

Brazil Flash

Inflation continues to ease

Yearly inflation dropped to 6.09% in August from 6.27% in July and 6.70% in June, largely due to positive base effects. The figure was broadly in line with expectations (BBVA: 6.10%; consensus: 6.11%). We expect inflation to continue to lose steam in the next few months and close the year at 5.7%. However, the recent exchange rate depreciation poses upside risks to this forecast.

- **In monthly terms, inflation reached 0.24% MoM in August**

Monthly inflation increased with respect to July when it reached 0.03% MoM. This increase in monthly terms is due to seasonal factors and the positive impact the reduction in public transport fares had on prices in the previous reading. Anyway, as in July, monthly inflation in August remained below levels observed at the same month last year (in August 2012 inflation was 0.41% MoM). Positive base effects are playing an important role on the recent decline in yearly inflation, something we expect to continue in the months ahead. Food prices remained stable (0.01% MoM) and transport prices declined slightly (-0.06% MoM). In both cases, however, the prints were not as benign as in July when food and transport prices dropped 0.33% MoM and 0.66% MoM, respectively. The largest contribution to August inflation came from the housing, health and personal care, household articles and personal expenses groups.

- **The easing of inflation should help the BCB to end the monetary tightening cycle in November**

The recent depreciation of the Brazilian real, from 2.05 per dollar at the end of May to around 2.35 this week, offsets the better than expected inflation readings in the last few months and prevent us from cutting our IPCA forecasts. It actually adds upside risks to our 5.7% YoY inflation estimate for the end of the year, especially if it triggers an adjustment in the gasoline price (the weight of gasoline in the consumer basket is of around 4.0%). At least if these upside risks do not materialize, the Central Bank of Brazil (BCB) should put an end to the monetary tightening with a +25bps hike in November after delivering a +50bps adjustment in October (for more details on Brazil's monetary policy, check [our Brazil Flash released yesterday](#)).

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

La inflación sigue moderándose

La inflación anual se redujo al 6,10% en agosto, desde el 6,27% en julio y el 6,70% en junio, debido principalmente a efectos base positivos. La cifra estuvo en línea con las expectativas (BBVA: 6,10%; consenso: 6,11%). Esperamos que la inflación continúe perdiendo fuerza en los próximos meses y cierre el año en el 5,7%. Sin embargo, la reciente depreciación del tipo de cambio añade riesgos al alza a estas previsiones.

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

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