Copom Cockpit: flexible communication, easing cycle in sight

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- Since the last meeting, the set of information has reinforced the scenario of moderating activity, with third-quarter GDP confirming a slowdown (Q1: 1.5%; Q2: 0.3%; Q3: 0.1%) and weaker consumption. The labor market is beginning to show signs of stabilization – with indicators such as Caged close to the neutral level and a slight decline in the employment rate – although unemployment remains at historical lows, still indicating some resilience. On the inflation front, qualitative improvement is observed, with current inflation and core measures on a downward path. Inflation expectations, both those measured by the Focus survey and implicit ones, have also been marginally declining but remain above the target for 2025 and 2026. Regarding the risk balance, we assess that it should remain symmetric, maintaining the overall message of recent communications.

- For the next steps, the guidance should remain flexible, without an explicit commitment to the start of the easing cycle, while acknowledging that adjustments may be made as the scenario evolves. We maintain our expectation for the beginning of the rate-cutting cycle in January 2026, with a 25-basis-point reduction, bringing the Selic rate to 12.75% per year over the course of the year. For this to materialize, it will be important for the Committee to adjust its communication in the December meeting, removing the statement that it “will not hesitate to resume the adjustment cycle if deemed appropriate” and clarifying the stage of the “prolonged period.” The risk of postponing the start of the easing cycle remains present: a positive surprise in activity or the labor market, or a more depreciated exchange rate, could delay the beginning of monetary policy easing.

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$5.35/US$) follows BCB’s procedure of using the average of the last 10 business days.

Compared to the previous 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 4.4% in 2025 (from 4.6%), to 3.4% in 2026 (from 3.6%) and to 3.2% (from 3.3%) in the relevant 2Q27 horizon.

Since the last Copom meeting, inflation expectations reported by the Focus survey declined to 4.40% for 2025 (from 4.55%) and to 4.16% for 2026 (from 4.20%). For the Selic rate, the median projections remained stable at 15.00% for 2025 and at 12.25% in 2026.

IPCA forecasts (%) according to "Central Bank model"*					
Period	**June Meeting**	**June Meeting**	**September Meeting**	**November Meeting**	**Dec. Meeting (forecast)**
2025	4.9%	5.0%	4.8%	4.6%	4.4%
2026	3.6%	3.6%	3.6%	3.6%	3.4%
Relevant Horizon	3.6% (4Q26)	3.4% (1Q27)	3.4% (1Q27)	3.3% (2Q27)	3.2% (2Q27)
Exogenous variables					
Exchange Rate (R$/US$)	5.60	5.55	5.40	5.40	5.35
Selic Interest Rate (%) 2025	14.75%	15.00%	15.00%	15.00%	15.00%
Selic Interest Rate (%) 2026	12.50%	12.50%	12.38%	12.25%	12.25%
Selic Interest Rate (%) 2027	10.50%	10.50%	10.50%	10.50%	10.50%
Inflation Expectations (Focus) 2025	5.25%	5.09%	4.83%	4.55%	4.40%
Inflation Expectations (Focus) 2026	4.50%	4.44%	4.30%	4.20%	4.16%
Inflation Expectations (Focus) 2027	4.00%	4.00%	3.90%	3.80%	3.80%

Source: Bloomberg, Central Bank of Brazil, Itaú.
* Model developed by Itaú replicating Copom's model.

Focus forecasts *(%, year-end)*						
	2025		**2026**		**2027**	
	Previous Copom	**Current***	**Previous Copom**	**Current***	**Previous Copom**	**Current***
IPCA	4.55	4.40	4.20	4.16	3.80	3.80
GDP growth	2.16	2.25	1.78	1.80	1.90	1.84
Selic rate	15.00	15.00	12.25	12.25	10.50	10.50
Exchange rate (BRL/USD)	5.41	5.40	5.50	5.50	5.50	5.50

*considering the latest Focus report.
Source: BCB, Itaú.

2 – Asset Prices Evolution

Since the last Copom meeting, the exchange rate has shown a notable depreciation, although volatility was concentrated last Friday due to announcements related to presidential candidacies. The BRL is currently trading at R$ 5.45 per U.S. dollar, compared to R$ 5.36 at the previous meeting. Country risk perception, as measured by the 5-year CDS, rose by 2 basis points to 143 bps. Meanwhile, the yield on the 10-year U.S. Treasury note declined by 1 basis point to 4.15% (from 4.16%), while Brent crude prices posted a slight drop, closing at US$ 63 per barrel (versus US$ 64).

Asset prices		
	Previous Copom	Current*
UST 10Y	4.16	4.15
Oil price (Brent)	64	63
Agricultural commodities**	647	638
CRB RIND Index***	574	586
CDS 5Y	141	143
Exchange rate (BRL/USD)	5.36	5.45

*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 evolution of the main macroeconomic indicators released between the last Copom meeting (November 4-5) and the next. Regarding economic activity, GDP grew 0.1% in 3Q25 (1.8% year-over-year), an interannual result slightly above the market median expectations (0.2% q/q, 1.7% y/y). The GDP breakdown was in line with our estimates, reinforcing the scenario of gradual deceleration. Household consumption lost momentum, remaining practically stable (0.1%) after a 0.6% increase in the previous quarter. In the labor market, the PNAD unemployment rate remains at a historically low level (5.4% in the quarter ending in October, stable at 5.8% seasonally adjusted), while CAGED reported the creation of 85 thousand formal jobs in the month, below the expectation of 110 thousand. Despite low unemployment, formal job creation data suggest early signs of a loss of momentum, although the labor market still appears resilient. Other activity indicators also point to deceleration: industrial production came in below expectations in October (0.10% m/m versus 0.50% projected), retail sales fell 0.30% m/m (market consensus of 0.30%), and the IBC-Br declined 0.24% m/m (versus -0.20% projected). On the other hand, the services sector surprised positively in September, with an increase of 0.60% m/m, above the 0.40% consensus.

On the inflation front, October's IPCA rose 0.09%, below expectations (0.15%). The IPCA-15 for November, however, recorded an increase of 0.20%, slightly above the projected 0.18%, driven by items outside the core, such as airline tickets, fuels, and electricity. Core measures remained close to expectations, maintaining a favorable reading for inflation and without changing our risk balance for the 2025 projection of 4.5%.

Economic Indicators: Result vs. Consensus			
	Indicator	Result	Consensus
11-Nov-25	IPCA (Oct/25) - MoM	0.09%	0.15%
12-Nov-25	IBGE Services Sector Volume (Sep/25) - MoM	0.60%	0.40%
13-Nov-25	Core Retail Sales (Sep/25) - MoM	-0.30%	0.30%
17-Nov-25	IBC-Br (Sep/25) - MoM	-0.24%	-0.20%
26-Nov-25	IPCA-15 (Nov/25) - MoM	0.20%	0.18%
27-Nov-25	IGP-M (Nov/25) - MoM	0.27%	0.28%
27-Nov-25	Formal job creation (Oct/25) - Thousands	85	110
28-Nov-25	Primary fiscal result (Out/25) - BRL bn	32	34
28-Nov-25	Unemployment rate (Oct/25)	5.40%	5.50%
02-Dec-25	Industrial production (Oct/25) - MoM	0.10%	0.50%
04-Dec-25	GDP (3Q25) - YoY	1.80%	1.70%

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

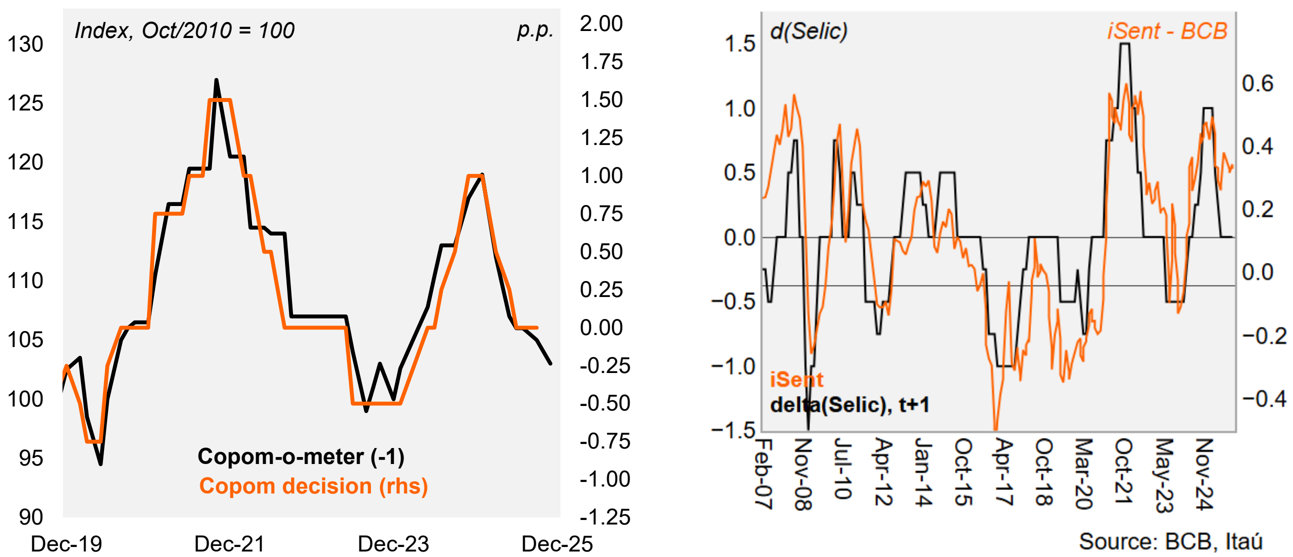
In its most recent decision, Copom kept the Selic rate at 15.00% per year, reiterating its guidance that the scenario requires a contractionary monetary policy for a considerably prolonged period. The Committee's communication evolved to a more confident tone, reflecting the perception that the monetary policy strategy is working: domestic activity continues to moderate, inflation readings show signs of easing, and expectations, although still above the target, are on a downward trajectory, including for longer horizons. Between the September and November minutes, an important transition is observed: the Committee moved from a cautious assessment, marked by uncertainties and mixed signals across sectors, to a more assertive stance that the current level of monetary tightening is sufficient to ensure inflation convergence to the target, provided that incoming data remain consistent.

Another highlight was that Copom incorporated a preliminary estimate of the impact of the income tax change into its inflation projections, which helps to limit upside risks, particularly those related to the output gap. The statement also reinforces data dependency and vigilance over factors such as services inflation, expectations dynamics, and fiscal developments, maintaining its commitment to adjust monetary policy as needed. In summary, the latest minutes indicate a confident committee that sees fewer upside risks from the output gap – and, consequently, for inflation – compared to the previous meeting.

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 latest Copometer reading points to a more dovish tilt, reflecting greater committee conviction regarding the sufficiency of the current level of monetary tightening and lower risks from demand pressures via the output gap. The indicator begins to signal that Copom is closer to starting the rate-cutting cycle in upcoming meetings, although still compatible with maintaining the Selic rate in December.

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, but continues to show a positive score (0.36), a level still above what would be compatible with interest rate stability at the margin.

Copom-o-Meter and Itaú iSent Classifier



Source: BCB, Itaú

5 – Our view

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