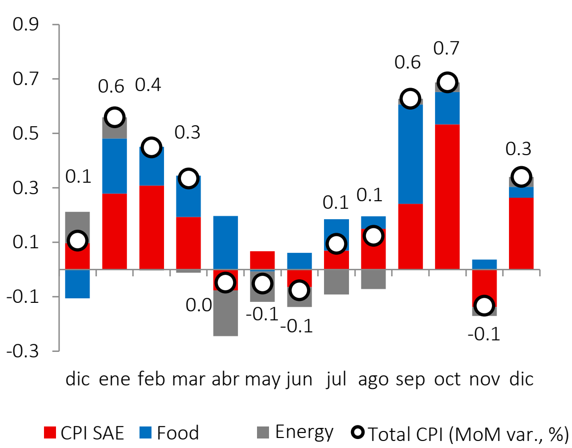
December CPI reaches the Central Bank target of 3% for the second consecutive year

In line with our expectations the December CPI had a monthly variation of 0.3% over what the market expected (Santander: 0.3%; Bloomberg: 0.2%; EEE: 0,2%; EOF: 0,2%, *forwards*: 0,2%). With this, 2020 closed with inflation right at the Central Bank target of 3%. One of the main increases of the month was in clothing and shoes, with a monthly variation of 3.7%. This rise was opposite to the habitual seasonal fall and reverted part of the decrease seen in November. Home equipment and maintenance increased 0.8% in the month and was the second highest variation in the total indicator. The higher liquidity due to the second 10% pension fund withdrawal could have contributed to the higher demand in these products and explain part of the increase in the December inflation.

The underlying inflation (without food and energy) reached 0.4% MoM, and with this the annual variation regained some terrain and closed the year at 2.6%, still far from the Central Bank target. The inflationary diffusion – the quantity of products from the basic consumer basket whose prices have risen – reached 56.8%, a historical maximum in at least the last decade for the month of December, while the allocation of products in the month was 25.5%, similar to previous months.

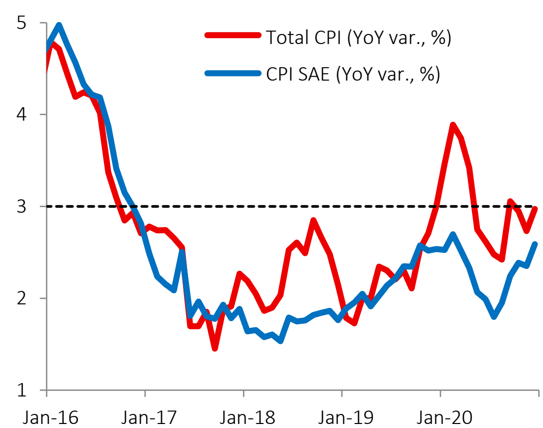
Although inflation reached the target of 3% for the second consecutive year, the fact that this occurred in a year of strong economic contraction evidences that there are transitory factors pushing prices up. The depreciation of the exchange rate (the average of 2020 was 13% above the previous year) and the economic momentum derived from the pension fund withdrawals were some factors. Considering the recent appreciation of the Chilean peso and the impact of the liquidity shock is transitory, we estimate that in the next months the ample activity gaps that still remain, and therefore inflationary pressure will remain low and the CPI will have monthly movements in line with historical averages.

Underlying inflation explains a large part of the December CPI (0.3%)



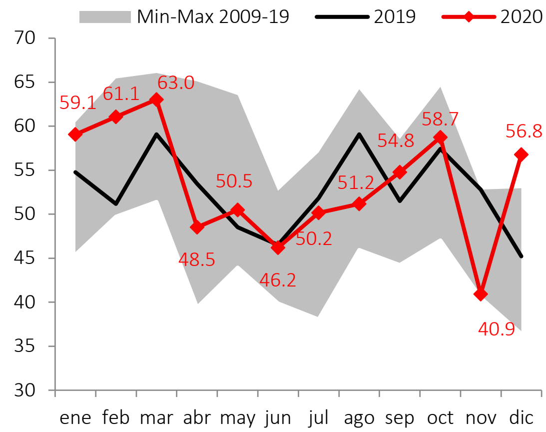
Note: CPI SAE = CPI sans food and energy
Source: INE and Santander

Annual CPI reaches the target of 3% for the second consecutive year



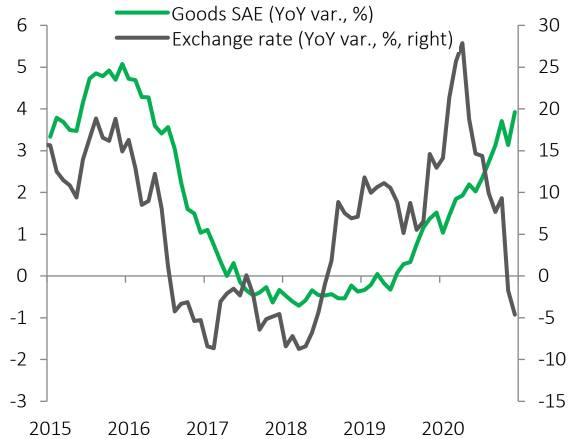
Source: INE and Santander

Inflationary diffusion reaches historical maximums for December



Source: INE and Santander

Goods prices remains dynamic, driven in December by price increases in clothing



Source: INE and Santander

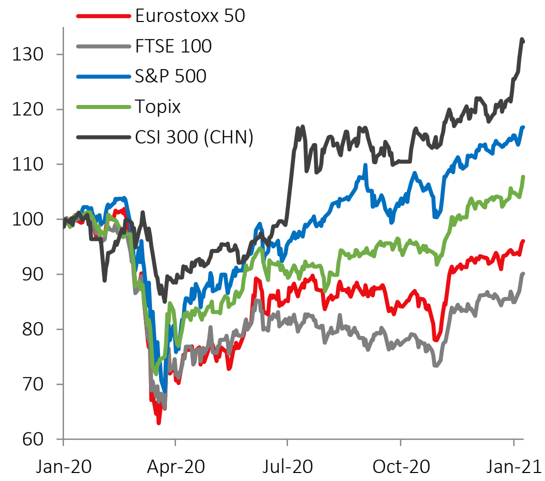
Markets do not react to the turbulent political setting in the United States

Last week was marked by the official proclamation of Joe Biden as the President of United States by Congress, interrupted by the unprecedented irruption of protestors within the Capitol, and the surprising democratic victory in the Senatorial elections in the state of Georgia, which will give this party total control of Congress after six years. The latter will permit the new government – with inauguration on January 21 – roll out a more aggressive fiscal policy and makes a deeper tax reform more probable. During the day, private employment numbers evidenced that 123 thousand job positions were destroyed in December, well below the creation of 73 thousand job positions the market anticipated. Non-farm payroll also disappointed, where 140 thousand job positions were destroyed, while the market had expected an expansion of 50 thousand. With this, unemployment remained stable at 6.7%. Likewise, the December services PMI also closed below expectation (54.8 points versus 52.2 expected).

Once the senatorial election results were known, the Treasury 10-year rate inclined above 1% (+8bp), while the US dollar weakened once again. The severe riots in the Capital had very little impact in the markets, but once order was restored and Biden´s victory was official, the dollar had an important recovery. The stock exchange, on the others hand, did not react to the activity numbers nor the disturbances at the Capitol and continued to rise. The Fed meeting minutes, published the day of the proclamation, did not have any surprises and confirmed the Committees preoccupation of the slowdown in recovery over the second wave of the virus.

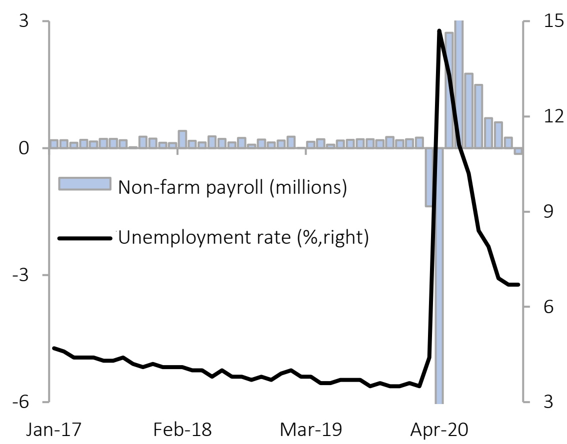
Likewise, the coronavirus cases have accelerated in various countries of the Northern hemisphere, especially in Europe, which has given way to new restrictions. In the UK, for example, the Prime Minister Boris Johnson announced a total quarantine until mid-February in order to contain the new variant of the virus. The new restrictions that have been applied for several weeks have already affected consumption in Europe. Retail sales for November heavily disappointed, falling 2.9% YoY (versus an expected expansion of 0.9%).

The stock market did not react to the Capitol riots in the US



Source: Bloomberg and Santander

Job market in the US loses momentum



Source: Bloomberg and Santander

In Chile, the stock market followed international trends and closed the week with a 9% increase. On the other hand the exchange rate had a severe appreciation and reached below $700, driven by the US dollar weakness, new increases in the price of copper – which is currently around US$3.7 per pound – and Treasury Department dollar sales. However, as the global dollar strengthened after Joe Bien was ratified and the adjustments in the pension fund portfolio due to recommendation to take more risky positions, the exchange rate depreciated and at the closing of this report was trading at around $715.