

Brazil Flash

Inflation breaches target ceiling in March

Annual inflation continued to trend up and reached 6.59% YoY in March, above the 6.5% level (the upper-bound of the target range). In monthly terms, however, inflation declined to 0.47% MoM from 0.60% MoM in February. These figures were somewhat higher than we forecasted (6.49% YoY; 0.38% MoM), but slightly lower than markets expected (6.62% YoY; 0.50% MoM). Core and diffusion measures revealed that price pressures eased somewhat in March. In our view, today's figures will not trigger a hike of the SELIC rate in April. We continue to expect the SELIC rate to remain constant at 7.25% in the months ahead.

• High annual inflation, with decompression at the margin

In March, inflation declined in 7 out of the 9 main groups in monthly terms (the exceptions were communication and housing). In particular, food inflation dropped from 1.45% MoM in February to 1.14% MoM in March (contributing with 0.28bp to the 0.47bp total inflation in the period). Service inflation declined from 1.30% MoM to 0.26% MoM. The diffusion index, which reveals the share of goods with prices increasing in the period, eased to 69% in March (72% in February and 75% in January). Overall, inflation continues very high, above the upper-bound of the target, in spite of a monthly decompression observed in March. We expect the BCB to focus in the latter, avoid a hike in its meeting next week, gain time to confirm that this process of decompression at the margin will continue, and then end up maintaining the SELIC rate unchanged at 7.25%. However, the chance of a (soft) monetary tightening ahead is certainly non-negligible.

La inflación rompe el techo del rango objetivo en marzo

La inflación anual continuó aumentando y alcanzó el 6,59% a/a en marzo, por encima del nivel de 6,5% (el límite superior del rango objetivo). En términos mensuales, la inflación cayó hasta 0,47% m/m desde 0,60% m/m en febrero. Los datos de inflación estuvieron por encima de lo que preveíamos (6.49% a/a; 0.38% m/m), pero ligeramente por debajo de lo esperado por los mercados (6.62% a/a; 0.50% m/m). Las medidas de inflación subyacente y los índices de difusión revelaron que las presiones sobre los precios se redujeron en marzo. En nuestra opinión, los datos divulgados hoy no implicarán una subida de los tipos SELIC en abril. Seguimos esperando que los tipos de interés se mantengan estables a 7,25% en los próximos meses.

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