Macro scenario - Global

May 15, 2025

Trade deals reduce tariffs and risks of global recession

- **More positive global environment with (at least) temporary reduction of current trade tariffs between the U.S. and China and announcement of first trade deals.**
- **U.S.**: Lower tariffs ease the impact on inflation and economic activity, but postpone Fed rate cuts. We maintained our GDP growth forecast at 1.2% for 2025 and increased our projection for 2026 to 1.5% from 1.0%. We reduced the number of Fed rate cuts this year from two to one (in December) and maintained two expected cuts for next year.
- **Europe**: We maintain our GDP forecasts at 0.8% in 2025 and 1.5% in 2026, as monetary and fiscal stimuli offset the impact of tariffs. We expect the ECB to end the easing cycle with rates at 2.0% (previously 1.75%) amid some relief in the global environment.
- **China**: We have increased our 2025 growth estimate to 4.5% from 4.2%, considering tariffs at 30% (compared to 60% in the previous scenario). A more positive environment for economic activity reduces the need for additional stimuli.
- **Latin America:** Shifting external headwinds.

More positive global environment after agreement between US and China

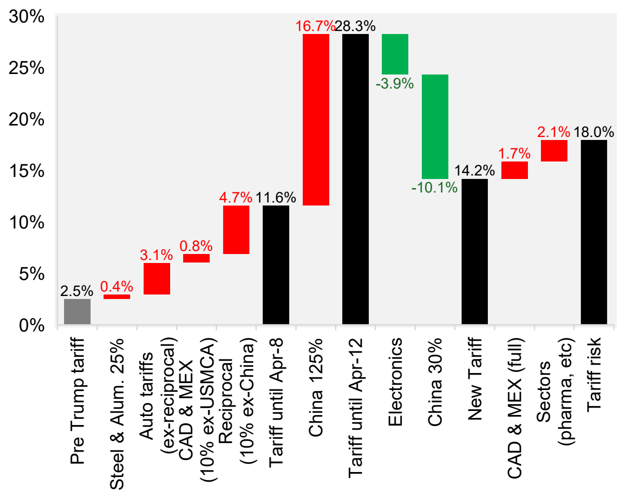
The U.S. and China have announced a temporary 90-day trade deal with significant tariff reductions. The additional tariff on Chinese imports went from 145% to 30% (referring to 20% as a punishment for fentanyl and other 10% due to reciprocity, the same level established for other countries during the 90-day truce announced on April 9) and from 125% to 10% on US imports entering in China.

In addition to this deal, the U.S. government appears to have made progress in negotiations with other countries, as was the case with the United Kingdom. However, up to date, the minimum level of 10% for all countries has been maintained, which is also significantly higher compared to last year. Talks with Europe, another key trading partner, have stalled and no progress has been made. Overall, we believe that discussions and implementation of long-term deals will continue to be contentious. However, the tariff reductions announced in April for China and other countries indicate that the previous levels were already imposing significant costs on the U.S. economy.

Therefore, we now assume in our baseline scenario that the current tariff levels will be maintained (30% on China and 10% universal for the rest of the world), which implies a total effective U.S. tariff of 14% (a 12pp increase, compared to a 17pp increase in our previous scenario, see chart below). We expect global GDP to grow by 2.8% in 2025 and 2026, compared to 2.7% and 2.6% in the previous scenario, coming from 3.2% in 2024. Below, we outline the impact for each country separately.

We view future risks to tariffs as more balanced. However, new increases remain more likely than decreases. The next relevant dates are July 8 and August 12, when the truce on reciprocal tariffs ends for the rest of the world and China, respectively. While it is possible that negotiations could reduce China's tariffs on fentanyl exports, the U.S. government will decide on sectoral tariffs for copper, pharmaceuticals, and semiconductors. Investigations into these sectors, which provide legal grounds for potential increases, have already begun but have not yet been concluded and could lead to higher tariffs than those currently in force.

Tariffs: impact on effective tariff (pp)



Source: Itaú

For the U.S. scenario, a lower tariff on China alleviates the impact on inflation and economic activity, but postpones Fed rate cuts. We expect the inflationary effect of the new set of tariffs to be around +100-150 bps on inflation (down from 150-200 bps previously). Despite this smaller effect, we still see risks of more persistent inflation ahead, considering the inertia of a high pre-shock inflation level (see chart below, which shows Core PCE levels still at 2.5-3.0%) and rising inflation expectations. For GDP, the smaller supply shock has a lower impact on households' real income and companies' costs. Therefore, we have revised our 2026 GDP growth projection to 1.5% (up from 1.0% previously). We have not changed our 2025 GDP estimate because of stronger-than-expected imports. This resulted in a weaker first quarter and a worse statistical carry-over effect for the year's GDP.

With a moderate slowdown in economic activity and the continued risk of more persistent inflation, we have postponed our expectation for the Fed's first rate cut to December (from September previously), reducing the number of cuts this year from two to one. For 2026, we continue to expect two cuts, implying a terminal rate of 3.50-3.75% (from 3.25-3.50%).

In the case of China, we have increased our growth forecast to 4.5% from 4.2% in 2025 and maintained it at 4.0% for 2026. With the trade deal, the tariff on exports from China to the U.S. is set at 40% (increase of 30%; compared to 10% until the end of 2024), a level that does not entirely halt trade between the two countries. We estimate that current tariffs reduce Chinese growth by 1.5pp (compared to 1.8pp in the previous scenario), considering that 10% of China's export decline can be redirected through other countries.

This more favorable scenario removes the urgency for a new round of fiscal stimulus and should mean a more appreciated Chinese currency against the dollar (at 7.20 compared to 7.40 in the previous scenario). We do not expect additional stimulus, and we assess that any discussions about new fiscal announcements are now set to be postponed to 2026 (rather than July 2025) due to the lower shock and the latest economic data.

For Europe, we continue to expect growth of 0.8% in 2025 and 1.5% in 2026. Our scenario assumes a 10% increase in the effective U.S. tariff applied to the region, which has a negative impact of 0.7 percentage points on GDP. This is offset, especially in 2026, by fiscal stimulus in Germany and also by the interest rate cut cycle.

Regarding the ECB, we expect only one additional rate cut in June, ending the cycle with a terminal rate of 2.0% (compared to 1.75% in our previous scenario), amid a more favorable global environment. Monetary policy committee members acknowledge that tariffs pose a downside risk to economic activity but present an uncertain risk to inflation (negative considering weaker economic activity, but potentially positive considering retaliation and reallocation of supply chains). The combination of disinflation (despite the spike in April due to Easter), exchange rate appreciation, and falling oil prices paves the way for an additional interest rate cut in June. However, resilient activity and a more favorable global environment eliminate the need for the central bank to lower interest rates to (or below) the neutral interest rate target (between 1.75-2.0%). In a scenario of reduced aversion to the dollar, we maintain our euro forecast at 1.10.

For commodities, we maintain our oil forecast at USD 65/bbl in 2025. However, we acknowledge downside risks (of around USD 5/bbl) on the supply side with production returning faster than expected by OPEC. Nevertheless, for now, these risks are offset by demand factors with global GDP growing more than expected due to lower tariffs.

Latin America: Shifting external headwinds

Swift progress on US-China trade negotiation ripples through our forecasts for the region. As has been in previous months, changes to our forecasts for the region – with the important exception of Argentina – are primarily driven by revisions to our global outlook. In a nutshell, improvements in our growth outlook for the US and China led to upward growth revisions in several economies, while a more gradual Fed easing path should lead to more caution from central banks. In this context, even though the recent tariff de-escalation between the US and China provides some relief, trade policy uncertainty remains elevated and Andean economies are still exposed to potential tariffs on copper and other specific goods.

Mexico avoided a technical recession, but a contraction this year seems almost inevitable. According to the 1Q25 flash estimate, the Mexican economy expanded by 0.2% sequentially, narrowly avoiding a technical recession. However, a deeper look into the print, suggests that the positive surprise was driven by the volatile agro sector. We still envisage a weakening in Mexico's external impulse this year and mixed dynamics in domestic fundamentals, leading us to maintain our forecast for an annual contraction of 0.5% in GDP. Yet, we revised our 2026 growth forecast towards a sharper snapback to +1.0% (from 0.5%), supported by our revision for higher growth in the US.

Upgrading GDP growth forecasts in Chile and Colombia. Last month, we lowered our growth forecasts in Chile, Colombia, and Peru due to the revisions to the US growth outlook, lower commodity prices, and the effects of elevated policy uncertainty. At the time, activity data had been better-than-anticipated and leading indicators were performing well. Since then, broadly speaking, both 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.

In Argentina ... so far, so good. Following the liberation of the "cepo" about a month ago, the official exchange rate has floated within the band, albeit with considerable volatility, despite absence of BCRA intervention/reserve accumulation. The stabilization and liberalization of the economy marches on. We revised several nominal forecasts for year end, including the exchange rate to 1,300 (from 1,375), inflation to 30% (from 37.5%) and the monetary policy rate to 29% (from 35%). We believe the gradual activity recovery will continue and raised our 2025 GDP forecast to 5.2%, from 4.5% and 3.5% for 2026 (from 3.0%).

On monetary policy … Even though BanRep recently delivered a unanimous surprise 25-bp cut to 9.25%, fewer cuts by the Fed, the recent upside inflation surprise in Colombia, above target inflation expectations, and persistent fiscal uncertainty, led us to consider a slightly more gradual easing path. We now expect a yearend policy rate of 8.50% (from 8.25%) and 7.75% (from 7.5%) by end-2026. We still envisage Banxico maintaining the 50-bp easing pace in May, following the forward guidance. Provided that the USDMXN remains stable and activity weak, we anticipate another 50-bp cut in June, then slowing to 25 bps through September to reach a terminal rate of 7.5%. In Chile, better behaved inflation at the margin and improving inflation expectations, keep the door open for two 25-bp cuts later this year, leading us to maintain our 4.5% call by yearend. In Peru, after the central bank delivered a surprise 25-bp cut in May to 4.5%, and mentioned the policy rate is nearing neutral, we still pencil in one more cut this year to 4.25%. Narrow interest rate differentials with the US and swings in expectations on copper prices are likely to keep CLP and PEN volatility above historical standards.

Global | Forecasts and Data

	2019	2020	2021	2022	2023	2024	2025F		2026P	
							Current	Previous	Current	Previous
GDP Growth										
World GDP growth - %	2.8	-2.8	6.3	3.5	3.2	**3.2**	**2.8**	2.7	**2.8**	2.6
USA - %	2.6	-2.2	6.1	2.5	2.9	2.8	**1.2**	1.2	**1.5**	1.0
Euro Area - %	1.6	-6.2	6.3	3.6	0.4	0.8	**0.8**	0.8	**1.5**	1.5
China - %	6.0	2.3	8.4	3.1	5.4	5.0	**4.5**	4.2	**4.0**	4.0
Inflation										
U.S. CPI - %, eop	2.3	1.6	5.5	5.7	3.9	3.2	**4.0**	4.5	**3.0**	3.2
Interest rates and currencies										
Fed Funds - %, eop	1.63	0.13	0.13	4.15	5.38	4.52	**4.13**	3.88	**3.63**	3.38
U.S. 10 Year Treasury - %, eop	2.00	0.93	1.47	3.88	3.88	4.58	**4.25**	4.00	**4.25**	4.00
USD/EUR - eop	1.12	1.22	1.13	1.07	1.10	1.04	**1.10**	1.10	**1.10**	1.10
CNY/USD - eop	7.01	6.54	6.37	6.92	7.13	7.30	**7.20**	7.40	**7.20**	7.40
DXY Index* - eop	96.4	89.9	95.7	103.5	101.3	108.5	**101.9**	101.9	**101.6**	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

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	3.2	3.2	**2.8**	2.7	**2.8**	2.6

Latin America and Caribbean

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	2.4	2.4	**2.2**	1.9	**2.2**	1.9

Brazil

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	3.2	3.4	**2.2**	2.2	**1.5**	1.5
BRL / USD (eop)	4.86	6.18	**5.75**	5.75	**5.75**	5.75
Monetary Policy Rate (eop,%)	11.75	12.25	**14.75**	15.25	**12.75**	13.25
IPCA (%)	4.6	4.8	**5.5**	5.5	**4.4**	4.4

Mexico

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	3.3	1.5	**-0.5**	-0.5	**1.0**	0.5
MXN / USD (eop)	17.0	20.8	**21.0**	21.0	**21.3**	21.3
Monetary Policy Rate (eop,%)	11.25	10.00	**7.50**	7.50	**7.00**	7.00
CPI (%)	4.7	4.2	**3.9**	3.9	**3.6**	3.6

Argentina

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	-1.6	-1.7	**5.2**	4.5	**4.0**	4.0
ARS / USD (eop)	809	1033	**1300**	1375	**1515**	1600
Reference rate (eop,%)	100.0	32.0	**29.0**	35.0	**20.0**	20.0
CPI (%)	211.4	117.8	**30.0**	37.5	**20.0**	20.0

Chile

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	0.5	2.6	**2.2**	2.2	**2.0**	1.8
CLP / USD (eop)	879	996	**970**	970	**940**	940
Monetary Policy Rate (eop,%)	8.25	5.00	**4.50**	4.50	**4.00**	4.00
CPI (%)	3.9	4.5	**4.0**	4.0	**3.0**	2.9

Colombia

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	0.7	1.7	**2.2**	2.0	**2.6**	2.3
COP / USD (eop)	3822	4409	**4400**	4400	**4300**	4200
Monetary Policy Rate (eop,%)	13.00	9.50	**8.50**	8.25	**7.75**	7.50
CPI (%)	9.3	5.2	**4.8**	4.5	**3.5**	3.3

Peru

	2023	2024	2025		2026	
			Current	Previous	Current	Previous
GDP (%)	-0.4	3.3	**2.8**	2.8	**2.7**	2.7
PEN / USD (eop)	3.70	3.80	**3.80**	3.80	**3.80**	3.80
Monetary Policy Rate (eop,%)	6.75	5.00	**4.25**	4.25	**4.00**	4.00
CPI (%)	3.2	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**	90	**85**	80
Copper (USD/tonne)	7788	9525	8402	8489	9030	**9050**	9050	**9350**	9350
Corn (Usd/bu)	437	592	656	480	444	**450**	450	**410**	410
Soy (Usd/bu)	1207	1290	1474	1311	984	**980**	980	**950**	950
Wheat (Usd/bu)	604	790	749	619	548	**600**	650	**630**	630
Sugar (Usd/lb)	15	19	20	22	20	**18**	18	**18**	18
Coffee (Usd/lb)	123	235	166	188	321	**360**	360	**280**	280

Source: BBG, Itaú

Macro Research – Itaú

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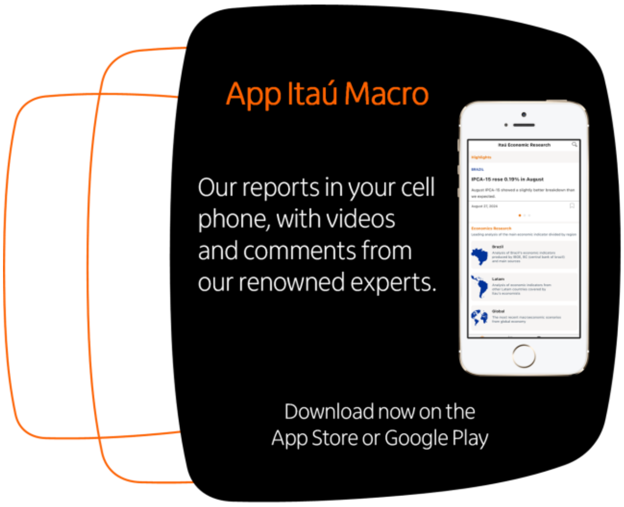

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