Macro Brazil

September 18, 2024

Copom: on the move

- The Copom delivered the expected decision, a 25-bp hike, in a unanimous decision, taking the policy rate to 10.75% pa. Its statement left the pace and size of the cycle open. Given that the forecast in the relevant policy horizon stands at 3.5%, one envisages at this stage a 150-bp cycle. The committee mentions that the output gap is now positive, and that it will monitor its behavior to decide the next steps in its monetary policy strategy. Other variables they will monitor include inflation (especially those items that are more sensitive to activity), inflation expectations, their own projections and the balance of risks – which is described as asymmetric upwards.
- We reckon the statement indicates that the next move will be a 50-bp hike, unless the scenario improves materially. For now, we expect the base rate to end the year at 11.75% and the cycle at 12.0%. We'll learn more about the authorities' rationale with the release of the meeting minutes on September 24.

Main changes in inflation forecasts and balance of risks

Inflation forecasts presented in the latest meetings by the Copom						
Period	**May**	**June****		**July****		**September**
	Reference	Reference	Alternative (constant Selic rate)	Reference	Alternative (constant Selic rate)	Reference
IPCA 2024	3.8%	4.0%	4.0%	4.2%	4.2%	4.3%
IPCA 2025	3.3%	3.4%	3.1%	3.6%	3.4%	3.7%
IPCA 1Q26***	-	-	-	3.4%	3.2%	3.5%
Market-set prices 2024	-	-	-	-	-	4.4%
Market-set prices 2025	-	-	-	-	-	3.6%
Market-set prices 1Q26	-	-	-	-	-	3.4%
Regulated prices 2024	4.8%	4.4%	-	5.0%	-	4.2%
Regulated prices 2025	4.0%	4.0%	-	4.0%	-	4.0%
Regulated prices 1Q26	-	-	-	-	-	3.9%
Exogenous variables						
Exchange rate* (BRL/USD)	5.15	5.30		5.55		5.60
Selic rate (Focus) 2024	9.63%	10.50%	10.50%	10.50%	10.50%	11.25%
Selic rate (Focus) 2025	9.00%	9.50%	10.50%	9.50%	10.50%	10.50%
Selic rate (Focus) 2026	8.75%	9.00%	10.50%	9.00%	10.50%	9.50%
Inflation expectations (Focus) 2024	3.72%	3.96%		4.10%		4.35%
Inflation expectations (Focus) 2025	3.64%	3.80%		3.96%		3.95%
Inflation expectations (Focus) 2026	3.50%	3.60%		3.60%		3.61%

*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.

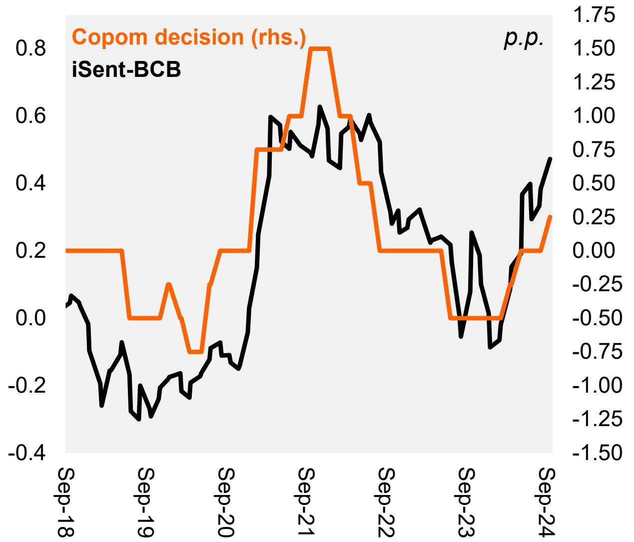
Factors mentioned in the balance of risks by the Copom in the latest meetings (orange = new inclusion compared to the previous meeting)					
June		July		September	
Upside risks	Downside risks	Upside risks	Downside risks	Upside risks	Downside risks
(i) persistence of global inflationary pressures (ii) stronger than expected resiliency on services inflation due to a tighter output gap	(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 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

Source: Central Bank, Itaú.

iSent, Itaú's Central Bank Sentiment Classifier

Our iSent Central Bank Classifier[1] remains in positive territory, posting an increase at the margin (0.47).

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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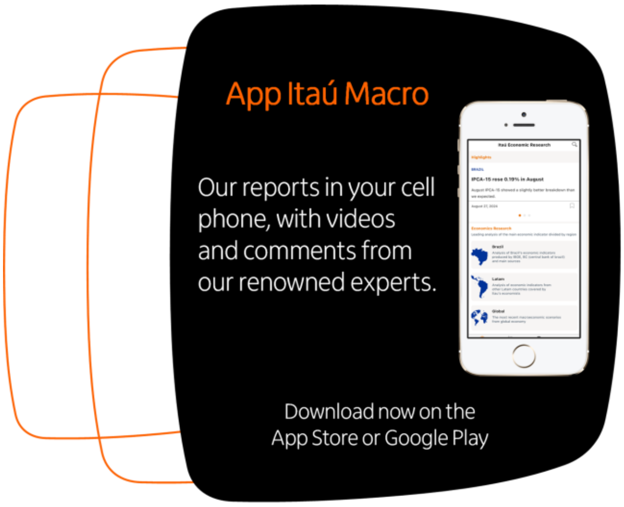

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