Central Bank Weekly 29th September: Previewing RBA, RBNZ, BoJ SoO; Reviewing Banxico

PREVIEWS

BOJ SOO (MON): The BoJ's latest Summary of Opinions will be dissected for any hints on the central bank's thoughts regarding policy normalisation following a relatively uneventful September meeting. To recap, the Bank kept policy settings unchanged, as expected, with rates held at -0.10% and the parameters of QQE with YCC left unchanged to target 10yr JGB yields at 0% with a +/-50bps target band, while it also maintained forward guidance and stated that it will patiently continue monetary easing. At the post-meeting presser, Governor Ueda reaffirmed the dovish mantra and suggested the central bank will not hesitate to take additional easing if necessary, while also reiterating that the BoJ needs to patiently continue its easy policy. The Governor noted that the BoJ discussed the fact that the deceleration in inflation has been slower than envisaged in the July outlook report, whilst suggesting they could consider ending YCC and modifying NIRP when it judges that the achievement of 2% inflation is in sight.

RIKSBANK MINUTES (MON): The minutes are unlikely to offer anything fresh, but participants could be interested in deliberations around the SEK. To recap the announcement from the 21st of August, the 25bp hike to 4.00% was as expected and the forecast for the policy rate indicated that it could be raised further, although only inferred around a 40% chance of a hike as of Q3-2024 from current levels, while there was a lack of measures to address the SEK's pronounced weakness from a monetary perspective, given EUR/SEK was printing all-time highs in the sessions before the policy meeting. However, around five minutes after the release the Riksbank unveiled that it will hedge FX reserves by selling USDs and EURs from September 25th for four-six months. A move that is designed to limit the Bank's financial losses if the SEK appreciates and is not being undertaken for monetary purposes. The Riksbank also announced that it will now hold eight meetings a year and every other gathering will have an MPR/new set of forecasts.

RBA ANNOUNCEMENT (TUE): The RBA is likely to keep the Cash Rate Target unchanged at 4.10% at its meeting next week which will be the first under the leadership of new RBA Governor Bullock with money markets pricing an 88% likelihood for no change in rates and just a 12% chance for a 25bps hike. As a reminder, the central bank unsurprisingly maintained the official cash rate at the prior meeting in former governor Lowe's swan song, 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 the target. RBA had 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 inflation is still too high and will remain so for some time yet. Furthermore, it said the pause will provide further 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. The upcoming meeting will be the inaugural decision under Governor Bullock who is the first-ever female head of the RBA and who first joined the RBA in 1985, while the government announcement of the decision for Bullock to succeed Lowe was met with a muted reaction across markets as the appointment was widely seen as a sign of policy continuity and she will also have the responsibility to steer the central bank during the incoming reforms set to take place next year. Furthermore, the recent key data releases also support the case for a pause after the latest Employment Change topped forecast with growth at 64.9k vs. Exp. 23.0k (Prev. -14.6k) but was nearly entirely fuelled by part-time jobs, while the latest Monthly CPI data printed inline with expectations at 5.2% but accelerated from the previous of 4.9%.

RBNZ ANNOUNCEMENT (WED): The RBNZ is expected to keep the Official Cash Rate unchanged at 5.50% at its meeting next week with money markets pricing a 90% probability for the OCR to be maintained at the current level and just a 10% chance of 25bps rate increase. The RBNZ unsurprisingly maintained rates for the second consecutive occasion at its last meeting in August where it reiterated that the OCR will need to remain at a restrictive level for the foreseeable future and that the current level of interest rates is constraining spending and inflation pressure but noted there is a risk in the near-term that activity and inflation measures do not slow as much as expected. Furthermore, the OCR projections were slightly lifted to suggest it no longer sees chances of a rate cut by December next year although Governor Orr stated during the press conference that the OCR track is not forward guidance and is not a strong signal of their next move but noted they are wary about doing too much on rates. Nonetheless, Governor Orr had also stated that the Cash Rate projection over two years deviates very little from 5.50% and that there is time to observe, worry and wait on rates, as well as acknowledged there are too many uncertainties to provide forward guidance. As such, a rate adjustment seems very unlikely in the near term while the data releases since the last meeting also provide scope for a continued pause as New Zealand GDP Y/Y for Q2 topped forecast although slowed from the prior to 1.8% vs. Exp. 1.2% (Prev. 2.2%)

RBI ANNOUNCEMENT (FRI): RBI is expected to keep its benchmark rates unchanged next week with the Repurchase Rate likely to be maintained at 6.50% and the central bank is also anticipated to stick with its stance of remaining focused on the withdrawal of accommodation, while a recent Reuters poll showed the median forecast is for the RBI to keep the repo rate on hold at 6.50% through Q1 2024 and then cut by 25bps in Q2 2024. As a reminder, the RBI unanimously voted to keep rates unchanged at its last meeting in August which was the third consecutive pause by the central bank and it decided to remain focused on the withdrawal of accommodation through a 5-1 vote in which external member Varma expressed reservations against this part of the resolution. The RBI also noted that the MPC is prepared to act if the situation warrants and it remains resolute in the commitment to align inflation to the 4% target, while it reiterated that bringing headline inflation within the tolerance band is not enough and that uncertainties remain in the food price outlook. Furthermore, it announced to hold a review of the Incremental Cash Reserve Ratio in September where it decided to discontinue the I-CRR in a phased manner which had been a temporary measure to absorb excess liquidity. The data releases since the last have been mixed as the latest Indian GDP topped forecasts at 7.8% vs exp. 7.7% (prev. 6.1%), while CPI Y/Y for August printed 6.8% vs exp 7.0% (prev. 7.4%) which was softer than expected but remained above the central bank's tolerance range for the second consecutive month. Nonetheless, this is unlikely to force the central bank to act at the upcoming meeting given that Governor Das had previously noted that a substantial increase in headline inflation will occur in the near-term and that a spike in retail inflation is expected to be short-lived.

REVIEWS

BANXICO REVIEW: Mexico's central bank kept rates unchanged at 11.25%, which was in line with all analyst forecasts. However, the decision to maintain guidance ("it considers that it will be necessary to maintain the reference rate at its current level for an extended period") had disappointed some analysts looking for a more dovish tweak. A dovish twist to signal rate cuts were coming would align Banxico with other LatAm Central Banks, with both Chile and Brazil already in their respective easing cycles. Banxico also maintains the view that the risks to the inflation forecast are biased to the upside, and it raised its inflation forecasts throughout the entire forecast horizon as seen in the table above (aside from the near term Q3 '23) - emphasising that its fight with inflation is not over yet. "With the Board retaining its hawkish bias, Banxico is almost certainly on course to be the last major central bank in Latin America to begin an easing cycle," Capital Economics said, "For now, we are sticking to our forecast that a first interest rate cut will be delivered in February and that the policy rate will end next year at 9.25%, which is higher than most analysts' projections."