14 August 2020: Previewing FOMC, ECB RBA Minutes; rate decisions due from the PBOC, Norges Bank and CBRT; Reviewing RBNZ, Banxico

FOMC MINUTES PREVIEW (WED): At the July FOMC, the Committee left rates unchanged at 0-0.25%, as was expected, and its policy statement only saw minor tweaks. The first paragraph of the statement was amended to state that following the sharp declines, economic activity and employment have picked up somewhat in recent months, but remain well below levels seen at the beginning of the year. More notably, the Fed refrained from formalising the pace of its asset purchases within the statement, which currently are running at a clip of USD 80bln per month. Powell struck a dovish tone at his press conference, reiterating that the Fed would use its tools for as long as it takes to help engineer a strong recovery. He was satisfied that household spending is recovering, although business investment was yet to show signs; the labour market, Powell said, still had a long way to go. One of the key outcomes from the presser was Powell noting that high-frequency data showed that the pace of the recovery had slowed compared to mid-June, though he stressed it was too early to say definitively; his remarks caused some jitters in the market, so we'll look to the minutes to examine the extent to which the FOMC more broadly is concerned about slowing momentum. The Fed chair also alluded to the fact that the path forward for the economy was "extraordinarily uncertain". Asset purchases would continue at the current pace, and he strongly hinted that fiscal authorities should do more to support the recovery - comments which are particularly acute given the lack of progress made on Capitol Hill towards securing the next tranche of Covid relief. Some had expected the meeting to 'set the foundation' to future policy tweaks, like enhanced forward guidance or yield curve targeting; on that front, the meeting was a disappointment, given the lack of new details. It therefore heightens the importance of the (virtual) Jackson Hole Economic Symposium August 27-28, which comes ahead of September 16th FOMC, and then the post-election FOMC November 5th.

ECB MINUTES PREVIEW (THU): At the July meeting, policymakers opted to stand pat on rates, while leaving its bond buying operations unchanged, as was expected. Further, the central bank maintained forward guidance and reiterated its willingness to adjust policy as needed to ensure that its objectives are met. President Lagarde's introductory statement noted that incoming data signalled a resumption of activity (but still way below pre-COVID levels) with indicators suggesting a bottoming in April, and an improvement in May/June. Overall, the Q2 EZ GDP decline was judged to have been in keeping with ECB's recent projections, and accordingly, a pickup in Q3 is still expected; the central bank has stuck to its baseline forecast, as outlined in June, with the caveat that the outlook remains highly uncertain. With regards to the upcoming account, comments regarding the state of the economy at the time will likely be side lined by market participants, who instead will favour more recent and timelier data releases. Heading into the announcement, some are focussing on recent comments from policymakers which have noted that the ECB might not fully exercise the total size of its PEPP, a matter which was brought up in the press conference; however, Lagarde was quick to note that unless there is any upside surprises in the economy, the ECB will use the full amount, in a flexible and targeted manner. Lagarde also pushed back on questions surrounding a potential adjustment to the bank's tiering multiplier, noting that the matter was not discussed by the Governing Council, nor were any other adjustments to current policy settings. As ever, market participants will be looking to see if this claim chimes with the official account of the meeting. As has been a theme throughout her tenure thus far, The ECB President continued to stress the importance of fiscal measures as a mechanism to supporting monetary action taken thus far with the ECB's baseline scenario conditioned on the approval of a recovery fund agreement.

PBOC LPR (THU): As is the case on the 20th of every month, the Chinese central bank will publish its Loan-Prime Rate (LPR). There is currently no consensus as to what the PBoC will opt to do next week, after it left the 1-year and 5-year rates unchanged at 3.85% and 4.65% respectively last month, despite some calls for a cut. Analysts have argued that the central bank prefers to keep its powder dry in the face of the resurging COVID-19 pandemic coupled with heightened tensions with the US. A Reuters poll carried towards the end of July shows that economists expect a 10bps to the 1-year rate by the end of 2020, having had cut the rate by a cumulative 46bps since last August.

RBA MINUTES PREVIEW (TUE): The August minutes are likely to be stale given the release of the RBA Statement on Monetary Policy (SOMP) alongside the most recent speech by RBA Governor Lowe and Assistant Governor Ellis. That said, thee will be some focus on insights regarding the central bank's resumption of bond purchases and YCC, as flagged in its August statement; at that meeting, the RBA kept its Cash Rate Target unchanged at 0.25% and maintained its 3-year yield target at 25bps. The central bank also reiterated its forward guidance and unexpectedly announced that it would re-enter the bond market. The SOMP noted that purchases of government bonds would be undertaken as necessary in secondary market, and that there was no need to adjust the mid-March package considering the nature of challenges from the pandemic. The RBA sees 2020 GDP at -6.0% y/y. Governor Lowe this week noted that Q2 GDP likely contracted by around 7%, and he sees the economy contracting by around 6% this year, before rising at a rate of 5% next year, and 4% in 2022. Lowe highlighted a high degree of uncertainty about the outlook, though continued to push back on negative rates. He also reiterated that he would like AUD to be lower, but was not prepared to intervene in FX to weaken the currency. The RBA will continue to assess its base case against other scenarios as the COVID-19 situation in Victoria unfolds, and is unlikely to say much more, analysts at RBC suggest.

NORGES BANK PREVIEW (THU): At its previous meeting in June, the Bank left rates unchanged at 0.0% in a unanimous decision, as was expected. This time around, the Norges Bank is again expected to leave rates unchanged at 0.0%. Overall, the Bank is unlikely to provide much of an update at this meeting and largely stick to reiterations of the June gathering given that we are still awaiting several key data releases and the all-important regional network report September 15th; as such, the September 24th gathering will likely be more notable within which we could see tweaks to their rate path/guidance. The most notable update from the June meeting was the central bank lifting the long-end of the repo path forecast, envisaging a policy rate at 0.1% and 0.5% in 2022 and 2023, but still unchanged at 0.0% in 2021. Aside from this, attention was on commentary that activity had been picking up faster than expected since May. However, while this view is certainly upbeat, it did not allude to whether the economy is erring more towards Alternative 1 (the more optimistic scenario), the baseline, or Alternative 2. As such, attention will be on any more guidance from Norges Bank as to which of the options outlined in May, if any, it believes the economy is moving towards. In terms of recent data, Q2 GDP data is scheduled for release on August 25th, after this month's rate decision; nonetheless, the Norges Bank estimated mainland GDP will decline by 6.1% q/q for the period; analysts at SEB highlight that manufacturing will be a significant drag on the print as production within the sector decreased by 5.6% for the period. Regarding current releases, inflation for July came in at 1.3% y/y and 3.5% y/y for the core; while the headline is someway off the Bank's updated forecast of 1.6% for 2020 the core number has surpassed the 3.0% target for the year, the uptick in core inflation appears to be fairly broad based but is still likely to miss the 2021 target of 2%, writes SEB.

CBRT PREVIEW (THU): Following last month's standing pat on interest rates, analysts remain divided over the Turkish central bank will tweak rates next week. The key One-Week Repo Rate currently stands at 8.25%, but the contrast in views comes against the backdrop of the Turkish Lira at record lows, whilst Turkish President Erdogan continues to endorse lower rates due to his unconventional view that higher rates spur inflation. The Lira's freefall was sparked by Turkey reportedly losing control of capital control measures, and on August 6th, the CBRT permitted the TRY to float having had effectively pegged it to the USD by burning through foreign reserves – Goldman Sachs estimates that around USD 65bln of central bank foreign reserves were spent in June and July in an attempt to shore up the currency. On the data front, July CPI cooled from 12.62% to 11.76% Y/Y, but real rates remain one of the lowest among large emerging economies. The latest CBRT Survey saw the year-end CPI y/y forecast rise to 10.82% from 10.22%, whilst the 12-month figure was lifted to 9.7% from 9.33%. Further, the CBRT's USD/TRY view now stands at 7.3428, weaker than the prior view of 7.0188, and interestingly, its 12-month Repo Rate view was nudged up to 9.1% from 7.9% in the prior survey. Analysts have warned that the CBRT's failure to bring back credibility with a modest rate hike could force a substantial rate increase down the line. However, the central bank is even less independent than it was in during the 2018 Lira crisis after President Erdogan dismissed the previous CBRT governor for refusing to cut rates. Turkish press suggests that current Governor Uysal is highly unlikely to raise rates without the President's permission.

RBNZ REVIEW: RBNZ kept the OCR unchanged at 0.25% as expected, but increased and widened the Large Scale Asset Purchase (LSAP) to NZD 100bln to June 2022 from the prior NZD 60bln to May 2021, while it added that QE eligible assets remain the same and it will provide additional stimulus as necessary. The Bank reiterated forward guidance and commitment to keeping the OCR at present levels until March 2021, but agreed that the package of additional monetary tools must remain in active preparation which includes a negative OCR and noted that purchase of foreign assets is still an option, although Governor Orr later commented that buying foreign assets would not be effective in current conditions. Furthermore, the Committee agreed that any future reduction in rates, if complemented by a funding or lending programme, could provide an effective way to deliver stimulus and agreed that further monetary stimulus was needed to achieve its remit targets. Analysts at Westpac suggest that, according to their calculations, the ramp-up and extension in the LSAP is the upper limit for the programme - “if the RBNZ purchased any more, the Government bond market would become illiquid.” Westpac also noted that today’s announcement provided confidence in their OCR forecast of -0.5% in April 2021, and added that the OCR forward pricing in August 2021 fell into negative from zero, suggesting “a decent chance that the OCR will be below zero at that point.”

BANXICO REVIEW: Mexico's central bank lowered rates by 50bps, as was expected; however, one policymaker called for a smaller 25bps move; Rabobank speculates that the minutes of the meeting will show dissenter was Javier Guzman, who only has three more meetings before his term ends, and after that, Rabo thinks the Banxico's nucleus will shift dovish. The statement, meanwhile, did see some dovish shifts, although the scope for the bank to act will hinge on how economic data comes in and the pandemic plays out. Ahead of the confab, analysts were either of the view that the bank will stand pat following the rate cut, or that the bank will trim by a further 50bps in the meetings ahead. Rabo argues that this meeting provided little support to those expecting no further cuts, and it sees another two 50bp reductions this year; it notes that the market reaction was fairly muted, although MXN retraced some of the rally heading into the meeting, and the front-end now prices in a much higher probability of a 50bps move next month.