



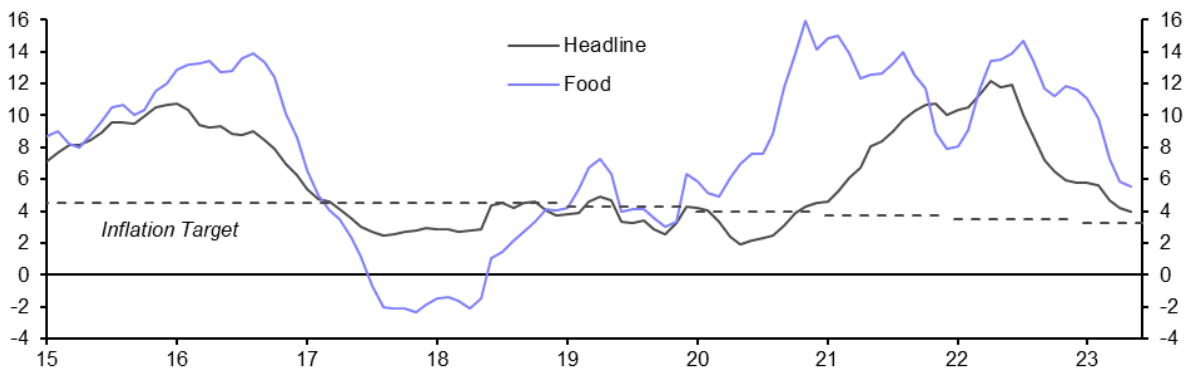
LATIN AMERICA RAPID RESPONSE

Brazil IPCA (May 2023)

Inflation hits multi-year low, but rate cuts still some way off

- **The fall in Brazilian inflation to 3.9% y/y in May, alongside the government’s new fiscal framework, has strengthened the arguments in favour of near-term monetary easing. But with inflation set to resume to an upwards path over the second half of the year and wages rising rapidly, we continue to expect the first rate cut to come in November.**
- The outturn was a touch above the consensus forecast of 4.0%, albeit in line with our own forecast. The reading was down from 4.2% y/y in April and marked the lowest inflation figure since October 2020. The headline rate is now well within the central bank’s inflation tolerance range for this year of 3.25±1.5%. (See Chart 1.)
- **The breakdown showed that the fall in the headline rate was driven in large part by a drop in transport inflation, from -2.9% y/y in April to -4.8% in May. (See Table 1.)** This came on the back of recent fuel price cuts. Food inflation edged down too, with the press release noting that this was driven by falls in the food at home category. Clothing inflation also dropped. In contrast, housing inflation accelerated to 4.0% y/y last month, from 1.6% in April, due to rises in utility rates in some provinces.
- The fall in inflation last month alongside the strong support for the government’s new fiscal framework has strengthened the arguments in favour of interest rate cuts in the coming months. But we don’t think that monetary easing is imminent.
- **Inflation is set to resume to an upwards path over the second half of the year as favourable base effects affecting food and energy unwind and strong wage pressures keep (core) inflation elevated.** These factors are likely to push the headline rate back up to around 6% by the end of the year, well above the central bank’s target. Against this backdrop, **we expect Copom to only turn to monetary easing in Q4, delivering 100bp of cuts (to 12.75%) this year. This is a bit more hawkish than the consensus.**

Chart 1: Brazil IPCA (% y/y)



Sources: Refinitiv, IBGE

Table 1: Brazil IPCA

	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
Feb-23	0.8	5.6	9.8	0.5	7.5	-0.7	12.1	8.3	15.2
Mar-23	0.7	4.7	7.3	0.0	7.3	-1.6	12.0	8.2	13.4
Apr-23	0.6	4.2	5.9	1.6	7.0	-2.9	11.7	8.3	12.9
May-23	0.2	3.9	5.5	4.0	7.1	-4.8	11.6	8.3	11.1

Sources: Refinitiv, IBGE



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