

BC Interventions in the Forex Market Mark Week with Record BRL Levels Due to Seasonality and Risk Aversion

Highlights

- **The Central Bank's (BC) minutes emphasized the need for predictable, credible, and countercyclical fiscal policy to harmonize with monetary policy.**

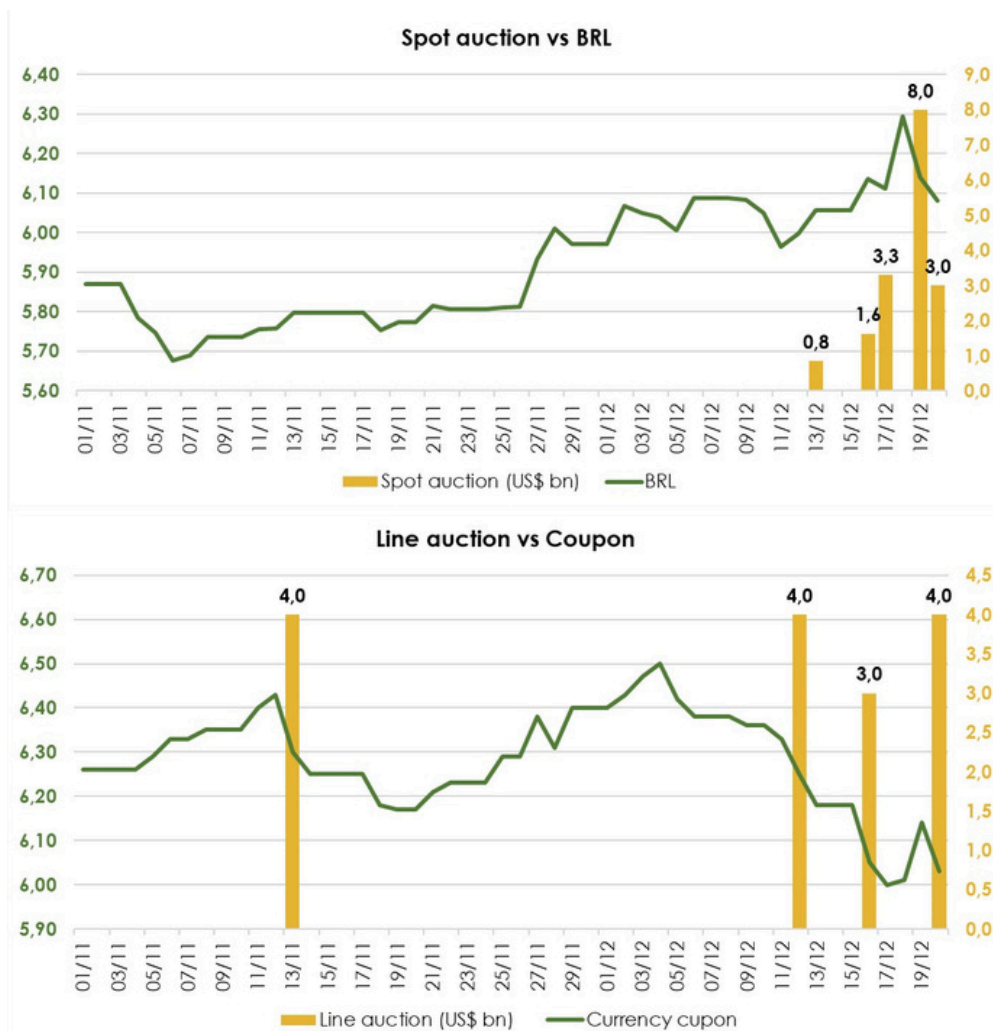
The BC released a hawkish statement after its decision to raise the Selic rate by 1 percentage point and signal two further hikes of the same magnitude in upcoming meetings. The institution emphasized that its actions are guided by inflation expectations and economic activity, with the acceleration in monetary tightening prompted by deteriorating short- and medium-term outlooks. Factors such as exchange rate depreciation, worsening current inflation, and upward revisions to the output gap created a more adverse scenario, contributing to inflationary de-anchoring and the adjustment of the neutral interest rate from 4.75% to 5.00%. The committee highlighted a dichotomy between monetary policy and demand dynamics, attributing the lower efficacy of restrictive rates to credit and fiscal policy boosts, alongside a consistently robust labor market supporting consumption. The government's recent fiscal adjustment announcement contributed significantly to inflationary de-anchoring, reflected in risk premiums despite the Central Bank's hawkish stance.

- **The Brazilian currency (BRL) reached R\$6.30 this week, driven by domestic risk aversion, the dollar's strength, and seasonal financial forex flows.**

The FOMC, as expected, cut the Fed Funds rate by 25bps, but the "Dot Plot" projections presented a notably hawkish outlook, indicating only two 0.25 percentage point rate cuts in 2025—down from the previously anticipated 1 percentage point. This gradualist perspective strengthened the DXY, further pressuring the BRL. Seasonal outflows in financial forex due to interest and dividend payments, combined with political uncertainties about public accounts, exacerbated currency depreciation. The Central Bank intervened with \$16.8 billion in spot auctions and \$11.0 billion in line auctions since last week. In the Quarterly Inflation Report press conference, monetary authorities noted a perception of dysfunctional flows, including atypically high dividend remittances and significant individual investor activity via smaller transactions. They stressed the Central Bank has no intention to defend specific exchange rate levels, as well as the absence of relation between interventions with fiscal dominance.

- Thus, the BRL showed significant improvement, with performance similar to its peers during the week, although it remains at a highly depreciated level—accumulating over 25% appreciation year-to-date.

On one hand, statements from the incoming Central Bank president during the RTI press conference provided a positive signal to investors. Galipolo highlighted the importance of the market’s reaction to the fiscal outlook for monetary policy and reinforced that the institution cannot act in isolation. There was also acknowledgment that inflation is driven by heated demand, reaffirming points from the Copom minutes. In the document, the BC reiterated that exchange rate pass-through could have a larger-than-usual impact due to this demand and emphasized the importance of institutional credibility. On the other hand, recent political signals indicate a low probability of a shift in the government’s stance, at least in the short term. Thus, the bias remains upward for exchange rate and inflation projections.



Fonte: BCB, Buysidebrazil

Economic Calendar

- Despite the Christmas holiday, key domestic indicators will be released, notably December's IPCA-15, expected to rise 0.45% month-over-month, and labor market results.
- Internationally, no major data releases are expected next week, though political developments remain on investors' radar.

Date	Country	Event	Period	Survey	Prior
12/23/2024 Monday					
8:00 AM	Brazil	FGV Construction Survey	Dec	-	95.7
8:25 AM	Brazil	Central Bank Weekly Economist Survey (Focus)	-	-	-
8:30 AM	Brazil	External Sector Statistics	Nov		
		Current Account		US\$ -3.5 bi	US\$ -5.9 bn
		FDI		US\$ 5.9 bi	US\$ 5.7 bn
10:30 AM	US	Chicago Fed National Activity Index	Nov	-	4.7%
12:00 PM	US	Conference Board Consumer Confidence	Dec	113.0	111.7
		Current Situation		-	140.9
		Expectations		-	92.3
3:00 PM	Brazil	Weekly Trade Balance	-	-	US\$ 759 mn
12/24/2024 Tuesday					
10:30 AM	US	Philadelphia Fed Non-Manufacturing Activity	Dec	-	-5.9
10:30 AM	US	Durable Good Orders (MoM)	Nov (P)	-0.3%	0.3%
12:00 PM	US	New Home Sales	Nov	665k	610k
12:00 PM	US	Richmond Fed Manufacturing Index	Dec	-10	-14
-	Brazil	Stock Exchange Closed	-	-	-
12/25/2024 Wednesday					
-	-	Christmas Holiday	-	-	-
12/26/2024 Thursday					
8:00 AM	Brazil	FGV Manufacturing Survey	Dec	-	98.6
10:30 AM	US	Initial Jobless Claims	-	-	220k
2:30 PM	Brazil	Foreign Exchange Transactions	-	-	-
10:30 PM	China	Industrial Profits (YoY)	Nov	-	-10.0%
12/27/2024 Friday					
8:00 AM	Brazil	FGV Services Survey	Dec	-	94.9
8:00 AM	Brazil	FGV Retail Survey	Dec	-	92.7
8:00 AM	Brazil	IGP-M (MoM)	Dec	1.10%	1.30%
8:30 AM	Brazil	Credit Statistics	Nov		
		Total Outstanding Loans		-	R\$ 6255 bn
		Default Rate		-	3.2%
9:00 AM	Brazil	Unemployment Rate (PNAD Continua)	Nov	6.1%	6.2%
9:00 AM	Brazil	IPCA-15 (MoM)	Dec	0.45%	0.62%
10:30 AM	US	Wholesale Inventories (MoM)	Nov (P)	-	0.2%
-	Brazil	Formal Job Creation (Caged)	Nov	114k	132k
-	Brazil	Central Government Budget Balance	Nov	R\$ -6.5 bn	R\$ 40.8 bn
-	Brazil	Definition of the electricity tariff flag	Jan	Green	Green
In the week					
-	Brazil	Federal Tax Collections	Nov	R\$ 210 bn	R\$ 248 bn
-	Brazil	Federal Debt	Nov	-	R\$ 7073 bn

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	6,9	7,3
IPCA (Consumer Price Index) (%)	4,3	4,5	10,1	5,8	4,6	4,9	4,2
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	12,25	14,25
Exchange Rate (end of period, R\$/US\$)	4,03	5,20	5,58	5,22	4,86	6,00	5,90
Current Account Transactions (US\$ billion)	-68,0	-28,2	-46,4	-53,6	-28,6	-58,6	-68,2
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	-2,6	-3,0
Trade Balance - BCB (US\$ billion)	26,5	32,4	36,4	44,2	80,5	65,4	52,6
Foreign Direct Investment (US\$ billion)	69,2	37,8	46,4	87,2	62,0	70,8	72,0
Foreign Direct Investment (% of GDP)	3,7	2,6	2,8	4,5	2,8	3,1	3,1
Primary Result of the Central Government (R\$ billion)	-95,1	-743,3	-35,1	54,1	-249,1	-60,8	-58,7
Primary Result of the Central Government (% of GDP)	-1,3	-9,8	-0,4	0,5	-2,3	-0,5	-0,5
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	78,5	82,5

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