Central Banks Weekly October 14th: Previewing RBA minutes, PBoC, CBRT; Reviewing FOMC

14th October 2022:

RBA MINUTES (TUE): The RBA will release minutes from the October meeting where it surprised markets with a smaller-than-expected rate hike as it opted for a 25bps increase instead of the consensus for another 50bps rise, although this followed several hints by the central bank of a future slowdown in the pace of tightening. The central bank's statement suggested further upcoming hikes with the Board committed to returning inflation to the 2%-3% target range over time and it expects to increase interest rates over the period ahead. Furthermore, the RBA reiterated that the size and timing of future interest rate increases will continue to be determined by incoming data and the Board's assessment of the outlook for inflation and the labour market, while the central bank also noted that the Cash Rate had been increased substantially in a short period of time and it remains resolute in its determination to return inflation to target.

PBOC LPR (THU): PBoC is likely to keep benchmark lending rates unchanged at its upcoming monthly Loan Prime Rate setting with the 1-Year LPR, which is what most loans are based on to be maintained at 3.65% and the 5-Year LPR, which is the reference for mortgages, to be kept at 4.30%. As a reminder, the PBoC kept its benchmark rates unchanged last month as expected, but had lowered rates in August with a 5bps reduction to the 1-Year LPR and a 15bps cut to the 5-Year LPR which suggested the central bank was geared towards providing relief for the flagging property sector. In terms of the central bank's rhetoric, the PBoC has continuously reiterated a prudent monetary policy stance, albeit with a pledge to step up the implementation of its prudent approach, while its recent actions whereby it conducted the largest weekly net drain via reverse repo operations at the end of the National Day Golden Week holiday also points to the central bank's preference for avoiding excess liquidity in the interbank market. In addition, the continued weakening of the CNY against the USD owing to the policy divergences between the Fed and PBoC is another factor supporting the view for China's central bank to refrain from further rate cuts, although participants will be looking out for the decision on the 1-Year Marginal Lending Facility Rate to support their views which is released a few days beforehand and is a leading signal for the central bank's intentions for benchmark rates.

CBRT ANNOUNCEMENT (THU): The CBRTs latest survey shows business leaders and economists expect the repo rate to be at 9.41% in three-months time (it was 12.59% in the previous survey), and is seen at 15.53% in 12-months (prev. 15.42%); the rate is currently at 12.00%. After a seven month pause, the CBRT cut rates in August and September; even though inflation has continued to climb. Credit Suisse thinks inflation will rise towards 85% Y/Y in the coming months; "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," the bank says (in December the central bank announced its Lira deposit scheme, which compensates TRY deposits against currency depreciations), adding that "our 12-month policy rate forecast of 12.00% does not imply that we think the current policy stance is sustainable for 12 months, it reflects our view that the timing of the policy adjustment required for price (and financial) stability is impossible to predict given the authorities' approach to policymaking and that a conventional policy adjustment will likely be delivered if/when ad hoc measures have been exhausted." The bank argues that the timing of moves towards conventional policy are likely to depend on political considerations - the Presidential and Parliamentary elections are scheduled to take place no later than the middle of next year.

FOMC MINUTES REVIEW: The minutes were in fitting with recent commentary and contained fodder for both the hawks and the doves. The dovish commentary noted that "several" policymakers said that as policy moved into restrictive territory, the risks would become more two-sided. "Several" said with the highly uncertain global economic and financial environment, it would be important to calibrate the pace of further tightening with the aim of mitigating risk of significant adverse effects on the outlook – a nod to the impacts US tightening has on global economies. Meanwhile, participants observed it would become appropriate at some point to slow the pace of rate hikes while assessing the overall effect of policy. On the hawkish side, "many" indicated once policy reaches a sufficiently restrictive level, it would be appropriate to maintain that level for some time while several underlined the need to maintain a restrictive stance for as long as necessary. "Many" participants also emphasised that the cost of taking too little action outweighs the cost of taking too much action. Much of the commentary had been alluded to by individual Fed speakers since the September FOMC, and was not too surprising for market participants, but it is clear that some on the Committee are cognizant of the risks of doing too much, although many still see the risk of doing too little a greater risk than doing too much given their fight against inflation which is "showing little sign so far of abating".

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