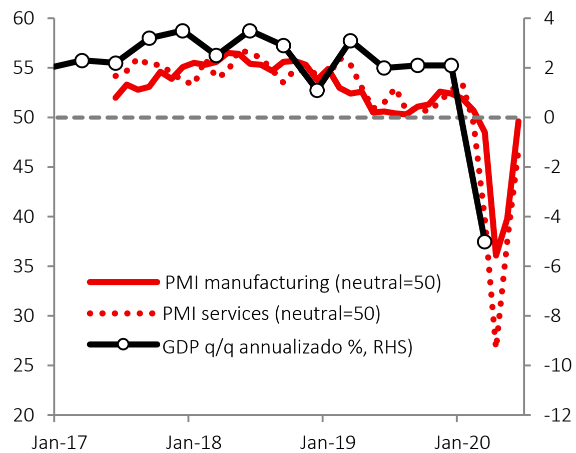
Covid outbreaks in various countries impact markets

The IMF revised its outlook for the global economy downward, while in Chile the government reported that the fiscal deficit would close this year at 9.6% of GDP.

This week was marked by an acceleration of infections in a number of countries, mainly in the US, which has raised fears regarding the recovery of the global economy. Thus, although the May PMIs reported this week showed a significant recovery and were above expectations (the PMI for services in Europe went from 30.5 to 47.3 and that of manufacturing from 39.4 to 46.9, while in the US the PMI for services reached 46.7 and the PMI for manufacturing reached 49.6, reaching almost its neutral level), the main stock indexes of advanced economies registered weekly declines of close to 2%.

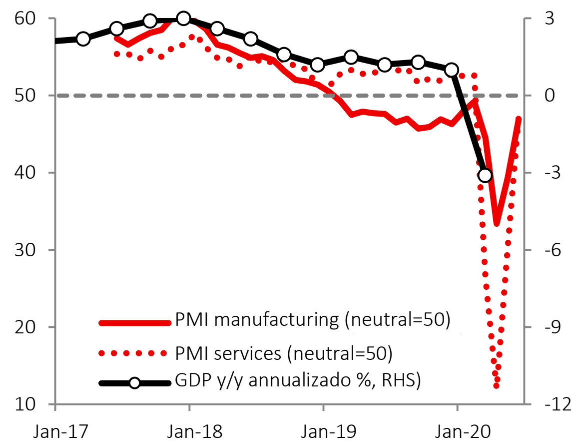
On the other hand, the good performance that China shows had an impact on its stock market, which rose around 1% in the week and boosted the prices of raw materials. This, together with the decrease in operations at Codelco, raised the price of copper, which closed at around US $ 2.68 per pound, with a weekly gain of 1.8%. In this context, the Chilean peso was around $ 817 per dollar. The IPSA, meanwhile, at the end of this report showed zero weekly variation, a better performance than that registered by its peers in the region.

PMIs in the US rebound from very low levels, but remain pessimistic...



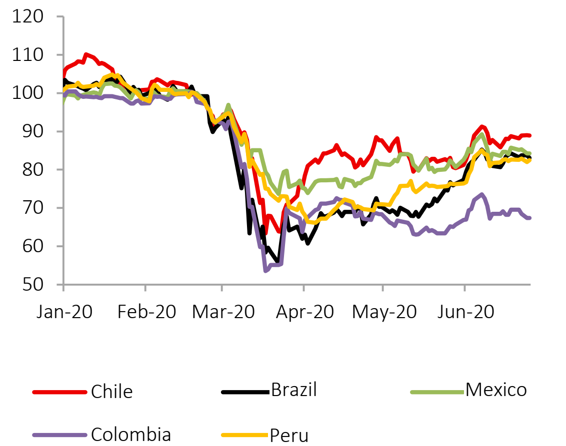
Source: Bloomberg and Santander

... similar to Europe where services seem to have left the worst behind



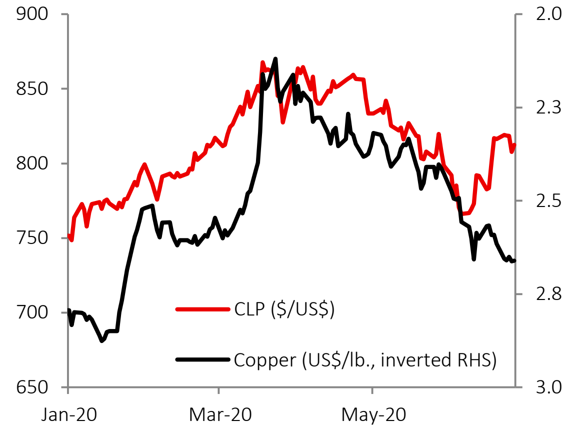
Source: Bloomberg and Santander

The Chilean stock market should a better performance compared to regional peers ...



Source: BCCh and Santander

...but the exchange rate is distanced from the fundamentals



Source: BCCh and Santander

Unsurprisingly the IMF again cuts its growth projections

The International Monetary Fund (IMF) released its update to the growth projections, applying a sharp cut compared to the figures presented recently in April. Now it estimates that the global economy will contract 4.9% in 2020 (vs. 3% in April) as a consequence of the prolonged pandemic and its effects. In the report, it notes that the health challenge pushed economies into a major shutdown, which helped contain the virus and save lives, but also triggered the worst recession since the end of World War II. Despite the gradual reopening in many countries, the strength of the recovery is highly uncertain. The new IMF projection is somewhat less pessimistic than those recently presented by other international organizations, such as the World Bank, which estimates a 5.2% drop for the global economy this year, or the OECD, which foresees a contraction of 6% or even higher if new Covid-19 outbreaks occur.

But not only will the impact of the pandemic be greater than that projected in April. Recovery will also be slower. Thus, according to the new figures, World GDP would grow 5.4% next year, lower than the 5.8% projected in April, so that by the end of 2021 it would still be around 6% below the level observed in late 2019.

Among the new projections of the IMF, the sharp drop in activity in Latin America (-9.4%) and in the advanced economies (-8%) stands out, with major recessions in the US and the Eurozone. In addition, emerging markets will be somewhat less affected, with a decline of only 3% in 2020. This is mainly due to the fact that China is expected to achieve a minimal expansion this year.

Growth projection for 2020 (annual variation, %)

	FMI Jan-20	FMI Jun-20	BM Jan-20	BM Jun-20	OCDE Dec-19	OCDE Jun-20
Advanced economies	**1.6**	**-8.0**	**-7.0**	**1.4**		
US	2.0	-8.0	-6.1	1.8	2.3	-7.9
Eurozone	1.3	-10.2	-9.1	1.0	1.2	-10.3
Japan	0.7	-5.8	-6.1	0.7	1.0	-6.7
Emerging and developing markets	**4.4**	**-3.0**	**-2.5**	**4.1**		
Latin America	1.6	-9.4	-7.2	1.8		
China	6.0	1.0	1.0	5.9	6.2	-3.2
India	5.8	-4.5	-3.2	5.8	5.8	-5.5
World*	**3.3**	**-4.9**	**2.5**	**-5.2**	**2.9**	**-6.8**

* Purchasing power parity

Source:World Bank, IMF, OECD and Santander

Public debt will climb to almost 40% of GDP in 2021

Last week the Government and the Senate Finance Commission reached an agreement to establish a fiscal framework to deal with the pandemic. This contemplates the constitution of a fund that would generate disbursements of up to US $ 12,000 million in the next 24 months. This year, the resources under this framework would offset the budget under-execution that will occur in a number of areas. With this, the Dipres estimates that public spending will grow over 11%, its highest rate since 2009, according to the Second Quarter Public Finance Report (IFP). On the other hand, the deterioration in the macroeconomic scenario and the new tax benefits will cause revenues to fall more sharply than previously estimated by the agency, of the order of -16%. With this, the fiscal deficit would reach 9.6% of GDP at the end of 2020.

For next year, spending would once again grow significantly due to the revival measures envisaged by the Government (5.5% according to the IFP). Revenues, meanwhile, could rebound significantly due to the economic recovery and the fact that deferred taxes this year should be canceled. Even so, the deficit would be high and would be around 4.2% of GDP. The new projections result in gross debt closing this year at around 35% of GDP and in 2021 reaching almost 40% of GDP.

During the week, and in the context of the agreement reached with the opposition, the Government presented a bill with "tax measures to inject liquidity into SMEs and promote economic recovery." Among the exclusive benefits for SMEs is the reduction by 50% of the First Category Tax - from 25% to 12.5% - for the income generated in 2020, 2021, 2022 and the refund of the tax credit of the VAT accumulated in the first months of 2020. The initiative also has benefits for all types of companies, such as 100% instant depreciation for all investments made until the end of 2022, as well as an exemption from the 1% regional contribution that must be made by investment projects of over US $ 10 million.

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