# Central Bank Weekly 20th October - Previewing; BoC, ECB, CBRT. Reviewing; PBoC, RBA, BoK

## PREVIEWS

**BOC ANNOUNCEMENT (WED)**: The market currently prices in an 80% probability of rates being left unchanged, while the probability for a BoC hike in October diminished to under 20% following Canada's September inflation data, where CPI cooled by more than the consensus was expecting. Additionally, analysts have become more cautious on the growth outlook after the economy saw a surprise contraction in Q2, and activity has been subdued since, as a result of previous BoC tightening, wildfires/floods and labour market industrial action. There are also growing concerns that higher rates will heap pressure on household mortgage costs. The labour market, however, continues to show resilience, with jobs being added in August and September, and the unemployment rate remaining low. Analysts at ING note that BoC Governor Macklem recently argued that the expected trajectory of inflation is where the central bank is focussed, stressing the importance of inflation expectations and wage growth, and although these can be volatile, they are trending upwards. "Slower-than-expected inflation, a clouded growth outlook and higher bond yields means the BoC is likely to overlook jobs tightness and keep rates on hold," ING writes, adding that "there is still all the interest in keeping a higher-for-longer narrative alive, but markets may start to shed some doubts on it."

**ECB ANNOUNCEMENT (THU)**: Consensus is unanimous in expecting the ECB to stand pat on all three of its key rates with markets virtually signalling a 100% chance of such an outcome. The expectation for unchanged rates has stemmed from the September policy statement, which 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". Since the prior meeting, headline Y/Y CPI cooled to 4.3% in September from 5.2%, whilst the super-core metric fell to 4.5% from 5.3%. Furthermore, the Composite Eurozone PMI for September rose to 47.2 from 46.7, but remained deep in contractionary territory with the accompanying report noting “output volumes across both the manufacturing and service sectors were constrained by deteriorating demand conditions”. In terms of commentary from the Bank, President Lagarde has continued to reiterate that rates are sufficiently restrictive, whilst also noting there is more policy lag in the pipeline from past hikes. Even the hawks on the Governing Council such as Netherlands’ Knot have stated that they are “comfortable” with the current level of interest rates. Furthermore, it is also worth noting that recent increases in Eurozone bond yields will act to tighten financial conditions whilst geopolitical risks in the Middle East have given reason for caution. That being said, as has been the case for other major central banks that have engineered a “pause”, policymakers will likely wish to keep optionality over further rate hikes beyond October, particularly given the recent increase in oil prices. In terms of other policy measures, a couple of policymakers have suggested that an early end to PEPP reinvestments (currently set to run until the end of 2024) should be discussed at the upcoming meeting. However, ING is of the view “the surge in bond yields, combined with new debt sustainability concerns in the eurozone” makes it difficult for the ECB to agree an early conclusion to reinvestments at this stage.

**CBRT ANNOUNCEMENT (THU)**: There are currently no expectations for what the central bank may opt to do at its upcoming meeting. As a reminder, last month the CBRT opted to match market expectations with a 500bps hike to 30%. The Bank said tightening will continue until a significant improvement to the inflation outlook is achieved, while tightening will be further strengthened as much as needed in a timely and gradual manner. The CBRT also said it will continue to simplify, and improve the existing micro and macroprudential framework. The release noted inflation readings were above expectations in July and August. Analysts at CapEco at the time suggested the central bank is “now doing what many investors had hoped they would by raising interest rates sharply and taking a more serious stance against inflation”, and “All of this is helping to maintain investor optimism in the policy shift and keeping Turkey’s sovereign dollar bond spreads near multi-year lows.” CapEco suggested a lot more tightening needs to be delivered, as the desk expects rates to rise to at least 35% by year-end. Meanwhile, the latest CBRT survey upgraded its end-year CPI forecast to 68.01% (Prev. 67.22%) alongside GDP Growth to 4.1% (prev. 3.9%). The USD/TRY level was also revised higher to 30.0453 (prev. 30.1422), while the 12-month CBRT Rate was upped to 37% (prev. 32.44%).

## REVIEWS

**PBOC MLF & LPR REVIEW**: The PBoC maintained its Loan Prime Rates, as widely expected, with the 1-Year LPR at 3.45% and 5-Year LPR at 4.20%. The decision to hold the LPRs, which most new loans and mortgages are referenced on, was unsurprising given that the central bank had also maintained the 1-Year MLF Rate at 2.50% a few days before which serves as a fairly accurate precursor of its intentions for benchmark rates. The PBoC had also just cut the RRR last month which was seen to release over CNY 500bln of liquidity and help stabilise the Yuan, as well as lessen the need for further immediate policy support. Moreover, recent data has shown an improvement in economic conditions, which also suggests additional policy adjustments are unwarranted as Chinese GDP, Industrial Production and Retail Sales all topped expectations and points to the economy on a firmer footing to achieve this year's official growth target of around 5%.

**RBA MINUTES REVIEW**: RBA Minutes from the October meeting stated that the Board considered raising rates by 25bps or holding steady and agreed the case for the latter was stronger, while members noted data on inflation, jobs and updated forecasts would be available at the November meeting. the accounts also stated that members acknowledged upside risks to inflation were a significant concern and progress in lowering service sector inflation was slow, while the Board had a low tolerance for a slower return of inflation to target and stated that further tightening may be required if inflation is more persistent than expected. The language from the minutes was hawkish and continued to signal the door is open to further action which puts the emphasis on incoming inflation figures, while Capital Economics noted that the discussion clearly hinted that further tightening may be required and supports their view that the RBA will deliver a final 25bps rate hike at next month's meeting.

**BOK REVIEW**: The BoK kept its base rate unchanged at 3.50%, as expected, with the decision unanimous, although one of the six Board members said the policy rate should remain flexible in both ways and the other five other remained open for a future rate hike. The Bank said it will maintain a restrictive policy stance for a considerable time and will monitor the slowdown in inflation, financial stability risks, downside economic risks, household debt growth, monetary policy changes in major countries and geopolitical developments, as well as noting that the Middle East crisis adds to uncertainties for South Korea. The BoK also stated that South Korea's economy is to grow as projected earlier, but uncertainties to the path of expansion are high, while it sees upside risks to inflation and said it might take longer to reach the inflation target.