

Copom: mixed feelings

- ▶ The Copom delivered the expected decision, a 25-bp rate cut. Policymakers expressed concern about the external environment, not surprisingly, but kept their assessment that the balance of risks around the central scenario is symmetrical. The forecast in the policy horizon (4Q27) stands at 3.5%, against 3.3% in the last meeting (for the 3Q27 horizon), signaling the committee's comfort level. Still, they mention that the extension of the cycle will be assessed in light of incoming information. This is always the case, but when the authorities state that, it hints at some unease with current expectations about the terminal rate. For now, we expect a 25-bp rate cut (50 bps previously) in the next policy meeting. As usual, we may reassess after the release of the meeting minutes on Tuesday, May 5.

Main changes in inflation forecasts and balance of risks

Inflation forecasts presented in the latest meetings by the Copom					
Period	November	December	January	March	April
IPCA 2026	3.6%	3.5%	3.4%	3.9%	4.6%
Relevant Horizon (RH)**	3.3% (2Q27)	3.2% (2Q27)	3.2% (3Q27)	3.3% (3Q27)	3.5% (4Q27)
Market-set prices 2026	3.6%	3.6%	3.5%	3.7%	4.5%
Market-set prices RH**	3.2% (2Q27)	3.2% (2Q27)	3.1% (3Q27)	3.3% (3Q27)	3.5% (4Q27)
Regulated prices 2026	3.4%	3.2%	3.0%	4.3%	4.8%
Regulated prices RH**	3.5% (2Q27)	3.4% (2Q27)	3.3% (3Q27)	3.2% (3Q27)	3.6% (4Q27)
Exogenous variables					
Exchange rate* (BRL/USD)	5.40	5.35	5.35	5.20	5.00
Selic rate (Focus) 2026	12.25%	12.25%	12.25%	12.25%	13.00%
Inflation expectations (Focus) 2026	4.2%	4.2%	4.0%	4.1%	4.9%

*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)

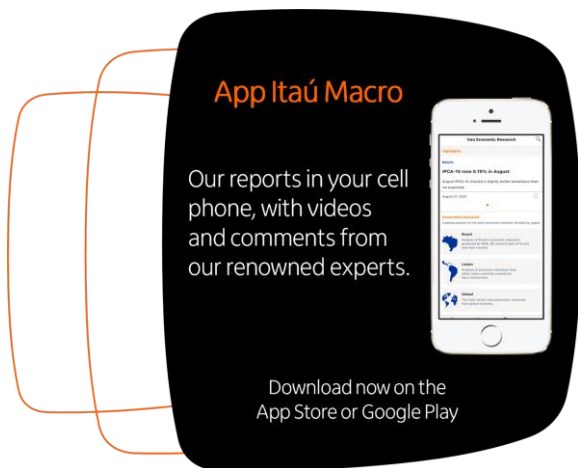
January		March		April	
Upside risks	Downside risks	Upside risks	Downside risks	Upside risks	Downside risks
(i) a more prolonged period of deanchoring of inflation expectations; (ii) a stronger-than-expected resilience of services inflation due to a more positive output gap; (iii) a conjunction of internal 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.	(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.	(i) a more prolonged period of deanchoring of inflation expectations, with longer horizons incorporating potential second-round effects stemming from supply constraints in oil and its derivatives ; (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 and oil shocks and the scenario of heightened uncertainty; (iii) a reduction in commodity prices with disinflationary effects.

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