Central Bank Weekly June 24th :Previewing Riksbank; reviewing PBoC, RBA minutes, Norges Bank, CBRT, Banxico

24th June 2022:

RIKSBANK (THU): Expected to continue the tightening cycle that unexpectedly commenced at the May gathering via a 25bp hike to 0.25% and was accompanied by guidance for a further two-to-three hikes this year, with three meetings (incl. June) ahead. For the June meeting, the likes of Nordea & SEB expect a 50bp hike to 0.75%. A 50bp rather than a more conventional 25bp move is justified given the strong CPIF prints since the May policy announcement, particularly the 7.2% YY print from the prior 6.4% and well above the Riksbank's 5.5% average forecast for 2022 as a whole. After the rate decision, focus will turn to the policy path which currently looks for two-to-three hikes by end-2022 and implies a Q1-2023 rate of 1.01%; if the Riksbank hikes by 50bp, then evidently the path will be mechanically higher. However, participants will be attentive as to whether the repo path signals moves of 25bp or 50bp for the final two gatherings of the year. Finally, as the Riksbank has already given an update on its H2 purchases there is no pressing need for one at this stage.

PBOC REVIEW: The PBoC maintained its Loan Prime Rates with the 1-Year LPR kept at 3.70% and the 5-Year LPR kept at 4.45%, which was widely expected given that the central bank left the rate on the 1-Year Medium-term Lending Facility unchanged the previous week, although there were some outside calls for a cut to the benchmark lending rate. Nonetheless, the PBoC opted to stand pat after an easing of COVID restrictions in Beijing and Shanghai, as well as an improvement in the data releases, suggested less urgency to act. Furthermore, some see policy tightening by other central banks as a factor restricting the PBoC from lowering rates further given that the central bank would likely prefer to avoid triggering capital outflows and Yuan depreciation, although downgrades to Chinese growth forecasts by several commercial banks and policy support pledges by the Chinese authorities, including the PBoC, will likely keep outside calls for rate cuts lingering in the background.

RBA MINUTES REVIEW: RBA Minutes from the June 7th meeting noted that members agreed further steps would need to be taken to normalise monetary conditions in the months ahead and the Board remained committed to doing what is necessary to ensure inflation in Australia returns to target over time. Furthermore, inflation is expected to continue moving higher before declining back towards the top of the 2%-3% range in 2023 and members observed it would be quite a rapid tightening in a historical context if the Cash Rate were to be increased by 25bps at each meeting over the rest of the year. The release itself was uneventful and overshadowed by preceding comments from RBA Governor Lowe who said that Australians should be prepared for further interest rate increases and the level of rates is still very low for an economy with low unemployment and high inflation. Lowe also wanted to emphasise that the RBA is not on a pre-set path on rates and said that current market pricing on the rate hike trajectory this year is not particularly likely, while he noted they expect to discuss a 25bps or 50bps hike at the July meeting, which effectively ruled out a more aggressive move and subsequently saw markets price out the chances of a 75bps increase.

NORGES REVIEW: A hawkish decision from the Norges Bank on both the hike and policy guidance. Specifically, the Bank hiked by 50bps and altered their guidance to expect the next (25bps) hike at the August interim meeting; breaking from the trend of recent hikes occurring at the main MPR gatherings (next due in September). The hawkish announcement is justified by the hot inflation environment and intended to be a frontloading move from the Bank, designed to reduce the risk of sharper tightening in the period ahead. Note, the announcement is not as hawkish as it could have been - as guidance for moves ahead is back to 25bps increments, as opposed to today's 50bps increase. Additionally, the Bank caveats that "If inflation and capacity utilisation fall faster than projected, the policy rate may be raised less than currently projected." and is seemingly still concerned about the pass through effect to households, adding the "rise in interest rates in Norway may also cool down the housing market and curb household consumption to a greater extent than expected.". Reaction to the release is in-fitting, with an initial NOK appreciation on the 50bp move retracing as participants digest the caveats and guidance for 25bps moves ahead.

CBRT REVIEW: Turkey's central bank left rates unchanged at 14.0% for the sixth consecutive meeting, in line with the consensus view, with the central bank unreactive to the decline in the currency amid already high inflation, and the tightening impulses of other global central banks. "Policymakers in Turkey have taken some steps recently to try to tighten monetary and credit conditions, including raising reserve requirements and capping the maturity of consumer loans," Capital Economics says, "but interest rate hikes remain off the cards as officials continue with the pursuit of their ‘new economic model’ – President Erdogan has actually urged the central bank to cut interest rates further.” CapEco says that, as a result, the central bank is more likely to respond to disorderly falls in the TRY via capital controls and further ‘lira-ising’ the banking system rather than crude interest rate hikes, and while the currency has stabilised of late, CapEco warns that disorderly declines are a real risk. “The lira is down by around 23% against the dollar since the start of the year, but even so, high inflation means that the real effective exchange rate has actually appreciated this year and so further falls in the currency are needed to restore Turkey’s external competitiveness,” CapEco writes, adding that it sees USDTRY rising towards 24.00 by the end of this year vs current levels around 17.4.

BANXICO REVIEW: Mexico’s central bank hiked rates by 75bps to 7.75%, as expected, in a unanimous decision. The Board said that it intends to continue raising rates, and will evaluate taking the same forceful measures if conditions required. The balance of risks for inflation are biased significantly to the upside, and the Board now expects inflation to hit 8.1% in Q3 (vs the 7.0% level it was expecting at its previous meeting), though it still expects inflation to be just above the 3% target in Q1 2024. Pantheon Macroeconomics said “Banxico noted the deterioration of the global economy during Q2, and highlighted the sharp inflation rebound, to rates which have been ‘unseen in decades,’ due to persistent supply bottlenecks, strong demand, and increased commodity prices.” As such, policymakers noted the continuing tightening of financial conditions, which has driven further risk aversion. On the domestic growth front, the Board thinks the recovery continued in Q2, but said that uncertainty continued to prevail; the output gap will continue to decrease gradually. Ahead, Pantheon said it now expects a further 75bps rate rise at the next meeting, in tandem with the US Federal Reserve, but it expects that the pace of tightening will ease over the following meetings.