

## Brazil | COPOM leaves all options on the table

Enestor Dos Santos

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The COPOM refrained from using the minutes of last week's monetary policy meeting to commit to a specific strategy ahead. Although some signaling could be provided in the inflation report at the end of June, both maintaining the Selic at 13.75% -in our view the most likely scenario- and adjusting it up again remain as possible outcomes of the next monetary policy meeting.

### **Inflation forecasts for the end of 2016 remained stable, still above the 4.5% target**

The minutes released today brought no exciting news. The the monetary authority analysis of both the external and internal environment as well as the messages regarding future monetary policy stance remained broadly unchanged. Among the few novelties, we highlight that the COPOM showed to be now somewhat more pessimistic regarding economic activity (not surprisingly given the recent deterioration signs). Moreover, as in recent comments by BCB official, this time the minutes stressed that very high inflation in 2015 requires "determination and perseverance to prevent its transmission to longer terms". Finally, the minutes showed that BCB's inflation forecasts for the end of 2016 remained stable, still above 4.5%, which was certainly one of the main drivers of the decision to hike the Selic rate by 50bp last week.

### **We continue to expect the Selic to be left unchanged at 13.75% until the beginning of 2016**

Larger-than-expected inflation in May, the hawkish tone delivered by the monetary authority in the last few months and the fact that expectations for inflation at the end of 2016 -both by the consensus and by the monetary authority- remain above the 4.5% target imply that another adjustment of the Selic rate in July cannot be ruled out. However, we expect the COPOM to revise downwards its 2016 inflation forecast from 4.9% to around 4.5% in its 2Q15 Inflation Report at the end of June due to a sharper deterioration of domestic demand and the impact of the recent tightening, which would be a clear sign that the Selic rate would be left unchanged at 13.75% in the July's monetary policy meeting. Anyway, we see no room for any monetary easing at the end of 2015. In our view, a Selic cut will only be introduced at the beginning of 2016 when inflation starts to decline more significantly.