

Brazil Flash

Inflation peaks in June

Inflation continued to trend up and reached 6.7%YoY in June, the highest figure since the end of 2011 and above the target ceiling of 6.5%. We expect inflation to decelerate gradually over the second half of the year and reach 5.6%YoY in December, favored by positive base effects and the ongoing monetary tightening, which we expect to bring the SELIC rate to 9.25% in October.

- Inflation surprised to the downside in June and the diffusion index declined**

June inflation (6.70%YoY; 0.26%MoM) was lower than expected (BBVA: 6.76%YoY and 0.32%MoM; consensus: 6.78%YoY and 0.34%MoM). However, annual inflation increased in comparison to May, when it had reached 6.50%. The decline in monthly inflation, from 0.37%MoM in May was driven by seasonal factors: the seasonally-adjusted series shows that inflation increased from 0.43%MoM in May to 0.51%MoM in June. The data released today also showed that food inflation continued to ease (0.04%% in June vs. 0.31%% in May) and that housing, personal expenses, and health and personal care inflation (0.57%MoM, 0.40%MoM and 0.35%MoM, respectively) were the main source of pressure on consumer prices in the period. The diffusion index, which measures the share of goods with positive inflation, declined from 63% in May to 55% in June, the lowest figure in the year, which shows that inflation pressures are now less spread than before.

- We expect inflation to gradually trend down from July onwards**

July inflation will benefit from some seasonal factors and cuts in public transport fares (triggered by the recent wave of protests). We expect inflation to reach 6.51%YoY (0.20%MoM) in July. Looking ahead, positive base effects and the ongoing monetary tightening cycle should pave the way for a gradual but continuous decline in annual inflation during the remainder of the year, which is likely to bring inflation to 5.6%YoY in December (market consensus is currently at 5.9%YoY). The recent depreciation of the Brazilian Real (12% in the last two months) and our perception that fiscal policy will remain practically unchanged at expansionary levels will require a more important adjustment of the SELIC rate than we were expecting some weeks ago. Accordingly, we now expect a +50bp adjustment at next week's monetary meeting, +50bp in August and a final adjustment of +25bp in October.

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

La inflación alcanza su máximo en junio

La inflación continuó al alza y alcanzó el 6.7% a/a en junio, su nivel más alto desde finales de 2011 y por encima del techo del rango objetivo de 6.5% fijado por el banco central. Esperamos que la inflación se desacelerará gradualmente a lo largo de la segunda mitad del año hasta alcanzar el 5.6% a/a en diciembre, favorecida por un efecto base positivo y por el ciclo de ajuste monetario que esperamos determinará un aumento del SELIC hasta el 9.25% en octubre. Sin embargo, la depreciación reciente del real (un 12% en los últimos 12 meses) añade un sesgo alcista a nuestras previsiones de inflación y tipos de interés.

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