

## April's IGP-M: The Lowest YoY Inflation Print Ever

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- April's IGP-M came in at -0.95% MoM, below consensus (-0.71%) and our estimate (-0.80% MoM). Of the last 37 prints, 30 surprised downward or did not surprise (81% of the prints came in below or equal to expectations). Twelve-month inflation reached -2.2 YoY, the lowest reading in the historical data (since 1989).
- IPA-Agro posted deflation of -2.50% MoM, with the trend falling to -18.3% 3MMA-saar (from -8.4% previously), below the -7.0% YoY reading (the lowest reading since March 2018).
- IPA-Industrial posted deflation of -1.04% MoM, with the trend falling to -8.8% 3MMA-saar (from -7.9% previously), running below the -3.5% YoY rate (the lowest reading since December 2009).
- IPA-industrial core gauge posted -1.3% 3MMA-saar (from -1.6% before), running below the 0.2% YoY rate, which is a sign that the YoY rate will continue to trend down.
- IGP readings have been consistently favorable at the margin and are now at -2.2% YoY. Given the recent surprises in IGP prints, falling domestic soybean (and now corn) prices, and falling iron ore prices, our IGP-M 2023 forecast is now at 2.0%.

April's IGP-M came in at -0.95% MoM, below consensus (-0.71%) and our estimate (-0.80% MoM). Of the last 37 prints, 30 surprised downward or did not surprise (81% of the prints came in below or equal to expectations). Twelve-month inflation reached -2.2 YoY, the lowest reading in the historical data (since 1989). The headline trend fell to -7.3% 3MMA-saar (from -4.4%).

**Deflation was driven by soybeans (-9% MoM), corn (-4%), iron ore (-4%), diesel oil (-5%), industrialized food (-1%), and chemical products (-2%). Conversely, cattle (+2%) and automotive vehicles (+2%) reported inflation.**

IPA-Agro posted deflation of -2.50% MoM, with the trend falling to -18.3% 3MMA-saar (from -8.4% previously), below the -7.0% YoY reading (the lowest YoY reading since March 2018). Grains are still posting deflation, driven mainly by soybeans (-9% MoM), but now also with corn (-4%) contributing to the negative print. The outlook for domestic supply of grains in Brazil is favorable, as we expect the country to harvest a record output this year: soybean output in Brazil is estimated to reach 155 million tons, according to Safras & Mercado (agribusiness consultancy). Additionally, even with corn "*safrinha*" (second crop) planting behind schedule (and outside the ideal planting window), we project good corn output in Brazil, and domestic prices could fall further. Meanwhile, *in natura* products fell a tad (-1% MoM). Livestock posted inflation (+1.6%), with cattle, milk, and eggs rising. For milk, production costs are falling for the first time since 2020, which could benefit consumers, but prices for imports are running high. Thus, producers will be more prone to increase production. With regard to cattle, China does not want to accept Brazilian cattle that was processed during the one-month embargo in March, a situation that could boost domestic supplies.



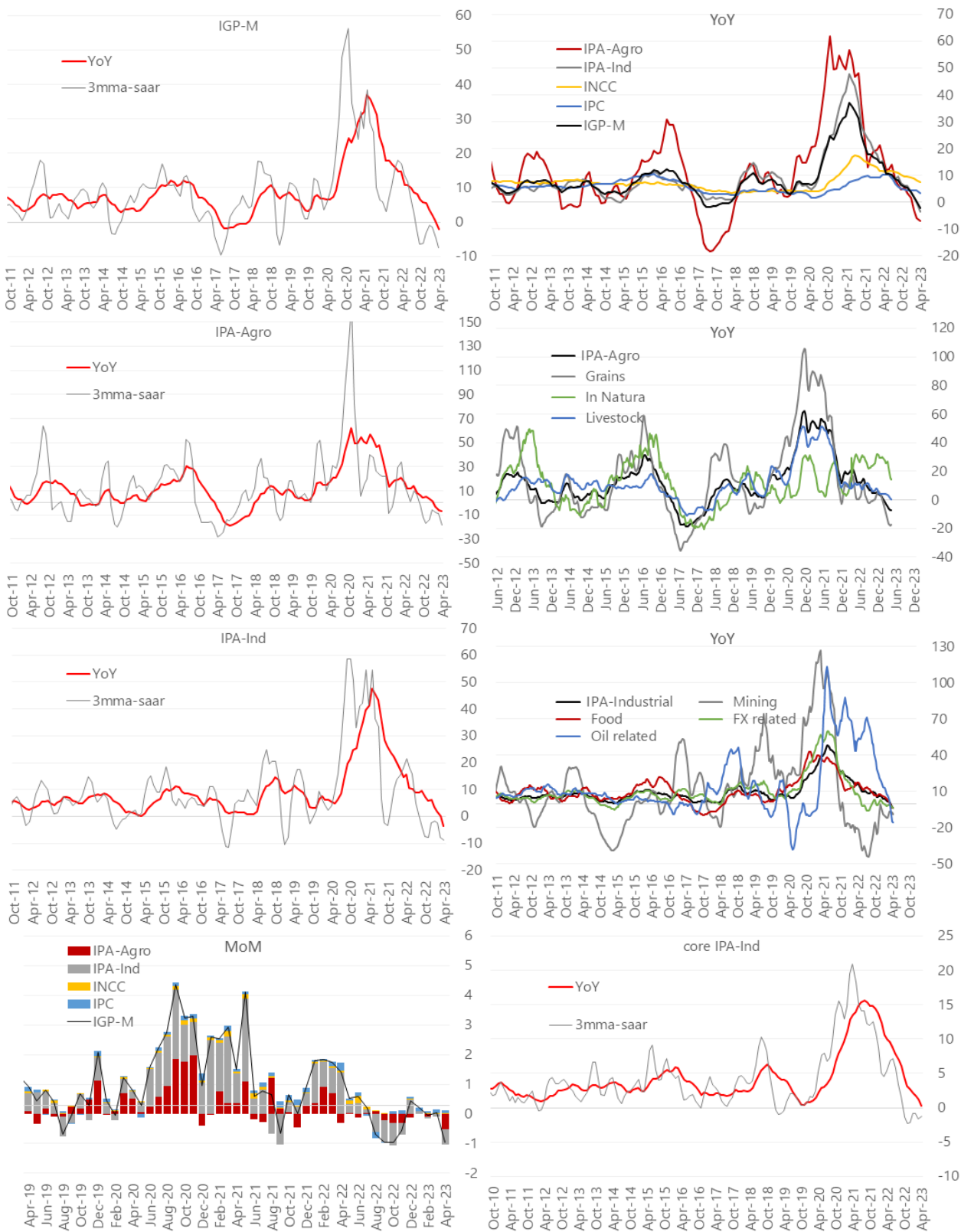
IPA-Industrial posted deflation of -1.04% MoM, with the trend falling to -8.8% 3MMA-saar (from -7.9% previously), running below the -3.5% YoY rate (the lowest YoY reading since December 2009). Iron ore posted deflation of -4% MoM, with prices around ~USD 103/ton. Despite the high season in China for construction activity, steel prices continued to fall amid weak demand and rising supplies. In addition, mills in Tangshan, the largest steelmaking city in China, went into maintenance, reducing demand for iron ore. Deflation in oil-related items decelerated, driven by downward readjustments in diesel prices on March 23. Brent oil prices have been volatile amid a tug of war between bullish fundamentals and a bearish macro backdrop. Prices are now back to the levels seen before the surprise OPEC+ announcement in early April of a cut in oil output of around 1.1 million barrels. We still see Brent oil prices climbing back to USD 95/bbl by YE2023. Industrialized food and chemical products also posted deflation, with their 12-month variation at -3.7% YoY and -8.7% YoY, respectively.

IPA-Industrial's core gauge posted -1.3% 3MMA-saar (from -1.6% in the previous month), running below the reported 0.2% YoY, which is a sign that the YoY rate will continue to trend down. This is important because the IPA-industrial core gauge (which excludes iron ore, food, medicines, and fuel from the IPA-industrial headline) is more correlated with the industrial goods group in IPCA (durable goods in general), so it is more optimistic news for IPCA. Indeed, durable goods inflation in IPCA continues to fall (see the first graph in Figure 2).

**IGPs' readings have been consistently favorable at the margin and are now at -2.2% YoY, the lowest reading in the historical data (since 1989). Given the recent surprises in IGP prints, falling domestic soybean (and now corn) prices, and falling iron ore prices, our IGP-M 2023 forecast is now at 2.0%.**



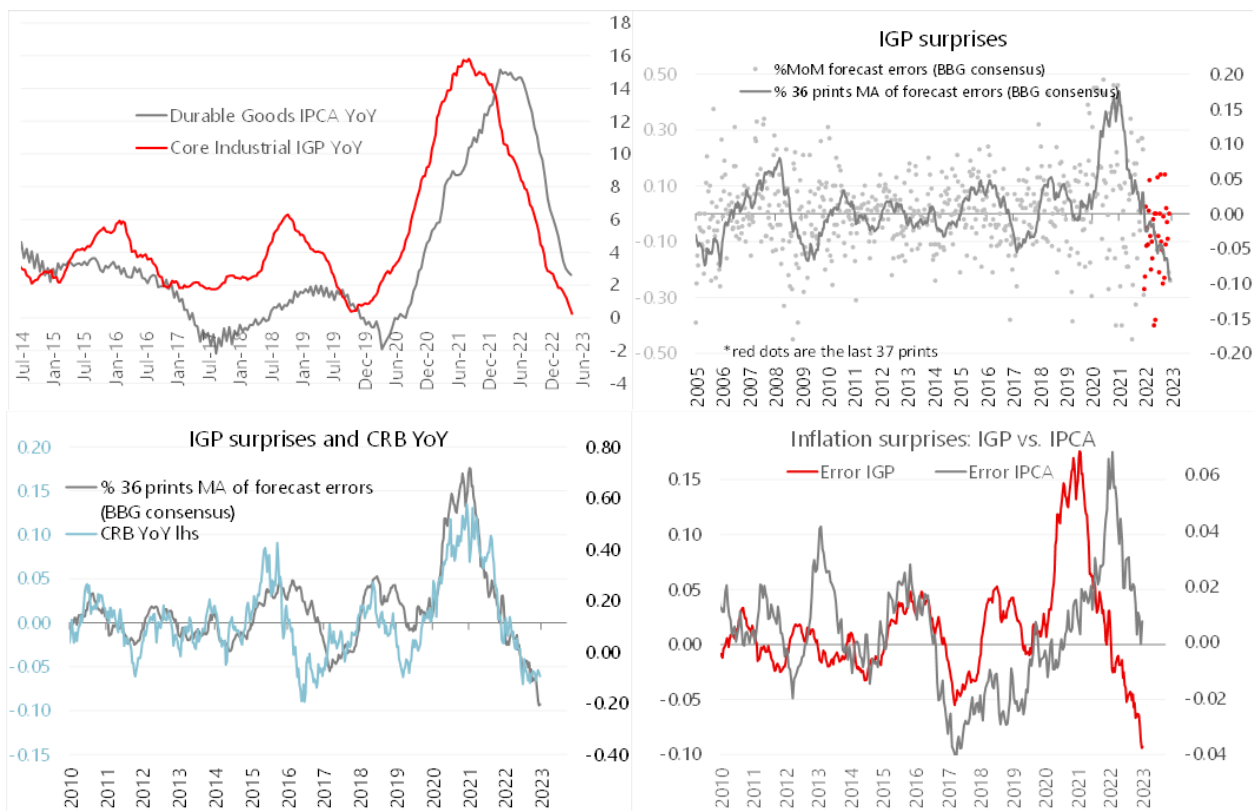
Figure 1. IGP-M, Groups and Qualitative Measures



Sources for all charts: FGV and Santander.



Figure 2. IGP-M Surprises, Groups and Qualitative Measures



Sources for all charts: FGV, IBGE and Santander.



Figure 3. IGP-M, Groups and Qualitative Measures

IGP chained %MoM	Feb-23			Mar-23			Apr-23		
	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI
<b>IGP</b>	<b>0.02</b>	<b>-0.06</b>	<b>0.04</b>	<b>0.05</b>	<b>0.05</b>	<b>-0.34</b>	<b>-0.58</b>	<b>-0.95</b>	
<b>IPA</b>	<b>-0.14</b>	<b>-0.20</b>	<b>-0.04</b>	<b>-0.07</b>	<b>-0.12</b>	<b>-0.71</b>	<b>-0.96</b>	<b>-1.45</b>	
<b>IPA-Agro</b>	<b>-0.76</b>	<b>-0.47</b>	<b>0.26</b>	<b>0.57</b>	<b>0.00</b>	<b>-1.04</b>	<b>-1.93</b>	<b>-2.50</b>	
Grains	-1.85	-2.27	-2.14	-1.90	-2.57	-4.18	-5.61	-7.03	
In Natura	-0.71	0.58	3.11	6.07	5.01	2.71	0.07	-0.59	
Livestock	-0.61	0.40	1.64	1.82	1.38	1.50	1.56	1.67	
<b>IPA-Industrial</b>	<b>0.10</b>	<b>-0.10</b>	<b>-0.16</b>	<b>-0.32</b>	<b>-0.16</b>	<b>-0.58</b>	<b>-0.57</b>	<b>-1.04</b>	
Mining	3.33	3.03	2.25	3.70	4.45	3.20	0.58	-3.73	
Food	-0.89	-1.16	-1.53	-1.24	-1.16	-1.10	-1.41	-1.00	
FX related	0.72	0.62	0.45	0.43	0.52	0.18	-0.23	-1.39	
Oil related	-0.94	-1.75	-0.95	-2.57	-2.30	-4.48	-3.50	-3.58	
<b>INCC</b>	<b>0.33</b>	<b>0.21</b>	<b>0.05</b>	<b>0.12</b>	<b>0.18</b>	<b>0.30</b>	<b>0.22</b>	<b>0.23</b>	
<b>IPC</b>	<b>0.55</b>	<b>0.38</b>	<b>0.34</b>	<b>0.47</b>	<b>0.66</b>	<b>0.74</b>	<b>0.57</b>	<b>0.46</b>	

IGP chained %YoY	Feb-23			Mar-23			Apr-23		
	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI
<b>IGP</b>	<b>2.3</b>	<b>1.9</b>	<b>1.5</b>	<b>1.1</b>	<b>0.2</b>	<b>-1.2</b>	<b>-1.9</b>	<b>-2.2</b>	
<b>IPA</b>	<b>1.0</b>	<b>0.4</b>	<b>-0.1</b>	<b>-0.5</b>	<b>-1.7</b>	<b>-3.5</b>	<b>-4.2</b>	<b>-4.5</b>	
<b>IPA-Agro</b>	<b>-1.7</b>	<b>-2.9</b>	<b>-3.7</b>	<b>-4.6</b>	<b>-6.0</b>	<b>-6.9</b>	<b>-7.2</b>	<b>-7.0</b>	
Grains	-6.4	-9.4	-12.0	-14.0	-16.6	-18.3	-17.9	-17.2	
In Natura	27.5	25.7	25.1	26.9	22.1	18.0	15.7	14.4	
Livestock	3.9	4.4	3.8	3.3	2.9	1.8	0.7	0.1	
<b>IPA-Industrial</b>	<b>2.1</b>	<b>1.8</b>	<b>1.4</b>	<b>1.2</b>	<b>0.0</b>	<b>-2.1</b>	<b>-2.9</b>	<b>-3.5</b>	
Mining	-12.3	-11.8	-8.6	-7.1	-6.9	-7.7	-7.3	-9.0	
Food	3.6	2.8	1.3	0.9	-0.9	-3.0	-3.5	-3.8	
FX related	-2.0	-1.7	-1.4	-1.3	-1.4	-2.9	-3.3	-4.0	
Oil related	7.7	6.7	3.9	2.3	-2.8	-11.3	-15.1	-15.7	
<b>INCC</b>	<b>8.9</b>	<b>8.8</b>	<b>8.6</b>	<b>8.6</b>	<b>8.2</b>	<b>8.0</b>	<b>7.6</b>	<b>7.5</b>	
<b>IPC</b>	<b>4.6</b>	<b>4.5</b>	<b>4.7</b>	<b>4.6</b>	<b>4.3</b>	<b>4.0</b>	<b>3.5</b>	<b>3.2</b>	

Sources for all charts: FGV and Santander.



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