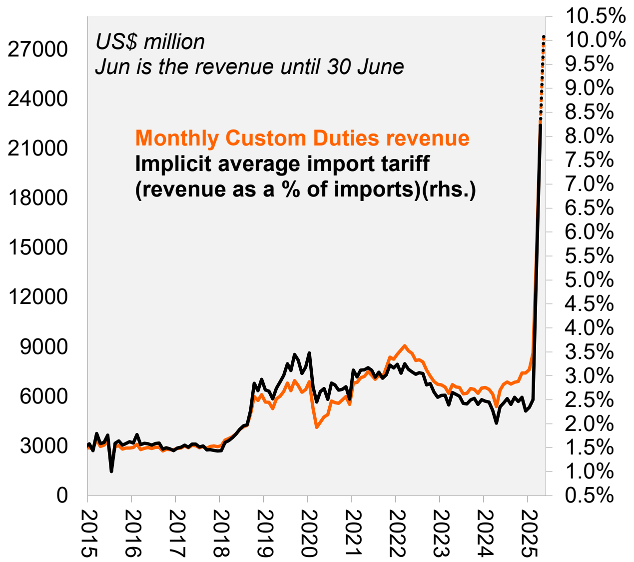
Tariffs: effective & risks



*Japan +SK +Vietnam+ Brazil= 1.8%

Source: Itaú

Implicit US custom duties already at 10%



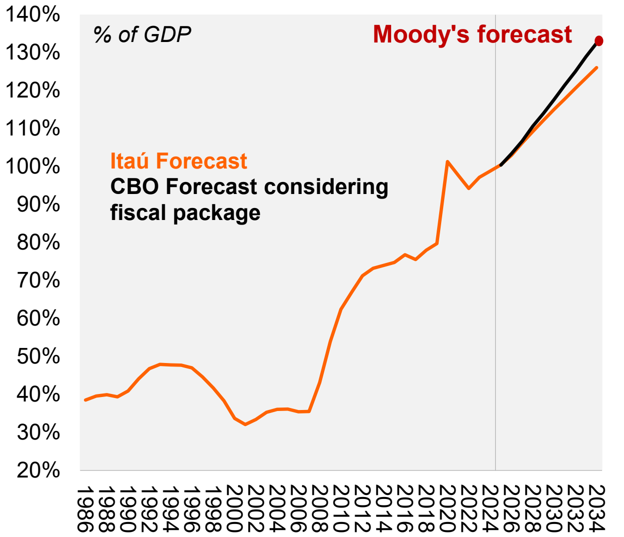
Source: Treasury, Itaú

Despite the uncertainty, the US economy continues to demonstrate resilience in the labor market and moderate inflation. However, we expect the inflationary impact of tariffs to emerge in the future. We continue to emphasize that GDP data have not been the best metric for understanding the pace of the economy due to distortions caused by the frontloading of imports ahead of tariff increases and the subsequent payback (GDP was -0.5% in Q1 and we estimate it will be 3.1% in Q2). The labor market, which has proven to be a better indicator, remains resilient with an average of 150 thousand jobs created over the past three months, while unemployment remains low at 4.1%. The impact of tariffs on inflation has taken longer than expected to materialize, showing little effect in the May CPI and with only modest acceleration expected for June. Nevertheless, we continue to expect the tariff-driven inflation shock to be significant, pushing the CPI core to 3.8% and the PCE core to 3.5%.

We continue to expect this scenario to lead the Fed to cut rates only in December. The June FOMC meeting revealed a significant split among members' rate-cut projections, with 8 out of 19 members expecting two cuts this year, while 7 members expect no cuts. This division suggests that a resilient economy and inflation beginning to show some tariff-related effects are likely to delay rate cuts. Although Chair Powell left open the possibility of starting cuts in September, we see that scenario gaining likelihood only if the inflationary impact is much lower than expected and/or the labor market weakens more rapidly in the coming months.

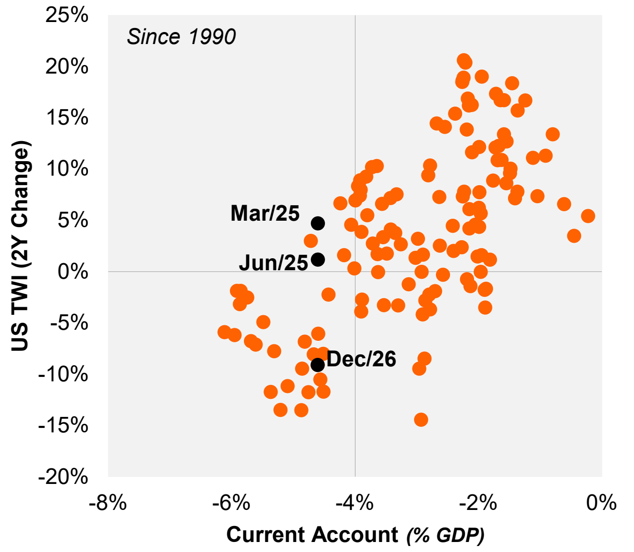
The final approval of the fiscal package confirms a scenario of rising deficit and accelerating debt ahead, putting pressure on long-term interest rates and the attractiveness of the US dollar. Congress approved the final package projecting a nominal fiscal deficit rising to 6.5–7.0% of GDP in the coming years, compared to an estimate of 5.5–6.0% for this year — an unprecedented level during peacetime. The lack of urgency in addressing the negative fiscal trajectory is expected to continue pressuring long-term Treasury yields and is one of the main drivers behind our projection of the 10-year Treasury yield at 4.5% this year (compared to around 4.35% at current prices). This scenario has intensified the recent weakening of the dollar amid a global context of reduced attractiveness of US assets.

US public debt increasing sharply



Source: Itaú

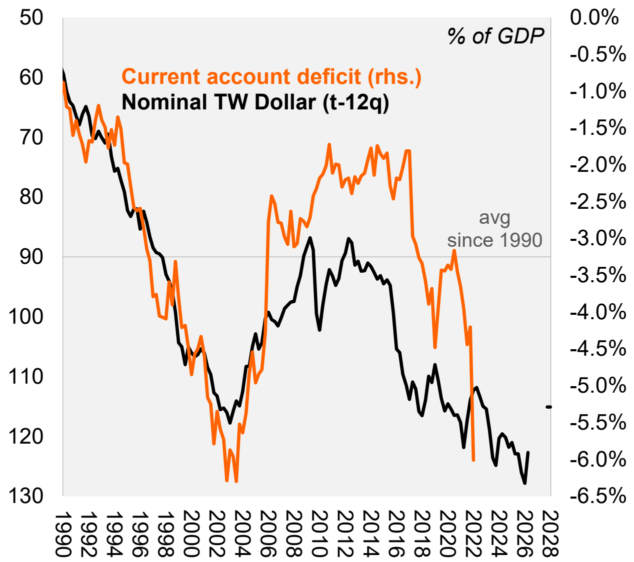
With current account > 4% GDP, USD tends to depreciate



Source: Haver, Itaú

The weak US dollar scenario is likely to continue going forward. The dollar remains on a downward trend driven by both structural and cyclical factors, including the negative fiscal outlook mentioned above, a high current account deficit, erratic tariff policies, geopolitical risks, attacks on the Fed's independence, and stable growth in the rest of the world. The charts below show that the high current account deficit, currently at 6% in 1Q25, is historically consistent with an additional dollar depreciation of 5 to 10%. The chart on the right, which shows the lagged multilateral dollar index, indicates that the dollar needs to depreciate by roughly 30% to bring the current account deficit back to the historical average since the 1990s of 3.0–3.5% of GDP.

To bring the current account to its average, a large depreciation (~30%) would be needed

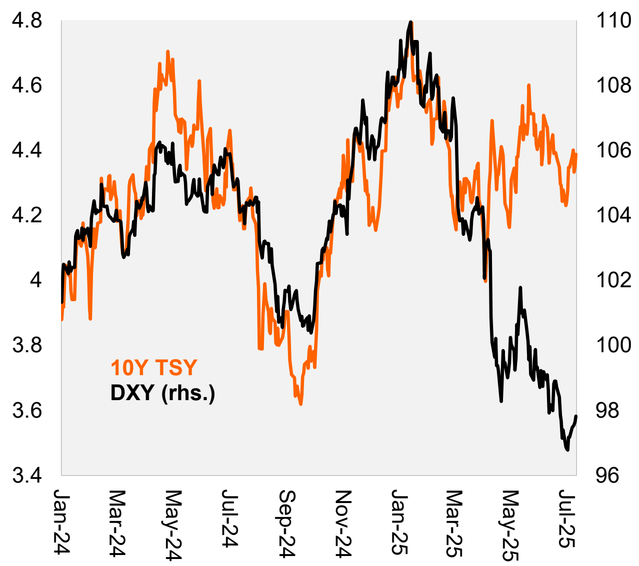


Source: Haver, Itaú

These factors questioning American exceptionalism amid geopolitical and economic policy turmoil have led to decreased sensitivity and a decoupling of the relationship between the currency and interest rates – something that is likely to continue going forward. Given this environment of greater global aversion to American assets, we have revised our projections for the EUR (from 1.12 to 1.20) and the CNY (from 7.20 to 7.15).

However, we reckon the impact may differ for each country. In particular, countries that, for instance, face relatively larger tariff increases and/or demonstrate more domestic challenges could see higher risk premium levels offsetting the weaker US dollar.

USD has decoupled from rates



Source: BBG, Itaú

For Europe, we maintain our growth projection for 2025 at 0.8%, but for 2026, we revise it down to 1.2% (from 1.5%) due to expectations of slower implementation of German fiscal stimulus. Growth remains supported by the effects of lower interest rates and the front load of exports. For 2QGDP, growth may be marginally negative (-0.3% quarter-on-quarter; Q1 was 0.6%) due to the payback from strong exports earlier in the year, but this does not change the positive fundamentals and is unlikely to lead to new interest rate cuts by the European Central Bank, which is expected to keep the policy rate at 2.0%. For 2026, the German government has started discussing the implementation of the fiscal stimulus announced in March. The signaling was for a rapid rollout, especially for infrastructure (~1.2% of GDP per year), but a slower pace for defense spending (3.5% by 2029, vs. 3.0% by 2026 we had previously considered). Thus, the fiscal stimulus for next year was reduced (1.8% of GDP vs. 3.0%), leading us to lower our eurozone growth projection from 1.5% to 1.2%. Nevertheless, this does not change our view that the German fiscal announcement was relevant for the region as a whole.

For the China scenario, activity remains resilient due to expanding exports (excluding the US) and the rapid implementation of the fiscal package, which (for now) reduces the need for new stimulus measures. We maintain our growth projections at 4.5% for 2025 and 4.0% for 2026. Activity in the first half of the year was supported by two factors: first, the rapid rollout of the fiscal stimulus announced for the year, which has helped infrastructure investment; second, exports continue to grow positively, with Chinese products being redirected through Asian countries. The increase in tariffs on Asian countries (such as Vietnam) is expected to reduce this redirection at the margin. Additionally, subsidies for the purchase of electronics, appliances, and automobiles have provided temporary support to consumption. Therefore, we do not expect new stimulus packages, and we assess that any potential discussion of new fiscal announcements is likely to be postponed to 2026 (instead of July this year), considering the smaller-than-expected impact on activity compared to the worst period of trade tensions, as well as the current marginal resilience of the data.

Latin America: Tariff uncertainty looms

Exchange rates throughout the region swing on US tariff effects. Even though we expect tariff-related uncertainty to maintain upward pressure on exchange rates in the near term, over time, we believe currencies throughout the region will strengthen due to the weakening of the global dollar (Argentina an exception, see final paragraph). As such, we revised our yearend currency forecasts towards a moderate appreciation in Chile, Colombia, Peru, and Mexico.

Inflation revised up in Mexico. Recent inflation dynamics and upside surprises led us to revise our 2025 yearend inflation forecast in Mexico up to 4.1%, from 3.9%, and 3.7% for year-end 2026, from 3.6%. As we've mentioned in previous reports, the disinflationary process in Mexico concluded and inflation is behaving in line with fundamentals. In Chile, we maintained our year-end forecast at 3.8%, despite an important downside surprise in inflation in June which we expect to bounce back in July (also driven by another one-off electricity price adjustment). At the margin, for the past several months, inflation has been consistent with annual prints below 3.0%, and inflation expectations at the two-year policy horizon have encouragingly stabilized at the 3% target for several months. We revised our year-end inflation call in Peru down slightly to 2.2%, from 2.3%, driven by oil prices and the currency's performance. Finally, we maintained our year-end inflation forecast in Colombia (5.1%).

Fiscal woes lead to fewer cuts in Colombia. We still expect monetary policy to become less contractionary in several economies in the region. In Mexico, even though we revised inflation up, we maintained our call for Banxico to slow the pace of cuts to 25bps in the following two meetings reaching 7.5%, and then down to 7.0% next year. In Chile, the path is clear to resume cuts in the July monetary policy meeting, with a 25bp cut to 4.75%; our scenario considers another two cuts to 4.25% by year-end. In Colombia, we believe that fiscal concerns are likely to lead BanRep to adopt a more cautious approach, now considering only two cuts for the rest of the year to 8.75% (previously 8.5%), and then to 7.75% in 2026. In Colombia, we remain vigilant to an additional upward revision to the central bank's neutral real rate estimate (currently 3%), which could lead to an even higher terminal rate.

A weaker nominal exchange rate and higher inflation in Argentina. The current account swung from a surplus to an unexpectedly large deficit in 1Q25, amid a steady real appreciation of the currency and rising imports, leading us to revise our year-end CAD forecast to 1.9% of GDP, up from 1.3% in our previous scenario. In this context, the ARS depreciated by close to 10% with respect to the USD since mid-June lows, yet still trades within the band. We revised our exchange rate forecast to ARS/USD 1,400 by year end, from 1,300 in our previous scenario, leading to an upward revision to our year-end inflation forecast to 28.5%, from 27.5%. The authorities maintain their commitment to the fiscal anchor and the stabilization of the economy, even as the "Ley Bases" year timeframe to approve certain measures by decree concluded recently; a favorable mid-term election on October 26 should lead to a renewed effort on structural reforms.

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	**2.9**	2.9	**2.8**	2.8
USA - %	-2.2	6.1	2.5	2.9	2.8	**1.7**	1.7	**1.5**	1.5
Euro Area - %	-6.2	6.3	3.6	0.4	0.8	**0.8**	0.8	**1.2**	1.5
China - %	2.3	8.4	3.1	5.4	5.0	**4.5**	4.5	**4.0**	4.0
Inflation									
U.S. Core CPI - %, eop	1.6	5.5	5.7	3.9	3.2	**3.8**	3.8	**3.0**	3.0
Interest rates and currencies									
Fed Funds - %, eop	0.13	0.13	4.15	5.38	4.52	**4.13**	4.13	**3.63**	3.63
U.S. 10 Year Treasury - %, eop	0.93	1.47	3.88	3.88	4.58	**4.50**	4.50	**4.25**	4.25
USD/EUR - eop	1.22	1.13	1.07	1.10	1.04	**1.20**	1.12	**1.20**	1.12
CNY/USD - eop	6.54	6.37	6.92	7.13	7.30	**7.15**	7.20	**7.15**	7.20
DXY Index* - eop	89.9	95.7	103.5	101.3	108.5	**95.8**	99.8	**95.4**	99.4

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

	2024	2025 Current	2025 Previous	2026 Current	2026 Previous
GDP (%)	3.2	**2.9**	2.9	**2.8**	2.8

Latin America and Caribbean

	2024	2025 Current	2025 Previous	2026 Current	2026 Previous
GDP (%)	2.4	**2.4**	2.4	**2.2**	2.2

Brazil

	2024	2025 Current	2025 Previous	2026 Current	2026 Previous
GDP (%)	3.4	**2.2**	2.2	**1.5**	1.5
BRL / USD (eop)	6.18	**5.65**	5.65	**5.65**	5.65
Monetary Policy Rate (eop,%)	12.25	**15.00**	15.00	**12.75**	12.75
IPCA (%)	4.8	**5.2**	5.3	**4.4**	4.4

Mexico

	2024	2025 Current	2025 Previous	2026 Current	2026 Previous
GDP (%)	1.4	**0.2**	0.2	**1.0**	1.0
MXN / USD (eop)	20.8	**19.0**	20.0	**19.5**	20.5
Monetary Policy Rate (eop,%)	10.00	**7.50**	7.50	**7.00**	7.00
CPI (%)	4.2	**4.1**	3.9	**3.7**	3.6

Argentina

	2024	2025 Current	2025 Previous	2026 Current	2026 Previous
GDP (%)	-1.7	**5.2**	5.2	**4.0**	4.0
ARS / USD (eop)	1033	**1400**	1300	**1630**	1515
Reference rate (eop,%)	32.0	**29.0**	29.0	**20.0**	20.0
CPI (%)	117.8	**28.5**	27.5	**20.0**	20.0

Chile

	2024	2025 Current	2025 Previous	2026 Current	2026 Previous
GDP (%)	2.6	**2.6**	2.6	**2.0**	2.0
CLP / USD (eop)	996.5	**930.0**	940.0	**900.0**	910.0
Monetary Policy Rate (eop,%)	5.00	**4.25**	4.25	**4.00**	4.00
CPI (%)	4.5	**3.8**	3.8	**3.0**	3.0

Colombia

	2024	2025 Current	2025 Previous	2026 Current	2026 Previous
GDP (%)	1.7	**2.5**	2.5	**2.5**	2.5
COP / USD (eop)	4409	**4100**	4300	**4100**	4200
Monetary Policy Rate (eop,%)	9.50	**8.75**	8.50	**7.75**	7.75
CPI (%)	5.2	**5.1**	5.1	**3.6**	3.6

Peru

	2024	2025 Current	2025 Previous	2026 Current	2026 Previous
GDP (%)	3.3	**2.9**	2.8	**2.7**	2.7
PEN / USD (eop)	3.80	**3.60**	3.80	**3.60**	3.80
Monetary Policy Rate (eop,%)	5.00	**4.25**	4.25	**4.00**	4.00
CPI (%)	2.0	**2.2**	2.3	**2.0**	2.0

Paraguay

	2024	2025 Current	2025 Previous	2026 Current	2026 Previous
GDP (%)	4.2	**4.3**	3.5	**3.5**	3.5
PYG / USD (eop)	7913	**8000**	8000	**8125**	8125
Monetary Policy Rate (eop,%)	6.00	**6.00**	6.00	**5.50**	5.50
CPI (%)	3.8	**4.0**	4.0	**3.5**	3.5

Uruguay

	2024	2025 Current	2025 Previous	2026 Current	2026 Previous
GDP (%)	3.1	**2.3**	2.3	**2.5**	2.5
UYU / USD (eop)	44.1	**41.7**	42.6	**42.5**	43.5
Monetary Policy Rate (eop,%)	8.75	**8.50**	9.25	**8.00**	9.00
CPI (%)	5.5	**4.5**	4.7	**4.5**	4.7

Source: Itau

Commodities

	2020	2021	2022	2023	2024	2025F Current	2025F Previous	2026F Current	2026F Previous
Brent Oil (USD/bbl)	50	75	82	77	73	**65**	65	**65**	65
Iron Ore (USD/tonne)	153	116	110	135	103	**95**	95	**85**	85
Copper (USD/tonne)	7788	9525	8402	8489	9030	**9400**	9400	**9650**	9500
Corn (Usd/bu)	437	592	656	480	444	**415**	430	**415**	400
Soy (Usd/bu)	1207	1290	1474	1311	984	**1000**	1000	**1000**	970
Wheat (Usd/bu)	604	790	749	619	548	**600**	600	**630**	630
Sugar (Usd/lb)	15	19	20	22	20	**18**	18	**18**	18
Coffee (Usd/lb)	123	235	166	188	321	**250**	340	**260**	280

Source: BBG, Itaú

Macro Research – Itaú

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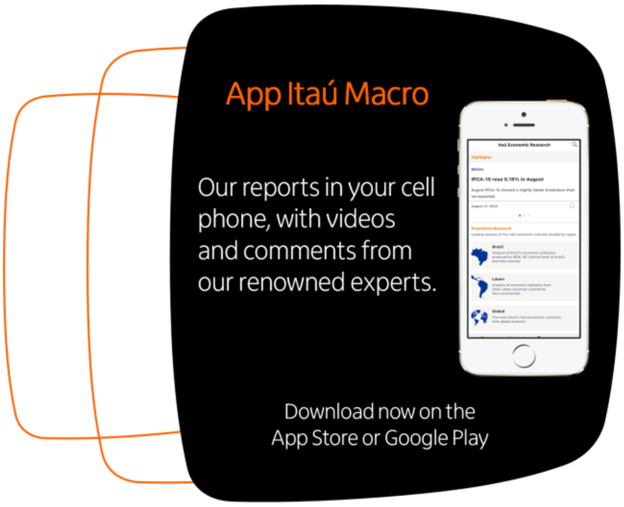

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