Central Banks Weekly Jan. 13th: Previewing BoJ, ECB minutes, Norges Bank, PBoC LPR, CBRT; reviewing BoK

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BOJ POLICY ANNOUNCEMENT (TUE): The BoJ is expected to refrain from conducting any policy adjustments at next week's meeting with the central bank likely to maintain its negative rate at -0.10% and stick to its QQE with Yield Curve Control to flexibly target 10yr JGB yields at 0%, although a hawkish surprise cannot be ruled out after a recent press report noted that the BoJ will review the side effects of its massive monetary easing at the upcoming meeting. As a reminder, the BoJ threw markets a curve ball last month when it unexpectedly tweaked its QQE by widening the tolerance band to allow 10yr JGB yields to move freely between -0.50% and +0.50% parameters from a previous +/- 25bps deviation from the target, but also increased the amount of outright JGB purchases with the adjustment intended to "improve market functioning and encourage a smoother formation of the entire yield curve while maintaining accommodative financial conditions". BoJ Governor Kuroda noted shortly after that the decision was not an exit of YCC nor was it a change in policy and that it is appropriate to continue easing policy. Kuroda also stated that there is no need to further expand the tolerance band and there is no intention to hike rates or tighten policy, while sources recently noted that the BoJ sees little need to rush major yield curve adjustments. Furthermore, attention will also be on the Outlook Report for the latest projections by Board members in which Kyodo cited sources stating that the BoJ mulls raising Japan's inflation forecasts amid policy speculation whereby revisions would include raising its core consumer inflation outlook for fiscal 2022 to the 3% level from the October projection of a 2.9% rise, while sources added that the BoJ would also raise forecasts for the following two years close to its 2% target from its previous forecasts of 1.6%.

ECB MINUTES (THU): As expected, the ECB stepped back from its 75bps cadence of rate hikes and opted to raise its key three rates by 50bps a piece. Furthermore, the Governing Council judged that "interest rates will still have to rise significantly at a steady pace to reach levels that are sufficiently restrictive". On the balance sheet, from the beginning of March 2023 onwards, the APP portfolio will decline at an average pace of EUR 15bln per month until the end of Q2 with its subsequent pace to be determined over time. The accompanying macro projections saw 2022 HICP upgraded to 8.4% from 8.1%, 2023 raised to 6.3% from 5.5%, with 2024 and 2025 seen at 3.4% and 2.3% respectively. On the growth front, 2022 GDP was upgraded to 3.4% from 3.1% and 2023 is seen at just 0.5% (prev. 0.9%), with the upcoming recession likely to be shallow and short-lived. At the follow-up press conference, Lagarde noted that info predicates a 50bps hike at the next meeting, "possibly the next one as well and possibly thereafter". In terms of the unanimity of the Board, Lagarde stated that there was a very broad majority view that the ECB should show perseverance. However, some wanted to do a bit more and some a bit less. Later, sources showed that over a third of ECB policymakers wanted to opt for a larger 75bps hike. Any further colour on what compromise was made to get the hawks on board with the smaller 50bps hike will be noted by the market. That said, market participants will likely place greater emphasis on recent commentary from officials given the December CPI report which showed a cooling in headline inflation to 9.2% from 10.1%, whilst the super core rose to 5.2% from 5.0% and therefore had prompted the discussion that although the headline may well have peaked, the core rate might prove to be stickier.

NORGES BANK POLICY ANNOUNCEMENT (THU): The Norges Bank is likely to keep rates on hold at 2.75% at the January meeting, in fitting with guidance from December's gathering that rates will most likely increase further some time in Q1. Specifically, the repo path implied circa. 35bp of tightening before a peak around March 2023; i.e. a 25bp move in the first quarter this year and then some optionality for another move if inflation remains hot. This time, the Bank is likely to stand-pat as December's headline inflation measure encouragingly saw a marked downturn to 5.9% YY from 6.5%, and while the core measure ticked up slightly to 5.8% from 5.7%, this essentially matched the Norges Bank's December CPI-ATE forecast of 5.75%. While another 25bp increase cannot be entirely outruled for the January gathering, the likes of SEB believe a hike in March is more likely

CBRT POLICY ANNOUNCEMENT (THU): Having cut rates by 150bps in November (and by 500bps altogether since August 2022), the overnight repo rate is back into single digits at 9.00%, and the CBRT has signalled that its rate cut cycle has concluded. Accordingly, analysts expect rates to stay at current levels until after the Turkish elections, which are set to take place in June, though there are still risks that President Erdogan could compel the central bank to again lower rates ahead of the election. The central bank's latest survey sees end-2023 CPI at 32.46% (prev. 34.92%), and is seen at 30.44% in 12-months (34.92%). End-2023 growth is seen at 4.1% (prev. 4.1%). USDTRY rate seen at 23.1161, and the repo rate is seen at 13.65% in 12-months (prev. 14.86%). Capital Economics has said that "with political pressure driving central bank decision making and President Erdogan recently suggesting that rates should remain in single-digits, the CBRT won't deliver the hikes that are desperately needed to control inflation and regain credibility anytime soon." However, the consultancy still flags risks of cuts, pointing out that inflation will fall sharply after December, once the effects of its currency crisis falls out of the annual price comparison, which could result in the President applying more pressure on the central bank. "Even if interest rates aren't cut further, the CBRT's deeply negative real policy stance and precarious external position means that the lira is highly vulnerable to a large adjustment," CapEco writes, "'Lira-isation' policies and foreign financing have helped stabilise the currency in recent months, but this is unsustainable and we are forecasting it to fall by around 20% against the dollar by end-2023."

CHINESE LPR (FRI): The PBoC is likely to keep its benchmark lending rates unchanged next week with the 1-Year and 5-Year Loan Prime Rates expected to be kept at 3.65% and 4.30%, respectively. The central bank has refrained from any adjustments to the 1-Year LPR and the 5-Year LPR since it last cut in August and is anticipated to continue maintaining the current level to avoid unwanted pressure on the local currency and as China's recent border reopening also reduces the urgency for further policy support. Nonetheless, the PBoC has reiterated that it will use various monetary policy tools to keep liquidity reasonably ample in 2023 and take steps to lower financing costs for market entities. Participants will be also eyeing next week's decision on the 1-Year MLF rate which serves as a fairly accurate precursor to the central bank's intentions for its benchmark lending rate, while the chances of a reduction in the 5-Year LPR, which is the reference rate for mortgages, cannot fully be dismissed given that the PBoC recently loosened mortgage rates for cities with home price declines and said it will establish a dynamic adjustment mechanism for first time home loan interest rates, although these seem to be more of a targeted approach.

BOK REVIEW: The BoK raised its base rate by 25bps to 3.50%, as expected, although board members Joo and Shin dissented. The central bank said GDP growth will be slower than expected, and inflation is to slow gradually, while it noted that policy focus will remain on containing inflation, and its statement made no reference to the need for more rate hikes. However, Governor Rhee later noted that the statements and comments do not promise rates will be kept unchanged in the future and he also stated that it is premature to talk about a rate cut. Analysts at ING said they expect the BoK's key rate will top out at 3.50%, but the central bank seems to want to leave the door open for further hikes ahead as inflation remains high.