Brazil | Inflation eased less than expected in April

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Inflation reached 9.28% in April, less than in March (9.39%) but more than expected (BBVA: 9.18%; consensus: 9.19%). The upward surprise reinforces our view that the Selic rate will not be cut soon. Anyway, inflation should continue to trend down during the remainder of the year, thanks to the weakening of domestic demand and smaller adjustments in regulated prices.

In monthly terms inflation increased to 0.61% MoM from 0.43% MoM in March

The main drivers of inflation in April were food and health and personal care prices. The former increased 1.1% MoM, somewhat less than in the previous month (1.2% MoM), and the latter rose by 2.3% MoM, mainly due to a hike in medicine prices. In spite of the pressure created by the increase in medicines, the 3.1% MoM reduction in electricity tariffs allowed administered-price inflation to reach 0.7% MoM (10.7% YoY), below the figures recorded one year ago (0.8% MoM / 13.4% YoY). That and the more significant impact of the domestic demand slowdown, which for example helped to drive down service inflation to 0.6% MoM/ 7.3% YoY in comparison to 0.7%MoM / 8.3%YoY one year ago, are some of the main factors behind the observed moderation of annual inflation.

In spite of the upward surprise in April, we continue to expect inflation to reach 6.8% YoY this year and converge to 4.5% in 2017

The sharp contraction of domestic demand, the less aggressive increases in regulated prices and also the recent currency appreciation pave the way, in our view, for a further moderation of annual inflation moving forward. More precisely, we forecast it to inch down to 8.4% YoY in the end of 1H16, 6.8% YoY in the end of the year, and then to converge to within the target range at the beginning of 2017, which should only then allow the BCB to start a monetary easing cycle. Regarding inflation at the end of 2017, we expect it to reach 4.5%.