

Copom raises Selic rate to 4.25% p.a., indicating complete normalization

Overview

- **The Brazilian Monetary Policy Committee (Copom) raised the rate to 4.25% p.a., indicating a process of complete normalization.** The committee recognized the resilience of Brazil's economy amidst the second wave of the pandemic, as well as the fact that lingering inflationary pressure has lasted longer than expected. Based on the monetary authority's model, IPCA forecasts rose from 5.1% to 5.8% this year, and 3.4% to 3.5% in 2022, considering a Selic rate extracted from the Focus survey of 6.25% and 6.50% p.a., respectively, by the end of 2021 and 2022. For the next meeting, the Central Bank of Brazil indicated another hike of 0.75% p.p., maintaining the possibility of a "more timely" reduction of monetary stimuli in case of worsened inflation expectations, which in our view could be an adjustment of 1.0 p.p. For now, however, we still expect a 0.75-p.p. adjustment in August, with the Selic rate reaching 5.00 p.a. In our opinion, this adjustment pace matches interest normalization and sets a proper course through the different shocks the country endured, without excessively raising the monetary policy's volatility. In this context, our interest rate forecast at 6.50% p.a. in late 2022 could be pushed up to this year.
- **Brazilian economy remains resilient in the second quarter.** According to the Central Bank, the IBC-BR – the GDP's monthly proxy – rose 0.4% between March and April. Such positive result matches IBGE surveys, which pointed to an upturn in retail and the service segment. On the other hand, industry underperformed in the period, largely reflecting the shortage of supplies in the sector. Nonetheless, current indicators suggest that the replenishment of inventories in the sector has been gradually growing, which is compatible with a growth in industrial output over the next few months.
- **Overseas, the Federal Reserve confirmed an improvement in the economic scenario and showed greater concern with inflation.** As expected, the Fed changed its monetary policy, keeping the benchmark interest rate unchanged, as well as asset purchase programs. Members still believe the recent upsurge in inflation is temporary. Therefore, despite the confirmed progress in activity and employment, the FOMC still believes the economy requires monetary support. Nevertheless, there was a relevant indication through the economic forecasts released along with the statement. Most members now expect an interest rate hike in 2023, anticipating the beginning of the growth cycle compared to the last statement, in which most members only expected the cycle to begin in 2024.
- **China's economic data from May indicate that the economic growth peak is now behind.** For now, external demand has still supported the industry and exports, but the recovery in internal demand is still underwhelming. In addition, the Chinese government announced measures to control the speculation of input prices. Within this scenario, considering the loss of momentum in the country's housing sector and the harsher signals coming from the Fed, commodity prices dropped this week.

The week ahead

- **Copom minutes, Inflation Report and IPCA-15 are the week's highlights.** On Tuesday and Thursday, the Central Bank may reveal more details about its base scenario and risks for monetary policy by releasing the minutes of its latest meeting and the Inflation Report. On Friday, the IBGE releases the IPCA-15 for June.
- **Overseas, interest-rate decisions in the United Kingdom and preliminary PMI indexes in the U.S. and Europe for June are the week's highlights.**

| Time | Country | Event | Forecast (Bloomberg) | Forecast (Depec) |
|------------------------|----------------|--|----------------------|------------------|
| Monday 06/21 | | | | |
| 08:25 | Brazil | BCB: Focus Survey | | |
| 15:00 | Brazil | Secex: Trade Balance (weekly) | | |
| Tuesday 06/22 | | | | |
| 08:00 | Brazil | BCB: Copom minutes | | |
| Wednesday 06/23 | | | | |
| 08:00 | Brazil | FGV: Consumer Price Index (IPC-S) (weekly) | | |
| 14:30 | Brazil | BCB: Currency Flows (weekly) | | |
| 04:30 | Germany | Markit: Manufacturing PMI (Jun - P) | 64.2 | |
| 04:30 | Germany | Markit: Composite PMI (Jun - P) | | |
| 05:00 | Eurozone | Markit: Composite PMI (Jun - P) | | |
| 05:00 | Eurozone | Markit: Manufacturing PMI (Jun - P) | | |
| 05:30 | United Kingdom | Markit: Manufacturing PMI (Jun - P) | | |
| 05:30 | United Kingdom | Markit: Composite PMI (Jun - P) | | |
| 16:00 | Argentina | GDP (1Q - F) | | |
| Thursday 06/24 | | | | |
| 08:00 | Brazil | FGV: Consumer Confidence (Jun) | | |
| 08:00 | Brazil | BCB: Inflation report | | |
| 05:00 | Germany | IFO Business Climate (Jun) | 100.0 | |
| 08:00 | United Kingdom | Central bank meeting | | |
| 09:30 | USA | GDP (1Q - F) | 6.4% (QoQ) | |
| 09:30 | USA | Initial Jobless Claims (weekly) | | |
| 15:00 | Mexico | Central bank meeting | | |
| Friday 06/25 | | | | |
| 05:00 | Brazil | FIPE: Consumer Price Index (weekly) | | |
| 08:00 | Brazil | FGV: Construction Costs (Jun) | | |
| 08:00 | Brazil | FGV: Construction Confidence (Jun) | | |
| 09:00 | Brazil | IBGE: Consumer Price Index (IPCA-15) (Jun) | | |
| 09:30 | Brazil | BCB: Current Account Balance (May) | | |
| - | Brazil | Aneel: Electricity tariff range (Jul) | | |
| 09:30 | USA | Personal Income (May) | -2.9% (MoM) | |
| 09:30 | USA | Personal Spending (May) | 0.3% (MoM) | |
| 11:00 | USA | University of Michigan Sentiment (Jun - F) | 86.8 | |
| During the week | | | | |
| - | Brazil | Tax Collections (May) | | |

| | 2019 | 2020 | 2021 | 2022 |
|--|-------|--------|------|-------|
| GDP growth (%) | 1,4 | -4,1 | 4,8 | 2,0 |
| Consumer inflation - IPCA (%) | 4,3 | 4,5 | 5,5 | 3,5 |
| Wholesale inflation - IGP-M (%) | 7,3 | 23,1 | 18,8 | 4,1 |
| Selic Rate (% eop) | 4,50 | 2,00 | 5,75 | 6,50 |
| Exchange Rate (BRL/USD, eop) | 4,03 | 5,20 | 5,10 | 5,60 |
| Industrial Production (%) | -1,1 | -4,5 | 6,0 | 1,9 |
| Retail Sales (%) | 3,9 | -1,5 | 6,3 | 3,6 |
| Job Creation (in thousands) | 1816 | -6619 | 2615 | 898 |
| Unemployment Rate (% of labor force, avg) | 11,9 | 13,2 | 14,0 | 13,0 |
| Outstanding Credit Growth (%) | 6,5 | 15,6 | 10,5 | 9,2 |
| Trade Balance (USD bn) | 40,5 | 43,2 | 74,4 | 60,0 |
| Current Account (USD bn) | -50,7 | -12,5 | 8,6 | -16,7 |
| Primary Balance (BRL bn) | -61,9 | -703,0 | -198 | -157 |
| Gross Debt (% of GDP) | 74,3 | 88,8 | 84,6 | 86,3 |

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