

Brazil | A more dovish Copom redirects its focus to the global environment

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The minutes of [last week's monetary policy meeting](#) show that Copom is now more concerned about the evolution of the Chinese economy and oil markets, which "can strengthen the scenario of convergence of inflation to the 4.5% target in 2017". The more dovish tone used by the monetary authority supports our view that the Selic will remain unchanged for some further time.

The Copom shows a more negative assessment of local and global environments

On the one hand, the Monetary Policy Committee (Copom) revealed to be more concerned about the evolution of local economic activity. The monetary authority highlighted that growth will be lower than previously expected, especially due to "non-economic events" (an implicit reference to the ongoing political turmoil, which included the impeachment process of President Dilma Rousseff). On the other hand, regarding the external environment, the minutes of [last week's monetary policy meeting](#) highlighted the "growing concerns about the Chinese economy and its impact on other economies" and "uncertainties generated by low oil prices and their implications for companies in the sector and producing countries, as well as for financial markets in general, with risks to global financial stability". According to the Copom, higher domestic and external uncertainties, together with the lagged effect of the previous tightening of local monetary conditions, "can strengthen the scenario of convergence of inflation to the 4.5% target in 2017".

Copom's forecasts show 2017 inflation "slightly" above the 4.5% target

Monetary policy minutes suggested that although the Copom is also aiming at bringing inflation to within the 2.5%-6.5% target range (and not as close as possible of the central target as indicated in previous minutes) in 2016, its main goal is to make inflation converge to 4.5% in 2017. As Copom's forecasts continue to show that inflation will be only "slightly" above that goal, we take them as another dovish element of today's minutes.

All in all, the minutes support our view of unchanged interest rates going forward

Even though the minutes did not explicitly close the door for a monetary tightening in the next months, they reinforced the overall perception that interest rates will be left unchanged for some further time. Anyway, the external environment, and in particular the Copom's reading of it, which we see not only as dovish but also as somewhat hasty, will likely play a more important role in future monetary policy decisions.

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