Brazil Flash

COPOM cuts the SELIC and refrains from signaling a shorter cycle

The monetary authority cut the SELIC rate by 50bps to 10.50%, in line with expectations. The accompanying statement was identical to the previous one. By keeping the communiqué unchanged, the COPOM refrained from committing to a shorter cycle (meaning only one additional 50bps cut in March, which is our current call) and, therefore, the chances of a longer cycle are now higher.

- **Focus on the global environment and reference to "moderate adjustments".**
  The communiqué released yesterday by the COPOM was identical to that released in the previous meeting: "The COPOM understands that, by mitigating in a timely way the effects coming from a more restrictive global environment, a moderate adjustment in the level of the reference interest rate is consistent with the scenario of convergence of inflation to the target in 2012." A change in the communication, which was expected by many, could have signaled the easing cycle would end in March with a final 50bps cut.

- **Fiscal policy turn.**
  By not doing changing the accompanying statement, the monetary authority avoided committing to anything. It, actually, put more pressure on the government, which is currently studying cutting expenditures to put fiscal accounts on track for meeting the 3.1% of GDP primary surplus target this year. If the government soon decides to implement a tighter control of expenditures, the chances of extending the monetary cycle until the SELIC reaches 9.5% or even 9.0% increase. If the government opts for reinforcing public expenditures and supporting domestic demand (2012 is an electoral year), then increase the chances of we seeing a final 50ps cut in March and a constant SELIC at 10.0% from then on. We expect the government to announce its decision within the next weeks. Before that, next Thursday, the Central Bank will release the minutes of yesterday's decisions.

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