



MARKET OUTLOOK

WEEK: July 19 – August 23, 2019

Highlights

- **The commercial conflict deepens.** A new round of the commercial war played down the long-awaited speech by Jerome Powell in Jackson Hole. China announced that it will impose new tariffs on US imports, which will be enforced on September 1 and December 15. For his part, President Trump ruled that he would respond with new countermeasures, without giving details at the close of this report. In this way, it is clear that the two powers are far from reaching a definitive agreement.
- **No clear signals from the Fed.** Jerome Powell did not deliver clear signals regarding the future trajectory of the benchmark rate. In his long-awaited words at Jackson Hole, he said the economy is still dynamic, and that the outlook for inflation and employment remains favorable. However, he stressed that the risks are significant. We estimate that the Fed will cut the rate two more times during the year, although this strategy will be very conditioned to the development of the commercial conflict, which we anticipate will remain in force, with advances and setbacks, in the remainder of the year.

The commercial conflict deepens

During the day today - when all the market's attention was on Jerome Powell's statements in Jackson Hole - China announced that it will impose additional fees on US \$ 75 billion on US goods. The countermeasure will take effect in two stages, on September 1 and December 15. On this last date, the 25% tariffs on American cars will also resume. After the response of the Asian giant, a feeling of greater risk aversion in the financial markets prevailed.

As a result, President Trump - via Twitter - announced that he would respond with countermeasures. At the close of this report, they did not know what they would be, but the markets reacted downward, with significant corrections in asset prices.

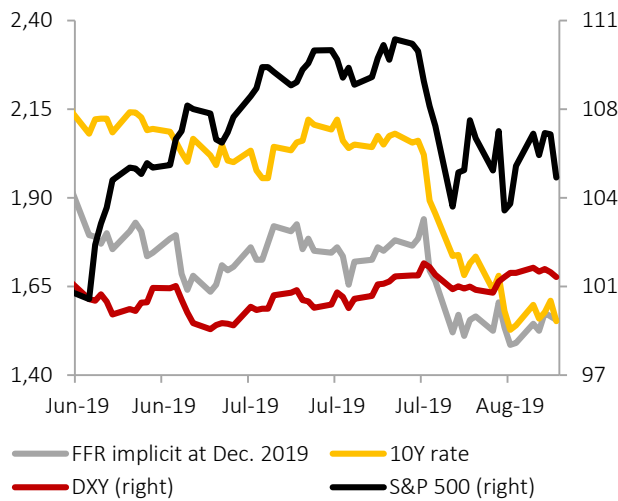
Although Powell, in his long-awaited speech, did not deliver clear signals regarding the future trajectory of the benchmark rate, it temporarily contained the fall of the markets following the reprisals of China.

In Powell's words, the economy is dynamic, although the downside risks are significant and the committee will do what is necessary to maintain the expansion of activity, in a context in which the prospects for inflation and employment remain favorable. He also stated that monetary policy is not responsible for providing rules for international trade, suggesting that the commercial dispute is the factor of greatest uncertainty about the future actions of the Fed. He stressed that since the July meeting, international risks have been accentuated. The UK's exit from the EU without an agreement is increasingly likely, along with political disruptions in Italy and greater signs of a slowdown in Germany and China increase the uncertainty of the global environment.

In the prelude to the statements of the Fed president, several FOMC members evidenced the division that exists within the council regarding the future trajectory of the fed fund rate, which had also been reflected in the minutes of the July meeting . Three members of the FOMC indicated that the US economy did not need further cuts in the reference rate, while a fourth pointed out that the rate should decrease 50 bp.

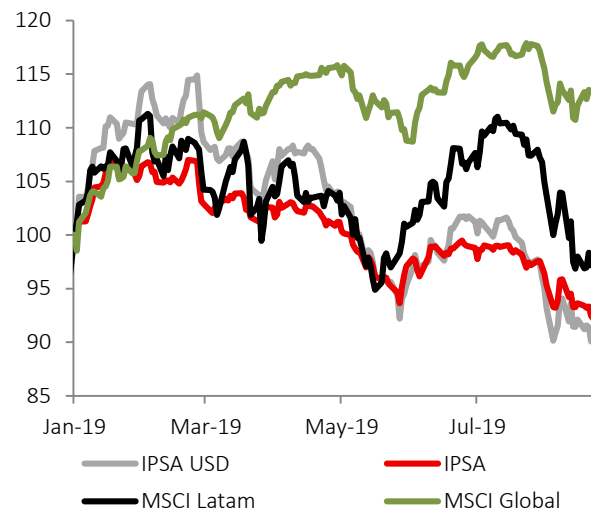
Given the deepening of the commercial conflict, we estimate that the Fed will cut the rate twice more during the year, although this strategy will be very conditioned to the development of the commercial conflict, which we anticipate will remain in force, with advances and setbacks, in what remains of the year.

Graph 1: US financial assets (%), Index 100 = Jun.19



Source: Bloomberg and Santander

Graph 2: International exchanges (Index 100 = Jan.19)



Source: Bloomberg and Santander

Activity in Europe remains weak

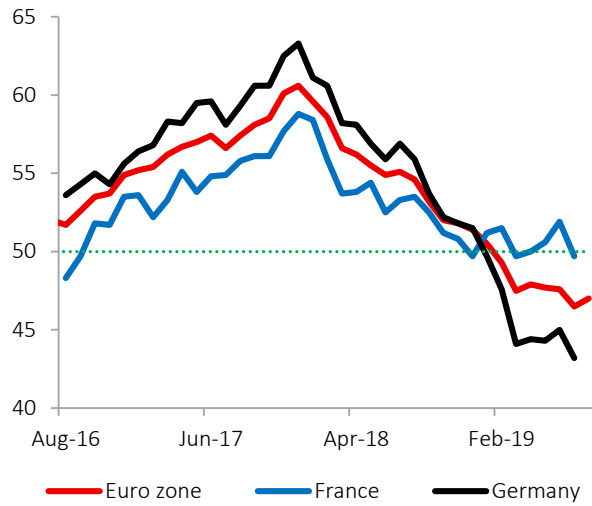
The August manufacturing PMI of the Euro Zone was above the expected in the surveys, although it still remains in pessimistic terrain. Germany's indicator continued to decline in a context in which the government was willing to implement the fiscal measures necessary to stimulate the economy. In this context, the yield curve of government bonds is completely in negative territory, after the first issue of a 30-year paper at a rate less than zero.

In Italy the political crisis continued to escalate. The prime minister, Giuseppe Conte, delivered his resignation to the president of the Republic after irreconcilable differences with the interior minister, Matteo Salvini, of the ultra-right-wing La Liga party, a sector that had significant support in the last parliamentary elections in May. The president will meet with the different political blocs to evaluate the options of new coalitions or otherwise dissolve parliament and anticipate elections, which is the most likely scenario. In this context of greater political uncertainty, where the most extreme blocks continue to be relevant, the risk premiums of Italian bonds increased temporarily.

The perception survey of the US manufacturing sector was lower than market expectations and was slightly below the pivot, a level that had not been observed since September 2009 (49.9 vs. 50.5 expected). This downward trend

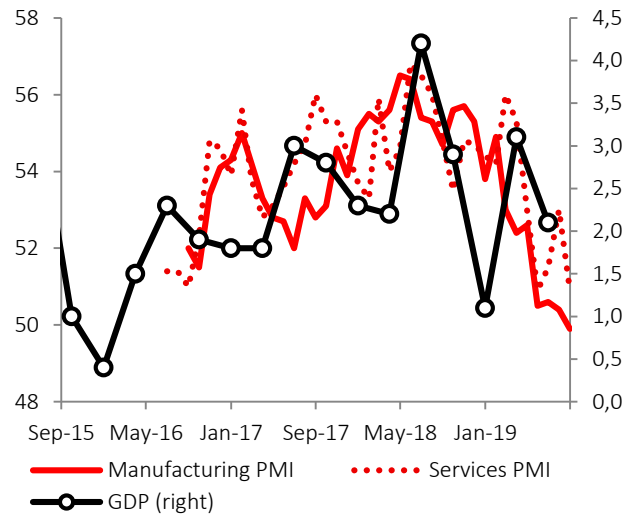
- which has been observed since the second quarter of 2018 - reflects the adverse effects of the commercial conflict in the sector.

Graph 3: Manufacturing PMI Euro zone (neutral = 50)



Source: Bloomberg and Santander

Graph 4: US PMI (neutral = 50)



Source: Bloomberg and Santander

DATA THAT WAS PUBLISHED / this week

DAY	COUNTRY	INDICATOR	PERIOD	ANTERIOR	ESTIMATION	ACTUAL
MONDAY 19	Chile	GDP	2Q	1.60%	1.90%	1.90%
	Euro zone	Underlying inflation y/y	July	0.9%	0.9%	0.9%
	Euro zone	Inflation m/m	July	0.2%	-0.4%	-0.5%
	Euro zone	Inflation y/y	July	1.1%	1.1%	1.0%
TUESDAY 20						
WEDNESDAY 21	US	Minutes FOMC	July	--	--	--
THURSDAY 22	US	Unemployment requests (thous)		220k	216k	209k
	US	PMI Markit manufacturing	August	50.4	50.5	49.9
	US	PMI Markit Services	August	53.0	52.8	50.9
	Euro zone	PMI Markit Manufacturing	August	46.5	46.2	47.0
	Euro zone	PMI Markit Services	August	53.2	53.0	53.4
	Euro zone	Consumer confidence	August	-6.6	-7.0	-7.1
FRIDAY 23	US	Jerome Powell in Jackson Hole				

DATA THAT WILL BE PUBLISHED / next week


DAY	COUNTRY	INDICATOR	PERIOD	ANTERIOR	PREVIOUS
MONDAY 26	US	Activity index of Fed Chicago	July	-0.02	--
	US	Durable goods orders	July	1.9%	1.3%
	US	Manufacturing index Fed Dallas	August	-6.3	-1.0
TUESDAY 27	US	Consumer confidence (Conf. Board)	August	135.7	130.0
WEDNESDAY 28					
THURSDAY 29	Chile	Financial operators survey	--	--	--
	US	GDP annualized q/q	2Q S	2.1%	2.0%
	US	PCE Core q/q	2Q S	1.8%	--
	US	Unemployment requests (thous)		209k	--
	Euro zone	Economic confidence	August	102.7	102.4
	Euro zone	Consumer confidence	August	-7.1	-7.1
FRIDAY 30	Chile	Manufacturing production	July	-5.4%	5.5%
	Chile	Unemployment rate	July	7.1%	7.2%
	US	PCE total y/y	July	1.4%	1.4%
	US	PCE core y/y	July	1.6%	1.6%
	US	Consumer confidence U. de Michigan	August	92.1	92.5
	Euro zone	Core inflation y/y	August	0.9%	1.0%
	China	PMI Official manufacturing	August	49.7	49.7
	China	PMI Oficial non manufacturing	August	53.7	53.6

Research

FINANCIAL DIVISION

 **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

CONTACT

 (56 2) 2320 1021
 Access to our reports at:

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