



IGP-M Surprises to the Downside Once Again

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- August's IGP-M came in at -0.14% MoM, a larger fall compared to consensus (+0.05%) and our estimate (-0.05%). Twelve-month inflation reached -7.20% from -7.37%.
- IPA-Agro increased 0.02% MoM and fell -16.7% YoY, with the trend easing to -15.9% 3MMA-saar (from -24.5% previously).
- IPA-Industrial posted deflation of -0.24% MoM and -8.7 YoY, with the trend falling -7.0% 3MMA-saar (from -14.9% previously).
- IPA-industrial core gauge fell -0.27% MoM and -2.1% YoY, although its trend rebounded to 0.8% 3MMA-saar (from -0.4% previously). Nevertheless, durable goods inflation (IPCA) should continue to fall in the short-term.
- The print today kept a favorable outlook for the variable due to the fall in cattle prices and still low core industrials inflation. We keep our IGP-M tracking for 2023 at -3.4% with risks tilted to the upside (smaller deflation).

August's IGP-M came in at -0.14% MoM, a larger fall compared to consensus (+0.05%) and our estimate (-0.05%). After a positive surprise in the beginning of the month, the IGP came below expectations once again. Moreover, of the last 49 prints, 39 surprised downward or came in as expected (79.6%). Twelve-month inflation reached -7.20% from -7.37%. The headline trend eased to -7.2% 3MMA-saar (from -12.8%).

Deflation was driven by cattle (-1.6%), milk (-4.1%), eggs (-4.7%), potatoes (-24.6%), cellulose (-2.1%), and basic metallurgy (-1.6%). On the other hand, soybeans (+5.6%) and diesel (+4.2%) moved up.

IPA-Agro increased 0.02% MoM and fell -16.7% YoY, with the trend easing to -15.9% 3MMA-saar (from -24.5% previously). The positive number can be explained by a surge in grains (3.7% MoM), due to the rise in soybeans, partially offset by a smaller deflation in natura (-2.9% MoM) and a fall in livestock (-2.3% MoM). The increase in soybeans may be explained by tight global stocks-to-use, that will likely be true in coming months. In the short-term, the risks continue to be the weather in the U.S. and the war in Ukraine, especially after Russia withdrew from the Black Sea grain deal. For cattle, after unexpectedly moving up in the previous IPG prints, it finally moved down in August. We keep our call that current conditions in Brazil's cattle cycle (where supplies are ample) will mean lower prices in 2023.

IPA-Industrial posted deflation of -0.24% MoM and -8.7 YoY, with the trend falling -7.0% 3MMA-saar (from -14.9% previously). The biggest contributor to IPA-Industrial was diesel prices as the latest readjustments at the refinery level started to kick in. As of now, Brent oil prices are in line with our forecast of USD 85/bbl for YE2023 and we do not envision any new fuel readjustment for this year. Iron ore, which rebounded last month, held stable this month (-0.08% MoM), which supports our view that any rise in metals should be short lived. Industrialized food (-0.5%), cellulose (-2.2%), and basic metallurgy (-1.6%) also posted a deflation in August.

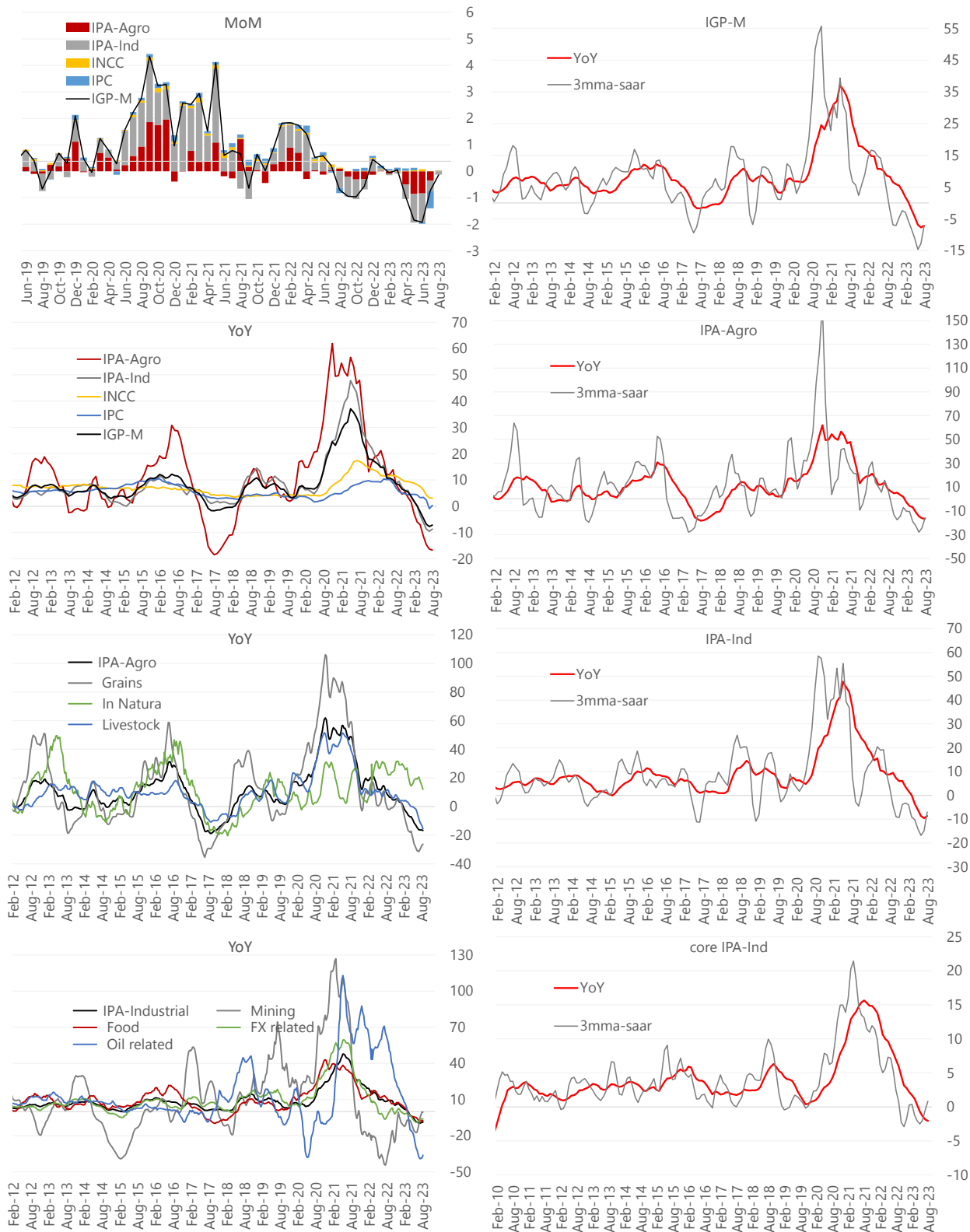


IPA-industrial core gauge fell -0.27% MoM and -2.1% YoY, although its trend rebounded to 0.8% 3MMA-saar (from -0.4% previously). The trend movement may be a sign that the annual variation could also rebound soon. This is important because the IPA-industrial core gauge (which excludes iron ore, food, medicines, and fuels from the IPA-industrial headline) is more correlated with the industrial goods group in IPCA (durable goods in general), so it could mean that the latter is near its lower bound. ***Nevertheless, durable goods inflation (IPCA) should continue to fall in the short-term.***

After a positive surprise in the previous IGP print, the IGP-M surprised again to the downside. Despite the IGPs rebound from its recent minimum values and an expected increase in IPA-Industrial given the diesel readjustment, the print today kept a favorable outlook for the variable due to the fall in cattle prices and still low core industrials inflation. We keep our IGP-M tracking for 2023 at -3.4% with risks tilted to the upside (smaller deflation).



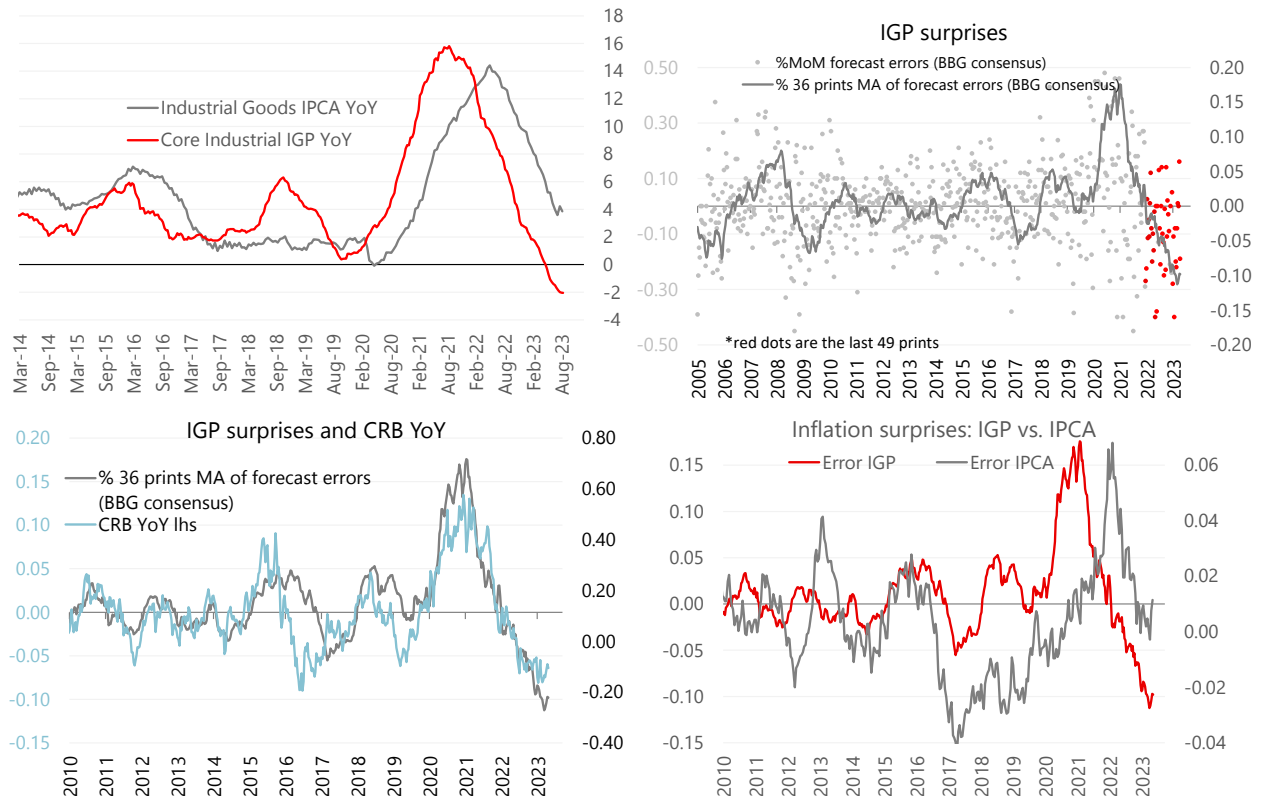
Figure 1. IGP-M, Groups and Qualitative Measures



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 | Jun-23 | | | Jul-23 | | | Aug-23 | | |
|------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------|
| | IGP-10 | IGP-M | IGP-DI | IGP-10 | IGP-M | IGP-DI | IGP-10 | IGP-M | IGP-DI |
| IGP | -2.20 | -1.93 | -1.45 | -1.10 | -0.72 | -0.40 | -0.13 | -0.14 | |
| IPA | -3.14 | -2.73 | -2.13 | -1.54 | -1.05 | -0.61 | -0.20 | -0.17 | |
| IPA-Agro | -4.22 | -4.36 | -3.81 | -3.40 | -1.87 | -0.88 | 0.16 | 0.02 | |
| Grains | -8.01 | -7.38 | -5.86 | -4.77 | -1.39 | 1.78 | 3.88 | 3.74 | |
| In Natura | -3.27 | -2.02 | -0.29 | 0.74 | -0.51 | -2.96 | -3.34 | -2.94 | |
| Livestock | -2.11 | -4.07 | -4.18 | -3.85 | -1.64 | -1.11 | -0.80 | -2.31 | |
| IPA-Industrial | -2.72 | -2.12 | -1.49 | -0.83 | -0.75 | -0.51 | -0.33 | -0.24 | |
| Mining | -6.76 | -1.76 | -1.72 | 2.74 | 2.48 | 1.61 | 1.12 | 0.01 | |
| Food | -1.54 | -1.81 | -1.65 | -1.30 | -1.14 | -0.80 | -0.20 | -0.47 | |
| FX related | -2.41 | -1.20 | -1.07 | -0.17 | -0.32 | -0.34 | -0.37 | -0.65 | |
| Oil related | -11.47 | -10.94 | -6.72 | -4.88 | -3.64 | -1.64 | -0.97 | 1.60 | |
| INCC | 1.19 | 0.85 | 0.71 | 0.01 | 0.06 | 0.10 | 0.17 | 0.24 | |
| IPC | -0.18 | -0.25 | -0.10 | -3.21 | -3.52 | -5.98 | 0.00 | 0.04 | |

| IGP chained %MoM | Jun-23 | | | Jul-23 | | | Aug-23 | | |
|------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------|
| | IGP-10 | IGP-M | IGP-DI | IGP-10 | IGP-M | IGP-DI | IGP-10 | IGP-M | IGP-DI |
| IGP | -6.3 | -6.9 | -7.4 | -7.9 | -7.7 | -7.5 | -7.4 | -7.2 | |
| IPA | -9.6 | -10.3 | -11.2 | -11.5 | -11.5 | -11.5 | -11.1 | -11.0 | |
| IPA-Agro | -13.2 | -14.6 | -15.1 | -16.3 | -16.3 | -16.0 | -16.3 | -16.7 | |
| Grains | -29.0 | -30.8 | -31.3 | -31.5 | -30.0 | -28.1 | -27.1 | -26.3 | |
| In Natura | 19.6 | 19.1 | 19.5 | 20.7 | 18.2 | 14.9 | 14.2 | 12.1 | |
| Livestock | -2.0 | -3.9 | -5.5 | -8.8 | -10.8 | -11.6 | -13.5 | -15.6 | |
| IPA-Industrial | -8.2 | -8.7 | -9.7 | -9.6 | -9.6 | -9.7 | -9.0 | -8.7 | |
| Mining | -17.5 | -17.2 | -16.8 | -10.6 | -5.3 | -5.1 | -0.3 | -0.5 | |
| Food | -4.9 | -5.7 | -6.8 | -7.6 | -7.9 | -7.9 | -7.4 | -7.6 | |
| FX related | -8.9 | -8.9 | -9.2 | -7.8 | -6.8 | -7.0 | -6.0 | -6.0 | |
| Oil related | -30.0 | -31.8 | -35.9 | -37.8 | -39.1 | -39.0 | -38.4 | -36.2 | |
| INCC | 4.7 | 4.3 | 3.9 | 3.4 | 3.2 | 3.1 | 2.8 | 3.1 | |
| IPC | 2.6 | 2.4 | 2.2 | -1.1 | -0.9 | -2.7 | 0.5 | 0.3 | |

Sources for all charts: FGV and Santander.



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