



Central Bank Weekly 9th February: Reviewing RBA, Banxico and RBI

REVIEWS:

RBA REVIEW: The RBA kept rates unchanged at 4.35%, as unanimously forecast, while it stuck to the hawkish rhetoric as it reiterated that the board remains resolute in its determination to return inflation to the target and that a further increase in interest rates cannot be ruled out. It also repeated that returning inflation to the target within a reasonable timeframe remains the board's highest priority and although it noted that inflation continued to ease in the December quarter, it added that inflation remains high at 4.1%. Furthermore, it stated the Board needs to be confident that inflation is moving sustainably towards the target range and said that inflation is still weighing on people's real incomes and household consumption growth is weak, as is dwelling investment. The RBA also simultaneously released its quarterly Statement on Monetary Policy in which it lowered the forecasts for inflation and GDP, as well as noted that risks to the outlook are balanced and stated the level of demand is still above the economy's capacity to supply, creating price pressures. As for the press conference, RBA Governor Bullock stuck to the hawkish script in which she stated that everyone is focused on inflation and there is still more work to do with a little way to go to get inflation down. Bullock added that risk remains inflation expectations could drift further and they are not ruling anything in or out on policy, while they need to be convinced on inflation before thinking of cutting rates. However, she recently provided a more balanced tone during her appearance before the House of Representatives Standing Committee on Economics where she reiterated the Board is focused on bringing inflation down and that recent developments in inflation are encouraging but they have some way to go to meet the inflation target with the inflation challenge not over. Bullock also stated the Board hasn't ruled out a further increase in interest rates but neither has it ruled it in, while she added that inflation doesn't need to be in the 2%-3% band for them to think about rate cuts and if consumption slows more quickly than expected, it will be an opportunity to cut rates.

BANXICO REVIEW: Mexico's central bank voted unanimously to keep rates unchanged at 11.25% for the seventh straight meeting, as expected, but its statement was judged to have opened the door to a rate cut, which analysts say could be seen as soon as the March meeting. However, officials are still likely to be mindful about the progress of underlying inflation, which some suggest could imply that Banxico proceeds with rate cuts only gradually. "We are sticking with our view that a first rate cut will be delivered in March, although that decision will be finely balanced and a first cut in May is also in play," Capital Economics said, "regardless of the timing of the first cut, it's clear that Banxico will remain cautious." CapEco expects the policy rate to end this year at 10.00% and to finish 2025 at 8.00%, an above consensus view.

RBI REVIEW: RBI kept the Repurchase Rate unchanged at 6.50%, as expected, while it maintained its stance of remaining focused on the withdrawal of accommodation in which 5 out of 6 MPC members voted in favour of the rate decision and policy stance, with MPC external member Varma the lone dissenter who voted for a 25bps cut and for a change in stance to neutral. Despite the dovish dissent and shift to a 5-1 vote split from a previous unanimous decision, the actual rhetoric from Governor Das was hawkish as he stated that growth in India is accelerating and inflation is on a downward trajectory in India, while he added that transmission of policy rate hikes is still underway and monetary policy must be disinflationary. Furthermore, Governor Das said inflation needs to align at 4% on a durable basis and the MPC is to remain resolute in bringing inflation down to 4%, while he also noted that monetary policy has to remain vigilant and that the last mile of disinflation is always the most challenging.

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