Sector data shows mixed results and commerce continues to fall

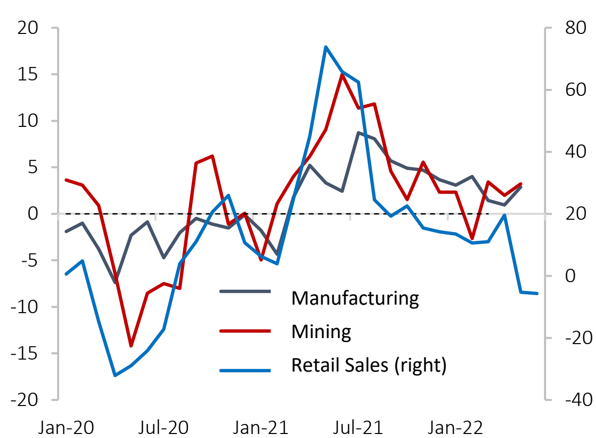
The INE publishes mixed sector figures in relation to expectations. On one hand, although retail commerce continues to contract (-0.5% MoM seasonally adjusted), it is in line with market expectations and somewhat above our estimates (-6.1% YoY vs. Bloomberg: -6.1% and Santander: -6.4%), total trade showed a worse performance than we anticipated. For its part, industrial production exhibits an annual variation above the expected (-1.5% YoY vs Bloomberg: -2.0% and Santander: -1.7%), mainly influenced by manufacturing production (- 2.5% YoY vs. Bloomberg: -2.6% and Santander: -3.5%) and a mining activity that contracts significantly (-2.1% YoY vs. Santander: -0.9 %). Despite the above, industrial production shows an acceleration in the margin (0.5% MoM seasonally adjusted), explained by a strong expansion of the manufacturing sector in the period (1.8% MoM seasonally adjusted).

All in all, although the manufacturing sector was above our expectations, it was unable to compensate for the greater drop in mining and total trade, so we have lowered our estimate of economic growth from 3.4% to 3. 1% YoY in June.

Meanwhile, the employment figures released yesterday shows a net destruction of employment in June (-16.6 thousand jobs), for the first time in a year. Although this is due in part to seasonal factors, the data confirms the slowdown in job creation that has been observed for some time. All in all, the unemployment rate remained stable at 7.8% due to the departure of people from the labor force.

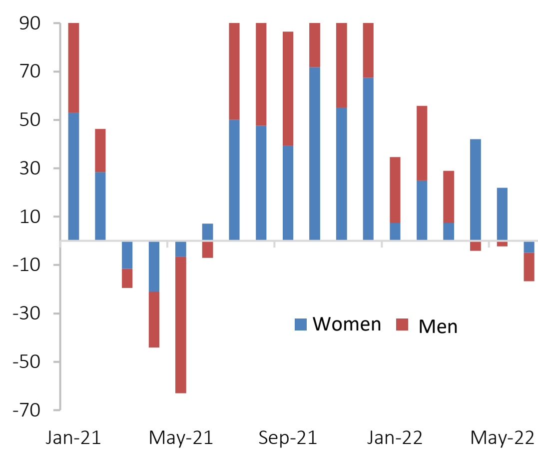
Unlike previous quarters, both men and women reveal a negative variation in employment compared to the previous moving quarter (-11.8 and -4.9 thousand, respectively). Given this, the employment gap increases in relation to the pre-pandemic trend, leaving around 310,000 jobs for women and 270,000 jobs for men.

Retail commerce continues to contract in line with expectations



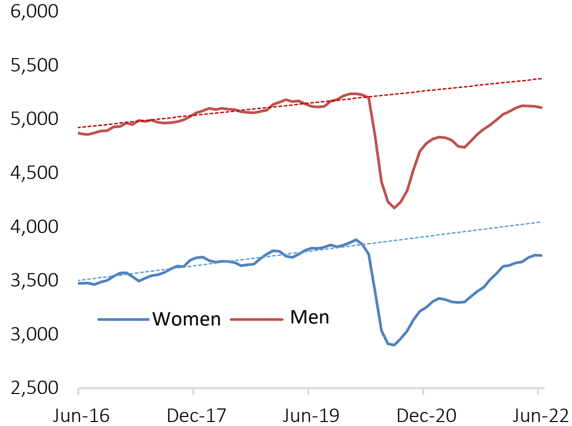
Source: INE and Santander

First job destruction in a year



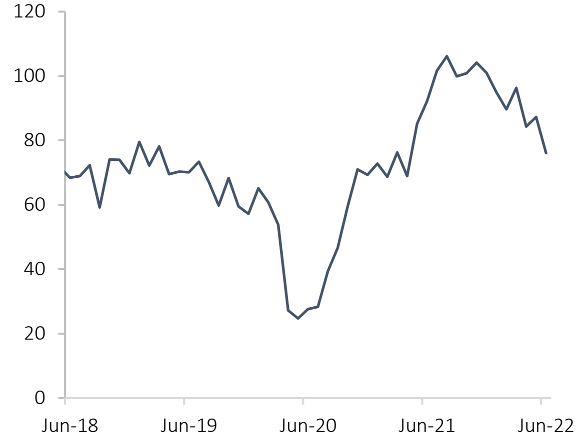
Source: INE and Santander

The employment gap widens relative to its pre-pandemic trend



Source: INE and Santander

Vacancies continue to fall



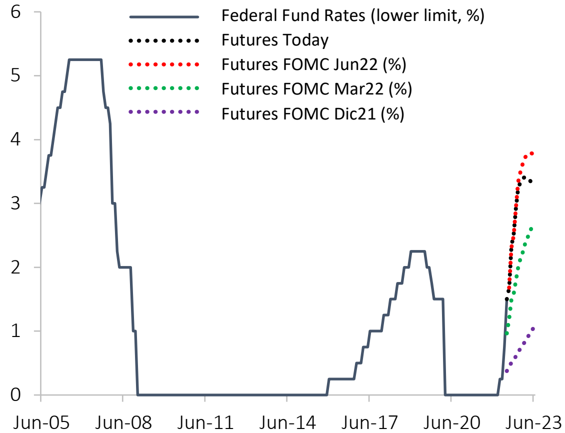
Source: Central Bank and Santander

Despite Federal Reserve rate hike, markets rebound

This week, the Fed Council unanimously decided to raise the reference rate by 75bp to place it in the 2.25%-2.5% range. Although an increase of this magnitude was expected, there was a portion of the market that was betting on something more aggressive (+100bp). The fact that this has not materialized, added to the tone of Jerome Powell's statements that -reaffirming the concern about inflation- conditioned the following decisions to economic data and that at some point it would be appropriate to reduce the rate of increases, made medium- and long-term rates fell and the main stock indices moved higher (S&P: 3.8%, global MSCI: 2.2%). The global dollar stopped its rise (DXY: 106 points) and commodity prices closed higher: copper rose 5% (to US$3.5 a pound) and oil rose 2% to US$100 the barrel.

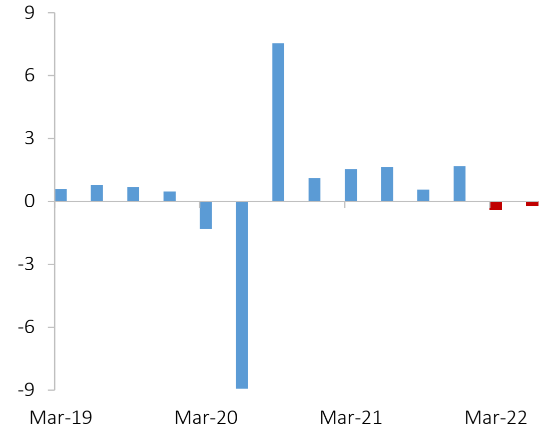
The Fed's decision came against a backdrop of weaker economic prospects. The IMF once again revised downwards growth projections for this year in the United States, from 3.7% to 2.3%, and in the world, from 3.6% to 3.2%, and the GDP figures 2Q22 –known after the FOMC meeting– surprised on the downside with an annualized quarterly contraction of 0.9% (+0.4% expected), confirming that this economy is in a "technical" recession (two falls consecutive quarters of the activity). However, there was a less dramatic reading of the data: private consumption continued to rise (1% QoQ), several monthly indicators in the margin do not show a significant fall and the labor market continues to exhibit relative strength.

Market moderates expectations of future rate hikes by the Fed



Source: Bloomberg and Santander

US GDP contracts for the second consecutive quarter entering a technical recession



Source: Bloomberg and Santander

Local assets coupled with gains from global markets

Following the international markets, local assets show increases in the week. The stock market rose 1% to 5,270 points, in line with favorable corporate results. Meanwhile, the fall in the global dollar, the higher price of copper and a view of more moderate hikes by the Fed brought the exchange rate back to levels around $905 (-$50 in the week). The Central Bank and the Ministry of Finance's foreign exchange sales program also contributed to this, which, despite involving a lower amount than the previous week, involved spot and forward sales for a total of US$2.8 billion.

The appreciation of the currency has been significant since the foreign exchange intervention (-14%), which would ease the inflationary pressures that had intensified at the beginning of the month. Indeed, the strong depreciation of the currency, together with the deterioration of the external scenario, were the main factors that the Central Bank Council took into consideration in the monetary policy meeting on July.

As can be seen from the minutes, the short-term inflationary impact had a somewhat greater weighting in the decision to raise the MPR by 75 bp (vs. the 50 bp option), arguing that it was necessary to have a trajectory of rates greater than that foreseen in June to return to the 3% target. Thus, if a more appreciated exchange rate is maintained –with an external scenario of lower growth prospects– it is foreseeable that the following policy decisions will once again give greater weight to "medium-term contractionary forces", which would imply increases in MPR in magnitudes lower than the recent ones.

This vision also seems to being incorporated by the market, with long-term swap rates falling around 40 bp in the week – given weaker prospects for the economy and the labor market – and short-term rates with limited movements.