

Daniel Karp*
daniel.karp@santander.com.br
(+55 11) 3553 9828

IPCA-15 November: Despite the Risks, the Scenario Is Still Benign

- November's IPCA-15 registered a 0.81% MoM change (4.22% YoY). The result was above the market's median expectation (0.72% MoM) and our forecast (0.75% MoM).
- Food-at-home was the major upward surprise (+3 bps), but food service also surprised (+2 bps), which contributed to pressure core measures. Industrial goods also continued to contribute to pressure core measures, but came in line with expectations.
- In our opinion, the risks have increased, as the shocks are taking longer to fade out than we expected, hence contaminating 2021 inflation and reducing the gap from the target (3.75%).
- However, as our baseline scenario continues to be that Brazil will eventually maintain a path of fiscal responsibility, then there should be a fiscal cliff in the beginning of 2021, reducing demand and allowing the BRL to appreciate. Also, with the economy reopening the consumer's basket should also normalize, reducing demand for goods (fiscal cliff also helping on that) while the industry recovers, ending the mismatch between supply and demand. Finally, the scenario will be one of significant negative output gap and high unemployment rate, suggesting low inflation with benign composition.
- As a result, despite a riskier path, we continue to believe in a benign scenario for inflation in the medium-term. Our high-frequency IPCA tracking is at 3.8% (from 3.6%) for 2020 and 3.3% (from 3.1%) for 2021, below the BCB's target.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE "IMPORTANT DISCLOSURES" SECTION OF THIS REPORT.

U.S. investors' inquiries should be directed to Santander Investment at (212) 350-0707.

* Employed by a non-US affiliate of Santander Investment Securities Inc. and is not registered/qualified as a research analyst under FINRA rules, is not an associated person of the member firm, and therefore may not be subject to FINRA Rules 2241 and 2242 and incorporated NYSE Rule 472 restrictions.



Figure 1. IPCA Breakdown and Santander Forecast

	MoM			YoY		IPCA
	nov/20	Santander	Contrib.	oct/20	nov/20	
IPCA-15	0.81	0.75	0.06	3.5	4.2	3.8
Food and beverage	2.16	1.88	0.06	12.7	15.0	13.8
Food-at-home	2.69	2.49	0.03	16.8	19.9	17.5
Food service	0.87	0.46	0.02	4.3	5.1	5.2
Housing	0.34	0.29	0.01	1.3	1.8	2.6
Household articles	1.40	1.18	0.01	1.5	3.0	5.1
Apparel	0.96	0.96	0.00	-1.5	-1.2	-0.2
Transportation	1.00	0.91	0.02	0.1	0.8	0.3
Airline tickets	3.46	1.00	0.01	-24.3	-25.0	-15.7
Gasoline	1.17	1.50	-0.02	0.2	0.6	-2.2
Health and personal care	0.04	0.18	-0.02	1.5	1.3	1.4
Personal spending	0.14	0.23	-0.01	2.6	2.3	0.8
Education	0.01	-0.01	0.00	1.0	1.0	1.3
Communication	0.06	0.23	-0.01	3.3	3.4	2.8
Administered prices	0.26	0.36	-0.02	1.2	1.4	0.6
Free prices	1.00	0.89	0.08	4.4	5.2	4.9
Food-at-home	2.69	2.49	0.03	16.8	19.9	17.5
Industrial goods	0.87	0.87	0.00	1.8	2.3	3.0
Services	0.41	0.29	0.04	1.4	1.6	1.7
EX3 core	0.62	0.53	0.08	1.8	2.2	2.5
New Average of cores	0.51	0.45	0.06	2.2	2.6	3.1

Sources: Santander, IBGE.

Baseline scenario is still benign, but risks have increased in our view

November's IPCA-15 registered a 0.81% MoM change (4.22% YoY). The result was above the market's median expectation (0.72% MoM) and our forecast (0.75% MoM).

The upside surprises were concentrated on free prices, particularly food-at-home (+3 bps) and food service (+2 bps). The average of core measures rose 0.51% MoM (while we expected 0.45%, probably because of the surprise in food service and because of the continuing pressure on industrial goods), and the three-month moving average seasonally adjusted and annualized (a measure of trend) accelerated from 3.5% to 4.9%.

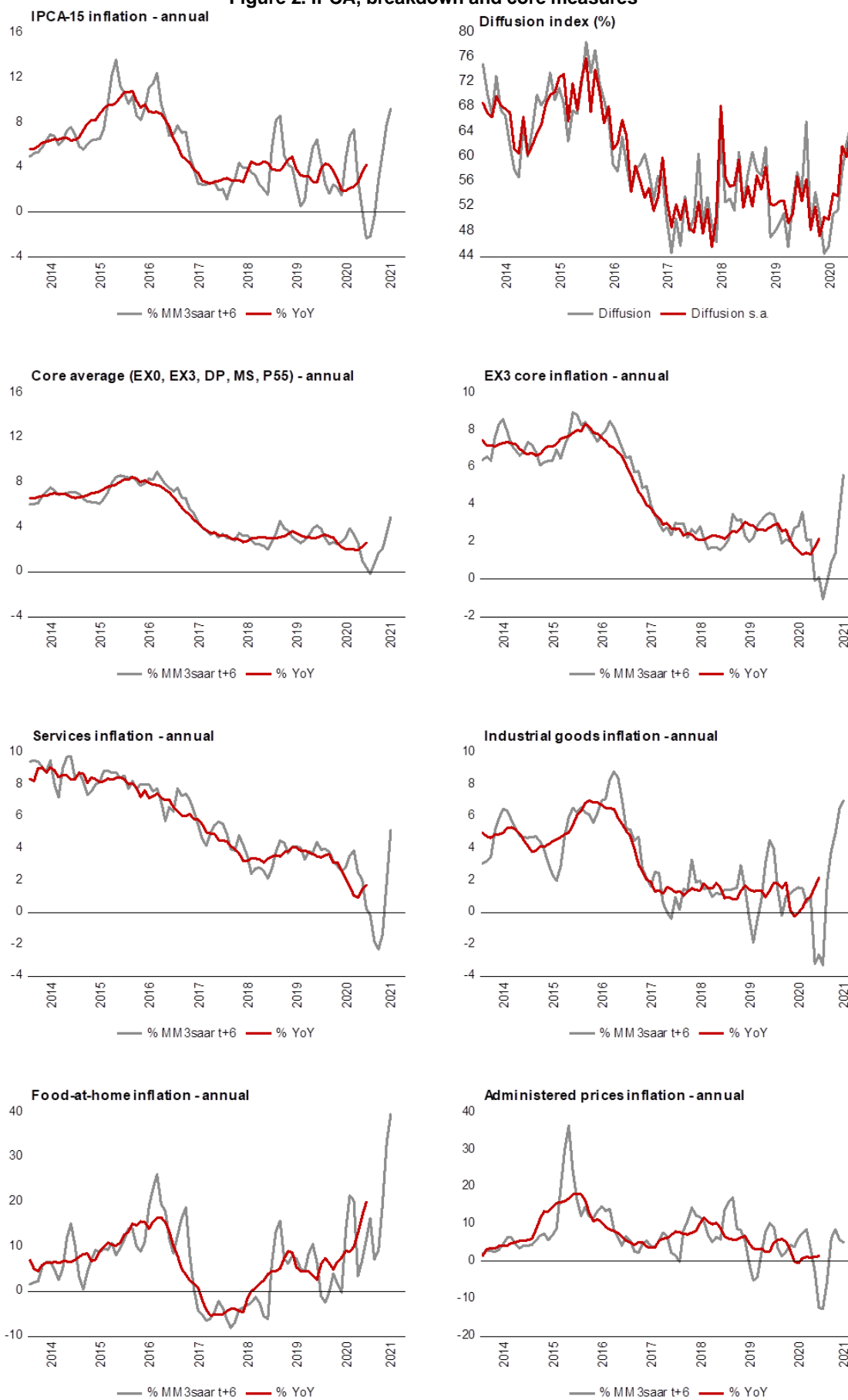
In our opinion, the risks have increased, as the shocks are taking longer than we expected to fade out, hence contaminating 2021 inflation and reducing the gap from the target (3.75%). The extension of the shocks increases the risks of secondary effects on general prices (core measures can be impacted), which would be riskier.

However, as our baseline scenario continues to be that Brazil will eventually maintain a path of fiscal responsibility (i.e., not extending income emergency aid, nor breaching the spending cap), there should be a fiscal cliff reducing demand and allowing the BRL to appreciate. With the economy reopening, the consumer's basket should also normalize, reducing demand for goods (fiscal cliff also helping on that) while the industry recovers, ending the mismatch between supply and demand. Finally, the scenario will be of significant negative output gap and high unemployment rate, suggesting low inflation with benign composition. As a result, despite a riskier path, we continue to believe in a benign scenario for inflation in the medium-term.

We updated our short-term forecasts to 0.80% for November (from 0.66%), 0.75% for December (from 0.66%) and 0.61% for January (from 0.53%). The tracking for IPCA 2020 rose from 3.6% to 3.8% and the tracking for 2021 went from 3.1% to 3.3%. The risks coming from the recent shocks continue to pose upside risks for those forecasts.



Figure 2. IPCA, breakdown and core measures



Sources: IBGE and Santander. Note: 2021 data points are annualized from current reported data.



CONTACTS / IMPORTANT DISCLOSURES

Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Juan Cerruti *	Senior Economist – Argentina	jcerruti@santander.com.ar	54 11 4341 1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888

Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina& FX	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Orenge*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778

Equity Research

Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Claudia Benavente*	Head, Chile	claudia.benavente@santander.cl	562-2336-3361
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Daniel Gewehr*	Head, Brazil	dhgewehr@santander.com.br	5511-3012-5787

Electronic

Bloomberg
Reuters

SIEQ <GO>
Pages SISEMA through SISEMZ

This report has been prepared by Santander Investment Securities Inc. ("SIS"; SIS is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. "Santander"), on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This document must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. ("Santander Investment Bolsa"), and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. SIS, Santander London and Santander Investment Bolsa are members of Grupo Santander.

ANALYST CERTIFICATION: The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: Daniel Karp*.

*Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2242 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

The information contained herein has been compiled from sources believed to be reliable, but, although all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading, we make no representation that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included herein constitute our judgment as at the date of this report and are subject to change without notice.

Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with SIS, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States.

© 2020 by Santander Investment Securities Inc. All Rights Reserved.

