Economic Outlook

May 2024

Global

Introduction

Global

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: the plot thickens.

Global

Our forecasts:

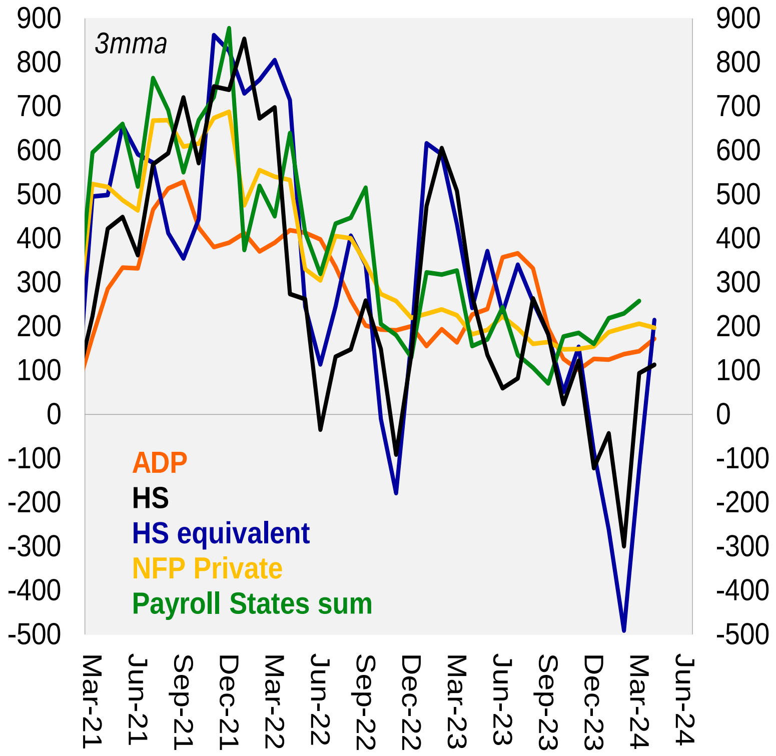
	2018	2019	2020	2021	2022	2023	2024	2025
World	3.6	2.8	-2.8	6.3	3.5	3.1	3.2	3.4
USA	3.0	2.5	-2.2	5.8	1.9	2.5	2.7	2.2
Euro Zone	1.8	1.6	-6.2	5.9	3.4	0.5	0.5	0.9
China	6.7	6.0	2.3	8.1	3.0	5.2	5.0	4.5
Fed Funds	2.25-2.50	1.50-1.75	0.00-0.25	0.00-0.25	4.25-4.50	5.25-5.50	5.00-5.25	4.25-4.50
10Y U.S. Treasury	2.83	2.00	0.93	1.47	3.88	3.88	4.35	4.00

Source: IMF, Bloomberg, Itaú

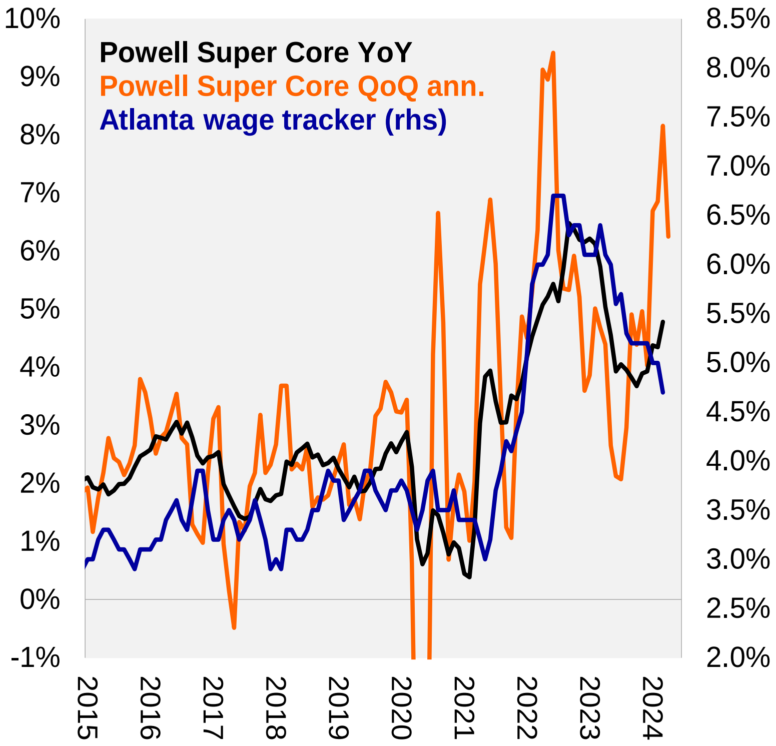
Global

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

Underlying job growth remains resilient



Pressured CPI and Wages

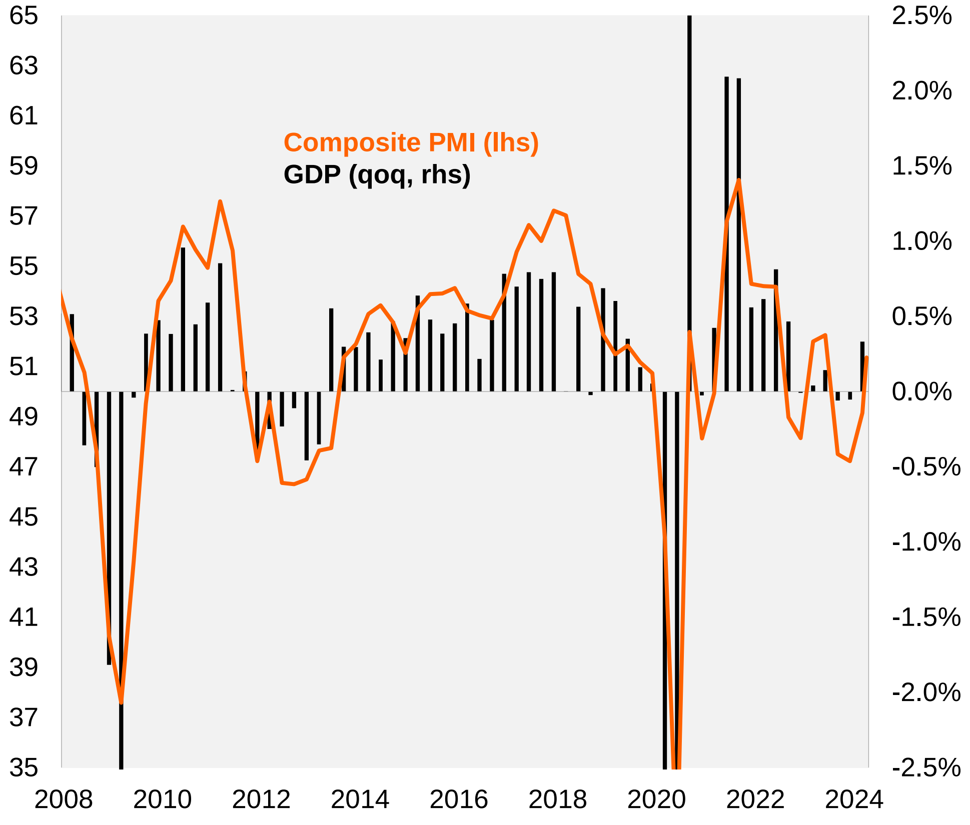


1. We revised up our GDP growth forecasts to 2.7% (from 2.5%) for 2024 and to 2.2% (from 2.0%) for 2025.
2. Sticky inflation with no clear signs of slowing down. Core inflation remained stable at high levels in 1Q24, with the core CPI running at 3.8% yoy and core PCE at 2.8% yoy in March.
3. The so-called supercore (core services excluding housing) remains quite high. Given the elevated wages, there is no indication of a slowdown going forward.
4. 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.

Source: Haver, BLS, Itaú

Europe: Fewer rate cuts in 2024

EZ PMI: recovering with GDP



1 Activity remains weak, despite a marginal improvement in 1Q24. The economy in the region expanded 0.3%qoq after five quarters of stagnation.

2 Lower inflation will allow rate cuts to begin in June.

3 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.

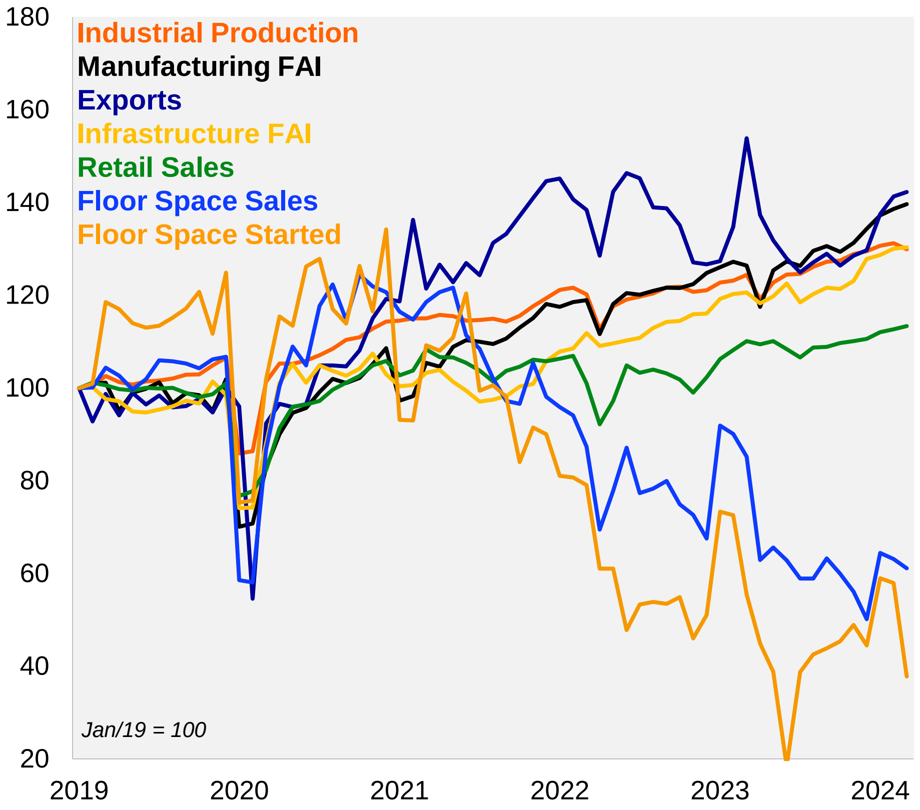
4 Therefore, we expect three rate cuts in 2024 (June, September, and December) and four moves in 2025, taking the benchmark rate to 2.25% (compared with five cuts in 2024 and three in 2025, previously). We maintain our exchange rate forecast at USD 1.05 per euro, supported by the marginal improvement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

Source: Haver, Itaú

Global

China: Higher growth in 2024 driven by manufacturing and infrastructure

Manufacturing and infrastructure offset weakness in real estate



Our 2024 growth estimate climbed to 5.0% (from 4.7%), driven by manufacturing and infrastructure. **1**

March data suggest a slowdown from January/February, but maintaining the recent dynamics in which the industrial sector sustains growth around the 5% target. **2**

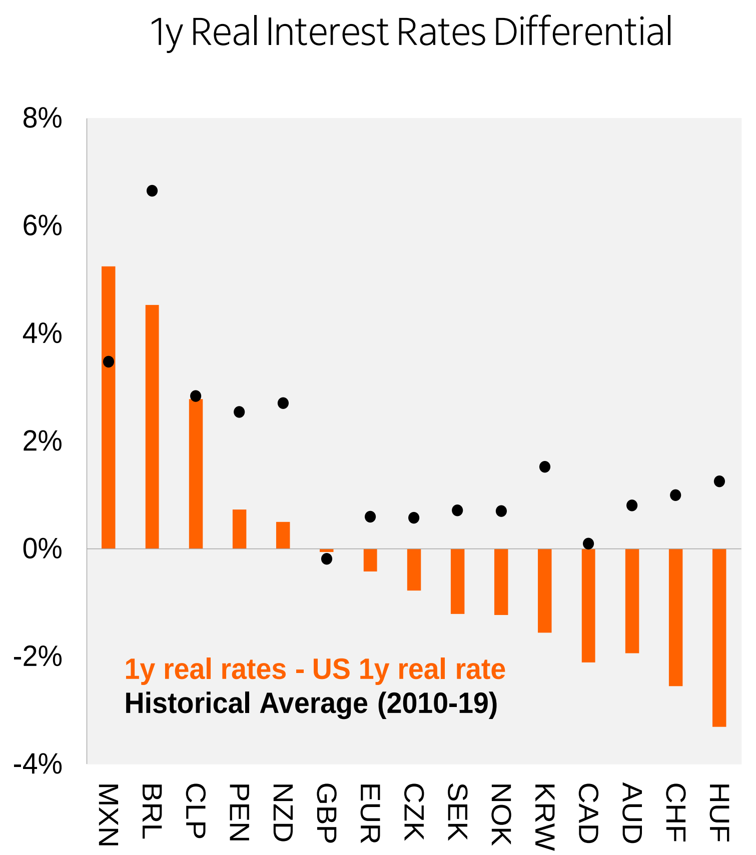
(See Macrovision: China: A Dual track economy)

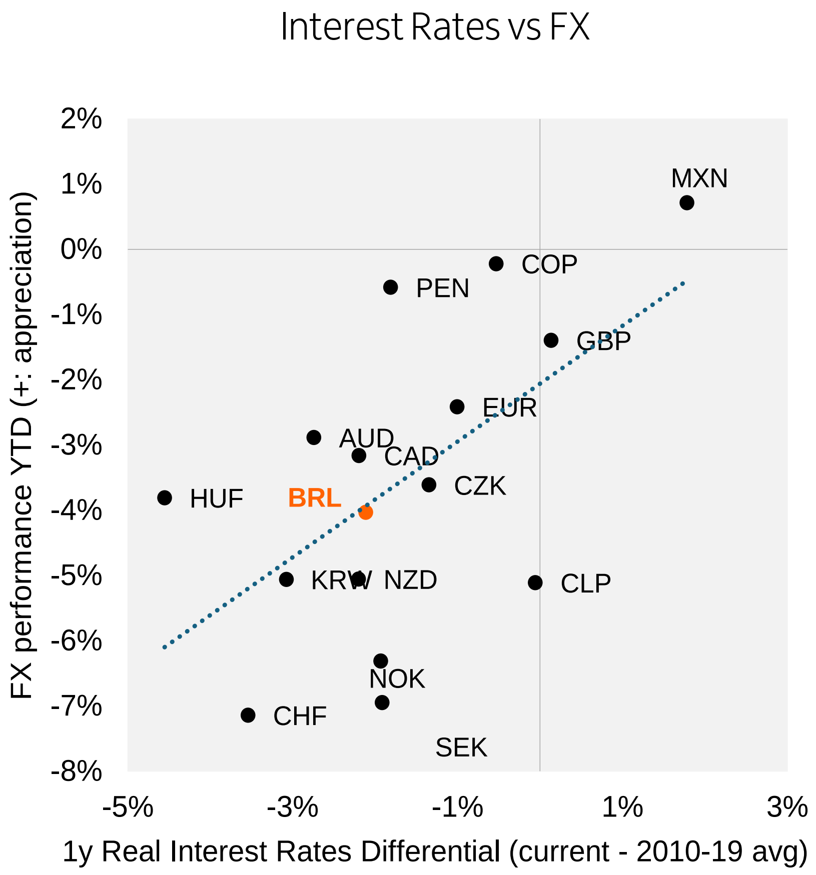
Our call for growth in 2025 remains at 4.5%, losing some momentum in the second half of the year and still facing structural (domestic and geopolitical) challenges. **3**

Source: Haver, Itaú

Global

FX: Dollar to appreciate at least 1%

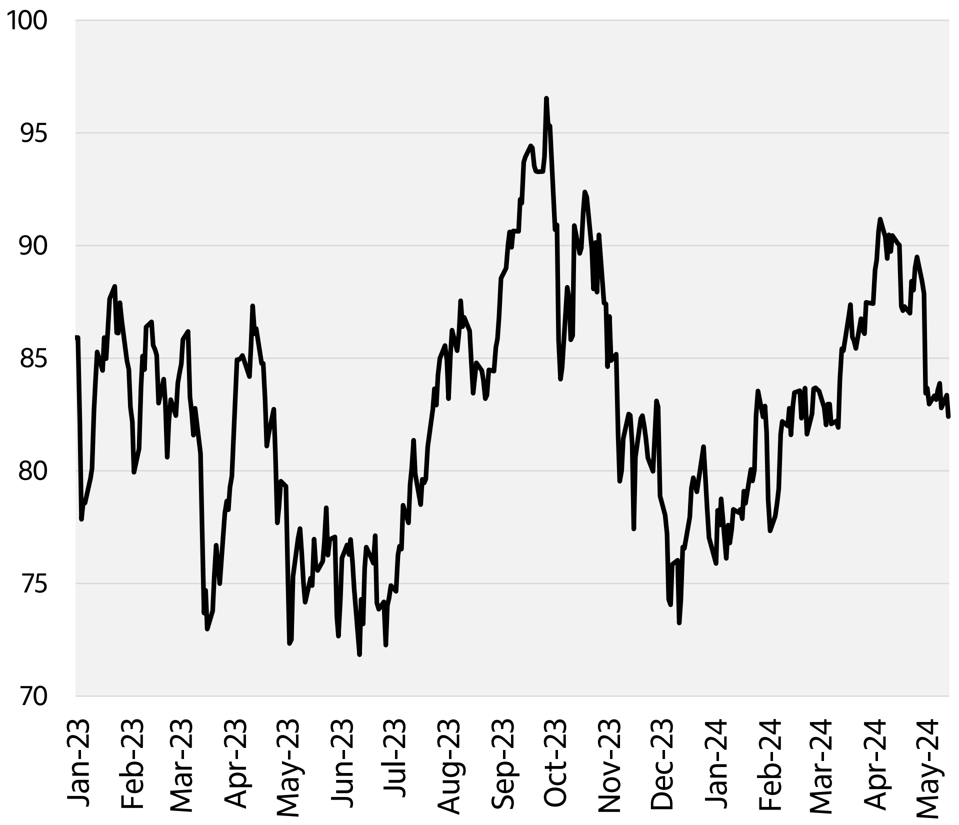




1. With higher interest rates in the U.S., other currencies are depreciating against the dollar.
2. In our view, currencies are responding to interest-rate differentials that are relatively low compared with their pre-pandemic historical patterns. There is still potential for additional dollar appreciation of at least 1% by the end of the year.
3. Currencies of countries that have lower real interest-rate differentials than in the pre-pandemic period are hurting the most.

Source: Haver, BBG, Itaú

Commodities: Brent forecast revised upwards because of the geopolitical premium



1. 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.
2. 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.
3. Nevertheless, the oil market's balance is relatively comfortable.
4. 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.

Source: BBG, Itaú

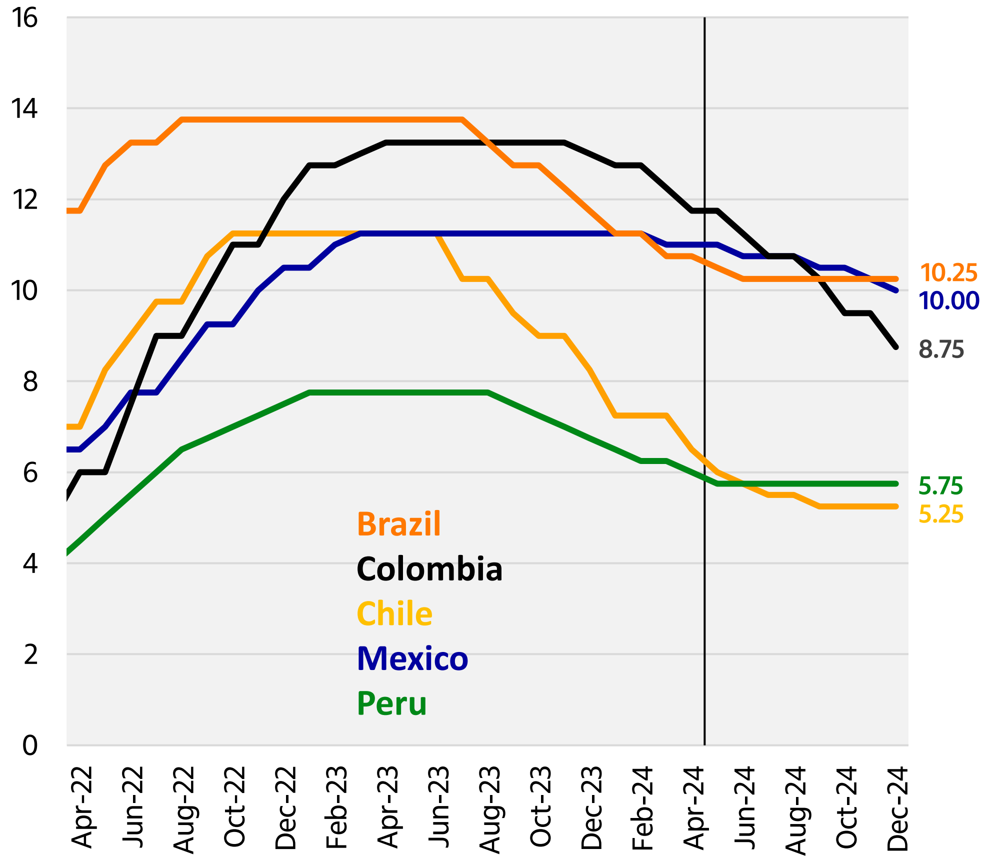
Global

Commodities forecasts

	2019	2020	2021	2022	2023	2024	2025
Brent Oil (USD/bbl.)	64	50	75	82	77	**85**	**80**
Iron Ore (USD/ton)	90	153	116	110	135	**110**	**90**
Corn (USd/bu)	383	437	592	656	480	**400**	**380**
Soy (USd/bu)	912	1207	1290	1474	1311	**1100**	**950**
Wheat (USd/bu)	540	604	790	757	669	**720**	**760**
Sugar (USd/lb)	13	15	19	20	22	**21**	**20**
Coffee (USd/lb)	130	123	235	166	188	**180**	**150**

Source: Bloomberg, Itaú

LatAm: Riders on the Storm



Source: BBG, Itaú

1. Uncertainty rules. The heightened geopolitical tensions and sharp market swings on Fed's repricing are keeping uncertainty and asset volatility high.

2. 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%.

3. 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.

4. 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.

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

LatAm: forecast changes

World

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	3.2	**3.2**	3.1	**3.4**	3.3

Latin America and Caribbean

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

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

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

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

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

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

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

Source: Itau

Source: Itaú

Brazil

Introduction

Brazil

Changing the flight plan in a context of low visibility

- We maintained our GDP growth forecasts at 2.3% for 2024 and 1.8% for 2025. The latest labor market figures show continuing strength, reinforcing our outlook for historically low unemployment, at 7.8% in 2024 and 8.0% in 2025.
- We maintained our estimates for the primary budget deficit at 0.6% of GDP in 2024 and 0.9% of GDP in 2025. Fiscal risk remains high, given the difficulty in achieving a persistent convergence path in primary results. Resistance to spending control and difficulty to increase revenues imply possible changes in key parameters of the framework approved last year.
- We revised our call for the exchange rate to 5.15 BRL/USD (from 5.00) in 2024 and to 5.25 (from 5.20) in 2025, given the more challenging international scenario (strong dollar globally, with the U.S. economy growing faster than other countries, as well as geopolitical risks) and elevated fiscal risk.
- We revised our forecast for the IPCA consumer price index to 3.8% this year (from 3.7%). Incorporating higher food and industrial goods prices in 2024. Our IPCA call for 2025 increased to 3.7% (from 3.6%) because of the FX effect on industrial goods. For both years, risks are still showing upward asymmetry.
- The challenging global scenario (strong dollar) and domestic uncertainties (pressure on services prices that are more sensitive to the labor market's performance, increased fiscal risk, and unanchored inflation expectations) led the Brazilian Central Bank to revise its flight plan, slowing the pace of monetary easing at its last meeting. Considering the firm commitment stated by the monetary authority to pursuing the inflation target, we assess that the room for additional easing is now more limited and project that the Selic rate will end the year at 10.25% pa, remaining at this level until the end of 2025 (compared to 9.75% in the previous scenario).

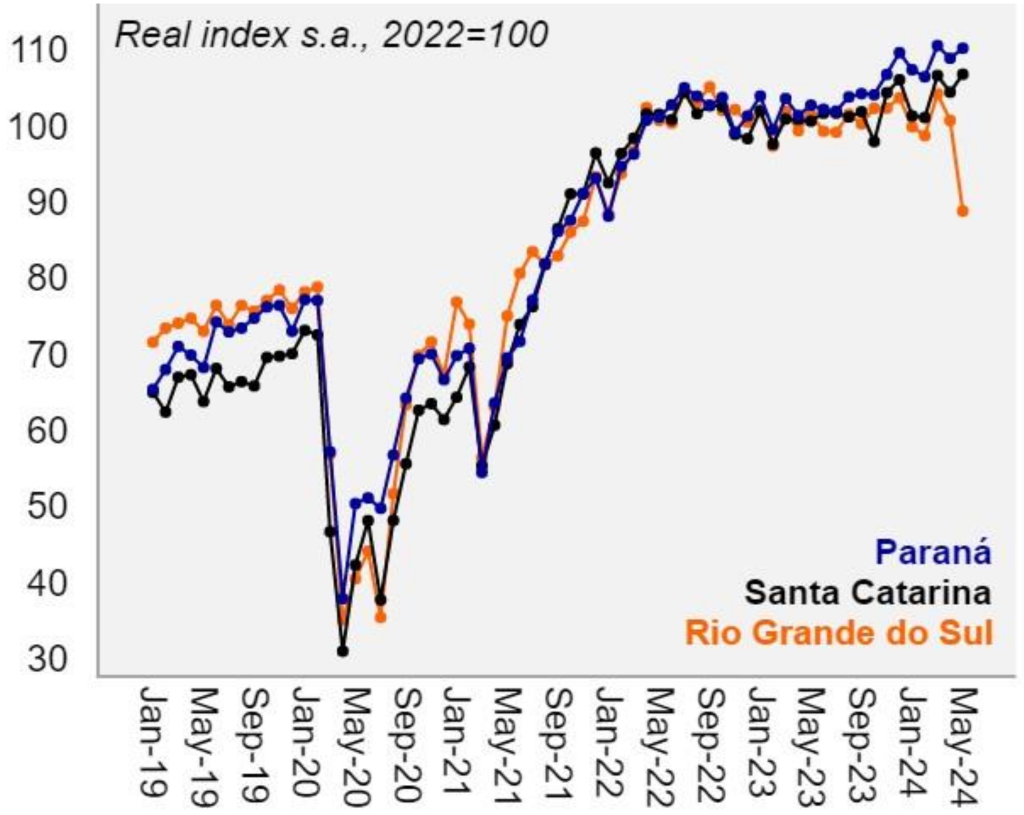
Brazil: forecasts

	2019	2020	2021	2022	2023	2024	2025
Economic activity							
GDP (%)	1.2	-3.3	4.8	3.0	2.9	2.3	1.8
Unemployment rate (%) – Dec.	11.7	14.8	11.7	8.5	7.9	7.8	8.0
Inflation							
IPCA (%)	4.3	4.5	10.1	5.8	4.6	3.8	3.7
IGP-M (%)	7.3	23.1	17.8	5.5	-3.2	2.6	3.0
Monetary Policy							
Selic rate (%, eop)	4.50	2.00	9.25	13.75	11.75	10.25	10.25
Selic rate (%, avg)	5.96	2.81	4.81	12.63	13.25	10.52	10.25
Public accounts							
Primary result (% GDP)	-0.8	-9.2	0.7	1.2	-2.3	-0.6	-0.9
Gross debt (% GDP)	74.4	86.9	77.3	71.7	74.3	77.2	80.6
External sector							
BRL/USD (eop)	4.03	5.19	5.57	5.28	4.85	5.15	5.25
BRL/EUR (eop)	4.52	6.34	6.30	5.65	5.34	5.40	5.51
Current Account (% GDP)	-3.6	-1.9	-2.8	-2.5	-1.3	-1.3	-1.8
Trade balance (USD bi.)	35	50	61	62	99	85	70

Source: Itaú

Flooding in Rio Grande do Sul: economic impacts

IDAT South Region - Services



1 In addition to the terrible humanitarian consequences of the floods in the southern region of the country, we estimate potential impacts on economic activity and inflation.

2 For GDP, the effect could be around -0.3 p.p. of growth in 2024, with potential impacts on the soybean crop and on the industry (with some destruction of installed capacity).

3 For inflation, there may be an upward effect with the supply shock impacting especially rice and soybeans prices, items for which the state is an important producer (this risk is more pronounced for the former than for the latter, as the global supply of soybeans is relatively comfortable now).

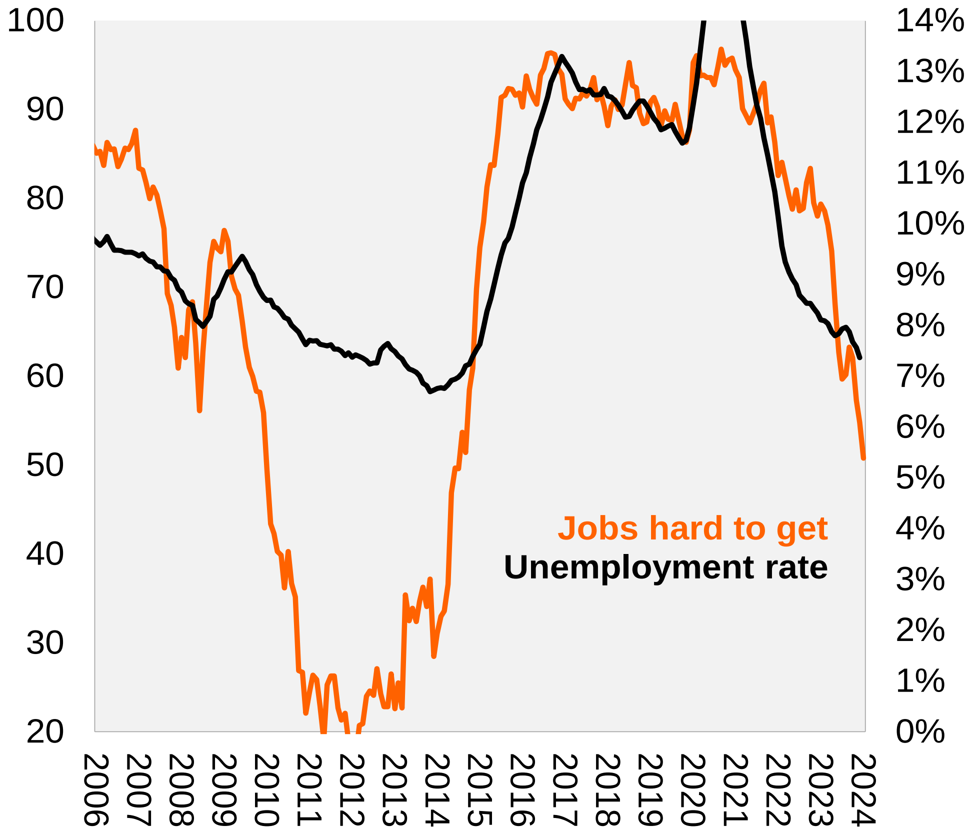
4 On the fiscal side, the destruction caused by floods should require necessary extraordinary expenses that are not subject to fiscal rules.

Source: Itaú

Brazil

Resilient growth in the 1st quarter

Falling unemployment and improved perception of the job market



* FGV Consumer Survey: Getting a job today in your city is hard – Getting a job today in your city is easy

1. Economic activity remains robust in early 2024. Our GDP tracking points to 0.7% growth at the margin (2.3% yoy) in 1Q24.
2. Our 2024 GDP growth estimate remains at 2.3%, driven by firm consumption and by the recovery in investments.
3. For 2025, we continue to see a slowdown in GDP growth to 1.8%. Some of the factors driving activity this year will not be repeated next year.
4. The job market remains vigorous (see graph), reinforcing our call for a historically low unemployment rate of 7.8% in 2024.

Source: IBGE, Itaú

Brazil

Fiscal risks remain high

1 We expect a deficit of 0.6% of GDP (BRL 75 billion) in 2024.

2 The main risks going forward are related to the difficulty in achieving a persistent trajectory of convergence in primary results, and to possible changes in the main parameters of the framework approved last year.

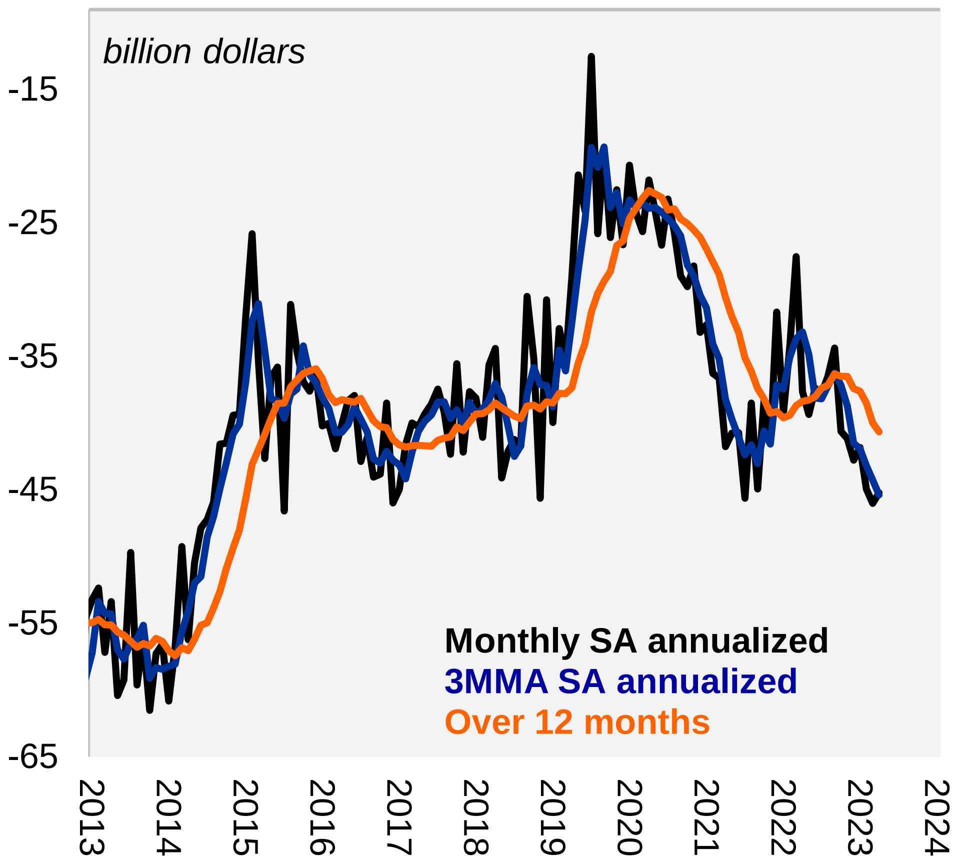
3 We continue to expect deterioration next year; our estimate for the primary deficit in 2025 remains at 0.9% of GDP (BRL 110 billion).

4 We see gross debt increasing from 74% of GDP in 2023 to 77% of GDP in 2024 and 81% of GDP in 2025.

Source: Itaú

External and domestic environments continue to exert pressure on the BRL

Higher services deficit at the margin exerts pressure on the current account deficit



1. We revised our call for the exchange rate to 5.15 reais per dollar (from 5.00) in 2024 and to 5.25 (from 5.20) in 2025.

2. Our projections for the current account deficit widened significantly because of the worse performance of the services account at the margin.

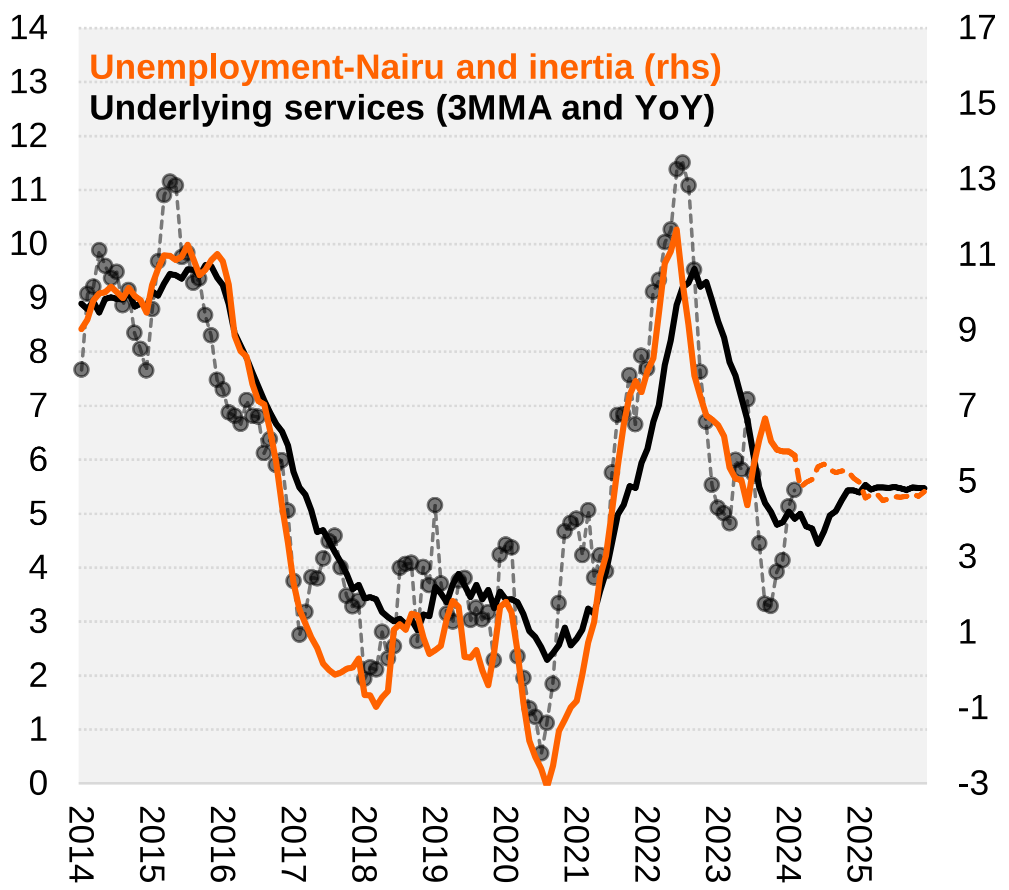
3. The trade surplus continues to lose momentum, as we had anticipated. Our estimates for the trade surplus remain at USD 85 billion in 2024 and USD 70 billion for 2025.

Source: Central Bank, Itaú

Brazil

Higher inflation forecast for 2024 and 2025

Underlying services under pressure from wages and labor market dynamics

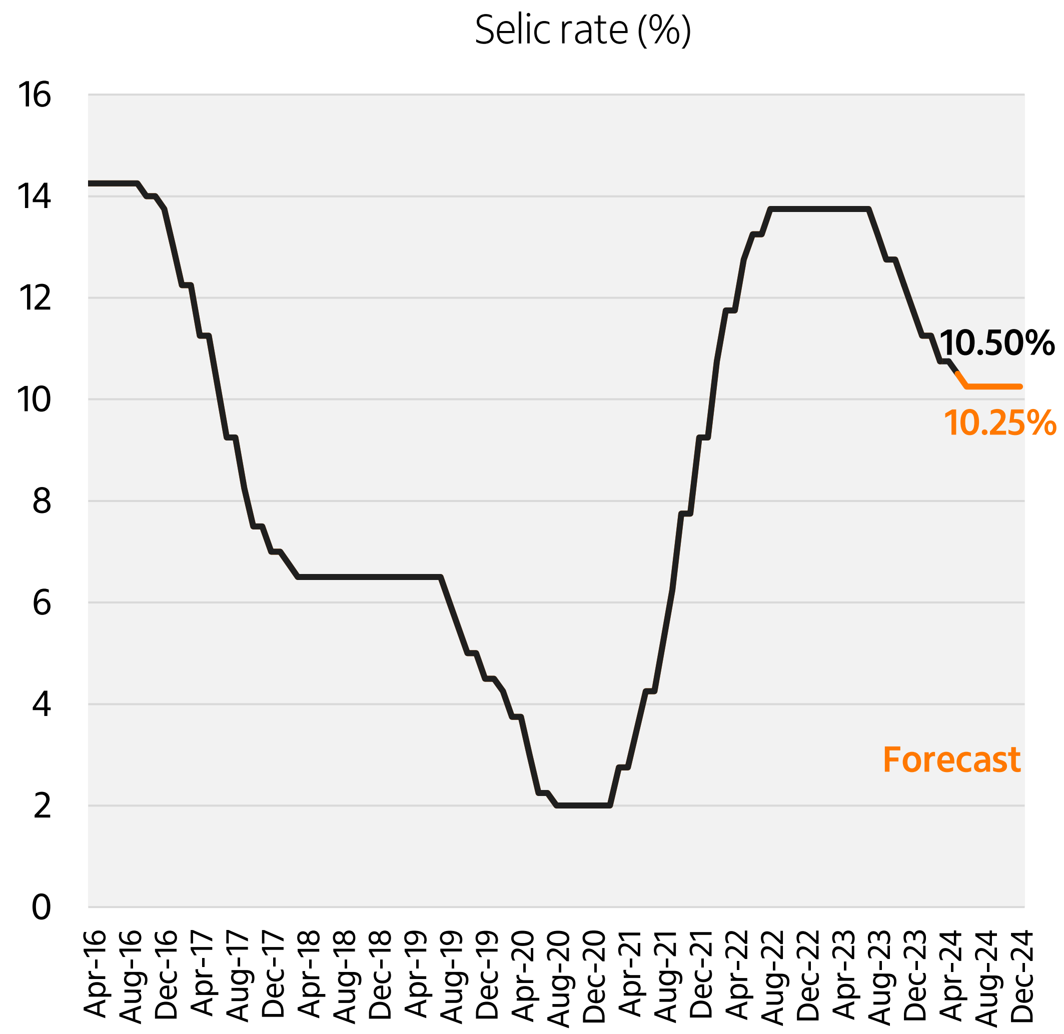


1. We revised our forecast for the IPCA consumer price index to 3.8% this year (from 3.7%). We incorporated higher food and goods prices in 2024.
2. The floods in the south of the country could pressure food inflation even more (mainly via increases in soybean and rice prices).
3. Our call for 2025 was revised upward to 3.7% (from 3,6%) due to a weaker exchange rate.
4. Importantly, the balance of risks for next year also shows upward asymmetry, considering the tight labor market, persistent services inflation, and a possible extension of the La Niña weather pattern affecting food and energy prices.

Source: Itaú

Brazil

Monetary policy: the end is in sight



Source: Itaú

1 In an environment of heightened uncertainty, the Copom decided to slow down the monetary easing pace earlier than it had signaled at the March meeting, but broadly in line with market expectations, based on more recent speeches by committee members.

2 The external environment has deteriorated significantly in the past few weeks: the notion that the Fed Funds Rate will still take a while to come down (and will not decline that much) has been consolidated, and (secondarily) geopolitical risks have increased.

3 Domestic conditions got worse too. Fiscal risk increased after the change in primary budget targets from 2025 onward, which postponed and brought more uncertainty to the convergence of public account dynamics.

4 Against this background and considering the firm commitment stated by the monetary authority to pursuing the inflation target, we assess that the room for additional easing became more limited. Therefore, we expect only more cut in June, to 10.25% pa (previously, we expected further cuts towards 9.75%).

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