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Strategy Flash – Uruguay

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Uruguay Strategy Flash

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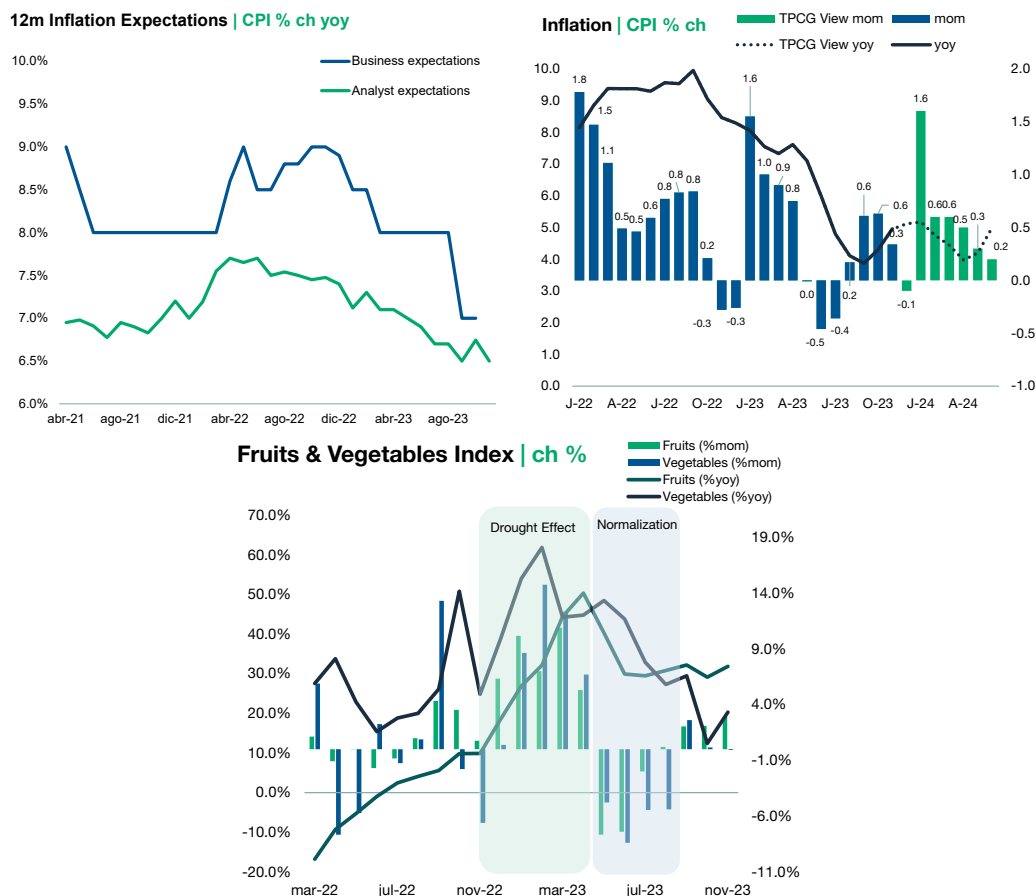
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Uruguay's Monthly Inflation Prints +0.34%mom

November CPI prints +0.34%mom, coming in line with the +0.4%mom expectations portrayed in the BCU's survey. Monthly inflation printed +0.34 %mom, — slightly decelerating relative to the recent prints, which saw a timid +0.17% rise in August followed by twin +0.6%mom prints in September and October. In addition, food prices, the largest contributor to the CPI deacceleration, continued posting relatively neutral figures in November. 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 continues slumped, clocking in at +0.07%mom in November, roughly level with October's +0.01%mom print. 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 (+0.92%mom), Home goods (+1.20%mom), and Entertainment (+0.99%mom), contributing positively to the rise. On the yearly gauge, consumer prices rose by +4.96%, increasing by 0.66pp relative to October's +4.3%yoy, as the baseline effect continues to reverse, as Nov-22's print clocked in at -0.28%mom, leaving September's print as the trough in the headline index evolution. In this context, the yoy variation still sits comfortably inside of the BCU's target, coming under the +6%yoy upper bound for the sixth month running after standing over the mark for two full years. With November's inflation clocking in at +0.34%mom, YTD inflation currently stands at +5.22%, increasing relative to October.

November's CPI print was largely explained by the increase in Transport prices, which compounded with rises in the Home goods and Entertainment 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 +0.07%mom print was very modest and responded to the stabilization in fresh food supply and the end of the water crisis, which had the government slashing water prices via a reduction in taxes. Still, in November, subsection performance was also marked by volatility, with several sub-indexes experiencing decreases. The always volatile Fruits segment experienced a +2.9%mom rise, while Vegetables went in the other direction, posting a timid monthly gauge, at -0.07%mom. Also, Meat and Dairy prices offset the rise in fruit prices, tempering the sub-index, printing variations of -0.17%mom and -0.39%mom, respectively. In this context, Food & Non-Alcoholic Beverages' contribution was meager, failing to significantly impact the monthly print. The subsections that did affect prices significantly were Transport (+0.92%mom), Home goods (+1.20%mom), and Entertainment (+0.99%mom). The first rose mainly due to increases in Airplane Ticket prices (+13.54%mom) and Taxi fares (+8.60%mom). This segment contributed nearly one-third of the monthly print, adding 10bp to the monthly increase of the general index. The rise in the second's prices came on the back of a hike in Domestic Service prices (+2.70%mom) contributing 6bp to the monthly print. The third was affected by a rise in Tourism package prices (+5.89%mom) nudging the headline index upwards by another 5bp. The rest of the sectors experienced increases mostly in the +0.0%mom — +0.6%mom range, contributing the remainder of the November print.

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



Source: TPCG Research based on INE & CINVE

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With headline prints more clearly converging to their core counterparts, we believe inflation is poised to reaccelerate during 4Q23 and 1Q24, with the headline index remaining inside the BCU's target range in early 2024. 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 November's print confirming the normalization in food prices, it seems as if the situation has finally corrected, with both the Fruits and Vegetables subsections posting positive variations. This is also consistent with headline prints converging more clearly to core inflation, which in November stood at the +0.31%mom mark. Core inflation has recently hovered around the 0.2%-0.4% level. 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 continued in November and should accompany the trend at least until December. However, the baseline effect will return to being beneficial in 1Q24, as the 1Q23 prints were high due to the drought. This should ensure compliance with the BCU's target, at least until mid-2024. However, the administration's income and fiscal policies are consistent with an acceleration of inflation in the next months, and pose, at this moment, a mild threat to the consolidation of inflation inside the target range.

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