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All Signal, No Noise

MARKET ANALYSIS

MNI Chile Central Bank Review: July 2025

MNI Point of View:

The Board of the Central Bank of Chile decided to lower its main interest rate by 25bps to 4.75%. The decision was adopted by the unanimous vote of all the Board members and was in-line with sell-side expectations. The Board sounded more comfortable about inflation risks given that headline inflation was lower than anticipated in the latest IPoM, although it also flagged that core inflation was running higher than expected, and continued to mention that further adjustments to monetary policy will be data-dependent.

Sell-side analysts generally expect the easing cycle to continue at the next rate-setting meeting in September, with some expecting a further 25bp cut before year-end.

In its post-meeting statement, the MPC maintained guidance provided in the June meeting and in the monetary policy report (IPoM) that "if the central scenario of the June IPoM materializes, monetary policy will approach its neutral range in the coming quarters." While the statement struck a more dovish tone on inflation overall – flagging the negative monthly CPI print in June – it cautioned that the main contributors to the decline came from the volatile components of the basket (such as food) and that core inflation actually came in higher than expected.

Meanwhile, the committee reiterated its concerns about the uncertain external backdrop, emphasising the ongoing trade tensions posed by US tariff policy. It acknowledges that the average US tariff level is expected to be higher than estimated in June, but only mentions copper tariffs briefly, and does not comment on the potential impact of such measures at all.

On activity, the Board says private consumption and gross capital formation have continued to grow in recent months, with the latter driven by large-scale investment projects. The labour market has shown a persistent trend of slow job creation and a rising unemployment rate, although wage growth remains robust. Overall, activity has evolved "in line with forecasts".

The general view among sell-side is that the macroeconomic outlook remains broadly consistent with the scenario outlined in the latest IPoM, and that this will therefore facilitate an additional rate cut in 4Q, and potentially as soon as the September meeting.

July policy statement here.

Notable upcoming dates:

- Aug 01 – June Economic Activity Data
- Aug 08 – July CPI Inflation Data
- Aug 12 – Minutes for July MPC Meeting
- Sep 09 – Next Monetary Policy Meeting

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Analyst Views (Alphabetical):

Goldman Sachs: Maintain Forecast of Two Additional Cuts in 2025, in September and December

- In general, Goldman Sachs are of the view that the macroeconomic outlook remains broadly consistent with the scenario outlined in the IPoM and share the MPC's assessment that inflation risks have diminished.
- As such they maintain their forecast of two additional cuts in 2025 (September and December) and a terminal rate of 4.25%. The MPC highlighted that activity has evolved in line with what was projected in the June IPoM and noted that headline inflation had been lower than expected in June.
- That said, the MPC also emphasized that core inflation was somewhat firmer than expected in the month, which in Goldman's view warrants monitoring ahead of the September meeting.

Itau: Baseline Scenario Sees Rate Cuts in September and December

- Itau say the Board likely considered maintaining the MPR at this RPM, in addition to the unanimous decision to cut.
- Itau say the decision was widely expected and confirms their view that the economy requires a less contractionary monetary policy. The central bank is responding appropriately and in a timely manner, they add, and the macroeconomic scenario is consistent with additional cuts over the coming quarters towards the nominal neutral rate of 4%.
- Itau expect the MPR to end the year at 4.25%. The timing of further cuts will depend primarily on tactical factors related to the external environment, which could generate greater volatility in financial markets. Their baseline scenario, for now, sees rate cuts in September and December.
- They note that as the BCCh continues to lower rates and the Fed stays on hold, the CLP will likely remain pressured in the short-term. High copper prices, a weaker global dollar trend and an election cycle focused on growth will likely see a recovery by yearend (to 930) from current spot levels.

JP Morgan: Continue to Expect Another 25bp Rate Cut in September

- JP Morgan note that the BCCh's forward guidance is consistent with their previous expectations, as the Board indicates that if the central scenario outlined in the June Policy Report unfolds as projected, the policy rate will be approaching its neutral range in the coming quarters.
- Notably, the Board remarked that economic activity has evolved in line with the central scenario forecasts, while headline inflation was lower than anticipated, with the unexpected decline primarily concentrated in volatile price categories.
- JP Morgan maintain their base case scenario of the central bank implementing an additional 25bp cut in September, with the policy rate expected to converge to 4.5% by that time. They project headline inflation to fall below 3% by the first quarter of 2026, driven by base effects, which could facilitate another 25bp rate cut early next year.
- However, unless growth weakens more than anticipated, core CPI is likely to remain above 3%. Consequently, JP Morgan assume the terminal rate at the upper end of the neutral range, at 4.25%.

Santander: Statement Points to Second Reduction in October

- In Santander's view, the macroeconomic scenario has developed as expected, which leaves room for further progress in the monetary normalization process.
- In particular, the statement's mention of continuing the cuts in the following quarters points to a second reduction in October, closing the year at 4.5%, in line with our expectations and those derived from financial assets.

SocGen: Expect One More Rate Cut This Year

- SocGen expect one more rate cut this year (in 4Q25), but do not rule out the possibility of easing as early as September, or that the BCCh could frontload some of the easing planned for next year.

- As such, they see downside risks to their year-end BCCh rate forecast of 4.50%. Similarly, while SocGen expect BCCh to cut the MPR to 4.0% by July next year, they see downside risks to this forecast, both in terms of timing and magnitude.
- Continued economic weakness could prompt the BCCh to cut rates more rapidly, with the possibility of rates falling below neutral, especially if the Federal Reserve meaningfully eases its policy stance, SocGen note.
- SocGen say the reference to the MPR reaching neutral values “in quarters ahead” (rather than “months ahead”) suggests that future rate cuts are likely to be intermittent rather than steady. This cautious approach likely reflects risks from external developments, including tariff uncertainties, possible course of US monetary policy, and geopolitical factors affecting oil prices.

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