

Copom's Decision Should Be Accompanied by a Hawkish Statement, Indicating Data Dependence in Upcoming Meetings

Highlights

Next week, the Copom will raise interest rates by 1 percentage point, as previously anticipated

The forward guidance provided by the Central Bank in December indicated continued monetary tightening until this meeting, but the cycle is unlikely to end now. Even with the high level to be reached next Wednesday (14.25%), the Selic rate is still not sufficient to drive inflation convergence to the target, especially considering the elevated market expectations. Moreover, yields continue to show strong results, which could bring additional inflationary pressures. That said, some factors support our scenario that the Central Bank is close to ending its hikes. Since the last meeting, the aggregate of observed variables in the institution's modeling indicated that its forecast for the relevant horizon should be less pressured, due to currency appreciation (from BRL 5.95 to BRL 5.80) and the cooling of oil and agricultural commodity prices over the period. Additionally, the upward revisions in inflation expectations from the Focus survey have stalled, and there is a gradual slowdown in economic activity—household consumption in Q4 2024 GDP grew 4.8% year-over-year, while the Central Bank expected 5.3%. Thus, we believe the Committee will choose to remain data-dependent going forward but will still maintain a hawkish tone to emphasize its commitment to controlling inflation—ending the cycle at 15.50%.

From the Perspective of Current Data, a Cautious Message for Monetary Policy Still Prevails

The February IPCA rose 1.31%, in line with expectations, mainly reflecting the fading impact of the Itaipu bonus on electricity tariffs and seasonal education price adjustments. This led to an increase in 12-month inflation, compared to the January IPCA-15 (from 4.5% to 5.1%)—the last effective result before the Copom's decision in the previous month. Core inflation measures and services remain at high levels (core close to 6% and underlying services at 7.5% on a three-month SAAR basis), although they have shown some slight marginal relief. Meanwhile, January's set of hard data presented a mixed scenario. First, the Industrial production (PIM) surprised to the downside, remaining flat month-over-month (vs. est. +0.4%), breaking a two-month streak of declines. In retail sales the broad measure exceeded expectations (+2.3% m/m vs. est. +1.5%), mainly due to credit-linked segments, particularly vehicles and construction materials. The core retail sales (restricted measure) showed weaker performance (-0.1% m/m vs. est. +0.1%), with a notable decline in supermarkets. Finally, the services sector (PMS) underperformed (-0.2% m/m vs. est. 0.0%), with declines in transportation and household services, although information services still show growth. Overall, these results reinforce the narrative of an ongoing economic slowdown at the beginning of this year.

In the U.S., assets remain volatile in line with the uncertainties driven by political News

From an economic data standpoint, the message is that the Fed is likely to keep interest rates unchanged again at next week's FOMC meeting. Both headline and core CPI increased by 0.2% month-over-month, below market forecasts (0.3%). After very strong January figures, February data provided some relief, with a slowdown in key categories—mainly services. Similarly, February's PPI also surprised to the downside (headline was flat, and core declined by 0.1% m/m, versus estimates of +0.3% for both), marking the weakest result since July. Producer price inflation showed a notable slowdown in services, especially in trade and transportation. However, it is worth noting that the components of this indicator that feed into the PCE (the Fed's preferred metric) came in more pressured, particularly those related to healthcare services. Nonetheless, the primary driver of asset pricing has been political developments, which continue to create uncertainty among investors. This week, focus remained on the possibility of a U.S. government shutdown, which now appears to be avoided before Saturday (03/15). Trade policy also remained in the spotlight. The U.S. Commerce Secretary confirmed that the 25% tariffs on steel and aluminum, which took effect on March 12, did not include exemptions for Canada and Mexico. This measure, ordered by Trump, aims to curb efforts by other countries to bypass existing tariffs. While Trump has granted a temporary delay on tariffs for automobiles and USMCA products until April 2, metal tariffs will remain in place. Meanwhile, the European Union announced tariffs of up to €26 billion on U.S. products in response to the new U.S. tariffs on steel and aluminum, which Trump has already aggressively retaliated against. Uncertainty surrounding the trade war remains a key factor impacting asset prices, as well as consumer and business confidence.

Economic Calendar

In Brazil, the agenda will be relatively light on data, but the highlight will be the Copom meeting, where interest rates will be raised on Wednesday.

Internationally, the focus will be on monetary policy decisions across countries. Additionally, key U.S. data releases include February retail sales and industrial production.

Date	Country	Event	Period	Survey	Prior
03/17/25	Monday				
8:25	Brazil	Central Bank Weekly Economist Survey (Focus)	-	-	-
9:00	Brazil	Economic Activity (MoM)	Jan	-	-0.73%
9:30	USA	Retail Sales (MoM)	Feb		
		Total		0.7%	-0.9%
		Control Group		0.3%	-0.8%
9:30	USA	Empire Manufacturing	Mar	-2.0	5.7
15:00	Brazil	Weekly Trade Balance	-	-	-
03/18/25	Tuesday				
5:00	Brazil	IPC-Fipe	Mar (2P)	-	-
8:00	Brazil	IGP-10 (MoM)	Mar	0.56%	0.87%
9:30	USA	Building Permits	Feb (P)	1450k	1473k
9:30	USA	New York Fed Services Business Activity	Mar	-	-10.5
9:30	USA	Imports Price (MoM)	Mar	-0.1%	0.3%
9:30	USA	Exports Price (MoM)	Mar	-0.3%	1.3%
10:15	USA	Industrial Production (MoM)	Feb	0.2%	0.5%
03/19/25	Wednesday				
7:00	Eurozone	CPI (MoM)	Feb (F)	0.5%	0.5%
7:00	Eurozone	Labor Costs (YoY)	4T24	-	4.6%
14:30	Brazil	Foreign Exchange Transactions	-	-	-
15:00	USA	FOMC	-	4.50%	4.50%
15:00	USA	Dots	-	-	-
15:30	USA	Jerome Powell' Speech	-	-	-
18:30	Brazil	Copom	-	14.25%	13.25%
22:00	China	LPR (5Y)	-	3.60%	3.60%
-	Japan	BoJ Decision	-	0.50%	0.50%
03/20/25	Thursday				
8:00	Brazil	IGP-M (MoM)	Mar (2P)	-	-
9:00	UK	BoE Decision	-	4.50%	4.50%
9:30	USA	Current Account	4T24	-\$334.0b	-\$310.9b
9:30	USA	Initial Jobless Claims	-	225k	220k
9:30	USA	Philadelphia Fed Business Outlook	Mar	8.0	18.1
11:00	USA	Leading Index (MoM)	Feb	-0.3%	-0.3%
11:00	USA	Existing Home Sales	Feb	3.94m	4.08m
03/21/25	Friday				
12:00	Eurozone	Consumer Confidence	Mar (P)	-13.0	-13.6
-	Brazil	Bi-monthly Primary Revenue and Expenditure Assessment Report	1B24	-	-

Macroeconomic projections

	2019	2020	2021	2022	2023	2024	2025	2026
GDP (%)	1,2	-3,3	4,8	3,0	2,9	3,4	1,8	1,7
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	5,2	4,4
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	12,25	15,50	11,75
Exchange Rate (end of period, R\$/US\$)	4,03	5,20	5,58	5,22	4,84	6,19	6,10	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	-54,7	-57,0
Primary Result of the Central Government (% of GDP)	-1,3	-9,8	-0,4	0,5	-2,3	-0,4	-0,5	-0,5
Primary Result of the Public Sector (R\$ billion)	-61,9	-703,0	64,7	126,0	-249,1	-47,6	-45,7	-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	78,5	80,8

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