Central Bank Weekly 1st December: Previewing Riksbank, RBA, BoC, RBI; reviewing RBNZ

PREVIEWS:

RIKSBANK MINUTES (MON): At the November gathering, the Riksbank elected to leave rates unchanged at 4.00% with expectations heading into the meeting evenly split between a 25bps hike or hold. A meeting which can ultimately 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 added a slightly hawkish twist, but equally, one that defied the likes of SEB that was looking for an increase in sales to be announced. From the minutes, we are after any clarity on post-meeting commentary from Governor Thedeen who implied that the odds of another hike were 50/50, despite the Bank’s own rate path implying the probability of further tightening at 40%.

RBA ANNOUNCEMENT (TUE): The RBA is expected to keep rates unchanged at its meeting next week with money markets pricing in a 97% probability for the Cash Rate Target to remain at 4.35% and just a 3% chance for a 25bps hike to 4.60%. Expectations for the RBA to remain on hold follow the central bank’s decision to hike the Cash Rate by 25bps at the last meeting in November which was as expected, although it tweaked forward guidance to note 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 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 is 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 which was released a few days after the rate decision noted they considered the option to continue to hold policy rates steady, but decided a hike would provide more assurance on inflation, while it also acknowledged data over recent months indicated the domestic economy had been a bit stronger than previously thought and that inflation remains high and is forecast to decline more gradually than anticipated three months ago. Despite the slight tweak in forward guidance, the rhetoric from the RBA has continued to toe the hawkish line as the minutes noted it is important to prevent even a modest increase in inflation expectations and that staff projections for inflation assumed one or two more rate hikes, while it also stated that the risk of not returning CPI to target by end-2025 had increased. RBA Governor Bullock also recently reiterated that more substantial monetary policy tightening is the right response and acknowledged that inflation is much broader than just rising prices for petrol, electricity and rents with prices rising strongly for the majority of goods and services. Nonetheless, recent data releases have been mixed and suggest it is unlikely that the central bank will deliver consecutive rate adjustments, while the recent softer-than-expected monthly CPI metrics have all but guaranteed a pause at the upcoming meeting.

BOC ANNOUNCEMENT (WED): The Bank of Canada is expected to keep rates unchanged on December 6th. Governor Macklem recently said that rates might now be restrictive enough, which helped support expectations that the central bank has concluded its hiking cycle. While Macklem has warned that it was still not the time to be thinking about rate cuts, most analysts are looking for around 100bps worth of rate cuts in 2024, beginning in Q2. “It's readily apparent in the past two quarters, interest rates in the 5% range are a significant headwind to growth, one that is desirable now while the BoC seeks to cool inflation, but too much of a drag to be sustained for a full year ahead,” CIBC Capital Markets said; the bank looks for a bigger gap between US and Canadian rates, but says that is consistent with the evidence at hand that shows the US economy, due to lower household debt levels and locked-in long-term mortgages, is better able to withstand interest rates near 5%.

RBI ANNOUNCEMENT (FRI): The RBI is expected to keep the Repurchase Rate unchanged at 6.50% when it concludes its 3-day meeting next week with a recent poll showing all 64 economists unanimously forecasting the central bank to keep rates unchanged, while it is also likely to maintain the stance of remaining focused on the withdrawal of accommodation. As a reminder, the MPC unanimously voted to keep rates unchanged at the last meeting in October and 5 out of 6 members voted in favour of the policy stance in which external member Varma continued to express reservations on this part of the resolution and noted that successive meetings that promise to withdraw accommodation while actually keeping rates unchanged do not enhance the credibility of the MPC. The rhetoric from the prior meeting continues to underscore the central bank’s focus on inflation as RBI Governor Das noted they identified inflation as a major risk to macroeconomic stability and remain focused on aligning inflation to the 4% target level. Das also stated that near-term inflation is expected to soften and underlying inflation pressures are moderating, but added that food

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inflation pressures may not see sustained easing and that they will act proactively to maintain financial stability. Nonetheless, the recent softening of inflation which returned to within the RBI's 2-6% tolerance range over the past two months would suggest the unlikelihood for the central bank to resume its tightening cycle.

REVIEWS:

RBNZ REVIEW: RBNZ kept the OCR unchanged at 5.50% as expected, while it reiterated that interest rates will need to remain at a restrictive level for a sustained period of time and interest rates are restricting spending in the economy with consumer price inflation declining as is necessary to meet the committee's remit. RBNZ also said inflation remains too high and the committee remains wary of ongoing inflationary pressures, as well as noted that demand growth has eased but by less than anticipated and if inflationary pressures were to be stronger than anticipated, the OCR would likely need to increase further. Furthermore, the committee is confident the current OCR level is restricting demand but slightly raised OCR and CPI forecasts with the OCR seen at 5.63% in March 2024 (prev. 5.58%), 5.66% in December 2024 (prev. 5.50%), and 5.56% (prev. 5.36%) in March 2025, while annual CPI is seen at 2.5% by December 2024 (prev. 2.4%). Furthermore, RBNZ Governor Orr said during the press conference that they've been adamant on holding rates through next year and noted that the projection shows upward bias to rates but it is not a done deal. Orr also stated the risk to inflation is still more to the upside, while he is nervous that inflation has been outside the band for so long and is concerned that longer-term inflation expectations are creeping up.

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