

## January's IGP-M: Iron Ore Inflation Cushioned by Fuels Deflation

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- January's IGP-M came in at 0.21% MoM, in line with consensus (0.22% MoM) and our estimate (0.20% MoM). Of the last 28 prints, 23 surprised downward or did not surprise (i.e., 82% of the prints came in below or equal to expectations).
- IPA-Agro was relatively flat with 0.06% MoM inflation, with the trend rising to -1.8% 3MMA-saar (from -8.4% previously), still below the 1.6% YoY reading (the lowest reading since March 2020).
- IPA-Industrial posted inflation of 0.12% MoM, with the trend rising to -1.8% 3MMA-saar (from -2.3% previously), still running below the 4.1% YoY rate, suggesting further deceleration ahead.
- IPA-industrial core gauge posted inflation of 0.3% 3MMA-saar (from -1.8% previously), running below the 2.1% YoY rate (the lowest reading since October 2019), which is a sign that the YoY rate will likely continue to trend down.
- IGPs' 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 4.1%.

January's IGP-M came in at 0.21% MoM, in line with consensus (0.22% MoM) and our estimate (0.20% MoM). Of the last 28 prints, 23 surprised downward or did not surprise (i.e., 82% of the prints came in below or equal to expectations). The headline trend continues to be in negative territory at -0.3% 3MMA-saar and also continues to run below the 3.8% YoY change, suggesting further deceleration ahead.

Once again, the most notable item in this reading was iron ore, whose prices surged 9% MoM. Conversely, oil-related items posted deflation (albeit decelerating) owing to gasoline and diesel prices, which were adjusted downward at the beginning of December.

IPA-Agro was relatively flat with 0.06% MoM inflation, with the trend rising to -1.8% 3MMA-saar (from -8.4% previously), still below the 1.6% YoY reading (the lowest reading since March 2020). Livestock fell 0.8% MoM, driven by deflation in poultry (-3.4% MoM) and eggs (-4.2% MoM). Indeed, poultry prices have been falling since December given abundant domestic supplies. In agriculture, soybeans posted deflation (-0.9% MoM), while *in-natura* goods began to post inflation at the margin (driven by cassava and potatoes). We highlight that in our proprietary wholesale survey, cassava inflation is accelerating, while potatoes are decelerating.

IPA-Industrial posted inflation of 0.12% MoM, with the downward trend decelerating to -1.8% 3MMA-saar (from -2.3% previously), still running below the 4.1% YoY rate, suggesting further deceleration ahead. As mentioned above, a major contribution came from iron ore, which surged 9% MoM (from 12% in December). Iron ore prices rebounded in early November and are now close to USD129/ton on hopes that China will provide further stimulus to the property sector. Cushioning this inflation, oil-related items deflation continued to accelerate, owing to

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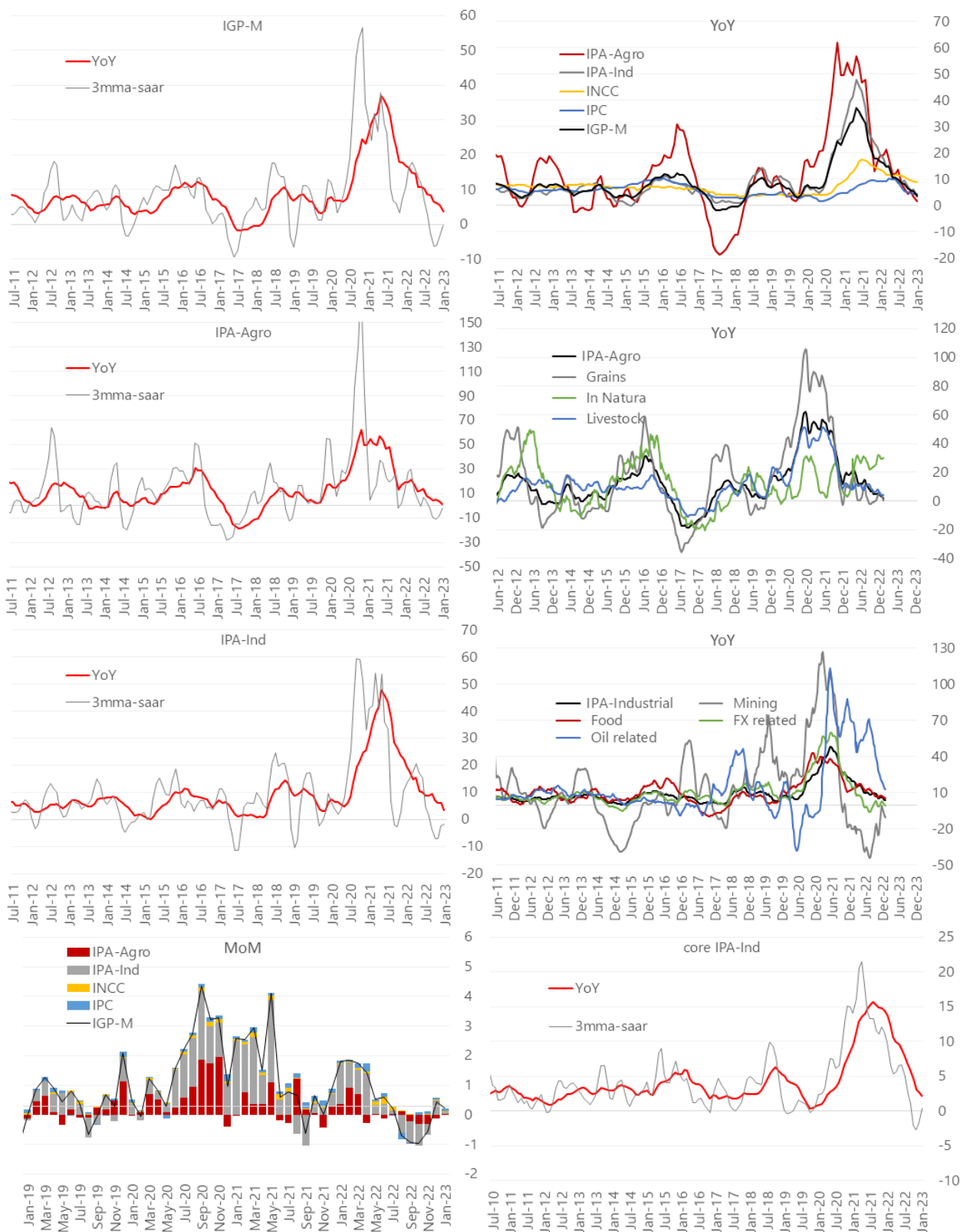
gasoline, diesel, and LPG prices that have been adjusted downward. The recent gasoline upward readjustment will show up in the next IGP prints.

The IPA-industrial core gauge posted inflation of 0.3% 3MMA-saar (from -1.8% previously), running below the 2.1% YoY rate (the lowest reading since October 2019), which 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 fuels 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 plunge (see Figure 3).

IGPs' 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 4.1%.



Figure 1. IGP-M, Groups and Qualitative Measures



Sources for all charts: FGV and Santander.



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

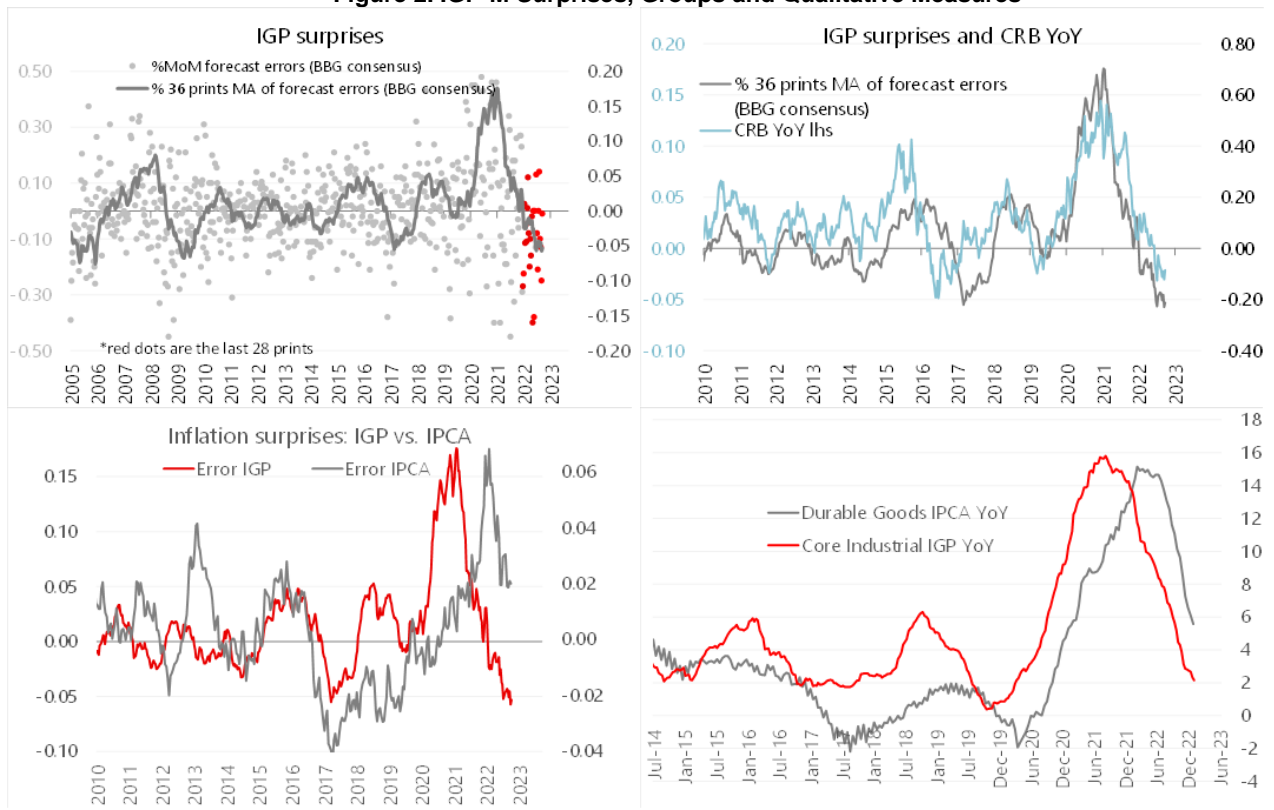




Figure 3. IGP-M, Groups and Qualitative Measures

IGP chained %MoM	Nov-22			Dec-22			Jan-23	
	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M
<b>IGP</b>	<b>-0.59</b>	<b>-0.56</b>	<b>-0.18</b>	<b>0.36</b>	<b>0.45</b>	<b>0.31</b>	<b>0.05</b>	<b>0.21</b>
<b>IPA</b>	<b>-0.98</b>	<b>-0.94</b>	<b>-0.43</b>	<b>0.31</b>	<b>0.47</b>	<b>0.32</b>	<b>-0.06</b>	<b>0.10</b>
<b>IPA-Agro</b>	<b>-1.44</b>	<b>-1.46</b>	<b>-0.96</b>	<b>-0.81</b>	<b>-0.64</b>	<b>-0.31</b>	<b>-0.07</b>	<b>0.06</b>
Grains	0.42	0.71	0.73	-0.30	-1.07	-1.33	-0.56	-0.34
In Natura	4.50	3.69	2.52	0.41	-1.58	-0.65	0.60	1.44
Livestock	-2.78	-2.61	-2.28	-1.79	-1.11	-0.75	-1.13	-0.80
<b>IPA-Industrial</b>	<b>-0.79</b>	<b>-0.74</b>	<b>-0.22</b>	<b>0.76</b>	<b>0.92</b>	<b>0.58</b>	<b>-0.06</b>	<b>0.12</b>
Mining	-8.72	-7.32	-0.84	10.00	13.49	13.73	9.99	7.89
Food	0.45	0.49	0.57	0.85	0.16	0.00	-0.59	-0.14
FX related	-1.98	-2.06	-1.05	1.25	2.49	2.43	1.91	1.62
Oil related	-1.20	-0.37	0.18	-0.49	-2.11	-3.90	-6.14	-4.61
<b>INCC</b>	<b>0.19</b>	<b>0.14</b>	<b>0.36</b>	<b>0.36</b>	<b>0.27</b>	<b>0.09</b>	<b>0.14</b>	<b>0.32</b>
<b>IPC</b>	<b>0.67</b>	<b>0.64</b>	<b>0.57</b>	<b>0.58</b>	<b>0.44</b>	<b>0.35</b>	<b>0.47</b>	<b>0.61</b>

IGP chained %YoY	Nov-22			Dec-22			Jan-23	
	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M
<b>IGP</b>	<b>5.6</b>	<b>5.9</b>	<b>6.0</b>	<b>6.1</b>	<b>5.5</b>	<b>5.0</b>	<b>4.3</b>	<b>3.8</b>
<b>IPA</b>	<b>5.2</b>	<b>5.8</b>	<b>6.0</b>	<b>6.1</b>	<b>5.3</b>	<b>4.7</b>	<b>3.7</b>	<b>3.0</b>
<b>IPA-Agro</b>	<b>4.9</b>	<b>5.3</b>	<b>5.3</b>	<b>4.2</b>	<b>3.3</b>	<b>3.4</b>	<b>2.6</b>	<b>1.6</b>
Grains	2.0	4.1	5.7	5.8	4.9	3.9	2.5	0.2
In Natura	29.5	31.6	31.6	31.4	29.1	29.1	29.1	29.9
Livestock	8.2	8.0	6.5	4.5	3.8	3.9	4.0	4.3
<b>IPA-Industrial</b>	<b>5.3</b>	<b>5.9</b>	<b>6.2</b>	<b>6.9</b>	<b>6.0</b>	<b>5.2</b>	<b>4.1</b>	<b>3.6</b>
Mining	-24.0	-14.9	-6.7	-0.5	-3.8	-7.5	-9.3	-10.3
Food	6.6	7.3	7.5	7.7	6.7	6.7	5.6	5.1
FX related	-1.6	0.0	1.2	2.7	2.1	0.5	-0.4	-0.8
Oil related	25.9	24.1	20.7	19.8	18.0	16.9	13.6	12.5
<b>INCC</b>	<b>9.7</b>	<b>9.4</b>	<b>9.6</b>	<b>9.6</b>	<b>9.4</b>	<b>9.3</b>	<b>9.2</b>	<b>9.1</b>
<b>IPC</b>	<b>4.9</b>	<b>4.7</b>	<b>4.5</b>	<b>4.4</b>	<b>4.3</b>	<b>4.3</b>	<b>4.5</b>	<b>4.5</b>

Sources for all charts: FGV and Santander.



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