Central Banks Weekly October 21st. Previewing BoC, ECB, BoJ, CBR, NBH and BCB

21st October 2022:

NBH ANNOUNCEMENT (TUE): The NBH is expected to keep its Base Rate unchanged at 13.00%, after hiking by 125bps in September vs the split consensus between 75bp and 100bp heading into the gathering. October's decision is expected to be unchanged following guidance from the NBH after the last meeting that it has concluded the tightening cycle and policy can be held for a prolonged period as the Bank turns its attention to liquidity and transmission. The subsequent minutes made clear that the decision to keep the Base Rate on hold following September's hike had the full support of rate-setters, in keeping with the unanimous decision to end with a 125bp hike. Since then, the Bank has undertaken liquidity-draining operations – a narrative that will be in focus for the upcoming meeting for guidance around the intended scope of such action.

BOC ANNOUNCEMENT (WED): The Bank of Canada is expected to hike rates by 50bps at its October meeting, according to the latest Reuters survey, which was conducted before the September CPI data. Money markets, in wake of CPI, are now leaning towards a 75bp hike with a 70% probability - so it is a close one for either a 50bp or another 75bp hike. The Economists surveyed by Reuters saw 27/30 expect a 50bp hike while the remaining three expect a 75bp hike. The latest CPI data was hotter than expected on all fronts with Y/Y rising 6.9% (exp. 6.8%) but decelerating from the prior 7.0% while the M/M rose 0.1%, hotter than the expected unchanged print. The Core Y/Y rose 6.0%, accelerating from the prior 5.8% while the M/M rose 0.4%, accelerating from the unchanged reading in August. The average of the BoC-eyed measures also ticked up. The inflation report saw a hawkish move in market pricing with Canadian interest rate futures now implying a 75% chance of a 75bp hike next week, vs a 30% probability before the hot inflation. Recent commentary from Governor Macklem noted if the recent CAD depreciation against the Dollar persists, we are going to have to do more work on interest rates. Looking ahead, the terminal rate is expected to reach 4.25% in Canada, up from the prior 3.50% in the prior Reuters poll with nearly all respondents saying risks are skewed towards a higher peak rate. However, since the inflation data, money markets are currently pricing a peak rate of around 4.50% in April, up from the prior 4.33% ahead of the data. It is also worth noting the Fed is widely expected to hike by another 75bps in November, and given Macklem's commentary on the FX rate, coupled with rising inflation expectations in the BoC Business Outlook survey, and hot inflation data, the argument has been building for a 75bp hike. ING also suggests a further 75bp hike, given the upside in inflation, is the most likely outcome. However, it is worth highlighting the latest business outlook survey was quite somber, noting business confidence has softened and most think a domestic recession is likely within 12 months while many are expecting slower sales growth as rates increase and demand slows.

BCB ANNOUNCEMENT (WED): The Brazilian Central Bank is expected to maintain the Selic Rate at 13.75% again. The last meeting saw the Bank keep rates unchanged, however the vote was not unanimous and was a 7-2 split decision, with the two dissenters opting for a 25bp hike. The decision to keep rates unchanged reflected uncertainty about scenarios for prospective inflation, higher than usual variance in the balance of risks and as it "is consistent with the strategy for inflation convergence to a level around its target throughout the relevant horizon for monetary policy, which includes 2023 and, to a lesser extent, 2024". The statement also saw the BCB note that it will not hesitate to resume the tightening cycle if the disinflationary process does not proceed as expected. Analysts at Credit Suisse look for the rate to be unchanged and for the Bank to put emphasis on the guidance that leaving the rate unchanged is consistent with inflation returning to target, while it also expects the BCB to maintain language about its readiness to resume tightening if required. Looking ahead, the desk sees the Selic Rate at 13.75% until September 2023, falling to 11.50% by end-2023 and 8.5% at the end of 2024. However, it acknowledges this outcome depends on the fiscal framework by the next administration with the runoff election due at the end of the month.

ECB ANNOUNCEMENT (THU): With headline Y/Y HICP in September advancing to 9.9% from 9.1% and the core metric rising to 6.0% from 5.5%, policymakers are set to deliver another outsized rate hike following a 75bps increase in September. According to a Reuters survey, 27/36 expect the Deposit Rate to be raised by a further 75bps to 1.5%, 7/36 look for 50bps and just 2/36 forecast 25bps. In terms of market pricing, a 75bps hike is priced at around 80% and a 50bps increase at 20%. Beyond inflationary developments, growth concerns are continuing to mount in the Eurozone with the composite PMI metric declining to 48.1 in September from 48.9 in August. Accordingly, S&P Global noted that "Business activity has now deteriorated for three successive months, indicating falling GDP, with the rate of decline gathering momentum over the third quarter". Nonetheless, with the ECB's 5y5y inflation expectations measure rising to around 2.3% from circa 2.2% at the time of the prior meeting, policymakers will be forced to raise rates again this month with President Lagarde recently noting that hikes will be carried out over the course of the next "several meetings". In terms of other measures to be mindful of, source reporting on 13th October suggested that the GC discussed the timeline for the balance sheet reduction at the Cyprus meeting earlier this month. The report noted that the language regarding reinvestments could be tweaked at the October meeting, before outlining plans for a balance sheet reduction in December or February and then commencing QT sometime in Q2 2023. Elsewhere, the upcoming meeting could see policymakers alter the terms of its TLTROs given that banks can currently park cash from operations at the ECB and earn a risk-free profit following recent rate hikes. Market participants will also be looking for how committed to further rate hikes the Bank is given recent reporting suggesting that an ECB staff model puts the target-consistent terminal rate at 2.25%. That said, the report noted that policymakers were sceptical over the accuracy of the model. As a guide, markets currently see the peak deposit rate at around 3% by late Q2/early Q3 next year.

BOJ ANNOUNCEMENT (FRI): The Bank of Japan is widely expected to maintain its monetary policy settings next week with the central bank likely to keep rates at -0.10% and stick to QQE with Yield Curve Control to flexibly target 10yr JGBs at around 0%. The central bank will also release its latest Outlook Report containing board members' median forecasts for Real GDP and Core CPI, which the Japanese press noted will include an increase in the current fiscal year CPI forecast to the high-end of 2% from the prior 2.3% view. However, rhetoric from the BoJ firmly suggests an unwillingness to tighten policy as Governor Kuroda has stated that the pace of Japan's economic recovery is still slow so the BoJ must continue supporting the economy and that raising rates now is inappropriate in light of economic and price conditions. BoJ's Adachi also recently warned that they must be cautious about shifting towards monetary tightening as downside risks to the economy are increasing and such a shift would weaken demand and heighten the risk that Japan will revert to deflation, while the central bank's decision to extend its pandemic relief program at the last meeting also attests to the BoJ's lack of appetite for normalisation. The latest key data releases add to the case for maintaining easy monetary policy as the BoJ's quarterly Tankan survey showed sentiment amongst large manufacturers worsened, while Machinery Orders and Household Spending also disappointed. Conversely, inflation remains above the 2% target and recently printed its highest since 2014 at 3.0%, but is unlikely to trigger a policy reaction as the central bank has acknowledged that price increases are being driven by rises in energy costs and raw materials, as well as anticipating inflation to slow down to below target levels during the next fiscal year once the impact of energy and fuel costs begin to wane. Furthermore, the recent rapid depreciation in the JPY is unlikely to spur an adjustment to monetary policy with the central bank seemingly comfortable to leave FX intervention to the government, while it even upped the amounts of its bond purchases and conducted unscheduled operations to defend its yield cap which is further evidence of its unwavering dovish stance.

CBR ANNOUNCEMENT (FRI): The Russian Central Bank is expected to hold rates at 7.5% at its October policy meeting, following a 50bps cut last time when the accompanying statement no longer mentioned further rate reductions. Further within the prior release, CBR said inflation expectations of households and price expectations of businesses remain elevated, which has since been reiterated by the Deputy Governor as has the annual inflation forecast of 11-13% in 2022. Since the last meeting, the Deputy Governor has noted the decline in inflation may now be slower than previously thought, but the neutral rate remains at 5-6%, something which Governor Nabiullina echoed in wake of the meeting. Looking ahead, the CBR official noted the central bank will make further rate decisions based on the economic situation and balance of risks, and it will refine forecasts in October with an improved GDP estimate. Further on inflation, the government decided to bring forward the hike in utility prices for households to December '22 from July '23, doubling the size of the indexation to ~9%, and as such JPMorgan thinks "this should add around 0.6%-pt to CPI by the end of the year and might have marginal secondary effects through higher cost inflation and higher inflation expectations." As a result, JPM lifted its year-end inflation forecast to 12.9% from 12.0% previously.

RBA MINUTES REVIEW: The RBA minutes from the October 4th meeting stated that the decision to raise rates by only 25bps was "finely balanced" with the smaller move warranted by the scale of hikes already delivered and lags in the policy. The minutes stated that the full impact of hikes are yet to be felt in mortgage payments and the wealth effect from falling house prices, adding that higher rates abroad are likely to significantly lower global growth and lessen inflation, whilst the uncertain outlook argued for slower hikes for a time and would help hold public attention. The release noted that further increases in rates are likely over the period ahead and rates are not especially high, while the Board emphasised the importance of keeping inflation expectations anchored. "Members observed that the monthly CPI indicator had confirmed the Bank's expectation that inflation had picked up further in July and August, and that it was broadly based.", the minutes said, "Members acknowledged that the arguments were finely balanced."

PBOC LPR REVIEW: The PBoC maintained its Loan Prime Rates (LPRs) as expected, with the 1yr at 3.65% and 5yr at 4.30%. As a reminder, the PBoC rolled over CNY 500bln of maturing MLF loans and maintained its rate on the 1-year MLF which suggests the likelihood that benchmark rates will also be held. Desks have also tempered expectations for further policy easing from China over recent weeks, whilst Chinese press also suggested that the PBoC may delay a cut to the reserve requirement ratio (RRR). "The economy still needs support from RRR and MLF rate cuts, but the chances have certainly gotten smaller given concerns over renminbi depreciation," according to SocGen, "Policymakers will lean towards using fiscal policy and infrastructure stimulus to support the economy", the bank believes. It's also worth noting that markets are still on the lookout for the delayed releases of the September Trade Data alongside Q3 GDP metrics, which have been postponed, likely due to the CCP National Congress which is due to conclude on October 22nd.

CBRT REVIEW: The CBRT cuts its Weekly Repo rate by 150bps to 10.50%, a deeper reduction than the expected 100bps. A notable line from the release suggested "the Committee evaluated taking a similar step in the following meeting and ending the rate cut cycle." The central bank reiterated that it "will continue to use all available instruments decisively within the framework of liraization strategy until strong indicators point to a permanent fall in inflation and the medium-term 5 percent target is achieved in pursuit of the primary objective of price stability." The decision also comes amid recent commentary from Turkish President Erdogan who highlighted that interest rates need to come down further and the CBRT needs to lower rates at the upcoming meeting. Analysts at Credit Suisse argue that the timing of moves towards conventional policy is likely to depend on political considerations - the Presidential and Parliamentary elections are scheduled to take place no later than the middle of next year.