Central Bank Weekly 17th November: Previewing PBoC LPR, FOMC Minutes, RBA Minutes, ECB Minutes, Riksbank Announcement and CBRT Announcement

PREVIEWS

PBOC LPR (MON): The PBoC is likely to maintain its benchmark Loan Prime Rates at current levels next week, with the 1-year LPR at 3.45% and 5-year LPR at 4.20%. Expectations for the PBoC to refrain from any adjustments to the LPRs, which most loans and mortgages are based on, follow the central bank's recent decision to keep the 1-Year MLF rate unchanged at 2.50% as this serves as a fairly accurate precursor for the intentions for the benchmark rates, although its MLF operation did result in the largest net injection in 7 years. Recent data releases from China have been mixed with disappointing Manufacturing PMIs and weaker Exports offset by a surprise expansion in Imports and stronger-than-expected activity data, while property investment and house prices continued to slide which suggests future policy action cannot be ruled out and local press reports have also noted expectations of another RRR cut before year-end.

FOMC MINUTES (TUE): At its November policy meeting, the FOMC left rates unchanged at 5.25-5.50%, in line with both expectations and market pricing, and its statement saw only slight changes. The central bank maintained that "additional policy firming that may be appropriate" and made a slight upgrade to its description of economic growth, highlighting that economic activity had been expanding at a "strong" pace in Q3, in contrast to the "solid" pace mentioned in September. It also acknowledged that job gains had "moderated since earlier in the year" (compared to the previous "slowed in recent months" language), but it continued to emphasise the strength of job growth and the low unemployment rate. Further, it included a new line to address the rise in Treasury yields ahead of the meeting, stating that tighter financial and credit conditions are likely to have a negative impact on economic activity, hiring, and inflation, in contrast to the September statement, which only acknowledged tighter credit conditions. Chair Powell's post-meeting remarks echoed his previous recent views and outlined the Fed's commitment to maintaining a restrictive monetary policy. He noted that the full effects of this policy were not yet clear. He described the economy as strong, paying attention to robust growth and labour demand. Powell stressed that inflation remains high, and tight labour markets have shown some signs of wage growth easing. In the Q&A, he expressed uncertainty about policy and financial conditions, hinting at potential interest rate hikes. He also suggested that the Fed is close to the end of the current rate-hike cycle and was evaluating its approach. Powell confirmed that rate cuts are not being considered, but the focus is on how long to maintain a restrictive policy. In the wake of the FOMC meeting, nonfarm payrolls, CPI data and some survey releases (such as ISMs) saw downward surprises, resulting in traders pulling back bets on further rate hikes, and adding to bets for rate cuts in 2024 – 100bps of easing is now priced by the end of next year. Fed Chair Powell, speaking around a week after the FOMC meeting, struck a hawkish tone, and said that although progress had been made on inflation, there was still a "long way to go"; he reiterated that officials were not confident that they have achieved a sufficiently restrictive policy stance, adding that if it became appropriate to tighten policy further, the FOMC would not hesitate to do so, stating that the Fed will continue to move carefully, and decide on a meeting-by-meeting basis.

RBA MINUTES (TUE): The RBA will release minutes from the November 7th meeting next week and participants will be eyeing any further insight after the central bank hiked the Cash Rate by 25bps, as expected to 4.35% from 4.10%, but tweaked forward guidance in which it noted that whether further tightening of monetary policy is required to ensure that inflation returns to target in a reasonable timeframe will depend upon data and the evolving assessment of risks. This was seen to be less hawkish than the RBA's prior language that some further tightening of monetary policy may be required, while it reiterated that returning inflation to target within a reasonable timeframe remains the Board's priority and it is resolute in its determination to return inflation to target and will do what is necessary to achieve that outcome. The central bank also stated that inflation in Australia has passed its peak, but is still too high and proving more persistent than expected a few months ago, with CPI inflation now expected to be around 3.5% by the end of 2024 and at the top of the 2-3% target range by the end of 2025. Furthermore, the RBA's quarterly Statement on Monetary Policy released a few days after the rate decision noted they considered the option to continue holding policy rates steady, but decided a hike would provide more assurance on inflation and reiterated a data-dependent approach, while it also acknowledged data over the recent months indicate the domestic economy has been a bit stronger than previously thought and there are both upside and downside risks to the outlook for inflation as it remains high and is forecast to decline more gradually than anticipated three months ago.

ECB MINUTES (THU): As expected, the ECB opted to call a "pause" in its hike campaign by keeping all three of its key rates unchanged. The Governing Council judged that rates are sufficiently restrictive to return inflation to target and noted that past interest rate increases continue to be transmitted forcefully into financing conditions. On the balance sheet, despite some outside expectations for a potential bringing forward, the ECB reaffirmed that reinvestments under PEPP will run until "at least the end of 2024". At the follow-up press conference, Lagarde offered a downbeat assessment in which she believes the economy will remain weak in the coming months and tighter financial conditions are weighing on the Eurozone. In terms of the policy decision, Lagarde revealed that the decision was unanimously approved, adding that there was no discussion of an early end to PEPP reinvestments or adjustments to minimum reserves. However, ECB sources via Reuters later noted that policymakers agreed to debate PEPP reinvestment end date in early 2024 and minimum reserves as part of the framework review in the Spring. The sources added that the expectation was that reinvestments would not end abruptly and the ECB would follow the sort of gradual approach it did with the APP. As is always the case, the account of the meeting will be deemed stale in most quarters. Furthermore, with the ECB having hit pause on its rate hiking cycle and the first 25bps cut not priced until June 2024, traders should use data as a greater barometer over what to expect from the Bank in the coming months as opposed to the write up of last month's meeting.

RIKSBANK ANNOUNCEMENT (THU): Desks are torn between an unchanged announcement or a 25bp hike to 4.25% from the current 4.00% rate that was set in September when the Riksbank said rates may need to rise further with the forecast implying around a 40% chance of one more 25bp hike by Q3-2024. The diverging opinions on November's announcement are due to recent inflation developments. Most pertinently, the October CPIF release saw the headline Y/Y rate lift from the prior level, but not by as much as markets expected and in line with the Riksbank's own forecast, while the key CPIF ex-Energy metric was markedly softer than the previous month and market forecasts; however, it printed just above the Riksbank's own view. This divergence between headline and core, alongside an uptick in Money Market 1yr CPIF inflation expectations, is driving the differing calls for November. As it stands, market pricing is marginally in favour of an unchanged outcome (56% probability), with the decision essentially a coin toss at this point. After November, the latest SEB survey is similarly split around 50/50 with those looking for a 25bp hike expecting the rate path to be dovish, while those in favour of an unchanged outcome believe rate guidance will be on the hawkish side.

CBRT ANNOUNCEMENT (THU): There are currently no expectations as to what the CBRT may opt to do at its November meeting. To recap, the Central Bank hiked its benchmark weekly repo rate to 35.0% from 30% in October, as expected, following a 500bp hike in September and a 750bp hike in August. The Bank said monetary tightening will be further strengthened as much as needed in a timely and gradual manner until a significant improvement in the inflation outlook is achieved. Since June, the key interest rate has been hiked from 8.5% to 35% to combat inflation, which exceeded 60% recently. The Turkish central bank insists on maintaining its current policy mix to address high inflation, with full support from President Erdogan's government, according to a recent Bloomberg report. Governor Erkan emphasised in the recent bi-annual Financial Stability Report her commitment to not yielding to government pressure to lower borrowing costs prematurely. “We will not compromise on our aims of price and financial stability and will move with determination”, the Governor said in the report. Meanwhile, the CBRT survey (released the Friday before the decision), suggested end-2023 CPI is seen at 67.23% (prev. 68.01%), while 12-month CPI is expected at 43.94% (prev. 45.28%), and end-2023 GDP is seen at 4.1% (prev. 4.1%). Furthermore, USD/TRY is projected to end the year at 29.9961 (prev. 30.0453), and the 12-month Repo Rate is expected at 37.01% (prev. 37.00%).