# Macro scenario - Global

July 12, 2024

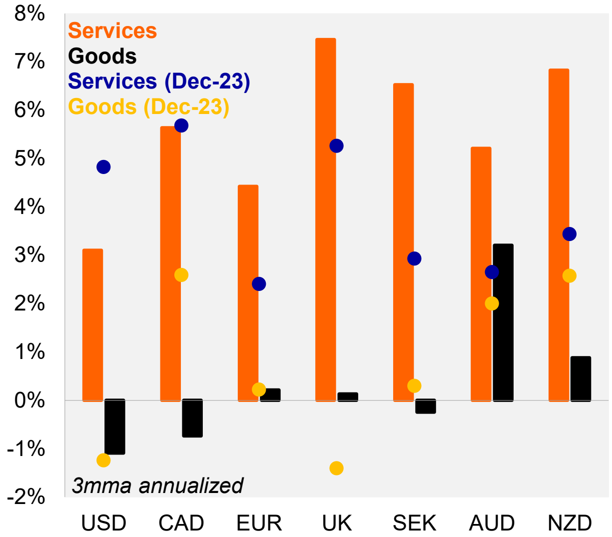
## Gradual disinflation allows cautious rate cuts cycle

- Global: gradual disinflation, mostly due to services, allows cautious rate cuts cycle.
- U.S.: gradually decelerating activity and weaker inflation allow the start of interest rate cuts in September (compared to December in the previous scenario).
- Europe: unchanged scenario, despite political uncertainties in France. We expect 0.7% growth in 2024 and two additional interest rate cuts this year.
- China: 5.0% growth in 2024, amid lingering structural challenges.
- LatAm: an earlier pause in Chile.

### Global: gradual disinflation allows cautious rate cuts cycle to begin

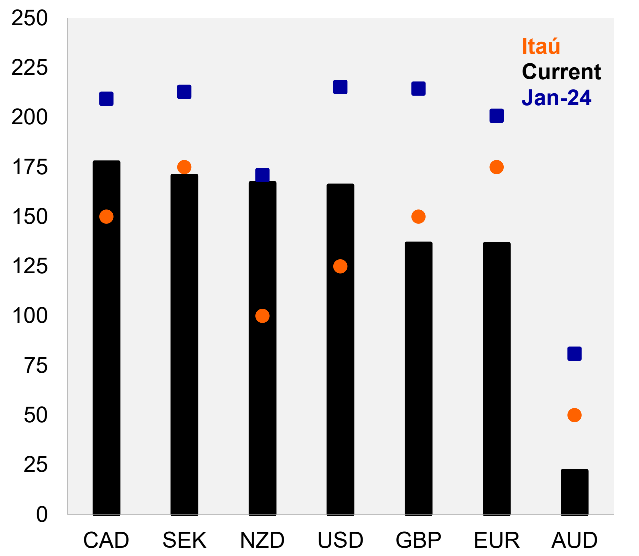
**Inflation in developed countries continues to gradually decelerate, mainly in services. This environment allows for the start of easing cycles, but decisions must be made with caution.** The main concern with inflation is the services component, which remains at high levels or accelerating in comparison to the end of 2023 (except for the USA and Canada). On the goods side, inflation remains benign in all economies, with improvement at the margin, except for Australia. This has led the market to price a cycle of five to seven cuts of 25 basis points for these countries, lower than expected at the beginning of the year. The concretization of this scenario and possible divergences in cycles will depend on the cooling of the services sector ahead and, in some cases, the slowdown in activity.

**Higher services than goods inflation**



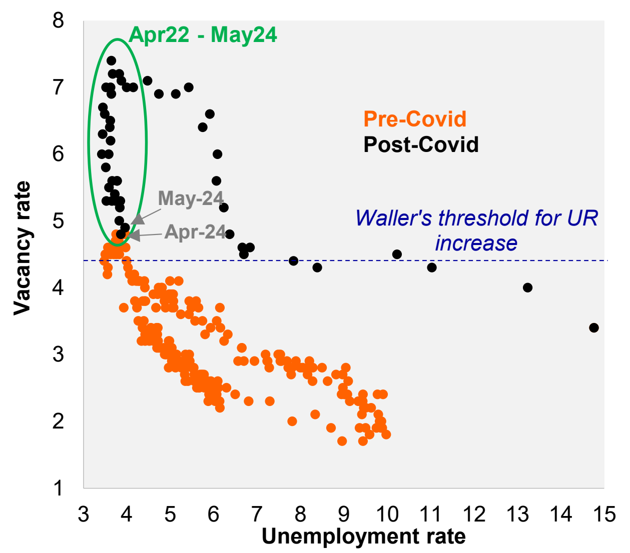

Source: Haver, Itaú

**Bps of rates cuts until 2025 in DMs**




Source: BBG, Itaú

**Beveridge curve indicating UR increase**




Source: Haver, Itaú

## U.S.: gradual slowdown in activity and weaker inflation to allow easing cycle to begin in September

**Moderate growth and rebalancing job market.** The U.S. economy is now showing clearer signs of deceleration. Average annualized GDP growth is expected reach 1.5% in 1H24, well below the 4.1% registered in 2H23 and the 2.5% reported for FY23. We now expect GDP growth in 2024 at 2.5% (from 2.7% in the previous scenario). This slowdown is also reflected in a rebalanced labor market – with moderation in several job creation and hiring metrics – that remains resilient and shows no signs of rising layoffs or unemployment. The Beveridge Curve reflects this rebalancing in a decline in the number of job openings from the high levels of recent years, with no significant increase in unemployment.

**Very low inflation figures suggest sustained disinflation going forward, allowing for the start of the easing cycle.** The core PCE index slowed to 0.08% mom and 2.6% yoy in May, from 2.8% in April. We foresee a monthly pace of approximately 0.20%, which should allow the Federal Reserve to begin its easing cycle this year. Notwithstanding the persistent services inflation, the latest reading showed a widespread slowdown in these items, while labor market and wage moderation will lead to contained inflation down the road.

**The Fed expressed a more cautious tone regarding the start of rate cuts, but inflation surprises to the downside indicate that the cycle could begin in September.** At the most recent meeting, the Fed revised its interest rate projections upward (Dots in the table below), with one cut instead of three this year. This is a good indication that the authority will require significant evidence to start the easing cycle, after a few higher-than-expected figures. Despite this, we understand that the last two inflation data points represent a downside surprise for the Fed's scenario, which leaves room for cuts sooner. We expect the cutting cycle to start in September (instead of December) and have revised the number of cuts this year from one to two, while maintaining the three cuts expected for next year.

**Fed Summary of Economic Projections**

| Variable | Meeting | 2024 | 2025 | 2026 | Longer-run |
|---|---|---|---|---|---|
| GDP | Mar | 2.1 | 2.0 | 2.0 | 1.8 |
| | Jun | 2.1 | 2.0 | 2.0 | 1.8 |
| Unemp. Rate | Mar | 4.0 | 4.1 | 4.0 | 4.1 |
| | Jun | 4.0 | 4.2 | 4.1 | 4.2 |
| PCE deflator | Mar | 2.4 | 2.2 | 2.0 | 2.0 |
| | Jun | 2.6 | 2.3 | 2.0 | 2.0 |
| Core PCE deflator | Mar | 2.6 | 2.2 | 2.0 | - |
| | Jun | 2.8 | 2.3 | 2.0 | - |
| Fed Funds * | Mar | 4.6 | 3.9 | 3.1 | 2.6 |
| | Jun | 5.1 | 4.1 | 3.1 | 2.8 |
| Real FFR (implicit from FFR - Core PCE) | Mar | 2.0 | 1.7 | 1.1 | 0.6 |
| | Jun | 2.3 | 1.8 | 1.1 | 0.8 |

** Median of FOMC projections*

*Source: Fed, Itaú*

## Europe: unchanged scenario, despite political uncertainties in France

**Stabilizing activity and gradual disinflation pave the way for a cautious easing cycle.** Core inflation receded to 0.22% in June, from 0.36% in May. We see inflation gradually converging toward the target in early 2025. Regarding economic activity, composite PMI surveys indicate 0.2% growth in 2Q24 (from 0.3% previously). For the full year, we forecast 0.7% growth (accelerating from 0.5% in 2023). In this context, the European Central Bank began an easing cycle at the June meeting, reducing the benchmark rate to 3.75% from 4.0%. The scenario going forward is cautious, given the still gradual disinflation. We expect two additional interest rate cuts in 2024 and four in 2025, with a terminal rate of 2.25%.

**Political uncertainties in France are back on the radar and bring a negative bias to the fiscal situation in the country**. In early June, President Emmanuel Macron dissolved Parliament and called for elections in early July, following his party's defeat in the European Parliament elections to Marine Le Pen's far-right party. The results showed an advance of both extreme right (143 seats, previously 89) and left (183, previously 142) parties in the French parliament, reaching and 182 (previously 142). However, both fall short of the majority needed to form a new government (289 out of 577 seats). Furthermore, the new prime minister has not been appointed yet. There is still uncertainty whether President Macron's coalition will reach an agreement with the center-right parties to form a government with seats close to the majority. If this fails to happen, the next PM will most likely be a technocrat. Under these circumstances, the government is likely to struggle to approve next year’s budget, which is a bad sign for public accounts. According to our estimates, France needs a fiscal adjustment of 3-4 pp to stabilize its debt.

## China: 5.0% growth in 2024, amid lingering structural challenges

**Our growth forecasts for China remain at 5.0% for 2024 and 4.5% for 2025.** Activity has shown a good performance this year, supported by the manufacturing/exports and infrastructure sectors. Industrial production climbed by 5.6% yoy in May. Industrial confidence surveys remained stable in June, a good sign for the sector's performance. However, this growth strategy may be hindered by the challenging geopolitical background, with higher tariffs from both Europe and the U.S. Furthermore, there are no alternatives to boost growth in domestic demand because the adjustment in the property sector is still underway. Thus, structural challenges for the Chinese economy linger, despite the improvement in growth at the margin.

## LatAm – An earlier pause in Chile

**Downshifting growth in several economies.** In Mexico, we lowered our 2024 growth forecast again. We started the year forecasting 2024 GDP growth at 2.8%, which was revised down to 2.3% in May, mainly due to weaker data in 1Q24. Since then, persistent underperformance of economic activity and a slight revision to our growth outlook in the US led us to downshift our growth call again to 1.6% and to 1.7% for 2025 (from 1.9%). In Argentina, downside risks to our 2024 growth call have materialized, leading us to envisage a deeper contraction, of 3.5% (from -3% previously), as the economy has yet to shake off the lingering effects of the stabilization program. We maintained our 2024 GDP growth call in Chile at 2.8%, yet a string of disappointing prints places a downward bias on our forecast, as contractions in commercial loans continue to suggest that private investment is yet to turn the corner.

**Higher growth in Peru and Colombia.** In contrast, a stronger start to 2Q24 in Peru led us to envisage higher growth this year of 3.1%, from 2.7% in our previous scenario, also supported by positive terms of trade, and the effects of La Niña on fishing output. Better-than-expected activity dynamics in Colombia also led us to review growth up slightly by 0.2pp to 1.4% for 2024 and 0.1pp to 2.7% for 2025. In Brazil, we are maintaining our GDP growth forecast at 2.3% in 2024 and 1.8% in 2025. Despite the floods in Rio Grande do Sul, the economy has been resilient in the first half of the year.

**More than meets the eye on inflation.** This month we maintained our inflation forecasts in Mexico and Peru, while we raised our forecasts for Chile, Colombia and Brazil. In Chile’s case, we increased our inflation forecast up materially for this year to 4.5% (from 4.1%) and next to 3.3% (from 3.1%), incorporating a larger effect of electricity price readjustments. While monthly CPI surprises tend to be larger in Chile relative to other economies, uncertainty looms regarding the measurement of these price increases by the statistics agency and temporary subsidies. In Colombia, greater inertia in rents and exchange rate pressure led us to now expect a year-end 2024 CPI of 5.6% (previously 5.2%) and 3.3% for 2025 (3.0% previously), although with an upside bias due to uncertainty regarding the removal of diesel subsidies. Finally, in Brazil, the revision to 4.0% in 2024 and 2025 reflect mainly the FX depreciation.

**An earlier pause in the easing cycle in Chile.** While we maintained our yearend monetary policy calls in Colombia, Mexico, Peru and Brazil, we adjusted our call to an earlier pause in the easing cycle in Chile. We now expect the BCCh to cut the policy rate once more in this month's meeting by 25bps to 5.5% (previously expected another 25bp cut in September to 5.25%), and then enter a prolonged pause, as upside inflationary risks stem from the direct and second round effects of higher electricity prices. Importantly, risks to our monetary policy calls for this year in Colombia and Mexico tilt towards fewer cuts.

## 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 | **3.4** | 3.4 |
| USA - % | 2.5 | -2.2 | 5.8 | 1.9 | 2.5 | **2.5** | 2.7 | **2.2** | 2.2 |
| Euro Area - % | 1.6 | -6.2 | 5.9 | 3.5 | 0.5 | **0.7** | 0.7 | **1.0** | 1.0 |
| China - % | 6.0 | 2.3 | 8.4 | 3.0 | 5.2 | **5.0** | 5.0 | **4.5** | 4.5 |
| **Interest rates and currencies** | | | | | | | | | |
| Fed Funds - %, eop | 1.55 | 0.09 | 0.08 | 4.4 | 5.3 | **4.9** | 5.1 | **4.1** | 4.4 |
| U.S. 10 Year Treasury - %, eop | 2.00 | 0.93 | 1.47 | 3.88 | 3.88 | **4.25** | 4.35 | **4.00** | 4.00 |
| USD/EUR - eop | 1.12 | 1.22 | 1.13 | 1.07 | 1.10 | **1.05** | 1.05 | **1.05** | 1.05 |
| CNY/USD - eop | 7.0 | 6.5 | 6.4 | 6.9 | 7.1 | **7.2** | 7.2 | **7.2** | 7.2 |
| DXY Index* - eop | 96.4 | 89.9 | 95.7 | 103.5 | 101.3 | **105.5** | 105.5 | **105.1** | 105.1 |

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 | | 2025 | |
|---|---|---|---|---|---|
| | | Current | Previous | Current | Previous |
| GDP (%) | 3.2 | **3.2** | 3.2 | **3.4** | 3.4 |

### Latin America and Caribbean

| | 2023 | 2024 | | 2025 | |
|---|---|---|---|---|---|
| | | Current | Previous | Current | Previous |
| GDP (%) | 2.2 | **1.8** | 2.1 | **2.5** | 2.4 |

### Brazil

| | 2023 | 2024 | | 2025 | |
|---|---|---|---|---|---|
| | | Current | Previous | Current | Previous |
| GDP (%) | 2.9 | **2.3** | 2.3 | **1.8** | 1.8 |
| BRL / USD (eop) | 4.86 | **5.30** | 5.15 | **5.40** | 5.25 |
| Monetary Policy Rate (eop,%) | 11.75 | **10.50** | 10.50 | **10.50** | 10.50 |
| IPCA (%) | 4.6 | **4.0** | 3.8 | **4.0** | 3.7 |

### Mexico

| | 2023 | 2024 | | 2025 | |
|---|---|---|---|---|---|
| | | Current | Previous | Current | Previous |
| GDP (%) | 3.2 | **1.6** | 2.3 | **1.7** | 1.9 |
| MXN / USD (eop) | 16.97 | **18.6** | 17.9 | **19.3** | 18.9 |
| Monetary Policy Rate (eop,%) | 11.25 | **10.00** | 10.00 | **8.00** | 8.00 |
| CPI (%) | 4.7 | **4.3** | 4.3 | **3.9** | 3.9 |

### Argentina

| | 2023 | 2024 | | 2025 | |
|---|---|---|---|---|---|
| | | Current | Previous | Current | Previous |
| GDP (%) | -1.6 | **-3.5** | -3.0 | **3.5** | 2.5 |
| ARS / USD (eop) | 809 | **1027** | 1150 | **1500** | 1700 |
| Reference rate (eop,%) | 100.0 | **30.0** | 30.0 | **30.0** | 30.0 |
| CPI (%) | 211.4 | **130.0** | 140.0 | **50.0** | 50.0 |

### Chile

| | 2023 | 2024 | | 2025 | |
|---|---|---|---|---|---|
| | | Current | Previous | Current | Previous |
| GDP (%) | 0.2 | **2.8** | 2.8 | **2.0** | 2.0 |
| CLP / USD (eop) | 879 | **920** | 920 | **850** | 850 |
| Monetary Policy Rate (eop,%) | 8.25 | **5.50** | 5.25 | **4.5** | 4.50 |
| CPI (%) | 3.9 | **4.5** | 4.1 | **3.3** | 3.1 |

### Colombia

| | 2023 | 2024 | | 2025 | |
|---|---|---|---|---|---|
| | | Current | Previous | Current | Previous |
| GDP (%) | 0.6 | **1.4** | 1.2 | **2.7** | 2.6 |
| COP / USD (eop) | 3855 | **4100** | 4000 | **4200** | 4000 |
| Monetary Policy Rate (eop,%) | 13.00 | **8.75** | 8.75 | **6.00** | 6.00 |
| CPI (%) | 9.3 | **5.6** | 5.2 | **3.3** | 3.0 |

### Peru

| | 2023 | 2024 | | 2025 | |
|---|---|---|---|---|---|
| | | Current | Previous | Current | Previous |
| GDP (%) | -0.6 | **3.1** | 2.7 | **3.0** | 3.0 |
| PEN / USD (eop) | 3.70 | **3.80** | 3.80 | **3.80** | 3.80 |
| Monetary Policy Rate (eop,%) | 6.75 | **5.00** | 5.00 | **4.25** | 4.25 |
| CPI (%) | 3.2 | **2.8** | 2.8 | **2.5** | 2.5 |

Source: Itau

## Commodities

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | | 2025 | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | *Current* | *Previous* | *Current* | *Previous* |
| **Brent Oil (USD/bbl)** | 64 | 50 | 75 | 82 | 77 | **85** | 85 | **80** | 80 |
| **Iron Ore (USD/tonne)** | 90 | 153 | 116 | 110 | 135 | **110** | 110 | **90** | 90 |
| **Copper (USD/tonne)** | 7788 | 7788 | 9525 | 8402 | 8489 | **9800** | 9800 | **9800** | 9800 |
| **Corn (Usd/bu)** | 383 | 437 | 592 | 656 | 480 | **400** | 400 | **380** | 380 |
| **Soy (Usd/bu)** | 912 | 1207 | 1290 | 1474 | 1311 | **1100** | 1100 | **950** | 950 |
| **Wheat (Usd/bu)** | 540 | 604 | 790 | 757 | 669 | **720** | 720 | **760** | 760 |
| **Sugar (Usd/lb)** | 13 | 15 | 19 | 20 | 22 | **21** | 21 | **20** | 20 |
| **Coffee (Usd/lb)** | 130 | 123 | 235 | 166 | 188 | **180** | 180 | **150** | 150 |

Source: BBG, Itaú

Macro Research – Itaú

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