

With a hawkish tone, COPOM raises the Selic rate by 100 basis points and anticipates two more hikes of the same magnitude

Highlights

- **At December's meeting, the Selic rate ends the year at 12.25% and the committee reinforces its commitment to anchoring inflation expectations.**

Although part of the market shifted to our expectation of a 1 pp hike after the Focus readout, the resumption of forward guidance came as a general surprise among economists, given that the Central Bank already estimates the basic interest rate at 14.25% in March 2025 - above the market median (13.25%). Due to its tough tone, the strategy was well received, reinforcing the Central Bank's commitment to converging inflation to the target, as well as tempering market expectations of a larger increase in the next few meetings, even though it reiterates that compliance with the guidance is linked to the evolution of economic indicators. In the statement, the committee pointed out that the scenario is more adverse, although now less uncertain, with greater dynamism in economic activity and a worsening of inflation expectations. Thus, the members pointed out that the recent GDP data indicated a greater opening of the output gap, while the underlying measures of current inflation together with the fallout from the release of the fiscal package helped to further deteriorate expectations of future inflation. Also on the fiscal front, although it softened its tone compared to the last communications, the committee recognized the influence of the frustration of the spending containment package on asset prices, especially on the risk premium and the exchange rate. Thus, incorporating these worse prospects at the margin, the Central Bank's inflation model now points to an IPCA projection of 4.0% in June 2026, above the inflation target and the previously published 3.6%. In order to reach this level, we believe that in addition to revising the output gap to the more positive side, the committee may have incorporated an additional revision of the neutral interest rate, which should be explained in the COPOM minutes and the Quarterly Inflation Report scheduled for next week. Therefore, with the higher inflation projection and the guidance for the next meetings, we have revised our expectation for the cycle's terminal rate from 14.00% to 14.50%, with the start of cuts in December 2025 remaining at 14.25% (down from 13.75%).

- **Incorporating a higher average interest rate for the year, we have revised our IPCA projection to 4.2% and GDP to 1.8% in 2025.**

Looking at the current trajectory, the November IPCA registered a rise of 0.39% MoM, above market expectations. The composition brought more pressure from underlying services, especially food away from home, while meat inflation was lower than we had expected, reinforcing our forward-looking trajectory. Thus, for 2025, we have revised our expectation from 4.3% to 4.2%, incorporating a slowdown in underlying services together with the premise of an intense cooling of proteins, although industrial goods should advance due to a more depreciated exchange rate. In economic activity, the first data for the fourth quarter still showed some dynamism, with surprises in all of October's monthly surveys.

In general terms, the upward surprises in the Services Volume (1.1% MoM SA) and Retail Sales (0.9% MoM SA in the extended reading) were concentrated in specific segments, such as air transport and furniture and household appliances, respectively. Thus, although the rest of the composition fell, the headline remains under pressure and raises the bullish bias for the quarter until the release of the next few months. For 2025, we expect growth for the year to reach 1.8% (up from 1.9%), reflecting the effects of interest rates, especially on investments and household consumption - due to a higher cost of credit. However, we recognize that the bias is upwards if a more moderate cooling of the fourth quarter of 2024 materializes and if the harvest estimates prove to be correct.

- **Finally, in the United States, the worsening composition of current inflation puts Fed Funds cuts at risk in 2025.**

The CPI rose by 0.3% MoM, showing an acceleration in goods at the margin, especially used vehicles, while core services rose to 0.34%, driven by recreational services. In the wholesale sector, the PPI rose 0.4% MoM against expectations of 0.2%, but with a surprise concentrated in food. In the other openings, the data showed a slowdown in demand for goods and services, pushing the core down to 0.2%. In terms of monetary policy, the FED members' speeches made it clear that if the data came in in line with expectations, the cut at the next meeting would be maintained. Thus, we continue to project a 25bps drop in interest rates at next week's FOMC. However, with the worsening composition of inflation, we believe that cuts in 2025 could be compromised, resulting in a higher terminal rate for the year. For now, we maintain our expectation at 3.75%.

Economic Calendar

- In Brazil, next week's highlights will be the release of the COPOM meeting minutes on Tuesday and the Quarterly Inflation Report on Thursday. We expect the committee to toughen its tone in the statement by giving more details on the opening of the output gap, as well as revising the neutral interest rate.
- On the external front, the highlight will be the FOMC meeting in the United States on Wednesday, together with economic activity data such as third quarter GDP and November Retail Sales. In Japan, there will be a monetary policy decision.

Date	Country	Event	Period	Survey	Prior
12/16/2024 Monday					
6:00 AM	Eurozone	PMI	Nov (P)		
		Manufacturing		45.3	45.2
		Services		49.5	49.5
		Composite		48.2	48.3
7:00 AM	Eurozone	Labor Costs (YoY)	3Q24	-	4.7%
8:25 AM	Brazil	Central Bank Weekly Economist Survey (Focus)	-	-	-
10:15 AM	Brazil	GDP Monitor (FGV)	Oct	-	0.7%
10:30 AM	US	Empire Manufacturing	Dec	6.6	31.2
11:45 AM	US	PMI Manufacturing	Nov (P)	-	49.7
3:00 PM	Brazil	Weekly Trade Balance	-	-	-
12/17/2024 Tuesday					
5:00 AM	Brazil	IPC-Fipe (MoM)	2nd Dec	-	0.98%
7:00 AM	Eurozone	Trade Balance (SA)	Oct	US\$ 12 bn	US\$ 13.6 bn
8:00 AM	Brazil	Copom Minutes	-	-	-
8:00 AM	Brazil	IGP-M - 2nd Preview (MoM)	Dec	-	-
10:30 AM	US	Retail Sales (MoM)	Nov		
		Total		0.5%	0.4%
		Control group		0.4%	-0.1%
10:30 AM	US	New York Fed Services Business Activity	Dec	-	-0.5
11:15 AM	US	Industrial Production (MoM)	Nov	0.2%	-0.3%
11:15 AM	US	Capacity Utilization	Nov	77.3%	77.1%
12:00 PM	US	NAHB Housing Market Index	Dec	47	46
12/18/2024 Wednesday					
7:00 AM	Eurozone	CPI (YoY)	Nov (F)		
		Total		2.3%	2.3%
		Core		2.7%	2.7%
7:00 AM	Eurozone	Construction Output (MoM)	Oct	-	-0.1%
10:30 AM	US	Building Permits	Nov	1430k	1416k
10:30 AM	US	Current Account	3Q	US\$ -287 bn	US\$ -267 bn
10:30 AM	US	Housing Starts	Nov	1345k	1311k
2:30 PM	Brazil	Foreign Exchange Transactions	-	-	-
4:00 PM	US	FOMC	-	4.50%	4.75%
4:30 PM	US	Jerome Powell Speech	-	-	-
12/19/2024 Thursday					
8:00 AM	Brazil	Quarterly Inflation Report	4Q24	-	-
9:00 AM	UK	Bank of England Bank Rate	-	4.75%	4.75%
10:30 AM	US	GDP (QoQ)	3Q (T)	2.8%	2.8%
10:30 AM	US	Personal Consumption (QoQ)	3Q (T)	-	3.5%
10:30 AM	US	GDP Price Index (QoQ)	3Q (T)	1.9%	1.9%
10:30 AM	US	Core PCE Price Index (QoQ)	3Q (T)	-	2.1%
10:30 AM	US	Philadelphia Fed Business Outlook	Dec	2.4	-5.5
10:30 AM	US	Initial Jobless Claims	-	-	242k
11:00 AM	Brazil	Press conference on the Quarterly Inflation Report	-	-	-
12:00 PM	US	Leading Index (MoM)	Nov	-	-0.4%
12:00 PM	US	Existing Home Sales	Nov	4.10m	3.96m
1:00 PM	US	Kansas City Fed Manufacturing Activity	Dec	-	-2.0
10:00 PM	China	Loan Prime Rate	-		
		5Y		3.60%	3.60%
		1Y		3.10%	3.10%
12/20/2024 Friday					
8:00 AM	Brazil	Consumer Confidence	Dec	-	95.6
12:00 PM	Eurozone	Consumer Confidence	Dec (P)	-14.0	-13.7
10:30 AM	US	Personal Income (MoM)	Nov	0.4%	0.6%
10:30 AM	US	Personal Spending (MoM)	Nov	0.5%	0.4%
10:30 AM	US	PCE Price Index (MoM)	Nov		
		Total		0.2%	0.2%
		Core		0.2%	0.3%
10:30 AM	US	University of Michigan Sentiment	Dec (F)	74.0	74.0
		Expectations: 1Y Inflation		-	2.9%
		Expectations: 5-10Y Inflation		-	3.1%
1:00 PM	US	Kansas City Fed Services Activity	Dec	-	9.0
In the week					
-	Japan	BOJ Target Rate	-	0.25%	0.25%
-	China	1-Yr Medium-Term Lending Facility Rate	-	2.00%	2.00%
-	China	FDI (YTD YoY)	Nov	-	-29.8%

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	4,8	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	5,90	5,90
Current Account Transactions (US\$ billion)	-68,0	-28,2	-46,4	-53,6	-28,6	-66,2	-74,6
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	-2,9	-3,2
Trade Balance - BCB (US\$ billion)	26,5	32,4	36,4	44,2	80,5	60,3	45,3
Foreign Direct Investment (US\$ billion)	69,2	37,8	46,4	87,2	62,0	70,0	73,0
Foreign Direct Investment (% of GDP)	3,7	2,6	2,8	4,5	2,8	3,1	3,2
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

Our team

Andrea Bastos Damico
Chief Economist and CEO
andrea@buysidebrazil.com

Mirella Hirakawa
Research Coordinator and Partner
mirella@buysidebrazil.com

Gustavo Rostelato
Economist and Partner
gustavo@buysidebrazil.com

Thaís Rodrigues
Economist and Partner
thais@buysidebrazil.com

Rita Milani
Economist
rita@buysidebrazil.com

Ítalo Faviano
Economist
italo@buysidebrazil.com

Rafaela de Sousa
Economist
rafaela@buysidebrazil.com

Pedro Tempel
Macroeconomic Analyst
pedro@buysidebrazil.com

Vitor Rodrigues
Intern
vitor@buysidebrazil.com

