Central Bank Weekly 10th November: Reviewing RBA, BoC Minutes, Banxico

REVIEWS

RBA REVIEW: Matching expectations, the RBA hiked rates by 25bps to 4.35% (prev. 4.10%), the first increase following four back-to-back decisions to hold rates from July to October. In terms of the accompanying commentary, the Bank said inflation is still too high and proving more persistent than expected a few months ago, with the most recent CPI printing at 5.4% Y/Y, hotter than the expected 5.3% Y/Y. The highlight was a tweak to forward guidance via the line reading “Whether further tightening of monetary policy is required...will depend upon the data” compared to “Some further tightening of monetary policy may be required” previously. This slight alteration led the AUD/USD to dip lower, despite initially spiking on the announcement, with markets largely considering the commentary as a watering down of the tightening bias. The RBA SoMP, released 3 days later, noted that the Bank considered the option to continue pausing, but decided a hike would provide more assurance on inflation. Economic forecasts were revised hawkishly, with June 2024 inflation upgraded to 4.0% (prev. 3.5%) along with 25bps rises to each of the three CPI forecasts thereafter. Whilst the markets saw this as a “dovish hike”, analysts at ING think that the accompanying statement leant hawkishly, and the Bank is “leaving the door open” for future hikes. Overall, the bank believes that inflation will resume its downward trend, adding that this is the last hike in the cycle. This opinion is also shared by analysts at CapEco, which forecasts that economic activity will slump more than anticipated in the coming months, allowing the RBA to implement its first rate cut as early as Q2’24. Looking towards the next meeting, markets have priced in an unchanged rate with a 90% probability, though is likely to change as markets await Australian employment data next week, and CPI on November 29th.

BOC MINUTES REVIEW: The BoC Minutes (or Summary of Deliberations) did little to shift the dial, but it spoke a lot on BoC guidance. Some policymakers on the governing council felt the rate would more likely than not need to increase further while others felt the current 5% rate would likely be enough providing it was maintained at that level for long enough. However, there was a strong consensus that with clearer evidence of higher rates having the desired effect, the BoC should be patient and hold. They did agree to revisit the need for rate hikes at future decisions with the benefit of more data, and agreed to repeat they are prepared to hike rates further if needed. It also revealed that a lack of downward momentum in underlying inflation caused considerable concern and could either mean that policy needed more time to work, or it was not restrictive enough. The Governing Council also agreed that overall inflationary risks had increased given higher near-term forecasts for inflation and persistent core inflation and the risk of higher oil prices. The minutes noted that persistence in core inflation, elevated inflation expectations and wage growth, and atypical corporate pricing behaviour could indicate that high inflation is becoming entrenched and that in this scenario, council members acknowledged that further tightening would likely be required to restore price stability. Nonetheless, near-term inflation expectations have been easing and long-term inflation expectations remain well-anchored. Also, if global financial conditions tighten further or past hikes restrain demand more than expected, the economy could be weaker and inflation could be lower than projected.

BANXICO REVIEW: Overall, a dovish release with the majority of inflation forecasts left unchanged throughout the forecast horizon, aside from the Q4 23 forecast, which was revised lower. The main development was the tweak in its guidance, it now notes that “the reference rate must be maintained at its current level for some time” vs the prior language which suggested for an “extended time”. Nonetheless, it maintained its view that the bias of risks to the inflation trajectory remains to the upside.

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