Central Bank Weekly 28th June: Previewing Minutes from FOMC and RBA; Reviewing Riksbank, CBRT and Banxico

PREVIEWS:

RBA MINUTES (TUE) The RBA will release the minutes from the June 17th-18th meeting where the central bank unsurprisingly kept the Cash Rate unchanged at 4.35% as unanimously forecast by a recent Reuters poll 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 noted 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 were uneventful and had little market 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 its range and the board discussed whether to hike rates at the meeting although Bullock added that 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. As such, the minutes could be seen as outdated given the more recent firmer-than-expected monthly Australian CPI data which spurred rate hike bets with money markets currently pricing a 34% probability for a 25bps hike at the next meeting in August.

FOMC MINUTES (WED): 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 reduction, 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". Recent Fed commentary has stressed a data dependent approach with the Fed wanting to see more definite progress on inflation before they can be convinced inflation is returning to target in a sustainable way. Once they see this, they will be comfortable with endorsing rate cuts. Fed's Bostic had suggested that once the Fed is confident inflation will return to target, there will be a string of rate cuts and, in line with the median view, sees one rate cut in 2024 and four in 2025. The Minutes will be viewed to see the thoughts around the rate cut process among members, as well as their views on the recent inflation progress. The Fed in May also announced a tapering of its balance sheet reduction to USD 25bln/mth from USD 60bln/mth. There was no adjustment to this in June, but since then, Fed's Mester (retiring) has said that she would be open at some point to active sales of MBS, therefore any discussion around the Fed's balance sheet will also be of note.

REVIEWS:

RIKSBANK ANNOUNCEMENT: Kept rates on hold at 3.75% as expected but delivered a slightly dovish adjustment to rate guidance which now says that two or three H2-2024 cuts could occur (prev. guidance two H2-2024 cuts). A tweak which was not expected given the slightly hotter-than-expected inflation print in May, a point the Riksbank acknowledges; however, a dovish tweak was justified by the fact that "inflation is fundamentally developing favourably, economic activity is assessed to be somewhat weaker, and the krona exchange rate is a little stronger". The subsequent press conference with Governor Thedeen added little, aside from him noting that they judge the SEK as being "undervalued". The next meeting is August 20th and markets are essentially fully pricing in a rate cut, before that we get CPIF readings for both June and July which will confirm if such a cut is possible and provide insight into whether a further dovish tweak, as some are expecting, to four H2-2024 cuts (i.e. one every meeting) will be provided. On that, as Thedeen flagged, the main headwind is perhaps the development of the SEK, and insight into just how much of a factor this was in the June decision may be available in the minutes on 3rd July.

CBRT ANNOUNCEMENT: The CBRT held its one-week repo auction rate at 50% for its third consecutive meeting, in line with expectations. The statement was largely reiterated where it maintained its guidance but it did acknowledge the recent upside in inflation by adding a line that "the decline in the underlying trend of monthly inflation registered a temporary pause". Capital Economics highlights that the central bank also maintained its hawkish communication which supports their view that interest rate cuts are unlikely to begin until 2025, although the desk notes that most analysts expect cuts before the end of 2024.

BANXICO ANNOUNCEMENT: Banxico decided to keep rates on hold 11.00%, as widely expected, although it was not a unanimous decision as Mejia voted in favour of lowering rates by 25bps to 10.75%. The Board foresees that the inflationary environment may allow for discussing reference rate adjustments, and actions will be implemented with an orderly and sustained convergence of headline inflation to the 3% target during the forecast period. As such, the Bank forecasts convergence of headline inflation to 3% target in Q4 of 2025. Continuing on the inflationary footing, the board notes the balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside, and the disinflation process is expected to continue. In terms of figures, the 2024 year-end headline inflation forecast remained at 4.0% (prev. 4.0%), while it revised year-end core inflation forecast slightly higher to 3.9% (prev. 3.8%). Banxico adds, although the depreciation of the MXN impacts inflation forecast upwards, its effects are partly offset by those associated with the greater weakness exhibited by economic activity, and lower-than-anticipated effect of the Peso's depreciation on inflation. On the rate decision, Rabo Bank says "of note was the seemingly little weight the Bank placed on recent MXN depreciation filtering through to higher inflation, and overall would argue there is a dovish tilt that leaves the door wide open to further rate cuts this year." As such, Rabo maintains the view that the Bank will cut rates 25bps on two occasions, taking the policy rater down to 10.50% by year end.