

**Juan Manuel Pazos**  
Chief Economist  
+54 11 4898 6606  
jmpazos@tpcgco.com

**Santiago Resico**  
LATAM Strategist  
sresico@tpcgco.com  
+54 11 4898 6615

Strategy Flash – Uruguay

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# Uruguay Strategy Flash

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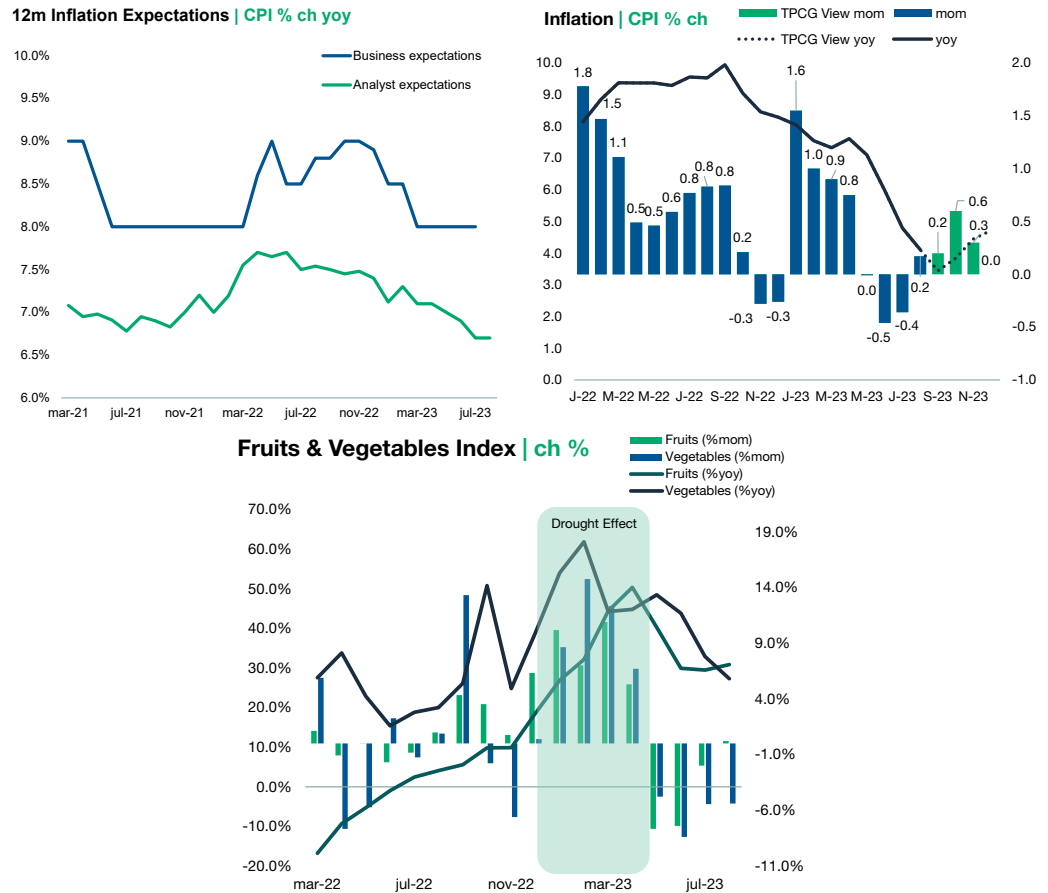
## Uruguay's Monthly Inflation Prints +0.17%mom

**August CPI prints +0.17%mom, coming in 29bp under the +0.46%mom expectations portrayed in the BCU's survey.** Monthly inflation printed +0.17%mom — finally posting a positive variation after a whole trimester of negative prints, including May's -0.01%mom print, June's -0.46%mom, and July's -0.36%mom. Even as food prices have normalized significantly post-drought, food prices continue to evolve to the downside, posting another negative print in August. In this context, the inflationary process prolonged its abrupt stop in August, consistent with the normalization of agricultural prices, even if demonstrating a slight acceleration relative to last trimester's negative prints. After posting an average +1.9% monthly print in the first four months of the year, the Food & Non-Alcoholic Beverages segment presented a negative monthly variation for the fourth month in a row, coming in at -0.74%mom, following prints of -0.54%mom, -1.31%mom and -1.27%mom in May, June, and July, respectively. The subsection had printed +1.93%mom in April, +2.24%mom in March, +1.84%mom in February, and +1.85%mom in January, accumulating a +8.1% rise in the first four months of the year. The segment offset a significant portion of the monthly increase, tapering down the monthly gauge. However, an increase in Transport (+1.01%mom), Housing (+0.38%mom), Education (+1.49%mom), and Communications (+0.66%mom) prices outweighed the drop in Food prices, which were also compensated by generalized minor increases in the rest of the segments. On the yearly gauge, consumer prices rose by +4.11%, being slashed by nearly 0.68pp relative to an already low +4.79%yoy print in July and clocking in at the lowest mark in 2023. The yearly index in August was aided by the tailwind provided by the baseline effect, as Aug-22's print came in at +0.83%mom, nudging the headline trend down. In this context, the yoy variation now sits comfortably inside of the BCU's target, coming under the +6%yoy upper bound for the third month running after standing over the mark for two full years. With August's inflation clocking in at +0.17%mom, YTD inflation currently stands at +3.58%, increasing relative to July.

**August's CPI print saw a minor, albeit generalized, increase in most segments being partially offset by a reduction in the Food & Non-Alcoholic Beverages segment.** The Food & Non-Alcoholic Beverages continued its current trend, deepening the reversion of the 1Q23 prints, posting a -0.74%mom drop following twin negative prints in June (-1.31%mom) and July (-1.27%mom). In August, subsection performance was also marked by volatility, with several sub-indexes experiencing large decreases. The always volatile Fruits segment seems to have normalized, experiencing a +0.22%mom rise. Instead, Vegetables found some extra room to recover from drought highs, falling by -5.39%mom. Meat prices also experienced a decrease in August, with the subsection printing a -0.38%mom drop, with Dairy products flowing suit, as the latter decreased by -0.71%mom. In this context, Food & Non-Alcoholic Beverages' contribution singlehandedly shaved 20bp from the monthly print. The other subsections that affected prices significantly were Transport (+1.01%mom), Housing (+0.38%mom), Education (+1.49%mom) and Communications (+0.66%mom). The first rose mainly due to increases in Gas (+2.1%mom), and Airplane Ticket prices (+6.89%mom), contributing 11bp to the monthly increase of the general index. The second was affected by a rise in Rent (+0.47%mom) and Construction services (+4.45%mom), nudging the headline index upwards by another 5bp. The Education segment reflected the rise in most of its subsections, with Preschool (+1.53%mom) Primary (+1.49%mom), and Tertiary (+2.35%mom) education exhibiting monthly increases, driving the general index upwards by 5bp. Finally, Communications rose by +0.66%mom, adding 4bp to the monthly

gauge. The rest of the sectors experienced increases mostly in the +0.2%mom – +0.6%mom range, contributing the remainder of the August print.

**Figure 1: August's inflation came under expectations**



Source: TPCG Research based on INE & CINVE

**We find the print to be credit positive, and inflation dynamics point at the headline yoy index closing the 3Q23 below the 4% mark.**

**We find the print to be credit positive, and inflation dynamics point at the headline yoy index closing the 3Q23 below the 4% mark.** 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. However, the correction of food prices lasted slightly longer than expected, seeping into August's print. Still, this month the effect of the drought continued to wane, as both the Fruits and Vegetables subsections posted less negative prints than in July. In this context, we do believe the effect of the drought should be on its last legs, with further adjustments in Food prices looking less likely in the future. We expect prints to converge to core inflation, which stands near the 0.2%-0.4% level. However, it is key to note that the headline yoy index will enjoy a substantial baseline tailwind up until September. With Sept-22's print coming in at +0.8%mom, it is likely the year-on-year index will experience a last drop in September, possibly coming in under the +4% mark. From then onwards, the baseline becomes much less supportive, and the headline index should showcase an upward trend up until the end of the year. Closing 2023 inside of the BCU's target range.

## TPCG Analysts & Staff

### Research

<b>Juan Manuel Pazos</b>	<b>Chief Economist</b>	<b>jmpazos@tpcgco.com</b>	<b>+54 11 4898-6606</b>
Paula La Greca	Corporate Research Analyst	plagreca@tpcgco.com	+54 11 4898-6638
Federico Martin	Strategist	famartin@tpcgco.com	+54 11 4898-6633
Santiago Resico	Strategist	sresico@tpcgco.com	+54 11 4898-6615

### Sales & Trading

<b>Juan Manuel Truppia</b>	<b>Head of Sales &amp; Trading</b>	<b>jmtruppia@tpcgco.com</b>	<b>+54 11 4898-6659</b>
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#### Institutional Sales

Lucia Rodriguez Pardina	S&T Director	lrodriguezpardina@tpcgco.com	+54 11 4898-6614
Agustina Guadalupe	Sales	aguadalupe@tpcgco.com	+54 11 4898-6682
Maria Pilar Hurtado	Sales	mhurtado@tpcgco.com	+54 11 4898-6616
Juan Ignacio Vergara	Sales	jivergara@tpcgco.com	+54 11 4898-1936
Santiago Baibiene	Sales	sbaibiene@tpcgco.com	+54 11 4898-6648
Pedro Nollmann	Sales	pnollmann@tpcgco.com	+54 11 4898-6617
María Ruiz de Castroviejo Salas	Sales	mruidecastroviejo@tpcgco.com	+54 11 4898-6643
Victoria Faynbloch	Desk Analyst	vfaynbloch@tpcgco.com	+54 11 4898-6635

#### Trading

Felipe Freire	Trader	ffreire@tpcgco.com	+54 11 4898-1921
Homero Fernandez Bianco	Trader	hfbianco@tpcgco.com	+54 11 4898-6667
Andres Robertson	Trader	arobertson@tpcgco.com	+54 11 4898-6693

### Corporate Finance

<b>José Ramos</b>	<b>Head of Corporate Finance</b>	<b>jramos@tpcgco.com</b>	<b>+54 11 4898-6645</b>
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#### Corporate Sales

Camila Martinez	Corporate Sales Director	cmartinez@tpcgco.com	+54 11 4898-6621
Fernando Depierre	Corporate Sales	fdepierre@tpcgco.com	+54 11 4898-6636
Sol Silvestrini	Corporate Sales	ssilvestrini@tpcgco.com	+54 11 4898-6641
Nicolas Iglesias	Corporate Sales	niglesias@tpcgco.com	+54 11 4898-6612

#### Capital markets

Nicolás Alperín	DCM	nalperin@tpcgco.com	+54 11 4898-6604
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### Asset Management

<b>Ileana Aiello</b>	<b>Portfolio Manager</b>	<b>iaiello@tpcgco.com</b>	<b>+54 11 4898-6611</b>
<b>Claudio Achaerandio</b>	<b>Portfolio Manager</b>	<b>catchaerandio@tpcgco.com</b>	<b>+54 11 4898-6618</b>

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