Weekly

PEZCO
economic & financial analysis

July 20, 2026

Lower Inflation Opens the Door to a Selic Rate Cut

- **U.S. inflation declined more than expected, reflecting the impact of lower oil prices in June 2026 on gasoline prices. Core inflation, which excludes food and energy, also surprised to the downside. For further details, see Pezco Analysis: *June CPI Remains Above Target but Shows No Renewed Inflationary Trend.***

- **The renewed increase in oil prices calls for some caution despite the relatively favorable inflation picture, depending on how persistent the latest rally proves to be. On the other hand, the inclusion of key Brazilian products among the exemptions from U.S. tariffs—not only consumer goods but also several intermediate inputs—helps limit the risk of additional inflationary pressure in the United States.**

- **In Brazil, economic activity indicators pointed to weaker momentum in May 2026, contributing to a relatively benign inflation outlook. This has been reflected, at least in part, in the recent decline in inflation expectations for end-2026.**

- **Nevertheless, three-month moving averages continue to indicate that economic activity remains relatively strong, suggesting a milder slowdown than would be desirable. Combined with the ongoing risk of rising public indebtedness and the potential second-round effects of higher oil prices, this helps justify the upward revisions in inflation expectations for 2027 and 2028, even amid expectations of slower economic growth in 2027. As a result, uncertainty regarding Brazil's inflation outlook and interest rate trajectory remains elevated.**

- **This week's calendar is highlighted by the European Central Bank meeting, where interest rates are expected to remain unchanged.**

HIGHLIGHTS (WORLD/BRAZIL): July 6–10, 2026

GEOPOLITICS

- **The United States confirmed a 25% tariff on imports from Brazil, effective July 22. According to Amcham, the measure is expected to affect sectors such as wood products, non-metallic minerals, chemicals, and selected food products, covering roughly 3,000 products representing approximately US$11 billion in agricultural and industrial exports.**

- **Goldman Sachs estimates that Brazil's effective tariff rate will be lower than previously expected—falling from 18.1% to 16.8%—due to the range of products exempted from the measure. Even so, the effective tariff remains above the 7.3% average applied to Brazil's main Latin American trading partners.**

INTERNATIONAL ECONOMY

- **U.S. consumer inflation (CPI) slowed to 3.5% year-over-year in June 2026, down from 4.2% in May, and below the consensus expectation of 3.8%. Core inflation eased to 2.6%, compared with expectations that it would remain unchanged at 2.9%. Although inflation remains above the Federal Reserve's target, the data reduced concerns about renewed inflationary pressures.**

- **China's economy expanded 4.3% year-over-year in the second quarter of 2026, marking the slowest pace of growth in three years and falling short of the government's 4.5%–5.0% growth target for 2026. Export-oriented industries, particularly semiconductors and automobiles, continued to expand, while fixed-asset investment weakened during the quarter.**

POLITICS

BRAZIL

- **The Senate approved Provisional Measure 1343/26 (Minimum Freight Rates) without the proposed R$5,000 minimum wage provision. The bill has now been sent to the President for approval or veto.**

- **The Senate also approved the constitutional amendment granting special retirement rules to community health agents and endemic disease control workers. The proposal now proceeds to promulgation. The estimated fiscal impact over the next ten years amounts to R$17.6 billion for the public servants' pension system (RPPS) and R$10.3 billion for the general social security system (RGPS). Brazil's National Confederation of Municipalities (CNM) estimates an additional R$69.9 billion impact on municipal budgets.**

BRAZILIAN ECONOMY

- **Economic activity increased 0.1% month-over-month in May 2026, according to the Central Bank's IBC-Br, a proxy for GDP. Industrial production rose 0.4%, while services edged up 0.1%, offsetting a 1.0% decline in agricultural output.**

- **The three-month moving average of the IBC-Br has been trending upward since September 2025, reaching a new historical high. Industrial activity has been expanding since November 2025 and also reached a record level in May 2026. Services activity has remained broadly stable since February 2026, hovering near its historical peak.**

EQUITIES AND COMMODITIES: July 13–17, 2026

MARKETS I: EQUITIES AND COMMODITIES

- Concerns about the sustainability of investment in the technology sector weighed on global equity markets during the week, leading to declines across several major stock indices.

- The **S&P 500** fell **1.55%**, while the **Nasdaq** declined **4.13%** over the week. In Asia, the **Nikkei** and the **CSI 300** dropped **6.44%** and **5.26%**, respectively, as China's second-quarter GDP came in below expectations.

- Brazil's **Ibovespa** declined **2.33%** (to 173,714 points). In addition to global developments, investor sentiment was negatively affected by the announcement of U.S. tariffs on Brazilian exports.

- Net foreign investment in the Brazilian stock exchange (B3) remained positive, totaling **R$36.2 billion** over the first **134 trading days** of the year, compared with **R$22.3 billion** during the same period in 2025.

- Between **June 26 and July 16** (15 trading days), foreign investors added **R$3.4 billion** to Brazilian equities. Between **July 9 and July 15** (five trading days), inflows reached **R$2.7 billion**, the strongest five-day performance since April 15.

- Oil futures surged during the week, with **Brent crude** rising **15.91%** to **US$88.10 per barrel** and **WTI** increasing **15.52%** to **US$82.49**, driven by renewed attacks in the Middle East and disruptions to maritime traffic through the Strait of Hormuz.

- As of July 17, year-to-date gains had reached **44.8%** for Brent and **43.7%** for WTI.

- Dutch TTF natural gas prices climbed **17.96%** during the week, pushing year-to-date gains to **103.8%**.

- Gold prices fell **2.49%** during the week to **US$4,017 per troy ounce**, while silver declined **6.61%** to **US$55.91**.

- The three main industrial metals all posted gains during the week, with **aluminum** rising **0.35%**, **nickel** **1.31%**, and **copper** **0.30%**.

MARKETS II: Interest Rates and Currencies

- **Despite higher commodity prices—particularly oil—U.S. Treasury yields were broadly stable during the week. The 10-year Treasury yield edged down from 4.56% to 4.55%, while the 2-year yield declined from 4.22% to 4.18% between July 10 and July 17. Lower-than-expected inflation readings reversed part of the previous increase in bond yields.**

- **In Brazil, the interest rate curve shifted higher, reversing three consecutive weeks of declines. The move reflected rising oil prices and the increased risk of second-round effects on both current and expected inflation.**

- **The January 2029 DI contract increased from 14.01% on July 10 to 14.34% on July 17.**

- **According to the July 10 Focus Survey, inflation expectations for end-2026 declined from 5.30% to 5.16%, marking the second consecutive decline after fifteen weeks of increases. At the end of February 2026, expectations stood at 3.91%.**

- **By contrast, inflation expectations for end-2027 rose to 4.20%, marking the seventh consecutive upward revision. At the end of February, the corresponding expectation was 3.79%.**

- **The U.S. dollar weakened modestly during the week, with the DXY Index falling 0.19%. The euro and the British pound appreciated 0.20% and 0.36%, respectively, against the dollar, while the Japanese yen depreciated 0.45%.**

- **The Brazilian real remained broadly unchanged at R$5.11 per U.S. dollar. On one hand, higher oil prices increase inflation risks and may limit the scope for future interest-rate adjustments. On the other hand, strong trade surpluses continue to support a favorable flow of foreign currency into the country.**

- **The 21-day moving average of Brazil's FX flows declined to US$0.09 billion (negative) as of July 10. Between July 3 and July 10, the moving average of commercial flows fell from US$9.0 billion to US$5.8 billion, while the financial account improved from US$7.5 billion (negative) to US$5.9 billion (negative).**

HIGHLIGHTS (SECTORS/REGIONS): July 13–17, 2026

Beef

- **Brazilian beef exports to China are expected to reach 900,000 metric tons in 2026, well below the 1.68 million metric tons shipped in 2025. China has capped imports of Brazilian beef at 1.1 million metric tons this year.**

- **Should the European Union suspend imports of Brazilian beef beginning in September 2026, the resulting increase in domestic supply could temporarily reduce consumer prices in Brazil.**

Grain Production

- **Brazil's National Supply Company (Conab) estimates that grain production in the 2025/26 crop season will increase 2.2% from the previous harvest, reaching 360.1 million metric tons.**

- **Soybeans are expected to account for 50.1% of total production, totaling 180.6 million metric tons, a 5.3% increase over the previous crop year.**

- **Combined production from Brazil's three corn harvests is projected at 141.7 million metric tons, approximately 0.4% higher than the previous cycle.**

Electric Power

- **Bill PL-3716/26, currently under discussion in Brazil's Chamber of Deputies, proposes changes to the payment structure for electricity storage infrastructure. The proposal has received support from several industry associations, including Absae, Absolar, Apine, Abeeólica, and Abiape. Under current rules, only electricity generators bear these infrastructure costs.**

- **The Energy Research Office (EPE) projects annual residential electricity demand growth of up to 3% between 2026 and 2035, driven by rising household income, expanding credit, lower unemployment, and greater adoption of technology in Brazilian homes.**

Industrial Business Confidence

- **Brazil's Industrial Business Confidence Index fell 2.3 points to 44.4 in July 2026, its lowest reading since June 2020 and the 19th consecutive month below the neutral 50-point threshold, according to the National Confederation of Industry (CNI).**

- **The decline reflected a 3.1-point drop in expectations for the next six months, the largest decrease since November 2022. Expectations regarding the Brazilian economy fell 3.8 points, while confidence in companies' own business conditions declined 2.7 points.**

Services

- **Brazil's service sector contracted 0.4% month-over-month in May 2026, according to the Brazilian Institute of Geography and Statistics (IBGE), mainly reflecting a 1.0% decline in transportation services, particularly air transportation, which fell 5.1%.**

- **Among the major service segments, transportation continues to show signs of moderation, with its three-month moving average falling to the lowest level since March 2025. Other service activities, however, continue to show gradual improvement.**

Retail Sales

- **Core retail sales increased just 0.1% month-over-month in May 2026, according to IBGE.**

- **Persistently high food inflation likely explains the 1.5% decline in supermarket and food-and-beverage sales during the month. By contrast, stronger sales in segments such as textiles and apparel (+3.1%) and furniture and household appliances (+2.7%) reflected seasonal events including Mother's Day and the FIFA World Cup.**

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