

Brazil Watch

Copom cuts 50bp: cut/paste on the statement

Announced: Wednesday, Jan 31, 5:30pm ET

Actual: 11.25%

Previous: 11.75%

Consensus: 11.25%

BofA: 11.25%

BCB cuts rates by 50bp, as expected

In another unanimous decision, the Monetary Policy Committee (COPOM) delivered the fourth consecutive selic rate cut, to 11.25%, in line with expectations (See: [Copom preview: keeping the easing pace at 50bp](#)). The guidance was also unchanged, maintaining the pace of 50bp clips ahead – notice the plural in the communication. In their first monetary policy meeting, the two new board members, Paulo Pichetti and Rodrigo Alves, voted consistently with the other members, not providing any specific signals. The board remains concerned about the external backdrop.

External remains key

In the statement, Central Bank of Brazil (BCB) board mentioned the volatility on the external front, demanding cautiousness from emerging countries. The central banks of large economies are initiating the debate about the beginning of monetary easing given the signals of core inflation deceleration. On the domestic side, the board recognized the continuation of the disinflationary trend, with the underlying measures approaching the target. Activity data continued to be expected to slow down ahead. Board members also reinforced the importance of meeting fiscal targets to anchor inflation expectations, repeating the wording from previous statements. The Copom continues to pursue a monetary contractionary stance to re-anchor inflation expectations in the relevant horizon.

Changes in BCB regulated prices forecasts

Under BCB's reference scenario (Selic at 9.00% for '24 and 8.50% for '25; BRL at 4.95 and evolving according to PPP), inflation forecasts were unchanged for both YE24 and YE25 at 3.5% and 3.2%, respectively. Regulated prices forecast were revised down to 4.2% in '24 (from 4.5%), while revised up to 3.8% for '25 (from 3.6%). Also, the relevant horizon for the interest rate decision was updated, as 2025 now carries greater weight than 2024.

Same guidance

The staff's inflation forecasts remain above mid-target, indicating a hawkish sign, as board reiterated its commitment to pursue a monetary contractionary stance to re-anchor inflation expectations. Indeed, the ex-ante real rate – discounting expected 12-month inflation – dropped to 7.1%, above the central bank's neutral rate estimate of 4.5%. All in, we continue to expect cuts of 50bp per meeting in the selic rate, with a final 25bp in July, reaching a terminal rate of 9.50% in 2024.

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GEM Economics

LatAm | Brazil

David Beker >>

Bz Econ/FI & LatAm EQ Strategy

Merrill Lynch (Brazil)

+55 11 2188 4371

david.beker@bofa.com

Natacha Perez

Brazil Economist

Merrill Lynch (Brazil)

+55 11 96057 1866

natacha.perez@bofa.com



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