



# COVID-19 Analysis: Impact on Chile

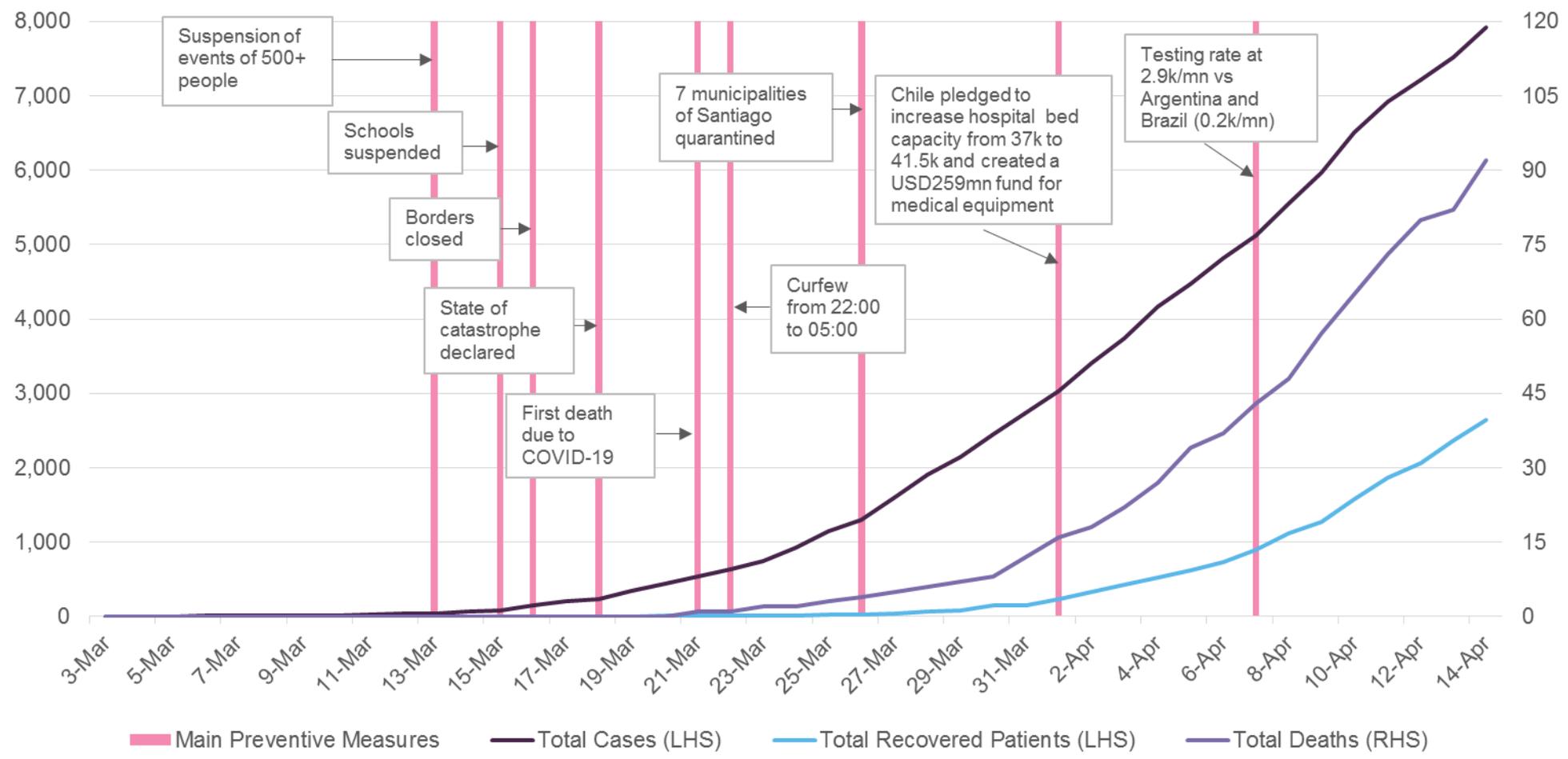
EVALUESERVE



# COVID-19 in Chile

Chile's fatality rate of 1.2% vs global rate of 6.4% due to measures being put in place early

### Key Dates of COVID-19 in Chile



Source: MINSAL

# Macroeconomic Impact

## Economic recession inevitable in 2020, but quick rebound expected in 2021

### GDP

- In March 2020, the Central Bank of Chile (BCCh) forecast a recession for 2020 with a growth rate of -2.5% to -1.5%
- This figure compares negatively with the 0.5-1.5% projected in Dec 2019, which had already factored in the social unrest that started in Chile on 18-Oct-19
- In March 2020, the economic perception index (IPEC) was 27.8 pts, its lowest level since March 2002; a positive sentiment is reflected by a reading of 50 pts and above

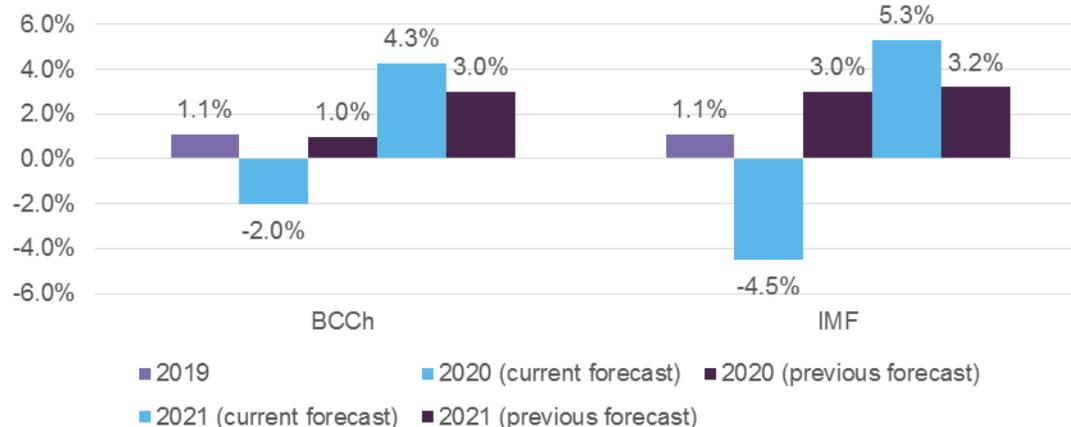
### Unemployment

- According to a BCCh poll in March 2020, ~75% of companies expected to reduced their payroll
- According to a Cadem-PWC poll in March 2020, ~70% of businesses expected the unemployment rate to be ~10% in 2020
- The unemployment rate was 7.8% in Feb 2020, increasing 0.8% YoY, affected primarily by the social unrest of 4Q19

### Inflation

- In Chile, the annual inflation target per BCCh is between 2% and 4%, which is in line with the consensus (3.2%) and the BCCh forecast (3.0%) for 2020
- The USD/CLP rate has risen 12.8% YTD, as of 14-Apr-20, while the domestic demand of Chile's economy is expected to fall 5.8% in 2020 due to COVID-19

BCCh vs IMF GDP Forecasts



Source: BCCh, IMF

| BCCh Forecasts          | 2019      | 2020          | 2021         |
|-------------------------|-----------|---------------|--------------|
| GDP                     | 1.1%      | -2.5 to -1.5% | 3.75 - 4.75% |
| Domestic demand         | 1.0%      | -5.8%         | 5.3%         |
| Exports                 | -2.3%     | -1,4%         | 4.3%         |
| Imports                 | -2.3%     | -14.7%        | 8.4%         |
| Current account (% GDP) | -3.9%     | 0.3%          | -0.6%        |
| Trade balance (USD mn)  | USD 4,000 | USD 11,900    | USD 11,400   |
| Inflation (EoY)         | 3.0%      | 3.0%          | 2.9%         |

Source: BCCh

# Macroeconomic Impact (cont'd)

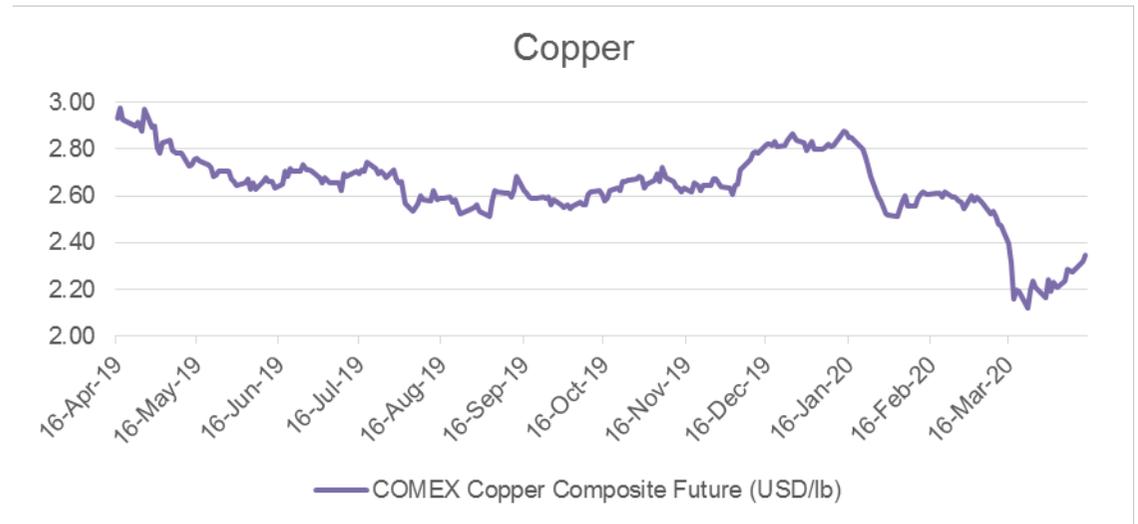
Global copper demand to decline 1.7%, USD/CLP increased 19.2% since social unrest

## Copper

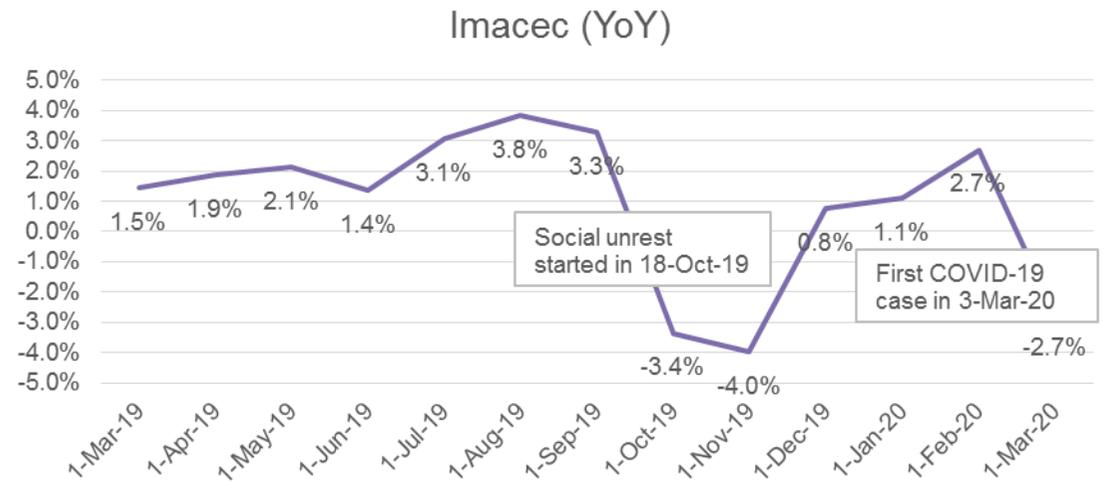
- Copper represents ~10% of Chile's GDP and ~50% of its exports, and with the price and demand for it is being affected by the COVID-19 pandemic, the BCCh expects total exports to decrease 1.4% in 2020
- Similarly, the International Energy Agency (IEA) expects a 9% decline in global demand for crude oil in 2020
- The Chilean Copper Commission (Cochilco) expects a 1.7% decline in global demand for copper during the year, with China, Chile's largest trade partner, accounting for ~60% of the decline
- According to the IMF, the impact of the COVID-19 pandemic on copper prices to date has been -23%, while Cochilco forecasts a decline of 11.8% in the average copper price in 2020 to USD 2.4/lb
- BCCh recent poll expected the Imacec (monthly GDP proxy) to drop by 2.8% in March 2020

## USD/CLP

- The USD/CLP FX rate increased 19.2% from 18-Oct-19 to 14-Apr-20, affected by the social unrest in Chile and COVID-19's effect on EM currencies and copper prices
- The Central Bank of Chile announced the largest FX intervention in its history in 4Q19, injecting USD 20 billion into the market, with 50% in spot and 50% in forwards



Source: Thomson Reuters Eikon



Source: BCCh. Data point for April 2020 corresponds to BCCh monthly economic survey

# Impact on Financial Markets

Chile's 5Y CDS in 105 bps, while corporate spreads have widened, particularly "BBBs"

## Chile's Sovereign Rating

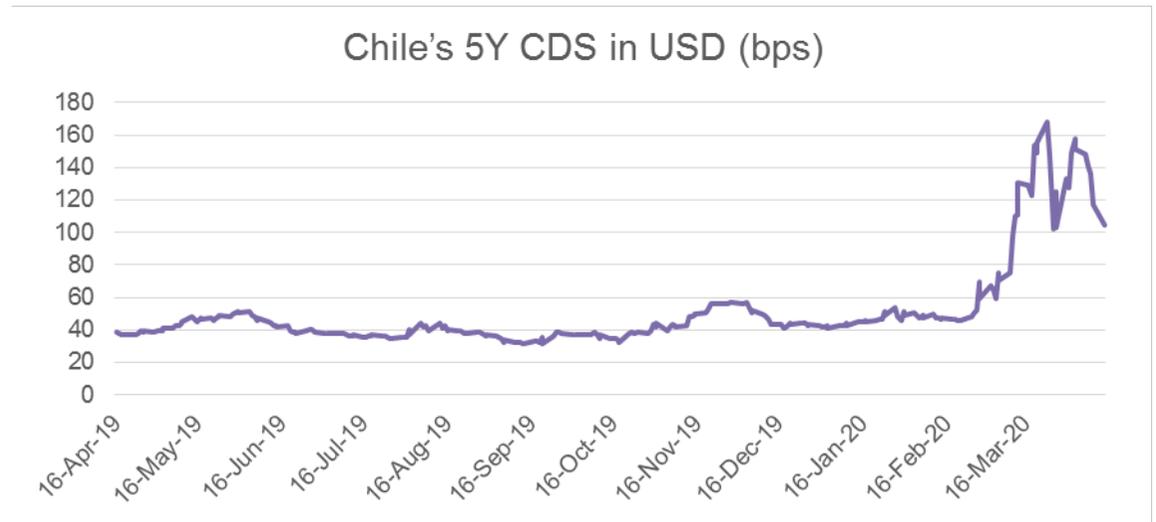
- On 12-Mar-20, Fitch assigned a Negative Outlook on Chile's sovereign rating while affirming its "A" rating mainly due to the effects of the social unrest and some knock-on effects of the COVID-19
- Chile is rated "A"/Negative by Fitch, "A1"/Stable by Moody's, and "A+"/Stable by S&P
- Chile's 5Y CDS in USD have risen 147.7% YTD to 105 bps as of 14-Apr-20

## Corporate Spreads of Bonds Issued Abroad

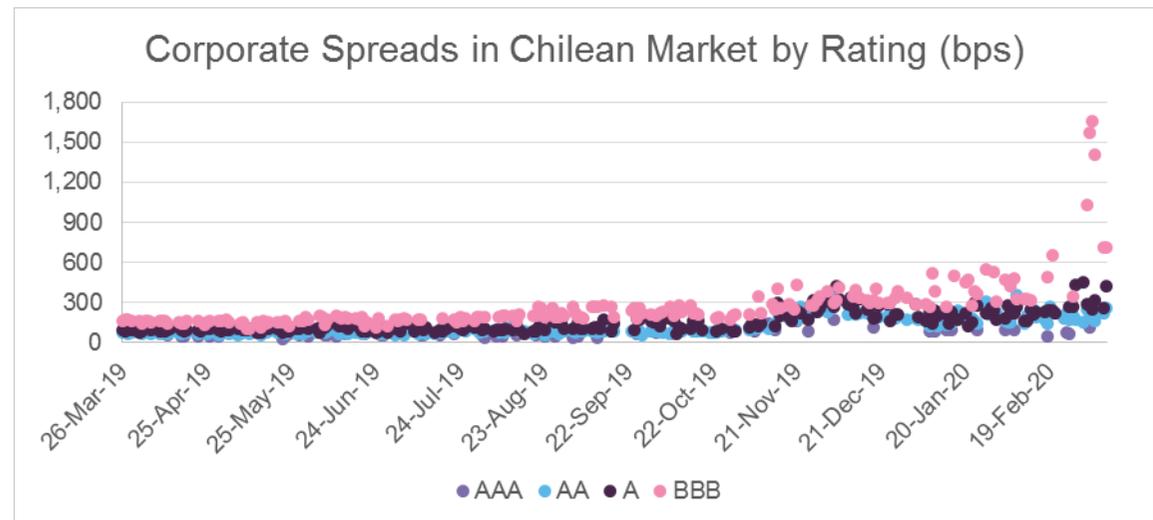
- Spreads of corporate bonds issued in the international markets by Chilean companies have widened as a result of the higher perceived risk of Chile's sovereign credit risk
- Codelco, the largest copper producer worldwide and 100% owned by the Chilean government, has seen its COBRE 3.0% 30-Sep-2020 bonds' yield go up from 2.53% in 9-Mar-20 to 3.94% in 14-Apr-20

## Corporate Spreads in the Chilean Market

- Spreads of corporate bonds issued in the Chilean market have also widened, while the gap between "AAAs" and "BBBs" has also increased
- "AAAs" were trading with a spread of 130 bps as of 23-Mar-20 versus 86 bps as of 7-Jan-20
- Meanwhile, "BBBs" were trading with a spread of 1,655 bps as of 5-Mar-20 versus 338 bps as of 30-Dec-19



Source: Thomson Reuters



Source: BCCh. Non-banking corporate bonds issued in UF

# Impact on Financial Markets (cont'd)

Chilean equities have fallen 26.4% YTD in USD, with LTM.SN leading the losses

## Equities

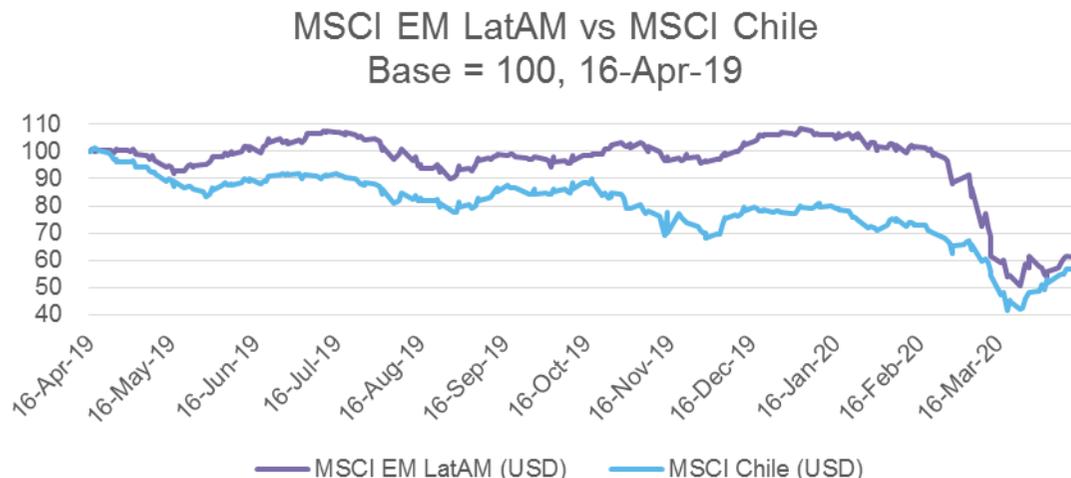
- EM markets, and more specifically LatAm equities, have been particularly affected by the COVID-19 pandemic, with the MSCI EM LatAM index falling 42.1% YTD in USD as of 14-Apr-20
- In Chile, the main Chilean stock market index (IPSA) has declined 16.1% YTD in CLP, while the MSCI Chile index has lost 26.4% YTD in USD as of 14-Apr-20

## Stocks More Affected by COVID-19

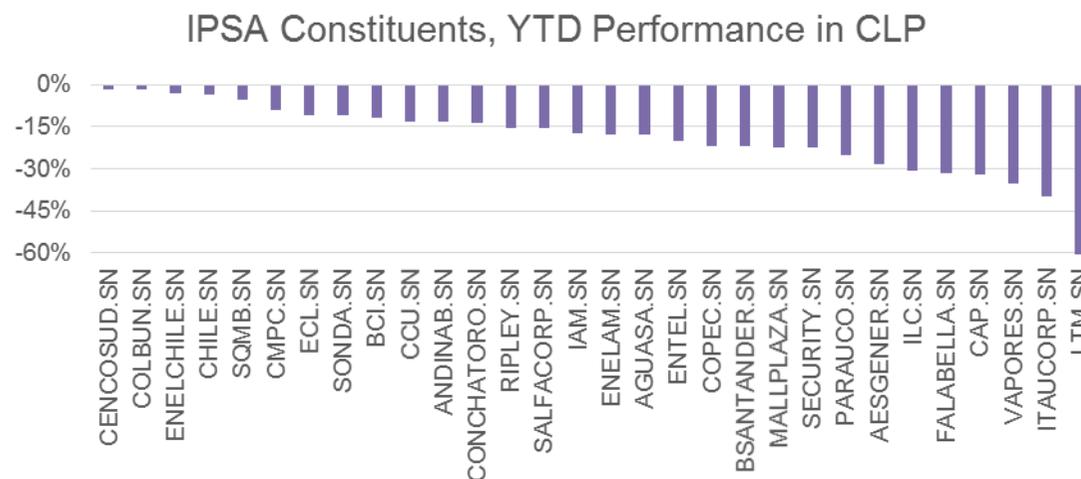
- Leading the losses, LTM.SN stock has dropped 60% YTD in CLP as it reduced operations by 95% in April amid the shutdown of the global airlines industry
- The second stock more affected is ITAUCORP.SN (-40% YTD in CLP), a Chilean bank with exposure to Colombia, country that is in risk of losing its investment-grade rating
- VAPORES.SN, engaged in the marine freight sector, has the third-highest amount of losses (-35% YTD in CLP)

## Stocks More Resilient to COVID-19

- On the opposite side, CENCOSUD.SN, a multi-brand retailer in South America with high exposure to supermarkets, is flat YTD in CLP, as supermarkets sales increased 50%+ in Chile in the last week of March 2020
- The second- and third-top gainers are the electric utilities COLBUN.SN (-2% YTD) and ENELCHILE.SN (-3% YTD)



Source: Thomson Reuters Eikon



Source: Thomson Reuters Eikon

# Impact on Financial Markets (cont'd)

Basic materials, consumer non-cyclicals and technology are more resilient to the crisis

## Sectors More Resilient to COVID-19

- Basic materials: This sector, comprising SQMB.SN, CMPC.SN, and CAP.SN, has dropped 9% YTD
- Consumer non-cyclicals: This sector, comprising supermarkets (CENCOSUD.SN) and beverage companies, has fallen 9% YTD
- Technology: This sector has only one stock (SONDA.SN) and is down 11% YTD

## Sectors Less Resilient to COVID-19

- Utilities: This sector, comprising electric and water utilities, has dropped 13% YTD
- Financials: This sector, comprising multination/national banks and financial holdings, has fallen 16%
- Telecommunications services: This sector, comprising only ENTEL.SN, is down 20% YTD

## Sectors More Affected by COVID-19

- Energy: This sector, comprising only COPEC.SN, has declined 22% YTD
- Consumer cyclicals: This sector, comprising two South American retailers with more exposure to home improvement and department stores, has fallen 30% YTD
- Industrials: This sector, comprising LTM.SN, VAPORES.SN, and SALFACORP.SN, is down 52% YTD

| IPSA Sector Analysis        | Mkt cap (USD mn)   | Mkt cap by sector | # of stocks | YTD in CLP  |
|-----------------------------|--------------------|-------------------|-------------|-------------|
| Financials                  | \$27,394.52        | 29.6%             | 8           | -16%        |
| Utilities                   | \$24,954.80        | 27.0%             | 7           | -13%        |
| Basic materials             | \$11,133.28        | 12.0%             | 3           | -9%         |
| Consumer non-cyclicals      | \$9,163.97         | 9.9%              | 4           | -9%         |
| Energy                      | \$7,789.50         | 8.4%              | 1           | -22%        |
| Consumer cyclicals          | \$6,988.07         | 7.6%              | 2           | -30%        |
| Industrials                 | \$3,039.95         | 3.3%              | 3           | -52%        |
| Telecommunications Services | \$1,483.38         | 1.6%              | 1           | -20%        |
| Technology                  | \$556.56           | 0.6%              | 1           | -11%        |
| <b>IPSA</b>                 | <b>\$92,504.04</b> | <b>100%</b>       | <b>30</b>   | <b>-17%</b> |

Source: Thomson Reuters Eikon. YTD performance by sectors is own calculations

# Government Measures

## USD 16.8 billion economic plan; referendum for new constitution delayed to Oct 2020

### First Emergency Economic Plan

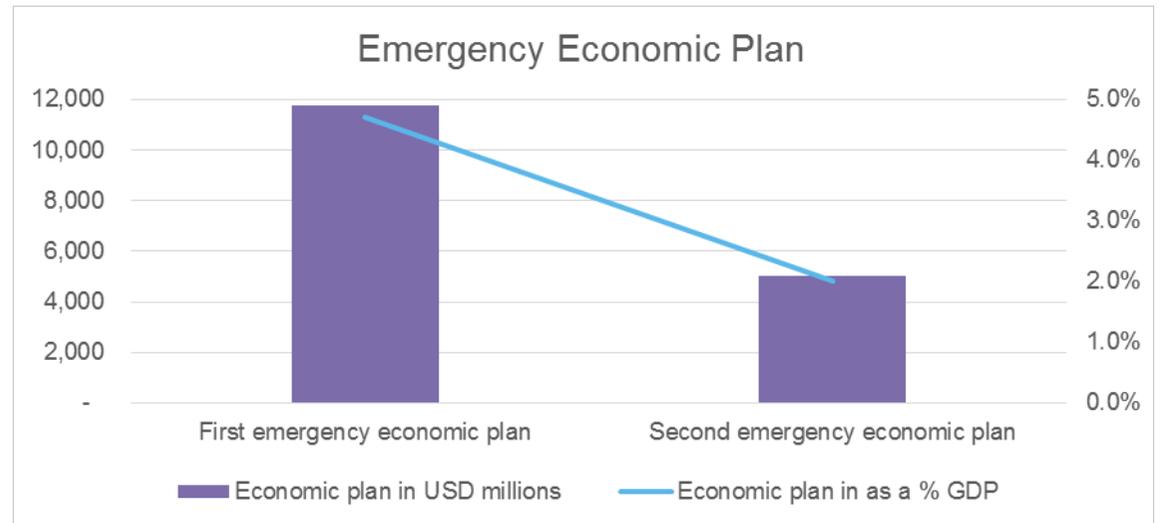
- On 19-Mar-20, the Chilean government announced an emergency economic plan for USD 11,750 million (~4.7% of annual GDP), with a focus on (1) protection of employment with the new “law to protect employment”, (2) liquidity injections, particularly to SMEs, plus special tax reliefs, and (3) support to family income
- On 27-Mar-20, the Congress approved a law to provide cash transfers to families, benefiting 2 million homes

### Second Emergency Economic Plan

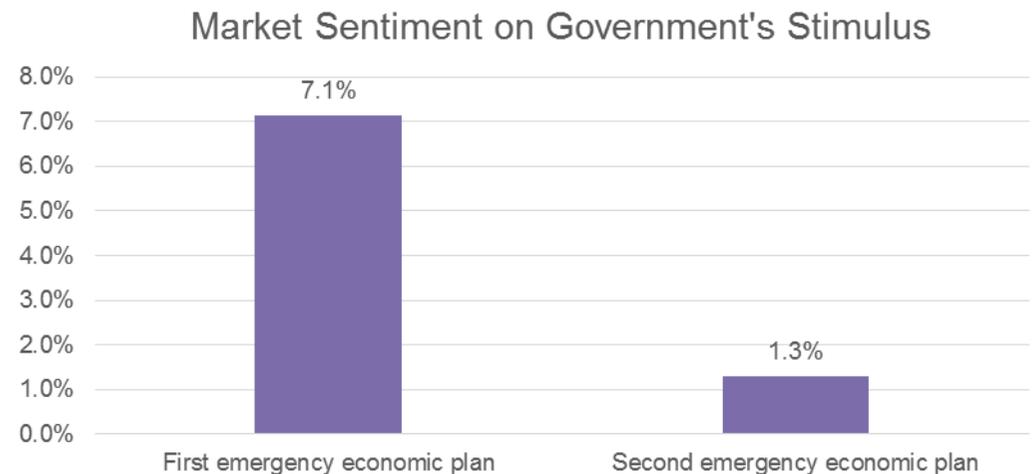
- On 8-Apr-20, the Chilean government announced a second emergency economic plan for USD 2,000 million to protect the income of 2.6 million informal workers
- Additionally, the government announced a plan of up to USD 3,000 million to increase the government-guaranteed loans to support companies with annual revenues up to UF 1 million (~USD 33.8 million)

### Other Measures

- Referendum: Chile postponed the referendum on a new constitution from 26-Apr-20 to 25-Oct-20
- Telework law: A new telework law was enforceable from April 2020. According to a Cadem-PWC poll in March 2020, 71% of companies had a positive assessment about the experience of telework
- Solidarity fund: Chilean businessmen created a CLP 82 billion (~USD97 millions) solidarity fund



Source: Gob.cl



Source: Thomson Reuters Eikon. Market sentiment defined as IPSA 1 day var. %

# Monetary Policy and Financial Market Measures

## Central Bank's target interest rate at 0.5% plus USD 8 billion in quantitative easing (QE)

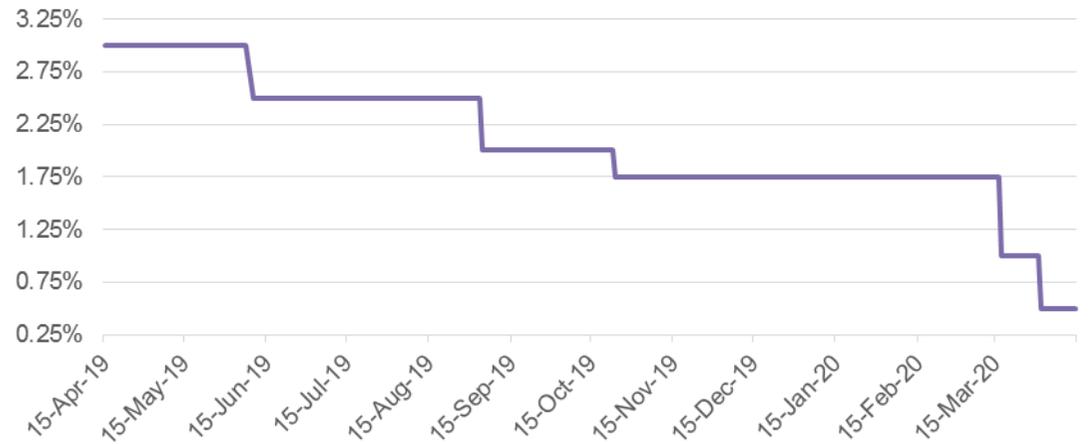
### Monetary Policy

- The BCCh reduced its target interest rate by 75 bps to 1.0% (on 16-Mar-20) and another 50 bps to 0.5% (on 31-Mar-20)
- In its Monetary Policy Report (IPoM) of March 2020, the BCCh incorporated for the first time in its history a forward guidance to its target interest rate
- Also, the BCCh implemented a QE by buying bank bonds for USD 8 billion and allowed corporate bonds to be used as collateral for its liquidity operations in CLP
- Additionally, the BCCh announced the creation of a conditional credit facility for banks and extended its FX sales program to 9-Jan-21 in REPOs and FX-Swaps
- Finally, the BCCh announced the creation of a government-guaranteed \$24 billion credit line for SMEs and entrepreneurs, and it offered liquidity lines to non-banking financial institutions

### CMF Measures

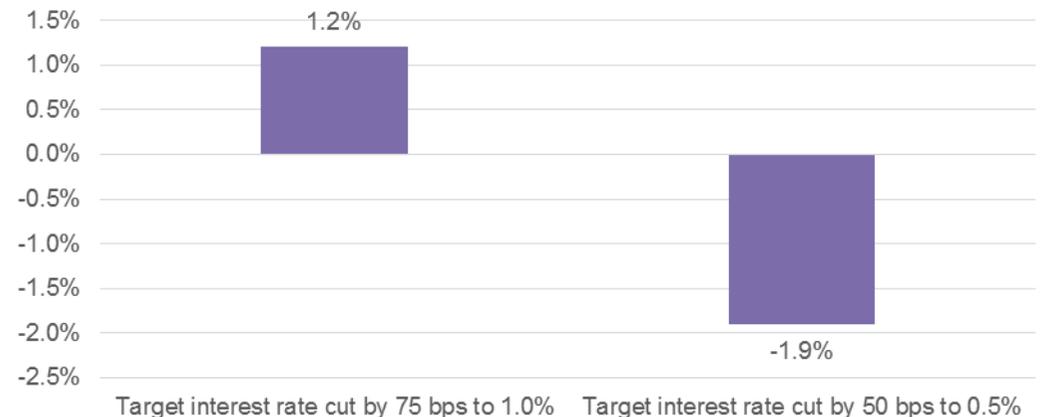
- 4Q19 results: The Financial Market Commission (CMF) extended the deadline for companies to release their 4Q19 earnings by 15 days
- Loan loss provisions: The CMF announced a special treatment in the establishment of provisions for deferred loans
- Basel III: The CMF and the BCCh extended the deadline for banks to gradually implement Basel III by one year

Central Bank's Target Interest Rate



Source: BCCh

Market Sentiment on Central Bank's Stimulus



Source: Thomson Reuters Eikon. Market sentiment defined as IPSA 1 day var. %

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