Brazil | Changes in the BCB board, rather than interest rate cuts, are on sight

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The minutes of the previous monetary policy meeting showed that although concerns on inflation are declining, there is still no room for a monetary easing. We do not expect the Selic to be cut soon, but uncertainty is higher than usual as the vice-president Temer will likely assume presidential duties next week and a change in the command of the BCB is possible.

Lower concerns about inflation…

Today the minutes of last week's monetary policy meeting were released. As expected, they revealed that the Monetary Policy Committee (Copom) is now somewhat less concerned about inflation than it was in the recent past. Precisely, progress in the fighting against inflation was highlighted in some parts of the document ("The Committee acknowledges advances in the fight against inflation, especially in restraining second order effects of the adjustments in relative prices"). Moreover, the positive effect in inflation of the ongoing deceleration in labor markets was explicitly noted. In the same line, baseline inflation forecasts were revised downwards by the monetary authority. They now show that although inflation will remain above the 4.5% target this year, it will converge to that level by the end of 2017 (a view that we at BBVA Research share). Anyway, in spite of the more dovish tone of the minutes, they explicitly showed that a monetary easing is not yet an option ("...high annual inflation and inflation expectations distant from targets do not offer room for the easing of monetary policy" and "...the central scenario does not allow [the Copom] to work with the hypothesis of easing monetary conditions"). Finally, it is worth to mention that the Copom revealed to be more worried than before about the fiscal situation. In particular, it now regards fiscal policy as expansive, rather than as neutral as in the previous minutes.

… do not imply that the beginning of a monetary easing cycle is imminent

The monetary policy minutes brought no big news. They supported our view that a monetary easing should not be expected in the short-run. However, uncertainty regarding future monetary policy is now higher than usual as next week the Senate will likely accept to analyze the impeachment case, meaning that President Dilma Rousseff will likely have to step down for 180 days and Vice-President Michel Temer will assume presidential duties. In that case, he could decide to appoint a new president for the Central Bank of Brazil (BCB). Although a change in the command of the institution would likely be a hawkish event, there also exists the possibility that the new administration decides to formally concede independence to the monetary authority, which could help inflation expectations to ease and create some room for a monetary easing already this year.