

A disturbed week in Chile marks the agenda

As a result of the riots and strikes, there has been a partial functioning of the country. This will impact the October Imacec and possibly the November one too. Although the effects are still difficult to quantify, we estimate that they could mean less activity of around 2 pp. in October, and therefore the annual variation of the Imacec should be around 1%.

Financial markets show greater risk aversion. The initial response of the markets to the disturbances generated a depreciation of just over 2% of the peso, a 4.5% drop in the stock market and an increase of around 20 bp in long-term rates.

As expected, the Central Bank cut the MPR by 25 bp and reports an expansive bias. We estimate that in the December RPM - which coincides with the publication of the IPoM where an evaluation of the impact of the social situation on the economy will be delivered -, the Council will again cut the reference rate and take it down to 1.5%.

2019 will close with lower inflation. The freezing of electricity rates at the levels of the first semester and the reversal of the rise in public transport - two of the measures announced by the Government - will result in a CPI of about 0.3pp less than expected, so inflation should close at around 2.5% during the current year.

The President announces social agenda. In response to the demands, the Government unveiled a set of measures in pensions, income, and medicines, among others, which will imply greater fiscal expenditure in 2020 with respect to the budget of US \$ 760 million. With this, we estimate that the fiscal deficit will rise to 2.5% of GDP next year.

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Macroeconomic implications of recent events

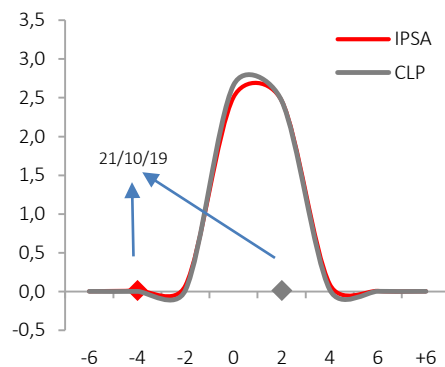
In recent days, the country has faced widespread strikes and riots that have affected the normal functioning of a series of activities. These facts have had an impact on financial variables and will have both short and medium term macroeconomic effects.

In the short term, the partial functioning of a series of activities, infrastructure damage and the disruption of the logistics chain will be reflected in the Imacec of October and November, with impacts still difficult to quantify. With the available information, we estimate that this effect in October will be just over 1pp. Thus, if we initially estimated that the October Imacec would expand somewhat by over 3%, we now expect that figure to be around 2%. The impact in November will depend on the speed at which the operation of the activities that have been affected is normalized.

In the medium term, the effect on the economy will depend on how recent events affect the confidence of both households and companies, and the perception of risk. However, we estimate that there will be a downward correction for the growth of 2020, which we estimated so far would be around 3%.

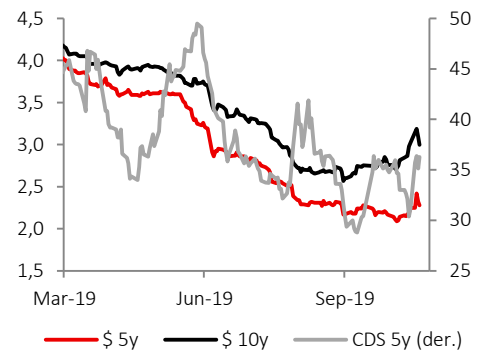
Disruptions produced by events in recent days will lead to an Imacec of 1% in October

Histogram of daily performance IPSA and CLP from 2000 (frequency)



Source: Bloomberg and Santander

Nominal bond rates and CDS (%)



Source: Bloomberg and Santander

In the financial environment, the most relevant effect was in the stock market, which initially fell about 4% at the beginning of the week, but then partially recovered. This fall occurred in a context where international stock markets tended to improve due to renewed optimism over trade negotiations between China and the US and the possibility of an orderly Brexit. The biggest declines in the local stock market were in retail and public service companies.

Increase in risk aversion in the local market

The exchange rate depreciated around 2% and closed the week trading at levels close to \$ 728, in a context where the dollar strengthened globally and the price of copper continued to rise and closed the week near US \$ 270 per pound.

Meanwhile, fixed-income market rates showed increases, which began to reverse after the announcement of social measures by the Government. **Monetary market rates in local currency and the cost of financing in dollars have increased, however, they have tended to reverse and remain far from the levels of past interventions by the Central Bank.** In addition, the issuing institute has indicated that the financial market is still functioning normally.

Fixed income rates increased but this has reversed after the social measures announced by the Government

The Central Bank will lower the monetary policy rate to 1.5% in the December RPM

Central Bank lowers the MPR and introduces expansive bias

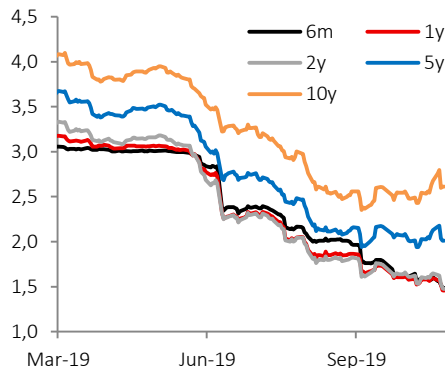
At its Monetary Policy Meeting (RPM), the Central Bank (CB) decreased the MPR by 25 bp to 1.75%, as expected. In addition, the Council noted that it considers that it may be necessary to expand the monetary stimulus to ensure the convergence of inflation to the target.

In its diagnosis of the recent incidents that occur in the country, the CB recognized that the evolution of economic activity in the short term will be affected and that the impact in the medium term will depend on the speed of reconstruction and the outcome of the social conflict.

After the RPM, the swap rates showed limited drops in the short term and implicit additional 25bp cuts for the December and January meetings.

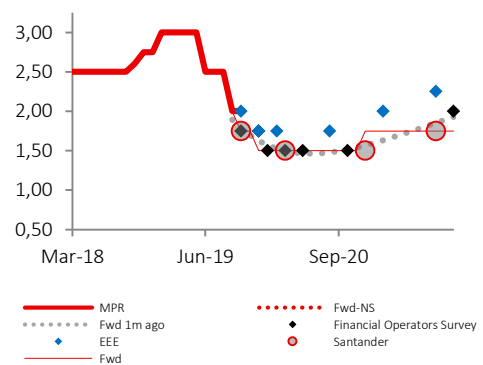
The freezing of electricity rates and the reversal of the rise in public transport - measures announced by the Government - will result in around 0.3pp of lower annual inflation.

Nominal swap rates (%)



Source: Bloomberg and Santander

MPR expectations (%)



Spource: Bloomberg and Santander

The President announced a social agenda, with additional net expense of US\$ 760 million above budget

Social measures imply greater fiscal deficit

President Piñera announced a new social agenda in response to demonstrations in recent days. These measures include increases in government transfers through pensions, public health insurance and a new income subsidy for full-time workers who earn less than Ch\$ 350,000. In addition, the highest marginal tax rate on personal income will increase from 35% to 40%.

According to the Minister of Finance, the fiscal cost of spending proposals is US \$ 1.2 billion (0.4% of GDP), while the new taxes are projected to raise US \$ 160 million. The Government will offset part of the additional expenses with savings in other areas (US \$ 440 million), and the rest will be financed by higher public debt (US \$ 600 million or 0.2% of GDP per year). We

do not rule out that part of the financing will come from sovereign wealth funds, in particular, from the Pension Reserve Fund (FRP).

Among the measures announced, the following stand out:

The fiscal deficit will be around 2.5% of GDP in 2020

- 20% increase in the Basic Solidarity Pension.
- 20% increase in the Solidarity Pension Contribution.
- Catastrophic Disease Insurance.
- Insurance that covers part of the expenditure on drugs not covered by programs such as the GES or the Ricarte Soto Law.
- Minimum Guaranteed Income of Ch\$ 350 thousand per month, for all full-time workers that complements the workers' salary.
- Creation of a mechanism for stabilizing electricity rates, canceling the recent 9.2% increase in electricity.
- Creation of a new tranche in the Supplementary Global Tax of 40% for incomes over Ch\$ 8 million per month.
- Strengthening of the Municipal Common Fund, establishing greater contributions from higher-income communities, for the benefit of lower-income communities.
- Reduction of the salaries of parliamentarians and high salaries of public administration and reduction in the number of parliamentarians and limitation of re-elections

Market summary

	Level	Exchange rates			Exchanges			Level	10Y rates		
		Weekly var.	Monthly var. %	Annual var.	Weekly var.	Monthly var. %	Annual var.		Weekly var.	Monthly var. bp	Annual var.
US	97.7	-0.4	1.7	-1.3	0.8	1.2	21.1	1.75	0	8	-99
Eurozone	1.1	0.6	-1.8	3.0	1.0	1.3	21.1	-0.39	-1	18	-63
UK	1.3	1.2	-4.1	-0.9	1.9	-1.7	8.2	0.64	-7	16	-62
Japan	108.5	0.1	0.4	-1.6	1.6	3.8	10.3	-0.15	0	8	-15
Chile	725.2	2.1	-0.4	4.6	-4.5	-2.0	-2.9	3.00	2	20	-123
Argentina	59.3	1.9	2.9	57.3	5.1	15.6	10.9	25.1	63	-84	1,358
Brazil	4.0	-2.0	-3.1	3.8	2.7	2.7	22.3	6.56	-1	-48	-271
Mexico	19.1	0.0	-3.2	-2.8	1.3	1.7	5.5	6.84	2	-4	-191
Colombia	3,403	-0.6	-2.1	4.9	2.3	2.3	21.8	5.85	0	4	-88
Peru	3.3	0.4	-0.6	-0.6	0.0	-0.9	-6.4	4.10	15	-13	-152
China	7.1	-0.2	-1.1	2.8	0.7	2.2	29.4	3.26	6	10	-2
Turkey	5.8	-0.5	2.1	9.3	1.9	-4.5	10.9	12.9	-110	-26	-303
South Africa	14.6	-1.2	-3.5	1.3	-1.4	0.0	5.0	8.16	-9	-19	-74
India	70.9	-0.3	0.4	1.4	-0.6	1.0	8.3	6.67	-2	-2	-72
Indonesia	14,030	-0.8	-1.1	-3.6	1.0	1.3	0.9	7.09	-4	-20	-89
Copper	266.9	1.3	3.5	-0.5							
Gas	56.1	4.4	3.8	23.8							

Data published this week

DAY	COUNTRY	INDICATOR	PERIOD	PREVIOUS	ESTIMATE	EFFECTIVE
MONDAY 21						
TUESDAY 22						
WEDNESDAY 23	Chile	Monetary policy rate		2.00%	1.75%	1.75%
	Eurozone	Consumer confidence	October	-6.5	-6.8	-7.6
THURSDAY 24	US	Durable goods order	September	0.2%	-0.7%	-1.1%
	US	Unemployment requests (thou)		214k	215k	212k
	US.	PMI Markit manufacturing	October	51.1	50.9	51.5
	US	PMI Markit Services	October	50.9	51.0	51.0
	Eurozone	PMI Markit manufacturing	October	45.7	46.0	45.7
	Eurozone	PMI Markit Services	October	51.6	51.9	51.8
	Eurozone	BCE reference rate		-0.500%	-0.500%	-0.500%
FRIDAY 25	US	Consumer confidence U. of Michigan	October	96.0	96.0	95.5

DATA TO BE PUBLISHED THIS WEEK

DAY	COUNTRY	INDICATOR	PERIOD	PREVIOUS	ESTIMATE
MONDAY 28	US	Activity index Fed Chicago	September	0.10	0.15
	US	Manufacturing index Fed Dallas	October	1.5	0.0
TUESDAY 29	US	Consumer confidence(Conf. Board)	October	125.1	128.0
WEDNESDAY 30	Chile	Unemployment rate	September	7.2%	--
	Chile	Industrial production y/y	September	1.4%	--
	Chile	Manufacturing production	September	-1.5%	--
	Chile	Copper production	September	517902	--
	US.	ADP employment	October	135k	125k
	US	Annualized GDP q/q	3Q	2.0%	1.6%
	US.	Personal consumption	3Q	4.6%	2.6%
	US	PCE Core q/q	3Q	1.9%	2.0%
	US	Fed fund rate	October	2.00%	1.75%
	Eurozone	Economic confidence	October	101.7	101.1
	Eurozone	Consumer confidence	October	-7.6	-7.6
	China	PMI Oficial manufacturing	October	49.8	49.8
	China	PMI Oficial non-manufacturing	October	53.7	53.7
	THURSDAY 31	US	PCE total y/y	September	1.4%
US		Unemployment requests (thous)	September	212k	215k
US.		PCE underlying y/y	September	1.8%	1.7%
Eurozone		Unemployment rate	September	7.4%	7.4%
Eurozone		GDP y/y	3Q	1.2%	1.1%
Eurozone		Underlying inflation y/y	October	1.0%	1.0%
Eurozone		Total inflation y/y	October	0.9%	0.7%
Eurozone		Inflation m/m	October	0.2%	0.1%
China		PMI Caixin manufacturing	October	51.4	51.0
FRIDAY 1	US	Non-agriculture job creation	October	136k	90k
	US	Unemployment rate	October	3.5%	3.6%
	US	Wages per hour y/y	October	2.9%	3.0%
	US	PMI Markit manufacturing	October	51.5	51.5

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