

Brazil Flash

Inflation: stable around the target ceiling for now, but moving up soon

Inflation reached 6.50% YoY in May, similar to the April figure (6.49% YoY) and broadly in line with forecasts (BBVA and consensus: 6.51% YoY). In our view, the deceleration in monthly inflation in the next few months (largely due to seasonal factors) will not prevent annual inflation from being above the target ceiling in the next three months (within 6.5% YoY and 6.8% YoY).

- **Inflation eased in monthly terms, due to seasonal factors**

Monthly inflation eased to 0.37% MoM from 0.55% MoM in April due to a deceleration in food inflation (to 0.3% MoM from 1.0% MoM) and the 0.3% MoM decline in transport prices. From a different perspective, the moderation in inflation is due to seasonal factors: the seasonally-adjusted series show that inflation reached 0.44% MoM in May, unchanged in comparison to April (but below the 0.55% MoM average in the first quarter). The diffusion index, which measures the proportion of goods with positive inflation in the month, continued to trend down and reached 63% (66% in April, decline and reached 66% in April (72% on average in the first quarter).

- **High inflation in the next few months will keep the BCB under pressure**

Even though most of the monthly deceleration is due to seasonal factors and annual inflation remains on the upper edge of the target range, the figures released today are not necessarily bad news as the diffusion index revealed that price pressures are not as widespread as before and as figures did not surprised to the upside (as they did most of the times in the year to date). Anyway, we expect inflation, which is now in the spotlight, to move up and to be within the 6.50% - 6.8% range in the next few months. This will force the Central Bank of Brazil (BCB) to continue to adjust the SELIC rate in the short-term (+50bp in July and +25bp in August, in our view). The recent depreciation of the Brazilian real, reinforced today by [the downgrade of Brazil's rating outlook to negative from stable by S&P](#), adds an upward risk to our inflation and SELIC forecasts.

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

Inflación: de momento estable alrededor del techo del rango objetivo, pero subiendo pronto

La inflación alcanzó el 6,50% a/a en mayo, cifra similar a la de abril (6,49% a/a) y en línea con las previsiones (BBVA y consenso: 6,51% a/a). En nuestra opinión, la desaceleración de la inflación mensual en los próximos meses (en gran parte debido a factores estacionales) no impedirá que la inflación anual esté por encima del techo del rango objetivo en los próximos tres meses (6,5% a/a - 6,8% a/a).

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Enestor Dos Santos
enestor.dossantos@bbva.com
+34 639 82 72 11

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