

MNI Brazil Central Bank Review – January 2026

MNI POV: Copom Signals March Rate Cut

The Copom decided unanimously to keep the Selic rate unchanged at 15.00% for a fifth consecutive meeting, as expected. Although the committee remained cautious amid unanchored inflation expectations and resilient activity, the accompanying statement struck a more dovish tone. Notably, the committee removed the tightening reference from its forward guidance and signalled a likely start to the easing cycle at the next meeting in March. Analysts are split on expecting a 25bp or 50bp cut at that meeting, dependent on the incoming data, with most seeing the Selic rate reaching 12.25%-12.50% by year-end.

The decision to remain on hold came as the current scenario “continues to be marked by deanchored inflation expectations, high inflation projections, resilience on economic activity and labor market pressures”, which still warrants a cautious stance on monetary policy. However, the committee no longer refers to the need to keep interest rates at the current level for a very prolonged period to ensure the convergence of inflation to target. Instead, it says that the present strategy “has been proving appropriate to ensure the convergence of inflation to the target.”

Importantly, the committee has also removed the tightening reference within the forward guidance, saying instead that “in a context of more evident lower inflation and monetary policy transmission, the strategy entails interest rate calibration”. Looking ahead, if the expected scenario is confirmed, it foresees “to initiate the flexibilization of its monetary policy stance in its next meeting”. However, it emphasises that it “will keep monetary policy at a contractionary level to ensure convergence to the inflation target”.

On the domestic scenario, the Copom continued to note a moderation in growth, as expected, while the labour market remains resilient. Meanwhile, inflation measures continue to improve but remain above target, with risks to the outlook – to the upside and downside – still higher than usual. The committee still sees inflation declining to 3.2% in Q2 27 under the reference scenario.

The global scenario remains uncertain due to US economic policies, requiring caution amid heightened geopolitical tensions. The committee no longer references the US tariffs on Brazil, but it “continues to monitor impacts of the geopolitical context on domestic inflation”, as well as the impact of domestic fiscal policy developments.

Overall, the committee says that its commitment to the inflation target “imposes serenity regarding the pace and the magnitude of the easing cycle, which will depend on the evolution of factors that allow greater confidence in meeting the inflation target at the relevant horizon for the conduct of monetary policy.” As a result, analysts expect the easing cycle to begin at the March meeting, possibly with a 50bp move. Attractive carry should remain supportive to the BRL near-term, but some analysts take a more cautious view on the longer-term structural outlook.

Link to the full statement is here: <https://www.bcb.gov.br/en/pressdetail/2648/nota>

Notable Dates:

- Feb 03 – Copom Minutes
- Feb 10 – January IPCA Inflation Data
- Mar 03 – Q4 GDP Data
- Mar 18 – Next Copom Meeting

Analyst Views (Alphabetical Order)

BBVA: Prefer to Express Long-Term Structural Views Through Rates, as Opposed to FX

- The BCB unanimously held the Selic rate at 15.0%, but signalled that they would begin their easing cycle at the next meeting in March. The setup becomes asymmetric for a larger first cut (50bp) and lower rates later

on. Recent inflation prints have broadly reinforced the disinflation narrative, while economic activity has also softened, even if the labour market remains tight. This was recognised by the BCB as they indicated the need for 'interest rate calibration' while they also cautioned that monetary policy would remain at a contractionary level to ensure convergence to the inflation target.

- The BRL has gained meaningfully recently and has mostly traded as a function of broad USD weakness rather than new local drivers. The potential for inflows will be balanced by the carry adjustment. The trend still backs some tactical long BRL in the near term, but this exposure will need to be pared back closer to key election dates.
- BBVA still prefer to express longer-term structural views through rates, where we continue to like receiving the belly of the curve, as opposed to FX.

CIBC: See Potential for USDBRL to Retest 5.00-5.05

- While reiterating caution regarding persistent labour market tightness and the country's fiscal position, the BCB signalled its readiness to begin an easing cycle, potentially as early as the March meeting.
- The positive performance of risk assets - driven by easing geopolitical tensions and lower volatility - has supported popular carry trades, including the BRL, since late last week. While we recognise the possibility of the BCB implementing consecutive 50bp rate cuts (with easing expected to begin in March, already priced in), the Selic rate would still stand at a robust 12.50% by year-end if CIBC's forecasts materialise. This should continue to support the BRL as one of the most attractive carry stories in the EM space, despite rising idiosyncratic risks later this year.
- With USD/BRL hovering near the 5.20 level, CIBC sees potential for a retest of the 5.00–5.05 range, particularly if centre-right or right-leaning presidential candidates gain momentum in upcoming polls against President Lula.
- Furthermore, given the broader weakness in the USD, CIBC believes political and fiscal risks are more likely to present opportunities to re-enter short USD/BRL positions, rather than trigger a significant shift in sentiment in the coming weeks. This view is further supported by the BRL remaining at relatively neutral levels from a REER perspective compared to its high carry peers.

Goldman Sachs: 50bp March Cut Likely, See Selic Rate Reaching 12.50% by Year-End

- The forward guidance surprised by turning explicitly dovish with a clear and direct signal that the rate normalisation cycle will very likely start at the next meeting (March); despite the fact that the conditional inflation forecast by the end of the relevant horizon for monetary policy (3Q27) did not improve.
- The Copom stated that against a backdrop of lower inflation and more evident transmission of monetary policy, the monetary strategy should entail "the calibration of the interest rate level" and if the expected macro baseline scenario materializes, it foresees starting to normalise the monetary stance at the next meeting. However, the commitment to the inflation target "demands serenity regarding the pace and the magnitude of the easing cycle".
- Overall, the policy statement was more dovish and explicit in its signalling than anticipated. Goldman Sachs expects the rate normalisation cycle to start at the March meeting, likely with a 50bp rate cut, with bias towards a milder 25bp if upcoming data proves less inflation-friendly than the Copom baseline, and with the Selic ending 2026 at 12.50%

Itaú: Expect 25bp Cut in March, Do Not Envisage Cycle Much Larger than 225bp

- Committee members stated that they intend to start an easing cycle in the next meeting, a message that was widely expected. While easing, the committee notes that to ensure convergence to the target, policy will keep an adequate degree of restrictiveness.
- The statement indicates that the Copom's commitment to the target requires serenity regarding the pace and magnitude of the cycle and will depend on the degree of confidence its members develop about convergence.

- For now, Itaú expects a 25bp cut in the next policy meeting. They will wait for the release of the meeting minutes next Tuesday, to reassess. Still, they do not envisage a cycle much larger than 225bp, taking the base rate to 12.75%pa this year.

JP Morgan: Forecast 50bp Cut in March, 350bp of Easing this Year

- The BCB opted for caution this time, but its forward guidance was explicit: if its baseline scenario holds, the easing cycle will begin at the next meeting in March. The question now shifts to the pace and extent of the cycle. The BCB suggested in today's statement that these decisions will be data-dependent.
- JP Morgan sees the next batch of data favouring a 50bp move in March. By the time of the next meeting, the activity data will be mixed. However, headline inflation will be around 3.6% y/y in February, probably close to 3% in March and April, with core CPI running around 3.5%3m/3m saar. Furthermore, if the exchange rate remains near 5.20 and, the BCB's model would be at or very close to the 3% target in the relevant horizon.
- The choice of words in the statement, in JPM's view, also supports a projection of a 50bp cut in March. When the BCB initiated and continued most of the 2023 easing cycle with 50bp cuts, it was invoking the word "serenity" to describe the conduct of monetary policy. Also, like the beginning of the last easing cycle, the COPOM finally removed the threat of resuming the hiking cycle.
- Beyond the next meeting, the BCB shares JPM's view that rates should remain in restrictive territory for some time. That said, a nominal rate of 15% implies a real rate of more than 10%, while the BCB puts the real neutral rate at around 5%. In this context, there is room for a meaningful easing cycle ahead before the policy rate becomes accommodative.
- JPM's baseline remains 350bp of cuts this year, leading to a terminal rate significantly below the current consensus and market pricing of 275bp of cuts.

SocGen: Expect 25bp Cut in March, with Selic Rate Reaching 12.25% by Year-End

- The BCB's clear inclination toward near-term easing reflects its confidence in the recent disinflation trend. Still, the persistence of de-anchored inflation expectations and the potential for election-year uncertainties in 2026 mean that the BCB will maintain a cautious pace, adjusting policy without undermining progress toward inflation convergence.
- The statement underscores that monetary policy will remain contractionary for an extended period. However, with expected inflation at current levels, the Selic rate can still fall by 250–350bp over the coming year.
- Given the BCB's recent pattern of balancing market consensus with caution, SocGen maintain their forecast for the Selic rate to end 2026 at 12.25%, consistent with market consensus. They now project the Selic rate to end the quarterly sequence at 14.75%, 13.75%, 12.75%, and 12.25%, respectively. They also continue to expect a further 200bp of cuts in 2027, assuming inflation settles into a durable range of 3.50%–4.0%.

XP Investments: Forecast Five Consecutive 50bp Cuts

- The decision and communication were very close to what XP expected. Therefore, they maintain their assessment that the Copom will begin the monetary easing cycle in March, with a pause in the second half of the year to reassess the situation.
- XP expects five consecutive reductions of 50bp, bringing the Selic rate to 12.50%. In real terms, the real interest rate would be around 8.0%, above what XP considers the neutral level (5.5%), reflecting the expected fiscal challenges for the next presidential term.