Macro Brazil

December 11, 2024

Copom: Credibility Shock

- The Copom took the expected (by us) decision, hiking the Selic rate by 100 bps, to 12.25% pa. The statement also indicated that, unless the scenario changes, the committee intends to hike the Selic by 100 bps twice more. The move was motivated by the unfortunate behavior of inflation expectations, which took off in recent weeks, and a wider positive output gap. Interestingly, while all board members voted for the 100-bp move, the text did not say that the decision was taken unanimously. This, in our view, raises the possibility that there was no consensus on the guidance, something that we will learn in the meeting minutes, to be released on Tuesday, December 17, and possibly in the quarterly inflation report, on Thursday (19). Alternatively, albeit less likely, some members may have opted for a different pace of hiking, say 75 bps, but ended up siding with the majority to minimize noise. For now, we expect the base rate to be hiked by 100 bps in the next policy meeting, and most likely in the following one too.

Main changes in inflation forecasts and balance of risks

Inflation forecasts presented in the latest meetings by the Copom					
Period	**July****		**September**	**November**	**December**
	Reference	Alternative (constant Selic rate)	Reference	Reference	Reference
IPCA 2024	4.2%	4.2%	4.3%	4.6%	4.9%
IPCA 2025	3.6%	3.4%	3.7%	3.9%	4.5%
Relevant Horizon (RH)***	3.4% (1T26)	-	3.5% (1Q26)	3.6% (2Q26)	4.0% (2Q26)
Market-set prices 2024	-	-	4.4%	4.5%	5.0%
Market-set prices 2025	-	-	3.6%	3.8%	4.5%
Market-set prices RH***	-	-	3.4% (1Q26)	3.4% (2Q26)	3.8% (2Q26)
Regulated prices 2024	5.0%	-	4.2%	4.9%	4.6%
Regulated prices 2025	4.0%	-	4.0%	4.2%	4.5%
Regulated prices RH***	-	-	3.9% (1Q26)	4.3% (2Q26)	4.6% (2Q26)
Exogenous variables					
Exchange rate* (BRL/USD)	5.55		5.60	5.75	5.95
Selic rate (Focus) 2024	10.50%	10.50%	11.25%	11.75%	12.00%
Selic rate (Focus) 2025	9.50%	10.50%	10.50%	11.50%	13.50%
Selic rate (Focus) 2026	9.00%	10.50%	9.50%	9.75%	11.00%
Inflation expectations (Focus) 2024	4.10%		4.35%	4.59%	4.84%
Inflation expectations (Focus) 2025	3.96%		3.95%	4.03%	4.59%
Inflation expectations (Focus) 2026	3.60%		3.61%	3.61%	4.00%

*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.
**The Copom presented an alternative scenario (in addition to the reference scenario) for its inflation projections, considering the Selic rate constant at the current level.
***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.

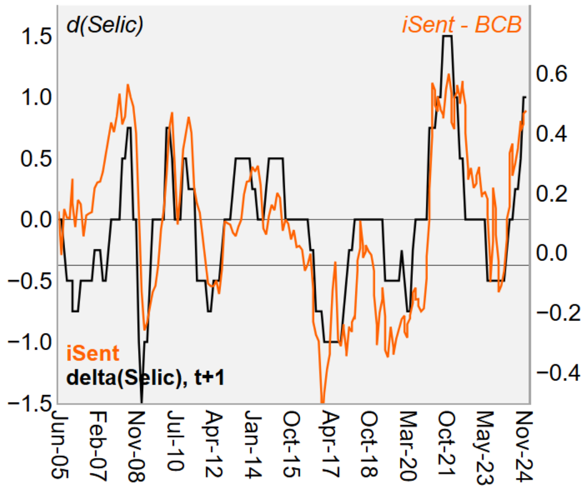
Factors mentioned in the balance of risks by the Copom in the latest meetings (**orange** = change compared to the previous meeting)					
September		November		December	
Upside risks	**Downside risks**	**Upside risks**	**Downside risks**	**Upside risks**	**Downside risks**
(i) a more prolonged period of unanchoring of inflation expectations (ii) a stronger-than-expected resilience of services inflation due to a tighter output gap (iii) a conjunction of internal and external economic policies with an inflationary impact, for example, through a persistently more depreciated currency	(i) greater deceleration of the global economic activity (ii) an impact on global inflation larger than expected from synchronized monetary policy tightening	(i) a more prolonged period of unanchoring of inflation expectations (ii) a stronger-than-expected resilience of services inflation due to a tighter output gap (iii) a conjunction of internal and external economic policies with an inflationary impact, for example, through a persistently more depreciated currency	(i) greater deceleration of the global economic activity (ii) an impact on global inflation larger than expected from synchronized monetary policy tightening	(i) a more prolonged period of unanchoring 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 an inflationary impact, for example, through a persistently more depreciated currency	(i) greater deceleration of the global economic activity (ii) an impact on global inflation larger than expected from synchronized monetary policy tightening

Source: Central Bank, Itaú.

iSent, Itaú's Central Bank Sentiment Classifier

Our iSent Central Bank Classifier[1] remains in positive territory (0.50).

Classifier in positive 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).*

Macro Research – Itaú

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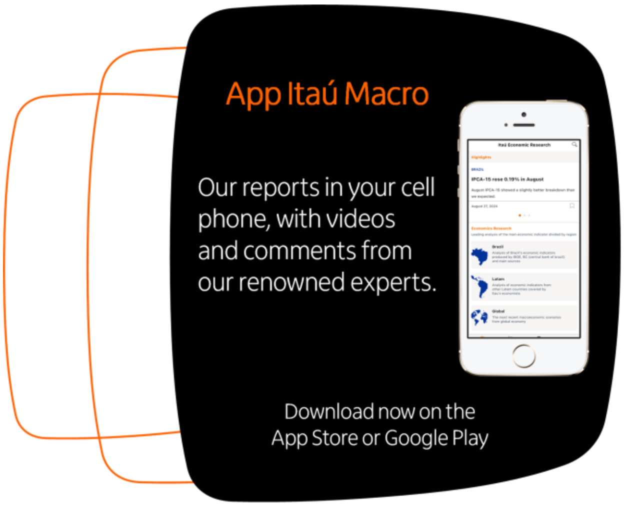

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