

Copom Minutes: Our baseline for the March meeting is now a 50-bp cut

- ▶ While the minutes of the last Copom meeting did not rule out the possibility of starting the easing cycle with a 25-bp cut in March – indicating the labor market as the main source of discomfort – the text did not push back against the 50-bp option either. And if the next releases come in line with our forecasts, we believe the 50-bp alternative will grow further in pricing as the dominant outcome. In the next meeting, the BCB will likely forecast 3.1% inflation in the relevant horizon, already considering the 50-bp cut expected in the Focus survey. Such forecast, added to pricing, should allow for the move to materialize. Between now and then, the main risk for this scenario would be a BRL depreciation (against the recent trend) as we believe data will likely be benign enough. The BCB will probably see a downward surprise in inflation (comparing their estimates to ours) and have one extra batch of labor market numbers that will probably come in with strong job creation in Caged, but mostly as payback from the very soft print seen in December.
- ▶ Therefore, we now expect the Copom to begin the easing cycle with a 50-bp move in March. For now, we still expect a 12.75% pa Selic rate at the end of the year.

Main changes in inflation forecasts and balance of risks

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

Inflation forecasts presented in the latest meetings by the Copom					
Period	July	September	November	December	January
IPCA 2026	3.6%	3.6%	3.6%	3.5%	3.4%
Relevant Horizon (RH)**	3.4% (1Q27)	3.4% (1Q27)	3.3% (2Q27)	3.2% (2Q27)	3.2% (3Q27)
Market-set prices 2026	3.5%	3.5%	3.6%	3.6%	3.5%
Market-set prices RH**	3.3% (1Q27)	3.3% (1Q27)	3.2% (2Q27)	3.2% (2Q27)	3.1% (3Q27)
Regulated prices 2026	4.0%	3.8%	3.4%	3.2%	3.0%
Regulated prices RH**	3.9% (1Q27)	3.8% (1Q27)	3.5% (2Q27)	3.4% (2Q27)	3.3% (3Q27)
Exogenous variables					
Exchange rate* (BRL/USD)	5.55	5.40	5.40	5.35	5.35
Selic rate (Focus) 2026	12.50%	12.38%	12.25%	12.25%	12.25%
Inflation expectations (Focus) 2026	4.4%	4.3%	4.2%	4.2%	4.0%

*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 in the latest meetings (orange = change compared to the previous meeting)					
November		December		January	
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; (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; (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

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