

## Brazil | Copom in wait-and-see mode

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Even though inflation forecasts were revised upwards, the tone of the monetary policy minutes was not hawkish. The Copom refrained from signalling that either a tightening or an easing of monetary conditions is imminent. Hence, the minutes reinforced the view that the Selic rate will remain unchanged for some further time (until the end of 2016, in our opinion).

### A somewhat more dovish tone in spite of higher inflation forecasts

Monetary authority's inflation forecasts for both 2016 and 2017 were revised upwards. In both the baseline and the alternative scenarios, forecasts continue to show that inflation will remain above the 4.5% target until the end of 2017 (in January, but not now, the forecast for inflation at the end of 2017 was "slightly above the 4.5% target"; precise figures will be released by the 1Q16 Inflation Report at the end of March). However, in spite of such upward revisions, the tone and the wording of the minutes of [last week's monetary policy meeting](#) did not suggest that the Copom is now more concerned with inflation. In fact, they rather suggested the contrary. Some hawkish statements used in the previous minutes were eliminated this time (such as the reference to an "unfavorable balance of risks" or the affirmation saying that both "determination and perseverance" were needed to fight inflationary pressure). Moreover, "a more deflationary output gap than expected" was introduced as one of the factors cited as important for future monetary decisions. Moreover, an explicit reference to the behavior of "current inflation" as a source of uncertainty was added, suggesting that it could have a more important role on monetary decisions going forward, which is a dovish sign given that inflation will likely ease in the remainder of the year.

### All in all, the minutes reinforced the view of stable interest rate for some further time

As in January, monetary policy minutes released today highlighted that most of its members considered that "domestic and mainly external uncertainties justify to continue monitoring the evolution of the macroeconomic scenario to then define the next steps of the monetary policy strategy". Therefore, the Copom will likely maintain a wait-and-see stance for some time, before altering its plan of leaving interest rates unchanged for a while. All in all, we continue to expect the Selic rate to remain at 14.25% until the end of 2016. Anyway, the monetary policy communication will likely become gradually more dovish [as inflation trends downward from now on](#).

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