Flash Brasil

Menor inflación en 2013, a pesar de una moneda más débil

El Informe de inflación del tercer trimestre ha revelado que el Banco Central de Brasil (BCB) revisó su previsión de inflación para el fin de año hasta el 5,8% a/a desde el 6,0% a/a hace tres meses. La nueva previsión asume un tipo de cambio real / dólar de 2,35, superior tanto a la tasa de 2,10 utilizada en el Informe de Inflación anterior como a la tasa actual de 2,23. A pesar de que se hayan ajustado las previsiones de inflación para 2014 al alza, en nuestra opinión el informe de hoy sugiere que el BCB está ligeramente menos preocupado con la inflación. Con todo, no vemos razones para cambiar nuestras previsiones para el SELIC: seguimos esperando un alza de 50 puntos básicos en la reunión de política monetaria de la próxima semana y posteriormente un ajuste final de 25 puntos básicos en diciembre.

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Lower inflation in 2013, in spite of a weaker currency

The 3Q13 Inflation Report revealed that the Central Bank of Brazil (BCB) revised its year-end inflation forecast down to 5.8% YoY, from 6.0% YoY three months ago. The new forecast assumes the real / dollar exchange rate will be at 2.35, higher than both the 2.10 rate used in the 2Q13 Inflation Report and the 2.23 current rate. Even though 2014 inflation forecasts were raised, in our view today's report suggests that the BCB is slightly less concerned about inflation. All in all, we see no reasons to change our SELIC forecasts: we continue to expect a +50bps hike in the next week's monetary meeting and then a final +25bps adjustment in December.

- **BCB sees improvement in global activity offsetting higher financial volatility**

  At today's report, the BCB highlighted that the external environment remains "complex" and risks to global financial stability continue "high", among other reasons due to "the ongoing deleveraging in the main economic regions" and the "sharp steepening of the yield curve in advanced economies". However, still according to the BCB, "higher volatility" is being offset by the improvement in global economic activity, which is expected to gain some momentum ahead. The monetary authority also highlighted the "natural and expected" correction of the exchange rate, which together with a higher global growth, helps to "make the dynamics of external demand more supportive to domestic growth" (a more optimistic view than the 2Q13 Inflation Report revealed three months ago).

- **2013 GDP forecast is cut to 2.5%**

  With respect to the domestic environment, the BCB reduced its 2013 GDP forecast to 2.5% from 3.0%, which is still "in line with potential growth". Exports are forecasted to be more supportive and domestic demand is expected to remain "relatively robust" (in comparison to only "robust" in the previous report), even though there is uncertainty regarding consumer and business confidence. The monetary authority also noted a change in the composition of aggregate demand, with the moderation in private consumption contrasting with a sharper expansion of both exports and investment. In line with the minutes of the last monetary policy meetings, fiscal policy is seem to be close to a "neutral zone" instead of revealing an expansionary stance as described recently. In addition, the BCB stated that current primary surpluses (around 2.0% of GDP, in comparison to 3.2% in average in the 2002-2011 period) "are needed to maintain public debt in a sustainable path", which suggests that a stronger fiscal stimulus could trigger additional tightening of monetary policy .next year.

- **Lower inflation in 2013, but higher in 2014**

  According to BCB's baseline scenario, which assumes interest and exchange rates constant at September 6 values (9.0% and 2.35, respectively), inflation should reach 5.8% YoY and 5.7% YoY at the end of 2013 and 2014. Three months ago, assuming exchange rate at 2.10 and interest rates at 8.0%, the BCB expected inflation to reach 6.0% YoY and 5.4% YoY, respectively. Higher domestic interest rates, lower growth and positive surprises in recent inflation readings seem to be behind the downward revision in 2013 inflation. Regarding 2014, the upward adjustment is probably due to a weaker currency and a slightly higher global growth. It is noteworthy that the very recent currency appreciation, which took the exchange rate to around 2.20 nowadays from 2.47 at mid-August and 2.35 when the BCB prepared its 3Q13 Inflation Report, can make the BCB to cut its 2013 inflation forecast again soon (or accommodate an upward adjustment in fuel prices).

- ## SELIC at 9.75% at year-end

The BCB continued to highlight risks related to the exchange rate, the dynamism of the labor market, the inertial component of inflation in Brazil, high inflation expectations… However, the text of today's report suggested to us that the BCB is now less concerned with inflation than three months ago, which could be related to the recent decline in inflation, from 6.7% YoY in June to 6.1% YoY in August. In an environment in which there will be less room for the inflation to continue to decline, we expect the BCB to tight monetary conditions further ahead. More precisely, we expect the SELIC to be hiked from 9.0% to 9.50% next week and then to 9.75% in December. We see support to this call in today's Inflation Report. However, a sharp depreciation of the exchange rate could require additional monetary tightening.

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