buysidebrazil

03/28/2025

After recent communications from the Central Bank, we revised our terminal Selic expectation from 15.5% to 15%

Highlights

Although the inflation model used by the Central Bank suggests a higher Selic rate to anchor expectations, the committee's signals indicate the approach of the end of the monetary tightening cycle.

In the minutes of the COPOM meeting, the key dovish tone was in the committee's signals for the upcoming meetings. While it indicated that the adverse inflation scenario does not allow for an immediate end to the tightening cycle, the committee emphasized the lagged effect of monetary policy and uncertainty about the evolution of economic indicators. This suggests only one additional rate hike of smaller magnitude at the May meeting. The monetary policy report had an even more dovish reading. The output gap was revised from 0.7% to 0.8% in December 2024 and from -0.6% to -0.8% in September 2026, indicating stronger economic growth in the short term but a faster slowdown in the relevant horizon. Regarding inflation, the report highlighted several recent surprises, such as increases in administered prices, food prices, and core services. Inflation expectations for 2025 rose to 5.1%, remaining unanchored until the third quarter of 2027—beyond the relevant monetary policy horizon. Since these forecasts were below market expectations (Focus 2025 at 5.6%), when questioned by the press about the difference between the estimates, President Gabriel Galípolo emphasized that inflation models are approximations based on a set of assumptions, which may lead to divergences between institutions. Even so, he stressed the need for convergence to the target regardless of its composition, highlighting that the current interest rate level is already contractionary —justifying the slowdown in the pace of hikes. Given these signals, we believe the terminal rate of the tightening cycle will be lower than previously projected. Thus, we revised our Selic expectation from 15.50% to 15% in 2025, with one more 50bps hike in May and a 25bps hike in June. For 2026, we adjusted our forecast from 11.75% to 13.00%, with rate cuts beginning only in the second quarter of the year.

In Inflation, the downward surprise was concentrated in volatile items.

The March IPCA-15 recorded a 0.64% MoM increase, below both our forecast and the market median (0.70%). Compared to our forecast, the downside surprise came from the industrial goods segment, particularly due to the dynamics of personal hygiene products, as well as the food-at-home category, with a more favorable trend in meat prices. While core services and the average of core inflation measures also showed a slight deceleration at the margin, the 12-month accumulated metrics remain at very high levels. This suggests that the Central Bank's concern about current inflation should persist, given the need to draft a letter explaining the inflation target breach for six consecutive months. Incorporating the new Selic scenario, we now expect the IPCA to close the year at 5.4% (previously 5.2%), slowing to 4.6% in 2026 (previously 4.4%). The revision reflects a higher inflation forecast, particularly for services, also explained by the still-resilient labor market. Regarding economic activity, we expect 1.9% GDP growth in 2025 (previously 1.8%), incorporating an improvement in monetary cycle-sensitive metrics given the lower-than-previously-projected interest rate level. Additionally, we believe that government credit stimulus measures also introduce an upside bias for GDP growth. On the fiscal front, the scenario remains challenging. We project a fiscal outlook similar to last year's, despite expectations of meeting the fiscal framework target. The result should be close to the lower limit of the band, even with the exclusion of more than BRL 44 billion in court-ordered payments from the calculation. Gross debt is expected to reach 80% of GDP in 2025, with an upward trend to 84.4% in 2026, reflecting challenges in balancing public accounts.

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In the U.S., Core PCE surprises to the upside amid import tariff increases.

February's PCE recorded a 0.3% MoM increase, in line with expectations, though the core component surprised to the upside, rising 0.4% MoM. There was significant acceleration, mainly driven by the core services component, with stronger pressure in utilities. In goods, the core component repeated January's increase, with an acceleration in durable goods, potentially reflecting the first impact of tariffs on Chinese imports. This week, President Donald Trump signed a proclamation imposing a 25% tariff on automobile imports, further threatening additional penalties for the European Union and Canada if they retaliate. The measure takes effect on April 3 for assembled vehicles and will extend on May 3 to parts such as engines and electrical systems. On April 2, the announcement of reciprocal tariffs for all countries is expected, though details of the government's broader plan remain unclear. As a result, market attention will be focused on the magnitude of these tariffs and their impact on inflation and monetary policy decisions.

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Economic Calendar

On the domestic front, a light economic calendar highlights **fiscal and credit policy reports**, and the key domestic releases this week will include the Central Bank's fiscal and credit policy notes for February, along with industrial production data from IBGE.

Internationally, the main focus will be the **U.S. labor market data** for february, as well as ISM manufacturing and services indices. Additionally, in China, the March Caixin PMI will be released.

Date	Country	Event	Period	Survey	Buysidebrazil	Prior
03/31/25	**Monday**					
8:25 AM	Brazil	Central Bank Weekly Economist Survey (Focus)	-	-	-	-
8:30 AM	**Brazil**	**Primary Budget Balance**	**Feb**	**R$-35.8b**	**-**	**R$-104.1b**
11:30 AM	USA	Dallas Fed Manfacturing Activity	Mar	-5.0	-	-8.3
10:45 PM	**China**	**Caixin PMI Manufacturing**	**Mar**	**50.6**	**-**	**50.8**
04/01/25	**Tuesday**					
5:00 AM	Eurozone	PMI Manufacturing	Mar (F)	48.7	-	48.7
6:00 AM	**Eurozone**	**CPI (MoM)**	**Mar (P)**	**0.6%**	**-**	**0.4%**
6:00 AM	**Eurozone**	**Unemployment Rate**	**Feb**	**6.2%**	**-**	**6.2%**
10:45 AM	USA	PMI Manufacturing	Mar (F)	49.8	-	49.8
11:00 AM	USA	Construction Spending (MoM)	Feb	0.2%	-	-0.2%
11:00 AM	**USA**	**JOLTS**	**Feb**	**7785k**	**-**	**7740k**
11:00 AM	**USA**	**ISM Manufacturing**	**Mar**	**49.7**	**-**	**50.3**
11:30 AM	USA	Dallas Fed Services Activity	Mar	-	-	4.6
04/02/25	**Wednesday**					
5:00 AM	Brazil	IPC-Fipe (MoM)	Mar	-	-	0.51%
8:30 AM	**Brazil**	**Credit Statistics**	**Feb**			
		Total Outstanding Loans		-	-	R$6462b
		Personal Loan Default Rate		-	-	5.5%
9:00 AM	**Brazil**	**Industrial Production (MoM)**	**Feb**	**-**	**0.1%**	**0.0%**
9:15 AM	**USA**	**ADP**	**Mar**	**120k**	**-**	**77k**
11:00 AM	USA	Factory Orders (MoM)	Feb	0.5%	-	1.7%
2:30 PM	Brazil	Foreign Exchange Transactions	-	-	-	-
10:45 PM	**China**	**PMI - Caixin**	**Mar**			
		Services		51.5	-	51.4
		Composite		-	-	51.5
04/03/25	**Thursday**					
5:00 AM	Eurozone	PMI	Mar (F)			
		Services		50.4	-	50.4
		Composite		50.4	-	50.4
6:00 AM	**Eurozone**	**PPI (MoM)**	**Feb**	**0.3%**	**-**	**0.8%**
9:30 AM	USA	Trade Balance	Feb	-$120.7b	-	-$131.4b
9:30 AM	USA	Initial Jobless Claims	-	225k	-	224k
10:45 AM	USA	PMI	Mar (F)			
		Services		54.3	-	54.3
		Composite		53.5	-	53.5
11:00 AM	**USA**	**ISM Services**	**Mar**	**53.1**	**-**	**53.5**
1:00 PM	USA	P. Jefferson' Speech	-	-	-	-
04/04/25	**Friday**					
8:00 AM	Brazil	IGP-DI (MoM)	Mar	-	-	1.00%
9:30 AM	**USA**	**Payroll**	**Mar**	**140k**	**-**	**151k**
9:30 AM	**USA**	**Unemployment Rate**	**Mar**	**4.1%**	**-**	**4.1%**
9:30 AM	**USA**	**Average Hourly Earnings (MoM)**	**Mar**	**0.3%**	**-**	**0.3%**
12:25 PM	**USA**	**J. Powell' Speech**	**-**	**-**	**-**	**-**
3:00 PM	Brazil	Monthly Trade Balance	Mar	-	$-8.6b	$-324m

Macroeconomic projections	2019	2020	2021	2022	2023	2024	2025	2026
GDP (%)	1,2	-3,3	4,8	3,0	2,9	3,4	**1,9**	**1,6**
Unemployment Rate (average, %)	12,0	13,8	13,2	9,3	8,0	6,6	**7,1**	**7,5**
IPCA (Consumer Price Index) (%)	4,3	4,5	10,1	5,8	4,6	4,8	**5,4**	**4,6**
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	12,25	**15,00**	**13,00**
Exchange Rate (end of period, R$/US$)	4,03	5,20	5,58	5,22	4,84	6,19	**6,00**	**6,00**
Current Account Transactions (US$ billion)	-68,0	-28,2	-46,4	-53,6	-28,6	-56,0	**-65,1**	**-69,4**
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	-2,6	**-2,9**	**-3,0**
Trade Balance - BCB (US$ billion)	26,5	32,4	36,4	44,2	80,5	66,2	**60,2**	**57,9**
Foreign Direct Investment (US$ billion)	69,2	37,8	46,4	87,2	62,0	71,1	**72,0**	**75,0**
Foreign Direct Investment (% of GDP)	3,7	2,6	2,8	4,5	2,8	3,2	**3,2**	**3,2**
Primary Result of the Central Government (R$ billion)	-95,1	-743,3	-35,1	54,1	-249,1	-43,0	**-61,0**	**-51,0**
Primary Result of the Central Government (% of GDP)	-1,3	-9,8	-0,4	0,5	-2,3	-0,4	**-0,5**	**-0,4**
Primary Result of the Public Sector (R$ billion)	-61,9	-703,0	64,7	126,0	-249,1	-47,6	**-52,3**	**-50,0**
Primary Result of the Public Sector (% of GDP)	-0,8	-9,2	0,7	1,3	-2,3	-0,4	**-0,4**	**-0,4**
Gross Public Debt (% of GDP)	74,4	86,9	77,3	71,7	74,3	76,1	**80,0**	**84,4**

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