Local markets respond to pension fund drawdown project

Interest rates increased in the local market as the market expected future fixed income liquidation due to the possible pension fund drawdown under discussion.

Global economic recovery slowly advances, but market still alert for future coronavirus outbreaks

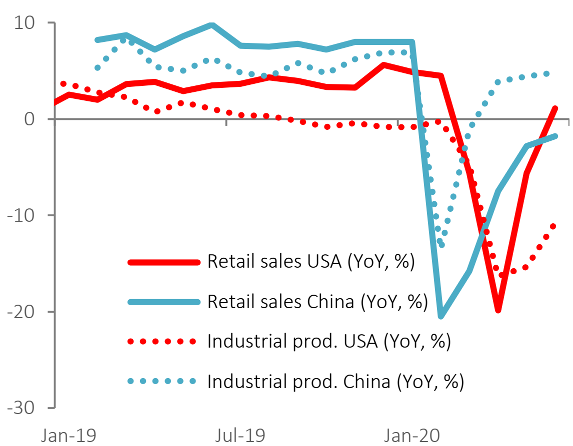
Activity data for June in the United States continued to show a timid recovery. Retail sales (7.5% MoM) and industrial production (5.4% MoM) were somewhat above expectations, but continue at lower levels than those before the pandemic. In the labor market, the new unemployment subsidy requests reached 1.3 million in the week, slightly above the expected 1.25 million. For July, the strong increase in the spread of coronavirus and the reimposition of social distancing restrictions could imply a slowdown in recovery. In fact, consumer confidence measured by the University of Michigan decreased during the month up to 73.2 points, well below expectations. In this context, a new fiscal stimulus package is under discussion.

In China, GDP for the second quarter (3.2% YoY) was above market consensus, strongly driven by public expenditure. Consumption and investment remained very depressed. In June retail sales decreased 1.8% YoY, in contrast to and expected expansion of 0.3%, and urban investment continued below the levels of the previous year, although slight above what was anticipated (-3.1% YoY vs. -3.3%). On the other hand, industrial production rapidly advanced (4.8% YoY). Geopolitical tensions with the United States increased this week with announcements of sanctions coming from both governments, due to the situation in Hong Kong and the declarations of the Asian giant over the China South Sea.

In Europe few indicators were published in the week, although optimism from the reopening has started to dilute among new outbreaks of the coronavirus. In the monetary aspect there were no new developments: The European Central Bank maintained its reference rate in its July meeting and did not announce any changes to the asset purchase program.

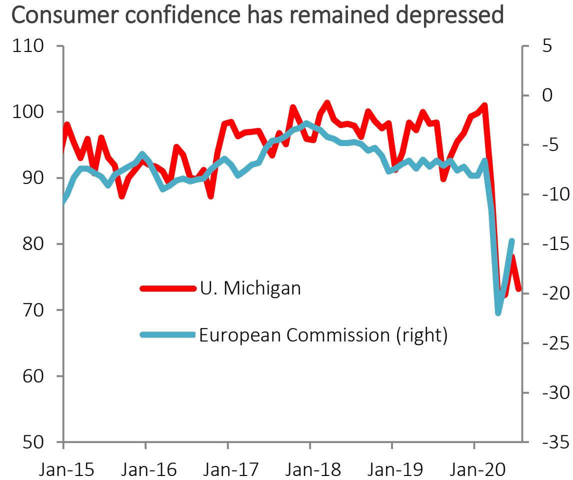
Finally, in Latin America the economic damage due to the pandemic is confirmed. In Brazil the monthly activity for May had a severe contraction (-14.2% YoY), although it recovered compared to April, while Peru had a contraction of 32.8% YoY.

Recovery to pre-pandemic levels is still far away



Source: Bloomberg and Santander

Consumer confidence has remained depressed



Source: Bloomberg and Santander

Expectations for a vaccine to combat Covid-19 drives global markets

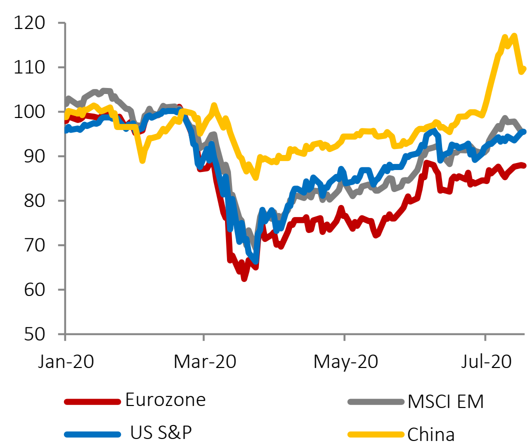
Global markets increased (1.0% in the S&P500 and 2.3% in the Eurostoxx50) in a week markef by the continuous rebound in the number of coronavirus cases and the progress reported in experimental Covid-19 vaccines, with a worsening situation between China and the United States as a backdrop. The Shanghai stock exchange had a correction of 4.4% after a strong increase in the previous weeks.

OPEC+ will continue to the next phase of the production adjustment agreement starting August, where restrictions will lessen (from 9.7 to 7.7 million barrels per day), with the expectations that the additional supply will be consumed by the recovering demand. The price of WTI oil has not been majorly affected by this and trades around US$ 41 per barrel.

The copper price trades at US$ 2.93 per pound and last week reached its highest level in 17 months, explained by the Chinese industrial sector which has driven all base metals, but also the supply restrictions due to the lower production in Chile.

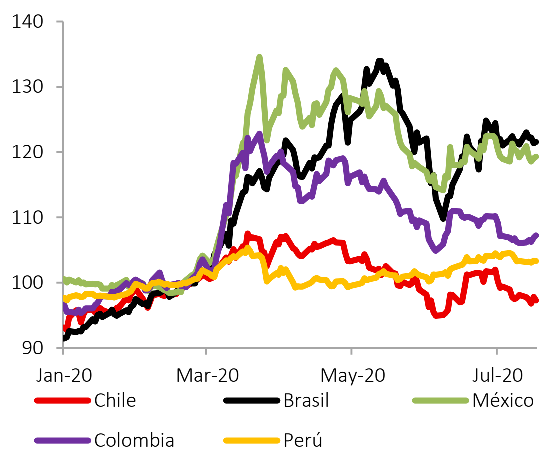
In this international context, the Latin American markets showed mixed trends. The majority of stocks depreciated, with the exception of the Chilean peso, despite the weakness in the global dollar. As such, the behaviors in the stock markets did not have a clear tendency, while the Sao Paulo exchange improved 1.8%, Mexico contracted 0.8%. Finally, 10-year bond returns increased.

Advances in global markets with correction in China



Source: Bloomberg and Santander

Mixed movements in the Latin American currencies

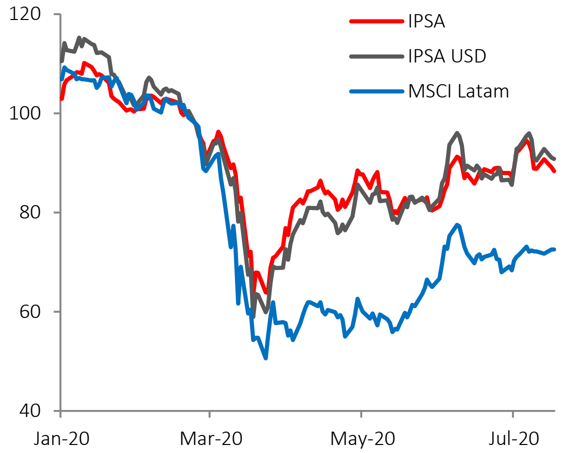


Source: Bloomberg and Santander

Local stocks react to project of pension fund drawdowns

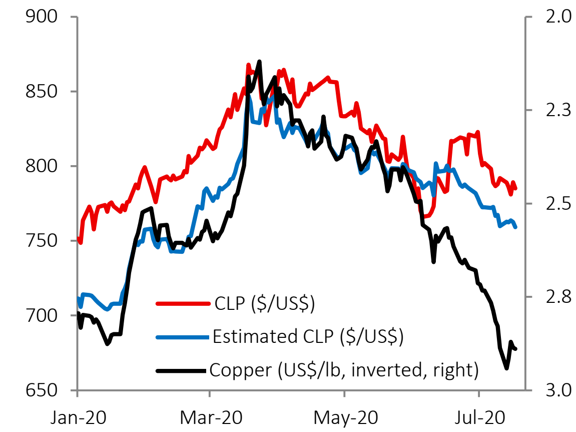
During the week, the IPSA moved downwards, accumulating a drop close to 4% after the constitutional refore that will permit the drawdown of pension funds was approved in the Lower House. Due to this, bond rates increased during the week, especial on the long part of the curve which increased 20 to 30 bp. The exchange rate remained stable in the week, at levels below $ 790 per dollar, despite the copper price reaching maximums postpandemic, which reached almost US$3 per pound. It is important to note that in the short term, the impact of the pension fund drawdowns on the value of the currency could be ambiguous, since it could imply a strong liquidation of assets abroad.

The IPSA retreats in a positive week for emerging markets



Source: Bloomberg and Santander

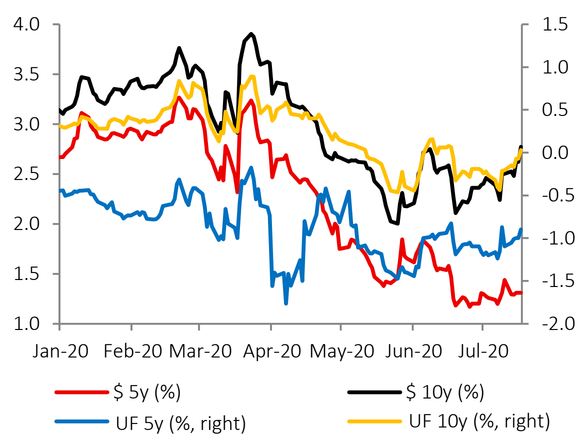
The Exchange rate breaks away from copper, which reaches almost US$3 per pound during the week



Source: BCCh, Bloomberg and Santander

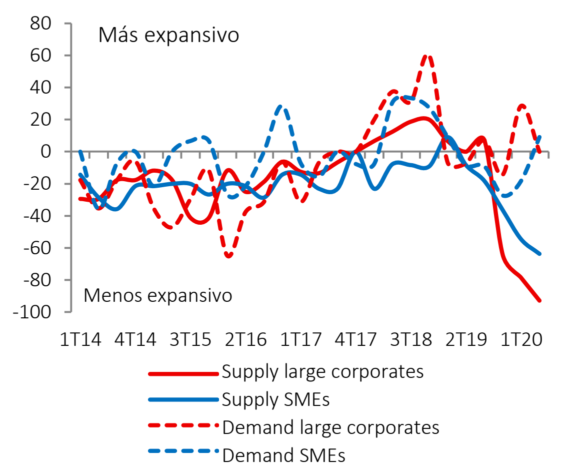
The last Bank Credit Survey from the Central Bank showed an increase of Banks that report higher credit supply restrictions in the consumer, mortgage, SMEs and large corporates segment. They also reported that credit demand has been less dynamic in all segments, with the exception of SMEs.

Long-term rates increase over expectations that pension funds could be required to liquidate bonds



Source: Bloomberg and Santander

Bank Credit Survey: Supply more strict and less demand in all segments except SMEs



Source: BCCh, Bloomberg and Santander

As expected, the Central Bank maintained the Monetary Policy Rate at it technical mínimum of 0.5%

In its latest analysis, the Central Bank Council highlighted that external demand has improved due to the resilience of exports and the stabilization of imports. Also, there are budding signs of recovery in the world economy, although there has been a resurgence of the coronavirus sprea which could lead to new restrictions.

In the local market, the main worry is the strong deterioration of the labor market, as well as the uncertainty of the economic dynamism going forward since it is still conditioned to the remission of the coronavirus. They observe that the rates have decreased since their last meeting, market expectation of the monetary policy rate are in line with their guidance, underlying inflation is below their target and the activity gap is significant.

Furthermore, commercial loans have expanded, although below what they would have liked, impulsed almost exclusively by working capital needs. Demand for mortages and consumer loans has decreased, especially in the latter. The first phase of FCIC has already depleted and the Banks are now using the second credit line.

In summary, the landscape has evolved according to what the Council expected, and therefore did not see an increase in monetary expansion necessary.

CLAUDIO SOTO
Chief Economist
claudio.soto.gamboa@santander.cl

SINDY OLEA
Economist
sindy.olea@santander.cl

FABIÁN SEPÚLVEDA
Economist
fabian.sepulveda@santander.cl

GABRIEL CESTAU
Economist
gabriel.cestau@santander.cl

MIGUEL SANTANA
Economist
miguelpatricio.santana@santander.cl

CONTACT

(56 2) 2320 1021
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