Central Bank Weekly 26th April; Previewing FOMC and Norges Bank, reviewing reviewing the BoJ, PBoC, CBRT

PREVIEWS:

FOMC ANNOUNCEMENT (WED): The FOMC is expected to hold rates at 5.25-5.50% at its May meeting. Strong incoming data, which alludes to sticky inflation and a slowing GDP growth narrative, are likely to keep the central bank cautious. That said, the recent meeting minutes stated that almost all participants judged it would be appropriate to pivot to a less restrictive policy stance at some point this year. Accordingly, traders will be attentive to the degree to which Chair Powell looks through recent upside in inflation data. In wake of the March PCE report, traders were pricing around 36bps of rate cuts through the end of this year. Note: the FOMC's March economic projections continued to pencil in three rate reductions this year, taking the FFR target to between 4.50-4.75%, but many officials have been talking a hawkish game ahead of the pre-meeting blackout, and money markets are now only fully pricing in just one rate cut. With rates likely to be on hold, and Chair Powell likely to continue warning that the path to returning inflation to target will be bumpy, keeping the Fed cautious, traders will be attentive to any updates on the central bank's plan to taper the pace of its balance sheet runoff. The recent meeting minutes stated that the vast majority of participants judged that it would be prudent to begin slowing the pace of the runoff "fairly soon", with a few participants preferring to continue the current pace of runoff until indicators showed reserves were nearing "ample level". Participants generally favoured reducing monthly runoff pace by roughly half from recent overall pace, implying that the Treasury runoff cap could be lowered to USD 30bln/month vs the current USD 60bln. On MBS, participants saw little need to slow the runoff, preferring to adjust cap on Treasuries redemptions.

NORGES BANK ANNOUNCEMENT (FRI): Norges Bank is expected to maintain its Key Policy Rate at 4.50%, with markets also assigning a 96.7% chance of such an outcome alongside a 3.3% chance of a 25bps reduction. Communication from the last meeting saw Governor Bache, in her press conference, stating that the rate path indicates a cut is most likely in September and then a second by the end of Q1 2025. The rate path implies a policy rate being maintained in the first half of 2024, and further out, the rate path implies rate cuts of in total 20bps by September and another 5bps in December. The most recent CPI data saw core inflation cool more than expected (4.5% vs exp. 4.7%; prev. 4.9%). Meanwhile, wages look set to trend higher than previously forecast given wage negotiations between the leading private sector labour union Fellesforbundet and the Norwegian Industrial Confederation, which reached a wage agreement at 5.2% vs the 4.1% forecast by the Norwegian Technical Calculation Committee for Wage Settlements (TBU) – "this will yield positive real wage growth of 1.1ppt, lending a clear upside risk to Norges Bank's 4.9% estimate for annual wages this year", SEB highlights. Desks suggest that Norges Bank will likely stay cautious despite this slowing in inflation amid a weak NOK and wages follow-through. Analysts at SEB "expect very little market reactions from the immediate rate decision. However, signalling of whether a September cut still remains the main scenario could push rates lower."

REVIEWS:

BOJ POLICY ANNOUNCEMENT REVIEW:: The BoJ maintained its policy settings, as widely expected, with the short-term interest rate target left at 0.0%-0.1%, and although it dropped its reference from the statement that it currently buys about JPY 6tln worth of JGBs per month, it stated that it will conduct JGB, commercial paper and corporate bond buying in line with the decision in March. The lack of surprises by the BoJ spurred a dovish reaction given that markets were bracing for a potential signal from the central bank on reducing JGB purchases, owing to recent suggestions in a report from the local press agency Jiji. Furthermore, the BoJ refrained from any major ramp-up in rhetoric regarding currency weakness as it stated that they must be vigilant to FX and market moves and their impact on the economy and prices but also commented that no excessive behaviour is seen in Japan's asset market and financial institutions' practices. The BoJ also reiterated to expect accommodative monetary conditions to continue for the time being but kept the door open for future tweaks as it reiterated if trend inflation rises, the BoJ will likely adjust the degree of monetary easing. In terms of the latest Outlook Report, Board Members' Real GDP median forecast for Fiscal 2024 was cut to 0.8% from 1.2% but the Fiscal 2025 median forecast was maintained at 1.0%, while the Core CPI Fiscal 2024 median forecast was raised to 2.8% from 2.4% and Fiscal 2025 median forecast was raised to 1.9% from 1.8%. At the post-meeting presser, BoJ Governor Ueda emphasised data-dependency, and that easy financial conditions will be maintained for the time being, while a weak JPY so far is not having a big impact on trend inflation, although the JPY is somewhat weaker than expected in March – but said he will not comment on FX moves. The Governor noted that it was difficult to gauge the timing of future rate hikes. On JGBs, Ueda suggested a reduction in purchases was in sight. Analysts at Oxford

Economics believe that “Governor Ueda won't waste time in initiating the process of exiting QE. We expect that the BoJ will devise an exit strategy or a roadmap later this year after completing its policy review of previous monetary policy,” adding that “although it's premature to discuss specifics, we believe that the BoJ will take cautious steps in orchestrating the exit from QE given the significant magnitude of the BoJ's operations compared to other central banks.”

PBOC POLICY ANNOUNCEMENT REVIEW: China’s benchmark Loan Prime Rates were unsurprisingly maintained at the current levels with the 1-year LPR kept at 3.45% which is the rate most new loans are based on, while the 5-year LPR was at 3.95% which is the reference rate for mortgages. This was widely anticipated given that the PBoC left its 1-Year Medium-term Lending Facility Rate unchanged at 2.50% which serves as a fairly accurate indicator for China’s benchmark Loan Prime Rates. Furthermore, the central bank’s actions have continued to point to a lack of urgency for adjustments in the short-term funding rates as the PBoC has regularly kept its daily open market operations to a meagre size of CNY 2bln which suggests the central bank is comfortable in sustaining the current liquidity level, while recent mixed data releases from China also favour a patient approach. Nonetheless, future adjustments cannot be ruled out as the PBoC has vowed to help consolidate and strengthen the economic recovery, as well as noting there is still room for cutting RRR and that they have sufficient room for monetary policy.

CBRT POLICY ANNOUNCEMENT REVIEW: The CBRT opted to hold its Weekly Repo Rate at 50%, in-fitting with the majority of analysts’ expectations. The bank’s statement emphasised its vigilance towards inflation risks and reiterated its commitment to uphold a tight monetary stance until a tangible decline in inflation is observed. Notably, the CBRT’s projections suggest that inflation will peak in May, followed by a gradual decrease. Shortly after the decisions, the central bank also announced changes in Lira-required reserves interest rates; set the max rate to required reserves for FX-protected Lira deposits at 60% of the policy rate and non-FX-protected deposits at 80%. Desks suggest the CBRT’s consistent communication and actions post-May elections showcase a pivotal policy realignment, essential for restoring investor confidence after President Erdogan’s earlier unorthodox approach of maintaining low-interest rates amidst surging inflation.