Start of discussion for a possible new withdrawal of funds puts pressure on the local fixed income market

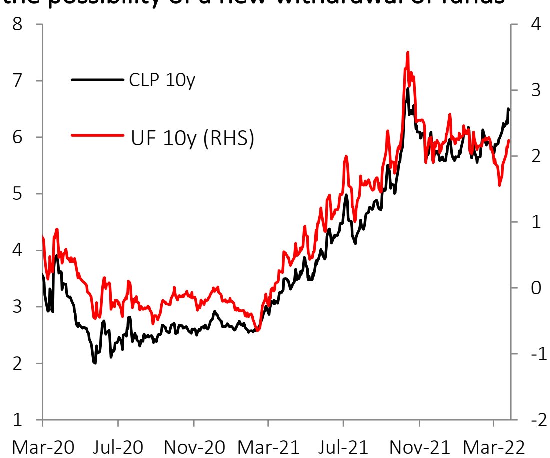
For its part, we anticipate that at next week's Monetary Policy Meeting the MPR would be between 7% and 7.5%

During the week, the Chamber of Deputies approved -with 117 votes in favor and 26 against- the idea of legislating a new withdrawal of pension funds, initiating the processing of a series of projects with main ideas similar to those of the fourth withdrawal, among which contemplates the partial and/or total withdrawal of the individual capitalization accounts.

The possibility of new massive sales of financial instruments and the risk for the capital market, added to renewed global inflationary pressures and the recent rises in international rates, generated a strong increase in long-term returns at the local level. The BTU10 rose 30 bp in the week, up to 6.5%, reaching a level not seen since October 2021, when the fourth withdrawal project was being discussed. A similar increase was observed in the adjustable rates (UF10: 2.2%).

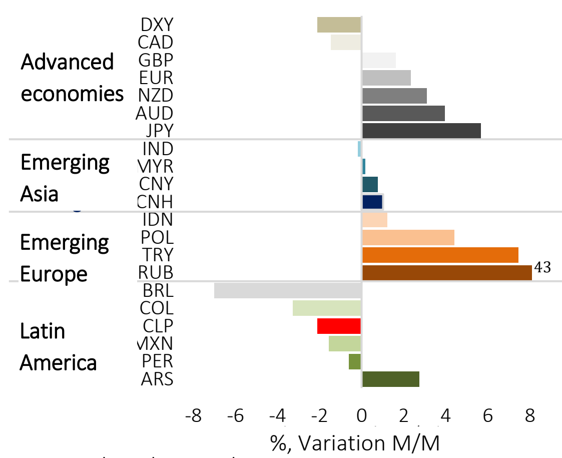
The peso, for its part, appreciated significantly during the week, driven by the significant increase in the price of copper, which this week traded above US$4.7 per pound. With this, the exchange rate closed the week below $790. The stock market, meanwhile, rose 2.2% (4,963 points), in line with what was observed in countries in the region that have benefited from the high raw material levels. The flows of international investors seeking refuge in the midst of the war and health tensions in China have also contributed to the good stock market performance.

Long term interest rates strongly increase due to the possibility of a new withdrawal of funds



Source: Central Bank, RiskAmerica and Santander

The peso appreciated due to raw material prices



Source: Bloomberg and Santander

Extension of the war conflict continues to fuel inflationary pressures

One month into the war in Ukraine, the humanitarian crisis has deepened and the political repercussions have escalated, with new economic sanctions on Russia. NATO and G7 leaders met in Brussels this week to coordinate new measures and anticipate possible adverse scenarios, including the US proposal to withdraw Russia from the G20.

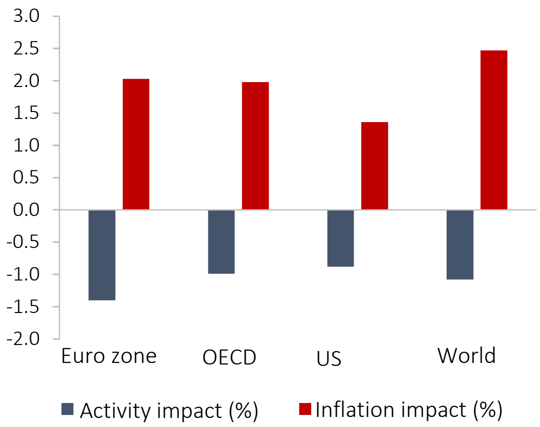
At the close of this report, the President of the United States, Joe Biden, together with the President of the European Union Commission, Úrsula von der Leyen, presented a strategic alliance on energy matters, committing to increase shipments of natural gas to Europe this year - in at least 15 billion cubic meters of liquefied natural gas - to help reduce dependence on Russian imports.

It is very complex to anticipate how long the conflict could last, but it is already ventured that the impact on global activity could be at least 1pp of lower growth this year, according to the latest OECD report. On the other hand, the additional inflationary pressures to the situation prior to the war would be of the order of 2.5%.

Despite the above, the preliminary PMI figures for March in the Euro Zone were somewhat higher than expected (manufacturing: 57 vs. 56; services: 54.8 vs. 54.3), supported by the easing of health measures associated with the pandemic. Similarly, the data released in the US for March were also favorable (composite PMI: 58.5 vs. 54.7 expected), especially those related to the labor market (initial unemployment benefits: 187 thousand vs. 210 thousand expected), thus reinforcing Jerome Powell's speech at the beginning of the week, in which he expressed confidence in the strength of the US economy to withstand the withdrawal of stimuli, in a position to face inflation that was somewhat more aggressive than expected by the market.

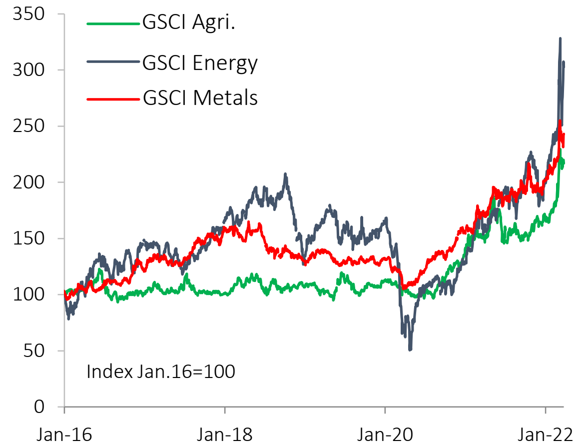
All in all, international markets closed the week with mixed movements and a slight upward trend (global MSCI: +1%); a stronger global dollar and a reduction in risk aversion (VIX: -2 points). For their part, financial conditions do reflect a tightening, where long-term interest rates rose sharply (+25 bp on average, with the US Q10 around 2.5%). The foregoing, in response to the upward trend in the prices of raw materials, particularly fuels -WTI and Brent oils, rose on average almost 10% during the week, remaining in the range between 110 and 120 US$/bl , respectively-, which feed the already high inflationary expectations at a global level (the CPI for February in the United Kingdom rose 6.2% y/y vs. 6.0% expected, the highest figure in the last 30 years).

The war implies a downward revision for world GDP and an upward revision for inflation



Source: OCDE (Report Mar.22) and Santander

Prices of main raw materials reflect the uncertainty of the external scenario



Source: Bloomberg and Santander

What's coming...

On Tuesday of next week, the Central Bank will hold a new Monetary Policy Meeting, where we anticipate that the interest rate will have a significant increase of between 150 and 200 bp, to be between 7% and 7.5%. Although there is consensus in the market on the need for a substantial increase in the guiding rate to face inflationary pressures, the point of arrival of the upward cycle and when it could end is not so clear.

The Central Bank has expressed great concern over the persistent deviation of 3% from projected inflation over two years. However, more recently, it is fundamentally due to external pressures on prices, due to the rise in the value of raw materials. This is a phenomenon that, although it may be highly persistent, will eventually reverse itself, giving room for a moderation in local prices. On the other hand, a series of antecedents indicate that the local economy could slow down sharply in the coming months, especially due to the persistence of uncertainty at the local level and due to the effects of the war.

Thus, it is likely that the necessary withdrawal of the monetary impulse is closer to completion and that the Council will pause its rate hike process at the next or subsequent meeting, with a point of arrival below what market rates indicate. Even so, the possibility of a new withdrawal of pension funds or, failing that, the possibility of a significant deviation of fiscal spending over the budget, would put greater pressure on inflation and would lead the Board to maintain the MPR at high levels. throughout the year.

The Report to be released next week will be key to elucidating these considerations and the Council's vision. The report will be a good opportunity to strengthen the credibility of monetary policy, with a clear communication of the transitory nature of some of the inflationary pressures and the downside risks facing activity.

Next week the IMACEC for February will be known, where we expect an annual growth of 7.1% after the revisions of the National Accounts which narrowed the basis of comparison. In seasonally adjusted terms, the index would show a negative variation and would maintain the trend of the previous months, where services would be the one that would sustain growth.