

Brazil Flash

Inflation rises for the first time in ten months

Inflation increased to 5.2%/y/y in July from 4.9%/y/y in June. This was the first time inflation moved up since Sep/2011 when it reached 7.3%/y/y. We expect domestic economic recovery, less supportive base effects and more pressures from food prices to prevent inflation from declining significantly in the remainder of the year.

- **Inflation was higher than expected in July**

July inflation came up at 5.2%/y/y; 0.43%/m/m, surprising us and the consensus to the upside (BBVA Research: 5.1%/y/y and 0.30%/m/m; Market Consensus: 5.1%/y/y; 0.37%/m/m). The main contribution to inflation in the period came from the food and beverages group (+0.91%/m/m versus 0.68%/m/m in June) and, secondarily, from the personal expenses group (0.91%/m/m versus 0.47%/m/m in June).

- **Inflation's downward trend has come to an end**

The continued decline of inflation from 7.3%/y/y in September of 2011 to 4.9%/y/y in June was at a large extent related to positive base effects. However, the weakness of global and domestic activity as well as some non-negligible one-off factors, such as tax cuts and the updating of IPCA's weights, were also very supportive. Even though there are still important downside risks to inflation, we expect the acceleration of domestic demand and less supportive base effects to keep inflation around 5.0% over the second half of the year. The sharp increase of grain prices in international markets should also pressure prices, helping to prevent inflation from trending down in the months ahead. In spite of this trend change, we expect the Central Bank to keep focused on external risks and to announce two more 50bps cuts of the SELIC in the next two monetary meetings (in August and October) and then to leave rates unchanged at 7.0% for a long period.

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

La inflación aumenta por primera vez en diez meses

La inflación interanual aumentó desde 4,9%/a/a en junio hasta 5,1%/a/a en julio. Esta fue la primera vez que la inflación subió desde septiembre de 2011 cuando alcanzó el 7,3%/a/a. Esperamos que la recuperación de la economía, unos efectos base menos favorables y mayores presiones de los precios de los alimentos impidan una caída significativa de la inflación en lo que queda de año.

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

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