International markets retreat in the face of a new wave of uncertainty

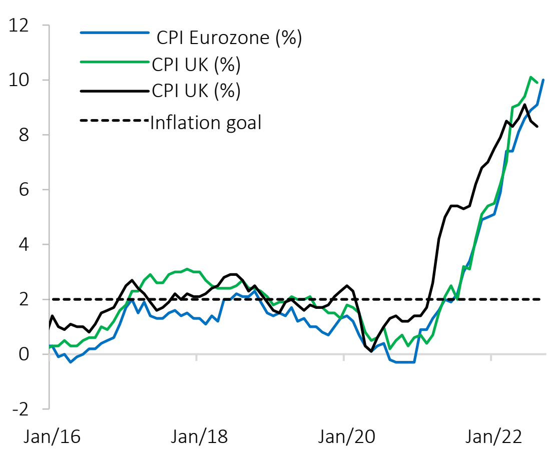
In a turbulent week for financial markets, marked by renewed risk aversion –related to both political and economic issues–, stock indices closed with widespread declines (MSCI global: -2%; MSCI emerging, Latam and Asia: -4 %; US: -1%; Euro Zone: -2%), the dollar reached new highs in multilateral terms and global financial conditions continue to tighten in the face of new figures that show still high inflationary pressures.

At the close of this report, the preliminary CPI for September in the Euro Zone surprised to the upside (1.2% m/m vs. 0.9% expected), taking the annual measure from 9.1% to 10%, which, together with the PCE deflator in the US also above expectations (0.3% m/m vs 0.1% expected; core PCE: 0.6% m/m vs 0% previously). With this, fears of a renewed aggressive stance by central banks were fueled, reinforcing hawkish interventions by various representatives during the week. In the geopolitical field, the tension in Ukraine escalates after Vladimir Putin's speech recognizing four Ukrainian territories as new Russian annexations, all this after more than seven months of conflict.

Thus, the long-term interest rates of the main economies resumed their upward trend (+10bp on average), highlighting the 10-year rate in the United Kingdom that exceeded 4%, rising more than 20bp in the week, this after the announcements of the recent British government of Liz Truss with the proposal of a fiscal plan with strong tax cuts and additional subsidies that the market interpreted as potentially inflationary and fiscally unsustainable. As a result of this, the pound sterling fell close to parity with the dollar and forced the central bank to intervene in the market by buying bonds.

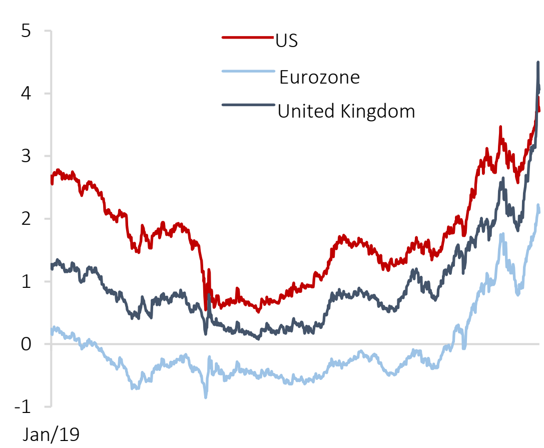
In the US, although the latest annualized GDP reading for 2Q22 stood at -0.6% QoQ, the upturn in household consumption stood out (2.0% QoQ vs. 1.5% expected) which in the figure for August also continued solidly (0.4% m/m vs -0.2% previously). In turn, the labor market continues to strengthen (initial unemployment benefits: 193 thousand vs. 215 thousand expected), clearing the way for the Fed to carry out greater increases in the reference rate. For its part, in China, the manufacturing activity indicators for September gave mixed signals (PMI: 50.1 vs. 49.7% expected; Caixin: 48.1 vs. 49.5 expected), in contrast to the sharp slowdown in services (50.6 vs. 52.4 expected).

Inflationary surprise in the Eurozone exacerbates fears of aggressive monetary adjustment



Source: Bloomberg and Santander

Long term interest rates of principal economies react strongly



Source: Bloomberg and Santander

In this volatile scenario, the local markets closed the week with mixed results. The exchange rate appreciated, returning to levels around $960 helped by the slight recovery in the price of copper and the announcement by the Central Bank of Chile to continue with the renewal of the stock of sales of forward dollars, for the equivalent of US$9,110 million until January 2023. Meanwhile, the weak data on local activity and international trends pushed the IPSA to 5,000 points (-2.6%) and a moderate drop in interest rates in all terms.

Sectoral data from the INE confirm a significant contraction in local activity

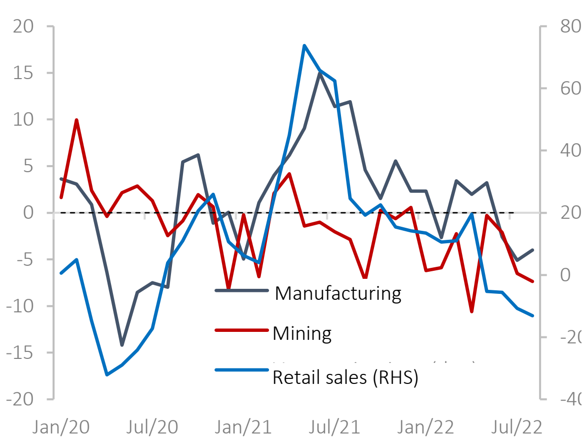
Like last month, industrial production contracted significantly (-5% y/y vs Bloomberg: -3.3%; Santander: -3.9%), with falls in all three sectors: manufacturing (-5 % YoY), mining (-7.3% YoY) and EGW (-0.9% YoY). The manufacturing sector was mainly affected by the manufacture of chemical products (-11.2% YoY), due to the activities of one company in particular; manufacture of common metals (-24.9% YoY), due to lower market demand, and where the drop in the manufacture of non-metallic mineral products (-10.8%) can also be highlighted, a sector associated with construction supplies. In seasonally adjusted terms, this implied a 1.1% drop in manufacturing.

The mining sector, maintaining its previous trend, explains its fall mainly due to copper mining (-9.3% YoY), while, on the contrary, lithium production grows strongly with which non-metallic mining expands almost 30% in a year. Finally, the production of electricity, gas and water (EGW), shows a fall in the three sectors, although the main impact comes from water (-4.8% YoY), due to the lower supply to households.

Retail trade continues to adjust downwards (-1.4% m/m seasonally adjusted), which in annual terms represents a significant fall, although somewhat lower than expected (-13.2% vs. Bloomberg: -13.5 %; Santander: -15%). Similarly to the previous month, 11 of the 12 product lines show falls in the year, where construction materials (-26.8% YoY), electronic products and home equipment (-22.4% YoY) stand out.) and clothing (-22.3%).

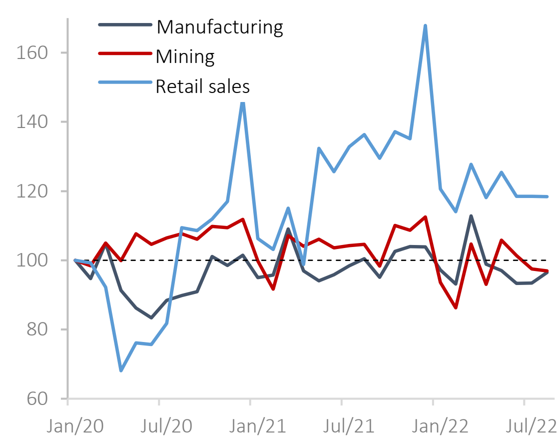
With this background, we estimate that the Imacec for August, which will be published next Monday, will show an annual drop of -1.2%, and a monthly drop of close to -0.5%.

Sectores industriales ratifican contracción de la economía



Source: INE and Santander

Manufactura y minería siguen por debajo de su nivel previo a la pandemia



Source: INE and Santander

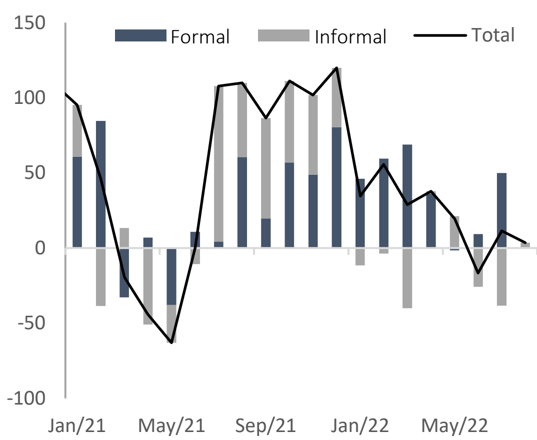
The labor market is stagnant

The data for the June-August quarter show a weak labor market, with scant job creation (only 3.5 thousand). With this, those employed are still below pre-pandemic levels and the employment rate (employed relative to the population of working age) remains 4% below its historical average. This means that today there are about 600,000 fewer people working compared to a normal situation.

In terms of the composition of employment, it is the informal sector that shows almost all of the net job creation (2.89 thousand jobs), while the formal sector remains practically the same as in the previous moving quarter (0.6 thousand jobs) mainly due to a strong destruction of female jobs in the sector (-11 thousand jobs).

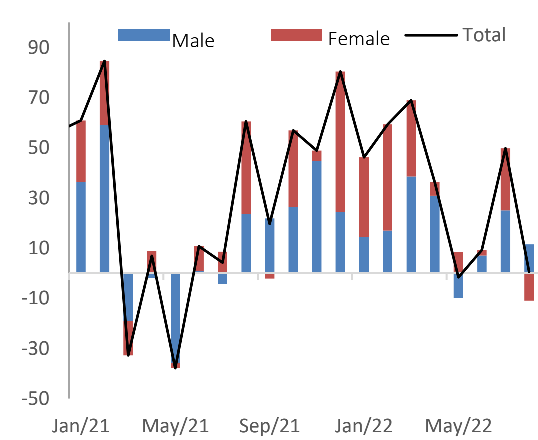
The labor force grew more than the number of employed persons, causing unemployment to remain at 7.9%, when historically unemployment fell in the June-August moving quarter. If the participation rate had maintained the trend it showed prior to the pandemic, the unemployment rate would be above 13%. Thus, the employment deficit in relation to this trend remains above 500,000 jobs.

Casi nula creación de empleos formales…



Source: INE and Santander

…que fue sostenida por hombres, mientras que puestos formales de mujeres se contraen.



Source: INE and Santander

Government announces 2023 fiscal budget

The president announced the guidelines and approaches that the fiscal budget will have for next year, which contemplates a 4.2% increase in spending. This figure is consistent with a deterioration in the structural balance for 2023, which would go from a slightly positive figure to approximately -2.6% of GDP. With this, the effective deficit would be between 3% and 3.5% of GDP, which would lead to a significant increase in gross debt, closing at around 43% next year.

In terms of the composition of spending, there is an emphasis on supporting economic growth, with an expansion of 5.5% in public investment, 9.6% in science and technology, and the creation of 200,000 new jobs. In second place is the axis of public security, injecting more resources into the police. Finally, social security, where the expansion of the PGU would concentrate 60% of the new spending, to which is added the continuation of the Labor IFE, the Guaranteed Minimum Income, the Subsidy Protects and the Protected Basket Bonus, in addition to an increase in the 16% in resources associated with programs for children and adolescents.