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

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

Strategy Flash – Uruguay

February 5, 2024

# Uruguay Strategy Flash

## Uruguay's Monthly Inflation Prints +1.53%mom

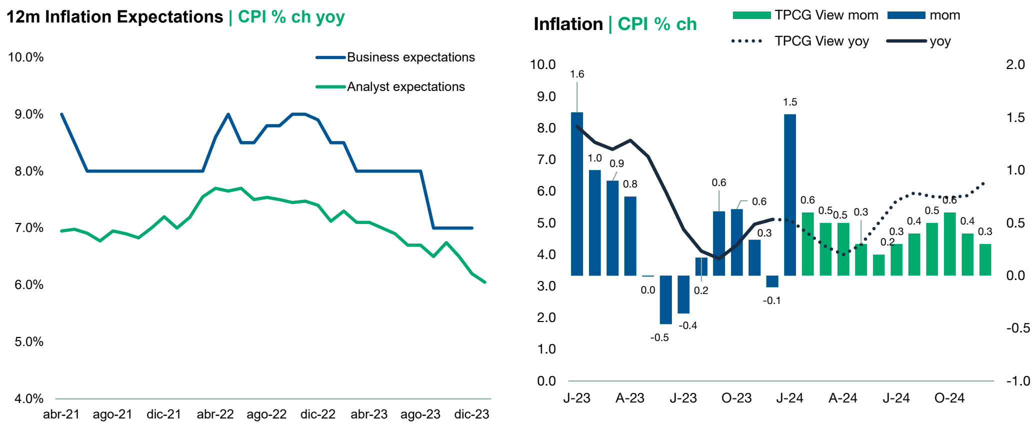
**January CPI prints +1.53%mom, coming 13bp over the +1.4%mom expectations portrayed in the BCU's survey.**

**January CPI prints +1.53%mom, coming 13bp over the +1.4%mom expectations portrayed in the BCU's survey.** Monthly inflation printed +1.53 %mom, —accelerating relative to the recent prints, which saw a -0.11%mom gauge in December preceded by a +0.34%mom print in November and twin +0.6%mom prints in October and September. Food prices continue showing momentum, and after increasing by +0.98%mom in December, spiked by +1.75%mom in January. In this context, the inflationary process stabilized in yoy terms, and is now poised to descend on the back of a favorable baseline effect throughout 1Q24. The main responsible for the monthly rise in prices was the Housing segment, as the "UTE premia" rewards program came to an end, normalizing electricity tariffs. The food and Drink index had a very volatile behavior throughout the last 12 months. After relatively neutral prints in the last months, coming in at +0.01%mom in October and +0.07%mom in November the index once again reaccelerated, partially offsetting the deflationary print of the headline index in December, and contributing significantly to January's increase. However, there were several seasonal components affecting other segments significantly. In this context, the segments that drove the monthly rise in the headline gauge were Housing (+4.98%mom), Food & Drink (+1.75%mom), Restaurants & Hotels, (+2.11%mom), Alcoholic beverages &Tobacco (+2.52%mom), Comms (+1.75%mom), and Financial Services (+1.68%mom) while the negative variations in both Clothing (-3.61%mom) and Transport (-0.73%mom) partially offset the sharp price increases. On the yearly gauge, consumer prices in January increased by +5.09%, remaining almost flat to December's +5.11%yoy. The yoy index has now plateaued after an unfavorable baseline effect which drove it upwards in 4Q23. However, the former will soon become a significant tailwind for the index, as during 1Q24 we expect it to play in favor of the headline index, tempering it. In this context, the yoy variation still sits comfortably inside of the BCU's target, coming under the +6%yoy upper bound for the eighth month running after standing over the mark for two full years. Consistently, YTD inflation stands at +1.53%.

**January's CPI print was largely explained by the rise in Housing prices, influenced by the end of the UTE Rewards Program, and compounded with seasonal increases in several segments. These were partly compensated by decreases in the Clothing and Transport sections.**

**January's CPI print was largely explained by the rise in Housing prices, influenced by the end of the UTE Rewards Program, and compounded with seasonal increases in several segments. These were partly compensated by decreases in the Clothing and Transport sections.** The main contributor to the monthly increase was the Housing segment, which hiked by +4.98%mom. This spike came mostly on the back of the UTE rewards program ending, as after the reduction in December's electricity bills, normal tariffs returned to place, which caused a +13.93%mom surge in Electric Energy prices. This rise contributed 64bp to the monthly increase of the headline index, making the segment the largest determinant of the positive variation in CPI. The Food & Non-Alcoholic Beverages index surged again, increasing by +1.75%mom, after a year of significant volatility due to the drought affecting the supply of fresh fruit and vegetables. Its monthly print was explained due to the increase in prices in several subsections. The always volatile Fruits segment experienced a +7.79%mom rise, while Vegetables suffered a similar variation, albeit more moderate, at +4.16%mom. Also, Meat and Dairy prices increased, fueling the sub-index, printing variations of +1.23%mom and +0.74%mom, respectively. In this context, Food & Non-Alcoholic Beverages' contribution was substantial adding 46bp to the monthly gauge. In addition to the seasonal effect on Housing prices, Restaurants & Hotels responded to the increased tourist activity, rising by +2.11%mom, as Hotel prices hiked by +16.30%mom, causing an 18bp increase in the monthly CPI print. Furthermore, both Comms and Financial Services saw increases of +1.75%mom and +1.68%mom respectively, responding to the usual start of the year adjustments in prices, which added 11bp and 10bp to the hike in prices, respectively. Another segment that contributed 10bp to the monthly print was Alcoholic beverages &Tobacco, again on behalf of the seasonal effects, after increasing by +2.52%mom. On the other hand, sales affected the Clothing segment, causing a -3.61% reduction in prices, which offset the monthly increase by 10bp. Transport also posted a negative variation (-0.73%mom), reducing the monthly increase by 8bp, on behalf of drops in Gasoil (-3.48%mom), and Plane ticket prices (-14.14%mom). The rest of the sectors experienced increases mostly in the +0.0%mom — +1.2%mom range, contributing the remainder of the January print.

## Figure 1: January's inflation came in slightly over expectations




Source: TPCG Research based on INE & CINVE

**In the short run, we expect the headline index to temper on behalf of a favorable baseline effect, before creeping up during 2H24, possibly breaching the BCU's upper range by end-2024.**

**In the short run, we expect the headline index to temper on behalf of a favorable baseline effect, before creeping up during 2H24, possibly breaching the BCU's upper range by end-2024.** The BCU's battle to reign in the inflationary process has been mostly successful. However, the CenBank had the help of favorable BoP flows, which enabled the FX anchor to reinforce the monetary program and benefitted from heavily depressed 2H23 prints and a strong baseline effect, which favored the collapse of the headline index. Having endured high monthly prints during 1Q23, this means that for 2024, we expect the baseline effect to play heavily in favor of the BCU, which should be consistent with headline inflation remaining inside the target range of the BCU throughout the 1H24. So, while the current context presents a favorable scenario for early 2024 in terms of the yoy prints, we believe the BCU is becoming increasingly isolated in its fight against inflation. The general policy bias of economic policy is pivoting to dovish, especially in the income and fiscal departments. Fiscal figures convey that the Administration has lost part of the fiscal discipline it exhibited during the 2021-22 period. This compounds with the guidelines it provided for the salary negotiations in 2H23, which suggest real wage increases for workers, in addition to the customary inflation adjustments, to compensate for the weakening of real wages during the pandemic, responding to its campaign promises. Both biases should put upward pressure on non-tradeable prices. Given the electoral calendar, we do not expect the government to change its income or fiscal policy bias during 2024 significantly. In addition, tradeable prices exhibited a strong deacceleration, with the USDUYU holding fast during 2023. If the FX weakens nominally in 2H24, tradeable prices should also accelerate, adding extra pressure to the headline index. All this compounds with a BCU, which currently holds a neutral monetary bias, which is unlikely to tighten in a context where the CPI sits comfortably within the target range, and the rest of economic policy remains dovish. All in all, we expect a relatively quiet 1H24, with the acceleration in monthly inflation being offset by the baseline effect. For 2H24, with an increasingly strained non-tradeable index and a waning baseline effect, we expect inflation to slip out of the CenBank's target range, ending Dec-24 near the +6.3%yoy mark.

## TPCG Analysts & Staff

| | | | |
|---|---|---|---|
| **Research** | | | |
| **Juan Manuel Pazos** | **Chief Economist** | **jmpazos@tpcgco.com** | **+54 11 4898-6606** |
| Paula La Greca | Corporate Research Analyst | plagreca@tpcgco.com | +54 11 4898-6638 |
| Santiago Resico | Economist | sresico@tpcgco.com | +54 11 4898-6615 |
| Camila Sanchez Lauria | Research Analyst | csanchezlauria@tpcgco.com | +54 11 6616-9512 |
| **Sales & Trading** | | | |
| **Juan Manuel Truppia** | **Head of Sales & Trading** | **jmtruppia@tpcgco.com** | **+54 11 4898-6659** |
| 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 | mruizdecastroviejo@tpcgco.com | +54 11 4898-6643 |
| Santiago Jauregui | Sales | sjauregui@tpcgco.com | +598 9933-9495 |
| 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** | | | |
| **José Ramos** | **Head of Corporate Finance** | **jramos@tpcgco.com** | **+54 11 4898-6645** |
| 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 |
| Wealth Management | | | |
| Josefina Guerrero | Private Wealth Management Specialist | jguerrero@tpcgco.com | +54 9 11 6556 2401 |
| **Asset Management** | | | |
| **Ileana Aiello** | **Portfolio Manager** | **iaiello@tpcgco.com** | **+54 11 4898-6611** |
| **Claudio Achaerandio** | **Portfolio Manager** | **cachaerandio@tpcgco.com** | **+54 11 4898-6618** |

## Important Disclaimer

The document, and the information, opinions, estimates and recommendations expressed herein, have been prepared by TPCG Valores SAU to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. TPCG Valores SAU is not liable for giving notice of such changes or for updating the contents hereof. The document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall the document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to the document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare the report. Therefore, investors should make their own investment decisions considering the said circumstances and obtain such specialized advice as may be necessary.

The contents of the document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by TPCG Valores SAU, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. TPCG Valores SAU. accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance. The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment.

Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

TPCG Valores SAU. and/or any of its affiliates, as well as their respective directors, executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in the document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of the report, to the extent permitted by the applicable law.

TPCG Valores SAU or any of its affiliates' salespeople, traders and other professionals may provide oral or written market Commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, TPCG Valores SAU, or any of its affiliates' proprietary trading and investing businesses, may make investment decisions that are inconsistent with the recommendations expressed herein.

No part of the document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted without the prior written consent of TPCG Valores SAU. No part of the report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

For U.S. persons only:

This report is a product of TPCG, which is the employer of the research analyst(s) who has prepared the informative report. The research analyst(s) preparing this report is/are resident(s) outside the United States (U.S.) and is/are not associated person(s) of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations.

This report is intended for distribution by TPCG only to U.S. Institutional Investors and Major U.S. Institutional Investors, as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by the U.S. Securities and Exchange Commission (SEC), in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a a US Institutional Investors nor a Major U.S. Institutional Investor, as specified above, then he should not act upon this report and return it to the sender. Further, this report may not be copied, duplicated and/or transmitted to any U.S. person, which is not a U.S. Institutional Investor, nor a Major U.S. Institutional Investor.

In order to comply with the US regulations, our transactions with US Institutional Investors and Major US Institutional Investors are effected through the US-registered broker-dealer Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this report should be effected through Marco Polo or another U.S. registered broker dealer.