

July's IGP-M: A Commodity Driven (Sell-Off) Slowdown

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- July's IGP-M registered a +0.21% MoM change (+10.1% YoY), in line with our call (+0.22%) and below the consensus forecast (+0.28%).
- IPA-Agro accelerated to +0.17% MoM, with the trend rising to +17.4% from +5.4% 3MMA-saar, above the 13.9% YoY reading. Grains decreased 2.6% MoM. However, hot and dry weather in U.S. and Europe (a risk for crop yield) have been supporting prices recently; so we expect this trend to reverse in the coming readings.
- IPA-Industrial increased 0.22% MoM, pushing the trend down to +7.4% 3MMA-saar (from +13.0% previously), meaning it is running a bit below the +8.7% YoY rate, suggesting a deceleration ahead. However, since July 20, iron ore has strongly rebounded gaining 20%.
- IPA-industrial core gauge fell further at the margin to +5.3% 3MMA-saar (from +6.9% before), running below the 7.8% YoY rate, which is a sign that the YoY rate could plummet soon.
- Our tracking is at 11.7% for IGP-M 2022, but we do recognize upside risks.

July's IGP-M registered a +0.21% MoM change (+10.1% YoY), in line with our call (+0.22%) and below the consensus forecast (+0.28%). The headline trend continues to decelerate, going to +9.8% from +13.7% 3MMA-saar, and is running once again below the YoY change, suggesting a deceleration ahead.

IPA-Agro accelerated to 0.17% MoM, with the trend rising to 17.4% from +5.4% 3MMA-saar, above the 13.9% YoY reading. Grains decreased 2.6% MoM, as weather has been favorable in Brazil (the *safrinha* corn crop is set to be a record) and news that the grain corridor in the Black Sea will soon allow for Ukrainian exports to flow. However, hot and dry weather in U.S. and Europe (a risk for crop yield) have been supporting prices recently; so we expect this trend to reverse in the coming readings. Livestock rose 5.9%, on the back of milk (+13%) and pork (+15%). Despite the high prices, milk producers are facing high costs of production, lack of investment and shortage of labor. More importantly, the wholesale high-frequency price surveys show that milk has been decelerating at the margin.

IPA-Industrial increased +0.22% MoM, pushing the trend down to +7.4% 3MMA-saar (from +13.0% previously), meaning it is running a bit below the +8.7% YoY rate, suggesting a deceleration ahead. Iron ore fell 10.3% MoM as recession fears and mortgages boycotts in the real estate sector continue to put downward pressure in prices. However, since July 20, iron ore has strongly rebounded gaining 20% following announcement by China of more economic stimulus and plan to set up a real estate fund to support property developers. Oil-related items continued to increase (+7.8% MoM) as oil continues to recover from a strong sell-off in the beginning of July.

IPA-industrial core gauge fell further at the margin to +5.3% 3MMA-saar (from +6.9% before), running below the 7.8% YoY rate, which is a sign that the YoY rate could plummet soon. This is important because the IPA-

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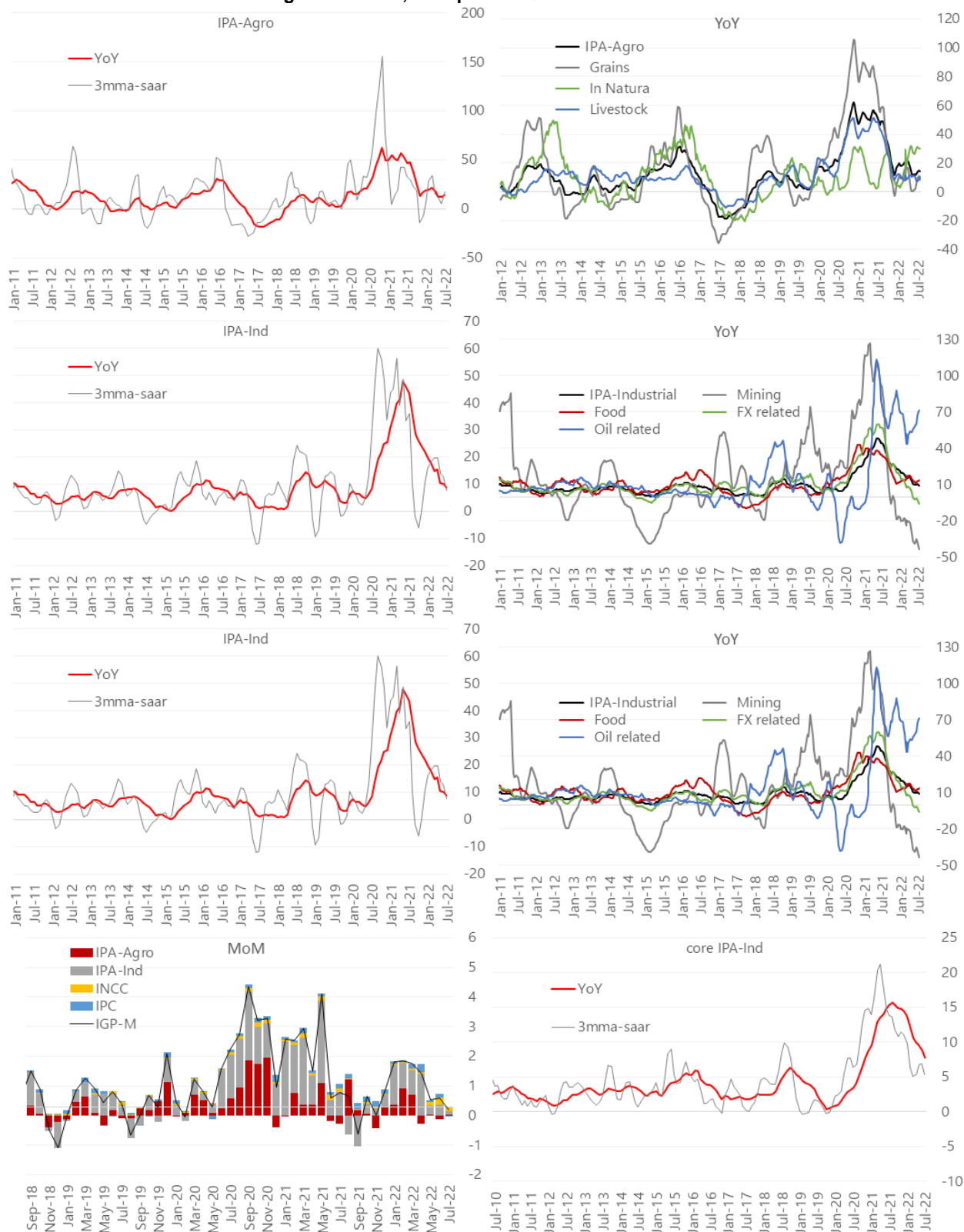


industrial core gauge (which excludes iron ore, food, medicines, and fuels from the IPA-industrial headline) is more correlated with the industrial goods group in IPCA (durable goods in general), so it is more optimistic (or less pessimistic) news for IPCA. Indeed, industrial goods in IPCA seem to have peaked in the last reading.

IGPs' readings have been more favorable at the margin, but the dichotomy between supply issues and a likely slowdown of the global economy still suggest an uncertain outlook ahead. All in all, we continue to estimate that IGPs will maintain their downward YoY trend. Our tracking is at 11.7% 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 2. IGP-M, Groups and Qualitative Measures (continuation)

	May-22			Jun-22			Jul-22		
IGP chained %MoM	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI
IGP	0.10	0.52	0.69	0.74	0.59	0.62	0.60	0.21	
IPA	-0.08	0.45	0.55	0.47	0.30	0.44	0.57	0.21	
IPA-Agro	-1.59	0.16	0.68	-0.04	-0.61	-0.62	0.16	0.17	
Grains	-4.82	-0.18	1.72	0.40	-0.66	-1.26	-1.31	-2.61	
In Natura	-1.87	-5.49	-7.34	-6.08	-2.61	-0.66	-0.12	0.28	
Livestock	1.58	0.76	0.34	-0.47	-0.86	0.20	3.38	5.95	
IPA-Industrial	0.54	0.57	0.50	0.67	0.67	0.86	0.73	0.22	
Mining	-3.17	-4.10	-4.10	-2.46	-0.29	-1.32	-5.15	-10.37	
Food	-0.20	-0.39	-0.82	-0.77	-0.54	0.63	1.60	1.26	
FX related	0.47	0.52	0.14	0.25	0.27	-0.29	-1.35	-2.53	
Oil related	0.65	1.85	2.97	3.88	3.37	5.82	7.02	7.85	
INCC	0.74	1.49	2.28	3.29	2.81	2.14	1.26	1.16	
IPC	0.54	0.35	0.50	0.72	0.71	0.67	0.42	-0.28	

	May-22			Jun-22			Jul-22		
IGP chained %YoY	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI
IGP	12.1	10.7	10.6	10.4	10.7	11.1	10.9	10.1	
IPA	12.7	10.8	10.5	10.3	10.7	11.3	11.0	10.1	
IPA-Agro	12.5	11.9	12.2	11.4	12.2	13.9	14.6	13.9	
Grains	0.6	0.4	1.4	2.2	5.1	9.2	10.8	8.5	
In Natura	30.8	27.4	26.3	28.0	30.2	31.4	30.3	30.3	
Livestock	10.2	10.8	10.8	9.6	7.9	7.0	8.4	10.2	
IPA-Industrial	12.7	10.4	9.8	9.8	10.1	10.3	9.6	8.7	
Mining	-30.4	-37.0	-38.8	-37.4	-35.6	-37.6	-40.5	-43.8	
Food	14.5	13.6	11.9	11.3	11.8	12.6	12.8	13.2	
FX related	2.8	-1.0	-2.0	-1.9	-1.6	-2.6	-4.3	-6.2	
Oil related	53.1	55.1	57.7	59.2	60.3	66.5	69.9	70.9	
INCC	11.3	11.2	11.6	11.8	11.8	11.6	11.7	11.7	
IPC	10.3	10.1	10.3	10.3	10.2	10.3	10.0	9.0	

Sources for all charts: FGV and Santander.



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