

## IGP-M Still Suggests Favorable Outlook for Short Term Inflation

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- September's IGP-M came in at 0.37% MoM, in line with market consensus (0.35%) and below our expectation (0.46%). Twelve-month inflation eased to -5.97% from -7.20%.
- IPA-Agro fell 2.53% MoM and was down 18.0% YoY, driven by livestock (-7.38%) and *in natura* (-3.38%), whereas grains (0.82%) moved in the opposite direction.
- IPA-Industrial rose 1.49% MoM, posting YoY deflation of -6.0 YoY. The positive monthly variation in September was due to oil-related products (12.69%) and mining (5.47%).
- The IPA-industrial core gauge fell 0.20% MoM and was down 2.1% YoY, while its trend eased to -1.7% 3MMA-saar (from -2.6% previously). We expect durable goods inflation (IPCA) to continue its downward trend in the short term.
- The overall number is still positive for inflation in the short term, as core industrial extended its downward movement, *in natura* remains in negative territory, and livestock is showing steep deflation. Moreover, most of the monthly increase was seen in oil-related products after the last readjustment in fuels at the refinery level in mid-August, which should start to fade in the coming prints. We keep our IGP-M tracking for 2023 at -3.4%.

**September's IGP-M came in at 0.37% MoM, in line with market consensus (0.35%) and below our expectation (0.46%). In the past 52 IGPs prints, 41 came in below or equaled expectations (or 79% of them). Twelve-month inflation eased to -5.97% from -7.20%. The headline entered a positive camp, at 1.7% 3MMA-saar (from -7.1%).**

**The monthly growth was driven by mining (+5.5%) and oil-related products (+12.7%) in IPA-Industrial (+1.5%).**

**IPA-Agro fell 2.53% MoM and was down 18.0% YoY, with the trend easing to -16.6% 3MMA-saar (from -17.6% previously).** The monthly fall was driven by livestock (-7.38%), as cattle (-10.1%), eggs (-8.3%), milk (-6.0%), poultry (-5.2%), and pork (-1.1%) fell in September, and *in natura* (-3.38%). While grains (0.82%) moved in the opposite direction due to a growth in rice (9.5%) and soybeans (2.3%) but alleviated by corn (-4.2%). The increase in soybeans may be explained by tight global stocks-to-use and we expect a stable domestic outlook for grains' prices looking ahead. In the short term, the risks are the effects of El Niño phenomenon on global weather and rainfall pattern for the next crop season, and the war in Ukraine. For cattle, we keep our call that current conditions in Brazil's cattle cycle (where supplies are ample) will mean lower prices in 2023.

**IPA-Industrial rose 1.49% MoM, posting deflation of -6.0 YoY, with the trend surging to 7.7% 3MMA-saar (from -6.6% previously).** The positive monthly variation in September was due to oil-related products (12.69%) and mining (5.47%). Iron ore increased 6.5% in September after a new batch of stimulus and the positive seasonality in the construction sector in China. Nevertheless, our view is that these measures might not be enough,



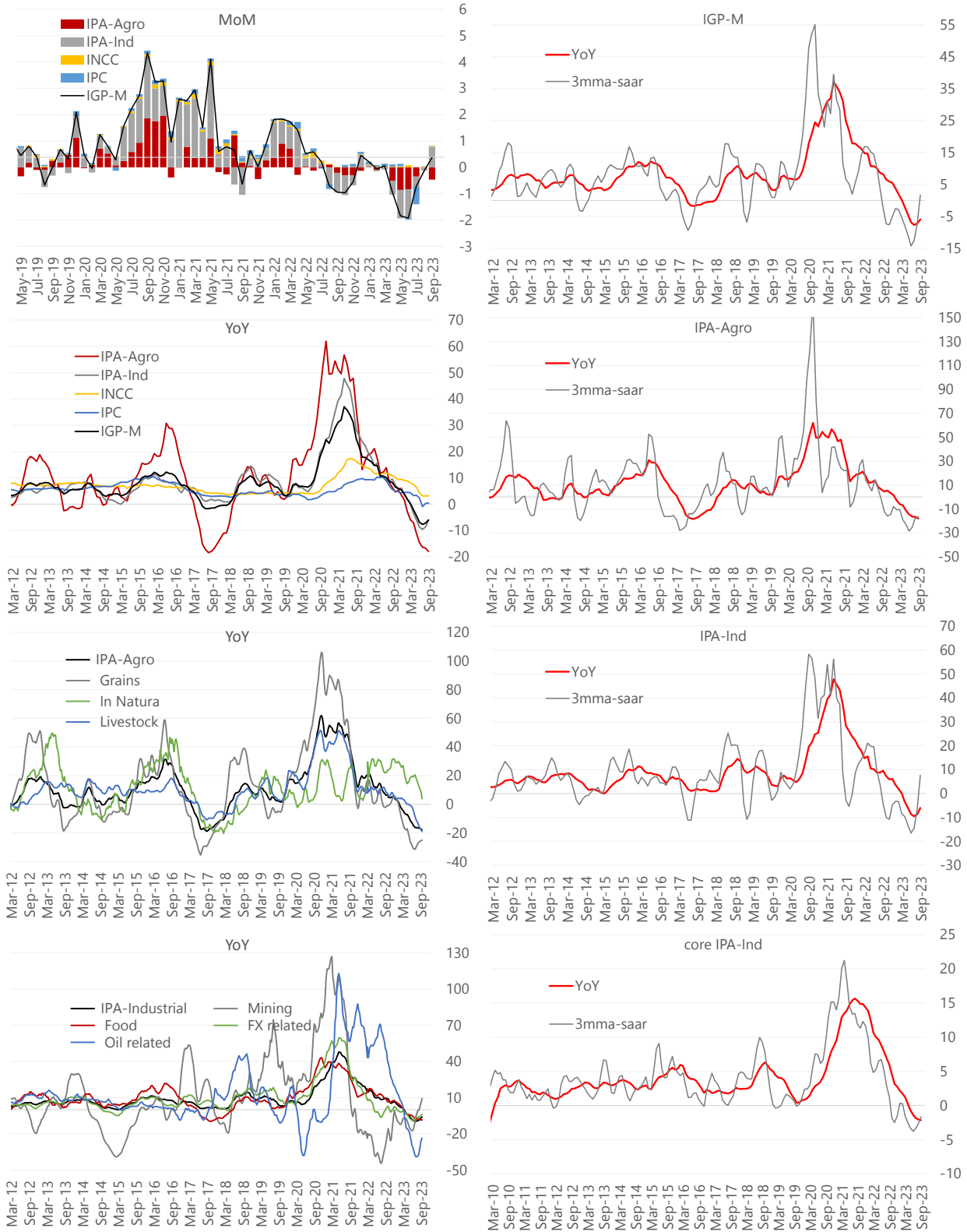
which means less support for metals price ahead. Oil-related products were driven by diesel oil (20.7%) and gasoline (13.2%), as an impact of the last readjustment at the refinery level in mid-August. As of now, Brent oil prices (around USD95/bbl) are above our forecast of USD85/bbl for YE2023, posing an upward risk for inflation. For other items, we highlight the deflation of industrialized food (-0.9%), cellulose (-2.0%), and basic metallurgy (-1.2%) in September.

**IPA-industrial core gauge fell 0.20% MoM and was down 2.1% YoY, while its trend eased to -1.7% 3MMA-saar (from -2.6% 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 on a downward trend in the short term.**

**After a surprising to the downside, IGP-M came in line with consensus. The overall number is still positive for inflation in the short term, as core industrial extended its downward movement, in natura continues in negative territory and livestock is showing a steep deflation. Moreover, most of the monthly increase was seen in oil related products after the last readjustment in fuels at the refinery level in mid-August, that should start to fade in the coming prints. We keep our IGP-M tracking for 2023 at -3.4%.**



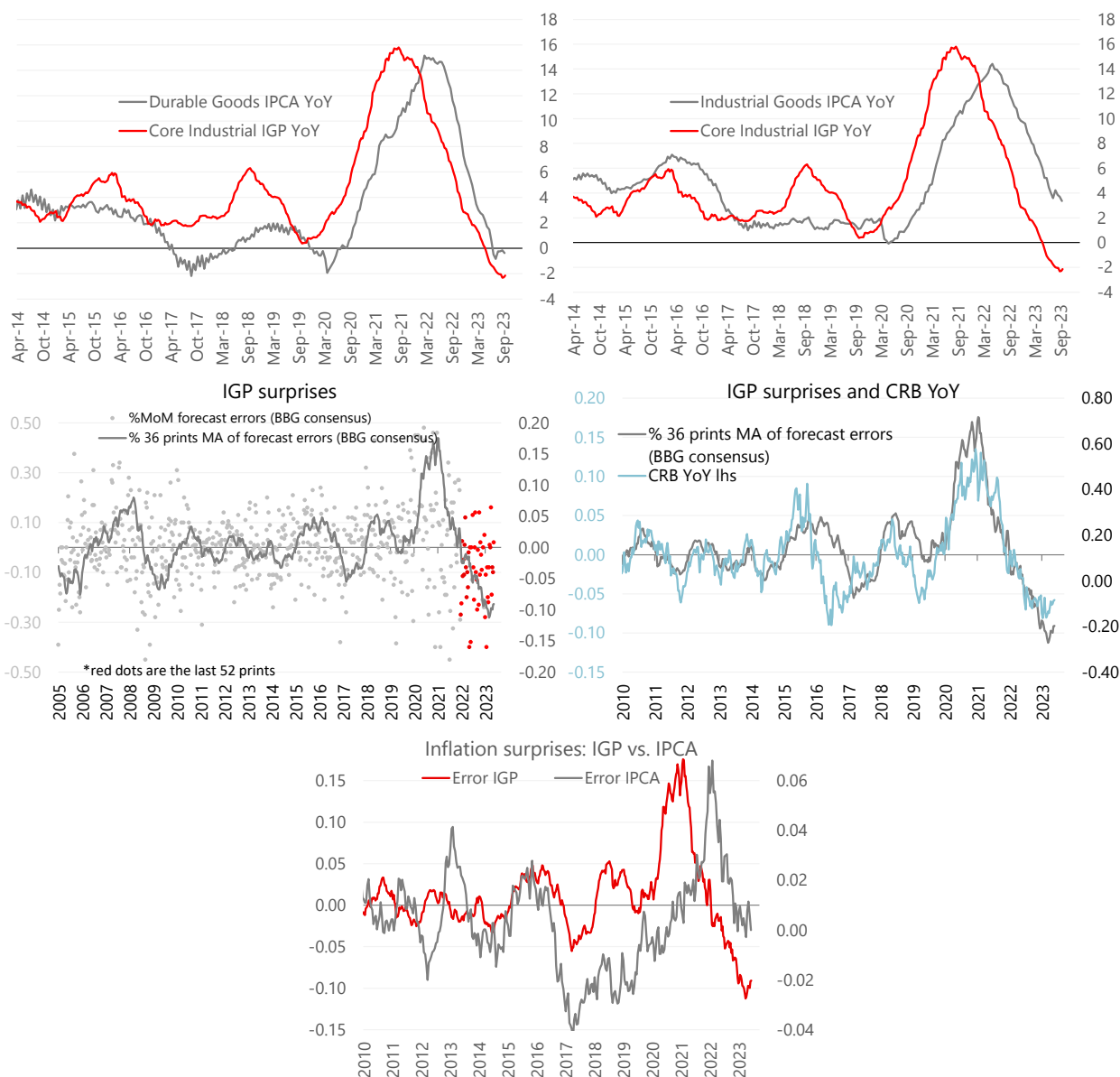
Figure 1. IGP-M, Groups and Qualitative Measures



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	Jul-23			Aug-23			Sep-23		
	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI
<b>IGP</b>	<b>-1.10</b>	<b>-0.72</b>	<b>-0.40</b>	<b>-0.13</b>	<b>-0.14</b>	<b>0.05</b>	<b>0.18</b>	<b>0.37</b>	
IPA	-1.54	-1.05	-0.61	-0.20	-0.17	0.10	0.23	0.41	
IPA-Agro	-3.40	-1.87	-0.88	0.16	0.02	-0.56	-1.58	-2.53	
Grains	-4.77	-1.39	1.78	3.88	3.74	2.35	1.61	0.82	
In Natura	0.74	-0.51	-2.96	-3.34	-2.94	-1.06	-1.41	-3.38	
Livestock	-3.85	-1.64	-1.11	-0.80	-2.31	-3.96	-6.11	-7.38	
IPA-Industrial	-0.83	-0.75	-0.51	-0.33	-0.24	0.35	0.89	1.49	
Mining	2.74	2.48	1.61	1.12	0.01	0.24	2.41	5.47	
Food	-1.30	-1.14	-0.80	-0.20	-0.47	-0.55	-1.20	-0.88	
FX related	-0.17	-0.32	-0.34	-0.37	-0.65	-0.84	-0.15	1.04	
Oil related	-4.88	-3.64	-1.64	-0.97	1.60	8.64	12.89	12.69	
INCC	0.01	0.06	0.10	0.17	0.24	0.17	0.18	0.24	
IPC	-3.21	-3.52	-5.98	0.00	0.04	-0.04	-0.02	0.06	

IGP chained %YoY	Jul-23			Aug-23			Sep-23		
	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI
<b>IGP</b>	<b>-7.9</b>	<b>-7.7</b>	<b>-7.5</b>	<b>-7.4</b>	<b>-7.2</b>	<b>-6.9</b>	<b>-6.4</b>	<b>-6.0</b>	
IPA	-11.5	-11.5	-11.5	-11.1	-11.0	-10.8	-9.8	-9.5	
IPA-Agro	-16.3	-16.3	-16.0	-16.3	-16.7	-17.1	-17.3	-18.0	
Grains	-31.5	-30.0	-28.1	-27.1	-26.3	-25.9	-25.3	-25.2	
In Natura	20.7	18.2	14.9	14.2	12.1	10.5	8.5	3.9	
Livestock	-8.8	-10.8	-11.6	-13.5	-15.6	-17.1	-17.8	-19.0	
IPA-Industrial	-9.6	-9.6	-9.7	-9.0	-8.7	-8.3	-6.8	-6.0	
Mining	-10.6	-5.3	-5.1	-0.3	-0.5	-1.9	6.0	9.3	
Food	-7.6	-7.9	-7.9	-7.4	-7.6	-7.8	-8.5	-8.5	
FX related	-7.8	-6.8	-7.0	-6.0	-6.0	-7.0	-5.0	-3.9	
Oil related	-37.8	-39.1	-39.0	-38.4	-36.2	-30.9	-25.6	-23.7	
INCC	3.4	3.2	3.1	2.8	3.1	3.2	3.0	3.2	
IPC	-1.1	-0.9	-2.7	0.5	0.3	-2.2	0.6	0.4	

Sources for all charts: FGV and Santander.



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