Central Banks Weekly Dec. 2nd: Previewing RBA, RBI, BoC; reviewing Fed's Powell

2nd December 2022:

RBA POLICY ANNOUNCEMENT (TUE): RBA is likely to hike rates again next week in which money markets had priced in a 70% chance for the central bank to increase the Cash Rate Target by 25bps to 3.10% and a 30% probability of the central bank maintaining the benchmark rate at the current 2.85%. Expectations for the central bank to hike rates follows the last meeting where it maintained the slower pace of 25bps rate increases which was widely expected although there were outside calls for a return to a more aggressive move given the elevated inflation data from Australia. The central bank's comments at the meeting also lacked any major hawkish surprises as it reiterated that it expects to increase interest rates further over the period ahead and that the size and timing of future interest rate increases will continue to be determined by the incoming data and the Board’s assessment of the outlook for inflation and the labour market. Furthermore, RBA Governor Lowe reiterated shortly after the meeting that rates are not on a pre-set path and noted the board judged it appropriate to raise rates at a lower magnitude but added that they will return to larger rate hikes if deemed necessary and will hold rates if the situation requires it. Deputy Governor Bullock has also stated that they are seeing more broad based CPI pressure in the economy and need to raise interest rates to influence demand, but separately commented that they are getting closer to the point where they might be able to pause and take a look. The latest data releases have been mixed with Employment Change better than expected at 32.2k vs. Exp. 15.0k (Prev. 0.9 k) and the Unemployment Rate fell to 3.4% vs. Exp. 3.6% (Prev. 3.5%). Conversely, Retail Sales showed a surprise monthly contraction in October at -0.2% vs. Exp. 0.5% (Prev. 0.6%) and also disappointed for Q3 at 0.2% vs. Exp. 0.4% (Prev. 1.4%), while Wage Price Growth for Q3 accelerated to 3.1% vs. Exp. 3.0% (Prev. 2.6%) which adds to the already heightened inflationary pressures and supports the view that rate will be increased further. However, there are differing views to what extent rates will be increased with CBA anticipating just one more rate hike through a 25bps increase and the Cash Rate to peak at 3.10%, while Goldman Sachs recently revised its forecast for the Cash Rate to peak at 4.1% vs prev. view of 3.6%.

RBI POLICY ANNOUNCEMENT (WED): RBI is likely to hike the Repurchase Rate again from the current level of 5.90% with 33 out of 52 economists surveyed by Reuters calling for a 35bps hike to 6.25% and 11 anticipate a 50bps move, while 20 out of 28 respondents think it is too soon for the central bank to shift its focus away from inflation to growth. As a reminder, the central bank hiked its key rate by 50bps at the last MPC meeting through a 5-1 vote which was the third consecutive 50bps increase and the fourth rate hike in the current cycle which began in May. RBI Governor Das also stated at the last policy decision in late September that the MPC is to remain focused on withdrawal of accommodation and that consumer price based inflation remains elevated, while he added that the persistence of high inflation necessitates a further calibrated withdrawal of monetary accommodation and that liquidity remains at a surplus with overall monetary and liquidity conditions still accommodative. The main reason for the expectations of a hike is due to inflation which remained elevated for October at 6.77% vs. Exp. 6.73% (Prev. 7.41%) and the Monetary Policy Committee even conducted a special meeting last month to prepare its report to the government on missing the inflation target where it refrained from discussing and taking action on rates as expected, although there were outside calls for a 25bps-50bps move. Aside from the inflationary pressures, another factor that was seen as an influence for the central bank’s recent rate hikes was a weaker currency as the rupee had continuously depreciated against the dollar and although it had since recovered off record lows, it still remains at depressed levels.

BOC POLICY ANNOUNCEMENT (WED): Having already lifted rates by a cumulative 350bps this cycle, the consensus expects the Bank of Canada to lift its overnight rate by 50bps at its statement-only meeting in December, taking it to 4.25%. However, it is a fine call, with just under half of analysts surveyed by Reuters looking for a smaller 25bps move. Money market pricing, meanwhile, is tilted towards the smaller hike. Traders will also be looking out for any guidance about how close the central bank is to ending its hiking cycle. The Reuters’ poll noted that although there was no clear consensus on where rates would top-out, 26 of the 29 surveyed see the terminal rate at 4.25% or higher, which suggests that the BoC could either be ready to conclude, or near concluding, its rate tightening; in October Governor Macklem hinted that the end of the cycle was near, but “we are not there yet,” he said. NOTE: the BoC’s Deputy Governor Sharon Kozicki will be delivering remarks as the central bank publishes its economic progress report.

FED'S POWELL: Chair Powell's speech was interpreted as dovish, essentially cementing a 50bps rate hike in December, noting that it makes sense to moderate the pace of hikes which may come as soon as December. Also, there was a slight change in his language, as he stated that the Fed has made substantial progress towards a sufficiently restrictive level, but there was more ground to cover; after the November 2nd FOMC meeting, he said there was "a ways to go" with rates before rates got to the level that is seen as sufficiently restrictive. With substantial progress towards a sufficiently restrictive level, it appears Powell could be signalling that it is closer to their terminal rate than previously thought, with just "more ground to cover" now rather than "a ways to go". Market pricing also saw a dovish shift, with expectations of the terminal falling to 4.95% (the 4.75-5.00 bracket) vs north of 5.00% (the 5.00-5.25% bracket) ahead of his remarks, while the implied probability for a 50bps hike in December increased to around 90% from around 80%, with just a 10% probability of a 75bp hike. Powell repeated that the Fed will likely need to hold policy at a restrictive level for some time, and history cautions against prematurely loosening policy. He stressed the Fed will stay on course until the job is done and that the October inflation data was welcome, but it will take substantially more evidence to give comfort that inflation is actually declining and the path ahead is highly uncertain. He deemed it far too early to declare goods inflation has vanished, but if the trend continues, it should start to exert downward pressure on overall inflation in the coming months. On QT, Powell said the Fed will at some point "call it" but will want to stop at a place that is safe. Powell also said he does not want to overtighten, but cutting rates is not something to do soon. It is also worth noting there was no mention of a pause during the speech; he had previously suggested it is premature to think about pausing.