



Central Bank Weekly 15th September: Previewing FOMC, PBoC, SNB, BoE, BoJ, Norges, Riksbank, Banxico, BCB, CBRT, and minutes from the RBA and BoC

PREVIEWS

RBA MINUTES (TUE): RBA minutes from the September 5th meeting where it kept rates unchanged at 4.10%, as widely expected, at Governor Lowe's final meeting at the helm, are due next week. As a reminder, the accompanying 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 added 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 increases in interest rates to date and the economic outlook, but noted increased uncertainty around the outlook for the Chinese economy due to ongoing stress in the property market and that the outlook for household consumption also remains uncertain. The minutes are not likely to spark any major fireworks given the transition at the central bank, while RBA watcher McCrann recently suggested that further rate increases are unlikely, but he also does not expect any cuts.

FOMC ANNOUNCEMENT (WED): The FOMC is expected to hold rates between 5.25-5.50% on Wednesday, according to both the market consensus and money market pricing. Traders will be looking to the updated economic projections to see whether the central bank is still working on the assumption that it will hike interest rates once more in 2023, in line with its previous SEP, or whether it now sees rates as having reached terminal. Markets are currently suggesting that the Federal Funds Rate has already reached terminal, though it has assigned around 50/50 chances that we could see another hike this year. Looking ahead, markets are pricing rate cuts next year, with the first fully discounted cut seen in July 2024, although it is a close call for June. Fed officials have been dismissing any talk of rate cuts, and have suggested that rates could be held at terminal levels for an extended amount of time as it continues to try and bring price growth in line with its target.

PBOC LPR ANNOUNCEMENT (WED): The PBoC is likely to maintain its benchmark Loan Prime Rates next week with the 1-Year LPR currently at 3.45% and 5-Year at 4.20%. As a reminder, the PBoC disappointed market expectations last month regarding its Loan Prime Rates when it defied the consensus for 15bps cuts and instead delivered a modest 10bps rate cut for the 1-Year LPR to 3.45% from 3.55% and surprisingly maintained the 5-Year LPR at 4.20%. The wide expectations for a deeper cut last month followed the surprise decision to reduce the 1yr MLF rate by 15bps to 2.50% which serves as a bellwether for the central bank's intentions for the benchmark LPRs, while the PBoC had also unexpectedly lowered the rate on its 7-day Reverse Repo operations by 10bps to 1.80%, which was the same magnitude that it cut its Standing Lending Facility rates by. Furthermore, the decision to keep the 5-Year LPR unchanged, which is the reference rate for mortgages, spurred some confusion given the numerous pledges by the central bank and government agencies to support the property sector. Nonetheless, a potential adjustment cannot be ruled out, especially in the 5-year LPR, after further measures to support its property sector in the face of ongoing developer default concerns, including the recent adjustment by China's big 4 banks of some rates on existing mortgages for first-home buyers, while the PBoC subsequently cut the RRR by 25bps.

BANXICO ANNOUNCEMENT (WED): Data showed Mexican CPI rose 0.6% M/M in August, a little above the expected 0.5%, but the annual rate cooled to 4.6% Y/Y from 4.8% in July. Services inflation, however, which Banxico officials have been closely watching, was unchanged at 5.0% Y/Y, a function of hot wage growth, which is currently running at a rate of above 10% Y/Y, keeping many of the central bank's officials in a hawkish mood. "Disinflation in Mexico remains broad-based, which will allow Banxico to cut interest rates in Q4, in both November and December," Pantheon Macroeconomics writes, but adds that "policymakers' still-hawkish tone, though, has increased the likelihood of the easing cycle starting in December or early 2024."

BCB ANNOUNCEMENT (WED): The recent central bank poll saw economists revise up projections for inflation this year and next (to 4.93% in 2023 vs 4.92% prior; and to 3.89% in 2024 vs 3.88 prior); Scotiabank says this is largely due to less favourable base effects as the tax cuts related to fuel and utilities fade. And in September, an increase in gasoline



prices by Petrobras will also result in an inflation spike to 5%+. "Setting the jump in headline inflation aside, and considering it is already seen ending the year around 5% (from the 3.2% low in June), markets will focus on the pace of price gains in services that are the BCB's focus," Scotia writes, "markets are comfortable in their expectation that the Campos Neto-led central bank will move at a 50bps cutting pace over the next five or six meetings, but sticky services inflation, a weaker Real since late-July, and higher energy prices point to limited risk that the Brazilian front-end will rally in the near-term." Economists see the Selic ending this year at 11.75, before being lowered to 9.0% in 2024.

BOC MINUTES (WED): At the recent policy meeting, the BoC held its policy interest rate at 5.0%, in line with the market expectation, due to 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.

SNB ANNOUNCEMENT (THU): The June SNB Policy announcement saw a 25bp hike to 1.75%. The statement stated that medium term inflationary pressures had increased once again, and as such additional hikes cannot be ruled out. Regarding the September review, headline CPI printed at 1.6% in both July and August, in-line with and slightly above market expectations respectively; but, crucially just below the SNB's Q3 view of 1.7%. However, the SNB is more concerned with the medium-term horizon as it expects inflation to lift back above the 0-2% target band from Q1-2024 onwards. Inflation aside, the growth outlook is turning somewhat downbeat with Q2 GDP stagnating due to a marked downturn in the manufacturing sector, which remains well in contractionary territory according to subsequent PMIs. On this, given the downturn in the EZ's growth backdrop and ongoing global pressures in manufacturing, the situation does not point to a near-term improvement. In terms of the upcoming policy meeting, the aforementioned developments and actors do not chime with further tightening action; however, it remains to be seen what the SNB's assessment of medium-term inflation is following renewed global energy pressure, particularly as policymakers have been quiet in recent weeks. Overall, a hike cannot be ruled out given the previously stated medium-term concerns, but data and market pricing err on the side of an unchanged announcement.

RIKSBANK ANNOUNCEMENT (THU): August's inflation data saw a much larger than expected pullback in price pressures, and a decline that was driven by a fall in food and electricity prices. Additionally, usual seasonal variations apply with the prices for package holidays also falling. Specifically, electricity was 36.8% lower YY, defying the energy-driven upside seen in the US and EZ recently. However, despite the good news on the inflation front a 25bp hike remains entirely priced given commentary from rate setters recently about their concern over the SEK. A currency that has come under additional pressure following recent US data and the latest 25bp ECB hike. As a reminder, the last meeting at the end of June saw a 25bp hike to 3.75% and a forecast for at least one more hike this year. Given concerns over the SEK, that hike is likely to come in September and thereafter we are attentive to any hawkish-alteration to the policy rate forecast from its current Q2-2024 peak of 4.05%; thereafter, the forecasts do not indicate any easing until at least Q2-2025.

NORGES BANK ANNOUNCEMENT (THU): Expected to continue the tightening cycle via a 25bp move to 4.25%, as guided by Governor Bache at the August meeting. A hike that is merited by the absolute level of CPI remaining well above target, even though the August print came in in-line with the Norges Bank's forecasts and softer than market expectations. Additionally, the strong July GDP prints gives the Bank cover on the growth-side of the economy to continue tightening, though SSB remarked that the figures should be interpreted cautiously given potentially increased volatility for the month. Notably, strong growth data may be interpreted as an outright hawkish signal, given the potential for further inflationary pressures if the economic outlook is upbeat, on this the most important factor was the Regional Network survey which was upbeat in the near-term given energy, but more pessimistic heading into winter. As such, the Regional Network report provides a somewhat mixed signal, but likely serves in favour of those who believe that 4.25% will be the policy peak. Furthermore, and assuming a 25bp hike occurs in September, attention then turns to whether this confirms the June Repo Path for a policy peak at the 4.25% mark or if the Norges Bank opts for a hawkish-shift given that inflation remains well above target.



CBRT ANNOUNCEMENT (THU): There are currently no expectations for what the CBRT may opt to do, although bank forecasts thus far look for a hike ranging from 250-500bps. The likes of JP Morgan and Morgan Stanley forecast a hike at the top end of the forecast range, while Barclays calls for a smaller 250bps increase. Analysts at Barclays however do not rule out a sharper rate hike, but believe the CBRT may opt for a more gradual approach to conventional monetary policy. "The Turkish central bank would prefer to continue its tightening cycle in a more gradual fashion to limit its effect on banks, corporates and households," the bank posits, "Additionally, macroprudential tightening continues at full speed and the central bank probably thinks that it reduces the need to deliver a bigger hike." To recap the prior meeting, the CBRT opted to go 500bps above expectations and raise rates by 750bps, lifting the One Week Repo Rate to 25% from 17.5% (vs exp. 20%). ING noted that despite the larger-than-expected hike, the forward guidance remains unchanged so the decision can be attributed to the three new Monetary Policy Committee appointees. The accompanying commentary attributed recent inflation trends to higher oil prices, the strong course of domestic demand, and cost pressures stemming from wages and exchange rates which imply year-end inflation close to the upper bound of the Bank's forecast range. The Committee decided to continue the monetary tightening process to establish the disinflation course as soon as possible and still anticipates that disinflation will be established in 2024. Finally, the CBRT survey for August suggested end-2023 USD/TRY at 30.1422 (prev. 29.8220), CPI at 67.22% (prev. 59.46%) and GDP Growth at 3.9% (prev. 3.7%).

BOE ANNOUNCEMENT (THU): 64/65 surveyed economists by Reuters expect the BoE to hike the Bank Rate by 25bps to 5.5% with markets assigning a 75% chance of such an outcome. In terms of recent data (with the August inflation report not released until the morning before the meeting), July inflation data saw Y/Y CPI fall to 6.8% from 7.9%, as expected, the core hold steady at 6.9% and all services rise to 7.4% from 7.2%. On the growth front, M/M GDP for June reported a larger-than-expected expansion of 0.5% (consensus was 0.2%). Since, the July figure had a -0.5% MM print, which was the first time since June 2022 that the three main sectors all contributed negatively. However, more timely survey data saw the composite PMI for August fall to 48.6 from 50.8 with the all-important services metric declining to 49.5 from 51.5. In the labour market, the unemployment rate in the 3-month period to July rose to 4.3% from 4.2%, whilst headline wage growth in the 3M/YY period to July advanced to 8.5% from 8.4% (note, the headline was affected by the NHS and Civil Service one-off payments made in June and July 2023). Piecing it all together, elevated inflation and wage metrics should be enough to see the BoE pull the trigger on another rate hike with policymakers doing little to get in the way of such expectations. Beyond the upcoming meeting, markets see it as a coinflip as to whether further tightening will take place with recent comments from Governor Bailey noting "we are no longer in a phase where it was clear that rates need to rise". In order to keep optionality over potential action though, the BoE will likely stress the role of data dependency in its decision-making going forward, whilst noting there is still a lot of tightening in the pipeline to come through.

BOJ ANNOUNCEMENT (FRI): The BoJ is expected to refrain from any policy changes at its two-day policy meeting next week with the central bank forecast to keep the Bank Rate at -0.10% and maintain the current parameters of its QQE with YCC. As a reminder, the BoJ threw markets a curve ball at the last meeting in July as it left its rate unchanged and kept QQE with Yield Curve Control to target 10yr JGBs at 0% with a +/-50bps range, but shifted to a more flexible approach in which it will guide YCC via its fixed rate operations for 10yr JGBs to be conducted at 1.0% (prev. 50bps), and slightly widened the range of its purchase amounts as well. The announcement resulted in a tumultuous reaction in the Japanese currency, although the JPY ultimately weakened after the dust settled as the tweak was less hawkish than a Nikkei report had suggested ahead of the announcement, while officials have made it clear that the decision was a pre-emptive step at continuing monetary easing without disruptions and the July decision was not part of any exit from ultra-loose policy. The shift by the central bank to a more flexible approach on YCC makes immediate adjustments unlikely with most economists anticipating the BoJ to stick with the current policy throughout the rest of the year. In addition, BoJ officials have continually reiterated that it is appropriate to maintain easy monetary policy for the time being and although some have sounded more hawkish on inflation, including seeing early signs of achieving the 2% target and a change in Japan's trend inflation as rising wages push up expectations, they have acknowledged that they are still not at a stage where they can say Japan has stably and sustainably achieved the price target. Nonetheless, the scenario of an exit from negative interest rates early next year has emerged as market pricing for the timing of a move out of NIRP recently came in to January from September next year in view of comments from BoJ Governor Ueda who stated that they cannot rule out that they might have sufficient data by year-end to determine whether they can end negative rates and that his focus is on a quiet exit, while he also stated they will end negative rates if they judge that achieving the price target becomes possible and that they will keep ultra-easy policy for now.

REVIEWS

ECB REVIEW: Defying the consensus (which was deemed as somewhat stale given hawkish source reporting by Reuters earlier in the week), the ECB opted to pull the trigger on a 25bps hike to all three of its key rates, taking the deposit rate to 4.0%. The accompanying statement noted that the GC now judges that rates "have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the



target". Furthermore, "rates will be set at sufficiently restrictive levels for as long as necessary". Elsewhere, no tweaks were made to the parameters of its APP or PEPP with reinvestments in the latter set to continue "until at least the end of 2024". For the accompanying macro projections, 2023 inflation was upgraded to 5.6% from 5.4%, 2024 (in-fitting with source reporting by Reuters) raised to 3.2% from 3.0% and 2025 lowered to 2.1% from 2.2%, but still ultimately seen just above target. Growth projections for 2023-25 were lowered across the board. At the follow-up press conference, Lagarde cautioned that the economy is likely to remain subdued in the coming months and price pressures remain strong. During the Q&A, the President stated that, whilst some members favoured a pause in rates, today's decision was backed by a "solid majority". In a follow-up question, Lagarde noted that the GC has not discussed PEPP reinvestments. When questioned on the path of rates beyond September, Lagarde, in an attempt to embed some optionality for the Bank, stated that she is not saying that the ECB is at peak rates. Overall, despite the President refraining from committing to being at a peak rate, the market and analyst community is of the view that given the slowing growth rate, the ECB is now at terminal. The question for ECB-watchers is how the Eurozone's growth prospects will fare in the face of another hike by the Bank. As it stands, markets dismiss the prospect of further tightening by the GC and fully price in a rate reduction by July 2024 vs. October 2024 pre-announcement. Friday morning saw the first sources piece hit via the FT, which was hawkish in nature and cited three individuals involved in the meeting who said if inflation remains above forecast then a hike could occur when projections are updated in December. In terms of October, a respondent said it would take a "very negative" inflation surprise to merit a move. Thereafter, rate-setter remarks have largely stuck to their known stances, while VP de Guindos and President Lagarde to the Eurogroup reiterated the statement/presser.

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