

Brazil Flash

Madrid, 28 November 213
Economic Analysis

Brazil

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End of the monetary tightening cycle at sight

In line with expectations, the Monetary Policy Committee (COPOM) decided to hike the SELIC rate by 50bp to 10.0% in its last meeting of the year. In addition, the COPOM modified the accompanying statement after maintaining it unchanged in the previous four meetings. In our view, this is a sign that the end of the monetary tightening cycle is near. We continue to expect a final 25bp adjustment in January.

- **We expect the SELIC to reach 10.25% in January and then to remain unchanged over the rest of the year**

The decision of hiking the SELIC rate from 9.50% to 10.0%, announced yesterday in Brazil, brought no surprises as we and markets expected another 50bp adjustment. The accompanying statement used in the previous four meetings was changed. The new one was as follows: "Continuing the adjustment process of the basic interest rate, started in the April 2013 meeting, the COPOM unanimously decided to increase the SELIC rate to 10%, without bias." In comparison to the previous statements, the one released yesterday introduced a reference to the fact that the ongoing cycle "started in the April 2013 meeting" and withdrew the sentence "The Committee evaluates that this decision will contribute to set inflation into decline and ensure that this trend persists in the upcoming year." We take these changes as a sign that, for the COPOM, the current tightening cycle is already long and strong enough to set inflation into decline and therefore, most of its job is already done. This is in line with our view that a final 25bp adjustment will be delivered in January 2014.

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Fin del ciclo de ajuste monetario a la vista

En línea con lo esperado, el Comité de Política Monetaria (COPOM) decidió en su última reunión del año aumentar la tasa SELIC en 50 puntos básicos hasta el 10,0%. Además, el COPOM modificó el comunicado que acompaña la decisión después de haberlo mantenido sin cambios en sus cuatro reuniones anteriores. En nuestra opinión, esto es una señal de que el fin del ciclo de ajuste monetario está cerca. Seguimos esperando un último ajuste de 25 puntos básicos en enero.

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