Central Bank Weekly 10th May: Previewing PBoC MLF; Reviewing BoE, RBA, Riksbank, BCB, Banxico, BoJ SOO and ECB Minutes

PREVIEWS:

PBOC MLF (WED): The PBoC is likely to keep 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 to drain funds again as it conducted CNY 100bln in 1-year MLF loans vs. CNY 170bln that matured while it also maintained the benchmark Loan Prime Rates with the 1-year and 5-year LPRs kept at 3.45% and 3.95%, respectively. The central bank's actions since then have continued to point to a lack of urgency for adjustments in short-term funding rates as daily open market operations have mostly been kept to modest amounts of CNY 2bln aside from a substantial injection heading into the recent Labour Day Golden Week holiday which the central bank has since allowed to drain out of the system. Recent data releases also suggest there is no urgency to adjust policy as Trade Data showed improvements across the board and the latest Chinese PMI data printed mixed in which the official NBS Manufacturing and Caixin Manufacturing PMIs topped forecasts but Non-Manufacturing PMI disappointed although remained in expansion territory. Nonetheless, future policy loosening cannot be ruled out as PBoC Deputy Governor Zhu Hexin previously noted there is still room for monetary policy going forward and that they will closely watch the policy effectiveness, economic recovery, and achievement of goals, as well as make good use of reserve tools at the appropriate time.

REVIEWS:

BOE REVIEW: As expected, the BoE opted to keep rates unchanged at 5.25%. The main surprise for the release came via Ramsden joining Dhingra in voting for a rate cut, making the vote split 7-2. Within the policy statement, the MPC repeated guidance that "policy needs to be restrictive for an extended period of time until the risk of inflation becoming embedded above the 2% target dissipates". Furthermore, it was reiterated that the committee "will keep under review for how long Bank Rate should be maintained at its current level" and the policy stance "could remain restrictive even if the Bank Rate were cut". In terms of progress on inflation, the statement noted that progress seen in key economic data is encouraging, but the BoE is not yet at the point of cutting interest rates, adding it wished to see more evidence that inflation will stay low first. For the accompanying MPR projections, CPI is expected to return to target in Q2 (in-fitting with the February MPR), with the 2024-2026 inflation profile lowered and 2024-2026 growth outlook raised. At the follow-up press conference, Governor Bailey noted that the MPC is not yet at the point for rate cuts, however, the Bank will be armed with more data by the time of the June meeting. Bailey went on to state that the MPC will need to lower rates in the coming quarters and rates may need to be cut by more than currently priced in by the market. Furthermore, even if the MPC was to lower rates by 25bps, they would still be in restrictive territory. Overall, the main dovish surprise came via Ramsden joining Dhingra in voting for a cut. This carries extra significance given that he is one of the internal members of the MPC who tend to vote together. Bailey noted that rate cuts are coming but data between now and June which will determine whether the Bank Rate is lowered next month. Market pricing for June remains at a near-enough coinflip with a total of 56bps of easing seen by year-end vs. around 53bps pre-announcement.

RBA REVIEW: RBA unsurprisingly kept rates unchanged at 4.35% and reiterated the Board remains resolute in its determination to return inflation to the target and is not ruling anything in or out, while it stated that returning inflation to the target within a reasonable timeframe remains the board's highest priority, as well as acknowledged that inflation remains high and is falling more gradually than expected. Furthermore, it noted that the path of interest rates that will best ensure that inflation returns to target in a reasonable timeframe remains uncertain and the persistence of services inflation is a key uncertainty. In terms of the central bank's forecasts, it raised its inflation forecasts for 2024 but trimmed estimates for GDP and unemployment, while the RBA's projections were based on the assumption that rates will stay at 4.35% until mid-2025 which is nine months longer than previously assumed. The reaction to the announcement was dovish given that many were anticipating a much more hawkish hold given the recent firmer-than-expected inflation data and considering that forecasts were based on the assumption of no rate changes through to the middle of next year. Nonetheless, Governor Bullock later said during the post-meeting press conference not to read too much into the technical assumptions regarding rate forecasts, as well as noted they must be vigilant on inflation risks and that the Board discussed the option of hiking, although she believes rates are at the correct level to get inflation back to target and does not think they necessarily have to tighten again.

RIKSBANK REVIEW: The Riksbank cut rates by 25bp, in-line with the base case heading into the announcement with market pricing ascribing around an 80% chance to such an outcome beforehand. Easing was justified by domestic developments as the inflation outlook is expected to remain close to target alongside generally weak economic activity. Ahead, the Riksbank looks for two more cuts in 2024, i.e. three 2024 total reductions vs the March MPR's guidance which didn't quite have the third cut priced from the implied quarterly average provided. Interestingly, but not particularly surprising, the language used pointed to the two cuts occurring in H2 and as such implies that the June MPR meeting will not see a policy adjustment. A nuance which may well have been behind the brief paring in EUR/SEK upside after the announcement. The subsequent press conference didn't add much. From the minutes we look to see if any member is in favour of easing in June as well and then what, if any, preference was expressed around the H2 meetings.

BCB REVIEW: The BCB cut rates by 25bps, in line with the majority of forecasters but disappointing those expecting the BCB to follow suit to its guidance and cut rates by 50bps. However, it was still a close call within the BCB which saw a 5-4 vote split, with the four dissenters being the recent appointees by President Lula, who has been pushing for lower interest rates. Reuters also highlighted that Gabriel Galipolo was one to vote for a 50bp cut, and he is seen as a frontrunner to run the BCB once Neto's term expires in December. Elsewhere within the report, it ditched guidance that the BCB expects a similar magnitude move at the next meeting, and instead noted "that the extent and adequacy of future changes in the interest rate will be determined by the firm commitment to reaching the inflation target in the relevant horizon". The Copom's also lifted its inflation projections, seeing 3.8% for 2024 (prev. 3.5%), and 3.3% for 2025 (prev. 3.2%). Inflation projections for administered prices are now seen 4.8% for 2024 (prev. 4.4%), and 4.0% for 2025 (prev. 3.9%). Looking ahead, analysts at Pantheon Macroeconomics write this update suggests that policy makers will continue to cut rates by 25bps at coming meetings before ending the year at 9%, but the desk cannot rule out the possibility the BCB may opt to pause it's easing cycle if the fiscal situation deteriorates further and or/if the Fed delays its rate cuts beyond September.

BANXICO REVIEW: The Banxico left rates on hold at 11.00% as was widely expected by all those surveyed by Reuters. It was a unanimous decision which also saw inflation forecasts raised throughout the majority of the forecast horizon, raising headline and core inflation forecasts from Q224 through to Q325, before hitting the 3% inflation target in Q4 25 vs Q2 25 previously when it pencilled in inflation at 3.1%. Within the statement, it noted the disinflation process is expected to continue, but the inflation forecasts suggest that Banxico expects the disinflation process to be slower than initially thought. It noted that Services inflation is foreseen to show more persistence, as compared to what had been previously anticipated. Looking ahead, the Banxico will assess the inflationary environment in order to discuss the reference rate adjustments, and it will also consider the incidence of the restrictive policy stance that has been maintained. Analysts at Capital Economics highlight that rate cuts are to be more gradual than most anticipate. CapEco "project 100bp of rate cuts, to 10.00%, over the rest of this year and an additional 200bp, to 8.00%, in 2025. The analyst consensus is for rates to end this year at 9.25-9.50% and next year at 7.50%."

BOJ SOO REVIEW: BoJ Summary of Opinions from the April 25th-26th meeting revealed some hawkish-leaning opinions from individual Board members as a member stated if trend inflation accelerates, the BoJ will adjust the degree of monetary easing but an accommodative financial environment is likely to continue for the time being and a member said if forecasts under the quarterly report are met, interest rates might rise to levels higher than markets currently price in. It was also suggested that one option would be to hike rates moderately in accordance with economic, price and financial developments to avoid a shock from an abrupt policy shift. Furthermore, a member said they must hike rates at an appropriate time as the likelihood of achieving their forecasts heightens and it was suggested that the BoJ must deepen the debate on the timing and pace of a future rate hike, while there was the opinion that it would be appropriate for the BoJ to indicate, at some point, a path towards reducing its bond-buying and that the BoJ must proceed with shrinking its balance sheet including by reducing bond buying when the right time comes. In addition, it was suggested that the BoJ must eventually eliminate its ETF holdings even if it takes a long time and that it is appropriate for the BoJ to indicate, at some point, the path towards reducing its bond buying.

ECB MINUTES REVIEW: The account of the ECB's April meeting provided little in the way of new information. In terms of the economic assessment, members widely agreed that the data was broadly in line with the medium-term inflation trajectory embedded in the March staff projections, which foresaw headline inflation returning to target by mid-2025. Elsewhere, economic growth was assessed as having been slightly weaker than expected in the first quarter of 2024, but the narrative of an improving growth outlook remained intact. From a policy perspective, it was judged that the most recent data confirmed that the transmission of monetary tightening continued to be strong. A few members felt sufficiently confident that the three elements of the Governing Council's reaction function gave grounds for a reduction in the policy rates already at the present meeting. However, a broad consensus emerged whereby members agreed it was prudent to wait until the next monetary policy meeting to see further evidence of, and gain sufficient confidence in, a timely and sustained return of inflation to target. Additionally, it was seen as plausible that the Governing Council would be in a position to start easing monetary policy restriction at the June meeting. Given that the account provided little in the way of fresh insight and expectations of a June cut are so firmly anchored, Eurozone assets were unreactive to the release. With June a done deal at this stage, focus in the coming months will be how the outlook evolves for the July meeting and whether the ECB will opt for back-to-back cuts or a more gradual approach.