

Previewing RBA, RBNZ, FOMC Minutes, PBoC LPR; Reviewing Fed Chair Powell, BoC Minutes

PREVIEWS

RBA ANNOUNCEMENT (TUE): The RBA is expected to cut rates with money markets pricing an 86% probability the Cash Rate will be cut by 25bps to 4.10% and just a 14% chance for rates to be kept at the current level of 4.35%. As a reminder, the RBA provided no surprises at the last meeting in December where it kept the Cash Rate unchanged as widely expected and noted that some upside risks to inflation appear to have eased, while the Board is gaining some confidence that inflation is moving sustainably towards the target but also noted that underlying inflation remains too high and the outlook remains uncertain. The RBA also stated that the Board will continue to rely upon the data and the evolving assessment of risks to guide its decisions and while underlying inflation is still high, other recent data on economic activity have been mixed, but on balance, were softer than expected in November and wage pressures have eased more than expected. Furthermore, the minutes revealed the central bank noted that policy needed to be "sufficiently restrictive" until confident about inflation and the Board had minimal tolerance for inflation remaining above target for too long. RBA Governor Bullock also stated at the post-meeting press conference that they need to think carefully about policy and need to see more progress on underlying inflation, as well as noted that she does not know if the RBA will cut rates in February and will have to watch data. This suggested that all options were on the table for February, while there has been a recent shift of the consensus heavily towards a cut with all big 4 banks in Australia now anticipating a cut next week given the recent inflation data as all CPI figures for Q4 printed softer-than-expected in which headline Australian CPI YY decelerated to 2.4% vs. Exp. 2.5% (Prev. 2.8%) and the RBA's preferred Trimmed Mean CPI YY softened to 3.2% vs. Exp. 3.3% (Prev. 3.5%).

RBNZ ANNOUNCEMENT (WED): The RBNZ is expected to continue cutting rates next week with money markets pricing a 68% likelihood of a 50bps cut and a 32% chance of 25bps cut to the OCR from the current 4.25% level. As a reminder, the RBNZ delivered its third consecutive rate cut at the last meeting in November where it opted for a jumbo 50bps reduction following a similar move in October which was widely expected although there were some outside bets for a greater 75bps move. The central bank noted at the meeting that the OCR was lowered further as inflation returned to the target and it expected to continue reducing the OCR early in 2025, while it also stated that global economic growth is to remain subdued in the near term and economic activity subdued, although economic growth is expected to recover over 2025. The central bank also 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%). Furthermore, RBNZ Governor Orr said at the press conference it is a misnomer that their projections show a slower pace of cuts and stated that projections are consistent with a 50bps cut in February depending on activity. Orr also commented that the track suggests a sharper reduction in the Cash Rate than projected in August and leaves the door open to a further 50bps cut in February, while there were no plans for a 25bps or 75bps cut at that meeting. There hasn't been much rhetoric from officials since then although Assistant Governor Silk noted the following day after the meeting that RBNZ forecasts show a slower pace of easing after February and stated that a rate cut of either 25bps or 50bps will be on the table for February, while there were more recent comments from RBNZ Chief Economist Conway who stated last month that easing domestic pricing intentions and a drop in inflation expectations will help open the way for some further easing of the OCR as signalled in November. The data releases also support the case for further cuts after New Zealand's economy slipped into a recession in Q3 with GDP Q/Q at -0.8% vs. Exp. -0.4% (Prev. -0.8%) and Y/Y at -1.5% vs. Exp. -0.4% (Prev. -0.5%), while CPI and Labour Cost data for Q4 were mixed but the RBNZ Sectoral Factor Model Inflation Index softened to 3.1% (Prev. 3.4%).

FOMC MINUTES (WED): At its January policy meeting, the FOMC kept rates unchanged at between 4.25-4.50%, as expected, in a unanimous decision. The statement showed a hawkish shift, removing a reference to inflation making progress towards the 2% target while still noting inflation remains elevated; Chair Powell claims it was language clean-up, used to shorten the sentence, and was not a policy shift. The statement also described the labour market as having stabilised at a low unemployment rate, contrasting December's assessment that conditions had eased. Despite this, the Fed maintained a balanced view on risks to employment and inflation and kept its data-dependent stance on future adjustments. On several occasions, Powell emphasised that the Fed is not in a rush to adjust its policy stance, even when asked about the prospects of a March rate cut. The Fed chair noted that recent inflation readings, particularly in shelter, suggest progress, but stressed that this is not guaranteed. He acknowledged uncertainty in forecasting due to significant policy shifts but reiterated that the Fed is in a good place to monitor the economy. Powell confirmed that the Fed is above its long-run neutral rate estimate, and is closely monitoring reserve levels, with no immediate plan to end quantitative tightening. Powell also stated that the Fed is awaiting clarity on potential changes in fiscal and regulatory policies under President Trump. In his semi-annual testimonies to Congress, Powell largely reiterated the themes he spoke about in his post-meeting press conference. However, since then, the aggregate impact of the latest US jobs data, CPI and PPI data resulted in a hawkish shift to the markets' implied pricing for Fed rate cuts; at the time of writing, money markets are pricing in just 34bps of rate reductions in 2025, and have the first fully discounted cut pencilled in for October. It is worth noting the minutes are an account of the 29th January meeting, and it will not incorporate information released after that (strong jobs data, hot CPI, and PPI data).

PBOC LPR (THU): The PBoC is poised to announce its Loan Prime Rate (LPR) with no current market expectations. The one-year LPR influences most loans, and the five-year LPR affects mortgage rates. The current rates, unchanged since October 2024, stand at 3.10% and 3.60%, respectively. Despite a strategic shift in June 2024 prioritising the 7-day reverse repo rate as the key short-term policy tool, the LPR remains important for loan pricing. "While China needs lower interest rates to boost demand, policymakers want to avoid a sharp decline in bond yields and the yuan", said analysts at Natixis following last month's unchanged decision.

REVIEWS

FED CHAIR POWELL TESTIMONIES REVIEW: Overall, across the House and Senate testimony Fed Chair Powell largely reiterated commentary from the January FOMC. Between the FOMC and now, we have seen in line PCE, a strong US labour market report (with not as bad as feared annual revisions) and rising consumer inflation expectations, alongside hot inflation reports, with CPI coming in between the Chair testifying to the Senate and House. On CPI, Powell said they are close but not there, and the January inflation print says that as well, and wants to keep policy restrictive for now. The Chair added they want to see more progress on inflation and did not see much progress on core inflation last year, and have the luxury of being able to wait for that, given the strong economy. Following the CPI metrics, he offered a note of caution and said target PCE inflation is a better measure, and they will know what PCE readings are after PPI data, which also came

in hot on the headlines, but the PCE components were soft. Powell added he wants reserves to be ample and all evidence suggests reserves are abundant, and expects will return to the issue of lowering SLR. Overall, given Powell's language has not changed, it suggests the recent data has not altered the Fed Chair's thinking on future policy. This is perhaps not too surprising given the main uncertainty at the minute is the economic impact of policies enforced by US President Trump, which will take some time to filter through into the data. Powell reiterated the Fed does not need to be in a hurry to adjust policy and that it is currently well positioned to deal with risks and uncertainties. Powell reiterated the message that the Fed can maintain policy restraint for longer if the economy remains strong and inflation does not move toward 2%, but they can also ease policy if the labour market unexpectedly weakens, or inflation falls more quickly than expected. He also echoed the FOMC statement, noting the US economy is strong overall, inflation is closer to 2% goal, but still somewhat elevated. The Q&A with the Senate Banking committee was very political in nature, but Powell reiterated it remains to be seen what tariff policies will be implemented, and he does not know the effect.

BOC MINUTES REVIEW: Overall, the BoC minutes saw the Governing Council are concerned about the impacts of tariffs and retaliatory tariffs on the Canadian economy, particularly on how it will slow growth and boost inflation - putting the BoC in a difficult situation. The Minutes show that the Governing Council agreed a protracted trade conflict with the US would permanently cut the level of Canadian GDP. It also agreed that in this case, Canadian GDP growth would be reduced until the economy adjusted to tariffs. Even if no tariffs were imposed, GC felt a long period of uncertainty would almost certainly damage business investment. GC felt a 25bps cut would help support growth and better balance inflation risks. GC felt that retaliatory measures by Canada and other nations would put upward pressure on inflation, while retaliatory tariffs would likely represent a one-time increase in the level of prices. The BoC also sees a risk of higher import prices feeding into other prices and felt that if this led to an increase in inflation expectations, it could generate higher ongoing inflation. The BoC also agreed that in setting monetary policy, it would need to continuously gauge effects of a trade conflict in real time, agreeing it would need to assess a wide range of data, including info on supply chains and more frequent and detailed business and household surveys. At the last BoC decision, the central bank cut by 25bps and it also removed forward guidance, noting that the cumulative reduction in the policy rate since last June is substantial, removing the line that "Going forward, we will be evaluating the need for further reductions in the policy rate one decision at a time". With the overhang of tariffs on the Canadian economy, and the impact currently uncertain - money markets are currently pricing in just 11bps of easing at the March meeting, which implies a 45% probability of another 25bps rate cut, with the first fully priced rate not priced until the April meeting.

Copyright © 2025 Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com