

Copom Minutes

21 June 2022

Central Bank confirms further hike

Central Bank views

Global scenario: the global environment has deteriorated further. Inflationary pressures are making market revise down global growth. The tighter financial conditions and the higher risk aversion are generating uncertainty and volatility, specially in EM economies;

Economic activity: the set of indicators released since the previous Copom meeting suggests a better-than-expected economic growth;

Inflation: Consumer inflation continued to surprise negatively. These surprises occurred both in the more volatile components and on the items associated with core inflation.

CB inflation model results in inflation of 8.8%, 4.0% and 2.7%, respectively for 2022, 2023 and 2024. In such reference scenario, Copom considers the Selic from the Focus survey, FX rates starting at 4.90 and moving by the Purchasing Power Parity (PPP), oil prices ending this year at USD100/barrel and energy flag at yellow by the end of 2022, 2023 and 2024.

Upward risks to inflation come from: (i) greater persistence of global inflationary pressures; and (ii) an increase in the risk premium due to the fiscal uncertainties. Factors that could lead to lower-than-expected inflation are: (i) a possible reversion, even if partial, of the increase in the price of international commodities measured in local currency; and (ii) a greater-than-projected deceleration of economic activity.

The discussion of tax exemptions or reduction on fuels, electricity and telecommunications are not included in the baseline scenario. However, if approved, the monetary authority considers it significantly reduces the current inflation, but it raises in smaller magnitude inflation in the relevant horizon.

Monetary policy: For the next meeting in August, Copom foresees as likely an extension of the cycle, with an adjustment of the same magnitude or lower. Copom stresses that the heightened uncertainty of the current scenario, the advanced stage of the current monetary policy cycle, and its impacts yet to be observed require additional caution in its action

Given its inflation projections and the risk of deanchoring the long-term expectations, it is appropriate to continue advancing in the process of monetary tightening significantly into even more restrictive territory. Copom emphasizes that it will persist in its strategy until the disinflation process consolidates and anchors expectations around its targets.

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Our expectation

The minutes came in line with the communiqué. The Central Bank reinforced the uncertainty surrounding the inflation scenario and his focus to bring 2023 inflation forecast to around the 3.25% target. The model of the Central Bank points to 4%, although market estimates are around 4.6%. The monetary authority reinforced that it is necessary two actions to guarantee this convergence: to hike further the Selic rate and to keep the rates in the contractionary territory for a longer period. We keep with our scenario of a final hike of 25bps to 13.50% in August and its maintenance at this level for at least until the end of de first semester 2023. As pointed out by the Central Bank, we don't rule out a 50bps hike to 13.75%.

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