Central Bank Weekly April 21st: Previewing BoJ, BoC mins, CBRT; reviewing PBoC RBA mins, ECB mins

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CBRT ANNOUNCEMENT (THU): The consensus is for the CBRT to leave its One-Week Repo Rate unchanged, at 8.50% in April. At its previous meeting, the central bank noted stronger economic activity and caveated its views with concerns of recession in developed economies. The CBRT reiterated it is to use all instruments decisively for price stability and the medium-term 5% inflation target, whilst suggesting the transparent, predictable, and data-driven decision-making framework is to continue. Traders will continue to frame the CBRT meeting in the context of the upcoming May 14th elections. Ahead of the confab, and the elections, SocGen notes traders' chatter that the central bank has tightened its grip on the currency ahead of the election, is now tracking and vetting TRY exchange rates and has requested detailed reports on FX valuations. Analysts have suggested that the CBRT may return to more conventional monetary policy strategies after the election is out of the way, and will be forced to lift rates. The most recent central bank poll found the Repo Rate is seen at 13.75% in 12-months time; previously, the view was for 12.8%.

BOJ ANNOUNCEMENT AND OUTLOOK REPORT (FRI): The Bank of Japan will conduct its first policy meeting under the leadership of newly appointed Governor Ueda next week, which will also be the first meeting for Deputy Governors Uchida and Himino, with the central bank expected to maintain current monetary policy settings of rates at -0.10% and QQE with YCC to flexibly target 10yr JGB yields at 0% within a +/- 50bps tolerance range, according to 24 out of 27 economists surveyed by Reuters. Comments from the new officials have suggested no hurry to exit from ultra-easy policy as Ueda stated during his inaugural speeches last week that the BoJ will continue monetary easing until the price target is stably and sustainably achieved and noted that domestic consumer inflation is currently around 3%, but likely to slow ahead. Furthermore, Governor Ueda warned against a sudden normalisation of policy and Deputy Governor Uchida also said they will continue monetary easing to achieve the price stability target sustainably and stably, while other officials said they are not expecting an abrupt shift in policy under the new Governor. Nonetheless, participants will be on the lookout for potential clues about when the central bank could begin normalisation as most economists cited by Bloomberg expect some sort of policy shift by June, although some have warned that the BoJ could maintain policy well into Q2. Meanwhile, recent data releases have been mixed which supports a patient approach, including the quarterly Tankan survey as the large manufacturers’ sentiment index deteriorated for the 5th consecutive quarter and fell to its lowest since December 2020, but the large non-manufacturers sentiment index printed at its highest in more than 3 years. Furthermore, household spending disappointed, but machinery orders topped forecasts and the latest national inflation metrics matched largely consensus, with headline CPI at 3.2% and Core CPI at 3.1%, but showed an acceleration in nationwide Ex. Fresh Food & Energy CPI to 3.8% (prev. 3.5%). The central bank will also release its latest Outlook Report containing Board members’ median forecasts for Real GDP and Core CPI, with the current estimates for growth at 1.9%, 1.7% and 1.1% for fiscal years 2022, 2023 and 2024, respectively, while inflation is seen at 3.0%, 1.6% and 1.8% for the respective aforementioned years. In addition, a recent press report stated that the central bank is mulling CPI projections for FY25 between 1.6%-1.9%, which would remain below the 2% price goal and support the case for a delayed exit from easy policy.

RBA MINUTES REVIEW: Minutes from the April meeting provided little in the way of fresh insight, but kept the door open for a resumption of rate hikes and stated that the Board considered another rise before deciding to pause, while it agreed there was a stronger case to pause and reassess the need for tightening at future meetings. The RBA added that it is assessing data on inflation, jobs, consumer spending and business conditions, as well as noting that updated forecasts in May will help assess when and how much more tightening is needed. Furthermore, the RBA said it is important to be clear that policy may be tightened again to curb inflation in a timely manner and noted that inflation is still too high. This clearly suggests the central bank is to debate further rate increases going forward, although money markets are heavily leaning towards another pause at the next meeting and are pricing around a 70% probability for the Cash Rate to be kept unchanged in May.

ECB MINUTES REVIEW: The account of the ECB's March meeting passed with little in the way of fanfare with the release noting that "a very large majority" agreed with Chief Economist Lane’s proposal to raise the ECB’s key interest rates by 50bps. That said, some members would have preferred not to increase the key rates until the financial market tensions had subsided and to conduct a comprehensive re-evaluation of the stance at the Governing Council’s next monetary policy meeting. It was noted that bank credit to euro area firms had become more expensive. However, the overall judgement was that "in the context of tighter monetary policy, pockets of financial vulnerability had to be expected". Furthermore, unless the situation deteriorated significantly, the financial market tensions were unlikely to fundamentally change the Governing Council's assessment of the inflation outlook. Looking beyond March, it was noted that if the inflation outlook embedded in the March ECB staff projections were confirmed, the Governing Council would have further ground to cover in adjusting the monetary policy stance to ensure a timely return of inflation to target. Overall, the account by its nature was dated and we have since heard a lot from ECB policymakers with emphasis on the May meeting. Therefore, there was little for ECB-watchers to get excited about. In terms of desk views for May, ING suggests that "the growing divide within the ECB, signalled in today's minutes, is probably the best argument for a compromise of a 25bp rate hike".

PBOC LPR REVIEW: The PBoC kept its benchmark lending rates unchanged for the 8th consecutive month, 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 its intentions for benchmark rates, while recent GDP and activity data releases were mixed and therefore support a patient approach. Furthermore, rhetoric from the PBoC hasn’t deviated much from the usual script in which it recently pledged to make prudent monetary policy precise and forceful, as well as keeping liquidity reasonably ample.