

Brazil Flash

The monetary tightening continues, at an unchanged pace

The Monetary Policy Committee (COPOM) once again raised the SELIC by 50bp, taking policy rates to 8.50% (vs. 7.25% at the beginning of this tightening cycle in April). The accompanying statement was left unchanged, reinforcing our view that the current pace of adjustment of monetary conditions will be maintained at the next meeting in August.

- **No surprises: decision was in line with forecasts and the statement was left unchanged**

The unanimous decision to hike the SELIC by 50bp to 8.50% was widely expected as recent [\(positive\) surprises regarding inflation](#), [\(negative\) growth figures](#) and the tone of the last [Inflation Report](#) all contributed to reduce bets on a +75bp adjustment. The accompanying statement, which was left unchanged in comparison to that released in May, continued focused on inflation: "Giving continuation to the adjustment of the benchmark interest rate, the COPOM decided unanimously to raise the SELIC rate to 8.50 percent a year, without bias. The committee considers that this decision will contribute to put inflation on decline and assure that this trend will persist next year."

- **We expect a +50bp adjustment in August and then a final +25bp hike in October**

Yesterday's decision and communication underline the prospect of an additional +50bp adjustment in August. However, there is a high degree of uncertainty regarding post-August monetary decisions. This uncertainty is related, among other things, to the recent volatility in financial markets. Amid this uncertainty, our call is for a final +25bp adjustment in October and a stable SELIC at 9.25% thereafter, as we expect inflation to trend downwards from July onwards and economic activity to remain feeble in the months ahead. However, if appreciation pressures on the exchange rate do not abate, inflation concerns could trigger additional adjustments.

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El ajuste monetario continúa, con el ritmo constante

El Comité de Política Monetaria (COPOM) aumentó una vez más los tipos SELIC en 50 puntos básicos. Por lo tanto, los tipos de referencia de política monetaria están ahora en 8.50% (vs. 7.25% al inicio del ciclo de ajuste en abril). El comunicado de la decisión se mantuvo sin cambios, lo que refuerza nuestra opinión de que el ritmo actual de ajuste de las condiciones monetarias se mantendrá en la próxima reunión de agosto.

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