

Copom Minutes: almost done

- ▶ The Copom meeting minutes clarify how the authorities see the scenario: upward inflation risks dominate. By characterizing the balance of risks as asymmetric (a sentence that was grafted in a part of the text that usually repeats the meeting statement), the committee signals that whatever easing space there is, it is running out fast. They seem to be particularly concerned about evidence that the economy might be gathering speed, rather than slowing down. Policymakers explain their decision to cut the policy rate as an attempt to avoid excessive instrument, asset price, and economic volatility. The text removes the qualification that the decision had been taken “at this moment”, that was present in the statement, and historically signals that things may change momentarily. And reinstates the reference to the oil shock (which had been removed from the statement), now possibly in reverse. All things considered, we will wait for the release of the Monetary Policy report on Thursday, before implementing any revision in our policy scenario (Selic at 13.75% pa by year-end, at this moment).

Main changes in inflation forecasts and balance of risks

In the tables below, we repeat the projections presented in our report on last week’s Copom decision, with updates to the balance of risks. The inflation and Selic rate forecasts from the Focus survey refer to those published in the week of the decision.

Inflation forecasts presented in the latest meetings by the Copom				
Period	January	March	April	June
IPCA 2026	3.4%	3.9%	4.6%	5.2%
Relevant Horizon (RH)**	3.2% (3Q27)	3.3% (3Q27)	3.5% (4Q27)	3.7% (4Q27)
Market-set prices 2026	3.5%	3.7%	4.5%	5.3%
Market-set prices RH**	3.1% (3Q27)	3.3% (3Q27)	3.5% (4Q27)	3.7% (4Q27)
Regulated prices 2026	3.0%	4.3%	4.8%	4.7%
Regulated prices RH**	3.3% (3Q27)	3.2% (3Q27)	3.6% (4Q27)	3.9% (4Q27)
Exogenous variables				
Exchange rate* (BRL/USD)	5.35	5.20	5.00	5.10
Selic rate (Focus) 2026	12.25%	12.25%	13.0%	13.75%
Selic rate (Focus) 2027	10.50%	10.50%	11.00%	12.00%
Inflation expectations (Focus) 2026	4.0%	4.1%	4.9%	5.3%
Inflation expectations (Focus) 2027	3.8%	3.8%	4.0%	4.1%

*Average observed on the ten business days ending on the last day of the week before the Copom meeting. Additionally, the exchange rate starts at the mentioned values and evolves according to the purchasing power parity (PPP) afterwards.

**Projection for six quarters ahead, the current relevant horizon for monetary policy, according to the new continuous inflation target system, effective from January 1, 2025 onwards.

Source: Central Bank, Itaú.

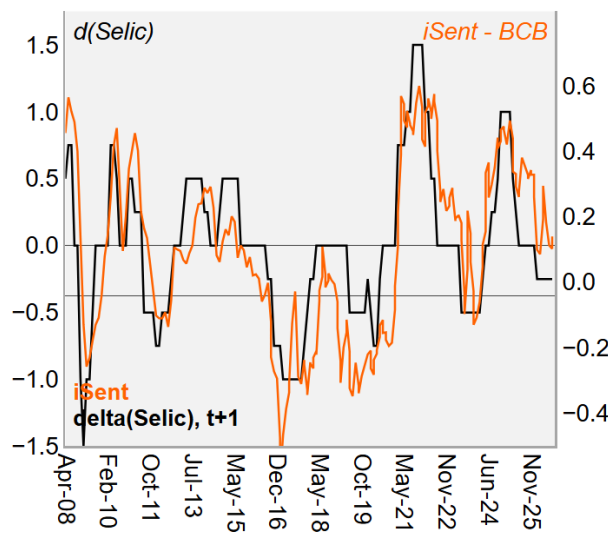
Factors mentioned in the balance of risks by the Copom (orange = change compared to the previous meeting)					
March		April		June	
Upside risks	Downside risks	Upside risks	Downside risks	Upside risks	Downside risks
(i) a more prolonged period of deanchoring of inflation expectations; (ii) a stronger-than-expected resilience of services inflation due to a more positive output gap; (iii) a conjunction of internal and external economic policies with a stronger-than-expected inflationary impact, for example, through a persistently more depreciated currency	(i) a greater-than-projected deceleration of domestic economic activity, impacting the inflation scenario; (ii) a steeper global slowdown stemming from the trade shock and the scenario of heightened uncertainty; (iii) a reduction in commodity prices with disinflationary effects.	(i) a more prolonged period of deanchoring of inflation expectations, with longer horizons incorporating potential second-round effects stemming from supply constraints in oil and its derivatives; (ii) a stronger-than-expected resilience of services inflation due to a more positive output gap; (iii) a conjunction of internal and external economic policies with a stronger-than-expected inflationary impact, for example, through a persistently more depreciated currency.	(i) a greater-than-projected deceleration of domestic economic activity, impacting the inflation scenario; (ii) a steeper global slowdown stemming from the trade and oil shocks and the scenario of heightened uncertainty; (iii) a reduction in commodity prices with disinflationary effects.	Upward asymmetry (mentioned in the minutes). *(i) a more prolonged period of deanchoring of inflation expectations, with longer horizons incorporating potential second-round effects stemming from supply shocks in oil and its derivatives, and to climate effects upon agricultural productivity and energy costs ; (ii) a stronger-than-expected resilience of services inflation due to a more positive output gap; (iii) a conjunction of internal and external economic policies with a stronger-than-expected inflationary impact, for example, through a persistently more depreciated currency; and (iv) stimuli to aggregate demand, particularly its consumption component, resulting in economic activity growth above potential output, weakening some of the usual transmission channels of monetary policy.	(i) a greater-than-projected deceleration of domestic economic activity, impacting the inflation scenario; (ii) a steeper global slowdown stemming from the trade and oil shocks and the scenario of heightened uncertainty; and (iii) a reduction in commodity prices with disinflationary effects.

Additionally, the minutes brought details on the debate relative to the balance of risks. According to the text, “the Committee assessed that the risks to the inflation, both to the upside and to the downside, remain higher than usual, **with an upward asymmetry**” (this mention was not included in the post-meeting statement).

iSent, Itaú’s Central Bank Sentiment Classifier

Our [iSent Central Bank Classifier](#)¹ points to a more conservative tone (0.18), in line with the considerations highlighted throughout the text, particularly regarding recent data and the upward asymmetry of risks.

Classifier close to neutral territory



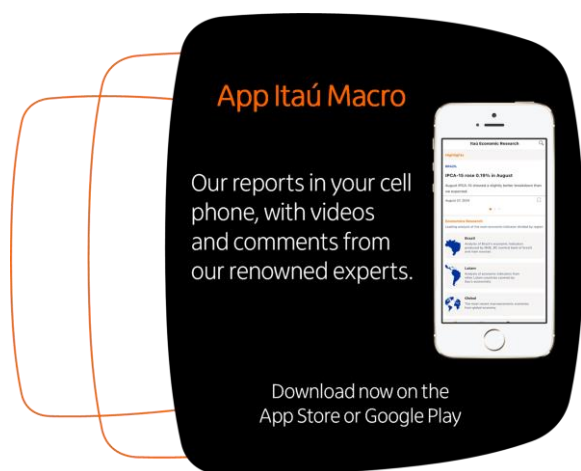
Source: BCB, Itaú

¹ Based on GPT-4, developed by our data science team using sentences published in central bank’s official documents labeled by our economists. Our labeled dataset consists of approximately 1,000 sentences extracted from official documents published by the Brazilian Central Bank. Each sentence was classified as dovish, neutral, hawkish, or out of context. The index is constructed on the relative presence of each class. The index ranges from -1 to 1, getting higher as the tone is perceived as more hawkish. iSent-BCB shows good adherence to current and future moves in interest rates in Brazil (correlation around 0.8).

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