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GLOBAL ECONOMICS

LATAM DAILY

January 8, 2025

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Latam Daily: Chile CPI Surprises Lower, but BCCh to Still Pause in January

- **Chile: 0.2% m/m CPI drop in December surprises markets and the BCCh**

Today, the INE published December CPI data which showed a 0.2% m/m decline for the month (4.5% y/y) in line with our forecast at the time of the November inflation release. The reading fell well short of what was expected in surveys (BCCh Economists: 0.1%; BCCh Traders: 0.0%; Bloomberg: 0.0%), and also below forwards (-0.05%) and below what was projected a few days ago by the Central Bank (BCCh) in its baseline scenario (+0.04%). All in all, inflation closed the year at 4.5% y/y, but had it not been for electricity tariff hikes, headline inflation would have closed 2025 at around 3.5% y/y, which would be much more in line with the weakness of domestic demand.

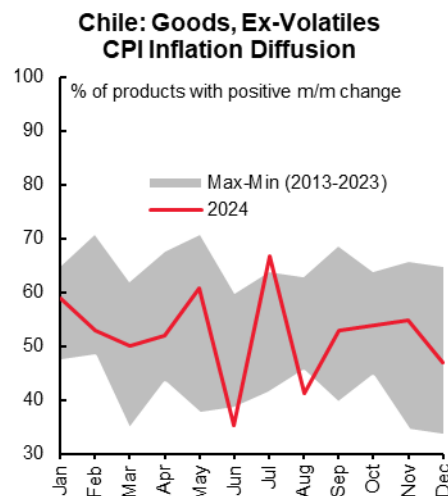
The inflationary diffusion of the total CPI sitting around the lows for the month reveals low inflationary pressures in both goods and services (charts 1 and 2). The number of products that experienced price increases in December represented 42% of the total, ending the year below the historical average of the last 10 years. Similarly, the CPI ex volatiles recorded a drop in inflationary diffusion to 46.6%, driven not only by a decline in goods but also by a normalization in the diffusion of services (45.7%). At the goods level, there was once again a high volatility within the basket, which could be explained by the Cyber events that occurred during the year. In December, the inflationary diffusion of goods (excluding food and energy) stood at 34.6%, significantly lower than that observed in November.

The -0.2% m/m CPI reading for December is mainly explained by a drop in volatile items, especially food. Alongside this, a 0% m/m core CPI inflation reading was the second lowest of the year, driven mostly by goods, but also with limited gains at the services level, revealing low inflationary pressures, in line with the slack shown by the economy.

Does this change the short-term direction of monetary policy? The Central Bank will have to acknowledge the relevant surprise in headline (0.3ppts lower) and core (0.2ppts) inflation at its January meeting. After the 25bps cut in December where a pause was assessed, we consider that the following risks will prevail to opt for a rate maintenance at the January 28th meeting:

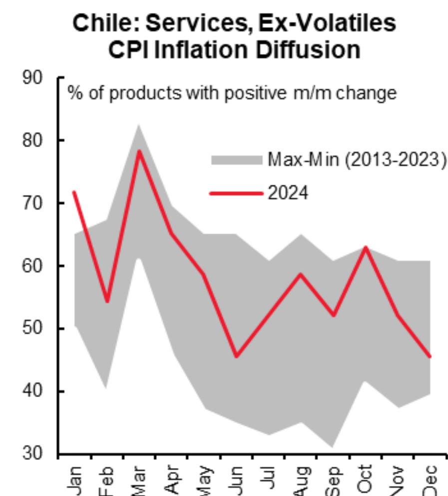
- January CPI could be very high when incorporating indexation adjustments in conjunction with eventual exchange rate pass-through of the recent peso depreciation and wage hike. The BCCh's base scenario contemplates a monthly CPI of

Chart 1



Sources: INE, Scotiabank Economics.

Chart 2



Sources: INE, Scotiabank Economics.

around 1% m/m, while gasoline would have a positive contribution in the first monthly inflation record of 2025. Only once this risk is removed would monetary policy have some additional degree of freedom.

- The December CPI surprise with respect to the BCCh's baseline scenario is concentrated in volatile items, which we expect to be part of the BCCh's reason for keeping the policy rate at 5%.
- The peso depreciation has been higher than comparable since last October. That is, we have seen a relevant multilateral depreciation that we know is the most complicated for inflation, especially during the first 3 months of the year where the main increases for indexation reasons are observed.
- The real benchmark rate (estimated as the nominal rate minus the inflation rate) would be around 0% in the first quarter of 2025, one of the lowest internationally without the need for additional cuts. Cutting the rate would take the real policy rate into negative territory, which would be complex for an adequate management of short-term inflationary risks.
- The international scenario warrants a short-term neutral stance for monetary policy. Uncertainty about the policies to be implemented and announcements by the new US administration may have an impact on financial variables and risk perception in emerging economies, which suggests greater caution on the part of the monetary authority.

—Aníbal Alarcón

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