Scotiabank

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BCCh Holds, Raises Inflation Alarm

CHILE: POLICY RATE KEPT AT 4.5%, BUT INFLATION RISKS HAVE INCREASED SIGNIFICANTLY

- We expect a 25bps rate hike at the December monetary policy meeting; the December MPR should show higher inflation and lower GDP growth (largely explained by primary sectors)

Although the tone of the statement appears neutral, we do not interpret it that way when considering the inclusion of the phrase "inflation risks have increased significantly." It is likely that a 25bps rate hike was discussed at this meeting but ultimately rejected by the Board due to the absence, so far, of inflation outcomes exceeding expectations.

However, it seems evident that the December Monetary Policy Report (MPR) will incorporate a very significant upward revision to the 2026 inflation forecast, and also some upward adjustment for 2027, alongside a downward revision to 2026 GDP growth toward a figure very close to our point forecast of -0.3% (largely explained by mining GDP and primary sectors). In that context, the output gap would remain broadly unchanged, but with higher headline and core inflation, requiring a policy rate above the path contemplated in the September MPR corridor.

Regarding the external scenario, the main development has been the materialization of a more restrictive stance among major global central banks. This is the case for the Eurozone, the United States, Japan, and Australia, all of which have raised policy rates since the previous monetary policy meeting. Along the same lines, the Board also noted the increase in long-term interest rates domestically, which has been similar to the rise in rates in the United States and somewhat smaller than in other Latin American economies. As in the previous meeting, the statement highlighted the 25% increase in oil prices, as well as the stabilization of copper prices, in a context of resilient global activity.

Another aspect emphasized by the Board was the impact of the El Niño phenomenon on international food prices, contributing to stronger global inflationary pressures. For the Central Bank, this issue began to gain relevance in the September MPR and was mentioned for the first time this year in a monetary policy statement. At Scotiabank, we have consistently highlighted the impact of El Niño since July and continue to expect inflationary effects well above historical patterns.

Inflation anchoring appears more fragile than at the previous meeting, as we have previously highlighted, even though the core inflation surprises that we expect in upcoming releases have not yet materialized. On the inflation front, while recent core CPI readings have not represented a surprise relative to the Central Bank's baseline scenario, the Board acknowledged a "significant" increase in inflation projections for the coming months, leaving them above the levels contemplated in the September MPR.

The acceleration in annual inflation, which paused in September, together with the sharp multilateral depreciation of the peso observed recently and the increase in oil prices (both cited in the statement), led part of the market to project inflation above 3% at the two-year horizon. This is reflected in the median forecasts from the Post-September and pre-October RPM financial traders survey (FTS: 3.1% and 3.2%, respectively).

Although it is still not possible to speak of a de-anchoring of expectations in the economists' survey (EES), the share of respondents projecting inflation above 3% has increased. In our view, reacting only once expectations become de-anchored would not be a scenario the Central Bank would be willing to accommodate.

December meeting: higher inflation forecasts, weaker growth, and higher external rates. There are still 48 days until the next policy meeting, but part of the information that will be available to the Board at that time can already be anticipated. First and most importantly, the Central Bank's September MPR forecast of 4.3% y/y inflation for 2026 would be significantly below the level likely accumulated through November, forcing the authorities to revise their inflation projection upward once again. Market expectations currently point to accumulated inflation between 4.7% and 5.0% by November (considering the EES, FTS, and forwards), which would require a historically negative December CPI print to meet the September MPR projection. At Scotiabank, we forecast accumulated inflation of 5.0% by November and 5.0% by December of this year.

Second, the new MPR will also need to acknowledge a higher level of U.S. monetary policy rates than assumed in September, when the baseline scenario incorporated a 2026 Fed Funds Rate of 4.0%. Along the same lines, the year-end review of the neutral rate typically conducted by the Central Bank will be based on a long-run Fed Funds Rate at least 20bp higher than what was assumed at the end of 2025. This would create room for upward adjustments to the policy rate corridor toward 5.0%, incorporating two additional 25bp increases from the current level.

—Aníbal Alarcón

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