

# Brazil Flash

## CB signals more clearly the easing cycle is near the end

The SELIC rate was cut by 50bps to 7.50%, in line with expectations. The tone of the communiqué was more hawkish than expected, which reinforces the claim that the monetary easing cycle will end soon. We now expect a final 25bps cut –and not a 50bps anymore- to be announced in October.

- **From “parsimony” to “maximum parsimony”**

After the 50bps cut announced yesterday night in Brazil, the SELIC rate reached a new record low. Reference interest rates are now 500bps lower than one year ago when the current easing cycle started. The accompanying statement changed significantly with respect to [the previous one](#) released in July. The references to limited inflation risks and to the disinflationary external environment were eliminated. The expression “maximum parsimony” was introduced as well as a reference to the economic recovery which is in process. The statement released by the monetary authority was as follows: “Considering the cumulative and lagged effects of the policy implemented up to this moment, which in part are reflected in the ongoing recovery of economic activity, the COPOM understands that, if the prospective scenario requires an additional adjustment in monetary conditions, this movement should be conducted with maximum parsimony”.

- **Next monetary decision will be data-dependent. We expect a final 25bps cut.**

The conditionality exhibited in the last part of the statement suggest that the next monetary decision will depend on the data released from now up to next monetary policy meeting in October 10, more precisely on the speed of domestic recovery and the evolution of inflation expectations. We expect domestic demand to gradually gain momentum from now on due to series of stimulus beings introduced (as for example the extension of tax-incentives announced yesterday) and inflation to stay close to 5.1% till the end of the year. Even though the environment will be more positive than in the recent past, we see room for the CB to announce a 25bps interest rate cut in the next monetary meeting. A pause instead of a downward adjustment should, however, not be ruled out. The minutes of the monetary decision announced yesterday will be released next week and should shed some light on the issue.

For more on Brazil, [click here](#)

## El BC señala más claramente que el fin del ciclo expansivo está cerca

Los tipos SELIC fueron reducidos en 50 puntos hasta 7,50%, en línea con lo esperado. El tono más optimista usado en el comunicado refuerza las apuestas de que el ciclo monetario expansivo acabará pronto. Esperamos ahora un recorte final de 25 puntos – en lugar de uno de 50 puntos como preveíamos anteriormente- en Octubre.

Para ver más acerca de Brasil, [haga clic aquí](#)

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