Macro Brazil

October 31, 2025

Copom Cockpit: unchanged signaling

- The Copom will meet again on November 4 and 5 and is set to unanimously maintain the Selic rate at 15.00% pa, in order to ensure the convergence of inflation toward the target within the relevant monetary policy horizon. The decision should reflect the combination of a cautious stance in the face of a still uncertain external environment and the assessment that the lagged effects of monetary policy are still unfolding.
- Since the last meeting, the information set has evolved in a benign manner. Activity data have been confirming the ongoing deceleration trend (based on the most recent indicators, we estimate growth of 0.3% in Q3, compared to 0.4% in Q2 and 1.3% in Q1) and suggesting an incipient inflexion of the labor market. On the inflation front, core measures have shown some improvement and the surprises seen in the latest IPCA releases should lead inflation to end the year closer to the band around the target. Additionally, there was a relevant drop in long-term inflation expectations.
- However, the stabilization of the labor market occurs around the historical low of the unemployment rate. Current inflation remains distant from the monetary policy objective. And the improvement in expectations, even if significant, still leaves market projections consistently above the target – so recognizing this improvement at this moment may be counterproductive. For these reasons, we believe that the Copom may mention some improvement in current inflation, but will not change its signaling of maintaining interest rates at 15% pa for a prolonged period in view of the de-anchoring of expectations, the resilience of the labor market, and inflation projections above the target.

1 – Inflation Forecasts

The tables below summarize the projections based on our estimated replica of the BCB's small-scale model, as well as the changes in the Focus survey since the committee's last meeting. The exchange rate used (R$5.40/US$) follows BCB's procedure of using the average of the last 10 business days.

Compared to the September meeting, the committee's inflation projections in the reference scenario (which assumes an exchange rate consistent with purchasing power parity and an interest rate aligned with the Focus survey) are likely to fall to 4.6% in 2025 (from 4.8%), to 3.5% in 2026 (from 3.6%) and to 3.3% (from 3.4% in the 1Q27) in the relevant 2Q27 horizon if we do not consider the income tax impact on the output gap, or 3.4% considering such impact.

Since the last Copom meeting, inflation expectations reported by the Focus survey have declined to 4.56% for 2025 (from 4.83%) and to 4.20% for 2026 (from 4.30%). For the Selic rate, the median of projections remained stable at 15.00% for 2025 and showed a slight decrease to 12.25% (from 12.38%) for 2026.

IPCA forecasts (%) according to "Central Bank model"*				
Period	**June Meeting**	**July Meeting**	**September Meeting**	**Nov. Meeting (forecast)**
2025	4.9%	5.0%	4.8%	4.6%
2026	3.6%	3.6%	3.6%	3.5%
Relevant horizon	3.6% (4Q26)	3.4% (1Q27)	3.4% (1Q27)	3.3%-3.4% (2Q27)**
Exogenous variables				
Exchange Rate (R$/US$)	5.60	5.55	5.40	5.40
Selic Interest Rate (%) 2025	14.75%	15.00%	15.00%	15.00%
Selic Interest Rate (%) 2026	12.50%	12.50%	12.38%	12.25%
Selic Interest Rate (%) 2027	10.50%	10.50%	10.50%	10.50%
Inflation Expectations (Focus) 2025	5.25%	5.09%	4.83%	4.56%
Inflation Expectations (Focus) 2026	4.50%	4.44%	4.30%	4.20%
Inflation Expectations (Focus) 2027	4.00%	4.00%	3.90%	3.82%

Source: Bloomberg, Central Bank of Brazil, Itaú.

* Model developed by Itaú replicating Copom's model.

** No impact of income tax on the output gap / With impact of income tax on the output gap.

Focus forecasts *(%, year-end)*						
	2025		**2026**		**2027**	
	Previous Copom	**Current***	**Previous Copom**	**Current***	**Previous Copom**	**Current***
IPCA	4.83	4.56	4.30	4.20	3.90	3.82
GDP growth	2.16	2.16	1.80	1.78	1.90	1.83
Selic rate	15.00	15.00	12.38	12.25	10.50	10.50
Exchange rate (BRL/USD)	5.50	5.41	5.60	5.50	5.60	5.50

*considering the latest Focus report.

Source: BCB, Itaú.

2 – Asset Prices Evolution

From the Copom meeting in September until the publication of this report, significant volatility was observed in the exchange rate, which reached R$ 5.52 per dollar in the first half of the month, mainly influenced by trade tensions between the United States and China and by temporary stress in the local private credit market. However, this trend was temporary, and the rate ended the month at R$ 5.38 per dollar – still above the level observed on the eve of the last meeting (R$ 5.30), but in line with the movement of its peers. The country risk perception, measured by the 5-year CDS, rose 10 b.p. since the last meeting, reaching 137 basis points. The yield on the 10-year U.S. Treasury bond remains at 4.09%, while Brent crude oil prices fell to US$ 65 per barrel (from US$ 68).

Asset prices		
	Previous Copom	Current*
UST 10Y	4.09	4.09
Oil price (Brent)	68	65
Agricultural commodities**	617	622
CRB RIND Index***	576	574
CDS 5Y	127	137
Exchange rate (BRL/USD)	5.30	5.38

*considering closing prices on the eve of publication of the report.
**geometric average of soy, corn and wheat prices, in US dollars.
***Commodity Research Bureau Index of Industrial Raw Materials.
Source: CRB, BBG, Itaú.

3 – Data Evolution

The following table allows for an assessment of the behavior of the main macroeconomic indicators released between the last Copom meeting (September 16–17) and the next one, which will take place next week. In the field of inflation, September data indicated a monthly variation of 0.48% for both the IPCA-15 and the full IPCA, both below market expectations (0.52% for each). In October, the IPCA-15 recorded 0.18% m/m, again below the market projection (0.21%). Despite upward surprises in airline fares and residential rent, October's result showed a favorable qualitative composition, with declines in core services (auto insurance and repairs) and in core industrial goods (personal hygiene products and telephone devices).

Regarding economic activity, the unemployment rate from the PNAD survey remains at a historically low level (5.6% in the quarter ending in September, 5.8% seasonally adjusted), while CAGED reported the creation of 213 thousand formal jobs in the same month, above the market expectation of 170 thousand. Although the data suggest a resilient labor market, there are early signs of a slowdown, particularly in the average number of formal jobs, which over the past three months has been around 85 thousand (seasonally adjusted), indicating a deceleration compared to the beginning of the year – when it was around 150 thousand. Additionally, activity data showed mixed signals: industrial production exceeded expectations in August (0.80% m/m vs. 0.40%), while services and retail sales were in line with projections. The IBC-Br index surprised to the downside (0.40% m/m vs. 0.70%), mainly influenced by the decline in agriculture (-1.85% m/m).

Economic Indicators: Result vs. Consensus			
Release Date	Indicator	Result	Consensus
25-Sep-25	IPCA-15 (Sep/25) - MoM	0.48%	0.52%
29-Sep-25	IGP-M (Sep/25) - MoM	0.42%	0.36%
29-Sep-25	Formal job creation (Aug/25) - Thousands	147	182
30-Sep-25	Unemployment rate (Jul/25)	5.60%	5.60%
03-Oct-25	Industrial production (Aug/25) - MoM	0.80%	0.40%
09-Oct-25	IPCA (Sep/25) - MoM	0.48%	0.52%
14-Oct-25	IBGE Services Sector Volume (Aug/25) - MoM	0.10%	0.10%
15-Oct-25	Core Retail Sales (Aug/25) - MoM	0.20%	0.20%
16-Oct-25	IBC-Br (Aug/25) - MoM	0.40%	0.70%
24-Oct-25	IPCA-15 (Oct/25) - MoM	0.18%	0.21%
30-Oct-25	IGP-M (Oct/25) - MoM	-0.36%	-0.23%
30-Oct-25	Formal job creation (Sep/25) - Thousands	213	170
31-Oct-25	Unemployment rate (Sep/25)	5.60%	5.50%

Data in red suggest more hawkish results for monetary policy (higher inflation or stronger activity than expected) and data in blue suggest more dovish results.

Source: IBGE, Brazilian Central Bank and Bloomberg

4 – Evolution of the *Copometer* Communication

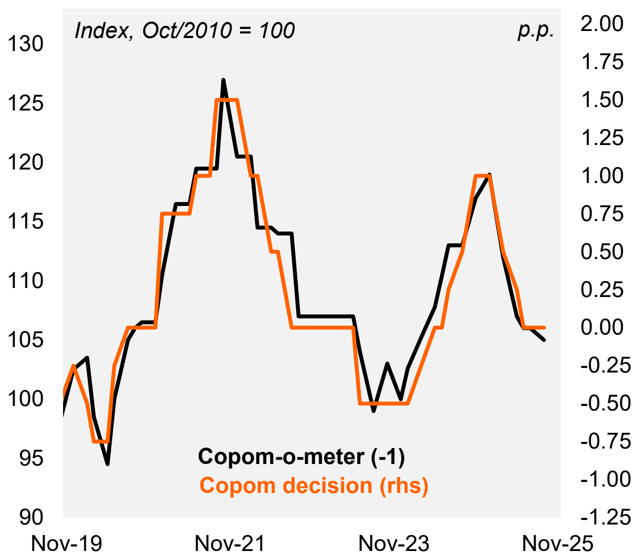
In its most recent decision, the Copom maintained the benchmark interest rate at 15% per year, reinforcing the signal that the Selic rate will remain at this level for an extended period. The Committee emphasized the need for caution in light of an external scenario still marked by uncertainties, noting that risks related to the fiscal policies of developed countries and trade tariffs remain present. However, recent exchange rate movements have more strongly reflected factors such as interest rate differentials and the depreciation of the dollar against other currencies.

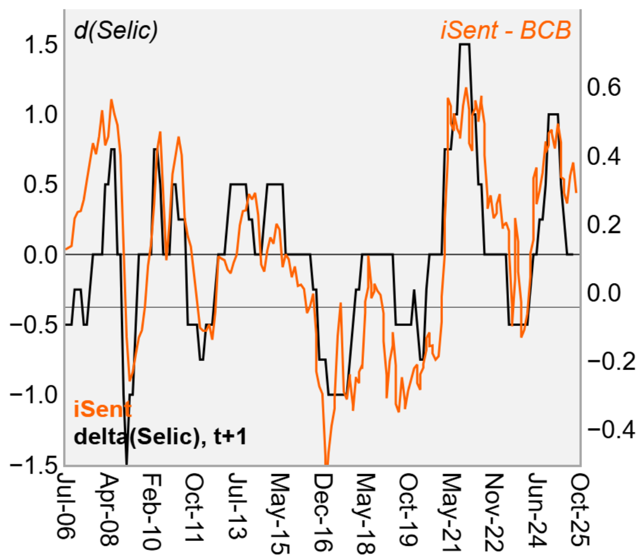
On the domestic front, the minutes indicated that economic activity continues to moderate gradually, as expected by the Committee. Despite the presence of mixed signals, the most recent data support the view that the slowdown process is occurring in a manner consistent with the transmission mechanisms of monetary policy. On the other hand, the authorities emphasized that although recent inflation readings have shown some improvement, expectations remain above the target across all time horizons. The de-anchoring of long-term expectations continues to be a source of concern. Overall, it appears that the Committee is confident in the trajectory of economic moderation, in line with the previously outlined scenario, and therefore considers it appropriate to maintain the interest rate at its current level for an extended period. This view was reinforced in recent statements made during a side event at the IMF and World Bank Annual Meetings. The need to maintain firmness and composure was highlighted, avoiding reactions to noise, and stressing that the goal is to ensure inflation converges to the target without halting Brazil's economic growth, but rather aligning it with its potential.

To anticipate Copom decisions, we use the Copometer – an index that measures the degree of monetary restriction or expansion implied in the Central Bank's communication. Applying the methodology, which is based on scores assigned to the committee's key communications, we assess that the indicator is consistent with the Selic rate remaining stable at the next meeting.

In addition to the Copometer, we developed [iSent – Itaú's Central Bank Sentiment Classifier] – based on GPT-4 and built by our data science team using sentences from official documents published by central banks, labeled by our economists. Our labeled dataset consists of about one thousand sentences from documents released by Brazil's Central Bank. Every sentence was classified as dovish, neutral, hawkish, or out of context, and the index is constructed based on the relative frequency of each class within a document. The index ranges from -1 to 1, with higher values indicating a more hawkish tone. The iSent-BCB shows strong alignment with both current and future changes in Brazilian interest rates (with a correlation of approximately 0.8). Visual analysis also confirms that the index tracks well with Selic rate changes one meeting ahead. In fact, it has accurately captured most shifts over the past 19 years, particularly during the hiking cycles of the late 2000s and early 2020s. In general terms, the index suggests a softer tone in the recent monetary policy communication, although not enough to ensure interest rate stability.

Copom-o-Meter and Itaú iSent Classifier





5 – Our view

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