

Copom minutes and Inflation Report reinforce Selic rate at neutral level

Overview

- **The Central Bank's communication reinforced its intention to bring the Selic rate to a neutral level.** The minutes from the last Copom meeting acknowledged the recent positive surprises in economic activity, highlighting a significant reduction in the risks for economic recovery. At the same time, it drew attention to inflationary pressures, mainly on industrial goods, which have been more persistent than expected (but also recalled that this upswing could be reversed in the future). Accordingly, it revised its inflation and GDP growth forecasts for this year in the Quarterly Inflation Report, released on Thursday, from 5.0% to 5.8% and from 3.6% to 4.6%, respectively. The 2022 IPCA estimate remained on par with the target, while that for 2023 was revised from 3.5% to 3.3%.
- **In light of this assessment, the board classified the normalization of monetary policy to a neutral level as appropriate, signaling subsequent interest rate hikes up to this level.** The discussion of adopting a more timely reduction of stimuli was made clear at this last meeting, but the Committee opted to maintain the rate of interest rate hikes. However, an acceleration of the degree of monetary adjustment is possible for the next meeting, conditioned on the behavior of inflation expectations (following the Focus survey and the implicit inflation levels in market prices) and the evolution of more inertial prices. In our assessment, the flow of data – considering economic activity, exchange rate, commodity prices and expectations – will determine the increase pace in August. For now, our interest rate forecast reaching 6.50% p.a. in late 2022 should be pushed up to this year.
- **The behavior of inflation, as well as its determinants, will remain decisive for the magnitude of the Copom's next moves.** The June IPCA-15 climbed 0.83%, falling slightly short of expectations, the price dynamics having been caused by the pressure of industrial goods and the acceleration of services, reflecting the pass-through of the supply shock and the reopening of the economy, respectively. Going forward, we expect some relief in inflation rates – both wholesale and for the consumer – bearing in mind the effect of the recent appreciation of the Brazilian real, a trend that should persist in the coming months.
- **Monetary policy was also highlighted on the international stage, with statements by the Fed chairman reducing concerns about an early start to monetary policy normalization.** In his speech, Jerome Powell stated that the Federal Reserve will not conduct preventive interest rate hikes, opting to wait for inflation to actually rise to start an upward cycle, in addition to awaiting the reactions of economic activity. According to him, the full employment target would not allow an early hike in interest rates and the recovery of the U.S. economy still has a long road ahead.

The week ahead

- **Initial economic data for May will be the focus of the domestic agenda next week.** After a positive surprise with GDP performance in the first quarter, the May data should confirm the perception of a still resilient economy in the second quarter. The formal job creation figures of the CAGED will be published on Monday and the IBGE will release the industrial production results for the last month on Friday. Credit and fiscal policy data, also for May, will be released throughout the week.
- **The focal point abroad will be the Friday announcement of U.S. job creation in June.** Given the doubts regarding the timing of the start of monetary normalization by the Fed, the payroll data has been, along with inflation, the main indicator to guide market movement in recent months.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 06/28				
08:00	Brazil	FGV: Industrial Confidence (Jun)		
08:25	Brazil	BCB: Focus Survey		
09:30	Brazil	BCB: Press Release - Monetary Policy		14.5% (YoY)
-	Brazil	Caged: Formal Job Creation Total (May)	360k	300k
-	Brazil	Federal Debt Total (May)		
Tuesday 06/29				
08:00	Brazil	FGV: IGP-M (Jun)		
08:00	Brazil	FGV: Services Confidence (Jun)		
08:00	Brazil	FGV: Retail Confidence (Jun)		
09:00	Brazil	IBGE: PPI Manufacturing (May)		
14:30	Brazil	Central Govt Budget Balance (May)	-R\$ 30.4 bn	-R\$ 22.5 bn
09:00	Germany	CPI (Jun - P)		
11:00	USA	Consumer Confidence (Jun)	118.5	
22:00	China	Manufacturing PMI (Jun)	51	
Wednesday 06/30				
09:00	Brazil	IBGE: Unemployment Change (Apr)	15.0%	14.6%
09:30	Brazil	BCB: Press Release - Fiscal Policy (May)		-R\$ 19.0 bn
14:30	Brazil	BCB: Currency Flows (weekly)		
03:00	United Kingdom	GDP (1Q - F)	-6.1% (YoY)	
06:00	Eurozone	CPI (Jun - P)		
09:15	USA	Employment Change (ADP) (Jun)	495k	
Thursday 07/01				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
10:00	Brazil	Markit: PMI Manufacturing (Jun)		
15:00	Brazil	Secex: Trade Balance - monthly (Jun)		US\$ 11.0 bn
04:55	Germany	Markit: Manufacturing PMI (Jun - F)		
05:00	Eurozone	Markit: Manufacturing PMI (Jun - F)		
05:30	United Kingdom	Markit: Manufacturing PMI (Jun - F)		
09:30	USA	Initial Jobless Claims - Weekly		
11:00	USA	ISM Manufacturing (Jun)	61	
Friday 07/02				
05:00	Brazil	FIPE: Consumer Price Index - monthly (Jun)	0.7% (MoM)	
09:00	Brazil	IBGE: Industrial Production (PIM) (May)		1.5% (MoM)
09:30	USA	Change in Nonfarm Payrolls (Jun)	695k	
09:30	USA	Unemployment Rate (Jun)	5.7%	
During the week				
-	Brazil	Fenabreve: Vehicle sales (Jun)		
-	Brazil	Tax Collections (May)	R\$ 136.1 bn	R\$ 140.0 bn

	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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