Global markets advance despite higher volatility during the week

Topics this Week

- During the week, the search for greater risk in the financial markets prevailed, which tended to raise prices.
- In terms of activity, the preliminary PMIs of May for the US and the Eurozone continue to contract. For its part, China abandoned its annual growth target, raising new concerns about the deterioration in activity.
- Germany and France proposed a Recovery Fund with 500 billion euros, which will make it possible to finance considerable fiscal stimulus packages.
- At the local level, financial assets were in line with the international trend and tended to increase in value. The exchange rate appreciated to almost $ 800.

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Search for greater risk prevails in the week

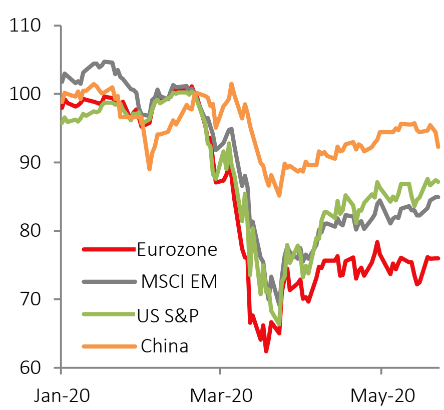
Although with fluctuations, during the week a perception of risk-on prevailed in the financial markets. The news regarding the vaccine against the virus –which had advances and setbacks–, the beter results in the US retail sector and the French and German proposal for a Recovery Fund directly impacted the performance of global markets. Stock markets closed higher, the dollar depreciated against other major currencies, and rates in advanced economies increased, while emerging markets declined.

The Recovery Fund in Europe - of which more details are expected by the end of next week - would consist of a package of 500 billion euros, the debt of which would be issued by the European Commission and destined mainly for spending. The Franco-German proposal must be approved by the members of the block. Following this announcement, the Euro and the stock market made significant progress.

During the day today, China, in its National Popular Assembly, abandoned its annual growth objective, generating new concerns about the deterioration in activity. In addition, the discussion for a new security law for Hong Kong was announced, which could generate new tensions with the United States and accentuate the difference between both powers. Although this context pushed back global markets, it did not compensate the week's progress.

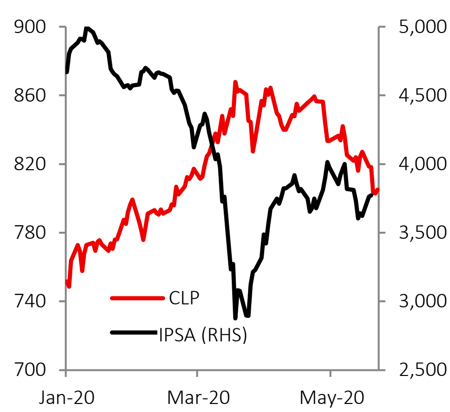
Additionally, the minutes of the April meeting of the Federal Reserve were published. The document revealed the broad debate on how to increase the effectiveness of monetary policy measures. In addition, the concern about a new wave of contagions, the effect on the banking sector of the bankruptcies of companies and the uncertainty for activity in the medium term were highlighted. No discussion of negative interest rate was mentioned.

Graph1: International stock markets (Index 100 = Feb.20)



Source: Bloomberg and Santander

Graph 2: Local financial assets ($/US$, Index



Source: Bloomberg and Santander

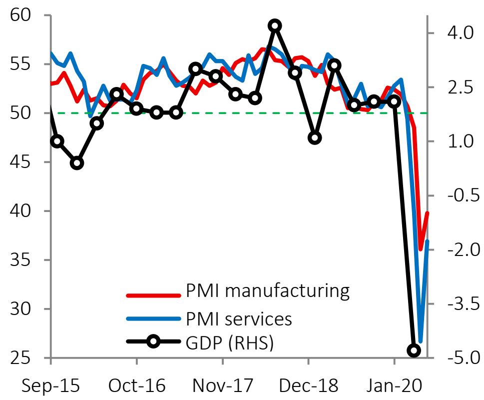
Preliminary PMIs for May for the US and the Eurozone were above what was expected by the market, both for the services sector and for manufacturing. Although it was presumable - given the gradual reopening of the economies - that May had a rebound from the historical lows of April, the indicators continue to contract, far from the pivot.

Both in Europe and the USA - along with the relaxation of some restrictions - activity has started to pick up, as confirmed by Apple's mobility data. However, the persistence of this trend is still highly uncertain and will depend on how infections develop in the face of the reopening of activities.

In Chile, the performance of financial markets was in line with global trends. The exchange rate appreciated, the IPSA increased and base rates continued to decrease. During the week, the dollar was trading slightly above $ 800, its lowest value in several weeks. It is probable that institutional flows and their recent preference for the local market may be influencing the performance of the peso. The Pension Funds in April showed for the second consecutive month the net purchase of local shares. This, together with the significant level of liquidity in the system, would be explaining the setbacks in fixed income rates.

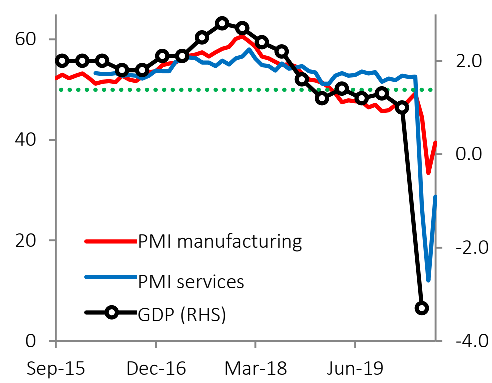
The Minutes of the May Monetary Policy Meeting revealed that if necessary, unconventional monetary impulse could be intensified in favor of greater fluidity in the credit channel. In this same sense, it was discussed how to facilitate the operation of the corporate bond market. Regarding the measures already implemented, they highlighted the rapid use of the Facility of Conditional Credit to the Increase of Placements (FCIC) and increasing it will depend on the evaluation of its effectiveness.

Graph 3: US PMI and GDP (Neutral index = 50, var. q/q annualized%)



Source: Bloomberg and Santander

Graph 4: Eurozone PMI and GDP (Neutral index = 50, var. y/y %)



Source: Reuters and Santander

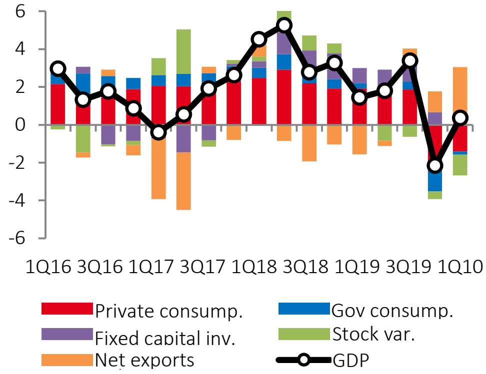
First quarter GDP shows the first economic effects of the pandemic

The slight growth in GDP for the first quarter (0.4% YoY) reflected a timid rebound in activity after the sharp contraction in the fourth quarter of last year. All in all, the sharp drop in activity in March made the recovery much less than expected prior to the pandemic. The data showed a year-on-year drop in domestic demand for the second consecutive quarter –where consumption and inventories had a significant impact–, which was partially offset by external demand.

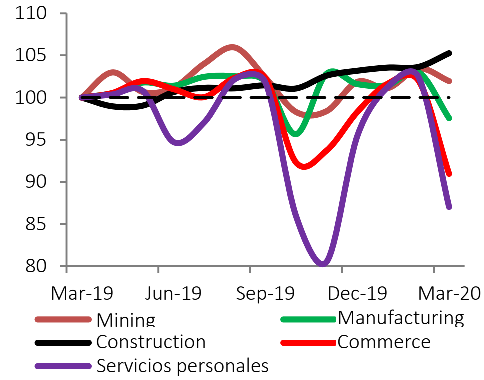
The contraction in household consumption mainly responded to the decrease in purchases of durable goods and the decline in personal services, which highlights the partial suspension of classes in March and the decrease in leisure activities. Meanwhile, investment had a modest performance, with a substantial decrease in spending on machinery and equipment (-9.6% y / y), offset by the construction component (6.3% y / y), which remained dynamic with the large mining projects. Despite the deterioration of the global economy, exports had a positive growth quarter (1.4% YoY), mainly driven by copper shipments. Imports, meanwhile, contracted sharply (-8.9% y / y), in line with weak domestic demand. In this way, net exports had a positive impact on growth in the quarter.

Graph 5: GDP by expense (Annual var., %)

Graph 6: Monthly evolution of main sectors (Mar-19 = 100, seasonally adjusted)



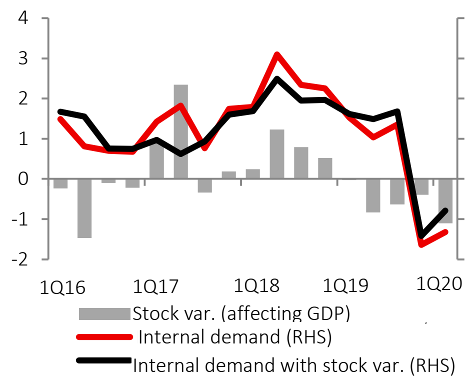
Source: BCCh and Santander



Source: BCCh and Santander

Graph 7: Internal demand (annual var., %)

Graph 8: Current account and terms of trade (% GDP moving year; annual var. %)



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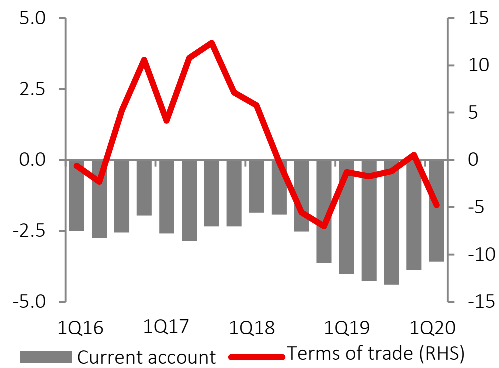


Source: BCCh and Santander

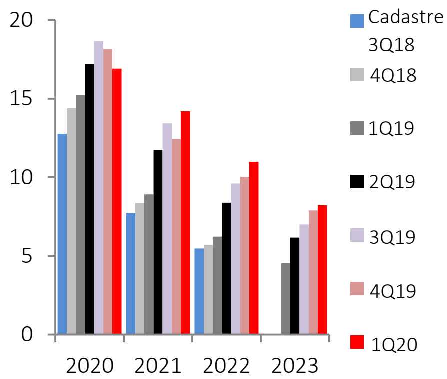
Investment in large projects has been reprogrammed from 2020 to coming years

The latest cadastre of large projects of the Capital Goods Corporation -corresponding to the first quarter of 2020- estimates an investment of US $ 56.7 billion in the five-year period 2020-2024. Although the figure is lower than that of 4Q19 - expected behavior given the change in the five-year period -, in the comparable period 2020-2023, there was an increase of 3.7%.

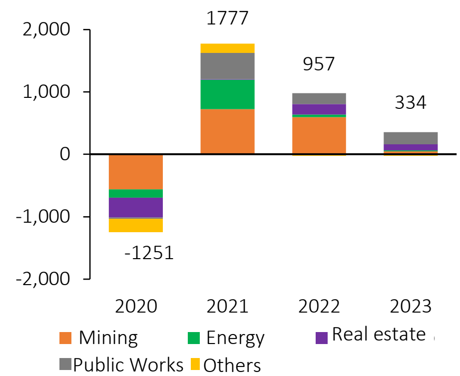
The results show the effects of the pandemic, since the investment to be executed in 2020 is reduced by US $ 1,250 million, mainly influenced by the mining and real estate sectors. This fall is more than offset by projected increases for the coming years, highlighting 2021 with an increase of US $ 1,770 million, influenced by mining, energy and Public Works.

Graph 9: anual investment according to different cadastres (US$ billions)

Graph 10: Annual change per sector (US$ million)



Source: CBC and Santander



Source: CBC and Santander

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