MARKET OUTLOOK

WEEK: JUNE 17 -21, 2019

HIGHLIGHTS

- **Global monetary conditions become looser.** While the FOMC maintained the rate at its June meeting, it gave strong signals of facing a cut, the first in ten years. The market strongly bets that this would happen at the next meeting in July. This is in addition to the statements by the president of the ECB of being prepared to inject an additional monetary stimulus to the beleaguered European economy.

- **Risky asset prices rise in the world.** The global stock markets rose strongly in the week before the imminent reduction in the interest rate by the Fed, and the possibility of an agreement between China and the US at the next G20 summit to be held in Japan on June 28 and 29.

- **Commodities are strengthened.** The price of oil increased strongly during the week due to renewed tensions between the US and Iran. Meanwhile, the price of copper is revived by the confirmation of a new round of negotiations that relax the commercial conflict.

- **The peso appreciated and closed the week around $ 680 per dollar.** Behind the strengthening of the peso are the looser monetary conditions in the US due to the fall of the rates in different tranches and the recovery of copper. Added to this is a partial reversal of the NDF dollar buying flows, which had driven down the price of our currency in recent weeks.

US Federal Reserve maintains rates, but signals that its first cut in ten years is approaching

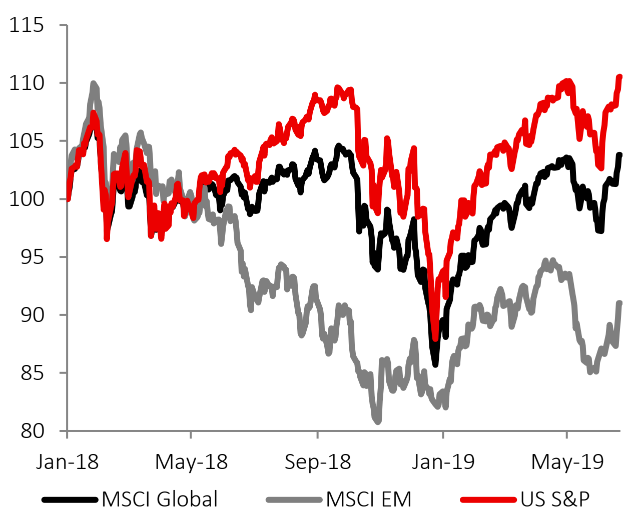
The US Federal Reserve maintained its interest rates unchanged, but showed that it is willing to lower them for the first time in a decade, after a meeting marked by concerns about the slowdown in global growth and growing commercial tensions.

In the statement they delivered after the meeting, they described being "patient" in determining changes to monetary policy, in light of an increase in "uncertainty" around the economic outlook and weak inflation, and said that they will "closely monitor" the information they receive and will "act as appropriate to sustain the expansion."

The Federal Open Market Committee (FOMC) projected that inflation will move further away from its 2% target this year and moderated its description of the health of the US economy, saying that activity was expanding at a "moderate rate", a less optimistic outlook than the "solid rate" of growth seen in May. In this line, the manufacturing and service PMI data confirm this concern of the authorities, presenting setbacks with respect to May and just staying above the neutral level.

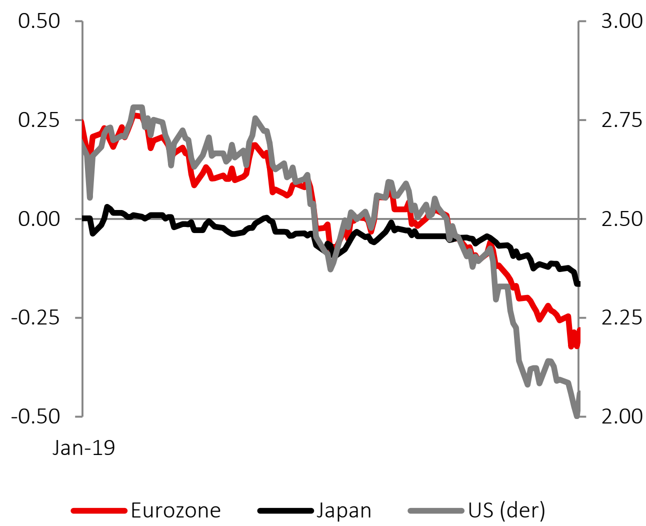
Meanwhile, markets have reacted with a greater risk appetite to the Fed statement: the S&P 500 jumped after the meeting (+ 2.2%), the same as the Dow Jones (+ 2.6%) and the Nasdaq (+ 3%). In the rest of the stock exchanges the global MSCI, emerging MSCI and Eurostoxx 50 advanced 2.5%, 3.8% and 1.6%, respectively. The opposite happened with the dollar, which weakened -0.9%.

Graph 1: International exchanges (Sept-18 = 100)



Source: Bloomberg and Santander

Graph 2: 10 yr *benchmark rates*



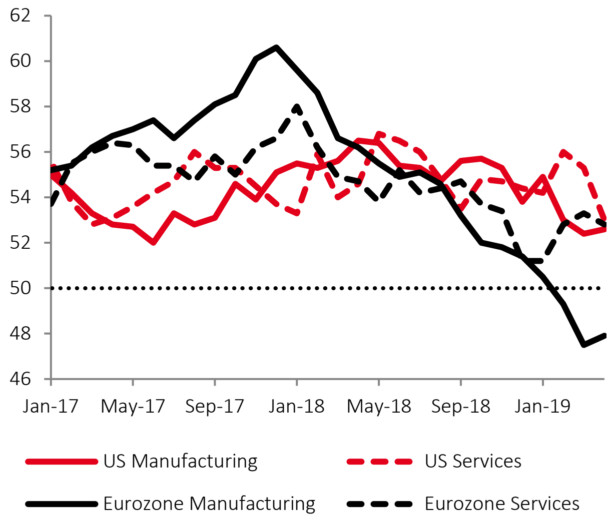
Source: Bloomberg and Santander

For its part, the European Central Bank president, Mario Draghi, repeated on Friday a message of accommodative monetary policy to the leaders of the European Union, saying that any deterioration of economic conditions that threatens the convergence of inflation to its goal will induce an additional stimulus from the bank.

Draghi affirmed that the economic situation is solid, but with increasing signs of weakness and that the recovery has been weaker than expected with a generalized uncertainty in world trade that has lasted for more than a year. In addition, he indicated that in the case of additional deterioration of activity, the monetary policy should be much more expansive.

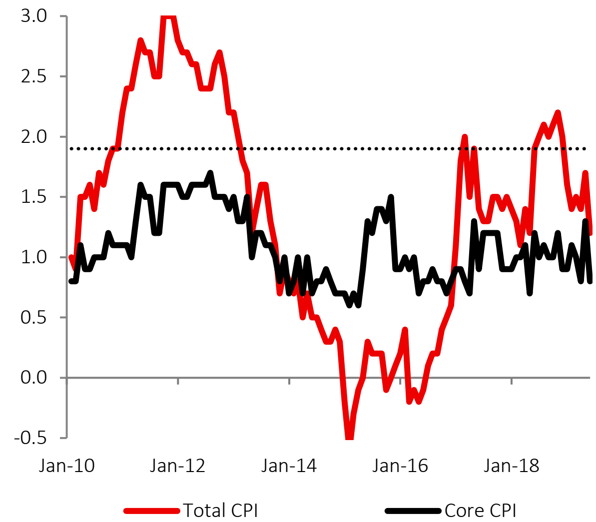
The advance of core inflation in the euro zone during May of only 0.8% Y/Y, the deteriorated performance of the manufacturing industry of 47.8 points according to the PMI, was below the expected for June and in a pessimistic zone, and the decline in consumer confidence (-7.5 vs. -6.5 in May), give grounds for thinking that another rate cut may not be so far away.

Graph 3: PMI (neutral = 50)



Source: Bloomberg and Santander

Graph 4: Euro zone inflation (var. annual, %)



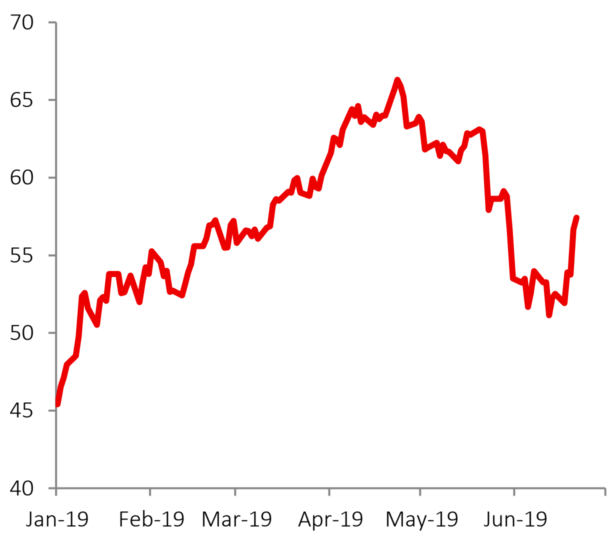
Source: Bloomberg and Santander

The price of commodities is reactivated

The renewed tension in the Middle East is boosting the price of oil, which has risen strongly in recent days. Additionally, the geopolitical risks have increased after military actions by Iran. With this, the international prices of gasoline and oil have risen about 12% in the recent period, considering possible supply disruptions in the short term.

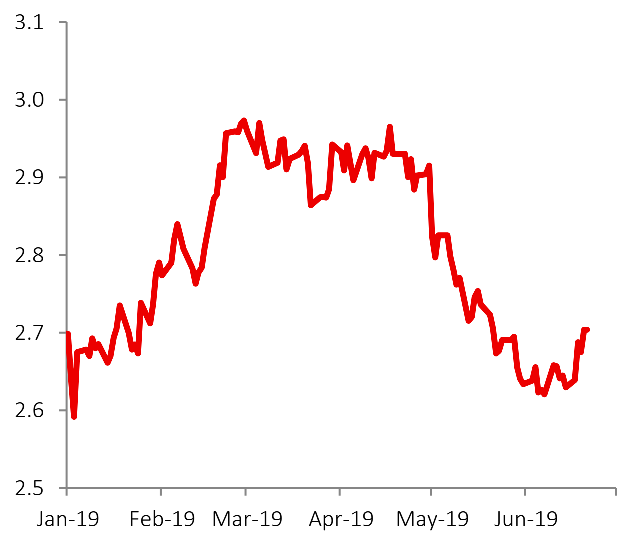
Meanwhile, the price of copper has also been boosted in the week (+ 2.5%) by the announcement that trade negotiations between China and the US will resume in the next few days, which was confirmed by both governments. Added to this is the impact of a lower offer due to the partial stoppage in Chuquicamata.

Graph 5: Oil price WTI (US$/bbl)



Source: Bloomberg and Santander

Graph 6: Copper price (US$/lb)



Source: Bloomberg and Santander

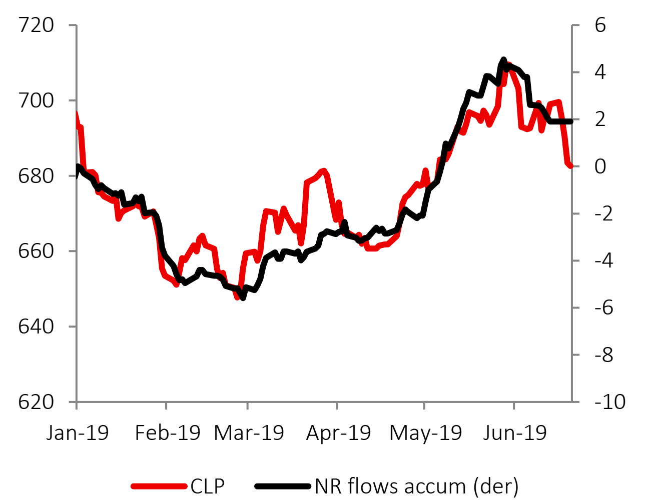
The peso strengthened, but the IPSA does not take traction

The exchange rate appreciated by 2.4% in the week and closed at around $ 680 per dollar. Behind the strengthening of the peso are the looser monetary conditions in the US due to the fall of the rates in different tranches, the weakening of the global dollar and the recovery of copper. This is compounded by a partial reversal of NDF dollar buying flows, which had driven down the price of our currency in recent weeks.

Meanwhile, the real exchange rate may be located somewhat above its historical average, consistent with the deterioration suffered by the terms of trade.

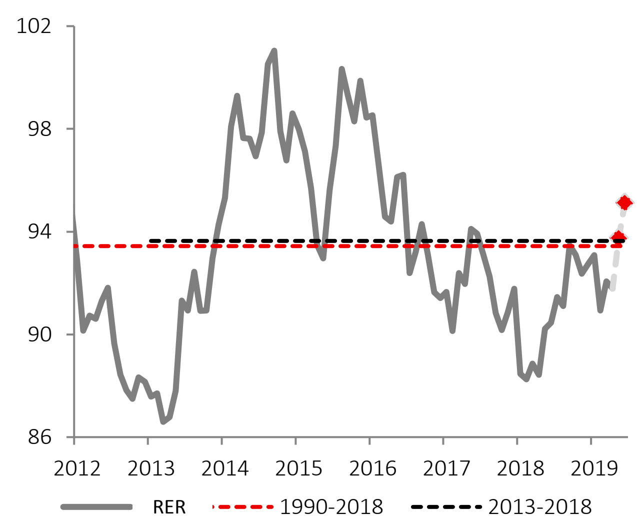
This appreciation of the exchange rate is in line with our projections that at the end of the year place it in the range of $ 680 - $ 690 per dollar.

Graph 7: Evolution of the exchange rate and non-resident forward flows ($/US$, thousands of millions of US$)



Source: BCCh and Santander

Graph 8: Evolution of the real exchange rate (average 1986 = 100)



Note: Points represent the estimate for May and the projection for June

Source: Bloomberg and Santander

On the other hand, the IPSA presented a negative performance during the week (-0.3%), differing from the performance of the emerging stock markets. As in the international markets, government bond rates continued to fall given the prospects of a relaxation of monetary policy.