

Following the guidance, the COPOM should raise the Selic rate by 100bps while keeping a hawkish communication

Highlights

- **In the external scenario, the trajectory of inflation and labor market should lead the FED to pause the monetary easing cycle.**

During the week of the U.S. president's inauguration, attention focused on Donald Trump's speech on his first day in office, with expectations of greater clarity regarding the previously mentioned tariff policies. Although Trump outlined initial measures to be taken, the tone adopted by the new head of state was more moderate than expected, triggering a wave of relief in global assets. Thus, even though Trump commented during the week about implementing import tariffs on Mexico and Canada starting February 1, the lack of immediacy in his decisions was well-received by the market, boosting the risk-on movement that appreciated the Brazilian Real over the past days, reaching levels below BRL 5.90. However, although the political environment did not create additional pressures, the U.S. economic landscape still highlights relevant points, such as the less constructive inflation dynamics and a resilient labor market. It is true that the latest inflation data showed slight improvement on the margin, with a cooling of services and a more bearish trajectory for goods. However, three-month moving metrics remained under pressure, both in the headline index and the core, still raising concerns about the disinflationary dynamics. Thus, along with elevated job creation data and pressured wage levels, **we believe the FOMC committee will opt for a pause in monetary policy at the next decision, as confidence in the disinflation process—a key point for initiating rate cuts—has weakened during this period.** Therefore, we expect the FED to resume cutting U.S. interest rates only in June.

- **In the domestic scenario, consumer inflation surprised to the upside and expectations remain unanchored.**

In the last 45 days, since the December COPOM meeting, the domestic environment has been marked by the persistence of risk factors monitored by the Central Bank for future inflation, except for an additional unanchoring of expectations in the Focus report. On the fiscal front, the effects of disappointment with the expenditure containment package remained visible in asset prices, with the persistence of the domestic risk premium—although the local currency appreciated due to the Trump effect. In terms of activity, weaker November data from IBGE's monthly surveys, especially in the trade and services sectors, indicated the first sign of economic slowdown, which is expected to continue in December's prospective data, limiting more expressive GDP growth for Q4 2024. On inflation, the IPCA-15 for January rose by 0.11% MoM, above our forecast (0.01%) and market expectations (-0.02%). Although the surprise was concentrated in airline tickets (+17bps), a highly volatile item in the index, the dynamics of core inflation remained less constructive, emphasizing the deterioration of underlying services in recent releases, leading this group to record an 8.7% increase in the annualized three-month moving average. Consequently, the worsening inflation dynamics have also reflected in future inflation expectations, with additional unanchoring of annual forecasts since the last COPOM. Currently, expectations for the IPCA 12 months ahead and in the rolling 13-24 month horizon—a new monitoring metric established by the Central Bank—show that upward revisions are widespread across components, although the focus remains on the inertial dynamics of the services sector and greater pressure from food at home, given the exchange rate level.

- **Considering this scenario, we believe the COPOM should follow through with the guidance, reaffirming its commitment to converge inflation to the target.**

We understand the decision will be **unanimous** and will keep the hawkish tone of recent communications. The committee should emphasize the additional unanchoring of expectations and reiterate that the new hike is compatible with the strategy of converging inflation to the target over the relevant horizon. **Textually, in the December meeting, the committee anticipated two 100bps hikes for the January and March meetings. However, with January being the current meeting, we believe the passage will be revised to reflect only one prospective hike of the same magnitude, without anticipating expected moves for May.** Thus, the committee fulfills its previous communication, keeping credibility, while remaining more flexible to adjust the monetary policy trajectory according to the evolution of economic data during the period.

Economic Calendar

- Next week, the domestic agenda will highlight the **COPOM decision on Wednesday**, as well as **December's fiscal and labor market data**.
- Abroad, the highlights will be the **FOMC decision and J. Powell's speech**, also on Wednesday, along with **Q4 GDP data and December's PCE**.

Date	Country	Event	Period	Survey	Prior
1/26/2025 Sunday					
10:30 PM	China	PMI (NBS)	Jan		
		Manufacturing		50.1	50.1
		Services		52.2	52.2
		Composite			52.2
10:30 PM	China	Industrial Profit (YoY)	Dec		-7.3%
1/27/2025 Monday					
5:00 AM	Brazil	IPC-Fipe - Weekly	3rd Jan		0.32%
8:00 AM	Brazil	Consumer Confidence	Jan		92.0
8:25 AM	Brazil	Focus Research	-	-	-
10:30 AM	US	Chicago Fed Nat Activity Index	Dec		-0.12
12:00 PM	US	New Homes Sales (MoM)	Dec	670k	664k
12:30 PM	US	Dallas Fed Manf. Activity	Jan		3.4
3:00 PM	Brazil	Trade Balance Weekly	-		US\$1.3 bi
1/28/2025 Tuesday					
8:00 AM	Brazil	Construction Confidence	Jan		96.6
10:30 AM	US	Durable Goods Orders (MoM)	Dec (P)	0.8%	-1.2%
11:00 AM	US	House Price Index (MoM)	Nov		
11:30 AM	US	Texas Services Sector Outlook	Jan		9.6
12:00 PM	US	Conf. Board Consumer Confidence	Jan	105.6	104.7
12:00 PM	US	Richmond Fed Manufact. Index	Jan		-10.0
1/29/2025 Wednesday					
8:00 AM	Brazil	Industry Confidence	Jan		99.6
10:30 AM	US	Trade Balance	Dec	US\$-105.5 bi	US\$-102.9 bi
2:30 PM	Brazil	Foreign Exchange Flow Weekly	-	-	US\$ 806 mi
4:00 PM	US	FOMC Rate Decision	4.50%		4.50%
4:30 PM	US	J. Powell Speech	-	-	-
6:30 PM	Brazil	BCB Rate Decision	13.25%	13.25%	12.25%
1/30/2025 Thursday					
7:00 AM	Eurozone	GDP (QoQ)	4Q	0.1%	0.4%
7:00 AM	Eurozone	Unemployment Rate	Dec	6.3%	6.3%
7:00 AM	Eurozone	Economic Confidence	Jan	94.2	93.7
8:00 AM	Brazil	IGP-M (PPI MoM)	Jan		0.94%
8:00 AM	Brazil	Commerce Confidence	Jan		93.3
8:00 AM	Brazil	Services Confidence	Jan		94.3
10:15 AM	Eurozone	ECB Deposit Facility Rate	-	2.75%	3.00%
10:30 AM	US	GDP (QoQ)	4Q	2.6%	3.1%
10:30 AM	US	Consumo Pessoal (QoQ)	4Q	3.1%	3.7%
10:30 AM	US	GDP Price Index	4Q	2.5%	1.9%
10:30 AM	US	GDP Price Index - Core (QoQ)	4Q		2.2%
10:30 AM	US	Initial Jobless Claims	-		223k
12:00 PM	US	Pending Home Sales (MoM)	Dec	-1.00%	2.2%
10:45 PM	China	Manufacturing PMI (Caixin)	Jan		50.5
-	Brazil	Formal Job Creation Total (Caged)	Dec	410k	107k
1/31/2025 Friday					
8:30 AM	Brazil	Fiscal Policy Note - Primary Balance	Dec		R\$ -6.6 bi
9:00 AM	Brazil	National Unemployment Rate	Dec		6.1%
10:30 AM	US	Employment Cost Index	4Q	1.00%	0.8%
10:30 AM	US	Personal Income (MoM)	Dec	0.4%	0.3%
10:30 AM	US	Personal Spending (MoM)	Dec	0.5%	0.4%
10:30 AM	US	PCE Price Index (MoM)	Dec		
		Total		0.3%	0.1%
		Core		0.2%	0.1%
-	Brazil	Net Financial Worth of the General Government	3T 2024		-
-	Brazil	Financial Assets Matrix	3T 2024		-
-	Brazil	Definition of the Electric Energy Tariff Flag	Feb		Green
In the week					
-	Brazil	Tax Collections	Dec	-	R\$ 209 bi

Macroeconomic projections

	2019	2020	2021	2022	2023	2024	2025
GDP (%)	1,2	-3,3	4,8	3,0	2,9	3,4	1,8
Unemployment Rate (average, %)	12,0	13,8	13,2	9,3	8,0	6,8	7,1
IPCA (Consumer Price Index) (%)	4,3	4,5	10,1	5,8	4,6	4,8	4,8
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	12,25	15,00
Exchange Rate (end of period, R\$/US\$)	4,03	5,20	5,58	5,22	4,84	6,19	6,10
Current Account Transactions (US\$ billion)	-68,0	-28,2	-46,4	-53,6	-28,6	-58,8	-62,8
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	-2,7	-3,0
Trade Balance - BCB (US\$ billion)	26,5	32,4	36,4	44,2	80,5	66,2	60,1
Foreign Direct Investment (US\$ billion)	69,2	37,8	46,4	87,2	62,0	69,3	72,0
Foreign Direct Investment (% of GDP)	3,7	2,6	2,8	4,5	2,8	3,1	3,5
Primary Result of the Central Government (R\$ billion)	-95,1	-743,3	-35,1	54,1	-249,1	-45,2	-65,3
Primary Result of the Central Government (% of GDP)	-1,3	-9,8	-0,4	0,5	-2,3	-0,4	-0,6
Primary Result of the Public Sector (R\$ billion)	-61,9	-703,0	64,7	126,0	-249,1	-58,8	-55,6
Primary Result of the Public Sector (% of GDP)	-0,8	-9,2	0,7	1,3	-2,3	-0,5	-0,5
Gross Public Debt (% of GDP)	74,4	86,9	77,3	71,7	74,3	77,8	82,3

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