Brazil | We expect another SELIC hike in June

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The minutes of last week's monetary policy meeting suggest that the tightening cycle is not over yet. According to the COPOM, the efforts to drive inflation down to 4.5% by the end of 2016 are "still not sufficient" and therefore monetary policy must remain "vigilant". We take today's minutes as a sign that the SELIC will be adjusted by 50bp to 13.75% in June.

Inflation forecasts for the end of 2016 remain broadly unchanged, above the 4.5% target

In the Monetary Policy Committe (COPOM)'s baseline scenario, in which both the SELIC and the exchange rate are left constant at the levels observed right before last week's meeting (i.e. 12.75% and R$3.0, respectively), the inflation forecast for the end of 2016 remained unchanged, therefore remaining above the 4.5% target (probably around 4.9%, the last figure released by the monetary authority in its 1Q15 inflation report). In the market alternative scenario, which takes into account markets forecasts for the explanatory variables, the forecast for the end of the next year is now higher than before. Therefore, inflation forecasts for the end of 2016 (the monetary policy's relevant period, as highlighted in today's minutes) were not revised downward in spite of the recent monetary tightening probably due to the impact of both the exchange rate depreciation and the pressure from administered prices. In addition, the minutes reveal that the COPOM is avoiding showing a more hawkish tone regarding growth in spite of the further signs of activity deterioration. Finally, the monetary authority not only repeated the message that the efforts to take inflation down to 4.5% by the end of 2016 are "still not sufficient" but it also added that monetary policy has to remain vigilant, which according to the COPOM's vocabulary suggests that a further tightening should be expected. Therefore, taking into account the hawkish tone of today's minutes, we now expect another 50bp adjustment of the SELIC rate to 13.75% in the next monetary policy meeting on June 2, which will likely be the last one given the already significant magnitude of the ongoing monetary tightening (600bp since March 2013 and 225bp in the last 12 months) and economic activity's increasing weakness.