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Fed signals higher rates while Copom leaves room for further cuts

Highlights

In the United States, the Fed adopted a more hawkish tone amid a resilient economy and still-persistent inflation. The Committee raised the federal funds rate by 25 bp, to 3.75%-4.00%, in a unanimous decision. In addition to removing more dovish language from the statement, the Fed emphasized the need for a timelier return of inflation to the 2% target, while its assessment of economic activity and the labor market remained favorable. Against this backdrop, the main change came from the rate projections, with the median dot for end-2026 rising from 3.8% to 4.1%, while projections for 2027 and 2028 were also revised upward. The SEP reinforced the assessment of a stronger economy, combining higher growth, lower unemployment and still-elevated inflation, a backdrop consistent with a more restrictive path for monetary policy. During the press conference, Kevin Warsh reinforced this interpretation, stating that recent inflation trends had not shown sufficient improvement and that risks remained tilted to the upside. According to Warsh, the decision was not a response specifically to the August CPI, but rather to the lack of clearer progress on inflation in recent months, alongside stronger economic activity and a deterioration in the geopolitical environment. Warsh also noted that financial conditions could not yet be characterized as restrictive, describing the rate hike as the removal of a “dose of accommodation.” Regarding tariff and energy shocks, he acknowledged that monetary policy cannot prevent the initial impact on prices, but stressed that the Fed must prevent these pressures from spreading through the economy and generating second- and third-round effects. The main concern, therefore, is that these shocks could hinder the disinflation process in underlying inflation. Despite the firmer tone, Warsh refrained from providing forward guidance and reiterated that future decisions will depend on incoming data. Still, the combination of persistent inflation, resilient activity and relatively loose financial conditions reinforced a more hawkish assessment. Against this backdrop, we revised our scenario and now expect another 25 bp hike in December 2026, followed by an additional hike in the first quarter of 2027.

In Brazil, the Copom presented a more constructive assessment of the domestic outlook, with greater confidence in the slowdown in economic activity and the improvement in inflation. The Committee lowered the Selic rate to 13.75%, maintaining a cautious and data-dependent stance, without providing explicit guidance on the next steps but also without closing the door to further cuts. The main changes in the statement were concentrated in the assessment of current conditions and reinforced a more favorable view of recent economic dynamics. On activity, the Copom now states that the set of indicators “shows a gradual moderation in economic activity,” replacing the previous wording that it “suggests” such moderation. Although the change is small, the shift in language indicates greater conviction that the slowdown in demand is effectively underway, consistent with the lagged effects of restrictive monetary policy.

The inflation assessment also improved, with the Central Bank highlighting that both headline inflation and the average of underlying inflation measures have slowed and are now below the upper bound of the tolerance range, although they remain above the target. At the same time, the BCB maintained its inflation projection for the relevant monetary policy horizon at 3.2%, despite risks associated with oil prices and the potential effects of El Niño. The unchanged projection suggests that, so far, the Committee views these shocks as insufficient to materially alter the inflation convergence path over the monetary policy horizon, although they remain sources of uncertainty. Overall, the communication remains consistent with a gradual easing cycle, preserving flexibility to assess incoming data between meetings while acknowledging clearer signs of moderating activity and improving current inflation dynamics. Although the balance of risks remains challenging and convergence to the target still requires restrictive monetary policy, the combination of these factors leaves room for the easing cycle to continue. Against this backdrop, we revised our Selic rate forecast to 13.25% by end-2026, incorporating two additional consecutive cuts at the November and December meetings.

Economic Calendar

In Brazil, the main highlights of the week will be the release of the September IPCA-15, as well as the Copom minutes and the Monetary Policy Report, which should provide further details on the conduct of monetary policy and the Central Bank's inflation projections.

Abroad, the main highlights will be the release of the September PMIs in the United States and the Euro Area. In the United States, consumer confidence data will also be released, along with speeches by Fed officials throughout the week.

Time	Country	Event	Reference	Median	Previous
21/09/26	**Monday**				
8:25	Brazil	Focus Survey	set-26	-	-
7:30	US	Speech by A. Goolsbee (Chicago Fed)	-	-	-
9:30	US	Chicago Fed National Activity Index (CFNAI)	ago-26	0,2	-0,08
15:00	Brazil	Weekly Trade Balance (USD bn)	set-26	-	-
22/09/26	**Tuesday**				
8:00	Brazil	**Copom Minutes**	set-26	-	-
9:30	US	Philadelphia Fed Nonmanufacturing Activity Index	set-26	-6	-10,6
11:00	Euro Area	Consumer Confidence	set-26	-	-15,5
11:00	US	Richmond Fed Manufacturing Activity Index	set-26	5	4
11:05	US	Speech by J. Williams (New York Fed)	-	-	-
11:30	Brazil	LFT and NTN-B Auction	-	-	-
23/09/26	**Wednesday**				
4:30	Germany	Composite PMI	set-26	-	51,8
5:00	Euro Area	Composite PMI	set-26	-	52
10:45	US	Composite PMI	set-26	55	56
11:30	US	Crude Oil Inventories	set-26	-	-
14:00	US	5-Year Note Auction	-	-	-
24/09/26	**Thursday**				
5:00	Germany	Business Climate	set-26	-	88,8
5:10	US	Speech by J. Williams (New York Fed)	-	-	-
8:00	Brazil	**Monetary Policy Report**	-	-	-
8:00	Brazil	Consumer Survey	set-26	-	-
9:30	US	Initial Jobless Claims	set-26	-	-
9:50	US	Speech by B. Hammack (Cleveland Fed)	-	-	-
11:00	US	New Home Sales	ago-26	613	607
11:10	US	Speech by A. Paulson (Philadelphia Fed President)	-	-	-
11:00	Brazil	**Press Conference - Monetary Policy Report**	-	-	-
11:30	Brazil	NTN-F and LTN Auction	-	-	-
12:00	US	Kansas City Fed Manufacturing Survey	set-26	5	10
25/09/26	**Friday**				
6:15	US	Speech by J. Williams (New York Fed)	-	-	-
8:00	Brazil	Construction Survey	set-26	-	-
9:00	Brazil	**IPCA-15 (MoM)**	set-26	-	-0,4
11:00	US	Consumer Confidence	set-26	47,8	47,8
11:00	US	One-Year Inflation Expectations	set-26	-	-
11:00	US	5-to-10-Year Inflation Expectations	set-26	-	-
12:00	US	Kansas City Fed Services Activity Index	set-26	-	-3
15:00	US	Speech by B. Hammack (Cleveland Fed)	-	-	-

Macroeconomic projections	2020	2021	2022	2023	2024	2025	2026	2027
Brazil GDP (%)	-3,3	4,8	3,0	2,9	3,4	2,3	**1,9**	**1,6**
Unemployment Rate (average, %)	13,8	13,2	9,3	8,0	6,6	5,6	**5,5**	**6,0**
IPCA (Consumer Price Index) (%)	4,5	10,1	5,8	4,6	4,8	4,3	**5,0**	**5,0**
Selic Rate (end of period, %)	2,00	9,25	13,75	11,75	12,25	15,00	**13,25**	**12,00**
Exchange Rate (end of period, R$/US$)	5,20	5,58	5,22	4,84	6,19	5,50	**5,20**	**5,30**
Current Account Transactions (US$ billion)	-28,2	-46,4	-53,6	-28,6	-66,2	-68,8	**-53,3**	**-52,0**
Current Account Transactions (% of GDP)	-1,7	-2,9	-2,8	-1,4	-3,0	-3,0	**-2,0**	**-1,9**
Trade Balance - BCB (US$ billion)	32,4	36,4	44,2	80,5	66,2	60,0	**83,8**	**85,0**
Foreign Direct Investment (US$ billion)	37,8	46,4	87,2	62,0	71,1	77,7	**85,0**	**80,0**
Foreign Direct Investment (% of GDP)	2,6	2,8	4,5	2,8	3,2	3,4	**3,2**	**3,0**
Primary Result of the Central Government (% of GDP)	-9,8	-0,4	0,5	-2,3	-0,4	-0,4	**-0,4**	**-0,4**
Gross Public Debt (% of GDP)	86,9	77,3	71,7	74,3	76,1	78,7	**83,7**	**87,3**
United States - GDP (%)	-2,2	6,1	2,5	2,9	2,8	2,2	**2,2**	**2,1**
United States - PCE (%)	1,1	4,1	6,6	3,8	2,5	2,9	**3,6**	**2,6**
United States - Fed Funds Rate (end of period, %)	0,3	0,3	4,0	5,5	4,5	3,75	**4,25**	**4,50**

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