



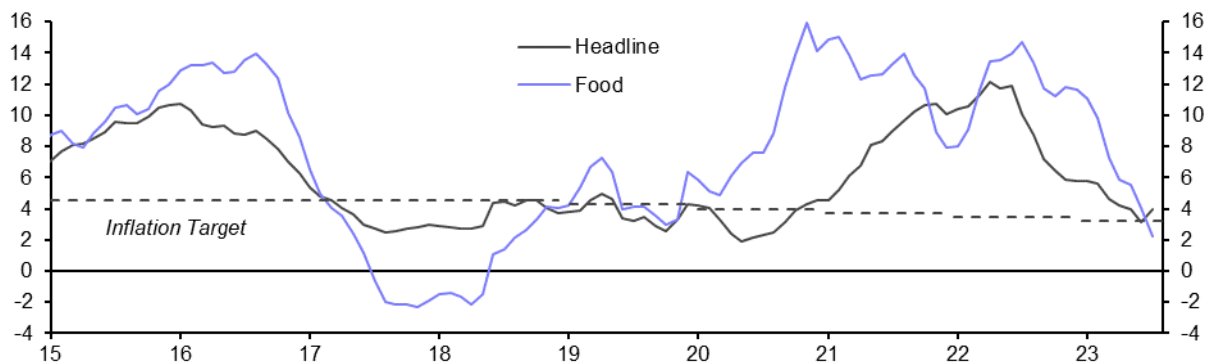
LATIN AMERICA RAPID RESPONSE

Brazil IPCA (July 2023)

Inflation rise means Copom won't increase the size of rate cuts

- **The jump in Brazilian inflation to a slightly higher-than-expected 4.0% last month won't stop Copom from lowering interest rates at its September meeting. By the same token, however, the figure probably rules out the possibility of a larger rate cut than the 50bp delivered earlier this month.**
- The outturn was a touch above our own and the consensus forecasts (both 3.9%) and marked a sharp increase from June's inflation figure of 3.2%. The headline rate is now back above the central bank's target for this year, of 3.25%. (See Chart 1.)
- **The rise in large part reflects the unwinding of favourable base effects that had previously pushed energy inflation down sharply.** That was compounded by a 4.8% m/m rise in gasoline prices which also pushed up inflation in the 'transport' category (which includes motor vehicle fuel).
- Inflation was stable or fell in most other categories, suggesting that price pressures more broadly remain soft. (See Table 1.) Backing up this point, the m/m increase in prices (of 0.1%) was – apart from last year – the lowest July figure since 2014.
- Copom has given a clear steer that it will follow up this month's 50bp cut in the Selic rate (to 13.25%) with another 50bp move (to 12.75%) at its next meeting in September. Copom will have been expecting this rise in inflation, so it won't stop policymakers from easing monetary conditions further.
- Equally, the data release will probably dampen hopes that had built up in some quarters that Copom might lower interest rates more aggressively. In any case, the minutes to the last meeting seemed to push back against those expectations, stressing that it would take a marked downside surprise in inflation to trigger larger cuts. **Today's inflation release strengthens the case for further 50bp steps.**

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
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
Jun-23	-0.1	3.2	4.0	4.3	7.0	-5.7	10.4	8.3	9.7
Jul-23	0.1	4.0	2.2	4.4	6.2	0.3	10.1	8.3	8.8

Sources: Refinitiv, IBGE



Disclaimer: While every effort has been made to ensure that the data quoted and used for the research behind this document is reliable, there is no guarantee that it is correct, and Capital Economics Limited and its subsidiaries can accept no liability whatsoever in respect of any errors or omissions. This document is a piece of economic research and is not intended to constitute investment advice, nor to solicit dealing in securities or investments.

Distribution: Subscribers are free to make copies of our publications for their own use, and for the use of members of the subscribing team at their business location. No other form of copying or distribution of our publications is permitted without our explicit permission. This includes but is not limited to internal distribution to non-subscribing employees or teams.

