Major central banks reinforce hawkish stance on inflation

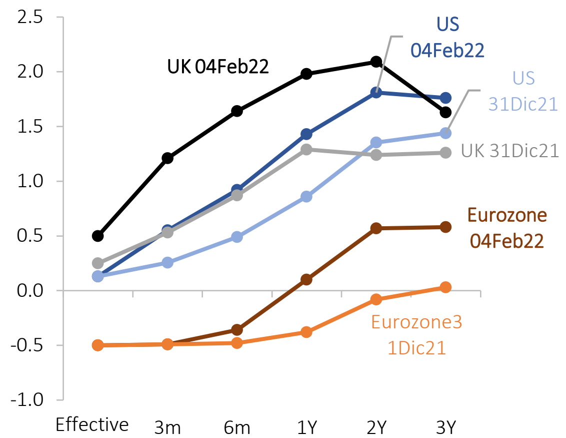
At the local level, financial assets record losses, largely due to idiosyncratic factors

Following the US Federal Reserve (Fed) -which last week showed an aggressive stance against inflation-, this week the European Central Bank (ECB) and the Bank of England (BoE) announced a more hawkish bias regarding to its monetary strategy, although with differences between them. On the one hand, the BoE increased its reference rate again by 25 bps to 0.5%, as expected, but the decision was not unanimous (four of the nine votes suggested an increase of 50 bps) and suspended its program asset purchase. Meanwhile, the ECB, although it did not modify the official rate -also in line with what was expected-, gave signs of revising its normalization position at the next meeting in March. The latter, due to the acceleration of inflation in the Euro Zone to 5.1% y/y in January, according to preliminary figures, contrary to what was expected by the market, which anticipated a moderation (from 5.0% to 4.4%).

Thus, long-term yields in the main economies climbed more than 16 bp on average and the market incorporated additional increases in monetary policy rates during 2022. For their part, international stock indices closed the week with gains (MSCI global: +2%), led by emerging markets. This, in a context in which the global dollar reversed last week's strength and ended up depreciating 2%, while risk aversion decreased compared to the end of January (VIX: -2 points). At the close of this report, the reading of the US labor market figures was mixed, with the unemployment rate standing at 4.0% (3.9% anticipated).

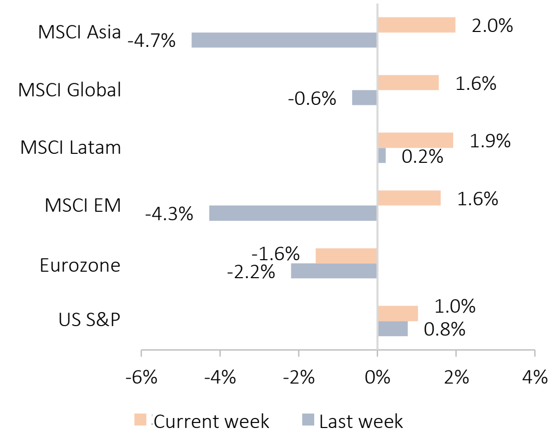
The widespread withdrawal of monetary stimuli is associated, to a large extent, with inflationary pressures at a global level, which have shown a more persistent behavior than expected. Behind the high records, it has been seen that the energy component has been predominant, so the increase in the price of oil fuels concerns. This week, the value of WTI was above US$90 a barrel -for the first time since October 2014-, driven by i) a restrictive supply, ii) the recovery of demand, iii) geopolitical risks and iv) low inventories. In this way, it accumulates an increase of 20% so far this year and 60% in twelve months.

Market expectations incorporate greater increases in the reference rates



Source: Bloomberg and Santander

Exchange indexes reverse previous losses and advance in the week



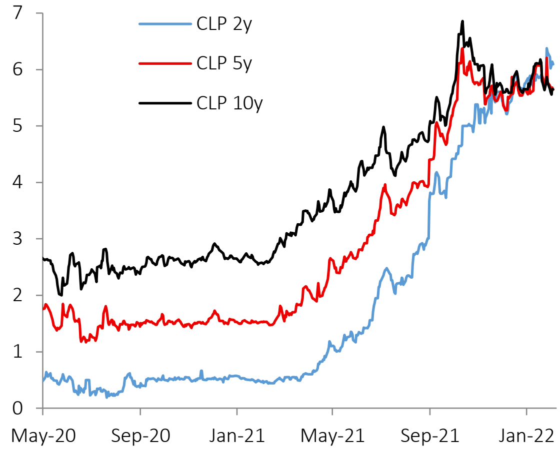
Source: Bloomberg and Santander

Domestic markets decouple from global movements

In a week full of monetary policy announcements that led to mixed results in international markets, local assets once again registered losses influenced mainly by a greater degree of uncertainty as a result of the advancement of the constitutional discussion. The IPSA fell from 4,500 points (-1%) despite the rise in global stock markets, with a drop of more than double measured in dollars (-2.6%), due to the depreciation of the currency. Indeed, the dollar climbed $13 during the week, approaching $827 again. This occurred even when the global price of the dollar fell and the price of copper increased, making it clear that idiosyncratic factors continue to be relevant for the local currency. . The Ministry of Finance announced that during February there would be no foreign exchange settlements, thus interrupting the sales program in force since April 2020.

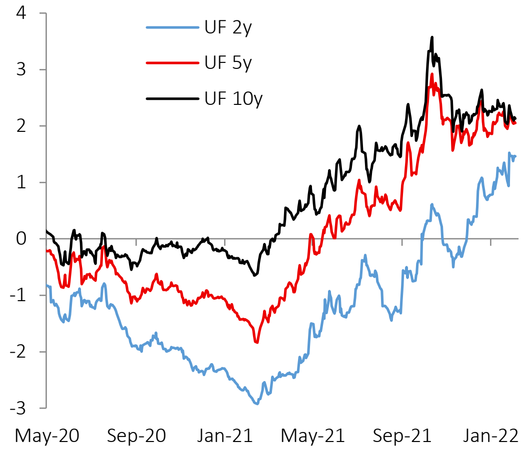
Long-term interest rates fell by more than 10 bp (BTP10: 5.6%; BTU10: 2.1%), despite higher international rates, but in line with the economic activity data released this week. Likewise, short-term rates fell slightly even though they remain at high levels, which has intensified the reversal in the yield curve.

Despite the international increases, nominal rates decreased…



Source: Bloomberg and Santander

… as well as real rates, though to a lesser degree



Source: Bloomberg and Santander

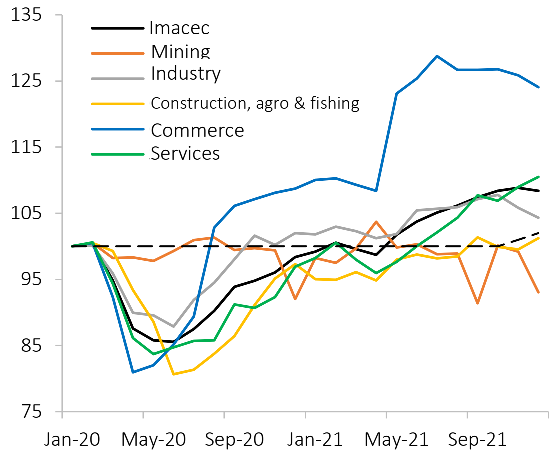
Activity continues to show signs of slowdown

Imacec data published this week showed growth of 10.1% y/y in December, driven mainly by the services sector and, to a lesser extent, by commerce. The indicator presented a negative monthly variation in seasonally adjusted terms (-0.4%), with the services and other goods sectors being the only ones with a positive monthly variation.

These results would be accounting for the normalization of activity towards its trend levels, an expected movement, while the strong expansion seen during 2021 is not sustainable over time.

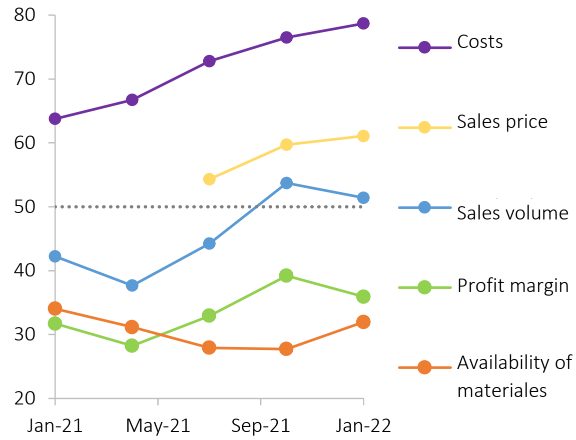
The foregoing is in line with what was reported in the Central Bank's Business Perceptions Report published this week, where companies report a slight drop in the current performance of their business, which would be explained both by the moderation in the growth of demand as well as significant cost pressures. The latter constitute the main factor for the increase in the sale price of its products and services, although they have not been transferred to higher margins. In particular, 88% of the companies surveyed report difficulties in filling vacancies (compared to 73% last July) and 55% indicate that they have increased the salaries offered in response. Additionally, the reported investment outlook has not improved compared to the last quarter of 2021, despite a decrease in uncertainty levels.

Activity shows signs of normalization



Source: Banco Central and Santander

The main challenge for the performance of companies is costs



Source: Banco Central and Santander