Weekly

PEZCO
economic & financial analysis

July 27, 2026

Oil Shock Keeps Inflation Risks Elevated

- **The surge in oil prices is putting upward pressure on inflation, although the intensity varies across countries. In the United States, gasoline prices in the PCE index increased 33.1% between January and May this year, while in Brazil gasoline prices rose 6.5% in the IPCA over the same period.**

- **The difference goes beyond current inflation. Pezco Analysis, *"Oil Price Shock and Inflation: Brazil vs. U.S."*, illustrates the different effects on long-term inflation expectations in the two countries. This week's Focus Survey (July 27) showed another increase in inflation expectations for 2027 and 2028. In other words, structural factors exert considerably greater upward pressure on long-term inflation expectations in Brazil.**

- **The United States will release the June 2026 PCE inflation data this week. Although an important indicator, it will already be somewhat outdated given the sharp increase in energy prices over the past two weeks. Moreover, the release will come one day after the Federal Reserve's monetary policy decision. The Fed is widely expected to keep the policy rate unchanged at 3.50%–3.75%, although the probability remains elevated that interest rates will be raised again before year-end.**

- **In Brazil, the July 2026 IPCA-15 inflation report will be released. The expected slowdown—from 0.41% to 0.20% according to Pezco Economics (or 0.21%, the median estimate compiled by Agência Estado Broadcast)—should reinforce expectations that the Selic rate will be reduced by 25 basis points to 14.00% at next week's Copom meeting.**

- **Nevertheless, the structural factors behind the continued increase in Brazil's long-term inflation expectations may limit additional Selic rate cuts in subsequent meetings, even if short-term inflation remains favorable.**

HIGHLIGHTS (WORLD/BRAZIL): July 20–24, 2026

GEOPOLITICS

- **The United States announced tariffs ranging from 10% to 12.5% on imports from 60 countries, citing insufficient enforcement against forced labor. Brazilian products will be subject to a 12.5% tariff.**

Rua Bela Cintra, 1200 - 1º andar
Cerqueira César - São Paulo | SP

- **The U.S. also announced 50% tariffs on imports from Canada, citing what it considers unfair discrimination against U.S. automobiles, alcoholic beverages, and dairy products. Washington also threatened to launch a trade investigation against the European Union.**

- **Meanwhile, the blockade of the Bab el-Mandeb Strait, at the southern entrance to the Red Sea, by Houthi forces in Yemen has disrupted maritime shipping, contributing to higher freight costs and rising oil prices.**

INTERNATIONAL ECONOMY

- **The European Central Bank (ECB) left its key policy rates unchanged, keeping the deposit facility at 2.25% and the main refinancing rate at 2.40%. Eurozone consumer inflation declined from 3.2% in May to 2.8% in June 2026, although this improvement may be threatened by the recent surge in natural gas prices.**

- **In the United Kingdom, consumer inflation eased from 2.8% in May to 2.6% in June, its lowest level since March 2025. The largest price declines were recorded in transportation and food & beverages.**

POLITICS

BRAZIL

- **The federal government announced R$18.5 billion under the third edition of the Brazil Soberano Program, a credit facility designed to support companies affected by U.S. tariffs and other geopolitical developments. The program will benefit 22 sectors of the Brazilian economy.**

- **The government also reduced the amount of spending frozen in this year's federal budget from R$23.7 billion in May to R$17.9 billion in July. Of the R$5.8 billion released, R$4.5 billion will be allocated to expenditures under the Executive Branch's control, while R$1.2 billion will be directed to congressional budget amendments.**

BRAZILIAN ECONOMY

- **The second preliminary reading of the IGP-M showed 1.11% deflation in July 2026, reflecting declines in wholesale industrial prices (-2.13%) and agricultural prices (-0.43%). According to Fundação Getulio Vargas (FGV), however, the current deflationary trend is unlikely to persist.**
- **The federal government extended the R$0.44 per liter gasoline subsidy through the end of August 2026. The R$1.12 per liter diesel subsidy was also extended through mid-September 2026.**

EQUITIES AND COMMODITIES: July 20–24, 2026

MARKETS I: EQUITIES AND COMMODITIES

- **Concerns surrounding technology companies continued to weigh on global equity markets throughout the week.**

- **The S&P 500 declined 0.61%, while the Nasdaq fell 1.62% over the week. The Nasdaq finished 8.26% below its year-to-date high, while the S&P 500 stood 2.60% below its respective peak.**

- **Equity markets in Europe and Asia posted gains during the week, with the Euro Stoxx 50 rising 0.80%, the FTSE 100 advancing 1.28%, the Nikkei gaining 0.73%, and the CSI 300 increasing 2.65%.**

- **Brazil's Ibovespa edged 0.19% higher, closing at 174,041 points. Despite the confirmation of U.S. tariffs on selected Brazilian exports, gains in oil-related companies provided support to the index.**

- **Net foreign inflows into Brazil's stock exchange (B3) reached R$38.5 billion over the first 138 trading days of the year, compared with R$21.5 billion during the same period in 2025.**

- **Between June 26 and July 22 (19 trading days), foreign investors added R$5.6 billion to Brazilian equities. The cumulative five-day flow totaled R$2.3 billion as of July 22, marking the ninth consecutive positive reading under this metric.**

- **Oil futures continued to rally during the week. Brent crude climbed to US$96.78 per barrel (+9.85%), while WTI advanced to US$89.31 (+8.27%), driven by escalating geopolitical tensions in the Middle East.**

- **Year-to-date gains increased to 59.1% for Brent and 55.5% for WTI as of July 24, compared with 44.8% and 43.7%, respectively, one week earlier.**

- **Dutch TTF natural gas prices rose 10.77% during the week, pushing cumulative gains in 2026 to 125.8%.**

- **Gold prices increased 0.88% to US$4,052 per troy ounce, while silver advanced 4.05% to US$58.17.**

- **The three major industrial metals also posted gains, with aluminum rising 0.29%, nickel 2.46%, and copper 0.88%.**

MARKETS II: Interest Rates and Currencies

- **The rebound in oil prices toward US$100 per barrel pushed U.S. Treasury yields higher. Between July 17 and July 24, the 10-year Treasury yield increased from 4.55% to 4.68%, while the 2-year yield rose from 4.18% to 4.33%.**

- **In Brazil, the interest-rate curve moved higher at the longer maturities, while shorter-term rates remained broadly stable. The January 2029 DI contract rose from 14.34% on July 17 to 14.46% on July 24.**

- **According to the Focus Survey, inflation expectations for end-2026 declined marginally from 5.16% to 5.15%, marking the third consecutive decline after fifteen straight weeks of increases.**

- **Inflation expectations for end-2027 remained unchanged at 4.20%, ending a streak of seven consecutive weekly increases. Expectations for end-2028, however, increased from 3.70% to 3.80%.**

- **Rising prices for oil and agricultural commodities may slow the current disinflation process, adding to concerns stemming from higher long-term inflation expectations.**

- **The U.S. dollar appreciated during the week, approaching its highest level of the year. The DXY Index rose 0.7%, reflecting the depreciation of its three main constituent currencies: the euro (-0.60%), British pound (-0.94%), and Japanese yen (-0.88%).**

- **Emerging-market currencies delivered mixed performances. The Colombian peso and the Mexican peso appreciated, while the Chilean peso and the South African rand weakened.**

- **The Brazilian real appreciated 0.56%, ending the week at R$5.08 per U.S. dollar. Higher oil prices continue to support Brazil's trade balance, contributing to stronger foreign currency inflows.**

- **The 21-day moving average of Brazil's foreign-exchange flows stood at US$4.63 billion (negative) as of July 17. Between July 10 and July 17, the moving average of commercial flows declined from US$5.8 billion to US$4.4 billion, while financial flows deteriorated from US$5.9 billion (negative) to US$9.1 billion (negative).**

HIGHLIGHTS (SECTORS/REGIONS): 20–24, 2026

Technology

- **Kimi K3, the artificial intelligence model developed by China's Moonshot AI, ranked first in the front-end programming capability category according to Arena, a platform that evaluates AI systems.**

Fuels

- **The escalation of the war between Russia and Ukraine has raised concerns about Brazil's diesel market, given the country's dependence on Russian diesel supplies.**

- **According to Brazil's Foreign Trade Secretariat (Secex), diesel imports from Russia fell 65% in June compared with May. Of the 586 thousand cubic meters of diesel imported during the month, 361 thousand cubic meters originated from Russia. On July 8, Russia suspended diesel exports in order to prioritize domestic supply.**

Thermal Power Generation

- **The federal government brought forward the contracting of five thermal power plants to September 1, 2026. These facilities had originally been scheduled to begin operations in 2027–2028.**

- **The projects will add 1.8 GW of available generating capacity and will be dispatched if necessary. The objective is to strengthen Brazil's electricity system against the potential impacts of El Niño and ongoing geopolitical risks.**

Renewable Energy

- **According to the Brazilian Wind Energy Association (Abeeólica), compensation related to renewable generation curtailments could total R$3.3 billion, provided companies adhere to the proposed settlement agreement requiring the withdrawal of legal claims.**

- **Abeeólica estimates that the agreement will have no impact on electricity tariffs, as the settlement mechanism is expected to be implemented through the Brazilian Electricity Commercialization Chamber (CCEE).**

Grain Prices

Grain prices have risen sharply since the end of June 2026.

- **Wheat prices have increased 19.2% since June 29, reflecting the intensification of the conflict between Russia and Ukraine, both major global grain producers.**

- **Soybean prices have risen 12.5% over the same period, driven by the escalation of tensions in the Middle East and weather conditions in both the United States and Brazil.**

Infrastructure

- **Federal and state governments are evaluating amendments to infrastructure concession contracts that could incorporate approximately R$150 billion in additional investments.**

- **The State of São Paulo is considering around R$70 billion in new highway and metro projects, while the federal government is evaluating approximately R$31 billion in railway investments through contract renewals and renegotiations.**

PEZCO ECONOMICS – Economy & Markets
Contact
economics@pezco.com.br
+55 (11) 3582-5509
Rua Bela Cintra, 1200 – 1st Floor
Consolação, São Paulo, Brazil