Central Bank Weekly Feb 24th: Previewing BoJ Governor, ECB minutes; reviewing: FOMC minutes, PBoC, RBA, RBNZ, Riksbank, BoK, CBRT

February 24th

BOJ GOVERNOR NOMINEE UEDA UPPER HOUSE APPEARANCE (MON): Japan's House of Councillors will conduct hearings on the government's nominations for the next BoJ leadership with the confirmation hearing for academic and former Board member Kazuo Ueda to head the central bank to take place on Monday at 04:10GMT (Sunday 23:10EST) and followed the next day by the hearing for the Deputy Governor nominees, which are former FSA Commissioner Ryozo Himino and BoJ executive Shinichi Uchida. These hearings in the upper house follow the recent proceedings at the House of Representatives, or lower house, which provided some insight into BoJ Governor nominee Ueda's thoughts whereby he noted that current monetary policy is appropriate and that Japan still needs more time for inflation to sustainably hit the 2% target level, while he added it is appropriate to continue monetary easing from now on and suggested the BoJ would either need to move towards monetary policy normalisation or must consider ways to maintain YCC depending on if inflation improves significantly or not. As a reminder, the choice of Ueda to succeed BoJ Governor Kuroda took markets by surprise and initially spurred a hawkish reaction as would have been the case for any pick other than Deputy Governor Amamiya who turned down an approach by the Government, but was previously seen as the front runner and a continuation candidate given that he was an architect of many of the BoJ's current policies. This initial hawkish reaction gradually faded after dark horse candidate Ueda commented that the BoJ's monetary policy is appropriate and that they need to continue with easy policy, while he also previously warned against prematurely unwinding Japan's ultra-loose policy and was known for voting against lifting the zero-interest rate policy in 2000 during his seven-year stint at the central bank. Furthermore, Japanese press reported that Ueda's selection was likely based on his reassurance that the BoJ would not rush into a hasty exit and his former staff secretary, during his time at the BoJ, Tetsuya Inoue, said that Ueda is likely to allow the data to guide the exit timing. Meanwhile, the comments from the Deputy Governor nominees at the lower house hearing were uneventful as both Uchida and Himino conformed to the current BoJ thinking as they noted current policy was appropriate and suggested the need to continue with monetary easing for now. The confirmation hearings are widely seen to be rubber stamp procedures given the ruling coalition's dominance in parliament where the LDP party alone have a majority in the lower house and along with junior coalition partner Komeito occupy 145 of the 248 seats in the upper house.

ECB MINUTES (THU): As expected, the ECB delivered another 50bps hike to the deposit rate and reaffirmed its tightening intentions by stating that it expects to unveil another 50bps adjustment in March. Lagarde stated that this is warranted on account of underlying inflationary pressures, fiscal measures and wage growth. At the March meeting, the ECB stated it will evaluate the subsequent path of its monetary policy. On the balance sheet, the ECB announced that reinvestments will be allocated proportionally to the share of redemptions across each constituent programme of the APP. At the follow-up press conference, Lagarde stated that the Bank's economic assessment sees risks to the economic outlook and inflation as "more balanced". In terms of the decision itself, Lagarde says there was a "large consensus", adding there was a discussion on communication, but not full agreement; any clarity on the extent of the disagreement will be of note to the market. For the policy path going forward, Lagarde noted that the ECB will not be at peak rates in March and there will most likely be ground left to cover; this suggested that hopes for a pause in May could be disappointed. Furthermore, Lagarde attempted to stress the longevity of reaching terminal by stating that when the level is reached, rates will need to stay there. As always, the account of the meeting will be viewed in many quarters as being "stale", particularly as the March meeting and accompanying macro projections are expected to set the course for monetary policy in the Eurozone for H1.

FOMC MINUTES REVIEW: Although somewhat stale, given that incoming economic data has turned more constructive recently, minutes of the FOMC's February meeting were judged as hawkish, noting that a "few" participants (non-voters Bullard and Mester, judging by their recent commentary) favoured a larger 50bps rate rise vs the 25bps the Committee ultimately hiked by. Additionally, there was no discussion on the conditions officials would need to see in order to pause the hiking cycle, with "all" participants judging that ongoing rate hikes were still appropriate. On financial conditions, some thought the minutes were a little more hawkish than remarks Chair Powell made at the post-meeting press conference; at the presser, Powell said that while financial conditions had loosened, they were tighter than in early 2022, and some loosening in financial conditions could reflect expectations of falling inflation, which was the intent of tighter financial conditions in the first place; but there was a comment in the minutes that said that a "number" of participants had observed that financial conditions had eased in recent months, which some noted could necessitate a tighter stance of monetary policy – Citi argues that this suggests a less benign view of financial conditions among Fed officials than was apparent three weeks ago. Ultimately, however, these minutes are stale given the February meeting preceded strong jobs, inflation and retail sales data, as well as the upside surprises in the ISM services survey. There are still further data on jobs and inflation ahead of the March 22nd FOMC, and accordingly, these macro releases will shape expectations of what the Fed will do at that meeting (the base case still sees a 25bps rate hike, although the probability of a larger 50bps has increased recently).

PBOC LPR REVIEW: The PBoC maintained its 1yr and 5yr Loan Prime Rates (LPRs) at 3.65% and 4.30% respectively. This was widely expected as the PBoC had opted to maintain its 1-year MLF rate last week which is seen as a leading signal regarding its intentions for its benchmark lending rate. Some desks frame the decisions as showing signs of a recovery in corporate loan demand, although analysts caution the central bank could cut its rates given the challenges to the country's growth outlook. "We still think the recovery will require an extra monetary boost, though, and see rates heading down in the next month or so — all the more so if activity data in the first quarter disappoint... We expect a 10-bp cut in the MLF rate in March or April. That should guide LPR rates lower too", according to a Bloomberg strategist.

RBA MINUTES REVIEW: The RBA minutes from the February 7th meeting noted that the Board considered a hike of 25bps or 50bps and that a pause was not an option, while it agreed that further increases would be needed over the months ahead. The release suggested the pattern of upward surprises on inflation and wages argued for a 50bps move, whilst data suggested more breadth and persistence in inflation than was expected. The Board reiterated it will do what is needed to return inflation to target. All-in-all, the minutes were framed as hawkish, primarily as a pause in rate hikes was not an option. Desks highlight that there are some doubts among the Board that inflation has peaked - "Members observed that inflation was likely to have reached its peak in the December quarter, but this could only be confirmed in a few months." Analysts at Westpac meanwhile emphasize that the minutes confirm other recent communications from the RBA that its policy approach has become more hawkish since the release of the Q4 inflation report, "Since last October, Westpac has maintained a consistent forecast of 3.85% for the terminal cash rate by May. Until very recently this forecast has generally been above market expectations and those of most analysts", the desk says.

RBNZ REVIEW: The RBNZ hiked the Official Cash Rate by 50bps to 4.75%, which was widely expected as money markets had priced in a 97% chance of such a move heading into the announcement. The central bank remained hawkish as the Committee agreed it must continue to raise the OCR to return inflation to the target and to fulfil its remit, while the options it considered were either a 50bp or 75bp increase and it also maintained the view for rates to peak at 5.50%, but upped its CPI forecast for March 2024 to 4.2% from 3.8%. The RBNZ said the balance of risks around inflation remained skewed to the upside, but noted the extent of this risk has somewhat moderated since November and although there were early signs of price pressures easing, core consumer inflation remained too high. Furthermore, the Committee discussed the effects of Cyclone Gabrielle and other recent severe weather events, but will look through short-term output variations and agreed that the medium-term impacts of severe weather events do not materially alter the outlook for monetary policy. During the press conference, Governor Orr commented that discussions heavily focused on a 50bps hike, although all options remain on the table including 25bp, 50bp and 75bp hikes. He also said that it is too early to determine the impact of Cyclone Gabrielle, but prices for some goods are likely to spike in the weeks ahead and has since stated that cyclone-related inflationary pressure may require higher rates for longer, though the Bank would need to see a significant inflation shock to return to 75bps tightening moves.

RIKSBANK MINUTES REVIEW: Overall, the minutes echoed the views of the meeting's statement and didn't provide any significant surprises, as expected, given that the decisions were taken unanimously. Additionally, the meeting did not reveal any clear skew as to whether officials think 25bp or 50bp is more likely for the April meeting. However, since then the January CPIF, and particularly CPIF-XE, release was hotter-than-expected, and has prompted a number of desks to lift their calls from 25bp to 50bp for that meeting, with some also looking for another final hike thereafter and/or government bond sales to be used more directly as a hawkish-tool. Alongside this, there has been a substantial amount of Riksbank speak which has placed heavy emphasis on the inflation data, as Governor Thedeen described it as "worrying", though made clear that it did not merit an unscheduled announcement. Finally, officials continue to call for a strong SEK, but have welcomed the marked appreciation post-February policy meeting.

BOK REVIEW: The BoK maintained its Base Rate at 3.5%, as expected, with the decision made by a 6-1 vote as Board member Cho Yoon-Je dissented. The decision to pause on rates for the first time in a year was unsurprising as there were unanimous expectations for the central bank to hold heading into the meeting after having already lifted rates by a total of 300bps since it began its tightening cycle and considering that the majority of the MPC had viewed the case for additional hikes had eased at the last meeting in December. Nonetheless, the central bank noted uncertainties surrounding the policy decision are high and it deemed it warranted keeping a restrictive policy stance for a considerable time, while BoK Governor Rhee said the decision should not be taken as indicating the tightening cycle is over and that five members wanted to keep the door open for the terminal rate to reach 3.75%. Furthermore, Rhee added that it is time to stop and watch if the inflation trend goes along the expected path, as well as noting that the decision was based on the expectation that inflation will head down from March, which suggests that it may not take much more than a couple of elevated monthly inflation prints to spur the central bank to resume its tightening path.

CBRT REVIEW: The CBRT cuts its Weekly Report Rate by 50bps, as generally expected to 8.50%, and emphasised the effect of earthquake driven supply-demand imbalances on inflation is closely monitored. “The Committee assessed that the current monetary policy stance after the measured reduction is adequate to support the necessary recovery in the aftermath of the earthquake by maintaining price stability and financial stability.”, the release said, while reiterating it will continue to “use all available instruments decisively until strong indicators point to a permanent fall in inflation and the medium-term 5 percent target is achieved in pursuit of the primary objective of price stability.” The release overall intimates a possible pause in H1 2023 – “The effects of the earthquake in the first half of 2023 will be closely monitored”, although many analysts suggest the Bank may have to cut rates again as general elections loom in June.