

Chile Watch

BCCh cuts 75bp and keeps forward guidance of more easing, but...

BCCh cuts rates 75bp and keeps forward guidance

Central Bank of Chile (BCCh) cut rates 75bp to 9.5%, as expected by consensus (and BofA), down from 100bp cut in last meeting. BCCh kept a similar forward guidance as in previous meetings so more sizeable cuts are expected. BCCh sees the macro adjustment playing around their scenario depicted in June. While the statement remains clearly dovish, we noticed an increase in the number of hawkish comments relative to previous statements.

Dovish comments

On the labor market, BCCh noted the unemployment increased to 8.8% combining an increase in labor participation and employment seasonality. Regarding prices, both headline and core inflation continued to decline (to 6.5% yoy and 8.5% respectively in July). Inflation expectations remain at 3% in surveys of economists and traders. Global growth prospects remain weak.

Hawkish comments

BCCh mentioned Inflation remains high. Service inflation has been slower to decline. Real wages continue to recover. Activity was stronger in July (up 1.8% yoy), though with transitory effects of power generation and personal services. BCCh mentioned that CLP depreciated due to lower rate differential vs other countries and less risk appetite globally. Households and business perceptions show a slight recovery YTD.

Forward guidance: exactly the same?

BCCh argued the macro scenario evolved as anticipated. BCCh said that in the short term the policy rate will continue the path outlined in the previous meeting. Recall that previously BCCh saw the rate at 7.75-8% by year end (in the center scenario). BCCh will remain flexible, and the policy rate path will consider the macroeconomic evolution.

Our view: risks tilted to the hawkish side

We believe the market still prices in too many cuts (despite rates bounced from lows) as we think inflation risks remain on the upside versus expectations. Wages remain steady, CLP is under pressure as rate cuts materialize reducing the carry (despite the finance ministry double USD sales to \$2bn a month through September). The economy is stagnant but not a significant drop, coming from a positive output gap. And there are some risks associated to El Niño. We acknowledge consumption weakness support further cuts. We see the policy rate at 8.25% in December (75bp cut in October, 50bp in December), above BCCh's last guidance and at 5.50% in December 2024.

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Other comments

Investment: performance is low but with some improvement in machinery and equipment. Consumption has stabilized. Credit is growing at a limited pace.

Inflation decline is mostly due to volatiles component and core goods.

Global rates: monetary policy remains tight in developed countries but it is easing in some emerging countries.

Commodities: Oil up, cereals down.

Watch forward guidance details and macro forecasts in the policy report tomorrow.

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