MNI Chile Central Bank Preview: June 2025

Monetary policy decision and release of statement: 2300BST/1800ET – Tuesday, June 17, 2025.

MNI POV: Easing Cycle Resumption Nearing

The majority of analysts expect Chile's central bank to keep its policy rate unchanged at 5.00% in June, amid a still uncertain external backdrop (exacerbated by recent geopolitical developments) and elevated inflation pressures. However, the BCCh has adopted a more dovish tone in Q2 and even discussed cutting the policy rate at the April meeting. Further benign inflation readings and improving inflation expectations suggest the resumption of the easing cycle is on the horizon, and there are some notable calls for the BCCh moving as soon as this week. Forward guidance will remain in focus in determining the potential scale of easing for the rest of 2025 and for assumptions regarding the terminal rate for the cycle.

BCCh's Costa Acknowledges Economy Performing Better Than Expected

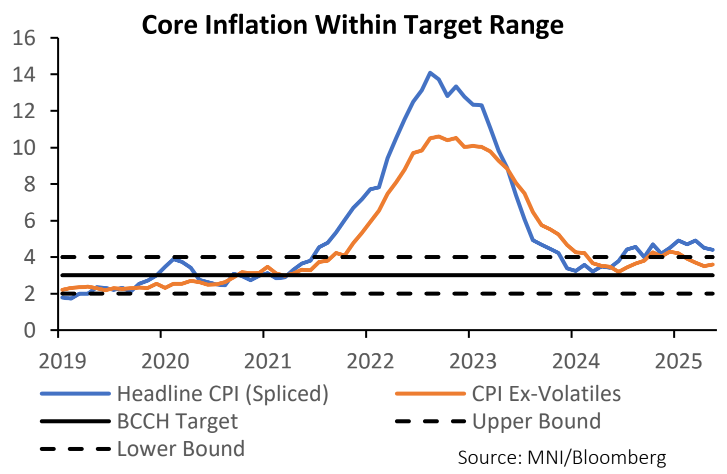
At its previous monetary policy meeting in April, the Board adopted a more dovish tone, emphasising the uncertainties to the outlook due to the US administration's tariff policies, while highlighting the need to remain cautious. Inflation is seen remaining high near-term, but the Board no longer sees significant risks to the outlook, and inflation is expected to converge towards target in the second half of the year, opening the door to a resumption of the easing cycle.

According to the March monetary policy report, the Bank's central scenario is consistent with that cycle resuming at the monetary policy meeting in September, with another 25bp cut to follow in December. However, the minutes to the April MPC meeting revealed that the Board already discussed the option of cutting by 25bp as soon as that month, before agreeing that it was necessary to gather more information to assess the impact of the external scenario and its implications for monetary policy.

Since then, the external backdrop started to improve at the margin as the global trade war began to de-escalate, before latest geopolitical tensions in the Middle East added new uncertainties, particularly to energy prices. Domestic activity data have been resilient, prompting Governor Rosanna Costa to acknowledge that the economy has performed better than expected recently, while reiterating that the impact of global economic changes are still unclear. Meanwhile, inflation pressures have begun to ease, with core inflation falling at a faster pace than expected by the central bank, raising the prospect that the easing cycle could resume sooner than anticipated in the March IPoM.

Inflation Pressures Easing

CPI inflation has fallen by more than expected since the central bank's last monetary policy meeting, easing from 4.9% y/y to 4.5% in April and then ticking down again to 4.4% in May. That move last month brought the headline rate down to its lowest level since November, helped by a moderation in volatile energy inflation. Although core inflation edged up to 3.6% y/y in May, it is still tracking slightly below the central bank's expectations and core goods and core services inflation remained steady at 2.7% y/y and 4.2%, respectively.



Looking ahead, consumer prices are seen edging lower in June, before rebounding somewhat in July on the back of an increase in electricity prices. After that, however, inflation should fall significantly through the rest of this year, supported by favourable base effects, with Governor Costa seeing the headline rate hitting the 3% target in early 2026.

Meanwhile, two-year ahead inflation expectations, which the central bank pays close attention to, have also continued to moderate after a brief jump earlier this year. According to the latest central bank surveys, both analysts and market participants see inflation returning to the 3% target on a two-year horizon. Governor Costa has previously said that the central bank is monitoring the market's inflation outlook closely and has noted the decline in investors' inflation expectations.

Those same central bank surveys revealed that both analysts and market participants expect the central bank to remain on hold this month, before resuming the easing cycle in the third quarter. While economists see the next move in September, consistent with the latest central bank monetary policy report, market participants see scope for an earlier cut at the July meeting, followed by another 25bp move in October.

Economic Growth Holding Up Well, But May Soften In H2

Economic activity came in stronger than expected in April, with the economy growing by 0.6% m/m, following a 0.7% gain the month before, above the +0.2% consensus. In annual terms, economic growth slowed to 2.5% y/y, from 3.7% previously, but still notably better than the 0.1% y/y expansion ahead of the previous MPC meeting. In April, growth was supported by a strong dynamism in the mining sector, where output rose by 10.7% y/y. Ex-mining, activity rose by a more moderate 0.3% m/m and 1.8% y/y. Within the non-mining sectors, performance was mixed, with services output rising by 0.4% m/m, led by business services, while goods output fell by 0.5% m/m due to weakness in the wholesale and automotive sectors.

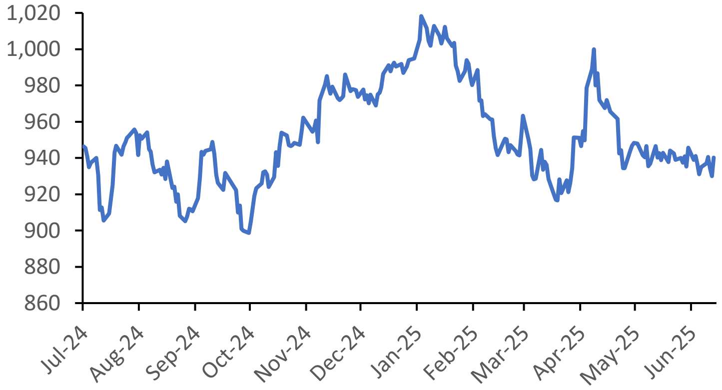
These data followed earlier robust Q1 GDP stats, which revealed a better-than-expected 0.7% q/q expansion in the economy in Q1, following a 0.5% gain in Q4. Annual growth printed at 2.3% y/y, down from 4.0% in Q4. Following the recent data, Finance Minister Marcel noted that, "we have an economy that is exceeding growth expectations", saying that he believed all sectors are seeing strong growth. As a result, he continues to expect the economy to grow by 2.5% this year.

As a comparison, this is towards the top of the central bank's existing 1.75-2.75% forecast range, although that range could be revised upwards slightly in the June monetary policy report, which will be published on Wednesday. Meanwhile, analysts see the economy growing by 2.2% this year (vs. 2.0% previously), according to the latest BCCh economist survey, followed by a 2.0% expansion in 2026. Although growth is holding up well for now, it is seen softening in H2 as some temporary factors that have supported activity in H1 fade and the impact of trade tariffs begin to be felt.

USDCLP Bear Threat Remains Present

The performance of the Chilean peso remains no barrier to renewed rate cuts, with USDCLP having traded in a 930-950 range since the previous monetary policy meeting. A bear threat for the pair remains present, however, following earlier weakness and short-term gains are considered corrective. Scope is seen for a deeper retracement towards 914.00, the March 18 low. Resistance to watch is 961.64, the April 30 high. Clearance of this level would signal a stronger reversal and refocus attention on 1007.75, the April 9 high.

USDCLP Trading In A Range



Source: MNI/Bloomberg

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	0.2	0.4	↓	0.2	→					-0.41
CPI	% y/y	4.4	4.7	↓	4.2	↑					-0.82
Oil Price (WTI Active)	$	72.98	68.38	↑	66.87	↑					-1.20
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	0.0	3.6	↓	3.5	↓					-0.55
GDP	% y/y	2.3	1.2	↑	1.4	↑					0.30
Industrial Man Prod	% y/y	3.8	2.0	↑	3.4	↑					0.36
Economic Activity	% y/y	2.48	2.90	↓	2.62	↓					-0.07
Trade Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Trade Balance	$ (M)	1517.1	1767.2	↓	1297.9	↑					-0.04
Exports Total	$ (M)	8490.3	7965.1	↑	7861.9	↑					-0.33
Copper Exports	$ (M)	4475.9	3923.8	↑	4095.1	↑					0.64
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	7.2	5.8	↑	3.5	↑					0.18
ICME Business Confidence	Index	46.7	51.5	↓	41.9	↑					0.28
Unemployment Rate	%	8.8	8.0	↑	8.6	↑					1.18
Nominal Wage Increase	% y/y	8.3	8.4	↓	8.3	↓					0.07
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
IPSA Index	Index	8,210	7,332	↑	6,577	↑					1.27
Local 10-Year Swap Rate	%	5.13	5.42	↓	5.09	↑					-0.84

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

The majority of analysts (10/14) in the latest Bloomberg survey expect the BCCh to remain on hold at 5.00% this week. The remaining four analysts see the central bank resuming its easing cycle with a 25bp cut.

BBVA: Still on Hold, But Guidance Will Likely Anticipate Cuts in Q3

- BBVA expect the BCCh to hold its benchmark rate at 5.0%. However, forward guidance and revised projections in the IPOM quarterly inflation report will likely anticipate cuts in Q3 toward 4.25%.

BNY Mellon: Further Pause Expected Amid Persistent Inflation Pressures

- The BCCh is expected to keep its benchmark rate steady at 5% at its June meeting, maintaining a cautious stance amid persistent inflation and external uncertainties.
- May inflation eased slightly to 4.4% y/y from 4.5% in April, remaining above the BCCh's 2 – 4% target range. The central bank has indicated that, while inflation may remain elevated in the short term, it is projected to decline to 3.8% by December and approach 3% in early 2026.
- Given the current inflation outlook and the central bank's cautious stance, a pause in the easing cycle appears likely for now.

Goldman Sachs: Bring Forward Their Forecast for the Next Cut to June

- Goldman Sachs expects the MPC to resume its cutting cycle and lower its policy rate by 25bp to 4.75% A series of good inflation readings, a benign inflation outlook, and an improvement of inflation expectations support their decision to bring forward, from July to June, their forecast for the upcoming policy rate cut.
- Forward guidance from the MPC has also turned more dovish and, in their assessment, directors now see the policy rate moving to neutral sooner than previously anticipated. Notably, the post-meeting statement from the April MPC meeting dropped a phrase that noted that "the outlook for inflation still faces significant risks" and in a dovish innovation replaced it by affirming that "its recent evolution and that of its main determinants reaffirm the path of convergence foreseen in the March IPoM."

- The minutes also delivered a dovish signal with the MPC noting that Directors evaluated the possibility to lower its policy rate as early as April.
- In the June IPoM, GS expects the central bank to incorporate one more policy rate cut in 2025 in its central scenario, in addition to the two considered in the March IPoM. Beyond this year, they expect the central bank's model forecast to trend towards a 4.0% terminal rate in the first half of 2026 but, as in the March IPoM, for the policy corridor to show an upward bias towards a 4.25% terminal rate.

Itaú: Now Anticipate Easing Cycle to Resume in July, Rather than September

- Itaú says that the recovery in activity has been swifter than expected, partly due to transitory factors, although the labour market and credit dynamics remain weak. The better-than-expected start to the year and the still upbeat export dynamics in Q2 have built a firm foundation for overall growth this year. Itaú now projects the economy to grow by 2.6% this year, an increase of 40bp from their previous scenario.
- However, this scenario considers a significant sequential slowdown during H2 2025 as the effects of tighter global trade conditions begin to materialise, and transitory factors that boosted activity in the first semester fade.
- Meanwhile, disinflation of core indices has unfolded more quickly, and medium-term inflation expectations are anchored. The evolution of international oil prices, favourable exchange rate dynamics, and the apparent absence of second-round effects from the previous electricity price increase raise the odds of a swifter disinflation path.
- With the net result of the global trade conflict expected to be growth negative and deflationary, the central bank is anticipated to move monetary policy closer to the centre of its neutral rate range. Itaú now expects the cutting cycle to resume earlier, in July rather than September, with a year-end rate of 4.25%, 25bp below their previous expectation. They still foresee the cycle concluding at 4% early next year.

JP Morgan: Still See Rates on Hold this Week, Next Cut in September

- JP Morgan says that the May CPI data continued to align with headline inflation converging to target by early 2026. They do not see any meaningful break in the data calling for the BCCh to be proactive near term and thus they continue to see the policy rate remaining stable in June and July, before a 25bp cut in September.

Natixis: Conditions Not Yet Ripe Enough for Rate Cut

- The BCCh board has become increasingly dovish in recent weeks, thus signalling that rate cuts are imminent. In fact, Natixis believes that the Bank will start cutting in Q3 or early Q4.
- Natixis' forecast for the terminal rate remains at 4.00%, consistent with their estimation of the neutral rate. However, they don't believe that conditions are ripe for a rate cut just yet. Inflation remains above 4.0%, which is the upper limit of the target range. Natixis also believes that the Fed will resume cutting in October rather than September, which could make it more difficult for the BCCh to cut in order to avoid putting pressure on the CLP. Additionally, the recent surge in oil prices is likely to put upward pressure on inflation in the coming months.
- Although Natixis continues to predict that inflation will converge to 3.5–3.9% by the end of the year as the impact of the unwinding of the electricity subsidy base effect fades, inflation remains above the upper bound of the target band (2.0–4.0%), standing at 4.4% in May. Economic activity decelerated to 2.5% in April, down from 3.8% in March. However, this is only one month of evidence that domestic demand has started to moderate.

Santander: Expects Easing Cycle to Resume this Week

- Santander believes that the May inflation data give the central bank room to resume rate cuts. The figures confirm a more favourable inflation trajectory than anticipated by the central bank in its latest Report. Thus, Santander maintain their view that inflation will close the year below the 4% level, at around 3.7%.
- The recent upward surprise in activity responded mostly to supply-side factors and has not generated significant pressure on prices.
- In this context, Santander estimates that the Central Bank will resume rate cuts at its June meeting, supported by the publication of the new Report, which will allow it to better communicate adjustments to its assessment or strategy following the trade war announcements following the March Report.

Scotiabank: Geopolitical Developments May Prompt BCCh to Err on the Side of Caution

- Before this, the BCCh's decision on Tuesday was on track to be a more divided one, with some calling for a hold, while others believing the BCCh is possibly justified in rolling out a 25bp rate cut alongside the release of new projections in its Monetary Policy Report. Heightened geopolitical risks have injected a high degree of uncertainty for this week's decision, however.
- While Scotiabank's call is still for a 25bp cut, the Costa-led central bank may err on the side of caution and opt for another rate hold, thus postponing their next rate cut to their late-July meeting and extending their on-pause streak since the last reduction in December.
- Scotia expects the BCCh will lower its inflation forecasts as well as lift its GDP growth forecasts, mostly on the basis of data released since their last MPR.

SocGen: See Higher Probability of Rate Cut in July

- The central bank has room to cut rates further, but it would probably wait for additional clarity on the global outlook. As inflation is likely to moderate towards target in H2 2025 (and beyond) after the direct effect of electricity price adjustments ends, and given the growing challenges posed by potentially weaker external sector demand in the coming quarters (or years), the central bank may consider the need to cut rates further.
- The ex-ante real policy rate is 1.6%, which is 0.5pp above what the central bank has previously termed as neutral.
- The timing of the next rate cut might depend on some decline in core inflation or in near-term inflation expectations. SocGen sees a higher probability of a rate cut in July than at the June meeting, particularly because core inflation has proved somewhat stubborn in recent months. They expect two rate cuts in H2 2025 and two more cuts in 2026 to 4.0%, with risks probably balanced in the near term and to the downside in 2026.