Local assets lose value after electoral results

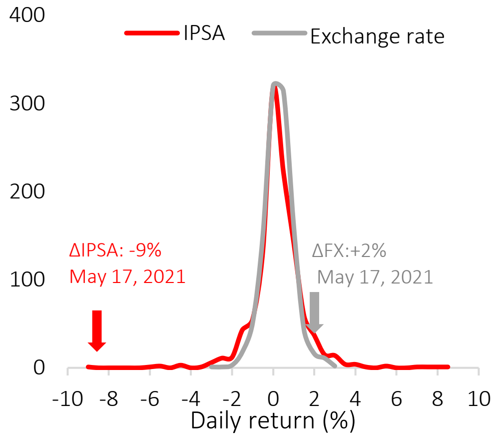
The results of the elections were surprising for the market an implied a strong adjustment in the local stock exchange, which had already been declining after the third pension fund withdrawal.

The election of the Constitutional constituents – where 43% of those signed up to vote participated – resulted in a high dispersion of the votes and a strong support to the independent candidates, outside of the traditional political parties. The coalition of the government reached only 20% of the votes in favor, with 37 seats in the Constitutional Convention, while the parties that were known in the coalition of the Concertación obtained around 13% of votes in favor and 25 seats. The list conformed by Frente Amplio and the Communist Party obtained 17% of the votes and 28 seats. The largest surprise came from the list of independents, and although they did not receive a majority vote, they will have a strong representation. The “People’s List” (Lista del Pueblo, with 15% of the votes) and the “Non-neutral Independents” (Independientes no neutrales, with 7% of the votes) received 27 and 11 seats, respectively. Other independents in the other lists received 10 seats. With these results, no group received 1/3 of the seats in the Convention, which could have held a strong negotiating power. Because of this, the conformation of alliances to the advance in the constitutional text is still to be seen.

After the election results, the local markets had strong adjustments. The stock market was the most affected with a decrease of 9.3% on the first day, accumulating successive falls in the following days until reaching 4,025 points (-12%), a level that had not been reached since November 2020. This effect is comparable to the effects of the social unrest – although that adjustment occurred throughout several weeks – and less than the effect in March of last year as the pandemic began, where the IPSA declined more than 30% in two weeks.

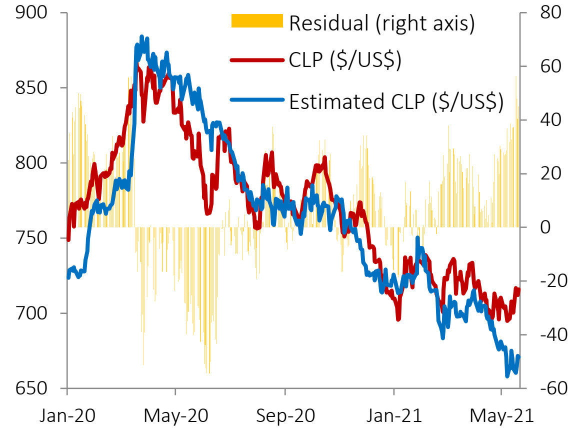
On the other hand, the exchange rate increase Ch$17 pesos (+2%), reflecting a depreciation that was less frequent in the last months. Although some of this increase is related to the slight moderation in the copper price (-1.8% in the week), the Peso continues in more depreciated levels that those explained by the fundamentals, which evidences the impact of the political uncertainty. Also, the Peso is still influenced by the selling position of the Ministry of Economy – for US$2 billion accumulated in the month – and the pension funds to pay the corresponding third withdrawal, with a sale of approximately US$4.8 billion.

Historical declines in the market and the Chilean Peso after election results



Source: Reuter and Santander

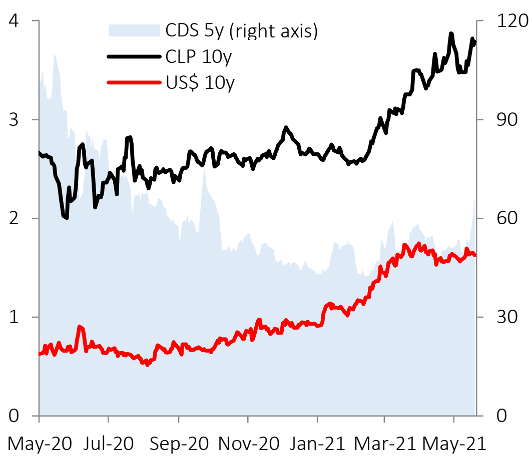
Exchange rate depreciates in the midst of a moderation in the copper price



Source: Reuters and Santander

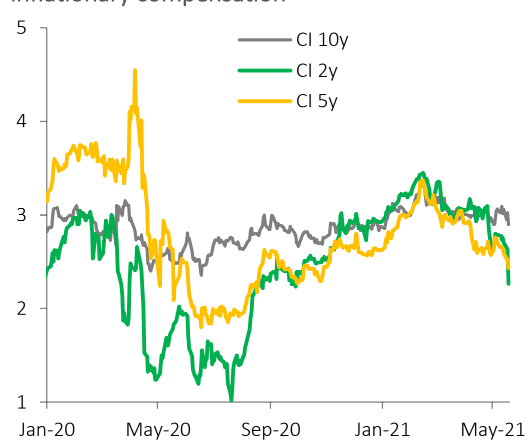
Meanwhile, interest rates began to rise with increases of 25 basis point in line with a high international risk Premium (CDS:+15bp), while international rates remained fairly stable. The strongest increases in the week in the short-term real rates (UF 2-year: +55bp), which responds to less inflationary compensations. The advance of legal initiative which imply lower inflation (reduction of the VAT to some goods in the CPI basket of goods) would in part explain this effect. It is important to note that the Central Bank's program to buy instruments has less space to do so given the pension fund withdrawals, which would decrease the effectiveness to decrease the volatility of rates.

Local rates incresae in line with risk premiums



Source: Reuters, RiskAmerica and Santander

Increase in real rates in the short-term in line with less inflationary compensation



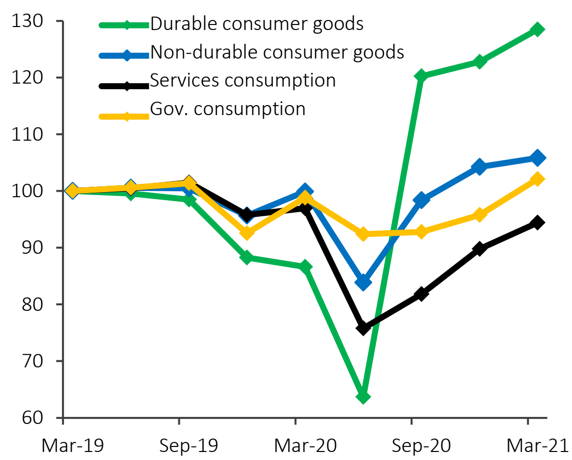
Source: RiskAmerica and Santander

National accounts ratify the recovery of activity in the first quarter

According to data published by the Central Bank during the week, GDP had a growth of 0.3% YoY, which confirms the economy recovered to pre-pandemic levels. Internal demand is what explains this results, with a strong expansion (6.7% YoY). The external sector, on the other hand, contributed negatively to the quarterly results (-5.9 percentage points) due to a moderate contraction in exports and a high dynamism in imports.

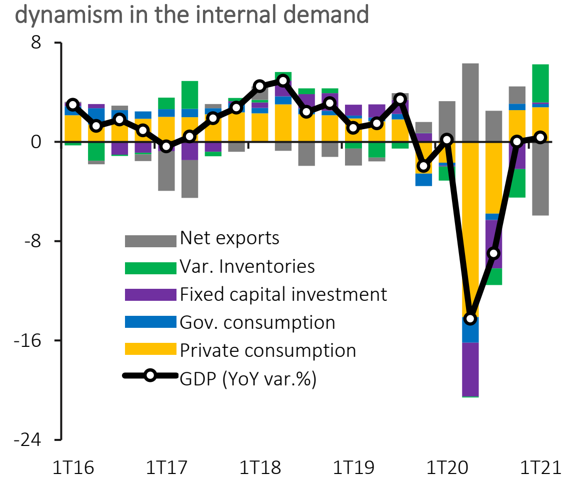
The details of the data show that there is a strong transitory component that have incited in the results: consumption of durable goods, investment in machinery and equipment and a strong increase in inventories. It is expected that these factors will tend to wane in the next quarters, which is why the recovery process will be key to increase the dynamism in the sectors most affected by the pandemic such as construction services and investment.

Durable consumer goods reach historical maximums



Seasonally adjusted index (1Q19=100)
Source: BCCh and Santander

Increase in inventories explains a large part of the dynamism in the internal demand



Source: BCCh and Santander

Worry for inflation still makes the difference in international markets

In the week the global asset prices had mixed movements, affected by the fears reinforce by the acceleration of inflation in Europe (1.6% vs 1.3% in March), activity date in China worse than expected, and the information contained in the Fed minutes which revealed the possibility of an anticipated withdrawal of monetary stimulus.

In April, China retail sales were below expectations (17.7% vs 25%), while industrial production was almost in line (9.8%). In the United States, the housing sector showed a deterioration, in terms of construction permits and new housing, showing fragility in still present in the sector. On its part, initial jobless claims in the second week of May were less that foreseen (444,000 vs. 450,000), giving good signals of advancements in the labor market. The corresponding minute from the Fed's last meeting reflected the possibility of starting to discuss a plan to adjust the rhythm of asset purchases in the next meeting, although they reaffirmed the vision that inflationary pressure after the surprising April date would be transitory. Also, some authorities from the Fed affirmed that the objective of full employment is still far.

In this context, global MSCI registered a 1% fall compared to the previous week. The stock market in the Eurozone, Latin America and the US receded 1%, compensating the increase in emerging markets (2%) and China (1%). Long-term interest rates began to rise once again in small increments in the US and the Eurozone, which were partially offset at the publishing of this report For its part, the global dollar closed the week at similar levels that the previous weeks, while the VIX increased slightly and is around 21%.

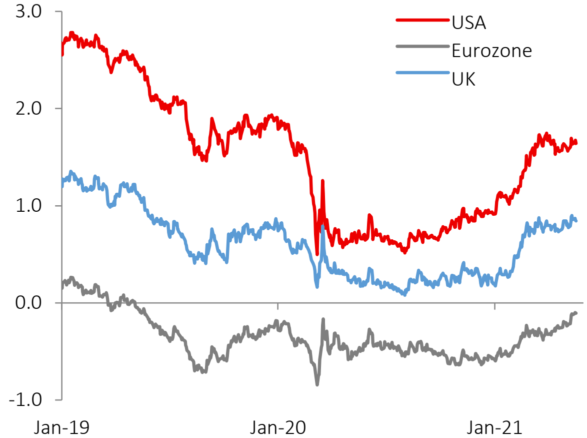
In Latin America, the most relevant news of the week was the downgrade in the sovereign rating of Colombia by S&P (from BBB- to BB+, outlook stable), being the first rating agency to take away the investment grade after 10 years (Moody`s: Baa2; Fitch: BBB-). The political tension, as well as the impossibility to go ahead with the fiscal reform to reduce the deficit (estimated 2021: -8.6% of GDP) where the determinants for the downgrade. Colombia's debt is up to 64% of GDP, the second highest in the region, and their international risk premium, which increase 10 basis points after the downgrade, is almost double of Chile's level.

Country	10-year CDS	Debt/GDP	Rating classifications		
			S&P	Fitch	Moody's
Brazil	261,8	98,9	BB-	BB-	Ba2
Chile	111,0	32,5	A	A-	A1
Colombia	206,7	62,8	BB+	BBB-	Baa2
Mexico	159,8	60,6	BBB	BBB-	Baa1
Peru	136,3	35,4	BBB+	BBB+	A3

Source: Bloomberg, FMI (WEO abr.21) and Santander

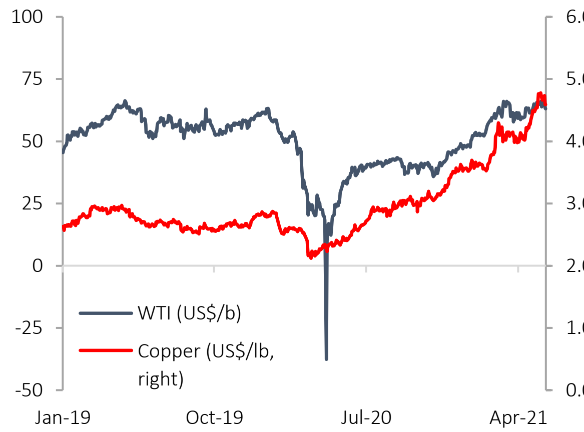
The copper price fell 2% in the week and fell below US$4.6/pound, in part due to the possible measures china will pursue to slow down the rise in commodities prices. Oil decreased 4% and is around US$63 per barrel, due to the progress in conversations between the United Stated and Iran to reactive the 2015 nuclear agreement, which will enable this country to increase their oil exports. It is important to note that Iran is not subject to production cuts by the OPEC, the same as Libya and Venezuela, and therefore can increase production in line with its capacity.

Long-term rates in the main economies still reflect inflationary fears



Source: Bloomberg and Santander

Commodities prices decline at the margin



Source: Bloomberg and Santander