MNI Chile Central Bank Preview: July 2025

Monetary policy decision and release of statement: 2300BST/1800ET – Tuesday, July 29, 2025.

MNI POV: Easing Cycle Expected to Resume

The BCCh is widely expected to resume its easing cycle in July, after four consecutive holds, with a 25bp policy rate cut to 4.75%. The central bank has struck a more dovish tone in recent weeks and has already discussed the option of cutting rates at each of the last two MPC meetings, opting to remain cautious in the face of heightened external uncertainties. While the latest escalation of trade tensions could still prompt the central bank to remain cautious for another meeting, recent weaker-than-expected inflation and economic activity data look to have opened the door to a fresh rate cut.

BCCh Signals Scope for July Rate Cut

In recent weeks, the central bank has struck a more dovish tone, as it has become more comfortable with risks to the inflation outlook. In June, after remaining on hold for a fourth consecutive meeting, the Board noted that core inflation had fallen more quickly than expected and that two-year inflation expectations had adjusted to the 3% target. As a result, it said that if the central scenario outlined in its Q2 monetary policy report (IPoM) materialises, then it could lower the monetary policy rate towards neutral in the coming quarters.

In that IPoM, the Board cut its 2025 year-end CPI inflation forecast by 10bp to 3.7%, as it continued to see inflation reaching the 3% target in the first half of next year. It also expects the output gap to close and turns slowly negative over the policy horizon, implying that the policy rate would gradually move into a neutral range over that period. Overall, the Board indicated that its central scenario is consistent with a slightly faster easing cycle compared to the one expected in March, with the possibility of rate cuts in both the July and September meetings.

The minutes to last month's meeting revealed that the Board had already discussed the option of cutting by 25bp in June, but felt that the wisest decision was to remain on hold given the external uncertainties at the time of the meeting. Notably, the Board said that bringing forward a rate cut "by one meeting" would have little impact on the macroeconomic backdrop, which suggests that a July cut was already being factored in. Overall, the minutes reinforced the Board's cautious stance, suggesting that renewed rate cuts were delayed for tactical reasons, as well as the need for more clarity surrounding the impact of global risks.

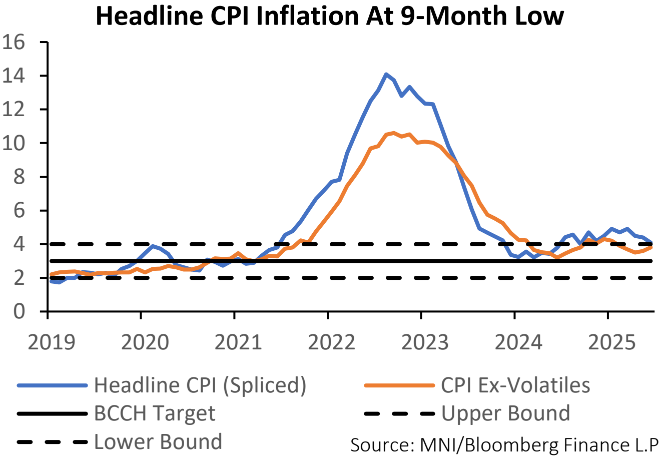
Copper Tariff Not Expected to Have Big Impact on Copper Sales

While some of those risks have eased since June, most notably the uncertainty in the Middle East, trade tensions have re-escalated amid the threat of further global tariffs from the US administration. For Chile, the threat of a 50% tariff on copper exports to the US adds a major uncertainty to the external outlook, which could yet stay the central bank's hand for another meeting. Nonetheless, at a Lower House Mining and Energy Committee hearing earlier this month, representatives of the Chile copper commission Cochilco said that while they were still waiting for details of the US tariffs, they didn't expect them to have a big impact on copper. They also noted that Chile has the scope to redirect copper to faster growing markets.

Foreign Minister Alberto van Klaveren said that the government is already searching for other markets, although it is worth noting that the US only accounts for ~15% of Chile's total copper exports (despite the US sourcing 70% of its copper from Chile), with China already a far more important market for Chile. Codelco chairman Maximo Pacheco also said that Codelco's sales will not be affected by what happens with the US copper tariff, as production has already been allocated to buyers.

Looking ahead, economic and trade talks with the US are expected in the coming days, running from July 28-31, with topics to be discussed including tariff and non-tariff barriers, economic security and trade considerations. Ahead of those talks, the government has created several groups and committees to tackle the impact of the announced tariffs, and, notably, mining minister Aurora Williams has sounded relatively upbeat, saying that a potential tariff exemption for the country is on the table.

Core Inflation Slowed More Than Expected



While the external backdrop remains fluid, and a potential constraint on renewed easing, the domestic situation is still supportive of a rate cut this month. On the inflation front, consumer prices fell on the month in June for the first time this year (-0.4% m/m), on the back of early month Cyber Sales events. This brought the annual rate down by 30bp to a below consensus 4.1% y/y, its lowest since September last year.

Although still above the ceiling of the 2-4% target range, inflation is expected to fall sharply in the second half of the year, as last year's electricity price hikes drop out of the annual comparison. Excluding electricity, CPI inflation ticked down to 3.2% y/y in June, already close to target. That said, the central bank's preferred core ex-volatiles measure edged up by 20bp to 3.8% y/y, indicating that the composition in June was not as benign as the headline suggested. Nonetheless, with core inflation still in the target range, and set to fall ahead, this should be no barrier to easing. Importantly, inflation expectations remain well contained, with both analysts and market participants still seeing inflation at the 3% target on a two-year horizon.

Speaking recently, BCCh Board member Luis Felipe Cespedes said that the central bank sees a set of factors coming together that will bring CPI inflation back to target early next year. Core inflation has slowed by more than expected, he said, and wage growth is gradually moderating, adding that were it not for the electricity tariff hikes, inflation would already be at the 3% target. Meanwhile, BCCh Governor Costa said that the central bank's latest forecasts already incorporated a 7% electricity tariff hike that is scheduled for July. Speaking to MNI recently, former BCCh senior economist Luis Ceballos said that he expected the central bank to resume its easing cycle this month, after June inflation came in below expectations, and domestic financial conditions have held up well despite global uncertainty. (See MNI Policy Team Insights below.)

Weaker-Than-Expected Activity Supportive of Rate Cut

Meanwhile, recent weak economic activity data also increase the prospect of a rate cut this month. In May, activity fell by 0.2% m/m, well below the +0.4% consensus, leaving annual growth at a lower-than-expected 3.2% y/y. Activity continued to be supported by strong growth in the mining sector, where production rose by 10.3% y/y in May. Excluding mining, economic activity rose by a more moderate 2.4% y/y as both manufacturing production and service sector output fell on the month. The softening of activity comes as the labour market shows increasing signs of weakness, with the unemployment rate ticking up to a nine-month high of 8.9% in May, up from 8.0% at the start of the year. Credit indicators also remain weak, with annual real loan growth remaining in negative territory.

Against this backdrop, analysts see the economy growing by 2.3% this year and 2.1% next, according to the central bank's latest economist survey. That same survey revealed that analysts expect a 25bp rate cut this month, followed by one more cut before year-end and another move in early 2026, bringing the policy rate to a terminal 4.25%. The equivalent BCCh traders survey also points to a 25bp cut this week, with market participants expecting another 25bp move before year end, followed by a final cut early next year.

USDCLP Support Remains Intact

After holding in a relatively tight 930-950 range for several weeks, USDCLP traded higher earlier this month amid the escalation in trade tensions. More recently, the pair has pulled back again, although for now this is considered corrective. First key support to watch is 946.40, the 50-day EMA. A clear break of this average is required to instead signal a stronger reversal. This would open 935.86, the July 7 low. A resumption of gains would refocus attention on 972.83, the July 14 high. A break of this hurdle would resume the uptrend and open 975.25, the 61.8% retracement of the sell-off between April 9 - July 2, and 987.67, the 76.4% retracement point.

MNI Chile Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% m/m	-0.4	0.5	↓	-0.2	↓					-1.89
CPI	% y/y	4.1	4.9	↓	4.5	↓					-1.43
Oil Price (WTI Active)	$	65.63	68.99	↓	69.15	↓					-0.26
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Manufacturing Production	% y/y	2.9	-1.4	↑	0.9	↑					0.16
GDP	% y/y	2.3	1.2	↑	1.4	↑					0.30
Industrial Man Prod	% y/y	4.7	-3.7	↑	1.2	↑					0.43
Economic Activity	% y/y	3.21	0.09	↑	2.32	↑					0.11
Trade Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Trade Balance	$ (M)	1331.4	1744.4	↓	2296.6	↓					-0.30
Exports Total	$ (M)	8290.5	8624.7	↓	9511.2	↓					-0.55
Copper Exports	$ (M)	4672.8	4402.9	↑	4613.9	↑					1.17
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales	% y/y	4.5	6.4	↓	6.0	↓					0.00
ICME Business Confidence	Index	44.0	46.0	↓	41.8	↑					-0.50
Unemployment Rate	%	8.9	8.4	↑	8.2	↑					1.30
Nominal Wage Increase	% y/y	3.6	3.9	↓	4.2	↓					0.22
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
IPSA Index	Index	8,168	7,649	↑	6,710	↑					1.23
Local 10-Year Swap Rate	%	5.20	5.37	↓	5.50	↓					-0.70

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg

Analyst Views

All analysts in the Bloomberg survey expect the BCCh to resume its easing cycle with a 25bp cut to 4.75% this week.

BNY: Rate Cut Expected Following Steep CPI Drop in June

- BNY say the BCCh is expected to cut its benchmark interest rate by 25bps to 4.75%. This follows June's consumer price index falling by 0.4% – the steepest drop since late 2023 – and annual inflation easing to 4.1%. A further cut to 4.5% is possible by year-end, they add.
- The benchmark rate has remained at 5.0% year to date amid persistent inflation pressures and global uncertainties. The bank's July Monetary Policy Report emphasized flexibility, noting the monetary policy rate will gradually approach its neutral range and that future adjustments will depend on evolving macroeconomic conditions and disinflation progress.

Deutsche Bank (July 09): On Hold for Now, But CPI Data Provide Supportive Backdrop for Rate Cut

- Deutsche Bank says that the June inflation figures, alongside the decline in activity recorded recently and the dovish tone of the BCCh minutes from the last policy meeting, set up a domestic macro backdrop consistent with a rate cut later this month.
- However, the external backdrop remains highly volatile amid renewed shifts to US trade policy. Thus, DB retain their call of a hold for now, pending further developments ahead of the July 29 meeting.
- DB says that the downside surprise of the June CPI reading provides a more favourable statistical carryover that can better accommodate the rebound of prices after the Cyber Day sales in June, as well as the eventual hike of electric tariffs in H2.
- They estimate that annual headline inflation could return to the target band as early as in July, and now project annual headline and core inflation to close the year at 3.7% and 3.6%, respectively.

Goldman Sachs: Developments Since June Support Case for Resumption of Easing

- Goldman Sachs expect the MPC to lower its policy rate by 25bps to 4.75%. They note that developments since the June MPC meeting have been consistent with their view of a benign inflation outlook and support their forecast that the central bank will resume its easing cycle at the July MPC meeting. Most importantly,

geopolitical tensions in the Middle East which the MPC described in June as "a new source of uncertainty, whose developments could lead to more complex scenarios" have eased, and oil prices have declined by over 10%.
- In Goldman's assessment, the macroeconomic outlook ahead of the July MPC meeting is now consistent with the central scenario outlined in the June Monetary Policy Report (IPoM) that had not incorporated the escalating tensions in the Middle East days before the June MPC meeting.
- In the June IPoM, the MPC reaffirmed its view that inflation risks have diminished, strengthening the case for moving the monetary policy stance toward neutral "in the coming quarters." The central scenario for the policy rate in the June IPoM is also consistent, in our view, with a rate cut in July.

Itaú: Expect Easing Cycle to Resume This Month

- Itaú expects the BCCh to resume the easing cycle in July with a 25bp cut. They envisage two additional cuts to 4.25% by year-end, although risks lean towards a more cautious approach.
- Factors that led to a strong start to activity this year are expectedly fading, even though mining production continues to outperform, leading Itaú to maintain their 2025 GDP call at 2.6%. However, labour market slack is increasing, credit dynamics are soft, and sequential inflation pressures are contained. Heightened tariff uncertainty also adds to medium-term downside risks to activity.
- The negative inflation print in June will be offset by a rebound in apparel and electronic prices in July, along with a 7% increase in electricity prices. However, inflation is projected to decline swiftly during 2H25 due to base effects and contained sequential pressures. Itaú forecasts inflation to reach 3.8% this year and 3% next year.
- They expect a slightly stronger CLP over the forecast horizon due to sustained US dollar weakening. Nevertheless, volatility will remain high as interest rate differentials are already narrow, elections approach, and the tariff situation on copper affects prices. Itaú anticipates a year-end rate of 930 per dollar and 900 by the end of next year.

Natixis: Expect Tone of Communique to Remain Dovish

- Natixis say the moderation in inflation and economic weakness will prompt the BCCh to cut its policy rate sooner than they had anticipated, reaching the nominal neutral rate range of 3.5–4.5% this year. Specifically, they forecast a 25bp rate cut on the July monetary policy meeting.
- In fact, after the release of the June CPI in early July, Natixis lowered their December forecast for the policy rate to 4.25% from 4.50%. They also lowered our terminal rate forecast to 3.75% from 4.00%.
- Natixis believe the communique of the July rate decision will not signal a rate cut in the September meeting. Instead, it will leave the door open for additional cuts suggesting the possibility of further easing while being significantly less clear about the timing of the next rate cut. Having said that the tone will likely remain dovish, in their view.

Santander: Inflation Fall Paves Way to Resume Rate Cuts

- Santander projects two 25bp rate cuts this year, starting at the next meeting in July. They expect the second adjustment to occur at the September or October meeting, although it will likely depend more on tactical reasons than on macroeconomic factors, as mentioned in the last minutes.
- Headline inflation surprised on the downside in June, driven by food and retail promotions. On the other hand, core inflation surprised to the upside, especially in the services sector. However, Santander believes that lower oil prices and the absence of demand pressures support the convergence of inflation ahead.
- At the same time, there are no signs of significant exchange rate pass-through, while the impact of electricity rates will begin to fade during the second half of the year. As a result, Santander expects that inflation will continue to fall, closing the year at around 3.7%.
- The minutes of the June monetary policy meeting left open the possibility of a cut in the Monetary Policy Rate in July. The Board agreed to hold at 5% in June amid heightened external uncertainty following the outbreak of the conflict between Iran and Israel. Although a 25bp adjustment was discussed, it was ruled out for tactical reasons.
- The Board assessed the contained inflation trend, the anchoring of two-year expectations at 3%, and lower-than-expected underlying inflation as factors that reduce upside risks. In this context, the Board emphasised

that if the central scenario of the June Monetary Policy Report, which contemplates adjustments in July and September, materialises, the MPR would gradually approach its neutral range in the coming quarters.

SocGen: BCCh Still More Likely to Cut Rates, Despite Copper Tariff

- SocGen believes that a 25bp rate cut to 4.75% is still a higher possibility than a continued pause. Nonetheless, the central bank might have become a little concerned after the tariff announcements. For now, SocGen maintains a 4.50% policy rate forecast for year-end, and a 2026 policy rate of 4.0%. However, they see some upside risk to their forecast for this year.
- While core inflation has increased in recent months closer to BCCh's target ceiling, year-ahead inflation expectations have moderated and are now getting close to target.
- A below potential growth outlook is expected to keep inflation in check now that the impact of last year's adjustments to electricity prices are fully absorbed. The external scenario has turned challenging after the US announced tariffs on copper, but the impact on the peso has only been limited so far.
- The ex-ante real policy rate is now about 0.6pp above neutral, meaning the central bank has room to ease further, given that it does not see significant pressure remerging on the peso.

MNI Policy Team Insights

MNI EM INTERVIEW: Chile Likely to Resume Easing Cycle - Ceballos

By Larissa Garcia
Jul 14, 2025

The Central Bank of Chile is likely to resume its easing cycle at its next meeting with a 25-basis-point cut to 4.75%, as the interest rate remains above estimates of neutral, former senior economist Luis Ceballos told MNI.

"June inflation came in negative and below expectations, and domestic financial conditions have held up well despite global uncertainty. These factors align with the more accommodative tone in the June monetary policy report, which supports the case for a 25bp cut at the upcoming meeting," Ceballos, now a professor at the University of San Diego, said in an interview.

Chile's central bank kept the monetary policy rate unchanged at 5.00% last month, as expected. The decision was unanimous and was the fourth consecutive hold, though with a more dovish tone.

"I believe holding the policy rate at 5.00% was the right decision. While core inflationary pressures have eased and June CPI surprised to the downside, there is still considerable external uncertainty, particularly from renewed tariff threats and geopolitical tensions," Ceballos noted.

"That said, surveys and asset prices suggest markets had anticipated the pause, viewing it as temporary rather than a shift away from the easing cycle," he added.

EXTERNAL UNCERTAINTIES

Some analysts have suggested that external uncertainties could delay the next rate cut until September. "I don't fully agree with that view. While global risks persist, the domestic data supports further easing," Ceballos said.

He mentioned that the June monetary policy report reaffirmed a baseline scenario of rates gradually falling to support activity and guide inflation toward the target.

The former central bank economist noted that stronger-than-expected economic activity offers the central bank a bit more flexibility, but it does not fundamentally change the medium-term disinflationary trajectory. "The board will likely proceed with gradual cuts, keeping an eye on labor market dynamics and core inflation trends."

FED MOVES

If the Federal Reserve delays rate cuts or signals a higher-for-longer stance, it could tighten global financial conditions, leading to capital outflows from emerging markets and depreciating the local currency, according to Ceballos.

"In that case, the Central Bank of Chile might adopt a more cautious pace of easing to avoid pass-through effects on inflation. However, if the Fed starts its easing cycle later this year — as currently expected — this would open more space for Chile to lower rates without triggering financial instability," he said.

He added that Latin American currencies have performed well despite external uncertainties amid U.S. President Donald Trump's volatile trade policy, mostly because many central banks in the region, including Chile's, acted early and aggressively to tackle inflation, which boosted credibility and investor confidence.

"Global risk sentiment has improved as markets anticipate monetary easing by major central banks. In addition, terms of trade have remained relatively stable, supported by commodity prices," Ceballos said.