# Central Bank Weekly 12th April: Previewing PBoC MLF; Reviewing FOMC Minutes, ECB, BoC, RBNZ, BoK

## PREVIEWS:

**PBOC MLF (MON)**: The PBoC will conduct its Medium-term Lending Facility operation next week where the central bank will likely maintain the 1-year MLF rate at the current level of 2.50%. As a reminder, the central bank refrained from any adjustments to the 1-year MLF rate last month and opted not to fully roll over expiring funds as it conducted CNY 387bln in 1-year MLF loans vs. CNY 500bln maturing, while it also held off from any adjustments to its benchmark Loan Prime Rates with the 1-year and 5-year LPRs unsurprisingly maintained at 3.45% and 3.95%, respectively. The central bank’s actions have continued to point to a lack of urgency for adjustments in short-term funding rates with daily open market operations mostly kept to within modest amounts, while an improvement in China’s key activity and manufacturing data including the latest Industrial Production and Retail Sales data, as well as a surprise return to expansion territory for Chinese Official Manufacturing PMI also suggests there is less likelihood for policy loosening. Conversely, support measures cannot be ruled out in the near future given that recent CPI data was softer-than-expected and PPI remained in deflation, while China continues to struggle with the ongoing property sector woes. Furthermore, the PBoC previously vowed to help consolidate and strengthen the economic recovery, while Governor Pan had also stated that there is still room for cutting RRR and that the central bank still has sufficient room for monetary policy.

## REVIEWS:

**FOMC MINUTES REVIEW:** The release of the Fed's March meeting minutes were stale given the hot inflation data released earlier in the session, which drastically shifted expectations of the Fed's rate cut trajectory, resulting in bets of rate cuts being trimmed this year, and the start date of the cutting cycle being pushed back. The inflation data confirmed to some that the earlier hot inflation readings at the start of the year may not merely be a 'bump in the road'. That said, the minutes did reveal some insights on the balance sheet normalisation process, though this was essentially consistent with recent Fedspeak on the issue. The vast majority judged it would be prudent to begin slowing the pace of the balance sheet runoff "fairly soon," but a few preferred to continue at the current pace until indicators showed reserves were nearing an ample level. Participants generally favoured reducing the monthly runoff pace by roughly half from the recent overall pace, while participants saw little need to slow mortgage-backed securities runoff, preferring to adjust the cap on Treasuries redemptions. On the economic outlook, some had noted concern that financial conditions might not be as restrictive as desired.

**BOC REVIEW:** The BoC left rates unchanged at 5.00%, as expected, but it did not give any explicit signal of future rate cuts. The statement saw a dovish revision, with the BoC removing a line that noted it was still concerned about risks to the inflation outlook. It added that, while inflation is still too high and risks remain, CPI and core inflation have eased further in recent months, and policymakers will be looking for evidence that this momentum is sustained; they are particularly mindful of core inflation. As a reminder, the BoC's preferred measure of core inflation still sits just above its 1-3% target band. The updated MPR saw Q1 CPI forecasts revised lower into the top end of its target range (at 2.8%) although Q2 CPI is seen at 2.9%. Growth projections saw upward revisions in Q1 to 2.8% from a prior view of 0.5%, but is seen easing to 1.5% in Q2. The BoC revised its estimate range of the output gap to between -0.5% to -1.5% (from -0.25% to -1.25%). In the longer run, it revised its estimate of the neutral rate's range to 2.25-3.25% (from 2.00-3.00%). Governor Macklem echoed the BoC guidance that, as policymakers consider how much longer to hold rates at current levels, they are looking for evidence that the recent further easing in underlying inflation will be sustained. On specifics, Macklem acknowledged that shelter cost inflation is still very high and remains the biggest contribution to overall inflation. Some other services, like restaurant meals, also remain persistently high. On the prospects of a June rate cut, Macklem suggested that such a move was in the realm of possibilities, but noted that the decline they have seen in momentum is very recent. He also said the BoC discussed when to reduce the rate, and while there was a clear consensus to hold at this month's meeting, there was some diversity of views on the Governing Council as to when they are going to see what they are looking for.

**RBNZ REVIEW:** RBNZ kept the Official Cash Rate unchanged at 5.50% which was unanimously expected, while it kept to its hawkish-leaning tone as it stated that a restrictive monetary policy stance remains necessary to further reduce capacity pressures and inflation, with the committee confident that maintaining the OCR at a restrictive level for a sustained period will return consumer price inflation to within the 1%-3% target range this calendar year. RBNZ Minutes

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also noted that a further decline in capacity pressure is expected which supports an ongoing decline in inflation and members agreed that there remains limited tolerance to an increase in the time to achieve the inflation target while inflation remains outside the target band and while inflation expectations and pricing intentions remain elevated. The announcement resulted in choppy price action with no major fireworks seen across the relevant asset classes owing to the lack of surprises by the central bank.

**ECB REVIEW:** As expected, the ECB opted to stand pat on rates once again. The policy statement reaffirmed guidance that rates will be kept sufficiently restrictive for sufficiently long. Furthermore, policymakers will continue to follow a data-dependent and meeting-by-meeting approach and will not pre-commit to a particular rate path. That being said, and what was a new inclusion for the statement, it was noted that if the Governing Council was to gain further confidence that inflation is converging to the target in a sustained manner, it would be appropriate to reduce the current level of monetary policy restriction. The ECB stopped short of explicitly mentioning June given previous errors in pre-announcing policy, however, the updated guidance was perceived as a green light to expect a cut at the next meeting. In the follow-up press conference, when questioned about a potential rate cut in June, Lagarde reiterated that the ECB will have a lot more data by the time of the June meeting. In terms of the unanimity of today's announcement, Lagarde stated that "a few" dissenters felt "sufficiently confident" about altering policy at the meeting, however, they ultimately rallied around the consensus. This could potentially be in-fitting with source reporting in the wake of the previous meeting which suggested some policymakers floated the idea of a second cut in July to win over a small group still pushing for an April start. Elsewhere, given yesterday's US CPI report and subsequent Fed repricing, Lagarde was questioned what impact this could have on the ECB's easing plans, to which Lagarde stressed the ECB's independence on policymaking. Overall, with Lagarde getting a relatively easy ride in the press conference, the policy statement gave the greatest clues as to what comes next and reaffirmed market views heading into the release. Market pricing for a June reduction is near-enough pre-announcement levels of circa 68% with a total of circa 3 cuts seen by year-end. Later on, ECB sources, via Reuters, said policymakers still expect to cut rates in June but some think the case for pausing at their following meeting is becoming stronger given a continued rebound in US inflation, energy and geopolitics. The sources added doves are looking for cuts in June and July amid benign labour market. On July, said while the July decision was not explicitly debated, some policymakers argued that a delayed start to the Fed's own cutting cycle warranted caution from the ECB.

**BOK REVIEW:** Bank of Korea kept its base rate unchanged at 3.50%, as expected, with the decision made unanimously, while it stated that it is premature to be confident that inflation will converge on the target level and it will maintain a restrictive policy stance for a sufficient period. BoK said it would monitor various factors including inflation slowdown, as well as financial stability and economic growth risks but noted the growth forecast is to be consistent with its earlier forecast or could be higher. BoK Governor Rhee said one in seven board members said the door for a rate cut should be open for the next three months and all 7 members said it is hard to predict policy decisions for H2. Furthermore, Rhee said the board is open to a rate cut if CPI slows in H2 although rate cuts might be difficult this year should inflation remain sticky and they have not signalled for a rate cut.

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