

Fed reinforces rate hold while Copom opens room for easing

Highlights

At its January meeting, the Fed opted to keep the policy rate in the 3.50% to 3.75% range, in line with expectations, but with a qualitatively more hawkish tone. The statement reinforced the assessment that economic activity remains solid, replacing earlier references to only moderate growth. At the same time, it indicated that the labor market shows signs of stabilization, while inflation was again described as still elevated, with the removal of language that previously suggested a clearer easing in the disinflation process. The balance of risks was also adjusted, with the elimination of references to downside risks to employment, which in practice reinforces the idea that the Committee is comfortable keeping policy restrictive for longer if necessary. Although there was dissent in favor of a 25 bp cut, the central message of the statement was one of caution and strict data dependence, without any explicit signaling of imminent rate cuts.

In the press conference, Jerome Powell reinforced this tone, emphasizing that monetary policy is well positioned and close to the upper bound of the neutral rate, suggesting less urgency for further adjustments. Powell noted that, after the cumulative cuts delivered in the previous year, much of the work has already been done, allowing the Committee to observe incoming data with greater patience. On the activity side, he highlighted the positive growth surprise, citing factors such as asset price appreciation, technology investment, and resilient consumption, albeit with clear heterogeneity across income groups. In the labor market, he pointed to a stabilization dynamic resulting from the combination of lower labor supply and still contained hiring demand. Regarding inflation, he acknowledged that core PCE remains close to 3 percent, with localized pressures linked to tariffs, but reiterated that the Fed's baseline scenario continues to view these impacts as temporary. When questioned about political issues, Powell avoided going into detail, reaffirming the Fed's independence and signaling that any external pressures should not interfere with the technical conduct of monetary policy.

This stance becomes even more relevant in the context of Kevin Warsh's nomination for the Fed chair, as despite increased political noise surrounding Powell's succession, Warsh stands out for having a more technical profile among the candidates, which tends to preserve the institution's credibility. In this environment, we assess that, despite political uncertainties, the combination of Warsh's technical profile and the Committee's current assessment reduces the likelihood of an abrupt shift in monetary policy. Accordingly, **we have revised our Fed funds outlook and now project two rate cuts this year, more concentrated in the second half. At the same time, we maintain our assumption of a structurally weaker dollar, supported by geopolitical factors and by the advancement of global portfolio diversification,** which tends to reduce marginal demand for dollar denominated assets.

In Brazil, the Copom unanimously decided to keep the Selic rate at 15.00 percent, in line with expectations, but the statement carried a more dovish tone compared to previous communications. The Committee maintained its assessment of a still uncertain external environment, now placing greater emphasis on geopolitical conflicts and their potential impacts on inflation, reinforcing the need for caution among emerging economies. On the domestic front, Copom acknowledged the continued moderation in economic activity growth and adjusted its reading of the labor market by noting that it still shows signs of resilience, suggesting a less broad based dynamic concentrated in a few indicators.

On inflation, the statement advanced by recognizing that both headline inflation and core measures remain on a disinflationary path, although still above target, while maintaining the inflation projection at 3.2 percent in 3Q27 and delivering a marginally downward revision to the 2026 forecast.

The central point of the statement was the forward guidance, with the explicit removal of more hawkish language, such as references to a very prolonged period and to the possibility of resuming the hiking cycle. At the same time, the Committee introduced a clear signal that, if the expected scenario is confirmed, it anticipates starting the easing of monetary policy as early as the next meeting, while maintaining the necessary degree of restriction to ensure convergence of inflation to the target. In addition, the inclusion of the term serenity when referring to the pace and magnitude of the cycle signals an interpretation of a more gradual start. In our assessment, this points to an initial 25 bp cut in March, without ruling out the possibility of a 50 bp move. In this context, we maintain our expectation that the easing cycle will begin at the next meeting, with a cautious path that remains highly dependent on the evolution of inflation expectations, core inflation dynamics, and the transmission of monetary policy over the relevant horizon.

Economic Calendar

In **Brazil**, a lighter data calendar will be highlighted by the release of the minutes of the Copom meeting on Tuesday, alongside December industrial output data and the consolidated January trade balance.

On the **international front**, the focus will be on US January labor market data, followed by the release of activity indicators such as the ISM surveys. In the euro area, attention will turn to the monetary policy decision scheduled for Thursday.

Date	Country	Event	Period	Survey	Buysidebrazil	Actual	Prior
02/02/26 Monday							
5:55	Germany	PMI Manufacturing	jan/26	49.7		47.0	
6:00	Eurozone	PMI Manufacturing	jan/26	49.4		48.4	
8:25	Brazil	Central Bank Weekly Economist Survey (Focus)	jan/26	-		-	
11:45	US	PMI Manufacturing	jan/26	51.9		51.8	
12:00	US	ISM Manufacturing	jan/26	48.3		47.9	
14:30	US	Speech by R. Bostic (Fed Atlanta)	-	-		-	
02/03/26 Tuesday							
5:00	Brazil	IPC-FIPE (MoM)	jan/26	-		0.41%	
8:00	Brazil	Copom Minutes	jan/26	-		-	
9:00	Brazil	Industrial Production (MoM)	dez/25	-	-1,30%	0,00%	
11:40	US	Speech by M. Bowman	-	-		-	
12:00	US	JOLTS	dez/25	7100k		7146k	
02/04/26 Wednesday							
5:55	Germany	PMI Composite	jan/26	52.5		51.3	
6:00	Eurozone	PMI Composite	jan/26	51.3		51.5	
7:00	Eurozone	CPI (YoY)	jan/26	1,7%		1,9%	
		Core (YoY)		2,30%		2,30%	
10:15	US	ADP	jan/26	35k		41k	
11:45	US	PMI Composite	jan/26	52.8		-	
12:00	US	ISM Services	jan/26	53.8		54.4	
14:30	Brazil	IC-Br (MoM)	jan/26	-		4,30%	
14:30	Brazil	Foreign Exchange Transactions	jan/26	-		-	
02/05/26 Thursday							
7:00	Eurozone	Retail Sales (MoM)	dez/25	0,30%		0,20%	
10:15	Eurozone	Monetary Policy Decision	fev/26	2,00%		2,00%	
15:00	Brazil	Monthly Trade Balance	jan/26	-		US\$ 9,63 bi	
02/06/26 Friday							
4:00	Germany	Industrial Production (MoM)	dez/25	-0,3%		0,80%	
8:00	Brazil	IGP-DI (MoM)	jan/26	-		0,10%	
10:30	US	Payroll	jan/26	70k		50k	
10:30	US	Average Hourly Earnings (MoM)	jan/26	0,30%		0,30%	
10:30	US	Unemployment Rate	jan/26	4,40%		4,40%	
12:00	US	Consumer Confidence	fev/26	-		-	
17:00	US	Consumer Credit	dez/25	-		4229	

Macroeconomic projections

	2019	2020	2021	2022	2023	2024	2025	2026
Brazil GDP (%)	1,2	-3,3	4,8	3,0	2,9	3,4	2,2	1,8
Unemployment Rate (average, %)	12,0	13,8	13,2	9,3	8,0	6,6	5,6	6,4
IPCA (Consumer Price Index) (%)	4,3	4,5	10,1	5,8	4,6	4,8	4,3	4,0
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	-66,2	-68,8	-74,9
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	-3,0	-3,0	-3,3
Trade Balance - BCB (US\$ billion)	26,5	32,4	36,4	44,2	80,5	66,2	60,0	53,6
Foreign Direct Investment (US\$ billion)	69,2	37,8	46,4	87,2	62,0	71,1	77,7	75,0
Foreign Direct Investment (% of GDP)	3,7	2,6	2,8	4,5	2,8	3,2	3,4	3,3
Primary Result of the Central Government (% of GDP)	-1,3	-9,8	-0,4	0,5	-2,3	-0,4	-0,4	-0,5
Gross Public Debt (% of GDP)	74,4	86,9	77,3	71,7	74,3	76,1	78,7	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	3,25

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