Despite the rejection of pension fund withdrawals, local asset prices fall

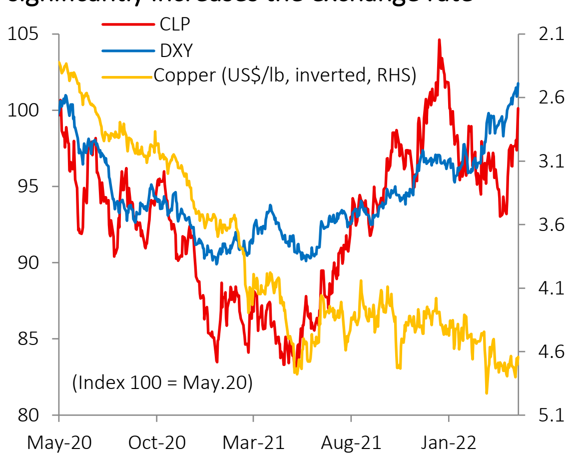
A more hawkish view by the Fed strengthens the dollar and raises international interest rates again, putting pressure on domestic assets.

Last Monday, in a marathon day, the Chamber of Deputies rejected the two initiatives for new withdrawals from pension funds. The parliamentary motion that proposed the withdrawal of up to 10% of the funds – similar to previous proposals – had 70 votes in favor, without achieving the minimum of 93 to be approved. In as much, the project of the Executive - that limited the use of the funds for the payment of debts obtained 68 votes in favor (of 78 necessary). With this result, in principle, a similar project could not be processed for at least a year.

Tras el rechazo, el mercado tuvo movimientos acotados. Las tasas de interés se mantuvieron estables, excepto el BTP5 que cayó 19 pb (6,6%) y la bolsa que volvió a acercarse a los 5.000 puntos (0,9% el día posterior). No obstante, los movimientos de activos internacionales, tras las expectativas de alzas de tasas más agresivas por parte de la Fed, se han trasladado a los mercados locales. El dólar subió a nivel internacional y en Chile lo hizo en $21 llegando hasta los $837, todo esto en un contexto de mayor debilidad del precio del cobre (-1,7%). La bolsa cayó 29% medida en dólares, en tándem con los países de la región. En tanto, las tasas de interés de largo plazo subieron fuertemente, en línea con las tasas internacionales, cerrando el BTP10 en 6,7% (+18 pb en la semana), nivel no observado desde octubre de 2021.

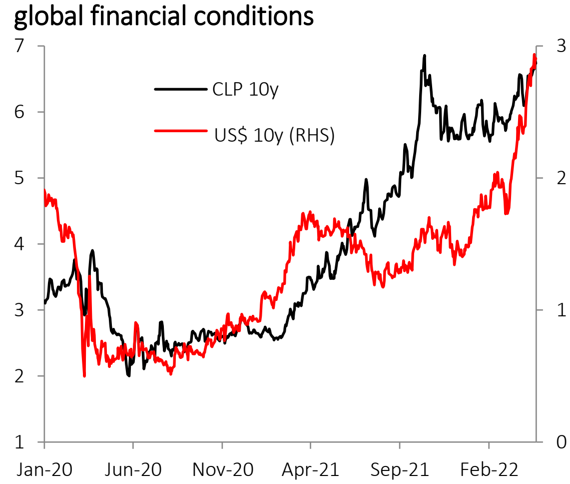
After the rejection, the market had limited movements. Interest rates remained stable, except for the BTP5, which fell 19 bp (6.6%) and the stock market, which returned to 5,000 points at closing (0.9% the following day). However, movements in international assets, following expectations of more aggressive rate hikes by the Fed, have been transferred to local markets. The dollar rose internationally and in Chile it did so by $21, reaching $837, all this in a context of greater weakness in the price of copper (-1.7%). The stock market fell 29% measured in dollars, in tandem with the countries of the region. Meanwhile, long-term interest rates rose sharply, in line with international rates, closing the BTP10 at 6.7% (+18 bp in the week), a level not seen since October 2021.

Strengthening of the dollar internationally significantly increases the exchange rate



Source: Bloomberg and Santander

Interest rates increase in response to tighter global financial conditions



Source: Bloomberg, RiskAmerica and Santander

Global Financial Conditions Tighten and Global Growth Outlook Adjusted Down

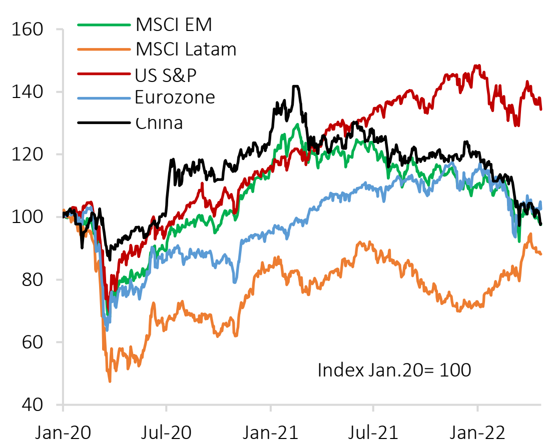
The war in Ukraine, the outbreak of contagion in China and the global rise in prices have continued to mark the international agenda, so the markets continue to be subject to high volatility and reductions in growth projections continue. Inflation, meanwhile, continues to climb.

During the week, the IMF released its new World Economic Outlook (WEO) report, in which it confirmed a slowdown in global activity from 6.1% in 2021 to 3.6% in 2022 and 2023. This is 0.8 and 0.2 percentage points less for this and next year than what was projected in January, with Russia's invasion of Ukraine being the main reason behind said correction, due to the expected propagation of the shocks that add pressure on the prices and exacerbate political challenges. This is in line with previous reductions by the World Bank and the OECD (around 1% less growth by 2022).

Although the future prices of raw materials have fallen during the week (copper: -2%; WTI and Brent oil: -4%; wheat: -3%), inflationary pressures remain high and constitute the main reason for concern for the monetary authorities. Statements by the Fed and ECB presidents at the IMF's spring meetings made it clear that the path of prices will largely determine how aggressively stimulus is withdrawn this year. Powell confirmed that a 50 bp increase will be an option at the next meeting in May, while Lagarde maintained her cautious stance, without committing any specific amount or term of hikes (although the vice president –Luis de Guindos– already advanced a more hawkish stance in this regard after mentioning the possibility of the first increase in the reference rate in July).

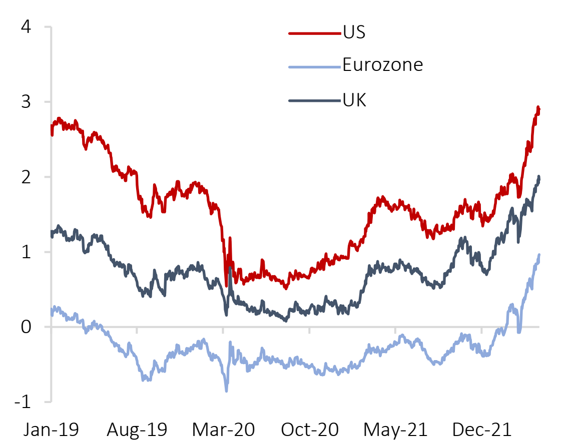
Thus, the stock indices closed a volatile week reversing the initial gains (global MSCI: 0.0%; emerging: -2.3%; Latam: -0.7%; USA: -1.1%% and Euro Zone: -0.1%), amid a new strengthening of the dollar that took the DXY index above 101 points and greater risk aversion (VIX: +1 point). Long-term rates in the main economies rose almost 10 bp, with T10 in the US approaching 3%.

Stock markets reversed initial advances in a highly volatile week



Source: Bloomberg and Santander

Increases in long term interest rates strengthen in reaction to the expected tightening of monetary policy



Source: Bloomberg and Santander