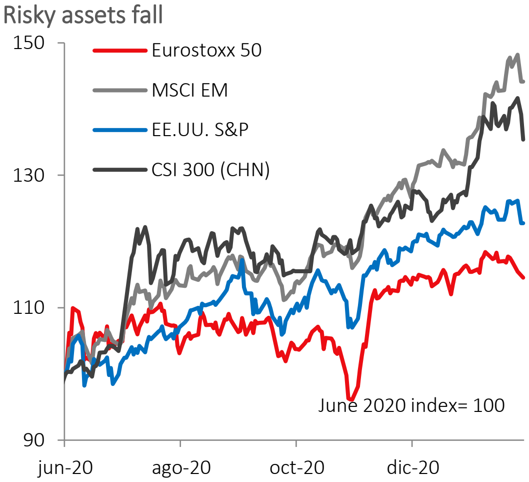
Turbulent week in the financial markets

During the week there was an increase in the risk aversion that pressured the market downwards, with important falls in stocks. The S&P 500 closed with decreases of 1.5%, while the Dow Jones fell more than 1%. Likewise, the VIX volatility index temporarily increased more than 37%. The main fears continue to revolve around the effects of the pandemic and new sanitary restrictions which have been imposed in various countries in the last weeks. Additionally, there were added tensions between the AstraZeneca laboratory and different countries about the distribution of the vaccines in Europe, the delay on President Biden's new stimulus package in the United States – which could be less ambitious than what was originally proposed -, and disappointing results from various large companies. Above all else, there is worry about an eventual overvaluation of various stock markets and many analysts point towards the possibility of a correction downwards. In this context, the yen and the DXY appreciated and the benchmark rates decreased, reflecting the preference to invest in less risky assets.

During the week, the International Monetary Fund updated their growth projections, correction the growth of the global economy upwards up to 5.5$ (+0.3bp), with and expansion of 4.3% (+0.4bp) and 6.3% (+0,3bp) for advanced and emerging markets, respectively. This revision is based on the mass vaccination process in a series of countries and the possibility of new stimulus measures, especially in the United States. Furthermore, the first meeting of the Fed in the US did not bring any surprises: the reference rate remained stable at its minimum level, and the liquidity programs remained the same. However, in the press conference Powell emphasized the moderation in activity and stated that it was premature to discuss rate increases and the gradual reduction of quantitative easing.

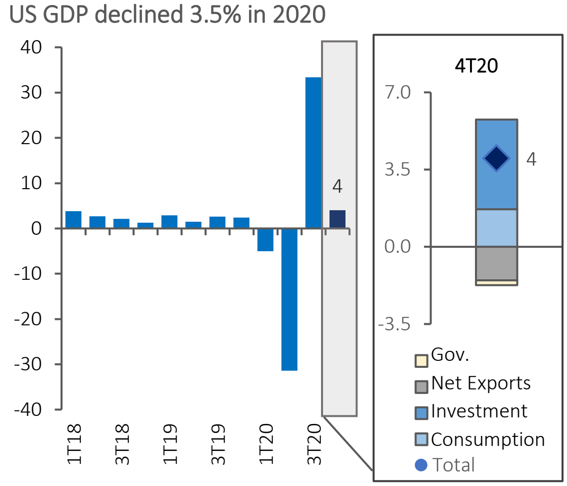
The latest data confirms that the rhythm of recovery in activity was stalled during the fourth quarter of last year, showing the impact of the new wave of contagion. In the US, GDP grew 4.0% QoQ on an annualized basis, slightly less than the 4.2% that was expected by the market and well below the 33.4% QoQ growth in the previous quarter. Consumption and investment continued being the main catalyzers of recovery. With this, 2020 closed the year with a fall in real activity of 3.5%.

Risky assets fall



Soruce: Bloomberg and Santander

US GDP declined 3.5% in 2020



Source: Bloomberg and Santander

Local stocks follow global trends

In Chile, the IPSA fell more than 5% in the week, driven by the international markets, while the exchange rate depreciated almost 2%, in line with other Latin American currencies. This fall was also influenced by the decrease of over 1.4% in the copper price. In our recent Annual Report 2021 (currently available in Spanish), we stated the copper price should close the year around US$3.1-3.2/lb, a level more coherent with its long-term fundamentals. In that case, the exchange rate should depreciate to levels of $760.

The Central Bank in its Monetary Policy Meeting in January maintained the Monetary Policy Rate (MPR) at 0.5%, and increased the liquidity measures. The Board announced a new phase of the FCIC for US$10 billion and incorporate as eligible collateral the commercial loan book in categories A5 and A6 (under local models) with state guarantee. With this, the Central Bank will accept as collateral the loan book categorized as Normal (under the categories A1, A2, A3, A4, A5 y A6), with an expected loss of 9%. In the same manner as the original FCIC, this line will be available for six months with a rate of the current MPR. Until now, the FCIC had not been used in its entirety (there were more US$30 billion disbursed of a total of US$40 billion), in part due to the lack of collateral, and to a smaller extent to less demand.

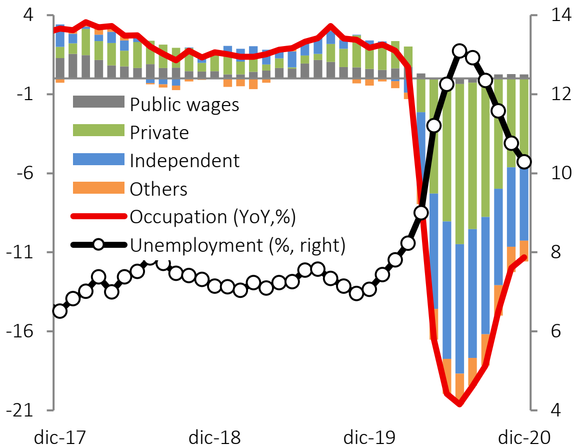
The expansion of the FCIC announced by the monetary authority this week is in lines with the new FOGAPE government-guaranteed loan program approved by Congress two weeks ago. This program seeks to expand financing by increasing the risk the banks can take. In order to do this, the maximum rate for these loans was increased to 7.2%. In this manner, the increase of FCIC, with a broader collateral requirement, and the new FOGAPE, will drive credit growth in the first part of the year.

Recovery rate slows down in the latter part of the year

Although the unemployment rate in the moving quarter of December ended below expectations(10,3% vs. Santander estimate: 10,7% and Bloomberg 10,6%), job creation diminished, with only 109 thousand new job posts (vs-249 thousand in the previous data). The largest deceleration was in the self-employed sector, which increased only 20 thousand, while dependent employees increased 94 thousand. In this manner, there are still more than a million people less working since February 2020.

As was expected, the worst employment numbers come from the sectors that require the most physical contact such as commerce (-10.8% YoY) and hotels and food services (-21.4%), which could continue to be affected by the lockdown measures.

Unemployment rate declines more than expected, but hides a hard reality



Source: INE and Santander

The job market moderates its recovery rate due to higher lockdown restrictions in December

Source: INE and Santander

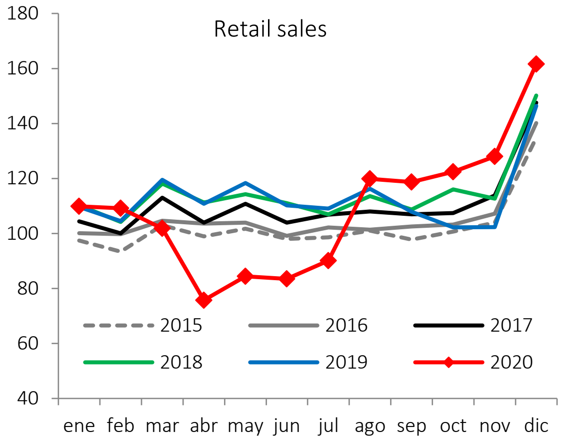
Sector activity anticipates a contraction of 1.5% in December Imacec

In much the same manner as the job market, the recovery rate of activity has also lost its dynamism. Retail commerce has an important annual increase (10.4%) favored by the low comparison basis and the second pension fund withdrawal. Taking this into account, there were sectors that declined, like the automobile commerce which had a fall of 6% YoY.

The manufacturing industry had a better performance than expected (0.4% YoY vs. Santander: -2% and Bloomberg: -1.7%),partially reverting the contraction of the previous month (-1.4%). Behind this performance there was in improvement in the internal demand of goods such as food (3.4% YoY) and furniture manufacturing (45.1% YoY).

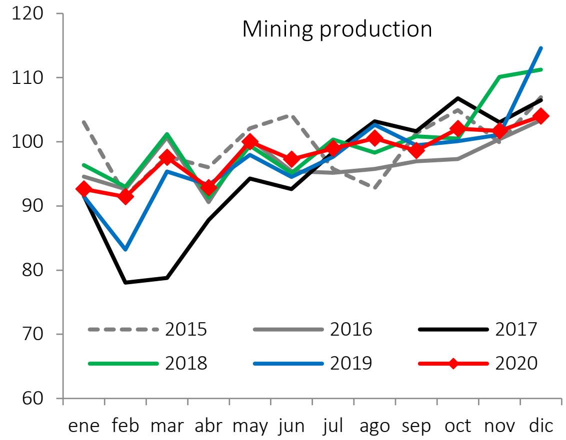
Mining, on the other hand, had a strong contraction of 9.3% YoY. This contrasts with the situation during the year in this sector, which remained resilient despite the pandemic. The disappoint numbers of December follows the trend in November, where there had already been a relevant contraction in mining activity, and follows a fall in the laws of the mineral more than the pandemic. **With these precedents, we estimate that the Imacec in December will have an annual variation between -1% and -1.5% YoY, closing the year with a contraction of 6%, like we mentioned in our previous report.**

Commerce grows strongly but loses momentum



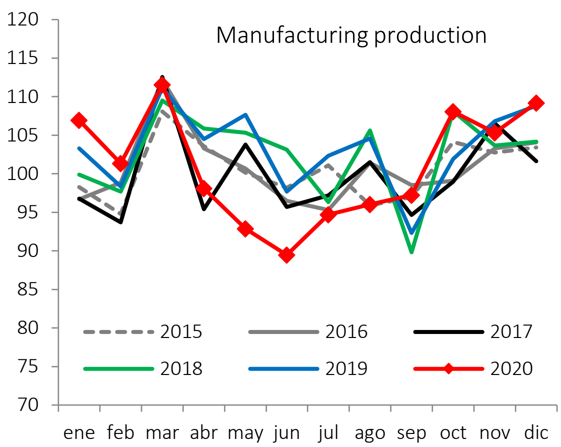
Source: INE and Santander

Mining activity with downward surprise



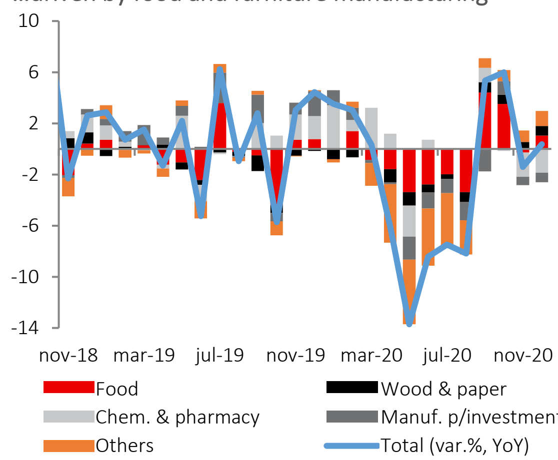
Source: INE and Santander

Manufacturing producting gains terrain…



Source: INE and Santander

…driven by food and furniture manufacturing



Source: INE and Santander