

Chile Watch

BCCh hawkish message. Rates on hold.

BCCh on hold, cautious message

Central Bank of Chile kept the policy rate unchanged at 11.25%, giving a cautious message regarding potential cuts, amid upside surprises on inflation and activity.

Hawkish comments

BCCh will maintain rates until it is confident inflation convergence to the target consolidates. IPoM's central scenario considers this will take longer than expected in December.

Inflation remains high and has surprised to the upside. Risks remain elevated. Underlying inflation has been fairly constant for several months.

Activity has surprised on the upside. The macro adjustment is taking longer than expected. Consumption was revised to the upside in national accounts (bigger external deficit). Employment is growing.

Dovish Comments

Weak credit flows and agents' expectations remain pessimistic.

CLP has appreciated 11.5% since last IPoM, in part due to lower domestic uncertainty.

Global economies have focused on banking tensions.

Other comments: the central bank will remain flexible to act if internal or external risks materialize.

We expect a cut in June but with clear risks of delay

The statement had a clear hawkish bias, highlighting slower disinflation and macro adjustment than anticipated and that this will delay the convergence. We still expect the first cut in June and the policy rate down to 8.5% by December, as activity and inflation are still moving mostly in the right direction. But we see risks clearly tilted to a delay in the cuts given BCCh language and data surprises. A May cut is unlikely in our view.

All eyes will be on the monetary policy report (Ippon) released tomorrow. We expect BCCh will revise upward 2023 inflation (above 4% headline, from 3.6% in last IPoM) and GDP growth forecasts (to around -0.5% from a range of -1.75% to -0.75%). This should lead to a higher rate corridor. Watch also whether BCCh revises the relative strength of consumption vs investment. BCCh Governor Costa has sent cautious messages in recent weeks, saying they will not cut rates until they are sure about inflation convergence.

BCCh mentioned they will remain flexible to act if risk scenarios materialize but without giving a clear balance of risks, which suggests the board perceives uncertainty in the macro-outlook, though it could be also a dovish touch. (continues overleaf)

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GDP has been more resilient than anticipated since December's IPoM (despite some mixed data in February) and ex-volatile inflation likely remains too strong to start cutting now (0.7% mom average last three months and declined only to 10.7% from 11.1% peak in September) as wages are running at 11.1% yoy. Bloomberg consensus has 1.1% mom inflation for March (education indexation is an important seasonal factor). Declining policy uncertainty and expansionary fiscal policy this year may be behind the resilient activity, in our view. Watch the analysis of the impact of CLP appreciation on inflation (short vs long term) in the IPoM.

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