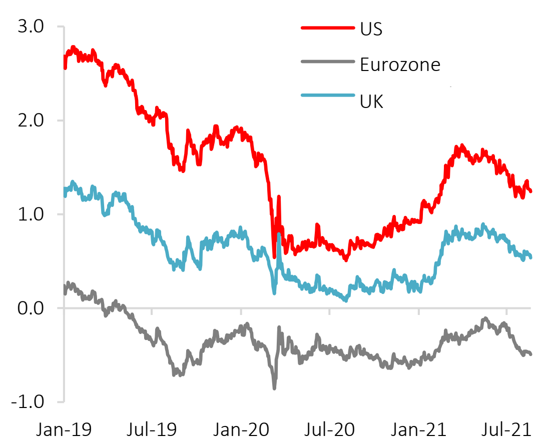
Markets are shaken by the possibility that the Fed initiates withdrawal of stimuli earlier than expected

The minutes of the last meeting of the Federal Reserve of the United States (Fed), published this week, showed that the majority of the members of the Committee are inclined to begin to withdraw the monetary stimulus this year, reducing the rate of purchase of assets. While no specific timing is mentioned, several participants noted that an earlier start could allow room for more gradual reductions going forward. This fueled expectations for possible announcements at the traditional Jackson Hole symposium, to be held next week.

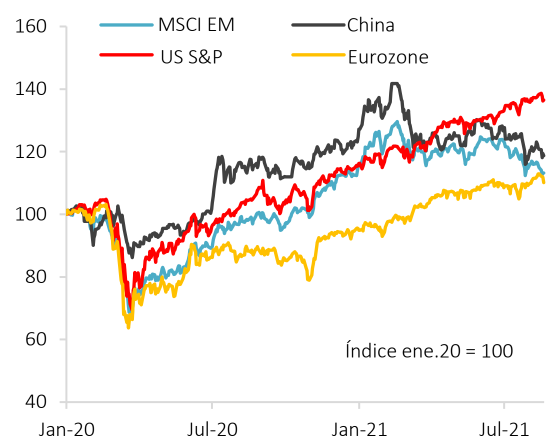
The greater probability of an early start of the withdrawal of monetary stimuli stirred international markets, which closed the week with generalized falls between 2% and 6% (MSCI Global: -2%), a strengthening of the global dollar of 1% and a sharp decline in the prices of the main raw materials (copper: -6% and WTI oil: -7%).

Long term rates continue downward trend



Source: Bloomberg and Santander

Global stock markets suffer from the monetary bias in the US



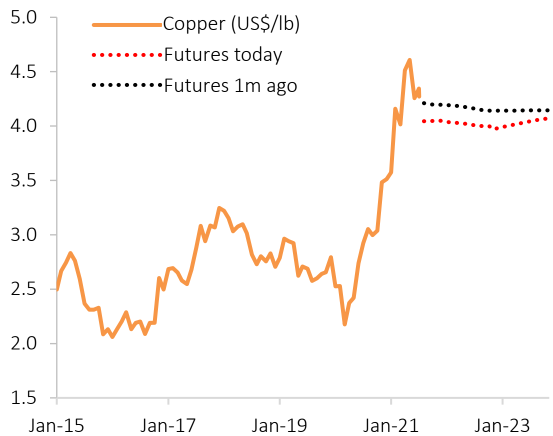
Source: Bloomberg and Santander

Commodities were also affected by new data from China that showed a moderation in both manufacturing and trade during July (industrial production: 6.4% y / y vs. 7.9% forecast; retail sales: 8.5% y / y vs. 10.9% expected), which once again encouraged downward revisions in the growth projections for this year. The Chinese slowdown is mainly due to supply factors: the manufacturing industry has suffered from disruptions in global supply chains and inventory shortages in some inputs, while specific outbreaks of Covid-19 have led to severe mobility restrictions that have affected production.

Although, so far, the new wave of infections globally has not generated a response in the markets, the incipient increase in mortality rates in countries such as Israel and the United States has raised concern.

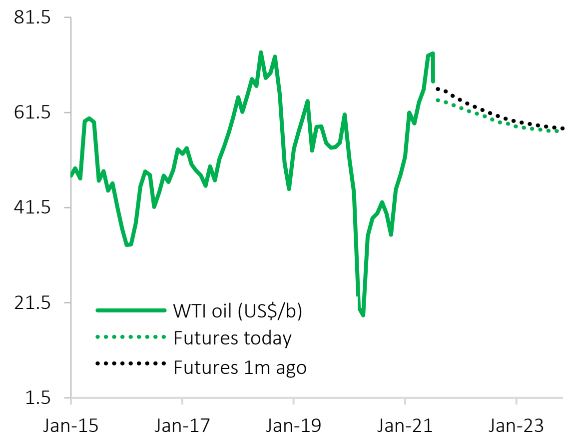
Known economic figures for the week showed some moderation in the US (retail sales -1.1% m/m vs. -0.3% expected; housing starts -7.0% m/m vs. -2, 6% expected). However, the initial unemployment benefits showed a new reduction (348 thousand vs. 364 thousand expected), accounting for an improvement in the labor market. In Europe, the preliminary GDP for the second quarter, in line with expectations, maintained the growth rate observed in 1Q21 (2% q/q; 13.6% y/y). In Japan, the sharp increase in Covid-19 cases led to the extension of the state of emergency in several regions until September 12, which will probably affect their recovery.

The price of copper reaches US$ 4.0 per lb, the lowest level since April this year



Source: Bloomberg and Santander

WTI oil accumulates a fall of 14% in the month, however this continues from a 30% increase from the end of 2020.



Source: Bloomberg and Santander

Local assets follow international markets trends

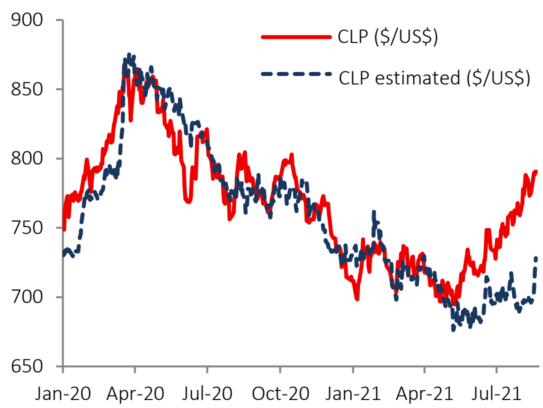
The generalized collapse of the international stock markets impacted the local market, which ended the week falling 1.8%. Likewise, the strengthening of the international dollar and the correction of the copper price once again put pressure on the exchange rate, which averaged $ 788 during the week (+ 1%). Going forward, we estimate that the value of the currency will remain around these levels as long as domestic political uncertainty continues. For its part, the possible materialization of the beginning of monetary normalization in the US could lead to an additional depreciation of the peso.

The returns of the nominal sovereign bonds returned to around 4.8%, accumulating increases of 8 bp in the week. Meanwhile, the indexed bond rates fell, showing the higher inflationary prospects in the medium term, a lower demand for indexed papers and a higher supply due to the placement of sovereign bonds for UF 12 million with terms of seven and nine years.

The recent increase in rates has been driven by the greater dynamism of activity, supported by the fiscal stimulus measures; due to the higher risk premiums associated with the increase in public debt and liquidity premiums due to the lower demand for long papers from institutional investors and the higher offer for Treasury issues.

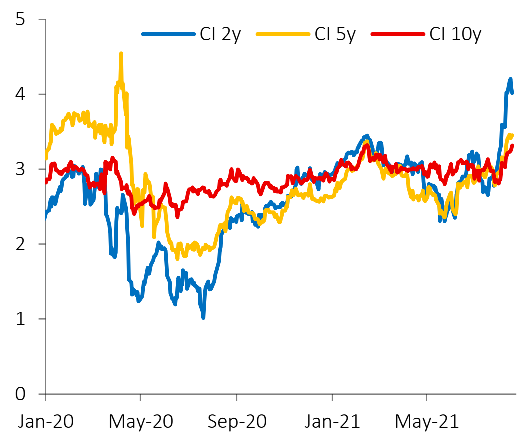
Regarding monetary policy, the better prospects for activity in the short term and the increase in inflationary pressures, due to the dynamism of consumption and a still restricted supply, have raised swap rates (7 bp) which point to successive hikes of 50 bp in the MPR to close 2021 at around 2.25%. Although we consider it probable that the rate increases will be somewhat more limited, of 25 bp between now and the end of the year, due to the still-present risks of possible outbreaks of the pandemic, we do not rule out that the Council will seek to carry out a front loading and aggressively move the rate in the next few meetings, then pause for the next year.

The depreciation of the peso associated to the fall in the price of copper and internal factors



Source: Bloomberg and Santander

Inflation indexed rates fall due to increase in inflationary compensations



Source: Bloomberg and Santander

This year's growth could reach double digits

The GDP for the first semester expanded by around 9% y / y, above the preliminary figures from Imacec, with a significant correction in the second quarter that went from 17.4% y / y to 18.1% y / y. Consumption continued to lead the expansion in the second quarter of the year, driven by purchases of durable goods that once again reached record levels. Consumption of services, for its part, had a slight decline due to quarantines between April and June. Investment in machinery returned to show high dynamism, but construction fell back, widening the gap it maintains with respect to its pre-pandemic levels.

The upward revisions in the GDP of the first semester lead us to estimate that the growth of the year will be located in the upper part of the range of projections of our latest Monthly Economic Outlook (between 9% and 10%). For its part, given the positive evolution of the pandemic, even higher growth cannot be ruled out to the extent that demand remains very dynamic and restrictions on the supply side normalize faster. All in all, the evolution of the pandemic has proven to be highly uncertain and a new outbreak could moderate the rate of opening of lagging sectors. Furthermore, the slowdown in activity in China could be reflected in a weakening of our external sector in the second half of the year.