

Macro scenario - Global



February 17, 2025

Tariffs and trade war make a strong comeback

- ▶ **Tariffs.** After multiple threats from U.S. President Donald Trump, uncertainty will remain high in the short term. We anticipate the implementation of aggressive tariffs against China and certain sectors in Europe, but we also see a growing risk of more broad-based duties.
- ▶ **U.S.** The Fed is set to remain on hold amid resilient activity, persistent inflation, and the threat of tariffs and migration policies with inflationary potential.
- ▶ **China.** We are leaving our GDP growth estimate unchanged at 4.0%, as the scenario will depend on whether additional stimulus measures are implemented to offset the impact of the trade war.
- ▶ **Europe.** Low growth and additional interest rate cuts justify the euro trading at parity with the dollar.
- ▶ **Latin America:** Minor growth revisions, with an upside inflation bias.

Tariffs: after multiple threats, uncertainty will remain high in the short term

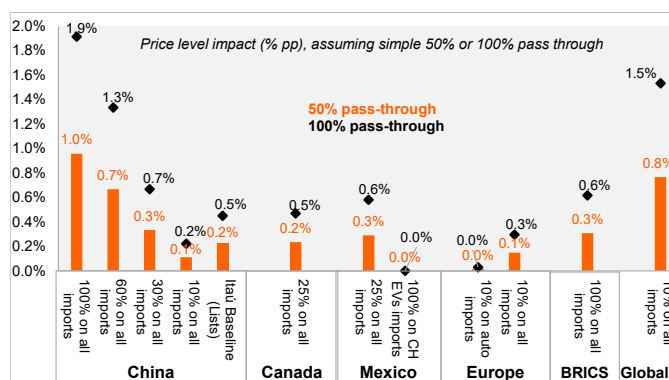
The new Trump administration has announced, and continues to threaten to impose, tariffs on various countries and sectors. Since his inauguration, Trump has threatened – and later reversed – 25% tariffs on Colombia, Canada, and Mexico (postponing implementation by a month on the condition that the two neighboring countries take action to control illegal migration and drug trafficking into the U.S.). He has also implemented a 10% tariff on all imports from China, ordered a 25% tariff on global steel and aluminum imports, and proposed universal reciprocal tariffs. Additionally, he has called for wide-ranging studies and investigations that could still lead to tariffs in the future.

Our scenario assumes the implementation of aggressive tariffs against China, increasing the effective tariff by 20 percentage points (almost double the increase seen between 2018 and 2019), as well as tariffs on certain sectors in Europe (+1 pp). However, we see a growing risk of more general tariffs. Despite the Trump administration's backtracking on its threats to certain countries, the broad spectrum of its threats and its foreign policy vision suggest that significant tariffs will be implemented, primarily on China, which has not complied with the agreement established during Trump's first administration (the Phase-One trade

deal). The table at the end of the report summarizes all the threats and our base-case expectations.

The impact of tariffs is negative for global growth but more inflationary for the United States.

Considering the various threats listed in the table at the end of the report, the graph below illustrates the potential inflationary effects on the U.S. economy of each tariff scenario. It also shows that a more aggressive stance by Trump would lead to significant inflationary shocks in the country.

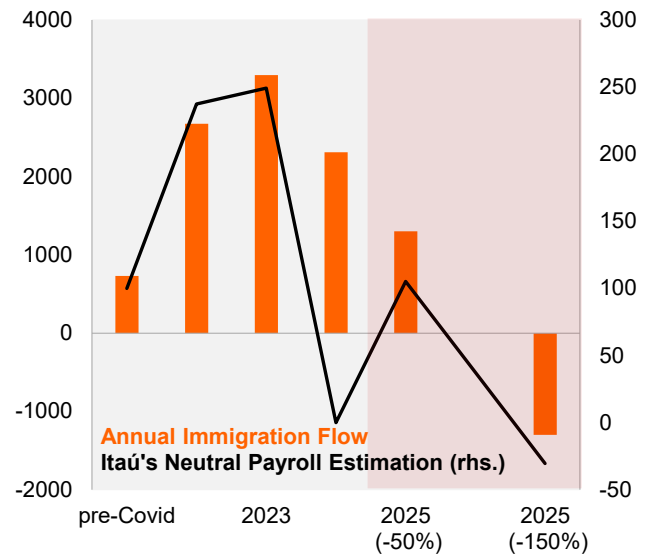


U.S.: The Fed is set to remain on hold amid resilient activity, persistent inflation, and the inflationary risks posed by tariff and migration policies

U.S. economic growth has remained strong, driven by household consumption. After 2.8% GDP growth in 2024, we expect a growth rate of 2.5% in 2025. Domestic demand grew at an average pace of 3.0% in 2024 and is expected to slow only moderately, to 2.7%, this year. The gradual pace of the slowdown is due to the strong fundamentals of the American consumer, including high accumulated wealth (or savings), low levels of debt and leverage, and continued employment and income growth. This is further reinforced by formal jobs creation (payroll), which averaged 170,000 new positions per month in the second half of last year, and by unemployment levels that remain near historical lows.

Restricting immigration poses a downside risk to growth but is also inflationary. A decline in illegal immigrant entries has already been evident in the data since the end of the Biden administration in 2024. Still, the decline is likely to accelerate, depending on the extent of the restrictions on entry imposed and/or deportations carried out by the Trump administration. This negative supply shock is expected to lower potential GDP due to constraints on workforce expansion while also being inflationary. As domestic demand remains strong, the employment rate is likely to stay above its neutral level (the rate that keeps unemployment constant), putting upward pressure on wages and inflation. The graph below shows the simulated neutral employment rate under different immigration scenarios.

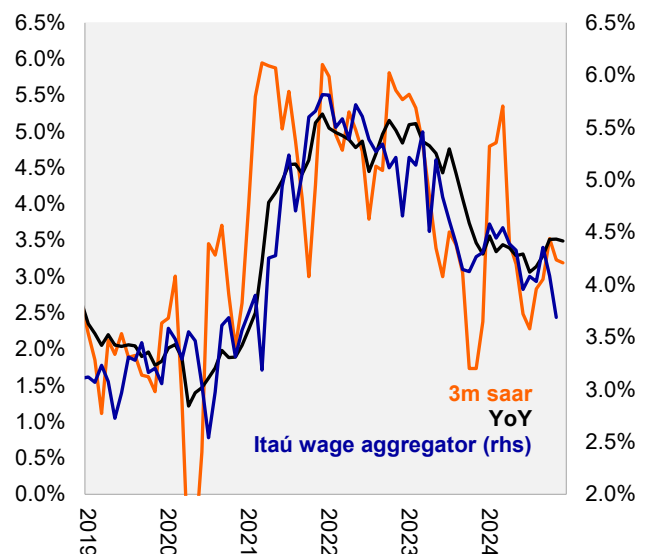
Immigration and neutral Payroll



Source: Census and Itau BBA

Inflation slowed moderately over the course of last year but is expected to remain persistent. Core PCE declined from 3.1% in January 2024 to 2.8% in December of the same year, and we expect it to persist at 2.5% going forward. Several factors continue to exert upward pressure on inflation: (1) a strong economy, which makes it difficult to slow wage growth (see graph); (2) a fiscal policy that is likely to remain expansionary; (3) a monetary policy that is 100 bps less restrictive than at the beginning of last year; and potential shocks from (4) immigration and (5) tariffs.

Supercore PCE and Wages



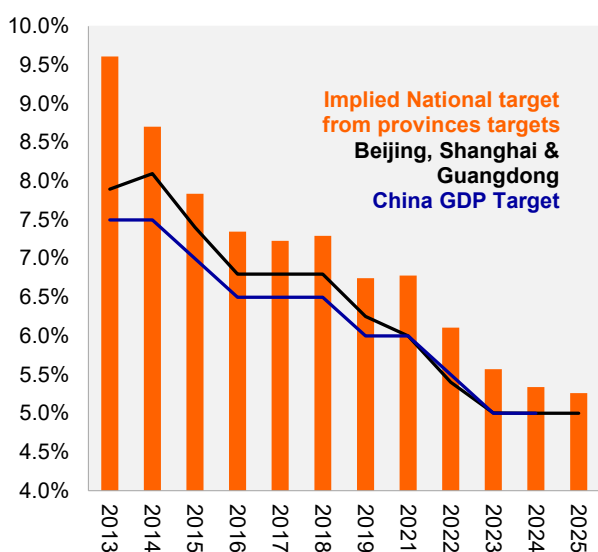
Source: Haver, Itau

We continue to expect no further interest rate cuts by the Fed in 2025. Since the beginning of the rate-cutting cycle in September of last year, the Fed has lowered rates by 100 bps. However, at its last meeting, in January, it showed little urgency about adjusting monetary policy further. We believe that the factors listed above make additional rate cuts unlikely and that the Fed will adjust its communication to signal that interest rates are likely to remain high for a longer period.

China: We are leaving our GDP estimate at 4.0%, with possible upside conditional on additional stimulus

China’s congress is likely to confirm a 2025 growth target of “around 5%” in March... On March 5, the authorities will set the economic targets for the current year. Provinces have already defined their respective local growth targets, which indicate a national GDP target of “around 5%”, the same level and phrasing used in 2023 and 2024 (see graph below). However, more stimulus will be needed to offset the structural slowdown and the impact of higher tariffs.

China GDP Target: provinces targets suggest “around 5%”



Source: Bloomberg, Local Newspapers, Itaú

...but the delivery of this growth will depend on the tariff scenario as well as the speed of domestic policy implementation. We expect an announcement of a fiscal deficit target of 4.0% of GDP (up from 3.0%), an increase of 0.4% of GDP in the quota for issuance of local government bonds, to 3.6%, and an increase of 0.8% of GDP in the quota for issuance of special central government bonds, to 1.6%. However, we assume that 0.6% of GDP will be allocated to the capitalization of public banks. Thus, the fiscal increase compared with

2024 will be 1.6% of GDP, leading to an activity impact of 2 pp. We do not expect income transfer measures for families, only subsidies for specific products, as was the case in 2024 with cars and household appliances. For now, we are leaving our 2025 GDP growth forecast at 4.0%; whether our estimate is revised to bring it closer to the 5.0% growth target will depend on the evolution of the tariff scenario and the implementation speed of the announced stimulus measures.

Europe: Low growth and additional interest rate cuts justify the euro trading at parity with the dollar

For Europe we expect growth of 0.8% in 2025, with downside risks if the tariff scenario is more aggressive with respect to the region. GDP was stable in the fourth quarter (0.0%, down from 0.4%). There are no details yet on the composition of growth, but there is some sign of a modest recovery in consumption. In our scenario, we see an average growth rate of 0.15% per quarter this year. However, there are downside risks if the U.S. adopts a more aggressive tariff stance toward the region. Germany’s elections at the end of the month could prompt a more expansionary fiscal policy. However, any occasional stimulus measures may be aimed at defense spending, which tends to have a limited impact on activity, as it can lead to more equipment purchases outside the region, such as in the United States.

The ECB cut interest rates once again in January. We expect three more consecutive cuts of 25 bps each, leading to a terminal rate of 2.0%. Core inflation accelerated slightly in January, to 0.27% from 0.21% in the monthly comparison, under pressure from annual adjustments in services prices. That said, the adjustments were smaller than in 2023 and 2024. We expect services inflation to continue to weaken, reflecting more moderate wage increases, and as a result the central bank’s forecast should converge to the center of the neutral interest rate estimate range (1.75%-2.25%). Since inflation is likely to remain well-behaved, the behavior of economic activity will probably be the main factor in determining the size of the ECB’s cutting cycle. With more interest cuts than those of the Fed and trade-war uncertainties (i.e., the risk of tariffs against all imports from the region, and not just cars), we forecast the exchange rate at 1.00 euros to the dollar.

Latin America: Minor growth revisions, with an upside inflation bias

For whom the bell tolls. Even though we did not incorporate significant changes to yearend forecasts in major economies, elevated policy uncertainty in the U.S. is reflected in changes to our LatAm forecasts through several channels. First off, in Mexico, the economy in the region with strongest linkages to the U.S., we revised our 2025 GDP growth forecast down to 0.9% YoY (from 1.5% in our previous scenario) due to lower carryover following a weaker end to 2024 and the persistent deterioration of business sentiment which is partly offset by the effects of a still resilient labor market. For 2026 we pencil in a bounce back to a below-potential 1.4% (from 1.7% in our previous scenario). Elsewhere, the tweaks to our 2025 growth forecasts reflect carryover adjustments from 2024. In Chile's case, 2024 ended on a stronger note driven by volatile mining, a boom in fruit production, and foreign tourism; we revised our 2025 growth forecast to 2.3% (from 1.9% in our previous review) which is likely to lead to a swifter narrowing of the slightly negative output gap.

Idiosyncratic factors led to higher inflation calls in Chile and Colombia. We now expect inflation to end 2025 at 4.1% and 4.5% in Chile and Colombia respectively. Following several years of above-target inflation in these economies, recent upside inflation surprises and elevated indexation raise the risk of a gradual erosion of central bank commitment with the inflation target, reflected by the behavior of inflation expectations. Still, we envisage the BCCh maintaining the policy rate at 5% for the remainder of the year, already within the neutral range in real ex-ante terms. In the case of BanRep, we maintained our yearend policy rate call of 8.0%, well within contractionary territory, following two consecutive hawkish surprises.

Rules were (unfortunately) made to be broken. Weaker revenues last year led to a deterioration of fiscal accounts that was more pronounced than expected in several economies of the region, mainly reflected by greater nominal deficits and an increase in public debt. The official fiscal targets were missed last year in Chile and Peru, as recognized by the authorities, while a discussion between the MoF and the Autonomous Fiscal Council in Colombia continues regarding last year's compliance. While fiscal consolidation is projected to take place throughout the region, risks tilt towards the persistence of revenue underperformance leading to slower narrowing of deficits. In Chile, official forecasts already envisage an above target structural deficit for 2025, leading to a second consecutive annual miss.

Politics will remain in the spotlight. In Chile, presidential and legislative elections are scheduled for November 16, with polls suggesting that the opposition is well positioned, in line with the anti-incumbent narrative we've seen elsewhere. The current administration concludes its term in March 2026. In Argentina, while the October 26 mid-term elections could lead to a meaningful increase in the president's party representation in Congress, the market's focus will remain on the ability of the opposition to garner support in the province of Buenos Aires as a key bellwether for the 2027 presidential election. In Peru, presidential and legislative elections are scheduled for April 2026; with eyes set on the return to a bi-cameral Congress that could, in principle, reduce tensions between the lower house and the executive branch. In Colombia, presidential and legislative elections will take place in May 2026 with Petro ending his term in August of that year.

Trump Tariff Threats and Expectations

Countries	Sectors	Current Tariff	New Tariff	Delta Tariff	Amount (\$ bn)	Condition/Motive	Timing	Itaú Odds
China	List 1-2 (no consumer goods)	25%	85%	60%	34			
	List 3 (minimal consumer)	25%	60%	35%	104			
	List 4a (mostly consumer)	7.5%	17.5%	10.0%	84	No compliance on phase one trade deal	1-apr (?)	70%
	List 4b (mostly consumer)	0%	17.5%	17.5%	116			
	Rest	0%	5%	5%	112			
	All imports	14%	100%	86%	450	if they fail to approve a deal to sell TikTok to a US company, to stop sending fentanyl to Mexico and Canada; no compliant on phase one trade deal.	1-apr (?)	5%
	All imports	14%	74%	60%	450		1-apr (?)	10%
All imports	14%	44%	30%	450	1-apr (?)		20%	
All imports	14%	24%	10%	450		4-feb	Implemented	
Canada	All imports	0%	25%	25%	380	to control immigration; to force car plants to move from Canada and Mexico back to the US.	4-mar	30%
Mexico	All imports	0%	25%	25%	470	to control immigration; to force car plants to move from Canada and Mexico back to the US.	4-mar	30%
	Chinese Evs	0-0.25%	100%	99.75-100%	0	to force car plants to move from Canada and Mexico back to the US.	1-apr (?)	70%
Europe	Autos	2.5%	25%	22.5%	80	to force car plants to move from Europe back to the US.	1-apr (?)	70%
	All imports	1.2%	11.2%	10.0%	600	if they do not buy US oil and gas; large \$350 billion deficit with US; They treat us very very badly.	1-apr (?)	30%
BRICS ex-China	All imports	7%	100%	93%	134	to stop undermining the dollar.	1-apr (?)	20%
World	All imports	2.7%	10-20%	7.3-17.3%	3100	We may. But we're not ready for that yet.	1-apr (?)	20-30%

Source: Itaú BBA

Global | Forecasts and Data

	2019	2020	2021	2022	2023	2024F		2025F		2026P	
						Current	Previous	Current	Previous	Current	Previous
GDP Growth											
World GDP growth - %	2.8	-2.8	6.3	3.5	3.2	3.2	3.2	3.2	3.2	3.2	3.2
USA - %	2.6	-2.2	6.1	2.5	2.9	2.8	-	2.5	2.5	2.5	2.5
Euro Area - %	1.6	-6.2	6.3	3.6	0.4	0.7	-	0.8	0.8	1.0	1.0
China - %	6.0	2.3	8.4	3.0	5.2	5.0	-	4.0	4.0	4.0	4.0
Interest rates and currencies											
Fed Funds - %, eop	1.63	0.13	0.13	4.4	5.4	4.4	-	4.4	4.4	4.4	4.4
U.S. 10 Year Treasury - %, eop	2.00	0.93	1.47	3.88	3.88	4.58	-	4.50	4.50	4.50	4.50
USD/EUR - eop	1.12	1.22	1.13	1.07	1.10	1.04	-	1.00	1.00	1.00	1.00
CNY/USD - eop	7.0	6.5	6.4	6.9	7.1	7.3	-	7.5	7.5	7.5	7.5
DXY Index* - eop	96.4	89.9	95.7	103.5	101.3	108.5	-	110.4	110.4	109.9	109.9

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		2026	
		Current	Previous	Current	Previous	Current	Previous
GDP (%)	3.2	3.2	3.2	3.2	3.2	3.2	3.2

Brazil

	2023	2024		2025		2026	
		Current	Previous	Current	Previous	Current	Previous
GDP (%)	3.2	3.6	3.6	2.2	2.2	1.5	1.5
BRL / USD (eop)	4.86	6.18	-	5.90	5.90	5.90	5.90
Monetary Policy Rate (eop,%)	11.75	12.25	-	15.75	15.75	13.75	13.75
IPCA (%)	4.6	4.8	-	5.8	5.8	4.5	4.5

Argentina

	2023	2024		2025		2026	
		Current	Previous	Current	Previous	Current	Previous
GDP (%)	-1.6	-2.6	-2.6	4.5	4.5	3.0	3.0
ARS / USD (eop)	809	1033	-	1175	1220	1324	1400
Reference rate (eop,%)	100.0	32.0	-	25.0	25.0	20.0	20.0
CPI (%)	211.4	117.8	-	25.0	25.0	18.0	18.0

Colombia

	2023	2024		2025		2026	
		Current	Previous	Current	Previous	Current	Previous
GDP (%)	0.6	1.8	2.0	2.3	2.2	2.6	2.6
COP / USD (eop)	3855	4406	-	4400	4400	4200	4200
Monetary Policy Rate (eop,%)	13.00	9.50	-	8.00	8.00	6.50	6.50
CPI (%)	9.3	5.2	-	4.5	4.2	3.3	3.3

Source: Itau

Latin America and Caribbean

	2023	2024		2025		2026	
		Current	Previous	Current	Previous	Current	Previous
GDP (%)	2.1	2.2	2.3	2.4	2.5	2.2	2.2

Mexico

	2023	2024		2025		2026	
		Current	Previous	Current	Previous	Current	Previous
GDP (%)	3.2	1.5	1.7	0.9	1.5	1.4	1.7
MXN / USD (eop)	16.97	20.8	-	21.0	21.0	21.3	21.3
Monetary Policy Rate (eop,%)	11.25	10.00	-	8.50	8.50	8.00	8.00
CPI (%)	4.7	4.2	-	3.9	3.9	3.6	3.6

Chile

	2023	2024		2025		2026	
		Current	Previous	Current	Previous	Current	Previous
GDP (%)	0.2	2.5	2.2	2.3	1.9	2.0	2.0
CLP / USD (eop)	879	996	-	955	955	930	930
Monetary Policy Rate (eop,%)	8.25	5.00	-	5.00	5.00	4.50	4.50
CPI (%)	3.9	4.5	-	4.1	4.0	3.0	3.0

Peru

	2023	2024		2025		2026	
		Current	Previous	Current	Previous	Current	Previous
GDP (%)	-0.6	3.0	2.9	2.8	2.8	3.0	3.0
PEN / USD (eop)	3.70	3.80	-	3.80	3.80	3.80	3.80
Monetary Policy Rate (eop,%)	6.75	5.00	-	4.75	4.50	4.75	4.50
CPI (%)	3.2	2.0	-	2.0	2.0	2.0	2.0

Commodities

	2019	2020	2021	2022	2023	2024	2025F		2026F	
							Current	Previous	Current	Previous
Brent Oil (USD/bbl)	64	50	75	82	77	73	70	70	70	70
Iron Ore (USD/tonne)	90	153	116	110	135	103	85	85	75	75
Copper (USD/tonne)	7788	7788	9525	8402	8489	9030	9500	9500	9500	9500
Corn (Usd/bu)	383	437	592	656	480	444	460	420	410	400
Soy (Usd/bu)	912	1207	1290	1474	1311	984	1000	950	950	900
Wheat (Usd/bu)	540	604	790	757	669	663	700	580	650	600
Sugar (Usd/lb)	13	15	19	20	22	20	18	18	19	19
Coffee (Usd/lb)	130	123	235	166	188	321	360	320	280	210

Source: BBG, Itau

Macro Research – Itau

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