buysidebrazil

03/13/2026

Copom is expected to begin the monetary easing cycle next week

Highlights

The external environment became more challenging this past week with the escalation of the war in Iran, alongside continued inflationary pressure in the United States.
The rise in uncertainty began on Sunday following the appointment of the new ayatollah, an event that heightened concerns regarding political stability. By the end of the day, oil prices had already surged, breaking above US$100/b and generating significant apprehension about the week ahead. In the following days, prices partially corrected after comments from President Donald Trump suggesting that the conflict could be approaching a resolution, which temporarily reduced the geopolitical risk premium embedded in markets. However, this relief proved short-lived, as prices moved higher again amid the continuation of attacks and a more confrontational tone from Iranian leadership. The International Energy Agency (IEA) signaled the possibility of releasing strategic reserves, but the prevailing market view is that such a process would occur gradually, limiting its immediate impact on global supply. As a result, the environment remains characterized by elevated volatility and a persistent geopolitical premium in energy prices, reflecting both the risk of a prolonged conflict and uncertainty regarding its implications for oil flows in the region. The Strait of Hormuz — the passage through which tankers leave the Persian Gulf carrying roughly one-fifth of the world's daily oil production — remains virtually closed. This scenario, which was already putting pressure on inflation outlooks in the United States, received additional pressure with Friday's inflation data. The PCE started 2026 with core inflation significantly above target and with pressures across both goods and services. The data suggests that the disinflation process remains gradual and subject to volatility, particularly in imported goods, reducing the room for near-term monetary easing. Therefore, the monetary authority is likely to maintain a cautious stance, requiring clearer signs of deceleration before considering any adjustment to the policy rate, especially in such an uncertain environment. On the other hand, the second estimate of GDP for the fourth quarter of 2025 revealed significantly weaker performance than initially reported, with annualized quarterly growth of just 0.7%. The result reflected weakness in consumption, investment, exports, and government spending, indicating a loss of momentum following the stronger third quarter.

In Brazil, the most recent data suggests that the upcoming Copom decision should be assessed in light of the latest information on inflation, activity, and especially the more uncertain external environment. Starting with this week's data releases, on the inflation front, February's IPCA came in at 0.70%, above market expectations, with a composition less constructive than anticipated, reflecting stronger pressures in underlying services and in the average of core measures. Nevertheless, although the qualitative reading indicates that underlying inflation remains elevated at the margin, the result does not compromise the broader structural assessment of disinflation and does not trigger revisions to the outlook for the year. At the moment, potential gasoline price adjustments represent the main upside risk. On the activity side, despite the positive surprises in retail sales (PMC) and the solid services result (PMS), January's data appears largely to reflect a rebound from the weak levels observed at the end of 2025, when longer collective holidays affected industrial production and consumption was weaker. The overall set of indicators remains consistent with a scenario of gradual economic deceleration, a reading also supported by the most recent GDP data. Therefore, we expect these figures not to alter the Central Bank's perception of economic slowdown in the first half of 2026. At the same time, the international environment has become more uncertain in recent weeks, particularly due to the escalation of geopolitical tensions associated with the war, a factor that tends to increase global volatility and raise risks for emerging economies. Still, an important element in the domestic scenario has been the behavior of the exchange rate, which has remained relatively well behaved even amid the more adverse external backdrop. In this context, although increased global uncertainty could justify a more cautious stance from the monetary authority, the recent performance of the exchange rate has been an important factor supporting our assessment that Copom will begin the easing cycle with a 50 basis point cut. We believe this move could take the form of a "hawkish cut," accompanied by more cautious communication from the Central Bank, emphasizing that the beginning of the cycle does not imply a commitment to a predetermined path of rate cuts and reinforcing a strongly data-dependent strategy, without explicit forward guidance for upcoming meetings. The Committee may also acknowledge that alternative scenarios, including a smaller 25 basis point cut, have gained probability given the rise in uncertainty. Even so, considering the recent behavior of the exchange rate and the current balance of risks, we continue to assess that a 50 basis point cut remains the most likely outcome at the next meeting.

Economic Calendar

In **Brazil**, the main highlight is the Copom meeting, where we expect a 50bps rate cut, bringing the policy rate to 14.50%. Additionally, we will have the release of the IBC-Br and the GDP Monitor.

In the **International Scenario**, the main highlight is U.S. inflation data, particularly the PPI, along with a series of monetary policy decisions in the United States, the Euro Area, the United Kingdom, and Japan.

Date	Country	Event	Period	Buysidebrazil	Prior
03/16/26	**Monday**				
8:25	Brasil	Central Bank Weekly Economist Survey (Focus)	mar/26		-
9:00	Brasil	**Economic Activity Index**	jan/26	0,6%	-0,18%
10:15	EUA	Industrial Production (MoM)	fev/26		0,70%
10:15	EUA	Capacity Utilization	fev/26		76,2
11:00	EUA	Homebuilder Confidence	mar/26		36
15:00	Brasil	Weekly Trade Balance	mar/26		1,8
03/17/26	**Tuesday**				
5:00	Brasil	IPC-FIPE	mar/26		0,36%
8:00	Brasil	IGP-10 (MoM)	mar/26		-0,42%
9:30	EUA	New York Services Business Activity Index	mar/26		-25,7
11:00	EUA	Leading Indicators (MoM)	fev/26		-0,20%
03/18/26	**Wednesday**				
7:00	Z. do Euro	CPI (YoY)	fev/26		1,9%
		Core (YoY)	fev/26		2,4%
9:30	EUA	**PPI (MoM)**	fev/26		0,5%
		Core (MoM)	fev/26		0,8%
14:30	Brasil	Foreign Exchange Transactions	mar/26		-
15:00	EUA	**Monetary Policy Decision**	mar/26	3,75%	3,75%
15:00	EUA	**Dot Plot**	mar/26		-
15:30	EUA	**Speech by J. Powell**	-		-
18:30	Brasil	**Monetary Policy Decision**	mar/26	14,5%	15,0%
03/19/26	**Thursday**				
9:00	R. Unido	**Monetary Policy Decision**	mar/26		3,75%
9:30	EUA	Initial Jobless Claims	mar/26		-
9:30	EUA	Philadelphia Fed Manufacturing Survey	mar/26		16,3
10:15	Z. do Euro	**Monetary Policy Decision**	mar/26		2%
-	Japão	**Monetary Policy Decision**	mar/26		0,75%

Macroeconomic projections	2019	2020	2021	2022	2023	2024	2025	2026
Brazil GDP (%)	1,2	-3,3	4,8	3,0	2,9	3,4	2,3	**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	**3,9**
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	12,25	15,00	**12,00**
Exchange Rate (end of period, R$/US$)	4,03	5,20	5,58	5,22	4,84	6,19	5,50	**5,40**
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	**-0,6**
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	2,2	**2,0**
United States - PCE (%)	1,4	1,1	4,1	6,6	3,8	2,5	2,9	**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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