MNI Brazil Central Bank Preview: March 2026

Monetary policy decision and Copom statement release: 2130GMT / 1730ET, Wednesday March 18, 2026

MNI POV: Cautious Start to Easing Cycle Seen

The Copom is widely expected to begin an easing cycle on Wednesday, although the market remains split over whether it will start with a 25bp or 50bp move, with an outside risk of no change. Despite uncertainty over the outlook for the conflict in the Middle East and the associated surge in crude oil prices, BCB director Nilton David said recently that the guidance for a calibration of monetary policy this month remains valid. The decline of inflation indicates that the tight monetary policy stance is working. However, upside risks have risen, and inflation expectations remain unanchored and far from target, suggesting that the Copom will proceed cautiously with any rate cuts to keep monetary policy well inside restrictive territory for some time.

Guidance for Start of Easing Cycle Remains Valid

At its previous monetary policy meeting in January, the Copom removed the tightening reference from its forward guidance and signalled a likely start to the easing cycle in March, stating that "in a context of more evident lower inflation and monetary policy transmission, the strategy entails interest rate calibration". Looking ahead, it said that if the expected scenario is confirmed, it foresees "to initiate the flexibilization of its monetary policy stance in its next meeting". However, it emphasised that it "will keep monetary policy at a contractionary level to ensure convergence to the inflation target".

Since then, inflation has continued to moderate, while activity has remained below trend. Although the outbreak of the conflict in the Middle East and the associated surge in crude oil prices has clouded the near-term outlook, BCB director David's remarks that the central bank's guidance remains valid still points to the likelihood of a start to the easing cycle this week, even if the size of the initial cut remains unclear.

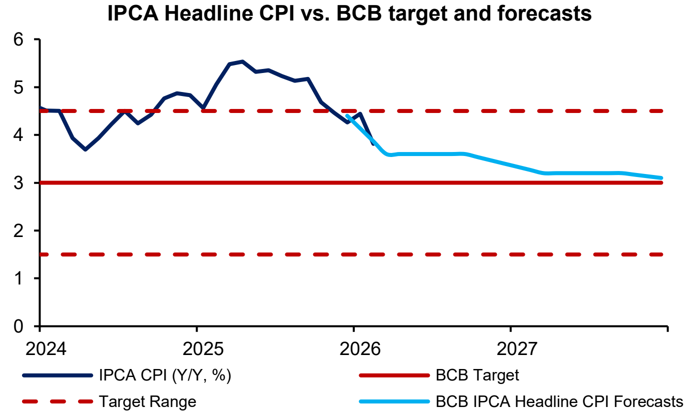
In his comments earlier this month, David said that the signs that monetary policy is working are continuing to show. However, he acknowledged that uncertainty remains high and added that the central bank may change course if the scenario changes. As such, developments in the Middle East will remain key and the risk of a more protracted conflict and sustained increase in oil prices increases the likelihood that the central bank will maintain its cautious stance this week. Indeed, David stated that developments in the Middle East have the potential to be very relevant and long-lasting and said that the next steps for the central bank will be considered carefully.

Persistent Core Inflation Pressures Remain a Concern

Latest inflation data have been superseded by developments in the Middle East. However, the decline of headline IPCA inflation to a 22-month low in February does still support expectations for a start to the BCB's easing cycle this week. As expected, monthly inflation rose on the back of a seasonal increase in education and higher fuel and transportation costs. Despite this, favourable base effects still brought the annual rate below 4% y/y for the first time since May 2024, reaching 3.76% y/y, broadly in line with the BCB's projections. The surge in global energy prices present an upside risk to these projections, however, and the government announced a decision to zero out PIS and Cofins taxes on diesel prices last week to help counter this.

Meanwhile, the average of the core inflation indices also ticked up to 0.6% m/m in February, lifting the annualised rate of core inflation to 4.3% y/y. Within core, an acceleration in services inflation will remain a concern for the BCB, given attention on the still tight labour market. As a result, the data reinforce expectations that the BCB will

IPCA Headline CPI vs. BCB target and forecasts



Source: MNI/BCB/Bloomberg Finance L.P

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proceed with its easing cycle in a cautious manner, keeping monetary policy in restrictive territory for some time.

Indeed, the BCB's David remains cautious about the inflation outlook, reiterating that inflation expectations are still unanchored and far from target, despite some improvement in recent months. Until the outbreak of the Middle East conflict, short-term inflation expectations had continued to moderate slowly, with the year-end estimate falling to a low of 3.91% earlier this month. Amid the surge in oil prices, however, that estimate jumped to 4.10% this week, according to the latest BCB Focus survey. However, longer-term estimates have remained unchanged, with the end-2027 forecast holding at 3.80% and the end-2028 estimate at 3.50%, still well above the 3.0% target.

Market Leans Towards Initial 25bp Rate Cut

Soft Q4 GDP data earlier this month suggest that the economy is feeling the effects of the highly restrictive monetary policy stance. This is weighing most on the industrial sector, where output contracted in Q4, driven by weakness in construction. In contrast, service sector activity remained relatively resilient, with output there rising 0.8% over the quarter. By expenditure, the weakness was concentrated in investment, which fell by 3.5% q/q in Q4, while private consumption was steady, offsetting a positive contribution from net exports. Overall, real GDP rose by just 0.1% q/q in Q4 (vs. 0.0% q/q in Q3), leaving annual growth at 1.8% y/y. For the full year, the economy grew by 2.3%, slowing from 3.4% in 2024. For now, however, the labour market remains surprisingly resilient, with the unemployment rate still close to historic lows in January, which will remain a source of concern for the Copom.

Looking ahead, the surge in energy prices, if sustained, will weigh on global growth in the coming quarters. However, the impact on the domestic economy is more uncertain and, for now, GDP growth forecasts have remained stable, with analysts still expecting the economy to grow by around 1.80%, both this year and next. Similarly, the Finance Ministry kept its 2026 GDP estimate unchanged at 2.3% last week, despite the Middle East conflict, although it did raise its 2026 CPI forecast by 10bp to 3.7%.

Against this backdrop, the market is leaning towards the likelihood of a 25bp cut this week, according to latest pricing. Meanwhile, analysts are almost evenly split between prospects for an initial 25bp and 50bp cut, with a small majority expecting a more cautious move, according to the latest Bloomberg survey. One analyst is forecasting no change. In contrast, both former Treasury Secretary Carlos Kawall and former economic advisor to the Ministry of Planning and Budget Eduardo Velho told MNI recently that they still expect a 50bp cut on Wednesday, despite the conflict in the Middle East. (See MNI Policy Team Insights below.) Regardless of the size of the initial move, however, the BCB is likely to proceed cautiously and avoid providing clear guidance on the pace of further easing amid the heightened uncertainty. For now, analysts see the Selic rate reaching 12.25% by year-end, according to the latest Focus survey.

Middle East Tensions Weigh on Sentiment

Recent geopolitical developments have weighed somewhat on local assets this month, with swap rates rising by ~100bp since the outbreak of the Middle East conflict, local equities falling ~5% and USDBRL rallying by around 3% from cycle lows at the end of February. That move has seen USDBRL pierce resistance at the 50-day EMA, at 5.2586, a clear break of which would signal scope for a stronger corrective recovery, towards 5.4237, the January 14 high. Despite this, the fact that under 300bp of easing remains a base case for most economists continues to be supportive of BRL carry dynamics, and overall, a medium-term bearish theme in USDBRL remains intact for now, with short-term gains considered corrective. Key support and the bear trigger is at 5.1157, the February 27 low. Clearance of this level would resume the downtrend and open 5.0787, the 76.4% retracement of the 2023 - 2024 bull cycle.

Further ahead, fiscal spending threats in the run-up to the Presidential election remain a medium-term risk for the real, especially with latest polls showing opposition candidate Flavio Bolsonaro narrowing the gap to President Lula. The imminent departure of Finance Minister Haddad (who is expected to announce his bid for the Sao Paulo governorship this week) also adds an element of uncertainty to the outlook. However, reports that Haddad would like his deputy, Dario Durigan, to succeed him have eased concerns about fiscal policy continuity somewhat for now.

Medium-Term Bearish Trend in USDBRL Intact

Source: MNI/Bloomberg Finance

MNI Brazil Central Bank Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	3.8	4.5	↓	5.1	↓					-1.56
Core CPI	% m/m	0.5	0.3	↑	0.3	↑					1.34
Oil Price (WTI Active)	$	94.02	58.00	↑	62.33	↑					1.42
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	47.3	48.8	↓	47.7	↓					-1.23
GDP	% q/q	0.1	1.5	↓	1.7	↓					-0.82
Industrial Man Prod	% y/y	0.2	-0.5	↑	0.3	↓					0.36
Economic Activity IGAE	% y/y	0.98	0.87	↑	1.45	↓					-0.58
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
M2 Money Supply	% y/y	7317.8	7195.0	↑	7016.4	↑					1.46
Non-Fin Corp Credit	% y/y	180.7	180.3	↑	170.7	↑					0.99
Household Credit	% y/y	36.7	36.2	↑	34.9	↑					1.21
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales	% m/m	-0.4	-0.1	↓	0.0	↓					-0.06
Consumer Confidence (Q)	Index	86.1	88.8	↓	85.5	↑					-0.67
Unemployment Rate	%	5.4	5.4	→	5.6	↓					-0.27
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Ibovespa	Index	180,930	159,072	↑	141,422	↑					1.62
Jan 2034 DI Swap Rate	%	13.89	13.17	↑	13.69	↑					-0.83

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)

Analysts are almost evenly split between expectations for an initial 25bp or 50bp Selic rate cut on Wednesday, with 13/25 analysts in the latest Bloomberg survey expecting a smaller 25bp move to 14.75% and 11 analysts forecasting a 50bp cut. One analyst (from XP Investments) is forecasting no change, while BNY Mellon also see risks of another hold.

BBVA: Softer Start to BCB's Easing Cycle, May Accelerate Later

- Having dragged extraordinarily high nominal and real rates for a year, the bank signalled at its meeting in January that it would start the easing cycle this month. Historically, the bank has begun rate-cutting cycles with a 50bp reduction, but expectations have been trimmed towards a greater chance of 25bp on the back of higher oil and the slide in the BRL. This will be the first test of the BCB's easing intentions and give a sense of how global central banks are reacting to the oil shock.
- BBVA's initial expectation was also for a 50bp cut, but recent developments make them think that policymakers may choose the softer start and potentially reaccelerate later. With nominal rates at 15%, BBVA also expects limited near-term impact on the BRL from adjustments in monetary policy.

BNY Mellon: Hold or 25bp Cut More Appropriate Than 50bp Move

- BNY Mellon believes that no central bank should be in a position to cut rates at present, as global inflation expectations are rising sharply due to the conflict. Even economies with very high nominal rates are turning cautious.
- The Selic rate, at 15%, offers sufficient room for the Copom to act, but expectations for a 50bp move could prove over-optimistic, even if the real rate buffer remains large. Sequential inflation is already accelerating in Brazil, and with the coming months likely to show even higher prints, a hold or a 25bp move would be more appropriate.

Goldman Sachs: Expect Cautious 25bp Cut to 14.75%

- Goldman Sachs expects the Copom to initiate a rate normalisation cycle with a cautious 25bp Selic rate cut to 14.75%. The central bank baseline scenario was upended by the conflict in the Middle East which led to a sharp increase in oil prices, strong USD, bear flattening of the US curve, rising risk-aversion, and tighter financial conditions. All amidst heightened global geopolitical risk.

- Were it not for these developments, GS believes the Copom was likely to deliver a 50bp rate cut. However, choosing a cautious 25bp adjustment reduces the chance of future regret. It is likely more defensible to accelerate the pace of cuts from 25bp to 50bp or larger when and if the external backdrop normalises, than starting with a larger 50bp cut to then have to decelerate to 25bp, or altogether stop, if the external environment remains unsettled.
- GS assess a small probability of no cut; were it not for the fact that the Copom signalled a cut for this meeting, it would likely not cut.

Itaú: Now Expect Measured 25bp Selic Rate Cut

- Amid heightened uncertainty and a less favourable risk balance associated with the significant rise in oil prices, Itaú now expects the easing cycle to begin with a measured 25bp cut (compared to a 50bp adjustment in their previous scenario), bringing the Selic rate to 14.75%.
- As is customary, the conduct of monetary policy in the face of the oil shock will depend on the assessment of its persistence and propagation through second-round effects. So far, these secondary channels remain relatively contained. The exchange rate has been resilient despite higher risk aversion, reflecting primarily the elevated interest rate differential and the improvement in terms of trade. Current inflation, while showing a worse-than-expected underlying composition in recent releases, remains on a relatively benign trajectory.
- With the exchange rate around BRL/USD 5.20 and oil prices near $85/bbl (both corresponding to the average of the last 10 business days ending on the Friday prior to the meeting), the estimate for the relevant horizon (3Q27) will likely increase to 3.4%, up from 3.2%. In Itaú's opinion, this deterioration does not preclude the start of the easing cycle but, with projections close to the upper bound of what would be considered acceptable, calls for a more cautious adjustment, of 25bp.
- Amid elevated uncertainty, the BCB should signal that the moment calls for caution and steadiness in the implementation of its interest rate calibration strategy. It should also indicate that the Committee aims to counteract the secondary effects of supply shocks that materialise with a lag in inflation dynamics, and that the pace and magnitude of the cycle will depend on this assessment. Finally – and most importantly – the Copom should make it clear that it stands ready to interrupt any Selic adjustment should shocks prove more persistent or larger than anticipated

JP Morgan: Also Now Forecast Cautious 25bp Cut, BCB to Reinforce Data Dependence

- Before the conflict in the Middle East, a 50bp cut this week was highly likely, as reflected in consensus estimates and market-implied odds. The BCB's communication, supported by the data, suggested a plan to begin an easing cycle with a 50bp move, followed by similar cuts to "calibrate" the degree of monetary tightness. The oil shock, however, has knocked this plan off track, turning the upcoming decision uncertain, live, and a very close call. JP Morgan now thinks the Copom will opt for a cautious 25bp cut this week.
- JPM's view is that the domestic backdrop supports a 50bp move at the next meeting. The policy rate sits at a 20-year high, providing a cushion against shocks. Any persistent effects of the external shock should be accommodated via the extent of this year's calibration, not the initial step. Moreover, the inflation pressures identified by the central bank in late 2024, when it initiated the tightening cycle, have been dissipating. More recently, activity indicators have confirmed a deceleration in growth. Finally, there has been an increase in corporate credit events, which the BCB could recognise as a growth-negative, disinflationary risk.
- That said, a 25bp cut delivers on the BCB's forward guidance to begin the cycle while acknowledging the current degree of uncertainty. JPM also anticipates this course because, as recently as the January decision, the BCB showed a tendency to act more cautiously and avoid cuts beyond market pricing.
- Significant uncertainty remains regarding the duration and magnitude of the war's effects on global prices and on the Brazilian real, as underscored by recent asset volatility. In this context, while external shocks can produce second-round effects on Brazil's economy, their contours will only become clear with time and data. The BCB is therefore likely to reinforce the data dependence of upcoming decisions.

Scotiabank: Still Forecast 50bp Cut, Though BCB Could Opt for Caution

- The BCB will certainly have to reassess its policy path over the next few quarters were the conflict to have longer lasting impacts on inflation. However, with Brazil's Selic rate currently at 15%, the BCB's deliberations will likely centre not on whether to hold steady (and far from hiking) but on how long they will go once cuts start. Even a 50bp cut this week would keep policy highly restrictive - and even if we see inflationary pressures from global energy prices.

- While Scotiabank's latest forecast is that the BCB will begin the easing cycle with a half-point reduction, recent price action in global markets tees up the smaller-sized cut. Were crude oil prices to continue their ascent in the coming days, the BCB will probably opt for caution.
- Markets are pricing in only 20bp for next week, thus suggesting that officials led by Galipolo could even choose to delay the rate cutting cycle until the energy horizon clears up. We've seen a large move in Brazilian short-term yields in recent months, as traders now currently see about 150bp in total BCB easing by end-2026 compared to ~250bp by end-2026 at the close of last year.

SocGen: Copom Likely to Cut by 25bp and Signal Gradual Easing Path Ahead

- SocGen maintain their long-held expectation that the BCB will start with a 25bp cut, taking the Selic rate to 14.75%, rather than a more aggressive 50bp move. This view is anchored in Copom's conservative - and at times outright hawkish - reaction function observed in recent meetings, including the cautious tone of the January forward guidance. That said, the combination of moderating inflation expectations, a softening economic backdrop, improved fiscal-policy sentiment, and a strengthening BRL has led consensus forecasts to shift toward the possibility of a faster start to the easing cycle.
- Oil remains a key wild card. Although estimating near-term passthrough from global oil prices to IPCA is complicated by potential government intervention - especially during an election year - any sustained rise could shape the BCB's inflation outlook within the policy horizon. This may keep policymakers hesitant to commit to an aggressive easing path. However, if the BCB assesses global commodity risks as broadly contained, it may view the current window as an opportunity to deliver larger cuts in 2Q-3Q before political dynamics complicate decision-making closer to the elections.
- While near-term rate moves will hinge on commodity-price trends and the BCB's growth assessment, the medium-term pace and extent of cuts - especially through H2 26 and beyond - will ultimately be shaped by market perceptions of fiscal sustainability.
- The BCB remains highly sensitive to credibility risks and tends to stay at least as conservative as market pricing. This remains evident today: despite consensus expectations for the Selic to fall to 10.50% by 2027 (vs. SocGen's 10.0% call), markets are currently pricing in only ~206bp of cuts in 2026, followed by rate hikes in 2027. This divergence underscores lingering concerns about the challenging global environment, Brazil's fragile fiscal position, and the associated risk of inflation reacceleration.

Wells Fargo: Forecast More Gradual Easing Cycle, See 13.25% Year-End Rate

- Wells Fargo expects the BCB to begin its easing cycle with a 25bp cut this week, taking the Selic rate to 14.75%. Even before the Middle East conflict, election-related fiscal risks and BRL volatility underpinned WF's more cautious view on easing. Pre-election populism alongside Lula's still competitive polling is likely to strain Brazil's limited fiscal flexibility and renew pressure on local financial markets.
- While higher oil prices can be a net positive for Brazil's economy (keeping near-term growth prospects supported), the sharp rise in energy prices will keep inflation expectations uncomfortably elevated for policymakers.
- Lingering fiscal concerns and evidence of economic resilience pre-Iran reinforces WF's view for a more gradual and tempered BCB monetary easing cycle than forecast by economists' consensus. WF forecasts the BCB's policy rate to be at 13.25% by end-2026 vs. 12.125% median forecast per the BCB's Focus survey.
- Market expectations for the policy rate have moved higher in recent days with interest rate futures suggesting 13.5% by year-end vs. 12.16% at the start of March. Risk premium in interest rate markets may continue to widen as oil moves higher, inflation expectations show signs of becoming de-anchored and/or economic populism efforts are renewed.

XP Investments: Now Expect the Copom to Remain on Hold

- The flow of data and news since the last Copom meeting has worsened the outlook for inflation. Oil prices have soared amid the war in the Middle East, domestic activity has regained strength, core IPCA measures have risen, and inflation expectations appear to be stabilising above the target.

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- The Copom's inflation projections are expected to deviate from the target. XP believes that the forecast for the IPCA in Q3 2027 – the current relevant horizon for monetary policy – will rise from 3.2% to 3.5%. XP acknowledges that the degree of uncertainty surrounding the Copom's estimates is higher than usual.
- In its latest post-decision statement, the Copom signalled that, if the expected scenario materialised, it would begin easing monetary policy at the March meeting. However, in XP's assessment, the predicted scenario did not come to fruition. Among the deviations, the surge in oil prices stands out, representing a significant negative supply shock to an economy with no spare capacity and inflation above target.
- This reality demands a reaction from monetary policy. XP now believes that the Copom will maintain the Selic rate at 15.00% this week, vs' their previous projection for a 50bp cut. In their view, there are sufficient changes and uncertainties in the scenario to justify a more cautious "wait and see" approach, without compromising the credibility of the monetary authority.
- That being said, XP continues to forecast interest rate cuts in the coming months, followed by a pause for evaluation in the second half of the year. Their base-case scenario now assumes four consecutive cuts of 50bp, starting in April, bringing the Selic rate to 13.00%. This scenario considers a reduction in geopolitical tensions, with oil prices returning to levels between $70 and $80 per barrel.

MNI Policy Team Insights

MNI EM INTERVIEW: BCB To Cut 50BP Amid Iran Uncertainty - Kawall

By Larissa Garcia
Mar 13, 2026

The Central Bank of Brazil will likely begin reducing interest rates next week with a 50-basis-point cut to 14.50%, former Treasury Secretary Carlos Kawall told MNI, adding that uncertainty around the conflict in Iran could prompt policymakers to proceed cautiously and avoid providing clear guidance on the pace of further easing.

"Our call is for an initial 50bp cut. Of course, there is a lot of uncertainty stemming from the oil conflict issue, but based on the communication so far, there is a perception that the real interest rate is high and that they would adjust the Selic rate while still keeping it in contractionary territory," Kawall, now a partner at investment manager Oriz, said in an interview.

He stressed that the decision will depend heavily on how the conflict in Iran evolves in the days leading up to the meeting.

"We will have to wait until then to see what the outcome will be by next Wednesday. Normally this would be a period when the conclusion would already be clear, but in this context the uncertainty will continue until the day of the meeting."

MEETING BY MEETING DECISION

Kawall stressed that in a context of greater global uncertainty, the Monetary Policy Committee (Copom) should opt to take decisions meeting by meeting, without clear guidance on the size of the next cuts.

"By the May meeting the conflict might already have been resolved from the standpoint of oil supply, or it might not, it could even worsen. So I think it is a step-by-step process," he said.

Brazil tends to benefit when prices for global commodities such as oil rise, given that it is an exporter, he said.

"At the same time, there is pressure on commodity prices, which is inflationary, and this could be mitigated by exchange rate appreciation, which is disinflationary," he noted.

COPOM'S INFLATION FORECAST

Copom’s inflation forecast for the relevant horizon, which at this meeting is the third quarter of 2027, should remain at 3.2%, slightly above the 3% target, he said. "The stronger Brazilian real could contribute to a lower projection, but oil price pressures should offset that to the upside."

"In addition, the latest inflation data were somewhat concerning regarding core inflation and services linked to the labor market. The part related to the labor market has become a concern again. So I think the most likely outcome is that they will keep the projection unchanged," he added.

Long-term inflation expectations are at 3.5%, with half a percentage point of de-anchoring, which he attributes to the country’s fiscal disarray.

On the domestic front, October’s general elections could increase perceptions of fiscal risk if the government expands measures such as the one announced this week to eliminate taxes on diesel, he said.

MNI EM INTERVIEW: BCB Likely To Cut 50BP Despite Conflict - Velho

By Larissa Garcia
Mar 6, 2026

The Central Bank of Brazil is likely to cut its official Selic rate by 50 basis points this month to 14.50%, though the possibility of 25-basis-point reduction is gaining traction within the BCB as the Iran war sends oil prices higher, former economic advisor to the Ministry of Planning and Budget Eduardo Velho told MNI.

“The central bank cannot make short-term decisions based on a supply shock. It has to look at what we call the secondary effect, that is, the indirect transmission of the shock to prices,” Velho, now chief economist at Ecuador Investimentos, said in an interview.

Policymakers will have to make a judgment as to the potential duration of the conflict as they weigh the impact of this supply shock, he noted.

The economist mentioned that the market is already pricing in a higher probability of a 25bp cut and has reduced the probability of a 50bp move.

"So it is very likely that the Selic rate in the BCB Focus market survey will be adjusted slightly upward. It may already have moved higher and the BCB will capture that over the course of this week. This could have an immediate impact on the central bank’s inflation projections, the question is whether it will be significant or not. I don’t think so," he said.

The BCB decided in January to hold the Selic rate at 15.00% once more and said it would start the easing cycle at its next meeting in March if the outlook evolved as expected, without specifying the size of the cut.

EXCHANGE RATE KEY

Velho added that the exchange rate will be key for the next decisions by monetary policy committee Copom.

"So far there has not been a major rush into the dollar. It even reached BRL5.28, but moved back to the range closer to 5.20, 5.25. There is not really a movement that would generate a strong appreciation of the dollar in the short term," he said.

Copom would only change its flight plan if the dollar rose above the level used as the baseline for the previous meeting in January, of BRL5.35, according to Velho.

"If there were a very strong depreciation of the real, it would open a significant risk not only of cutting by just 25bp but even of keeping rates unchanged. But that is not the case," he said.

State oil company Petrobras is unlikely to make sharp adjustments to gasoline prices based on conflict-driven prices, which in the short term are speculative, Velho said.

"Apparently there is no outflow of funds into the dollar. On the contrary, there is no rush of capital leaving Brazil. Brazil still appears to have a favorable external backdrop. International reserves are already around USD370 billion."

CUTTING TO BELOW 12%

He believes Copom will cut interest rates to slightly below 12% this year, given that the neutral rate is around 6%.

Inflation should continue on a downward path. Though it will not reach the 3% target, it should remain slightly below 4% in 2027, even with interest rates possibly below 12%, Velho said.

In this scenario, the central bank would not need to strictly pursue the 3% target and could operate within its tolerance band, allowing inflation of around 3.7% to 3.8%, especially in the face of supply shocks, he said.

He also noted that, unlike in past crises, global demand for dollars has been lower, with investors seeking other assets, which tends to reduce inflationary pressures in Brazil.