

January inflation exceeded expectations due to a surge in food prices

BBVA Research Argentina

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Summary

January CPI printed at 2.9% m/m (32.4% y/y), above market consensus of 2.4%, while marking the highest monthly reading since the FX controls partial liberalization in April 2025. Food prices surged 4.7% m/m (36% y/y), which represents a 10-month high and accounts for the bulk of the headline upside surprise.

On a positive note, core inflation decelerated slightly from 3.0% to 2.6%. However, this improvement was more than offset by seasonal price dynamics. As this print is likely to reinforce inflation inertia, given that adjustments in utilities and services, wages, and the upper limit of the FX band remain tied to backward-looking indexation, **we revise our 2026 inflation forecast upward to 22%.**

Component analysis

Core inflation was 2.6% m/m (33% y/y), decelerating from 3.0% m/m in December. Conversely, food prices accelerated for the fifth consecutive month, reaching 4.7% m/m (36% y/y) driven by the impact of meat (4.4% m/m) and vegetables (23% m/m). These two categories alone contributed 1 percentage point (p.p.) to the monthly headline figure.

Regulated prices rose 2.4% m/m (34% y/y), showing a significant slowdown from December's 3.3% m/m. Finally, seasonal prices (5.7% m/m, 23% y/y) marked a 10-month high, primarily fueled by the aforementioned spike in vegetable prices.

Postponement of the CPI methodology update

The government has postponed the implementation of the new CPI methodology, which was originally scheduled for this month. The update aimed to refresh the consumption basket used for index calculation, as the current framework applies 2004/05 data. While such reweighting is a standard global practice conducted every 5 to 10 years, the transition remains pending. Although full methodological details were not disclosed, we anticipated a higher weighting for services relative to goods.

Throughout 2026, services are expected to outpace goods in terms of inflation, driven by the realignment of regulated prices (to cut government subsidies) and some currency appreciation in real terms. Consequently, the new weights would have likely resulted in a higher headline inflation figure compared to the previous methodology. Nevertheless, after analyzing various scenarios, we did not expect this change

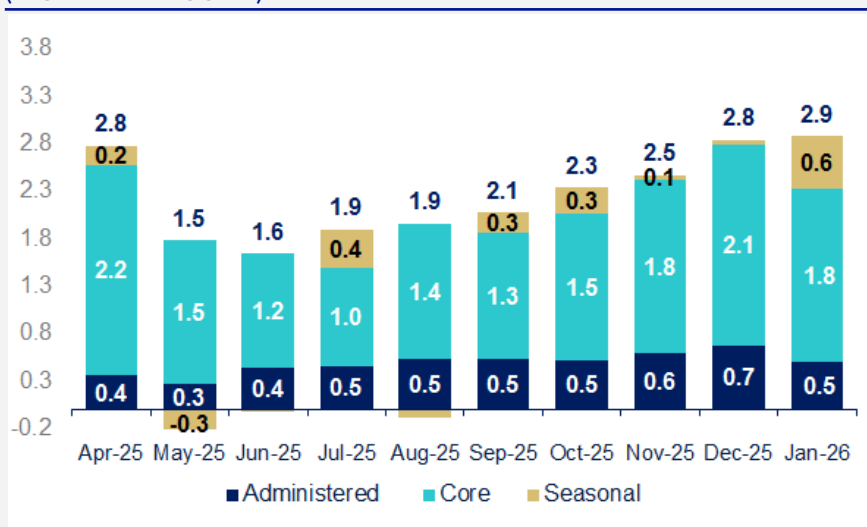
to contribute more than 3 p.p. to the final 2026 print. According to private estimations, January's monthly print would have been lower with the new methodology.

Outlook

The government is focused on disinflation while simultaneously building international reserves. To prevent the liquidity injected by the Central Bank's FX purchases from pressuring the exchange rate or consumer prices, the Government sterilizes the excess pesos by selling bonds and securing above 100% debt rollover rates from the Treasury. To ensure these instruments remain attractive, the government maintains monthly interest rates of at least 2.7%, keeping them positive in real terms relative to market-based inflation expectations.

For February, a series of regulated price hikes have already been announced, which coupled with the aforementioned inertia (already evident in high-frequency price data from early February), establish a floor well above 2% for the coming two months and also complicate the disinflationary path thereafter. Consequently, **we are raising our 2026 inflation forecast from 20% to 22%, noting an upside bias from potential factors such as drought, external shocks, and persistent stickiness in price and contract indexation.** We maintain our view that inflation will continue its downward trend over time provided fiscal and monetary balances are preserved; however, disinflationary processes have historically been non-linear and short-term monthly dynamics may experience volatility.

CONTRIBUTION TO HEADLINE INFLATION (MONTHLY RECORD)



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