Central Bank Weekly 15th March: Previewing FOMC, BoJ, RBA, BoE, PBoC, SNB, Norges, BCB & CBRT

PREVIEWS:

BOJ ANNOUNCEMENT (TUE): Participants will be eyeing whether the central bank exits its negative interest rate policy as money markets are pricing a near coin flip between the central bank maintaining its rate at the current level of -0.10% or if it hikes this by 10bps to 0%. There has been plenty of speculation for the central bank to act following several hawkish source reports and commentary leading up to the meeting suggesting the BoJ was mulling a March hike although it was said to be too close to call as officials are currently split between March or April and a final decision is to be taken after the first wage talks tally. Other source reports also noted that the BoJ is said to review Yield Curve Control and will likely ditch its 10-year bond yield target upon pulling short-term rates out of negative territory with the central bank to consider a new quantitative monetary policy framework and is mulling buying nearly JPY 6tln of JGBs under a new policy framework. There has also been a wave of more hawkish-leaning central bank rhetoric including from BoJ Governor Ueda who stated that confidence has grown in the achievement of the price target. However, his more recent comments were less hawkish as he noted that they see weakness in the consumption of non-durable goods and need to see if a virtuous cycle is underway, as well as stressed data dependency in reaching an appropriate monetary policy decision. Other officials have also provided a more hawkish tone as Board Member Takata stated he would call for a gear shift in policy and that the achievement of the price target is coming into sight although he had not made up his mind when asked about whether to end negative interest rates in March or April. Board Member Nakagawa also stated that prospects of sustainably achieving the 2% inflation target are gradually heightening and it will take until autumn and beyond if they were to wait until smaller firms' wage negotiation outcome, while she added they don't necessarily need to wait for all small and mid-sized firms' wage talks results in deciding when to end negative rates. As such, with the RENGO 1st wage tally showing wage growth of 5.28% (exp. 4.1%; 2023 final figure 3.6%) expectations have heightened that the BoJ will end its negative interest rate policy next week. Aside from the decision on interest rates and yield curve control, participants will also be eyeing the central bank's intentions regarding other measures such as its ETF buying as the BoJ had previously stated it would be natural to end such purchases if the achievement of the 2% price target can be foreseen.

RBA ANNOUNCEMENT (TUE): The RBA is expected to keep rates unchanged at 4.35% with the ASX 30 Day Interbank Cash Rate Futures indicating a 95% expectation for rates to be maintained at the current level and just a 5% expectation for a 25bps cut to 4.10%. As a reminder, the RBA kept rates unchanged as unanimously forecast last month which was the first meeting since the overhaul at the central bank took effect, 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, the minutes revealed that the board considered a case to hike by 25bps or hold steady although the case to hold steady was the stronger one and appropriate given balanced risks to the outlook, while data gave the board more confidence inflation would return to the target in a reasonable timeframe although it would take some time before the board could be confident enough about inflation and it agreed it was appropriate not to rule out another rise in rates. The rhetoric since that meeting has been less hawkish as RBA Governor Bullock noted that 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. Furthermore, Bullock acknowledged that there are some encouraging signs although the inflation challenge is not over, while RBA's Harper stated they will not wait until inflation is within the target band before cutting rates and are not fixating on any sort of inflation to signal a start of the easing cycle but added that they cannot rule out the need for further rate hikes. Recent key data releases from Australia also support the case for a pause as GDP for Q4 was somewhat inconclusive and printed mixed with QQ at 0.2% vs. Exp. 0.3% (Prev. 0.2%) and Y/Y at 1.5% vs. Exp. 1.4% (Prev. 2.1%), while the latest monthly inflation data was steady and remained above the central bank's 2%-3% inflation target with Weighted CPI YY for January at 3.40% vs. Exp. 3.60% (Prev. 3.40%) which RBA watcher McCrann suggested leaves only one real option at the next meeting and noted the RBA won't seriously consider a hike but nor are cuts on the horizon with inflation still too high to contemplate a rate cut.

PBOC MLF REVIEW/LRP PREVIEW (WED): The PBoC maintained the rate on its 1-year Medium-term Lending Facility operation at 2.50%, as widely expected, which serves as a fairly reliable indicator for the intentions regarding the benchmark 1-year Loan Prime Rate scheduled next week which most new loans are based on. As a reminder, the central bank surprised markets last month with its benchmark Loan Prime Rates whereby it maintained the 1-year LPR at 3.45% (exp. 5bps cut) but delivered a deeper than anticipated cut of 25bps in the 5-year LPR to 3.95% (exp. 10bps reduction) which is the reference rate for mortgages in China. This was viewed as a targeted measure to support China's ailing property sector alongside the various efforts that had previously been announced to revive demand in the industry which has been in a crisis since 2020 and was once a key driver of the country's economic growth. Furthermore, the PBoC's unwillingness to adjust shorter-term funding rates is evident in the lack of adjustments in 7-day reverse repo rate since August last year and the central bank has also kept the size of open market operations meagre throughout this week. Nonetheless, future monetary policy easing is likely as PBoC Governor Pan commented during China's recent two sessions gathering that the PBoC still has sufficient room for monetary policy and that there is still room for cutting RRR, while a press report also recently noted an analyst view that China could cut its RRR and/or MLF rates in Q2.

FOMC ANNOUNCEMENT (WED): While traders are not expecting the FOMC to adjust policy rates at next week's meeting, attention will be on the Committee's updated economic projections. It's previous forecasts from December saw the central bank take a more dovish view than markets were expecting, cutting its near-term growth and inflation outlook; it also saw a lower amount of rate hikes in 2024, pencilling in three 25bps rate cuts this year, with the FFR target seen ending the year between 4.50-4.75% (vs its September projection that rates would end 2024 at between 5.00-5.25%). Ahead, traders expect the Fed to lower rates by 75bps or less this year (three 25bps cuts), according to 58 of the 108 economists surveyed by Reuters; still 26 of those surveyed are still looking for 100bps of rate cuts this year (four 25bps rate reductions). However, a majority (38 of 44 surveyed) see risks that the updated projections will show a fewer amount of rate cuts. The easing cycle is expected to start in June, which is in line with market-based pricing. "The Fed is seeking 'greater confidence' on inflation before it starts normalising its policy stance," Bank of America notes, "we expect progress on inflation in the coming months will give the Fed confidence to begin a gradual cutting cycle in June," and added that "a more forward-looking Fed might put more weight on low inflation expectations and cut sooner, but this Fed is data dependent and wants to avoid backtracking after it starts." Traders will also be focussed on any commentary on quantitative tightening (QT), with many looking for the central bank to soon announce it will slow and then stop the process. The consensus seems to expect this announcement to come in June, but some think it could come as soon as the March meeting, according to the Reuters poll; additionally 17 of 26 surveyed think the Fed will have concluded the tapering of the programme in Q1 2025, or later.

BCB ANNOUNCEMENT (WED): The BCB is expected to maintain its current pace of easing next week by reducing the Selic rate by a further 50bps. At its last meeting, the BCB voted unanimously to cut the Selic rate by 50bps to 11.25%. The move marked the central bank's fifth rate reduction since August, and it suggested that cuts of a similar magnitude could be expected in upcoming meetings. Pantheon Macroeconomics expects that both external and domestic conditions are set to improve ahead, and that will allow policymakers to accelerate the pace of easing to 75bps over the coming meetings. "But we concede that deteriorating external conditions are a big threat to our forecasts, even though the committee has probably turned more dovish this year." However, in wake of the policy meeting, the mid-month February IPCA-15 inflation data showed core services inflation remains elevated, and that has some analysts leaning back on the notion of more aggressive rate cuts ahead. Capital Economics writes that "the central bank has given a clear steer that it will cut the Selic rate by another 50bps at its upcoming meetings, and we don't see anything in this data release to change that," but adds that "we think inflation will end up a little higher this year than is widely expected later in 2024 and, as a result, prompt the BCB to shift its easing cycle down a gear to 25bps rate cuts around the middle of the year."

SNB ANNOUNCEMENT (THU): Market pricing currently has a 34% chance of a cut and a 66% chance of an unchanged announcement from the SNB's first policy announcement of 2024. The most pertinent development for policymakers has been the pronounced cooling in inflation YTD. CPI YY has been within the 0-2% target band since June 2023 and printed at 1.7% in December 2023. Inflation has since cooled significantly to 1.2% in February 2024; markedly lower than the 1.8% forecast by the SNB for Q1-2024 and lower than any of their quarterly forecasts across the end-2026 horizon. A marked easing which opens the door to the SNB cutting and while market pricing is focused on either unchanged or a 25bp cut, a larger 50bp move cannot be ruled out given the SNB's history of and willingness to surprise markets. On inflation, given the YTD prints, a significant revision of the near-term CPI forecast is likely but within this it will be interesting to see if the SNB still anticipates an uptick across Q2 & Q3, particularly in the scenario of a cut occurring. Finally, the CHF appreciated markedly after the December announcement but has since pared with EUR/CHF at its highest since mid-November; given this, there is two-way risk on whether the guidance "focus is on selling foreign currency" is maintained.

NORGES ANNOUNCEMENT (THU): Market pricing currently has around a 5% chance of a cut at the March announcement, a gathering which includes new forecasts. The Q1 Regional Network report showed revisions higher for both the overall activity level and wage growth views, findings which are both hawkish developments. However, the magnitude of this is unlikely to be sufficient to merit the Norges Bank hiking - after saying rates were likely to remain at 4.5% for some time in January, though they did keep two-way optionality. Particularly when taken alongside the softer than expected February CPI numbers, where the Core Y/Y printed at 4.9% (NB exp. 5.5%). While inflation has moderated it remains at elevated levels and therefore an easing of policy is also unlikely. Instead, participants will be attentive to any signal around when the first rate-reduction could occur. In January, the guidance was for rates to be held for some time with the possibility of a move earlier than implied in December (Q4-2024/Q1-2025) in the scenario that the economy/inflation experiences a more pronounced slowdown/pullback, criteria which CPI arguably meets but the Regional Network does not. As such, the likes of SEB continue to look for the first cut to occur in September, but it remains to be seen if the Norges Bank will have enough conviction in the economy's trajectory to formalise this in its forecasts now or instead wait until the June MPR.

BOE ANNOUCEMENT (THU): The MPC is expected to hold the Base Rate at 5.25% with the potential for another three-way split. As a reminder, the February decision saw Mann and Haskel calling for a hike, Dhingra for a cut and the remaining 6 for unchanged. In terms of market pricing, an unchanged rate is priced at nearly 100% as the BoE awaits more progress on inflation. In terms of recent data, the MPC will be presented with further inflation metrics on the day before the announcement. However, the January release showed headline and core CPI holding steady on a Y/Y basis at 4.0% and 5.1% respectively. On the growth front, M/M GDP in January expanded by 0.2%, suggesting that there may be a turning point from the H2 recession seen last year. More timely PMI data for January saw the services metric slip to 53.8 from 54.3, manufacturing rise to 47.5 from 47.0 with the composite ticking higher to 53.0 from 52.9. In the labour market, the unemployment rate in the 3M period unexpectedly ticked higher to 3.9% from 3.8%, whilst headline wage growth slipped to 5.6% from 5.8%. Commentary from the MPC has seen Governor Bailey state that "we don't need inflation to come back to target before we cut interest rates", whilst Chief Economist Pill said his baseline scenario for the timeline of rate cuts remains some way off. In terms of the policy statement, no major changes are expected after the Bank opted to drop its "further tightening" bias in February. Beyond the upcoming meeting, an August cut is nearly fully priced in with a total of 59bps of easing seen by year-end.

CBRT ANNOUNCEMENT (THU): Expectations lean towards policy rates being maintained after the CBRT in January signalled an end to its tightening cycle, and then maintained rates at its February meeting. At that February confab, the central bank held its Weekly Repo rate at 45%, as expected, and reiterated that the current level of the policy rate will be maintained until there is a significant and sustained decline in the underlying trend of monthly inflation. Since then, the February CPI figures printed above forecasts, with the Y/Y rate at 67.07% (exp. 65.74%), and the monthly rate at 4.53% M/M (exp. 3.70%). Following the inflation data, JPMorgan said it expects the CBRT to hike by another 500bp (to 50%) in April vs its prior view for no rate rise, though kept its year-end policy rate forecast of 45%, and suggested the CBRT might cut its policy rate in November and December. Meanwhile, Turkey's Finance Minister Simsek said they will continue to tighten fiscal policy in order to assist the CBRT in reducing inflation. The latest CBRT survey sees the Repo Rate at 36.96% in 12 months (prev. 36.62%), end-year USD/TRY at 40.5344 (prev. 40.0212), end-2024 CPI seen at 44.19% (prev. 42.96%), and end-year GDP growth seen at 3.3% (prev. 3.3%).