

Stimulus measures provide relief to the financial market

The USA becomes the focus of the pandemic. The North American country reached 86,000 cases, surpassing the records of China and Italy. In Chile, total cases reached 1,610, in a week that has shown a somewhat slower rate of progress than in other countries, and where mortality has remained low.

Stimulus measures in the main economies bring a breather to the markets. Stock markets closed higher during the week and the dollar posted a significant pullback globally, boosting emerging currencies. For its part, global fixed income also made progress.

Local assets presented positive returns. This was in line with the cautious optimism that prevailed in international markets. The IPSA increased more than 4%, while the peso appreciated more than 3%.

The Central Bank would cut the Monetary Policy Rate again next week. We estimate that this time the issuing entity will cut the TPM by 50bp, placing it at its historical low of 0.5%. In turn, we anticipate that the Monetary Policy Report will make a sharp cut to growth projections.

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

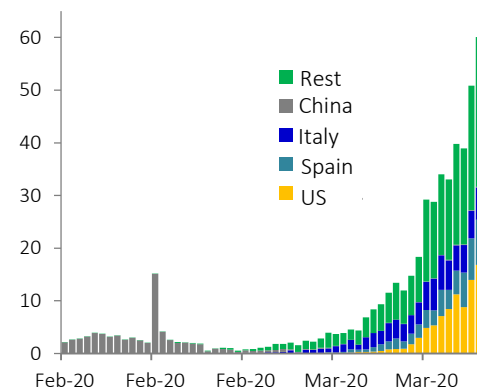
The USA becomes the focus of the Covid-19 pandemic.

In the last week the advance of the Covid-19 in the USA has accelerated and at the close of this report there were a total of 86,000 cases, surpassing for the first time the total of China (81,900) and Italy (80,600). Those who died from the disease are counted at around 25,000 globally, highly concentrated in Italy (8,220) and Spain (4,860).

In Chile, the Ministry of Health (Minsal) announced 1,610 confirmed cases until the night of Thursday the 26th. In recent days, the daily growth has been over 20%, somewhat lower than in other countries. Five people have also been confirmed dead, a figure that although unfortunate, is low when compared to other countries at a time when they reported the same number of infected people.

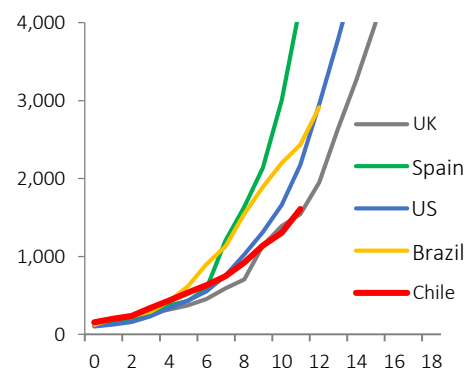
In Chile in recent days the daily growth rate has been over 20%, somewhat lower than in other countries

Graph 1: Daily new cases (thousands of people)



Source: Santander based on European CDC

Graph 2: Total cases (zero = first day with at least 100 cases)



Source: Santander based on European CDC

Stimulus measures in man economies contain the market crash

In U.S.A. the Federal Reserve will expand the debt purchase program without limits, along with other liquidity measures and access to credit. Likewise, Congress approved a fiscal program for US \$ 2 billion (10% of GDP), already ratified by both houses. For its part, the European Central Bank lifted the restrictions on the acquisition of assets that previously operated. While on the fiscal side, the coordinated European response - led by Spain - ran aground by resistance from Germany and the Netherlands. However, the German government is analyzing the unilateral execution of a package of measures for up to € 365 billion. With this, the elimination of the zero deficit in the next budgets is assumed.

Meanwhile, in Japan, the government is studying a fiscal stimulus package of US \$ 503 billion, equivalent to about 10% of GDP. All of this, to face the economic crisis that Coronavirus has unleashed. Finally, the G20 announced the injection of US \$ 5 billion, but does not specify measures. The closing statement is an expression of good intentions that lacks a timeline.

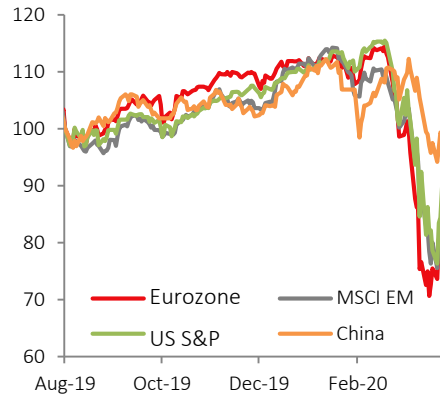
These increased economic stimuli brought some relief to financial markets. Stock markets rose during the week and the dollar fell significantly globally, boosting emerging currencies. For their part, interest rates decreased in most advanced and emerging economies.

US unemployment benefits data rose to more than three million this week, a record number that far exceeds that recorded during the 2008 financial crisis. Initially, this deterioration in unemployment raised expectations of further stimulus from the US and markets continued to

Synchronized monetary and fiscal authorities around the world have taken steps to help contain the effects of the pandemic

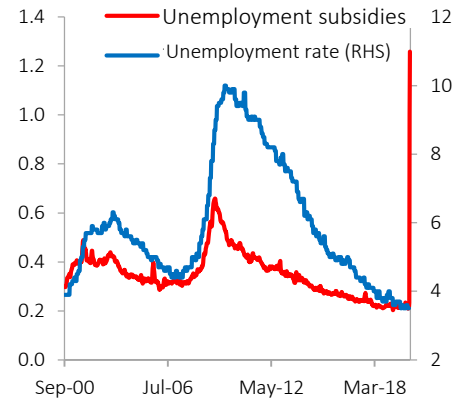
increase. However, on this day this perception was dissipating and a greater risk aversion prevailed, although it did not manage to erase the positive returns of the week.

Graph 3: International exchanges (Index 100 = Aug.19)



Source: Bloomberg and Santander

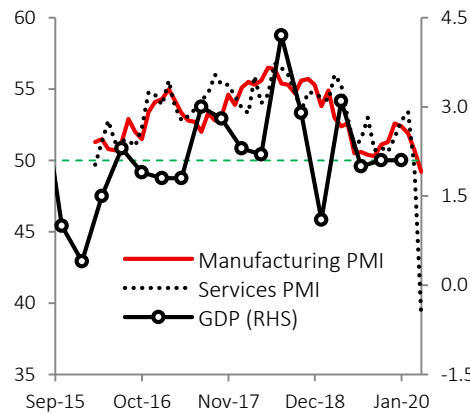
Graph 4: US unemployment (million, moving 4 week median; %)



Source: Bloomberg and Santander

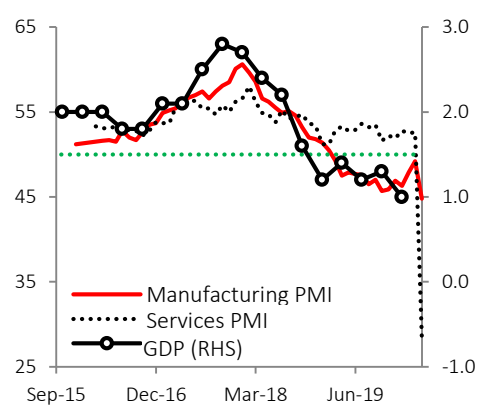
Social distancing measures to slow the spread of the virus are already being reflected in activity indicators. The preliminary PMIs for March showed a significant decline in the main economies. In Europe and the USA, as expected, the most affected sector was services, which decreased to 28.4 and 39.1 points respectively. Meanwhile, manufacturing activity also contracted, although to a lesser extent

Graph 5: US PMI and GDP (Neutral index = 50)



Source: Bloomberg and Santander

Graph 6: Eurozone PMI and GDP (Neutral index = 50)



Source: Bloomberg and Santander

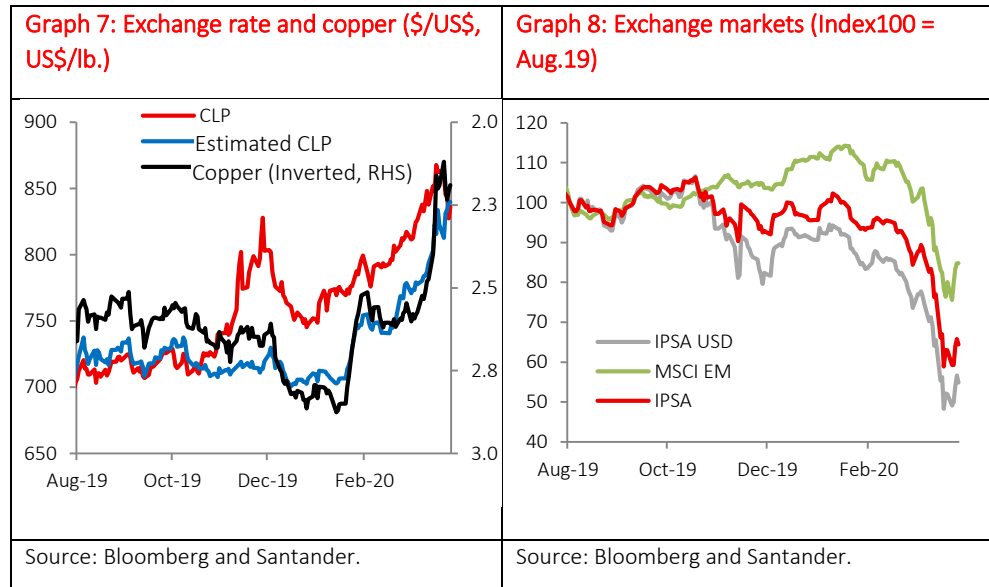
Local assets follow international trends

Local financial assets presented positive returns in line with the cautious optimism that prevailed in international markets. At the close of this report, IPSA has a return of more than 4% in the week, a performance lower than that presented by its peers in the region. For its part, the peso appreciated more than 3% in line with the global weakening of the dollar and

Chilean peso strengthens during the week in line with other emerging currencies

in a context where the price of copper remained relatively stable at levels close to US \$ 2 per pound.

It is important to highlight that the recent performance of the peso is consistent with its fundamentals and, until now, the idiosyncratic factor that was generated as of October would have tended to dissipate.

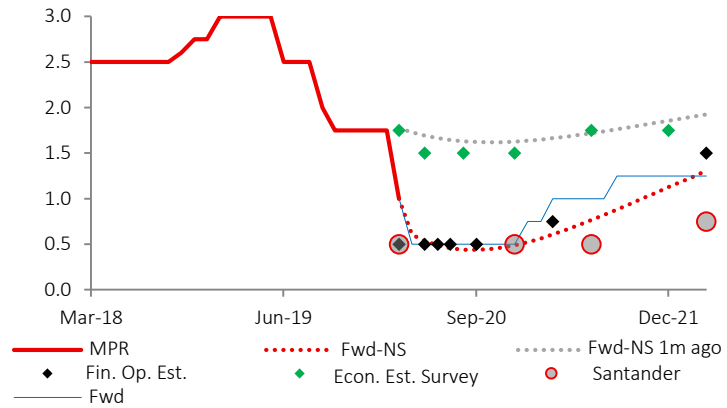


Local authorities have implemented a series of measures to support the hardest hit sectors of the emergency (see annex).

MPR would stand at 0.5% at next week's meeting

The Central Bank already lowered the MPR by 75bp in an extraordinary meeting last week. For its usual meeting in March, we estimate that a greater monetary stimulus will be necessary, so we anticipate that the issuing entity will cut the governing rate down to 0.5% (-50bp), the lower limit of the 2008 financial crisis and in which the issuing entity considers to avoid disruptions in financial stability.

Graph 9: MPR expectations (%)



Source: Bloomberg and Santander.

Activity will suffer this year, so the capacity gaps in the economy will remain open. Furthermore, the collapse in the international price of oil and its impact on gasoline will also reduce pressure on inflation. These elements, together with the freeing of some basic service tariffs, could prevail over the depreciation of the exchange rate and some supply restrictions that we observe in some segments. This, due to the restrictive measures to stop the virus from spreading.

Annex 1: Economic stimulus measure

Government	Central Bank	Financial Markets Commission
Government package (US\$11,800 million)	Reduction of the interest rate from 1.75% to 1.00%	The FMC has suggested that the implementation of Basel III could be postponed
Budget increase for the Health System of US\$1,200 millones (2% GDP)	Extension of the currency sale to January 9, 2021	Extension of term that the Banks have to dispose of assets received in payment
Suspension of propvisional income tax payments for three months	Purchase of bank bonds for US\$ 4 billion	Modification of the treatment of derivatives (Reduction in capital charges)
Postponement of annual payment of tax returns until July and early rebate in April (SMEs)	Corporate bonds will be included among the guarantees elegible for all operations	Possibility to defer the payment of mortgages for three installments
Postponement of VAT and tax contributions for three months (SMEs)	Conditional financing facility (FCIC) open to the Banks for the commercial and individual loan portfolios	Facilities to reprogram installments for SMEs and individuals up to six months, without this being considered a renegotiation
Transitory reduction in stamp tax	Liquidity credit lines (LCL) whose limit corresponde to the Average Reserve Requirement in pesos of each bank	Possibility of using the excess of mortgage guarantees to guarantee SME loans
Law proposal to maintain the labor relationship and immediate discussion of job protection (reducing the agreed working day)	For 90 days compliance with the maturity requirement will be suspended	
Ch\$50,000 payment for each family charge for those without formal work		
Solidarity fund (US\$100 million) for social emergencies		
Capitalization of Banco Estado for US\$500 million		
Payment facilities for the electricity bills		
Suspension of energy cuts for delayed payments		
Free telecommunication plans for current clients who belong to the 40% most vulnerable		

Market Summary

	Level	Exchange rates			Exchange			Level	10Y rates		
		Weekly Var.	Accum. Mar.20 %	Accum. 2020	Weekly Var.	Accum. Mar.20 %	Accum. 2020		Weekly Var.	Accum. Mar.20 pb	Accum. 2020
US	98.8	4.0	-0.7	-2.1	10.6	-13.7	-20.8	0.74	-20	-38	-115
Eurozone	1.11	-3.4	-0.4	1.2	6.7	-18.3	-27.5	-0.48	-14	14	-29
UK	1.24	-6.0	3.6	5.9	5.9	-16.4	-27.5	0.36	-20	-8	-50
Japan	108.1	-2.4	0.0	0.7	13.7	-3.4	-15.2	0.01	1	16	3
Chile	834.7	-3.3	-2.1	-9.9	4.1	-22.3	-31.4	3.60	-23	1	46
Argentina	64.4	1.0	-3.5	-7.0	1.8	-30.5	-41.7	49.1	265	2,365	2,810
Brazil	5.1	0.8	-12.4	-21.3	10.7	-28.7	-35.8	7.87	-125	109	106
Mexico	23.5	-3.6	-16.7	-19.6	-0.3	-17.3	-21.8	7.26	-16	41	41
Colombia	4,027	-2.2	-12.5	-18.5	20.8	-28.3	-33.2	6.85	-210	102	77
Peru	3.4	-3.2	1.1	-2.9	-2.5	-22.3	-28.8	4.49	449	50	27
Chile	7.1	0.0	-1.5	-1.5	1.6	-5.8	-9.1	2.67	-8	-12	-50
Argentina	6.4	-1.6	-3.2	-7.8	2.7	-16.9	-23.2	12.9	-21	6	86
Brazil	17.6	0.1	-11.1	-19.9	7.9	-14.6	-23.8	11.65	-3	254	341
Mexico	75.5	0.1	-3.9	-5.5	-0.3	-22.1	-28.3	6.14	-12	-23	-40
Colombia	16,100	1.3	-10.9	-13.5	8.4	-16.6	-27.8	7.91	-19	102	81

COMMODITIES

	Level	Weekly Var.	Accum. Mar.20	Accum. 2020
Copper	2.19	0.0	-14.0	-22.5
Oil	21.6	-3.9	-51.9	-65.1
Gold	1,626.6	8.6	2.6	7.4

INDICATORS OF RISK

	Level	Weekly Var.	Accum. Mar.20	Accum. 2020
VIX (%)	64	-1.8	24.2	49.5
Chile CDS 5y	118	-16	50	78
Peru CDS 5y	113	-24	48	73
Mexico CDS 5y	215	-40	108	137
Brazil CDS 5y	253	-69	119	155
Colombia CDS 5y	224	-108	118	152

CONTACTO



(56 2) 2320 1021

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