News of a new Covid-19 variant identified in South Africa impacts markets

At the local level, these falls partially reverse the gains made on financial assets after the elections.

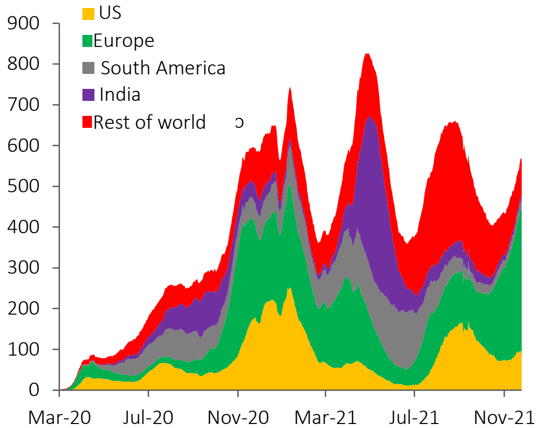
The variant has several mutations and can potentially be highly transmissible. The WHO will establish whether it is of "interest" or of "concern", in which case it would be renamed "Nu". The news about this strain has negatively affected the markets, which adds to the trends that had been showing during the week, where the fourth wave of infections in Europe associated with the Delta variant - which is forcing the authorities to take measures to contain the spread - and the hawkish Fed minute - had already made an impact. Thus, at the end of the week, the stock markets fell significantly compared to the previous week (Euro Zone: -5%; USA and United Kingdom: -2%) and long-term rates in the main economies reversed the Bullish trend in the last few days showing setbacks (-3bp on average, after having risen almost 10bp until yesterday), while the dollar strengthened again in the world. For their part, the main commodities show strong declines: copper is priced at US $ 4.3 per pound (-2%) and oil falls below US $ 73 per barrel (-5%).

Until the information on the new variant was known, the published data was mixed. In the US, the preliminary activity outlook for November was somewhat disappointing at the beginning of the week (composite PMI: 56.5 vs. 57.6 prior), led by a decline in the services sector (57.0 vs. 59.0 expected), which could be incorporating the uncertainty regarding the impact of the new wave of Covid-19 infections on activity in 4Q21. However, the advance of the labor market (initial unemployment benefits: 199 thousand vs. 260 thousand expected) and the dynamism of personal consumption (1.7% vs. 1.6% expected) still reflect a favorable recovery of the economy.

In line with this, the November FOMC minutes revealed the discussion on flexibility both to accelerate the rate of liquidity reduction (tapering) and the willingness to raise the policy rate earlier than expected, in case inflation does not give in. Thus, the market already anticipates rate increases in mid-2022. This, in the midst of the ratification of Jerome Powell as Fed chairman, ending months of speculation about the direction of the conduct of monetary policy, while Powell would take a firm stance on inflation.

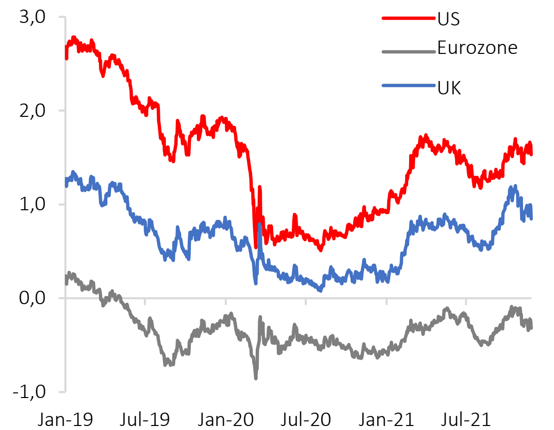
In Europe, the preliminary PMI figure for November accelerated in all its components (composite PMI: 55.8 vs. 54.2 prior), consumer confidence reached its lowest level since April 2021 (-6.8 vs. -5.5 expected) and the IFO index of business confidence in Germany fell for the fifth month in a row (96.5 vs. 97.7 previously). Finally, in China, the monetary authority decided last Sunday to maintain its interest rate (1-year LPR: 3.85%), although it gave signs of flexibility going forward, in order to cope with the economic slowdown.

Fourth wave of contagions and new variants worry global markets



Source: Bloomberg, OWID and Santander

Long term interest rates reverse weekly highs and close with a generalized fall



Source: Bloomberg and Santander

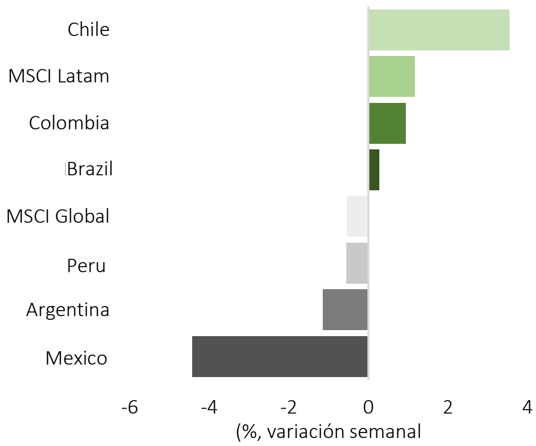
Local markets react positively to the result of the elections, but they revert to the closure in the face of the global situation of the pandemic

On November 21, the presidential elections were held and, as the polls had anticipated, the winners were José Antonio Kast (Republican Party), with 27.9% of the votes, and Gabriel Boric (Frente Amplio) with 25,7%. Both candidates will face each other again in the ballot to be held on December 19, the result of which is expected to be very narrow.

Along with the presidential election, the parliamentary elections were held, leaving the Senate practically balanced after the higher percentage reached by the right and center-right parties (50%), while, in the Chamber of Deputies, the left and center parties -left obtained a slight majority (51%). This balance of parliamentary forces ensures that any structural reform will require intense negotiation and that, regardless of who is elected President of the Republic, the probability of radical changes is considerably reduced.

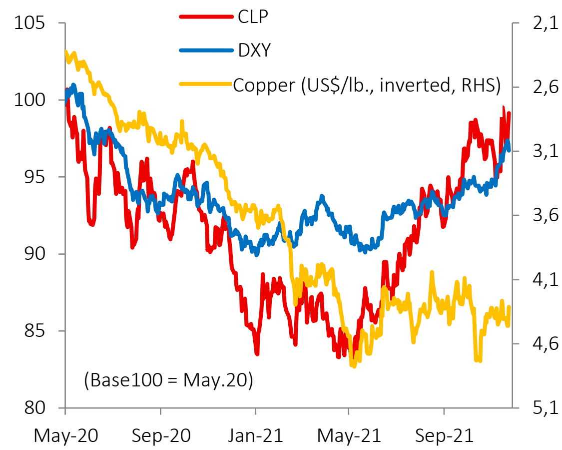
These electoral results were favorably received by the market. The day after the elections, the IPSA rose 9.7% (4,780 points), the peso appreciated more than 2% (to $ 812) and interest rates fell 40 bp. Over the course of the week, however, these trends have moderated. The IPSA is retreating below 4,520 points in line with the international falls of the exchanges due to the expansion of the coronavirus in Europe and the fears of the new variant. Meanwhile, the exchange rate reversed the entire gain of the week, trading around $ 829 again, also influenced by the new strain, the fall in the price of copper (-2%) and the global strengthening of the dollar.

Local Exchange leads returns in the región



Source: Bloomberg and Santander.

Exchange rate reverses gains in the week



Source: Bloomberg and Santander.