

Chile Watch

BCCh cuts 100bp. Dovish forward guidance

BCCh cuts faster, again: 100bp

Central Bank of Chile (BCCh) cut the policy rate by 100bp as expected by Bloomberg consensus to 7.25%, accelerating from the 75bp cut in the previous meeting (BofA - 75bp). The statement was dovish, emphasizing that inflation convergence is faster than they anticipated in December's policy report. BCCh sees the policy rate around the neutral level in 2H24 (4%). Four board members voted for a 100bp cut, including the new member, Claudio Soto. But Luis Cespedes voted for a 125bp decline.

Dovish comments: inflation convergence, credit tight

BCCh expects inflation to converge to 3%, faster than anticipated in December's IPOM. December inflation surprised on the downside, especially core goods and volatiles. (headline declined to 3.9% yoy in December, underlying to 5.4%). BCCh noted that credit supply remains tight (especially for big companies and construction) and loan demand is still weak. Sentiment remains mostly on negative territory. Labor supply shows a gradual recovery.

Hawkish comments: CLP, US rates

BCCh noted that CLP has depreciated 6% since last meeting. Consumer loan demand is recovering. On the global front, it mentioned the Fed's first expected rate cut has been delayed to 2Q, tightening conditions, amid strong activity data in 4Q. And that the Red Sea conflict is putting pressure on some costs and oil prices.

Neutral comments

BCCh noted that activity has evolved as expected in IPOM (Imacec grew 1.2% yoy, 0.3 momsa). Unemployment is at 8.5%, evolving with the cycle. Inflation forecasts remain at 3% in the 2y horizon. Minutes will be out on February 15. Next meeting is on April 2.

Dovish statement, dovish guidance.

In our view, the statement was quite dovish, highlighting that inflation is converging faster they anticipated and that they will cut the policy rate to neutral in 2H (even before the end of the year). Also, one member voted for more cuts (Cespedes 125bp) showing risks of more cuts. They also focused on weak credit (demand and supply) and negative sentiment. Construction weakness seems a key factor. BCCh barely mentioned the 6% CLP depreciation since last meeting although it recognized some negative global shocks (tighter global conditions and price shocks).

Risks not over

While we agree inflation is converging sooner than expected and economic growth is slow, so far we see some hawkish risks ahead. Expansionary fiscal policies and lagged effects of easier monetary policy should trigger a rebound in GDP (2.2% our forecast). - continues inside-

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Inflation risks remain, with CLP depreciation as BCCh is delivering the most aggressive cuts in the globe, amid a volatile global backdrop. Some incipient recovery in consumption loans demand and retail are factors to monitor. Consumption recovery with lagging investment is not an optimal mix. Slow investment may affect potential growth and the output gap in the medium term.

For these reasons, we see slower cuts than BCCh and the market (which is pricing 4% rate by September-October). We see another 75bp rate cut in April, but a further slowdown in the pace of cuts for the rate since May to finish 2024 at 5%.

We forecast inflation at 3.3% this year. The electricity hike would add 20bp to inflation and CLP will remain under pressure in our view, impacting tradable goods. On the flipside, labor supply still has potential to increase (beyond the recent surge) and together with construction weakness, it can help decelerate wages (which were still growing above 8% yoy by November).

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