Central Bank Weekly March 31st: Previewing BoJ Tankan, BoC BOS, RBA, RBNZ, RBI; Reviewing SARB, Banxico

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BOJ TANKAN SURVEY (MON): The BoJ's key quarterly Tankan survey is expected to show declining business confidence among large manufacturers. Estimates for the Q1 survey are mixed across different industries. Large industry capital expenditure (CAPEX) is expected to increase by 4.9% (prev. +19.2%), while small industry CAPEX is anticipated to decrease by 9.0% (prev. +3.8%). The outlook index for big manufacturing is projected to slightly drop to 4 (prev. 6), and the large manufacturers' index is predicted to decrease to 3 (prev. 7). The large non-manufacturers diffusion index is expected to stand at 16 (prev. 11), while the large non-manufacturers index is projected to be at 20 (prev. 19). For small manufacturers, the diffusion index and the manufacturing index are anticipated to be -6 (prev. -5) and -6 (prev. -2), respectively. Lastly, the small non-manufacturers diffusion index is expected at 1 (prev. -1), and the small non-manufacturing index is predicted to tick slightly higher to 7 (prev. 6). The Reuters Tankan, which closely tracks the central bank's quarterly survey, revealed that large Japanese manufacturers remained pessimistic for the third month in a row in March due to global economic slowdown concerns. However, the service-sector firms' mood improved, suggesting a domestic demand-driven recovery. These mixed results emphasize the fragility of Japan's economy as exports slow and private consumption lacks momentum, according to some desks. Over the next three months, the Reuters Tankan index is expected to rebound, but the service-sector index is predicted to drop. Reuters' Tankan canvassed 493 large companies with a capital base of JPY 1bln employing 100 or more people.

BOC BUSINESS OUTLOOK SURVEY (MON): There will likely be less attention on the BOS this quarter, given the BoC has already indicated that it expects to hold the policy rate at its current level, conditional on economic developments evolving in line with the MPR forecasts. That said, there will be attention on any commentary around prices, given the Bank has left itself scope to resume policy tightening if it was needed to return inflation to the 2% target.

RBA ANNOUNCEMENT (TUE): The RBA will conduct its policy April meeting next week and there are mixed views on whether the central bank will continue hiking rates or pause, with a Reuters poll showing 14 out of 27 economists forecast the RBA to hike the Cash Rate by 25bps to 3.85% and 13 expecting a pause, while money markets are more decisive and are pricing an 87% probability for a pause. As a reminder, the RBA raised rates by 25bps at the last meeting in March which was widely expected and the central bank's 10th consecutive rate increase, 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. Furthermore, the RBA stated that monthly CPI suggests inflation seems to have peaked and in assessing when and how much further interest rates need to increase, 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 stated that they are closer to the point where it will be appropriate to pause with the timing to be determined by the data and assessment of the outlook, while he kept options open for the upcoming meeting as he noted that they could pause if that's what the data suggests, but if it suggests keep going, then they will do that and have a completely open mind at Board meetings. This places greater emphasis on the data, although the latest releases have been mixed as Employment rebounded in February following two months of contraction and the Unemployment Rate fell to 3.5% vs. Exp. 3.6% (Prev. 3.7%), while monthly CPI in February was softer than expected at 6.8% vs Exp. 7.1% (Prev. 7.4%) and recent PMI figures have slipped into contractionary territory. In addition, the recent turmoil in the banking industry and contagion fears add to the case for a pause and have prompted an adjustment of expectations with Westpac now forecasting the RBA to keep rates unchanged at the upcoming meeting and also lowering its peak rate forecast by 25bps to 3.85%.

RBNZ ANNOUNCEMENT (WED): The RBNZ is expected to continue hiking rates at its meeting next week in an effort to curb inflation, albeit at a less aggressive pace than previously with money markets pricing a 97% chance for the OCR to be lifted by 25bps to 5.00% and only a 3% probability for a 50bps increase. As a reminder, the RBNZ raised rates by 50bps at its prior meeting, as widely expected, while the central bank remained hawkish in which it signalled further rate hikes to return inflation to target and noted that although there were early signs of price pressures easing, core consumer inflation remained too high and the Committee agreed it must continue to raise the OCR to fulfil its remit. Furthermore, the RBNZ stated that the options it considered were either a 50bp or 75bp increase at that meeting 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 rhetoric from the central bank since that meeting has remained hawkish as Assistant Governor Silk stated that they are not contemplating a pause in tightening and all rate hike options are on the table for the April meeting with the RBNZ to do all it takes to control inflation, while Chief Economist Conway said inflation is high and widespread because strong demand outstripped supply with the central bank incredibly determined to get inflation and inflation expectations back to target. Nonetheless, markets are pricing a less aggressive hike at the upcoming meeting given the recent deterioration in data including GDP for Q4 which showed a wider-than-expected contraction Q/Q, at -0.6% vs. Exp. -0.2% (Prev. 2.0%, Rev. 1.7%) and Y/Y growth at 2.2% vs. Exp. 3.3% (Prev. 6.4%), while Retail Sales Volumes Q/Q also shrank, by 0.6% (Prev. 0.4%, Rev. 0.6%). The weak data releases have prompted an adjustment in expectations and the recent global banking turmoil has also added to the case for a downshift in gears with ASB anticipating the RBNZ to hike by just 25bps in April and Westpac now forecasting the OCR to peak at 5.00%.

RBI ANNOUNCEMENT (THU) The RBI is expected to hike rates again when it concludes its 3-day policy meeting next week, with 49 out of 62 economists surveyed by Reuters forecasting the Bank to raise the Repurchase Rate by 25bps to 6.75%, while the majority of economists then expect the central bank to pause after this meeting through to the end of the year. As a reminder, the RBI hiked rates by 25bps at the last meeting via a 4-2 vote in which MPC member Goyal joined prior dissenter Varma in voting against the rate increase and both continued to oppose the MPC's decision to keep the policy stance remaining focused on the withdrawal of accommodation, which was also made through a 4-2 vote. The rhetoric from RBI Governor Das remained hawkish as he noted that further calibrated monetary policy action is warranted and the situation remains fluid and uncertain, while he added that the stickiness of core inflation is a matter of concern and they need to see a decisive fall in inflation, but commented more recently that the Indian economy remains resilient and the worst of the inflation is behind them. Nonetheless, inflation returned to above the RBI's 2%-6% tolerance range for January and February with the most recent CPI reading at 6.44% vs. Exp. 6.35% (Prev. 6.52%), which supports the case for a continuation of the RBI's rate increases. However, given the previous composition of votes, it would only need one additional vote for a pause as long as that vote was from RBI Governor Das who has the casting vote in evenly split decisions, while State Bank of India Research are among those in the minority calling for a pause citing concerns of a material slowdown in the affordable housing loan market and financial stability concerns.

SARB REVIEW: South Africa's Reserve Bank raised its Repo Rate more than expected, by 50bps to 7.75%, against expectations of a 25bps hike (two of its five policymakers voted for the smaller move, the opposite of what was seen at the previous meeting). It has now lifted rates for nine straight meetings and by a cumulative 425bps. Inflation seems to be the central bank's focus, and the SARB signalled further increases were possible if local inflation risks persisted. Its hawkish stance comes after inflation rose to 7% in February, prompting the Bank to revise its forecasts for a longer battle against inflation. Previously, it saw inflation returning to the 3-6% target band by the end of Q1, but it now sees this happening in Q3, while it expects inflation to average 6% for the year, up from its previous view of 5.4%. Despite higher inflation, underlying domestic inflation pressures remain contained due to a fragile economy impacted by equipment failures at Eskom and subsequent power cuts. Its statement also noted risks faced from the global banking crisis, where risk-off conditions resulted in tighter external financing conditions, and the SARB sees further ZAR weakness as likely. Looking ahead, Capital Economics said it shares the policymakers' view that loadshedding presents upside risks to the inflation outlook: "Businesses may very well pass on increased operating costs to consumers, this raises the risk that SARB officials extend the tightening cycle further, by delivering another rate hike in May."

BANXICO REVIEW: Mexico's central bank lifted rates by 25bps to 11.25%, in line with expectations and the guidance it offered in February. Analysts are of the view that Banxico may now be at terminal. "The rate hike at this meeting, based on the inflation data released in recent weeks, probably is a mistake, but it was going to be hard for the Bank to backtrack at the last minute, after an array of press conferences noting that today's move was a done deal," Pantheon Macroeconomics said, "in any event, this is probably the end of a long tightening cycle, with the Board saying that for its 'upcoming decision' it will take into account the inflation outlook, considering the monetary policy stance already attained"; previously, policymakers said 'the upward adjustment to the reference rate could be of a lower magnitude', which suggests it will keep rates unchanged if inflation continues to ease and the currency remains under control.