

Copom Cockpit: another 25-bp cut with few changes in communication

- ▶ The Copom will meet again on April 28-29, against a backdrop of very high uncertainty regarding the resolution of the war in the Middle East. Since its last meeting, the committee has seen a significant appreciation of the real, driven both by terms of trade (given the rise in oil prices) and by continued foreign capital inflows, particularly into the Brazilian equity market. There were no major developments in the information set on economic activity, with an ambiguous evolution of the data that should not add conviction to the Central Bank's diagnosis that the output gap tends to widen. On the other hand, current inflation data delivered meaningful upside surprises, and market expectations for IPCA rose significantly (consuming part of the existing room for Selic rate cuts, by mechanically shifting real interest rates lower).
- ▶ The committee is likely to see its inflation forecast rise to 3.4% in 4Q27, which becomes the relevant horizon for monetary policy. In March, the forecast for 3Q27 (the relevant horizon then) stood at 3.3%. We believe the assessment of the balance of risks around the inflation forecasts should not undergo significant changes: the authorities are likely to make the possible downside/upside effects of FX and commodities on their scenario more symmetric (up until the previous meeting, FX was listed only as an upside risk and commodity prices appeared only as a downside risk). We see it as likely that the Copom will repeat the comment introduced in the latest minutes, stating that after discussing the balance of risks, they deemed it appropriate to proceed with serenity and gather more information over time, given the elevated uncertainty. We understand that the alternative of a balance of risks described as asymmetric to the upside would lead the market to expect an imminent change in the pace of easing (in that case, a hold rather than a cut and the interruption of the calibration).
- ▶ We expect the Copom to opt for another 25-bp cut to 14.50% pa, without significant changes in communication. The committee should emphasize serenity and caution in the conduct of monetary policy, adding that the future steps of the calibration process will remain dependent on the evolution of the data and the ongoing assessment of the balance of risks, as well as by the incorporation of new information that increases the clarity about the depth and duration of the conflicts in the Middle East, along with their direct and indirect effects on the price level over time.

1 – Central Bank Inflation Forecasts

The tables below summarize the forecasts based on our estimated replica of the Central Bank's small-scale model. The exchange rate used (BRL 5.00/USD) follows the Central Bank's procedure of using the average of the last 10 business days ending on the Friday prior to the meeting.

Compared with the January meeting, the committee's inflation forecasts in the reference scenario (which assumes an exchange rate consistent with purchasing power parity and an interest rate path aligned with the Focus survey) are expected to rise to 4.4% in 2026 (from 3.9%) and to increase to 3.4% at the relevant horizon, 4Q27. This compares with 3.3% for 3Q27, which was still the relevant horizon at the previous meeting, and 3.2% in the projection released for 4Q27 in the March monetary policy report.

IPCA forecasts (%) according to "Central Bank model"^{**}

Period	November Meeting	December Meeting	January Meeting	March Meeting	April Meeting (forecast)
2026	3.6%	3.5%	3.4%	3.9%	4.4%
Relevant Horizon	3.3% (2Q27)	3.2% (2Q27)	3.2% (3Q27)	3.3% (3Q27)	3.4% (4Q27)
Exogenous variables					
Exchange Rate (R\$/US\$)	5.40	5.35	5.35	5.20	5.00
Selic Interest Rate (%) 2026	12.25%	12.25%	12.25%	12.25%	13.00%
Selic Interest Rate (%) 2027	10.50%	10.50%	10.50%	10.50%	11.00%
Inflation Expectations (Focus) 2026	4.20%	4.16%	4.00%	3.91%	4.86%
Inflation Expectations (Focus) 2027	3.80%	3.80%	3.80%	3.80%	4.00%

Source: Bloomberg, Central Bank of Brazil, Itaú.

* Model developed by Itaú replicating Copom's model.

2– Pre-meeting context: recent communication and scenario evolution

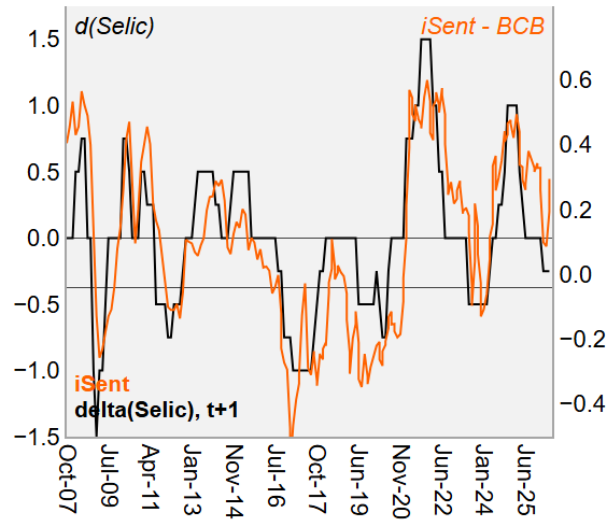
In the minutes of the last meeting, the authorities signaled confidence in their ability to calibrate the degree of monetary tightness: despite the global turbulence, the text made clear that the options under consideration were only to cut rates by 25 bps or 50 bps – judging by the documents referring to this meeting, the possibility of holding the Selic rate was not subject to discussion. The oil price shock was incorporated through each point of the futures curve until the end of the year (smoothing the rise in the commodity after the start of the Middle East conflict, but emphasizing that its implications will be carefully monitored going forward). Reflecting the more uncertain scenario following the start of the conflict and several references to this fact throughout the text, our iSent¹ advanced into more contractionary territory after the minutes, despite the decision to reduce the Selic rate by 25 bps.

The minutes also highlighted reduced traction in the recent disinflation process following the upside surprises in the February IPCA releases, but stated that the expected re-acceleration of economic activity in 1Q26 will not imply major changes to its current scenario.

Subsequently, the Monetary Policy Report (MPR) also reinforced a more cautious stance by showing an inflation forecast for the relevant horizon (4Q27 at the next meeting) at 3.3%, stable relative to the 3Q27 estimate and 20 bps above that presented in the previous MPR; and the longer horizon (3Q28), presented for the first time, remained without full convergence to the target, at 3.1%.

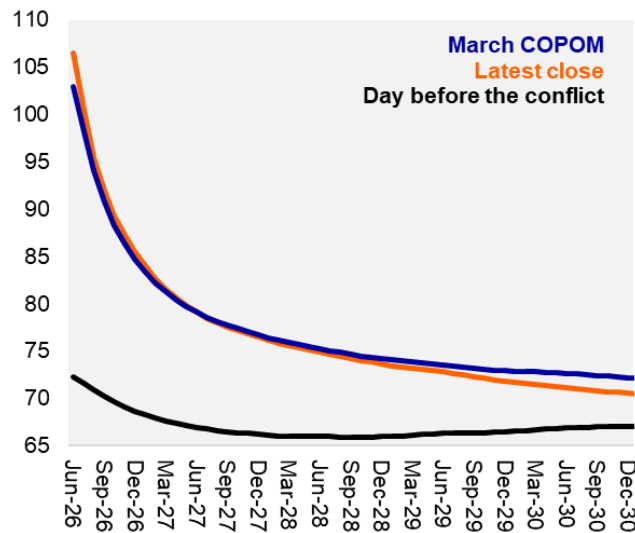
¹ iSent, Itaú's Central Bank Sentiment Classifier, was developed, with support from GPT-4, by our data science team using sentences published in central banks' official documents, labeled by our economists. Our labeled dataset consists of around one thousand sentences from official documents of the Central Bank of Brazil. Each sentence was classified as dovish, neutral, hawkish, or out of context, and the index is constructed based on the relative presence of each class within the document. The index is a value between -1 and 1 and is higher when the perceived tone is more hawkish. iSent-BCB has a good fit with current and future changes in interest rates in Brazil (correlation of around 0.8).

Itaú iSent Classifier



Source: BCB, Itaú

Brent oil futures curve



Source: Itaú, BBG

Regarding impacts on inflation expectations, since the last meeting, the estimates captured by the Focus survey showed a widespread increase across all horizons. For 2026, the median jumped from 4.10% to 4.86%, while for 2027 and 2028 they moved from 3.80% and 3.50% to 4.0% and 3.61%, respectively. The Selic rate path was also revised upward for 2026 and 2027.

Focus forecasts (% , year-end)						
	2026		2027		2028	
	Previous Copom	Current*	Previous Copom	Current*	Previous Copom	Current*
IPCA	4.10	4.86	3.80	4.00	3.50	3.61
GDP growth	1.83	1.85	1.80	1.80	2.00	2.00
Selic rate	12.25	13.00	10.50	11.00	10.00	10.00
Exchange rate (BRL/USD)	5.40	5.25	5.47	5.35	5.50	5.40

*considering the latest Focus report.

Source: BCB, Itaú.

The FX, in turn, continued to appreciate between meetings, with the real around BRL 4.98/USD in the last 10 days (from R\$ 5.12 before the start of the conflict), benefiting from Brazil's position as an oil exporter and from the positive flows observed so far for the currency, with particular emphasis on foreign investment in the equity market. Under the same metric, Brent oil prices stand close to USD 99.1/barrel, above pre-conflict levels (USD 66/barrel). In this context, the March IPCA surprised to the upside again, rising 0.88% (vs. 0.77% expected), pressured mainly by gasoline, even without an official price adjustment at the pump, and by underlying industrial goods. Meanwhile, unemployment rate and formal job creation (CAGED) indicators suggested a less heated labor market, starting to show signs of inflection.

Indicator - MoM		Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26
Inflation	IPCA	Result 0.48	0.09	0.18	0.33	0.33	0.70	0.88
		Consensus	0.52	0.15	0.19	0.32	0.32	0.77
	IPCA-15	Result 0.48	0.18	0.20	0.25	0.20	0.84	0.44
	Consensus	0.52	0.21	0.18	0.25	0.22	0.56	0.29
	IGP-M	Result 0.42	-0.36	0.27	-0.01	0.41	-0.73	0.52
	Consensus	0.36	-0.23	0.28	0.15	0.38	-0.61	0.52
Labor Market	PNAD	Result 5.6	5.4	5.2	5.1	5.4	5.8	-
	Consensus	5.5	5.5	5.4	5.1	5.4	5.7	-
	CAGED	Result 213	85	86	-618	112	255	-
	Consensus	170	110	77	-473	95	258	-
Activity	PIM	Result 0.4	0.1	0.0	-1.2	1.8	0.9	-
	Consensus	-0.4	0.5	0.1	-1.1	0.7	0.8	-
	PMC	Result -0.3	0.5	1.0	-0.4	0.4	0.6	-
	Consensus	0.3	-0.1	0.3	-0.2	-0.2	0.9	-
	PMS	Result 0.6	0.3	-0.1	-0.4	0.3	0.1	-
	Consensus	0.4	0.3	0.1	-0.1	0.1	0.5	-
	IBC-Br	Result -0.2	-0.3	0.7	-0.2	0.8	0.6	-
	Consensus	-0.2	0.1	0.4	-0.4	0.9	0.5	-

Red/blue figures indicate results consistent with a more/less restrictive monetary policy stance, relative to market consensus.

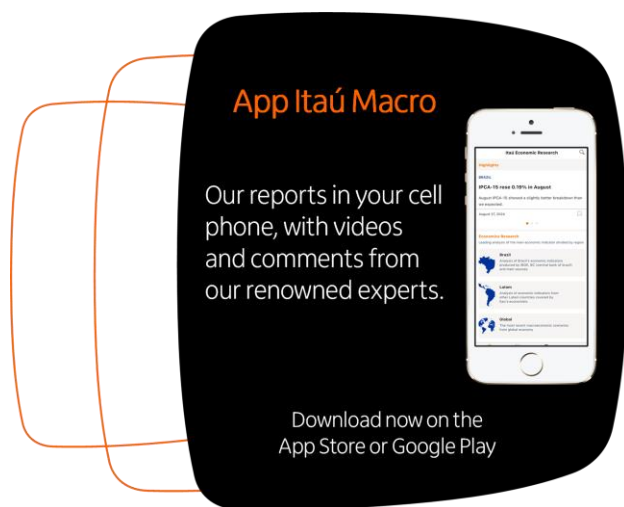
Source: IBGE, Brazilian Central Bank and Bloomberg

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