

MNI Brazil Central Bank Preview: January 2026

Monetary policy decision and Copom statement release: 2130GMT / 1630ET, Wednesday January 28, 2026

MNI POV: Guidance May Open Door To March Cut

The Copom is expected to leave the Selic rate unchanged at 15.00% for a fifth successive meeting on Wednesday, as recent robust economic activity and services inflation data may keep the central bank cautious for now as it prepares to embark on an easing cycle. However, the very restrictive stance appears to be having the desired effect, with inflation and inflation expectations now on a gradual downward trend. This will keep focus on the forward guidance, and any signals that the Copom is opening the door to a potential rate cut at the subsequent meeting in March.

Removal of Tightening Reference Would Provide More Optionality

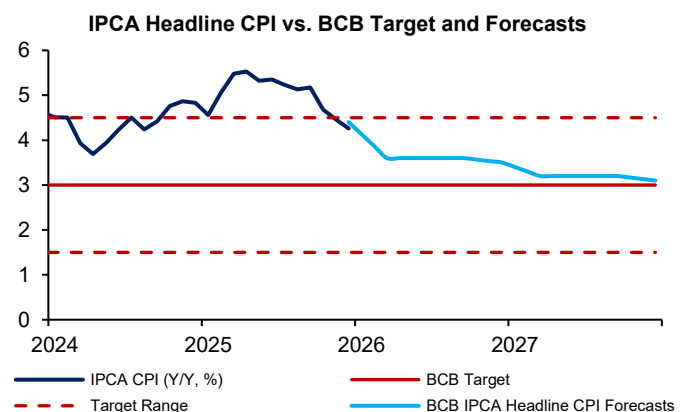
The macro picture has changed little since the last Copom meeting in December, with inflation and short-term inflation expectations declining slowly, but economic activity holding up relatively well despite the very restrictive monetary policy stance. With inflation expectations still unanchored above the 3% target, services inflation remaining elevated and the labour market surprisingly resilient, the Copom seems unlikely to abandon its cautious stance just yet as it prepares to embark on an easing cycle.

Attention will therefore remain on the policy statement, and whether the Copom continues to strike a hawkish tone, or whether it offers signs that it is considering a start to the easing cycle at the next meeting in March. Despite some evidence that the tight monetary policy stance is having the desired effect, the committee reiterated its high-for-long messaging last month, saying that “the present strategy of maintaining the interest rate at its current level for a very prolonged period is appropriate to ensure the convergence of inflation to the target”. Importantly, the committee also retained the tightening reference within the forward guidance, saying that it will remain vigilant and that “as usual” it will not hesitate to resume the hiking cycle if necessary. A removal of that tightening reference this week could provide immediate optionality to the committee.

Declining CPI Expectations Open Door to Imminent Easing Cycle

December IPCA inflation data confirmed that headline inflation ended the year within the BCB’s target range, as expected. However, an uptick in core price pressures has increased the likelihood that the BCB opts to wait a little longer before beginning its easing cycle. Headline inflation ended the year at a 16-month low of 4.26% y/y, marginally below the BCB’s 4.4% forecast from its December monetary policy report. According to that report, inflation is expected to remain above the 3% target until Q1 2028.

The improvement in December, was supported by a further moderation in food inflation. Within the core components, however, core services inflation edged higher, which will keep the Copom on guard given the continuing focus on the tight labour market. Meanwhile, upcoming IPCA-15 inflation data, which will be released just ahead of this week’s Copom meeting, are expected to show a small uptick in headline inflation in the first half of January on the back of higher food prices. Core inflation may also edge slightly higher too, putting it around the BCB’s target range ceiling, which would likely bolster expectations that the Copom will remain cautious for now.



Source: MNI/BCB/Bloomberg Finance L.P

Despite this potential uptick in the first half of this month, inflation still appears to be on a downward trend. Along with the continued slow moderation of short-term inflation expectations, this should give the Copom the confidence to start its easing cycle in the not-too-distant future. According to the BCB Focus survey of economists, inflation is now expected to end this year at 4.00%, down from 4.16% ahead of the previous Copom meeting in December. Meanwhile,

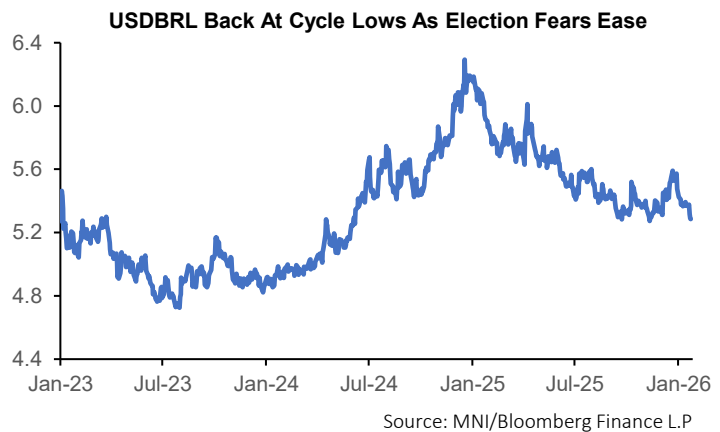
longer-term estimates have remained stable, with the end-2027 forecast holding at 3.80% and the end-2028 estimate at 3.50%.

The fact that these longer-term estimates remain above the 3% target may keep the Copom cautious for now. However, the clear decline in near-term estimates could open the door for the Copom to soften its tone and adopt a more data dependent stance ahead. Speaking to MNI recently, former deputy governor for international affairs Tony Volpon said that the BCB is waiting until it has sufficient conditions to show an inflation projection at the target in the relevant horizon that is credible. He expects the first cut to come in March, with the extent of the easing cycle dependent on the fiscal outlook and the new government that takes office after October elections. (See MNI Policy Team Insights below.)

Carry Dynamics Support BRL Despite Election Risks

The announcement of Flavio Bolsonaro’s candidacy for the presidential election last month put local assets under pressures initially, with a significant upward swing for the DI curve and rally in USDBRL to five-month highs as political uncertainty returned to the fore. Flavio’s appointment appears to have ended the prospects for an election run by Sao Paulo Governor Tarcisio de Freitas, who had been widely favoured by the market as a potential challenger to Lula. As sentiment stabilised, however, and pessimism around Flavio’s presidential bid dissipated, local assets rebounded, especially the IBOVSPA, which has rallied over 10% YTD, aided by optimism over the approaching easing cycle.

Carry dynamics and buoyant commodity prices have also continued to provide a key tailwind for the BRL, as with congress in recess, political noise has taken a back seat. After holding an important resistance point around 5.60, USDBRL has pulled back sharply this month, with the pair down almost 6% from December highs and trading close to cycle lows around 5.26. Although fiscal spending threats ahead of the election remain a medium-term risk for the real, recent reports that Finance Minister Haddad would like his Deputy, Dario Durigan, to succeed him when he leaves the post in the coming weeks, has eased concerns about fiscal policy continuity for now. In turn, this has aided the recovery in the real, which should help to contain inflation pressures in the near-term.



For USDBRL, a bearish theme remains intact, with sights on key support around those cycle lows around 5.26. Clearance of this level would expose 5.2000. On the upside, first resistance is at 5.3969, the 50-day EMA, followed by 5.6064, the December 22 high and bull trigger.

Tight Labour Market Still a Source of Concern

Robust November economic activity data earlier this month also reduce the need to the Copom to act at this juncture. Activity rebounded by a better-than-expected 0.7% m/m in November, on the back of gains in both the industrial and service sectors, lifting the annual rate of growth up to +1.25% y/y, from +0.65%. The data came after earlier retail sales figures for November also surprised to the upside, although both industrial production and services volume numbers disappointed expectations slightly. Meanwhile, latest labour market data continue to show resilience, with the national unemployment declining by a further 20bp to a fresh record low of 5.2% in November. Formal job creation figures also came in slightly above expectations, although the recent gradual downtrend still seems to be intact.

Overall, the latest data are still consistent with the view that the very restrictive monetary policy stance is slowly having the desired effect on the economy. Nonetheless, the slowdown in activity appears to be gradual, and the still tight labour market will remain a source of concern for policymakers. According to the latest BCB Focus survey, the economy is expected to grow by 1.80% this year, unchanged from estimates ahead of the December Copom meeting, and down from a projected 2.3% last year. 2027 GDP growth forecasts also sit at 1.80%. That same survey also shows that analysts still expect the Selic rate to fall to 12.25% by the end of this year and 10.50% by end-2027.

MNI Brazil Central Bank Data Watch List											
		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Inflation											
CPI	% y/y	4.3	5.2	↓	5.4	↓					-0.84
Core CPI	% m/m	0.4	0.2	↑	0.4	↑					1.34
Oil Price (WTI Active)	\$	61.07	61.36	↓	61.31	↑					-1.22
Economic Activity											
PMI Manufacturing	Index	47.6	46.5	↑	48.3	↓					-1.36
GDP	% q/q	0.1	-0.1	↑	0.8	↓					-0.86
Industrial Man Prod	% y/y	-1.2	-0.7	↓	3.4	↓					-0.83
Economic Activity IGAE	% y/y	1.25	0.36	↑	3.72	↓					-0.45
Monetary Analysis											
M2 Money Supply	% y/y	7251.1	7083.4	↑	6872.2	↑					1.61
Non-Fin Corp Credit	% y/y	180.6	174.6	↑	169.5	↑					1.05
Household Credit	% y/y	36.5	35.8	↑	34.6	↑					1.06
Consumer / Labour Market											
Retail Sales	% m/m	1.0	-0.1	↑	0.0	↑					0.52
Consumer Confidence (Q)	Index	90.2	87.5	↑	85.9	↑					1.53
Unemployment Rate	%	5.2	5.6	↓	6.2	↓					-1.22
Markets											
Ibovespa	Index	178,859	146,237	↑	138,855	↑					1.50
Jan 2034 DI Swap Rate	%	13.58	13.52	↑	13.27	↑					0.14

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg

Analyst Views (Alphabetical Order)

Almost all analysts in the latest Bloomberg survey (27/29) expect the Copom to remain on hold at 15.00% this week. The remaining two analysts expect a 25bp cut to 14.75%. In the sample below, BofA also expects a 50bp cut to 14.50%.

BBVA: Sticky Inflation Could Persuade Copom to Delay Easing Cycle Start to March

- The Copom is expected to keep rates at 15% in a unanimous decision. While the bank's tight policy has moderated economic activity and inflation remains within its band, continuing inflation stickiness could persuade policymakers to delay the start of the easing process to March. This would keep feeding the already-high BRL carry.

BNY Mellon: Rate Hold and Anchored Real Rates to Support BRL

- The Selic rate is expected to remain at 15% and keep real rates well-anchored, helping support BRL performance amid ongoing interest in high-carry FX holdings. Geopolitical noise has not been impactful on assets, but there will be some risk premia priced in as domestic politics move to the fore.
- Meanwhile, the economy will also be looking for a lift from improvements in the commodity space, though there will be concerns regarding the demand side of the equation. Economic momentum is showing some improvement, but fiscal conditions will continue to linger in the background.

BofA: Expect 50bp Selic Rate Cut to 14.50%

- BofA expects the Copom to cut the policy rate by 50bp, to 14.50%. They expect the board to communicate that it will remain data dependent in the upcoming meetings.

CIBC: BCB Likely to Err on Side of Caution This Week, See 50bp Cut in March

- With inflation expectations continuing their downward trend, and economic activity decelerating, the start of the easing cycle in Brazil is quickly approaching. That being said, CIBC expects the BCB to err on the side of caution this week as labour markets remain tight, with the unemployment rate already at historical lows. Moreover, CIBC sees the BCB reiterating a certain degree of caution against the domestic fiscal policy.

- In November, sentiment appeared to be shifting toward frontloading the easing cycle ahead of the October election, as headline inflation and inflation expectations declined. However, this sentiment reversed in mid-December, with traders adopting a more cautious stance in light of new political developments and ongoing fiscal concerns.
- As markets remain cautious due to political and fiscal risks, CIBC expects traders to continue pricing the BCB's easing cycle for the next year at 250-300bp. However, given the continuous decline of inflation expectation and recent economic activity data, CIBC recognises that risks are skewed in favour of frontloading the easing cycle. This is in line with their view that the easing cycle will begin in March at a pace of 50bp per meeting.

Goldman Sachs: Expect Forward Guidance to be Modified, Though no Strong Dovish Signal

- Goldman Sachs expects the Copom to leave the Selic unchanged at 15.00% in a unanimous decision. They expect the forward guidance to be modified, though short of sending a clear/strong dovish signal.
- The Copom may drop the reference that "it will not, as usual, hesitate to resume the hiking cycle if appropriate" and add language to indicate that the policy stance has already been restrictive for a reasonable long period of time and is operating as expected (i.e., the mechanisms of transmission are working). In doing so, the Copom would maintain flexibility to assess the possibility of a rate cut at the March meeting, while employing cautious language that avoids making any definitive commitments regarding such an action.
- The inflation backdrop remains challenging: above-target inflation amidst intense services inflation pressures, unanchored short- and medium-term inflation expectations despite modest/slow improvement at the margin, inflation forecasts above the target throughout the entire relevant horizon, a positive output gap, about to be delivered sizeable fiscal and quasi-fiscal stimulus, and resilient activity and labour market are consistent with keeping the Selic at a restrictive 15.00%.
- However, since the conditional inflation forecasts at the end of the relevant horizon are getting closer to the 3.0% target and real activity lost some of the earlier exuberance, GS expects the Copom to open the door to discuss starting the rate normalisation cycle already at the March meeting, assuming there are no major hawkish data surprises.

Itaú: Start of Easing Cycle to be Postponed Until March

- The Copom continues to see evidence that the current monetary policy strategy is working, with signs of moderation in activity and consumption and improving inflation dynamics, creating conditions for the start of the easing cycle.
- However, disinflation remains concentrated in tradable goods, which calls for caution in interpreting the inflation outlook, as deeper or faster easing cycles could negatively affect the currency, particularly in a context of still-resilient non-tradable inflation.
- Itaú expects the start of the rate-cutting cycle to be postponed to March, when they see the 25bp cut that they had previously expected for January. They see the Selic rate reach 12.75% in 2026 and 11.75% in 2027, gradually reducing the degree of monetary restrictiveness, while remaining in contractionary territory.

JP Morgan: Forecast Initial 50bp Rate Cut in March

- This week's Copom meeting will very likely mark the fifth consecutive decision to keep the policy rate at 15%. Strong labour data, likely stable BCB inflation forecasts, and the absence of official communication since the last meeting, when markets began pricing higher odds of a stable Selic rate in January, support that view.
- However, JP Morgan thinks the economic outlook will create room for the BCB to start the easing cycle in March. By then, they expect negative December prints and weaker-than-consensus signals for Q1 GDP, alongside headline inflation approaching 3.5% y/y and underlying inflation metrics improving after likely elevated January readings.
- JPM looks for an initial 50bp cut in March, with a risk of a softer 25bp start, followed by back-to-back 50bp cuts through year-end, bringing the policy rate to 11.50% in December. In their view, electoral uncertainty remains both an upside and a downside risk to this call.
- In the communication, JPM expects the Copom to continue recognising progress toward its goals. In the minutes of the last meeting, the Board noted that its stance had evolved from tightening, to pausing, to debating the appropriate level of rates, and by December it viewed 15% as appropriate.

- With economic activity softening - though not as weak as the almost stagnant 3Q GDP - and inflationary pressures subsiding, the Board's confidence in the effectiveness of prior tightening has likely strengthened. As such, there should be room to begin reducing the degree of monetary tightness by the March meeting. However, JPM thinks it is unlikely that the BCB will explicitly specify the timing, pace, or extent of the easing cycle in this week's statement.

Natixis: BCB to Signal Rate Cut in March

- The BCB is expected to keep the Selic rate unchanged at 15.00%. However, it will likely signal its intention to begin a cutting cycle in March. The removal of the phrase from the communiqué regarding the prolonged maintenance of the policy rate will indicate that rate cuts are on the horizon.
- Natixis continue to forecast the initiation of this cutting cycle in March, starting with a 25bp reduction. Similar to previous cutting cycles, the BCB is anticipated to start with gradual cuts and then accelerate to a pace of 50bp per meeting, once there is greater confidence in the deceleration of inflation. They expect the Selic rate to be at 12.50% by the end of 2026.
- Natixis believes that recent positive surprises in economic activity will not derail the cutting cycle, as inflation has also been trending downward.

Santander: Base Case for 25bp March Cut, Conditional on Further Fall in CPI Expectations

- Santander expects the Copom to keep the Selic at 15.00%, with communication largely unchanged, which could be read as hawkish by the market. The BCB's Q3 27 inflation projection should remain at 3.2%, per Santander's estimate, leaving no room for a January cut.
- As expected, since December, the macro backdrop has changed little. Disinflation has progressed, services inflation and the labour market remain firm, and activity shows heterogeneous moderation, consistent with maintaining a contractionary stance.
- Although not their central scenario, the Copom might introduce limited flexibility for future meetings, without explicitly signalling an imminent easing cycle.
- Santander's base case is a January hold and a 25bp cut in March. This is conditional on further easing in inflation expectations as headline IPCA reaches about 3.3% y/y by March, as per Santander's forecast, and the BRL holds its recent trend.

Scotiabank: Premature to Expect Rate Cut this Week

- The BCB is widely expected to stay on hold at 15% on Wednesday, where it has been since last July. This holding pattern followed 450bp of rate hikes to a new all-time high for the policy rate. The December statement continued to emphasise that "maintaining the interest rate at its current level for a very prolonged period is appropriate to ensure the convergence of inflation to the target." Markets will watch for hints of a future shift toward easing but it's premature to expect that at this meeting

SocGen: See April as Most Likely Start Date for Rate Cuts

- The BCB is likely to maintain its policy pause at the January meeting. December IPCA inflation declined to 4.26% y/y—within the BCB's target range, but still well above the mid-point of 3.0% (± 1.5 pp). Meanwhile, one-year-ahead inflation expectations appear to be converging toward $\sim 4.0\%$. Against this backdrop, the market broadly expects the Copom to signal the possibility of rate cuts starting in March, even if it refrains from cutting rates this week.
- Medium-term inflation expectations remain de-anchored - a factor frequently cited by the BCB to justify its hawkish stance in recent months, even as the near-term inflation outlook has improved. Nevertheless, if the BCB judges that markets are now prepared for a rate cut after having digested potential fiscal slippages in the run-up to the elections, the question becomes one of timing and communication rather than direction.
- SocGen sees April as the most likely start date for easing. At this stage, they assign the following probabilities for a first 25bp rate cut: 15% in January, 35% in March, 40% in April, and 10% in June or later.
- While the timing of the easing cycle will largely depend on the BCB's assessment of growth dynamics, the pace and extent of rate cuts in 2026 will be driven primarily by market perceptions of the fiscal outlook - particularly in the post-election period. SocGen aligns with consensus in expecting cumulative rate cuts of 275bp in 2026, followed by further gradual easing in 2027 to 10.25% (vs. consensus at 10.50%).

- By contrast, the market currently prices in only 235bp of cuts in 2026, followed by rate hikes in 2027. This divergence highlights persistent market concerns over a deteriorating fiscal outlook and the associated risk of renewed inflationary pressures.

Wells Fargo: Expect BCB to opt for Gradual, Cautious Cuts, Starting March

- The BCB is starting to consider policy rate reductions, although the shift to easier monetary policy may not come to fruition just yet. Local inflation has made tremendous progress, moving from a high and rising dynamic to softening back within the BCB's target range. Wells Fargo also observes tentative signals that a further softening in price growth may be likely as new rounds of fiscal stimulus have not been delivered from the Lula administration and as the Brazilian real remains on a strengthening trajectory in early 2026.
- So rather than use the January Copom to cut rates, WF believes policymakers will tee up a rate cut to be delivered in March as fundamentals evolve in a way that is consistent with easier monetary policy.
- But even with a looming pivot to rate cuts, WF believes the BCB will opt for gradual, cautious and tempered easing as opposed to the more rapid pace financial markets expect.
- In WF's view, policymakers will operate with caution as the administration could still have plans to loosen fiscal policy as general elections come into focus. Also, WF believes the US dollar will rebound around the middle of this year, disrupting the disinflation progress from a stronger BRL. So, while markets have aggressive easing priced for the next twelve months, WF are less dovish and take a more cautious stance on the BCB.

MNI Policy Team Insights

MNI EM INTERVIEW: BCB To Hold Until March, Fiscal Policy Key

*By Larissa Garcia
Jan 9, 2026*

The Central Bank of Brazil is likely to keep interest rates on hold at its next meeting before starting to cut in March, with the magnitude of the easing cycle closely linked to fiscal policy as the country heads to national elections, its former deputy governor for international affairs Tony Volpon told MNI.

"The central bank is trying to convince everyone that it is pursuing the 3% target and not the tolerance band. In reality, it is waiting until it has sufficient conditions to show an inflation projection at the target in the relevant horizon that is credible," Volpon, now co-CEO of Goindex and professor at Georgetown University, said in an interview.

"Market participants are getting anxious to see the beginning of the easing cycle, but I think it will come in March," he added.

The BCB held rates at 15% last month and said the strategy of maintaining policy steady for a "very prolonged period" is "appropriate," maintaining a hawkish tone that included a renewed warning that it would not hesitate to hike again if necessary.

Volpon noted that unemployment is at an historic low, which supports a scenario in which the BCB decides to wait a bit longer before cutting rates. "If unemployment were rising, it would be another story. There could be an argument for starting cuts even with the projection still slightly above the target, but that is not the case."

The magnitude of the easing cycle will depend on the fiscal outlook and the new government which will take office after October's general elections, Volpon said, but he added that cutting to around 12% by the end of this year, as priced by the market, would still have a significant impact on public debt.

"In the case of a potential reelection of President Lula, I'm not sure the market will sit back and watch debt grow by much without going into panic mode. At the same time, the central bank might only cut rates towards 9% if the fiscal side is helpful."

VENEZUELA

Regarding the situation in neighboring Venezuela, the former BCB deputy governor saw no effects in Brazil in the short term, though the longer-term geopolitical implications are unclear.

"It is not clear what the real intentions of the Trump administration are. I do not even know if they have internally decided what the game plan is," he said.

"In the long run, there is this issue of the United States once again adopting a global behavior pattern of spheres of influence and direct relations between great powers, which is something we saw a lot in the nineteenth century."

In such a context, institutions such as the UN, IMF, World Bank, etc. would lose relevance and spheres of power would become concentrated in the two world powers, the United States and China.

"This started in the first Trump administration, but it did not change much under Biden. So I do not think it is something driven by Trump or the Republican Party and it would not change in a potential new administration."

The former deputy governor stressed that Brazil needs to start thinking about what its role will be amid these global shifts.

MNI EM INTERVIEW: BCB January Cut Still On The Table - Le Grazie

By Larissa Garcia
Dec 12, 2025

The Central Bank of Brazil could still cut interest rates by a quarter percentage point at its January meeting despite a more hawkish-than-expected policy statement this week, because economic conditions and central bank's own forecasts are consistent with lower borrowing costs, former deputy governor for monetary policy Reinaldo Le Grazie told MNI.

He noted that the 3.2% BCB's projection for inflation in the relevant horizon, now set for the second quarter of 2027, is very close to the target, and 0.2 percentage points is within the margin of error.

"This projection, in my view, leaves room to start cutting in January, but a bit more data-dependent," said Le Grazie, now a partner at fund manager Panamby Capital, in an interview. "The Copom changed its language when referring to the labor market, saying it is resilient. In previous communications it said it was dynamic, which I see as a softening in tone. This, together with the 3.2% projection, creates conditions for a reduction in January."

The BCB held rates at 15% this week and said the strategy of maintaining policy steady for a "very prolonged period" is "appropriate," maintaining a hawkish tone that included a renewed warning that it would not hesitate to hike again if necessary.

Keeping the sentence saying that the Copom will not hesitate to raise rates if needed, in Le Grazie's view, is not very meaningful and simply leaves room for the board to act if the outlook worsens, but it is not central. Policymakers were also trying to keep their options open in case they don't want to cut in January.

12% SELIC FOR 2026

For the end of 2026, he expects the Selic rate to be at 12%. For the long term, it will be necessary to wait for the election results and see what the new government's economic policy will look like, especially on the fiscal front, he said.

This week, the IPCA inflation figure was released, coming in at 4.46% and returning to the tolerance band around the 3% target, which allows for a variation of 1.5 percentage points above or below. Le Grazie described the result as "positive."

Inflation expectations fell across all projected horizons, including 2025. According to the BCB's Focus market survey, inflation is expected to end the year at 4.40%, down from 4.55% four weeks earlier. For 2026, analysts now project 4.16% (from 4.20%), 3.80% for 2027, and 3.50% for 2028.

Regarding the exchange rate, the former official expects the dollar to remain weak, favoring the real. "There won't be upward pressure on the exchange rate coming from the international environment. Domestically, it will be closely tied to the electoral dynamics, which will be intense."

The Brazilian real has strengthened significantly this year, rising from around BRL 6 in December 2024 to trade at BRL 5.38 on Friday. The currency's strength has been driven by a weaker dollar globally and the Brazil's high interest rates, making it attractive to investors.