

## Copom signals additional hikes

### Overview

- **The Central Bank raised the Selic rate to 6.25% and signaled that it is appropriate to bring interest rates to the contractionary level.** The Monetary Policy Committee (Copom) raised the economy's benchmark rate by 100bps, maintaining the pace of monetary tightening from the last meeting. In its statement, the committee pointed out that inflation remains high with increased prices for industrial goods, services, and more volatile components (fuel, electricity, and food), reflecting factors such as the exchange rate, commodities, and unfavorable weather. Under the CB's inflation forecasting model, the inflation projections reach 8.5% in 2021, 3.7% in 2022 and 3.2% in 2023, assuming a Selic policy rate of 8.25% at the end of 2021, 8.50% in 2022 and 6.75% in 2023. The Copom also considers that the current adjustment pace (100bps per meeting) is the most appropriate to ensure the convergence of inflation to the target and also to allow the Central Bank to "gain time" to more accurately assess the state of the economy and the persistence of inflation shocks. Along these lines, Copom signaled another hike of the same magnitude for the next meeting and reinforced the message that policy will shift towards a contractionary level. Thus, our forecast for the Selic rate of 7.50% at the end of this year should be reassessed in our monthly scenario review.
- **September's IPCA-15 rose 1.14%, configuring itself as yet another upward surprise, which reinforces the scenario of inflation under pressure in the short term.** The result came in stronger than expected. The index was driven by higher prices for food at home, as extreme weather events had an impact on fresh produce supplies, and by rising regulated prices, reflecting the higher electricity bills and fuels (increase in ethanol pressuring gasoline prices). Additionally, core inflation continued to show unfavorable dynamics, with the persistence of pressure on industrial goods and services (the latter reflecting the reopening of the economy).
- **Abroad, the Fed acknowledged continued progress towards their objectives and signaled the beginning of stimulus withdrawal in November.** As expected, the FOMC made no changes to monetary policy, keeping the benchmark interest rate and asset purchase programs unchanged. In assessing economic conditions, the committee expects inflation to remain under pressure in the short term and pointed out that slower growth was mostly driven by the worsening of the pandemic due to the delta variant. In the interview following the decision, Chair Powell said that if progress toward the Fed's objectives is met, tapering could start as early as after the November FOMC meeting, and could be completed by mid-next year. Other discussions regarding monetary policy, on the other hand, will be left for after tapering is completed.

### The week ahead

- **Highlights in the domestic calendar include the release of important Central Bank documents on monetary policy as well economic activity and wholesale inflation data.** On Tuesday and Thursday, the Central Bank will release the minutes of the recent Copom meeting and the Quarterly Inflation Report, respectively. These publications will likely provide a clearer picture regarding the next steps of monetary policy. We will also have the release of the Caged (August) and Pnad (July) employment data, which should continue to show signs of improving job market conditions. Finally, the September IGP-M will likely show deflation on the back of falling iron ore prices.
- **Abroad, the U.S. will publish Income and Personal Consumption Expenditures data on Friday.** Markets will also watch out for September PMI data in Europe and China during the week.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 09/27</b>				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:00	Brazil	FGV: Construction Costs (Sep)	0.42% (MoM)	
08:00	Brazil	FGV: Construction Confidence (Sep)		
08:25	Brazil	BCB: Focus Survey (weekly)		
09:30	Brazil	BCB: Press Release - Monetary Policy (Aug)		15.8% (YoY)
-	Brazil	Federal Debt Total (Aug)		
-	Brazil	CNI: Construction Confidence (Aug)		
<b>Tuesday 09/28</b>				
08:00	Brazil	FGV: Industrial Confidence (Sep)		
08:00	Brazil	BCB: Copom minutes		
14:30	Brazil	Central Govt Budget Balance (Aug)	-R\$ 24.8 bn	-R\$ 10.4 bn
-	Brazil	Caged: Formal Job Creation Total (Aug)	340k	320k
11:00	USA	Consumer Confidence (Sep)	115.0	
<b>Wednesday 09/29</b>				
08:00	Brazil	FGV: IGP-M (Sep)	-0.59% (MoM)	-0.42% (MoM)
08:00	Brazil	FGV: Services Confidence (Sep)		
08:00	Brazil	FGV: Retail Confidence (Sep)		
09:00	Brazil	IBGE: PPI (Aug)		
09:30	Brazil	BCB: Press Release - Fiscal Policy (Aug)		
14:30	Brazil	BCB: Currency Flows (weekly)		
22:00	China	Manufacturing PMI (Sep)		
<b>Thursday 09/30</b>				
08:00	Brazil	BCB: Inflation report		
09:00	Brazil	IBGE: Unemployment Change (Jul)	13.8%	13.7%
03:00	United Kingdom	GDP (2Q - F)		
09:00	Germany	CPI (Sep - P)		
09:30	USA	Initial Jobless Claims - Weekly		
09:30	USA	GDP (2Q - F)	6.8% (QoQ)	
15:00	Colombia	Central bank meeting	2.00%	2.00%
15:00	Mexico	Central bank meeting	4.75%	4.75%
<b>Friday 10/01</b>				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
10:00	Brazil	Markit: PMI Manufacturing (Sep)		
15:00	Brazil	Secex: Trade Balance - monthly (Sep)	US\$ 5.1 bn	
-	Brazil	Fenabreve: Vehicle sales (Sep)		
05:00	Eurozone	Markit: Manufacturing PMI (Sep - F)		
05:30	United Kingdom	Markit: Manufacturing PMI (Sep - F)		
06:00	Eurozone	CPI (Sep - P)		
09:30	USA	Personal Spending (Aug)	0.6% (MoM)	
09:30	USA	Personal Income (Aug)	0.2% (MoM)	
11:00	USA	University of Michigan Sentiment (Sep - F)	71.0	
11:00	USA	ISM Manufacturing (Sep)	59.7	

	2019	2020	2021	2022
<b>GDP growth (%)</b>	1.4	-4.1	5.2	1.8
<b>Consumer inflation - IPCA (%)</b>	4.3	4.5	7.8	3.3
<b>Wholesale inflation - IGP-M (%)</b>	7.3	23.1	18.6	4.0
<b>Selic Rate (% eop)</b>	4.50	2.00	7.50	7.50
<b>Exchange Rate (BRL/USD, eop)</b>	4.03	5.20	5.00	5.50
<b>Industrial Production (%)</b>	-1.1	-4.5	5.4	1.5
<b>Retail Sales (%)</b>	3.9	-1.5	6.0	3.6
<b>Job Creation (in thousands)</b>	1816	-8373	5601	2753
<b>Unemployment Rate (% of labor force, avg)</b>	11.9	13.2	13.8	12.4
<b>Outstanding Credit Growth (%)</b>	6.5	15.6	12.0	9.3
<b>Trade Balance (USD bn)</b>	40.5	43.2	71.4	83.0
<b>Current Account (USD bn)</b>	-50.7	-12.5	9.0	10.9
<b>Primary Balance (BRL bn)</b>	-61.9	-703.0	-110	-102
<b>Gross Debt (% of GDP)</b>	74.3	88.8	81.5	83.2

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