Central Bank Weekly 1st September: Previewing RBA and BoC rate decisions; Reviewing ECB Minutes

PREVIEWS

RBA ANNOUNCEMENT (TUE): The RBA is expected to maintain its Cash Rate Target at 4.10% at its September meeting, a view reinforced by 24 out of 29 respondents polled via Reuters. The consensus is also backed by market pricing (ASX 30-Day Interbank Cash Rate Futures) showing an 86% chance of a hold and only 14% probability of a 25bps rate hike. Data conforms with a hold as well, with Aussie July CPI printing sub-5% at 4.9% vs. Exp. 5.2% (Prev. 5.4%), and in turn tilting pricing a touch more dovish. Labour market metrics were also cooler than expected - Unemployment Rate printed at 3.7% vs. Exp. 3.6% (Prev. 3.5%) and Employment at -14.6k vs. Exp. 15.0k (Prev. 32.6k). Whilst a rate hold is widely expected, the RBA is unlikely to declare victory on inflation, but with a marked cooling in the monthly figures, it will be interesting to see whether the Governor will reiterate that "some further tightening of monetary policy may be required". Analysts at ING "expect the RBA to hold rates while looking for more signs that inflation is under control."

BOC ANNOUNCEMENT (WED): The consensus view is for the BoC to hold rates at 5.00%, according to a Reuters poll, and ahead, economists generally expect the Bank to keep rates at current levels up to the end of March 2024. Some still see risks that rates could be lifted, given that inflation rose by more than expected in July, while the housing market has recently shown some signs of a revival; a minority of those polled look for a 25bps rate hike. However, analysts note that the Canadian economy is expected to slow as the impact of previous rate rises continue to filter through, and the rise in joblessness also gives the BoC scope to stand pat on policy. Furthermore, it might be more prudent for the central bank to wait until October to make any tweaks to policy since it will have two further sets of jobs and inflation data to consider before that meeting.

REVIEWS

ECB MINUTES REVIEW: The account of the ECB's July meeting revealed that the decision to hike rates by 25bps was backed by all members in light of the inflation outlook, which was "basically unchanged since the June monetary policy meeting". Furthermore, emphasis was put on the merits of sticking to a data-dependent, meeting-by-meeting approach in an uncertain environment. In terms of the balance of views on the Governing Council, it was argued that interest rates had to cover more ground to bring inflation back to target, in particular if inflation did not decline as quickly as expected. Adding that, a "further rate hike in September would be necessary if there was no convincing evidence that the effect of the cumulative tightening was strong enough to bring underlying inflation down in a manner consistent with a timely return of headline inflation to the 2% target". Whether today's inflation release is enough to satisfy this criteria, remains to be seen. At the more dovish end of the spectrum, it was argued that it was quite probable that the September ECB staff projections would revise the inflation path sufficiently downwards towards 2%, without the need for another interest rate hike in September. That said, caution was also expressed about assigning too much importance to the September meeting and the projections; hence the Governing Council's data-dependent approach. On growth, members concurred with chief economist Lane that the near-term economic outlook for the euro area had deteriorated, owing largely to weaker domestic demand. Additionally, it was argued that the deterioration in the outlook showed that monetary transmission was working. subsequently, ECB-watcher Ducrozet of Pictet Asset Management highlighted the dilemma facing the ECB that: "There *is* convincing evidence that policy transmission is working. But it's not clear that it will be enough to get back to 2% as the next phase of the disinflation process is going to be more challenging." As it stands market pricing assigns just a 30% chance of a hike by the Bank next month, however, it will likely be a combination of commentary from ECB officials and source reporting that will cement calls over the announcement.