Central Bank Weekly 14th July: Previewing RBA Minutes, PBoC LPR; Reviewing RBNZ, BoC, BoK, Minutes from ECB and Riksbank

PREVIEWS:

RBA MINUTES (TUE): The RBA will release the minutes from its July 4th meeting where the central bank kept rates unchanged at 4.10% vs near-evenly split analyst expectations between a 25bps hike and a hold. The language from the meeting remained hawkish as it noted that the Board remains resolute in its determination to return inflation to target and further tightening of monetary policy may be required to ensure that inflation returns to the target level within a reasonable timeframe, but added that it will depend upon how the economy and inflation evolve. Furthermore, the central bank reiterated that inflation is still too high and will remain so for some time yet, as well noting that a significant source of uncertainty continues to be the outlook for household consumption and that the Board remains alert to the risk that expectations of ongoing high inflation will contribute to larger increases in both prices and wages.

PBOC LPR (THU): The PBoC is likely to maintain the levels of its Loan Prime Rates next week with the 1-Year LPR, which most loans are based on, currently at 3.55% and the 5-Year Loan Prime Rate, the reference rate for mortgages, currently at 4.20%. The expectations for the PBoC to maintain its benchmark lending rates are due to the timing as the central bank only just cut its short-term funding rates and benchmark LPRs by 10bps last month, which was the first reduction in 10 months following a spate of weaker-than-expected data releases. Therefore, the central bank is likely to hold off from any further immediate adjustments with local press reports suggesting the potential for fiscal stimulus and even a RRR cut in H2. Officials would also want to avoid pressuring the Yuan considering China's recent efforts to stem the currency's decline, while participants will be eyeing the decision regarding the 1yr MLF rate first early next week as that serves as a fairly accurate precursor of the central bank's intentions for the Loan Prime Rates.

REVIEWS:

RIKSBANK MINUTES: Overall, the minutes had a hawkish skew with key remarks including the lines from Breman and Jansson around hiking in September/beyond and that the rate path could be revised to further tightening ahead, respectively. Rates aside, the most interesting commentary emerged courtesy of Governor Thedeen that "…there is no reason for the Riksbank to react to temporary movements in the exchange rate" in addition to expressing an interest in determining the extent of the impact of the SEK's depreciation to inflation, adding that if the pass through is stronger than thought it could result in tighter policy than currently projected.

RBNZ: In line with expectations, the RBNZ kept the OCR unchanged at 5.50%, after previously signalling that the hiking cycle was over within the May Policy Announcement. The Committee has now agreed that the OCR will need to remain at a restrictive level for the foreseeable future, adding that inflation remains too high, but confident that it will return to within the 1%-3% target band by H2'24. Further to this, the Committee added that the current level of interest rates are constraining spending and inflation pressures as anticipated. Looking ahead, the markets have priced in another pause for the next meeting, at 90%, with only 10% forecasting a hike. However, analysts at Westpac believe that the OCR will be increased by 25bps in August. The bank states that the labour market is currently too tight and this may in fact lead to an inflation revision to the upside.

BOC: The BoC hiked rates by 25bps to 5.00% in line with expectations. The statement was accompanied with hawkish inflation language, noting it foresees a slower return to target than what was forecast in the January and April projections, stating the downward momentum has come more from lower energy prices, and less from easing underlying inflation while the large price increases of last year are now out of the annual data, there will be less near-term downward momentum in CPI. The statement also acknowledged underlying price pressures appear to be more persistent than anticipated. The MPR saw the inflation expectations revised higher for both 2023 and 2024 while the 2025 forecast was left unchanged at 2.1%. Meanwhile, growth forecasts were cut for 2024 and 2025, but upgraded for 2023, where it sees growth averaging around 1% through the second half of this year and the first half of next year, noting the economy will move into modest excess supply early 2024 before growth picks up to 2.4% in 2025. In terms of guidance, the statement noted the BoC will continue to assess dynamics of core inflation and the outlook for CPI inflation, and will be evaluating whether excess demand, inflation expectations, wage growth and consumer pricing behaviors are consistent with achieving its 2% goal. The statement also dropped language from June that monetary policy was not sufficiently restrictive to bring supply and demand back into balance, implying rates are now at a sufficiently restrictive level after a 25bp hike in June and another in July, with forecasts showing inflation gradually returning back to the 2% target in 2025. Governor Macklem left open the door to more hikes, stating further rate decisions will be guided by their assessment of incoming data and the inflation outlook, adding the BoC is prepared to raise rates further. On Wednesday's decision, Macklem revealed the BoC did discuss the possibility of keeping rates unchanged, but agreed the cost of delaying action was larger than the benefit of waiting and there was a consensus that policy needed to be more restrictive to return inflation to its 2% goal. Macklem also warned that if we do not do enough now, we will likely have to do even more later.

ECB MINUTES: The account of the June meeting offered little in the way of fresh information with the release noting that despite an initial preference being expressed for a 50bps hike, a very broad consensus supported the eventual 25bps move. In terms of the backdrop to the decision, inflation was still projected to remain too high for too long, "calling into question whether it was returning to target in a timely manner". Furthermore, upside risks to the inflation outlook were judged to still prevail, mainly owing to more persistent wage-price dynamics than those incorporated into the projections. Interestingly, doubts were expressed about whether a particular emphasis on core inflation was justified, as it was not seen to be a leading indicator of future headline inflation. From a growth perspective, it was argued that the baseline scenario in the staff projections entailed a possibly too modest, “conservative” impact from monetary policy tightening. After the increment of the hike was agreed upon, it was seen as essential to communicate that monetary policy had still more ground to cover to bring inflation back to target in a timely manner. Furthermore, the view was held that the level of the peak deposit facility interest rate, as well as its duration, as embodied in the forward curve and reflected in the staff projections, could be judged as insufficient to bring inflation back to the 2% medium-term target, as the projections showed inflation still lying above 2% in 2025. Following the release, ING notes that another 25bps hike in July looks like a "done deal". However, "looking beyond the July meeting, the discussion on how far the ECB should go with its current hiking cycle will intensify and become more controversial".

BOK: Matching expectations, the BoK kept base rates unchanged at 3.50%, through a unanimous decision, though it is important to note that 6 of 7 members were open to the possibility of a 25bps hike. In accompanying commentary, the Bank said domestic economic growth is expected to recover gradually adding that GDP and CPI are expected to be consistent with forecasts. Although it caveated this by suggesting that core inflation is likely to be slightly higher than the current 3.5% forecast. At the press conference, Governor Rhee commented that the inflation path is unclear with several persistent risks to the upside, adding that inflation will rebound to around 3% by year-end and subsequently fall to the 2% level next year. Looking ahead, the BoK mentioned that it will maintain a restrictive policy stance for a considerable time, which has led ING to believe that the Bank will keep its hawkish stance until September with rate cuts to begin in Q4. However, the analysts add that high levels of household debt will limit the pace of easing.

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