Central Bank Weekly 8th December: Previewing FOMC, ECB, BoE, SNB; reviewing BoC, RBA, RBI

PREVIEWS:

FOMC ANNOUNCEMENT (WED): The FOMC will maintain rates at 5.25-5.50% at its December policy meeting. The consensus now thinks that the Fed is done with rate hikes, despite Chair Powell stating before the pre-meeting blackout that the central bank was prepared to tighten policy further if it becomes appropriate to do so. The market's attention is now rapidly shifting towards when the Fed will begin cutting rates, and traders will look to the updated projections, and how many rate cuts the Fed is pencilling in for next year (in the September SEP, the Fed saw rates ending 2024 at between 5.00-5.25%). According to a Reuters poll, economists see the Fed holding rates at current levels until July 2024, but money markets are fully pricing the first rate cut in May, with a decent chance that it could even come in March. The Fed may be reticent to give credence to market expectations since it risks undoing some of its tightening efforts to bring still-above target inflation back down. Analysts expect progress on tackling inflation to continue, but according to the Reuters survey, all inflation measures polled (CPI, core CPI, PCE, core PCE) are all seen above the Fed's 2% goal until at least 2025, and this has led some to argue that the market is too aggressive in its dovish pricing. Analysts are also already thinking about the optics of how the Fed will frame the loosening of policy. According to the Reuters poll, economists say the first cut will be framed as an adjustment of real rate of interest, not the start of monetary stimulus (real rates would become more restrictive if left unchanged as inflation declines). "With markets already convinced that the Fed's tightening cycle is over, the focus at the December FOMC meeting will be on any clues as to how soon and how far rates will be cut," Capital Economics says. "We suspect officials will still be wary of sending an overly dovish message in the updated statement and projections and any explicit discussion of near-term rate cuts is unlikely," it adds, "nevertheless, the Fed will need to acknowledge the reality that inflation is rapidly heading back to the 2% target."

SNB ANNOUNCEMENT (THU): Expected to leave the policy rate at 1.75%, after leaving rates unchanged in September (consensus at the time was evenly split between a hike and hold). A decision that was taken to allow for the publication of more data to see if tightening taken thus far was sufficient to counter "remaining inflationary pressure". In particular, it gave the SNB time to consider November's CPI, which was the first measure to capture the mid-2023 rental reference rate hike, before potentially tightening further. An inflation release which was markedly cooler than expected printing at 1.4% Y/Y, well below market expectations of 1.7% and the SNB's Q4 view of 2.0%, and as such removed the possibility of a December hike and theoretically opened the door to a cut. While a cut cannot be ruled out, particularly given the SNB's history of surprising markets and current pricing implying a 25% chance of a December cut, it is somewhat unlikely given uncertainty over the rental increase. As FSO caveats, how much/quickly the adjustment will affect the rental price index cannot be conclusively assessed on November's number alone; a point which means that while markets are pricing cuts, a hike also cannot be ruled out at March's gathering, depending on the influence of rent – both Chairman Jordan and Vice Chair Schlegel have spoken about the possibly inflationary influence of rent ahead. Rates aside, the SNB may well tweak its FX language to de-emphasise the selling element, given the notable CHF strength that has resulted.

NORGES ANNOUNCEMENT (THU): November's announcement saw rates left at 4.25% with guidance that the policy will "likely be raised in December" countered by the admission that rates may be left unchanged in December if "the committee becomes more assured that underlying inflation is on the decline". November's inflation will be released on the 11th, before the policy announcement on the 14th. For October, CPI came in markedly hotter-than-expected by markets and at the time was judged to essentially cement a December hike, despite the measures being cooler and in-line with the Norges forecast for the headline and core Y/Y. Following this, Q3 GDP was very soft and serves as a dovish-impulse going into the announcement. Most recently, the key Regional Network was (as leaked) soft on the growth front but wage expectations were essentially unrevised; potentially giving rate setters some confidence that underlying pressures are falling. Overall, the decision is tough to call in the absence of November's inflation data which is due on the 11th.

ECB ANNOUNCEMENT (THU): Expectations are for the ECB to stand pat on rates for a second consecutive meeting after halting its hiking campaign in October. Market pricing concurs, with such an outcome priced with around 94% certainty. In terms of recent economic developments, November's flash CPI fell to 2.4% Y/Y from 2.9%, whilst the super-core metric declined to 3.6% Y/Y from 4.2%. On the growth front, Q3 GDP is currently estimated to be circa -0.1% Q/Q, whilst more timely survey data saw a pick-up in the Eurozone composite PMI for November from 46.5 to 47.6, but ultimately is still suggestive of negative growth in Q4. In the labour market, the unemployment rate remains just above its historic low and policymakers continue to eye firm wage growth. In terms of communications from ECB officials, great attention has been placed on remarks from Germany's Schnabel, who noted that further hikes were "rather unlikely" after November inflation data cooled, and declined to endorse guidance for steady rates for several quarters. These remarks have subsequently accelerated pricing for 2024 rate cuts with a March reduction priced with around 80% probability; that said, Latvia's Kazaks dismissed the idea of a March rate cut as "science fiction". In terms of surveyed expectations for next year, 51 of the 90 economists surveyed by Reuters forecast at least one rate reduction at before the July meeting. Signalling for 2024 action may come via the accompanying macro projections, which ING suggests should see downward revisions for growth and inflation in 2024 and 2025. Finally, speculation continues to mount over the Bank's balance sheet and a potential early conclusion to PEPP reinvestments after Lagarde stated on November 27th that PEPP will be discussed in the "not-so-distant future". However, many desks are of the view that the December meeting would be too soon for such an adjustment.

REVIEWS:

RBA REVIEW: RBA kept the Cash Rate Target unchanged at 4.35%, as expected, while it reiterated its forward guidance that whether further tightening is required to ensure inflation returns to the target in a reasonable timeframe will depend upon data and evolving assessment of risks. RBA also repeated that the Board remains resolute in its determination to return inflation to target and will do what is necessary to achieve that outcome, as well as noted there are still significant uncertainties around the outlook and that the limited information received on the domestic economy since the November meeting has been broadly in line with expectations. The language from the central bank was largely reiterations of the commentary from the prior meeting and therefore less hawkish than many were anticipating considering the rhetoric from RBA Governor Bullock in the weeks leading up to the meeting who was more forceful in her warnings that inflation remained a crucial challenge and had stated that more substantial monetary policy tightening is the right response.

BOC REVIEW: The BoC left rates unchanged at 5.00%, as expected, but tweaked its statement with both hawkish and dovish tones. On the dovish side, it noted signs that rate hikes were having an impact, stating that "higher interest rates are clearly restraining spending: consumption growth in the last two quarters was close to zero, and business investment has been volatile but essentially flat over the past year." It also referenced the Q3 GDP contraction, easing labour market, and that the economy was no longer in excess demand. The statement dropped a line that said progress toward price stability was slow, and inflationary risks have increased. On the hawkish side, however, it reiterated concerns about the risks to the outlook for inflation, and maintained guidance that it is prepared to raise the policy rate further if needed. Still, with price pressures abating and economic growth slowing, markets remain of the view that the central bank is done with rate hikes, particularly since BoC Governor Macklem's recent remarks that policy may now be restrictive enough. Attention now is turning towards the start of its easing cycle. Money markets are pricing a little over 100bps of easing in 2024, with the first cut fully priced by April. Macklem has said that it was not the time to be talking about rate cuts, and the BoC would likely be cautious over any rising inflation expectations if the consumer starts to expect rate cuts.

RBI REVIEW: RBI left the Repurchase Rate unchanged at 6.50%, as unanimously forecast, while it maintained its stance of remaining focused on the withdrawal of accommodation in which 5 out of 6 members voted in favour of the policy stance. RBI Governor Das said the Indian economy is resilient and has momentum, while he noted broad-based easing in core inflation but added that inflation could see an uptick in November and December. Furthermore, Das stated that the target of 4% CPI has yet to be reached and they have to stay the course on inflation, as well as noted that monetary policy has to stay alert about shocks getting generalised and has to remain actively disinflationary with the need to remain vigilant and ready to act.