

## April's IGP-M: Commodities Shock Cushioned by BRL Appreciation

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- April's IGP-M registered a 1.41% MoM change (14.7% YoY), below the consensus forecast (1.70%) and our call (1.69%).
- IPA-Agro decreased 1.36% MoM, with the trend plunging to 15.3% 3MMA-saar from 37.3%, below the 17.4% YoY reading. While prices are rising in USD owing to the Russia-Ukraine conflict and weather issues affecting both LatAm and U.S. crops, domestic prices were being cushioned by the significant BRL appreciation as of the date of this reading (April 20).
- IPA-Industrial increased 2.62% MoM, bringing the trend to 19.9% 3MMA-saar from 20.4%, above the 15.5% YoY reading. Oil-related items, which were the highlight in the last reading (April's IGP-10), decreased to 11% MoM (GLP [cooking gas] +9%, gasoline +11%, and diesel +14%).
- The silver lining remains the core IPA-industrial gauge, which accelerated a bit at the margin but is still below the YoY reading. Nevertheless, the impact of the conflict in Eastern Europe not only on commodities but also on the global supply chain makes us more skeptical about the continuation of this trend during the next few months.
- Our tracking is at 12.0% for IGP-M 2022, but we do recognize upside risks.

**April's IGP-M registered a 1.41% MoM change (14.7% YoY), below the consensus forecast (1.70%) and our call (1.69%).** While 1.41% MoM is a high seasonal number (the average for April is closer to 0.8%), it was the lowest reading since the March IGP-10 (1.18%). The headline trend decelerated a bit to 19.5% 3MMA-saar, above the YoY change, signaling some risk for the deceleration process under way. We highlight that the recent shock in commodities prices due to the Russia-Ukraine conflict was partly offset by the significant BRL appreciation until this reading (April 20), but the depreciation since then is a risk for the coming readings, in our view.

**IPA-Agro decreased 1.36% MoM, with the trend plunging to 15.3% 3MMA-saar from 37.3%, below the 17.4% YoY reading.** Grains decreased 6.4%: while prices are rising in USD owing to the conflict in Eastern Europe and weather issues affecting both LatAm and U.S. crops, domestic prices have been cushioned by the significant BRL appreciation until this reading (April 20). Additionally, prices of fresh/natural products continue to be high (+6% MoM) given the strong upward seasonal effect at this time of year, though slowing at the margin. Meanwhile, livestock prices are slowly rising, mainly poultry +15% MoM, with producers experiencing the best feed conversion ratio since July 2020.

**IPA-Industrial increased 2.62% MoM, bringing the trend to 19.9% 3MMA-saar from 20.4%, above the 15.5% YoY print.** Oil-related items, which were the highlight in the last reading (April's IGP-10), decreased to 11% MoM (GLP +9%, gasoline +11%, and diesel +14%). We highlight that we see little room for oil prices to decline from current levels in USD terms, and the recent depreciation is a risk for the coming readings. Additionally, iron ore prices plunged after Beijing enforced tighter restrictions in a bid to tame COVID-19 infections, affecting Tangshan, a top steelmaking hub in China.

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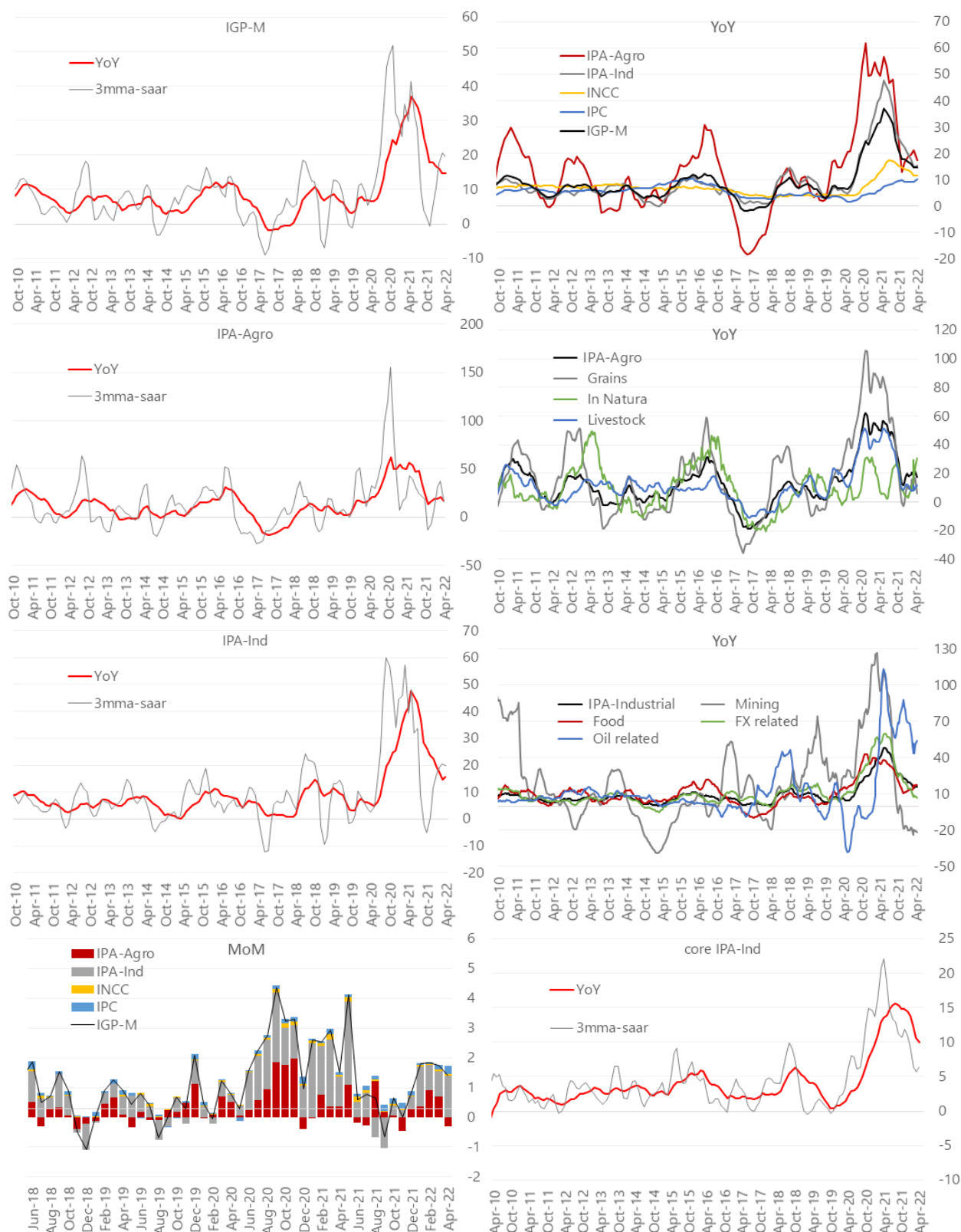
**The silver lining remains the core IPA-industrial gauge, which accelerated a bit at the margin but is still below the YoY reading.** This is important because the IPA-industrial core gauge (which excludes iron ore, food, medicines, and fuels from the IPA-industrial headline) is more correlated with the industrial goods group in IPCA (durable goods in general), so it is more optimistic (or less pessimistic) news for IPCA. Nevertheless, the impact of the Russia-Ukraine conflict not only on commodities but also on the global supply chain makes us more skeptical about the continuation of this trend during the next months.

**All in all, IGP's prospects remain foggy given the BRL's volatility, the geopolitical shock from the Russia-Ukraine conflict, and the supply chain risks from China's COVID outbreak. IGP-M is already running at 7.0% YTD.** We were already seeing a backlog of IGP increases that could still reach IPCA in the coming months, and the fact that IGPs are still running at high levels at the margin makes this risk even higher, in our view.

**Our tracking is at 12.0% for IGP-M 2022, but we do recognize upside risks.**



Figure 1. IGP-M, Groups and Qualitative Measures



Sources for all charts: FGV and Santander.



Figure 1. IGP-M, Groups and Qualitative Measures (continued)

	Feb-22			Mar-22			Apr-22		
IGP chained %MoM	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI
IGP	1.98	1.83	1.50	1.18	1.74	2.37	2.48	1.41	
IPA	2.51	2.36	1.95	1.44	2.07	2.80	2.81	1.45	
IPA-Agro	3.53	4.18	4.33	3.62	3.22	2.28	0.90	-1.36	
Grains	7.48	8.18	8.28	6.87	5.84	3.17	-1.14	-6.40	
In Natura	0.51	3.93	6.43	6.52	8.12	8.92	9.84	6.12	
Livestock	-0.44	0.28	1.30	2.33	2.83	3.49	4.24	4.57	
IPA-Industrial	2.11	1.63	0.98	0.54	1.59	3.02	3.61	2.62	
Mining	6.95	4.75	0.04	-2.15	-1.03	2.22	0.77	-1.45	
Food	1.02	1.09	1.17	1.48	2.51	3.35	3.04	1.94	
FX related	2.40	1.59	0.10	-0.29	0.22	1.64	1.86	1.28	
Oil related	4.51	3.60	4.72	2.51	7.23	12.00	16.34	11.14	
INCC	0.61	0.48	0.38	0.34	0.73	0.86	1.17	0.87	
IPC	0.39	0.33	0.28	0.47	0.86	1.35	1.67	1.53	

	Feb-22			Mar-22			Apr-22		
IGP chained %YoY	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI
IGP	16.7	16.1	15.3	14.6	14.8	15.6	15.6	14.7	
IPA	18.9	18.2	17.4	16.3	16.5	17.6	17.5	16.1	
IPA-Agro	18.4	19.4	20.4	20.4	21.2	21.0	20.0	17.4	
Grains	10.0	13.0	15.6	16.5	17.4	15.9	11.9	6.2	
In Natura	6.7	8.7	11.9	13.7	18.8	24.4	29.6	30.7	
Livestock	9.4	8.2	7.8	7.9	8.7	10.1	11.5	11.9	
IPA-Industrial	19.1	17.8	16.2	14.7	14.7	16.3	16.5	15.6	
Mining	-17.8	-18.3	-21.1	-23.7	-21.3	-20.2	-19.7	-21.9	
Food	13.4	13.6	13.6	14.7	15.9	17.6	17.3	17.2	
FX related	14.0	12.2	10.0	7.8	7.6	8.6	8.9	6.9	
Oil related	63.1	58.2	50.5	43.2	43.2	51.3	52.0	53.7	
INCC	13.5	13.0	12.0	11.7	11.6	11.5	11.6	11.5	
IPC	9.5	9.3	9.3	9.2	9.2	9.7	10.1	10.4	

Sources for all charts: FGV and Santander.



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