

## Brazil Watch

## Copom preview: keeping the easing pace at 50bp

**Expect another unanimous decision**

The Copom (Monetary Policy Committee) members should decide to cut rates by 50bps to 11.25% next week in an unanimous decision. The committee should keep the plural ("upcoming meetings"), while highlighting fiscal uncertainty and intensification of geopolitical risks to justify the pace maintenance. The weight of 2025 begins to increase at this meeting for the relevant horizon. We need to pay attention to any signs coming from the new board members, namely Paulo Picchetti and Rodrigo Alves, since this is their first meeting. Monetary policy remains contractionary (even with a cut to 11.25%, real ex-ante interest rates still close to 7.5%) and quite far from the 4.5% that the Central Bank understands as neutral.

**Since the last meeting:**

1. 12-month IPCA decelerated (from 4.70% in November to 4.62% in December). Underlying measures (diffusion and core) continue to show benign behavior.
2. Inflation expectations were unchanged in the Focus survey, but market implied inflation followed the U.S. Treasuries movement, i.e., It fell at the end of 2023 and rose in the first days of 2024.
3. Activity data showed a modest recovery in November: services +0.4% mom (from -0.5% in October), retail sales +0.1% mom (from -0.3% mom in October) and industrial production +0.5% mom (from +0.1% mom).
4. The trade balance ended the year on a surprisingly positive note; The first readings of the year suggest another month of strong trade surplus.
5. External scenario more adverse: higher geopolitical tension, market repricing the odds for a Fed cut in March. China economic data remains weak.
6. Slight downward revision expected for Central Bank's inflation forecasts.

**Downside risks for BCB 2024 inflation forecasts**

After the mid-January IPCA below expectations and a softer adjustment of school fees in 2024, we believe that the risks to the Central Bank's monthly forecasts are balanced. The model is expected to bring slightly lower results for the 2024 inflation projections, with less inertia due to the positive inflation surprise last year. We believe that IPCA for 2024 should be revised to 3.4% (from 3.5%), while 2025 and 2026 remaining unchanged at 3.2% and 3.1% - respectively. The result still above the center of the inflation target would be a hawkish indication.

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