Central Bank Weekly April 28th: Previewing FOMC, ECB, RBA, Norges, BCB; reviewing Riksbank, CBRT, BoJ

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RBA ANNOUNCEMENT (TUE): The RBA is to decide on rates next week with 26 out of 34 economists surveyed by Reuters forecasting the Cash Rate Target to remain unchanged at the current level of 3.60%, while money markets recently priced in an 85% likelihood of a pause and just a 15% chance for a 25bps increase. As a reminder, the RBA kept rates unchanged at the last meeting in April, which was the first time it paused after 10 consecutive rate increases, with the decision to keep rates steady to provide additional time to assess the impact of tightening to date and the economic outlook. Despite the pause in rates, the central bank's rhetoric was hawkish as it stated 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. The minutes from the meeting also noted that the Board considered a rate hike before deciding to pause and that it is important to be clear policy may be tightened again to curb inflation in a timely manner with inflation still too high, while RBA Governor Lowe stated during a speech the following day that the decision to hold rates steady does not imply interest rate rises are over and although he was not 100% certain they will have to hike rates again, the balance of risks lean towards further rate rises. In terms of the recent data releases, inflation figures for Q1 were somewhat mixed and slightly favoured the likelihood of a pause as the headline CPI readings topped forecasts (QQ 1.4% vs. Exp. 1.3%, YY 7.0% vs. Exp. 6.9%), but all other components were softer than expected and supported the view that the economy had passed peak inflation. Nonetheless, a future rate hike cannot be ruled out given that inflation remains firmly above the RBA's 2-3% target band.

FOMC ANNOUNCEMENT (WED): The consensus expectation is for the FOMC to lift rates by 25bps at its May meeting, and then the market expectation is for the central bank to stand pat on policy. Chair Powell will likely be quizzed on whether the central bank is on pause, and while some expect the Fed chief to confirm that the hiking cycle has now run its course, he has previously batted-off such lines of questioning, reiterating that the Fed remains data dependent in its policy approach. And while inflation has come off pandemic peaks, it remains significantly above the Fed's 2% target (it was 4.9% in Q1, according to the latest GDP report). For reference, the Fed has historically stayed at terminal for between 3-15 months, with the average being around 6.5 months; if the historical playbook is used, then traders might expect rate cuts by the end of the year. Indeed, this is what money markets are pricing. At pixel time, the market is pricing in about 30bps of rate cuts this year after the Fed lifts rates in May – which is at odds with what Fed officials were guiding ahead of their pre-meeting blackout window – as the banking crisis stokes concerns about credit tightness, and growth dynamics cool. According to a Bloomberg survey, 43% expect that the statement will signal a likely pause at the next meeting, while 26% think that the FOMC will give no guidance on future rates, 22% think that the FOMC will repeat that it 'anticipates that some additional policy firming may be appropriate', or even include other language signalling a tightening bias; the survey also finds that 59% do not think there will be any dissenters, while 41% think that there will be one or more. Elsewhere, Powell will also be quizzed on the banking sector; most see the tightening of credit conditions the equivalent to around 25-50bps of rate hikes; Powell didn't give an exact figure at the previous meeting, but may be asked to provide more details on how commercial and industrial loans are expected to be impacted.

BCB ANNOUNCEMENT (WED): The Copom held the Selic at 13.75% at its previous meeting, and struck a hawkish tone, revising inflation forecasts higher and warning that "the de-anchoring of long-term inflation expectations raises the cost of the disinflation", and that it "will not hesitate to resume the tightening cycle if the disinflationary process does not proceed as expected." This week's IPCA-15 inflation data for April showed inflation falling to a 30-month low amid declines in food prices; Pantheon Macroeconomics said "all told, the inflation picture continues to improve in Brazil, thanks to favourable base effects, the lagged effect of stiflingly high interest rates, and softening domestic demand," adding that "the effect of a relatively stable BRL and falling raw material prices are also helping to offset the hit from the resumption of key taxes." Pantheon sees inflation continuing to fall ahead, though could still tick up towards the end of the year as favourable base effects fade. "Key components, including services, and core measures, particularly EX3—which is closely linked to the output gap—remains relatively sticky. But we suspect price pressures will ease further over the next three-to-six months, on the back of weaker demand." The most recent BCB survey revealed that economists see the Selic at 12.50% by the end of this year (unchanged vs the previous survey), and it is seen at 10.00% by the end of 2024 (also unchanged vs the previous survey). This week, BCB chief Campos Neto told lawmakers that it will not cut rates until inflation risks are contained, and has previously suggested that rates were at an appropriate level for containing the demand-driven inflation. "The central bank seems determined not to change its stance and to focus

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instead on bringing inflation expectations down to target," SocGen writes, "as such, we do not expect the Copom to begin easing in May. And there is now a rising possibility that the Copom will extend its pause in June too."

ECB ANNOUNCEMENT (THU): Consensus looks for a 25bps hike in the Deposit Rate to 3.25%, according to 57/69 analysts surveyed by Reuters, whilst the remaining 12 look for a 50bps increase. Market pricing concurs with the consensus with 25bps priced at around 70% vs. 30% for 50bps. The March meeting saw the ECB defy expectations for a 25bps hike (was priced at around 65% heading into the meeting) and opt for a 50bps adjustment on the basis that "inflation is projected to remain too high for too long". Furthermore, the Bank downplayed financial stability concerns, stating that "the euro area banking sector is resilient, with strong capital and liquidity positions". Since March, inflation data has seen Y/Y HICP decline to 6.9% from 8.5%, whilst the super-core reading rose to 5.7% from 5.6%. The influential Schnabel of Germany has cautioned that when it comes to policy, "we need to see a sustained decline in core inflation that gives us confidence that our measures are starting to work" and therefore even if core inflation was to peak it wouldn't necessarily bring about a pivot from the GC. It's worth noting that April inflation figures will be released on Tuesday whereby expectations are for Y/Y CPI to fall to 6.8% from 6.9%, with the super-core metrics set to hold steady at 5.7%. In the banking sector, nothing has transpired since March to test its resilience and therefore is unlikely to act as an impediment to the upcoming decision. That said, there will be attention ahead of the announcement on Tuesday's Bank Lending Survey given the importance placed on it by various members of the GC. Any signs of slower lending in the Eurozone could provide some ammunition to the doves given that the account of the March meeting showed that "some members would have preferred not to increase the key rates until the financial market tensions had subsided". Danske Bank notes that "we take it as given that the BLS will point to tightening credit standards, as the ECB is already in a tightening cycle, which means that we see the focus of this BLS to be on what additional tightening the recent turmoil has added". As it stands, messaging from policymakers has suggested that the policy options will be between a 25bps and 50bps hike with the Bank required to deliver further tightening to bring inflation back to target. Given the political nature of the GC, it is expected that 25bps will be the compromise between the hawks and doves who will also be jostling over how high the terminal rate will reach in the coming months, with markets currently priced for the Deposit Rate to reach 3.75% in July.

NORGES BANK PREVIEW: Expected to hike by 25bp to 3.25%, given domestic data remains strong and while CPI-ATE is in-line with the Norges Bank's forecast the figure remains elevated with the trend erring higher and above market consensus. Tightening which would be in-fitting with the guidance from March. Rates aside, participants will be focused intently on the repo path, particularly after the dovish-hike from the Riskbank. Currently, the path implies a rate reduction by end-2024 to 3.45% from the current 3.60% peak which is seen by end-2023; conversely, markets are pricing over 75bp worth of easing by end-2024. Given the recent up-tick in CPI-ATE, the Norges Bank may well err on the side of caution and leave the policy path unaltered in order to underscore their commitment to bringing inflation under control. On this, SEB writes the Norges Bank will either maintain the policy rate higher for longer, in-fitting with the aforementioned justification, or the Scandi's higher rate sensitivity will prompt additional cuts in the path, relatively speaking.

RIKSBANK REVIEW: Overall, a dovish 50bp hike from the Riksbank, as the magnitude was accompanied by guidance for a 25bp hike in June or September (vs consensus June), the repo-path implying a cut by Q2-2026 (vs consensus unchanged) and two dovish dissenters resulting in a 3-2 vote split for 50bp vs 25bp. On the dissenters, this was not entirely unexpected given the economy's sensitivity to tightening and the marked easing in March's headline inflation alongside market pricing heading into the meeting and the minority of calls from desks for a 25bp hike. Note, the dissenters were Breman and Floden who are typically on the dovish side of the board. As expected, the statement reiterated that a stronger SEK would be desirable. Given the above, the SEK experienced marked depreciation. Looking ahead, we are attentive to developments on both inflation and the resilience of the domestic economy as to whether the final hike will occur in June or September and thereafter for any adjustments to the implied timing of rate reductions.

CBRT REVIEW: The CBRT maintained the one-week repo rate at 8.5%, in line with market expectations. The Bank said it is closely monitoring the impact of global inflation on inflation expectations and international financial markets, as financial markets suggest other central banks may soon halt interest rate hike cycles. The MPC believes the current stance is adequate for supporting post-earthquake economic recovery, while preserving price and financial stability, with the Bank conducting a thorough assessment of the earthquake's effects on production, consumption, employment, and expectations. Although short-term economic disruptions are expected, lasting consequences on the Turkish economy are unlikely, the Bank said, whilst emphasising the significant contribution of tourism to the current account balance this year, surpassing expectations, but risks persist due to domestic consumption demand, high energy prices, and weak economic activity in the key export market. The statement was largely a repeat of the prior release. This follows a hold in March and 50bps cut in February to support the economy after a series of earthquakes in Turkey's south. Ahead, desks will be eyeing the Turkish elections due mid-May ahead of the 25th May CBRT meeting.

BOJ REVIEW: The BoJ kept its policy settings unchanged, as widely expected, in the first meeting under Governor Ueda's leadership, with the rate held at -0.10% and parameters of QQE with YCC maintained and the decision on the

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latter made via a unanimous vote. The central bank tweaked its forward guidance whereby it dropped the reference to the COVID-19 pandemic and the pledge to keep interest rates at current or lower levels, although it remained dovish by replacing this with a pledge to take additional easing steps without hesitation as needed while striving for market stability. The central bank also announced a broad-perspective review of monetary policy with a planned time frame of one to one and a half years, which supported the notion of a slow exit from ultra-easy policy, although Governor Ueda later clarified during the press conference that they will make changes to monetary policy as needed during the review period and may announce results of the policy review in the interim if required.

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