Global appreciation of the dollar due to the effects of the coronavirus take the exchange rate to its maximum level since the start of Central Bank intervention

Fears over coronavirus impact global financial markets. Despite the efforts from Chinese authorities to mitgate the effects of the emergency on the economy – which managed to drive the Chinese stock market up -, there is still concern in the global financial markets.

Exchange rate depreciates with force due to a worsening external scenario. The performance of the currency has been in line with other currencies in the region and the fall in copper price, with volatility relatively limited.

A few investment projects programmed for the next quarters are delayed. According to the project inventory by the Capital Goods Corporation (Corporación de Bienes de Capital), the volumen of investment programmed for 2020 and 2021 fell by US$ 1.5 billion compared to September of last year; for the years 2022-2023 the volume of investment grew in a similar amount. The amount of investment projected for the next five years therefore remained stable around US$68 billion.

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Fears over coronavirus impact global financial markets

Chinese authorities reduce financing costs to face risk of weaker growth.

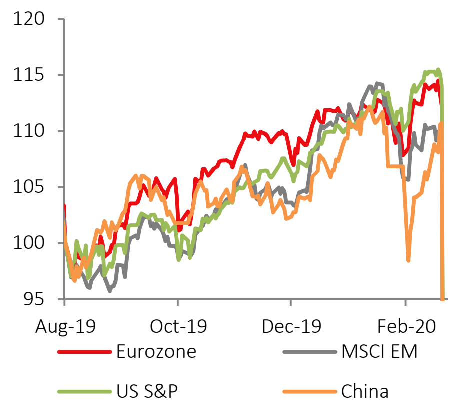
The coronavirus continues to affect global financial markets. The week in general stock markets declined, with the exception of the Chinese stock market which increased over 4%, impulsed by rate cuts in the short-term and medium-term by the Popular Bank of China. This measure seeks to reduce the financing costs of companies and hopes to support growth in the year, which has been threatened by the sanitary emergency.

Less risk appetite appreciated the dollar and weakened emerging market currencies.

In this context, the dollar appreciated on a global level, currencies from emerging markets weakened and commodities showed disparate movements. Copper continued to decrease, while oil recovered more that 1.5%. At the closing of this report, the copper price was around US$2.6/lb, while WTI crude was at US$53.3/barrel.

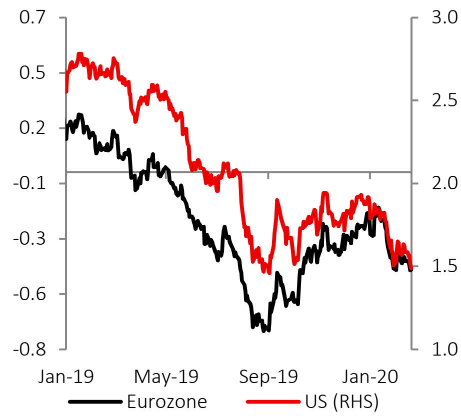
During the weekend the G20 meeting will take place in Saudi Arabia, where it is expected that the effects of the coronavirus on the global economy will be discussed and a more detailed diagnostic of the situation will be given.

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



Source: Bloomberg and Santander

Graph 2: 10 yr benchmark rates (%)



Source: Bloomberg and Santander

PMI of Feburary in the Eurozone was above expected, but the manufacturing continues to contract.

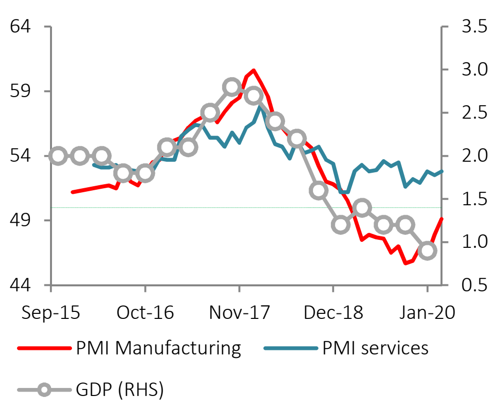
The PMI in the Eurozone in February surprised on the upside and had a shy rebound compared to the previous month. The services index reached 52.8 (versus 52.5 in January), while the manufacturing index reached its highest level in twelve months (49.1, versus 47.9 in January), although it is still in contraction. The activity of the month would have been negatively affected by the impact of the coronavirus on the supply chains of some companies.

PMI of services in the US contracted (49.4) which was a negative surprise for the market.

Meanwhile, inflation in January closed at 1.4% y / y (confirming the preliminary result), while the underlying index expanded 1.1%. The total index expanded somewhat more than in December, marking an upward trend in Eurozone prices, which were well below the 2% target during 2019.

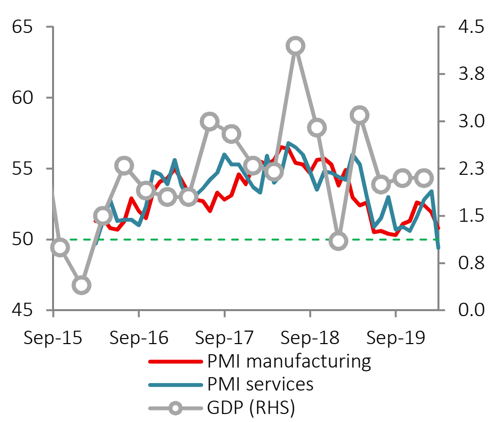
At the writing of this report the US PMIs were published, which were below market expectations. The biggest negative surprise was in the services sector, whose index was at contractual levels (49.4 versus 53.4 in January) for the first time since at least June 2016.

Graph 3: PMI and GDP Eurozone (Neutral index = 50, %)



Source: Bloomberg and Santander

Graph 4: PMI and GDP US (Neutral index = 50, %)



Source: Bloomberg and Santander

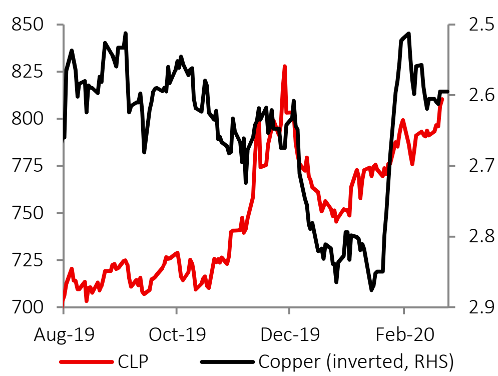
Exchange rate depreciates strongly due to the worsening of the external situation

Dólar surpasses $ 810 and fixed income takes on the higher risk perception.

At the end of the week, the exchange rate was over $ 810 per dollar, its highest level since the Central Bank announced the exchange rate intervention at the end of November 2019, although at the end of this report it fell back and was quoted at $ 807. The performance of the local currency has been mainly influenced by external factors, including fears of the effects of the coronavirus on the global economy, the global depreciation of the dollar and the fall in the price of copper, to less than US$ 2.6 a pound.

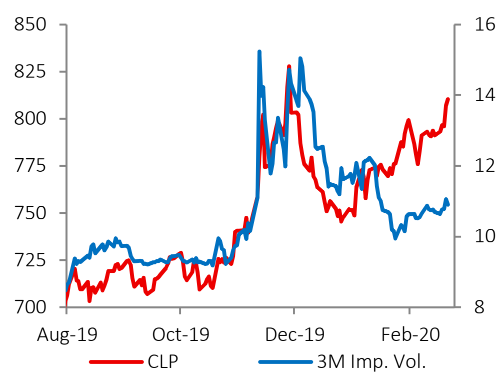
This has also been reflected in a greater perception of risk in the local fixed income market, where interest rates had a significant increase. In this context, there has been an outflow of foreign investors from the formal exchange market - which accumulates a buyer flow of forward dollars of more than US$ 3,300 million so far this year -, which has contributed to the depreciation of the currency.

Graph 5: Exchange rate and copper ($/US$, US$/lb.)



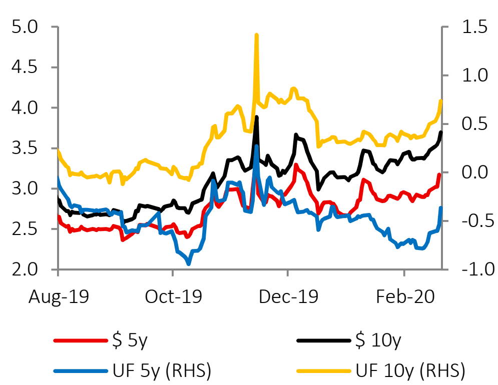
Source: Bloomberg and Santander.

Graph 6: Exchange rate and 3M implicit volatility ($/US$, %)



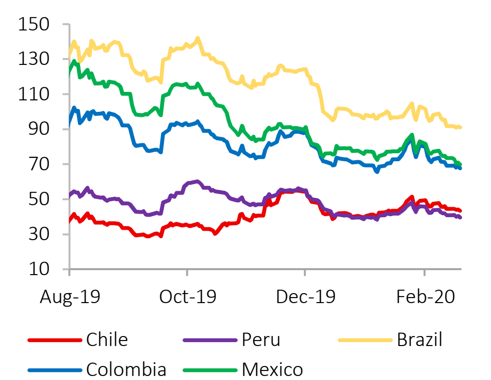
Source: Bloomberg and Santander.

Gráfico 7: Tipo de cambio y cobre ($/US$, US$/lb.)



Source: Bloomberg and Santander.

Gráfico 8: Tipo de cambio y volatilidad implícita 3m ($/US$, %)



Source: Bloomberg and Santander.

Some investment projects scheduled for the next quarters are delayed

Investment portfolio for 2019-2023 has remained stable compared to the previous measurement.

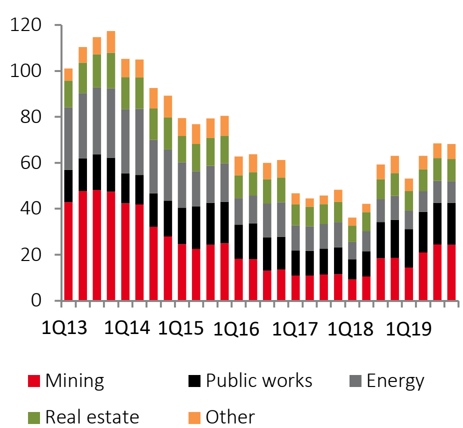
The investment in large projects scheduled for the five-year period 2019-2023 reached US $ 68 billion at the end of 2019, according to the Capital Goods Corporation (CBC). The result is marginally lower than the third quarter report (-0.5%), which would be mainly explained by the reprogramming of Metro projects (Line 7 and others), which moved part of the investment to beyond 2023.

Rescheduling of projects imply less investment in 2020-21, which is compensated by an increase in 2022-23.

Although the investment for the five-year period remained rather stable, the rescheduling of projects implies a fall in the projected volume for 2020 and 2021 (-2.8% and -7.4%, compared to the previous report), which is compensated by higher amounts in 2022 and 2023 (+ 4.3% and + 12.7%, respectively). Such changes are mainly explained by the mining sector - which reduces its projection by US$ 820 million in the biennium 2020-2021 -, due to decreases of US$ 230 million in the real estate sector in 2020 and US$ 250 million in public works in 2021.

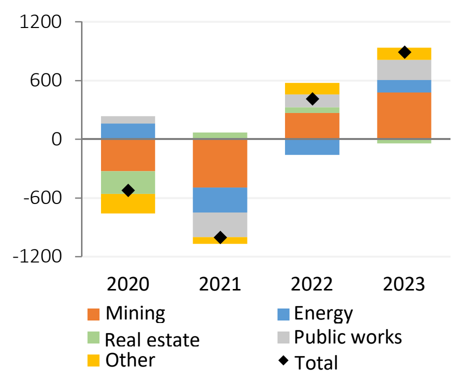
These results confirm that the negative effects of the social explosion on investment will be realized in the medium term, while in 2020 this component of spending will remain stable due to the projects that were already being executed.

Graph 9: 5 year investment portolio (US$ thousands of millions)



Source: Capital Goods Corporation and Santander

Graph 10: Change in projected investment by year (US$ million)



Source: Capital Goods Corporation and Santander

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Market summary

	Exchange rates				Exchanges			10Y Rates			
	Level	Weekly Var.	Accum. Jan.20	Accum. 2019	Weekly Var.	Accum. Jan.20	Accum. 2019	Level	Weekly Var.	Accum. Jan.20	Accum. 2019
			%			%				bp	
US	99.3	**-0.2**	-1.4	-2.6	**-1.1**	1.8	3.8	1.49	**-10**	-10	-39
Eurozone	1.1	**-0.3**	1.5	3.1	**-1.3**	2.7	1.1	-0.44	**-4**	-3	-26
UK	1.3	**0.6**	1.0	1.1	**-0.2**	0.1	-2.6	0.59	**-4**	4	-28
Japan	111.7	**1.8**	2.5	2.6	**-1.7**	0.0	-2.8	-0.06	**-4**	-1	-4
Chile	804.7	**1.7**	1.1	7.0	**-2.6**	-0.4	-2.9	3.77	**30**	40	63
Argentina	61.8	**0.8**	2.9	3.3	**0.2**	-4.1	-7.1	24.0	**87**	29	300
Brazil	4.4	**1.9**	3.2	8.9	**-0.9**	-1.9	-2.0	6.55	**9**	-20	-26
Mexico	18.9	**1.9**	0.6	-0.2	**-0.4**	-0.1	2.7	6.55	**-1**	-9	-30
Colombia	3,393	**0.1**	-0.5	3.4	**-2.0**	-0.4	-1.9	5.61	**7**	-15	-47
Peru	3.4	**0.2**	0.6	2.2	**0.2**	0.6	-0.9	3.82	**-6**	-19	-39
China	7.0	**0.6**	1.3	0.6	**4.1**	3.6	1.7	2.94	**4**	-11	-24
Turkey	6.1	**0.7**	2.1	2.5	**-2.8**	-2.5	1.8	11.9	**66**	205	-9
South Africa	15.0	**0.4**	1.3	6.0	**-0.9**	2.0	0.4	8.84	**-1**	-17	60
India	71.9	**0.5**	0.5	0.8	**-0.2**	0.6	-0.9	6.42	**5**	-14	-12
Indonesia	13,760	**0.7**	0.9	-1.1	**0.3**	-2.9	-6.6	6.54	**-3**	-10	-56

Copper	261.0	**0.4**	3.4	-7.9
Oil	52.9	**1.6**	1.4	-14.3

Data published this week

DAY	COUNTRY	INDICATOR	PERIOD	PREVIOUS	ESTIMATION	ACTUAL
MONDAY 17	Chile	Financial Operators Survey		--	--	--
TUESDAY 18	US	Manufacturing survey (Empire State)	February	4.8	5.0	12.9
	Eurozone	Survey ZEW	February	25.6	--	10.4
WEDNESDAY 19	US	Housing commenced (thousands)	January	1608k	1428k	1567k
	US	Producer Price index y/y	January	1.3%	1.6%	2.1%
	US	Minutes FOMC	January	--	--	--
THURSDAY 20	US	Business perspectives Fed Philadelphia	February	17.0	11.0	36.7
	US	Unemployment requests (thousands)		205k	210k	210k
	Eurozone	Consumer confidence		-8.1	-8.2	-6.6
FRIDAY 21	US	PMI Markit manufacturing	Feb. (preliminary)	51.9	51.5	50.8
	US	PMI Markit Services	Feb. (preliminary)	53.4	53.4	49.4
	Eurozone	PMI Markit manufacturing	Feb. (preliminary)	47.9	47.4	49.1
	Eurozone	PMI Markit Services	Feb. (preliminary)	52.5	52.3	52.8
	Eurozone	Inflation y/y	January	1.4%	1.4%	1.4%
	Eurozone	Inflation m/m	January	-1.0%	-1.0%	-1.0%
	Eurozone	Underlying inflation y/y	January	1.1%	1.1%	1.1%

Estimates correspond to the market consensus according to Bloomberg

Data to be published next week

DAY	COUNTRY	INDICATOR	PERIOD	PREVIOUS	ESTIMATE
MONDAY 24	US	Activity index Fed Chicago	January	-0.35	-0.16
	US	Manufacturing index Fed Dallas	February	-0.2	0.0
TUESDAY 25	US	Consumer confidence (Conf. Board)	February	131.6	132.1
THURSDAY 27	US	Annualized GDP q/q		2.1%	2.2%
	US	Personal consumption		1.8%	1.8%
	US	Core PCE q/q		1.3%	--
	US	Durable goods orders	January	2.4%	-1.5%
	US	Unemployment reuqests (thousands)		210k	211k
	Eurozone	Economic confidence	February	102.8	102.5
	Eurozone	Consumer confidence		-6.6	--
FRIDAY 28	Chile	Industrial production y/y	January	3.2%	--
	Chile	Manufacturing production	January	4.2%	--
	Chile	Unemployment rate	January	7.0%	--
	Chile	Retail sales	January	-2.8%	--
	US	Total PCE y/y	January	1.6%	1.8%
	US	Underlying PCE y/y	January	1.6%	1.7%
	US	Consumer confidence U. of Michigan		100.9	100.6
	China	PMI Oficial manufacturing	February	50.0	47.4
	China	PMI Oficial non-manufacturing	February	54.1	50.0

Estimates correspond to the market consensus according to Bloomberg

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