

We revise our Selic forecast to 11% in 2027, reflecting a more significant fiscal adjustment next year.

Highlights

The FOMC minutes revealed a still-hawkish Committee in September, but no consensus on the need for further immediate tightening. Although all participants supported the 25 bps rate hike to 3.75%-4.00%, most considered another increase likely by year-end, while others emphasized the dependence on incoming data. Since the meeting, however, August PCE inflation came in below the estimates incorporated into the minutes, while the latest employment data and remarks by Williams and Jefferson pointed to greater caution. Taken together, these developments reduce the urgency of another rate hike as early as October, leaving room for a more patient Fed stance.

In Brazil, IPCA inflation rose 0.82% in September, above both the market median of 0.76% and our forecast of 0.78%, with upside surprises concentrated in specific components. The pressure came mainly from administered prices, particularly gasoline, and underlying services, where the upside surprise was heavily concentrated in movie theater tickets, reflecting the smaller impact of the discount week compared with the September IPCA-15 reading. As a result, the average of core inflation measures also came in higher, although there was no broad-based deterioration across their components. Conversely, food-at-home inflation surprised to the downside, despite continued sharp increases in fresh products, particularly tubers. Overall, the composition was less favorable than in August, but price pressures remained concentrated in specific items.

Beyond the data released during the week, we revised down our growth forecasts for 2026 and 2027, reflecting the loss of momentum in cyclical sectors and the prospect of fiscal adjustment next year. In the second quarter, economic activity was growing at a 1.9% rate over 12 months, while domestic absorption increased by just 1.0%. The gap between cyclical and non-cyclical sectors also highlights the loss of demand momentum: the former grew by 1.3% over 12 months, compared with 2.7% for the latter. Against this backdrop, we lowered our GDP growth forecast from 1.9% to 1.8% in 2026 and from 1.6% to 1.3% in 2027. In addition to the slowdown already underway, we expect a negative fiscal impulse in 2027, constraining growth over the relevant forecast horizon.

The prospect of fiscal adjustment has strengthened despite electoral uncertainty, supporting our revised exchange-rate outlook. We believe the likelihood of a more significant adjustment has increased with the possibility of a change in government. However, the prospect of expenditure-side measures has also gained traction under a continuation of the incumbent administration, including the possibility of appointing a high-profile figure to lead the Ministry of Finance.

IWe forecast the exchange rate at BRL 4.90 per USD in both 2026 and 2027, reflecting expectations of a credible fiscal adjustment, with real expenditure growth below the current 2.5% cap and a review of less productive spending. The prospect of a return to primary surpluses from 2027 onward could support capital inflows, BRL appreciation and improved financial conditions.

On monetary policy, we now forecast the Selic rate at 11.0% by the end of 2027, while maintaining our 2026 estimate at 13.25%. The slowdown in economic activity and the effectiveness of monetary policy in bringing inflation under control support the continuation of the calibration cycle at upcoming meetings. Furthermore, a consistent fiscal adjustment early in 2027, accompanied by BRL appreciation, could give the Central Bank room to accelerate monetary easing from its second meeting of the year. This trajectory, however, assumes that longer-term inflation expectations, currently close to 3.5%, re-anchor toward the 3.0% target.

For inflation, we maintained our forecast at 5.1% for 2026 and project 3.9% for 2027. Despite upside risks associated with El Niño and the geopolitical conflict in the Middle East, our revised exchange-rate outlook has a significant disinflationary impact on next year's inflation, particularly for food and industrial goods, through exchange-rate pass-through to prices. Services disinflation should proceed gradually as the effects of still-restrictive monetary policy work their way through the economy. If the projected decline in interest rates materializes in 2027, easier financial conditions could stimulate productive investment and support a more sustained recovery in growth, particularly from 2028 onward.

Economic Calendar

In Brazil, the main highlights will be August economic activity data. On Wednesday (Oct. 14), services volume (PMS) will be released, for which we forecast a 0.4% MoM increase, following no change in July. On Thursday (Oct. 15), retail sales (PMC) will be published, with our forecast pointing to a 0.7% MoM increase after a 0.8% decline in the previous month. The IBC-Br activity index will be released on Friday (Oct. 16), and we forecast a 0.3% increase following a 0.2% decline in the previous month.

In the United States, the main highlight will be September consumer inflation on Wednesday (Oct. 14). We forecast a 0.5% MoM increase in headline CPI and a 0.2% rise in core CPI, with YoY rates of 3.6% and 2.4%, respectively. On Thursday (Oct. 15), September PPI data will be released, for which we forecast a 0.5% MoM increase in headline prices and a 0.3% rise in core prices. Retail sales will also be published, with the median forecast pointing to a 0.1% MoM increase, following a 1.2% rise in August.

Date	Country	Event	Period	Survey	Buysidebrazil	Prior
12/10/26	Monday					
	Brazil	National Holiday — Our Lady of Aparecida (no releases)	-			
	USA	Holiday (Columbus Day) — bond market closed	-			
20:50	Japan	PPI (MoM) [15/10]	sep/26			-0.2
20:50	Japan	PPI (YoY) [15/10]	sep/26			7.6
13/10/26	Tuesday					
3:00	Germany	Inflation Rate (YoY, Final)	sep/26	3.3		2.9
8:25	Brazil	Central Bank Weekly Economist Survey (Focus)	-			
22:30	China	Inflation Rate - CPI (YoY) [14/10]	sep/26	0.9		0.8
22:30	China	Inflation Rate - CPI (MoM) [14/10]	sep/26	0.2		0.4
22:30	China	PPI (YoY) [14/10]	sep/26	3.8		3.8
	China	Balance of Trade [14/10]	sep/26			119.09
14/10/26	Wednesday					
9:00	Brazil	Services Volume - PMS (MoM)	aug/26		0.4	0.0
9:30	USA	Inflation Rate (MoM)	sep/26	0.5	0.5	0.4
9:30	USA	Inflation Rate (YoY)	sep/26	3.6	3.6	3.4
9:30	USA	Core Inflation Rate (MoM)	sep/26	0.2	0.2	0.3
9:30	USA	Core Inflation Rate (YoY)	sep/26	2.4	2.4	2.4
15:00	USA	Fed Beige Book	-			
15/10/26	Thursday					
6:00	Euro Area	Industrial Production (MoM)	aug/26			-0.1
9:00	Brazil	Retail Sales - PMC (MoM)	aug/26		0.7	-0.8
9:30	USA	NY Empire State Manufacturing Index	oct/26	7		7.6
9:30	USA	Philadelphia Fed Manufacturing Index	oct/26	31		37.8
9:30	USA	Initial Jobless Claims	oct/26	201k		197k
9:30	USA	PPI (MoM)	sep/26	0.5	0.5	0.4
9:30	USA	Core PPI (MoM)	sep/26	0.3	0.3	0.2
9:30	USA	PPI (YoY)	sep/26	5.9	5.9	5.4
9:30	USA	Core PPI (YoY)	sep/26	4.7	4.7	4.6
10:30	USA	Retail Sales (MoM)	sep/26	0.1		1.2
16/10/26	Friday					
6:00	Euro Area	Balance of Trade	aug/26			14.2
9:00	Brazil	Economic Activity Index IBC-Br (MoM)	aug/26		0.3	-0.2
9:30	USA	Import Prices (MoM)	sep/26	0.8		0.7
9:30	USA	Import Prices (YoY)	sep/26	7.9		7.0
10:15	USA	Industrial Production (MoM)	sep/26	0.1		0.0
10:15	USA	Capacity Utilization	sep/26	76.5		76.3

Macroeconomic projections

	2020	2021	2022	2023	2024	2025	2026	2027
Brazil GDP (%)	-3,3	4,8	3,0	2,9	3,4	2,3	1,8	1,3
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	5,1	3,9
Selic Rate (end of period, %)	2,00	9,25	13,75	11,75	12,25	15,00	13,25	11,00
Exchange Rate (end of period, R\$/US\$)	5,20	5,58	5,22	4,84	6,19	5,50	4,90	4,90
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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