

## Brazil Watch

## Copom minutes: eyes wide open

**Guidance remains at 50bp cuts**

The Central Bank of Brazil (BCB) released the minutes of the last meeting of the Copom (Monetary Policy Committee), after cutting the Selic rate to 11.25% (from 11.75%). The board highlighted there is no mechanical relation between the decisions of the COPOM and the FOMC. Members emphasized their concern with inflationary risks coming from abroad, particularly from geopolitical shocks. They noted some improvement in credit conditions. Positive mentions to labor market resilience and real wage gains. However, the latter could negatively impact the convergence of services inflation to target. We continue to expect interest rates at 9.50% at the end of this easing cycle.

**Another unanimous decision**

The decision of 50 bp cut was unanimous among the members and they avoid delivering any surprises in communicating future steps of monetary policy conduction. The board highlighted the risks coming from abroad, with the potential beginning of an easing cycle in developed economies and the impact over domestic inflation, namely through currency depreciation. In that sense, they emphasized there is no mechanical relation between the decisions of the COPOM and the FOMC. Another concern are the geopolitical risks and their effects, notably the recent increase to freight prices.

On the internal front, there are the continuation of better credit conditions and expected activity deceleration. The resilience of labor market was considered relevant in determining the pace at which inflation could reach the target, mainly through services inflation. However, real wage gains could impact the convergence of services inflation.

**Cuts should continue**

The minutes emphasized that the impacts of monetary easing cycle began to be felt, with disinflationary progress and new credit originations. Inflation expectations have moved closer to the center of the target but are still unanchored and remain a concern factor. 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.

**Key points from the minutes:**

1. The board sees a still deteriorated and uncertain external backdrop.
2. As the labor market strengthens, members are looking deeper into real income dynamics.
3. A tighter output gap remains a risk.
4. Credit market is showing signs of recovery.
6. Activity slowdown has been occurring, supported mainly by gross fixed capital formation deceleration. While household consumption remains resilient.
7. The board still sees the current cutting pace as appropriate, while reinforced that the length of the cycle will depend on inflationary dynamics.
8. Next steps: still more clips of 50bp.

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