BRAZIL MACRO

August 1, 2023

MONETARY POLICY PREVIEW

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A HAWKISH CUT?

- The Copom is scheduled to announce its interest rate decision tomorrow (August 2, 2023). We expect the Brazilian Central Bank (BCB) to inaugurate an easing cycle by cutting the Selic policy rate by 25 bps to 13.50%. That forecast is in line with analyst consensus but differs from yield curve pricing, as the latter points to a greater likelihood of a bolder move (50 bps). In our view, a number of recent developments have made this a close call indeed.

- In its statement, we believe the BCB will continue to refer to the principles of “parsimony and caution in the conduct of monetary policy” it has mentioned previously. At the same time, we believe that the natural divergence of opinions in periods of cyclical inflexion (such as this one) and the arrival of new board members could well lead to a split vote within the committee. Not only do these elements increase the unpredictability of this meeting’s outcome, but also an eventual split vote could have implications for general expectations regarding the speed and depth of the rate-cutting cycle about to start.

- While we recognize that the inflation outlook has improved in recent weeks (given constructive developments regarding inflation expectations and CPI composition), considerable uncertainty remains. Keep in mind that the decline in the core services pace makes just a single data point, so that more observations will be necessary in the coming months to observe an actual trend.

- So, despite the contractionary monetary policy stance, we believe the BCB must be cautious as it moves through the easing process. Kicking off this cycle at a slower pace would buy the BCB time to observe developments in activity and inflation, reducing uncertainty somewhat and allowing greater flexibility to calibrate the pace of easing ahead. In our view, minimizing the probability of starting off “too hot” could yield lasting benefits for the disinflation process and the structural level of interest rates in the future.

- Looking back at previous easing cycles, we note that the inflation expectations gap (vis-à-vis the mid-target) is even higher this time around than in 2011, which was one of the few such cycles that ended with an even wider gap between expectations and the mid-target. The historical data supports our belief that this is not a comfortable starting point for the BCB’s easing.

- Given the only partial re-anchoring of expectations and the fact that the BCB’s IPCA estimates for the “senior” horizon of 2024 do not point to a full convergence to the 3% mid-target, we believe any sort of shock-and-awe strategy would be unproductive at this stage (in terms of curbing inflation expectations). In other words, since the path of Selic cuts projected by analysts will lead to inflation close to the target for 1Q25, we believe the BCB does not have much room to go faster or deeper than the consensus. This is especially true because the balance of risks for the inflation outlook is likely to remain symmetric, in our view (with significant risks on both ends). Moreover, real activity is slowing only gradually, which means, in our view, that there is no real reason to buy “massive insurance” against a big slowdown at this stage.

- Looking further ahead, given the challenges on the fiscal side and the other elements conspiring against the disinflation process (mainly the solid demand for services and good employment conditions), our scenario still incorporates a double-digit Selic rate at the end of next year.

RECAPPING A FEW RECENT MONETARY POLICY EVENTS

At Copom meeting #255[1], the Brazil Central Bank (BCB) kept the benchmark Selic rate at 13.75%, as widely anticipated by both analysts and the yield market. The tone of the statement was more hawkish than many analysts had anticipated. According to the BCB on that occasion, "the current scenario demands patience and serenity in the conduct of monetary policy". The Copom signaled that future steps would "depend on the inflationary dynamics, especially the components that are more sensitive to monetary policy and economic activity, on inflation expectations, in particular the longer-term ones". The BCB also highlighted that the situation was characterized by "a stage in which the disinflationary process tends to be slower", and that "an environment of de-anchored inflation expectations continues to require caution and parsimony." At that time (June 2023), the authority evaluated that "the strategy of maintaining the Selic rate for a long period has been adequate to ensure the convergence of inflation" and that the Committee would "persist until the disinflationary process consolidates and inflation expectations anchor around its targets." The BCB's inflation projections still indicated the need for some additional progress in the disinflation process: in the reference scenario[2], which assumed the Selic trajectory according to the Focus survey at that time (i.e., rate cuts starting in August, reaching 12.25% by YE2023 and 9.50% by YE2024), the estimate for IPCA 2024 fell by 0.2 pp to 3.4%. Thus, the interest rate trajectory projected by the consensus of economists did not yet allow the achievement of the mid-target of 3%, according to the BCB's calculations in June.

The minutes of the June 27 Copom meeting[3], which were released six days after the decision, signaled a more accommodative monetary policy, both in comparison with the previous minutes (this was already expected) and, even more notable, in relation to the communiqué (which was a surprise). According to the minutes, one dominant group on the committee was already "more confident" about the disinflation process and the CPI convergence toward the target. On the other side was a minority dissident group, which was more "cautious" about the inflation outlook. Our conclusion at that time was that the elements of moderation in the evaluation of scenarios and outlook, as presented in the communiqué (e.g., the need for "parsimony, caution, serenity and patience") could have been more indicative of the speed of the easing cycle than of the timing of the start — with the latter being given for August.

Other important events for monetary policy took place in June. On June 29 the CMN (Monetary Council) made the widely awaited decision to keep the mid-point inflation target unchanged at 3.0%, with the same tolerance band of +/-1.5 pp. Effective in 2025, Brazil will have a rule of maintaining a steady target over time, which we think is likely to end a practice of annual decisions on the subject. This was good news for inflation and the economy, helping remove further "fat-tail" (or extreme) scenarios from expectations and asset prices. Yet the move proved insufficient for a full re-anchoring of inflation expectations, as long-term IPCA forecasts (for 2025 to 2027) settled down at 3.5%. In our view, the downside for inflation expectations remains limited by fiscal uncertainties (e.g., implementation of the new framework, the actual fiscal stance), alongside the resilience of the job market and persistence of underlying inflation. Indeed, the difficulty of re-anchoring CPI expectations could be a limiting factor for the speed and depth of the monetary easing cycle expected to start in August.

In late June the Brazilian Central Bank also released the 2Q23 inflation report[4], with a highlight being the upward revision in the BCB's estimate of the neutral level of interest rates in Brazil. Using different approaches and methodologies, the BCB's median estimate was 4.8% for 1Q23, with most projections concentrated within a range of 4.5-5.0%.

Following these eventful weeks for monetary policy at the end of June, we got the impression that only unexpected developments could prevent a rate cut at the August Copom meeting. That led us to change our scenario some weeks ago and incorporate a 25-bp rate cut in August, followed by a similar move in September. Previously our scenario had penciled in the start of the easing cycle in September, with a move of -25 bps, followed by a pace of easing by 50 bps at each of the subsequent meetings.

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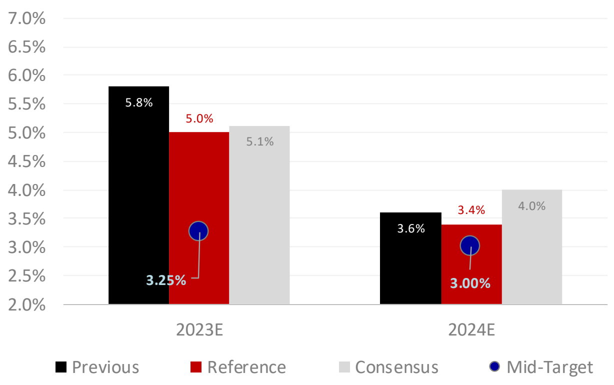
[1] **Santander Brazil Monetary Policy: "*Copom Decision: Mr. Data Will Tell*"** – June 21, 2023 – Available on: https://bit.ly/Std-COPOM-jun23

[2] The simulations in June assumed USD/BRL at 4.85 and then evolving with the purchasing power parity (PPP) as well as oil price following the futures curve for the next six months and then stable in real terms in USD (i.e., up 2% annually subsequently). The scenarios assumed energy tariff flag "green" (previously "yellow") for both December 2023 and 2024. In the reference scenario, the BCB used a path of Selic rate cuts starting in September, reaching 12.25% by the end of 2023, and 9.50% by the end of 2024.

[3] **Santander Brazil Monetary Policy: "*Copom Minutes: Sharpening the Knive*"** – June 27, 2023 – https://bit.ly/Std-COPOM-min-jun23

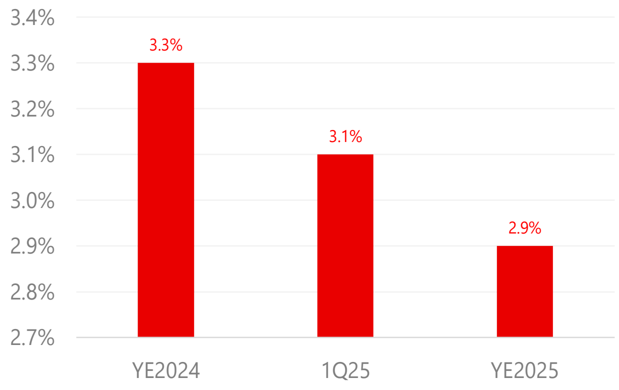
[4] **Santander Brazil Monetary Policy: "*CMN Leaves CPI Target Unchanged; Inflation Report Revisits Neutral Rate*"** – June 29, 2023 – https://tinyurl.com/Std-infla-report-2Q23

Figure 1. BCB's Inflation Estimates in June (%, Reference Scenario – key horizon: YE2024)



Sources: Brazilian Central Bank, Santander.
Note: Assuming FX rate departing from USD/BRL 4.85, and then moving along with the PPP (purchasing power parity). Oil price following the futures curve for six months and stable in real terms in USD. The BCB assumes energy tariff flag "green" for both December 2023 and 2024. Consensus forecast for the future path of interest rate.

Figure 2. Our Estimate for BCB's Model in August (%, Reference Scenario – key horizon: 1Q25)



Sources: Brazilian Central Bank, Santander.
Note: Our "educated guess" for the BCB's IPCA forecast is based on the changes in key variables (such as inflation expectations, inertia, FX rate, regulated prices and real activity). For the calculations, we use the model's elasticities as presented by the BCB in previous inflation reports. Consensus forecast for the future path of interest rate.

THE CONTEXT FOR THE AUGUST MEETING

In recent weeks, the inflation scenario has evolved in a constructive manner, given: (i) advances in fiscal reforms (including a slight improvement in the sovereign rating[5]); (ii) the (aforementioned) maintenance of the inflation target at 3% for the medium term; (iii) intensifying deflation at the producer level (PPI); (iv) the new signs of disinflation in underlying CPI items, and (v) a narrowing of the inflation expectations gap (vis-à-vis the target), especially for the medium to long term. In general, these factors have contributed to an acceleration of the timing that we (and the markets) consider adequate to start an easing cycle, compared to what we thought a few months ago.

On the expectations front, analysts' forecasts[6] have declined for nearly all horizons since the last Copom meeting, likely reflecting the maintenance of the inflation target. The Focus survey showed a broad-based decline in for all horizons (2023 to 2027), with median economists' forecasts falling by about 10-30 bps for this interim. The shallower decline was seen exactly tor the BCB's main (or "senior") policy horizon —calendar year 2024 — as the median IPCA 2024 forecast slid 10 bps to 3.9%. We calculate that the 18-month forward estimate (which for now coincides with the policy horizon of 1Q25) slid by 20 bps to 3.8%, as expectations for the "junior" horizon of 2025 fell by 30 bps to 3.5%. For the long term (2026 and 2027), the median IPCA projections also fell by 30 bps, to 3.5%. We have little doubt that the CMN's decision to keep the mid-point inflation target at 3% (with the same tolerance band of +/- 1.5 pp) was a key element for this re-anchoring (even if a partial one) of inflation expectations. **Given the lack of major movement in other key variables, we estimate that the BCB's models point to IPCA inflation of 3.3% for YE2024 (still slightly above the mid-target), with convergence occurring for 1Q25 (to nearly 3.1%). We expect the BCB's 2025 estimate to be just below 3% (around 2.9%, to be precise).**

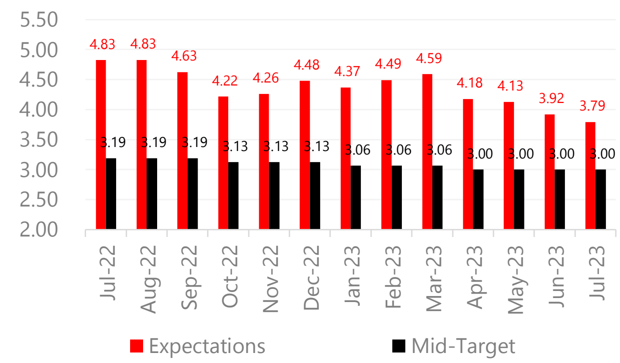
The easing cycle is about to start at a not especially favorable level for the expectations gap (that is, the difference between the median 18-month-forward inflation projection and the implied 18-month-forward target). Our estimate shows that economists' IPCA projections for the BCB's policy horizon now stand a full 80 bps above the mid-target of 3%. As Figure 5 shows, looking back at previous easing cycles since the implementation of the inflation targeting regime (1999), such an inflation gap can only be compared to the cycles of 2003-2004 (with an expectations gap of 1.8% at the start) and 2011-2012 (with an expectations gap of 0.5% at the start). The former ended with significant disinflation in core gauges and a decline in expectations,

[5] On July 26, 2023, Fitch upgraded Brazil's sovereign credit rating to BB (from BB-) with a stable outlook. Brazil's sovereign rating is still two notches below investment grade level. In the press release, Fitch highlights its expectations for compliance with the primary target band proposed in the new fiscal framework. In our view, there are still major challenges to achieve these targets due to the necessity for the government to take in more than 1.5% of GDP in permanent revenues.
[6] As per the BCB's weekly Focus survey among professional forecasters (refer to https://www.bcb.gov.br/en/publications/focusmarketreadout).

which reached much closer to the mid-target; the latter resulted in a less steep core CPI decline, higher inflation expectations, and a wider gap from the mid-target. Given the different economic fundamentals in 2004[7], we think that the episode of 2011 is the example that calls for particular consideration when it comes to taking the next steps in this easing cycle.

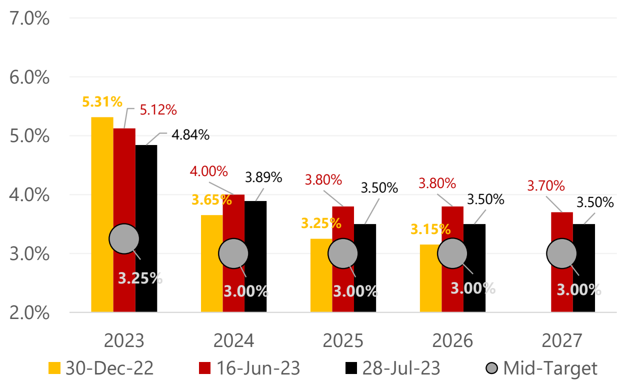
In terms of the BCB's forecast, we note that in most easing cycles, the Copom starts to cut rates when the IPCA projection for the relevant horizon (in a scenario with stable Selic) points to IPCA inflation below the target, even as the scenario assuming the consensus forecast for interest rates points to inflation above the center target. For these cases, the key aspect for the BCB to be mindful of is the dose of the rate adjustment, which has to be less than analysts are predicting. We believe this is close to the situation currently, given that the senior horizon of 2024 (at this stage) is still not pointing to a full convergence.

Figure 3. Calendar-Adjusted IPCA Estimates, Target *(18 months ahead)*



Sources: Brazilian Central Bank, Santander.
Note 1: IPCA expectations and target adjusted for the weight of each calendar-year as a policy horizon. As of 3Q23, this means 75% for 2024 and 25% for 2025. End of month data.

Figure 4. Median IPCA Inflation Expectations *(% annual)*



Sources: Brazilian Central Bank, Santander.
Note 1: As of the most recent BCB Focus report: July 28, 2023.

Figure 5. Comparing Previous Easing Cycles – Core Inflation and Expectations Gap

Start	End	Total Selic Change	Selic at Start	Selic at End	Core CPI %YoY (Start)	Core CPI %YoY (End)	Core CPI Gap (Start)	Core CPI Gap (End)	CPI Expect. 18m (Start)	CPI Expect. 18m (End)	Expect. Gap (Start)	Expect. Gap (End)
29-Mar-00	14-Feb-01	-3.75	19.00	15.25	5.5	4.0	-0.5	0.0	4.7	3.8	0.2	0.2
20-Feb-02	21-Aug-02	-1.00	19.00	18.00	6.7	6.6	3.1	2.9	4.2	4.6	-2.8	-2.9
18-Jun-03	19-May-04	-10.50	26.50	16.00	12.2	6.9	3.5	1.3	7.4	5.1	1.8	0.5
14-Sep-05	17-Oct-07	-8.50	19.75	11.25	6.5	3.9	1.9	-0.6	4.7	4.1	0.2	-0.4
21-Jan-09	02-Sep-09	-5.00	13.75	8.75	5.9	5.0	1.4	0.4	4.6	4.4	0.0	-0.1
31-Aug-11	28-Nov-12	-5.25	12.50	7.25	7.1	5.9	2.5	1.3	5.0	5.5	0.5	0.9
19-Oct-16	16-May-18	-7.75	14.25	6.50	7.1	2.7	2.5	-1.7	4.8	4.0	0.2	-0.2
31-Jul-19	16-Sep-20	-4.50	6.50	2.00	3.2	2.2	-1.0	-1.8	3.9	3.1	-0.1	-0.5

Sources: Brazilian Central Bank, Santander.

Current inflation metrics (i.e., both headline and core gauges) have improved somewhat, but still leave doubt about the speed of convergence toward the mid-target. Based on the latest available data, the IPCA-15 (preview) for July, annual CPI has slowed further to 3.2% YoY (down by 0.2 pp from June), posting the lowest reading since September 2020. In terms of composition, the average of the main core gauges (DP, MS, EX0, EX3, P55) eased to 3.8% 3MMA-saar (from ~5% previously), reaching closer to the mid-target. The EX3 — the gauge most closely correlated with economic activity and monetary policy cycles — is now running at 5% QoQ-saar (from nearly 6% previously), with a more notable fading of pressure in core industrials (~3%QoQ-saar) than in core services (just above 5%QoQ-saar). In our view, that is likely a reflection of slowing demand in the goods markets, alongside a substantial decline in prices at the producer level.

Despite the improvement, core services are still running above the mid-point inflation target of 3% for the medium term, meaning that the disinflation process is not profiting from a full throttle in all engines, as

[7] Back then, Brazil was at the onset of a massive commodity cycle that favored structural improvement in the balance of payments. A solid external position made the economy less dependent on short-term foreign funding, less vulnerable to external shocks and more resilient to episodes of confidence loss in times of fiscal difficulties.

inertial groups continue to limit the speed of decline in the IPCA. We also acknowledge that the decline in the core services inflation pace makes just a single data point, so that more observations will be necessary in the coming months to observe an actual trend. Moreover, it is important to note that the decline in headline inflation so far is still largely influenced by base-effects from tax breaks given last year, some very recent temporary tax exemptions (such as the one for car sales), a number of one-off factors (such as one-off reductions in electricity prices), and the softening in volatile prices, such as food and fuel. Looking ahead, our scenario projects the fading in some of these downward pressures, with the IPCA heading back toward 5% in September. One point that is open to question is the potential impact on expectations of the rise in current inflation.

Figure 6. Comparing Previous Easing Cycles – BCB's Inflation Forecasts vs. Mid-Target

Start	End	Forecast - Stable Selic (Start)	Forecast - Selic Focus (Start)	Target T+1 (Start)
28-Mar-00	14-Feb-01	Around	Around	4.00
20-Feb-02	21-Aug-02	Below	-	8.50
18-Jun-03	19-May-04	Below	-	5.50
14-Sep-05	17-Oct-07	Below	Above	4.50
21-Jan-09	02-Sep-09	Below	Around	4.50
31-Aug-11	28-Nov-12	Around	Around / Below *	4.50
19-Oct-16	16-May-18	Below	Above	4.50
31-Jul-19	16-Sep-20	Below	Around	4.00

Sources: Brazilian Central Bank, Santander.
Note: In 2011, the BCB ran an alternative model assuming a global shock.

Figure 7. Recent Trends in Headline and Core IPCA

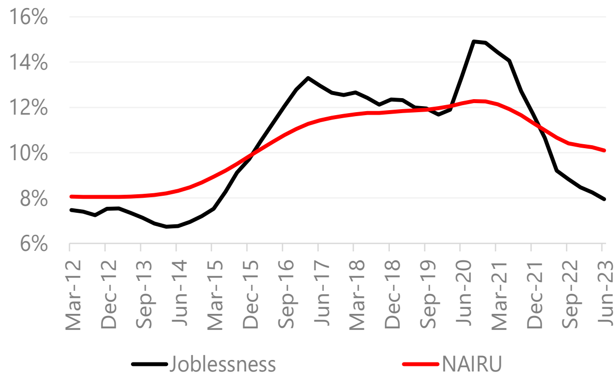
% q/q - SAAR	Share %	Mar-23	Apr-23	May-23	Jun-23	Jul-23(p)
IPCA Headline	100	7.6	7.2	6.1	5.0	3.8
Core IPCA average	-	6.1	6.4	5.5	4.8	3.9
Underlying cyclical prices (EX3)	37	5.1	6.4	6.0	6.2	5.0
Core IPCA services	21	5.2	6.1	5.9	6.7	5.3
Core IPCA industrials	16	5.2	6.0	5.0	4.9	3.0
Diffusion index - full basket (3-month)	-	62.1%	62.3%	59.8%	57.5%	51.8%
Diffusion index - excl. food (3-month)	-	63.8%	64.6%	61.3%	58.6%	-

Sources: Brazilian Central Bank, Santander.

Economic activity numbers continued to generate mixed feelings since the last Copom meeting, in our view. In general, the latest set of reports for 2Q23 continue to point to a gradual loss of steam, especially in the most cyclical sectors, despite some continuing resilience in the labor market. The IBC-Br (the monthly GDP proxy published by the BCB) posted a 2.0% MoM-sa drop in May[8], disappointing expectations, but likely reflecting a reversal after atypically solid agricultural output in 1Q23. May activity releases were mixed: on the one hand, goods-related activities showed a weak performance, with a negative figure for broad retail and slight growth for industry, even though manufacturing did poorly. On the other hand, services' real revenue surprised positively. In terms of fundamentals and drivers, we continue to observe a seesaw between tight monetary policy and financial conditions and a still resilient job market. The former remains in contractionary territory but has apparently reduced its drag in recent months; as for the latter, while it still points to the lowest joblessness in more than eight years and a pace of job creation still above the neutral joblessness-level, and with income growth still largely topping productivity gains, the figures point to less bright momentum for employment conditions ahead.

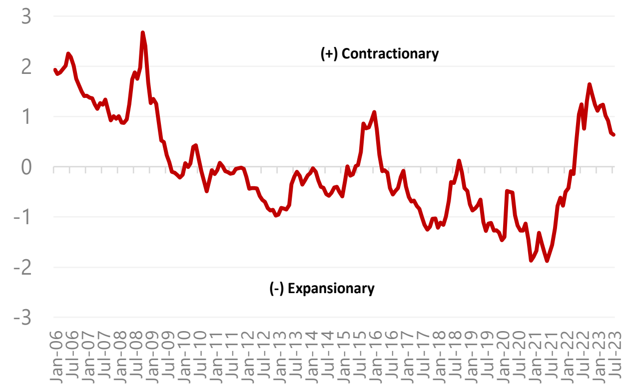
[8] **Santander Brazil Economic Activity: "*Back to Reality?*"** – July 17, 2023 – Available on: https://tinyurl.com/std-econoact-071723

Figure 8. Joblessness and Structural Unemployment



Sources: IBGE, Santander.

Figure 9. Santander's Financial Conditions Index



Sources: Brazilian Central Bank, Bloomberg, Santander.

WHAT CAN WE EXPECT FOR THE MEETING AND THE SIGNALS FOR FUTURE STEPS?

Despite the notably contractionary monetary policy currently — indeed, we calculate the BCB now has the tightest policy stance since the year 2000 — we believe that a high level of real interest rates was warranted for this cycle. In our view, the BCB has to be cautious in the easing process that is about to start, since: (i) there are still uncertainties regarding the process of fiscal consolidation and achievement of fiscal targets — especially from 2024 onward; (ii) there are also uncertainties about the actual degree of slack in both the broad economy and the labor market; (iii) a plethora of temporary disinflationary factors have materialized in recent months (e.g., tax exemptions, price declines in volatile items), polluting the analysis of short-term inflation trends, including core readings; (iv) there is still doubt about the noise-to-signal ratio in the decline of underlying inflation measures, as the July IPCA-15 (preview) showed the first fall in the sequential trend growth (%QoQ-saar) in four months; and (v) there is also doubt about the future resilience of demand in the services sector and about labor market strength, amid fiscal stimuli that still reverberate in the economy. These unknowns take on added relevance, especially in a context where inflation expectations have not fully re-anchored.

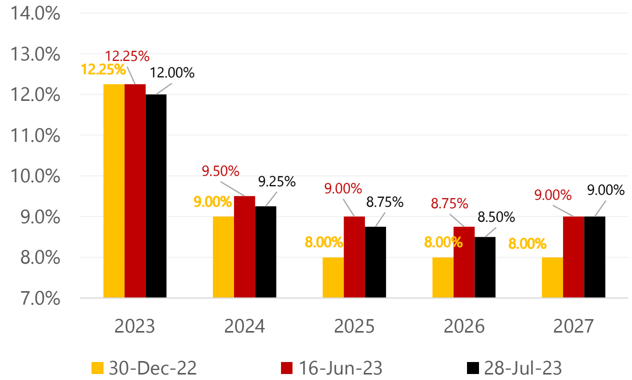
In our view, with inflation expectations and BCB forecasts still running above the 3% mid-target (the latter assuming the Selic path projected by economists), we do not see room for the BCB to come up with a bolder-than-expected rate cut. We believe that anything similar to a shock-and-awe strategy would be unproductive (to curb inflation expectations) at this stage. In other words, since the path of Selic cuts projected by analysts will lead to inflation close to the target for 1Q25, we believe the BCB does not have much room to go faster or deeper than the consensus — especially as the balance of risk for the inflation outlook will probably remain symmetric (with significant risks on both ends).

Bearing in mind a process that is expected to be gradual and measured going forward, **we believe that it makes sense for the BCB to start the process of monetary expansion at a slower pace (read -25 bps to 13.50%).** Such an action would buy the BCB time to observe developments in the field of activity and inflation, reducing uncertainty somewhat and allowing greater flexibility to calibrate the pace of easing. In that sense, we also believe the BCB will continue to follow the principles of "parsimony and caution in the conduct of monetary policy" mentioned in recent communications.

At the same time, we believe the natural divergence of opinions in periods of cyclical inflexion (such as this one) and the arrival of new board members could lead to a split vote within the committee. Not only do these elements increase the unpredictability of this meeting's outcome, but also an eventual split vote could have implications for general expectations regarding the speed and depth of the rate-cutting cycle about to start.

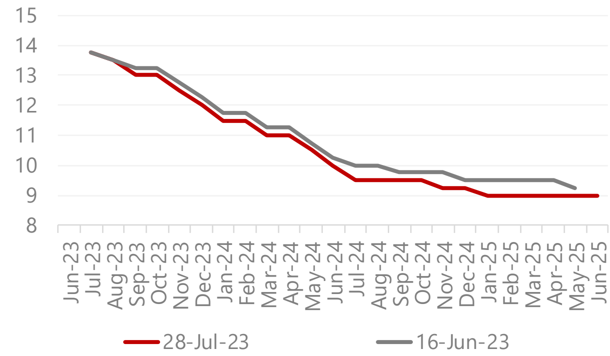
Looking further ahead, we anticipate a gradual easing process: our scenario still incorporates a double-digit Selic rate at the end of next year. In our view, minimizing the probability of false starts in the easing cycle could yield positive and lasting benefits for the disinflation process, for structural interest rates, and for the economy's long-term potential. We still see substantial external and domestic uncertainties for the conduct of monetary policy, in a context of recurring fiscal impulses, a heated labor market and services sector, and difficulties in the process of re-anchoring expectations. These factors feed risks of inflationary persistence.

Figure 10. Median Selic Rate Expectations
(% annual)



Sources: Brazilian Central Bank, Santander.
Note: As of the most recent BCB Focus report: July 28, 2023.

Figure 11. Median Selic Rate Expectations
(% annual, monthly path)



Sources: Brazilian Central Bank, Bloomberg, Santander.
Note: As of the most recent BCB Focus report: July 28, 2023.

Refer to a summary of the Copom dataset in the following pages.

Figure 12. Proxy for the Copom Dataset, Part 1

ECONOMIC TOPIC	LATEST DATA		THIS MEETING	LAST MEETING	SECOND LAST
Key Variables	*When?*		*Aug-23*	*Jun-23*	*May-23*
INFLATION					
Forecasts (% p.a.) - BCB's Focus report					
Calendar-Weighted Forecast (~18 months)	28-Jul-23	↓	3,79	4,00	4,18
Calendar-Weighted Target (~18 months)	28-Jul-23	→	3,00	3,00	3,00
Calendar-Weighted Expectations Gap	28-Jul-23	↓	0,79	1,00	1,18
Forecast for a year ahead (12 months)	28-Jul-23	↓	4,11	4,18	5,23
Forecast for 2023 - target: 3.25%	28-Jul-23	↓	4,84	5,12	6,05
Forecast for 2024 - target: 3.00%	28-Jul-23	↓	3,89	4,00	4,18
Forecast for 2025 - target: 3.00%	28-Jul-23	↓	3,50	3,80	4,00
Forecast for 2026 - target: 3.00%	28-Jul-23	↓	3,50	3,80	4,00
Forecast for 2027 - target: 3.00%	28-Jul-23	↓	3,50	3,70	4,00
Breakeven inflation rates (% p.a.)					
1-year	28-Jul-23	↑	4,06	3,90	5,02
18-month	28-Jul-23	↑	4,29	4,22	5,35
2-year	28-Jul-23	↑	4,46	4,42	5,58
5-year	28-Jul-23	↑	5,26	5,20	5,93
10-year	28-Jul-23	↑	5,54	5,49	6,03
Actual CPI data					
Headline (% YoY)	Jun-23	↓	3,2	3,9	4,2
Headline (% QoQ, saar)	Jun-23	↓	5,0	6,1	7,2
Core IPCA EX3 (% YoY)	Jun-23	↓	7,4	8,0	8,7
Core IPCA EX3 (% QoQ, saar)	Jun-23	↑	6,2	6,0	6,4
Core IPCA Services (% YoY)	Jun-23	↓	6,7	7,1	7,5
Core IPCA Services (% QoQ, saar)	Jun-23	↑	6,2	6,0	6,4
New cores average (% YoY)	Jun-23	↓	8,2	9,2	10,2
New cores average (% QoQ, saar)	Jun-23	↑	6,7	5,9	6,1
Diffusion index (sa, 3m)	Jun-23	↓	57,5%	59,8%	62,3%
Diffusion index ex-food (sa, 3m)	Jun-23	↓	58,6%	61,3%	64,6%
MONETARY POLICY					
Selic rate (% p.a.)					
Current level	28-Jul-23	→	13,75	13,75	13,75
Forecast for 2023	28-Jul-23	↓	12,00	12,25	12,50
Forecast for 2024	28-Jul-23	↓	9,25	9,50	10,00
Forecast for 2025	28-Jul-23	↓	8,75	9,00	9,00
Forecast for 2026	28-Jul-23	↓	8,50	8,75	8,88
Forecast for 2027	28-Jul-23	→	9,00	9,00	9,00
Yield curve (% p.a.)					
1-year OIS swaps (pré-DI)	28-Jul-23	↓	11,3	11,9	12,7
2-year OIS swaps (pré-DI)	28-Jul-23	↓	10,3	10,7	11,7
Ex-ante real interest rate (% p.a.)					
1-year (OIS swaps vs. inflation forecast)	28-Jul-23	↓	6,9	7,5	7,1
FISCAL POLICY					
Primary Fiscal Balance (% GDP)					
Actual level (12-month rolling)	Jun-23	↓	-0,2	0,4	0,6
Forecast for 2023	28-Jul-23	↑	-1,0	-1,0	-1,0
Forecast for 2024	28-Jul-23	→	-0,8	-0,8	-0,8
Forecast for 2025	28-Jul-23	↓	-0,6	-0,5	-0,4
Forecast for 2026	28-Jul-23	↓	-0,3	-0,3	-0,2
Forecast for 2027	28-Jul-23	↓	-0,3	0,0	0,0
Forecast for 2028	28-Jul-23	→	0,2	0,2	0,5
Forecast for 2029	28-Jul-23	↑	0,5	0,5	0,7
Forecast for 2030	28-Jul-23	↓	0,7	0,8	0,8
Gross General Government Debt (% GDP)					
Actual level	Jun-23	↑	73,6	73,0	72,8
Forecast for 2023	28-Jul-23	↑	76,6	76,5	77,1
Forecast for 2024	28-Jul-23	↑	79,2	79,1	80,3
Forecast for 2025	28-Jul-23	↓	81,5	82,0	82,1
Forecast for 2026	28-Jul-23	↑	83,2	83,1	83,3
Forecast for 2030	28-Jul-23	↑	89,3	86,9	87,5

Sources: IBGE, FGV, Brazilian Central Bank, Anbima, Bloomberg, Santander.

Last update: July 28, 2023.

Figure 13. Proxy for the Copom Dataset, Part 2

ECONOMIC TOPIC	LATEST DATA		THIS MEETING	LAST MEETING	SECOND LAST
Key Variables	*When?*		*Aug-23*	*Jun-23*	*May-23*
REAL ACTIVITY					
GDP forecasts (% p.a.) - BCB's Focus report					
Forecast for 2023	28-Jul-23		2,24	2,14	1,00
Forecast for 2024	28-Jul-23		1,30	1,20	1,41
Forecast for 2025	28-Jul-23		1,90	1,80	1,80
Forecast for 2026	28-Jul-23		1,97	1,99	1,80
Forecast for 2027	28-Jul-23		2,00	1,99	1,83
Actual activity data					
IBC-Br (% QoQ, saar)	May-23		6,7	14,7	9,1
Industrial production (% QoQ, saar)	May-23		2,5	0,6	0,0
Broad retail sales (% QoQ, saar)	May-23		14,2	18,2	13,8
Services volume (% QoQ, saar)	May-23		-0,2	-1,1	-2,9
Unemployment rate (% 3m, SA)	Jun-23		8,0	8,0	8,1
Real wage bill (% YoY, 3m)	Jun-23		7,2	7,9	9,6
Real average wage (% YoY, 3m)	Jun-23		6,2	6,6	7,5
Nominal average wage (% YoY, 3m)	Jun-23		10,1	11,0	12,5
Caged payrolls (thousands, SA, 3m)	Jun-23		124	192	194
Economic confidence (2011=100)	Jul-23		90,3	89,1	85,5
EXTERNAL SECTOR					
FX rate (USD/BRL)					
Current level	28-Jul-23		4,73	4,76	4,99
Actual: 5-day average (previous week)	28-Jul-23		4,74	4,84	5,02
USD/BRL (to be) used in simulations	**28-Jul-23**		**4,75**	**4,85**	**5,05**
Forecast for 2023	28-Jul-23		4,91	5,00	5,20
Forecast for 2024	28-Jul-23		5,00	5,10	5,25
Forecast for 2025	28-Jul-23		5,08	5,18	5,30
Forecast for 2026	28-Jul-23		5,10	5,25	5,32
Forecast for 2027	28-Jul-23		5,15	5,25	5,39
ASSET PRICES					
Santander Brasil's financial conditions index*	**Jul-23**		**0,64**	**0,68**	**0,92**
IC-Br (% YoY)	Jul-23		-19,9	-20,1	-13,4
CRB Commodity Index (Futures, USD terms)	28-Jul-23		280	271	257
CRB Commodity Index (Futures, BRL terms)	28-Jul-23		1.327	1.290	1.286
CRB Commodities in BRL: 50-day average	28-Jul-23		1.288	1.296	1.359
Brent Oil Price (USD bbl) / 1st Active Future	28-Jul-23		84	77	72
Brazil 5-year CDS (basis-points)	28-Jul-23		164	180	223
Ibovespa stock index (points)	28-Jul-23		120.187	120.420	101.797
DI Jan-24 (% p.a.) / Futures	28-Jul-23		12,62	13,01	13,24
DI Jan-25 (% p.a.) / Futures	28-Jul-23		10,65	11,10	11,89
DI Jan-26 (% p.a.) / Futures	28-Jul-23		10,12	10,51	11,58
NTN-F 2029 (% p.a.) / Pre-Fixed Rate	28-Jul-23		10,69	10,88	11,98
NTN-F 2033 (% p.a.) / Pre-Fixed Rate	28-Jul-23		10,92	11,02	12,13
NTN-B 2045 (% p.a.) / Inflation-Linked	28-Jul-23		5,46	5,57	5,98
NTN-B 2060 (% p.a.) / Inflation-Linked	28-Jul-23		5,48	5,57	5,99

Sources: IBGE, FGV, Brazilian Central Bank, Anbima, Bloomberg, Santander.

* Note: As per the construction of the index, higher (lower) levels mean tighter (easier) financial conditions. Refer to our latest report: SANTANDER MACRO BRAZIL – ECONOMIC ACTIVITY - FINANCIAL CONDITIONS (FCI): Fourth Easing in a Row for Financial Conditions in July (https://tinyurl.com/Std-FCI-jul23). As of July 27, 2023.

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