Central Bank Weekly 24th November: Reviewing minutes from the FOMC, ECB, RBA; reviewing the PBoC, Riksbank, CBRT

REVIEWS

FOMC MINUTES REVIEW: The FOMC meeting minutes stated that all participants agreed that the FOMC was in a position to proceed carefully on policy, with all members seeing rates remaining restrictive for some time, and stressed that they need to see more data indicating inflation pressures were abating to be more confident of inflation returning to target. All participants agreed policy decisions at every meeting would continue to be based on the 'totality of incoming information'. Participants noted that further policy tightening would be appropriate if information showed progress to the inflation goal was insufficient. Inflation had moderated over the past year, but remained unacceptably high and well above the Fed's 2% target, adding that there had been only 'limited progress' in bringing down core services, excluding housing inflation. The majority of participants pointed to upside risks to inflation from rising energy prices that could undo some of the recent disinflation or to the risk that inflation would prove more persistent than expected. On yields, many saw measures suggesting long-term treasury yield increases were driven by a rise in term premium. And on the economy, members judged demand and supply continued to come into better balance; labour market conditions were tight, but had eased since earlier in the year, while various participants noted downside risks to activity, including that credit conditions might tighten more than expected if the domestic banking sector experienced further strains. In wake of the minutes, analysts at Barclays said the bank no longer expects the Fed to lift rates in January (previously, it was looking for a 25bps hike), and sees rates remaining unchanged until December 2024, when the bank expects it lower rates by 25bps every other meeting, bringing the Federal Funds Rate target to 5.00-5.25% by end-2024 (in line with the Fed's SEP forecasts), and to 4.00-4.25% by end-2025 (one-notch above the Fed's 3.75-4.00% projection). "We continue to think, however, that risks are tilted to the upside, with rate hikes likely in 2024, if progress on disinflation stalls," Barclays wrote.

PBOC LPR REVIEW: The PBoC maintained the benchmark Loan Prime Rates, as widely expected, with the 1-Year LPR kept at 3.45% and the 5-Year LPR kept at 4.20%. This decision to refrain from any adjustments was unsurprising after the central bank recently opted to keep the 1-Year MLF rate unchanged at 2.50% which serves as a leading signal of the intentions for the benchmark rates, while a bout of mixed tier-1 data releases had also supported the case for no adjustments. Nonetheless, future tweaks cannot be ruled out and there are expectations among analysts and local media outlets for a potential RRR cut before year-end to support the economy, while the PBoC was reported to have told some banks to bring forward some of the loans they intend to extend early 2024 to this year. Furthermore, China had also recently announced fresh measures for its weakening property industry in which it drafted a list of 50 property firms eligible for funding and was said to consider unprecedented support for the sector whereby banks would be permitted to provide unsecured loans to qualified developers for the first time.

RBA MINUTES REVIEW: The RBA Meeting Minutes revealed that the Board deliberated options of raising rates or holding at the current level. It acknowledged a credible argument for not increasing rates at this particular meeting. However, the dominant sentiment leaned towards a rate hike due to escalating inflation risks. The Board emphasised the importance of monitoring future data and evaluating risks before deciding on further tightening measures. A key concern highlighted was the potential rise in inflation expectations. The Board stressed the necessity to curb even a slight uptick in these expectations. This was in light of a growing trend among businesses to transfer cost increases to consumers. Regarding the staff projections, the assumption was based on one or two additional rate hikes. The Board also noted that the Cash Rate in Australia remained lower compared to many other countries, suggesting a relatively less restrictive monetary policy stance. Additionally, rising house prices were seen as an indicator that current policy was not overly tight. Despite slowing inflation and economic activity, the Board was cognizant of the uncertain geopolitical and global landscape. It concluded that the risk of not bringing the CPI back to target by the end of 2025 had increased, underscoring the challenges ahead in monetary policy decision-making. Overall, the release was filed under hawkish, whilst RBA Governor Bullock's comments the following day highlighted that the inflation challenge Australia is facing is predominantly domestic and driven by demand. She reiterated the necessity for more substantial monetary policy tightening as the appropriate response.

ECB MINUTES REVIEW: As expected, the account of October’s meeting did not alter the narrative around that decision or upcoming ones, with the door to further tightening left ajar, but unlikely to be reopened. Overall, the minutes further

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cement the higher-for-longer approach that numerous officials have been conveying recently with the efforts of hawkish members particularly post-October underscored by the line in the accounts that it was deemed important to “avoid an unwarranted loosening of financial conditions”. Furthermore, the minutes echo the cautious view expressed by President Lagarde on the growth outlook; though, the situation has developed significantly since then given the German court ruling regarding its repurposed COVID funding and the potential ramifications for spending/investment by the state, not to mention Bunds themselves.

CBRT REVIEW: The CBRT opted to hike its Weekly Repo Rate by 500bps (vs median exp. 250bps) to 40% (prev. 35%, exp. 37.5%); expectations ranged from 250-500bps. The central bank emphasized that the pace of monetary tightening will slow down and the tightening cycle will be completed in a short period of time, but the monetary tightness will be maintained as long as needed to ensure sustained price stability. “While lending rates are assessed to be in line with the targeted level of financial tightness, the Committee evaluates that the regulations to increase the share of Turkish lira deposits and monetary tightening will continue to strengthen the transmission mechanism and to improve the funding composition of the banking system,” the Bank said. In addition to policy rate decisions, “the Committee will continue to make quantitative tightening decisions to support the monetary policy stance.” Following the decision, the CBRT also introduced an upper limit on rediscount credit interest rates for exports and forex. The desk at CapEco believes that the CBRT “suggested that it is very close to the end of the tightening cycle. A final 250bp hike in December now looks likely. For the central bank to have any chance of achieving single-digit inflation this decade, rates will need to stay at this level for some time.”

RIKSBANK REVIEW: The Riksbank kept rates unchanged at 4.00% (exp. 4.25%, prev. 4.0%); it said that monetary policy needs to be contractionary and it was prepared to raise the policy rate further if inflation prospects deteriorate. Overall, the decision can be described as a neutral-hold (given the maintained policy forecast) and thus disappointing those looking for more explicit hawkish language under the scenario of an unchanged rate; albeit, the QT nod does add a slight hawkish twist, but equally, one that disappoints the likes of SEB who were looking for an increase in purchases to be announced.