

## Copom Cockpit: unchanged stance

- ▶ The Copom will meet again on September 16 and 17 and is expected to unanimously maintain the Selic rate at 15.00% pa, in order to ensure the convergence of inflation toward the target within the relevant monetary policy horizon. The decision should reflect the combination of a cautious stance in the face of a still uncertain external environment and the assessment that the lagged effects of monetary policy are still unfolding.
- ▶ Since the last meeting, economic data have shown mixed signals. On the one hand, the BRL has appreciated in a more favorable external environment, characterized by a weaker U.S. dollar globally and the prospect of the Federal Reserve resuming its easing cycle, which would widen the interest rate differential in favor of Brazil. In the opposite direction, external accounts continue to deteriorate, with a sharp widening of the current account deficit, moving further away from its historical average, albeit with only moderate impact on the exchange rate. Inflation expectations – both from the Focus survey and from market-implied measures – have declined, but only modestly, and remain substantially above the inflation target across different horizons. Meanwhile, current inflation, after some qualitative relief midyear, has once again exceeded the tolerance band of the target on a seasonally adjusted basis.
- ▶ Economic activity signals remain mixed: the labor market continues to show resilience, although with some moderation at the margin, while monthly activity surveys and 2Q25 GDP confirm a gradual slowdown in domestic demand. Our proprietary IDAT-Activity index has already been capturing this loss of momentum for several months, particularly in credit-sensitive sectors. The resilience of the labor market is consistent with its usual lag relative to economic activity.
- ▶ Overall, we believe the committee appears increasingly confident that the economy is slowing in line with its expectations and therefore sees no need to adjust its policy outlook at this point. This allows the monetary authority to wait a prolonged period before signaling any future guidance on the pace and timing of potential easing. We maintain our baseline scenario of rate cuts beginning only in the first quarter of 2026. However, we acknowledge that risks have tilted toward an earlier move in 2025, which could occur in the event of an even more pronounced exchange rate appreciation or a sharper slowdown in activity. Conversely, a significant upward revision of the output gap by the Central Bank, pointing to stronger economic activity, could mitigate the case for an early start to the easing cycle – though this appears less likely given the most recent information on the pace of economic activity.

## 1 – Inflation Forecasts

The tables below summarize the projections based on our estimated replica of the BCB's small-scale model, as well as the changes in the Focus survey since the committee's last meeting. The exchange rate used (R\$5.40/US\$) follows BCB's procedure of using the average of the last 10 business days.

Compared to the July meeting, the committee's inflation projections in the reference scenario (which assumes an exchange rate consistent with purchasing power parity and an interest rate aligned with the Focus survey) are likely to fall to 4.8% in 2025 (from 5.0%), to 3.4% in 2026 (from 3.6%) and to 3.3% (from 3.4%) in the relevant 1Q27 horizon.

Since the last Copom meeting, inflation expectations reported in the Focus survey have declined to 4.83% for 2025 (from 5.09%) and for 4.30% in 2026 (from 4.44%). For the Selic rate, the median projections remained stable at 15.0% for 2025 but modestly declined to 12.38% (from 12.50%) in 2026.

### IPCA forecasts (%) according to "Central Bank model"

Period	March Meeting	May Meeting	June Meeting	July Meeting	Sept. Meeting (forecast)
2025	5.1%	4.8%	4.9%	5.0%	4.8%
2026	--	3.6%	3.6%	3.6%	3.4%
Relevant horizon	3.9% (3Q26)	3.6% (4Q26)	3.6% (4Q26)	3.4% (1Q27)	3.3% (1Q27)
<b>Exogenous variables</b>					
Exchange Rate (R\$/US\$)	5.80	5.70	5.60	5.55	5.40
Selic Interest Rate (%) 2025	15.00%	14.75%	14.75%	15.00%	15.00%
Selic Interest Rate (%) 2026	12.50%	12.50%	12.50%	12.50%	12.38%
Inflation Expectations (Focus) 2025	5.66%	5.53%	5.25%	5.09%	4.83%
Inflation Expectations (Focus) 2026	4.48%	4.51%	4.50%	4.44%	4.30%

Source: Bloomberg, Central Bank of Brazil, Itaú.

\* Model developed by Itaú replicating Copom's model.

### Focus forecasts (% , year-end)

	2025		2026		2027	
	Previous Copom	Current*	Previous Copom	Current*	Previous Copom	Current*
IPCA	5.09	4.83	4.44	4.30	4.00	3.90
GDP growth	2.23	2.16	1.89	1.80	2.00	1.90
Selic rate	15.00	15.00	12.50	12.38	10.50	10.50
Exchange rate (BRL/USD)	5.60	5.50	5.70	5.60	5.70	5.60

\*considering the latest Focus report.

Source: BCB, Itaú.

## 2 – Asset Prices Evolution

Since the last Copom meeting and up to the release of this report, the exchange rate moved to BRL 5.36/USD (from 5.57), supported by a weaker U.S. dollar globally and, to a lesser extent, the wide interest rate differential in Brazil's favor – further reinforced by prospects of the Federal Reserve resuming its monetary easing cycle. Country risk, measured by the 5-year CDS, declined 18 bps since the last meeting, to 133 bps. The yield on the 10-year U.S. Treasury note stood at 4.06% (from 4.37%), while Brent crude prices fell to USD 67/bbl (vs. 73 previously), after OPEC+ signaled an increase in the supply for 2025.

Asset prices		
	Previous Copom	Current*
UST 10Y	4.37	4.06
Oil price (Brent)	73	67
Agricultural commodities**	583	590
CRB RIND Index***	571	575
CDS 5Y	151	133
Exchange rate (BRL/USD)	5.57	5.36

\*considering closing prices on the eve of publication of the report.

\*\*geometric average of soy, corn and wheat prices, in US dollars.

\*\*\*Commodity Research Bureau Index of Industrial Raw Materials.

Source: CRB, BBG, Itaú.

### 3 – Data Evolution

From the table below, we can better assess the behavior of the main macroeconomic indicators released between the last and the upcoming Copom meetings. Starting with inflation, July's IPCA surprised to the downside (0.26% m/m vs. consensus of 0.36%), but both the August IPCA-15 and the IPCA came stronger than expected. The IPCA-15 printed at -0.14% m/m and the headline IPCA at -0.11% m/m. The deflation in August's IPCA was driven by two temporary factors: lower electricity tariffs (reflecting the 'Itaipu bonus', a one-off discount that was applied to electricity bills) and promotional discounts in cinema services. Both effects are transitory and should reverse in the next release, leaving the composition of inflation still unfavorable. Excluding the cinema item, underlying services inflation accelerated from 6.0% to 6.3%.

On economic activity, the unemployment rate measured by the PNAD survey remains at historically low levels (5.8%), while CAGED data continue to point to solid formal job creation, although recent releases suggest a gradual slowdown in the pace of hiring. Overall, the labor market remains resilient but appears to be losing momentum at the margin. In addition, monthly activity surveys show signs of deceleration: both industrial production and retail sales reported weaker results in July data.

Economic Indicators: Result vs. Consensus			
Release Date	Indicator	Result	Consensus
31-Jul-25	Primary fiscal result (Jun/25) - BRL bn	-47.10	-41.00
31-Jul-25	Unemployment rate (Jun/25)	5.80%	6.00%
1-Aug-25	Industrial production (Jun/25) - MoM	0.10%	0.40%
4-Aug-25	Formal job creation (Jun/25) - Thousands	167	177
8-Jul-25	Core Retail Sales (Jun/25) - MoM	-0.10%	0.80%
12-Aug-25	IPCA (Jul/25) - MoM	0.26%	0.36%
18-Aug-25	IBC-Br (Jun/25) - MoM	-0.06%	0.00%
26-Aug-25	IPCA-15 (Aug/25) - MoM	-0.14%	-0.20%
27-Aug-25	Formal job creation (Aug/25) - Thousands	130	138
28-Aug-25	IGP-M (Aug/25) - MoM	0.36%	0.20%
2-Sep-25	GDP (2Q25) - QoQ	0.40%	0.30%
10-Sep-25	IPCA (Aug/25) - MoM	-0.11%	-0.15%
11-Sep-25	Core Retail Sales (Jul/25) - MoM	-0.30%	-0.30%
12-Sep-25	IBGE Services Sector Volume (Jul/25) - MoM	0.30%	0.30%
15-Sep-25	IBC-Br (Jul/25) - MoM	-0.53%	-0.30%
16-Sep-25	Unemployment rate (Jul/25)	-	5.70%

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

### 4 – Evolution of the Copometer Communication

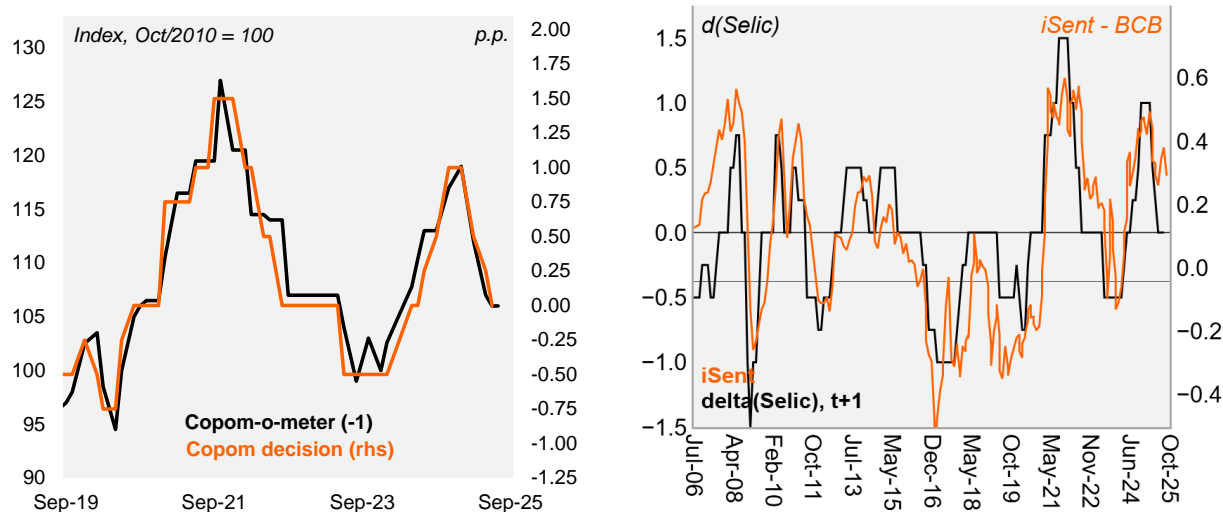
In its most recent decision, the Copom ended the tightening cycle with the Selic rate at 15% per year, while maintaining the guidance that the policy rate will remain at the current level for an extended period. The committee underscored the need for caution amid heightened external uncertainty, noting that the imposition of trade tariffs on Brazil generates relevant sectoral impacts, though with still uncertain aggregate effects. Domestically, sources of uncertainty were also highlighted, with particular emphasis on the mixed signals from economic and sectoral indicators, such as the divergence between the credit market, which shows clearer signs of deceleration, and the labor market, which continues to display resilience.

That said, policymakers stressed – both in the statement and in the minutes – that the ongoing slowdown in economic activity is unfolding broadly in line with expectations. The minutes also mentioned, for the first time, the recent decline in market breakevens, while pointing out that long-term inflation expectations from the Focus survey have not shown significant changes. Overall, the committee appears to be gaining confidence that the economy is slowing as expected and, therefore, sees no need to adjust its policy rate outlook.

To anticipate Copom decisions, we use the Copometer – an index that measures the degree of monetary restriction or expansion implied in the Central Bank’s communication. Applying the methodology, which is based on scores assigned to the committee’s key communications, we assess that the indicator is consistent with the Selic rate remaining stable at the next meeting.

In addition to the Copometer, 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. In general terms, the index suggests a softer tone in the recent monetary policy communication, although not enough to ensure interest rate stability.

### Copom-o-Meter and Itaú iSent Classifier



## 5 – Our view

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the inflation target across different horizons. Meanwhile, current inflation, after some qualitative relief midyear, has once again exceeded the tolerance band of the target on a seasonally adjusted basis.

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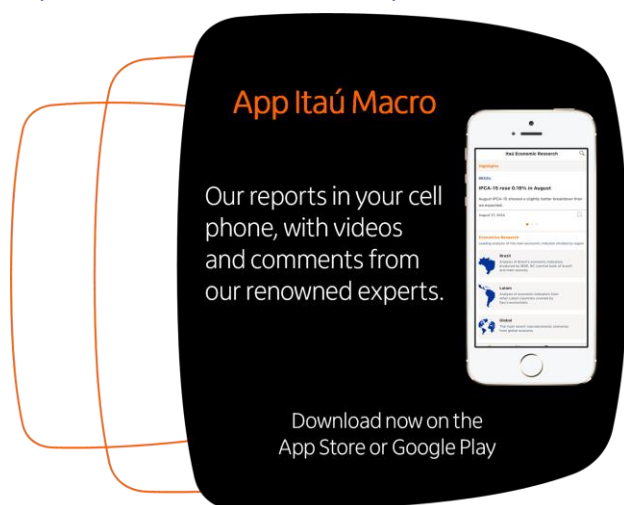
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