newsquawk

Central Bank Weekly

Central Bank Weekly 9th August: Previewing PBoC LPR, Jackson Hole, Minutes from Fed, ECB and RBA; Reviewing RBNZ, PBoC MLF and Norges Bank

PREVIEWS

PBOC LPR (TUE): PBoC will announce China's benchmark Loan Prime Rates next week which are likely to be maintained with the 1-year and 5-year LPRs currently at 3.35% and 3.85%, respectively. The likelihood for no adjustments in the LPRs which are the reference for most new loans and mortgages follows the bout of reductions conducted in July in which the central bank had initially opted to maintain the 1-year MLF rate at 2.50% at its regular mid-monthly operation in July 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 the 1.80%, while Chinese banks then followed through with similar magnitude cuts to the benchmark 1-year and 5-year Loan Prime Rates. 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 also support a patient approach. As a reminder, it was announced last month that China will change the timing of the release of the monthly LPR fixing to 09:00 local time (02:00BST/21:00EDT) which is 15 minutes earlier than the previous scheduled time.

RBA MINUTES (TUE): RBA will release the minutes from its August 5th-6th meeting which participants will be eyeing for any clues on policy and further insight into the central bank's thinking. As a reminder, the central bank provided no major surprises at the meeting 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 and is not ruling anything in or out, as well as reiterated 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. RBA Governor Bullock stuck to a hawkish tone at the post-meeting press conference in which she noted that the board considered a rate increase and that a cut is not on the near-term agenda, while she also stated that they are ready to raise rates if needed and that the pricing of cuts for the next six months does not align with the board.

CBRT ANNOUNCEMENT (TUE): The CBRT is expected to maintain its Weekly Report Rate at 50% at the August meeting, according to all 17 respondents polled by Reuters – with the central bank in a "wait and see" mode. Economists expect the CBRT to start cutting rates this year as inflation is forecast to ease. Amongst 14 economists polled by Reuters, the median estimate sees the One-Week Repo Rate at 45% at year-end, with forecasts ranging from 40-50%. The latest CBRT Survey showed that the Repo Rate is seen at 33.3% in 12 months (prev. 34.57%), end-2024 USD/TRY seen at 37.2760 (prev. 37.3667), 2024 GDP seen at 3.4% (prev. 3.4%), CPI seen at 28.71% (prev. 30.02%). Analysts at Morgan Stanley expect the Weekly Repo Rate to be maintained for the rest of the year amid an increase in geopolitical risks and global market volatility prompting rates to be held higher for longer.

RIKSBANK ANNOUNCEMENT (TUE): June's meeting opened the door to as many as three cuts in H2-2024 (prev. guided two), the first of which is likely to be delivered at the August meeting. Within the June minutes, Deputy Breman specifically nodded to August stating she sees "the next cut probably being in August", while Jansson and Seim were even more dovish as they considered cutting at the June gathering. Since, June's inflation data came in cooler-than-expected by the market for both headline and core CPIF, while the July print was slightly hotter than forecast by the market but in-line with the Riksbank's view for the CPIF ex-energy figure at 2.2% Y/Y. Given the in-line CPIF development and dovish starting point from June's MPR/Minutes, the policy rate is likely to be cut in August by 25bps and while a larger move cannot be entirely dismissed, it is on balance unlikely at this point, particularly as the SEK has weakened somewhat since the last meeting (in the presser Theeden described it as being undervalued). Nonetheless, the statement and press conference in August will be closely scrutinised for any fresh dovish tweak to forward guidance.

FOMC MINUTES (WED): Minutes from the July 31st FOMC meeting, due to be released on Wednesday, could be overshadowed by the Jackson Hole Economic Symposium, due to begin on Thursday (see below for our preview). At the July meeting, the FOMC 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 low 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.

JACKSON HOLE ECONOMIC SYMPOSIUM (22-24 AUG): The gathering of central bankers, academics and policymakers is often looked to for policy steer. Attention will be on remarks due from Fed Chair Powell, who will deliver remarks on the economic outlook on Friday, August 23rd, where traders will look for any updated assessments on the state of the US economy, and the trajectory of monpol. Powell last month said that if inflation and the labour market continued to cool, a rate cut may be appropriate at the September 18th FOMC meeting. For that meeting, money markets are currently pricing around 32bps of rate cuts (which essentially says a 25bps rate reduction is fully expected, with some incremental probability the Fed could go for a larger 50bps cut). The dovish pricing has pared back in recent weeks as inflation continues to cool, and the labour market continues to look resilient amid its slowdown (at one point, markets were fully expecting a 50bps rate reduction a couple of weeks ago, when growth jitters stoked concerns the Fed may be behind the curve). Bank of America says there is a chance Powell could opt for a straightforward update, taking a similar line to which he did in his post-meeting press conference in July; a shift in language from that July language could suggest the committee is nearing, or is close to, considering easing measures, BofA said. "A further signal could be if Powell is stronger in saying that the committee wants to avoid 'unexpected weakness' in the labour market, rather than simply responding to it after it occurs," it wrote. Powell might refer to the June Summary of Economic Projections, which indicated a gradual removal of policy accommodation due to economic uncertainty. "The Fed’s definition of achieving a soft landing is bringing inflation back to target without requiring a deterioration in labour market conditions,” BofA wrote, "the battle on inflation isn't entirely won, but the message could be that it’s been won enough where the emphasis now will be on preventing undesired weakness in the labour market." Powell will also likely be asked about the size of the rate cut, and traders will be watching to see if he leans back on calls for the larger cut (when he was asked about this in July, Powell said it was not something the Fed was thinking about right now).

ECB MINUTES (THU): As expected, the ECB opted to stand pat on rates following the 25bps reduction in June. In the accompanying policy statement, the Governing Council reaffirmed that it will keep policy rates sufficiently restrictive for as long as necessary to achieve its goals. Furthermore, policymakers will continue to maintain a data dependent approach and not pre-commit to a specific policy path. At the follow-up press conference, President Lagarde noted that the discussion on the Governing Council was very much a case of “on the one hand” and “on the other hand”, with the ultimate policy decision being a unanimous one. Lagarde was also keen to stress that the ECB is data dependent but not specific data point dependent. Regarding the path ahead, Lagarde kept her cards close to her chest, suggesting that the September meeting is “wide open”. Given how neutral the meeting was and the amount of data due between July and September, it is unlikely that the account will offer much in the way of guidance over what to expect next month. Instead, traders will be minded to watch EZ data points and how these metrics are viewed by members on the Governing Council.

BOK ANNOUNCEMENT (THU): BoK will conduct a policy meeting next week where it will likely maintain the base rate at the current level of 3.50% following recent mixed data releases. As a reminder, the BoK kept its base rate unchanged at 3.50% at the last meeting in July which was as expected and made through a unanimous decision. BoK said it will maintain a restrictive policy stance for a sufficient period of time and will examine the timing of a rate cut, while it dropped the phrase that 'upside risks to inflation forecasts have increased' in its policy statement and instead said inflation could be slower than forecast. BoK Governor Rhee also commented that they need to assess how a rate cut would affect financial stability which could adversely be impacted by a cut and suggested it is "time to prepare pivot rate cuts". Furthermore, he noted that two board members said they could consider a rate cut within the next three months, although Rhee added that market expectations for policy rate cuts are a little excessive. The rhetoric from the central bank suggests that the option of a cut is clearly on the table although it doesn’t seem that there is enough support yet amongst the seven-member monetary policy board for it to materialise, while mixed data releases from South Korea also support the case for a pause as CPI YY was firmer than expected at 2.6% vs. Exp. 2.5% (Prev. 2.4%) and GDP disappointed in Q2 with a surprise Q/Q contraction at -0.2% vs. Exp. 0.1% (Prev. 1.3%) and Y/Y growth at 2.3% vs. Exp. 2.5% (Prev. 3.3%), although recent Unemployment data showed a decline in the jobless rate in July to a 9-month low of 2.5% (Prev. 2.8%).

REVIEWS

RBNZ REVIEW: The RBNZ delivered a 25bps cut to the OCR amid mixed views among analysts regarding a cut or a hold although money markets were pricing a greater chance of a cut, while the central bank's OCR projections also suggested a further cut by year-end and for the OCR to decline 101bps by mid-2025. The central bank's rhetoric was also less hawkish as although it stated that members noted that monetary policy will need to remain restrictive for some time to ensure that domestic inflationary pressures continue to dissipate, the committee agreed there was scope to temper the extent of monetary policy restraint and observed that the balance of risks has progressively shifted since the May monetary policy statement. Furthermore, it stated that the pace of further easing will thus be conditional on the committee’s confidence that pricing behaviour is continuing to adapt to a low-inflation environment and that a broad range of high-frequency indicators point to a material weakening in domestic economic activity in recent months. At the post-meeting presser, RBNZ Governor Orr said the Bank considered a range of moves including 50bps but the consensus was for 25bps. On Thursday, the governor suggested there is no talk on the committee about raising rates again and policy discussions in the future will focus on whether to maintain or reduce rates. Following the decision and presser, analysts at Westpac said “RBNZ[‘s] update leaves us comfortable with our forecast of two further 25bp cuts in October and November.”

PBOC MLF REVIEW: PBoC announced it has delayed its MLF operation and will conduct it on August 26th. Instead of the MLF, the PBoC injected CNY 577.7bln via 7-day reverse repos, while it added that the reverse repo operation that day was meant to counteract maturing MLF loans, tax payments and government bond issuances. "This would be consistent with the policy direction to gradually fade MLF as a guidance to market rates”, said the head of FX and Rates at Oversea-Chinese Banking Corporation.

NORGES BANK REVIEW: Maintained the Policy Rate at 4.50% as expected and reiterated guidance from the June gathering. The accompanying statement acknowledged recent economic data, which has been on the dovish side, and perhaps more pertinently the “weaker than assumed” NOK. While this line is on face value merely pointing out price action since the last gathering, it could also be interpreted as a hawkish signal. But this is not necessarily anything surprising given the backdrop of today's decision was how the Norges Bank would balance recent dovish economic developments with the NOK's depreciation and a desire to avoid any further current weakness. In the subsequent press conference, Governor Bache added that there is “no new prognosis” on when the first cut will be (June’s MPR points to it being around Q2-2025) while acknowledging that inflation since the last meeting has been pulling them in different directions. In short, the meeting was as expected but the lack of dovish-tweak and explicit reference to NOK pressure can be taken as a hawkish-skew, with the NOK picking up into and in the hours after the policy announcement; for reference, market pricing has only seen a modest hawkish adjustment with the odds of a December cut down to ~84% (c. 90% beforehand). As such, we remain attentive to upcoming data points and in particular the Regional Network, which was a hawkish input into the last MPR, ahead of September’s forecast round which could be subject to a dovish alteration.