Central Bank Weekly March 10th: Previewing ECB; Reviewing Fed's Powell, RBA, BoC, BoJ

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ECB POLICY ANNOUNCEMENT (THU): Given the comms at the February meeting and the subsequent lack of a walk-back from officials at the Bank, the ECB is unanimously expected to hike the deposit rate by 50bps to 3.0%. As such, greater focus will be on what lies beyond the March meeting for the ECB, with the Bank likely to stress its “meeting-by-meeting” and “data-dependent” approach. In the wake of the February meeting, Reuters sources suggested that policymakers saw at least two more rate hikes with the May increase expected to either be 25bps or 50bps. Since then, Eurozone inflation slowed to 8.5% in February from 8.6%, whilst the super-core metric rose to 5.6% from 5.3%; something which is of great concern to policymakers on the Governing Council. This, allied with increasingly hawkish bets surrounding the Fed, has prompted many desks to project the ECB’s terminal rate at 4% (would see 50bps March, 50bps May and then either another 50bps in June or 25bps in June and July). The statement is unlikely to be explicit in stating what markets should expect for the coming months, and as such the accompanying macro projections will be of greater interest to the market. On which, ING suggests that lower energy prices, higher 3M Euribor rates and a stronger EUR should lead to lower inflation projections for 2024 and 2025. ING cautions that if this does not materialise, it will underscore the level of concern over core inflation on the Governing Council. This could prompt a further hawkish repricing in the market and give further ammo to the hawks on the Governing Council with Austria’s Holzmann (March 6th) outlining the case for 50bps hikes at the next four meetings. From a dovish perspective, a more subdued growth outlook within the projections, could see markets move closer to a 3.5% terminal rate. On the balance sheet, no changes are expected with the current monthly decline of EUR 15bln/month in APP reinvestments set to run until June.

FED POWELL TESTIMONY REVIEW: Fed Chair Powell told Senate lawmakers on Tuesday that if incoming data indicates a faster pace of policy tightening is required, the FOMC is prepared to increase the pace of rate hikes, warning that the ultimate level of interest rates is likely to be higher than previously anticipated given the string of hot data in January. That served as a marked, hawkish shift from Powell post-meeting press conference at the February FOMC, where the minutes of the meeting revealed that "[many] participants observed that a further slowing in the pace of rate increases would better allow them to assess the economy’s progress". Powell reaffirmed concerns that there is thus far little signs of disinflation in core services ex-housing, noting that price stability would require a fall in this category, as well as very some softening in labour market conditions. In wake of his remarks to Senators, traders took Powell's comments as a sign that a 50bps rate rise at the March meeting, as well as a higher terminal rate, was now the base case; however, in his remarks lawmakers in the House on Wednesday, Powell added a caveat, stressing that no decision had yet been made on the outcome of the March 22nd FOMC, and again said that if the totality of the data were to indicate that faster tightening is warranted, the Fed would be prepared to increase the pace of rate hikes again, which traders took as slightly more dovish on the margin. On the Friday, data showed US average hourly earnings rising at a rate of +0.2% M/M in February, lower than the expected (and previous) +0.3% M/M; that saw the annual rate rise to +4.6% Y/Y, a touch short of the 4.7% that the market was expecting, though still rising from 4.4% prior. The unemployment rate rose to 3.6% from 3.4%, despite expectations for an unchanged print. The cooling wages and rising unemployment rate saw pricing for a larger 50bps rate rise diminish to around 38%, vs around 50/50 before the release. Expectations of the terminal rate also inched lower to around 5.36% from around 5.45% before the release. However, the headline NFP added 311k jobs, above the expected 205k but beneath the prior revised 504k. Next week, there is a lot of data on US inflation due, with Monday's release of the NY Fed's consumer inflation expectations data for February, the CPI report on Tuesday, PPI data on Wednesday, and then inflation expectations within the University of Michigan's sentiment report on Friday - all of these come in the Fed's blackout window. We preview these events in our week ahead preview (available in the Newsquawk research suite).

RBA REVIEW: The RBA delivered a 10th consecutive rate increase whereby it hiked by 25bps to 3.60%, as expected, while it noted that the Board remains resolute in its determination to return inflation to target and expects further tightening of monetary policy will be needed, which was a slight tweak from its previous guidance that the Board expects further increases in interest rates will be needed, while it also stated that monthly CPI data suggests that inflation seems to have peaked. The RBA added that growth has slowed and while the labour market remains very tight, conditions have eased a little and uncertainties mean that there is a range of potential scenarios for the Australian economy. Furthermore, it noted that in assessing when and how much further interest rates need to rise, the Board will be paying close attention to developments in the global economy, trends in household spending and the outlook for inflation and the labour market. The rhetoric from the central bank was less hawkish than previous, but still pointed to further tightening and Governor Lowe noted the following day that they are closer to the point where it will be appropriate to pause and the timing of the pause will be determined by the data and assessment of the outlook. He reiterated that further tightening is likely to be required, but kept options open for the next meeting in which he noted that they could pause if that's what the data suggests, but keep going otherwise, and will have a completely open mind at Board meetings. This places (even more) emphasis on the incoming data releases before the next meeting, although Westpac's Bill Evans forecasts the RBA to continue hiking in April and May as he noted that the inflation outlook is still too high and sees it too soon to pause in April.

BOC REVIEW: The Bank of Canada rate decision was very much as expected where it left rates unchanged at 4.50% and maintained its guidance that it expects to hold the policy rate at its current level, conditional on economic developments evolving in line with the MPR forecasts while repeating it is prepared to increase the policy rate further if it is needed to return inflation to the 2% target. The bank did drop its language about the economy remaining in excess demand while commentary on the labour market noted it remains very tight and employment growth has been surprisingly strong. However, weak economic growth over the next couple of quarters means pressures in product and labour markets are expected to ease, while restrictive policy will continue to weigh on household spending. The BoC also noted that price increases for food and shelter remain high. With guidance being maintained and leaving the option open for another hike if necessary, analysts at ING do not believe another hike will be necessary due to the high household debt levels and the sensitivity of higher rates in Canada. The desk believes the next move will likely be a cut. Which of course is very at odds to the Federal Reserve with Powell signalling a higher-for-longer message at the Congressional hearings and has had an impact on market pricing for the BoC too, although analysts at RBC highlight today's statement did nothing to endorse that view.

BOJ REVIEW: The BoJ unsurprisingly maintained policy settings with the rate kept at -0.10% and QQE with YYC maintained with a 10yr yield target of 0% and band of +/-50bps in the final meeting under the stewardship of Governor Kuroda whose term ends in early April, while Deputy Governors Amamiya and Wakatabe will also finish their tenures next week. The decision was unsurprising, although resulted in a knee-jerk USD/JPY spike as there was some positioning heading into the meeting on the off chance that the BoJ leadership may deliver a parting surprise. The rhetoric from the central bank provided little in the way of fresh insight as it maintained its forward guidance on rates and reiterated that Japan's economy is picking up and expected to recover as the impact of the pandemic and supply constraints fade, although it did acknowledge that core consumer inflation is moving around 4% and inflation expectations are rising. Nonetheless, the 'early' release of the BoJ policy decision, which was announced right at the start of the Tokyo lunch break, also suggests a lack of extensive discussion from the central bank in terms of sticking with its ultra-easy policy settings.