Central Bank Weekly - 08th November 2024

Previewing BoJ SOO, Minutes from ECB and Riksbank; Reviewing FOMC, BoE, RBA, BCB, Norges Bank and BoC Minutes

PREVIEWS

BOJ SOO (MON): The BoJ will release the Summary of Opinions from its October 30th-31st meeting where it provided no major surprises as it kept the short-term policy rate at 0.25%, as expected, which money markets were pricing a 99% likelihood of ahead of the announcement. The central bank also refrained from any fresh policy clues as it noted that it will conduct monetary policy from the perspective of sustainably and stably achieving the 2% price target and given that real interest rates are at very low levels, the BoJ will continue to raise the policy rate if the economy and prices move in line with its forecast. However, it also noted that uncertainty surrounding Japan's economy and prices remains high, and the BoJ must be vigilant to financial and FX market moves and their impact on the economy and prices. Furthermore, the BoJ said it must scrutinise US and overseas economic developments and market moves, as well as be vigilant to their impact on Japan's economic and price outlook, risks and likelihood of achieving projections, while the projections in the Outlook Report were mostly kept unchanged with attested to the lack of fireworks from the meeting. Nonetheless, the yen began to strengthen after the dust settled as participants digested the announcement which showed a lack of deviation from the BoJ's current path despite the current political uncertainty and after the central bank noted that risks to prices are skewed to the upside for FY 2025. BoJ's Governor Ueda also provided a hawkish tone at the press conference where he noted that they did not need to use the language at this meeting that they can afford to spend time scrutinising risks, as well as stated that they will start to see the possibility of the next rate hike when the certainty of meeting the outlook heightens.

RIKSBANK MINUTES (WED): As expected, the Riksbank delivered a 50bps cut bringing its policy rate to 2.75% (prev. 3.25%), but also vs some outside expectations of a smaller magnitude 25bps cut. The Bank noted that for today's decision, "to further support economic activity, the policy rate needs to be cut somewhat faster than was assessed in September". Forward guidance was largely a reiteration of the guidance communicated at the September meeting, noting that the "policy rate may also be lowered in December and H1 2025". The Bank also decided that its long-term nominal government bonds should be SEK 20bln, meaning bond sales should continue until end-2025. EUR/SEK initially knee-jerked higher on the back of the policy announcement, then traded choppily a few moments later, before ultimately stabilising around pre-release levels. The Riksbank Minutes next week will provide further details on the Bank's discussions behind favouring a 50bps cut, and may potentially contain any details on what board members are focusing on, ahead of the December meeting. On that, both SEB and Nordea Bank stick to their calls that the Riksbank will deliver a 25bps cut at each of the next three meetings.

ECB MINUTES (THU): As expected, the ECB opted to cut the Deposit Rate by 25bps. Despite the bank seemingly positioning itself for an unchanged rate 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 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 the decision, the President noted that it was a unanimous one on the GC. As ever, given the time lag between the meeting and the publication of the accounts, markets will likely deem the release as stale.

REVIEWS

FOMC REVIEW: The Federal Reserve cut rates by 25bps to 4.50-4.75%, in line with market pricing and analyst expectations, and in a unanimous decision. The statement saw some changes, it removed language that it "has gained greater confidence that inflation is moving sustainably toward 2 percent". It also adjusted its explanation of why the Fed cut rates, to "in support of its goals, as opposed to "in light of the progress on inflation and the balance of risks". Fed Chair Powell confirmed in the press conference these changes are not meant to send a signal on policy, but the language beforehand was a test for the Fed to cut rates, but now they have started to ease policy, that test has already been completed. The statement changes further confirm the Fed's commitment that they are focused on both sides of the Fed's mandate, as opposed to just inflation. The Fed maintained language that risks to both sides of the mandate are "roughly in balance" and it still describes inflation as "somewhat elevated" and acknowledged that labour market conditions have generally eased. Fed Chair Powell noted the economy is strong, labour market remains solid, and that inflation has eased substantially. He also noted that downside risks have diminished. He also kept his options open again, noting they can move more quickly or they can move more slowly, depending on how the economy reacts. Powell believes the Fed is on the "middle path", noting they have to be careful not to move too quickly, or too slowly. But they will be careful to increase the probability they get the easing process right. Note, money markets are almost fully pricing in a 25bps rate cut for December. Looking ahead, in wake of the decision, both JPMorgan and Goldman Sachs have changed their 2025 Fed rate cut calls to quarterly cuts from March.

BOE REVIEW: As expected, the MPC opted to lower the Bank Rate by 25bps to 4.75%. The decision to do so was made via an 8-1 vote split with arch-hawk Mann the lone dissenter in voting for an unchanged rate. Within the policy statement, the MPC reiterated that it "will ensure Bank Rate is restrictive for sufficiently long until the risks to inflation returning sustainably to 2% target have dissipated further". Furthermore, it was noted that a gradual approach to removing policy restraint remains appropriate and Governor Bailey remarked that the MPC cannot cut rates too quickly or by too much. The accompanying MPR saw an upgrade to 2025 and 2026 inflation forecasts with the BoE noting that the UK budget is "provisionally expected to boost inflation by just under 0.5ppts at peak between mid 2026 and early 2027". That being said, ING cautions that there is a big caveat to the forecasts. This being, "that the Bank hasn't accounted for the market reaction to the latest budget in its new forecasts". If they had, the upgrades to inflation and growth forecasts would have been more modest. At the follow-up press conference, when questioned on the impact of the UK budget on monetary policy, Governor Bailey remarked that the MPC needs to see how it will impact inflation, however, he does not think that the paths of rates will be different to what it would have been otherwise. On the rate path, Bailey refused to provide specifics regarding what "gradual" means when it comes to lowering rates. However, he did note, that if progress on inflation continues, the MPC will respond to it. Note, Bailey refrained from providing a view on the potential impact of expectations of tariffs from the incoming Trump government. Overall, the market has judged that the latest UK budget has forced the MPC to adopt a relatively hawkish stance compared to its peers. Accordingly, odds of a December cut sit at just 20% with a total of 65bps of cuts seen by end-2025.

RBA REVIEW: There was a lack of fireworks from the RBA meeting this week where it opted to keep the Cash Rate unchanged for the 8th consecutive meeting which economists had unanimously forecast, while the rhetoric provided little fresh insight as it reiterated that the board will continue to rely upon the data and evolving assessment of risks, as well as noted that inflation remains too high and is not expected to return sustainably to the midpoint of the target until 2026. Furthermore, it stated that policy will need to be sufficiently restrictive until the board is confident that inflation is moving sustainably towards the target range and it repeated that the board is not ruling anything in or out. The latest quarterly Statement on Monetary Policy noted that core inflation remains elevated with service inflation expected to decline only gradually and that policy in Australia is not as restrictive as in most peer countries, even after recent rate cuts abroad, while the RBA lowered its GDP, household consumption, trimmed CPI and core inflation forecasts. The post-meeting press conference also provided little in the way of fresh clues as RBA Governor Bullock stated that the last part of bringing inflation down is not easy and rates need to stay restrictive for the time being, while she thinks there are still risks on the upside for inflation but noted they will be ready to act if the economy turns down more than expected. Furthermore, she said they have the right settings at the moment and there were no discussions on specific scenarios for rate changes, as well as stated the current Cash Rate path priced by the market is as good as any.

BCB REVIEW: The Brazilian Central Bank raised the Selic rate 50bps to 11.25%, as expected, in a unanimous decision, with the Copom noting that the global environment remains challenging, due mainly to the uncertain economic outlook in the US. On the domestic scenario, the bank added the set of indicators on economic activity and labour market continues to exhibit strength, while headline inflation and measures of underlying inflation are above the inflation target in recent releases. As such, BCB stated that the pace of future adjustments, and also the total magnitude, will be determined by the firm commitment of reaching the inflation target and will depend on the inflation dynamics. On inflation, expectations for 2024 and 2025 collected by the Focus survey are around 4.6% and 4.0%, respectively. Looking ahead, Pantheon Macroeconomics notes, while this rate hike signals a commitment to combating inflation, it also raises broader concerns about fiscal credibility and its implications for monetary policy.

NORGES BANK REVIEW: As expected, Norges Bank left its Key Policy Rate unchanged at 4.50% and noted that "the policy rate will most likely be kept at 4.5% to the end of 2024"; in-fitting with the guidance seen at the September meeting, which points to a first cut to be delivered in Q1-2025. The Bank once again brought focus on the NOK, noting that the "krone has been (a) little weaker than assumed" - a factor which has continued to play against any dovishness at recent meetings. Following the announcement, the NOK saw very modest strength, but ultimately EUR/NOK settled around pre-announcement levels given the lack of surprises. December’s meeting could be more pertinent given that it is a full MPR and as such we receive a set of updated forecasts; forecasts which could provide some clue as to which Q1-2025 meeting (Jan. MPU and/or Mar. MPR) the Norges Bank is targeting.

BOC MINUTES REVIEW: After the BoC's 50bps rate cut in October, the minutes noted the BoC felt that upside pressures on inflation will continue to decline, so policy did not need to be restrictive. The minutes also revealed that the BoC considered the merits of cutting by 25bps and 50bps, but there was a strong consensus for going ahead with the larger move. Some were concerned a 50bp cut might be interpreted as a sign of economic trouble, leading to expectations of further moves of this size or that rates would need to become very accommodative in the future. However, members wanted to convey it was appropriate given economic data seen since July. Also, the BoC agreed, given uncertainties on growth and inflation, they would proceed on a meeting-by-meeting basis, guided by data. Looking ahead, money markets are torn between another 50bps rate cut or a return to a more traditional 25bps approach in December, with it currently priced at a coin flip. Looking through to 2025, money markets are pricing in 100bps of easing from now, to c. 2.75%, which is within the BoC's estimate of the neutral range - between 2.25-3.25%. However, if the BoC was to go ahead with another 50bps rate cut, it would take rates to the top end of their neutral estimate.