



MARKET OUTLOOK

WEEK: JUNE 24 -28, 2019

Highlights

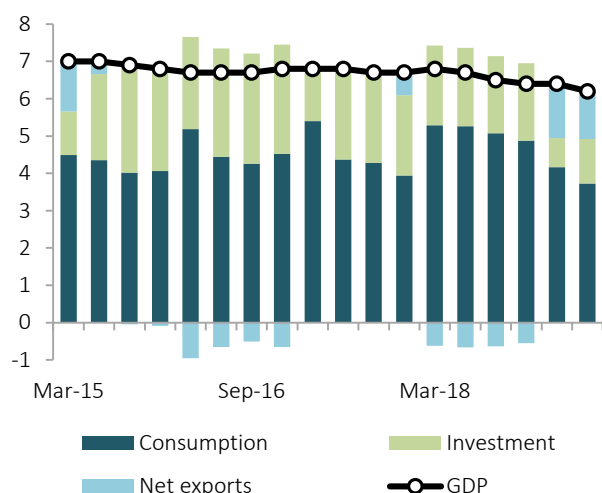
- **Despite stimulus measures, China's economy moderates its growth.** The expansion of 6.2% in the second quarter was the lowest of the last 27 years, affected by the impacts of the commercial war on the Asian giant. The lower dynamism was explained by the slowdown in consumption and the slow growth of investment for the second consecutive quarter.
- **Mixed financial markets in the forefront of monetary policy meetings of the main central banks.** During the week, the decline of the stock markets predominated despite expectations of greater monetary expansion. Meanwhile, despite the geopolitical tensions in the Middle East, oil showed a significant decline as there are more inventories than estimated.
- **Central Bank prepares the way for new cuts.** With a split vote, the Central Bank kept the MPR at 2.5% but clearly showed its intention to cut it back in the next meetings. After the meeting, the swap rates fell along the entire curve and point to between two and three cuts of 25 basis points within a year. We estimate that in its next Monetary Policy Report, the Central Bank will recognize growth below its last range, which should lead to a reduction in the MPR by 50 basis points, which could materialize in a single meeting (September) or in consecutive meetings (September and October).

Despite stimulus measures, China's economy moderates its growth

China's second-quarter GDP grew 6.2%, in line with market expectations. This was the lowest of the last 27 years and accounted for a slowdown in consumption and low growth in investment for the second consecutive quarter.

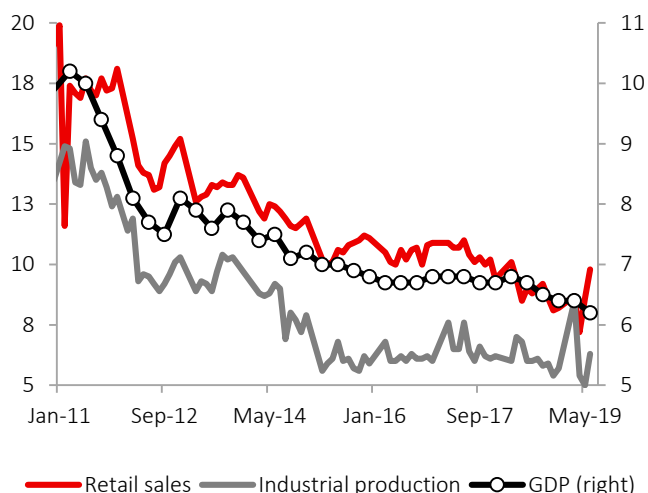
Monthly activity indicators for the month of June were above expectations, with increases in industrial production and retail sales. This could imply an improvement in the figures for the third quarter. All in all, fears of a further slowdown in the Asian giant remain, as there has been no progress in trade negotiations with the US. and the space to implement stimulus measures is more limited.

Graph 1: China GDP (Annual var., %)



Source: Bloomberg and Santander

Graph 1: China: other activity indicators (Annual var., %)



Source: Bloomberg and Santander

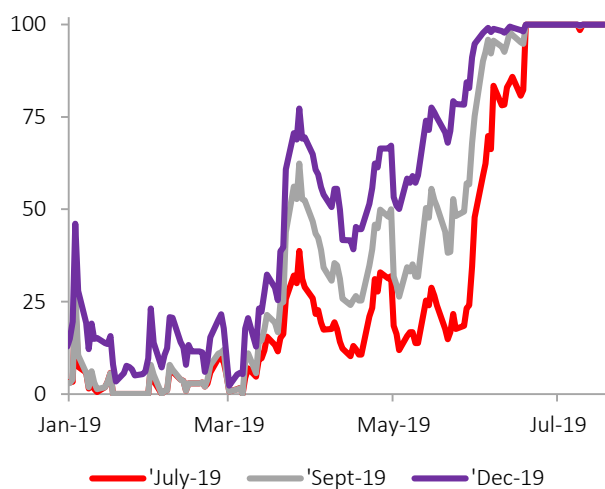
Mixed financial markets in the forefront of monetary policy meetings of the main central banks.

The financial markets presented mixed and limited movements during the week. Declines in the stock markets predominated, in a context where the first releases of corporate results for the second quarter of the S&P 500 companies have been mixed compared to what was expected. On the other hand, the expectations of rate cuts by both the Fed and the ECB persist, which would give new impetus to global monetary conditions. In this context, long-term rates in advanced economies decreased again.

The activity in the United States continues to be dynamic. Retail sales in June surprised on the upside with a monthly expansion of 0.4% (0.2% expected), while manufacturing output was relatively in line with expectations (0% m / m vs. 0.1% m / m). In recent days, statements by some members of the Fed Committee reaffirmed the need for more stimulus, even though the activity data remain robust. With this, the expectations of a rate cut of federal funds at the meeting of July 31 have continued to increase and are around 100% (60% for a 25 bp cut and 40% for a cut of 50 bp). In this context, the dollar at the global level showed ups and downs and closed slightly strengthened in a context where emerging currencies showed mixed returns.

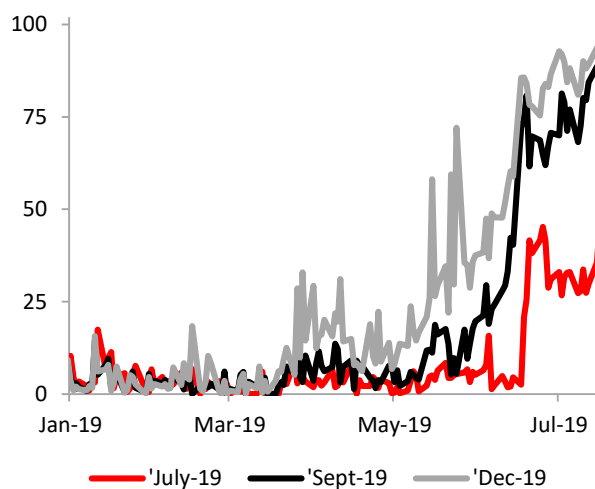
Next week, at the July meeting of the European Central Bank (ECB), we estimate that clearer signals will be delivered regarding future monetary policy easing actions. The probability of a cut in this meeting - implicit in financial prices - is less than 50%, which points to a maintained reference rate on this occasion. However, a cut in the monetary policy rate is fully incorporated by September.

Graph 2: Probability of a rate cut by the Fed (%)



Source: Bloomberg and Santander

Graph 3: Probability of a rate cut by the ECB (%)



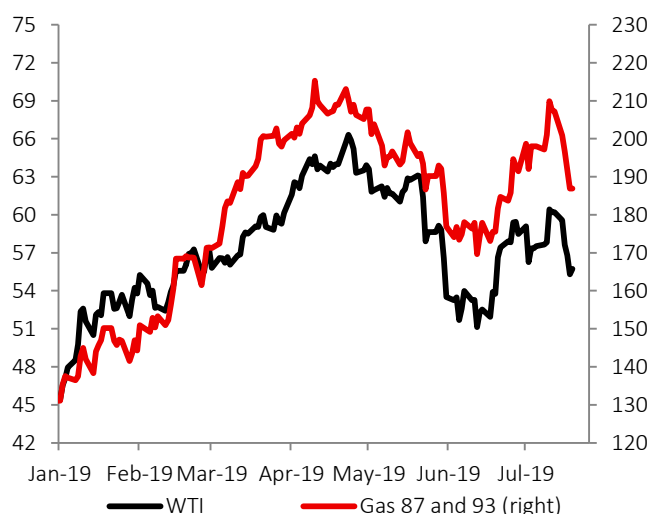
Source: Bloomberg and Santander

Oil prices recede despite geopolitical tensions in the Middle East

The price of oil registered a substantial drop during the week (7.4% in the week), after the US Secretary of State made optimistic comments regarding the conflict with Iran and that the US Energy Information Agency will report that the inventories are above what was expected. The demolition of an Iranian drone by the US did not have major impacts.

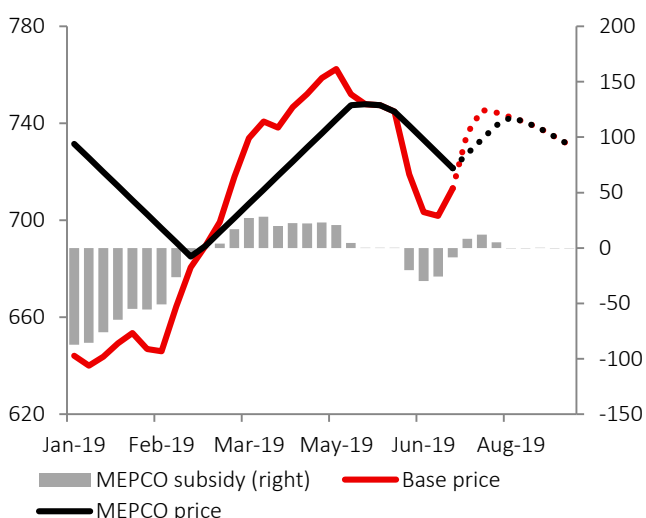
The recent drops in the price of oil will begin to be reflected in the local prices of gas in a couple of weeks. For the next week we estimate that the prices reported by ENAP will register an increase close to \$ 6 and from the first Thursday of August we would see a string of falls.

Graph 4: Oil and gas price (US\$/bbl; cUS\$/galón)



Source: Bloomberg and Santander

Graph 5: Gas 93 and MEPCO subsidy (\$/litro)



Source: ENAP; Finance Ministry and Santander

Survey of banking credit conditions shows stability

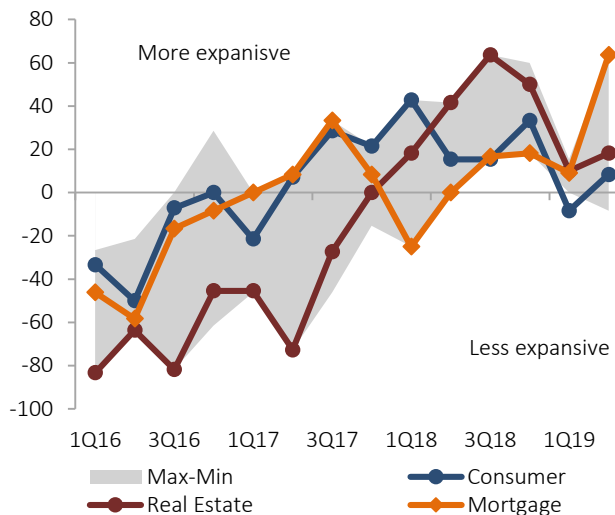
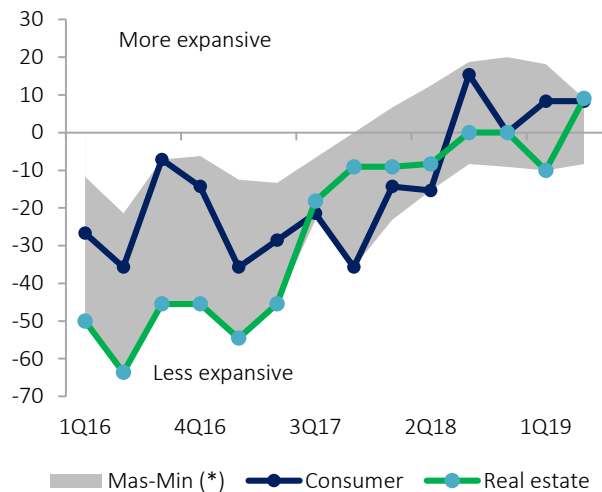
According to the latest Banking Credit Survey published by the Central Bank of Chile, credit supply conditions in the second quarter remained relatively stable, with the segments of individuals -both consumption and mortgage- in slightly expansive territory. Meanwhile the company segments showed slightly more restrictive conditions than the previous quarter, in particular that of SMEs that fell after a first quarter in which fewer restrictions were reported for this group of applicants.

Regarding demand, mixed results were observed. While applications by large companies and SMEs registered a limited moderation, the consumer and mortgage segments remained in expansive terrain. Credit applications for mortgages stand out, since 64% of the institutions consulted reported that the demand expanded with respect to the first quarter.

The dynamism of mortgage applications is consistent with the demand for credit from real estate companies. The latter has had six consecutive quarters in expansive territory, while the demand from construction companies

completed one year in that situation. The conditions of supply for both types of companies were marginally positive, scenario that was not observed since 2012 in the case of real estate.

Graph 6: Offer conditions of bank financing (% net of replies) **Graph 7: Demand for bank loans (% net of replies)**



(*)Corresponds to the minimum and maximum of the Real Estate, Construction, Consumer, Mortgage, Large Companies and SMEs segments.

Source: Banco Central and Santander

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The Central Bank prepares the way for new cuts of the MPR

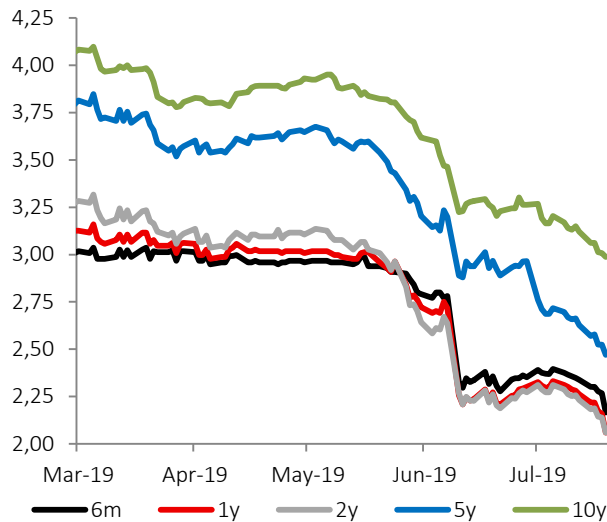
After the surprising 50 bp reduction at the June meeting, the Central Bank kept the monetary policy rate at 2.5% in July, as widely expected. However, the vote was divided, the advisor Pablo García was inclined for an additional cut of 25 bp. The board recognizes that "the information accumulated since the publication of the last Monetary Policy Report has increased the risks regarding the timely convergence of inflation to the target in the policy horizon". For this reason, the directors believe that, if these trends persist, it will be necessary to reduce the MPR again. The statement leaves open the size of future cuts, noting that in its next Monetary Policy Report it will calibrate the magnitude of the additional monetary stimulus required.

At the close of this report, swap rates fell by an average of 7bp compared to the levels prior to this meeting. This clearly points to two additional cuts of 25 bp in the remainder of the year, and even a possible additional cut in 2020. Also, in response to the statement, the exchange rate depreciated despite the rise in the price of copper.

670/5000

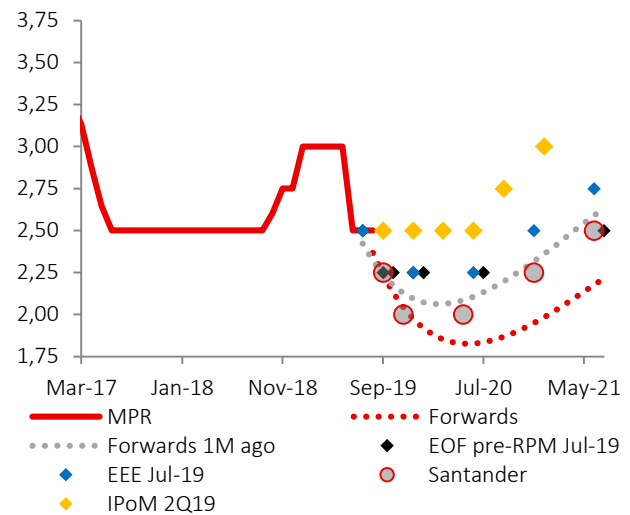
We estimate that the weak growth exhibited by activity and the contained inflation, which will continue in the lower part of the tolerance range, merit an additional monetary impulse. According to our scenario, GDP will expand 2.7% or even less during the year, while inflation will close at 2.6%. Given the above, **the additional stimulus should be 50 basis points, to materialize in a single meeting (September) or in consecutive meetings (September and October).** We believe that an adjustment of only 25 basis points in the MPR would not be consistent with the change in the outlook for activity and inflation that the next Monetary Policy Report should reflect.

Graph 8: Swap rates (%)



Source: Bloomberg and Santander

Graph 9: MPR expectations (%)



Source: Bloomberg and Santander

DATA THAT WAS PUBLISHED / this week

DAY	COUNTRY	INDICATOR	PERIOD	PREVIOUS	ESTIMATION	ACTUAL
MONDAY 15	US	Manufacturing survey (Empire State)	July	-8.6	2.0	4.3
	China	Industrial production	June	5.0%	5.2%	6.3%
	China	Retail sales	June	8.6%	8.5%	9.8%
	China	GDP	2Q19	6.4%	6.2%	6.2%
TUESDAY 16	US	Retail sales m/m	June	0.5%	0.2%	0.4%
	US	Industrial production m/m	June	0.4%	0.1%	0.0%
	Eurozone	Survey ZEW	July	-20.2	--	-20.3
WEDNESDAY 17	US	Housing comenced (thousands)	June	1269k	1260k	1253k
	Eurozone	Core inflation y/y	June	1.1%	1.1%	1.1%
	Eurozone	Inflation m/m	June	0.1%	0.1%	0.2%
	Eurozone	Inflation y/y	June	1.2%	1.2%	1.3%
THURSDAY 18	Chile	Monetary policy rate	July	2.50%	2.50%	2.50%
	US	Fed Philadelphia Busienss perspectives	July	0.3	5.0	21.8
	US	Unemployment claims (thousands)	July	209k	216k	216k
FRIDAY 19	US	Consumer confidence U. of Michigan	July	98.2	98.8	98.4


DATA THAT WILL BE PUBLISHED / next week

DAY	COUNTRY	INDICATOR	PERIOD	PREVIOUS	ESTIMATION
MONDAY 22	US	Activity index Fed Chicago	June	-0.05	0.10
TUESDAY 23	Eurozone	Consumer confidence	July	-7.2	-7.2
WEDNESDAY 24	US	PMI Markit manufacturing	July	50.6	51.2
	US	PMI Markit Services	July	51.5	51.8
	Eurozone	PMI Markit manufacturing	July	47.6	47.6
	Eurozone	PMI Markit Services	July	53.6	53.3
THURSDAY 25	US	Durable goods order	June	-1.3%	0.8%
	US	Unemployment claims (thousands)	July	216k	220k
	Eurozone	ECB reference rate	July	-0.4%	-0.4%
FRIDAY 26	US	GDP annualized q/q	2Q19	3.1%	1.8%
	US	Personal consumption	2Q19	0.9%	4.0%
	US	PCE Core q/q	2Q19	1.2%	2.0%

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