Copom: a somewhat dovish start

- The Copom rose the Selic rate to 13.25% pa, in a widely expected decision, and reaffirmed that its next decision will be the same. The committee provides no clear guidance beyond that. All in all, the statement has a somewhat dovish tilt. That is because the inflation forecasts seem relatively tame, and changes in the text suggest concerns about risks to domestic economic activity and a rather benign (from an inflation viewpoint) assessment of the potential impact of shocks on global trade and financial conditions.
- Moreover, the text, in our view, under-reacts to the severe deterioration of inflation expectations in recent weeks – the worst seen between Copom meetings in more than ten years.
- We envisage another 100-bp hike in the next policy meeting (on March 18-19th), and a terminal rate at 15.75% pa, but risks seem to be that the Copom may stop short.

Main changes in inflation forecasts and balance of risks

Inflation forecasts presented in the latest meetings by the Copom

Period	September	November	December	January
IPCA 2025	3.7%	3.9%	4.5%	5.2%
Relevant Horizon (RH)**	3.5% (1Q26)	3.6% (2Q26)	4.0% (2Q26)	4.0% (3Q26)
Market-set prices 2025	3.6%	3.8%	4.5%	5.2%
Market-set prices RH**	3.4% (1Q26)	3.4% (2Q26)	3.8% (2Q26)	3.8% (3Q26)
Regulated prices 2025	4.0%	4.2%	4.5%	5.2%
Regulated prices RH**	3.9% (1Q26)	4.3% (2Q26)	4.6% (2Q26)	4.6% (3Q26)
Exogenous variables				
Exchange rate* (BRL/USD)	5.60	5.75	5.95	6.00
Selic rate (Focus) 2025	10.50%	11.50%	13.50%	15.00%
Selic rate (Focus) 2026	9.50%	9.75%	11.00%	12.50%
Inflation expectations (Focus) 2025	3.95%	4.03%	4.59%	5.50%
Inflation expectations (Focus) 2026	3.61%	3.61%	4.00%	4.22%

*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.

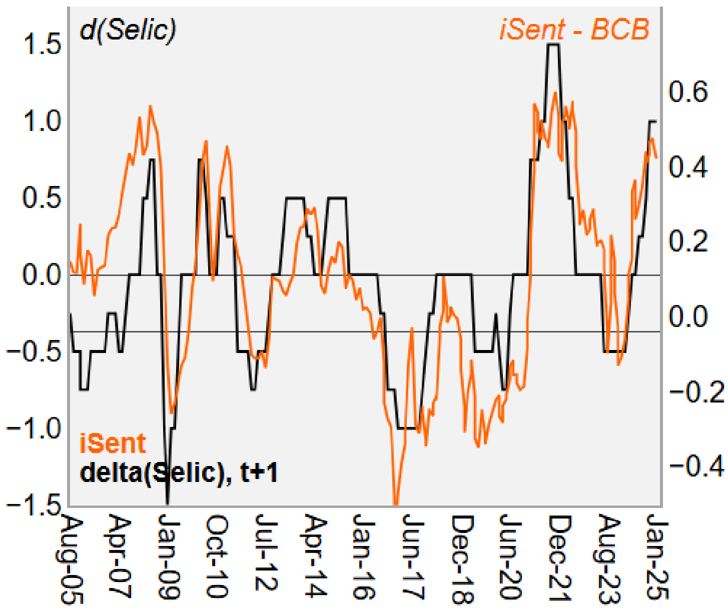
Source: Central Bank, Itaú.

Factors mentioned in the balance of risks by the Copom in the latest meetings (**orange** = change compared to the previous meeting)					
November		December		January	
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 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	(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 a **greater-than-expected** inflationary impact, for example, through a persistently more depreciated currency	(i) **impacts on the inflation outlook from a potential domestic economic slowdown** that is more pronounced than projected; (ii) **a less inflationary scenario for emerging economies resulting from shocks to international trade and global financial conditions**

iSent, Itaú's Central Bank Sentiment Classifier

Our iSent Central Bank Classifier[1] remains in positive territory (0.45).

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

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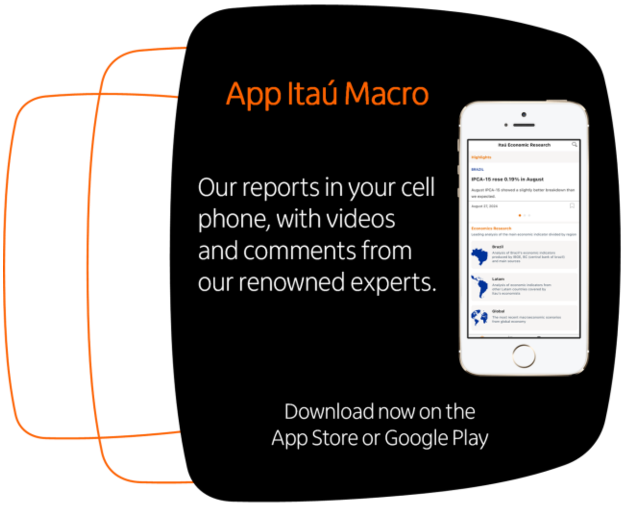

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