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Economic Watch

Brazil

Madrid, 7 June 2011
Economic Analysis

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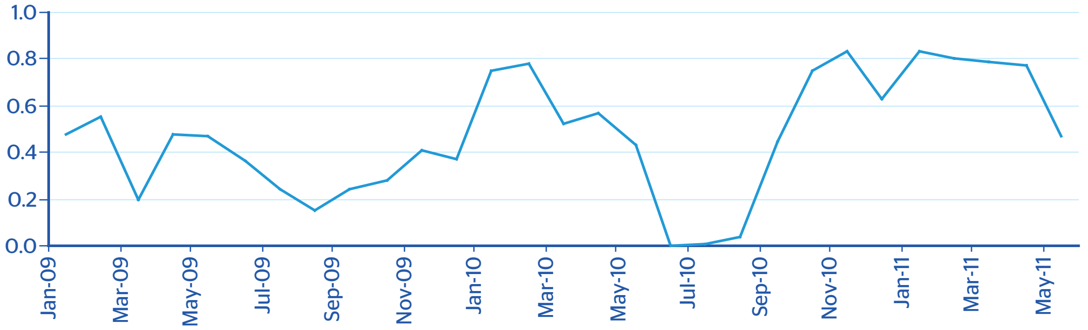
Brazil: beginning of the low inflation season

- May's inflation came up at 0.47%m/m. The figure was in line with BBVA and markets expectations (0.45%m/m and 0.47%m/m, respectively), and significantly lower than the 0.80%m/m average observed in the first four months of the year (0.77%m/m in April).
- The easing of monthly inflation is, at a large extent, explained by seasonal factors which should continue playing an important role in the next few months and, therefore, help inflation to slow down from now till, at least, September.

Inflation dropped to 0.47%m/m in May from 0.77%m/m in April due to seasonal factors and lower fuel prices. We expect inflation to be in 0.1%m/m - 0.3%m/m range in the next few months, which should take some pressure off the Central Bank

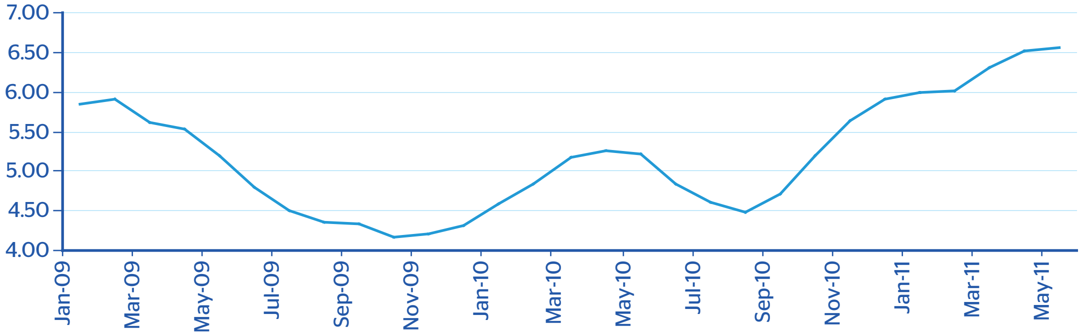
Chart 1
Inflation: IPCA (m/m%)



Source: IBGE

- The moderation of inflation in May was, however, not only driven by seasonal factors: if we take a seasonally adjusted series, inflation dropped from 0.66%m/m in April to 0.50%m/m in May.
- The decline of inflation in May is also related to lower pressure from fuel prices which declined 0.35%m/m in May in comparison to a 6.53%m/m growth in April.
- Yearly inflation reached 6.55%y/y in May, practically unchanged in comparison to April (6.51%y/y) but still above the upper-bound of the targeting system (6.50%y/y).

Chart 2
Inflation: IPCA (y/y%



Source: IBGE

- We expect lower commodity prices and the weakening of domestic demand to add to seasonal factors and to keep inflation in the 0.1%m/m-0.3%m/m range in the next few months. This should, however, not prevent yearly inflation to continue trending upwards and to surpass 7.0%y/y by the middle of the year due to low base effects.
- By the end of the year we expect inflation to be at 6.1%y/y, less than markets have been discounting recently (6.4%y/y some weeks ago and 6.2%y/y currently).
- We reaffirm our call for the SELIC: a 25bps hike to be announced tomorrow and, perhaps, one last 25bps hike in July. Although we recognize that the dynamism of credit and labor markets pose a risk to this call, we see any extra SELIC adjustment as unlikely.

For more on Brazil, click here

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