

## February's IGP-M: Fuel and Beef Deflation Around the Corner

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- February's IGP-M came in at -0.06% MoM, below consensus and our estimate (0.05% MoM). Of the last 31 prints, 25 surprised downward or did not surprise (80% of the prints came in below or equal to expectations). The headline trend fell to -1.3% 3MMA-saar, and it continues to run below the 2.3% YoY change.
- IPA-Agro posted deflation of -0.47% MoM, with the trend accelerating to -7.8% 3MMA-saar (from -5.7% previously), still below the -2.9% YoY reading (the lowest reading since March 2018).
- IPA-Industrial posted deflation of -0.10% MoM, with the trend falling to -2.4% 3MMA-saar (from -1.6% previously), running below the 1.8% YoY rate.
- The IPA-Industrial core gauge posted inflation of -0.9% 3MMA-saar (vs. -0.6% previously), running below the 1.7% YoY rate (the lowest reading since March 2020), which we believe is a sign that the YoY rate will likely continue to trend down.
- IGP's readings have been favorable at the margin, in spite of price increases for volatile items like iron ore. The dichotomy between supply issues in commodities and a likely slowdown of the global economy still suggests an uncertain outlook ahead. Our IGP-M 2023 forecast is at 4.0%.

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**Iron ore inflation (3% MoM) has been decelerating, and diesel oil deflation (-3%) is increasing owing to the refinery price cut on February 9. Meanwhile, soybean deflation (-3%) stands out in agriculture, with cattle prices likely to fall further as Brazil suspends beef exports to China after a case of bovine spongiform encephalopathy (BSE, or “mad cow” disease) was reported.**

IPA-Agro posted deflation of -0.47% MoM, with the trend accelerating to -7.8% 3MMA-saar (from -5.7% previously), still below the -2.9% YoY reading (the lowest reading since March 2018). Livestock prices rose 0.4% MoM, driven by inflation in milk (+3% MoM) and eggs (+7% MoM), and the seasonality of holidays points to upward risks for the latter. On the other hand, cattle posted deflation (-2.7% MoM) and could fall further, as Brazil temporarily suspended beef exports to China after the BSE case was reported. The government has carried out a test to determine whether or not the case was atypical; the result is expected to be released on March 6. In agriculture, soybean deflation continued (-3.6% MoM), while inflation for *in natura* goods (fresh food) has been flat.

IPA-Industrial posted deflation of -0.10% MoM, with the trend falling to -2.4% 3MMA-saar (from -1.6% previously), running below the 1.8% YoY rate. Iron ore again posted inflation of 3% MoM, but oil-related items deflation continued, with gasoline's upward readjustment and diesel's downward readjustment starting to show up in the IGP's prints. Given the greater weight of diesel compared to gasoline, we expect the net effect to be deflationary for the group of oil derivatives.

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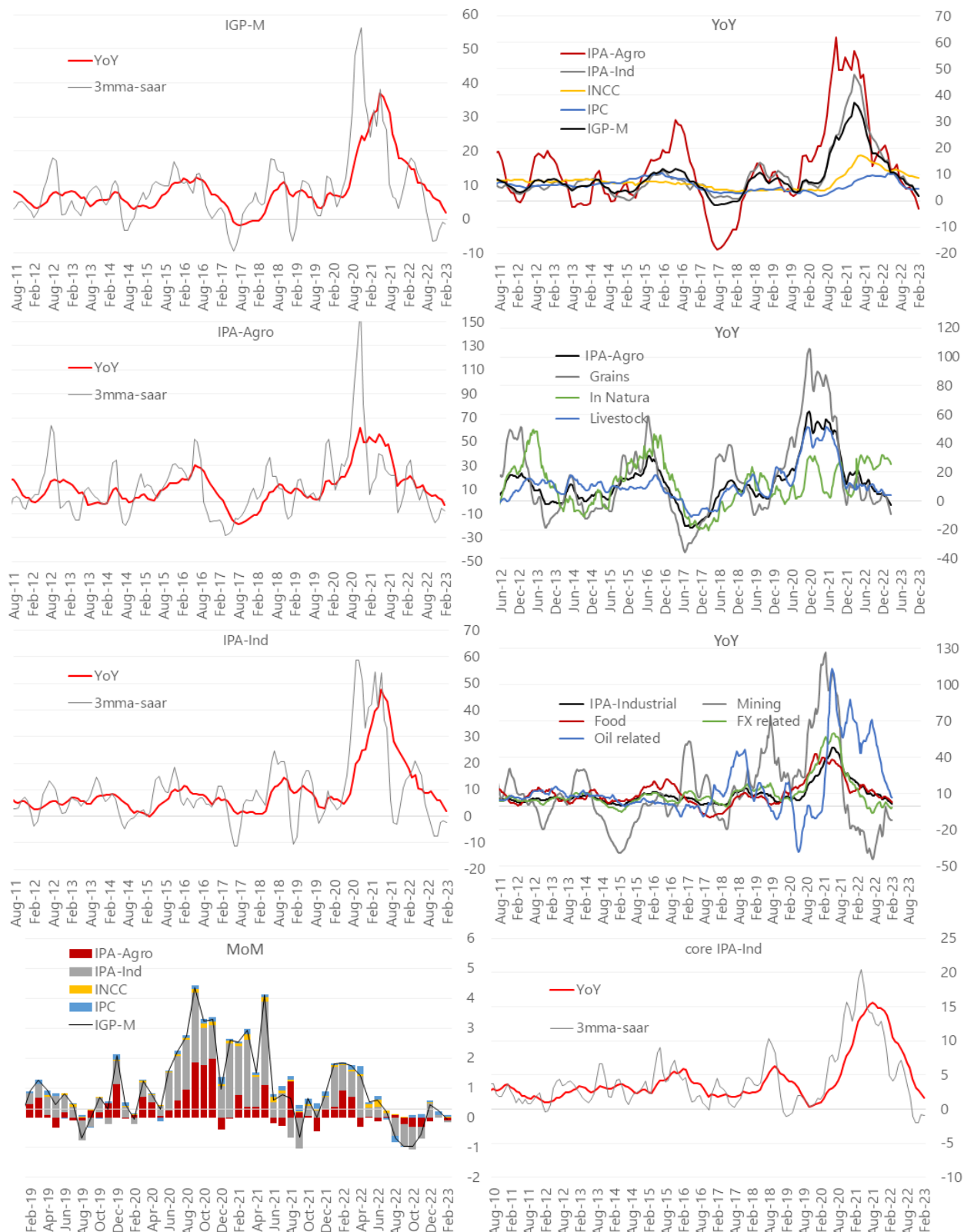


The IPA-Industrial core gauge posted inflation of -0.9% 3MMA-saar (vs. -0.6% previously), running below the 1.7% YoY rate (the lowest reading since March 2020), which we believe is a sign that the YoY rate will likely continue to trend down. This is important because the IPA-Industrial core gauge (which 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.

IGP readings have been favorable at the margin, in spite of price increases for volatile items like iron ore. The dichotomy between supply issues in commodities and a likely slowdown of the global economy still suggests an uncertain outlook ahead. **Our IGP-M 2023 forecast is at 4.0%.**



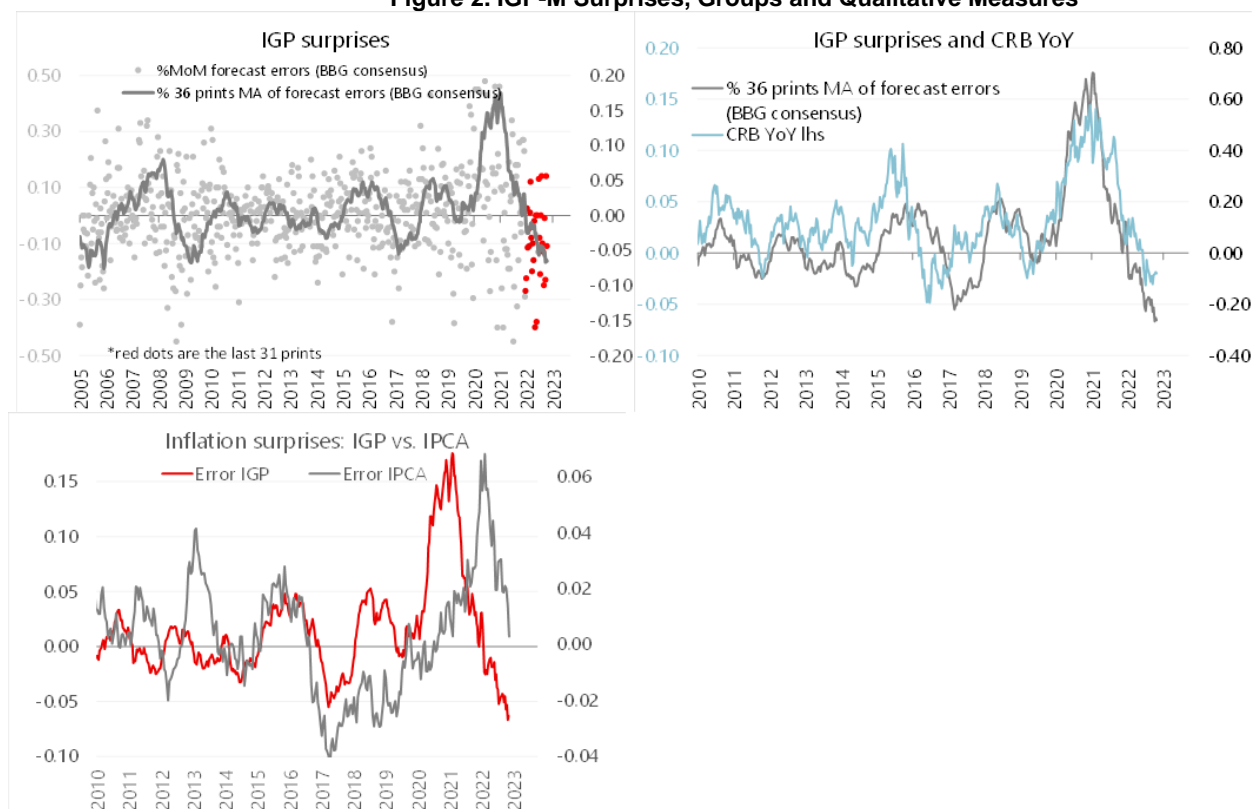
Figure 1. IGP-M, Groups and Qualitative Measures



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

	Dec-22			Jan-23			Feb-23	
IGP chained %MoM	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M
IGP	0.36	0.45	0.31	0.05	0.21	0.06	0.02	-0.06
IPA	0.31	0.47	0.32	-0.06	0.10	-0.19	-0.14	-0.20
IPA-Agro	-0.81	-0.64	-0.31	-0.07	0.06	-0.56	-0.76	-0.47
Grains	-0.30	-1.07	-1.33	-0.56	-0.34	-0.59	-1.85	-2.27
In Natura	0.41	-1.58	-0.65	0.60	1.44	-0.07	-0.71	0.58
Livestock	-1.79	-1.11	-0.75	-1.13	-0.80	-1.71	-0.61	0.40
IPA-Industrial	0.76	0.92	0.58	-0.06	0.12	-0.04	0.10	-0.10
Mining	10.00	13.49	13.73	9.99	7.89	6.02	3.33	3.03
Food	0.85	0.16	0.00	-0.59	-0.14	-0.65	-0.89	-1.16
FX related	1.25	2.49	2.43	1.91	1.62	1.22	0.72	0.62
Oil related	-0.49	-2.11	-3.90	-6.14	-4.61	-4.00	-0.94	-1.75
INCC	0.36	0.27	0.09	0.14	0.32	0.46	0.33	0.21
IPC	0.58	0.44	0.35	0.47	0.61	0.80	0.55	0.38

	Dec-22			Jan-23			Feb-23	
IGP chained %YoY	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M
IGP	6.1	5.5	5.0	4.3	3.8	3.0	2.3	1.9
IPA	6.1	5.3	4.7	3.7	3.0	1.9	1.0	0.4
IPA-Agro	4.2	3.3	3.4	2.6	1.6	0.2	-1.7	-2.9
Grains	5.8	4.9	3.9	2.5	0.2	-2.6	-6.4	-9.4
In Natura	31.4	29.1	29.1	29.1	29.9	29.2	27.5	25.7
Livestock	4.5	3.8	3.9	4.0	4.3	3.5	3.9	4.4
IPA-Industrial	6.9	6.0	5.2	4.1	3.6	2.6	2.1	1.8
Mining	-0.5	-3.8	-7.5	-9.3	-10.3	-10.6	-12.3	-11.8
Food	7.7	6.7	6.7	5.6	5.1	4.1	3.6	2.8
FX related	2.7	2.1	0.5	-0.4	-0.8	-1.8	-2.0	-1.7
Oil related	19.8	18.0	16.9	13.6	12.5	9.9	7.7	6.7
INCC	9.6	9.4	9.3	9.2	9.1	9.0	8.9	8.8
IPC	4.4	4.3	4.3	4.5	4.5	4.6	4.6	4.5

Sources for all charts: FGV and Santander.



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