

Brazil Flash

Central Bank expects higher inflation and lower growth; and we expect a higher SELIC

The Central Bank of Brazil (BCB) adjusted its inflation forecasts up and its growth forecasts down. In addition, the 2Q13 Inflation Report released today revealed that the monetary authority sees an unfavorable balance of risks for inflation and that it expects inflation to continue to trend up in the short-term. Largely due to the impact of a weaker currency (which was also highlighted by the BCB), and in line with today's report, we now expect the SELIC rate to be hiked by an extra 125bp in the months ahead, reaching 9.25% in September.

- **Depreciation risks (and lower pass-through) were emphasized...**

According to the BCB, the economic weakness in some regions and remaining external uncertainties are helping to constrain domestic demand. However, the monetary authority expects the global economy to grow moderately ahead. Still according to the BCB, the process (or its imminence) of normalization of monetary conditions in the US will introduce volatility in financial markets. The appreciation of the dollar as well as the risks it poses on inflation were highlighted. However, the BCB added that "the evidence for the Brazilian economy supports the hypothesis of a lower pass-through from exchange rate depreciation to inflation", in particular in periods in which the monetary policy is being tightened (as now).

- **...as well as wage inflation, persistence and resilience of inflation, indexation and worsening of expectations...**

The BCB reduced its 2013 GDP forecast from 3.1% to 2.7%, (which is still a somewhat optimistic figure) but it continues to expect domestic growth to intensify this year and in the next one and to be "more in line with potential growth rates". As in previous communication, the monetary authority revealed it is concerned about the persistence and the resilience of inflation, the worsening in inflation expectations and indexation. Moreover, according to the BCB "wage dynamics continue generating pressure on costs".

- **... which determined a deterioration in the balance of risks**

All in all, there was a clear deterioration in the balance of risks for inflation, as noted by the BCB. Accordingly, inflation forecasts in the baseline scenario, which assumes exchange and interest rates stable at June 6 values (2.10 and 8.0%, respectively), were raised to 6.0% at the end of 2013 and 5.4% at the end of 2014 from 5.7% and 5.3%, respectively. The monetary authority expects inflation to continue to trend up in the short-term (and to reach 6.8% in June), and then decelerate gradually. Once more, the BCB affirmed that it is "especially vigilant" to minimize inflationary risks.

- **We adjust our forecasts and now expect an extra +125bp adjustment of the SELIC**

In line with the recent market trends, especially the prospects for the withdrawal of monetary stimuli by the Fed, we now expect the Real to be within 2.15 and 2.20 in the remainder of the year. In our view, this depreciation, the expansive tone of fiscal policy (unlikely to be reversed, in our view), among other reasons (such as those cited by the BCB in today's report) will continue to fuel inflation pressures, which will then force the BCB to adopt a tighter monetary policy than we were expecting. More precisely, we now expect the monetary authority to adjust the SELIC up by 50bp in the next two monetary meetings (in July and August) and then deliver a final 25bp adjustment in September (our previous call was for an extra 75bps adjustment, 50bp in July and 25bp in August). All in all, we expect inflation to close 2013 and 2014 at 5.6% and 5.5%, respectively.

For more on Brazil, [click here](#)

El Banco Central espera mayor inflación y menor crecimiento; y nosotros esperamos un SELIC más alto

El Banco Central de Brasil (BCB) ajustó sus estimaciones de inflación al alza, mientras que ajustó sus previsiones de crecimiento a la baja. Además, el Informe de Inflación para el 2T13 publicado hoy muestra que la autoridad monetaria ve un deterioro en el balance de riesgos para la inflación y espera que esta continúe su tendencia al alza en el corto plazo. En parte debido al impacto de una depreciación del Real (el cual ha sido subrayado por el BCB), y en línea con el informe de hoy, esperamos que el SELIC se incremente 125 pb extra en los próximos meses, hasta alcanzar el 9,25% en septiembre

Para ver más acerca de Brasil, [haga clic aquí](#)

Enestor Dos Santos
enestor.dossantos@bbva.com
+34 639 82 72 11

BBVA | RESEARCH



| Pº Castellana 81, Floor 7, 28046 Madrid | Tel.: +34 91 374 60 00 | www.bbva.com

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.