Central Bank Weekly - 22nd November 2024

Previewing FOMC Minutes, RBNZ, BoK; Reviewing CBRT, SARB

PREVIEWS

FOMC MINUTES (TUE): At its November meeting, the FOMC 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%"; 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 were not meant to send a signal on policy, but the language beforehand was a test for the Fed to cut rates, and now that it has started to ease policy, that test has already been completed. The statement changes further confirmed 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", while it acknowledged that labour market conditions have generally eased. In his Q&A, Powell noted the economy is strong, the labour market remains solid, and that inflation has eased substantially. He also noted that downside risks have diminished, and kept his options open again, noting that the FOMC 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 that they must 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. Since the meeting, money market pricing has become slightly more hawkish on the future trajectory for Fed rate cuts, following a string of strong economic data, and remarks from Fed Chair Powell himself. On inflation, Powell has said that it has eased substantially from its peak, and is on a sustainable path to the Fed's 2% goal; he expects inflation to continue to come down toward target, albeit on a sometimes-bumpy path; but while inflation was running much closer to our 2% target, it is not there yet, and the Fed is committed to finishing the job. Powell noted that recent economic data has been "remarkably good," where growth in consumer spending has remained strong, while the labour market remains in "solid condition," and is now back to more normal levels that are consistent with its employment mandate. On policy, he said the economy was not sending any signals that the Committee needs to be in a hurry to lower rates, and that the strength currently being seen gives officials scope to approach decisions carefully.

RBNZ POLICY ANNOUNCEMENT (WED): The RBNZ is expected to continue cutting rates with money markets pricing a 70% likelihood for the central bank to lower the Official Cash Rate by 50bps to 4.25% from the current 4.75% level and less than a 30% chance of a greater 75bps move. As a reminder the RBNZ delivered a 50bps cut to the OCR at the last meeting in October as widely expected by the majority of economists and which money markets had priced around a 93% likelihood of heading into the announcement. The RBNZ said at the meeting that New Zealand is now in a position of excess capacity and low import prices have assisted disinflation, while the Committee assessed annual consumer price inflation is within its 1-3% target and noted it was appropriate to cut the OCR by 50bps to achieve and maintain low and stable inflation. The Minutes from the meeting stated the Committee confirmed future changes to the OCR would depend on its evolving assessment of the economy and that they discussed the respective benefits of a 25bps versus a 50bps cut in the OCR but decided a 50bps cut at the time was the most consistent with the Committee’s mandate of maintaining low and stable inflation. Furthermore, the central bank stated that the new OCR level of 4.75% is still restrictive and leaves monetary policy well-placed to deal with any near-term surprises. The comments from officials since then suggest the likelihood of further cuts as RBNZ's Orr suggested low and stable inflation is in sight and they must be cognisant of unanticipated risks ahead, while he added they must at times act swiftly to avoid perils and that New Zealand’s monetary policy is still at a restrictive level. He added that the real economy is lagging a reduction in interest rates which is a concern and they can be more incremental and circumspect on the way down. RBNZ Deputy Governor Hawkesby also noted that domestic economic challenges remain, and unemployment is expected to rise further. The data releases also point to a cut after employment contracted in Q3 with Jobs Growth QQ at -0.5% vs. Exp. -0.4% (Prev. 0.4%), while CPI YY softened as expected to 2.2% vs. Exp. 2.2% (Prev. 3.3%) which is comfortably within the central bank’s medium-term target of between 1% and 3%.

BOK POLICY ANNOUNCEMENT (THU): The central bank is likely to pause after cutting rates at the previous meeting in October. As a reminder, the central bank lowered its base rate by 25bps to 3.25% at the last meeting which was widely expected but with the decision not unanimous as board member Chang Yong-Sung dissented and the central bank also voted to lower the policy interest rate for special loan programmes. The BoK said it will thoroughly assess trade-offs among inflation, growth, and financial stability, as well as noted that South Korea's economy is to continue moderate growth and the BoK will carefully determine the pace of further cuts to the base rate. BoK Governor Rhee revealed after the meeting that five board members said keeping the policy rate at 3.25% is appropriate for the next three months and one board member was open to a further cut in the three months ahead, while Rhee added that the policy decision could be viewed as a hawkish cut. Furthermore, he said they will look at property prices, Q3 growth figures and the pace of household debt growth for the rate review in November, as well as noted that they will look at financial stability risks for any further rate reduction decisions and the pace of rate cuts will be slower in South Korea compared with the US. This suggests a lack of urgency for the central bank to follow through with a consecutive rate cut although recent data releases suggest a further reduction cannot be ruled out. Advanced GDP for Q3 missed forecasts at 0.1% vs. Exp. 0.5% (Prev. -0.2%) and YY at 1.5% vs. Exp. 2.0% (Prev. 2.3%), while the latest CPI data for October was also softer than expected with M/M at 0.0% vs. Exp. 0.2% (Prev. 0.1%) and Y/Y at 1.3% vs. Exp. 1.4% (Prev. 1.6%).

REVIEWS

CBRT: Turkey's central bank kept rates unchanged at 50.00%, in line with the market consensus. Analysts noted a new addition to the central bank's statement: it said "the level of the policy rate will be determined in a way to ensure the tightness required by the projected disinflation path, taking into account both realized and expected inflation"; some analysts have made the case that this implies the central bank will be more focussed on forecasts for inflation to fall over the coming year, suggesting that the start of the easing cycle may be closer. Goldman Sachs said it continues to forecast an initial small 100bps cut in January. "The Bank's end-year forecast at 44% is in line with ours," GS notes, "it requires an average inflation rate of 1.5% in November and December - in our view this is realistic, but given the past upside surprises, we think the Bank will first want to see inflation fall in line with its forecasts before starting an easing cycle." Additionally, GS thinks the CBRT will want to wait for the determination of the minimum wage hike and how it affects inflation in January. "On the wage cut, President Erdogan's comments were noteworthy, where he linked the increase to expected rather than backward inflation, following the advice from CBRT and the economic policy makers; however, he also made clear that the expected increase will be positive in real terms." Accordingly, GS thinks that economic policy will continue to be set to avoid meaningfully negative growth, and therefore, the CBRT will still need to keep a highly restrictive policy stance in the quarters ahead.

SARB: South Africa's central bank lowered its Repo Rate by 25bps, to 7.75%, as expected. Capital Economics notes that the Governor sounded more optimistic now that inflation is under control. "Lingering concerns about the vulnerability of the rand and the growing likelihood that the inflation target is lowered mean the SARB will continue to move in cautious 25bps steps, but for now we remain comfortable with our forecast for the repo rate to be lowered to a below-consensus 6.25% by the end of next year," CapEco wrote.