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Central Bank Weekly March 22nd; Previewing Riksbank, BoJ SOO; reviewing FOMC, BoJ, SNB, BoE, RBA, PBoC, BCB, Banxico, CBRT, Norges Bank

PREVIEWS:

RIKSBANK ANNOUNCEMENT (WED): The Riksbank's first MPR under its new format is expected to see the policy rate maintained at 4.00%. Following February's verbal guidance the new rate forecasts will be the meeting's focal point. As a reminder, in February the Riksbank guided that the development of inflation means that rates can likely be cut sooner than indicated in November (Nov. implied no 2024 cut) and that a H1 cut cannot be ruled out. A meeting that was dovish overall, a narrative added to by the magnitude of their bond sales being increased to just SEK 6.5bln vs exp. 7-8bln. Ahead of the March MPR, inflation has continued to moderate with February's CPIF Y/Y at 3.5%, cooler than the Riksbank's 3.7% forecast. Recent rhetoric has made clear that H1 easing remains an option, e.g. Floden saying they are "close to" the point of easing. Overall, policy settings are expected to be maintained with participants attentive to when the first reduction is implied and whether this is seen in H1.

BOJ SOO (THU): The BoJ Summary of Opinions (SOO) from its March meeting (timelier than the policy Minutes) will be closely dissected for any more meat on the bones after the BoJ exited its negative interest rate policy and abandoned YCC, as widely telegraphed, in which it will now guide the overnight call rate in the range of 0%-0.1% and will apply a 0.1% interest to all excess reserves parked at the central bank. Since the historic meeting, sources suggested the BoJ is reportedly weighing the next rate hike in July or October as the Yen weakens, according to Nikkei. A source noted that additional hikes are of course on the table and that an early hike leaves room for the BoJ to consider rolling out another increase before the end of the year, while the timeline would keep the BoJ coming off as if they are rushing to hike rates. Furthermore, it was stated that a growing number see a July rate boost as another possibility if a weak yen raises the price of imports and accelerates inflation, forcing the BoJ to step in. It was earlier reported that the Yen's decline appears to be raising little alarm at the BoJ for now which was to be expected given that Governor Ueda is maintaining an accommodative stance on policy, according to a source at the BoJ cited by Nikkei. However, it was noted that some at Japan's Finance Ministry are wary of rapid fluctuations in the currency market driven by speculative trades. Meanwhile, BoJ Governor Ueda said the BoJ is expected to maintain an accommodative monetary policy for the time being and accommodative monetary policy is likely to underpin the economy, while he added that cost-push pressure on inflation is dissipating but service prices continue to rise moderately.

REVIEWS:

FOMC REVIEW: The Fed held rates at 5.25-5.50%, as was widely expected. Its updated economic projections continue to see three rate cuts this year, though it sees fewer rate reductions in 2025 and 2026 than it was forecasting in December. It also raised its view of the neutral rate higher (to 2.6% from 2.5%). On the inflation front, it revised its view for core PCE higher this year, despite seeing fewer rate cuts, and continues to see inflation back at target in 2026. "Our interpretation is that Chair Powell and a narrow majority of the Committee feel strongly about not delaying cuts for too long, and are targeting the June FOMC meeting for the first cut," Goldman Sachs said, "in fact, the somewhat higher inflation forecast lowers the bar slightly for incoming inflation data to meet the FOMC's expectations and keep a June cut on track." In wake of the announcement, money markets were assigning an 80% probability of a June rate cut (vs around 70% ahead of the decision), with the first rate cut still fully priced in for July. Regarding the neutral rate, GS argues that with the median longer-run dot revised upwards, and the median 2026 dot rising by 25bps to 3.125%, the FOMC will likely raise its estimates of both the long-run and short-run neutral rates over time, and that the terminal rate will be meaningfully higher than last cycle. At his post meeting press conference, Fed Chair Powell did not show too much concern regarding the hotter-than-expected January and February inflation readings, noting that the data did not provide the Committee with any incremental confidence that inflation was falling sustainably back towards target, and added that the road to inflation falling to 2% would be bumpy. Powell did not show any concerns about the economy, noting the solid labour market and growth conditions. The FOMC's 2024 growth view was raised (to 2.1% from 1.4% - and above the longer-run growth view of 1.8%), but Powell said that the better growth dynamic was made possible after the recent growth in labour supply, and the resilient employment environment was not an argument against rate cuts. Meanwhile, there were no adjustments to the Fed's balance sheet runoff plans, but Powell said policymakers think it will be appropriate to slow the pace of tapering "fairly soon."

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SNB REVIEW: A largely unexpected 25bp rate reduction from the SNB, which sparked marked CHF depreciation and a modest broader dovish reaction. A cut which was justified by the significant progress made in combating inflationary pressures in recent months, the view that inflation will remain within the 0-2% target bound for the next few years and marked CHF appreciation. As usual, the statement provided no firm guidance on the policy path but did make clear that there is optionality to adjust to ensure inflation remains within the target band. An addition which provides them with some cover if their significantly revised inflation forecasts prove too cool. Thereafter, Chairman Jordan made clear that no forward guidance was being provided and the situation will be assessed in June. For reference, market pricing has around a 70% implied probability of another 25bp cut at the next meeting. Finally, the statement's FX language was reiterated with Jordan highlighting this in the presser and adding that neither the buying or selling of foreign currency is currently in focus.

BOJ REVIEW: The Bank of Japan exited its negative interest rate policy and abandoned YCC, as widely telegraphed, in which it will now guide the overnight call rate in the range of 0%-0.1% and will apply a 0.1% interest to all excess reserves parked at the central bank. The BoJ also announced to end ETF and J-REIT purchases, as well as gradually reduce the amount of purchases of commercial paper and corporate bonds whereby it will discontinue purchases of CP and corporate bonds in about one year but also stated that it expects to maintain an accommodative monetary environment for the time being and will continue its JGB purchases at broadly the same amount as before. Furthermore, it announced its planned monthly bond purchases and noted that in the case of a rapid rise in long-term rates, it will make nimble responses with JGB buying and could increase the amount it buys or conduct fixed-rate operations for JGBs, while it also announced to provide loans under the Fund Provisioning Measure to stimulate bank lending with such funds to be provided with an interest rate of 0.1% and a 1-year duration. The announcement was a widely telegraphed exit from NIRP and YCC as there was a prior source report from the Nikkei which noted the BoJ is set to end yield curve control, ETF purchases and NIRP at the meeting, while the decision was also seen as dovish given the central bank's intentions regarding bond purchases. BoJ Governor Ueda was also dovish leaning at the post-meeting press conference where he reiterated that accommodative financial conditions will be maintained for the time being and that they will consider options for easing broadly including ones used in the past if needed. He also reiterated they will continue buying "broadly" the same amount of JGBs as before and that it is important to keep an easy environment in place considering the distance to the 2% target in terms of inflation expectations but kept the door open to future tightening with the pace of further hikes to depend on the economy and price outlooks.

RBA REVIEW: The RBA rate decision lacked any major surprises as the central bank kept the Cash Rate Target at 4.35%, as unanimously forecast, while it reiterated that the Board remains resolute in its determination to return inflation to the target and inflation continues to moderate but remains high. RBA stated the “Board is not ruling anything in or out on interest rates” which was a slight adjustment to the previous statement that “a further increase in interest rates cannot be ruled out”, although Governor Bullock had made a similar comment during last month’s press conference. The RBA also noted that higher interest rates are working to establish a more sustainable balance between aggregate demand and supply in the economy and the Board expects that it will be some time yet before inflation is sustainably in the target range, while it added there are encouraging signs that inflation is moderating although the economic outlook remains uncertain. Furthermore, RBA Governor Bullock refrained from any hawkish surprises during the post-meeting press conference where she noted they are making progress in the fight against inflation and that recent data suggests they are on the right track but added the war isn't won yet on inflation, while she also commented that the board sees risks on both sides for policy and needs to be much more confident on inflation coming down to consider a rate cut.

PBOC LPR REVIEW: The PBoC opted to maintain its benchmark Loan Prime Rates (LPRs), at 3.45% for the 1-year and 3.95% for the 5-year. LPRs were widely expected to be maintained at current levels after the PBoC recently kept its 1-year MLF rate unchanged which serves as a fairly accurate leading indicator for the intentions of the 1-year LPR rate which is what most loans are based on, while the central bank had just lowered the 5-year LPR rate last month which is the reference rate for mortgages in an effort to support its troubled property sector. PBoC Governor, alongside the Chinese press, has been guiding towards a potential RRR reduction. Information Daily in mid-March suggested China could cut its RRR and/or MLF rates in Q2 2024, citing an analyst. "According to the signal released by the People's Bank of China, both in terms of aggregate and structure, monetary policy will be further strengthened, there is still room for subsequent RRR cuts, and structural monetary policy tools will also play a greater role in supporting key areas…As for the timing of the RRR cut, Wang Qing, chief macro analyst of Oriental Jincheng, expects that the RRR cut and the MLF (medium-term lending facility) interest rate cut in the second quarter are likely to land”, the article said.

BCB REVIEW: The COPOM voted to cut the Selic rate by 50bps to 10.75%, in line with the consensus. But analysts noted that the central bank tweaked its forward guidance, which might suggest it will lower the rate of reductions in the meetings ahead. Since August, policymakers have said that the Selic rate would be lowered by the same magnitude (of 50bps) at the "next meetings", although that was changed to "next meeting" in the latest statement. Accordingly, some analysts see a 50bps cut at the May meeting, but risks that the central bank will slow the magnitude of cuts to 25bps in June. "Another 50bps cut at the next meeting in May to 10.25% seems highly likely," Capital Economics said, "the change in the forward guidance doesn’t preclude another 50bps cut at the subsequent meeting in June, but with the

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strength of the labour market likely to keep services inflation elevated, we think the balance on COPOM will tip towards 25bps cuts by then."

NORGES REVIEW: A somewhat hawkish announcement from the Norges Bank. The Key Policy Rate was left unchanged at 4.50%; however, the policy path did not formalise a Q4-2024 rate reduction as some had been expecting given the recent moderation of inflation. Thereafter, this hawkish move was offset by the concluding remarks of Governor Bache in her press conference where she said that the rate path indicates a cut is most likely in September and then a second by the end of Q1-2025. Commentary which added a dovish twist to the unchanged path. Overall, the meeting doesn't fundamentally change the narrative that the Norges Bank is waiting for the June MPR to formalise that it expects to commence the easing cycle in September. In the meantime, CPI-ATE will continue to draw scrutiny given its high absolute level relative to the 2.0% target.

BOE REVIEW: As expected, the MPC once again opted to stand pat on rates at 5.25%. The slight surprise came via the vote split which saw Haskel and Mann move into the unchanged camp, leading to an 8-1 split with Dhingra the lone dissenter in opting for a cut. That being said, divisions remain within the unchanged camp with the account of the meeting noting that, at one end, some believe that developments suggest the restrictive stance of policy is having a material impact on reducing inflationary pressures. At the other end of the spectrum (likely Haskel and/or Mann) some believe wage growth is too high and there are only limited signs of services price inflation returning to a target-consistent pace quickly enough. In terms of guidance, the MPC maintained the statement that "policy will need to remain restrictive for sufficiently long". However, Governor Bailey does acknowledge that "things are moving in the right direction". In terms of what comes next, CPI is expected to fall slightly below 2% in Q2 due to the fuel duty freeze. However, this is unlikely to draw the BoE into an imminent rate cut given that inflation is expected to rise thereafter and services inflation remains "sticky". Accordingly, market pricing still has the first 25bps reduction fully priced in August. Year-end pricing has moved a touch more dovishly with 75bps (i.e three cuts) of loosening now expected vs. circa 70bps pre-release.

CBRT REVIEW: The Turkish Central Bank surprised markets with a 500bps hike to its Weekly Repo Rate to 50%, outside of the forecast range of a 0-250bps hike. Heading into the meeting, 20 out of 22 economists polled by Reuters expected an unchanged Weekly Repo Rate while two saw a hike of 250bps. The statement cited a “deterioration in the inflation outlook” for the move and added that “Tight monetary stance will be maintained until a significant and sustained decline in the underlying trend of monthly inflation is observed”. As a reminder, 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%). Analysts at CapEco expect another rate increase next month, and suggested “The decision to respond so quickly to the recent strong inflation figures and hike rates before the local elections is clearly a very encouraging signal for the policy shift and should help to maintain investor confidence.”

BANXICO REVIEW: Mexico's central bank lowered its reference rate by 25bps to 11.00%, as expected. However, the vote was split (four voted for a cut, though Deputy Governor Gerardo Esquivel voted to stand pat on rates), and analysts noted that, in a hawkish statement, the central bank did not commit to further cuts ahead. The decision to cut rates was supported by decreases in headline and core inflation, while the high levels of rates convinced policymakers to shift their focus towards downside risks to growth. In its statement, Banxico noted the easing of the effects regarding the shocks on inflation, and acknowledged that the disinflation process has been underway since the last adjustment of the reference rate. Pantheon notes, however, that the statement highlighted a cautious, data-dependent approach, which Pantheon says indicates that future monetary policy decisions would be based on available information, and therefore, traders should not interpret the action as the start of a series of rate cuts. "We still believe that Banxico will continue to cut interest rates, provided external conditions remain favourable and political volatility on both sides of the border remains subdued," PM wrote, "we think inflation will likely stay calm over the next three to six months." It added that expectations of rate cuts from the Fed and other developed market central banks paves the way for Banxico to continue easing in H2; Pantheon forecasts the reference rate will end this year at 9%, with further easing in H1 2025 potentially pushing the rate down further to 7.5%.

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