

# Macro scenario - Global



September 11, 2024

## Central banks become more sensitive to signs of weakening labor market

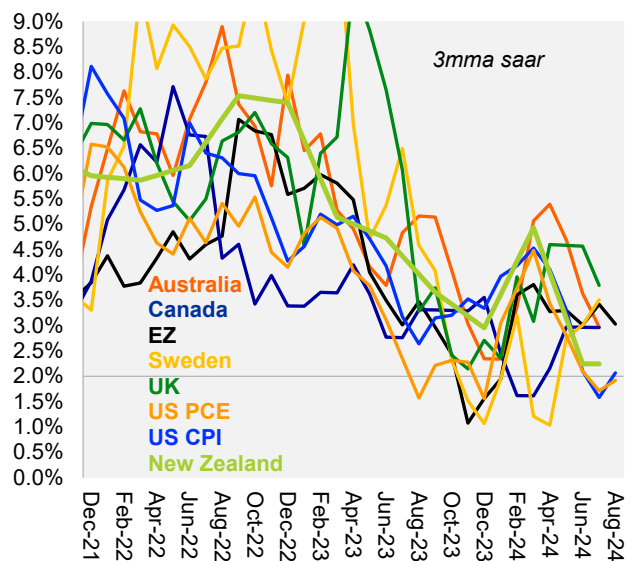
- ▶ **Global:** DM central banks are becoming more sensitive to the slowing labor market, despite some disparity between countries.
- ▶ **U.S.:** Federal Reserve to start interest-rate cuts in September. We anticipate three 25-bp reductions in 2024 and five cuts of the same magnitude in 2025, totaling 200 bps (previously: 150 bps). There is risk of a quicker pace in case of more intense and straightforward signs of labor-market deterioration.
- ▶ **Europe:** Rate cuts continue at a cautious pace, amid sticky inflation. We see the benchmark interest rate at 2.25% in 2025. We revised our exchange-rate forecast to USD 1.12/EUR (previously USD 1.08) due to a larger easing cycle in the U.S. than in the euro zone.
- ▶ **China:** Our GDP growth projections remain at 4.8% in 2024 and 4.5% in 2025, as fiscal stimulus helps to stabilize activity at the margin. However, structural challenges linger.
- ▶ **LatAm:** Monetary policy shifting gears in the region.

### Global: DM central banks become more sensitive to labor-market weakening, with disparities between countries

**The slowing labor market now has a greater weight in the reaction function of central banks.** Core inflation measures continue to recede from peaks reached in recent years and are no longer the main focus, despite different circumstances across regions. In the U.S., the indicator is already below the 2% target, while in the euro zone, Australia, Canada, and the United Kingdom, it remains around (or slightly above) 3% (see 1<sup>st</sup> graph). With declining inflation, attention turned to the labor market, which has shown signs of weakness in some countries (see 2<sup>nd</sup> graph). In the U.S., Canada, Sweden and New Zealand, the slowdown has been steeper, leading their central banks to signal more interest-rate cuts (even with core inflation at 3% in Canada). On the other hand, in Australia and the euro zone, monetary authorities remain cautious and concerned about the disinflation scenario.

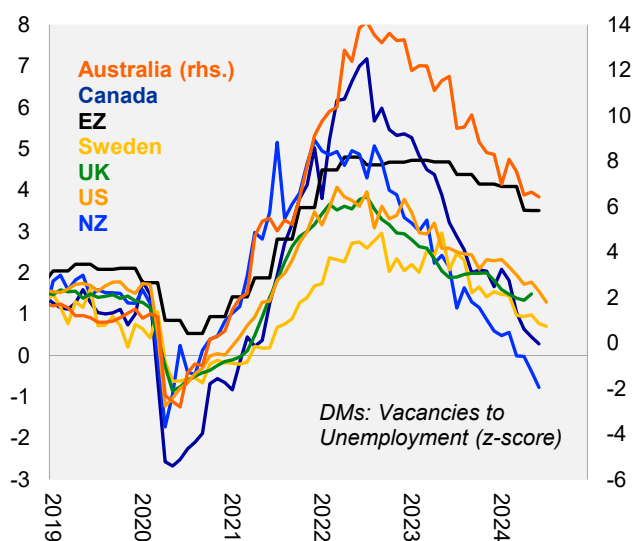
**We have revised our call for further rate cuts in the U.S. (see below), which leads to a weaker dollar vs. currencies of economies where monetary authorities are more cautious.** In the euro zone, for example, our exchange-rate estimate was revised to USD 1.12/EUR (previously USD 1.08).

**Core inflation declining at different paces across developed countries.**



Source: Haver, Itaú

**Signs of labor market weakness in some developed countries.**



Source: Haver, Itaú

**U.S.: Rate cuts start with 25 bps in September, with risk of acceleration down the road**

**Even though GDP growth remains resilient, the labor market is showing signs of weakening and capturing the attention of Fed authorities.** Slowing job creation (from a monthly average of 207k in 1H24 to an average of 116k in July-August) and, in particular, the climbing unemployment rate (from 3.5% in January 2023 to 4.2% in August 2024) suggest a less-buoyant economy and a smaller gap in the labor market. So far, most of the increase in unemployment has been driven by a greater number of available workers, possibly explained by the lagged effects of advancing immigration in recent years. However, Fed members have indicated that they will react to any clearer sign of weakness. Meanwhile, GDP expanded 2.2% qoq/saar in 1H24 and we see another robust 2.7% reading in 3Q24, partly boosted by higher productivity.

**The inflation outlook has improved and supported the shift in the balance of risk toward employment.** After stronger figures in 1Q24, inflation remains benign and is receding steadily, with four consecutive relative benign prints. As a result, inflation is no longer the Fed's main focus and will allow the start of the easing cycle in September.

**We continue to expect the Fed to announce three 25-bp cuts this year and five next year (up from three previously), with the cycle totaling 200 bps.** Tamed inflation allows the cycle to begin, while the resilient labor market should determine the size of the rate cuts. We still expect the Fed to start the cycle at a pace of 25 bps per meeting, especially after indications from key FOMC members following the latest jobs report. However, the bar seems quite low for a faster easing pace if the labor market shows further deterioration, with higher unemployment figures. This situation would reiterate a scenario of greater weakness for the dollar. **We have revised our projection for the DXY from 103.8 to 99.8 this year, and from 103.3 to 99.4 next year.**

**Europe: Cautious rate cuts amid sticky inflation**

**Services inflation remains under pressure.** Core inflation continues to run at 3.0%, driven by services (4.1%) while goods prices (1.2%) remain on a normalization path. In our view, sticky services inflation reflects the lagged effects of the negative energy shock, given that prices in the sector have more inertia. We expect year-on-year core inflation to run close to the 2% target only at the end of next year.

**We expect the European Central Bank to remain cautious in its easing cycle amid persistent inflation.** We expect two more rate cuts in 2024 (September and December) and four in 2025, adding up to seven cuts and a terminal rate of 2.25% in 2025. With the ECB being more cautious than the Fed, we have revised our exchange rate forecast to USD 1.12/EUR (previously USD 1.08).

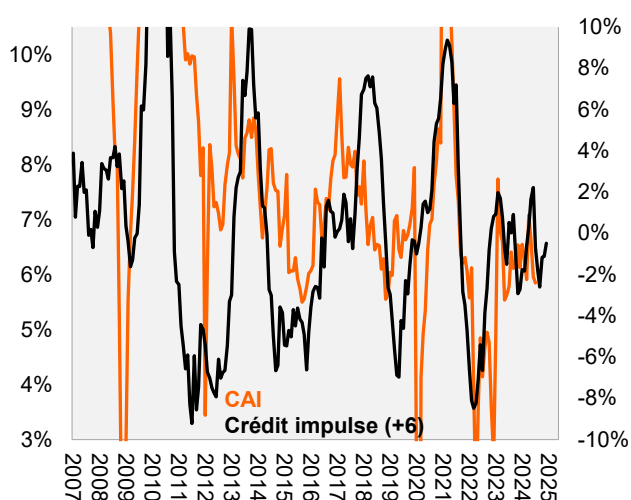
**We maintain our growth forecasts at 0.7% for 2024 and 1.0% for 2025.** Recent data have shown mixed activity signals. On the one hand, the PMI survey pointed to a significant improvement in the services sector in August (from 51.9 to 52.9), particularly in France (from 50.1 to 55), probably due to the Olympic Games. Moreover, the unemployment rate remains at a historic low (6.4% in July). On the other hand, the 2Q24 GDP result was revised from 0.3% qoq to 0.2% qoq, with the indicator's breakdown showing weak domestic demand. We see GDP expanding at a 0.2% pace in 2H24, leading to 0.7% growth this year. In 2025, GDP should accelerate to 0.25% – totaling 1.0% for the full year – thanks to a more expansionary monetary policy.

## China: Fiscal stimulus should stabilize activity at the margin, but structural challenges linger

**We see signs of fiscal stimulus being implemented in response to the slowdown in economic activity.**

Activity has recently lost momentum, with industrial production growth receding from an average of 6% in 1H24 to 5.1% in July. Infrastructure investment has also decelerated (from 5.6% in 1H24 to 2.0% in July) as the government failed to deliver on the fiscal stimulus promised earlier in the year. Both consumer spending and the real estate sector continue to face weakness. We maintain our GDP growth call at 4.8% – close to the official 5% target – as the government accelerated the implementation of fiscal stimulus in July and August, which should help to stabilize activity at the margin. Accelerating credit impulse in the Chinese economy supports this scenario.

**China's CAI vs Credit Impulse**



CAI= 53 series that tracks Chinese activity across various sectors.

Source: Haver, Itaú

**However, structural challenges linger.** Domestically, housing demand has already slowed to levels close to structural fundamentals, after a 48% drop from the peak reached in 2021. Housing inventories remain high, exerting additional downward pressure on property prices. The government's promise to purchase these inventories remains unfulfilled. The weakness in the real estate sector has had a negative impact on the fiscal situation of local governments, given that much of their revenues comes from sales of land for construction. The private sector is less dynamic due to Common Prosperity policies. Externally, a new round of export tariffs under a possible Trump administration is also a downside risk to activity. Considering these developments, we expect economic growth to recede to 4.5% in 2025.

## LatAm: Monetary policy shifting gears in the region

**Growth revised down again in Mexico and Argentina.**

In Mexico, we revised our 2024 GDP growth forecast down to 1.4%, from 1.6% in our previous scenario, primarily reflecting weaker-than-expected data through 2Q24. In our view, activity is unlikely to pick up significantly during the rest of the year, considering an expected retrenchment of fiscal spending and the projected deceleration of the U.S. economy. For 2025, we now pencil in GDP growth at 1.5%, down from our previous forecast of 1.7%. The downshift in our growth expectations for Mexico this year has been unprecedented, having started the year with a 2024 GDP growth forecast of 2.8%. In Argentina, persistently weaker-than-expected activity data led us to revise our 2024 GDP growth call down to -4.0%, with risks tilted towards an even sharper contraction (-4.7% statistical carryover by the end of 2Q24) as the effects of the necessary stabilization program persist. Our growth forecasts for Chile, Colombia, and Peru remained unchanged.

**Diverging monetary policy paths in the region.**

Relative to our previous scenario, we revised our monetary policy paths for Brazil and Chile. In Brazil we now expect a hiking cycle of 150 bps starting at the September meeting, in a context of pressured exchange rates, unanchored inflation expectations and upside surprises in economic activity. We forecast the Selic at 11.75% at the end of 2024, with an additional increase in January of next year taking it to the terminal level of 12.00%. In contrast, following the July pause, we now expect the BCCh to continue easing by 25 bps in each of the remaining two policy meetings this year, ending 2024 at 5.0% and continue next year towards neutral. While low interest-rate differentials with the U.S. set a high bar for the BCCh to implement a large reserve accumulation program in the near term (reserves at roughly 13% of GDP), in our view, the recently approved two-year Flexible Credit Line with the IMF supports the economy against bouts of excessive volatility. In Mexico, we expect the central bank to continue cutting by 25 bps in each remaining meeting this year, taking the policy rate to 10.0% by year-end, with the risk of another pause if persistent episodes of market volatility emerge; however, the deterioration in the activity outlook and a swifter easing cycle by the Fed could open the door for larger cuts by Banxico next year, adding a downside bias to our 2025 year-end policy rate call of 8.0%. In Colombia, we maintained our call for BanRep to ease by 50-bps in September, and then accelerate to 75 bps in the

remaining two meetings this year, taking the policy rate to 8.75% by yearend and 6% by the end of 2025, with risks of a higher terminal rate.

**Political uncertainty back on center stage.** In Mexico, following Morena's June landslide, downside risks to business confidence and nearshoring prospects linger in the context of the swift progress on the judicial reform in Congress; greater idiosyncratic risk is mainly reflected by the MXN's volatility and sharp depreciation since June, which may be amplified by policy uncertainty

stemming from the US elections. Elsewhere in the region, polls suggest the opposition should gain ground in Chile's end-October municipal elections, a key bellwether of next year's legislative and presidential elections. Also towards the end of October, all eyes are on the plebiscite on social security and first-round presidential elections in Uruguay, as polls point to a rejection of the plebiscite and a runoff, as none of the candidates would reach the simple majority.

## Global | Forecasts and Data

	2019	2020	2021	2022	2023	2024F		2025F	
						Current	Previous	Current	Previous
<b>GDP Growth</b>									
World GDP growth - %	2.8	-2.8	6.3	3.5	3.2	<b>3.1</b>	3.1	<b>3.4</b>	3.4
USA - %	2.5	-2.2	5.8	1.9	2.5	<b>2.7</b>	2.5	<b>2.2</b>	2.2
Euro Area - %	1.6	-6.2	5.9	3.5	0.4	<b>0.7</b>	0.7	<b>1.0</b>	1.0
China - %	6.0	2.3	8.4	3.0	5.2	<b>4.8</b>	4.8	<b>4.5</b>	4.5
<b>Interest rates and currencies</b>									
Fed Funds - %, eop	1.55	0.09	0.08	4.4	5.3	<b>4.6</b>	4.6	<b>3.4</b>	3.9
U.S. 10 Year Treasury - %, eop	2.00	0.93	1.47	3.88	3.88	<b>3.75</b>	4.00	<b>3.50</b>	3.75
USD/EUR - eop	1.12	1.22	1.13	1.07	1.10	<b>1.12</b>	1.08	<b>1.12</b>	1.08
CNY/USD - eop	7.0	6.5	6.4	6.9	7.1	<b>7.1</b>	7.3	<b>7.2</b>	7.3
DXY Index* - eop	96.4	89.9	95.7	103.5	101.3	<b>99.9</b>	103.8	<b>99.5</b>	103.3

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	<b>3.1</b>	3.1	<b>3.4</b>	3.4

### Brazil

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	2.9	<b>3.0</b>	2.5	<b>2.0</b>	1.8
BRL / USD (eop)	4.86	<b>5.40</b>	5.50	<b>5.20</b>	5.50
Monetary Policy Rate (eop,%)	11.75	<b>11.75</b>	10.50	<b>11.00</b>	10.50
IPCA (%)	4.6	<b>4.2</b>	4.2	<b>4.1</b>	4.2

### Argentina

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	-1.6	<b>-4.0</b>	-3.5	<b>3.0</b>	3.5
ARS / USD (eop)	809	<b>1030</b>	1027	<b>1450</b>	1500
Reference rate (eop,%)	100.0	<b>40.0</b>	40.0	<b>40.0</b>	40.0
CPI (%)	211.4	<b>125.0</b>	130.0	<b>45.0</b>	50.0

### Colombia

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	0.6	<b>1.6</b>	1.6	<b>2.5</b>	2.5
COP / USD (eop)	3855	<b>4100</b>	4100	<b>4200</b>	4200
Monetary Policy Rate (eop,%)	13.00	<b>8.75</b>	8.75	<b>6.00</b>	6.00
CPI (%)	9.3	<b>5.6</b>	5.6	<b>3.5</b>	3.3

Source: Itaú

### Latin America and Caribbean

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	2.2	<b>1.9</b>	1.9	<b>2.5</b>	2.5

### Mexico

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	3.2	<b>1.4</b>	1.6	<b>1.5</b>	1.7
MXN / USD (eop)	16.97	<b>19.0</b>	18.6	<b>19.3</b>	19.3
Monetary Policy Rate (eop,%)	11.25	<b>10.00</b>	10.00	<b>8.00</b>	8.00
CPI (%)	4.7	<b>4.3</b>	4.3	<b>3.9</b>	3.9

### Chile

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	0.2	<b>2.5</b>	2.5	<b>2.1</b>	2.1
CLP / USD (eop)	879	<b>930</b>	930	<b>850</b>	850
Monetary Policy Rate (eop,%)	8.25	<b>5.00</b>	5.50	<b>4.5</b>	4.50
CPI (%)	3.9	<b>4.5</b>	4.5	<b>3.3</b>	3.3

### Peru

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

**Commodities**

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

Source: BBG, Itaú

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