BANK OF COMMUNICATIONS BBM

Macro Monthly Letter

April 2025

The reshaping of global trade and its economic impacts

Cecilia Machado
Chief Economist

Luana Miranda
Senior Economist

Victor Cota
Analyst

Oruan Perez
Intern

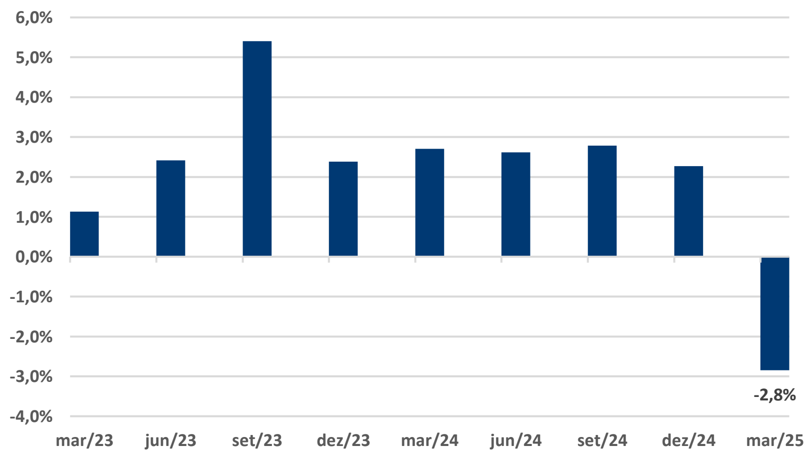
Bruno Oliveira
Intern

Maria Miraglia
Intern

Market sentiment regarding the economic outlook for the United States has changed significantly since Trump's election. Initially there was a perception that the positive effects of some campaign promises, such as deregulation and tax cuts, would outweigh the negative effects of policies such as the imposition of trade tariffs. The early expectations were that the US economy would continue to grow and the dollar would strengthen.

In recent weeks, however, this perception has been reversed, and expectations now point to a less dynamic economy and a weaker currency. High-frequency GDP models are now projecting a significant downturn in the coming quarters (Figure 1). On one hand, uncertainty about the economic policy changes to be made in the next few years remains considerable. On the other hand, the introduction of reciprocal tariffs and the onset of a trade war contribute to a more adverse economic scenario.

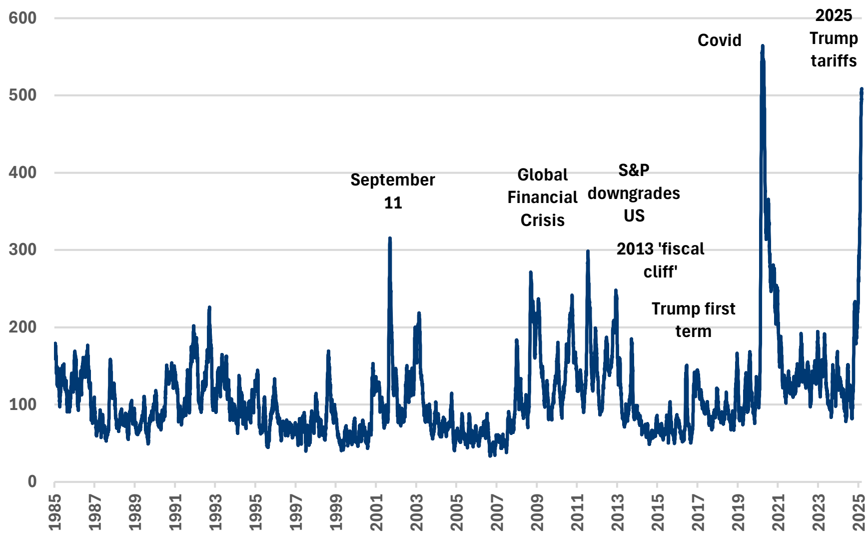
Figure 1: US – Atlanta Fed GDP Nowcast (SA annual rate)



Source: BOCOM BBM, Atlanta Fed

On the first point, several indicators show higher-than-usual uncertainty. The Economic Policy Uncertainty (EPU) index, calculated by Federal Reserve Economic Data (FRED), is at the second-highest level in the last four decades, below only the level seen during the COVID-19 pandemic (Figure 2). The unusually high economic policy uncertainty is associated with rising market volatility and its negative impact on corporate investment, hiring, and economic growth.

Figure 2: US - Economic Policy Uncertainty Index (30-day MA)



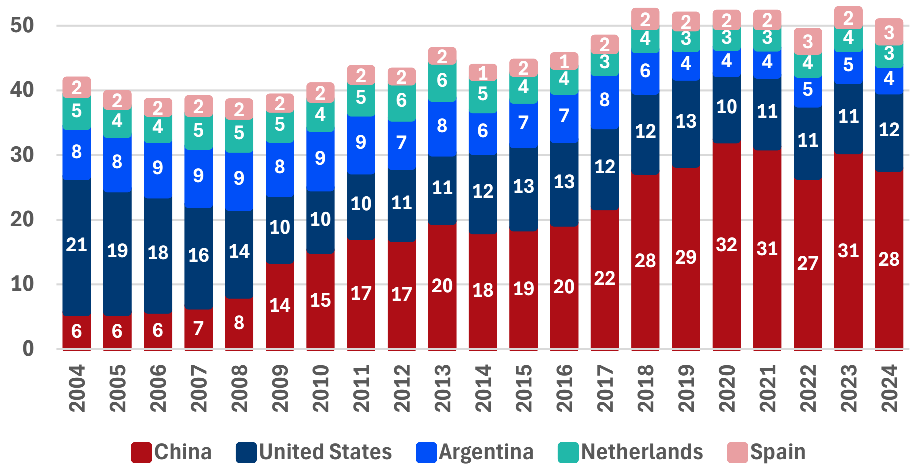
Source: BOCOM BBM, FRED

Meanwhile, the new tariffs announced on “Liberation Day” will have a significant impact on global trade, and are already affecting prices of several assets, such as equities, interest-rate futures and the dollar, all of which have dropped sharply. The tariffs vary according to the US trade deficit with each country. A minimum tariff of 10% has been imposed on US imports from many Latin American countries, including Brazil, while much higher tariffs have been imposed on other countries in Asia and elsewhere.

The implications for Brazil are manifold. The direct impact of tariffs on the local economy should be limited, since only 12% of Brazil’s total exports go to the US (2.2% of GDP) (Figure 3). Nonetheless, the sectors that depend most on the US market may be severely affected, whereas some industries may make market share gains in countries that face higher US tariffs. In addition, possible retaliation by the countries most affected by the tariffs could create opportunities for Brazilian exports to substitute US products, as in the case of Chinese purchases of soy products.

Indirectly, the tariffs will lead to less efficient allocation of resources, reducing trade flows and global growth. Additional implications for Brazil include less demand for commodities (and lower prices), as well as a rise in investor risk aversion.

Figure 3: Main destinations of Brazilian exports (% of total)



Source: BOCOM BBM, MDIC

It is too soon to predict how countries will respond in terms of possible retaliation, or whether the US government will be open to negotiation. Thus, although there are opportunities for Brazil in the new configuration of global trade, the dynamics cannot yet be clearly distinguished. In the short term, local currency appreciation should help lower inflation toward the Central Bank's target band, but recent government policies to stimulate demand will tend to drive it higher. Our current projections, shown in the table below, give due weight to the risks in both directions.

ECONOMIC FORECASTS	2020	2021	2022	2023	2024	2025F	2026F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	3.4%	2.2%	1.3%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	4.8%	5.8%	4.5%
Unemployment Rate (eoy ,%)	14.2%	11.1%	7.9%	7.4%	6.2%	6.8%	7.5%
Policy Rate (eoy, %)	2.0%	9.3%	13.8%	11.75%	12.3%	15.0%	13.0%
External Accounts							
Trade Balance (US$ bn)	36	42	52	92	66	77	78
Current Account Balance (US$ bn)	-25	-40	-42	-28	-61	-49	-51
Current Account Balance (% of GDP)	-1.7%	-2.4%	-2.2%	-1.3%	-2.8%	-2.2%	-2.1%
Fiscal Policy							
Central Government Primary Balance (% of GDP)	-9.8%	-0.4%	0.5%	-2.1%	-0.4%	-0.7%	-0.6%
Government Gross Debt (% of GDP)	86.9%	77.3%	71.7%	74.4%	76.1%	80.5%	85.3%