# Central Bank Weekly 14th June: Previewing PBoC MLF /LPR, RBA, BoE, SNB, Norges; Reviewing FOMC, BoJ

## PREVIEWS:

**PBOC MLF/LPR (MON/THU)**: The PBoC will conduct its Medium-term Lending Facility operation early next week where the central bank is likely to keep the 1-year MLF rate unchanged at 2.50%, while it is also anticipated to maintain the benchmark 1-year and 5-year Loan Prime Rates several days later at their current levels of 3.45% and 3.95%, respectively. As a reminder, the central bank maintained its 1-year MLF rate during last month's operation where it opted to fully rollover the CNY 125bln of funds maturing and it also refrained from any adjustments to the benchmark Loan Prime Rates with the 1-year and 5-year LPRs unsurprisingly 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 it has mostly kept its daily open market operations to modest amounts of CNY 2bln aside from the increased liquidity injections a few days heading into month-end, while the recent slew of mixed data releases also supports the case for no adjustments including trade figures as exports in May topped forecasts with growth of 7.6% vs. Exp. 6.0% (Prev. 1.5%) and imports disappointed at 1.8% vs. Exp. 4.2% (Prev. 8.4%). Chinese Official Manufacturing PMI missed estimates and unexpectedly slipped into contraction territory at 49.5 vs. Exp. 50.4 (Prev. 50.4) but Caixin Manufacturing PMI surpassed forecasts and improved to 51.7 vs. Exp. 51.5 (Prev. 51.4). Furthermore, recent inflation data was also varied as after it showed softer-than-expected consumer price growth and a narrower-than-anticipated deflation in factory gate prices. Nonetheless, future policy action cannot be ruled out given the economic concerns in China amid trade-related frictions, as well as the ongoing deterioration in the property sector and developer debt crisis that has resulted in defaults for some of the largest developers including Evergrande which was ordered to liquidate earlier this year and with several others facing winding up petitions. However, an immediate reduction in rates seems unlikely given the efforts by Chinese authorities to support the property sector including the easing of restrictions by several major cities in China, while the central bank had pledged to improve the macro-prudential management of real estate finance, as well as held a meeting on pushing re-lending work for affordable housing and will support state firms to buy existing homes.

**RBA ANNOUNCEMENT (TUE)**: The RBA is expected to keep the Cash Rate unchanged at its meeting next week with money markets pricing around a 97% chance for rates to be kept at the current level and just a 3% probability of a 25bps cut. As a reminder, the RBA unsurprisingly kept rates unchanged at 4.35% at the May meeting and reiterated that 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. In terms of the central bank's projections, it raised its inflation forecasts for 2024 but trimmed its expectations for GDP and unemployment, while the RBA's forecasts assumed that rates will stay at 4.35% until mid-2025 which is nine months longer than previously assumed, although RBA Governor Bullock noted at the post-meeting press conference to not read too much into the technical assumptions regarding rate forecasts. The minutes from that meeting revealed the board considered whether to raise rates but judged the case for steady policy was the stronger one and agreed it was difficult to either rule in or rule out future changes in the Cash Rate. Furthermore, the board expressed limited tolerance for inflation returning to the target later than 2026 and it acknowledged that a rate rise could be appropriate if forecasts proved overly optimistic but noted that risks around the forecasts were judged to be balanced. The rhetoric since that meeting doesn't suggest much has changed as RBA Governor Bullock has noted the economy is weak which is showing up in consumption and reiterated they are not ruling anything in or out on policy. She also commented that inflation is coming down but only slowly and the board won't hesitate to act on rates if inflation does not come down as expected although she still judges inflation risks as balanced and stated that Q2 inflation data will be important for monetary policy but not the single most important thing. Recent mixed data releases also support the case to remain on hold as GDP for Q1 disappointed with Q /Q expansion at 0.1% vs. Exp. 0.2% (Prev. 0.2%, Rev. 0.3%) and Y/Y growth at 1.1% vs. Exp. 1.2% (Prev. 1.5%, Rev. 1.6%), while Private Capital Expenditure for Q1 topped forecasts at 1.0% vs. Exp. 0.5% (Prev. 0.8%). Furthermore, monthly Weighted CPI for April was firmer-than-expected at 3.60% vs. Exp. 3.40% (Prev. 3.50%) and suggested less scope to loosen policy, while the latest jobs data showed an improvement as Employment Change in May beat estimates with an increase of 39.7k vs. Exp. 30.0k (Prev. 38.5k) which was entirely due to Full-Time jobs and the Unemployment Rate declined to 4.0% from 4.1% despite a slight increase in the participation rate.

**BOE ANNOUNCEMENT (THU)**: Expectations are for the BoE to hold the Base Rate at its current level of 5.25%, according to all 65 analysts surveyed by Reuters with markets assigning a circa. 10% chance of such an outcome. As a reminder, the prior meeting saw Ramsden join Dhingra in calling for a 25bps cut, whilst the accompanying policy statement reiterated guidance that monetary policy needs to remain restrictive for sufficiently long. Since the prior

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meeting, headline inflation in April slipped to 2.3% from 3.2% (driven lower by declining gas and electricity prices), core declined to 3.9% from 4.2% and services ticked lower to 5.9% from 6.0% with the latter being a disappointment relative to the MPC's forecast of 5.5%. In the labour market, the unemployment rate nudged higher to 4.4% in the 3M period to April, whilst headline earnings growth remained sticky at 5.9% in the 3M/YY period to April. PMI metrics for May saw the services print slip to 52.9 from 55.0, and manufacturing rise to 51.2 from 49.1, leaving the composite at 53.0 vs. prev. 54. Rhetoric since the prior meeting has been lacking due to the purdah (pre-election) period inflicted by the UK general election. However, in the aftermath of last month's decision, Chief Economist Pill remarked that it is not unreasonable to believe that over the summer, the BoE will see enough confidence to consider rate cuts, adding that they could cut and keep the stance restrictive. Overall, given the worse-than-expected outturn for services inflation in April, the MPC is expected to hold fire on policy. As such, the focus will be on any tweaks to existing guidance on rates, however, at the time of writing there is not much to signal that the MPC will have enough confidence to do so – this could change however following the May CPI data due the day before the release. In terms of market pricing beyond next week, a September reduction is priced at around 85% with the first cut not fully priced until November and a total of 41bps of easing seen by year-end.

**SNB ANNOUNCEMENT (THU)**: In short, the main point of focus will be on whether they cut further from the current 1.50% rate or elect to wait to see how inflation develops into Q3 where it is expected to tick up slightly; elsewhere, any fresh language around the CHF will be keenly sought. Pricing is just in favour of the SNB cutting at the June meeting, with around a 60% chance of this implied. The odds of a cut increased slightly following the in-line May CPI Y/Y print of 1.4%, a metric which matched market expectations for the month and the SNB's Q2 view of 1.4%. Continuing with inflation, the focus on FX intervention and CHF language has been heightened by recent remarks from Chairman Jordan where he said that if any upward inflation risk materialised then "this would be most likely associated with a weaker Swiss franc, which we could counteract by selling foreign exchange"; while CPI was in-line, we remain alive to the possibility of any fresh currency nuance from the statement/Chairman. Elsewhere, on the hawkish side, Q1 labour compensation hit 1.9% and as such places an upward skew on inflation outturns ahead. On the Franc, despite having gone as high as 0.9930 in recent weeks, EUR/CHF is in proximity to the levels around March's meeting with the CHF perhaps slightly stronger as EUR/CHF has been down to a 0.9577 recent low in the last few sessions. Levels which would chime with the March meeting's language that they are ready to intervene in FX but do not, at face value, necessarily require any further explanation/fresh evaluation by the SNB.

**NORGES ANNOUNCEMENT (THU)**: Norges Bank is likely to keep rates unchanged and point to the first cut occurring at the end of 2024. In May the Norges Bank kept its Key Policy Rate at 4.50% as expected, noting that data up to that point could suggest a tight monetary stance may be needed for somewhat longer than previously envisaged. At the time, Governor Bache said they had not decided when to cut, which came in slight contrast to prior guidance for a cut to most likely occur in September. May's CPI-ATE printed at 4.1%, slightly hotter than markets expected but cooler than the Norges Bank's view of 4.2% Y/Y, while the headline Y/Y came in at 3.0% markedly cooler than market/Norges Bank's view of 3.3%. Since, the Regional Network for Q2 noted of an improved outlook and featured upward revisions to the 2024 and 2025 wage estimates, factors which err on the hawkish side and mean the Bank is likely to keep rates unchanged and point to the first cut occurring at the end of 2024. As a reminder, the last formal rate path unveiled in March ascribed around an 85% chance of a cut occurring by end-2024, a magnitude the likes of SEB believe will be trimmed to around 70%.

## REVIEWS:

**FOMC REVIEW**: The Fed left rates on hold, as was widely expected, but the updated dot plots now signal only one rate cut in 2024 vs. three in the March projections, while money markets and analysts were looking for two rate cuts in 2024. Four policymakers even see no rate cuts this year, seven pencil in just one cut, while eight expect there to be two rate cuts this year. Looking ahead, the 2025 median dot plot is at 4.1%, (prev. 3.9% in March), while the 2026 dot was unchanged at 3.1%, but the longer run rate ticked up again to 2.8% (prev. 2.6%). Elsewhere, headline and Core PCE projections were raised for 2024 and 2025, with 2026 unchanged. Unemployment was left unchanged at 4.0% for 2024 but was raised by 0.1% in both 2025 and 2026, to 4.2% and 4.1%, respectively. Real GDP growth forecasts were left unchanged throughout the horizon. The statement also saw very few changes, the only alteration was that it acknowledged "modest further progress" towards the 2% inflation objective has been seen, vs. the May statement noting a "lack of progress". In the accompanying Chair Powell press conference, he unveiled little new and largely repeated what had been said before. The Chair stressed the Fed needs to see more evidence that inflation is returning to target in a sustainable way and that if the economy remains solid, and inflation persists, the Fed is prepared to maintain rates at current levels for as long as appropriate. He also noted, in fitting with the dot plots, that no one has rate hikes as their base case, and he repeated that if there was an unexpected weakening in the labour market, the Fed would be prepared to act, and he suggested that if unemployment comes in above what the Fed expects, that would be considered an unexpected weakening - note, the 2024 median unemployment projection is at 4.0%. Powell welcomed the May inflation report and said he would like to see more of that, repeating inflation is still too high, and they need more data to gain confidence, stressing they do not want to be too motivated by just one print.

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**BOJ REVIEW**: BoJ kept its short-term policy rate unchanged at 0.0%-0.1%, as widely expected, through a unanimous vote although it caught markets off-guard in which it defied expectations for the central bank to announce an immediate tapering to its bond purchases but instead decided to keep bond purchases in line with its decision in March. Nonetheless, the BoJ effectively kicked the can down the road as it announced it is to trim purchases but will decide on a specific bond-buying reduction plan for the next 1-2 years at the next meeting, while the decision on JGB purchases was made by 8-1 vote in which BoJ board member Nakamura dissented citing the bank should decide to reduce purchases after reassessing developments in economic activity and prices in the July 2024 outlook report. Furthermore, the BoJ said it will hold a meeting with bond market participants on today's policy decision and it expects that underlying inflation is to gradually accelerate, as well as noted it is necessary to pay due attention to developments in financial and forex markets. The presser saw a hawkish tilt after the BoJ Governor suggested a July hike is still possible depending on data, whilst the size of the cut in bond-buying will be substantial. USD/JPY at the time rose to a 158.25 high (vs 156.98 low) before waning off best levels following the hawkish-leaning commentary from Ueda.

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