

Brazil Flash

Madrid, 16 January 2014
Economic Analysis

Brazil

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Higher inflation and a weaker currency force the COPOM to maintain the tightening pace

We and a significant part of the market expected a final +25bp adjustment of the SELIC, but the Monetary Policy Committee (COPOM) decided to hike the reference rate by 50bp and, in addition, left the door open for additional tightening ahead. In our view, the decision to increase the SELIC to 10.50% instead of to 10.25% was driven by the [recent worsening of inflation](#) and the ongoing depreciation of the exchange rate (7.6% in the last three months). At this moment, before seeing the minutes of yesterday's monetary policy meeting which will only be released in a week's time, we consider it more likely that the COPOM will deliver a final +25bp after its next meeting in February.

- **Few, but relevant changes in the accompanying statement**

Even though yesterday's decision was somewhat contradictory with recent official communication, it was [not completely unexpected](#) given higher-than-expected inflationary pressures and not well-anchored expectations. The communiqué of the decision was as follows: "Continuing the adjustment process of the basic interest rate, started in the April 2013 meeting, the COPOM unanimously decided, at this moment, to increase the SELIC rate by 50bp to 10.50%, without bias". In comparison to the previous communiqué, both the expression "at this moment" and the explicit reference to the magnitude of the adjustment ("by 50bp") were introduced. In our view, they suggest that the decision to adjust the SELIC by 50bp, instead of by 25bp, was circumstantial and that the monetary authority does not plan to maintain the pace in its next meeting in February. Finally, by opting to adopt a tighter-than-expected monetary policy, the COPOM shows more commitment to inflation than to growth (which remains fragile).

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Mayor inflación y una moneda más débil obligan al COPOM a mantener el ritmo de ajuste monetario

Nosotros y una parte significativa del mercado esperábamos un ajuste final de +25pb en la tasa SELIC, pero el Comité de Política Monetaria (COPOM) decidió aumentar la tasa de interés de referencia en 50pb y, además, dejó la puerta abierta para ajustes adicionales en el futuro. En nuestra opinión, la decisión de aumentar la tasa SELIC a 10,50% en lugar de a 10,25% fue impulsada por el reciente empeoramiento de la inflación y por la depreciación en curso del tipo de cambio (7,6% en los últimos tres meses). En este momento, antes de conocer las

minutas de la reunión de política monetaria de ayer, que se darán a conocer en una semana, vemos más probable que el COPOM decida una subida final de 25pb en su próxima reunión de febrero.

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