

## May's IGP-M: Deepening the YoY Inflation Print

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- May's IGP-M came in at -1.84% MoM, below consensus (-1.73%) and our estimate (-1.71% MoM). Of the last 40 prints, 32 surprised downward or did not surprise (80% of prints were below or equal to expectations). Twelve-month inflation reached -4.5% 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 -2.08% MoM, with the trend falling to -13.7% 3MMA-saar (from -10.1% previously), running below the -6.1% YoY rate.
- IPA-industrial core gauge posted -2.7% 3MMA-saar (from -2.1%), running below the -0.7% YoY, which is a sign that the YoY rate will continue to trend downward.
- IGP readings have been consistently favorable at the margin and is now at -4.5% YoY, the lowest reading in the historical data (since 1989). We revised our IGP-M 2023 tracking downward once again, now to 0.5% (from 1.5%), **and we still see clear downward risks (a negative yearly print is very likely)**. Domestic soybean and corn prices are falling on the back of a bright outlook for the Brazilian harvest, though we still see Brent oil prices climbing back to USD95/bbl by YE2023, which would lead to a rebound in oil derivatives prices in 2H23.

May's IGP-M came in at -1.84% MoM, below the consensus (-1.73%) and our estimate (-1.71% MoM). Of the last 40 prints, 32 surprised downward or did not surprise (80% of prints were below or equal to expectations). Twelve-month inflation reached -4.5% YoY, the lowest reading in the historical data (since 1989). The headline trend fell to -11.3% 3MMA-saar (from -8.6%).

**Deflation was driven by soybeans (-9% MoM), corn (-15%), iron ore (-13%), diesel oil (-9%), industrialized food (-1%) and chemical products (-1%). Conversely, milk (+4%) posted inflation.**

IPA-Agro posted deflation of -4.37% MoM, with the trend falling to -21.5% 3MMA-saar (from -18.0% previously), below the -11.2% YoY reading (the lowest reading since January 2018). Grains are still posting deflation, driven by soybeans (-9% MoM) and corn (-15%) contributing to the negative print. The outlook for domestic supply of grains in Brazil is favorable, as the country should harvest a record output this year: soybean output in Brazil will reach 155 million tons. Additionally, even with corn *safrinha* planting behind the schedule (and outside the ideal planting window), corn output will be good in Brazil, and domestic prices could fall further. The only risk for grains for now is the weather in U.S.: while planting is ahead of schedule, current forecast point to the driest end of May/beginning of June in 30 years. Meanwhile, *in natura* products fell -2.2% MoM (driven by *mandioca* and *mamão*), while livestock was flat at -0.04%, with cattle prices falling and milk prices rising. For cattle, we keep our call that the current favorable moment in Brazil's cattle cycle (where supplies are ample) will mean low cattle prices in 2023<sup>1</sup>. For milk,

<sup>1</sup> Santander Brazil Special Report: "It's Barbecue Time" – May 19, 2023 – Available on: <https://bit.ly/Std-special-051923>



prices should fall as imports remains high and demand is weak. Additionally, supply should seasonally increase in July.

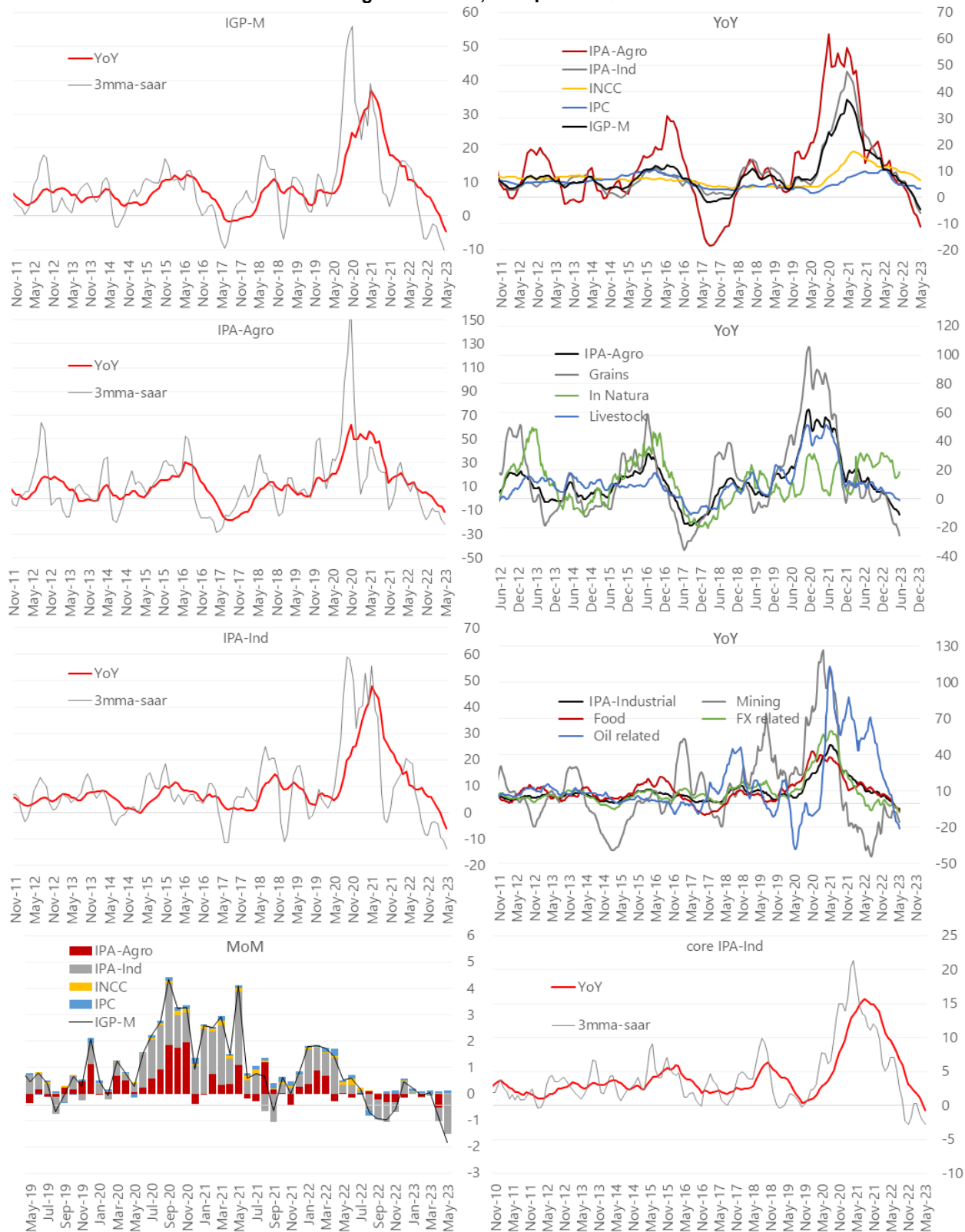
IPA-Industrial posted deflation of -2.08% MoM, with the trend falling to -13.7% 3MMA-saar (from -10.1% previously), running below the -6.1% YoY rate. Iron ore posted deflation of -13% MoM, with prices around ~USD101/ton. China's infrastructure and property sectors have performed worse-than-expected this year, weighing on steel demand and prices, and investors are now bracing for even weaker consumption over the summer months when building activity typically slows. Oil-related items deflation decelerated, but the downward readjustment on May 16 has yet to take effect. Brent oil prices have been volatile amid a tug war between bullish fundamentals and a bearish macro backdrop. We still see Brent oil prices climbing back to USD95/bbl by YE2023. Industrialized food and chemical products also posted deflation, with their 12-month variation at -4.4% YoY and -12.6% YoY.

IPA-industrial core gauge posted -2.7% 3MMA-saar (from -2.1%), running below the -0.7% YoY, which is a sign that the YoY rate will continue to trend downward. 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 on IPCA continues to fall.

**IGP readings have been consistently favorable at the margin and are now at -4.5% YoY, the lowest reading in the historical data (since 1989). We revised our IGP-M 2023 tracking downward once again, now to 0.5% (from 1.5%), and we still see clear downward risks (a negative yearly print is very likely). Domestic soybean and corn prices are falling on the back of good prospects for the Brazilian harvest, but we still see Brent oil prices climbing back to USD95/bbl by YE2023, which would lead to a rebound in oil derivatives prices in 2H23.**



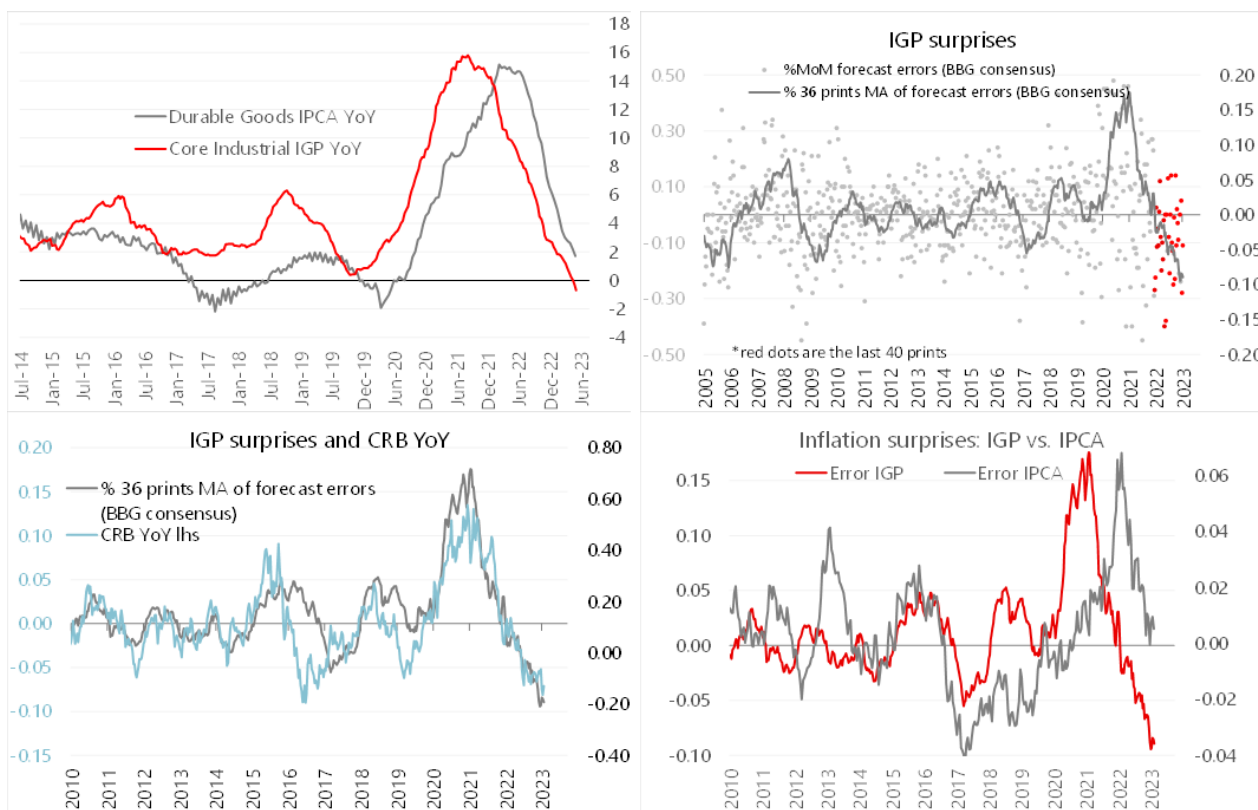
**Figure 1. IGP-M, Groups and Qualitative Measures**



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	Mar-23			Apr-23			May-23		
	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI
<b>IGP</b>	<b>0.05</b>	<b>0.05</b>	<b>-0.34</b>	<b>-0.58</b>	<b>-0.95</b>	<b>-1.01</b>	<b>-1.53</b>	<b>-1.84</b>	
IPA	-0.07	-0.12	-0.71	-0.96	-1.45	-1.56	-2.25	-2.72	
IPA-Agro	0.57	0.00	-1.04	-1.93	-2.50	-3.01	-3.91	-4.37	
Grains	-1.90	-2.57	-4.18	-5.61	-7.03	-8.49	-10.18	-10.58	
In Natura	6.07	5.01	2.71	0.07	-0.59	-0.71	-1.46	-2.21	
Livestock	1.82	1.38	1.50	1.56	1.67	1.27	0.56	-0.04	
IPA-Industrial	-0.32	-0.16	-0.58	-0.57	-1.04	-0.99	-1.61	-2.08	
Mining	3.70	4.45	3.20	0.58	-3.73	-6.76	-9.87	-11.38	
Food	-1.24	-1.16	-1.10	-1.41	-1.00	-1.02	-0.84	-1.08	
FX related	0.43	0.52	0.18	-0.23	-1.39	-1.82	-2.77	-3.11	
Oil related	-2.57	-2.30	-4.48	-3.50	-3.58	-1.88	-2.58	-4.36	
INCC	0.12	0.18	0.30	0.22	0.23	0.14	0.09	0.40	
IPC	0.47	0.66	0.74	0.57	0.46	0.50	0.60	0.48	

IGP chained %YoY	Mar-23			Apr-23			May-23		
	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI
<b>IGP</b>	<b>1.1</b>	<b>0.2</b>	<b>-1.2</b>	<b>-1.9</b>	<b>-2.2</b>	<b>-2.6</b>	<b>-3.5</b>	<b>-4.5</b>	
IPA	-0.5	-1.7	-3.5	-4.2	-4.5	-5.2	-6.3	-7.5	
IPA-Agro	-4.6	-6.0	-6.9	-7.2	-7.0	-7.5	-9.4	-11.2	
Grains	-14.0	-16.6	-18.3	-17.9	-17.2	-18.7	-22.6	-25.8	
In Natura	26.9	22.1	18.0	15.7	14.4	14.2	16.1	18.4	
Livestock	3.3	2.9	1.8	0.7	0.1	-0.1	-0.3	-0.7	
IPA-Industrial	1.2	0.0	-2.1	-2.9	-3.5	-4.3	-5.0	-6.1	
Mining	-7.1	-6.9	-7.7	-7.3	-9.0	-11.0	-13.7	-15.9	
Food	0.9	-0.9	-3.0	-3.5	-3.8	-4.3	-4.1	-4.4	
FX related	-1.3	-1.4	-2.9	-3.3	-4.0	-5.3	-6.4	-7.5	
Oil related	2.3	-2.8	-11.3	-15.1	-15.7	-16.6	-17.8	-20.8	
INCC	8.6	8.2	8.0	7.6	7.5	7.2	6.9	6.3	
IPC	4.6	4.3	4.0	3.5	3.2	3.4	3.6	3.4	

Sources for all charts: FGV and Santander.



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