

Macro scenario - Global



May 14, 2024

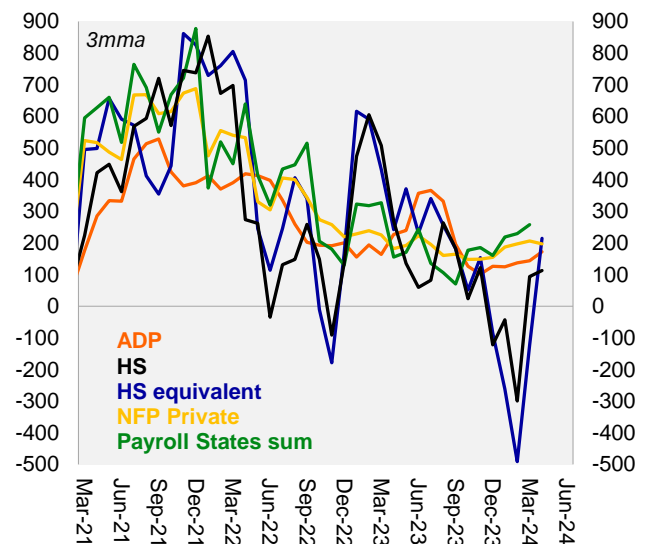
Rate cuts are still distant amid persistent inflation

- ▶ U.S.: Robust growth and persistently high inflation should hold back interest rate cuts by the Fed. We expect four reductions by year-end 2025, with the easing cycle starting only in December this year, but the risks are asymmetric in the direction of no cuts whatsoever in 2024.
- ▶ Europe: Signs of falling inflation will allow rate cuts to begin in June, but the global scenario reduces the total room for easing. The marginal improvement in activity removes the urgency for rate cuts in consecutive meetings. We now expect three moves in 2024 (vs. five previously) and four in 2025 (vs. three before), taking the benchmark rate to 2.25% (vs. 2.0%).
- ▶ China: 2024 GDP up to 5.0% (from 4.7%), still driven by manufacturing and infrastructure.
- ▶ FX: With higher interest rates in the U.S., other currencies are responding to interest rate differentials that are relatively low when compared to their pre-pandemic standards. We see potential for the dollar to appreciate at least 1% by year-end.
- ▶ Commodities: Our year-end forecasts for Brent crude were revised to USD 85/bbl (from USD 80) in 2024 and to USD 80/bbl (from USD 75), incorporating the geopolitical premium.
- ▶ LatAm: Riders on the storm.

U.S.: Amid robust growth and persistent inflation, the Fed should only cut rates in December

We revised up our GDP growth forecasts to 2.7% (from 2.5%) for 2024 and to 2.2% (from 2.0%) for 2025. 1Q24 GDP slightly missed expectations at 1.6% qoq/saar (vs. 2.7% expected), but the gap was entirely concentrated in inventories and government spending, while domestic demand climbed 3.0%, as expected. Domestic demand should remain vigorous in the coming quarters, supported by the labor market, with payroll numbers and several other measures (see chart) remaining resilient at elevated levels, while unemployment is still at a low 3.9%.

Underlying job growth remains resilient

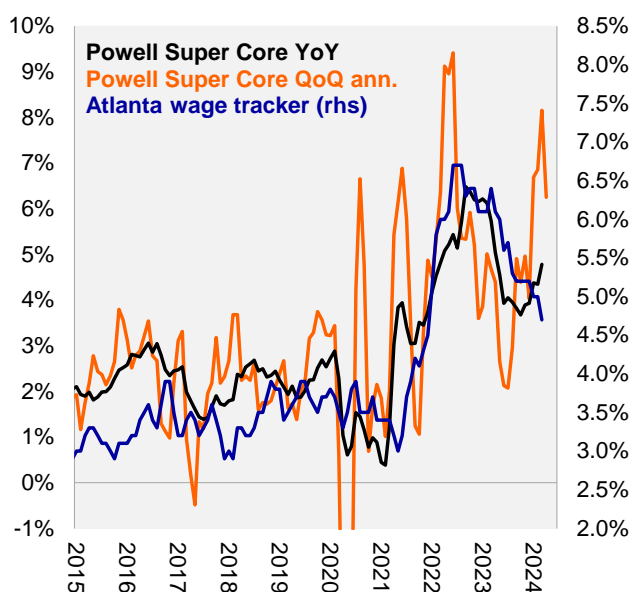


Source: Haver, BLS, Itaú

Sticky inflation with no clear signs of slowing down. Core inflation remained stable at high levels in 1Q24, with the core CPI running at 3.8% yoy and core PCE at 2.8% yoy in March. Our call for inflation this year is above consensus, with the core CPI at 3.8%

yoy in December and Core PCE at 3.1%. Monthly readings should decelerate a bit in the coming months, but not to the point of reaching the target. The so-called supercore (core services excluding housing) remains quite high (see chart). Given the elevated wages, there is no indication of a slowdown going forward (see chart).

Pressured CPI and Wages



Source: Haver, Itaú

As a result, we continue to expect the Federal Reserve to reduce rates only in December, with asymmetric risks in the direction of no cuts this year. The Fed should begin the easing cycle when core inflation shows clearer signs of deceleration to below 3%, which is unlikely to happen before the end of this year. Notwithstanding the more dovish guidance given by Fed Chairman Jerome Powell at the last meeting, we believe that the Fed will still need to see a string of good inflation figures before it has the confidence to start the easing cycle, which should take longer than anticipated by the Fed’s current projections. Amid resilient activity and high wages, the bar is low for having no rate cuts this year, if inflation readings remain bad in the coming months and breakdown components remain at uncomfortable levels.

Europe: Fewer rate cuts in 2024

Activity remains weak, despite a marginal improvement in 1Q24. The economy in the region expanded 0.3%qoq after five quarters of stagnation. The performance was driven by exports and investments in Germany and Italy, while consumer

spending provided positive contributions in France and Spain. PMI surveys point to a strong pace in April as well, led by the services sector. Despite these better readings, the outlook for the region still points to weak growth. We forecast GDP growth of 0.5% this year, with an average quarterly advance of 0.15%.

Lower inflation will allow rate cuts to begin in June.

In April, core inflation receded to 2.4% yoy, from 2.9% yoy, dragged by services (3.7% from 4.0%), and by goods (0.9% from 1.1%) remaining at a low level. The seasonally adjusted result reached a low 0.15%, down from 0.31% in March. Going forward, the core measure should remain at around 0.2% mom/sa, with services prices decelerating slowly and goods remaining low.

The room for interest rate cuts seems more limited.

The external scenario – with limited and postponed rate cuts in the U.S. – reduces the budgets for rate cuts in other economies. Nevertheless, the space for rate cuts in the euro zone is much bigger than in the U.S., because Europe is seeing clear signs of falling inflation and activity (despite the marginal improvement) is weak because of the lingering gas price shock and lower fiscal stimulus.

Therefore, we expect three rate cuts in 2024 (June, September, and December) and four moves in 2025, taking the benchmark rate to 2.25% (compared with five cuts in 2024 and three in 2025, previously). We maintain our exchange rate forecast at USD 1.05 per euro, supported by the marginal improvement in growth.

China: Higher growth in 2024 driven by manufacturing and infrastructure

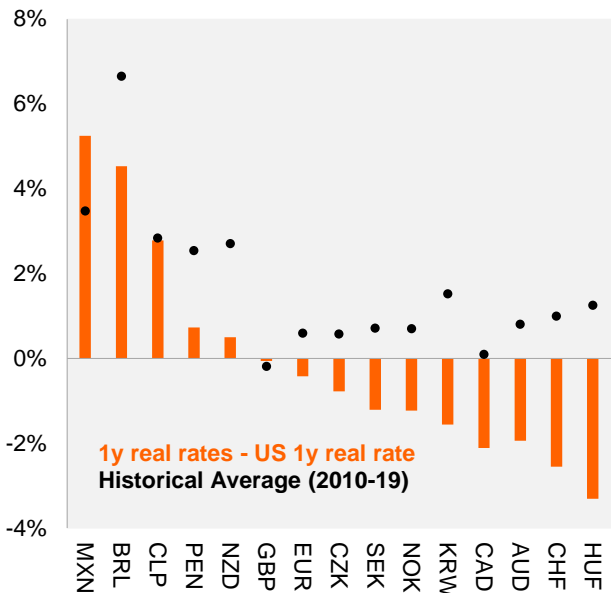
Our 2024 growth estimate climbed to 5.0% (from 4.7%), driven by manufacturing and infrastructure. 1Q24 GDP advanced 5.3% yoy, led by manufacturing. March data suggest a slowdown from January/February, but maintaining the recent dynamics in which the industrial sector sustains growth around the 5% target (See Macro Vision: [China: A Dual Track Economy](#)). Our call for growth in 2025 remains at 4.5%, losing some momentum in the second half of the year and still facing structural (domestic and geopolitical) challenges.

FX: Dollar to appreciate at least 1%

With higher interest rates in the U.S., other currencies are depreciating against the dollar.

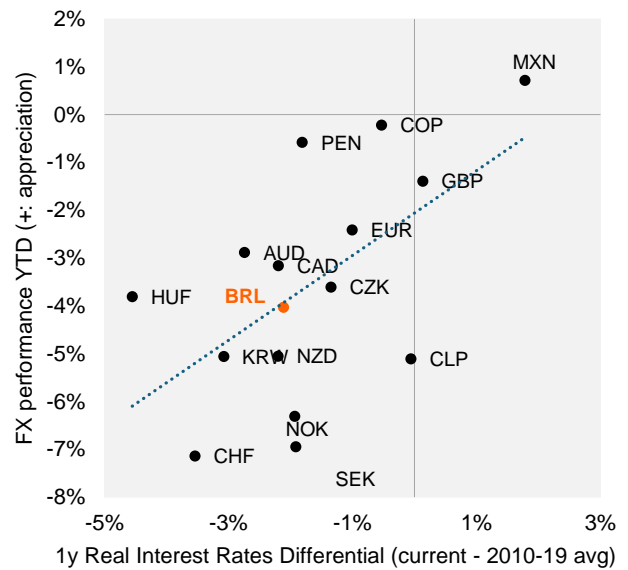
In our view, currencies are responding to interest-rate differentials that are relatively low compared with their pre-pandemic historical patterns. There is still potential for additional dollar appreciation of at least 1% by the end of the year. Currencies of countries that have lower real interest-rate differentials than in the pre-pandemic period are hurting the most (see graphs). With the Fed starting the easing cycle only at the end of the year and other central banks (including the ECB) easing monetary policy earlier, we see the potential for the dollar to go up at least 1%.

1y Real Interest Rates Differential



Source: Haver, BBG, Itaú

Interest Rates vs FX



Source: Haver, BBG, Itaú

LatAm: Riders on the Storm

Uncertainty rules. While our outlook for economic activity in the U.S and China was revised up for this year, leading to a stronger than anticipated external backdrop for the region as well as even better terms-of-trade, heightened geopolitical tensions and sharp market swings on Fed's repricing are keeping uncertainty and asset volatility high.

Slowing down. Greater uncertainty on the external backdrop coupled with inflation risks merit more cautious monetary policy paths in the region. In Brazil, the Central Bank revised its flight plan, reducing the pace of monetary easing. We raised our year-end policy rate again, this time to 10.25%. Similarly, we also revised our yearend policy rate forecast in Mexico up to 10% (from 9.75% in our previous scenario) and 8% by end-2025 (from 7.75%), mainly due to higher persistence of services inflation, with our call incorporating another pause this year. We maintained our 2024 year-end policy rate paths in Chile and Peru, where the easing cycles have made more progress towards neutral and have significantly narrowed interest rate differentials with the U.S. In Chile, where the policy rate stands at 6.5% (475-bps in cuts this easing cycle) we expect the BCCh to slow the pace again to 25-bps after May, falling to 5.25% by year-end. In Peru, our base case is for the BCRP to keep the policy rate unchanged at 5.75% during the rest of year, relying on lowering the reserve requirement rate to ease financial conditions, instead. While high copper prices support the CLP and the PEN, as has been the case in recent weeks, low interest rate differentials with the U.S. should keep currency volatility high.

Going against the grain? In Colombia, BanRep expectedly delivered another 50-bps cut to 11.75%, in a repeat divided decision from March, with two board members again calling for a larger cut. While we believe BanRep will maintain the 50-bps pace in the near term, downside surprises to inflation and falling inflation expectations could lead to an acceleration in the pace of cuts. We maintained our year-end call at 8.75%, still well above the nominal neutral rate of 5.5%, and down to 6% by year-end 2025.

With a little help from my friends. In Peru, we revised our 2024 GDP growth forecast up to a still below-trend 2.7% (from 2.5% in our previous scenario), mainly due to our call for higher growth in China and better terms-of-trade. In Chile, the economic recovery remains on track after the 0.2% growth of 2023, with GDP projected to rise by 2.4% this year, with risks tilted to the upside, mainly supported by private consumption. In contrast, even though we revised our call for higher growth in the U.S., a weaker start in economic activity in Mexico led us to reduce our 2024 GDP growth forecast to 2.3% (from our previous estimate of 2.8%) and up to 1.9% in 2025 (from 1.8% in our previous scenario). In Brazil, we maintained our GDP growth forecasts (at 2.3% in 2024 and 1.8% in 2025).

Argentina delivers results, as challenges linger. The stabilization program has delivered faster than expected results on the fiscal and inflationary fronts and a gradual accumulation of reserves, with steep contractions in economic activity as the other side of the coin. We have

maintained our -3.0% call for 2024 GDP, with downside risks from the decline in real wages and the short-term impact of the swift fiscal consolidation, despite the normalization of the agricultural sector. An approval of the administration’s bills discussed in Congress could lead to a much-needed boost to private investment, which could support demand and improve the activity outlook for the coming years.

Weather risks. Excessive rainfall in the Southern Cone region may impact output and inflation in Argentina, Brazil and Uruguay.

Commodities: Brent forecast revised upwards because of the geopolitical premium

Our year-end forecasts for Brent crude were revised to USD 85/bbl (from USD 80) in 2024 and to USD 80/bbl (from USD 75), incorporating the geopolitical premium. Our projections now incorporate the geopolitical premium associated with conflicts in the Middle East and Ukraine, which should last at least until the end of the year. Nevertheless, the oil market’s balance is relatively comfortable. There is a small deficit in 2024 due to continuous production cuts by OPEC countries, but this gap should become narrower throughout 2025 because of higher production by non-OPEC nations.

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	3.3
USA - %	2.5	-2.2	5.8	1.9	2.5	2.7	2.5	2.2	2.0
Euro Area - %	1.6	-6.2	5.9	3.4	0.5	0.5	0.5	0.9	0.9
China - %	6.0	2.3	8.4	3.0	5.2	5.0	4.7	4.5	4.5
Interest rates and currencies									
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	3.1	3.4	3.3

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	5.00	5.25	5.20
Monetary Policy Rate (eop,%)	11.75	10.25	9.75	10.25	9.75
IPCA (%)	4.6	3.8	3.7	3.7	3.6

Argentina

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	-1.6	-3.0	-3.0	2.5	2.5
ARS / USD (eop)	809	1200	1500	1900	2350
Reference rate (eop,%)	100.0	40.0	70.0	40.0	60.0
CPI (%)	211.4	160.0	180.0	60.0	60.0

Colombia

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	0.6	1.2	1.0	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: Itau

Latin America and Caribbean

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	2.2	2.0	2.0	2.4	2.3

Mexico

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	3.2	2.3	2.8	1.9	1.8
MXN / USD (eop)	16.97	17.9	17.9	18.9	18.9
Monetary Policy Rate (eop,%)	11.25	10.00	9.75	8.00	7.75
CPI (%)	4.7	4.3	4.2	3.9	3.7

Chile

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	0.2	2.4	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	2.5	3.0	3.0
PEN / USD (eop)	3.70	3.75	3.75	3.77	3.77
Monetary Policy Rate (eop,%)	6.75	5.75	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	80	80	75
Iron Ore	90	153	116	110	135	110	110	90	90
Copper	7788	7788	9525	8402	8489	8800	8500	8700	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	610	760	600
Sugar	13	15	19	20	22	21	23	20	20
Coffee	130	123	235	166	188	180	170	150	150

Source: BBG, Itau

Macro Research – Itau

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