Economic Outlook

April 2024

Global

Global

High inflation and strong activity delay easing in the US

- U.S.: We have shifted our expectation for the start of interest rate cuts from June to December this year and continue to see 3 cuts in 2025. Strong activity, together with more persistent inflation should lead the Fed to wait longer and gather more data, in order to have enough confidence to begin interest rate cuts.
- Europe: We continue to expect the start of interest rate cuts in June amid weak activity and moderating inflation. We forecast that the benchmark rate will fall from 4.0% currently to 2.75% by YE24 and 2.0% in 2025.
- China: Improved activity in 1Q24, though amid lingering uncertainties. We keep our GDP growth estimates at 4.7% in 2024 and 4.5% in 2025.
- Global: Other DMs are decoupling from the Fed and signaling that rate cuts will start soon.
- LatAm: the plot thickens.

Highlights

Global

Our forecasts:

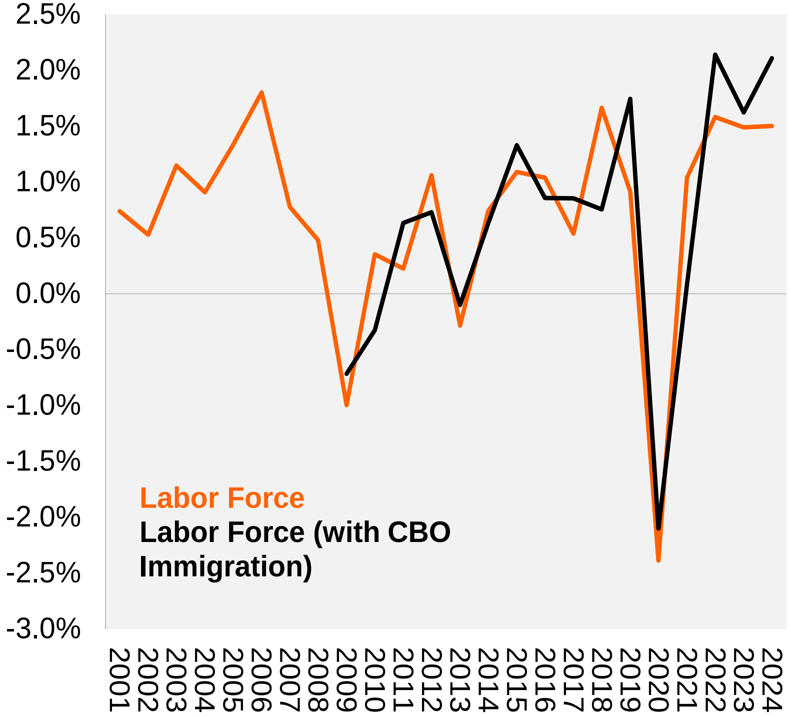
	2018	2019	2020	2021	2022	2023	2024	2025
World	3.6	2.8	-2.8	6.3	3.5	3.1	3.1	3.3
USA	3.0	2.5	-2.2	5.8	1.9	2.5	2.5	2.0
Euro Zone	1.8	1.6	-6.2	5.9	3.4	0.5	0.5	0.9
China	6.7	6.0	2.3	8.1	3.0	5.2	4.7	4.5
Fed Funds	2.25-2.50	1.50-1.75	0.00-0.25	0.00-0.25	4.25-4.50	5.25-5.50	5.00-5.25	4.25-4.50
10Y U.S. Treasury	2.83	2.00	0.93	1.47	3.88	3.88	4.35	4.00

Source: IMF, Bloomberg, Itaú

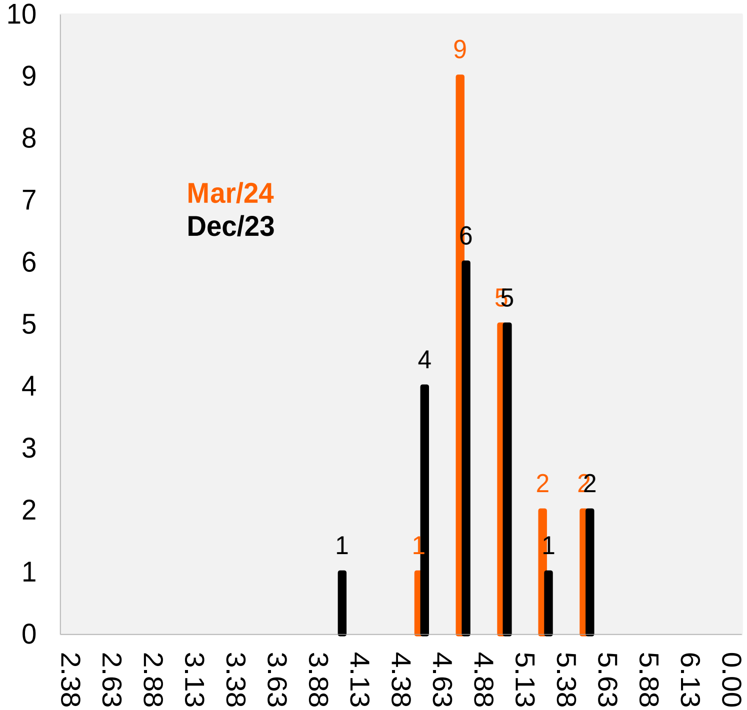
Global

U.S.: interest rate cuts only by December

Labor force is increasing



The Fed expects three cuts this year, but the asymmetry is for fewer cuts



Growth and employment should remain robust in 1H24. 1

One of the reasons behind the resilience in activity is the surge in immigration in recent years, which lifts potential GDP via faster workforce growth. 2

This immigration shock fuels employment gains, which are more evident in industries that absorb more immigrants. 3

Meanwhile, despite favorable supply-side developments, inflation surprised to the upside for the third consecutive month in March. 4

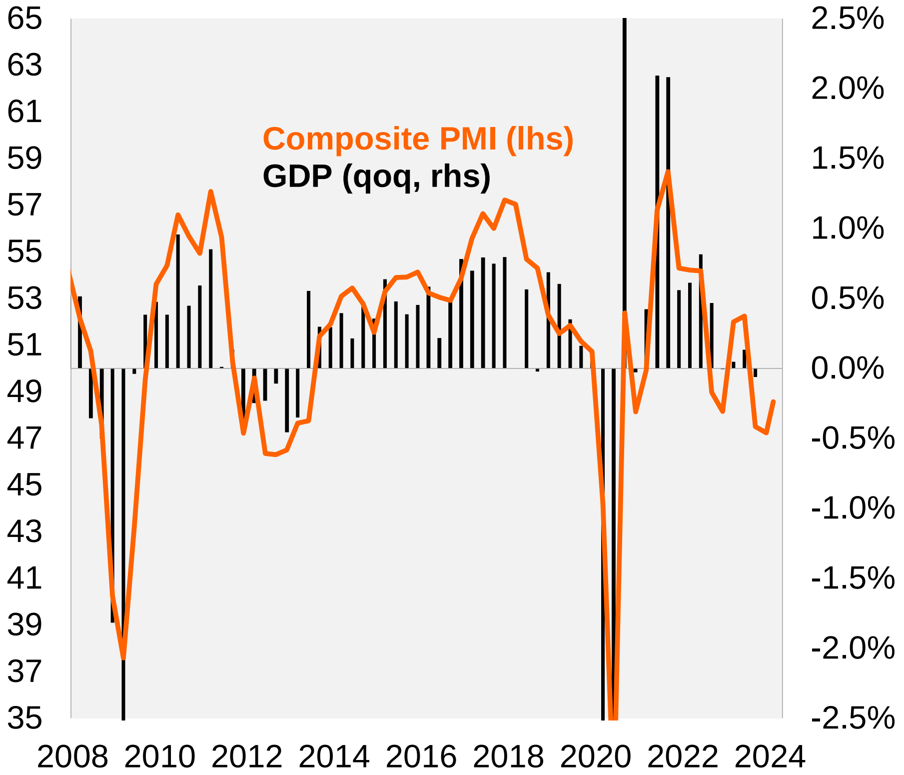
We have shifted our expectation for the start of cuts from June to December, maintaining 3 cuts next year. 5

We also revised our estimate for the 10-year Treasury rate to 4.35% (from 4.0%) this year and 4.0% (from 3.75%) next year. 6

Source: Haver, Itaú

Europe: Rate cuts to start in June amid weak activity and moderating inflation

EZ PMI: consistent with flat GDP in 1Q24



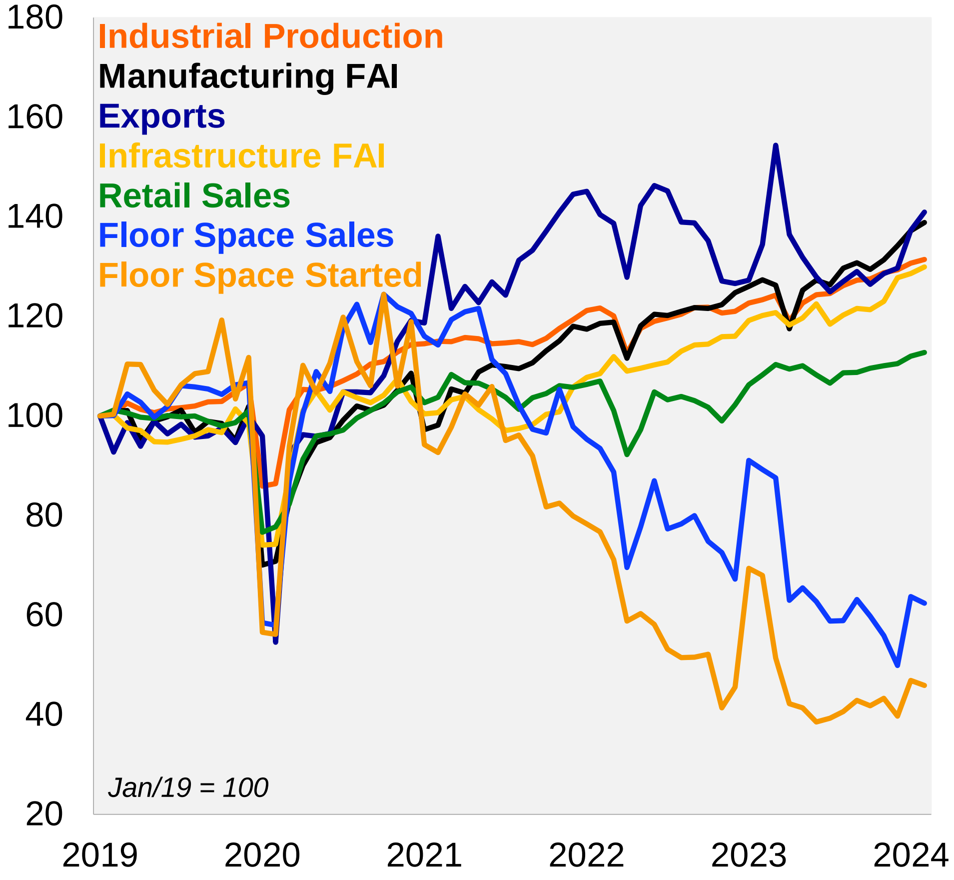
1. Indicators point to activity stabilization at a low level.
2. We see continuing moderation in inflation, allowing interest rate cuts from June onward.
3. The ECB's sharper cycle of cuts than the Fed's, in a context of weak activity, should lead to a weaker Euro going forward.

Source: Haver, Itaú

Global

China: Improved activity in 1Q24 amid lingering uncertainties

Manufacturing and infrastructure offset weakness in real estate



Source: Haver, Itaú

1 Improved activity in 1Q24. Figures for January and February showed that manufacturing and infrastructure remained robust.

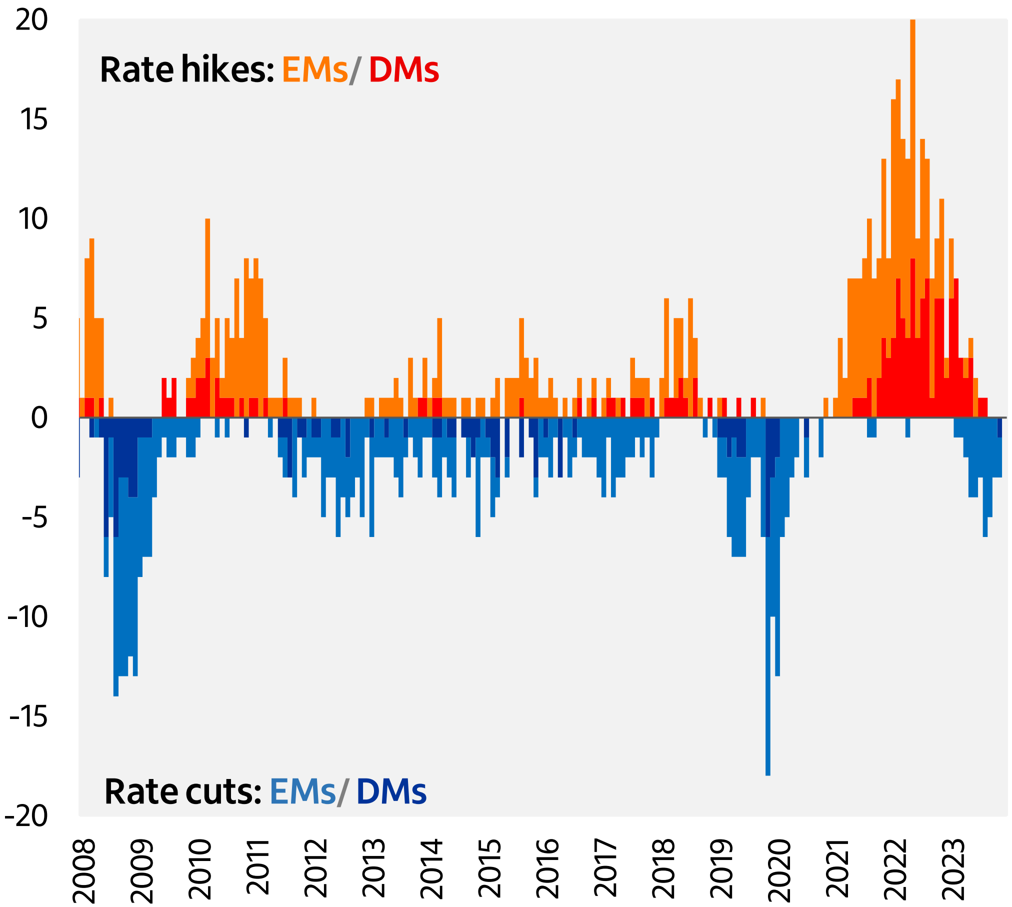
2 Amid lingering uncertainties. The growth model implemented by China in recent years – encouraging domestic infrastructure and manufacturing to compensate for the slowdown in real estate – has had significant impacts on the global economy, but there are doubts as to how long it will be sustained.

(See Macrovision: China: a dual track economy)

3 In this context, our growth forecasts remain at 4.7% in 2024 and 4.5% in 2025.

Global: Other DMs decouple from the Fed and signal that rate cuts soon; BoJ moves in the opposite direction and leaves negative rates behind

Monetary policy around the world



1. Monetary policies in developed countries became evidently more divergent in March, despite the Fed's caution regarding the start of its easing cycle.
2. On the one hand, the central banks of Switzerland, Australia and the UK were more dovish in their decisions.
3. On the other hand, the Bank of Japan left negative interest rates behind, reaching a range between 0.0% and 0.1%.

Source: Haver, Itaú

Global

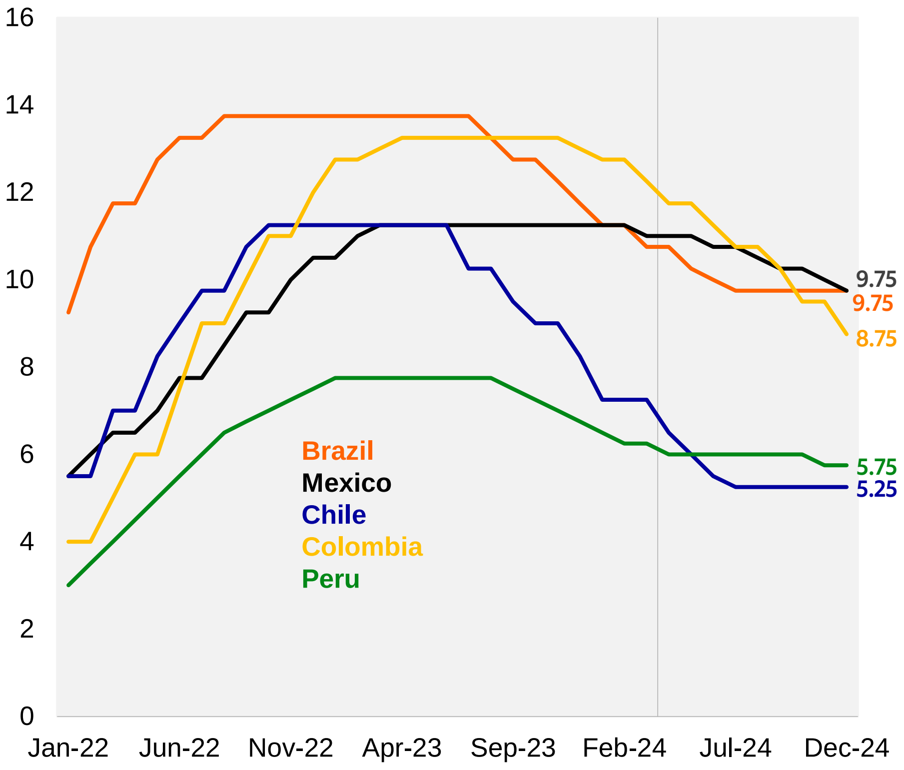
Commodities forecasts

	2019	2020	2021	2022	2023	2024	2025
Brent Oil (USD/bbl.)	64	50	75	82	77	**80**	**75**
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	**610**	**600**
Sugar (USd/lb)	13	15	19	20	22	**23**	**20**
Coffee (USd/lb)	130	123	235	166	188	**170**	**150**

Source: Bloomberg, Itaú

LatAm: the plot thickens

Policy rate (% p.a.)



1 Our call for fewer Fed rate cuts this year, an even stronger dollar, and greater inflationary risks from oil spot prices, amid elevated geopolitical uncertainty, contribute to more caution in the ongoing easing cycles in the region.

2 Weaker currencies and idiosyncratic factors have led us to revise upwards our inflation forecasts for 2024 in Chile and Colombia, and for 2024 and 2025 in Brazil. We have maintained our forecast for Mexico and Peru.

3 In Argentina, so far, so good. The stabilization program marches on, yielding a faster-than-expected improvement across nominal data and an unprecedented fiscal consolidation, contributing to a recovery of Argentinean assets.

Source: BBG, Itaú

LatAm: forecast changes

World

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

Latin America and Caribbean

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	2.2	**2.0**	1.8	**2.3**	2.4

Brazil

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	2.9	**2.3**	2.0	**1.8**	2.0
BRL / USD (eop)	4.86	**5.00**	4.90	**5.20**	5.10
Monetary Policy Rate (eop,%)	11.75	**9.75**	9.25	**9.75**	9.25
IPCA (%)	4.6	**3.7**	3.6	**3.6**	3.5

Mexico

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	3.2	**2.8**	2.8	**1.8**	1.8
MXN / USD (eop)	16.97	**17.9**	18.2	**18.9**	19.3
Monetary Policy Rate (eop,%)	11.25	**9.75**	9.50	**7.75**	7.50
CPI (%)	4.7	**4.2**	4.2	**3.7**	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	**1500**	1695	**2350**	2650
Reference rate (eop,%)	100.0	**70.0**	80.0	**60.0**	60.0
CPI (%)	211.4	**180.0**	180.0	**60.0**	60.0

Chile

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	0.2	**2.4**	1.7	**2.0**	2.2
CLP / USD (eop)	879	**920**	890	**850**	830
Monetary Policy Rate (eop,%)	8.25	**5.25**	4.75	**4.5**	4.50
CPI (%)	3.9	**4.1**	3.5	**3.1**	3.0

Colombia

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	0.6	**1.0**	1.0	**2.6**	2.9
COP / USD (eop)	3855	**4000**	3880	**4000**	3890
Monetary Policy Rate (eop,%)	13.00	**8.75**	8.25	**6.00**	5.25
CPI (%)	9.3	**5.2**	4.8	**3.0**	3.0

Peru

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	-0.6	**2.5**	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**	5.25	**4.25**	4.25
CPI (%)	3.2	**2.8**	2.8	**2.5**	2.5

Source: Itau

Brazil

Brazil

Greater caution in a more challenging global environment

– We revised our GDP growth forecast to 2.3% in 2024 (from 2.0%) in light of stronger data at the beginning of the year that seems to be related to payment of court orders (precatórios) and real minimum wage increase. For 2025, in turn, we revised GDP growth to 1.8% (from 2.0%), reflecting the higher interest rate.

– Tax revenues have been stronger at the beginning of 2024, but medium-term fiscal risks remain high, considering the difficulty in obtaining a trajectory of convergence of primary results and the possibility of changes in the parameters of the fiscal framework approved last year, too early in the game. We forecast primary deficits of 0.6% (previously 0.7%) and 0.9% of GDP in 2024 and 2025, respectively.

– We revised our exchange-rate forecasts to BRL 5.00 per U.S. dollar in 2024 (from 4.90) and to BRL 5.20 per U.S. dollar in 2025 (from 5.10). The increase in uncertainty, especially in the international scenario with the new postponement of the start of the easing cycle in the United States, pressures the currency (even though this effect is partially offset by a higher Selic rate).

– We revised our call for the IPCA consumer price index in 2024 to 3.7% (from 3.6%), with a less benign composition. We incorporated a higher forecast for underlying services inflation this year, pressured by a tighter labor market and accelerating wages. For 2025, we also revised our forecast. We expect inflation of 3.6% (3.5% previously) amid a scenario of unanchored long-term inflation expectations and still tight labor market.

– The more challenging global backdrop (slower disinflation, smaller and delayed easing cycle in developed economies) and domestic uncertainties (greater pressure on services prices, which are more sensitive to labor market conditions, and unanchored inflation expectations) will limit even more the room for monetary easing. We see, for now, the Selic benchmark rate reaching 9.75% pa by year-end (up from 9.25% in the previous report), with a slowdown in easing pace from June onwards, and remaining at the same level throughout 2025.

Highlights

Brazil: forecasts

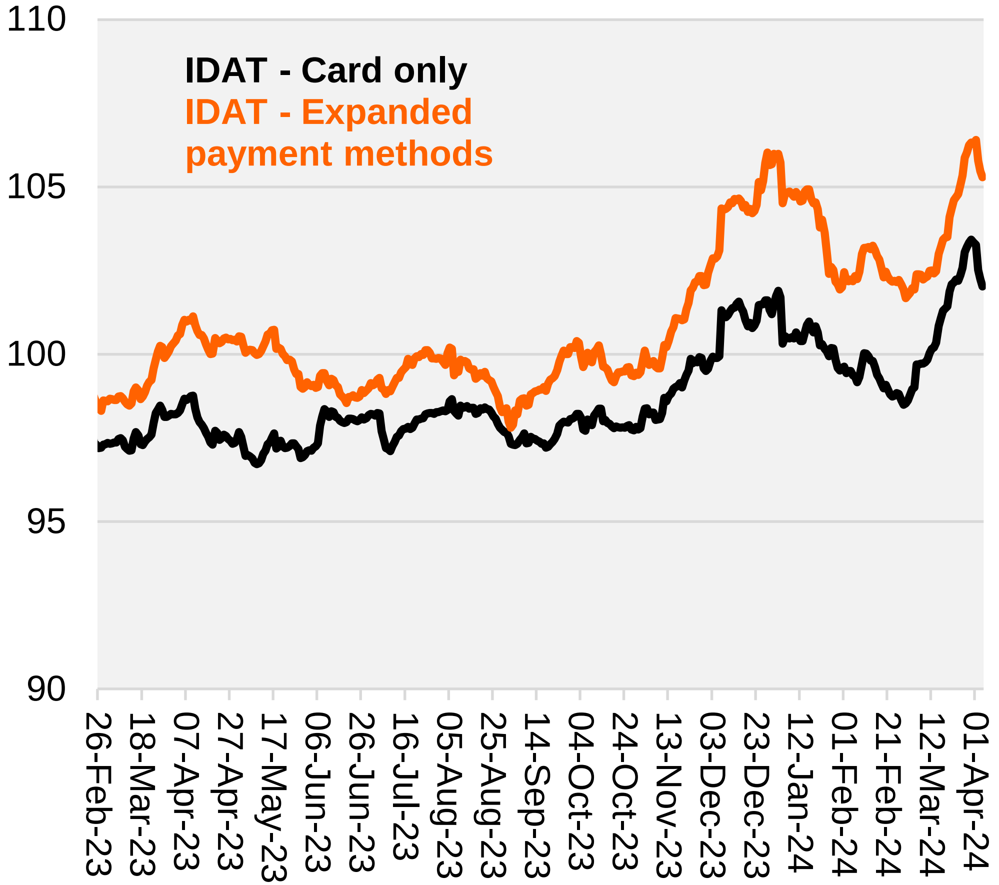
	2019	2020	2021	2022	2023	2024	2025
Economic activity							
GDP (%)	1.2	-3.3	4.8	3.0	2.9	2.3	1.8
Unemployment rate (%) – Dec.	11.7	14.8	11.7	8.5	7.9	7.8	8.0
Inflation							
IPCA (%)	4.3	4.5	10.1	5.8	4.6	3.7	3.6
IGP-M (%)	7.3	23.1	17.8	5.5	-3.2	1.9	3.0
Monetary Policy							
Selic rate (%, eop)	4.50	2.00	9.25	13.75	11.75	9.75	9.75
Selic rate (%, avg)	5.96	2.81	4.81	12.63	13.25	10.23	9.75
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	5.00	5.20
BRL/EUR (eop)	4.52	6.34	6.30	5.65	5.34	5.25	5.46
Current Account (% GDP)	-3.6	-1.9	-2.8	-2.5	-1.3	-0.6	-1.0
Trade balance (USD bi.)	35	50	61	62	99	85	70

Source: Itaú

Brazil

Strong activity in the first half of the year, again

Our daily IDAT-Activity indicator shows improvement in March



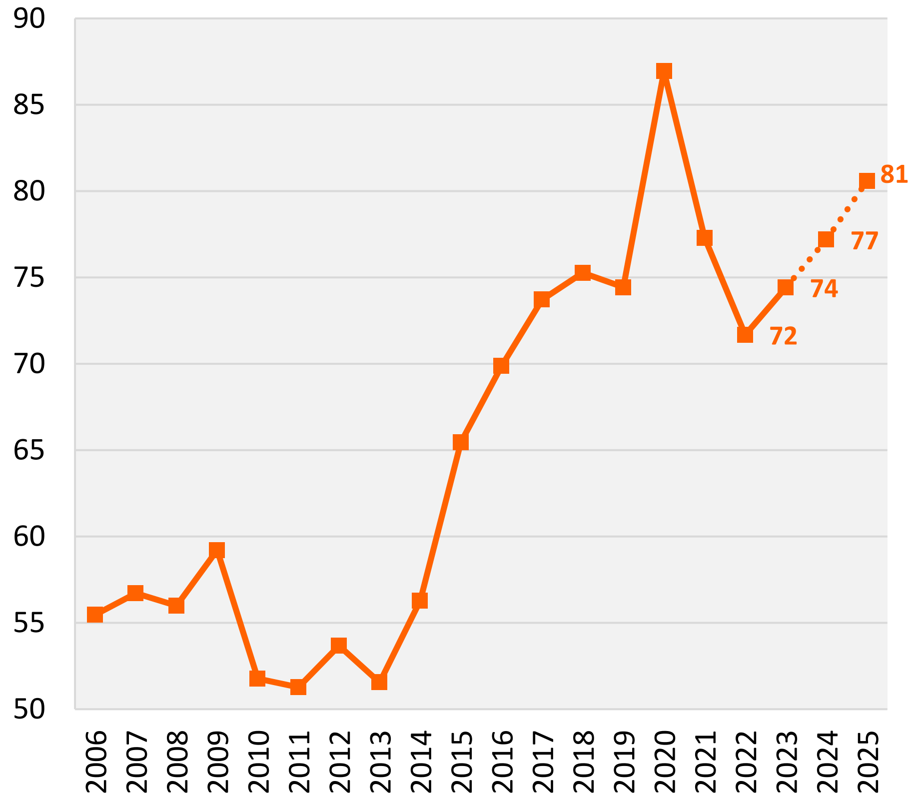
1. We revised our GDP growth forecast to 2.3% (from 2.0%) in 2024, incorporating a more positive outlook for the first half of the year.
2. For 2025, in turn, we revised GDP growth to 1.8% (from 2.0%).
3. Finally, the job market remains resilient in the short term, in line with our scenario of a historically low unemployment rate of 7.8% in 2024.

Source: Itaú

Brazil

Fiscal risks remain high despite stronger tax revenues in early 2024

Gross Debt (% of GDP)

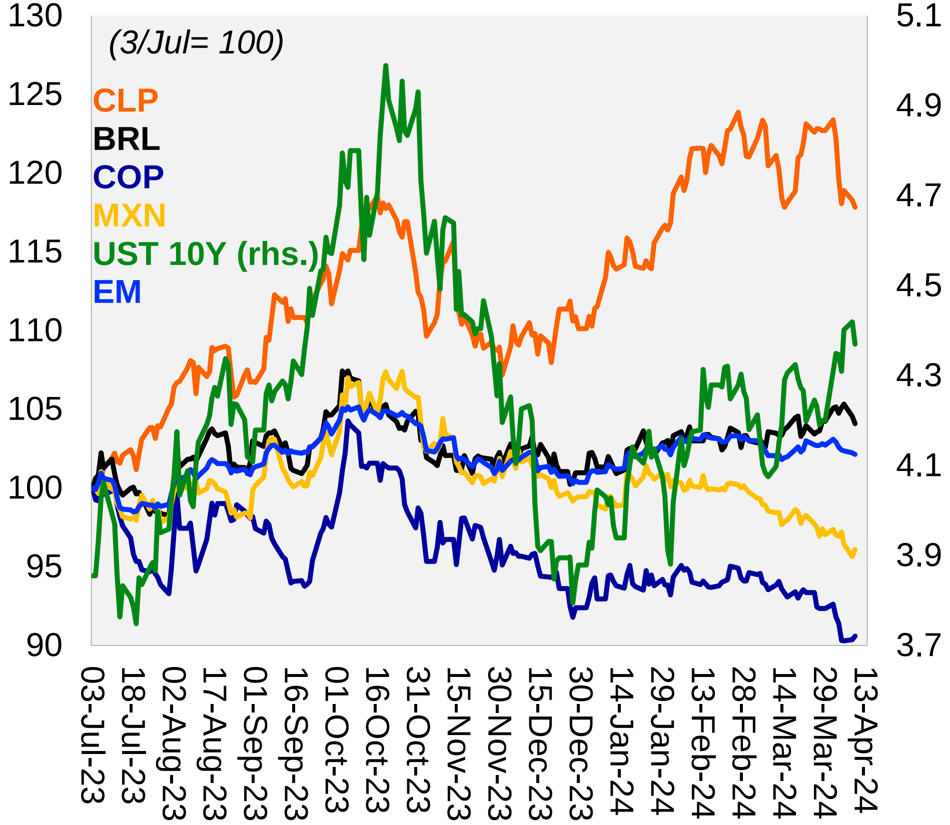


1. For 2024, we improved our deficit forecast to 0.6% of GDP (BRL 75 billion) from 0.7%.
2. The main risks ahead are related to the difficulty in obtaining a persistent trajectory of convergence of primary results and the possibility of changes in the main parameters of the fiscal framework approved last year.
3. Our estimate for the deficit in 2025 remained at 0.9% of GDP (BRL 110 billion), worse than the result of 2024.
4. We see gross debt increasing from 74% of GDP in 2023 to 77% of GDP in 2024 and 81% of GDP in 2025, respectively.

Source: Itaú

Slightly more depreciated BRL amid higher uncertainties

BRL slightly underperforming peers at the margin



1. We revised our exchange-rate forecasts to BRL 5.00 per U.S. dollar in 2024 (from 4.90) and to BRL 5.20 per U.S. dollar in 2025 (from 5.10).

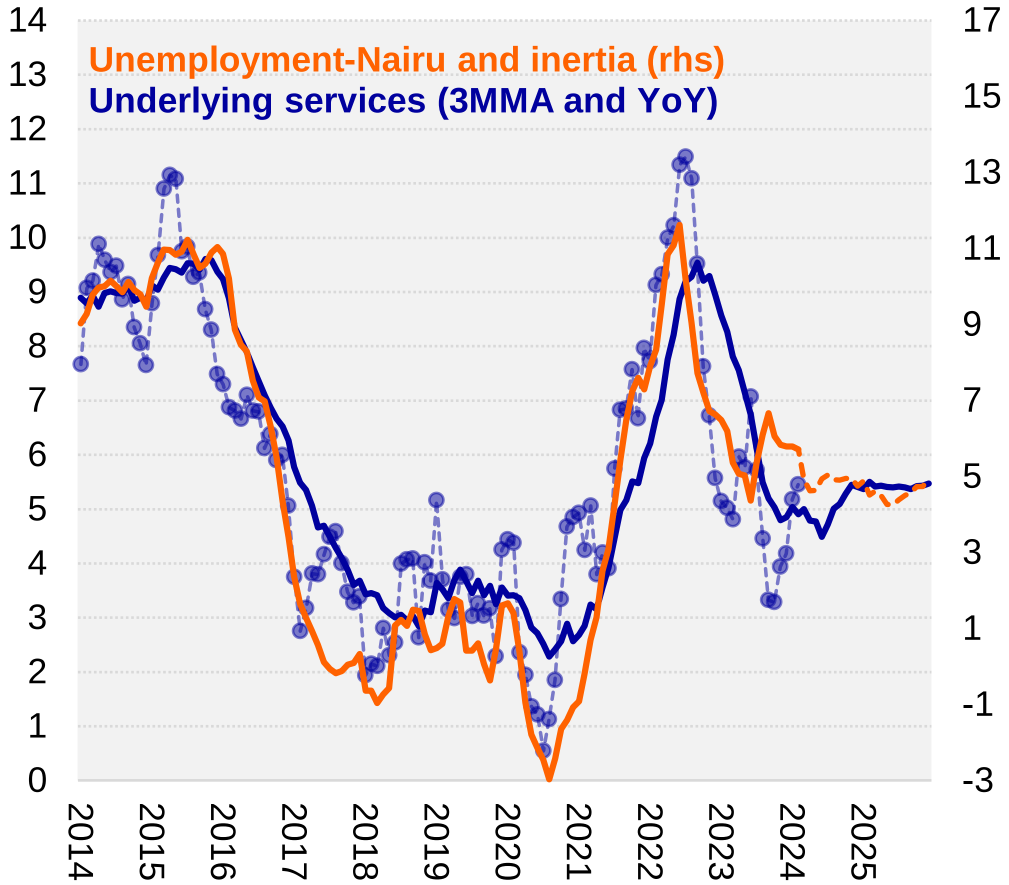
2. Our estimates for the trade surplus remain at USD 85 billion in 2024 and USD 70 billion in 2025.

Source: BBG, Itaú

Brazil

Upward inflation revision with worse composition

Underlying services prices pressured by labor market dynamics



Nairu 10% until dec/17 and 9% from 2018

1. We revised our call for inflation in 2024 to 3.7% (from 3.6%), with a more adverse composition in the form of worse dynamics for underlying services.

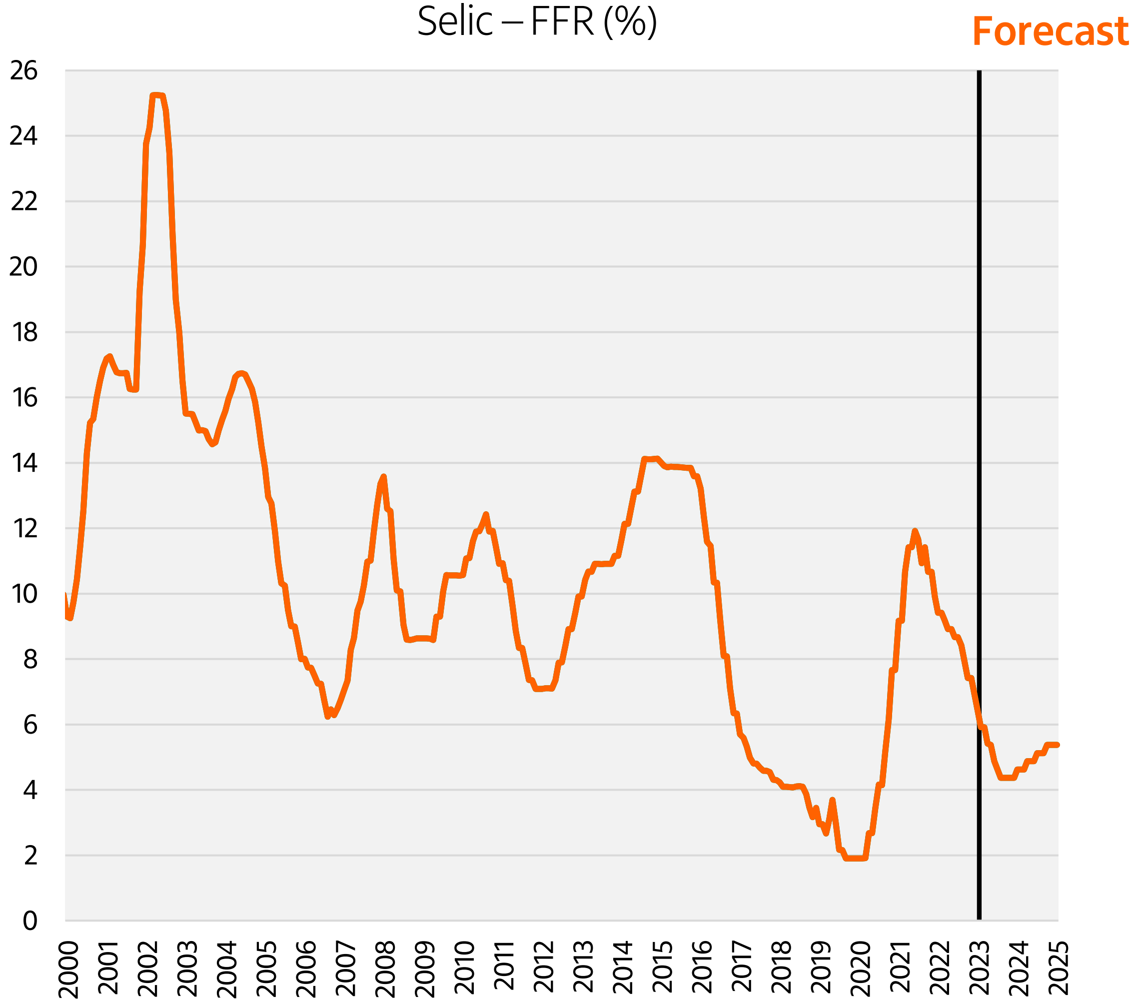
2. For 2025, we continue to forecast inflation above the target, at 3.6% (3.5% previously), given the unanchored long-term inflation expectations and still tight labor market.

Source: Itaú

Brazil

A more cautious Central Bank in terms of pace and terminal rate

Interest rate differential
Selic – FFR (%)



1 The Brazilian Central Bank's Monetary Policy Committee (Copom) sustained the pace of rate cuts (50 bps) at the March meeting and correctly decided to shorten its forward guidance as the environment became more uncertain, signaling another 50-bp move only in the next meeting (and not in the next meetings, as was the case before).

2 Amid escalating uncertainties domestically and a more challenging environment abroad, a more cautious stance by the Central Bank is appropriate.

3 Considering such increase in risks, we now expect a higher Selic rate at the end of the cycle, at 9.75% (vs. 9.25% previously), as well as a reduction in the pace of monetary easing from June onwards.

Source: Itaú

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