

## Brazil | Inflation at 10%? Almost there

Enestor Dos Santos

---

Inflation reached 9.93% YoY / 0.82% MoM in October, higher than in September and well-above our forecasts. The adjustment in administered prices (mainly fuel prices October) and pressure from the food segment continue being the main drivers of inflation. We revise our forecasts upward and now expect inflation to break the 10% level in November and close the year at 9.9%.

### Higher-than-expected fuel and food prices

Upward surprises in fuel and food inflation, which reached 6.1% MoM and 0.77% MoM, helped to drive headline inflation up to 0.82% MoM in October, rather than to 0.70% MoM as we expected (market consensus was at 0.79% MoM). This is the highest monthly rate since March. In annual terms, inflation jumped to 9.93% YoY after three months relatively stable around 9.5% YoY.

### Inflation will still move somewhat higher before it starts falling

We expect the process of adjustment in regulated prices and food prices to continue pressuring inflation at the end of the year. Even though monthly inflation should drop to around 0.64% MoM in November and 0.60% MoM in December, in annual terms it should reach 10.1% YoY in the next month and then ease somewhat to 9.9% YoY at the end of 2015 (our previous forecast for inflation at the end of the year was 9.7% YoY). We do not expect the BCB to react aggressively to abnormally-high inflation readings at the end of the year. As it has been indicating lately, the most likely is that the Selic rate remains at 14.25% for some time. Anyway, it will be under less pressure from the beginning of the next year onwards when inflation starts to decelerate, mostly due to lower increases in administered prices as its alignment process will be mostly over by then. We forecast inflation to average 6.9% YoY next year and converge to 5.5% YoY in December 2016, even though the fiscal situation and the exchange rate pose some upward risks.

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.