War conflict in Ukraine raises commodity prices and exacerbates global inflation concerns

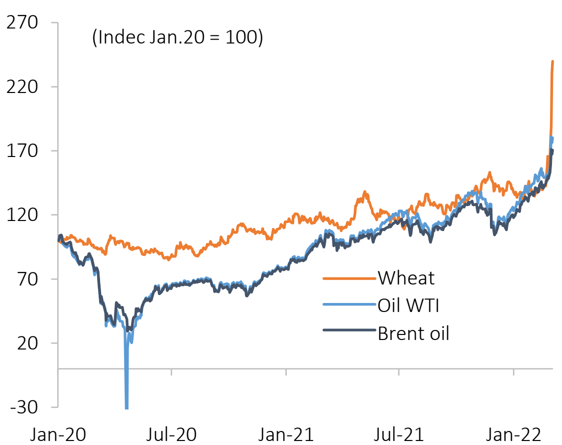
All of the above has translated into greater volatility for the prices of local financial assets.

The Russian invasion of Ukraine shakes the markets and has put pressure on the prices of raw materials. The conflict generates disruptions in the supply of grains - where both Russia and Ukraine are major exporters - and has put the supply of oil at risk, leading to a severe escalation in prices. For its part, the financial sanctions imposed by the West on Russia may not only affect that economy, but also, through different mechanisms, spread to other markets, making a global recession possible at a time when many countries still have not recovered from the pandemic. In this context, stock market indices have suffered widespread declines (MSCI global: -1%), with the Euro Zone standing out, where the Stoxx 50 fell almost 9% since the close of last week. The dollar strengthens (DXY: 1.7%) and risk

The price of wheat rose nearly 60% in the week, while oil rose by more than 20%, far exceeding US$100 a barrel (at the close, WTI was trading at US$108 a barrel, while Brent was at US$ 118 a barrel). This has raised the short- and medium-term inflationary outlook. Even so, long rates have tended to fall substantially (-22 bp), due, on the one hand, to the fact that many investors seek refuge in sovereign fixed income instruments, and, on the other, to the fact that the probability of a quick withdrawal of monetary stimulus by the Fed has been reduced. However, in his last speech before Congress, Jerome Powell anticipated his vote for an increase of 25bp at the Fed meeting on March 15-16 and left open the possibility of higher increases depending on how inflation behaves. .

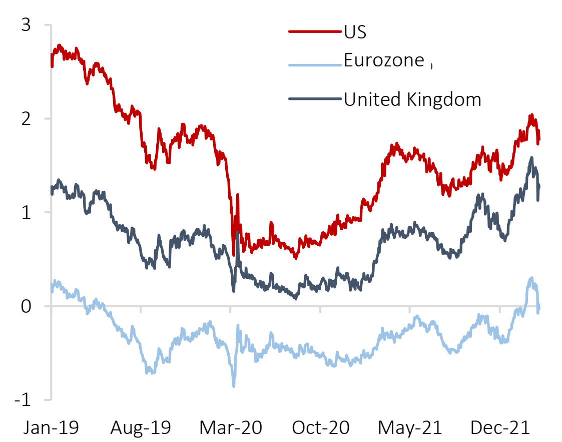
The main economic figures for the week in the US gave, in general, positive signs. On the one hand, the manufacturing ISM for February surprised on the upside (58.6 vs. 58 expected), as well as industrial orders (1.4% vs. 0.7% expected); ADP job creation was also above forecast (475,000 vs. 375,000 expected) and initial jobless benefits were somewhat lower (215,000 vs. 225,000 expected). In Europe, meanwhile, the inflation figures for February exceeded all forecasts and accentuated the upward trend for the remainder of the year (CPI: 5.8% YoY vs. 5.6% expected; PPI: 30.6% YoY vs. 27.3% expected). Finally, in China, the manufacturing PMI and the services PMI remained optimistic in February, although still at levels close to the neutrality threshold.

The conflict between Russia and Ukraine strongly increases prices of raw materials



Source: Bloomberg and Santander

Despite a greater inflationary risk, long rates fall



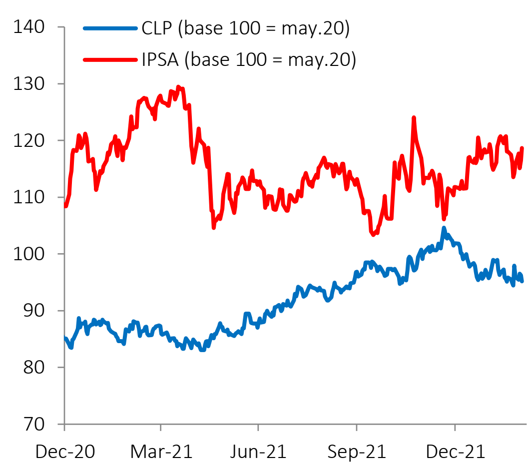
Source: Bloomberg and Santander

Local markets suffer the consequences of international tensions

The prices of local financial assets have had days of great volatility as a result of the geopolitical conflict. The IPSA has presented advances and setbacks as news from the external environment has been known, but closed the week on the rise thanks to the strong increase in the price of copper (4,572 points, 2.4%). The exchange rate, meanwhile, after starting the week with a strong depreciation, reversed and closed with a slight appreciation compared to last week's close ($796). This, in a context where the bets of foreign investors in favor of the peso remain high thanks to high local interest rates. In fact, unlike external rates, local long-term nominal rates show moderate movements, remaining at high levels (BTP5 +10 bps up to 6.2%; BTP10 -10 bps up to 5.7%). On the other hand, UF rates fell significantly (BTU5 -25bp to 1.7%; BTU10 22bp to 1.9%), reflecting higher inflationary expectations in the short as well as in the medium and long term.

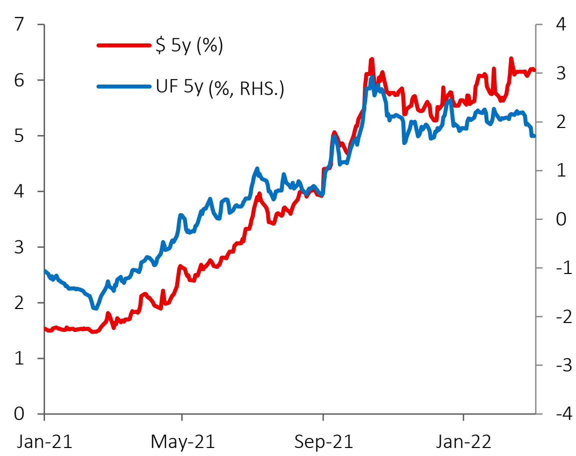
Long-term swap rates tended to fall during the week, especially after January's Imacec was released (9% vs. 10.7% expected by the market), which surprised on the downside. The shorter rates continue to point to relevant hikes in the MPR in the next meetings, but the curve already shows a marked inversion. The inflation data to February that will be known next week will be crucial to define the magnitude of the increase in the MPR in the following meetings. Even when inflation -and medium-term expectations are high-, the weakening of activity at the local level and the risks of the global scenario suggest that the Board should be very cautious in its next moves.

Risky assets present high volatility



Source Bloomberg and Santander

Real rates fall on expectations of higher inflation



Source: Central Bank, RiskAmerica and Santander