Central Bank Weekly 17th May: FOMC and RBA minutes; PBoC,RBNZ, CBRT; ECB retreat

PREVIEWS:

PBOC LPR (MON): At its last meeting, the PBoC unsurprisingly maintained its 1-year Medium-term Lending Facility rate at 2.50% and opted to roll over the full amount whereby it matched the CNY 125bln of loans maturing in its 1-year MLF operation. The decision to refrain from any tweaks in the short-term funding rate was widely anticipated as the central bank's actions have continued to point to a lack of urgency for adjustments, with daily open market operations mostly kept to modest amounts of CNY 2bln, while the move also serves as a fairly reliable indicator for the central bank's intentions regarding its benchmark Loan Prime Rates, with the 1-year and 5-year LPRs likely to be maintained at 3.45% and 3.95%, respectively. Recent data releases also suggest there is less urgency to adjust policy, as trade data showed improvements across the board and the latest Chinese PMI data was mixed, while 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; 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.

ECB GOVERNING COUNCIL RETREAT (TUE-WED): Next week could see a flurry of headlines around the ECB as policymakers embark on a two-day strategy review in Ireland. Reuters has reported that one of the main areas of discussion will be "green monetary policy". However, few announcements are expected, with the gathering seen more as a "brainstorming exercise". While it has previously been suggested that climate developments could prove to be inflationary (Germany's Schnabel previously invoked the term "climateflation") there are no suggestions at this stage that the ECB is considering adjusting its inflation mandate to accommodate for them. With the meeting taking place two weeks before the June policy decision (markets assign around 85% probability of a 25bps rate reduction), speculation will mount over whether policy options will be discussed. Sourced reporting by Reuters notes that "governors will likely lay some of the groundwork for their June move" next week. However, given market pricing, this isn't particularly surprising. Of greater interest to the market will be any potential indications over what may come thereafter. That said, there have been no suggestions thus far whether this will be discussed next week given that policymakers will see the meeting in Frankfurt as a more appropriate forum for such talks.

RBA MINUTES (TUE): The upcoming RBA minutes will be eyed for more colour on the balance of risks around the central bank's outlook, according to analysts at Westpac. To recap, the confab on May 7th saw the RBA maintain its Cash Rate at 4.35%, as expected, while the statement reiterated that the Board remains resolute in its determination to return inflation to target, and is not ruling anything in or out, adding that returning inflation to the target within a reasonable timeframe remains its highest priority. The statement also acknowledged that inflation remains high and is falling more gradually than expected. In terms of the central bank's forecasts, it raised its inflation forecasts for 2024 but trimmed forecasts for GDP and unemployment; its forecasts assumed that rates would stay at 4.35% until mid-2025, which is nine months longer than previously assumed. At the post-meeting press conference, Governor Bullock said it must be vigilant on inflation risks, though believes that rates are at the correct level to get inflation back to target. Bullock said the Board discussed the option of hiking, and will tighten if required, but does not think they necessarily will have to do so. She also caveated that markets should not read too much into the technical assumptions regarding rate forecasts.

FOMC MINUTES (WED): At its May meeting, the FOMC left rates unchanged at 5.25-5.50%, as expected, and announced a higher-than-expected tapering of its QT programme, where the monthly cap on Treasury runoffs will be reduced from USD 60bln to USD 25bln (exp. 30bln), while the monthly redemption cap on agency debt and agency MBS was maintained at USD 35bln. While it continues to note that inflation has eased over the past year, it now acknowledges that in recent months, "there has been a lack of further progress" towards its inflation objective. Still, Chair Powell ruled out the prospect of near term rate hikes, instead suggesting that the Committee could keep rates at current levels for as long as needed to bring inflation back down. Elsewhere, the statement said that "risks to achieving its employment and inflation goals have moved toward better balance," a slight tweak from the previous "moving into better balance," which analysts said could reflect some growing concerns of an employment downturn. The statement also kept its guidance that the Fed does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%. Powell suggested that Fed remains satisfied with its current policy rate, and future rate moves remained skewed towards rate cuts, even though cuts have been delayed and the bar has been raised. Powell said when the Fed gets confidence on inflation, rate cuts will be in its scope, but he does not have great confidence either way on whether there will be rate cuts this year. The Fed Chair reiterated that a rate hike was unlikely, alleviating some hawkish risks that traders harboured heading into the meeting. Powell did not put too much weight on the hot Employment Cost Index data in Q1, and even drew attention to some dovish data points, like the soft JOLTS job openings figures, which he said showed that policy was restrictive. Since the meeting, PPI and CPI data have signalled that core PCE, the Fed's preferred gauge of inflation, will ease in April. That said, officials still want to see several months of constructive inflation readings before any change in policy stance can be endorsed.

RBNZ ANNOUNCEMENT (WED): The RBNZ is likely to keep the OCR unchanged at 5.50%, with money markets pricing a 97% chance for no change and a 3% probability for a 25bps rate cut. At its last meeting, the central bank stuck to a hawkish tone, stating that a restrictive monetary policy stance remains necessary to further reduce capacity pressures and inflation, while the committee is confident that maintaining the OCR at a restrictive level for a sustained period will return CPI to the 1-3% target range this calendar year. The minutes from the meeting noted that restrictive monetary policy is contributing to an easing in capacity pressures, to ensure inflation returns to the target and a further decline in capacity pressure is expected. Members further agreed that there remains limited tolerance to an increase in the time to achieve the inflation target. The language from the central bank suggests a lack of urgency to adjust the current level of restrictive policy, although it could be compelled to act in the future if progress towards the inflation target stalls. Data releases support the case for no policy changes: Q1 inflation slowed Q/Q and matched estimates, while its Sectoral Factor Model Inflation Index softened to 4.3% (Prev. 4.5%), and 2yr Inflation Expectations declined. Employment data also showed that the economy is cooling, and there was a surprise 0.2% Q/Q contraction of jobs during, Q1 alongside a higher than expected Unemployment Rate.

CBRT ANNOUNCEMENT (THU): Turkey's central bank is expected to once again keep its Weekly Repo Rate at 50.00%. Data-wise, inflation for April printed sub-forecast, but ticked up from the prior to 69.80% Y/Y (vs exp. 70.33%; prev. 68.50%). In mid-May, the Governor warned that inflation is to jump back up to 75% that month (vs 69.80% in April), but sees H2 to be supportive for disinflation. The Governor also believes the CBRT will reach the inflation target. To recap the April meeting, 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. Shortly after the decision, the central bank announced changes to the Lira-required reserves interest rate; it 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 at the time suggested the CBRT's consistent communication and actions post-May elections show a pivotal policy realignment, essential for restoring investor confidence after President Erdogan's earlier unorthodox approach of maintaining low interest rates amidst surging inflation.