



Brazil Macro | March 2022

INFLATION

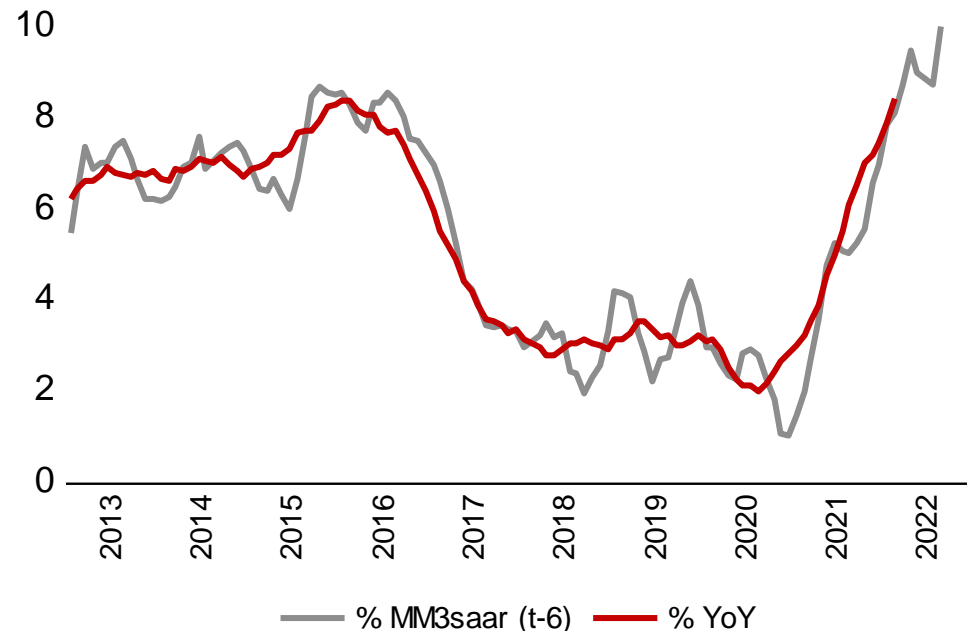
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Another shock makes the
disinflation process more risky
and slow, but is it time to panic?

Inflation: still in bad shape

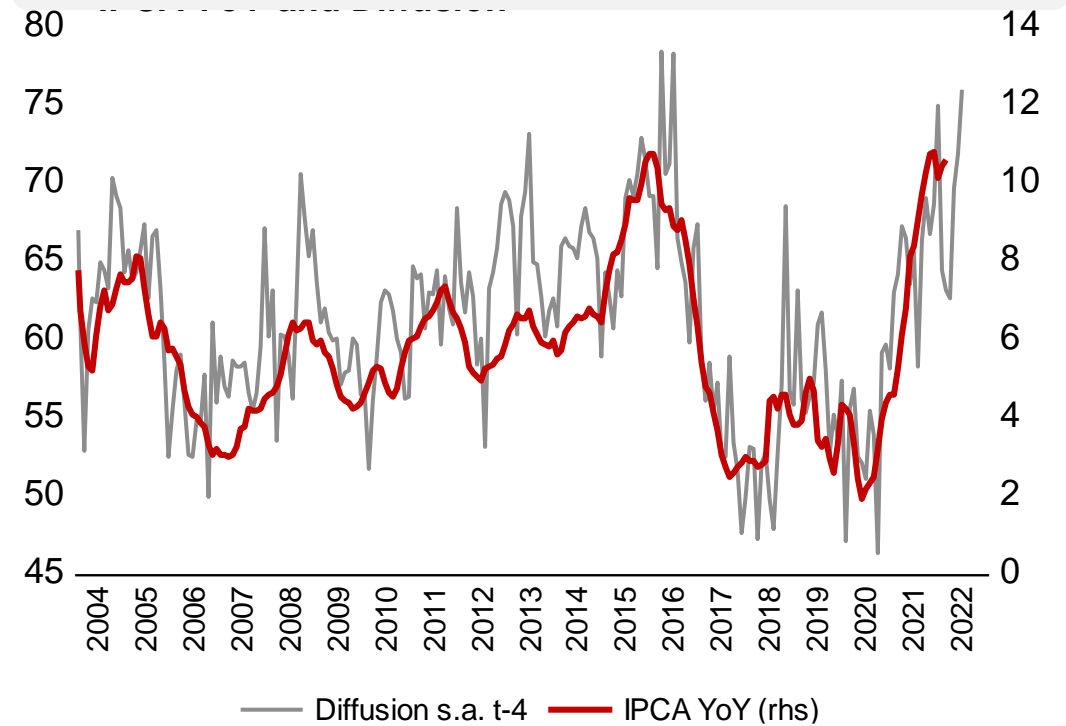
- 3MMA-saar figures are still trending up firmly, with the core levels above 2015-2016
- Diffusion index shows that inflation is spread among sectors

Core reaching new highs



Sources: IBGE, Santander

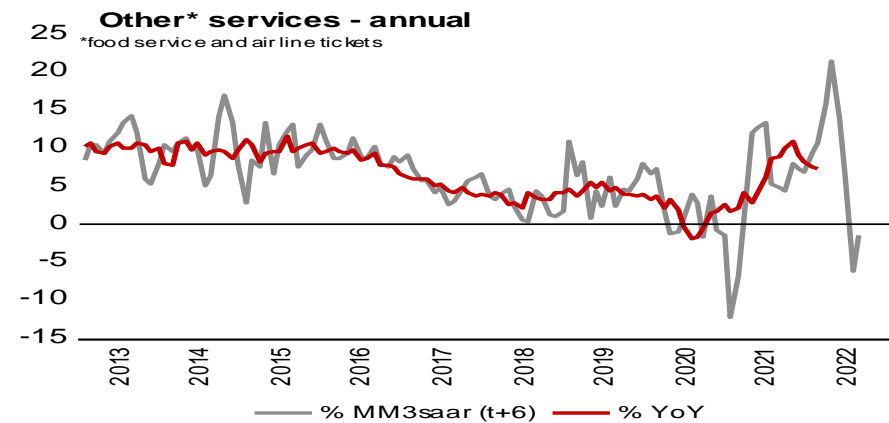
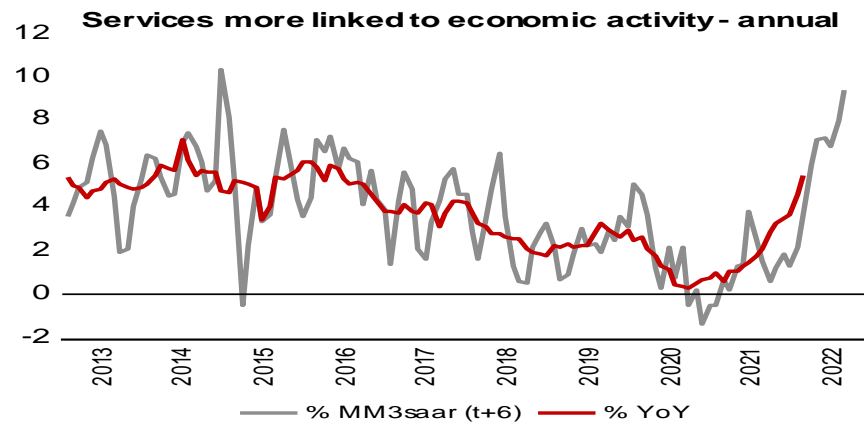
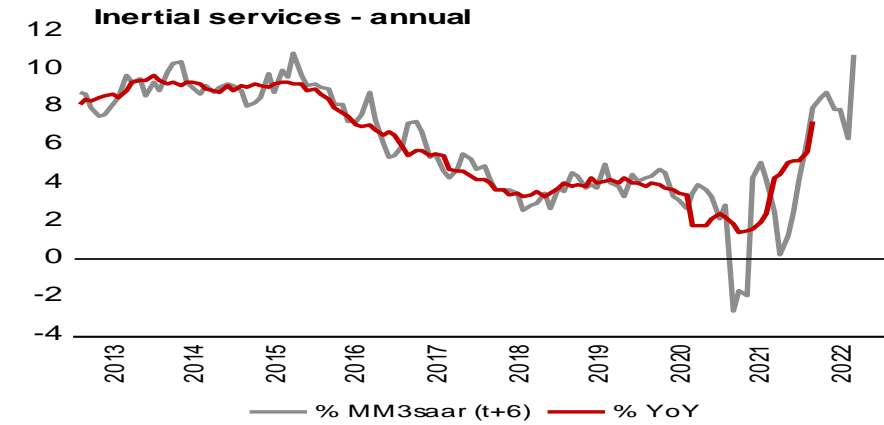
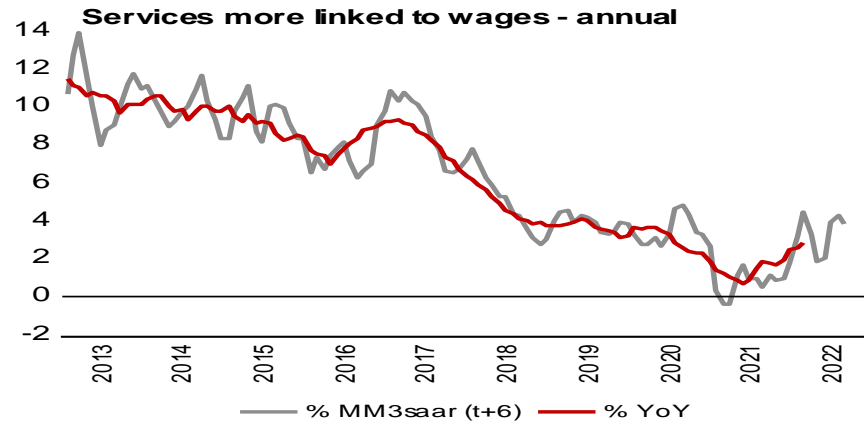
Diffusion close to the highs



Sources: IBGE, Santander

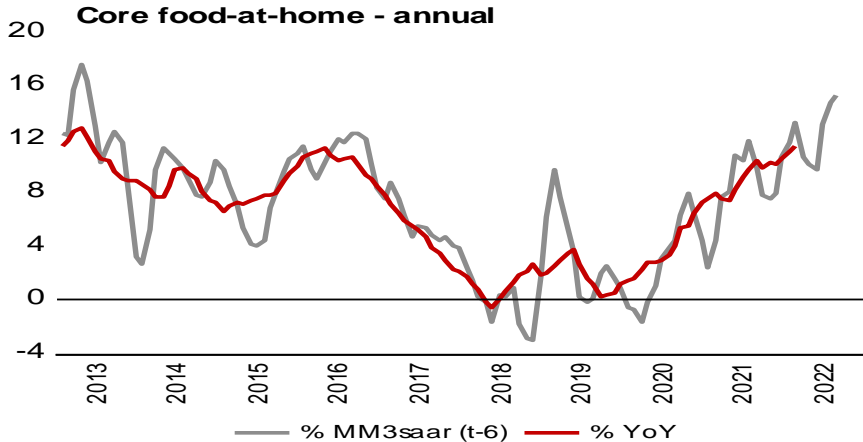
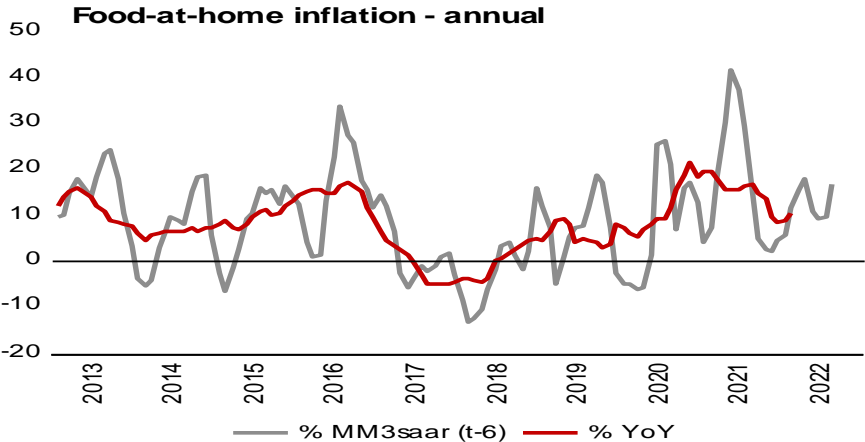
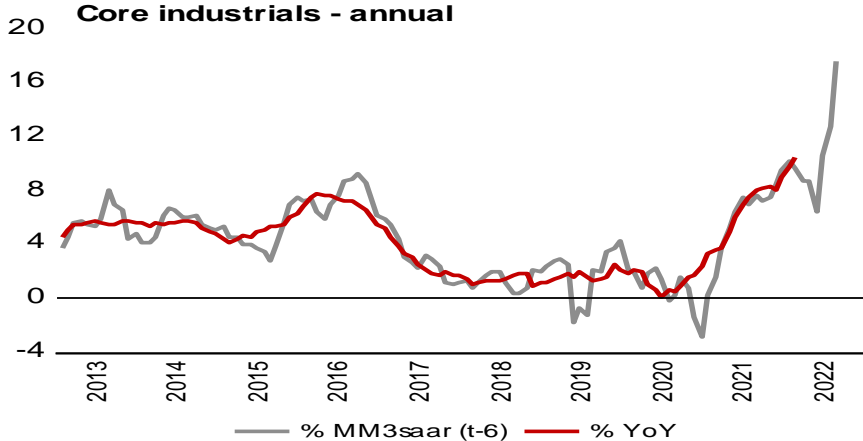
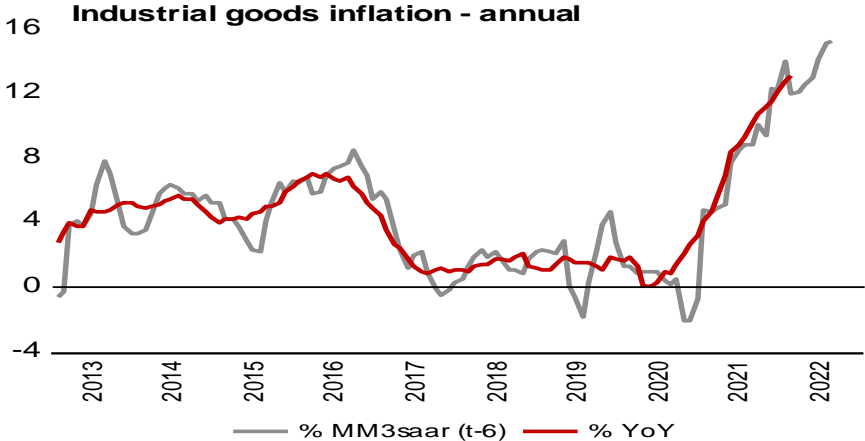
Inflation is broadly spread in the services sector

- Inertial services are a negative highlight



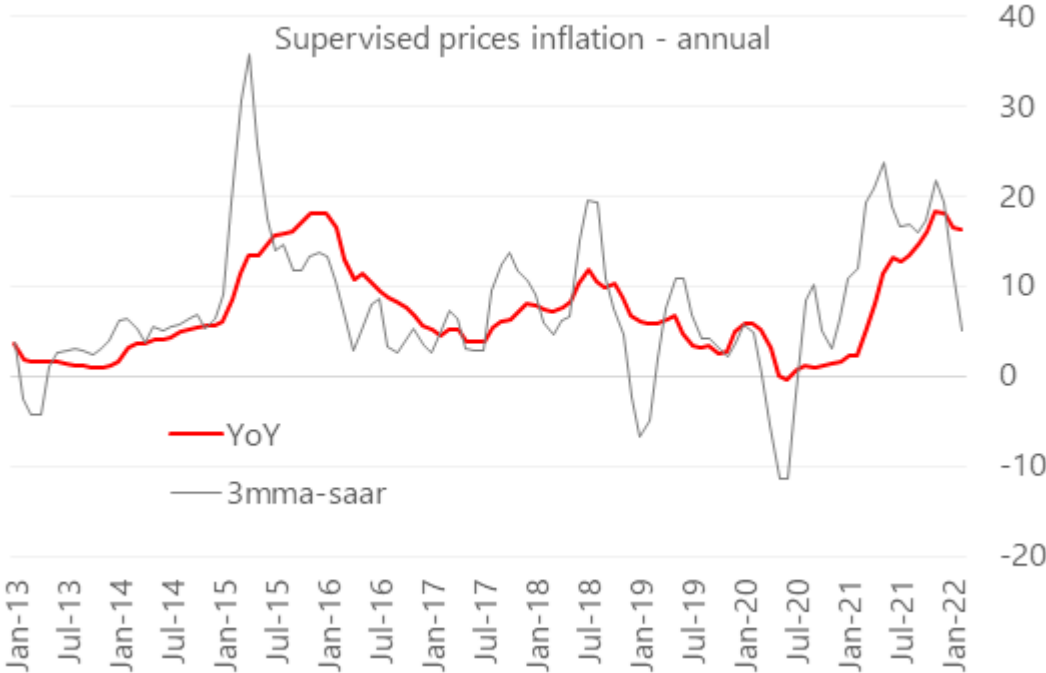
At the same time, industrials and food inflation are proving to be highly persistent

- Core industrials and core food-at-home continue to trend higher.



The positive highlight is regulated prices

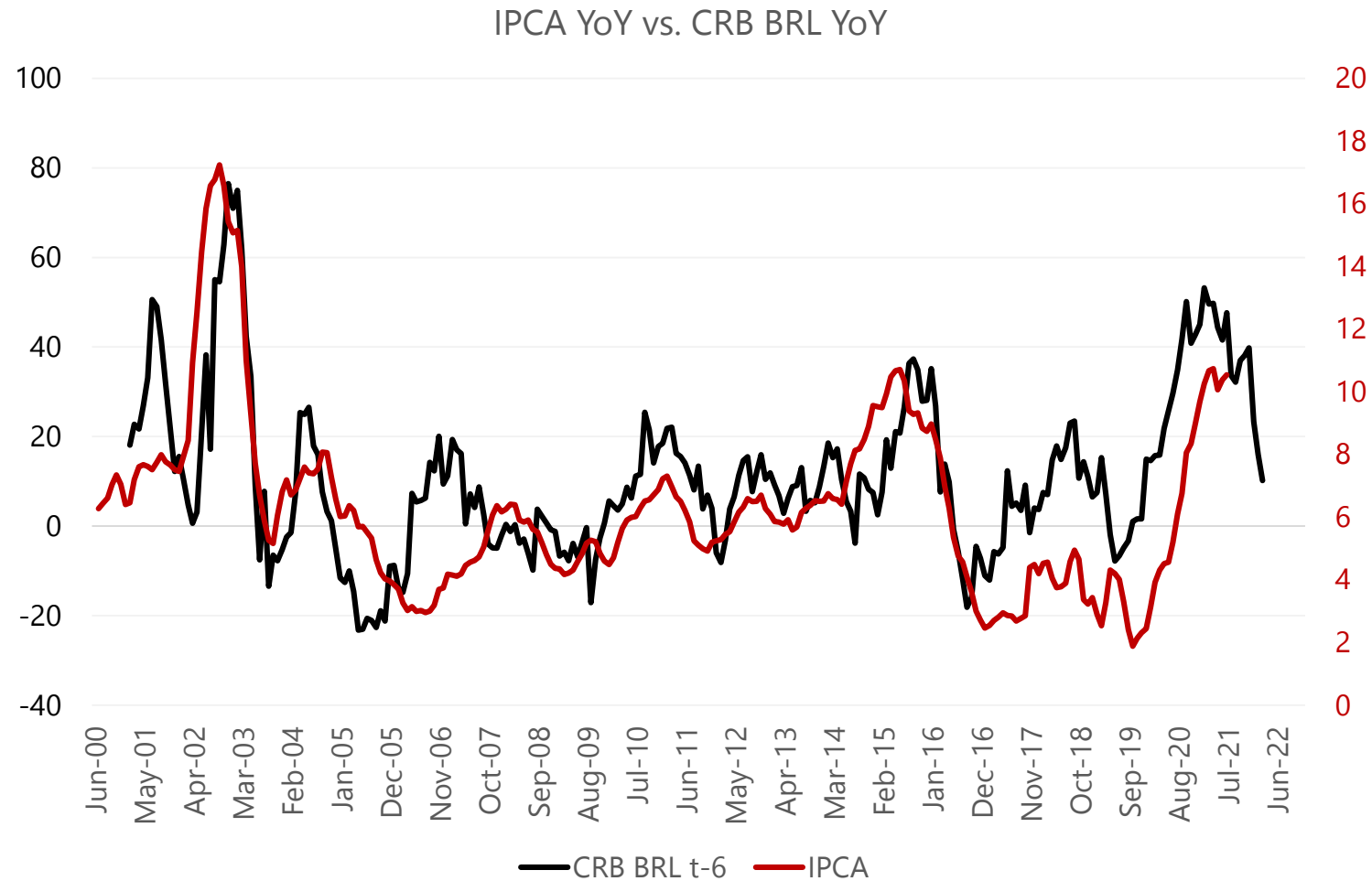
- Regulated prices should relief on the back of lower electrical energy prices (this call should not be impacted by the recent global shock) – the main impact should come in May-22, helping IPCA YoY headline to peak



Tariff flag			
	Santander's Forecast	CCEE's Forecast	Releases calendar
Feb-22	Red2 HS	Green	tbd
Mar-22	Red2 HS	Green	tbd
Apr-22	Red2 HS	Green	tbd
May-22	Green	Green	tbd
Jun-22	Green	Green	tbd
Jul-22	Green	Green	tbd
Aug-22	Green	Green	tbd
Sep-22	Green	Green	tbd
Oct-22	Green	Green	tbd
Nov-22	Green	Green	tbd
Dec-22	Yellow	Green	tbd

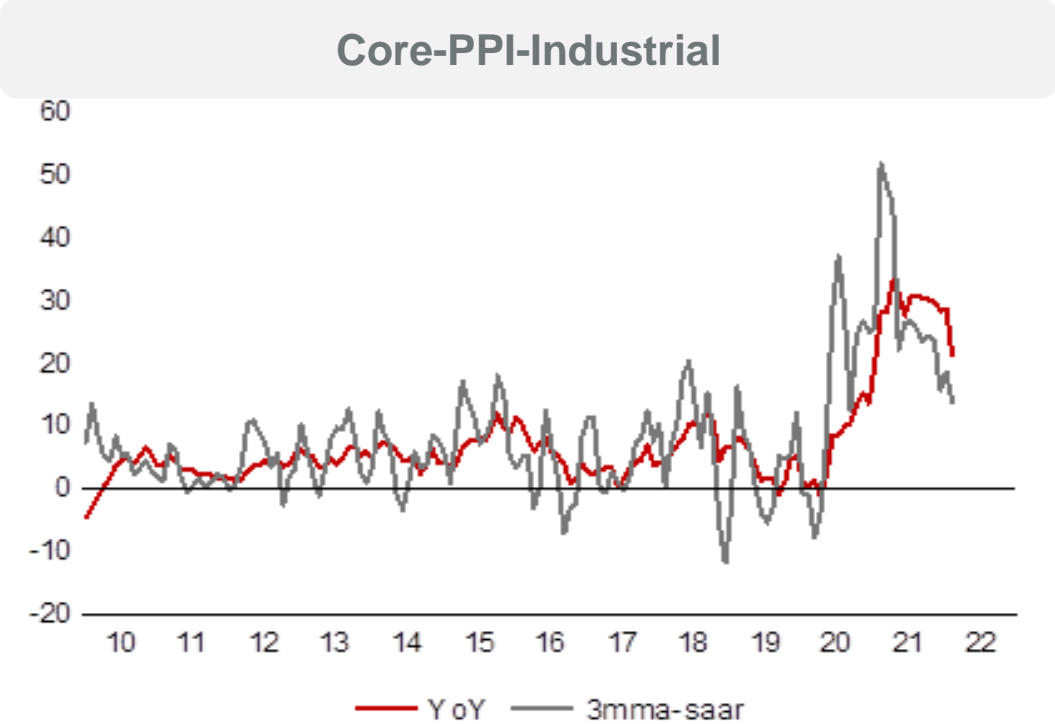
What to expect from now on? A relief from “imported inflation”, even after the new shock

- Even after the recent shock the CRB in BRL dynamics continue to point towards a disinflation to around 6%-7%, so not very different from what we expected before

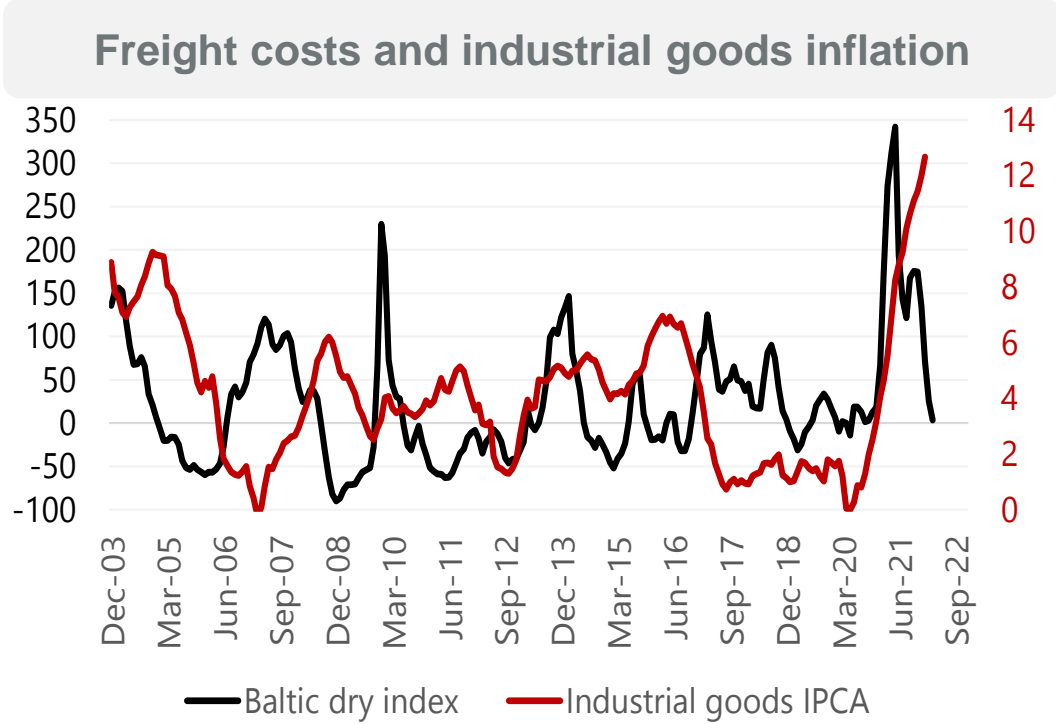


Some preliminary signs of lower pressure on the industrial side

- Of course the recent shocks are a risk for the pace of deceleration of industrial goods inflation, but we still think the direction should be downwards a few months from now.



Sources: IBGE, Santander

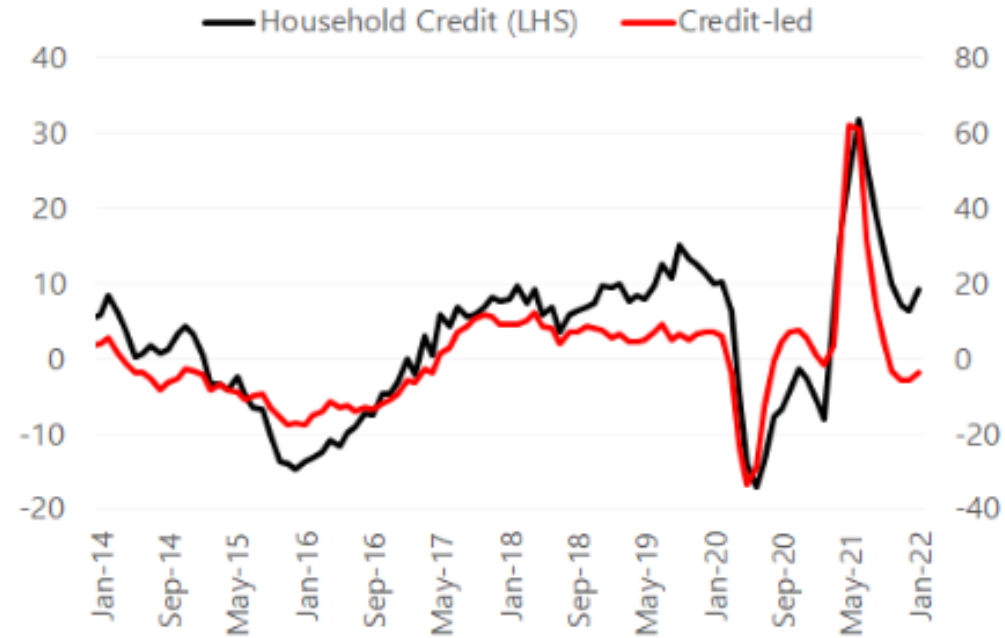


Sources: IBGE, Santander

What to expect from now on? Less pressure on the demand side

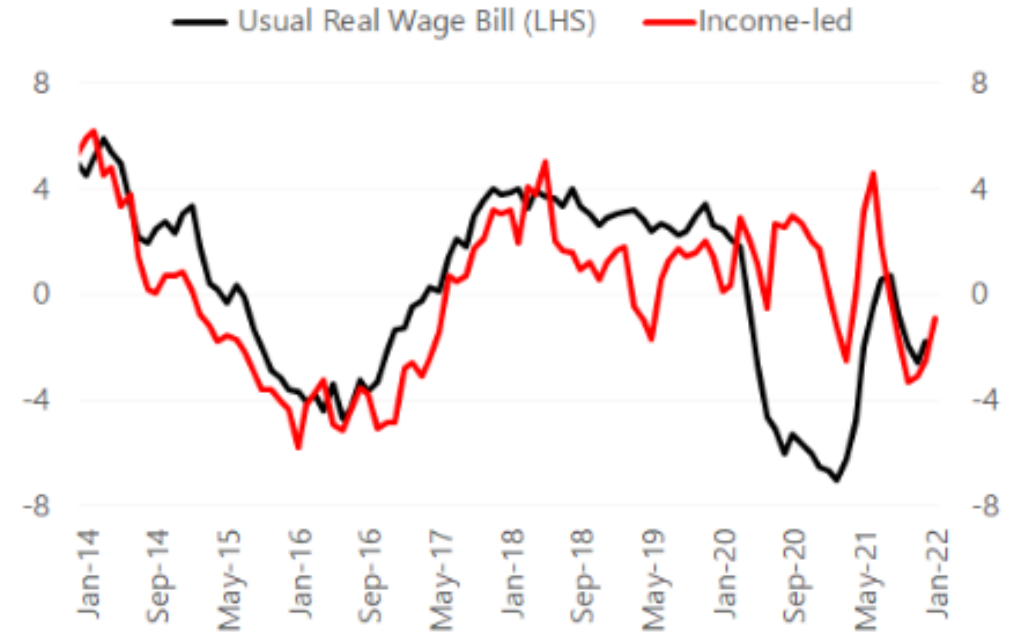
- Economic activity is decelerating, which should reduce the inflationary pressures

Slowing credit reducing retail sales



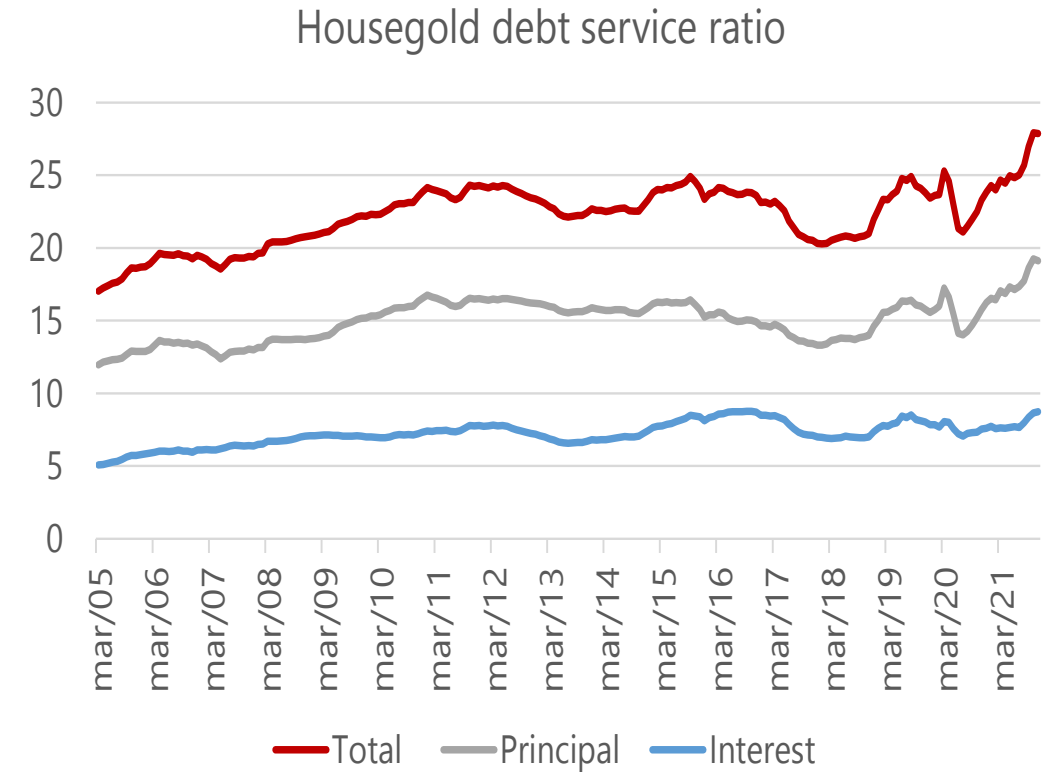
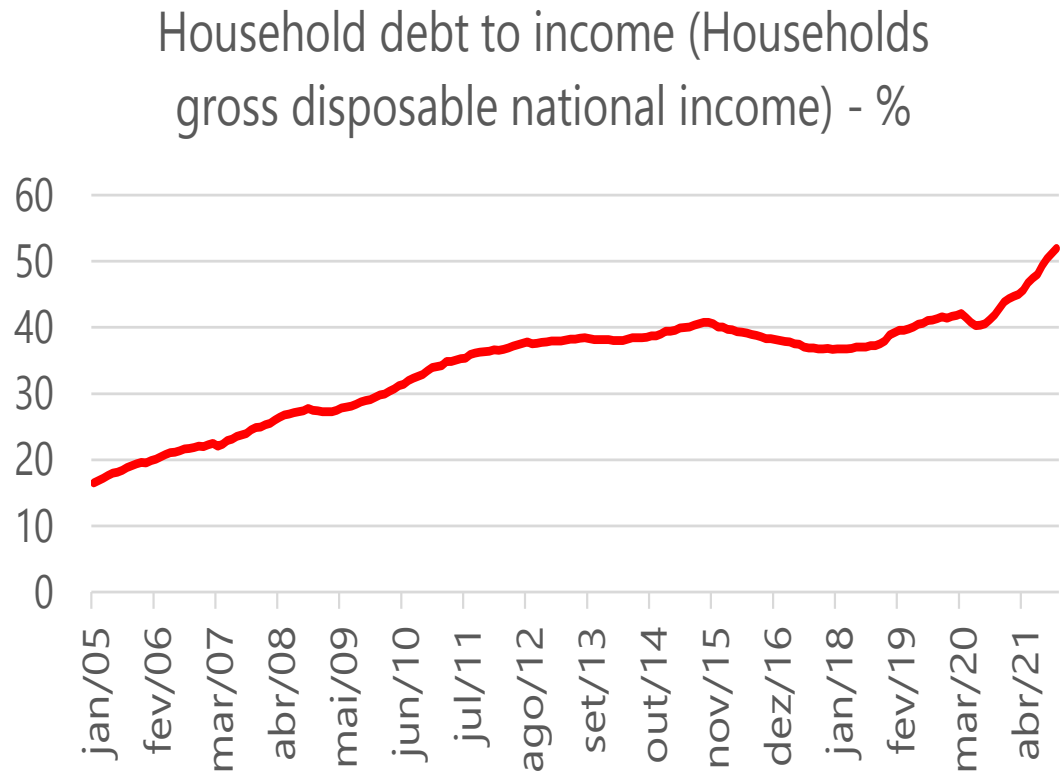
Sources: IBGE, Santander

Lower wage bill also impacting retail sales



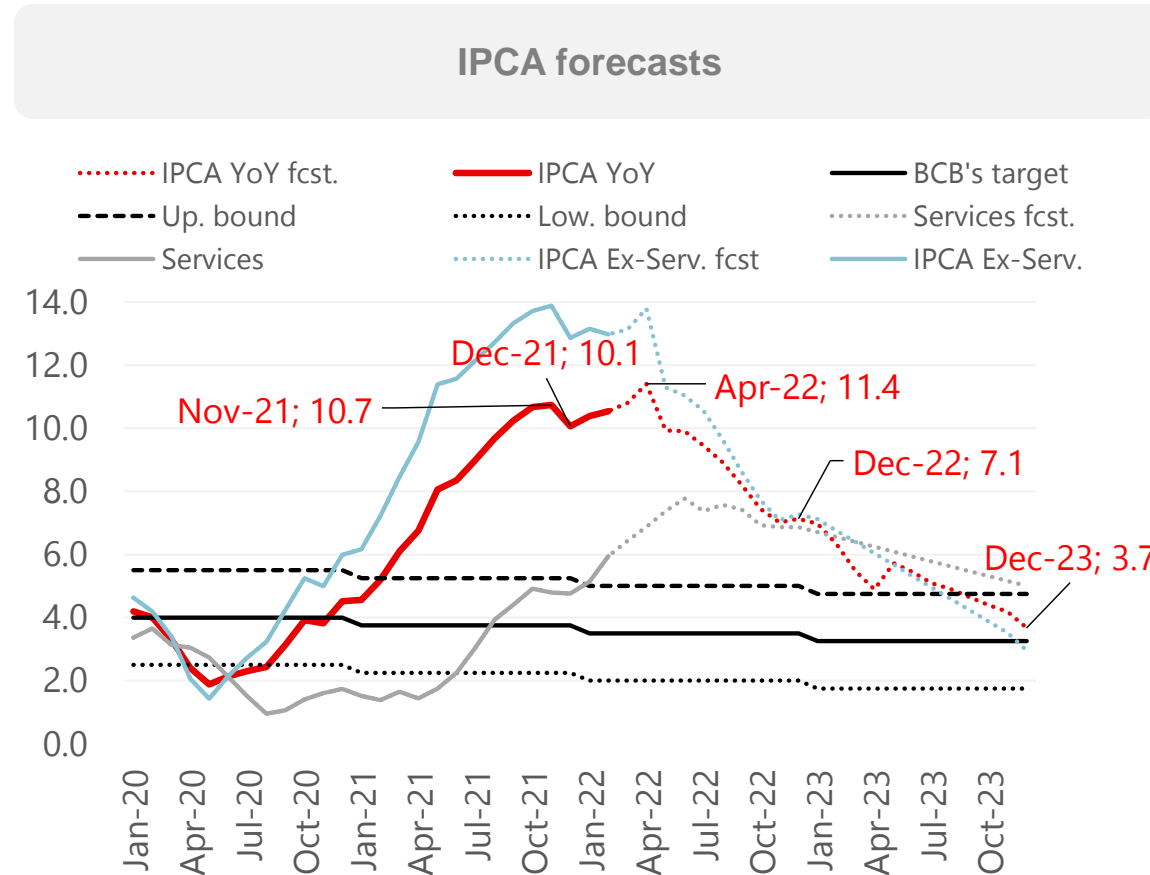
Indebtness is at the highest levels

- With interest rates rising and households highly indebted, this should be a driver for lower demand



Worse outlook for inflation, but a deceleration should still come

- We believe it is not time to panic as we start to see preliminary signs that inflation is on the verge of an inflection
- Peak should still come in May-22

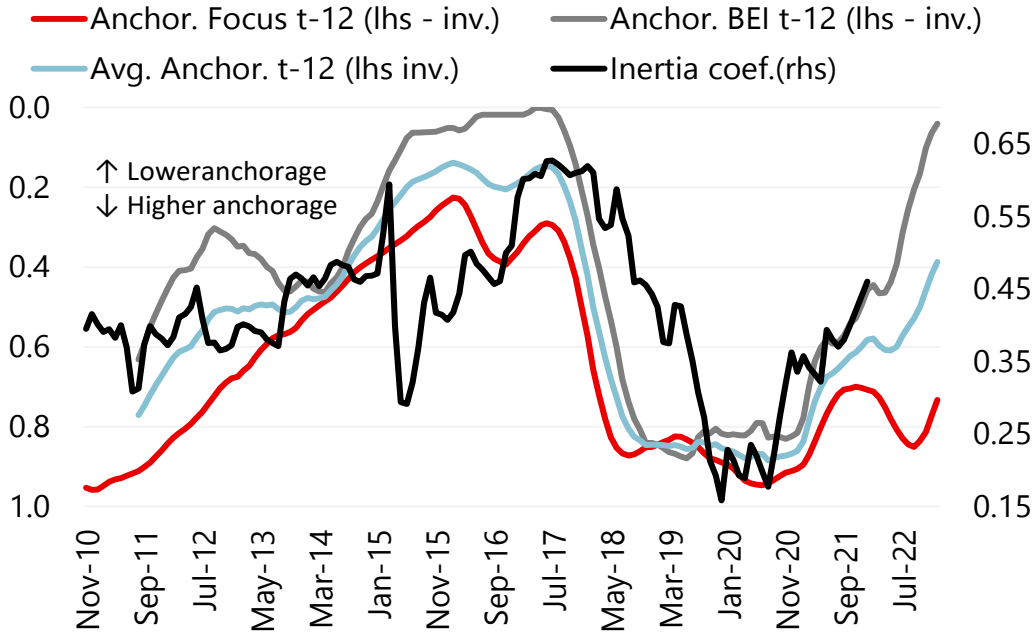


Sources: IBGE, Santander

Main risk: contamination of expectations + higher inertia

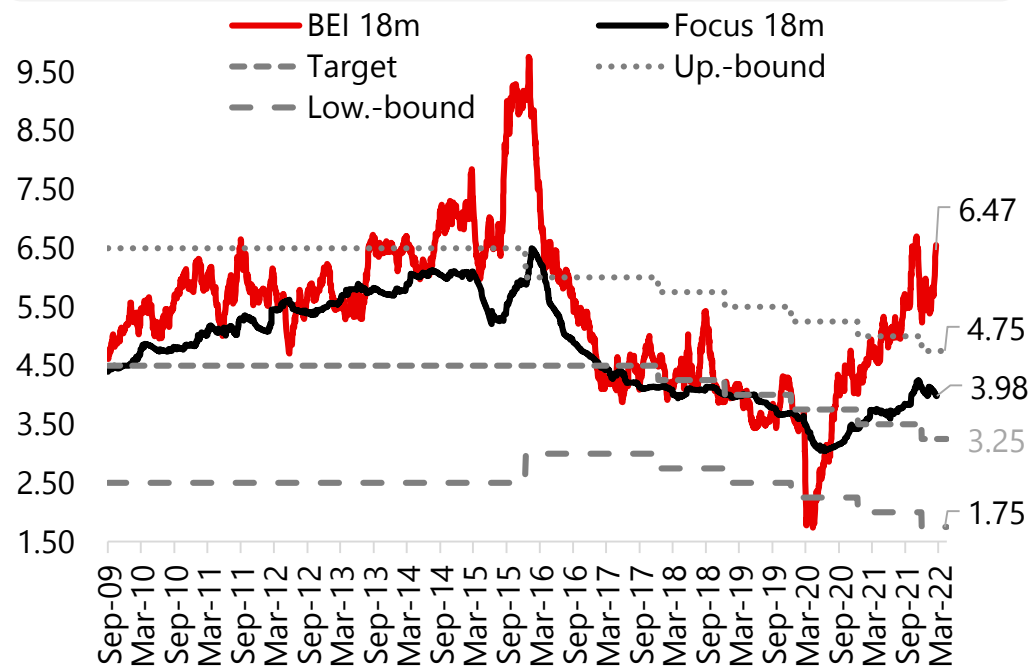
- We see inertia is picking up with the rise of domestic risk, making inflation stickier and turning it in a more self-fulfilling process
- If expectations go much above the target, then the forecasted path for monetary policy might be impacted

Inertia seems to be picking up on the back of lower expectations anchoring



Sources: Santander

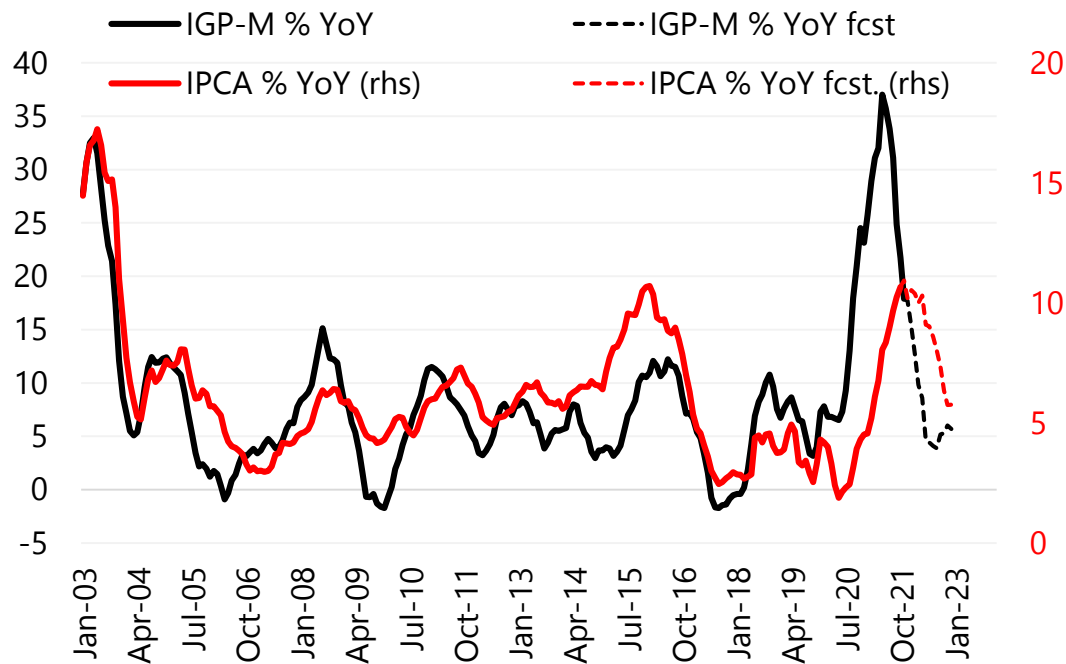
Both survey- and market-based inflation expectations are above the target for the relevant horizon



Specific upside risks: backlog of wholesale price rises

- Even with IGP-M decelerating, we are not seeing IPCA following, leading to a huge distortion of relative prices between the wholesale and consumer levels.
- There is a risk of a convergence coming from IPCA being more persistently higher than we expect.

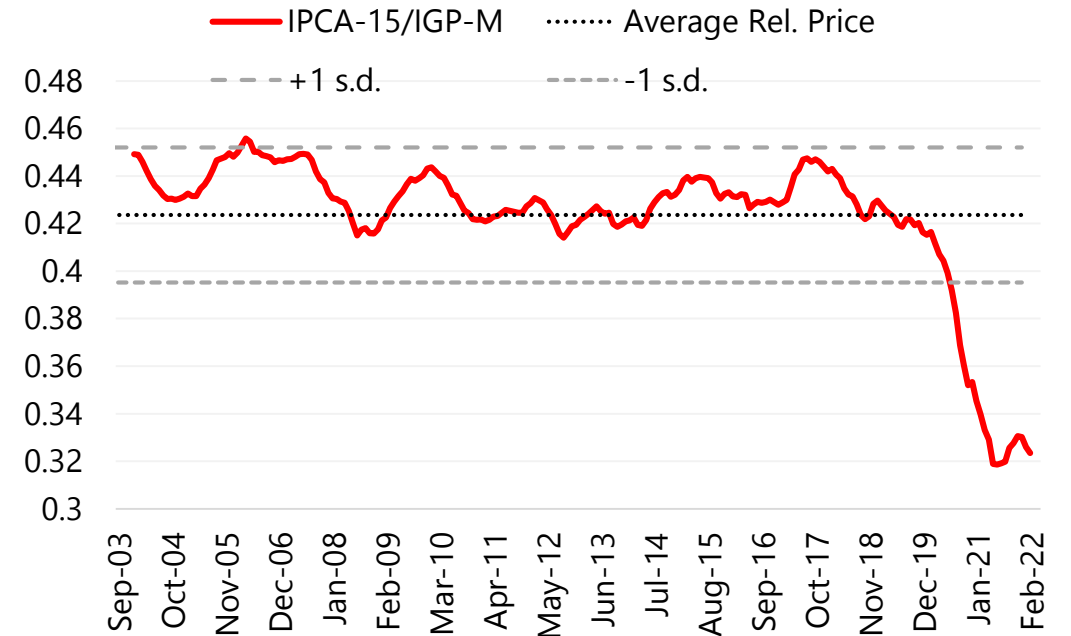
IGP-M already peaked, which normally would push IPCA down right after, but this time IPCA is lagging because it didn't rise as much as the historical relation would project



Sources: FGV, IBGE, Santander



Relative price level: IPCA-15 (CPI) / IGP-M (PPI)



Sources: IBGE, FGV, Santander

Brazil Macroeconomic Research Team

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Simple Personal Fair



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