

Brazil | Another 50bp hike in the SELIC to rein in 2016 inflation expectations

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The Monetary Policy Committee (COPOM) decided to adjust up the SELIC rate by 50bp, as in its three previous meetings. By maintaining the adjustment pace unchanged in spite of the signs of sharp deceleration in economic activity, the monetary authority tries to convince markets that it will be able to make inflation to converge to 4.5% at the end of 2016.

The accompanying statement provided no hints about the end of the current tightening cycle

The COPOM remained strictly focused on inflation and delivered another 50bp hike in the SELIC rate, in line with market expectations, rather than taking more into account both the economic activity slowdown and the sharp exchange rate appreciation in the last few weeks and reducing the adjustment pace to 25bp as we expected. The communique released yesterday at the end of the day in Brazil by the monetary policy was similar to the previous ones: "Taking into account the macroeconomic scenario and the inflation outlook, the COPOM decided unanimously to increase the SELIC rate by 0.50 p.p. to 13.25% a year, without a bias." Therefore, it refrained from signaling that the ongoing tightening cycle is over or close to its end. Yesterday's decision to increase the SELIC by 50bp, the accompanying statement as well as recent communication from BCB officials suggest that the monetary authority is committed to take 2016 inflation down to the 4.5% target (our 5.5% forecast coincides with the market consensus and is higher than the 4.9% BCB forecast released when the SELIC was at 12.75%). Therefore, we should not be surprised by another SELIC hike in the COPOM's next meeting in June.