



COVID-19 Analysis: Impact on Chile

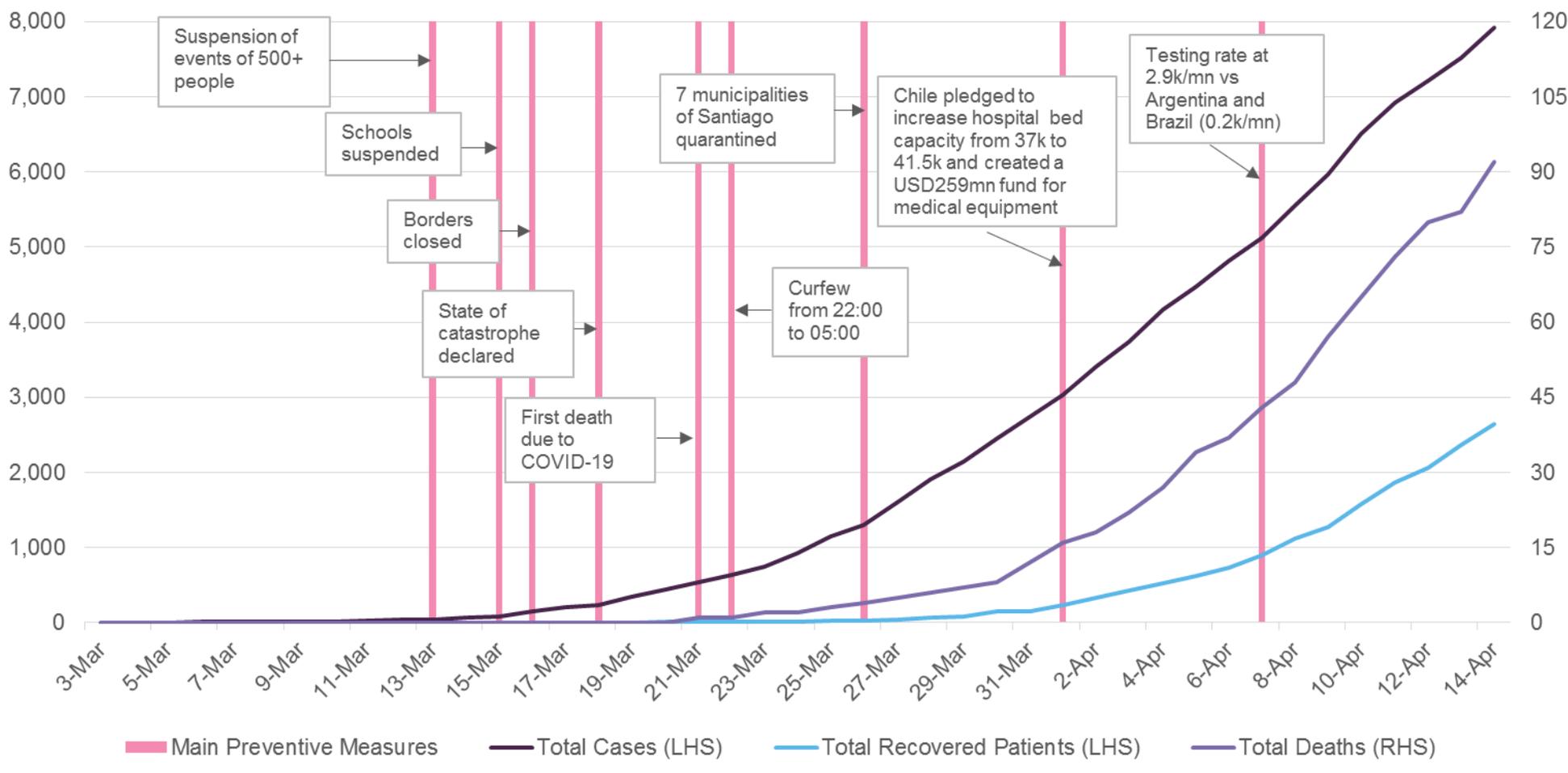
EVALUESERVE



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

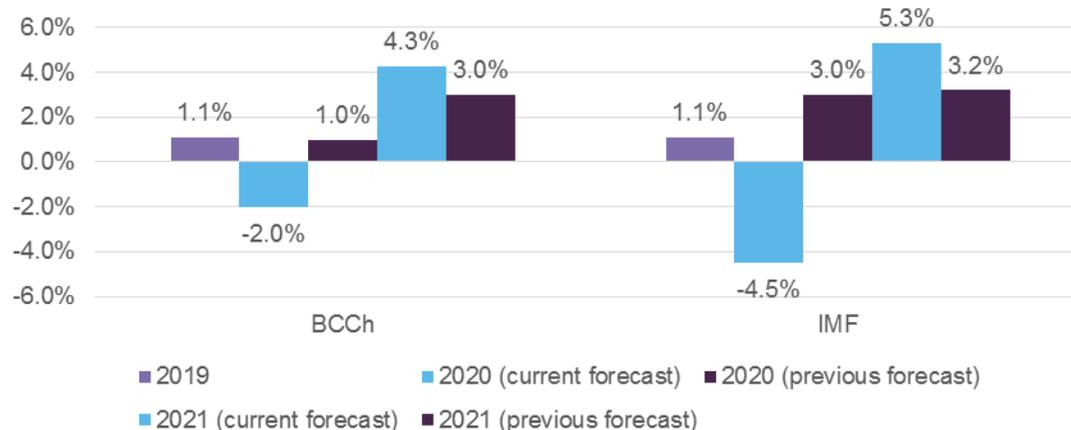
Unemployment

- 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)

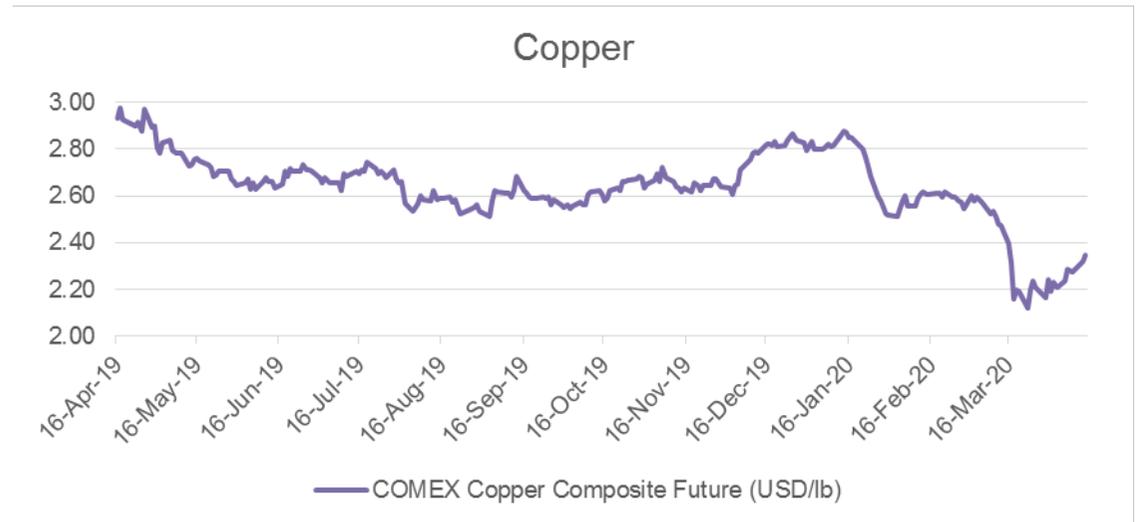
Global copper demand to decline 1.7%, USD/CLP increased 19.2% since social unrest

Copper

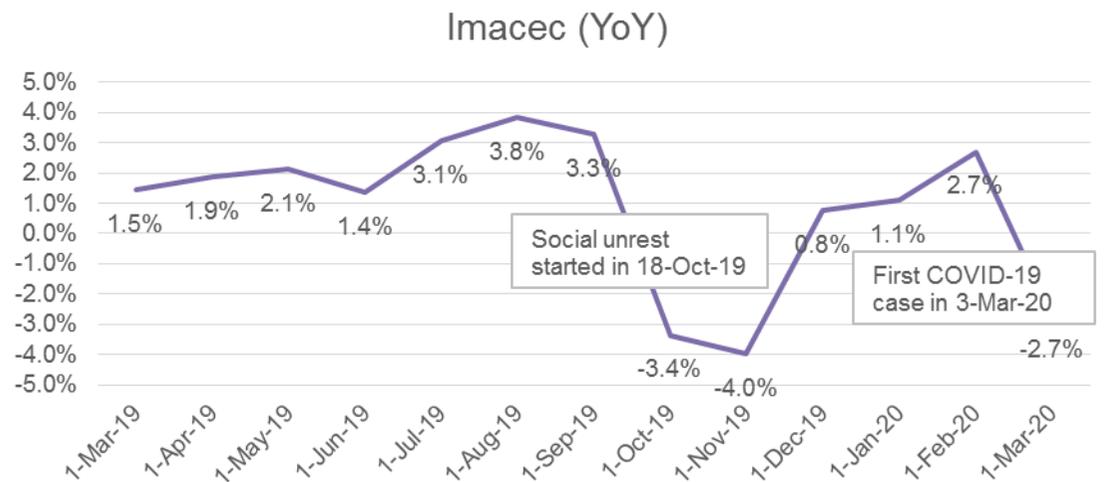
- Copper represents ~10% of Chile's GDP and ~50% of its exports, and with the price and demand for it is being affected by the COVID-19 pandemic, the BCCh expects total exports to decrease 1.4% in 2020
- Similarly, the International Energy Agency (IEA) expects a 9% decline in global demand for crude 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

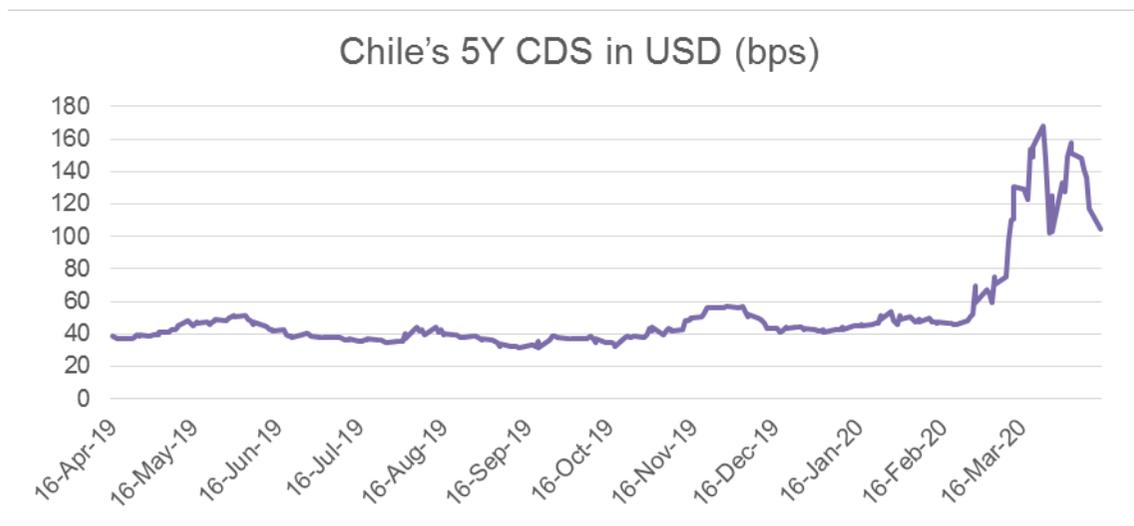
- On 12-Mar-20, Fitch assigned a Negative Outlook on Chile's sovereign rating while affirming its "A" rating mainly due to the effects of the social unrest and some knock-on effects of the COVID-19
- Chile is rated "A"/Negative by Fitch, "A1"/Stable by Moody's, and "A+"/Stable by S&P
- Chile's 5Y CDS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

Corporate Spreads of Bonds Issued Abroad

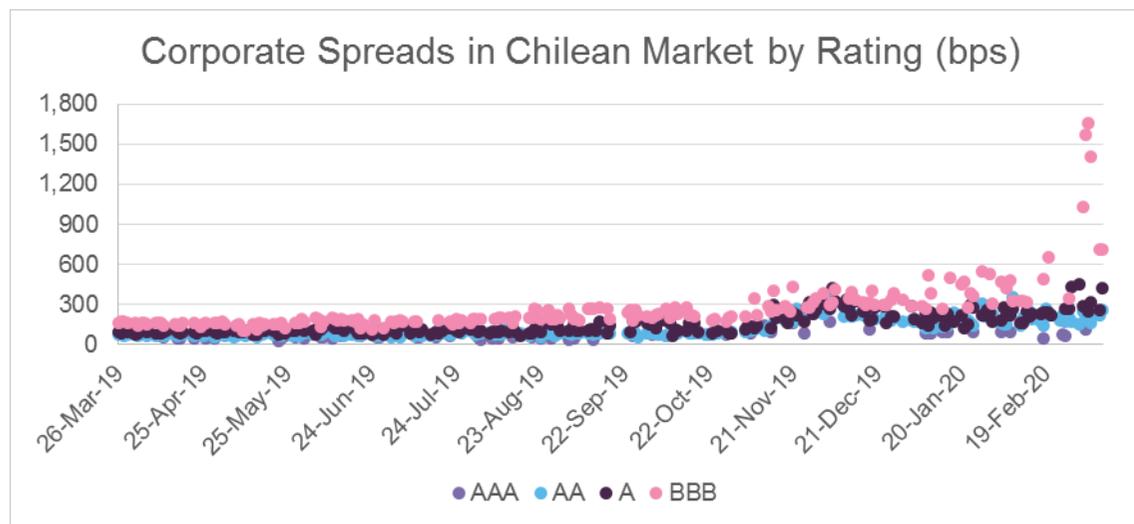
- Spreads of corporate bonds issued in the international markets by Chilean companies have widened as a result of the higher perceived risk of Chile's sovereign credit risk
- Codelco, the largest copper producer worldwide and 100% owned by the Chilean government, has seen its COBRE 3.0% 30-Sep-2020 bonds' 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

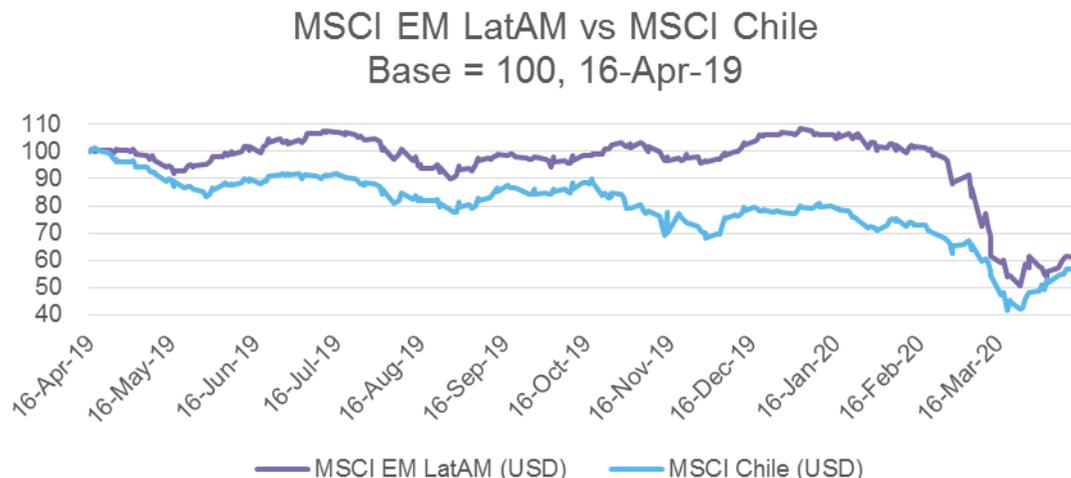
- EM markets, and more specifically LatAm equities, have been particularly affected by the COVID-19 pandemic, with the MSCI EM LatAM index falling 42.1% YTD in USD as of 14-Apr-20
- In Chile, the main Chilean stock market index (IPSA) has declined 16.1% YTD in CLP, while the MSCI Chile index has lost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

Stocks More Affected by COVID-19

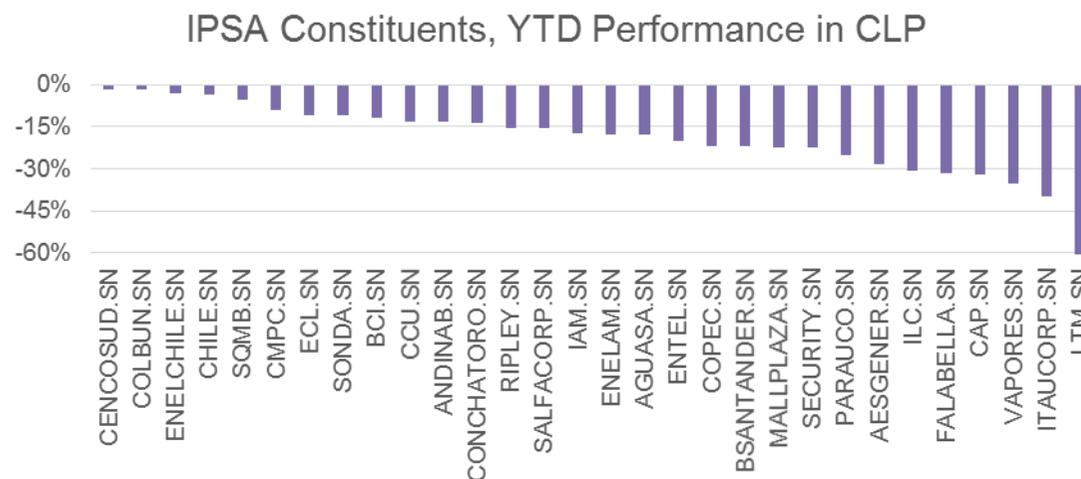
- Leading the losses, LTM.SN stock has dropped 60% YTD in CLP as it reduced operations by 95% in April amid the shutdown of the global airlines industry
- The second stock more affected is ITAUCORP.SN (-40% YTD in CLP), a Chilean bank with exposure to Colombia, country that is in risk of losing its investment-grade 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%
IPSA	\$92,504.04	100%	30	-17%

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

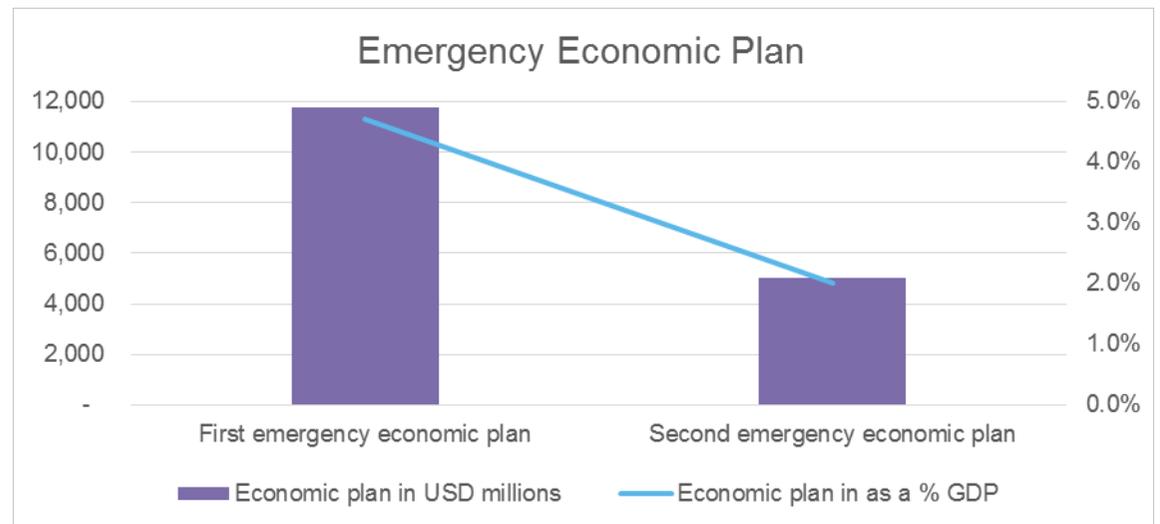
- On 19-Mar-20, the Chilean government announced an emergency economic plan for USD 11,750 million (~4.7% of annual GDP), with a focus on (1) protection of employment with the new “law to protect employment”, (2) liquidity injections, particularly to SMEs, plus special tax reliefs, and (3) support to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

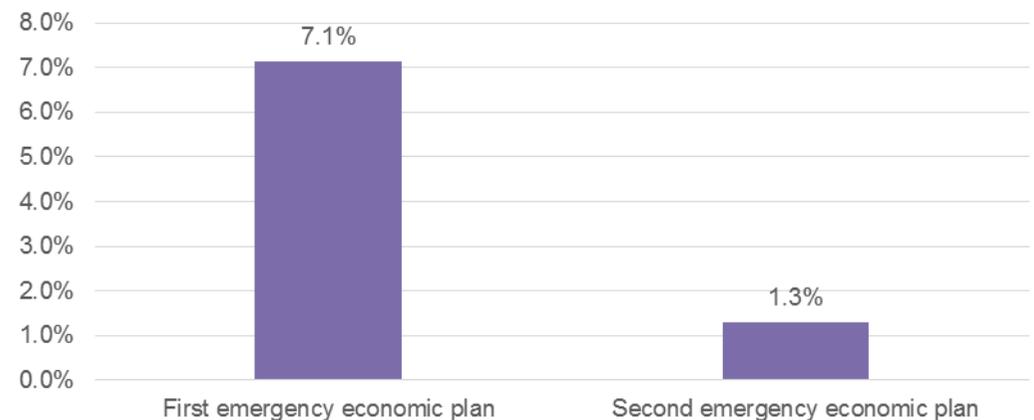
Other Measures

- 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

Market Sentiment on Government's Stimulus



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)

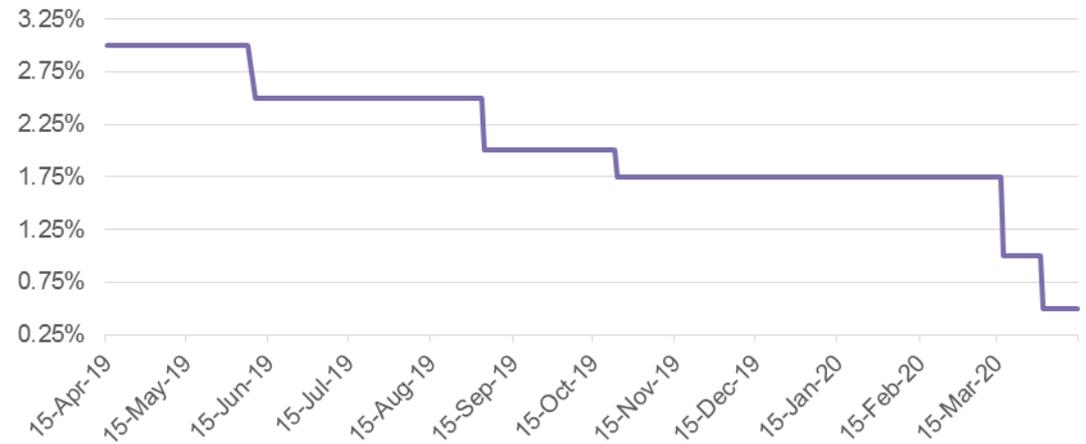
Monetary Policy

- 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

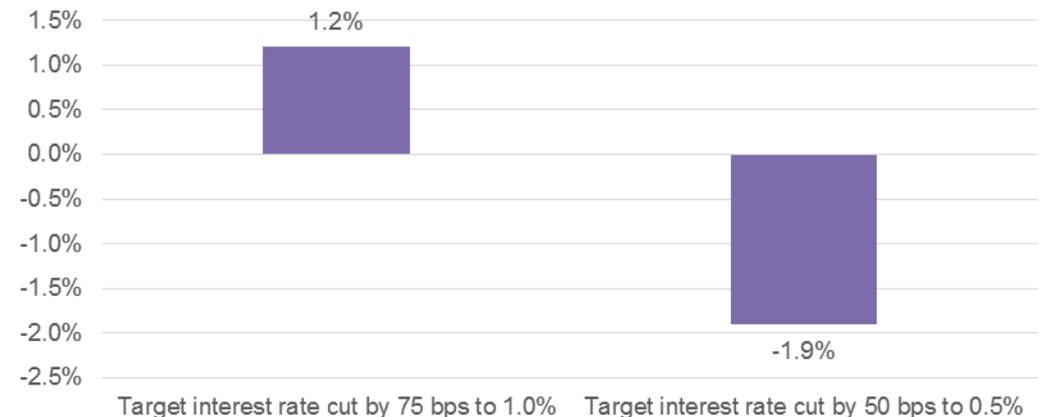
- 4Q19 results: The Financial Market Commission (CMF) extended the deadline for companies to release their 4Q19 earnings by 15 days
- Loan loss provisions: The CMF announced a special treatment in the establishment of provisions for deferred loans
- Basel III: The CMF and the BCCh extended the deadline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

Evalueserve Disclaimer

The information contained in this report has been obtained from reliable sources. The output is in accordance with the information available on such sources and has been carried out to the best of our knowledge with utmost care and precision. While Evalueserve has no reason to believe that there is any inaccuracy or defect in such information, Evalueserve disclaims all warranties, expressed or implied, including warranties of accuracy, completeness, correctness, adequacy, merchantability and / or fitness of the information.