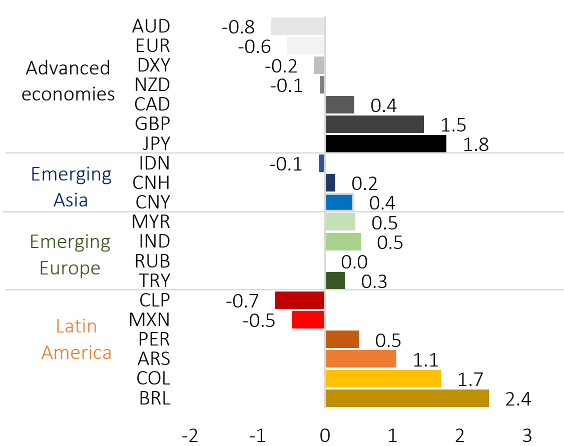
Weakness of the economy would lead to a moderation in rate hikes

The Imacec for July, known this week, showed a strong monthly contraction (-1.1%), with which activity returned to levels close to its trend, this after the overheating observed since the end of last year. Going forward, activity will continue to contract in a context where financial conditions are tight, the labor market remains weak, high uncertainty persists and the external scenario weakens. This will generate capacity gaps that will help moderate price increases.

In addition, the falls in the international prices of raw materials will also help to moderate inflation (according to our estimates, the prices of gasoline will begin to fall in the second or third week of October). In this way, even when inflationary expectations remain high (the latest EOF —prior to the Imacec data— suggests that two-year inflation will be at 5.25%, above the 4.75% of the previous survey) It is likely that, in its next RPM, the Central Bank Council will moderate the hikes in the MPR and increase it by 50bp. This is somewhat lower than the market consensus based on the latest EOF (+75 bps) and swap rates. However, the intense exchange rate movements after the results of Sunday's plebiscite could alter this decision.

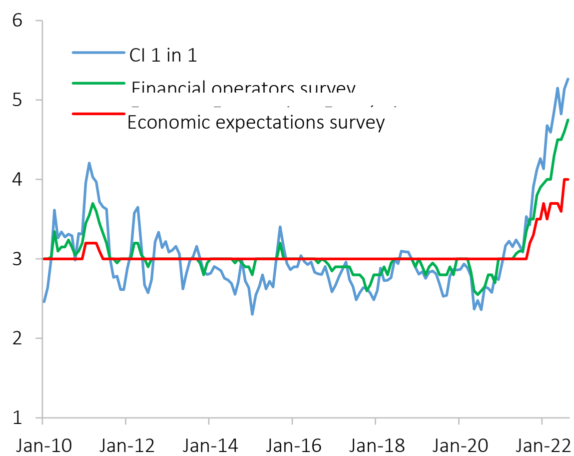
Local assets have shown strong variations during the week, closing with limited gains and with a clear decoupling from international markets that ended lower. Although part of the volatility is due to the different views on the results of the plebiscite of the constitutional proposal, the weak economic data also affected the valuations. The exchange rate closed the week with a notable appreciation that led it to trade below $880 (-0.7%), unlike the cross-sectional depreciation of emerging currencies. This despite the gradual fall in the price of copper to US$3.5 per pound (-6%). The stock market, meanwhile, exceeded 5,480 points (0.4%) and interest rates showed moderate declines (swap rates and benchmark rates: -15bp).

The local currency decouples from emerging peers.



Source: Bloomberg and Santander

Inflation expectations increase again



Source: Banco Central and Santander

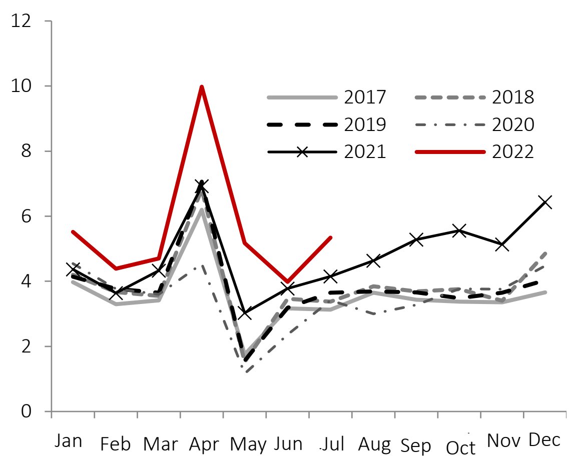
Lithium exploitation contracts benefit fiscal coffers in July

Tax revenues grow strongly in July (+28.7% real YoY) mainly explained by the increase in property income (2344% YoY real, 17% of revenues for the month) from the contract entered into between CORFO and SQM and Albemarle for the exploitation of lithium. The foregoing makes these revenues extraordinary. On the other hand, tax revenues showed an annual variation of 18% and represented 72% of revenues for the month, mainly due to the strong increase in revenues from monthly pension payments (61.1% m/m real), which offset the drop in VAT revenues (-5.7% YoY in real terms) due to lower trade activity in the month and high inflation.

As of July, the accumulated collection represents 66.5% of the income projected in the 2Q FIP. As a reference (on average between 2014 and 2019) the accumulated collection to July represents 58% of annual income.

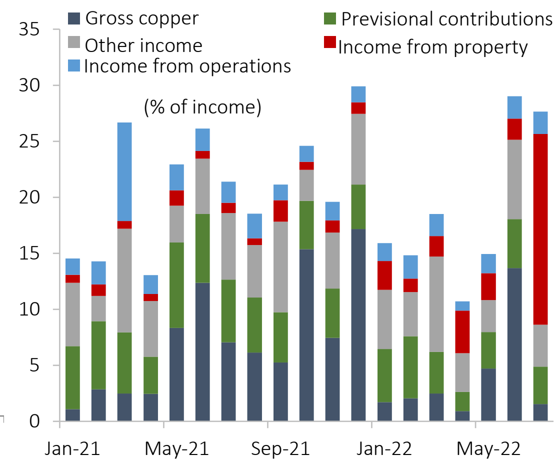
With this, the estimate of the deficit drops to 0.1% of GDP, remaining in line with the estimates of the 2Q FIP.

Fiscal income grows strongly in July



Source: Dipres and Santander

Non-tax income of July explained by property income



Source: Dipres and Santander

Energy crisis and outbreaks of the pandemic accentuate recessionary fears for the global economy

The S&P Global Manufacturing PMI for the Eurozone in August reached its lowest level in 26 months, with 49.6 points (49.7 expected, 49.8 July). According to the report, new orders decreased considerably due to weak demand conditions after the deterioration of purchasing power in Europe, this as a result of high inflation.

Likewise, manufacturing activity in China fell again in August (PMI Caixin index fell from 50.4 points in July to 49.5 in August), descending to a contraction zone, due to the power cuts that caused the temporary closure of factories in some parts of the country. Meanwhile, concerns persist about the measures implemented to curb the outbreak of coronavirus. This week the confinement of the city of Chengdu, with 21 million inhabitants, was decreed to tackle what local authorities described as "an extremely complex and serious pandemic situation".

In the US, the manufacturing sector held steady in August, supported by a rebound in employment and new orders, while further easing of price pressures reinforced expectations that inflation is likely to have peaked. The ISM Manufacturing PMI came in at 52.8 points, unchanged from July, and beating expectations of 52 points. For its part, the prices paid by the manufacturing sector slowed down significantly with an index reading of 52.5 points compared to 60 in July, given the fall in the price of raw materials. In the labor field, jobs grew by 315 thousand positions in August, exceeding expectations (300 thousand expected, 526 thousand July), while the unemployment rate increased to 3.7% (3.5% expected, 3.5 % previous).

All in all, the main international stock markets posted further losses (S&P500: -1.2%). The dollar weakened 0.2% (DXY: 109 points) and long rates maintain their upward trend, reaching 3.2% (+17 bp) in Q10 of the US.

What's coming

Next Tuesday, September 6, the RPM for September will take place, where we anticipate that the Central Bank Council will raise the MPR to 10.25% (+50 bp). On Wednesday the 7th, the Monetary Policy Report will be presented, where we do not expect to see important adjustments in the activity scenario for this year (range 1.5%-2.25%), but a downward correction for next year with a midpoint around -1%. Inflation projections should be corrected upwards both for the end of this year (June Report: 9.9% in December 2022) and for the next (June Report: 2.7% Dec/Dec 2023).