Latam Daily: Brazil 150 bps Hike, Revised Rate Call; Chile BCCh Meeting Minutes

- **Brazil: BCB delivers 150 bps hike (to 7.75%), and still fails to anchor the BRL; revising SELIC rate call**
- **Chile: Meeting minutes show anchoring of inflation expectations worries CB; hike expected at December 14 meeting**

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BRAZIL: BCB DELIVERS 150 BPS HIKE (TO 7.75%), AND STILL FAILS TO ANCHOR THE BRL; REVISING SELIC RATE CALL

In its October 26-27 meeting, the Monetary Policy Committee (Copom) of Brazil's central bank (BCB) voted to increase the Selic rate by 150 bps, in a unanimous decision. The fiscal situation in Brazil has deteriorated rapidly, which in turn has put important pressure on the BRL and inflation. Despite the 150 bps rate increase, the BRL still sold off 1.2% versus the USD, making it the worst performing currency in the region. The Copom highlighted the following points as being behind its rate hike pace acceleration:

- Global inflationary pressures are proving more persistent than CBs had envisioned.
- The Brazilian economy's recovery has lost some steam and is underperforming expectations.
- In Brazil, not only are non-core prices proving more volatile and rising faster than expected, but core prices are also showing higher than anticipated inflation.
- Inflation expectations for 2021, 2022 and 2023 stand at 9.0%, 4.4% and 3.3% respectively—pushing the BCB to act to avoid price formation mechanisms being contaminated by strong inflation.
- A strong drought in Brazil, which has reservoirs at "red levels" is not only putting pressures on energy prices (Brazil has high reliance on hydro), but can also continue to impact agricultural prices.
- Even though the Copom mentioned that recent fiscal data has improved, members acknowledged that markets are questioning the viability of fiscal dynamics, in light of planned additional rounds of stimulus being discussed ahead of next year's presidential elections.

Taking the above factors into consideration, the BCB accelerated its rate hike pace to 150 bps, and said it anticipates a similar move in the next meeting (December 7–8). However, given the poor reaction to the accelerated pace, we don't discount that a 200 bps hike could become necessary to anchor the country's financial markets. With all this in consideration, we are revising our own expectations regarding Brazil's policy and financial variables to the following (table 1):

December 7-8, 2021:	+ 200 bps
February 3, 2022:	+100 bps
March 17, 2022:	+100 bps
May 5, 2022:	+50 bps
June 17, 2022:	Hold

Table 1
Brazil: Forecasts

	2021	2022				2023			
	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
USDBRL	5.65	5.60	5.75	5.80	5.85	5.75	5.71	5.68	5.62
Selic rate (%)	9.75	11.75	12.25	12.25	11.75	10.75	8.50	7.50	6.00
IPCA (y/y % change)	9.2	9.3	8.9	6.7	6.1	5.2	4.8	4.3	4.8

Source: Scotiabank Economics.

—Eduardo Suárez

CHILE: MEETING MINUTES SHOW ANCHORING OF INFLATION EXPECTATIONS WORRIES CB; HIKE EXPECTED AT DECEMBER 14 MEETING

On Thursday, October 28, the central bank (BCCh) released the Minutes of the Monetary Policy Meeting held on October 13 (see our *Latam Daily*, here), in which it surprised the market by increasing the policy rate by 125 basis points (bps), to 2.75%. According to the Minutes, the BCCh evaluated to hike the policy rate between 75 and 150 bps and expressed concerns for inflation expectations. The Board members agreed it is necessary to bring the rate closer to its neutral level earlier than anticipated, which in our view would imply increasing the rate up to 3.5%–4.0% at the next meeting, to be held on December 14. Our call is for a 125 bps hike to reach 4.0%. However, if the fourth withdrawal of pension funds is approved by Congress before the December meeting of the BCCh, we estimate that the Board will evaluate raising the policy rate even beyond 4.0%.

—Anibal Alarcón