newsquawk

Central Bank Weekly April 22nd: Previewing BoJ, Riksbank, CBR; reviewing PBoC, RBA minutes

22nd April 2022:

BOJ PREVIEW (THU): BoJ is expected to keep policy settings unchanged at next week's meeting with the central bank likely to maintain rates at -0.10% and its QQE with yield curve control to flexibly target 10yr JGB yields at 0.0%, while it will release its latest Outlook Report in which a cut in growth forecasts and higher inflation estimates are anticipated due to effects from the Ukraine war and China's COVID outbreak. Focus will also be on the statement given the recent developments including the rapid JPY depreciation that saw USD/JPY briefly climb to the 129.00 handle and its highest level in around 20 years, while the central bank also has to contend with the rising yield environment which prompted it to intervene through special operations for an unlimited amount of JGBs at a fixed rate of 0.25% after 10yr JGB yields reached the top of its target range. In terms of the rhetoric on monetary policy, the BoJ have remained dovish in the face of the policy normalisation by other major central banks across the world as Governor Kuroda has reiterated that it is too early to debate an exit from stimulus policy and that the BoJ will maintain ultra-loose policy to stably achieve its 2% price target with the central bank prepared to ease further without hesitation if needed. The data releases have been varied and support a pause by the BoJ as headline CPI for March printed inline with expectations at 1.2% and 0.8% for Core CPI which were the fastest increases since October 2018 and January 2020, respectively, while Tankan data was mixed in which the headline Large Manufacturing Index topped estimates, although sentiment among Large Manufacturers and Non-Manufacturers worsened for the first time in 7 quarters.

RIKSBANK PREVIEW (THU): Desks expect the Riksbank to keep its policy rate unchanged at 0.00% in April, despite multiple hot CPIF prints and commentary from officials pointing to earlier than forecast tightening (currently, the lift-off is forecast for Q1-2024). Standing pat on the Repo Rate is justified by the view that the Riksbank wants any tightening to be gradual, as expressed by Floden and Ohlsson, and more prudently to allow the Bank to communicate a potential tightening cycle to participants through a formal policy meeting before its commencement, likely in June with further 2022 hikes thereafter. On the flip side, market pricing for a 25bps hike in April is now over 90%, with ~23bp of tightening implied. Commencing the tightening process at this meeting has merit given headline and core CPIF metrics are well above the Riksbank's "obsolete" February forecasts and are seemingly yet to peak, as expected. Additionally, an earlier commencement to the cycle may allow the peak/terminal rate to be lower than if lift off is delayed – in an argument similar to that previously utilised by some Fed officials. Overall, the Repo Rate is likely to be left unchanged at 0.00%; but a hike cannot be ruled out. Irrespective of the rate decision, participants will be attentive to how much tightening the Riksbank expects this year and where the terminal rate is seen. Elsewhere, the QE pace was a highlight of the February gathering given the hawkish dissenters, the Q3 pace is likely to see a reduction from the maintained Q2 pace of SEK 37bln.

CBR PREVIEW (FRI): After Russia's central bank lifted its key rate to 20% in February to stabilise the currency and ease inflation pressures following the country's aggression against Ukraine drew a strong sanctions response from the West, it made an unscheduled rate cut of 300bps on April 8th. Markets have also been guided to expect further rate reductions ahead. Speaking to lawmakers this week, Governor Nabiullina suggested that the central bank would consider a reduction at future meetings, but did not explicitly say that this could be forthcoming on April 29th; previously she has talked about how officials will assess gradual rate reductions at future meetings. Deputy Governor Zabotkin has recently said similar, noting that we should not expect or fear that rates will remain at the current high levels, and they would be lowered as inflation eases. The CBR analyst survey this week revealed a view that inflation would not sustainably fall until 2023, and was set to remain elevated in the near-term. But it won't be until 2024 that inflation approaches the central bank's 4% target, the Governor has recently argued, adding that combating high prices was the central bank's most important challenge. Still, many analysts expect rates to be lowered again in April; according to Reuters, the head of Russia's second-largest lender VTB is expecting the CBR to cut rates to 15% this week, and sees the key rate at 12-13% by the end of the year. Elsewhere, analysts will be looking for any updates on the currency, after Nabiullina suggested that the CBR would consider forex controls to avoid the RUB's deviation from official levels.

RBA MINUTES REVIEW: The RBA Minutes from the April meeting stated that inflation picked up and a further increase was expected with the measure of underlying inflation in the March quarter expected to be above 3%. The central bank stated that wage growth also picked up but in aggregate terms, had been below a level likely to be consistent with inflation being sustainably at the target and said the strength of the Australian economy was evident in the labour market, while it added that these developments brought forward the likely timing of the first-rate increase. "Now that it is generally accepted that the RBA tightening cycle will begin in June, with a series of consecutive hikes, interest is firmly targeted at the likely peak in rates in the cycle”, analysts at Westpac say, “We revised our profile last week to bring forward the timing of the peak to June 2023 (from November) and lift it from 1.75% to 2.0%.”

CHINESE LPR REVIEW: The Loan Prime Rates (LPRs) were maintained with the 1yr at 3.70% and the 5yr at 4.60% despite some calls for 5bps reductions across the rates. The hold came in tandem with an unchanged MLF rate in the prior week, which typically serves as a precursor to the LPR decision. That being said, the PBoC had been widely expected to ease policy in Q2, thus a recent RRR cut was implemented, whilst others flag the potential for interest rate cuts. Further, China Securities Times noted the Yuan has room to decline due to weaker exports, possible fund outflows from EM and faster rate increases by the Fed.