

Macro scenario - Global



September 19, 2025

More rate cuts in the US amid slowing employment growth

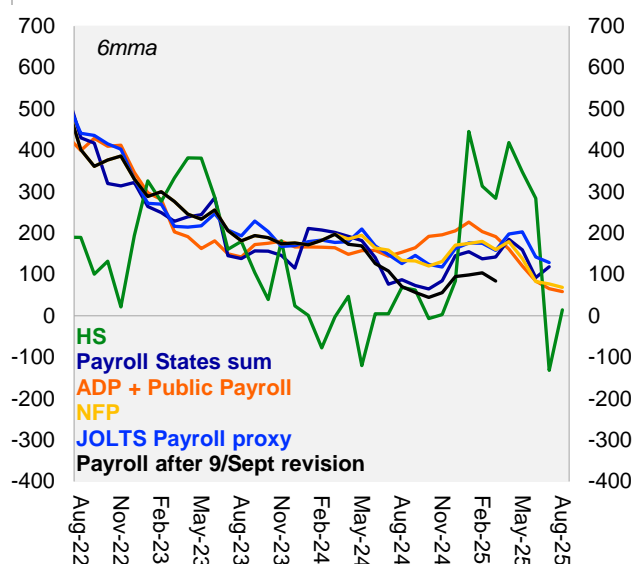
- ▶ **US:** A weaker labor market and contained inflation, albeit above target, should lead the Fed to three rate cuts this year (compared to one cut expected previously), and one additional cut next year.
- ▶ **Europe:** Resilient activity supported by stronger domestic demand warrants steady rates. We forecast GDP growth at 1.1% in 2025 and 1.2% in 2026 and the euro at US\$ 1.20.
- ▶ **China:** We maintain our GDP growth projections at 4.7% in 2025 and 4.0% in 2026. Given signs of weaker economic activity, a new round of stimulus measures is likely to be announced between September and October.
- ▶ **Latin America:** Inflation is still a source of concern in many economies of the region.

Weaker employment and still-moderate impact of tariffs on inflation allow the Fed to ease

Despite still resilient activity growth, the pace of job creation has been disappointing. GDP growth was 3.3% annualized in 2Q25 and we estimate a slowdown to 1.7% in 3Q, but with domestic demand still showing some resilience (from 1.9% to 1.7%).

Nevertheless, the pace of hiring, besides being successively revised down, has shown a slowdown in hiring at the margin, with a trend around 50,000 per month (versus 150–200,000 at the beginning of the year, see chart), which also appears in other metrics. The main reason behind this slowdown seems to be a greater restriction on immigration, initiated at the end of the Biden administration last year and intensified since the start of the Trump administration, significantly reducing the labor supply in the country. This may explain, for example, why the unemployment rate remains relatively stable (4.3% in Aug/25, from 4.2% in Jul/24) even with the payroll decline. In addition to this possible drop in the "neutral payroll" (which keeps the unemployment stable), the uncertainty surrounding the tariff scenario may also be another factor that has limited the pace of hiring since April.

Underlying Job growth



Source: Itaú

Inflation remains high, although with an only moderate impact from tariffs. Core inflation measures remain elevated and show signs of persistence above target: core CPI rose to 3.1% in August (from 3.1% in July) on a year-over-year basis, while we estimate that core PCE rose to 2.9% in August (from 2.9% in July). Nevertheless, inflation has seen only a moderate impact from tariffs so far, with core PCE, the Fed's main gauge, running at a monthly pace of 0.20–0.27% from May to August this year.

Weaker employment with downside risks prompted the Fed to start the cutting cycle in September, likely with sequential cuts. In his Jackson Hole speech, Powell signaled the start of cuts due to increased downside risks to employment. Although we expect the labor market to stabilize (with a rebound in hiring in September) and inflation to remain stubbornly high, the more dovish FOMC signal implies more cuts than expected in the near term. **We expect additional cuts in October and December, with the end of the cycle in January, for a terminal rate of 3.25-3.50% (down from 3.50-3.75% previously).**

In the case of Europe, we maintain our growth projections at 1.1% and 1.2% for 2025 and 2026, respectively. The surveys in the manufacturing and services sectors continue to show an improvement in domestic demand, amid lower interest rates and a resilient labor market. We expect a moderate deceleration in the second half due to the impact of tariffs. However, the German fiscal package should partly offset this shock next year. With inflation around 2.0% and resilient activity, there is no need for further cuts by the European central bank and the policy rate should remain at 2.0%, as committee members reinforced at the August monetary policy meeting. In our view, a significant slowdown in activity (mainly in the labor market) would be necessary for further rate cuts to occur.

For China, we maintain our growth projection at 4.7% for 2025, but additional stimulus measures will be needed, to offset an incipient slowdown in the second half. July and August activity data came in significantly below expectations, confirming the growth deceleration due to both tariff impacts and tighter policies, such as the anti-involution campaign in manufacturing. In our scenario, we expect a new round of stimulus to be announced between late September and early October. Stimuli should focus on infrastructure, manufacturing related to artificial intelligence, robotics, and semiconductors, as well as consumption subsidies. The size of this new package is expected to be between RMB 0.5–1 trillion (0.35–0.70% of GDP), aiming to deliver growth close to the 5% target this year. For the remaining years, the flight plan will be defined in the five-year plan (2026–30) by late 2025. We expect policymakers to acknowledge a lower growth pace, possibly between 4.5% and 5.0%. For now, we maintain our 2026 projection at 4.0%.

For currencies, we continue to expect a weakening of the dollar. The start of consecutive cuts by the Fed, amid signs of a cooling labor market, and the consequent narrowing of the interest rate differential versus the rest of the world, favor various currencies in the short term. Going forward, in addition to macro developments, it will be important to monitor signs of an even more erratic economic policy in the US, particularly in terms of a Fed more lenient on inflation, which could accentuate moves towards lower allocation in US assets. We expect the euro at US\$ 1.20 and the CNY at 7.15 per dollar by year-end.

Latin America: Inflation is still a source of concern in many economies

Our call for a frontloaded and somewhat larger Fed cutting cycle ripples through the region. Regarding monetary policy, in Mexico we now have incorporated consecutive cuts, contrary to our previous expectations. Moreover, in our view, Banxico will have more room to cut rates next year, leading us to update our 2026 year-end forecast for the monetary policy rate to 6.5%, down from the previous 7.0%. In Colombia's case, however, we are maintaining our call for BanRep to keep the policy rate at 9.25% through year-end, in the context of sticky inflation, rising inflation expectations, geopolitical stress, and persistent pressure on the fiscal accounts. We also maintain our call for the monetary policy rate to end 2026 at 8.25%. In Chile, we now expect one 25-bp cut in December, to 4.5%, at the ceiling of the BCC's neutral nominal range, and a final cut to 4.25% during the first half of 2026, 25 bps above our previous scenario. In Peru, we now believe the BCRP will hold the policy rate at their nominal neutral rate estimate of 4.0% starting in November, concluding a cutting cycle that began in September 2023 and peaked at 7.5%.

Wider than projected interest rate differentials with the US have led us to revise our exchange rate forecasts in most economies throughout our forecast horizon. An important exception is Mexico, where we maintained our call for the MXN at 19.0 per USD for this year and 19.5 per USD for next year. We expect the USD to remain weaker at the margin, which will continue to support the peso throughout the year, amid Banxico's easing cycle and ongoing trade negotiations.

Inflation is still a source of concern in several economies. In Colombia's case, while we left our inflation forecasts unchanged at 5.1% by the end of this year and at 4.0% by the end of 2026, one-year-ahead survey-based inflation expectations have continued to

drift further above the inflation target, despite favorable exchange rate dynamics. In Mexico, the inflation scenario remains far from comfortable, particularly for core inflation, which is currently in the 4.0–4.5% range in both annual and seasonally adjusted terms, while non-core inflation is unusually low. We forecast headline inflation to end the year at 4.1% and at 3.7% next year. In Chile, the August inflation print was welcome news, following significant swings in June and July. In fact, before August, core inflation had accelerated at the margin, raising concerns over the second-round effects of previous minimum wage hikes and electricity increases. We expect inflation to end the year at 3.9% and to converge to the 3% target during 2Q26.

The plot thickens in Argentina, as domestic political uncertainty spiked following the governing coalition's midterm loss in the province of Buenos Aires. On the nominal side, as we described last month, volatility in the exchange rate and in endogenously determined interest rates had already increased in

previous months. Attention will now turn to how the administration manages exchange rate pressure and rising interest rates in the lead-up to the national midterms on October 26. We now foresee the exchange rate at ARS 1,500 per USD by year-end, with an upside risk. While inflation at the margin has been relatively benign—for Argentina's standards—without a meaningful pass-through of the cumulative depreciation of recent months, we have slightly revised our year-end inflation forecast up to 29.5%, from 28.5%.

On the real side, economic activity lost momentum since the end of 1Q25, slightly contracted sequentially in 2Q25, and leading indicators at the start of the third quarter signalling ongoing weakness, likely due to higher interest rates and significant uncertainty regarding exchange rate dynamics. In this context, we downgraded our 2025 GDP growth forecast materially to 3.8%, from 5.0% in our previous scenario.

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	3.0	3.0	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	0.7	0.9	1.1	1.1	1.2	1.2
China - %	2.0	7.7	3.0	5.4	5.0	4.7	4.7	4.0	4.0
Inflation									
U.S. Core CPI - %, eop	1.6	5.5	5.7	3.9	3.2	3.5	3.8	3.0	3.0
Interest rates and currencies									
Fed Funds - %, eop	0.13	0.13	4.15	5.38	4.52	3.63	4.13	3.38	3.63
U.S. 10 Year Treasury - %, eop	0.93	1.47	3.88	3.88	4.58	4.10	4.50	4.00	4.25
USD/EUR - eop	1.22	1.13	1.07	1.10	1.04	1.20	1.20	1.20	1.20
CNY/USD - eop	6.54	6.37	6.92	7.13	7.30	7.15	7.15	7.15	7.15
DXY Index* - eop	89.9	95.7	103.5	101.3	108.5	95.8	95.8	95.4	95.4

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		2026	
		Current	Previous	Current	Previous
GDP (%)	3.2	3.0	3.0	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	5.35	5.50	5.50	5.50
Monetary Policy Rate (eop,%)	12.25	15.00	15.00	12.75	12.75
IPCA (%)	4.8	5.0	5.1	4.4	4.4

Argentina

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	-1.7	3.8	5.0	2.5	3.5
ARS / USD (eop)	1033	1500	1400	1800	1630
Reference rate (eop,%)	32.0	45.0	35.0	35.0	25.0
CPI (%)	117.8	29.5	28.5	20.0	20.0

Colombia

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	1.6	2.7	2.9	2.8	2.6
COP / USD (eop)	4409	4000	4100	4000	4100
Monetary Policy Rate (eop,%)	9.50	9.25	9.25	8.25	8.25
CPI (%)	5.2	5.1	5.1	4.0	4.0

Paraguay

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	4.2	4.3	4.3	3.5	3.5
PYG / USD (eop)	7913	7400	7750	7450	7900
Monetary Policy Rate (eop,%)	6.00	6.00	6.00	6.00	5.50
CPI (%)	3.8	4.2	4.0	3.5	3.5

Source: Itaú

Latin America and Caribbean

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	2.4	2.4	2.6	2.1	2.2

Mexico

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	1.4	0.6	0.6	1.2	1.2
MXN / USD (eop)	20.8	19.0	19.0	19.5	19.5
Monetary Policy Rate (eop,%)	10.00	7.00	7.50	6.50	7.00
CPI (%)	4.2	4.1	4.1	3.7	3.7

Chile

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	2.6	2.5	2.6	2.2	2.0
CLP / USD (eop)	996.5	930.0	930.0	880.0	900.0
Monetary Policy Rate (eop,%)	5.00	4.50	4.50	4.25	4.00
CPI (%)	4.5	3.9	3.9	3.0	3.0

Peru

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	3.3	2.9	2.9	2.7	2.7
PEN / USD (eop)	3.80	3.50	3.60	3.50	3.60
Monetary Policy Rate (eop,%)	5.00	4.00	4.25	4.00	4.00
CPI (%)	2.0	2.0	2.2	2.0	2.0

Uruguay

	2024	2025		2026	
		Current	Previous	Current	Previous
GDP (%)	3.1	2.3	2.3	1.8	2.0
UYU / USD (eop)	44.1	40.5	41.7	41.0	42.5
Monetary Policy Rate (eop,%)	8.75	8.00	8.00	7.25	7.50
CPI (%)	5.5	3.6	4.5	4.5	4.5

Commodities

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
Brent Oil (USD/bbl)	50	75	82	77	73	65	65	60	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	9650
Corn (Usd/bu)	437	592	656	480	444	415	415	415	415
Soy (Usd/bu)	1207	1290	1474	1311	984	1030	1000	1070	1000
Wheat (Usd/bu)	604	790	749	619	548	550	600	600	630
Sugar (Usd/lb)	15	19	20	22	20	16	17	16	17
Coffee (Usd/lb)	123	235	166	188	321	350	280	300	260

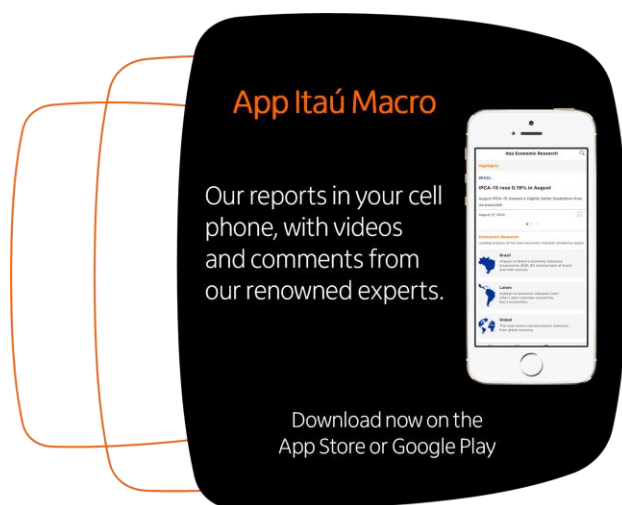
Source: BBG, Itaú

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