

# Macro scenario - Global



June 10, 2024

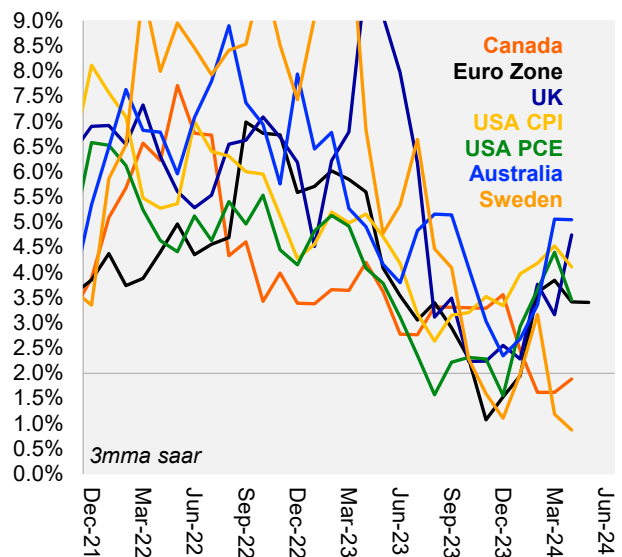
## Resilient activity and persistent inflation point to caution in cutting interest rates

- ▶ Global: despite the start of the easing cycle by some key central banks, including the European Central Bank (ECB) and Bank of Canada, we expect caution to prevail among monetary authorities in developed economies.
- ▶ U.S.: despite the deceleration in activity and inflation, levels remain high and do not justify interest rate cuts much before the end of the year. We continue to expect only one 25-bp cut this year, likely in December.
- ▶ Europe: we revised our growth forecasts to 0.7% for 2024 (from 0.5%) and 1.0% for 2025 (from 0.9%), in light of the better activity data in the short term. The ECB has started its monetary easing cycle and signaled caution for upcoming moves. We expect two additional 25-bp cuts in 2024 and four rate cuts in 2025.
- ▶ China: we forecast GDP growth of 5.0% for 2024, driven by manufacturing and exports. Policies to reduce housing inventories are expected to decrease the downside risk in 2H24.
- ▶ LatAm: Diverging monetary policy dynamics throughout the region.

### Global: central banks likely to remain cautious after the start of easing cycles in Europe and Canada

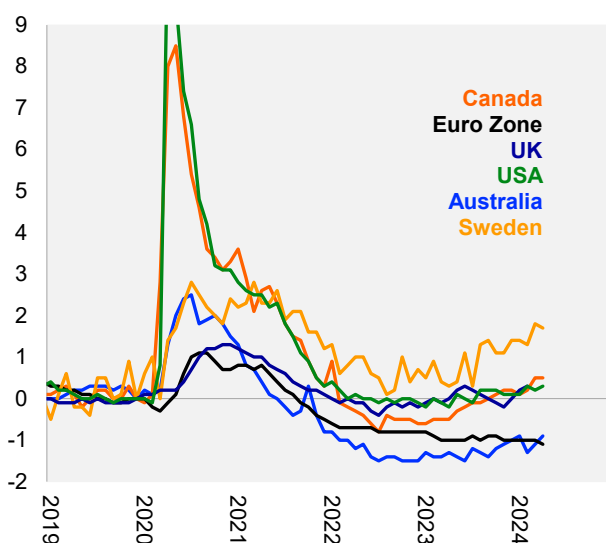
**Persistent inflation and resilient activity are likely to make developed economies maintain their cautious stance on wider rate cut cycles.** Even central banks in economies that have recently started to lower their interest rates – such as in Canada and in the Eurozone – have indicated caution for their upcoming moves. Many countries continue to show resilient activity, tight labor markets, and core inflation under pressure at the margin (see charts below). The exceptions are Canada and Sweden, where a more significant improvement in inflation and a rising unemployment rate (at the margin) justified the recent start of an easing cycle.

### Core inflation still pressured in several countries



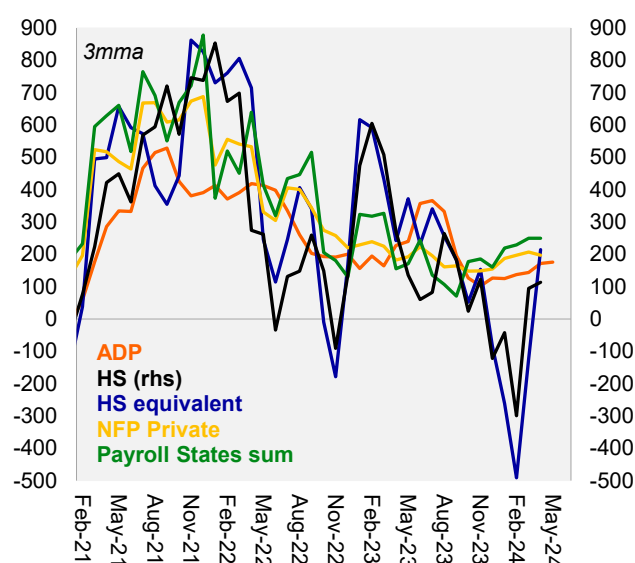
Source: Haver, Itaú

**DMs: Unemployment rate**  
(minus Dec/19 level)



Source: Haver, Itaú

**Underlying job growth at still-good levels**



Source: Haver, Itaú

**U.S.: Deceleration in activity and inflation, but levels remain high and do not justify interest rate cuts much before year-end**

**GDP growth decelerated to 1.3% qoq/saar in 1Q24, but domestic demand remains healthy.** 1Q24 GDP was revised downward (from 3.4% in the previous quarter), with 2.0% growth in consumption (compared with 3.0% in the previous quarter) and negative contributions from the external sector and inventories. Despite the slowdown in activity data in April, we continue to expect a robust annualized growth pace of 2.0%-2.5% yoy going forward, supported by domestic demand, which continues to show favorable fundamentals. Employment remains high, with monthly job creation at 150,000-250,000, according to various metrics (see chart below). Furthermore, as real wages advance, the real wage bill is likely to continue to drive household spending ahead.

**Inflation moderated in April, but remains high, indicating a slow convergence.** The core CPI decelerated to 0.3% mom in April (from an average of 0.4% in 1Q24), while the core PCE reading slowed to 0.25% (from an average of 0.36% in 1Q24), showing an improvement at the margin but a pace still inconsistent with interest rate cuts. We expect inflation to moderate ahead, but core inflation is only likely to show a deceleration in the yoy comparison toward the end of the year (to levels below 3% for the core PCE and below 3.5% for the core CPI), due to sticky services inflation.

**We continue to expect only one rate cut this year, in December.** We believe that the Fed still needs to see a sequence of data that constitutes evidence of a slowdown in inflation in order to start its easing cycle with confidence, as signaled by its monetary policy committee. Given our expectation of solid stable activity and a slow deceleration in inflation, we expect the committee to wait until December to implement the first interest rate cut.

**Europe: cautious approach to easing cycle amid better activity at the margin and pressured services inflation**

**Signs of better activity in the short term.** The Eurozone economy grew by 0.3% qoq in 1Q24, ending a five-quarter period of stagnation. There were some signs of improving consumption in France and Spain, while exports and investment helped in Germany and Italy. PMI surveys for the manufacturing and services sectors indicate that the recent improvement continued in 2Q24, with the Composite PMI at 52.3 (see chart below).

**We raised our GDP growth forecasts to 0.7% for 2024 (from 0.5%) and 1.0% for 2025 (from 0.9%).** The upward revision is supported by better current data and an increase in real income, with high nominal wages and falling inflation, which will likely continue to support a recovery in consumer spending. It is worth noting, however, that growth in the region will continue to be limited by the effects of the negative wealth shock caused by energy and gas issues, as well as the structural challenges of an aging population, low productivity and innovation.

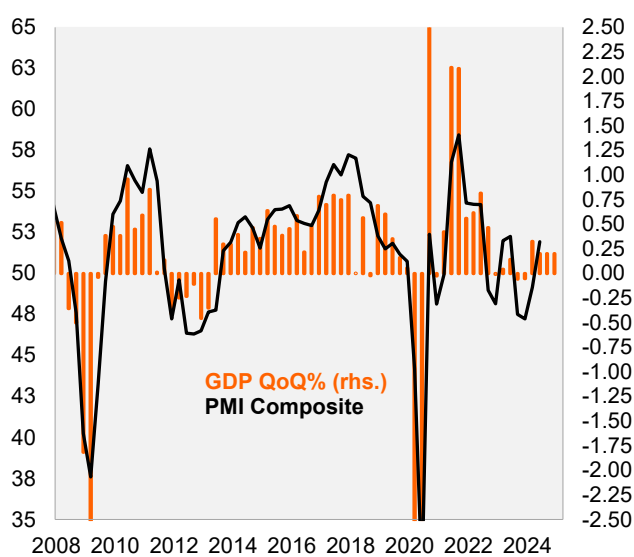
**This prompted the ECB to start its easing cycle, but it remains cautious about the next moves.** The European Central Bank lowered the benchmark rate by 25 bps to 3.75%, and signaled that the upcoming moves will depend on the disinflation process. With the marginal 0.1-pp upward revision of the core inflation scenario for 2025, to 2.2%, President Lagarde expressed caution for the upcoming moves. We expect two additional rate cuts in 2024 and four more cuts in 2025, taking the interest rate to 2.25%.

**China: growth supported by manufacturing and exports, and more effective measures for the real estate sector**

**The short-term scenario continues to show growth supported by manufacturing and exports.** We forecast an expansion of 5.0% in 2024, in line with the target set by the government. Manufacturing and exports continue to be the main drivers of the robust performance. The government remains focused on stimulating the industrial sector, particularly electric cars, solar panels and batteries. This measure has led to excess capacity in the industrial sector and has contained the prices of these products (for details, see our [Macro Vision report](#)). The challenging geopolitical scene poses the biggest risk to the sustainability of this strategy over time, with the potential for tariff increases in both Europe and the U.S.

**The Chinese government announced more effective measures to reduce its elevated housing inventories, which could speed up the sector's adjustment.** The government announced in May that the central bank will provide RMB 500 billion (0.4% of GDP) in subsidies for home purchases, helping to reduce the high inventories. However, we do not believe that this will be enough to quickly tackle inventory levels. We estimate that RMB ~2-3 trillion (1.6-2.4% of GDP) would be needed to return inventories to pre-pandemic levels. That said, we see the measure as a move in the right direction and expect it to help contain the pressures on prices, as well as to reduce the risk of slower growth in 2H24 (indicated by the waning credit momentum).

**EZ PMI: 2Q24 GDP > 0**



**Bumpy disinflation amid resilient services component.** Inflation increased to 2.6% yoy in May (from 2.4%), with core inflation rising to 2.9% (from 2.7%). The rise in inflation was due to the base effect of the public transportation allowance implemented in Germany during the same period of 2023. At the margin, core inflation advanced to 0.35% mom in April (from 0.19%). Goods inflation remains low (hovering in a range of 0%-1% yoy), while the services components remain resilient (at around 5%). This shows that the last leg of the disinflation path toward the target remains more challenging, given the tight labor market. Looking ahead, we expect inflation to continue to decline, with goods prices at reasonable levels and services receding at a slow pace, in line with ongoing signs of cooling wage pressures (from high levels).

## LatAm: Diverging monetary policy dynamics throughout the region

**Activity forecasts are unchanged throughout most of the region.** We kept our GDP growth forecasts for the main economies of the region. In Brazil, we left our GDP growth forecast at 2.3% for 2024, but we do see downside risks due to the massive floods in Rio Grande do Sul state. For 2025, we expect the economy to slow to 1.8%. In Mexico, we maintained our GDP growth forecast at 2.3% for 2024, which considers a recovery in economic activity in 2Q24 after a soft first quarter, and then a deceleration in the second half of the year, leading to a 1.9% GDP growth in 2025 (unchanged from our previous scenario). In Colombia and Peru we maintained our 2024 GDP growth forecasts at 1.2% and 2.7% respectively. However, we revised our 2024 GDP growth forecast up in Chile to 2.8%, from 2.4%, mainly driven by the revision of national accounts data, materializing upside risks we had flagged in the past. In Argentina, we still expect GDP to contract by 3% in 2024, yet with downside risks as the effects of shock therapy linger and investment still does not show clear signs of improving.

**Fiscal risks remain an important watchpoint.** Several economies in the region are experiencing fiscal pressures from revenue disappointments. This, in turn, is mainly a result of some deceleration of economic activity, and sustained spending pressures. In Colombia, significant revenue weakness in the year (-4.4% YoY year-to-date through May) should lead to spending cuts to achieve the fiscal targets as the authorities are expected to deliver updated fiscal forecasts in mid-June; in parallel, political uncertainty arising from calls to reform the fiscal rule among others exacerbate risk premium. However, in contrast to the rest of the region, the stabilization program in Argentina continues to deliver results with surpluses.

**Below the Fed in Peru.** Relative to our previous scenario, we maintained our calls for monetary policy paths throughout the region in all major economies except for Brazil and Peru. In Brazil, due to partially unanchored inflation expectations, a hot labor market and heightened uncertainty, we expect the central bank to interrupt the easing cycle in the next meeting, leaving interest rates at 10.50% (previous scenario 10.25%) throughout 2024 and 2025. In contrast, in Peru, we now envisage the Central Bank to ease by a total of 75 bps this year (in 25-bp moves), taking the policy rate down to 5% (previous scenario 5.75%), in the context of well-behaved inflation and weak economic activity.

**The governing coalition is reelected in Mexico.** The presidential candidate of the governing coalition Claudia Sheinbaum was elected, as widely anticipated by polls, yet the governing coalition surprised by achieving a stronger than expected participation in Congress which could pave the way for constitutional reforms. The newly elected administration has stated that the direction of economic and social policy should continue unchanged with respect to the AMLO administration, reflected as well with the continuation of the Finance Minister in the following term. The Sheinbaum administration faces several challenges in the near term, including the need for a large fiscal consolidation in the context of an economic slowdown in Mexico and the U.S. Constitutional reforms, as currently discussed in Congress, could stress medium-term spending and impact fiscal accounts, and propose several institutional changes to the political and electoral system in Mexico, among others.

## Global | Forecasts and Data

	2019	2020	2021	2022	2023	2024F		2025F		
						Current	Previous	Current	Previous	
<b>GDP Growth</b>										
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	2.7	2.7	2.2	2.2	
Euro Area - %	1.6	-6.2	5.9	3.5	0.5	0.7	0.5	1.0	0.9	
China - %	6.0	2.3	8.4	3.0	5.2	5.0	5.0	4.5	4.5	
<b>Interest rates and currencies</b>										
Fed Funds - %, eop	1.55	0.09	0.08	4.4	5.3	5.1	5.1	4.4	4.4	
U.S. 10 Year Treasury - %, eop	2.00	0.93	1.47	3.88	3.88	4.35	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

## Brazil

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	2.9	2.3	2.3	1.8	1.8
BRL / USD (eop)	4.86	5.15	5.15	5.25	5.25
Monetary Policy Rate (eop,%)	11.75	10.50	10.25	10.50	10.25
IPCA (%)	4.6	3.8	3.8	3.7	3.7

## Argentina

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	-1.6	-3.0	-3.0	2.5	2.5
ARS / USD (eop)	809	1150	1200	1700	1900
Reference rate (eop,%)	100.0	30.0	40.0	30.0	40.0
CPI (%)	211.4	140.0	160.0	50.0	60.0

## Colombia

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	0.6	1.2	1.2	2.6	2.6
COP / USD (eop)	3855	4000	4000	4000	4000
Monetary Policy Rate (eop,%)	13.00	8.75	8.75	6.00	6.00
CPI (%)	9.3	5.2	5.2	3.0	3.0

Source: Itaú

## Latin America and Caribbean

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

## Mexico

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	3.2	2.3	2.3	1.9	1.9
MXN / USD (eop)	16.97	17.9	17.9	18.9	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

## Chile

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	0.2	2.8	2.4	2.0	2.0
CLP / USD (eop)	879	920	920	850	850
Monetary Policy Rate (eop,%)	8.25	5.25	5.25	4.5	4.50
CPI (%)	3.9	4.1	4.1	3.1	3.1

## Peru

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	-0.6	2.7	2.7	3.0	3.0
PEN / USD (eop)	3.70	3.80	3.75	3.80	3.77
Monetary Policy Rate (eop,%)	6.75	5.00	5.75	4.25	4.25
CPI (%)	3.2	2.8	2.8	2.5	2.5

## Commodities

	2019	2020	2021	2022	2023	2024		2025	
						Current	Previous	Current	Previous
Brent Oil	64	50	75	82	77	85	85	80	80
Iron Ore	90	153	116	110	135	110	110	90	90
Copper	7788	7788	9525	8402	8489	9800	8800	9800	8600
Corn	383	437	592	656	480	400	400	380	380
Soy	912	1207	1290	1474	1311	1100	1100	950	950
Wheat	540	604	790	757	669	720	720	760	760
Sugar	13	15	19	20	22	21	21	20	20
Coffee	130	123	235	166	188	180	180	150	150

Source: BBG, Itaú

## Macro Research – Itaú

### Mario Mesquita – Chief Economist

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