Financial conditions deteriorate due to coronavirus, while stimulus measures try to contain them

Markets collapse due to the progress of the coronavirus. The World Health Organization declared the disease a pandemic and the governments of the main countries began to apply measures to limit interactions between people. World stock markets plummeted, volatility increased substantially, and interest rates in advanced countries fell again. The currencies of emerging economies depreciated, particularly those of oil producers.

Central banks apply exceptional measures to calm the markets. The world's main central banks are increasing their monetary stimuli and injecting liquidity through the purchase of assets. In Chile, the Central Bank expanded the liquidity management support measures, which will last until January 2021. For its part, the European Commission gave greater degrees of freedom to member countries to break fiscal rules and thus expand expenditure. In response to these measures, at the close of this report, the financial indicators showed an incipient recovery.

Local assets hit new lows amid global stress. The IPSA fell to 2016 levels and the exchange rate exceeded $ 850 per dollar on Thursday. At the close of this report, the improvement in the markets after the measures announced by the central banks pushed up the price of copper, and the dollar fell to $ 835.

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Markets collapse due to the progress of the coronavirus and containment measures

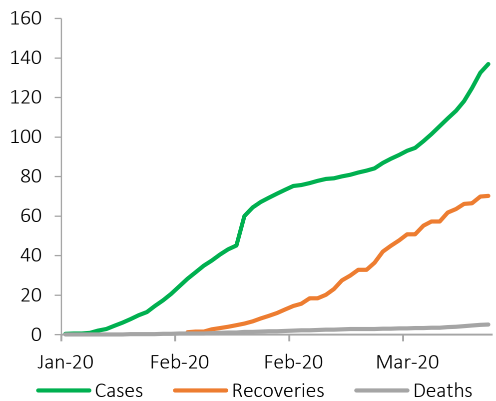
The coronavirus (covid-19) has continued to spread to different countries and the number of new infections globally has accelerated again. This caused the World Health Organization (WHO) to declare the emergency as a pandemic. In response, different authorities stepped up measures to reduce the rate of spread. In Italy - one of the countries with the highest mortality rate – closing businesses was instructed, while in the US President Trump announced the suspension of flights from Europe.

The VIX reached máximum levels since the 2008 crisis.

Isolation measures have begun to show results in some of the originally affected countries, where it is observed that the number of new cases has started to decrease. In others, this has not yet happened.

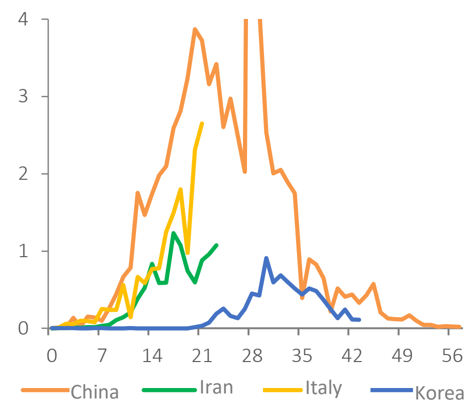
The central banks and governemts have announced meases to face the effects of the emergency.

Graph 1: Total number of cases globally, recoveries and deaths (thousands of people)



Source: Santander based on data from Bloomberg

Graph 2: New cases in countries with greatest incidences (thousands of people, from the day the illness started in each county)



Source: Santander based on data from the base European CDC

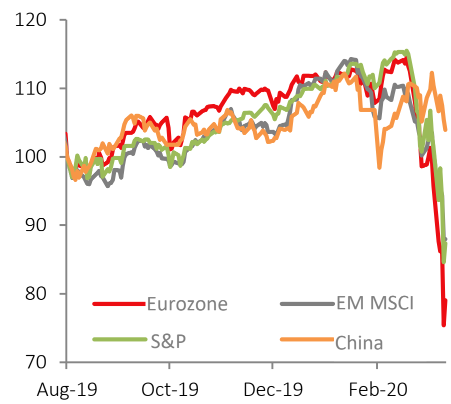
As a result, global financial markets plummeted this week. The stock markets fell sharply and the shares of the airlines were the most affected. Volatility increased substantially, interest rates hit new record lows and emerging currencies depreciated. The foregoing, in a context where raw materials continued to fall and tensions regarding oil production continued to rise.

In this scenario, the Federal Reserve (Fed) injected liquidity amounting to US $ 1,500 billion in Repo operations and announced to expand the purchase of assets. For its part, the European Central Bank (ECB) kept its benchmark rates unchanged and announced a new package to provide liquidity and expand the asset purchase program, an additional 120 billion euros by the end of the year.

The stimulus measures continued, the Norwegian Central Bank cut the interest rate by 50bp, Japan announced higher bond purchases and the People's Bank of China again reduced the reserve requirements for banks. Furthermore, the European Commission noted greater freedom of fiscal spending to support the most affected sectors.

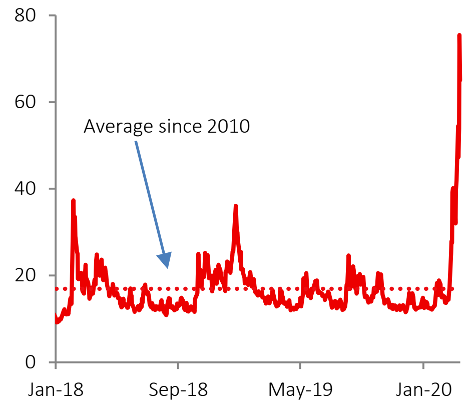
During the day today we see a partial reversal of the markets, which responds mainly to the stimulus measures implemented by the main economies and the first signs of control of the spread of the virus in China.

Graph 3: International exchanges (Index100 = Aug.19)



Source: Bloomberg and Santander

Graph4: VIX Uncertainty indicator(%)



Source: Bloomberg and Santander

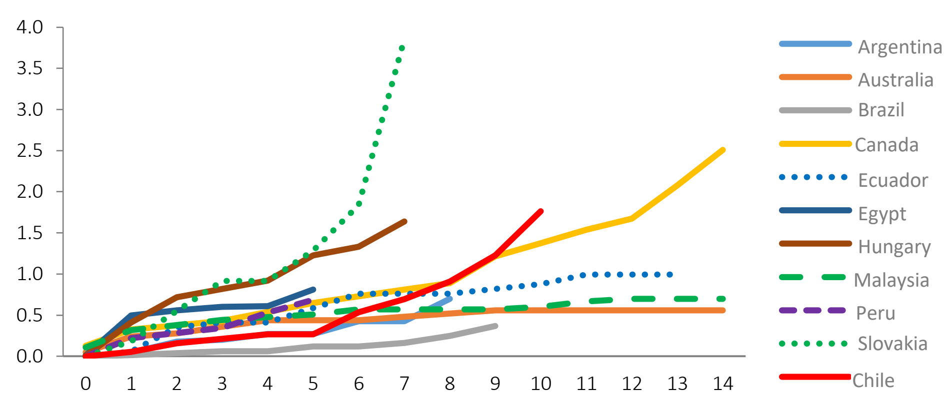
Local assets deteriorated in line with the international trend

The IPSA and the peso lost value in line with the international trend, although to a lesser extent than the assets of other emerging economies. For their part, government bonds deteriorated, with a significant increase in interest rates, which were decoupled from movements in external rates.

Greater outflows from local fixed income were observed.

The internal uncertainty, the advance of the coronavirus, the new disruptive events and the change in the outlook for Chile's rating - from stable to negative - by Fitch help explain the exit of investors from local fixed income. All this in a context where risk premiums increased according to what was observed in other countries in the region.

Graph 5: Evolution in Chile and other similar countries(cases per million inhabitants, days from first infection

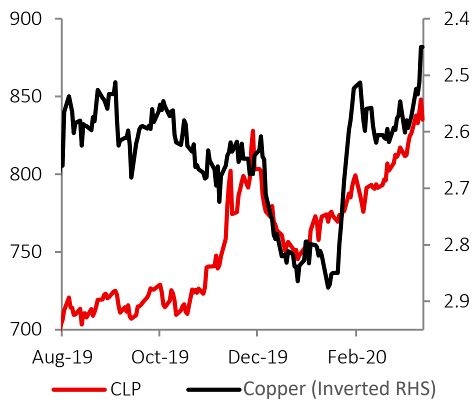


Source: Santander based on data from the European CDC

As in international markets, local assets are partially reversing the significant falls we observed during the week. The exchange rate returned to levels close to $ 835, while the IPSA -as of the closing of this report- advanced around 2%. Interest rates dropped around 5bp.

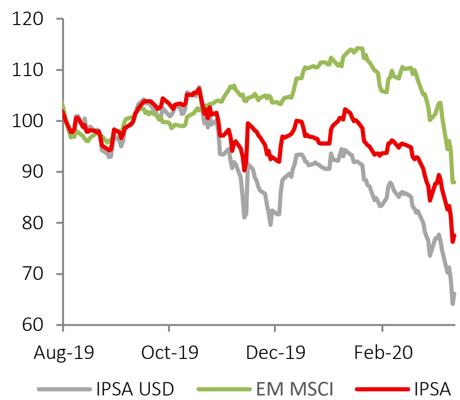
Faced with disruptions in international financial markets, the Central Bank expanded its liquidity program in pesos and dollars to support local management.

Graph 6: Exchange rate and copper ($/US$, US$/lb.)



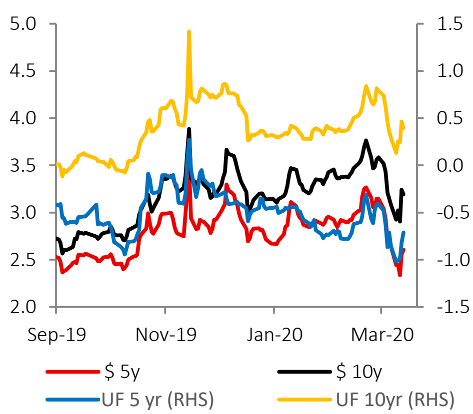
Source: Bloomberg and Santander.

Graph 7: Exchange markets (Index 100 = Aug.19)



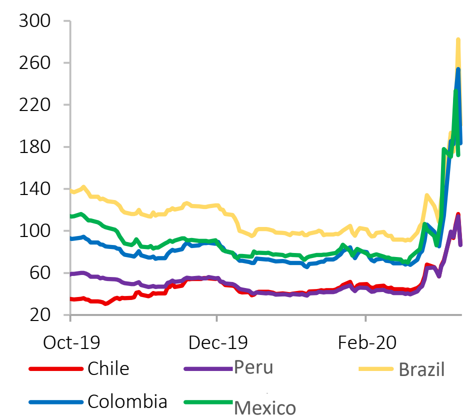
Source: Bloomberg and Santander.

Graph 8: Benchmark bond rate (%)



Source: Bloomberg and Santander.

Graph 9: Latin American CDS 5y (bp)



Source: Bloomberg and Santander.

Market summary

	Exchange rates				Exchanges			10Y Rates			
	Level	Weekly Var.	Accum. Mar.20	Accum. 2020	Weekly Var.	Accum. Mar.20	Accum. 2020	Level	Weekly Var.	Accum. Mar.20	Accum. 2020
			%			%				pb	
US	98.1	**-2.2**	0.0	-1.4	**-13.8**	-13.3	-20.5	0.96	**20**	-19	-92
Eurozone	1.1	**1.4**	-0.9	0.6	**-17.4**	-19.8	-28.8	-0.58	**13**	3	-39
UK	1.3	**4.3**	2.5	4.8	**-15.0**	-16.5	-27.6	0.38	**14**	-7	-49
Japan	106.8	**1.4**	-1.2	-1.9	**-14.3**	-16.5	-26.7	0.00	**14**	15	2
Chile	835.1	**1.1**	2.2	11.0	**-10.5**	-8.1	-18.9	3.19	**11**	-39	5
Argentina	62.9	**1.0**	1.2	5.0	**-19.5**	-18.9	-32.0	38.9	**1,244**	1,343	1,788
Brazil	4.7	**1.6**	5.1	17.0	**-20.7**	-25.4	-32.8	9.03	**227**	225	223
Mexico	21.5	**7.1**	9.8	13.8	**-8.7**	-8.6	-13.5	7.49	**112**	64	64
Colombia	3,915	**9.2**	11.1	19.3	**-21.9**	-24.2	-29.4	7.90	**221**	207	182
Peru	3.5	**1.4**	1.9	6.2	**-10.6**	-11.7	-19.1	4.83	**110**	84	61
China	7.0	**0.9**	0.0	0.1	**-5.9**	-1.1	-4.6	2.72	**4**	-8	-46
Turkey	6.3	**3.4**	1.0	6.0	**-11.9**	-8.9	-15.8	11.7	**26**	-113	-33
South Africa	16.2	**3.6**	3.6	15.0	**-14.6**	-12.9	-22.3	9.93	**88**	82	169
India	73.8	**-0.3**	1.7	3.5	**-9.2**	-11.0	-17.9	6.32	**14**	-5	-22
Indonesia	14,740	**3.7**	2.8	5.9	**-10.7**	-10.0	-22.1	7.30	**64**	41	20

Copper	251.4	**-2.3**	-1.3	-11.3
Oil	32.5	**-21.2**	-27.4	-47.3

Data published this week

DAY	COUNTRY	INDICATOR	PERIOD	PREVIOUS	ESTIMATION	ACTUAL
MONDAY 9	Chile	Commercial balance	February	$1214m	$938m	$821m
	Chile	Car sales	February	32104	--	25025
	Eurozone	Sentix Confidence		5.2	-11.4	-17.1
	China	Inflation y/y	February	5.4%	5.2%	5.2%
TUESDAY 10	Chile	Economic expectations survey	March	--	--	--
	Eurozone	Employment	Q1	1.0%	--	1.1%
	Eurozone	GDP y/y	Q1	0.9%	0.9%	1.0%
WEDNESDAY 11	US	Inflation m/m	February	0.1%	0.0%	0.1%
	US	Inflation y/y	February	2.5%	2.2%	2.3%
	US	Underlying inflation y/y	February	2.3%	2.3%	2.4%
THURSDAY 12	US	Producer price index y/y	February	2.1%	1.8%	1.3%
	US	Unemployment requests (thousands)		216k	220k	211k
	Eurozone	Industrial production y/y	January	-4.1%	-2.9%	-1.9%
	Eurozone	Reference rate BCE		-0.500%	-0.500%	-0.500%
FRIDAY 13		Consumer confidence U of Michigan		101.0	95.0	95.9

Estimates correspond to Bloomberg consensus

Data to be published next week

DAY	COUNTRY	INDICADTOR	PERIOD	PREVIOUS	ESTIMATE
MONDAY 16	US	Manufacturing survey (Empire State)		12.9	5.0
TUESDAY 17	US	Retail sales m/m	February	0.3%	0.2%
	US	Industrial production m/m	February	-0.3%	0.4%
	US	Employment survey (JOLTS)	January	6423	6401
	Eurozone	ZEW survey		10.4	--
WEDNESDAY 18	Chile	GDP	4Q	3.30%	--
	US	Housing commenced (thousands)	February	1567k	1502k
	US	Fed Fund Rate		1.25%	0.75%
	Eurozone	Inflation y/y	February	1.2%	1.2%
	Eurozone	Inflation m/m	February	0.2%	0.2%
	Eurozone	Underlying inflation y/y	February	1.2%	1.2%
THURSDAY 19	US	Business perspectives Philidelphia Fed		36.7	10.0
	US	Unemployment requests (thousands)		211k	220k

Estimates correspond to the market consensus according to Bloomberg, while figures in red are Santander estimates

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