

Economy recovers shyly after the social outbreak, but new sources of uncertainty arise in the external scenario

US airstrike on Iran generates new tensions in the markets. After the attack, the stock exchanges and interest rates show setbacks, the dollar appreciates globally, emerging currencies weaken, copper decreases and the price of oil increases.

November Imacec confirms a tenuous recovery of the national economy after the dramatic fall of October. Non-mining activity during the penultimate month of the year grew 1% m /m, after the unprecedented monthly 6% decline recorded in October. The short-term effects of the outbreak have been concentrated in the commerce and services sectors, while construction and manufacturing maintain some dynamism.

Labor market figures surprise positively. The unemployment rate for the quarter ended in November fell to 6.9%, in line with its usual seasonal patterns. We estimate that clearer effects on employment as a result of the social outbreak will be visible in the first months of the year.

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US airstrike on Iran generates new tensions in the markets.

Geopolitical tensions between Iran and the US generate greater risk aversion.

The beginning of the year has been marked by conflicting events. On the one hand, January 15 could be the date chosen for China and the US to sign the expected phase 1 of the trade agreement. However, no further details are known, so optimism in financial markets is limited. On the other hand, the death of one of Iran's military leaders by the United States generated an increase in risk aversion. Stock exchanges and interest rates show setbacks, the dollar appreciates globally, emerging currencies weaken, copper decreases and oil increases around 4%. Iran announced reprisals against the US so tensions between the two nations could continue to escalate and the price of oil could increase again.

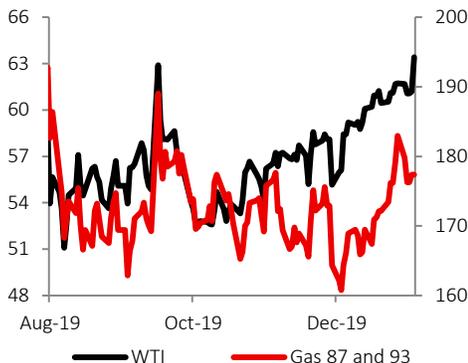
On the other hand, the People's Bank of China (PBoC) again lowered the reserve requirements that banks must maintain, which means greater liquidity in the system by around US \$ 115,000 million in the prelude to the New Year holidays. The sign of renewed support for the Chinese economy brought stock markets up more than 3%.

Graph 1: International Exchanges (Index 100 = Aug 19)



Source: Bloomberg and Santander

Graph 2: Price of oil and gas (US\$/bbl y US\$/gallon)



Source: Bloomberg and Santander

Imacec of November confirms tenuous recovery of the national economy after the dramatic fall in October

Imacec of November confirms a slight recovery of activity (+1% m/m).

The November Imacec (-3.3% y / y) accounts for a partial recovery of the activity (1% m / m seasonally adjusted), after the sharp fall in October due to the social crisis. This was slightly better than expected (Santander -3.5; Bloomberg: -3.5; EEA: -4%) and was influenced by the still partial functioning of some activities - trade and services - and by a demanding comparison base in mining, which made the annual variation of the mining Imacec reach -5.1% y / y.

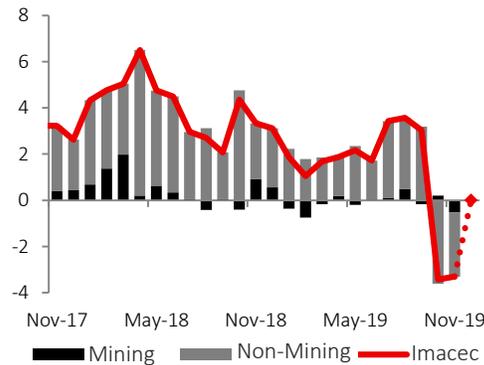
The INE sector and employment indicators known this week have already shown that the short-term impact of the social outbreak on the activity was somewhat less intense than expected. Thus, the manufacturing sector, far from contracting, showed a moderate expansion (3.2% y / y). In turn, in its statement, the Central Bank stressed that together with manufacturing, construction contributed positively to the activity of the month.

With an Imacec of 0% in December, the growth for the year could close slightly above 1%.

This background suggests, on the one hand, that the external sector of the economy - linked to manufacturing and that has not been the victim of direct disruptions - could have a good performance in the coming quarters, favored by a better international scenario and a depreciated real exchange rate. On the other hand, the inertia of large investment projects and real estate activity will support, for some time, both employment and construction.

For December we estimate that the activity could have had a monthly advance of more than 2% and a zero annual growth. With this, the GDP of the year could have closed with an expansion slightly above 1%, its lowest record since 2009. For this year, the outlook for growth remains limited and will depend largely on the development of the political scenario.

Graph 3: Imacec and components (var. % y/y)



Source: Banco Central and Santander.

Graph 4: Seasonally adjusted Imacec (var. % m/m)



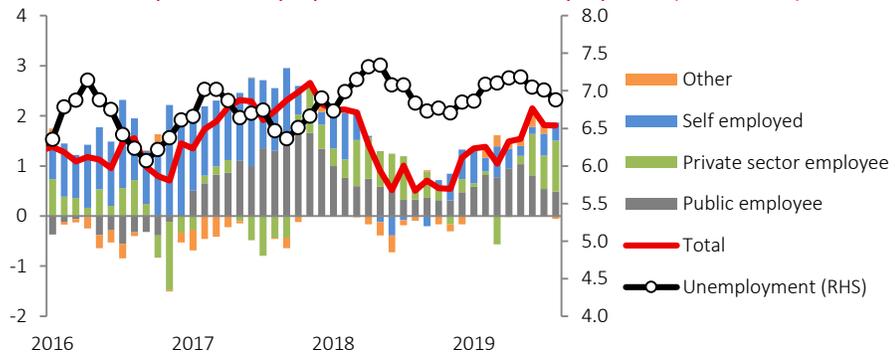
Source: Banco Central and Santander.

Unemployment in November reduced a decimal compared to the previous data.

Positive surprise from labor market figures

Unexpectedly, the unemployment rate went from 7% in the mobile quarter ended in October - which only partially reflects the impact of the crisis - to 6.9% in the mobile quarter ended in November (0.1pp more than a year ago). The result is explained by a 1.4% growth in employment with a significant incidence of the salaried component. By sectors, construction stands out, for projects started some time ago, and possibly it has also been affected by some reconstruction work.

Graph 5: Unemployment rate and total employment (annual var.)



Source: INE and Santander.

The monthly drop in the unemployment rate is due to seasonal factors. The INE reports that, adjusted for this effect, the indicator rose to 7.1%. Even so, despite the increase, the data surprises, since a much larger increase was expected, up to a range between 7.5% and 8%.

It is possible that in the coming months the impacts of the social outbreak will become more visible in the figures reported by the INE. As reported by the Labor Directorate, in November the dismissals for “company needs” could have increased 84% compared to the same month of 2018, which is equivalent to 28,421 additional separations.

Market summary

	Level	Parities			Exchanges			10Y Rates			
		Weekly Var.	Accum. Dec-19 %	Accum. 2019	Weekly Var.	Accum. Dec-19 %	Accum. 2019	Level	Weekly Var.	Accum. Dec-19 bp	Accum. 2019
US	97.0	-0.1	1.3	-0.6	0.6	3.7	31.1	1.83	-5	5	-91
Eurozone	1.1	0.3	-1.2	2.6	-0.9	1.2	25.5	-0.28	-2	8	-52
UK	1.3	0.0	-1.1	-2.9	-0.7	3.4	12.8	0.74	-1	4	-53
Japan	108.1	-1.2	-1.3	-1.9	-0.7	1.3	15.2	-0.02	-1	6	-2
Chile	758.6	1.5	-5.5	9.5	1.8	4.8	-6.9	3.15	2	-4	-108
Argentina	59.8	0.0	-0.2	58.7	-1.7	18.8	35.3	21.7	38	-513	1,020
Brazil	4.1	0.3	-4.2	4.6	1.2	9.0	34.2	6.74	-16	-19	-254
Mexico	18.9	0.5	-3.2	-3.6	0.4	3.8	7.2	6.81	-3	-29	-194
Colombia	3,265	-1.0	-7.1	0.6	-0.1	2.9	25.1	6.10	2	-15	-62
Peru	3.3	-0.2	-2.8	-1.9	0.8	6.7	-1.7	4.14	-4	-13	-148
China	7.0	-0.4	-0.9	1.3	3.1	8.3	37.7	3.19	2	0	-8
Turkey	6.0	0.5	4.0	13.4	-0.3	6.1	25.4	12.1	10	-13	-392
South Africa	14.3	1.9	-2.4	-0.9	0.7	4.9	10.8	8.26	10	-20	-64
India	71.8	0.5	0.0	2.7	-0.3	1.6	14.9	6.51	1	5	-88
Indonesia	13,920	-0.2	-1.3	-4.4	-0.1	5.2	2.1	7.07	-3	-1	-91
Copper	278.7	-1.7	5.5	3.9							
Oil	63.4	2.7	14.9	39.8							

Data published this week

DAY	COUNTRY	INDICATOR	PERIOD	PREVIOUS	ESTIMATION	ACTUAL
MONDAY 30	US	Manufacturing index-Fed Dallas	December	-1.3	0.0	-3.2
	China	PMI official manufacturing	December	50.2	50.1	50.2
	China	PMI oficial non- manufacturing	December	54.4	54.2	53.5
TUESDAY 31	Chile	Manufacturing production	November	-5.8%	-2.0%	3.2%
	Chile	Industrial production y/y	November	-3.4%	-2.5%	-1.8%
	Chile	Copper production	November	493988	--	504366
	Chile	Unemployment rate	November	7.0%	7.5%	6.9%
	Chile	Commerical activity	November	-9.5%	--	-5.3%
	US	Consumer confidence (Conf. Board)	December	125.5	128.5	126.5
WEDNESDAY 1	China	PMI Caixin manufacturing	December	51.8	51.6	51.5
THURSDAY 2	Chile	IMACEC	November	-3.4%	-3.5%	-3.3%
	Chile	IMCE	December	36.58	--	32.53
	US.	Unemployment requests (miles)		222k	220k	222k
	US	PMI Markit manufacturing	December	52.5	52.5	52.4
	Eurozone	PMI Markit manufacturing	December	45.9	45.9	46.3
	Global	PMI global manufacturing	December	50.3	--	50.1
FRIDAY 3	US	Minutes FOMC				

Estimates correspond to the market consensus according to Bloomberg, while figures in red are Santander estimates

Data to be published next week

DAY	COUNTRY	INDICATOR	PERIOD	PREVIOUS	ESTIMATE
MONDAY 6	Chile	Sale of cars	December	24272	--
	US	PMI Markit Services	December	52.2	52.2
	Eurozone	PMI Markit Services	December	52.4	52.4
	Eurozone	Sentix confidence	January	0.7	2.6
	China	PMI Caixin Composed	December	53.2	--
	China	PMI Caixin Services	December	53.5	53.2
	China	International reserves	December	\$3095.59b	--
TUESDAY 7	Chile	Commercial balance	December	\$111m	--
	Chile	Nominal salaries y/y	November	4.5%	--
	US	Commercial balance	November	-\$47.2b	-\$45.0b
	US	PMI ISM non-manufacturing	December	53.9	54.5
	US	Durable goods orders	November	-2.0%	--
	Eurozone	Retail sales	November	1.4%	1.4%
	Eurozone	Inflation m/m	December	-0.3%	0.3%
	Eurozone	Total inflation y/y	December	1.0%	1.3%
	Eurozone	Underlying inflation y/y	December	1.3%	1.3%
WEDNESDAY 8	Chile	Inflation m/m	December	0.1%	0.1%
	Chile	Inflation y/y	December	2.7%	3.0%
	US	Employment ADP	December	67k	165k
	US	Economic confidence	December	101.3	101.5
	Eurozone	Consumer confidence	December	-8.1	--
	China	Inflation y/y	December	4.5%	4.7%
THURSDAY 9	US	Unemployment requests (thousands)		222k	220k
	Eurozone	Unemployment rates	November	7.5%	7.5%
FRIDAY 10	US	Employment creation – no agriculture	December	266k	163k
	US	Unemployment rate	December	3.5%	3.5%
	US	Wages per hour y/y	December	3.1%	3.1%

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