

Brazil Flash

COPOM: still no sign of the end of the ongoing tightening cycle

The minutes of [last week's monetary meeting](#) maintained the tone and the wording used in previous official communication, refraining from signalling that the end of the present monetary tightening cycle is close. We do not see it as commitment with another 50bp adjustment in the next monetary policy meeting in November, as the monetary authority could want to gain some time and analyse forthcoming data before deciding which strategy to follow amid an environment marked by a moderation in both growth and inflation and a stronger currency. For now, we maintain our forecast of a final 25bp adjustment in November. We, however, acknowledge that a longer / heavier tightening cycle is more likely than we expected.

- **Monetary policy minutes were maintained mostly unchanged...**

Among the few important changes with respect to September's minutes we highlight i) the introduction of the word "still" in "inflation is still showing resistance" which suggest more confidence on a price moderation ahead; ii) a brief reference to a reduction in tensions and volatility in currency markets and the elimination of a sentence referring to the USD appreciatory trend; iii) a new sentence stating that foreign demand will have a more benign performance than in the most recent years; iv) the elimination of the reference to public's debt downward trend. The most important parts of the minutes were similar to those released in September, revealing the monetary authority continues concerned about inflation. Finally, the minutes showed a downward revision in both 2013 and 2014 inflation forecasts in the baseline scenario (which assumes exchange and interest rates constant at 2.20 and 9.0%, respectively).

- **... suggesting that the COPOM could adjust the SELIC by another 50bp in November**

Undoubtedly, the minutes increase the likelihood that the ongoing tightening cycle will not end with a 25bp hike of the SELIC rate in the next monetary policy meeting in November. Therefore, there is a higher probability now than before that the current tightening cycle will end with a 50bp hike in November or will extend through the beginning of the next year. However, we don't take today's minutes as a commitment with these strategies and think the moderation in inflation, the weakness of economic activity and the recent exchange rate appreciation could create some room for a smaller adjustment (a 25bp hike in the last meeting of the year in November), in line with our current forecast.

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COPOM: aún no hay señales del final del ciclo de ajuste

El acta de [la reunión de política monetaria de la semana pasada](#) ha mantenido el tono y los términos utilizados en las comunicaciones oficiales previas, absteniéndose de señalar que el final del presente ciclo de ajuste monetario está cerca. Nosotros no lo vemos como un compromiso con otro ajuste de 50pb en la próxima reunión de noviembre, ya que la autoridad monetaria podría querer ganar algo de tiempo y analizar los próximos datos antes de decidir la estrategia a seguir en medio de un entorno caracterizado por una moderación en el crecimiento y la inflación y una moneda más fuerte. De momento, mantenemos nuestra previsión de un ajuste final de 25pb en noviembre. No obstante, reconocemos que la probabilidad de un ciclo de ajuste más largo / más pesado es mayor de la que esperábamos.

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