Strong labor data in the US puts pressure on financial markets again

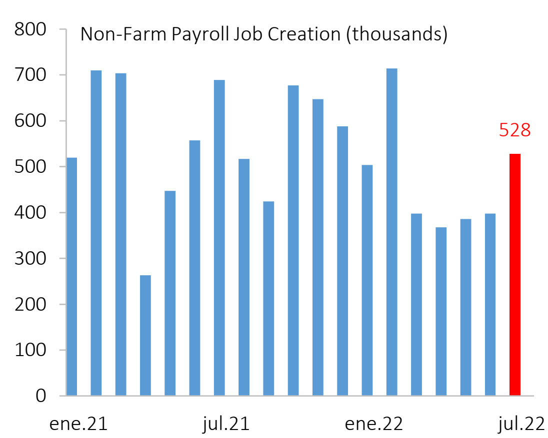
On July, the non-farm job creation in the US was well above expectations (528 thousand vs. 250 thousand expected and 372 thousand the previous month). This meant that, despite the economic slowdown, the unemployment rate fell to 3.5% (previous 3.6%). With this, the perspectives of a moderation in the process of raising rates by the Fed are postponed. For its part, the Bank of England decided, for the sixth consecutive time, to increase its reference rate by 50 bp, to 1.75%, due to the significant inflationary pressures that its economy continues to face.

In this context, long rates ended up rising more than 10bp on average during the week, with T10 in the US standing out (+18bp) –which closed at 2.8%– and the dollar appreciated (the DXY rose 1% up to 106.6 points). Meanwhile, global stock markets showed divergent movements, with a slight expansion in general terms (MSCI global: +0.6%) and falls in the markets of the region (MSCI Latam: -0.3%) and in China (- 0.3%), in an environment of persistent geopolitical tensions.

Beyond the US employment data, the activity indicators released during the week delivered mixed readings. In the euro zone, the services and composite PMIs were positive (services: 51.2 vs. 50.6 expected; composite: 49.9 vs. 49.4 expected), while the manufacturing fell 49.8 points and sales retail prices contracted in June, contrary to expectations (-1.2% m/m expected vs 0% forecast). In China, services PMIs were also negative. In turn, in the US, service indicators were somewhat higher than expected (PMI: 47.3 vs. 47.0 previously; ISM: 56.7 vs. 53.5 expected), as were the order figures industrial (2% vs. 1.2% expected) and durable goods (2% vs. 1.9% expected), which expanded in June, surprising to the upside.

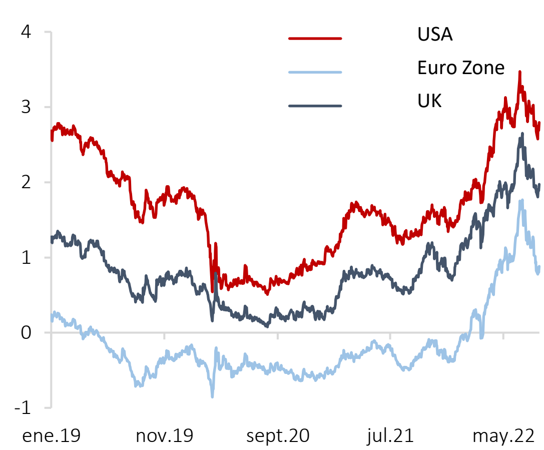
Finally, the prices of commodities showed significant declines. US corn and wheat futures fell 1% and 4% (aggregate index: -6%), following the renewal of agricultural exports from Ukraine after ships with grains could leave from Odessa. This eased concerns about grain supply, in a context where global demand expectations have weakened. For this reason, going forward these price drops should continue, which will help contain global inflationary pressures.

US job creation surprises sharply to the upside



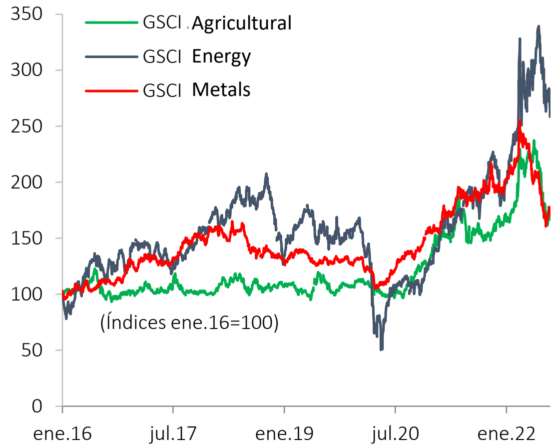
Source: Bloomberg and Santander

10-year rates reverse falls in the margin



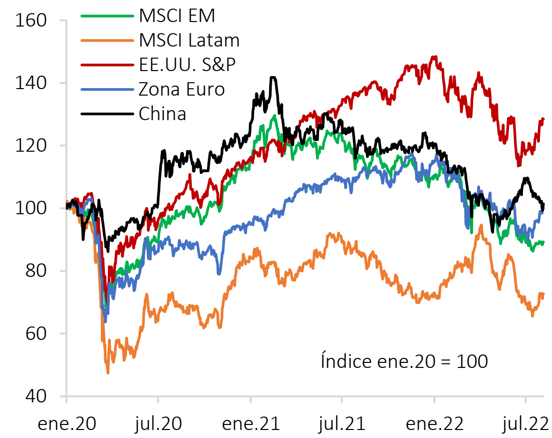
Source: Bloomberg and Santander

Correction of raw material prices would help reduce inflationary pressures



Source: Bloomberg and Santander

Global stock indices close mixed



Source: Bloomberg and Santander

Local fixed income responds to the economic slowdown scenario

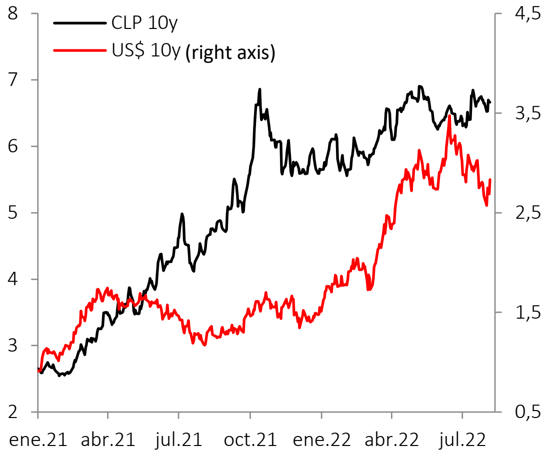
The figures released this week of Imacec showed that the slowdown in the economy continues (-0.2% MoM), although at a more moderate pace than expected. With the data for June, the preliminary figures for the second quarter of the year show an expansion in relation to the previous quarter (0.3% QoQ) and a fall if the mining sector is discounted (-0.2% QoQ) . Thus, although slower than initially expected, the economy continues to shrink and we estimate that it will increase during the second half of the year, especially in the commerce and services sectors.

A vision of deterioration is also evident in the activity of companies, according to the recent Central Bank Business Perceptions Report. Sales levels have decreased, costs continue to rise and the difficulties in finding workers remain high –although somewhat less than in the previous quarter.

In response, the fixed income market has intensified yield curve inversion. Short-term rates rose by around 10 bp in the week, while long-term rates did so to a lesser extent (BTP: 6.7%; +2 bp). This due to the partial compensation of two opposite effects. On the one hand, the rise in international rates in an environment of higher inflationary pressures and, on the other, the downward pressure of a scenario of lower growth in the medium term.

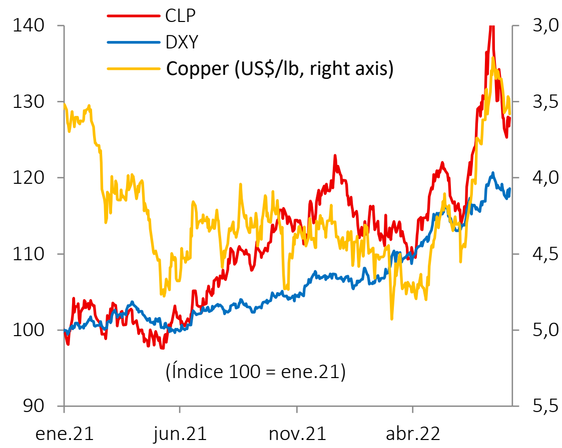
Meanwhile, the exchange rate that had stopped the appreciating trend rose sharply again at the end of this report to close at $920 (+2% weekly). This in the face of the abrupt rise in the global dollar and expectations of higher international rates, while the price of copper remains around US$3.6 per pound (0.2%).

Long-term rates rise in line with international benchmarks



Source: Bloomberg, Central Bank and Santander

Exchange rate yields due to strengthening of the global dollar



Source: Bloomberg and Santander