

Brazil | More dovish monetary policy minutes, but the tightening cycle is not over yet

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The monetary policy minutes revealed that the COPOM sees a deterioration in the risks for inflation in 2015 and believes that the measures adopted up to now are insufficient to take inflation to 4.5% in 2016, signalling that the tightening cycle is not over. However, they showed that the COPOM is more optimistic on 2016 inflation, supporting the view of a 25bp hike in April.

Higher inflation forecasts for 2015, and lower for 2016

The Monetary Policy Committee (COPOM) acknowledged that the sharp adjustment in administered prices as well as the exchange rate depreciation process are adding to the inflationary pressures in 2015.

Accordingly, it revised its inflation forecasts for 2015 (the precise figures were not released). In spite of the signs of augmented concern regarding shortterm inflation, the minutes released today are, in our view, more dovish than the previous ones. The monetary authority revealed a more negative tone regarding economic activity. Moreover, inflation forecasts for 2016 were revised downward, in line with its claim that "the scenario of convergence of inflation to 4.5% in 2016 has strengthened". Even though we do not share this view with the COPOM (we continue to think that inflation will be at 5.5% in the end of 2016, after closing 2015 at 6.9%), we take it, together with the overall tone of the minutes, as a support to our view that the SELIC will be adjusted by 25bp to 13.0% in April and will then remain unchanged at this level until the beginning of 2016. Anyway, given the current abnormal pressures over inflation (which now stands at 7.8%), we will not be surprised if the monetary authority once more decides to surprise and implement a sharper tightening ahead.

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