Macro scenario - Global

November 19, 2024

Trump 2.0: Deeper changes in the global scenario

- **US:** Resilient activity and the implementation of most proposals of higher trade tariffs, fiscal expansion, and immigration restrictions – which increase inflation risks – point to higher interest rates. We now expect a smaller cycle of interest rate cuts by the Federal Reserve (150 bps vs. 200 bps previously). Higher interest rates in the US imply a stronger USD, posing additional challenges for EMs including Brazil.
- **China**: The promise of additional stimulus only partially mitigates the adverse effects of a new round of trade tariffs. Our GDP growth projection for 2025 declined to 4.0% (from 4.5%) and we now expect a weaker currency (CNY 7.40 per US dollar in 2025 vs. 7.10 previously).
- **Europe**: Additional interest rate cuts and possible fiscal palliative measures in response to global uncertainties. Our forecast for the European Central Bank's terminal interest rate receded to 2.00% (vs. 2.25% previously), and we expect a weaker euro ($1.12 vs. $1.05 previously).
- **Latin America**: Fed's tidal waves ripple through the region.

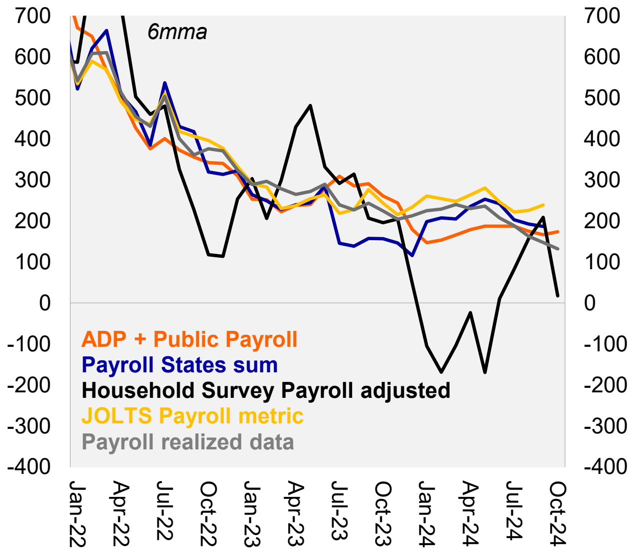
US: Resilient activity and more inflationary policies point to fewer rate cuts by the Fed

Donald Trump was elected President and obtained a majority in Congress. Markets will focus on the implementation and extension of his proposals to increase tariffs on foreign trade, expand fiscal policy and restrict immigration, which tend to have inflationary effects from January onwards. We assume that the new administration will be able to implement many of his proposals, which, in addition to the inflationary effect, will likely increase, at least initially, global risk aversion. The impact on activity tends to be negative, but partially offset with palliative measures. On the one hand, tariffs tend to be negative for global growth and immigration restrictions tend to reduce the economy's growth potential by reducing the workforce. On the other hand, new fiscal measures — including proposals to increase spending and more tax cuts for companies and social security— can contribute positively to activity and inflation, although some would just mean maintaining past tax cuts (estimates ranging from $4.5 trillion to $6 trillion; see table 1 in the end of the text).

Economic activity remains strong and likely to remain resilient. After expanding 2.9% in 2023, the US economy should advance 2.7% in 2024 (3.0% in 2Q24, 2.8% in 3Q24, and 2.5% forecasted for 4Q24). The economy has been supported by solid fundamentals in household and corporate balance sheets, sustained real income growth, and by the Fed's interest rate cuts. Even though a few metrics slowed down, job creation's moving averages remain firm (see chart). Inflation continues to decelerate gradually and should run at a moderate pace in the short term, responding to slowing wages and normalizing inventories. However, medium-term risks persist due to the agenda of the new administration.

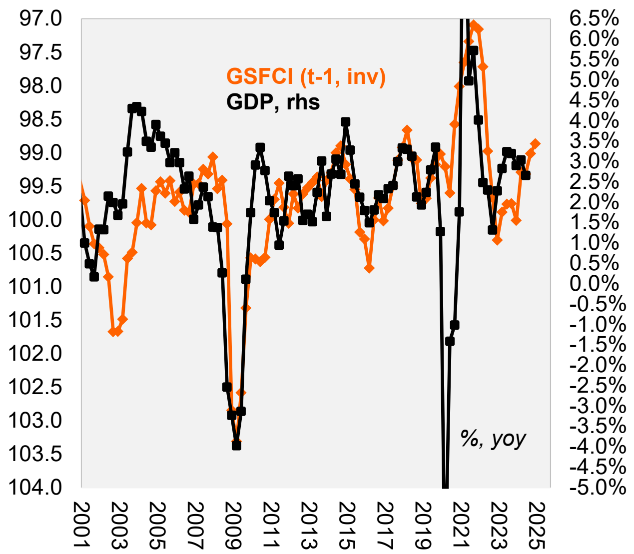
With resilient activity and an inflationary agenda ahead, we have reduced our forecast for the Fed's rate cuts to a cycle of 150 bps (vs. 200 bps previously). After starting the cycle with a 50-bp cut in September and following with a 25-bp move in November, the Fed was able to remove part of the monetary constraint on the economy and maintain expansionary financial conditions (see chart). We expect reductions of 25bps at the December, January and March meetings, leading to a terminal rate of 3.75-4.0% (vs. 3.25-3.50% previously). In our view, rate cuts throughout 1H25 will likely be interrupted due to more intense discussions about tariffs and fiscal matters. Importantly, higher interest rates imply a stronger USD, posing additional challenges for emerging markets including Brazil.

Underlying Job growth



Source: BLS and Itaú BBA

FCI indicates GDP ~3.5%



Source: Goldman Sachs, Haver, Itau

China: Lower growth in 2025 as promised stimulus partially offset the adverse effects of another round of tariff escalation

The Chinese government's stimulus package came with disappointing details. Although the intent is to reduce some of the structural risks, additional fiscal policy support in 2025 was just a promise. The package involves recognizing hidden debt of local governments (RMB 6 trillion or 4.8% of GDP in three years and RMB 4 trillion in five years), which should imply lower financing costs. This measure is important because it helps to address financial imbalances among local governments —which represent one of the country's structural risks— but will not help activity in the short term. The package did not include new short-term fiscal stimulus, but still conveys that strong fiscal measures will be adopted in 2025, such as purchasing real estate inventories (key to stabilize declining property prices).

The possibility of another round of escalation in trade tariffs reaffirms the need for more expansionary policies in 2025. We maintain our 2024 growth call at 5%, given that the stimulus delivered in the current year (not used in 1H24) will be sufficient (current data reinforce this assessment). Our projection for next year receded to 4.0% (from 4.5%) in response to the latest announcement. In our view, the Chinese government should adopt more fiscal measures to ensure a smooth deceleration in economic growth and to partially offset the effects of another escalation of trade issues with the US. Meanwhile, the Chinese currency should already reflect the uncertainties around possible tariffs, so we have revised our CNY projection to 7.40 per dollar by the end of 2025 (vs. 7.10 in the previous scenario).

Europe: Additional interest rate cuts and possibility of palliative fiscal measures in response to global uncertainties

Economic activity —still impacted by the gas shock and monetary tightening— could endure another negative shock related to a new round of uncertainty regarding global trade. In the first Trump administration, the impact on GDP reached 0.7pp because the region's economy is directly exposed to global trade and to China in particular. We maintained our 2024 growth forecast at 0.8% but revised our call for 2025 down to 0.8% (previously 1%).

The negative impact on activity in 2025 should lead to a longer cycle of rate cuts by the ECB and consequent FX depreciation. The European Central Bank has already implemented three rate cuts this year and we expect another one in December. This cycle should continue with four consecutive reductions in 2025, taking the terminal rate to 2.0% (2.25% in our previous scenario). With higher interest rates in the US and additional rate cuts in the Eurozone, we have revised our exchange rate projection to $1.05/EUR (vs. $1.12 in the previous scenario).

A possible palliative measure is to ease fiscal rules, especially in Germany. Early elections should take place in late March or early April, possibly changing the deficit cap. The country enjoys a calmer fiscal situation than the rest of the region but has a more conservative track record when it comes to expansionary policies – there are more doubts regarding disposition to use it rather than whether there is fiscal room. The domestic deficit cap is 0.35%, well below the 3% established by the European Union. The debt/GDP ratio reached 63.6% at the end of 2023, slightly above the 60% established by the EU and well below peers such as France (112%) and Italy (138%).

Latin America: Fed's tidal waves ripple through the region

Higher terminal rates. Changes in our international scenario were key in revisions to our outlook for LatAm economies. Fewer cuts penciled in for the Fed, weaker exchange rates on average, and idiosyncratic factors have led to a recalibration towards fewer cuts in our monetary policy paths through 2025. In Mexico, we still forecast Banxico to cut by 25 bp in each of the remaining meetings this year, yet substantially increased our 2025 yearend policy rate call to a still contractionary 9% (from 7.5%), implying a string of continuous 25 bp cuts. In Colombia, the terminal rate of the cycle was revised to 6.5% (from 6.0%); board turnover in Colombia in 1Q25 could eventually lead to larger cuts, to be reflected in a widening of domestic risk premium. In Chile, we revised to a higher terminal rate of 4.5% (from 4.0%), the ceiling of the neutral range, to be met at a more gradual pace, also reflecting higher inflationary pressures from second round effects. Similarly, in Peru, we now forecast an earlier end to the cycle in 2025 at 4.5% (4.0%), with inflation expectations having interrupted their decline above the 2% target. While real ex ante rates are projected to remain above neutral in Mexico and Colombia, they are projected to edge close to or at neutral in Chile and Peru.

Growth revised down for next year. In Chile and Peru, we revised 2024 GDP growth down for this year (2.2% and 2.9% respectively) due to weaker than expected activity prints, with 2025 also being revised down due to lower carryover, tighter financial conditions, less growth in China, and a step down in copper prices. As small open economies, both Chile and Peru stand to bear the brunt of a potential escalation of protectionist policies and a more pronounced deterioration of the growth outlook. In Mexico, we lowered our 2025 growth forecast to 1.0% (from 1.3%), on higher rates and a deterioration of the domestic investment outlook, the latter a result of constitutional reforms; discussions on trade with the US should keep volatility elevated in the near term. In contrast, however, we raised our 2024 GDP growth forecast in Colombia to 2.0% (from 1.8%) due to better-than-expected activity prints and maintained our 2025 call at 2.4%.

Checking all the boxes. In Argentina, while still in a fragile macro-social environment amid high inflation and the effects of the stabilization program, activity rebounded sequentially in 3Q24, with leading indicators suggesting that the worst of the adjustment might be over. As a result, we revised our 2024 forecast towards a smaller contraction of 3.5% (from -4.0%), followed by a 4.0% expansion in 2025 (+3.0% in our previous scenario). The fiscal consolidation marches on and surveys suggest that confidence in the government rebounded in October, remaining elevated despite high inflation. Changes in the US could eventually facilitate access to additional external financing and investment opportunities. The next few months will be key in consolidating the disinflation path, cementing the economic recovery, while at the same time preparing the end to the crawling peg policy.

Table 1: Estimated fiscal impact of Trump fiscal proposals

Fiscal Policy Agendas		Fiscal Measures	Impact on Deficit in 10y *(USD bi)*	Impact in 2034 *(% GDP)*
GOP	Spending	Decrease IRA support	-650	-0.2%
		Increase Defense Spending	400	0.1%
		Other spending increases and cuts	250	0.1%
		Total	**0**	**0.0%**
	Tax	Extend TCJA-related tax cuts	4500/6000	+1.3%/+1.7%
		Decrease Corporate Tax (to 15%, from 21%)	200/1000	0.2%
		End taxation of Social Security Benefits	1300	0.4%
		Exempt Overtime Income from taxes (payroll)	1000/3000	0.6%
		Exclude tips from tax	300	0.1%
		Tariffs	-2000/-5000	-0.6%/-1.4%
		Total	**5000/7000**	**+1.6%/+1.8%**
	Net	**Total Net Republicans**	**5000/7000**	**+1.4%/+1.7%**

Source: CBO, CRFB, White House and Itaú BBA

Global | Forecasts and Data

	2019	*2020*	*2021*	*2022*	*2023*	*2024F*		*2025F*	
						Current	*Previous*	*Current*	*Previous*
GDP Growth									
World GDP growth - %	2.8	-2.8	6.3	3.5	3.2	**3.2**	3.2	**3.1**	3.4
USA - %	2.6	-2.2	6.1	2.5	2.9	**2.7**	2.7	**2.2**	2.2
Euro Area - %	1.6	-6.2	6.3	3.6	0.4	**0.8**	0.7	**0.8**	1.0
China - %	6.0	2.3	8.4	3.0	5.2	**5.0**	5.0	**4.0**	4.5
Interest rates and currencies									
Fed Funds - %, eop	1.55	0.09	0.08	4.4	5.3	**4.4**	4.4	**3.9**	3.4
U.S. 10 Year Treasury - %, eop	2.00	0.93	1.47	3.88	3.88	**4.25**	3.75	**4.00**	3.50
USD/EUR - eop	1.12	1.22	1.13	1.07	1.10	**1.05**	1.12	**1.05**	1.12
CNY/USD - eop	7.0	6.5	6.4	6.9	7.1	**7.3**	7.0	**7.4**	7.1
DXY Index* - eop	96.4	89.9	95.7	103.5	101.3	**106.4**	99.9	**105.7**	99.5

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

	2023	2024 Current	2024 Previous	2025 Current	2025 Previous
GDP (%)	3.2	**3.2**	3.2	**3.1**	3.4

Latin America and Caribbean

	2023	2024 Current	2024 Previous	2025 Current	2025 Previous
GDP (%)	2.2	**2.1**	2.0	**2.4**	2.4

Brazil

	2023	2024 Current	2024 Previous	2025 Current	2025 Previous
GDP (%)	2.9	**3.2**	3.2	**1.8**	2.0
BRL / USD (eop)	4.86	**5.70**	5.40	**5.70**	5.20
Monetary Policy Rate (eop,%)	11.75	**12.00**	11.75	**13.50**	11.00
IPCA (%)	4.6	**4.8**	4.4	**5.0**	4.2

Mexico

	2023	2024 Current	2024 Previous	2025 Current	2025 Previous
GDP (%)	3.2	**1.4**	1.4	**1.0**	1.3
MXN / USD (eop)	16.97	**20.0**	19.0	**21.0**	19.3
Monetary Policy Rate (eop,%)	11.25	**10.00**	10.00	**9.00**	7.50
CPI (%)	4.7	**4.3**	4.3	**3.9**	3.9

Argentina

	2023	2024 Current	2024 Previous	2025 Current	2025 Previous
GDP (%)	-1.6	**-3.5**	-4.0	**4.0**	3.0
ARS / USD (eop)	809	**1030**	1030	**1350**	1450
Reference rate (eop,%)	100.0	**30.0**	40.0	**30.0**	40.0
CPI (%)	211.4	**120.0**	125.0	**35.0**	45.0

Chile

	2023	2024 Current	2024 Previous	2025 Current	2025 Previous
GDP (%)	0.2	**2.2**	2.5	**1.9**	2.1
CLP / USD (eop)	879	**940**	910	**940**	870
Monetary Policy Rate (eop,%)	8.25	**5.00**	5.00	**4.5**	4.00
CPI (%)	3.9	**4.7**	4.5	**3.5**	3.3

Colombia

	2023	2024 Current	2024 Previous	2025 Current	2025 Previous
GDP (%)	0.6	**2.0**	1.8	**2.4**	2.4
COP / USD (eop)	3855	**4300**	4200	**4500**	4300
Monetary Policy Rate (eop,%)	13.00	**9.25**	8.75	**6.50**	6.00
CPI (%)	9.3	**5.1**	5.6	**3.7**	3.6

Peru

	2023	2024 Current	2024 Previous	2025 Current	2025 Previous
GDP (%)	-0.6	**2.9**	3.1	**2.8**	3.0
PEN / USD (eop)	3.70	**3.80**	3.80	**3.80**	3.80
Monetary Policy Rate (eop,%)	6.75	**5.00**	4.75	**4.50**	4.00
CPI (%)	3.2	**2.6**	2.8	**2.5**	2.5

Source: Itau

Commodities

	2019	2020	2021	2022	2023	2024 Current	2024 Previous	2025 Current	2025 Previous
Brent Oil (USD/bbl)	64	50	75	82	77	**75**	80	**70**	75
Iron Ore (USD/tonne)	90	153	116	110	135	**110**	110	**85**	90
Copper (USD/tonne)	7788	7788	9525	8402	8489	**9500**	9500	**9500**	9800
Corn (Usd/bu)	383	437	592	656	480	**450**	380	**420**	350
Soy (Usd/bu)	912	1207	1290	1474	1311	**980**	1000	**950**	950
Wheat (Usd/bu)	540	604	790	757	669	**530**	500	**580**	550
Sugar (Usd/lb)	13	15	19	20	22	**21**	21	**20**	20
Coffee (Usd/lb)	130	123	235	166	188	**260**	220	**240**	200

Source: BBG, Itaú

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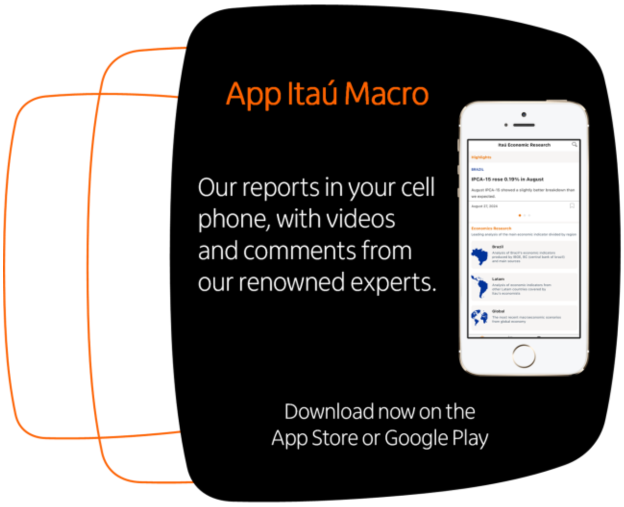

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