

Brazil | Double-digit inflation

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Inflation beat expectations and reached 10.48% YoY in November. The main contributors were food and administered prices (mainly fuels). Even though inflation will likely ease from the beginning of 2016 onwards, it will do so from a higher-than-expected level, which means that convergence to the 2.5%-6.5% target range will take longer.

Monthly inflation jumps to 1.01% MoM in November

This is largest monthly inflation since March (1.32% MoM). In November the main pressure were fuel and food prices, which increased 4.16% MoM and 1.83% MoM respectively. The former follows the adjustment announced by Petrobras at the end of September and the latter series of supply pressures. Together, these two items contributed with 0.67 p.p. to monthly inflation in November.

Higher-than-expected inflation at the end of 2015; more gradual convergence to the target

Inflation, which reached 10.5% YoY in annual terms November, the highest rate since 2003, topped expectations once more (BBVA: 10.2% YoY; consensus: 10.4% YoY). Taking into account the larger-than-expected pressure from both food and administered prices at the end of the year, we now expect it to close the year at 10.5% YoY. As we move into 2016, the adjustments in regulated prices, mainly in electricity tariffs, are likely to lose steam as most of their misalignment will be corrected by then. That -as well as the impact of labor markets slowdown in prices- will allow annual inflation to start to trend downwards from January onwards. However, this moderation should be more gradual than ly anticipated, to a large extent due to a higher point of departure (inflation at 10.5% YoY). We maintain our forecast for 2016 inflation at 5.5% YoY while we think it will only move to within the 2.5%-6.5% target range by the end of the year rather than in 2Q16 or 3Q16. Even though most recent figures put more pressure on BCB's monetary policy, we continue to see as the most likely outcome the stability of the Selic rate at 14.25% for a prolonged period of time.

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