

Brazil Flash

CB sees a deterioration in the inflation outlook, but only in the short-term

The minutes of the last monetary policy highlighted CB's concerns about the negative impact of supply-shocks on food prices. However, this impact will be "less intense" than the one observed in 2010/2011 (when inflation reached more than 7.0%) and will be reversed in the medium-term, according to the monetary authority. Today's minutes reinforced the perspectives that the monetary easing cycle is near the end.

- **"Inflation to move towards target, in a non-linear way"**

According to the CB, inflation will converge to the 4.5% target, but this will not occur linearly. In our view, this suggests that the monetary authority will accept without much discomfort a short-term increase in domestic prices (yearly inflation actually increased in July for the first time in 10 months). At the same time that food prices concerns were at the centre of the just released minutes, the impact of domestic and external supply-shocks on inflation was somewhat downplayed. In spite of the negative bias in the short-term, for the CB the external sector is disinflationary in the medium-term ("the prospective inflation outlook...continued showing favorable signs in longer terms"). Accordingly, the monetary authority revised upwards its 2012 inflation forecasts to above target levels and kept its 2013 inflation forecasts broadly unchanged at above target levels as well. As expected, the reference to "maximum parsimony" regarding future policy action was included in the minutes as well as allusions to recent improvements in domestic activity.

- **We expect a final 25bps cut in October.**

All in all, the minutes released today provided additional support to the view that the monetary easing cycle is to end soon. Even though the tone of the minutes was slightly more hawkish than foreseen, we still expect the CB to announce a final 25bps cut in the next monetary policy meeting in October. From now on, we expect the CB to focus more on medium-term (one-year-ahead) inflation and try to accommodate the eventual impact of supply-shocks within the 2.5%-6.5% target range.

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El BC ve un deterioro en las perspectivas de inflación, pero solo en el corto-plazo

Las minutas de la última reunión de política monetaria destacaron las preocupaciones del BC con el impacto negativo de los shocks de oferta sobre el precio de los alimentos. Sin embargo, este impacto será "menos intenso" que en 2010/2011 (cuando la inflación superó el 7.0%) y será revertido en el mediano-plazo, según la autoridad monetaria. Las minutas reforzaron las perspectivas de que el ciclo monetario expansivo se acerca a su final.

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