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Central Bank Weekly March 3rd: Previewing Fed's Powell, RBA, BoC, BoJ; reviewing ECB minutes

March 3rd

POWELL TESTIMONY (TUE, WED): Fed Chair Powell will deliver his Semi-annual Monetary Policy Report to Congress this week, starting with the Senate Banking Committee on Tuesday, and will likely repeat his remarks to the House Financial Services Committee on Wednesday. Analysts have noted that the Fed Chief's testimony will come ahead of any key economic data releases (the NFP report is on Friday, CPI on March 14th and PPI on March 15th), and accordingly, that might leave little scope for him to alter messaging. The hot run of data in January and February has seen a hawkish repricing of the Fed's expected rate hike trajectory, with money markets now discounting the terminal rate rising to between 5.25-5.50% (pricing even tilted into the bracket above this during times following some of the hawkish data). Powell's message is likely to remain data-dependent, and reiterate that the Fed's job on managing inflation has not yet concluded, despite the progress made.

RBA ANNOUNCEMENT (TUE): The RBA is expected to continue hiking rates at its meeting next week with 27 out of 28 economists surveyed by Reuters forecasting that the central bank will raise the Cash Rate Target by 25bps to 3.60%, while money markets are pricing in around a 74% probability of a 25bps increase and a 26% likelihood that it keeps rates unchanged at the current level of 3.35%. As a reminder, the central bank increased rates by 25bps to a fresh decade high at the last meeting which was widely expected as money markets had priced in over a 90% probability of such a move, while attention was on the RBA's commentary which noted that the Board expects further rate increases and is resolute in its determination to return inflation to target. Furthermore, the minutes from that meeting revealed that the Board considered a hike of 25bps or 50bps and a pause was not an option. The signal for more rate increases was the key highlight and prompted economists to raise their terminal rate view to 3.85% from 3.60%, while ANZ has since further increased its peak rate forecast to 4.10% and CBA now sees hikes in both March and April compared with a previous view for no more rate hikes after the February meeting. Conversely, the data releases from Australia have begun to soften, including the Employment Change which contracted for two consecutive months and the Unemployment Rate rose to 3.7% from 3.5%, while Q4 GDP missed forecasts Q/Q at 0.5% (exp. 0.8%) and although Y/Y GDP matched estimates at 2.7%, this was a notable slowdown in pace from the 5.9% growth rate during the prior quarter. Furthermore, CPI Y/Y in January was softer than expected at 7.4% vs Exp. 8.0% (Prev. 8.4%) which eases some of the hawkish pressure on the RBA and has spurred some cautious optimism from Australian Treasurer Chalmers that inflation may have peaked, although it is too early to declare a softening trend and the data is unlikely to influence the central bank enough to pause given that monthly CPI was still the second highest reading since the series began and as inflation remains very far from the 2-3% target range.

BOC ANNOUNCEMENT (WED): The BoC is expected to pause and hold rates at 4.50% after it said in January that if economic developments evolve broadly in line with its outlook, it expects to hold the policy rate at its current level while it assesses the impact of the cumulative interest rate increases. Recent GDP data showed the Canadian economy grew less than expected in Q4 (in fact stagnated in Q/Q annualised terms and contracted 0.1% m/m in December), and was worse than the BoC had forecast, which many analysts say has cemented the pause. Additionally, the January CPI data decelerated, and was below market expectations, with a fall to within the BoC's 1-3% target band now within the realms of possibility for 2023, and adding to the argument for the BoC to pause.

BOJ POLICY ANNOUNCEMENT (FRI): The Bank of Japan is expected to keep policy settings unchanged at its meeting next week with the BoJ likely to leave rates at -0.10% and maintain its QQE with Yield Curve Control to flexibly target 10yr JGB yields at about 0%. This will be the last meeting with Governor Kuroda at the helm who's term ends in early April, while Deputy Governors Amamiya and Wakatabe will also be finishing their terms this month. As a reminder, the BoJ defied increased speculation for a policy tweak at the last meeting in January and instead maintained its rate and the parameters of its YCC, while it also stuck with the forward guidance on rates and said it will continue large-scale JGB buying, as well as reiterating that it will not hesitate to take additional easing measures as necessary. Furthermore, it announced it will seek to improve market functioning by mixing bond buying with supply operations against pooled collateral and the Outlook Report was also dovish leaning as Real GDP forecasts were cut across the projection horizon and Core CPI estimates for Fiscal years 2023 and 2024 remained below the BoJ's target of 2% which is a level that could have paved the way for policy normalisation. Rhetoric from the BoJ since that meeting has remained dovish as Kuroda stated that he is resolved to keep ultra-loose policy and that the BoJ expects core consumer inflation to slow beyond 2% in both fiscal year 2023 and 2024, while Deputy Governor Amamiya also noted it is appropriate to maintain ultra-loose monetary policy, but acknowledged that there are demerits to their YCC policy. As an adjustment in policy is

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very unlikely at Governor Kuroda's last meeting after a 10-year stint which began with the announcement of QQE way back in April 2013, markets will be looking to the next central bank chief to steer the BoJ towards an exit from ultra-loose policy, although his nominated successor, academic and former BoJ Board member Kazuo Ueda doesn't seem in a rush to normalise policy as he recently noted that current monetary policy is appropriate and that Japan still needs more time for inflation to sustainably hit the 2% target. Furthermore, Ueda has stated it is appropriate to continue monetary easing from now on and suggested that the BoJ would either need to move towards monetary policy normalisation or must consider ways to maintain YCC depending on if inflation significantly improves or not, while a source report also recently noted that the BoJ is said to prefer watching how the impact of earlier policy tweaks work out for now.

BOJ GOVERNOR NOMINEE UEDA UPPER HOUSE APPEARANCE REVIEW: BoJ Governor Nominee Ueda, following the lower-house appearance last week, repeated familiar dovish language noting that CPI growth will slow to below 2% in FY23, but it takes time for inflation to meet the target sustainably and stably. He also reiterated that the current monetary easing is appropriate, while saying the merits of current easing outweigh the demerits and there is no need to immediately change the 2013 Government-BoJ statement. On a potential policy change, Ueda stated that the trend in inflation must heighten sharply for the BoJ to shift to monetary tightening, and he also does not think Japan has reached the reversal rate, in which financial transmission channels are hurt so much that the demerits of easing exceed the benefits. On Thursday, Bloomberg sources suggested that the BoJ is said to prefer watching how the impact of earlier policy tweaks work out for now.

ECB MINUTES REVIEW: The account of the February ECB meeting drew little in the way of fanfare. The decision to raise rates by 50bps drew "broad support" from the Governing Council. However, reservations were expressed on the proposed communication of an intention for the March meeting before evaluating the subsequent policy path. In terms of where the GC sees itself in the current cycle, it was emphasised that policy rates were, at present, barely consistent with the range of estimates for the neutral rate. Furthermore, it was generally felt that concerns of "overtightening" were premature at the present high levels of inflation. On the inflation front, it was underlined that core inflation and other measures of underlying inflation were likely to be stickier, with only limited evidence of a stabilisation so far. On wages, while there was wide agreement that there were no signs of a wage-price spiral, it was argued that current wage growth was clearly not consistent with a 2% inflation target. The growth outlook was viewed to be more favourable and it was argued that recent developments were in line with a "soft landing" (with the economy slowing, but avoiding a recession). However, a better-than-expected growth outlook would contribute to continued inflationary pressures, which were unlikely to abate by themselves without further significant policy tightening. Overall, the minutes provided little new for market participants to digest and instead, the focus for investors will be on the upcoming March meeting and accompanying macro projections which will set the course of direction for policy for Q2.

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