newsquawk

Central Bank Weekly: 6th December 2024

Previewing ECB, RBA, BoC, SNB, SNB, BCB; Reviewing RBI

PREVIEWS

RBA POLICY ANNOUNCEMENT (TUE): The RBA is likely to keep rates unchanged at its meeting next week with a recent Reuters poll showing unanimous forecasts for the central bank to remain on pause, while money markets are pricing an 85% for the Cash Rate to be kept at 4.35% and just a 15% likelihood of a 25bps cut. As a reminder, the central bank opted to keep the Cash Rate unchanged for the 8th consecutive meeting last month 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 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. Bullock also noted that 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. The minutes from the meeting further suggested a lack of urgency to act as it noted the Board is vigilant to upside inflation risks and policy needs to remain restrictive, while it saw no immediate need to change the Cash Rate and would need more than one good quarterly inflation report to justify a rate cut. The rhetoric from officials since then continues to suggest the central bank is keeping its options open as Governor Bullock stated the RBA will be in a position to consider rate cuts at some point, as long as inflation continues on its gradual slowing path and the Board can respond if inflation falls more quickly than forecast, as well as noted that they do not need inflation to be at the target to cut, but needs to be sure that it is heading there. Furthermore, a couple of the big 4 banks in Australia have adjusted their rate cut calls including ANZ Bank which pushed back its forecast for the first RBA rate cut to May next year from February and now only sees two 25bp cuts vs a prior view of three cuts, while Westpac also now expect the RBA to start cutting rates in May 2025 vs. a prior forecast of February 2025, although money markets have recently shifted to fully pricing a first cut in April after disappointing Australian GDP data for Q3.

BOC POLICY ANNOUNCEMENT (WED): The BoC is widely expected to cut rates on Wednesday 11th December, although money market pricing suggests the magnitude will be either a 25 or 50bps move. Markets were pricing in the decision to be a coin toss between a 25 or 50bps reduction. Recent data has been mixed, the latest Inflation report saw inflation come in hotter than forecast while growth data disappointed. However, the November jobs report was dovish with a notable rise in the unemployment rate, this saw markets lean more towards a 50bps rate cut, with 43bps of easing currently priced, implying a c. 70% probability of another 50bps rate cut. The prior BoC meeting saw the central bank cut rates by 50bps, a decision made to support economic growth and keep inflation close to the middle of the 1-3% target range. Participants have been questioning whether the BoC will go ahead with another 50bps rate cut to support economic growth, or perhaps slow to a 25bps rate cut due to the recent uptick in inflation, but the recent jobs report has seen these expectations lean towards the more dovish outcome. Note, that this meeting will not see an update to the monetary policy report and economic forecasts.

BCB POLICY ANNOUNCEMENT (WED): The BCB is expected to hike rates by 75bps next week, according to 31/40 economists surveyed by Reuters, with 5 expecting a 50bps hike and four looking for a 100bp hike. There has been a notable weakening in the BRL recently after the recent fiscal package announcements from the government. The spending cuts and income tax reform were perceived poorly and enhanced fiscal fears in Brazil, this took USD/BRL to a peak of 6.1150, the highest level on record. Meanwhile, recent economic data has shown the economic resilience of the Brazilian economy in Q3, with GDP growth of 0.9% Q/Q and 4.0% Y/Y, and is supported by strong domestic fundamentals like low inflation and a robust labour market, analysts have said. However, November's inflation data showed a surge, driven by food and transportation costs, with the IPCA-15 rising +0.6% M/M and 4.8% Y/Y, both higher than expected. Given these developments, the BCB is likely to maintain a cautious stance, continuing its tightening cycle to combat rising inflation and persistent inflation expectations, Pantheon Macroeconomics said. The consultancy expects that the impact of high real interest rates and external pressures, including a weak global trade environment, are expected to start weighing on economic activity ahead. Accordingly, Pantheon expects the BCB to raise its Selic rate by 50bps on December 11th, as it aims to curb inflationary pressures and anchor price stability. Looking ahead, the latest weekly analyst survey by the BCB saw the year ahead Selic rate between 12.5 and 12.75%, up from the prior week's 12.25%.

ECB POLICY ANNOUNCEMENT (THU): Expectations are for the ECB to cut the deposit rate by 25bps to 3.0% with markets assigning a circa 85% chance of such an outcome (with a 15% probability for a 50bps rate cut). The prior meeting in October saw the ECB pull the trigger on a 25bps rate cut despite policymakers initially positioning themselves for a pause in the wake of the September meeting. Since the October meeting, focus has increasingly been on growth metrics with survey data showing a marked drop in the November Eurozone Composite PMI to 48.1 from 50.0 with heavy pessimism surrounding the French economy. The accompanying release noted "the eurozone's manufacturing sector is sinking deeper into recession, and now the services sector is starting to struggle after two months of marginal growth." On the inflation front, headline Y/Y CPI rose in November to 2.3% from 2.0%, which was largely expected on account of base effects. Core inflation remained at a stubborn level of 2.7% whilst services inflation ticked marginally lower to 3.9% from 4.0%. The tone of messaging from ECB officials has failed to endorse a 50bps move with the influential Schnabel of Germany going as far as saying that she sees only limited room for additional cuts, whilst other members have also stressed a cautious approach to rate cuts. Overall, despite the weak growth outlook for the Eurozone which is also complicated by Trump's return to the White House, developments on the inflation front suggest there is still more work done to return inflation to target. In recent weeks, policymakers have also stressed the need for the Bank to step away from recent data dependency and focus on forward-looking expectations. On which, the accompanying macro projections are likely to be viewed as stale given that the cut-off date did not encapsulate the latest French political woes, whilst as highlighted by ING, "the ECB normally also applies a 'no policy change' assumption to its forecasting. ING expects projections to be little changed vs. September. As such, those on the GC looking for a 50bps cut are unlikely to be supported by the latest forecasts. Looking beyond the upcoming meeting, assuming the ECB cuts by 25bps, an additional 130bps of loosening is seen by end-2025.

SNB POLICY ANNOUNCEMENT (THU): Expectations are for the SNB to lower rates by 25bps to 0.75% (8 surveyed look for a 25bps cut, 4 look for 50bps). Market pricing sees a 56% chance of a 50bps cut and a 44% chance of a smaller 25bps move. As such, the decision is finely poised in the eye of the market and likely to generate some traction for CHF. As a reminder, at the prior meeting, the SNB opted to cut its policy rate by 25bps to 1.0% while signalling that further cuts were likely and stated that it is prepared to intervene in the FX market as necessary. In terms of the economic backdrop for the meeting, inflation has remained lacklustre with an average rate of 0.7% over the prior quarter which is some way south of the SNB's Q4 forecast of 1.0%. From a growth perspective, Q3 GDP slowed to 0.4% Q/Q from the Q2 rate of 0.6%. Crucially for the SNB, Capital Economics highlights that the CHF is weaker than it was at the time of the last meeting. As a reminder, the board previously highlighted the negative impact that CHF strength was having on the domestic economy. Capital Economics favours a smaller 25bps move on the basis that the SNB will likely maintain its gradual approach to loosening policy after avoiding such a move at the time of the last meeting. However, it is worth noting that the SNB only meets on a quarterly basis (ie. less frequently than most other major central banks) and comments from SNB Chair Schlegel have been particularly dovish in which he noted that he can't currently rule out a return to negative interest rates. This allied with the soft outturn for inflation could easily make the case for a 50bps move. In the event that the SNB goes with a 25bps cut, accompanying commentary is likely to remain dovish. Looking beyond the upcoming meeting, Capital Economics looks for 25bps cuts at the March and June meetings, reaching a terminal rate of 0.25%.

REVIEWS

RBI: RBI kept the Repurchase Rate unchanged at 6.50%, as expected, while it maintained its neutral stance with the rate decision made by 4 out of 6 voting in favour of a hold and the policy stance vote was unanimous. However, RBI Governor Das later announced a surprise cut to the Cash Reserve Ratio by 50bps to 4.00% that will take effect in two tranches of 25bps each on December 14th and December 28th which will infuse liquidity of INR 1.16tln. Das said price stability is a mandate given to them and growth is also very important, while he noted the last mile of disinflation is prolonged and recent growth slowdown will lead to downward revision for full-year growth. Das acknowledged that inflation crossed the upper band and food inflation pressures will linger with food prices to start easing only in Q4, while headline inflation is likely to be elevated in Q3 and he noted a status quo in this policy is appropriate and essential. Das said the near-term inflation and growth outlook has turned somewhat adverse, while India's FY25 real GDP growth forecast was cut to 6.6% versus 7.2% previously and the FY25 CPI inflation forecast was raised to 4.8% versus 4.5% previously. Das also announced the RBI is to introduce a new benchmark called the secured overnight rupee rate. Also, in order to attract more capital inflows, it is to increase the interest rate ceilings on FCNR-B deposits.