newsquawk

Central Bank Weekly: 29th November 2024

Previewing RBI; Reviewing FOMC Minutes, RBNZ and BoK

PREVIEWS

RBI POLICY ANNOUNCEMENT (FRI): The RBI is widely expected to keep rates unchanged as a recent Reuters poll showed 62 out of 67 economists expect the RBI to keep the Repurchase Rate unchanged at the current level of 6.50% and the rest expect a 25bps cut which is a considerable shift from a survey conducted in the latter half of October that showed a near-even split between a hold and a 25bps cut for the December meeting. As a reminder, the central bank unsurprisingly kept the Repurchase Rate unchanged at 6.50% via a 5-1 vote (prev. 4-2) and unanimously decided to switch to a neutral stance from a previous stance of remaining focused on the withdrawal of accommodation which was seen as paving the way for future cuts. Governor Das stated during the policy address that a moderation in headline inflation was expected to reverse in September and will remain elevated in the near term, while food inflation pressures could see some easing later in the year and the MPC is to remain watchful of the evolving outlook in coming months. The minutes from the meeting provided some insight into the thinking of the MPC's three new external members including Nagesh Kumar who was the lone dissenter at the meeting and voted for a 25bps cut as he believed it was an opportune moment for the RBI to start the process of normalising monetary policy. The rhetoric from the central bank since then points to a lack of urgency to act as Governor Das stated that a rate cut at this stage would be premature and risky, while he was relatively tight-lipped after Commerce Minister Goyal called for interest rate cuts to stimulate economic growth and suggested food price inflation should not play a role in the RBI interest rate decisions, with Das responding that he would reserve his remarks until the December monetary policy review. Furthermore, a weak currency which recently hit fresh record lows against the dollar and prompted several touted interventions could also compel the central bank to refrain from cutting rates. Furthermore, data also supports the case for a pause as CPI Inflation YY for October rose to outside the central bank's 2-6% tolerance range at 6.21% vs. Exp. 5.81% (Prev. 5.49%) and Industrial Production YY in September rebounded to 3.1% vs. Exp. 2.5% (Prev. -0.1%).

REVIEWS

FOMC MINUTES REVIEW: Minutes of the FOMC's November 7th meeting, where the central bank slowed the pace of rate cuts to a 25bps increment, stated that participants emphasised gradual easing towards a neutral stance due to uncertainty about the neutral rate. While some suggested holding restrictive rates if inflation remains high, some also proposed accelerated easing if the labour market or economic activity weakens. Most agreed risks to price stability and maximum employment were balanced. Participants noted that inflation has eased substantially from its peak, though core inflation remains elevated. Most believe data supports inflation returning to 2%, with disinflation observed broadly. A few noted the process could take longer than expected. Many observed diminished risks of excessive cooling in the jobs market compared to September. Analysts said the minutes provide limited clarity on whether a 25bps rate cut or a pause will be seen at the Fed's December meeting; much will depend on the upcoming employment and CPI data. The minutes said that some participants felt that the Fed should pause easing if inflation remains elevated, while others suggested easing could accelerate if labour or economic conditions deteriorate, though employment and growth risks had diminished. October's inflation data was slightly higher, and payrolls were weak; the minutes suggested that most participants saw employment and inflation risks as balanced. In wake of the release, markets were ultimately little changed; money markets are currently discounting around 66% chance of a 25bps rate cut at the December meeting. Commenting after the minutes' release, analysts at Barclays reiterated their baseline view that the Fed will deliver another 25bps cut in December, though that outcome likely hinges upon the magnitude of the bounce back in payroll employment in next week's November payrolls report. "We expect two more 25bps cuts next year, in March and December, pending news about the magnitude of [Trump] tariffs and the implementation timeline," it added.

RBNZ REVIEW: RBNZ cut the OCR by 50bps to 4.25%, as expected, while it stated the OCR was lowered further as inflation is returning to the target and that it expects to cut the OCR again early next year. RBNZ noted global economic growth is to remain subdued in the near term but it expects the economy to recover over 2025. Furthermore, the central bank lowered its OCR forecasts across the projection horizon with the March 2025 view at 4.07% (prev. 4.62%), December 2025 view at 3.55% (prev. 3.85%) and March 2026 view at 3.43% (prev. 3.62%). The RBNZ's decision underpinned the local currency despite the central bank cutting rates as there were outside bets for a greater move and as the projections pointed to a slowing of the RBNZ rate cutting cycle next year, while the forecast for year-end 2025 was also above what money markets were pricing. Nonetheless, RBNZ Governor Orr said during the post-meeting press conference it was a 'misnomer' that projections showed a slower pace of cuts and stated that projections are consistent with a 50bps cut in February depending on activity, while he added the track suggests a sharper reduction in the Cash Rate than projected in August and leaves the door open to further 50bps cut in February. Conversely, RBNZ Assistant Governor Silk acknowledged the following day that the RBNZ's forecasts showed a slower pace of easing after February and noted that a rate cut of either 25bps or 50bps will be on the table for the February meeting.

BOK REVIEW: The Bank of Korea cut its Base Rate by 25bps to 3.00% (exp. unchanged at 3.25%) which was a surprise as many had forecast the central bank to keep rates on hold given that it had just cut rates at the prior meeting in October where five board members had said keeping the policy rate at 3.25% is appropriate for the next three months and with only one board member said to be open to a further cut within three months. Nonetheless, the decision by the BoK to deliver a second consecutive rate cut was not unanimous as board members Chang Yong-Sung and Ryoo Sang-Dai dissented, while the BoK said it will thoroughly assess the impact of the base rate cut on inflation, growth, and financial stability, as well as assess trade-offs among policy variables in determining the pace of further cuts. BoK Governor Rhee noted that three board members were open to rate cuts in the three months ahead and those members said that gradual easing looks appropriate, while Rhee said they had an extensive discussion about the impact of the rate cut on FX and will take steps to stabilise the FX market if needed. Furthermore, the BoK will monitor the impact of the rate cut on FX and the economy, as well as coordinate with the government to ease FX volatility if needed. Rhee also said that rapid moves in FX rates need to be curbed and they have tools to stabilise the pace of FX moves. The rhetoric from Governor Rhee suggests concern about recent FX price action which could force the central bank to pause at the next meeting in January, especially given tariff-related uncertainty associated with Trump's impending return to the White House. However, a further cut at the next meeting is also a viable option considering the recent below-par data releases from South Korea such as softer-than-expected monthly CPI and disappointing Q3 GDP.