



XP Analysis: COPOM rate decision

June, 17th 2020

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- *Brazil Central Bank decided to cut rates by 75bps, in line with our and market expectations, reducing the Selic rate to 2.25%p.a., its lowest historical level.*
- *In the statement released after the meeting, the Committee signaled the continuity of monetary policy easing cycle by saying that "... the Committee sees as appropriate to analyze the pandemic impacts and the set of credit and income measures, anticipating that any future monetary adjustment will be residual."*
- *The BCB counterbalanced the argument highlighting the risks of i) fiscal worsening in 2021, ii) an interruption in the structural reforms agenda and iii) credit and income measures mitigating the demand decline.*
- *Based on that, we expect the BCB to keep the cautious tone at its next meeting and cut rates by another 25bps, which would take the Selic rate to 2.00%. As more information on economic activity, exchange rate and inflation are released, our scenario may be adjusted.*
- *Today's decision imposes a neutral bias on market and on BCB's next steps. As the recent XP Inc. survey pointed out, today's cut was widely expected by markets (94%) and about 77% of respondents already expected the BCB to keep the door open, but signaling smaller cuts ahead.*
- *From a quantitative point of view, the BCB scenarios point to an inflation below target in 2020 (4.00% target and 2.50% lower limit), which allows for an additional cut at next meeting.*
- *The statement came without major surprises and imposes a downward bias at the next meeting. However, as the inflation target in 2021 will gain weight for the monetary policy horizon from August on, our expectation is that the BCB will maintain the SELIC rate at 2.00% until the third quarter of 2021, when it should start a tightening cycle.*

Reference Scenario

	Previous Meeting (May)		Current meeting (Jun)		Difference	
	2020	2021	2020	2021	2020	2021
FX (BRL/USD, eop)	5.00	4.75	5.20	5.00	0.20	0.25
Rates (%py, eop)	2.75	3.75	2.25	3.00	-0.50	-0.75
BCB inflation forecast (%)	2.0	3.3	1.6	3.0	-0.4	-0.3

Híbrido Scenario

	Previous Meeting (May)		Current meeting (Jun)		Difference	
	2020	2021	2020	2021	2020	2021
FX (BRL/USD, eop)	5.55	5.55	4.95	4.95	-0.60	-0.60
Rates (%py, eop)	2.75	3.75	2.25	3.00	-0.50	-0.75
BCB inflation forecast (%)	2.4	3.4	2.0	3.2	-0.4	-0.2

Constant Scenario

	Previous Meeting (May)		Current meeting (Jun)		Difference	
	2020	2021	2020	2021	2020	2021
FX (BRL/USD, eop)	5.55	5.55	4.95	4.95	-0.60	-0.60
Rates (%py, eop)	3.75	3.75	3.00	3.00	-0.75	-0.75
BCB inflation forecast (%)	2.3	3.2	1.9	3.0	-0.4	-0.2

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