Central Bank Weekly May 19th: Previewing FOMC Minutes, RBNZ, PBoC, CBRT, BOK; Reviewing RBA Minutes

PREVIEW

FOMC MINUTES (WED): The minutes are stale, given the more recent Fedspeak we have heard. At the May meeting, the FOMC raised rates by 25bps to 5.00-5.25%, in line with expectations, while also hinting at a 'pause' (more on that in a moment) 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, while 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. Since the May meeting, officials have been emphasising that their latest policy actions should not be read as a 'pause', and the Committee is prepared to act further to tame inflation pressures. Post-FOMC, Fedspeak has become more nuanced in terms of the differences in view over the policy outlook, and some divergences are emerging. In the outright hawkish camp, Logan (current voter) argued that the data does not yet show that skipping a rate hike in June is appropriate, and Governor Bowman (also 2023 voter) said additional rate hikes were likely appropriate. In the neutral-but-with-hawkish elements camp, Bullard (non-voter) said he will keep an open mind going into the June meeting, but was inclined to support another rate hike, Kashkari (voter) said the Fed has more work to do, Bostic (2024) said there was still a ways to go to beat inflation. Vice Chair nominee Jefferson has spoken about how inflation remains too high, and a year is not enough time to assess the full impact of hikes thus far. In the circumspect camp, Williams (perma voter) has advocated a wait-and-see approach on rates, while Goolsbee (voter) said it is too soon to be talking about the Committee's next decision, but he was cautious about the May 25bp hike. Analysts will be looking to see the extent to which the minutes reflect these divergent views.

RBNZ ANNOUNCEMENT (WED): The RBNZ will conduct a monetary policy meeting next week where the central bank is likely to continue its hiking cycle with money markets pricing a 57% chance that the RBNZ hikes the OCR by 25bps to 5.50% and a 43% chance of a 50bps increase. As a reminder, the RBNZ surprised markets at the last meeting in April whereby it delivered a larger-than-expected rate increase of 50bps (exp. 25bps hike) which was the central bank’s 11th consecutive rate hike, while its language remained hawkish as it stated that the OCR needs to increase and the Committee agreed it must continue to raise the OCR to return inflation to the 1%-3% target and to fulfil its remit. Members also observed that inflation was still too high and persistent, as well as viewed that risks to inflation pressure from fiscal policy were skewed to the upside but acknowledged that the rapid pace and extent of tightening to date implies monetary policy is now in contraction territory. Furthermore, the committee expects to see a continued slowing of domestic demand and moderation in core inflation and inflation expectations with the extent of this moderation to determine the direction of future monetary policy. The rhetoric suggests the potential that the central bank could downshift gears to a less aggressive pace of tightening at next week’s meeting, while softer-than-expected inflation in Q1 also supports this view with New Zealand CPI QQ at 1.2% vs. Exp. 1.7% (Prev. 1.4%) and YY (Q1) 6.7% vs. Exp. 7.1% (Prev. 7.2%). Furthermore, inflation expectations have also eased with the 1yr view at 4.3% (Prev. 5.1%) and 2yr Inflation Expectations at 2.8% (Prev. 3.3%), although further rate hikes remain likely given that the current level of inflation remains firmly above the central bank’s 1%-3% target range, while New Zealand's recent budget announcement which included significant fiscal measures was also seen to raise the odds for further rate increases.

PBOC LPR (MON): The PBoC is expected to maintain both its 1yr and 5yr Loan Prime Rates (LPRs) on Monday, at 3.65% and 4.30% respectively. Expectations for a hold in rates come after the One-Year Medium-Term Lending Facility Rate (MLF) was held at 2.75% on May 15th. Furthermore, the latest PBoC Monetary Policy Implementation Report for Q1 suggested Inflation may rebound gradually in H2 2023, while the central bank added that the temporary fall in CPI should not be exaggerated - which backs the argument for not reducing rates. On the other hand, recent activity data from China has disappointed across the board, and the latest inflation prints give flexibility for rate cuts. Analysts at Oxford Economics believe targeted easing is the most likely path – “Targeted easing could come in the form of liquidity support, RRR cuts, and re-lending support to earmarked industries”, whilst adding that RRR cuts are likely “particularly towards the end of the quarter to meet increased liquidity needs (the last 25bp RRR cut was effective 27 March).” Earlier this week, Chinese Premier Li also suggested more targeted measures should be taken to expand domestic demand and stabilise external demand.

CBRT ANNOUNCEMENT (THU): CBRT is expected to hold its benchmark rate at 8.5%, according to the median estimate of 12 economists polled by Reuters. The meeting comes after the first round of Turkish Presidential elections failed to yield a victor, as Erdo#an and K#l#çdaro#lu both missed hitting the 50% threshold – with the second round slated for the 28th of May – although Erdo#an's ruling AK Party and allies won a majority in the Parliamentary election. In terms of recent data, inflation has been on a favourable trend, declining from a rate of 85.51% Y/Y in October 2022, to 43.68% in April 2023, but still multiple times above the CBRT's 5% target. The latest CBRT survey showed the 12-month ahead Repo Rate forecast cut to 11.11% from the prior 13.75%, while the CPI forecast was downgraded to 29.84% from 31.02% in the prior survey.

BOK (TUE): The Bank of Korea is likely to keep rates unchanged again at next week's meeting to maintain the 7-Day Repo Rate at the current level of 3.50%. The BoK kept rates unchanged during the past two meetings and was unanimous in its decision to stand pat at the last policy decision in April although five of the seven board members wanted to keep the door open for one more possible future rate hike. Furthermore, the central bank has stated that headline inflation is likely to show a slowing trend through to mid-2023 but added that the easing of core inflation is likely to be slower than headline inflation and that uncertainty remains high over the future inflation path. The central bank also suggested a cautious approach due to large FX volatility and several board members saw the need to provide a warning against early rate cut expectations, while Governor Rhee thinks it is premature to talk about a policy pivot time and said it is time to wait and see as core inflation remains high. In terms of the latest key data releases, softer-than-expected inflation in April provides some encouragement that inflation is moving in the direction with CPI Y/Y at 3.7% vs. Exp. 3.75% (Prev. 4.2%), although advanced GDP for Q1 was mixed as the Q/Q reading topped forecasts and showed the economy averted a recession with an expansion of 0.3% vs. Exp. 0.2% (Prev. -0.4%), while the Y/Y reading disappointed and slowed to 0.8% vs. Exp. 0.9% (Prev. 1.3%), which adds to the case for a patient approach.

REVIEW

RBA MINUTES REVIEW: RBA May meeting minutes stated that the Board considered pausing or hiking by 25bps and further increases in interest rates may still be required, but would depend on how the economy and inflation evolve. The central forecast anticipates inflation will not return to the top of the target band until mid-2025, while risks include persistent services inflation and higher rent growth. The Board also expressed concern about weak productivity growth and the potential for prolonged high inflation to shift expectations. As a reminder, the RBA surprised markets with an unexpected 25bps rate increase in May, resuming its policy tightening cycle. As inflation in Australia is still too high at 7%, the Board expects further tightening and remains committed to returning inflation to target. Following the minutes, analysts at Westpac "still expect that the Board will choose to pause at the next Board meeting on June 6. But the case for further near-term rate increases cannot be dismissed… As was the case in May, the arguments in August will again be 'finely balanced', although our forecasts point to an 'on hold' decision." It's also worth noting that since the release of the minutes, the Aussie jobs data was bleak, with employment posting a negative print and the unemployment rate unexpectedly ticking higher by 0.2ppts.