

**Brazil Macro Compass****Ahead of Carnival, the Lowest Selic on Record**

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**What's New**

Following market consensus, Brazil Central Bank delivered a **25-bp cut in its first meeting of 2018, bringing the Selic rate to a record-low 6.75%**. In the statement, Copom signaled that this may be the last movement in the cycle (“Regarding the next meeting, provided the Committee’s baseline scenario evolves as expected, at this time the Copom views the interruption of the monetary easing process as more appropriate.”), but did not rule out more cuts in the vent of changes in its baseline scenario or the perceived balance of risks (which includes the continuation of reforms and fiscal consolidation).

One positive surprise to that baseline scenario came the next day, with the release of **January CPI**. Monthly inflation was **0.29%, significantly below the market consensus (0.41%)**. Twelve-month inflation fell to 2.86% (from 2.95%) in December, and is still below the bottom of the inflation target range. Two new CPI readings will be known before the next Copom meeting (scheduled to March 21), in addition to 4Q17 GDP and, probably, an attempt to vote the pension reform in Congress. **We expect the Selic rate to stay at 6.75% for the next 12 months, at least.**

**In-depth research: The Push for Pension Reform**

In *Same proposal. Different probability?* (February 8, 2018), we assess the latest changes in the social security reform proposal that the government expects to be debate in the Lower House on February 19, with a vote before the month ends. The most relevant modification in the bill was allowing for widows of police officers to receive their partners’ full wages, which, in our view, does not change significantly the potential fiscal impact of the reform: BRL480 billion in savings on a ten-year horizon, per our calculations.

In our opinion, the market is not pricing in the reform’s approval, mainly because of the proximity of general elections and the lack of consensus around the reform. Therefore, there is upside for asset prices if the reform is approved, but a failure would not, in our view, trigger a sell-off.

**Recent Publications (Available on Our Website)**

- *Social Security Reform: Same Proposal. Different Probability?* (February 8, 2018)
- *Why Has the BRL Weakened in 2017?* (January 8, 2018)
- *The Unstoppable Force of Consumption* (January 2, 2018)
- *It's Raining Cats and Dogs; Impact of Hydrology on Tariffs and Inflation* (November 29, 2017)



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