

Inflation rose up to 19.25% in August

Consumer prices increased by 1.12% in August, again being realized above expectations on the back of a higher than expected food inflation. Thus, annual consumer inflation rose to 19.25% up from 18.95% the month before.

Core inflation continued to weaken and declined to 16.8%, helped by the recent changes in the special consumption tax ranges in personal cars. Though, other core prices still reflected the worsening in services prices and deepening cost-push factors as domestic producer prices still rose by 45.5% in annual terms.

Domestic demand stays relatively strong and inflation expectations keep deteriorating led by the uncertainty in domestic policies and other supply-side problems. Besides, historically high food inflation due to this year's drought and losses on several natural hazards, and continuing cost-push factors maintain risks on the upside for inflation outlook in the near term. We expect consumer inflation to stay above 19% till November and end the year at close to 17%, led by the decline on positive base effects in the last two months of the year.

On the monetary policy side, worsening inflation outlook and potentially increasing global yields when getting close to the FED tapering leave almost no room for an easing from the Central Bank. But, given the recent Central Bank communication, we still expect rate cuts in November and December, ending up with a policy rate of 18% at the end of the year. We expect the Central Bank to stress the recent decline in core inflation indicators in the upcoming Monetary Policy Committee decision text in a way of fine-tuning the previous forward guidance of a positive real policy rate.