

Daniel Karp*
daniel.karp@santander.com.br
+55 11 3553 9828

Felipe Kotinda*
felipe.kotinda@santander.com.br
+55 11 3553 8071

Favorable Composition at the Margin

- The IPCA rose 0.23% MoM in May, below the consensus estimate (0.33%) and our forecast (0.35%). The YoY change decelerated to 3.9% (from 4.2% in April), the lowest reading since October 2020. The headline trend (3MMA-saar) decelerated to 5.4% (from 6.6%), still a high level.
- The downward surprise was concentrated in food-at-home (-9 bps), a volatile group, though its trend accelerated to 2.5% 3MMA-saar (from 0.9%).
- Broad qualitative measures were better than expected, although in absolute terms they remain high.
- All in all, despite still high core inflation measures, our take is that at the margin this print had definitely a more favorable composition than the previous ones. We revised our IPCA 2023 tracking downward once again, now at 5.2% (from 5.4%), still with downward risks, while our IPCA 2024 tracking was kept unchanged, at 3.9% (an already below-consensus call).
- As for the main risk we are seeing — the de-anchoring of inflation expectations, we believe the more favorable current inflation dynamics will help lead to further downward revisions in short-term inflation expectations.

The IPCA rose 0.23% MoM in May, below the consensus estimate (0.33%) and our forecast (0.35%). The YoY change decelerated to 3.9% (from 4.2% in April), the lowest reading since October 2020. The headline trend (3MMA-saar) decelerated to 5.4% (from 6.6%), still a high level.

The downward surprise was concentrated in food-at-home (-9 bps), a volatile group, though its trend accelerated to 2.5% 3MMA-saar (from 0.9%). Regulated prices also surprised to the downside (-4bps), as well as services (-1 bp). Services trend saw a trend deceleration to 5.8%. The services core gauge (which excludes volatile items) saw a marginal deceleration in trend terms to 5.8% 3MMA-saar (from 5.9%). On the other hand, industrial goods surprised to the upside (+2 bps), but with both its headline and core trends decelerating.

Broad qualitative measures were better than expected, although in absolute terms they remain high. The five main core gauges followed by the Brazilian Central Bank (BCB) decelerated at the margin (3MMA-saar), with the average of those gauges registering a deceleration to 5.0% 3MMA-saar (from 6.1%). In addition, the diffusion index fell to 57.6% s.a. (from 62.9%), with the diffusion index ex-food also with a better dynamic at the margin, falling to 57.4% s.a. (from 65.0%).

All in all, despite still high core inflation measures, our take is that at the margin this print had definitely a more favorable composition than the previous ones. Looking ahead, we are confident that there is still room for relief in volatile prices (mainly the ones related to commodity prices in BRL terms). As for stickier, more core-related prices, we also see a downward trend, but at a slower pace, as the tight job market tends to

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE “IMPORTANT DISCLOSURES” SECTION OF THIS REPORT.

U.S. investors' inquiries should be directed to Santander US Capital Markets LLC at (212) 583-4629 / (212) 350-3918.

* Employed by a non-US affiliate of Santander US Capital Markets LLC and is not registered/qualified as a research analyst under FINRA rules.



keep services prices high. We revised our IPCA 2023 tracking downward once again, now at 5.2% (from 5.4%), while our IPCA 2024 tracking was kept unchanged, at 3.9% (an already below-consensus call).

As for the main risk we are seeing — the de-anchoring of inflation expectations, we believe the more favorable current inflation dynamics will help lead to further downward revisions in short-term inflation expectations. Additionally, we believe this downward movement for 2023 will contribute to downward revisions in 2024 expectations, by inertia. As for long-term expectations (2025 and 2026), they are more dependent on the discussion around whether or not to raise the inflation target, but we believe that economic agents are starting to reassess their hypothesis toward a no-change scenario (instead of the ~+60 bps target change that we estimate was implicit in economists' forecasts until now), so we could begin to see downward revisions for this longer horizon too. (For more details, see our special report *How Much Could Inflation Expectations Fall If the Target Is Reaffirmed at 3.0%?*¹, May 23, 2023".)

¹ **Santander Brazil Special Report: "How Much Could Inflation Expectations Fall if the Target is Reaffirmed at 3.0%?"** – May 23, 2023 – Available on: <https://bit.ly/Std-special-052323>



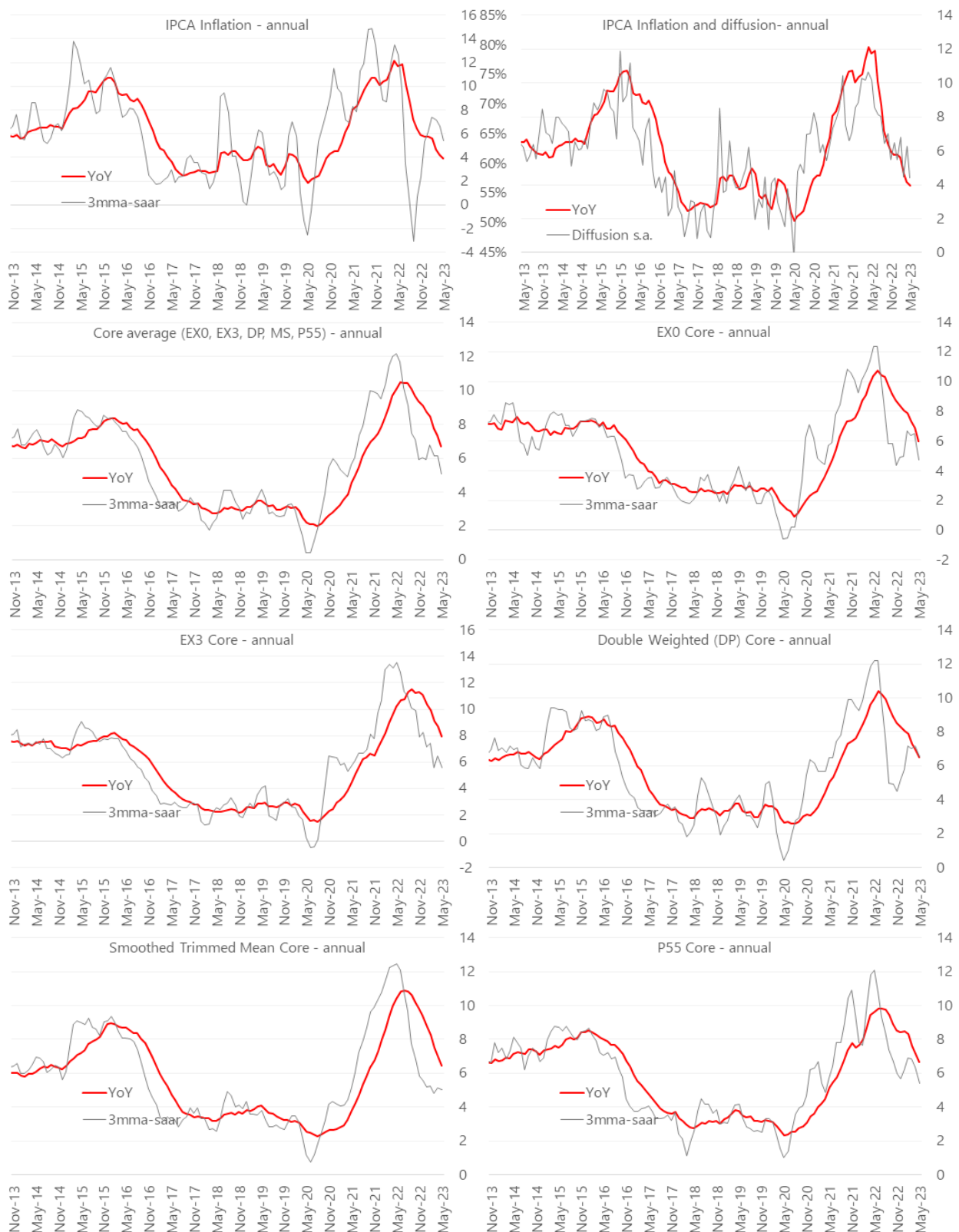
Figure 1. May's IPCA Details (%)

	MoM			YoY		3MMA-saar	
	May-23	Santander	Desv.	Apr-23	May-23	Apr-23	May-23
IPCA	0.23	0.35	-0.12	4.2	3.9	6.6	5.4
Food and bevera	0.16	0.62	-0.10	5.9	5.5		
Food-at-home	0.00	0.57	-0.09	5.1	4.6	0.9	2.5
Food service	0.58	0.75	-0.01	8.0	8.0		
Housing	0.67	0.62	0.01	1.6	4.0		
Electrical energy	0.91	0.73	0.01	-10.0	-1.3		
Household articl	-0.23	-0.23	0.00	2.7	1.8		
Apparel	0.47	0.47	0.00	12.9	11.1		
Transportation	-0.57	-0.43	-0.03	-2.9	-4.8		
Airline tickets	-17.73	-17.26	0.00	50.0	4.3		
Gasoline	-1.93	-1.60	-0.02	-24.4	-26.5		
Health and persc	0.93	0.91	0.00	11.7	11.6		
Personal spendin	0.64	0.79	-0.01	7.0	7.1		
Education	0.05	0.06	0.00	8.3	8.3		
Communication	0.21	0.01	0.01	1.2	0.7		
Administered	0.71	0.89	-0.04	-2.1	-0.9	12.9	12.7
Free	0.07	0.17	-0.08	6.5	5.7		
Food-at-home	0.00	0.57	-0.09	5.1	4.6	0.9	2.5
Industrial goods	0.30	0.23	0.02	6.0	5.2	4.0	3.0
Services	-0.06	-0.04	-0.01	7.5	6.5	7.9	5.8
EX3 Core	0.44	0.40	0.01	8.7	8.0	6.5	5.5

Sources: Brazilian Central Bank, IBGE, Santander.



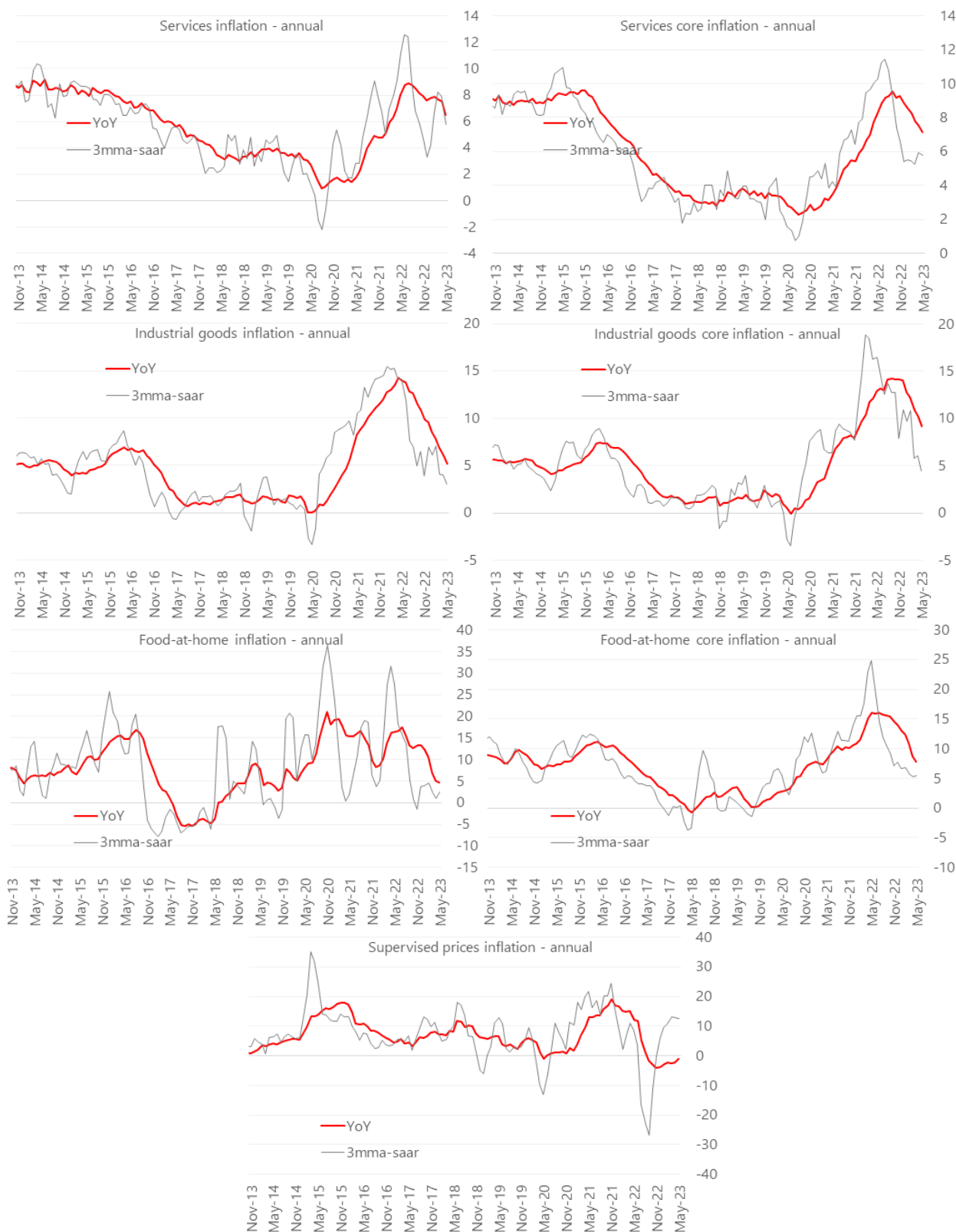
Figure 2. IPCA, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



Figure 3. IPCA, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Felipe Kotinda*	Economist – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Fabiana Moreira*	Economist – Credit	fabiana.de.oliveira@santander.com.br	5511-3553-6120
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327

Global Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Rodrigo Park*	Economist – Argentina	rpark@santander.com.ar	54-11-4341-1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500

Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Oreng*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778

Equity Research

Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Aline de Souza Cardoso*	Head, Brazil	aline.souza.cardoso@santander.com.br	5511-3553-1684

Electronic

Bloomberg
Reuters

SIEQ <GO>
Pages SISEMA through SISEMZ

This research report (“report”) has been prepared by Santander US Capital Markets LLC (is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. “Santander”) on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This report must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. (“Santander Investment Bolsa”) and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. Santander US Capital Markets LLC, Santander London and Santander Investment Bolsa are members of Grupo Santander. ANALYST CERTIFICATION: The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: Daniel Karp* and Felipe Kotinda*. Employed by a non-US affiliate of Santander US Capital Markets LLC and is not registered/qualified as a research analyst under FINRA rules and is not an associated person of the member firm and therefore is not subject to FINRA Rule 2241 or FINRA Rule 2242 and restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The information contained within this report has been compiled from sources believed to be reliable. Although all reasonable care has been taken to ensure the information contained within these reports is not untrue or misleading, we make no representation that such information is accurate or complete and it should not be relied upon as such. All opinions and estimates included within this report constitute our judgment as of the date of the report and are subject to change without notice. Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with Santander US Capital Markets LLC, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States. Hong Kong (HK): This report is distributed in Hong Kong by Banco Santander, S.A. (a public limited liability company incorporated in Spain) which has a branch in Hong Kong. Banco Santander, S.A., Hong Kong Branch is regulated as a Registered Institution by the Hong Kong Monetary Authority for the conduct of Advising and Dealing in Securities (Regulated Activity Type 4 and 1 respectively) under the Securities and Futures Ordinance. This report is not intended for distribution to any persons other than professional investors. Banco Santander, S.A. or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is greater than 1%, the specific holding is disclosed in the Important Disclosures section above. The recipient of this report must not distribute it to any person without the prior written consent of Banco Santander, S.A.. Singapore (SG): This report is distributed in



Singapore by Banco Santander, S.A. which has a branch in Singapore. It is not intended for distribution to any persons other than institutional investors, accredited investors and expert investors (each as defined in the Securities and Futures Act 2001 of Singapore). Recipients of this report should contact Banco Santander, S.A., Singapore Branch at researchsingapore@gruposantander.com for matters arising from, or in connection with, this report. Mainland China (CN): This report is being distributed in Mainland China by Banco Santander, S.A. which has two branches in Mainland China, being Shanghai Branch and Beijing Branch ("Santander China"). Santander China is regulated by China Banking and Insurance Regulatory Commission. Banco Santander, S.A., Shanghai Branch is licensed for foreign currency business, RMB business and derivative business. Banco Santander, S.A., Beijing Branch is licensed with foreign currency business. The recipient of this report must not distribute it to any person without the prior written consent of Banco Santander, S.A.© 2023 by Santander US Capital Markets LLC All Rights Reserved.

