Brazil | Copom refrains from beginning a new tightening cycle

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In line with our view, but in contrast with the market consensus, the Copom decided to keep interest rates unchanged in an environment marked by political pressure against a further monetary tightening, the worsening of the prospects for economic activity and "domestic and mainly external uncertainties". Looking forward, the Selic will likely remain stable for some time.

The decision to keep the Selic unchanged was not unanimous

As in the previous monetary policy meeting in November, two out of the eight members of the Monetary Policy Committee (Copom) voted for a +50b.p. adjustment of the reference interest rate while the other six favored its stability at 14.25%. The decision follows the adoption of a more hawkish tone by the monetary authority for some time up to the beginning of this week, when in an unusual comment the President Tombini regarded the IMF's downward revision of Brazil's growth forecasts (to -3.5% in 2016 and 0.0% in 2017) as "significant", changing the previous guidance. It is worth to note that even though the IMF forecasts, which are not very different from the market consensus, were mainly driven by local factors (especially political uncertainty), in its accompanying statement released after Brazilian markets closed yesterday the Copom highlighted mainly external uncertainty: "Considering the macroeconomic outlook and the perspectives for inflation and the actual balance of risks, and considering the increase of domestic and primarily, external, uncertainties, the Copom decided to hold the Selic rate at 14.25%".

The Selic rate will likely remain unchanged for some further time

Therefore, after signaling for some time that a monetary tightening was imminent, the Copom ended up focusing on the negative economic and likely also political effects of a further dose of monetary tightening in the actual context and leaving the Selic rate unchanged, as we expected. Taking that into account, the most likely is that the Selic rate will be left unchanged at 14.25% for some time going forward. Anyway, by highlighting "external uncertainties" the Copom suggested that the developments in China, commodity and financial markets will be more closely followed from now on, meaning that their evolution could shape future monetary policy decisions.