

Brazil Flash

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Economic Analysis

Brazil

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

Inflation jumps in March and will soon breach the 6.5% target ceiling

Following a sharp increase in food prices, annual inflation reached 6.15% in March, significantly higher than in February (5.68%). After running six months within the 5.5% and 6.0% range, inflation is expected to breach the 6.5% mark by the middle of the year and then remain between 6.0% and 7.0% until the end of 2014.

- **Monthly inflation was the highest in more than ten years**

March inflation figures (6.15% YoY; 0.92% MoM) came in higher than forecasted (BBVA: 6.01% YoY; 0.78% MoM; consensus: 6.08% YoY; 0.85% MoM). In monthly terms, inflation was identical to the December of 2013 reading and the highest since the beginning of 2003 (in seasonally). The main driver of March inflation was food prices, largely due to the drought that hit the country recently. Food inflation reached 1.92% MoM in March (vs. 0.56% MoM in February), contributing with 51% of the monthly variation in domestic prices.

- **Inflation figures increase the probability of both the BCB accepting a stronger exchange rate appreciation and more action on the monetary side**

Following the release of today's figures, as well as more signs suggesting that energy prices will increase more than anticipated, we adjust our forecast for inflation at the end of 2014 up to 6.20% YoY from 6.0% YoY. Moreover, we now attach a significant probability of inflation closing 2014 above the 6.5% target ceiling. As a consequence of this less benign outlook, we now see more likely that the BCB ends up accepting a stronger exchange rate in the short-term. In addition, another 25bp hike of the SELIC rate at the end of May is now also more likely than before. In our view, another upward surprise in inflation in April will force the monetary authority to deliver another SELIC hike in May rather than leaving policy rates unchanged as we have currently incorporated in our baseline scenario.

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La inflación se dispara en marzo y pronto sobrepasará el techo del rango meta (6,5%)

Tras un fuerte aumento en el precio de los alimentos, la inflación anual llegó a 6,15% en marzo, significativamente más alta que en febrero (5,68%). Después de permanecer seis meses en el rango de 5,5% y 6,0%, esperamos que la inflación sobrepase la marca de 6,5%

para mediados de año y luego se mantenga entre 6,0% y 7,0% hasta finales de 2014.

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