

MARKET OUTLOOK
November 29, 2019

First economic data published after social unrest somewhat better than expected

Central Bank intervenes in the Exchange rate market. After the US/Ch\$ Exchange rate reached historical levels once again, the Central Bank announced a direct intervention in the Exchange rate market of up to US\$ 20 billion in spot transactions and exchange rate coverage. We estimate that it is probable that during the first phase, the volume will be greater to help contain the exchange rate volatility.

We anticipate null growth in industrial production for October. Industrial production contracted 3.4%, less than what was expected, which leads us to project the Monthly Indicator of Economic Activity (or Imacec) for October to have null growth despite the current developments.

Labor market loses some dynamism. The unemployment rate remained stable in October. The effects of the social unrest will be more tangible towards the end of the year, where we expect the unemployment rate to reach 7.9%.

CLAUDIO SOTO

Chief Economist

claudio.soto.gamboa@santander.cl

GABRIEL CESTAU

Economist

gabriel.cestau@santander.cl

SINDY OLEA

Economist

sindy.olea@santander.cl

MIGUEL SANTANA

Economist

miguelpatricio.santana@santander.cl

FABIAN SEPULVEDA

Economist

fabian.sepulveda@santander.cl

Central Bank intervenes the Exchange rate market

During the week the Exchange rate continued to depreciate and reached historical maximums at levels close to Ch\$830/US\$, which led the Central Bank to announce a direct intervention in the exchange rate market. This intervention would be effected through the sale of up to US\$ 10 billion in the spot market and US\$ 10 billion in exchange rate coverage, all within a period of six months.

The depreciation of the exchange rate triggered the intervention of the Central Bank.

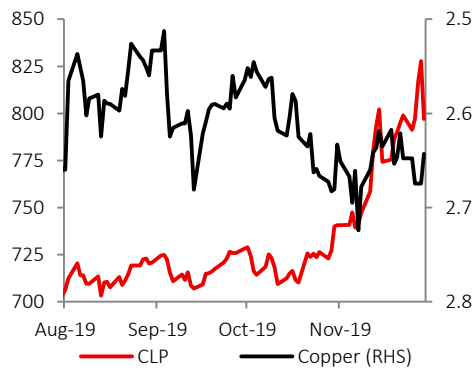
The Central Bank pointed out that more than the level reached by the local parity, it was the excessive volatility during the last days that triggered the decision. According to the press release, volatility of such magnitude hinders decisions in terms of Price and expenses, affecting the healthy adjustment of the economy to new Exchange rate levels and therefore creating more volatility.

The availability of US dollars during the first weeks of the intervention will be larger than the coming weeks.

This Exchange rate intervention – which is the sum of measures that were announced on November 14 to Support the liquidity management of US dollars and Chilean pesos – will commence on December 2nd. During that session, the Central Bank will publish the conditions of the spot market and exchange rate coverage for the following week. We estimate that it is probable that during the first phase of the program the volume will be larger to help contain the Exchange rate volatility.

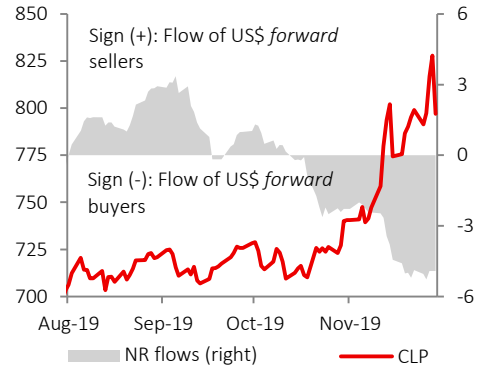
With these measures announced, the Chilean peso appreciated by more than 3.7%, but until the closing of this report the appreciation reached only 2.4%, with an exchange rate around Ch\$807/US\$.

Graph 1: Exchange rate and copper (Ch\$/US\$, US\$/lb.)



Source: Central Bank, INE and Santander

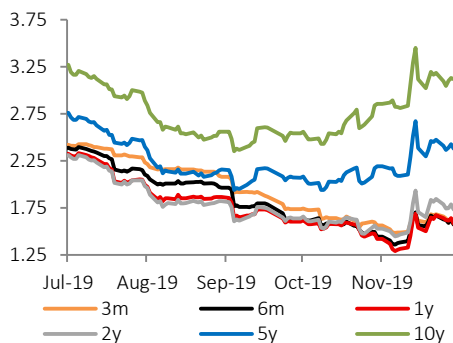
Graph 2: Stock market (Index 100 = Aug.19)



Source: INE and Santander

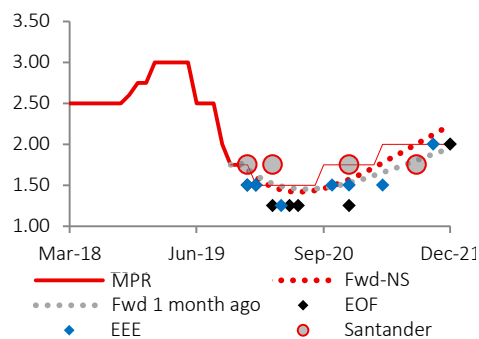
The nominal interest rate of Government bonds closed somewhat lower, while swap rates descended at a faster pace. Despite this movement, we estimate the Central Bank will maintain the Monetary Policy Rate at current levels at during the next six months while the intervention lasts, in line with the coherent monetary policy framework.

Graph 3: Nominal swap rates (%)



Source: INE and Santander

Graph 4: MPR Expectations (%)



Source: Bloomberg and Santander

Industrial production data reflect the impact of the social unrest, but are somewhat better than expected

The manufacturing production of October – which was affected during the second half by the social contingency – had a reversal of 5.8% YoY, less than what was expected (Santander: -9.0%; Bloomberg: -7.8%). The major factor for the decline was due to the production of food products (3.7 pp), which is associated with a lower production of fish meal due to the closure of the capture of the Southern hake fish to protect it during reproduction season.

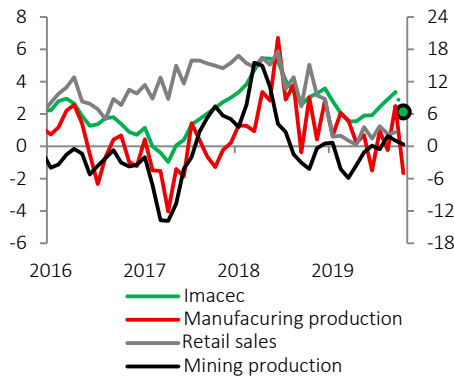
Better than expected results leads us to project 0% for the December Imacec.

Mining production also exhibited a contraction, in this case 1.7% YoY, fundamentally explained by a lower production of iron (ore metals: -26% YoY); however, copper production increased 0.1% YoY. This shows that the activity in this sector was not majorly affected by the manifestations in the last weeks.

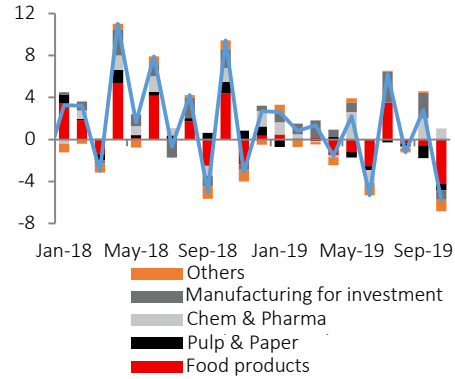
In this manner, industrial production, which decreased 3.4% YoY, was less impacted than estimated, which is a short-term sign. However, the largest uncertainty in the country would lead to a deceleration in industrial activity, with the exception of the mining sector which will be boosted by the depreciation of the Chilean peso and a higher copper price due to lower commercial tensions.

With these results, we project a Monthly Indicator of Economic Activity (or Imacec) of null variation for October.

Graph 5: Sector indicators and Imacec (var. % YoY – moving quarter)



Graph 6: Manufacturing production by sector (var. % YoY)



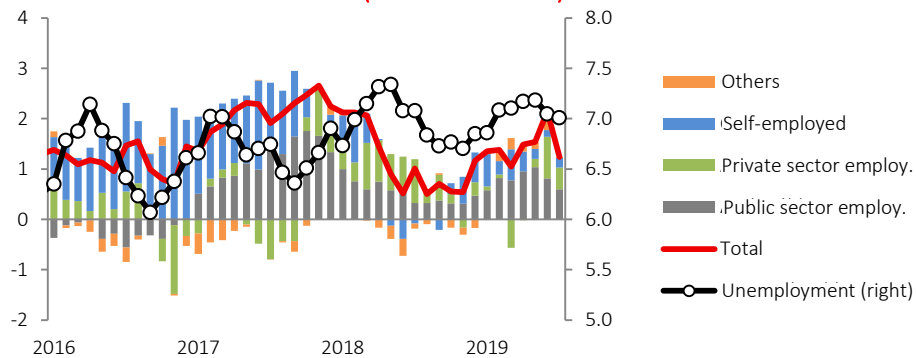
Source: INE, Central Bank and Santander. Source: INE and Santander.

Labor market loses some dynamism

The unemployment rate remained stable during a difficult month of October

The unemployment rate of the moving quarter of August-October remained at 7%, somewhat better than market consensus (Bloomberg: 7.2%). However, the creation of employment decelerated in the last weeks, with an expansion of 1.2% YoY (versus 2.1% in the quarter ended September). This precedent confirms that economic activity already had a lower driver even before the social unrest began. The next publications by the INE will start to show the effects of the manifestation in the labor market, which we estimate will translate to an unemployment rate of 7.9% at the end of the year.

Graph 7: Unemployment rate and employment categories (% and annual var.)



Source: INE, Central Bank and Santander.

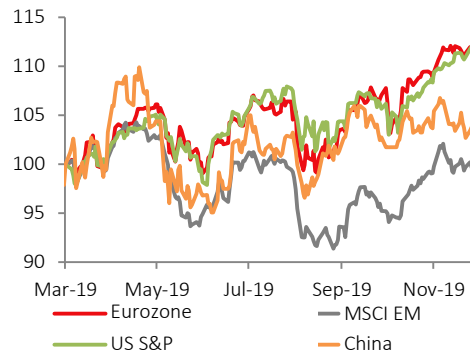
Hong Kong threatens the commercial war between China and the United States

President Trump enacted a legislation through Congress that supported the Hong Kong protests, after which China warned they would adopt firm countermeasures. This disagreement could signify another reversal in the commercial negotiations, where it was supposed that the phase one of the agreement was soon to be reached, especially after the positive signals china gave after announcing larger property protection rights.

Consumption in the United States remains dynamic

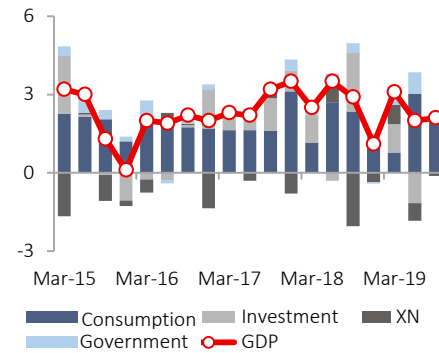
In this context, the United States stock market maintained its positive tendency – driven also the second GDP revision of the third quarter (2.1% versus 1.9% expected) – while the Chinese market decreased in line with the higher uncertainty surrounding the commercial agreement.

**Graph 8: International stock markets
(Index 100 = Mar. 19)**



Source: Bloomberg and Santander

Graph 9: United States GDP by expenses (%)



Source: Bloomberg and Santander

Market summary

	Level	EXCHANGE RATES			MARKETS			Nivel	10Y RATES		
		Weekly Var.	Acum. Nov-19 %	Annual Var.	Weekly Var.	Acum. Nov-19 %	Annual Var.		Weekly Var.	Acum. Nov-19 pb	Annual Var.
United States	98.4	-0.1	-1.0	-2.0	1.4	3.8	26.9	1.76	-1	7	-97
Eurozone	1.1	0.1	1.3	3.9	0.6	2.9	24.2	-0.35	1	6	-59
United Kingdom	1.3	-0.7	0.2	-1.7	0.9	2.0	9.8	0.67	-4	4	-60
Japan	109.5	0.8	1.4	-0.7	0.5	1.9	13.7	-0.08	0	6	-8
Chile	807.0	1.0	9.0	16.4	-4.5	-4.8	-11.5	3.26	-4	-9	-97
Argentina	59.8	0.1	0.5	58.8	1.9	-2.2	13.0	26.8	45	-80	1,531
Brazil	4.2	1.0	5.4	9.2	-0.4	1.0	23.2	6.96	13	52	-232
Mexico	19.5	0.8	1.5	-0.7	-1.0	-0.5	4.0	7.10	5	34	-165
Colombia	3,522	2.9	4.3	8.5	-0.6	-1.8	20.9	6.27	13	45	-45
Peru	3.4	0.2	1.5	0.7	0.0	-2.5	-8.1	4.22	1	1	-140
China	7.0	-0.1	-0.1	2.3	-0.6	-1.5	27.2	3.19	0	-9	-8
Turkey	5.7	0.5	0.6	8.9	0.4	8.6	18.3	12.1	0	-57	-387
South Africa	14.6	-0.5	-3.0	1.5	-2.6	-2.0	5.7	8.45	4	-5	-45
India	71.7	-0.2	1.0	2.5	1.1	1.7	13.1	6.46	-3	-18	-93
Indonesia	14,100	0.1	0.5	-3.1	-1.4	-3.5	-2.9	7.07	0	7	-91
Copper	264.3	-0.2	0.2	-1.4							
Oil	58.1	0.5	7.2	28.1							

Data that was published during the week

DAY	COUNTRY	INDICATOR	PERIOD	PREVIOUS	ESTIMATE	ACTUAL
MONDAY 25	USA	Fed Chicago activity index	October	-0.45	-0.20	-0.71
	USA	Fed Dallas manufacturing index	November	-5.1	-3.8	-1.3
TUESDAY 26	USA	Consumer confidence (Conf. Board)	November	125.9	127.0	125.5
WEDNESDAY 27	USA	GDP annualized YoY	3Q 2nd rev.	1.9%	1.9%	2.1%
	USA	Personal consumption	3Q 2nd rev.	2.9%	2.8%	2.9%
	USA	PCE Core QoQ	3Q 2nd rev.	2.2%	2.2%	2.1%
	USA	Durable good order	October	-1.2%	-0.9%	0.6%
	USA	Jobless claims (thousands)		227k	221k	213k
THURSDAY 28	Eurozone	Economic confidence	November	100.8	101.0	101.3
	Eurozone	Consumer confidence	November	-7.2	--	-7.2
FRIDAY 29	Chile	Unemployment rate	October	7.0%	7.0%	7.0%
	Chile	Copper production	October	488687	--	493988
	Chile	Manufacturing production	October	2.1%	-9.0%	-5.8%
	Chile	Industrial production YoY	October	-0.2%	-4.5%	-3.4%
	Eurozone	Unemployment rate	October	7.5%	7.5%	7.5%
	Eurozone	Inflation MoM	November	0.1%	-0.4%	-0.3%
	Eurozone	Total inflation YoY	November	0.7%	0.9%	1.0%
	Eurozone	Underlying inflation YoY	November	1.1%	1.2%	1.3%
	China	Official manufacturing PMI	November	49.3	49.5	--
	China	Official non-manufacturing PMI	November	52.8	53.1	--

Estimates correspond the Bloomberg market consensus, while numbers in red are estimates by Santander.

Data that will be published next week

DAY	COUNTRY	INDICATOR	PERIOD	PREVIOUS	ESTIMATE
MONDAY 2	Chile	IMACEC	October	3.0%	0%
	Chile	IMCE	November	51.52	--
	USA	PMI Markit manufacturing	November	52.2	52.2
	Eurozone	PMI Markit manufacturing	November	46.6	46.6
	Global	PMI Global manufacturing	November	49.8	--
TUESDAY 3	Chile	Financial Operators Survey		--	--
	Chile	Retail sales	October	-0.9%	-5.1%
	Chile	Commercial activity	October	5.1%	--
	China	PMI Caixin Composite	November	52.0	--
	China	PMI Caixin Services	November	51.1	51.2
WEDNESDAY 4	Chile	Monetary Policy Rate		1.75%	1.50%
	USA	Employment ADP	November	125k	145k
	USA	PMI Markit Services	November	51.6	51.6
	USA	PMI ISM Non-manufacturing	November	54.7	54.5
	Eurozone	PMI Markit Services	November	51.5	51.5
THURSDAY 5	Chile	Nominal wages YoY	October	4.4%	--
	Chile	Vehicle sales	November	28038	--
	USA	Jobless claims (thousands)		213k	216k
	USA	Commercial Balance	October	-\$52.5b	-\$48.7b
	USA	Durable goods orders	October	0.6%	--
	Eurozone	Retail sales	October	3.1%	1.9%
	Eurozone	GDP YoY	3Q	1.2%	1.2%
FRIDAY 6	Chile	Inflation MoM	November	0.8%	0.1%
	Chile	Inflation YoY	November	2.5%	2.7%
	Chile	Commercial Balance	November	-\$307m	--
	USA	Non farm payrolls	November	128k	190k
	USA	Unemployment	November	3.6%	3.6%
	USA	Consumer Confidence U. of Michigan	December	96.8	97.0

Estimates correspond the Bloomberg market consensus, while numbers in red are estimates by Santander.

CONTACT



(56 2) 2320 1021

Access our reports at:



<http://saladecomunicacion.santander.cl/estudios>

This report has been prepared with the sole objective of offering information to Banco Santander Chile clients. It is not a request or offer to buy or sell any of the financial shares or assets mentioned within it, whose contributions are variable, which is the reason why it is not possible to warrant that the past or present profitability will repeat in the future. The current information and that in which it is based, have been obtained from sources we deem trustworthy. Nevertheless, this does not guarantee that it is exact or complete. Projections and estimates presented here have been elaborated by our working team, supported by the best available tools; which does not imply these are effectively fulfilled. All opinions and expressions contained within this report may not be updated necessarily and are subject to modification without prior notice. The result of any financial operation based on the information presented here will require analysis on behalf of the client and is the sole responsibility of the person who conducts it.