

Latam Daily: Brazil's November IPCA Inflation Should Keep Copom on Hold For Now

- **Brazil: November IPCA inflation pushed up by food & transport**

NOVEMBER IPCA INFLATION PUSHED UP BY FOOD & TRANSPORT

IBGE released on Tuesday, December 8, its IPCA price numbers for November and inflation accelerated from 0.86% m/m in October to 0.89% m/m (chart 1), a touch higher than the 0.78% m/m in the Bloomberg consensus. This pushed headline annual inflation up from 3.92% y/y in October to 4.31% y/y in November (chart 2), above the 4.20% y/y in the Bloomberg consensus, but in line with the 4.3% y/y we projected in the November 28 [Latam Weekly](#).

We do not see this print as a material factor in BCB policy, either in terms of today's Copom decision on the Selic, where we expect another hold at 16:30 ET today, or going forward as the November inflation reading was broadly in line with expectations and the main drivers underpinning the acceleration in price gains were consistent with the BCB's own recent statements. As has been the case for a few months, the main sources of upward price pressures were limited to a few segments: (1) food and beverages (2.54% m/m), (2) transport (1.33% m/m); and (3) household goods (0.86% m/m, chart 3). In annual terms, food and beverage prices are up an eye-popping 15.95% y/y, followed by large gains in communications prices (3.71% y/y) and household goods (3.66% y/y, chart 4). Rising commodity prices across fuels, hards, and softs sustained inflationary momentum in these sectors—developments that have already been flagged repeatedly by the BCB along with concerns about country risk premia and fiscal sustainability.

The November price numbers also held some outright good news: price pressures from the clothing and household goods segments softened a bit from October and core inflation remained well behaved. Sequential monthly clothing price gains slowed from 1.11% m/m in October to 0.07% m/m in

Chart 1

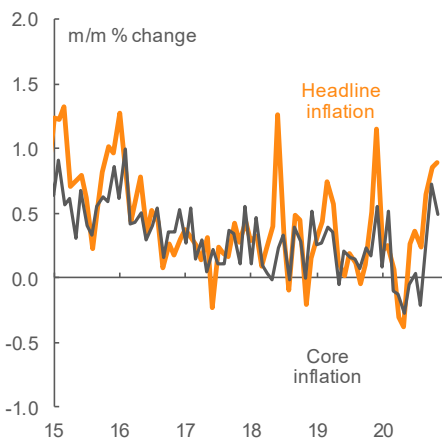
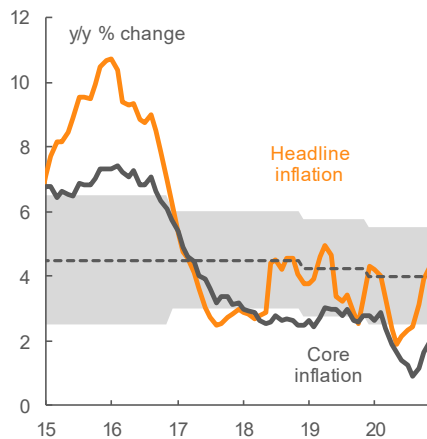
Brazil: Headline & Core Inflation


Chart 2

Brazil: Headline & Core Inflation


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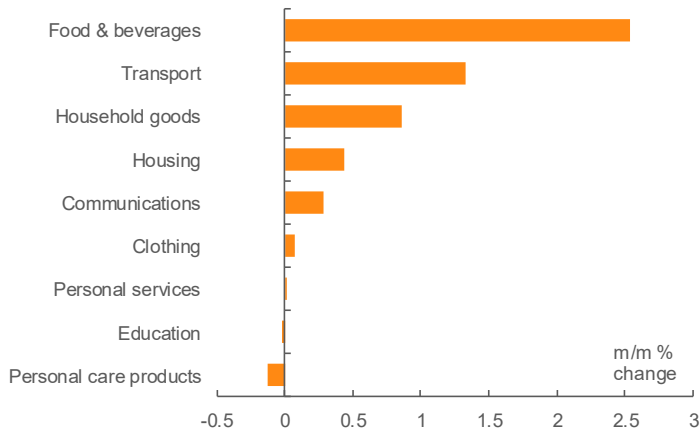
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Chart 3

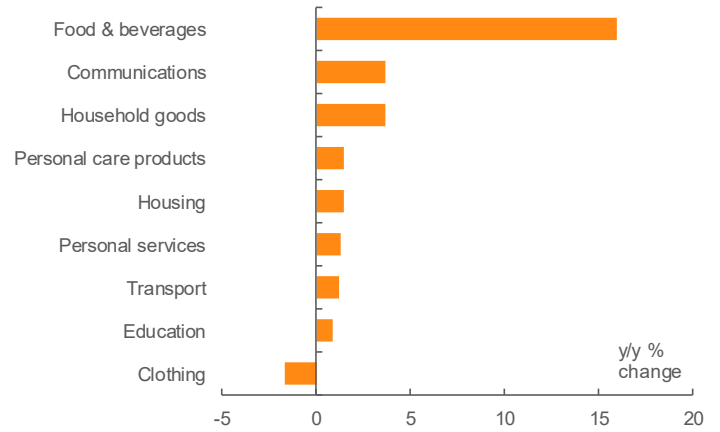
Brazil: Monthly Inflation by Component



Sources: Scotiabank Economics, IBGE.

Chart 4

Brazil: Annual Inflation by Component



Sources: Scotiabank Economics, IBGE.

November, while household-goods inflation came down from 1.53% m/m in October to 0.86% m/m in November, as noted above. These moves helped bring core inflation down from 0.72% m/m in October to 0.49% m/m in November (chart 1, again). Although this still meant annual core inflation rose for a third straight month, from October's 1.66% y/y to 1.98% y/y in November, this left it just below the BCB's target range (chart 2, again).

Overall, the November IPCA release was broadly in line with expectations in a context where the Brazilian economy faces constraints stemming from COVID-19 disruptions and the Government is providing fiscal support to households equivalent to more than 4% of GDP. Some price pressures, particularly in non-durables, will continue to be a risk heading into 2021, where [we project](#) headline annual inflation to go a bit higher. **Nevertheless, we reaffirm [our view](#), in line with consensus and market pricing, that the Copom will hold the Selic today at 2.00% for a fourth meeting in a row. While markets have been pricing a first hike in Q1-2021, [we expect](#) the Copom to move in Q2-2021.**

—Eduardo Suárez

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