Central Bank Weekly

9th August: Previewing RBNZ, PBoC, Norges Bank; Reviewing RBA, BoJ SOO, BoC Minutes and Banxico

PREVIEWS

RBNZ POLICY ANNOUNCEMENT: The RBNZ is to hold a policy meeting next week where there are mixed views regarding the Official Cash Rate with 19 out of 31 economists surveyed by Reuters expecting rates to be kept unchanged at 5.50% and 12 are forecasting a 25bps cut, while money markets have recently shifted to pricing greater chances of a cut following softer inflation expectations with OIS pointing to an 84% probability for a reduction and just a 16% chance for rates to be maintained at the current level. As a reminder, the RBNZ kept the Official Cash Rate unchanged at the last meeting as unanimously expected, while it maintained its rhetoric that the Committee agreed the OCR will need to remain restrictive but provided a dovish tilt in which it stated that the extent of this restraint will be tempered over time consistent with the expected decline in inflation pressures. The RBNZ also commented that some domestically generated price pressures remain strong although there are signs inflation persistence will ease in line with the fall in capacity pressures and business pricing intentions, while it also stated that current and expected government spending will restrain overall spending in the economy. Furthermore, the minutes from the meeting revealed that the Committee is confident inflation will return to within its 1%-3% target range over the second half of 2024 and that the appropriate stance of monetary policy was discussed at the meeting. There haven't been many updates from the RBNZ since the last meeting, while the recent data had mostly supported the case for a continued pause including New Zealand CPI Y/Y for Q2 which softened to 3.3% vs. Exp. 3.4% (Prev. 4.0%) but remained above the target range, while employment data in Q2 beat estimates with surprise jobs growth of 0.4% (Exp. -0.2%) and the Unemployment Rate was less than feared at 4.6% vs. Exp. 4.7% (Prev. 4.3%) despite an unexpected increase in the Participation Rate to 71.7% vs. Exp. 71.3% (Prev. 71.5%). Labour Cost Index was also firmer than expected during the previous quarter with QQ growth at 0.9% vs. Exp. 0.8% (Prev. 0.8%) and Y/Y growth at 3.6% vs. Exp. 3.5% (Prev. 3.8%) which could compel policymakers to remain patient to avoid stoking inflationary pressures. However, the recent release of softer inflation expectations resulted in a shift in market pricing which is now heavily leaning towards a cut.

PBOC MLF ANNOUNCEMENT: The PBoC will conduct its Medium-term Lending Facility operation next week in which it is likely to maintain the 1-year MLF rate at the current level of 2.30% following last month's reductions in short-term funding rates. As a reminder, the central bank had initially opted to maintain the 1-year MLF rate at 2.50% during its regular mid-monthly operation on July 15th but then surprised markets with unexpected cuts to its short-term funding rates a week later including the 7-day reverse repo rate which was lowered by 10bps to 1.70% from 1.80%, while Chinese banks then followed through with similar magnitude cuts to the benchmark 1-year and 5-year Loan Prime Rates which were reduced to 3.35% and 3.85%, respectively. The PBoC also lowered its Standing Lending Facility rates by 10bps across all maturities and unexpectedly conducted a second MLF operation for the month on July 25th in which it cut the 1-year MLF rate by 20bps to 2.30%. Therefore, given the recent bout of cuts to funding rates, it is unlikely that the central will be in a rush to adjust rates so soon, while mixed data releases from China including the miss on exports, stronger-than-expected imports, and firmer inflation also support a patient approach.

NORGES BANK POLICY ANNOUNCEMENT: Overall, the Norges Bank is not expected to make any adjustments to forward guidance or rates at the interim meeting as we await the Q3 Regional Network Report on 12th September before the 19th September policy announcement which includes an MPR. This meeting instead will be the opportunity for the bank to revise its path, if developments merit it by this point with the development of CPI-ATE being a dovish factor thus far. July's CPI printed at 3.3% for the CPI-ATE Y/Y measure, a print which was in line with market expectations and some 0.3pp below the Norges Bank's own view for the month, though the release spurred no real reaction and is unlikely to change expectations for the August meeting. Beforehand, June's CPI came in a touch softer than expected but also failed to spur any real reaction at the time. Last time, the Norges Bank kept its policy rate at 4.50% as expected but provided a particularly hawkish adjustment to forward guidance with all probability of a 2024 rate cut removed and a very slim technical skew towards tightening being more likely than cutting for the remainder of 2024.

REVIEWS

RBA REVIEW: The RBA provided no major surprises as it kept the Cash Rate unchanged at 4.35% as forecast by 32 out of 33 economists surveyed by Reuters, while it also stuck to its hawkish tone in which it reiterated that the Board remains resolute in its determination to return inflation to the target, is not ruling anything in or out, and that inflation remains above target and is proving persistent. Furthermore, the Central Bank said policy will need to be sufficiently restrictive until the board is confident that inflation is moving sustainably towards the target range, while it raised its view for GDP, CPI and the Unemployment Rate with its forecasts assuming the cash rate will be 4.3% in December 2024, 3.6% in December 2025, and 3.3% in December 2026. During the post-meeting press conference, the RBA governor highlighted that the Board did consider a rate rise, clarifying that a cut is not on the near-term agenda. She also mentioned that interest rates might need to stay high for longer. Analysts at CapEco note "As things stand, the RBA's main priority continues to be the war on inflation. In that regard, it arguably is more of a concern to the Bank that trimmed mean inflation is not expected to return to target for several quarters despite the fact that its new set of forecasts incorporate a higher forecast track for the cash rate relative to May. The upshot is that we're sticking to our view that the RBA will start its next easing cycle only in Q2 2025."

BOC MINUTES REVIEW: Minutes of the BoC's July confab stated that consumer spending in 2025 and 2026 could be hit by the number of households likely to be renewing their mortgages at higher rates, though spending per person is expected to recover as rates declined, but many will still face significant debt-servicing costs. Some expressed concerns that further weakness in the jobs market could delay rebound in consumption. Policymakers agreed to communicate that they would be weighing two-way inflation forecasts. They see less of a chance that pent-up demand would lead to a sudden rise in house prices as rates were cut. It is increasingly confident that ingredients for price stability are in place, and downside risks to inflation now as prominent as upside risks. More broadly, the central bank said that the economy was in excess supply, and slack was emerging in the labour market. GDP growth is subdued, and consumption weak on a per-capita basis. Core and headline inflation were within its 1-3% range for several months, but wage growth remains elevated, but is expected to moderate. The BoC said that future rate cuts are likely if inflation continues easing as projected, reiterating that there was no predetermined path for the policy rate, and decisions would be made on a meeting-by-meeting basis. It will continue balance sheet normalisation by allowing maturing bonds to roll off.

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BOJ SUMMARY OF OPINIONS REVIEW: The release of the Summary of Opinions from the BoJ's July 30th-31st meeting felt outdated given the recent volatility in Japanese markets. The Summary revealed that one member emphasised the need to be mindful of upside inflation risks, noting that a tight labour market and rising import prices from a weak yen would likely keep inflation under upward pressure. Another member said that it would be appropriate to raise interest rates since the economy and prices are moving in line with forecasts, stressing the need for vigilance against inflation risks. Furthermore, one member stated that the BoJ continues to support the economy even if rates are raised, as a nominal rate of 0.25% remains very accommodative. Another member suggested that given the current inflation environment, it is a good time to consider a small rate hike. Additionally, it was mentioned that the BoJ should eventually raise rates to levels considered neutral to the economy, likely around 1%. Since the last meeting and following the market volatility, BoJ Deputy Governor Uchida stated that the BoJ will not hike rates when markets are unstable. He added that if market volatility changes the BoJ's view on achieving its price goal, it will influence their decision on the rate hike path. Uchida also suggested there is no difference in views between Governor Ueda and himself, with Uchida's recent remarks reflecting changes in the latest market developments since the last meeting.

BANXICO REVIEW: Mexico's central bank cut rates by 25bps to 10.75%; analyst expectations were split going into the meeting between a cut and a hold. Three out of the five Banxico members (namely Governor Victoria Rodríguez, Galia Borja, and Omar Mejía) supported the decision, while the remaining two (Irene Espinosa and Jonathan Heath) wanted to hold rates at 11%. The meeting saw 2024 year-end headline inflation forecasts raised from 4.0% to 4.4%, while its core projection was left unchanged at 3.9%. The language within the statement was largely reiterated, with the central bank maintaining its view that "looking ahead, the Board foresees that the inflationary environment may allow for discussing reference rate adjustments." It also maintained language on the balance of risks, noting the risks for the trajectory of inflation path within the forecast horizon is towards the upside, whereas for the growth of economic activity, it's towards the downside. It also maintained its view that it expects inflation to converge to the target range by Q4 2025. Pantheon Macroeconomics said it anticipates inflation will remain high in the short term, but will start to decline by the end of the year, allowing Banxico to continue easing its policy. "The mention of potential rate adjustments, coupled with persistent economic weakness, suggests that further rate cuts are likely," it wrote, "we expect the easing cycle by the Fed to begin in September, which will provide policymakers with ample room for manoeuvre." But Pantheon notes that risks, such as geopolitical turmoil and exchange rate volatility, remain, and necessitates a cautious approach. Pantheon sees rates at 10.25% by year-end, with further reductions possible in H1 2025, potentially lowering the rate to 9.5%.

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