

## Brazil Watch

## Copom preview: another 50bp clip

**Another unanimous decision in March**

The Copom (Monetary Policy Committee) members are expected to cut rates by 50bps for the sixth consecutive time, taking the selic rate to 10.75% in an unanimous decision. The committee should keep the plural ("upcoming meetings"), while highlights activity resilience and concerns with inflation to justify the pace maintenance. The big miss on the Central Bank's inflation forecast in the 1Q24 is an upside risk for the model's results. At last, monetary policy remains contractionary (even with a cut to 10.75%, real ex-ante interest rates for year-end should remain just below 6.5%) and quite far from the 4.5% that the Central Bank understands as neutral.

**Since the last meeting:**

1. 12-month IPCA roughly unchanged (from 4.47% in mid-January read to 4.50% in February final reading). Underlying measures (diffusion and core) deteriorated in Jan and slightly recovered by the end of Feb.
2. Inflation expectations fell 5bp to 4.07 YE24' on the Focus survey, but market implied inflation retreated in short tenors, despite some deterioration in the U.S. Treasuries.
3. Activity data surprised to the upside in January: services +0.7% mom (same increased as recorded in December), retail sales +2.5% mom (from -1.4% mom in Dec), while industrial production registered a drop +1.6% mom (from +1.6% mom in Dec, revised up).
4. 2023 GDP growth ended last year at 2.9%, in line with our above consensus forecast of 3.0% growth. On the demand side, household consumption was disappointing. Domestic demand recovered in 4Q23 due to larger investments. Some inventories depletion was recorded for the second consecutive quarter, which is positive for production in coming quarters.
5. External scenario more adverse: concerns about the easing cycle start in the US increased on the back of stronger inflation and tight labor market.
6. Higher oil prices and the deterioration in local capital markets weight negatively to Brazilian financial conditions, favoring the continuation of rate cuts.

**Upside risks for BCB 2024 inflation forecasts**

After the upward surprises on inflation in the first two months of the year, we believe that the risks to the Central Bank's March monthly forecast should be another miss. The incorporation of roughly 40bps accumulated difference in 1Q to the 2024 year-end forecast could bring the model's result up to 3.8% (from 3.5% in January's decision), with lower monitored inflation. While 2025 and 2026 forecasts should be unchanged at 3.2% and 3.1% - respectively. The result still above the center of the inflation target would be a hawkish indication. However, the non-incorporation would result in a

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downward revision to 3.4% on IPCA this year.



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