Central Bank Weekly 19th April: Previewing PBoC LPR, CBRT and BoJ

PREVIEWS:

PBOC LPR (MON): The PBoC kept its 1-Year Medium-term Lending Facility Rate unchanged at 2.50%, as widely expected and opted again not to fully roll over expiring funds as it conducted CNY 100bln in 1-year MLF loans vs. CNY 170bln maturing, while this serves as a fairly accurate indicator for China's benchmark Loan Prime Rates next week. As a reminder, the central bank unsurprisingly maintained the 1-year LPR at 3.45% last month which is the rate on which most new loans are based on, while it also kept the 5-year LPR at 3.95% which is the reference rate for mortgages. The central bank's actions since then 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 the latest data releases from China have been mixed which also supports the case for no immediate rate changes as Chinese GDP in Q1 topped forecasts with Y/Y growth of 5.3% (exp. 4.6%) but activity data disappointed with Industrial Production in March YY at 4.5% (exp. 6.0%) and Retail Sales YY at 3.1% (exp. 4.6%). Furthermore, recent CPI data was softer-than-expected and PPI remained in deflation, while China continues to struggle with the ongoing property sector woes and house prices continued to decline. This suggests future support measures cannot be ruled out and the PBoC had previously vowed to help consolidate and strengthen the economic recovery, as well as noted there is still room for cutting RRR and that they have sufficient room for monetary policy.

CBRT ANNOUNCEMENT (THU): There are currently no expectations for what the CBRT may opt to do at next week's meeting. This comes after the central bank hiked rates last month by 500bps – surpassing the top-end of analyst expectations, with the statement citing a deteriorating outlook and pledging to tighten even further if it expects the price situation to worsen significantly. Since then, the latest Turkish CPI metrics have been softer than expected, with the Y/Y for March printing at 68.50% (prev. 69.10%), while M/M printed at 3.16% (prev. 3.50%). Turkish Governor spoke at the IMF this week and suggested the central bank has shown how serious it is about ensuring disinflation, which remains its main priority, whilst adding that the country is on track to reach its year-end inflation target. "Our strategy going forward is that our utmost priority is disinflation and we will accumulate reserves as much as we can depending on market conditions," the central bank head said, "We have done a lot and are ready to do more to regain credibility and re-establish the policy rate as the primary tool".

BOJ ANNOUNCEMENT AND OUTLOOK REPORT (FRI): The central bank is likely to maintain its policy settings after its monumental policy shift at the last meeting in March. As such, the focus at the upcoming meeting will likely be on the central bank's statement for clues on future policy and its tolerance regarding the recent JPY weakness, while the central bank will also release its Outlook Report containing Board Members' latest median estimates for Real GDP and Core CPI. As a reminder, the BoJ exited its negative interest policy and YCC at the last meeting in which it switched to guiding 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 BoJ, while it also announced to end ETF and J-REIT buying and will gradually reduce the amount of purchases of commercial paper and corporate bonds. However, it said it would continue its JGB purchases at broadly the same amount as before and in the event of a rapid rise in long-term rates, it would make nimble responses with JGB purchases and could increase the amount of JGB purchases or conduct fixed-rate purchase operations of JGBs. It also announced it is 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 have a 1-year duration. Despite the exit from the ultra-loose policy framework, the central bank noted that it expects to maintain an accommodative monetary environment for the time being and Governor Ueda also said during the post-meeting press conference that they will consider options for easing broadly including ones used in the past if needed but kept future hikes on the table with the pace of further hikes to depend on the economy and price outlooks. The rhetoric from the central bank since then suggests a lack of urgency for any immediate adjustment as Governor Ueda stated it is important to maintain accommodative monetary conditions with trend inflation yet to hit 2% and that even after the March policy shift, interest rates are expected to stay low with real interest rates to remain in deeply negative territory, while he noted they will likely gradually shrink the balance sheet as they end their massive stimulus and at some point reduce JGB purchases but had no clear idea on the timing of reducing JGB buying and scaling back the size of the balance sheet. Furthermore, he said they are not immediately thinking of selling the BoJ's ETF holdings and will take plenty of time to examine how to reduce BoJ's ETF holdings, while there is also no plan to sell their JREIT holdings anytime soon. This suggests the central bank will likely remain patient and refrain from any further adjustments in the near term, although participants will be looking out for any clues of the central bank's future policy intentions and its tolerance regarding the recent currency depreciation after the yen slid to its weakest level in 34 years against the dollar. As such, Governor Ueda previously stated that they won't change monetary policy just to deal directly with FX moves but suggested they may need to respond with monetary policy if FX moves have an impact on the economy and prices in a way that is hard to ignore and if FX moves lead not just to rising import prices, but risk pushing up trend inflation more than expected. In terms of the Outlook Report, a recent source report stated the BoJ will discuss raising the forecast for fiscal 2024 on the back of a rise in crude prices and higher costs of imported materials due to a weaker yen, while the central bank is said to forecast an increase of about 2% in Core CPI for fiscal 2026 with projections to reflect changes in behaviour over businesses' wage hikes and price setting, although sources also noted that while the central bank is expected to project inflation to stay around its 2% target through early 2027, such forecasts alone won't serve as strong hints of a near-term rate hike.