

## Central Bank adopts dovish tone in COPOM statement, signaling potential end to tightening cycle

### Highlights

**In a unanimous decision, the Central Bank raised the interest rate to 14.75% per year, highlighting increased uncertainty in the global economy.**

Although the hike magnitude was widely expected by the market—given the March meeting’s signal of a smaller adjustment—the focus of the COPOM statement was the softer tone adopted by the committee. In the text, the inflation risk balance became symmetric (for the first time since the beginning of the cycle, even though the term was not used explicitly) by including the disinflationary impact of commodity prices, as well as a sharper global slowdown due to trade disputes and heightened uncertainty. Reiterating the scenario of unanchored expectations, members signaled that monetary policy should remain at a restrictive level to ensure inflation convergence, replacing the phrase “more contractionary” with “significantly contractionary for a prolonged period,” suggesting a possible preference for stability over further hikes. Notably, in discussing the next steps for the June meeting, the committee emphasized the advanced stage of the tightening cycle and the lagged effects yet to be observed, potentially indicating a preference for a monetary policy softening strategy. It is worth noting that the statement also included more hawkish elements, such as a small revision in inflation projections within the relevant horizon (from 3.7% to 3.6%), minimizing the downward impact of oil prices during the period, and stressing the need for vigilance and caution amid widespread uncertainty. Nevertheless, we believe these points were not sufficient to offset the overall dovish tone of the statement, and we therefore consider the probability of a 25bps hike in the June meeting to have decreased significantly. Accordingly, we revise our terminal interest rate forecast to 14.75% (previously 15%), with this level maintained until Q2 2026.

**In current inflation, April IPCA maintains negative qualitative trend with increases in more sensitive metrics.**

April’s IPCA rose 0.43% MoM, above our forecast (0.41%) and the market median (0.42%). Compared to our estimate, the main surprises came from the industrial goods segment, particularly clothing items, which reversed discounts offered during Consumer Week in March. In services, the highlight was the core group, with increases in dining out, car repairs, and banking services. Under these effects, the average core inflation measures rose 0.51% MoM, returning to levels seen in March’s full IPCA reading. For the Central Bank, the current scenario remains less constructive, although a less favorable inflation trend was already expected through the beginning of Q3. For 2025, we keep our forecast of IPCA ending at 5.4%, decelerating to 4.6% in 2026.

**Finally, in the United States, FOMC holds interest rate, emphasizing increased inflation risks from trade tariffs.**

At the May meeting, the committee unanimously held interest rates at 4.50%, in line with market expectations. The statement brought few changes but reinforced the solid level of economic activity (disregarding fluctuations in the trade balance in Q1 GDP), and emphasized rising uncertainty in the global outlook, with increased upside risks to inflation and unemployment. In Chairman Jerome Powell's speech, he adopted a more hawkish tone, stressing that forward-looking inflation projections do not indicate favorable conditions for cuts. Regarding tariffs, he noted that actual levels were higher than expected, with potentially persistent effects. The chairman remained neutral when questioned about the committee's preference in the trade-off between inflation and unemployment, underscoring that monetary policy is well-positioned and aligned with the need for caution until greater clarity on economic data is achieved. As such, we maintain our scenario of only one rate cut in the September FOMC meeting, ending the year at 4.25%.

## Economic Calendar

In **Brazil**, the focus this week will be on the release of the **Copom meeting minutes** on Tuesday, providing more details about the May decision, as well as **economic activity data** for March.

On the **international front**, the highlights will be the **April inflation data in the United States**, both consumer and producer, along with the results from the U.S. industrial and retail sectors.

Date	Country	Event	Period	Survey	Prior
<b>05/12/25 Monday</b>					
5:00 AM	Brazil	IPC-Fipe (MoM)	May (1P)	-	0.45%
8:00 AM	Brazil	IGP-M (MoM)	May (1P)	-	0.05%
8:25 AM	Brazil	Central Bank Weekly Economist Survey (Focus)	-	-	-
11:25 AM	USA	A. Kugler' Speech (Fed Board)	-	-	-
3:00 PM	Brazil	Weekly Trade Balance	-	-	-
3:00 PM	USA	Federal Budget Balance	Apr	\$260.0b	-\$160.5b
<b>05/13/25 Tuesday</b>					
6:00 AM	Eurozone	ZEW Survey Expectations	May	-	-18.5
7:00 AM	USA	NFIB Small Business Optimism	Apr	95.0	97.4
<b>8:00 AM</b>	<b>Brazil</b>	<b>Copom Minutes</b>	-	-	-
9:00 AM	Brazil	Quarterly Animal Slaughter Survey	1Q25	-	-
<b>9:30 AM</b>	<b>USA</b>	<b>CPI (MoM)</b>	<b>Apr</b>		
		Total		0.3%	-0.1%
		Core		0.3%	0.1%
<b>05/14/25 Wednesday</b>					
<b>9:00 AM</b>	<b>Brazil</b>	<b>PMS - Services Volume (MoM)</b>	<b>Mar</b>	-	<b>0.8%</b>
2:30 PM	Brazil	Foreign Exchange Transactions	-	-	-
6:40 PM	USA	M. Daly' Speech (Fed S. Francisco)	-	-	-
<b>05/15/25 Thursday</b>					
6:00 AM	Eurozone	GDP (YoY)	1T (S)	1.2%	1.2%
6:00 AM	Eurozone	Employment (YoY)	1T (P)	-	0.7%
<b>6:00 AM</b>	<b>Eurozone</b>	<b>Industrial Production (MoM)</b>	<b>Mar</b>	<b>1.8%</b>	<b>1.1%</b>
<b>9:00 AM</b>	<b>Brazil</b>	<b>PMC - Retail Sales (MoM)</b>	<b>Mar</b>		
		Restricted		-	0.5%
		Expanded		-	-0.4%
9:00 AM	Brazil	Systematic Survey of Agricultural Production	Apr	-	-
<b>9:30 AM</b>	<b>USA</b>	<b>Retail Sales (MoM)</b>	<b>Apr</b>		
		Total		0.0%	1.4%
		Control group		0.3%	0.4%
<b>9:30 AM</b>	<b>USA</b>	<b>PPI (MoM)</b>	<b>Apr</b>		
		Total		0.3%	-0.4%
		Core		0.3%	-0.1%
9:30 AM	USA	Empire Manufacturing	May	-8.0	-8.1
9:30 AM	USA	Philadelphia Fed Business Outlook	May	-10.0	-26.4
9:30 AM	USA	Initial Jobless Claims	-	233k	228k
<b>10:15 AM</b>	<b>USA</b>	<b>Industrial Production (MoM)</b>	<b>Apr</b>	<b>0.2%</b>	<b>-0.3%</b>
11:00 AM	USA	NAHB Housing Market Index	May	40	40
<b>05/16/25 Friday</b>					
6:00 AM	Eurozone	Trade Balance	Mar	-	21.0b
8:00 AM	Brazil	IGP-10 (MoM)	May	-	-0.22%
9:30 AM	USA	Housing Starts	Apr	1370k	1324k
9:30 AM	USA	Building Permits	Apr (P)	1450k	1467k
9:30 AM	USA	Import Price Index (MoM)	Apr	-0.3%	-0.1%
9:30 AM	USA	Export Price Index (MoM)	Apr	-0.4%	0.0%
9:30 AM	USA	New York Fed Services Business Activity	May	-	-19.8
<b>11:00 AM</b>	<b>USA</b>	<b>U. of Michigan Sentiment</b>	<b>May (P)</b>	<b>53.0</b>	<b>52.2</b>
		1Y Inflation Expectation		-	6.5%
		5-10Y Inflation Expectation		-	4.4%
10:40 PM	USA	M. Daly' Speech (Fed S. Francisco)	-	-	-

## 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	14,75	12,75
Exchange Rate (end of period, R\$/US\$)	4,03	5,20	5,58	5,22	4,84	6,19	5,85	5,95
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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