Brazil | Inflation: stable at high levels and ready to move further up

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Inflation reached 9.49% YoY in September, somewhat higher than expected, but not very different from the previous two prints. After remaining broadly unchanged for three months, it should increase again in the near future, among other reasons, due to the recent adjustment in fuel prices.

Monthly inflation was equal to 0.54% MoM in September

In monthly terms, inflation increase from 0.22% MoM in August to 0.54% MoM in September, due to higher pressures from the food, housing and transportation groups. From a different perspective, September inflation was driven up by less favorable seasonality, further adjustments in administered prices and the impact of a weaker exchange rate. In annual terms, inflation continued to be around 9.50% YoY (9.49% YoY vs. 9.53% YoY in August and 9.56% YoY), with administered-price inflation being the main factor behind such very high levels.

Inflation should be around 9.8% YoY in October and November

In spite of the sharp slowdown of economic activity (especially of labor markets), inflation will increase again in the next few months as a consequence of a weaker exchange rate, inertial issues and, mainly, the impact of the recent adjustment in gasoline and diesel prices. We expect it to reach 9.80% YoY in October and 9.82% YoY in November. Then, in December, thanks to more favorable base-effects, it should ease somewhat and close the year at 9.6% YoY. Our forecast for the end of 2015 was revised up from 9.5% YoY as today's figures were higher than we expected (0.45% MoM / 9.40% YoY). Anyway, a more significant moderation is expected to occur at the beginning of the next year mostly due to favorable base effects (by then most of the adjustment in administered prices will be over). Indexation mechanisms and the effects of the significant exchange rate depreciation should prevent 2016 inflation from converging to the 4.5% target. We forecast domestic prices to increase 5.5% next year. Notwithstanding the unfavorable inflation outlook, and fiscal and exchange rate risks, we do not expect the BCB to deliver another SELIC hike in the next few months. In our view, the reference interest rate will remain unchanged at 14.25% for a good time.