newsquawk

Central Banks Weekly October 28th. Previewing FOMC, RBA, Norges; reviewing ECB, BoJ, BoC, BCB, CBR

28th October 2022:

RBA ANNOUNCEMENT (TUE): The RBA is expected to raise its cash rate by 25bps, according to 28 out of the 32 respondents polled by Reuters, whilst a handful look for a 50bps increase. Calls for a 50bps hike came to light after the hotter-than-expected Q3 Aussie CPI data, which saw all metrics, aside from the Weight Mean Q/Q index, top expectations. Westpac is among those calling for a 50bps increase "in November for a terminal rate of 3.85% by March, revised up from 3.6%." Meanwhile, CBA sees a 25bps increase at the upcoming meeting, followed by another 25bps in December in wake of the inflation data (vs the prior view of a hold in December). Finally, analysts at NAB, "given the recent communications", opt for a 25bps hike, but believe the inflation metrics mean the Board will likely debate a 50bps hike - "In these circumstances, the RBA will need to move monetary policy into more clearly restrictive territory to ensure inflation returns to target," NAB says.

FOMC ANNOUNCEMENT (WED): The Fed is expected to hike its target Fed Funds range by another 75bps to 3.75-4% (money markets have 75bps priced at a 98% probability) with a firm focus on the guidance and Powell's presser as the FOMC looks to step down its pace of tightening approaching its expected terminal rate, roughly in the 4.5-5% area. Ahead of the blackout, Fed insider Timiraos at the WSJ noted the FOMC is barreling towards a fourth straight 75bps hike in November, adding that the meeting could serve as a critical staging ground for future plans, including whether and how to step down to 50bps in December; Fed's Daly also gave remarks calling on the need to step down the pace of tightening. Timiraos wrote, "Some officials are more eager to calibrate their rate setting to reduce the risk of overtightening. But they won't want to dramatically loosen financial conditions if and when they hike by 50bps (instead of 75)... One possible solution would be for Fed officials to approve a half-point increase in December, while using their new economic projections [in Dec.] to show they might lift rates somewhat higher in 2023 than they projected last month." Those concerns around loosening financial conditions will already be top of mind for the Fed given the spike higher in long-end inflation breakevens that have been accompanied by a pick-up in stock appetite, fall in Treasury yields, and a weakening Dollar seen in wake of the WSJ article, not to mention the dovish developments at the ECB and BoC which have only added to central bank 'pivot' pricing. As such, Powell will likely push back on the 'pivot' narrative at the November FOMC, and perhaps front-run the December SEPs in hinting towards a higher terminal rate than the 4.6% median dot in the September SEPs and stressing a "higher for longer" stance as a means to counter the dovish signalling of a reduction in the pace of hiking in the backdrop of little progress made on the inflation front.

NORGES ANNOUNCEMENT (THU): At the September gathering, the Norges Bank hiked its Key Policy Rate by 50bp as expected to 2.25%, alongside this they flagged that the rate will most likely increase further in November; however, the pace is set to slow with Governor Bache looking for a 25bp hike. A slowdown in the pace of tightening was regarded as being warranted due to there now being clear signs of a cooling economy. Since then, the main release has been September's CPI metrics which were notably hotter than expected and increased further from the prior. Upside which appears to be broad-based in nature and thus adds weight to the argument for the Norges Bank to hike by more than 25bp in November; reminder, the September statement included a two-way caveat that hikes could be smaller/higher than forecast, depending on how inflation progresses. Following this, Governor Bache spoke but provided little on policy. Thus, expectations for the November meeting are likely to be split evenly between a 25bp and a 50bp hike from the current 2.25% Key Policy Rate.

BOC REVIEW: The Bank of Canada hiked rates by 50bp, which was smaller than the 75bp expectation, albeit the forecasts were very split between a 50 or 75bp move, market pricing however was leaning towards a 75bp hike. The dovish hike was met with the accompanied MPR which lowered its growth estimates, as well as inflation estimates. Within the statement, the BoC noted the effects of recent policy hikes are becoming evident in interest-sensitive areas of the economy suggesting its policy is starting to take effect. Guidance was maintained and the BoC continued to see further rate hikes ahead. Within the press conference, Macklem implied that the 50bp hike was still considered "bigger than normal" and suggested the magnitude of the next hike could be "big" or "normal" - suggestive of either a 50bp or 25bp move in December. Macklem noted the tightening phase will draw to a close, and they are getting closer to that point but they are not there yet. Despite the revision lower to growth forecasts in the MPR, Macklem reassured the BoC do not expect a severe economic contraction but they do expect growth to stall in the next few quarters, and once they are through the slowdown, growth will pick back up. On inflation, he said they are seeing early encouraging signs underlying inflation is coming down, although the statement suggested its preferred measures of core inflation are not yet showing meaningful evidence that underlying price pressures are easing. Macklem had suggested they are trying to

Copyright © 2022 Newsquawk Voice Limited. All rights reserved.
Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.
newsquawk.com · +44 20 3582 2778 · info@newsquawk.com

balance the risks of under and over tightening which supports the case aggressive tightening is behind them with the BoC clearly cognizant of the risks of doing too much after front-loading their rate hikes. Looking ahead, analysts at RBC expect the end of the tightening cycle is near and are pencilling in one more 25bp hike in December, leaving the terminal rate at 4% although noted the BoC will want to see further easing in monthly core inflation measures and inflation expectations to pause at 4%. Overall a dovish rate decision and forecasts, while the end of the tightening cycle is among us - markets are now implying a terminal rate from the BoC at about 4.27%, as opposed to 4.43% before the decision.

BCB REVIEW: The Brazilian Central Bank maintained rates at 13.75%, as expected, and in the accompanying hawkish statement said it will not hesitate to resume the tightening cycle if the disinflationary process does not proceed as expected, while it will stay vigilant, and policy can be adjusted. The statement adds the Copom would continue to assess “if the strategy of maintaining the Selic rate for a sufficiently long period will be enough to ensure the convergence of inflation.” While the central bank pledged to persist with the current strategy “until the disinflationary process consolidates and inflation expectations anchor around its targets”. Further on inflation, expectations for 2022, 2023 and 2024 collected by the Focus survey are around 5.6%, 4.9% and 3.5%, respectively, while the Bank kept its own 2022 forecast at 5.8%, but slightly raised the 2023 estimate to 4.8% (prev. 4.6%), and 2024 to 2.9% (prev. 2.8%). Additionally, the Copom highlighted the “stronger market sensitivity to fiscal fundamentals” even in advanced economies and states that this “requires more attention from developing economies”, which Credit Suisse notes “reinforces the challenging fiscal scenario faced by the next administration given the expected increase in expenditures next year in an already high gross debt environment”. On the path ahead, Rabobank believes the BCB is most likely to hold rates until year end, then start the easing cycle only by end-2023 Q2, until reaching 11.00% by end-2023 and 8.00% by end-2024.

ECB REVIEW: As expected, the ECB opted to pull the trigger on another 75bps hike, taking the deposit rate to 1.5%. Interestingly, the accompanying statement saw policymakers drop their "several meetings" guidance with regards to future hikes. Instead, they now expect "to raise interest rates further", but without providing a timeframe. This adjustment appears to have been made with the aim of providing maximum flexibility to policymakers and enabling them to take a "meeting-by-meeting" approach as the Eurozone heads into a difficult winter. Elsewhere, the GC opted to change the terms and conditions of the third series of TLTROs and offer banks additional voluntary early repayment dates. Furthermore, the ECB opted to set the remuneration of minimum reserves at the ECB’s deposit facility rate (previously the main refi rate). On the balance sheet, despite some hopes for a tweak to guidance on QT, the Bank made no changes to its language regarding reinvestments for PEPP and APP. At the follow-up press conference, Lagarde's qualitative assessment of the Eurozone saw the President caution that activity is likely to have slowed significantly in Q3 and is expected to slow down substantially over the remainder of the year. That said, the fight against inflation will keep the Bank in normalisation mode with inflation judged to be " far too high". When it comes to further rate hikes, Lagarde stated that the GC may need to go beyond normalisation and despite dropping the word "several" from the statement, she conceded that the ECB might need to hike "at the next several meetings". On the balance sheet, Lagarde noted that policymakers did not discuss substantive APP issues today, but would pursue a discussion of the key principles of APP in December, thus disappointing some who may have been looking for a more timely discussion and implementation of QT in early 2023. Overall, the dropping of the "several" meetings guidance in the statement and lack of discussion over QT provided a dovish slant to the announcement with the cycle peak rate seen at around 2.6% vs. circa 2.9% pre-release. In wake of the ECB, sources were mixed with a denial that QT will be discussed in December, while also noting the decision was not a unanimous one with three policymakers voting for a 50bp hike instead. On the guidance, the hawks were down playing the removal of "several" from guidance on further rate hikes while doves stated the guidance tweak paves the ground for ending hikes in December in case of an improved inflation outlook or possibly in March.

BOJ REVIEW: BoJ maintained its policy settings, as expected, with rates at -0.10% and QQE with yield curve control unchanged to target the 10yr JGB yield at around 0%, via a unanimous vote, whilst also keeping dovish forward guidance. The accompanying Quarterly Outlook Report saw Core CPI upgraded across the board, but the FY23 and FY24 forecasts remained below the BoJ’s 2% target, both at 1.6% (upgraded from 1.4% and 1.3% respectively), whilst warning that the risks to prices are skewed to the upside. Real GDP growth was downgraded for FY22 and FY23, but upgraded for FY24. The BoJ said there is a need to watch FX and its impact on the economy. The central bank also said it will make changes to the way it buys ETFs from Dec 1st – the Bank will take into account the holding cost of each ETF and select those with the lowest trust fee ratio in making purchases. Separately, the BoJ upped the frequency of JGB purchases for November in its Quarterly Schedule of Outright Purchases of Japanese Government Bonds and Governor Kuroda stuck to a distinctly dovish script in the post-meeting press conference. To recap, he repeated that the Bank is not thinking about an interest rate hike or exit from easing for the time being, as CPI will undershoot the 2% target from next fiscal year onwards and cost-push inflation will ease after the new year. Moreover, Kuroda reiterated that the BoJ will not hesitate to loosen policy further, if required, it does not target FX rates and Japan has a history of suffering from Yen strength.

CBR REVIEW: Russia's central bank left rates unchanged at 7.5%, in line with expectations and in a unanimous decision. In its statement, it said that the partial mobilisation will serve as a deterrent to consumer demand and inflation over the coming months, though its subsequent effects will be pro-inflationary, adding to supply-side restrictions. Capital

Copyright © 2022 Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com

Economics said that line is likely to mark a pause in the easing cycle: "The decision and the commentary around it suggest that the CBR has brought an end to its easing cycle for a period of time," arguing that the central bank now sounds a little more concerned about the inflation outlook. Additionally, the CBR said inflation expectations have risen slightly, while high-frequency indicators point to stronger dynamics of business activity in Q3 than expected. CapEco says the CBR will "likely remain focused on these inflation risks at its upcoming meetings, and we think the scope for further interest rates cuts is now limited." CapEco thinks there will be a narrow window for easing next year as inflation falls closer to the CBR's 4% target, but expects just one more 50bps rate cut to 7.0% in 2023.

Disclaimer

The information contained within this document has been prepared and issued by Newsquawk Voice Limited (**"Newsquawk"**) on the basis of publicly available information and other sources believed to be reliable. Whilst all reasonable care is taken to ensure that the facts stated are accurate, neither Newsquawk nor any of its directors, officers or employees shall be in any way held responsible for its content or your use of it. Neither the provision of any content herein nor anything on our website or any other media we use is intended to, and should not be construed as, providing advice and/or enticing an offer or solicitation to invest in, buy or sell securities or other financial instruments.

Copyright © 2022 Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com