Inflationary surprises in Chile and the US affect the markets

The market anticipates more drastic increases in policy rates for next March's meetings.

In the most anticipated data of the week at an international level, inflation in the US surprised on the rise with 0.6% (0.4% expected), increasing to 7.5% in twelve months, a new maximum since 1982. The record was driven by significant increases in food (0.9%), electricity (4.2%) and gasoline (9.5%). Core inflation also rose 0.6% in the month, reaching 6.0% for twelve months, which accounts for the acceleration of inflationary pressures.

The increase in prices in the US has reinforced the view of analysts that a drastic adjustment of rates by the Fed is necessary, without ruling out that a period of hikes with 50 base points will start at the next meeting on the 15th and 16th. Added to the foregoing are statements by monetary authorities indicating that they have reinforced their hawkish view of the evolution of rates.

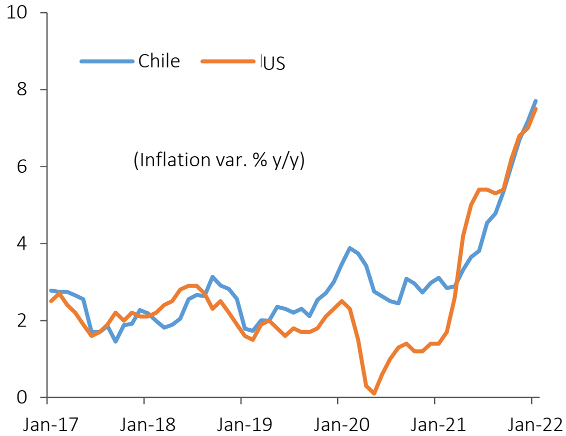
Stock markets reacted by deepening their decline (S&P: -1.6%); the dollar strengthened at the beginning of the day, but reversed its advance closing flat (DXY: 95.5), and bond rates accentuated their upward trend, taking T10 to around 2%, a level not seen since 2019.

Similarly, in Chile, the inflation data for January surprised with a monthly variation of 1.2%, more than doubling what was expected by the market, reaching 7.7% annual growth. The transportation and food divisions explained 60% of what was registered in the month. This strong adjustment is also observed in the core measures of the CPI, where the monthly variation of the non-volatile and SAE components were 1.2% and 1.1%, respectively. The foregoing accounts for the momentum that domestic demand still maintains, the price of the dollar (despite the drop in January) and base effects that make inflation more persistent.

The surprising inflation record drastically increased the expectations of a rise in the Monetary Policy Rate (MPR) both for the next meeting on March 29 (MPR: 7%, +150 bp), and for the following meetings, anticipating levels around 8.5% until the end of 2022. In line with the higher CPI, short-term nominal rates rose 120 bp in the week (BTP2: 7.3%) and UF rates fell 30 bp (BTU2: 1.1 %). Meanwhile, long-term rates presented more limited movements associated rather with the upward trend of international benchmarks.

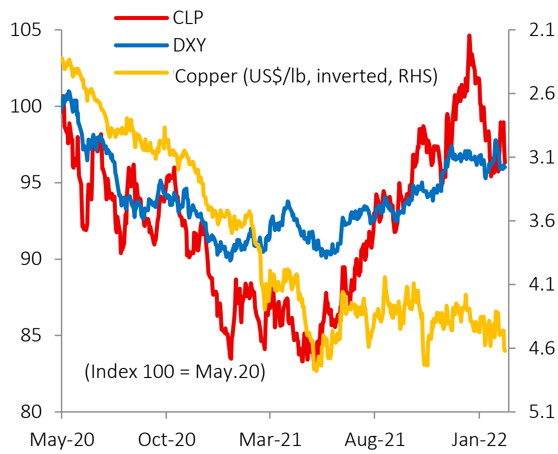
For its part, the exchange rate exhibited a significant fall to $805 (-$22), trading temporarily below $800, reflecting not only the expectations of a higher policy rate, but also the decisive advance of the price of copper that exceeded US$ 4.6 per pound, pressured by low inventories, the closure of smelters in Europe and China and the better prospects for demand, all this due to the rigidity of a supply that is unable to respond adequately in the short term.

High CPI in January drastically increases expectations of greater monetary policy…



Source: Bloomberg and Santander

…which, together with increases in copper prices, has pushed the Exchange rate down.



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