Macro scenario - Global

October 4, 2024

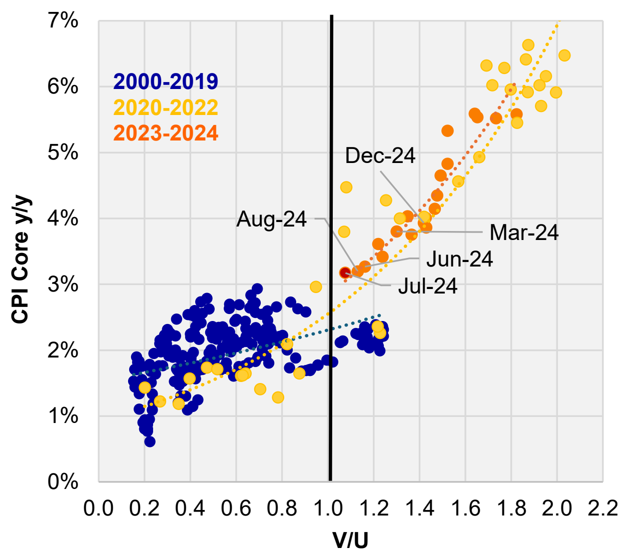
U.S. easing cycle to continue, with a better-adjusted job market

- **Global:** Central banks are increasingly sensitive to economic activity due to labor markets that have already become better adjusted, but there is divergence between countries.
- **U.S. economy:** With resilient activity and inflation under control, we expect the Federal Reserve to continue cutting rates at a pace of 25 bps per meeting, though there is still risk of a faster easing pace.
- **U.S. elections:** Kamala Harris has gained momentum and leads in national polls, but her margin is narrower in swing states.
- **Europe:** Faster rate cuts amid falling inflation and weak activity. We now expect two additional cuts this year (vs. one cut previously). Our forecast for the benchmark rate in 2025 remains at 2.25%.
- **China:** We raised our forecast for GDP growth to 5.0% (from 4.8%) in response to strong signals of fiscal and monetary stimuli along with the focus on stabilizing the property sector.
- **Latin America:** The divergence begins.

Global: Central banks are increasingly sensitive to activity due to tighter labor markets, but there is divergence between countries.

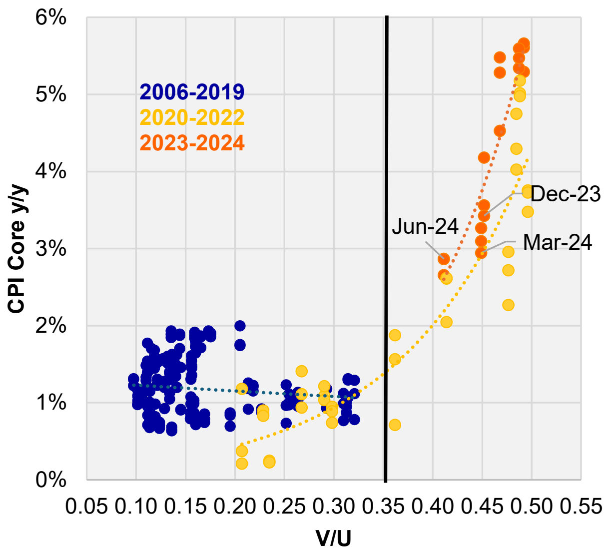
In a recently published paper about labor markets in DM countries (here), we analyzed the post-pandemic labor-market rebalancing, which points to lower inflationary pressures going forward, creating room for greater monetary policy easing in these economies, although not to the same extent in all of them. New Zealand and Canada are in the most advanced stages of labor-market rebalancing, while Australia and the eurozone are laggards in this adjustment. Additionally, we estimated a modified Phillips curve for these economies, including the vacancy-to-unemployment ratio (V/U), and found that labor market tightness explains a larger share of recent inflation in the U.S., Australia, Canada, and New Zealand than in the eurozone, UK and Sweden, where inertia and/or expectations components carry more relevance.

US: Beveridge-Phillips Curve



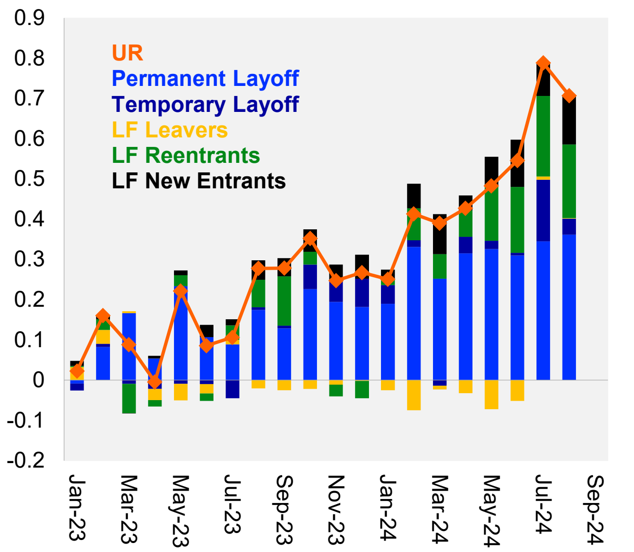
Source: Haver, Itaú

EZ: Beveridge-Phillips Curve



Source: Haver, Itaú

Unemployment reason
(cumulative since Dec22)



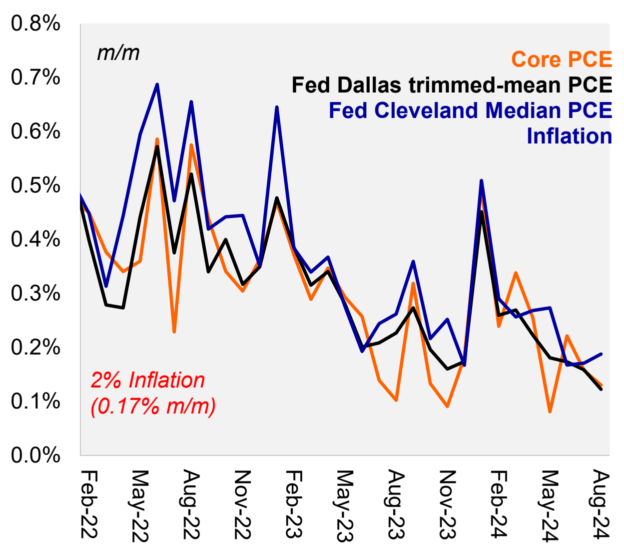
Source: BLS, Haver, Itaú

U.S.: Fed is likely to cut rates by 25 bps per meeting, but risk of a faster pace lingers

We expect resilience in economic activity and in the labor market, but still see downward risk for the latter. According to our estimates, 3Q24 GDP advanced by 2.7% qoq/saar, and we maintain our call for robust GDP growth this year (2.7%) and next year (2.2%). The recent annual review of national accounts showed that GDP growth in previous years was stronger than initially estimated, with more favorable fundamentals for domestic demand (including upward revisions in income and excess savings figures). But even with strong growth, the labor market continues to slow down. The three-month moving average for payrolls decelerated to 116k in August, while the unemployment rate rose to 4.2% from a 3.5% low in January 2023. Although a significant part of the increase in unemployment is explained by the expanding labor force, the numbers also showed deterioration in the breakdown of unemployment components linked to demand (next chart). In our view, the labor market will remain resilient due to vigorous activity, but there is still a downside risk to this scenario.

Inflation remains under control and represents lower risks in the short term. Core inflation readings remain low at the margin. In August, Core PCE reached 2.1% qoq/saar, although it was up 2.7% yoy. Other core metrics, such as the trimmed means calculated by the Federal Reserve Banks of Dallas and Cleveland, also remain low (chart below). In the short term, inflation risk has been under control thanks to the normalization of the labor market, with the ongoing deceleration in wages, falling commodity prices (such as crude oil, despite geopolitical risks), and anchored expectations.

Underlying Inflation (PCE)



Source: BLS, Haver, Itaú

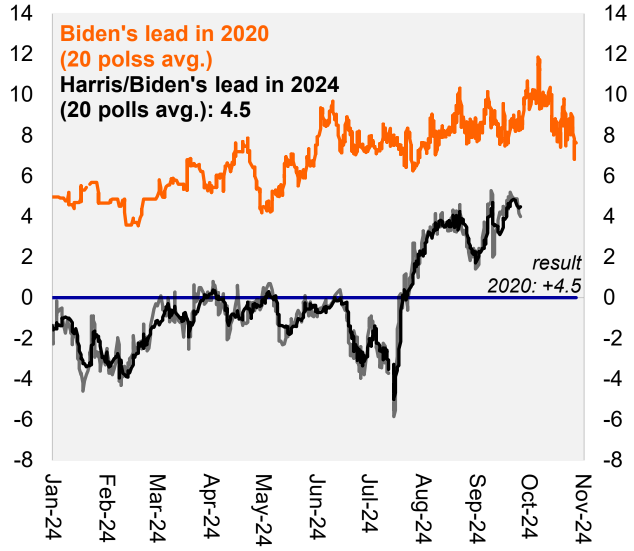
After an initial 50-bp cut, the Fed is likely to continue the cycle with 25-bp reductions per meeting, but there is still risk of a faster pace in case of negative labor market surprises. Even though economic activity has been resilient, the Fed started with a reduction of 50 bps in September to prevent further weakening of the labor market. Given the favorable scenario for activity, the Fed should continue the easing cycle at a pace of 25 bps, with moves in November and December, plus four cuts next year. Since the Fed is quite sensitive to any disappointment in the labor market, the risk of another 50-bp cut lingers.

Elections: Kamala Harris gains momentum and leads in national polls, but her margin is narrower in swing states. Since she replaced President Biden as the Democrats' candidate, Kamala Harris has seen a substantial increase in national polls and maintains an advantage of 2 to 4 percentage points in the polls published by the main survey organizations. Nevertheless, the race still seems tight, considering: (1) a much smaller margin than Biden enjoyed in the last election, (2) a narrower advantage in swing states than in the national vote, (3) polling errors in recent elections often underestimated support for the Republican candidate. Bookmakers show a tight race, with Harris having only a 3-point advantage.

Poll Tracker								
Date	National Polls (Harris/Biden - Trump, p.p.)						Others (Harris/Biden - Trump)	
	Itaú*	538 avg	RCP avg	The Economist	Nate Silver	DDHQ	Betting-odds avg.	Approval
t-90	-2.9	-2.5	-3.3	-1.9	-1.0	-1.1	-41.8	-3.4
t-60	2.2	1.6	-0.4	1.0	1.4	0.3	-6.4	1.3
t-30	2.5	3.0	1.9	3.1	3.4	3.5	-0.5	5.2
12-Sep	2.9	2.6	1.5	3.0	2.2	3.5	3.7	3.7
19-Sep	3.3	2.9	1.9	4.3	2.2	3.6	5.7	5.7
26-Sep	4.7	2.9	2.0	3.7	2.7	4.2	2.3	6.2
3-Oct	4.5	2.8	2.2	4.0	3.5	4.5	0.7	4.9

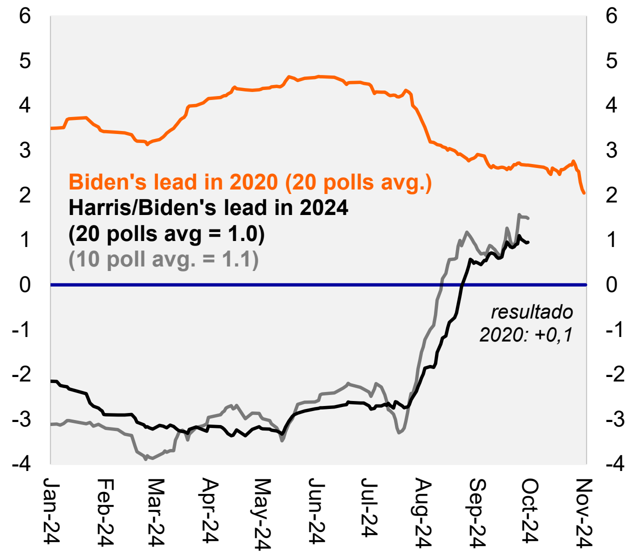
* 20 polls avg

Harris/Biden's Lead over Trump in 2024 and 2020



Source: 538 and Itau

Harris/Biden's lead over Trump: delegates weighted avg. of 8 swing states (NV, GA, PA, MI, WI, AZ, MN, NC)



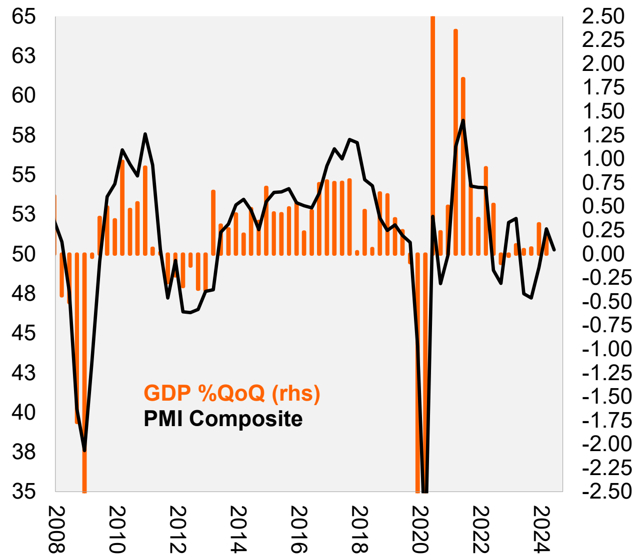
Source: 538 and Itau

Europe: Faster rate cuts amid falling inflation and weak activity

Weak activity with possible deterioration in the labor market… The Composite PMI fell below 50 in September (to 49.6 from 52.9), with most of the decline coming from the services sector (51.4 from 52.9), affected by the slowdown in France after the Olympics. However, other countries in the region also experienced weakness in the services sector, and the breakdown of the indicator showed deterioration in the employment component, which is a warning sign for a labor market that had shown resilience until then. Our GDP growth projections remain at 0.7% in 2024 and 1.0% in 2025, but we acknowledge downward risks to these estimates, especially considering a possible deterioration in employment.

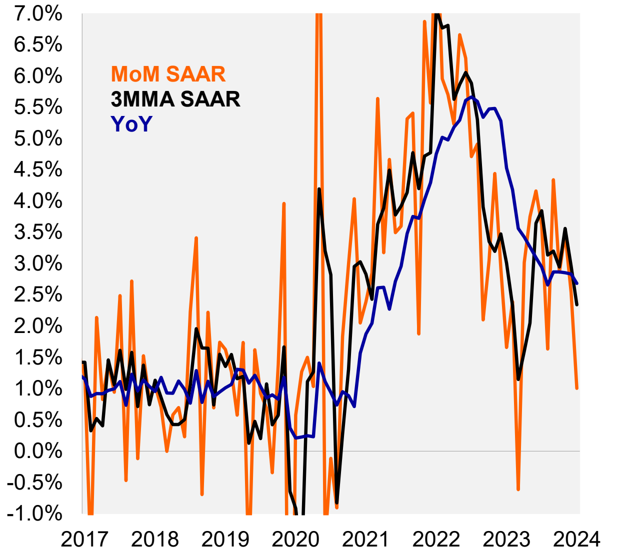
...while disinflation gains momentum. Inflation dropped below the 2% target in September (1.8% from 2.2% yoy), dragged by the energy component. Core inflation fell more sharply (to 2.3% from 3.0% 3mma/saar) even though services prices remained high (3.4% from 4.0%). In a recently research piece (here), we demonstrated that inflation in the eurozone is less sensitive to the labor market, with inertia and expectations having more influence. Going forward, we expect core inflation to converge to 2% in 1H25 as the lagged effects of the energy shock dissipate.

EZ PMI: 3Q24 GDP ~ 0



Source: Haver, Itaú

EZ Core HICP



Source: Haver, Itaú

Faster rate cuts amid changing balance of risks. We expect the European Central Bank to respond to the data with faster rate cuts. Gradual disinflation combined with a possible deterioration of the labor market suggests that the balance of risks has shifted, creating room for a less-restrictive monetary policy. We expect the ECB to reduce rates twice before the end of the year (at the October and December meetings), reaching 3.0% (previously 3.25%). For 2025, we expect three consecutive rate cuts at the beginning of the year, taking the terminal interest rate to 2.25%.

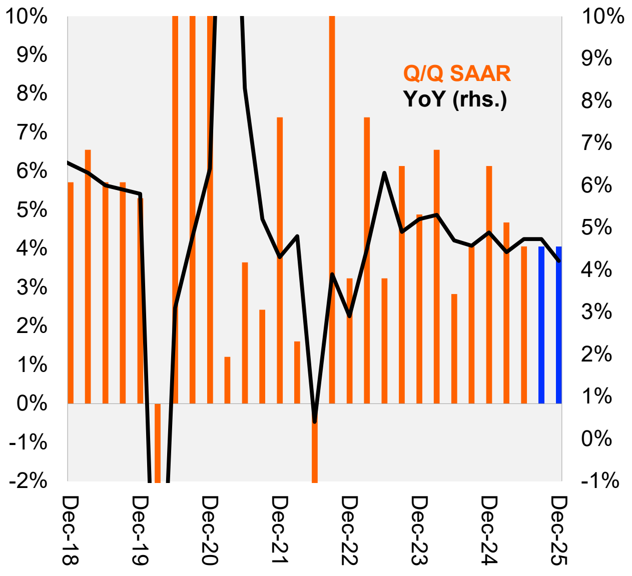
China: GDP to grow 5.0% (previously 4.8%) after strong stimulus signals

We revised our growth projection to 5.0% (from 4.8%) after strong signals of fiscal and monetary stimulus, in addition to efforts aimed at stabilizing the real estate sector. In the last week of September, Chinese authorities significantly changed their stance regarding weak activity, signaling a round of monetary and fiscal stimulus. The announcements were made in two stages. First, the central bank announced interest rate cuts (20 bps in the 7-day rate and 50 bps in the reserve requirement in September and another 25 bps by the end of the year) as well as measures to support stock market purchases. Second, the Politburo held an unscheduled meeting (the next scheduled meeting to discuss economic policy would take place in late October) and reaffirmed the implementation of significant fiscal, monetary and property measures, making it clear that the focus now is to stabilize the decline in the real estate sector, interrupting the adjustment that had been taking place since 2021.

Details of the fiscal and real estate stimulus are yet to be released, but the change in stance is significant and in the right direction. There are still no details on the fiscal stimulus. News reports suggested around RMB 2 trillion (1.6% of GDP) – twice the amount of 2023 – with the possibility of direct transfers to households, which would represent a paradigm shift. If confirmed, the move would mean a remarkable change in economic policy in China. We expect details to be released after the week-long holiday in October. However, we think the signs are significant and in the right direction. The growth model adopted after the pandemic – characterized, on the one hand, by strong exports and manufacturing, and on the other hand, by weak domestic demand after the Covid shock, adjustments in the property sector, and so-called common prosperity measures that affected confidence in the private sector – was producing negative consequences for employment and household income, which could generate social instability.

Following the revision in our outlook for China's economic growth, we revised our forecasts for the exchange rate to 7.0 yuan per U.S. dollar (7.10 previously) and for iron ore prices to USD 110/mt (USD 105 previously) by the end of 2024. Our call for growth in 2025 remains at 4.5% amid lingering uncertainties regarding the U.S. elections and their global implications.

China: stimulus should improve activity in 4Q24



Source: Haver, Itaú

Latin America: The divergence begins

Even greater divergence in monetary policy paths. In last month's review, we highlighted the divergence in monetary policy paths throughout the main economies in the region, with Brazil projected to begin a hiking cycle, and the remaining seen as following through with their easing cycles. Since then, Brazil began a hiking cycle gradually, which we see reaching 12% towards the beginning of 2025, while the remaining major central banks of the region have continued to ease. Different factors, including lower pressure from interest rate differentials with the Fed, led us to revise to a faster path towards neutral in Chile, Peru, and Mexico. In Chile, we are penciling in continuous 25-bps cuts all the way through to the center of the BCCh's nominal neutral range (4%) by 2Q25 (previously estimated at the ceiling of the range at 4.5%). In Peru, we tweaked our path towards a yearend policy rate to 4.75% from 5.00%, and then down to 4.00% next year. In Mexico, recent guidance points to continuous 25-bps cuts going forward ending the year at 10.00%, with the risk that an eventual improvement in core services along with a weaker activity outlook should lead them to accelerate later in 2025. In Colombia, we still envisage an acceleration in the pace of cuts in the next policy meeting and ending the year at 8.75% and at 6.00% in 2025.

Downgrading 2025 growth in Mexico. Downward revisions to Mexico's growth outlook have been a common theme throughout the course of the year. In fact, we began the year forecasting a GDP expansion in 2024 of 2.8%, and we now stand at 1.4%. Even though activity began on a stronger-than-expected foot in 3Q24, there are signs of a softer patch ahead. Business confidence has steadily deteriorated, fiscal spending is envisaged to moderate, as is the economy's external impulse. We revised our growth forecast for 2025 down to 1.3% from 1.5%, mainly because of an expected deterioration of the investment outlook, as is anticipated by leading indicators such as the imports of capital goods.

Politics still at the forefront in several economies. Amid the shifting macro sands throughout the region, politics and elections are still at the forefront in several economies. In Mexico, President Sheinbaum began her six-year term expressing her commitment to Banxico's autonomy, responsible fiscal policy, a reasonable public debt level, and stating that investments in the country were safe, likely referring to uncertainty related to the judicial reform. Pledges for greater social spending in the short-term appear challenging in the context of an ambitious fiscal consolidation plan and the projected cyclical downturn in the economy. In Chile, all eyes are on the end-October municipal elections, with polls suggesting the opposition is set to gain ground. Historically these elections have been a leading indicator of the following votes, with presidential and legislative elections scheduled for November 2025. In Uruguay, polls have trended towards a rejection of the social security plebiscite and a run-off for the presidential election.

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**	3.1	**3.4**	3.4
USA - %	2.6	-2.2	6.1	2.5	2.9	**2.7**	2.7	**2.2**	2.2
Euro Area - %	1.6	-6.2	5.9	3.5	0.4	**0.7**	0.7	**1.0**	1.0
China - %	6.0	2.3	8.4	3.0	5.2	**5.0**	4.8	**4.5**	4.5
Interest rates and currencies									
Fed Funds - %, eop	1.55	0.09	0.08	4.4	5.3	**4.4**	4.6	**3.4**	3.4
U.S. 10 Year Treasury - %, eop	2.00	0.93	1.47	3.88	3.88	**3.75**	3.75	**3.50**	3.50
USD/EUR - eop	1.12	1.22	1.13	1.07	1.10	**1.12**	1.12	**1.12**	1.12
CNY/USD - eop	7.0	6.5	6.4	6.9	7.1	**7.0**	7.1	**7.1**	7.2
DXY Index* - eop	96.4	89.9	95.7	103.5	101.3	**99.9**	99.9	**99.5**	99.5

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 Current	2024 Previous	2025 Current	2025 Previous
GDP (%)	3.2	**3.2**	3.1	**3.4**	3.4

Latin America and Caribbean

	2023	2024 Current	2024 Previous	2025 Current	2025 Previous
GDP (%)	2.2	**2.0**	1.9	**2.4**	2.5

Brazil

	2023	2024 Current	2024 Previous	2025 Current	2025 Previous
GDP (%)	2.9	**3.2**	3.0	**2.0**	2.0
BRL / USD (eop)	4.86	**5.40**	5.40	**5.20**	5.20
Monetary Policy Rate (eop,%)	11.75	**11.75**	11.75	**11.00**	11.00
IPCA (%)	4.6	**4.4**	4.2	**4.2**	4.1

Mexico

	2023	2024 Current	2024 Previous	2025 Current	2025 Previous
GDP (%)	3.2	**1.4**	1.4	**1.3**	1.5
MXN / USD (eop)	16.97	**19.0**	19.0	**19.3**	19.3
Monetary Policy Rate (eop,%)	11.25	**10.00**	10.00	**7.50**	8.00
CPI (%)	4.7	**4.3**	4.3	**3.9**	3.9

Argentina

	2023	2024 Current	2024 Previous	2025 Current	2025 Previous
GDP (%)	-1.6	**-4.0**	-4.0	**3.0**	3.0
ARS / USD (eop)	809	**1030**	1030	**1450**	1450
Reference rate (eop,%)	100.0	**40.0**	40.0	**40.0**	40.0
CPI (%)	211.4	**125.0**	125.0	**45.0**	45.0

Chile

	2023	2024 Current	2024 Previous	2025 Current	2025 Previous
GDP (%)	0.2	**2.5**	2.5	**2.1**	2.1
CLP / USD (eop)	879	**910**	930	**870**	850
Monetary Policy Rate (eop,%)	8.25	**5.00**	5.00	**4.0**	4.50
CPI (%)	3.9	**4.5**	4.5	**3.3**	3.3

Colombia

	2023	2024 Current	2024 Previous	2025 Current	2025 Previous
GDP (%)	0.6	**1.8**	1.6	**2.4**	2.5
COP / USD (eop)	3855	**4200**	4100	**4300**	4200
Monetary Policy Rate (eop,%)	13.00	**8.75**	8.75	**6.00**	6.00
CPI (%)	9.3	**5.6**	5.6	**3.6**	3.5

Peru

	2023	2024 Current	2024 Previous	2025 Current	2025 Previous
GDP (%)	-0.6	**3.1**	3.1	**3.0**	3.0
PEN / USD (eop)	3.70	**3.80**	3.80	**3.80**	3.80
Monetary Policy Rate (eop,%)	6.75	**4.75**	5.00	**4.00**	4.25
CPI (%)	3.2	**2.8**	2.8	**2.5**	2.5

Source: Itau

Commodities

	2019	2020	2021	2022	2023	2024 Current	2024 Previous	2025 Current	2025 Previous
Brent Oil (USD/bbl)	64	50	75	82	77	**80**	80	**75**	75
Iron Ore (USD/tonne)	90	153	116	110	135	**110**	105	**90**	90
Copper (USD/tonne)	7788	7788	9525	8402	8489	**9500**	9200	**9800**	9800
Corn (Usd/bu)	383	437	592	656	480	**380**	380	**350**	350
Soy (Usd/bu)	912	1207	1290	1474	1311	**1000**	1000	**950**	950
Wheat (Usd/bu)	540	604	790	757	669	**500**	500	**550**	550
Sugar (Usd/lb)	13	15	19	20	22	**21**	21	**20**	20
Coffee (Usd/lb)	130	123	235	166	188	**220**	220	**200**	200

Source: BBG, Itaú

Macro Research – Itaú

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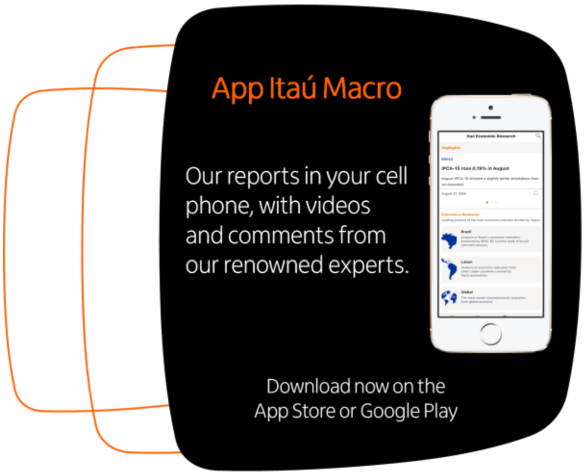

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