Central Bank Weekly 1st March: Previewing BoC and ECB; Reviewing RBNZ

PREVIEWS:

BOC ANNOUNCEMENT (WED): The consensus expects the BoC to hold its policy interest rate at 5.00%, with analysts projecting the first rate cut will come at the central bank's June confab, according to a poll by Reuters. The survey notes that while inflation has fallen back within the BoC's 1-3% target rate (at 2.9% Y/Y last), policymakers are not yet convinced that high inflation has been resolved yet, particularly as shelter costs remain elevated. BMO said "the risk is the first rate cut will come later than June. If the bank is going to make an error here, it is that they'll keep policy too tight for too long to make sure inflation is headed back towards their target or event lower," adding that "they're also concerned about a renewed pickup in the housing market, and just more recently, they've got the added wrinkle the Canadian dollar has started to weaken again. The Reuters poll added that there was no clear consensus around the number of rate cuts coming this year, but around 70% of the economists surveyed are looking for 100bps of cuts or less.

ECB ANNOUNCEMENT (THU): Expectations are for the ECB to once again stand pat on rates with markets assigning a 94% chance of such an outcome. The previous meeting passed with little in the way of fanfare with the Governing Council very much in wait-and-see mode as policymakers track progress in inflation returning towards the 2% mandate. In terms of developments since the prior meeting, headline HICP pulled back to 2.6% in February from 2.8%, whilst the core metric fell to 3.3% from 3.6%. From a growth perspective, Q4 GDP printed at 0% vs. the 0.1% contraction seen in the prior month, whilst more timely PMI data saw the EZ-wide services PMI rise to 50.0 from 48.4, manufacturing slip to 46.1 from 46.6, leaving the composite at 48.9 vs. prev. 47.9. The accompanying report noted “The latest PMI print gives hope for a recovery in the eurozone”. Recent comments from ECB officials continue to point towards no imminent intention to lower rates with President Lagarde observing that the ECB is “not there yet” when it comes to inflation, whilst most officials wish to see the outcome of the April wage data (released after the April meeting). In terms of a timeline for the first cut, known-dove Stournaras of Greece does not anticipate one until June with markets broadly in-fitting with this viewpoint, assigning a 92% chance of such an outcome. In the analyst community, 46/73 surveyed by Reuters expect a reduction in June, 17 look for April and 10 expect a H2 reduction. With regards to the full year outlook, markets anticipate a total of 86bps of policy loosening, the median view of analysts looks for 100bps. For the accompanying macro projections, analysts at Danske Bank expect (for the first time in the hiking cycle) “staff projections to show that inflation will hit the 2% target in both 2025 and 2026”, with the 2024 HICP projection to be cut to 2.4% from 2.7% on account of “recent lower than expected inflation data, anchored inflation expectations, and lower energy futures”.

REVIEWS:

RBNZ REVIEW: RBNZ kept the OCR unchanged at 5.50% as widely expected, while it noted that the OCR needs to remain at a restrictive level for a sustained period and that the committee remains confident that the current level of the OCR is restricting demand. However, the key takeaway from the meeting proved to be the projections for the OCR which were dovish as the central bank reduced its OCR forecast with the June 2024 view lowered to 5.59% from 5.67% and the March 2025 view lowered to 5.47% from 5.56% suggesting the unlikelihood of a hike. Furthermore, RBNZ said core inflation and most measures of inflation expectations have declined and the risks to the inflation outlook have become more balanced but also noted that headline inflation remains above the 1%-3% target band, limiting the committee's ability to tolerate upside inflation surprises. The announcement and projections triggered a dovish reaction which was amplified given that there were outside calls for a potentially hawkish surprise, while the comments from Governor Orr during the press conference had little effect on markets as he noted that they did discuss a hike and that there was strong consensus the current level of rates was sufficient.

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