Macro Brazil

November 5, 2025

Copom: no relief

- The Copom delivered the expected decision, leaving the Selic rate unchanged at 15.00%, where it has been since June. Authorities made the expected factual updates. The committee notes activity is moderating, previously it detected “some” moderation. Copom members signal confidence that their policy strategy is now working; this was still something to be assessed, as of the previous meeting. Contrary to what some market participants (not us) were expecting, policymakers did not change the pledge to keep the Selic unchanged for quite some time.
- Inflation forecasts, that are critical to the decision-making process, came in at 3.6% for 2026, and 3.3% for 2Q27, which is the relevant policy horizon. There is some debate, however, on whether they incorporated or not the effects on the output gap and inflation of the just approved change in the lower income tax threshold. If they did incorporate, then forecasts, looking ahead, have less upside, conversely, if this is still in the pipeline, Copom forecasts will tend to rise, other things being equal, in the coming meetings – which would signal a later start of the easing cycle, towards March or even April.
- As usual, we’ll learn more about the committee’s rationale with the release of the minutes, on November 11th. This, and the information on the income tax effect, might elicit a reassessment of our current call that the first cut will happen in the first meeting of 2026.

Main changes in inflation forecasts and balance of risks

Inflation forecasts presented in the latest meetings by the Copom					
Period	**May**	**June**	**July**	**September**	**November**
IPCA 2025	4.8%	4.9%	4.9%	4.8%	4.6%
IPCA 2026	3.6%	3.6%	3.6%	3.6%	3.6%
Relevant Horizon (RH)**	3.6% (4Q26)	3.6% (4Q26)	3.4% (1Q27)	3.4% (1Q27)	3.3% (2Q27)
Market-set prices 2025	5.3%	5.2%	5.1%	5.0%	4.5%
Market-set prices 2026	3.4%	3.4%	3.5%	3.5%	3.6%
Market-set prices RH**	3.4% (4Q26)	3.4% (4Q26)	3.3% (1Q27)	3.3% (1Q27)	3.2% (2Q27)
Regulated prices 2025	3.5%	3.8%	4.4%	4.3%	5.0%
Regulated prices 2026	4.0%	4.1%	4.0%	3.8%	3.4%
Regulated prices RH**	4.0% (4Q26)	4.1% (4Q26)	3.9% (1Q27)	3.8% (1Q27)	3.5% (2Q27)
Exogenous variables					
Exchange rate* (BRL/USD)	5.70	5.60	5.55	5.40	5.40
Selic rate (Focus) 2025	14.75%	14.75%	15.00%	15.00%	15.00%
Selic rate (Focus) 2026	12.50%	12.50%	12.50%	12.38%	12.25%
Inflation expectations (Focus) 2025	5.53%	5.25%	5.09%	4.83%	4.55%
Inflation expectations (Focus) 2026	4.51%	4.50%	4.44%	4.30%	4.20%

*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.

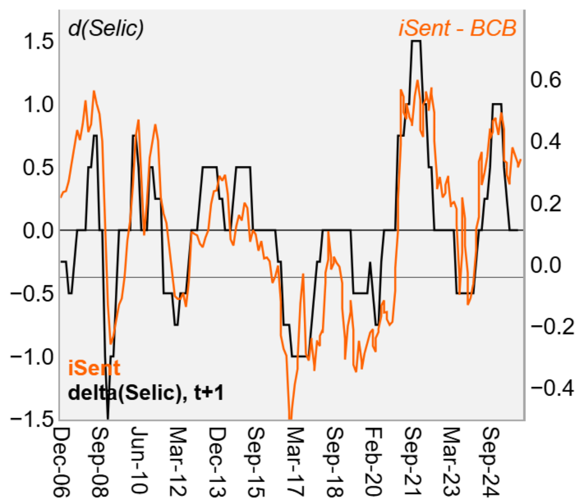
Source: Central Bank, Itaú.

Factors mentioned in the balance of risks by the Copom in the latest meetings (**orange** = change compared to the previous meeting)					
July		September		November	
Upside risks	Downside risks	Upside risks	Downside risks	Upside risks	Downside risks
(i) a more prolonged period of deanchoring 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 stronger-than-expected inflationary impact, for example, through a persistently more depreciated currency	(i) a greater-than-projected deceleration of domestic economic activity, impacting the inflation scenario; (ii) a steeper global slowdown stemming from the trade shock and the scenario of heightened uncertainty; (iii) a reduction in commodity prices with disinflationary effects	(i) a more prolonged period of deanchoring 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 stronger-than-expected inflationary impact, for example, through a persistently more depreciated currency	(i) a greater-than-projected deceleration of domestic economic activity, impacting the inflation scenario; (ii) a steeper global slowdown stemming from the trade shock and the scenario of heightened uncertainty; (iii) a reduction in commodity prices with disinflationary effects	(i) a more prolonged period of deanchoring 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 stronger-than-expected inflationary impact, for example, through a persistently more depreciated currency	(i) a greater-than-projected deceleration of domestic economic activity, impacting the inflation scenario; (ii) a steeper global slowdown stemming from the trade shock and the scenario of heightened uncertainty; (iii) a reduction in commodity prices with disinflationary effects

iSent, Itaú's Central Bank Sentiment Classifier

Our iSent Central Bank Classifier[1] remains in positive territory (0.38).

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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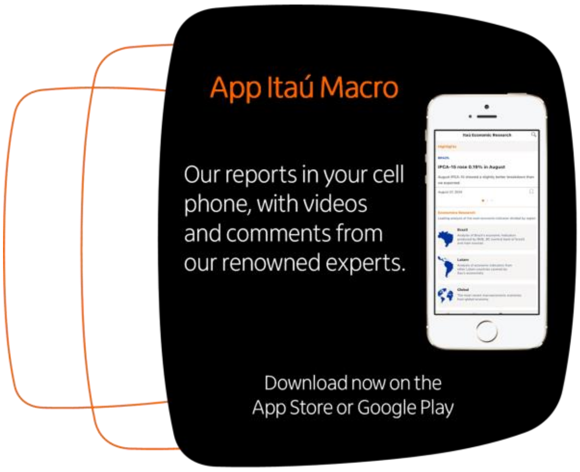

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