

Brazil Flash

In spite of an upward surprise in April, inflation is (temporarily) back to within the target range

Inflation dropped from 6.59% YoY in March to 6.49% YoY in April and, therefore, came back to within the target range (2.5% - 6.5%), to a large extent due to favorable base effects (i.e. high inflation in the same month last year). We expect inflation to breach the target ceiling again in the next few months, start to decelerate in the third quarter and then close the year at 5.6% YoY.

- **Inflation increased in monthly terms but the diffusion index declined**

In monthly terms, inflation rose to 0.55% MoM in April from 0.47% MoM in March. The figure was also higher than forecasted (BBVA Research: 0.45% MoM; consensus: 0.49% MoM). This deterioration in monthly inflation was due to a slighter than expected slowdown in food inflation as well as increasing pressures in 5 out of the other 8 segments (health and personal care, housing, personal expenses, apparel and household articles). On the positive side, the diffusion index, which measures the proportion of goods with positive inflation in the month, continued to decline and reached 66% in April (vs. 75% in January, 72% in February and 69% in March). We see room for a gradual moderation in monthly inflation in the next few months. However, unfavorable base effects should offset the impact of this slowdown in monthly terms and push yearly inflation above the target ceiling of 6.5% YoY until the beginning of the third quarter, when a convergence to 5.6% YoY by the end of the year would start.

- **We maintain our monetary policy perspectives unchanged**

In spite of the upward surprise in April inflation and the more hawkish tone adopted recently by some BCB members (which could continue in the forthcoming months) we stick to the view that the SELIC will be hiked by 25bps in each one of the three next monetary meetings and remain constant at 8.25% thereafter. Regarding the hardening of the BCB's tone, we think it should be taken as an effort to control inflation expectations through "verbal intervention" and not as a sign that this monetary tightening cycle will be significantly longer than we are currently expecting.

A pesar de una sorpresa al alza en abril, la inflación ha vuelto (temporalmente) al rango meta

La inflación se redujo de 6,59% a/a en marzo a 6,49% a/a en abril, por lo que volvió a estar dentro del rango meta oficial (2,5% - 6,5%), en gran parte debido a unos efectos base favorables (es decir, alta inflación en el mismo mes el año pasado). Esperamos que la inflación rebase nuevamente el techo del rango meta en los próximos meses, empiece a desacelerarse en el tercer trimestre y cierre el año en el 5,6% a/a.

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