Central Bank Weekly May 5th: Previewing BoE, BoJ SOO, NZ Inflation Forecast, Riksbank Minutes; Reviewing FOMC, ECB, RBA, Norges, BCB

PREVIEWS

BOE ANNOUNCEMENT (THU): Expectations are for the BoE to deliver a 25bps hike in the Base Rate to 4.5%, according to 55/56 analysts surveyed by Reuters, with just one looking for unchanged. Market pricing concurs with economists as 25bps is priced at around 85%. The prior meeting in March saw a 7-2 vote in favour of a 25bps hike with dovish dissent from Tenreyro and Dhingra, whilst the MPC opted to keep forward guidance on rates which notes that if there were evidence of more persistent pressures, further tightening would be required. Data since March has leaned hawkishly with headline Y/Y CPI printing at 10.1%, which was some 0.9pp above the MPC's forecast, and the core rate at 6.2% vs. the MPC's projection of 5.8%. In the labour market, headline earnings growth advanced to 6.6% from 6.5%, whilst on the economic growth front, M/M GDP flatlined in February, and survey data showed an increase in the UK Composite metric, fuelled by the services sector. As such, further action from the MPC is expected with Governor Bailey (27th March) reminding markets that more tightening would be required if signs of persistent inflationary pressures become evident, adding that the FPC can focus on the financial system whilst the MPC's focus will be on returning inflation to target. Whilst there is currently no consensus on the vote split, Oxford Economics suggests another 7-2 decision with Dhingra and Tenreyro the lone dissenters. Focus will firmly be on whether the MPC makes any alterations to its forward guidance to indicate the possibility of a pause given that the likes of Chief Economist Pill has continued to remind markets that "there is a lot of policy-in-the-pipeline still to come through". As it stands, market pricing puts the terminal rate at around 4.75%, which would imply another 25bps hike beyond next week. For the accompanying macro projections, Oxford Economics anticipates an upgrade to near-term growth, downgrade to near-term inflation, whilst over the medium-term inflation will be materially below 2% in 2024 and 2025.

BOJ SOO (THU): The BoJ will release the Summary of Opinions from the April 27th-28th meeting where it kept its policy settings unchanged, as widely expected, in the first conclave under Governor Ueda's leadership, with the rate held at -0.10% and parameters of QQE with YCC maintained and the decision on the 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 timeframe 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.

NEW ZEALAND INFLATION FORECASTS (FRI): The prior Survey of Expectations indicated that while inflation expectations remain high, the upward momentum has somewhat petered out. The two-year ahead measure experienced a decrease, dropping from 3.6% to 3.3%. Likewise, expectations for inflation five years ahead showed a minor decline, according to Westpac. The RBNZ's latest Financial Stability Report (FSR) suggested the financial system in New Zealand is well-prepared to manage the rising interest rate landscape and any disruptions in global financial markets. The FSR added that as monetary policy tightens due to elevated inflation, households and businesses face increased debt servicing expenses.

RIKSBANK MINUTES PREVIEW: Minutes which will be closely scrutinised following the dovish 50bp hike in April for further insight into the thought process of dissenters Breman and Floden and how close, if at all, the other three members were to voting for 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 Riksbank. Finally, we look for any guidance in the minutes around whether the final hike will be in June or September; though, a discussion on this might be somewhat premature.

REVIEWS

FOMC REVIEW: The FOMC raised rates by 25bps to 5.00-5.25%, as expected, while also hinting at a pause by dropping the language about anticipating more policy firming. The Fed will determine further policy firming based on tightening to date, policy lags, and other developments, Fed Chair Powell said, adding that the central bank remains committed to bringing inflation back down to target, and will take a data-dependent approach to determine further rate hikes, and there will be an ongoing assessment of whether the Fed has reached a sufficiently restrictive level. The Senior Loan Officer Opinion Survey was consistent with banks tightening lending standards and the pace of lending slowing, while the Committee has a view that inflation is not going to come down so quickly. Powell also said that they are much closer to the end than the beginning, and feels like they are close or maybe even there.

ECB REVIEW: As expected, the ECB stepped down to a 25bps cadence of rate hikes from the 50bps unveiled in March. The decision to implement further tightening was based on the GC's judgement that the "inflation outlook continues to be too high for too long". The smaller increment of tightening was likely amid concerns that "past rate increases are being transmitted forcefully to euro area financing and monetary conditions, while the lags and strength of transmission to the real economy remain uncertain". Moving forward, future "decisions will ensure that the policy rates will be brought to levels sufficiently restrictive...". The main surprise from the announcement came via the balance sheet whereby the GC now expects to discontinue the reinvestments under the APP as of July 2023. ING notes that the balance sheet will likely shrink by EUR 27bln per month vs. the current pace of EUR 15bln. Some observed that the decision on the balance sheet could have been part of a compromise between the doves and the hawks on the GC with the latter favouring a 50bps hike today or a potentially more aggressive rate path going forward; something which Lagarde later denied. However, sources later suggested there was a deal involved, but the hawks apparently gave up on a 50bps hike without much of a fight, but Holzmann (non-voter), was the only objection. At the follow-up press conference, Lagarde stated that today's decision "was not a pause" and the ECB still has "more ground to cover"; a comment which gave today's announcement a more hawkish skew than the initial policy statement. In terms of the balance of views on the GC, Lagarde noted that the decision was not unanimous with some members preferring a 50bps adjustment, however, no members wished for an unchanged rate. Looking beyond today's meeting, Lagarde said she does not have an exact number for what "restrictive" will mean for the ECB with regards to the terminal rate, however, she judges the Bank will know when it gets there. The sources later revealed that some policymakers see two-to-three hikes ahead. Overall, despite the ambiguity of the initial statement, further tightening is expected from the ECB. However, the Bank is clearly heading towards the final stages of its tightening cycle with just one more 25bps hike fully priced by the market vs. expectations ahead of the meeting that we would get 25bps in June and a 60% chance we would get another 25bps move in July.

RBA REVIEW: The RBA surprised markets at this month’s meeting in which it delivered an unexpected rate increase to resume its policy tightening cycle with its 11th hike in 12 meetings, while the language remained hawkish as the Board expects some further tightening of monetary policy will be needed and remains resolute in its determination to return inflation to target wherby it will do what is necessary to achieve that. It also stated that the central forecast remains that it will take a couple of years before inflation returns to the top of the target range, as well as noting that although inflation in Australia has passed its peak, it is still too high at 7% and it will be some time yet before it is back within the target range. Furthermore, RBA Governor Lowe commented in a speech hours after the meeting that the Board had a strong consensus to raise rates and is deadly serious about bringing inflation back down, while the RBA’s quarterly Statement on Monetary Policy stuck with the hawkish tone in which it reiterated that it will do what is necessary to return inflation to target and some further tightening may be required to do that over a reasonable timeframe.

NORGES REVIEW: Overall, the decision was in-fitting with expectations. The Norges Bank hiked by 25bp, guided participants to another hike in June (as per the March repo path) and added some further emphasis on recent NOK depreciation. However, this latter point is likely the reason for the modest NOK pressure seen following the announcement, as while the commentary around the NOK implied a hawkish-skew to the repo path, the Norges Bank stopped short of announcing any immediate measures to address this. The subsequent press conference added little, but alongside this we saw a turnaround in the NOK's fortune, albeit a move which was likely EUR-driven rather than due to anything Governor Bache said.

BCB REVIEW: The Brazilian Central Bank maintained the Selic rate at 13.75%, as expected, for a sixth straight meeting in a unanimous decision. The central bank said it will assess if its strategy to maintain the Selic rate for a long period will be sufficient to ensure the convergence of inflation to target. The statement maintained that the current situation demands patience, but in a dovish twist, said that “although a less likely scenario, will not hesitate to resume the tightening cycle if the disinflationary process does not proceed as expected.” Pantheon Macroeconomics said this alludes to the Copom suggesting that further rate hikes are not its base case. Additionally, the Committee presented projections with constant interest rates showing inflation at 2.9% (prev. 3.0%) in Q4 2024, slightly below its target, but still at 5.7% in Q4 2023. Pantheon sees these tweaks as an early indication that rates will start to fall at some point in Q3 (August or September), and expects the Copom to signal action in its next quarterly inflation report in June.

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