Financial markets pick up positive trends

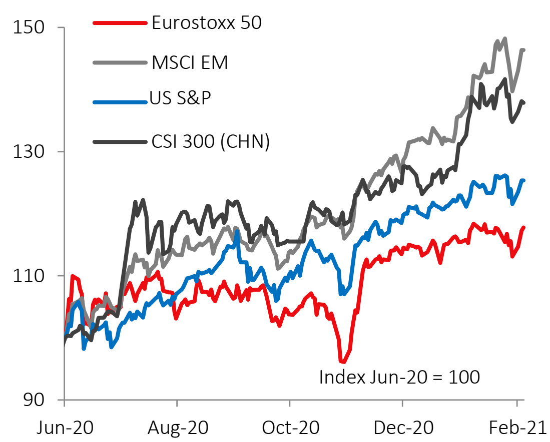
The financial markets reverted the losses seen at the end of January, at the same time that the volatility generated by the coordinated purchases of minority investors also dissipated. International stock markets increased in line with the decrease in contagions, good corporate results and advances in the negotiations for a new monetary stimulus in the Unites States. Additionally, investor confidences was boosted by the acceptance of Mario Draghi, ex-President of the European Central Bank, of forming a new Italian government.

For its part, the global dollar appreciated as the euro depreciated due to the delay of the re-opening European countries and the difficulties that the vaccination process has presented. Another factor that adjusted the global dollar was the increase in the US yield curve.

During the week, manufacturing PMI from the ISM for the United States decelerated on the margin up to 58.7 points in January, from 60.5 points registered in December. This, in line with the increase in the number of cases that occurred in the period. The January unemployment rate reached 6.3% versus 6.7% expected by the market. New non-farm payrolls were only 49 thousand, while an increase of 105 thousand was expected. In the same direction, job creation was also revised downward compared to the previous month. Even though the unemployment rate improved, the low job creation notes that the labor market is still pressured by the impact of the pandemic and the efforts to contain it. There was an increase in the sectors services, counteracted by job destructions in the sectors of recreation and retail.

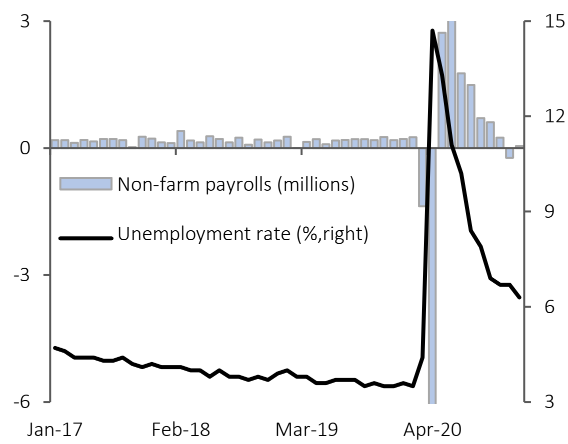
In the Eurozone, the GDP for the fourth quarter fell 5.9% YoY, although less than expected (-9%), while the manufacturing PMI was slightly above expectations (54.8 January vs. 54.7 expected). In China, the manufacturing PMI finished in 51.3 versus 51.6 estimated.

International stock markets leave behind the volatility generated by Retail investors



Source: Bloomberg and Santander

Low job creation in the US reflect the lower drive in the labor market



Source: Bloomberg and Santander

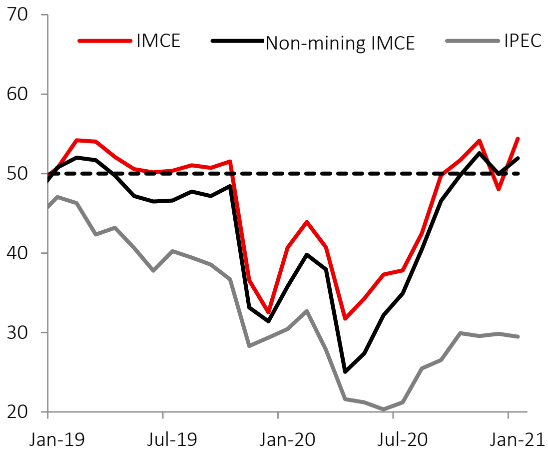
In the local market, the IPSA followed global tendencies and closed the week with a rise of over 3.5%. The exchange rate depreciated close to 1% in the week and reached levels that had not been observed since September 2020. This performance was in line with the global appreciation of the dollar and the fall that the copper price registred, while it was mitigate by the advances of various communes in the Metropolitan Region to a more open phase. The government bond rates showed mixed movements. Nominal rates increased slightly, while the bonds indexed to inflation kept decreasing due to higher inflationary expectations in the coming months. Hoowever, we estimate that this increases in prices will be transitory and the inflation for the year will close below 3%.

Better-than-expected Imacec marks a preliminary contraction of the 2020 GDP of 6%

The last Imacec, or Monthly Activity Index, of 2020 was not able to end in positive territory (-0.4% YoY), although it was above expectations and determined that the quarter end with a contraction of 0.4% versus -9.1% of the previous quarter. The 2020 GDP variation would have been -6%, the largest decrease since the banking crisis in the 80´s, but one of the least negative within the region.

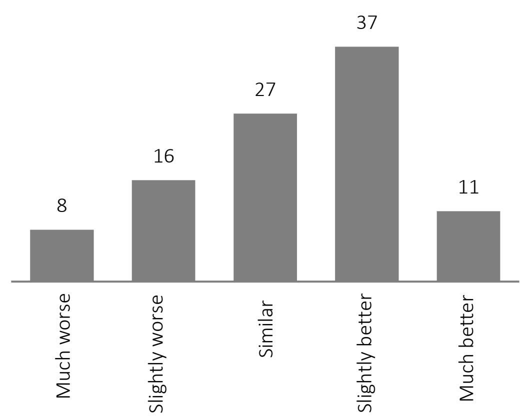
Looking forward the expectations have improved in the last month. In particular, business confidence (IMCE) that suffered a decrease when lockdown measures once again constrained movment in December, rebounded and reached maximums before the social unrest. In the Central Bank Business Perception Report, although there is a deterioration shown in the last part of the year, it points toward a recovery in 2021.

Business confidence surpasses to levels pre-social unrest



Source: Icare-UAI, GfK and Santander

The surveys in the Business Perception Report anticipate a better year



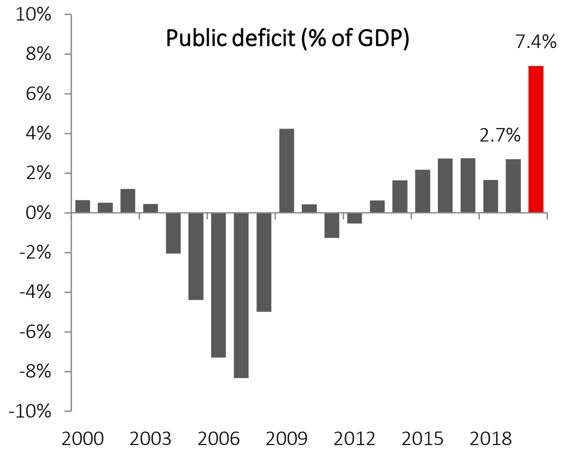
Source: BCCh and Santander

National treasury closed 2020 with a deficit of 7.4% of GDP

The national treasury income during 2020 was equivalent to 20.2% GDP versus 21.4% in 2019. In the central months of the year – as a consequence of the tax relief measures to surpass the sanitary crisis – had an important fall. However, this was progressively reverted and in December reached levels similar to 2018. On the other hand, the total expense had a strong push when it was consolidated with the implementation of the Emergency Family Income and the Middle Class Bonus, but later converged to a dynamic of a "normal" year in the last months. In total, expenses reached 26.7% of GDP.

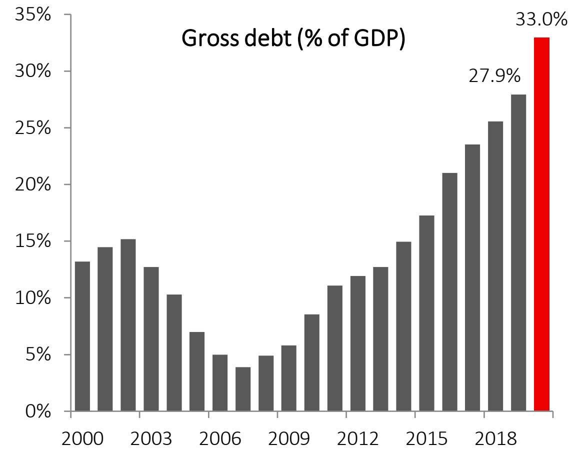
In the general balance, the Treasury closed the year with a deficit of 7.4& GDP, which was ostensibly less that the 8.2% projected by the Public Finances Report in the third quarter. The principal difference was due to the increase in tax revenues coming from mining activities as a consequence of a higher copper price. Public debt increased up to 33.0% of GDP, which meant an increase in 6.1% with respect to the close of the previous year. Compared internationally, the variation is low. For example, Brazil, Mexico, and Peru increased around 12% of GDP and developed countries were even higher.

Public deficit closed the year around 7.4% of GDP, in part thanks to the higher copper price



Source: Dipres and Santander

Gross debt increased 6.1 pp, which compared to international standards is a low variation



Source: Dipres and Santander