Central Bank Weekly - 27th September

Previewing Riksbank minutes; Reviewing PBoC, RBA, Riksbank, SNB and Banxico

PREVIEWS

RIKSBANK MINUTES (TUE): As expected, the Riksbank cut its policy rate by 25bps to 3.25% (prev. 3.50%); the kicker at the meeting was that the policy rate may be cut at the two remaining meetings this year, with a possibility of a larger 50bps cut at one of those meetings; further out, the path also "indicates that one or two further cuts may be made during the first half of 2025". This was a dovish shift to the previous verbal guidance, which pointed towards a policy rate of 2.75% by year-end. As such, EUR/SEK immediately spiked higher, but this proved fleeting; potentially because this guidance is fairly in-fitting with SEB analyst expectations. ING offers other reasons for the unreactive SEK, noting that the Riksbank’s openness to a 50bps cut could imply that the Swedish economy is on track to outperform the Eurozone; the bank adds that external factors such as the jumbo 50bps cut at the Fed is also more “accommodative” for the SEK. Taking a look at the Riksbank economic forecasts for 2025; it notably lowered CPI, marginally lowered CPIF, raised GDP and Unemployment slightly. In the post-policy announcement, Riksbank Governor Thedeen did not commit to favouring between a 25 or 50bps cut for the remaining two meetings; he noted that no single factor will decide the magnitude, but noted the main scenario will be 25bps at both meetings. Going forward, SEB has reiterated its view that the Riksbank will opt for a 50bps cut in November and a 25bps cut in December, taking the policy rate to 2.50% by year-end. Next week will see the release of the Riksbank Minutes, whereby the focus will lie on whether or not a larger 50bps reduction was discussed at the most recent gathering, and what in particular officials are looking out for to opt for a cut of a larger magnitude.

REVIEWS

PBOC REVIEW: PBoC Governor Pan on Tuesday announced a raft of policy stimulus, targeted at the broader economy, property market and capital markets. Despite the continuous calls by economists for stimulus after a string of concerning data points (inflation, trade, activity data), some desks were surprised at the magnitude of support announced, with some also noting it had come earlier than they had expected. That being said, it remains to be seen how effective the moves are. In terms of the measures announced, for the broader economy, the PBoC lowered its benchmark 7-day Reverse Repo rate by 20bps to 1.5%; which will lead to the reduction of 1-year MLF and LPRs. MLF rate will be lowered by 0.3ppts and LPR will be lowered by 0.2-0.25ppts. A broad-based 50bps cut to RRR was announced (bringing the RRR for major banks down to 9.5% from 10.0%), releasing some CNY 1tln in liquidity. For the property sector, the central bank lowered down payments for second homes to 15% from 25% and will no longer distinguish between down payments for first and second homes which will be unified at 15%, while a reduction to mortgage rate for existing mortgages by 50bps was announced, which will narrow rate gap between new and existing mortgages. For capital markets, a re-lending facility of CNY 300bln was initiated with 1.75%; which will guide banks to support listed firms’ share purchases and buybacks, and at least CNY 500bln of liquidity was unveiled to support stocks, which will allow firms to tap liquidity when purchasing stocks via a swap line. This raft of measures took desks by surprise, although most analysts were sceptical about how these measures could materially impact domestic demand. Analysts at Goldman Sachs said “more demand-side easing measures, especially fiscal easing, are likely to be needed to improve China’s growth outlook…. Given the guidance from the PBOC governor, we expect another 25bp RRR cut in Q4 for this year, and maintain our forecast for additional RRR/policy rate cuts in 2025 (two 25bp RRR cuts in Q1/Q3 and two 10bps policy rate cuts in Q2/Q4 2025)"

RBA REVIEW: RBA provided no surprises as it kept rates unchanged, as unanimously forecast, and maintained its hawkish rhetoric 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. RBA also repeated that inflation remains above target and is proving persistent, as well as stated that returning inflation to target is the priority. Furthermore, it said inflation is still some way above the midpoint of the 2–3% target range and the Board will rely upon the data and the evolving assessment of risks to guide its decisions, while its current forecasts do not see inflation returning sustainably to target until 2026. Although the RBA effectively opted for a hawkish hold, this was seen to be slightly less hawkish than the previous meeting as Capital Economics noted the RBA no longer explicitly discussed upside risks to inflation in the main body of the statement and focused on downside risks when discussing risks to the outlook, while it also tweaked its rhetoric on wages in which it stated that “wage pressures have eased somewhat” compared with its previous language that “wage growth is still above the level that can be sustained given trend productivity growth”. The tone down in hawkishness was even more evident in the press conference where RBA Governor Bullock reiterated that rates are to remain on hold for the time being and revealed that they did not explicitly consider a rate hike at the meeting, unlike the prior meeting in August where the board had considered an increase.

RIKSBANK REVIEW: As expected, the Riksbank cut its policy rate by 25bps to 3.25% (prev. 3.50%); the kicker at the meeting was that the policy rate may be cut at the two remaining meetings this year, with a possibility of a larger 50bps cut at one of those meetings; further out, the path also "indicates that one or two further cuts may be made during the first half of 2025". This was a dovish shift to the previous verbal guidance, which pointed towards a policy rate of 2.75% by year-end. As such, EUR/SEK immediately spiked higher, but this proved fleeting; potentially because this guidance is fairly in-fitting with SEB analyst expectations. ING offers other reasons for the unreactive SEK, noting that the Riksbank’s openness to a 50bps cut could imply that the Swedish economy is on track to outperform the Eurozone; the bank adds that external factors such as the jumbo 50bps cut at the Fed is also more “accommodative” for the SEK. Taking a look at the Riksbank economic forecasts for 2025; it notably lowered CPI, marginally lowered CPIF, raised GDP and Unemployment slightly. In the post-policy announcement, Riksbank Governor Thedeen did not commit to favouring between a 25 or 50bps cut for the remaining two meetings; he noted that no single factor will decide the magnitude, but noted the main scenario will be 25bps at both meetings. Going forward, SEB has reiterated its view that the Riksbank will opt for a 50bps cut in November and a 25bps cut in December, taking the policy rate to 2.50% by year-end. Next week will see the release of the Riksbank Minutes, whereby the focus will lie on whether or not a larger 50bps reduction was discussed at the most recent gathering, and what in particular officials are looking out for to opt for a cut of a larger magnitude.

SNB REVIEW: In-fitting with analyst consensus, the SNB cut rates by 25bps to 1.00%. A move which sparked immediate CHF appreciation as the circa. 40% chance of a 50bps cut was unwound. However, this appreciation proved short-lived as the statement and inflation forecasts were particularly dovish; within it, the SNB stated they are prepared to intervene on FX as necessary, highlighted that further cuts to ensure price stability could be necessary and slashed their 2025 & 2026 inflation targets considerably. The key point of focus is the plural “cuts” which implies at least two more; if we assume the 25bps magnitude continues, this takes the SNB to 0.50% which is roughly where the neutral rate is thought to be. On FX, the statement did not see a return to a specific currency classification or an overt nod towards intervening to weaken the CHF, points which were absent from the subsequent press conference as well. During this, focus was on incoming Chair Schlegel who reiterated that the primary tool is the policy rate, but FX interventions could be necessary. Overall, the dovish statement was seemingly designed to alleviate Franc strength but the lack of specificity in the press conference has, thus far at least, somewhat limited its impact. Ahead, focus will be on whether inflation continues to moderate and if the pace is in-fitting with the now very low inflation forecasts, if the moderation continues to undershoot their forecasts then this could bring 50bps moves back into play and by extension the zero-bound. In terms of the Franc, it remains to be seen how successful today’s statement and likely further easing will be in moderating appreciation, particularly with further easing by the ECB and Fed expected. Furthermore, participants will remain attentive to any sign of intervention activity which becomes increasingly likely as proximity to the neutral rate increases.

BANXICO REVIEW: Banxico cut rates for the second straight meeting, by 25bps to 10.50%, as expected. The decision was not unanimous, however, with Deputy Governor Heath once again voting to keep rates unchanged in a 4-1 vote split. However, Deputy Governor Espinosa joined the dovish camp after voting to keep rates on hold at the prior meeting. Elsewhere, the central bank's statement saw a slight adjustment to its guidance; it now says that "looking ahead, the Board expects that the inflationary environment will allow further reference rate adjustments" (previously, it said that it "may allow" further adjustments). Meanwhile, inflation forecasts were largely left unchanged over the forecast horizon, and it still sees inflation returning to target in Q4 2025. Although the near-term headline inflation forecasts (for Q3 2024 and Q4 2024) were revised to 5.1% (prev. 5.2%) and 4.3% (prev. 4.4%), while the Q4 core inflation outlook was revised down to 3.8% (prev. 3.9%), and Q1 2025 was revised down to 3.5% (prev. 3.6%). Banxico warned that it still judges inflation risks are still biased to the upside. Pantheon Macroeconomics expects that the inflation picture will improve in the near term, while economic activity struggles, allowing Banxico to maintain its easing stance, and added that the impact on the MXN from increased domestic political uncertainty is likely to be offset by support from the Fed's easing cycle. "We anticipate a year-end main rate of 10%, with further reductions possible in the first half of 2025, potentially lowering the rate to 9.5%," Pantheon wrote, "but risks such as geopolitical turmoil, the US presidential election, and exchange rate volatility remain significant, necessitating a cautious approach."