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

IPCA November: Another High Print, but with Some Positive Surprises

- **November's IPCA registered a 0.89% MoM change (4.31% YoY). The result was well above the market's median expectation (0.78% MoM) and above our forecast (0.82% MoM).**

- **Food-at-home continues to exert upward pressure and was the major upside surprise (+6 bps), while core measures came in lower than expected (0.44% MoM vs. 0.50% forecasted).**

- **Although the risks have increased—as the shocks are taking longer than we expected to pass—we still see a benign scenario for inflation in the medium term.**

- **Indeed, we are beginning to see signs that the shocks are coming to an end: the BRL has been performing better during the last few days, and our high-frequency wholesale agricultural prices survey has shown considerable deceleration recently.**

- **Moreover, our baseline scenario continues to be that Brazil will eventually maintain the path of fiscal responsibility, with a fiscal cliff occurring at the beginning of 2021, reducing demand and allowing the BRL to appreciate further. In addition, with the economy reopening, we expect the consumer's basket to normalize as well, reducing demand for goods (fiscal cliff also helping on that), while industry recovers, ending the mismatch between supply and demand. Finally, our scenario calls for a large negative output gap and a high unemployment rate, with anchored inflation expectations, which suggests low inflation with a benign composition.**

- **Our tracking for IPCA 2020 is at 4.5% (revised from 4.3%), and for IPCA 2021 it remains at 3.0%.**

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Figure 1. IPCA Breakdown and Santander Forecast

	MoM			YoY	
	nov/20	Santander	Contrib.	oct/20	nov/20
IPCA	0.89	0.82	0.07	3.9	4.3
Food and beverage	2.54	2.34	0.04	13.9	16.0
Food-at-home	3.33	2.90	0.06	18.4	21.1
Food service	0.57	1.00	-0.03	4.7	5.1
Housing	0.44	0.37	0.01	1.8	1.5
Electrical energy	0.01	0.00	0.00	-2.4	-4.4
Household articles	0.86	1.04	-0.01	2.4	3.7
Apparel	0.07	0.56	-0.02	-1.4	-1.7
Transportation	1.33	1.13	0.04	0.2	1.2
Airline tickets	3.22	3.46	0.00	-24.4	-25.2
Gasoline	1.64	1.30	0.02	0.4	1.6
Health and personal care	-0.13	-0.12	0.00	1.9	1.5
Personal spending	0.01	0.14	-0.01	2.5	1.3
Education	-0.02	0.03	0.00	1.0	0.9
Communication	0.29	0.00	0.02	3.4	3.7
Administered prices	0.41	0.34	0.02	1.5	0.9
Free prices	1.06	0.99	0.05	4.8	5.5
Food-at-home	3.33	2.90	0.06	18.4	21.1
Industrial goods	0.66	0.71	-0.01	2.1	2.6
Services	0.39	0.42	-0.01	1.4	1.6
EX3 core	0.38	0.48	-0.09	2.1	2.4
Average of cores	0.44	0.50	-0.06	2.4	

Sources: Santander, IBGE.

Baseline Scenario Still Benign

November's IPCA registered a 0.89% MoM change (4.31% YoY). The result was well above the market's median expectation (0.78% MoM) and above our forecast (0.82% MoM).

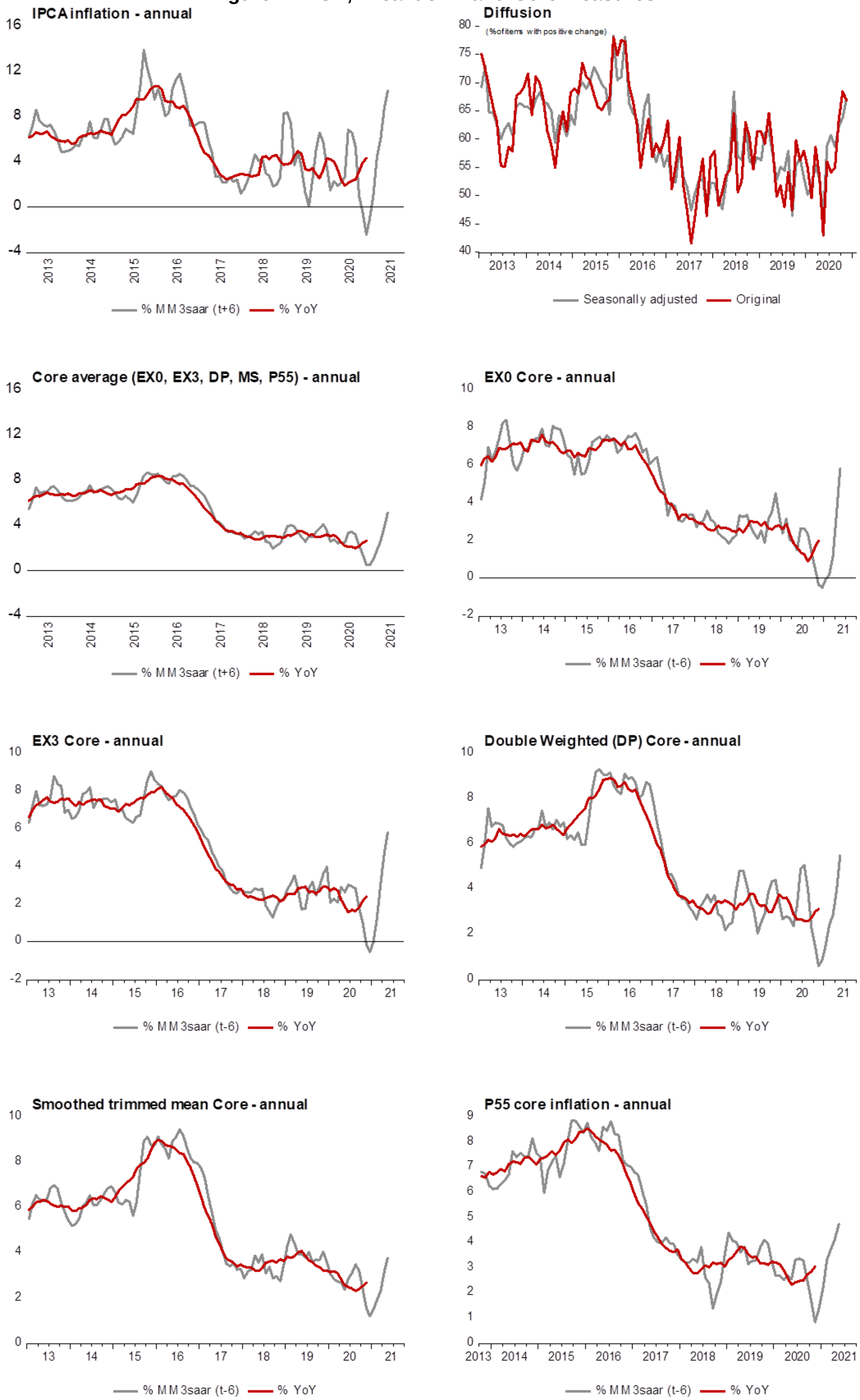
The upside surprises were concentrated on free prices, particularly food-at-home (+6 bps), where the recent shocks (agricultural commodity prices and exchange rate) are taking longer to pass than we expected. On the bright side, services (-1 bps), which are more related to core measures, surprised a bit to the downside. Another group more related to core measures, industrial goods (-1 bps), also surprised somewhat to the downside (although the MM3saar is still running at high levels). In more detail, some subgroups that suffered from the exchange rate pass-through earlier (because demand allowed it), such as TVs, computers, and electronics, seem to have peaked in MoM terms, in our view, although there may be some Black Friday effect as well. On the other hand, other subgroups of industrial goods continue rising, such as cars.

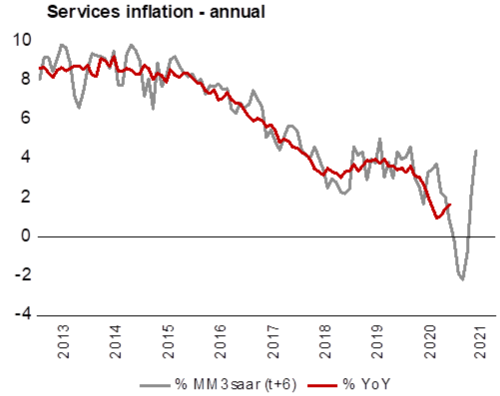
On the average of core measures, despite another acceleration in MM3saar terms to 5.1%, there was a downward surprise in MoM terms: 0.44% MoM vs. our expectation of 0.50%.

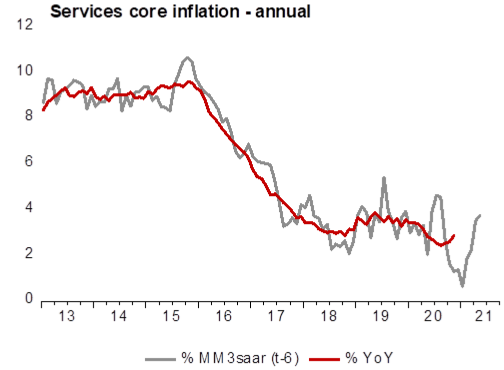
The recent shocks are taking longer to fade than we initially anticipated, making the scenario riskier. However, we continue to believe those are temporary shocks that should end eventually—indeed, the BRL has been performing better during the last few days, and our high-frequency wholesale agricultural prices survey has shown considerable deceleration recently. We believe that in the medium term—without the noise coming from the frictions generated by the pandemic—the negative output gap should play its role (alongside anchored inflation expectations) and help to keep inflation low.

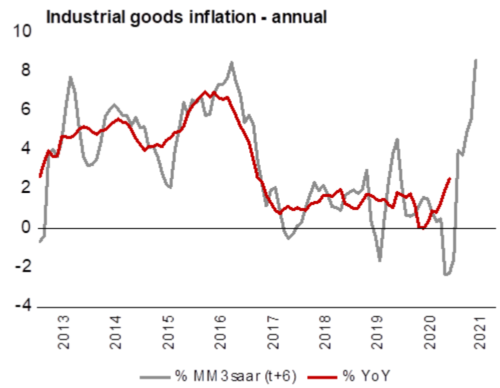
We updated our short-term IPCA forecasts to 1.34% for December (from 1.26%), 0.16% for January (from 0.24%), and 0.39% for February (from 0.23%). Our tracking for IPCA 2020 went to 4.5% from 4.3%, while the tracking for IPCA 2021 was kept at 3.0%. We expect to begin to see fewer upside risks from January/February onward.

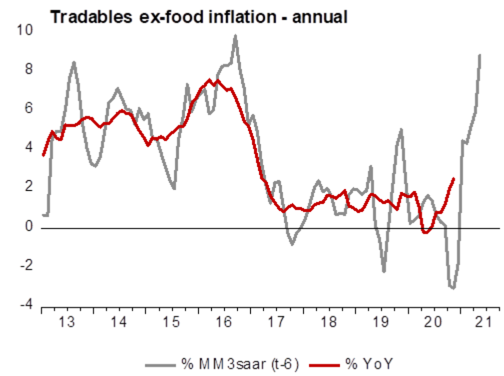
Figure 2. IPCA, Breakdown and Core Measures

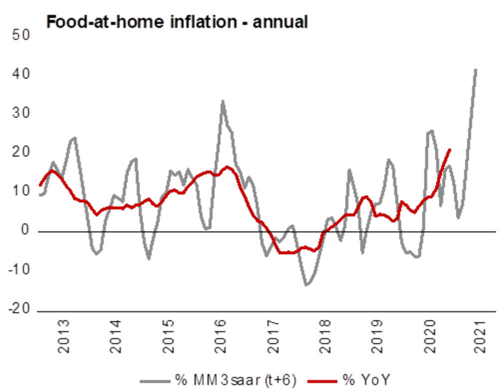


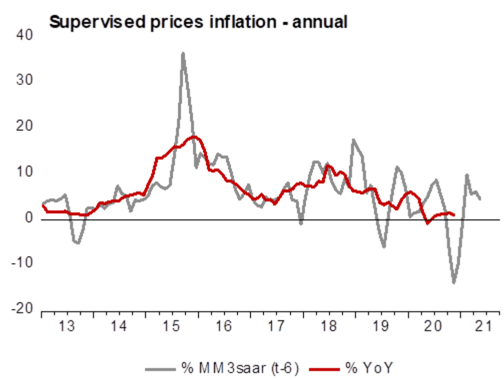












Sources: IBGE and Santander. Note: 2021 data points are annualized from current reported data.

CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research			
Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Lucas Maynard*	Economist – Economic Activity	lucas.maynard.da.silva@santander.com.br	5511-3553-7495
Felipe Kotinda*	Economist – Credit	felipe.kotinda@santander.com.br	5511-3553-8071
Global 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	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Oreng*	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*	Miguel Machado*	Miguel Machado*	Miguel Machado*
Alan Alanis*	Alan Alanis*	Alan Alanis*	Alan Alanis*
Andres Soto	Andres Soto	Andres Soto	Andres Soto
Claudia Benavente*	Claudia Benavente*	Claudia Benavente*	Claudia
Walter Chiarvesio*	Walter Chiarvesio*	Walter Chiarvesio*	Walter
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