Central Bank Weekly April 7th: Previewing BoK, FOMC Minutes, BoC; Reviewing BoJ Tankan, BoC BOS, RBA, RBNZ, RBI

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BOK POLICY ANNOUNCEMENT (TUE): The Bank of Korea is expected to hold rates at 3.50%, with its decision likely to be underpinned by the falls in inflation, as well as growth worries following global banking issues, which drove some domestic fears about outbound capital flows, though some of these fears have recently eased. However, some recent activity data has pointed to resilient economic conditions. “While the policy statement is likely to reiterate that the BoK will maintain its tightening stance, keeping the policy rate on hold for a second consecutive meeting would further support our base scenario that the rate-hike cycle already ended in January,” SocGen writes. “We expect Yoon-Je Cho to vote for a 25bps hike again and that the board members’ views on terminal rates will be evenly split, with three on 3.75% and three on 3.50%,” it adds.

FOMC MINUTES (WED): At its March meeting, the FOMC lifted its rates 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 it 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. Since then, Fed policymakers have appeared to keep their focus firmly on managing high inflation, with many noting further progress was needed to get price growth back to its target. And in his post-meeting Q&A, Chair Powell said that no participants had rate cuts in their base-line scenario for this year; traders have recently been betting that the Fed will need to pivot its policy towards more accommodative conditions given that some key economic data is beginning to show a slowing growth dynamic. Powell said he still sees a path to a soft landing, and the Fed was trying to find it. Elsewhere, Powell emphasised that the Fed’s policymaking is 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.

BOC ANNOUNCEMENT (WED): Analysts expect the BoC will hold rates at 4.50% after signalling a conditional pause at the March meeting. Recent inflation data saw headline CPI falling by more than the consensus was expecting, owing to lower energy inflation, while the BoC core measures also showed improvement. RBC’s analysts said that while inflation is still a concern, the positive trend is likely to keep the BoC on the sidelines. Later this year, money markets are implying some possibility of a rate cut, and traders will be looking for any commentary that validates that pricing, particularly as officials still want to see progress on the inflation front, and against policymaker’s statements that they remain prepared to resume rate hikes if it appears that inflation will not get back to 2% in 2024. The April meeting will be accompanied by fresh economic projections.

BOJ TANKAN SURVEY REVIEW: Japan’s manufacturers’ sentiment took a downturn in the first quarter, according to the BoJ Tankan Survey, marking the lowest level in over two years. The sentiment among large manufacturers fell to 1 in March from 7 in December, below the expected 3, reflecting the impact of rising raw material and fuel costs, slowing overseas growth, and declining chip demand. Despite the slump, large non-manufacturers sentiment improved, rising for the fourth quarter to 20 from 19 in December. However, these service-sector firms expect business conditions to worsen in the next three months amid rising raw material and labour costs. The survey will be taken into account by the BoJ in its upcoming meeting in April to produce new quarterly growth and inflation estimates.

BOC BUSINESS OUTLOOK SURVEY REVIEW: The BoC’s quarterly Business Outlook Survey stated that half of the firms surveyed expect Canada to be in a mild recession over the next year, more than the prior survey, where two-thirds thought that would be the case. However, firms still expect sales to grow, though at a slower pace, and it follows a period of exceptional strength over the last year. Inflation expectations moderated, but most businesses still think inflation will remain well above 2% until at least 2025.

RBA REVIEW: The RBA kept its rates unchanged at 3.60%, as expected, which was what money markets were heavily pricing for although analysts were near-evenly split between expectations for a 25bps hike and a pause. Despite the pause on rates, the central bank's rhetoric was hawkish as it noted that the Board expects some further tightening of monetary policy may well be needed and it remains resolute in its determination to return inflation to target and will do what is necessary to achieve that, while it took the decision to hold interest rates steady this month to provide additional time to assess the impact of the increase in interest rates to date and the economic outlook. Furthermore, RBA Governor Lowe stated during a speech the next day after the meeting that the decision to hold rates steady does not imply interest rate rises are over and that it was prudent to hold rates steady this month to allow more time to assess the impact of past increases and that this approach is consistent with their practice in earlier interest rate cycles whereby it was common for the Board to move interest rates multiple times, then wait for a while to assess the pulse of the economy, and move again if the situation warranted doing so. Lowe also commented that the board is prepared to have a slightly slower return to the inflation target than some other central banks, while he said that he is not 100% certain they will have to hike rates again but added that the balance of risks lean towards further rate rises.

RBNZ REVIEW: The RBNZ delivered its 11th consecutive rate increase which was much more hawkish than expected as the central bank raised rates by 50bps instead of the market consensus of a 25bps move, while it signalled further rise in rates ahead as the Committee agreed it must continue to raise the OCR to return inflation to the 1%-3% target and to fulfil its remit. The Board discussed a 25bp and 50bps hike at the meeting and the Committee expects to see a continued slowing of domestic demand, as well as a moderation in core inflation and inflation expectations with the extent of this moderation to determine the direction of future monetary policy. Furthermore, the MPC agreed that the OCR needs to be at a level that will reduce inflation and inflation expectations to within the target range over the medium-term and members observed inflation is still too high and persistent, as well as viewed that risks to inflation pressure from fiscal policy were skewed to the upside. As the central bank had opted for a more aggressive rate increase than anticipated and with the rhetoric remaining hawkish, a continuation of policy tightening does seem likely and ASB Bank now expects the RBNZ to raise rates by 25bps in May to 5.50%.

RBI REVIEW: The RBI unexpectedly kept the Repurchase Rate unchanged at 6.50% (exp. 25bps hike) via unanimous decision and the MPC also maintained its policy stance of remaining focused on the withdrawal of accommodation through a 5-1 vote (prev. 4-2 vote). Despite the surprise pause by the central bank, Governor Das provided a hawkish tone in which he stated that the decision to pause is for this meeting only, while he also stated that the MPC stands ready to act if warranted and they will not hesitate to take action if needed in future policy meetings. Furthermore, Governor Das acknowledged that the global economy is witnessing a renewed phase of turbulence and that bank failures have brought contagion risks to the forefront but also pointed to further policy tightening in which he noted that the war on inflation has to continue and the fight against inflation is far from over.