



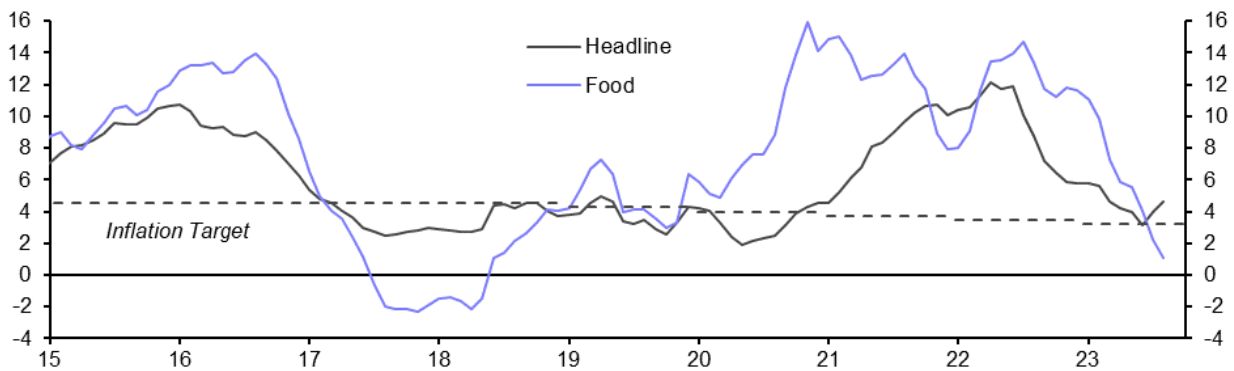
# LATIN AMERICA RAPID RESPONSE

## Brazil IPCA (August 2023)

Another 50bp cut on the cards despite rise in inflation

- The rise in Brazilian inflation to 4.6% y/y in August won't prevent the central bank from delivering another 50bp cut, to 12.75% when it meets later this month. But with core services inflation, which Copom is paying close attention to, only easing gradually, we think that interest rates will come down more slowly than most expect over the next 12-18 months.
- The outturn was a touch below the Refinitiv consensus forecast of 4.7%, albeit above our own forecast of 4.4% and marked a sharp increase from July's inflation print of 4.0%. Inflation has risen for the second consecutive month, taking it further above the central bank's target for this year, of 3.25%.
- The rise was driven in large part by housing and transport inflation, with the latter jumping from 0.3% y/y in July to 4.1% y/y in August as favourable base effects continued to unwind. In contrast, food inflation fell sharply last month on the back of a decrease in the food at home category.
- We estimate that core services inflation, which the central bank is paying particularly close attention to, only edged down to 4.7% y/y in August, from 4.9% y/y in July. The more gradual easing of services price pressures most likely reflects the tight labour market and strong wage growth.
- We think that inflation will increase further in September, to around 5%, before hovering around this level over the remainder of the year. We doubt this will stop the central bank from cutting the Selic rate by another 50bp, to 12.75%, when it meets later this month. But it supports our view that Copom's easing cycle will be more gradual than most expect.

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
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
<b>Aug-23</b>	<b>0.2</b>	<b>4.6</b>	<b>1.1</b>	<b>5.4</b>	<b>6.0</b>	<b>4.1</b>	<b>9.3</b>	<b>8.4</b>	<b>7.5</b>

Sources: Refinitiv, IBGE



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