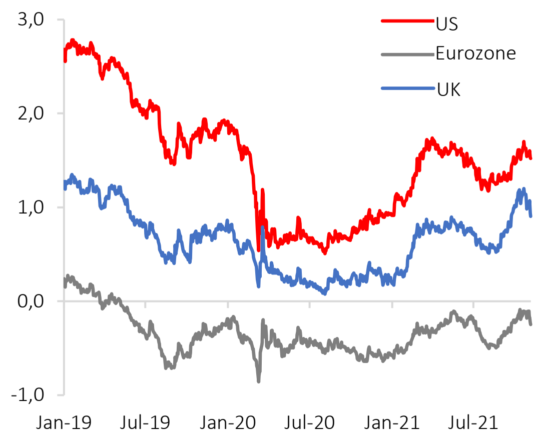
Central banks of the main economies maintain expansionary policies, but begin to reduce the size of impulses

As expected, at its meeting this week the US Federal Reserve (Fed) announced that it would begin to reduce the pace of asset purchases (tapering) starting this month, at a rate in line with market expectations (US $ 15 billion per month), in a process that would continue gradually until mid-2022. At the press conference, President Jerome Powell emphasized that the focus of the meeting was precisely the tapering and not the increase in rates, stating in this regard that the Fed can be "patient". The markets reacted with increases in asset prices - the S&P 500 reached a new all-time high, exceeding 4,680 points - and a drop in risk aversion, which was at its lowest since the start of the pandemic (VIX: 15 points). For its part, the Bank of England, contrary to expectations, kept the benchmark rate at 0.1% (22 of 45 economists surveyed by Bloomberg anticipated an increase to 0.25%) and its bond purchase program without changes. In the statement it was mentioned that, as long as the data -particularly from the labor market- are in line with the expected evolution, it will be necessary to increase the rate in the coming months.

In this context, the long-term interest rates of the main economies stopped the upward trend and at the end of this report they registered falls compared to the previous week (-9 bp average), with a slightly strengthened global dollar (0.5 %).

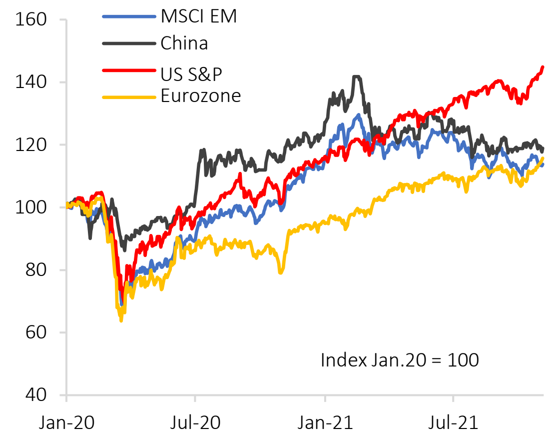
The US activity figures showed an acceleration in October, particularly in services (PMI services: 58.7 vs. 58.2 expected; ISM services: 66.7 vs. 62.0 expected), showing that the effects of the wave of contagions by the Delta variant begin to be left behind. This was corroborated by the labor market figures, which showed a significant rebound (ADP employment: 571,000 vs. 400,000 expected; initial jobless claims: 269,000 vs. 275,000 expected; non-farm payrolls: 531,000 vs. 450,000 expected) and with the unemployment rate falling to 4.6% from 4.8% previously. In the Euro Zone, although the unemployment rate reached the 7.4% expected, the October PMIs were somewhat worse than expected (manufacturing: 58.3 vs. 58.5 expected; services: 54.6 vs. 54.7 expected). The Chinese economy, meanwhile, also showed signs of recovery: the Caixin PMI for services accelerated for the second consecutive month (53.8 vs. 53.1 expected), moving away from the terrain of pessimism. However, the financial situation of some real estate companies continues to be a factor of concern. This week it was learned that the construction group Kaisa incurred debt defaults, adding to a list of several companies that have defaulted on their maturities.

Long term rates stop increasing



Source: Bloomberg and Santander

Exchange indexes show advances, except China



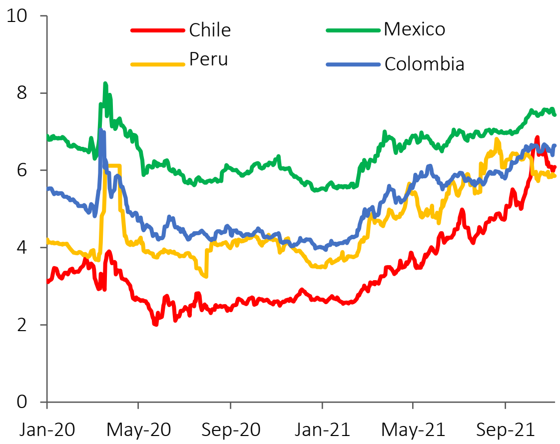
Source: Bloomberg and Santander

Local assets partially recover

Financial markets have shown gains in recent days, on signs that a new withdrawal of pension funds may not prosper in Congress. The 10-year BTP rate fell 50bp from its value two weeks ago and at the end of this report it was trading at around 6.1%. The 10-year BTU rate, meanwhile, fell 60 bp in the last fifteen days and stands at around 2.5%. The stock market, meanwhile, has been the most optimistic, accumulating a gain of 9.6% in the week (4,486 points). This is due to the lower discount rate as a result of the moderation of long rate hikes and the favorable results of local activity, which would continue to leverage corporate profits. The dollar, for its part, remained stable around $ 814, despite further downward corrections in the price of copper (-1.3%) and the strengthening of the dollar globally.

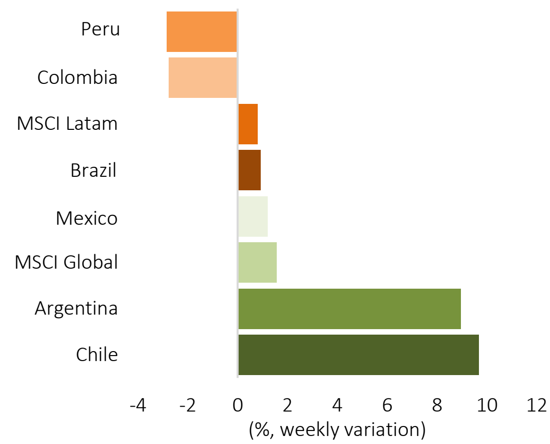
In any case, the recovery of local assets is only partial, given that they still show deteriorations that are located at the extremes of the movements of international markets. This, as highlighted by the Central Bank's Financial Stability Report, has already begun to erode the financial conditions of domestic actors, through higher interest rates for public debt and for housing financing. The report emphasizes that the main risk for financial stability is the materialization of new forced liquidations of assets -associated with the approval of new withdrawals of pension funds- because the greater uncertainty would translate into more restrictive credit conditions, which added to the lower level of savings, would end up affecting long-term growth.

Long term interest rate stop increasing



Source: Bloomberg and Santander

IPSA leads increase in exchanges in the region



Source: Bloomberg and Santander

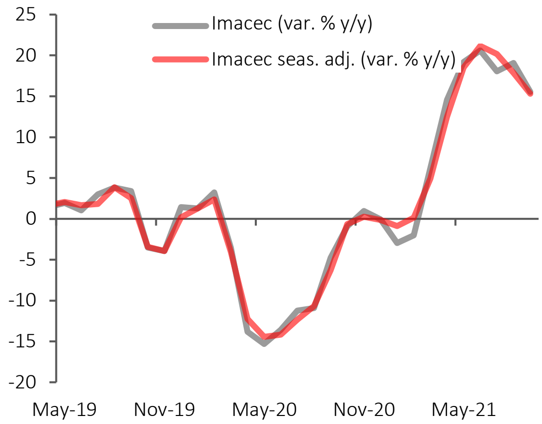
Local activity maintains high spirits

The Imacec for September surprised on the upside with an annual growth of 15.6% (12.3% expected), with which the GDP for the third quarter reached a preliminary record of 17.6%. The monthly expansion was significant (1.7%) and was strongly influenced by the recovery of the service sector (3.6% m / m), favored by the relaxation of social distancing measures. The rest of goods sector -which groups construction, agriculture and fishing- and the manufacturing industry also had significant advances (2.8% m / m and 1% m / m, respectively). Trade, although more limited also increased (0.4%), remaining at very high levels. Unlike these sectors, mining had a substantial drop in the month (-4.8%), confirming that the sector's capacity to contribute to the dynamism of the economy is very limited.

The exceptional levels of trade and the new upturn in services place non-mining activity 5% above the estimated counterfactual (without a pandemic), showing that liquidity injections continue to have a substantive impact on activity through consumption of durable goods and, most recently, services.

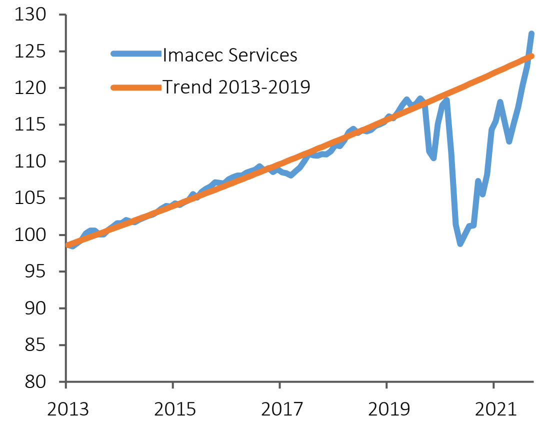
During the week, the Central Bank's Business Perception Report was released, which highlights that companies across the board report difficulties in supply chains and in hiring workers, which has resulted in higher costs. They also indicate that the high dynamism of demand has allowed them to transfer part of the higher costs to their sales prices, although not completely. Regarding the prospects, 70% of those surveyed indicate that they do not contemplate making investments during 2022, and the main reason given is the high economic and political uncertainty.

Activity maintains a robust growth



Source: BCCh and Santander

Service sector surpasses its trend level



Source: Santander, based on data from BCCh