3 July 2020: Previewing RBA, BOI; Reviewing FOMC Minutes, BoJ Tankan, Riksbank

RBA MONETARY POLICY DECISION (TUE): The RBA is unanimously expected to stand pat on the Cash Rate at 0.25%, according to all ten economists polled by Reuters. Policy settings are also expected to be maintained with the 3yr bond yield target at 0.25% alongside a reaffirmation of its forward guidance for the Cash Rate Target to remain in place "until progress is being made towards the goals for full employment and inflation." Thus, focus turns to any economic forecast tweaks heading into the August SOMP, although some caution that forecasts may prove to be stale given the resurgence in COVID-19 cases in Victoria State – which reimposed stay-at-home orders late-June. Earlier in the week, Deputy Governor Debelle reaffirmed that the Bank will likely keep rates at present levels for the foreseeable future. Debelle stated that substantial policy support will be required for some time and the RBA stands prepared to do more as circumstances warrant. Furthermore, he stated that the RBA is ready to boost bond purchases if required to reach targets and that any rate increase is likely to be years away but also noted that there is no need for negative rates now. All in-all, the speech provided nothing new on monetary policy, but noted the economy performed somewhat better than anticipated during the June quarter. Looking ahead, analysts at Westpac also share the view of rates remaining at current levels for a long time - "we assess until at least the end of 2023 although the 3yr bond target rate will likely be lifted during 2022."

FOMC MINUTES REVIEW: The minutes had a dovish tone amid strong hints that enhanced forward guidance is coming. The Fed's current view is that rates will stay at present low levels until the economy has returned to full employment and the Fed is making progress on its inflation goal; the Fed will continue to buy assets at the current pace. However, the minutes noted that "most participants" feel that the FOMC needs to make their guidance more explicit for rates, as well as provide more clarity regarding purchases of Treasury securities and agency MBS as more information about the trajectory of the economy becomes available. Whether that takes the form of calendar-based forward guidance or outcome-based is the question, with the minute seemingly indicating that both methods are being considered. Many analysts have said that enhanced forward guidance will then pave the way for the Fed to introduce yield curve targeting, in order to keep a lid on yields to prevent any market 'tantrums' which lead to a unwarranted tightening of financial conditions. However, that policy is still clearly under discussion, any not everyone is convinced about the efficacy of the tool, which suggests that the policy isn't likely to be implemented any time soon. With regards to fiscal policy, the minutes continue to warn about withdrawing support too soon, and noted that market participants saw risks around insufficient levels of support.

BOJ TANKAN REVIEW: The quarterly survey signalled a plunge in business sentiment among large manufacturers to the lowest level in over a decade, with the headline diffusion index dropping to -34 vs, Exp. -31 (Prev. -8.0). While a broader deeper-than-expected decline was seen across the manufacturing sectors, the non-manufacturing sentiment was less dire than expected. In terms of the breakdown for the non-manufacturing, retailers posted a positive reading, aided by supermarket sales as consumers erred away from restaurants, whilst drugstores were supported by the nature of the pandemic. Business investments at large corporations is expected to grow 3.1% vs. Exp. 2.0%, led by software investments. All-in-all, the survey highlighted the difficulties faced by the export-oriented Japanese manufacturers alongside woes in the services sector. Desks note that the survey probably marks the trough amid a recovery in economic activity – "with the recovery now gathering steam and new infections remaining low outside Tokyo, the economy should bounce back in the second half of the year", CapEco writes.

PBOC REVIEW: The Chinese Central Bank delivered on the touted rate cuts for its small firms and agricultural sector. The re-lending rates was cut by 25bps which will see the 3m, 6m and 1yr rates at 1.95%, 2.15% and 2.25% respectively, while the rediscount rate was also reduced by 25bps, again as expected. The rates are two of the channels in which the PBoC injects liquidity into the system. The former targets smaller urban and commercial banks whilst the latter is granted to all financial institutions, where the Central Bank accepts collateral at a rediscount rate as means of directly providing funding. The cut acts as an incentive for banks to lend to smaller firms and the agricultural sectors. That being said, ING cautions that if smaller factory owners do not see a rebound of export orders, the demand for borrowing may be subdued. “They may just wait for a month or two and then decide if they should close their business. On this front, fiscal stimulus is expected to play a role”, ING writes. On that front, in lockstep with the PBoC, China's Commerce Ministry said they are studying new measures to support small and labour-intensive trade companies.

RIKSBANK REVIEW: As expected, the Riksbank left rates unchanged at 0.0% and elected to expand their asset purchase programme. The duration of the programme was expanded until June-end 2021 which was one of the options that desks had touted going into the meeting; from a magnitude perspective, the framework has been increased from SEK 300bln to SEK 500bln – on this, the only slight surprise was that they are to begin corporate bond purchases from October, which is perhaps earlier than was to be expected. Other policy action included the lending framework to banks being sweetened somewhat reducing dome of the relevant facility interest rates and as such bringing the level closer to the 0.0% benchmark level. Focus going into the meeting was, aside from APP, on the repo rate which the Riksbank have elected to leave at the U/C mark for the entirety of the forecast period; in defiance of some speculation that the forecast could show a return to NIRP in the recovery phase and/or a hike at the long-end. Finally, the more traditional forecast scenario unveiled this time shows a downgrade for CPIF for the entirety of the horizon compared to the more positive scenario ‘A’ from April; but, this is marginally better than the pessimistic scenario ‘B’. While the growth outlook has been upgraded for 2020 but thereafter is softer than scenario ‘A’ – which is a slight contrast to recent commentary from Riksbank officials, but not too surprising given the significant uncertainty around forecasts of any form in the current environment. The upcoming minutes (Friday 10th July) will be in focus particularly for individual views on the rate outlook ahead as well as the level of confidence in electing to conduct traditional economic forecasts this time around.

BOI PREVIEW (MON): The Street looks for the Bank of Israel to keep rates unchanged at 0.1%. However, more analysts are expecting that the probability of a cut has increased given the economic damage COVID is causing, and two of 15 surveyed in a Reuters poll look for a 10bps rate cut, which would also help address the strength seen in the shekel currency; the BOI's April decision intimated that policymakers are comfortable in cutting rates into negative territory, if needed. The central bank will also update its economic projections.