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## Latam Daily: BCCh Likelier to Hold; Small Remittances Break?

### • Chile: The probability of a June policy rate cut decreases

Yesterday's market optimism on speculation that Iran was seeking a cooling of its military conflict with Israel is being turned on its head this morning on aggressive rhetoric from both parties as well as the U.S.—with Pres Trump leaving this week's G7 meeting earlier than planned. The latter is also a discouraging development for hopes that the U.S. could agree to more trade deals during the leaders' summit, and the (now more?) official U.S.-U.K. trade deal is far from being enough to console markets. Mixed-to-weaker U.S. data released this morning is adding to the negative mood in markets, as core and headline retail sales and industrial production all undershot estimates (though the retail sales 'control' group used for GDP tracking purposes was strong).

U.S. equities are off about 0.3%, alike declines in Brazil, but with slightly larger losses in Mexico's and Chile's key indices against modest gains in Colombia and Peru. European stocks are also on the backfoot owing to geopolitical dangers, while Asian indices closed mixed with gains in Japan but losses in Hong Kong and slight declines in China. Currencies are broadly weaker against the USD, which could reflect some risk aversion in markets, yet the outperformance of some high-beta currencies like the BRL and the NOK paints a more mixed picture; the MXN is tracking a 0.3% loss on par with the EUR and the JPY. The BoJ met expectations by leaving its policy rate unchanged at 0.50% and teeing up a slower pace of quantitative tightening. European yields are marginally higher in bear flattening fashion, while USTs are bull flattening with an eye on tomorrow's Fed announcement. Oil prices are 2.5% firmer on Middle East risks, but gold is trading little changed, as is iron ore, while copper is off about 1%.

The day ahead is relatively quiet aside from monitoring Iran-Israel (and perhaps trade) headlines while we wait for Chile's central bank decision at 18ET that is now likelier to deliver a rate hold at 5.00% (see below). We were also planning on watching what came out of Trump-Sheinbaum discussions at the sidelines of the G7, but the Mexican leader will now have to find another occasion to talk to her U.S. counterpart in person; today, she meets with Canada's Carney and E.U. leaders. Yesterday, Trump's meeting with Carney went 'okay' with limited developments and only a broad agreement that they would aim for a trade deal in the near future.

In political news, the U.S. Senate released yesterday its tax and spending plan which kept a 3.5% tax on remittances, but lightened its scope to exempt accounts that fall under the Bank Secrecy Act, i.e. transfers from a bank-account or U.S.-issued cards. This should soften the possible blow to Mexican foreign incomes, and in turn its impact on domestic consumption.

—Juan Manuel Herrera

### CHILE: THE PROBABILITY OF A JUNE POLICY RATE CUT DECREASES

The BCCh will hold its policy meeting this afternoon, and while there are multiple arguments in favour of a rate cut (see [Latam Weekly June 6<sup>th</sup>](#)), the rise in tensions in the Middle East in recent days is likely a key factor in the Board's decision to maintain the policy rate again at today's meeting, favouring caution. This decision is likely due to heightened volatility in financial markets and increased cost pressures due to higher oil and ocean freight prices. All of this would be assessed as increasing inflationary risks, reinforcing the Board's need for caution.

—Aníbal Alarcón

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