

## Local economy still under pressure

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**Local financial markets continue volatile.** During the week, the Ch\$/US exchange rate and the stock market retreated, while the long-term interest rate closed relatively stable, after having had a large hike. Liquidity conditions in the local market also tended to normalize.

**Investment for the next five years will be impacted by the social conflict, according to the last report published by the Capital Goods Corporation (*Corporación de Bienes de Capital*).** Although there was an increase in the inventory of projects during June and September, this effect disappears when considering the effect of the social unrest these last weeks.

**Positive signals for U.S. activity and mixed signals for Europe.** The manufacturing and services sectors in the U.S. accelerated in November above expectations, as shown in the PMI publications, reflecting the resilience that U.S. economy maintains.

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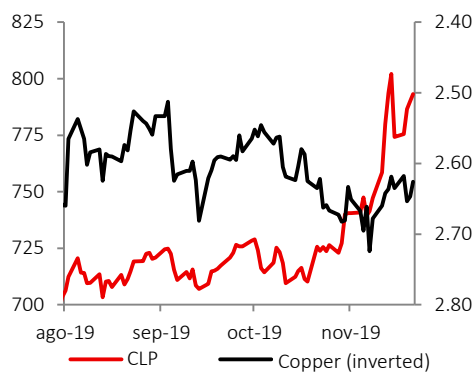
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### Local financial markets continue tense

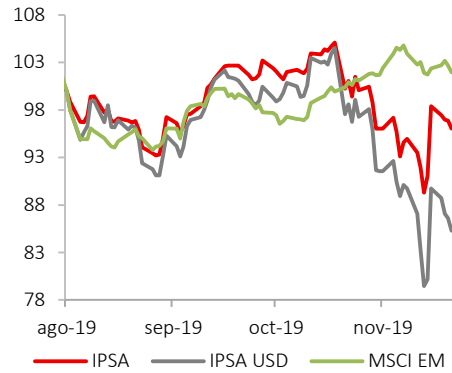
Local asset prices continued to reflect the increased uncertainty after the social conflict began. The exchange rate depreciated once again, partially counteracting the recovery it had after the announcement of the political agreement on Friday, November 15. This trend was accompanied by a lower copper price and lower forward flows of non-residents with continue to bet in favor of the Chilean peso, with a selling flow of U.S. dollars of US\$550 million between the 15<sup>th</sup> and the 19<sup>th</sup> of November.

The IPSA also backtracked a part of the recovery of last Friday and decrease over 2% in the week, accumulating a fall of 8.5% since the social unrest began.

**Exchange rate and copper Price (\$/US\$, US\$/lb.)**      **Stock market (Index 100 = Aug.19)**



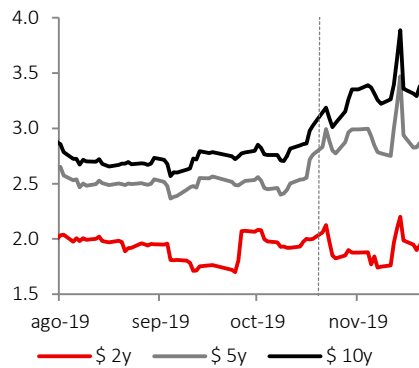
Source: BCCh, INE and Santander



Source: INE and Santander

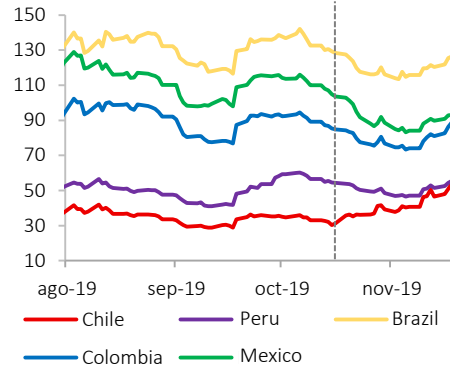
Nominal interest rates of government bonds closed relatively stable during the week, remaining at similar levels than those reached after the political agreement last week. The sovereign risk premium, as measured by the five-year CDS, continued to increase and was at levels of 53 bps at the publication of this report. However, when seen in a long-term perspective, these continues to be a low level.

**Nominal benchmark rates (%)**



Source: Bloomberg and Santander

**5-year CDS (bp)**

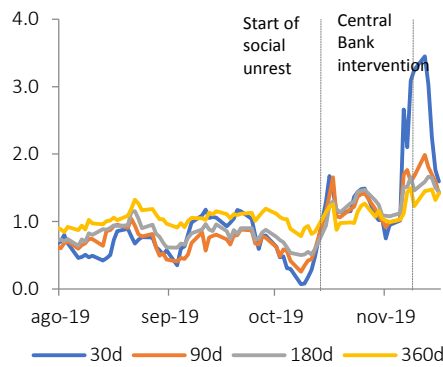


Source: Bloomberg and Santander

Liquidity conditions in the Chilean peso and the U.S. dollar in the local market remained more lax during the week. The interest rate for 30-day time deposits decreased; however in longer terms they increased 10 bp on average. The funding cost in U.S. dollars decreased and remains under 200bp – the maximum limit the Central Bank implicitly set in its swap purchase program – in all terms.

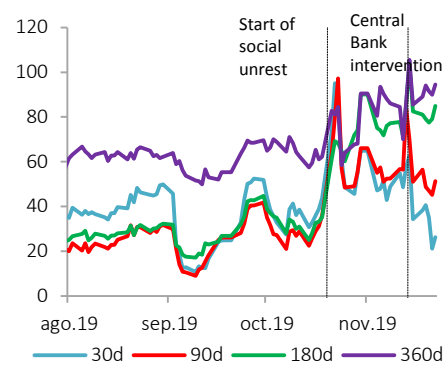
With respect to the expectations of the Monetary Policy Rate, swap rates started increasing once again, although the rise was more contained, which implicitly shows an additional rate cut during the first quarter of 2020 for a short term and a reversal. We estimate that in the next Monetary Policy Meeting in December – which coincides with the publication of Monetary Policy Report which will evaluate de social crisis – the Central Bank will maintain the Monetary Policy Rate at 1.75%. Going forward, and as financial markets stabilize, the Central Bank could want to increase stimulus, with one or two additional rate cuts. The analysis of the impact of the depreciation of the exchange rate in the medium-term inflation and the impact of the lower economic activity will be key to see if the additional cuts go through.

Spread on shore above Libor (%)



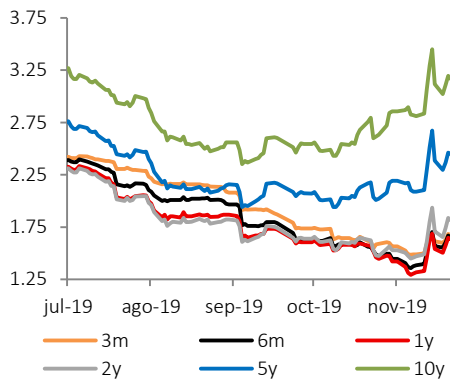
Source: Bloomberg and Santander

Deposit rate spread and nominal swaps (bp)



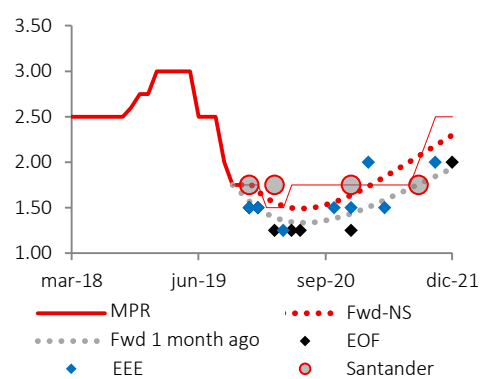
Source: Bloomberg and Santander

Nominal swap rates (%)



Source: INE and Santander

Monetary Policy Rate Expectations (%)



Source: Bloomberg and Santander

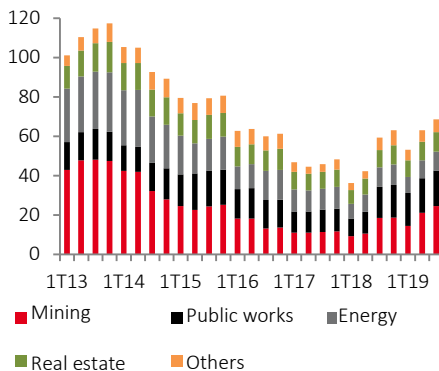
Si bien hubo un incremento de los proyectos entre junio y septiembre, este desaparece al considerar el estallido social.

### New projects appear in the pipeline, but some will suffer delays

The inventory of investment projects for the next five years executed by the Capital Goods Corporation (CGC) went from US\$ 63 billion in the 2Q19 to US\$ 68.5 billion in the 3Q19, as new projects were incorporated, before the social unrest began. A subsequent analysis by the CGC points out that, given their degree of progress, up to 7% of those projects could be affected. One part of this calculation corresponds to the initiatives that potentially could modify their construction timings to after the five-year term analyzed the CGC of 2019-2023. The sectors with the largest impact are public works, real estate, and industrial.

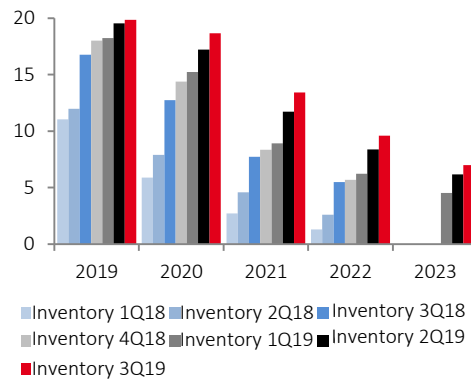
For the moment, this preliminary analysis does not contemplate those initiatives that could be affected by the secondary effects of the crisis, such as lower expected economic growth, the change in the perception of risk and/or financing restrictions.

Five-year investment portfolio (US\$ billion)



Source: CGC and Santander

Investment projects by year according to different inventory reports (US\$ billion)



Source: CGC and Santander

### Positive signals for the U.S. activity and mixed signals for Europe

The manufacturing production of the U.S. accelerate during November to its highest level in the past seven months, and services recovered more than expected, as shown by PMI publications. The manufacturing index increased to 52.2 in November from 51.3 in October, while services increased to 51.6 from 50.6 last month.

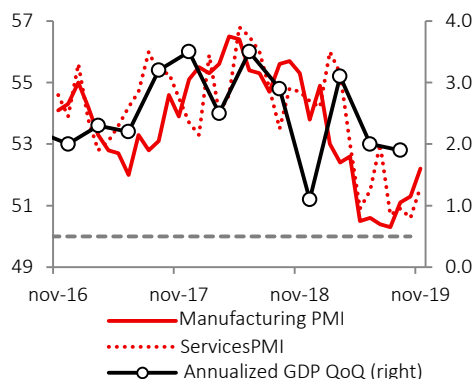
The U.S. economy has lost dynamism this year as a consequence of less fiscal stimulus. In the third quarter, activity expanded at an annualized rate of just 1.9%, and some recent data suggest that the process continues in the fourth quarter as companies froze investment due to the commercial war and weakness in external demand. The results of the PMI are a positive signal for year-end activity.

In Europe, the PMI for November shows a decrease in services that was not compensated by the manufacturing component, a worsening of indicators that apparently would come from Spain and/or Italy. These numbers increase the concern that the weakness in the manufacturing sector is infiltrating the services sector. On the positive side, the contraction in the industry in Germany seems to have reached the bottom during the 3Q19. Additionally, the German GDP in the 3Q19 of 0.1% quarterly surprised positively, since not only did it avoid recession but could have been even better if it had not been for a lower public investment due to a one-time effect.

PMI positivos en EE.UU. marcan resiliencia de la economía.

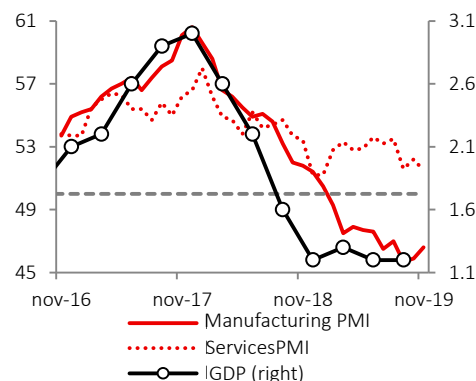
Exports also recovered.

**U.S. PMI (Index neutral = 50)**



Source: Markit and Santander

**Eurozone PMI (Index, neutral = 50)**



Source: Markit and Santander

### Market summary

|                | Level  | EXCHANGE RATES |                |             | MARKETS     |                |             | 10Y RATES |             |                 |             |
|----------------|--------|----------------|----------------|-------------|-------------|----------------|-------------|-----------|-------------|-----------------|-------------|
|                |        | Weekly Var.    | Monthly Var. % | Annual Var. | Weekly Var. | Monthly Var. % | Annual Var. | Level     | Weekly Var. | Acum. Nov-19 pb | Annual Var. |
| United States  | 98.2   | -0.2           | -0.9           | -1.9        | -0.6        | 2.2            | 24.8        | 1.76      | -7          | 7               | -98         |
| Eurozone       | 1.1    | 0.2            | 1.1            | 3.7         | -0.6        | 2.4            | 23.6        | -0.36     | -2          | 5               | -60         |
| United Kingdom | 1.3    | 0.5            | 0.9            | -1.0        | 0.4         | 1.1            | 8.8         | 0.70      | -3          | 7               | -57         |
| Japan          | 108.7  | -0.1           | 0.6            | -1.5        | -0.3        | 1.5            | 13.2        | -0.08     | -1          | 6               | -8          |
| Chile          | 798.5  | 3.1            | 7.8            | 15.2        | -3.1        | -0.7           | -7.7        | 3.31      | -5          | -4              | -92         |
| Argentina      | 59.6   | 0.2            | 0.1            | 58.2        | 6.8         | -2.8           | 12.3        | 25.1      | -446        | -252            | 1,359       |
| Brazil         | 4.2    | -0.3           | 4.2            | 7.8         | 1.3         | 0.6            | 22.8        | 6.87      | 16          | 43              | -240        |
| Mexico         | 19.4   | 1.2            | 0.9            | -1.3        | -0.1        | 0.0            | 4.5         | 7.02      | 10          | 26              | -173        |
| Colombia       | 3,422  | 0.0            | 1.3            | 5.5         | -1.4        | -1.8           | 20.9        | 6.08      | 3           | 27              | -64         |
| Peru           | 3.4    | 0.9            | 1.4            | 0.6         | 0.4         | -2.3           | -7.9        | 4.17      | -10         | -4              | -144        |
| China          | 7.0    | 0.4            | 0.0            | 2.4         | -0.7        | -0.9           | 27.9        | 3.19      | -7          | -9              | -9          |
| Turkey         | 5.7    | -0.6           | 0.1            | 8.3         | 1.1         | 8.2            | 17.9        | 12.1      | 0           | -57             | -387        |
| South Africa   | 14.7   | 0.0            | -2.6           | 2.0         | 1.4         | 0.6            | 8.6         | 8.41      | 3           | -8              | -48         |
| India          | 71.8   | 0.2            | 1.1            | 2.6         | 0.0         | 0.6            | 11.9        | 6.50      | -2          | -15             | -90         |
| Indonesia      | 14,080 | 0.1            | 0.3            | -3.3        | -0.5        | -2.1           | -1.5        | 7.07      | 3           | 7               | -91         |
| Copper         | 264.1  | 0.1            | 0.1            | -1.5        |             |                |             |           |             |                 |             |
| Oil            | 58.7   | 1.7            | 8.4            | 29.5        |             |                |             |           |             |                 |             |

## Data that was published during the week

| DAY                 | COUNTRY  | INDICATOR                             | PERIOD   | PREVIOUS | ESTIMATE | EFFECTIVE |
|---------------------|----------|---------------------------------------|----------|----------|----------|-----------|
| <b>MONDAY 18</b>    | Chile    | GDP                                   | 3Q       | 1.90%    | 3.30%    | 3.30%     |
| <b>TUESDAY 19</b>   | USA      | Viviendas iniciadas (miles)           | October  | 1256k    | 1320k    | 1314k     |
| <b>WEDNESDAY 20</b> | USA      | FOMC Minutes                          | October  | --       | --       | --        |
| <b>THURSDAY 21</b>  | USA      | Fed Philadelphia Business Perspective | November | 5.6      | 6.0      | 10.4      |
|                     | USA      | Jobless claims (thousands)            |          | 225k     | 218k     | 227k      |
|                     | Eurozone | Consumer Confidence                   | November | -7.6     | -7.3     | -7.2      |
| <b>FRIDAY 22</b>    | USA      | PMI Markit Services                   | November | 50.6     | 51.0     | 51.6      |
|                     | USA      | PMI Markit Manufacturing              | November | 51.3     | 51.4     | 52.2      |
|                     | USA      | U. of Michigan Consumer Confidence    | November | 95.7     | 95.7     | 96.8      |
|                     | Eurozone | PMI Markit Manufacturing              | November | 45.9     | 46.4     | 46.6      |
|                     | Eurozone | PMI Markit Services                   | November | 52.2     | 52.4     | 51.5      |

## Data that will be published during the week

| DAY                 | COUNTRY  | INDICATOR                         | PERIOD   | PREVIOUS | ESTIMATE |
|---------------------|----------|-----------------------------------|----------|----------|----------|
| <b>MONDAY 25</b>    | USA      | Fed Chicago activity index        | October  | -0.45    | -0.20    |
|                     | USA      | Fed Dallas manufacturing index    | November | -5.1     | -3.5     |
| <b>TUESDAY 26</b>   | USA      | Consumer Confidence (Conf. Board) | November | 125.9    | 126.5    |
| <b>WEDNESDAY 27</b> | USA      | Annualized GDP QoQ                | 3Q19     | 1.9%     | 1.9%     |
|                     | USA      | Personal consumption              | 3Q19     | 2.9%     | 2.8%     |
|                     | USA      | Core PCE QoQ                      | 3Q19     | 2.2%     | --       |
|                     | USA      | Durable goods orders              | October  | -1.2%    | -0.6%    |
|                     | USA      | Jobless claims (thousands)        |          | 227k     | 220k     |
|                     | Eurozone | Economic Confidence               | November | 100.8    | 101.0    |
|                     | Eurozone | Consumer Confidence               | November | -7.2     | --       |
| <b>FRIDAY 29</b>    | Chile    | Unemployment rate                 | October  | 7.0%     | 7.3%     |
|                     | Chile    | Copper production                 | October  | 488687   | --       |
|                     | Chile    | Manufacturing production          | October  | 2.1%     | -7.6%    |
|                     | Chile    | Industrial production YoY         | October  | -0.2%    | --       |
|                     | Eurozone | Unemployment rate                 | October  | 7.5%     | 7.5%     |
|                     | Eurozone | Total inflation YoY               | November | 0.7%     | 0.9%     |
|                     | Eurozone | Underlying inflation YoY          | November | 1.1%     | 1.2%     |
|                     | China    | Official PMI manufacturing        |          | 49.3     | 49.5     |
|                     | China    | Official PMI non-manufacturing    |          | 52.8     | 53.1     |

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