Macro Brazil

July 25, 2025

Copom Cockpit: new uncertainties, same guidance

- The Copom will meet again on July 29 and 30 and is expected to unanimously maintain the Selic rate at 15.00% pa, marking the end of the monetary tightening cycle that began in September 2024. The decision should reflect the assessment that, despite inflation projections remaining above target, the lagged effects of monetary policy are still unfolding, while elevated global uncertainty calls for additional caution — especially in a context of a new wave of tariffs, this time directly involving Brazil, whose exports may be affected by the highest tariff announced so far, at 50%.
- Since the last meeting, economic data has shown marginal improvement: current inflation brought qualitatively positive signals, 12-month-ahead and implicit expectations declined, and the BRL appreciated slightly, despite fiscal and tariff-related noise. Economic activity continues to decelerate gradually, with clearer signs of inflection in credit-sensitive segments, as already captured by our proprietary IDAT-Activity indicator since March. The labor market, however, remains resilient.
- The BCB's communication is expected to reinforce the strategy of keeping the Selic rate at a contractionary level for a prolonged period, amid a scenario in which prospective inflation remains above target through 2027 – even after the latest Monetary Policy Report indicated that the authorities have yet to incorporate a potentially less benign output gap into their baseline scenario.
- We maintain our expectation that the easing cycle will begin only in the first quarter of 2026. As previously mentioned following the last monetary policy decision, we believe that a more pronounced BRL appreciation or a sharper slowdown in activity could bring forward the first rate cut to late 2025. The implementation of the recently announced U.S. tariffs reduces the room for currency appreciation, despite a globally weaker USD. On the other hand, these tariffs increase the likelihood of a faster economic slowdown. In all, risks appear to tilt toward earlier rate cuts – hence, it will be crucial to monitor any qualifications from the committee regarding the outlook for economic activity.

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$5.55/US$) follows the BCB's procedure of using the average of the last 10 business days.

Compared to the June 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 expected to rise to 5.0% for 2025 (from 4.9% in June) and fall to 3.4% in the relevant 1Q27 horizon (vs. 3.6% for 4Q26 in June).

Since the last Copom meeting, inflation expectations reported in the Focus survey have declined to 5.10% for 2025 (from 5.25%) and to 4.45% for 2026 (from 4.50%). For the Selic rate, the median projection for 2025 rose from 14.75% to 15.00%, and remained stable at 12.50% for 2026.

IPCA forecasts (%) according to "Central Bank model"*					
Period	January Meeting	March Meeting	May Meeting	June Meeting	July's Meeting (forecast)
2025	5.2%	5.1%	4.8%	4.9%	5.0%
2026	4.0% (3Q26)	3.9% (3Q26)	3.6% (4Q26)	3.6% (4Q26)	3.4% (4Q26)
Exogenous variables					
Exchange Rate (R$/US$)	6.00	5.80	5.70	5.60	5.55
Selic Interest Rate (%) 2025	15.00%	15.00%	14.75%	14.75%	15.00%
Selic Interest Rate (%) 2026	12.50%	12.50%	12.50%	12.50%	12.50%
Inflation Expectations (Focus) 2025	5.50%	5.66%	5.53%	5.25%	5.10%
Inflation Expectations (Focus) 2026	4.22%	4.48%	4.51%	4.50%	4.45%

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	5.25	5.10	4.50	4.45	4.00	4.00
GDP growth	2.20	2.23	1.83	1.88	2.00	2.00
Selic rate	14.75	15.00	12.50	12.50	10.50	10.50
Exchange rate (BRL/USD)	5.77	5.65	5.80	5.70	5.80	5.70

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

2 – Asset Prices Evolution

Since the last Copom meeting and up to the publication of this report, the exchange rate moved to 5.53 BRL/USD (from 5.49), even after the announcement of 50% tariffs on Brazilian exports to the U.S. Country risk perception, as measured by the 5-year CDS, declined by 12 bps to 146 bps. The 10-year U.S. Treasury yield stands at 4.41% (from 4.39%), while Brent crude oil prices fell to 70 USD per barrel (vs. 77 previously), following the announcement of a ceasefire in the Israel-Iran conflict.

Asset prices		
	Previous Copom	Current*
UST 10Y	4.39	4.41
Oil price (Brent)	77	70
Agricultural commodities**	644	599
CRB RIND Index***	563	583
CDS 5Y	158	146
Exchange rate (BRL/USD)	5.49	5.53

*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 presents the main indicators released between the last and the upcoming Copom meetings. On the inflation front, data brought surprises in both directions. The June IPCA-15 and IGP-M came in below expectations – the former reflecting a more benign dynamic in core services, and the latter influenced by falling agricultural prices. On the other hand, the full June IPCA surprised to the upside relative to market consensus, although the surprise was concentrated in non-core items. The average of core inflation measures calculated by the Central Bank remained within the seasonally adjusted range consistent with the target. For July, the IPCA-15 rose 0.33%, also above the market median (0.31%). Compared to our projections, core services inflation came in above expectations, driven by food away from home, while core industrial goods inflation was below expectations, pulled down by apparel.

On the activity side, recent indicators continue to support the scenario of gradual economic deceleration from the second quarter onward. Industrial production fell 0.5% in May, core retail sales dropped 0.2%, and real services volume was virtually flat, with a 0.1% change at the margin. The labor market showed mixed signals: CAGED data revealed formal job creation below expectations in May, while the unemployment rate fell by 0.6 percentage points in the same period.

Economic Indicators: Result vs. Consensus

Release Date	Indicator	Result	Consensus
26-Jun-25	IPCA-15 (Jun/25) - MoM	0.26%	0.30%
27-Jun-25	IGP-M (Jun/25) - MoM	-1.67%	-1.00%
27-Jun-25	Unemployment rate (May/25)	6.20%	6.30%
30-Jun-25	Primary fiscal result (May/25) - BRL bn	-33.7	-42.7
30-Jun-25	Formal job creation (May/25) - Thousands	149	176
2-Jul-25	Industrial production (May/25) - MoM	-0.50%	-0.50%
8-Jul-25	Core Retail Sales (May/25) - MoM	-0.20%	0.20%
10-Jul-25	IPCA (Jun/25) - MoM	0.24%	0.20%
11-Jul-25	IBGE Service Sector Volume (May/25) - MoM	0.10%	0.20%
14-Jul-25	IBC-Br (May/25) - MoM	-0.74%	-0.02%
25-Jul-25	IPCA-15 (Jul/25) - MoM	0.33%	0.31%

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

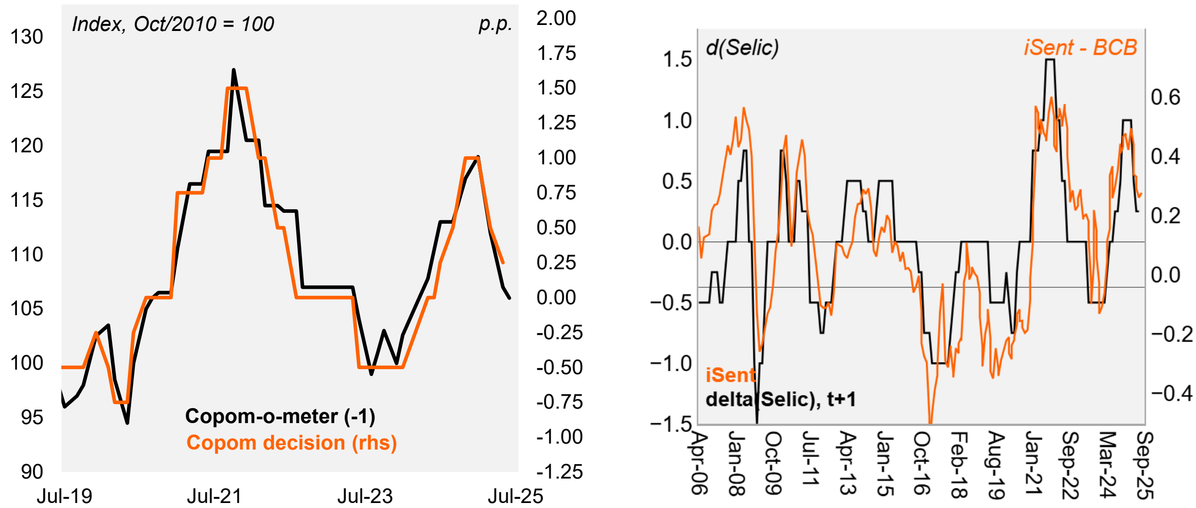
At its last monetary policy meeting, the Copom raised the Selic rate by 25 bps to 15.00%. The committee indicated that, absent surprises in the data, it would not change the policy rate in July. The monetary authority reiterated its concern with the inflation outlook, exacerbated by still unanchored expectations. It also noted that inflation projections in the relevant horizon remained unchanged, likely reflecting a wider output gap.

The minutes emphasized, from various angles, that rate cuts are not on the table for some time – with the committee also pledging to raise rates again if deemed necessary. The committee mentioned more than once that the effects of the recent tightening cycle have not yet fully materialized, as the credit market has shown a turning point but remains robust, and the labor market remains tight.

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. Applying the methodology, which is based on scores assigned to the committee's key communications, we assess that the indicator is consistent with the Selic rate remaining stable at the next meeting.

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, although not enough to ensure interest rate stability.

Copom-o-Meter and Itaú iSent Classifier



5 – Our view

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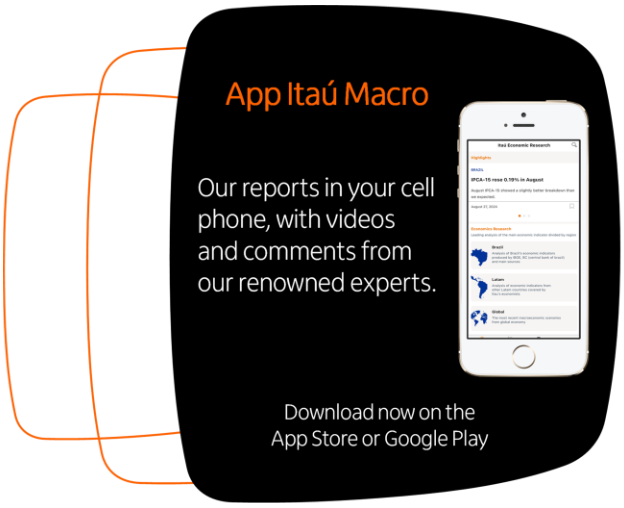

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