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Strategy Flash – Uruguay

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Uruguay Strategy Flash

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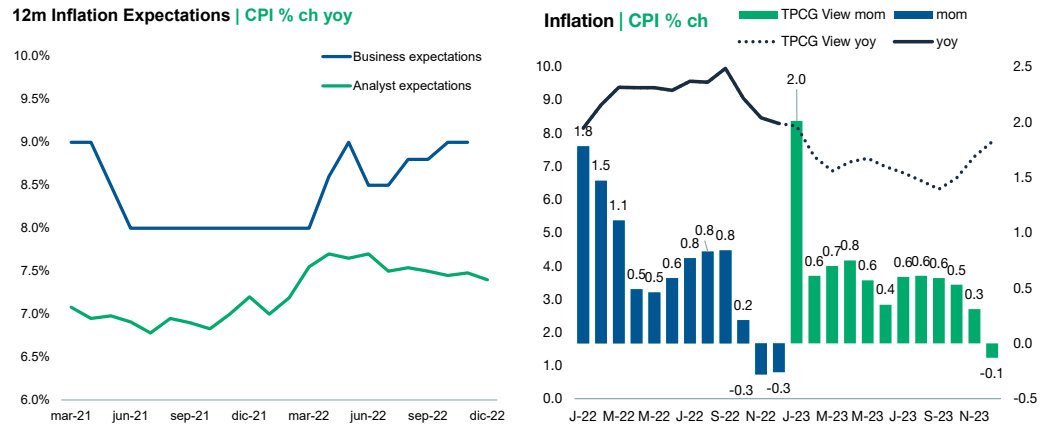
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Uruguay's Monthly Inflation Prints -0.26%mom

December CPI prints -0.26%mom, coming in line with the -0.3%mom expectations portrayed in the BCU's survey. Monthly inflation printed -0.26%mom— coming in relatively level with recent gauges, which included November's -0.28%mom, October's +0.21%mom and September's +0.84%mom, closing a 4Q marked by a substantial deacceleration of the inflationary process. In December, the monthly drop came in heavily influenced by the UTE rewards program, which rewards users with reduced power tariffs. Said program caused a -3.6%mom drop in the Housing section, driving the print. In addition, the Transport segment also came in at -1%mom, aided by seasonal factors. On the other hand, the Food & Non-Alcoholic Beverages division posted a positive monthly variation, partly offsetting the monthly price decreases, coming in at +0.71%mom, reverting the negative gauges in November (-0.71%mom) and October (-0.14%mom) as the most volatile segments continue to drive the index. The rest of the segments had little to no influence on the monthly print. On the yearly gauge, consumer prices rose +8.29%yoy marking the third decrease in a row for the index, following prints of +8.46%yoy in November, +9.05%yoy in October and, +9.95%yoy in September. In this context, the yoy variation now surpassed the +6%yoy upper bound of the BCU's target range for the nineteenth month in a row. With December's inflation clocking in at -0.26%mom, YTD inflation closed the year at +8.29%, surpassing the BCU's updated target range of 3%-6% by 229bp.

December's CPI print came mostly on the back of the UTE rewards program depressing Housing prices, in addition to a seasonal drop in the Transport segment outweighing an increase in the Food & Drink index. The Housing subsection spearheaded the monthly drop in the headline index, posting a -3.6%mom dip, which in turn was driven by a -11.20%mom drop in Power Supply, as the UTE rewards program caused the sharp drop in the subsection. This decrease contributed -47bp to the headline index drop, singlehandedly explaining the entire monthly print. Transport (-1.0%mom) also managed to take away 12bp out of the monthly gauge, with drops in Car (-2.42%mom) and Motorcycle (-2.55%mom) prices, as the year comes to an end, while December witnessed to a -9.17%mom drop in Airplane tickets (7.25%mom). On the other hand, the Food & Non-Alcoholic Beverages print reversed last month's drop, posting a +0.71%mom rise. In December, subsection performance was also marked by volatility, as some sub-indexes found some temporary relief as international prices plateaued, while other continued their upwards trend. Cereals rose by +0.69%mom, as did Dairy products which experienced a +0.95%mom rise. The always volatile Fruits segment experienced a +6.35% mom increase, with Coffee also exhibiting a sizable positive variation (+3.45%mom). Instead, Meat prices continue to drop, falling more timidly (-0.12%mom), with the dry climatic conditions possibly affecting meat supply. In this context, Food & Non-Alcoholic Beverages' contribution was positive to the monthly CPI print, offsetting the general drop by 18bp. Another positive contributor to December's print was Restaurants&Hotels (+1.22%mom), adding 7bp to the general print, as the tourism season starts, seasonally pumping prices up. Finally, the rest of the sectors experienced increases in the +0.1%mom — +0.6%mom range, contributing the remainder of the December print.

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



Source: TPCG Research based on INE & CINVE

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