Macro scenario - Chile

May 14, 2024

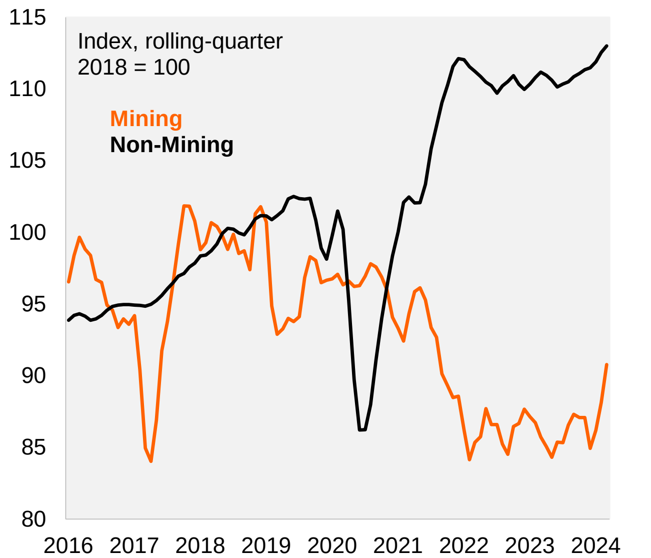
Nearing the last mile

- With geopolitical tensions still high and persistent volatility associated with Fed repricing, the BCCh is set to slow the pace of cuts to 50 bps this month (100 bps in January; 75 bps in April). We see the policy rate reaching 5.25% this year (currently 6.5%; peak of the cycle 11.25%), near the Fed's expected nominal levels. Closing interest-rate differentials should keep exchange-rate volatility high, even as higher spot copper prices, thanks to stronger than expected activity in China, have supported the currency recently.

A March retreat to conclude an upbeat 1Q24

The monthly GDP proxy (IMACEC) fell 0.7% from February to March (sa), with a widespread partial unwinding of strong growth dynamics at the start of the year. On an annual basis, the economy grew 0.8% yoy, broadly in line with the central bank's estimate (implied by the 1Q24 IPoM), with non-mining activity falling by 0.4% yoy. The deceleration from 4.5% in February (boosted by the leap-year effect) was in part led by three fewer working days (due to Easter)**.** Adjusting for seasonal and calendar effects, annual growth was 2.1% (2.8% in February) while non-mining activity rose 1.3% YoY (2% in February). Despite the sequential fall in March, activity during 1Q24 increased at a swift 8.4% qoq/saar pace (0.4% in 4Q23). Leading indicators suggest that activity should continue to recover gradually, with improvements in private consumption, as investment remains weak. Outstanding bank credit remained slightly positive in 1Q24 on an annual basis, as new consumer loans increased further, while upbeat sequential employment growth and rising wages have led to an improving real wage bill. However, the front-loading of fiscal expenditure slowed in March and should moderate even more later in the year to meet fiscal targets. Business sentiment (IMCE) dipped sequentially in April, putting an end to three consecutive gains, while capital goods imports continue to fall at a double-digit pace.

Mining recovering from low levels

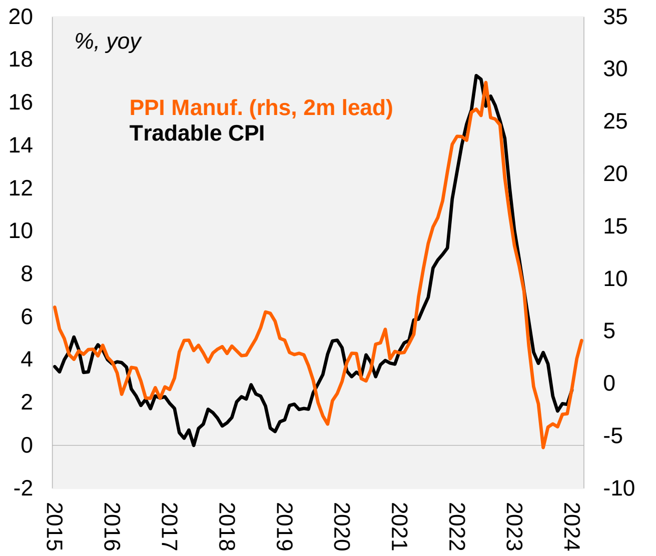


Source: BCCh

Even though fiscal revenues contracted again in March, fiscal data reveal a welcome and earlier-than-expected improvement in cyclically related revenues, as copper inflows should begin to tick up, reflecting greater spot prices. Spending growth slowed in March as expected, after a brisk start in the first two months of the year. Still, the strength of revenue growth in the April tax season (data to be released on May 31) will be key in determining the headwinds to fiscal accounts. We believe large dollar sales are unlikely in the near term, as the Treasury is likely to have a seasonal surplus in CLP liquid assets in the aftermath of the tax season.

Tradable inflation starts to tick up, reflecting the CLP's depreciation in the first months of the year, while services inflation gradually edges down (in line with an output gap that is near closed). Annual inflation rose 30bps to 4.0% in the spliced series, and by the same magnitude to 3.5% in the reference series. Core inflation also rose 0.5% in the month, leading to a 0.2pp drop to 3.5% (reference series). Tradables increased by 0.7% MoM, corresponding to a 2.6% YoY increase in the reference series, up 0.7pp from March. Non-tradables increased by 0.3% MoM, but led to the yearly rate falling from 5% to 4.8% (reference series; services -0.2pp to 4.7%). At the margin, we estimate that inflation accumulated in the quarter was 5.3% (SA, annualized), in line with 1Q24, while up from 3.3% in 4Q23. Meanwhile, core inflation reached 3.8% (SA, annualized, 4.3% in 1Q24 and 2.7% in 4Q23).

Inflation to tick up



Source: INE

More cuts ahead, size likely dependent on data

The minutes of the April meeting showed Board members pondered cutting the policy rate by either 75 bps or 100 bps, while the call by one Board member to consider a 50-bp cut was swiftly discarded on the basis that there was insufficient evidence to justify such a move. With upward inflation and activity surprises since the January policy meeting, being driven by transitory factors, the Board agreed that the policy rate should continue to fall, by 75 or 100 bps in the April meeting. One Board member, however, raised the possibility of slowing to 50 bps if greater weight was placed on upside inflations risks. Based primarily on tactical and risk-management considerations, the Board unanimously decided on a 75-bp cut, in line with consensus.

Several moving pieces

If activity remains at the March level for the remainder of the year, GDP would rise by 2.2% this year. Overall, the economic recovery remains on track from the 0.2% posted last year, lifted by improvements in private consumption, while mining is rebounding after recent operational challenges. Activity data will be revised along with the publication of the national accounts on May 20. We expect GDP to increase by 2.4% this year, with risks tilted to the upside.

Inflation pressures are expected to rise, driven by supply factors. Currency weakness at the start of the year, leading to tradable inflation unwinding the current drag on prices, and the expected regulated price adjustments for electricity lead us to expect a 4.1% year-end rate, with risks tilted to the upside.

The BCCh has much less room left to get to neutral, and the main risk we see going forward continues to be the external scenario, especially heightened geopolitical tensions and market jitters related to Fed repricing. Furthermore, the BCCh acknowledges that the latter is leading to greater exchange-rate volatility, in the context of swiftly narrowing interest-rate differentials. We expect the BCCh to moderate the size of cuts again to 50 bps in the May 23 monetary policy meeting, taking the policy rate to 6.0% (leading to a total of 525 bps in cuts throughout the easing cycle since July). We envisage a year-end rate of 5.25%, with cuts of 25 bps as of June (a slightly slower pace than previously incorporated). Risks tilt to fewer cuts. During 2025, as the Fed embarks on policy easing, we see the BCCh resuming its cutting cycle and taking the policy rate to 4.5% (the upper bound of the 3.5%-4.5% neutral range).

Andrés Pérez M.
Vittorio Peretti
Ignacio Martinez Labra

Chile | Forecasts and Data

	2019	2020	2021	2022	2023	2024F		2025F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	0.6	-6.1	11.3	2.1	0.2	**2.4**	2.4	**2.0**	2.0
Nominal GDP - USD bn	273	254	311	303	332	**315**	315	**355**	355
Population (millions)	19.1	19.5	19.7	19.8	20.0	**20.1**	20.1	**20.2**	20.2
Per Capita GDP - USD	14,312	13,068	15,810	15,294	16,617	**15,679**	15,679	**17,584**	17,584
Unemployment Rate - year avg	7.2	10.8	8.9	7.9	8.7	**8.6**	8.6	**8.4**	8.4
Inflation									
CPI - %	3.0	3.0	7.2	12.8	3.9	**4.1**	4.1	**3.1**	3.1
Interest Rate									
Monetary Policy Rate - eop - %	1.75	0.50	4.00	11.25	8.25	**5.25**	5.25	**4.50**	4.50
Balance of Payments									
CLP / USD - eop	753	711	851	851	879	**920**	920	**850**	850
Trade Balance - USD bn	3.0	18.9	10.5	3.8	15.5	**12.0**	12.0	**7.5**	7.5
Current Account - % GDP	-5.3	-1.9	-7.4	-8.6	-3.6	**-3.8**	-3.8	**-4.0**	-4.0
Foreign Direct Investment - % GDP	5.0	4.5	4.9	6.0	6.6	**5.7**	5.7	**5.1**	5.1
International Reserves - USD bn	40.7	39.2	51.3	39.2	46.3	**46.0**	46.0	**50.0**	50.0
Public Finances									
Nominal Balance - % GDP	-2.9	-7.3	-7.7	1.1	-2.4	**-2.3**	-2.3	**-2.0**	-2.0
Net Public Debt - % GDP	7.9	13.4	20.2	20.4	23.1	**24.5**	24.5	**26.0**	26.0

Source: IMF, Bloomberg, BCCh, INE, Haver and Itaú

Macro Research – Itaú

Mario Mesquita – Chief Economist

To access our reports and forecast visit our website:
https://www.itau.com.br/itaubba-pt/macroeconomic-analysis

Relevant Information

1. This report has been prepared and released by the Macro Research Department of Itaú Unibanco S.A. ("Itaú Unibanco"). This report is not a product of the Equity Research Department of Itaú Unibanco or Itaú Corretora de Valores S.A. and shall not be construed as a research report ("relatório de análise") for the purposes of Article 1 of the CVM Instruction NR. 20, dated 2021.
2. The exclusive purpose of this report is to provide macroeconomics information and it does not constitute and shall not be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial product, or to participate in any particular trading strategy in any jurisdiction. The information herein is believed to be reliable as of the date on which this report was released and it has been obtained from public sources believed to be reliable. However, Itaú Unibanco does not make any explicit or implied representation or warranty as to the completeness, reliability or accuracy of such information, nor does this report intend to be a complete statement or summary of the markets or developments referred to herein. Itaú Unibanco has no obligation whatsoever to update, modify or amend this report and inform the reader accordingly.
3. The opinions contained herein reflect exclusively the personal views of the analyst responsible for this report and were prepared independently and autonomously, including in relation to Itaú Unibanco, Itaú Corretora de Valores S.A. and any other companies within their economic group.
4. This report may not be reproduced or redistributed to any other person, in whole or in part, for any purpose, without the prior written consent of Itaú Unibanco. Additional information on the financial products mentioned in this report may be available upon request. Itaú Unibanco and/or any other company within its economic group is not and shall not be liable for any investment decisions (or otherwise) based on the information provided herein.

Additional Note: This material does not take into consideration the objectives, financial situation or specific needs of any particular client. Clients must obtain financial, tax, legal, accounting, economic, credit and market advice on an individual basis, based on their personal characteristics and objectives, prior to making any decision based on the information contained herein. By accessing the material, you represent and confirm that you understand the risks related to the financial instruments described in this material and the laws in your jurisdiction relating to the provision and sale of financial service products. You acknowledge that this material contains proprietary information and you agree to keep this information confidential for your exclusive use.

For inquiries, suggestions, complaints, criticisms and compliments, talk to Itaú's CSCC: 0800 728 0728. Or contact us through our portal https://www.itau.com.br/atenda-itau/para-voce/. If you are not satisfied with the proposed solution, please contact the Itaú Corporate Ombudsman: 0800 570 0011 (on weekdays from 9 AM to 6 PM) or our PO Box 67.600, São Paulo-SP, Zip Code 03162-971. Hearing impaired, every day, 24h, 0800 722 1722.