Macroeconomic Research

Monthly Scenario Review

August 2024

5 global themes for 2H24

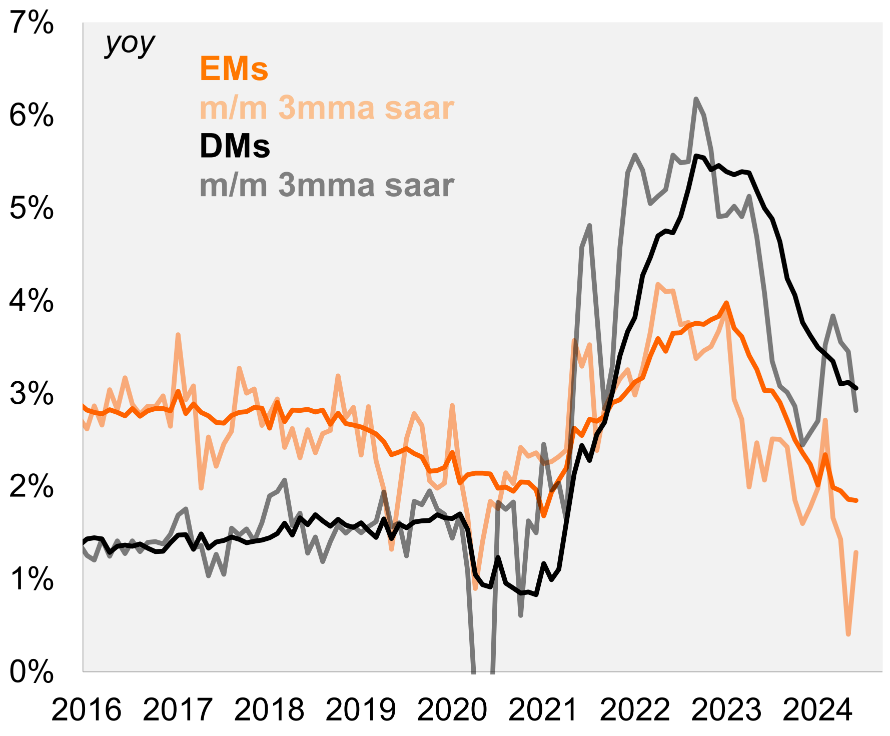
1. Global: Will the ‘last mile’ of disinflation remain erratic?
2. US: Will the Fed finally start cutting? At what pace and what terminal?
3. Europe: More of the same stagflation? Will fiscal policy remain in focus?
4. China: How far do the downside risks for the activity go?
5. US Elections: What are the possible agendas?

1. Global: Will the 'last mile' of disinflation remain erratic?

Service components remain above the pre-pandemic average

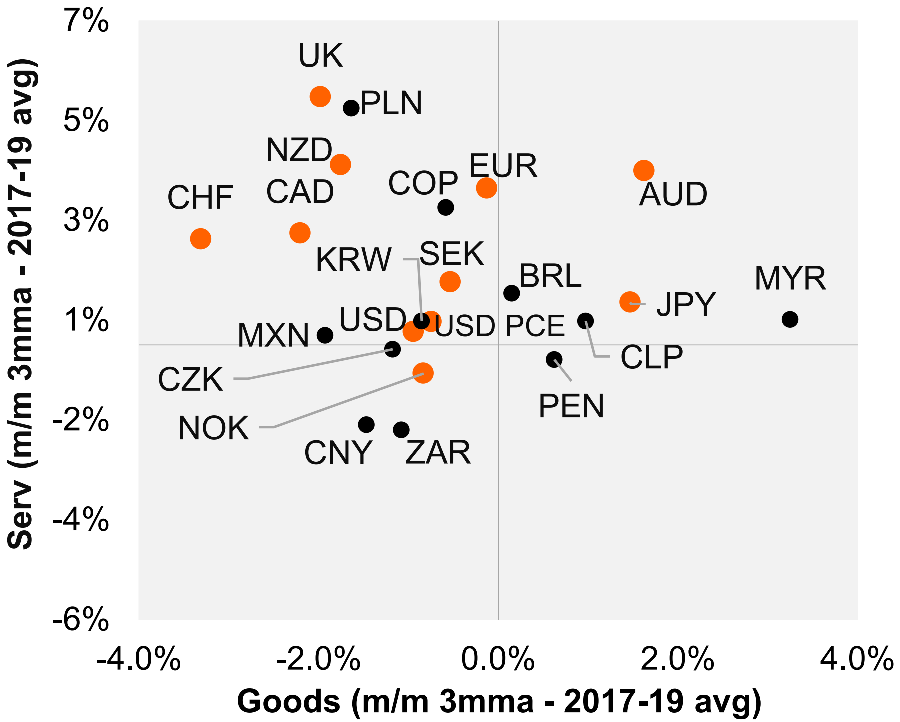
- Disinflation in developed countries has continued after a rebound in the 1st quarter, but with different timings between countries and with service components above goods

Core inflation



Source: Haver, Itaú

Goods vs services inflation



Source: Haver, Itaú

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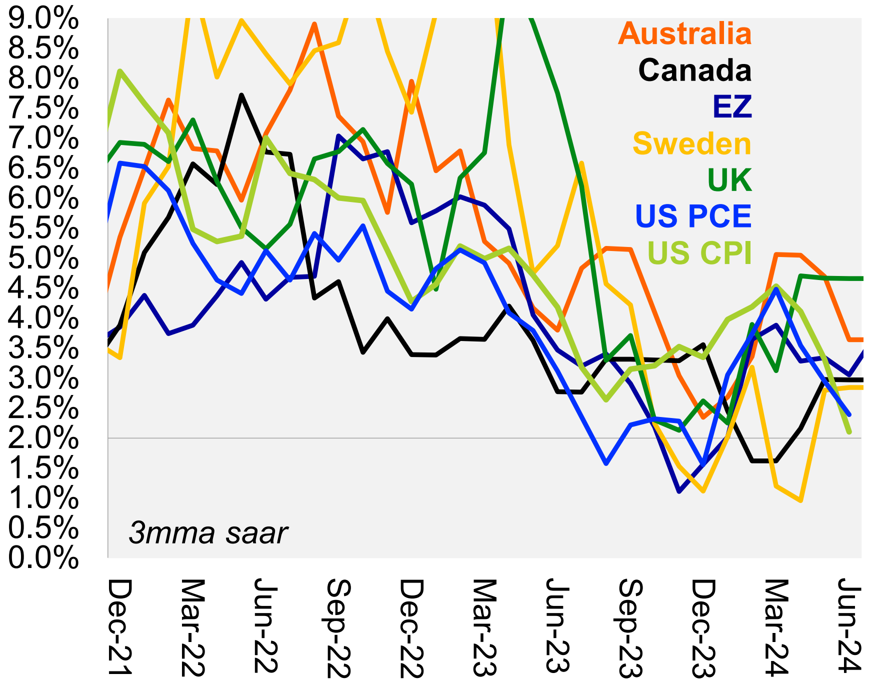
1. Global: Will the 'last mile' of disinflation remain erratic?

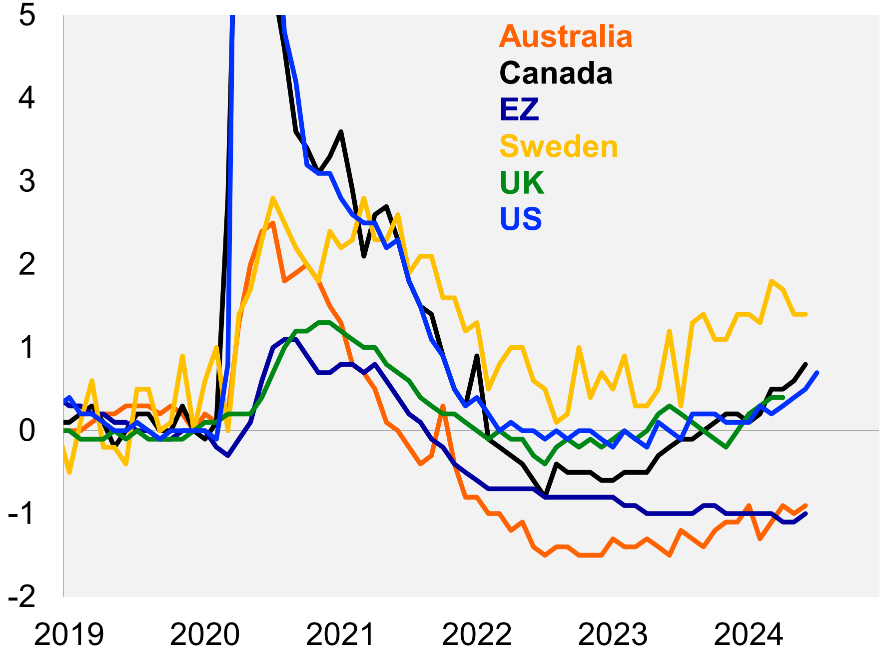
In DMs, erratic disinflation rises uncertainty about the size of the easing cycle

Core inflation



Source: Haver, Itaú

DMs: Unemployment Rate (minus dec/19 level)



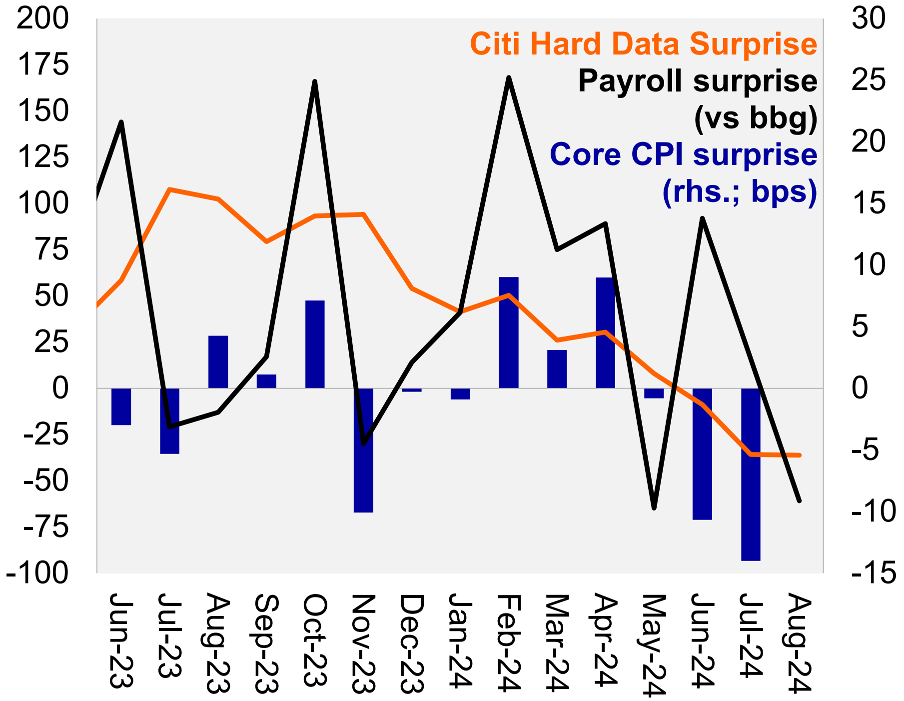
Source: Haver, Itaú

2. US: Will the Fed finally start cutting? At what pace and what terminal?

Slow deceleration and not rapid weakening of activity, amid improving inflation

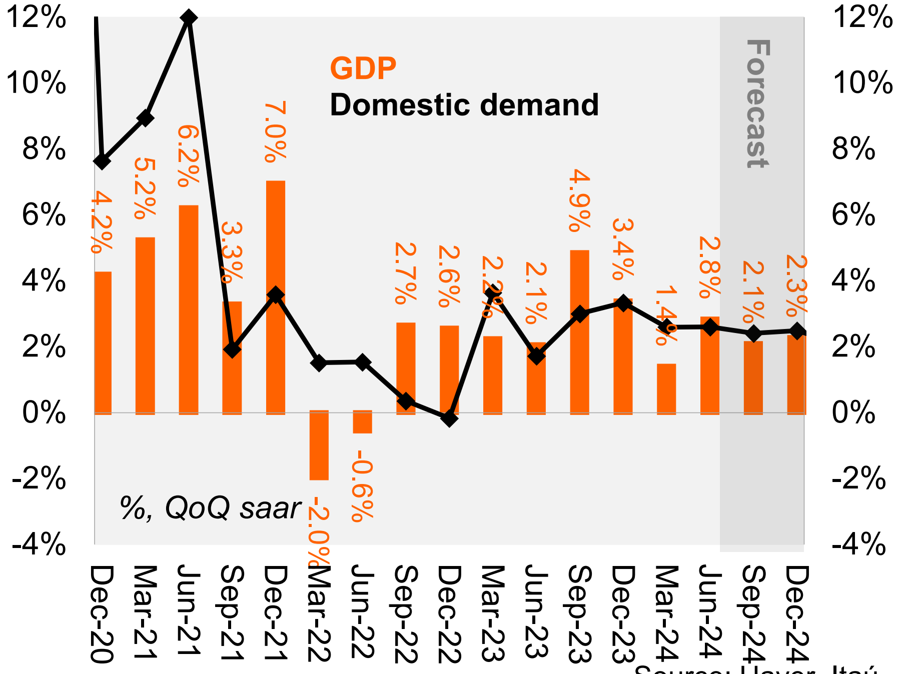
- Activity and inflation data has been weaker in net terms, although with volatility
- GDP was resilient in 2Q: 2.8% qoq saar vs 1.4% in 1Q, with consumption at 2.3% vs 1.5% in 1Q
    - Weaker-than-expected inflation in the last 3 months

US: hard data, payroll and core CPI surprises



Source: Citi, Haver, Itaú

GDP growth



Source: Haver, Itaú

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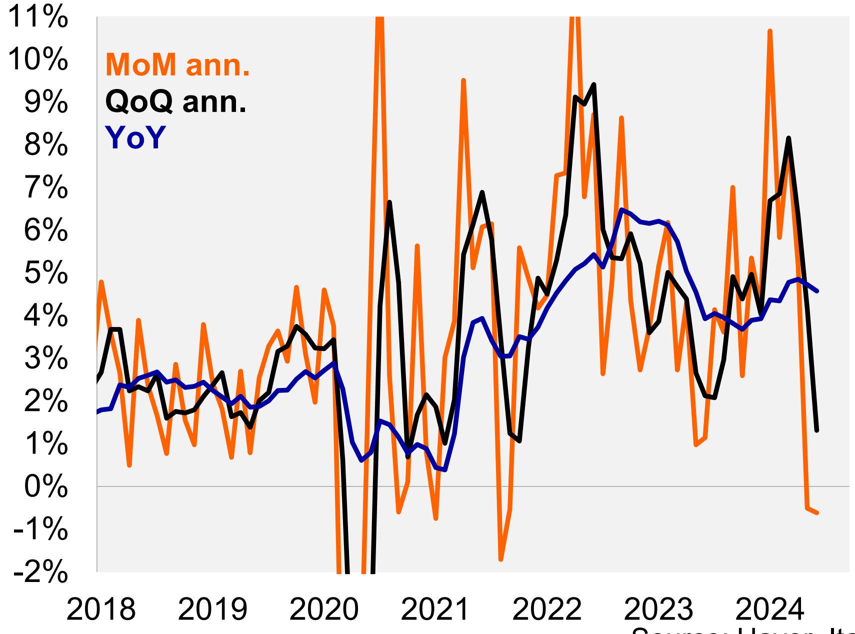
2. US: Will the Fed finally start cutting? At what pace and what terminal?

Sequence of benign inflation data with improvement in the most persistent services items

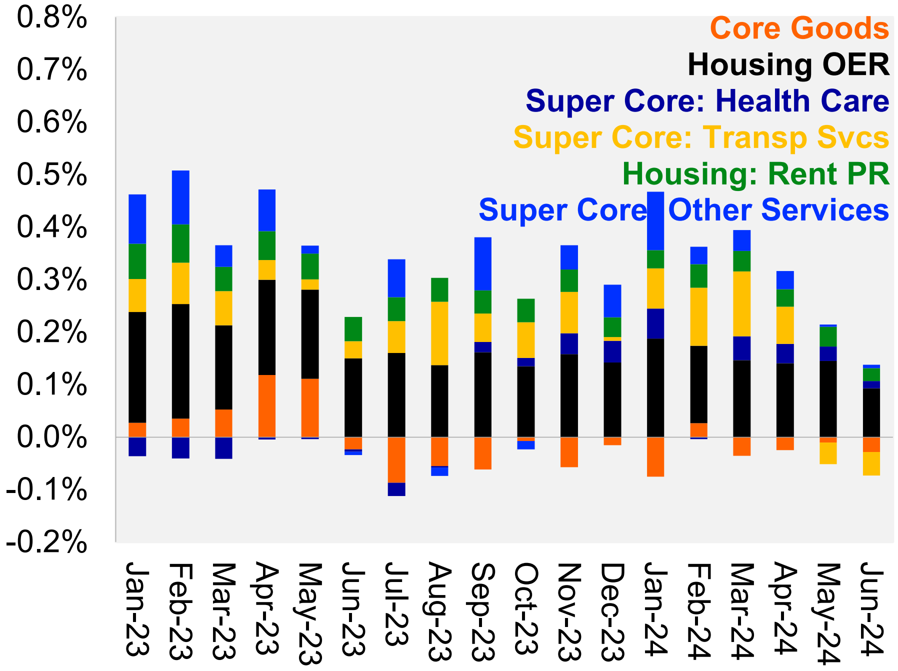
- Supercore slowed significantly as housing prices fell to a more benign pace in June

Powell Supercore (weight 27%): Core Services ex Housing



Source: Haver, Itaú

Core CPI breakdown



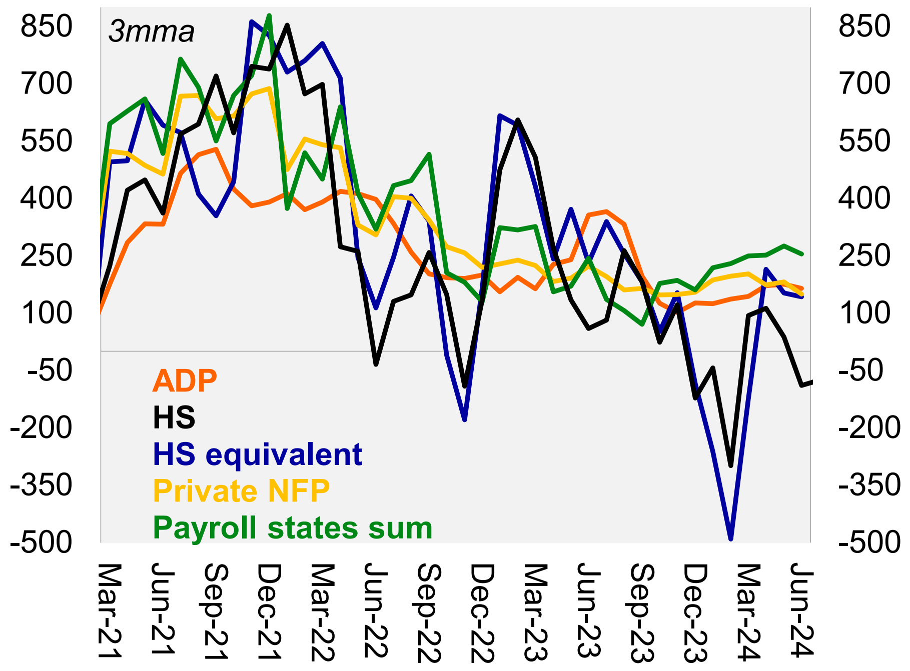
Source: BLS, Itaú

2. US: Will the Fed finally start cutting? At what pace and what terminal?

Rebalancing job market should allow for 3 cuts of 25 bps in 2024, starting in September (vs 2 previously) and other 3 cuts in 2025, with a terminal rate of 3.75%-4.00%

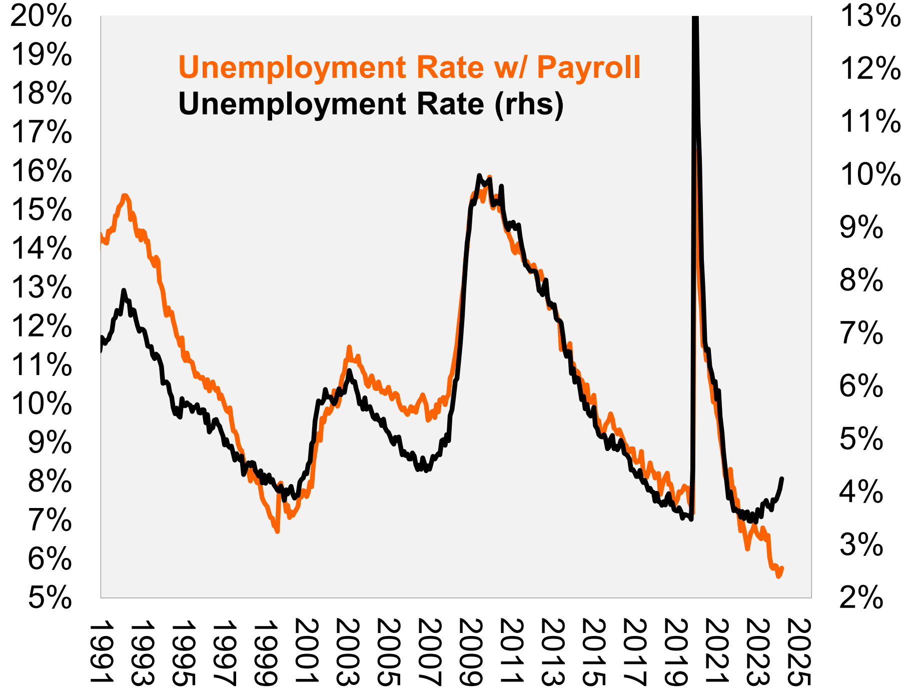
- Rising unemployment increases the risk of recession, but this is exacerbated by the divergence among different metrics.
- The weakness is more pronounced in data from the Household Survey (which is the reference for unemployment rate) than in data reported by companies (payroll), with the divergence intensifying at the end of 2023.

Underlying job growth



Source: Haver, BLS, Itaú

Unemployment rate



Source: Haver, BLS, Itaú

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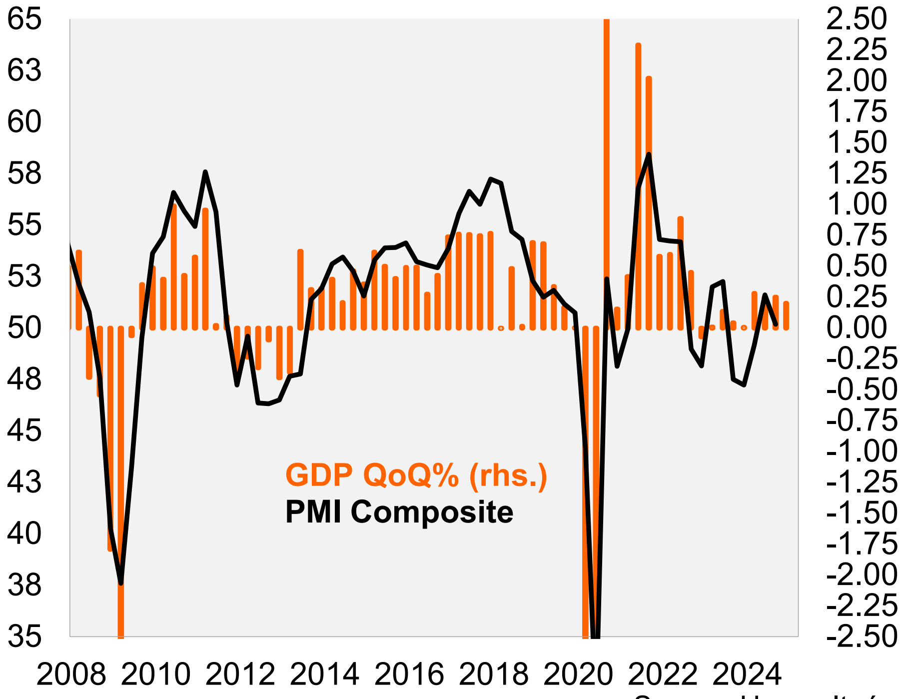
3. Europe: More of the same stagflation?

Activity losing momentum and gradual disinflation allow cautious interest rate cuts

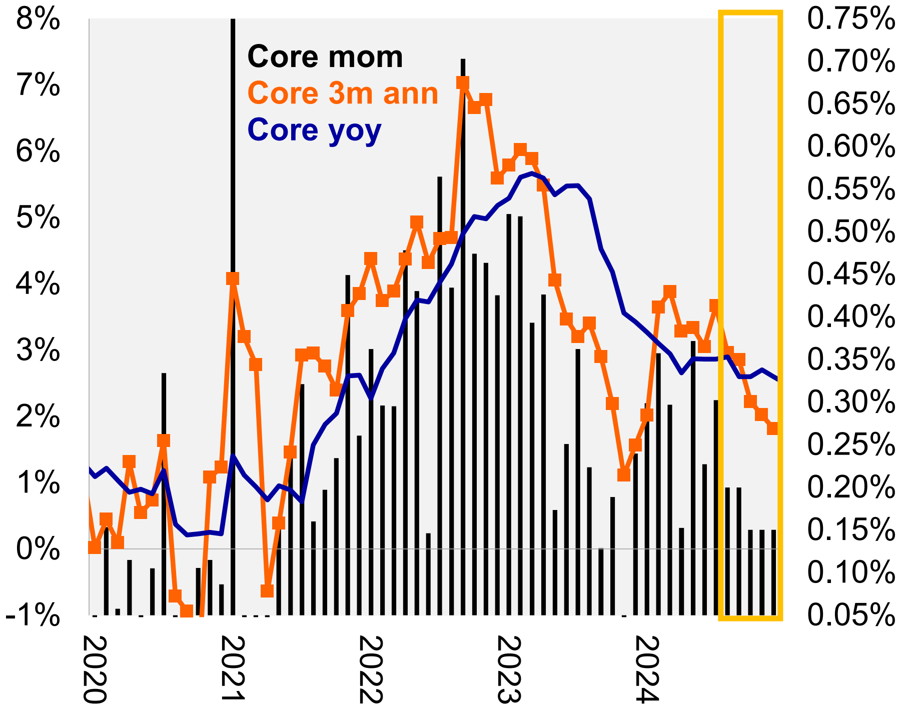
- 2Q GDP maintained growth low, but better than 2023. Signs are of weakening at the margin.
- Disinflation remains gradual with services still under pressure (we expect Core CPI at ~0.20% mom).
- We expect two more interest rate cuts in 2024 (September and December) and four more in 2025, taking the terminal rate to 2.25%.

EZ PMI: 2Q24 GDP > 0%; 3T ~0%



Source: Haver, Itaú

Eurozone: core to moderate back to 2.0%



Source: Haver, Itaú

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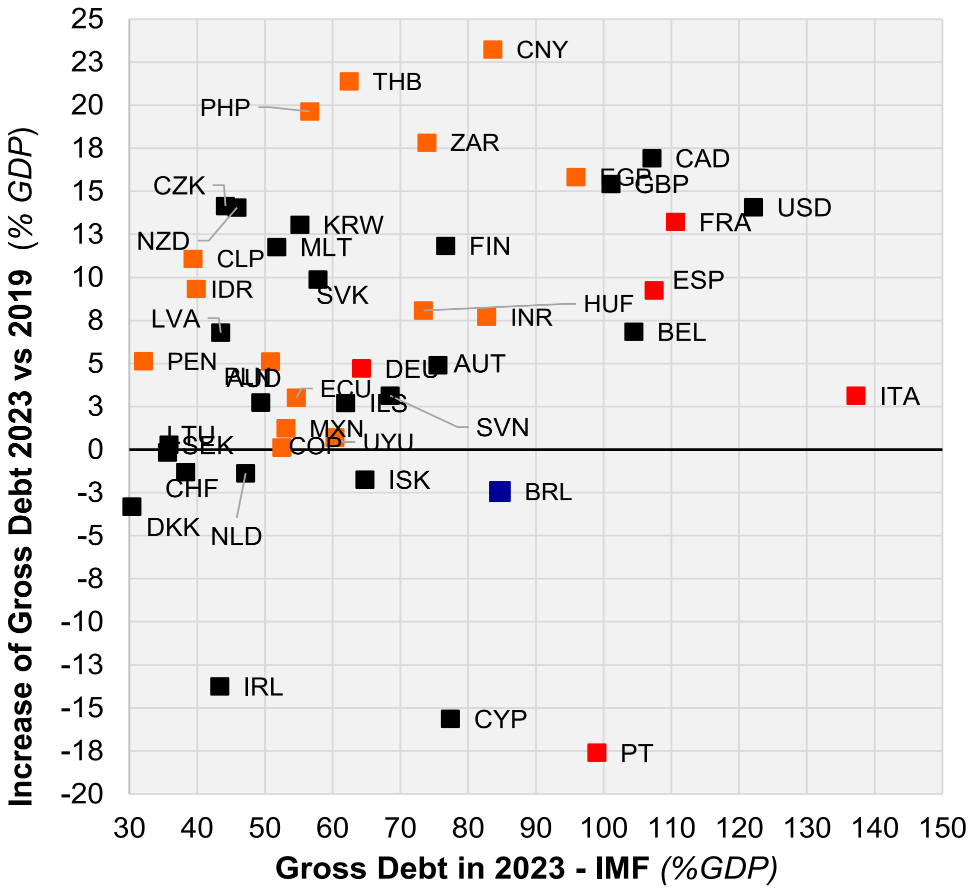
3. Europa: Will fiscal policy remain in focus?

France and Italy have a challenging fiscal scenario ahead

- Discussion of adjustments to the 2025 budget begins between 3Q and 4Q (September-October).
- France (small adjustment) and Italy (low growth, but more institutionally stable at the margin) have the most challenging backdrop.



	Debt 23	r (00-19 avg)	g (00-19)	s necessary	s (00-19 avg)	s23	s24
France	110.6%	1.8%	1.4%	0.4%	-1.4%	-3.8%	-2.9%
Germany	64.3%	1.6%	1.4%	0.2%	0.8%	-1.4%	-0.7%
Italy	137.3%	2.1%	0.4%	2.3%	1.4%	-3.6%	-0.6%
Portugal	99.0%	1.5%	0.9%	0.6%	-1.8%	2.9%	2.5%
Spain	107.5%	1.4%	1.8%	-0.5%	-1.7%	-1.8%	-0.8%
US	122.1%	1.8%	2.2%	-0.4%	0.9%	-5.8%	-3.3%

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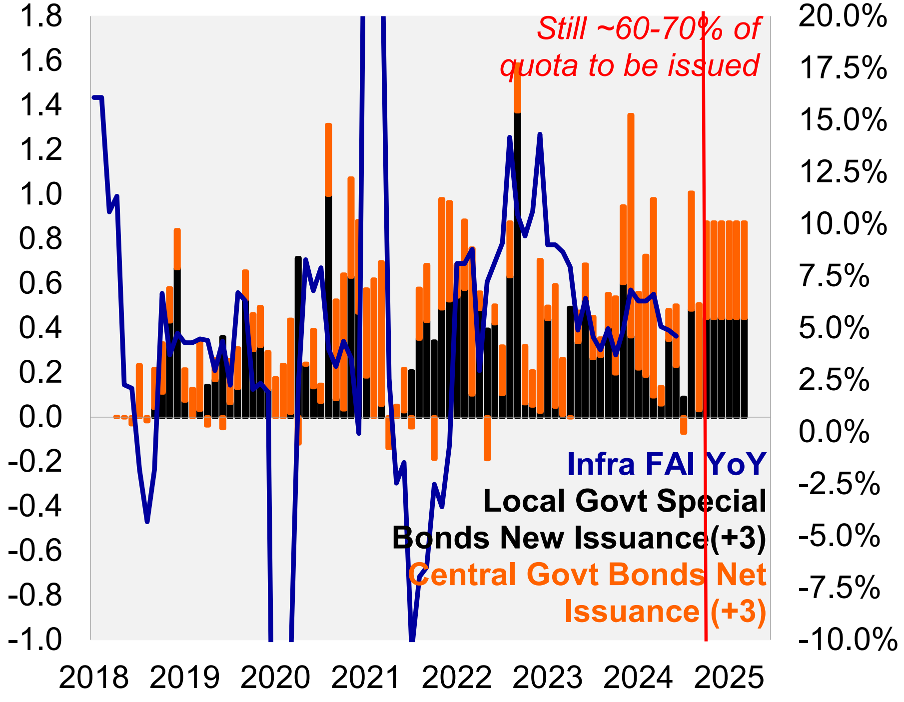
4. China: How far do the downside risks for the activity go?

We have revised our 2024 GDP forecast to 4.8% (from 5.0%). For 2025, we maintained it at 4.5%.

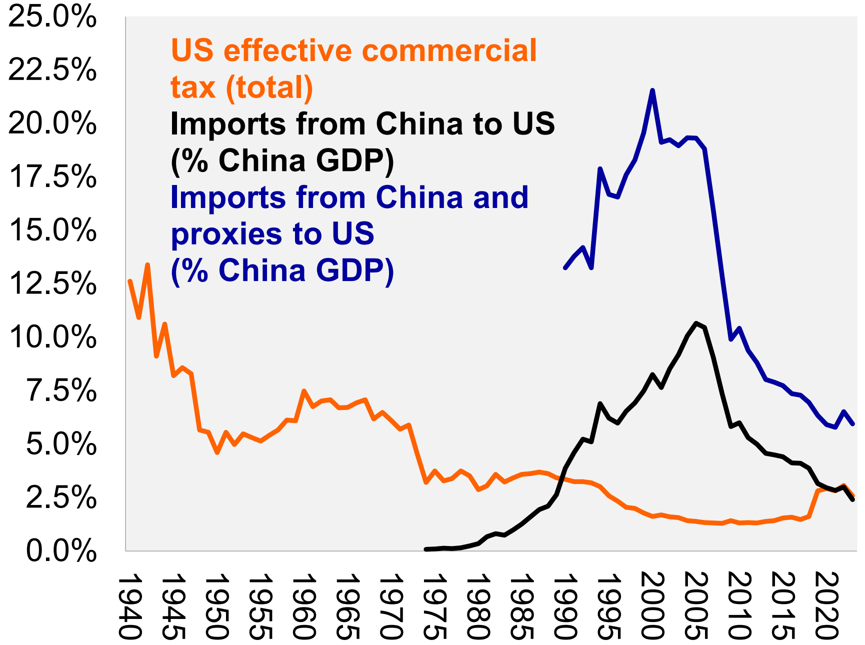
- Risks for the 2nd half of the year: **(1)** Delay in the implementation of incentives already announced for infrastructure (fiscal) and the real estate sector; **(2)** Strong manufacturing/exports but slowing at the margin (tariffs expected to be an issue for 2025).
- Trade tariffs in focus: possible increase of 60% in the US for China and 10% in other regions would be very significant (and would also affect the "triangular trade" of products leaving China).

Govt bonds emission to step up in 2H24



Source: Haver, Itaú

US effective commercial tax, imports from China and proxies to US



Source: Haver, Itaú

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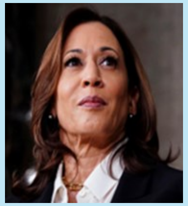
5. US Elections: What are the possible agendas?

Tax, trade tariffs, immigration and regulation are some of the main topics

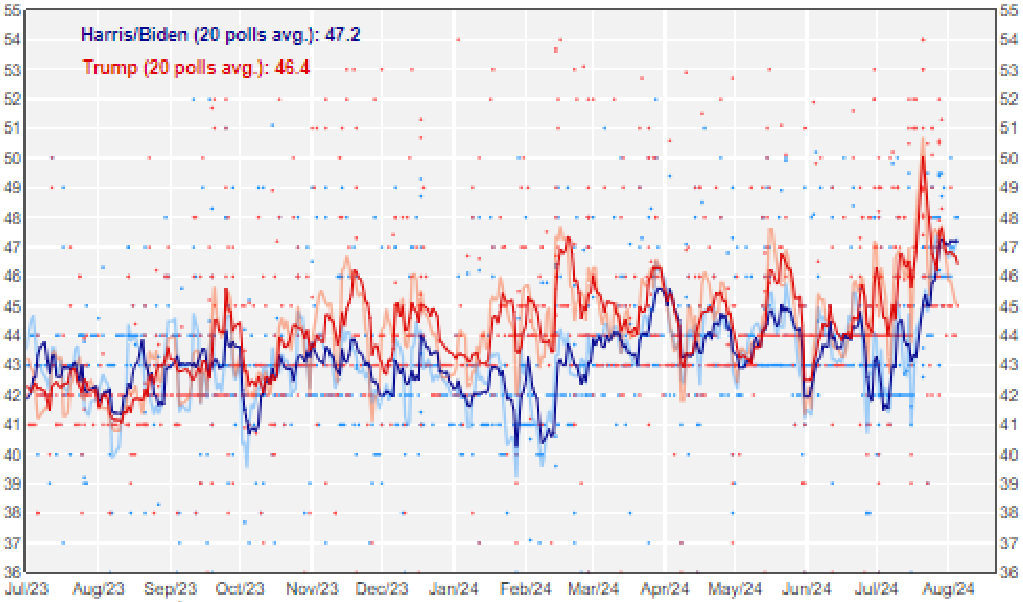
Proposals from the main candidates for president of the USA, as reported by the parties and media

Candidate		**Harris/DEM** 	**Trump/GOP** 	**Congress**
Vice-President		**Tim Walz**	**JD Vance**	-
Fiscal	**Spending**	Maintain IRA support*, major spending unlikely without Congress	Higher on defense, infra, repeal IRA* energy tax credits (maintain US industry support)	Simple Majority
	Tax	Extend part of TCJA**, tax increases (corporate, high income)	Extend all (or most) TCJA**, more cuts in corp. income tax, payroll tax relief	Simple Majority
International Policy	**China**	Agressive (no broad tariffs, focused on key techonologies/industries)	Agressive (broad tariffs: 10% across-the board, 60% all-in China)	No Congress (section 301?)
	Europe	Close Alliance	Conflicted: Nato 2% defense contribution ("pay its fair share/way"), more Tariffs (digital services/Tech)	No Congress (investigation?)
	Mexico	Close Allliance	Conflicted, hard shouthern border to stop illegals (processed in MX); more Tariffs (imported through China)	No Congress (investigation?)
Regulation		Maintain current regulation, enforce antitrust (techs)	Overturn Biden/Dem's regulation on Banks, energy (oil & gas), not much in Techs	Simple Majority
Fed		Continuity	Replace Powell for a dove (only in Jun 2026)	Simple Majority (Senate)
Dollar		Status quo (free floating)	Plaza Accord 2.0? Treasury intervention?	No Congress
Immigration		Remain loose	Tighter rules, more barriers for illegals (mass deportations?)	Only changes to Immigration law
Geopolitics		Ukraine and Israel support, no disruption in international order	Undermine Ukraine aid (military and financial), threaten to leave NATO (and others)	Approve fiscal aid

* **IRA:** Inflation Reduction Act = package focused on reducing inflation, combating climate change and promoting investment in clean energy. Signed by Biden in 2022.

** **TCJA:** Tax Cut and Jobs Acts = tax reduction and job creation program signed by Trump in December 2017.

Harris/Biden vs Trump (no other candidate)



Sources: 538 and Itaú BBA

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Forecasts: 3 Fed cuts of 25 bps with weaker labor market but no imminent recession

China 2024 GDP growth at 4.8% (from 5%), iron ore, Copper and CNY changed

Global	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	**3.1**	3.2	**3.4**	3.4
USA - %	2.5	-2.2	5.8	1.9	2.5	**2.5**	2.5	**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	**4.8**	5.0	**4.5**	4.5
Interest rates and currencies									
Fed Funds - %, eop	1.55	0.09	0.08	4.4	5.3	**4.6**	4.9	**3.9**	4.1
U.S. 10 Year Treasury - %, eop	2.00	0.93	1.47	3.88	3.88	**4.00**	4.25	**3.75**	4.00
USD/EUR - eop	1.12	1.22	1.13	1.07	1.10	**1.08**	1.05	**1.08**	1.05
CNY/USD - eop	7.0	6.5	6.4	6.9	7.1	**7.3**	7.2	**7.3**	7.2
DXY Index* - eop	96.4	89.9	95.7	103.5	101.3	**103.8**	105.5	**103.3**	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.

Commodities	2019	2020	2021	2022	2023	2024		2025	
						Current	Previous	Current	Previous
Brent Oil (USD/bbl)	64	50	75	82	77	**85**	85	**80**	80
Iron Ore (USD/tonne)	90	153	116	110	135	**105**	110	**90**	90
Copper (USD/tonne)	7788	7788	9525	8402	8489	**9200**	9800	**9800**	9800
Corn (Usd/bu)	383	437	592	656	480	**380**	400	**350**	380
Soy (Usd/bu)	912	1207	1290	1474	1311	**1000**	1100	**950**	950
Wheat (Usd/bu)	540	604	790	757	669	**500**	720	**550**	760
Sugar (Usd/lb)	13	15	19	20	22	**21**	21	**20**	20
Coffee (Usd/lb)	130	123	235	166	188	**220**	180	**200**	150

Source: BBG, Itaú

Macro Research – Itaú

Mario Mesquita – Chief Economist

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