



Chile: New Inflation Worries

MGA correctly predicts that Chile's central bank would hike its policy rate, in a move that surprised most in market (December 6, 2007)

SUMMARY A renewed bout of inflationary pressures coupled with the growing threat it carries in terms of secondary effects has increased once again the chances that the BCC raises its reference TPM interest rate to 6.0% on December 13. Economic activity is still disappointing but seems to have stabilized, while authorities seem relatively less concerned about the global backdrop as it pertains to domestic activity. A hike would also serve as confirmation of the commitment of the council, under the command of the new president, to the inflation target.

Chile's Peso Gains After Central Bank Unexpectedly Lifts Rates 2007-12-14 09:39 (New York)

Dec. 14 (Bloomberg) -- Chile's peso had its biggest gain in more than a week after the central bank unexpectedly raised its benchmark lending rate, making local fixed-income assets more attractive.

Policy makers boosted the overnight rate a quarter-percentage point to 6 percent, the highest since February 2002, in a bid to stem a surge in inflation. Only eight of 25 economists surveyed by Bloomberg forecast a rate increase in Jose de Gregorio's first policy meeting as bank president.

Chile: The Credibility Game

MGA ahead of the curve in predicting the hawkish turn that Chile's CB confirmed with the higher than expected rate hike that took place. (June 5, 2008)

SUMMARY The inflation surprise together with stronger incentives to reassert the bank's commitment to the inflation target mean that the likelihood that BCC reacts with a TPM hike has increased considerably. This would be in line with what the bank did last December, soon after José De Gregorio's took his seat as president, when the council surprised the majority of the market with a hike in part to deflect market chatter that the bank would relax its price stability mandate.

The day before this report was issued by MGA, all 12 economists surveyed by Bloomberg expected the bank to keep rates unchanged:

Chile Bank Lifts Key Interest Rate as Inflation Soars

June 10 (Bloomberg) -- Chile's central bank raised its benchmark interest rate more than economists forecast to help contain the fastest inflation in more than 13 years.

Bank President Jose De Gregorio increased the overnight rate half a percentage point to 6.75 percent, the highest since March 1999. Only six of 24 economists surveyed by Bloomberg correctly predicted today's move, while 12 forecast a quarter-point increase and six said rates would stay unchanged.

Subscription Information

For more information about Medley Global Advisors (MGA) products and services please contact:

EUROPE/ASIA

ALEX WARK

44.207.377.5517

awark@medleyadvisors.com

NORTH AMERICA

KELLY WILLIAMS

212.941.2708

kwilliams@medleyadvisors.com

EMERGING MARKETS & ENERGY

TUGBA COLPAN

212.941.2774

tcolpan@medleyadvisors.com

BUSINESS MANAGER

TRACEY BENNETT

212.941.2713

tbennett@medleyadvisors.com

MEDLEY GLOBAL ADVISORS
33 WHITEHALL STREET, 15TH FLOOR
NEW YORK, NEW YORK 10004
(212) 941-2700