Central Bank Weekly June 2nd: Previewing BoC, RBA, RBI; Reviewing ECB and CBRT minutes

PREVIEWS

RBA ANNOUNCEMENT (TUE): The RBA is expected to keep rates unchanged at its meeting next week according to 22 out of 30 economists surveyed by Reuters and with money markets pricing in a 67% probability for the Cash Rate Target to be maintained at the current level of 3.85%, and a 33% chance of a 25bps hike. The RBA surprised markets at last month's meeting when it delivered an unexpected rate increase to resume the policy tightening cycle with an 11th hike in 12 meetings, while its language remained hawkish as the Board expects that some further tightening of monetary policy will be needed and remains resolute in its determination to return inflation to target with the central bank to do what is necessary to achieve that. Furthermore, its central forecast is that it will take a couple of years before inflation returns to the top of the target range and noted that although inflation has passed its peak, it is still too high at 7%. Furthermore, Governor Lowe commented shortly 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. The language from the central bank clearly points to further rate increases, although some recent data releases have disappointed and support the case to keep rates on hold after the Manufacturing PMI returned to contraction territory last month and with Retail Sales sluggish, while jobs data showed a surprise contraction in the Employment Change and increase in the Unemployment Rate to 3.7% from 3.5%. Nonetheless, another surprise rate increase cannot be ruled out given that inflation remains far from the central bank's 2%-3% target range as the latest monthly CPI rose to 6.8% vs. Exp. 6.4% (Prev. 6.3%) and boosted some rate hike bets, while Goldman Sachs raised its terminal rate forecast to 4.35% from 4.10% and now expects the RBA to hike by 25bps in both June and July.

BOC PREVIEW (WED): In recent months there has been an expectation that the BoC would keep its policy rate unchanged through the rest of this year, but analysts note that stronger-than-expected GDP and CPI metrics, as well as a buoyant housing market present officials with the case to lift rates by 25bps in June. Minutes from its last meeting revealed that officials had discussed raising interest rates due to concerns about persistent inflation. Resilient economic growth, challenges in lowering inflation, and the risk of delaying action were the main arguments in supporting the case for a rate rise. While the BoC expects inflation to ease, it is cognizant that reaching its 2% target may take longer due to high services costs. Money markets are currently assigning a probability of around 35% that rates will be lifted by 25bps to 4.75% in June, though are fully pricing in a hike by the September meeting.

RBI ANNOUNCEMENT (THU): The RBI will conduct its 3-day policy meeting next week with the central bank expected to maintain the Repurchase Rate at the current level of 6.50%, according to all 64 economists surveyed in a Reuters poll. As a reminder, the RBI defied market expectations for a 25bps hike at the last meeting in April and instead opted to keep rates unchanged via a unanimous decision, while the MPC maintained its policy stance of remaining focused on the withdrawal of accommodation through a 5-1 vote to ensure that inflation progressively aligns with the target whilst supporting growth in which external MPC member Varma expressed reservations over this part of the resolution. Despite the surprise decision to keep rates unchanged, the rhetoric from Governor Das remained hawkish as he noted that the decision to pause was for that meeting only and the MPC stands ready to act if warranted, as well as adding that they will not hesitate to take actions if needed at future policy meetings and the policy stance can still be regarded as accommodative. This clearly suggests there is scope for further tightening, while the minutes from the meeting also stated that inflation remains elevated and generalised which is still the biggest risk to the Indian economy and the MPC must remain on high alert and ready to act pre-emptively if risks intensify to both growth and inflation. Nonetheless, the further softening of inflation to within the 2%-6% target range reduces the urgency for the central bank to act as CPI Y/Y slowed in April to 4.7% vs. Exp. 4.8% (Prev. 5.66%), while weaker-than-expected Industrial Production which printed at 1.1% vs. Exp. 3.3% (Prev. 5.6%) also supports the case for the central bank to continue refraining from further tightening, although GDP data recently provided some encouragement and printed firmer-than-expected at 6.1% vs. Exp. 5.0% (prev. 4.4%) for the January-March quarter.

REVIEWS:

ECB MINUTES REVIEW: The account of the ECB's May meeting saw policymakers "broadly agree" that the outlook continued to be too high inflation for too long. As such, further action on rates was deemed to be warranted. However, there was division within the GC in terms of the magnitude. “A number of members” initially expressed a preference for increasing the key ECB interest rates by 50 basis points in view of the risks to the inflation outlook. However, they appeared to put up little in the way of a fight and “most of these members” indicated that they could accept the proposed rate increase of 25 basis points. With regards to comms, there was “a strong preference” against returning to outright forward guidance on policy rates. However, it was judged that the statement needed to convey a clear “directional bias” to underline that, on the basis of the present outlook, further interest rate increases would be warranted. On the balance sheet, some members saw benefits in leaving an announcement about adjustments to APP reinvestments until June or providing only a directional communication following the present meeting, while deciding on the exact calibration of reinvestments at the June monetary policy meeting. Whilst this was a view that did not prevail, caution was also expressed against too fast a contraction in the Eurosystem balance sheet. Overall, and as often the case, the account of the meeting left little to excite markets given the staleness of the release, more timely ECB speak and this week’s softer-than-expected Eurozone inflation data. Furthermore, with a 25bps hike fully priced in for June, greater interest is on what happens in July and beyond.

CBRT MINUTES REVIEW: The CBRT minutes were largely a non-event. To recap, the CBRT held its One-week Repo Rate at 8.50%, in line with market expectations. They reiterated the stance that the current rate is sufficient to facilitate recovery from the early 2023 earthquakes. The CBRT’s forward guidance was consistent with the previous report, emphasising financial stability concerns due to various factors, including a potential global recession. The minutes meanwhile suggested the fall in energy prices is expected to continue into May. Despite significant economic activity, the Bank is monitoring potential threats to financial stability. Ahead, particpants will be on the lookout for how monetary policy will shift (if it does) following President Erdogan’s re-election since the CBRT meeting. It was reported this week that he is expected to announce Turkey’s new cabinet Friday or Saturday at the latest, according to Reuters sources; Erdogan is almost certain to include “orthodox” former Economy Minister Simsek. Desks may be on the lookout for similar moves within the Turkish Central Bank (if any).