Central Banks Weekly November 18th: Previewing Fed and ECB minutes, PBOC LPR, RBNZ, Riksbank, BoK, CBRT rate decisions

18th November 2022:

PBOC LPR (MON): The PBoC's Loan Prime Rates (LPRs) are expected to be maintained with the 1yr at 3.65% and the 5yr at 4.30%. Expectations for an unchanged decision arise from the One-Year Medium-Term Lending Facility Rate (MLF) being maintained at 2.75%. Desks suggest that China is walking on a tightrope after the PBoC's decision in August to lower key rates accelerated the Yuan's decline since, whilst the fresh wave of COVID infections across the nation has hit the raft of activity data from the second largest economy in the world. "Any fresh monetary policy stimulus will be largely dependent on credit demand, which tumbled more than expected in October", according to ANZ's China Strategist, who also noted that the PBoC will "continue to maintain ample liquidity, but chances for an interest rate cut are low."

RBNZ POLICY ANNOUNCEMENT (WED): The RBNZ is widely expected to raise its Cash Rate at the upcoming meeting, with 15 out of 23 analysts polled by Reuters forecasting a 75bps move, while the rest lean towards 50bps. The calls for a hike come amid hot inflation at 7.2% Y/Y in Q3 – well above the RBNZ's 1-3% target – which comes in conjunction with a tight labour market. ANZ, ASB, Kiwi Bank, BNZ, and Westpac all forecast a 75bps hike on Wednesday. Analysts at ANZ suggested "The RBNZ has already proven that it's not in the least afraid to go its own way, and the global tilt towards slower hikes is unlikely to play a significant part in the decision… We are forecasting the OCR to peak at 5.0%, via another 75 bp hike in February on a 'let's just get it done' basis. If data cools more rapidly than expected the RBNZ could well slow the pace at that point."

FOMC MINUTES (WED): At its November confab, the FFR target was lifted by 75bps to 3.75-4.00%, as expected. The statement was dovishly received by the market after it stated that the Fed will consider the "cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments" when determining the pace of future rate increases. Analysts rationalised that with rates becoming more restrictive, the Fed can downshift to a slower pace of normalisation to assess the impact of the 375bps worth of rate tightening unleashed since March. However, Fed Chair Powell's press conference injected a hawkish bias after he suggested that it was "very premature" to consider pausing the course of hiking. The Fed chair said that the time to slow rate hikes might come as soon as the December meeting, he impressed that inflation remains well above the Fed's longer-run goals, with price pressures evident across goods and services. And although longer-term inflation expectations still appear well-anchored, the Fed wants to see inflation coming down decisively, and is prepared to stay the course until the job is done, with the Fed strongly committed to its inflation target of 2%. He added that there was still "some ways to go" on rate hikes, while the 'ultimate rate level' might even be higher than previously expected (NOTE: the Committee forecast a 4.50-4.75% terminal rate in its forecasts). The Fed chair said the debate on how far to lift rates was the important question, but there was still ground to cover before the Fed can 'meet that test', adding that there is a lot of uncertainty regarding the lagged impact of policy tightening. These themes have been largely echoed by officials in wake of the November meeting. And after CPI and PPI data have eased in October, money market pricing implies a 50bps rate hike in December, with the terminal rate expected to be a little over 5% by mid-2023 - it is worth noting that for most of this week, expectations of the terminal rate were sitting between 4.75-5.00% until FOMC voter Bullard delivered hawkish remarks, where he suggested that rates were not yet "sufficiently restrictive", "even under the most generous interpretation"; Bullard has been a policy leader in the post-pandemic era, with his hawkishness coming before his other colleagues.

BOK POLICY ANNOUNCEMENT (THU): The Bank of Korea is expected to lift its Base Rate by 25bps to 3.25%, with analysts suggesting that the decline in the USD/KRW exchange rate gives it scope for a smaller rate hike (recall, the sharp upside in the USD/KRW rate in September saw the bank implement a 50bps rate hike). Additionally, inflation data rebounded in October, seeing analysts call for continued monetary policy tightening. SocGen's analysts added that the slowdown in activity indicators, as well as the sustained 'credit crunch' in the corporate credit market has also dimmed the prospect of a 50bps move. Elsewhere, within its updated projections, the central bank will likely lower its view of near-term growth, but inflation forecasts are likely to be maintained, SocGen says.

CBRT POLICY ANNOUNCEMENT (THU): The CBRT's latest monthly survey of business leaders and economists revealed that those surveyed expect the Repo Rate to fall from the current 10.5% to 9.0% in the next three months (previously, they had expected a decline to 9.4%), while the rate is seen at 15.88% in 12-months (vs 15.53% in the previous poll). CPI expectations over the next year are little changed, with the consensus looking for consumer prices to close out this year at +68.1% Y/Y. Credit Suisse reminds us that the CBRT's policy decisions have not been based on conventional economics. In October, the Repo Rate was cut by 150bps to 10.50%, and signalled it would cut the rate again in November despite the challenging inflation situation. "Both the decision and the guidance at the October meeting followed President Erdogan’s September statement that he would like to see the policy rate in single digits by the end of this year," CS notes. CS thinks headline inflation will likely increase further in October-November before slowing to under 70% from December owing to base effects, "provided that the central bank remains 'resourced' to sell FX to manage the lira’s exchange rate." CS adds that 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." Credit Suisse continues to argue that the CBRT will need to revert to conventional policy adjustments when its ad hoc measures have been exhausted, the timing of which will depend on political considerations, with Presidential and Parliamentary elections due no later than mid-2023.

RIKSBANK POLICY ANNOUNCEMENT (THU): The Riksbank is expected to step down from its recent 100bps hiking level by delivering a 75bps increase despite guidance for a 50bp hike at the September MPR. A 75bp hike is justified by the domestic inflation situation remaining hot, as while the headline October metrics were below market expectations (note, this was almost entirely due to a drop in electricity pricing), the key ex-energy figure was markedly above both the market and Riksbank’s consensus and lifted from the prior. While such an increase could be argued as meriting another 100bp hike, the Riksbank is unlikely to deliver tightening of this magnitude again given initial signs that the tightening undertaken thus far is weighing on the domestic economy. Note, while 75bp is expected the likes of SEB believe that the inflation release has “significantly” increased the chance of 100bp, though they have maintained their 75bp call. As it stands, the policy rate is seen peaking in Q3-2023 at 2.52%. Evidently, a 75bp hike would match that forecast and thus the Riksbank will likely lift its policy rate forecasts; however, the magnitude of this is likely to be relatively limited in size, given associated tightening headwinds and the policy transmission lag.

ECB MINUTES (THU): 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. 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 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, 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 dated nature of the release will likely mean there is little for markets to shape expectations for the December meeting. On which, more timely interventions from ECB policymakers and source reporting suggest that the GC will likely raise rates by 50bps in December, whilst commencing the discussion on QT.