newsquawk

Central Bank Weekly 12th January: Previewing PBoC MLF, Fed's Waller, ECB Minutes; Reviewing BoK

PREVIEWS:

PBOC MLF (MON): The PBoC will conduct its 1-Year MLF operation next week which participants will be eyeing to see what the central bank decides regarding its short-term funding rates as this would serve as a leading signal for the benchmark Loan Prime Rates the following week. As a reminder, the PBoC maintained its 1-Year MLF rate at 2.50% last month as it announced CNY 1.45tln of funds which resulted in a record net monthly injection of CNY 800bln under the facility, while there had been plenty of anticipation of a potential RRR cut during Q4 2023 although this failed to materialise. Nonetheless, some are anticipating adjustments in the near future after a PBoC official hinted at tools to boost credit including the use of reserve requirements and Nomura also suggested that China is quite likely to cut its lending rates on Monday, although with the latest GDP and activity data from China scheduled next week, it may be prudent for the central bank to wait for additional clues on the health of the economy before making any policy adjustments.

FED'S WALLER (TUE) will be speaking on the economic outlook at 11:00EST/16:00GMT on Tuesday at the Brookings Institution. This will be his first set of public remarks since the end of November, where the Fed Governor said there are good economic arguments, citing the targeting of real interest rates, that if inflation were to continue falling for several more months, then the Fed could lower the policy rate. His remarks were a key driver behind the dovish repricing of the Fed path into year-end and the clarity with which he spoke on rate cuts has not been echoed by his colleagues since then. Many have viewed Waller's comments as an unofficial "what the Fed is really thinking" despite some of the relatively more hawkish rhetoric from his colleagues. Thus, with recent Fed Speak from other officials still failing to align with the dovishness of Waller's November comments despite continued progress on inflation, and markets still pricing a high chance of a March cut with no officials publicly endorsing a March cut, participants will be closely attentive to the speech. Participants will be looking to see if he either reaffirms his view for impending cuts as real policy rates drift higher, or begins to backtrack, citing the loosening of financial conditions since his last appearance, or potentially the stalling of disinflation seen in the December CPI report.

ECB MINUTES (THU): As expected, the ECB opted to stand pat on rates for a second consecutive meeting with the main policy adjustment coming via the balance sheet. The Governing Council decided that reinvestments under PEPP will run at current levels during H1 (vs. previous guidance of “at least until the end of 2024”), after which, it intends to reduce the PEPP portfolio by EUR 7.5bln per month on average. Elsewhere, the statement reiterated that “policy rates will be set at sufficiently restrictive levels for as long as necessary.” However, the policy statement omitted policymaker’s prior judgement that “inflation is still expected to stay too high for too long.” The accompanying macro projections saw 2023 inflation downgraded to 5.4% Y/Y from 5.6%, 2024 cut to 2.7% Y/Y from 3.2%, and 2025 held at 1.9% Y/Y. Note, the forecasts drew criticism in some quarters given the November 23rd cut-off date, which prompted suggestions that the 2024 core inflation projection of 2.7% was too high given recent economic developments. On the growth front, 2023 and 2024 projections were cut, with this year’s GDP growth view at just 0.8%, and the 2025 forecast held steady at 1.5%. At her follow-up press conference, when questioned on the Bank’s plans for rate cuts in 2024, President Lagarde stated that the decisions will be data dependent, not time dependent, adding that policymakers will not lower their guard. Furthermore, Lagarde was clear in stating that the Governing Council did not discuss rate cuts, with policy set for a “plateau of hold.” Lagarde also noted that the Bank will need to see more evidence on wage growth given that current data shows that wages were “not declining”. When questioned on the balance sheet, the President noted that there were differing views on PEPP, whereby some Governors wanted different tapering, earlier or later. As always, given the lag between the meeting and the publication of the account, the release will be seen as stale in some quarters. Additionally, given that rates are not set to be lowered in the immediate future, their insight into the 2024 rate path will likely be limited.

REVIEWS:

BOK: The BoK maintained its base rate at 3.5%, as expected, but removed the phrase "To judge the need to raise the base rate further" from its policy statement. BoK Governor Rhee said the rate decision was unanimous and sees less need for rate hikes, while he added that any premature rate cut could adversely affect the economy and it is best to wait until inflation stabilises. Rhee also stated that five board members see the terminal rate at 3.50% and most board members agreed to deploy targeted support measures to help small to medium-sized firms. Furthermore, he stated it is too early to discuss rate cuts, as well as noted that board members see no rate cuts for the next three months and see little chance of rate cuts for the next six months.