



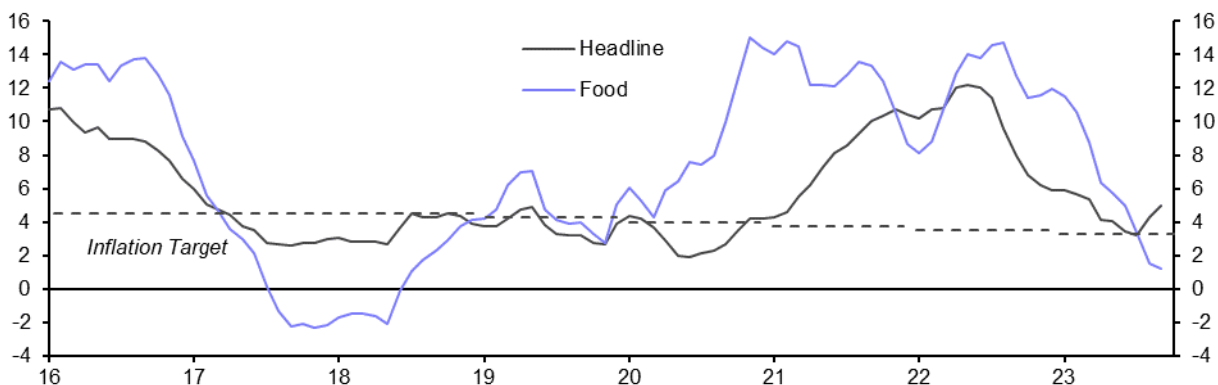
LATIN AMERICA DATA RESPONSE

Brazil IPCA-15 & Copom Minutes (September 2023)

Inflation data and minutes pour cold water on hopes for larger rate cuts

- **The jump in Brazilian inflation to 5.0% y/y in the first half of September, taken together with the more cautious tone of the minutes to last week’s central bank meeting, supports our view that the monetary easing cycle will proceed gradually. The profile for the Selic rate implied by market pricing has drifted up towards our own forecast, although the analyst consensus forecast still looks too dovish.**
- The inflation outturn was in line with expectations but was up from 4.2% y/y in the first half of August. (See Chart 1.) A lot of the increase was driven by the transport category, reflecting higher fuel prices. (See Table 1.) Food inflation continued to fall.
- **Worryingly for policymakers, it looks like core services inflation remained strong.** We estimate that it ticked up to 5.5% in the first half of the month, from 5.4% in August, breaking a steady run of declines since February.
- **The minutes to the last central bank meeting, released earlier today, confirmed that policymakers are paying particularly close attention to services inflation.** It’s clear that some Copom members remain concerned about its relative strength, particularly given the continued fall in the unemployment rate and strong activity data. This was a key reason behind the more cautious tone of the minutes compared with those from August’s meeting.
- One thing that was clear from the minutes is that the bar for shifting to larger cuts than 50bp is extremely high and would require one of several things, including a larger output gap or a more marked decline in services inflation.
- These inflation data will have given ammunition to Copom’s hawks and support our view that the easing cycle will continue in 50bp steps until the middle of next year, before shifting to smaller 25bp steps, bringing the Selic rate to 9.50% by end-2024.

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							
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
Aug-23	0.3	4.2	1.5	5.4	5.9	1.8	9.9	8.4	8.0
Sep-23	0.4	5.0	1.2	5.2	5.4	6.3	9.1	8.3	6.7

Sources: Refinitiv, IBGE

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