

## External risks are limited

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**Geopolitical tensions between Iran and the US do not generate major disruptions.** Iran's retaliation for the assassination of General Soleimani by the United State was limited and both leaders lowered the tone of the conflict. Therefore the stock markets recovered and the price of oil fell back to levels prior to the attack of the Baghdad airport.

**After four years below, inflation closes the year at the 3% target.** The CPI for December increased 0.1% m / m, in line with our projection. As we expected, the depreciation of the peso was partially reflected in the prices. In the coming months, the devaluation of the currency in recent months will temporarily boost inflation above the target.

**Chilean exports recover.** The sharp increase in cherry exports meant that December shipments had a relevant rebound. Meanwhile, imports contracted again due to weak domestic demand.

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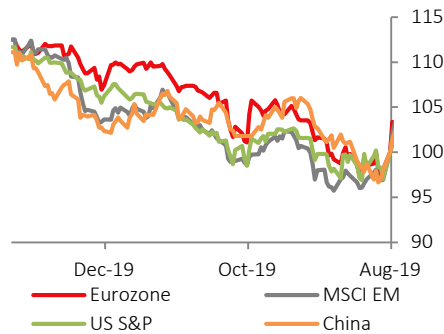
### External risks are limited

After a tense start of the week in the financial markets - the product of the conflict between Iran and the US - the calm returned along with a more relaxed tone by both leaders and after the retaliation of Iran did not lead to US casualties. With this, and despite President Trump announcing sanctions on Iran, stock markets increased and the price of oil reached levels prior to the Baghdad airport attack.

### Next week the US and China should sign the agreement between China and the US.

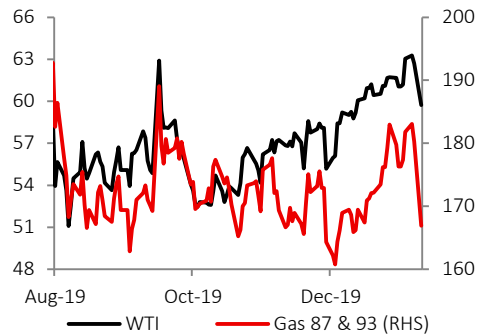
On the other hand, China confirmed that next week the Deputy Prime Minister, Liu He, will travel to Washington to sign phase one of the agreement that begins to resolve the trade conflict between China and the US. The signature is expected on Wednesday, January 15, where the scope of the agreement and the partial reduction of the last round of tariffs will be confirmed.

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



Source: Bloomberg and Santander

Graph 2: Price of oil and gas (US\$/bbl y cUS\$/gallon)

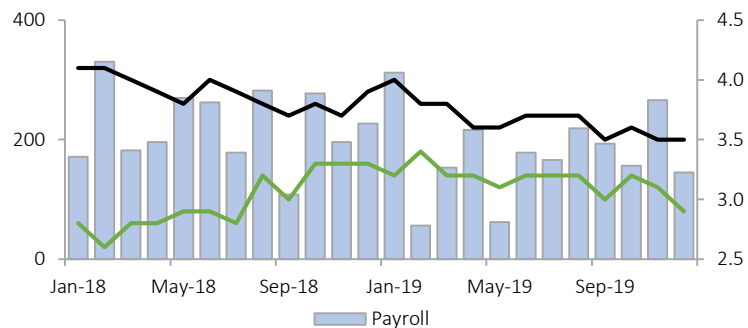


Source: Bloomberg and Santander

### Job creation in the US is moderate but continues to be robust

US labor market data for December 2019 was published. The unemployment rate remained at 3.5%, while the creation of non-agricultural employment was 145 thousand jobs, below the 160 thousand expected by the Bloomberg survey. Wage growth also surprised downwards, increasing 2.9% y / y versus 3.1% y / y expected, this is the worst record since July 2018. If this trend in wage growth continues, the convergence of inflation to the Federal Reserve goal becomes even more challenging.

Graph 3: US Labor market (thousands, %)



Source: Bloomberg and Santander

### Chilean exports recover.

Exports grew slightly in December (1.3% y / y), breaking a streak of ten consecutive months of year-on-year falls, thanks to the sharp increase in agricultural shipments (53.2% y / y), a result explained almost entirely by the increase in cherry sales (120.2% y / y). Meanwhile, mining exports fell 2.3% and industrial exports 3.9%; in any case, they are the least contractions since September.

With this, total exports closed 2019 with a 7.6% decrease. Mining exported US \$ 36,321 million (-9%) and industry US \$ 26,802 million (-7.9%). The result only highlights the increase in the agricultural sector (2.2%), whose shipments accumulated a value of US \$ 6,559 million, where cherries increased 44.7%, becoming the main fruit export of Chile, displacing the grape, which added US \$ 1,194 million in the year. Meanwhile, imports had a contraction of 7.5%, explained by setbacks of 10.8%, 6.1% and 4.7% in consumer goods, production and capital goods, respectively.

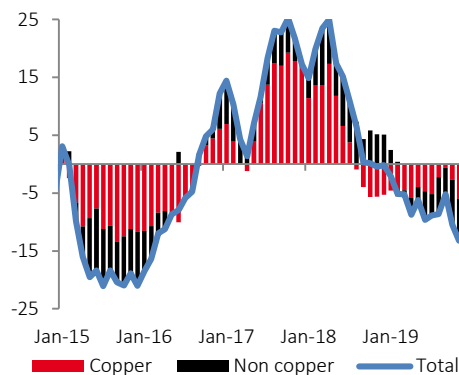
On the other hand, imports had a strong contraction of 17.7%, where there were falls in all the main categories: consumer goods -16.9%, production -16.7% and capital goods -20.0%.

The export performance depends fundamentally on the external markets that during 2019 suffered as a result of the US and China trade conflict. In particular, the latter had one of the lowest growth in the manufacturing industry of the last three decades, which weakened Chilean shipments of raw materials to that country, such as copper, lithium, wood, pulp, leather and wool.

**The depreciation of the real exchange rate and the slight recovery of the world economy will drive the external sector**

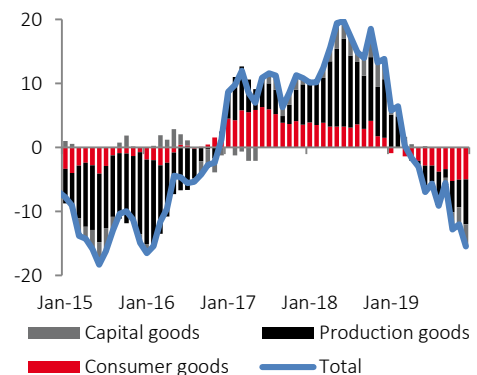
Going forward, the substantial depreciation of the real exchange rate in recent months will affect the performance of foreign trade and will drive it throughout this year. In return, domestic demand will be very limited, so imports of durable consumer goods and capital goods will remain very weak.

**Graph 4: Nominal exports (var. annual, % - moving quarter)**



Source: BCCh and Santander

**Graph 5: Nominal imports (var. annual, % - moving quarter)**



Source: BCCh and Santander

### After four years below, inflation closes the year at the 3% target.

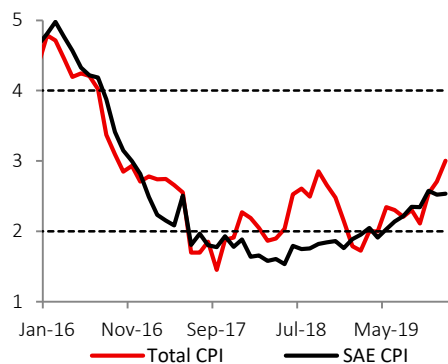
The CPI had a monthly variation of 0.1%, somewhat below market estimates but in line with our projection (Santander: 0.1%; Bloomberg: 0.2%; EOF: 0.2%; EEA: 0.2%; forwards: 0.1%). With this, the year ended with an annual variation of 3%, just hitting the goal of the Central Bank and below the 3.4% that had been projected in the last IPoM. Meanwhile, core inflation also varied 0.1%, which shows that inflationary pressures are still low. On the other hand, the diffusion index reached 45.2%, around historical patterns.

As we expected, the strong depreciation of the peso in recent weeks was not fully reflected in the December price index, since in several items its transfer is gradual. However, the inflation of tradable goods went from 2.9% in November to 3.3% in December. On the other hand, there were habitual seasonal movements, including the decrease in food prices and the rise in transport.

In the medium term, a slower growth rate of local activity will reduce inflationary pressures

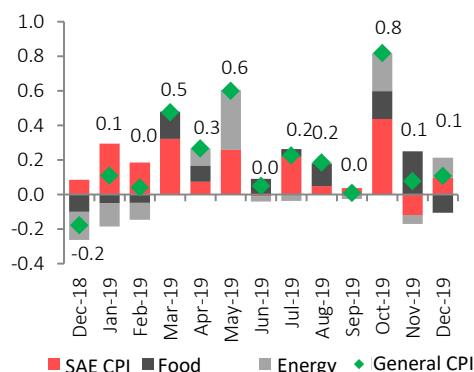
In the coming months we will observe a temporary rise in inflation, above the target, due to the effect of the higher exchange rate. However, in the medium term, a slower growth rate of local activity will reduce inflationary pressures. This, coupled with the freezing of a series of public rates, will cause inflation to fall below 3% in the second part of the year.

**Graph 6: General CPI and without food and energy (SAE) (var. annual, %)**



Source: Bloomberg and Santander

**Graph 7: CPI and components (monthly variation, %)**



Source: Bloomberg and Santander

## 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 pb	Accum. 2019
US	97.5	<b>-0.7</b>	-0.8	-1.1	<b>1.2</b>	1.7	31.7	1.84	<b>5</b>	-4	-90
Eurozone	1.1	<b>0.6</b>	1.0	3.1	<b>0.6</b>	1.3	27.1	-0.19	<b>9</b>	0	-43
UK	1.3	<b>0.2</b>	0.4	-2.8	<b>-0.4</b>	0.1	12.8	0.80	<b>5</b>	-7	-47
Japan	109.6	<b>1.4</b>	0.7	-0.6	<b>0.8</b>	0.8	16.1	0.00	<b>2</b>	2	0
Chile	772.5	<b>1.2</b>	2.7	11.5	<b>1.1</b>	4.8	-4.1	3.42	<b>28</b>	28	-81
Argentina	59.6	<b>-0.2</b>	-0.4	58.3	<b>3.8</b>	0.9	38.8	22.2	<b>3</b>	116	1,067
Brazil	4.1	<b>0.3</b>	1.5	5.1	<b>-0.9</b>	0.8	32.7	6.76	<b>0</b>	-5	-252
Mexico	18.8	<b>-0.6</b>	-0.7	-4.3	<b>-0.1</b>	2.1	7.5	6.84	<b>12</b>	-1	-191
Colombia	3,274	<b>0.7</b>	-0.3	0.9	<b>-1.4</b>	-0.5	24.7	5.91	<b>-20</b>	-17	-81
Peru	3.3	<b>0.1</b>	0.1	-1.5	<b>0.0</b>	0.7	-1.3	4.14	<b>-1</b>	-7	-147
China	6.9	<b>-0.6</b>	-0.9	0.7	<b>0.4</b>	2.0	38.3	3.14	<b>-6</b>	-4	-14
Turkey	5.9	<b>-1.6</b>	-1.1	11.5	<b>4.1</b>	3.1	30.8	11.3	<b>-77</b>	-72	-469
South Africa	14.3	<b>-0.4</b>	1.0	-1.1	<b>-0.6</b>	-0.4	10.1	8.22	<b>-4</b>	-2	-67
India	71.0	<b>-1.1</b>	-0.5	1.5	<b>0.3</b>	0.1	15.3	6.59	<b>8</b>	4	-81
Indonesia	13,755	<b>-1.2</b>	-1.2	-5.5	<b>-0.8</b>	-0.4	1.3	6.93	<b>-14</b>	-17	-105
Copper	280.7	<b>0.7</b>	-1.0	4.7							
Oil	59.4	<b>-5.9</b>	-3.8	31.0							

## Data published this week

DAY	COUNTRY	INDICATOR	PERIOD	PREVIOUS	ESTIMATION	ACTUAL
<b>MONDAY 6</b>	Chile					
	US	PMI Markit Services	December	52.2	52.2	52.8
	Eurozone	PMI Markit Services	December	52.4	52.4	52.8
	Eurozone	Sentix confidence	January	0.7	2.6	7.6
	China	PMI Caixin Composed	December	53.2	--	52.6
	China	PMI Caixin Services	December	53.5	53.2	52.5
<b>TUESDAY 7</b>	Chile	Commercial balance	December	\$111m	\$628	\$1460m
	Chile	Nominal salaries y/y	November	4.5%	--	4.1%
	US	Commercial balance	November	-\$47.2b	-\$43.6b	-\$43.1b
	US	PMI ISM non-manufacturing	December	53.9	54.5	55.0
	US	Durable goods orders	November	-2.0%	-2.0%	-2.1%
	Eurozone	Retail sales	November	1.4%	1.5%	2.2%
	Eurozone	Inflation m/m	December	-0.3%	0.3%	0.3%
	Eurozone	Total inflation y/y	December	1.0%	1.3%	1.3%
	Eurozone	Underlying inflation y/y	December	1.3%	1.3%	1.3%
<b>WEDNESDAY 8</b>	Chile	Inflation m/m	December	0.1%	0.2%	0.1%
	Chile	Inflation y/y	December	2.7%	3.1%	3.0%
	US	Employment ADP	December	67k	160k	202k
	US	Economic confidence	December	101.3	101.4	101.5
	Eurozone	Consumer confidence	December	-8.1	--	-8.1
	China	Inflation y/y	December	4.5%	4.7%	4.5%
<b>THURSDAY 9</b>	US	Unemployment requests (thousands)		222k	220k	214k
	Eurozone	Unemployment rates	November	7.5%	7.5%	7.5%
<b>FRIDAY 10</b>	US	Employment creation – non agriculture	December	266k	160k	145k
	US	Unemployment rate	December	3.5%	3.5%	3.5%
	US	Wages per hour y/y	December	3.1%	3.1%	2.9%

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 13</b>	China	Exports	December	-1.3%	2.5%
	China	Imports	December	0.3%	9.6%
	China	Commercial balance	December	\$38.73b	\$45.70b
<b>TUESDAY 14</b>	US	Inflation m/m	December	0.3%	0.2%
	US	Inflation y/y	December	2.1%	2.4%
	US	Underlying inflation y/y	December	2.3%	2.3%
<b>WEDNESDAY 15</b>	US	Producer Price index y/y	December	1.1%	1.3%
	US	Manufacturing survey (Empire State)	January	3.5	4.0
	Eurozone	Industrial production y/y	November	-2.2%	-1.3%
<b>THURSDAY 16</b>	US	Retail sales m/m	December	0.2%	0.3%
	US	Business perspectives Fed Philadelphia	January	0.3	4.4
	US	Unemployment requests (thousand)		214k	220k
	China	Retail sales	December	8.0%	7.9%
	China	Industrial production y/y	December	6.2%	5.9%
	China	GDP	4Q	6.0%	6.0%
<b>FRIDAY 17</b>	US	Housing commenced (thousands)	December	1365k	1380k
	US	Industrial production m/m	December	1.1%	0.0%
	US	Consumer confidence U. of Michigan		99.3	99.2
	US	Employment survey (JOLTS)	November	7267	7270
	Eurozone	Inflation y/y	December	1.0%	1.3%
	Eurozone	Inflation m/m	December	0.3%	0.3%
	Eurozone	Underlying inflation y/y	December	1.3%	1.3%

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