Macro scenario - Global

November 13, 2025

Fewer Fed cuts amid stronger global growth

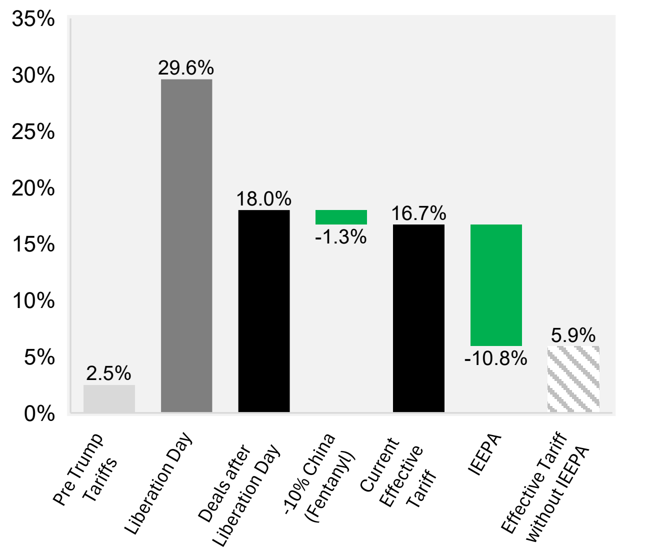
- **Global:** US-China deal limits escalation in the short term and Fed's stance leads to a stronger USD.
- **US**: we expect only one more rate cut in December (instead of cuts in December and January, previously) given the more hawkish communication from the Fed on the extent of the cycle.
- **Europe**: stronger activity in 2025 (1.3%, from 1.1%) with resilient domestic demand and a smaller impact from tariffs. For 2026, we maintain our 1.2% estimate, considering the implementation of the German fiscal package.
- **China**: 5% growth target achieved this year amid resilient exports and fiscal stimulus supporting short-term activity. For 2026, we now expect GDP growth of 4.5% (up from 4.0% previously).
- **Latin America:** policy rate paths revised higher.

Fewer rate cuts in the US, stronger growth in Europe and China, and a sustained dollar

The deal between the US and China brings tariff relief and reduces the risk of escalation in the short term. The agreement between Trump and Xi was an important relief in geopolitical tensions. The US agreed to reduce fentanyl-related tariffs to 10% (from 20%) and postponed for one year the implementation of export controls on semiconductors for companies with at least 50% Chinese ownership. On China's side, the country agreed to resume purchases of soybeans and other agricultural products, suspend for a year restrictions on rare earth exports, and committed to intensify efforts to contain fentanyl exports. Both sides agreed to eliminate tariffs and shipping fees and to properly resolve issues related to TikTok. With this truce, we estimate that the effective US import tariff rate is now 17% (vs. 30% on "Liberation Day" and 18% before the fentanyl deal), and that the gap between tariffs applied to China and other Asian countries narrowed to 10 p.p. (vs. 20 p.p. in July). However, this truce is likely to be unstable, as tensions may resurface over rare earths and access to semiconductor technology.

The US Supreme Court is expected to rule soon on the validity of IEEPA tariffs, which could block up to 10 p.p. of the effective US import tariff. In a preliminary hearing, SCOTUS justices indicated reluctance regarding this tariff instrument. However, even if the blockage occurs, we believe the US government has other avenues to reinstate the blocked tariffs, and we expect the total effective tariff will ultimately return to a level very close to the current one.

Effective tariff & risks



Source: Itaú

In the US, alternative data still shows employment deceleration, while inflation gradually slows down. The extension of the government shutdown until mid-November delayed the release of official data, such as Payroll, CPI, GDP, and others. Analyzing a set of alternative employment data from private sources, we observe that the labor market continues to show signs of deceleration. Despite the economy growing at a strong pace (we estimate 3.2% q/q saar in 3Q25), employment shows only incipient signs of recovery. Moreover, the September CPI showed a lower-than-expected monthly change in core inflation (0.2%, versus 0.3% expected), but the annual deceleration remains slow, around 3%, still well above the 2% target.

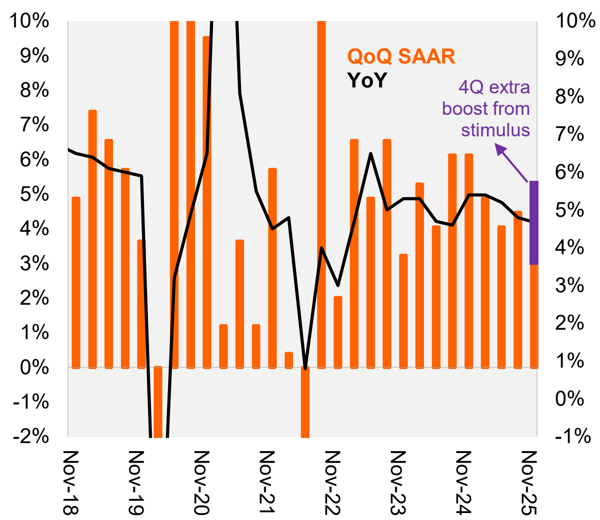
More hawkish Fed communication signals the end of the easing cycle is near. We revised our projection to only one cut in December (instead of cuts in December and January, previously expected). At the latest FOMC meeting, Fed Chair Jerome Powell cast doubt on further rate cuts at upcoming meetings, given the strong division within the committee over the degree of monetary policy restraint. Nevertheless, we continue to expect that, for the Fed to stand put in December, it will need to observe at least a modest surprise relative to its projections released in the September SEP, which already signaled one more cut at the final meeting of the year, which would likely be delayed to January. In this context, the distortion of employment data due to the shutdown and other government programs – which should pull Payroll into negative territory in October (we expect -50k) and push up unemployment (+30/40 bps), albeit temporarily – does not help provide greater clarity to the Fed that the economy is improving. Overall, we agree that the degree of policy restraint has fallen, as shown by financial conditions indicators. We assess that the Fed is likely to end the cycle above its 3.0% neutral rate estimate.

As for Europe, we now forecast growth of 1.3% (previously at 1.1%) with a smaller-than-expected tariff impact and strong domestic demand amid lower interest rates. For 2026, we maintain our GDP forecast at 1.2%, considering the impact of fiscal stimulus in Germany. Activity continued to surprise positively, with 0.2% q/q growth in 3Q and the October Composite PMI at 52.5, reinforcing that the good momentum extended into the last quarter of the year. Moreover, the impact of the 15% tariffs on exports to the US has been lower than anticipated, amid resilient global growth. Inflation remains in line with ECB models, signaling convergence toward the 2% target. In this environment, we continue to consider that the ECB has already ended its rate-cutting cycle. For 2026, the focus is on the implementation of Germany's fiscal package announced earlier this year. We expect a stimulus of 1.8% of GDP, which should generate an impact of 1.2 p.p. for German GDP and 0.4 p.p. for the euro area, considering spending on both defense and infrastructure. The budget details are expected to be voted on by late November.

For China, we revised growth to 5.0% (from 4.7%) in 2025, driven by resilient exports – despite tariffs – as well as fiscal stimulus to support activity in 4Q. Between September and October, the government announced two programs to support activity in the short term: (i) a special fund of RMB500bn (0.35% of GDP) to promote infrastructure (channeled through state-owned banks) and (ii) the use of RMB500bn (0.35% of GDP) in local government bonds by the end of 2025. Unlike in 2023 and 2024, the announcements were made discreetly, but in sufficient amounts to ensure the 5% growth target this year. Additionally, exports remain resilient, with the redirection of goods to the US by Asian countries and a more diversified export basket supported by strong global growth. Looking ahead, the agreement between the US and China with a 10 p.p. reduction in fentanyl-related tariffs is another positive factor for Chinese exports. For 2026, we now project GDP of 4.5% (from 4.0%), as the strong growth momentum should lead the government to announce a higher growth target (in March) than we previously anticipated.

The Chinese economy continues to seek new sources of growth, now focusing on technology and artificial intelligence. The initial discussion of the five-year plan for 2026-30 reinforced the need for investments in the technology sector to achieve self-sufficiency, especially amid the dispute in the semiconductor sector with the US. The government recognizes the need to strengthen domestic consumption, but there is no clarity on what measures will be adopted. Since the post-pandemic period, Chinese growth has been sustained by exports and excessive investment in manufacturing, more than offsetting the weakness in domestic demand amid the correction in the real estate sector.

China: stimulus already announced for the 5% target



Source: Haver, Itaú

For currencies, we now assess that the USD will remain more supported in the short term, amid lower uncertainty regarding tariffs and the more hawkish Fed stance. As a result, we have revised our euro forecast from 1.20 to 1.15. Going forward, the main risk for a return to a weaker dollar is an increase in expectations of more aggressive interest rate cuts in the US, in the context of selecting a successor to the Fed chair more aligned with the Trump administration.

Latin America: policy rate paths revised higher

Not so fast. We tweaked our monetary policy forecasts slightly higher in Mexico, Chile, and Colombia, driven by different factors. In Mexico, even though Banxico delivered the expected 25-bp cut in the last policy meeting to 7.25%, taking the real ex ante policy rate slightly below the upper bound of the neutral rate range, the shift in guidance toward a meeting-by-meeting approach led us to expect higher sensitivity to the Fed in upcoming decisions. As a result, we envisage a 25-bp cut in December, leading to a year-end monetary policy rate of 7.0%. However, we now expect only one 25-bps cut in February next year, with the terminal rate at 6.75% in 2026 (up from 6.5%).

In Chile, we expect continued soft inflation data relative to the BCCh's projections to keep the December meeting live, as suggested by market pricing. We forecast core inflation ending the year 10–20bps below the BCCh's 3.7% estimate. However, given our revised outlook of one fewer Fed rate cut and the BCCh's inclination toward the upper bound of the neutral rate range, we now expect the easing cycle to conclude in December at 4.5% (+25bps).

In Colombia, given persistent inflation, above target inflation expectations, and pressure on the fiscal accounts, we still see BanRep leaving the policy rate unchanged through year end at 9.25% but pencil in a total of 50-bps of cuts in 2026, ending the year at 8.75% (8.25% in the previous scenario).

Inflation revised down in Mexico, Chile, and Peru … In Mexico, we revised our year-end 2025 CPI forecast down to 3.8% (from 4.1%), reflecting relief in core inflation and muted pressure on non-core items as the year ends. Core inflation has been relatively stable, slightly above the 4.0% annual ceiling. We remain cautious in 2026, as non-core items could return to their higher historical average, leading us to maintain our forecast at 3.7%. In Chile, while we envisage a payback in CyberDay effects in November's CPI, recent data leads us to revise our year-end inflation forecast by -0.2pp to 3.7%. Normalizing wage growth, subdued global oil prices, and a strengthening CLP should help consolidate the path toward the 3% target by the end of 1Q26. In Peru, we revised our 2025 year-end inflation forecast down to 1.6% from 1.8%, due to persistent downside inflation surprises, the appreciation of the PEN, and low oil prices. For 2026, we expect CPI to rise towards the BCRP's 2% inflation target.

… and up in Colombia. We revised our year-end 2025 CPI forecast up to 5.3% (from 5.2%), following the upside surprise in October. We also increased our YE26 forecast to 4.5% (from 4.2%), incorporating the risk of a large minimum wage adjustment, while other upside risks linger. Materialization of additional upside inflation risks in Colombia would challenge our call for even a moderate cycle of policy rate cuts in 2026 and set the stage for a swing towards hikes.

The time is now. In Argentina, following the administration's better-than-expected results in the midterm elections, the focus now shifts to the reform effort. In parallel, our new scenario assumes the exchange rate bands will persist through year-end, leading us to expect the exchange rate at ARS/USD 1,500 by year-end (from ARS 1,600 in our previous scenario). Still, we cannot rule out tweaks to the depreciation pace, which could lead to a weaker ARS by year-end, complemented with reserve accumulation by the authorities. We foresee inflation reaching 29.5% by YE25, down from 30.5% previously, given stronger ARS. We maintained our GDP growth forecasts for 2025 and 2026 at 3.8% and 2.5%, respectively. Weak activity in 3Q25 and the low statistical carryover for 2026 lead us to exercise caution in our growth projections. However, the more favorable outlook for investment introduces upside risks to our 2026 growth forecast.

Elections. Finally, in Chile, all eyes are on the general elections scheduled for November 16, amid heightened public concern over crime, safety, and employment. Polls suggest a presidential runoff is likely on December 14, as platforms have focused on prioritizing growth, facilitating investment, and eradicating crime, among others. The composition of Congress, to be determined in the first round, will be key in determining the breadth and depth of the reform momentum during the next presidential term (March 11, 2026), which, in turn, could sustain the ongoing investment recovery. The regional election cycle continues next year in Peru, Colombia, and then Brazil.

Global | Forecasts and Data

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
GDP Growth									
World GDP growth - %	-2.8	6.3	3.5	3.2	3.2	**3.2**	3.1	**3.2**	3.0
USA - %	-2.1	6.2	2.5	2.9	2.8	**2.0**	2.0	**2.0**	2.0
Euro Area - %	-6.2	6.4	3.7	0.6	0.8	**1.3**	1.1	**1.2**	1.2
China - %	2.0	7.7	3.0	5.4	5.0	**5.0**	4.7	**4.5**	4.0
Inflation									
U.S. Core CPI - %, eop	1.6	5.5	5.7	3.9	3.2	**3.1**	3.5	**3.0**	3.0
Interest rates and currencies									
Fed Funds - %, eop	0.13	0.13	4.15	5.38	4.52	**3.63**	3.63	**3.63**	3.38
U.S. 10 Year Treasury - %, eop	0.93	1.47	3.88	3.88	4.58	**4.10**	4.10	**4.00**	4.00
USD/EUR - eop	1.22	1.13	1.07	1.10	1.04	**1.15**	1.20	**1.15**	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	**99.8**	95.8	**99.2**	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

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**3.2**	3.1	**3.2**	3.0

Brazil

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**2.2**	2.2	**1.7**	1.5
BRL / USD (eop)	**5.35**	5.35	**5.50**	5.50
Monetary Policy Rate (eop,%)	**15.00**	15.00	**12.75**	12.75
IPCA (%)	**4.5**	4.6	**4.2**	4.3

Argentina

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**3.8**	3.8	**2.5**	2.5
ARS / USD (eop)	**1500**	1600	**1800**	1900
Reference rate (eop,%)	**35.0**	45.0	**25.0**	35.0
CPI (%)	**29.5**	30.5	**20.0**	20.0

Colombia

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**2.7**	2.7	**2.8**	2.8
COP / USD (eop)	**3900**	4000	**3900**	4000
Monetary Policy Rate (eop,%)	**9.25**	9.25	**8.75**	8.25
CPI (%)	**5.3**	5.2	**4.5**	4.2

Paraguay

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**5.0**	5.0	**4.0**	4.0
PYG / USD (eop)	**7150**	7150	**7200**	7200
Monetary Policy Rate (eop,%)	**6.00**	6.00	**6.00**	6.00
CPI (%)	**3.9**	4.2	**3.5**	3.5

Latin America and Caribbean

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**2.4**	2.4	**2.3**	2.2

Mexico

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**0.6**	0.6	**1.5**	1.5
MXN / USD (eop)	**19.0**	19.0	**19.5**	19.5
Monetary Policy Rate (eop,%)	**7.00**	7.00	**6.75**	6.50
CPI (%)	**3.8**	4.1	**3.7**	3.7

Chile

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**2.5**	2.5	**2.2**	2.2
CLP / USD (eop)	**930.0**	930.0	**880.0**	880.0
Monetary Policy Rate (eop,%)	**4.50**	4.50	**4.50**	4.25
CPI (%)	**3.7**	3.9	**3.0**	3.0

Peru

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**3.0**	3.0	**2.7**	2.7
PEN / USD (eop)	**3.50**	3.50	**3.50**	3.50
Monetary Policy Rate (eop,%)	**4.00**	4.00	**4.00**	4.00
CPI (%)	**1.6**	1.8	**2.0**	2.0

Uruguay

	2025		2026	
	Current	Previous	Current	Previous
GDP (%)	**2.3**	2.3	**1.8**	1.8
UYU / USD (eop)	**40.5**	40.5	**41.0**	41.0
Monetary Policy Rate (eop,%)	**7.75**	7.75	**7.25**	7.25
CPI (%)	**3.9**	3.6	**4.5**	4.5

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	**60**	60
Iron Ore (USD/tonne)	153	116	110	135	103	**100**	95	**90**	85
Copper (USD/tonne)	7788	9525	8402	8489	9030	**10350**	9900	**10250**	10150
Corn (Usd/bu)	437	592	656	480	444	**430**	415	**415**	415
Soy (Usd/bu)	1207	1290	1474	1311	984	**1110**	1030	**1070**	1070
Wheat (Usd/bu)	604	790	749	619	548	**550**	550	**600**	600
Sugar (Usd/lb)	15	19	20	22	20	**15**	16	**16**	16
Coffee (Usd/lb)	123	235	166	188	321	**400**	350	**300**	300

Source: BBG, Itaú

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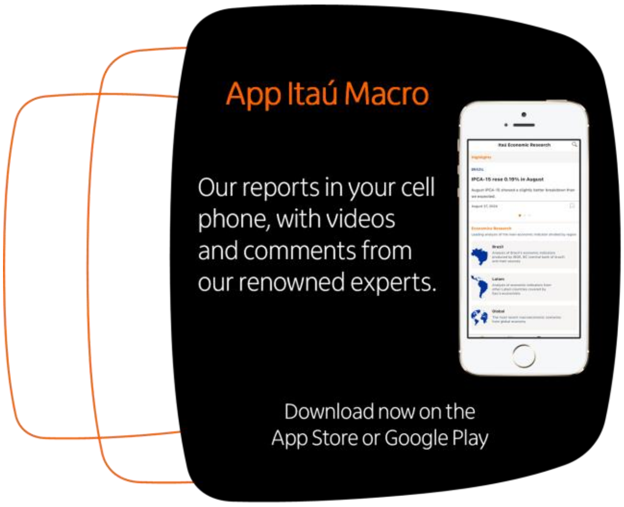

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