

Brazil's Inflation Rate May Ease to Six-Month Low: Week Ahead

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Brazil's mid-month inflation rate may drop to the lowest in six months in September, adding to bets that the central bank will slow the pace of interest-rate increases in the months ahead.

Consumer price increases in the 30 days through mid- September, as measured by the benchmark IPCA-15 index, eased to 0.25 percent from 0.35 percent a month earlier, according to the median forecast in a Bloomberg survey of 15 analysts. That would be the third consecutive monthly decline.

“The IPCA-15 will further reinforce expectations that policy makers will slow the pace of monetary tightening,” Jankiel Santos, chief economist for Brazil at Banco Espirito Santo de Investimento SA, said in a telephone interview from Sao Paulo. “Inflation won't slow just because of food prices, and this will be an improvement.”

A drop in commodity prices and slower global economic growth may help rein in inflation in Brazil, the central bank said in the minutes of its Sept. 9-10 meeting. Annual inflation, running at 6.17 percent through the end of August, has been above the bank's 4.5 percent target since January.

Last week, Banco Central do Brasil had to sell dollars in local markets for the first time since February 2003 after the U.S. financial crisis caused a global credit crunch, sending the Brazilian real to the lowest in a year.

Finance Minister Guido Mantega said Sept. 17 the federal government will have state-run banks help boost lending for exports, investments and agriculture should the U.S. crisis be prolonged.

The monetary policy committee led by central bank President Henrique Meirelles voted 5-3 to raise the so-called Selic rate for a fourth time since April to 13.75 percent from 13 percent at its most recent meeting. The dissenters voted to raise rates by a half-point to 13.5 percent.

Focus on Growth

The dissenters said economic growth in developed nations would slow, justifying a smaller rate increase. The meeting took place before Lehman Brothers Holdings Inc.'s record bankruptcy and the U.S. government takeover of American International Group Inc.

“The central bank is moving, gradually, its focus away from inflation to growth,” Alexandre Lintz, chief strategist in Brazil with BNP Paribas, said in a Sept. 19 emailed report.

Lintz lowered the bank's year-end forecast for the Selic rate to 14.75 percent from 15 percent.

Santos from Banco Espirito Santos predicts the bank will raise the rate to 14.25 percent in October and to 14.50 percent in December, before halting increases in January.

Markets

Last week, the real fell for the fourth week in a row, losing 2.7 percent to 1.8298 per dollar. The yield on the government's zero-coupon bond due January 2010 rose 62 basis points, or 0.62 percentage point, to 15.33 percent.

The benchmark Bovespa index rose 1.3 percent to 53055.38. Gafisa SA, Brazil's second-biggest real estate developer, gained the most, advancing 11 percent. Cosan SA Industria & Comercio, the world's biggest sugarcane producer, fell the most, dropping 17 percent.

Source: Bloomberg