Macro Brazil

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Copom: is this the end?

- The Copom delivered the expected (by us and most of the market) decision, a 50-bp hike, taking the policy rate to 14.75%. An inflation forecast for the 4Q26 policy horizon, at 3.6%, that is still distant from the target was probably the key driver of this decision. Importantly, the authorities' assessment of the potential effects of the changed external environment led them, in our view, to put a relatively high bar for an additional adjustment of the Selic rate – by taking the view that the balance of risks around the central scenario is symmetrical. We, thus, reckon the cycle may have been paused. Moreover, the Copom states that policy needs to be more cautious, given heightened uncertainty, the late stage of the cycle, and the lagged effects of past moves – hinting that an extra hike, if it happens, will probably be at a slower, 25-bp pace. In sum, the committee indicates that it is virtually in high for long mode.

- Despite the apparent option for a high for long strategy, with this somewhat dovish turn of events, markets (and us) may bring forward discussion of an eventual easing cycle – currently consensus calls for a 25-bp cut in the last meeting of 2025, we see this happening in the first meeting of 2026.

- As usual, we will learn more about the Copom's thinking with the release of the meeting minutes on Tuesday the 13th, when we may revisit our monetary policy call.

Main changes in inflation forecasts and balance of risks

Inflation forecasts presented in the latest meetings by the Copom

Period	December	January	March	May
IPCA 2025	4.5%	5.2%	5.1%	4.8%
Relevant Horizon (RH)**	4.0% (2Q26)	4.0% (3Q26)	3.9% (3Q26)	3.6% (4Q26)
Market-set prices 2025	4.5%	5.2%	5.4%	5.3%
Market-set prices RH**	3.8% (2Q26)	3.8% (3Q26)	3.8% (3Q26)	3.4% (4Q26)
Regulated prices 2025	4.5%	5.2%	4.3%	3.5%
Regulated prices RH**	4,6% (2Q26)	4,6% (2Q26)	4,2% (3Q26)	4,0% (4Q26)
Exogenous variables				
Exchange rate* (BRL/USD)	5.95	6.00	5.80	5.70
Selic rate (Focus) 2025	13.50%	15.00%	15.00%	14.75%
Selic rate (Focus) 2026	11.00%	12.50%	12.50%	12.50%
Inflation expectations (Focus) 2025	4.59%	5.50%	5.66%	5.53%
Inflation expectations (Focus) 2026	4.00%	4.22%	4.48%	4.51%

*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)

January		March		May	
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 more positive output gap (iii) a conjunction of internal and external economic policies with a **greater-than-expected** inflationary impact, for example, through a persistently more depreciated currency	(i) **impacts on the inflation outlook from a potential domestic economic slowdown** that is more pronounced than projected; (ii) **a less inflationary scenario for emerging economies resulting from shocks to international trade and global financial conditions**	(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 a greater-than-expected inflationary impact, for example, through a persistently more depreciated currency	(i) impacts on the inflation outlook from a potential domestic economic slowdown that is more pronounced than projected; (ii) a less inflationary scenario for emerging economies resulting from shocks to international trade and global financial conditions	(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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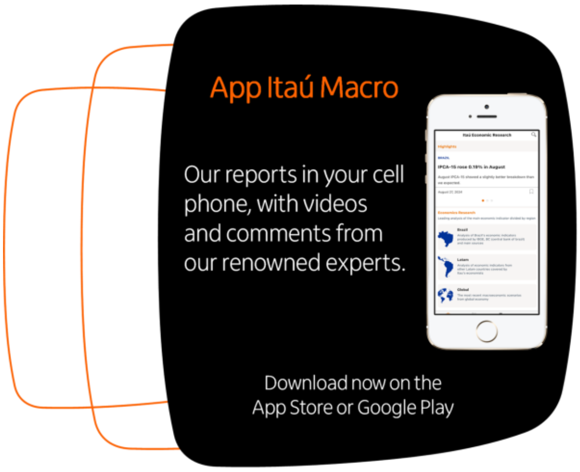

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