

Central Bank Weekly 28th May - Previewing the RBA and RBI; Reviewing RBNZ and BOK

RBA POLICY DECISION (TUE): The RBA is expected to keep its Cash Rate Target and 3-Year Yield Target unchanged at 0.10%, and also expected to maintain the parameters of its QE programme. The RBA has frequently reiterated its guidance, with rates likely to remain at the current record low for the next few years, as reaffirmed at its prior meeting, where the Board said it would not hike rates until inflation is sustainably within the 2-3% target, and it is committed to maintaining highly accommodative policy until its goals are reached, but does not expect these conditions to be met until 2024 at the earliest. The central bank also noted in last month's meeting that the Board was willing to extend bond purchases if required, but added that there was no need to change the yield target, while it will decide in July on whether to roll-over to the November 2024 bond for its targeting of 3-year yields, and whether to extend bond purchases which are on course to end in September. This suggests the upcoming meeting is likely to be a non-event, with participants looking ahead to the subsequent meeting in July for a decision on asset purchases. Incoming data releases have been mixed, which continues to favour a pause in policy; the latest Retail Sales (1.1% vs exp. 0.5%) and Building Approvals (17.4% vs exp. 3.0%) topped estimates. Conversely, April's jobs data was less conclusive, with the Employment Change printing a surprise contraction (-30.6k vs exp. 15.0k) although this was solely due to a decline in part-time jobs (full-time actually increased by 33.8k) and the Unemployment Rate unexpectedly declined (5.5% vs prev. 5.6%). Wage growth was firmer than expected (1.5% vs exp. 1.4%), but remained far from the 3% level where the RBA touted wage growth would need to be sustainably rise above to achieve its inflation goal. As a reminder, the central bank raised its growth forecasts in the recent quarterly Statement on Monetary Policy in which it anticipates GDP Y/Y growth at 9.25% in June and at 4.75% in December this year, while the release of Q1 GDP data next week is also another factor that supports a wait and see approach.

RBI POLICY DECISION (FRI): The Reserve Bank of India is seen keeping rates unchanged, with the Repurchase Rate and Reverse Repo Rate likely to be maintained at 4.00% and 3.35% respectively, while the Cash Reserve Ratio is expected to be hiked 50bps to 4.00%, after the central bank already announced earlier this year that it would conduct a two-phase normalisation in March and May, which would return the CRR to its pre-pandemic level. The RBI is also expected to remove INR 1.37tn of primary liquidity from the banking system. The RBI has remained on hold since the last cut in May 2020, after high inflation abruptly halted the rate cut cycle which had culminated in a total of 250bps of cuts since early 2019, and although inflation has since returned to within the 2-6% tolerance band, the RBI recently suggested that it remains concerned about price pressures constraining monetary policy. Governor Das also announced several measures during an unscheduled address early May to provide relief for individuals, as well as small- and medium-sized businesses from the impact of the pandemic, including loan restructuring through a Resolution Framework 2.0 for COVID-related stressed assets and special 3-year long term repo operations valued at INR 100b for small finance banks (SFBs), with lending by SFBs to Micro-Finance Institutions to be classified as Priority Sector Lending. The RBI also announced a second purchase of government securities, valued at INR 350b, under the G-SAP, and an on-tap liquidity facility of INR 500b for fresh lending to vaccine manufacturers and other health services. As such, these recent series of relief measures suggest more room for the RBI to maintain a patient approach on rates, while the central bank's annual report released on Thursday noted uncertainty and risks clouding the outlook and warned about a risk of a bubble in the stock market amid a widening gap between the real economy and financial asset prices, which furthermore adds to the case for a pause.

RBNZ REVIEW: The RBNZ maintained policy settings, as expected, with the OCR at 0.25% and the LSAP and Funding for Lending Programme also left unchanged. The highlight of the release was the central bank providing its rate forecasts, which point to a 25bps hike in September 2022. Desks also note that the tone of the statement was more hawkish than had been anticipated. The central bank dropped the commitment to further cut the OCR if needed and upgraded its activity forecasts and acknowledged that inflation will spike higher in the near term before slowing by the middle of 2022. Following this release, analysts at ASB brought forward their first OCR hike forecast to May 2022 from August 2022. "A stronger labour market and a more sustained pick-up in pricing pressures would take the RBNZ closer to its employment and inflation targets over the medium term, necessitating an earlier move", its analysts argue.

BOK REVIEW : The Bank of Korea maintained its 7-Day Repo Rate at 0.50%, as expected, via a unanimous decision, and raised the GDP growth forecast for 2021 and 2022. The central bank increased its 2021 CPI view, and maintained its 2022 forecast. Governor Lee said that exports and investments would lead the recovery, and that private consumption was improving. Further, he said the BoK would maintain an accommodative stance for a while, and the economic recovery had strengthened; however, he later added that it is preparing for an orderly normalisation of monetary policy, and whether a rate hike occurs this year will depend on the pace of growth. Lee also suggested that normalisation should not happen too quickly, but should not be too late either. All-in-all, ING believes that the chances of a rate hike this year are pretty small: "we do have some tightening priced in, though not much and we have pushed that

into the second half of next year. Circumstances could bring that forward, though for now, it is a reasonable holding forecast, and in line with the consensus view," the Dutch bank said.

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