

## August's IGP-M: Oil-Related Items Ease

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- August's IGP-M registered a -0.70% MoM change, below our call (-0.51%) and the consensus forecast (-0.54%).
- IPA-Agro slightly accelerated to +0.49% MoM, with the trend easing to +10.2% 3MMA-saar (from +11.9% previously), above the 8.2% YoY reading.
- IPA-Industrial decreased to -1.18% MoM, pushing the trend down to -1.1% 3MMA-saar (from +4.9% previously), meaning it is running well below the +8.8% YoY rate, suggesting a strong deceleration ahead.
- IPA-Industrial core gauge fell further at the margin, to +3.2% 3MMA-saar (from +5.6% before), running below the 6.9% YoY rate, which is a sign that the YoY rate could continue to trend down.
- IGPs' reading has been more favorable at the margin, but the dichotomy between supply issues and a likely slowdown of the global economy still suggests an uncertain outlook ahead. All in all, as we still foresee a rebound in commodity prices, our forecast for IGPs is 10.0% YoY for YE2023, but we recognize that without this rebound (and/or a BRL depreciation) IGPs might end the year below two digits.

**August's IGP-M registered a -0.70% MoM change, below our call (-0.51%) and the consensus forecast (-0.54%). The headline trend continues to decelerate, going to +3.8% 3MMA-saar from +8.7%, and it continues to run below the YoY change, suggesting further deceleration ahead and deepening the deceleration to 8.6% YoY, below the two-digits print since July's IGP-DI.**

**IPA-Agro slightly accelerated to +0.49% MoM, with the trend easing to +10.2% 3MMA-saar (from +11.9% previously), above the 8.2% YoY reading.** Grains decreased 1.4% MoM. In the U.S., crop condition data has been showing a deterioration of corn crops owing to adverse weather; we highlight Pro Farmer Crop Tour's estimates. Meanwhile, in Europe some yield losses have been reported following a persistent lack of rainfall combined with a heatwave in the past months. As such, we expect prices in USD to rise in the coming readings. In BRL terms, a potential record crop in 2022 might alleviate prices — as *safrinha* corn is poised for record output — though Brazilian exports could rise to address global balances. Livestock rose 3.2% MoM, driven by milk (+12% MoM), while cattle fell 2% MoM.

**IPA-Industrial decreased to -1.18% MoM, pushing the trend down to -1.1% 3MMA-saar (from +4.9% previously), meaning it is running well below the +8.8% YoY rate, suggesting a strong deceleration ahead.** Iron ore fell -4.8% MoM and is below USD100/ton on signs that the crisis in the steel industry is deepening. Steel production in key regions in China are set to fall 10% on plans to restrict output, according to some thinktanks. Oil-related items decreased -2.9% MoM. Since August 20, oil prices have been rising, and we expect the upward trend to continue. Recently, OPEC+ officials claimed that if prices continue not to reflect fundamentals of supply and demand, the organization could cut oil supplies. We believe supply constraints will start to drive price formation again in the coming months as the use of strategic U.S. reserves is interrupted, as China proceeds with its economic reopening (i.e., increasing mobility), and as the shortage of gas in Europe prompts fuel switching to oil derivatives.

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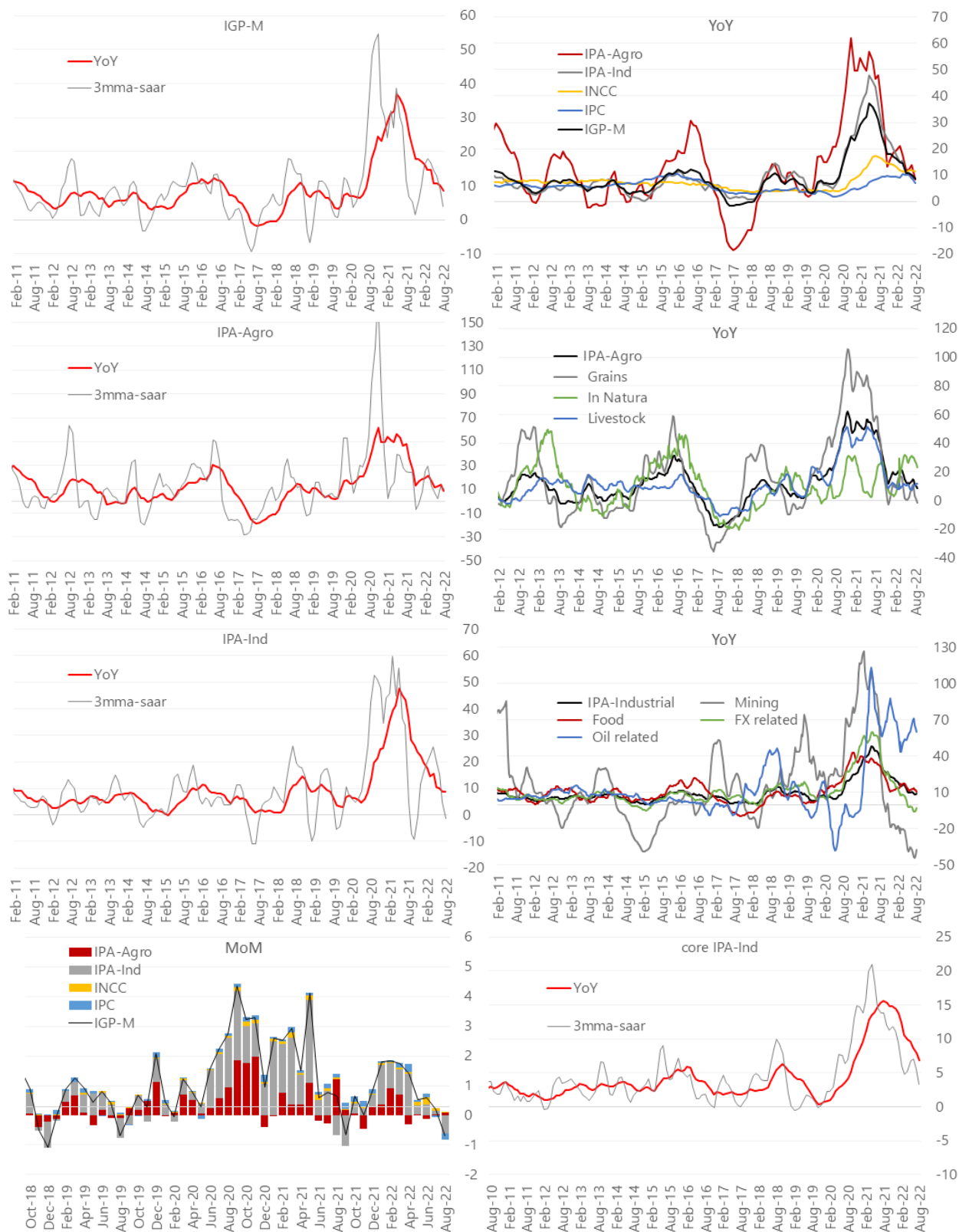


**IPA-industrial core gauge fell further at the margin to +3.2% 3MMA-saar (from +5.6% before), running below the 6.9% YoY rate, which is a sign that the YoY rate could continue to trend down.** This is important because the IPA-industrial core gauge (which excludes iron ore, food, medicines, and fuels from the IPA-industrial headline) is more correlated with the industrial goods group in IPCA (durable goods in general), so it is more optimistic (or less pessimistic) news for IPCA. Indeed, the peak of industrial goods in IPCA is behind us.

**IGPs' reading has been more favorable at the margin, but the dichotomy between supply issues and a likely slowdown of the global economy still suggests an uncertain outlook ahead. All in all, as we still foresee a rebound in commodity prices, our forecast for IGPs is around 10.0% YoY for 2023YE, but we recognize that without this rebound (and/or a BRL depreciation) IGPs might end the year below two-digits.**



Figure 1. IGP-M, Groups and Qualitative Measures



Sources for all charts: FGV and Santander.



Figure 2. IGP-M, Groups and Qualitative Measures (continuation)

	Jun-22			Jul-22			Aug-22		
IGP chained %MoM	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI
<b>IGP</b>	<b>0.74</b>	<b>0.59</b>	<b>0.62</b>	<b>0.60</b>	<b>0.21</b>	<b>-0.38</b>	<b>-0.69</b>	<b>-0.70</b>	
IPA	0.47	0.30	0.44	0.57	0.21	-0.32	-0.65	-0.71	
IPA-Agro	-0.04	-0.61	-0.62	0.16	0.17	0.17	0.19	0.49	
Grains	0.40	-0.66	-1.26	-1.31	-2.61	-2.76	-2.46	-1.42	
In Natura	-6.08	-2.61	-0.66	-0.12	0.28	0.94	2.11	2.32	
Livestock	-0.47	-0.86	0.20	3.38	5.95	5.70	4.59	3.28	
IPA-Industrial	0.67	0.67	0.86	0.73	0.22	-0.52	-0.98	-1.18	
Mining	-2.46	-0.29	-1.32	-5.15	-10.37	-10.89	-9.38	-4.84	
Food	-0.77	-0.54	0.63	1.60	1.26	0.32	-0.43	-0.74	
FX related	0.25	0.27	-0.29	-1.35	-2.53	-2.72	-2.31	-1.43	
Oil related	3.88	3.37	5.82	7.02	7.85	3.28	0.11	-2.99	
INCC	3.29	2.81	2.14	1.26	1.16	0.86	0.74	0.33	
IPC	0.72	0.71	0.67	0.42	-0.28	-1.19	-1.56	-1.18	

	Jun-22			Jul-22			Aug-22		
IGP chained %YoY	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI
<b>IGP</b>	<b>10.4</b>	<b>10.7</b>	<b>11.1</b>	<b>10.9</b>	<b>10.1</b>	<b>9.1</b>	<b>8.8</b>	<b>8.6</b>	
IPA	10.3	10.7	11.3	11.0	10.1	9.1	8.9	8.7	
IPA-Agro	11.4	12.2	13.9	14.6	13.9	11.1	9.6	8.3	
Grains	2.2	5.1	9.2	10.8	8.5	3.2	0.6	-1.5	
In Natura	28.0	30.2	31.4	30.3	30.3	27.8	25.6	23.1	
Livestock	9.6	7.9	7.0	8.4	10.2	10.2	11.4	11.9	
IPA-Industrial	9.8	10.1	10.3	9.6	8.7	8.4	8.6	8.8	
Mining	-37.4	-35.6	-37.6	-40.5	-43.8	-44.4	-42.0	-37.4	
Food	11.3	11.8	12.6	12.8	13.2	12.2	11.8	10.5	
FX related	-1.9	-1.6	-2.6	-4.3	-6.2	-6.2	-5.0	-3.3	
Oil related	59.2	60.3	66.5	69.9	70.9	65.2	63.0	59.9	
INCC	11.8	11.8	11.6	11.7	11.7	11.6	11.7	11.4	
IPC	10.3	10.2	10.3	10.0	9.0	8.0	7.3	6.9	

Sources for all charts: FGV and Santander.



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