

# Brazil Flash

## COPOM minutes suggest that the monetary tightening will continue at an unchanged pace, at least in the short term

The wording and the tone of the minutes of last week's monetary policy decision in which the SELIC rate was hiked by +50bps to 9.0% were left broadly unchanged, making very likely another +50bps adjustment in October. Even though the minutes refrained from revealing additional concern over the exchange rate, the recent depreciation of the currency should force the COPOM to hike the SELIC again in the last meeting of the year in November.

- **Inflation forecasts: no improvement thanks to a weaker currency**

The main messages of today's minutes were basically the same revealed by the [previous minutes in July](#). In particular, the monetary authority continued to say that the depreciation of the currency entails short term risks and that it reflects a transition to normality. Inflation forecasts remained broadly stable in the baseline scenario (which assumes interest rates and exchange rate constant at the levels observed right before the monetary meeting, i.e. 8.50% and 2.40 respectively) but were revised up in the market scenario (which uses consensus forecasts for both exchange and interest rates). The negative impact of a weaker currency on prices is offsetting the positive impact of higher interest rates. In both scenarios, forecasts show inflation above the 4.5% target not only in 2013 and 2014, but also in the beginning of 2015. Apart from the update in inflation forecasts, the other main change in the minutes worth of note was that the monetary authority now expects fiscal policy to move from expansionary to neutral levels (which support the view that the BCB is planning to leave interest rates untouched in 2014).

- **We expect the SELIC to reach 9.50% in October, 9.75% in November and to remain stable in 2014**

Following today's minutes, we revise our SELIC forecasts and now expect interest rates to be adjusted by +50bps and +25bps in October and November, respectively (our previous call was for a final hike of 25bps in October). This change is broadly driven by the recent depreciation of the exchange rate (the Brazilian real should remain within 2.3 and 2.4 in the remainder of the year, which contrast with previous forecasts that pointed to levels below 2.2). Even though we expect the economy to lose momentum in 3Q13, the stronger than expected GDP growth in 2Q13 (1.5% QoQ versus our forecast of 0.6% QoQ) reduces the political costs for the monetary authority to implement a tighter monetary policy. Anyway, we see a higher degree of uncertainty regarding the last decision of the year, which implies that we should not rule out another +50bps hike or even stable interest rates in November. Finally, we continue to expect the SELIC to remain stable over 2014.

For more on Brazil, [click here](#)

## El acta de la última decisión de política monetaria sugiere que el ajuste monetario continuará a un ritmo sin cambios, al menos en el corto plazo

El texto y el tono del acta de la última decisión de política monetaria en la que se aumentaron los tipos SELIC en 50pp hasta el 9,0% se mantuvieron prácticamente inalterados, lo que hace muy probable que otro ajuste de 50 puntos básicos se anuncie en octubre. A pesar de que el acta no haya revelado preocupaciones adicionales sobre el tipo de cambio, la reciente depreciación debe forzar un nuevo ajuste monetario en la última reunión del año en noviembre.

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