

Banco Central anticipates contraction of the economy

The Monthly Monetary Policy Report of March projects a contractions of the global and local economy. In its Monetary Policy Report, the Central Bank refers to the effects of the pandemic on world GDP, which will suffer a 0.2% contraction, similar to what happened in the 2009 financial crisis. For Chile, it estimates a growth range between -2.5% and -1.5%. This scenario assumes that by the third quarter sanitary measures are relaxed and the economy is back to dynamism. Given the uncertainty of this situation, the risks are biased to the downside.

Global activity data shows the profound economic effects of the pandemic. Unemployment in the US rose sharply to 4.4% in March, and PMIs for manufacturing and services in Europe fell again. However in China they surpassed what was expected by the surveys, although services remain in contractive terrain.

Global markets close the week with mixed results. Growing fears about the contraction in global activity tended to depress prices. However, with a possible cut in oil production - which Russia and Saudi Arabia would have agreed upon, with the intermediation of the US. - tended to boost some specific markets. At the local level, the peso depreciated, while the IPSA showed a significant recovery, above other exchanges in the region.

The Imacec from February (2.7% y / y; 0.6% m / m) showed that the economy was recovering at a good pace after the October crash. The data was favored for being a leap year month and low comparison base in mining. For March, several indicators point to a slowdown, especially in the second fortnight, which is where the effects of Covid-19 have been felt. We estimate that the Imacec for the month would be around 1.5%.

CLAUDIO SOTO

Chief economist

claudio.soto.gamboa@santander.cl

GABRIEL CESTAU

Economist

gabriel.cestau@santander.cl

SINDY OLEA

Economist

sindy.olea@santander.cl

MIGUEL SANTANA

Economist

miguelpatricio.santana@santander.cl

FABIÁN SEPÚLVEDA

Economist

fabian.sepulveda@santander.cl

Markets close the week with mixed results.

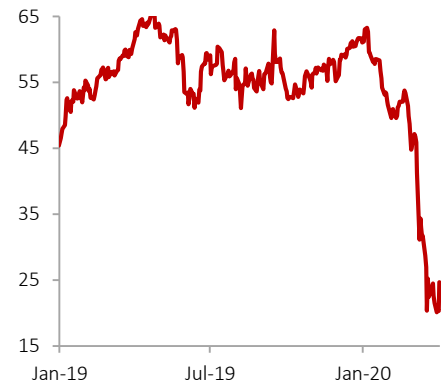
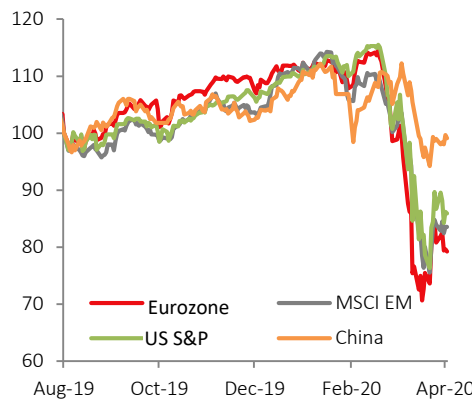
According to President Trump, Russia and Saudi Arabia have reached an agreement to cut oil production.

The start of the second quarter was marked by significant fluctuations in the financial markets. Growing fears about the contraction in global activity and the possible cut in oil production - which Russia and Saudi Arabia would have agreed with the intermediation of the US - were the main factors behind the mixed returns in the stock markets. Long-term government rates continued to decline while the dollar strengthened globally.

Regarding the possible cut in oil production, until now there have been only reports from the US government. The Russian and Saudi authorities have yet to make an official statement. All in all, as of the closing of this report, the price of the WTI was trading at US \$ 27.1 bl., Increasing more than 26% in the week.

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

Graph 2: Oil price (US\$/bl)



Source: Bloomberg and Santander.

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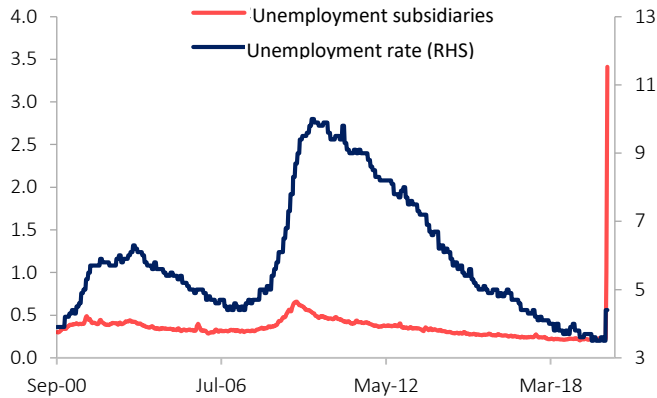
In the US, the unemployment rate reached 4.4% in March.

This week's unemployment benefits data from the US increased to more than 6.6 million, accumulating nearly 10 million requests in the past two weeks. During March, 701 thousand non-agricultural jobs were destroyed, while the unemployment rate rose to 4.4%, quickly moving away from the historical lows it had been registering. Treasury Secretary Mnuchin warned that the unemployment rate could reach as high as 20%, which would far exceed the levels of the 2008 crisis.

In Europe, meanwhile, the PMI at the end of March fell again compared to its preliminary version –which was reported last week–, manufacturing stood at 44.5 points, while the services sector decreased to 26.4 points.

For its part, in China the different PMIs –Official and Caixin– exceeded the preliminary and previous month levels, both for manufacturing and services. However, this last sector remains in contractive terrain, 43 points.

Graph 3: US employment (millions, moving 4 week median; %)



Source: Bloomberg and Santander.

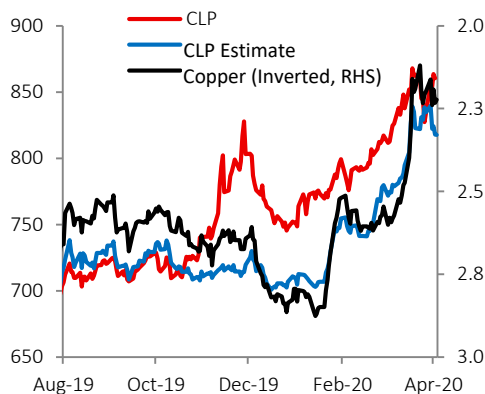
The peso depreciates again, while the IPSA rebounds

Local financial assets posted disparate returns. The peso depreciated, while the IPSA recovered - at the closing of this report - more than 13% during the week and contrary to the performance of the rest of the stock markets in the region.

The peso depreciates again in line with other emerging currencies.

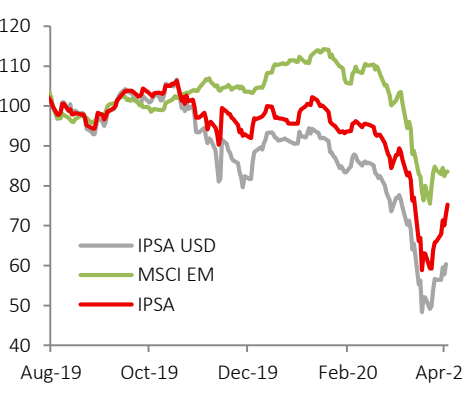
The performance of the local currency was in line with the strength of the dollar globally and contrary to the recovery of copper, which increased more than 1% during the week. In this same period, there were few movements in the forward position of foreign investors, who accumulated a selling flow of dollars in March - speculation in favor of the peso - for more than US \$ 3.6 billion.

Graph 4: Exchange rate and copper (\$/US\$, US\$/lb.)



Source: Bloomberg and Santander.

Graph 5: Exchange markets (Index 100 = Aug.19)



Source: Bloomberg and Santander.

The Monthly Monetary Policy Report (IPoM) in March anticipates local recession and confirms that the TPM will remain at 0.5% for an extended period

The IPoM in March predicts a 0.2% contraction in world GDP.

The Monthly Monetary Policy Report (IPoM) of March, published on Wednesday by the Central Bank, reports the drastic change in scenario due to the spread of Covid-19. Specifically, the report foresees a contraction of 0.2% of world GDP, with sharp reductions in US activity. (-1.9%), Japan (-2.8%) and the Eurozone (-3.3%). China, for its part, will have the biggest slowdown in the last three decades, with growth of only 3%.

In the case of Chile, substantial falls in consumption and investment are expected.

In the case of Chile, activity will be affected by the worse external scenario, by tighter global financial conditions and by the specific local impacts of the virus. In this way, the Central Bank projects that our economy will contract between 1.5% and 2.5% in 2020, with a 1.9% drop in consumption and an 8.2% drop in investment. Exports - which already performed poorly in 2019 - would have a more moderate reduction (-1.4%).

Tabla 1. Projections IPoM

	2019	2020		2021	
	Actual	IPoM Dec-19	IPoM Mar-20	IPoM Dec-19	IPoM Mar-20
GDP (%)	1.1	0.5 / 1.5	-2.5 / -1.5	2.5 / 3.5	3.75 / 4.75
Internal demand (%)	1.0	-1.6	-5.8	4.1	5.3
Investment in capital (%)	4.2	-4.0	-8.2	3.2	5.1
Total consumption (%)	0.8	1.1	-1.9	3.1	4.7
Exports (%)	-2.3	2.2	-1.4	2.2	4.3
Imports (%)	-2.3	-7.3	-14.7	5.5	8.4
Current accounts (% GDP)	-3.9	-0.2	0.3	-0.8	-0.6
CPI inflation (December)	3.0	3.6	3.0	3.0	2.9
CPI SAE (December)	2.5	3.5	2.9	3.0	2.9
Average copper (US\$/lb)	272	270	215	275	245
Oil WTI average (US\$/bbl)	57	56	32	53	43
Global growth (var. %)	2.9	2.8	-0.2	3.0	3.8

Source: Banco Central

New communication tool confirms that TPM will remain at 0.5% for an extended period

In this context, the Council estimates that the Monetary Policy Rate (MPR) should remain at its technical minimum (0.5%) for an extended period. This is clear from the new communicational instrument presented by the issuing entity in this Report: the explicit ranges for the most likely trajectory of the TPM, according to the different internal scenarios.

At the local level, beyond the impact that a more intense global recession could have on our foreign trade and global financial conditions, there is a risk that the economic effects will be more profound, given that the second-round repercussions through the financial system could be substantive. In this sense, the liquidity support actions carried out by both the Central Bank and the Government are important. However, additional measures are needed to prevent a more severe contraction.

Monthly economic activity (Ifacec) for February (2.7% y / y; 0.6% m / m) showed that the economy was recovering at a good pace after the October crash

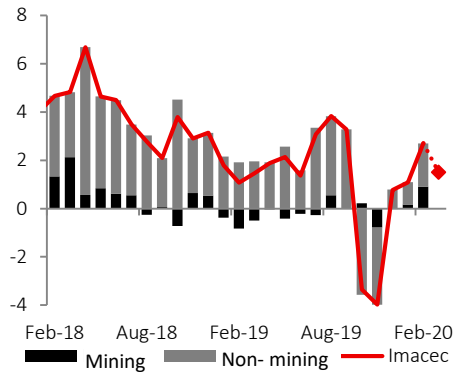
February Ifacec was favored by leap year and mining.

The Ifacec in February had a 2.7% YoY advance, favored by the leap year and supported by the solid performance of mining -influenced by low comparison bases after the 2019 altiplano rains-, the manufacturing industry and construction. The result was in line with expectations (Santander: 2.9%; Bloomberg: 2.6%; EEE: 1.5%).

For March we expect a monthly contraction of 1% in Ifacec.

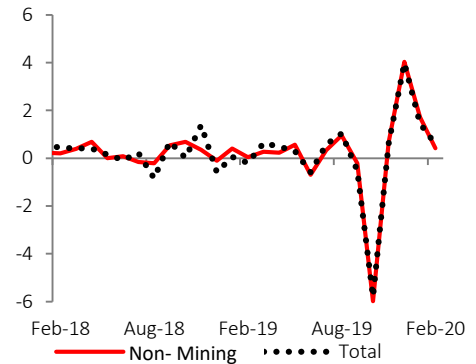
The monthly variation (0.6%) reflected that non-mining activity continued its recovery (0.4% m / m) and a substantial rebound in mining (2.2%). The information available for March (power generation: 2% y / y, exports in the third week: -8.1% y / y and imports in the third week: -19% y / y) lead us to project **growth of 1.5% for Ifacec (-1% m / m), accounting for the first effects of the health crisis on the economy.**

Graph 6: Ifacec (var. % anual)



Source: BCCh and Santander.

Graph 7: Seasonally adjusted Ifacec (var. % monthly)



Source: BCCh and Santander.

CONTACT



(56 2) 2320 1021

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