

Copom Cockpit: easing cycle postponed to March

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- ▶ In our view, this postponement stems from: (i) the committee wanting to gain more confidence in the disinflation process, in an environment where the labor market remains resilient; and (ii) the start of the cycle occurring with market pricing that is inconsistent with a cut. Point (ii) is especially important in light of the recent experience in which the Copom sought to position itself more cautiously in an environment of unanchored inflation expectations, thereby reaping an important gain in credibility, which is evident in the improvement of longer-term projections in the Focus survey. Beginning a cutting cycle with a move less conservative than expected could undermine part of that effort. The vacancies on the committee may also contribute to a more cautious Copom.
- ▶ That said, we continue to believe that the start of the easing cycle is near. In its recent communication, the committee showed that it is gaining confidence that its strategy is bearing fruit. Absent major surprises, this conviction should increase over time. Seeking to keep its options open, the Copom should make small changes to its communication. In addition to the change made in the December minutes (the committee described the scenario as prescribing a “contractionary” monetary policy, instead of being at a “contractionary level,” which in our view leaves open the possibility of an interest-rate cut in the short term), the committee should state that the current strategy has proven adequate (signaling the increased confidence mentioned above), replace the emphasis on remaining vigilant with a prescription of patience and serenity (something that reduces the likelihood of aggressive cuts), and state that future steps and the degree of restriction may be reassessed, removing the reminder that it may resume the adjustment cycle if deemed appropriate (paving the way for the option of a cut in March).

1 – Inflation Forecasts

The tables below summarize the projections derived from our estimated replica of the Central Bank's small-scale model, as well as changes in the Focus survey since the committee's last meeting. The exchange rate used (BRL 5.35/USD) follows the Central Bank's methodology of using the average of the last 10 business days.

Compared with the December meeting, the committee's inflation projections in the reference scenario (which assumes an exchange rate consistent with purchasing power parity and an interest rate path aligned with Focus expectations) should rise to 3.6% in 2026 (from 3.5%) and remain at 3.2% in the relevant 3Q27 horizon (compared with 3.2% in the prior meeting, referenced to 2Q27).

Since the last Copom meeting, inflation expectations reported by the Focus survey declined to 4.00% for 2026 (from 4.16%) and remained stable at 3.80% for 2027. For the Selic rate, median projections remained unchanged at 12.25% for 2026 and 10.50% for 2027.

IPCA forecasts (%) according to "Central Bank model"**					
Period	June Meeting	September Meeting	November Meeting	December Meeting	Jan. Meeting (forecast)
2026	3.6%	3.6%	3.6%	3.5%	3.6%
Relevant Horizon	3.4% (1Q27)	3.4% (1Q27)	3.3% (2Q27)	3.2% (2Q27)	3.2% (3Q27)
Exogenous variables					
Exchange Rate (R\$/US\$)	5.55	5.40	5.40	5.35	5.35
Selic Interest Rate (%) 2026	12.50%	12.38%	12.25%	12.25%	12.25%
Selic Interest Rate (%) 2027	10.50%	10.50%	10.50%	10.50%	10.50%
Inflation Expectations (Focus) 2026	4.44%	4.30%	4.20%	4.16%	4.00%
Inflation Expectations (Focus) 2027	4.00%	3.90%	3.80%	3.80%	3.80%

Source: Bloomberg, Central Bank of Brazil, Itaú.

* Model developed by Itaú replicating Copom's model.

Focus forecasts (%, year-end)						
	2026		2027		2028	
	Previous Copom	Current*	Previous Copom	Current*	Previous Copom	Current*
IPCA	4.16	4.00	3.80	3.80	3.50	3.50
GDP growth	1.80	1.80	1.84	1.80	2.00	2.00
Selic rate	12.25	12.25	10.50	10.50	9.50	10.00
Exchange rate (BRL/USD)	5.50	5.50	5.50	5.51	5.50	5.52

*considering the latest Focus report.

Source: BCB, Itaú.

2 – Asset Prices Evolution

Since the last Copom meeting, the exchange rate appreciated to BRL 5.29 per USD, from BRL 5.47 previously. Country-risk perception, as measured by the 5-year CDS, declined by 7 basis points to 132 bps. Meanwhile, the 10-year U.S. Treasury yield rose by 6 basis points, reaching 4.21% (from 4.15%), and Brent crude oil prices edged up, ending the period at USD 66 per barrel (versus USD 62 previously).

Asset prices		
	Previous Copom	Current*
UST 10Y	4.15	4.21
Oil price (Brent)	62	66
Agricultural commodities**	632	625
CRB RIND Index***	589	613
CDS 5Y	139	132
Exchange rate (BRL/USD)	5.47	5.29

*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 table below summarizes the behavior of key macroeconomic indicators released between the last Copom meeting (December 9–10) and the upcoming one. Regarding economic activity, the labor market remained resilient. The PNAD unemployment rate stayed at historically low levels (5.2% in the quarter ended in November, or 5.6% seasonally adjusted), while Caged data reported the creation of 86 thousand formal jobs in the month, above expectations of 76 thousand. Overall, activity indicators continued to show signs of moderation, albeit with heterogeneous performance across sectors. In the services sector, activity rose 0.3% m/m in October — in line with expectations — followed by a slight 0.1% m/m decline in November, below consensus (+0.1%). Industrial production was virtually flat (0.00% m/m, versus 0.10% expected), while core retail sales surprised to the upside (+1.0% m/m vs. 0.3% expected), boosted by Black Friday promotions. On the inflation front, after December's IPCA-15 came in line with expectations (0.25%), full-month IPCA rose 0.33% m/m, slightly above the 0.32% consensus. On a 12-month basis, inflation ended 2025 at 4.3% (from 4.5% in November), above the target midpoint but within the tolerance band. From a qualitative standpoint, underlying services inflation worsened at the margin: there was a downside surprise in food away from home, while labor-intensive services posted an upside surprise — reinforcing the notion that a heated labor market continues to pressure services prices.

Economic Indicators: Result vs. Consensus			
Release Date	Indicator	Result	Consensus
12-Dec-25	IBGE Services Sector Volume (Oct/25) - MoM	0.30%	0.30%
15-Dec-25	IBC-Br (Oct/25) - MoM	-0.25%	0.10%
23-Dec-25	IPCA-15 (Dec/25) - MoM	0.25%	0.25%
29-Dec-25	IGP-M (Dec/25) - MoM	-0.01%	0.15%
30-Dec-25	Primary fiscal result (Nov/25) - BRL bn	-14.4	-14.3
30-Dec-25	Unemployment rate (Nov/25)	5.20%	5.40%
30-Dec-25	Formal job creation (Nov/25) - Thousands	86	76
8-Jan-26	Industrial production (Nov/25) - MoM	0.00%	0.10%
9-Jan-26	IPCA (Dec/25) - MoM	0.33%	0.32%
13-Jan-26	IBGE Services Sector Volume (Nov/25) - MoM	-0.10%	0.10%
15-Jan-26	Core Retail Sales (Nov/25) - MoM	1.00%	0.30%
16-Jan-26	IBC-Br (Nov/25) - MoM	0.68%	0.40%

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

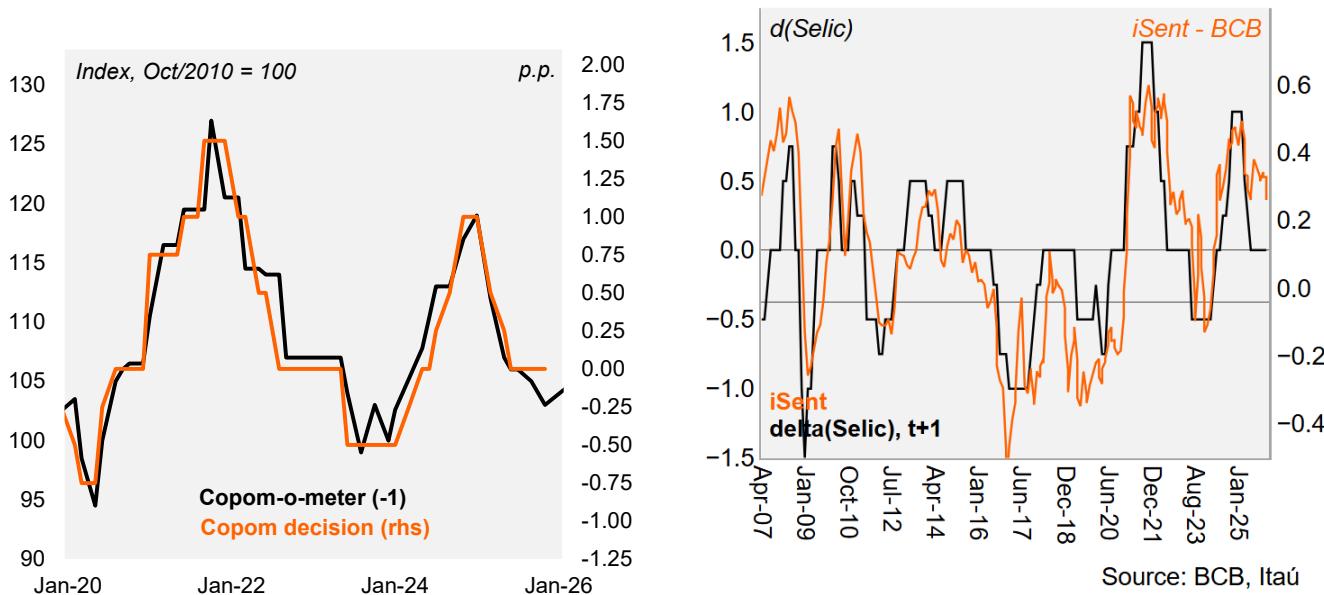
In its latest decision, Copom kept the Selic rate at 15.00% per year, and its communication indicated a cautious Central Bank, in no hurry to begin easing and maintaining a strongly data-dependent stance. In its most recent minutes, the authorities reiterated that the scenario requires a significantly contractionary monetary policy for a considerably prolonged period to ensure that inflation converges to the target. This guidance raised the bar for cuts already in January, suggesting that an exchange-rate appreciation relative to current levels and/or additional improvement in data would be needed.

In assessing economic activity, the committee observed mixed signals — typical of turning points — and a resilient labor market, which will require more time to properly distinguish cyclical from structural factors. Copom also stressed that unanchored expectations increase the cost of disinflation in terms of activity. On the other hand, it removed the statement that its own inflation projection for the relevant horizon was above the target and instead described the scenario as prescribing a contractionary policy, rather than being at a contractionary level — a nuance that keeps open the possibility of near-term easing, should data allow.

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. The indicator suggests that Copom is closer to beginning the rate-cutting cycle in upcoming meetings, though still consistent with maintaining the Selic rate in January.

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, the index suggests a softer tone in recent communication, but still with a positive score (0.29), a level above what would be consistent with interest-rate stability at the margin.

Copom-o-Meter and Itaú iSent Classifier



5 – Our view

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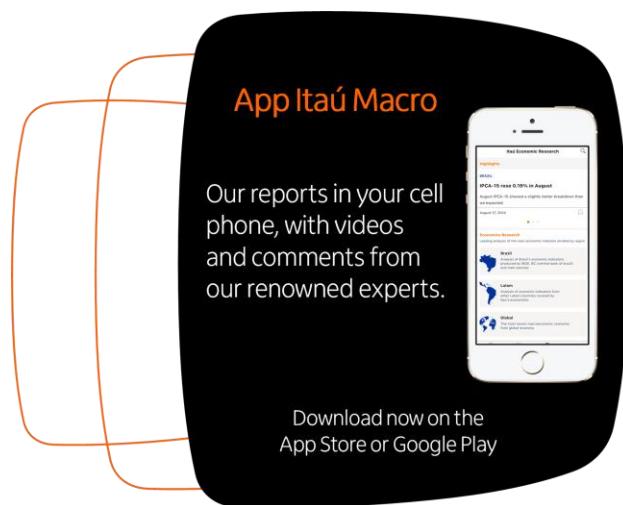
addition to the change made in the December minutes (the committee described the scenario as prescribing a “contractionary” monetary policy, instead of being at a “contractionary level,” which in our view leaves open the possibility of an interest-rate cut in the short term), the committee should state that the current strategy has proven adequate (signaling the increased confidence mentioned above), replace the emphasis on remaining vigilant with a prescription of patience and serenity (something that reduces the likelihood of aggressive cuts), and state that future steps and the degree of restriction may be reassessed, removing the reminder that it may resume the adjustment cycle if deemed appropriate (paving the way for the option of a cut in March).

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