09/26/2025

All Eyes on Monetary Policy: Fed Signals Three Cuts in 2025 While Copom Maintains a Cautious Tone

Highlights

Copom's strategy of maintaining a hawkish stance for a prolonged period led us to revise our Selic outlook

Given the Copom's more hawkish tone than expected, we postponed our projection for the start of rate cuts from December 2025 to January 2026, maintaining the 2026 terminal rate at 12.25%, with the risk that cuts may only begin in March, if disinflation and re-anchoring of expectations prove more limited. The minutes reinstated the possibility of raising rates if deemed appropriate. The Monetary Policy Report reinforced this stance, presenting inflation projections above target through 1Q28 (3.1%) and a more positive output gap, though still pointing to a faster deceleration than implied by market measures. President Gabriel Galípolo and Director Diogo Guillen reiterated a data-dependent stance, assessing whether the current Selic level is sufficient to converge inflation. Galípolo also signaled his intention to preserve the committee's hawkish composition for 2026 by inviting Guillen and Renato Gomes—whose terms expire in December 2025—to stay on. The MPR placed significant emphasis on economic activity while reiterating labor market resilience as justification for the upward revision of the output gap.

We continue to assess that the scenario should evolve favorably for inflation through year-end, alongside a moderation in economic activity.

This view is reinforced by the September IPCA-15 release and the ongoing moderation in FGV industry and construction surveys. The September IPCA-15 came below the market median (BBG: 0.52%) but above our forecast (0.42%), posting a 0.48% m/m increase. The headline exceeded our forecast due to electricity prices, reflecting the reversal of the Itaipu tariff bonus in August, which also explained the monthly swing from -0.14% m/m in August. The downside surprise for us and the market came from core services, consistent with a marginally more benign composition.

Despite the Copom's less favorable assessment of external conditions, August current account results came in better than expected, while weaker economic activity reduced federal revenues. The current account deficit was narrower than the market median (USD 5.4bn), at USD 4.7bn, mainly due to a smaller services deficit, especially in travel and other services. On the fiscal side, federal revenues in August posted the first annual decline since 2023, mainly due to taxes linked to economic activity. Collections totaled BRL 208.8bn, down 1.5% y/y in real terms, with notable declines in corporate income tax/CSLL (-8.3% y/y) and PIS/Cofins (-3.7% y/y).

U.S. inflation shows mixed composition; 2Q25 GDP revised higher due to services

The Fed's preferred inflation index, core PCE, reinforced the picture of moderation, with services remaining elevated and goods weakness persisting. August PCE was in line with expectations, with headline at 0.26% m/m and core at 0.23% m/m, mirroring trends seen in CPI and PPI—services inflation staying high and tariff pass-through proving smaller. The data indicate fading pressure from import prices, though both headline and core remain above target. On activity, services consumption and nonresidential investment supported resilience in domestic demand, with the third estimate of 2Q25 GDP revised up to 3.8% (from 3.3% in the second estimate). This confirms that growth remains supported by domestic demand and corporate investment. Meanwhile, the September Michigan Consumer Sentiment Index edged down to 55.1 (from 55.4), suggesting consumers are less pessimistic than during peak tariff tensions, though still cautious in light of high prices and labor market risks.

Fed policy outlook: members expose discussion on pace and terminal rate

Fed Chair Jerome Powell (neutral/dovish voter) noted that policy is "moderately restrictive," leaving room for further cuts, but struck a cautious tone, neither endorsing nor ruling out the October cut already priced by markets. Governor M. Bowman (dovish voter) warned that the Fed may need to accelerate cuts if the labor market continues to deteriorate. Governor A. Goolsbee (neutral voter) assessed that the neutral rate lies 100–125bps below the current level, but said he is not considering 50bp cuts at this stage. He emphasized the need for caution given risks of inflation reaccelerating, while observing that the labor market continues to cool at a mild, modest pace. By contrast, the newest Fed Governor, Stephen Miran (the most dovish voter), argued for more aggressive cuts, warning that policy is excessively restrictive and threatens to push unemployment higher. He justified his dissent by projecting that recent policies could lower the real neutral rate toward zero, supporting a terminal rate converging to 2.0–2.5%.

Economic Calendar

In **Brazil**, the domestic agenda will be highlighted by the release of **labour market data** and August data from the **BCB's credit and fiscal note**. Additionally, **IGP-M w**ill be released.

On **the international front**, focus will be on the **U.S. Payroll** and **China's PMIs**.

Date	Country	Event	Period	Survey	Previous
29/09/2025	**Monday**				
6:00	Eurozone	Consumer Confidence	Sep	-	-
8:00	Brazil	IGP-M (MoM)	Sep	-	0.36%
8:25	Brazil	Central Bank Weekly Economist Survey (Focus)	-	-	-
8:30	**Brazil**	**Credit Statistics**	**Aug**	**-**	**0.40%**
14:30	**Brazil**	**CAGED (Formal Employment)**	**Aug**	**190k**	**130k**
15:00	Brazil	Trade Balance Weekly		-	$722m
22:30	**China**	**PMI (NBS)**	**Set**		
		Manufacturing	49.6		49.4
		Services			50.3
		Composite			50.5
22:45	**China**	**Rating Dog Composite PMI**	**Sep**	**-**	**51.9**
-	**Brazil**	**Central Government Primary Result**	**Aug**	**-**	**-59.1b**
-	**Brazil**	**Monthly Federal Public Debt Report**	**Aug**	**-**	**7939b**
30/09/2025	**Tuesday**				
3:00	**United Kingdom**	**GDP (QoQ)**	**2T25**	**-**	**0.30%**
8:30	**Brazil**	**Fiscal Statistics (Primary Result)**	**Aug**	**-**	**-66.6b**
9:00	**Brazil**	**Unemployment Rate**	**Aug**	**5.6%**	**5.6%**
11:00	**USA**	**JOLTS**	**Aug**	**7100k**	**7181k**
11:00	USA	Consumer Confidence	Sep	95.8	97.4
11:30	USA	Dallas Fed Services Activity	Sep	-	6.8
01/10/2025	**Wednesday**				
5:00	Eurozone	PMI Manufacturing		-	49.5
5:30	United Kingdom	PMI Manufacturing		-	46.2
6:00	**Eurozone**	**CPI (MoM)**	**Sep P**	**-**	**0.1%**
		Core (YoY)	Sep P	-	2.3%
9:15	**USA**	**ADP**	**Sep**	**50k**	**54k**
11:00	**USA**	**ISM Manufacturing**	**Sep**	**49.2**	**48.7**
02/10/2025	**Thursday**				
5:00	Brazil	IPC-FIPE (MoM)	Sep	-	0.04%
6:00	**Eurozone**	**Unemployment Rate**	**Aug**	**-**	**6.2%**
9:30	USA	Initial Jobless Claims	-	-	218k
11:00	**USA**	**ISM Services**	**Sep**	-	**52.0**
03/10/2025	**Friday**				
5:00	Eurozone	PMI Composite	Sep	-	51.2
5:30	United Kingdom	PMI Composite	Sep	-	51.9
6:00	Eurozone	PPI (MoM)	Aug	-	0.40%
9:00	**Brazil**	**Industrial Production (MoM)**	**Aug**	**0.5%**	**-0.20%**
9:30	**USA**	**Payroll**	**Sep**	**50k**	**22k**

Macroeconomic projections	2019	2020	2021	2022	2023	2024	2025	2026
Brazil GDP (%)	1,2	-3,3	4,8	3,0	2,9	3,4	2,1	1,8
Unemployment Rate (average, %)	12,0	13,8	13,2	9,3	8,0	6,6	6,3	6,7
IPCA (Consumer Price Index) (%)	4,3	4,5	10,1	5,8	4,6	4,8	4,6	4,1
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	12,25	15,00	12,25
Exchange Rate (end of period, R$/US$)	4,03	5,20	5,58	5,22	4,84	6,19	5,50	5,50
Current Account Transactions (US$ billion)	-68,0	-28,2	-46,4	-53,6	-28,6	-56,0	-76,3	-74,9
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	-2,6	-3,5	-3,3
Trade Balance - BCB (US$ billion)	26,5	32,4	36,4	44,2	80,5	66,2	52,6	53,6
Foreign Direct Investment (US$ billion)	69,2	37,8	46,4	87,2	62,0	71,1	66,8	75,0
Foreign Direct Investment (% of GDP)	3,7	2,6	2,8	4,5	2,8	3,2	3,1	3,3
Primary Result of the Central Government (R$ billion)	-95,1	-743,3	-35,1	54,1	-249,1	-43,0	-73,9	-67,8
Primary Result of the Central Government (% of GDP)	-1,3	-9,8	-0,4	0,5	-2,3	-0,4	-0,6	-0,5
Primary Result of the Public Sector (R$ billion)	-61,9	-703,0	64,7	126,0	-249,1	-47,6	-42,5	-37,8
Primary Result of the Public Sector (% of GDP)	-0,8	-9,2	0,7	1,3	-2,3	-0,4	-0,3	-0,3
Gross Public Debt (% of GDP)	74,4	86,9	77,3	71,7	74,3	76,1	79,4	83,7
United States - GDP (%)	2,5	-2,2	6,1	2,5	2,9	2,8	1,7	2,0
United States - PCE (%)	1,4	1,1	4,1	6,6	3,8	2,5	3,5	2,8
United States - Fed Funds Rate (end of period, %)	1,8	0,3	0,3	4,0	5,5	4,5	3,75	3,00

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