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Central Bank Weekly March 24th: Reviewing FOMC, PBoC, SNB, BoE, Norges Bank, RBA mins, BoC mins, CBRT, BCB; Previewing Banxico, SARB

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SARB ANNOUNCEMENT (THU): The Reserve Bank is expected to lift rates by 25bps to 7.50%, according to a Reuters poll; a minority of those surveyed are looking for an unchanged decision. Analysts will be looking to any commentary from the central bank that suggests its hiking cycle has concluded, given the prospects for cooling inflation ahead, combined with soft economic momentum. “We expect only a further 25bps rate hike in this cycle, and still-contained wage and services inflation support our long-standing view that aggressive tightening isn’t required amid weak economic growth,” Standard Bank said, adding that “if the ZAR remains weaker than we foresee, the inflation consequences and /or risks could impel the SARB to hike more aggressively than we currently see as necessary.”

BANXICO ANNOUNCEMENT (THU): Banxico unanimously hiked by a consensus-topping 50bps in February, with its decision motivated by core inflation dynamics. But the central bank suggested that, with its monetary stance attained, it will likely hike by a lower magnitude at the March meeting as it sees inflation converging towards its target by Q4 2024. Accordingly, many are looking for a 25bps hike next week. Data released this week showed mid-month CPI rising 0.2% M/M, slightly short of the +0.3% that the street was looking for, while the headline rate of inflation slowed to 7.1% Y/Y from 7.5%. Pantheon Macroeconomics notes that inflation has continued to fall in Q1, and that is helping to improve the economic outlook. “The main threat now to economic activity is further Banxico policy tightening,” Pantheon says, “we think any rate hike over the next few months is a mistake; we think policymakers have done enough to return inflation to the target,” and adds that “moreover, we can’t be sure that the threats to the global banking system are over.”

FOMC REVIEW: The FOMC lifted its Federal Funds Rate target by 25bps, in line with market expectations. Its updated economic projections left the terminal rate view unchanged at 5.1%, and its statement removed the reference to the Committee anticipating that ‘ongoing increases in the target rate will be appropriate’, though added that ‘some additional policy firming may be appropriate’. Its median view for where rates will be in 2024 was nudged up to 4.3% from 4.1%. The inflation profile was raised for this year, though was unchanged for 2024 and 2025, while the core inflation view was slightly nudged up for this year and next. The Fed expressed confidence in the banking system, stating that it was ‘sound’ and ‘resilient’, adding that the recent developments were likely to result in tighter credit conditions and will weigh on economic activity, hiring and inflation. Some had expected that the Fed might slow its pace of balance sheet reduction, though the statement said that it would continue to reduce Treasury and MBS holdings in line with its previous announcements. The statement and updated dot plots drove a dovish market reaction, where stocks and Treasuries rallied. Market expectations of the Fed rate hike trajectory continued to run more dovishly than the dots, with money markets assuming that rates had now reached terminal, and were assigning a 50/50 chance of a 25bps rate hike at the May meeting. However, the gains in stocks and bonds were given up during Powell’s Q&A. The Fed chair, asked about the updated SEPs, said that no participants had rate cuts in their base-line scenario for this year. He also took care to emphasise the uncertainties presented by the current situation, and essentially made the case that the Fed would be deciding policy based on incoming data, meeting-by-meeting, and will be based on the actual and expected effects of the credit tightening. Powell said that if the Fed needed to push rates higher, it would, but for now, officials see the likelihood of credit tightening, and the impact of this can be seen as another hike. Powell still sees a path to a soft landing, and the Fed is trying to find it.

PBOC REVIEW: The PBoC kept its benchmark lending rates unchanged with the 1-Year Loan Prime Rate, which most loans are based on, maintained at 3.65% and the 5-Year Loan Prime Rate, which is the reference rate for mortgages, held at 4.30%. The decision was widely expected as the central bank recently maintained the rate on the 1-Year Medium-term Lending Facility that serves as a fairly accurate precursor to intentions for benchmark rates, while expectations for China’s economy to rebound after exiting from strict zero-COVID policy late last year and the reopening its borders also reduces the urgency for policy support. Nonetheless, a surprise could not have been ruled out given that the PBoC unexpectedly announced last week that it will cut the RRR for nearly all banks by 25bps effective on March 27th, while its actions suggest that the central bank may have wanted to boost liquidity given the recent international banking pressures, but would prefer to avoid flooding the market with cheaper loans considering that new Yuan loans surged to a record high in January.

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SNB REVIEW: In short, a hawkish-hike from the SNB in contrast to the statements from the ECB and Fed in recent sessions. The SNB hiked by 50bp, in-line with the majority of respondents to the Reuters survey heading into the decision and the skew of market pricing, which ascribed a ~70% probability to that magnitude. Despite the 50bp hike, the SNB has further increased its inflation forecasts, with CPI now not seen dropping back into the 0-2% target band until Q2-2023 (prev. Q4-2023); in addition, the statement reiterates that further tightening cannot be ruled out. Also, the 2023 GDP growth view was upgraded to 1.0% (prev. 0.5%). Overall, upward adjustments to the inflation and growth forecasts, despite the 50bp hike, serve as justification and provide cover respectively for the SNB to continue its tightening cycle to bring inflation sustainably back to target. Market pricing currently implies 30bp of tightening (i.e. a full 25bp, plus some probability of 50bp) in June and then a 50bp hike in September to a 2.25% terminal rate. For reference, the subsequent press conference added little with much of the focus on Credit Suisse and the heavily covered details around this.

BOE REVIEW: As expected, the BoE opted to pull the trigger on another 25bps hike, taking the Base Rate to 4.25%. The decision to move on rates was via a 7-2 vote split (vs. exp. 6-3) with Dhingra and Tenreyro the dissenters. Within the seven that opted for a hike, there was unanimity on the 25bps increment with arch-hawk Mann refraining from voting for 50bps. Heading into the release, there was some speculation over whether the BoE could signal that this would be the final hike of the cycle. However, the MPC opted to keep forward guidance on rates which notes that if there were evidence of more persistent pressures, further tightening would be required. The decision to keep this guidance may well have been as a result of the unexpectedly hot February CPI print, which was also a factor in swaying markets so firmly towards a 25bps hike ahead of the meeting vs. unchanged. On inflation, the statement noted that CPI is still expected to fall significantly in 2023 Q2, to a lower rate than anticipated in the February Report; citing news on the EPG and declines in wholesale energy prices. From a growth perspective, GDP is still likely to have been broadly flat around the turn of the year, but is now expected to increase slightly in the second quarter, compared with the 0.4% decline anticipated in the February Report. Overall, takeaways from the announcement have been mixed with some regarding Mann’s decision to step down to a 25bps hike as “dovish”, whilst others have been surprised by the BoE’s decision to maintain existing guidance on rates. Nonetheless, market pricing for the rest of the year has picked up a touch with the terminal rate seen just above 4.5% in Q3 vs. around 4.45% pre-announcement.

NORGES BANK REVIEW: In short, the decision was as-expected though disappoints some calls for 50bp while the repo path adjustment for 2023 was hawkish. A 25bp hike was in-fitting with the guidance provided at the last gathering and the majority of respondents surveyed by Reuters. However, it does disappoint a minority of calls for 50bp. Despite sticking to the smaller magnitude, the Norges Bank acknowledged the upward-pressure on inflation implied by the NOK being “significantly weaker” than in December’s report and undertook a hawkish adjustment to the Repo Path. Specifically, the path now implies an end-2023 rate of 3.60% (prev. 3.08%), i.e. for 50bp of tightening to be delivered and the optionality for further upside, if needed. While the size of further hikes is currently unclear, the path’s breakdown implies 25bp adjustments; Governor Bach subsequently gave little away on what magnitudes to expect. However, the policy rate is then seen falling slightly by end-2024 to 3.44%; relatively in-fitting with December’s guidance in terms of a 2024 cut being implied.

BOJ SOO REVIEW: The BoJ released its Summary of Opinions from the March meeting where the central bank unsurprisingly maintained policy settings, with the rate kept at -0.10% and QQE with YCC left unchanged to target 10yr yield yields at 0% within a +/-50bps band, at the final meeting for Governor Kuroda and Deputy Governors Amamiya and Wakatabe. The Summary of Opinions stated that the BoJ must patiently maintain monetary easing until the price target is achieved and scrutinise without any pre-set idea the state of market functioning, but maintain easy policy at present. Furthermore, it noted that the BoJ must focus on the risk of losing the chance to meet the price target with a premature policy shift, rather than the risk of being too late in shifting policy and noted that lowering the price target would delay necessary reform. This suggests a lack of urgency to tweak policy at the central bank, although the opinions also noted that they must be mindful of the risk inflation may overshoot expectations and acknowledged that there is a chance higher-than-expected inflation may be sustained as companies continue raising prices and wages.

RBA MINUTES REVIEW: The minutes from the RBA’s March meeting left the door open regarding options for the next meeting as the Board agreed to reconsider the case for pausing in April and stated that a pause would allow time to reassess the outlook for the economy, but added that further tightening of monetary policy is likely required to lower inflation. The RBA also noted that monetary policy was in restrictive territory and the economic outlook was uncertain, while these considerations meant that it would be appropriate at some point to hold the cash rate steady to assess the effect of the interest rate increases to date. The minutes were in fitting with the rhetoric from the meeting whereby the central bank was less hawkish than previous, although still pointed to further tightening ahead as it noted that inflation is too high, the labour market is tight and sluggish productivity could lead to more persistent inflation.

BOC MINUTES REVIEW: BoC Minutes stated that ahead of the March meeting, it remained concerned that inflation could become stuck materially above target. Furthermore, policymakers felt it was important to stress the conditionality

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of a rate hike pause and wanted to underline that it continued to assess whether monetary policy was restrictive enough. The minutes also highlighted that economic developments in Canada showed slowing growth in final demand, which improved the balance between demand and supply. Despite slowing in the domestic economy, the labour market remained tight. Inflation data showed progress towards the 2% target, but Governing Council members remained concerned about a persistent overshoot. The Council agreed to continue shrinking the balance sheet by allowing maturing bonds to roll off and emphasized that it remains prepared to increase the policy rate further if needed to return CPI to its 2% target level.

CBRT REVIEW: The CBRT maintained its Weekly Repo Rate at 8.50%, as widely expected. The Bank noted stronger economic activity, but caveated with concerns of recession in developed economies. The CBRT said the earthquake impact on production, consumption, employment, and expectations are being assessed, but no permanent hit to the Turkish economy is anticipated from the natural disaster. The Bank reiterated that it will use all instruments decisively for price stability and to reach the 5% medium-term inflation target, whilst suggesting the transparent, predictable, and data-driven decision-making framework is to continue. The decision aligns with previous guidance that the benchmark rate was at an “adequate” level. Desks were divided on whether the Bank would pause or cut rates again, with six out of 18 economists forecasting another 50bps ease for this meeting. As elections approach in May, some analysts eye the April 27th meeting for the possibility of a pre-election cut to rates.

BCB REVIEW: The Brazilian Central Bank left rates unchanged at 13.75% as expected on Wednesday evening. The statement said it will remain vigilant and will assess if the strategy of maintaining rates at current levels for a sufficiently long period will be enough to ensure the convergence of inflation. It also noted that inflation expectations have shown additional deterioration, especially at longer horizons and that it will not hesitate to resume the tightening cycle if the disinflationary process does not proceed as expected. The BCB also lifted its inflation projections across the forecast horizon. Overall, the language in the statement was hawkish and shows the pushback the BCB is giving to the government on their call for lower rates. Analysts at Rabobank expect the Selic rate to be left unchanged through November before a cutting cycle starts, but they do have an upward bias to their Q4 24 rate forecast of 8.5%.

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