Central Bank Weekly - 18th Oct

Previewing PBoC LPR and BoC; Reviewing ECB and CBRT

PREVIEWS

PBOC LPR (MON): PBoC will announce the latest Loan Prime Rates next week in which Chinese banks are likely to reduce the benchmark lending rates from the current levels after the slew of recent policy support measures by China's central bank and government departments. As a reminder, China's Loan Prime Rates were maintained last month with the 1-Year LPR (which most new loans are based on) kept at 3.35% and the 5-Year LPR (reference for mortgages) held at 3.85%, as expected. However, since then, the PBoC have announced a 50bps cut RRR cut and reduced the 7-day reverse repo rate by 20bps to 1.50%, while it also lowered the 1-year MLF rate by 30bps to 2.00% and said it will guide LPRs lower. Furthermore, the PBoC instructed banks to lower interest rates on existing mortgages by October 31st and it was also reported that Chinese banks will reduce rates on as much as CNY 300tln of deposits. This had already set the backdrop for a reduction in the LPRs, while the latest developments further signalled an upcoming cut to the benchmark rates as the major Chinese banks recently lowered interest rates on CNY fixed-rate deposits by 25bps and PBoC Governor Pan noted the LPR is expected to drop by 20bps-25bps on Monday, as well as reiterated that they may further lower RRR this year by 25bps-50bps based on market liquidity.

BOC ANNOUNCEMENT (WED): The Bank of Canada is expected to cut rates by 50bps to 3.75% on Wednesday, according to 19/29 analysts surveyed by Reuters, while 10 analysts look for a smaller 25bps rate cut. Alongside the rate decision, the latest monetary policy report will be released as well as a speech from Governor Macklem. Remarks from BoC Governor Macklem on 10th September, a week after the BoC cut by 25bps, stated that bigger cuts are possible if the economy and CPI is weaker. The August data was soft, which started to see 50bps being priced in with more certainty, although a strong September jobs report saw money markets price in a 25 or 50bps as a coin flip. Nonetheless, the September inflation data was notably softer than forecast and 50bps bets ramped up. As things stand, money markets are pricing in 48bps of easing at the upcoming meeting, implying a 92% probability of a 50bps cut. The focus of the meeting will largely be on the rate decision, however the statement will be eyed for guidance and how the BoC are explaining the recent soft inflation data. We will also look to the MPR for the BoC's economic forecasts. Looking ahead, the BoC Business Outlook Survey noted business sentiment remains subdued, while excess capacity is leading to restrained investment and hiring. Firms also expect both wage and price growth to soften. Analysts at RBC note that the recent soft inflation data, coupled with the BOS, sees the desk expect a 50bps rate cut. Looking ahead, the Reuters poll found that there was no clear consensus on what the BoC will do at the December meeting, 10/29 expect rates to finish the year at 3.50%, nine expect rates to at 3.75%, while one analyst sees rates at 4.00% from the current 4.25%.

REVIEWS

ECB REVIEW: As expected, the ECB opted to cut the Deposit Rate by 25bps. Despite the bank seemingly positioning itself for an unchanged rate today in the wake of the September meeting, soft outturns for inflation and survey data forced the hand of the Bank into easing policy. Accordingly, the ECB today reaffirmed its data-dependent credentials and reiterated that it will keep policy rates sufficiently restrictive for as long as necessary. The only minor tweak in the policy statement was that the Bank now sees inflation at 2% in the course of 2025 vs. previous guidance of H2 2025. At the follow-up press conference, Lagarde noted that there will be a lot more data available before the December 12th meeting, which suggests that there is not a preset expectation on the GC over what happens at the final meeting of the year. Furthermore, Lagarde stated that she has not opened the door to another rate reduction in December. That being said, she noted that there is no question that policy is currently restrictive. With regards to today's decision, the President noted that it was a unanimous one on the GC. Overall, the ECB remains in the midst of its rate-cutting cycle, however, is remaining as flexible in its guidance as it can when it comes to the specific policy path it will undertake. Market pricing fully prices another 25bps rate cut in December with a further 115bps of easing seen in 2025. In wake of the meeting, Reuters ECB sources suggested a December cut is to be expected, unless economic data shows a marked turnaround. The sources specified that policymakers expect a further move at the December 12th meeting barring a major rise in data such as core and services inflation, or in indicators of economic growth. They also added that US elections and threat of fresh trade tariffs if Trump is elected were seen as a major source of uncertainty. In addition, Bloomberg sources largely echoed this, saying ECB officials see a December cut very likely with the 2% goal nearer.

CBRT REVIEW: The CBRT maintained its Weekly Repo Rate unchanged at 50% as widely expected. The statement suggested "the uncertainty regarding the pace of improvement in inflation has increased in light of incoming data", whilst flagging a risk to the disinflation process. The central bank reiterated the tight monetary stance will be maintained until a significant and sustained decline in the underlying trend of monthly inflation is observed, whilst the statement also suggested the Committee will make its decisions in a predictable, data-driven and transparent framework. Analysts at BBVA suggest the CBRT maintained a similar tone to the September MPC despite the September inflation figures – "We maintain our first rate cut expectation in December with a 250bps cut, where the timing and magnitude would depend on how the monthly inflation trend is improving", the desk said.