

Brazil | Inflation eased in August

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Monthly inflation declined to 0.22%MoM in August, from 0.62%MoM in July and 1.0%MoM on average in 1H15. As a consequence, annual inflation dropped for the first time in the year, although very slightly, to 9.53% YoY. We expect inflation to continue to moderate gradually going forward and close 2015 and 2016 at 9.2% YoY and 5.5% YoY, respectively.

Inflation surprised to the downside in August

Inflation figures (0.22% MoM, 9.53% YoY) surprised somewhat to the downside in August (BBVA forecasts: 0.30% MoM, 9.61% YoY; consensus: 0.25% MoM, 9.56% YoY). On the one hand, monthly inflation recorded the lowest figure in the year. On the other hand, annual inflation declined following seven consecutive months of increases. The decline in annual inflation, however, was very slight, to 9.53% YoY from 9.56% YoY in July. August inflation figures benefited from lower pressures from both food and administered prices. The former remained unchanged (0.0% MoM) to some extent thanks to positive seasonality while the former increased "only" 0.32% MoM after having jumped 1.18% MoM in July as the process of realignment of regulated prices is -finally- coming to an end.

Inflation will likely lose steam ahead

We expect the sharp contraction of domestic demand and lower pressure from regulated prices going forward (especially in 2016) to allow annual inflation to gradually move downwards. However, the negative impact coming from the depreciation of the exchange rate make us to revise our forecasts slightly upwards. We now expect inflation to close 2015 at 9.2% and then converge to 5.5% by December 2016, still above the 4.5% target.