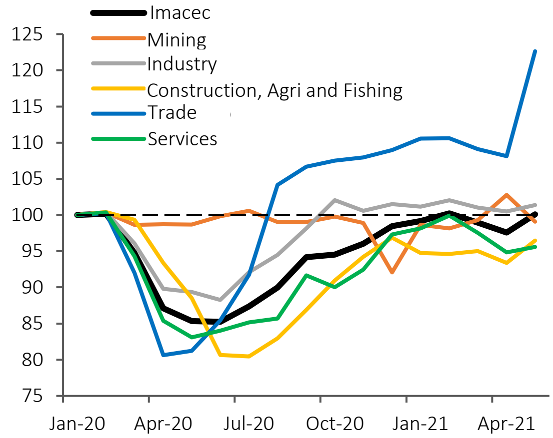
Despite high growth in May, the recovery remains unbalanced

After the two consecutive monthly falls, the Imacec in May had a strong rise (2.6% m / m, 18.1% y / y), with which the activity as a whole returned to recover the levels prior to the pandemic. However, a substantial part of the increase was explained by the dynamism of trade, which in the latest data had an unprecedented expansion (13.4% m / m). Behind this is the substantial boost to consumption derived from state aid measures and liquidity injections from pension fund withdrawals. Although the rest of the non-mining sectors they had a rebound, this was moderate, so they have not yet recovered what was lost from the pandemic. Mining, for its part, fell to levels consistent with its trend in recent months.

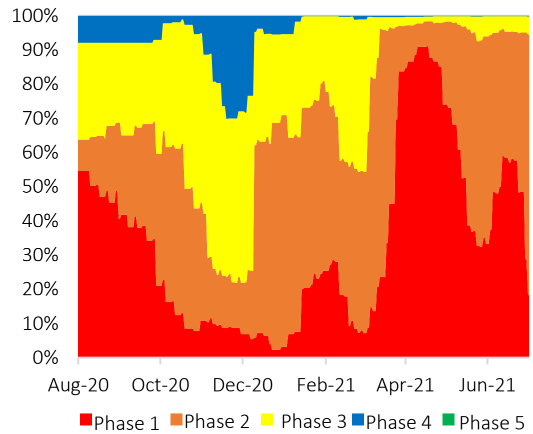
Even when the unemployment rate fell to 10%, the labor market showed new signs of weakness, with falls in both the labor force and employment. With this, a gap of about 1 million fewer jobs than there were in March 2020 is maintained. The new decline in labor participation coincided with the quarantines applied in response to the wave of infections at the beginning of the second quarter. This phenomenon - which has also occurred in other countries- has several causes, including fear of contagion, home care requirements, difficulties in applying for jobs due to mobility restrictions and the uncertainty generated by the advances and setbacks in deconfinement. All this in a context where greater fiscal aid and liquidity injections allow us to wait for better conditions before beginning an active job search.

Highly heterogeneous recovery



Seasonally adjusted series (Jan-20 = 100)
Source: BCCh and Santander

June activity will be moderated by a higher percentage of the population in quarantine



Source: Ministry of Health and Santander

Government goes out to cash

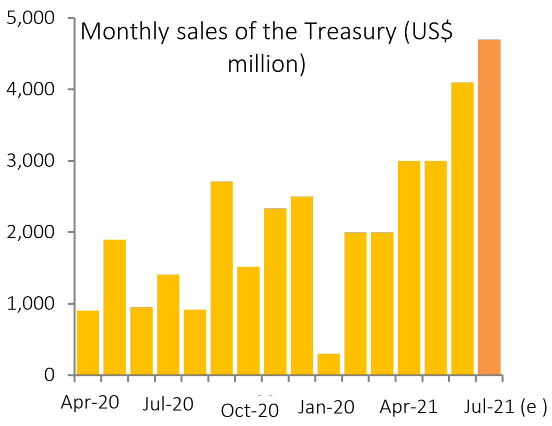
At the beginning of the week, the Ministry of Finance increased the rate of daily foreign currency settlement to US $ 500 million, which accumulated sales of US $ 4,100 million in the month. Likewise, it was announced that the amount to be auctioned in July would be up to US $ 4.7 billion, well above the sales flows of the first months of the year. Behind this is the need to make cash to finance the strong expansion in spending during the second and third quarters. The resources come from the issuance of debt in foreign currency that the state has made and withdrawals from sovereign wealth funds that it has made for almost US $ 3.5 billion during June, after which the available balances would amount to about US $ 12,500 million (around 4.5% of GDP).

During the week a new social bond was also issued for US $ 2,040 million - denominated in pesos and maturing in 2028 - with a placement rate of 4.6%, well above the 2.5% achieved in the placement in November last year. This accounted for the sustained tightening of financial conditions for the treasury in recent months, both due to the rise in external rates and higher risk premiums.

According to our estimates, this year's fiscal deficit would amount to 6.5% of GDP (around US $ 20,000 million), which, added to debt repayments of about US $ 6,000 million, carry the cash requirements to US $ 26,000 million. Given the issues already made and the withdrawals of sovereign funds, around US $ 9.5 billion would remain to be financed.

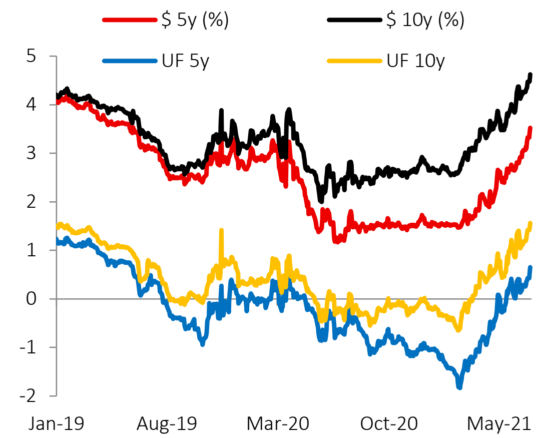
In response to the currency liquidations during the week, the exchange rate tended to appreciate temporarily, but closed at $ 732, driven by the global appreciation of the dollar and weaker copper. On the other hand, interest rates have continued to accumulate increases in the face of a greater probability of an increase in the monetary policy rate in July. The 10-year benchmark in pesos ended the week at 4.6% (+14 bp), the highest level since October 2018. Meanwhile, the strong dynamism of the Imacec in May and the decrease in infections pushed local stocks slightly, which, however, failed to exceed the records of the previous week (IPSA: 4,334 points , -0.4%).

Strong increase in Treasury currency auctions to finance spending expansion



Source: Treasury and Santander

Interest rates reach maximum levels of the last two years



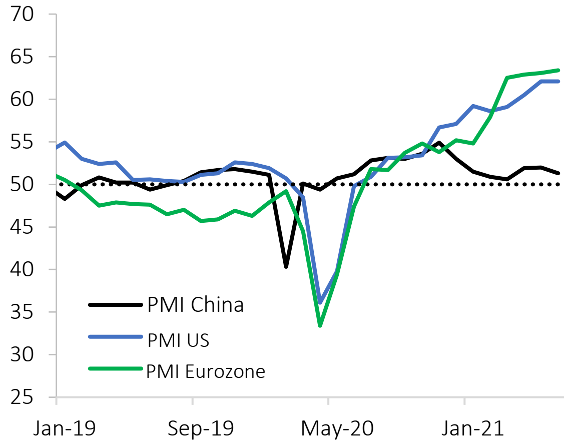
Source: RiskAmerica and Santander

Covid-19 and its variants are once again protagonists of the global scene

During the week, the growing concern in the markets was highlighted due to the rapid spread that the Delta variant of the coronavirus is registering, with countries that are re-imposing sanitary restrictions and / or postponing the openings planned for the month (United Kingdom). In this context, the MSCI Global remained flat, with falls in Latin America (-2%) and the Euro Zone (-1%, led by Spain: -2%) and advances in the North American markets (S&P and Dow Jones: + 1%). The global dollar strengthened 1% and long rates continued to fall (8bp on average during the week).

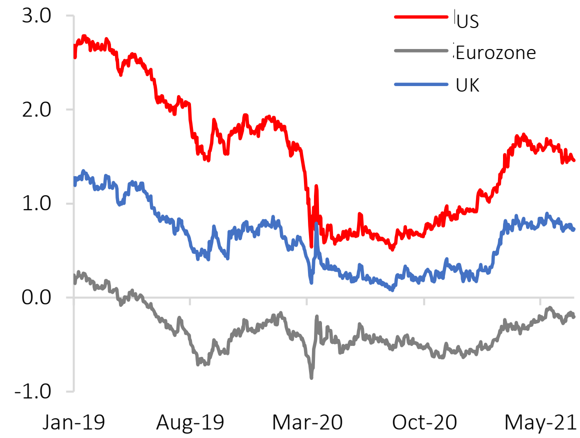
Figures from the US showed solid consumer confidence (Conference Board: 127.3 vs. 119 expected); positive signals from the labor front - despite the deterioration in unemployment that rose to 5.9% - (ADP job creation: 692,000 vs. 600,000 anticipated; unemployment benefits: 364,000 vs. 388,000 expected; non-agricultural payrolls: 850,000 vs. 720,000) and PMI indicators that are still optimistic, although on the margin they surprised to the downside (Markit: 62.1 vs. 62.6 and ISM: 60.6 vs. 60.9). In Europe, meanwhile, the manufacturing PMI advanced (63.4 vs. 63.1 expected) in a context of inflation close to 2% and unemployment around 8%, where the greatest current concern lies above all in the health situation. Finally in China, the components of the PMI index in June were slightly above the threshold of 50, with the biggest disappointment in the services sector (manufacturing: 50.9; services: 53.5; composite: 52.9).

Manufacturing PMIs moderate sentiment



Source: Bloomberg and Santander

Long rates show falls in the week



Source: Bloomberg and Santander