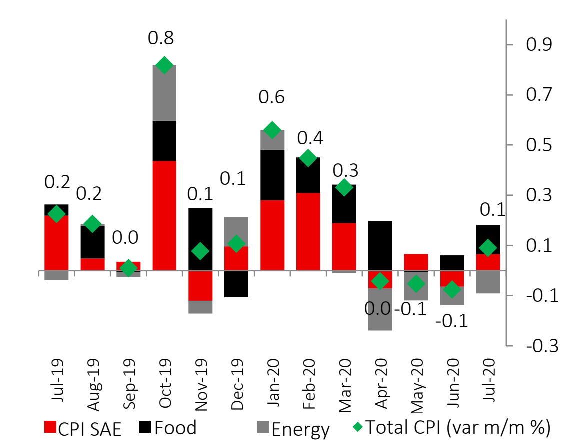
The CPI in July (0.1%) shows that inflationary pressures remain contained

Although the variation in the CPI was somewhat higher than that estimated by the market (Santander: 0%; Bloomberg: 0.1%; EEE: 0%; EOF: 0%; forwards: 0%), the downward trend continues for the annual variation (2.5% vs 2.6% in June). Excluding food and energy, inflation fell to 1.8% YoY, below the Central Bank's tolerance range. As has been the trend throughout this contingency, the National Institute of Statistics (INE) clarifies that it has had to allocate 27.5% of the prices. This percentage is considerably lower than in April, but it is still very high compared to historical patterns.

The decrease in inflation has been marked by the slowdown in service prices, the annual variation of which fell to 1.5%. Although these prices have been moderating for a long time, the pandemic has generated sharp falls in several of them. On the contrary, food values have risen significantly, reaching an annual variation of 6.8%.

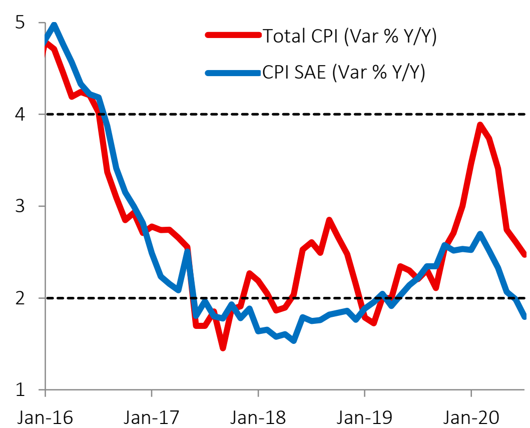
Going forward, we foresee that there may be a certain acceleration in prices due to the strong stimulus from demand caused by the withdrawal of funds from the pension funds (AFPs). On the other hand, the recent appreciation of the exchange rate will contain part of the possible increases. Although this week the peso lost some value, closing at $ 782 per dollar, it is still well above its levels of a few months ago and it is possible that it will remain more appreciated for some time. Thus, for now, we estimate that the additional pressure on the CPI will be limited, between 0.1 pp and 0.2 pp in the coming months. With this, we **project that inflation will close the year somewhat over 2%.**

The CPI increased 0.1% in July, after three months of negative records



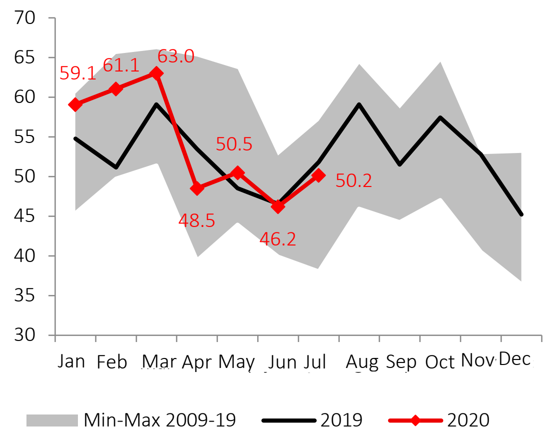
Source: INE and Santander

Inflation continues to lose ground and stands at only 2.5%



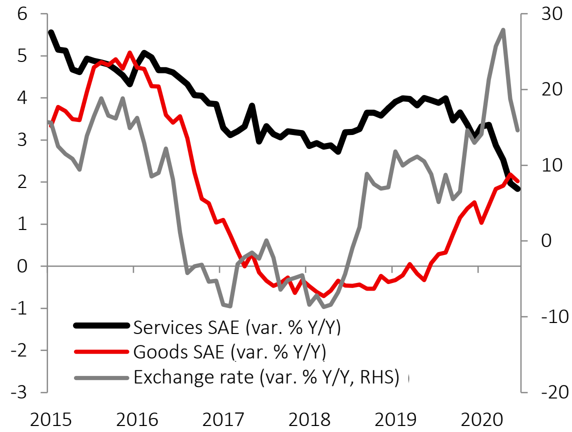
Source: INE and Santander

The inflationary spread is located in the center of the historical range



(*)Diffusion index: percentage of products in the basket that increased compared to the previous month.
Source: INE and Santander

Service prices continue to slow



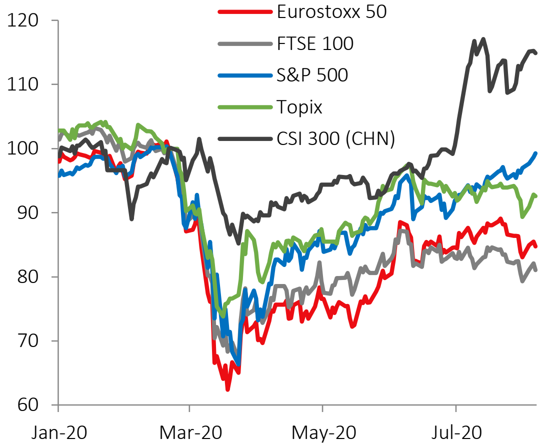
Source: INE, Banco Central and Santander

At an international level, good activity data favor the markets

This week, the July manufacturing PMIs for the world's leading economies surprised on the upside, generally finding themselves in expansionary territory. China's manufacturing PMI stood out (52.8 vs. 51.3 expected), although there were also advances in the US (54.2 vs. 53.6 expected) and Europe (51.8 vs. 51.1 expected). Even in Brazil, the manufacturing PMI climbed above the neutral pivot (58.2 points), reaching its highest record in recent years. PMIs for services lagged somewhat further, showing that social distancing still continues to impact such activities. For its part, in the US the unemployment rate fell to 10.2% from 11.1% in June, while people who received unemployment benefits fell to 16.1 million in the last week. Non-agriculture job creation reached 1.76 million in July, better than anticipated.

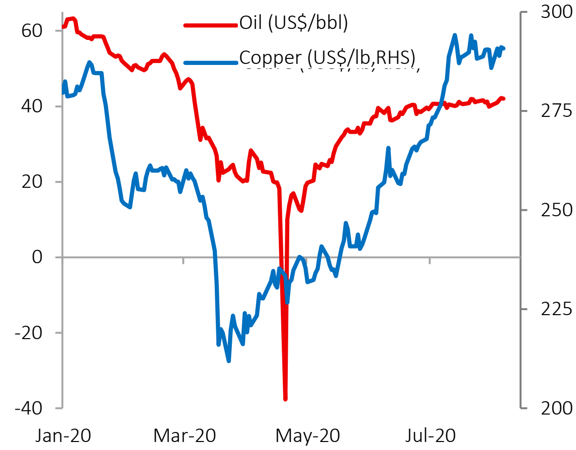
The markets had a good week, stimulated by the positive activity data and the results of the technology companies. The rapprochement in the positions between Republicans and Democrats in the US for a new fiscal stimulus plan and a decrease in the rate of contagion of Covid-19 in the northern country also influenced. Added to this is new information regarding advances in vaccine development.

A positive week for the stock markets



Source: Bloomberg and Santander

Oil is gaining ground again



Source: Bloomberg and Santander

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