Central Banks Weekly August 12th - Previewing; FOMC minutes, RBNZ, Norges, CBRT. Reviewing; Banxico

12th August 2022:

RBA MINUTES (TUE): RBA will release the minutes from the August 2nd meeting where it hiked the Cash Rate Target by 50bps to 1.85%, as expected, while it reiterated that the Board expects to take further steps in the process of normalising monetary conditions and is committed to doing what is necessary to ensure that inflation in Australia returns to the target over time but noted that it is not on a pre-set path. Furthermore, it reaffirmed its view that inflation is expected to peak later this year and then decline back towards the 2–3% range and stated that a key source of uncertainty continues to be the behaviour of household spending. The announcement by the RBA immediately pressured AUD/USD given the lack of any major hawkish surprises, while the RBA's quarterly Statement on Monetary Policy released a few days following the meeting was met with a muted reaction as it largely stuck to the script regarding expectations of taking further normalisation steps and the central bank's reference to not being on a pre-set path.

FOMC MINUTES (WED): The FOMC lifted rates by 75bps to 2.25-2.50%, as was expected, taking rates back to neutral for the first time since 2019. The only major tweak to the statement was its reassessment of the economy; the Fed now acknowledges that "recent indicators of spending and production have softened" (recall, it previously said that "overall economic activity appears to have picked up after edging down in the first quarter"). This change was to be expected given the softening in many key macro indicators. The statement offered no clues about what the Fed will do at its September meeting, however during the press conference Fed Chair Powell abandoned concrete forward guidance and said decisions will be dependent upon data and taken upon a meeting-by-meeting basis. We will look at the minutes to see how many participants agreed with this approach. Since the meeting, plenty of Fed speakers have been using the data dependent line for their next decisions but it is clear appetite is for either another 75bps hike in September, or a slower 50bp hike (market pricing is now leaning towards 50bp after the latest CPI report, but the minutes will not incorporate that data, so there is a risk of the minutes sounding more hawkish, but it also will not incorporate the hot July jobs report). Looking ahead, Governor Bowman had suggested rate hikes of a similar magnitude should continue until inflation returns to target, which SGH Macro's Duy says "This could be a clever way to keep 75bp on the table without it really being on the table". At the press conference, Fed Chair Powell was quizzed on the rate path, and he suggested the Fed wants to get to "moderately restrictive territory" by year end, which to him implies a rate of 3.00-3.50%. Since then, other speakers have been maintaining their rate forecasts with Evans in line with Powell suggesting a rate of 3.25-3.50%, while Kashkari leans more hawkish seeing rates at 3.9% by year-end - in fitting with Bullard who sees rates between 3.75-4.00%. Given the hot jobs report and cool CPI since the latest meeting, the minutes may be deemed quite stale given the Fed's data dependent stance. Nonetheless, any views on the outlook will be key, particularly on the terminal rate view after Powell noted it has evolved for all participants - but did not provide much clarity. Analysts at Credit Suisse expect the minutes to show "officials expect the pace of rate hikes to slow unless inflation continues to run at extremely elevated levels". Adding, "Officials likely discussed the recent slowdown in growth data but refrained from the possibility of a rate cut next year".

RBNZ ANNOUNCEMENT (WED): RBNZ is expected to increase rates for a 7th consecutive meeting next week with OIS pricing in over an 80% probability for the central bank to maintain the current pace of 50bp rate hikes which it delivered in its prior three rate decisions, while all analysts surveyed by Reuters forecast a 50bps hike in the OCR to 3.00%. As a reminder, the central bank noted at the last meeting in July that it remains appropriate to continue to tighten policy and that the Committee is resolute in its commitment to ensure price inflation returns to 1%-3% target range. It also agreed to maintain its approach of briskly lifting the OCR and remained comfortable with the projected path of the OCR it outlined in May, while it stated that there were near-term upside risks to consumer prices but also noted medium-term downside risks to economic activity. Since the last meeting, the rhetoric from the central bank has been light with nothing to suggest a deviation from the hawkish market perception and although it announced a new standing repurchase facility to allow eligible counterparties to lend NZD through the standing repurchase facility at the OCR less 15bps, this aims to improve the anchoring of wholesale short-term interest rates to the OCR and concerns policy implementation not the central bank's policy stance. The recent inflation data from New Zealand also supports further rate hikes after CPI for Q2 rose by 7.3% vs. Exp. 7.1% (Prev. 6.9%) which was the fastest pace of increase in 32 years, while the RBNZ Sectoral Factor Model Inflation Index increased to 4.8% (Prev. 4.2%, Rev. 4.6%) which prompted ASB Bank to raise its view for the OCR to peak at 3.75% vs prev. forecast of 3.50% and ANZ Bank also now sees the RBNZ's OCR to peak at 4.00% vs prev. forecast of 3.50%. Conversely, ING sees the risk of a dovish tilt at the upcoming meeting whereby the central bank could reduce its terminal rate projection by 25bps or 50bps from the current 4.00% view due to a deteriorating outlook for growth and falling house prices, but also suggested that the RBNZ could opt to maintain its rate forecasts “to avoid an unwanted impact on inflation expectations” which ING thinks would then make an adjustment in the rate projection later this year quite likely.

NORGES BANK (THU): At the last gathering, where an above-expected 50bp hike was delivered taking the Key Policy Rate to 1.25%, the Norges Bank guided participants towards a 25bp hike in August. Adding, that the policy rate could be lifted more than projected in the scenario of a weaker NOK and sustained global inflationary pressures. Most recently, July’s inflation print was 4.5% (exp. 3.8%, prev. 3.6%) for the Core (ATE) YY – a measure which surpassed the Norges Bank’s 3.2% expectation for this period and their 4.09% (Dec 2022) peak forecast. Unsurprisingly, in the wake of the hot data, the likes of Nordea have altered their call and now look for a 50bp hike in August; though, they caveat that if this does not occur, then such a move is surely on the cards for September. Inflation aside, EUR/NOK has slipped from circa. 10.45 to 9.89 between the June meeting and going into the August event, an appreciation that would typically push against hawkish pricing. However, given the magnitude of the inflation increase in July, this offsetting factor will likely not prove sufficient to dissuade the Bank from undertaking another 50bp move.

CBRT ANNOUNCEMENT (THU): The Turkish Central Bank is expected to maintain its Weekly Repo Rate at 14.00% at its upcoming meeting. Turkey’s recent monetary policy decisions have not been based on economic fundamentals, with late 2021 seeing a cumulative 500bps cut in rates in a matter of months to current levels. In December last year, the Turkish Central Bank introduced a “Lira deposit scheme” to stem the decline in the currency. On the data front, July CPI Y/Y (79.60% vs exp. 80.50%) and M/M (2.37% vs exp. 2.90%) printed cooler-than-expected but still hotter than the prior but PPI rose to an eye-watering 114.61% from 138.31%. The CBRT survey upgraded its end-year CPI forecast to 70.60% from 69.94%, whilst also upping its USD/TRY forecast to 19.6480 from its prior forecast of 18.9881. The survey also upped its 12-month Repo Rate forecast to 16.5% from 15.0%. “The authorities will probably continue to implement ad hoc measures as long as they can in order to sustain what we view as this ultimately unsustainable policy stance”, analysts at Credit Suisse say, “Our 12-month policy rate forecast of 14.00% does not imply that we think the current policy stance is sustainable for 12 months.” The Swiss bank also highlights that policy adjustment “will also crucially hinge, in our view, on political considerations, in particular the presidential/parliamentary elections that will be held no later than in mid-2023.”

BANXICO REVIEW: The Central Bank of Mexico hiked by 75bps as expected and upped its inflation forecasts until the end of 2023 but maintained that inflation will return to target in 2024. Despite upping their inflation forecasts, the Central Bank altered its language on guidance, it previously stated "the Board intends to continue raising the reference rate and will evaluate taking the same forceful measures if conditions so require" after the 75bp hike in June, while the new guidance "the Board will assess the magnitude of the upward adjustments in the reference rate for its next policy decisions based on the prevailing conditions'' - removing language about taking similar forceful measures, which could imply the Banxico is set to slow the pace from the current 75bps increments, but it left its decision to be data dependent (similar to the Fed). Expectations going into the meeting had been looking for 100bps more of tightening through the year-end, which could see the Banxico hike by 50bps in September, before slowing to 25bp moves in November and December. Inflation forecasts were raised (by a fair bit) throughout the forecast horizon until Q423, but it maintains inflation is to return to target in 2024. On the inflation forecast, it also noted that the bias of risks remains to the upside, while on the economic performance, the bias of risks remains to the downside.