

Copom Minutes: end of cycle

- ▶ The Copom minutes provided, as expected, the rationale for the end of the easing cycle and, rightly, reinforced the message that this was a unanimous decision.
- ▶ Two aspects of the text merit more debate. First, the Copom increased its neutral rate hypothesis to 4.75%, versus 4.50%, and assumed the output gap has closed, which in our view makes it harder to account for the 3.1% inflation forecast for 2025.
- ▶ Moreover, when the authorities discuss the balance of risks, they tilt hawkish. Previously, they stated that some members deemed inflation risks asymmetric to the upside. Now they state that the majority deems risks symmetric, for now. This opens a slight edge for a toughening up of the Copom rhetoric down the road.
- ▶ For now, we retain the view that the Copom will keep the Selic unchanged at 10.50% pa throughout the policy horizon. But nothing in this text suggests that the Selic's next move will be down.

Main changes in inflation forecasts and balance of risks

In the tables below, we repeat the projections and balance of risks already presented in our report on the Copom decision last week. The inflation and Selic rate forecasts extracted from the Focus survey also refer to those published in the week of the decision.

Inflation forecasts presented in the latest meetings by the Copom						
Period	December	January	March	May	June**	
	Reference	Reference	Reference	Reference	Reference	Alternative (constant Selic rate)
IPCA 2024	3.5%	3.5%	3.5%	3.8%	4.0%	4.0%
IPCA 2025	3.2%	3.2%	3.2%	3.3%	3.4%	3.1%
Regulated prices 2024	4.5%	4.2%	4.4%	4.8%	4.4%	-
Regulated prices 2025	3.6%	3.8%	3.9%	4.0%	4.0%	-
Exogenous variables						
Exchange rate* (BRL/USD)	4.90	4.95	4.95	5.15	5.30	
Selic rate (Focus) 2024	9.25%	9.00%	9.00%	9.63%	10.50%	
Selic rate (Focus) 2025	8.50%	8.50%	8.50%	9.00%	9.50%	
Inflation expectations (Focus) 2024	3.93%	3.81%	3.79%	3.72%	3.96%	
Inflation expectations (Focus) 2025	3.50%	3.50%	3.52%	3.64%	3.80%	

*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.

**At the June meeting, 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 throughout the relevant horizon.

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)					
March		May*		June	
Upside risks	Downside risks	Upside risks	Downside risks	Upside risks	Downside risks
(i) persistence of global inflationary pressures (ii) stronger than expected resiliency on services inflation due to a tighter output gap	(i) greater deceleration of the global economic activity (ii) an impact on global inflation larger than expected from synchronized monetary policy tightening	(i) persistence of global inflationary pressures (ii) stronger than expected resiliency on services inflation due to a tighter output gap	(i) greater deceleration of the global economic activity (ii) an impact on global inflation larger than expected from synchronized monetary policy tightening	(i) persistence of global inflationary pressures (ii) stronger than expected resiliency on services inflation due to a tighter output gap	(i) greater deceleration of the global economic activity (ii) an impact on global inflation larger than expected from synchronized monetary policy tightening
Symmetrical		Symmetrical		Symmetrical	

*Despite keeping the balance of risks unchanged at the May meeting, the Copom mentioned that the domestic and external scenario will remain more uncertain, requiring greater caution in the conduct of monetary policy.

Source: Central Bank, Itaú.

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