

# Economic Watch

## Brazil

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Economic Analysis

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Inflation dropped from 0.47%/m/m in May to 0.15%/m/m in June. This was, however, a softer than expected moderation because domestic demand remains excessively robust. Today's figure reinforces the view that the Central Bank will continue adjusting the SELIC rate up in the next months

## Brazil: inflation moderates less than expected

- **After averaging 0.70%/m/m in the first five months of the year, inflation was equal to 0.15%/m/m in June.** In spite of this moderation, June's inflation was higher than expected. Our forecast was for an inflation of 0.10%/m/m. Market consensus was equal to 0.6%/m/m, with some analysts even expecting a deflation.
- **The monthly drop of inflation was driven by seasonal factors and by a sharp correction of fuels and food prices,** which declined 0.61%/m/m and 0.26%/m/m respectively.
- **Nonetheless, a still too strong domestic demand prevented inflation from moving down more sharply.** Inflation at some demand-driven groups remained at very high levels (clothes: 1.25%/m/m; health: 0.67%/m/m; personal expenditures: 0.67%/m/m; housing: 0.58%/m/m). Core inflation measures averaged 0.51%/m/m in June, slightly below May's average (0.59%/m/m). Services inflation remained stable at 0.60%/m/m.
- **In yearly terms inflation moved up to 6.71%/y/y from 6.55%/y/y in May.** It, therefore, remains over the 6.5% inflation target' upper-bound and high above the 4.5% central target for the end of the year.
- **We expect inflation to be within the 0.20%/m/m - 0.30%/m/m range in the next couple of months, and to converge to 6.0%/a/a by the end of the year.** Full convergence to the 4.5% target should occur only at the beginning of 2013.
- **In this environment, where there are clear signs that domestic demand remains too strong, we expect the Central Bank to implement one or two more upward adjustments of the SELIC rate this year.** In addition, we see reduced room for the SELIC being cut next year.

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

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