



# MARKET OUTLOOK

WEEK: JUNE 24 -28, 2019

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## Highlights

- **Despite the rise in manufacturing, sector data show weak Imacec in May.** Mining production surprised on the downside with a variation of -2% YoY, influenced by a lower intensity in the extraction and processing of copper. On the other hand, manufacturing activity was above expectations, with an expansion of 1.9% YoY. With these results, we estimate that May Imacec would have grown 2.3%.
- **Recovery of oil would affect gasolines in the short term.** The rapid recovery of oil, given the recent supply pressures, means that local peaks could be observed during the second part of July.
- **Labor market remains weak.** The employment figures of the INE of May did not show great surprises and, together with a series of complementary indicators, confirm the vision of a relatively weak labor market.

## G20 summit expectations

Over the weekend the G20 meetings will continue in Tokyo, where signals from the US and Chinese governments are expected regarding a possible trade agreement. US President Donald Trump agreed not to establish preconditions for his meeting with Chinese President Xi Jinping, although he maintains his threat to impose tariffs on almost all Chinese products if negotiations fail. His final decision will depend on the outcome of Saturday's meeting. It is thought that it is quite possible that, if the meeting goes well, the Chinese will return to the negotiating table. However, Trump is likely to continue to insist on structural changes in China's policies to protect US intellectual property and to end the forced transfer of technology to Chinese companies.

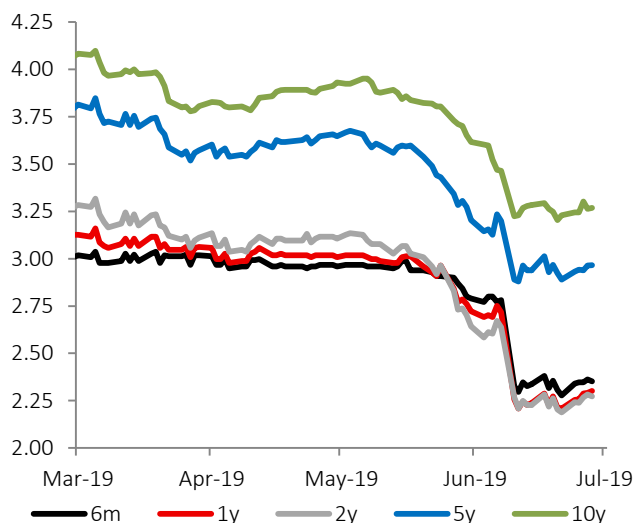
## Local asset prices experiences mixed movements

During the week, local assets showed mixed movements. The peso appreciated 0.8%, in line with fluctuations in the international dollar, copper and forward dollar flows by non-residents. At the close of this report, the dollar traded somewhat below \$ 680. Rates in the different tranches showed movements -in this case a recovery- of between 4 and 8 basis points, but still remain at low levels with respect to the observed values prior to the last Monetary Policy Meeting (RPM). On the other hand, the IPSA was stable between the end of last week and today due to weak performance in some particular sectors.

The minutes of the MPR for June reflected the consensus generated within the Board of the Central Bank regarding the need to introduce a greater monetary stimulus. This, due to the revision of the unobservable parameters (potential GDP and neutral interest rate) and the verification of a slower growth of the economy.

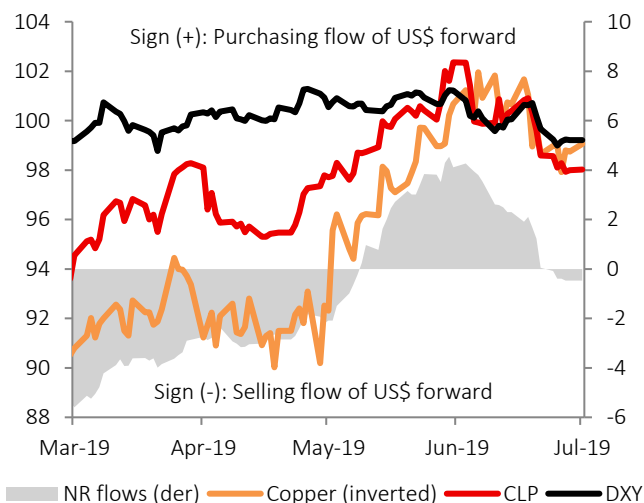
Once convinced of the need to deliver a greater stimulus, the Council was concerned about the tactical and communication aspects. After the movement of the TPM, the swap rates at different terms fell sharply and began to point to an additional reduction of 50 basis points by the end of the year. The Board's own communication did not help to make it clearer: though the RPM release was initially read with a neutral bias, the downward perspectives in the growth range for the year of the Monetary Policy Report and the interviews with several directors -where they emphasized that additional cuts were not ruled out - implied that the monetary impulse will probably continue to expand. Given the room to make major movements in its ruling rate, it would not be surprising to see a new adjustment of 50 basis points in September.

**Graph 1: Nominal swap rates (%)**



Source: Bloomberg and Santander

**Graph 2: Exchange rate, DXY, copper and non resident flows (Index 100 = Jan.19; MMM US\$ accum.)**



Source: Bloomberg and Santander

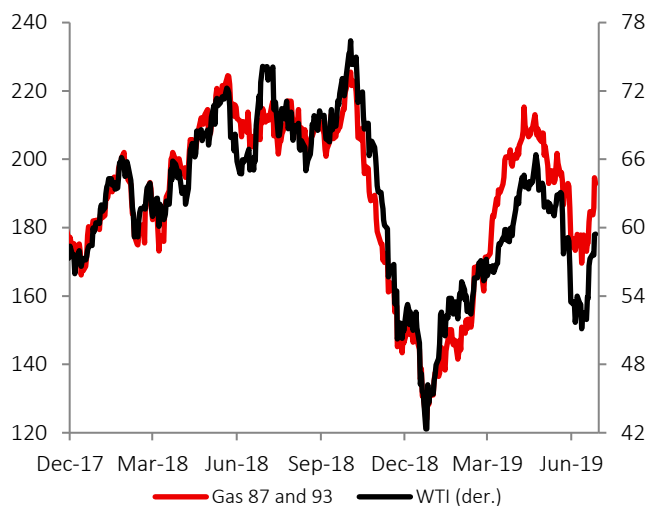
### Recovery of petrol will impact local oil prices during July

Both the price of oil and the price of gasoline in the Gulf Coast have experienced a rapid recovery in recent days, given the escalation of tension between the US. and Iran, after the latter took down a non-piloted US plane last week. It transpired that the USA had been very close to carrying out a retaliatory attack, which was aborted at the last minute by President Trump. Additionally, a devastating fire at a refinery in Philadelphia last Friday- with capacity of up to 335,000 bpd - exerted additional upward pressures on the price of gasoline.

Upward movements could continue after the next enlarged OPEC meeting - scheduled for July 1 and 2 - in which they could increase the agreed cuts that would increase pressures on the supply side.

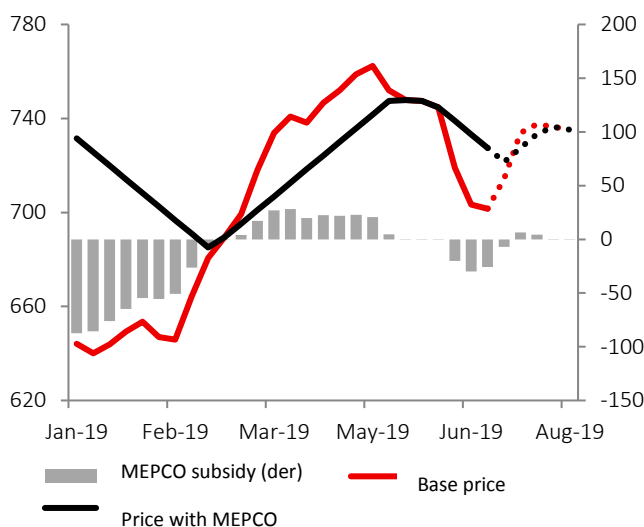
The increase in international prices would mean that gasoline in Chile would register upward movements ahead of schedule, starting in the second half of July, which would exert a bullish effect on the CPI projections for July and August.

**Graph 3: Oil price WTI and US Gulf Coast Gas (US\$/gallon and US\$/bbl)**



Source: Bloomberg and Santander

**Graph 4: ENAP petrol price 93 and Mepco subsidy (\$/litre)**



Source: Bloomberg, BCCh and Santander

### Despite the pick up in manufacturing, sectorial data leads to a weak Imacec in May

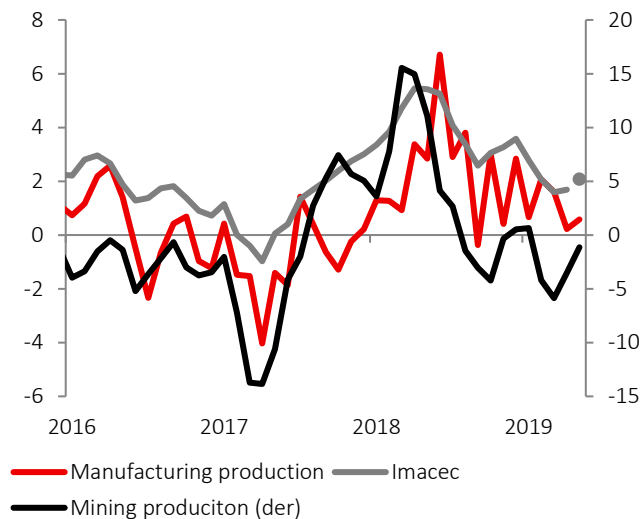
Mining production registered a variation of -2% YoY in May, influenced by a lower intensity in both the extraction and processing of copper. The indicator - which in the first part of the year was affected by climatic factors and problems in specific tasks - completed five months of year-on-year reversals, which is explained by the low grade of the mineral, to which are added the lower copper prices. **In June, the performance of mining will be affected by the stoppage at Chuquicamata, which would result in 2 pp. of lower growth for the sector.**

On the other hand, the manufacturing industry expanded 1.9% YoY, standing above market expectations (Santander: -0.4%, Bloomberg: 0.3%). Although the result was better than that observed in previous months (April: -1.4% y / y), it was strongly influenced by a 25% expansion in the chemical and substance division.

According to the INE report, this could be explained by a "greater availability of raw material", which could refer to the production of methanol in Magallanes, which was reopened at the end of last year after a period of 10 years without production due to the shortage of Argentine gas. If this were the case, it is likely that higher levels of manufacturing activity will be observed in a sustained manner. The food and beverages sector, which during 2018 contributed dynamism to manufacturers, contracted for the second month and had an impact of -1.1 percentage points, a phenomenon that goes hand in hand with the weakness registered by consumption in the most recent period.

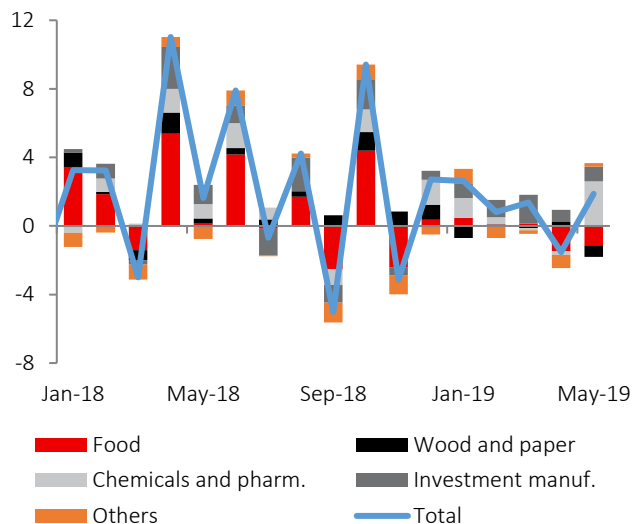
Although the surprises of mining and manufacturing are offset, the results known today lead us to marginally revise our Imacec forecast for May, up to 2.3%.

**Graph 5: Imacec and sectorial indicators**  
(var. annual, % - moving quarter)



Source: BCCh, INE and Santander

**Graph 6: Manufacture production by sector**  
(var. annual, %)



Source: INE and Santander

### Labor market remains weak

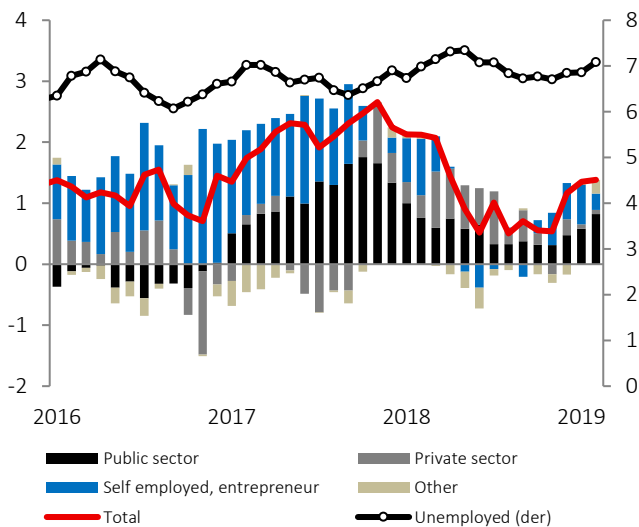
The INE employment figures for May did not show great surprises and confirm the vision of a relatively weak labor market. The unemployment rate increased to 7.1% due to its seasonal behavior, employment maintained a growth of 1.4% y / y and the labor force expanded 1.5%. In general, no relevant changes were observed with respect to previous months. Salaried employment grew 1.3%, with a strong incidence of public employment (6.9% YoY) and almost nil increase of those in the private sector (0.1% YoY).

On the other hand, the administrative data for March (latest available data) recorded a slight deterioration in the margin. In particular, AFP contributors grew 2.5% in that month, which is the lowest performance since November 2017.

In line with these results, the beneficiaries of Unemployment Insurance grew 3.9% in April compared to the same period of 2018, above the average of last year of 2.4%, and presenting an acceleration with respect to the first quarter of this year .

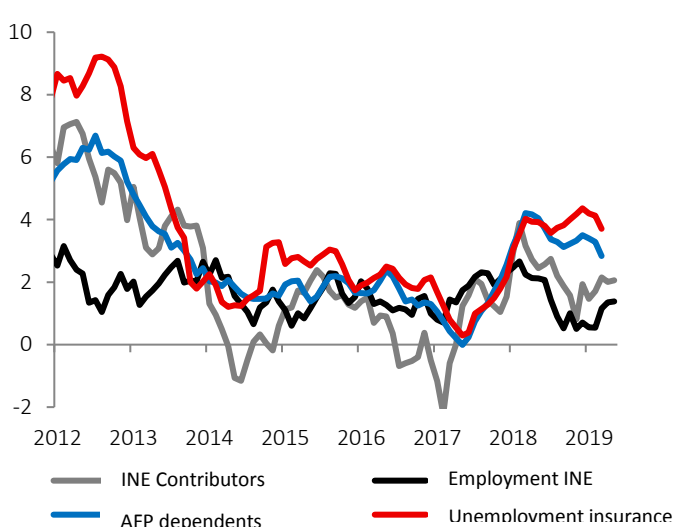
By combining the information gathered by employment and salary statistics, with administrative data and perception surveys for both companies and individuals, it can be concluded that the labor market is still relatively weak (see Figure 9).

Graph 7: Unemployment rate and employment by category (% and var. % annual)



Source: INE and Santander

Graph 7: INE employment and Social security contributors (var. % annual)



Source: INE, Pensions and Santander

Graph 8: Labor market indicators and perception heatmap (Green indicates greater growth or better perspectives)

| Indicators                                    | 2011                       | 2012   | 2013  | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   |
|---|----------------------------|--------|-------|--------|--------|--------|--------|--------|--------|
| Expectations IMCE                             | Commerce/ Employment       | Green  | Green | Yellow | Yellow | Red    | Red    | Yellow | Yellow |
|   | Construction / Salaries    | Green  | Green | Yellow | Yellow | Red    | Red    | Yellow | Yellow |
|   | Construction /Employ.      | Green  | Green | Yellow | Yellow | Red    | Red    | Yellow | Yellow |
|   | Industry / Salaries        | Green  | Green | Yellow | Yellow | Red    | Red    | Yellow | Yellow |
|   | Industry / Employment      | Green  | Green | Yellow | Yellow | Red    | Red    | Yellow | Yellow |
| Household Perception(IPEC)Currnt country sit. | Current personal sit.      | Yellow | Green | Green  | Yellow | Red    | Red    | Yellow | Yellow |
|   | Current country sit.       | Yellow | Green | Green  | Yellow | Red    | Red    | Yellow | Yellow |
| Employment                                    | Unemploy. rate             | Yellow | Green | Green  | Yellow | Yellow | Yellow | Yellow | Yellow |
|   | Employment (var. y/y)      | Green  | Green | Yellow | Yellow | Yellow | Yellow | Yellow | Yellow |
|   | Employees (var. y/y)       | Green  | Green | Yellow | Yellow | Yellow | Yellow | Yellow | Yellow |
| Salaries                                      | AFP contributors(var. y/y) | Green  | Green | Yellow | Yellow | Yellow | Yellow | Yellow | Yellow |
|   | Real IR(var. y/y)          | Green  | Green | Yellow | Yellow | Yellow | Yellow | Yellow | Yellow |

Source: Banco Central, Adimark, INE, SPensiones and Santander

**DATA THAT WAS PUBLISHED / this week**

| DAY                 | COUNTRY  | INDICATOR                              | PERIOD | PREVIOUS  | ESTIMATION | ACTUAL    |
|---------------------|----------|--|--------|-----------|------------|-----------|
| <b>MONDAY 24</b>    | Chile    | Minutes of the Monetary Policy meeting | June   | NA        | NA         | NA        |
| <b>TUESDAY 25</b>   | USA      | Consumer confidence, Conf. Board       | June   | 131.3     | 131.0      | 121.5     |
| <b>WEDNESDAY 20</b> | Chile    | Financial operators survey             | June   | NA        | NA         | NA        |
|                     | USA      | Durable goods orders (preliminary)     | May    | -2.8% m/m | -0.3% m/m  | -1.3% m/m |
| <b>THURSDAY 27</b>  | USA      | Annualized GDP                         | 1Q19   | 3.1% q/q  | 3.2% q/q   | 3.1% q/q  |
|                     | Eurozone | Economic confidence                    | June   | 105.2     | 104.8      | 103.3     |
| <b>FRIDAY 28</b>    | Chile    | Unemployment rate                      | May    | 6.9%      | 7.1%       | 7.1%      |
|                     | Chile    | Industrial production                  | May    | 0.7% y/y  | 0.0% y/y   | 1.9% y/y  |
|                     | Chile    | Manufacturing production               | May    | -1.4% y/y | -0.4% y/y  | -2.0% y/y |
|                     | Eurozone | CPI (preliminary)                      | June   | 0.8% y/y  | 1.0% y/y   | 1.1% y/y  |
|                     | Eurozone | Core CPI (preliminary)                 | June   | 1.2% y/y  | 1.2% y/y   | 1.2% y/y  |


**DATA THAT WILL BE PUBLISHED / next week**

| DAY                | COUNTRY  | INDICATOR                                 | PERIOD | PREVIOUS  | ESTIMATION |
|--------------------|----------|---|--------|-----------|------------|
| <b>MONDAY 1</b>    | Chile    | IMCE                                      | June   | 50.56     | NA         |
|                    | USA      | PMI manufacturing, ISM                    | June   | 52.1      | 51.2       |
|                    | Eurozone | Unemployment rate                         | May    | 7.5%      | 7.6%       |
|                    | China    | PMI manufacturing, INE (Saturday 29)      | June   | 49.4      | 49.5       |
|                    | China    | PMI non manufacturing, INE (Saturday 29)  | June   | 54.3      | 54.2       |
|                    | China    | PMI manufacturing, Caixin (Sunday30)      | June   | 50.2      | 50.0       |
| <b>TUESDAY 2</b>   | China    | PMI services, Caixin                      | June   | 52.7      | 52.6       |
| <b>WEDNESDAY 3</b> | Chile    | Retail sales                              | May    | -0.8% y/y | 1.0% y/y   |
|                    | USA      | PMI non manufacturing, ISM                | June   | 56.9      | 56.0       |
|                    | USA      | Employment creation, ADP                  | June   | 27,000    | 140,000    |
| <b>THURSDAY 4</b>  | Eurozone | Retail sales                              | May    | 1.5% y/y  | 1.6% y/y   |
| <b>FRIDAY 5</b>    | Chile    | Imacec                                    | May    | 2.1% y/y  | 2.3% y/y   |
|                    | Chile    | Nominal salaries                          | May    | 5.1% y/y  | 5.2% y/y   |
|                    | USA      | Unemployment rate                         | June   | 3.6%      | 3.6%       |
|                    | USA      | Employment creation non agriculture (pre) | June   | 75,000    | 158,000    |

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