Central Bank Weekly April 14th: Previewing RBA and ECB minutes, PBoC LPR; Reviewing FOMC minutes, BoC, BoK

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RBA MINUTES (TUE): Market participants will closely scrutinise the minutes for further insight following the recent hawkish hold in policy. As a reminder, the central bank maintained the Cash Rate at 3.60%, in line with market expectations, though analysts were nearly evenly split between a 25bps hike and a pause. The RBA reiterated its hawkish stance, suggesting that additional monetary tightening is anticipated and reaffirming its commitment to achieving the inflation target. The decision to maintain interest rates was made to allow time to assess the impact of past increases and the economic outlook. Governor Lowe reiterated in a speech the following day that the decision to hold fire did not mean interest rate hikes were over, and the Board was following a similar practice from earlier interest rate cycles, whereby multiple rate moves were made before waiting to assess the economic response. Lowe also suggested that a slightly slower return to the inflation target was acceptable, but the balance of risks favoured further rate rises.

ECB MINUTES (THU): Despite market pricing ahead of the meeting being around 65% in favour of a 25bps hike at the meeting, the ECB defied calls for such a move and stuck with its February guidance of a 50bps increase. The Governing Council justified such a move by noting that inflation was projected to remain too high for too long. With regards to financial stability, the statement noted that “the euro area banking sector is resilient, with strong capital and liquidity positions. In any case, the ECB’s policy toolkit is fully equipped to provide liquidity support to the euro area financial system if needed”. From a guidance perspective, the GC is no longer guiding towards rate hikes and merely refers to “rate decisions”, which will be data-dependent. At the follow-up press conference, Lagarde noted the Board proposed no other option compared to the one taken. This decision was adopted by a very large majority, though three or four did not support the decision and wished to wait for more time. In the wake of the meeting and press conference, Reuters ECB sources noted the debate at the meeting was for either 50bps, or an unchanged decision, and that policymakers opted for the 50bp move after the SNB lifeline to Credit Suisse, while there was no discussion of a 25bp move. Bloomberg sources also noted that policymakers feared that ditching their 50bp hike guidance might panic investors, while on the terminal rate, hawkish officials still saw rates well above the current 3% level, although the doves questioned whether the peak may be lower than initially thought. Any further colour on these discussions and what they could mean for the May meeting will be of note for the market, however, as always, the account of the decision may be deemed as stale in some quarters.

PBOC LPR (THU): The PBoC is expected to maintain its benchmark lending rates, with the 1-Year and 5-Year Loan Prime Rates (LPRs) at 3.65% and 4.30%, respectively. Thus far, the LPRs have remained unchanged since last August, and analysts anticipate the central bank will continue to refrain from making any adjustments due to the improving economy after strict COVID policies were lifted in late 2020 and China's borders reopened, which reduces the need for policy support. The decision comes after the Q1 GDP data on Tuesday which has a non-zero chance of shifting expectations. PBoC recently said some Chinese banks cut deposit rates in April as part of the normal interest rate self-discipline mechanism, according to Bloomberg. Following these recent announcements by several small and medium-sized banks to lower deposit rates, discussions have emerged about whether the LPR would be adjusted in April. However, experts widely predict that the LPR will likely remain unchanged, according to China’s Securities Daily. The article suggests this is due to strong Q1 financial and credit data, along with signs of recovery in weak sectors such as real estate and consumption, reducing the need for further monetary easing. That being said, analysts at ING suggest a 10bps cut to the 1Y Medium Lending Facility policy rate may be on the horizon if data does not meet the government's expectations. “We expect that if there is a cut of 10bp by the PBoC then banks will cut the 1Y and 5Y Loan Prime rates by 5bp and 15bp, respectively”, ING says.

FOMC MINUTES REVIEW: In recent months, traders have been trying to understand the factors that the Fed would need to see to either pause or pivot its course of normalisation; the FOMC's March meeting minutes may have given us a glimpse. The minutes said "several participants" considered whether it was appropriate to hold the target range steady amid the struggles that were seen at some US regional banks. Note that in public, officials have generally been reticent to discuss the conditions that they'd need to see in order to pause or pivot from rate hikes. Some newswires were also carrying the headline, framing the Fed's recent forecasts, as staff 'projected a mild recession starting later in 2023'; recall, at the meeting Chair Powell said recessions tended to be nonlinear, and were very hard to model, adding that the Fed did not know whether there would be one this time around. Offsetting the dovishness within the minutes, however, "some participants" would have considered a 50bps rate rise if the banking issues were not ongoing, with "many" stating that incoming data before the onset of the banking-sector stresses had led them to see the appropriate path for rates as somewhat higher since recent inflation data indicated slower-than-expected progress on disinflation. The minutes also noted that the developments within the banking sector were likely to result in tighter credit conditions, though the exact impact was uncertain, as Chair Powell has himself noted.

BOC REVIEW: The Bank of Canada left rates unchanged at 4.50%, as expected, and maintained language that it was prepared to do more on rates if needed to bring inflation back to target. The average GDP forecasts were revised higher for 2023, but down for 2024, while growth is seen picking up again in 2025. On inflation, the 2023 average CPI forecast was revised lower, while 2024 was left unchanged. The statement noted that getting inflation to 2% could be more difficult as expectations are coming down only slowly, while service price inflation and wage growth remain elevated, and corporate pricing behaviour has yet to normalise. The central bank also lowered its output gap estimate, though left its neutral rate view unchanged. At his post meeting press conference, Governor Macklem revealed that the Governing Council discussed whether it had raised rates enough, but said that the full work through of prior hikes was not yet done. Officials also considered the likelihood that rates may need to remain restrictive for longer to return inflation to target. The Governor also pushed back on market pricing for rate cuts, saying that does not look like the most likely scenario. Analysts at Oxford Economics now expect rates to be left unchanged throughout 2023, noting their CPI forecasts are aligned with the BoC, but they see much weaker GDP growth in 2023 than the BoC expects.

BOK REVIEW: Bank of Korea officials voted to hold its 7-day repo rate at 3.50% for the second straight meeting, as analysts had expected. The vote was unanimous, in contrast to the previous meeting, where one official dissented for a 25bps rate rise. On the economic front, the BoK hinted that it could downgrade its growth view further, while it sees inflation consistent with its February forecasts, although the core measure of inflation may come in above those projections. Looking ahead, it seems officials see scope for at least one more rate rise, with five policymakers seeing the terminal rate at 3.75%, while one sees it at the current 3.50%.