

## Tranquility in the markets after signing agreement and GDP of China

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**Cautious optimism after signing phase one of the trade agreement.** China committed to the purchase of US goods and services for a total of US \$ 200 bn over a period of two years and improve the protection of intellectual property. On the other hand, the USA noted that no further tariffs will be lowered until phase two of the agreement is completed.

**China's growth stabilizes at 6% in 4Q19.** The GDP of 2019 reached a growth of 6.1% y / y, its slowest pace in 30 years. This performance was affected by the commercial conflict, weak investment, despite government efforts to stimulate the economy. In 2020, policies to mitigate the slowdown are likely to be maintained.

**Government announced substantive changes to the pension reform.** The Executive's new proposal contemplates an additional contribution of 6% managed entirely by an autonomous public entity. Part of this contribution will finance the new distribution pillar (Collective Solidarity Savings), which seeks to guarantee pensions above the poverty line to those who have contributed a minimum of years. In the short term, the Treasury would finance collective savings for an amount close to US \$ 800 million.

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### Cautious optimism after signing phase one of the trade agreement.

**The US indicated that it would not reduce tariffs until phase two of the agreement.**

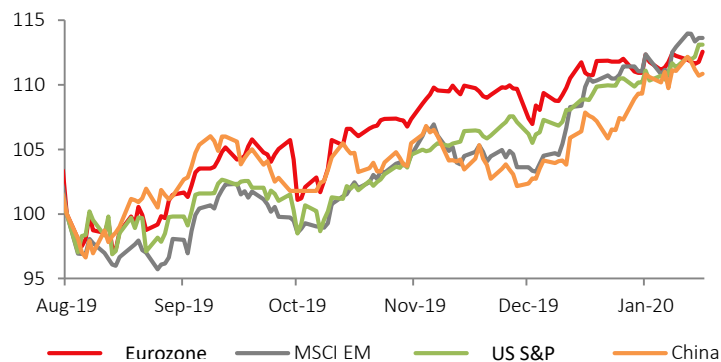
During this week the phase one trade agreement between China and the US was signed, which commits a reduction of tariffs - from 15% to 7.5% - by the US. to Chinese goods equivalent to US \$ 120 bn. On the other hand, the Asian giant committed to the purchase of US goods and services for a total of US \$ 200 bn over a period of two years. Imports will be focused on manufacturing, agricultural, energy and services. Likewise, China should increase the safeguards to improve the protection of intellectual property.

The administration of President Trump said that no more tariffs will be lowered until phase two of the agreement is completed and ensuring compliance with phase one. The negotiations of this next stage could generate a renewed volatility in the financial markets, even beyond the presidential elections of November in the USA.

On the last day, the statements of a trade commissioner of the European Union warned about whether the agreement signed this week was compatible with the rules of the World Trade Organization (WTO). He also noted that a case will be raised in the WTO if necessary, which could generate additional uncertainty to the negotiations between the two powers.

International exchanges tended to rise marginally after the signing of the agreement - except for the Chinese stock market - and the dollar appreciated globally. The US stock market increased above its peers due to the first publications of corporate results in 4Q19, which have shown solid gains in the banking sector

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



Source: Bloomberg and Santander

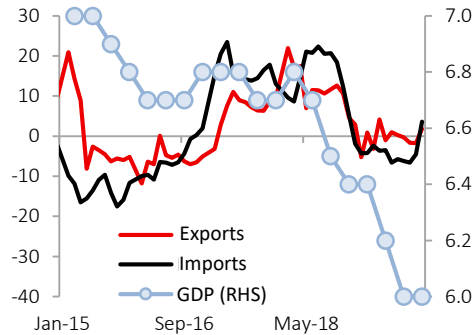
### China's growth stabilizes at 6% in 4Q19

China's GDP for the fourth quarter of 2019 was 6% y / y, in line with what was expected by the Bloomberg survey. With this result, last year it reached a growth of 6.1% y / y, its lower performance since the '90s, affected by the commercial conflict and the weakness of the investment, despite the government's efforts to stimulate the economy.

Meanwhile, the December foreign trade data was positive and greatly surprised the market. Exports grew 7.6% y / y versus the expected 2.9%, while imports increased 16.3% y / y, above

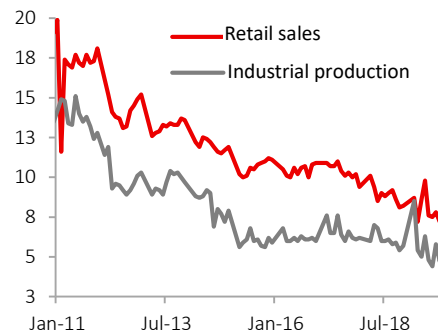
9.6% of the surveys. This result boosted copper more than 2%, trading at levels close to US \$ 2.9 / lb. In the same direction, industrial production and retail sales also presented a good result.

**Graph 2: China. Foreign trade and GDP (% , rolling 3 months)**



Source: Bloomberg and Santander

**Graph 3: China. Retail sales and industrial production (% , annual var)**



Source: Bloomberg and Santander

**The Government announces new pension system reform: additional contribution of 6% will be administered by public entity**

Similar to what happened with the Tax Modernization, the Government announced substantive changes to the project that reforms the Pension System. Previously the project contemplated an increase in the contribution of 4% of the salary, which went entirely to the individual account of each member, the new proposal contemplates an increase of 6% paid by the employer.

**Additional contribution of 6% will contribute to individual accounts and new Collective Savings**

**Proposal contemplates an immediate increase for those who have contributed a minimum of years.**

**Government would contribute US \$ 800 million for the initial financing of Collective Savings.**

Of the additional contribution, 3% will go to an individual account of each worker, 2.8% will finance the new Solidary Collective Savings (ACS) and 0.2% will go to a dependency insurance. All these funds will be managed by a new independent public entity.

The new pension system will have three pillars: (i) individual savings constituted by the mandatory contribution of 13% and the voluntary pension contributions of each worker; (ii) solidarity pillar financed by the State (Basic Solidarity Pension and Solidarity Pension Contribution); and (iii) and the new distribution component, called Solidarity Collective Savings (SCS).

This last pillar - which is the main novelty regarding the current system and the previous proposal of the Government - would improve both current and future pensions. Specifically, the proposal includes immediately increasing the pensions of women who have contributed at least eight years in 2.5 UF and those of men, who have done so for 12 years, in 2 UF. It also includes a contribution to ensure that every person who has contributed at least 30 years has a pension greater than or equal to the current minimum wage (indexed to inflation).

Although the fiscal impact of the new proposal is not yet reported, the Government has already announced that in order to finance the SCS in the short term it will make a contribution close to US \$ 800 million. According to some press reports, this would be achieved through a loan, which will be repaid by future contributions and so will not impact the fiscal deficit.

In the long term, the payment of contributions that the State will have to make as an employer will become relevant. Extrapolating the estimate made by the Government in the Financial Report of the previous project, this regime would reach US \$ 700 million annually, equivalent to about 0.25% of GDP.

## Market summary

|              | Level  | Exchange rates |                 |             | Exchanges   |                 |             | Level | 10Y Rates   |                  |             |
|--------------|--------|----------------|-----------------|-------------|-------------|-----------------|-------------|-------|-------------|------------------|-------------|
|              |        | Weekly Var.    | Accum. Jan.20 % | Accum. 2019 | Weekly Var. | Accum. Jan.20 % | Accum. 2019 |       | Weekly Var. | Accum. Jan.20 bp | Accum. 2019 |
| US           | 97.6   | <b>-0.3</b>    | -0.9            | -1.3        | <b>1.9</b>  | 3.3             | 33.8        | 1.81  | <b>-1</b>   | -7               | -93         |
| Eurozone     | 1.1    | <b>0.3</b>     | 1.0             | 3.1         | <b>0.3</b>  | 1.4             | 27.3        | -0.21 | <b>-1</b>   | -2               | -45         |
| UK           | 1.3    | <b>0.3</b>     | 0.7             | -2.4        | <b>1.2</b>  | 1.2             | 14.1        | 0.64  | <b>-13</b>  | -23              | -63         |
| Japan        | 110.2  | <b>0.6</b>     | 1.2             | -0.1        | <b>0.0</b>  | 0.8             | 16.2        | 0.01  | <b>1</b>    | 3                | 1           |
| Chile        | 771.3  | <b>-0.2</b>    | 2.5             | 11.3        | <b>-2.4</b> | 4.4             | -4.5        | 3.30  | <b>-17</b>  | 16               | -93         |
| Argentina    | 60.0   | <b>0.6</b>     | 0.2             | 59.3        | <b>0.0</b>  | 2.6             | 41.1        | 21.6  | <b>-33</b>  | 56               | 1,007       |
| Brazil       | 4.2    | <b>2.1</b>     | 4.0             | 7.7         | <b>1.9</b>  | 1.8             | 33.9        | 6.88  | <b>11</b>   | 8                | -239        |
| Mexico       | 18.7   | <b>-0.2</b>    | -1.0            | -4.6        | <b>1.7</b>  | 4.0             | 9.5         | 6.84  | <b>5</b>    | -1               | -191        |
| Colombia     | 3,321  | <b>1.6</b>     | 1.2             | 2.3         | <b>-0.2</b> | -0.6            | 24.6        | 5.81  | <b>-5</b>   | -27              | -91         |
| Peru         | 3.3    | <b>-0.3</b>    | 0.2             | -1.4        | <b>1.8</b>  | 2.5             | 0.5         | 4.10  | <b>-2</b>   | -11              | -151        |
| China        | 6.9    | <b>-0.9</b>    | -1.8            | -0.2        | <b>-0.2</b> | 1.8             | 38.0        | 3.15  | <b>1</b>    | -3               | -12         |
| Turkey       | 5.9    | <b>0.4</b>     | -0.8            | 11.9        | <b>2.4</b>  | 5.9             | 34.3        | 10.8  | <b>-52</b>  | -124             | -521        |
| South Africa | 14.5   | <b>0.7</b>     | 2.5             | 0.3         | <b>2.9</b>  | 2.6             | 13.4        | 8.18  | <b>-4</b>   | -6               | -72         |
| India        | 71.1   | <b>0.2</b>     | -0.4            | 1.6         | <b>0.8</b>  | 0.9             | 16.3        | 6.62  | <b>4</b>    | 8                | -77         |
| Indonesia    | 13,630 | <b>-0.9</b>    | -2.1            | -6.4        | <b>0.3</b>  | -0.1            | 1.6         | 6.83  | <b>-11</b>  | -27              | -116        |
| Copper       | 285.2  | <b>1.4</b>     | 0.6             | 6.3         |             |                 |             |       |             |                  |             |
| Oil          | 58.5   | <b>-0.9</b>    | -5.2            | 29.0        |             |                 |             |       |             |                  |             |

## Data published this week

| DAY                 | COUNTRY  | INDICATOR                              | PERIOD   | PREVIOUS | ESTIMATION | ACTUAL   |
|---------------------|----------|--|----------|----------|------------|----------|
| <b>MONDAY 13</b>    |          |  |          |          |            |          |
| <hr/>               |          |  |          |          |            |          |
| <b>TUESDAY 14</b>   | US       | Inflation m/m                          | December | 0.3%     | 0.3%       | 0.2%     |
|                     | US       | Inflation y/y                          | December | 2.1%     | 2.4%       | 2.3%     |
|                     | US       | Underlying inflation y/y               | December | 2.3%     | 2.3%       | 2.3%     |
|                     | China    | Exports                                | December | -1.3%    | 2.9%       | 7.6%     |
|                     | China    | Imports                                | December | 0.3%     | 9.6%       | 16.3%    |
|                     | China    | Commercial balance                     | December | \$38.73b | \$45.70b   | \$46.79b |
| <hr/>               |          |  |          |          |            |          |
| <b>WEDNESDAY 15</b> | US       | Producer Price index y/y               | December | 1.1%     | 1.3%       | 1.3%     |
|                     | US       | Manufacturing survey (Empire State)    | January  | 3.5      | 3.6        | 4.8      |
|                     | Eurozone | Industrial production y/y              | November | -2.2%    | -1.0%      | -1.5%    |
| <hr/>               |          |  |          |          |            |          |
| <b>THURSDAY 16</b>  | US       | Business perspectives Fed Philadelphia | January  | 0.3      | 3.8        | 17.0     |
|                     | US       | Retail sales m/m                       | December | 0.2%     | 0.3%       | 0.3%     |
|                     | US       | Unemployment requests (thousand)       |          | 214k     | 218k       | 204k     |
|                     | China    | GDP                                    | 4Q       | 6.0%     | 6.0%       | 6.0%     |
|                     | China    | Industrial production y/y              | December | 6.2%     | 5.9%       | 6.9%     |
|                     | China    | Retail sales                           | December | 8.0%     | 7.9%       | 8.0%     |
| <hr/>               |          |  |          |          |            |          |
| <b>FRIDAY 17</b>    | US       | Housing commenced (thousands)          | December | 1365k    | 1380k      | 1608k    |
|                     | US       | Industrial production m/m              | December | 1.1%     | -0.2%      | -0.3%    |
|                     | US       | Consumer confidence U. of Michigan     |          | 99.3     | 99.3       | 99.1     |
|                     | US       | Employment survey (JOLTS)              | November | 7267     | 7250       | 6800     |
|                     | Eurozone | Inflation y/y                          | December | 1.3%     | 1.3%       | 1.3%     |
|                     | Eurozone | Inflation m/m                          | December | 0.3%     | 0.3%       | 0.3%     |
|                     | Eurozone | Underlying inflation y/y               | December | 1.3%     | 1.3%       | 1.3%     |

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 |
|---------------------|----------|----------------------------------|----------|----------|----------|
| <b>MONDAY 20</b>    | Global   | Update WEO January 2020          |          |          |          |
| <b>TUESDAY 21</b>   | Eurozone | Survey ZEW                       | January  | 11.2     |          |
| <b>WEDNESDAY 22</b> | US       | Activity index- Fed Chicago      | December | 0.56     | 0.15     |
| <b>THURSDAY 23</b>  | US       | Unemployment requests (thousand) |          | 204k     | 214k     |
|                     | Eurozone | Reference rate BCE               | January  | -0.500%  | -0.500%  |
|                     | Eurozone | Consumer confidence              | January  | -8.1     | -7.6     |
| <b>FRIDAY 24</b>    | Chile    | Financial operator survey (BCCh) |          |          |          |
|                     | US       | PMI Markit Services              | January  | 52.8     | 52.5     |
|                     | US       | PMI Markit manufacturing         | January  | 52.4     | 52.6     |
|                     | Eurozone | PMI Markit manufacturing         | January  | 46.3     | 46.8     |
|                     | Eurozone | PMI Markit Servicios             | January  | 52.8     | 52.8     |

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