Central Bank Weekly 13th October: Previewing PBoC, RBA Minutes and BoK; Reviewing FOMC Minutes and ECB Minutes

PREVIEWS

PBOC MLF (MON) & LPR (FRI): The PBoC is likely to maintain its 1-Year MLF rate and benchmark Loan Prime Rates next week with the 1-Year MLF Rate at 2.50%, 1-Year LPR at 3.45% and 5-Year LPR at 4.20%. As a reminder, the PBoC kept its MLF and benchmark lending rates unchanged last month, which was as expected after having just cut its key short-term rates in August by between 10bps-15bps, although it did announce a cut in the RRR last month which was seen to release over CNY 500bln of liquidity and help stabilise the Yuan. Furthermore, the PBoC said it will maintain the basic stability of the exchange rate, firmly support the sustainability of the real economy and promote the economy to achieve effective qualitative improvement and reasonable quantitative growth. The latest data releases have pointed to a lack of urgency for an immediate policy tweak as Industrial Profits returned to growth and PMI figures were mixed in which the official Manufacturing and Non-Manufacturing PMIs topped forecasts, but Caixin PMIs disappointed, while inflation data was softer-than-expected and trade figures mixed with exports remaining in contraction territory.

RBA MINUTES (TUE): The RBA will release the minutes from the October 3rd meeting when the central bank kept the Cash Rate Target at 4.10%, as widely expected, while it also stuck to its familiar rhetoric in which it reiterated that some further tightening of monetary policy may be required and that the Board remains resolute in its determination to return inflation to target. Furthermore, it stated that returning inflation to target within a reasonable timeframe remains the Board’s priority and recent data is consistent with inflation returning to the desired 2–3% range over the forecast period, while it also stated that inflation in Australia has passed its peak, but is still too high and will remain so for some time yet, as well as noting significant uncertainties around the outlook. This was new Governor Bullock's inaugural meeting at the helm, while the language from the central bank was pretty much a carbon copy of the comments during Lowe's leadership and further bolstered the view of policy continuity.

BOK PREVIEW (THU): The Bank of Korea is likely to maintain its 7-Day Repo Rate at the current level of 3.50% where it has been since January this year and with the central bank expected to refrain from any rate changes for the rest of the year. As a reminder, the BoK was unanimous in its decision to keep rates unchanged at the last meeting in August, although six out of the seven Board members wanted to keep the door open for one more rate hike, while the BoK said it would maintain a restrictive policy stance for a considerable period of time and Governor Rhee stated it is too early to talk about a rate cut, but did not want to rule out the possibility of an ease this year and acknowledged that interest rates are at the upper end of the neutral range, or higher. Furthermore, the central bank noted high uncertainties, including Chinese economic growth and US monetary policy, while it was stated that the increase in household debt over the last couple of months was faster than expected and they may consider macro policy to tackle the issue, but not for now. Since that meeting, there hasn’t been anything to suggest a change in the status quo and the central bank’s senior Deputy Governor recently stated that there is no need to tighten monetary policy further for now, while inflation data accelerated in September with CPI YY at 3.7% vs. Exp. 3.4% (Prev. 3.4%), although this is unlikely to force the BoK to act as it had anticipated an increase before stabilising from October onwards towards 3% by year-end.

REVIEWS

FOMC MINUTES REVIEW: Minutes for the Fed's September meeting revealed little by way of new information, and were largely in line with recent Fedspeak. Since the last FOMC, there has also been a notable move higher in yields which has seen officials begin suggesting that the sell-off was helping with its efforts to tighten financial conditions, and could mean that another rate rise might not be necessary. The minutes said "many" participants noted data volatility and potential data revisions support the case for proceeding carefully in determining the extent of additional tightening. Meanwhile, "several" noted that with the policy rate at or near peak, decisions and communications should shift to how long rates stay restrictive, vs how high they will rise. Elsewhere, the minutes said risks have become more two-sided, but there are still upside risks to inflation, while "many" saw downside risks to economic activity and upside risks to the unemployment rate. The vast majority continue to judge the future path of the economy as highly uncertain. Goldman Sachs said that "since the FOMC’s September meeting, several FOMC participants, including Vice Chair Jefferson, Governor Waller, and Presidents Logan, Daly, and Kashkari noted that the recent increase in bond yields could substitute for increases in the federal funds rate," and the bank sees these comments "as a strong signal that the Committee is likely to keep the federal funds rate unchanged at its November meeting."

ECB MINUTES REVIEW: The account of the ECB's September 14th meeting revealed that a "solid majority of members expressed support for the 25 basis point rate increase". That said, some members expressed a preference for maintaining rates at their current levels. Additionally, members highlighted that the decision between raising rates and pausing was a close call. However, it was judged that a pause could give rise to speculation that the tightening cycle was over, which increased the risk of a rebound in inflation. Furthermore, not hiking could also send a signal of the Governing Council being more concerned about the economy and a potential recession than too high inflation. Also backing the decision to move on rates was the emphasis placed on the upward revisions to the headline inflation projections for the first two years of the forecast horizon and the fact that the projections were conditioned on market interest rates, which embodied a further rate increase by the end of the year. Looking ahead, it was argued that a large share of monetary tightening was still in the pipeline, and this could compress demand more than was currently envisaged. At the same time, the point was made that most of the financial tightening had already happened in 2022, which could imply that the tightening impact could soon reach its peak. Overall, the account offers little new to investors with the ECB clearly on the precipice of being comfortable with rates at existing levels. The Bank will try to keep optionality over further tightening in order to maintain credibility, however, given the action taken so far it is unlikely that such a move will be required based on the current trajectory.