

Copom Cockpit: cautious easing

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- ▶ Brent prices rose from USD 72/bbl on the eve of the Middle East conflict to around USD 103/bbl currently, representing a 43% increase, while exhibiting above-average volatility. As is customary, the conduct of monetary policy in the face of this type of shock will depend on the assessment of its persistence and propagation through second-round effects.
- ▶ So far, these secondary channels remain relatively contained. The exchange rate has been resilient despite higher risk aversion, reflecting primarily the elevated interest rate differential and the improvement in terms of trade. Current inflation, while showing a worse-than-expected underlying composition in recent releases, remains on a relatively benign trajectory.
- ▶ The balance of risks has shifted up for 2026–2027, though with some mitigating factors, such as tax measures aimed at cushioning fuel price increases in the domestic market. Regarding inflation expectations, Focus survey projections remain relatively stable, while breakeven measures rose by approximately 40–50 bps.
- ▶ Regarding the Copom forecasts, with the exchange rate around BRL/USD 5.20 and oil prices near USD 85/bbl (both corresponding to the average of the last 10 business days ending on the Friday prior to the meeting), the estimate for the relevant horizon (3Q27) will likely increase to 3.4%, up from 3.2%. In our opinion, this deterioration does not preclude the start of the easing cycle but, with projections close to the upper bound of what would be considered acceptable, calls for a more cautious adjustment, of 25 bps.
- ▶ From a communication standpoint, amid elevated uncertainty, the Central Bank should signal that the moment calls for caution and steadiness in the implementation of its interest rate calibration strategy. It should also indicate that the Committee aims to counteract the secondary effects of supply shocks that materialize with a lag in inflation dynamics, and that the pace and magnitude of the cycle will depend on this assessment. Finally – and most importantly – the Copom should make it clear that it stands ready to interrupt any Selic adjustment should shocks prove more persistent or larger than anticipated.

1 – Inflation Forecasts

The tables below summarize the projections based on our estimated replica of the Central Bank's small-scale model, as well as changes in the Focus survey since the last Committee meeting. The exchange rate used (BRL 5.20/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 to the January meeting, the Committee's inflation projections under 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 4.1% for 2026 (from 3.4%) and increase to 3.4% at the relevant horizon of 3Q27 (from 3.2% at the previous meeting, also referring to 3Q27).

Since the last Copom meeting, inflation expectations from the Focus survey declined to 3.91% for 2026 (from 4.00%), while remaining unchanged at 3.80% and 3.50% for 2027 and 2028, respectively. For the Selic rate, the median

projections edged down to 12.13% (from 12.25%) for 2026 and remained stable at 10.50% and 10.00% for 2027 and 2028, respectively.

IPCA forecasts (%) according to "Central Bank model"						
Period	June Meeting	September Meeting	November Meeting	December Meeting	January Meeting	March Meeting (forecast)
2026	3.6%	3.6%	3.6%	3.5%	3.4%	4.1%
Relevant Horizon	3.4% (1Q27)	3.4% (1Q27)	3.3% (2Q27)	3.2% (2Q27)	3.2% (3Q27)	3.4% (3Q27)**
Exogenous variables						
Exchange Rate (R\$/US\$)	5.55	5.40	5.40	5.35	5.35	5.20
Selic Interest Rate (%) 2026	12.50%	12.38%	12.25%	12.25%	12.25%	12.13%
Selic Interest Rate (%) 2027	10.50%	10.50%	10.50%	10.50%	10.50%	10.50%
Inflation Expectations (Focus) 2026	4.44%	4.30%	4.20%	4.16%	4.00%	3.91%
Inflation Expectations (Focus) 2027	4.00%	3.90%	3.80%	3.80%	3.80%	3.80%

Source: Bloomberg, Central Bank of Brazil, Itaú.

* Model developed by Itaú replicating Copom's model.

Focus forecasts (% , year-end)						
	2026		2027		2028	
	Previous Copom	Current*	Previous Copom	Current*	Previous Copom	Current*
IPCA	4.00	3.91	3.80	3.80	3.50	3.50
GDP growth	1.80	1.82	1.80	1.80	2.00	2.00
Selic rate	12.25	12.13	10.50	10.50	10.00	10.00
Exchange rate (BRL/USD)	5.50	5.41	5.51	5.50	5.52	5.50

*considering the latest Focus report.

Source: BCB, Itaú.

2 – Data Evolution

The table below summarizes the main macroeconomic indicators released between the last Copom meeting (January 27–28) and the upcoming one. In February, the IPCA-15 came in above the top of the expectation range, at 0.84%, versus a consensus of 0.56% (range: 0.39%–0.69%), with the surprise mainly concentrated in airfares. February headline IPCA also came in slightly above consensus (0.70% versus 0.64%), with the services core pressured by more volatile items – auto insurance and vehicle repairs.

On the activity front, the labor market remained resilient, with the seasonally adjusted unemployment rate reaching a historical low near 5.3%, and the January CAGED print surprising to the upside (112k, versus a consensus of 95k), with the three-month seasonally adjusted moving average recovering at the margin. Other demand indicators showed mixed dynamics: retail sales and services came in below expectations in December – both declining 0.4% m/m – but reversed in January, with retail sales (+0.4% m/m, versus a consensus of -0.1%) and services (+0.3% m/m, versus +0.1%) outperforming expectations. Industrial production closed 2025 on a weak note (-1.2% m/m in December), but started 2026 above expectations (+1.8% m/m in January), suggesting normalization at the margin. Overall, the picture points to a gradual deceleration in activity, with the labor market still tight and demand indicators hovering around a moderate growth pace.

Economic Indicators: Result vs. Consensus			
Release Date	Indicator	Result	Consensus
29-Jan-26	IGP-M (Jan/26) - MoM	0.41%	0.38%
29-Jan-26	Formal job creation (Dec/25) - Thousands	-618	-472
30-Jan-26	Primary fiscal result (Dec/25) - BRL bn	6.3	4.0
30-Jan-26	Unemployment rate (Dec/25)	5.10%	5.10%
3-Feb-26	Industrial production (Dec/25) - MoM	-1.20%	-1.10%
10-Feb-26	IPCA (Jan/26) - MoM	0.33%	0.32%
12-Feb-26	IBGE Services Sector Volume (Dec/25) - MoM	-0.4%	-0.1%
13-Feb-26	Core Retail Sales (Dec/25) - MoM	-0.4%	-0.2%
19-Feb-26	IBC-Br (Dec/25) - MoM	-0.2%	-0.4%
26-Feb-26	IGP-M (Feb/26) - MoM	-0.73%	-0.61%
27-Feb-26	Primary fiscal result (Jan/26) - BRL bn	104	106
27-Feb-26	IPCA-15 (Feb/26) - MoM	0.84%	0.56%
3-Mar-26	GDP (4Q25) - YoY	0.1%	0.2%
3-Mar-26	Formal job creation (Jan/26) - Thousands	112	95
5-Mar-26	Unemployment rate (Jan/26)	5.4%	5.4%
6-Mar-26	Industrial production (Jan/26) - MoM	1.8%	0.7%
11-Mar-26	Core Retail Sales (Jan/25) - MoM	0.4%	-0.1%
12-Mar-26	IPCA (Feb/26) - MoM	0.70%	0.64%
13-Mar-26	IBGE Services Sector Volume (Jan/26) - MoM	0.3%	0.1%

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

3 – Evolution of the Communication

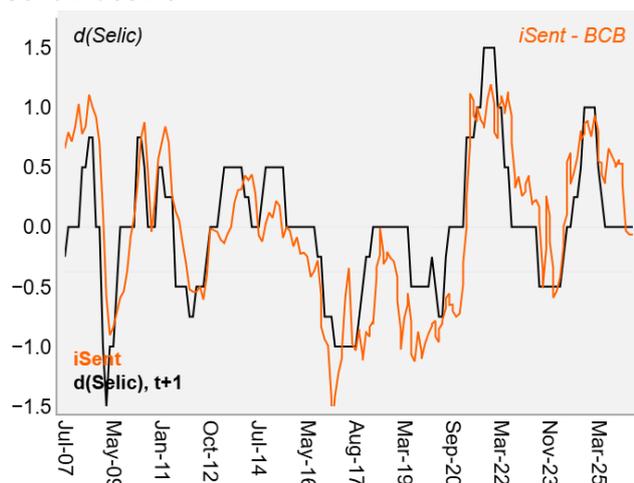
In its most recent decision, the Copom kept the Selic rate at 15.00% p.a. in a unanimous vote – with a reduced quorum of seven members, following the expiration of two directors' mandates in December – and its communication marked a relevant turning point in the cycle, with an explicit signal that the easing cycle would begin in March. The expression “quite prolonged period” was replaced by “calibration,” and the possibility of resuming the hiking cycle, present in the December minutes, disappeared entirely.

In its assessment of economic activity, the Committee highlighted the resilience of the labor market, with “average real wages maintaining an upward trend above productivity” as the main source of caution justifying a gradual easing pace. This reading kept the magnitude of the first cut open in the minutes, with the Copom signaling only the direction, stating that “the magnitude and duration of the monetary easing cycle will be determined over time.” In remarks at a conference on February 11, the Central Bank Governor reinforced the gradualist stance, describing the Copom as an “ocean liner” – committed to the direction, but measured in its pace.

On the inflation front, the earlier decline in Copom projections for the relevant horizon (3Q27), together with improving Focus survey expectations and clearer signs of monetary policy transmission, had underpinned the market's majority view of a first adjustment of 50 bps. The oil price shock, however, interrupted – albeit likely temporarily – this improvement, directly affecting the risk balance.

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.

Itaú iSent Classifier



Source: Itaú.

4 – Our view

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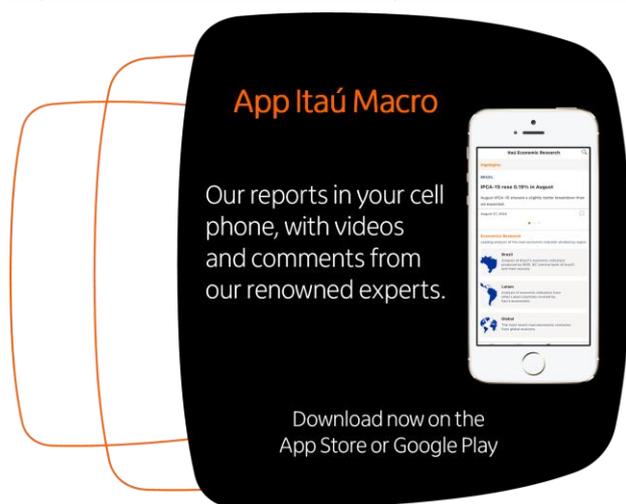
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Macro Research – Itaú

Mario Mesquita – Chief Economist

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