

Contributors

Juan Manuel Herrera, Senior Economist
+52.55.2299.6675 (Mexico)
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Jackeline Piraján, Head Economist, Colombia
+57.601.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Aníbal Alarcón, Senior Economist
+56.2.2619.5465 (Chile)
anibal.alarcon@scotiabank.cl

Rodolfo Mitchell, Director of Economic and Sectoral Analysis
+52.55.3977.4556 (Mexico)
mitchell.cervera@scotiabank.com.mx

Brian Pérez, Quant Analyst
+52.55.5123.1221 (Mexico)
bperezgu@scotiabank.com.mx

Miguel Saldaña, Economist
+52.55.5123.1718 (Mexico)
msaldanab@scotiabank.com.mx

Latam Daily: BCCh Hold with Upward Forecast Revisions, Mexico CPI Undershoots

- **Chile: BCCh holds rate, lifts 2025 GDP and inflation forecasts**
- **Mexico: Core inflation undershoots in mid-month data**

CHILE: BCCH HOLDS RATE, LIFTS 2025 GDP GROWTH FORECAST

- **The policy rate will remain at 5% for a long time**

On Friday, March 21st, the Central Bank (BCCh) maintained the Monetary Policy Rate at 5.00%, as broadly expected. Regarding the external scenario, the BCCh reported a drop in long-term interest rates and a weakening dollar globally. Terms of trade improved, with the rise in the price of copper (+8% on the LME) and the fall in the price of oil (-9%) standing out. Despite the above, the Board reiterates its message of caution regarding global uncertainty and the outlook for global growth, in a context of escalating trade conflicts and worsening growth projections for the United States.

The exchange rate has fallen nearly 7% since the January meeting, making it one of the currencies that has appreciated the most against the US dollar among emerging economies. Meanwhile, the drop in external interest rates has been partially passed on to local rates, as the Board also mentions in its statement.

Data have performed better than expected at the time of the BCCh's December Monetary Policy Report (IPoM), resulting in a revision higher to its 2025 GDP growth forecast in this morning's IPoM publication. The BCCh's forecast range is now centred around 2.25% for this year (+0.25ppts above the December IPoM). Notably, the BCCh made a large revision higher to its consumption growth outlook, to 2.0% from 1.6%. Furthermore, the mention of the Capital Goods Corporation (CBC) may be behind the small upwards adjustment to investment, to 3.7% from 3.6% previously. While we had anticipated an upward revision, this projection is still well short of our 6% forecast for 2025.

Two-year inflation expectations are easing, but concerns remain about signs of de-anchoring that have not yet fully disappeared. One of the main focuses of discussion at the January meeting, which we at Scotiabank anticipated, was the rise in inflation expectations reflected in surveys. In this regard, the Traders Survey has lowered the expectation to 3.2% (3.5% at the January meeting). While the BCCh continues to express concern in this regard, it notes that "some indicators" remain above 3%. The favourable evolution of some inflation determinants (such as the exchange rate and oil prices) appear to be providing some reassurance to the Board, making a more aggressive monetary policy response less likely, but it supports a neutral bias for now.

The higher inflation projection, despite favourable developments in its drivers, would support a longer pause at 5.00% for the policy rate, though the BCCh's baseline scenario incorporates two rate cuts by year-end, compared to the single rate cut that we project. On the one hand, inflation has evolved in line with the IPoM's forecasts, the CLP has appreciated, and oil prices have fallen. On the other hand, the National Accounts revealed a rise in non-mining GDP and a better start to the year, while external inflationary risks remain amid an escalating trade war. In this scenario, the Board revised its 2025 inflation forecast higher, to 3.8%. We reiterate that our inflation projection for 2025 is 3.5% y/y.

—Aníbal Alarcón

MEXICO: CORE INFLATION UNDERSHOOTS IN MID-MONTH DATA

Mexican inflation in the first half of March accelerated less than expected, to 3.67% y/y from 3.81% y/y (vs. 3.71% consensus from the Citi Survey). This was due to core inflation decreasing to 3.56% y/y from 3.66% previously (vs. 3.57% consensus). Within this, goods increased to 2.92% (2.76% previously), while services moderated to 4.25% (4.65% previously). Meanwhile, non-core inflation stood at 3.89% (4.18% previously), with agricultural products decreasing to 4.22% (4.47% previously), and energy and government tariffs at 2.96%. On a sequential bi-weekly comparison, headline inflation rose to 0.14% (0.14% previously, 0.17% consensus Citi Survey), the core component increased by 0.24% (0.21% previously, 0.24% consensus), and non-core inflation fell by -0.19% (-0.11% previously). Looking ahead, upward inflationary risks continue to dissipate amid an environment of economic weakness resulting from a significant increase in uncertainty related to the implementation of tariff policies. Nevertheless, we expect Banxico to cut by 50bps at its rate decision later this week, and possibly again by the same amount at its May announcement.

Chart 1

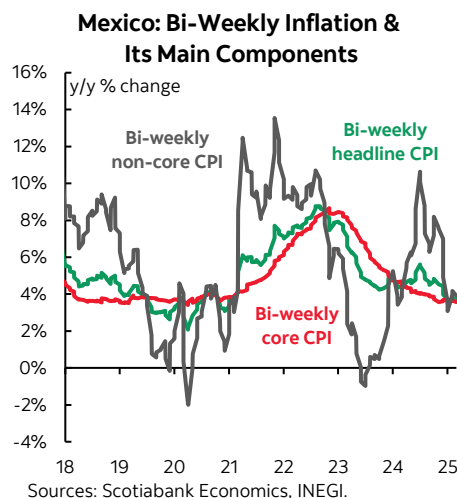
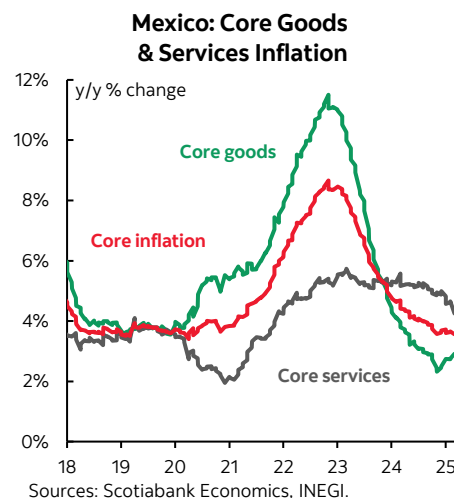


Chart 2



—Rodolfo Mitchell, Brian Pérez & Miguel Saldaña

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