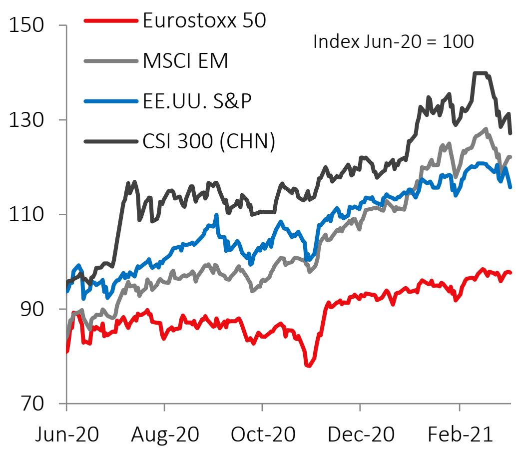
Rates continue to rise, but markets recover slightly with improving economic activity figures

During the week the positive trend in benchmark rates continued globally, in line with the better economic recovery perspectives and higher inflationary pressures. The Fed Chairman Jerome Powell insisted once again that the expansionary monetary policy rate would remain for a prolonged period due to the weakness in the labor market, and that the eventual increase in inflation would not be an issue. However, 10-year Treasury rates continued to rise and reached maximums in the last twelve month up to 1.75% at the close of this report.

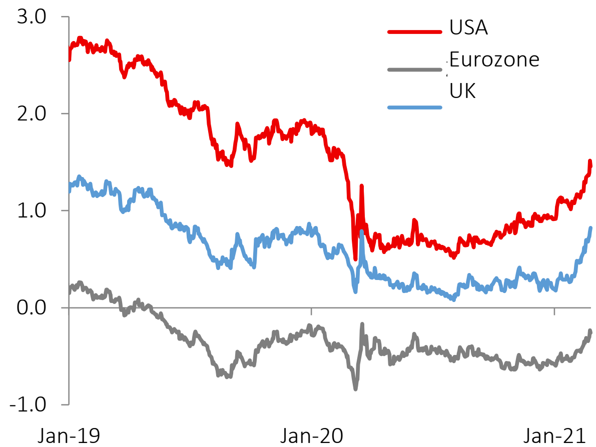
In this context, risky assets in the principal markets had mixed results, after a strong fall in the previous weeks. The rates in emerging markets increased 1%, while global markets decreased by the same amount. In the United States, the principal indexes closed the week at stable levels and the Eurozone had a strong advance of 2%. On the contrary, the Chinese stock market continues to decline (-1%) pushed by weaker economic activity data.

Stock markets show mixed results



Source: Bloomberg and Santander

Long-term rates in the main economies continue positive trends and USA reaches maximum in the year



Source: Bloomberg and Santander

The economic indicators known in the last days reaffirmed the positive outlook in the global markets. In the United States, the Beige Book with district level indicators including the labor market numbers showed positive news, highlighting less unemployment benefits at the end of February, a growth in industrial and durable goods orders around 3% in January and higher-than-expected job creations (379,000 vs 200,000 expected). PMI and SMI numbers also surprised on the upsides in all of its components, positioning itself on positive territory.

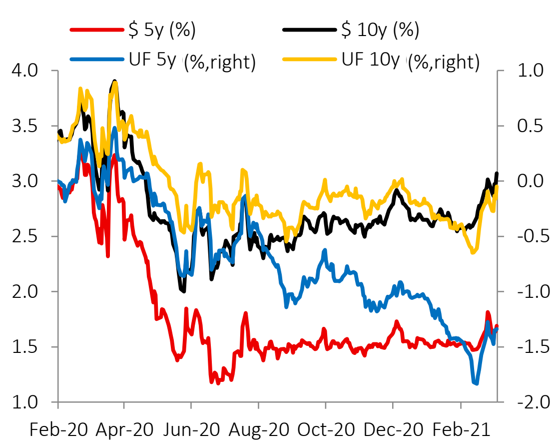
In Europe, inflationary figures were in line with expectation and the less unemployment (8.1% vs 8.3% expected), partly compensated the negative numbers from the retail sector which contracted 6.4% YoY in January. In China the PMI indicators were below market expectations and were dangerously close to reach pessimistic levels, putting a brake on the rising prices of commodities. Copper prices receded in the week and reached below US$4/lb, although at the close of this report this trend was reverting, ending the week with a contraction of 1%.

The OPEP and a group of other producers, including Russia, decided to maintain the oil production cuts, which should be over starting April. This pushed oil price and reached the maximum value since April 2019, around US$65/barrel.

Local financial asset show mixed results during the week

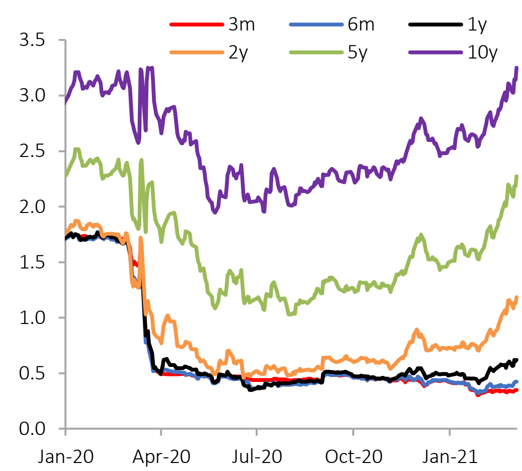
The benchmark rates for fixed income continued an upward trend, although at a slower pace, in the context of new international rate increases. The evolution of local rates reflect also the moderation of expectations of economic recovery, after the Imacec disappointed at the beginning of the week and there was an important acceleration in the number of coronavirus cases. The swap rates in the medium term also continued to rise, pointing towards a more restrictive monetary policy during this year.

Rates moderate rising trend, in the context of increasing international rates



Source: BCCh, RiskAmerica and Santander

Swap rates maintain the rhythm of growth

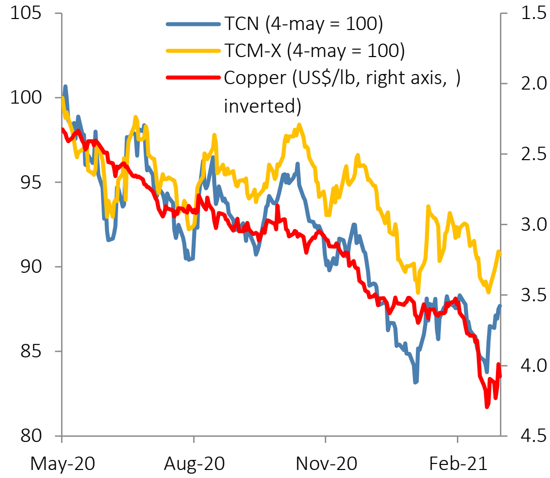


Source: RiskAmerica and Santander

The moderation in rate increases and the adjustments in the portfolios favored the local stock market. The IPSA began to rise once again in full force (3.6%), being one of the indexes with significant increases.

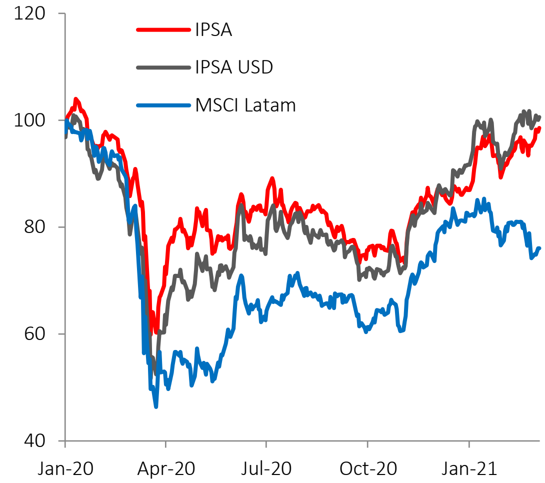
The Exchange rate, for its part, had an important correction on the up side, with a depreciation of 1.4% during the week – today reaching levels of $734 per dollar, the highest level since February 10th past. This trajectory is in line with the global appreciation of the dollar (-1.1% DXY index) and the moderation of the copper price increases (-0.5%).

Exchange rate depreciated in line with global movements of the dollar and adjustments in the copper Price



Source: BCCh, Bloomberg and Santander

Stock market continues to rise



Source: Bloomberg and Santander

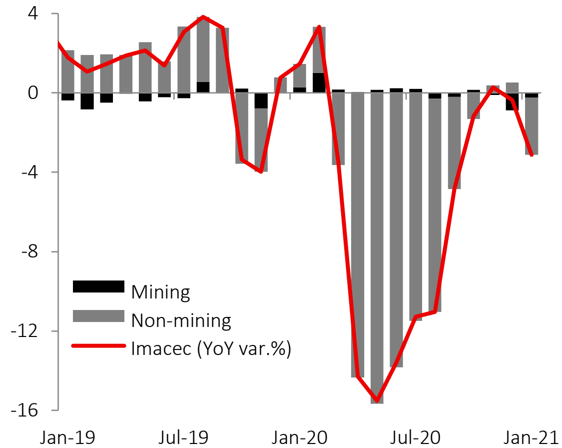
January Imacec surprises downwards, but activity continues to show recovery signs

The first Imacec of the year was below expectations (-3.1% vs -2.5% Santander), but seasonally adjusted showed an important advance compared to December (1.3% MoM) and reached an activity level very close to pre-pandemic levels. By sector, the figures show that Services continue to lag (-6.3% YoY), being the main reason for the low aggregate dynamism. The component "rest of goods" – which includes Construction, Agro and Fishing – fell in a relevant manner compared to the previous month and is still well below pre-pandemic levels. Commerce, on the other hand, maintained a high level of dynamism (+8.8% YoY) driven by the second pension fund withdrawals which brought abundant liquidity to households.

For February, we estimate that activity will have had a moderate fall compared to the previous month. Commerce could become more resented as the impact of the second pension fund withdrawal dissipates and the sanitary conditions – that have slowed down the advance of higher mobility – will affect the performance of some services and construction. This, added to a high comparison base, leads us to estimate a contraction of activity close to 2%.

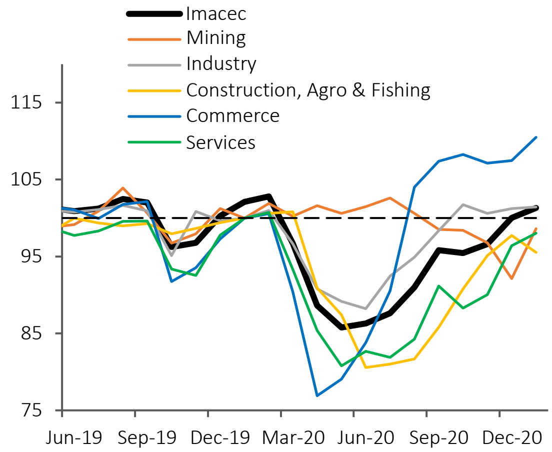
The final confinement measures announced during the week imply that over 80% of the national population is under Phase 2 or under full quarantine. Because of this, in March we should continue to see a decline in mobility and in consequence, a slower dynamism in services and activity. However, the growth of the Imacec will be positive given a low comparison base.

Jnuary Imacec contracted YoY, more that our previous estimates …



Source: BCCh and Santander

…however, activity reach pre-pandemic levels, with a very dynamic Commerce sector



Note: Series seasonally adjusted (Jan-19 = 100)
Source: BCCh and Santander

On the other hand, the INE announced in January that wages had a nominal increase of 1.1% compared to December, in line with seasonal trends. The indicator implies a real variation of 1.1% (4.2% nominal), similar to the previous months. Although these results indicate that wages by hour in the formal sector have not been affected by the pandemic, there is an impact in total income of these workers. In effect, the same survey shows that total hours by worker have decreased 2.4% in the last twelve months, driven by a 21% fall in extra hours.