

Brazil | Inflation surprises strongly to the upside

Enestor Dos Santos

Inflation reached 10.71% YoY / 1.26% MoM in January, significantly higher than forecast, mainly due to food and regulated (transport) prices. Therefore, annual inflation will only start to moderate from February -rather than from January- onwards, and the most likely is that the convergence to within the 2.5%-6.5% target range will only occur at the beginning of 2017.

Food and transport inflation jumped to 2.3% MoM and 1.8% MoM in January

The increase of monthly inflation, from 0.96% MoM in December to 1.26% MoM in January, was to a large extent due to higher pressure from food prices, which is related to some supply shocks and worse seasonality, and to an increase in transport inflation, a consequence of adjustments in oil prices and, mainly, in public transport tariffs. Together, the increase in food and transport prices contributed with 0.90p.p. to the total monthly inflation in January.

A worse outlook for inflation

As a consequence of higher-than-anticipated pressure at the beginning of the year, annual inflation remained broadly stable around 10.7% YoY in January (BBVAe: 10.4% YoY; consensus: 10.5% YoY). We still expect annual inflation to gradually lose steam over this and the next year, due to lower-although still high- adjustments in administered prices as well as to the impact on prices of the contraction in domestic demand. However, taking into account today's figures and the evolution of other variables (mainly the relevance of indexation mechanisms, higher food prices and the weakening of the currency), we revised up our forecast for inflation at the end of 2016 to 6.8% YoY from 6.3% YoY. Therefore, the convergence of inflation to the 2.5%-6.5% target range will likely only happen at the beginning of 2017 rather than at the end of 2016. January's inflation figures will put an extra pressure on the BCB, but we continue to see the stability of the Selic rate at 14.25% for a long period as monetary policy's most likely scenario.

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance. This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.