

March's IGP-M: Geopolitical Shocks Push Oil Related Items Up

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- March's IGP-M registered a 1.74% MoM change (14.8% YoY), above the consensus (1.47% BBG) and our forecast (1.46%).
- IPA-Agro posted a 3.22% MoM increase, with the trend hovering at 38% 3MMA-saar, above the 21.2% YoY. Grain prices are rising in USD on the back of geopolitical conflicts, but domestic prices are being cushioned by the BRL's significant appreciation recently.
- IPA-Industrial posted a 1.59% change, bringing the trend to 20.3% 3MMA-saar, also above the 14.7% YoY, signaling a risk for the ongoing disinflation process. While iron ore posted another negative print, oil related items surprised on the upside, rising 7% MoM. We highlight that we see little room for oil prices to fall from current levels.
- The silver lining remains the core IPA-industrial gauge, which continues to decelerate despite the pressured headline. Nevertheless, the impact of geopolitical conflicts — not only on commodities but also on the global supply chain — makes us more skeptical about this trend's ability to continue during the next few months.
- Our tracking is at 10.9% for IGP-M 2022, but we do recognize upside risks.

March's IGP-M registered a 1.74% MoM change (14.8% YoY), above the consensus (1.47% BBG) and our forecast (1.46%). 1.74% MoM is a high seasonal number (the average for March is closer to 0.7%) and it was enough to bring the headline trend to 20.6% 3MMA-saar, that is, above the YoY change, signaling some risk for the ongoing deceleration process. It is worth noticing that the recent commodity price shocks due to geopolitical conflicts is being partly offset by the BRL's significant appreciation recently.

IPA-Agro posted a 3.22% MoM increase, with the trend hovering at 38% 3MMA-saar, above the 21.2% YoY. This dynamic of food prices at the producer/wholesale level is surely a risk to the disinflation process of food products at the consumer level. Indeed, we already updated our tracking forecast for food-at-home on IPCA 2022 to a hefty 10%. Grain prices are rising in USD, thanks to geopolitical conflicts, but domestic prices are being cushioned by the BRL's significant appreciation recently. Additionally, fresh/natural product prices are rising sharply (+8% MoM) given the strong upward seasonal effect at this time of year.

IPA-Industrial posted a 1.59% change, bringing the trend to 20.3% 3MMA-saar, also above the 14.7% YoY, signaling a risk for the ongoing disinflation process. While iron ore posted another negative print, oil related items surprised with a 7% MoM rise (+8% diesel and +11% aviation kerosene). We highlight that we see little room for oil prices to fall from current levels. We expect the next IGP's readings to remain widely pressured by commodity prices in general.

The silver lining remains the core IPA-industrial gauge, which continues to decelerate despite the pressured headline. This is important because the IPA-industrial core gauge (which excludes iron ore, ex-food, ex-medicines, ex-fuels from IPA-industrial headline) is more correlated to the industrial goods group in the IPCA,

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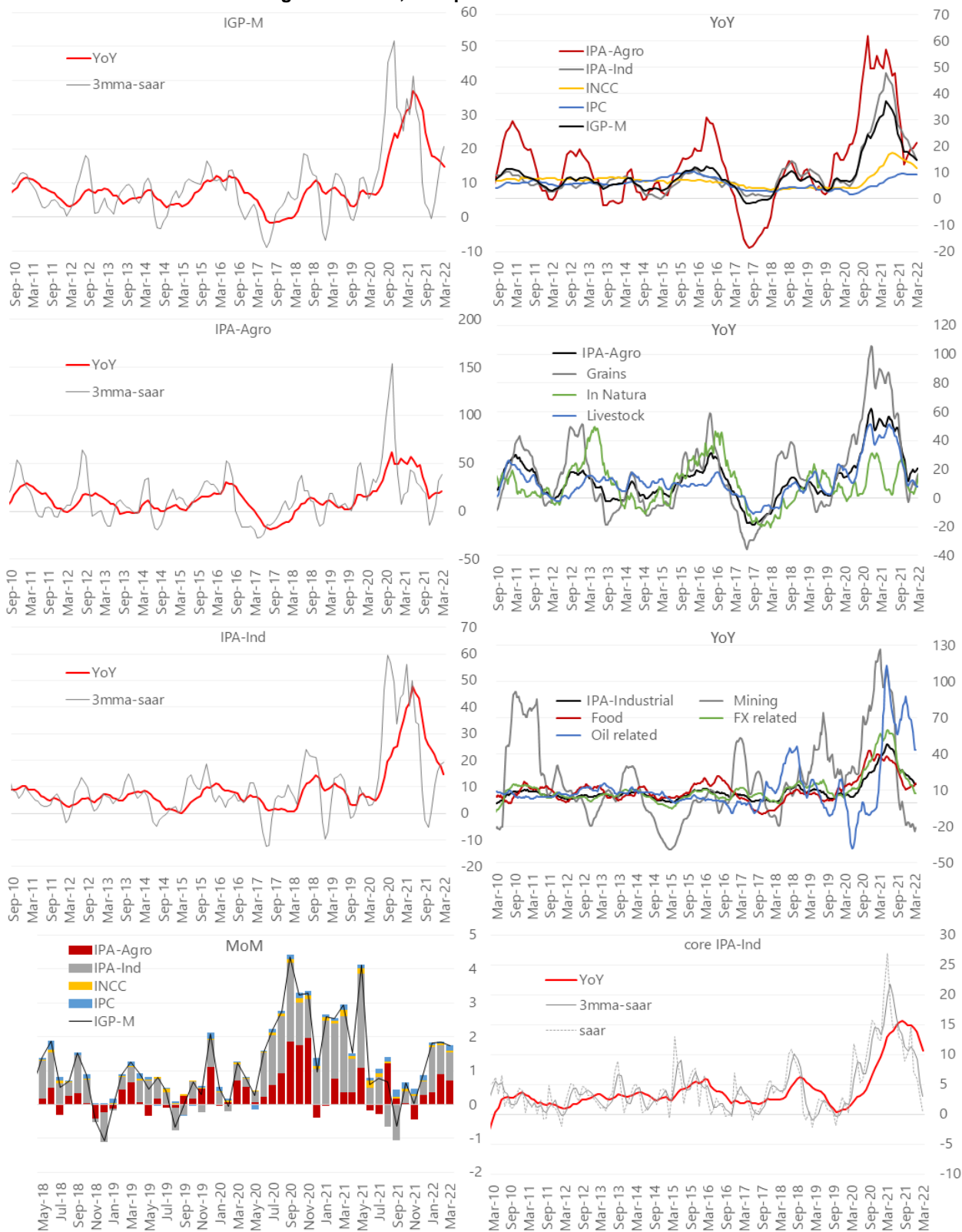
so it is a more optimistic (or less pessimistic) news for the IPCA. Nevertheless, the impacts of geopolitical conflicts not only on commodities but also on the global supply chain makes us more skeptical about the ability of this trend to continue during the next few months.

All in all, the IGP-M had another unfavorable reading and the outlook remains gloomy given the Russia-Ukraine conflict. IGP-M is already running at 5.5% YTD, so another two-digit print is increasingly more likely. We were already seeing a backlog of IGPs rises that could still reach the IPCA in the coming months, and the fact that IGPs are suffering once again at the margin makes this risk even higher.

Our tracking is at 10.9% 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. IPCA, Groups and Qualitative Measures (continuation)

IGP chained %MoM	Jan-22			Feb-22			Mar-22		
	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI
IGP	1.79	1.82	2.01	1.98	1.83	1.50	1.18	1.74	
IPA	2.27	2.30	2.57	2.51	2.36	1.95	1.44	2.07	
IPA-Agro	1.49	1.77	2.63	3.53	4.18	4.33	3.62	3.22	
Grains	2.64	4.29	6.05	7.48	8.18	8.28	6.87	5.84	
In Natura	2.43	0.77	-0.09	0.51	3.93	6.43	6.52	8.12	
Livestock	-0.67	-1.24	-1.28	-0.44	0.28	1.30	2.33	2.83	
IPA-Industrial	2.59	2.52	2.54	2.11	1.63	0.98	0.54	1.59	
Mining	20.60	15.66	9.64	6.95	4.75	0.04	-2.15	-1.03	
Food	1.37	1.38	1.82	1.02	1.09	1.17	1.48	2.51	
FX related	5.05	4.53	3.54	2.40	1.59	0.10	-0.29	0.22	
Oil related	-1.01	0.05	2.16	4.51	3.60	4.72	2.51	7.23	
INCC	0.50	0.64	0.71	0.61	0.48	0.38	0.34	0.73	
IPC	0.40	0.42	0.49	0.39	0.33	0.28	0.47	0.86	

IGP chained %YoY	Jan-22			Feb-22			Mar-22		
	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI	IGP-10	IGP-M	IGP-DI
IGP	17.8	16.9	16.7	16.7	16.1	15.3	14.6	14.8	
IPA	20.5	19.3	19.1	18.9	18.2	17.4	16.3	16.5	
IPA-Agro	19.8	18.8	18.1	18.4	19.4	20.4	20.4	21.2	
Grains	10.9	9.7	8.9	10.0	13.0	15.6	16.5	17.4	
In Natura	3.8	2.7	4.8	6.7	8.7	11.9	13.7	18.8	
Livestock	12.4	11.6	10.2	9.4	8.2	7.8	7.9	8.7	
IPA-Industrial	20.8	19.5	19.5	19.1	17.8	16.2	14.7	14.7	
Mining	-17.4	-20.0	-20.5	-17.8	-18.3	-21.1	-23.7	-21.3	
Food	12.4	12.7	13.6	13.4	13.6	13.6	14.7	15.9	
FX related	17.1	14.6	14.1	14.0	12.2	10.0	7.8	7.6	
Oil related	69.6	69.3	68.2	63.1	58.2	50.5	43.2	43.2	
INCC	13.9	13.7	13.6	13.5	13.0	12.0	11.7	11.6	
IPC	9.4	9.3	9.6	9.5	9.3	9.3	9.2	9.2	

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