Central Bank Weekly 21st June: Previewing BoJ SOO, Riksbank, and CBRT; Reviewing PBoC, RBA, BCB, BoE, SNB, Norges

PREVIEWS:

BOJ SOO (MON): The BoJ will release the Summary of Opinions from the June meeting next week which could provide further insight into board members' thinking during the latest policy meeting where it 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 as it defied expectations for the central bank to announce an immediate tapering of its bond purchases and instead decided to keep purchases in line with its decision in March. Nonetheless, the BoJ effectively kicked the can down the road as it declared 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 in July, 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 July 9-10th) on its policy decision and it expects that underlying inflation is to gradually accelerate, while Governor Ueda said during the post-meeting press conference that the reduction of JGB purchases will be a considerable volume and they will start a reduction of JGB purchases immediately after deciding at the July meeting, as well as noted that a July hike is naturally possible, depending on the data.

RIKSBANK ANNOUNCEMENT (THU): In May, the Riksbank cut its rate by 25bp to 3.75% and guided participants towards two more cuts occurring during H2-2024 if the inflation outlook materialises. Guidance implied that there would not be a cut in June, a point that as recently as end-May has been explicitly reiterated by Governor Thedeen. More recently, on 4th June, Breman reiterated the above guidance. On the data front, May's CPIF-XE Y/Y printed slightly above the Riksbank's forecast; note, that the month's broad inflation metrics were subject to significant two-way factors including mortgage costs and electricity prices. For the June meeting, the primary point of focus will be on when the repo path indicates the two H2-2024 cuts are likely to occur, respondents to SEB's investor survey believe the path will show the policy rate at 3.25% in Dec'24 and 2.75% in Dec'25, broadly in-fitting with the current path.

CBRT ANNOUNCEMENT (THU): The CBRT is expected to maintain its Weekly Repo Rate at 50%, according to all 11 economists polled by Reuters, as the central bank is expected to remain in a wait-and-see mode for now. The May CPI data was unfavourable for the CBRT as Y/Y accelerated and topped forecasts at 75.45% (exp. 74.80%, prev. 69.80%), and PPI rose to 57.68% Y/Y from 55.66%. At the May meeting, 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. The desk at CapEco noted that while many analysts foresee rate cuts by the end of the year, CapEco predicts the easing cycle will commence in early 2025. The desk highlighted 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. The latest CBRT Survey for June showed that the Repo Rate is seen at 35.90% in 12 months (prev. 37.11%); end-2024 USD/TRY seen at 37.7463 (prev. 38.7771); end-2024 GDP growth seen at 3.3% (prev. 3.3%).

REVIEWS:

PBOC MLF/LPR REVIEW: The PBoC maintained its 1-year MLF rate at 2.50% and kept its 1-year and 5-year LPRs at 3.45% and 3.95% respectively, as expected. This decision reflects the central bank's cautious approach to balancing economic support with the challenges of a weakening currency and narrowing interest rate margins, according to some desks. Recent data points to significant struggles within the Chinese economy. New home prices fell at the fastest pace in over nine and a half years in May, signalling deep-seated issues in the property market. Additionally, new bank lending rebounded less than expected, with some key monetary measures hitting record lows, further indicating sluggish economic activity. The majority of loans in China are pegged to the one-year LPR, while the five-year rate influences mortgage pricing. The PBoC's reluctance to lower rates further, despite having room to do so, highlights internal and external constraints on monetary policy flexibility. Note, the PBoC chief earlier in the week delivered a speech in which he warned markets to expect weaker credit growth. Analysts at CreditSights said they expected the RRR, which influences bank lending, to be cut by a further 20bps, albeit the desk added this could be delayed until later this year.

RBA REVIEW: The RBA unsurprisingly kept the Cash Rate unchanged at 4.35% at its latest meeting as unanimously expected and it also refrained from any major surprises in its statement whereby it reiterated that the Board remains resolute in its determination to return inflation to the target. The RBA kept to a hawkish tone on inflation as it reiterated that inflation remains above target and is proving persistent, as well as noting that inflation is easing but has been doing so more slowly than previously expected and remains high. Furthermore, it stated that the path of interest rates that will best ensure that inflation returns to target in a reasonable timeframe remains uncertain and the Board is not ruling anything in or out. The announcement and statement lacked any major surprises and had little impact on markets, while comments from RBA Governor Bullock at the press conference were somewhat balanced as she stated they need a lot to go their way to bring inflation back to the target range and that the board discussed whether to hike rates at the meeting but added she would not say the case for a rate hike is increasing and suggested the board's reinforcement of the need to remain vigilant to upside risks to inflation, does not mean a rate rise is coming. Bullock added that the Board's use of the term 'vigilant' did not mean an interest rate rise was coming. Oxford Economics said that "despite the RBA's hawkish tone, we do not expect to see any more rate hikes," arguing that "another hike would represent a big departure from their current reaction function," and it expects rates will stay on hold through 2024, with the first cut in early 2025.

BCB REVIEW: The BCB paused its easing cycle, holding the Selic rate at 10.50% (in line with the consensus view), and ending a run of seven consecutive meetings of rate reductions. The central bank said its pause highlights the uncertain global and domestic scenarios, marked by resilient economic activity, an increase in inflation projections and de-anchored expectations, which all required greater caution. Its updated forecasts saw upward revisions to its end-2024 and end-2025 inflation forecasts. "It's clear that rising inflation and inflation expectations are worrying the central bank," Capital Economics said, adding that "somewhat surprisingly, the decision was unanimous - we had thought some of the more dovish Copom members might have voted for another cut, but policymakers might be trying to avoid a repeat of the market backlash fallout seen after the previous meeting when votes for a larger 50bps cut by Lula-appointed Copom members raised concerns about the politicisation of monetary policy," CapEco said it could also signal that there's a widespread agreement on Copom that the inflation outlook has worsened. CapEco does not see any further openings for further rate reductions this year; "our working assumption is that the easing cycle will resume (albeit slowly in 2025) when inflation starts to fall back again, with the Selic rate ending next year at 9.50%, but the unanimous decision to leave rates unchanged suggests that the risks to that forecast may lie to the upside."

BOE REVIEW: As expected, the MPC opted to hold rates at 5.25% via a 7-2 vote with Dhingra and Ramsden remaining the lone dovish dissenters. Furthermore, the statement reiterated that policy "will need to remain restrictive for sufficiently long..." and "restrictive for an extended period of time...". One of the key takeaways from the minutes was that for some on MPC, the decision was "finely balanced" as higher services inflation reflected factors that would not push up medium-term inflation. This subsequently dampened the concerns surrounding yesterday's above-expected services inflation print. Furthermore, given the arithmetic on the MPC, if three members held this view and were willing to move into the "cut camp", this would be enough to create a majority on the board. Elsewhere, it was reported on one wire that Governor Bailey did not reiterate that he is optimistic that things are moving in the direction for a rate cut. However, this is likely due to the fact that members of the MPC are not commenting ahead of the UK general election and therefore, it is not necessarily the case that he no longer holds that view, but more the case that he isn't able to put it forward at this stage. In terms of the outlook for inflation, the MPC is of the view that CPI is to rise slightly higher in H2 to around 2.5% as past falls in energy prices fade (in May, it said H2 CPI would be "around" 2.5%"). Overall, the fact that the decision was "finely balanced" for some has given the announcement a dovish skew and as such, pricing has moved in a slightly more dovish direction, but not enough to see the first fully priced rate cut pulled forward to September from November. By year-end 48bps of easing is seen vs. 44bps pre-release. Note, the June meeting was the last with Broadbent, who will be replaced by Lombardelli who is regarded as potentially having a hawkish bias.

SNB REVIEW: SNB reduced the Policy Rate by 25bp to 1.25% - a cut that was seemingly justified by the as-expected development of inflation across Q2 thus far and the view that "the underlying inflationary pressure has decreased again compared to the previous quarter". The statement itself was quite light on specifics, as is typically the case. On FX, the SNB reiterated that they are willing to be active in the FX market as is necessary. Chairman Jordan also declined to provide any forward guidance on rates and made clear, as was the case beforehand, that FX interventions could be in "both directions". Ahead, Jordan highlights that they will be looking at inflationary pressures (pressures they said had decreased Q/Q). This cut sparked pronounced pressure in the Franc at the time, however, given just how far it has rallied in recent sessions the move only took EUR/CHF back to levels from late last week around 0.9550. Ahead, the focus will continue to be on inflation prints and in particular whether the slight increase projected in Q3 for Y/Y CPI to 1.5% from 1.4% in Q2 proves to be correct or not.

NORGES REVIEW: Maintained the Key Policy Rate at 4.50% as expected. Additionally, the statement and forecasts delivered a touted/somewhat guided hawkish adjustment; however, this was of a more significant magnitude than expected. The new forecasts have entirely removed any probability of a 2024 cut taking place and, technically, imply that a 2024 hike is more likely than a cut. A hawkish adjustment was warranted by inflation only being a “little” lower than projected and coming alongside other hawkish developments e.g. the latest Regional Network report. Thereafter, the Norges Bank looks for the policy rate to be gradually reduced in 2025 with the forecasts pointing to the first cut occurring around Q2. From the statement, the main point of interest was Bache saying the neutral long-term interest rate is now estimated at 2-3%, which is slightly higher than their prior view. Ahead, the CPI-ATE forecasts were only subject to minor alterations so any deviation from this in upcoming figures will draw focus. However, baring a substantial development to the economy, the next few meetings may be somewhat less eventful until end-2024 when the Norges Bank potentially begins guiding to a specific meeting for the first 2025 cut.