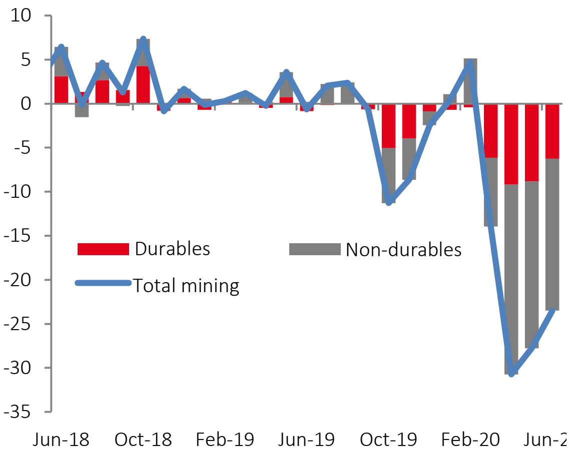
The sectoral indicators anticipate that the Imacec fell 15% in June

Mining activity (2.9%) remains resilient, while manufacturing (-8.3%) and retail trade (-24%) continue to account for a sharp contraction in domestic demand, while the labor market presents an additional deterioration.

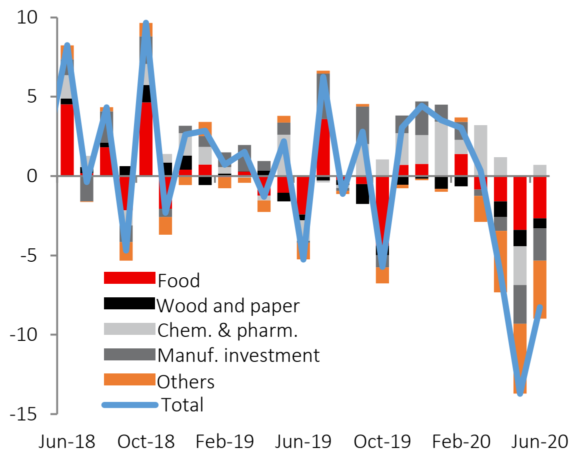
Despite sharp year-on-year falls, June sector activity data was somewhat better than expected. Retail trade (-24% y / y) was marked by a gradual recovery from the falls in April and May. According to the INE, the seasonally adjusted monthly variation was 5.5%, driven by a significant recovery in the sale of durable goods. All in all, these are still far below their records of a year ago. Manufacturing production (-8.3% y / y) showed a decrease compared to the previous month, but less intense than in the previous two months. Food production has continued to be pushed downward due to lower demand from the leisure industry. Announcements of mining project suspensions also had an impact, affecting demand for metal products. However, mining production remained resilient and had a significant annual expansion (2.9% y / y). In July, however, the spread of the pandemic in the northern regions of the country and the consequent stoppage of some tasks will cause production to suffer. With this background, we estimate that the June Imacec - which will be announced next Monday - would have contracted around 15%.

Retail sales continue to show strong contractions, but the worst starts to be left behind



Source: INE and Santander

Slight recovery of the manufacturing industry gives signs of hope



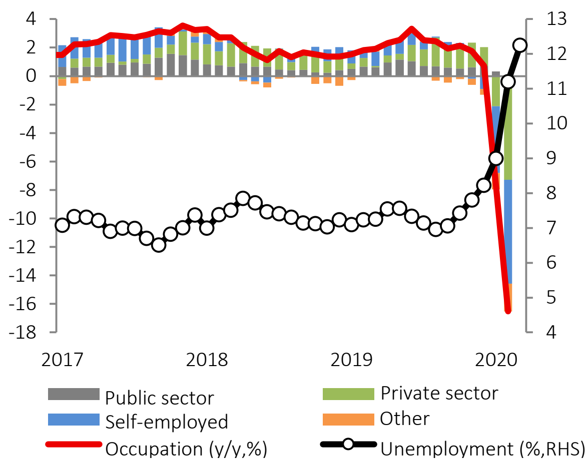
Source: INE and Santander

Labor market continues to deteriorate

As expected, the unemployment rate rose again and reached 12.3% (11.2% the previous month). Behind this increase was a sharp contraction in employment (-20% y / y), explained by a reduction of 808,000 salaried jobs and 774,000 self-employed. The workforce, meanwhile, also showed a significant contraction (-15.4% y / y) due to difficulties in seeking employment in the context of the pandemic. The deterioration of the labor market has also affected wages, which in May had a real contraction of 0.1% y / y, despite the substantial slowdown in the CPI in that month.

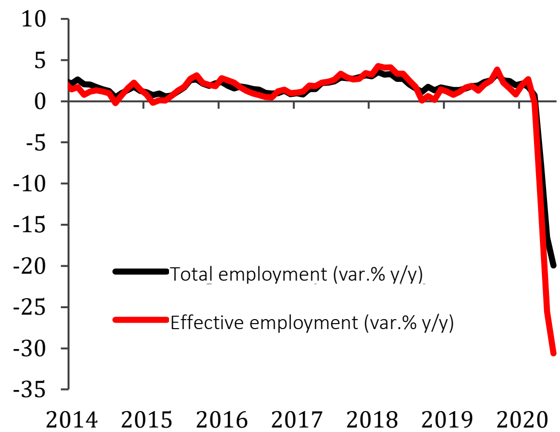
According to the INE, the absent employed persons reached almost 1,300,000 people. Thus, effective employment contracted 30.6% YoY, which demonstrates the strong impact of social distancing in the world of work. It should be noted that the Superintendency of Pensions indicates that as of June 28, there were 664 thousand workers with "suspended contracts". This means that a significant fraction of the absent workers would not be found under the employment protection regime.

Fall in employment is explained by salaried jobs and self-employed



Source: INE and Santander

On excluding the absent employed, employment fell 31% in 12 months



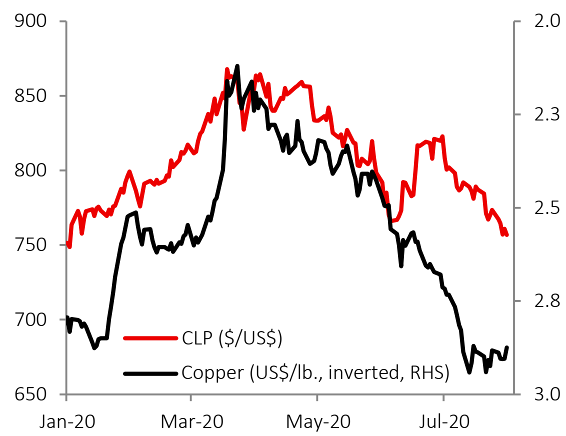
(*): "Effective employment" Considers only present employees.

Source: INE and Santander

Exchange rate strongly appreciates

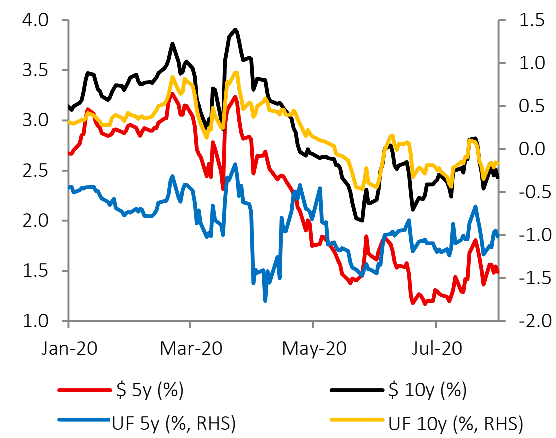
During the week, the exchange rate was below $ 755, levels not seen since January of this year, influenced by the depreciation of the dollar globally and by expectations of an influx of dollars into the country due to the early withdrawal of part of pension savings. Interest rates in UF fell by around 20 bp due to changes in the portfolios of pension funds (AFPs). This movement partially offset the increase in rates seen in recent weeks.

Exchange rate appreciated despite slight fall in copper during the week



Source: Bloomberg and Santander

Slight fall in rates following the increase for the withdrawal from the AFPs



Source: BCCh, RiskAmerica and Santander

Outbreaks of the pandemic affect prospects for recovery of the global economy

As expected, the US economy had its largest contraction in postwar history in the second quarter, with an annualized drop of 32.9% QoQ. However, what has caused the most concern are the outbreaks of contagion in several states, which have impacted the dynamics of the labor market (applications for unemployment benefits reached 1.43 million this week) and has questioned the ability of recovery of the North American economy this year. In this context, the Fed warned - in its meeting this week - that the risks are high. Meanwhile, positions on a new fiscal stimulus plan remain distant. Republicans have proposed reducing the amount of additional benefits to $ 200 a week from the $ 600 due in July. Democrats, meanwhile, presented a bill that would keep those payments the same.

Also the GDP of the euro zone had a record drop of 15% in the second quarter of the year, indicating that the impact of the pandemic deepened even more in this period of time. Meanwhile, the labor market showed a further deterioration, with which the unemployment rate increased from 7.7% in May to 7.8%.

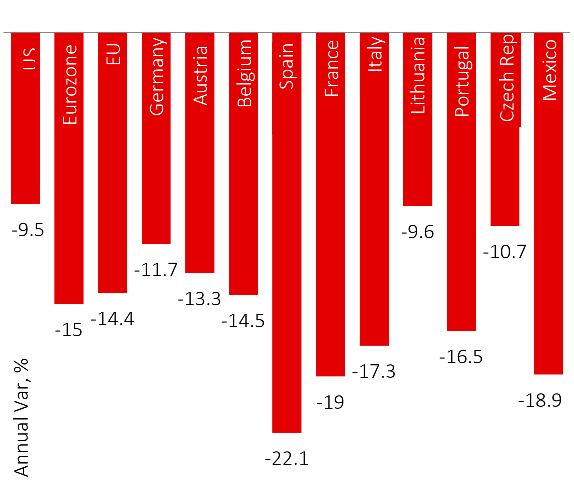
In perspective, Europe is now better positioned than the US to undertake the process of normalization of activity, since the management of the pandemic has been more accurate in recent months, and the outbreaks that are inevitably occurring have been moderate, while the mortality rate is much more contained than during the height of the crisis.

For its part, the Chinese economy continues to advance along its path of reactivation, particularly in the industrial sectors. Thus, the manufacturing PMI released by the National Statistics Office stood at 51.1, above the anticipated 50.7. Despite this, copper remained stable throughout the week and is currently trading at US $ 2.88 per pound. On the contrary, the price of oil fell in the last seven days, because the weakness of the global economy raises doubts about the projected normalization of demand.

For their part, the stock markets had a bad week, with setbacks in almost all positions. Curiously, one of the least affected has been the S&P500, which had a variation of 0.6% since last Friday, which is explained by the fact that the results of the large technology companies have contained the disaster. However, the Eurostoxx50, the FTSE100 and the Topix moved by at least 3%.

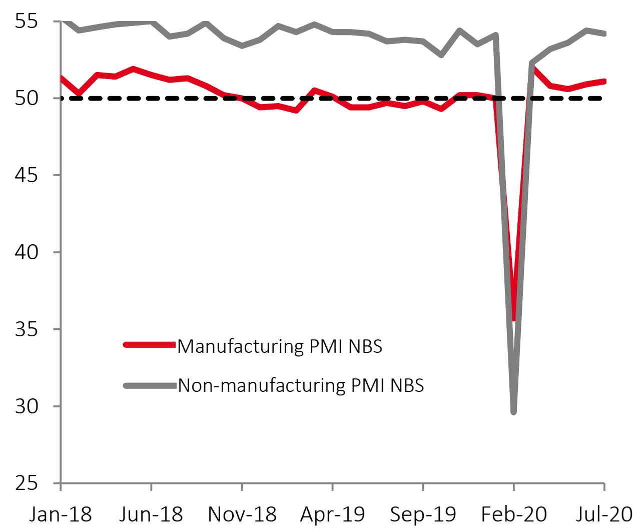
For its part, the weakening of the dollar continues, mainly explained by the support received by the euro with the historic European recovery plan agreed last week. In this sense, the announcements of the Fed after their monetary policy meeting were of little relevance, because there was nothing really new, not even a change in the orientation of monetary policy.

The pandemia generated historic falls in the economy during the second quarter



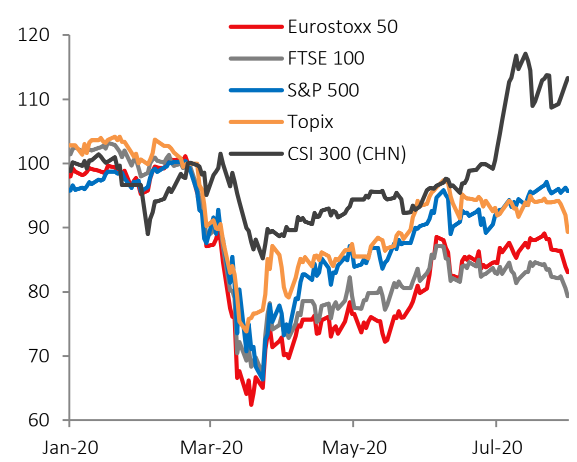
Source: Bloomberg and Santander

The activity in China continues to advance towards normalization.



Source: Bloomberg and Santander

Exchange markets correct due to fears of the recovery of demand



Source: Bloomberg and Santander

The Euro continues to gain ground in the global markets thanks to the agreement last week

Source: Bloomberg and Santander

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