newsquawk
Central Bank Weekly

Central Bank Weekly 23rd August: Reviewing ECB/FOMC Minutes and Powell, PBoC LPR, RBA Minutes, Riksbank, and CBRT

REVIEWS

PBOC LPR REVIEW: China's benchmark Loan Prime Rates were kept unchanged, as widely expected, with the 1-year LPR maintained at 3.35% and the 5-year LPR held at 3.85%. The consensus for no adjustments in the LPRs, which are the reference for most new loans and mortgages, follows the bout of reductions conducted last month across short-term funding rates in which the 7-day reverse repo rate was lowered by 10bps to 1.70% and Standing Lending Facility rates were cut by 10bps across all maturities, while Chinese banks also conducted similar magnitude cuts to the 1-year and 5-year Loan Prime Rates. Furthermore, the PBoC had just lowered its 1-year MLF rate by 20bps to 2.30% late last month which makes it very unlikely that the central will be in a rush to adjust rates so soon, while mixed data from China also supports a patient approach although near-term rate adjustments cannot be fully dismissed given the ongoing economic concerns surrounding China.

RBA MINUTES REVIEW: The RBA Minutes from the August 5th-6th meeting lacked any major fireworks in which it noted that the board considered the case to raise rates but decided a steady outcome better balanced the risks and it is possible the cash rate would have to stay steady for an extended period. Members also agreed it is unlikely that rates would be cut in the short term and they need to be vigilant to upside risks to inflation, while it was also stated that policy would need to remain restrictive and that an immediate hike in rates could be justified if risks to inflation had increased materially. In addition, the Minutes revealed that members observed that holding the cash rate target steady at its current level for a longer period than currently implied by market pricing may be sufficient to return inflation to target in a reasonable timeframe, but the Board will need to reassess this possibility at future meetings.

RIKSBANK REVIEW: As expected, a 25bps cut was delivered taking the policy rate to 3.50%. A cut which was justified by the progress of inflation and assessment that growth is weak, and the labour market is subdued. Further ahead, the Riksbank provided a dovish tweak to verbal guidance as it looks for cuts "two or three more times this year" vs June's guidance for "two or three times in H2", a shift which opens the door to a cut occurring at all the H2-2024 meetings. The announcement itself spurred no reaction, with the cut and guidance tweak in-line with expectations/pricing beforehand. Thereafter, Governor Thedeen said there are good reasons to keep the SEK on their radar; as a reminder, in June he described it as being undervalued. Ahead, we look to the minutes on 26th August for further insight on a few points: if 50bps was considered by any member at this meeting (Jansson & Seim the focus points); if 50bps is a consideration for the rest of the year; if any member continued to describe the SEK as "undervalued" and/or provided another qualifier for the currency. After that, the next meeting is in September which will be a full MPR, a meeting which is likely (as things stand) to see another 25bps cut with the formal rate forecasts likely to take centre stage.

ECB MINUTES: The account of the July meeting (which itself was something of a non-event) passed with little in the way of fanfare as it contained minimal new information for markets to digest. On the inflation front, the account noted that headline inflation was expected to fluctuate around current levels for the remainder of 2024, whilst on a core basis, signals from the different measures of underlying inflation remained mixed. From a growth perspective, members noted that the short-term outlook had deteriorated and risks to economic growth were tilted to the downside. In terms of the transmission of monetary policy, it was generally observed that transmission was unfolding according to expectations. Additionally, the September meeting was widely seen as a good time to re-evaluate the level of monetary policy restriction. In terms of the next steps, it was noted that with inflation coming down only gradually, it was seen as natural that the Governing Council's policy response should be cautious. Furthermore, a cautious approach would also allow the Governing Council to respond by following a more gradual path of reducing policy rates if inflation was more persistent than currently foreseen. Overall, ECB judges that the account keeps the door open for a September rate cut but without any pre-commitment.

FOMC MINUTES REVIEW: The July 30-31st FOMC meeting minutes largely echoed what Chair Powell said in the post-meeting press conference, and from Fed officials since; the minutes highlighted how the Committee is looking at a September rate cut with a data-dependant approach; it noted that the vast majority of participants felt it would likely be appropriate to ease policy at the next meeting if data continued to come in as expected. Several participants said recent progress on inflation and increases in the unemployment rate provided a 'plausible case' for a 25bps rate reduction, or that they could have supported such a move. As a reminder, after the July confab, Powell said there was a real discussion about the case for reducing rates at this meeting, though a strong majority supported not moving in July. Meanwhile, the majority of participants said risk to the employment goal had increased, while many noted that risks to the inflation goal decreased, reiterating the Fed's messaging of how officials' attention has shifted to both sides of the mandate, rather than just inflation.

FED CHAIR POWELL REVIEW: Powell's comments at Jackson Hole continued to indicate that a September rate cut is coming, as he said "the time has come for policy to adjust", with traders on the lookout for clarity regarding the magnitude of the cut. On the labour market, the Chair said "We do not seek or welcome further labour market cooling", which once again shows the importance of the US jobs report on 6th September which will seemingly dictate the size of the move by the Fed, as WSJ's Timiraos noted earlier in the wake that a report as week as July might lead to a larger than 25bps cut. Powell continued to note how the Fed's attention has shifted within its dual mandate, as it stated "the balance of risks to our mandates has changed and upside risks to inflation have diminished, downside risks to employment have increased." Lastly, the Chair reiterated data-dependency noting that "timing and pace of rate cuts will depend on data, outlook, balance of risks".

CBRT REVIEW: The CBRT opted to hold its Weekly Repo Rate at 50% as expected by all respondents heading into the decision – this marked the fifth straight on-hold meeting. The Central Bank reiterated that it remains vigilant to inflation risks, whilst it also "emphasized that the alignment of inflation expectations and pricing behaviour with projections has gained relative importance for the disinflation process." The Bank added that "indicators for the third quarter suggest that domestic demand continues to slow down with a diminishing inflationary impact." The bank did not offer much in the way of hints regarding the timing for a rate cut. Following the decision, analysts at BofA "expect the pace of cuts to be slow enough to make sure this tightness is preserved."

BOK REVIEW: The Bank of Korea kept its base rate unchanged at 3.50% as widely expected, with the decision made unanimously, while the language from the central bank was more dovish as it stated that it would examine the proper timing of rate cuts and that confidence is greater that inflation will converge on the target level, while it dropped the phrase 'sufficient period of time' in saying it will maintain a restrictive policy stance. BoK Governor Rhee commented that inflation conditions are appropriate for a cut and that four board members said the room for a rate cut should remain open (prev. 2 board members at the July meeting) although Rhee stated that rising financial stability risks warranted the BoK's decision to hold rates at this meeting. Furthermore, Rhee said the pace and extent of an interest rate cut in South Korea will be smaller than that of the US, as well as commented that the BoK is communicating with markets using a three-month horizon forward guidance but noted that forward guidance doesn't guarantee a rate cut. The rhetoric from the central bank suggests that a cut is on the table for the remaining meetings this year given the majority of the 7-member board wants to keep the door open to cuts which would be in line with the median view among economists for a 25bps reduction in Q4.