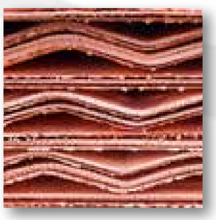
CHILEAN ECONOMIC REPORT

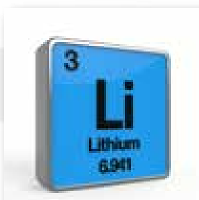
SECOND QUARTER 2019

2 ND EDITION 2019 - PRODUCED SINCE 1922

Cámara ChilenoBritánica

100 años 1917-2017






ENGIE
We lead the energy transition of Chile
At ENGIE we are committed on boosting the massification of electricity as an energy source to move the public and private transport.
We work day by day, together with partners and authorities, to make this happen and thus contribute to the harmonious progress of cities and their people.
Meet our solutions in sustainable mobility at engie.cl/soluciones
ENGIE
engie.cl

Chile continues to be strongly impacted by the slowdown in global trade as a result of the ongoing trade war between Beijing and Washington. See the box in Section 2 for further analysis. The international copper price is at its lowest in two years, and exports fell by 8% in this second quarter as a result of lower commodity prices. It is not a surprise, then, that economic growth forecasts have been pegged back to less than 3.0% for this year for Chile.

The full impact of immigration into Chile related to political and economic instability in other parts of the region is now emerging, with the figures at the end of 2018 showing a total of 1.25 million foreign born residents, 750.000 of which have come to Chile since 2015. This now represents 4% of the population and is already having a profound impact on the economy and people's ability to deal with the cultural diversity. See our article in Section 3 for all the details.

There continues to be uncertainty about how Chile will capitalise on its immense lithium reserves, after CORFO's efforts to commit three companies to invest in manufacturing plants in Chile, based on preferential raw material pricing, seem to have foundered. The lithium market remains volatile, as the industry surrounding battery manufacture and electromobility continues to develop. See the box in Section 2.

On the 13th June President Piñera carried out a significant reshuffle of his cabinet, on the same day as a survey carried out by Centro de Estudios Publicos was published, showing that support for the government had fallen to 25%. Details of the background and the changes can be found in Section 4.

As we move into the second half of the year, here in the Chamber we will do our best to continue to provide you with relevant information on this changing economic environment and access to current issues and networking opportunities.

Greg Holland
General Manager
British Chilean Chamber of Commerce
Santiago, Chile

Economic Report Committee: Peter Lynch, Audit Manager, BHP. Leslie Hemery, Vice-President, British Chilean Chamber of Commerce. Guillermo Tagle, President, Credicorp Capital. Andrew de la Mare, Partner Strategy & Operations, PwC Chile. Luis Herrera, Chief Economist for the Andean Region, BTG Pactual. Gabriel Henríquez, Economic and Trade Policy Officer, British Embassy in Chile. Tom Azzopardi, Editor in Chief, Chile Explore Group. Greg Holland, General Manager, British Chilean Chamber of Commerce.

- Production coordinator: María Isabel Juppet C.
- Electronic version of the report: www.britcham.cl
- Design and layout: María Eugenia Gilabert P.
- Printer: A Impresores S.A.

CHAMBER PATRONS 2019

AngloAmerican

British American Tobacco Chile

ENGIE

HSBC

En Chile y en el mundo, HSBC

MARSH

CHAMBER SPONSORS 2019

wood.

Bupa

DIAGEO

G4S

COMPASS GROUP

BHP

Scotiabank

INDEX

KEY POINTS

• The outlook for the Chilean economy has weakened after the US-China trade war triggered a slowdown in global trade.

• Analysts now expect the economy to grow by less than 3.0% this year, reflecting a fall in exports and investment.

• Exports fell by 8.0% in the second quarter reflecting lower commodity prices and slowing global trade. Imports fell on lower imports of consumer goods and energy products.

• International copper prices declined to their lowest level in two years on fears that US-China tensions will hit demand for the metal.

• In June, the Central Bank cuts its benchmark interest rate by 50 basis points to 2.50%, the sharpest reduction in a decade, citing weak growth and the lack of inflation.

• To bolster growth and job creation, the government has announced a stimulus program, bringing forward US$1.4 billion of infrastructure spending.

• The impact of the depreciating peso on energy prices increased inflation during the second quarter, but the government's Consumer Price Index is not expected to return to the Central Bank's medium-term target of 3.0% until the end of next year.

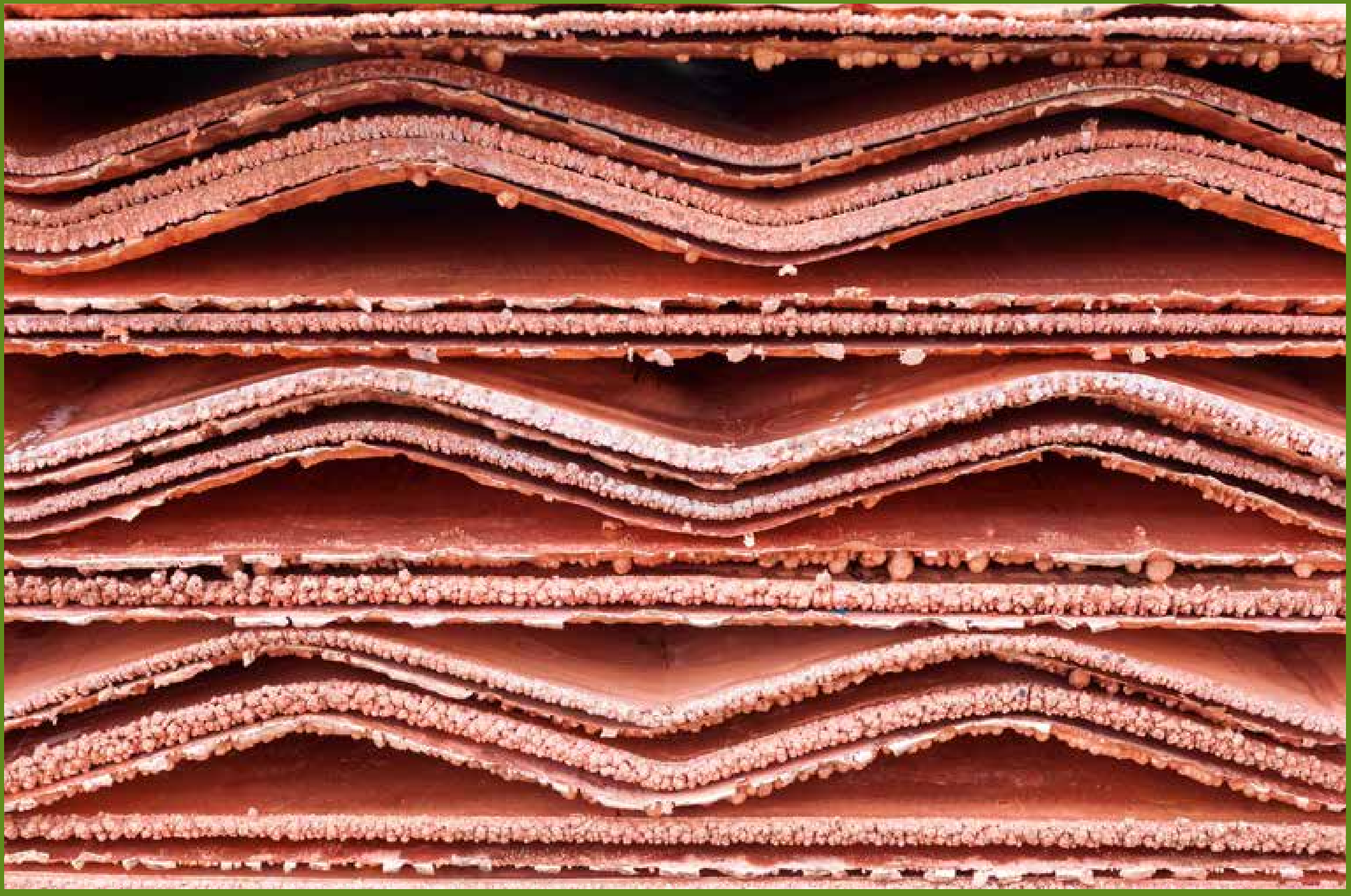
• Unemployment has continued to rise, reaching in 7.1% in the April-to-June quarter. Job creation continues to be led by the public sector.

• Chileans have grown increasingly pessimistic about the economy with consumer confidence falling to a two-year low and business confidence reaching its lowest level so far this year.

• The government aims to complete approval of its flagship pension and tax reforms by the end of this year after making significant concessions to opposition lawmakers who control Congress.

1

DOMESTIC ECONOMIC PERFORMANCE



1.1 GDP Growth

After a weak start to 2019, the Chilean economy improved only slightly in the second quarter, growing by 2.1% and 2.3% in April and May respectively, according to preliminary figures.

The acceleration in April (from growth of 1.6% in the first quarter) reflected stronger activity in the mining industry, which expanded for the first time this year (by 1.9%), while the rest of the economy grew by 2.1%. In May, mining activity contracted (by 2.3%, due to lower copper production - see 2.2 Mineral Exports), but this was offset by a 2.8% expansion in the rest of the economy, driven by robust services activity. Analysts surveyed by the Central Bank in June predicted that the economy will grow by 2.5% in the second quarter.

Weak economic activity during the first six months of the year as well as deteriorating conditions in the global economy – mostly the result of the US-China trade war – have led analysts to reduce their growth forecasts for this year. In June, the Central Bank predicted that the Chilean economy would grow by 2.75-3.50% this year, down from 3.00-4.00% forecast in April.

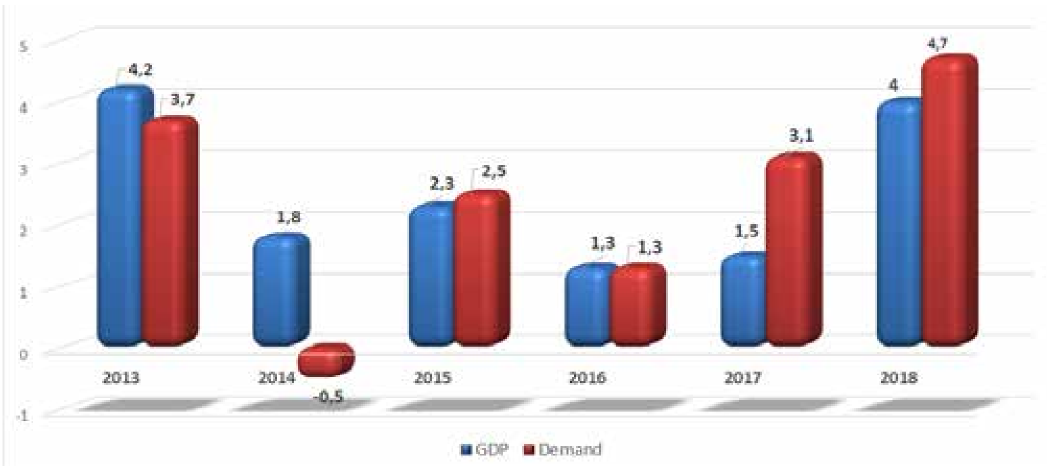
Analysts surveyed by the Bank in July predicted growth of 2.8%, down from 3.6% at the end of last year, while the International Monetary Fund forecast growth of 3.2%, down from 3.4% previously.

Finance Minister Felipe Larraín has said that the economy could still grow by more than 3.00% in 2019 as long as Congress passes the government's tax reform legislation by the end of the year.

These forecasts suggest that economic activity should strengthen significantly during the second half of the year. Analysts predicted growth of 3.5% for the third quarter.

Demand grew by 2.8% in the first three months of 2019, down from 4.7% in 2018 and 4.5% in the fourth quarter of last year. The decline was principally due to slowing investment. Fixed Gross Capital Formation grew by just 2.9% in the first quarter, compared to 5.6% in the final quarter of 2018. This was largely due to a sharp slowdown in investment in machinery and equipment which grew by 3.3% in the first quarter (down from 12.1% in the

GDP & Domestic Demand, 20103-2018
(Base = 2013; variation over same period of previous year) (%))



fourth quarter of last year) while spending on construction and other works grew by 2.7%, up from 2.1% three months earlier.

Imports of capital goods, a lead indicator for investment, reached US$7.2 billion in the first six months of the year, little changed from the same period of last year.

Private consumption grew by 2.9% in the first quarter, down from 3.1% in the previous quarter. Although spending on durable goods fell 1.2% in the first quarter (reflecting lower car sales), after growing by 4.8% in the previous three months, this was partly offset by a 5.1% increase in spending on services (particularly private healthcare and tourism) and a 1.9% increase in spending on non-durable goods.

Business confidence declined during the second quarter amid concern over the trade war, the government's legislative difficulties and the Chilean economy's weaker-than-expected performance so far this year. The Monthly Business Confidence Indicator produced by the Adolfo Ibáñez University and the ICARE business organization reached 50.16 points in June, its lowest level since December. The sharpest falls in optimism were recorded among executives in the manufacturing and retail sectors.

Consumer confidence has continued to fall in the face of rising unemployment and the gloomier economic outlook. In May, GfK's Economic Perceptions Index fell to 37.8 points, its lowest level since early 2017 and down from 52.7 points twelve months earlier. Consumers felt less confident about the current state of the economy and their own economic situation, especially their ability to buy consumer durables. Concerns about the labour market have stabilized although at a very low level (33.4%)

1.2 Key Sector Results

Commerce. Commercial activity expanded by 5.5% in the year to May, driven principally by wholesale activity on higher sales of fuels and machinery and retail activity which rose by 3.9%, largely on clothing sales.

According to car industry association ANAC, car sales during the first six months of the year reached 187,020 units, down 7.5% from the first half of 2018.
Manufacturing. Manufacturing activity expanded by 1.9% (and by 2.6% on a seasonally-adjusted basis) in the twelve months to May, driven largely by a 25.5% increase in production of chemical products (due to increased availability of natural gas imported from Argentina) and a 9.2% rise in production of metallic products, reflecting higher demand from the mining industry. Output of paper products fell by 9.5% over the same period.

Construction. Building activity increased in the second quarter. The construction activity index produced by the Chilean Chamber of Construction rose by 2.2% in the twelve months to May, up from 1.6% to the end of March. However, there are troubling signs.

Sales of building materials rose by just 1.8% in the year to April, down from 5.8% twelve months earlier, while new residential permits fell by 25.5% over the same period, following a 30.6% increase last year.

1.3 Monetary Policy

On June 7th, in its fourth meeting of the year, the board of the Central Bank unanimously decided to cut its benchmark interest rate by 50 basis points to 2.50%. The Bank said that the move – the largest interest

COMPASS
GROUP

“Reafirmamos nuestro compromiso de disminuir el 50% de residuos de alimentos para el año 2030“

La pérdida y desperdicio de alimentos es un problema relevante en todo el mundo, alrededor de un tercio de la producción mundial de alimentos termina en la basura, incrementando inútilmente las emisiones de gases de efecto invernadero.

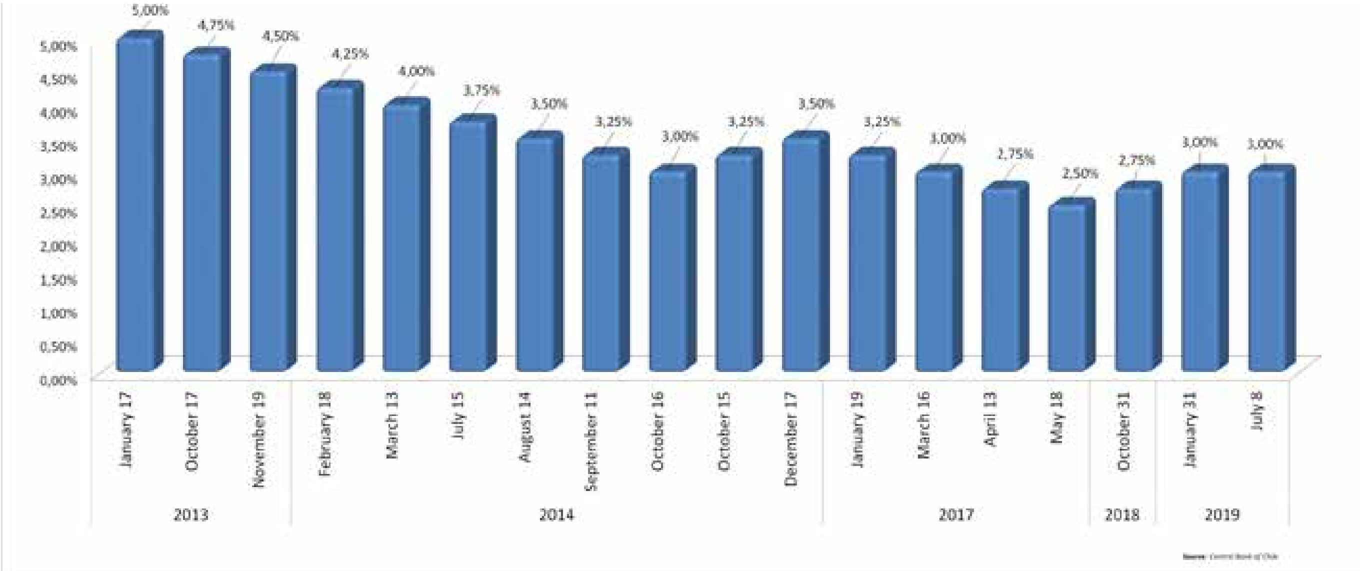
En Compass Group llevamos años trabajando en nuestras operaciones de todo el mundo, para lograr nuestra meta de reducir el 50% del desperdicio de alimentos para el año 2030, estando en línea con el Objetivo de Desarrollo Sostenible de las Naciones Unidas. Lo anterior esta enmarcado bajo la gran campaña mundial **“Stop Food Waste Day”**, la cual contempla la sensibilización del tema hacia nuestros clientes y comensales, así como también crear y compartir soluciones innovadoras y de impacto en nuestros centros.

Sigue esta iniciativa en las redes sociales usando el hashtag: #stopfoodwastedays

@stop_food_waste_days   @stop food waste days   @_Stopfoodwaste_

www.compass-group.cl

Central Bank Interest Rate, 2013-2019
(%, annual nominal rate)



rate cut since the global financial crisis a decade ago - was necessary to reinvigorate the sluggish economy in the face of deteriorating external conditions, while two years of low inflation suggest that there is little danger of the economy overheating.

The move took markets by surprise – although minutes showed that the Board had discussed a cut at its previous meeting on May 9th, none of the traders surveyed by the Bank ahead of the June meeting expected it to lower the rate. Key to its decision were estimates that the large number of largely working-age immigrants who have arrived in Chile over the last two years have lifted the country's potential GDP, suggesting that the activity gap in the economy was larger than previously thought.

Analysts surveyed by the Central Bank in early July predicted that the board will implement another cut by the end of the year to reduce the rate to 2.25%.

Traders surveyed by the Bank said that the cut could occur as soon as September.

These expectations strengthened after the board's July 12th meeting where one board member voted in favour of a 25bp cut while his colleagues voted to leave the rate unchanged.

1.4 Fiscal Policy

To boost the flagging economy, President Sebastián Piñera announced in June that the government will bring forward US$1.4 billion of public investment in hospitals, road improvements and other projects that are expected to create 12,000 new direct jobs.

The government now estimates that government spending is expected to rise 4.0% this year to CLP47.7 trillion (US$70.2 billion), slightly more than previously expected as a result of the additional infrastructure spending.

Revenues will rise by just 1.6% this year to CLP43.4 trillion (US$63.8 billion), down from the 3.1% increase forecast last March. The reduction is largely due to slower economic activity than previously expected, reducing income from the non-mining part of the economy, and a lower copper price which will hit revenues from state copper company Codelco.

As a result, the government deficit is expected to rise to 2.1% of GDP by the end of the year, up from 1.8% forecast in March. However, Finance Minister Felipe Larraín stressed that the public sector's structural deficit (calculated according to long-term estimates for GDP growth and the copper

price) will end the year at 1.6% in line with the government's aim of reducing the deficit 0.2% annually to reach 0.8% by 2023. Revenues during the first six months of the year reached CLP21.5 trillion (US$30.3 billion), up 1.0% from the same period of 2018, as increased revenue from private mines was offset by lower income from Codelco. Taxes paid by the rest of the economy fell by 0.5%.

Government spending rose over the same period by 2.7% to CLP22.2 trillion (US$31.2 billion), driven by increased spending on education and healthcare and increasing the public deficit to 1.8% of forecast GDP.

By the end of the first quarter, public debt reached US$73.1 billion, the equivalent to 25.7% of GDP, and is expected to reach 26.9% of GDP by the end of the year. Despite its stated aim of bringing debt under control, the government now expects the figure to continue rising over the life of the current administration to reach 28.2% by 2023.

In May, the government constituted the new Autonomous Fiscal Council. The council's five members, named by the president to sit fixed terms of up to five years, will report regularly on the medium and long-term sustainability of public finances, issue opinions on deviations from the government's structural balance target and propose mitigation measures.

Lawmakers have revoked legislation under which 10% of Codelco's revenues are diverted directly to Chile's armed forces (raising US$20 billion since 1985). The move will give the mining company more room to finance badly-needed investments at its operations while, under legislation yet to be sent to Congress, lawmakers will gain more oversight over military spending.

In June, the government issued bonds totalling US$2.4 billion, including US$1.5 billion denominated in US dollars and the rest in Euros. The bonds were certified under the Climate Bonds Initiative as supporting sustainability policies and are the first green bonds to be issued by a South American government.

Chile's sovereign credit ratings were unchanged.

• Fitch Ratings	A (stable)
• S&P Global Ratings	AA- (stable)
• Moody's	A1 (stable)

The value of assets held in Chile's two sovereign wealth funds reached US$25.6 billion by the end of May, up 2.4% from the end of last year. The rise was driven by the growth of the Pensions Reserves Fund, which expanded by 4.6% to US$10.1 billion, thanks to capital gains made during the first three months of the year.

However, it lost US$93 million in May alone following losses on global stock markets.

1.5 Domestic Prices

Inflation increased in the second quarter, largely reflecting the impact of higher fuel prices and electricity tariffs.

Although the Consumer Price Index was flat in June, resulting in an increase of 2.3% over the previous twelve months (up from 2.0% in March), it followed monthly increases of 0.5% in March, 0.3% in April and 0.6% in May.


DESCUBRE
LO QUE PODEMOS
CONSTRUIR JUNTOS

These sharp monthly increases followed increases in energy prices, especially of petrol, following a rise in global oil prices, and household electricity bills as tariffs were adjusted to reflect the depreciation of the Chilean peso against the US dollar.

Discounting volatile energy and food prices, core inflation has remained steady at around 2.0% since the start of the year.

Despite the increase in inflation in the second quarter, inflation expectations have remained steady. Analysts surveyed by the Central Bank in July predicted that the Consumer Price Index will end the year at 2.7%, unchanged from three months earlier. The index should return to the Bank's medium-term target of 3.0% by the end of 2020, they said.

1.6 Employment and Wages

Unemployment has risen this year to average 7.1% in the three months to June, up from 6.7% at the end of 2018 but down from 7.2% in the same quarter of last year. The increase in the jobless rate reflects the expansion of the workforce (up 1.0% in the year to June) at a similar rate to the number of people in work (up 1.0%). In July, President Piñera attributed the increase in unemployment to rapid immigration into Chile which had inflated the size of the workforce (See 3.0 Insight).

Job creation has improved only slightly this year (up from 0.7% in December) and public spending rather than private investment explains most of the increase. Education, healthcare and government administration

AFP Assets Under Management
(February 2019)

Type of fund	Amount (billions of pesos)	Change March 2018 - February 2019 (%, real in pesos)	Return March 2018 February 2019 (%, adjusted for inflation)	Limits on Equity Investments (% of fund assets)	
				Maximum	Minimum
A Funds	20,098	1.1	-1.28	80	40
B Funds	22,570	5.7	-0.08	60	25
C Funds	49,362	3.8	2.07	40	15
D Funds	23,702	9.9	3.53	20	5
E Funds	22,608	13.8	4.37	5	0
TOTAL	138,342	6.2		-	-

Source: Pensions Supervisor (Superintendencia de Pensiones)
In March, a newly-created pension fund administrator AFP Uno won the tender to attend all new pensions contributors over the next two years, offering a commission of 0.69%. No other AFP participated in the annual tender. It is the first new AFP to be awarded contributors since AFP Modelo in 2007.

Entregando soluciones de valor para el futuro

Wood suministra servicios específicos para proyectos mineros desde la consultoría inicial hasta el diseño, administración y construcción de proyectos, soporte a las operaciones y cierre de minas, con las capacidades de apoyar las minas del futuro.

Próxima generación en minería

Wood le está dando forma al futuro de la minería a través de la entrega de soluciones de gestión de datos, automatización y controles digitales que transforman los proyectos existentes y nuevos de hoy, en las operaciones mineras del mañana.

have created most jobs over the last twelve months while 22,000 manufacturing jobs have been lost over the same period.

However, official statistics may be underestimating the number of jobs created by the economy, the government said. Pensions data showed that the number of people in formal employment expanded by 2.8% (to 5,467,737 people) in the twelve months to March, compared to the 2.1% expansion captured by the government's jobs survey.

Wage growth has accelerated with nominal wages growing by 5.1% in the twelve months to May (or 2.3% when adjusted for inflation), compared with a 3.8% rise in 2018. The rise reflected higher pay in the retail, manufacturing and construction sectors.

1.7 Financial Markets

Share prices on the Santiago Stock Exchange have declined in recent months in line with losses on share markets around the world. The Selective Share Price Index (IPSA) ended July at just under 5,000 points, down 2.6% from the end of last year and down 8.5% from twelve months earlier.

Trading volumes in the second quarter reached CLP7.6 trillion (US$11.1 billion), up 16.8% from the first quarter, after Cencosud Shopping SA completed the largest Initial Public Offering ever held on the Santiago Stock Exchange. Parent company Cencosud raised US$1.1 billion by selling a 28% stake in the shopping centre operator.

A proposed listing of meatpacker Athena Foods was suspended in May after heightened China-US tensions triggered volatility in financial markets globally.

Bank lending grew by 9.3% in the twelve months to May to reach CLP178.6 trillion (US$262.5 billion), marking a slight slowing from the first quarter of the year.

Corporate lending reached CLP104.7 trillion (US$153.8 billion) over the same period, up 7.9%, compared to a 9.5% expansion in the year to February.

Consumer lending expanded by 11.3% to CLP78.4 trillion (US$112.6 billion), driven by a 17.4% rise in consumer loans and a 52.3% expansion in credit card debt (following the incorporation of two major store cards into the banking sector). Mortgage lending rose by 8.4% to CLP51.9 trillion (US$74.6 billion).

The banking industry recorded profits of CLP1.1 trillion (US$1.6 billion) during the first five months of the year, up 3.9% from twelve months earlier, boosted by an 8.1% increase in income from interest payments. Return on equity after tax (ROE) reached 12.3%, little changed from twelve months earlier. Medium-term (1 to 3 years) lending rates declined in the second quarter of the year, falling from 16.2% in March to 10.2% by the end of June. Mortgage rates fell to below 3.0% in June, their lowest level in seventeen years.

The value of assets managed by Chile's private pension fund administrators (AFPs) reached CLP145.1 trillion (US$213.6 billion) by the end of May 2019, up 10.0% from twelve months earlier, as the appreciation of the US dollar against the Chilean Peso offset the fall in asset prices around the world.

The depreciation of the peso and stock market losses made the conservative D and E funds the most profitable over the previous 12 months (achieving returns of more than 7.0%), while the riskier A and B funds returned 1.7% and 2.7% respectively.

The value of the AFPs' overseas assets rose to CLP61.2 trillion (US$90.1 billion), up 6.9% from twelve months earlier, equivalent to 42.3% of the total assets under management.

This year pension savers have tended to switch to more conservative funds. Of the 636,927 savers who moved to a new funds during the first four months of the year, 63% moved from either A or B funds to C, D and E funds. The C funds saw the biggest net gains, adding 54,415 savers, while the A funds lost a net 47,617 savers.

AFP Modelo has become the second largest AFP by number of affiliates after growing to 1.98 million by the end of May, behind AFP Provida with 2.97 million. Its numbers have swelled by around 24% over the last year attracted by commissions which are the second lowest in the industry.

Why wait for a data protection law in Chile, if a standard GDPR already exists

The General Data Protection Regulation (GDPR) has already been implemented in Europe. What are the initial impacts for european companies, and how will the awaited Chilean legislation impact businesses here?

On Wednesday the 7th of August, Britcham's Corporate Governance Committee collaborated with EY Chile to host a forum where they approached this very subject.

Greg Holland, CEO of Britcham, welcomed attendees and introduced **Philip Somervell** as the new President of Britcham's Corporate Governance Committee, who in turn introduced the panel of experts: **Héctor Lehuedé,** former Manager of the Corporate Affairs and Corporate Finance Division of the OCDE; **Matías Romano,** Head of Financial Crime and Regulatory Compliance, HSBC; **Pablo Belmar**, Chief Information Security Officer, BUPA Chile; and **Marcelo Zanotti,** Lead Partner of Risk Advisory Services, EY.

Background: The European General Data Protection Regulation (regulation 2016/679) intends to strengthen and unite data protection for everyone within the European Union (EU), and includes personal data sent outside of the EU. Its principal objective is to give citizens and residents control of their personal data, and it also extends the scope of application of EU data protection legislation to all foreign companies that process data from EU residents. It provides a harmonization of data protection regulations throughout the EU, thus facilitating non-European companies to comply with these standards. However, this occurs at the cost of a strict regime of compliance with data protection with severe penalties of up to 4% of the global turnover.

The Regulation was adopted on the 27th of April 2016, and enforced from the 25th of May 2018 after a transition period of 2 years. It replaced the Data Protection Directive (officially known as Directive 95/46/CE) of 1995. Unlike a directive, it does not require national governments to pass any enabling legislation, so it was directly binding and applicable.

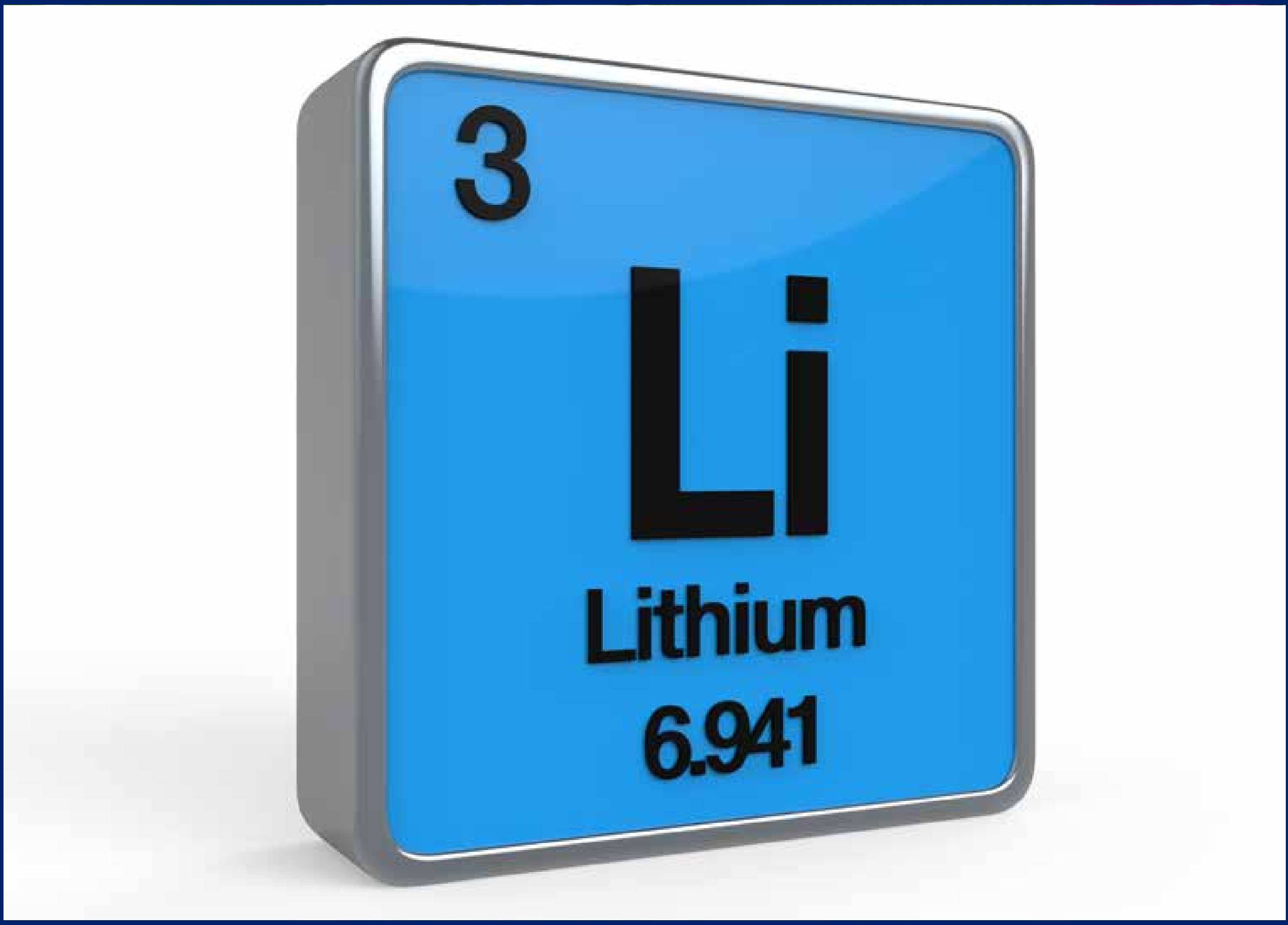
The opening presentation from Héctor Lehuedé emphasised the critical relationship between data protection and corporate governance, and why boards of directors and top management are having to ensure that good policies and procedures had been implemented and continually improved, and that staff at all levels are being properly trained and assessed. He emphasised why countries and businesses should take personal data protection seriously, and discussed the risks that non compliance involves.

He continued by pointing out the difference between, and the connection between Data Privacy and Data Security; the first is concerned with who has, and grants access to that data, and what for, and the second is concerned about securing data against unauthorized access.
He then discussed the current situation in Chile, which currently has its own version of Data Protection legislation currently in congress. In comparison with some of it's regional peers, Chile seems to be late in moving on from it's existing regulations which date back to the 90's.

Matías Romano from HSBC and Pablo Belmar from BUPA Chile approached the subject of how companies are collecting personal data and how they must be prepared to tackle the laws of foreign privacy. Both HSBC and BUPA need to collect and hold significant amounts of their customers personal data, and Matias and Pablo advised that businesses have a responsibility to stay updated and constantly vigilant of any new cybercrime threats.

Likewise, Marcelo Zanotti from EY highlighted the complex issues that multi-national organisations face concerning different cultures and traditions across continents, which complicate even further the harmonizing of policies, procedures, training and compliance about Data Protection. He advised that in order to be prepared for the implementation of the new Chilean regulations, there is still a lot of room for improvement in the way that new technology is being incorporated into the organizational environment, and that in some cases the security mechanisms that allow the protection of vital data in an efficient and low-cost manner do not yet exist.

2
EXTERNAL SECTOR



2.1 Trade Balance

Chile recorded a trade surplus of US$1.3 billion in the second quarter, down 12.3% from the same period of 2018, as exports and imports both fell sharply. Exports fell 8.0% to US$17.5 billion, their lowest level in two years on lower commodity prices and the slowdown in global trade caused by the US-China trade war. Imports fell 7.6% to US$16.2 billion.

Imports

The fall in imports was led by declines in consumer goods and intermediate goods, including energy products.

Imports of consumer goods fell by 9.3% to US$4.9 billion in the quarter, as Chile imported fewer consumer durables.

Imports of cars and mobile telephones both fell by 27.3% (to US$740 million and US$336 million respectively) while imports of computers and televisions rose.

Energy imports fell 8.5% to US$2.9 billion reflecting the fall in oil prices since last year. A 2.0% rise in imports of crude oil to US$1.1 billion was offset by lower imports of coal, diesel and liquefied natural gas. Imports of diesel fell 14.8% to US$796 million while imports of coal fell 13% to US$251 million Imports of LNG fell 23.6% to US$258 million as Chile resumed imports of natural gas from Argentina in significant volumes. These rose almost sixteen-fold to US$93 million.

The West Texas Intermediate benchmark price, used by state energy firm ENAP for pricing fuel imports, averaged US$59.80/barrel in the second quarter, up slightly from the first quarter but down from US$67.90/barrel twelve months earlier.

In July, the Organization of Petroleum Exporting Countries (OPEC) and its allies, including Russia, agreed to extend 1.2 million barrels/day of production cuts until early 2020. Concern over slowing demand has been balanced by the impact of US sanctions against Iran and Venezuela.

Imports of other intermediate goods fell 8.5% to US$5.8 billion on lower imports of metallic goods (down 11.4% to US$755 million) and chemicals (down 8.1% to US$961 million).

Imports of capital goods reached US$3.6 billion in the second quarter, down 1.5% from twelve months earlier. Lower imports of lorries (down 15.6% to US$505 million) and generators, motors and turbines (down 21.6% to US$175 million) were partly offset by a 48.8% increase in imports of construction and mining equipment (to US$287 million).

Exports

The value of Chile's non-mineral exports reached US$8.3 billion during the second quarter, down 7.5% from twelve months earlier as agricultural and industrial exports both fell. Agricultural exports reached US$1.6 billion, down 10.7%, as fruit exports fell 8.5% to US$1.4 billion on lower shipments of grapes, apples, and kiwi.

According to the fruit exporters' association ASOEX, the volume of fruit exported during the 2018-2019 season (September to May) fell 1.1% to 2.1 million tons. While exports to the industry's main markets, the US and the Far East, rose (by 6.7% and 7.5% respectively), these were offset by a 16.9% drop in shipments to Europe (partly due to increased competition from Peruvian producers).

Chile has begun exporting pears to China, opening a major new market for the country's fruit farmers, following an agreement signed during President Piñera's visit to Beijing in April.

Industrial exports fell 6.7% to US$6.7 billion in the quarter, reflecting a sharp fall in exports by the forestry industry.

Pulp and paper exports fell 19.1% to US$809 million driven by a 26.7% decline in exports of short-fibre pulp (Eucalyptus) to US$293 million. Exports of long-fibre pulp (Radiata pine) fell 8.6% to US$316 million. The decline reflects lower pulp prices which have fallen, in the case of short-fibre pulp, by around 33% to US$520 a ton over the last year (See Box: Caught in the Trade War). Exports of timber products fell 2.6% to US$598 million on lower exports of plywood and sawn lumber.

Chile's salmon exports reached US$981 million in the second quarter, down 0.9% from twelve months earlier while exports of trout rose 14.4% to US$142 million.

In June, fisheries authority SERNAPESCA reported that it had recorded a sharp drop in fish mortality due to disease in the industry, boding well for the health of fish stocks. However, in July, the regulator announced legal action against Nova Austral after the salmon producer was found to have misreported mortality rates at its operations in the Magallanes region.

The value of Chile's wine exports reached US$504 million in the second quarter, up 6.6% from twelve months earlier, reflecting a 22.7% increase in shipments of bulk wine to US$100 million.

Principal Exports

	Apr-Jun 2018 (US$ mill.)	Apr-Jun 2018 (US$ mill.)	Variation (%)
Copper	9,118	8,498	-6.8%
Molybdenum	480	410	-14.5%
Fresh fruit	1,505	1,377	-8.5%
Salmon & trout	1,113	1,122	0.8%
Wood pulp & cardboard	1,000	809	-19.1%
Timber products	614	598	-2.6%
Wine	473	504	6.6%

Source: Central Bank of Chile

Caught in the trade war

Chile's open trade policy has made it one of the fastest growing economies in Latin America during the last three decades. But it also made it the most vulnerable when its two largest trade partners – China and the US – launched a dispute over tariffs last year.

Chile's exports fell almost 6% during the first six months of 2019 as the dispute slowed global trade. Chile feels the effects of the trade war in two ways.

Firstly, directly, as tariffs imposed by authorities in Washington DC and Beijing divert trade flows.

According to Chile's new Secretariat for International Economic Relations, Chilean exports of lithium derivatives to China during the first five months of the year fell 91% as US sanctions on Chinese-made lithium batteries hit demand for the mineral.

These diversions can bring benefits. For example, Chinese tariffs on US wine have created additional demand for Chilean wine in the country. But these gains have been largely offset by the loss of market share in other countries, for example, as US wineries sell more wine domestically or divert shipments once bound for China to other markets where they compete with Chilean wine.

Secondly, the trade war has had an indirect impact by reducing global trade in general, increasing uncertainty among investors and slowing the global economy.

This reflects not just the impact of tariffs already imposed but also fears that protectionism is on the rise in general. In recent months, US President Donald Trump has threatened India, Mexico and Turkey with trade measures after they incurred his wrath for a range of reasons.

Adding to the turmoil is the United Kingdom's upcoming withdrawal from the European Union, possibly before new trading arrangements can be negotiated (although Chilean exporters will be protected by a new association agreement now in Congress).

Copper prices, a trusted bellwether of the global economy, have fallen sharply since April after hopes of an early end to the trade war dissipated. The lower copper price has accounted for around a third of the fall in Chilean exports this year. Pulp prices have also fallen sharply as US tariffs on Chinese imports hit demand for paper and cardboard in the world's second largest economy.

Chile's best defence against increased protectionism is its raft of 26 free trade agreements which allow exporters to switch to new markets with minimum fuss when others close.

While exports to China, Europe and the US have all fallen this year, Chilean exports to Japan and South Korea have risen by 4.7% and 19.8% respectively.

Chile's trade negotiators continue to spy out new opportunities with new expanded deals currently under negotiation with the European Union and South Korea Meanwhile, the Comprehensive and Progressive Trans-Pacific Partnership signed in Santiago last year would tighten Chile's links with ten economies on both sides of the Pacific. Lawmakers are expected to ratify the deal later this year, allowing Chilean exporters to take advantage of its benefits, including increased access to agricultural markets in Canada, Japan, Malaysia and Vietnam.


Tu riesgo de seguridad es complejo.
Nuestras capacidades de seguridad
son completas.
Y nuestros valores nos fortalecen.

According to industry association Wines of Chile, shipments of bottled wine during the first five months of the year were little changed at US$612.5 million or 21.5 million boxes. While exports to China, the largest market for Chilean wine, rose 5.6% to US$108 million during the period, exports to the US, its second largest market, fell 6.1% to US$61 million. Exports to the UK fell 2.1% to US$57 million.

2.2 Mineral Exports

Mining activity has recovered after a weak start to the year blighted by torrential rains, lower ore grades and maintenance shutdowns. During the second quarter, copper production reached 1.429 million tons, unchanged from the same period of last year, but up 5.4% from the first three months of the year.

Statistics agency INE said that higher ore grades and throughput at several large mines lay behind the rise, offsetting the impact of a strike by workers at the state-owned Chuquicamata mine in June.

Around 3,200 unionized employees held a two-week strike at the mining and smelting complex before approving a new pay deal with state copper company Codelco. Codelco said that the protest roughly halved production at the site.

In July, the Chilean Copper Commission forecast that Chile would produce 5.83 million tons of copper this year, matching last year's record, but down from a previous forecast of almost 6.0 million mt.

International copper prices averaged US$2.77/lb during the second quarter, down from US$2.81/lb in the first quarter and US$3.12/lb twelve months earlier.

Prices fell on fears that increasing tensions between the US and China will impact demand for the metal, declining from an average of US$2.92/lb in April to US$2.73/lb in May and US$2.66/lb in June.

However, after falling to their lowest levels in two years in late May, prices moved back above US$2.70/lb in July after US President Donald Trump agreed not to impose further tariffs on Chinese imports. The decline has forced analysts to revise their price forecasts downwards. In June, the Central Bank reduced its forecast for 2019 to US$2.80/lb, down 10 cents from March, while the Chilean Copper Commission estimated that copper prices will average US$2.81/lb this year, down from a previous estimate of US$3.05/lb.

The rise in copper production has lifted the value of Chile's mineral exports but these remain below 2018 levels. Mineral exports reached US$9.2 billion in the second quarter, up from US$8.8 million in the previous quarter but down 8.4% from the same period of last year.

The sharpest fall was in shipments of refined copper which fell 20.4% in the quarter to US$3.4 billion. Exports of copper concentrates rose 10.8% to US$4.8 billion as Codelco exported more unrefined metal due to prolonged shutdowns at its Chuquicamata and Potrerillos smelters.

Molybdenum production reached 12,511 tons during the second quarter of 2019, down 14.2% from the same period of last year, reflecting the impact of lower ore grades and slower activity in copper mines where it is produced as a by-product.

Molybdenum oxide prices have strengthened since the start of the year to average US$12.13/lb during the second quarter, up from US$11.55/lb in the first quarter and US$11.26/lb twelve months earlier.

The fall in production and prices caused the value of Chile's molybdenum exports to fall 14.5% in the second quarter to US$410 million.
A 38 day-long strike by workers halted production at the Molymet Nos molybdenum processing facility south of Santiago, the largest in Chile, for most of June and July.
After rising sharply in recent years, exports of lithium carbonate fell 27.8% to US$199 million in the second quarter on lower prices for the mineral. Lithium carbonate prices fell to around US$10-11 a kilogram in late June, down more than 50% from twelve months earlier.

Exports of iron ore fell 33.6% to US$178 million as the closure of CAP Minería's Guacolda port (following an accident late last year) slowed shipments. Exports of gold and silver fell 7.5% to US$228 million.

Chile's largest coal mine Mina Invierno, located in the Magallanes region, is set to close in November after a court banned the use of explosives at the open pit operation. The mine supplies around 15% of the coal consumed by Chile's power industry and also exports to Asia and Europe.

2.3 UK Trade and Investment

Trade in goods between Chile and the UK during the first three months of 2019 reached US$339.6 million, down 0.5% from twelve months earlier. Chilean exports to the UK fell 2.6% to US$187.2 million, while UK exports to Chile rose 2.2% to US$152.4 million.

Chile's principal exports to the UK were blueberries (US$45.5 million), wines (US$31.3 million) and frozen chicken (US$11.3 million). UK exports to Chile included cars (US$25.1 million), lorries (US$8.5 million) and whisky (US$8.0 million).

In June, Chile's Chamber of Deputies approved a new Association Agreement between Chile and the UK. The Senate is now expected to approve the deal in the coming weeks. The agreement will ensure that trade between the two countries will continue under the same conditions set by Chile's Association Agreement with the European Union following the UK's withdrawal from the trade bloc. As well as confirming preferential tariffs in the UK for Chilean goods and vice-versa, the deal also sets quotas for some Chilean food products designed to replicate their treatment under the EU deal.

In July, London-based Anglo American presented an Environmental Impact Study for a US$3.0 billion investment at

Volatile lithium

Chile's plans to develop a new manufacturing sector based on its huge lithium reserves were dealt a severe blow when all three consortiums selected to produce battery materials from the mineral pulled out of the program.
Under the New Lithium Policy unveiled by President Michelle Bachelet three years ago, the government planned to go beyond Chile's traditional role of exporting raw materials and instead move up the value chain towards more advanced products
The country's two lithium producers Albemarle Corp and SQM are investing to significantly increase production of the mineral from the Salar de Atacama to meet rapidly growing demand for electric vehicles.

Under new contracts signed with economic development agency CORFO (which holds the minerals rights to the Salar), the two companies are required to sell at least 25% of the lithium they produce in Chile to domestic industry for processing.
Following a tender last year, CORFO named the three groups which could sign contracts to buy lithium at preferential prices from Albemarle, in exchange for which they had to develop manufacturing facilities in Chile.
The winners – a South Korean joint venture between Posco and Samsung, a Chinese consortium led by Sichuan Fulin Transportation Group Co, and Chile's Molibdenos y Metales – promised to invest a total of US$750 million in the coming years.

Since then, however, the process has been beset by problems.
Last year, CORFO almost launched arbitration proceedings against Albemarle after the two parties failed to agree on how to price domestic lithium sales, a move which could have delayed the investments by years.
They eventually resolved the dispute through negotiation.
Then in May, Posco announced that it was pulling out of its joint venture with Samsung due to problems with the nature of the lithium supply. Its manufacturing process requires lithium hydroxide, not the lithium carbonate that Albemarle plans to produce.

Since then, Molymet and Sichuan Fulin have also withdrawn having failed to reach supply agreements with Albemarle. No explanation has been given of why negotiations failed.

The setbacks suggest that Chile's plans to build on its lithium riches will not be as simple as first thought and do not bode well for a second tender (launched in April and due to close early next year) for lithium supplied by SQM.
Although the electrification of transport around the world promises a bright future for the mineral, the global lithium industry is changing rapidly.

The market is as volatile as lithium itself: after rallying to almost US$30,000 a ton last year, prices for lithium carbonate have since tumbled to US$10,000 a ton.
Meanwhile, the structure of the industry is in flux as battery manufacturers seek vertical integration with lithium producers and US and Chinese tariffs distort trade flows.

It remains to be seen whether Chile's plentiful and competitive resource will allow it to play a larger role in the lithium value chain.

its Los Bronces copper mine designed to maintain production at current levels for another decade. Although part of a proposed underground mine lies below a nature sanctuary, the company has promised that the project will not impact water consumption, glaciers or biodiversity in the area.

2.4 Current and Capital Accounts

Chile recorded a current account deficit of US$1.0 billion in the first quarter of 2019 (equivalent to 1.4% of GDP), up from US$337 million in the same period of last year.

The expansion of the deficit reflected the fall in Chile's trade surplus following a decline in exports, especially of minerals, and increased imports of services, especially transport and business services, as well as an increase in profits paid from Foreign Direct Investment into Chile.

In June, the Central Bank forecast that the deficit will decline this year to US$8.4 billion, or 2.9% of GDP, down from US$9.2 billion last year, but will grow to US$8.7 billion in 2020 as imports recover.

Capital flows

Chile's financial account was close to flat in the first quarter, compared to a deficit of US$171 million twelve months earlier, reflecting increased overseas investment by Chileans, particularly purchases of foreign shares by the AFPs and, to a lesser extent, by non-financial companies.

Foreign Direct Investment into Chile reached US$2.4 billion in the quarter, down from US$6.9 billion in the same quarter of 2018 (reflecting a major investment last year in the healthcare sector), while Chileans invested a total of US$2.1 billion overseas, down from US$2.3 billion twelve months earlier.

Financial investment into Chile reached US$1.2 billion, down from US$5.7 billion in 2018, while Chileans, including the AFPs, acquired a net US$3.5 billion worth of overseas financial instruments, especially funds, down from US$4.5 billion a year earlier.

conveniobritcham@cruzblanca.cl

cruzblanca.cl

Foreign debt and international reserves
Chile's foreign debt rose to US$186.7 billion by the end of March, up 1.2% from the end of last year, although relative to GDP, it fell from 67.1% to 65.7%. The slight increase was largely due to a 5.3% increase in government debt to US$24.3 billion while debt among non-financial companies rose 2.1% to US$74.5 billion.

Chile's international reserves reached US$38.7 billion by the end of March, down 3% from the end of 2018. The reserves were the equivalent to 6.7 months of forecast imports.

Confidence in Chile's finances has continued to grow with five-year Credit Default Swaps falling in the second quarter to 36 points, their lowest level in over three years and down from 59 points at the end of last year. Meanwhile, JP Morgan Chase's Emerging Market Bond Index (EMBI) for Chile averaged 137 basis points in June, down from 159 points in December.

2.5 Exchange Rate

Like other emerging market currencies, the Chilean Peso has depreciated against the US dollar in recent months as investors switch to more stable currencies in the face of increased uncertainty over the outlook for the world economy.

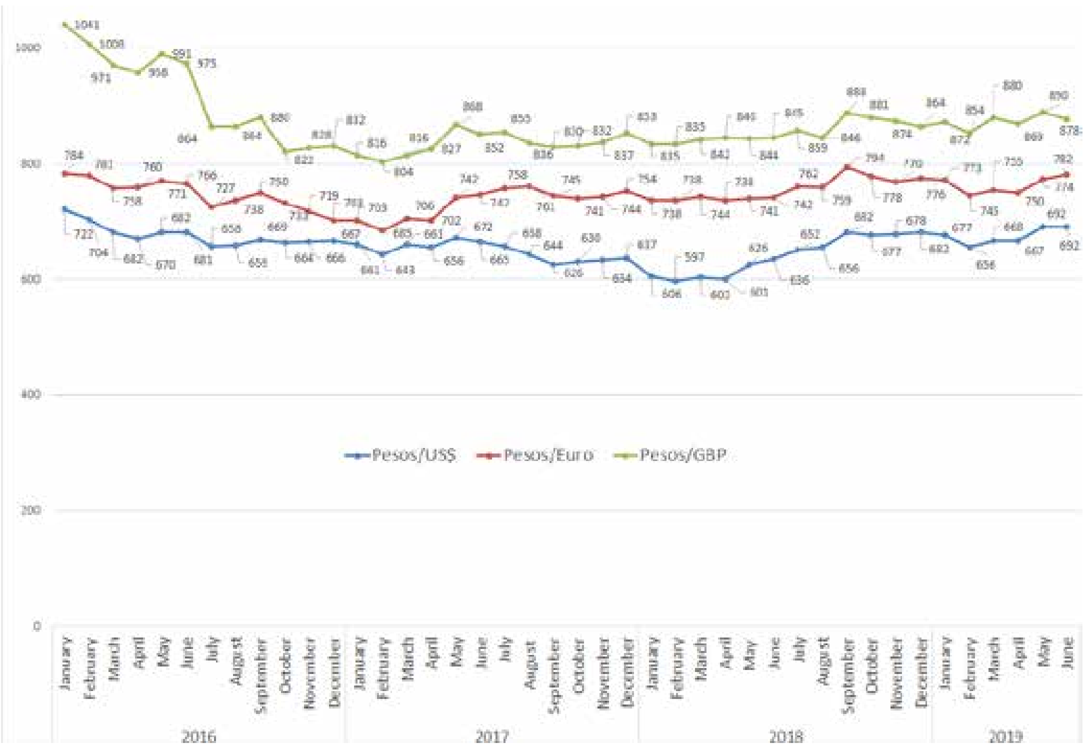
The peso/dollar exchange rate averaged 684 pesos/dollar in the second quarter of 2019, up from 667 pesos/dollar in the previous quarter and up from 602 pesos/dollar twelve months earlier. Analysts surveyed by the Central Bank in July predicted that the US dollar would move back towards 680 pesos/dollar during the third quarter and to 665 pesos/dollar over the next two years, compared to 650 pesos/dollar forecast three months ago.

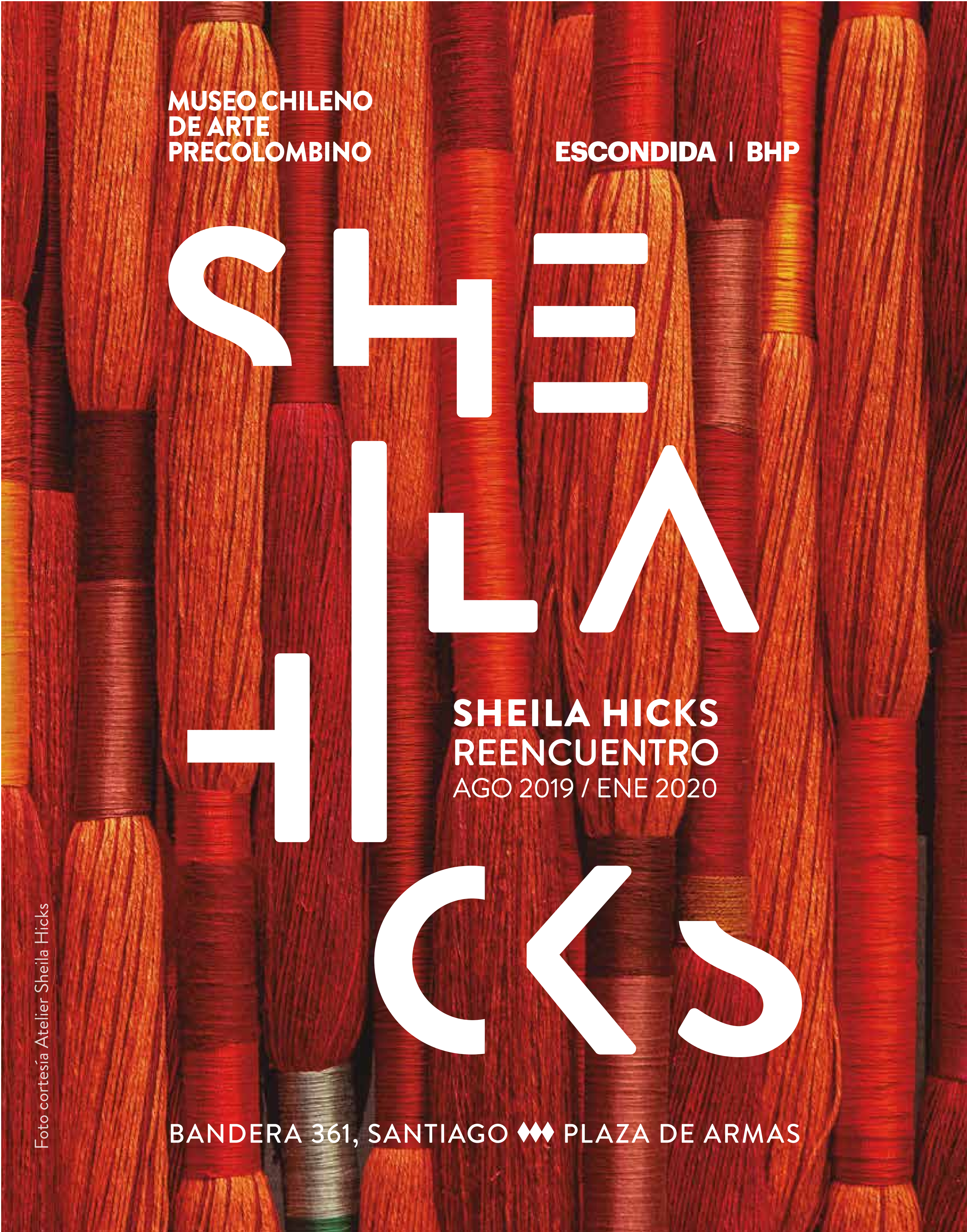
However, after pulling back below 680 pesos/dollar in early July on signs of a truce in the US-China tariff dispute, the exchange rate has since rallied, trading at over 710 pesos/dollar in early August after the US Federal Reserve announced a cut in interest rates.

The Euro has also appreciated against the Chilean peso, trading at an average of 768 pesos/euro during the second quarter, against 758 pesos/euro in the previous quarter and 740 pesos/euro twelve months earlier. Sterling traded at an average of 869 pesos/pound during the quarter, up from 859 pesos/pound in the first three months of the year and from 838 pesos/pound in 2018.

The real exchange rate – calculated by the Central Bank based against a trade-weighted basket of currencies – rose to a two-year high of 93.58 points by the end of May, up from an average of 90.74 points in 2018. In June, the Central Bank said that the rate is close to its long-term historic average and is expected to remain near these levels over the next two years.

Peso/Dollar Exchange Rate 2013-2019
Jan 2013 - 2019
(Monthly average, pesos/US$, pesos/Euro, pesos/pound)




MUSEO CHILENO
DE ARTE
PRECOLOMBINO
ESCONDIDA | BHP
SHE
ILA
HI
CKS
SHEILA HICKS
REENCUENTRO
AGO 2019 / ENE 2020
BANDERA 361, SANTIAGO
PLAZA DE ARMAS
Foto cortesía Atelier Sheila Hicks

3

QUARTERLY INSIGHT: THE IMPACT OF IMMIGRATION

3.0 QUARTERLY INSIGHT: THE IMPACT OF IMMIGRATIO

The biggest shift in the Chilean economy over the last five years – more than changes in government, the vagaries of the copper price or the expansion of the public debt – has arguably been the huge rise in immigration into the country.

The Interior Ministry estimates that immigration expanded the size of Chile´s foreign-born population from 490,000 in 2015 to 1.25 million by the end of last year, increasing the country's population by around 4%.

Two-thirds came from either Venezuela (43%) or Haiti (24%) and the rest mostly from other countries in Latin America and the Caribbean, particularly Colombia and Peru.

Even by international standards, the speed of immigration into Chile has been rapid with the majority arriving between April 2017 and December 2018 at the rate of almost 25,000 a month.

Economists are still trying to figure out what impact this rapid and unexpected expansion of the population will have on Chile's economy in the coming years.

Last year, the Central Bank's main concern was that the additional population would increase demand, stoking inflation. Later it suggested that the increase in the labour supply (the vast majority of new arrivals are of working age) was a factor in the fall in inflation during the early part of this year.

More recently, the monetary authority has adopted a different interpretation, highlighting that the incorporation of so many mostly young, educated people into the workforce gives Chile the chance to grow faster than previously estimated.

In its latest Monetary Policy Report published in June, the Central Bank increased Chile's potential GDP for the years 2019-2021 to 3.4% (up from 3.2% estimated in September last year) and trend GDP for the next decade to 3.25-3.75% (up from 3.00-3.50% previously) to reflect the impact of increased immigration since 2014.

The revised estimates were a key factor in the board's surprise decision to cut interest rates that month.
This faster growth is not a given.
As immigrants arrive, they will initially tend to find work in less skilled jobs with a negative impact on average productivity.

However, in time, the Central Bank noted, they should move to better paid jobs that make better use of their training (on average recent immigrants have more years of schooling than Chilean workers), allowing them to make a greater contribution to the economy.

But the Bank warned that the experience of other countries, especially in Europe, showed that this is not always the case. Legal barriers, a lack of contacts in the host country or reticence among employers to take on foreigners can slow this transition and delay the economic benefits of immigration.

Trapped in low-paying, informal jobs, new arrivals could instead bring down average wages and reduce potential GDP growth. Fortunately, most immigrants to Chile speak Spanish and share a similar culture which should facilitate their absorption into the workforce.

While increased immigration promises economic benefits, the speed and size of the influx brings other challenges.

Rapid population growth can increase demand for public services, like healthcare and education, and private ones, like housing, pushing up rents.

These pressures could increase over the coming years as the foreign-born population continues to grow. The Interior Ministry estimates that another 300,000-400,000 Venezuelans could arrive in Chile by the end of 2020, as they flee economic and political chaos at home and countries en route adopt more restrictive immigration rules.

If immigration outpaces the ability of the labour market to absorb new workers, it could aggravate social problems and increase the burden on the public sector as has occurred in Colombia (which has received more than one million Venezuelans in recent years).

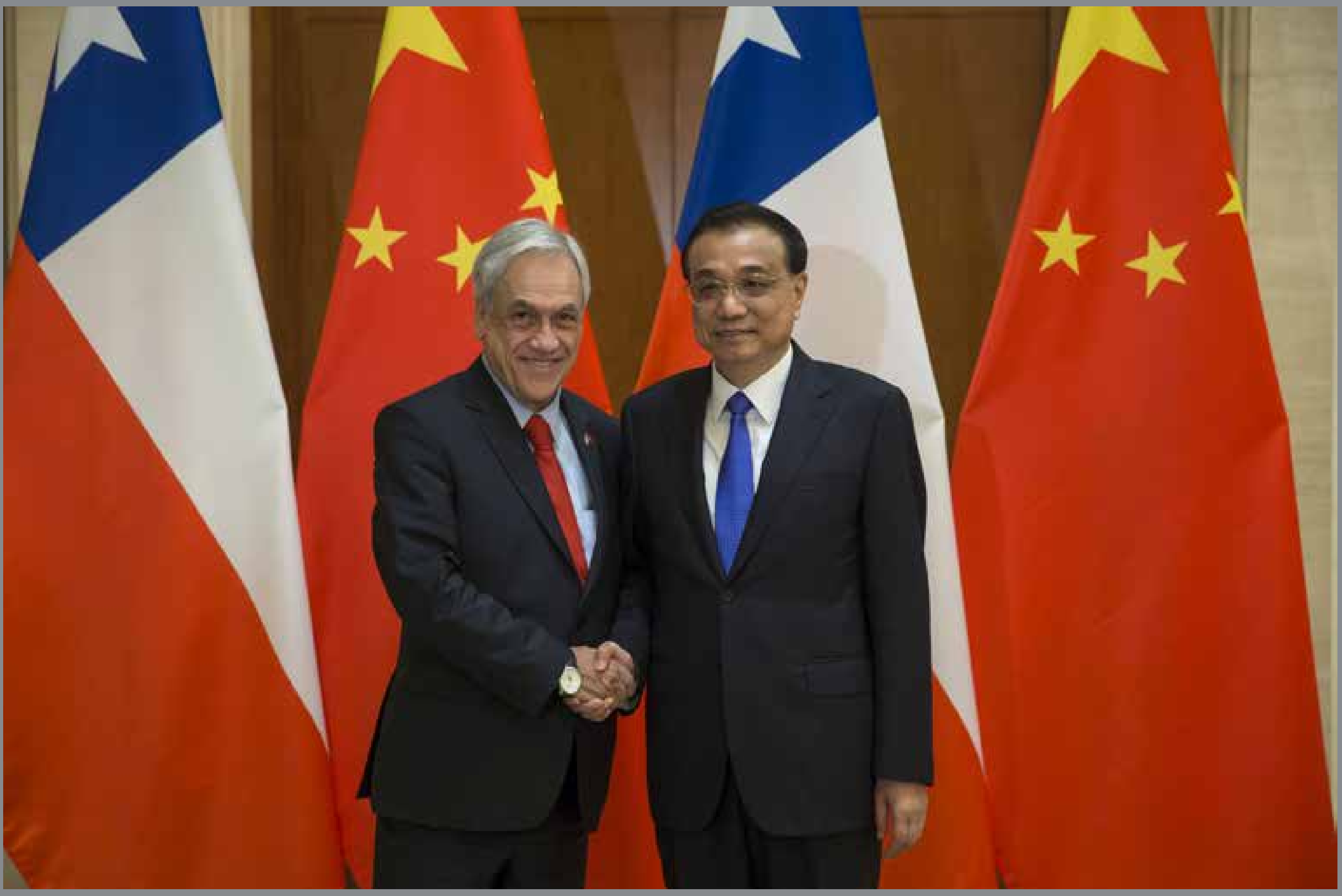
Reflecting public opinion on the issue, the current government has sought to bring immigration under control by introducing stricter rules. Last year, for example, it stopped visitors entering on 90-day tourist visas from applying for residency.

After these have failed to slow the numbers arriving, the government announced in June that Venezuelans will now have to obtain a tourist visa from a Chilean consulate before they arrive. A similar measure reduced immigration from Haiti to 40,000 last year from over 114,000 in 2017.

The decision caused chaos with hundreds of Venezuelans without the right documentation forced to sleep rough at the border or outside the Chilean consulate in Tacna, Peru.

The numbers of people coming into Chile to live will not only require new immigration rules but also changes in domestic policy, for example, additional investment in schools, as new residents decide to form families here, or lifting restrictions on how many foreigners a company can employ. Chile's ability to deal with immigrants at home and at the border will determine whether it can turn their unexpected arrival into a blessing.

4
POLITICAL CONTEXT



4.0 POLITICAL CONTEXT

The government has made significant concessions to opposition lawmakers in order to advance its flagship tax and pension reforms. In his annual address before Congress on June 1st, President Sebastián Piñera said he now aims to sign both bills into law by the end of the year.

On June 23rd, Finance Minister Felipe Larraín signed an agreement with leaders of the Christian Democrat party to push the tax reform legislation through the lower Chamber of Deputies in the coming weeks. In exchange for support for the bill's central measure of reintegrating corporate and personal income tax, the government agreed to tighter rules on tax evasion, lower property taxes for pensioners and additional payments to regions which host large investment projects.

Under modifications presented to its pensions reform bill in July, the government has agreed that an additional contribution by employers to workers' pensions should be managed by a public entity. The new Social Security Savings Council, an autonomous body with a similar constitutional status to the Central Bank, would tender management of the funds to private firms, including savings and loans cooperatives, fund managers, and insurance companies, but not the unpopular AFPs which manage around US$215 billion of workers' savings.

Support for the government has continued to fall amid the disappointing performance of the economy and the labour market and a series of political scandals. According to a survey in April, May and June of 1,380 voters by Centro de Estudios Públicos, a respected thinktank, support for the government has fallen to 25% of the population (down from 37% late last year), with a majority describing it as distant, incompetent, untrustworthy and weak. However, the centre-left opposition did not perform well in the poll either. Its most popular figures, such as Deputy Giorgio Jackson and former presidential candidate Beatriz Sanchez, trailed the right-wing Mayor of Las Condes Joaquín Lavín, by some way the country's most popular politician, by at least 20 points.

On June 13th, the day the survey was published, President Piñera carried out the largest reshuffle of his cabinet since taking office last year. Public Works Minister Juan Andrés Fontaine moved to Economy, Social Development Minister Alfredo Moreno moved to Public Works and the head of economic development agency CORFO Sebastián Sichel became Social Development Minister. The president also appointed three figures from his 2010-2014 government – Teodoro Ribera, Jaime Mañalich and Juan Carlos Jobet – to the Ministries of Foreign Relations, Health and Energy respectively.

Criticism of President Piñera included the presence of two of his sons in a meeting with business leaders during a state visit to China in April, despite a promise to end nepotism in government. It follows the failed nomination last year of his brother as Ambassador to Argentina and the appointment of a friend's daughter as Chile's trade attaché in New York (she has since resigned). Although government regulator Contraloría General de la República found that no rules had been broken, the president said that his sons would abstain from participating in deals with companies present at the meeting.

Around one million pupils missed classes for most of June and July as 80,000 teachers at public schools went on strike in a dispute with the government over bonus payments and changes to the curriculum.

Running water was cut off to around 200,000 inhabitants of the southern city of Osorno for around a week in July after fuel spilled into the water treatment system. The government has promised to impose the highest sanctions possible against water utility ESSAL, a subsidiary of Spain's Aguas de Barcelona, while politicians have called for the company to be stripped of the concession.

Prosecutors have charged a former commander-in-chief of Chile's armed forces and arrested another for defrauding the military of millions of dollars. Retired general Juan Miguel Fuente-Alba allegedly used the money to pay for property, vehicles, financial investments and foreign travel while Humberto Oviedo has been accused of hindering the investigation.

In June, President Piñera attended a meeting of the G20 group of nations in Osaka, Japan, marking the second time that Chile has participated in the event. The invitation reflected Chile's role as host of the Asia Pacific Economic Cooperation forum (APEC) this year.

5
ECONOMIC OUTLOOK

5. ECONOMIC OUTLOOK

The outlook for the Chilean economy has weakened following the poor start to 2019 as well as worsening conditions in the global economy.

Analysts surveyed by the Central Bank in July expected the economy to grow by just 2.8% this year, down almost one percentage point from the end of last year, while Finance Minister Felipe Larraín has said that growth of more than 3.0% would be "a major achievement", especially if lawmakers fail to approve the government's tax reform bill. Both estimates are towards the lower end of the Central Bank's June forecast of 2.75-3.50% (down from 3.00-4.00% in March).

As well as the poor performance of the mining industry earlier in the year (which hit activity in the first quarter), a major contributing factor has been in the slowdown in global trade which caused Chile's exports to decline by 6% in the first half of the year.

The Central Bank expects Chilean exports to contract slightly this year, compared a 3.3% increase forecast in April, driven by lower commodity prices, especially of copper and pulp. The Chilean Copper Commission now expects copper prices to average US$2.81/lb this year, down from $3.05/lb previously.

Continued tensions between Chile's two largest trading partners - China and the US – have also hit business confidence, slowing investment, evidenced by a fall in imports of capital goods. The Central Bank now expects Gross Fixed Capital Formation to grow by 4.5% this year, down from 6.2% predicted in March.

Weak growth as well as other factors, such as increased competition in some sectors and slower wage growth, have reduced inflation so that the government's Consumer Price Index is not expected to return to the Bank's medium-term 3.0% target until next year.

This has given the Central Bank room to increase monetary stimulus to the flagging economy. After June's surprise 50 basis-point reduction in the Bank´s interest rate, another 25bp cut is expected as soon as September, according to traders surveyed in July.

Economic Forecasts, 2019

	Central Bank [1/]	Finance Ministry[2/]	Private analysts[3/]
GDP (% annual variation)	2.75-3.50	3.2	2.80
Inflation (% annual variation)	2.8	2.2	2.8
Monetary-policy interest rate (% annual, nominal, end-year)	2.50	NA	2.25
Exchange rate (pesos/US$)	NA	675	690
Copper price (annual average, US$/lb)	2.80	2.85	NA

[1]/ Monetary Policy Report, June 2019.
[2]/ Public Finances Report, July 2019
[3]/ Average of selected private analysts surveyed by Central Bank, July 2019.

Source: Central Bank of Chile

6. LATIN AMERICA REGIONAL NEWS

Argentina: With the economy still shrinking and unemployment hitting 10% in the first quarter, President Mauricio Macri is running neck-and-neck with Peronist Alberto Fernandez in polls for next October's presidential elections. However, there are signs that conditions could be improving; inflation (currently running at 60%) is expected to slow, the tumbling peso has stabilized, and farmers are enjoying a bumper soybean harvest.

Brazil: The government has cut its growth forecast for this year to around 1.0%, down from 1.6% previously, warning that weak economic activity will strain government finances and could force more austerity measures. In July, the Chamber of Deputies approved President Jair Bolsonaro's flagship reform of the bloated pensions system, which will save the state an estimated US$266 billion over the next decade.

Bolivia: Falling gas exports have triggered a trade deficit which reached US$700 million in the first five months of 2019. However, the economy is still expected to grow by almost 5.0% this year. President Evo Morales has pulled ahead of rival Carlos Meza in polls for next October's presidential vote.

Colombia: A weakening labour market (unemployment hit 10.0% in May) is likely to undermine consumption and slow economic growth this year to around 3.0%, the Central Bank has said. The government could also face a downgrade of its credit rating as it deals with an influx of immigrants from Venezuela and after Congress watered down its tax reform law.
Ecuador: The economy will barely grow this year, according to Central Bank forecasts, reflecting weak private investment and cuts to public spending. In July, production began at Ecuador's first large-scale copper mine, the Chinese-owned Mirador operation, launching a sector which the government hopes will reduce the country's dependence on oil exports.

Mexico: In June, President Andrés Manuel López Obrador sent troops to Mexico's southern border after the US threatened sanctions unless it stemmed the flow of migrants northwards. Uncertainty over trade mean that the economy is likely to slow by more than previously expected, the Central Bank has said. On July 11th, Finance Minister Carlos Urzúa resigned following clashes with AMLO over economic policy.

Peru: Analysts have cut GDP forecasts for 2019 to around 3.0% after a weak first half. Mining production, which expanded by 50% between 2015 and 2018, has stabilized, eliminating a key source of economic growth. In late July, President Martín Vizcarra called on lawmakers – who can no longer be re-elected - to approve early presidential and congressional elections in order to break the stalemate over his anti-corruption programme.

Venezuela: In May, the government and opposition opened talks backed by Norway to resolve the country's political crisis. The economy continues to suffer from mismanagement and increasingly tough sanctions from the US which in January halted oil imports from Venezuela, the government's main source of foreign currency.

JOHNNIE WALKER
Keep Walking

UK ECONOMY Q1 - 2019

1. Economic growth

The Office of National Statistics (ONS) stated the UK economy grew by 0.5% in Q1, from January to March, slowing 0.2% from the previous quarter. In annual terms, GDP increased by 1.8% in comparison to the same months of 2018. Growth in the services sector slowed to 0.3% in Q1, while there was a noticeable pickup in growth in the production sector, driven by growth of 2.2% in manufacturing output. Private consumption, government consumption and gross capital formation contributed positively to GDP growth, while net trade contributed negatively. The Bank of England expects GDP to be flat in Q2. This in part reflects an unwind of the positive contribution to GDP in the first quarter from companies in the United Kingdom and the European Union building stocks significantly ahead of recent Brexit deadlines.

2. Inflation

Annual CPI inflation increased by 0.2 points in April, to 2.1%, compared to March. The increase was primarily due to the Office of Gas and Electricity Markets (Ofgem), the energy regulator, increasing its default tariff energy price cap, more than offsetting the fall in energy prices when the cap was introduced in January. The headline rate of output inflation for goods leaving the factory fell slightly, to 2.1% on the year to April 2019, down from 2.2% in March 2019. The Bank expects inflation to fall below the 2% target by the end of the year – reflecting lower energy prices.

The growth rate of prices for materials and fuels used in the manufacturing process was 3.8% on the year to April 2019, up from 3.2% in March 2019. Average house prices in the UK increased by 1.4% in the year to March, up from 1.0% in February 2019.

3. Monetary policy

On the 19th of June, the Monetary Policy Committee of the Bank of England voted unanimously to maintain the official Bank rate at 0.75%. In addition, it also voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases at £10bn and maintain the stock of UK government bond purchases at £435 bn. The minutes highlighted the importance of EU exit related factors on the path of future monetary policy, which "will not be automatic and could be in either direction".

4. Labour market

In the three months to April 2019, the unemployment rate remained at 3.8% - it has not been lower since 1975. The employment rate remained at a record high of 76.1%, increasing by 0.5% on the year.

In contrast, the inactivity rate rose slightly (0.1 points) over this period, to 20.8%. Employment growth in the three months to April was driven by full-time workers, which increased on more than 32,000, whilst the number of part-time workers remained broadly unchanged, increasing by 1,000.

Whole economy real regular pay growth (on CPI basis) slowed to 1.1% due to lower nominal wage growth paired with higher inflation.

5.Trade

The UK headline total trade deficit (goods and services) widened by £2.7 bn, to £15.6 bn, in the three months to April 2019. The lead factor was rising imports of unspecified goods, such as non-monetary gold, partially offset by falling imports of fuels. However, excluding erratic commodities , which includes non-monetary gold, the total trade deficit narrowed by £4.2 bn to £6.6 bn in the three months to April 2019. The trade in goods deficit widened with both the EU and non-EU countries, by £7.5 bn and £4.6 bn, respectively, in April 2019.

6. Government finances

Public Sector Net Borrowing (PSNB) in April was £5.8bn, marginally lower than last April (£5.9bn) and the lowest April borrowing since 2007. Similarly, borrowing in the latest full financial year (April 2018 to March 2019) was £18.3bn less than in the previous financial year (£42.6 bn), the lowest full financial year borrowing for 17 years.

However, borrowing in the latest full financial year was £0.7 billion more than the £22.8 billion forecast by the Office for Budget Responsibility (OBR).

At the end of April, Public Sector Net Debt (PSND) excluding public sector banks (PSND ex) was equivalent to 82.7% of GDP (£1.8tn), a decrease of 1.6% compared with April last year.

7. The IMF revised its UK outlook

The IMF revised their 2019 forecast for UK GDP growth upwards, but its projections assume an "orderly Brexit followed by a gradual transition to the new regime".

The Fund forecast growth of 1.3% in 2019 (revised up 0.1% from their April forecast) and maintained their forecast for 2020 at 1.4%. The slight increase reflects stronger than anticipated Q1 growth, largely due to stockpiling ahead of the original EU-exit date. However, much uncertainty remains around the UK's EU-exit outcome and, by extension, the UK's short-term economic performance.

The Office for National Statistics notes: "Oil and other "erratic" commodities can make a large contribution to trade in goods, but often mask the underlying trend in the export or import values due to their volatility. The "erratics" series includes ships, aircraft, precious stones, silver and non-monetary gold. Non-monetary gold can have a particularly large impact due to the large volumes of gold traded on the London markets."

Brexit Update

In late July, Boris Johnson became the United Kingdom's new Prime Minister after promising members of the ruling Conservative Party that the country will leave the European Union by the agreed departure date of October 31st. To achieve this, Mr Johnson plans to renegotiate the withdrawal agreement reached by his predecessor Theresa May to make it more attractive to Parliament.

However, European leaders have repeatedly ruled out reopening the deal - including a controversial clause that requires the UK to remain part of the European customs union until the issue of the Irish land border can be resolved.

Without significant changes, convincing a majority of Members of Parliament to vote for the deal looks very difficult. Parliament has already rejected the agreement three times this year. Meanwhile, the government remains deeply divided on the matter and reliant on the Democratic Unionist Party -which opposes the Irish backstop - to remain in power.

If he cannot obtain a renegotiation or approval of the existing deal, then Mr Johnson has said that he is prepared to take the UK out of the trade bloc without an agreement despite the economic disruption that experts have said that this would cause.

A report in July by the Office for Budget Responsibility calculated that a no-deal Brexit could reduce GDP by 2% by the end of next year, push up unemployment and cause sterling to depreciate sharply. A report last year by the Bank of England suggested the economy could shrink by as much as 8%.

Despite these warnings, the new Prime Minister has ordered civil servants to step up contingency planning for a no-deal Brexit, partly in the hope that this could force concessions from Brussels.

This plan may be thwarted by Parliament which, led by Speaker John Bercow, will likely pass legislation to block a no-deal Brexit from occurring as it did earlier this year.

If the government cannot win approval for the deal and a no-deal Brexit is ruled out, Mr Johnson could be forced to call a general election to break the stalemate.

This would be a risky strategy. In elections to the European Parliament in May, the Conservative Party saw their share of the vote shrink to just 9%, an historic low, losing dozens of seats to the strongly pro-Leave Brexit Party.

Meanwhile, the opposition Labour Party has moved towards supporting a second referendum on EU membership which could attract pro-Remain voters.

The timetable for the coming months is extremely tight, with Parliament in recess throughout August and no major decisions expected before the Conservative Party's annual conference in late September.

Calling a general election could therefore mean delaying Brexit for a third time, requiring the new Prime Minister to renege on the promise which earned him the job.

AngloAmerican

Personas que marcan la diferencia en minería.

JUNTOS PODEMOS CREAR UN VALOR EXTRAORDINARIO

Conoce más en ***chile.angloamerican.com***


British American Tobacco Chile
VER SURGIR A SU FAMILIA
ES NUESTRO
ORGULLO
Más de 110 años
aportando al desarrollo de Chile y su gente.
Escanea aquí
y conoce su historia.