



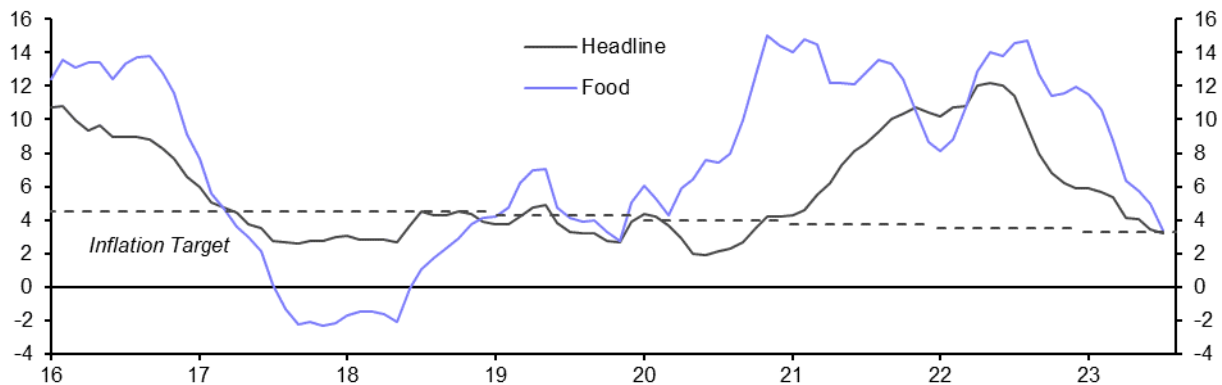
LATLATIN AMERICA DATA RESPONSE

Brazil IPCA-15 (July 2023)

Soft inflation print brings 50bp rate cut into play

- **The Brazilian July mid-month inflation reading of 3.2% y/y suggests that price pressures are weaker than we and most others had thought. While we still think it’s most likely that the central bank will begin its monetary easing cycle with a 25bp cut (to 13.50%) at its meeting next week, these data increase the probability of a larger 50bp reduction.**
- The outturn was in line with June’s full-month inflation figure and defied consensus expectations that inflation would rise (to 3.3% y/y) as favourable base effects started to unwind. Inflation is a touch below the central bank’s target for this year (of 3.25%). (See Chart 1.)
- **The breakdown showed that inflation was weak across the board**, with muted m/m price rises in most categories. The 0.4% m/m decline in food prices was an unseasonably weak figure – the lowest since July 2017 – which helped to bring the year-on-year rate of food inflation down too. In y/y terms, inflation weakened in most other categories, although that was offset by easing transport deflation. (See Table 1.)
- Headline inflation will rise over the second half of the year as food and energy inflation come off their recent lows, with inflation touching around 5% by year end. But core inflation should continue to soften. **And we don’t see anything in these figures to deter Copom from proceeding with its plan to begin a monetary easing cycle at next week’s meeting.**
- The big question is how large the cut will be. Given the hawkish views of a minority of Copom members, comments about moving cautiously, and the likely rise in inflation over the second half of the year, we still think a 25bp rate cut is most likely. But the chances of a 50bp cut are increasing.

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
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
Jul-23	-0.1	3.2	3.3	3.9	6.1	-3.8	9.9	8.3	8.9

Sources: Refinitiv, IBGE



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