



Central Bank Weekly April 1st: Previewing FOMC Minutes, RBA, RBI; reviewing BoJ Tankan

1st April 2022

RBA POLICY ANNOUNCEMENT (TUE): RBA is expected to keep the Cash Rate Target unchanged at the record low 0.10% at next week's policy meeting where market participants will be eyeing any change in rhetoric and clues for when the rate lift off will occur. The RBA has continued to signal an openness for the timing of a rate hike with Governor Lowe stating that it is plausible the Cash Rate will be raised later this year and it would be prudent for borrowers to plan for an increase in rates, while he noted that they are closer to the point where inflation is sustainably in the target range, but caveated that they are not there yet and moving too early on a rate hike carries risks to achieving full employment. Furthermore, Governor Lowe suggested that there are plausible scenarios where there is no hike this year and he doesn't think there is a lot of demand for a rate hike. These comments highlight the indecision at the central bank with Lowe also pointing to the war in Ukraine as a new major downside risk to the global economy. Nonetheless, many are calling for a rate increase as soon as the June meeting and RBC recently joined the bandwagon in which it brought forward its RBA rate hike forecast from August. This comes amid normalisation amongst various central banks and with the latest data from Australia showing a stronger than expected economy as GDP Y/Y in Q4 rose 4.2% vs. Exp. 3.7% (Prev. 3.9%, Rev. 4.0%) and the Unemployment Rate recently fell to its lowest since 2008 at 4.0% vs. Exp. 4.1% (Prev. 4.2%).

RBI POLICY ANNOUNCEMENT (WED): The central bank will conduct its first policy meeting for the brand new fiscal year, and is likely to keep the Repurchase Rate at 4.00% and the Reverse Repo Rate at 3.35%, while it is expected to maintain an accommodative stance. Expectations for the central bank to keep policy settings unchanged follow on from the last meeting in February where the RBI went against the consensus by keeping the Reverse Repo Rate unchanged vs expectations for a 20bps increase and maintained its accommodative stance by a 5-1 vote, while it reiterated that the MPC was of the view that continued policy support is warranted. The RBI also stated at that meeting that it is seeing some loss of momentum in economic activity and that private consumption is still lagging, as well as noting that core inflation remains elevated, but headline inflation is expected to peak in Q4. The heightened geopolitical uncertainty since that meeting with Russia's invasion of Ukraine, has increased the risks to the global economy and places upward pressure on inflation which supports the case for the central bank to keep policy settings on hold. In addition, recent economic releases also limit scope for policy adjustments as Indian GDP for Q3 missed expectations at 5.4% vs. Exp. 6.0% (Prev. 8.4%) and Industrial Production disappointed at 1.3% vs. Exp. 1.5% (Prev. 0.4%), while CPI in February remained outside the RBI's tolerance band of 2%-4% at 6.07% vs. Exp. 5.93% (Prev. 6.01%). Nonetheless, some anticipate that the RBI may be forced to act soon with one of India's top asset managers SBI Funds warning that it could fall behind the curve and may be underplaying inflationary risks which could result in them having to tighten rates much more aggressively later.

FOMC MINUTES (WED): The FOMC raised rates by 25bps to 0.25-0.50%, as the market had expected; Bullard dissented, calling for a larger 50bps move. Updated projections envisage the FFR target rising to 1.75-2.00% by the end of the year, and rates are expected to rise to 2.75-3.00% next year, staying at that level in 2024, before falling. The Fed lowered its estimate of the longer-run rate by one-tenth to 2.4%, implying a front-loaded rate hike cycle. The Committee has introduced language specifically referring to the Ukraine situation, noting the uncertainties it presents to the economy, but could present upwards risks to the inflation profile. Inflation forecasts were raised in the short-term, while the median growth profile for 2022 was cut. The market will be looking to the minutes for any discussion on balance sheet reduction, which the Fed is expected to provide an update on at its May meeting; there were not meaningful updates in March, although the statement now says that the Committee "expects to begin reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities at a coming meeting." The Fed chair suggested that excellent progress had been made in discussions on the balance sheet, and the Fed could finalise plans for reduction as soon as the May meeting—; he also said it could look very similar to its previous balance sheet reduction, but faster, whilst assuring that the Fed would be mindful of the broader financial context, and would avoid adding to uncertainty. At the press conference, Chair Powell was upbeat on the economy, arguing that although growth projections were cut, GDP was still seen growing at above-trend rates, and was strong enough to handle tighter monetary policy. Analysts noted that at Powell's remarks that followed the FOMC meeting, he sounded more hawkish (note: at the FOMC meeting, Powell is understood to be speaking on behalf of the Committee, whereas when he is delivering remarks outside of the FOMC press conference, his remarks are seen to be more his own views). Powell said that the FOMC was able to move rates in 50bps increments if that is what was required to manage inflation pressures, and heavily suggested that this could happen at a coming meeting or meetings, implying more than one 50bp move this year is a



possibility; this would be a hawkish upgrade of his views after the FOMC meeting, where he seemingly advocated a "steady" approach. Money markets are currently pricing a 50bps rate rise in May with around 75% certainty following the FOMC and commentary from other Fed officials, who also seem open to 50bps rate moves at the May meetings—or meetings ahead (plural), to combat high inflation.

BOJ TANKAN REVIEW: The BoJ's quarterly Tankan survey showed that the corporate mood in Japan had worsened amid geopolitics and high inflation. Large manufacturer sentiment declined to the lowest in nine-months, while services business situation slipped for the first time in seven quarters. Capex plans were also revised down in all industries for FY21, while FY22 capex intentions are only seen rising modestly. Japanese firms now expect consumer prices to rise 1.8% in a year (prev. 1.1%), 1.6% 3-years from now (prev. 1.3%) and 1.6% 5-years ahead (prev. 1.4%). The 1-year inflation outlook is now the highest since March 2014; SocGen says that "some may interpret this as indicating that companies are becoming more confident in passing on prices," but "compared to the past, companies have not raised the price pass-through rate relative to the growth in crude oil prices."

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