MNI Brazil Central Bank Review: July 2025

MNI Point of View:

The Copom unanimously decided to keep the Selic rate unchanged at 15.00%. The statement noted that heightened uncertainty requires a cautious stance, with hawkish guidance for the most part unchanged compared to June. Analysts expect the Copom to remain on hold until late-2025 at the very least, with most forecasting the start of the easing cycle in early-2026 but a minority still seeing scope for a rate cut before year-end.

The Copom statement retained a hawkish bias, describing its decision as “a continuation of the interruption of the rate hiking cycle” which provides it with time to evaluate whether the current interest rate level – assuming it remains stable for a “very prolonged period” – will be enough to ensure the convergence of inflation to target. While the Copom stated that it "will not hesitate to resume the rate-hiking cycle if appropriate," the use of the word "interruption" instead of "pause" suggests an end to the cycle, implying that, after holding rates steady for a while, the most likely next move would be a cut rather than a hike.

This month’s rate decision was partly overshadowed by US President Trump signing an executive order delaying 50% of tariffs (10% previously announced and an additional 40% announced more recently) on Brazilian exports to the US by one week, now set to be implemented from August 6. The order removed a number of items from the tariff list, such as orange juice, iron ore, oil products, and civil aircraft/parts, and is expected to provide relief to the real.

Copom’s conditional inflation forecasts for the first quarter of 2027 at 3.6% – now considered the relevant horizon for monetary policy – did not improve and remain above the 3% target (but within the 1.5 percentage point tolerance range) and more optimistic than market expectations of 4.00% for next year. The statement flagged that risks to the inflation scenarios, both to the upside and to the downside, “continue to be higher than usual”.

The Committee noted that it “has been closely monitoring the announcements on tariffs by the USA to Brazil, which reinforces its cautious stance in a scenario of heightened uncertainty.” The global environment is assessed to have become “more adverse and uncertain”

Following this month’s decision, most analysts continue to believe that the tightening cycle has now come to an end, but that the central bank will probably keep the Selic rate unchanged until late-2025/early-2026, before cutting.

Link to the full statement here: https://www.bcb.gov.br/en/pressdetail/2622/nota

Notable Dates:

- **Aug 5** – Copom Minutes
- **Aug 12** – July IPCA Inflation Data
- **Aug 18** – June Economic Activity Data
- **Sep 10** – August IPCA Inflation Data
- **Sep 15** – July Economic Activity Data
- **Sep 17** – Next Copom Meeting

Analyst Views (Alphabetical Order)

Commerzbank: Do Not Believe Further Hikes are Necessary

- Commerzbank note that the accompanying statement reflected the bank's continued hawkish stance and was largely unchanged. However, it emphasised the elevated inflation expectations and the bank's willingness to resume interest rate hikes if necessary. While Commerzbank do not believe further rate rises are necessary, the central bank's vigilant stance is supportive for the real.
- They note that tariff exemptions for some goods are a great relief for the real, which somewhat cushions the disillusionment over the extremely high tariffs and political interference. However, uncertainty remains high and negotiations on a more comprehensive agreement are likely to continue in the coming days.

Goldman Sachs: Window to Cut May Open Late in 2025

- In Goldman Sachs' assessment, the window to cut may tentatively open late in 2025 given that at that time the relevant horizon for monetary policy will extend through 2Q27, but the Copom seems ready to be very patient and hold resolutely until possibly 1H2026, in particular if we do not see tangible convergence of inflation expectations to the target.
- Goldman note that the policy statement remained conservative: focused on driving inflation to the target and preventing the market from prematurely pricing rate cuts. In fact, the Copom remains ready to hold the policy rate at a significantly restrictive level for as long as it takes and open to do more, if needed, though in GS' assessment the bar to resume hiking in the near term is very high absent large negative shocks to inflation.

JP Morgan: Expect Selic Rate to Remain on Hold Until December

- JP Morgan continue to anticipate that the BCB will maintain rates at 15% over the next meetings, initiating a rate-cutting cycle in December with an initial 25bps reduction, followed by consecutive 50bp cuts until the Selic rate reaches 10.75% by the end of next year.
- They note that, as expected, the statement accompanying the decision was largely unchanged, avoiding any unnecessary noise. One of the most notable adjustments was the characterisation of the decision as a continued pause, and the BCB kept its CPI projections unchanged, at the top of the range of JPM's estimates.

SocGen: Expect Next Move to Be a Rate Cut, But No Urgency to Discuss This at Present

- Despite the hawkish pause, SocGen do not expect the BCB to raise rates further in this cycle. They say the next move is still likely to be a rate cut, although, as the statement indicates, there is no urgency to discuss this at present.
- With ex-ante real rates in double digits, a slowing economy, a stabilizing BRL, and moderating – though still de-anchored – inflation expectations, it was logical for Copom to remain on hold, SocGen say.