CAPITAL ECONOMICS

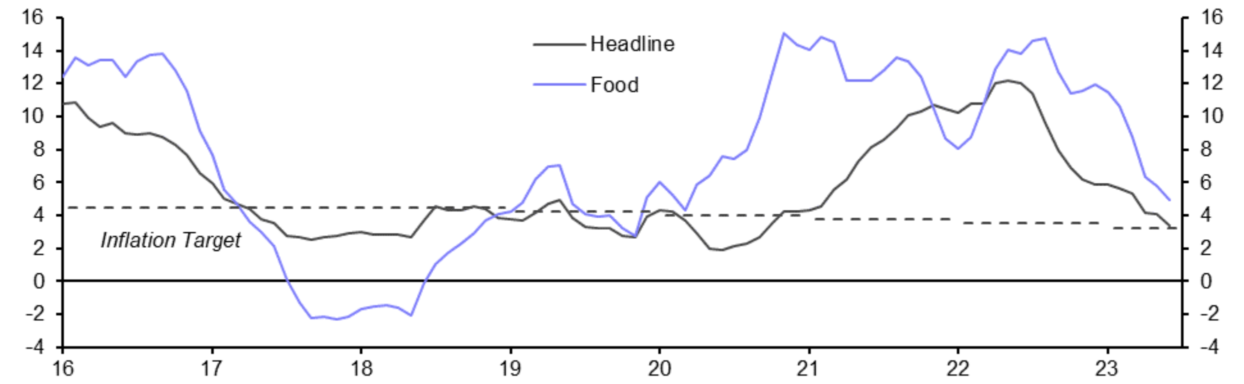
LATLATIN AMERICA RAPID RESPONSE

Brazil IPCA-15 (June 2023) & Copom Minutes

Easing cycle to kick off in August

- **The fall in Brazilian inflation to just 3.4% y/y in the first half of this month, coupled with the surprisingly dovish tilt on Copom shown in the minutes to the last meeting, have prompted us to pencil in the first interest rate cut (of 25bp to 13.50%) at the next meeting in August.**
- The inflation outturn was in line with consensus expectations and was down from 4.1% y/y in the middle of May. This marked the lowest reading since September 2020. (See Chart 1.)
- A large part of the decline was due to food and energy inflation. Food prices dropped by 0.5% m/m, the lowest June figure since 2019. Vehicle fuel prices fell by 3.5-4.0% m/m. But inflation also dropped in most other categories of the CPI basket, including healthcare, education and clothing, pointing to a broad easing of core inflation pressures. (See Table 1.)
- **Meanwhile, the big takeaway from the minutes to Copom's interest rate meeting last week (also released today) was that the majority of members think that the conditions are already in place for the monetary easing cycle to begin in August**. That was surprising given the relatively cautious tone of the statement that accompanied June's decision (perhaps reflecting the more hawkish views of a minority of members).
- But taken together with the further fall in inflation in the middle of this month, it's hard to argue against the start of an easing cycle in August (we previously expected it to begin in September). It would take a nasty upside surprise in the inflation figures out over the next month (which we don't expect) to stop the central bank in its tracks.
- As a result, we've now pencilled in a 25bp cut to 13.50% at the next meeting, with a further 100bp of cuts, to 12.50%, over the rest of the year. That being said, **with the labour market still showing signs of strength, we think inflation will trend higher than most are currently anticipating. And, for the same reason, the easing cycle will be more gradual than most are currently anticipating.**

Chart 1: Brazil IPCA-15 (% y/y)



Sources: Refinitiv, IBGE

Table 1: Brazil IPCA-15

	Headline		Food & Bev.	Housing	Pers. Exp.	Transp.	Health	Educ.	Clothing
	% m/m	% y/y	% y/y	% y/y	% y/y	% y/y	% y/y	% y/y	% y/y
Mar-23	0.7	5.4	8.7	0.5	7.2	-0.4	11.9	8.2	14.9
Apr-23	0.6	4.2	6.4	-0.7	6.9	-2.3	12.6	8.3	13.1
May-23	0.5	4.1	5.8	3.7	6.5	-4.1	11.8	8.3	11.4
Jun-23	**0.0**	**3.4**	**5.0**	**4.0**	**6.5**	**-5.4**	**10.6**	**8.2**	**10.3**

Sources: Refinitiv, IBGE

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