Macro scenario - Global

June 13, 2025

Waiting for the tariff shock

- **In a context of rising geopolitical tensions, trade agreements continue pending negotiations, and the risk still appears to be higher tariffs ahead.**
- **US**: resilient activity and an upcoming inflation shock make the Fed wait to cut interest rates (we continue to expect a cut in December), amid a scenario of fiscal deterioration.
- **Europe**: the central bank signaled a higher bar for interest rate cuts ahead, in line with our terminal scenario at the current 2.0% pa. With the environment of less interest in US assets, we revised our euro projection to 1.12 (from 1.10, previously).
- **China**: resilient activity supported by exports removes the urgency of new stimulus, for now. We maintain our GDP growth forecasts at 4.5% for 2025 and 4.0% for 2026.
- **Latin America:** Separating the signal from the noise – growth revised up.

Uncertainty still high, awaiting the tariff shock

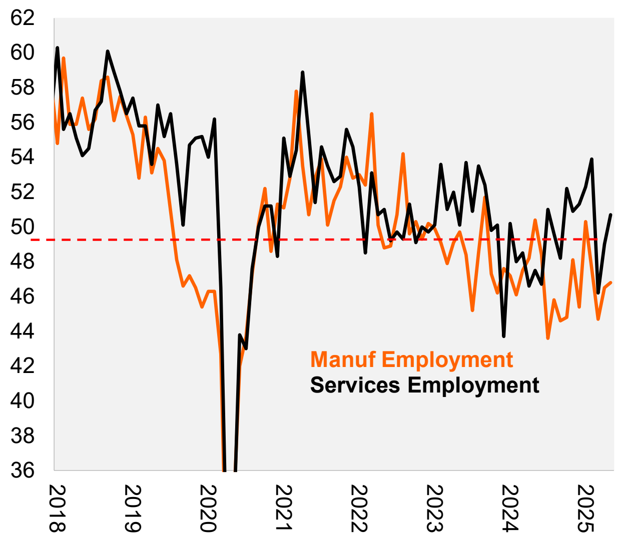
Following the truce between the US and China, there have been no announcements of agreements by the US government with other countries. The current tariff level stands at 30% on all Chinese exports – comprised of 20% as a penalty related to fentanyl and 10% as a reciprocal measure – and 10% for other countries. Certain sectors, such as aluminum and steel, receive differentiated treatment, with tariffs on these products doubled to 50% at the end of May. Overall, the effective average US tariff is 14.6%, reflecting a 12 percentage point increase (see chart below).

With negotiation deadlines approaching, further increases seem more likely than reductions from current levels. The next relevant dates are July 9 and August 12, when the reciprocal tariff truces with the rest of the world and China, respectively, are set to expire. In our view, it is unlikely that the US government will ease fentanyl-related tariffs on China, despite recent efforts to improve dialogue. In addition, there is still a risk of sectoral tariffs on copper, pharmaceuticals and semiconductors. Investigations into these sectors are ongoing but have not yet been concluded.

In the US, economic activity remains resilient and inflation moderate, but the inflationary shock still lies ahead. Since GDP data has been quite distorted by the front-loading of imports ahead of tariffs and the subsequent payback, the indicator has not been the best metric to understand the pace of the economy (GDP contracted 0.3% in Q1, and we estimate a 3.5% expansion in Q2). The labor market has been a better guide and the most recent Payroll data show job creation still resilient, with the 3-month moving average at 135k and unemployment stable at 4.2%. Inflation has remained moderate in recent months, though still elevated. We continue to expect a significant inflationary impact from tariffs, pushing core CPI to 3.8% and core PCE to 3.5%.

Tail risks from weaker activity and higher-than-expected inflation have eased at the margin, with consumer and business surveys pessimism reaching a bottom and inflation expectations receding (see charts).

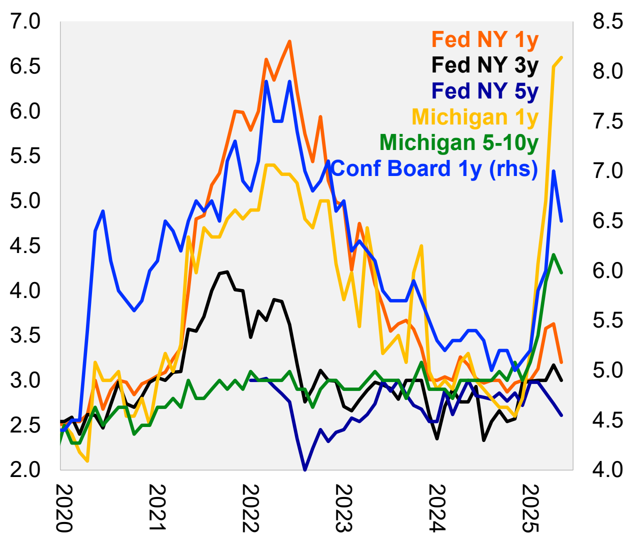
ISM Employment with some payback



Source: Haver and Itaú

The approval of the new fiscal package in the House of Representatives points to a scenario of accelerating deficit and debt growth, putting upward pressure on long-term interest rates and reducing the attractiveness of the dollar. The fiscal package approved by the House – known as the One Big Beautiful Bill (OBBA) – suggests the fiscal deficit could rise to 6.5–7.0% of GDP in the coming years, compared to an estimated 5.5–6.0% for this year. Although final approval still requires passage by both houses of Congress, we do not expect significant changes in Senate. The lack of urgency in addressing the worsening fiscal trajectory has already increased pressure on long-term Treasury yields, a trend we expect to continue. As a result, we have revised our year-end projection for the 10-year Treasury yield to 4.50% (up from 4.25%). This environment has also contributed to the recent weakening of the dollar, amid a broader decline in the attractiveness of U.S. assets globally.

Consumer inflation expectations improved at the margin



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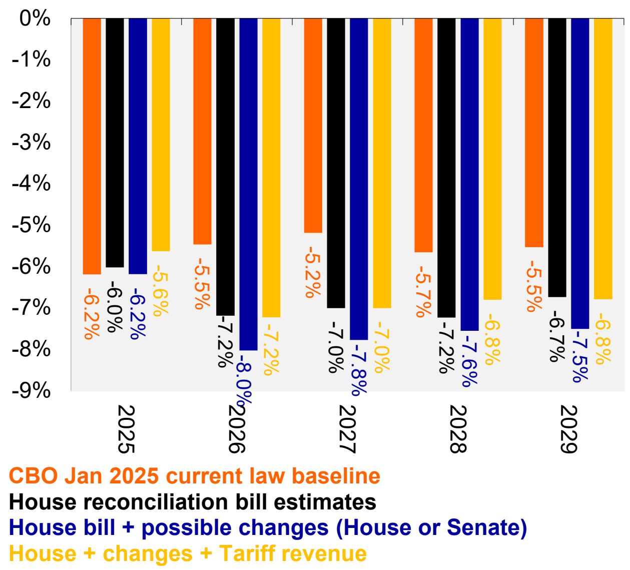
US Nominal Deficit Estimates (% GDP)

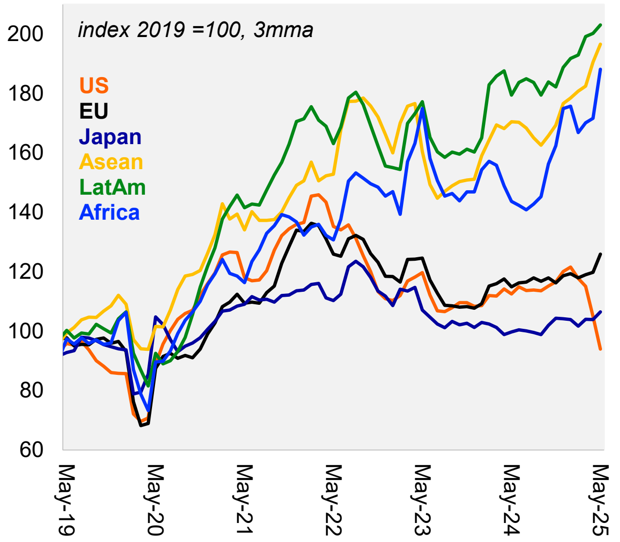


Source: Itaú

We continue to expect this scenario to lead to a Fed rate cut only in December. Resilient activity and a lack of clarity in trade negotiations are prompting the Fed to wait and see what the effect on the economy will be. Recent statements from Fed officials have cautiously moved in this direction, signaling limited appetite for rate cuts until the economic impacts become clearer.

In China's case, despite global tensions, exports remain resilient, reducing the need for a new round of stimulus measures in the short term. Exports continue at a positive pace as Chinese products are redirected to other destinations – such as Asian countries – offsetting the sharp decline in U.S. demand (see chart). The recent truce between the U.S. and China, whose initial deadline expires in August, has not yet been reflected in the May trade balance data. We expect exports to remain resilient in the short term, driven by the redirection to other countries and, to a lesser extent, by anticipatory purchases.

Exports breakdown by region



Source: Haver and Itaú

We maintain our Chinese growth forecasts at 4.5% for 2025 and 4.0% for 2026. The growth model remains anchored in exports and the manufacturing sector. Additionally, the implementation of this year's fiscal stimulus has advanced more rapidly than in 2024, providing further support to short-term activity. As a result, we do not expect additional stimulus measures and believe that any discussion of new fiscal announcements will likely be postponed until 2026 (rather than July of this year), in light of the recent data and also given that the shock was milder than it seemed at the peak of trade tensions.

In Europe, the central bank signaled a higher threshold for further rate cuts, reinforcing our view of a terminal rate at the current 2.0% level. The June monetary policy meeting confirmed that the rate-cutting cycle is nearing its end, as inflation projections continue to converge toward the 2% target. There was a signal of increased confidence that economic activity is continuing without, at least for now, showing a significant slowdown due to the tariff shock. We maintain our growth forecasts at 0.8% for 2025 and 1.5% for 2026, incorporating the expected boost from Germany's fiscal stimulus next year.

In an environment of declining interest in U.S. assets amid uncertainty over economic policy, we have revised our euro forecast to 1.12 (from 1.10) for both 2025 and 2026. While the monetary policy differential between the U.S. and the euro area would typically support a weaker euro, persistent risk aversion toward U.S. assets is likely to remain the dominant driver.

LatAm: Separating the signal from the noise – growth revised up

The global outlook has been exceptionally uncertain in recent months, with shifting forecasts on growth, inflation, and the policy rate outlook in major advanced economies, which have rippled through our views for the region. Last month, following the agreement between the US and China that led to a dissipation of heightened trade tensions, we improved our growth forecasts for most economies in the region. This month we increased our growth forecasts further, due to several factors including revisions to our international scenario (higher growth in the US), better-than-expected activity data in 1Q25 national accounts, tracking, and an improvement in already elevated terms-of-trade, among others. Still, trade policy uncertainty remains elevated and Andean economies are exposed to specific tariffs on copper and other specific goods. Importantly, our revised call for higher rates at the long end in the US is not necessarily synonymous with tighter financial conditions for EMs and the region, as we see a somewhat weaker global dollar than previously envisaged.

Growth up. The Mexican economy is slowing but few sectors have experienced sequential monthly contractions, contrasting with previous economic slowdowns, while some economic indicators have delivered better-than-expected results, and we see greater growth in the US. As a result, we revised our 2025 GDP growth forecast to 0.2% from -0.5%, while maintaining our current 1.0% projection for 2026 due to still-high uncertainty. We've also revised this year's GDP growth forecasts up in Chile (to 2.6%) and Colombia (2.5%), while placing an upside bias on our call in Peru (2.8%). Hard and soft data continue to reflect positive growth momentum, with no apparent effects of the increase in global policy uncertainty. Importantly, the mining-led investment recovery in Chile and Peru appears to be well on track. However, labor market slack and persistent weakness in commercial credit dynamics in Chile are important watchpoints to gauge the strength of the cyclical recovery. Argentina is still projected to experience the fastest growth in the region (5.2%), reflecting an important carryover from last year, higher real wages, and improving fundamentals.

Minor tweaks to our inflation forecasts. In Chile, we revised our yearend inflation call to 3.8%, from 4.0%, reflecting lower cumulative inflation in the year, exchange rate dynamics, and international oil prices. In Colombia, in contrast, even though the CPI was somewhat below expectations in May, following several upside surprises, we revised yearend inflation up to 5.1%, due to indexation and pressure from rents. In Mexico, despite the recent upside surprise in the end of May, we maintained our yearend inflation forecast at 3.9% and at 3.6% in 2026. In our view, the disinflation phase has largely occurred due to the non-core component, and recent upside surprises indicate increased volatility, mainly in food inflation. Core goods inflation is still showing marginal upward pressure due to a low base effect, while services inflation remains persistent amid a tight labor market.

An earlier restart to the easing cycle in Chile. Even though we revised our growth forecast up in Chile, the swifter than expected decline in core inflation and risks of a pronounced potential deterioration of the external backdrop, in the context of well-anchored inflation expectations have opened the door for an earlier restart to the easing cycle; we now pencil in a total of three 25bp cuts this year, starting in July, ending the year at 4.25%. We maintained our policy rate calls elsewhere in the region. In Mexico, we believe Banxico will deliver a 50 bp cut in June, and as of now, anticipate a more cautious approach slowing the pace to 25 bp to 75% by September. Potential exchange rate volatility in Mexico as a result of lower interest rate differentials with the US, will be key in calibrating additional adjustments. In Colombia, we expect BanRep to pause in the next meeting and then continue cutting at a 25-bp clip to 8.5% by year-end, even as domestic fiscal policy uncertainty remains elevated.

An eye on fiscal accounts. While we maintained our fiscal forecasts for major economies in the region this month, recent developments merit attention, especially following the fiscal misses that took place last year. In Chile, this year's original official structural deficit target (1.1% of GDP) is set to be revised higher (1.6%), and in Peru the official nominal fiscal deficit target (2.2% of GDP) is also now projected to be greater (2.8%). These revisions take place even as real revenues have improved and elections loom. More recently, the decision to trigger an escape clause to the fiscal rule in Colombia, in the absence of a severe shock, suggests the nominal deficit is likely to approach our call of 7.0%, well above the official target of 5.1%. An erosion of fiscal institutional frameworks, reflected by target misses and revisions, along with greater public debt, pose risks of gradually damaging one of the key pillars that have contributed to greater macro stability in these economies over the past decades.

Markets are keeping an eye on elections in several economies this year and next. Going forward, this year's busy electoral calendar will continue in Argentina with the national congressional elections, scheduled for October 26. Later this year, presidential and congressional elections take place in Chile on November 16, with a presidential runoff likely to take place on December 21. Next year, general elections are scheduled for April 12 in Peru, with a potential presidential runoff on June 7; in contrast to the previous elections, voters will also elect 60 new members to a Senate, body that returns to Peru's political system after several decades. Also next year, congressional elections take place in Colombia on March 8, and presidential elections on May 31, and a runoff on June 21. General elections are scheduled in Brazil on October 4, 2026, and a runoff on October 25. The table below describes the key dates.

Key Electoral Dates

Argentina	September 7, 2025	Local Congressional Election in Buenos Aires
	October 26, 2025	National Congressional Elections
	December 10, 2025	Elected National Congressmen begin their term
Brazil	October 4, 2026	General Elections
	October 25, 2026	Second round
Chile	June 29, 2025	Governing coalition's presidential primary
	November 16, 2025	Presidential and Congressional Elections
	December 14, 2025	Presidential runoff (if needed)
	March 11, 2026	New presidential and congressional terms begin
Colombia	March 8, 2026	Congressional Elections
	May 31, 2026	Presidential first-round
	June 21, 2026	Presidential runoff (if needed)
Mexico	September 1, 2025	New justices, magistrates, and judges begin their terms
Peru	April 12, 2026	General Elections
	June 7, 2026	Presidential runoff (if needed)
	July 28, 2026	Elected officals begin their term

Source: Itaú based on official sources.

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**	2.8	**2.8**	2.8
USA - %	-2.2	6.1	2.5	2.9	2.8	**1.7**	1.2	**1.5**	1.5
Euro Area - %	-6.2	6.3	3.6	0.4	0.8	**0.8**	0.8	**1.5**	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**	4.0	**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**	4.25	**4.25**	4.25
USD/EUR - eop	1.22	1.13	1.07	1.10	1.04	**1.12**	1.10	**1.12**	1.10
CNY/USD - eop	6.54	6.37	6.92	7.13	7.30	**7.20**	7.20	**7.20**	7.20
DXY Index* - eop	89.9	95.7	103.5	101.3	108.5	**99.8**	101.9	**99.4**	101.6

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

Brazil

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	3.4	**2.2**	2.2	**1.5**	1.5
BRL / USD (eop)	6.18	**5.65**	5.75	**5.65**	5.75
Monetary Policy Rate (eop,%)	12.25	**14.75**	14.75	**12.75**	12.75
IPCA (%)	4.8	**5.3**	5.5	**4.4**	4.4

Argentina

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	-1.7	**5.2**	5.2	**4.0**	4.0
ARS / USD (eop)	1033	**1300**	1300	**1515**	1515
Reference rate (eop,%)	32.0	**29.0**	29.0	**20.0**	20.0
CPI (%)	117.8	**27.5**	30.0	**20.0**	20.0

Colombia

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	1.7	**2.5**	2.2	**2.5**	2.6
COP / USD (eop)	4409	**4300**	4400	**4200**	4300
Monetary Policy Rate (eop,%)	9.50	**8.50**	8.50	**7.75**	7.75
CPI (%)	5.2	**5.1**	4.8	**3.6**	3.5

Latin America and Caribbean

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

Mexico

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	1.4	**0.2**	-0.5	**1.0**	1.0
MXN / USD (eop)	20.8	**20.0**	21.0	**20.5**	21.3
Monetary Policy Rate (eop,%)	10.00	**7.50**	7.50	**7.00**	7.00
CPI (%)	4.2	**3.9**	3.9	**3.6**	3.6

Chile

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	2.6	**2.6**	2.2	**2.0**	2.0
CLP / USD (eop)	996	**940**	970	**910**	940
Monetary Policy Rate (eop,%)	5.00	**4.25**	4.50	**4.00**	4.00
CPI (%)	4.5	**3.8**	4.0	**3.0**	3.0

Peru

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

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	**65**	65
Iron Ore (USD/tonne)	153	116	110	135	103	**95**	95	**85**	85
Copper (USD/tonne)	7788	9525	8402	8489	9030	**9400**	9050	**9500**	9350
Corn (Usd/bu)	437	592	656	480	444	**430**	450	**400**	410
Soy (Usd/bu)	1207	1290	1474	1311	984	**1000**	980	**970**	950
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	**340**	360	**280**	280

Source: BBG, Itaú

Macro Research – Itaú

Mario Mesquita – Chief Economist

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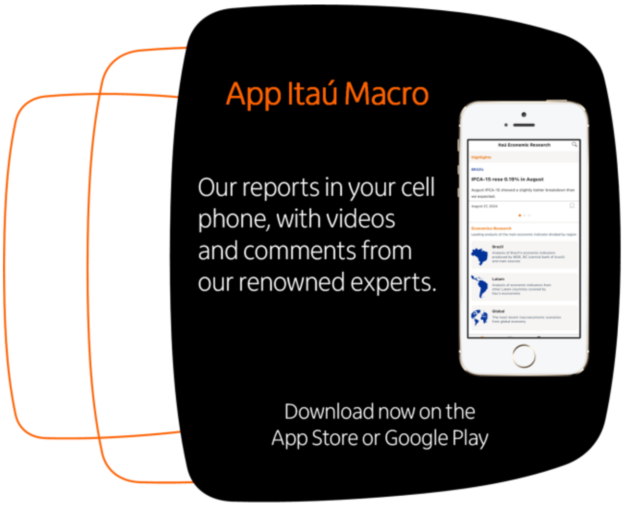

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