newsquawk

Central Bank Weekly 8th September: Previewing ECB; Reviewing RBA and BoC

PREVIEWS

ECB ANNOUNCEMENT (THU): 39/69 analysts surveyed by Reuters expect the ECB to stand pat on the deposit rate at 3.75% with the remaining 30 looking for a 25bps hike to 4.0%. Market pricing leans more in favour of a "pause" with such a move priced at around 63%. As a recap of the July meeting, Lagarde noted that the September decision will be based on the data and the Governing Council is "open-minded". Since July, Q2 Q/Q growth was revised lower to just 0.1% from 0.3% whilst more timely survey data saw the Eurozone composite PMI in August fall to 46.7 from 48.6 with the accompanying release noting that "The disappointing numbers contributed to a downward revision of our GDP nowcast which stands now at -0.1% for the third quarter". As such, the narrative around the Eurozone's growth outlook is a particularly negative one. Furthermore, interest rate increases are clearly having an impact on lending in the Eurozone with bank lending to the private sector at just 1.6% Y/Y in July. That being said, the fight against inflation is far from being won with August HICP holding steady at 5.3% Y/Y, the super-core reading still at an elevated level of 5.3% Y/Y and 5y5y forward expectations around the 2.6% mark. This puts the ECB in a bind of needing to be cautious in the face of slowing growth but not conveying a sense of complacency over inflation. Even though inflation is set to fall throughout the remainder of the year, the ECB has been consistent in its messaging that it will be following the actual data rather than projections; such a stance, it could be argued, would suggest that the Bank still has one more hike in its locker. Hawkish bodies on the GC such as Kazimir and Knot appear to subscribe to this view with the former suggesting that one more hike is still required; it remains to be seen how close to a consensus view this is on the GC with President Lagarde continuing to stress the Bank's meeting-by-meeting approach. If the ECB opts to keep rates steady, ING suggests "…an earlier end to PEPP reinvestments could eventually be the bargaining chip the doves would have to accept for the hawks to agree to a pause". For the accompanying macro projections, consensus expects the medium-term 2025 inflation projection to be revised lower to 2.1% from 2.2%.

REVIEWS

RBA REVIEW: The RBA kept rates unchanged at 4.10%, as widely expected, at Governor Lowe's final meeting at the helm, while the central bank's rhetoric provided no surprises as it reiterated that some further tightening of monetary policy may be required and the Board remains resolute in its determination to return inflation to target. The RBA also stated that higher interest rates are working to establish a more sustainable balance between supply and demand in the economy and will continue to do so, but noted that inflation is still too high and will remain so for some time yet. Furthermore, it said the pause will provide more time to assess the impact of the increase in interest rates to date and the economic outlook, but noted increased uncertainty around the outlook for the Chinese economy due to ongoing stresses in the property market and that the outlook for household consumption also remains uncertain.

BOC REVIEW: The Bank of Canada held its policy interest rate at 5.0%, in line with the market expectation, due to recent evidence that excess demand in the economy is easing, and given the lagged effects of monetary policy. However, it said that it remains prepared to raise rates further if needed as it remains concerned about the persistence of underlying inflationary pressures, adding that there had been little recent downward momentum in underlying inflation. The central bank sees the Canadian economy as having entered a period of weaker growth, which is needed to relieve price pressures. Speaking the following day, Governor Macklem echoed the hawkish themes within the policy statement, stating that the longer the BoC waits, the harder it is likely to be to reduce inflation, and while he reiterated that the BoC was prepared to raise rates again, he added that it does not want to hike more than it needs to. Specifically on inflation, Macklem said that the 2% target is in sight, but we are not there yet, and need to stay the course, and monetary policy may not be restrictive enough to restore price stability. On policy lags, Macklem said that it may be taking longer for higher rates to translate into lower inflationary pressures, and we can expect headline inflation to go up again in the near term, before it eases back, adding that when inflation has been above target for long, policymakers become more worried about upside shocks than downside shocks. As expected, he said it was too early to be thinking about interest rate cuts, but we should not expect rates to go back to where they were in the decade between the GFC and COVID.

Copyright © 2023 Newsquawk Voice Limited. All rights reserved.
Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.
newsquawk.com · +44 20 3582 2778 · info@newsquawk.com

newsquawk

Disclaimer

The information contained within this document has been prepared and issued by Newsquawk Voice Limited (**"Newsquawk"**) on the basis of publicly available information and other sources believed to be reliable. Whilst all reasonable care is taken to ensure that the facts stated are accurate, neither Newsquawk nor any of its directors, officers or employees shall be in any way held responsible for its content or your use of it. Neither the provision of any content herein nor anything on our website or any other media we use is intended to, and should not be construed as, providing advice and/or enticing an offer or solicitation to invest in, buy or sell securities or other financial instruments.

Copyright © 2023 Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com