



# EM Inflation In Focus: Let the Cuts Begin

**Disinflation firms.** We have argued for the past few months that EM is far more advanced compared to DM counterparts in terms of a disinflation cycle, which has resulted in the start of monetary easing across a few EM central banks. According to our PriceStats series, aggregate EM prices have stabilized at around 10%yoy, but monthly momentum increased to 1.3%mom compared to the long-term average of 0.6%mom. This was mainly attributed to less negative EM fuel prices as it bottomed out at -10.7%yoy in early July, but moved higher since to -7.7%yoy, while EM food prices were stable at -4%yoy over the past three months. We are not overly concerned over the recent uptick in EM prices as commodity prices have moved sideways after the strong surge in July, while individual countries that we track show no spikes in their latest inflation readings. This should allow EM central banks to continue with rate cuts in the near term even if the Fed turns more hawkish in terms of its overall rate path.

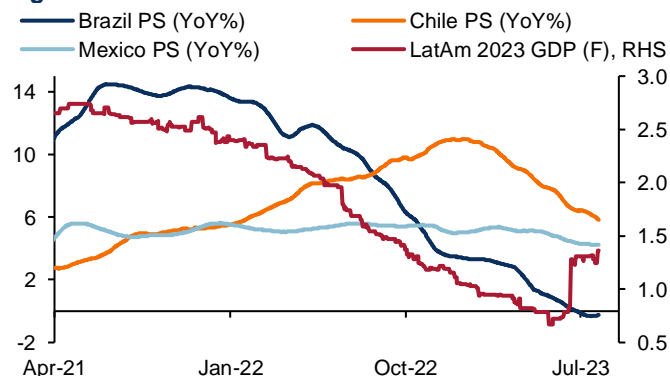
**LatAm.** The LatAm region was the first to lift rates post-Covid after a persistent surge in inflation. It is now the first to benefit from falling prices and has the ability to aggressively cut rates while growth forecasts have recently improved as lower rates should soon feed through to stronger credit and consumption in the real economy (Figure 1). **Chile** was the first to deliver its jumbo rate cut as annual PriceStats reading dropped to 10.9%yoy at the start of the year to 5.75% of late. Although it is well above the upper band of BCCH's 4% target, inflation expectations have turned much lower, which gives comfort for the central bank to continue its rate cut cycle. **Brazil** is in a similar situation to Chile and price momentum looks even weaker according to our PriceStats series. In particular, monthly inflation has been in deflation territory since early June, which has also pushed annual inflation to below 0% for the first time since Covid and ultimately paves the way for Brazil to continue its rate cut cycle. We see the same disinflation backdrop in **Mexico** as inflation expectations are better anchored, while monthly PriceStats indicate 0.27%mom in July, making it the second lowest within LatAm. However, unlike Chile and Brazil, Banxico is still hesitant to cut rates despite much lower price momentum as it continues to mirror the Fed's hawkish stance.

**Emerging EMEA:** This region is far more mixed in terms of its inflationary backdrop as South Africa flirts with disinflation, while Russia has seen a strong rebound in headline inflation on the back of higher oil price, but Turkey looks to be living in its own world. PriceStats indicate that monthly prices in **South Africa** has hovered around 0%mom for more than a month, which translates to 3.3%yoy on an annual basis, one of the lowest across EM. We believe currency appreciation last month coupled with power shortages helped alleviate price pressures, but this is not enough for the SARB to start easing.

**Emerging Asia:** While most EM experienced higher inflationary pressures, **China** was the exception as weak consumption post-Covid and the lack of policy stimulus failed to boost sentiment across the real economy. Both PriceStats China fresh food and supermarket series are firmly in negative with annual readings hitting -2.9%yoy and -3.1%yoy, respectively (Figure 2). We still question why Chinese officials are not acting more aggressively to support growth when the country runs the risk of deflation rather than disinflation. The PriceStats series for **South Korea** has also collapsed of late with annual prices back down to 0.3%yoy, the lowest reading since September 2020. This echoes the weakness in official prices as we see more reasons for the Bank of Korea to cut rates in the second half, especially if lower rates help to lower the Won and boost the competitiveness of Korean exports against other trade partners like Japan and China. All-in-all, we expect LatAm to lead, Asia to follow, but Europe to remain on hold until there's a clear downward shift in prices across the region.

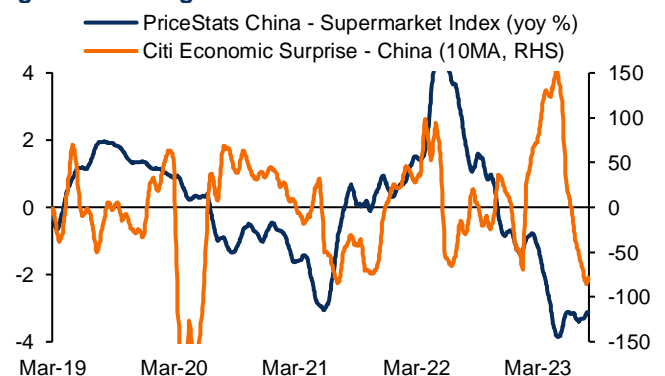
## SPOTLIGHT TRENDS

Figure 1 Goldilocks for LatAm



Source: State Street Global Markets, PriceStats, Bloomberg.

Figure 2 All Negative for China



Source: State Street Global Markets, PriceStats, Bloomberg.

INFLATION TRENDS

Figures 3-7 plot the latest (up to and including 31 July 2023) month-on-month change in various PriceStats aggregates against the average and range seen for the exact same period over the past 10-years where data are available.

Figure 3 Aggregate Inflation, mom %

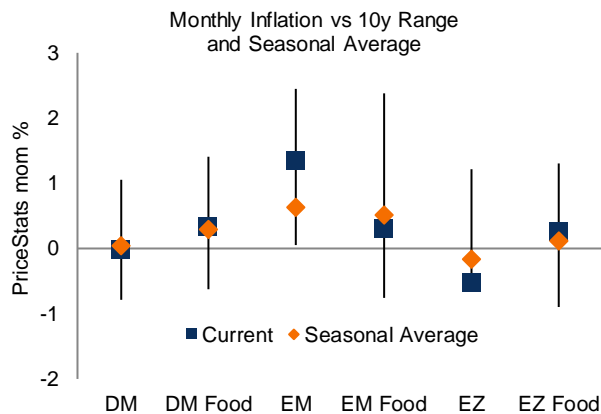


Figure 4 EM country inflation, mom %

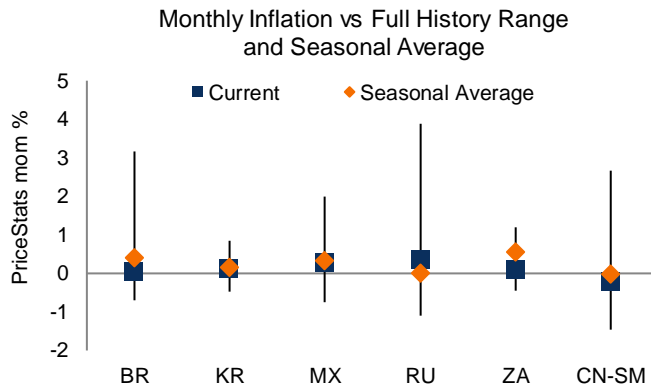


Figure 5 PriceStats EM vs DM, yoy %

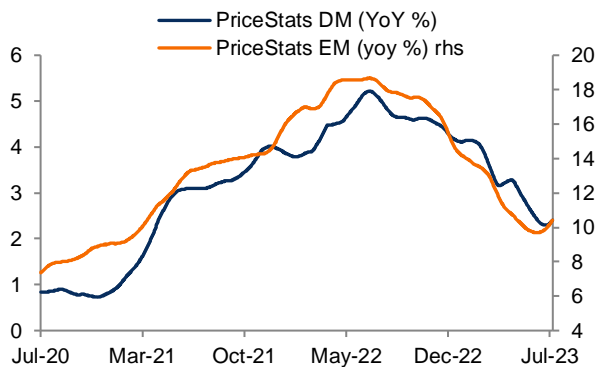


Figure 6 PriceStats EM food prices, yoy % vs official EM food prices, yoy %

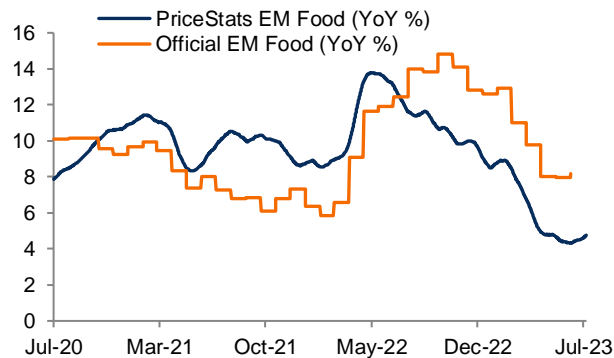


Figure 7 PriceStats EM fuel prices, yoy % vs official EM fuel prices yoy %

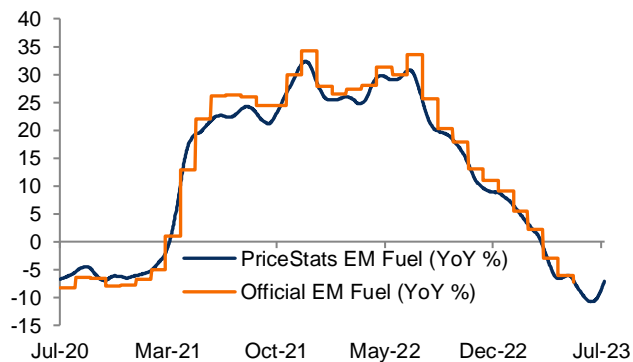
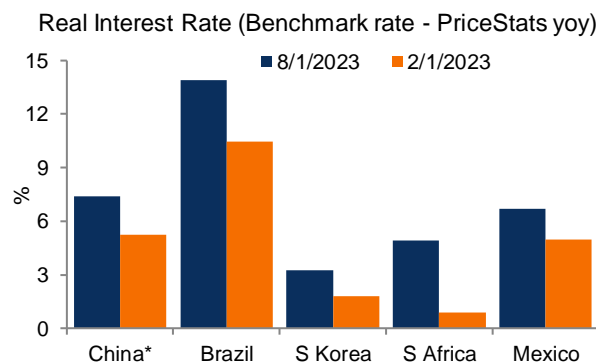


Figure 8 PriceStats real interest rates



Source for Figures 3-8: State Street Global Markets, PriceStats, Bloomberg.

\* China PriceStats is Supermarket prices.

## About PriceStats

**PriceStats** is a source of high frequency inflation information drawn from prices of over five million items sold by online retailers. The items include food, beverages, electronics, apparel, furniture, household products, prescription drugs and over-the-counter medicines. The prices are collated for all the countries we monitor to produce individual Country Inflation Series.

**Country Inflation Series** detect changes in inflation trends with real-time data. We publish the indices with a lag of three business days; they are direct reflections of prices of real products on sale at online retailers in each country. Country Inflation Series are not seasonally adjusted and are not designed to match official data. To provide context, however, Figure 6 and our interactive Country Inflation Series charts on [Insights overlay](#) against the relevant official measures of inflation, in all cases non-seasonally adjusted:

|                     |  |
|---------------------|--|
| Australia           | Australian Bureau of Statistics CPI All Groups Goods Component |
| Japan               | Ministry of Internal Affairs & Communications Nationwide CPI   |
| US                  | Bureau of Labour Statistics CPI Urban Consumers                |
| UK                  | Office for National Statistics EU-Harmonized CPI               |
| Euro zone countries | Eurostat EU-Harmonized CPI                                     |
| South Africa        | Statistics South Africa CPI                                    |
| Russia              | Federal Service of State Statistics CPI                        |
| Brazil              | IBGE IPCA  |
| Chile               | Instituto Nacional de Estadística national CPI                 |
| Colombia            | Departamento Administrativo Nacional de Estadística CPI        |
| Uruguay             | Instituto Nacional de est. de Uruguay CPI                      |
| Argentina           | INDEC CPI  |
| Venezuela           | Central Bank of Venezuela / INE Central Bank national CPI      |

**China Inflation Series** record price trends in the Chinese supermarket sector through two series: Supermarket prices and Fresh Food prices. The Supermarket series tracks prices of all products available for sale in supermarkets while the Fresh Food series (a subset) tracks prices of the food available in supermarkets sector.

**Relationship between PriceStats and published inflation** Research conducted by the PriceStats director, Professor Cavallo, shows that online prices are a successful measure of inflation, despite online price sources being different to those for official inflation estimates (baskets of online goods may not include, for example, services prices). In countries where internet retailing is a small share of transactions, retailers tend to tie their online prices to offline prices in order to minimise costs associated with making pricing decisions. In countries where online transactions have a significant market share, online and offline prices are closely related and online prices may lead offline as the demographic of computer-literate, middle-class, cash-rich and time-poor consumers to which online retailers sell are less price-sensitive than the average consumer. As purchasing habits change, these online price series capture prices and changes in product information and can provide real time information on consumer behaviour. For further details, please [click here](#).

**Out of Stock data:** The Out of Stock Series produced by PriceStats includes large retailers that show an out of stock indicator on their website. The number of retailers with such an indicator is limited. Therefore, the number of retailers used for this series is significantly lower than in the other series and may not be representative of a country's out of stock context. Metrics for the Out of Stock Series may include slight discrepancies from week to week. This is because PriceStats is continually improving their methodology for calculating these statistics and are working on including new retailers in the analysis.

**Disclaimers and Important Risk Information [2023.01]**

This communication is provided only to professional clients or eligible counterparties or their equivalent by State Street Bank and Trust Company or, where applicable and permissible, its bank and non-bank affiliates ("State Street"). State Street Bank and Trust Company is authorized and regulated by the Federal Reserve Board, registered with the Commodity Futures Trading Commission as a Swap Dealer, and is a member of the National Futures Association. State Street Bank International GmbH ("SSBI") is regulated by the European Central Bank ("ECB"), the German Federal Financial Supervisory Authority ("BaFin") and the Deutsche Bundesbank. Details about the extent of SSBI's regulation by the ECB, the BaFin and Deutsche Bundesbank are available from us on request. Products and services described herein may not be available in all jurisdictions or through all State Street entities. Activities described herein may be conducted from offshore. Information provided is of a general nature only and has not been reviewed by any regulatory authority.

This communication is intended for general marketing purposes, and the information contained herein has not been prepared in accordance with legal requirements designed to promote the independence of investment research. It is for clients to determine whether they are permitted to receive research of any nature. Market commentary provided by trading desks is not investment research. This communication is not intended to suggest or recommend any transaction, investment, or investment strategy, does not constitute investment research, nor does it purport to be comprehensive or intended to replace the exercise of an investor's own careful independent review and judgment regarding any investment decision.

This communication is not intended for retail clients, nor for distribution to, and may not be relied upon by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to applicable law or regulation. This communication or any portion hereof may not be reprinted, sold or redistributed without the prior written consent of State Street. This communication and the information herein does not constitute investment, legal, or tax advice and is not a solicitation to buy or sell securities or any financial instrument nor is it intended to constitute a binding contractual arrangement or commitment by State Street of any kind. The information provided does not take into account any particular investment objectives, strategies, investment horizon or tax status.

The views expressed herein are the views of State Street as of the date specified and are subject to change, without notice, based on market and other conditions. The information provided herein has been obtained from sources believed to be reliable at the time of publication, nonetheless, we make no representations or assurances that the information is complete or accurate, and you should not place any reliance on said information. State Street hereby disclaims any warranty and all liability, whether arising in contract, tort or otherwise, for any losses, liabilities, damages, expenses or costs, either direct, indirect, consequential, special, or punitive, arising from or in connection with any use of this document and/or the information herein.

State Street may from time to time, as principal or agent, for its own account or for those of its clients, have positions in and/or actively trade in financial instruments or other products identical to or economically related to those discussed in this communication. State Street may have a commercial relationship with issuers of financial instruments or other products discussed in this communication.

This communication may contain information deemed to be forward-looking statements. These statements are based on assumptions, analyses and expectations of State Street in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes appropriate under the circumstances. All information is subject to change without notice.

Participating in trading any financial instrument, including but not limited to foreign exchange, equities, futures, fixed income or derivative instruments, or investments in non-liquid or emerging markets, or digital assets, or participating in securities lending, repurchase transactions or other collateral services present risks, which may include but are not limited to counterparty, collateral, investment loss, tax, and accounting risks. Where applicable, returns may increase or decrease as a result of currency fluctuations. Derivatives may be more volatile than the underlying instruments. Certain foreign exchange business, including spot and certain forward transactions, may not be regulated in all jurisdictions. Past performance is no guarantee of future results.

Please contact your State Street representative for further information.

To learn how State Street looks after your personal data, visit: <https://www.statestreet.com/utility/privacy-notice.html>.

© 2023 State Street Corporation – All Rights Reserved

**Global Markets Research Disclaimer Supplement [2023.01]**

**Australia:** This communication is provided to wholesale clients by State Street Bank and Trust Company (Australian Business Number 70 062 819 630, Australian Financial Services License 239679).

**Brazil:** The products in this marketing material have not been and will not be registered with the Comissão de Valores Mobiliários - the Brazilian Securities and Exchange Commission ("CVM"), and any offer of such products is not directed to the general public within the Federative Republic of Brazil ("Brazil"). The information contained in this marketing material is not provided for the purpose of publicly soliciting investments from investors residing in Brazil and no information in this marketing material should be construed as a public offering or unauthorized distribution of the products within Brazil, pursuant to applicable Brazilian law and regulations.

**Israel:** State Street Bank and Trust Company is not licensed under Israel's Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 1995. This communication may only be distributed to or used by investors in Israel which are "eligible clients" as listed in the First Schedule to Israel's Regulation of Investment Advice, Investment Marketing and Portfolio Management Law 1995.

**Japan:** This communication is made available in Japan by State Street Bank and Trust Company, Tokyo Branch, which is regulated by the Financial Services Agency of Japan and is licensed under Article 47 of the Banking Act.

**Oman:** State Street Bank and Trust Company is not a bank or financial services provider registered to undertake business in Oman and is not regulated by the Central Bank of Oman or the Capital Market Authority.

**Qatar:** The information in this communication has not been reviewed or approved by the Qatar Central Bank, the Qatar Financial Markets Authority or the Qatar Financial Centre Regulatory Authority, or any other relevant Qatari regulatory body.

**Singapore:** This communication is made available in Singapore by State Street Bank and Trust Company, Singapore Branch ("SSBTS"), which holds a wholesale bank license by the Monetary Authority of Singapore. In Singapore, this communication is only distributed to accredited, institutional investors as defined in the Singapore Financial Advisers Act 2001 ("FAA") and its regulations. Note that SSBTS is exempt from Sections 27 and 36 of the FAA. When this communication is distributed to overseas investors as defined in the FAA, note that SSBTS is exempt from Sections 26, 27, 29 and 36 of the FAA. This advertisement has not been reviewed by the Monetary Authority of Singapore.

**South Africa:** State Street Bank and Trust Company is authorized in South Africa under the Financial Advisory and Intermediary Services Act, 2002 as a Category I Financial Services Provider; FSP No. 42671.

**United Arab Emirates:** The information contained within this communication is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

**United Kingdom:** State Street Bank and Trust Company is authorised and regulated by the Federal Reserve Board of the United States, authorised by the Prudential Regulation Authority ("PRA") and subject to regulation by the Financial Conduct Authority and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

State Street Bank International GmbH is authorised and regulated by the European Central Bank and the BaFin, deemed authorised by the Prudential Regulation Authority, and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorization, are available on the Financial Conduct Authority's website.