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# After more dovish readings in the COPOM statement, the Central Bank reaffirms a tough stance and reinforces its commitment to anchoring inflation expectations

## Highlights

- **In the document, the Committee sought to dispel concerns about a sharper-than-expected slowdown in economic activity while explicitly expressing discomfort with the further unanchoring of inflation expectations.**

As in recent disclosures, the members acknowledged the strong performance of economic activity, emphasizing the resilience of demand in a contractionary monetary policy environment, particularly in the dynamics of household consumption and investment. Regarding the labor market, the committee also highlighted the sustained momentum, with a high level of turnover, although with some moderation in the real wage growth rate—it is worth noting that the decision was made before the release of December's data. Thus, the committee made an effort to clarify that the domestic activity slowdown, as accounted for by the Central Bank, is a result of monetary policy actions aimed at gradually converging inflation to the target, without clear signs of an abrupt slowdown throughout the year. This was intended to dispel more dovish interpretations suggesting a premature end to the monetary tightening cycle. Additionally, the members emphasized the significant de-anchoring of inflation expectations between meetings, maintaining it as one of the main risk factors for future inflation, alongside exchange rate and economic activity components. Based on inflation projections for the relevant horizon, the committee anticipates that inflation will remain above the target tolerance range for the next six consecutive months—requiring the Central Bank to issue an explanatory letter to the Ministry of Finance. Inflation is also expected to stay above the desirable 3% level over an 18-month period. Although the minutes did not provide new information regarding the next steps for the May meeting, the committee's inflation model, which incorporates Focus survey projections of a 15% Selic rate, already signals that the current level is insufficient to ensure inflation convergence toward the target. **Based on this argument, we have revised our terminal rate expectation from 15% to 15.50%, incorporating hikes of 100, 75, and 50 basis points in the March, May, and June meetings, respectively. As a result, we expect this level to be maintained until the end of 2025, with an easing cycle beginning only next year and closing at 11.75%.**

- **In the United States, Trump implements tariffs, but market welcomes a retreat toward negotiations**

On Friday (31), President Donald Trump confirmed the implementation of import tariffs of 25% on Mexico and Canada, as well as 10% on China. As a result, while market attention on Monday was focused on potential retaliation from these countries, the surprise came with the announcement of an agreement—initially made by Mexico and later confirmed by Canada—to postpone the implementation of these measures until March 1. This period will be used for both countries to study and propose the best measures to be implemented, considering bilateral trade and border security. Thus, the negotiation was well received by the market, as it signals a more conciliatory stance from Trump at the beginning of his term.

However, the same did not happen with China, which, following the U.S. decision, imposed import tariffs of 15% on coal and natural gas, as well as 10% on crude oil and certain automobiles, effective from February 10. Despite expectations of direct contact between the two presidents, the White House spokesperson denied any calls to China throughout the week. Additionally, on Friday, market rumors surfaced regarding the possible implementation of tariffs on other countries. Initial sources suggested that the measure would introduce reciprocal tariffs to match those imposed on the U.S. by other nations. While further details on the plan are still unavailable, such a measure could impact Brazil, as the country applies, on average, tariffs three times higher than those imposed by the U.S. on Brazilian products.

- **U.S. labor market: Job creation falls short of expectations in January, impacted by seasonal factors**

Unlike the ADP report released earlier in the week, which recorded a gain of 183,000 jobs (compared to the market expectation of 150,000), January's Payroll report delivered a downside surprise, registering 143,000 jobs versus the expected 175,000. The breakdown showed a slowdown in the Services sector, particularly in transportation and retail trade, following stronger gains in December. However, it is important to highlight that the weaker-than-expected result was significantly influenced by seasonal factors, such as post-holiday job closures, as well as disruptions from the Los Angeles wildfires and harsher winter conditions. Additionally, last month's data was revised upward from 256,000 to 307,000, while wage growth remained under pressure, accelerating to 0.5% from 0.3%. As a result, concerns about the U.S. labor market and its potential impact on service sector inflation persist and will remain a key focus in the Federal Reserve's monetary policy decisions in the coming months. **Given this outlook, we maintain our expectation of only one rate cut in the Fed Funds for 2025.**

## Economic Agenda

- Next week, the domestic agenda will highlight the release of the final **January IPCA (Brazilian CPI) inflation data**, for which we expect a 0.13% MoM increase. Additionally, the monthly economic activity surveys for December will be published, concluding the data set for Q4 2024.

- Internationally, market attention will focus on **U.S. inflation data**, both retail and wholesale, as well as retail sales and industrial production figures. In the Eurozone, the highlight will be the release of Q4 2024 GDP data.

| Date | Country | Event | Period | Survey | Prior |
|---|---|---|---|---|---|
| **2/10/2025** | **Monday** | | | | |
| 8:25 AM | Brazil | Central Bank Weekly Economist Survey (Focus) | - | - | - |
| 3:00 PM | Brazil | Weekly Trade Balance | - | - | |
| **2/11/2025** | **Tuesday** | | | | |
| 5:00 AM | Brazil | IPC-Fipe (MoM) | Feb (1P) | - | 0.29% |
| 8:00 AM | Brazil | IGP-M (MoM) | Feb (1P) | - | 0.33% |
| 8:00 AM | US | NFIB Small Business Optimism | Jan | 104.7 | 105.1 |
| **9:00 AM** | **Brazil** | **IPCA (MoM)** | **Jan** | **0.16%** | **0.52%** |
| 9:00 AM | Brazil | Quarterly Animal Slaughter Survey | 4Q24 | - | - |
| **2/12/2025** | **Wednesday** | | | | |
| **9:00 AM** | **Brazil** | **Services Volume (MoM)** | **Dec** | **-** | **-0.9%** |
| 2:30 PM | Brazil | Foreign Exchange Transactions | - | - | - |
| **10:30 AM** | **US** | **CPI (MoM)** | **Jan** | | |
| | | Total | | 0.3% | 0.4% |
| | | Core | | 0.3% | 0.2% |
| **10:30 AM** | **US** | **Annual Revisions: CPI** | **-** | **-** | **-** |
| 4:00 PM | US | Monthly Fiscal Result | Jan | - | US$ -86.7 bi |
| **2/13/2025** | **Thursday** | | | | |
| **7:00 AM** | **Eurozone** | **Industrial Production (MoM)** | **Dec** | **-0.6%** | **0.2%** |
| **9:00 AM** | **Brazil** | **Retail Sales (MoM)** | **Dec** | | |
| | | Total | | - | -1.8% |
| | | Restricted | | - | -0.4% |
| 9:00 AM | Brazil | Systematic Survey of Agricultural Production | Jan | - | - |
| **10:30 AM** | **US** | **PPI (MoM)** | **Jan** | | |
| | | Total | | 0.2% | 0.2% |
| | | Core | | 0.3% | 0.0% |
| **10:30 AM** | **US** | **Annual Revisions: PPI** | **-** | **-** | **-** |
| 10:30 AM | US | Initial Jobless Claims | - | - | - |
| 2:30 PM | Brazil | Quarterly Credit Conditions Survey Report | 4Q24 | - | - |
| **2/14/2025** | **Friday** | | | | |
| **7:00 AM** | **Eurozone** | **GDP (QoQ)** | **4T (P)** | **0.0%** | **-** |
| **7:00 AM** | **Eurozone** | **Employment (QoQ)** | **4T (P)** | **-** | **0.2%** |
| **10:30 AM** | **US** | **Retail Sales (MoM)** | **Jan** | **0.0%** | **0.4%** |
| **11:15 AM** | **US** | **Industrial Production (MoM)** | **Jan** | **0.3%** | **0.9%** |

## Macroeconomic projections

| 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 | **6,6** | **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 | **15,50** |
| 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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