Central Bank Weekly 24th May: Reviewing FOMC minutes, PBoC, RBA minutes, RBNZ, CBRT

REVIEWS:

PBOC LPR REVIEW: China’s benchmark Loan Prime Rates were unsurprisingly maintained at the current levels, with the 1-year LPR (the rate most new loans are based on) kept at 3.45%, while the 5-year LPR (the reference rate for mortgages) at 3.95%. This was widely anticipated given that the PBoC left its 1-Year Medium-term Lending Facility Rate unchanged at 2.50%, which serves as an accurate indicator for China’s benchmark Loan Prime Rates. Further, 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 that it is comfortable in sustaining the current liquidity level, while 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 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.

RBA MINUTES REVIEW: RBA Minutes from the May 6-7th meeting stated that it considers whether to raise rates but judged the case for steady policy was the stronger one and the Board agreed it was difficult to either rule in or rule out future changes in the Cash Rate. RBA minutes stated that the flow of data had increased risks of inflation staying above target for longer and the Board expressed limited tolerance for inflation returning to target later than 2026, while it also noted that a rate rise could be appropriate if forecasts proved overly optimistic, and risks around forecasts were judged to be balanced. The language from the minutes provided little to spur price action and continued to suggest a lack of urgency to tweak policy, as the central bank stated that financial conditions in Australia were judged to be restrictive, inflation expectations remained well anchored and it is reasonable to look through the short-term variation in inflation to avoid "excessive fine-tuning".

FOMC MINUTES REVIEW: The FOMC minutes revealed that members think recent data means it would take longer than previously thought to gain further confidence in inflation moving sustainably to 2%, and suggested the disinflation process could take longer than previously anticipated. Participants mentioned recent data had not increased confidence in progress towards the 2% inflation goal, and many commented on their uncertainty about the degree of policy restrictiveness. In addition, various participants mentioned their willingness to tighten policy further should risks to the outlook materialise and make such action appropriate. That said, the minutes are considered to be stale relative to recent Fedspeak, as well as the most recent CPI and PPI reports, which signal that there could be a downside in the Fed's preferred gauge of inflation (PCE, released next week). Pantheon Macroeconomics notes "ultimately, the Fed will be guided by the evolution of the data, which we think will be screaming that it has waited too long to ease by the September meeting." It adds that "by then, the adverse consequences of its past tightening on employment will be abundantly clear, and a combination of weak demand and margin compression likely will have driven down CPI inflation further." Accordingly, Pantheon looks for the FOMC to cut rates by 25bps in September and then 50bps of further cuts at the November and December meetings. That view is an above-consensus call; it is worth noting, money markets currently are discounting around 35bps of easing this year (one rate cut is fully priced, with a 50/50 probability of another).

RBNZ REVIEW: The RBNZ unsurprisingly kept its OCR unchanged at 5.50% in what was seen as a hawkish hold as the central bank raised its OCR forecasts across its projection horizon, with the rate track suggesting a push-back in the timing of the first cut to late 2025. The central bank also maintained its hawkish language that monetary policy needs to be restricted and reiterated the view that annual consumer price inflation is expected to return to within the committee's 1-3% target range by the end of 2024. Further, the minutes revealed that members agreed they remain confident that monetary policy is restricting demand and a further decline in capacity pressure is expected, while the committee agreed that interest rates may have to remain at a restrictive level for longer than anticipated in the February Monetary Policy Statement to ensure the inflation target is met and they had discussed the possibility of increasing the OCR at this meeting. The language from RBNZ Governor Orr during the press conference was also hawkish as he stated that it will take time for domestic inflation to decline and they have limited upside room for inflation surprise, as well as noted that they had a real consideration on raising rates at this meeting. However, his comments the next day were more dovish-leaning, noting that another rate hike would only be meaningful if believed inflation was getting away from them and patience on inflation is not exhausted; he also said that the central bank can start to ease before inflation hits 2%.

CBRT REVIEW: The CBRT maintained its Weekly Repo Rate at 50% for the second consecutive month, in line with all analysts' expectations. In its statement, the Bank emphasised its vigilance in monitoring the effects of monetary tightening on credit conditions and domestic demand, underscoring the need for a persistent tight monetary stance until a significant and sustained decline in monthly inflation is achieved, with inflation expectations aligning with forecasts. The central bank also indicated its readiness to tighten monetary policy further if inflation risks increase, aiming to establish disinflation in the second half of the year. Capital Economics said that while many analysts see rate cuts by the end of the year, it predicts the easing cycle will commence in early 2025. Its economists highlight that inflation, which is expected to peak at around 75% year-on-year in May, should drop to 38% by year-end. CapEco believes that the central bank will likely maintain its current stance due to robust economic activity and persistent inflation risks.