# Central Bank Weekly 2nd August: Previewing RBA, BoC Minutes; Reviewing BoJ, Fed, and BoE

## PREVIEWS

**RBA ANNOUNCEMENT (TUE)** The RBA is likely to keep the Cash Rate at the current level of 4.35% during next week's meeting with money markets pricing around a 96% chance for rates to be kept unchanged and just a 4% likelihood of a 25bps cut. The RBA has refrained from any rate adjustments since its last increase in November and it stuck to a hawkish tone at the prior meeting in June where it reiterated that the Board remains resolute in its determination to return inflation to the target and that inflation is proving persistent. It also noted that inflation has been declining more slowly than previously expected and remains high, as well as 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. Furthermore, the minutes from the meeting stated the Board judged the case for holding rates steady was stronger than for hiking and that they needed to be vigilant to upside risks in inflation with data suggesting upside risk for the May CPI reading. This was eventually realised as the monthly inflation for May accelerated with Weighted CPI YY firmer-than-expected at 4.00% vs. Exp. 3.80% (Prev. 3.60%) which spurred the likes of Deutsche Bank and Morgan Stanley to call for a 25bps hike at the upcoming RBA meeting. However, the more recent monthly CPI data for June has since softened to 3.8% and the quarterly CPI for June was also mostly lower-than-expected including the RBA's preferred Trimmed Mean measure of inflation which spurred some banks to drop their calls for a hike and saw money markets switch from pricing outside chances of a hike to a very small chance of a cut. Furthermore, the latest jobs data was mixed and supports the case for a continued pause as headline Employment Change for June topped forecasts with an increase of 50.2k vs. Exp. 20.0k (Prev. 39.7k) which was mostly due to Full-Time jobs although the Unemployment Rate unexpectedly rose to 4.1% vs. Exp. 4.0% (Prev. 4.0%) but coincided with a similar magnitude increase in the Participation Rate.

**BOC MINUTES (WED):** At its late July policy meeting, the BoC cut rates by 25bps to 4.50%, as was expected by the majority of analysts. Within the statement, it noted that risks to the inflation outlook were balanced, and it removed language that referred to the central bank being more concerned about upside inflation risks. However, it noted that it was assessing opposing forces on inflation, with ongoing excess supply lowering inflationary pressures, although shelter and some other services inflation is holding inflation up. Ahead, the BoC said decisions will be guided by incoming data and their potential impact on the inflation outlook. In its updated economic projections, it revised down its Q2 2024 CPI forecast to 2.7% (from 2.9%), with Q3 CPI seen at 2.3%. The BoC does not see CPI returning to the midpoint of its target range until 2026 however, and it also nudged up its 2025 CPI projections to 2.4% from 2.2% in April. It left its estimate of the nominal natural rate unchanged at between 2.25-3.25%, while it now sees the output gap between -0.75% and -1.75% (in April, it was estimating between -0.5% and -1.5%). In his post meeting press conference, Governor Macklem said there was a clear consensus to cut rates, and if inflation continued to ease broadly in line with their forecasts, it would be reasonable to expect further rate cuts, though the timing will depend on how the BoC see these "opposing forces" playing out. Writing after the announcement, RBC said it was looking for an additional two rate cuts this year, leaving the overnight rate at a "still restrictive" 4% by the end of 2024.

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**BOJ REVIEW:** BoJ hiked rates by 15bps to 0.25% which money markets were pricing the likelihood of heading into the announcement, while it announced to conduct a slow taper with monthly bond purchases to be reduced by JPY 400bln per quarter and also announced it will provide a specific value for monthly purchases instead of a range. The decision spurred a volatile reaction in the Yen and was viewed as a dovish hike given its slow taper plans. At the post-meeting presser, the most notable line was Ueda commenting that a 0.5% policy rate is not a ceiling, whilst the Governor said the decision to hike this time was made considering the upward risks to prices as being considerably large. Going forward, the Governor said they will continue to lift rates and adjust the degree of easing if the current economic/price outlook is realised, with the main issue on where to stop raising rates, when approaching the neutral rate. "This surprise hike does fall into a generalised (perhaps coordinated) effort to stabilise the Yen, in our view", said ING, adding that "we cannot deny this is a major development for the Yen and one that can structurally change the picture of carry-trade positioning, especially if the BoJ remains hawkish and hikes by another 25bp by the end of the year." The Summary of Opinions released on Thursday will be eyed for more insight regarding the likelihood of another hike this year.

**FOMC REVIEW:** The Fed left rates unchanged at between 5.25-5.50%, but it made tweaks to its statement that appear to leave the door open to a rate cut in September. The Committee is now attentive to risks on both sides of its mandate, a change from the June statement, where it said it was 'highly attentive' to inflation risks. The statement said there has been 'some further progress' towards its inflation goal, whereas in June it said there had been 'modest' progress. And it now says that risks to achieving its employment and inflation goals continue to move into better balance, whereas in June it said it was moving 'towards' better balance. The Fed did however reiterate that it does not expect that it will be appropriate to lower rates until it has gained greater confidence that inflation is moving sustainably towards target, suggesting that the Committee still wants to see favourable data before pivoting to rate cuts. At his post-meeting press conference, Chair Powell revealed that there was a real discussion about the case for reducing rates at this meeting; a strong majority supported not moving (he later said that "overwhelmingly" policymakers felt it was not the time yet). The Fed Chair noted that the policy rate is clearly restrictive, and it is coming to the point where it will be appropriate to start rate cuts and dial back restrictions in order to support the continued progress of the economy. He added that the Fed does not need to be 100% focussed on inflation given upside risks to prices have decreased while downside risks to employment mandate are real now, noting that the chances of a hard landing are now as the economy was neither overheating or sharply weakening. Powell said the Fed is balancing the risk of going too soon against going too late, and has a very difficult judgement call on rates. When asked about the prospects of a 50bps rate cut (two 25bps moves rolled into one), Powell said it was not something the Fed was thinking about right now. A theme throughout Powell's Q&A was that he tied any future move on the incoming data. Powell said that the Q2 inflation had added to the Fed's confidence on inflation; on the labour market, Powell said does not think the labour market is currently a source of inflation pressures, and that is why Fed does not want to see excess cooling in the labour market. Powell was coy on giving any specific nod to rate cuts, noting that it could reduce rates zero times this year, or even several - it all depended on incoming data. The Fed's focus is now shifting more towards its dual mandate, rather than just the inflation side of the equation; while policy was positioned to deal with dual mandate risks, the Fed is attentive to risks on both sides of the mandate. In wake of the statement release, markets reacted in a modest hawkish fashion, but Powell unwound any sniff of hawkishness in his post-meeting press conference, where he essentially said that rate cuts were on the horizon, depending on the incoming data, with the Fed more attentive to risks on both sides of its mandate. In wake of the FOMC update, and the soft ISM manufacturing data released a day afterwards, money markets fully discounted three rate cuts in 2024, and have priced in between six and seven 25bps rate reductions by mid-2025.

**BCB REVIEW:** Brazil's central bank voted unanimously to keep its Selic rate unchanged at 10.50% for the second consecutive meeting, as expected, amid worsening fiscal factors and a slump in the currency, and issued a hawkish tone in its statement. "The accompanying statement made clear that policymakers are increasingly concerned about the inflation outlook, highlighting three upside risks to the inflation outlook, up from two at the previous meeting, and its inflation forecasts were revised up too," Capital Economics said, adding that "this reinforces our view that rates will be left unchanged for the rest of this year and there's a small but growing chance that there are no cuts in 2025 either." The consultancy looks for only modest rate cuts next year, as inflation falls again, and as some of BCB's more hawkish members are replaced.

**BOE REVIEW:** In-fitting with the broad consensus of analyst expectations, the MPC opted to cut rates for the first time since March 2020, taking the Bank Rate to 5.0% from 5.25%. The decision to loosen policy was made via a 5-4 vote with dissent from Pill, Greene, Mann and Haskel. Note, for some of those who opted to cut rates viewed the decision as "finely balanced" whilst also observing that "inflationary persistence had not yet conclusively dissipated, and there remained some upside risks to the outlook". For the dissenters, they wished to keep policy steady on account of waiting to see stronger evidence that upside pressures to inflation would not materialise. In terms of guidance from the Bank, the MPC is to ensure Bank Rate is restrictive for sufficiently long until the risks to inflation returning to target had dissipated further (NOTE: In June, it said "restrictive for sufficiently long to return inflation to the 2% target sustainably). Alongside the statement, Governor Bailey stated that policymakers need to be careful not to cut rates too quickly, or by too much. For the accompanying MPR, 1, 2 and 3yr ahead inflation forecasts were revised lower with the 3yr ahead projection at just 1.5%; implying that there is further scope for the MPC to lower rates. At the follow-up press conference, Bailey gave little away by stating that he would not give a view on the path of rates or comment on the market curve. In terms of what he did say, the main takeaway was his desire to stress the upside risks to inflation and the cautious approach taken by the MPC. Overall, despite an initial dovish repricing in the wake of the announcement, the lack of signals for further reductions saw BoE pricing move in a hawkish direction with an unchanged rate in September priced at 76% and the next full 25bps cut not fully priced until December.