Financial markets are stressed by the spread of the coronavirus

The contagion of the virus in China is stabilized, but the spread to other countries is creating fear. Global financial markets reacted with a strong decline in stock markets and an increase in risk premiums. To the extent that adequate containment of the new outbreaks is achieved and effective treatment is progressed, the financial markets should recover.

The markets again bet on a more expansive monetary policy in advanced countries. According to future prices, two cuts are expected from the Fed this year. Long-term rates have fallen sharply and are once again placed at record lows.

The Chilean Peso depreciates strongly. The exchange rate remained pressured in response to the nervousness of the markets due to the expansion of the virus and the fall in the price of copper.

Better activity data in Chile. In January, retail trade continued to recover and the manufacturing sector had significant growth. We estimate that the January Imacec, which will be known on Monday, could have expanded by around 1.2%.

Labor market shows resilience. The unemployment rate for the moving quarter ended in January reached 7.4%, higher than the one recorded in the same period of the previous year and somewhat below our projection. As anticipated, the updated labor market figures show that the workforce and job creation in recent years was somewhat more dynamic.

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Global financial markets react to the spread of the coronavirus

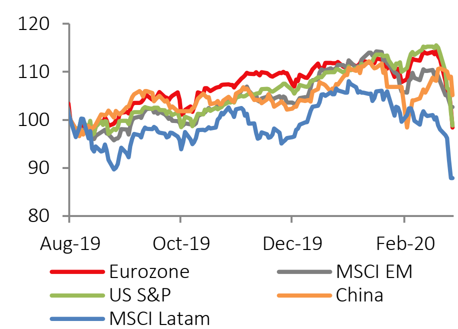
To the extent that progress is made in effective treatments, markets are likely to reverse some of the recent declines.

Although new cases of contagion in China have declined during this week, the spread of the virus to several countries outside Asia produced strong movements in the global financial markets. The stock markets fell sharply; Dow Jones: -13.8%; MSCI Latam: -10.4%) and raw material prices declined again. At the close of this report, copper was quoted at around US $ 2.5 per pound and oil at US $ 44 per barrel.

In this context, volatility indicators showed significant increases. The VIX exceeded 40% during the week, levels that were not observed since the "Black Monday" of August 2015, when fears about the growth of China hit the markets hard.

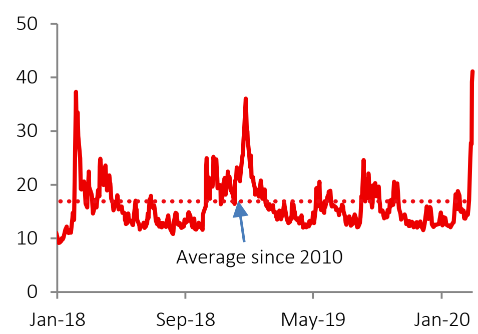
While cases outside of China have been increasing, the overall mortality rate remains low. Therefore, we believe that as long as the contagion rate stabilizes and progresses in effective treatments, markets should recover a significant part of the losses seen in recent weeks.

Graph 1: International exchanges (100 = Aug.19)



Source: Bloomberg and Santander

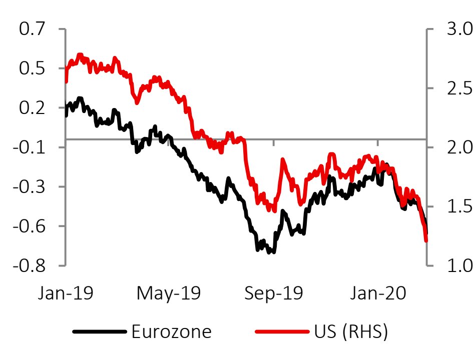
Graph 2: Volatility indicator VIX (%)



Source: Bloomberg and Santander

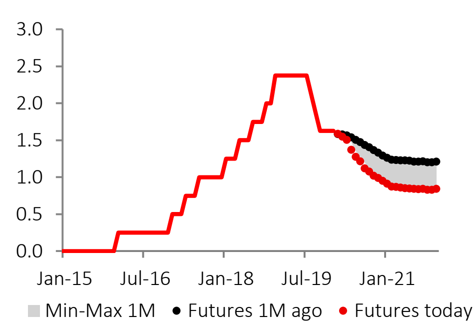
However, the market has once again bet on a more aggressive monetary policy by the main central banks. The Fed Fund Rate (FFR) futures have implicit cuts in the June and September meetings of this year - which contrasts with last month's expectations to maintain - and possible additional cuts in 2021. This has resulted in strong falls of the long rates, which have returned to historical minimums.

Graph 3: 10 yr benchmark rates (%)



Source: Bloomberg and Santander

Graph 4: Fed Fund Rate Expectations (%)



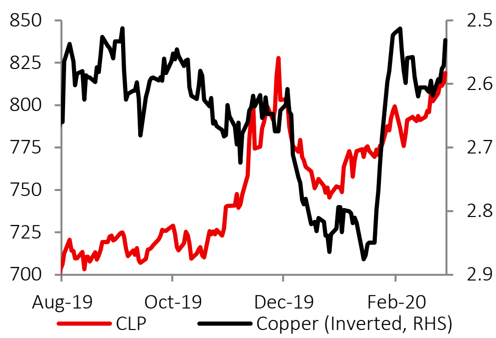
Source: Bloomberg and Santander

Local assets deteriorate in line with the international trend

The IPSA fell more than 6% - with a transversal fall in all sectors - interest rates on government bonds receded and risk premiums increased. The exchange rate depreciated around 2.1%, somewhat less than other parities in the region. With this, the implicit volatility of the local currency continued to increase, although it remains at lower levels than those presented when the Central Bank announced its intervention in the formal exchange market.

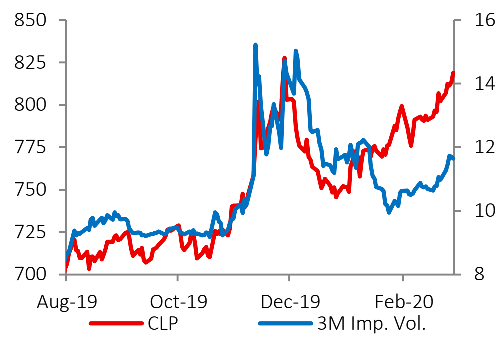
Exchange rate volatility increases, although it remains at lower levels than when they announced the intervention.

Graph 5: Exchange rate and copper ($/US$, US$/lb.)



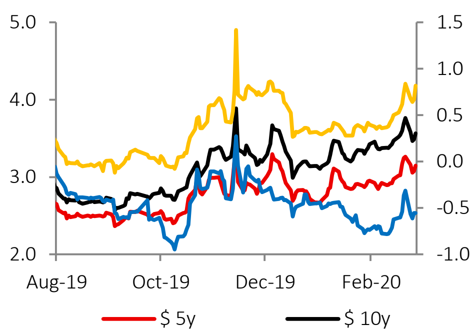
Source: Bloomberg and Santander.

Graph 6: Exchange rate and 3M implicit volatility ($/US$, %)



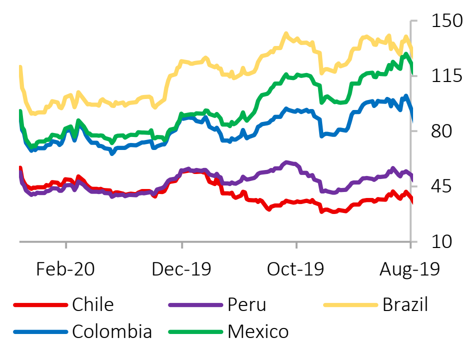
Source: Bloomberg and Santander.

Graph 7: Fixed income rates (%)



Source: Bloomberg and Santander.

Graph 8: 5 yr CDS Latin America (bp)



Source: Bloomberg and Santander.

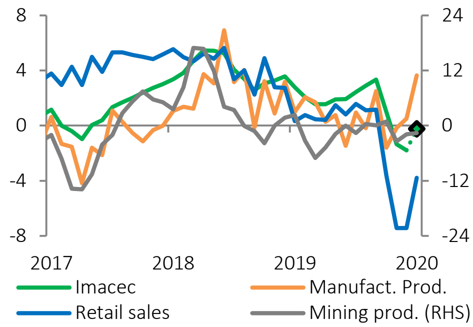
Local activity continues to show recovery

In January, manufacturing production completed its third consecutive month of expansion and strongly surprised upwards with a growth of 3.4% (Santander: 1%; Bloomberg: 1.7%). Retail sales, meanwhile, had their first positive result since the social outbreak began, with an annual expansion of 0.1% (Santander: -1%; Bloomberg: -1.5%). Meanwhile, mining production grew only 1%, well below expectations.

January Imacec could have expanded around 1.2%.

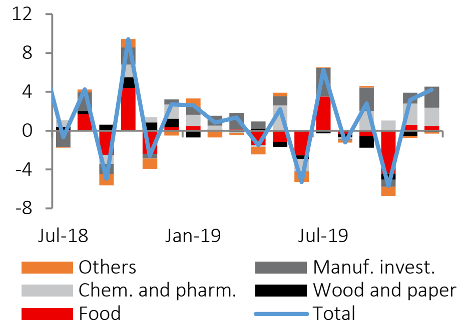
The manufacturing data confirms that the impact of the crisis in that sector has been limited - in October the indicator contracted 5.7%, while the trade figure accounts for an incipient recovery even when vehicle sales -one of the main components - continue to fall strongly. **With these results, we estimate that the January Imacec - which will be known on Monday - would**

Graph 9: Sectorial indicators (annual quarterly moving %)



Source: BCCh, INE and Santander

Graph 10: Manufacturing production by sector (annual var. %)



Source: INE and Santander

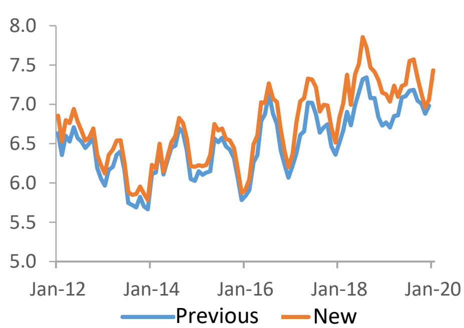
Labor market shows resilience

The INE reported that the unemployment rate in the November-January quarter reached 7.4%, registering an increase of 0.3 pp compared to the previous figure and in twelve months. All of the above, according to the revised series published by the statistical institute, in the context of a methodological update that was scheduled for this publication.

Total employment grew 2.1% y / y (same figure as the 2019 average), while the labor force expanded 2.5%. At the close of this report, the INE had not published the disaggregation of employment into its dependent and self-employed components.

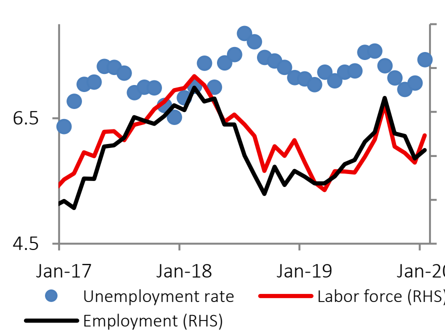
The methodological changes translated into an update of the historical information, since 2010, incorporating in a better way the greater migratory influence of previous years. Thus, since mid-2017, there has been an increase in the labor force and employment. Regarding the unemployment rate, the historical series increases 0.2 pp on average with respect to the previous indicator, with the largest increase registered in 2018 that went from an annual unemployment rate of 7% to 7.4%. In the same period - in which GDP grew 4% -, employment expansion was corrected from 1.4% to 2.2%, showing that the labor market lag observed in the last recovery cycle had a structural component that goes beyond the methodological doubts raised in the Employment Survey.

Graph 11: Historical revision of the unemployment rate (%)



Source: INE and Santander.

Graph 12: Employment, labor force and unemployment (annual var. %; %)



Source: INE and Santander.

Market summary

	Exchange rates				Exchanges			10Y Rates			
	Level	Weekly Var.	Accum. Jan.20	Accum. 2019	Weekly Var.	Accum. Jan.20	Accum. 2019	Level	Weekly Var.	Accum. Jan.20	Accum. 2019
			%			%				pb	
US	98.4	**0.8**	-0.6	-1.7	**-13.2**	-11.8	-10.1	1.21	**-26**	-38	-67
Eurozone	1.1	**-1.4**	0.3	1.9	**-12.6**	-10.0	-11.4	-0.60	**-16**	-19	-41
UK	1.3	**1.5**	2.5	2.6	**-11.6**	-11.4	-13.7	0.43	**-15**	-12	-44
Japan	107.9	**-3.3**	-1.0	-0.9	**-9.7**	-9.8	-12.2	-0.15	**-9**	-10	-13
Chile	819.8	**2.2**	3.0	9.0	**-8.1**	-8.5	-10.8	3.57	**-20**	19	42
Argentina	62.2	**0.9**	3.6	3.9	**-11.7**	-15.6	-18.2	25.0	**136**	131	401
Brazil	4.5	**2.8**	6.4	12.3	**-11.2**	-12.6	-12.7	6.73	**15**	-2	-8
Mexico	19.8	**4.7**	5.3	4.5	**-10.3**	-10.4	-7.9	6.81	**27**	17	-4
Colombia	3,546	**5.0**	4.0	8.0	**-5.7**	-6.1	-7.4	5.83	**26**	7	-25
Peru	3.5	**2.1**	2.7	4.3	**-8.0**	-8.0	-9.3	3.82	**-2**	-19	-40
China	7.0	**-0.5**	0.8	0.1	**-5.0**	-1.6	-3.5	2.80	**-14**	-25	-38
Turkey	6.2	**2.2**	4.4	4.8	**-9.3**	-11.6	-7.6	12.8	**99**	294	80
South Africa	15.7	**4.9**	6.6	11.5	**-11.1**	-9.3	-10.8	9.08	**25**	7	83
India	72.6	**1.0**	1.4	1.8	**-7.0**	-6.4	-7.8	6.37	**-5**	-19	-17
Indonesia	14,340	**4.2**	5.1	3.0	**-7.3**	-10.0	-13.4	6.89	**35**	24	-21

Copper	253.0	**-3.0**	0.2	-10.7
Oil	44.0	**-17.6**	-15.6	-28.7

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Data published this week

DAY	COUNTRY	INDICATOR	PERIOD	PREVIOUS	ESTIMATION	ACTUAL
MONDAY 24	US	Activity index Fed Chicago	January	-0.35	-0.18	-0.25
	US	Manufacturing index Fed Dallas	February	-0.2	0.0	1.2
TUESDAY 25	US	Consumer confidence (Conf. Board)	February	131.6	132.2	130.7
WEDNESDAY 26						
THURSDAY 27	US	Annualized GDP q/q	4Q	2.1%	2.1%	2.1%
	US	Personal consumption	4Q	1.8%	1.7%	1.7%
	US	Core PCE q/q	4Q	1.3%	1.3%	1.2%
	US	Durable goods orders	January	2.4%	-1.4%	-0.2%
	US	Unemployment reuqests (thousands)		210k	212k	219k
	Eurozone	Economic confidence	February	102.8	102.8	103.5
	Eurozone	Consumer confidence	February	-6.6	--	-6.6
FRIDAY 28	Chile	Retail sales	January	-2.8%	-1%	0.1%
	Chile	Commercial activity	January	0.6%	--	1.6%
	Chile	Industrial production y/y	January	3.2%	2.5%	1.8%
	Chile	Manufacturing production	January	4.2%	1%	3.4%
	Chile	Copper production	January	554953	--	466723
	US	Total PCE y/y	January	1.6%	1.8%	1.7%
	US	Underlying PCE y/y	January	1.6%	1.7%	1.6%
	US	Consumer confidence U. of Michigan	February	100.9	100.7	--

Estimates correspond to the market consensus according to Bloomberg. Estimates in red correspond to Santander estimates.

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Data to be published next week

DAY	COUNTRY	INDICATOR	PERIOD	PREVIOUS	ESTIMATE
MONDAY 2	Chile	IMACEC	January	1.1%	1.2%
	Chile	IMCE	February	40.67	--
	US	PMI Markit manufacturing	February	50.8	50.8
	Eurozone	PMI Markit manufacturing	February	49.1	49.1
	China	PMI Caixin manufacturing	February	51.1	46.0
	Global	PMI Global manufacturing	February	50.4	--
TUESDAY 3	Eurozone	Underlying inflation y/y	Feb. (preliminar)	1.1%	1.2%
	Eurozone	Inflation m/m	Feb. (preliminar)	-1.0%	0.2%
	Eurozone	Total inflation y/y	February	1.4%	1.2%
	Eurozone	Unemployment rate	January	7.4%	7.4%
	China	PMI Caixin Composite	February	51.9	--
	China	PMI Caixin Services	February	51.8	48.0
WEDNESDAY 4	US	Employment ADP	February	291k	170k
	US	PMI Markit Services	February	49.4	49.5
	US	PMI ISM non- manufacturering	February	55.5	55.5
	Eurozone	PMI Markit Services	February	52.8	52.8
	Eurozone	Retail sales	January	1.3%	1.1%
THURSDAY 5	Chile	Nominal salaries y/y	January	4.5%	--
	US	Unemployment requests (thousands)		219k	--
	US	Durable godos orders	January	-0.2%	--
FRIDAY 6	Chile	Inflation m/m	February	0.6%	0.2%
	Chile	Inflation y/y	February	3.5%	3.6%
	Chile	Car sales	February	32104	--
	US	Commercial balance	January	-$48.9b	-$48.8b
	US	Non-agriculture job creation	February	225k	195k
	US	Unemployment rate	February	3.6%	3.5%
	US	Salaries per hour y/y	February	3.1%	3.0%

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