

Brazil Flash

Monetary adjustment process has still some way to go

The CB's Monetary Policy Committee (COPOM) decided to cut the SELIC rate by 50bps to 8.0%, in line with expectations. We now expect the monetary adjustment process to continue for more time and the SELIC to reach 7.0% in the fourth quarter as the global environment remains turbulent, domestic recovery remains fragile and inflation continues surprising to the downside,

- **The communiqué was left practically unchanged**

The monetary policy decision announced by the COPOM was widely expected. Also in line with expectations, the communiqué of the decision was very similar to the previous one: "The COPOM considers that at this moment the risks for the inflation path remain limited. The Committee also notes that, up to now, given the fragility of the global economy, the contribution of the external sector has been disinflationary. Therefore, continuing the adjustment process of monetary conditions, the COPOM decided, unanimously, to reduce the SELIC rate to 8.00%, without bias." The only –minor– change was the mention to the fact that the decision was unanimous (the previous decision had also been unanimous but that was not included in the message).

- **2012 GDP closer to 2.0% than to 3.0%, inflation at 5.0% and (therefore) SELIC at 7.0%**

The COPOM's statement remained focused on the external sector, but as the monetary authority already signalled in other recent reports (as the [Q2 2012 Inflation Report](#)), domestic factors are also helping to improve the balance of risks for inflation. Q2 2012 high-frequency indicators still do not provide evidence of solid recovery (May retail sales were, actually, released yesterday and surprised markets significantly to the downside by declining 0.8% m/m). This adds to the poor activity performance observed in Q1 2012 when GDP expanded by just 0.2% q/q and support the view that growth will be much closer to 2.0% than to 3.0% this year. In addition to that (or at some extent because of that), inflation has been surprising to the downside. Last week June inflation came up at 0.08% m/m in comparison to our 0.20% m/m forecast. Inflation has been benefiting from a negative output gap, but also from lower commodity prices and series of one-off factors (such as tax cuts and the change of the IPCA methodology). Taking all this into account, we have revised our inflation forecasts downwards and now expect inflation to be at 5.0% by the end of the year. We expect that the CB will continue using all the available space to bring the SELIC down. In the current environment this means, in our view, that the SELIC would reach 7.0% after two more 50bps cuts in August and October.

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

El proceso de flexibilización monetaria todavía tiene un camino por recorrer

El Comité de Política Monetaria del Banco Central redujo los tipos SELIC en 50 puntos básicos hasta el 8.0%, en línea con lo esperado. Esperamos ahora que el proceso de flexibilización monetaria continúe en los próximos meses y que la SELIC alcance el 7.0% en el cuarto trimestre ya que el escenario externo sigue turbulento, la recuperación de la actividad interna permanece frágil y la inflación continúa sorprendiendo a la baja.

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