Central Bank Weekly February 17th: Previewing FOMC, RBA and Riksbank minutes; rate decisions from The PBoC, RBNZ, BoK, CBRT; BoJ nominee to speak

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RIKSBANK MINUTES (MON): At its February's gathering, the Riksbank hiked rates by 50bps to 3.00%, as expected, and lifted the Policy Rate Path to a new peak of 3.33% (prev. 2.84% in November). The decision implies another 25bps hike at the April meeting, and a modest possibility for further tightening thereafter, if inflation remains persistently hot; or, alternatively, there is around a 60% chance of a 50bps rate rise in April. Notably, the Policy Rate Path does not imply any rate cuts for the entire horizon (which runs through Q1 2026). Subsequently, Governor Thedeen outlined explicitly that the April meeting could see a 25bps or 50bps move. From the minutes, we are attentive to the views of other rate-setters on the magnitude they envisage for April and their take on the trade-off between combating stubbornly elevated inflation and increasing signs of a marked economic slowdown in Sweden.

PBOC LPR (MON): The PBoC is likely to maintain its benchmark lending rates next week, with the 1yr and 5yr Loan Prime Rates (LPRs) expected at 3.65% and 4.30% respectively. The central bank has refrained from any adjustments to the LPRs since its last cuts in August, and expected to continue maintaining current levels to avoid unwanted pressure on the local currency, and as China's recent border reopening also reduces the urgency for further policy support. The PBoC's decision to maintain the 1yr medium-term lending facility (MLF) rate this month is seen as a leading indicator of its intentions regarding the benchmark 1yr LPR; last month, there was speculation that the PBoC could reduce its 5yr LPR (the reference rate for mortgages) 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, albeit these were seemingly targeted measures.

RBA MINUTES (TUE): Australia's central bank will publish minutes from its February 7th meeting on Tuesday; at that meeting the RBA hiked interest rates by 25bps to a fresh decade high of 3.35%, as expected; attention was on the RBA's commentary, where it noted that the Board expects further rate increases, and was resolute in its determination to return inflation to the target. The RBA also stated that inflation is expected to decline this year due to both global factors and slower growth in domestic demand, while it also noted uncertainty around the expected slowdown in household spending, and how the global economy responds to the large and rapid increase in interest rates. It further added that these uncertainties meant there are a range of potential scenarios for the Australian economy ahead, and it opted to maintain its forecasts for 2023 GDP growth and CPI at 1.5% and 4.75%, respectively. The signal for further rate increases was the key highlight from the statement as there had been mixed views regarding the central bank's future intentions; CBA was among those that were assuming that this would be the last hike of the cycle; but in wake of the meeting, the bank adjusted its call, and now expects the RBA to lift rates again at its next two meetings. A separate poll revealed that economists have raised their views of the Australian terminal rate by 25bps to 3.85%.

RBNZ ANNOUNCEMENT (WED): New Zealand's central bank is expected to continue hiking rates at its first meeting of the year, with 20 out of the 25 economists surveyed in a Reuters poll forecasting an OCR hike of 50bps, taking it to 4.75%; the remaining 5 economists are calling for a 75bps move. Money markets are pricing an 88% likelihood of the smaller move. A decision in line with the consensus would represent a slowdown in the pace of hikes from the 75bps cadence seen in late November, where the RBNZ said that monetary conditions needed to tighten further, and that it had considered moves of either a 75bps or 100bps increase at that meeting. The RBNZ also noted that consumer price inflation was too high, and the Committee agreed that the OCR needed to reach higher levels, and sooner than previously indicated, while it also revised its view for the OCR, now expecting a peak at 5.50% vs its previous view of 4.10%. The case for a shift to a less aggressive pace has been supported by data releases including weaker-than-expected jobs growth and a slight uptick in unemployment for Q4. Furthermore, 2yr inflation expectations have marginally softened, and the RBNZ is also anticipating a shallow recession for two-to-three quarters. Some have called for a pause, however, amid the national state of emergency due to Cyclone Gabrielle; but conversely, inflation data continues to place hawkish pressure on the central bank despite CPI easing to 1.4% Q/Q vs an expected 1.3% (prev. 2.2%), while annual consumer prices remains elevated at 7.2% Y/Y (exp. 7.1%, prev. 7.2%) which is more than double the upper end of the central bank's 1-3% target.

FOMC MINUTES (WED): After economic data for January highlighted a hot economy where inflation appears to be sticky, traders will look through the minutes for clues about how the central bank could respond, specifically looking at any commentary that indicates officials have appetite for rate hikes to resume with jumbo increments above 25bps, or even expectations of a higher terminal rate for the cycle. As a reminder, the Fed hiked its FFR by 25bps to 4.5-4.75% at its February meeting, as expected. The statement said the central bank continues to see “ongoing increases” in the Fed rate as being appropriate, coming against some expectations that the line could be dropped in order to give optionality for a lower terminal rate than the 5-5.25% median dot in the December SEPs. While that didn’t happen, we did see a switch in language on guidance from the “pace of future increases” to the “extent of future increases,” suggesting that debate is moving from the size of hike increments to how many hikes remain in the cycle, a dovish offset to the continued use of “ongoing increases”. Elsewhere in the statement, the Fed acknowledged that inflation had eased somewhat, but remained elevated. Chair Powell sat on the fence on many topics he was asked about in his post-meeting press conference, rather than cut off his options. The Fed Chair confirmed that the disinflation process was underway, albeit he was eager to highlight that core services inflation, ex-housing, had not shown progress. He believes that policy is still not ‘sufficiently restrictive’, but left optionality by stressing data dependence, later saying that it is possible that the Fed updates its policy path if the data came in differently to what it expects. Powell said the Fed has not yet made a decision on the terminal rate, and that it will look at the data between now and the March SEPs. The Fed chief sees a path to getting inflation to 2% without significant economic decline, though it could take more slowing in the economy than it expects.

BOK ANNOUNCEMENT (THU): The Bank of Korea is expected to maintain its 7-Day Repo Rate at the current 3.50% level. The BoK has delivered a cumulative 300bps in rate increases since it began the tightening cycle, including a 25bps move at the last meeting in December. That meeting was not unanimous though, with two of the seven MPC members dissented by calling for a pause. At the meeting, the central bank said it expects GDP growth to be slower than previously anticipated, and also noted that inflation was likely to slow gradually, and its policy focus will remain on containing price pressures. The statement made no reference to the need for more rate hikes, but it was later revealed that the majority of policymakers viewed the case for additional hikes as having eased, while three MPC members saw the terminal rate at 3.50% (where it currently is now), and an equal number of members wanted to keep the terminal rate open. This suggests that there is a strong possibility that it could pause in February, although Governor Rhee has kept the door open for a future rate adjustment, and the BoK also noted that the Board will judge whether further hikes are needed while assessing factors such as economic and financial stability risks, the effect of rate hikes, the pace of inflation slowdown and monetary policy changes in major countries. The continued elevated inflation data from South Korea also supports the view that a further rate hike cannot be dismissed.

CBRT ANNOUNCEMENT (THU): The upcoming CBRT announcement comes amid the tragic wave of earthquakes, where over 40k people have perished in Turkey and Syria. The natural disaster has prompted Turkey’s President to announce a three-month state of emergency in the 10 provinces worst affected. Some reports suggest that the quakes could result in a loss of up to 1% of Turkey’s GDP. The upcoming meeting will likely focus on the economic impacts of the disaster. JPMorgan now expects the CBRT to lower rates by 100bps to 8.00% at the confab, and said that the direct costs from quake damage to physical structures could reach USD 25bln (or around 2.5% of GDP). In terms of other data, inflation for January cooled less than forecast, with desks flagging stickier inflation. It’s also worth noting that Turkish elections are approaching in May (assuming no delays due to the current situation), with analysts widely flagging rate cuts ahead of the polls, and following the political leadership’s renewed call for lower rates.

BOJ GOVERNOR NOMINEE UEDA LOWER HOUSE APPEARANCE (FRI): Japan’s Government nominated academic Kazuo Ueda as the next BoJ Governor, and BoJ Executive Director Shinichi Uchida and former FSA chief Ryozo Himino were nominated as Deputy Governors. The nominees will appear before the National Diet of Japan, consisting of the House of Representatives (lower house) and House of Councillors (upper house). The lower house confirmation hearing has been set for February 24th (and could be broadcast online), while the upper house appearance is touted for February 27th (yet to be confirmed). If the nominees are approved by both the House of Representatives and the House of Councillors, the Cabinet will appoint them to their proposed positions. Ueda’s speech will be key in gauging a clear stance from the BoJ Governor candidate ahead of incumbent Kuroda’s end-of-term on April 8th. Markets are expecting a hawkish tilt from the most dovish G10 central bank, at a time of hot CPI and wage data. The initial reports that had suggested Ueda was the frontrunner for the BoJ’s top job was met with a mixed reception by markets, with articles which he authored in 2016 being circulated, where he was critical of “Abenomics” at the time, and in an article dated July 2022, he warned against raising rates prematurely but said the BoJ must eventually consider how to exit from its ultra-loose policy. In more recent commentary, on Ueda on February 10th said the central bank’s monetary policy was appropriate and it needed to continue its brand of easy policy. A former staff secretary Tetsuya Inoue, during Ueda’s time as a BoJ Board member between 1999 and 2005, said Ueda is likely to allow the data to guide the exit timing of a policy switch. Nonetheless, traders and investors will be on the lookout for hints on when, how, and to what degree Ueda may steer the BoJ away from its ultra-loose policy. Analysts at Rabobank warn that “It is expected that the most important task of nominee Governor Ueda will be to guide the BoJ to an exit of its ultra-accommodative QQE policies. That, however, does not suggest that the BoJ will be in any rush to change direction, nor does it mean that BoJ policy will be able to move far from current settings.” Rabo also highlights that “given that other G10 central banks could be cutting interest rates in 2024, the window of opportunity for the BoJ to normalise is likely to be short. This supports the view that any changes in policy will be moderate.”