

Latam Daily: Brazil's Rate Hike, as Expected

- **Brazil:** The market expects, the BCB delivers

BRAZIL: THE MARKET EXPECTS, THE BCB DELIVERS

The BCB's COPOM **delivered** the 100 bps hike that the consensus anticipated (there were economists anticipating 100 bps, 125 bps and even 150 bps hikes, but the mean estimate was +100 bps), in a unanimous decision that drove the SELIC rate to 6.25%. The new external risk elements highlighted by the committee were mounting risks of a slowdown in Asia (with China at its core), and at the same time tightening monetary conditions in other LATAM countries, which can affect Brazil's relative monetary conditions. Overall, the Board seemed to see the reopening of major economies on the aftermath as the dominant global item, but with growing tails around it.

On the domestic front, the BCB sees a continued recovery of the economy, with the second half of the year showing an even firmer rebound. On the inflation front, the BCB highlighted the continued pressures from the supply side, growing inflationary pressure driven by the service sector recovery, as well as shocks coming from adverse climate for agriculture all pushing inflation higher—although some of these shocks are correctly described as temporary. Regarding expectations, the BCB's focus survey has 8.3% for 2021, 4.1% for 2022 and 3.25% for 2023, suggesting a strong current price spike, followed by a slow convergence to target in the policy horizon.

The baseline scenario for the Selic contemplates rates at 8.25% by year-end, with a ceiling of 8.50% reached by 2022, to subsequently start falling to 6.25% in 2023. But with the committee still seeing important two-sided risks to its baseline. The BCB signaled that for its next meeting, another 100bps hike seems appropriate given recent variables, with the SELIC's ceiling being 8.50%. On the other hand, DI rates are currently pricing a ceiling of 9.50%, mid-way through 2022.

—Eduardo Suárez

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