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Strategy Flash – Uruguay

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# Uruguay Strategy Flash

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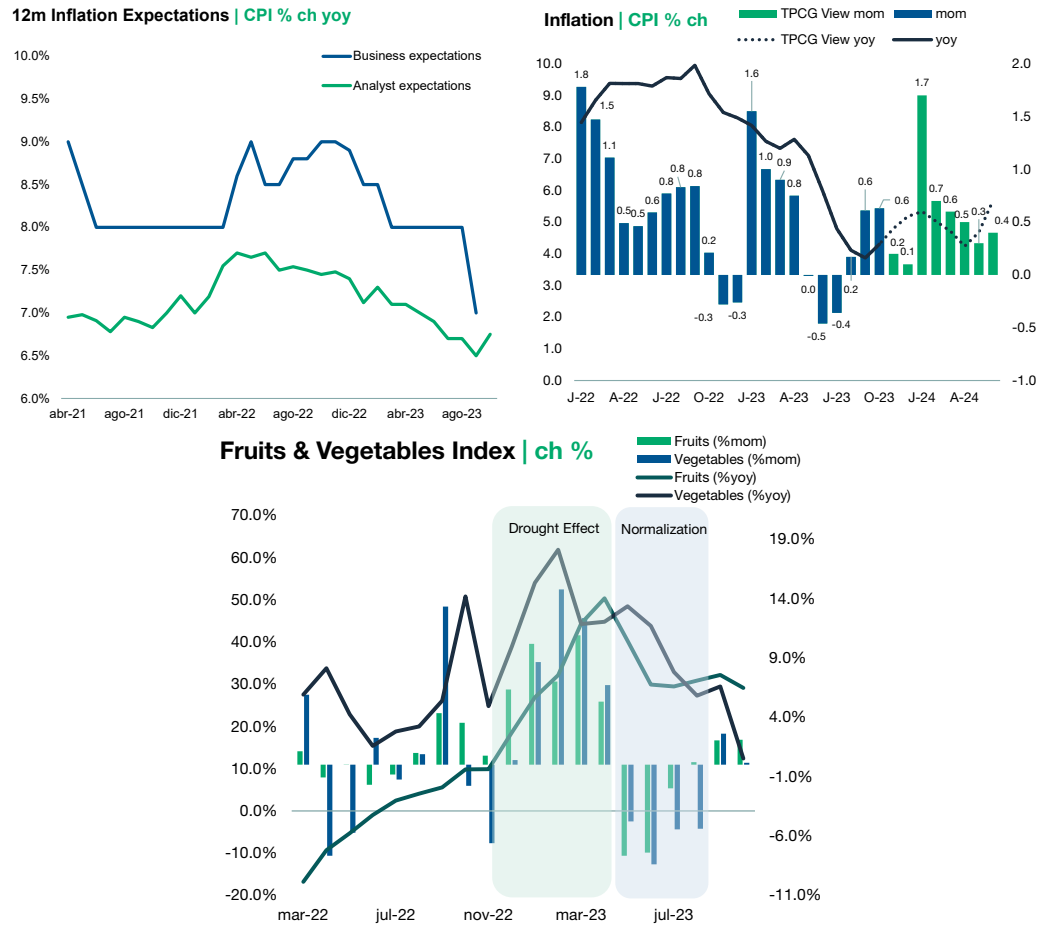
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## Uruguay's Monthly Inflation Prints +0.63%mom

**October CPI prints +0.63%mom, coming in line with the +0.6%mom expectations portrayed in the BCU's survey.** Monthly inflation printed +0.63%mom, — now accelerating relative to the recent prints, which saw a whole trimester of negative prints (May's -0.01%mom, June's -0.46%mom, and July's -0.36%mom), followed by a timid +0.17% rise in August and a similar +0.61%mom print in September. In addition, food prices, the largest contributor to the CPI deacceleration, continued posting relatively neutral figures in October. In this context, the inflationary process continues to gain momentum, even demonstrating a slight acceleration relative to the recent trimester of negative prints. After posting an average +1.9% monthly print in the first four months of the year, followed by four back-to-back negative variations (-0.74%mom in August, and -0.54%mom, -1.31%mom and -1.27%mom in May, June, and July, respectively), the Food & Non-Alcoholic Beverages slumped, clocking in at +0.01%mom in October, deaccelerating from September's +1.01%mom. In this context, such a modest print contributed to tempering the general index increase. The segments that drove the monthly rise in the headline gauge were, Transport (+2.73%mom), Housing (+0.43%mom), and Hotels&Restaurants (+0.51%mom), which also contributed positively to the rise. On the yearly gauge, consumer prices rose by +4.3%, increasing by 0.4pp relative to September's +3.87%yoy, as the baseline effect finally reversed, as Oct-22's print clocked in at +0.21%mom, leaving September's print as the trough in the headline index evolution. In this context, the yoy variation now sits comfortably inside of the BCU's target, coming under the +6%yoy upper bound for the fifth month running after standing over the mark for two full years. With October's inflation clocking in at +0.63%mom, YTD inflation currently stands at +4.86%, increasing relative to September.

**October's CPI print was largely explained by the large increase in Transport prices, specifically fuel, which compounded with rises in the Housing and Hotels&Restaurants segments.** The Food & Non-Alcoholic Beverages index seems to have normalized, after a year of significant volatility due to the drought affecting the supply of fresh fruit and vegetables. Its +0.01%mom print was very modest and responded to the stabilization in fresh food supply and the end of the water crisis, which had the govt slashing bottled water prices via a reduction in taxes. Still, in October, subsection performance was also marked by volatility, with several sub-indexes experiencing large decreases. The always volatile Fruits segment seems to have relatively normalized, experiencing a +2.11%mom rise, while Vegetables posted an even more moderate rise, increasing by +0.16%mom. Meat prices experienced a large decrease in October, which tempered the segment, as the subsection printed a -1.53%mom drop. In this context, Food & Non-Alcoholic Beverages' contribution was meager, failing to add a single bp to the monthly print. The subsections that did affect prices significantly were Transport (+2.73%mom), Housing (+0.43%mom), and Hotels&Restaurants (+0.51%mom). The first rose mainly due to increases in Gasoil (+5.48%mom), Fuel (+3.85%mom), and Airplane Ticket prices (+2.62%mom). This segment contributed nearly half of the monthly print, adding 30bp to the monthly increase of the general index. The increase in the second's prices came on the back of a rise in Siphoned Gas prices (+4.19%mom), contributing 6bp to the monthly print. The third was affected by a rise in Hotel prices (+3.51%mom) nudging the headline index upwards by another 4bp. The rest of the sectors experienced increases mostly in the +0.2%mom — +0.6%mom range, contributing the remainder of the October print.

Figure 1: October's inflation came in line with expectations



Source: TPCG Research based on INE & CINVE

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We find the general path of the CPI index to be credit positive, albeit we believe inflation is poised to reaccelerate during 4Q23 and 1Q24, with the headline index still remaining inside the BCU's target range. As we expected, the end of the drought marked an abrupt correction in Food prices, which tilted the general index strongly to the downside, after being the major cause of the strong increases in monthly inflation at the start of the year. With October's print showcasing a normalization in food prices, it seems as if the situation has finally corrected, with both the Fruits and Vegetables subsections posting positive variations. In this context, we now expect prints to converge more clearly to core inflation, which stands near the 0.2%-0.4% level. However, taking a look at the yoy index, it seems that inflation troughed in September. The +3.87%yoy mark was artificially low, in the sense that it was aided by a strong baseline tailwind and the negative prints coming out of the drought. In October, the baseline effect finally waned, starting to push the headline index upwards, an issue which we believe will continue throughout the 4Q23. In addition, the administration's income and fiscal policies are also consistent with an acceleration of inflation in the next months.

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