Santander

National Accounts figures confirm slowdown in the economy

Despite this, investment surprises with an acceleration in the margin and the current account deficit swells more than expected.

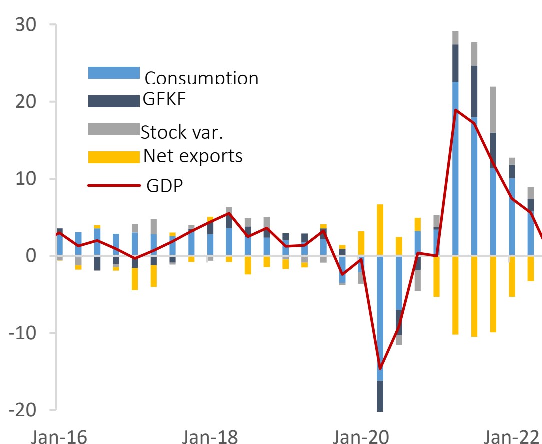
As the Imacec figures anticipated, in the third quarter the activity continued to moderate (0.3% y/y vs 7.4% 2022.I and 5.6% 2022.II), with a significant quarterly drop in the seasonally adjusted series (-1.2% QoQ). Despite this, the level was marginally above what Imacec's published figures indicated. This leads us to reassess our growth estimate for the year, which we have corrected upwards from 2.25% to 2.5%.

On the spending side, the biggest surprise was in gross fixed capital formation (GFKF), where there was a strong acceleration in the margin (4.7% q/q seasonally adjusted, 2.2% y/y), explained mainly due to the component of machinery and equipment (7.6% t/t seasonally adjusted), highlighting those for power generation. Construction also recorded a rebound in the margin (2.9% q/q seasonally adjusted) due to the progress of housing projects. With these surprises –and considering the corrections of previous quarters–, we estimate that the GFKF would have a growth of around 3% for 2022, well above our previous estimate.

Consumption continued to decline, for the second consecutive quarter, at a rate similar to our estimates. The falls in durable and semi-durable components stood out, which was partially offset by the increase in services, which continues to recover towards trend levels. Given the above, we maintain our forecast for consumption of an expansion of around 2.5% in the year.

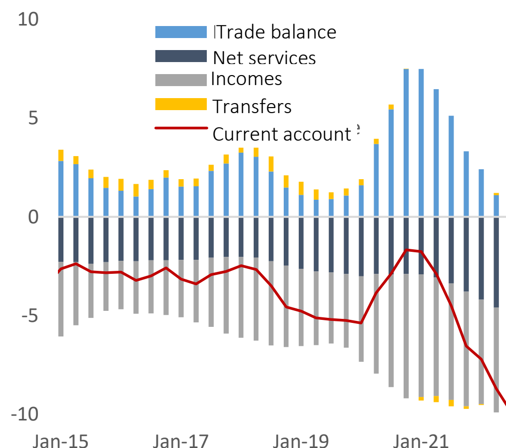
The current account showed a new deterioration in the third quarter, reaching a deficit of 9.9% of GDP in the moving year. Beyond a slight deficit in the balance of goods, the result of the current account was explained by the deficit in the balance of services and foreign income, which remain at historically high levels. The figure for the quarter was much more negative than we expected, so we have revised our projection for the year down to a deficit of 8.5% of GDP. This figure should go down in the coming quarters as domestic spending continues to moderate.

Activity confirms slowdown despite surprise at GFKF



Source: Banco Central and Santander

Current account deficit surprises, with the high level at which incomes remain



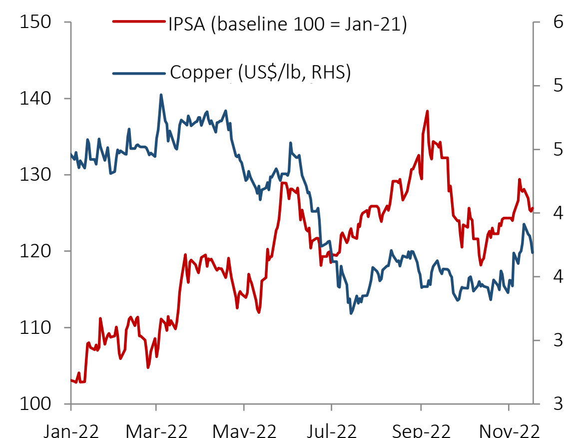
Source: Banco Central and Santander

After an improvement last week, local assets fall again

The renewed hawkish tone of the international context and the poor performance of raw materials negatively affected local risk assets. Such is the case of the IPSA which, infected by the international stock markets, returned to trading below 5,200 points (-3%). Likewise, the exchange rate depreciated 5%, to $936, responding to the weakness of commodities (copper: -6%) and the strengthening of the global dollar. At the margin, the depreciation intensified due to the surprise increase in the current account deficit published today by the Central Bank, transforming the peso into the most depreciated currency in the region during the week.

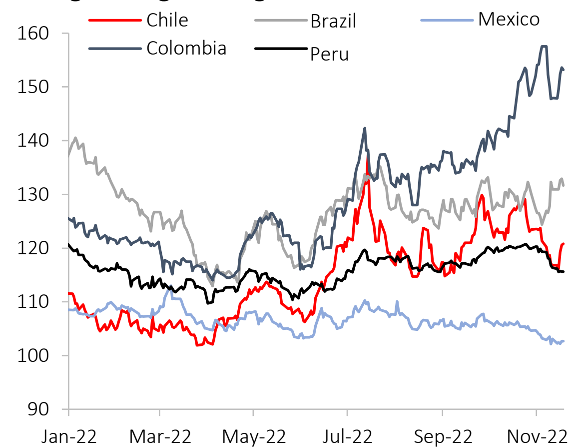
Long-term interest rates – which have accumulated a drop of more than 100 bp in the month – continued to fall for much of the week. The BTP10 reached 5.35%, a level not seen since September 2021, in response to expectations of lower inflationary pressures and a soon start to cut the policy rate. However, most recently they have risen slightly (20 bp).

IPSA is infected by the poor performance of international and commodity markets



Source: Bloomberg and Santander

Emerging currencies depreciate again due to strengthening of the global dollar



Source: Bloomberg and Santander

Pessimism returns to global markets

After last week's rally, following the lower-than-expected inflation data in the US, global markets have experienced a week marked by the resumption of expectations of a still restrictive stance by the main central banks, since spokesmen for the Fed, as well as the President of the ECB, Christine Lagarde, reaffirmed their commitment to combat inflation and dismissed the possibilities of a pause in the monetary adjustment in the short term.

Thus, the international stock indices moderated the previous euphoria and closed the week with mixed movements and a general downward trend (global MSCI: -1.2%). The dollar strengthened in multilateral terms (DXY: 106.5 points), the long-term rates of the main economies fell more than 5 bp on average and raw materials experienced a general decline (aggregate commodity index: -4%) , highlighting the almost 10% drop in WTI oil (US$82/b).

The latest figures released in the US revealed the still latent economic dynamism (retail sales: 1.3% m/m vs 0% previously); a real estate sector slowing down less than expected (construction permits: 1,526 thousand vs. 1,514 thousand expected; new housing starts: 1,425 thousand vs. 1,410 thousand expected) and a labor market that continues to show strength (initial unemployment benefits: 222 thousand vs. 228 thousand expected). All in all, recent evidence suggests that the Fed still has room to continue raising the reference rate ahead of its next meeting in December.

Added to this was the CPI figure for October in the United Kingdom (2% m/m vs. 1.8% expected), which revived inflationary risks by registering a new maximum in more than 40 years, exceeding 11% in annual terms, ahead of schedule (10.7% expected). Meanwhile, the final revision of the CPI in the Euro Zone was in line with expectations, increasing 1.5% MoM, thus taking the annual measure from a previous 9.9% to 10.6% YoY. In turn, a new revision of the GDP of the Euro Zone confirmed the preliminary figure and the slowdown of the economy in the third quarter of the year (0.2% QoQ and 2.1% YoY).

For its part, in China, at the beginning of the week there was some optimism after a new package of measures to help the real estate sector, which was taken as another signal by the authorities to strengthen an economy that continues to show signs of slowdown (industrial production: 5% y/y vs. 6.3% prior; retail sales: -0.5% y/y vs. 2.5% prior).