newsquawk

Central Bank Weekly - 6th September 2024

Previewing ECB and reviewing BoC

PREVIEWS

ECB ANNOUNCEMENT (THU): Expected to cut by 25bps, taking the Deposit Rate to 3.50%, after commencing the easing process at June's forecast meeting, skipping July and thereafter placing the emphasis on September for the next policy move. Market pricing has the odds of a 25bps cut occurring at around the 99% mark. Conviction for a cut has come from the ongoing progress of inflation, the easing of wage pressures (i.e. Q2 negotiated wage survey) and downbeat growth outlook for much of the bloc; however, the stickiness of some components of inflation (i.e. services) means that hawkish voices are still present on the council. As such, the focus for the meeting will be on any guidance towards the next cut. Recently, a Reuters sources piece outlined that decisions are expected to be more complicated after September with the debate being over how weak growth/potential recession will impact the inflation outlook. Interestingly, the piece concluded that the ECB will provide no commitment around October, however, the doves want Lagarde to signal that back-to-back moves are not excluded. As a reminder, the ECB is set to reduce the MRO and DFR spread to 15bps (prev. 50bps) from September 18th (the effective date of this month's meeting), a tweak which was announced in March.

REVIEWS

BOC REVIEW: The Bank of Canada cut rates as expected to 4.25%, marking its third consecutive 25bp rate cut. The BoC noted the cut was due to continued easing in broad inflationary pressures, repeating that excess supply in the economy continues to put downward pressure on inflation, while price increases in shelter and some other services are holding inflation up. Looking ahead, it maintained guidance that "Monetary policy decisions will be guided by incoming information and our assessment of their implications for the inflation outlook.", noting it is carefully assessing the opposing forces of inflation. The rate cut and statement was largely as expected and providing inflation continues to ease, and the price increases in shelter and some other services don't see inflation reverse higher, the BoC look set to continue on their easing path. The market currently fully prices in 50bps of easing through year-end, implying two 25bp rate cuts in October and December. BoC Governor Macklem, in the opening remarks, warned that inflation may bump up later in the year as base effects unwind, and that there is a risk that the upward forces on inflation could be stronger than expected. In the Q&A however he did note this was not their base case. Macklem also repeated that if inflation continues to ease broadly in line with their July forecast, it is reasonable to expect further cuts in their policy rate. The Governor also acknowledged that as inflation gets closer to target, they want to see economic growth pick up to absorb the slack in the economy so inflation returns sustainably to the 2% target. He also noted that the BoC cares as much about CPI below 2%, as they do above, a nod to the fact that they will aim to not let inflation sink too far beneath 2%. Macklem acknowledged that in the meeting, there was a strong consensus for a 25bps move, but alternative scenarios were discussed, including slowing the pace of cuts and also a 50bps move. He stated that if the economy were to be weaker than expected, a cut larger than 25bps would be appropriate.