Central Bank Weekly - 15th November 2024

Previewing RBA Minutes, CBRT, and SARB; Reviewing BoJ SOO and Banxico

PREVIEWS

RBA MINUTES (TUE): The minutes as usual will be dissected for any commentary regarding potential policy steps ahead, whilst it was already telegraphed that the Board did not actively consider a rate hike or cut – just as in September. As a reminder, the most recent meeting saw a lack of fireworks from the RBA meeting, where it opted to keep the Cash Rate unchanged for the 8th consecutive meeting which economists had unanimously forecast. 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.

CBRT ANNOUNCEMENT (THU): The Turkish Central Bank is expected to maintain its One-Week Repo Rate at 50.00%. Desks were split on a December cut, but recent CPI data topped expectations and did not slow as much as had been hoped, whilst the CBRT in its final inflation report of the year raised its 2024 inflation forecast to 44% (prev. 38%), raised its 2025 forecast to 21% (from 14%) and raised its 2026 forecast to 12% (from 9%) – implying a delay in Türkiye's disinflation process. That being said, analysts at ING suggest that “While addressing structural challenges related to food and rent inflation, the CBT's relatively positive assessment of the October data and projected inflation path suggests that a rate cut in December should not be fully ruled out if we see more benign data releases in November. That said, economic activity may be headed for a further slowdown given the significantly tight financial conditions, and a deeper-than-expected impact could also be a key factor in the timing of the cutting cycle.”

SARB ANNOUNCEMENT (THU): Expected to deliver a 25bps cut, bringing its interest rate down to 7.75% from 8.00%, according to 20/22 respondents to the Reuters survey; the remaining two look for a 50bps move. The median forecasts then point to further cuts in January, March & May taking the rate to a 7.00% trough. As a reminder, headline annual inflation slowed to 3.9% in September vs the prior 4.4%; which is below the mid-point of the Bank’s target range; paving the way for further easing. Analysts at Standard Chartered, wrote that “we think the SARB will want to proceed cautiously, monitoring global risks and any consumption boost from South Africa's recent Two Pot Pension Reforms”. In terms of the prior meeting, the SARB delivered a 25bps cut for the first time since COVID; a unanimous decision which matched analyst expectations. The accompanying statement noted that "as long as headline inflation stabilises at lower levels, we anticipate further progress in re-anchoring expectations around the middle of our target range".

REVIEWS

BOJ SOO REVIEW: October’s Summary of Opinions provided no major surprises like the actual meeting itself and continued to suggest the BoJ will continue with its policy normalisation but with a lack of urgency for immediate hikes amid uncertainty. BoJ SOO noted that a member said there is no change to the BoJ's stance that it will adjust the degree of monetary support if its economic and price forecasts are met and a member said they must remain vigilant regarding the overseas economic outlook and market movements. There was also the opinion that risk of a US hard landing is subsiding but it cannot yet be said with certainty that markets are stabilising, while it was noted that the BoJ must communicate clearly that it will continue to raise the policy rate if its economic and price forecasts are met. Furthermore, a member said the BoJ must take time and move cautiously in raising rates although a member also stated that Japan is not in a phase where it needs massive monetary support, so the BoJ can consider additional rate hikes after pausing temporarily to gauge US economic developments.

BANXICO: Banxico cut the benchmark interest rate by 25bps to 10.25%, as expected, in a unanimous decision, which goes against the prior meeting where Heath dissented in favour of an unchanged move. It is the third consecutive cut as core inflation continues to decline, economic activity in key subsectors struggles, and in response to the most recent rate cut from the Federal Reserve. Within the decision, the Mexican Central Bank highlighted significant episodes of volatility in global financial markets, along with rising interest rates and a strengthening US Dollar, as policymakers noted the deteriorating global backdrop, including risks to “global economic integration, persistent inflationary pressures, and increased volatility in financial markets”. As such, the balance of risks to the growth of economic activity remained biased to the downside. On inflation, the forecast for headline inflation was revised upwards in the short term due to the supply shocks, with Q4-2024 annual average headline inflation seen at 4.7% (prev. 4.3%), although the Central Bank still sees headline inflation converging to target in Q4 2025. Looking ahead, the Board expects that the inflationary environment will allow further reference rate adjustments and it will consider the prospects of global shocks continuing to fade and the effects of the weakness in economic activity. Overall, Pantheon Macroeconomics notes the tone of the communiqué remains dovish, suggesting that the Board is committed to further policy normalisation in the near term, assuming that the MXN stabilises.