Macro Brazil

December 17, 2024

Copom minutes: unanimously hawkish

- The Copom meeting minutes present, quite starkly, a very challenging inflation outlook, which elicited the robust policy response embedded in the decision and signaling. Importantly, the committee makes it quite clear that it opted unanimously for the 100-bp hike and the guidance. The text basically cements the next two policy decisions, 100-bp hikes, outside a major (unlikely) improvement in the inflationary environment. Interestingly, the Copom indicates it has increased once more its estimate of the neutral rate, from 4.75% to 5.00% per year. Also of note, the minutes issues a warning on credit standards. We think the Copom stakes so much credibility on its coming decisions, that it is most unlikely to deviate, especially in a dovish way.
- We expect the Selic to end the cycle at 15.00%pa, with two extra 100-bp hikes, and a final one of 75 bps, in the May 2025 policy meeting. Details on the Copom's thinking to appear in the Quarterly Inflation Report, and press conference, on Thursday.

Main changes in inflation forecasts and balance of risks

In the tables below, we repeat the projections and balance of risks already presented in our report on the Copom decision last week. The inflation and Selic rate forecasts extracted from the Focus survey also refer to those published in the week of the decision.

Inflation forecasts presented in the latest meetings by the Copom

Period	July**		September	November	December
	Reference	Alternative (constant Selic rate)	Reference	Reference	Reference
IPCA 2024	4.2%	4.2%	4.3%	4.6%	4.9%
IPCA 2025	3.6%	3.4%	3.7%	3.9%	4.5%
Relevant Horizon (RH)***	3.4% (1T26)	-	3.5% (1Q26)	3.6% (2Q26)	4.0% (2Q26)
Market-set prices 2024	-	-	4.4%	4.5%	5.0%
Market-set prices 2025	-	-	3.6%	3.8%	4.5%
Market-set prices RH***	-	-	3.4% (1Q26)	3.4% (2Q26)	3.8% (2Q26)
Regulated prices 2024	5.0%	-	4.2%	4.9%	4.6%
Regulated prices 2025	4.0%	-	4.0%	4.2%	4.5%
Regulated prices RH***	-	-	3.9% (1Q26)	4.3% (2Q26)	4.6% (2Q26)
Exogenous variables					
Exchange rate* (BRL/USD)	5.55		5.60	5.75	5.95
Selic rate (Focus) 2024	10.50%	10.50%	11.25%	11.75%	12.00%
Selic rate (Focus) 2025	9.50%	10.50%	10.50%	11.50%	13.50%
Selic rate (Focus) 2026	9.00%	10.50%	9.50%	9.75%	11.00%
Inflation expectations (Focus) 2024	4.10%		4.35%	4.59%	4.84%
Inflation expectations (Focus) 2025	3.96%		3.95%	4.03%	4.59%
Inflation expectations (Focus) 2026	3.60%		3.61%	3.61%	4.00%

*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.
**The Copom presented an alternative scenario (in addition to the reference scenario) for its inflation projections, considering the Selic rate constant at the current level.
***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.

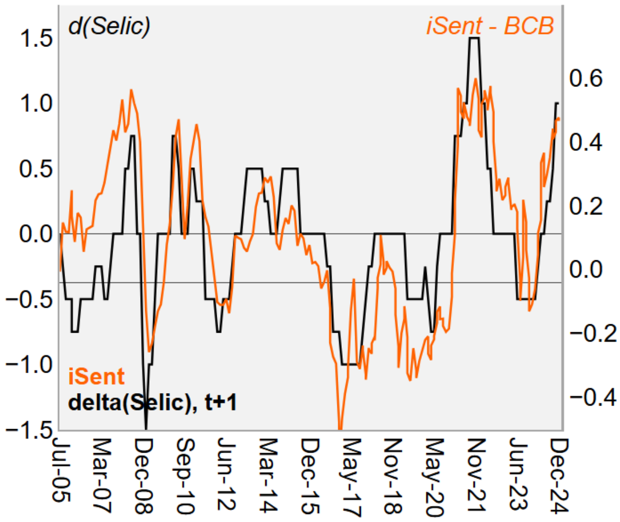
Factors mentioned in the balance of risks by the Copom in the latest meetings (**orange** = change compared to the previous meeting)					
September		November		December	
Upside risks	**Downside risks**	**Upside risks**	**Downside risks**	**Upside risks**	**Downside risks**
(i) a more prolonged period of unanchoring of inflation expectations (ii) a stronger-than-expected resilience of services inflation due to a tighter output gap (iii) a conjunction of internal and external economic policies with an inflationary impact, for example, through a persistently more depreciated currency	(i) greater deceleration of the global economic activity (ii) an impact on global inflation larger than expected from synchronized monetary policy tightening	(i) a more prolonged period of unanchoring of inflation expectations (ii) a stronger-than-expected resilience of services inflation due to a tighter output gap (iii) a conjunction of internal and external economic policies with an inflationary impact, for example, through a persistently more depreciated currency	(i) greater deceleration of the global economic activity (ii) an impact on global inflation larger than expected from synchronized monetary policy tightening	(i) a more prolonged period of unanchoring 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 an inflationary impact, for example, through a persistently more depreciated currency	(i) greater deceleration of the global economic activity (ii) an impact on global inflation larger than expected from synchronized monetary policy tightening

Source: Central Bank, Itaú.

iSent, Itaú's Central Bank Sentiment Classifier

Our iSent Central Bank Classifier[1] remains in positive territory (0.50).

Classifier in positive territory



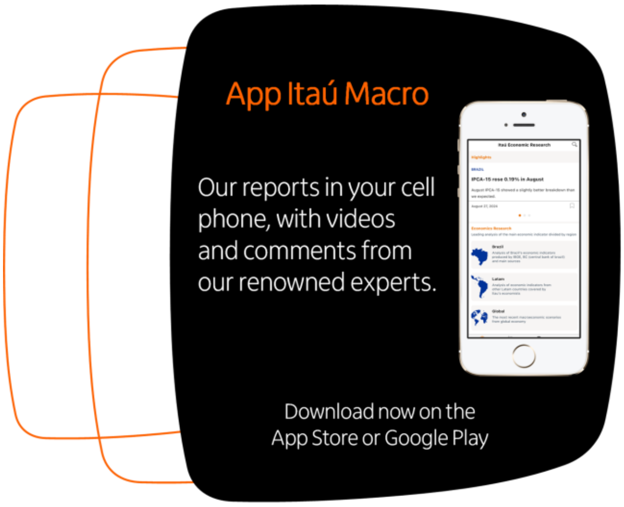
Source: BCB, Itaú

[1] *Based on GPT-4, developed by our data science team using sentences published in central bank's official documents labeled by our economists. Our labeled dataset consists of approximately 1,000 sentences extracted from official documents published by the Brazilian Central Bank. Each sentence was classified as dovish, neutral, hawkish, or out of context. the index is constructed on the relative presence of each class. The index ranges from -1 to 1, getting higher as the tone is perceived as more hawkish. iSent-BCB shows good adherence to current and future moves in interest rates in Brazil (correlation around 0.8).*

Macro Research – Itaú

Mario Mesquita – Chief Economist

To access our reports and forecast visit our website:
https://www.itau.com.br/itaubba-pt/macroeconomic-analysis



Relevant Information

1. This report has been prepared and released by the Macro Research Department of Itaú Unibanco S.A. (“Itaú Unibanco”). This report is not a product of the Equity Research Department of Itaú Unibanco or Itaú Corretora de Valores S.A. and shall not be construed as a research report (“relatório de análise”) for the purposes of Article 1 of the CVM Instruction NR. 20, dated 2021.
2. The exclusive purpose of this report is to provide macroeconomics information and it does not constitute and shall not be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial product, or to participate in any particular trading strategy in any jurisdiction. The information herein is believed to be reliable as of the date on which this report was released and it has been obtained from public sources believed to be reliable. However, Itaú Unibanco does not make any explicit or implied representation or warranty as to the completeness, reliability or accuracy of such information, nor does this report intend to be a complete statement or summary of the markets or developments referred to herein. Itaú Unibanco has no obligation whatsoever to update, modify or amend this report and inform the reader accordingly.
3. The opinions contained herein reflect exclusively the personal views of the analyst responsible for this report and were prepared independently and autonomously, including in relation to Itaú Unibanco, Itaú Corretora de Valores S.A. and any other companies within their economic group.
4. This report may not be reproduced or redistributed to any other person, in whole or in part, for any purpose, without the prior written consent of Itaú Unibanco. Additional information on the financial products mentioned in this report may be available upon request. Itaú Unibanco and/or any other company within its economic group is not and shall not be liable for any investment decisions (or otherwise) based on the information provided herein.

Additional Note: This material does not take into consideration the objectives, financial situation or specific needs of any particular client. Clients must obtain financial, tax, legal, accounting, economic, credit and market advice on an individual basis, based on their personal characteristics and objectives, prior to making any decision based on the information contained herein. By accessing the material, you represent and confirm that you understand the risks related to the financial instruments described in this material and the laws in your jurisdiction relating to the provision and sale of financial service products. You acknowledge that this material contains proprietary information and you agree to keep this information confidential for your exclusive use.

For inquiries, suggestions, complaints, criticisms and compliments, talk to Itaú’s CSCC: 0800 728 0728. Or contact us through our portal https://www.itau.com.br/atenda-itau/para-voce/. If you are not satisfied with the proposed solution, please contact the Itaú Corporate Ombudsman: 0800 570 0011 (on weekdays from 9 AM to 6 PM) or our PO Box 67.600, São Paulo-SP, Zip Code 03162-971. Hearing impaired, every day, 24h, 0800 722 1722.