



Market Commentary  
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English Version

# Repercussions of food inflation in Latin America

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**Melissa Ochoa Cárdenas**  
 Investment Strategist  
 Insigneo Financial Group

## Repercussions of food inflation in Latin America

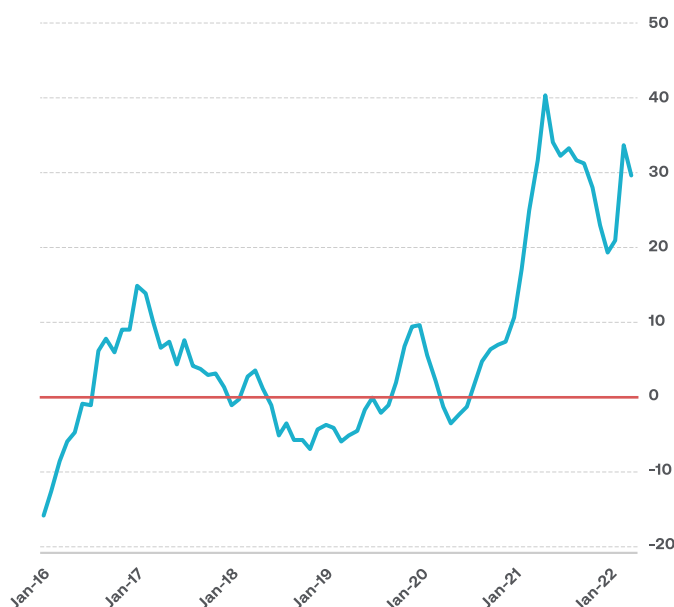
To say this year has been a challenging one for investors would be an understatement. Just as the global economy was starting to recover from the COVID-19 pandemic, unexpected exogenous shocks roiled the world, and forced governments and monetary authorities to change course rather abruptly. Against this backdrop, I will address the Ukrainian conflict’s impact on Latin America through the pressure on food prices.

In Latin America, central banks initially surprised to the downside regarding their monetary policy rate decisions by attempting a more gradual approach. The war has now forced their hand into abandoning this gradualist manner for sharper rate hikes. This arises because supply chain disruptions stemming from the conflict are jeopardizing food stability in the region by causing a surge in food prices.

Against this backdrop, the region witnessed some dispersion in economic growth. Some countries have benefited from the increases in some prices, while others have suffered. This has usually been tied to the country’s specific export/import balance in question. However, the current scenario seems more daunting for the region going forward. To understand why this is so, let us analyze further the inflation panorama in Latin America.

Food prices have experienced an important increase that has had its effects across the region. According to the FAO Food Price Index, which is the average of five commodity group price indices weighted by the average export shares of each of the groups over 2014-2016, since the beginning of the Russia-Ukraine conflict this Food Price Index experienced a 53.34% price increase, whereas the cereals components displayed a ~21% increase in the same period.

**FAO Food Price Index**



Source: FAO

Furthermore, food inflation has displayed a significant increase across Latin America, where the April readings displayed variations in the monthly food inflation print between 2-3% in most countries. This backdrop has also led some, like Mexico, to try and adopt measures to tame food inflation. In line with the self-sufficiency idea that President Lopez Obrador has used for fuels, he now advocates for the country to become more self-sufficient in agriculture by incentivizing the Mexican population to plant its own corn, beans, and rice, while also providing government assistance to farmers and agreeing on plans with private businesses.

In other countries of the region, like Argentina, the situation also looks grim. President Fernandez has been considering imposing higher food export tariffs to curb rising prices, but the measure is unlikely to pass since he lacks support in Congress. It is worth noting that Argentina is one of the world's main exporters of both soy and corn. In March, the government increased export taxes on both soy oil and soymeal and created a wheat stabilization fund aimed at taming domestic flour prices.

A situation just as challenging is seen in Peru, where inflation is at levels not seen since the 90s with some of the biggest price increases stemming from the food and non-alcoholic beverages group. The situation got so onerous that the country has already experienced protests across the nation, to which the government responded by waving the sales tax on food staples and by raising the minimum wage.

Even the world's fourth-largest grain producer, Brazil, is not immune as the country's food and beverage prices increase in April, the highest print in nearly two decades. Aside from the increased food prices narrative, Brazil is also struggling with increments in fuel prices that have undermined the relationship between the government and Petrobras. Nevertheless, the situation could take a positive turn in June, the

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typical start of the harvest season, which should mark a slowdown in price hikes.

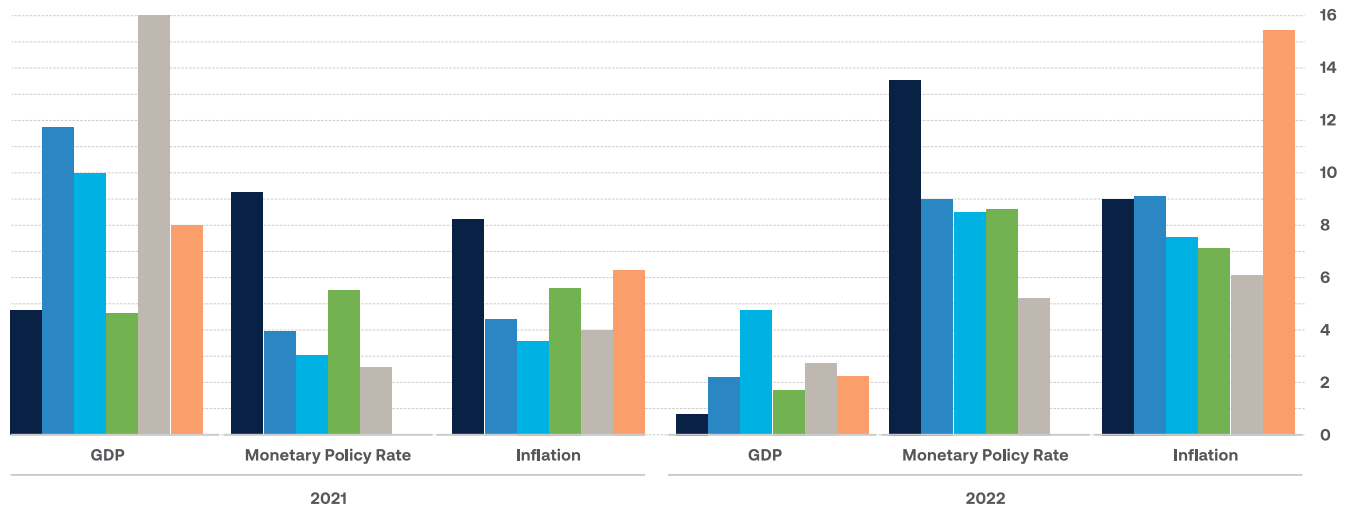
Even if the picture looks grim for most of the Latam countries in terms of food inflation, it is not all bad news. According to a study by the Interamerican Development Bank – IADB –, Latin America and the Caribbean have enough food availability to ensure an adequate amount of calories for the population thanks to increases in domestic agricultural output and interregional trade. Nevertheless, the region is paying 11% more for its food than the average global citizen. Furthermore, the biggest challenge that Latam is facing is how to ensure a stable flow of food production across the region against a backdrop of climate risks that, in turn, affect crops and increase the presence of pests.

According to the same IADB study, one of the possible solutions for the current situation would be to invest in climate-smart agriculture interventions, while also promoting the adoption of technologies that help populations adapt to climate change. This approach is trying to go beyond food availability and instead focuses on food that is affordable for the population, as well as respectful of the environment. This view is still in its infancy and it needs additional government support for it to advance.

### Latam projections

Source: Bloomberg (as of June 1, 2022)

● Brazil ● Chile ● Colombia ● Peru ● Mexico ● Latam



As a consequence of the highly interconnected world, Latin America will not exit this highly volatile period unscathed. It is facing stubbornly high inflation prints, tighter monetary policy rates, and dwindling fiscal stimulus capacity from national governments. The

environment looks daunting for the region, but if some of the central banks are proven correct and they are nearing their terminal rates, then inflation could start receding sooner rather than later, hence bringing some calm into the current storm.

# House Views Matrix

	TACTICAL (UP TO 3 MONTHS)	CYCLICAL (UP TO 12 MONTHS)
US Equities <sup>1</sup>	NEUTRAL	OVERWEIGHT
European Equities	UNDERWEIGHT	NEUTRAL
Japanese Equities	NEUTRAL	OVERWEIGHT
Emerging Market Equities	NEUTRAL	OVERWEIGHT
Chinese Equities	OVERWEIGHT	NEUTRAL
US Treasuries <sup>2</sup>	NEUTRAL	UNDERWEIGHT
Investment Grade Fixed Income	NEUTRAL	UNDERWEIGHT
High Yield Fixed Income	NEUTRAL	NEUTRAL
Emerging Market Sovereign	NEUTRAL	NEUTRAL
US Dollar	NEUTRAL	UNDERWEIGHT
Energy <sup>3</sup>	NEUTRAL	OVERWEIGHT
Precious Metals	NEUTRAL	OVERWEIGHT
Cash	OVERWEIGHT	NEUTRAL

<sup>1</sup> Relative to global equities in USD

<sup>2</sup> Relative to aggregate fixed income markets in USD

<sup>3</sup> Relative to an overall commodity allocation



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