

November 6, 2024

Copom: It's all fiscal

- ▶ In a unanimous decision, the Copom delivered a 50-bp hike, as widely expected, taking the Selic rate to 11.25% pa. The statement did not pin down any specific pace for coming decisions, but made clear the relevance of structural fiscal measures, yet to be presented. These, according to the authorities, can reduce risk premia, thereby helping to contain exchange rate depreciations. For now, we maintain our view of a 50-bp pace ahead, also waiting for more clarity on the fiscal front. We'll learn more about the authorities' rationale with the release of the meeting minutes on November 12.
- ▶ Still, lingering fiscal challenges pose upside risks to inflation and the future path of interest rates.

Main changes in inflation forecasts and balance of risks

Inflation forecasts presented in the latest meetings by the Copom						
Period	June**		July**		September	November
	Reference	Alternative (constant Selic rate)	Reference	Alternative (constant Selic rate)		
IPCA 2024	4.0%	4.0%	4.2%	4.2%	4.3%	4.6%
IPCA 2025	3.4%	3.1%	3.6%	3.4%	3.7%	3.9%
Relevant Horizon***	-	-	3.4% (1Q26)	-	3.5% (1Q26)	3.6% (2Q26)
Market-set prices 2024	-	-	-	-	4.4%	4.5%
Market-set prices 2025	-	-	-	-	3.6%	3.8%
Market-set prices 2Q26	-	-	-	-	-	3.4%
Regulated prices 2024	4.4%	-	5.0%	-	4.2%	4.9%
Regulated prices 2025	4.0%	-	4.0%	-	4.0%	4.2%
Regulated prices 2Q26	-	-	-	-	-	4.3%
Exogenous variables						
Exchange rate* (BRL/USD)	5.30		5.55		5.60	5.75
Selic rate (Focus) 2024	10.50%	10.50%	10.50%	10.50%	11.25%	11.75%
Selic rate (Focus) 2025	9.50%	10.50%	9.50%	10.50%	10.50%	11.50%
Selic rate (Focus) 2026	9.00%	10.50%	9.00%	10.50%	9.50%	9.75%
Inflation expectations (Focus) 2024	3.96%		4.10%		4.35%	4.59%
Inflation expectations (Focus) 2025	3.80%		3.96%		3.95%	4.03%
Inflation expectations (Focus) 2026	3.60%		3.60%		3.61%	3.61%

*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.

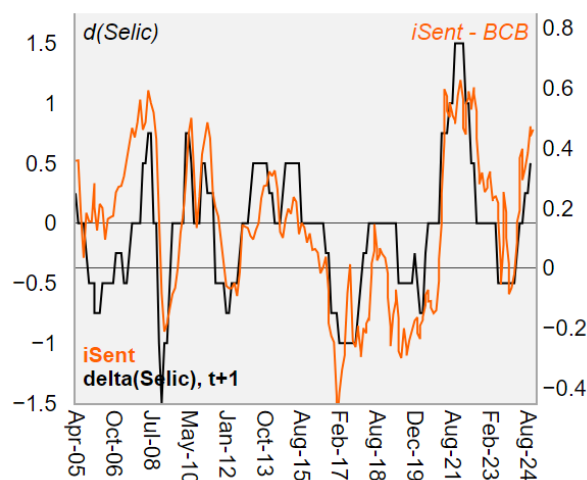
Factors mentioned in the balance of risks by the Copom in the latest meetings (orange = new inclusion compared to the previous meeting)					
July		September		November	
Upside risks	Downside risks	Upside risks	Downside risks	Upside risks	Downside risks
(i) a more prolonged period of unanchoring of inflation 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 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

Source: Central Bank, Itaú.

iSent, Itaú's Central Bank Sentiment Classifier

Our [iSent Central Bank Classifier](#)¹ remains in positive territory (0.46).

Classifier in positive territory



Source: BCB, Itaú

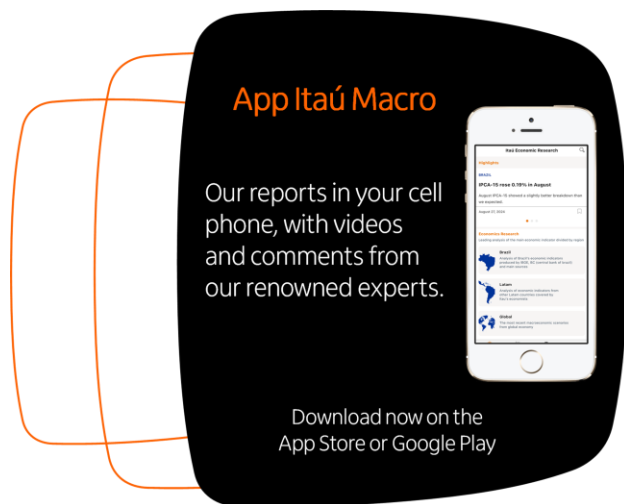
¹ Based on GPT-4, developed by our data science team using sentences published in central bank's official documents labeled by our economists. Our labeled dataset consists of approximately 1,000 sentences extracted from official documents published by the Brazilian Central Bank. Each sentence was classified 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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